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Equities Research

The Asia Specialist

THAILAND

Inside

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Thai property

Back to basics II

Valuations are attractive – SPALI, PS and QH are top picks

We are cautiously positive toward the Thai property outlook for 2011. Valuations are low at 9.1x 2011E PER vs the historical mean of 13.8x. We believe current share prices offer reasonable entry points. Our top picks, in order of priority, are Supalai (SPALI) – also a MarQuee Buy Idea – for its low valuation and high yield, followed by Pruksa (PS) for its strong mass-market position, while QH offers a cheap core PER of 5.0x.

Year of growth normalisation

Our Asean economist forecasts Thai GDP growth at 5.0% and 5.5% for 2011-12 (vs 8.0% in 2010E), and expects the policy rate to reach 3.25% and 3.75% for 2011-12 (vs 2.25% currently). We believe the impact on affordability will be mitigated by rising household income during the early rate upcycle. For real property demand, we expect the tipping point will be when the policy rate exceeds 3.25%, equivalent to a 6.875% MLR, which we expect at end-2011.

Provincial expansion to bring additional growth

While Greater Bangkok is getting more crowded, larger, listed players are seeking to tap the new provincial markets to sustain growth momentum. With strong expertise and brands, the listed developers will have competitive advantages over local developers. Some property companies are already exposed to the provinces, such as SPALI, LH, PS and QH.

Oversupply looming if developers cannot adjust launches

In 2011, we focus more on total new supply to gauge the oversupply potential. We expect total new launches at Bt346bn (+14%) and total demand at Bt221bn (-15%). On this basis, without any adjustment, the take-up rate would drop to just 64%, vs 82% in 2010, while total inventory would surpass the 1997 crisis level. However, we hope that the listed developers will adjust their launches to match demand. We apply a 25% discount on total new launches and derive an adjusted launch amount of Bt259bn (-14%). At this level, the take-up and inventory clear-out ratios should stay healthy at 85% and 1.8 years, respectively.

Segment analysis: Prefer TH, Neutral SDH, selective condo

Improvement in the road network should add new development area for low-rise houses. Townhouses (TH) should continue to show strong growth, backed by low-end real demand. Single detached houses (SDH) will grow along with the overall economy, while facing benign competition. Condos should see healthy demand, while the growing number of new condos may bring an oversupply risk.

Residential stock valuations: SPALI, PS and QH are top picks

Company	Mkt Cap (US$m)	Rec	Current	Tgt price	% Upside	11E PER (x)	12E PER (x)	11E PEG (x)	11E PBV (x)	11E Div yld (%)
AP	444	OP	5.80	8.00	37.9	6.1	5.6	0.6	1.3	6.5
LH	2,002	OP	5.40	7.00	29.6	12.4	11.1	0.7	2.0	5.6
LPN	440	OP	8.10	10.50	29.6	6.7	5.8	0.5	1.7	7.5
PS	1,337	OP	17.00	25.00	47.1	8.9	7.9	0.4	2.0	3.4
QH	570	OP	2.02	3.20	58.4	6.8	6.0	0.3	1.1	7.2
SPALI	583	OP	9.20	14.00	52.2	5.1	4.4	0.3	1.4	8.3
Average						**9.2**	**8.1**		**1.7**	**5.7**

Source: Macquarie Research, February 2011; share prices as of 15 February 2011

Back to basics II

Valuations are attractive - SPALI, PS and QH are top picks

Thai property sector is trading at 9.1x 2011E PER, vs 13.8x LT mean

- **Low valuations prevail.** We are cautiously positive toward the Thai property outlook for 2011. The valuation level is low after the recent sell-off in the sector. The Thai property sector is currently trading at 9.1x 2011E PER vs the historical mean of 13.8x. While positive catalysts are lacking amid rising concerns of higher interest rates, rising inflation, softer presales momentum, and growing oversupply concerns, we think that current share price levels will start to attract attention from value-focused investors.
- **Earnings growth still exists.** On the back of high, secured revenues, we forecast EPS growth for the six developers we cover in this report at 14.8% in 2011 and 12.8% in 2012. With low valuations and double-digit growth, we believe that current share prices offer good entry points.

