

# Pruksa Real Estate (PS)

## 1Q11 earnings better than forecast

*PS reported 1Q11 revenue of Bt5.42bn (-18.5% yoy and -22.3% qoq) in line with our forecast, however, as the gross margin was 3% above our forecast, the net profit settled to Bt730mn (-40.7% yoy and -31% qoq), which beat our estimate of Bt587mn. Currently, the backlog looks stronger and the company has accelerated construction of The Seed Memories Siam condo for completion in 4Q11 in order to compensate for missing the overseas project target and some SDH projects. Therefore, we are maintaining our 2011 earnings forecast for revenue to grow by 21% yoy and net profit growth of 24% yoy. Our major concerns are 1) the high inventory level and 2) the increasing trend in debt gearing. We maintain our Buy on weakness call and a fair value of Bt24.00.*

### ◆ Better than expected gross margin pushed net profit higher

The company posted 1Q11 revenue of Bt5.42bn (-18.5% yoy and -22.3% qoq), which was in line with our forecast of Bt5.43bn and 81% of which came from low-rise projects. The SG&A was Bt1.2bn representing 22.2% of total revenue, also in line with forecast. However, the gross margin climbed to 39.3% and higher than our forecast of 36.5% and this was due to an increase in unit prices. Therefore, the 1Q11 net profit was Bt730mn and higher than forecast for growth of 40.7% yoy and 31% qoq.

### ◆ Outstanding backlog of Bt33.72 bn to be realised through 2013

As of 1Q11, the company had a backlog worth Bt33.72bn, which will be recognised as revenue until year 2013 and about Bt18.43bn representing 80% of our revenue forecast will be recognised in the remaining quarters of this year. In addition, the company has accelerated work on the *The Seed Memories Siam* condo worth about Bt1.51bn to reach completion by 4Q11 instead of 1Q12 in order to compensate for the delayed progress in overseas projects and a possible revenue shortfall from some SDH projects behind target. Therefore, we are maintaining our earnings forecast for 2011 with revenue of Bt28.30bn (+21.4% yoy) and a net profit at Bt4.39bn (+26% yoy), based on our assumption that the overseas projects will contribute revenue of at least Bt1.2bn this year, although management has revised down the revenue target for the overseas projects from Bt2.44bn to Bt1bn.

### ◆ Record high debt to equity in 1Q11

The company required more funding for large projects in 2011-2012 (170-rai low-rise project in Chaengwattana and 400-rai project in Pattanakarn); therefore, higher working capital was required. This has resulted in a record debt to equity ratio of 1.42x, as of 1Q11, and higher than the peer average of 1.1x. We expect this ratio to decline gradually back to 1x from 4Q11 onward.

### ◆ Maintain Buy on weakness

We are maintaining our Buy on weakness rating for PS with a fair value of Bt24.00 based on a forward PER of 12x.

#### Earnings summary

Year End Dec 31	2008	2009	2010	2011F	2012F
Sales (Btmn)	12,969	18,966	23,307	28,302	33,157
EBITDA (Btmn)	3,185	4,994	4,750	5,821	7,539
Normalised earnings (Btmn)	2,373	3,622	3,488	4,393	5,737
Earnings (Btmn)	2,373	3,622	3,488	4,393	5,737
EPS (Bt)	1.08	1.63	1.58	1.97	2.58
PER (x)	19.6	13.0	13.4	10.7	8.2
EV/EBITDA (x)	14.5	9.5	10.3	8.5	6.5
Free cash flow (Btmn)	(1,439)	1,529	(9,160)	(440)	4,453
CF/share (Bt)	(0.66)	0.69	(4.15)	(0.20)	2.02
BVPS (Bt)	4.61	5.85	6.92	8.42	10.43
P/BV (x)	4.6	3.6	3.1	2.5	2.0
DPS (Bt)	0.33	0.55	0.50	0.59	0.77
Dividend yield (%)	1.6%	2.6%	2.3%	2.8%	3.6%
Net debt/equity (x)	(0.03)	0.02	0.15	0.15	0.09
ROA (%)	17.1%	20.5%	13.0%	12.3%	15.1%
ROE (%)	23.5%	27.8%	22.9%	23.6%	24.9%

Source: Company reports and KELIVE Research estimates.

