BUALUANG SECURITIES

7 December 2010

Pruksa Real Estate

Property (Residential) Neutral

Key takeaways from seminar: *Going for bigger pie in Asia*

COMPANY UPDATE

BUALUANG RESEARCH

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BUY (maintained)

Target Price: Bt30.00
Price (03/12/10): Bt21.10
PS TB / PS.BK

Investment thesis: We hosted a seminar called Going for bigger pie in Asia last Friday, which was attended by 20 Thai fund managers. Our guest speakers were Mr Mayta Chanchamcharat (Chief Business Officer, who oversees the Indian and the Maldives operations) and Mr Somboon Wasinchutchawal (CFO). The seminar entails strong conviction on PS's oversea business. Overseas business is progressing—Bt131m in presales from India recently; the Maldives will start contributing revenue in 1Q11. We believe a re-rating is deserved on positive offshore developments in FY11 (PS targets 6-7% of total presales and 5-6% of revenue). The stock trades near its mean, an FY11 PER of 9.5x. PS is our top pick with a YE11 TP of Bt30, based on a PER of 13.5x (10% premium to 1SD above its FY06-09 mean).

Two criteria for overseas business: Firstly, high populations are required in order to sustain mass demand over the long-term. Secondly, the initial investment is capped at US$10m per location (a level that PS's Thai business internal cash flow could comfortably cover). Currently, the offshore projects are in India (Bangalore, Mumbai and Chennai), the Maldives (HuluMale) and Vietnam (Haiphong). The next potential country is Indonesia. PS isn't currently looking at China. Overseas projects will help sustain long-term earnings growth.

Mortgages not a big issue … PS's overseas customers are mostly mid- to upper mid-range segments (high affordability), in contrast to Thailand, where the firm dominates low-end housing. Also, the overseas presales require high initial payments—25% for projects in India, 20% for Vietnam. Furthermore, customers must have mortgage approval before signing contracts in India and the Maldives. In Vietnam, buyers must make cash payments (no mortgages).

...regulatory risk is key: PS tries to minimize regulatory risk by joining with local partners (for projects in Mumbai and Chennai in India and Haiphong in Vietnam). However, the speed and visibility of license permission is uncontrollable.

Comparable NM to local projects despite low GM: Management guides for GM of 31-32% for overseas projects. However, NM is 16% (comparable to Thai developments), boosted by margin from construction (PS does construction work itself) and tax privileges.

Key Ratios & Statistics

Market cap	Bt46.56bn
12-mth price range	Bt14.00/Bt25.50
3-mth avg daily volume	Bt158.13m
# of shares (m)	2,206.8
Est. free float (%)	23.3
Foreign limit (%)	40.0

Share price perf. (%)	**1M**	**3M**	**12M**
Relative to SET	0.6	(23.7)	(22.9)
Absolute	3.4	(11.3)	23.4

Financial summary

FY Ended 31 Dec	**2009**	**2010E**	**2011E**	**2012E**
Revenues (Btm)	18,967	23,030	30,910	37,131
Net profit (Btm)	3,622	3,792	4,907	5,750
EPS (Bt)	1.64	1.72	2.22	2.61
BLS/Consensus (x)	n.m.	1.02	1.07	1.04
EPS growth (%)	+51.6%	+4.7%	+29.4%	+17.2%
Core profit (Btm)	3,790	3,792	4,907	5,750
Core EPS (Bt)	1.72	1.72	2.22	2.61
Core EPS growth (%)	+58.6%	+.1%	+29.4%	+17.2%
PER (x)	12.2	11.7	9.0	7.7
Core PER (x)	11.7	11.7	9.0	7.7
EV/EBITDA (x)	8.4	10.3	7.2	6.2
PBV (x)	3.4	2.8	2.3	1.9
Dividend (Bt)	0.55	0.58	0.76	0.89
Dividend yield (%)	2.7	2.9	3.8	4.4
ROE (%)	31.3	26.1	27.4	26.4
Net gearing (x)	(0.1)	0.6	0.4	0.4

CG Rating - 2009

Company profile

Preuksa Real Estate Plc (PS) is a residential developer that focuses on the low- to mid-income segments in Bangkok. Its business model is unique—the firm owns a pre-cast concrete factory that provides many component parts for detached houses, THs and condos. The firm's residential brands are Baan Preuksa (TH), Preuksa Ville (TH), The Connect (TH), The Plant (TH), Preuksa Village (SDH), Passorn (SDH), The City Ville (condo), IVY (condo), and The Seed (condo).

