

Pruksa Real Estate

PS TB / PS.BK

30 March 2015

Site visit to new precast factories unveils capacity boost, labor savings

Investment thesis

We brought local institutional fund managers on a site visit to PS' two new prefabrication factories on Friday. All present saw first-hand how the modernized plants will support PS' earnings growth over the next three years, in that they add 75% in new capacity, bringing production to 1,120 units/month and reduce labor by 30%. We maintain a BUY rating on PS on cheap valuations at FY15 PER of only 8.0x, far below 9.1x of its FY06-14 mean. Our YE15 target price is Bt37, pegged to a PER of 11x.

Most highly automated precast factories in Thailand

PS completed two factories at Nawanakorn in 4Q14 after full utilization at its five Rangsit factories was seen for a year. New capacity is 480 units/month, from the most highly automated factories of their kind in Thailand. German and Italian technology owners, to order, made the equipment, the labor savings from which mean PS will need 30% fewer workers, despite the capacity boon. Duplicating PS' model would be hard, as investment cost is Bt2.3bn for the new plants and it requires mass production (highest market share of low-rise unit sales).

Gradually to ramp up usage rate—GM hiccup in the short term

The new plants' utilization rate is low at about 35% (20% in 4Q14). Thus, the mean rate of PS' precast factories is 42% in Jan 2015, 57% in Feb and 71% in March, but they have yet to reach full usage, as PS' GM and NM is under pressure in the short term. PS plans for mean run rates to hit 80% in Jul 2015 and 86% in Nov led to NM recovery in 2H15. GM pressure in the initial phase of the new plants' operation is factored in to our model, as we assume 1.5% YoY slimmer GM in FY15.

Developer to post impressive presales in 1Q15 ...

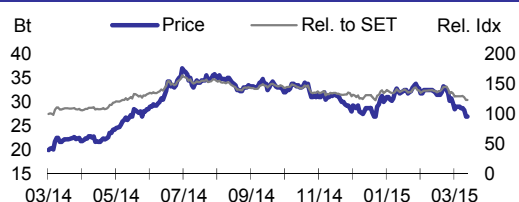
PS is likely to post presales of Bt12bn in 1Q15, a soaring 46% jump YoY and 55% QoQ, reaffirming our view of presales recovery. We anticipate Bt8bn of low-rise presales (up by 30% YoY and 24% QoQ) and Bt4bn of condo (bounding 97% YoY and 211% QoQ). The take-up rate at Midtown Ladprao 24's condo launch in Jan (Bt1.9bn of project value) was strong at 80%. The new buildings at The Tree Rio at Bang-aor generated Bt2bn of condo presales in March. The end-March presales backlog is expected to secure 65% of our FY15 revenue forecast (from 48% at YE14).

... although quarter's result will denote year's nadir

We see flattish YoY and a QoQ drop for 1Q15 core profit (high base set by 4Q14—the best quarter in FY14). Residential revenue in 1Q15 will expand YoY driven by low-rise transfers. But, GM will dip YoY on low plant use (56% in 1Q15 against 100% in 1Q14) and marketing expenses for Midtown Ladprao's launch (no condos to launch in 1Q14). Quarterly earnings should rise QoQ in 2Q15-3Q15 until the year's peak in 4Q15, based on PS' condo transfer schedule. Condo completions in FY15 are none in 1Q15, Bt8bn in 2Q15, Bt12bn in 3Q15 and Bt12bn in 4Q15.

Sector: Property (Residential) Overweight
Rating: BUY
Target Price: Bt37.00
Price (27 March 2015): Bt27.00

Price chart

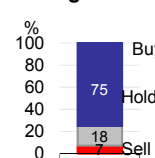


Share price perf. (%)	1M	3M	12M
Relative to SET	(9.8)	(5.9)	22.7
Absolute	(15.6)	(6.1)	33.0

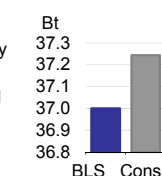
Key statistics

Market cap	Bt60.2bn	USD1.8bn
12-mth price range	Bt19.5/Bt37.0	
12-mth avg daily volume	Bt135m	USD4.1m
# of shares (m)	2,231	
Est. free float (%)	30.2	
Foreign limit (%)	40.0	

