

Company Focus

30 October 2007 | 8 pages

Moser Baer India (MOSR.BO)

Estimate change

Sell: Weak Q2FY08; First Quarter of PV Revenues

- Weak 2QFY08 results** — Moser Baer reported revenue of Rs4.48b (down 11% yoy). EBITDA at Rs1.14b was down ~15% yoy while EBIT at Rs80m was down ~82% yoy. Net profit of Rs33m was down ~87% yoy. EBITDA was lower than our expectation of Rs1.17b despite a positive impact of one-time adjustment of Rs141m (refund of countervailing duty).
- First quarter for Solar (PV) business** — Moser Baer recorded sales of US\$12m for its Silicon based solar cells – billed volume of 5-5.5 MW. In 2Q08, this business was at breakeven at EBITDA level. Moser expects breakeven at net level in Q3. The company re-affirmed its plan of 80MW capacity by FY08 end and mentioned that Silicon based solar cell plant was working at 90%+ yield.
- Home entertainment business** — Management reiterated its guidance of US\$60m revenue in FY08. During the quarter, the company acquired more titles taking the content to 9,500 titles (over 45% of mainstream cinema in India). Also, distribution network is in place and is expanding its footprint.
- Optical media business outlook** — Despite a traditionally strong winter season ahead, there is the possibility of a short-term negative impact on pricing due to cancellation of licenses of a few manufacturers by Philips – as per Moser Baer.
- Cutting estimates; Maintain Sell (3H)** — We have cut our estimates for FY08 by ~16% on account of a weaker than expected Q2; broadly maintain FY09 and FY10 estimates. Sales growth should accelerate as the PV business starts contributing meaningfully; maintain Sell (3H) on limited upside and high risk.

Sell/High Risk	3H
Price (30 Oct 07)	Rs284.85
Target price	Rs345.00
Expected share price return	21.1%
Expected dividend yield	0.4%
Expected total return	21.5%
Market Cap	Rs47,647M US\$1,211M

Price Performance (RIC: MOSR.BO, BB: MBI IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	-65	-0.39	-110.8	nm	2.4	-0.3	0.2
2007A	788	4.68	na	60.9	2.3	3.9	0.4
2008E	1,734	9.42	101.2	30.2	2.4	8.6	0.4
2009E	4,327	23.50	149.5	12.1	2.0	19.8	0.4
2010E	6,675	36.25	54.3	7.9	1.6	24.6	0.4

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	60.9	30.2	12.1	7.9
EV/EBITDA adjusted (x)	17.2	12.4	10.2	7.1	5.5
P/BV (x)	2.4	2.3	2.4	2.0	1.6
Dividend yield (%)	0.2	0.4	0.4	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	-0.39	4.68	9.42	23.50	36.25
EPS reported	-0.39	4.68	9.42	23.50	36.25
BVPS	118.90	122.29	118.16	142.86	181.58
DPS	0.67	1.00	1.00	1.00	1.00
Profit & Loss (RsM)					
Net sales	16,641	19,840	24,388	38,439	51,083
Operating expenses	-16,378	-18,460	-21,966	-32,911	-42,921
EBIT	263	1,380	2,422	5,528	8,161
Net interest expense	-377	-497	-495	-720	-744
Non-operating/exceptionals	42	7	0	0	0
Pre-tax profit	-72	890	1,927	4,807	7,417
Tax	7	-102	-193	-481	-742
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	-65	788	1,734	4,327	6,675
Adjusted earnings	-65	788	1,734	4,327	6,675
Adjusted EBITDA	3,430	4,963	6,504	10,157	13,387
Growth Rates (%)					
Sales	30.0	19.2	22.9	57.6	32.9
EBIT adjusted	-32.2	425.1	75.5	128.2	47.6
EBITDA adjusted	6.9	44.7	31.1	56.2	31.8
EPS adjusted	-110.8	nm	101.2	149.5	54.3
Cash Flow (RsM)					
Operating cash flow	958	5,641	4,886	5,750	9,112
Depreciation/amortization	3,168	3,582	4,082	4,629	5,226
Net working capital	-2,508	685	-1,425	-3,927	-3,533
Investing cash flow	-1,933	-6,335	-8,920	-6,800	-6,600
Capital expenditure	-4,031	-6,598	-9,720	-7,800	-7,800
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	-718	491	2,355	1,287	-2,137
Borrowings	348	1,948	6,075	3,200	0
Dividends paid	-127	-196	-193	-193	-193
Change in cash	-1,693	-203	-1,679	237	375
Balance Sheet (RsM)					
Total assets	39,094	43,559	49,739	59,883	68,895
Cash & cash equivalent	2,900	2,697	1,018	1,255	1,631
Accounts receivable	3,799	3,342	4,343	6,845	9,097
Net fixed assets	25,845	28,811	34,449	37,620	40,194
Total liabilities	19,206	23,076	29,946	35,956	38,485
Accounts payable	2,651	4,485	5,280	8,090	10,619
Total Debt	16,555	18,502	24,577	27,777	27,777
Shareholders' funds	19,888	20,483	19,793	23,927	30,410
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.6	25.0	26.7	26.4	26.2
ROE adjusted	-0.3	3.9	8.6	19.8	24.6
ROIC adjusted	0.9	3.7	5.7	11.0	14.1
Net debt to equity	68.7	77.2	119.0	110.8	86.0
Total debt to capital	45.4	47.5	55.4	53.7	47.7

