

Company Flash

31 January 2008 | 6 pages

Unitech (UNTE.BO)

Sell: Strong Quarter – Several Plans in the Cards

- **Strong profit growth** — 3QFY08 revenues increased 19% yoy to Rs11,421m. EBITDA margin at 64.3% was flat yoy, but a lower tax rate helped net profit grow 39% yoy to Rs5,258m.
- **Sharp QoQ increase in EBITDA margin** — EBITDA margin increased to 64% in 3Q from 50% in the previous quarter because of higher proportion of commercial/retail asset sales.
- **Additions to landbank** — ~2,130 acres added in Mumbai (97 acres), Kolkata (~1350acres), Chennai (70acres), Hyderabad (350acres), Gr. Noida (150 acres), Goa (103 acres) and Bhubaneshwar (11 acres). This expands Unitech's scale by ~105m sq ft and widens its geographic spread, particularly in Mumbai. We are still to factor this into our NAV estimate.
- **New developments** — 1) Unitech has received LOI (Letter of Intent) for licenses in 22 circles and has paid ~Rs16.5bn as license fee – we await more details on spectrum allocation. 2) UCP, the AIM fund, has widened its scope of investment to include retail/hotels assets – this could provide potential for Unitech to inject more assets into UCP.
- **Unitech Office Trust** - Plans to transfer 40% stake in 3 IT Park/SEZ assets, which are partly owned by UCP, to a business trust to be listed in Singapore. UOT is expected to have an initial portfolio of ~10m sq ft. However, timing is still uncertain because of current volatility in markets.

Sell/Medium Risk	3M
Price (31 Jan 08)	Rs378.65
Target price	Rs314.00
Expected share price return	-17.1%
Expected dividend yield	0.1%
Expected total return	-17.0%
Market Cap	Rs614,691M US\$15,641M

Price Performance (RIC: UNTE.BO, BB: UT IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	841	0.52	152.0	nm	nm	36.9	0.0
2007A	13,058	8.04	na	47.1	30.8	115.9	0.1
2008E	16,374	10.09	25.4	37.5	17.1	58.6	0.1
2009E	27,542	16.97	68.2	22.3	9.8	55.7	0.1
2010E	41,908	25.82	52.2	14.7	5.9	50.0	0.1

Source: Powered by dataCentral

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

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Figure 1. Unitech 3Q and 9-months Earnings Summary (Rs in Millions)

	2QFY08	3QFY07	3QFY08	YoY	9mFY07	9mFY08	YoY
Sales	10,135	9,623	11,421	19%	16,970	30,264	78%
EBITDA	5,071	6,213	7,344	18%	8,423	17,472	107%
EBITDA Mgn (%)	50.0%	64.6%	64.3%		49.6%	57.7%	
Interest	790	458	980	114%	821	2,370	189%
Other Income	508	142	230	62%	638	1,026	61%
Depreciation	30	23	55	134%	54	116	116%
PBT	4,759	5,874	6,539	11%	8,186	16,012	96%
PAT	4,099	3,773	5,232	39%	5,580	12,998	133%
PAT after Minority & Assoc	4,101	3,778	5,258	39%	5,579	13,016	133%

Source: Company Reports, Citi Investment Research

Unitech

Company description

Unitech is one of India's largest, most diversified real estate developers with an emerging pan-India presence. It enjoys leadership in markets of NCR and Kolkata. Its core strengths of land acquisition, reputation in building townships and relationships with governments and customers have enabled it to build a diversified portfolio. Unitech has a land bank of 12,511 acres with a total saleable area of ~593m sq ft spread over Chennai (19%), NCR (16%), Kolkata (16%) and Tier III cities (44%). Residential projects account for about 77% of the saleable area, commercial 5%, IT Parks 7% and retail 5%. In addition, it also has a small presence in power transmission, prefabricated construction, paving block and ready mix concrete. The promoter family holds a 75% stake in the company.

Investment strategy

We rate Unitech Sell / Medium Risk (3M) rating with a target price of Rs314. Our target is based on a 15% premium to our revised NAV estimate of Rs273 per share. Recent efforts to monetize six of its IT parks by selling stakes to a REIT has provided it with healthy cash flows – and we expect more such structures going forward, but timing remains uncertain. Additionally, initiatives to reduce concentration in NCR and introduce new revenue streams from lease/management fees are positive. However, management's development plan of ~593mn sq ft is aggressive and does raise execution risks. We forecast an exponential growth in profitability from FY07-10E. With stock already trading at 37% premium significantly higher than our 15% premium, we believe valuations do not leave any margin for error from potential execution delays; upsides seem priced in, in our view.

Valuation

Our target price of Rs314 (vs. Rs247.5 earlier) is based on a 15% premium to our NAV of Rs273. The 15% premium is based on high valuation benchmarks for Tier-I developers and recognizing Unitech's - 1) competitive advantage of large diversified land bank, while peers are still aggregating land 2) dynamic business model with thrust on recycling capital faster; 3) strong brand

positioning and proven track record. However, this is lower than the 25% premium we ascribe to DLF due to its - higher gearing towards commercial assets, ability to leverage on asset holding company for boosting cash flows and increased leasing income. Our NAV estimate of Rs273 is based on the following assumption: a) current market price levels to sustain with no price inflation; b) development volume of 561m sq ft (~32m sq ft recognized as revenue up to FY08) c) all projects undertaken will be completed largely as per schedule though, we expect risk of delays; d) average cost of capital of 14%; and e) tax rate of 28%. With stock already trading at a significant premium to NAV, above our estimate we believe upsides are priced in at current valuations.

Risks

We rate Unitech Medium Risk. Key reasons for Medium Risk rating are: 1) low-risk/high-return business model 2) pan-India land bank with initiatives to reduce weightage on NCR 3) relatively healthy cash flows. Main company-specific risks include: 1) Developments on monetization of retail and hotel assets similar to IT Parks, could result in healthy cash flows and should positively drive profitability and valuations 2) any developments providing higher visibility on execution of large SEZ projects not included in our NAV estimate is likely to create long-term value 3) Any interest rate reversals, would positively impact earnings growth assumption. If any of these risk factors plays out, Unitech's share price is likely to have difficulty attaining our target price.

Appendix A-1

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Unitech (UNTE.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)



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