Key takeaways

Two key criteria for oversea business: PS's mission aims to be a top-10 Asian real estate developer by 2017. Its total revenue target for that year is Bt100bn, of which 40% is to be contributed from oversea projects. The firm has set two key criteria for international country targets in the region. Firstly, high populations are required in order to sustain mass demand over the long-term. Secondly, the initial investment is capped at US$10m per location (a level that PS's Thai business internal cash flow could comfortably cover). PS arrived at India as its best strategic fit. Currently, the offshore projects are in India (Bangalore, Mumbai and Chennai), the Maldives (Hulu, Male) and Vietnam (Haiphong). The next potential country is Indonesia. PS isn't currently looking at China, which has a big population but would require a large investment if it were to compete.

Project in Maldives is a quick win: Although the Maldives doesn't meet PS's first criteria for international investment—its population is only 300,000—PS accepted the project in HuluMale because of the quick return and low risk. The company forged a strong relationship with the Maldives Housing Development Corporation (HDC), while the Maldives government's policy is to move 60,000 people to HuluMale (15-20 minutes from Male, the capital city). Thus, PS set up a JV firm (80% held by PS and 20% by the Maldives HDC) to develop Bt3.4-3.5bn in condos—770 units, four phases under the brands Coral Ville (320 units), The Reef (400 units) and Finale (50 units). The first brand, Coral Ville, was launched in July, 2010 (180 units, first phase) with a take-up rate of over 90%, Bt600m in presales. Revenue recognition is expected in 1Q11. The second phase of Coral Ville, 140 units, is expected to launch in 1Q11.

India and Vietnam are the long-term developments: PS's businesses in India and Vietnam are long-term in nature. The initial projects are focused on the outskirts of cities. PS believes it will be able to compete with quick execution (construction should take only five months compared with over a year for peers' projects) and by developing low-rise projects (SDHs and THs) versus condos for peers. In India, the firm has three land plots: 1) Bangalore (THs and SDHs with a total project value of Bt1.6bn), launched in Oct 2010, 2) Mumbai (THs SDHs valued at Bt1bn), expected to launch in 3Q11, 3) Chennai (five-floor condos, around 300 units), scheduled to launch in late 2011. In Haiphong, Vietnam, PS will develop a Bt3.5bn condo, which is expected to launch next year.

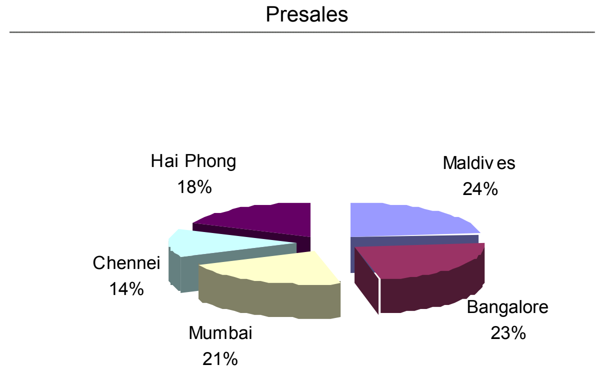
Low GM but comparable NM to local projects: Management guides for GM of 31-32% for oversea projects, lower than the 37% mean for Thai developments. However, PS will gain additional margin from construction, as it will undertake much of the work itself. Moreover, there are tax privileges for the projects in the Maldives and Vietnam. Hence, NM is expected at 16% which is comparable to the firm's residential projects in Thailand.

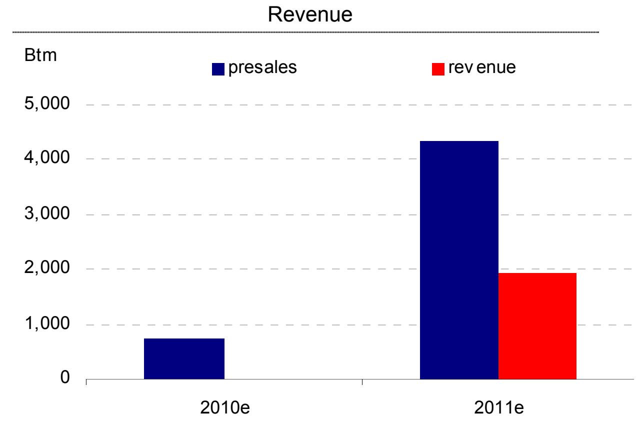
Mortgage is not a big issue…For PS's international projects, mortgage rejection risk is not a big issue (in contrast to its projects in Thailand, where rejection rates are a major theme). PS's overseas customers are mostly mid- to upper mid-range segments (high affordability), while in Thailand the firm dominates low-end housing. Also, the overseas presales require high initial payments—25% for projects in India, 20% for Vietnam. Furthermore, customers must have mortgage approval before signing contracts in India and the Maldives. In Vietnam, buyers must make cash payments (no mortgages).

