Company Flash

5 March 2008 | 7 pages

DLF (DLF.BO)

Buy: Key Takeaways from Citi's Global Property CEO Conference

- **What's new** — 1) ~60m sq ft under construction – expects to deliver 16m sq ft in FY08, leasing of commercial space at run-rate of 12m sq ft per annum; 2) strong response for recently launched office space in Delhi at ~Rs14,000/sqft; 3) expects to have a lease portfolio of ~9m sq ft by Mar'08 vs. 4.6m sq ft in Jul'07 - the largest amongst peers and 4) plans underway to build a resort city, North of Goa in JV with Nakheel, land acquisition in progress.

- **Residential gains momentum, focus on mid-income** — After strong response in Kolkata, Indore and Chennai, targeting to sell ~4,000 units/qtr. Recently launched mid-income housing in New Gurgaon met encouraging response – 1,200 units sold at launch. New launches planned in Chandigarh, Hyderabad, Bangalore, Kochi, Jaipur and Lucknow over next few quarters.

- **Status on DLF Office Trust (DOT)** — Plans to list DOT in Singapore with an initial portfolio of ~10m sq ft of which ~4m sq ft is completed and leased. Portfolio will also have a call option of another ~10m sq ft. While timing for listing is contingent on stabilization of capital markets, the management has indicated establishment of a private trust until then.

- **Key Challenges** — 1) Timely execution; 2) balance between growth vs. cash flows in a liquidity strained environment; and 3) ability to create more structures for unlocking value in other assets in this volatile scenario.

- **Reiterate Buy** — We find valuations compelling with the stock trading at an 18% discount to Rs837 NAV and see recent correction as opportunity to buy.

Buy/Medium Risk	**1M**
Price (05 Mar 08)	Rs683.00
Target price	Rs1,046.00
Expected share price return	53.1%
Expected dividend yield	0.9%
Expected total return	**54.0%**
Market Cap	Rs1,164,401M
	US$28,951M

Price Performance (RIC: DLF.BO, BB: DLFU IN)

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	55.3	11.2	22.6	0.0
2007A	19,413	12.80	3.7	53.4	34.3	97.9	0.0
2008E	69,431	40.73	218.1	16.8	6.4	65.7	0.9
2009E	99,170	58.17	42.8	11.7	4.4	44.3	1.2
2010E	129,661	76.05	30.7	9.0	3.1	40.1	1.5

Source: Powered by dataCentral

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

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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, Kolkata, Mumbai, Chennai, and a number of other large and rapidly growing cities. DLF enjoys a strong brand franchise with good reputation in execution and delivery. This is the flagship company of the KP Singh family with the founders holding ~88%. It is amongst India's largest developers with diversified asset portfolio and an emerging pan-India presence.

Investment strategy

We rate DLF shares Buy/Medium Risk (1M), with a target price of Rs1,046 based on a 25% premium to our NAV estimate of Rs837, which includes other asset holding/JV businesses of Rs75. 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 ~748m sq ft is relatively leveraged toward commercial/IT Parks/Retail mall assets, which should provide a good hedge particularly in the near-term, when the residential segment is seeing some slowdown. We believe it is a good proxy to play potential yield compression. We see this as a core holding for playing the Indian real estate sector.

Valuation

Our target price of Rs1,046 is based on a 25% premium to our core NAV and other asset holding/JV estimate of Rs837. This includes Rs762 for the development portfolio and Rs75 for other asset holdings and new JV businesses (Rs45/share for the existing 4.6m sq ft of leased assets and 7.2m sq ft of plots, and Rs30/share for DLF's share in construction and hotel JVs). The premium is attributed to - 1) diversified tier-I developer with large land bank, 2) high leverage towards office/IT Parks and retail assets; 3) a relatively de-leveraged balance sheet, and 4) a strong track record that provides it with potential to win large township projects. 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 Rs837 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume of 701m sq ft (as ~43m is already/to be recognized as revenue till Sep '08); 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, we expect risk of delays; 5) average cost of capital of 14%; and 6) a tax rate of 25%.

Risks

We rate DLF shares Medium Risk. This is different from the Speculative Risk rating assigned by our quantitative risk-rating system 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 risks to our investment thesis and target price include:

The company's asset sale strategy remains contingent on capital flows, especially with the government exploring measures to regulate FDI in the sector. Outstanding from DLF Assets is high at Rs.20bn, and evolving regulatory issues on REITs/Trust could potential delay planned listing of DLF Office Trust; any delays in the listing DLF Office Trust could be a negative sentiment for the stock.

Poor response for its mid-income housing projects expected to launch in 3Q/4Q; a good response is crucial for growth ahead and cash flows, but the demand environment in the residential market remains sluggish.

Slowdown in the IT/ITES industry which could lead to a decline in demand for commercial real estate. While there is strong demand for IT space, in event of the sector facing a slowdown, DLF could get adversely impacted due to its high leverage and scale.

Slowdown in capital inflows or measures to regulate FDI in the real estate sector.

Appendix A-1

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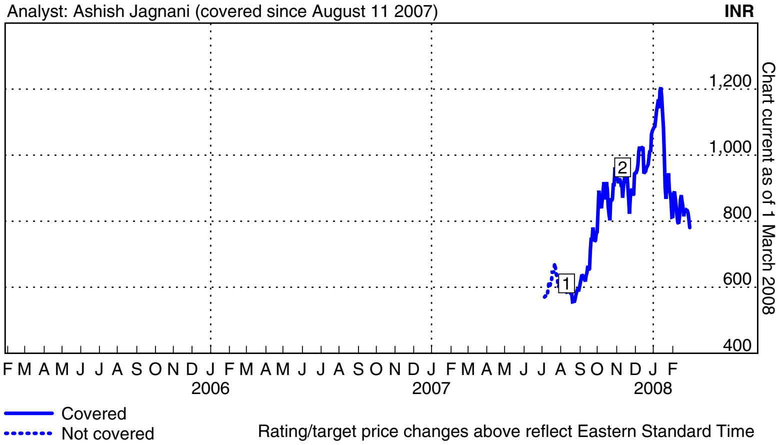
DLF (DLF.BO)

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
2:	12 Nov 07	1M	*1,046.00	871.20

*Indicates change.

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