Company In-Depth

12 April 2007 | 7 pages

ABG Shipyard (ABGS.BO)

Buy: Raising Estimates on Improved Earnings Visibility

Rating change ☐
Target price change ☐
Estimate change ☑

- What's new — ABG Shipyard recently announced that it has secured an order worth US$139m from Essar Shipping for the construction of 4 bulk carriers. This follows the US$13m repeat order that the company recently won for the construction of one APS tug vessel for Lamnalco, Cyprus.
- Order visibility improves — ABG's total unexecuted order book now stands at c.Rs33bn (5x FY07E sales) vs. Rs25bn earlier. With order backlog extending well into FY10 and orders for the company's upcoming Dahej facility yet to be completely tied up (5 slots are still available even after the recent order wins), earnings visibility for the company over the next 3 years has improved significantly – we expect ABG to deliver an EPS CAGR of 46% over FY07-09E.
- Revising FY09E earnings by 21% — We are raising our FY09E earnings by 21% factoring in improved earnings visibility following the order wins; FY08E earnings, which would not be affected by the Dahej expansion, remain relatively unchanged. Our earnings forecasts do not currently factor in any upside from yet-to-be announced rig orders. However, these are unlikely to have any significant impact on FY09 performance.
- 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. ABG's expansion plans remain on target and are well-timed to capture the continued upswing in the shipbuilding cycle. Maintain Buy/Medium Risk with a target price of Rs430.

Buy/Medium Risk	1M
Price (12 Apr 07)	Rs350.35
Target price	Rs430.00
Expected share price return	22.7%
Expected dividend yield	0.5%
Expected total return	23.2%
Market Cap	Rs17,840M US$418M

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

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

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	447	13.77	38.7	25.5	7.4	33.6	0.0
2006A	837	16.44	19.4	21.3	3.7	26.3	0.3
2007E	1,096	21.53	31.0	16.3	3.1	20.6	0.5
2008E	1,470	28.86	34.1	12.1	2.5	22.7	0.7
2009E	2,347	46.10	59.7	7.6	1.9	28.5	1.1

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	25.5	21.3	16.3	12.1	7.6
EV/EBITDA adjusted (x)	19.5	11.7	8.9	7.7	5.6
P/BV (x)	7.4	3.7	3.1	2.5	1.9
Dividend yield (%)	0.0	0.3	0.5	0.7	1.1
Per Share Data (Rs)					
EPS adjusted	13.77	16.44	21.53	28.86	46.10
EPS reported	13.77	16.44	21.53	28.86	46.10
BVPS	47.49	94.74	114.31	140.54	182.43
DPS	0.00	1.20	1.72	2.31	3.69
Profit & Loss (RsM)					
Net sales	3,766	5,433	6,743	10,495	19,289
Operating expenses	-2,877	-4,060	-4,921	-7,987	-15,256
EBIT	**890**	**1,373**	**1,822**	**2,507**	**4,032**
Net interest expense	-202	-167	-211	-331	-525
Non-operating/exceptionals	2	61	50	50	50
Pre-tax profit	**689**	**1,267**	**1,661**	**2,227**	**3,557**
Tax	-241	-430	-565	-757	-1,209
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**447**	**837**	**1,096**	**1,470**	**2,347**
Adjusted earnings	447	837	1,096	1,470	2,347
Adjusted EBITDA	921	1,409	1,873	2,638	4,322
Growth Rates (%)					
Sales	27.4	44.2	24.1	55.6	83.8
EBIT adjusted	207.1	54.3	32.8	37.6	60.8
EBITDA adjusted	187.9	53.0	32.9	40.9	63.8
EPS adjusted	38.7	19.4	31.0	34.1	59.7
Cash Flow (RsM)					
Operating cash flow	**-394**	**1,064**	**-2,355**	**-229**	**-170**
Depreciation/amortization	31	36	51	131	290
Net working capital	-873	190	-3,502	-1,829	-2,808
Investing cash flow	**-94**	**-617**	**-1,582**	**-3,500**	**-4,500**
Capital expenditure	-94	-617	-1,582	-3,500	-4,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**410**	**2,731**	**1,513**	**2,066**	**5,161**
Borrowings	410	267	1,613	2,200	5,375
Dividends paid	0	-70	-100	-134	-214
Change in cash	**96**	**3,567**	**-2,048**	**-1,158**	**1,297**
Balance Sheet (RsM)					
Total assets	**3,604**	**10,267**	**11,398**	**16,628**	**27,844**
Cash & cash equivalent	487	4,053	2,005	847	2,143
Accounts receivable	129	61	74	115	211
Net fixed assets	1,000	1,560	3,092	6,461	10,671
Total liabilities	**2,061**	**5,443**	**5,577**	**9,472**	**18,554**
Accounts payable	1,019	2,378	1,824	2,980	5,801
Total Debt	730	997	2,610	4,810	10,185
Shareholders' funds	**1,544**	**4,824**	**5,821**	**7,156**	**9,290**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	24.4	25.9	27.8	25.1	22.4
ROE adjusted	33.6	26.3	20.6	22.7	28.5
ROIC adjusted	39.8	40.2	24.7	17.2	17.3
Net debt to equity	15.8	-63.3	10.4	55.4	86.6
Total debt to capital	32.1	17.1	31.0	40.2	52.3

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Raising Earnings on New Order Wins

ABG recently announced that it has secured an order for the construction of 4 bulk carriers from Essar Shipping at a price of US$139m. Alongwith the recent repeat order from Lamnalco worth US$13m, ABG's order book now stands at c.Rs41bn, with the unexecuted portion at c.Rs33bn, providing a cover of 5x FY07E sales.

