

Pruksa Real Estate Pcl

Profit below expectation on high opex

- **PS's 4Q10 NP came in below expectation** due to higher opex. Revenue was in-line and gross profit margin was above expectation. However, aggressive marketing campaigns have lowered net profit margin.
- **4Q10 revenue at Bt7.0 billion was in-line** with our expectation and was up strongly 85% Q/Q as PS transferred more condo and as the company resolved its construction issue in the last quarter.
- **GPM improved to 38.7%** from 38.1% in the prior quarter. We believe the transferred condo was the key driver for better gross profit margin.
- **Negatives are high opex and increasing gearing.** SG&A/Sales was very high at 19.3%. Despite being lower from 25.9% in the prior quarter, this was significantly above our expectation at 13.7%. PS has been aggressive in promoting its condo projects and there is an accounting mismatch in condo revenue and marketing expenses. Net D/E continued to increase from 9.6% a year ago to 59% in the prior quarter and 76.4% this quarter.
- **PS plans to launch 78 new projects this year** (72 projects worth Bt29 billion were launched last year). PS target revenue of Bt32 billion (+37% growth) for this year with 40% from condo (7 projects). Current backlog (to be realized this year) is Bt18 billion which suggest 56% of the revenue target is secured.
- **We cut our FY11-12E NP forecast by 12-14%.** Our revenue target is Bt31.7 billion (+36% growth) and that is maintained. Gross profit margin is expected to decline from last year at 37.5% to 37.0% this year. We raised our SG&A forecast to 19% of sales from 16.5% previously expected (last year was 18.2%).
- **We cut our Dec11 PT to Bt25** (from Bt28) following earnings changes. The PT is at 13.0x FY11E EPS. Risks are higher D/E, lower than expected gross profit margin, rising competition in low-end housing market, as well as the risks on new businesses (upcountry & overseas).

Pruksa Real Estate earnings results summary (Bloomberg: PS TB Reuters:PS.BK)

Bt millions (per sh. data in Bt)	4Q10	4Q09	Y/Y	3Q10	Q/Q
Residential sales	6,974	7,734	-10%	3,761	85%
Gross profit margin	38.7%	41.0%		38.1%	
SGA/Sales	19.3%	12.9%		25.9%	
Net profit	1,059	1,644	-36%	359	195%
Inventories	27,801	13,202	111%	23,158	20%
Net D/E	76.4%	9.6%		59.1%	
EPS	0.48	0.75	-36%	0.16	200%

Source: Company reports and J.P. Morgan estimates.

Overweight

PS.BK, PS TB

Price: Bt17.50

▼ Price Target: Bt25.00

Previous: Bt28.00

Thailand

Property

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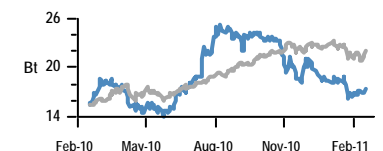
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Price Performance



	YTD	1m	3m	12m
Abs	-5.4%	-4.4%	-6.9%	13.6%
Rel	-1.8%	-1.7%	-7.4%	-29.1%

Company data

52 Wk Range	14.0-25.5
Market cap (Bt mn)	38,619
Market cap (USD MM)	1,264
Share O/S (MM)	2,207
Free Float (%)	26.0
Ave. daily volume (MM)	5.97
Ave. daily Value (Bt MM)	113
Exchange rate	30.55
Index	996
Year-end	Dec

Source: Bloomberg. Price date 17 February 2011

Earnings revision and valuation

	2011E	2012E
Old EPS (Bt)	2.16	2.60
New EPS (Bt)	1.90	2.24
% change	-12%	-14%
P/E (x)	9.2	7.8
ROE (%)	25.3	25.2
P/B (x)	2.1	1.8
Dec11 PT	25	

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Company Description

PS is one of the leading property developers in Thailand. The company focuses in developing residential units for low-mid income people in greater Bangkok. Having its own pre-cast factories, PS has been able to control cost and speed of construction resulting in high revenue growth and profit margin. This is considered unique and being the company's competitive advantage. PS's overall market share is 10-15% with 50% share for TH, 15% for SDH, and 2-3% for condo. PS just started to develop condominium in FY07 and so far has proven to be successful. Looking forward, to sustain long-term revenue growth rate of 25% p.a., PS sets itself to continue expanding and will broaden product categories and brands as well as the locations. PS is moving to develop projects in upcountry areas as well as overseas. Vjijitpongpun family, the founder, owns 76% in the company. Mr. Thongma Vjijitpongpun is being the company's President & Chief Executive Officer.

EPS: J.P. Morgan vs consensus

	J.P. Morgan	Consensus
FY11E	1.90	2.00
FY12E	2.24	2.40

Source: Bloomberg and J.P. Morgan estimates.

