

April 28, 2008

Rating	Outperformer
Price	Rs1,170
Target Price	Rs1,395
Implied Upside	19%
Sensex	17,126

(Prices as on April 25, 2008)

Trading Data

Market Cap. (Rs bn)	248.0
Shares o/s (m)	211.9
Free Float	47.9%
Avg. Daily Vol ('000)	404.5
Avg. Daily Value (Rs m)	473.3

Major Shareholders

Promoters	52.1%
Foreign	15.8%
Domestic Inst.	17.8%
Public & Others	14.3%

Stock Performance

(%)	1M	6M	12M
Absolute	1.1	(18.4)	44.7
Relative	(4.5)	(9.6)	24.2

Price Performance (RIC: ABB.BO, BB: ABB IN)



Source: Bloomberg

ABB

Results in line with expectations

- Margin expansion:** For Q1CY08, ABB reported a topline of Rs15.3bn, YoY growth of 17%, in line with our estimates. Operating margin was up 11.3%, an increase of 148bps YoY, as compared to 9.8% in Q1CY07. The company reported a PAT of Rs1.18bn, a growth of 36% YoY.
- Segmental results:** Although the power products and power systems segment grew at 12.1% and 5.2% YoY respectively, we believe that this slow growth is just a one quarter phenomena and not a sign of slowdown in segments. The order book for the segment continues to be strong, hence providing visibility for the coming quarters. EBIT margin for these segments were at 12.9% and 8.9%, we expect these margins to improve in the coming quarters, as ABB is in a position to pick and choose higher margin orders.
- Strong order inflow:** ABB's order backlog stands at Rs61.7bn, which is a YoY growth of 52.3% and QoQ growth of 23%. Intake of orders during Q1CY08 was Rs26.9bn as compared to Rs20bn in Q1CY07, YoY growth of 35%.
- Valuation:** At the current market price of Rs1,170, the stock trades at 35x CY08E and 25.2x CY09E earnings of Rs33.4 and Rs46.5 respectively. We maintain Outperformer rating on the stock with a target price of Rs1,395, an upside of 19% over the current market price.

Key financials (Y/e Dec)	CY06	CY07	CY08E	CY09E
Revenue (Rs m)	42,740	59,303	81,897	112,130
Growth (%)	44.2	38.8	38.1	36.9
EBITDA (Rs m)	4,767	7,246	10,597	14,801
PAT (Rs m)	3,403	4,917	7,078	9,848
EPS (Rs)	16.1	23.2	33.4	46.5
Growth (%)	55.6	44.5	43.9	39.1
Net DPS (Rs)	9.0	10.0	12.5	16.0

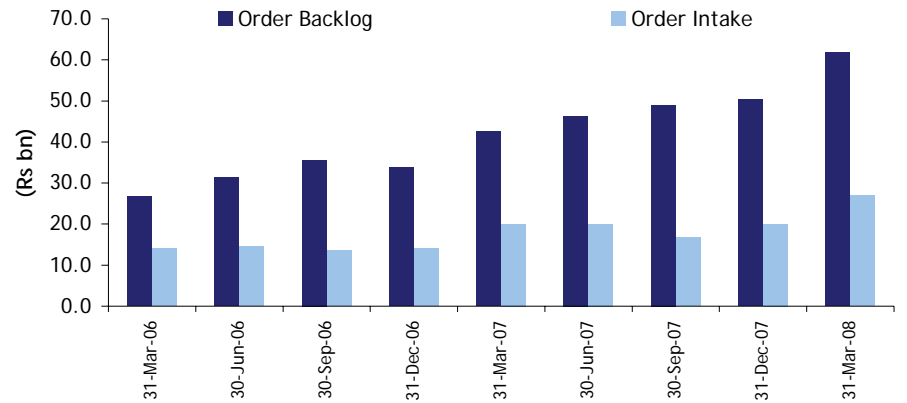
Source: Company Data; PL Research

Profitability & valuation	CY06	CY07	CY08E	CY09E
EBITDA margin (%)	11.2	12.2	12.9	13.2
RoE (%)	28.8	33.7	37.2	38.6
RoCE (%)	28.1	33.2	36.1	37.4
EV / sales (x)	5.7	4.1	2.9	2.1
EV / EBITDA (x)	50.7	33.4	22.8	16.2
PE (x)	72.9	50.4	35.0	25.2
P / BV (x)	21.0	17.0	13.0	9.7
Net dividend yield (%)	0.8	0.9	1.1	1.4

