

Real Estate

2QFY19E Results Preview

11 Oct 2018

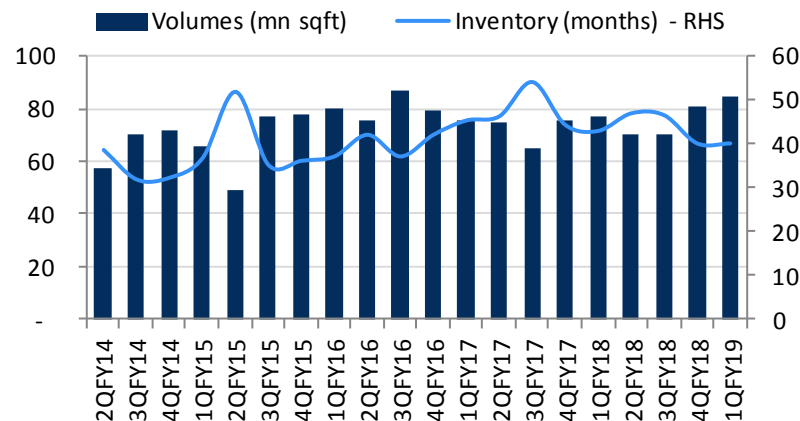
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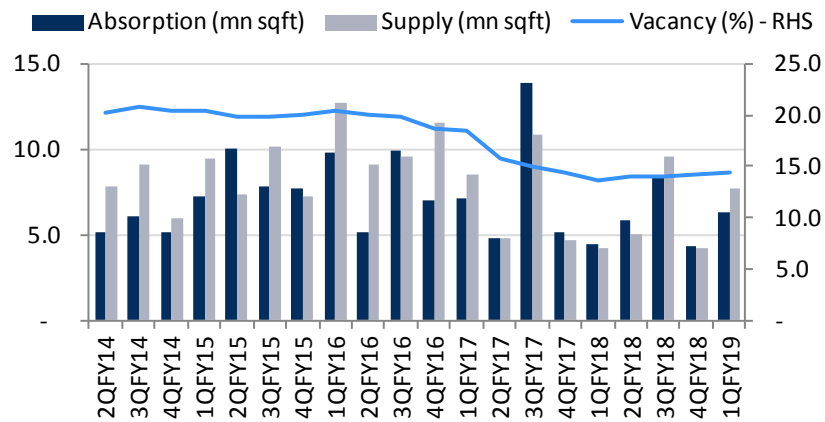
Marginal recovery, challenges persist

- Over last 3M, Nifty Realty index has corrected 25%. Reversal of interest rate cycle and tightening of liquidity to NBFCs has hit sentiments. Whilst a large part of our coverage universe is organized, slowing down of NBFC lending may delay pre-sales recovery. Cost of funding for developers may also increase for land acquisitions as NBFC/CPs funds dry up.
- Negatives:** Mortgage rate reversals will impact EMI affordability for the sector. Luxury demand may see a larger demand destruction as a 100bps likely increase in mortgage rate (over next 1yr) may result in 10-12% increase in property costs. **Positives:** RERA led market share gains will help organized developers with stronger balance sheets. The deferred payment plans and interest subvention schemes are also aiding pre-sales for players. Developers will have to focus on affordable luxury projects to drive cash flows. Sobha, Prestige, Brigade, Kolte are well placed. DLF to Oberoi are worst impacted.
- Amongst our coverage universe we expect DLF/Oberoi/Brigade to deliver strong results YoY. Prestige/ Sobha/ Kolte will deliver weak profitability growth. We expect prolonged recovery.
- During 2QFY19E, our coverage universe aggregate Revenue/EBIDTA will grow 5.7/(14.2%) YoY. PAT will grow by 72.6% YoY on the back of strong DLF results.
- Change in rating:** With recent price correction we upgrade Kolte Patil to BUY from NEUTRAL.

Residential: Affordable Housing Drives Volumes Recovery



Commercial Office — Absorption Healthy, Vacancy Stable



Source: HDFC sec Inst Research, Commercial - Cushman Wakefield, Residential - Liases Foras. Commercial/Residential data takes into account Top 6 Indian Cities of MMR, NCR, Bengaluru, Chennai, Pune and Hyderabad

Muted performance

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
DLF	AVG	<ul style="list-style-type: none"> Revenue (under project completion) to grow 3.5% QoQ EBIDTA margins may expand 242bps QoQ to 22.9% as high value ready inventory gets sold Net profit to increase 0.7% QoQ to Rs 1.5bn 	<ul style="list-style-type: none"> Sales momentum in residential segment Update on inventory in Phase V (high value ~50% of total) Timeline for project completions in FY19-20E
Oberoi Realty	BAD	<ul style="list-style-type: none"> We expect a 29.0% QoQ revenue de-growth EBIDTA margins to contract 156bps QoQ to 50.4% Net profit to decline 29.6% QoQ to Rs 2.2bn 	<ul style="list-style-type: none"> Update on project planned in Thane Update on increment additions in Commerz -II Momentum in Sky City and 360 West
Prestige Estates	BAD	<ul style="list-style-type: none"> We expect 3.2% QoQ growth in revenue EBIDTA margins to remain muted at 27.5% Net profit to decline 9.9% QoQ 	<ul style="list-style-type: none"> Pace of new launches Outlook on debt levels Update on platform and funding deals
Sobha	BAD	<ul style="list-style-type: none"> We estimate 3.0% QoQ de-growth in revenue EBIDTA margins may be stable QoQ at 21.9% Net profit to de-grow 7.3% QoQ 	<ul style="list-style-type: none"> Pre-sales momentum on premium projects Debt levels and pace of land monetization Outlook on commercial capex

