

## Hindustan Zinc (HZ IN)

Rating: **1**

### EPS and target price adjusted after stock split and bonus issue

Materials: India

Target price: **Rs154.50**

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<b>Price (4 Mar)</b>	<b>Rs134.32</b>
Reuters code	HZNC.NS
ADR/GDR code	n.a.
Shares per ADR/GDR	n.a.

#### Market data

SENSEX Index	18,486.45
Market cap	(US\$bn) 12.62
EV	(US\$bn: 11E) 9.67
3-mth avg daily T/O	(US\$m) 5.49
Shares outstanding	(m) 4,225
Free float	(%) 35.1
Major shareholder	Promoters (64.9%)
Exchange rate	Rs/US\$ 44.988

<b>Performance (%)*</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>
Absolute	5.3	12.4	24.2
Relative	2.6	19.8	22.8

Source: Daiwa

Note: \*Relative to SENSEX Index

#### Investment indicators

	2011E	2012E	2013E
PER (x)	13.5	9.2	9.3
PCFR (x)	13.7	8.4	8.4
EV/EBITDA (x)	8.9	5.3	4.7
PBR (x)	2.6	2.0	1.7
Dividend yield (%)	0.5	0.5	0.5
ROE (%)	20.9	24.9	19.9
ROA (%)	18.9	22.6	18.3
Net debt equity (%)	net cash	net cash	net cash
Relative to peers			Below
Relative to history			Below

Source: Daiwa forecasts

#### Income summary (Rs m)

Yr to 31 Mar	2010	2011E	2012E	2013E
Revenue	80,170	91,209	123,096	116,544
YoY (%)	41.1	13.8	35.0	(5.3)
EBITDA	46,701	49,032	70,146	64,938
YoY (%)	70.8	5.0	43.1	(7.4)
Net profit	40,414	41,955	61,961	61,114
YoY (%)	48.2	3.8	47.7	(1.4)
EPS (Rs)	9.565	9.929	14.664	14.464
YoY (%)	48.2	3.8	47.7	(1.4)
CFPS (Rs)	9.650	9.786	15.920	16.069
DPS (Rs)	0.600	0.650	0.700	0.700

Source: Company, Daiwa forecasts

#### Price and relative performance



Source: Bloomberg, Daiwa

#### Forecasts revisions (%)

	FY11E	FY12E	FY13E
Revenue change	0.0	0.0	0.0
Net profit change	0.0	0.0	0.0
EPS change	0.0	0.0	0.0

Source: Daiwa forecasts

#### Fair value

Valuation (Rs/shr)	154.00
Methodology	EV/EBITDA multiple
Key assumption	EV/EBITDA multiple of 6.5x for FY12

Source: Daiwa forecasts

### What has changed?

- Hindustan Zinc (HZL) has announced a bonus share issue of 1:1 and stock split in the ratio of 5:1, changing the face value per share from Rs10 to Rs2. These changes took effect on 7 March 2011.

### Impact

- The face value of the company's shares has been reduced from Rs10/share to Rs2/share after the stock split. The number of outstanding shares has also increased from 422.5m to Rs4,225m after factoring in the stock split (at a ratio of 5:1) and bonus share issue (1:1). Accordingly, our target price is revised to Rs154 from Rs1,545 earlier.
- Our net-sales and EBITDA forecasts for FY11, FY12 and FY13 remain unchanged. However, we have adjusted our EPS forecasts for FY11, FY12 and FY13 to factor in the higher number of outstanding shares due to the stock split and bonus issue.

### Valuation

- We maintain our **1 (Buy)** rating on the stock with a new six-month target price of Rs154 based on a 6.5x EV/EBITDA multiple based on our FY12 EBITDA forecast. Our target price has been adjusted after factoring in the bonus share issue and stock split. The stock is trading currently at a 5.3x EV/EBITDA multiple on our FY12 EBITDA forecast.

### Catalysts and action

- The potential key catalyst remains higher-than-expected zinc and lead prices, while we see the key risk for the company as a delay in commissioning of the expansion project and production ramp-up of its current capacity.

## Company background

Hindustan Zinc is the largest integrated zinc and lead producer in the world, with a current production capacity of 879,000tpa of zinc and 85,000tpa of lead. It is in the process of expanding its lead capacity by 100,000tpa to 185,000tpa by March 2011. The company accounts for more than 90% of total zinc production in India. It has the world's largest zinc and lead mine, *Rampura Agucha*, which has an annual production capacity of 580,000 tonnes of zinc and 60,000 tonnes of lead.

