

Pruksa Real Estate

11 November 2014

PS TB / PS.BK

3Q14 profit disappointed us (but was in line with the street estimate)

Below our estimate

PS posted a core profit of Bt1.8bn for 3Q14, up 37%% YoY but down 2% QoQ. The result was 7% below our estimate, as the top-line was 5% lower than we had assumed. The reported profit was in line with the consensus.

Results highlights

The strong YoY earnings growth was led by sales (up 19% YoY to Bt11.6bn), a fatter GM (up 2.3% YoY to 36.8%) and a lower SG&A/sales ratio (down 0.5% to 16.0%). The sales breakdown was 49% TH, 22% SDH and 29% condo. Transference rose by 31% YoY for condos, by 17% for SDHs and by 12% for THs. GM expanded 2.3% YoY (stable QoQ) to 36.8% in 3Q14. The QoQ profit slippage was because of a higher SG&A/sales ratio tied to a heavy launch schedule (the SG&A/sales ratio rose 0.5% QoQ) and a higher effective tax rate (up 2.0% QoQ to 21.6%), which outweighed the effect of 7% QoQ sales growth. Net gearing dipped from 0.9x at end-June to 0.8x at end-Sept.

Outlook

We anticipate a YoY earnings contraction in 4Q14, due to the high base set by an unprecedented profit of Bt2.3bn in 4Q13. Revenue may beat PS's record of Bt14bn in 4Q13. But, net margin will be squeezed YoY, as precast factory capacity was expanded in Sept (from 640 units/month to 1,120 units/month), so the utilization rate will drop.

However, 4Q14 profit is expected to rise moderately QoQ, driven by top-line growth (Bt12bn in presales at end-Sept to transfer in 4Q14). PS has a big low-rise backlog and will start transferring three condos in 4Q14—The Tree Privata (Bt729m, 90% booked), The Privacy Tlwanon (Bt283m, 27% booked) and Condolette Dwell (Bt996m, 59% booked, delayed from 3Q14).

What's changed?

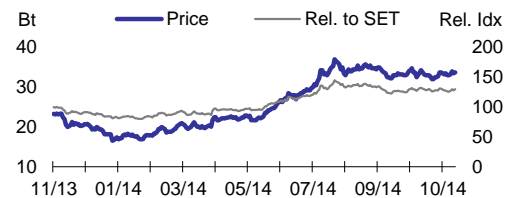
9M14 profit represents 72% of our FY14 forecast (78% of the consensus), so our model stands unchanged. Note that our FY14 earnings model is 10% above the consensus, so a street projection upgrade is likely (actual 10M14 transference equals about 75% of the street number). The Bt39bn presales backlog at end-Sept secures 99% of our FY14 revenue assumption and 33% of our FY15 forecast.

Recommendation

We maintain our BUY rating with a YE15 target price of Bt43, pegged to a PER of 13x (1SD above PS's FY06-13 mean). PS trades at an FY15 PER of 10.1x against an 11.0x ResDev coverage mean. The share price would gain from a consensus earnings forecast upgrade. Additional presales from low-rise projects and inventory at completed condos would boost FY15 revenue visibility. We assume 12% top-line growth next year.

Sector: Property (Residential) Overweight
Rating: BUY
Target Price: Bt43.00
Price (10 November 2014): Bt33.75

Price chart

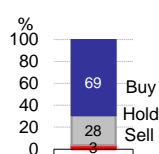


Share price perf. (%)	1M	3M	12M
Relative to SET	(0.9)	(6.4)	33.4
Absolute	-	(4.9)	44.8

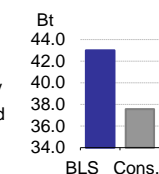
Key statistics

Market cap	Bt75.1bn	USD2.3bn
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	

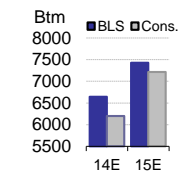
Consensus rating



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)	12.9	11.3	10.1	8.9
PBV (x)	3.0	2.5	2.1	1.8
Dividend (Bt)	0.9	1.0	1.1	1.2
Dividend yield (%)	2.5	2.9	3.2	3.7
ROE (%)	25.8	24.3	23.0	22.2

CG rating



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PS : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
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	8,426
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

