

Pruksa Real Estate

2 October 2014
PS TB / PS.BK

To post record presales for 3Q14; positive surprise for the market

Investment thesis

PS looks set to post record presales of Bt13bn and QoQ revenue expansion for 3Q14 (despite the high top-line base comparison set by 2Q14). The market doesn't fully appreciate PS's progress, so we expect a street earnings projection upgrade following the announcement of results. There may also be scope of upside to our model, as residential sales and GM in 3Q14 are likely to beat our previous forecast. Our BUY rating stands with a YE15 target price of Bt43, pegged to a PER of 13x (1SD above PS's FY06-13 mean).

Record 3Q14 presales will surprise the market

Among our coverage, we expect PS to lead presales with a new record of Bt13bn in 3Q14, up by 17% YoY and 33% QoQ. Our model indicates that low-rise presales will post a new high for the second consecutive. Condo bookings will jump QoQ from the low base of Bt1.6bn in 2Q14. Three sizable condos launched in 3Q14 and reported good responses—take-up rates of 70% for The Signature by Urbano (project value of Bt2.1bn), 47% for The Tree Rio Bangor (Bt3.6bn) and 34% for Plum Condo Park Rangsit (Bt3.1bn).

Proven strong transference

Revenue recognition in 3Q14 will be about Bt12bn (up by 23% YoY and 11% QoQ), far above our previous forecast of Bt10bn. The mean booking-to-transference interval will shorten from 96 days in 2Q14 to 90 days in 3Q14. Thus, 3Q14 profit will rise YoY and QoQ (we previously forecast QoQ profit slippage from the high 2Q14 base). Top-line expansion should push NM from 13.9% in 3Q13 to 16.2% in 3Q14.

GM to hold firm on full utilization of prefabrication plants

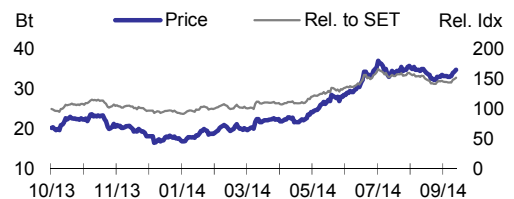
GM will be sustained QoQ at 36.8% in 3Q14 (the fattest GM since 2Q11), we believe. The number is notably better than our previous forecast of 35% because of full utilization rates at PS's prefabrication factories—production set new highs of 700 units in July and 731 in August (Figure 7). A further 43% expansion of prefab capacity to 1,120 units/month started test-running in late Sept.

PS looks set to beat its FY14 business plan

The firm's FY14 performance targets (presales of Bt43bn and revenue of Bt42bn) are likely to be beaten. 9M14 presales are expected at Bt31bn (72% of PS's FY14 target). The peak launch quarter of the year is 4Q14 (project value of Bt20-25bn), so we can also expect a surge in bookings. Posted 9M14 revenue will comprise 74% of PS's FY14 target (72% of our full-year forecast). We anticipate a consensus earnings projection upgrade soon, as 9M14 revenue will achieve 76% of the street number. Our earnings model is 10% above the consensus, the revenue forecast of which is too bearish at Bt40bn, we believe—4% below PS's target and 5% below our assumption.

Sector: Property (Residential) Overweight
Rating: BUY
Target Price: Bt43.00
Price (1 October 2014): Bt34.75

Price chart

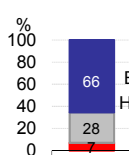


Share price perf. (%)	1M	3M	12M
Relative to SET	(0.7)	12.4	65.5
Absolute	0.7	18.8	78.2

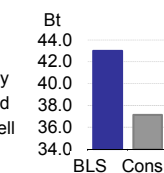
Key statistics

Market cap	Bt77.4bn	USD2.4bn
12-mth price range	Bt16.1/Bt37.0	
12-mth avg daily volume	Bt108m	USD3.3m
# of shares (m)	2,227	
Est. free float (%)	30.2	
Foreign limit (%)	40.0	

