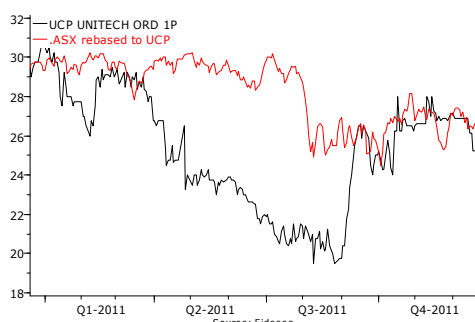


Unitech Corporate Parks 25p

Progress marginally ahead expectations.
Currency weakness

21 December 2011



12m High: 31p
12m Low: 19p
Market Cap: £90m
Shares in Issue: 360m

Gearing: cash
Interest Cover: n.a.

EPIC Code: UCP
Sector: Real Estate
Market: London AIM
Nominated Advisor & Broker: Westhouse Sec
PR: FTI
Website: www.unitechcorporatoparks.com

Description: Developing IT parks in India.

Analyst: Mike Foster
Tel: +44(0)20 7929 3399
Email: mike@hardmanandco.com

UCP announces H1 results end September: £10.9m PBT including £7.5m revaluation gains. £8.7m net cash. NAV 47.3p (49.0p) post deferred tax (we estimate this is most unlikely to be fully due).

We revise estimates up for 2011/12E, down 2012/13E (but +6% 2012/13E PBT vs previous based on constant currency).

The next announcement expected is a trading update late March.

These results are good: fees and interest both slightly better than expected. We are increasing constant currency 2012/13E PBT by 6%. As we model the INR at current levels, we downgrade expected figures 6%. As expected no dividends are being paid. We understand that UCP still seeks eventual buyers for projects as they move more towards maturity. Though the Indian economy has weakened and UCP is now starting to enter into borrowings, there is strong momentum in the lettings as per the latest (November 25th) update.

Though in part maybe due to an element of timing benefits, these are good results. Real estate operations' profits were £0.3m ahead of expectations, fees circa £0.4m lower than expectations: H1 EBITA and PBT £0.7m better than expectations.

The INR (rupee) weakened sharply since October in particular and we assume H2 and 2012/13E at 82 INR/£. Therefore our 2011/12 full year estimate increase of 28% in PBT (pre revaluations) equates to 35% constant currency. The 2012/13E PBT decrease of 6% equates to 6% upgrade constant currency. 2012/13E change is due to a £0.3m reduction in estimated interest and lease costs, all other numbers being the same (constant currency).

47.3p NAV (55p pre deferred tax), from 49p end March 2011 (on adverse exchange rates). The rise is after a 2p per share positive revaluation (after a 29p downward revaluation in the year to March 2011). For valuation analysis, see our Initiation research August 2011. We do not change our valuation analysis bar the reduction in the INR exchange rate. It is reassuring to have seen strong lettings at K1 site, but we would like to see strength spread to G1 before reviewing our valuation analysis. New lettings from now impact 2013/14E – 2012/13E rents being all existing leases.

The weakness in the Indian economy must be noted, but, with many tenants being international, the devaluation is not all bad.

Y/E	Sales	Declared Profit	Adjusted Profit	Adjusted EPS*	P/E ratio	Div	NAV**
Mar	£m	£m	£m	p.	X	p.	p.
2010A	7.5	-179.1	2.9	1.0	25.0	0.0	86.7
2011A	11.7	-98.6	4.5	1.2	19.8	0.0	55.6
2012E	18.5	12.1	4.6	0.9	27.0	0.0	54.2
2013E	22.2	4.6	4.6	1.2	21.6	0.0	55.4

