BUALUANG SECURITIES

16 June 2011

Pruksa Real Estate

Property (Residential) Neutral

New prefab plant unleashes profit expansion potential

COMPANY UPDATE

BUALUANG RESEARCH

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BUY (maintained)

Target Price: Bt27.00
Price (15/06/11): Bt18.20
PS TB / PS.BK

Investment thesis: PS stands as our top pick in the sector for its superior earnings growth profile (95% of our FY11 revenue forecast is secured by presales). The recent sell-off presents an opportunity to reload—PS now trades at a 7% discount to its FY06-10 mean PER of 9.6x. Slow progress at projects abroad is unlikely to hit the share price much, as the overseas developments represent less than 1% of total revenue. We have trimmed our YE11 target price to Bt27 (from Bt30) to reflect slightly diminished expectations for earnings this year, pegged to a target PER of 13x, 1SD above PS's FY06-10 mean.

Earnings growth secure, despite weak overseas income: We had revised down our net profit forecasts by 9% for FY11 and 3% for FY12 to reflect slow progress at projects abroad—we have cut our offshore revenue assumptions to Bt133m (from Bt1bn) for FY11 and Bt667m (from Bt3bn) for next year, based on Bt800m in presales in the Maldives and in India. Better-than-expected local TH presales will mitigate the effect of the diminished offshore revenue. FY11 TH presales could potentially hit Bt16-17bn (far above PS's target of Bt14bn). Our numbers show that the firm still has the best FY11 core profit growth profile in the sector (23% for PS; 14% for the Residential Developer sector).

New prefab capacity will drive 2H11 profit: The new prefabrication plant will enable 2H11 bottom-line growth of 103% YoY and 82% HoH. The new plant will speed up TH construction from 700 units/quarter to 900 units/quarter when its utilization rate fully ramps up in July (the current rate is 30%). The earnings nadir of the year was in 1Q11. We expect QoQ bottom-line growth, 2Q11 through 4Q11.

Will outperform peers on new govt policies to help home buyers: The next govt (whether Puea Thai- or Democrat-led) will favor residential property. We can expect further measures to help low income demographics buy houses. Such policies will benefit PS ahead of any of other developers because of its low-end focus. Its share price jumped 26% within a month of the govt cutting property-related taxes in March 2008 against a ResDev index rise of only 13%, even though the policy favored the entire sector. In late April, when the govt announced cheap GHB mortgages for low income earners, PS's share price increased 11% in a week; the ResDev index added only 6%.

Key Ratios & Statistics

Market cap	Bt40.18bn
12-mth price range	Bt16.00/Bt25.50
3-mth avg daily volume	Bt87.35m
# of shares (m)	2,206.8
Est. free float (%)	25.9
Foreign limit (%)	40.0

Share price perf. (%)	**1M**	**3M**	**12M**
Relative to SET	(6.5)	1.9	(23.7)
Absolute	(10.8)	4.6	8.3

Financial summary

FY Ended 31 Dec	2010	2011E	2012E	2013E
Revenues (Btm)	23,307	30,026	37,605	44,070
Net profit (Btm)	3,488	4,453	5,578	6,676
EPS (Bt)	1.58	2.02	2.53	3.03
BLS/Consensus (x)	0.96	1.02	1.10	1.08
EPS growth (%)	-3.7%	+27.7%	+25.3%	+19.7%
Core profit (Btm)	3,628	4,453	5,578	6,676
Core EPS (Bt)	1.64	2.02	2.53	3.03
Core EPS growth (%)	-4.3%	+22.7%	+25.3%	+19.7%
PER (x)	11.5	9.0	7.2	6.0
Core PER (x)	11.1	9.0	7.2	6.0
EV/EBITDA (x)	10.6	8.3	7.0	5.9
PBV (x)	2.6	2.2	1.8	1.4
Dividend (Bt)	0.47	0.61	0.76	0.91
Dividend yield (%)	2.6	3.3	4.2	5.0
ROE (%)	24.7	26.2	26.8	26.3
Net gearing (x)	0.8	0.8	0.7	0.6

