

Real Estate

3QFY19E Results Preview

11 Jan 2019

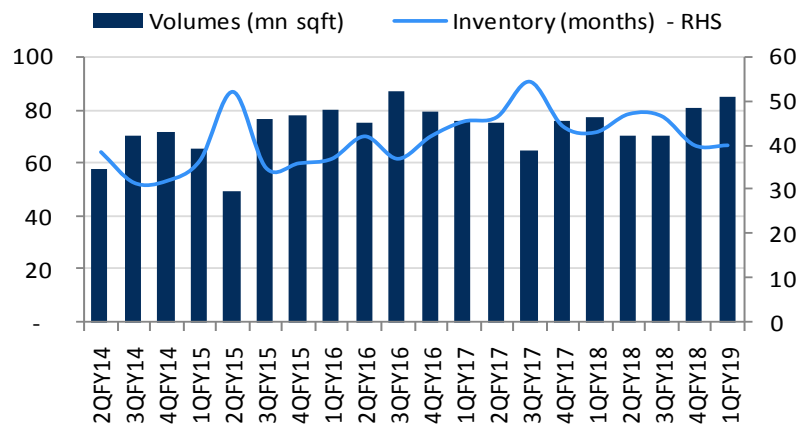
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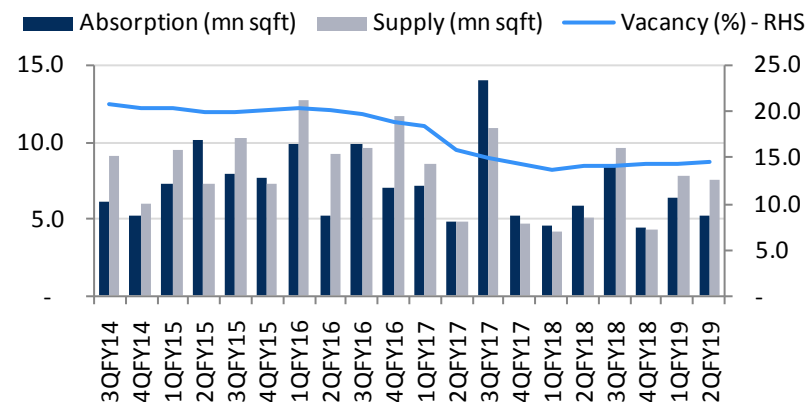
Gradual recovery

- Over last 1-Yr, Nifty Realty index has corrected 36%. Large part of this fall has been on back of tepid real estate demand, weak pricing power and higher interest rate. The fall was further accentuated by NBFC liquidity issues and its impact on overall lending to real estate sector.
- Negatives:** NBFC liquidity issues in the interim has been well handled by financial ecosystem though over long term sector will become more regulated. Easy liquidity access to developers will now be challenging and we would see some defaults as repayment moratorium ends. Ever greening will now be thing of past. **Positives:** Likely reduction in GST rate of 12%, extension of CLSS scheme and sales activation (freebies, waivers on registration, stamp duty etc) will aid absorption. Affordable luxury projects will be key drivers of volume as demand is largely end user driven now. Sobha, Prestige, Brigade, Kolte are well placed. DLF to Oberoi are worst impacted.
- Amongst our coverage universe we expect strong results across companies viz. DLF/Oberoi/Kolte/Prestige/Brigade & Sobha. IND-AS 115 is reversals is aiding financial performance.
- During 3QFY19E, our coverage universe aggregate Revenue/EBIDTA will grow 27.2/7.7 YoY. PAT (ex DLF) will grow by 36.0% YoY whereas DLF will post a profit of Rs 3.7bn vs a loss of 4.2bn in 3QFY18.
- Change in rating, Top Picks: No Change in Rating. Minor TP changes to factor in Dec-20E valuation roll over. Top Picks: Oberoi realty & Prestige estates.**

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

Growth Recovery

COMPANY	3QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
DLF	GOOD	<ul style="list-style-type: none"> Revenue (under project completion) to grow 13.3% YoY EBIDTA margins to remain flat QoQ at 30.9% (prior period not comparable due to DCCDL contributing to EBITDA in 3QFY18) Net profit of Rs 3.7bn vs a adjusted loss of Rs 4.2bn in 3QFY18 	<ul style="list-style-type: none"> Sales momentum in residential segment Update on high value inventory in Phase V Update on QIP timeline
Oberoi Realty	GOOD	<ul style="list-style-type: none"> We expect strong 87.6% YoY revenue growth EBIDTA margins to contract 870bps YoY to 45.4% as residential contribution increases Net profit to increase 28.9% YoY to Rs 1.6bn 	<ul style="list-style-type: none"> Update on project planned in Thane Update on timeline for Commerz -III Momentum in Sky City and 360 West
Prestige Estates	GOOD	<ul style="list-style-type: none"> We expect 9.7% YoY growth in revenue EBIDTA margins to increase by 90.7bps YoY to 20.9% Net profit to increase 22.6% YoY 	<ul style="list-style-type: none"> Pace of new launches Outlook on debt levels Update on unsold inventory
Sobha	GOOD	<ul style="list-style-type: none"> We estimate 27.8% YoY growth in revenue EBIDTA margins may be decline 176.8bps YoY to 18.1% Net profit to grow 20.9% YoY 	<ul style="list-style-type: none"> Update on APMC project Debt levels and pace of land monetization Outlook on commercial capex

