

PS: Pruksa Real Estate PCL

- We maintain Buy on PS with an unchanged 2011 fair value of Bt24.5, offering upside potential of 19.5% and yield of 3.2%. Despite strong upside, SPALI, LPN and AP are our top picks in the sector.
- Pre-sales in 2Q11 were not exciting as there were no new big projects. However, the transfer of ownership rights from the high-margin condominium project (IVY Thonglor) and faster construction of low-rise housing projects which have high margins should help boost 2Q11 earnings to grow 29% YoY and 49% QoQ.
- We fine-tune our 2011-2013 earnings estimate slightly to incorporate slow progress on international projects, delay of EIA approval of condominium project and apply more aggressive on gross margin assumption. However, these have very small impact to our 2011 fair value estimate.
- Short-term catalyst: Strong 2Q11 earnings and new launch of big project in Changwattana area.

Poorer pre-sales compared to others but earnings improving

Unexciting 2Q11 pre-sales on low new projects launched

PS ended 2Q11 with unexciting pre-sales of Bt8,856mn, down 23% YoY but up 5% QoQ. Although pre-sales during 1H11 are at Bt17,321mn, far below its full year target of Bt42,000mn, we think it was a relatively good performance given that there was no new condominium projects launched while the size of new low-rise projects launched was very small (less than 10 projects from 26 projects in 1Q11 and 78 projects targeted for 2011). Condominium has regained momentum while low-rise products faced a slowdown.

Figure 1: Quarterly pre-sales unexciting

Housing type	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY	QoQ
TH	4,256	4,637	4,345	3,793	4,359	4,069	-12%	-7%
SDH	2,126	2,256	2,335	2,093	3,076	2,972	32%	-3%
CONDO	2,205	4,539	2,924	2,543	927	1,506	-67%	62%
Overseas	0	0	550	149	104	308	n.m.	196%
Total	8,587	11,432	10,154	8,578	8,466	8,855	-23%	5%

Source: PS and KS

2Q11 earnings to grow strongly both YoY and QoQ

Despite unfavorable 2Q11 pre-sales, we expect PS to report solid 2Q11 earnings growth of Bt1,087mn, up 29% YoY and 49% QoQ. Revenue would be driven by 1) an expansion of TH product after construction problems have been eased following the completion of fourth and fifth pre-cast factories and 2) a big contribution from condominium particularly the Bt1.0bn from IVY Thonglor (which started the rights transfer in June and gross margin is estimated to be high at near 40% thanks to the conservative cost management) and Bt0.1bn from IVY Pinklao. Also, slower new project launched has helped reduce SG&A expense in the quarter.

Figure 2: TH and Condo should contribute more in 2Q11

Rev breakdown	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11E	YoY	QoQ
TH	2,712	3,125	2,191	3,920	3,187	3,567	14%	12%
SDH	2,377	2,189	1,066	2,091	1,935	1,938	-11%	0%
CONDO	1,566	603	504	935	290	1,293	114%	346%
Others	0	0	0	28	10	0	n.m.	-100%
Total	6,655	5,917	3,761	6,974	5,422	6,798	15%	25%

Source: PS and KS

Thailand: Company Focus

7 July 2011

Buy (Maintain)

Event	Update	Mkt cap (Btmn)	45.3
Fair price (Bt)	24.50	6M avg (Btmn)	87.4
Stock price (Bt)	20.50	Free float (%)	25.9
Up/Dn (%)	19.5	% warrant dilution	None
Valuation	DDM	Bloomberg	PS TB
Industry	Property	Reuters	PS.BK

CG Score by IOD (2010)

Pass	Satisfactory	Good	Very Good	Excellent
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Recommendation of local peers

BUY: AP, LPN and SPALI
OUTPERFORM: LH and SIRI
NEUTRAL: QH

Quarterly Forecasts

Btmn	1Q11	2Q11E	3Q11E	YTD/FY
EBITDA	1,027	1,576	1,815	15.73
Net Profit	731	1,087	1,255	16.12
EPS (Bt)	0.33	0.49	0.57	16.20

