

10 August 2012

Pruksa Real Estate

Property
(Residential)
Overweight

YoY and QoQ profit growth, as expected

In line with our model: PS reported a 2Q12 net profit of Bt1bn, up by 3% YoY and 59% QoQ—in line with our estimate but 8% above the consensus, due to lower-than-expected SG&A expenses.

Results highlights: The firm posted both YoY and QoQ profit growth for 2Q12 because low-rise housing transference normalized. Revenue was Bt6.8bn, up by 1% YoY and 46% QoQ as construction resumed a pre-flooding level of activity. However, GM slimmed QoQ which surprised us—from 35.5% in 1Q12 to 34.2% in 2Q12 (37.7% in 2Q11). The SG&A/sales ratio declined significantly, due to top-line expansion (15% in 2Q12 against 18.5% in 2Q11 and 18% in 1Q12). The effective tax rate jumped to 23% from 18% in 1Q12 (when PS used an investment loss in India as a tax shield).

The balance sheet strengthened—the net gearing ratio dipped to 0.99x at end-June from 1.04x at end-March.

Outlook: We expect 3Q12 profit to rise both YoY and QoQ, driven by expanding low-rise backlog transference (Bt17bn is scheduled to transfer in 3Q-4Q12). The 4Q12 bottom-line will be the best of the year, boosted by Bt3bn in condo transference.

What's changed? 1H12 earnings represent 43% of our model, which we maintain unchanged. Earnings visibility is clear—the presales backlog at end-June 2012 fully secures our FY12 revenue forecast of Bt26bn. 1H12 net profit accounts for 47% of the FY12 street forecast. Note that our number is 8% ahead of the consensus.

Recommendation: PS's share price has jumped 28% since we pushed the firm as the top pick for our theme call of a full recovery in low-rise presales (see our June 7 report). Despite the price rally during the past few months, the stock should build further—we expect a consensus profit forecast upgrade. Besides, its multiples are undemanding. PS trades at an FY12 PER of 10.0x (its FY06-11 mean is 10.2x) and an FY13 PER of 8.4x. Our BUY rating stands with a YE12 target price of Bt20, pegged to a PER of 11.5x.

BUALUANG RESEARCH

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BUY

 (maintained)

Target Price: Bt20.00
Price (09/08/12): Bt17.20
PS TB / PS.BK

Key Ratios & Statistics

Market cap	Bt38.00bn		
12-mth price range	Bt10.30/Bt20.90		
12-mth avg daily volume	Bt113.10m		
# of shares (m)	2,209.4		
Est. free float (%)	25.9		
Foreign limit (%)	40.0		
Share price perf. (%)	1M	3M	12M
Relative to SET	(2.6)	7.3	(22.8)
Absolute	-	8.2	(6.0)

Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	23,263	26,097	30,042	32,784
Net profit (Btm)	2,799	3,818	4,549	4,943
EPS (Bt)	1.27	1.73	2.06	2.24
BLS/Consensus (x)	n.m	1.02	1.29	1.12
EPS growth (%)	-19.9%	+36.4%	+19.1%	+8.7%
Core profit (Btm)	2,940	3,818	4,549	4,943
Core EPS (Bt)	1.33	1.73	2.06	2.24
Core EPS growth (%)	-19.1%	+29.9%	+19.1%	+8.7%
PER (x)	13.6	10.0	8.4	7.7
Core PER (x)	12.9	10.0	8.4	7.7
EV/EBITDA (x)	13.1	11.0	9.2	8.2
PBV (x)	2.2	1.9	1.6	1.4
Dividend (Bt)	0.40	0.52	0.62	0.67
Dividend yield (%)	2.3	3.0	3.6	3.9
ROE (%)	17.4	20.8	21.2	19.9
Net gearing (x)	1.1	1.0	0.8	0.7

