

Pick of the week



Adani Ports and SEZ (ADSEZ)

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 349

Target Price

₹ 400

Potential Upside

14.6%

Investment Argument

- Improved cargo mix restricted YoY decline in revenues to 18% despite sharp fall of 27% in volumes. In 1QFY21, ADSEZ was able to take its usual price increase in key cargo classes and meaningfully alter cost structure to maintain port margins despite volume decline.
- The share of long-term cargo in volume mix is significant at ~60%, helping realisation. We expect a decline in coal/bulk volumes of 20% in FY2021 and 10% yoy volumes for non-bulk classes in FY21.
- We take comfort in ADSEZ acquiring Krishnapatnam port asset (to be closed in 2QFY21) and Dighi Port asset (to be closed in 3QFY21). These two will open up the ~25% of market for port volumes in Andhra Pradesh and Maharashtra where ADSEZ currently lacks presence.
- ADSEZ has an unutilized land bank at Mundra, Dhamra and Kattupalli and it expects to capitalize on the upcoming opportunities related to shift of trade from China to India.
- ADSEZ stands out in the transportation space with business leverage from major ports, pricing power and cost elements in one's control. We arrive at an Sum-of-The-Parts (SoTP) based Fair Value of Rs400/share for ADSEZ.