

Pruksa Real Estate

PS TB / PS.BK

20 January 2016

Upbeat earnings in the short term

Investment thesis

PS will see record high earnings in FY15, a positive surprise to the street. Short-term catalysts are impressive 4Q15 profit and scope for upside on its dividend payout. Valuations are cheap, trading at a FY16 PER of 6.8x, a 24% discount to its FY06-15 mean. To reflect low revenue visibility for FY16, we derated our target PER to its mean at 9x (from 10x) and set a new YE16 target price of Bt30 (from 32). Our BUY rating stands.

Earnings upgrades on a positive surprise in FY15 revenue

FY15 presales achieved Bt42bn (78% low rises and 22% condos), up 8% YoY but 10% below PS' target due to downsizing new launches and low-end condo cancellations in 4Q15. FY15 new launches is Bt45bn, down 22% YoY (down 45% for condos and 11% for low rises). FY15 residential revenue is guided to beat FY15 PS' target of Bt47bn. PS is likely to post residential revenue of Bt50bn for FY15, up 18% YoY (above our earlier forecast of Bt47bn). Thus, we have revised up core profit forecast 11% to Bt7.4bn for FY15 (Figure 1)—ahead of the street forecast at Bt6.7bn.

To post all-time high 4Q15 results

PS will post all-time high core profit of Bt2.7bn for 4Q15, a jump of 40% YoY and 69% QoQ boosted by the record revenue forecast of Bt17bn (up 38% YoY and 49% QoQ). Thanked to the huge top line, SG&A/sales ratio is expected to drop 3.5% YoY and 2.6% QoQ to only 13.3%. Weak 4Q15 total presales are behinds us at Bt7.8bn, up 2% YoY but down 25% QoQ dampened by condos. Low-rise presales in 4Q15 are strong at Bt8bn, jump 25% YoY and 10% QoQ.

Potential increase dividend payout policy

Supported by its healthcare balance sheet (we assume a low net gearing ratio of 0.6x at YE15), there is scope for upside on its dividend payout policy. We recently assumed a 33% payout rate for FY15, as DPS for 2H15 operations is conservatively estimated at Bt0.62, a 2.6% simple yield, XD in March. If the payout rate were increased—assumed at 40%, DPS for 2H15 is increased to Bt0.84. We view that PS' rationale for a higher dividend payout rate is to catch up with its peers (at least 40%).

Unveiled FY16 business plan

The developer's scheduled FY16 launch value is Bt50-54bn (60-65 projects) against Bt45bn for FY15 (44 projects). The FY16 launch breakdown would be 78% low rises and 22% condos—all land plots has been purchased. PS aims for presales growth of 20% YoY to Bt51bn (72 low rises, 28% condos). Its low rise presales growth target of 10% to Bt37bn looks achievable, given its historical record (growth of 16% in FY15 and 12% in FY14). But, condo presales of 60% to Bt14bn appears too bullish. PS targets revenue of Bt52bn for FY16, up 10% YoY from Bt47bn for FY15, which is conservative in our view. Presales backlog at YE15 (Bt15bn is to transfer in FY16) secure 29% of FY16 PS's revenue.

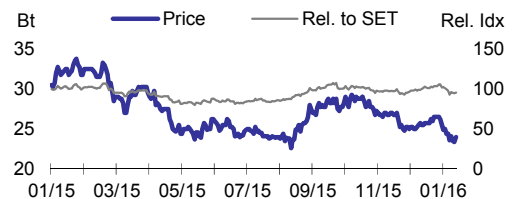
Sector: Property (Residential) – NEUTRAL

Rating: BUY

Target Price: Bt30.00

Price (19 January 2016): Bt24.00

Price chart

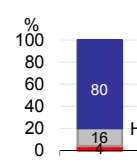


Share price perf. (%)	1M	3M	12M
Relative to SET	(2.5)	(2.8)	6.4
Absolute	(4.0)	(13.5)	(11.1)

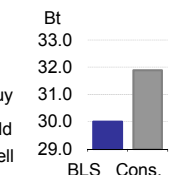
Key statistics

Market cap	Bt53.5bn	USD1.5bn
12-mth price range	Bt22.5/Bt34.0	
12-mth avg daily volume	Bt124m	USD3.4m
# of shares (m)	2,231	
Est. free float (%)	30.5	
Foreign limit (%)	40.0	

