

Solid platform with shortened business cycle bode well



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PO increased; PS is our top pick in the sector

We raise our PO on PS to Bt34.40/share (from Bt30) to reflect our roll-over of valuations to year-end 2015. PS is one of our top picks in the sector, based on 1) estimated solid growth of over 25% in 2015, with relatively low revenue risk from backlog on hand; 2) solid business platform and 3) faster business cycle, which would result in better margins, less burden on balance sheet and improving RoE and RoA.

Expected to post solid revenue growth in 2015

We expect PS to post solid growth of 27% in 2015E. This should be mainly driven by 21% revenue growth in 2015, supported by stronger condo revenue (+71% YoY). Our forecast is conservative, as we assume landed property presales to grow by only 8%, and revenue from condos has been 87% secured.

Diversified product mix and faster business cycle are key

PS's key strategy this year is to scale down project size and has diversified projects at different locations. Meanwhile, it has improved its business cycle to 103 days in 2Q-to-date for landed property from 112 days, which results in faster revenue recognition, lower burden on cash flow/ balance sheet and improving margins and RoEs. This will be the key growth driver for 2014E and 2015E.

Record high presales in landed property in 2Q

PS achieved presales of Bt9.7bn in 2Q14, up 19% QoQ but down 6% YoY. The YoY decline was due to a lack of condo launches during the quarter. We saw a big turnaround in landed property presales to Bt8.2bn (up 17% YoY and 33% QoQ). 1H14 presales were Bt17.9bn, down 21% YoY and accounting for 44% of its Bt41bn presales target. We see sequential improvement in revenue/earnings this year and the backlog on hand should secure 95% of our 2014 revenue estimate.

Estimates (Dec)

(Bt)	2012A	2013A	2014E	2015E	2016E
Net Income (Adjusted - mn)	3,898	5,800	5,617	7,138	7,443
EPS	1.73	2.55	2.47	3.14	3.27
EPS Change (YoY)	35.1%	47.1%	-3.2%	27.1%	4.3%
Dividend / Share	0.502	0.850	0.823	1.05	1.09
Free Cash Flow / Share	1.42	(0.985)	(0.522)	2.52	2.24

Valuation (Dec)

	2012A	2013A	2014E	2015E	2016E
P/E	17.30x	11.76x	12.15x	9.56x	9.17x
Dividend Yield	1.67%	2.83%	2.74%	3.49%	3.64%
EV / EBITDA*	15.91x	11.38x	11.67x	9.40x	9.16x
Free Cash Flow Yield*	4.73%	-3.31%	-1.75%	8.46%	7.52%

* For full definitions of *iQmethod*SM measures, see page 6.

Stock Data

Price	Bt30.75
Price Objective	Bt34.40
Date Established	7-Jul-2014
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Bt15.20-Bt31.00
Mrkt Val / Shares Out (mn)	US\$2,094 / 2,206.8
Market Value (mn)	Bt67,859
Average Daily Volume	4,291,704
BofAML Ticker / Exchange	PKARF / SET
Bloomberg / Reuters	PS TB / PS.BK
ROE (2014E)	20.9%
Net Dbt to Eqty (Dec-2013A)	76.6%
Est. 5-Yr EPS / DPS Growth	6.1% / 6.1%
Free Float	26.0%

Key Changes

(Bt)	Previous	Current
Price Obj.	30.00	34.40

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Refer to important disclosures on page 7 to 8. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5. Link to Definitions on page 5. 11403003

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iQprofileSM Pruksa Real Est

Key Income Statement Data (Dec)	2012A	2013A	2014E	2015E	2016E
(Bt Millions)					
Sales	27,023	38,848	36,924	44,839	46,669
Gross Profit	9,133	13,498	12,989	15,913	16,640
Sell General & Admin Expense	(3,925)	(6,077)	(5,825)	(6,922)	(7,406)
Operating Profit	5,208	7,421	7,164	8,991	9,234
Net Interest & Other Income	(187)	(222)	(192)	(115)	22
Associates	NA	NA	NA	NA	NA
Pretax Income	5,021	7,199	6,972	8,876	9,256
Tax (expense) / Benefit	(1,123)	(1,399)	(1,354)	(1,724)	(1,798)
Net Income (Adjusted)	3,898	5,800	5,617	7,138	7,443
Average Fully Diluted Shares Outstanding	2,248	2,274	2,275	2,275	2,275