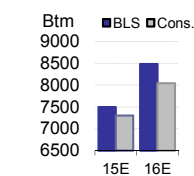
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	42,781	47,967	52,610	57,809
Net profit (Btm)	6,653	7,498	8,481	9,641
EPS (Bt)	2.99	3.37	3.81	4.33
EPS growth (%)	+14.5%	+12.7%	+13.1%	+13.7%
Core profit (Btm)	6,825	7,498	8,481	9,641
Core EPS (Bt)	3.07	3.37	3.81	4.33
Core EPS growth (%)	+17.5%	+9.9%	+13.1%	+13.7%
PER (x)	9.0	8.0	7.1	6.2
PBV (x)	2.0	1.7	1.5	1.3
Dividend (Bt)	1.0	1.1	1.3	1.4
Dividend yield (%)	3.7	4.2	4.7	5.4
ROE (%)	24.4	23.2	22.3	21.7

CG rating



Narumon Ekasamut

Securities Fundamental Investment Analyst

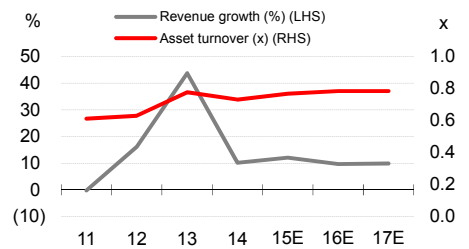
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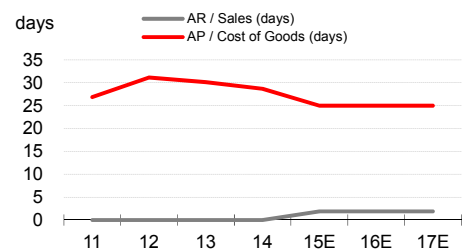
PS : Financial Tables – Year

	2013	2014	2015E	2016E	2017E
PROFIT & LOSS (Btm)					
Revenue	38,848	42,781	47,967	52,610	57,809
Cost of sales and services	(25,350)	(27,095)	(31,090)	(34,276)	(37,568)
Gross profit	13,498	15,686	16,877	18,334	20,241
SG&A	(6,077)	(6,919)	(7,299)	(7,523)	(7,978)
EBIT	7,421	8,767	9,578	10,810	12,264
Interest expense	(415)	(376)	(450)	(454)	(457)
Other income/exp.	193	246	246	246	246
EBT	7,199	8,638	9,374	10,603	12,052
Corporate tax	(1,399)	(1,812)	(1,875)	(2,121)	(2,410)
After-tax net profit (loss)	5,801	6,826	7,499	8,482	9,642
Minority interest	(1)	(1)	(1)	(1)	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(172)	0	0	0
Net profit (loss)	5,800	6,653	7,498	8,481	9,641
Reported EPS	2.61	2.99	3.37	3.81	4.33
Fully diluted EPS	2.61	2.99	3.37	3.81	4.33
Core net profit	5,800	6,825	7,498	8,481	9,641
Core EPS	2.61	3.07	3.37	3.81	4.33
EBITDA	7,795	9,116	10,188	11,500	13,034
KEY RATIOS					
Revenue growth (%)	43.8	10.1	12.1	9.7	9.9
Gross margin (%)	34.7	36.7	35.2	34.8	35.0
EBITDA margin (%)	20.1	21.3	21.2	21.9	22.5
Operating margin (%)	19.1	20.5	20.0	20.5	21.2
Net margin (%)	14.9	15.6	15.6	16.1	16.7
Core profit margin (%)	14.9	16.0	15.6	16.1	16.7
ROA (%)	11.6	11.4	12.0	12.6	13.1
ROCE (%)	13.9	13.6	14.0	14.6	15.0
Asset turnover (x)	0.8	0.7	0.8	0.8	0.8
Current ratio (x)	0.5	0.4	0.4	0.4	0.4
