

Pruksa Real Estate

26 January 2015

PS TB / PS.BK

Aggressive FY15 business plan

Investment thesis

PS's failure to deliver its FY14 presales target and weak 4Q14 bookings didn't surprise us or the market. The market will wait for proof of presales growth and margin sustainability before it bids up the share price, we believe. Moderate presales growth is expected for March, as two condos will launch during 1Q15 (Midtown Ladprao 24 and The Tree Elegance Nonthaburi). Our BUY rating stands with a YE15 target price of Bt37, pegged to a PER of 11x (0.5SD above PS's FY06-14 mean).

FY14 presales target missed, but revenue target achievable

FY14 presales were Bt39bn (down 5% YoY), which missed PS's target by 9%, due to launch postponements for Chapter One Midtown Ladprao 24 condo (Bt1.8bn) and two TH projects from 4Q14 to 1Q15. But PS will beat its FY14 revenue target of Bt42bn slightly (Bt42.5bn in our model). Thus, 4Q14 presales were Bt7.8bn, up 3% YoY but down 42% QoQ. We anticipate Bt12bn in revenue for the quarter (down 11% YoY but up 5% QoQ) and a Bt1.8bn net profit (down 20% YoY, flattish QoQ), including a Bt70m provision for the Vietnam operation (none in 4Q13).

Aggressive FY15 business plan

Scheduled FY15 launch value is Bt55-61bn (70-75 projects) versus Bt57bn for FY14 (62 projects). PS aims for presales growth of 20% YoY to Bt47bn (68% low-rise, 31% condo). Its low-rise presales growth target of 12% to Bt32bn looks achievable, given its historical record (growth of 12% in FY13 and 13% in FY14). However, the condo presales growth target of 41% to Bt14bn appears too bullish. PS guides for revenue of Bt47bn for FY15, up 12%. The presales backlog (Bt34bn in total, of which Bt23bn is to transfer this year) secures 49% of targeted FY15 revenue.

Minimum net margin of 15%

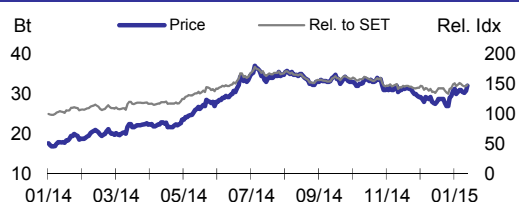
PS intends to sustain a net margin of at least 15% for FY15 (15.5% in our model; the street assumption is 15.2%), despite Bt190m in additional depreciation expenses from the expansion of prefabrication plants (capacity jumped 75% to 1,120 units/month in Oct 2014). The scope for NM upside is capped in the near future by low utilization rates for the new precast factories in their initial phase of operation. PS expects the run rates to rise from 20% in 4Q14 to 80% in 2H15. However, a mean sales price increase of 2-5% and easing construction costs (chiefly lower fuel prices) mitigate the downside risks to PS's margins.

Slightly higher leverage on heavy land CAPEX in FY15

The interest-bearing debt/equity ratio is likely to post a decline from 0.9x at end-Sept 2014 to 0.8x at YE14, thanks to a shorter mean booking-to-transference interval—from 90 days in 3Q14 to 85 days in 4Q14. However, the leverage ratio will increase somewhat during this year to 0.8-1.0x (the internal policy ceiling is 1.25x), as the land acquisition budget has jumped from Bt6.2bn for FY14 to Bt14bn for FY15.

