Company

24 June 2010 | 11 pages

Equity ☑
Target price change ☑
Estimate change ☑
Transfer of coverage ☑

Moser Baer India (MOSR.BO)

Sell: Some Recovery in PV Business But Is it Good Enough?

- **Maintain Sell** — PV business showed a good recovery in Q4 with ~25MW of shipments. However, the scale of the business remains small with capacity less than 200MW. Optical media showed YoY growth after four quarters of decline but EBITDA margins at ~20% are way off peak levels of ~40%. Balance sheet remains stretched (D/E is estimated at ~2x) – growth is a challenge. Risks remain high; we await more financial details in the annual report.
- **SOTP-based valuation** — Our updated SOTP ascribes a multiple of 1.0x Sep 11E EV/S for PV business (previously 1.8x) given the sharp fall in global comps, 1.0x Sep 11E EV/S for home entertainment (unchanged) and 0.75x Sep 11E EV/Capital Employed for optical media (previously 0.7x). Our new target is Rs65.
- **PV business plans lowered** — Revenues were ~Rs5b in FY10 (up ~70% YoY but significantly below our estimates). Management expects to emerge EBITDA positive by end-FY11. Company plans to add ~100MW Silicon capacity in FY11, which is much lower than what was envisaged earlier. We believe risks are high, as the business is small and has significant technology/execution risks.
- **Optical media stable; Home entertainment still small** — In optical media, volumes were flat while ASPs declined ~5% in FY10. Management expects prices to remain stable in the short term. Home entertainment revenues are still small – less than 10% of standalone. We expect modest improvement in optical media in the coming years on the back of changing mix towards higher priced new formats.
- **Upside risks to our stock call** — (1) Successful equity raising in the PV business. (2) Sharp ramp-up in PV margins. (3) Better performance in optical media than factored in our estimates. (4) Increase in crude prices which improve alternate energy viability and drive more funding towards the same.
- **Transfer of coverage** — We are also transferring coverage of Moser Baer to Vishal Agarwal from Surendra Goyal, due to reallocation of coverage resources.

Sell/High Risk	3H
Price (24 Jun 10)	Rs66.15
Target price	Rs65.00
from Rs99.00	
Expected share price return	-1.7%
Expected dividend yield	1.5%
Expected total return	**-0.2%**
Market Cap	Rs11,133M
	US$241M

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

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	-2,023	-12.05	na	-5.5	0.5	-9.5	1.5
2009A	-4,505	-26.76	-122.1	-2.5	0.5	-20.9	0.9
2010E	-2,648	-15.73	41.2	-4.2	0.6	-13.4	1.2
2011E	-878	-5.22	66.8	-12.7	0.6	-4.9	1.5
2012E	176	1.04	120.0	63.3	0.6	1.0	1.9