Our top picks: SPALI, PS and QH

- **Our top picks: SPALI, PS and QH.** Our top picks, in order, are SPALI, PS, and QH. We like SPALI for its low valuations, high earnings visibility and attractive dividend yield. We think PS will benefit from strong demand growth in the townhouse segment, where it enjoys market leadership. We see QH as a value play on an attractive core PER of just 5x.

Year of growth normalisation

Moderate GDP growth for 2011E

- **Moderate GDP growth for 2011E**. Our ASEAN economist, Philip McNicholas, forecasts Thai GDP growth to moderate at 5.0% in 2011E and 5.5% in 2012E, down from 8.0% in 2010E. While the lower growth number is partly driven by a high base effect, we expect presales momentum to moderate from a very strong 2010.

Higher interest rates to impact affordability…

- **Rising interest rate could affect affordability.** Our economist expects the policy rate to reach 3.25% by end-2011 and 3.75% by end-2012. The rising interest rate environment could affect homebuyers' affordability and sentiment. However, we believe the impact will be mitigated by rising household income during the early stage of the rate hike cycle. For real property demand, we expect the tipping point will be when the policy rate exceeds 3.25%, equivalent to an MLR of 6.875%, which we expect to happen at the end of 2011.

…but income growth to partly offset rate hike impact

- **Income growth and lower house prices to partly offset rate hike impact.** In 2011, we project average monthly household income in the Greater Bangkok will increase 6% to Bt42k. This should partly help mitigate the impact of higher interest rates on homebuyers. Last year, the Thai developers downsized the size of housing units to offer lower unit prices to make it more affordable for low-income earners. This should help support Thailand's affordability index stay low at 45% in 2011, vs 43% in 2010 and 55% in 2009.

More extensive road network to open new low-rise development area

Improving road/highway network benefits low-rise demand

- **Better road network to broaden low-rise development areas.** Unlike condos, the low rise segment is more driven by road or highway network development. In 2008, when the Outer Ring Road fully opened for commuter services, the development area for low-rise projects also expanded. This resulted in more low-rise units being sold along the Outer Ring Road to 56% of the total post 2002, following a gradual increase to 50% before 2002.
- **Low-rise properties fit more for growing families.** We expect the low-rise segment will gradually grow on the back of real demand. A more extensive road network connecting to the CBD area should serve those clients with growing families who prefer a better atmosphere with a larger space and affordable unit prices, rather than the crowed city condos with limited space and more expensive selling prices per sqm.

Provincial expansion – an incremental growth engine

Provincial expansion to seek incremental growth

- **Provincial expansion to bring additional growth.** While Greater Bangkok is getting more crowded due to aggressive launches from existing developers and newcomers, the larger, listed players are seeking to tap the provincial markets to sustain their growth momentum. With strong expertise and brands, the listed developers are keen to utilize their construction technology and economies of scale to launch projects in the provinces.

- **Provincial market is growing.** We believe there are incentives for locals to convert their rental payments into mortgage payments. Strong demand growth still exists in Greater Bangkok, but we see significant opportunities in the provinces. This should provide more value-added in terms of incremental growth to the overall residential business for major listed developers from a long-term perspective.
- **Some listed developers have already made a headstart.** SPALI and LH currently earn 8-10% of revenue from provincial property projects and are both looking to expand this to 12-15% in the next two years. PS has recently launched its first upcountry project and is targeting to add more. Given PS's core operating strength, it is very well positioned to tap into provincial demand. QH and LPN are also branching out from Bangkok.

2011 swing factor: how can developers adjust new supply to match softer demand?

Aggressive new launches continue

- **Aggressive new launches to continue.** Based on our survey of the new launch plans announced by the listed and non-listed developers, we estimate the total value of new launches in 2011 at Bt346bn, up 14% YoY.