Sector: Property (Residential) Neutral
Rating: BUY
Target Price: Bt37.00
Price (23 January 2015): Bt32.00

Price chart

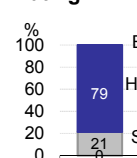


Share price perf. (%)	1M	3M	12M
Relative to SET	6.9	(3.8)	54.6
Absolute	11.3	-	76.8

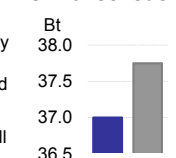
Key statistics

Market cap	Bt71.3bn	USD2.2bn
12-mth price range	Bt16.7/Bt37.0	
12-mth avg daily volume	Bt128m	USD3.9m
# of shares (m)	2,227	
Est. free float (%)	30.2	
Foreign limit (%)	40.0	

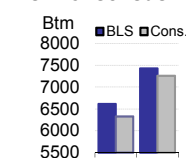
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	38,848	42,584	47,967	52,610
Net profit (Btm)	5,805	6,612	7,427	8,425
EPS (Bt)	2.61	2.97	3.34	3.79
EPS growth (%)	+48.5%	+13.9%	+12.3%	+13.4%
Core profit (Btm)	5,800	6,767	7,427	8,425
Core EPS (Bt)	2.61	3.04	3.34	3.79
Core EPS growth (%)	+48.2%	+16.7%	+9.8%	+13.4%
PER (x)	12.3	10.8	9.6	8.4
PBV (x)	2.9	2.4	2.0	1.7
Dividend (Bt)	0.9	1.0	1.1	1.2
Dividend yield (%)	2.7	3.0	3.4	3.9
ROE (%)	25.8	24.2	23.0	22.2

CG rating



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Securities Fundamental Investment Analyst

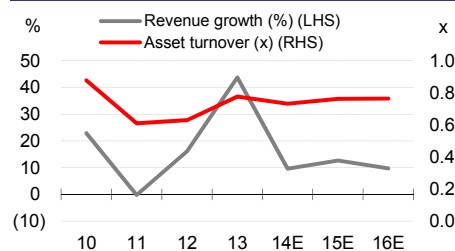
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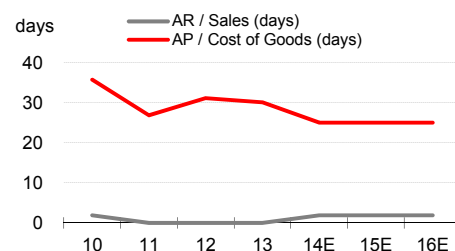
PS : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	27,023	38,848	42,584	47,967	52,610
Cost of sales and services	(17,890)	(25,350)	(27,419)	(31,310)	(34,276)
Gross profit	9,133	13,498	15,165	16,657	18,334
SG&A	(3,925)	(6,077)	(6,610)	(7,099)	(7,523)
EBIT	5,208	7,421	8,555	9,558	10,810
Interest expense	(305)	(415)	(436)	(467)	(471)
Other income/exp.	117	193	193	193	193
EBT	5,020	7,199	8,313	9,285	10,533
Corporate tax	(1,123)	(1,399)	(1,545)	(1,857)	(2,107)
After-tax net profit (loss)	3,898	5,801	6,768	7,428	8,426
Minority interest	(0)	(1)	(1)	(1)	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	(5)	6	(155)	0	0
Net profit (loss)	3,892	5,805	6,612	7,427	8,425
Reported EPS	1.76	2.61	2.97	3.34	3.79
Fully diluted EPS	1.76	2.61	2.97	3.34	3.79
Core net profit	3,897	5,800	6,767	7,427	8,425
Core EPS	1.76	2.61	3.04	3.34	3.79
EBITDA	5,556	7,795	9,085	10,168	11,500
KEY RATIOS					
Revenue growth (%)	16.2	43.8	9.6	12.6	9.7
Gross margin (%)	33.8	34.7	35.6	34.7	34.8
EBITDA margin (%)	20.6	20.1	21.3	21.2	21.9
Operating margin (%)	19.3	19.1	20.1	19.9	20.5
Net margin (%)	14.4	14.9	15.5	15.5	16.0
Core profit margin (%)	14.4	14.9	15.9	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	19.6	20.5	22.9
BALANCE SHEET (Btm)					
Cash & Equivalent	1,566	1,815	2,227	1,975	2,011
Accounts receivable	0	0	219	247	271
Inventory	37,818	48,687	52,096	57,610	63,582
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	60,146	65,688	71,899
Accounts payable	1,527	2,090	1,878	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	30,496	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	25,883	31,158	37,166
Shareholders equity	20,081	24,931	29,649	34,924	40,932
Minority interests	0.4	1.8	1.8	1.8	1.8
Total Liab.&Shareholders' equity	43,821	56,194	60,146	65,688	71,899
CASH FLOW (Btm)					
Net income	3,892	5,805	6,612	7,427	8,425
Depreciation and amortization	348	374	530	610	690
Change in working capital	(1,182)	(8,262)	(3,898)	(5,336)	(5,861)
FX, non-cash adjustment & others	1,139	1,860	155	0	0
Cash flows from operating activities	4,197	(222)	3,399	2,700	3,254
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	(709)	0	0
Equity financing	56	141	0	0	0
Dividend payment	(884)	(1,110)	(1,889)	(2,152)	(2,417)
Others	(38)	0	0	0	0
Cash flows from financing activities	(4,550)	1,380	(2,602)	(2,152)	(2,417)
Net change in cash	(122)	320	411	(252)	36
Free cash flow (Btm)	4,467	(1,060)	3,014	1,900	2,454
FCF per share (Bt)	2.02	(0.48)	1.36	0.85	1.10
KEY ASSUMPTIONS	2012	2013	2014E	2015E	2016E
Total presales (Btm)	29,000	39,090	47,000	51,700	56,870
YoY change in presales	13%	35%	20%	10%	10%
Housing revenue (Btm)	27,023	38,848	42,584	47,967	52,610
YoY change in housing revenue	16%	44%	10%	13%	10%
Secured revenue by backlogs (Btm)	-	-	42,415	22,862	8,172
% of secured revenue by backlogs	-	-	100%	48%	16%