Gearing ratio (x)	0.8	0.8	0.6	0.5	0.4
Interest coverage (x)	17.9	23.3	21.3	23.8	26.8
BALANCE SHEET (Btm)					
Cash & Equivalent	1,815	971	1,295	942	1,208
Accounts receivable	0	0	247	271	298
Inventory	48,687	53,827	57,205	63,582	70,252
PP&E-net	3,313	4,357	3,358	3,468	3,499
Other assets	2,380	1,878	1,908	1,940	1,975
Total assets	56,194	61,033	64,013	70,204	77,232
Accounts payable	2,090	2,129	2,129	2,348	2,573
ST debts & current portion	6,955	5,295	2,348	2,348	2,348
Long-term debt	14,000	17,000	17,600	17,600	17,600
Other liabilities	8,217	6,903	6,903	6,903	6,903
Total liabilities	31,262	31,326	28,980	29,198	29,423
Paid-up capital	2,223	2,227	2,227	2,227	2,227
Share premium	2,223	2,227	2,227	2,227	2,227
Retained earnings	21,165	25,929	31,256	37,228	44,031
Shareholders equity	24,931	29,706	35,033	41,005	47,807
Minority interests	1.8	1.1	1.1	1.1	1.1
Total Liab.&Shareholders' equity	56,194	61,033	64,013	70,203	77,232
CASH FLOW (Btm)					
Net income	5,800	6,653	7,498	8,481	9,641
Depreciation and amortization	374	349	610	690	770
Change in working capital	(8,262)	(7,257)	(3,654)	(6,215)	(6,506)
FX, non-cash adjustment & others	1,866	2,284	0	0	0
Cash flows from operating activities	(222)	2,029	4,454	2,956	3,905
Capex (Invest)/Divest	(837)	(1,139)	389	(800)	(800)
Others	0	176	0	0	0
Cash flows from investing activities	(837)	(963)	389	(800)	(800)
Debt financing (repayment)	2,349	242	(2,347)	0	0
Equity financing	141	69	0	0	0
Dividend payment	(1,110)	(1,890)	(2,167)	(2,510)	(2,839)
Others	0	176	0	0	0
Cash flows from financing activities	1,380	(1,579)	(4,519)	(2,510)	(2,839)
Net change in cash	320	(512)	324	(354)	266
Free cash flow (Btm)	(1,060)	890	4,843	2,156	3,105
FCF per share (Bt)	(0.48)	0.40	2.17	0.97	1.39
KEY ASSUMPTIONS					
Total presales (Btm)	41,282	39,090	42,999	47,299	52,029
YoY change in presales	40%	-5%	10%	10%	10%
Housing revenue (Btm)	38,848	42,781	47,967	52,610	57,809
YoY change in housing revenue	44%	10%	12%	10%	10%
Secured revenue by backlogs (Btm)	-	-	22,862	8,172	1,476
% of secured revenue by backlogs	-	-	48%	16%	3%

