

Pruksa Real Estate Pcl

Weak 3Q10 but regaining momentum in 4Q10

- **PS reported weak 3Q10** with its revenue declining by 36% Q/Q and 1% Y/Y to Bt3.8 billion. Its net profit also dropped by 57% Q/Q and 45% Y/Y to Bt359 million which is the lowest since 1Q08.
- **The weak performance was due to** 1) construction delay for townhouses; 2) mismatching of condo revenue and expenses, and 3) acceleration in transfer in 1H10 before end of tax promotion.
- **TH construction delay** has impacted earnings but only in the short-term. PS has added pre-fabrication into construction (from tunnel technology alone) in ramp-up of construction capacity for TH. Management expects acceleration in transfer of TH backlog in 4Q10-1Q11.
- **Mismatch in revenue and expense** was due to the aggressive condo projects launched in 2H10. Expenses are booked as incurred but revenue cannot be booked until transfer of property.
- **Sales booking remains solid** in 3Q10 at Bt10.2 billion, second highest on record (last quarter was the record high at Bt11.4 billion). Growth has been seen in all segments. PS expects its pre-sales to be Bt38-40 billion by year-end, surpassing its original pre-sales target at Bt29 billion. However, revenue target at Bt24 billion is maintained as condo revenue is expected to lag and TH revenue is affected by the delay in construction.
- **We cut FY10-12E net profit by 29%, 15%, and 15%, respectively** as we were too optimistic and as construction gets delayed. Also the earnings cut is attributed to higher marketing expenses spent on new launches.
- **Risks** are quality control and transfer momentum of completed units i.e. avoiding further construction delays and keeping up transfer volume.
- **We expect a strong earnings recovery in 4Q10 and next year.** We maintain Overweight on the stock. Dec11 PT at Bt28 (lower from Bt30) due to earnings cut.

Overweight

PS.BK, PS TB

Price: Bt20.40

▼ **Price Target: Bt28.00**

Previous: Bt30.00

Thailand

Property

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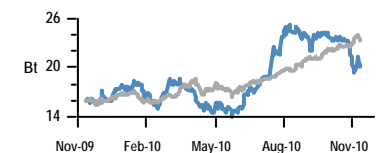
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Price Performance



	YTD	1m	3m	12m
Abs	17.9%	-12.8%	-16.0%	28.3%
Rel	-21.2%	-17.1%	-34.4%	-17.9%

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	23,632	31,696	37,204	Shares O/S (mn)	2,207
Net Profit	2,373.3	3,621.7	3,750.5	4,774.0	5,746.0	Market cap (Bt mn)	45,019
EPS (Bt)	1.09	1.65	1.70	2.16	2.60	Market cap (\$ mn)	1,508
DPS (Bt)	0.33	0.55	0.59	0.76	0.91	Price (Bt)	20.40
Revenue growth (%)	43.2%	46.2%	24.6%	34.1%	17.4%	Date Of Price	12 Nov 10
EPS growth (%)	81.5%	51.7%	3.2%	27.3%	20.4%	Free float (%)	26.0%
ROCE	26.5%	33.6%	28.4%	30.1%	31.8%	3mth Avg daily volume	6,535,428.00
ROE	25.9%	31.3%	26.3%	28.1%	28.1%	3M - Average daily Value (Bt mn)	196.43
P/E (x)	18.5	12.2	11.8	9.3	7.7	Average 3m Daily Turnover (\$ mn)	6.58
P/BV (x)	4.4	3.5	2.9	2.2	1.8	SET	1,029
EV/EBITDA (x)	12.3	7.3	7.1	5.9	4.9	Exchange Rate	29.85
Dividend Yield	1.6%	2.7%	3.0%	3.8%	4.5%	Fiscal Year End	Dec

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

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

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. 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, 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	1.70	1.86
FY11E	2.16	2.15
FY12E	2.60	2.54

Source: Bloomberg and J.P. Morgan estimates.