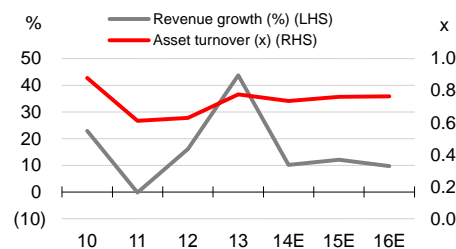
CASH FLOW (Btm)

Net income	3,892	5,805	6,643	7,427	8,426
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

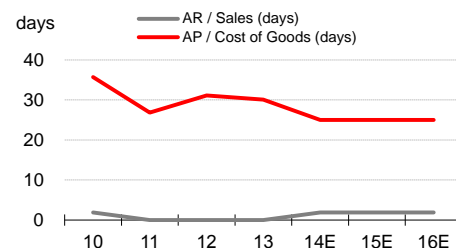
KEY ASSUMPTIONS

	2012	2013	2014E	2015E	2016E
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)	-	-	42,357	15,829	4,935
% of secured revenue by backlogs	-	-	99%	33%	9%

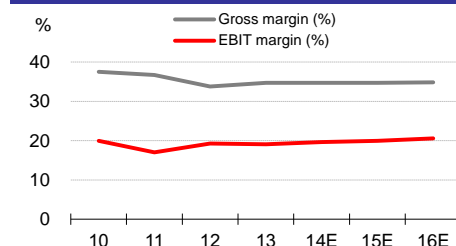
Revenue growth and asset turnover



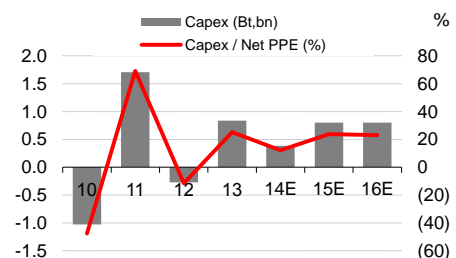
A/C receivable & A/C payable days



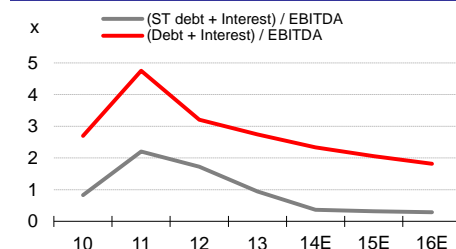
Profit margins



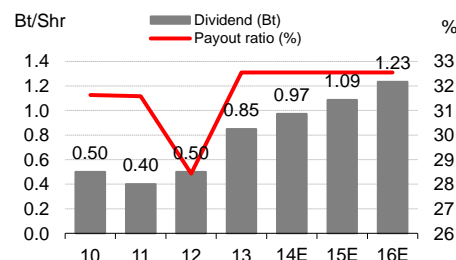
Capital expenditure



Debt serviceability



Dividend payout



PS : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	9,773	13,705	8,018	10,812	11,586
Cost of sales and services	(6,408)	(8,798)	(5,101)	(6,833)	(7,327)
Gross profit	3,364	4,907	2,916	3,978	4,259
SG&A	(1,609)	(1,992)	(1,469)	(1,613)	(1,853)
EBIT	1,755	2,914	1,447	2,365	2,406
Interest expense	(116)	(117)	(99)	(91)	(97)
Other income/exp.	27	73	37	53	35
EBT	1,666	2,869	1,386	2,327	2,344
Corporate tax	(309)	(608)	(322)	(457)	(507)
After-tax net profit (loss)	1,357	2,261	1,064	1,870	1,837
Minority interest	(0.3)	(0.1)	0.0	0.2	1.0
Equity earnings from affiliates	0	0	0	0	0
Extra items	(17)	33	0	0	0
Net profit (loss)	1,339	2,294	1,064	1,871	1,838
Reported EPS	0.60	1.03	0.48	0.84	0.83
Fully diluted EPS	0.61	1.03	0.48	0.84	0.83
Core net profit	1,357	2,261	1,064	1,871	1,838
Core EPS	0.61	1.02	0.48	0.84	0.83
EBITDA	1,866	3,078	1,579	2,502	2,505