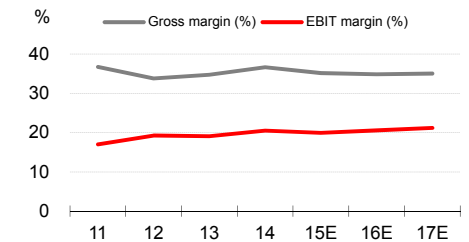
Revenue growth and asset turnover



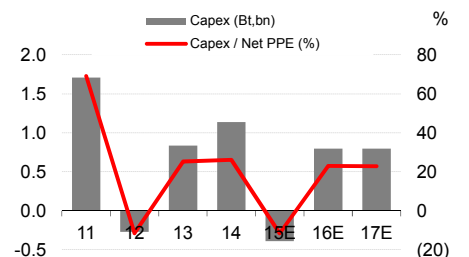
A/C receivable & A/C payable days



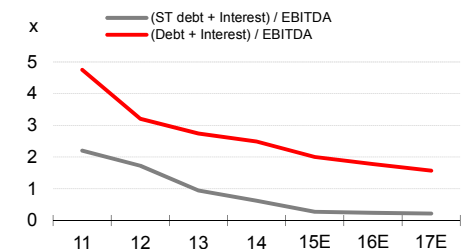
Profit margins



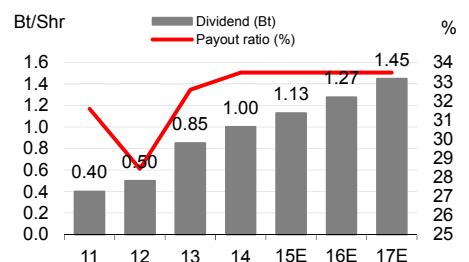
Capital expenditure



Debt serviceability



Dividend payout



PS : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	13,705	8,018	10,812	11,586	12,366
Cost of sales and services	(8,798)	(5,101)	(6,833)	(7,327)	(7,833)
Gross profit	4,907	2,916	3,978	4,259	4,532
SG&A	(1,992)	(1,469)	(1,613)	(1,768)	(2,069)
EBIT	2,914	1,447	2,365	2,491	2,463
Interest expense	(117)	(99)	(91)	(97)	(89)
Other income/exp.	73	37	53	35	121
EBT	2,869	1,386	2,327	2,429	2,495
Corporate tax	(608)	(322)	(457)	(507)	(526)
After-tax net profit (loss)	2,261	1,064	1,870	1,922	1,969
Minority interest	(0.1)	0.0	0.2	1.0	(1.6)
Equity earnings from affiliates	0	0	0	0	0
Extra items	27	0	0	(85)	(87)
Net profit (loss)	2,288	1,064	1,871	1,838	1,881
Reported EPS	1.03	0.48	0.84	0.83	0.84
Fully diluted EPS	1.03	0.48	0.84	0.83	0.84
Core net profit	2,261	1,064	1,871	1,923	1,968
Core EPS	1.02	0.48	0.84	0.86	0.88
EBITDA	3,078	1,579	2,502	2,590	2,692

KEY RATIOS

Gross margin (%)	35.8	36.4	36.8	36.8	36.7
EBITDA margin (%)	22.5	19.7	23.1	22.4	21.8
Operating margin (%)	21.3	18.1	21.9	21.5	19.9
Net margin (%)	16.7	13.3	17.3	15.9	15.2
Core profit margin (%)	16.5	13.3	17.3	16.6	15.9
BV (Bt)	11.2	11.7	11.7	12.5	13.4
ROE (%)	36.7	16.4	28.8	26.4	25.3
ROA (%)	16.3	7.2	12.2	11.9	12.3
Current ratio (x)	9.2	10.4	9.2	11.2	9.4
Gearing ratio (x)	0.8	0.9	1.0	0.9	0.8
Interest coverage (x)	24.8	14.6	26.0	25.7	27.7

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,815	1,953	1,657	1,597	971
Accounts receivable	0	0	0	0	0
Inventory	48,687	51,887	53,967	53,750	53,827
PP&E-net	3,313	2,739	3,162	3,611	4,357
Other assets	2,380	2,679	2,561	2,689	1,878
Total assets	56,194	59,259	61,347	61,648	61,033
Accounts payable	5,288	5,322	4,736	5,198	4,223
ST debts & current portion	6,955	6,761	10,345	4,895	5,295
Long-term debt	14,007	16,131	15,549	19,250	17,011
Other liabilities	5,012	5,022	4,703	4,427	4,797
Total liabilities	31,262	33,236	35,333	33,770	31,326
Paid-up capital	2,223	2,224	2,224	2,227	2,227
Share premium	1,594	0	1,612	1,619	1,670
Retained earnings	21,165	22,230	22,210	24,049	25,929
Shareholders equity	24,931	26,023	26,014	27,878	29,706
Minority interests	1.8	0.8	0.6	(0.4)	1.1
Total Liab.&Shareholders' equity	56,194	59,259	61,347	61,648	61,033

KEY STATS

Total presales (Btm)	7,516	8,194	9,743	13,393	7,760
YoY change in presales	-14%	-34%	-6%	21%	3%
Housing revenue (Btm)	13,705	8,018	10,812	11,586	12,366
YoY change in housing revenue	64%	27%	19%	19%	-10%
Housing GM	36%	36%	37%	37%	37%

Company profile

Pruksa 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 precast concrete factories that make many component parts for its detached houses, townhouses and condos.

