

Company update and
target price revision

Real Estate

Target price: Rs804

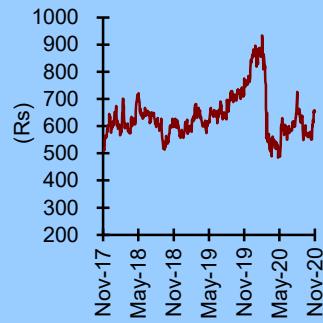
Target price revision
Rs804 from Rs780

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	59.1	59.1	45.6
Institutional investors	36.6	37.1	50.2
MFs and other	9.9	10.2	14.9
FIs/Banks/Ins	0.1	0.6	0.8
FII	26.6	26.3	34.5
Others	4.3	3.8	4.2

Source: NSE

Price chart



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INDIA

The Phoenix Mills

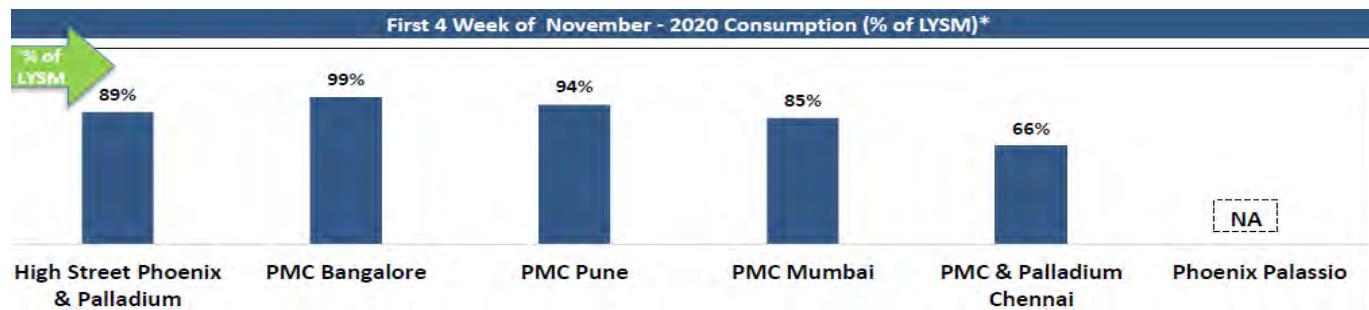
BUY
Maintain
Rs689

Potential fund infusion may usher in growth

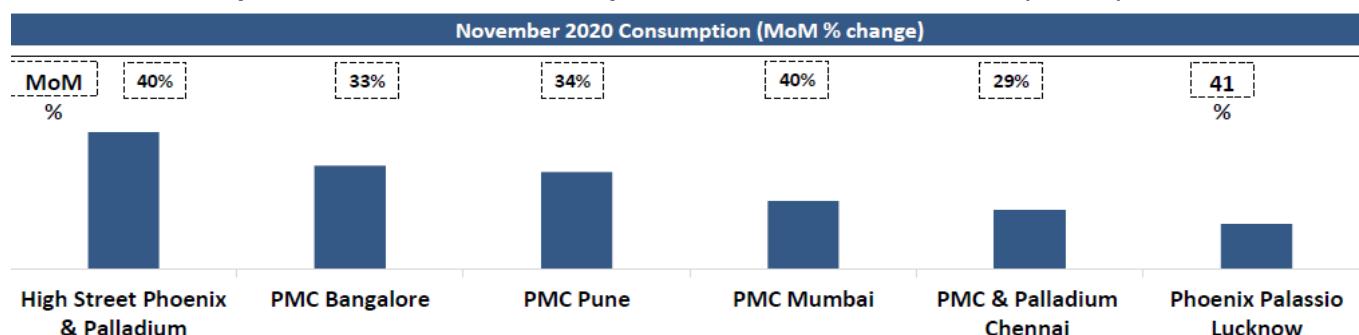
The Phoenix Mills (PHNX) has informed exchanges that the listed entity along with few of its SPVs has signed a non-binding term sheet with GIC Private Equity (PE) for the formation of a retail-led mixed-use platform. The assets include PHNX's Mumbai (Kurla) and Pune malls and Mumbai (Kurla) offices having a total leasable area of 3.36msf (2.33msf of malls and 1.03msf of offices) that generated FY20 NOI of Rs3.7bn. The indicative pre-money EV for these assets is Rs56-57bn or an equity value of Rs40-41bn (debt of Rs16bn as of Mar-20). This implies a cap rate of 6.6% at pre-Covid rentals which is commendable given 50% waiver in FY21E mall rentals. GIC PE has the option to initially acquire an equity stake of 26% in these SPVs and increase it to 35% in another 12 months which implies a potential equity investment of Rs10-13bn. We retain our BUY rating with a revised SoTP based target price of Rs804/share (earlier Rs780) as we roll forward to FY22E NAV.

