

Container Corp: Play On India's Container Trade

CCRI.IN

Outperform

Company Profile:

12 Month Price Target Rs 974.0
Upside/downside % +73.7
Valuation Rs 1,145.9
 - DCF (WACC – 10.46%, β – 0.4, Risk Premium – 7.09%, Rfr – 7.65%)

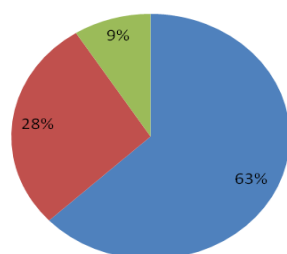
(INR and shares in millions, except per share data)

CONCOR TRADING STATISTICS

Current Share Price	20-Nov-08	560.05
Diluted Shares		129.98
Market Value of Equity		72,796.86
Total Debt & Preferred		1725.8
Minority Interest		0.0
Cash		(15225.7)
Net Debt		(13499.9)
Enterprise Value		59,296.96

KEY TRADING MULTIPLES

	Statistic	Multiple
EV/Revenue		
Last Reported	2008	33,401.60
	FY 2009 E	40,909.02
	FY 2010 E	46,015.82
	FY 2011 E	65,479.75
		1.78x
		1.45x
		1.29x
		0.91x
EV/EBITDA		
Last Reported	2008	10,291.40
	FY 2009 E	10,611.71
	FY 2010 E	11,742.65
	FY 2011 E	11,295.75
		5.76x
		5.59x
		5.05x
		5.25x
P/EPS		
Last Reported	2008	56.49
	FY 2009 E	65.83
	FY 2010 E	72.91
	FY 2011 E	75.72
		9.91x
		8.51x
		7.68x
		7.40x
RoE		
Last Reported	2008	23.2%
	FY 2009 E	21.5%
	FY 2010 E	20.3%
	FY 2011 E	19.6%
P/BPS		
Last Reported	2008	243.54
	FY 2009 E	289.65
	FY 2010 E	341.02
	FY 2011 E	398.87
		2.30x
		1.93x
		1.64x
		1.40x

OWNERSHIP

Government ■ FII's ■ Other Investors

Container Corp (CONCOR) is engaged in the transportation of containers, handling of containers and parking of containers.

CONCOR is India's largest railway container freight operator with a near monopolistic 90% market share. It provides multi modal logistics support to both domestic and international cargo transportation; and has an unparalleled infrastructure with 58 Inland Container Depots and over 15 Wagons.

It transports freight mainly through rail and road and operates container terminals across the country to cater to the needs of international and domestic trade. It also provides transit warehousing for import export cargo, bonded warehousing and provision of air cargo complexes in some terminals.

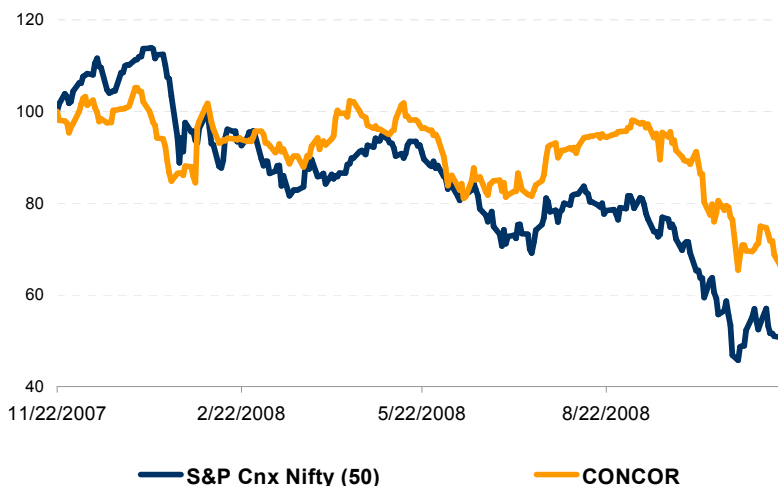
It operates in two segments i.e. EXIM and Domestic transport. It derives 80% of its revenues from the high margin EXIM segment while the balance 20% comes from the Domestic segment.

The Source of Opportunity:

- **Indian containerized cargo expected to grow at a 13% CAGR for FY 08-12E:** The share of containerized cargo as a percentage of total cargo is expected to increase from the current 16% to 10% by FY 12
- **Container rail hulage to benefit from growing containerization:** At 22% of total cargo in 1980, containerised cargo currently constitutes around 61% of world trade and the same is expected to hit 70% in the next 3-4 years.
- **Emerging opportunity in the cold chain business:** Changing consumer preference – Greater acceptance of packed fruits & vegetables. Organized retailing with perishable storage gaining momentum.

