

8 July 2011

# Property Day

## Overwhelmingly positive

**Investment thesis:** We hosted a “Property Day” on July 6 for Thai fund managers (nearly 30 investors). Six residential developers participated in the event—AP, LH, LPN, PS, QH and SPALI. The presentations added to our confidence in 2Q11 earnings growth and presales expansion. Our stock picks remain unchanged—PS, AP and LH. Our top pick for the medium-term is PS. But in the short-term we like two stocks with deeply discounted PERs, AP (19% lower than its FY05-10 PER mean) and LH (12% lower than its mean). We were most positively surprised by LH at the event—it has started developing retail malls and intends to sell serviced apartment assets to a property fund (the timing may be sooner than we initially anticipated; we previously thought a year from now).

We now have a more positive view of SPALI—there appears to be scope for an earnings forecast upgrade. The outlook for LPN, in contrast, is more subdued—the firm has pared back its 2H11 launch schedule, so we can expect slower presales. Our earnings model for QH might be revised down, as its revenue performance has missed our target. However, downside risk to its stock price is limited—its PER is 13% below its FY05-10 average (the second-deepest discount in the sector).

**Industry revenue growth targets stand:** Most of the six developers maintained their revenue targets for 2011 unchanged. The targets imply income growth of 30% for both LH and PS, 25% for AP, 24% for LPN, 20% for QH and 19% for SPALI.

**2Q11 earnings recovery:** All six developers are confident that they will post strong QoQ profit jumps for 2Q11 (while the broad SET’s bottom-line will dip QoQ). PS, LPN and SPALI all threaten to beat our profit estimates for the quarter because of swift condo transference in June. We still expect AP to post the best earnings growth for 2Q11 (up both YoY and QoQ).

**Solid low-rise presales:** Most developers guided for impressive 2Q11 low-rise presales—double-digit YoY growth for LH, AP, QH, and SPALI. PS, however, is likely to report only 7% low-rise presales expansion (May was a slow month). In contrast, LPN’s 2Q11 condo presales should have doubled YoY. SPALI guided for a 65% take-up rate at Supalai Prima Riva condo (Bt5.5bn total project value).

## BUALUANG RESEARCH

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**NEUTRAL** (maintained)

### Fundamental recommendations & valuations

	Rec.	Target				Div
		Price (Bt)	PER (x) FY11	PBV (x) FY11	ROE (%) FY11	yield (%) FY11
AP	BUY	6.20	5.45	1.36	22.45	5.83
LH*	TRADING BUY	7.50	12.06	2.15	19.10	6.14
LPN	BUY	11.00	8.09	2.18	29.13	6.24
QH	BUY	2.70	8.06	1.12	14.44	6.21
PS	BUY	27.00	10.31	2.46	26.25	2.91
SIRI	SELL	4.70	5.48	0.85	16.40	14.41
SPALI	HOLD	11.00	7.05	1.79	28.59	5.96

### Strategic residential property portfolio

	Price (Bt)		Return	Rec	Since
	17/06/2011	07/07/2011	%		
AP	4.98	5.50	10.44	Top pick	(16/06/2011)
LH	5.75	6.55	13.91	Top pick	
LPN	9.40	10.60	12.77		
QH	1.80	1.90	5.56		
PS	17.10	20.80	21.64	Top pick	(16/06/2011)
SIRI	4.90	5.15	5.10		(16/06/2011)
SPALI	11.10	11.60	4.50		
SET ResDev	7.25	8.34	14.98		
SET	1,019	1,083	6.29		

# Key takeaways

## Asian Property (BUY, TP Bt6.20)

**Record high low-rise presales in 2Q11:** Management announced solid 2Q11 presales of Bt5.6bn, up by 107% YoY and 87% QoQ. Low-rise bookings hit a quarterly record high of Bt2.7bn, thanks to a more aggressive launch schedule and segmentation expansion (high-end SDHs under the *Palazzo* brand and low-end THs branded *Pleno*). Thus, in 1H11, AP achieved 42% of its FY11 presales target (Bt19.5bn).

**Confidence in FY11 revenue target:** The current presales backlog secures 88% of AP's FY11 revenue target of Bt17bn (up 24% YoY). Management is confident that the target is achievable, as the firm has a total of Bt30bn available for sale. Of which about 60% is low-rise. The firm expects low-rises presales to sustain momentum through to the end of the year. AP preliminarily guides for Bt19-20bn in revenue in FY12 (12-18% growth).

**Manageable GM:** Management said GM will remain in the 30-35% range over the next 2-3 years. Recent raw material price rises can be largely passed onto home buyers, given the good macro-economic environment. In our view, there is scope for GM upside to AP's low-rise projects (the firm's low-rise GM target is 30%) because of its use of in-house contractors for low-end THs and the good responses to recently-launched projects.

**Leverage to peak at end-June; sharp decline by YE11:** Net gearing will be peak at 1.3x at end-June, then drop to 1.0x at YE11 on substantial 2H11 backlog transference.

