

Company Flash

1 February 2008 | 6 pages

Omaxe (OMAX.BO)

Strong 3Q Results – Maintain Buy

- Good Results** — 3QFY08 revenues increased 18% YoY to Rs6,682m while net profit increased 50% YoY to Rs1,542 on the back of higher other income and 500bps YoY improvement in EBITDA margins to 31.2%. Other income for the quarter includes dividend on investments made from funds raised through the IPO.
- New Developments** — Acquired 11 acres in Faridabad for a group housing project of ~0.85m sq ft and 25 acres acquired in Hyderabad for development of a mixed-use project. This together with the Visakhapatnam land acquisition has helped diversify the company's landbank into South India. The company has also signed an MOU with the government of Rajasthan for development of a 5,000 hectare multi-product SEZ at Alwar.
- Infrastructure Foray** — The company has formed a consortium with GVK and Nagarjuna Construction to bid for infrastructure projects such as airports, roads, bridges, etc. The consortium has currently bid for redevelopment of Udaipur and Amritsar airports and development of Badarpur Highway.
- Hospitality Venture** — Omaxe is planning to build hotels in Faridabad, Amritsar, Greater Noida and Patiala and is currently in talks with large hospitality chains to form a strategic alliance.
- Maintain Buy** — We believe valuations are attractive with the stock trading at a 51% discount to our Mar'08 NAV estimate of Rs429.

| | |
|------------------------------|-------------------------|
| Buy/High Risk | 1H |
| Price (31 Jan 08) | Rs283.85 |
| Target price | Rs386.00 |
| Expected share price return | 36.0% |
| Expected dividend yield | 0.4% |
| Expected total return | 36.3% |
| Market Cap | Rs49,035M US\$1,248M |

Price Performance (RIC: OMAX.BO, BB: OAXE IN)



Statistical Abstract

| Year to | Net Profit | Diluted EPS | EPS growth | P/E | P/B | ROE | Yield |
|---------|------------|-------------|------------|------|------|------|-------|
| 31 Mar | (RsM) | (Rs) | (%) | (x) | (x) | (%) | (%) |
| 2006A | 1,188 | 7.91 | na | 35.9 | 21.2 | 84.8 | 0.1 |
| 2007A | 2,573 | 16.60 | 109.9 | 17.1 | 9.4 | 76.9 | 0.3 |
| 2008E | 5,111 | 29.45 | 77.4 | 9.6 | 3.2 | 51.5 | 0.4 |
| 2009E | 7,026 | 40.48 | 37.5 | 7.0 | 2.2 | 37.8 | 0.4 |
| 2010E | 9,071 | 51.98 | 28.4 | 5.5 | 1.6 | 34.3 | 0.4 |

Source: Powered by dataCentral

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

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Figure 1. Omaxe 3Q and 9-months Earnings Summary

| Rs in Millions | 3QFY07 | 3QFY08 | YoY | 9mFY07 | 9mFY08 | YoY |
|----------------------------|--------|--------|------|--------|--------|------|
| Revenues | 5,653 | 6,682 | 18% | 11,550 | 17,135 | 48% |
| EBITDA | 1,480 | 2,085 | 41% | 2,936 | 5,616 | 91% |
| EBITDA Margin | 26.2% | 31.2% | | 25.4% | 32.8% | |
| Depreciation | 10 | 13 | 29% | 25 | 36 | 46% |
| Interest | 119 | 145 | 22% | 190 | 426 | 125% |
| Other Income | 36 | 100 | 180% | 64 | 193 | 202% |
| PBT | 1,387 | 2,028 | 46% | 2,786 | 5,347 | 92% |
| PAT | 1,030 | 1,542 | 50% | 2,064 | 3,884 | 88% |
| PAT after Minority & Assoc | 1,030 | 1,542 | 50% | 2,064 | 3,879 | 88% |

Source: Company Reports, Citi Investment Research

Omaxe

Company description

Omaxe is largely a founder-owned and -controlled business. The company is headed by Rohtas Goel who started a construction business in 1987 and transformed it into a real estate developer in 2001. He spearheads the organization, which also employs other family members as part of the management team – together they own 89% stake. The group has been beefing up professionals at various levels in the organization. The company is also emphasizing development of its management team to implement its aggressive execution plans. Presently Omaxe employs ~1,093 people. The company recently made a primary offering of 18.6m shares at Rs310 in July 2007.