P&L sensitivity metrics

FY11E	EBITDA impact (%)	EPS impact (%)
Sales growth assumption (36%)		
Impact of each 5ppts increase	10%	10%
Gross margin assumption (37%)		
Impact of each 1 percentage points increase	5%	6%

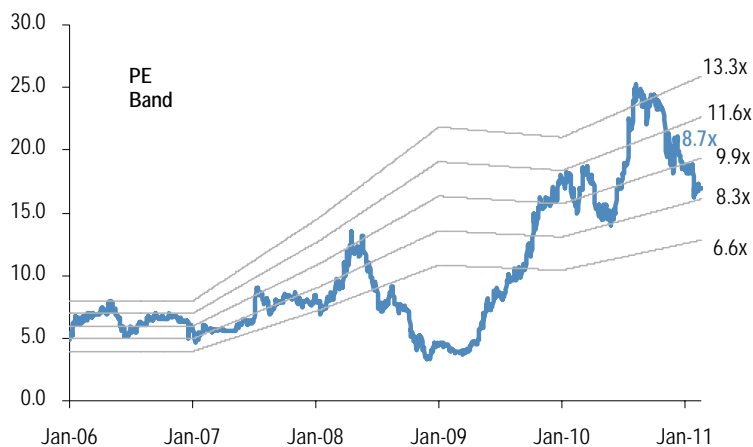
Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Dec11 PT of Bt25 is based on 13x FY11E EPS. The target PE is based on average of PS's long-term PE of 10x and LH's long-term PE of 16x.

Risks to our PT are lower than expected gross profit margin, rising competition in low-end housing market, as well as the risks on new businesses i.e. upcountry and overseas expansion.

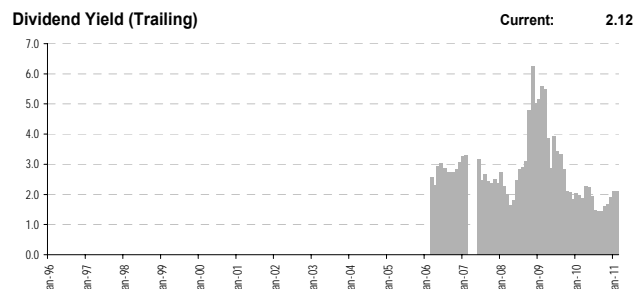
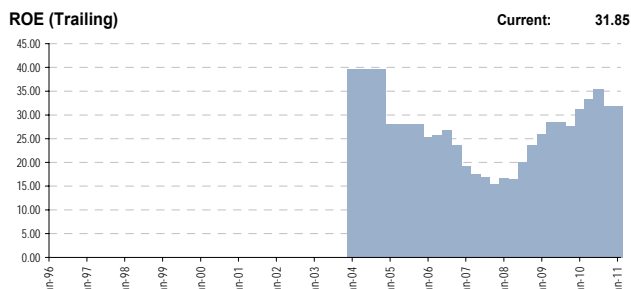
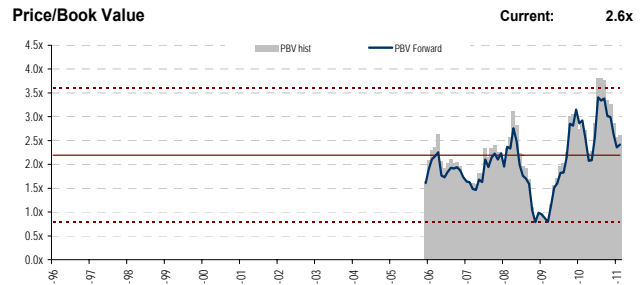
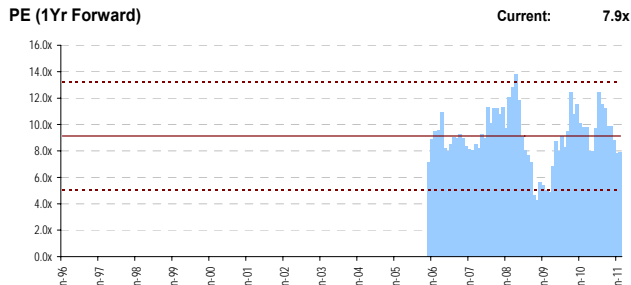
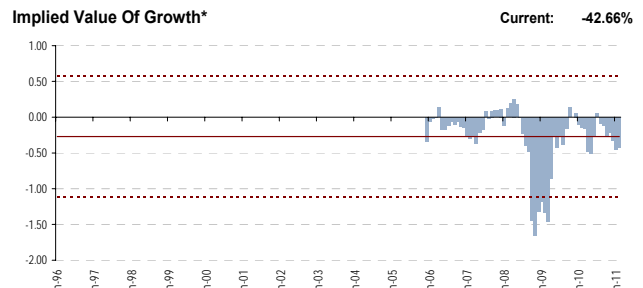
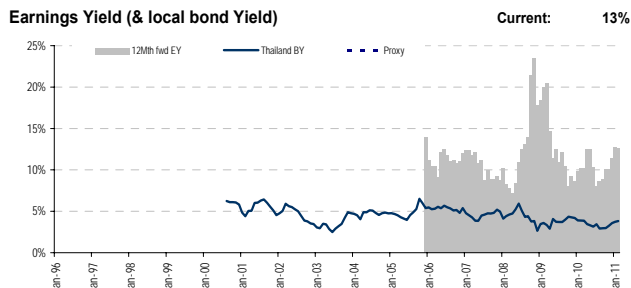
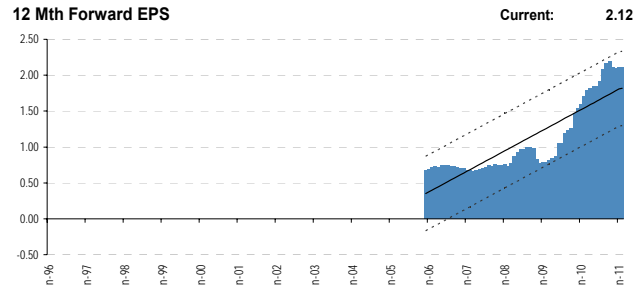
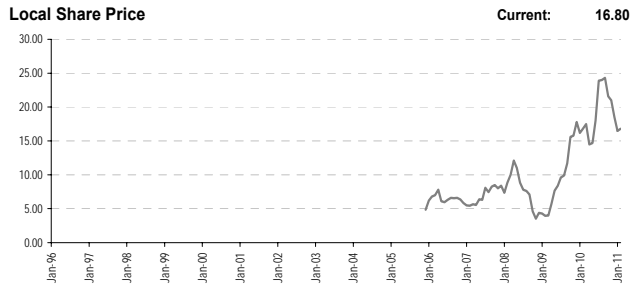
PE average since FY06	9	FY11E EPS (Bt)	1.9
Fair P/E	13	P/E-based Valuation	25



