MORNING FARSIGHT

Thursday, September 06, 2018

CONTAINER CORPORATION	CMP:RS 641	TRGT:RS 750	TIME HORIZON: 1 YEAR

Container Corporation is seen unappreciated franchise with company having huge surplus of Rs 3,100 cr on the balance-sheet, RoE of over 12% and certainty of more than 28% PAT growth in aggregate over FY19-20. After robust FY18 with PAT growth of over 25%, the core operating performance for Q1FY19 was good, with rail freight margin improved 480bps YoY to 28% in 1Q19 as double stack train volumes increased 53% YoY and contributed to 16% of volume against 12% last year. As per management, new terminals continue to ramp up well and we expect share of double stack volume to improve further from here and drive margin improvement through FY20. Management remained optimistic on volume outlook for FY19 with Indian Railways maintaining tariffs in order to gain market share. Company's 1Q19 originating volume grew 8% YoY, while handling volume was up 11%YoY. Management thinks Q1 is typically seasonally weak and expects volumes to ramp up further. The company maintained its 74% market share of containerized rail cargo movement. Further, in Feb'18 the company took a price increase of Rs 1,000/TEU (VA) for the EXIM segment. However as per management only 50% of that price increase was seen in 1Q19, the balance is expected to come through, along with sufficient escalation to compensate for the cost increase seen in the June quarter. There are some amazing long-term catalysts for the company including DFC, which is coming closer to fruition, with first 190kmstretch having commissioned on August 15: however CCRI's financials are likely to see some benefit next year once one of the Westem ports are connected. As per DFCCIL the closest point to Mundra port is expect to be connected by Sep 2019. As part of its overall strategy of becoming a multi-modal logistics service provider, Concor is making inroads into Coastal Shipping. Management thinks there significant potential for domestic cargo movement on coastal routes and has entered into exclusive tie ups with ship operators Further, company expects to nearly double its storage capacity, once all the 100 terminals are operational; most of the new MMLPs have higher availability of land against the old terminals. In addition the company is looking to set up 50mn sq.ft of warehousing space over the next 3 to 5 years for distribution logistics. Company posted an EPS of Rs 21.83 for FY18 (Rs 17.53 in FY17) and on an estimated EPS of Rs 25 for FY19, stock is trading at PE of 25.6x (net of cash PE 23.1x), which is seen attractive. In addition, the company has an asset base that is difficult to replicate and its 75% market share will be sustained. Share ruling at Rs 641 can move to Rs 750 in 1 year