

Motherson Sumi Systems (MSS IN)

Target Price **Rs429.0**
 Current Price **Rs319.5**
 % Upside **34%**

The Scoop: Q4 Ahead of Estimates on Margin Beat across Key Segments

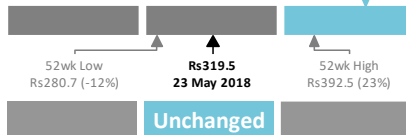
Automobiles & Components

India

23 May 2018

BUY

Target: **Rs429.0**
 % Upside: **34%**



Basic Share Information

Market cap	Rs672.5b / US\$9.88b
Daily traded value (3mth)	US\$14.06m
Shares outstanding	2,105m
Free float	38.3%
Net debt-to-equity	50.0%
1 yr high	Rs392.5
1 yr low	Rs280.7
Foreign Shareholding	18.8%

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	-9.2%	0.2%	13.4%
Absolute USD	-11.8%	-4.2%	7.6%
Relative to SENSEX	-9.7%	-1.2%	-0.6%



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What event has happened?

Motherson Sumi Systems' (MSS) Q4 FY3/18 earnings were ahead of our estimates because its key businesses performed better than we had expected.

Why is it significant?

MSS' Q4 earnings were ahead of our expectations because: 1) its standalone EBIDTA margin improved by 110bps QoQ to 18.5%, despite a sustained increase in copper prices, which led to earnings recovering to Rs2.4bn (+39% QoQ and ahead of our estimate of Rs2.2bn); 2) while revenues at its rear view mirrors subsidiary, Samwardhana Motherson Reflectec (unlisted, SMR) continued to be impacted by both a slowdown at its largest customer, and the strengthening of euro over USD, SMR posted a 100bps YoY improvement in EBIDTA margin to a record high of 13.1%; and 3) adjusted for start-up costs, the EBIDTA margin at Samwardhana Motherson Peguform (unlisted, SMP) improved to 9%, up 80bps YoY. Over the next 12 months, MSS is due to commission three large plants which it expects to add €1bn in revenue when they reach peak capacity. Also, while margins of the standalone business in FY3/18 were impacted by the sharp rise in the price of copper, we expect margins to normalize as MSS should eventually pass on the higher cost to its OEMs. Furthermore, we expect the integration of Reydale (unlisted), recently acquired by MSS, and the synergy benefits with PKC (acquired in FY3/17 and unlisted) to boost earnings and help MSS achieve its target for group RoCE of 40% by FY3/20.

Implications for our earnings forecast?

We have not changed our earnings estimates post this release of Q4 FY3/18 earnings.

How do valuations look now?

Thanks to its robust order backlog and steady expansion of its EBITDA margin, we project a CAGR for MSS' earnings of 31% during FY3/19–20. Given strong earnings growth, the shares at our FY3/20 PER of 17.9 appear attractive to us. We reiterate our Buy rating on MSS with a price target of Rs429 per share. We value MSS at 24x our FY3/20 EPS estimate. Our target multiple represents a 10% premium to MSS' 10 year historical average PER and is in line with the premium enjoyed by the BSE SENSEX. MSS taking longer to execute its orders than we expect or margin expansion at subsidiaries that is slower than we currently anticipate are the main risks to our rating and target price.

What is distinctive about our stock view?

Given the enhanced visibility of its earnings, we now believe MSS deserves to trade on a premium to its historical PER average. In our opinion, MSS' high dividend payout and improving ROE support our favorable outlook.

	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E	Trend
Total turnover (Rsm)	372,163	424,752	562,933	662,577	761,478	■ ■ ■ ■ ■ ■
Operating profit (Rsm)	26,200	33,816	40,174	51,675	64,470	■ ■ ■ ■ ■ ■
Pre-tax profit (Rsm)	21,552	28,996	31,290	49,813	63,407	■ ■ ■ ■ ■ ■
Net income to ord equity (Rsm)	12,922	15,543	15,970	28,722	37,649	■ ■ ■ ■ ■ ■
Adjusted net profit (Rsm)	14,035	17,316	20,504	28,722	37,649	■ ■ ■ ■ ■ ■
Net profit growth	49.8%	20.3%	2.7%	79.8%	31.1%	■ ■ ■ ■ ■ ■
P/E (x)	52.04	43.27	42.11	23.42	17.86	■ ■ ■ ■ ■ ■
Adj EV/EBITDA (x)	23.89	20.14	15.04	12.38	10.19	■ ■ ■ ■ ■ ■
P/B (x)	9.61	5.42	6.80	5.76	4.76	■ ■ ■ ■ ■ ■
ROE	33.5%	24.5%	17.6%	26.6%	29.2%	■ ■ ■ ■ ■ ■
Dividend yield	1.3%	1.1%	1.2%	1.6%	2.0%	■ ■ ■ ■ ■ ■
EPS HTI old (Rs)	6.14	7.38	9.35	13.64	17.88	■ ■ ■ ■ ■ ■
EPS HTI New (Rs)	6.14	7.38	7.59	13.64	17.88	■ ■ ■ ■ ■ ■
Consensus EPS (Rs)	6.47	7.71	9.13	12.97	16.39	■ ■ ■ ■ ■ ■
HTI EPS vs Consensus	(5.1%)	(4.3%)	(17.0%)	5.2%	9.1%	■ ■ ■ ■ ■ ■

