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282% rally in 5 years! This stock is still analysts' top bet; here's why

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NEW DELHI: A shift from loss-making legacy projects to high margin big-ticket railway orders is seen boosting margin profile and earnings visibility for KEC International. Experts believe that improving order flows from state electricity boards (SEBs) in south India and Power Grid are helping the scrip drive its surge anywhere between 15 per cent and 25 per cent.

Pankaj Pandey of ICICI Securities has a target price of Rs 170 on the stock, which is 15 per cent higher than the prevailing stock price.

"The stock is trading at about forward multiples of about 10, which is quite good, given that it is delivering return ratios in mid teens. We expect this stock to do well in the next one year," Pandey told ET Now.

For Edelweiss Securities, KEC International remains one of the biggest beneficiaries of the anticipated spurt in T&D and railways spending. The company may report 23 per cent earnings CAGR over FY16-19E and 200 basis points expansion in return on equity (ROE) during the same period.

"KEC is in the last leg of executing legacy projects, which had earlier roiled its margins. Exit from these projects, along with robust margins in new businesses, and stable T&D margins could keep margins ticking at 9 per cent, ensuring bottom line spurt. While there might be some near-term challenges due to demonetisation, we remain bullish on the company," the brokerage said.

The scrip has climbed 165 per cent in the past three years and 282 per cent in the past five years. However, the stock performance has not been up to the mark in 2016. The stock is down 4.4 per cent in the past one year.

On the valuation front, the stock is trading at 19.23 times its trailing 12-month EPS and 2.48 times its book value.

The loss-making legacy projects now stand at Rs 200 crore, which brokerages believe should be completed over the next 2-3 quarters.

Focus on big-ticket projects in railway EPC space, good traction in high-margin EHV cables business and a likely boost to revenues on increase in commodity prices (as quarterly revenue has fallen despite a rise in sales) are all seen as positives for the company.

The company had an order book of Rs 10,785 crore as of September 30, out of which T&D business accounts for 69 per cent, railways 11 per cent and cables business 2 per cent.

(Rs crores)

Business Verticals	Q2 FY17	Q2 FY16*	Growth (Y-o-Y)	H1FY17	H1FY16*	Growth (Y-o-Y)
Transmission & Distribution:	**1,790**	**1,731**	**3.4%**	**3,230**	**3,297**	**-2%**
- SAE	261	201	29.9%	516	388	33%
Infrastructure:	**85**	**55**	**54.5%**	**172**	**132**	**30.3%**
- Railways	66	34	94.1%	135	79	70.9%
- Water	19	21	-9.5%	37	53	-30.2%
Cables:	**228**	**283**	**-19.4%**	**473**	**562**	**-15.8%**
Solar:	**26**	**0.5**	**-**	**40**	**0.5**	**-**
Inter SBU	(8)	(3)		(9)	(3)	
Total Net Sales	**2,121**	**2,066**	**2.7%**	**3,906**	**3,988**	**-2.1%**

PGCIL orders stood at Rs 19,000 crore this year against Rs 12,500 crore in the same quarter last year, but the increase was largely on account of Rs 6,000 crore high voltage direct current (HVDC) order. The orders from the transmission company are expected to remain flat over the next 2-3 years.

The company in December bagged orders worth Rs 840 crore in Malaysia, Egypt and America.

Gaurang Shah, VP, Geojit BNP Paribas, in a recent interview to ET Now, said, "We have no doubt about the company's execution capability. At Rs 135-140, the downside is extremely protected and with a one-year plus time horizon, we are quite sure that this particular stock could reach levels of Rs 185, thanks to earnings visibility, order intake and order execution," Shah said.