P&L sensitivity metrics	EBITDA impact (%)	EPS impact (%)
FY10E		
Sales growth assumption (25%)		
Impact of each 5ppts increase	8%	9%
Gross margin assumption (37.2%)		
Impact of each 1 percentage points increase	5%	5%

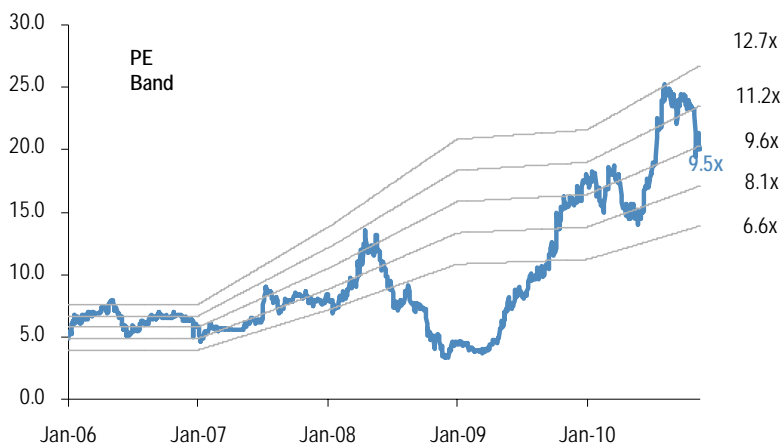
Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Dec11 PT of 28 is based on 13x FY11E EPS. The target PE is based on average of PS's long-term PE of 10x and LH's long-term PE of 16x.

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	9	FY11E EPS (Bt)	2.2
Fair P/E	13	P/E-based Valuation	28



Source: Bloomberg and J.P. Morgan estimates.

Lower earnings estimates

We lower our net profit forecast for PS by 29%, 15%, and 15% for FY10-12E, respectively. This follows the company's weak results in 3Q10. PS's revenue declined by 36% Q/Q and 1% Y/Y. The significant decline in revenue from the prior quarter was due to the acceleration of property transfer in 1H10 before the end of property tax incentives. Also, PS has faced construction delays and therefore could not transfer townhouses (TH) according to its pre-booking. Therefore revenue has lagged behind.

Revenue held up well on a Y/Y basis due to higher condo revenue (low base last year). Net profit fell sharply by 57% Q/Q and 45% Y/Y due to higher tax-related expenses as well as marketing expenses after being aggressive in new launches. Gross profit margin continued to expand from the prior quarter.

Apart from lowering the sales revenue forecast, we also lower our profit margin forecast as well. This is to cope with potential higher cost related to capacity expansion as well as more marketing expenses needed along with increase in competition in the industry.

Table 1: Earnings adjustment for PS

Bt in million

	Current				% +/-			Previous		
	FY09	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Sales revenue	18,966	23,632	31,696	37,204	-21%	-5%	-7%	29,822	33,471	40,017
Y/Y growth	46.2%	24.6%	34.1%	17.4%				57.2%	12.2%	19.6%
Gross profit margin	38.1%	37.2%	36.5%	37.0%				38.0%	38.0%	38.0%
SG&A/Sales	12.9%	16.5%	16.5%	16.5%				14.5%	15.5%	15.5%
Net profit	3,622	3,751	4,774	5,746	-29%	-15%	-15%	5,264	5,643	6,754
Y/Y growth	52.6%	3.6%	27.3%	20.4%				45.3%	7.2%	19.7%

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

Table 2: 3Q10 earnings summary

Bt in million

	3Q10	3Q09	Y/Y	2Q10	Q/Q
Residential sales	3,761	3,826	-2%	5,916	-36%
Gross profit margin	38.1%	35.9%		37.3%	
SGA/Sales	25.9%	13.6%		18.9%	
Net profit	359	651	-45%	840	-57%
Inventories	23,158	13,012	78%	16,766	38%
Net D/E	59.1%	15.4%		23.5%	
EPS	0.16	0.30	-47%	0.38	-58%