CG Rating - 2010

Company profile

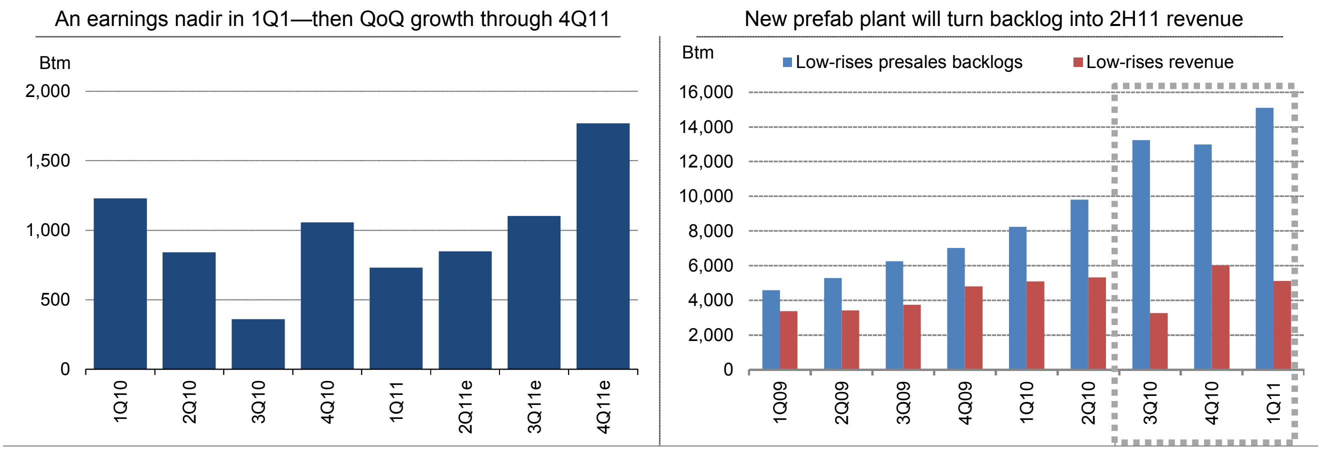
Preuksa Real Estate Plc (PS) is a residential developer that focuses on the low- to mid-income segments in Bangkok. Its business model is unique—the firm owns a pre-cast concrete factory that provides many component parts for detached houses, THs and condos. PS's residential brands are Baan Preuksa (TH),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

Figure 1: Forecast changes

	2011e			2012e		
	Old	New	Chg.	Old	New	Chg.
Core profit (Btm)	4,907	4,453	-9%	5,749	5,578	-3%
EPS (Bt	2.22	2.02	-9%	2.61	2.53	-3%
DPS(Bt)	0.67	0.61	-9%	0.78	0.76	-3%
Dividend yield	3.7%	3.4%	-0.3%	4.4%	4.3%	-0.1%
Total revenues (Btm)	30,910	30,026	-3%	37,131	37,605	1%
Gross margin	37.9%	39.1%	1.2%	38%	38%	0.2%
Net margin	15.9%	14.8%	-1.0%	15.5%	14.8%	-0.7%
SG&A/sale	14.7%	18.6%	3.9%	15.0%	17.4%	2.3%

Sources: Company data, Bualuang Research

Figure 2: Earnings delivery in 2Q-4Q11 will drive up the share price



Sources: Company data, Bualuang Research

Figure 3: PS's share price has outperformed the sector on the unveiling of property-friendly govt policies

