DLF (DLF.BO)

Buy: London Investor Conference Takeaways

- Aggressive build-out schedule; with a commercial asset bias — DLF remains committed to an aggressive execution schedule – seeks to deliver 16m and 23m sq ft of completed assets over the current and next year, with ~50m sq ft under construction. Suggests it is on schedule, well ahead of peers, even as execution remains the challenging, and differentiating, feature of real estate in India.

- Is not a low-cost land bank story — Management suggests market perception that DLF's value lies in old low-cost land bank is incorrect. Only about 40m sq ft (7% of land bank) is historic with an average cost of Rs275psf – the rest, about 575m, has been acquired in the last 3-4 years; effective cost slightly higher at Rs350psf. Suggests its high margins – largely viewed as a 2-3 year phenomenon, will sustain and not diminish once its older land is exhausted.

- Commercial asset bias, with significant market demand and price momentum — DLF sees itself well leveraged to the strong commercial/retail asset environment; 50-55% of its assets are in this space, it has over 12m sq ft in pre-leased commitments on its books, with 42m sq ft of space under execution. The price environment remains robust – an over 100% increase in such rentals (substantially more for short-term and small leases), should support revenue momentum, and also provide earnings cushion.

- Mid-income housing rollout over the rest of the year — DLF has an aggressive launch schedule in the mid-income housing space, spread across various cities in the country. Suggests reasonable price points reflect specific product positioning, rather than under-cutting.

Buy/Medium Risk	1M
Price (10 Sep 07)	Rs626.45
Target price	Rs725.00
Expected share price return	15.7%
Expected dividend yield	0.0%
Expected total return	15.7%
Market Cap	Rs1,067,993M
	US$26,370M

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,917	12.34	100.2	50.8	10.2	22.6	0.0
2007A	19,413	12.80	3.7	48.9	31.5	97.9	0.0
2008E	69,431	40.73	218.1	15.4	5.6	62.6	0.0
2009E	99,170	58.17	42.8	10.8	3.7	41.1	0.0
2010E	129,661	76.05	30.7	8.2	2.5	36.5	0.0

Source: Powered by dataCentral

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

[1]Citigroup Global Markets India Private Limited

DLF

Company description

DLF is one of India's oldest real estate developers. Established in Delhi in 1946, it has continued to expand and diversify its real estate businesses, and is among the largest developers in India. It has historically built its businesses in Delhi and adjoining areas, know as the National Capital Region (NCR). DLF has diversified into other geographic locations over the last few years. These expansions are spread across India, with a particular focus on the Northern India Belt, Calcutta, Mumbai, Chennai, and a number of other large and rapidly growing cities.

Investment thesis

We rate DLF Buy/Medium Risk (1M), with a target price of Rs725. DLF's focus on scale, integrated development with execution record, and a large land holding spread across top-tier growth cities differentiates it from its peers. Its diversified portfolio of ~615m sq.ft is relatively leveraged toward commercial/IT Parks/Retail mall (35% of total development) assets, which should provide a good hedge particularly in the near-term, when the residential segment is seeing some slowdown. Strong cash flows (Rs94.7bn) and a de-leveraged balance sheet give it a competitive advantage in this liquidity strained environment. We expect its new joint ventures in construction and hotels to complement the core business, aid growth and offer valuation upside.

Valuation

Our target price of Rs.725 is based on a 25% premium to an estimated core NAV of Rs530, and Rs62 for other asset holdings and new JV businesses (Rs45/share for the existing 4.6m sq.ft leased assets and 7.2m sq.ft plot, and Rs17/share for DLF's share in construction and hotel JVs). We believe an NAV-based valuation methodology is most appropriate for developers, as it factors the varied development projects and spread out time frame. Our NAV estimate of Rs530 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume will be 606m sq.ft (as ~9m is already recognized as revenue in FY07); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 10% for other locations; 4) all projects undertaken by DLF will be completed largely on schedule; though given the scale of the roll-out, we expect risk of delays; 5) an average cost of capital of 14%; and 6) a tax rate of 25%.

Risks

We rate DLF Medium Risk. This is different from the Speculative Risk rating assigned by our quantitative risk-rating system (which measures the stock's volatility over a 260-day period) to stocks that have less than one year's trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's robust business model; 2) pan-India land bank with initiatives to de-risk the business model through new business JVs; and 3) relatively healthy cash flows, at a time when most developers are facing funding constraints. The main downside risks to our investment thesis and target price include: 1) Concentration in the NCR region, particularly Gurgaon (33% of development), where risk of excess supply over the next 2-3 years is high; 2) Related party transaction and conflict of interest risks with DLF Assets; 3) Delays in execution of projects and planned developments would impact the company's reputation and our NAV assumptions; and 4) A rapidly changing property market environment could lead to property price-demand risks, regulatory risks and potential supply risks.

Appendix A-1

Analyst Certification

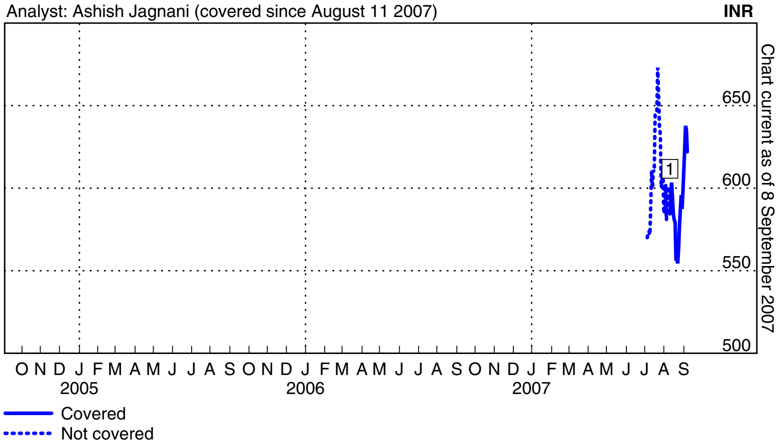
We, Ashish Jagnani and Aditya Narain, CFA, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

DLF (DLF.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since August 11 2007)



#	Date	Rating	Target Price	Closing Price
1:	10 Aug 07	1M	725.00	584.45

*Indicates change.

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