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

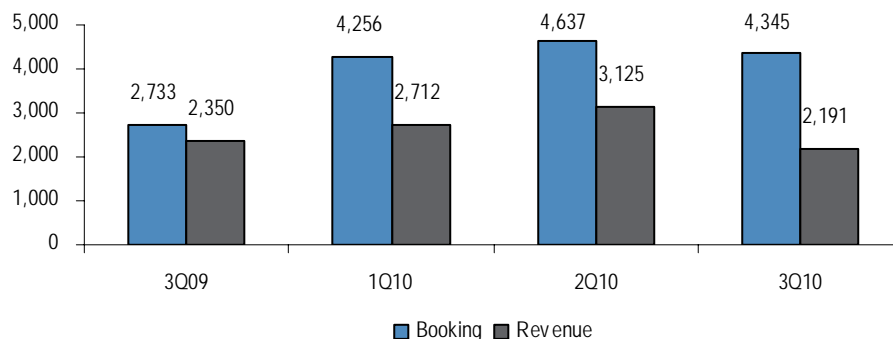
Construction delay

Growth in pre-sales of Townhouses has been impressive and grown from Bt2 billion a quarter to over Bt4 billion (average per quarter) this year. However, PS has not managed to build townhouses fast enough to meet the growing demand. As a result, there has been a delay in transferring townhouses to buyers. Management is aware of the problem and has added pre-fabrication into the construction process (previously

was tunnel technology alone). The management expects this to help increase the production capacity and that could turn the current backlog into revenue by the end of 1Q11. We therefore expect acceleration in townhouse revenue during the next two quarters. At end-3Q10, PS's total backlog is Bt29 billion. Of which, Bt8.9 billion is townhouse.

Figure 1: Booking and revenue - townhouses

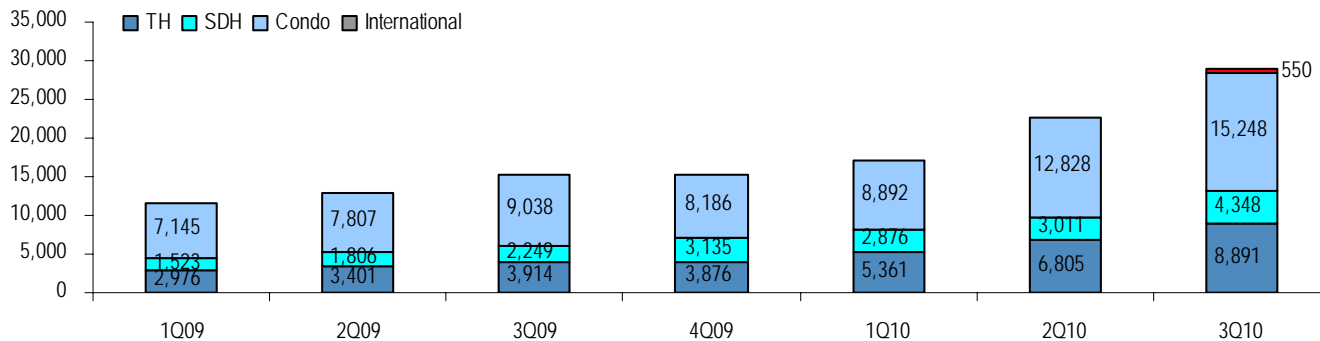
Bt in million



Source: Company reports.

Figure 2: PS's backlog

Bt in million



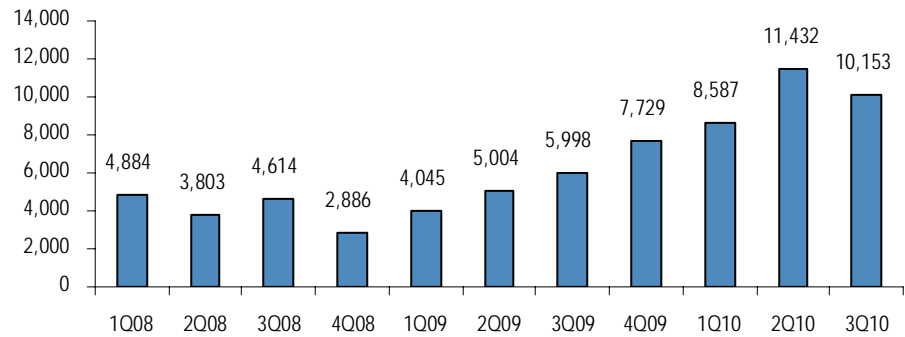
Source: Company reports.

