Pruksa Real Estate Pcl

The dominant player in the right segment

Initiation
Overweight
PS.BK, PS TB
Price: Bt17.50
Price Target: Bt22.00

- **Initiate with OW, Dec-11 PT Bt22.** We believe Pruksa Real Estate (PS) will continue to deliver superior growth relative to its peers given the company is the dominant player in a focused segment of the market. This should lead to a sustained valuation re-rating for the stock, in our view.
- **Dominant player in low-income housing.** PS's market share is >50% for townhouses (TH) and 20% for single-detached housing (SDH). Starting its condo business in FY07, PS's share in this market is c4%. Average household income in BKK implies housing affordability at Bt2.4-2.8 million per residential unit, which is a segment where PS dominates. PS enjoys cost leadership given its pre-cast tech nology, which has yielded mass production capacity, high revenue growth, strong profitability, and low working capital needs. PS has the highest ROE among listed developers under our Thai coverage, despite low financial leverage.
- **We expect 33% growth in PS's FY10E revenue, 5% higher than the company's guidance.** About 86% of revenue is secured implying low downside risk in our view. We conservatively forecast gross profit margin to decline from 38.1% in FY09 to 36.5% this year. Even so, we still see superior net profit growth from PS relative to the sector. We expect PS's NP to grow 15%, 14%, and 20% during FY10-12E against the sector's NP growth at 8%, 5%, and 19% for the same period.
- **Upcountry & overseas businesses could be new drivers,** but at the same time, it could also be considered as a risk given the company's lack of experience. However, we see the risk is not material given the small size of initial investment.
- **Our Dec-11 PT of Bt22 is based on 10x FY11E EPS**. The target PE is based on 25% premium to its historical PE average to reflect our view of the company's superior growth profile. Risks to PT are lower than expected gross profit margin, rising competition in low-end housing market, as well as the risks on new businesses, i.e. upcountry and overseas expansion.

Thailand
Property

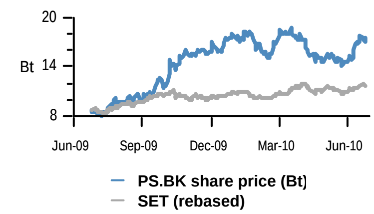
Anne Jirajariyavech[AC]
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

JPMorgan Securities (Thailand) Limited

Christopher Gee, CFA
(65) 6882-2345
christopher.ka.gee@jpmorgan.com

J.P. Morgan Securities Singapore Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-1.7%	25.0%	-0.6%	101.1%
Rel	-10.1%	15.0%	-1.8%	66.7%

Pruksa Real Estate Pcl (Reuters: PS.BK, Bloomberg: PS TB)

Bt in mn, year-end Dec	FY08A	FY09A	FY10E	FY11E	FY12E		
Revenue	12,969	18,966	25,210	30,062	36,097	Shares O/S (mn)	2,207
Net Profit	2,373.3	3,621.7	4,177.0	4,749.0	5,705.8	Market cap (Bt mn)	38,619
EPS (Bt)	1.09	1.65	1.89	2.15	2.59	Market cap ($ mn)	1,192
DPS (Bt)	0.33	0.55	0.66	0.75	0.90	Price (Bt)	17.50
Revenue growth (%)	43.2%	46.2%	32.9%	19.2%	20.1%	Date Of Price	25 Jun 10
EPS growth (%)	81.5%	51.7%	14.9%	13.7%	20.1%	Free float (%)	23.0%
ROCE	26.5%	33.6%	33.1%	31.7%	33.2%	3-mth trading value (Bt mn)	64.7
ROE	25.9%	31.3%	29.0%	27.5%	27.6%	3-mth trading value ($ mn)	2.0
P/E (x)	16.1	10.6	9.2	8.1	6.8	3-mth trading volume (mn)	4.1
P/BV (x)	3.8	3.0	2.5	2.1	1.7	SET	794
EV/EBITDA (x)	12.3	7.3	6.5	5.7	4.8	Exchange Rate	32.39
Dividend Yield	1.9%	3.2%	3.8%	4.3%	5.2%	Fiscal Year End	Dec

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 26 for analyst certification and important disclosures, including non-US analyst disclosures.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

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Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Company Description

PS is one of the leading property developers in Thailand. The company focuses on developing residential units for low-mid income people in greater Bangkok. Having its own pre-cast factories, PS has been able to control cost and speed of construction resulting in high revenue growth and profit margin. This is considered unique and is the company's competitive advantage. PS's overall market share is 10-15% with 50% share for TH, 15% for SDH, and 2-3% for condo. PS just started to develop condominium in FY07 and so far has proven to be successful. Looking forward, in order to sustain long-term revenue growth rate of 25% p.a., PS sets itself to continue expanding and will broaden product categories and brands as well as the locations. PS is moving to develop projects in upcountry areas as well as overseas. Vijitpongpun family, the founder, owns 76% in the company. Mr. Thongma Vijitpongpun is the company's President & Chief Executive Officer.

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY10E	1.89	1.75
FY11E	2.15	1.92
FY12E	2.59	2.20

Source: Bloomberg and J.P. Morgan estimates.

P&L sensitivity metrics

FY10E	EBITDA impact (%)	EPS impact (%)
Sales growth assumption (33%)		
Impact of each 5ppts increase	8%	8%
Gross margin assumption (36.5%)		
Impact of each 1 percentage points increase	4%	5%

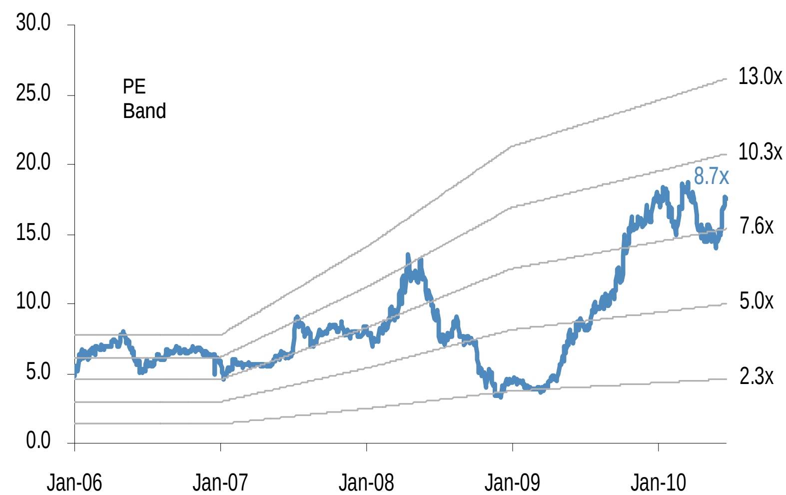
Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Dec-11 PT of 22 is based on 10x FY11E EPS. The target PE is based on 25% premium (to reflect our view of the company's superior growth profile) to historical PE average.

Risks to PT are lower than expected gross profit margin, rising competition in low-end housing market, as well as the risks on new businesses i.e. upcountry and overseas expansion.

PE average since FY06	8	FY11E EPS (Bt)	2.2
Fair P/E	10	P/E-based Valuation	22



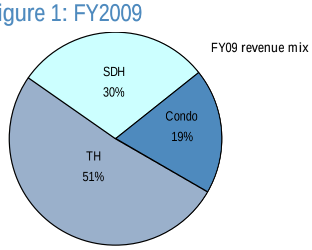
Source: Bloomberg and J.P. Morgan estimates.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Investment thesis

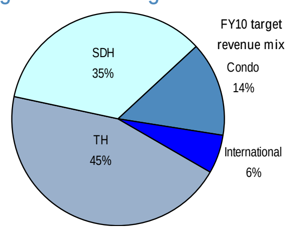
PS's revenue mix

Figure 1: FY2009



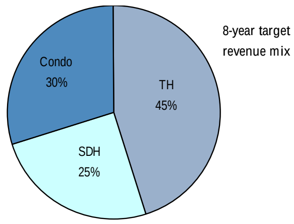
Source: Company reports.

Figure 2: FY10 target



Source: Company reports.

Figure 3: Eight-year plan



Source: Company reports.

Investment positives

In the right growth segment

PS has various product brands/categories that can meet market demand. PS's product prices range from below Bt1 million up to Bt10 million, but there is a high concentration in Bt1-3 million residential unit types. In our view, this is right market to target given the significant size of demand. Average household income in greater Bangkok suggesting housing affordability is around Bt2.4-2.8 million residential unit.

Owning pre-cast factory brings cost and timing control

PS has owned pre-cast factories and has very long experience in this technology and that is the competitive advantage of PS over other developers. This has led to minimal waste and errors in construction process resulting in mass production, quick asset turnover, strong revenue growth, high profit margin, and low working capital requirement (low financial leverage).

Light competition in the segment

In our view, competition is less in the low-income housing segment than in other segments. This is probably due to the lower profit margin in the low end market. With PS's unique production process, the company has dominant market share in less competed low-end housing market and been able to command high gross profit margin. PS's gross profit margin is one of the highest among listed properties in Thailand.