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	-5.5	-2.5	-4.2	-12.7	63.3
EV/EBITDA adjusted (x)	8.1	25.7	6.9	5.2	4.3
P/BV (x)	0.5	0.5	0.6	0.6	0.6
Dividend yield (%)	1.5	0.9	1.2	1.5	1.9
Per Share Data (Rs)					
EPS adjusted	-12.05	-26.76	-15.73	-5.22	1.04
EPS reported	-12.05	-26.76	-15.73	-5.22	1.04
BVPS	131.10	125.73	109.06	102.67	102.25
DPS	1.00	0.60	0.80	1.00	1.25
Profit & Loss (RsM)					
Net sales	20,700	24,730	25,611	29,465	33,838
Operating expenses	-21,649	-28,558	-27,204	-28,998	-31,947
EBIT	**-949**	**-3,828**	**-1,592**	**467**	**1,891**
Net interest expense	-1,006	-713	-1,110	-1,372	-1,710
Non-operating/exceptionals	-45	-37	0	0	0
Pre-tax profit	**-2,000**	**-4,578**	**-2,702**	**-906**	**181**
Tax	-23	73	54	27	-5
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**-2,023**	**-4,505**	**-2,648**	**-878**	**176**
Adjusted earnings	-2,023	-4,505	-2,648	-878	176
Adjusted EBITDA	3,509	1,289	4,893	6,224	7,766
Growth Rates (%)					
Sales	4.3	19.5	3.6	15.0	14.8
EBIT adjusted	-168.8	-303.3	58.4	129.3	305.1
EBITDA adjusted	-29.3	-63.3	279.6	27.2	24.8
EPS adjusted	-357.5	-122.1	41.2	66.8	120.0
Cash Flow (RsM)					
Operating cash flow	**1,911**	**-1,119**	**5,876**	**6,860**	**8,003**
Depreciation/amortization	4,458	5,117	6,485	5,757	5,875
Net working capital	-1,533	-2,353	930	609	242
Investing cash flow	**-11,210**	**-1,847**	**-393**	**-3,824**	**-5,895**
Capital expenditure	-9,410	-6,069	-1,893	-5,324	-7,395
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**14,812**	**1,515**	**233**	**931**	**1,544**
Borrowings	13,340	1,456	3,000	4,000	5,000
Dividends paid	-197	-118	-158	-197	-246
Change in cash	**5,513**	**-1,451**	**5,716**	**3,967**	**3,652**
Balance Sheet (RsM)					
Total assets	**59,788**	**62,171**	**62,518**	**66,111**	**71,752**
Cash & cash equivalent	8,210	7,626	13,342	17,309	20,961
Accounts receivable	3,768	4,071	4,070	4,521	5,099
Net fixed assets	33,490	34,683	30,092	29,659	31,179
Total liabilities	**37,780**	**41,008**	**44,161**	**48,829**	**54,541**
Accounts payable	5,846	7,710	7,863	8,531	9,243
Total Debt	31,842	33,298	36,298	40,298	45,298
Shareholders' funds	**22,008**	**21,163**	**18,357**	**17,282**	**17,212**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	17.0	5.2	19.1	21.1	23.0
ROE adjusted	-9.5	-20.9	-13.4	-4.9	1.0
ROIC adjusted	-2.5	-8.6	-3.6	1.3	4.8
Net debt to equity	107.4	121.3	125.1	133.0	141.4
Total debt to capital	59.1	61.1	66.4	70.0	72.5

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Optical Media business

The optical media business had a slow Q4FY10 with sales volume up ~3% QoQ but ASPs down ~4% QoQ. Management expects prices to remain stable in the short term as demand migrates to new and higher value formats. We have built in increasing ASPs (mix change with migration towards new formats) into our forecasts for the next few years.

We are building in improvements in ASPs over the next few years as new formats (Blu Ray etc.) ramp up

Figure 1. Key assumptions – Optical media

	FY08	FY09	FY10E	FY11E	FY12E
Optical media					
Revenue (US$ m)	**417**	**387**	**371**	**423**	**469**
Volume break-up (m)					
Total	2,689	3,031	3,050	3,137	3,243
- CDs	1,620	1,670	1,600	1,520	1,444
- DVDs	1,063	1,352	1,433	1,577	1,734
- Others	6	9	17	40	65
ASP (US$)					
Average	0.15	0.13	0.12	0.13	0.14
- CDs	0.13	0.10	0.08	0.08	0.08
- DVDs	0.18	0.14	0.12	0.11	0.11
- Others	5.00	4.00	3.65	3.20	2.40

Source: Company Reports and CIRA Estimates

Home Entertainment business

According to the management, the home entertainment business is less than 10% of stand-alone revenues. It further indicated that in Q4 the business was EBITDA positive but EBIT neutral.

The fall in content prices is a significant positive over the long term, as per the management. Moser Baer is expected to launch over 100 Blu Ray titles, which will improve realizations. Super-DVD (multiple movies in one DVD) will continue to drive volumes in this segment.

PV business

Management has not disclosed consolidated quarterly numbers (i.e. including the PV subsidiary). Revenues from this business in Q4 were ~Rs2bn while the company did ~Rs5bn in FY10 – as per the management. We await more details in the annual report.

Silicon still the big driver of the PV business

Silicon Line

- Shipments of 19.5MW achieved during Q4.
- Current capacity at 90MW with plans to reach ~190MW by FY11.

Thin Film

- Sales of 6.5MW recorded during Q4.
- Current capacity at 40MW.

The PV business is still in a ramp-up phase and it is difficult to determine growth/profitability. We believe risks remain high in the business, as the business is small and has significant technology risks.