Source: Company accounts and Hardman & Co. estimates

*Adjusted EPS after adding back exceptional items and acquisition goodwill

** PRE deferred tax

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INVESTMENT CASE

The investment case for UCP rests on: --

- The long leases and good covenants. These are typically five years, but tenants in SEZs (five out of six UCP developments are SEZs) are likely to lose tax incentives if they stay under ten years.
- Plausible potential exits as sites mature further. With legislation if anything potentially getting easier to dispose of shares of SEZs as well as the whole SEZ, we consider international (perhaps Far East) buyers will find UCP assets (selected ones, incrementally) of interest to buy. This would not be immediate, but would be in the investment time horizon of our estimates, we conjecture.
- Lettings momentum remains. As at 21 November 2011, the total committed space (comprising committed leases and pre-lease commitments) amounted to 5.69m sq ft, an increase of 0.5m sq ft since 30 September 2011 and 0.6m sq ft since June 2011. That said, the rise was weighted towards Kolkata but most sites did see new leases committed. The total stood at 3.36m sq ft in September 2010. The managers state they expect G2 to be substantially let by Q1 2013.
- Our rental estimates for 2012/13E (generating 1.15p EPS estimates) are predicated on the pre-leased contractual commitments being triggered by the ongoing build programme but further pre-leasing commitments (over and above present levels) are assumed to impact only on 2013/14E results.
- All sites bar N3 and G2 have seen increased let/ committed area since the June previous review. N3 is not yet ready to start development and G2 is relatively mature, with 60% of the potential total build already let/ committed.
- Build progresses in individual (or pairs) of buildings on multi-building sites, with relatively low up-front infrastructure costs. This minimises the unlet but built space.
- See fig 3, circa 10% of the completed built stock is unleased, spread across the developments and "rolling" through as letting proceeds.
- Using WACC discount rates 15-17% and slower speed but similar pricing of letting as the past three year average, our calculations are that at cap rates of below 13%, average returns are positive vs cost of build. We do not consider speeds will slow, as 2008-11 has hardly been a strong economic background on average, but assume for the purposes of this "stress test" that buildings might stand fully built, void, for two years (eg – or half built void for four years). Central case is likely to be half this time delay, reflecting the normal trade-off between physical availability to new clients versus costs. Net operating income (rental) at the £6 per square foot average estimated, is a 20% return on the build cost (this excludes land but includes all infrastructure costs and we consider may overstate current build costs). We believe market based capitalisation rates for such sites are in the 10-12% range.
- Financing. We note that in this very difficult financing environment, UCP (SPVs) has been able to draw on a £44.6m facility available from a public sector bank on K1 and N2, secured on existing lease rentals.

UCP's stated objective remains actively to pursue ways of monetising assets so that in due course cash distributions to shareholders can be made. We assume no dividend payments, pending this. "It now seems unlikely that, with the continuing turmoil in world financial markets, an exit via a Singaporean REIT type structure is possible in the short term. Therefore, our focus will be on selling income producing assets." Chairman's statement. Q3 2011 saw a sharp Indian real estate market slowdown (take-up down 33% on a strong Q2). Earlier strength helped rental values which Knight Frank (September) stated rose 12% in certain micro markets in the quarter. So overall, at this stage we see this as a slowing, with momentum still present and possible falling interest rates, though inflation across the economy has been a real problem.

In this context it is important that the Chairman's report states regarding G2: "We expect the project to be fully constructed and substantially let by Q1 2013." Gurgaon is a strong letting area with good communications and, whilst not adjacent, is well placed for the international airport.

KEY FACTS AND OPERATIONAL ASSUMPTIONS

The forecasts in this research have unchanged assumptions, namely on rents and lettings progress, compared to our 26 August research. However our INR/£ exchange rate assumptions have changed from 73 to 82.

A month ago, UCP updated on pre-lease (firm legal commitments) progress. This is summarised in Figs 1, 2 and 3, overleaf.