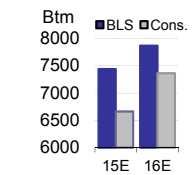
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	42,781	50,274	51,598	56,661
Net profit (Btm)	6,653	7,440	7,868	8,729
EPS (Bt)	2.99	3.34	3.53	3.92
EPS growth (%)	+14.5%	+11.8%	+5.8%	+10.9%
Core profit (Btm)	6,825	7,440	7,868	8,729
Core EPS (Bt)	3.07	3.34	3.53	3.92
Core EPS growth (%)	+17.5%	+9.0%	+5.8%	+10.9%
PER (x)	8.0	7.2	6.8	6.1
PBV (x)	1.8	1.5	1.3	1.2
Dividend (Bt)	1.0	1.1	1.2	1.3
Dividend yield (%)	4.2	4.7	4.9	5.5
ROE (%)	24.4	23.0	20.9	20.1

CG/Anti-Corruption



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Narumon Ekasamut

Securities Fundamental Investment Analyst

narumon.e@bualuang.co.th

+66 2 618 1345

PS: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	38,848	42,781	50,274	51,598	56,661
Cost of sales and services	(25,350)	(27,095)	(33,203)	(33,815)	(37,010)
Gross profit	13,498	15,686	17,071	17,783	19,651
SG&A	(6,077)	(6,919)	(7,566)	(7,740)	(8,527)
EBIT	7,421	8,767	9,504	10,043	11,124
Interest expense	(415)	(376)	(450)	(454)	(457)
Other income/exp.	193	246	246	246	246
EBT	7,199	8,638	9,300	9,836	10,912
Corporate tax	(1,399)	(1,812)	(1,860)	(1,967)	(2,182)
After-tax net profit (loss)	5,801	6,826	7,440	7,868	8,730
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	7,440	7,868	8,729
Reported EPS	2.61	2.99	3.34	3.53	3.92
Fully diluted EPS	2.61	2.99	3.34	3.53	3.92
Core net profit	5,800	6,825	7,440	7,868	8,729
Core EPS	2.61	3.07	3.34	3.53	3.92
EBITDA	7,795	9,116	10,114	10,733	11,893

KEY RATIOS

Revenue growth (%)	43.8	10.1	17.5	2.6	9.8
Gross margin (%)	34.7	36.7	34.0	34.5	34.7
EBITDA margin (%)	20.1	21.3	20.1	20.8	21.0
Operating margin (%)	19.1	20.5	18.9	19.5	19.6
Net margin (%)	14.9	15.6	14.8	15.2	15.4
Core profit margin (%)	14.9	16.0	14.8	15.2	15.4
ROA (%)	11.6	11.4	11.9	11.8	12.0
ROCE (%)	13.9	13.6	13.9	13.7	13.8
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	21.1	22.1	24.3

BALANCE SHEET (Btm)

Cash & Equivalent	1,815	971	1,797	1,626	1,601
Accounts receivable	0	0	259	266	292
Inventory	48,687	53,827	56,777	62,219	68,468
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	64,099	69,519	75,834
Accounts payable	2,090	2,129	2,274	2,316	2,535
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	29,124	29,166	29,385
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	31,197	36,575	42,671
Shareholders equity	24,931	29,706	34,974	40,352	46,448
Minority interests	1.8	1.1	1.1	1.1	1.1
Total Liab.&Shareholders' equity	56,194	61,033	64,099	69,519	75,834

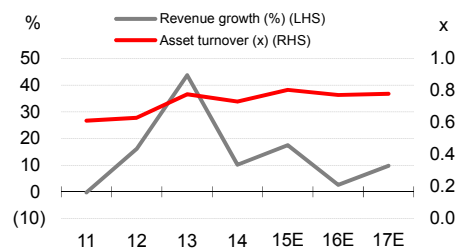
CASH FLOW (Btm)