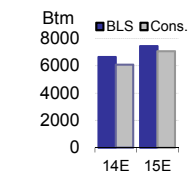
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	38,848	42,784	47,967	52,610
Net profit (Btm)	5,805	6,643	7,427	8,425
EPS (Bt)	2.61	2.99	3.34	3.79
EPS growth (%)	+48.5%	+14.4%	+11.8%	+13.4%
Core profit (Btm)	5,800	6,643	7,427	8,425
Core EPS (Bt)	2.61	2.99	3.34	3.79
Core EPS growth (%)	+48.2%	+14.5%	+11.8%	+13.4%
PER (x)	13.3	11.6	10.4	9.2
PBV (x)	3.1	2.6	2.2	1.9
Dividend (Bt)	0.9	1.0	1.1	1.2
Dividend yield (%)	2.4	2.8	3.1	3.5
ROE (%)	25.8	24.3	23.0	22.2

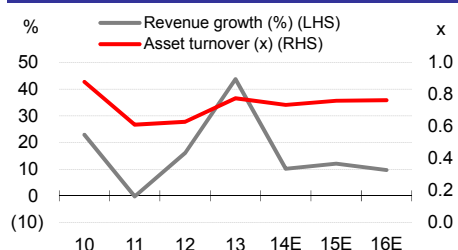
CG rating


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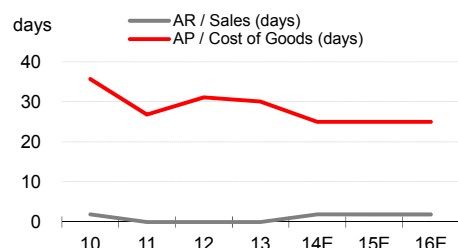
PS : Financial Tables – Year