KEY RATIOS

Gross margin (%)	34.4	35.8	36.4	36.8	36.8
EBITDA margin (%)	19.1	22.5	19.7	23.1	21.6
Operating margin (%)	18.0	21.3	18.1	21.9	20.8
Net margin (%)	13.7	16.7	13.3	17.3	15.9
Core profit margin (%)	13.9	16.5	13.3	17.3	15.9
BV (Bt)	10.2	11.2	11.7	11.7	12.5
ROE (%)	23.7	36.8	16.4	28.8	26.4
ROA (%)	9.7	16.3	7.2	12.2	11.9
Current ratio (x)	9.0	9.2	10.4	9.2	11.2
Gearing ratio (x)	1.0	0.8	0.9	1.0	0.9
Interest coverage (x)	15.1	24.8	14.6	26.0	24.8

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,964	1,815	1,953	1,657	1,597
Accounts receivable	0	0	0	0	0
Inventory	48,227	48,687	51,887	53,967	53,750
PP&E-net	2,125	3,313	2,739	3,162	3,611
Other assets	3,134	2,380	2,679	2,561	2,689
Total assets	55,452	56,194	59,259	61,347	61,648
Accounts payable	4,787	5,288	5,322	4,736	5,198
ST debts & current portion	9,313	6,955	6,761	10,345	4,895
Long-term debt	14,006	14,007	16,131	15,549	19,250
Other liabilities	4,715	5,012	5,022	4,703	4,427
Total liabilities	32,820	31,262	33,236	35,333	33,770
Paid-up capital	2,223	2,223	2,224	2,224	2,227
Share premium	1,589	1,594	0	1,612	1,619
Retained earnings	18,903	21,165	22,230	22,210	24,049
Shareholders equity	22,629	24,931	26,023	26,014	27,878
Minority interests	2.5	1.8	0.8	0.6	(0.4)
Total Liab.&Shareholders' equity	55,452	56,194	59,259	61,347	61,648

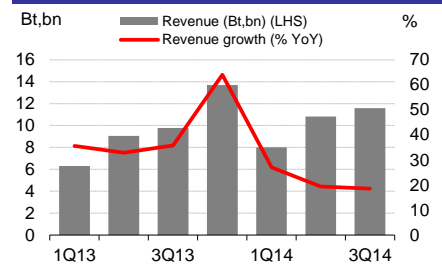
KEY STATS

Total presales (Btm)	11,096	7,516	8,194	9,743	13,393
YoY change in presales	39%	-14%	-34%	-6%	21%
Housing revenue (Btm)	9,773	13,705	8,018	10,812	11,586
YoY change in housing revenue	36%	64%	27%	19%	19%
Housing GM	34%	36%	36%	37%	37%

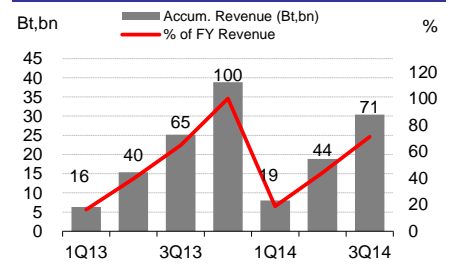
Company profile

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.

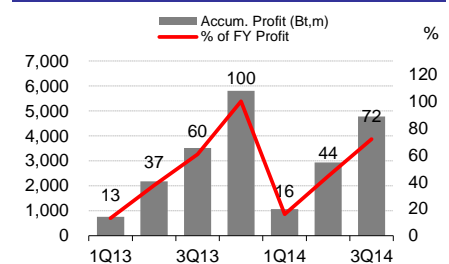
Revenue trend



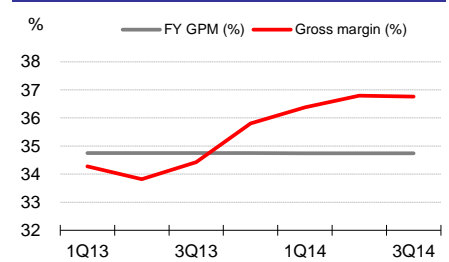
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