Source: Company data, Bloomberg, HTI estimates

Click [here](#) to download the working model

EBIDTA margin improved 110bps QoQ to 18.5% despite a sustained increase in copper prices

80bps YoY improvement in EBIDTA margin after adjustment for start-up costs

100bps YoY improvement in EBIDTA margin to a high of 13.1%

Q4 PAT was ahead of our estimates due to better than expected performance across key businesses

MSS Standalone Quarterly Revenue, EBITDA and NP

	4QFY18	4QFY17	yoy (%)	FY18	yoy (%)
Revenue Rs mn	21,071	17,390	21.2	74,561	18.1
EBIDTA Rs mn	3,908	3,574	9.3	13,319	4.4
EBIDTA margin (%)	18.5	20.6	-200 bps	17.9	-230 bps
PAT Rs mn	2,418	2,727	-11.3	8,596	3.9

Source: Company data

SMP Quarterly Revenue and EBITDA

	4QFY18	4QFY17	yoy (%)	FY18	yoy (%)
Revenue Euro mn	895	810	10.5	3,452	15.6
EBIDTA Euro mn	80	66	21.2	267	23.8
EBIDTA margin (%)	8.9	8.1	80 bps	7.7	50 bps

Source: Company data

SMR Quarterly Revenue and EBITDA

	4QFY18	4QFY17	yoy (%)	FY18	yoy (%)
Revenue Euro mn	406	420	-3.3	1575	0.0
EBIDTA Euro mn	53	54	-1.9	183	7.0
EBIDTA margin (%)	13.1	12.9	20 bps	11.6	80 bps

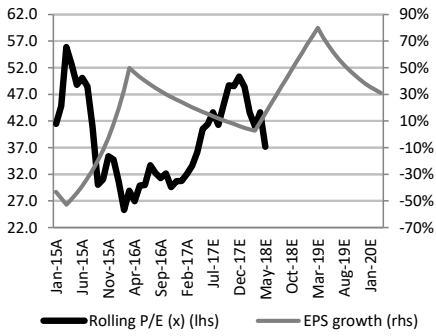
Source: Company data

MSS Consolidated Quarterly Revenue, EBITDA and NP

	4QFY18	4QFY17	yoy (%)	FY18	yoy (%)
Revenue Rs mn	154,078	112,839	36.5	562,933	32.5
EBIDTA Rs mn	15,001	12,405	20.9	55,925	25.9
EBIDTA margin (%)	9.7	11.0	-130 bps	9.9	-50 bps
PAT Rs mn	5,390	5,722	-5.8	20,504	18.4

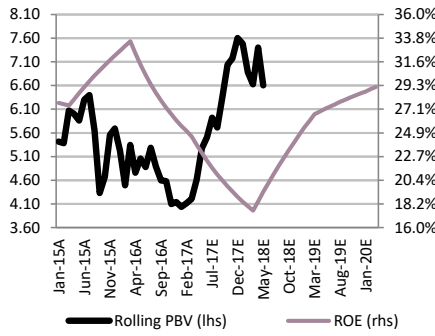
Source: Company data

P/E (x) vs EPS Growth (%)



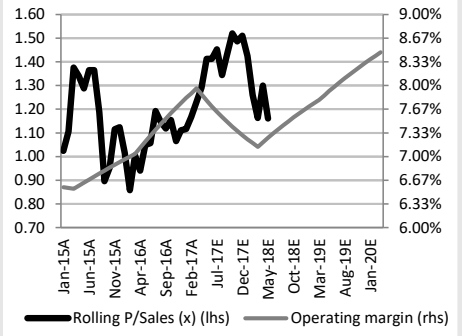
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



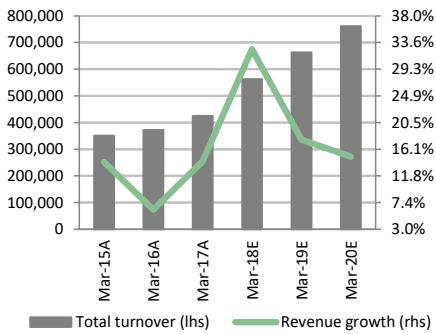
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



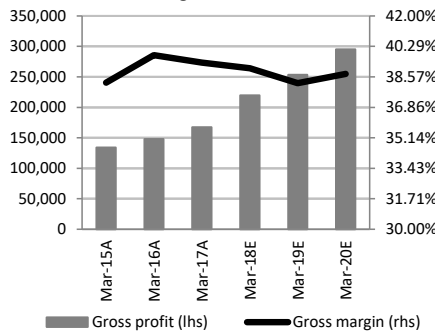
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