Key Cash Flow Statement Data

Net Income	3,898	5,800	5,617	7,138	7,443
Depreciation & Amortization	368	374	442	449	455
Change in Working Capital	(1,018)	(7,024)	(6,719)	(1,486)	(2,417)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	3,248	(850)	(660)	6,100	5,481
Capital Expenditure	(119)	(1,339)	(500)	(500)	(500)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(14)	(106)	(59)	(32)	(34)
Cash Flow from Investing	(134)	(1,445)	(559)	(532)	(534)
Shares Issue / (Repurchase)	59	152	0	0	0
Cost of Dividends Paid	(884)	(1,110)	(1,889)	(1,830)	(2,325)
Cash Flow from Financing	(3,591)	2,535	(396)	(5,568)	(4,947)
Free Cash Flow	3,129	(2,189)	(1,160)	5,600	4,981
Net Debt	15,961	19,147	22,255	18,518	15,896
Change in Net Debt	(2,290)	3,253	3,109	(3,738)	(2,622)

Key Balance Sheet Data

Property, Plant & Equipment	2,348	3,313	3,371	3,422	3,467
Other Non-Current Assets	484	590	649	682	716
Trade Receivables	0	0	0	0	0
Cash & Equivalents	1,566	1,815	200	200	200
Other Current Assets	39,423	50,476	56,682	59,529	62,247
Total Assets	43,821	56,194	60,903	63,833	66,630
Long-Term Debt	8,258	14,008	15,973	13,119	7,119
Other Non-Current Liabilities	200	257	257	257	257
Short-Term Debt	9,268	6,955	6,482	5,599	8,977
Other Current Liabilities	6,013	10,042	9,529	10,890	11,192
Total Liabilities	23,739	31,262	32,242	29,865	27,545
Total Equity	20,139	24,982	28,710	34,017	39,135
Total Equity & Liabilities	43,878	56,244	60,952	63,882	66,680

iQmethodSM - Bus Performance*

Return On Capital Employed	10.7%	14.2%	11.8%	13.9%	13.7%
Return On Equity	21.0%	25.7%	20.9%	22.8%	20.3%
Operating Margin	19.3%	19.1%	19.4%	20.1%	19.8%
EBITDA Margin	20.6%	20.1%	20.6%	21.1%	20.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.8x	-0.1x	-0.1x	0.9x	0.7x
Asset Replacement Ratio	0.3x	3.6x	1.1x	1.1x	1.1x
Tax Rate (Reported)	22.4%	19.4%	19.4%	19.4%	19.4%
Net Debt-to-Equity Ratio	79.3%	76.6%	77.5%	54.4%	40.6%
Interest Cover	17.1x	17.9x	19.1x	26.6x	43.9x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

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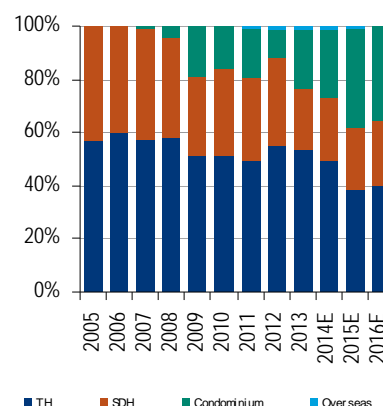
Company Description

Pruksa Real Estate (PS) is the market leader in the low-end segment with average housing price of Bt1-2mn/unit, the lowest among listed property developers. Some 80% of revenue is derived from projects with average housing price below Bt3mn/unit. PS is a mass-market developer, transferring over 10,000 housing units/year, the highest among property developers. This leads PS to be the dominant player in townhouses, commanding about 40% market share.

Investment Thesis

Our Buy rating on PS is premised on its solid growth profile, which should be supported by stronger condo revenue base and faster business cycle in the landed property segment. PS has a strong business platform in having a diversified portfolio of product types and price points, together with its own precast concrete factories, which enable PS to have better construction management.