Condo offers growth, new opportunity in upcountry and overseas

PS has started to develop its first condominium in FY07. The business started to contribute revenue in FY08. The market has well received PS's condo products as reflected by good pre-sales record. This is a new growth driver for PS.

Recently, PS has expanded its footprint into building business in upcountry and overseas markets. If successful, we believe this can create the next phrase of growth for the company.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Investment negatives

New to upcountry and international markets
PS has started to expand into upcountry as well as international markets. Given no track record and the lack of experience in the new locations, there is some uncertainty related to the company's operations and profitability in these areas.

However, the initial investment here is small relative to existing business and therefore we believe it should not have a significant impact either way on the company's financial performance. However, if successful, there could be the new revenue drivers for PS in the future. Also, PS has entered into the international market in the form of joint ventures with local companies.

Competition is increasing
Leading developers are moving to be more integrated developers. Recently, the high-end property developers like Quality Houses (QH) and Sansiri have stated that they plan to launch cheap TH into the market in the second half of this year. The size of the market attracts interests of new developers. PS is the dominant player in this market and therefore will likely face new competition.

While the increase in competition could threaten the company's outlook, we believe PS being the cost leader and having unique business model (having pre-cast technology) will shelter the company from new competition.

Increase in interest rate
The Bank of Thailand has indicated that it will adjust Thailand's benchmark policy rate to a more normalized level, after having maintained it at very low level of 1.25%. Higher interest rates could bring down housing affordability. However, in our view, interest rate even with upward adjustment will remain at a relatively low level and should not have significant impact on housing demand. This is especially for the low-income housing segment where real demand is driving the growth.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

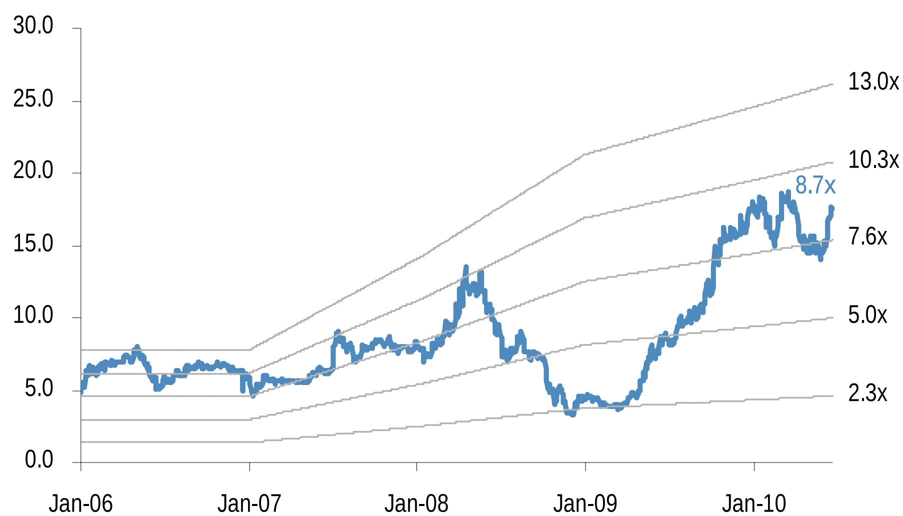
Valuation and share price analysis

Price target basis - targeting P/E of 10x FY11E

We value Thai property developers on a PE basis given the fact that they do not normally hold large land bank and also have limited investment portfolio. For PS, we derive the Dec-11 PT of Bt22 based on 10x PE on our FY11 EPS estimate. The PE average since the stock's listing is 8x. We apply a 25% premium to the historical PE average to derive our PT to reflect our view of the company's superior growth profile as well as its leading position in the low-end mass property market, which has seen consistent and solid demand. The premium is also given to reflect its strength in having a unique business model - i.e. having its own pre-cast factories and having cost and price leadership in the market. Risks to our PT are lower than expected gross profit margin, increase in competition, and the progress on PS's new businesses which are provincial, and overseas business expansion.

We value PS based on PE multiple of 10x, which is about 25% above its average PE multiple since listing. The premium is given to reflect its superior earnings growth profile and its unique business model.

Figure 4: PS's 12-month forward PE



Source: Bloomberg and J.P. Morgan.

PS is not the cheapest property stock but valuation-growth profile is attractive. Also, PS produces the highest ROE in the sector. Having low gearing ratio, it is also possible that the company's dividend payout rate will increase from the current 35%.

Share price multiple and trading view

PS is not the cheapest stock in the sector. Current stock PE is 9x FY10E PE and declines to 8x and under 7x for FY11E and FY12E, respectively, due to its consistent earnings growth. In addition, even with very low gearing (even being net cash in some periods), PS has delivered the highest ROE in the sector. Our expectation of declining ROE (but still high) from 31% in FY09 to 29% this year and 27.5% next year reflects the company's payout ratio of around 35%. With its low gearing, we believe there is room for PS to give higher dividend payout.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

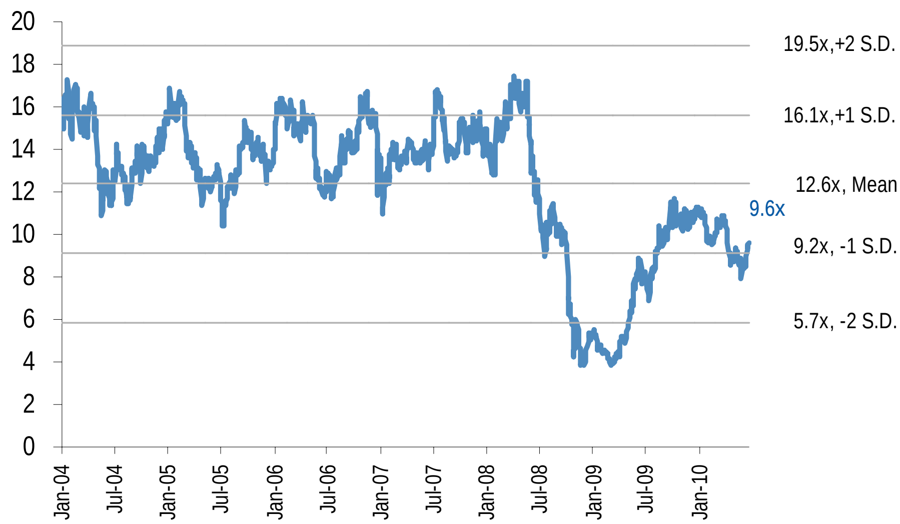
Table 1: Sector valuation comparison

	Mkt cap (US$ mn)	PE avg from Jan04	PE			Div yield	PBV			ROE			EPS growth			Rev growth		
			FY10E	FY11E	FY12E		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
AP	365	8.3	7.2	8.4	5.7	5.5%	1.3	1.2	1.1	19.0%	14.8%	19.5%	-12%	-14%	47%	2%	-8%	49%
LH	1,645	18.0	12.5	10.8	9.3	6.4%	1.9	1.8	1.8	15.4%	17.3%	19.3%	10%	16%	16%	18%	22%	17%
LPN	387	7.2	8.7	7.6	6.7	5.7%	2.1	1.8	1.6	25.8%	25.9%	25.8%	7%	14%	14%	15%	14%	15%
PS	1,185	7.6	9.2	8.1	6.8	3.8%	2.5	2.1	1.7	29.0%	27.5%	27.6%	15%	14%	20%	33%	19%	20%
QH	530	8.7	8.0	8.6	7.6	5.6%	1.3	1.2	1.1	16.4%	14.2%	14.8%	25%	-6%	13%	38%	4%	11%
Sector	4,113		9.8	9.1	7.6	5.4%	1.8	1.7	1.5	19.7%	19.4%	21.1%	10%	8%	20%	22%	12%	21%

Source: Bloomberg and J.P. Morgan estimates. Pricing as of 25 June 2010.

Average PE for the sector is now at 9.6x. Although it has recovered from the trough in late FY08, it is still at significant discount from the pre-crisis level.

Figure 5: Property sector's 12-month forward PE



Source: Bloomberg and J.P. Morgan.

Key assumptions and sensitivities

Table 2: PS - Key assumptions

Bt in millions

	FY08	FY09	FY10E	FY11E	FY12E
Revenue	12,969	18,966	25,210	30,062	36,097
Y/Y growth	43%	46%	33%	19%	20%
Gross profit margin	37.7%	38.1%	36.5%	36.5%	36.5%
SG&A/Sales	14.6%	12.9%	14.5%	15.5%	15.5%
Net profit margin	18.2%	19.0%	16.5%	15.8%	15.8%
Net profit	2,373	3,622	4,177	4,749	5,706
Y/Y growth	82%	53%	15%	14%	20%
EPS (Bt)	1.08	1.64	1.89	2.15	2.59

Source: Company reports and J.P. Morgan estimates.

