

21 February 2012

Pruksa Real Estate

Property
(Residential)
Neutral

Bad 4Q11 results priced in

BUALUANG RESEARCH

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BUY

 (maintained)

Target Price: Bt16.00
Price (20/02/12): Bt14.60
PS TB / PS.BK

Key Ratios & Statistics

Market cap	Bt32.26bn		
12-mth price range	Bt10.30/Bt21.70		
3-mth avg daily volume	Bt100.01m		
# of shares (m)	2,206.8		
Est. free float (%)	25.9		
Foreign limit (%)	40.0		
Share price perf. (%)	1M	3M	12M
Relative to SET	(4.5)	17.5	(33.4)
Absolute	2.8	35.2	(19.3)

Financial summary

FY Ended 31 Dec	2010	2011	2012E	2013E
Revenues (Btm)	23,307	23,263	26,097	30,042
Net profit (Btm)	3,488	2,799	3,537	4,212
EPS (Bt)	1.58	1.27	1.60	1.91
BLS/Consensus (x)	n.m.	n.m.	1.04	0.95
EPS growth (%)	-3.7%	-19.9%	+26.4%	+19.1%
Core profit (Btm)	3,628	2,940	3,537	4,212
Core EPS (Bt)	1.64	1.33	1.60	1.91
Core EPS growth (%)	-4.3%	-19.1%	+20.3%	+19.1%
PER (x)	9.2	11.5	9.1	7.7
Core PER (x)	8.9	11.0	9.1	7.7
EV/EBITDA (x)	8.9	11.7	11.1	9.2
PBV (x)	2.1	1.9	1.6	1.4
Dividend (Bt)	0.47	0.38	0.48	0.57
Dividend yield (%)	3.2	2.6	3.3	3.9
ROE (%)	24.7	17.4	19.3	19.8
Net gearing (x)	0.8	1.1	1.1	0.9

CG Rating - 2011



EARNINGS RESULTS

Undershot our estimate: PS reported a 4Q11 net profit of Bt338m, down by 68% YoY and 55% QoQ. The result was 15% below our estimate, due to weak operating margin, but 23% above the consensus (on higher revenue than expected). Stripping out a Bt30m deferred tax provision and a Bt76m land impairment, core profit would be Bt460m (down sharply YoY and QoQ).

Results highlights: 4Q11 earnings were dragged down by a revenue contraction (Bt4.7bn—down by 33% YoY and 28% QoQ), due to slow presales and transference during the flooding. The Seed Memory Siam condo contributed 24% of income for the quarter. Housing GM declined from 38.7% in 4Q10 to 35.1% in 4Q11 (34.6% in 3Q11). The SG&A/sales ratio remained high at 20%, due to flooding protection expenses. The effective tax rate was also high at 35% (versus a historical rate of 25%), due to non-tax-deductible expenses during the quarter. The net gearing ratio inched up QoQ to 1.1x at YE11.

Outlook: We anticipate that 1Q12 profit will be weak YoY but stronger QoQ. All five prefabrication plants were shuttered for a month during the flooding, due to a shortage of construction materials, but the machinery wasn't damaged. The plants resumed running in Jan. The huge low-rise backlog of Bt18bn at YE11 will support 1Q12 earnings.

What's changed? We maintain our forecast unchanged. Current presales (net of cancellations) secure 75% of our FY12 revenue projection.

Recommendation: The market may be concerned about slow presales (a slow post-flooding demand recovery for low-rise houses), a high rejection rate in 1Q12 for The Seed Atom condo (the design was changed to a low-rise building from a high-rise, due to EIA restrictions) and a tighter balance sheet. But if the share price dips it will present an opportunity to accumulate the stock. PS remains our favorite long-term ResDev pick, as market expectations for its earnings outlook are unjustifiably modest. At an FY12 PER of 9.1x, the stock is the most deeply discounted to its long-term mean (10.2x) of any first-tier developer. We maintain a YE12 target price of Bt16, pegged to a PER of 10x.