…Regulatory is a key risk for oversea projects: PS tries to minimize regulatory risk by joining with local partners (for projects in Mumbai and Chennai in India and Haiphong in Vietnam). Local partners may help improve the speed of licenses approval. However, there remains regulatory risk and the visibility of license permission is uncontrollable. For example, the firm's development in Bangalore, India, took a year following land acquisition (in Oct 2009) to get all the necessary licenses to launch project (just in Oct 2010). In India, the most difficult process for real estate projects is land acquisition. In Vietnam, it takes a long time to set up a company to do business in Vietnam, as aspirant company owners are required to submit detailed business plans for over a year ahead to get approval.

International performance target: In 2010, PS is likely to post internationals presales of Bt731m in total (Bt600m from the Maldives, which launched in July, and Bt131m from Bangalore, India, which started in Oct). However, there won't be any revenue contribution from international projects this year. PS targets Bt4.3bn in offshore presales in FY11 (Bt1bn from the Maldives, Bt1bn from Bangalore, B900m from Mumbai, Bt600m from Chennai, and Bt800m from Vietnam) and Bt1.9bn in revenue (Bt981m from Maldives, Bt640m from Bangalore and Bt300m from Vietnam). The overseas projects are targeted to contribute 6-7% of total presales in FY11 and 5-6% of total revenue. Note that we conservatively forecast only a 3% revenue contribution from overseas (Bt1bn). Over the next three years, PS anticipates that the international revenue contribution will rise to 15%.

Figure 1: Oversea business target



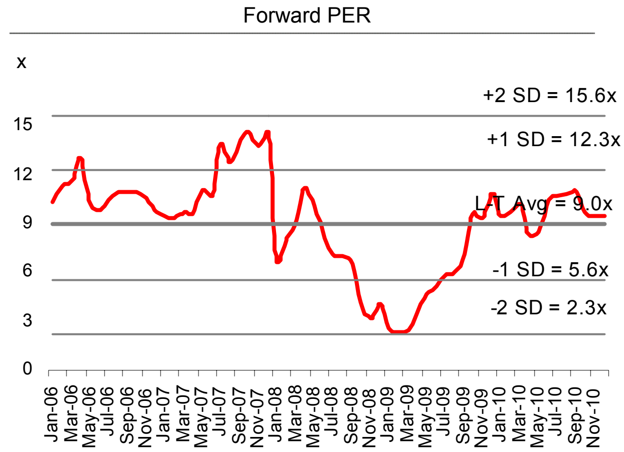


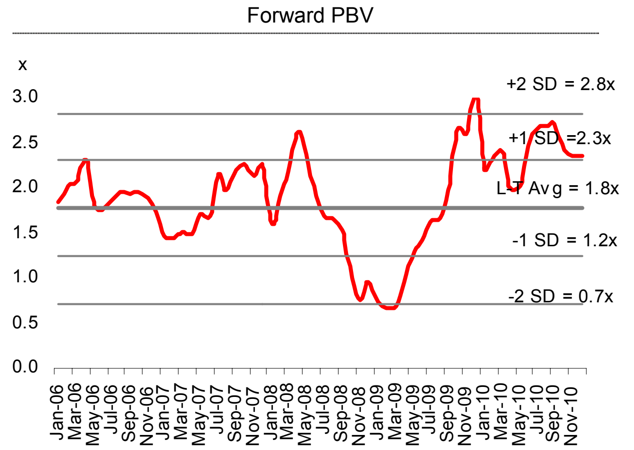
Sources: Company data, Bualuang Research

Recommendation and valuation

BUY as our top pick, YE11 target price of Bt30/share: We prefer PS. Our BUY rating stands with a YE11 target price of Bt30, based on a PER of 13.5x (10% premium to 1SD above FY06-09 mean). Market concerns about transference delays, which made for weak 3Q10 revenue, will ease with a strong top-line recovery in 4Q10. The next stock price catalysts will be progress at overseas business (the recent kicking off of presales in India and the start of revenue recognition from the Maldives in 1Q11) and earnings growth outperformance among residential developers (FY11 profit growth of 17% for PS versus 9% for the sector). A re-rating is expected, as the progress of international business has yet to be priced in (success overseas will mean sustainable long-term earnings growth). PS currently trades at an FY11 PER of 9.4x, near its FY06-09 mean of 9.0x.

