Looking beyond near-term pain

Identifying stocks trading at historical low multiple and/or offering decent dividend yield

In the past one week alone, the ruthless carnage has shaved off 15-25% of market cap across equity markets globally. Can this be termed as the final capitulation? Most indicators reflect so. There is extreme fear and pessimism in the air. Fundamentally, valuations are approaching historic lows and many stocks are trading at distress valuations.

But it has never been easy to catch the bottom. Given the unprecedented scale of financial crisis and the looming threat of a global recession, there is always a fear that you might end up catching a falling knife. Those who dare to take the plunge could bleed further in the near-term. However, over the period of next 24-30 months, it might turn out to be one of the smartest investment decisions. After all, best investments are made amid panic and gloomy scenario.

In this note, we have identified some companies under our coverage whose valuations are close to their historic lows and whose dividend yield is also fairly attractive.

	FY2008		FY2009E	
Company	PE	EV/EBITDA	PE	EV/EBITDA
Aban Offshore	13.2	11.8	3.7	4.7
Allahabad Bank	0.6	NA	0.5	NA
Andhra Bank	0.8	NA	0.7	NA
Ashok Leyland	6.9	3.5	7.0	4.0
Bharat Electronics	7.3	3.5	6.8	2.2
Deepak Fertilisers	5.0	4.7	4.5	3.8
Esab India	9.5	6.2	7.8	4.4
Indian Hotels	8.9	6.6	8.8	7.0
Jindal Saw	7.4	3.7	6.3	3.0
Sintex Industries	11.4	7.5	9.4	4.3
3i Infotech	4.5	4.6	3.0	4.1

*PABV ratio

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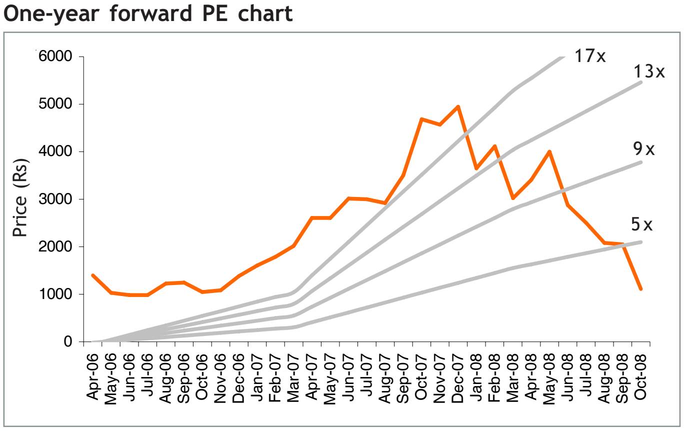
Aban Offshore

On the back of a recent carnage, the stock is currently trading at 2.3x its FY2010E earnings. At current valuations, the stock is trading well below its trough valuations, as can be seen from the chart below.

One-year forward PE chart



Positives

- Committed revenues worth $3.1 billion provide strong visibility
- Strong cash flow from operations expected in the next two years
- Strong demand from regions such as the Middle East and Latin America
- Higher than industry RoNW of 34.6%

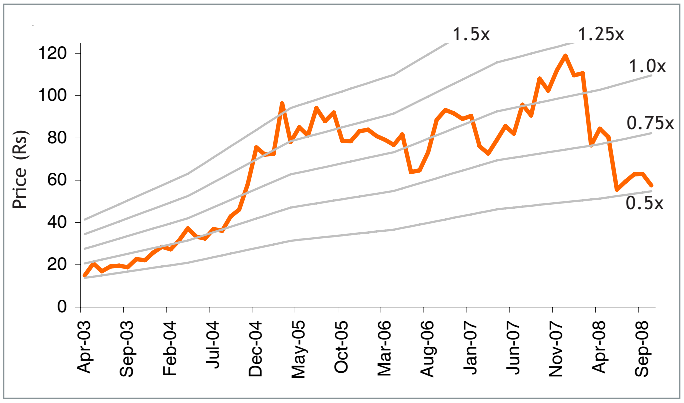
Negatives

- Highly leveraged, debt-equity of 16:1 in FY2008
- Mainly concentrated towards jack-up rigs, rates of which are witnessing softening
- High FII holding

Allahabad Bank

The bank is currently trading at 0.5x its 2009E book value. The current valuation assigned is close to the trough multiple seen in 2003 when the bank was trading in 0.5-0.6x range.