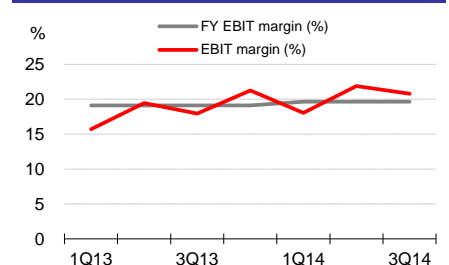


Figure 1 : 3Q14 results

FY Ended 31 Dec (Btm)	3Q14	3Q13	YoY %	2Q14	QoQ %	9M14	9M13	YoY %	9M14 vs. FY14E
Income Statement									
Revenue	11,586	9,773	19	10,812	7	30,415	25,143	21	71
Cost of sales and services	(7,327)	(6,408)	14	(6,833)	7	(19,261)	(16,552)	16	69
EBITDA	2,505	1,866	34	2,502		6,585	4,910		
EBIT	2,406	1,755	37	2,365	2	6,219	4,507	38	74
Interest expense	(97)	(116)	(16)	(91)	7	(287)	(298)	(4)	66
Other income/exp.	35	27	33	53	(33)	125	121	4	65
Equity earnings from affiliates	0	0	nm	0	0	0	0	nm	0
Extra items	0	(17)	nm	0	0	0	(27)	nm	
EBT	2,344	1,666	41	2,327	1	6,057	4,330	40	74
Corporate tax	(507)	(309)	64	(457)	11	(1,286)	(791)	63	
Minority interest	1	(0)	0	0	0	1	(0)	0	
Net profit (loss)	1,838	1,339	37	1,871	(2)	4,773	3,512	36	72
Reported EPS	0.83	0.60	37	0.84	(2)	2.15	1.58	36	
Core net profit	1,838	1,357	36	1,871	(2)	4,773	3,539	35	72
Key ratios									
Gross margin (%)	36.8	34.4		36.8		36.7	34.2		
EBITDA margin (%)	21.6	19.1		23.1		21.7	19.5		
EBIT margin (%)	20.8	18.0		21.9		20.4	17.9		
Tax rate (%)	21.6	18.5		19.6		21.2	18.3		
Net margin (%)	15.9	13.7		17.3		15.7	14.0		
Current ratio (x)	11.2	9.0		9.2		11.2	9.0		
Gearing ratio (x)	0.9	1.0		1.0		0.9	1.0		
Interest coverage (x)	24.8	15.1		26.0		21.7	15.1		
Balance Sheet									
Cash & Equivalent	1,597	1,964	(19)	1,657	(4)				
Total assets	61,648	55,452	11	61,347	0				
ST debts & current portion	4,895	9,313	(47)	10,345	(53)				
Long-term debt	19,250	14,006	37	15,549	24				
Total liabilities	33,770	32,820	3	35,333	(4)				
Retained earnings	24,049	18,903	27	22,210	8				
Shareholders equity	27,878	22,629	23	26,014	7				
Minority interests	(0)	3	0	1	0				
BV (Bt)	12.5	10.2	23	11.7	7				

- TH, SDH and condo revenue all rose YoY and QoQ
- YoY EBIT growth was due to sales, a fatter GM and a lower SG&A/sales ratio
- The effective tax rate rose YoY and QoQ to 21.6% in 3Q14
- Core profit was 7% below our estimate, but was in line with the consensus