Table 3: PS - EBITDA and EPS sensitivity to changes in assumptions

	FY10E	FY11E	FY12E
Base case revenue growth	33%	19%	20%
If revenue growth +5ppt			
% chg to EBITDA	7.9%	8.3%	8.4%
% chg to EPS	8.3%	8.7%	8.7%
Base case gross profit margin	36.5%	36.5%	36.5%
If GPM +1ppt			
% chg to EBITDA	4.3%	4.6%	4.6%
% chg to EPS	4.5%	4.7%	4.7%

Source: J.P. Morgan estimates.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

The dominant player in the right segment

PS – the leading low-end residential developer
PS is one of the leading property developers in Thailand and has shown stellar growth record. As highlighted in table below, PS plans to launch new projects worth a total Bt33.6 billion in FY10 which is the largest number among the top 5 leading developers in Thailand.

PS has its expertise in developing residential units for low-mid income people in the greater Bangkok areas. Highlighted also in the table below is the average price per unit of residential units developed by the 5 leading developers. PS, along with LPN, is clearly in the low-end market. LPN dominates the low-end condo market whereas PS dominates the low-end townhouses and single-detached houses. Average residential price per unit that PS developed is Bt1-2 million.

Table 4: Launching details of 5 leading developers

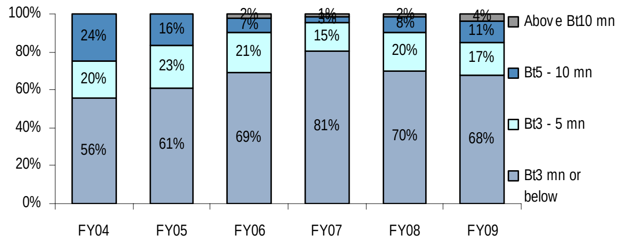
	Value (Bt mn)				No. of projects				Units				Bt mn/unit			
AP	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10
SDH	0	3,370	850	10,850	0	3	1	7	0	739	106	1,818		4.6	8.0	6.0
TH	400	3,970	1,440	8,160	1	6	2	8	124	970	219	1,719	3.2	4.1	6.6	4.7
Condo	8,850	3,830	13,000	10,700	6	2	6	4	2,744	959	2,147	na	3.2	4.0	6.1	na
Total	9,250	11,170	15,290	29,710	7	11	9	19	2,868	2,668	2,472	na	3.2	4.2	6.2	na
QH	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10
SDH	9,234	15,290	7,274	17,201	6	8	5	10	1,178	2,326	764	1,440	7.8	6.6	9.5	11.9
TH	970	330	430	676	2	1	1	3	223	94	121	220	4.3	3.5	3.6	3.1
Condo	0	0	0	6,868	0	0	0	4	0	0	0	1,208				5.7
Total	10,204	15,620	7,704	24,745	8	9	6	17	1,401	2,420	885	2,868	7.3	6.5	8.7	8.6
LH	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10
SDH	4,611	8,180	11,239	22,050	4	7	7	10	1,063	1,419	1,860	4,576	4.3	5.8	6.0	4.8
TH	870	2,426	963	2,535	2	5	2	3	249	631	317	614	3.5	3.8	3.0	4.1
Condo	1,200	1,400	2,995	5,910	1	2	1	4	343	319	801	1,042	3.5	4.4	3.7	5.7
Total	6,681	12,006	15,197	30,495	7	14	10	17	1,655	2,369	2,978	6,232	4.0	5.1	5.1	4.9
LPN	FY07	FY08	FY09	YTD FY10	FY07	FY08	FY09	YTD FY10	FY07	FY08	FY09	YTD FY10	FY07	FY08	FY09	YTD FY10
SDH																
TH																
Condo	9,550	6,500	9,210	7,750	6	5	5	4	9,738	3,747	7,840	4,749	1.0	1.7	1.2	1.6
Total	9,550	6,500	9,210	7,750	6	5	5	4	9,738	3,747	7,840	4,749	1.0	1.7	1.2	1.6
PS	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10
SDH	3,140	6,959	7,103		6	11	12	14	1,434	2,421	2,527		2.2	2.9	2.8	
TH	9,738	8,605	6,778		18	21	17	18	8,311	6,463	4,922		1.2	1.3	1.4	
Condo	2,850	5,898	3,819		4	6	5	16	1,257	2,030	1,228		2.3	2.9	3.1	
Total	15,728	21,462	17,700	33,600	28	38	34	48	11,002	10,914	8,677	na	1.4	2.0	2.0	na

Source: Company reports.

In our view, PS is in the right segment given the huge market size and opportunity in the low-mid end housing market. Also, the competition in this market has been less than other sectors as cost competitiveness is the key. More than 60% of residential units in Bangkok (using new launches as proxy) are in the price range of Bt3 million or below. However, that is less than 40% in terms of value. Developers must have enough scale in order to secure enough profit.

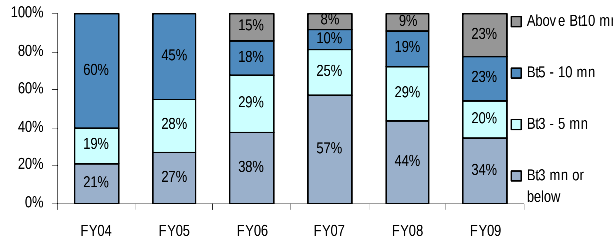
Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Figure 6: New launches (overall BKK) by number of unit



Source: Agency for Real Estate Affairs.

Figure 7: New launches (overall BKK) by value



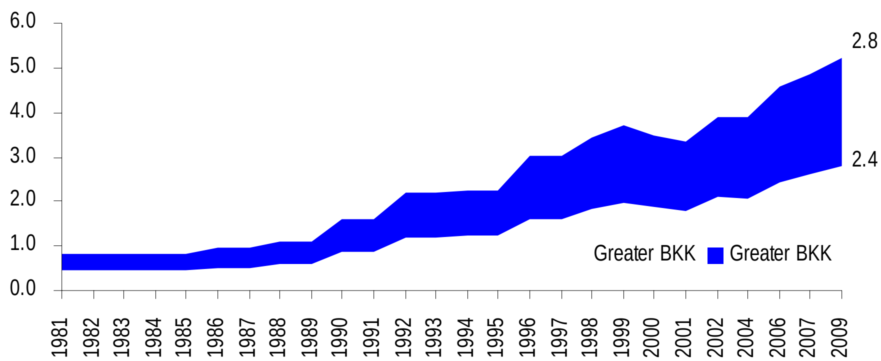
Source: Agency for Real Estate Affairs.

While cost barrier had made it difficult for small developers to compete, size and opportunity of low-income housing is significant. Charts and table below illustrate average household income and housing affordability. Housing affordability has improved consistently. Based on FY09 data, we see Bt1.3-1.5 million residential units for the whole kingdom and Bt2.4-2.8 million residential units for Bangkok are generally the residential pricing that people could afford. This fits well with PS's strategy as referred to Table 4; on average PS's products are priced around Bt1-3 million and are still mainly in greater Bangkok.

On average, a Bangkok household can afford a Bt2.4-2.8 million residential unit.

Figure 8: Housing affordability (Greater Bangkok only)

Bt in million per unit

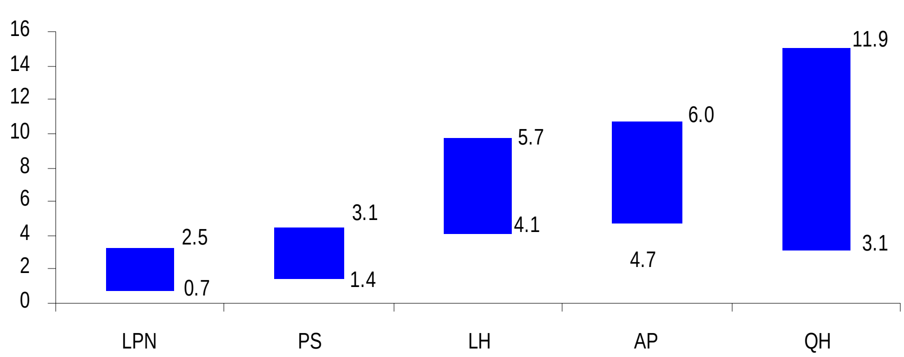


Source: National Statistical Office and J.P. Morgan estimates.

This fits well with PS's strategy with its average residential unit price between Bt1.4-3.1 million.