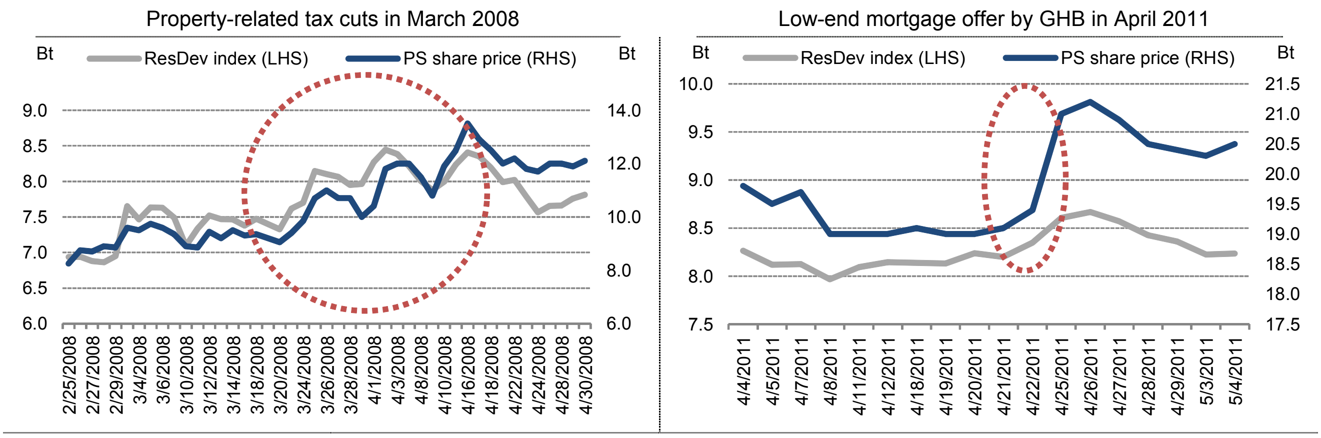
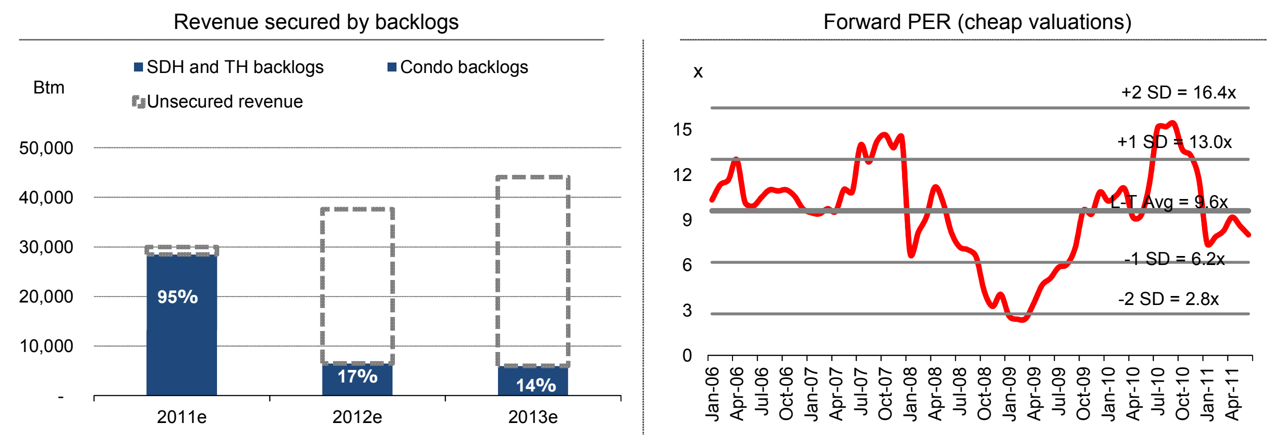
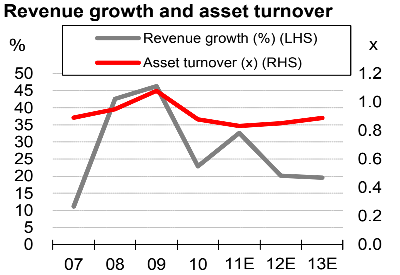


Figure 4: PS's stock price beat the sector after the govt unveiled cheap mortgages for low-income earners in late April 2011