Sales booking remains solid & new launches

In 3Q10, PS recorded pre-sales of Bt10.2 billion which is the second highest in PS's record. The record high was Bt11.4 billion achieved in the prior quarter. Growth has been seen in all segments. PS expects its pre-sales to be Bt38-40 billion by year-end, surpassing its original pre-sales target at Bt29 billion. However, revenue target at Bt24 billion is maintained as condo revenue will lag and TH revenue is affected by the delay in construction.

Figure 3: PS's pre-sales

Bt in million



Source: Company reports.

Management remains optimistic about demand outlook and has planned for more launches next year especially TH & single detached houses. PS expects fewer number of condo projects to be launched next year but expects landed properties (TH&SDH) to compensate.

Table 3: Plan for project launches

Number of projects

	FY08	FY09	YTD	Full-year target	FY11E
TH	23	17	35	39	22
SDH	11	12	10	15	16
Condo	6	5	8	12	2 (could be more, depending on land acquisition)
International	0	0	1	2	1
Total	40	34	54	68	41

Source: Company reports.

JPM Q-Profile

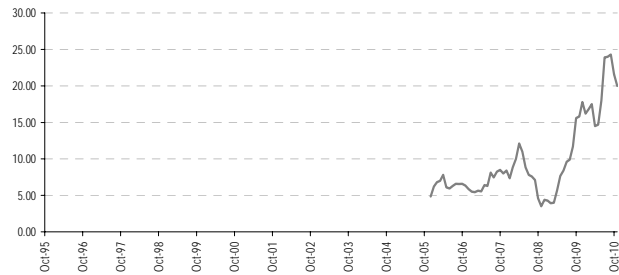
Pruksa Real Estate PCL (THAILAND / Financials)

As Of: 12-Nov-2010

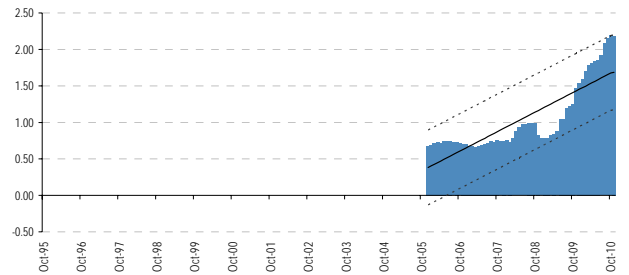
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

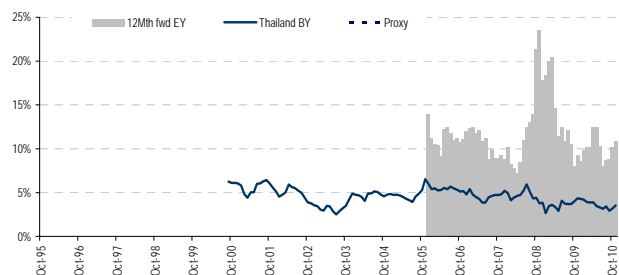
Local Share Price Current: **20.00**



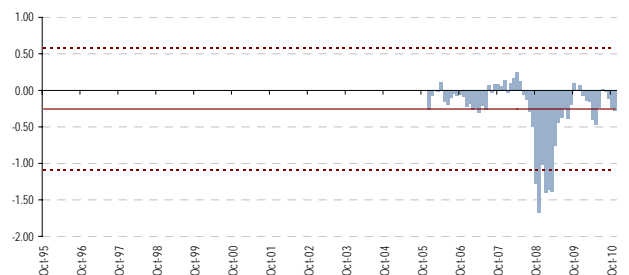
12 Mth Forward EPS Current: **2.18**



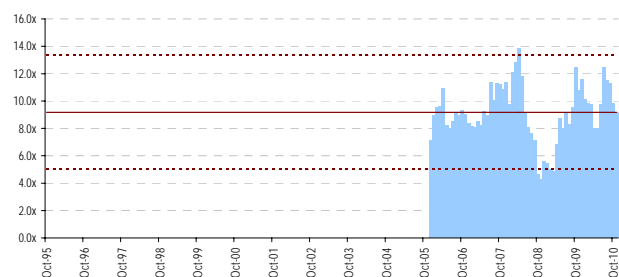
Earnings Yield (& local bond Yield) Current: **11%**