## BUY ON WEAKNESS

Price (Bt)	21.20
Target (Bt)	24.00
Set Index	1,072.47

### SAA Consensus

Rating	BUY
Avg. fair value (Bt)	23.45
High (Bt)	28.00
Low (Bt)	18.00

### Historical Chart



### Stock Information

Paid up shares (mn)	2,206
Par value (Bt)	1.00
Free Float (%)	23.28
Market Capitalisation (Btmn)	41,914
Foreign Limit (%)	40.0

### Major Shareholders

Mr. Thongma Vijitpongpun	52.50
Ms. Malinee Vijitpongpun	3.85
THAI NVDR	2.36

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Table :1 Earnings estimates

Btmn	1Q11	1Q10	% yoy	4Q10	% qoq	2010	2011F	% yoy
Sales	5,422	6,655	-18.5%	6,974	-22.3%	23,307	28,302	21.4%
Costs of Sales	(3,289)	(4,246)	-22.5%	(4,274)	-23.0%	(14,561)	(17,815)	22.3%
Gross Profit	2,133	2,410	-11.5%	2,700	-21.0%	8,746	10,487	19.9%
SG&A Expenses	(1,203)	(808)	49.0%	(1,344)	-10.5%	(4,243)	(4,828)	13.8%
EBIT	930	1,602	-41.9%	1,356	-31.4%	4,503	5,659	25.7%
Depreciation Expenses	68	55	25.1%	74	-7.2%	246	162	-34.2%
EBITDA	998	1,657	-39.7%	1,430	-30.2%	4,750	5,821	22.6%
Interest Expenses	(13)	(15)	-17.0%	(29)	-56.1%	(67)	(61)	-9.4%
Other Income (Expenses)	28	17	68.1%	29	-3.7%	100	34	-66.0%
Pre-tax Profit	944	1,603	-41.2%	1,356	-30.3%	4,536	5,633	24.2%
Corporate Tax	(214)	(374)	-42.7%	(298)	-28.0%	(1,048)	(1,240)	18.3%
Pre-exceptional Profit	730	1,230	-40.7%	1,059	-31.0%	3,488	4,393	25.9%
Extraordinary Items	0	0	0.0%	0	0.0%	0	0	0.0%
Minority Interest	0	0	0.0%	0	0.0%	0	0	0.0%
Net Profit	730	1,230	-40.7%	1,059	-31.0%	3,488	4,393	25.9%
Normalised Profit	730	1,230	-40.7%	1,059	-31.0%	3,488	4,393	25.9%
EPS (Bt)	0.33	0.56	-41.4%	0.48	-31.0%	1.58	1.99	26.1%
<b>Financial Ratio</b>								
Gross Margin (%)	39.3%	36.2%		38.7%				
EBIT Margin (%)	17.2%	24.1%		19.4%				
EBITDA Margin (%)	18.4%	24.9%		20.5%				
Net Margin (%)	13.5%	18.5%		15.2%				

Source :Company reports and KELIVE estimates.

**Income statement**

<b>(Btmn)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
Sales	12,969	18,966	23,307	28,302	33,157
COGS	(8,086)	(11,749)	(14,561)	(17,815)	(21,055)
Gross profit	4,883	7,217	8,746	10,487	12,102
SG&A	1,887	2,438	4,243	4,828	4,725
Operating profit	2,996	4,779	4,503	5,659	7,377
Interest expenses	(28)	(47)	(67)	(61)	(61)
Other income	65	67	100	34	40
Pretax profits	2,373	3,622	3,488	4,393	5,737
Income taxes	(659)	(1,177)	(1,048)	(1,240)	(1,619)
Associate earnings	-	-	-	-	-
Minority interest	(0)	(0)	-	-	-
Extraordinary items	-	-	-	-	-
<b>Net income</b>	<b>2,373</b>	<b>3,622</b>	<b>3,488</b>	<b>4,393</b>	<b>5,737</b>

