Company

30 April 2010 | 8 pages

Phoenix Mills (PHOE.BO)

Equity

FY10: Healthy Top-Line Growth Kicks In; Higher Overheads Impact Bottom Line

- **Strong operational performance** — 4QFY10 revenues and EBITDA recorded 63% and 78% growth YoY; PAT grew by 14% YoY and 54% QoQ. FY10 revenues grew a healthy 29%, while PAT declined 25%. 4Q *demonstrates the numbers we are expecting going into FY11 once High Street gets completely operational.*

- **Progress on Market Cities** — Largely on track (but for Kurla where 35% leased at Rs 95/sf avg), with anchors in place for all. Handover of space to retailers for fit-outs to happen by Jun10 in Kurla and Pune. Leasing is encouraging in Pune (64% at Rs 60/sf avg), Bangalore (32% at Rs 60/sf avg) & Chennai.

- **Update on other SPVs** — 1) Shangri-La soft launch expected in Jan-11, will commence operations with 200 of 414 rooms; bal. to be thrown open in 5-6 mths of launch 2) EWDPL's Treasure Bazaar at Nanded (0.25msf) opened in Jan10 3) BARE's 1st mall Phoenix United, Lucknow (0.36msf) to get operational in May10.

- **Few highlights from Conf Call** — 1) Kurla's office block (0.9msf) launched to investor community, discussions underway. 2) While applications have been made seeking additional FSI, currently Ph-IV plans include 0.25msf of comm. & retail. If approval comes through, incremental construction would come above the planned structure to use additional FSI. 3) Renewal of 0.2msf in next 1.5 yrs- 75% are anchor tenants where rentals expected to rise to ~Rs 130/sf vs. current Rs 70/sf.

- **Maintain Buy** — We believe High Street Phoenix earnings momentum will continue to drive near-term investor interest. With retail footfalls picking up, we expect good response to upcoming malls starting 2HFY11. Stock triggers- 1) faster revival in retail sales growth and 2) potential FSI increase in Phase-IV. Valuations look attractive at ~34% disc to NAV of Rs324.

Buy/Medium Risk	1M
Price (30 Apr 10)	Rs212.35
Target price	Rs265.00
Expected share price return	24.8%
Expected dividend yield	0.0%
Expected total return	**24.8%**
Market Cap	Rs30,758M US$691M

Price Performance (RIC: PHOE.BO, BB: PHNX IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	428	3.15	-90.4	67.4	2.2	6.2	0.5
2009A	766	5.29	67.8	40.1	2.0	5.5	0.5
2010E	838	5.79	9.4	36.7	1.9	5.4	0.0
2011E	1,286	8.88	53.4	23.9	1.8	7.7	0.5
2012E	1,896	13.09	47.5	16.2	1.6	10.4	0.6