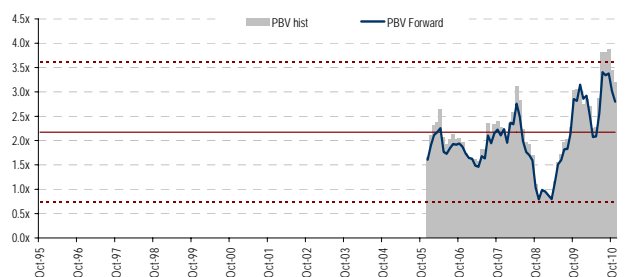
Implied Value Of Growth* Current: **-27.81%**



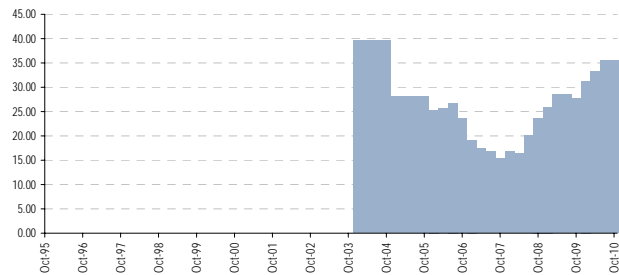
PE (1Yr Forward) Current: **9.2x**



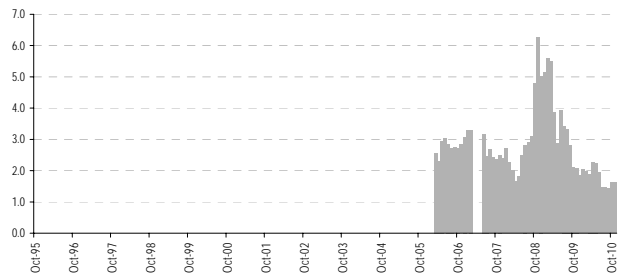
Price/Book Value Current: **3.2x**



ROE (Trailing) Current: **35.51**



Dividend Yield (Trailing) Current: **1.62**



Summary

Pruksa Real Estate PCL THAILAND Financials		SEDOL	B0R8BF8									As Of:	12-Nov-10	
				Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE				9.18x	4.26	13.80	9.13	9.16	13.32	5.01	-54%	50%	-1%	0%
P/BV (Trailing)				3.18x	0.81	3.87	2.11	2.17	3.61	0.74	-74%	22%	-34%	-32%
Dividend Yield (Trailing)				1.62	0.00	6.25	2.49	2.54	5.23	-0.14	-100%	286%	54%	57%
ROE (Trailing)				35.51	15.40	39.64	27.85	27.29	42.16	12.41	-57%	12%	-22%	-23%
Implied Value of Growth				-27.8%	-1.68	0.25	-0.15	-0.25	0.58	-1.09	-503%	189%	47%	9%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

Pruksa Real Estate: Summary of financials

Profit and loss statement

BiMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
Sales revenue	12,969	18,966	23,632	31,696	37,204
% change yoy	43.2	46.2	24.6	34.1	17.4
Gross margin (%)	37.7	38.1	37.2	36.5	37.0
EBITDA	3,251	5,062	5,207	6,655	7,942
% change yoy	80.7	55.7	2.9	27.8	19.3
EBITDA margin (%)	25.1	26.7	22.0	21.0	21.3
EBIT	3,061	4,846	4,992	6,439	7,727
% change yoy	86.2	58.3	3.0	29.0	20.0
EBIT margin (%)	23.5	25.5	21.0	20.3	20.7
Interest expense	28	47	57	74	65
Earnings before tax	3,033	4,799	4,935	6,365	7,661
% change yoy	90.0	58.2	2.8	29.0	20.4
Tax	659	1,177	1,184	1,591	1,915
as % of EBT	21.7	24.5	24.0	25.0	25.0
Net income	2,373	3,622	3,751	4,774	5,746
% change yoy	82.3	52.6	3.6	27.3	20.4
Share outstanding	2,191	2,207	2,207	2,207	2,207
EPS	1.08	1.64	1.70	2.16	2.60