Figure 9: Average residential unit price by developer

Bt in million



Source: Company reports and J.P. Morgan estimates.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Table 5: Thailand's housing affordability - whole kingdom and greater Bangkok

	Average household monthly income (Bt per month)		Monthly mortgage installment (Bt per month)*		(1) Downpayment 15%, Mortgage rate 4%, Loan term (yrs) 30 — Home affordability (Bt)		(2) Downpayment 20%, Mortgage rate 5%, Loan term (yrs) 25 — Home affordability (Bt)	
	Thailand	Greater BKK	Thailand	Greater BKK	Thailand	Greater BKK	Thailand	Greater BKK
1981	3,378	5,962	1,013	1,789	249,727	440,756	216,690	382,448
1982	3,378	5,962	1,013	1,789	249,727	440,756	216,690	382,448
1983	3,378	5,962	1,013	1,789	249,727	440,756	216,690	382,448
1984	3,378	5,962	1,013	1,789	249,727	440,756	216,690	382,448
1985	3,378	5,962	1,013	1,789	249,727	440,756	216,690	382,448
1986	3,631	6,949	1,089	2,085	268,431	513,722	232,920	445,761
1987	3,631	6,949	1,089	2,085	268,431	513,722	232,920	445,761
1988	4,106	7,877	1,232	2,363	303,546	582,327	263,390	505,290
1989	4,106	7,877	1,232	2,363	303,546	582,327	263,390	505,290
1990	5,625	11,724	1,688	3,517	415,842	866,726	360,830	752,065
1991	5,625	11,724	1,688	3,517	415,842	866,726	360,830	752,065
1992	7,062	15,951	2,119	4,785	522,076	1,179,217	453,010	1,023,217
1993	7,062	15,951	2,119	4,785	522,076	1,179,217	453,010	1,023,217
1994	8,262	16,418	2,479	4,925	610,789	1,213,742	529,987	1,053,174
1995	8,262	16,418	2,479	4,925	610,789	1,213,742	529,987	1,053,174
1996	10,779	21,947	3,234	6,584	796,864	1,622,487	691,446	1,407,846
1997	10,779	21,947	3,234	6,584	796,864	1,622,487	691,446	1,407,846
1998	12,492	24,929	3,748	7,479	923,502	1,842,939	801,331	1,599,133
1999	12,729	26,742	3,819	8,023	941,023	1,976,969	816,534	1,715,433
2000	12,150	25,242	3,645	7,573	898,219	1,866,078	779,392	1,619,212
2001	12,185	24,365	3,656	7,310	900,807	1,801,243	781,638	1,562,954
2002	13,736	28,239	4,121	8,472	1,015,468	2,087,639	881,130	1,811,462
2004	14,963	28,135	4,489	8,441	1,106,177	2,079,950	959,839	1,804,790
2006	17,787	33,088	5,336	9,926	1,314,948	2,446,113	1,140,992	2,122,513
2007	18,660	35,007	5,598	10,502	1,379,487	2,587,980	1,196,993	2,245,612
2009	20,903	37,732	6,271	11,320	1,545,306	2,789,432	1,340,876	2,420,414

*normally is 30% of household monthly income

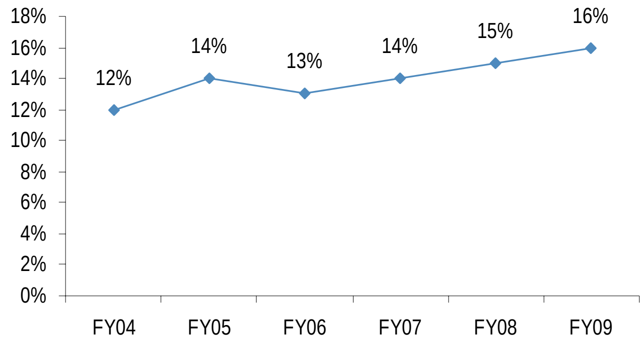
Source: National Statistical Office and J.P. Morgan estimates.

PS has had long history in this market and has secured significant market share especially in townhouse segment. We therefore believe that there remains huge growth opportunity for PS and long-term growth sustainability is highly achievable for the company. Overall market share of PS is 10-15%. PS is the largest player in townhouse segment with 50% market share by number of units. The company also has significant market share in single-detached house market at c. 15%. In FY07, PS started to develop condominium projects and so far has proven to be successful. However, being a new player, its market share in the condominium market is still small at 2-3%.

PS's high market share also suggests that there is less competition in the segment, which is good for the company as it can command both higher volume and profit margin.

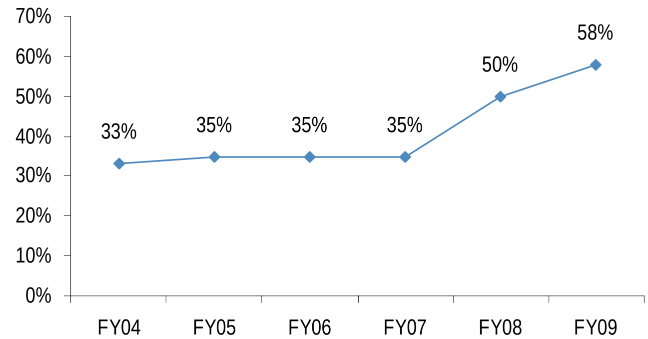
Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Figure 10: PS's overall market share - by unit



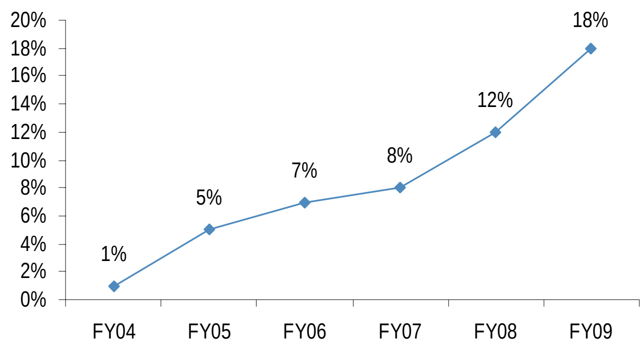
Source: Company reports.

Figure 11: PS's townhouse market share - by unit



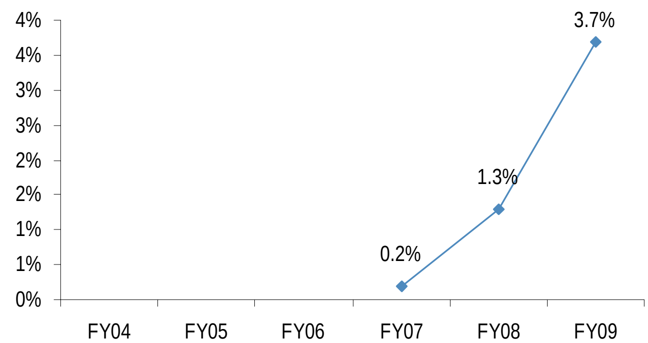
Source: Company reports.

Figure 12: PS's single-detached house market share - by unit



Source: Company reports.

Figure 13: PS's condominium market share - by unit



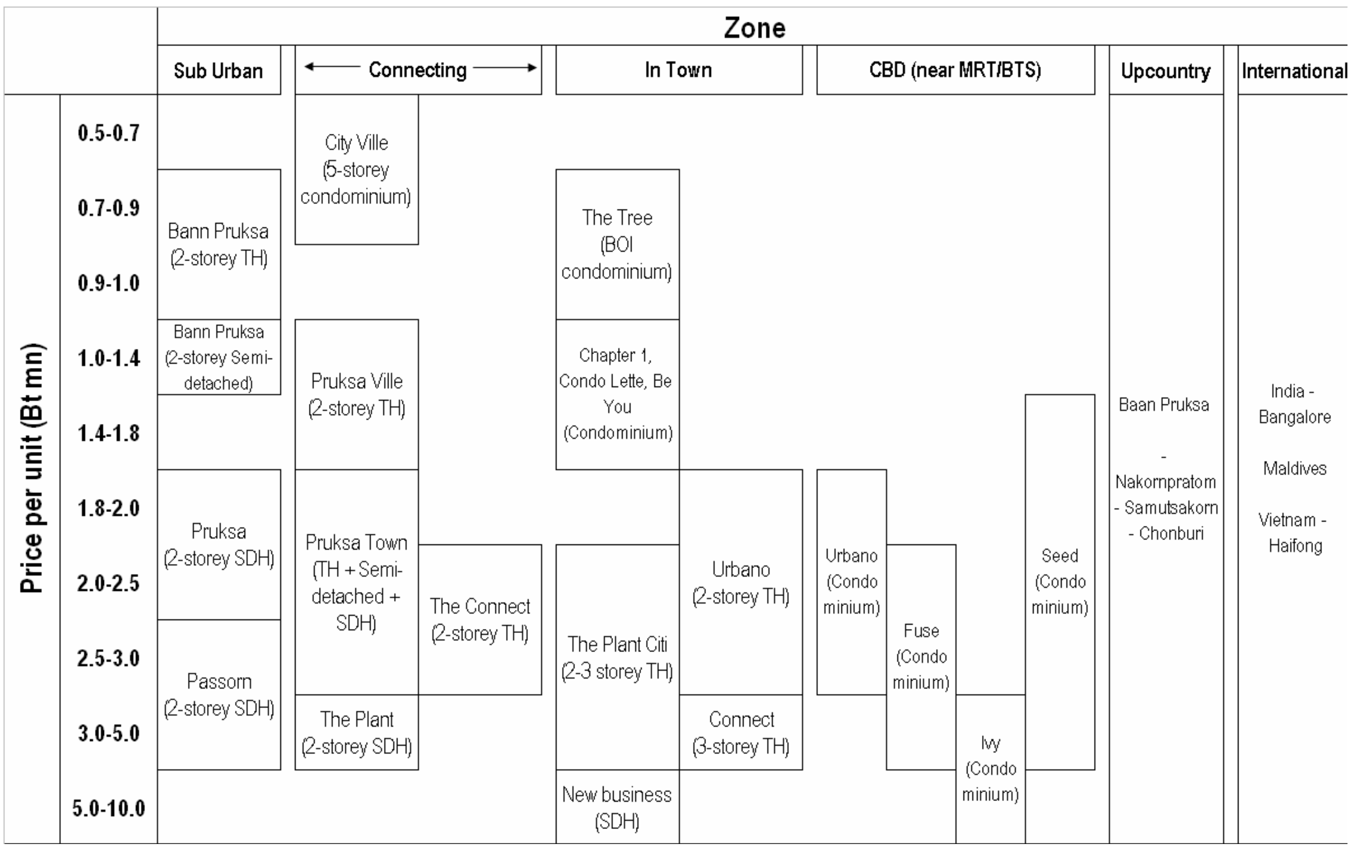
Source: Company reports.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Unique business model