- ▶ **Potential fund infusion may usher in growth:** The indicate pre-money EV for the potential transaction of Rs56-57bn (Isec EV of Rs42bn) implies a cap rate of 6.6% (6.1% for malls and 8.5% for offices) based on combined pre-Covid FY20 Net Operating Income (NOI) of Rs3.7bn. In our view, this is commendable considering that ready Grade A office assets in India command a cap rate of ~8% and is similar to the cap rate of 6.3% which PHNX achieved for the platform deal signed with CPPIB in April 2017. GIC PE may invest between Rs10-13bn in PHNX's SPVs (pre-money equity value of Rs40-41bn) which may further strengthen PHNX's balance sheet as it has cash reserves of Rs18.5bn as of Sep-20.
- ▶ **Festive season sees surge in consumption:** While Q2FY21 consumption was at 40-55% of previous year levels, consumption has picked up in Q3FY21 with the first four weeks of Nov-20 seeing consumption rising to 87% of the same period last year driven by increase in mall operating hours, resumption of F&B and onset of festive season. ~93% of PHNX's total area across malls is now operational. While rental waivers may result in PHNX incurring a 50% rental loss of Rs5.0bn in FY21E, the company expects rentals to revert back to 90% minimum guarantee from Q1FY22 as consumption stabilises.
- ▶ **Estimated rental income CAGR of 13% over FY20-25E:** At a portfolio level, PHNX will have ~11msf operational mall space by FY23-24E (6.9msf currently operational including Palassio, Lucknow). After accounting for COVID-19 induced revenue loss of Rs5.0bn in FY21, we expect PHNX to achieve a 13% rental income CAGR (ex-CAM) at a portfolio level over FY20-25E which may result in PHNX clocking over Rs19bn of rental income in FY25E vs. ~Rs10bn in FY20. Of the Rs19.2bn of estimated gross rental income in FY25E, PHNX share is ~75% or Rs14.4bn.

Market Cap	Rs118bn/US\$1.6bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	PHOE.BO/PHNX IN	Revenue (Rs bn)	19.4	10.5	18.8	21.7
Shares Outstanding (mn)	171.7	Rec. Net Income (Rs bn)	3.3	0.1	2.7	4.2
52-week Range (Rs)	934/484	EPS (Rs)	21.9	0.5	15.6	24.5
Free Float (%)	54.4	% Chg YoY	(20.5)	(97.7)	NM	56.7
FII (%)	34.5	P/E (x)	31.5	NM	44.2	28.2
Daily Volume (US\$/'000)	4,230	P/B (x)	2.8	2.5	2.4	2.2
Absolute Return 3m (%)	5.7	EV/E (x)	15.5	29.9	16.6	13.1
Absolute Return 12m (%)	(8.4)	Dividend yield (%)	0.5	0.6	0.6	0.6
Sensex Return 3m (%)	15.6	RoCE (%)	9.5	3.5	7.3	9.2
Sensex Return 12m (%)	9.5	RoE (%)	8.4	NM	4.8	7.4

Table 1: Consumption in first four weeks of November 2020 at 87% of same period last year (Rs mn)