Balance Sheet

BiMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
Cash and Cash Equivalents	1,526	846	3,429	1,134	1,549
ST investments	3	2,305	2,305	1,705	1,105
Inventories	12,622	13,202	15,622	21,186	24,672
Others	276	751	751	751	751
Current assets	14,427	17,104	22,107	24,776	28,076
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	23,809	26,412	29,647
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	4,000	3,500	3,000
Other liabilities	31	41	41	41	41
Total liabilities	6,182	5,848	8,348	7,848	7,348
Shareholder's equity	10,110	13,023	15,461	18,564	22,299
BVPS (Bt)	4.6	5.9	7.0	8.4	10.1

Cash flow statement

BiMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
Profit before tax	3,033	4,799	4,935	6,365	7,661
Depreciation & amortisation	190	216	216	216	216
Change in working capital	(4,345)	(1,063)	(2,420)	(5,564)	(3,486)
Others	135	223	(1,184)	(1,591)	(1,915)
Cash flow from operations	(987)	4,175	1,546	(575)	2,476
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	1,396	(125)	2,926
Equity raised/(repaid)	11	15	0	0	0
Debt raised/(repaid)	2,276	(1,687)	2,500	(500)	(500)
Dividends	(481)	(725)	(1,313)	(1,671)	(2,011)
Beginning cash	1,027	1,526	846	3,429	1,134
Ending cash	1,526	846	3,429	1,134	1,549
DPS (Bt)	0.33	0.55	0.59	0.76	0.91

Ratio Analysis

BiMM, year-end December

	FY08	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	25.1	26.7	22.0	21.0	21.3
Operating margin (%)	23.5	25.5	21.0	20.3	20.7
Net profit margin (%)	18.2	19.0	15.8	15.0	15.4
SG&A/sales (%)	14.6	12.9	16.5	16.5	16.5
Sales growth (%)	43.2	46.2	24.6	34.1	17.4
Net profit growth (%)	82.3	52.6	3.6	27.3	20.4
EPS growth (%)	81.3	51.5	3.6	27.3	20.4
Interest coverage (x)	115.3	107.6	91.4	90.0	121.3
Net debt to total capital (%)	12.7	6.6	4.9	11.2	6.9
Net debt to equity (%)	20.5	9.6	7.6	16.0	9.2
Sales/Assets (%)	95.2	108.3	111.2	126.6	133.1
Equity/Assets (%)	66.9	65.8	66.7	67.7	72.9
ROE (%)	25.9	31.3	26.3	28.1	28.1
ROCE (%)	26.5	33.6	28.4	30.1	31.8

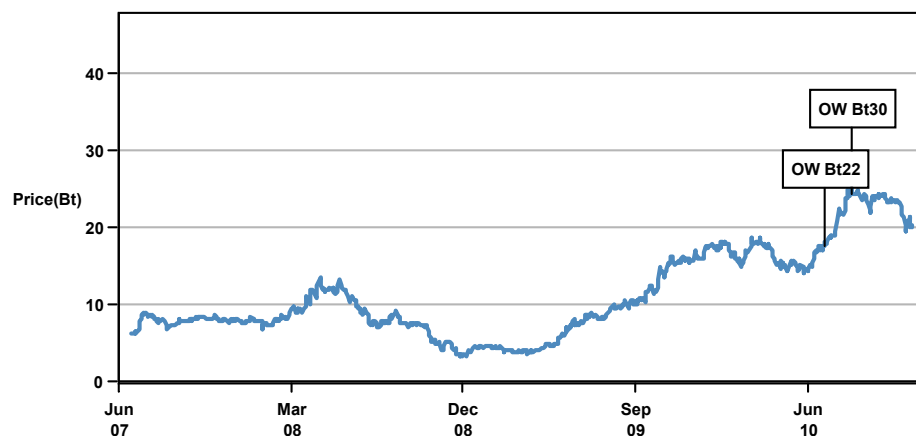
Source: Company reports and J.P. Morgan estimates

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Important Disclosures

Pruksa Real Estate Pcl (PS.BK) Price Chart



Date	Rating	Share Price (Bt)	Price Target (Bt)
28-Jun-10	OW	17.50	22.00
11-Aug-10	OW	24.50	30.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jun 28, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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