A truly integrated developer
PS is a truly integrated developer having various product brands and categories with price ranging from Bt0.5 million to Bt10.0 million per residential unit, and high concentration in Bt1-3 million residential type. PS also has broad location coverage from Suburban (for TH and SDH) to CBD (for condominium). Recently, PS has started to expand upcountry (in three provinces) as well as overseas (initially three countries).

Table 6: PS's product category



Source: Company reports

PS's developing technique makes it unique with cost and price leadership
PS is capable of developing residential units in mass volume with very low cost and quick turnover. This is due to the company's long experience in pre-cast technology. PS has its own pre-cast factory and therefore has been able to control cost and speed of construction resulting in high revenue growth, low working capital required, low financial leverage, and high profit margin. This is considered unique and is the company's competitive advantage. According to the company, normal construction time is 180 days for TH and SDH, but PS has been able to build TH within 45 days and SDH within 60 days.

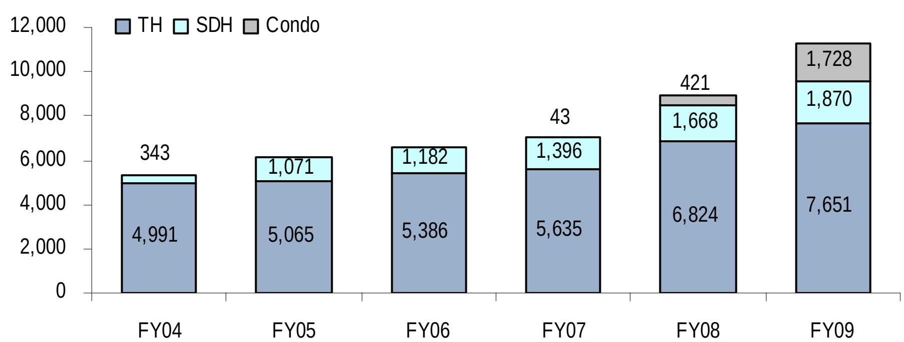
Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Figure 14: PS's Precast factory and technology

Source: Company reports.

Having long experience and owning pre-cast factories have brought PS mass production capability. There has been strong and consistent growth in residential units transferred. PS's revenue growth during FY08-09 was >40% p.a.

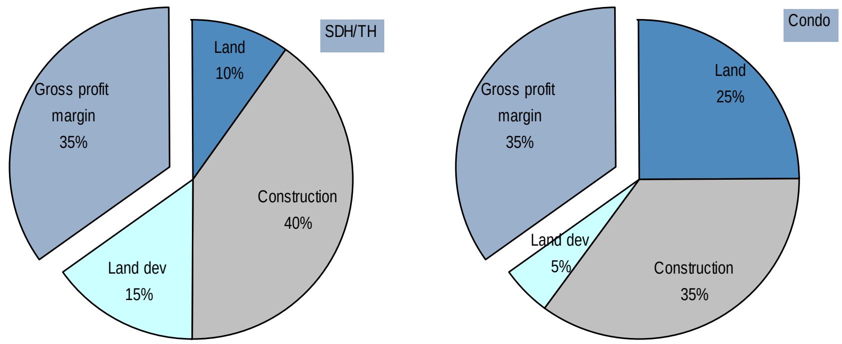
Figure 15: No. of units transferred



Source: Company reports

PS has recorded high gross profit margin despite being in the low-end segment (price leadership). That is helped by its pre-cast technology and mass production.

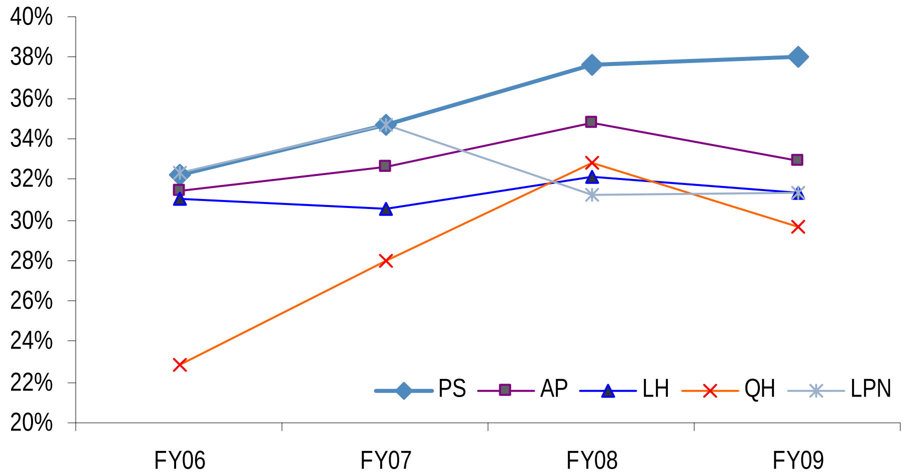
Figure 16: Cost and margin structure



Source: Company reports.

PS has been able to command the highest gross profit margin in the sector.

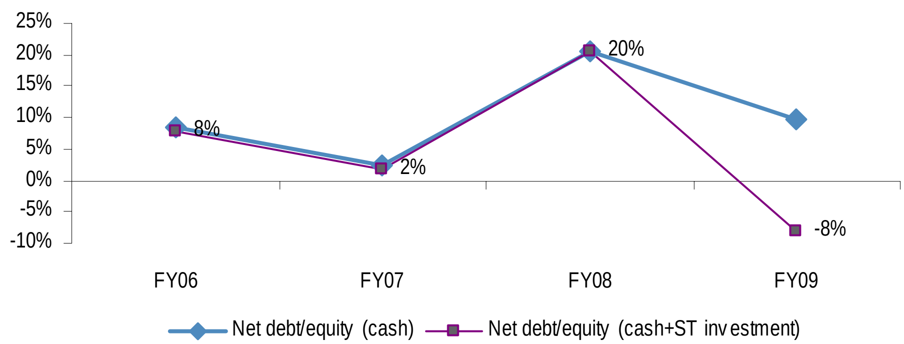
Figure 17: Developers' gross profit margin



Source: Company reports and J.P. Morgan.

Quick asset turnover has resulted in low working capital requirement and low gearing for PS.

Figure 18: PS's net debt/equity



Source: Company reports and J.P. Morgan.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Cost leadership should defend PS from new competition

Being the cost leader in the low-income housing market should help protect PS from new comers such as QH and Sansiri, which recently have indicated that they would step into low-end housing market.

As highlighted above, PS enjoys high market share, quick asset turnover, mass production volume, high profit margin, and low financial leverage due to its long experience in pre-cast technology, which we believe new comers could take several years to learn.

According to PS, the total cost for developing TH is on average Bt8,000 per sq.m. for general developers. That could be Bt5,000 per sq.m. for leading developers with bigger scale of production. However, PS has achieved costs as low as Bt3,000-4,000 per sq.m., which is half of that of general developers and about 30% cheaper than that of other leading developers.

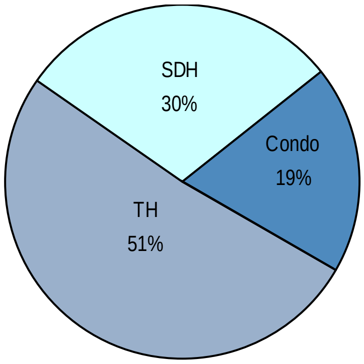
Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Revenue mix and long-term plan

TH has always been the highest revenue contributor to PS and that is followed by SDH. PS started to develop condominium projects in FY07 and revenue contribution started in FY08 but was still small at 4% of total residential revenue. That rose to 19% in FY09 in which revenue from TH and SDH was 51% and 30%, respectively. Looking forward, for the whole year of FY10, PS target to have 45% revenue contribution from TH (lower Y/Y), 35% from SDH (higher Y/Y), 14% from condo (lower Y/Y), and 6% from international business which is new revenue contributor this year.