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The following statement is made by UCP in the results, which is in line with calculations used in our assessment dated August 2011. "Total cumulative expenditure on the portfolio at 30 September 2011 amounted to £206.9m (UCP's 60% share £124.1m). It is anticipated that to build out the 16.5m sq ft, representing the completion of all projects with the exception of N3, would require an additional £345.1m (UCP's 60% share £207.1m) of expenditure."

In this document we refer to rechargeable service charges. Knight Frank Research (September) illustrates these running around Rs.12 and Rs.15 per sq ft per month in the Noida area – consistent with UCP's levels.

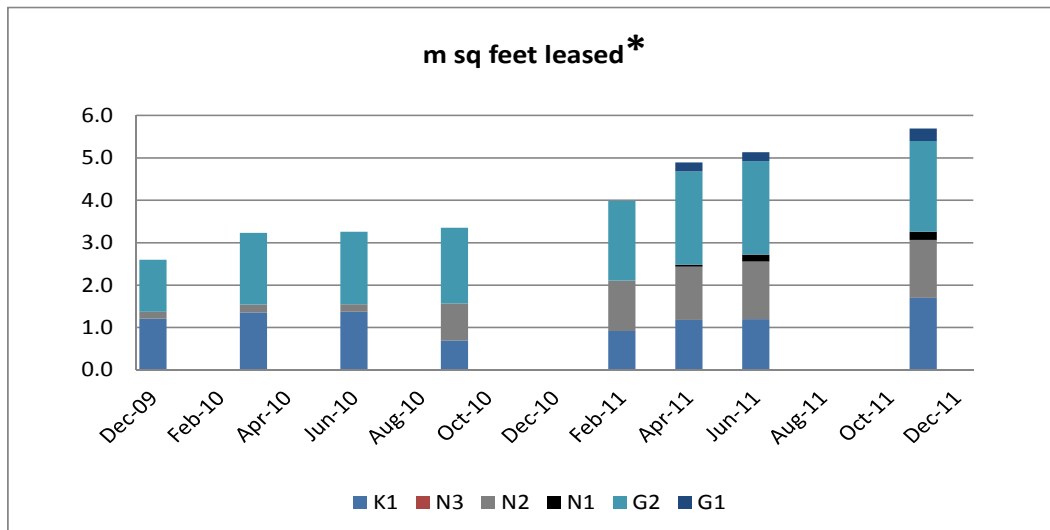


Fig. 1: Source: UCP updates

There was continued good lettings progress during the period with a 6.8% increase in the total area leased or subject to binding commitments to 5.21m sq ft as at 30 September 2011, up from 4.88m sq ft on 31 March 2011.

Let: m sq. ft.	Apr-11	Jun-11	Nov-11
G2	2.20	2.20	2.14
K1	1.18	1.20	1.70
N1	0.04	0.16	0.19
N2	1.26	1.36	1.37
G1	0.21	0.21	0.29
Total	4.89	5.13	5.69

Fig. 2: Source: UCP news release 25 November 2011

Project (all sq.ft.)	Estimated Lettable Area LA (Sq Ft)	Operational/ ready for fitouts (Sq Ft)	LA Leased (Sq Ft)	Pre-Lease Commitments (Sq Ft)	Total Commitment Space (Sq Ft)
G 2	3,622,744	1,717,744	1,612,084	525,862	2,137,946
K 1	4,395,742	1,642,191	1,433,246	263,205	1,696,451
N 1	2,064,000	270,000	192,358	-	192,358
N 2	3,172,635	955,630	864,317	506,151	1,370,468
N 3	4,947,054	-	-	-	-
G 1	3,260,000	-	-	289,769	289,769
Total	21,462,175	4,585,565	4,102,005	1,584,987	5,686,992

Fig. 3: Source: UCP news release 25 November 2011. Note, results announcement today states September levels.

NOTE: In previous research we had in error stated 0.6m sq. ft completed at N1 – 0.27m as stated above.