	2012	2013	2014E	2015E	2016E
PROFIT & LOSS (Btm)					
Revenue	27,023	38,848	42,784	47,967	52,610
Cost of sales and services	(17,890)	(25,350)	(27,919)	(31,310)	(34,276)
Gross profit	9,133	13,498	14,865	16,657	18,334
SG&A	(3,925)	(6,077)	(6,464)	(7,099)	(7,523)
EBIT	5,208	7,421	8,401	9,558	10,810
Interest expense	(305)	(415)	(436)	(467)	(471)
Other income/exp.	117	193	193	193	193
EBT	5,020	7,199	8,159	9,285	10,533
Corporate tax	(1,123)	(1,399)	(1,514)	(1,857)	(2,107)
After-tax net profit (loss)	3,898	5,801	6,643	7,427	8,426
Minority interest	(0)	(1)	(1)	(1)	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	(5)	6	0	0	0
Net profit (loss)	3,892	5,805	6,643	7,427	8,425
Reported EPS	1.76	2.61	2.99	3.34	3.79
Fully diluted EPS	1.76	2.61	2.99	3.34	3.79
Core net profit	3,897	5,800	6,643	7,427	8,425
Core EPS	1.76	2.61	2.99	3.34	3.79
EBITDA	5,556	7,795	8,931	10,168	11,500
KEY RATIOS					
Revenue growth (%)	16.2	43.8	10.1	12.1	9.7
Gross margin (%)	33.8	34.7	34.7	34.7	34.8
EBITDA margin (%)	20.6	20.1	20.9	21.2	21.9
Operating margin (%)	19.3	19.1	19.6	19.9	20.5
Net margin (%)	14.4	14.9	15.5	15.5	16.0
Core profit margin (%)	14.4	14.9	15.5	15.5	16.0
ROA (%)	9.1	11.6	11.4	11.8	12.2
ROCE (%)	10.4	13.9	13.8	14.1	14.4
Asset turnover (x)	0.6	0.8	0.7	0.8	0.8
Current ratio (x)	0.5	0.5	0.5	0.5	0.5
Gearing ratio (x)	0.9	0.8	0.7	0.6	0.5
Interest coverage (x)	17.1	17.9	19.3	20.5	22.9
BALANCE SHEET (Btm)					
Cash & Equivalent	1,566	1,815	2,179	2,309	2,376
Accounts receivable	0	0	220	247	271
Inventory	37,818	48,687	52,209	57,296	63,239
PP&E-net	2,348	3,313	3,168	3,358	3,468
Other assets	2,090	2,380	2,436	2,498	2,566
Total assets	43,821	56,194	60,212	65,709	71,920
Accounts payable	1,527	2,090	1,912	2,144	2,348
ST debts & current portion	9,258	6,955	2,801	2,801	2,801
Long-term debt	8,250	14,000	17,600	17,600	17,600
Other liabilities	4,704	8,217	8,217	8,217	8,217
Total liabilities	23,739	31,262	30,530	30,762	30,965
Paid-up capital	2,213	2,223	2,223	2,223	2,223
Share premium	2,213	2,223	2,223	2,223	2,223
Retained earnings	16,474	21,165	25,915	31,179	37,187
Shareholders equity	20,081	24,931	29,681	34,945	40,953
Minority interests	0.4	1.8	1.8	1.8	1.8
Total Liab.&Shareholders' equity	43,821	56,194	60,212	65,709	71,920
CASH FLOW (Btm)					
Net income	3,892	5,805	6,643	7,427	8,425
Depreciation and amortization	348	374	530	610	690
Change in working capital	(1,182)	(8,262)	(3,977)	(4,944)	(5,832)
FX, non-cash adjustment & others	1,139	1,860	0	0	0
Cash flows from operating activities	4,197	(222)	3,196	3,093	3,283
Capex (Invest)/Divest	270	(837)	(385)	(800)	(800)
Others	(38)	0	0	0	0
Cash flows from investing activities	231	(837)	(385)	(800)	(800)
Debt financing (repayment)	(2,780)	2,349	(554)	0	0
Equity financing	56	141	0	0	0
Dividend payment	(884)	(1,110)	(1,889)	(2,162)	(2,417)
Others	(38)	0	0	0	0
Cash flows from financing activities	(4,550)	1,380	(2,447)	(2,162)	(2,417)
Net change in cash	(122)	320	364	130	66
Free cash flow (Btm)	4,467	(1,060)	2,811	2,293	2,483
FCF per share (Bt)	2.02	(0.48)	1.26	1.03	1.12
KEY ASSUMPTIONS					
Total presales (Btm)	29,000	31,320	33,826	36,532	39,454
YoY change in presales	13%	8%	8%	8%	8%
Housing revenue (Btm)	27,023	38,848	42,784	47,967	52,610
YoY change in housing revenue	16%	44%	10%	12%	10%
Secured revenue by backlogs (Btm)	-	-	34,954	15,203	4,935
% of secured revenue by backlogs	-	-	82%	32%	9%