Expect softer demand in 2011

- **House demand to be softer in 2011.** We believe 2010 demand, which reached a record high since 1996, is unlikely to be repeated in 2011. In our view, the 2010 record demand was driven by a combination of pent-up demand after the global crisis in 2009, the fast-growing economy in 2010, and accelerated buying ahead of the property tax benefits from 2011. Thus, we forecast total take-up value to be Bt221bn in 2011, down 15% from 2010.

Developers will need to adjust launches to avoid oversupply…

- **Developers need to adjust their launches to avoid oversupply.** Although this 2011 demand forecast would fall short of expected new supply, representing only a 64% take-up rate, vs the 78–103% over 2004–10, we do not expect this to happen. Instead, we remain hopeful that the developers will adjust their launches to match demand. Thus, we apply a 25% discount to the 2011 total new launch number, and derive an adjusted total new supply amount of Bt259bn, down 14% from 2010. On this basis, our calculation for the adjusted take-up rate improves to 85%, vs 82% in 2010, which is still a healthy level.

…otherwise, risk of oversupply is very likely

- **What if developers cannot adjust? Oversupply is very likely.** If the developers continue to aggressively launch new projects as announced, our estimated take-up rate would drop significantly to just 64% in 2011 from 82% in 2010. Total inventory would surpass the peak level before the Asian crisis in 1997. The time required to clear the overall inventory would rise to 2.2 years, vs 1.8 years in 2010, and continue to steeply rise thereafter. If this is the case, we could face a severe oversupply situation in the next few years.

Segment analysis – prefer TH, Neutral on SDH; selective on condo

SDH – benign competition

- **Single detached houses (SDH) – benign competition.** We estimate the time required to clear out SDH inventory will reach 2.9 years in 2011, vs 2.7 years in 2010, which is a normal range for any SDH project to be developed, built and transferred. Benign competition, combined with organic demand growth, should make the SDH segment regain its attractiveness. LH and QH should be key beneficiaries.

TH – increasing attractiveness

- **Townhouses (TH) – increasing attractiveness.** With rising mortgage restrictions and limited unit space for condos, we expect some buyers to switch their preference from condos to THs, which offer a similar price range but larger unit space. We put the time required to move TH inventory at 1.6 years in 2011, vs 1.5 years in 2010 and 2.4 years in 2009. Despite our expectation of strong TH demand, we still see the segment as highly competitive, as the targeted buyers are low-income earners who are price-sensitive. The larger players that control the majority of supply and can process the high costs efficiently should gain. PS is a clear beneficiary, in our view.

Condo – getting more challenging

- **Condominiums (condo) – getting more challenging.** Condo demand should remain strong, while the growing number of new and existing condos should normalise the take-up rate for condos. Based on our assumption that new condo supply will drop 35% to 35,632 units in 2011, we estimate the time required to clear the condo inventory will rise to 1.1 years in 2011 from 8 months in 2010. However, if the developers continue to aggressively open more condo units this year, condo oversupply is likely in the future. Product, price, and location will determine which developers and which projects/locations will benefit the most. Strong players in this segment are AP and LPN.

SPALI, PS and QH are top picks

Thai property sector is trading at just 9.1x 2011E PER, vs LT mean at 13.8x

- **Low valuation to compensate softer outlook.** The Thai property index has declined 20% since October 2010 after the sector's record presales in late 3Q10. The residential property sector's valuation is now trading at 9.1x 2011E PER vs the historical mean of 13.8x PER over 2000-10, vs its recent peak at 21.6x in 1Q08. While 2011 should be more challenging for the property sector in terms of softer demand and rising supply concerns, we think the current share price level should start to attract interest from value-focused investors.

Sector's average EPS growth at 14.8% for 2011E

- **Earnings growth still exists.** On the back of high, secured revenues, we forecast earnings growth for the six developers we cover in this report. We expect average EPS growth at 14.8% in 2011 and 12.8% in 2012. With low valuations and double digit EPS growth, we believe that current share prices should offer good entry points.
- **Selectivity in practice.** Our preferences within the sector are: 1) a well-diversified portfolio with the right market focus; 2) high earnings visibility; and 3) undemanding valuations.