Net income	5,800	6,653	7,440	7,868	8,729
Depreciation and amortization	374	349	610	690	770
Change in working capital	(8,262)	(7,257)	(3,094)	(5,439)	(6,091)
FX, non-cash adjustment & others	1,866	2,284	0	0	0
Cash flows from operating activities	(222)	2,029	4,956	3,119	3,408
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)	(2,490)	(2,633)
Others	0	176	0	0	0
Cash flows from financing activities	1,380	(1,579)	(4,519)	(2,490)	(2,633)
Net change in cash	320	(512)	826	(171)	(25)
Free cash flow (Btm)	(1,060)	890	5,345	2,319	2,608
FCF per share (Bt)	(0.48)	0.40	2.40	1.04	1.17

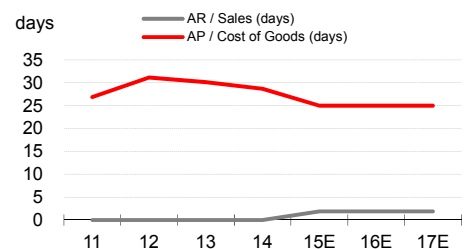
KEY ASSUMPTIONS

	2013	2014	2015E	2016E	2017E
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	50,274	51,598	56,661
YoY change in housing revenue	44%	10%	18%	3%	10%
Secured revenue by backlogs (Btm)	-	-	50,274	15,278	3,780
% of secured revenue by backlogs	-	-	100%	30%	7%

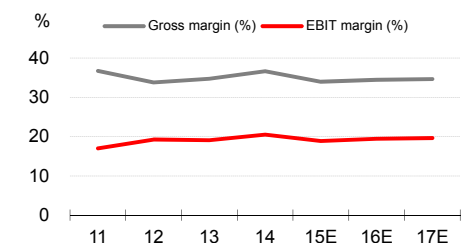
Revenue growth and asset turnover



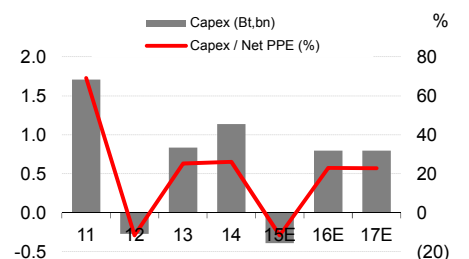
A/C receivable & A/C payable days



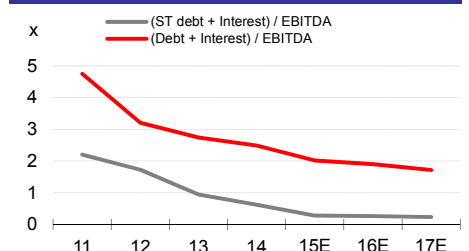
Profit margins



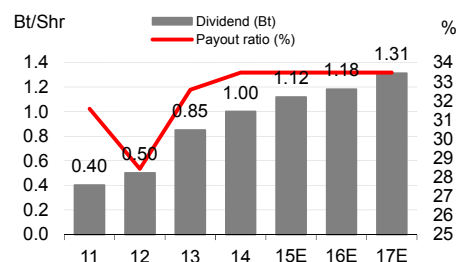
Capital expenditure



Debt serviceability



Dividend payout



PS: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q14	4Q14	1Q15	2Q15	3Q15
Revenue	11,586	12,366	8,326	13,463	11,421
Cost of sales and services	(7,327)	(7,833)	(5,484)	(8,925)	(7,528)
Gross profit	4,259	4,532	2,843	4,538	3,893
SG&A	(1,768)	(2,074)	(1,674)	(1,807)	(1,816)
EBIT	2,491	2,459	1,169	2,731	2,077
Interest expense	(97)	(89)	(77)	(78)	(76)
Other income/exp.	35	121	25	33	43
EBT	2,429	2,491	1,118	2,686	2,044
Corporate tax	(507)	(526)	(226)	(520)	(415)
After-tax net profit (loss)	1,922	1,965	892	2,167	1,630
Minority interest	1.0	3.0	(0.4)	(1.3)	(0.3)
Equity earnings from affiliates	0	0	0	0	0
Extra items	(85)	(87)	0	1	0
Net profit (loss)	1,838	1,881	891	2,166	1,629
Reported EPS	0.83	0.84	0.40	0.97	0.73
Fully diluted EPS	0.83	0.84	0.40	0.97	0.73
Core net profit	1,923	1,968	891	2,165	1,629
Core EPS	0.86	0.88	0.40	0.97	0.73
EBITDA	2,590	2,687	1,290	2,866	2,163