Source: Company data, I-Sec research, *LYSM = Last Year Same Month

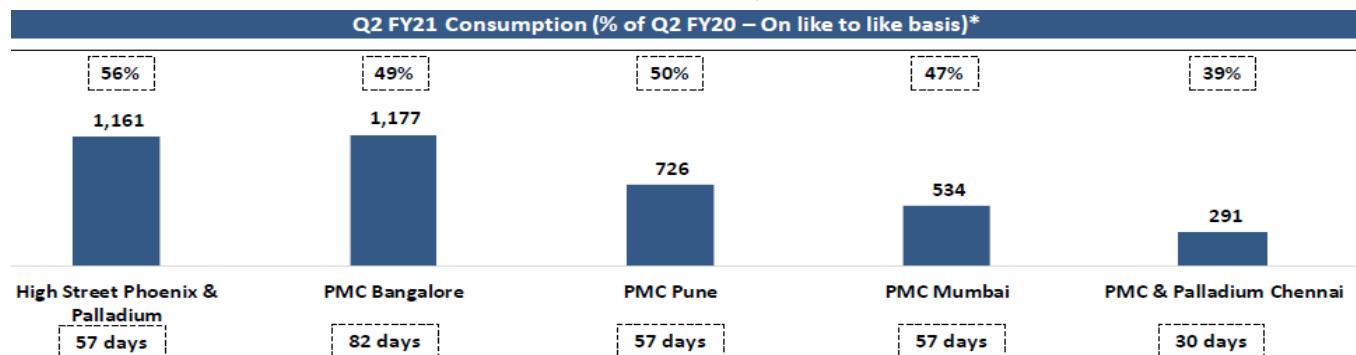
Table 2: Consumption in November 2020 is up 36% MoM over October 2020 (Rs mn)

Source: Company data, I-Sec research

Table 3: 93% of total area across malls was operational in November 2020

Month	Total Area (msf)	Permissible Area (msf)	Area Operational (msf)	Permissible Area Operational (%)
June 2020	5.96	1.35	1.13	84.1%
July 2020	6.90	1.74	1.54	88.8%
August 2020	6.90	4.10	3.66	89.0%
September 2020	6.90	4.92	4.58	93.1%
October 2020	6.90	5.46	4.91	89.8%
November 2020*	6.90	6.05	5.61	92.8%

Source: Company data, I-Sec research, *As on 28th November, 2020

Table 4: Q2FY21 consumption was 40-55% of Q2FY20 figures on like-to-like basis (Rs mn)**Table 5: Asset wise quarterly operating metrics**

Rs mn	Q2FY21	Q2FY20	YoY	H1FY21	H1FY20	YoY
Rental Income (ex-CAM)						
High Street Phoenix (HSP)	334	879	(62.0)	678	1,760	(61.5)
Bengaluru Market City	128	360	(64.4)	248	719	(65.5)
Pune Market City	136	427	(68.1)	261	859	(69.6)
Kurla Market City	87	320	(72.8)	174	644	(73.0)
Chennai Market City*	74	475	(84.4)	208	942	(77.9)
Lucknow Pallasio	37	-	NM	37	-	NM
Phoenix United, Bareilly	28	55	(49.1)	40	111	(64.0)
Phoenix United, Lucknow	37	79	(53.2)	59	156	(62.2)
Total	861	2,595	(66.8)	1,705	5,191	(67.2)
Asset EBITDA (including CAM)						
High Street Phoenix (HSP)	236	767	(69.2)	639	1,547	(58.7)
Bengaluru Market City	148	373	(60.3)	283	758	(62.7)
Pune Market City	138	436	(68.3)	256	876	(70.8)
Kurla Market City	96	332	(71.1)	174	654	(73.4)
Chennai Market City*	64	440	(85.5)	189	936	(79.8)
Lucknow Pallasio	37	-	NM	37	-	NM
Phoenix United, Bareilly	33	47	(29.8)	50	107	(53.3)
Phoenix United, Lucknow	25	74	(66.2)	52	146	(64.4)
Total	777	2,469	(68.5)	1,680	5,024	(66.6)