Catalysts:

- **Cash is king, Debt free company:** almost 50% of CONCOR's balance sheet is lying in the form of cash. Cash per share is INR 166 per share and at distressed times such as these; this is just the kind of cushion that an investor must look for.
- **Trading at attractive valuations:** CONCOR is trading at a 11% discount to its global (and Indian) peer group despite having a solid track RoE generating track record and the highest RoE amongst global peers.
- **New initiatives:** Third terminal at JNPT with Maersk, foray into the cold chain business and air cargo complex – to drive the next phase of growth
- **Improvement in Railway Infrastructure:** double stacking of key container routes in India

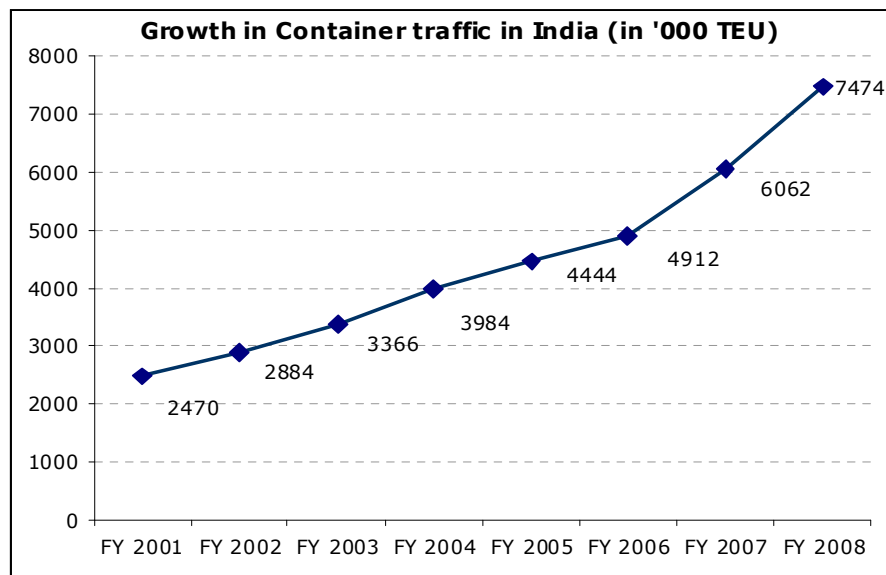
LAST 12 MONTHS INDEXED PRICE PERFORMANCE

— S&P Cnx Nifty (50)

— CONCOR

The Industry:

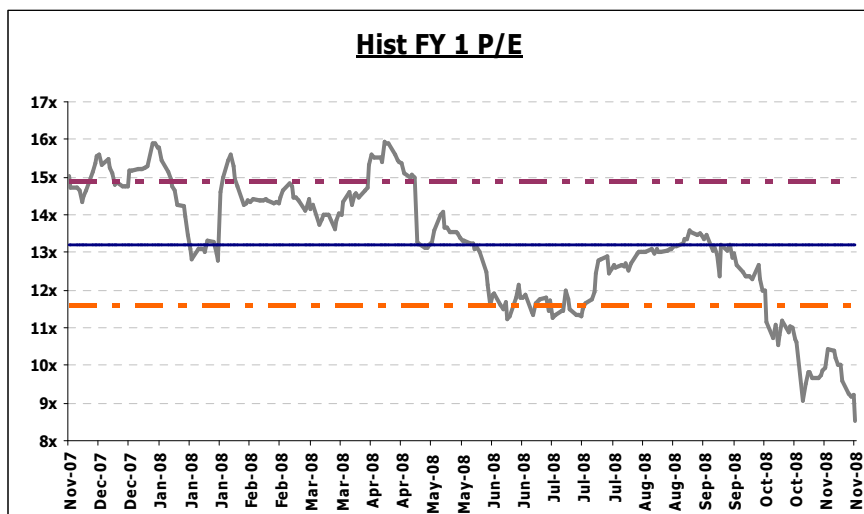
- **Dominated by CONCOR:** with a 90% market share, CONCOR dominates the fortunes of the industry
- **Historical Growth at 2.5 times the average GDP:** The industry that CONCOR operates in has witnessed a CAGR of 15% since 1994 that is more than 2.5 times the average GDP growth in the same period. Also growth in tonnage transported via containers has outpaced the overall growth in tonnage transported during the same period
- **Muted projections:** Given the fact that the industry is heavily reliant upon EXIM trade, any slowdown in EXIM is likely to adversely impact the industry. In line with the same, we expect the industry growth to slow down to 2 times the average GDP growth coupled with the fact that the Indian GDP will grow at a slower pace of 7.0% over the next 5 years. Despite the slowdown, the industry expected to grow at a healthy 13-14% p.a. over the next 5 years