Following these additional order wins and based on our discussions with the management, we are revising our FY09E revenues and earnings by 26% and 21%, respectively. Our FY08E earnings remain relatively unchanged as the new order wins are for the company's new shipbuilding facility being set up at Dahej (scheduled to be commissioned in Apr-08), which would have no significant impact in FY08. We are also modestly raising FY07E earnings estimates by 6%, based on efficient order book execution in FY07YTD.

Figure 1. Earnings Revision

Year to	Net Profit (Rs m)		Diluted EPS (Rs)			Sales (Rs m)		
31-Mar	Old	New	Old	New	% Chg	Old	New	% Chg
2007E	1,032	1,096	20.27	21.53	6.2%	6,707	6,743	0.5%
2008E	1,465	1,470	28.78	28.86	0.3%	10,447	10,495	0.5%
2009E	1,947	2,347	38.24	46.10	20.6%	15,269	19,289	26.3%

Source: Citigroup Investment Research

ABG Shipyard

Company description

ABG Shipyard, the largest private sector yard in India, has built more than 90 ships since 1990. It has a shipbuilding facility in Magdala, near Surat in Gujarat, which is focused on the offshore support vessel market. It is now setting up a new shipyard at Dahej besides expanding its capacity at Surat. The first phase of the Dahej shipyard, being constructed at a cost of Rs4bn, will be able to build ships with a capacity of up to 120,000 DWT, targeted at the dry-bulk segment. The company also plans to set up a facility at Dahej for the manufacture of rigs, a big-ticket profitable segment.

Investment thesis

ABG Shipyard is India's leading private shipbuilder and has one of the world's largest AHTS (Anchor Handling Tug) order books. The company has a robust unexecuted order book of c.Rs33bn, providing earnings visibility until FY10. 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. ABG has expanded its existing yard at Surat and is building a new greenfield yard at Dahej, which will be commissioned in April 2008. The Dahej yard will have capability to produce ships up to 120,000 DWT and is targetted at the fast growing dry-bulk segment. In its second phase of expansion, the yard would also have a rig-building facility. This should increase the order book execution rate and provide an entry into new shipbuilding segments. With strong, visible earnings growth (CAGR of 46% over FY07-09E), we believe current valuations remain attractive.

Valuation

We rate ABG Shipyard Buy/Medium Risk (1M). We value ABG at Rs430, which is 15x FY08E earnings, in line with similar profiled Singapore shipyards that trade in the 11-17x FY08E earnings range. Given ABG's superior earnings CAGR of 46% over FY07-09E and an order book that provides a cover of 5x FY07E sales, we believe ABG deserves to trade at par with regional peers, subsidy concerns notwithstanding.

Risks

We rate ABG Shipyard Medium Risk, which differs from our 260-day quantitative rating of High Risk. We believe the lower rating is justified given the strong order book cover of 5x FY07E sales driven by the offshore segment where strong demand drivers remain in place and the continued tightness in global shipbuilding. Being a small shipyard in the global context, ABG is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise in global ship building capacity. Key risks include: (1) removal of subsidies; (2) declining oil prices; and (3) execution risk.

Appendix A-1

Analyst Certification

We, Saurabh Handa and Pradeep Mirchandani, CFA, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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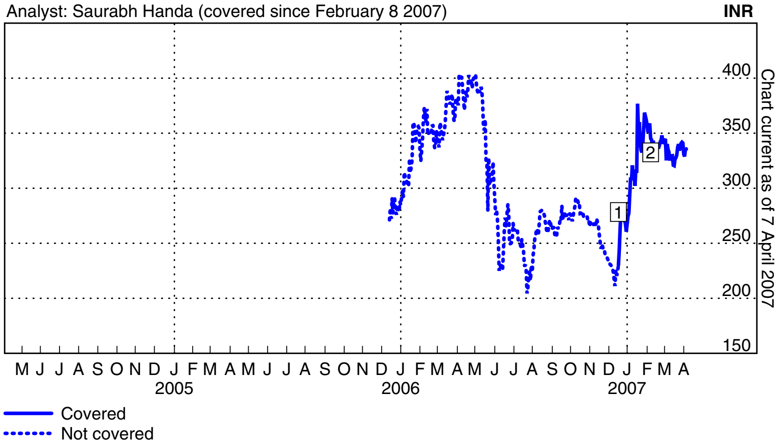
ABG Shipyard (ABGS.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Saurabh Handa (covered since February 8 2007)



#	Date	Rating	Target Price	Closing Price
1:	18 Dec 06	1M	291.00	230.10
2:	7 Feb 07	1M	*430.00	345.15

*Indicates change.

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Low to Medium Risk -- High Single A through High Triple B
Medium to High Risk -- Mid Triple B through High Double B
High to Speculative Risk -- Mid Double B and Below

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