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	67.4	40.1	36.7	23.9	16.2
P/E reported (x)	67.4	40.1	36.7	23.9	16.2
P/BV (x)	2.2	2.0	1.9	1.8	1.6
Dividend yield (%)	0.5	0.5	0.0	0.5	0.6
Per Share Data (Rs)					
EPS adjusted	3.15	5.29	5.79	8.88	13.09
EPS reported	3.15	5.29	5.79	8.88	13.09
BVPS	94.68	104.58	110.36	119.24	132.33
NAVps ordinary	na	na	na	na	na
DPS	1.00	1.00	0.00	1.00	1.25
Profit & Loss (RsM)					
Net operating income (NOI)	**501**	**602**	**993**	**1,701**	**1,850**
G&A expenses	0	0	0	0	0
Other Operating items	-76	-93	-117	-201	259
EBIT including associates	**425**	**508**	**877**	**1,500**	**2,109**
Non-oper./net int./except.	196	448	212	213	253
Pre-tax profit	**620**	**957**	**1,089**	**1,713**	**2,362**
Tax	-192	-190	-250	-427	-464
Extraord./Min. Int./Pref. Div.	0	-1	-1	-1	-1
Reported net income	**428**	**766**	**838**	**1,286**	**1,896**
Adjusted earnings	428	766	838	1,286	1,896
Adjusted EBIT	425	508	877	1,500	1,632
Adjusted EBITDA	501	602	993	1,701	1,850
Growth Rates (%)					
NOI	-30.1	20.2	65.0	71.2	8.8
EBIT adjusted	-34.0	19.7	72.4	71.1	8.8
EPS adjusted	-90.4	67.8	9.4	53.4	47.5
Cash Flow (RsM)					
Operating cash flow	**233**	**514**	**1,929**	**1,213**	**2,452**
Depreciation/amortization	76	93	117	200	218
Net working capital	-109	71	443	-919	-667
Investing cash flow	**-13,846**	**-2,027**	**-2,649**	**-3,302**	**-2,193**
Capital expenditure	-12,890	-2,561	-2,251	-2,476	-1,650
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**13,561**	**3,402**	**613**	**2,146**	**-865**
Borrowings	-1,460	3,386	613	2,290	-684
Dividends paid	-94	-167	0	-145	-181
Change in cash	**-52**	**1,888**	**-108**	**57**	**-606**
Balance Sheet (RsM)					
Total assets	**18,968**	**24,300**	**26,525**	**31,046**	**32,615**
Cash & cash equivalent	22	1,910	1,802	1,857	1,250
Net fixed assets	8,326	13,423	15,558	17,833	19,265
Total liabilities	**5,311**	**7,034**	**7,890**	**10,625**	**9,475**
Total Debt	3,048	5,452	6,064	8,354	7,671
Shareholders' funds	**13,658**	**17,266**	**18,635**	**20,421**	**23,139**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	51.7	51.0	67.7	71.1	71.1
ROE adjusted (%)	6.2	5.5	5.4	7.7	10.4
ROA adjusted (%)	3.6	3.5	3.3	4.5	6.0
Net debt to equity (%)	22.2	20.5	22.9	31.8	27.7
Interest coverage (x)	11.3	11.0	13.6	17.0	20.1

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Figure 1. Phoenix Mills Ltd: Q4FY10 and FY10 Earnings Summary

	4QFY09	4QFY10	YoY	QoQ	FY10	YoY	Comments
Revenues	211.5	344.7	63%	14%	1158.3	28.5%	Palladium Revenue begins to kick in
Operating Expenses	100.0	146.7			412.4		
EBITDA	111.5	198.0	78%	12%	745.9	23.9%	
EBITDA Margin	52.7%	57.4%			64.4%		
Other Income	99.2	57.6	-42%	22%	240.2	-51.8%	
Interest	23.5	35.1	49%	12%	85.5	72.9%	Higher interest exp & depreciation charged to P/L which was earlier getting capitalized for Palladium + parking.
Depreciation	25.7	59.1	130%		162.6	94.2%	
PBT	161.5	161.5	0%	15%	738.0	-23.7%	
Tax	23.8	4.4	-81%	-88%	150.4	-19.0%	
% Tax	15%	3%			20%		
PAT	137.7	157.0	14%	54%	587.6	-24.9%	

Source: Company Reports and Citi Investment Research and Analysis

Phoenix Mills

Company description

Phoenix Mills, listed on the BSE in 1959, is a leading Indian developer of large-format retail-led mixed use developments. It began operations as a textile manufacturing company in 1905 on 17.3 acres of land in Lower Parel, Mumbai. In 1987, it largely exited the textile sector and entered into the booming real estate market in Mumbai. High Street Phoenix was the first consumption centre developed by the Phoenix Group, on its textile mill property in Lower Parel, which has itself become a destination in Mumbai (though still under expansion), covering >3.0 msf of space housing retail, entertainment, commercial and residential complexes with car parking. Over the last few years, PML has spread its wings across Tier I, II and III cities in India, by entering into JVs with established regional players and bringing in strategic investors to support the growth of its asset-heavy model. The company is controlled and managed by the Ruia Group, which owns a 66% stake.

