



Farsight

MORNING FARSIGHT

Thursday, July 12, 2018

FUTURE RETAIL

CMP:RS 560

TRGT:RS 650

TIME HORIZON: 1 YEAR

Future Retail, having recommended at Rs 541 on 28th June is still looking a good buy, as solid execution is expected to continue from the company, post consistent double-digit SSSG for Big Bazaar in last 2 years (last 8-quarter average SSSG of 13.9%). hefty margin expansion (F16-F18 EBITDA margin rise of 330bps) and higher RoE of over 20%, coupled with non-performing formats now complete. Going ahead, strengthening of the everyday value proposition of Big Bazaar combined with continuing strong apparel sales will help drive consistent double digit SSSG through FY20. Further, EBITDA margin is set for further expansion with rising productivity and product mix in Big Bazaar, integration of the Hypercity acquisition and reduced losses in the small format stores. Windfall gains (Rs 575 cr) from share of profits from the sale of Future Retail shares by Bharti group in June 2018 combined with over Rs 1,600cr cumulative F18 - F21 free cash flow generation imply that Future Retail will become debt free by FY21. Management plans to expand the small-format stores from 666 units in FY18 to 4,000 over the next 3 to 5 years with a membership based mode. Currently the business has garnered more than 5 lakh members (910 members per active store), with annualized spend of Rs 35,000 per member, and clear evidence of the success of this strategy will be seen in FY19. On an estimated EPS of Rs 21 for FY19, stock is trading at PE 26x, which is quite attractive in light of over 25% PAT CAGR to be seen over FY19-21 and is also at discount to peers like Avenue Supermarts (PE over 86x) West life (negative EPS of (-0.78) in FY18) and Trent Ltd (PE 77x). Share ruling at Rs 560 can move to Rs 650 in 1 year

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