YE Dec 31

	2010	2011E	2012E	2013E
Company Earnings & Financials				
EBITDA (Btmn)	4,850	6,525	6,959	8,891
Net Profit (Btmn)	3,488	4,538	4,781	6,159
Net EPS (Bt)	1.6	2.0	2.1	2.8
DPS (Bt)	0.50	0.65	0.70	0.90
Net EPS gr (%)	-3.7	29.4	5.1	28.5
ROE (%)	24.7	26.7	23.4	25.3
Net D/E (x)	0.8	0.8	0.9	0.6

Valuation

Net PER (x)	13.0	10.0	9.5	7.4
Div Yield (%)	2.4	3.2	3.4	4.4
PBV (x)	3.0	2.4	2.1	1.7
EV/EBITDA (x)	11.6	9.2	9.4	6.9

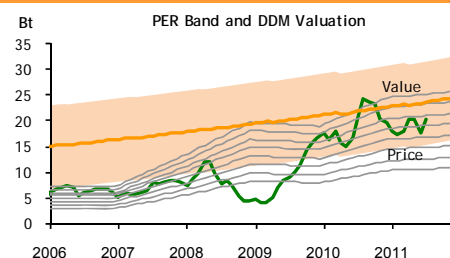
Relative to Consensus [(Company/Consensus)*100]

Net PER (x)	100	102	114	107
Div Yield (%)	100	98	89	104
PBV (x)	100	104	105	107
ROE (%)	100	111	100	109

Relative to Industry [(Company/Industry)*100]

Net PER (x)	132	112	117	107
Div Yield (%)	46	54	54	60
PBV (x)	155	144	137	129
ROE (%)	122	133	120	123

12M forward PER Band and DDM Valuation



Source: KS

Sorapong Jakteerungkul

Sorapong.j@kasikornsecurities.com; +662 696-0034

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable, but their accuracy, completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information known to us then, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice.

Figure 3: 2Q11 earnings preview

	2Q10	3Q10	4Q10	1Q11	2011E	%YoY	%QoQ	%YTD2011E	2011E
Financials									
Sales (Btmn)	5,916	3,761	6,974	5,422	6,798	14.9	25.4	41.3	29,615
EBITDA (Btmn)	1,172	543	1,462	1,027	1,576	34.5	53.5	39.9	6,525
Operating Profit (Btmn)	1,087	459	1,356	930	1,486	36.7	59.7	39.2	6,158
Core Profit (Btmn)	840	359	1,059	731	1,087	29.3	48.6	40.1	4,538
Net Profit(Btmn)	840	359	1,059	731	1,087	29.3	48.6	40.1	4,538
Net EPS (Bt)	0.38	0.16	0.48	0.33	0.49	29.3	48.6	40.3	2.05
Performance Drivers									
Pre-sales (Btmn)	11,432	10,154	8,578	8,466	8,855	-22.5	4.6	45.2	38,327
Asset turnover (x)	0.99	0.52	0.81	0.57	0.79	-19.8	39.0		0.71
Net D/E (x)	0.1	0.6	0.8	0.9	0.0	806.0	-3.9		0.79
						Change		Avg YTD	2011E
Ratios									
Gross margin (%)	37.3	38.1	38.7	39.3	39.6	2.3	0.3	39.5	38.4
EBITDA margin (%)	19.8	14.4	21.0	18.9	23.2	3.4	4.3	21.3	22.0
Optg. Margin (%)	18.4	12.2	19.4	17.2	21.9	3.5	4.7	19.8	20.8
ROE (%)	23.9	10.2	28.7	18.7	18.8	-5.1	0.1	18.7	26.7

Source: PS and KS

Condominium prospects hurt in ST from new measures

The Land Department is about to release a set of new standard on sales contract for condominium projects. According to the new standard, a condominium that is allowed to launch sales would have to be approved by EIA and gained construction permit. This is to protect the buyer's rights and benefits since in the past several projects could not be built or had long construction delays due to troubles from EIA and construction permit. After the final round of hearing that will be conducted soon, the Land Department is expected issue the new ruling to become effective in August 2011.