Growth recovery

COMPANY	3QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Brigade Enterprises	GOOD	<ul style="list-style-type: none"> ▪ We expect revenue growth of 81.1% YoY ▪ Blended EBIDTA margins may contract 1,026bps to 27.3% QoQ ▪ Net Profit to grow 71.2% YoY 	<ul style="list-style-type: none"> ▪ Outlook on debt levels and asset capex ▪ Update on realization trends ▪ New launches and pre-sales
Kolte Patil	GOOD	<ul style="list-style-type: none"> ▪ Revenue to grow 31.2% YoY ▪ EBIDTA margin contraction by 480bps YoY to 21.1% ▪ Net profit to grow 76.3% YoY 	<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)		
	3Q FY19E	QoQ (%)	YoY (%)	3Q FY19E	QoQ (%)	YoY (%)	3Q FY19E	QoQ (%)	YoY (%)	3Q FY19E	QoQ (%)	YoY (%)	3Q FY19E	2Q FY19	3Q FY18
DLF	19.19	(10.3)	13.3	5.92	(10.2)	(15.5)	30.9	4.1	(1,054.4)	3.72	(0.8)	(188.9)	2.1	2.1	(2.3)
Oberoi Realty	6.68	12.9	87.6	3.03	2.5	57.4	45.4	(458.5)	(870.3)	1.55	(27.5)	28.9	4.3	5.9	3.3
Prestige Estates	14.0	5.5	9.7	2.92	(20.3)	14.7	20.9	(678.0)	90.7	1.10	13.3	22.6	2.9	2.6	2.4
Sobha Limited	8.85	34.3	27.8	1.60	14.2	16.5	18.1	(318.0)	(176.8)	0.65	23.2	20.9	6.8	5.5	5.6
Brigade Enterprises	7.68	(7.1)	81.1	2.10	(4.2)	31.6	27.3	80.4	(1,026.0)	0.84	22.4	71.2	6.1	5.0	3.6
Kolte-Patil Developers	3.50	66.0	31.2	0.74	74.1	6.9	21.1	98.6	(480.3)	0.49	386.3	76.3	6.5	1.3	3.7
Aggregate	59.85	4.1	27.2	16.31	(5.3)	7.7	27.2	(271.6)	(493.6)	8.34	2.2	(1,165.7)			

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	253	267	Change due to minor changes in assumptions for NAV calculation
Oberoi Realty	BUY	BUY	552	543	Change due to minor changes in assumptions for NAV calculation
Prestige Estates	BUY	BUY	309	314	Change due to minor changes in assumptions for NAV calculation
Sobha Limited	BUY	BUY	630	620	Change due to minor changes in assumptions for NAV calculation
Brigade Enterprises	BUY	BUY	306	303	Change due to minor changes in assumptions for NAV calculation
Kolte-Patil Developers	BUY	BUY	314	316	Change due to minor changes in assumptions for NAV calculation

Source: HDFC sec Inst Research

Financial summary – Change in Estimates

Oberoi Limited (C)	FY19E			
	Old	New	%	
Revenues (Rs mn)	28,767	28,767	-	We have reduced the associate profits from the Worli Project as revenue recognition expected to be postponed to FY20E
EBIDTA(Rs mn)	14,027	14,027	-	
EBIDTA Margins (%)	48.8	48.8	-	
APAT (Rs mn)	12,157	9,310	(23.4)	

Source: Company, HDFC sec Inst Research

Prestige Estates (C)	FY19E			
	Old	New	%	
Revenues (Rs mn)	50,316	50,316	0.0	EBITDA margins to be higher on account of treatment of period costs under IND AS 115 for re-recognition of reversed sales
EBIDTA(Rs mn)	10,278	12,172	18.4	
EBIDTA Margins (%)	20.4	24.2	- 376.5	
APAT (Rs mn)	3,164	3,727	17.8	

Source: Company, 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	326	183	BUY	267	7.4	8.9	9.3	24.8	20.5	19.6	21.2	21.4	21.8	3.7	4.3	4.4
Oberoi Realty	167	460	BUY	543	25.6	36.4	41.2	18.0	12.6	11.2	11.9	9.8	8.9	13.1	15.0	15.2
Prestige Estates	83	221	BUY	314	9.9	9.3	11.2	22.2	23.8	19.8	11.7	12.8	11.0	12.2	9.5	11.0
Sobha Limited	45	476	BUY	620	26.2	31.5	31.0	18.2	15.1	15.4	11.4	9.9	9.9	8.7	9.8	8.9
Brigade Enterprises	28	206	BUY	303	24.3	21.7	19.0	8.5	9.5	10.8	7.2	7.6	7.7	13.6	10.9	8.8
Kolte-Patil Developers	20	262	BUY	316	19.4	23.1	22.4	13.5	11.3	11.7	7.8	6.7	6.4	14.1	15.0	13.0

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

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