Figure 1: PS – Revenue breakdown

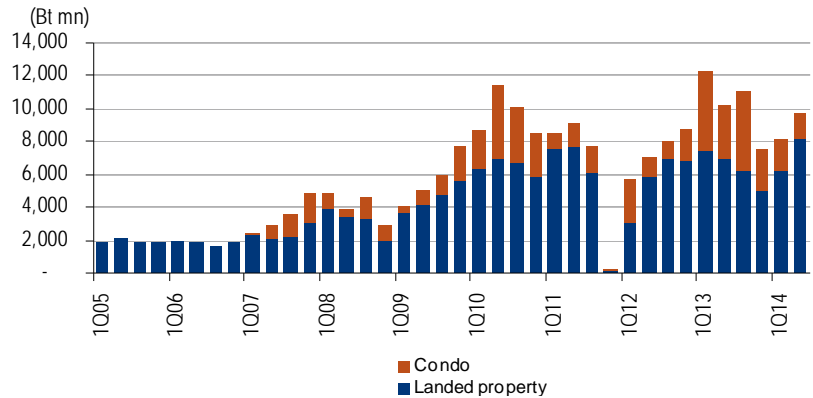


Source: Company; Phatra Securities estimates

Stock Data

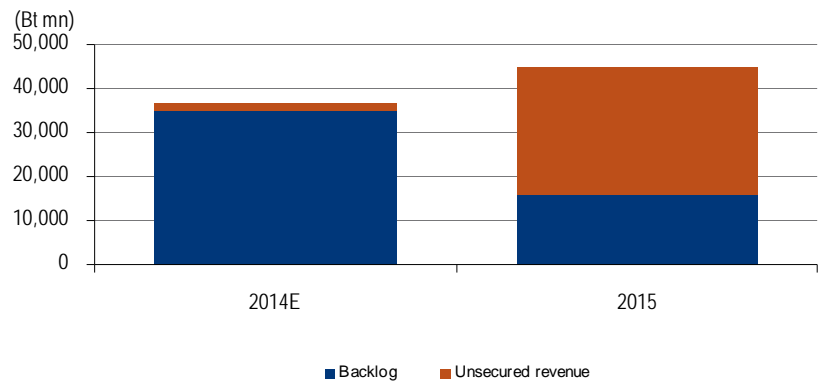
Price to Book Value 2.4x

Figure 2: PS - Quarterly presales breakdown



Source: Company; Phatra Securities estimates

Figure 3: PS - Revenue secured by backlog on hand



Source: Phatra Securities estimates

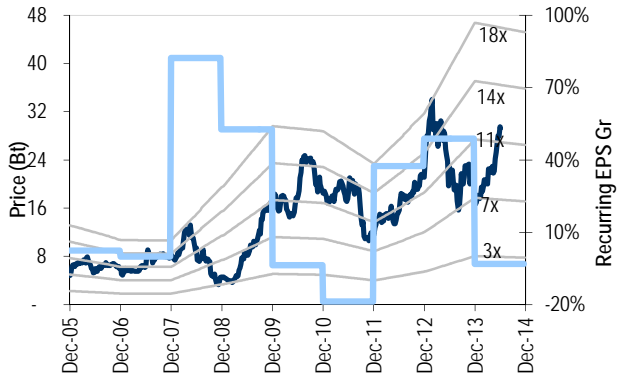
Figure 4: Property Comp

	Price (Bt)	Mkt cap (US\$ mn)	Core EPS (Bt)			Recurring EPS growth			Core PER (x)			Yield (%)	PBV (x)	ROE (%)	Housing P/E	
			2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E				2014E	2015E
SPALI	22.10	1,173	1.68	2.17	2.82	5.1%	29.4%	29.6%	13.16	10.17	7.85	4.13	2.28	24.2%	10.17	7.85
PS	29.75	2,044	2.57	2.48	3.15	47.5%	-3.3%	26.9%	11.58	11.97	9.44	2.77	1.79	21.0%	11.97	9.44
LH	10.00	3,099	0.57	0.56	0.67	23.7%	-2.2%	19.2%	17.50	17.88	15.00	5.37	2.82	18.8%	11.53	9.55
LPN	20.90	953	1.58	1.41	2.16	6.2%	-10.6%	53.2%	13.24	14.82	9.67	3.59	2.95	20.7%	14.82	9.67
QH	3.70	1,050	0.36	0.34	0.38	85.9%	-4.9%	11.8%	10.42	10.96	9.80	4.56	1.80	17.1%	7.61	6.94
AP	6.40	566	0.70	0.74	0.86	-4.8%	6.0%	17.2%	9.19	8.67	7.40	4.66	1.19	14.5%	8.67	7.40
SIRI	2.06	607	0.19	0.21	0.32	-39.0%	10.5%	52.8%	10.88	9.84	6.44	5.06	1.13	12.0%	9.84	6.44
Average						18.2%	2.8%	27.4%	13.56	13.52	10.81	4.33	2.23	20.0%	11.08	8.71