Source: Company data, I-Sec research, *Includes Palladium Chennai

Valuations & views

- We like PHNX because: (1) it has a strong brand recall and the market leader in malls across India (2) it has strong pipeline of projects and (3) it is a derivative play on the Indian consumption story.
- We have valued PHNX on SoTP basis with a combination of DCF-based NAV on FY20E basis assuming a cap rate of 8% for rental assets.
- **We retain our BUY rating with a revised target price of Rs804/share (earlier Rs780) as we roll forward to 1x FY22E NAV** which factors in recent QIP equity fund raise of Rs11bn. Our NAV factors in a one-time like-for-like loss of Rs5.0bn of rental income in FY21 across existing malls and 6-9 months delay in under construction assets.
- Key upside risks are: Higher than expected rental income growth across operational malls and under-construction malls achieving higher than estimated rental income on commencement of operations.
- Key downside risks are: Slowdown in discretionary spend hurting consumption and rental growth owing to COVID-19 induced slowdown, competing malls set to become operational near High Street Phoenix in the medium term and online retail channels.

Table 6: Key historical numbers and assumptions (including new assets)

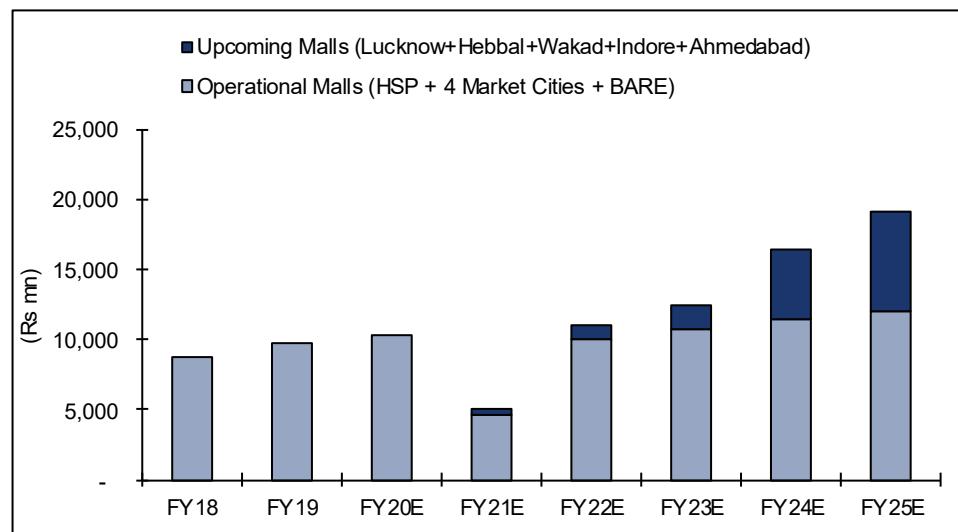
Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Rental properties							
Net rental income - 100% share	7,935	8,693	9,762	10,275	5,088	11,091	12,426
Net rental income - PHNX share	6,799	7,405	8,211	8,643	4,273	9,483	10,508

Source: Company data, I-Sec research estimates

Table 7: SoTP valuation

Project	PHNX FY22E GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix	43,282	253	25.8
Kurla (Offbeat Developers)	16,946	99	10.1
Pune (Vamona Developers)	20,685	121	12.3
Bengaluru East (Island Star) – for 51% stake	10,954	64	6.5
Pune Wakad (CPPIB-Island Star) – for 51% stake	3,085	18	1.8
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	7,726	45	4.6
Ahmedabad Market City (BSafal) – for 50% stake	2,317	14	1.4
Indore Market City (CPPIB-Island Star) – for 51% stake	2,053	12	1.2
Lucknow – Gomti Nagar Market City – for 100% stake	14,374	84	8.6
Bengaluru West (Palladium/Platinum)	7,840	46	4.7
Chennai (Classic Mall)	11,827	69	7.0
St. Regis Hotel (Pallazio)	11,360	66	6.8
BARE (Lucknow & Bareilly)	7,123	42	4.2
Others	8,267	48	4.9
Total GAV	167,840	980	100.0
Less: FY22E Net Debt (PHNX economic share)	30,284	177	
FY22E NAV	137,556	804	

