



## Sesa Goa

SESA IN / SESA.NS

## 4QFY13 RESULTS NOTE

Market Cap  
**US\$2,487m**  
Rs134,885m

Avg Daily Turnover  
**US\$5.31m**  
Rs287.4m

Free Float  
**45.0%**  
869.1 m shares

Current Target **Rs155.2**  
Prev. Target **Rs164.0**  
Up/Downside **Rs141.8**  
**5.7%**

SHORT TERM (3 MTH) LONG TERM  
TRADING BUY OUTPERFORM  
TRADING SELL **NEUTRAL**  
UNDERPERFORM

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#### Share price info

Share price perf. (%)	1M	3M	12M
Relative	-3.1	-12.4	
Absolute	-0.2	-15.4	

#### Major shareholders

	% held
Promoter Group	55.1
Franklin Templeton	9.8
Templeton emerging markets	2.4

# Looking for a sign of life

Sesa Goa's 4QFY13 results were a non-event owing to the bans impacting output in Goa and Karnataka. Management expects output to resume in Karnataka over the next few months and Liberia by the end of the current financial year.

Sesa Goa's 4QFY13 EBITDA loss of Rs9.6bn was higher than our loss estimate of Rs5.4bn due to weak margins at recently started pig iron and coking coal operations. FY13 EPS was 9% higher than our estimates. Management announced reserves and resource additions of 59mt at its mines in India and 966mt in Liberia. We raise our FY14/15 EPS by 9/63% to Rs22.1/25.7. After the stock's recent 24% correction, we upgrade to Neutral and raise our target price to Rs164 based on a blend of EV/reserves and SOP post-merger.

## Some relief

Sesa Goa's Karnataka mines fall in the B category and were recently allowed by the Supreme Court to resume mining. However, Sesa Goa's mining leases are under renewal and require fresh forest clearances, which are now pending with the Ministry of Environment and Forests. These could take a few months to be cleared.

Supreme Court hearings for the resumption of mining in Goa are pending and could take six to nine months to restart. We have factored in an output of 3mt for FY14 and 8mt for FY15 in Goa and 2mt and 2.5mt in Karnataka respectively.

## Liberia to deliver this year

Management expects its Liberia operations to deliver from FY14 and expects an initial run rate of 2mt, eventually rising to 30mt. We factor in output of 2mt in FY14/15 and EBITDA/t of US\$40/t.

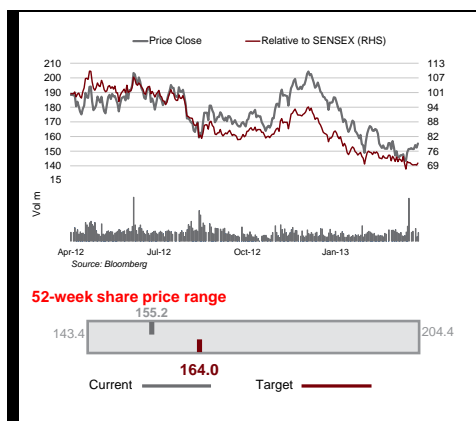
## Valuation

We value Sesa Goa at an average of the valuation of its reserves and SOP of the merged entity. Our revised target price is now Rs164 (from Rs142). We attribute the target price increase to i) the increase in its reserves and ii) valuation of its stake in Cairn India based on recent CIMB forecast revisions vs market price earlier.