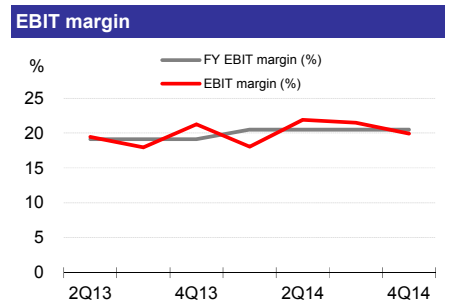
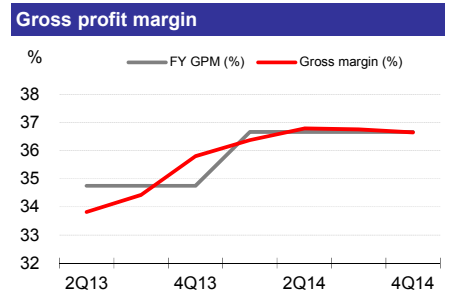
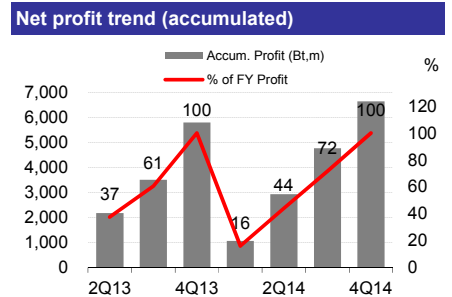
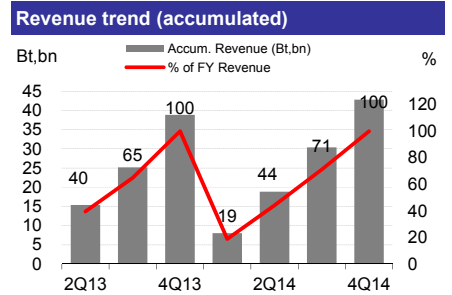
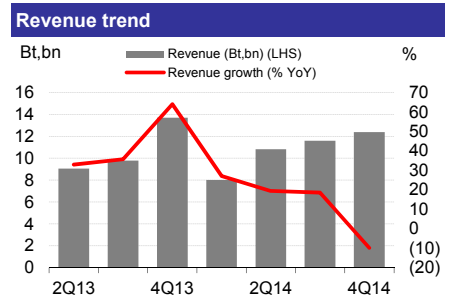


Figure 1 : Prefabrication plant visit (new plants at Navanakorn)



Figure 2 : Utilization rate (1,120 units/month of total capacity)