Investment strategy

We rate Phoenix Mills Buy/Medium Risk, with a target price of Rs265. We see it evolving as a leading developer/owner of large-format retail malls and hotel assets with a pan-India presence. It differentiates itself by its prime-location assets across key cities like Mumbai, Chennai, Bangalore, Pune; unique asset-holding associate/subsidiary ownership model; steady cash flows; near-term execution visibility; and a de-leveraged balance sheet. It has plans to develop ~29msf, having an economic interest of ~10.9msf, with a focus on retail malls (74% of GNAV) and hotels. Furthermore, the flagship HSP property is a landmark in Lower Parel, South Mumbai and we regard it as a cash cow which will drive an earnings CAGR of 33% over FY10-12E. Taking HSP as a benchmark, Phoenix is looking to create similar value through its 'Market City' projects, positioned as consumption centres. Most will be in operation over the next 1-2 years and risks are shared with other partners, and we see this as a big opportunity. Additionally, likely NAV upside from increased FSI in HSP Phase IV and the revenue-sharing model are potential stock re-rating catalysts.

Valuation

Our target price of Rs265 is at an 18% discount to our Mar10 NAV of Rs324. This is based on a combination of rental yield for HSP and NAV-method for under-development assets. The lower discount (vs. 25-35% ascribed to tier-II peers) is a combination of: 1) strong rental annuity and de-leveraged balance sheet; 2) near-term execution visibility of Market City; and 3) likely delays for EWPDL, BARE and hospitality projects. Our NAV estimate of Rs324 is based on the following assumptions: 1) Rs164 per share for High Street Phoenix using a rental yield model with 10% cap-rate, 4% terminal growth; and Phase IV land (0.25msf) valued at Rs8000/sf; 2) 3.8 msf economic interest in Market City projects (ex-hotels); 3) 5.1 msf economic interest in EWPDL & BARE project; and 4) Rs15-20mn capital cost per room for ~1,000 rooms following its 75% stake in the hospitality venture. This apart, we have factored in: a) total consolidated debt of Rs8.55bn adjusted for Rs2.2bn of cash; b) cost of capital of 13%; and c) a tax rate of 25%.

Risks

We rate Phoenix Mills as Medium Risk. This differs from the High Risk rating assigned by our quantitative risk rating system (which measures the stock's volatility over a 260-day period). Our key reasons are: 1) Relatively stable and healthy cash flows with near-term visibility; 2) strong asset portfolio of strategically located land parcels, fully paid for; and 3) de-risked business model and de-leveraged balance sheet. However, the main downside risks to our investment thesis and target price include: 1) concentration in the retail and hospitality segment, which hasn't yet recovered post downturn, and where risk of excess supply over the next 2-3 years is high; 2) any leasing/footfall disappointment on the launch of forthcoming projects will likely prove detrimental to the company's reputation built on HSP and our valuation assumptions; 3) relationships with strategic investors are critical as they have an impact on the liquidity and execution plans of PML and hence on our valuations; 4) a rapidly changing property market environment could lead to property price-demand risks, regulatory risks and potential supply risks.

Appendix A-1

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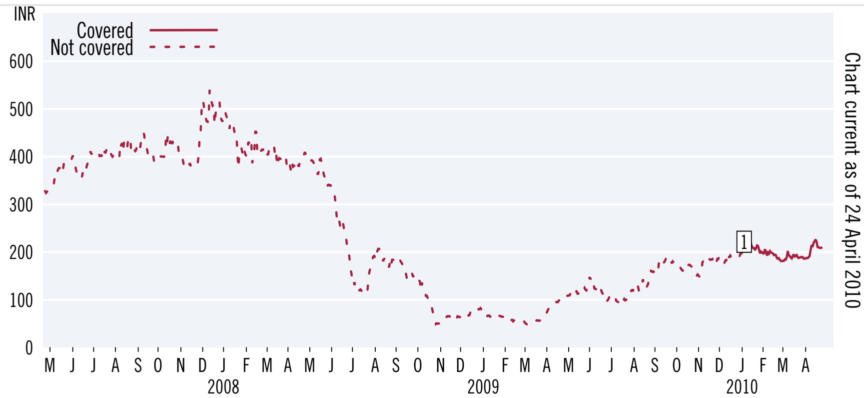
Fundamental Research

Analyst: Ashish Jagnani
Covered since January 5 2010



	Date	Rating	Target Price	Closing Price
1	5-Jan-10	*1M	*265.00	205.15

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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