### Result Comparison

(Rs m)	4QFY13	4QFY12	YoY%	3QFY13	QoQ%	FY13 Cum	FY12 Cum	YoY%	Prev. FY13F	Comments
Revenue	2,909	27,944	(90)	2,365	23	25,544	83,101	(69)	24,784	In line revenues
Operating costs	3,868	17,975	(78)	3,419	13	20,737	48,100	(57)	20,310	
EBITDA	(959)	9,969	nm	(1,054)	nm	4,808	35,001	(86)	4,474	EBITDA loss higher than our estimates
EBITDA margins (%)	(33.0)	35.7		(44.5)		18.8	42.1		18.1	
Depreciation	984	286	244	354	178	1,975	1,061	86	1,192	
Interest expense	1,378	(1,648)	(184)	1,020	35	4,394	4,333	1	3,079	
Other income	91	141	(35)	154	(41)	533	2,346	(77)	214	
Net (gain)/loss on FC	(183)	-	nm	250		718	661	9		
Pre tax profit	(3,047)	10,811	(128)	(2,530)	20	(1,746)	31,292	(106)	417	
Tax	(895)	3,848	(123)	(807)	11	(429)	10,214	(104)	803	
Tax rate (%)	29.4	35.6		31.9	(8.0)	24.6	32.6		192.7	
Net profit	(2,152)	6,963	(131)	(1,723)	25	(1,316)	21,078	(106)	(386)	
Associate Income	5,127	4,658	10	6,690	(23)	24,113	5,877	310	21,960	
PAT	2,975	11,621	(74)	4,967	(40)	22,797	26,955	(15)	21,574	

SOURCE: CIMB, COMPANY REPORTS



### Financial Summary

	Mar-12A	Mar-13F	Mar-14F	Mar-15F	Mar-16F
Revenue (Rsm)	83,101	25,544	33,164	67,199	69,770
Operating EBITDA (Rsm)	35,001	4,808	6,701	16,873	17,027
Net Profit (Rsm)	26,955	22,797	19,225	22,295	21,503
Core EPS (Rs)	31.57	27.06	22.12	25.65	24.74
Core EPS Growth	(37.2%)	(14.3%)	(18.2%)	16.0%	(3.5%)
FD Core P/E (x)	4.92	5.74	7.02	6.05	6.27
DPS (Rs)	4.58	0.12	0.28	1.95	2.04
Dividend Yield	2.95%	0.08%	0.18%	1.25%	1.31%
EV/EBITDA (x)	4.84	37.08	26.32	10.12	9.63
P/FCFE (x)	NA	NA	18.83	16.88	14.24
Net Gearing	22.8%	24.8%	20.6%	15.9%	11.6%
P/BV (x)	0.89	0.77	0.67	0.60	0.54
Recurring ROE	19.6%	14.4%	10.2%	10.5%	9.0%
% Change In Core EPS Estimates		9.0%	9.1%	62.6%	
CIMB/consensus EPS (x)			0.71	0.84	

SOURCE: CIMB, COMPANY REPORTS

## Earnings call highlights ▶

### Goa operations may take time to restart

The Goa operations have been suspended since Oct and are currently under the purview of the Supreme Court. The court has not started hearing the case and is likely take up the matter only after its summer vacations which run till the end of June. We believe that it will take another at least six to nine months for operations to resume. Management highlighted that they have kept their machinery in working condition and have not retrenched any of their staff and would resume in full swing once they get necessary approvals. Besides, they are also sitting on finished iron ore of inventory of 2.5mt and 1.5mt of unfinished ore.

### Karnataka operations may start soon

The company expects its Karnataka operations (2.3mt) to resume soon given the recent Supreme Court's approval of its mines which fall under category B. As the mining lease expired in Oct 2012, the company is in the process of getting statutory clearances. Management mentioned that it expects its forest clearance application to be taken up by the Forest Advisory Committee in the next few weeks.

### Firm on commitment to restart Liberia operations in 11 months

Company maintained its guidance for delivery of the first shipment in 4QFY14 and ramp up of production to 2mt by FY15. Also, total reserves and resources for Liberia stood at 966mt as of Mar 2013. The company has guided for capital expenditure of US\$90/t and also expects long-term iron prices to hover around similar levels.