## Hindustan Zinc – financial summary

### Profit and loss (Rs m)

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Zinc & Lead	56,803	80,170	91,209	123,096	116,544
others	0	0	0	0	0
Others	0	0	0	0	0
<b>Total revenue</b>	<b>56,803</b>	<b>80,170</b>	<b>91,209</b>	<b>123,096</b>	<b>116,544</b>
Other income	0	0	0	0	0
COGS	(22,699)	(25,740)	(33,034)	(41,367)	(39,714)
SG&A	(3,113)	(3,156)	(3,648)	(5,539)	(5,244)
Other op. expenses	(6,502)	(7,916)	(10,242)	(11,330)	(11,934)
<b>EBIT</b>	<b>24,489</b>	<b>43,358</b>	<b>44,285</b>	<b>64,860</b>	<b>59,652</b>
Net-interest inc./(exp.)	(219)	(439)	(33)	0	0
Assoc/forex/extraord./others	9,312	7,222	6,913	10,702	14,878
<b>Pre-tax profit</b>	<b>33,583</b>	<b>50,141</b>	<b>51,165</b>	<b>75,562</b>	<b>74,530</b>
Tax	(6,306)	(9,727)	(9,210)	(13,601)	(13,415)
Min. int./pref. div./others	0	0	0	0	0
<b>Net profit (reported)</b>	<b>27,277</b>	<b>40,414</b>	<b>41,955</b>	<b>61,961</b>	<b>61,114</b>
<b>Net profit (adj.)</b>	<b>27,277</b>	<b>40,414</b>	<b>41,955</b>	<b>61,961</b>	<b>61,114</b>
<b>EPS (reported) (Rs)</b>	<b>6.455</b>	<b>9.565</b>	<b>9.929</b>	<b>14.664</b>	<b>14.464</b>
<b>EPS (adj.) (Rs)</b>	<b>6.455</b>	<b>9.565</b>	<b>9.929</b>	<b>14.664</b>	<b>14.464</b>
<b>DPS (Rs)</b>	<b>0.400</b>	<b>0.600</b>	<b>0.650</b>	<b>0.700</b>	<b>0.700</b>
<b>EBIT (adj.)</b>	<b>24,489</b>	<b>43,358</b>	<b>44,285</b>	<b>64,860</b>	<b>59,652</b>
<b>EBITDA (adj.)</b>	<b>27,342</b>	<b>46,701</b>	<b>49,032</b>	<b>70,146</b>	<b>64,938</b>

### Cash flow (Rs m)

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Profit before tax	33,583	50,141	51,165	75,562	74,530
Depreciation and amortisation	2,858	3,345	4,748	5,286	5,286
Tax paid	(5,209)	(7,846)	(8,289)	(12,241)	(12,074)
Change in working capital	3,667	767	(6,275)	(1,340)	154
Other operational CF items	(7,773)	(5,635)	0	0	0
<b>Cash flow from operations</b>	<b>27,125</b>	<b>40,772</b>	<b>41,348</b>	<b>67,267</b>	<b>67,896</b>
Capex	(13,793)	(22,492)	(23,930)	0	0
Net (acquisitions)/disposal	(4,382)	(39,200)	(10,000)	(50,500)	(50,500)
Other investing CF items	(16,015)	22,876	0	0	0
<b>Cash flow from investing</b>	<b>(34,189)</b>	<b>(38,815)</b>	<b>(33,930)</b>	<b>(50,500)</b>	<b>(50,500)</b>
Change in debt	83	433	(605)	0	0
Net share issues/(repurchases)	0	0	0	0	0
Dividends paid	(1,236)	(1,977)	(2,956)	(3,213)	(3,460)
Other financing CF items	(219)	(330)	0	0	0
<b>Cash flow from financing</b>	<b>(1,372)</b>	<b>(1,874)</b>	<b>(3,561)</b>	<b>(3,213)</b>	<b>(3,460)</b>
Forex effect/others	27,000	9,000	0	0	0
<b>Change in cash</b>	<b>18,564</b>	<b>9,084</b>	<b>3,857</b>	<b>13,554</b>	<b>13,936</b>