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Figure 1. Key financials

Rs m	2Q07	2Q08	Change
Net Sales	5,009	4,478	-10.6%
CoGS	2,456	1,986	-19.1%
Staff Cost	350	473	35.4%
Other expenditure	872	882	1.1%
Total expenditure	3,678	3,342	-9.1%
EBITDA	1,331	1,136	-14.6%
EBITDA margin (%)	26.6%	25.4%	-119bp
Depreciation	891	1,056	18.6%
EBIT	440	80	-81.8%
EBIT margin (%)	8.8%	1.8%	-699bp
Other Income	124	425	243.3%
Interest	300	465	54.6%
Profit before Tax	263	41	-84.5%
Tax	3	15	366.7%
Other prov/Prior period item	0	-7	NM
Profit after Tax	260	33	-87.4%

Source: Company Reports

Figure 2. Earnings revision table

FYE	Net Profit	EPS	%	DPS
31 Mar	(RsM)	(Rs)	chg	(Rs)
2008E	1,734	9.42	-16.3	1.00
Prev	2,073	11.26		1.00
2009E	4,327	23.50	-1.2	1.00
Prev	4,381	23.79		1.00
2010E	6,675	36.25	-0.5	1.00
Prev	6,707	36.42		1.00

Source: Citi Investment Research

Moser Baer India

Company description

Moser Baer India is a Delhi-based company with interests in optical media, home entertainment and the solar industry. The company is the world's second-largest manufacturer of optical storage media and has a significant global market share - with most of the world's 10 largest OEMs among its customers. Photovoltaic Cell & Module (PV) is a new business for which Moser Baer has aggressive ramp up plans (~400-500MW in the next 3-4 years). Moser has also forayed into home entertainment with an eye on increased penetration in the CD/DVD market in India - this will help the ASP for its optical discs. Also, it is forward integration for Moser's optical media business.

Investment strategy

We have a Sell/High Risk rating on the Moser Baer stock. Despite having a significant market share in the optical media business, the company has suffered a notable reduction in profitability on account of sharp price escalations in the key raw material - polycarbonate (PC). We expect this business to grow 15-20% yoy in volume terms, with profitability improving as PC prices ease. Photovoltaic Cell & Module (PV) is a new business for which

Moser Baer has aggressive ramp up plans (~400-500MW in the next 3-4 years). Various government incentives should continue to drive demand globally, but pricing and profitability are difficult to forecast, with margins likely to be under pressure from increases in solar-grade silicon prices, competition from Chinese/European players, and low entry barriers (particularly for cells and modules). Home entertainment is still an early-stage business, which we value at 1x Moser's investment.

Valuation

Our target price for Moser Baer of Rs345 is derived from a sum-of-parts (SoP) methodology in which we value the optical media (incl. home entertainment) and Photovoltaic (PV) businesses at respective EVs per share of Rs235 and Rs214, before adjusting for net debt of Rs113 per share.

We value the optical media business at 1.0x EV/Capital Employed on FY09E - over the past three years (prior to its venture in the PV business), Moser Baer has traded at an average EV/Capital Employed of 1.1x (in a 0.8-1.4x range). We believe 1.0x is a fair multiple as Moser's current ROIC is below its cost of capital.

We value the PV business at 15x FY09E EV/EBITDA - this is at a ~10% discount to the average CY08E EV/EBITDA multiple for cell and module makers. We believe this discount is fair given Moser's PV business is still in early stages and hence there are some execution risks.

Risks

We rate Moser Baer shares High Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. We believe this is justified given the risk inherent in the optical media business and given the early stages of the company's PV and home entertainment businesses.

Some of the upside risk to the stock price are: (1) Improvements in the ASP and margins of optical media discs - CD/DVDs, (2) Improvement in margins for the solar industry, (3) Sale of a stake in the PV business to private-equity interests at a higher price than our assumed valuation (4) Higher crude oil prices, leading to enhanced interest in solar cell and module makers.

Appendix A-1

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Analyst: Surendra Goyal, CFA (covered since October 2 2007)



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