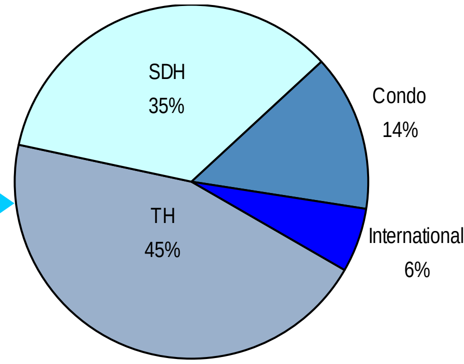
PS has also set an 8-year plan with the expectation to see significant change in revenue mix. In FY10, revenue mix target only has 6% revenue coming from overseas business, but PS target to raise that to 40% while domestic business should contribute 60% of revenue. The company also looks to have increased revenue contribution from upcountry area. From almost zero contribution currently, PS targets to raise upcountry revenue to 15-20% of the domestic business. Also, in terms of product contribution, PS plans to continue having TH as the major revenue contributor. However, it expects revenue from developing condominiums to share equal (or slightly above) revenue contribution with SDH.

Figure 19: PS - FY09 revenue mix



Source: Company reports.

Figure 20: PS - Target revenue mix for FY10



Source: Company reports.

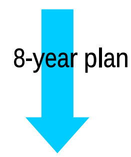
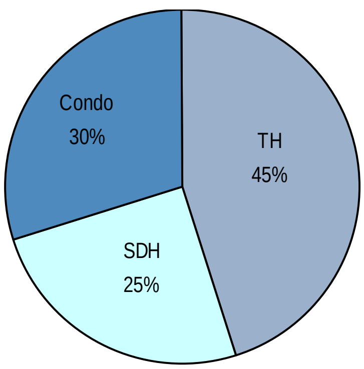
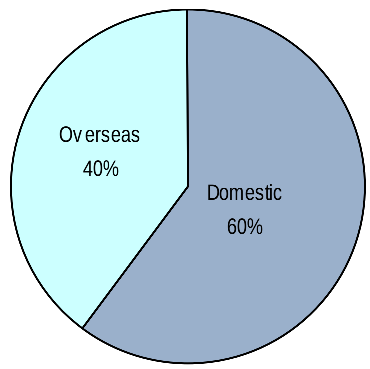


Figure 21: PS - 8-year plan



Source: Company reports.

Figure 22: PS - 8-year plan



Source: Company reports.

International business: new driver, with some uncertainty

PS has started to move overseas and it currently has business set up in three countries which are India, Maldives, and Vietnam.

Maldives – Male & Hulhumale
This is an 80% joint venture with Housing Development Cooperation (HDC) of Maldives. PS has made a good progress on its Maldives business which is a 5-storey condominium targeting mid-income clients. Project value is Bt4.5 billion with total 2,400 units divided into 3 phases. Pre-sales are expected to start next month (Jul-10) and the company has started to get more queries from local customers.

India – Bangalore, Chennai, and Mumbai

In India, there are three locations where PS has projects in. Bangalore is a 100%-owned operation. Chennai is a 70% joint venture with Mohan Mutha. Mumbai is a 50% joint venture with Soham. Currently, it is in the process of getting construction license and Environment Impact Assessment (EIA) and is expected to get the license in Aug10. Construction material is ready at the site. PS expects to obtain the construction license in Aug10 and will start pre-sales afterward. J.P. Morgan's property analyst in India views that property markets in Bangalore and Chennai are picking but Mumbai could see volume slowdown this year.

Vietnam – Hai Phong
In Vietnam, PS has a 85% joint venture with Hoang Huy Service. It plans to develop TH and condominium for low-middle income sector. PS is still waiting for final approval from Vietnamese government. PS expects pre-sales to start in 3Q10 which is delayed from 1Q10 due to the delay in getting the local government’s approval.

The new business driver or the risk – overseas investments = 2% of total assets
We have noticed that developers in the region are increasingly moving to expand into overseas markets to diversify earnings stream and as home markets saturate. However, we believe the benefits are still far from significant. In our view, only Lend Lease of Australia (after almost two decades of overseas investment) and CapitalLand in Singapore (15 years in China) have seen meaningful overseas business. We think PS is interesting in the sense that it has some transferable technology in terms of low-cost housing construction.

PS is optimistic about its international business expansion and believes that it will see this part of business contributing 6% of total revenue in FY10, which should rise to 40% in the next 8 years. While this looks to be opportunistic and could set up PS with the new revenue growth driver, it is also an area generating some uncertainty given the company's lack of experience overseas. The track record of overseas developers in India is not great, according to our analyst in India. Even within India developers find it hard to go from one region to another as regulations are different. PS has some local joint ventures which could help but still, none of them are major companies in the respective markets. Despite this, we see that the initial investment is small - at Bt337 million only for the whole investments in the three countries, or less than 2% of the company’s total assets.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

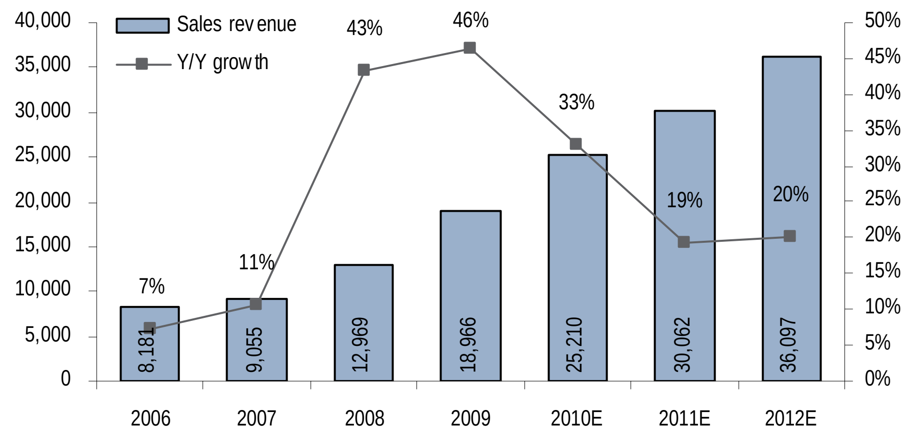
Financials

Highlighted above is the PS's stellar revenue growth and profit margin profile in the past. Looking forward given the size of low-income housing market and PS's new business drivers (upcountry and overseas), PS's management sets to grow its revenue by 25% p.a. into the next eight years. We are not as bullish as the management due to our less bullish stance on overseas business, and we forecast PS's revenue to grow 33%, 19%, and 20% in the next three years (FY10-12E). While this decelerates from >40% growth p.a. in the last two years, it is due to the larger revenue base that PS has built up; still we believe the growth profile is superior to the overall sector. We expect revenue of the sector ex PS to grow 18%, 9%, and 21% during the same period.

PS targets to grow its revenue by 25% p.a. during the next eight years.

J.P. Morgan forecast PS's revenue to grow 33%, 19%, and 20% for the next three years.

Figure 23: PS's revenue and revenue growth profile



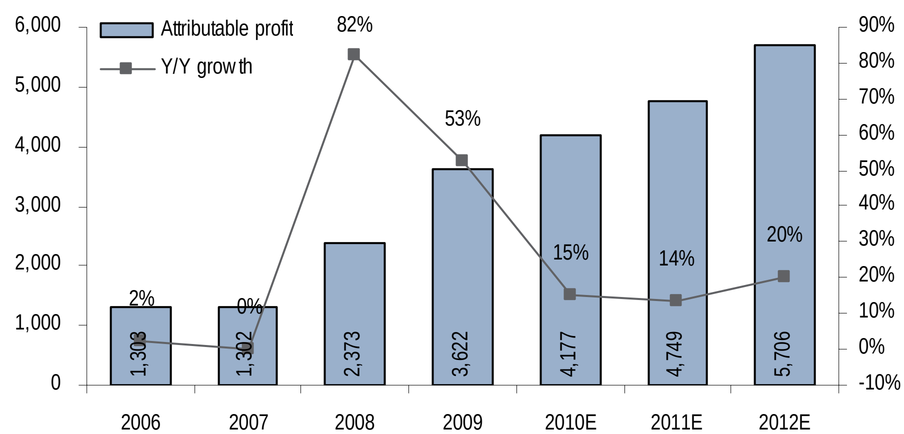
Source: Company reports and J.P. Morgan estimates.

With the strong revenue growth, we expect PS to be able to sustain double digit NP growth rate. We forecast 15%, 14%, and 20% NP growth for PS in FY10-12E, which is superior to our sector's net profit (ex PS) growth forecast of 8%, 5%, and 19% for the same period.

The lower NP growth than revenue growth in FY10-11E is due to the cease of property tax incentives especially the special business tax which was cut from 3.3% to 0.1% until end of Mar10.

Figure 24: PS's net profit and net profit growth profile

Bt in million



Source: Company reports and J.P. Morgan estimates.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Our revenue forecast for this year is 5% above the company's target. PS's year-to-date performance implies 86% of our forecasted revenue is already secured (as of May10).