**Balance sheet**

<b>(Btmn)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
Cash equivalents	1,526	846	1,439	921	947
Receivables	38	60	120	203	248
Inventory	12,622	13,202	27,801	31,256	31,727
Investment	3	2,305	191	231	271
Fixed assets	1,865	1,767	2,855	3,166	3,188
<b>Total assets</b>	<b>16,292</b>	<b>18,871</b>	<b>34,211</b>	<b>37,576</b>	<b>38,488</b>
Credits	1,993	-	3,501	125	125
ST-debts	4,945	4,307	9,791	5,013	4,598
LT-debts	1,207	1,500	9,107	13,911	10,809
Other liability	791	2,221	4,032	2,406	2,653
<b>Total liabilities</b>	<b>14,537</b>	<b>15,251</b>	<b>19,026</b>	<b>19,329</b>	<b>19,015</b>
<b>Equity</b>	<b>10,110</b>	<b>13,023</b>	<b>15,264</b>	<b>18,591</b>	<b>23,010</b>

**Cash flow statement**

<b>Btmn</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
Net profit	2,373	3,622	3,488	4,393	5,737
Depre / .Amort.	189	216	246	162	162
Net working cap.	(3,672)	1	(13,902)	(4,655)	(1,372)
Unrealised F/X	-	-	-	-	-
Net operating cash flow	(1,110)	3,839	(10,167)	(100)	4,527
CAPEX	(381)	(9)	(1,106)	(300)	(35)
Investment	3	2,305	191	231	271
Net debt	2,074	1,254	11,668	13,167	10,032
Net financing cash flows	1,947	(2,209)	9,769	(112)	(4,426)
Dividend paid	(444)	(725)	(1,231)	(1,099)	(1,318)
<b>Net cash flows</b>	<b>(1,873)</b>	<b>819</b>	<b>(10,391)</b>	<b>(1,539)</b>	<b>3,135</b>
<b>Free cash flow</b>	<b>(1,439)</b>	<b>1,529</b>	<b>(9,160)</b>	<b>(440)</b>	<b>4,453</b>

**Financial ratios**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
Gross margin	37.7%	38.1%	37.5%	37.1%	36.5%
Operating margins	23.1%	25.2%	19.3%	20.0%	22.2%
Net gearing )X(	(0.03)	0.02	0.15	0.15	0.09
Interest coverage )X(	112.9	106.1	70.8	95.8	124.0
Inventory days	470	401	514	605	546
Collection days	1	1	1	2	2
Payment days	26	8	0	10	10

Source : Company reports and KeLive estimates..

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<b>BUY</b>	Share price expected to outperform the market, while earnings momentum should beat market and peers in the next 12 months.
<b>BUY ON WEAKNESS</b>	Share price expected to underperform the market, but earnings momentum may beat market and peers in the next 12 months.
<b>SELL</b>	The share price expected to underperform the market, while earnings should be below market and peers in the next 12 months.
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AMATA	CPF	IFEC	NKI	SAMART	SITHAI	80-89	▲▲▲▲▲		Very Good
AOT	CPN	IRPC	NMG	SAMTEL	SNC	70-79	▲▲▲▲▲		Good
ASIMAR	CSL	KBANK	NOBLE	SAT	SSI	60-69	▲▲▲▲▲		Satisfactory
BAFS	DRT	KEST	PSL	SC	SVI	50-59	▲▲▲▲▲		Pass
BANPU	EGCO	KK	PTT	SCB	TCAP	Lower than 50		No logo given	N/A
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BLS	HEMRAJ	MCOT	ROBINS	SIM	TMB				
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AHC	BWG	EIC	KTC	OCC	RASA	SMK	TFD	TSTH	
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ASCON	CTW	GVT	LEE	NWR	SFP	TCJ	TWZ	WIN	
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BGT	DEMCO	HTC	LRH	PAF	SIAM	TGCI	UBIS		
BLAND	DIMET	ILINK	MBAX	PATO	SMM	THANI	UEC		
BSBM	DRACO	IT	M-CHAI	PERM	SPACK	THIP	UKEM		
BSM	EASON	JCT	MCS	PICO	SPG	TKS	UNIQ		
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