One-year forward PABV chart



Positives

- Dividend yield of 6.1%
- Expected to maintain healthy RoE of +15% and RoAA of ~1%
- Provision/loan ratio of 0.7%; better than some of its peers

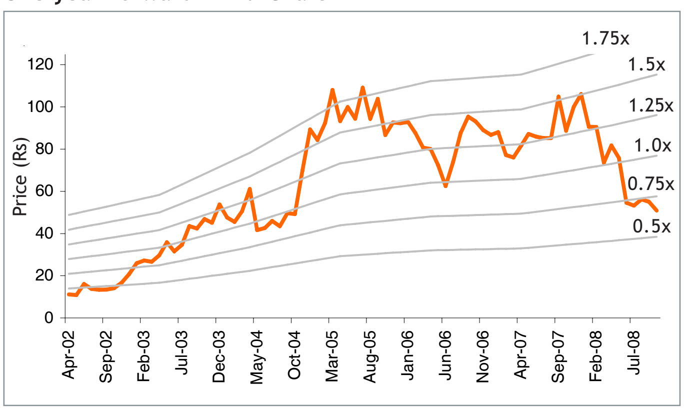
Negatives

- Earnings expected to dip by 10% during FY2009
- Net NPL of 1%, higher than peers
- Ambiguity over management

Andhra Bank

The bank is currently trading at 0.6x its 2009E book value. The current valuation assigned is close to the trough multiple seen in 2002 when the bank was trading in 0.5-0.6x range.

One-year forward PABV Chart



Positives

- Dividend yield of 8%
- Expected to maintain healthy RoE of ~17% and RoAA of ~1%
- Low NPA (0.16% for FY2008)

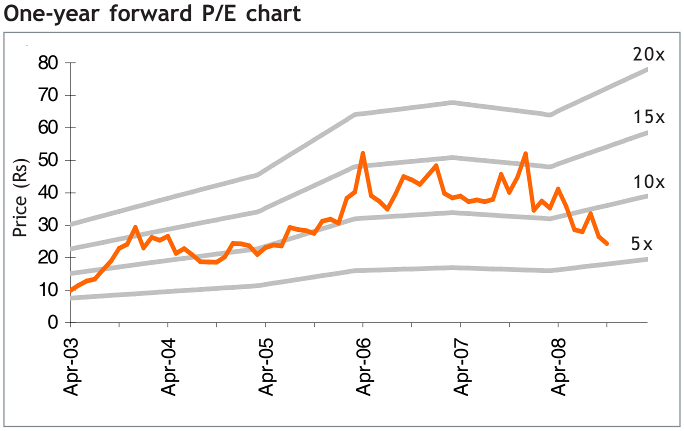
Negatives

- Earnings expected to remain flat during FY2009
  Lower provision to loan ratio (0.41%)
- Higher exposure to southern India

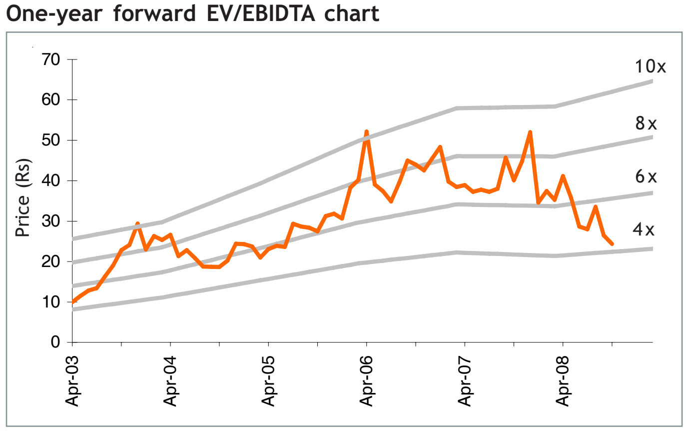
Ashok Leyland

The company is currently trading at 7x its 2009E earnings. The current valuation assigned is close to the trough multiple seen in 2003 when the bank was trading in 6-7x range. On an EV/EBITDA basis also it is trading at its trough multiples.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



