

14 February 2008

BUY

| | |
|--------------|--------------|
| Price | Target Price |
| Rs367 | Rs602 |

| | |
|---------------|---------------|
| Sensex | 17,767 |
|---------------|---------------|

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|------|------|----|-----|
| Absolute | (32) | (27) | 42 | 88 |
| Rel. to Sensex | (22) | (19) | 14 | 48 |

Source: Capitaline

Stock Details

| | |
|-------------------------------|--------------|
| Sector | Construction |
| Reuters | PUJLBO |
| Bloomberg | PUNJ@IN |
| Equity Capital (Rs mn) | 607 |
| Face Value (Rs) | 2 |
| 52 Week H/L | 589/142 |
| Market Cap (Rs bn) | 111.2 |
| Daily Avg Vol. (No of shares) | 3194136 |
| Daily Avg Turnover (US\$mn) | 38.7 |

Shareholding Pattern (%)

(30st Sep 07)

| | |
|---------------|------|
| Promoters | 45.0 |
| FII/NRI | 31.1 |
| Institutions | 10.1 |
| Private Corp. | 5.5 |
| Public | 8.3 |

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Punj Lloyd Ltd.

SEC order win of Rs 11.2 bn

Event
Update

Punj Lloyd Ltd (PLL), wholly owned subsidiary Sembawang Engineers & Constructors Pte Ltd (SEC) has bagged Rs 11.2 bn order from Marina Bay Sands Pte Ltd. The order is for construction of the North Podium of Marina Bay Sands integrated resort comprising casino, theatres and retail arcade in Singapore. Work on this project will start in February 2008 and is expected to be completed by April 2009. With this order win, the order book of PLL has gone up to Rs 171.3 bn.

Project Details

The project scope involves substructure and superstructure of this mega resort which will have four upper levels and a four-storey basement. SEC is well placed to handle this project as it is also constructing the new Downtown Line Bayfront MRT station in Marina Bay which will connect directly to the resort's MICE (Meetings, Incentives, Conventions and Exhibitions) centre.

Our View

We are enthused by SEC current order win, as it demonstrates the engineering prowess. In past, SEC margins were low on account of legacy orders which had margins of around 1 – 1.5%. This impacted PLL group (i.e. PLL + SEC) margins which fell from 11.2% in FY2006 to 7.6% in FY2007. We believe that, new order inflows will be positive for the group as rising share of new orders in SEC order backlog will help alleviate SEC margins. We expect PLL's consolidated EBIDTA margins to improve to 9.8% in FY2009E against 7.6% in FY2007.

Valuation

At the CMP of Rs 367, the stock is trading at PER of 17.7x FY2010E and 8.8x FY2010 E EV/EBITDA. We have valued the company using SoTP method. We have valued the core business at average of price targets derived from PER of 25X FY2010E, EV/EBITDA of 14X FY2010E and 3 Stage DCF Model with terminal growth rate of 4.0% and discount rate of 11.0%. We have valued the core business at Rs176.3 bn or Rs549 / Share of PLL. New business like ship building, real estate and medicity project is valued at Rs17.3 bn or Rs54 / share of PLL. We maintain our BUY rating on the stock with a price target of Rs 602.

| Business | Valuation Rationale | Value (Rs bn) | Value per share |
|--------------------------|---|---------------|-----------------|
| Core business | Average of PER, EV/EBITDA & DCF | 176.3 | 549 |
| Shipyards | 2x P/BV - in line with midsize peer companies | 8.0 | 25 |
| Real Estate JV | 3x P/BV | 5.4 | 17 |
| Medicity | 3x P/BV | 3.9 | 12 |
| Fair Equity Value | | 193.6 | 602 |

Financial Table

| Y/E, Mar (Rs. m) | Net sales | EBIDTA | EBIDTA (%) | PAT | EPS (Rs.) | EPS growth (%) | ROCE (%) | PE (x) |
|------------------|-----------|--------|------------|-------|-----------|----------------|----------|--------|
| FY2007 | 51,266 | 3,885 | 7.6 | 1,970 | 7.4 | 256.0 | 14.8 | 49.4 |
| FY2008E | 78,737 | 7,240 | 9.2 | 3,569 | 11.1 | 49.1 | 16.2 | 33.1 |
| FY2009E | 105,720 | 10,349 | 9.8 | 5,359 | 16.6 | 50.1 | 18.5 | 22.1 |
| FY2010E | 133,282 | 13,167 | 9.9 | 6,694 | 20.7 | 24.9 | 20.9 | 17.7 |

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