

Siemens

30 April 2012

Reuters: SIEM.BO; Bloomberg: SIEM IN

Weak Order Inflow To Moderate Growth

Siemens reported a mixed set of numbers for 2QFY12, highlighted by strong order execution but marred by declining profitability and a sharp fall in order intake. Order inflow fell 45% YoY to Rs18bn, the lowest since 4QFY07, leading to a 18% YoY decline in order backlog at Rs126bn. The company also revised its estimated revenue, costs and provisions made for certain projects, resulting in over-statement of PBT by Rs2.1bn. As a result, even though reported PBT of Rs4.5bn was 45.1%/55.8% higher than our/Bloomberg consensus, adjusted PBT of Rs2.4bn was 22.7%/17.0% lower, respectively. We reduce our order inflow estimate for FY12E to Rs100bn (from Rs110bn) and downgrade our earnings estimates for FY12E/13E by 6.4%/6.1%, respectively, to factor in increased pricing pressure. We retain our Sell rating on Siemens with a revised target price of Rs531 (Rs567) based on 21x FY13E EPS.

Revenue growth to moderate: Net revenue for 2QFY12 rose 21.7% YoY to Rs38bn, led by stronger order execution in segments like Infrastructure & Cities (33% YoY growth, 22.5% of total revenue) and Energy (23.4% YoY growth, 46.3% of total revenue). Top-line was 24.2%/20.5% higher than our/Bloomberg consensus estimates, respectively. However, the declining order book will lead to slowdown in revenue traction, with only 1.3% CAGR likely over FY11-13E. We cut our FY12E/13E revenue estimates by 1.0%/5.3%, respectively, post reduction in order inflow assumption.

Pressure on margins to persist: Escalating costs along with increased pricing pressure led to contraction in margins during the quarter. Reported EBITDA margin fell 70bps YoY to 13%. However, after deducting write-backs, adjusted operating margin stood at only 7.4%. Infrastructure & Cities and Industry segments reported 90bps and 310bps YoY decline, respectively, in EBIT margin while the Healthcare segment reported an operating loss. Over the 1HFY12 period, operating profit margin declined sharply by 390bps YoY, from 14% to 10.1%. To factor in higher-than-expected pricing pressure, we cut our EBITDA estimates for FY12E/FY13E by 6.0%/6.2%, respectively. Consequently, our PAT estimates stand reduced by 6.4%/6.1% for FY12E/FY13E, respectively.

Outlook: With the current order book of Rs126bn, the order backlog to TTM sales ratio has fallen from 1.5x to 1x over the past six quarters. Also, declining order intake has adversely affected the working capital cycle due to lower customer advances. Payable days fell from 183 days to 168 days YoY over 1HFY12, leading to 35% YoY decline in cash balance from Rs6bn to Rs3.9bn over the same period. We retain our negative outlook on the power T&D sector and Sell rating on Siemens.

SELL

Sector: Capital Goods

CMP: Rs779

Target Price: Rs531

Downside: 32%

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Key Data

Current Shares O/S (mn)	340.3
Mkt Cap (Rsbn/US\$bn)	265.2/5.0
52 Wk H / L (Rs)	951/627
Daily Vol. (3M NSE Avg.)	199,439

Price Performance (%)

	1 M	6 M	1 Yr
Siemens	2.6	(8.9)	(10.1)
Nifty Index	(1.6)	(2.2)	(9.4)

Source: Bloomberg

Y/E Sep (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net revenue	31,208	23,676	37,973	21.7	60.4	57,069	61,649	8.0
Raw material costs	23,376	18,198	27,934	19.5	53.5	41,802	46,132	10.4
Staff costs	2,233	2,532	2,527	13.1	(0.2)	4,347	5,058	16.4
Other operating expenses	1,310	1,692	2,567	96.0	51.8	2,941	4,259	44.8
Total expenditure	26,920	22,422	33,028	22.7	47.3	49,090	55,450	13.0
EBITDA	4,288	1,254	4,944	15.3	294.3	7,978	6,199	(22.3)
EBITDAM (%)	13.7	5.3	13.0			14.0	10.1	
Depreciation	367	431	469	28.0	8.9	712	901	26.5
Interest costs	63	45	79	25.3	74.1	76	125	63.5
Other income	293	272	120	(59.0)	(55.9)	561	392	(30.1)
PBT	4,151	1,050	4,516	8.8	330.3	7,751	5,566	(28.2)
Tax	1,407	342	1,476	4.9	331.2	2,627	1,818	(30.8)
Net profit	2,743	707	3,040	10.8	329.8	5,124	3,747	(26.9)
NPM (%)	8.8	3.0	8.0			9.0	6.1	
EPS (Rs)	8.1	2.1	8.9	9.8	329.8	15.2	11.0	(27.5)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E Sep (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	93,491	97,430	121,192	122,493	125,243
EBITDA	10,515	13,196	13,522	11,350	13,483
Net profit	7,005	7,566	8,677	7,355	8,622
EPS (Rs)	20.9	22.5	25.5	21.6	25.3
EPS growth (%)	17.5	7.5	13.5	(15.2)	17.2
EBITDA margin (%)	11.2	13.5	11.2	9.3	10.8
PER (x)	38.0	35.3	31.1	36.7	31.3
P/BV (x)	9.6	8.2	7.0	6.2	5.4
EV/EBITDA (x)	24.1	18.9	18.9	22.6	19.2
Dividend yield (%)	0.6	0.6	0.8	0.8	0.8
RoCE (%)	34.5	37.9	33.8	23.9	24.7
RoE (%)	27.6	24.9	24.5	18.1	18.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segmental snapshot