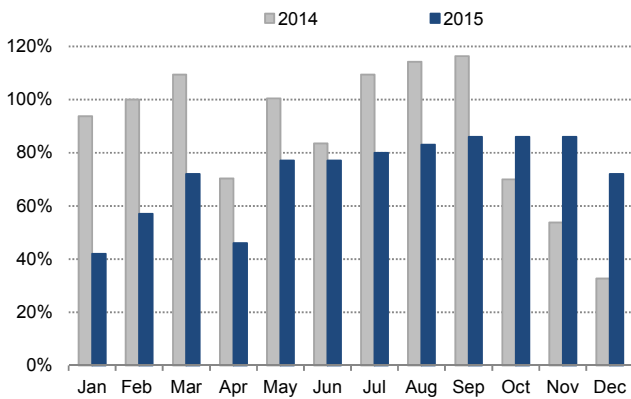


Figure 3 : Low-rise presales, by quarter

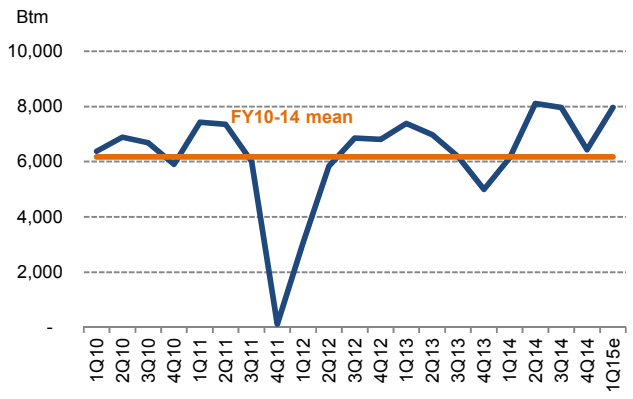


Figure 4 : Total presales, by quarter

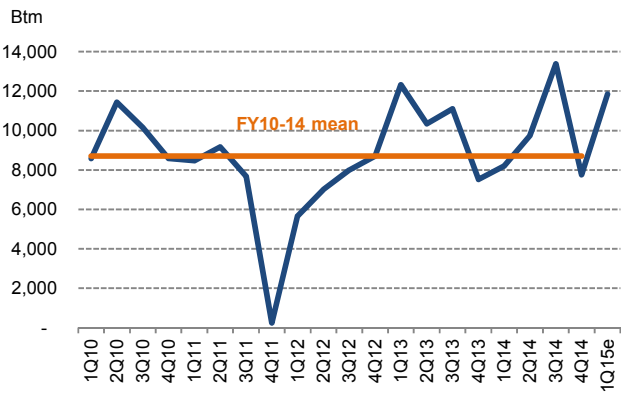


Figure 5 : Total presales breakdown

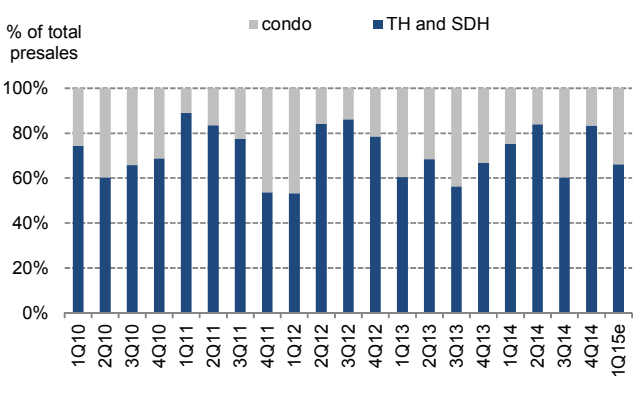


Figure 6 : Quarterly residential revenue

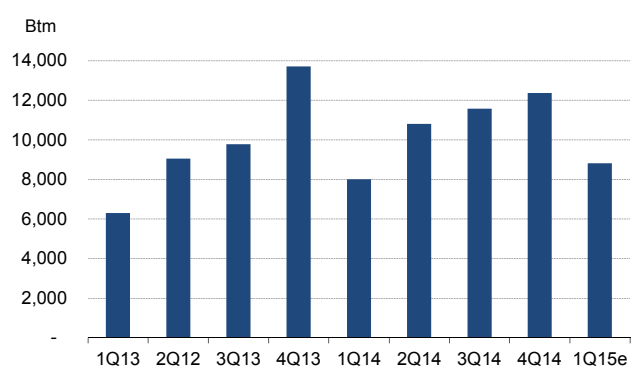
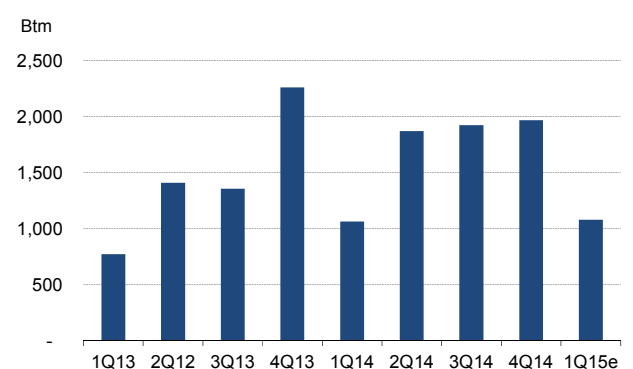