Source: Company Data; PL Research

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Order details



Source: Company Data, PL Research

Segmental break-up

(Rs m)

Y/e Dec	Q1CY08	Q1FY07	YoY gr. (%)	Q4CY07	QoQ gr. (%)
Revenue					
Power products	4,263	3,803	12.1	4,874	(12.6)
<i>% share</i>	<i>27.4</i>	<i>28.6</i>		<i>26.1</i>	
Power systems	5,122	4,867	5.2	7,402	(30.8)
<i>% share</i>	<i>33.0</i>	<i>36.7</i>		<i>39.7</i>	
Automation products	3,951	2,880	37.2	4,159	(5.0)
<i>% share</i>	<i>25.4</i>	<i>21.7</i>		<i>22.3</i>	
Process automation	2,953	2,285	29.3	3,126	(5.5)
<i>% share</i>	<i>19.0</i>	<i>17.2</i>		<i>16.8</i>	
Less: inter-segmental	(1,014)	(711)		(1,191)	
Total	15,538	13,276		18,648	
EBIT					
Power products	548	344	59.5	828	(33.8)
Power systems	455	427	6.4	961	(52.7)
Automation products	396	326	21.8	621	(36.2)
Process automation	421	197	113.9	451	(6.5)
EBIT margins (%)					
<i>Power products</i>	<i>12.9</i>	<i>9.0</i>		<i>17.0</i>	
<i>Power systems</i>	<i>8.9</i>	<i>8.8</i>		<i>13.0</i>	
<i>Automation products</i>	<i>10.0</i>	<i>11.3</i>		<i>14.9</i>	
<i>Process automation</i>	<i>14.3</i>	<i>8.6</i>		<i>14.4</i>	

Q1CY08 result overview

(Rs m)

Y/e Dec	Q1CY08	Q1FY07	YoY gr. (%)	Q4CY07	QoQ gr. (%)
Net sales	15,353	13,124	17.0	18,394	(16.5)
Expenditure					
Raw material	11,029	9,751	13.1	13,243	(16.7)
<i>% of net sales</i>	<i>71.8</i>	<i>74.3</i>		<i>72.0</i>	<i>101.1</i>
Personnel cost	969	698	38.9	785	23.5
<i>% of net sales</i>	<i>6.3</i>	<i>5.3</i>		<i>4.3</i>	<i>(142.0)</i>
Others	1,627	1,394	16.7	1,764	(7.8)
<i>% of net sales</i>	<i>10.6</i>	<i>10.6</i>		<i>9.6</i>	<i>47.0</i>
Total expenditure	13,626	11,843	15.1	15,792	(1.0)
EBITDA	1,727	1,282	34.8	2,602	(33.6)
<i>Margin (%)</i>	<i>11.3</i>	<i>9.8</i>		<i>14.1</i>	
Other income	185	152	22.0	254	(27.0)
Depreciation	83	86	(3.3)	82	2.1
EBIT	1,829	1,347	35.8	2,774	(62.7)
Interest	28	10	181.5	20	43.0
PBT	1,801	1,337	34.7	2,755	(105.7)
Total taxes	624	471	32.5	947	(34.1)
<i>ETR (%)</i>	<i>34.6</i>	<i>35.2</i>		<i>34.4</i>	
PAT	1,177	866	35.9	1,808	(34.9)



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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