Figure 2: Valuation multiples





Sources: SETSMART, Company data, Bualuang Research

Financial tables

PROFIT & LOSS (Btm)	2008	2009	2010E	2011E	2012E
Revenue	12,969	18,967	23,030	30,910	37,131
Cost of sales and services	(8,086)	(11,749)	(14,405)	(19,482)	(23,393)
Gross profit	**4,883**	**7,218**	**8,625**	**11,428**	**13,738**
SG&A	(1,887)	(2,271)	(3,754)	(4,439)	(5,601)
EBIT	**2,996**	**4,947**	**4,871**	**6,989**	**8,137**
Interest expense	(28)	(47)	(75)	(298)	(286)
Other income/exp.	65	67	70	70	70
EBT	**3,033**	**4,967**	**4,867**	**6,761**	**7,922**
Corporate tax	(659)	(1,177)	(1,074)	(1,854)	(2,173)
After-tax net profit (loss)	**2,373**	**3,790**	**3,792**	**4,907**	**5,749**
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	1
Extra items	0	-167.816	0	0	0
Net profit (loss)	**2,373**	**3,622**	**3,792**	**4,907**	**5,750**
Reported EPS	1.08	1.64	1.72	2.22	2.61
Fully diluted EPS	1.09	1.66	1.73	2.24	2.63
Core net profit	**2,373**	**3,790**	**3,792**	**4,907**	**5,750**
Core EPS	1.08	1.72	1.72	2.22	2.61
EBITDA	**3,186**	**5,163**	**5,144**	**7,337**	**8,507**

KEY RATIOS	2008	2009	2010E	2011E	2012E
Revenue growth (%)	42.6	46.3	21.4	34.2	20.1
Gross margin (%)	37.7	38.1	37.5	37.0	37.0
EBITDA margin (%)	24.6	27.2	22.3	23.7	22.9
Operating margin (%)	23.1	26.1	21.2	22.6	21.9
Net margin (%)	18.3	19.1	16.5	15.9	15.5
Core profit margin (%)	18.3	20.0	16.5	15.9	15.5
ROA (%)	17.4	20.6	15.7	15.6	16.1
ROCE (%)	20.5	25.1	18.7	17.9	18.4
Asset turnover (x)	0.9	1.1	1.0	1.0	1.0
Current ratio (x)	0.3	0.2	0.2	0.2	0.2
Gearing ratio (x)	0.4	0.2	0.6	0.5	0.4
Interest coverage (x)	106.2	105.1	65.3	23.4	28.5

BALANCE SHEET (Btm)	2008	2009	2010E	2011E	2012E
Cash & Equivalent	**1,530**	**3,151**	**439**	**977**	**989**
Accounts receivable	38	60	73	97	117
Inventory	12,622	13,202	25,928	29,222	32,750
PP&E-net	1,506	1,299	1,666	2,118	2,548
Other assets	597	1,159	1,208	1,262	1,320
Total assets	**16,292**	**18,871**	**29,314**	**33,677**	**37,724**
Accounts payable	536	799	979	1,325	1,591
ST debts & current portion	2,393	600	600	600	300
Long-term debt	1,207	1,500	8,700	9,100	9,100
Other liabilities	2,047	2,949	2,949	2,949	2,949
Total liabilities	**6,182**	**5,848**	**13,229**	**13,974**	**13,940**
Paid-up capital	2,191	2,207	2,207	2,207	2,207
Share premium	2,191	2,207	2,207	2,207	2,207
Retained earnings	6,557	9,454	12,516	16,134	20,215
Shareholders equity	10,110	13,023	16,085	19,703	23,784
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**16,292**	**18,871**	**29,314**	**33,677**	**37,724**