H1 RESULTS AND H2 FINANCIAL ASSUMPTIONS

H1 reported:

- **Turnover:** outcome was 56% of the anticipated F/Y 2011/12E. Turnover is rental and service charge income. Outperformance is due to higher than expected service charge income. NET of this latter, income (rents) is 51% of the anticipated full year. This does indicate there is some scope for modest upgrades for the full year. At this stage we are not upgrading.
- **Fees** 45% of anticipated F/Y 2011/12E. At this stage, the lower than expected level is assumed to be timing related. 95% of this line is management fee.
- **Expenses** 60% of anticipated F/Y 2011/12E. The higher figure is due to higher than expected service charge income, recharged out in the turnover line. See notes to the interim UCP accounts – the large majority of the “expenses” item is service charge costs through the SPV subsidiaries. There is a small “topco” expenses cost.
- **Net interest and lease costs.** Including 1) interest credit; 2) net present value of the interest notionally earned on the deposits received from tenants which are held for five years without accruing interest; 3) leasehold rights costs on land owned leasehold. We analyse this item more fully below (page 5) but note H1 net was -£0.09m, vs -£2.0m previously anticipated F/Y and c-£0.5m anticipated to H1 to September 2011. The better than anticipated outcome is due to a combination of 1) and 2) being higher.
- **Cash** held totalled £14.2m of which £4.9m is held by UCP, remainder in the project SPVs. Debt £5.5m.
- **EBITA from trading** £3.54m half year, vs £5.6m anticipated previously for F/Y March 2012 (see August Hardman & Co research). The move into debt H2E does account for most of the bias of profits (pre revaluation) towards H1, especially as rental income on pre-leased estate is assumed to arrive H1 2012/13E.
- **In summary, fees circa £0.4m below expectations, real estate operations £0.3m ahead of expectations: H1 EBITA and PBT £0.7m better than expectations. Rent roll is now £22.9m and rental income including service charge for H1 rose 44% year on year (to £9.9m)**

We assume:

- Build costs average £30 per sq. ft. We understand this figure may overstate.
- Rents average c£6 per sq. ft (500 INR). G1 and G2 would be at the upper end of rental figures, Gurgaon being a stronger location relatively.
- Rents achieved over time rise 3% pa (note, well below local inflation) similar to trends over the past few years.

H2 and 2012/13 estimates:

- **Currency:** Our assumptions are a 12% fall in the INR from H1 to H2, to reflect current exchange rates. Note there is no debt (end H1) and costs are local currency costs (some build costs are for imported materials). Projected debt is to be in local currency. Rents are overwhelmingly in local currency.
- **Turnover:** in local currency we assume unchanged vs H1, despite lettings success. 2012/13E assumes 25% local currency growth vs H1 2011/12 reported run rate. To clarify, we give fuller figures overleaf. H1 to September 2011 the reported service charge is higher than we had expected, enlarging both the turnover and the expenses line. At this stage, we assume this unwinds 2012/13E. We may review this factor subsequently. It makes no difference to EBITA or PBT. Our estimate is driven by our previous £25.2m estimate, deflated purely to reflect the depreciation of the INR recently.
- **Fees:** Our current estimate is driven by our previous estimate, deflated purely to reflect the depreciation of the INR recently. H1 2011/12 fees recently reported were below expectations. We see this as a timing issue.
- **Expenses:** Our estimate is driven by our previous estimate, deflated purely to reflect the depreciation of the INR recently. H1 just reported did show a higher rate of service charge expenses and a commensurate higher level of gross turnover.
- **Net interest and lease costs.** This includes 1) interest credit; 2) the net present value of the interest notionally earned on the deposits received from tenants which are held for five years without accruing interest; 3) leasehold rights costs on land owned leasehold. We analyse this item more fully below but note H1 net was -£0.09m, vs -£2.0m previously anticipated F/Y and c-£0.5m anticipated to H1 to September 2011. The better than anticipated outcome is due to a combination of 1) and 2) being higher.