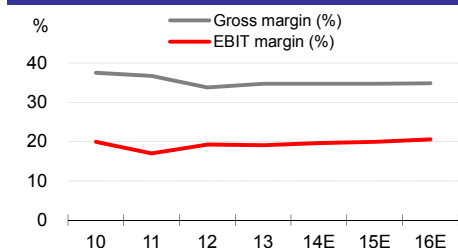
Revenue growth and asset turnover



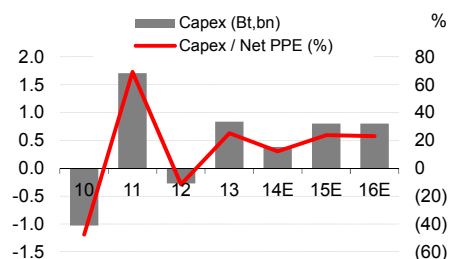
A/C receivable & A/C payable days



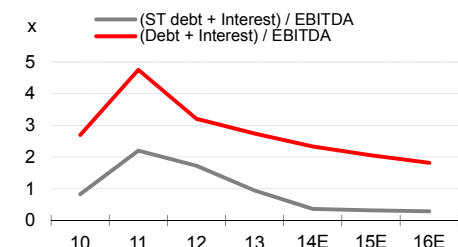
Profit margins



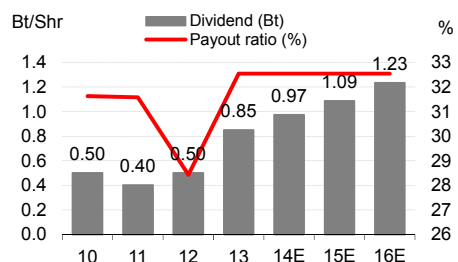
Capital expenditure



Debt serviceability



Dividend payout



PS : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	9,058	9,773	13,705	8,018	10,812
Cost of sales and services	(5,995)	(6,408)	(8,798)	(5,101)	(6,833)
Gross profit	3,063	3,364	4,907	2,916	3,978
SG&A	(1,302)	(1,609)	(1,992)	(1,469)	(1,613)
EBIT	1,761	1,755	2,914	1,447	2,365
Interest expense	(97)	(116)	(117)	(99)	(91)
Other income/exp.	66	27	73	37	53
EBT	1,731	1,666	2,869	1,386	2,327
Corporate tax	(322)	(309)	(608)	(322)	(457)
After-tax net profit (loss)	1,409	1,357	2,261	1,064	1,870
Minority interest	0.0	(0.3)	(0.1)	0.0	0.2
Equity earnings from affiliates	0	0	0	0	0
Extra items	6	(17)	33	0	0
Net profit (loss)	1,415	1,339	2,294	1,064	1,871
Reported EPS	0.64	0.60	1.03	0.48	0.84
Fully diluted EPS	0.64	0.61	1.03	0.48	0.84
Core net profit	1,409	1,357	2,261	1,064	1,871
Core EPS	0.63	0.61	1.02	0.48	0.84
EBITDA	1,930	1,866	3,078	1,579	2,502

KEY RATIOS

Gross margin (%)	33.8	34.4	35.8	36.4	36.8
EBITDA margin (%)	21.3	19.1	22.5	19.7	23.1
Operating margin (%)	19.4	18.0	21.3	18.1	21.9
Net margin (%)	15.6	13.7	16.7	13.3	17.3
Core profit margin (%)	15.6	13.9	16.5	13.3	17.3
BV (Bt)	9.6	10.2	11.2	11.7	11.7
ROE (%)	26.6	23.7	36.8	16.4	28.8
ROA (%)	10.9	9.7	16.3	7.2	12.2
Current ratio (x)	7.4	9.0	9.2	10.4	9.2
Gearing ratio (x)	1.0	1.0	0.8	0.9	1.0
Interest coverage (x)	18.2	15.1	24.8	14.6	26.0

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	2,155	1,964	1,815	1,953	1,657
Accounts receivable	0	0	0	0	0
Inventory	44,487	48,227	48,687	51,887	53,967
PP&E-net	2,088	2,125	3,313	2,739	3,162
Other assets	2,997	3,134	2,380	2,679	2,561
Total assets	51,727	55,452	56,194	59,259	61,347
Accounts payable	4,712	4,787	5,288	5,322	4,736
ST debts & current portion	7,137	9,313	6,955	6,761	10,345
Long-term debt	14,005	14,006	14,007	16,131	15,549
Other liabilities	4,588	4,715	5,012	5,022	4,703
Total liabilities	30,442	32,820	31,262	33,236	35,333
Paid-up capital	2,222	2,223	2,223	2,224	2,224
Share premium	1,588	1,589	1,594	0	1,612
Retained earnings	17,546	18,903	21,165	22,230	22,210
Shareholders' equity	21,285	22,629	24,931	26,023	26,014
Minority interests	0.4	2.5	1.8	0.8	0.6
Total Liab.&Shareholders' equity	51,727	55,452	56,194	59,259	61,347