Muted performance

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Brigade Enterprises	BAD	<ul style="list-style-type: none"> ▪ We expect revenue de growth of 9.4% QoQ ▪ Blended EBIDTA margins may expand 223bps to 27.9% QoQ ▪ Net Profit to decline 10% QoQ 	<ul style="list-style-type: none"> ▪ Outlook on debt levels and asset capex ▪ Update on strategic investor for hospitality segment ▪ New launches and pre-sales
Kolte Patil	BAD	<ul style="list-style-type: none"> ▪ Revenue to decline 22.0% QoQ ▪ EBIDTA margin contraction by 757bps QoQ to 27.1% ▪ Net profit to de-grow 29.6% QoQ 	<ul style="list-style-type: none"> ▪ Update on planned launches ▪ Update on Mumbai and Bengaluru targets

Financial summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	1Q FY19	2Q FY18
DLF	15.60	3.5	(1.7)	3.57	15.8	(54.6)	22.9	242.8	(2,666.2)	1.74	0.7	1,125.0	1.0	1.0	0.1
Oberoi Realty	6.31	(29.0)	107.8	3.18	(31.1)	94.2	50.4	(155.9)	(353.4)	2.18	(29.6)	108.8	6.0	8.5	2.9
Prestige Estates	8.88	3.2	(19.1)	2.44	(4.6)	1.3	27.5	(223.6)	553.6	0.29	(9.9)	(64.1)	0.8	0.9	2.2
Sobha Limited	5.80	(3.0)	(10.3)	1.27	(3.0)	1.5	21.9	-	254.9	0.49	(7.3)	(3.0)	5.1	5.5	5.3
Brigade Enterprises	6.34	(9.4)	30.7	1.77	(1.5)	31.7	27.9	222.6	21.7	0.57	(10.0)	38.9	4.2	4.6	3.0
Kolte-Patil Developers	3.05	(22.0)	33.6	0.83	(39.0)	16.3	27.1	(757.2)	(404.6)	0.27	(29.6)	(10.6)	3.5	5.0	3.9
Aggregate	45.97	(7.0)	5.7	13.06	(11.3)	(14.2)	28.4	(137.1)	(659.7)	5.53	(17.2)	72.6			

Source: Company, HDFC sec Inst Research

Financial summary – Change in TP

Company	Old Rating	New Rating	Previous TP (Rs/sh)	New TP (Rs/sh)	Rating Change – Comments
DLF	BUY	BUY	279	257	Due to net debt adjustments, reduction in other monetized business valuation
Oberoi Realty	BUY	BUY	598	552	NAV premium cut from 30% to 20%. Largely on account of high mortgage rate and saturation in pricing
Prestige Estates	BUY	BUY	316	317	Annual report adjustments
Sobha Limited	BUY	BUY	644	632	Increase in unpaid land cost
Brigade Enterprises	BUY	BUY	299	299	No change
Kolte-Patil Developers	NEUTRAL	BUY	315	314	Due to correction upgrade to BUY from NEU. Maintain TP

Source: HDFC sec Inst Research

Peer set comparison

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
DLF	292	164	BUY	257	(1.4)	4.5	6.8	(120.8)	36.6	23.9	18.2	32.7	27.7	(0.8)	2.2	3.4
Oberoi Realty	136	375	BUY	552	13.5	33.4	36.5	27.7	11.2	10.3	21.2	9.5	7.8	7.8	16.7	14.6
Prestige Estates	67	179	BUY	317	9.9	8.5	8.7	18.1	20.9	20.6	12.0	13.3	12.7	10.2	9.2	9.0
Sobha Limited	37	391	BUY	632	22.9	28.0	31.7	17.1	14.0	12.4	11.4	9.6	8.7	8.0	9.3	9.8
Brigade Enterprises	26	193	BUY	299	11.1	11.7	14.3	17.4	16.4	13.5	10.3	9.8	8.7	6.9	6.8	7.8
Kolte-Patil Developers	17	220	BUY	314	16.0	19.3	23.1	13.7	11.4	9.5	7.4	6.8	5.8	13.4	14.1	15.0

Source: Company, HDFC sec Inst Research

Financial summary – Change in Estimates

DLF Limited (C)	FY19E			FY20E			
	Old	New	%	Old	New	%/(bps)	
Revenues (Rs mn)	80,136	41,854	(47.8)	84,657	44,658	(47.2)	We have adjusted for recognition on project completion basis (IND AS 115)
EBIDTA(Rs mn)	38,113	12,882	(66.2)	40,429	15,409	(61.9)	We have adjusted for DCCDL(earlier line by line consolidation) which will now come directly as one line item (66.7% share) in net profits
EBIDTA Margins (%)	47.6	30.8	(35.3)	47.8	34.5	(27.8)	
APAT (Rs mn)	4,081	7,974	95.4	6,500	12,179	87.4	Profits from associates: Rs 10.4/11.5 in FY19/20E forms bulk of the profits

Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH
Rating Definitions

BUY	:Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL	:Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

Disclosure:

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