



## MORNING FARSIGHT

Thursday, June 28, 2018

**FUTURE RETAIL**

**CMP:RS 541**

**TRGT:RS 625**

**TIME HORIZON: 1 YEAR**

Future Retail is 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 (FY16-FY18 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 crores) from share of profits from the sale of Future Retail shares by Bharti group in June 2018, combined with over Rs. 1,600 crores cumulative FY18- FY21 expected free cash flow generation imply that Future Retail will become debt free by FY21. Management plans to expand the small-format stores from 668 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 likely to emerge in FY19 in a big way. On an estimated EPS of Rs. 21 for FY19, stock is trading at PE 25x, 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 and Trent Ltd (PE 77x). Share ruling at Rs. 541 is trading at the lower end of trading range of 530-590 and can move to Rs. 625 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.**