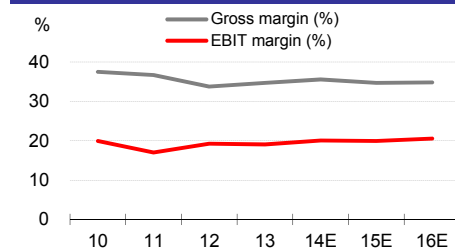
Revenue growth and asset turnover



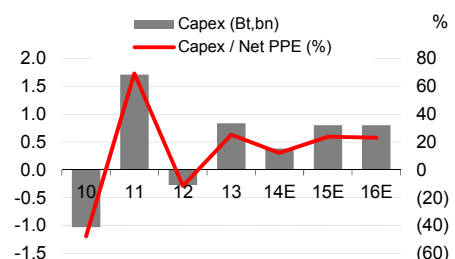
A/C receivable & A/C payable days



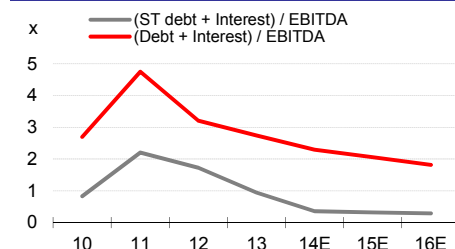
Profit margins



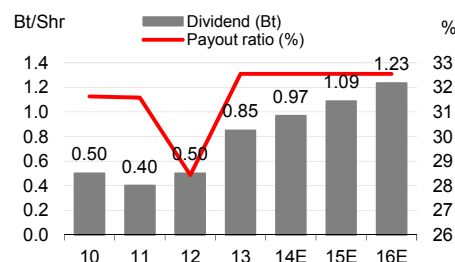
Capital expenditure



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)	(1,768)
EBIT	1,755	2,914	1,447	2,365	2,491
Interest expense	(116)	(117)	(99)	(91)	(97)
Other income/exp.	27	73	37	53	35
EBT	1,666	2,869	1,386	2,327	2,429
Corporate tax	(309)	(608)	(322)	(457)	(507)
After-tax net profit (loss)	1,357	2,261	1,064	1,870	1,922
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	(85)
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	1,923
Core EPS	0.61	1.02	0.48	0.84	0.86
EBITDA	1,866	3,078	1,579	2,502	2,590

