

15 August 2011

Pruksa Real Estate

Property
(Residential)
Neutral

Improved transference boost 2Q11 result bounce

Overshot our estimate: PS reported a 2Q11 core profit of Bt988m, up by 18% YoY and 35% QoQ. The result was 9% above our estimate, due to lower-than-expected SG&A expenses (but was in line with the consensus).

Results highlights: The earnings recovery was driven by a housing revenue jump of 14% YoY and 24% QoQ to Bt6.7bn (80% low-rise and 20% condo [mainly IVY Thonglor condo]). House transference rose, despite the fact that the new prefabrication plant was still undergoing test-running in 2Q11. Housing GM declined 1.6% QoQ to 37.7% because of a greater condo revenue contribution during the quarter (condo GM is 34-35%, SDH 36-37% and TH 39-40%) and a cost reversal in 1Q11. Operating margin expanded on a lower SG&A/sales ratio (it dropped 3.7% QoQ to 18.5% in 2Q11). The net gearing ratio peaked at 1.08x at end-June (1.0x at end-March).

Outlook: We anticipate YoY and QoQ growth in 3Q11 earnings. Execution risk has eased, as PS's new prefabrication plant has been operating at full utilization since late June. As such, SDH transference should rise from Bt2bn in 2Q11 to Bt2.5-3bn in 3Q11. We anticipate only a small contribution from the Maldives condo in 3Q11. PS will post its best quarter of the year in 4Q11.

What's changed? We maintain our projection unchanged (1H11 profit represents 39% of our full-year forecast). 2H11 earnings will jump YoY and HoH. Presales at end-June fully secured our FY1 revenue forecast. PS might miss its FY11 presales target of Bt42bn, (due to fewer condo launches than initially planned), but that wouldn't impact on FY11 profit.

Recommendation: The share price correction is a good entry point, as market concerns about execution risk will ease in 3Q-4Q11. PS trades at an FY11 PER of 9.1x, below its FY06-10 average of 9.6x. The firm stands to benefit most from govt policies aimed at helping first-time homebuyers. PS's GM is less exposed to higher wage pressure than the GMs of other developers as labor comprises 15% of its construction costs against a sector average of 25%. The stock remains our top pick in the sector. Our YE11 target price is Bt27 (a targeted PER of 13x, 1SD above PS's FY06-10 mean).

BUALUANG RESEARCH

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BUY

 (maintained)

Target Price: Bt27.00
Price (11/08/11): Bt18.30
PS TB / PS.BK

Key Ratios & Statistics

Market cap	Bt40.41bn
12-mth price range	Bt16.00/Bt25.25
3-mth avg daily volume	Bt87.40m
# of shares (m)	2,206.8
Est. free float (%)	25.9
Foreign limit (%)	40.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(11.4)	(8.5)	(48.5)
Absolute	(12.9)	(12.0)	(25.3)

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	1.04	1.12	1.09
EPS growth (%)	-3.7%	+27.7%	+25.3%	+19.7%
Core profit (Bt m)	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)	11.6	9.1	7.2	6.0
Core PER (x)	11.1	9.1	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	4.1	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