CG Rating - 2011



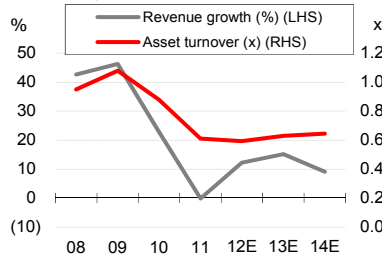
EARNINGS RESULTS

Figure 1: 2Q12 results

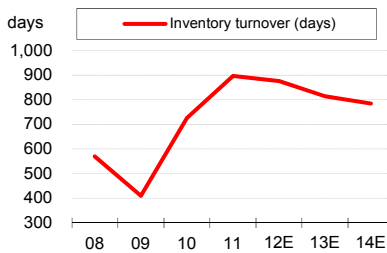
FY Ended 31 Dec (Btm)	2Q12	2Q11	YoY %	1Q12	QoQ %	6M12	6M11	YoY %	6M12 vs. FY12E	
Income Statement										
Revenue	6,814	6,724	1	4,655	46	11,469	12,146	(6)	44	• YoY and QoQ profit expansion was due to top-line growth
Cost of sales and services	(4,485)	(4,189)	7	(3,003)	49	(7,488)	(7,478)	0	45	• 2Q12 revenue growth was driven by low-rise transference
EBITDA	1,451	1,434	1	929		2,380	2,446			• House transference resumed a pre-flooding level
EBIT	1,306	1,290	1	815	60	2,121	2,220	(4)	43	• House transference resumed a pre-flooding level
Interest expense	(65)	(32)	100	(61)	6	(125)	(45)	178	58	• Negative surprise—slimmer GM on a QoQ basis
Other income/exp.	54	55	(2)	20	168	74	83	(11)	46	• The SG&A/sales ratio dropped on higher sales
Equity earnings from affiliates	0	0	0	0	0	0	0	0	0	• Extra low effective tax rate of 18% in 1Q12, due to a tax shield
Extra items	3	(7)	n.m.	(1)	nm	3	(8)	n.m.	43	• Net gearing declined to 0.99x at end-June from 1.04x at end-March
EBT	1,295	1,312	(1)	775	67	2,069	2,258	(8)		
Corporate tax	(292)	(325)	(10)	(142)	107	(434)	(539)	(19)		
Minority interest	0	0	0	(0)	0	(0)	0	0		
Net profit (loss)	1,006	981	3	632	59	1,638	1,711	(4)	43	
Reported EPS	0.46	0.44	2	0.29	59	0.74	0.77	(4)		
Core net profit	1,002	988	1	633	58	1,635	1,719	(5)	43	
Key ratios										
Gross margin (%)	34.2	37.7		35.5		34.7	38.4			
EBITDA margin (%)	21.3	21.3		20.0		20.8	20.1			
EBIT margin (%)	19.2	19.2		17.5		18.5	18.3			
Tax rate (%)	22.6	24.7		18.3		21.0	23.9			
Net margin (%)	14.8	14.6		13.6		14.3	14.1			
Current ratio (x)	6.6	8.8		6.6		6.6	8.8			
Gearing ratio (x)	1.1	1.2		1.1		1.1	1.2			
Interest coverage (x)	20.2	39.9		13.4		16.9	49.3			
Balance Sheet										
Cash & Equivalent	1,871	1,942	(4)	1,030	82					
Total assets	41,988	41,250	2	41,753	1					
ST debts & current portion	10,459	10,421	0	8,859	18					
Long-term debt	8,558	8,258	4	10,126	(15)					
Total liabilities	24,226	25,356	(4)	24,125	0					
Retained earnings	14,211	12,344	15	14,093	1					
Shareholders equity	17,761	15,894	12	17,628	1					
Minority interests	0	0	0	0	0					
BV (Bt)	8.0	7.2	12	8.0	1					