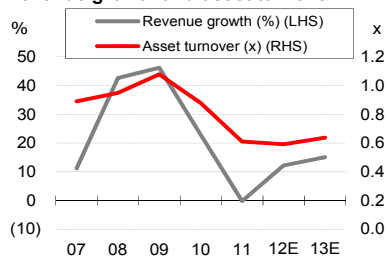
Figure 1: 4Q11 results

FY Ended 31 Dec (Btm)	4Q11	4Q10	YoY %	3Q11	QoQ %	2011	2010	YoY %	2011 vs. FY11E
Income Statement									
Revenue	4,659	6,974	(33)	6,458	(28)	23,263	23,307	(0)	100
Cost of sales and services	(3,025)	(4,274)	(29)	(4,221)	(28)	(14,724)	(14,561)	1	100
EBITDA	860	1,599	(46)	1,152		4,459	4,990		
EBIT	721	1,496	(52)	1,019	(29)	3,960	4,643	(15)	100
Interest expense	(57)	(29)	99	(35)	63	(137)	(67)	105	100
Other income/exp.	42	29	43	35	18	159	100	60	100
Equity earnings from affiliates	0	0	0	0	0	0	0	0	0
Extra items	(122)	(142)	<i>n.m.</i>	(12)	<i>nm</i>	(142)	(140)	<i>n.m.</i>	
EBT	705	1,497	(53)	1,019	(31)	3,982	4,676	(15)	100
Corporate tax	(245)	(298)	(18)	(258)	(5)	(1,041)	(1,048)	(1)	
Minority interest	(1)	0	0	0	0	(1)	0	0	
Net profit (loss)	338	1,057	(68)	749	(55)	2,799	3,488	(20)	100
Reported EPS	0.15	0.48	(68)	0.34	(55)	1.27	1.58	(20)	
Core net profit	460	1,199	(62)	761	(40)	2,940	3,628	(19)	100
Key ratios									
Gross margin (%)	35.1	38.7		34.6		36.7	37.5		
EBITDA margin (%)	18.5	22.9		17.8		19.2	21.4		
EBIT margin (%)	15.5	21.5		15.8		17.0	19.9		
Tax rate (%)	34.7	19.9		25.3		26.2	22.4		
Net margin (%)	7.3	15.2		11.6		12.0	15.0		
Current ratio (x)	4.8	6.3		9.2		4.8	6.3		
Gearing ratio (x)	1.2	0.9		1.2		1.2	0.9		
Interest coverage (x)	12.6	51.9		29.0		28.8	69.2		
Balance Sheet									
Cash & Equivalent	2,031	1,630	25	1,184	72				
Total assets	41,982	34,211	23	42,070	(0)				
ST debts & current portion	9,327	4,001	133	9,801	(5)				
Long-term debt	10,962	9,100	20	9,465	16				
Total liabilities	24,986	18,948	32	25,413	(2)				
Retained earnings	13,459	11,694	15	13,105	3				
Shareholders equity	16,996	15,263	11	16,657	2				
Minority interests	1	0	0	0	0				
BV (Bt)	7.7	6.9	11	7.5	2				

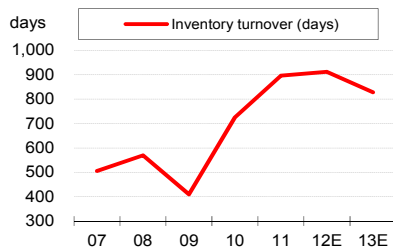
- The 4Q11 earnings contraction was caused by slow low-rise transference
- Two extra expenses in 4Q11—a Bt76m land impairment and a Bt30m deferred tax provision
- Revenue breakdown—76% low-rise; the rest of condo (The See Memory Siam)
- GM declined YoY, due to higher construction costs
- The SG&A/sales ratio was high at 20%, due to slow sales and flood protection expenses
- Net gearing r remained high at 1.1x at YE12