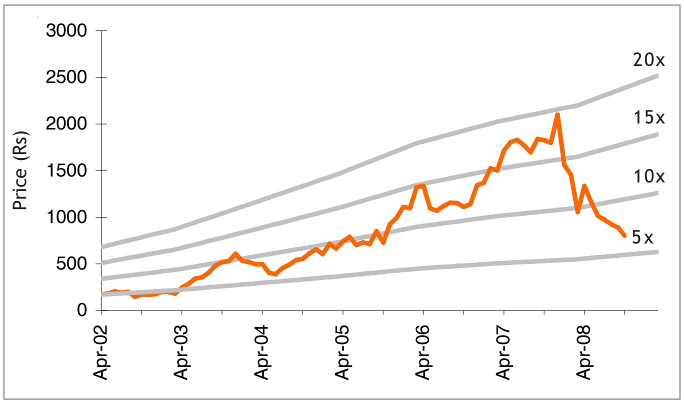
Positives
- Dividend yield of 6.7%
- Trying to diversify business risks by diversifying into auto as well as non-auto segments

Negatives
- Earnings expected to remain flat during FY2009.
- Capex plan on the higher side for investment in joint ventures

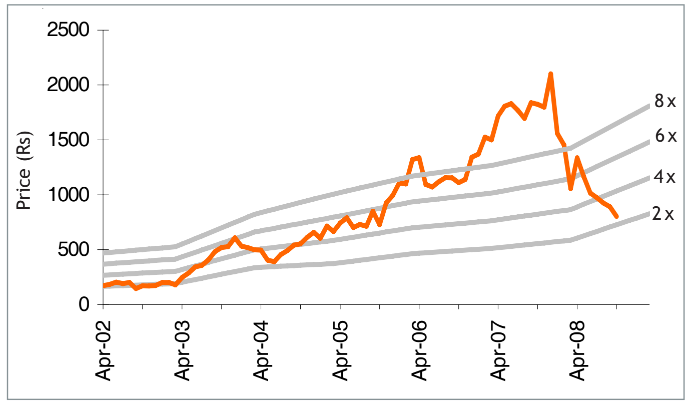
Bharat Electronics

The company is currently trading at 6.8x its 2009E earnings. Historically, the company has traded at trough valuation of 5-6x range. If adjusted for the huge cash per share on the books, the company is trading at its lowest valuation of 4.3x. Similarly, on an EV/EBITDA basis also it is trading at almost its trough valuation of 3x.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



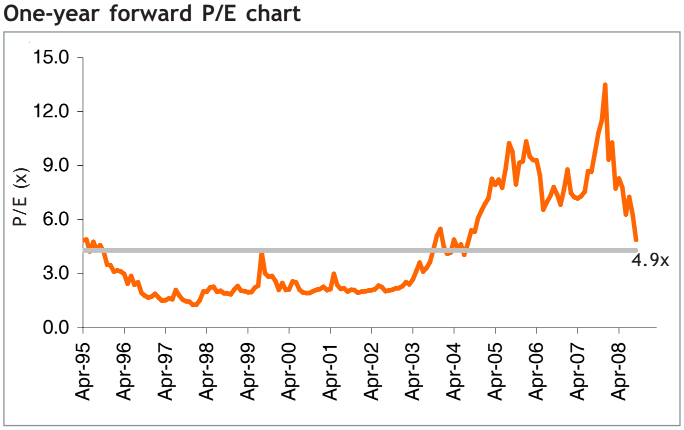
Positives
- Largest market share in strategic electronics business
- Assured order book from the Ministry of Defence
- Cash rich with cash of Rs2,500 crore in books

Negatives
- Quarterly volatility in performance based on order execution
- FDI has been raised in the sector which could lead to market share loss for the company

