

## Company Flash

15 February 2008 | 6 pages

# Unitech (UNTE.BO)

## Buy: More Progress on NKID Project - a Sentiment Postive

- Sizeable land given for Chemical SEZ** — On 15<sup>th</sup> Feb 08, the W.Bengal government gave possession of ~12,500 acres for development of a Chemical SEZ at Nayachar Island, near Haldia in West Bengal. This SEZ is a key part of the New Kolkatta International Development Project (NKID) to be developed by a JV between NKID (51% stake) and W.Bengal Industrial Development Corporation (49% stake) – giving Unitech ~20% economic interest in the SEZ.
- NKID, a large infrastructure project** — This includes 1) a 12,500-acre (prev. 10,000-acre) Petrochemical SEZ; 2) a 12,500-acre multi-product SEZ – both at Haldia (given recent opposition at Nandigram); and 3) construction of 130km expressway between Kolkata-Haldia including 2 bridges over Hooghly and Haldi rivers for which the govt. would hand over 37,830 acres for development. Unitech is part of a consortium on the project, with a 40% stake. The balance is held by Salim Group (40%) and Universal Success (20%) of Indonesia.
- Progress on NKID, encouraging** — With 1) the govt. handing over ~13,457 acres (35% of total land) for NKID project development, 2) expressway and bridges already in designing stage, and 3) process for securing anchor companies in SEZ initiated, we see good progress and believe this project could result in significant value creation for Unitech over the long-term.
- Enhanced scale, a sentiment positive** — We see this sizeable land addition significantly enhancing Unitech's scale over the long-term. Given limited details, we have not yet factored its 20% stake in ~12,500 acres SEZ in our NAV estimate of Rs395/share, but view this as a sentiment positive.

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (15 Feb 08)	Rs417.15
Target price	Rs454.00
Expected share price return	8.8%
Expected dividend yield	0.1%
<b>Expected total return</b>	<b>8.9%</b>
Market Cap	Rs677,191M US\$17,103M

### Price Performance (RIC: UNTE.BO, BB: UT IN)



### Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2006A	841	0.52	152.0	nm	nm	36.9	0.0
2007A	13,058	8.04	na	51.9	34.0	115.9	0.1
2008E	16,374	10.09	25.4	41.4	18.9	58.6	0.1
2009E	27,542	16.97	68.2	24.6	10.7	55.7	0.1
2010E	41,908	25.82	52.2	16.2	6.5	50.0	0.1

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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## Unitech

### Company description

Unitech is one of India's largest, most diversified real estate developers with an emerging pan-India presence. It enjoys leadership in markets of NCR and Kolkata. Its core strengths of land acquisition, reputation in building townships and relationships with governments and customers have enabled it to build a diversified portfolio. Unitech has a land bank of 13,758 acres with a total saleable area of ~696m sq ft spread over Chennai (17%), NCR (15%), Kolkata (21%) and Tier III cities (37%). Residential projects account for about 77% of the saleable area, commercial 7%, IT Parks 5% and retail 5%. In addition, it also has a small presence in power transmission, prefabricated construction, paving block and ready mix concrete. The promoter family holds a 75% stake in the company.

### Investment strategy

We rate Unitech Buy/Medium Risk (1M) with a target price of Rs454. Our target price is based on a 15% premium to our NAV estimate of Rs395. The premium is attributed to: 1) Unitech's competitive advantage of large diversified land bank, 2) thrust on asset monetization, and 3) strong brand positioning and proven track record.

The company's low risk/high return model and focus on scale in tier-I and tier-II cities differentiate its growth profile from peers. Key drivers we see ahead are: 1) enhanced scale with sizeable land additions translating into a portfolio of ~696m sq ft, spread over 8-10 years; 2) widened geographic spread, particularly with entry in Mumbai, and improved asset mix; and 3) growing income from lease/management fees. Further, value unlocking for its telecom licenses and upsides from rate compressions on likely listing of its Trust and more asset injections in UCP the AIM Fund are potential stock triggers not currently built in our target.

