

Prestige Estates Projects

1 January 2013

Reuters: PREG.BO; Bloomberg: PEPL IN

Improving Earnings Visibility; Upgrade Target Price

Our interaction with the management of Prestige Estates Projects (PEPL) and channel checks indicated that 3QFY13 was another strong quarter for the company. PEPL is likely to achieve ~Rs7bn of pre-sales (up 48% YoY) in 3QFY13E, thereby pushing up our pre-sales estimate by 11% to Rs31bn and earnings estimate by 5% for FY13E. Further, 3QFY13 is believed to have witnessed four major projects crossing their threshold limits, leading to a 100% QoQ jump in revenue. Exit rentals are likely to touch Rs2.5bn in FY13E with Exora C Block (0.21mn sq ft), Cessna Block 7 (0.3mn sq ft) and Vijaya Mall (0.3mn sq ft) likely to be ready for fit-outs in 4QFY13E. In addition, the management indicated that it is on the verge of leasing 1mn sq ft by the end of FY13E in Shantiketana and Exora B Block, which would act as a positive trigger. We have retained our Buy rating on PEPL with a revised target price of Rs210 from Rs174 earlier.

Strong momentum in pre-sales continues: The company launched 2mn sq ft of new projects (Casabella -0.26mn sq ft, Brooklyn Heights -0.1mn sq ft and Royale Gardens-1.6mn sq ft) in Bangalore during 3QFY13. The projects were launched at healthy prices and our channel checks indicated a good response from customers. To cite an example, PEPL raised prices by 6% and 15% for Ferns Residency and Brooklyn Heights, respectively. We expect Rs3bn of pre-sales from these projects and overall pre-sales of Rs7bn in 3QFY13E. Hence, we have increased our pre-sales estimate by 11% to Rs31bn for FY13E.

Exit rentals to touch Rs2.5bn by FY13E: PEPL has 3.5mn sq ft of area leased out, generating around Rs1bn of rental revenue in 1HFY13. We expect PEPL's exit rentals to touch Rs2.5bn by the end of FY13E from the current level of Rs2.0bn with Exora C Block (0.21mn sq ft), Cessna Block 7 (0.3mn sq ft) and Vijaya Mall (0.3mn sq ft) likely to be ready for fit-outs during 4QFY13E. In addition to this, the management has indicated that it is on verge of leasing 1mn sq ft by the end of FY13E in Shantiniketan and Exora B Block, which would act as a positive trigger and aid further in reducing debtors.

Revenue recognition to jump 2x QoQ: 3QFY13 is believed to have witnessed four major projects (Park View, Kingfisher Tower, Sunny Side and Tranquility) crossing their threshold limit of revenue recognition, resulting in a jump in revenue by 2x (Rs5bn/quarter) sequentially. We expect PEPL to report Rs5bn of revenue/quarter from 3QFY13E for atleast another eight quarters driven by strong pre-sales in FY12 and FY13E. This is likely to result in revenue CAGR of 53% over FY12-FY14E in our view, the highest compared to peers.

Valuation: We have now factored in higher pre-sales for FY13 and also higher property prices in Bangalore market. Further, we have reduced our discount to NAV from 20% to 15% - given the further improvement in cash flow - which increases our NAV to Rs245/share (from Rs218/share earlier). We have retained our Buy rating on PEPL with a revised TP of Rs210 (15% discount to NAV) from Rs174 earlier.

BUY
Sector: Real Estate

CMP: Rs179

Target Price: Rs210

Upside: 17%

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Key Data

Current Shares O/S (mn)	328.1
Mkt Cap (Rsbn/US\$bn)	59.2/1.1
52 Wk H / L (Rs)	192/68
Daily Vol. (3M NSE Avg.)	459,942

Price Performance (%)

	1 M	6 M	1 Yr
Prestige Estates	9.6	54.5	153.0
Nifty Index	0.4	11.8	27.6

Source: Bloomberg

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	10,244	15,431	10,523	16,974	24,699
EBITDA	2,234	3,738	2,966	4,930	7,355
Net profit	1,502	1,709	826	2,159	3,627
EPS (Rs)	4.6	5.2	2.5	6.6	11.1
EPS growth (%)	94.3	13.8	(51.7)	161.4	68.0
EBITDA margin (%)	21.8	24.2	28.2	29.0	29.8
PER (x)	39.1	34.4	71.1	27.2	16.2
P/BV (x)	7.7	2.8	2.7	2.5	2.2
EV/EBITDA (x)	32.7	18.7	25.3	15.4	10.5
RoCE (%)	7.6	9.7	5.8	9.4	13.7
RoE (%)	21.7	11.9	3.9	9.7	14.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
9 April 2012	Buy	106	143
13 April 2012	Buy	120	143
10 July 2012	Buy	121	143
1 August 2012	Buy	112	143
18 September 2012	Buy	121	143
4 October 2012	Hold	133	143
31 October 2012	Buy	149	174

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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