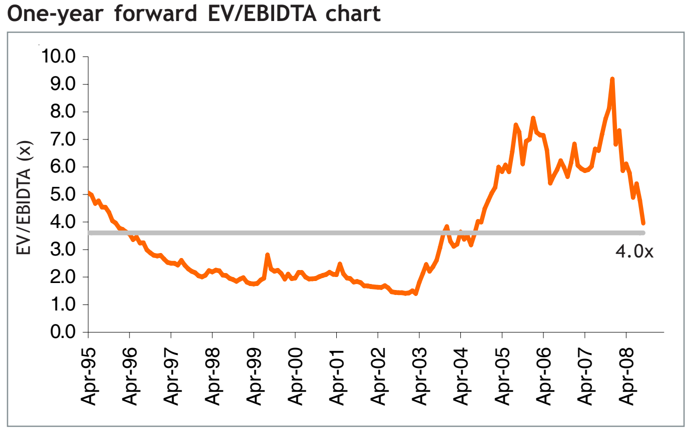
Deepak Fertlisers and Petrochemicals Corporation

The company is currently trading at a PE ratio of ~5x its one-year forward rolling EPS and ~4.0x its one-year forward EV/EBITDA. The current valuation assigned is close to the trough multiple seen in 2004.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



Positives
- Dividend yield of 6.0%
- Expect the earnings to grow at a CAGR of 21.5% during the period FY2008-10E
- Lower prices and sufficient supply of phosphoric acid could improve the utilisation levels and revenues for the company
- Availability of gas could reduce cost of production and in turn improve the profitability

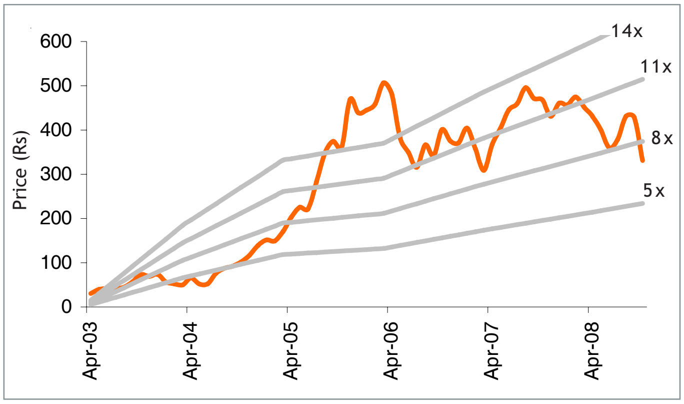
Negatives
- Concerns over the earnings visibility from the real estate business
- Lack of clarity over the agreement for the future supply of gas

Esab India

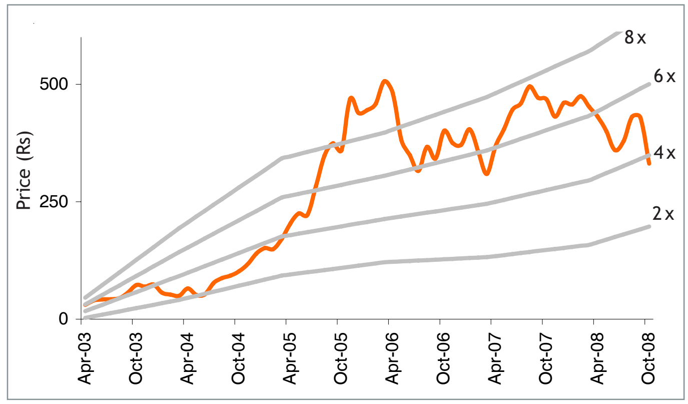
Esab India is currently trading at 6.6x its FY2010E earnings. Historically, the stock has traded well above 8x its forward earnings, but reached around 5x its forward earnings on some occasions. However, we find the current valuations pretty attractive.