PS reported total sales revenue of Bt6,655 million in 1Q10 and also reported total backlog of Bt17,129 million, of which Bt10,392 million will be recorded this year. Including 1Q10 revenue, backlog to be realized this year, and latest pre-sales data (Apr-May), PS has already secured total revenue of Bt21,583 million or 90% of its revenue target at Bt24 billion for this year. We are slightly more bullish for this year's revenue given the to-date performance and we forecast total revenue of Bt25,210 million, which is 5% above the company's guidance and implies 86% of our forecasted revenue is already secured.

Table 7: % Secured revenue and target revenue

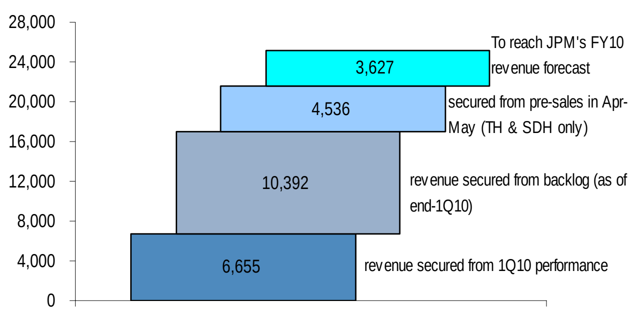
Bt in million

	1Q10 revenue	Backlog for this year	Apr-May presales ex condo	Secured	PS's FY10 revenue target	JPM's FY10 forecast	% Secured revenue
TH	2,712	5,361	3,055	11,128	10,808	11,912	93%
SDH	2,377	2,876	1,481	6,734	8,362	8,577	79%
Condo	1,566	2,155	0	3,721	3,430	3,721	100%
International	0	0	0	0	1,400	1,000	0%
Total	6,655	10,392	4,536	21,583	24,000	25,210	86%

Source: Company reports and J.P. Morgan estimates.

Figure 25: PS's secured revenue

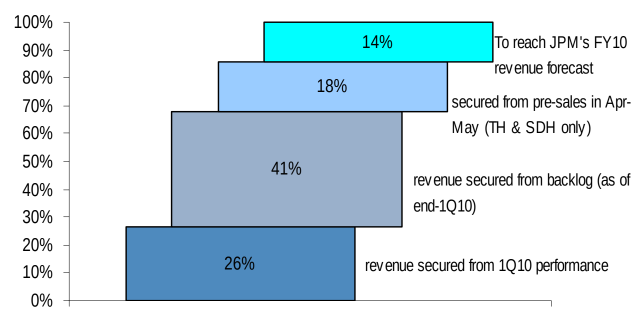
Bt in million



Source: Company reports and J.P. Morgan estimates.

Figure 26: PS's % secured revenue

% of JPM's FY10 revenue forecast



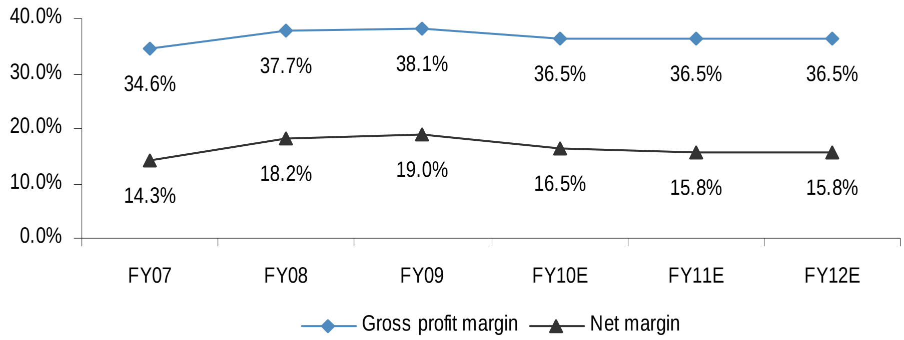
Source: Company reports and J.P. Morgan estimates.

Note that PS records revenue on transfer which is more conservative than some other developers, who record revenue based on percentage of completion. Also, Thai GAAP will move to require all listed property developers to book revenue on transfer starting next year. The accounting change should not have any impact on PS since the company already adopts the more conservative accounting policy.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

PS should be able to maintain its gross profit margin at high level. We conservatively forecast a slight decline in GPM from 38.1% to 36.5% in FY10E and flat through FY12. The Y/Y decline in FY10E GPM is partly due to the exceptional GPM recorded last year from a condo project.

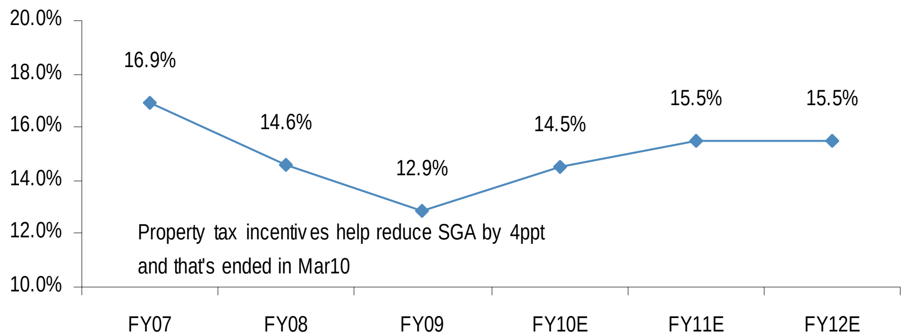
Figure 27: PS's gross and net profit margin profile



Source: Company reports and J.P. Morgan estimates.

Net profit margin is expected to decline this year due to the end of property tax incentives especially on special business tax at the end of Mar10.

Figure 28: PS's SG&A/sales



Source: Company reports and J.P. Morgan estimates.

Table 8: Details of property tax incentives

	Normal	Cut to	Until	Bearer
Transfer fee	2.00%	0.01%	end of Jun10	equal share between buyers and developer
Mortgage fee	1.00%	0.01%	"	100% buyer (only if mortgages)
Special business tax	3.30%	0.11%	end of Mar10	100% developer

Source: Ministry of Finance

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

PS's background and shareholding

Pruksa Real Estate (PS) is one of the leading property developers in Thailand. The company focuses in developing residential units for low-mid income people in greater Bangkok.

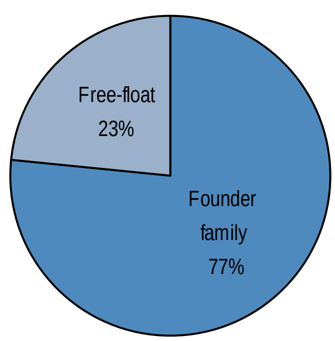
PS has its own pre-cast factory and therefore has been able to control cost and speed of construction of its project very well resulting in high revenue growth and profit margin. This is considered unique and is the company's competitive advantage.

Overall market share of PS is 10-15%. PS is the largest player in townhouse segment with total market share of 50% by number of units. The company also has significant market share in single-detached house market at c. 15%. In FY07, PS started to develop condominium projects and so far has proven to be successful. However, being a new player, its share in the condominium market is still small at 2-3%.

Looking forward, in order to sustain long-term revenue growth rate of 25% p.a., PS sets itself to continue expanding and will broaden product categories and brands as well as the locations. PS is moving to develop projects in upcountry areas as well as overseas.

Vijitpongpun family, the founder, owns 77% in the company. Mr. Thongma Vijitpongpun is actively involved in the company's operations and is now serving as the company's President & Chief Executive Officer.

Figure 29: PS's shareholding structure



Source: The Stock Exchange of Thailand. Data as of 23 June 2010.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

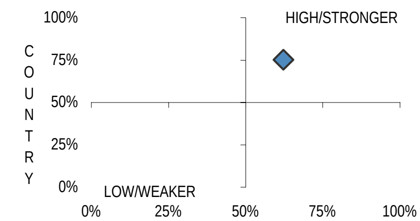
All Data As Of 23-Jun-10

Q-Snapshot: Pruksa Real Estate PCL

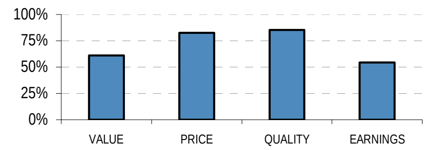
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	69%	60%	0.9x
P/E Vs Sector (12mth fwd EPS)	69%	59%	0.8x
EPS Growth (forecast)	38%	16%	9.3%
Value Score	61%	33%	
Price Momentum			
12 Month Price Momentum	86%	88%	106.1%
1 Month Price Reversion	16%	14%	15.1%
Momentum Score	83%	85%	
Quality			
Return On Equity (forecast)	91%	88%	27.6%
Earnings Risk (Variation in Consensus)	48%	47%	0.12
Quality Score	85%	81%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)	50%	48%	9.2
1 Mth Change in Avg Recom.	71%	23%	-0.01
Net Revisions FY2 EPS	65%	54%	0%
Earnings & Sentiment Score	55%	45%	
COMPOSITE Q-SCORE* (0% To 100%)	75%	62%	

