Property | India

Prestige Estates Projects PEPL IN

BUY

NOMURA STRUCTURED FINANCE SERVICES PRIVATE LIMITED, INDIA

COMPANY QUICK COMMENT

Prestige Estates hosted its 2QFY12 results conference today. Having achieved strong sales during the quarter, with continuing strong sales momentum into October along with rising lease enquiries of office space, the company looks likely to achieve its full-year FY12F sales guidance of INR 15-16bn. The realisation of debtors on Prestige Shantiniketan should gather momentum as residential units are handed over and office space is leased out over the next nine months. We believe the reduction in debtors would be a key catalyst for the stock. Maintain BUY.

Price target: 122.0 INR **Price (04 Nov 2011): 91.8 INR**

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2QFY12F conference call takeaways – On target to achieve FY12F sales guidance; maintain BUY

1. Having received a strong response towards the latest residential launches – namely Prestige Tranquillity, Park View and Sunnyside in Bangalore – during the quarter, the company has maintained a strong sales run rate post-September in these projects. In October, the company sold nearly 0.32mn sq ft totalling INR1.48bn, which brings cumulative residential sales to INR 10.38bn in 7MFY12, i.e., approximately 96% of total residential sales in FY11.

2. The company is planning to launch its large residential project Bella Vista in Chennai (developable area of c.5.05mn sq ft) in the next quarter (3QFY12). Given this, coupled with other launches – namely Mayberry (c. 0.5mn sq ft) and Summer Field (c.1.03mn sq ft) in Bangalore and Sea Shore Villas (c.0.42mn sq ft) in Chennai – in the next two quarters, the company remains confident of meeting its sales guidance of INR 15-16bn for FY12F.

3. The lower revenue in 2QFY12F was due to slower construction progress at its Neptune Courtyard project in Cochin. Management cited heavy rainfall and labor shortage as reasons for the delay. The company now expects to complete Neptune Courtyard in 3QFY12, and should recognize at least INR700 mn from the same in 3QFY12F, in our view.

4. The company expects strong revenue growth from FY13F, as most of its launched projects such as Prestige Tranquillity, Kingfisher Towers, and Prestige White Meadows will hit the revenue threshold limit of 30%.

5. The company mentioned that leasing enquiries for office space have remained strong and that it is in talks to close some big leasing transactions. During the quarter, company has signed pre-leases of around 0.35mn sq ft in Prestige Tech Park 3, and two separate LOIs for approx. 0.7mn sq ft in Prestige Shantiniketan. In addition to this, the company is also negotiating deals of approx. 1.0mn sq ft in Prestige Shantiniketan.

6. The company has spent nearly c.INR 3.28bn on construction during the quarter. The breakdown for this is: c.INR 1.86bn (saleable residential / commercial projects), c.INR 0.54bn (office projects), c.INR 0.34bn (retail malls), and c.INR .04bn (hospitality projects), and c.INR 0.5bn towards land payments.

7. For faster realisation of debtors on Prestige Shantiniketan (residential), company has beefed up the handover process and expects to handover all residential units by end-FY12F, while debtors against the Prestige Shantiniketan office space is expected to pick up pace as leasing of Prestige Shantiniketan's office space is achieved. We believe this would be a positive catalyst for the stock as it would reduce the debtors by ~54% from INR 7.9bn to INR 3.6bn on completed projects. We expect this to happen by 1QFY13F.

8. On the execution front, to reduce project delivery time and reduce the risk of cost overruns, the company has been awarding contracts to multiple contractors for a project. Management noted that they have been targeting to complete Prestige Tranquillity (developable area of c.4.5 mn sq ft) with 2.5 years. We believe faster construction progress at this large-sized project would establish that the company has one of the best execution abilities in the industry, although we have been building in a completion period of five years for the project.

Valuation Methodology and Investment Risks: Valuation Methodology We adopt a NAV-based valuation method to arrive at a one-year forward NAV of INR143. To arrive at our target price of INR122 per share we apply a 15% discount to our NAV. This discount is on account of the uncertainty involved in forecasting given the volatility induced by the JDA model and the fact that the company has several commercial assets under construction which would suck out cash from the residential projects.Risks that may impede the achievement of the target price 1) Prestige Estate is primarily a Bangalore-based developer, so any deterioration of global macroeconomic fundamentals will result in a slowdown in the IT/ITES industry which will have a direct impact on the property market of Bangalore. 2) Prestige has accumulated sundry debtors of around INR9.3bn on the balance sheet. Cash realisation from these debtors is important to fund ongoing construction. If realisation takes time or takes place only partly due to bad debts, then our net debt estimate will see upside risk.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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Mentioned companies

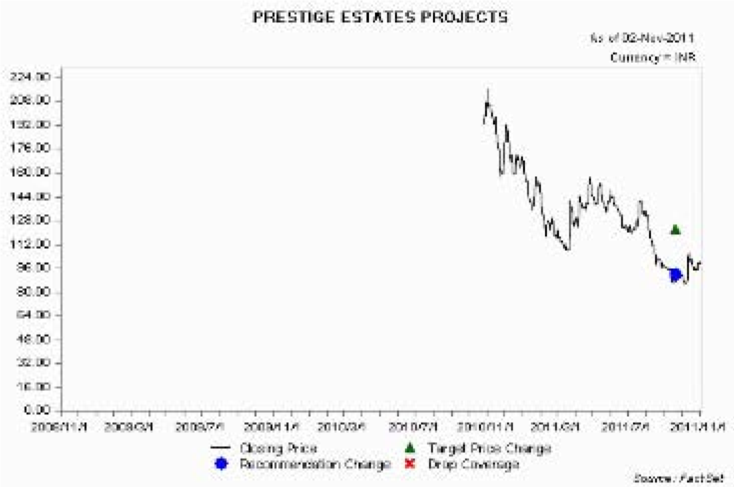
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Prestige Estates Projects	PEPL IN	91.8 INR	04 Nov 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Prestige Estates Projects	Not Rated	21 Sep 2011

Prestige Estates Projects (PEPL IN) **91.8 INR (04 Nov 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Sep-2011		122.00	92.35
21-Sep-2011	Buy		92.35

For explanation of ratings refer to the stock rating keys located after chart(s)

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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