



## Pruksa Real Estate (PS.BK/PS TB)\*

4Q11 earnings review: 11.5% below our forecast

<b>Bt14.60</b>	<b>Neutral</b> from Outperform	<b>Results analyzed</b> <b>Rating downgrade</b>
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Tareetip Wongsangpaiboon  
 66.2658.8888 Ext. 8855  
 tareetipw@kgi.co.th

- **4Q11 earnings of Bt355mn, 12% below our estimate**
- **No sign of low rise demand recovery in short term**
- **Maintain 2012 net profit forecast of Bt3.7bn, up 30%YoY**
- **Downgrade to Neutral, maintain target price of Bt16.60**

### Downgrade to Neutral, maintain target price of Bt16.60

We came away from yesterday's analyst meeting with a concern about the company's business in the near term as there are still no signs of recovery. However, with 75% of our revenue forecast already secured, we are maintaining our 2012 earnings forecast of Bt3.7bn, up 30% YoY. Since the current share price offers a less attractive implied upside and the company's operating risk seem greater, we downgraded PS's rating to Neutral from Outperform and maintain our target price of Bt16.60.

### 4Q11 net profit was 16.4% above Bloomberg consensus but 11.5% below our forecast

PS announced a 2011 net profit of Bt2.8bn, down 18.7% YoY due mainly to a poor performance in 4Q11 as the company was hit hard by the recent flood. Its 4Q11 net profit was Bt355mn, down 66.5% YoY and 53.4% QoQ. This was 16.4% above the Bloomberg consensus of Bt305mn but 11.5% below our estimate of Bt401mn. The poor 4Q11 earnings were due to i) lower gross margin of 35.1% as construction material costs rose, ii) higher effective tax rate of 43.7%, up from 21.9% in 4Q10 as the reduction in the corporate income tax from 30% to 25% for a newly listed company ended.

### No recovery in low rise property demand seen in the near term

PS's management mentioned that recent rains in the normally dry season in February and the uncertainty about the government's flood defense measures were weighing on consumer confidence and created a big concern about repeat flooding in 2012. The poor perception would hurt mainly low rise property demand. Meanwhile,

out of PS's 49 total new projects to be launched in 2012 only four will be condo projects, and we do not expect the company's pre-sales to get back on track in the near term.

### Maintain our 2012 net profit forecast of Bt3.7bn

The existing backlog of Bt33bn, of which 59% will be realized in 2012, implies that 75% of our revenue forecast has been secured. As such, we believe that our revenue forecast of Bt26bn is achievable despite the uncertain business outlook. Thanks to the corporate tax cut from 30% to 23% in 2012, we are maintaining our net profit forecast of Bt3.7bn, up 30% YoY.

### More cautious about the company's operation

We are more cautious about the company's operation risk since we received guidance that the company's construction under development would gear up to Bt10bn in the next few years from Bt3.0bn in 2011 as it has to complete its condominium projects in the pipeline which are targeted to be delivered over the next few years. Under the current conditions, the company's financial stance seems to be more strained in the future.

### Valuation and Recommendation

Since the stock price has risen 25.8% YTD, while the company's operations seem more fragile with no signs of recovery yet, we downgrade to Neutral, from Outperform, with an unchanged target price of Bt16.60. Currently, among property stocks, we prefer Asian Property Development (AP.BK/ AP TB) as we expect its performance and pre-sales to be resilient.