KEY RATIOS

Gross margin (%)	34.4	35.8	36.4	36.8	36.8
EBITDA margin (%)	19.1	22.5	19.7	23.1	22.4
Operating margin (%)	18.0	21.3	18.1	21.9	21.5
Net margin (%)	13.7	16.7	13.3	17.3	15.9
Core profit margin (%)	13.9	16.5	13.3	17.3	16.6
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	25.7

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

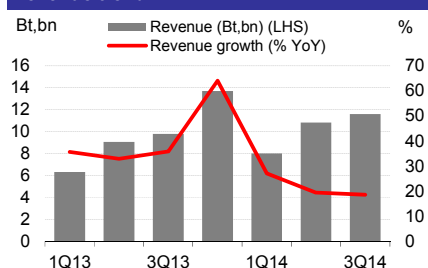
KEY STATS

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%

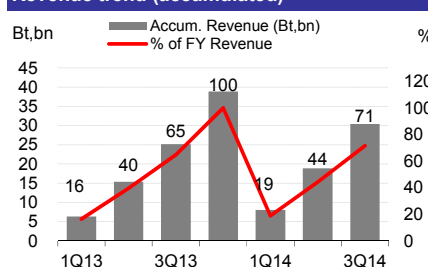
Company profile

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.

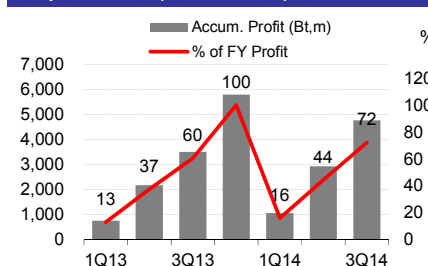
Revenue trend



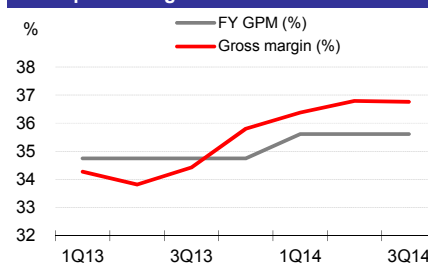
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