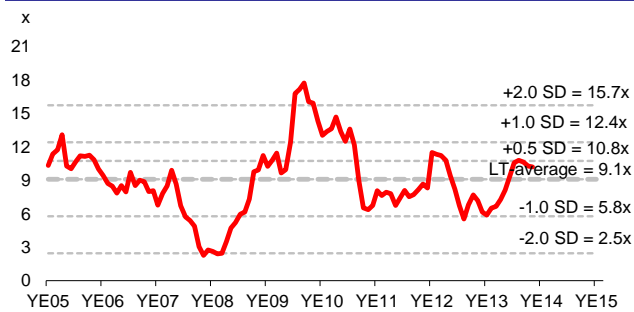
- Strong balance sheet

Sources: Company data, Bualuang Research estimates

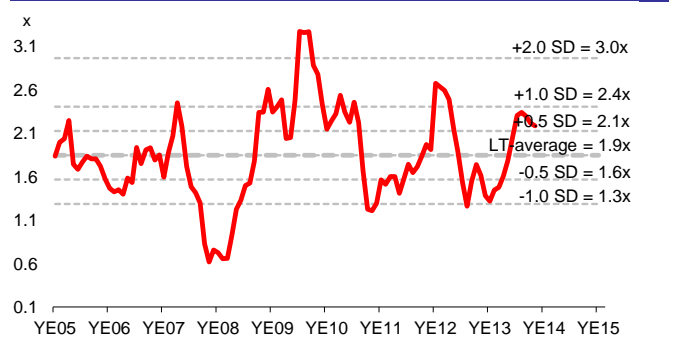
Sector Comparisons

	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	THB3.66	372	12.8	10.5	17.0	22.9	18	16	15.1	16.3	16	19
AP (Thailand)	AP TB	THB6.65	637	8.3	7.6	13.7	9.9	12	11	15.4	15.2	3.9	4.3
Land and Houses	LHTB	THB9.80	3,279	16.6	14.5	-8.4	13.9	2.6	2.5	18.4	18.1	4.8	5.5
L.P.N. Development	LPN TB	THB23.60	1,061	15.1	11.1	-0.2	35.7	3.3	2.8	22.7	26.8	3.4	4.5
Pruksa Real Estate	PSTB	THB33.75	2,289	11.3	10.1	14.4	118	2.5	2.1	24.3	23.0	2.9	3.2
Quality Houses	QHTB	THB4.18	1,169	10.9	9.0	6.5	20.5	2.0	1.7	19.2	20.5	4.1	5.0
Raimon Land	RML TB	THB2.06	224	5.1	6.3	146.5	-18.7	16	13	52.5	28.6	6.2	6.1
SC Asset Corporation	SC TB	THB3.58	405	10.3	8.6	24.3	19.5	12	11	118	13.2	4.0	4.8
Sansiri	SIRI TB	THB1.99	69	8.9	9.4	10.7	-5.0	11	11	15.2	11.7	5.6	5.9
Supalai	SPALITB	THB26.25	1,372	10.7	9.5	46.7	12.5	2.5	2.2	26.8	25.4	3.9	4.4
Simple average				11.0	9.7	27.1	12.3	2.0	1.7	22.2	19.9	4.1	4.6

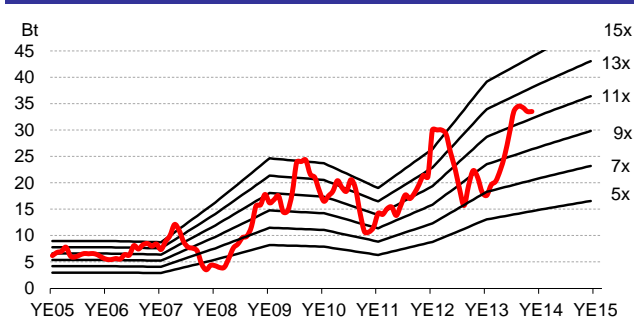
PER band versus SD (next 12 months)



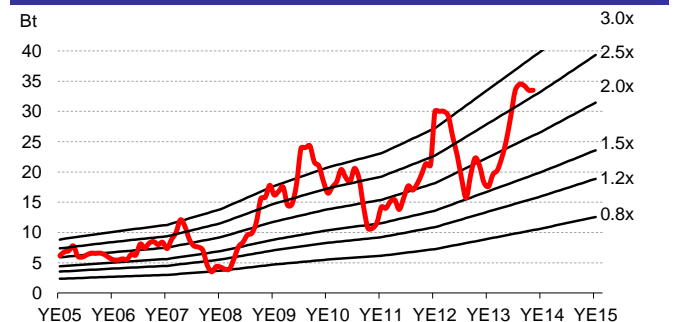
PBV band versus SD (next 12 months)



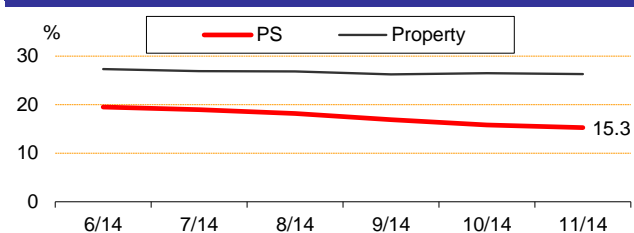
PER band and share price



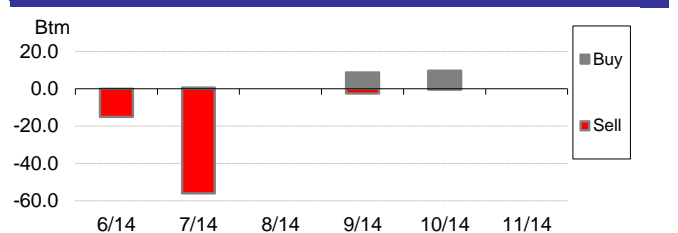
PBV band and share price



Foreign holding



Management trading activities during past six months








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