CONCOR's Competitive Advantage:

- **Strategic Locations:** CFS/ICDs are strategically located at the gateway ports, rail heads and select road routes to provide connectivity
 - **Wide Network:** 58 terminals across the country (49 are EXIM terminals, 9 exclusive domestic terminals and 30 are combined EXIM & domestic terminals)
 - **Infrastructure:** Largest integrated multi-model transport operator handling ~30% of India's EXIM container traffic with over 58 terminals (49 for EXIM, 9 exclusively for domestic), 8,421 wagons and 13,517 containers.
- **Infrastructure:** By far the largest capacity of dedicated rolling stock for container rail haulage. Procured at a lower capital cost
 - **Cost Advantage - Lowest cost service provider:**
 - Concor's infrastructure, set up over the past two decades, is cheaper than that of its competitors. The rolling stock has depreciated significantly, and the company does not bear any interest costs owing to its zero-debt balance sheet. It also enjoys the highest utilisation of its stock, at about 80%, compared to about 60% for private developers.
 - Competes favourably with road transportation on pricing basis for movement of heavier cargo over long distances i.e. above 400km. Concor has a price advantage over road transport in case of heavy cargo and/or over the long distance
 - **Assured volumes via long-term tie-ups with shipping lines**
 - **Multimodal logistics service provider with seamless access to ports, rail, road and air**
 - **Customer Relationships:** Large customers typically prefer large infrastructure, wide network, high service capability and limited number of service providers

Valuations:



- **Historically traded at 13 times forward year 1 earnings:** Concor has had a history of trading at close to 13 x FY 1 earnings, but in Oct-08, it broke the *- 1 standard deviation* mark and is now trading at single digit multiplied of 8.5 x
- **Trading cheap - at a 11% discount to global peers:** Concor is trading at a 11% discount to global peers on an earnings multiples basis. It is also trading at a significant discount to its peers on the basis of other multiples such as EV/EBITDA, P/S, etc

COMPARABLE COMPANIES - CALENDERIZED MULTIPLES														
Name	Price/Sales			Enterprise/EBITDA			P/E Multiple			P/BV Multiple			5-Yr EPS CAGR Historical	5-Yr Sales CAGR
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010		
CONCOR	2.4 x	2.2 x	1.9 x	7.2 x	6.6 x	6.9 x	10.6 x	9.7 x	9.4 x	2.4 x	2.0 x	--	22.10%	17.77%
Gateway Distriparks	2.3 x	1.6 x	1.8 x	6.2 x	5.1 x	4.7 x	10.8 x	8.8 x	8.2 x	1.3 x	1.2 x	--	30.06%	42.80%
Allcargo Global	0.5 x	0.4 x	0.4 x	4.8 x	4.8 x	4.7 x	8.4 x	7.3 x	6.8 x	1.2 x	1.0 x	--	--	--
Csx Corporation	1.5 x	1.4 x	1.4 x	6.3 x	5.8 x	5.2 x	11.7 x	10.2 x	8.5 x	2.0 x	1.9 x	1.8 x	22.25%	4.23%
Burlington Nrthn	1.5 x	1.5 x	1.4 x	6.6 x	6.1 x	5.6 x	12.8 x	11.7 x	10.4 x	2.4 x	2.3 x	2.2 x	20.59%	11.97%
Norfolk Southern	1.8 x	1.8 x	1.7 x	6.6 x	6.2 x	5.8 x	11.8 x	10.9 x	9.8 x	2.0 x	1.9 x	1.8 x	25.54%	8.51%
Union Pacific Corp	1.7 x	1.7 x	1.6 x	7.0 x	6.3 x	5.7 x	13.4 x	11.8 x	10.1 x	2.0 x	1.9 x	1.8 x	6.47%	5.45%
Kansas City So	1.3 x	1.3 x	1.2 x	8.3 x	7.5 x	7.0 x	13.8 x	11.9 x	11.1 x	1.2 x	1.2 x	1.1 x	11.52%	25.21%
Canadian Pac Rail	1.5 x	1.4 x	1.4 x	7.9 x	7.3 x	6.8 x	10.8 x	10.6 x	9.3 x	1.3 x	1.2 x	1.1 x	14.43%	5.58%
China Railway Co	0.1 x	0.1 x	0.1 x	1.6 x	1.1 x	0.9 x	23.6 x	16.4 x	12.8 x	2.1 x	1.9 x	1.7 x	--	--

