



## Pruksa Real Estate (PS.BK/PS TB)\*

Banking on 2H11 transfers

**Bt18.30**

**Outperform**

**Company update**

Maintained

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- **Our 2011 revenue estimate has been fully secured**
- **Earnings momentum should continue quarter by quarter**
- **Maintain Outperform with a target price of Bt24.00**

### Banking on 2H11 transfers

PS remains one of our buy calls for the residential property sector. We maintain a rating of Outperform with a target price of Bt24.00. While 1H11 revenue and earnings accounted for only 44.0% and 38.0% of our 2011 estimates, we maintain our full-year forecast, banking on the company's ability to transfer its backlog in 2H11. We believe PS is trading at a discount, given that the company has, for the past couple of quarters, failed to deliver the top lines to the extent that the market had expected. If PS can speed up its transfers, and thus revenue recognition, while maintaining its presale momentum, in 2H11, we believe the counter would eventually re-rate.

### Our 2011 revenue estimate fully secured by current backlog

1H11 presales hit Bt17.6bn (42.0% of its full-year target), with 38 new projects (24 townhouses (TH), 11 single-detached houses (SDH), and three condos), worth Bt26.7bn, launched during the period. Then, thirty-eight more (19 TH, 12 SDH, six condos, and one overseas) are planned for 2H11, and all are secured with respective land plots. With that, PS maintains its 2011 presale target of Bt42bn.

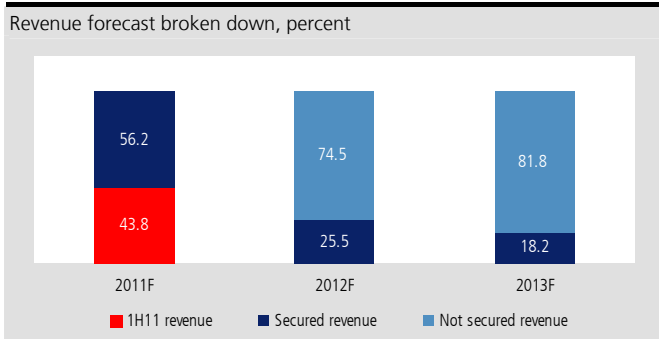
Backlog (end June 2011) has reached Bt36.2bn, of which Bt18.4bn (Bt7.5bn from TH, Bt5.9bn from SDH, Bt4.4bn from condo, and Bt567mn from overseas) should be realized as revenue in 2H11. This implies that our 2011 revenue forecast has already been fully secured. Nonetheless, to realize revenue from this sizable backlog, a huge volume of housing units need to be transferred, and that will be the real challenge PS has to face and get through in 2H11. With its new pre-cast factory (PCF 5) that began commercial operations in late 2Q11, lifting the company's construction capacity to 690 housing units/month from 260 previously, construction delay should no longer be a problem, but the speed of title deed transfers could still be a hurdle. With that, we believe 3Q11 would be a turning point for PS.

### Earnings momentum should continue quarter by quarter

In line with the market's expectation, PS's 2Q11 result improved significantly from 1Q11. We believe the momentum would continue into 2H11, with 4Q11 potentially being the best quarter of the year. The key earnings driver for 3Q11 will be the transfers of low-rise

backlog, while the key for 4Q11 will be the ownership transfer of The Seed-Memories Siam condo (Bt1.5bn, sold out), on top of the continuing transfers of low-rise backlog.

Figure 1: Backlog fully secured our 2011 revenue estimate



Source: Company data; KGI Securities (Thailand) estimates

### Overseas projects have seen some progresses

Overseas projects have so far contributed insignificantly to PS's total presales and revenue. In 1H11, the company made only Bt412mn in presales and zero revenue from its overseas businesses. Nonetheless, it expects to transfer and realize revenue from its Maldives project in 3Q11 and its Bangalore project in 4Q11. Meanwhile, it plans to open Phase II of Bangalore, Phase I of Mumbai, and Phase I of Vietnam projects for booking in 2H11. Figure 2 shows gives some updates on its overseas projects.