The key PV business assumptions are highlighted below. Our numbers are largely in-line with management forecasts. We derive our margin forecasts from the global players. On the Silicon side, most companies (notably, SunTech & SunPower) have EBIT margins of ~7-9% and depreciation of ~4-5%. *Our numbers build in an expansion in capacity – which will depend on the ability to fund growth – debt equity remains high at ~2x (our estimates - including FCCB).*

We are building in a good pick up in the PV business over the next two years

Figure 2. Key assumptions – PV business

	FY08	FY09	FY10E	FY11E	FY12E
Overall Solar Business					
Revenue (US$ m)	**42.4**	**73.4**	**106.4**	**171.7**	**236.8**
EBITDA margin (%)	-35.7%	5.0%	17.8%	19.7%	21.7%
EBITDA (US$ m)	-15.1	3.7	18.9	33.8	51.4
Si-based					
Average capacity (MW)	20	80	85	140	220
Utilization (%)	65.0%	37.5%	40.0%	45.0%	45.0%
Total output (MW)	13.0	30.0	34.0	63.0	99.0
ASP (US$/MW)	3.3	2.4	2.2	2.0	1.8
Revenue (US$ m)	42.4	73.4	74.8	124.8	176.5
EBITDA margin (%)	-35.7%	5.0%	17.5%	19.5%	21.5%
EBITDA (US$ m)	(15.1)	3.7	13.1	24.3	37.9
Concentration					
Average capacity (MW)		2.5	22.5	40	45
Utilization (%)		0.0%	30.0%	35.0%	40.0%
Total output (MW)		0	6.75	14	18
Average price/cell (US$)		2.0	1.8	1.6	1.5
Revenue (US$ m)		-	12.2	22.7	26.2
EBITDA margin (%)		0.0%	16.0%	18.0%	20.0%
EBITDA (US$ m)		-	1.9	4.1	5.2
Thin Film					
Average capacity (MW)		20	45	50	65
Utilization (%)		0.0%	20.0%	25.0%	30.0%
Total output (MW)		0	9	12.5	19.5
Average price/cell (US$)		2.4	2.16	1.944	1.7496
Revenue (US$ m)		-	19.4	24.3	34.1
EBITDA margin (%)		0.0%	20.0%	22.0%	24.0%
EBITDA (US$ m)		-	3.9	5.3	8.2

Source: Company Reports and CIRA Estimates

Q4FY10 results

EBITDA margins at 20% - some improvement but way off the peak levels of ~40%

Stand-alone revenues at Rs5.3bn were up ~12% YoY. Though the EBITDA margins were at ~20%, EBIT was negative for the quarter. Due to high other income, profits were Rs63m. The company made the following changes in Q4: (1) Entertainment business was moved into the wholly-owned subsidiary. (2) PV assets were moved from the stand-alone business to the PV subsidiary.

Figure 3. Q4FY10 results (stand-alone)

Rs m	4Q09	3Q10	4Q10	QoQ	YoY
Net Sales	**4,699**	**5,398**	**5,273**	**-2%**	**12%**
CoGS	2,429	2,660	2,745	3%	13%
Staff Cost	529	601	542	-10%	2%
Other expenditure	1,100	908	954	5%	-13%
Total expenditure	4,057	4,169	4,241	2%	5%
EBITDA	**642**	**1,229**	**1,032**	**-16%**	**61%**
EBITDA margin (%)	**13.7%**	**22.8%**	**19.6%**	**-318bp**	**592bp**
Depreciation	1,417	1,210	1,161	-4%	-18%
EBIT	**-775**	**19**	**-128**	**-778%**	**-83%**
EBIT margin (%)	**-16.5%**	**0.4%**	**-2.4%**	**-278bp**	**1407bp**
Other Income	500	552	657	19%	31%
Interest	273	447	466	4%	71%
Profit before Tax	-548	125	63	-50%	-111%
Tax	0	0	0	NA	NA
Others/Prior period item	978	-93	0	-100%	-100%
Profit after Tax	**429**	**32**	**63**	**95%**	**-85%**

Source: Company Reports

Earnings revisions

Sharp revision in estimates given slower ramp-up and difficult business environment

Figure 4. Earnings revision table

FYE 31 Mar	Net Profit (RsM)	EPS (Rs)	% chg	DPS (Rs)
2010E	-2,648	-15.73	-850.2	0.80
Prev	352	2.10		1.00
2011E	-878	-5.22	-129.7	1.00
Prev	2,950	17.57		1.00
2012E	176	1.04	na	1.25
Prev	na	na		na