### Figure 1: Valuation of iron ore business using EV/reserves

Total reserves (Mt)	204
Ore grade (%)	56.6%
Reserve valuation multiple (US\$/t)	5
Total resources (Mt)	229
Ore grade (%)	51.9%
Resource valuation multiple (US\$/t)	2
Total enterprise value (US\$ m)	1,478
Total enterprise value (Rs m)	79,812
Net debt (Rs m)	41,316
Equity value of Indian iron ore business (Rs m)	38,496
Liberia Operations (At 1X P/B)	6,196
Iron ore business	44,692
Add: 20% stake in Cairn India (Less 20% Holdco disc.)	109,889
Total Equity Value	154,582
Fair value per share	178

SOURCES: CIMB, COMPANY REPORTS

**Figure 2: Change in valuation of Sesa Goa based on ownership stakes**

(Per share)	Current	Pro-forma
Sesa Goa	91.8	26.9
WCL, Liberia	7.1	2.1
Cairn India	126.4	109.1
Hindustan Zinc	-	63.2
Int. Zinc	-	29.7
Copper - India	-	13.5
Copper - Aus.	-	7.3
VAL	-	20.2
BALCO	-	5.1
SEL	-	12.6
Net cash/ (debt)	(47.7)	(153.2)
Synergies	-	13.5
<b>Target Price</b>	<b>178</b>	<b>150</b>

SOURCES: CIMB, COMPANY REPORTS

**Figure 3: Target price calculation**

	(Rs/share)
Estimated fair value based on reserves	178
Estimated fair value based on SOTP basis of Sesa Sterlite	150
<b>Target price based on average</b>	<b>164</b>

SOURCES: CIMB, COMPANY REPORTS

**Figure 4: Sector Comparisons**

Company	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)	
		CY2012	CY2013		CY2012	CY2013	CY2012	CY2013	CY2014	CY2012	CY2013
Fortescue Metals Group	11,262	6.6	4.3	42.1%	2.26	1.45	42.3%	40.9%	39.0%	3.6	2.5
Sesa Goa	2,487	5.8	7.3	-25.6%	0.81	0.73	15.3%	10.6%	7.6%	13.4	51.0
NMDC	9,030	7.3	9.2	-18.7%	1.78	1.57	27.5%	18.3%	13.3%	3.4	4.8
Average (all)		6.7	5.8	11.5%	1.73	1.34	29.6%	26.2%	25.0%	4.0	3.5

SOURCES: CIMB, COMPANY REPORTS

**Figure 5: Assumptions**

	FY12	FY13	FY14	FY15	FY16
Sales ('000 t)					
Iron Ore Sales - Domestic	9,074	2,813	5,000	10,500	11,500
Iron Ore Sales - Liberia	-	-	-	2,000	2,000
Realization					
Domestic (Rs/t)	4,370	5,423	4,329	4,329	4,200
Liberia (US\$/t)	-	-	-	100	105

SOURCES: CIMB, COMPANY REPORTS

**Figure 6: Change of estimates**

(Rs m)	FY14			FY15		
	Old	New	% Change	Old	New	% Change
Revenues	23,130	33,164	43	27,221	67,199	147
EBITDA	3,005	6,701	123	4,254	16,873	297
PAT	17,627	19,225	9	13,712	22,299	63

SOURCES: CIMB, COMPANY REPORTS

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Spitzer Chart for stock being researched ( 2 year data )



Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2013		
983 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	50.8%	8.1%
Neutral	35.3%	4.8%
Underperform/Sell/Trading Sell	13.9%	5.9%

### Recommendation Framework #1 \*

#### Stock

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

#### Sector

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

### Recommendation Framework #2 \*\*

#### Stock

**OUTPERFORM:** Expected positive total returns of 10% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -10% and +10% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 10% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 10% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 10% or more over the next 3 months.

#### Sector

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*\*\* This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

#### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

AAV – not available, ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCH - Good, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, GRAMMY – Excellent, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, INTUCH – Very Good, ITD - Good, IVL - Very Good, JAS – Very Good, KAMART – not available, KBANK - Excellent, KK - Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, RS - Excellent, SC – Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, THCOM – Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good, WORK - Good.