MORNING FARSIGHT

Monday, July 16, 2018

CONTAINER CORPORATION OF INDIA	CMP:RS 825	TRGT:RS 1000	TIME HORIZON: 1 YEAR

Container Corporation of India of India is highly unappreciated franchise, with company having huge surplus of Rs. 3,100 crores on the balance-sheet, being Rs. 64 per share, RoE of over 12% and certainty of more than 28% PAT growth over FY19-FY20, while current year's PE is at 25x, which is quite attractive. After robust FY18 with PAT growth of over 25%, the incoming data points for Q1FY19 are indicating that positive growth momentum will continue in the coming quarters as well. Rail freight volumes are continuing to see the benefit of a benign tariff environment in FY19 and in particular some share gains for the container segment For FY18, Concor achieved PAT growth of 25% YoY at Rs. 1,063 cr, despite one-offs including employee costs. The company expects 10-12% volume/profit growth in FY19, with at least 50% improvement in double-stack trains and has increased pricing, which will more than offset the potential reduction in lead distance. In FY18, company's saw healthy PAT margin expansion of 190 bps to 15.5%from 13.6%, and adjusting for higher one of employee cost, margin expansion would have been over 300 bps. This was driven largely by the company's efforts to boost the share of double-stack trains to 12% In FY18 from 7% last year. During Q1FY19, Rail tonnage has grown at healthy in mid single digit,while container volume on rail continued to see double-digit growth. For Concor, FY18 saw 14.4% growth in rail-based container cargo volumes, following two years of low growth, and now FY19 seems to have got off to a good start as well, with Apr / May volumes increasing 9% / 12% YoY, respectively. Hence so far Concor seems to be on track to achieve its 10-12% volume growth this year. Interestingly, the more profitable EXIM segment has seen sharper volume growth (+15% YoY in May) against domestic volumes (+4% YoY) as trade data continue to be positive. As new terminals ramp up, management expects the share of Double Stack trains to improve to nearly 20% over the next two years and see continued margin expansion from here. Longer-term, DFC (Dedicated Freight Corridor) continues to be a key catalyst that will start getting priced in with developments on execution milestones. Company reported an EPS of Rs. 21.83 for FY18 (Rs. 17.53 in FY17) and on an estimated EPS of Rs. 26 for FY19, stock is trading at PE of sub 25x (net of cash PE 22x). 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. 638 can move to Rs. 750 in 1 year time period.