Investment strategy

We rate Omaxe shares Buy / High Risk (1H) with a target price of Rs386. Our target price is based on a 10% discount to our NAV estimate of Rs429 per share. Omaxe is one of North India's newer and more aggressive developers and has created a strong and highly visible 'Omaxe' brand in a short time. The company plans to develop ~146m sq ft over the next few years and is primarily focused on the residential market (83% of asset mix), in the mid-upper end segment with majority of its developments in the NCR (36% of portfolio). The stock has underperformed by 33% over the last three months since listing. While we believe outlook for North India remains challenging in light of the building supply and low transaction activity, with the stock trading at a significant 31% discount to our NAV and expectation of a softer rate environment ahead, we believe valuations are attractive and see upside.

Valuation

We believe NAV is the most appropriate valuation method as it factors a) landbanks; b) size of the overall development opportunity, and differences based on market segments, location, scale and spread-out-time frames; and c) execution. Our target price of Rs386 is based on a 10% discount to an estimated core NAV of Rs429.

The discount is attributed to 1) concentration in NCR where risk of excess supply over next two to three years is high, which is likely to keep property prices in check; 2) high proportion of plotted development which are low value add projects; and 3) its status as a relatively new developer with significant share of landbank still requiring requisite approvals for development.

Our NAV estimate of Rs429 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume of 117m sq ft (as ~29m is already/to be recognized as revenue till FY08); 3) all projects undertaken by Omaxe will be completed largely on schedule, though we expect risk of delays; 4) an average cost of capital of 14%; and 5) a tax rate of 33%.

Risks

We rate Omaxe shares High Risk as opposed to the Speculative Risk rating assigned by our quantitative risk rating system to stocks that have less than 260-day trading history. The key reasons for our assignment of a High Risk rating include: 1) the company's concentration in the NCR, 2) aggressive development plans which raises risk of execution delays, and 3) evolving regulatory and political risks for the sector's growth. However, with strong branding with Omaxe having created high visibility in short span, significant projects (30% of total development) already pre-sold and a relatively strong earnings growth outlook, we believe a High Risk rating is appropriate.

The main downside risks to our investment thesis which could prevent the shares from reaching our target price include:

- (1) Demand does not materialize to the extent expected due to economic slowdown, property over-supply, or skewed geographic or segment growth .
- (2) Property price weakness following very strong price increases in recent past.
- (3) Execution risks given only a medium-scale track record and a major planned build-out.
- (4) Land acquisition is a challenging activity, given regulations, ownership issues and a slow legal system.
- (5) Regulatory risks, as regulations in India are to change, which could impact the development potential of the land it owns, the property price environment, or in various other ways which could be inimical to Omaxe's interests.

Appendix A-1

Analyst Certification

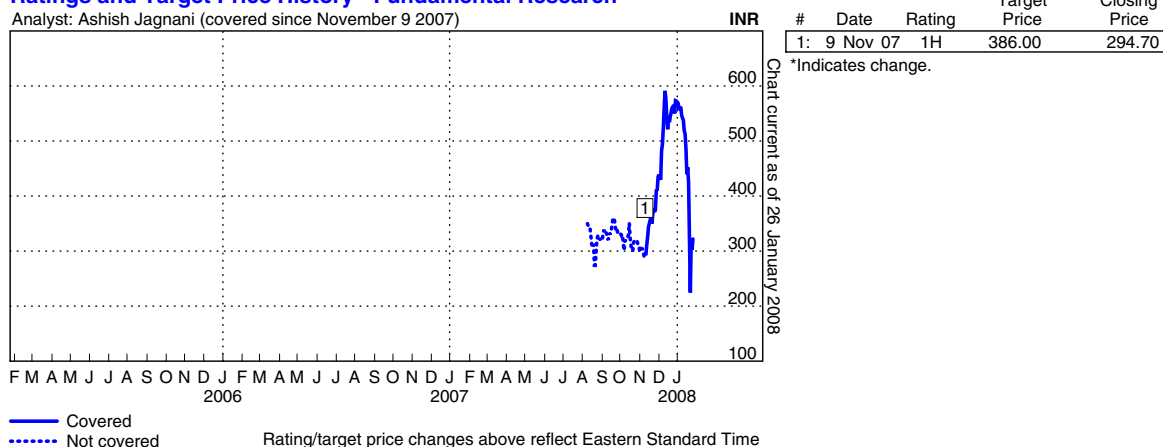
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Analyst: Ashish Jagnani (covered since November 9 2007)



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|--|-----|------|------|
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