Source: Citi Investment Research and Analysis estimates

Figure 5. SOTP valuation table

Optical Media	
EV/Capital Employed	0.8x
Sep'11E Capital employed (Rs m)	29,219
EV (Rs m)	21,914
Photo Voltaic Business	
EV/Sales	1.0x
Sep'11E Sales (Rs m)	8,993
EV (Rs m)	8,993
Home entertainment	
EV/Sales	1.0x
Sep'11E Sales (Rs m)	2,998
EV (Rs m)	2,998
Total EV (Rs m)	33,904
Net Debt (Rs m)	22,956
Equity Value (Rs m)	10,949
Number of shares (fully diluted)	168
Value per share (Rs)	65
SOTP based target price (Rs)	**65**

Source: Citi Investment Research and Analysis

SOTP-based target price

We have revised our target price down to Rs65 (from Rs99), based on:

- We value the optical media business at 0.75x Sep 11E EV/Capital employed (previously 0.7x FY10E). This is primarily due to some improved prospects in the industry with migration to higher-value formats.
- We value the PV business at 1.0x Sep 11E EV/Sales (previously 1.8x FY10E), a ~20% premium to pure cell and module players, despite Moser's lack of operating history in this business and delays in ramp-ups. This is primarily to account for the fact that Moser has a presence in the thin-film space where multiples are higher.
- We value the home entertainment business at 1.0x Sep 11E EV/Sales (previously 1.0x FY10E). We believe this multiple is fair, given the slower growth and low profitability of the business.

Figure 6. Solar Global – Comparative valuation table

Company	RIC Code	Rating	MCap ($ m)	CMP ($)	P/E (x)		EV/EBITDA (x)		EV/Sales(x)	
					CY10E	CY11E	CY10E	CY11E	CY10E	CY11E
Poly silicon producers										
MEMC	WFR.N	2S	2,533	11.14	40.6	8.2	7.6	3.6	1.4	1.2
Wacker	WCHG.DE	1H	7,727	148.16	13.3	10.2	5.6	4.8	1.4	1.3
Average					**27.0**	**9.2**	**6.6**	**4.2**	**1.4**	**1.2**
Cell and module makers										
SunPower	SPWRA.O	2S	786	14.19	10.9	8.9	6.2	4.9	0.8	0.5
Qcell	QCEG.DE	2S	690	7.62	-36.4	41.0	9.8	7.3	1.0	0.9
Motech Industries	6244.TWO	1M	1,168	3.10	14.2	11.6	8.9	7.4	1.2	1.0
SunTech	STP.N	--	1,710	9.49	16.6	11.7	7.8	6.9	1.0	1.0
Average					**1.3**	**18.3**	**8.2**	**6.6**	**1.0**	**0.8**
Thin film makers										
First Solar	FSLR.O	2S	10,299	120.75	16.2	15.8	10.5	9.1	3.7	2.6
Energy Conversion*	ENER.O	2S	206	4.50	-2.4	-5.4	-18.1	6.7	0.7	0.4
Average					**6.9**	**5.2**	**-3.8**	**7.9**	**2.2**	**1.5**
Integrated players										
REC*	REC.OL	2H	2,830	2.84	37.5	28.6	6.7	6.4	1.7	1.6
SolarWorld	SWVG.DE	2H	1,392	12.46	18.8	11.4	6.9	5.4	1.3	0.9
Average					**28.1**	**20.0**	**6.8**	**5.9**	**1.5**	**1.3**

Source: Citi Investment Research and Analysis estimates; Priced as on 24-Jun-2010

Risks remain high given the funding challenges, we await on the sidelines – remain Sellers.

Risks to our call

- Equity raising in the PV business: Successful equity raising in the PV business, at a good price, could be a possible trigger for stock-price outperformance.

- Ramp-up in PV margins: We have modeled our volume forecasts to be largely in-line with management's expectations. A sharp ramp-up in margins in the PV business remains an upside risk.

- Sharp turnaround in optical media: We build in margin improvement to our optical media forecasts but a sharper turnaround in this business remains an upside risk to our call.

- Sharp increase in oil prices – which increases the viability of alternate energy and drives more funding towards the same. Moser Baer stock did very well (like most PV stocks) when crude was at high levels.