In our view, this new measure, despite benefiting to buyers, would hurt new launch schedules in 2H11. This is because developers would require about 3-6 months to complete EIA process and another 1-3 months to gain construction permit after the land acquisition date. Pre-sales targets of all developers, whose main business is condominium development, would therefore be hurt. This includes Bt5-6bn of new condominium products under PS that are expected to be launched in 2H11. However, the new measure would not have any impact to the revenue realization over the next 2-3 years as revenues can only be booked once projects are completed and transferred, according to the new accounting standard.

No improvement on international projects

PS continues to seek a new plot to develop its second residential project in India and the first project in Vietnam. PS disclosed that land acquisitions in the two countries have been much harder than earlier expected due to complex regulations. Moreover, the rights transfer of condominium units in Maldives (construction completed, mortgage loan agreements done and buyers have approved their units) were not completed in 2Q11 due to land title deeds insurance problems. The slow progress of PS' international projects cloud the prospects and contributions expectations remain unclear presently.

Strong profitability help cushion troubles in some areas

We revised up our earnings forecasts in 2011 and 2013 by 4.9% and 3.5% while trimmed down earnings projection in 2012 by 0.1% to incorporate new information. Recognition of condominium revenue worth Bt4.2bn (Chapter One) may be delayed from 2012 to 2013 from EIA problem. Moreover, we conservatively revise down our revenue contribution from international projects by about 20-25% to reflect slower progress.

However, the better than expected pre-sales response from SDH projects and easing of construction bottleneck for the TH product will offset this revenue shortfall to some degree. In addition, we raise our gross margin forecast during the period by 0-3-0.7%, thanks to better cost control. These factors will help maintain our 2012 earnings forecast but boost earnings in 2011 and 2013. Note that given higher number of project in its portfolio located much closer to city center, PS faces more troubles on rights transfers due to regulations related to connections to public areas which are some of the risks.

Figure 4: Earnings revision

(Unit: Btmn)	2011E			2012E			2013E			
	Profit and loss statements	New	Previous	% Change	New	Previous	% Change	New	Previous	% Change
Sales revenue	29,615	29,607	0.0	32,720	33,580	-2.6	40,231	39,549	1.7	
Total revenue	29,615	29,607	0.0	32,720	33,580	-2.6	40,231	39,549	1.7	
Cost of sales	18,230	18,456	-1.2	20,538	21,311	-3.6	25,436	25,105	1.3	
Gross profit	11,385	11,152	2.1	12,182	12,269	-0.7	14,795	14,444	2.4	
SG&A	5,227	5,271	-0.8	5,621	5,679	-1.0	6,341	6,265	1.2	
Operating profit	6,158	5,881	4.7	6,561	6,590	-0.4	8,454	8,180	3.4	
EBITDA	6,525	6,248	4.4	6,959	6,988	-0.4	8,891	8,617	3.2	
Depreciation & Amortization	279	279	0.0	310	310	0.0	341	341	0.0	
EBIT	6,246	5,969	4.6	6,649	6,678	-0.4	8,550	8,276	3.3	
Interest expense	89	90	-0.7	148	145	2.2	187	181	3.2	
Pre-tax profit	6,157	5,879	4.7	6,501	6,533	-0.5	8,363	8,095	3.3	
Tax	1,619	1,554	4.2	1,720	1,749	-1.7	2,205	2,142	2.9	
Core profit	4,538	4,325	4.9	4,781	4,784	-0.1	6,159	5,953	3.5	
Reported net profit	4,538	4,325	4.9	4,781	4,784	-0.1	6,159	5,953	3.5	
Key assumptions										
Pre-sales										
- TH	16,815	17,151	-2.0	16,917	17,151	-2.0	17,413	17,757	-1.9	
- SDH	12,223	11,513	6.2	12,521	11,979	4.5	13,150	12,578	4.5	
- CONDO	8,377	8,787	-4.7	10,609	10,218	4.8	13,712	11,447	19.8	
- Overseas	912	1,704	-46.5	1,200	2,000	-40.0	1,600	2,400	-33.3	
Revenue										
- TH	14,481	14,545	-0.4	15,133	14,576	3.8	15,380	15,578	-1.3	
- SDH	9,909	10,245	-3.3	10,580	9,399	12.6	11,622	11,124	4.5	
- CONDO	4,636	4,108	12.8	5,806	8,004	-27.5	11,630	10,847	7.2	
- Overseas	589	799	-26.3	1,200	1,600	-25.0	1,600	2,000	-20.0	
Revenue growth	27.1	27.0	0.1	10.5	13.4	-21.9	23.0	17.8	29.1	
GPM (%)	38.4	37.7	2.1	37.2	36.5	1.9	36.8	36.5	0.7	
SG&A to sales (%)	17.7	17.8	-0.9	17.2	16.9	1.6	15.8	15.8	-0.5	