Source: Company data

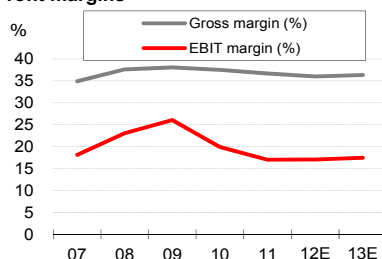
Revenue growth and asset turnover



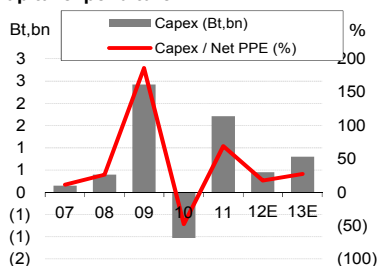
Inventory turnover (days)



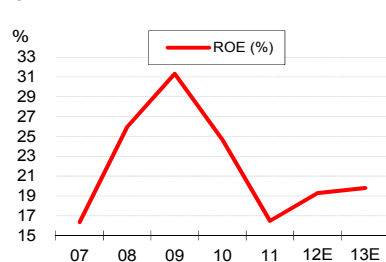
Profit margins



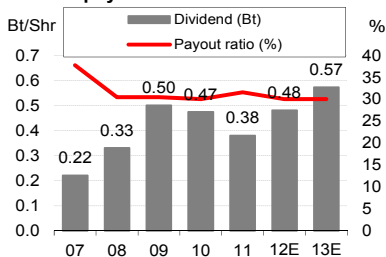
Capital expenditure



ROE



Dividend payout



	2009	2010	2011	2012E	2013E
PROFIT & LOSS (Btm)					
Revenue	18,967	23,307	23,263	26,097	30,042
Cost of sales and services	(11,749)	(14,561)	(14,724)	(16,702)	(19,118)
Gross profit	7,218	8,746	8,538	9,395	10,924
SG&A	(2,271)	(4,103)	(4,578)	(4,933)	(5,678)
EBIT	4,947	4,643	3,960	4,462	5,246
Interest expense	(47)	(67)	(137)	(161)	(269)
Other income/exp.	67	100	159	159	159
EBT	4,967	4,676	3,982	4,460	5,137
Corporate tax	(1,177)	(1,048)	(1,041)	(922)	(925)
After-tax profit (loss)	3,790	3,628	2,941	3,538	4,212
Minority interest	0	0	(1)	(1)	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	-168	-140	-142	0	0
Net profit (loss)	3,622	3,488	2,799	3,537	4,212
Reported EPS	1.64	1.58	1.27	1.60	1.91
Fully diluted EPS	1.64	1.58	1.27	1.60	1.91
Core net profit	3,790	3,628	2,940	3,537	4,212
Core EPS	1.72	1.64	1.33	1.60	1.91
EBITDA	5,163	4,890	4,300	4,831	5,696

	2009	2010	2011	2012E	2013E
KEY RATIOS					
Revenue growth (%)	46.3	22.9	(0.2)	12.2	15.1
Gross margin (%)	38.1	37.5	36.7	36.0	36.4
EBITDA margin (%)	27.2	21.0	18.5	18.5	19.0
Operating margin (%)	26.1	19.9	17.0	17.1	17.5
Net margin (%)	19.1	15.0	12.0	13.6	14.0
Core profit margin (%)	20.0	15.6	12.6	13.6	14.0
ROA (%)	20.6	13.1	7.3	8.0	8.9
ROCE (%)	25.1	16.0	8.5	9.0	10.0
Asset turnover (x)	1.1	0.9	0.6	0.6	0.6
Current ratio (x)	0.2	0.2	0.3	0.3	0.3
Gearing ratio (x)	0.2	0.9	1.2	1.1	0.9
Interest coverage (x)	105.1	69.2	28.8	27.8	19.5

