

Pick of the week



Hindustan Zinc (HZ)

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 240

Target Price

₹ 295

Potential Upside

22.9%

Investment Argument

- Hindustan Zinc's (HZ) 2QFY21 revenues increased by 25% to Rs.5,660 cr led by higher metal volumes & silver prices. Volumes increased by 8%/30%/51% yoy for zinc/lead/silver.
- Stronger than expected demand recovery in China, mine supply disruptions, buoyant sentiments and higher liquidity supported 30% increase in zinc prices from March lows.
- HZ 2QFY21 operating profit (i.e. EBITDA) of Rs.2,952 cr increased 43% yoy mainly led by 43% yoy higher silver prices and lower zinc cost of production. Zinc cost of production (CoP) fell sequentially to US\$ 919/ton in 2QFY21 (-12% yoy & -10% qoq).
- HZ mined metal capacity would increase from 1 mtpa to 1.2 mtpa in FY21E. We expect volume growth of 8% in FY21 and 14% in FY22.
- The Board has approved an interim dividend of Rs21.3/share. We expect dividend yield of 9.6% and 9.1% in FY21 and FY22, respectively.
- HZ's strong growth visibility, high payout, Free cash flow yield and inexpensive valuation suggest attractive risk-reward. Our Fair Value works to Rs.295 at an unchanged 8x EV/EBITDA on Mar'22E. EV stands for Enterprise Value & EBITDA stands for Earnings Before Interest, Tax, Depreciation & Amortization.