Source: KS

Buy rating maintained as with 2011 fair value of Bt24.50

We maintain our Buy call for the stock with an unchanged 2011 fair value of Bt24.50. The earnings adjustments have very small positive impact to our fair value estimate. Based on the last closing price, PS offers an attractive upside of 19.5% plus dividend yields from 2011 operation of 3.2%. We like PS in terms of its solid backlog (expected to be Bt35.8bn by the end of 2Q11, equivalent to 1.54x of 2010 sales revenue) and its broad market/product coverage across wide segments which allows it to respond quickly. Its balance sheet is healthy with credit rating of “A-stable” from TRIS. However, slower earnings growth prospect in 2012 of only 5.1% would reduce attractiveness in medium term compared to other developers. Rising competition from listed developers and troubles at some of its condominium projects such as The Seed Atom (still waiting for EIA approval) are risks factors. We rank PS behind SPALI, LPN and AP.

Year-end 31 Dec

Income Statement (Btmn)	2009A	2010A	2011E	2012E	2013E
Revenue	18,966	23,307	29,615	32,720	40,231
Cost of sales and services	(11,749)	(14,561)	(18,230)	(20,538)	(25,436)
Gross Profit	7,217	8,746	11,385	12,182	14,795
SG&A	(2,438)	(4,243)	(5,227)	(5,621)	(6,341)
Other income	67	100	88	88	96
EBIT	4,846	4,603	6,246	6,649	8,550
EBITDA	5,062	4,850	6,525	6,959	8,891
Interest expense	(47)	(67)	(89)	(148)	(187)
Equity earnings	-	-	-	-	-
EBT	4,799	4,536	6,157	6,501	8,363
Income tax	(1,177)	(1,048)	(1,619)	(1,720)	(2,205)
NPAT	3,622	3,488	4,538	4,781	6,159
Minority Interest	0	-	-	-	-
Core Profit	3,622	3,488	4,538	4,781	6,159
Extraordinary items	-	-	-	-	-
FX gain (loss)	-	-	-	-	-
Reported net profit	3,622	3,488	4,538	4,781	6,159

Balance Sheet (Btmn)	2009A	2010A	2011E	2012E	2013E
Cash & equivalents	3,151	1,630	2,961	4,090	6,035
Accounts receivable	60	120	89	98	121
Inventories	13,202	27,801	33,772	43,010	44,254
Total current assets	17,104	31,356	38,125	48,637	52,180
Investment in subs & others	128	250	355	376	443
Fixed assets-net	1,299	2,159	2,542	2,626	2,699
Total assets	18,871	34,211	41,614	52,294	56,126
Short-term debt	600	4,004	5,504	8,504	4,004
Accounts payable	799	1,425	1,185	1,309	1,609
Total current liabilities	4,307	9,791	10,538	14,066	10,843
Long-term debt	1,500	9,107	12,333	16,141	18,588
Total liabilities	5,848	18,948	22,871	30,207	29,432
Paid up capital	2,207	2,207	2,219	2,224	2,229
Share premium	1,362	1,362	1,362	1,362	1,362
Retained earnings	9,228	11,503	14,937	18,276	22,878
Minority interests	0	-	-	-	-
Total shareholders' equity	13,023	15,263	18,743	22,087	26,694
Total equity & liabilities	18,871	34,211	41,614	52,294	56,126