Y/E Sep	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)
Revenue (Rsmn)					
Infrastructure & Cities	6,680	6,335	8,894	33.1	40.4
Energy	14,869	9,416	18,341	23.4	94.8
Industry	9,341	7,337	9,429	0.9	28.5
Healthcare	2,565	2,020	2,916	13.7	44.4
Revenue mix (%)					
Infrastructure & Cities	20.0	25.2	22.5	-	-
Energy	44.4	37.5	46.3	-	-
Industry	27.9	29.2	23.8	-	-
Healthcare	7.7	8.0	7.4	-	-
EBIT (Rsmn)					
Infrastructure & Cities	595	395	707	18.9	79.1
Energy	2,189	(0)	3,317	51.5	NA
Industry	813	223	532	(34.6)	138.1
Healthcare	252	(35)	(127)	NA	267.4
EBIT margin (%)					
Infrastructure & Cities	8.9	6.2	8.0	-	-
Energy	14.7	(0.0)	18.1	-	-
Industry	8.7	3.0	5.6	-	-
Healthcare	9.8	(1.7)	(4.4)	-	-

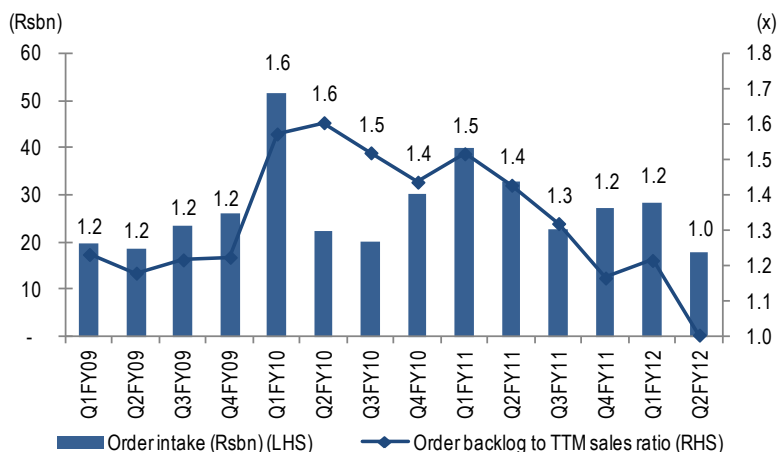
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in earnings estimates

Y/E Sep (Rsmn)	Old		New		Variation (%)	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Revenue	123,691	132,264	122,493	125,243	(1.0)	(5.3)
EBITDA	12,079	14,371	11,350	13,483	(6.0)	(6.2)
PAT	7,853	9,183	7,355	8,622	(6.4)	(6.1)
EPS (Rs)	23.1	27.0	21.6	25.3	(6.4)	(6.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Quarterly order intake, earnings visibility



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actuals versus our estimates, Bloomberg consensus estimates

(Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg consensus	Deviation (%)
Revenue	37,973	30,575	24.2	31,504	20.5
Reported EBITDA	4,944	3,302	49.7	3,055	61.8
Adjusted EBITDA*	2,835	3,302	(14.1)	3,055	(7.2)
Reported PBT	4,516	3,112	45.1	2,899	55.8
Adjusted PBT*	2,407	3,112	(22.7)	2,899	(17.0)

Source: Company, Nirmal Bang Institutional Equities Research

Note - * After deducting costs/provisions write backs worth Rs2.1bn

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
27 January 2012	Sell	752	643
1 February 2012	Sell	731	567
13 April 2012	Sell	788	567

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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