



Farsight

MORNING FARSIGHT

Monday, July 02, 2018

SUNFLAG IRON

CMP:RS 64

TRGT:RS 80

TIME HORIZON: 1 YEAR

Sunflag Iron, having corrected from Rs. 100 seen on 1-3-2018, is looking a good buy, due to renewed buying seen in all Ferrous stocks on Friday, as stock price correction across steel stocks is a bit over reaction than warranted, and we strongly believe EBITDA will improve for all the steel players in Q1FY19 on QoQ and YoY basis as well, given continued price hikes seen in the month of April and May, while full impact of Q4FY18 price hikes will come in Q1FY19 as well. For Q4FY18, Sunflag Iron had posted good earnings with PAT of Rs. 36.5 cr against Rs. 12.6 cr YoY, showing more than 3 times rise in PAT and leading to an EPS of Rs. 2.03 for Q4FY18 alone, and FY18 EPS of Rs. 7.14 with full year EBITDA of Rs. 238 cr. Company having M Cap of Rs. 1,150 cr and EV of Rs. 1,380 cr, leads to an EV/EBITDA of 5.8x and PE of just 9x, on historic basis, which we find attractive. Also, while combination of weaker China macro data and trade war concerns have driven the correction in traded commodities, we continue to believe that this is transitory in nature and trade resolution is the end game. Also, China has once again re-start environmental and pollution checks between June 5th and July 5th for one month and is part of a wider program of 1 month checks in 10 provinces that include Hebei and Henan among others. Chinese NRC prices are broadly flat at -\$590/t, and from here in the next few months, the winter shutdown process would start again, which would once again result in sharp buying interest in domestic steel. Share ruling at Rs. 64 can move to Rs 80 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.