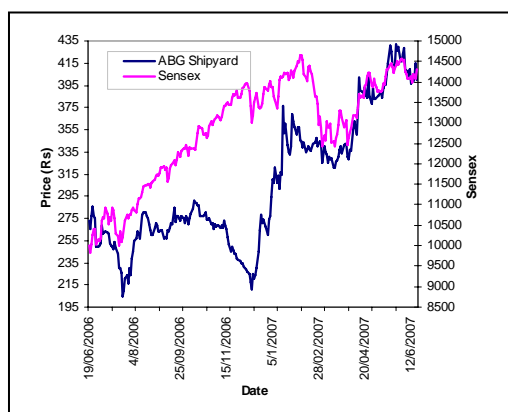


# ABG Shipyard

**CMP: Rs400**
**Buy**
**Target Price: Rs520  
(12 Months)**
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**Stock Info**

Sector	Shipping
Market Cap (Rs cr)	2,038
Beta	0.6
52 WK High / Low	445/199
Avg Daily Volume	68271
Face Value (Rs)	10
BSE Sensex	14,296
Nifty	4,214
BSE Code	532682
NSE Code	ABGSHIP
Reuters Code	ABGS.BO
Bloomberg Code	ABGS@IN
<b>Shareholding Pattern (%)</b>	
Promoters	56.9
MF/Banks/Indian FIs	11.3
FII/ NRIs/ OCBs	25.9
Indian Public	5.9

**Share Price Vs Sensex**

**Q4FY2007 Result Update**
**Performance Highlights**

- Flat Topline growth for the quarter:** ABG Shipyard posted a flat growth in Topline to Rs193.1cr (Rs192.8cr) for Q4FY2007. Topline was flat as revenue was booked on percentage completion method and on delivery of vessels. Building of four vessels is nearing completion and is expected to be delivered in the next quarter.
- Decline in Operating margins:** The company recorded a decline of 89bp in OPM to 25.7% for Q4FY2007. OPM fell as a result of higher expenditure due to one-time payment of octroi for the Surat shipyard.
- Q4FY2007 Net Profit increases by 6.7%:** Bottomline increased by 6.7% to Rs33.0cr (Rs30.9cr). Net Profit Margin expanded by 105bp to 17.1%. Higher Other Income, which rose by 31% and lower provision of taxes by 50%, resulted in the improvement in Bottomline.
- Strong Order book size:** ABG Shipyard's order book has grown at 85% over the last one year. The company's current order book size is worth Rs4,074cr of which the unexecuted order book size is to the tune of Rs3,220cr giving revenue visibility for the next three-four years. The order book comprises diverse mix of vessels catering to various sectors with major contribution from the offshore segment (around 45%). Of the current order book, export orders account for around 75% vis-a-vis a 62% a year ago.

**Exhibit 1: Key Financials**

Y/E March (Rs cr)	FY2006	FY2007E	FY2008E	FY2009E
<b>Net Sales</b>	<b>542</b>	<b>704</b>	<b>1,161</b>	<b>1,561</b>
% chg	43.8	30.0	64.8	34.5
<b>Net Profit</b>	<b>83.7</b>	<b>116.3</b>	<b>189.2</b>	<b>256.6</b>
% chg	87.0	39.0	62.7	35.7
<b>Diluted EPS (Rs)</b>	<b>16.4</b>	<b>22.8</b>	<b>37.1</b>	<b>50.4</b>
EBITDA Margin (%)	26.0	27.7	27.5	27.3
P/E (x)	24.3	17.5	10.8	7.9
P/CEPS (x)	16.1	12.5	10.1	7.5
RoE (%)	17.3	19.7	24.6	25.2
RoCE (%)	24.6	27.4	33.4	36.6
P/BV (x)	4.2	3.5	2.6	2.0
EV/Sales (x)	3.2	2.7	1.7	1.2
EV/EBITDA (x)	12.3	9.9	6.1	4.4

*Source: Company, Angel Research; Note: Calculation done on fully diluted equity*

