

Suzlon Energy Ltd

Vestas Dec-09 results and read-through for Suzlon - ALERT

Neutral

SUZL.BO, SUEL IN

Price: Rs72.90

10 February 2010

- We observe similarities between the performance and outlook of Suzlon Energy and Vestas Wind Systems, which just reported its 4QCY09 results. It appears CY10 sales outlook is muted, but order flow expectation remains buoyant across the wind equipment sector. Given anemic order flows over the past 4 qs, we believe any pickup in ordering activity would be a key catalyst for Suzlon. See European Capital Goods team's review on Vestas' 4Q nos ([Vestas Q4 results - first reaction - ALERT](#)),
- **Order book (in)visibility:** With an order book of 1.7GW Vestas has visibility of only about 4 months into CY10, or 31%, based on the company's sales guidance. Suzlon seems to be on a slightly stronger wicket, with its 1.5GW order book assuring 58% of next 4 quarters' estimated volumes of 2500MW. Given that domestic orders for Suzlon are of spot nature and generally do not get factored into the order book, Suzlon may be at less risk of not meeting volume expectations. In the past 12 months, of the 1,470MW of order inflows, 819MW or 56% were domestic. In terms of EBIT margins, Suzlon, which enjoyed 3x Vestas' margins at peak, is now expected to clock around 8%, 200-300bps lower than Vestas. This is of course on the back of what we see as likely operating losses in FY10.
- **Expectation of a sharp uptick in 2010 ordering activity:** Vestas' order flow guidance for the forthcoming year, at 8-9GW, implies 2.6-3x orders received in CY09. Suzlon management has stopped providing any order inflow guidance, given previous disappointments. However, we believe the implied expectation is 3,500MW, i.e. 2.4x the order inflow in the trailing 12 month period. Thus, managements seem to hope a sharp recovery in the wind market is around the corner.
- **Valuation:** Based on Bloomberg consensus estimates, Suzlon trades at a premium to Vestas both on P/E and EV/EBITDA. Suzlon trades at 17.6x FY11E P/E, while Vestas is at 14.2x CY10E. This premium might be due to better revenue visibility for Suzlon.

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Table 1: Similarities and differences between Suzlon and Vestas

	Vestas	Suzlon
OB (MW)	1,747	1,484
% coverage of next 4 qs guidance / expectation	31	58
New orders - trailing 4 qs (MW)	3,072	1,470
Order flow expectation for next 4 qs (MW)	8000-9000	3,500
CY10 / FY11 outlook - sales growth (%)	6	48
CY10 / FY11 outlook - EBIT margin (%)	10-11	8.1
P/E - consensus - CY10/FY11 (x)	14.2	17.6
EV/EBITDA - consensus - CY10/FY11 (x)	7.5	10.6
Market Cap (US\$B)	10.1	2.4

Source: Company reports and J.P. Morgan estimates. Note: Suzlon follows March year end and Vestas Dec year end.

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Vestas Wind Systems (VWS.CO/Dkr 268.50 [10-February-2010]/Underweight)

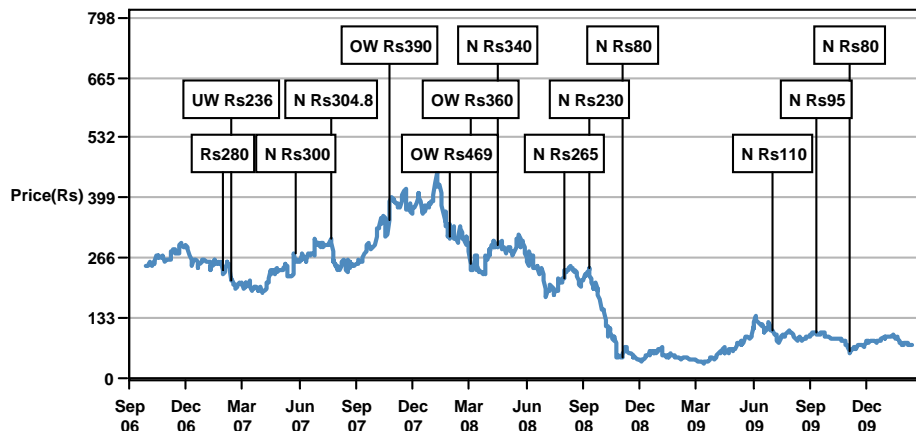
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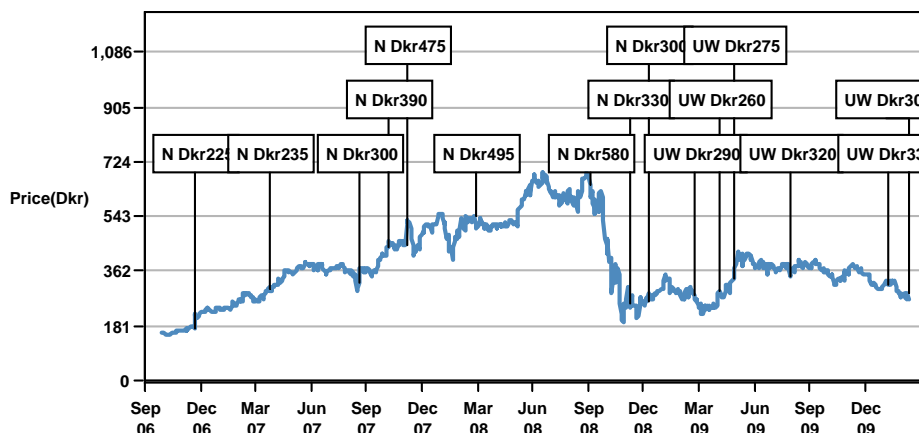
Suzlon Energy Ltd (SUZL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
11-Feb-07	UW	216.02	236.00
28-May-07	N	275.69	300.00
24-Jul-07	N	306.57	304.80
24-Oct-07	OW	348.21	390.00
29-Jan-08	OW	314.90	469.00
04-Mar-08	OW	252.05	360.00
17-Apr-08	N	292.70	340.00
01-Aug-08	N	222.80	265.00
11-Sep-08	N	243.80	230.00
02-Nov-08	N	45.95	80.00
01-Jul-09	N	103.70	110.00
10-Sep-09	N	100.00	95.00
03-Nov-09	N	58.25	80.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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Vestas Wind Systems (VWS.CO) Price Chart



Date	Rating	Share Price (Dkr)	Price Target (Dkr)
22-Nov-06	N	175.25	225.00
26-Mar-07	N	305.00	235.00
21-Aug-07	N	323.50	300.00
08-Oct-07	N	443.00	390.00
06-Nov-07	N	446.00	475.00
27-Feb-08	N	547.00	495.00
04-Sep-08	N	644.00	580.00
07-Nov-08	N	258.00	330.00
08-Dec-08	N	263.00	300.00
24-Feb-09	UW	281.00	290.00
06-Apr-09	UW	296.00	260.00
29-Apr-09	UW	339.00	275.00
30-Jul-09	UW	342.50	320.00
07-Jan-10	UW	317.90	330.00
10-Feb-10	UW	290.90	300.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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