Source: Companies, Phatra Securities estimates

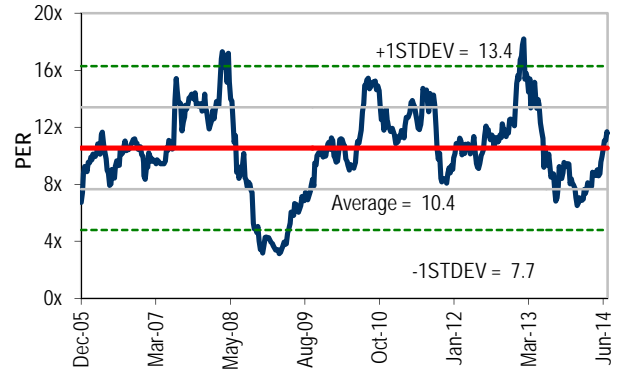
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Figure 5: PS - PER Band



Source: SET; Phatra Securities estimates

Figure 6: PS - Trailing P/E



Source: SET; Phatra Securities estimates

Price objective basis & risk

Pruksa Real Est (PKARF)

Our 12-month price objective of Bt34.4/share is based on our valuation at year-end 2015E, which is based on 1) P/E of 9.60x, which is the average P/E of mid-cap peers and 2) our DCF valuation. The DCF valuation, based on a discount rate of 11.2% and terminal growth rate of 2%, is applied to take into account the company's backlog, which has already secured revenue for 2015E-2017E period. Note that we discount our DCF valuations by 30% to reflect a possible higher rejection rate as PS has high exposure to the low-end market segment.

Downside risks to achieving our price objective are political turmoil, weaker-than-expected economic conditions, higher-than-expected competition among developers, slower-than-expected permits approval by the authorities, rising construction cost, stronger-than-expected increase in interest rates, tighter mortgage financing policy from commercial banks and weaker presales from soft demand or higher competition. Meanwhile, the upside risk to our PO is better-than-expected presales momentum.

Link to Definitions

Financials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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ASEAN - Property Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Ayala Land, Inc.	AYAAF	ALI PM	Jidgette Velasco
	Central Pattana Public Co., Ltd.	XENRF	CPN TB	Jiraporn Linmaneechote
	Land & Houses	LDHXF	LH TB	Jiraporn Linmaneechote
	Land & Houses -F	LDHOF	LH/F TB	Jiraporn Linmaneechote
	LPN Devp Pub Co	LDVPP	LPN TB	Jiraporn Linmaneechote
	Megaworld Corporation	MGAWF	MEG PM	Jidgette Velasco
	Pruksa Real Est	PKARF	PS TB	Jiraporn Linmaneechote
	Robinsons Land Corporation	RBLAF	RLC PM	Jidgette Velasco
	SM Prime Holdings, Inc.	SPHXF	SMPH PM	Jidgette Velasco
	Supalai	XPAYF	SPALI TB	Jiraporn Linmaneechote
	Tesco Lotus Retail Growth Property Fund	XXZLF	TLGF TB	Sirichai Chalokepunrat
NEUTRAL				
	AP (Thailand)	XPPKF	AP TB	Jiraporn Linmaneechote
	Quality Houses	QHPSF	QH TB	Jiraporn Linmaneechote
UNDERPERFORM				
	Siam City	SAMUF	SCCC TB	Jiraporn Linmaneechote