## Land and Houses (TRADING BUY, TP Bt7.50)

**Ambitious FY11 targets stand:** Management guided for strong 2Q11 low-rise bookings—double-digit YoY growth, but a decline in condo presales. LH maintains an FY11 presales expansion target of 25% to Bt25bn and a revenue growth objective of 30% to Bt21.5bn. It expects FY11 rental income to double, led by Terminal 21 (to open in Oct 2011). Profit-sharing from affiliates should rise 15% this year. The firm guided that housing GM will be sustained at about 32.7% in FY11 (the level it reported for FY10).

Project launches are planned to jump 40% this year to Bt42bn, of which half were launched in 1H11. In 3Q11, LH will open two big high-end SDH developments—Ladawan Rattanathibet (Bt1.8bn) and Ladawan Rajapruk (Bt10bn). The Bt6bn Bangkok Sathorn condo (high-end with sales prices of Bt140-150K/sq.m) will kick off in 4Q11. However, there is some risk of the launch being delayed if EIA certification is slow.

**Condos could drive FY12 revenue growth:** Currently, LH has 10 condo projects available for sale (condos with a combined value of Bt10bn were launched last year with 50% presold). Management expects condo revenue to increase from Bt2.3bn in FY10 to Bt3bn this year and Bt6bn in FY12. LH plans to transfer three condos this year—The Room Sahorn (Bt1.3bn; 50% to transfer in FY11), The Key Paholyothin (Bt950m: 100% transference in FY11) and Ocas Hua Hin (Bt2bn; 50% to transfer in FY11). In our model, we conservatively assume two condo projects will transfer this year—The Key Paholyothin and Ocas Hua Hin. With regard to low-rise income, LH preliminarily plans for 10% revenue growth in FY12.

**Portfolio adjustments:** LH plans to sell serviced apartments into a property fund late this year or in 2012. Management surprised us by announcing that it is looking for appropriate sites on which to build new retail malls (it projects yields exceeding 10% per year). The gain from asset sales to the property fund and new retail project(s) would mean scope for upside to our earnings forecasts.

## Lumpini Development (BUY, TP Bt11.00)

**Inventory clearance in 2Q11:** At end-March, inventories (unbooked units after construction completion) were almost twice its two-year average (Bt1.9bn versus a Bt1bn mean). Thus, LPN offered promotions to clear the inventories in 2Q11. By end-June, inventories had plunged to Bt763m. Management claimed that the sales promotions won't hurt GM, as the final sales prices were not less than those offered at initial launch dates.

**Good 2Q11 earnings and record high in 3Q11:** LPN guided that almost 70% of Lumpini Park Pinklao (Bt3.7bn) transferred in 2Q11. Thus the total transfer value for 1H11 is likely to be Bt6bn, equal to 50% of our FY11 revenue target of Bt12bn. That guidance implies a YoY and QoQ bounce in 2Q11 earnings. We anticipate that the bottom-line will peak in 3Q11 at a record high—two more condo projects are to transfer in that period, Lumpini Place Ratchayothin (Bt3.2bn; fully booked) and Place Rama IV-Kluaynamthai (Bt1.5bn; fully booked).

**Launch and presales revisions, but no impact on revenue target:** LPN has delayed the launches of two condos—Lumpini Mega City Bangna (Bt2.8bn) and Place Pattaya-Wong Amat (Bt800m)—from 2Q-3Q11 to 1Q12. A new project in Pattaya (Bt3bn) is to launch in their place this year. Thus, FY11 presales should be in the Bt14-15bn range, below the company's earlier FY11 target of Bt16bn.

**Keep watch for re-launch of Lumpini Park Riverside Rama III in 2H11:** The project is worth Bt5.5bn (53% sold). LPN plans to re-launch it late this year. The take-up rate is expected to hit 60-70% on re-launch. The details of the marketing strategy are yet to be announced. Revenue recognition will start in 2Q12. If the re-launch is successful, LPN's share price should get a boost.

## Pruksa Real Estate (BUY, TP Bt27.00)

**Execution risk will ease significantly in 2H11:** The new prefabrication plant is now operating at near full capacity, so PS will be able to speed up delivery of THs and SDHs—the production bottleneck is now an issue of the past. Management confirmed that 1Q11 results represented the nadir of the year. Revenue will post a slight rise for 2Q11 (YoY and QoQ top-line growth). Speed of transference will accelerate sharply in 2H11, with QoQ growth in both 3Q11 and 4Q11 (which should also post the highest bottom-line of the year).

**Low-rise the key driver of presales:** PS reported low-rise presales of Bt7.4bn for 2Q11, 7% YoY growth but flat QoQ. Management guided that it targets FY11 presales expansion of 20-30% YoY for SDHs and another 10% for THs (a slower rate of increase, due to the high base set by FY10). However, condo bookings will decline from Bt12bn in FY10 to Bt9bn this year, as PS has a huge condo backlogs of Bt18bn, which secures revenue in FY11-13. Management guided for YoY and QoQ earnings growth in 2Q11, driven by the top-line.

**Condo backlog will boost FY13 revenue:** According to the backlog transference schedule, condo revenue will jump from Bt4-5bn in FY11 to Bt10bn in FY13. Management said that condo profitability ratios will rise substantially over the next couple of years.

