

PHOENIX MILLS

REAL ESTATE

20 NOV 2017

Quarterly Update

BUY

Target Price: Rs 605

Rental renewals, acquisitions to drive growth

Rental business: Rental income collectively grew 9% YoY, despite slower consumption growth of 4% YoY (vs. 19% YoY in Q1), on account of refurbishment of 50k sf at High Street Phoenix (HSP). **Development business** remained muted with **new sales weak at Rs 0.1 bn** due to **no new launches**, with **collections declining to Rs 0.3 bn** (0.6 bn in Q1).

Outlook: Visibility on growth in the mid-term remains strong, driven by (1) rental renewals (~1.8 msf/~35% of its leasable area up for renewal over FY18-20) at significantly higher Minimum Guarantees (MG) with better revenue share terms, (2) **Chennai Palladium** (0.22 msf), (3) addition of Pune mall to its portfolio & (4) CPPIB[^] platform with capital commitments of ~Rs 14 bn to be deployed for growth. **Development business can generate net cash flow of Rs 25-30 bn over next 5-6 years**, which could be used to fund growth/ deleveraging. Maintain **BUY**.

CMP : Rs 516
Potential Upside : 17%

MARKET DATA

No. of Shares : 153 mn
Free Float : 37%
Market Cap : Rs 79 bn
52-week High / Low : Rs 598 / Rs 285
Avg. Daily vol. (6mth) : 121,558 shares
Bloomberg Code : PHNX IB Equity
Promoters Holding : 63%
FII / DII : 30% / 2%

Key highlights

- ♦ **High Street Phoenix (HSP):** Consumption declined 10% YoY in Q2 (vs. 11% YoY growth in Q1) on account of refurbishment of 50,000 sf of area previously occupied by Pantaloons – as a result occupancy level declined marginally to 86% (vs 94% in Q2FY17). This area is expected to become operational in Q3FY18. Average rentals increased 15% YoY to Rs 351 (vs. 305 psf p.m in Q2FY17) as renewal cycle continued at HSP during H1FY18
- ♦ **Strong rental income growth across Market City malls in Q2:** Pune (up 17% YoY), Bangalore (up 18% YoY), Kurla (up 18% YoY) and Chennai (up 5% YoY)
- ♦ **Pune Mall:** PHNX acquired a ~15 acre land parcel in Wakad (west Pune) for Rs 1.85 bn under CPPIB platform. The area will be used for a **retail asset with total development potential of 1 msf** (additional 0.8 msf to be developed subsequently) and will cater to the strong commercial catchment in the area (~30 msf of commercial space within 10 km radius). Total project cost for the retail project is expected to be **Rs 7.5 bn (including land acquisition) and be completed within 4-5 years**. Expect to break ground on this project within 6 months post receipt of approvals.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	17,795	18,246	17,791	18,497
Adj PAT (Rs mn)	1,224	1,910	2,106	2,580
EPS (Rs)	8.0	12.5	13.8	16.9
Change YOY (%)	(10.4)	56.1	10.3	22.5
Net Debt (Rs mn)	34,602	32,730	23,632	21,852
Networth (Rs mn)	20,194	21,871	30,796	32,861
RoE (%)	6.6	9.1	8.0	8.1
RoCE (%)	10.6	11.6	10.4	10.5
P/E (x)	64.5	41.3	37.5	30.6
P/B (x)	3.9	3.6	2.6	2.4

Source: Company, Axis Capital [^]CPPIB: Canadian Pension Plan Investment Board

Key drivers - Rental income

(Rs mn)	Q2'18	Q2'17	% YoY	Q1'18	% QoQ
HSP	713	702	2%	730	-2%
Pune	332	284	17%	338	-2%
Bengaluru	311	263	18%	313	-1%
Kurla	271	230	18%	266	2%
Chennai	343	326	5%	343	0%

Price performance

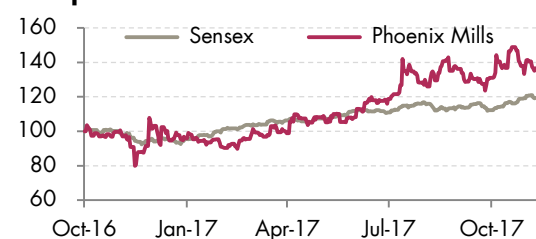


Exhibit 1: Results update – (Consolidated)