Figure 2: Overseas projects

Project	Project value (Bt mn)		Progress	
	Value	Target	Value	Target
India (Bangalore)	1,589	1,589	Presales = Bt521mn, transfer expected 4Q11, Phase II to launch 3Q11	
India (Mumbai)	1,500	1,500	Phase I to launch 4Q11	
Maldives	3,500	3,500	Presales = Bt601mn, transfer expected 3Q11-1Q12	
Vietnam	4,700	4,700	Phase I to launch 2H11	

Source: Company data; KGI Securities (Thailand)

### Valuation and Recommendation

Reiterate Outperform with a target price of Bt24.00, based on 12.0x 11PE. PS remains one of our buy calls for the sector.

Year to Dec	Sales (Bt mn)	Sales growth (%)	EBITDA (Bt mn)	NP (Bt mn)	EPS (Bt)	EPS growth (%)	
2008	12,969	43.2	3,215	2,373	1.08	82.5	
2009	18,966	46.2	4,994	3,622	1.64	52.5	
2010	23,307	22.9	4,750	3,488	1.58	(3.7)	
2011F	27,711	18.9	6,047	4,538	2.06	30.1	
2012F	33,614	21.3	7,328	5,314	2.41	17.1	
Year to Dec	GM (%)	EV/EBITDA (X)	PBV (X)	PER (X)	Dividend Yield (%)	ROAE (%)	
2008	37.7	3,214.8	4.0	17.0	1.8	25.9	
2009	38.1	4,994.3	3.7	11.1	3.0	34.6	
2010	37.5	4,749.7	3.8	11.6	2.6	32.4	
2011F	37.0	6,046.8	2.8	8.9	3.4	36.3	
2012F	37.0	7,328.0	2.2	7.6	3.9	32.7	
Sector	Property					52-week trading range (Bt)	16.2 - 24.9
12M target price (Bt/shr)	24.00					Mkt cap-Bt bn/US\$ bn	40.41/1
Upside/downside (%)	31.1					Outstanding shares (mn)	2,208.4
The percentile of excess return (%)	78.2					Free floating shares (mn)	474.6
Dividend yield-12/11F (%)	3.4					Foreign ownership (mn)	883.4
Book value/shr-12/11F (Bt)	6.5					3M avg. daily trading (mn)	5.0
P/B-12/11F (x)	2.8					Abs. performance (3,6,12M)(%)	-9; 7.6; -25.3
Net debt/equity-12/11F (%)	50.9					Rel. performance (3,6,12M)(%)	-7; -3.8; -39.4

\*The Company may be issuer of Derivative Warrants on these securities.


**Balance Sheet**

As of 31 Dec (Bt mn)	2008	2009	2010	2011F	2012F
<b>Total Assets</b>	<b>16,292</b>	<b>17,347</b>	<b>16,765</b>	<b>24,513</b>	<b>29,352</b>
<b>Current Assets</b>	<b>14,427</b>	<b>15,462</b>	<b>14,866</b>	<b>21,942</b>	<b>26,589</b>
Cash & ST Investments	1,526	384	818	125	125
Inventories	12,622	12,257	12,506	21,065	25,551
Accounts Receivable	38	50	49	39	47
Others	241	2,771	1,493	713	865
<b>Non-current Assets</b>	<b>1,865</b>	<b>1,885</b>	<b>1,899</b>	<b>2,571</b>	<b>2,763</b>
LT Investments	0	0	0	0	0
Net fixed Assets	1,506	1,514	1,485	1,887	1,933
Others	359	371	414	684	830
<b>Total Liabilities</b>	<b>6,182</b>	<b>6,542</b>	<b>6,049</b>	<b>10,245</b>	<b>11,116</b>
<b>Current Liabilities</b>	<b>4,945</b>	<b>3,935</b>	<b>3,304</b>	<b>9,585</b>	<b>10,456</b>
Accounts Payable	536	588	714	1,231	1,493
ST Borrowings	2,393	1,157	400	6,761	7,030
Others	2,016	2,190	2,190	1,593	1,933
<b>Long-term Liabilities</b>	<b>1,237</b>	<b>2,607</b>	<b>2,745</b>	<b>660</b>	<b>660</b>
Long-term Debts	1,207	2,574	2,709	660	660
Others	31	33	36	0	0
<b>Shareholders' Equity</b>	<b>10,110</b>	<b>10,805</b>	<b>10,716</b>	<b>14,268</b>	<b>18,237</b>
Common Stock	2,191	2,197	2,197	2,256	2,272
Capital Surplus	1,362	1,364	1,361	1,361	1,361
Retained Earnings	6,557	7,244	7,159	10,651	14,603
Preferred Stock	0	0	0	0	0