Source: Company data

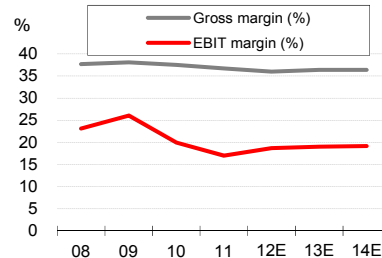
Revenue growth and asset turnover



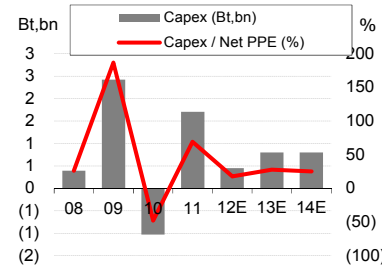
Inventory turnover (days)



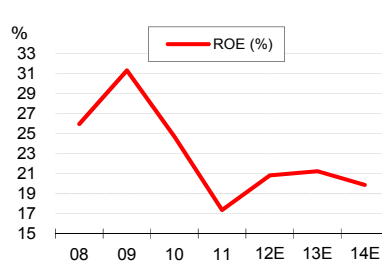
Profit margins



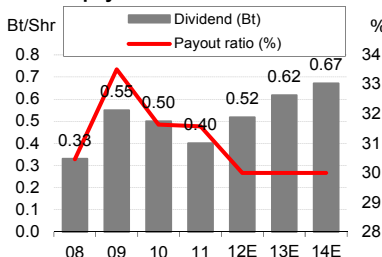
Capital expenditure



ROE



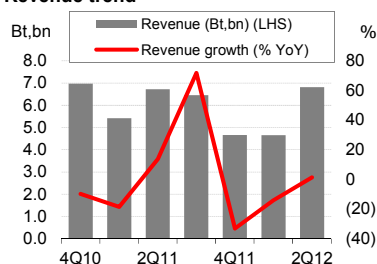
Dividend payout



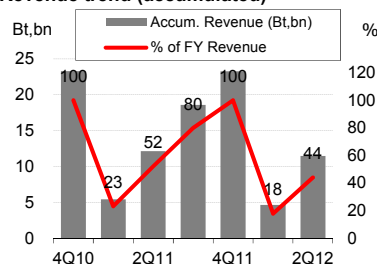
Financial tables					
	2010	2011	2012E	2013E	2014E
PROFIT & LOSS (Btm)					
Revenue	23,307	23,263	26,097	30,042	32,784
Cost of sales and services	(14,561)	(14,724)	(16,702)	(19,118)	(20,852)
Gross profit	8,746	8,538	9,395	10,924	11,932
SG&A	(4,103)	(4,578)	(4,515)	(5,197)	(5,659)
EBIT	4,643	3,960	4,880	5,727	6,273
Interest expense	(67)	(137)	(215)	(328)	(400)
Other income/exp.	100	159	159	159	159
EBT	4,676	3,982	4,825	5,558	6,033
Corporate tax	(1,048)	(1,041)	(1,006)	(1,009)	(1,089)
After-tax profit (loss)	3,628	2,941	3,818	4,549	4,944
Minority interest	0	(1)	(1)	(1)	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	-140	-142	0	0	0
Net profit (loss)	3,488	2,799	3,818	4,549	4,943
Reported EPS	1.58	1.27	1.73	2.06	2.24
Fully diluted EPS	1.58	1.27	1.73	2.06	2.24
Core net profit	3,628	2,940	3,818	4,549	4,943
Core EPS	1.64	1.33	1.73	2.06	2.24
EBITDA	4,890	4,300	5,250	6,177	6,803
KEY RATIOS					
Revenue growth (%)	22.9	(0.2)	12.2	15.1	9.1
Gross margin (%)	37.5	36.7	36.0	36.4	36.4
EBITDA margin (%)	21.0	18.5	20.1	20.6	20.8
Operating margin (%)	19.9	17.0	18.7	19.1	19.1
Net margin (%)	15.0	12.0	14.6	15.1	15.1
Core profit margin (%)	15.6	12.6	14.6	15.1	15.1
ROA (%)	13.1	7.3	8.7	9.5	9.7
ROCE (%)	16.0	8.5	9.7	10.6	10.8
Asset turnover (x)	0.9	0.6	0.6	0.6	0.6
Current ratio (x)	0.2	0.3	0.3	0.3	0.3
Gearing ratio (x)	0.9	1.2	1.1	0.9	0.8
Interest coverage (x)	69.2	28.8	22.7	17.4	15.7
BALANCE SHEET (Btm)					
Cash & Equivalent	1,630	2,031	2,035	2,343	2,512
Accounts receivable	120	0	134	155	169
Inventory	28,933	36,160	40,085	42,633	44,832