Year to Dec	Sales (Bt mn)	Sales growth (%)	EBITDA (Bt mn)	NP (Bt mn)	EPS (Bt)	EPS growth (%)
2009	18,966	46.2	4,994	3,622	1.64	52.5
2010	23,307	22.9	4,750	3,488	1.58	(3.7)
2011	23,263	(0.2)	4,224	2,835	1.28	(18.7)
2012F	26,038	11.9	5,027	3,686	1.67	30.0
2013F	28,878	10.9	5,560	4,181	1.89	13.4

  

Year to Dec	GM (%)	EV/EBITDA (X)	PBV (X)	PER (X)	Dividend Yield (%)	ROAE (%)
2009	38.1	4,994.3	2.5	8.9	3.8	31.3
2010	37.5	4,749.7	2.1	9.2	3.2	24.7
2011	36.7	4,223.6	1.9	11.4	2.6	17.6
2012F	35.0	5,026.9	1.6	8.7	3.4	20.0
2013F	35.0	5,559.7	1.4	7.7	3.9	19.6

  

Sector	Property	52-week trading range (Bt)	10.4 - 21.2
12M target price (Bt/shr)	16.6	Mkt cap-Bt bn/US\$ bn	32.26/0.8
Upside/downside (%)	13.6	Outstanding shares (mn)	2,209.4
The percentile of excess return (%)	53.6	Free floating shares (mn)	474.8
Dividend yield-12/11F (%)	2.6	Foreign ownership (mn)	883.8
Book value/shr-12/11F (Bt)	7.7	3M avg. daily trading (mn)	7.9
P/B-12/11F (x)	1.9	Abs. performance (3,6,12M)(%)	32.7; -26.6; -19.3
Net debt/equity-12/11F (%)	79.2	Rel. performance (3,6,12M)(%)	14.2; -31.7; -29.3

Figure 1: 4Q11 and 2011 earnings summary

Bt mn	4Q11	4Q10	YoY (%)	3Q11	QoQ (%)	2011	2010	YoY (%)	Comment
Sales and services	4,659	6,974	(33.2)	6,458	(27.9)	23,263	23,307	(0.2)	
Cost of sales	(3,025)	(4,274)	(29.2)	(4,221)	(28.3)	(14,724)	(14,561)	1.1	
Gross profit	1,633	2,700	(39.5)	2,237	(27.0)	8,538	8,746	(2.4)	
SG&A	(988)	(1,344)	(26.5)	(1,218)	(18.9)	(4,654)	(4,243)	9.7	
EBIT	645	1,356	(52.4)	1,019	(36.7)	3,884	4,503	(13.7)	
Interest expenses	(57)	(29)	98.5	(35)	63.0	(137)	(67)	104.9	
Corporate income tax	(275)	(298)	(7.6)	(258)	6.6	(1,071)	(1,048)	2.2	
Normalized profit	355	1,059	(66.5)	761	(53.4)	2,835	3,488	(18.7)	
Net profit	355	1,059	(66.5)	761	(53.4)	2,835	3,488	(18.7)	16% above the Bloomberg consensus of Bt307mn, but 12% below our forecast of Bt401mn
EPS (Bt)	0.16	0.48	(66.5)	0.34	(53.4)	1.28	1.58	(18.8)	
Percent	<b>4Q11</b>	<b>4Q10</b>	<b>YoY (ppts)</b>	<b>3Q11</b>	<b>QoQ (ppts)</b>	<b>2011</b>	<b>2010</b>	<b>YoY (ppts)</b>	
Gross margin	35.1	38.7	(3.7)	34.6	0.4	36.7	37.5	(0.8)	
SG&A to sales	21.2	19.3	1.9	18.9	2.3	20.0	18.2	1.8	
Net margin	7.6	15.2	(7.6)	11.8	(4.2)	12.2	15.0	(2.8)	

Source: Company data; KGI Securities (Thailand)

\*The Company may be issuer of Derivative Warrants on these securities.