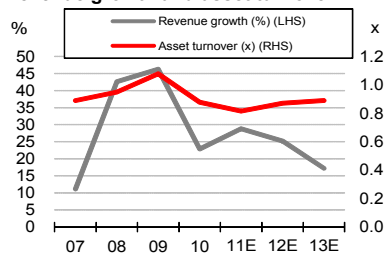
Figure 1: 2Q11 results

FY Ended 31 Dec (Btm)	2Q11	2Q10	YoY %	1Q11	QoQ %	6M11	6M10	YoY %	6M11 vs. FY11E
Income Statement									
Revenue	6,724	5,916	14	5,422	24	12,146	12,571	(3)	40
Cost of sales and services	(4,189)	(3,711)	13	(3,289)	27	(7,478)	(7,957)	(6)	41
EBITDA	1,434	1,172	22	1,013		2,446	2,845		37
EBIT	1,290	1,087	19	930	39	2,220	2,689	(17)	36
Interest expense	(32)	(9)	261	(13)	155	(45)	(24)	86	26
Other income/exp.	55	28	96	28	94	83	45	86	83
Equity earnings from affiliates	0	0	0	0	0	0	0	0	0
Extra items	(7)	0	<i>n.m.</i>	(1)	<i>nm</i>	(8)	1	(727)	
EBT	1,312	1,106	19	945	39	2,258	2,709	(17)	37
Corporate tax	(325)	(265)	23	(214)	52	(539)	(639)	(16)	
Minority interest	0	0	0	0	0	0	0	0	
Net profit (loss)	981	840	17	730	34	1,711	2,071	(17)	38
Reported EPS	0.44	0.38	17	0.33	34	0.77	0.94	(17)	
Core net profit	988	840	18	731	35	1,719	2,070	(17)	39
Key ratios									
Gross margin (%)	37.7	37.3		39.3		38.4	36.7		
EBITDA margin (%)	21.3	19.8		18.7		20.1	22.6		
EBIT margin (%)	19.2	18.4		17.2		18.3	21.4		
Tax rate (%)	24.7	24.0		22.6		23.9	23.6		
Net margin (%)	14.6	14.2		13.5		14.1	16.5		
Current ratio (x)	8.8	5.1		9.1		8.8	5.1		
Gearing ratio (x)	1.2	0.4		1.0		1.2	0.4		
Interest coverage (x)	39.9	121.3		73.4		49.3	111.0		
Balance Sheet									
Cash & Equivalent	1,942	3,622	(46)	1,631	19				
Total assets	41,250	24,084	71	38,702	7				
ST debts & current portion	10,421	1,000	942	8,751	19				
Long-term debt	8,258	4,000	106	7,862	5				
Total liabilities	25,356	10,214	148	22,699	12				
Retained earnings	12,344	10,310	20	12,460	(1)				
Shareholders equity	15,894	13,870	15	16,003	(1)				
Minority interests	0	0	0	0	0				
BV (Bt)	7.2	6.3	15	7.3	(1)				

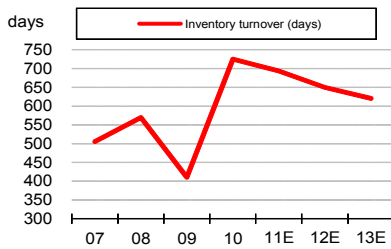
- The 2Q11 earnings recovery was driven by revenue
- GM declined QoQ, due to a cost reversal in 1Q11 and higher condo revenue
- SG&A/sales fell 3.7% QoQ to 18.5%
- Net gearing rose to 1.1x at end-June (1.0x end-March)—peak for the year

Source: Company data

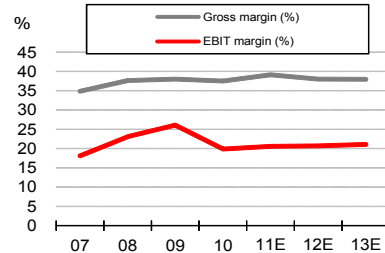
Revenue growth and asset turnover



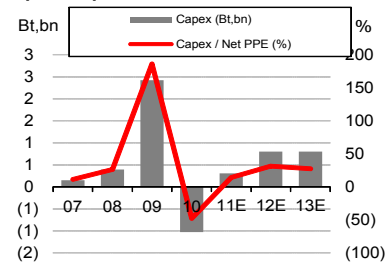
Inventory turnover (days)



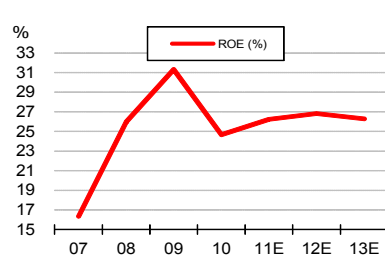
Profit margins



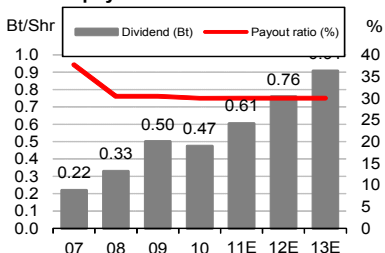
Capital expenditure



ROE



Dividend payout

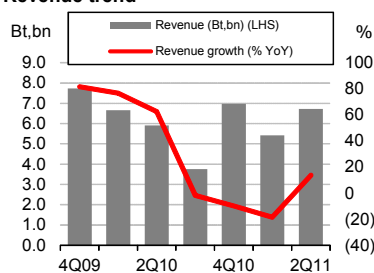


Financial tables

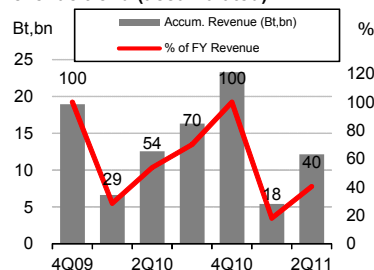
	2009	2010	2011E	2012E	2013E
PROFIT & LOSS (Btm)					
Revenue	18,967	23,307	30,026	37,605	44,070
Cost of sales and services	(11,749)	(14,561)	(18,271)	(23,297)	(27,339)
Gross profit	7,218	8,746	11,755	14,308	16,731
SG&A	(2,271)	(4,103)	(5,570)	(6,524)	(7,448)
EBIT	4,947	4,643	6,185	7,783	9,283
Interest 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					
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)					
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)					
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
Assumptions					
Presales backlog (Btm)			28,503	6,556	6,038
Revenue secured by backlogs			95%	17%	14%
Housing GM	38.1%	37.5%	39.1%	38.0%	38.0%