Source: Bloomberg and J.P. Morgan estimates.

JPM Q-Profile
Pruksa Real Estate PCL (THAILAND / Financials)
 As Of: 11-Feb-2011

Global Equity Quantitative Analysis
 Quant_Strategy@jpmorgan.com



Summary

Pruksa Real Estate PCL THAILAND Financials		SEDOL	B0R8BF8						As Of: 11-Feb-11			
		Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE		7.94x	4.26	13.80	9.08	9.13	13.21	5.04	-46%	74%	14%	15%
P/BV (Trailing)		2.61x	0.81	3.82	2.15	2.20	3.61	0.79	-69%	46%	-17%	-16%
Dividend Yield (Trailing)		2.12	0.00	6.25	2.47	2.52	5.15	-0.10	-100%	195%	16%	19%
ROE (Trailing)		31.85	15.40	39.64	28.03	27.32	41.81	12.83	-52%	24%	-12%	-14%
Implied Value of Growth		-42.7%	-1.66	0.26	-0.17	-0.27	0.58	-1.12	-289%	160%	61%	37%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

Pruksa Real Estate: Summary of financials

Profit and loss statement

BiMM, year-end December

	FY08	FY09	FY10	FY11E	FY12E
Sales revenue	12,969	18,966	23,307	31,696	37,204
% change yoy	43.2	46.2	22.9	36.0	17.4
Gross margin (%)	37.7	38.1	37.5	37.0	37.0
EBITDA	3,251	5,062	4,850	6,051	7,043
% change yoy	80.7	55.7	-4.2	24.8	16.4
EBITDA margin (%)	25.1	26.7	20.8	19.1	18.9
EBIT	3,061	4,846	4,603	5,805	6,797
% change yoy	86.2	58.3	-5.0	26.1	17.1
EBIT margin (%)	23.5	25.5	19.7	18.3	18.2
Interest expense	28	47	67	206	202
Earnings before tax	3,033	4,799	4,536	5,599	6,595
% change yoy	90.0	58.2	-5.5	23.4	17.8
Tax	659	1,177	1,048	1,400	1,649
as % of EBT	21.7	24.5	23.1	25.0	25.0
Net income	2,373	3,622	3,488	4,200	4,946
% change yoy	82.3	52.6	-3.7	20.4	17.8
Share outstanding	2,191	2,207	2,207	2,207	2,207
EPS	1.08	1.64	1.58	1.90	2.24