KEY RATIOS

Gross margin (%)	36.8	36.7	34.1	33.7	34.1
EBITDA margin (%)	22.4	21.7	15.5	21.3	18.9
Operating margin (%)	21.5	19.9	14.0	20.3	18.2
Net margin (%)	15.9	15.2	10.7	16.1	14.3
Core profit margin (%)	16.6	15.9	10.7	16.1	14.3
BV (Bt)	12.5	13.4	13.8	13.8	14.0
ROE (%)	26.4	25.3	11.6	28.3	20.9
ROA (%)	11.9	12.3	5.6	13.7	10.2
Current ratio (x)	11.2	9.4	10.9	11.8	10.9
Gearing ratio (x)	0.9	0.8	0.8	0.8	0.7
Interest coverage (x)	25.7	27.7	15.3	35.0	27.5

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,597	971	1,181	2,258	905
Accounts receivable	0	0	0	0	0
Inventory	53,750	53,827	55,431	54,039	55,707
PP&E-net	3,611	4,357	4,136	4,127	3,935
Other assets	2,689	1,878	2,742	2,974	3,126
Total assets	61,648	61,033	63,490	63,398	63,673
Accounts payable	5,198	4,223	3,693	3,878	4,182
ST debts & current portion	4,895	5,295	10,158	10,044	8,795
Long-term debt	19,250	17,011	14,062	14,013	14,014
Other liabilities	4,427	4,797	4,858	4,806	5,476
Total liabilities	33,770	31,326	32,771	32,740	32,467
Paid-up capital	2,227	2,227	2,231	2,231	2,231
Share premium	1,619	1,670	1,672	0	1,771
Retained earnings	24,049	25,929	26,821	26,702	27,225
Shareholders' equity	27,878	29,706	30,718	30,658	31,215
Minority interests	(0.4)	1.1	1.3	(0.8)	(9.3)
Total Liab.&Shareholders' equity	61,648	61,033	63,490	63,398	63,673

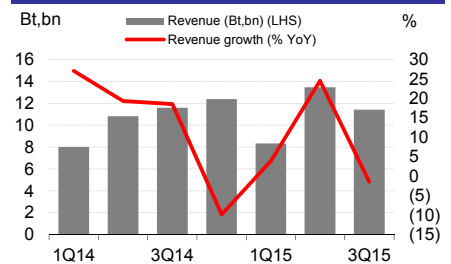
KEY STATS

Total presales (Btm)	13,393	7,760	12,761	11,178	10,516
YoY change in presales	21%	3%	56%	15%	-21%
Housing revenue (Btm)	11,586	12,366	8,326	13,463	11,421
YoY change in housing revenue	19%	-10%	4%	25%	-1%
Housing GM	37%	37%	34%	34%	34%

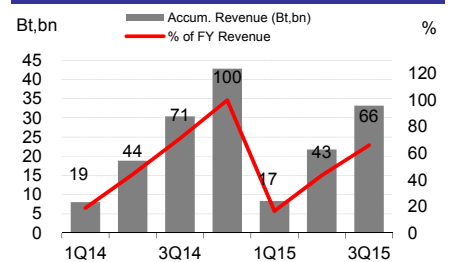
Company profile

Pruksa Real Estate Public Company Limited (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.

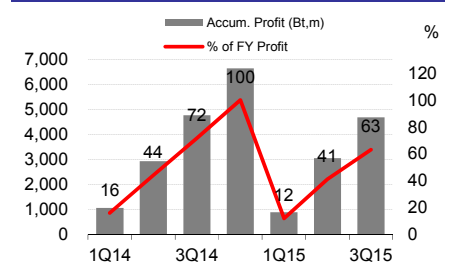
Revenue trend



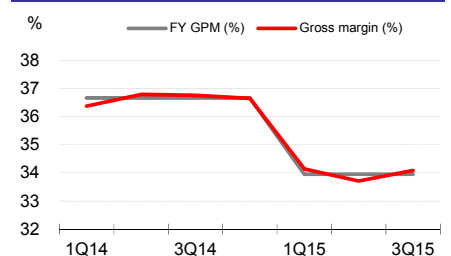
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