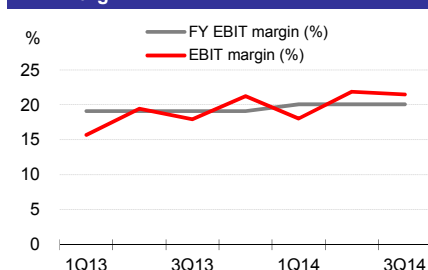


Figure 1 : New launch and presales profiles

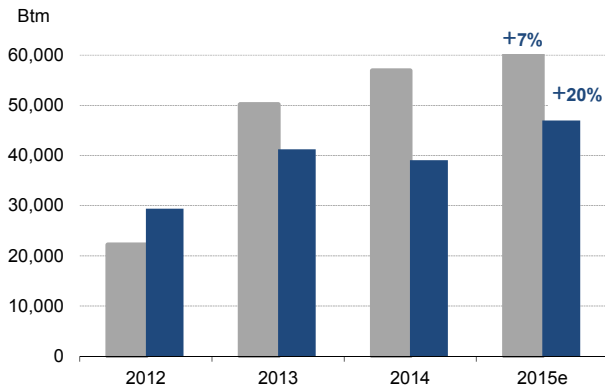


Figure 2 : Revenue profile and growth

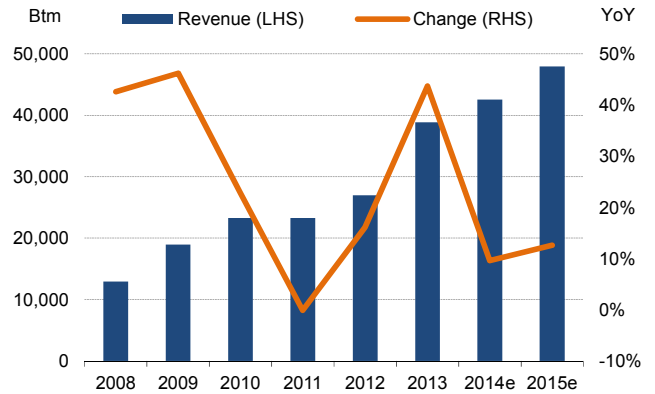


Figure 3 : Gross margin

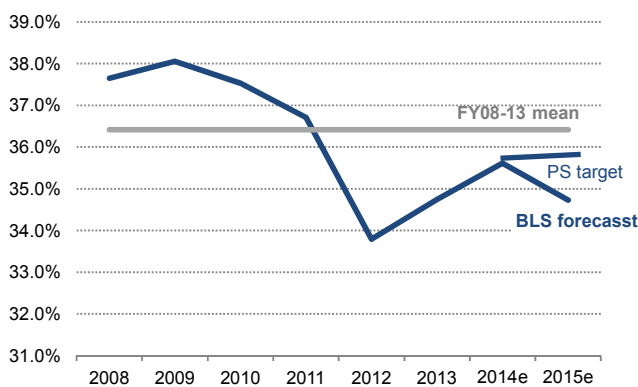


Figure 4 : Precast factory utilization (new capacity in Oct 2014)