Sources: Company data, Bualuang Research estimates

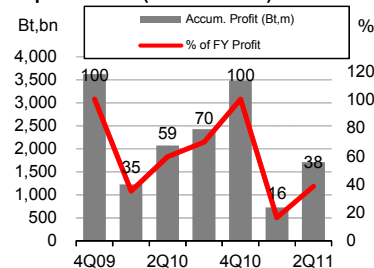
Revenue trend



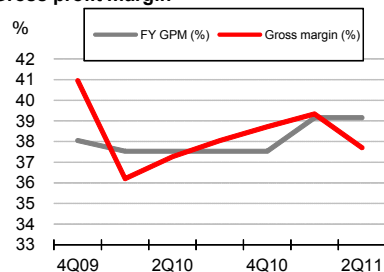
Revenue trend (accumulated)



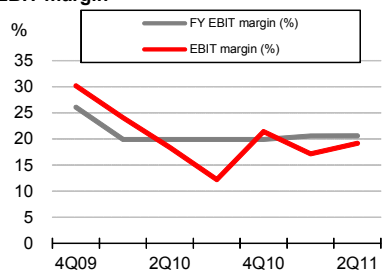
Net profit trend (accumulated)



Gross profit margin



EBIT margin



QUARTERLY PROFIT & LOSS (Btm)

	2Q10	3Q10	4Q10	1Q11	2Q11
Revenue	5,916	3,761	6,974	5,422	6,724
Cost of sales and services	(3,711)	(2,330)	(4,274)	(3,289)	(4,189)
Gross profit	2,205	1,431	2,700	2,133	2,535
SG&A	(1,118)	(973)	(1,204)	(1,203)	(1,245)
EBIT	1,087	459	1,496	930	1,290
Interest expense	(9)	(14)	(29)	(13)	(32)
Other income/exp.	28	26	29	28	55
EBT	1,106	471	1,497	945	1,312
Corporate tax	(265)	(112)	(298)	(214)	(325)
After-tax profit (loss)	840	359	1,199	731	988
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	(142)	(1)	(7)
Net profit (loss)	840	359	1,057	730	981
Reported EPS	0.38	0.16	0.48	0.33	0.44
Fully diluted EPS	0.38	0.16	0.48	0.33	0.44
Core net profit	840	359	1,199	731	988
Core EPS	0.38	0.16	0.54	0.33	0.45
EBITDA	1,172	546	1,599	1,013	1,434

KEY RATIOS

	2Q10	3Q10	4Q10	1Q11	2Q11
Gross margin (%)	37.3	38.1	38.7	39.3	37.7
EBITDA margin (%)	19.8	14.5	22.9	18.7	21.3
Operating margin (%)	18.4	12.2	21.5	17.2	19.2
Net margin (%)	14.2	9.5	15.2	13.5	14.6
Core profit margin (%)	14.2	9.5	17.2	13.5	14.7
BV (Bt)	6.28	6.44	6.92	7.25	7.20
ROE (%)	24.2	10.1	27.7	18.2	24.7
ROA (%)	14.0	4.9	12.4	7.5	9.5
Current ratio (x)	5.1	6.3	6.3	9.1	8.8
Gearing ratio (x)	0.4	0.7	0.9	1.0	1.2
Interest coverage (x)	121.3	32.7	51.9	73.4	39.9

QUARTERLY BALANCE SHEET (Btm)

	2Q10	3Q10	4Q10	1Q11	2Q11
Cash & Equivalent	3,622	1,357	1,630	1,631	1,942
Accounts receivable	71	96	120	0	0
Inventory	16,766	23,158	28,933	32,398	34,812
PP&E-net	1,522	1,736	2,159	2,592	2,669
Other assets	2,103	2,877	1,369	2,081	1,826
Total assets	24,084	29,224	34,211	38,702	41,250
Accounts payable	2,558	3,138	2,997	2,856	3,106
ST debts & current portion	1,000	4,282	4,001	8,751	10,421
Long-term debt	4,000	5,228	9,100	7,862	8,258
Other liabilities	2,657	2,366	2,850	3,230	3,572
Total liabilities	10,214	15,014	18,948	22,699	25,356
Paid-up capital	2,207	2,207	2,207	2,207	2,208
Share premium	1,362	1,362	1,362	1,371	1,383
Retained earnings	10,310	10,669	11,694	12,460	12,344
Shareholders equity	13,870	14,210	15,263	16,003	15,894
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	24,084	29,224	34,211	38,702	41,250

Sources: Company data, Bualuang Research

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

Score Range	Number of Logo	Description
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.