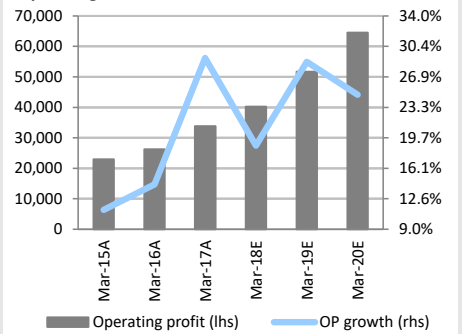
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



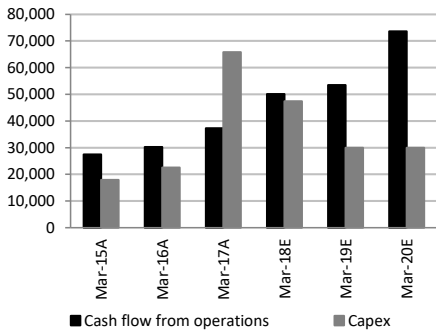
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



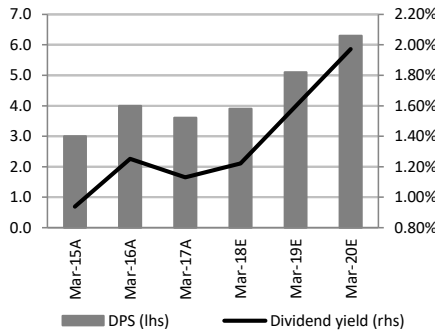
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (Rsm)



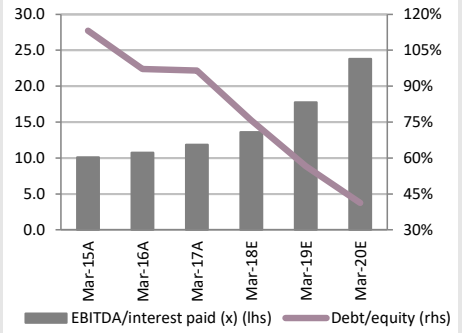
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rs)



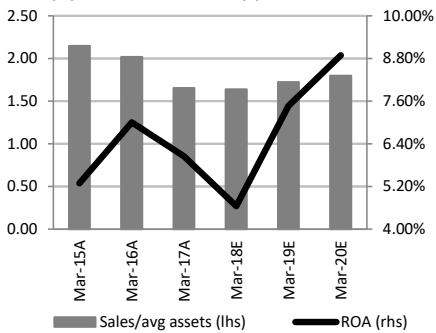
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



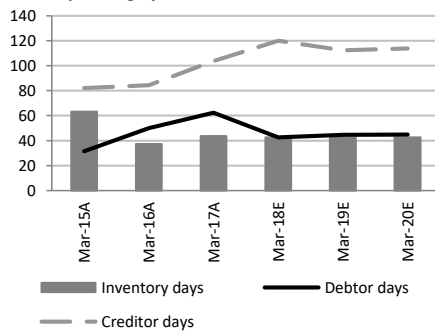
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



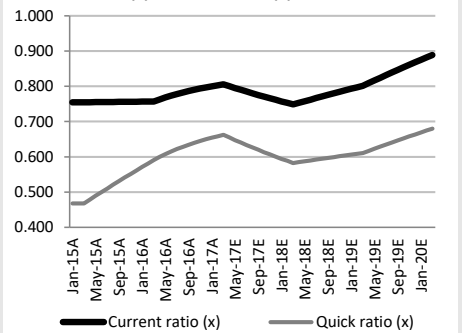
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

APPENDIX

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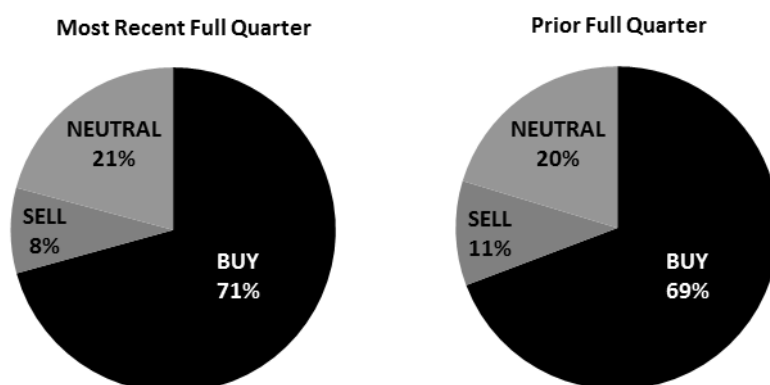
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Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2018-02-15	Buy	429.0	341.2
2017-11-13	Buy	419.0	352.8
2017-09-07	Buy	384.0	333.0

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity