

## Punj Lloyd Ltd

Sembawang skeletons cause margin scare - ALERT

- **Punj Lloyd reported a 90bp yoy dip in operating margin** on the back of Rs680MM losses on legacy orders of Sembawang Engineers. As a result, PAT growth was moderate at 13% despite strong sales growth at 48%. Barring these one-off losses, margins would have been 320bp higher, at 8.1%.
- **Standalone numbers were in-line**, with 91% revenue growth, 110bp OPM improvement and 106% PAT growth.
- **The company continues to register strong growth in order flows** (Rs40.2B), with large orders in the hydrocarbon and infrastructure segments. An order backlog of Rs160B provides visibility of two years' revenues.
- **One-off losses? Clarity expected in earnings call:** The company has said that Sembawang losses were booked on old orders booked prior to Punj Lloyd's take-over of the company. The earnings call on Feb 1, 2008 will likely throw light on further losses, if any. We expect to release a detailed note thereafter.
- **We maintain OW.** Our positive view is backed by continued growth in order flows and improvement in visibility, coupled with the improvement in margins barring one-off items.

**Overweight**

**Rs442.20**

31 January 2008

**Engineering**

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Table 1: Punj Lloyd - abridged income statement

Rs in mn, Y/E March

	3Q08		3Q07		% YoY	
	PLL	PLL-cons	PLL	PLL-cons	PLL	PLL-cons
<b>Net Sales</b>	<b>12,438</b>	<b>21,170</b>	<b>6,499</b>	<b>14,333</b>	<b>91</b>	<b>48</b>
Consumption of RM	4,355	7,614	1,383	5,123	215	49
Contractor Charges	3,509	6,747	1,545	3,610	127	87
Staff Cost	928	2,392	659	1,954	41	22
Other Expenditure	2,587	3,373	2,433	2,816	6	20
<b>Total Expenditure</b>	<b>11,379</b>	<b>20,126</b>	<b>6,020</b>	<b>13,502</b>	<b>89</b>	<b>49</b>
<b>EBITDA</b>	<b>1,059</b>	<b>1,045</b>	<b>479</b>	<b>831</b>	<b>121</b>	<b>26</b>
Other Income	145	459	195	302	(26)	52
Depreciation	294	365	237	296	24	23
Interest	239	284	201	279	19	2
<b>PBT</b>	<b>670</b>	<b>854</b>	<b>236</b>	<b>557</b>	<b>184</b>	<b>53</b>
Tax	276	308	45	80	513	284
<b>Adj PAT</b>	<b>393</b>	<b>546</b>	<b>190</b>	<b>483</b>	<b>106</b>	<b>13</b>
Exceptionals	-	371	-	-		
<b>Reported PAT</b>	<b>393</b>	<b>917</b>	<b>190</b>	<b>483</b>	<b>106</b>	<b>90</b>
<b>Ratios</b>						
EBITDA Margin	8.5%	4.9%	7.4%	5.8%		
Tax Rate	41.3%	36.1%	19.2%	14.4%		
Net Margin	3.2%	2.6%	2.9%	3.4%		
Consumption of RM	35%	36%	21%	36%		
Contractor Charges	28%	32%	24%	25%		
Staff Cost	7%	11%	10%	14%		
Other Expenditure	21%	16%	37%	20%		

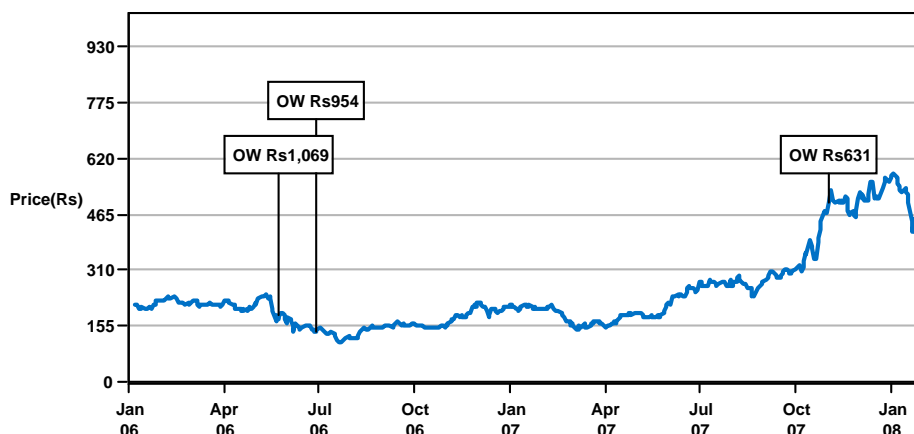
Source: Company reports.

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Punj Lloyd Ltd (PUJL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
24-May-06	OW	187.75	1069.00
29-Jun-06	OW	138.99	954.00
03-Nov-07	OW	498.40	631.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
 Initiated coverage May 24, 2006. This chart shows JPMorgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
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