Source: Company data, I-Sec research estimates

Chart 1 : Rental income CAGR of 13% over FY20-25E

Financial Summary (consolidated)

Table 8: Earnings statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	19,411	10,550	18,801	21,707
Operating Expenses	9,740	5,419	9,252	9,757
EBITDA	9,671	5,131	9,549	11,950
% margins	50%	49%	51%	55%
Depreciation & Amortisation	2,076	2,467	2,620	2,738
Interest expenses	3,478	3,769	4,048	4,024
Other Income	585	702	737	774
Exceptional items	78	-	-	-
PBT	4,624	(403)	3,618	5,961
Less: Taxes	1,221	(81)	724	1,192
PAT before				
Minority/Associate	3,403	(322)	2,894	4,769
Minority/Associate share	(56)	407	(219)	(576)
Net Income (Reported)	3,347	85	2,675	4,193

Source: Company data I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	19,117	30,788	29,463	32,057
of which cash & cash eqv.	1,407	13,427	12,352	15,197
Total Current Liabilities & Provisions	9,871	8,992	8,030	10,781
Net Current Assets	9,246	21,795	21,433	21,276
Goodwill/Investments	9,608	9,608	11,608	13,608
Net Fixed Assets	60,795	62,212	61,900	62,857
Capital WIP	15,341	14,769	19,996	22,642
Total Assets	94,990	1,08,384	1,14,937	1,20,383
Liabilities				
Borrowings	45,731	48,731	52,731	53,731
Equity Share Capital	307	343	343	343
Reserves & Surplus*	36,777	47,199	49,173	52,665
Net Worth	37,083	47,542	49,516	53,008
Minority Interest	12,788	12,723	13,302	14,256
Deferred Taxes	(612)	(612)	(612)	(612)
Total Liabilities	94,990	1,08,384	1,14,937	1,20,383

Source: Company data I-Sec research

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT	4,624	(403)	3,618	5,961
Depreciation	2,076	2,467	2,620	2,738
Non-Cash Adjustments	(914)	(913)	(912)	(911)
Working Capital Changes	(985)	(529)	(712)	3,001
Taxes Paid	(1,221)	81	(724)	(1,192)
Operating Cashflow	3,581	702	3,890	9,597
Capital Commitments	(7,801)	(3,311)	(7,536)	(6,340)
Free Cashflow	(4,220)	(2,609)	(3,646)	3,257
Other investing cashflow	-	-	(2,000)	(2,000)
Cashflow from Investing Activities	(7,801)	(3,311)	(9,536)	(8,340)
Issue of Share Capital*	63	11,000	-	-
Inc (Dec) in Borrowings	878	3,000	4,000	1,000
Dividend paid	(555)	(627)	(701)	(701)
Cashflow from Financing activities	387	13,373	3,299	299
Chg. in Cash & Bank balances	(3,833)	10,765	(2,347)	1,556

Source: Company data I-Sec research, *QIP issue in FY21

Table 11: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	21.9	0.5	15.6	24.5
Cash EPS	35.4	14.9	30.9	40.5
Dividend per share (DPS)	3.7	4.1	4.1	4.1
Book Value per share (BV)	242.4	277.7	289.3	309.7
Growth (%)				
Net Sales	(2.0)	(45.7)	78.2	15.5
EBITDA	(2.6)	(46.9)	86.1	25.1
PAT	(20.5)	(97.5)	3,054.6	56.7
Valuation Ratios (x)				
P/E	31.5	NM	44.2	28.2
P/BV	2.8	2.5	2.4	2.2
EV / EBITDA	15.5	29.9	16.6	13.1
Dividend Yield	0.5	0.6	0.6	0.6
Operating Ratios				
Debt/EBITDA (x)	4.7	9.5	5.5	4.5
Net D/E	1.2	0.7	0.8	0.7
Return Ratios (%)				
RoE	8.4	(0.6)	4.8	7.4
RoCE	9.5	3.5	7.3	9.2
EBITDA Margins	49.8	48.6	50.8	55.1
Net Income Margins	17.2	0.8	14.2	19.3

Source: Company data I-Sec research

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