Moser Baer India

Company description

Moser Baer has interests in optical media, home entertainment and solar energy. It is the world's second-largest manufacturer of optical storage media with a significant market share - with most of the largest OEMs among its customers. Photovoltaic cells and module (PV) is a new business for which Moser has aggressive ramp-up plans. It has also forayed into home entertainment with an eye on increased penetration in the VCD/DVD market in India, which should help ASPs for its optical discs.

Investment strategy

We rate Moser Baer Sell/High Risk (3H). Despite a significant market share in the optical media business, Moser Baer has suffered a reduction in profitability due to a sharp price reduction of optical media and price escalation in its key raw material - polycarbonate (PC). We expect this business to grow ~3% YoY over FY10-12E in volume terms, with profitability improving over a longer term as PC prices ease. PV is a relatively new business. Government incentives should continue to drive demand globally, but pricing and profitability are difficult to forecast, with margins likely to face pressure from higher solar-grade silicon prices, competition from Chinese/European players and low entry barriers (particularly for cells and modules).

Valuation

Our Rs65 target price is derived from a sum-of-parts (SOTP) methodology. We value the optical media business at 0.75x Sep 11E EV/Capital employed. Over FY05-07 (prior to its venture in the PV business), Moser Baer traded at an average EV/Capital employed of 1.0x (in a 0.8-1.3x range). We believe that it will continue to trade towards the lower end as the optical media business has not improved significantly over the past few quarters. We value the PV business at 1.0x Sep 11E EV/Sales, a premium to established global cell and module PV players, despite Moser's limited operating history in this segment. We apply a premium because Moser has some capacity on thin film technology, where multiples are much higher than for cell and module PV makers. We use EV/Sales because its PV margins are difficult to forecast in a ramp-up stage with a wide divergence in margins for players in the PV industry. We value the home entertainment business at 1.0x Sep 11E EV/Sales, given its decent growth phase.

Risks

We rate Moser Baer shares High Risk, in line with our quantitative risk-rating system. 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. The key upside risks to our target price are: (1) Improvements in the ASP and margins of optical media discs, (2) Improvement in margins for the solar industry, (3) Listing of the PV business, and (4) Higher crude oil prices, leading to enhanced interest in solar cell and module makers.

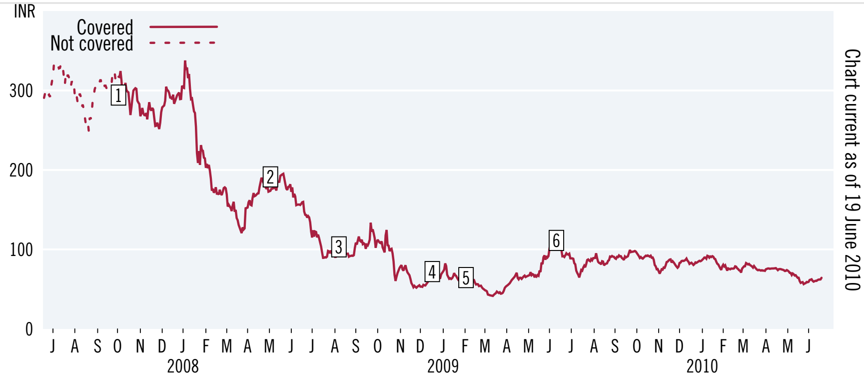
Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Moser Baer India (MOSR.BO)
Ratings and Target Price History
Fundamental Research
Analyst: Surendra Goyal, CFA
Covered since October 2 2007



	Date	Rating	Target Price	Closing Price
1	2-Oct-07	*3H	*345.00	317.65
2	2-May-08	3H	*176.00	173.75
3	7-Aug-08	3H	*106.00	100.90
4	17-Dec-08	3H	*62.00	64.05
5	3-Feb-09	3H	*55.00	61.10
6	10-Jun-09	3H	*99.00	107.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bin Jiang, Associate, holds a long position in the shares of SunPower Corporation.

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Rohini Malkani has in the past worked with the India government or its divisions in her personal capacity.

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Citi Investment Research & Analysis Ratings Distribution

Data current as of 31 Mar 2010	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	51%	36%	14%
% of companies in each rating category that are investment banking clients	48%	46%	39%

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