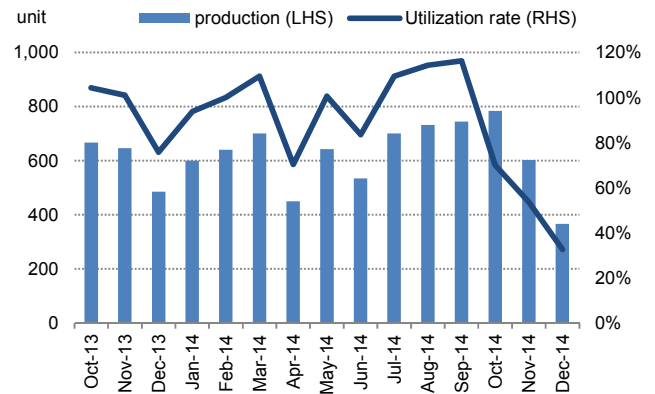


Figure 5 : Presales backlog

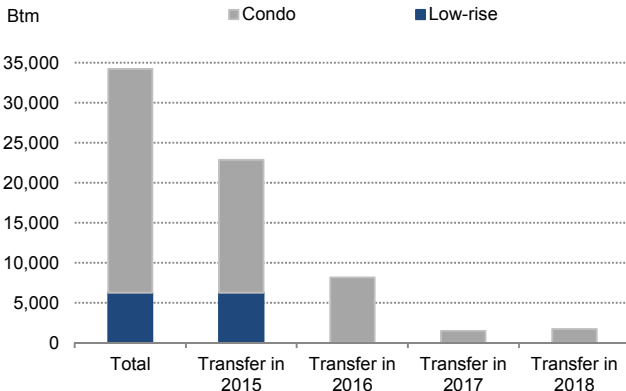


Figure 6 : Net interest-bearing debt

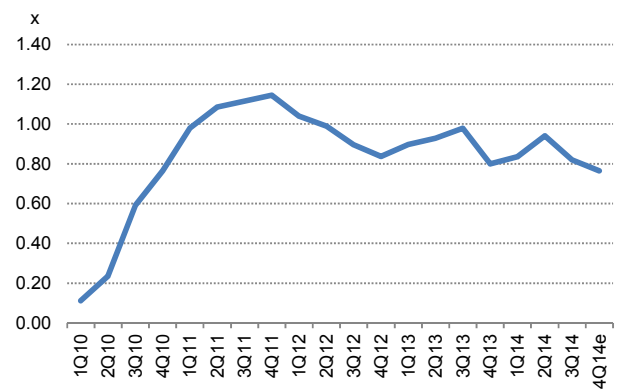


Figure 7 : Quarterly presales

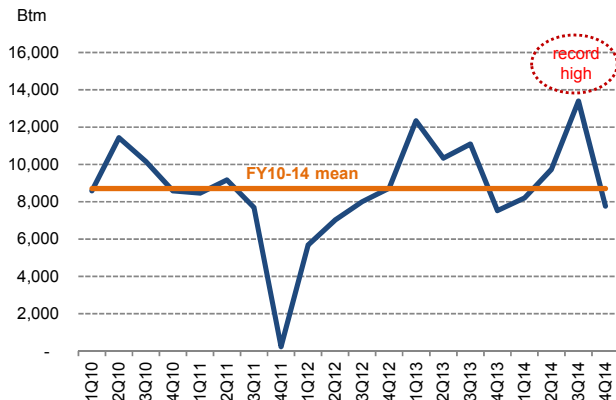
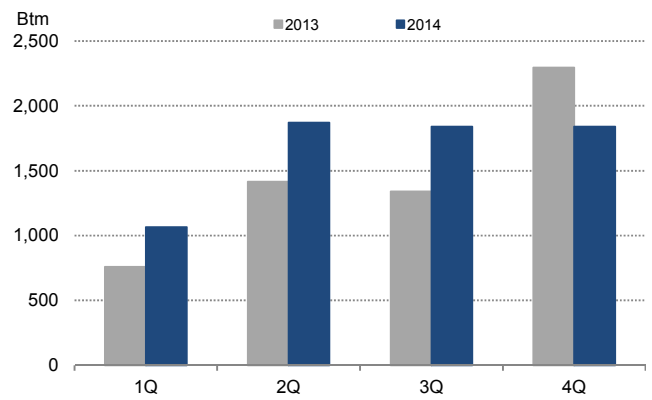


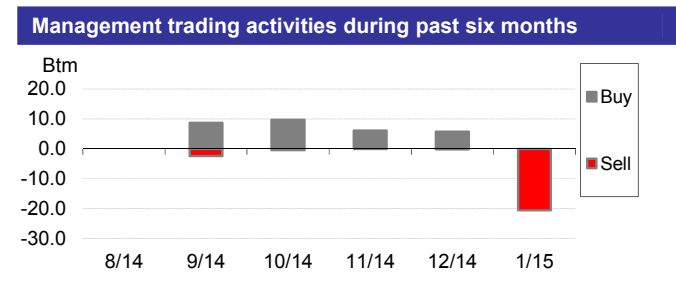
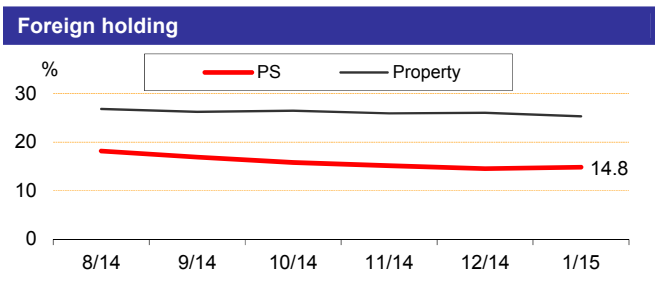
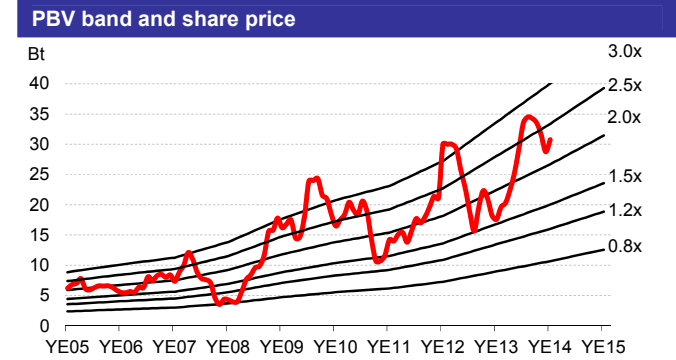
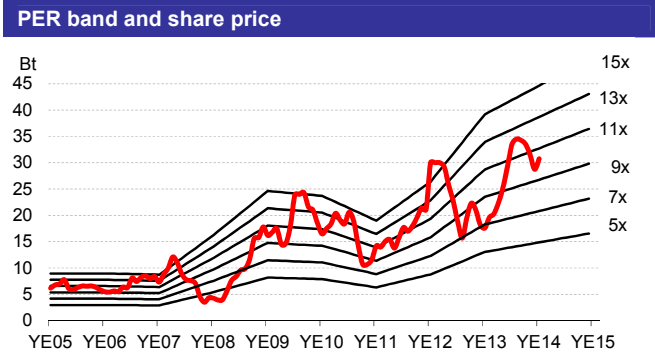
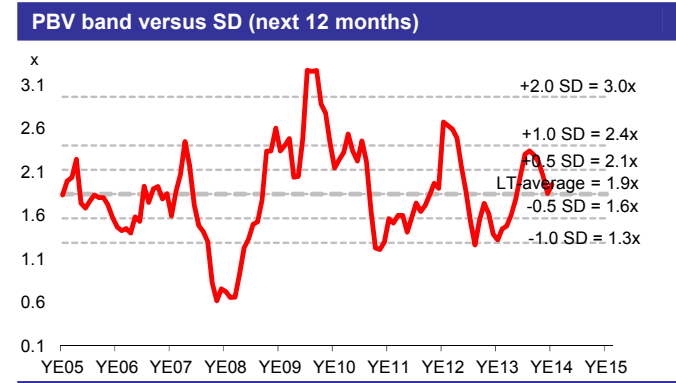
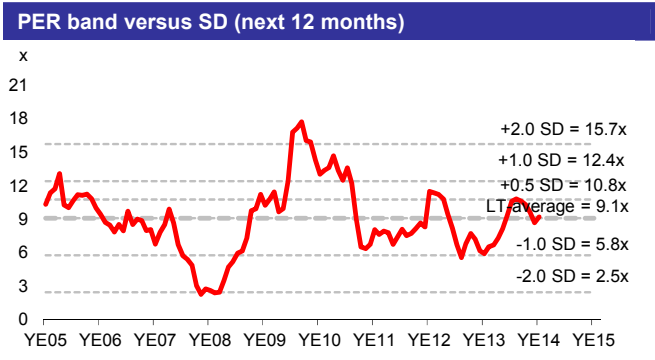
Figure 8 : Quarterly net profit