(Rs. mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	Mar-18	Mar-17	% Chg
Net Sales	3,706	4,911	(24.5)	3,959	(6.4)	17,791	18,246	(2.5)
EBIDTA	1,785	2,312	(22.8)	1,760	1.4	7,991	8,469	(5.7)
Other income	149	83	79.7	156	(4.6)	542	472	15.0
PBIDT	1,934	2,395	(19.3)	1,917	0.9	8,533	8,941	(4.6)
Depreciation	510	477	7.0	475	7.3	2,185	1,953	11.9
Interest	857	1,105	(22.5)	901	(4.9)	3,571	4,230	(15.6)
PBT	567	813	(30.2)	541	4.8	2,777	2,758	0.7
Tax	267	359	(25.6)	266	0.2	944	858	10.1
PAT	423	543	(22.1)	398	6.3	1,833	1,900	(3.5)
Share of profit/ (loss) in assoc.	123	(1)	-	124	(0)	273	10	-
Rep. PAT	423	543	(22.1)	398	6.3	2,106	1,910	10.3
No. of shares (mn)	153	153	-	153	-	153	153	-
EBIDTA margin (%)	48.2	47.1	-	44.5	-	44.9	46.4	-
Adj. EPS - annualized (Rs.)	11.1	14.2	(22.1)	10.4	6.3	55.1	49.9	10.3

Source: Company, Axis Capital Note: Above financials are as per Ind AS.

Other highlights

- ♦ **Gross debt increased by ~Rs 3.3 bn** to Rs 40 bn (vs 36 bn in Q1) led by additional debt in **PML standalone** (~Rs 1.1 bn), **Classic Mall Development** (PMC Chennai SPV: ~Rs 1 bn) and **Vamona Developers** (PMC Pune SPV: ~Rs 0.6 bn). Of the total gross debt, ~Rs 30 bn pertains to retail assets, Rs 7 bn towards hospitality and the balance towards commercial assets. **Cost of debt declined** by ~20 bps to 9.3% (vs 9.5% as on Jun'17), with the company expecting to achieve an effective cost of debt of ~8.6% by Mar'18.
- ♦ **Hotel St. Regis:** Room revenue increased 15% (vs 27% YoY in Q1), driven by 10% increase in ARR at Rs 10,622/night & steady occupancy levels of 72% (vs. 69% in Q2FY17).
- ♦ **Development portfolio:** Revenue recognition from development declined 42% QoQ to Rs 0.3 bn (vs. 0.6 bn in Q1FY18), as outlook for the residential business remains muted. Pre-sales made at Tower 6 (One Bangalore West) and Kessaku can fund residual construction cost to be incurred.
- ♦ **Update on JV with CPPIB:** The platform has the ability to deploy ~Rs 35 bn (~Rs 17 bn of equity with the balance taken through leverage), which can develop 3 to 4 large retail assets.
- ♦ **Chennai Palladium:** The mall opened in October 2017 and has received a good response from customers. PHNX expects it to be fully operational by December 2017.

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	17,795	18,246	17,791	18,497
Other operating income	-	-	-	-
Total operating income	17,795	18,246	17,791	18,497
Cost of goods sold	(2,848)	(2,466)	(2,131)	(1,789)
Gross profit	14,947	15,780	15,661	16,708
<i>Gross margin (%)</i>	<i>84.0</i>	<i>86.5</i>	<i>88.0</i>	<i>90.3</i>
Total operating expenses	(7,079)	(7,310)	(7,670)	(8,516)
EBITDA	7,869	8,469	7,991	8,192
<i>EBITDA margin (%)</i>	<i>44.2</i>	<i>46.4</i>	<i>44.9</i>	<i>44.3</i>
Depreciation	(1,773)	(1,953)	(2,185)	(2,195)
EBIT	6,096	6,516	5,805	5,997
Net interest	(4,425)	(4,230)	(3,571)	(3,183)
Other income	302	472	542	624
Profit before tax	1,974	2,758	2,777	3,439
Total taxation	(767)	(858)	(944)	(1,203)
<i>Tax rate (%)</i>	<i>38.9</i>	<i>31.1</i>	<i>34.0</i>	<i>35.0</i>
Profit after tax	1,207	1,900	1,833	2,235
Minorities	-	-	-	-
Profit/ Loss associate co(s)	17	10	273	345
Adjusted net profit	1,224	1,910	2,106	2,580
<i>Adj. PAT margin (%)</i>	<i>6.9</i>	<i>10.5</i>	<i>11.8</i>	<i>14.0</i>
Net non-recurring items	(387)	-	-	-
Reported net profit	836	1,910	2,106	2,580

