

Unitech Ltd

UCP conference call: No tick up in demand despite an improved leasing outlook - ALERT

UCP hosted a conference call today to discuss the operational performance for Sep-Q. Key takeaways:

- Reported Sep-10 NAV/share of 50p was down 31% over Mar-10.** The decline is primarily on account of a change in valuation methodology. The new methodology uses: 1) DCF for committed leases; 2) Land value for undeveloped projects (~Rs440psf); and 3) under construction projects (not leased) on cost basis (~Rs1,740psf). This is against a full DLF method used earlier. Cap rates used are at 11.5-12% and WACC varies between 15 and 17.5%. This, in our view, is a bit too conservative. UCP's stake in the overall portfolio (21.4msf) is currently valued at £171.4M, down 38% since Mar-10. Refer to the table below for valuation details.
- Leasing yet to pick up substantially** – The company currently has lease commitments in place for 3.3msf, or 66% of its ongoing portfolio of 5msf. Of the total lease commitments, 2.2msf of office space is already leased and operational; while the remaining 1.1msf is expected to be operational over the next 12 months. Overall, this has potential to generate an annualized rental of £17m (UCP stake-£10.2mm), assuming an average rent of Rs30psf pm. In 1HFY11, the company generated rental income of £6.5m.
- Net cash (£30M as of Sep-10) has come down by £8m since Mar-10 primarily due to construction financing of its ongoing portfolio. Construction spend for 1HFY11 stood at £11.2m (cumulative spend of £117.5m). While UCP has already completed 3.5msf of space or ~80% of ongoing projects; buildout of future projects remains on hold and will be taken up depending on the progress of leasing activity.
- Management commentary remains cautious on demand outlook**, given oversupply concerns and slow leasing progress on its projects. However, this is surprisingly at odds with other commercial developers (DLF/Raheja) who are witnessing strong leasing momentum and are guiding to an improving outlook. While leasing for UCP too has picked up at the margin (0.9msf leased in 1HFY11), it still remains slow relative to the overall market. Among the key markets, leasing in Gurgaon is progressing well (0.7msf leased in 1H); however, it remains considerably slow in Noida/Kolkata (0.2msf leased in 1H).
- UCP's board has rejected Unitech's proposal for an open offer at 31p; however, management indicated that they are open to looking at other means of asset monetization or any revised offer from Unitech.

Table 1: UCP: Portfolio valuation (Sep-10)

		Value (GPB MM)	Area (msf)	Comments
Already constructed and leased out portion	Income approach - DCF	84	3.3	Implies an average rental of Rs30psf pm
Already constructed/under construction portion	Cost approach- Land and building method	25.3	1.7	Implied value of Rs1740psf (includes land value + construction cost incurred)
Land without construction	Market approach - land comparison approach	62.1	16.4	Implies land value of Rs440 psf

Source: Company reports and J.P. Morgan

Neutral

UNTE.BO, UT IN

Price: Rs65.60

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Property

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UCP: Interim financials and leasing update (Sep-10)

	Sep-10
Portfolio value (UCP's stake (EMM))	171.4
NAV (pence)	50.0
Under construction (superstructure in place)	5 msf
Operational and leased	2.2 msf
Lease commitments	3.3 msf

Source: Company

See page 2 for analyst certification and important disclosures, including non-US analyst disclosures.

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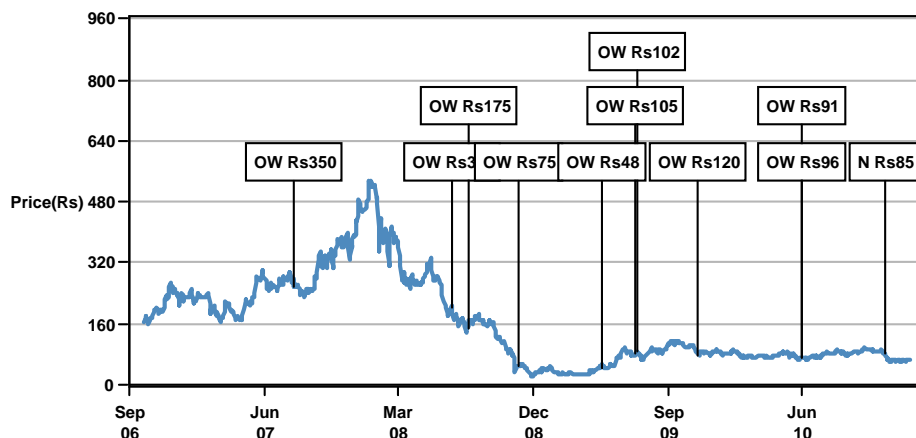
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Unitech Ltd (UNTE.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
01-Aug-07	OW	257.18	350.00
18-Jun-08	OW	200.25	330.00
21-Jul-08	OW	149.20	175.00
02-Nov-08	OW	48.05	75.00
17-Apr-09	OW	43.35	48.00
25-Jun-09	OW	82.05	105.00
28-Jun-09	OW	85.30	102.00
01-Nov-09	OW	74.70	120.00
30-May-10	OW	73.50	96.00
01-Jun-10	OW	69.00	91.00
15-Nov-10	N	79.45	85.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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