The stock has commanded an average EV/EBIDTA multiple of about 5.8x over the last few years and well above 4x its one-year forward EV/EBIDTA on most occasions. However, the trough valuations can be seen at around 2x its forward EBIDTA.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



Positives

- Dividend yield of 4.4%
- Expect a stable 18.7% growth in revenues over CY2007-09E
- Debt free status
- RoNW of 51% and RoCE of 91.5%

Negatives

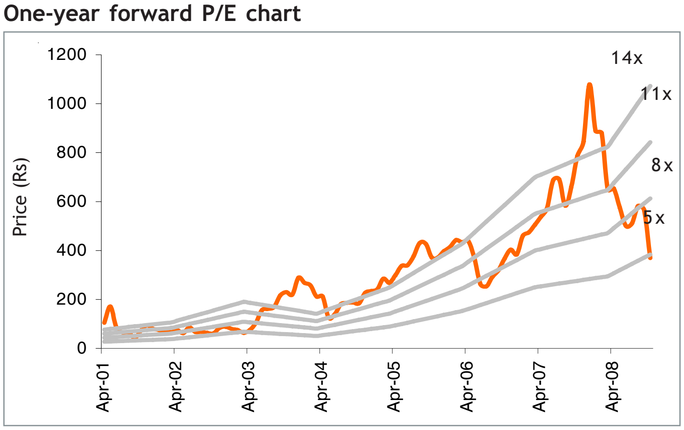
- Margins may get affected due to fluctuation in commodity prices

Jindal Saw

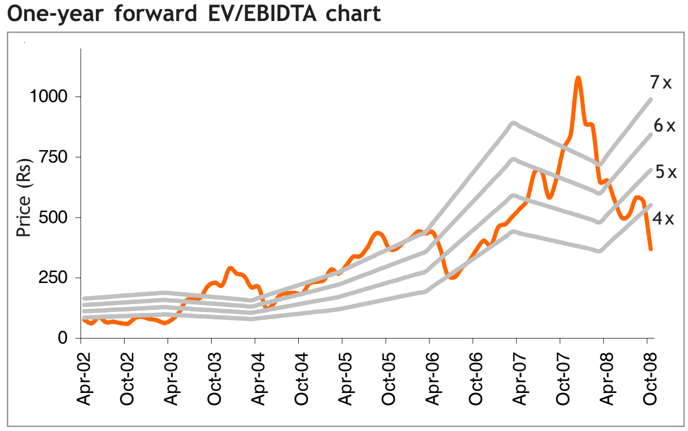
The stock is currently trading at 4.8x its 2010E earnings. The current valuation assigned is close to the trough multiple seen in 2003 when the company was trading close to 5x its one-year forward earnings.

On an EV/EBIDTA basis, the stock is currently trading at 2.7x its one-year forward multiples, well below its trough valuations of 4x and at mean levels of 5.9x.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



Positives

- Strong order book of $1.09 billion, executable in the next eight to twelve months
- Sharp improvement in the margins of JSL due to the sell-off of its US business, better product mix in favour of seamless and DI pipes and greater operating efficiencies.
- New capacities in the HSAW and LSAW segment to be ready by December 2008

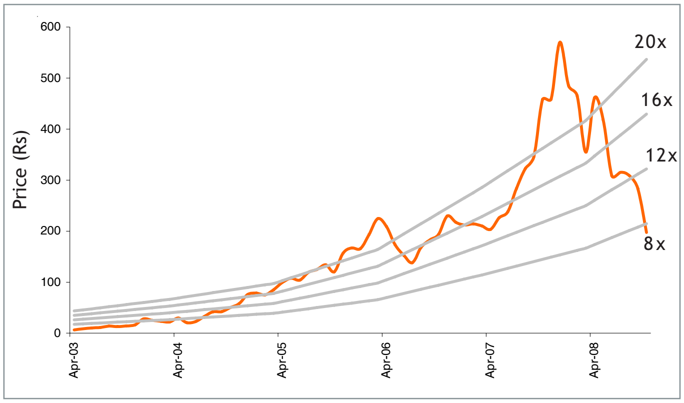
Negatives

- Uncertainties still surround the new business initiatives of Jindal Saw. However, most of the businesses are likely to start contributing after FY2010 and hence unlikely to affect the estimates