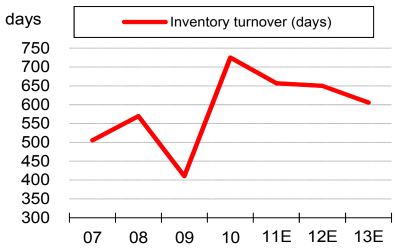


Sources: Company data SETSMART, Bualuang Research

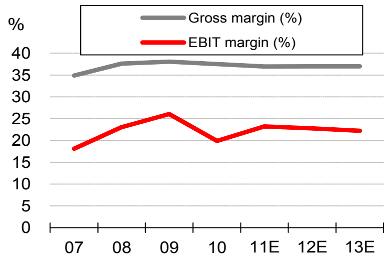
Revenue growth and asset turnover



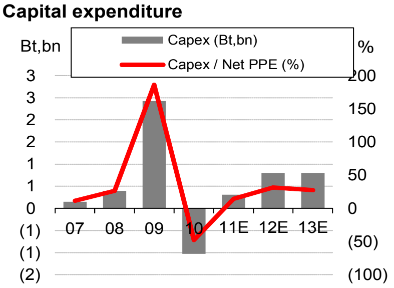
Inventory turnover (days)



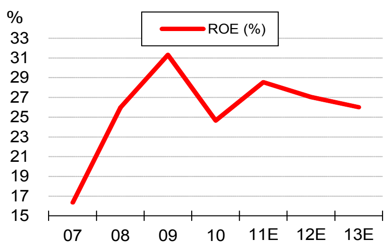
Profit margins



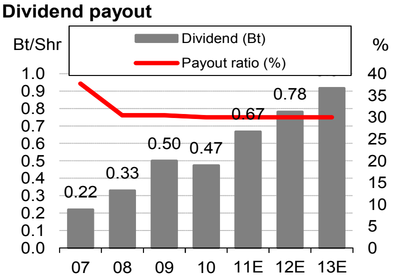
Capital expenditure



ROE



Dividend payout



PROFIT & LOSS (Btm)	2009	2010	2011E	2012E	2013E
Revenue	18,967	23,307	30,026	37,605	44,070
Cost of sales and services	(11,749)	(14,561)	(18,271)	(23,297)	(27,339)
Gross profit	**7,218**	**8,746**	**11,755**	**14,308**	**16,731**
SG&A	(2,271)	(4,103)	(5,570)	(6,524)	(7,448)
EBIT	**4,947**	**4,643**	**6,185**	**7,783**	**9,283**
Interest expense	(47)	(67)	(175)	(214)	(268)
Other income/exp.	67	100	100	100	100
EBT	**4,967**	**4,676**	**6,110**	**7,669**	**9,115**
Corporate tax	(1,177)	(1,048)	(1,658)	(2,091)	(2,439)
After-tax profit (loss)	**3,790**	**3,628**	**4,453**	**5,578**	**6,676**
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	-168	-140	0	0	0
Net profit (loss)	**3,622**	**3,488**	**4,453**	**5,578**	**6,676**
Reported EPS	1.64	1.58	2.02	2.53	3.03
Fully diluted EPS	1.64	1.58	2.02	2.53	3.03
Core net profit	**3,790**	**3,628**	**4,453**	**5,578**	**6,676**
Core EPS	1.72	1.64	2.02	2.53	3.03
EBITDA	**5,163**	**4,890**	**6,533**	**8,153**	**9,733**

KEY RATIOS	2009	2010	2011E	2012E	2013E
Revenue growth (%)	46.3	22.9	28.8	25.2	17.2
Gross margin (%)	38.1	37.5	39.1	38.0	38.0
EBITDA margin (%)	27.2	21.0	21.8	21.7	22.1
Operating margin (%)	26.1	19.9	20.6	20.7	21.1
Net margin (%)	19.1	15.0	14.8	14.8	15.1
Core profit margin (%)	20.0	15.6	14.8	14.8	15.1
ROA (%)	20.6	13.1	12.1	12.9	13.5
ROCE (%)	25.1	16.0	14.3	15.0	15.4
Asset turnover (x)	1.1	0.9	0.8	0.9	0.9
Current ratio (x)	0.2	0.2	0.2	0.2	0.2
Gearing ratio (x)	0.2	0.9	0.8	0.8	0.6
Interest coverage (x)	105.1	69.2	35.3	36.3	34.7