### Valuation

Our target price of Rs454 represents a 15% premium on NAV of Rs395. The 15% premium is based on high valuation benchmarks for tier-I developers and recognizing Unitech's 1) competitive advantage of large diversified land bank, while peers are still aggregating land; 2) dynamic business model with thrust on recycling capital faster; and 3) strong brand positioning and proven track record. However, this is lower than the 25% premium we ascribe to DLF due to its higher gearing towards commercial assets, benchmark in disclosure standards, strong balance sheet and sizeable asset-portfolio accruing leasing income. This is in-line with our thesis of ascribing premium on NAV for tier-I developers, while smaller/tier-II developers will likely trade at discounts to NAV.

Our NAV estimate of Rs395 is based on the following assumption: a) current market price levels to sustain with no price inflation; b) development volume of 656m sq ft (~40m sq ft recognized as revenue up to FY09); c) all projects

undertaken will be completed largely as per schedule, though we expect risk of delays; d) average cost of capital of 14%; and e) tax rate of 28%.

## **Risks**

We rate Unitech Medium Risk. Key reasons for Medium Risk rating are: 1) low-risk/high-return business model, 2) pan-India land bank with initiatives to reduce weightage on NCR, and 3) relatively healthy cash flows. Main company-specific risks include:

- 1) Significant delay in listing of Office Trust would impact the asset monetization of retail and hotel assets, adversely impacting cash flows.
- 2) Any litigation on allocation of spectrum for its telecom license across all circles would adversely impact stock sentiment and stock performance.
- 3) Continued slowdown in residential demand and sustained high mortgage rates would negatively impact our NAV assumption and our earnings estimates going forward.
- 4) Potential supply and execution risks would negatively impact our NAV assumptions.

If any of these risk factors plays out, Unitech's share price is likely to have difficulty attaining our target price.

# Appendix A-1

## Analyst Certification

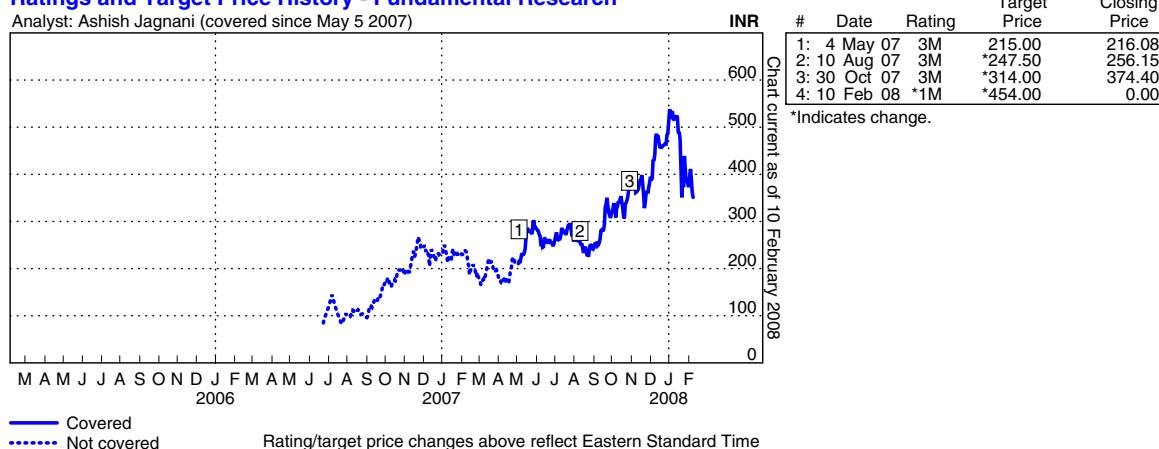
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### Unitech (UNTE.BO)

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Analyst: Ashish Jagnani (covered since May 5 2007)



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