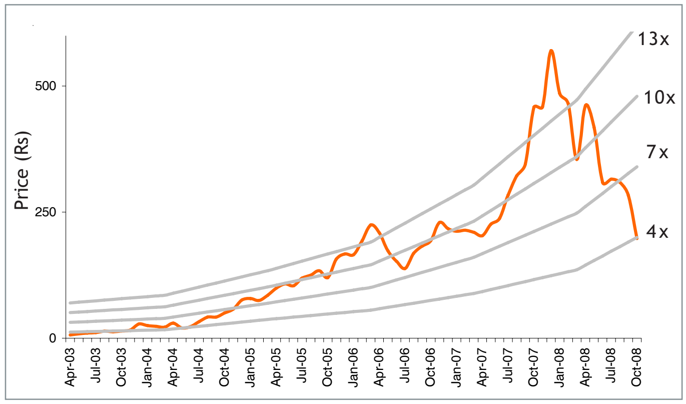
Sintex Industries

Sintex is currently trading at 6.3x its FY2010E earnings. The current valuations are close to the trough multiple witnessed in 2004 when the company was trading at close to 8x its one-year forward earnings. On EV/EBIDTA basis as well, the company has now touched the band of 4x, which was last seen in 2004.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



Positives

- Expect revenue CAGR of 54% over FY2008-10E. Strong opportunities from the monolithic division. Funds have already been raised for planned capex, which would fuel future growth

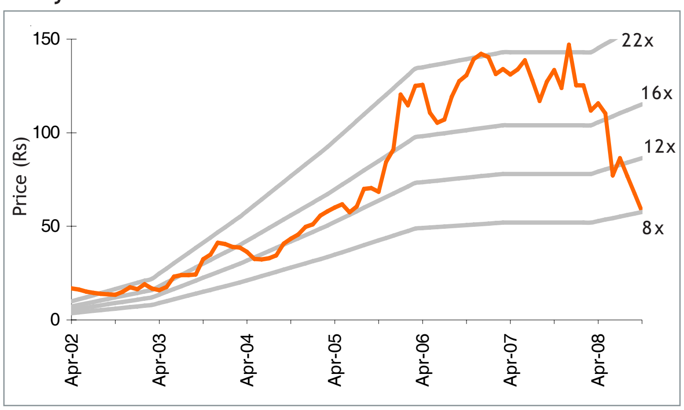
Negatives

- Performance of the newly acquired subsidiaries might impact consolidated performance
- High foreign holding of 39.97%

Indian Hotels

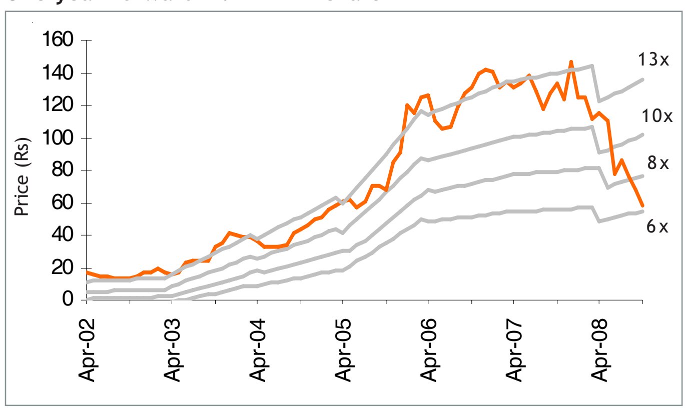
As can be seen from the below chart the stock is trading at 8x one-year forward EPS against a long-term average PE of 17.3x. This valuation is historically the lowest for Indian Hotels.