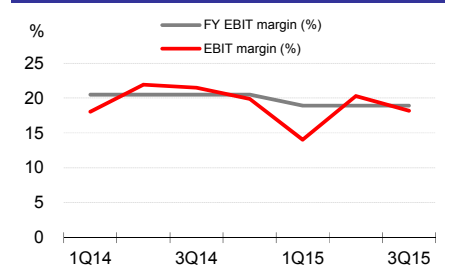
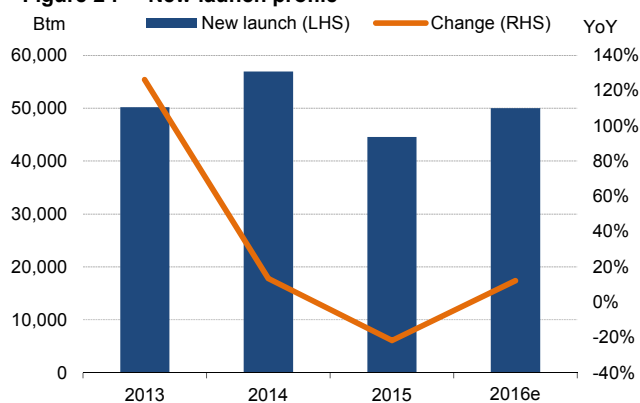
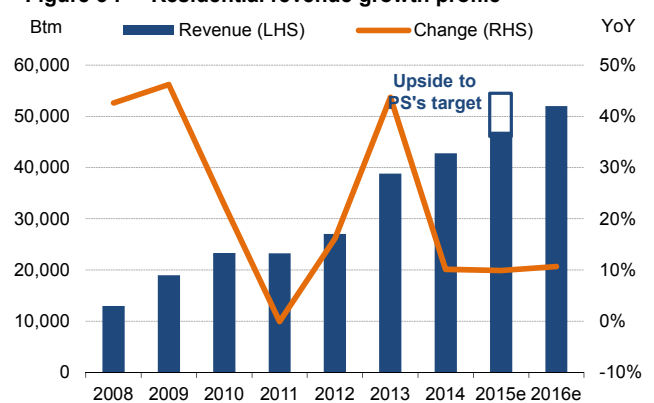
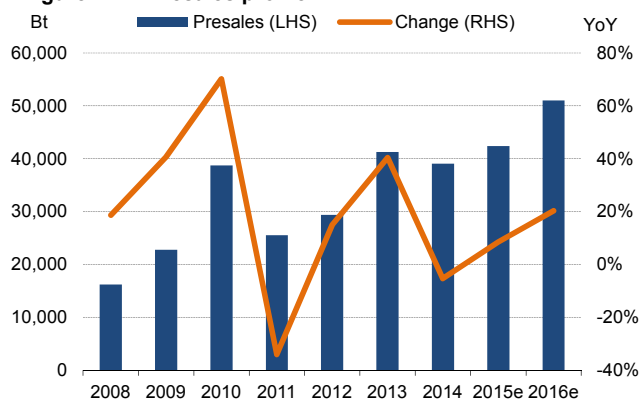
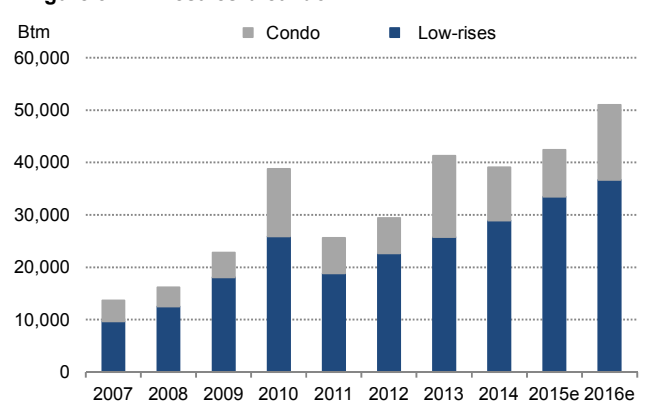
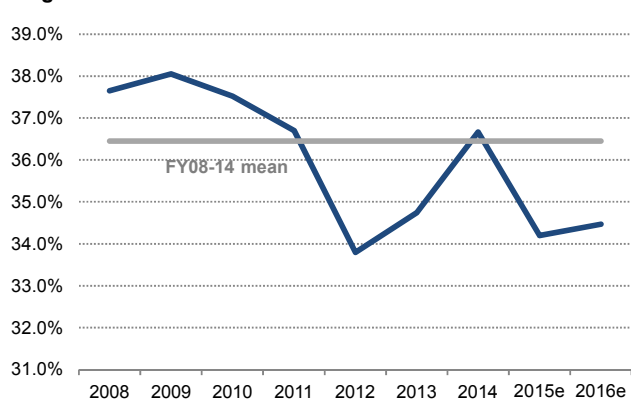
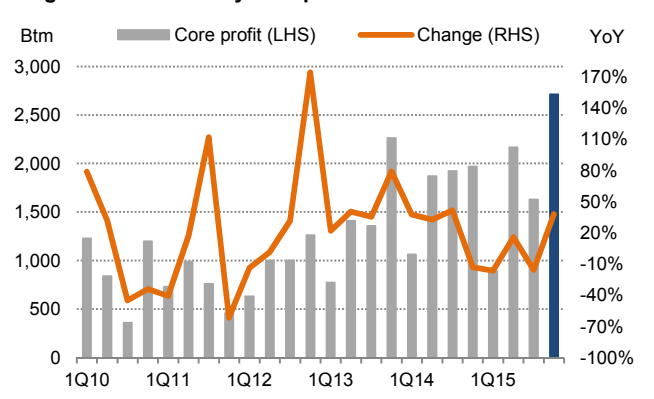