Source: Company data; KGI Securities (Thailand) estimates

**Key Assumptions & Ratios**

Year to 31 Dec	2008	2009	2010	2011F	2012F
<b>Growth (% YoY)</b>					
Sales	43.2	46.2	22.9	18.9	21.3
OP	88.3	58.0	(5.8)	29.2	21.3
EBITDA	82.6	55.4	(4.9)	27.3	21.2
NP	82.3	52.6	(3.7)	30.1	17.1
EPS	82.5	52.5	(3.7)	30.1	17.1
<b>Profitability (%)</b>					
Gross Margin	37.7	38.1	37.5	37.0	37.0
Operating Margin	23.3	25.2	19.3	21.0	21.0
EBITDA Margin	24.8	26.3	20.4	21.8	21.8
Net Profit Margin	18.3	19.1	15.0	16.4	15.8
ROAA	17.3	21.5	20.5	22.0	19.7
ROAE	25.9	34.6	32.4	36.3	32.7
<b>Stability</b>					
Gross Debt/Equity (%)	61.2	60.6	56.4	71.8	61.0
Net Debt/Equity (%)	20.1	30.5	20.9	50.9	41.2
Interest Coverage (x)	56.0	106.1	70.8	72.0	21.1
Interest & ST Debt Coverage (x)	7.0	5.6	13.1	15.9	11.4
Cash Flow Interest Coverage (x)	(19.2)	96.2	54.2	(54.2)	4.1
Cash Flow/Interest & ST Debt (x)	(0.3)	1.2	1.1	(0.6)	0.2
Current Ratio (x)	2.9	3.9	4.5	2.3	2.5
Quick Ratio (x)	0.3	0.8	0.6	0.0	0.0
Net Debt (Bt mn)	2,035	3,297	2,242	7,257	7,517
<b>Per Share Data (Bt)</b>					
EPS	1.1	1.6	1.6	2.1	2.4
CFPS	1.2	1.7	1.7	2.2	2.5
BVPS	4.6	4.9	4.9	6.5	8.3
SPS	5.9	8.6	10.6	12.6	15.2
EBITDA/Share	1.5	2.3	2.2	2.7	3.3
DPS	0.3	0.6	0.5	0.6	0.7
<b>Activity</b>					
Asset Turnover (x)	0.9	1.1	1.4	1.3	1.2
Days Receivables	0.8	0.9	0.8	0.6	0.5
Days Inventory	469.8	386.4	310.4	350.9	401.7
Days Payable	25.6	17.4	16.3	20.3	23.5
Cash Cycle	445.0	369.9	294.8	331.2	378.7