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	306	306	306	306
Reserves & surplus	19,888	21,565	30,490	32,554
Net worth	20,194	21,871	30,796	32,861
Borrowing	36,233	33,542	29,068	26,978
Other non-current liabilities	1,080	481	481	481
Total liabilities	62,293	58,691	63,142	63,116
Gross fixed assets	50,366	50,808	50,808	50,808
Less: Depreciation	(6,817)	(8,770)	(10,955)	(13,150)
Net fixed assets	43,549	42,038	39,853	37,658
Add: Capital WIP	1,949	3,277	3,277	3,277
Total fixed assets	45,497	45,316	43,131	40,936
Total Investment	4,021	5,223	5,223	5,223
Inventory	13,240	9,455	11,346	13,615
Debtors	2,786	1,470	1,764	2,117
Cash & bank	1,630	812	5,436	5,126
Loans & advances	1,783	1,822	2,186	2,624
Current liabilities	9,464	9,290	9,827	10,407
Net current assets	10,844	4,812	11,448	13,617
Other non-current assets	1,931	3,340	3,340	3,340
Total assets	62,293	58,691	63,142	63,116

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,974	2,758	2,777	3,439
Depreciation & Amortisation	1,773	1,953	2,185	2,195
<i>Chg in working capital</i>	<i>2,368</i>	<i>5,214</i>	<i>(2,013)</i>	<i>(2,479)</i>
Cash flow from operations	7,649	12,891	5,034	4,510
<i>Capital expenditure</i>	<i>(5,760)</i>	<i>(3,181)</i>	-	-
Cash flow from investing	(6,954)	(3,912)	542	624
<i>Equity raised/ (repaid)</i>	<i>2,865</i>	<i>150</i>	<i>7,240</i>	-
<i>Debt raised/ (repaid)</i>	<i>2,671</i>	<i>(2,691)</i>	<i>(4,474)</i>	<i>(2,090)</i>
<i>Dividend paid</i>	<i>(245)</i>	<i>(382)</i>	<i>(421)</i>	<i>(516)</i>
Cash flow from financing	867	(7,153)	(1,226)	(5,789)
Net chg in cash	1,562	1,826	4,350	(656)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	8.0	12.5	13.8	16.9
CEPS (Rs)	17.1	25.2	28.0	31.2
DPS (Rs)	1.6	2.5	2.8	3.4
Dividend payout ratio (%)	29.3	20.0	20.0	20.0
GROWTH				
Net sales (%)	7.6	2.5	(2.5)	4.0
EBITDA (%)	3.3	7.6	(5.7)	2.5
Adj net profit (%)	(5.3)	56.1	10.3	22.5
FDEPS (%)	(10.4)	56.1	10.3	22.5
PERFORMANCE				
RoE (%)	6.6	9.1	8.0	8.1
RoCE (%)	10.6	11.6	10.4	10.5
EFFICIENCY				
Asset turnover (x)	0.3	0.3	0.3	0.3
Sales/ total assets (x)	0.3	0.3	0.3	0.3
Working capital/ sales (x)	0.6	0.4	0.3	0.4

Current ratio (x)	2.1	1.5	2.2	2.3
Interest cover (x)	1.4	1.5	1.6	1.9

VALUATION				
PE (x)	64.5	41.3	37.5	30.6
EV/ EBITDA (x)	14.4	13.2	12.8	12.3
EV/ Net sales (x)	6.4	6.1	5.8	5.4
PB (x)	3.9	3.6	2.6	2.4
Dividend yield (%)	0.3	0.5	0.5	0.7
Free cash flow yield (%)	2.4	12.3	6.4	5.7

Source: Company, Axis Capital

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