Figure 1 : Forecast changes

	2015e			2016e		
	Old	New	Chg.	Old	New	Chg.
Core profit (Btm)	6,723	7,440	11%	7,868	7,868	0%
EPS (Bt)	3.02	3.34	11%	3.53	3.53	0%
DPS(Bt)	1.01	1.12	11%	1.18	1.18	0%
Dividend yield	4.2%	4.6%	0%	4.9%	4.9%	0%
Total revenues (Btm)	47,074	50,274	7%	51,598	51,598	0%
Gross margin	34.3%	34.0%	-0.3%	34.5%	34.5%	0.0%
Net margin	14.3%	14.8%	0.5%	15.2%	15.2%	0.0%
SG&A/sale	16.0%	15.1%	-1.0%	15.0%	15.0%	0.0%

Sources: Company data, Bualuang Research estimates

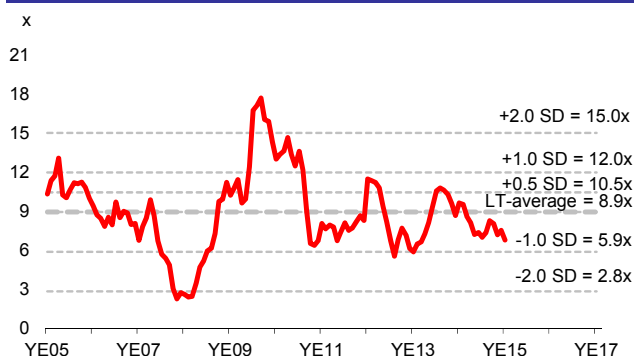
Figure 2 : New launch profile

Figure 3 : Residential revenue growth profile

Figure 4 : Presales profile

Figure 5 : Presales breakdown

Figure 6 : Residential GM

Figure 7 : Quarterly core profit


Sources: Company data, Bualuang Research

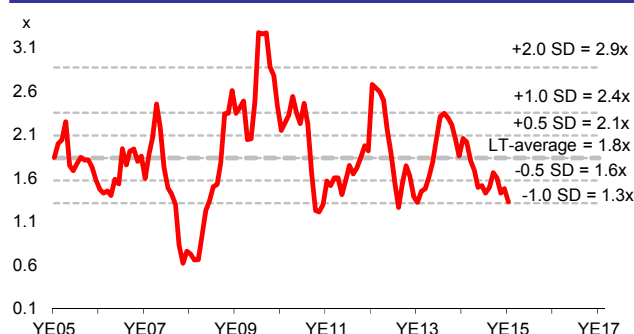
Sector Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Ananda Development	ANAN TB	THB3.96	363	13.5	9.9	-24.7	36.3	1.7	1.5	13.5	16.5	1.9	2.5
AP (Thailand)	AP TB	THB5.55	481	6.1	5.9	9.8	2.6	1.0	0.9	17.0	15.6	5.3	5.5
Land and Houses	LH TB	THB8.85	2,863	14.1	13.9	-18.1	1.1	2.2	2.1	16.9	16.1	6.0	6.1