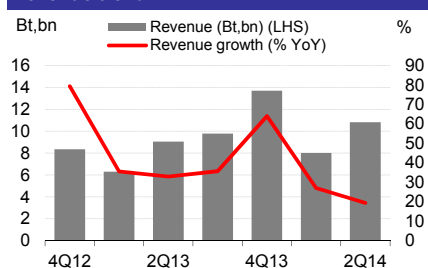
KEY STATS

Total presales (Btm)	10,341	11,096	7,516	8,194	9,743
YoY change in presales	47%	39%	-14%	-34%	-6%
Housing revenue (Btm)	9,058	9,773	13,705	8,018	10,812
YoY change in housing revenue	33%	36%	64%	27%	19%
Housing GM	34%	34%	36%	36%	37%

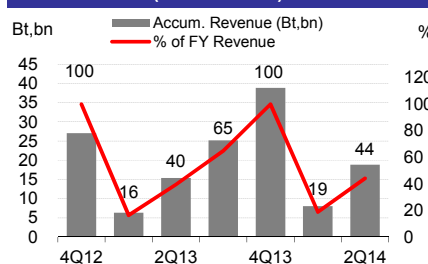
Company profile

Preuksa Real Estate Plc (PS) is the biggest residential developer in Thailand. It focuses on the low- to mid-income segments in Bangkok. Its business model is unique—the firm owns pre-cast concrete factories that make many component parts for detached houses, THs and condos.

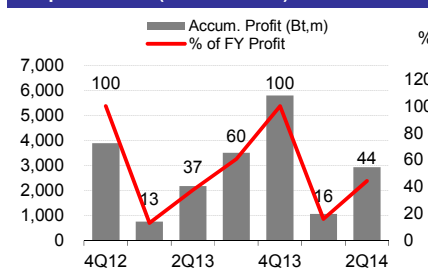
Revenue trend



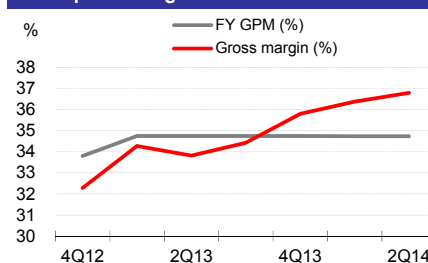
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