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- **EBITA from trading:** Our estimate is driven by our previous estimate, deflated purely to reflect the depreciation of the currency. The indications from H1 just reported are that there is scope to upgrade resulting from a lower rate of fees (but we shall wait to see if this was just timing); rent rises were in-line so we see no reason to change our local currency estimates of 40% growth (stripping out distortions from service charges). The implication is £16m rent (excluding service charges) or 2.67m sq. ft paying an average £6 sq.ft. rent
- **We assume nil dividends,** as before. There are retained losses.
- **Our balance sheet** assumptions are unchanged in local currency terms (12% depreciation vs August research note).

Rental income run rates and growth

- **G2 recent run rate £5.3m UCP share of rent:** derived from leased (not pre-lease firm commitments) and completed $\text{£}7.50 \times 1.6\text{m sq. ft.} \times 44\% = \text{£}5.3\text{m}$. There is a minority holder of the profits from this site (paying no development costs). We understand these investors invest in mainstream Indian commercial real estate and that they are in a similar jv with the major commercial property developer, DLF.
- **Remainder recent run rate £8.3m UCP share of rent:** derived from leased (not pre-lease firm commitments) and completed $\text{£}5.80 \times 2.4\text{m sq. ft.} \times 60\% = \text{£}8.3\text{m}$
- Implied current £13.6m pa run rate at current exchange rate. This ties in closely (about 10% above) with H1 reported figures. This compares to circa our £16m for 2012/13E (turnover being stated post the addition of the service charges). Note 5.7m sq. ft. currently leased plus committed versus 4.1m sq. ft. leased with the latter generating our notional £13.6m run rate figure. NOTE this run rate is in all likelihood higher than the actual run rate as a result of a small amount of rent free (or at least occupancy for a short while prior to being on-rent). Note that ALL these figures (bar sq. ft.) are Hardman & Co figures, estimated.
- The latest committed rental run rate (as of November) is £22.9m pa, at not including the service charge but including committed rental agreements not yet “paying rent, occupied”.
- There should therefore be conservatively a good (15%+) growth in 2013/14E rents vs 2012/13E even if not a single sq. ft. extra space is rented but only as long as the build programme for pre leased space progresses.

Breakdown of historic interest and lease costs. H1 to September 2011.

- **£0.45m gross income less £0.67m expensed from securitisation of deposits.** This is “lumpy” and is booked each time a tenant deposit is received. This is a non cash item. It is the present value of interest foregone by the tenants as the deposit placed in escrow is non interest accruing to the tenant but interest accrues to the benefit of UCP’s project SPVs. This latter is a cash item. The credit at the time the deposit is placed with UCP’s SPV’s agents is amortised over the life of the tenancy agreement – hence £0.67m expensed. Going forward, as new tenancies are anticipated, we do anticipate further such income. It does therefore have a net effect of bringing profits ahead of cash but is an IFRS requirement.
- **£0.18m interest income from cash balances.**
- **£0m interest charge.**
- **£0.05m cost of leasehold rights.** Some land is held via leases. UCP’s accounts separate this figure out. In calendar 2010, the figure was minimal. Note that the balance sheet shows £1.08m leasehold rights liabilities.

Shareholders -- We note an EGM was requisitioned and took place at the same date as the AGM, 21st October. The resolutions proposed at the Extraordinary General Meeting by a group of shareholders, which the Board recommended shareholders vote against, were rejected on a poll.

The Board stated it “does, however, take very seriously the number and views of those shareholders who did not support the Board’s recommendations. The Board intends to focus on implementing the Company’s strategy to complete the build-out of the projects, in order to secure a strong tenant base and rental income and to continue to explore ways to monetise the assets. The Board will also keep under continual review the level of disclosure in relation to the Company’s portfolio, particularly in relation to the level of tenant take up and portfolio valuation, with the aim of providing shareholders with increased visibility.”