*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

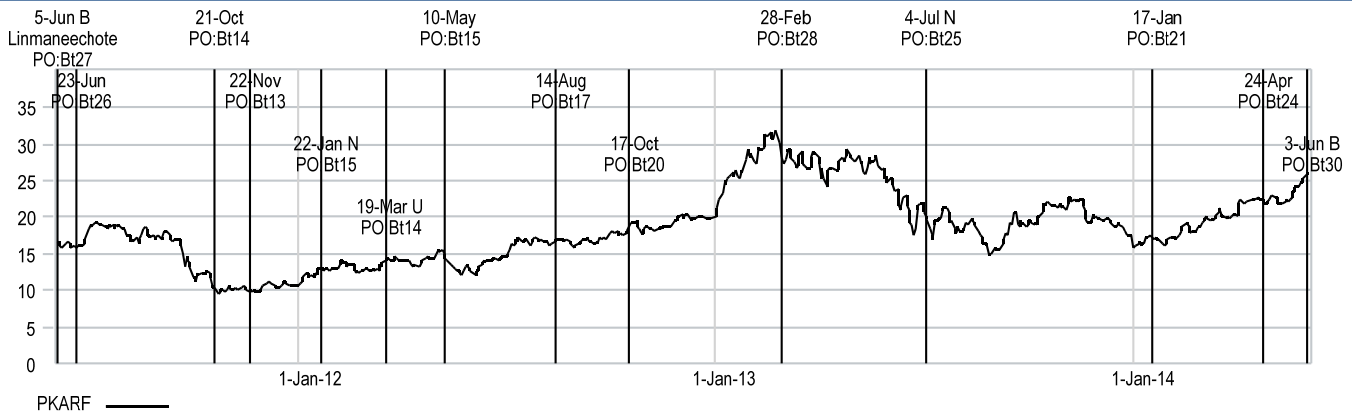
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Important Disclosures

PKARF Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of May 31, 2014 or such later date as indicated.

Investment Rating Distribution: Real Estate/Property Group (as of 30 Jun 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	55	57.89%	Buy	32	58.18%
Neutral	27	28.42%	Neutral	20	74.07%
Sell	13	13.68%	Sell	3	23.08%

Investment Rating Distribution: Global Group (as of 30 Jun 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1696	51.39%	Buy	1275	75.18%
Neutral	837	25.36%	Neutral	619	73.95%
Sell	767	23.24%	Sell	489	63.75%

* Companies that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Corporate Governance Report of Thai Listed Companies 2013

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Companies with Excellent CG Scoring by alphabetical order under Phatra’s Coverage

Advanced Info Service	Airports of Thailand	Banpu	Bangkok Bank	Bangchak Petroleum
BTS Group Holdings	LPN Property Development	Charoen Pokphand Foods	Hemaraj Land and Development	Total Access Communication
Electricity Generating	The Erawan Group	Central Pattana	INTUCH	IRPC
Indorama Ventures	Kasikornbank	Krung Thai Bank	Ch. Karnchang	MCOT
Minor International	Preuksa Real Estate	PTT	PTT Exploration	PTT Global Chemical
Quality Houses	Ratchaburi Electricity Generating	Robinson Department Store	Thai Airways International	Siam Cement
Supalai	Thanachart Capital	Siam Commercial Bank	Thaicom	Tisco Bank
Thai Military Bank	Thai Oil	True Corporation	Thai Vegetable Oil	VGI Global Media
Precious Shipping				



Companies with Very Good CG Scoring by alphabetical order under Phatra’s Coverage

Amata Corporation	BEC World	Bumrungrad Hospital	Big C Supercenter	Berli Jucker
Central Plaza Hotel	CP All	ESSO (Thailand)	GFPT	Glow Energy
Home Product Center	Land & Houses	Major Cineplex Group	Siam City Cement	Sansiri
Asian Property Development	Sino Thai Engineering and Construction	Ticon Industrial Connection	Thai Union Frozen Product	Toyo-Thai Corporation



Companies with Good CG Scoring by alphabetical order under Phatra’s Coverage

Asia Aviation	Bangkok Chain Hospital	Siam Global House		
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N/A

Companies without survey result available by alphabetical order under Phatra’s Coverage

MK Restaurant	Thai Beverage	Bangkok Dusit Medical Services	Tesco Lotus Retail Growth Property Fund	BTS Growth Infrastructure Fund
Nok Airlines	STP&I			