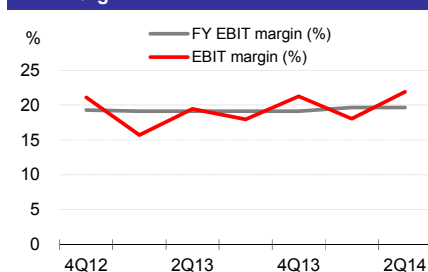


Figure 1 : Launch and revenue profiles

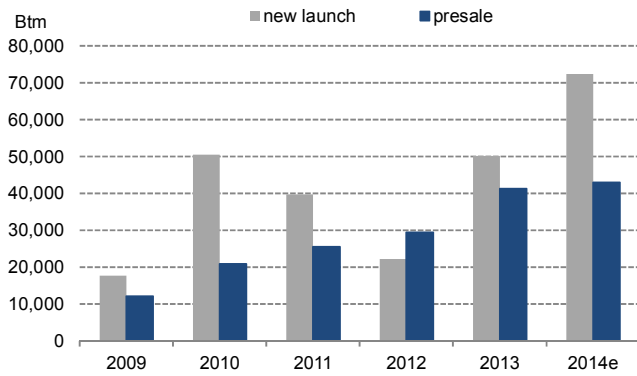


Figure 2 : Revenue profile, breakdown by category

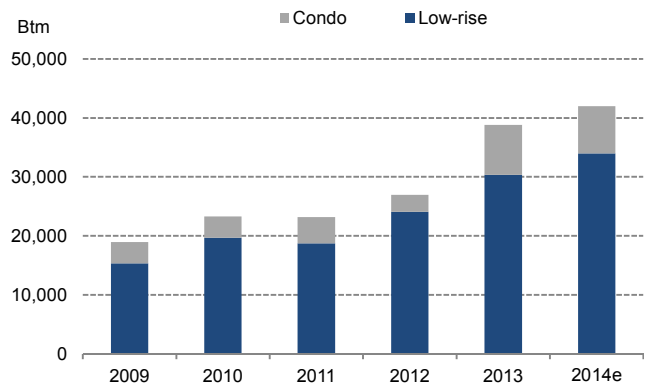


Figure 3 : New launch, by quarter

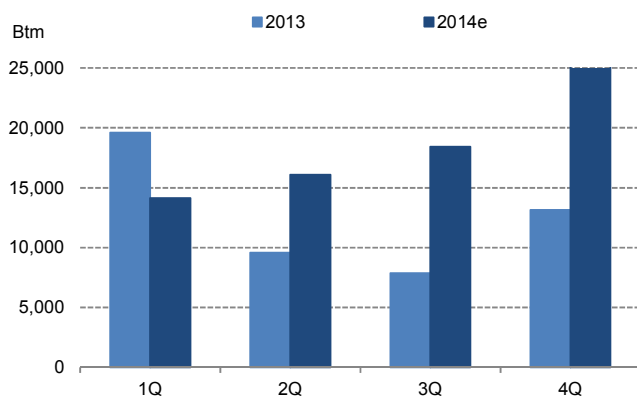


Figure 4 : Record total presales expected for 3Q14

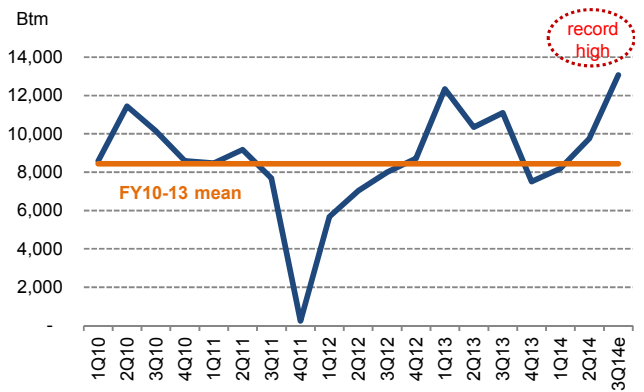


Figure 5 : Revenue, by quarter

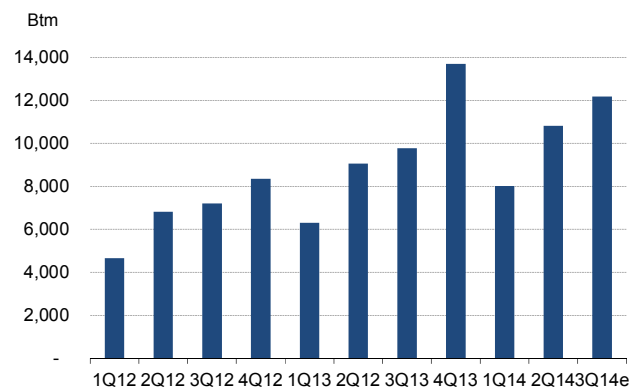


Figure 6 : Core profit, by quarter

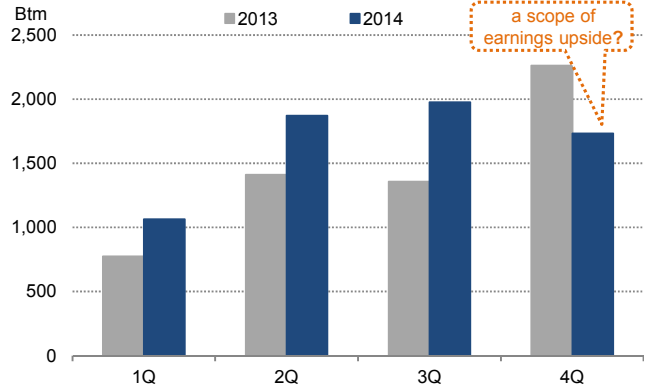


Figure 7 : Mean utilization rate of prefab factories

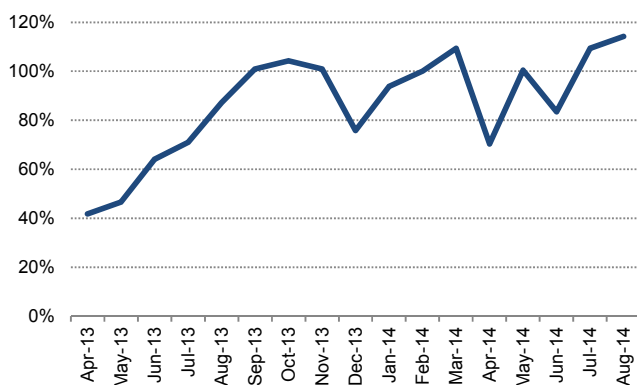
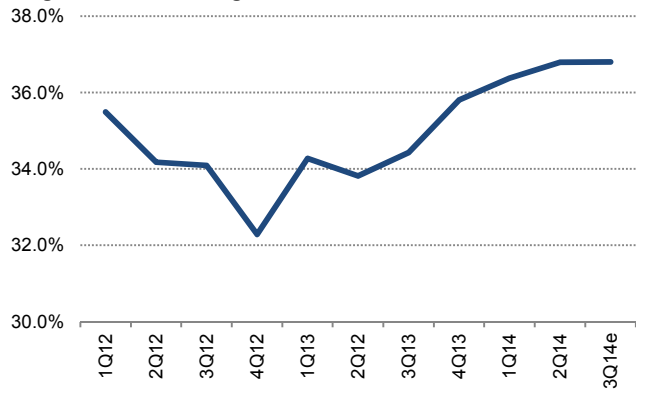


Figure 8 : Gross margin

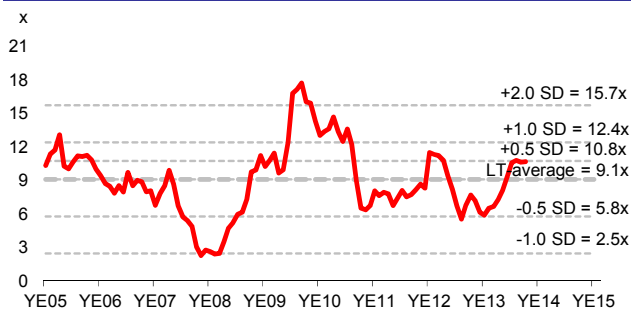


Sources: Company data, Bualuang Research

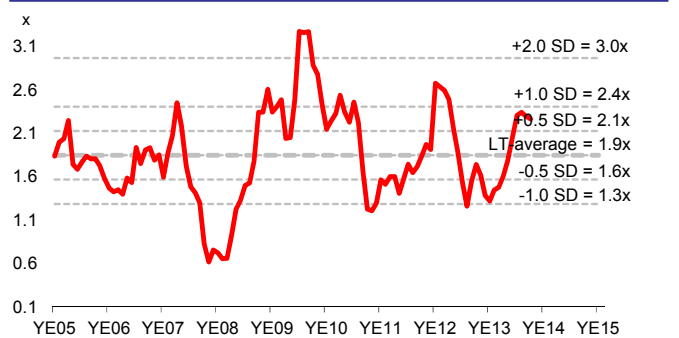