One-year forward P/E chart



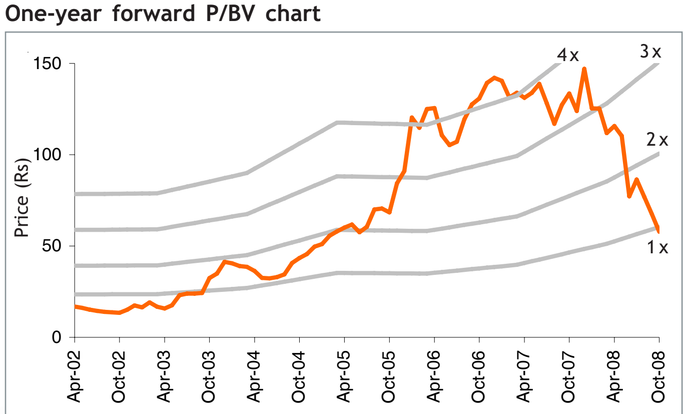
The chart below shows that the stock is trading at 6.2x and suggests it is trading at historically low EV/EBIDTA valuation.

One-year forward EV/EBIDTA chart



At 1.1x one-year forward multiple the stock is way below its long-term average of 2.1x

One-year forward P/BV chart



Positives

- Leader in the hotel industry with global presence· Dividend yield of 3.3%
- Attractively valued, decent return ratios of RoCE at 19.2% and RoE of 13.2% expected for FY2009
- Well funded for capex

Negatives

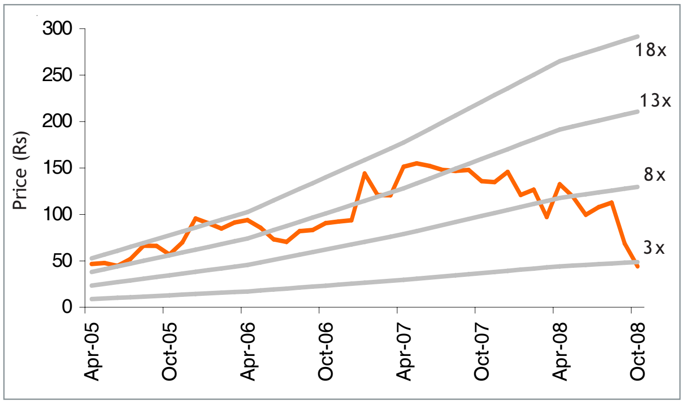
- Industry going through down-cycle, occupancy and ARRs under severe pressure
- Delays in execution of capex

3i infotech

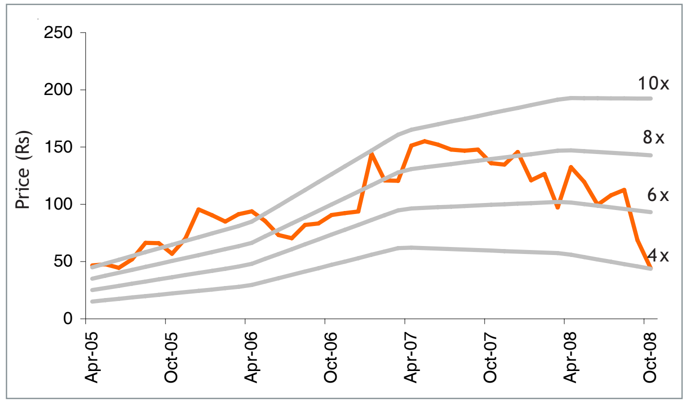
3i Infotech is trading at 3x its FY2009E earnings. The current PE valuation is the lowest since the listing of the company in April 2005. The current valuation assigned is trough valuation seen for the first time in 3i Infotech's history. On an average, 3i Infotech has traded at PE multiple of 12.3x since its listing.

3i Infotech is trading at 4.1x its FY2009E EV/EBITDA multiple. The current EV/EBITDA valuation is lowest since its listing in April 2005. The current valuation assigned is trough valuation seen for the first time in 3i Infotech's history. On an average, 3i Infotech has traded at EV/EBITDA multiple of 8.4x since its listing.

One-year forward P/E chart



One-year forward EV/EBIDTA chart



Positives

- Dividend yield of 3.4%
- Large focus on Asia pacific region
- Balanced mix between product and service
- Regulus acquisition to drive an earning growth of 34% during FY2008-2010

Negatives

- Outstanding FCCB of US$121.8 million and Eur30 million at a conversion price of Rs115-166
- Goodwill accounted for 49% of the capital employed in FY2008

The author doesn't hold any investment in any of the companies mentioned in the article.