JV Partner -- Unitech Group is a 40% holder in all the SPV vehicles, with UCP 60% (there is also a minority holder in one site, G2). We note the weakness in 2011 of the Unitech share price. We understand they are committed holders of their 40% stake. We note no equity is required or foreseen ever to be required by the SPVs.

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FINANCIAL ANALYSIS AND ESTIMATES

In summary:

2012E change in estimate (change in estimate constant currency)

Turnover NET of Operating expenses unchanged (+6%)

EBITA from trading +9% (+15%)

PBT from trading +28% (+35%)

2013E change in estimate (change in estimate constant currency)

Turnover NET of Operating expenses -12% (unchanged)

EBITA from trading -12% (unchanged)

PBT from trading -6% (+6%)

Profit & Loss	Year End	H1 Sept	Year End	Year End
Y/E March £m	2011A	2011A	2012E	2013E
Turnover	11.70	9.89	18.50	22.20
Fees	-5.00	-2.48	-5.00	-5.70
Operating expenses	-5.65	-3.88	-7.40	-6.90
EBITA from trading	1.05	3.54	6.10	9.60
Revaluation	-103.11	7.48	7.48	0.00
EBITA reported	-102.06	11.02	13.58	9.60
Total interest & lease rights costs	3.46	-0.09	-1.50	-5.00
Pre-tax pre-revaluation profit	4.51	3.45	4.60	4.60
Pre-tax profit declared	-98.60	10.92	12.08	4.60
EPS pre-revaluations	1.25	0.70	0.93	1.15
EPS pre other comprehensive income (see below)	-19.66	1.50	1.70	1.15
Foreign currency trans.	-10.93	-11.48	-15.00	0.00
Other	0.00	0.00	0.00	0.00
Shares in issue y/e and ave fully diluted	360.00	360.00	360.00	360.00

Fig. 4: Source: UCP news release 25 November 2011.

NOTE: Adjusted PBT 2012/13E = 2011/12E but we assume a lower tax charge in 2012/13E (10%) hence rise in EPS.

CASH FLOW

Estimates remain unchanged (local currency). Note that the pace of build would have a material effect on 2012/13E PBT and cash flow given the building programme would now rely on borrowings and local interest rates are circa 12% (circa 4% over base).

We note that there is now in place a £44.6m facility available to the SPVs on K1 and N2 projects (UCP having a 60% share).

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BALANCE SHEET

Estimates remain unchanged (local currency). As of our August 2011 estimates, gross debt was £78.2m, net debt £73.2m.

As a result of changed estimates for the INR/£ exchange rate (82 vs 73 previously August 2011), we are reducing our £179.6m March 2012 estimate to £172m pre the effect of the revaluation in H1 just announced. With the benefit of this, our estimate for year end (post deferred tax) NAV is £172m (£170.4m end September 2011).

March 2012E: Old NAV £179.6m, new NAV £172m all POST deferred tax

March 2013E: Old NAV £184.1m, new NAV £176m all POST deferred tax

Management	Major Shareholders
<p>Non exec Chairman: Aubrey Adams</p> <p>Non exec dir: Ajay Chandra</p> <p>Non exec dir: Mohammad Yousuf Khan</p> <p>Non exec dir: Donald Lake</p> <p>Non exec dir: Nicholas Sallnow-Smith</p>	<p>RBS (ABN Amro) 20.0%</p> <p>Roveda 9.5%</p> <p>Nectrus (managers) 6.8%</p> <p>SC Fundamental 6.1%</p> <p>HSBC Global 5.9%</p> <p>Morgan Stanley 5.7%</p> <p>Others include; TIAA-CREF; Alpine Woods</p>
Key Dates	Key Milestones
<p>Next Full Year Results: mid August 2012</p> <p>AGM: early Nov 2012E</p> <p>Next Interim Results: mid December 2012</p>	<p>2006 Unitech Corporate Parks flotation</p>

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