Sector Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Ananda Development	ANAN TB	THB4.14	425	14.5	118	17.0	22.9	2.1	18	15.1	16.3	14	17
AP (Thailand)	AP TB	THB7.20	635	9.0	8.2	13.7	9.9	13	12	15.4	15.2	3.6	4.0
Land and Houses	LH TB	THB10.30	3,430	17.4	15.3	-8.4	13.9	2.8	2.6	18.4	18.1	4.6	5.2
L.P.N. Development	LPN TB	THB22.10	1,006	14.1	10.4	-0.2	35.7	3.1	2.6	22.7	26.8	3.7	4.8
Pruksa Real Estate	PSTB	THB34.75	2,386	116	10.4	14.4	118	2.6	2.2	24.3	23.0	2.8	3.1
Quality Houses	QHTB	THB4.24	1,201	111	9.2	6.5	20.5	2.0	18	19.2	20.5	4.1	4.9
Raimon Land	RML TB	THB2.24	247	6.5	6.8	10.4	-4.3	2.0	16	49.5	33.5	4.9	7.5
SC Asset Corporation	SC TB	THB3.92	449	11.3	9.4	24.3	19.5	13	12	11.8	13.2	3.7	4.4
Sansiri	SIRI TB	THB2.34	696	7.9	10.3	56.0	-22.7	12	12	16.7	11.8	4.7	5.2
Supalai	SPALI TB	THB26.25	1,389	10.7	9.5	46.7	12.5	2.5	2.2	26.8	25.4	3.9	4.4
Simple average				11.4	10.1	28.0	12.0	2.1	1.8	22.0	20.4	3.7	4.5