PP&E-net	2,159	2,469	2,548	2,898	3,168
Other assets	1,369	1,323	1,362	1,404	1,450
Total assets	34,211	41,982	46,164	49,433	52,132
Accounts payable	1,425	1,083	1,144	1,309	1,428
ST debts & current portion	4,001	9,327	4,100	3,800	2,801
Long-term debt	9,100	10,962	17,600	17,600	17,600
Other liabilities	4,422	3,615	3,615	3,615	3,615
Total liabilities	18,948	24,986	26,458	26,324	25,444
Paid-up capital	2,207	2,209	2,209	2,209	2,209
Share premium	2,207	2,209	2,209	2,209	2,209
Retained earnings	11,694	13,459	16,169	19,572	23,151
Shareholders equity	15,263	16,996	19,705	23,109	26,687
Minority interests	0	1	1	1	1
Total Liab.&Shareholders' equity	34,211	41,982	46,164	49,433	52,132
CASH FLOW (Btm)					
Net income	3,488	2,799	3,818	4,549	4,943
Depreciation and amortization	246.2	339.3	369.9	449.9	529.9
Change in working capital	(14,598)	(8,790)	(4,037)	(2,446)	(2,141)
FX, non-cash adjustment & others	1,216	1,502	(0)	0	0
Cash flows from operating activities	-9,648	-4,151	151	2,553	3,333
Capex (Invest)/Divest	1,028.7	(1,707.9)	(449.4)	(800.0)	(800.0)
Others	(306)	0	0	0	0
Cash flows from investing activities	723	(1,708)	(449)	(800)	(800)
Debt financing (repayment)	10,732	6,322	1,412	(300)	(999)
Equity financing	0	38	0	0	0
Dividend payment	(1,214)	(1,104)	(1,104)	(1,145)	(1,365)
Cash flows from financing activities	9,518.6	5,256.4	303.5	(1,445.4)	(2,363.6)
Net change in cash	593.1	(602.0)	4.7	307.5	169.0
Free cash flow (Btm)	(8,619)	(5,858)	(299)	1,753	2,533
FCF per share (Bt)	(3.91)	(2.65)	(0.14)	0.79	1.15
Assumptions					
Presales backlog for the year (Btm)	24,020	27,680	26,097	10,365	3,118
Secured revenue by backlogs			100%	35%	10%
Housing GM	37.5%	36.7%	36.0%	36.4%	36.4%
Presales	38,753	25,553	29,386	33,794	38,863

Sources: Company data, Bualuang Research estimates

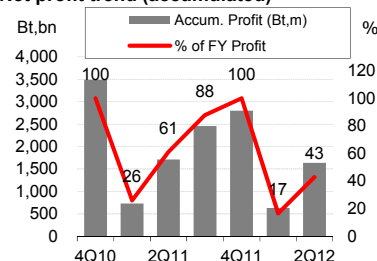
Revenue trend



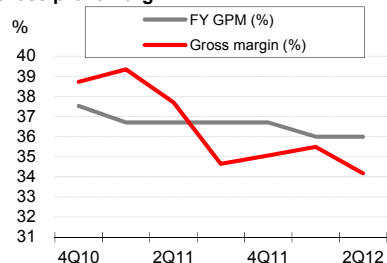
Revenue trend (accumulated)