	2009	2010	2011	2012E	2013E
BALANCE SHEET (Btm)					
Cash & Equivalent	3,151	1,630	2,031	401	369
Accounts receivable	60	120	0	82	95
Inventory	13,202	28,933	36,160	41,755	43,398
PP&E-net	1,299	2,159	2,469	2,548	2,898
Other assets	1,159	1,369	1,323	1,362	1,404
Total assets	18,871	34,211	41,982	46,148	48,164
Accounts payable	799	1,425	1,083	1,144	1,309
ST debts & current portion	600	4,001	9,327	4,100	2,800
Long-term debt	1,500	9,100	10,962	17,600	17,600
Other liabilities	2,949	4,422	3,615	3,615	3,615
Total liabilities	5,848	18,948	24,986	26,458	25,324
Paid-up capital	2,207	2,207	2,209	2,209	2,209
Share premium	2,207	2,207	2,209	2,209	2,209
Retained earnings	9,454	11,694	13,459	16,152	19,303
Shareholders equity	13,023	15,263	16,996	19,689	22,839
Minority interests	0	0	1	1	1
Total Liab.&Shareholders' equity	18,871	34,211	41,982	46,148	48,164

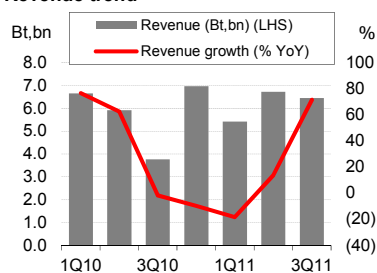
	2009	2010	2011	2012E	2013E
CASH FLOW (Btm)					
Net income	3,622	3,488	2,799	3,537	4,212
Depreciation and amortization	215.6	246.2	339.3	369.9	449.9
Change in working capital	(1,063)	(14,598)	(8,790)	(5,655)	(1,532)
FX, non-cash adjustment & others	1,399	1,216	1,502	0	0
Cash flows from operating activities	4,175	-9,648	-4,151	-1,748	3,129
Capex (Invest/Divest)	(2,422.2)	1,028.7	(1,707.9)	(449.4)	(800.0)
Others	(36)	(306)	0	0	0
Cash flows from investing activities	(2,458)	723	(1,708)	(449)	(800)
Debt financing (repayment)	(1,687)	10,732	6,322	1,412	(1,300)
Equity financing	15	0	38	0	0
Dividend payment	(725)	(1,214)	(1,104)	(840)	(1,061)
Cash flows from financing activities	(2,396.1)	9,518.6	5,256.4	567.7	(2,361.2)
Net change in cash	(679.9)	593.1	(602.0)	(1,629.8)	(31.9)
Free cash flow (Btm)	1,752	(8,619)	(5,858)	(2,197)	2,329
FCF per share (Bt)	0.79	(3.91)	(2.65)	(1.00)	1.06

Assumptions

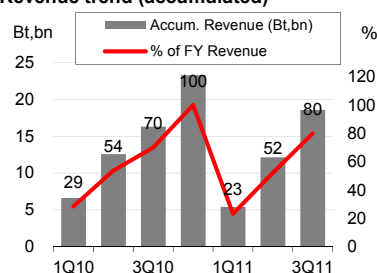
Presales backlog for the year (Btm)				19,510	10,365
Secured revenue by backlogs				75%	35%
Housing GM		37.5%	36.7%	36.0%	36.4%
Presales	22,775	38,753	25,553	29,386	-

Sources: Company data, Bualuang Research estimates

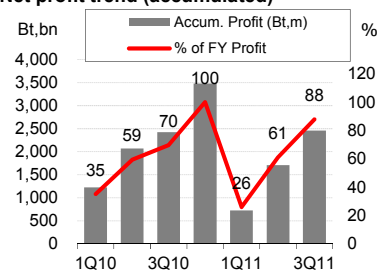
Revenue trend



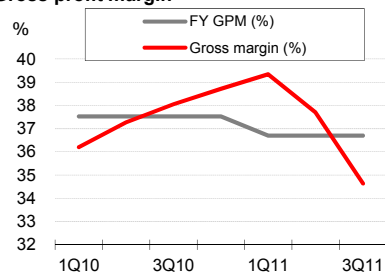
Revenue trend (accumulated)



