# Punj Lloyd

## Drivers in place to sustain growth

Event Update

March 11, 2008

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs341 |
| Target Price | Rs467 |
| Implied Upside | 36.8% |
| Sensex | 16,123 |

*(Prices as on March 11, 2008)*

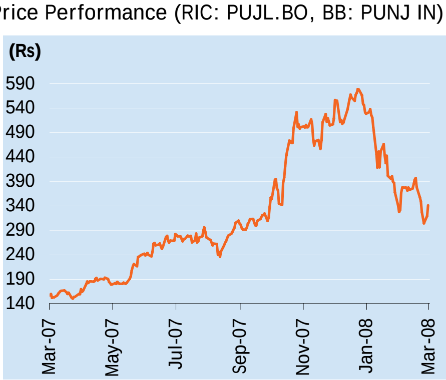
| **Trading Data** | |
|---|---|
| Market Cap. (Rs bn) | 99.3 |
| Shares o/s (m) | 301.3 |
| Free Float | 54.4% |
| Avg. Daily Vol ('000) | 694.6 |
| Avg. Daily Value (Rs m) | 300.9 |

| **Major Shareholders** | |
|---|---|
| Promoters | 45.0% |
| Foreign | 31.1% |
| Domestic Inst. | 15.6% |
| Public & Others | 8.3% |

**Stock Performance**

| (%) | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | 4.3 | 13.2 | 117.7 |
| Relative | 7.4 | 9.5 | 92.6 |

Price Performance (RIC: PUJL.BO, BB: PUNJ IN)




*Source: Bloomberg*

**Punj Lloyd's (PLL) stock price has corrected 42% from its recent peak due to the weak market and disappointing Q3FY08 numbers. While we have marginally downgraded our FY08E earnings numbers by 6% due to lower than expected margins by SembCorp E&C (SEC) at the current market price, we believe that the risk reward appears favourable. Given the recent correction in price, we are upgrading our rating on the stock from Outperformer to BUY.**

**We lower our price target from Rs564/share to Rs467/share as we cut our target multiple from 27x to 22x FY09E EPS on account of our conservative approach due to the recent negative sentiment in the market. We have valued PLL's investment in Pipavav Shipyard (PSL) at 100% premium to Rs45/share, the value at which the last round of investment took place in the company. Collectively, these two investments have been valued at Rs47/share.**

- We expect Punj Lloyd's order book to grow at a CAGR of 35% during FY07-10E driven by construction spending in South-East Asia and hydrocarbon capex in the Middle-East and India.
- Strong order intake and Punj Lloyd's faster revenue conversion is expected to grow its revenue at a CAGR of 42% in FY07-10. A 265bps expansion in EBITDA margin is likely to drive 63% CAGR growth in net profit. Though earnings could lag profit growth due to equity dilution. Thus we project earnings growth at 53% CAGR during FY07-10.
- Investments in PSL and Ramprastha JV could be significantly value accretive; key triggers to valuation in PSL could come from value unlocking through private equity/public listing.

| Key financials (Y/e March) | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| Revenues (Rs m) | 51,266 | 81,536 | 112,710 | 149,962 |
| *Growth (%)* | *204.3* | *59.0* | *38.2* | *33.1* |
| EBITDA (Rs m) | 4,103 | 6,535 | 11,543 | 15,976 |
| PAT (Rs m) | 1,960 | 3,418 | 6,121 | 8,786 |
| EPS (Rs) | 7.5 | 10.6 | 19.1 | 27.4 |
| *Growth (%)* | *263.1* | *56.6* | *79.1* | *43.5* |
| Net DPS (Rs) | 0.4 | 0.4 | 0.4 | 0.4 |

*Source: Company Data; PL Research*

| Profitability & valuation | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| *EBITDA margin (%)* | *8.0* | *8.0* | *10.2* | *10.7* |
| *RoE (%)* | *16.3* | *18.5* | *22.5* | *25.4* |
| *RoCE (%)* | *12.2* | *10.1* | *15.3* | *17.5* |
| EV / sales (x)* | 1.6 | 1.2 | 0.9 | 0.7 |
| EV / EBITDA (x)* | 20.4 | 15.0 | 8.8 | 6.6 |
| PE (x)* | 39.2 | 25.0 | 14.0 | 9.7 |
| P / BV (x)* | 7.0 | 4.1 | 3.3 | 2.6 |
| *Net dividend yield (%)* | *0.1* | *0.1* | *0.1* | *0.1* |

*Source: Company Data; PL Research* ** Adjusted for BOT Projects*

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## Revenue CAGR of 43% over FY07-10E

Order inflows in FY07 were strong, resulting in Punj Lloyd's order book increasing 110% to Rs110bn. We expect the company's order book to grow at 35% CAGR during FY07-10, driven by continued strong domestic capex and infrastructure cycle, strong outlook on hydrocarbon and infrastructure capex in GCC, and expanded scope of pre-qualifications that it now possesses.

Driven by strong current order book of Rs160bn, robust outlook on order inflows, and a relatively short execution cycle for the largest segment of the order book, we expect revenue CAGR of 43% over FY07-10. We expect 50% revenue CAGR for Punj Lloyd and 30% revenue CAGR for SEC during FY07-10.

## EBIDTA margin to expand

With the current demand supply situation hugely in favour of E&C companies, we expect Punj Lloyd's margin to remain strong. Driven largely by margin expansion in projects undertaken by SEC, we expect Punj Lloyd's EBIDTA to grow at a CAGR of 56% during FY07-10, and overall margin to expand by 265bps during the same period.

As far as the Rs62.3bn order book that SEC has, Rs10bn is on account of legacy orders, which have a margin of 1.3-1.5%. However, new order intakes are at a higher margin of 7-7.5%. We expect legacy orders to be completed in another 6-8 months and thereafter SEC's margin to expand to 7.5%.

Moreover, with Punj Lloyd targeting a larger order size of about US$250m, its margin should improve.

## Net profit growth to lead revenue growth

Driven largely by EBIDTA margin expansion, we expect net profit to lead overall revenue growth. Moreover, while historically depreciation as a percentage of overall revenue has been on the higher side for Punj Lloyd, going forward we expect this to come down as a percentage of sales on account of improved asset utilisation.

Thus, we expect net profit during the period to grow at a CAGR of 64% during FY07-10. Net profit margin during the same period is expected to improve by 203bps.

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**PL's Recommendation Nomenclature**

| | | | | | |
|---|---|---|---|---|---|
| **BUY** | : | > 15% Outperformance to BSE Sensex | **Outperformer** (OP) | : | 5 to 15% Outperformance to Sensex |
| **Market Performer** (MP) | : | -5 to 5% of Sensex Movement | **Underperformer** (UP) | : | -5 to -15% of Underperformace to Sensex |
| **Sell** | : | <-15% Relative to Sensex | | | |
| **Not Rated** (NR) | : | No specific call on the stock | **Under Review** (UR) | : | Rating likely to change shortly |