**Balance Sheet**

As of 31 Dec (Bt mn)	2009	2010	2011	2012F	2013F
<b>Total Assets</b>	<b>18,871</b>	<b>34,091</b>	<b>41,982</b>	<b>47,733</b>	<b>50,407</b>
<b>Current Assets</b>	<b>17,104</b>	<b>31,358</b>	<b>38,916</b>	<b>44,407</b>	<b>47,040</b>
Cash & ST Investments	846	1,439	837	3,301	9,164
Inventories	13,202	27,923	36,160	39,414	35,999
Accounts Receivable	60	0	0	0	0
Others	2,996	1,996	1,919	1,692	1,877
<b>Non-current Assets</b>	<b>1,767</b>	<b>2,733</b>	<b>3,066</b>	<b>3,326</b>	<b>3,367</b>
LT Investments	0	0	0	0	0
Net fixed Assets	1,299	2,159	2,469	2,537	2,492
Others	468	574	598	789	875
<b>Total Liabilities</b>	<b>5,848</b>	<b>18,828</b>	<b>24,986</b>	<b>27,901</b>	<b>27,499</b>
<b>Current Liabilities</b>	<b>4,307</b>	<b>9,671</b>	<b>13,827</b>	<b>16,596</b>	<b>16,188</b>
Accounts Payable	799	1,425	396	2,550	2,828
ST Borrowings	600	4,001	9,327	9,904	8,765
Others	2,908	4,245	4,104	4,142	4,594
<b>Long-term Liabilities</b>	<b>1,541</b>	<b>9,157</b>	<b>11,159</b>	<b>11,305</b>	<b>11,312</b>
Long-term Debts	1,500	9,100	10,962	11,241	11,241
Others	41	57	198	64	71
<b>Shareholders' Equity</b>	<b>13,023</b>	<b>15,263</b>	<b>16,996</b>	<b>19,832</b>	<b>22,908</b>
Common Stock	2,207	2,207	2,209	2,209	2,209
Capital Surplus	1,362	1,328	1,328	1,328	1,328
Retained Earnings	9,454	11,728	13,459	16,295	19,371
Preferred Stock	0	0	0	0	0

Source: Company data; KGI Securities (Thailand) estimates

**Key Assumptions & Ratios**

Year to 31 Dec	2009	2010	2011	2012F	2013F
<b>Growth (% YoY)</b>					
Sales	46.2	22.9	(0.2)	11.9	10.9
OP	58.0	(5.8)	(13.7)	20.7	10.9
EBITDA	55.4	(4.9)	(11.1)	19.0	10.6
NP	52.6	(3.7)	(18.7)	30.0	13.4
EPS	52.5	(3.7)	(18.7)	30.0	13.4
<b>Profitability (%)</b>					
Gross Margin	38.1	37.5	36.7	35.0	35.0
Operating Margin	25.2	19.3	16.7	18.0	18.0
EBITDA Margin	26.3	20.4	18.2	19.3	19.3
Net Profit Margin	19.1	15.0	12.2	14.2	14.5
ROAA	20.6	13.2	7.5	8.2	8.5
ROAE	31.3	24.7	17.6	20.0	19.6
<b>Stability</b>					
Gross Debt/Equity (%)	44.9	123.4	147.0	140.7	120.0
Net Debt/Equity (%)	9.2	53.5	79.2	55.8	22.7
Interest Coverage (x)	106.1	70.8	30.7	23.5	25.7
Interest & ST Debt Coverage (x)	7.7	8.4	1.5	1.7	1.8
Cash Flow Interest Coverage (x)	74.4	(178.1)	(27.0)	11.4	38.8
Cash Flow/Interest & ST Debt (x)	1.6	(0.9)	(0.2)	0.1	0.4
Current Ratio (x)	4.0	3.2	2.8	2.7	2.9
Quick Ratio (x)	0.7	0.2	0.1	0.2	0.6
Net Debt (Bt mn)	1194.0	8160.7	13462.7	11074.1	5211.2
<b>Per Share Data (Bt)</b>					
EPS	1.6	1.6	1.3	1.7	1.9
CFPS	1.7	1.7	1.4	1.8	2.1
BVPS	5.9	6.9	7.7	9.0	10.4
SPS	8.6	10.6	10.5	11.8	13.1
EBITDA/Share	2.3	2.2	1.9	2.3	2.5
DPS	0.6	0.5	0.4	0.5	0.6
<b>Activity</b>					
Asset Turnover (x)	1.1	0.9	0.6	0.6	0.6
Days Receivables	0.9	0.5	0.0	0.0	0.0
Days Inventory	401.1	515.4	794.3	814.9	733.2
Days Payable	20.7	27.9	22.6	31.8	52.3
Cash Cycle	381.3	488.0	771.7	783.1	680.9