Figure 7 : Quarterly core profit

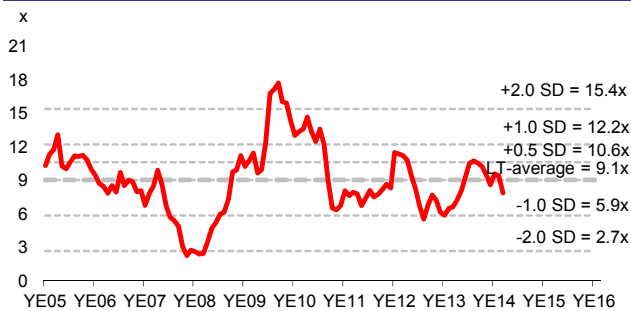


Sources: Company data, Bualuang Research

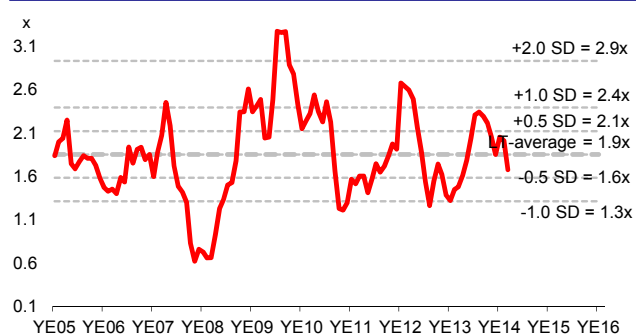
Sector Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Ananda Development	ANAN TB	THB3.70	379	9.2	7.7	3.3	19.8	1.6	1.3	18.1	18.8	2.7	3.3
AP (Thailand)	AP TB	THB6.90	666	7.7	7.1	8.5	7.2	1.2	1.1	16.8	16.1	4.2	4.5
Land and Houses	LH TB	THB9.60	3,241	14.8	13.2	-15.5	12.6	2.4	2.3	17.3	18.2	5.4	6.1
L.P.N. Development	LPN TB	THB17.00	770	9.0	7.8	38.0	15.8	2.1	1.8	24.9	25.0	5.6	6.4
Prukka Real Estate	PS TB	THB27.00	1,849	8.0	7.1	12.7	13.1	1.7	1.5	23.2	22.3	4.2	4.7
Quality Houses	QH TB	THB3.60	1,015	7.9	6.8	26.3	15.1	1.4	1.3	19.9	19.6	5.6	6.4
Raimon Land	RML TB	THB1.57	172	4.8	8.0	9.1	-40.3	1.0	0.9	31.1	15.8	6.7	4.0
SC Asset Corporation	SC TB	THB3.68	420	8.1	6.9	13.1	17.9	1.1	1.0	13.9	15.0	4.9	5.8
Sansiri	SIRI TB	THB1.81	793	7.5	6.6	-2.9	13.9	0.9	0.9	13.1	13.8	7.3	8.4
Supalai	SPALI TB	THB21.30	1,123	7.2	7.3	12.9	-0.4	1.7	1.5	26.5	22.7	5.8	5.8
Simple average				8.4	7.8	10.5	7.5	1.5	1.4	20.5	18.7	5.2	5.5

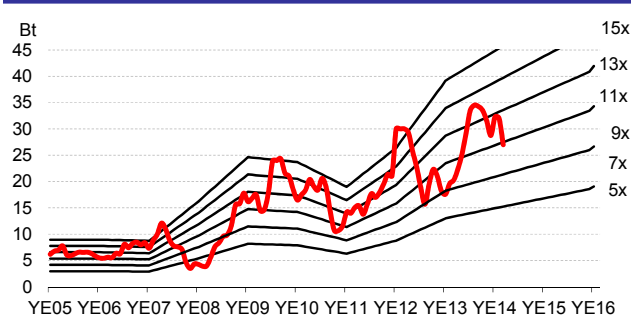
PER band versus SD (next 12 months)



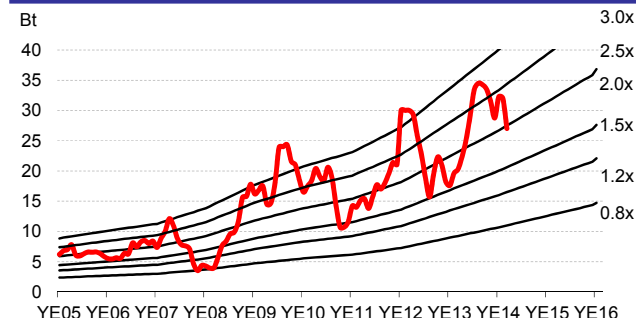
PBV band versus SD (next 12 months)



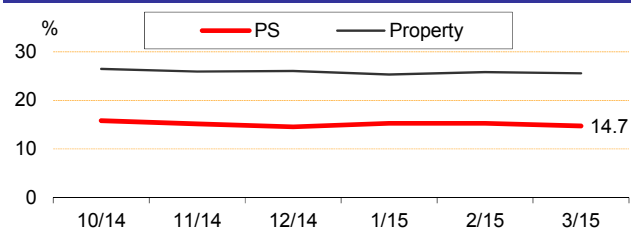
PER band and share price



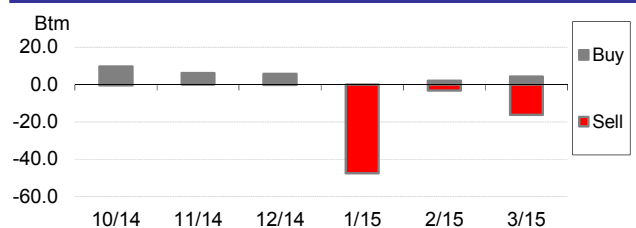
PBV band and share price



Foreign holding



Management trading activities during past six months








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
PLANB, JASIF	PLANB, JASIF, PLAT

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.