

Pick of the week



Ambuja Cements Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 260

Target Price

₹ 300

Potential Upside

15.4%

Investment Argument

- Consecutive quarters of impressive earnings should address suspicion on its strong margins, and reflect its renewed focus on costs and Master Supply Agreement (MSA). Expansion plans and cost-saving projects provide a strong growth visibility.
- Company's 3QCY20 standalone earnings were significantly above our and consensus estimates on higher volumes and lower costs. We believe the renewed focus on the MSA with ACC, after various management changes in the last one year, is reaping benefits.
- All-India cement prices remain stable qoq in 3QFY21 on strong demand pan-India.
- The Board declared an interim dividend of Rs17 per share on equity shares of Rs2 each, of the company. The record date fixed for the purpose is November 5, 2020.
- We estimate EPS to grow at a compounded annual growth rate (CAGR) of 19% over CY20-22E led by capacity expansion which will drive volume CAGR of 14% in the same period.
- Strong growth visibility, a robust balance sheet and attractive valuations. Stock is trading at a steep discount to its 10-year mean of 13x EV/EBITDA and peers. Company has a net cash equivalent to ~17% of market cap and 4-7% free cash flow (FCF) yield in CY20-22E. Our Fair Value of Rs300/share is based on 8.5x EV/EBITDA December 2022E financials.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 22nd October, 2020, which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

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