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	THB3.80	389	12.2	10.9	27.9	12.5	1.9	1.6	16.4	16.1	1.6	1.8
AP (Thailand)	AP TB	THB6.20	599	7.6	7.0	15.3	9.3	1.2	1.1	16.9	16.2	4.2	4.6
Land and Houses	LH TB	THB9.30	3,138	13.1	14.3	9.9	-8.8	2.4	2.4	21.7	17.1	6.0	5.6
L.P.N. Development	LPN TB	THB21.30	965	15.6	11.3	-12.7	38.4	3.0	2.6	20.1	24.7	3.3	4.4
Pruksa Real Estate	PS TB	THB32.00	2,186	10.8	9.6	13.9	12.3	2.4	2.0	24.2	23.0	3.0	3.4
Quality Houses	QH TB	THB3.84	1,082	10.1	8.4	5.2	21.0	1.8	1.6	19.0	20.4	4.4	5.4
Raimon Land	RML TB	THB2.06	226	6.8	6.3	83.7	9.1	1.7	1.4	42.0	31.1	4.7	5.1
SC Asset Corporation	SC TB	THB3.52	401	10.1	8.5	24.3	19.6	1.2	1.1	11.8	13.2	4.1	4.9
Sansiri	SIRI TB	THB1.74	736	7.8	8.2	10.6	-4.9	1.0	0.9	15.2	11.8	6.4	6.7
Supalai	SPALI TB	THB24.80	1,306	10.1	8.9	46.7	12.5	2.4	2.0	26.8	25.4	4.2	4.7
Simple average				10.4	9.3	22.5	12.1	1.9	1.7	21.4	19.9	4.2	4.7








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
PLANB	PLANB

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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- 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.