Source: Company data; KGI Securities (Thailand) estimates

**Profit & Loss**

Year to 31 Dec (Bt mn)	2008	2009	2010	2011F	2012F
<b>Sales</b>	<b>12,969</b>	<b>18,966</b>	<b>23,307</b>	<b>27,711</b>	<b>33,614</b>
Cost of Goods Sold	8,086	11,749	14,561	17,458	21,177
<b>Gross Profit</b>	<b>4,883</b>	<b>7,217</b>	<b>8,746</b>	<b>10,253</b>	<b>12,437</b>
Operating Expenses	1,858	2,438	4,243	4,434	5,378
<b>Operating Profit</b>	<b>3,025</b>	<b>4,779</b>	<b>4,503</b>	<b>5,819</b>	<b>7,059</b>
Net Interest	(57)	(47)	(67)	(84)	(347)
Interest Income	0	0	0	0	0
Interest Expense	57	47	67	84	347
Net Investment Income/(Loss)	0	0	0	0	0
Net other Non-op. Income/(Loss)	65	67	100	83	101
Net Extraordinaries	(0)	(0)	0	(0)	(0)
Pretax Income	3,033	4,799	4,536	5,818	6,813
Income Taxes	659	1,177	1,048	1,280	1,499
<b>Net Profit</b>	<b>2,373</b>	<b>3,622</b>	<b>3,488</b>	<b>4,538</b>	<b>5,314</b>
EBITDA	3,215	4,994	4,750	6,047	7,328
<b>EPS (Bt)</b>	<b>1.08</b>	<b>1.64</b>	<b>1.58</b>	<b>2.06</b>	<b>2.41</b>

Source: Company data; KGI Securities (Thailand) estimates

**Cash Flow**

Year to 31 Dec (Bt mn)	2008	2009	2010	2011F	2012F
<b>Operating Cash Flow</b>	<b>(1,101)</b>	<b>4,525</b>	<b>3,639</b>	<b>(4,550)</b>	<b>1,436</b>
Net Profit	2,373	3,622	3,488	4,538	5,314
Depreciation & Amortization	190	216	246	227	269
Change in Working Capital	(3,664)	687	(96)	(9,316)	(4,147)
Others	0	0	0	0	0
<b>Investment Cash Flow</b>	<b>(477)</b>	<b>(236)</b>	<b>(261)</b>	<b>(899)</b>	<b>(462)</b>
Net CAPEX	(382)	(223)	(218)	(629)	(316)
Change in LT Investment	0	0	0	0	0
Change in Other Assets	(95)	(12)	(43)	(270)	(146)
<b>Free Cash Flow</b>	<b>(1,577)</b>	<b>4,289</b>	<b>3,378</b>	<b>(5,449)</b>	<b>974</b>
<b>Financing Cash Flow</b>	<b>2,047</b>	<b>(608)</b>	<b>(1,857)</b>	<b>3,445</b>	<b>(976)</b>
Change in Share Capital	16	16	16	16	16
Net Change in Debt	2,380	131	(622)	4,312	269
Change in Other LT Liab.	(349)	(756)	(1,251)	(883)	(1,261)
<b>Net Cash Flow</b>	<b>470</b>	<b>3,681</b>	<b>1,521</b>	<b>(2,005)</b>	<b>(1)</b>

Source: Company data; KGI Securities (Thailand) estimates

**Rates of Return on Invested Capital**

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= <b>Operating Margin</b>	
2008	60.9%	1.5%	14.3%	23%	
2009	60.8%	1.1%	12.9%	25%	
2010	61.4%	1.1%	18.2%	19%	
2011F	62.2%	0.8%	16.0%	21%	
2012F	62.2%	0.8%	16.0%	21%	
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= <b>Capital Turnover</b>	
2008	1.0	0.1	0.0	0.9	
2009	0.8	0.1	0.0	1.1	
2010	0.6	0.1	0.0	1.5	
2011F	0.8	0.1	0.0	1.1	
2012F	0.8	0.1	0.0	1.2	
Year	$\frac{\text{Operating Margin}}{\text{Capital Turnover}}$	x	$\frac{\text{Cash Tax Rate}}{\text{Capital Turnover}}$	x	= <b>After-tax Return on Inv. Capital</b>
2008	23.3%		0.9		78.3%
2009	25.2%		1.1		75.5%
2010	19.3%		1.5		76.9%
2011F	21.0%		1.1		78.0%
2012F	21.0%		1.2		78.0%

Source: Company data; KGI Securities (Thailand) estimates

\*The Company may be issuer of Derivative Warrants on these securities.