Key Assumptions	2009A	2010A	2011E	2012E	2013E
New launch (Btmn)	17,700	62,703	62,400	71,760	75,348
Pre-sales	22,776	38,751	38,327	41,247	45,874
Revenue growth (%)	46.2	22.9	27.1	10.5	23.0
Gross margin (%)	38.1	37.5	38.4	37.2	36.8
SG&A to sales (%)	14.6	12.9	18.2	17.7	17.2

Cashflow (Btmn)	2009A	2010A	2011E	2012E	2013E
Net profit	3,622	3,488	4,538	4,781	6,159
Depreciation & amortization	216	246	279	310	341
Change in working capital	1,400	-	-	-	-
Others	(1,063)	(13,753)	(6,376)	(8,904)	(437)
CF from operation activities	4,175	(10,019)	(1,560)	(3,813)	6,063
Capital expenditure	(163)	(1,305)	(942)	(705)	(756)
Investment in subs and affiliates	-	-	-	-	-
Others	(2,296)	2,154	(1,125)	120	(134)
CF from investing activities	(2,458)	849	(2,067)	(585)	(890)
Cash dividends	(725)	(1,214)	(1,103)	(1,442)	(1,557)
Net proceeds from debt	(1,687)	10,977	4,760	6,808	(2,052)
Capital raising	15	-	12	5	5
Others	0	-	-	-	-
CF from financing activities	(2,396)	9,763	3,669	5,370	(3,604)
Net change in cash	(680)	593	41	973	1,569

Key Statistics & Ratio	2009A	2010A	2011E	2012E	2013E
Per share (Bt)					
Reported EPS	1.64	1.58	2.05	2.15	2.76
Core EPS	1.64	1.58	2.05	2.15	2.76
DPS	0.55	0.50	0.65	0.70	0.90
BV	5.90	6.92	8.45	9.93	11.98
EV	19.88	25.31	26.83	29.38	27.58
Free Cash Flow	5,157	(11,196)	(2,261)	(4,119)	5,732
Valuation analysis					
Reported P/E (X)	12.49	12.97	10.02	9.54	7.42
Core P/E (X)	12.49	12.97	10.02	9.54	7.42
P/BV (X)	3.47	2.96	2.43	2.06	1.71
EV / EBITDA (X)	8.67	11.63	9.16	9.41	6.91
Price / Cashflow (X)	12.93	(4.39)	(33.37)	(11.31)	8.26
Dividend yield (%)	2.68	2.44	3.17	3.41	4.37
Profitability ratio					
Gross margin (%)	38.05	37.53	38.44	37.23	36.78
EBITDA margin (%)	26.69	20.81	22.03	21.27	22.10
EBIT margin (%)	25.55	19.75	21.09	20.32	21.25
Net profit margin (%)	19.10	14.97	15.32	14.61	15.31
Core ROA (%)	20.60	13.14	11.97	10.18	11.36
Core ROE (%)	31.31	24.66	26.69	23.42	25.25
Liquidity ratio					
Current ratio (X)	3.97	3.20	3.62	3.46	4.81
Quick ratio (X)	0.91	0.36	0.41	0.40	0.73
Leverage Ratio					
D/E ratio (X)	0.16	0.86	0.95	1.12	0.85
Net debt/EBITDA (X)	0.41	2.70	2.73	3.54	2.54
Net debt/equity	(0.08)	0.75	0.79	0.93	0.62
Int. coverage ratio (X)	102.99	68.62	70.11	44.90	45.78
Growth					
Revenue (%)	46.25	22.89	27.06	10.48	22.96
EBITDA (%)	55.71	(4.19)	34.55	6.65	27.77
Reported net profit (%)	52.60	(3.69)	30.09	5.36	28.81
Reported EPS (%)	51.31	(3.69)	29.39	5.13	28.52
Core profit (%)	52.60	(3.69)	30.09	5.36	28.81
Core EPS (%)	51.31	(3.69)	29.39	5.13	28.52

Source: KS