

15 October 2022

Lancer Containers Lines – BUY

CMP : Rs.386.0
Target Price : Rs.491.0
Upside : 27%+
Stop Loss : Rs.317.0 (Closing basis)

Investment Thesis

Recently, the stock price of Lancer Containers Lines Ltd.(Lancer Containers Lines) corrected by ~5% from 52-week high of Rs.405.00 despite reporting good set of numbers in the recent quarters.

Lancer Container Lines is a shipping agency house providing liner or non-vessel operating common carrier (NVOCC) services to asia, africa, latam (latinamerica) and CIS countries. It provides end-to-end logistic solutions that meet the diverse shipping need of its customers under one roof. It also provides freight and project forwarding (including ocean freight, air freight and inland transport) and container trading services. It carries a 3 decades experience in the shipping and logistics industry and developed specific & comprehensive solutions for each and every step of shipping process hassle-free delivery. It owns an empty-container yard spread over 20,000 square metre near JNPT, which has easy access to rail, road and ocean for prompt movement of cargo to local hinterland & inland container depots (ICDs).

As an NVOCC, Lancer Container Lines does not own or operate any ship but acts as a carrier by contracting vessels for shipping its containers. Currently, it owned ~12,000 containers which it employs to service customers in more than 30 countries. It follows an asset-light business model and has scaled up its container fleet through a mix of owned and leased containers with future expansions planned through the same route. It has also diversified its business in related verticals offering solutions, viz., freight forwarding, container trading, yard operation and agency network. Currently, the company offers its services to 74 ports as well as inland destinations across the globe through 14 offices in India and a wholly-owned subsidiary in Dubai, covering more than 30 countries with over 80 global partners. It has expanded its presence in the Indian subcontinent, Southeast Asia, the Far East, MENA and CIS countries.

Financials

- During the past 5 years, revenue of Lancer Containers Lines grew at CAGR of 52.6% while PAT grew at CAGR of 76.8% in the same period.

| Consol. (Rs.Mn.) | FY20 | FY21 | FY22 | FY23E | FY24E |
|------------------|-------|-------|-------|-------|-------|
| Revenue | 2,653 | 3,126 | 6,415 | 8,660 | 9,959 |
| EBITDA | 225 | 246 | 503 | 678 | 780 |
| % growth | 8.8 | 9.5 | 104.4 | 35.0 | 15.0 |
| PAT | 80 | 97 | 290 | 405 | 477 |
| EPS (INR) | 8.0 | 9.7 | 9.6 | 13.4 | 15.8 |
| P/E (x) | 48.4 | 40.0 | 40.2 | 28.7 | 24.4 |
| RoE (%) | 23.0% | 21.8% | 39.5% | 52.3% | 58.0% |

- Lancer Container Lines has reported a significant improvement of 108.6% YoY in revenue to Rs.2,317mn in Q1FY23 led by strong freight rate during the past few quarters.

Stock Data

| | |
|-----------------------|-----------------|
| Market Cap (Rs. Mn) | 11,642.0 |
| Market Cap (\$ Mn) | 141.40 |
| Shares O/S (in Mn) | 30.1 |
| Avg. Volume (3 month) | 385,000 |
| 52-Week Range (Rs.) | 405.00 / 118.10 |

Shareholding Pattern

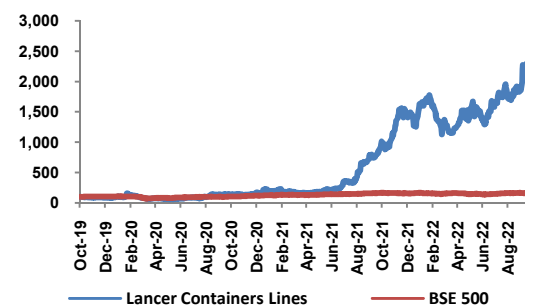
| | |
|-------------------------------|--------|
| Promoters | 64.01% |
| FIIs | 13.60% |
| Institutions | 0.00% |
| Others (incl. body corporate) | 22.39% |

Key Ratios

| | |
|---------------|--------|
| Div Yield | 0.0% |
| TTM PE | 31.9x |
| ROE | 14.4% |
| TTM EPS (Rs.) | 12.1/- |

Stock Performance

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|-------|--------|--------|
| Absolute | 44.0% | 120.5% | 171.5% |
| BSE 500 | -5.2% | -2.0% | -5.8% |



- EBITDA of Lancer Container Lines grew by 216.4% YoY in Q1FY23 to Rs.209mn led by strong revenue growth and better operating parameters. As a result, EBITDA margin has improved by 307bps YoY to 9.0% in Q1FY23.
- Lancer Container Lines has reported 346.9% YoY growth in PAT to Rs.133mn in Q1FY23 on better margin and lower tax rate.

Key Business Highlights

- Lancer Container Lines is a shipping and logistics solution provider, offering liner or NVOCC services to Gulf, Southeast Asia, Europe and the Mediterranean.
- Lancer Container Lines owns a container yard spread over 20,000 square metre in Panvel near JNPT. Its operations are supported by a network of associates in the Indian subcontinent, Southeast Asia, the Far East, MENA and the CIS countries.
- Lancer Container Lines also manufactures portable cabins (prefabricated structures) for use in places where permanent construction is not feasible such as construction sites, factories, security cabins, toll booths and other similar applications.

