

Pick of the week



ITC Ltd.

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 262

Target Price

₹ 320

Potential Upside

22.1%

Investment Argument

- Q2FY20 result – ITC reported 5% yoy growth in net operating revenues to Rs116.5 bn, 8% yoy growth in EBITDA to Rs45.6 bn and 10% yoy growth. Net profit at Rs40.2 bn was up 36% yoy aided by reduction in corporate tax rate and associated reversal of higher taxes of 1QFY20.
- FMCG segment – Q2FY20 - revenues grew 6.5% (comparable basis and excluding the Lifestyle Retailing Business) and EBIT grew 55% yoy off a low base aided by 90 bps expansion in margin to 2.8%.
- Cigarette segment – Q2FY20 – volumes grew about 3% (KIE estimate), revenues grew 6% and EBIT grew 7% yoy. Operating performance was impacted by weakness in overall demand, especially in rural markets and wholesale channel, and tight market liquidity conditions.
- Other businesses in Q2FY20: Hotel revenue grew 18% yoy and segmental EBIT grew 19% yoy. Agri business revenue grew by 19% while Paper boards business grew 10% yoy.
- KIE expects standalone sales to grow by 7.3% in FY20 and 9.9% in FY21. KIE expects the company to report an EPS of Rs12.2 in FY20 and Rs13.6 in FY21. As per KIE estimates, company's RoE is expected to improve from 22.7% in FY19 to 25.4% in Fy21.
- KIE has a price target of Rs.320 on the stock in which it has valued the cigarette business at 18x post-tax EBIT, implying 55% discount to FMCG sector ex-ITC valuations and FMCG business at 5X EV/sales.