Balance Sheet

BiMM, year-end December

	FY08	FY09	FY10	FY11E	FY12E
Cash and Cash Equivalents	1,526	846	1,439	1,690	1,694
ST investments	3	2,305	191	191	191
Inventories	12,622	13,202	27,801	28,527	33,483
Others	276	751	1,925	1,925	1,925
Current assets	14,427	17,104	31,356	32,332	37,294
LT investments	-	-	-	-	-
Net fixed assets	1,634	1,427	2,409	2,163	1,916
Others	231	340	446	446	446
Total Assets	16,292	18,871	34,211	34,941	39,656
ST bank loans	1,993	-	4,004	2,004	3,504
Payables	836	1,149	2,997	2,997	2,997
Others	2,115	3,158	2,790	2,790	2,790
Total current liabilities	4,945	4,307	9,791	7,791	9,291
Long term debt	1,207	1,500	9,100	9,100	9,100
Other liabilities	31	41	57	57	57
Total liabilities	6,182	5,848	18,948	16,948	18,448
Shareholder's equity	10,110	13,023	15,263	17,993	21,208
BVPS (Bt)	4.6	5.9	6.9	8.2	9.6

Cash flow statement

BiMM, year-end December

	FY08	FY09	FY10	FY11E	FY12E
Profit before tax	3,033	4,799	4,536	5,599	6,595
Depreciation & amortisation	190	216	246	246	246
Change in working capital	(4,345)	(1,063)	(14,598)	(726)	(4,957)
Others	135	223	167	(1,400)	(1,649)
Cash flow from operations	(987)	4,175	(9,648)	3,720	236
Investments	0	0	0	0	0
Disposal/ (purchase)	51	(2,301)	2,114	0	0
Others	(372)	(158)	(1,391)	0	0
Free cash Flow	(1,308)	1,716	(8,925)	3,720	236
Equity raised/(repaid)	11	15	0	0	0
Debt raised/(repaid)	2,276	(1,687)	10,732	(2,000)	1,500
Dividends	(481)	(725)	(1,214)	(1,470)	(1,731)
Beginning cash	1,027	1,526	846	1,439	1,690
Ending cash	1,526	846	1,439	1,690	1,694
DPS (Bt)	0.33	0.55	0.50	0.67	0.78

Ratio Analysis

BiMM, year-end December

	FY08	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	25.1	26.7	20.8	19.1	18.9
Operating margin (%)	23.5	25.5	19.7	18.3	18.2
Net profit margin (%)	18.2	19.0	14.9	13.2	13.3
SG&A/sales (%)	14.6	12.9	18.2	19.0	19.0
Sales growth (%)	43.2	46.2	22.9	36.0	17.4
Net profit growth (%)	82.3	52.6	-3.7	20.4	17.8
EPS growth (%)	81.3	51.5	-3.7	20.4	17.8
Interest coverage (x)	115.3	107.6	72.3	29.4	34.9
Net debt to total capital (%)	12.7	6.6	34.1	26.9	27.5
Net debt to equity (%)	20.5	9.6	76.4	52.3	51.4
Sales/Assets (%)	95.2	108.3	88.2	92.0	100.0
Equity/Assets (%)	66.9	65.8	53.3	48.1	52.6
ROE (%)	25.9	31.3	24.7	25.3	25.2
ROCE (%)	26.5	33.6	21.2	20.2	21.6

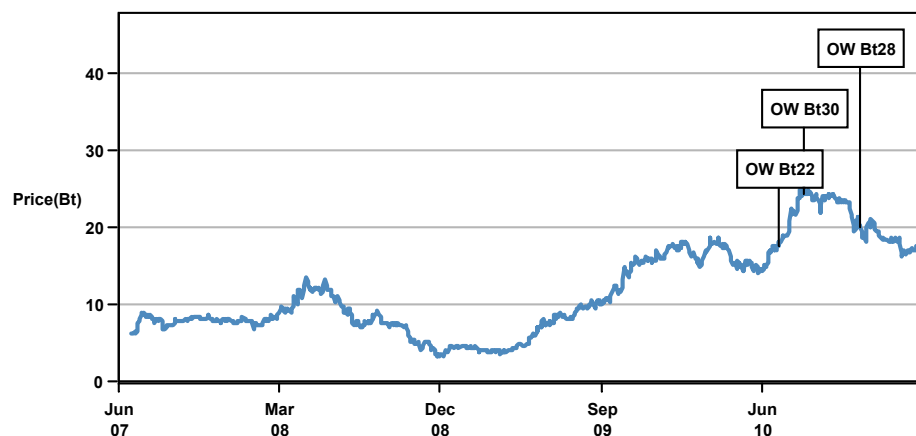
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Pruksa Real Estate Pcl (PS.BK) Price Chart



Date	Rating	Share Price (Bt)	Price Target (Bt)
28-Jun-10	OW	17.70	22.00
11-Aug-10	OW	24.50	30.00
15-Nov-10	OW	20.10	28.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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IB clients*	71%	63%	59%

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