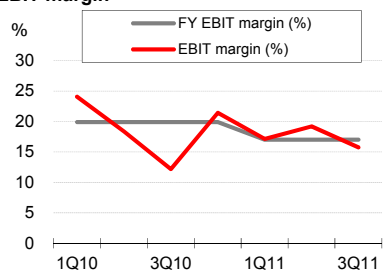
Net profit trend (accumulated)



Gross profit margin



EBIT margin



QUARTERLY PROFIT & LOSS (Btm)

	4Q10	1Q11	2Q11	3Q11	4Q11
Revenue	6,974	5,422	6,724	6,458	4,659
Cost of sales and services	(4,274)	(3,289)	(4,189)	(4,221)	(3,025)
Gross profit	2,700	2,133	2,535	2,237	1,633
SG&A	(1,204)	(1,203)	(1,245)	(1,218)	(912)
EBIT	1,496	930	1,290	1,019	721
Interest expense	(29)	(13)	(32)	(35)	(57)
Other income/exp.	29	28	55	35	42
EBT	1,497	945	1,312	1,019	705
Corporate tax	(298)	(214)	(325)	(258)	(245)
After-tax profit (loss)	1,199	731	988	761	461
Minority interest	0	0	0	0	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	(142)	(1)	(7)	(12)	(122)
Net profit (loss)	1,057	730	981	749	338
Reported EPS	0.48	0.33	0.44	0.34	0.15
Fully diluted EPS	0.48	0.33	0.44	0.34	0.15
Core net profit	1,199	731	988	761	460
Core EPS	0.54	0.33	0.45	0.34	0.21
EBITDA	1,599	1,013	1,434	1,152	860

KEY RATIOS

	4Q10	1Q11	2Q11	3Q11	4Q11
Gross margin (%)	38.7	39.3	37.7	34.6	35.1
EBITDA margin (%)	22.9	18.7	21.3	17.8	18.5
Operating margin (%)	21.5	17.2	19.2	15.8	15.5
Net margin (%)	15.2	13.5	14.6	11.6	7.3
Core profit margin (%)	17.2	13.5	14.7	11.8	9.9
BV (Bt)	6.92	7.25	7.20	7.54	7.69
ROE (%)	27.7	18.2	24.7	18.0	8.0
ROA (%)	12.4	7.5	9.5	7.1	3.2
Current ratio (x)	6.3	9.1	8.8	9.2	4.8
Gearing ratio (x)	0.9	1.0	1.2	1.2	1.2
Interest coverage (x)	51.9	73.4	39.9	29.0	12.6

QUARTERLY BALANCE SHEET (Btm)

	4Q10	1Q11	2Q11	3Q11	4Q11
Cash & Equivalent	1,630	1,631	1,942	1,184	2,031
Accounts receivable	120	0	0	0	0
Inventory	28,933	32,398	34,812	36,818	36,160
PP&E-net	2,159	2,592	2,669	2,524	2,469
Other assets	1,369	2,081	1,826	1,544	1,323
Total assets	34,211	38,702	41,250	42,070	41,982
Accounts payable	2,997	2,856	3,106	2,989	1,479
ST debts & current portion	4,001	8,751	10,421	9,801	9,327
Long-term debt	9,100	7,862	8,258	9,465	10,962
Other liabilities	2,850	3,230	3,572	3,157	3,219
Total liabilities	18,948	22,699	25,356	25,413	24,986
Paid-up capital	2,207	2,207	2,208	2,209	2,209
Share premium	1,362	1,371	1,383	1,396	1,396
Retained earnings	11,694	12,460	12,344	13,105	13,459
Shareholders' equity	15,263	16,003	15,894	16,657	16,996
Minority interests	0	0	0	0	1
Total Liab.&Shareholders' equity	34,211	38,702	41,250	42,070	41,982

Sources: Company data, Bualuang Research

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90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.