### Key assumptions

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Zinc capacity (tonnes)	669,000	879,000	879,000	879,000	879,000
Lead capacity (tonnes)	85,000	93,000	193,000	193,000	193,000
Zinc refined sales (tonnes)	552,330	577,685	703,290	870,210	870,210
Lead refined sales (tonnes)	60,564	64,391	51,000	144,750	154,400
Zinc price per tonne (US\$)	1,590.00	1,932.00	2,180.19	2,275.63	2,198.49

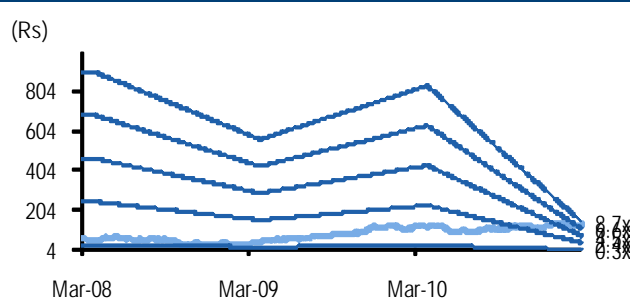
### Balance sheet (Rs m)

As at 31 Mar	2009	2010	2011E	2012E	2013E
Cash & short-term investment	96,480	118,767	132,624	196,678	261,114
Inventory	5,457	4,517	7,379	9,013	8,435
Accounts receivable	1,649	1,518	5,997	8,094	7,663
Other current assets	3,542	4,642	4,651	4,679	4,673
<b>Total current assets</b>	<b>107,128</b>	<b>129,444</b>	<b>150,651</b>	<b>218,464</b>	<b>281,885</b>
Fixed assets	52,133	72,771	91,953	86,667	81,381
Goodwill & intangibles	0	0	0	0	0
Other non-current assets	0	0	0	0	0
<b>Total assets</b>	<b>159,261</b>	<b>202,215</b>	<b>242,604</b>	<b>305,131</b>	<b>363,267</b>
Short-term debt	0	0	0	0	0
Accounts payable	3,722	4,777	5,108	6,284	5,924
Other current liabilities	6,287	8,481	9,481	10,972	10,472
<b>Total current liabilities</b>	<b>10,010</b>	<b>13,258</b>	<b>14,589</b>	<b>17,255</b>	<b>16,395</b>
Long-term debt	87	605	0	0	0
Other non-current liabilities	5,589	7,112	8,033	9,393	10,735
<b>Total liabilities</b>	<b>15,685</b>	<b>20,975</b>	<b>22,623</b>	<b>26,649</b>	<b>27,130</b>
Share capital	4,225	4,225	8,451	8,451	8,451
Reserves/R.E./others	139,351	177,014	211,531	270,032	327,686
<b>Shareholders' equity</b>	<b>143,576</b>	<b>181,240</b>	<b>219,982</b>	<b>278,482</b>	<b>336,137</b>
Minority interests	0	0	0	0	0
<b>Total equity &amp; liabilities</b>	<b>159,261</b>	<b>202,215</b>	<b>242,604</b>	<b>305,131</b>	<b>363,267</b>
<b>Net debt/(cash)</b>	<b>(96,393)</b>	<b>(118,162)</b>	<b>(132,624)</b>	<b>(196,678)</b>	<b>(261,114)</b>

### Key ratios

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Sales – YoY %	(27.9)	41.1	13.8	35.0	(5.3)
EBITDA (adj.) – YoY %	(49.2)	70.8	5.0	43.1	(7.4)
Net profit (adj.) – YoY %	(38.0)	48.2	3.8	47.7	(1.4)
EPS (adj.) – YoY %	(38.0)	48.2	3.8	47.7	(1.4)
EBITDA margin % (adj.)	48.1	58.3	53.8	57.0	55.7
EBIT margin % (adj.)	43.1	54.1	48.6	52.7	51.2
Net-profit margin % (adj.)	48.0	50.4	46.0	50.3	52.4
ROAE (%)	20.8	24.9	20.9	24.9	19.9
ROAA (%)	18.7	22.4	18.9	22.6	18.3
ROCE (%)	18.7	26.6	22.0	26.0	19.4
ROIC (%)	44.8	63.4	48.3	62.9	62.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Effective tax rate (%)	18.8	19.4	18.0	18.0	18.0
Accounts receivable (days)	19.6	7.2	15.0	20.9	24.7
Payables (days)	23.4	19.3	19.8	16.9	19.1
Net interest cover (x)	111.9	98.7	1,331.5	n.a.	n.a.
Net dividend payout (%)	6.2	6.3	6.5	4.8	4.8

### PER bands



Source: Company, Daiwa forecasts

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