



Farsight

MORNING FARSIGHT

Friday, July 20, 2018

STERLITE TECH

CMP:RS 301

TRGT:RS 350

TIME HORIZON: 1 YEAR

Sterlite Tech is looking a good buy with company having made big bang start to FY19 with robust Q1 numbers, wherein EBITDA has risen to Rs. 252 cr from Rs. 237 cr QoQ and Rs. 164 cr YoY, a growth of 6% QoQ / 54% YoY, with EBITDA margin expanding to 28.5% from 27.4% on sequential basis, which is highest compared to Industry peers. PBT has grown by whopping 15% QoQ and 96% YoY to Rs. 184 cr. Company's order book has continued to grow, now at an all-time high of Rs 6,034 cr, which is almost twice the size of FY18 revenue and offers earnings visibility for more than 7 quarters. 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 the total consideration of Euro 47mn (Rs. 367 cr), which translates into 1 x price/sales. Even from the P/E multiple perspective, where the company has reported PAT of Rs. 35 cr on TTM basis, the deal multiple worked out at 11x P/E 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 1 customers and augment its product portfolio. It will also add a capacity of 3 mntkm cable capacity to its existing 15 mntkm, which can be further expanded to 5 mntkm, 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 to capacity to 40 million Fiber KMs by December 2018 and 50 million Fiber Kms by June 2019, which is capacity expansion of more than 67% in the next 12 months. Sterlite Technologies (STL) continues to ride on strong global demand of OF/OFC as the telcos build on their 4G network. The company has an order book of Rs. 5,223 crore as of FY18 (1.6x for FY18 consolidated total income, of which, Rs. 4,095 cr order book is from product side while rest Rs. 1,128 cr is from services and software side (SI/NI opportunities from NFS/ Bharat Net etc). The product pie in the order book has been rising and now forms 78% of the pie, up from 51% in FY17, and one can imagine the room company has for margin expansion, going into FY19. The company has started getting orders for 2020 and is of the opinion that the demand scenario will continue to be robust in 2020 as well. The management said that demand supply situation will remain favorable in CY18, which will help to sustain pricing. The company is on the roadmap to generating \$100 million profit in FY20. Company has posted an EPS of Rs. 3 for Q1FY19 and on an estimated EPS of Rs. 14 for FY19 and Rs. 17 for FY20, stock is trading at PE of 21.5x and 17.7x, which are attractive given healthy earnings visibility and market leadership status. Share ruling at Rs. 301 can move to Rs. 350 in 1 year period.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

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