Source: Company data; KGI Securities (Thailand) estimates

**Profit & Loss**

Year to 31 Dec (Bt mn)	2009	2010	2011	2012F	2013F
<b>Sales</b>	<b>18,966</b>	<b>23,307</b>	<b>23,263</b>	<b>26,038</b>	<b>28,878</b>
Cost of Goods Sold	11,749	14,561	14,724	16,925	18,771
<b>Gross Profit</b>	<b>7,217</b>	<b>8,746</b>	<b>8,538</b>	<b>9,113</b>	<b>10,107</b>
Operating Expenses	2,438	4,243	4,654	4,426	4,909
<b>Operating Profit</b>	<b>4,779</b>	<b>4,503</b>	<b>3,884</b>	<b>4,687</b>	<b>5,198</b>
Net Interest	-47	-67	-137	-214	-217
Interest Income	0	0	0	0	0
Interest Expense	47	67	137	214	217
Net Investment Income/(Loss)	0	0	0	0	0
Net other Non-op. Income/(Loss)	67	100	159	78	87
Net Extraordinary	-0	0	-0	-0	0
Pretax Income	4,799	4,536	3,906	4,551	5,068
Income Taxes	1,177	1,048	1,071	865	887
<b>Net Profit</b>	<b>3,622</b>	<b>3,488</b>	<b>2,835</b>	<b>3,686</b>	<b>4,181</b>
EBITDA	4,994	4,750	4,224	5,027	5,560
<b>EPS (Bt)</b>	<b>1.64</b>	<b>1.58</b>	<b>1.28</b>	<b>1.67</b>	<b>1.89</b>

Source: Company data; KGI Securities (Thailand) estimates

**Cash Flow**

Year to 31 Dec (Bt mn)	2009	2010	2011	2012F	2013F
<b>Operating Cash Flow</b>	<b>3,501</b>	<b>-11,945</b>	<b>-3,718</b>	<b>2,446</b>	<b>8,413</b>
Net Profit	3,622	3,488	2,835	3,686	4,181
Depreciation & Amortization	216	246	339	340	362
Change in Working Capital	-337	-15,680	-6,892	-1,581	3,871
Others	0	0	0	0	0
<b>Investment Cash Flow</b>	<b>-118</b>	<b>-1,212</b>	<b>-672</b>	<b>-600</b>	<b>-402</b>
Net CAPEX	-9	-1,106	-648	-409	-316
Change in LT Investment	0	0	0	0	0
Change in Other Assets	-109	-106	-24	-191	-86
<b>Free Cash Flow</b>	<b>3,383</b>	<b>-13,157</b>	<b>-4,390</b>	<b>1,846</b>	<b>8,011</b>
<b>Financing Cash Flow</b>	<b>-2,110</b>	<b>11,039</b>	<b>5,808</b>	<b>-37</b>	<b>-2,096</b>
Change in Share Capital	16	0	0	0	0
Net Change in Debt	-1,500	11,001	7,187	857	-1,139
Change in Other LT Liab.	-627	38	-1,379	-894	-957
<b>Net Cash Flow</b>	<b>1,272</b>	<b>-2,118</b>	<b>1,418</b>	<b>1,809</b>	<b>5,915</b>