AVERAGE	1.46 x	1.33 x	1.28 x	6.24 x	5.69 x	5.33 x	12.76 x	10.93 x	9.64 x	1.79 x	1.64 x	1.64 x	19.1%	15.2%
MEDIAN	1.50 x	1.48 x	1.39 x	6.59 x	6.18 x	5.65 x	11.75 x	10.76 x	9.58 x	1.99 x	1.89 x	1.78 x	21.3%	10.2%

Company	ROE
CONCOR	23.20%
Gateway Distriparks	11.79%
Allcargo Global	18.50%
Csx Corporation	17.19%
Burlington Nrthn	18.81%
Norfolk Southern	17.02%
Union Pacific Corp	14.53%
Kansas City So	8.95%
Canadian Pac Rail	11.63%
China Railway Co	15.61%
Mean	15.7%
Median	16.3%

ROE EVOLUTION AND FORECAST - CONCOR									
YEAR	PAT	SAL	TA	NW	PAT MARGIN	ASSET TURN	LEVERAGE TA/NW	ROE	
2000	1,753	8,314	8,480	6,078	21.1%	0.98 x	1.40 x	28.84%	
2001	2,164	10,748	9,873	7,764	20.1%	1.09 x	1.27 x	27.88%	
2002	2,499	12,793	12,374	9,093	19.5%	1.03 x	1.36 x	27.48%	
2003	2,706	14,744	14,528	11,015	18.4%	1.01 x	1.32 x	24.56%	HISTORICAL
2004	3,737	17,561	17,875	13,772	21.3%	0.98 x	1.30 x	27.13%	MEDIAN RR
2005	4,278	19,951	21,030	16,988	21.4%	0.95 x	1.24 x	25.18%	74.2%
2006	5,259	24,332	25,952	20,912	21.6%	0.94 x	1.24 x	25.15%	
2007	7,040	30,421	32,899	26,296	23.1%	0.92 x	1.25 x	26.77%	
2008	7,343	33,402	39,382	31,656	22.0%	0.85 x	1.24 x	23.20%	FORECASTED G
2009	8,085	38,078	47,258	37,655	21.2%	0.81 x	1.26 x	21.47%	15.93%
2010	9,000	43,409	55,764	44,333	20.7%	0.78 x	1.26 x	20.30%	15.06%
2011	10,136	49,486	64,129	51,854	20.5%	0.77 x	1.24 x	19.55%	14.50%
2012	11,414	56,414	73,107	60,323	20.2%	0.77 x	1.21 x	18.92%	14.04%

- CONCOR trades at a discount to global peers despite having the highest RoE generating capacity and a consistently high RoE over the last eight years.
- **Multiples Valuation:** our earnings multiples valuation on a calendar year 2009 E basis gives us an intrinsic value of **Rs 765**
- However, this approach does not capture CONCOR's superior growth prospects and the economics of being a monopolist with zero debt and a significant cash balance
- Hence we use the FCFF method to value CONCOR to arrive at a fair value of Rs 974, which is at a discount of 15% to its computed intrinsic value of Rs 1,146
- CONCOR's outperformance against the index in the recent past has vindicated our stand that it is undervalued and that it has put the worst behind it, in terms of stock price performance

Key Risks:

- A slowdown in the high margin EXIM trade
- Consolidation amongst private players in order to create scale that could take CONCOR head on
- Pricing pressures to continue going forward
- Rail has conceded market share to road in EXIM traffic
- Private operators have increased their footprint
- Lower growth in realization and volume due to slowdown in domestic and global economy

ANALYSTS: - **Arunima George** - GMAY08BM062; **Ashwin Ramakrishnan** - GMAY08WM119; **Haresh Balani** - GMAY08IB094; **Ramit Sharma** - GMAY08WM136; **Vivek Zaveri** - GMAY08IB114; **Yash Mittal** - GMAY08BM083.