**Orders bagged during the quarter:**

- ABG secured a repeat order from Gujarat Ambuja Cements (GACL) for the construction of bulk cement carriers at a price of \$9.9mn (Rs45cr). GACL currently owns seven vessels all built by ABG Shipyard in the past. This will be 8th vessel built for GACL by ABG Shipyard.
- The company bagged a major order from M/s Pacific First Shipping Pte, Singapore for 12 vessels of which the order is for the construction of nine AHTS vessels and three dry bulk carriers. Total value of the order is Rs1,030.5cr with the last vessel to be delivered in December 2009. With this, the company has started accepting orders for its upcoming Dahej Shipyard where vessels up to 120,000dwt can be constructed.
- The company secured a repeat order for the construction of tug at a price of \$13.5mn (Rs60cr) from Lamnalco Limited, Cyprus. This is the 12th ship order from Lamnalco Limited, Cyprus to ABG Shipyard.

**Acquisition during the quarter:**

ABG Shipyard has signed a Memorandum of Understanding (MoU) for the acquisition of Vipul Shipyard situated adjacent to the company's existing shipyard at Magdalla Port in Surat, Gujarat. Post this acquisition, the company would be able to increase its capacity by about 25% from its current 32 vessels built on modular basis to 40 vessels. This acquisition will aid the company to reduce the lead time for the expansion which otherwise would have taken around 24 months. The company has acquired the Shipyard at the right time to take advantage of the growth in the shipbuilding activities. This acquisition will facilitate optimal use of resources in the company's existing shipyard and new facility to synergize productivity and achieve economies of scale. The company would incur Rs100cr towards the cost of acquisition and modernisation of Vipul Shipyard, which would be funded through internal accruals.

**FY2007 Performance**

- **Robust Revenue growth:** ABG Shipyard posted a yoy revenue growth of 30% to Rs704.4cr (Rs541.7cr) for FY2007. The huge growth was seen as a result of capacity expansion done at the Surat shipyard. EBIDTA margin for FY2007 stood at 27.7% (26.0%). This improvement was seen on the back of better operating efficiencies due to a more streamlined production process and modular shipbuilding process. Going ahead, we expect the company to sustain the operating margin at 26-28% levels.
- **Net Profit zoomed by 39%:** The company reported 39% Net Profit growth yoy for FY2007 to Rs116.3cr (Rs83.7cr) on the back of robust topline growth and improved operating performance.

**Outlook and Valuation**

The company expects to sustain growth given the competitive advantage it has in terms of project management, lower design costs, cheap skilled labour available and its capability to set up a large facility at a lower cost which is evident from the current acquisition of Vipul Shipyard.

At the CMP, the stock trades at 10.8x FY2008E and 7.9x FY2009E fully diluted Earnings of Rs37.1 and Rs50.4, respectively. We remain positive on the company's growth prospects. **We maintain a Buy on the stock. We have upgraded our 12-month Target Price to Rs520, giving a 30% upside from current levels.**

**Exhibit 2: Q4FY2007 Performance**

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	%chg	FY2007	FY2006	%chg
<b>Revenue</b>	<b>193.1</b>	<b>192.8</b>	<b>0.1</b>	<b>704.4</b>	<b>541.7</b>	<b>30.0</b>
Expenditure	143.4	141.5	1.4	509.0	400.9	27.0
<b>EBIDTA</b>	<b>49.7</b>	<b>51.3</b>	<b>(3.2)</b>	<b>195.3</b>	<b>140.9</b>	<b>38.7</b>
<i>EBIDTA Margin (%)</i>	<i>25.7</i>	<i>26.6</i>		<i>27.7</i>	<i>26.0</i>	
Interest	9.3	4.3	116.1	26.7	16.7	59.5
Depreciation	1.7	1.1	60.9	5.9	3.6	63.7
Other Income	2.9	2.2	31.1	5.4	6.1	(11.6)
Profit before Tax	41.6	48.2	(13.6)	168.1	126.6	32.8
Provision for Taxation	8.6	17.3	(50.0)	51.8	43.0	20.7
<b>Net Profit</b>	<b>33.0</b>	<b>30.9</b>	<b>6.7</b>	<b>116.3</b>	<b>83.7</b>	<b>39.0</b>
<b>Diluted EPS (Rs)</b>	<b>6.5</b>	<b>6.1</b>		<b>22.8</b>	<b>16.4</b>	

Source: Company, Angel Research


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