

Company Flash

23 April 2007 | 5 pages

Bharati Shipyard (BHAR.BO)

Buy: Announces New Order Win; Earnings Visibility Remains Strong

- What's new** — Bharati Shipyard has announced that it has won an order for the construction and supply of two platform supply vessels from UP Offshore (Bahamas) Ltd. The contract is the first of its kind for an Indian company from South America and reiterates Bharati's strong presence in the global offshore supply vessel segment.
- Order book at ~6x FY07E sales** — The total contract value is US\$43m with expected delivery in July and November 2009. Bharati's order book now stands at c.Rs30bn, with the unexecuted portion at c.Rs24bn, providing a cover of ~6x FY07E sales, lending strong visibility to earnings over the next 2-3 years.
- Awaiting clarity on earnings impact** — There is a potential upside risk to our FY09E numbers as we are currently not factoring in the impact of the recent new order wins. We await further clarity on the integration following the recent acquisition of Swan Hunter's equipment and the resultant time and cost savings to the Mangalore project. FY08E earnings are unlikely to be impacted.
- Maintain Buy/Medium risk** — We believe fundamentals for Indian shipbuilders remain strong, driven by: (1) the robust E&P cycle ensuring strong demand in the OSV segment; and (2) the continued tightness in the global shipbuilding sector. Bharati's Mangalore project is well-timed to capture the upswing in the shipbuilding cycle and should benefit from the recent equipment acquisition. Reiterate Buy/Medium risk with a target price of Rs525.

Buy/Medium Risk	1M
Price (23 Apr 07)	Rs416.00
Target price	Rs525.00
Expected share price return	26.2%
Expected dividend yield	0.6%
Expected total return	26.8%
Market Cap	Rs9,360M US\$225M

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2005A	274	12.16	87.3	34.2	6.8	32.1	0.6
2006A	510	15.92	30.9	26.1	5.2	32.0	0.6
2007E	674	21.03	32.1	19.8	3.9	31.8	0.6
2008E	1,125	35.11	67.0	11.8	2.7	38.1	0.6
2009E	1,452	45.32	29.1	9.2	1.9	34.8	0.6

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification and important disclosures.

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Bharati Shipyard

Company description

Set up in 1973, Bharati Shipyard is one of the largest private shipyards in India. From its shipyards, spread across three regions — Ratnagiri, Ghodbunder, and Goa — the company has built ships including OSVs, cargo ships, and a wide range of tugs/deepwater trawlers. It is setting up a new shipyard in Mangalore and expanding its capacity in Ratnagiri. It recently bagged an order to build a jack-up rig, a first for any Indian shipyard. It has an unexecuted order book of Rs24bn. The company had an initial public offering in May 2004 and subsequently raised \$100m through an FCCB in Dec 2005.

Investment thesis

Bharati Shipyard has strong earnings momentum and an order book of 6x FY07E sales. We rate the stock Buy/Medium Risk (1M) with a target price of Rs525. Fundamentals for Indian shipbuilders remain strong, driven by: (1) the robust E&P cycle ensuring demand in the OSV segment; and (2) the continued tightness in the global shipbuilding sector. Our positive stance is backed by a solid 47% earnings CAGR for FY07-FY09E. The company's current order book of Rs24bn is heavily geared towards the oil & gas segment, which has strong demand drivers. The company also recently bagged an order for a jack-up rig, the first of its kind for an Indian company. Its aggressive expansion plans are backed by its strong order book. The company is currently expanding its capacity at Ratnagiri, while its greenfield yard at Mangalore should start generating revenues in FY08E. The Mangalore yard will be able to produce ships of 60,000 DWT and will also house the rig building unit.

Valuation

We rate Bharati Shipyard Buy/Medium Risk (1M) with a target price of Rs525, based on 15x FY08E earnings. The valuation accounts for complete conversion of the FCCB – leading to a 42% dilution in earnings. This is based on our methodology of rating Indian shipbuilders in line with similar profiled Singapore shipyards, which trade in the 11-17x FY08E earnings range. Given Bharati's superior earnings CAGR of 47% over FY07-09E and an order book that is 6x FY07E sales, we believe that Bharati deserves to trade at par with regional peers, subsidy concerns notwithstanding.

Risks

We rate Bharati Shipyard Medium Risk based on our global quantitative analysis, which tracks 260-day historical share price volatility. Being a small shipyard in the global context, Bharati is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise in global shipbuilding capacity. Further, global macroeconomic variables such as a decline in GDP growth rates or a decline in sea trade could adversely affect Bharati Shipyards. Key downside risks to our target price include: (1) removal of subsidies; (2) declining oil prices; and (3) execution risk.

Appendix A-1

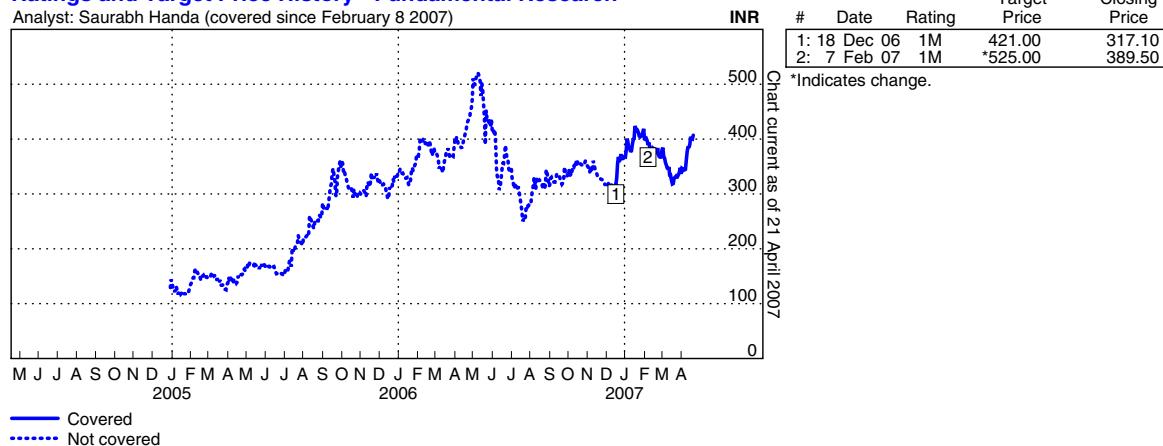
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Bharati Shipyard (BHAR.BO) Ratings and Target Price History - Fundamental Research

Analyst: Saurabh Handa (covered since February 8 2007)



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