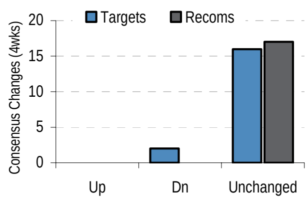
J.P. Morgan Composite Q-Score



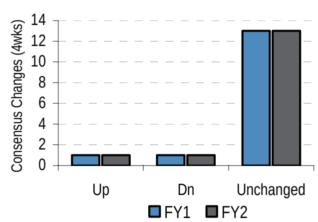
Quant Return Drivers Summary (vs Country)



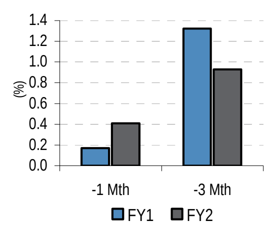
Targets & Recommendations**



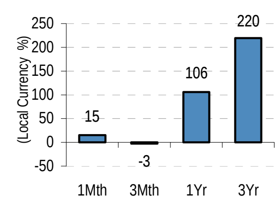
EPS Revisions**



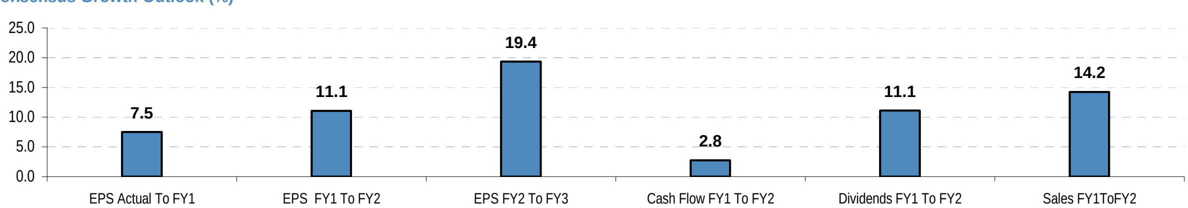
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
BIGC-TH	Big C Supercenter PCL	Department Stores	1,422	0.46	14.4	45%
THAI-TH	Thai Airways International PCL	Airlines	1,389	7.16	8.2	88%
CPN-TH	Central Pattana PCL	Real Estate Development	1,338	1.66	20.2	4%
EGCO-TH	Electricity Generating PCL	Electric Utilities	1,304	1.01	6.3	76%
TUF-TH	Thai Union Frozen Products PCL	Food: Meat/Fish/Dairy	1,220	2.15	10.8	77%
PS-TH	**Pruksa Real Estate PCL**	**Homebuilding**	**1,192**	**1.88**	**9.9**	**75%**
TCAP-TH	Thanachart Capital PCL	Finance/Rental/Leasing	1,104	17.76	9.8	80%
MINT-TH	Minor International PCL	Hotels/Resorts/Cruiselines	1,054	2.56	20.1	21%
BGH-TH	Bangkok Dusit Medical Services PCL	Hospital/Nursing Management	1,049	0.73	18.1	9%
DELTA-TH	Delta Electronics (Thailand) PCL	Electronic Equipment/Instruments	855	1.13	9.4	84%
MAKRO-TH	Siam Makro PCL	Food Retail	800	0.40	14.0	66%

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit http://jpmorgan.hk.acrobat.com/qsnapshot/
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* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

Pruksa Real Estate: Summary of financials

Profit and loss statement

BtMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
Sales revenue	12,969	18,966	25,210	30,062	36,097
% change yoy	43.2	46.2	32.9	19.2	20.1
Gross margin (%)	37.7	38.1	36.5	36.5	36.5
EBITDA	3,251	5,062	5,829	6,596	7,863
% change yoy	80.7	55.7	15.2	13.2	19.2
EBITDA margin (%)	25.1	26.7	23.1	21.9	21.8
EBIT	3,061	4,846	5,614	6,380	7,648
% change yoy	86.2	58.3	15.8	13.7	19.9
EBIT margin (%)	23.5	25.5	22.2	21.2	21.1
Interest expense	28	47	44	48	40
Earnings before tax	3,033	4,799	5,569	6,332	7,608
% change yoy	90.0	58.2	16.1	13.7	20.1
Tax	659	1,177	1,392	1,583	1,902
as % of EBT	21.7	24.5	25.0	25.0	25.0
Net income	2,373	3,622	4,177	4,749	5,706
% change yoy	82.3	52.6	15.3	13.7	20.1
Share outstanding	2,191	2,207	2,207	2,207	2,207
EPS	1.08	1.64	1.89	2.15	2.59

Cash flow statement

BtMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
Profit before tax	3,033	4,799	5,569	6,332	7,608
Depreciation & amortisation	190	216	216	216	216
Change in working capital	(4,345)	(1,063)	(3,649)	(3,243)	(4,033)
Others	135	223	(1,392)	(1,583)	(1,902)
Cash flow from operations	(987)	4,175	744	1,721	1,888
Investments	0	0	0	0	0
Disposal/ (purchase)	51	(2,301)	0	600	600
Others	(372)	(158)	(150)	(150)	(150)
Free cash Flow	(1,308)	1,716	594	2,171	2,338
Equity raised/(repaid)	11	15	0	0	0
Debt raised/(repaid)	2,276	(1,687)	1,000	(500)	(500)
Dividends	(481)	(725)	(1,462)	(1,662)	(1,997)
Beginning cash	1,027	1,526	846	978	987
Ending cash	1,526	846	978	987	828
DPS (Bt)	0.33	0.55	0.66	0.75	0.90

Balance Sheet

BtMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
Cash and Cash Equivalents	1,526	846	978	987	828
ST investments	3	2,305	2,305	1,705	1,105
Inventories	12,622	13,202	16,851	20,094	24,128
Others	276	751	751	751	751
Current assets	14,427	17,104	20,884	23,537	26,811
LT investments	-	-	-	-	-
Net fixed assets	1,634	1,427	1,361	1,296	1,230
Others	231	340	340	340	340
Total Assets	16,292	18,871	22,586	25,173	28,382
ST bank loans	1,993	-	-	-	-
Payables	836	1,149	1,149	1,149	1,149
Others	2,115	3,158	3,158	3,158	3,158
Total current liabilities	4,945	4,307	4,307	4,307	4,307
Long term debt	1,207	1,500	2,500	2,000	1,500
Other liabilities	31	41	41	41	41
Total liabilities	6,182	5,848	6,848	6,348	5,848
Shareholder's equity	10,110	13,023	15,738	18,825	22,533
BVPS (Bt)	4.6	5.9	7.1	8.5	10.2

Ratio Analysis

BtMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	25.1	26.7	23.1	21.9	21.8
Operating margin (%)	23.5	25.5	22.2	21.2	21.1
Net profit margin (%)	18.2	19.0	16.5	15.8	15.8
SG&A/sales (%)	14.6	12.9	14.5	15.5	15.5
Sales growth (%)	43.2	46.2	32.9	19.2	20.1
Net profit growth (%)	82.3	52.6	15.3	13.7	20.1
EPS growth (%)	81.3	51.5	15.3	13.7	20.1
Interest coverage (x)	115.3	107.6	131.9	136.1	196.8
Net debt to total capital (%)	12.7	6.6	9.4	6.4	4.5
Net debt to equity (%)	20.5	9.6	13.5	8.6	5.6
Sales/Assets (%)	95.2	108.3	121.9	126.2	135.1
Equity/Assets (%)	66.9	65.8	69.4	72.4	77.2
ROE (%)	25.9	31.3	29.0	27.5	27.6
ROCE (%)	26.5	33.6	33.1	31.7	33.2

Source: Company reports and J.P. Morgan estimates

Anne Jirajariyavech
(66-2) 684-2684
anne.x.jirajariyavech@jpmorgan.com

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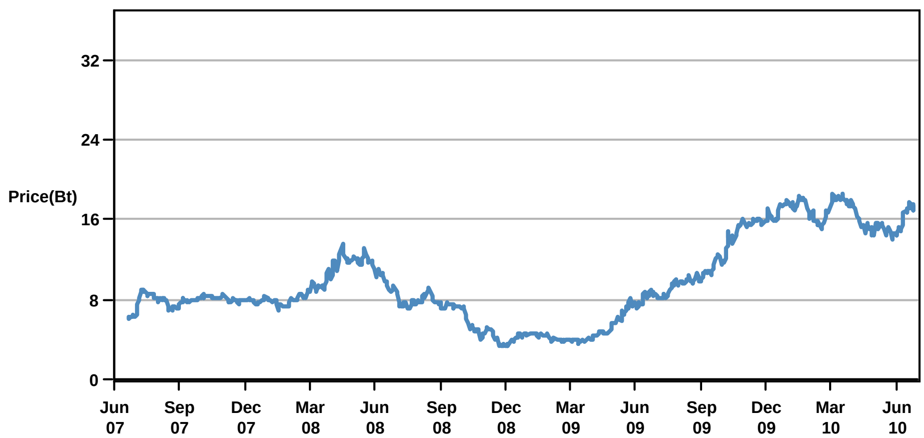
Pruksa Real Estate Pcl (PS.BK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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