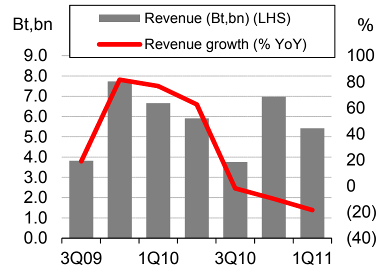
BALANCE SHEET (Btm)	2009	2010	2011E	2012E	2013E
Cash & Equivalent	**3,151**	**1,630**	**1,099**	**1,231**	**1,081**
Accounts receivable	60	120	95	119	139
Inventory	13,202	28,933	34,715	41,469	46,476
PP&E-net	1,299	2,159	2,118	2,548	2,898
Other assets	1,159	1,369	1,411	1,458	1,510
Total assets	**18,871**	**34,211**	**39,438**	**46,825**	**52,104**
Accounts payable	799	1,425	1,251	1,596	1,873
ST debts & current portion	600	4,001	500	300	300
Long-term debt	1,500	9,100	14,600	17,600	17,600
Other liabilities	2,949	4,422	4,422	4,422	4,422
Total liabilities	**5,848**	**18,948**	**20,774**	**23,918**	**24,195**
Paid-up capital	2,207	2,207	2,207	2,207	2,207
Share premium	2,207	2,207	2,207	2,207	2,207
Retained earnings	9,454	11,694	15,096	19,338	24,341
Shareholders equity	13,023	15,263	18,664	22,907	27,909
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**18,871**	**34,211**	**39,438**	**46,825**	**52,104**

CASH FLOW (Btm)	2009	2010	2011E	2012E	2013E
Net income	3,622	3,488	4,453	5,578	6,676
Depreciation and amortization	215.6	246.2	347.9	369.9	449.9
Change in working capital	(1,063)	(14,598)	(5,973)	(6,480)	(4,802)
FX, non-cash adjustment & others	1,399	1,216	0	0	0
Cash flows from operating activities	**4,175**	**-9,648**	**-1,172**	**-532**	**2,323**
Capex (Invest)/Divest	(2,422.2)	1,028.7	(306.6)	(800.0)	(800.0)
Others	(36)	(306)	191	0	0
Cash flows from investing activities	**(2,458)**	**723**	**(116)**	**(800)**	**(800)**
Debt financing (repayment)	(1,687)	10,732	1,999	2,800	0
Equity financing	15	0	0	0	0
Dividend payment	(725)	(1,214)	(1,046)	(1,336)	(1,673)
Cash flows from financing activities	**(2,396.1)**	**9,518.6**	**947.9**	**1,464.2**	**(1,673.4)**
Net change in cash	(679.9)	593.1	(340.1)	131.8	(150.2)
Free cash flow (Btm)	**1,752**	**(8,619)**	**(1,479)**	**(1,332)**	**1,523**
FCF per share (Bt)	**0.79**	**(3.91)**	**(0.67)**	**(0.60)**	**0.69**

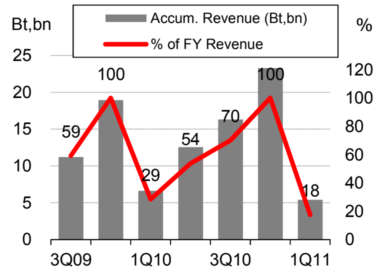
Sources: Company data, Bualuang Research estimates

Financial tables

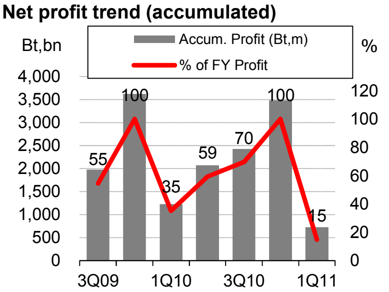
Revenue trend



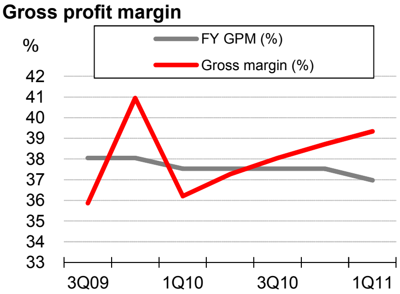
Revenue trend (accumulated)