**Slow overseas business:** The SDH project in Bangalore, India, booked Bt230m in presales in 2Q11 (Bt305m in presales in 1Q11). However, the progress of overseas projects (the Maldives, India and Vietnam) has been disappointing—the launch of the first project in Vietnam has been delayed, as has revenue recognition in the Maldives. Management guided that with regard to the condo project in the Maldives (Bt601m in presales), the first two buildings should transfer in 2Q11, another four buildings in 3Q11 and the remaining three by 1Q12.

## Quality Houses (BUY, TP Bt2.70)

**Improved 2Q11 residential presales:** Management said presales totaled Bt3.8bn in 2Q11, growth of around 40% YoY and 30% QoQ. QH launched Casa Asoke-Dindaeng Condo (Bt1.7bn) with a 24% take-up rate in June. Its condo projects have take-up rates in the range of 20-50%. The firm guided that 2Q11 earnings will post a QoQ bounce.

**Segmentation expansion to low-end and across the mid range:** QH has initiated new sub-brands Casa (mid-range with sales prices of Bt3-7m/unit)—*Casa Seaside*, *Casa Ville/Presto*, *Casa Premium/Prima* and *Casa Grand/Legend*. Another area of diversification is new locations, both in Bangkok and in nearby provinces with strong economies—Rayong, Cha-am and Chonburi. QH will kick off a new low-end brand, *The Gusto*, a three-story TH priced below Bt2m/unit, which it will build using tunnel construction technology, which will mean a low cost and swift construction speed.

**Better GM in 2H11:** The CFO said that housing GM was very low at 26% in 1Q11, but it will inch up in 2Q11. Then, housing GM for 2H11 should be much better HoH, due to greater contributions from new projects with good GMs. QH's condo projects are launched with a minimum GM targets of 30%.

**Approval of commercial banking license will prompt divestment of LHBANK:** QH currently holds 22% of LHBANK (listed on the SET), a non-core business. Its stock is locked in until Dec 2011, after which the firm will be free to divest its shares. However, management said LHBANK would be worth much more if it had a commercial banking license (it currently has just a retail banking license) because it would be a much more attractive proposition for a strategic partner (presumably, a foreign bank). Based on LHBANK's last closing price of Bt1.74/share, QH's unrealized gain is Bt1.3bn (net of tax) or 55%.

## SPALI (HOLD, TP Bt11.00)

**Strong 2Q11 performance guidance:** Management guided for 1H11 presales of Bt7.3bn, which implies hefty 2Q11 bookings of Bt5.5bn (double YoY and triple QoQ), driven by Supalai Prima Riva condo, which was launched during the quarter (Bt5.5bn; 65% booked). The revenue guidance for the period is above Bt3.5bn and GM exceeding 40%. The guidance numbers imply YoY and QoQ growth in earnings for 2Q11 (we had assumed that results would be flattish QoQ). Management maintains an FY11 revenue target of Bt13bn (up 19%).

**Upcountry business will drive long-term growth:** Revenue from the provinces comprised 10% of total income in FY10 and should make up 13% in 1H11. Management aims to boost the upcountry contribution to the top-line to 20% by FY13. The areas of coverage are Phuket, Had Yai, Khon Kaen, Chiangmai, Chonburi and Surat Thani. GM from upcountry projects is higher than in Bangkok, because competition is less intense—mostly small local developers (SPALI claims to have a competitive advantage over local developers because of its greater economies-of-scale).

**Aggressive 2H11 launch schedule:** Almost 70% of FY11 launches are slated for 2H11, six low-rise projects (Bt6.2bn) and five condos (Bt8.5bn)—Supalai Premier Asoke (Bt2.6bn), Park@Phuket City (Bt900m), Park Karai-Ngamwongwan (Bt1.4bn), Ratchada-Huaykwang (Bt1.6bn and Park Ekamai-Thonglor (Bt2bn). SPALI's competitive edge is low pricing. The expanded launch schedule should boost presales over the medium-term.

**Land bank to enable 15% presales growth in FY12:** The firm said it has secured land plots for 16 projects to launch in FY12 with a total value of Bt11bn. Despite this, SPALI's net gearing remains low at 0.35x. There is clearly room for more land purchases without fear of weighing down the balance sheet.

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**Figure 1: FY11 valuations versus their means**

	FY11 PER (x)	FY06-10 forward mean			FY11 PER versus
	core	Average	+1 SD	-1 SD	L-T average
AP	6.6	8.2	12.0	4.3	-19%
QH	8.1	9.2	11.7	6.8	-13%
LH*	15.2	17.3	22.7	11.9	-12%
SIRI	5.4	5.7	8.5	2.8	-4%
LPN	8.1	7.7	10.4	5.1	5%
PS	10.3	9.6	13.0	6.2	7%
SPALI	7.1	5.0	6.7	3.2	41%

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\* LH = core PER

Sources: Reuters, Company data and Bualuang Research

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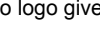
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**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**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.

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