CASH FLOW (Btm)	2008	2009	2010E	2011E	2012E
Net income	2,373	3,622	3,792	4,907	5,750
Depreciation and amortization	189.8	215.6	272.9	347.9	369.9
Change in working capital	(4,345)	(1,063)	(12,607)	(3,027)	(3,340)
FX, non-cash adjustment & others	795	1,399	0	0	0
Cash flows from operating activities	**-987**	**4,175**	**-8,542**	**2,227**	**2,780**
Capex (Invest)/Divest	(395.0)	(2,422.2)	(639.6)	(800.0)	(800.0)
Others	74	(36)	2,305	0	0
Cash flows from investing activities	**(321)**	**(2,458)**	**1,665**	**(800)**	**(800)**
Debt financing (repayment)	2,380	(1,687)	7,200	400	(300)
Equity financing	11	15	0	0	0
Dividend payment	(481)	(725)	(725)	(1,289)	(1,668)
Cash flows from financing activities	**1,806.7**	**(2,396.1)**	**6,470.2**	**(889.4)**	**(1,968.3)**
Net change in cash	499.0	(679.9)	(407.0)	538.0	11.4
Free cash flow (Btm)	**(1,382)**	**1,752**	**(9,182)**	**1,427**	**1,980**
FCF per share (Bt)	**(0.63)**	**0.79**	**(4.16)**	**0.65**	**0.90**

Sources: Company data, Bualuang Research estimates

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	3Q09	4Q09	1Q10	2Q10	3Q10
Revenue	3,826	7,734	6,655	5,917	3,763
Cost of sales and services	(2,454)	(4,567)	(4,246)	(3,711)	(2,330)
Gross profit	**1,372**	**3,168**	**2,410**	**2,206**	**1,433**
SG&A	(519)	(830)	(808)	(1,118)	(973)
EBIT	**853**	**2,338**	**1,602**	**1,088**	**461**
Interest expense	(12)	(13)	(15)	(9)	(14)
Other income/exp.	18	13	17	27	24
EBT	**860**	**2,337**	**1,603**	**1,106**	**471**
Corporate tax	(209)	(524)	(374)	(265)	(112)
After-tax net profit (loss)	**651**	**1,812**	**1,230**	**840**	**359**
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(168)	0	0	0
Net profit (loss)	**651**	**1,645**	**1,230**	**840**	**359**
Reported EPS	0.30	0.75	0.56	0.38	0.16
Fully diluted EPS	0.30	0.75	0.56	0.38	0.16
Core net profit	**651**	**1,812**	**1,230**	**840**	**359**
Core EPS	0.30	0.82	0.56	0.38	0.16
EBITDA	**927**	**2,405**	**1,673**	**1,172**	**546**
KEY RATIOS	**3Q09**	**4Q09**	**1Q10**	**2Q10**	**3Q10**
Gross margin (%)	35.9	41.0	36.2	37.3	38.1
EBITDA margin (%)	24.2	31.1	25.1	19.8	14.5
Operating margin (%)	22.3	30.2	24.1	18.4	12.2
Net margin (%)	17.0	21.3	18.5	14.2	9.5
Core profit margin (%)	17.0	23.4	18.5	14.2	9.5
BV (Bt)	5.16	5.90	6.46	6.28	6.44
ROE (%)	22.9	50.5	34.5	24.2	10.1
ROA (%)	15.3	34.9	22.9	14.0	4.9
Current ratio (x)	3.5	3.5	4.5	5.1	6.3
Gearing ratio (x)	0.2	0.1	0.1	0.3	0.7
Interest coverage (x)	73.4	175.0	104.9	121.4	32.9
QUARTERLY BALANCE SHEET (Btm)	**3Q09**	**4Q09**	**1Q10**	**2Q10**	**3Q10**
Cash & Equivalent	**1,623**	**3,151**	**2,910**	**3,622**	**1,357**
Accounts receivabme	55	60	60	71	96
Inventory	13,012	13,202	15,800	16,766	23,158
PP&E-net	1,447	1,299	1,337	1,522	1,736
Other assets	880	1,159	1,379	2,103	2,877
Total assets	**17,018**	**18,871**	**21,486**	**24,084**	**29,224**
Accounts payabme	964	1,149	2,425	2,558	3,138
ST debts & current portion	0	0	0	400	4,282
Long-term debt	1,912	1,509	1,510	4,011	5,240
Other liabilities	2,777	3,190	3,297	3,246	2,355
Total liabilities	**5,653**	**5,848**	**7,232**	**10,214**	**15,014**
Paid-up capital	2,202	2,207	2,207	2,207	2,207
Share premium	0	0	0	0	0
Retained earnings	7,810	9,454	10,683	10,310	10,669
Shareholders equity	**11,365**	**13,023**	**14,254**	**13,870**	**14,210**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**17,018**	**18,871**	**21,486**	**24,084**	**29,224**

Sources: Company data, Bualuang Research

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Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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.