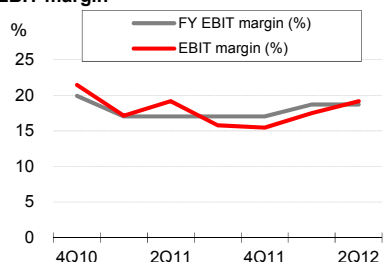
Net profit trend (accumulated)



Gross profit margin



EBIT margin



QUARTERLY PROFIT & LOSS (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Revenue	6,724	6,458	4,659	4,655	6,814
Cost of sales and services	(4,189)	(4,221)	(3,025)	(3,003)	(4,485)
Gross profit	2,535	2,237	1,633	1,652	2,329
SG&A	(1,245)	(1,218)	(912)	(837)	(1,023)
EBIT	1,290	1,019	721	815	1,306
Interest expense	(32)	(35)	(57)	(61)	(65)
Other income/exp.	55	35	42	20	54
EBT	1,312	1,019	705	775	1,295
Corporate tax	(325)	(258)	(245)	(142)	(292)
After-tax profit (loss)	988	761	461	633	1,002
Minority interest	0	0	(1)	(0)	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	(7)	(12)	(122)	(1)	3
Net profit (loss)	981	749	338	632	1,006
Reported EPS	0.44	0.34	0.15	0.29	0.46
Fully diluted EPS	0.44	0.34	0.15	0.29	0.46
Core net profit	988	761	460	633	1,002
Core EPS	0.45	0.34	0.21	0.29	0.45
EBITDA	1,434	1,152	860	929	1,451

KEY RATIOS

	2Q11	3Q11	4Q11	1Q12	2Q12
Gross margin (%)	37.7	34.6	35.1	35.5	34.2
EBITDA margin (%)	21.3	17.8	18.5	20.0	21.3
Operating margin (%)	19.2	15.8	15.5	17.5	19.2
Net margin (%)	14.6	11.6	7.3	13.6	14.8
Core profit margin (%)	14.7	11.8	9.9	13.6	14.7
BV (Bt)	7.20	7.54	7.69	7.98	8.04
ROE (%)	24.7	18.0	8.0	14.3	22.7
ROA (%)	9.5	7.1	3.2	6.1	9.6
Current ratio (x)	8.8	9.2	4.8	6.6	6.6
Gearing ratio (x)	1.2	1.2	1.2	1.1	1.1
Interest coverage (x)	39.9	29.0	12.6	13.4	20.2

QUARTERLY BALANCE SHEET (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Cash & Equivalent	1,942	1,184	2,031	1,030	1,871
Accounts receivable	0	0	0	0	0
Inventory	34,812	36,818	36,160	36,877	36,196
PP&E-net	2,669	2,524	2,469	2,418	2,364
Other assets	1,826	1,544	1,323	1,428	1,556
Total assets	41,250	42,070	41,982	41,753	41,988
Accounts payable	3,106	2,989	1,479	1,631	1,713
ST debts & current portion	10,421	9,801	9,327	8,859	10,459
Long-term debt	8,258	9,465	10,962	10,126	8,558
Other liabilities	3,572	3,157	3,219	3,509	3,497
Total liabilities	25,356	25,413	24,986	24,125	24,226
Paid-up capital	2,208	2,209	2,209	2,209	2,209
Share premium	1,383	1,396	1,396	0	1,396
Retained earnings	12,344	13,105	13,459	14,093	14,211
Shareholders' equity	15,894	16,657	16,996	17,628	17,761
Minority interests	0	0	1	0	0
Total Liab.&Shareholders' equity	41,250	42,070	41,982	41,753	41,988

Sources: Company data, Bualuang Research

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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.