Source: Company data; KGI Securities (Thailand) estimates

**Rates of Return on Invested Capital**

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= $\frac{\text{Operating Margin}}$
2009	60.8%	1.1%	12.9%	25%
2010	61.4%	1.1%	18.2%	19%
2011	61.8%	1.5%	20.0%	17%
2012F	63.7%	1.3%	17.0%	18%
2013F	63.7%	1.3%	17.0%	18%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= $\frac{\text{Capital Turnover}}$
2009	0.9	0.1	0.0	1.1
2010	1.3	0.1	0.0	0.7
2011	1.6	0.1	0.0	0.6
2012F	1.6	0.1	0.0	0.6
2013F	1.3	0.1	0.0	0.7
Year	$\frac{\text{Operating Margin}}{\text{Operating Margin}}$	x $\frac{\text{Capital Turnover}}{\text{Capital Turnover}}$	x $\frac{\text{Cash Tax Rate}}{\text{Cash Tax Rate}}$	= $\frac{\text{After-tax Return on Inv. Capital}}{\text{After-tax Return on Inv. Capital}}$
2009	25.2%	1.1	75.5%	20.0%
2010	19.3%	0.7	76.9%	10.6%
2011	16.7%	0.6	72.6%	6.9%
2012F	18.0%	0.6	81.0%	8.5%
2013F	18.0%	0.7	82.5%	10.4%

Source: Company data; KGI Securities (Thailand) estimates

\*The Company may be issuer of Derivative Warrants on these securities.

<b>Thailand Research</b>	<b>Name</b>	<b>Abbr.</b>	<b>Sector Coverage</b>	<b>Ext.</b>	<b>Email</b>
	Itphong Saengtubtim	IS	Head of Research	8840	itphongs@kgi.co.th
General line:	Rakpong Chaisuparakul	RC	Strategist	8845	rakpong@kgi.co.th
66.2658.8888	Pongtham Danwungderm	PD	Petrochemical, refinery	8859	pongthamd@kgi.co.th
	Adisak Kamool	AK	Retail strategist	8843	adisakk@kgi.co.th
	Phatipak Navawatana	PN	Telecom, media, healthcare, air transportation	8847	phatipakn@kgi.co.th
	Nat Panassutrakorn	NP	Construction material, contractor	8849	natp@kgi.co.th
	Pragrom Pathomboorn	PP	Economist	8846	pragromp@kgi.co.th
	Urasri Phornwises	UP	Food, consumer	8857	urasrip@kgi.co.th
	Thaninee Satirareungchai, CFA	TS	Residential property, banking	8851	thaninees@kgi.co.th
	Pongpat Siripipat	PS	Derivatives	8844	pongpat@kgi.co.th
	Piyathida Vongvivathchai	PV	Oil & Gas, coal mining, utilities	8856	piyathidav@kgi.co.th
	Tareetip Wongsaeppaiboon	TW	Residential property, industrial estates	8855	tareetipw@kgi.co.th

<b>ASEAN Sales</b>	<b>Name</b>	<b>Abbr.</b>	<b>Sector Coverage</b>	<b>Ext.</b>	<b>Email</b>
General line:	Danny Komolrit	DK	Thailand sales	8090	dannyk@kgi.co.th
66.2658.8888	Kannikar Pradiskesorn	KP	Thailand sales	8081	kannikarp@kgi.co.th
	Datenusorn Rungruang	DR	Thailand sales	8082	datenusornr@kgi.co.th

*The toll-free line for clients in HK and Singapore: 800.0800.5008*

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Locations	China	Taiwan
	<b>Shanghai</b> Room 2502-2504 No.317 Xian Xia Road, Shanghai,PRC200051,  <b>Shenzhen</b> Room 24D1, 24/F, A Unit, Zhen Ye Building, 2014 Bao'annan Road, Shenzhen PRC 518008	KGI Securities 700 Mingshui Road, Taipei, Taiwan Telephone 886.2.2181.8888 Facsimile 886.2.8501.1691
	Hong Kong	Thailand
	41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800	KGI Securities (Thailand) Plc. 8th - 11th floors, Asia Centre Building 173 South Sathorn Road, Bangkok 10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

KGI's Ratings	Rating	Definition
	Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Thailand).
	Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Thailand).
	Underperform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Thailand).
	Not Rated (NR)	The stock is not rated by KGI Securities.
	Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.
		<i>* Excess return = 12M target price/current price-1</i>
	Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.
	Source	KGI Securities and its subsidiaries and affiliates.

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