L.P.N. Development	LPN TB	THB14.60	593	8.2	7.5	29.7	10.3	1.8	1.6	23.6	22.9	6.1	6.7
Prukha Real Estate	PS TB	THB24.00	1,475	7.2	6.8	11.8	5.8	1.5	1.3	23.0	20.9	4.7	4.9
Quality Houses	QH TB	THB2.22	655	8.1	7.1	-24.1	12.9	1.1	1.0	14.4	14.5	5.5	6.2
Raimon Land	RML TB	THB1.30	128	4.0	6.6	9.1	-40.3	0.9	0.8	31.1	15.8	8.0	4.8
SC Asset Corporation	SC TB	THB2.82	325	7.4	6.3	-5.2	17.6	0.9	0.8	12.9	13.8	5.4	6.4
Sansiri	SIRI TB	THB1.48	582	6.7	7.2	-4.7	-7.4	0.8	0.8	12.9	11.2	8.8	8.2
Supalai	SPALI TB	THB18.70	884	7.4	6.4	-2.8	14.5	1.5	1.3	23.2	23.0	5.7	6.5
Simple average				8.3	7.8	-1.9	5.3	1.3	1.2	18.8	17.0	5.7	5.8

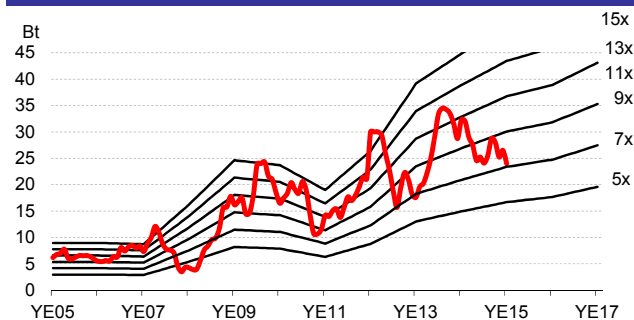
PER band versus SD (next 12 months)



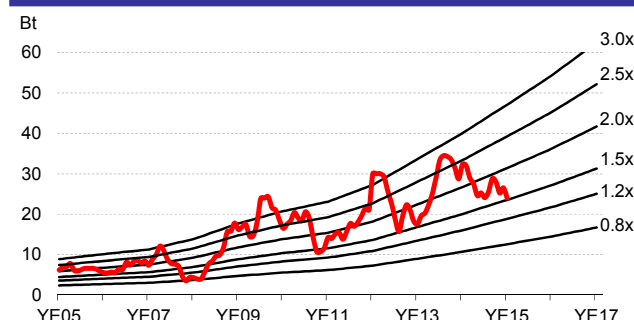
PBV band versus SD (next 12 months)



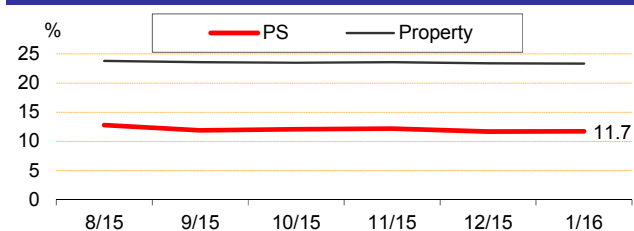
PER band and share price



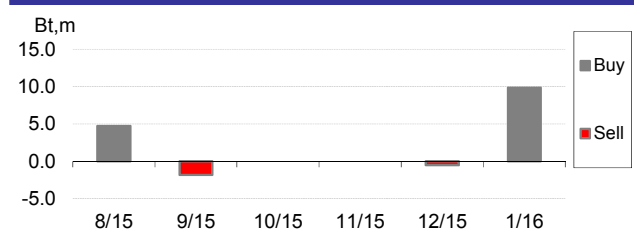
PBV band and share price



Foreign holdings



Management trading activities during past six months



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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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.