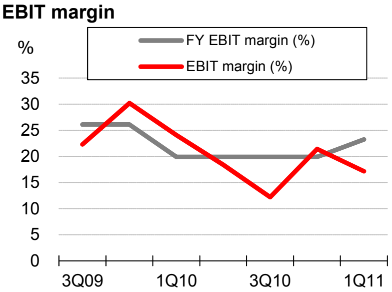
Net profit trend (accumulated)



Gross profit margin



EBIT margin



QUARTERLY PROFIT & LOSS (Btm)	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**1Q11**
Revenue	6,655	5,916	3,761	6,974	5,422
Cost of sales and services	(4,246)	(3,711)	(2,330)	(4,274)	(3,289)
Gross profit	**2,410**	**2,205**	**1,431**	**2,700**	**2,133**
SG&A	(808)	(1,118)	(973)	(1,204)	(1,203)
EBIT	**1,602**	**1,087**	**459**	**1,496**	**930**
Interest expense	(15)	(9)	(14)	(29)	(13)
Other income/exp.	17	28	26	29	28
EBT	**1,603**	**1,106**	**471**	**1,497**	**945**
Corporate tax	(374)	(265)	(112)	(298)	(214)
After-tax profit (loss)	**1,230**	**840**	**359**	**1,199**	**731**
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	1	0	0	(142)	(1)
Net profit (loss)	**1,231**	**840**	**359**	**1,057**	**730**
Reported EPS	0.56	0.38	0.16	0.48	0.33
Fully diluted EPS	0.56	0.38	0.16	0.48	0.33
Core net profit	**1,230**	**840**	**359**	**1,199**	**731**
Core EPS	0.56	0.38	0.16	0.54	0.33
EBITDA	**1,673**	**1,172**	**546**	**1,599**	**1,013**

KEY RATIOS	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**1Q11**
Gross margin (%)	36.2	37.3	38.1	38.7	39.3
EBITDA margin (%)	25.1	19.8	14.5	22.9	18.7
Operating margin (%)	24.1	18.4	12.2	21.5	17.2
Net margin (%)	18.5	14.2	9.5	15.2	13.5
Core profit margin (%)	18.5	14.2	9.5	17.2	13.5
BV (Bt)	6.46	6.28	6.44	6.92	7.25
ROE (%)	34.5	24.2	10.1	27.7	18.2
ROA (%)	22.9	14.0	4.9	12.4	7.5
Current ratio (x)	4.5	5.1	6.3	6.3	9.1
Gearing ratio (x)	0.1	0.4	0.7	0.9	1.0
Interest coverage (x)	104.9	121.3	32.7	51.9	73.4

QUARTERLY BALANCE SHEET (Btm)	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**1Q11**
Cash & Equivalent	**2,910**	**3,622**	**1,357**	**1,630**	**1,631**
Accounts receivable	60	71	96	120	0
Inventory	15,800	16,766	23,158	28,933	32,398
PP&E-net	1,337	1,522	1,736	2,159	2,592
Other assets	1,379	2,103	2,877	1,369	2,081
Total assets	**21,486**	**24,084**	**29,224**	**34,211**	**38,702**
Accounts payable	2,425	2,558	3,138	2,997	2,856
ST debts & current portion	600	1,000	4,282	4,001	8,751
Long-term debt	1,500	4,000	5,228	9,100	7,862
Other liabilities	2,707	2,657	2,366	2,850	3,230
Total liabilities	**7,232**	**10,214**	**15,014**	**18,948**	**22,699**
Paid-up capital	2,207	2,207	2,207	2,207	2,207
Share premium	0	0	0	0	0
Retained earnings	10,683	10,310	10,669	11,694	12,460
Shareholders equity	**14,254**	**13,870**	**14,210**	**15,263**	**16,003**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**21,486**	**24,084**	**29,224**	**34,211**	**38,702**

Sources: Company data, Bualuang Research

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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.