Valuation

- Lancer Container Lines plans to expand its TEU (twenty-foot equivalent unit) container fleet by 25-30% by the end of this year which will be under company's current operational model comprising a mix of owned and leased assets. To expand its fleets, Lancer Container Lines has placed hundreds of heavy duty 32.5 tons TEU containers to Symcon Industries Pvt. Ltd., which got dispatched on 16th Sept., 2022. It also has planned to enter into new geographies, mainly covering the European region and it initiated the process of setting up a branch in the UK. Its long-term plans include setting up a container manufacturing unit and management is continuously looking into its feasibility along with setting up a cold chain storage service to broaden its presence across the value chain.
- Management believe that container freight rates are going to remain at elevated levels over the next 12-18 months, driven by a slowdown in newbuilding orders in 2020-21 in the wake of the covid-19 pandemic. Further, with the minimum duration of contracts in the charter market around 3 years, the higher charter rates and consequently higher freight rates charged by vessel operators and liner services are expected to sustain in the near-to medium term. While freight rates move in tandem with charter rates with little scope for liner services generating incremental margins from higher rates, elevated freight rates positively impact the revenue growth for liners companies like Lancer Container Lines.
- With a 3 decades experience in shipping agency house providing liner services, empty-container yard spread over 20,000 square metre near JNPT, owned ~12,000 containers which it employs to service customers in more than 30 countries, plans to expand its TEU container fleet by 25-30% and container freight rates are going to remain at elevated levels over the next 12-18 months, we value Lancer Containers Lines at 31.0x FY24E EPS of Rs.15.80 to arrive at target price of Rs.491.00, an upside of ~27%.

Risk & Concern

- Lancer Container Lines operates in a highly competitive market where a large number of service providers operate and the entry barrier is low leading to high competition.
- Any unexpected crash in freight rates may lead to put pressure on margin of Lancer Container Lines.
- Any falling short on executing the planned expansion may have negative impact on operations of the company going ahead.

Graphs & Charts

Figure 1: Net Sales Trend

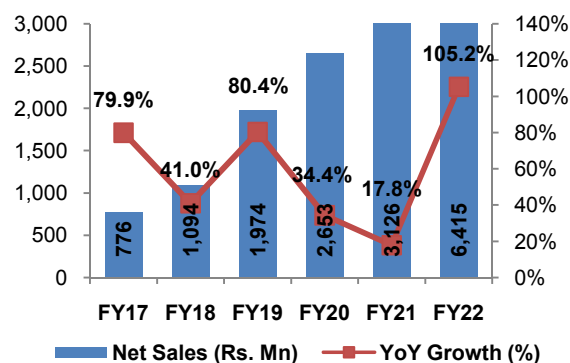


Figure 2: EBITDA & EBITDA Margin Trend

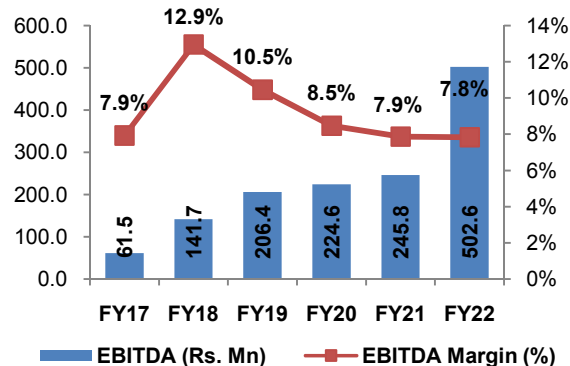


Figure 3: PAT Trend

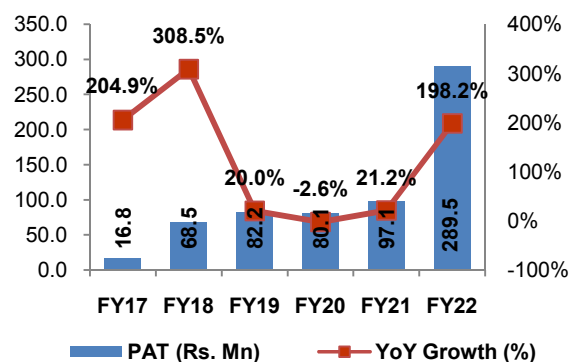
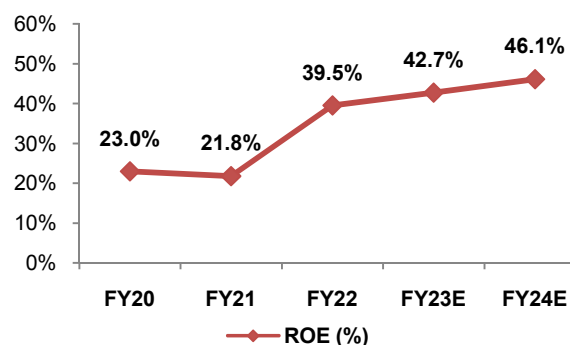


Figure 4: Return Ratio (ROE) Trend



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