



Farsight

MORNING FARSIGHT

Thursday, November 29, 2018

STERLITE TECH

CMP:RS 342

TRGT:RS 400

TIME HORIZON: 1 YEAR

Sterlite Tech, is giving another buying opportunity post stellar performance in Q2 / H1FY19, coupled with strong open order book, at an all-time high of around Rs 9,455 cr, ongoing capex of Rs 320 cr in greenfield and brownfield expansion to double its cable capacity and separate capex programme for expanding its fibre capacity to 50 million fkm. For Q2FY19, company earned an income of Rs 1,090 cr against Rs 884 cr QoQ and Rs 788 cr YoY, a growth of 23% QoQ and 38% YoY. This resulted in EBITDA of Rs 279 cr against Rs 252 cr QoQ and Rs 179cr YoY, a growth of 11% QoQ and 56% YoY. PAT is placed at Rs 141 cr against Rs 129 cr QoQ and Rs 78cr YoY, with an EPS of Rs 3.27 for Q2FY19 and Rs 6.28 for H1FY19, which was at Rs 8.38 for FY18. Company has laid out strategic guidance cum target of FY20 PAT of \$100 million PAT (Rs 7,300 cr + with EPS of over Rs 17), which is expected to achieve even ahead of schedule, given current order book, which is at all time high and 3x of FY18 consolidated revenue. Besides this, company has recently announced the signing of definitive agreements for acquisition of a European specialized optical fibre cable manufacturer Metallurgica Bresciana S.p.A (Metallurgica) in all cash deal for Euro 47 mn (Rs 367 cr), which translates into —1x price/sales. Even from the PE, company has reported PAT of Rs 35 cr on TTM basis, the deal multiple worked out to be at 11x PIE for CY17, which is substantial discount to Sterlite's own valuations. The acquisition will provide Sterlite an access to European market, which will eventually help to increase its global market share (currently at 7%) for optical fibre products. As per the management, the acquisition will bring in new Tier-I customers and augment its product portfolio. It will also add a capacity of 3 mn fiber km cable capacity to its existing 15 mn fiber km, which can be further expanded to 5 mn fiber km, at a minimal capex. Besides this, company having —40-45% market share in the domestic optical fibre (OF) market with an aggregate capacity of 30 million fiber kms, is well on track to expand capacity to 40million Fiber KMs by December 2018 and 50 million Fiber Kms by June 2019, an expansion of more than 67% in the next 12 months. Company continues to ride on strong global demand of OFIOFC as the telcos build on their 4Gnetwork. Company has posted an EPS of Rs 6.3 for H1FY19 and on an estimated EPS of Rs 13.50 for FY19 and Rs 17 for FY20, stock is trading at PE of 25.5x and 20.3x, having earnings visibility and market leadership status. Share ruling at Rs 342 can move to Rs 400 in 1 year. Buy as an investor only.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.