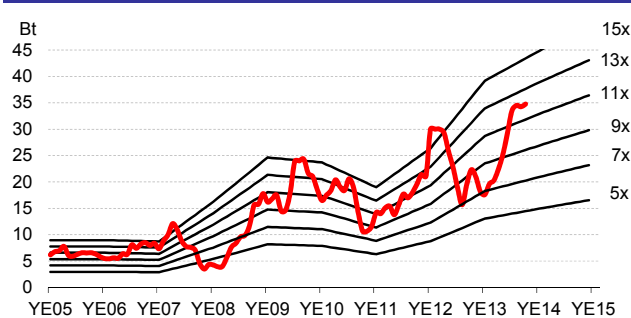
PER band versus SD (next 12 months)



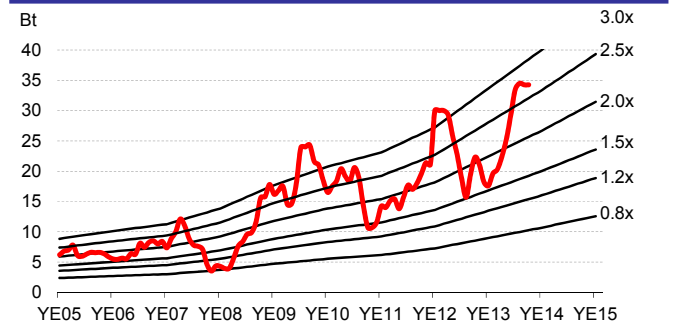
PBV band versus SD (next 12 months)



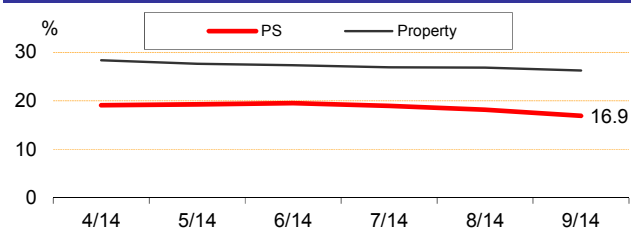
PER band and share price



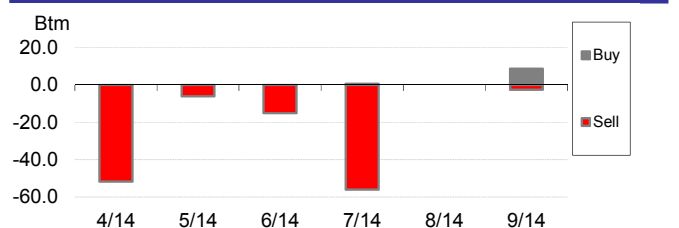
PBV band and share price



Foreign holding



Management trading activities during past six months








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
TSE	BA, BGH, TSE

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

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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.