SPALI, PS and QH are top picks

⇒ **SPALI, PS and QH are top picks.** Our top picks, in order, are SPALI, PS, and QH. We like SPALI for its low valuation, strong earnings visibility and high yield. We think PS will benefit from strong demand growth in the townhouse segment, where it enjoys market leadership. We see QH as a value play on its attractive core PER of just 5x.

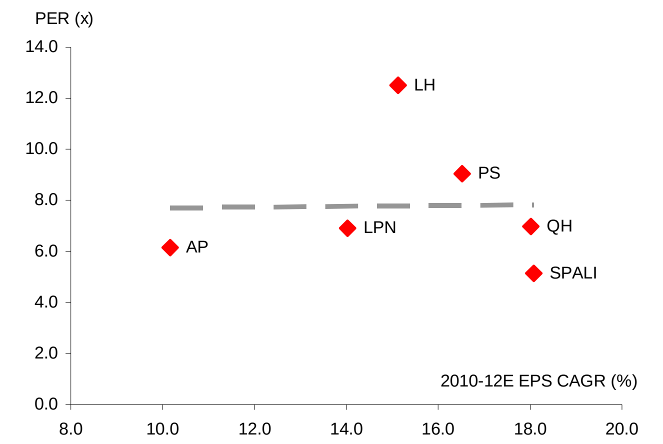
⇒ **AP, LPN and LPN remain OPs.** AP's relatively weaker earning growth compared to its peers should be offset by its low valuation, high earnings visibility, and well-diversified portfolio. LPN also falls into attractive valuation territory and high secured revenue, but its core low-end condo segment could face slower presales momentum and oversupply risk. LH should resume earnings growth this year. However, it has the highest valuation in the sector and this still outweighs its moderate earnings growth.

Fig 1 Sector valuations and recommendations

Company	BB Code	Mkt Cap (US$m)	3m AD T/O (US$m)	Rec	Current	Tgt price	% Upside	11E PER (x)	12E PER (x)	11E PEG (x)	11E PBV (x)	11E ROE (%)	11E Div yld (%)
AP	AP TB	444	2.4	OP	5.80	8.00	37.9	6.1	5.6	0.6	1.3	22.0	6.5
LH	LH TB	2,002	3.4	OP	5.40	7.00	29.6	12.4	11.1	0.7	2.0	16.1	5.6
LPN	LPN TB	440	3.5	OP	8.10	10.50	29.6	6.7	5.8	0.5	1.7	27.5	7.5
PS	PS TB	1,337	2.2	OP	17.00	25.00	47.1	8.9	7.9	0.4	2.0	24.7	3.4
QH	QH TB	570	2.1	OP	2.02	3.20	58.4	6.8	6.0	0.3	1.1	19.0	7.2
SPALI	SPALI TB	583	2.5	OP	9.20	14.00	52.2	5.1	4.4	0.3	1.4	30.6	8.3
Average			**16.7**					**9.2**	**8.1**		**1.7**	**21.6**	**5.7**

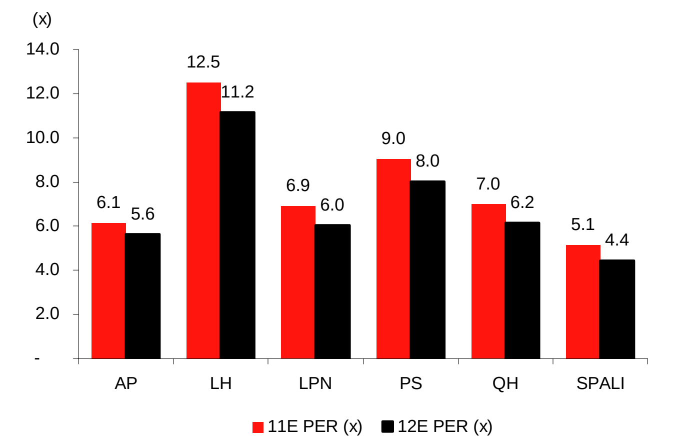
Closing prices as of 15 February 2011
Source: Macquarie Research, February 2011

Fig 2 PER vs EPS growth comparison



Source: Company data, Macquarie Research, February 2011

Fig 3 2011E PER comparison



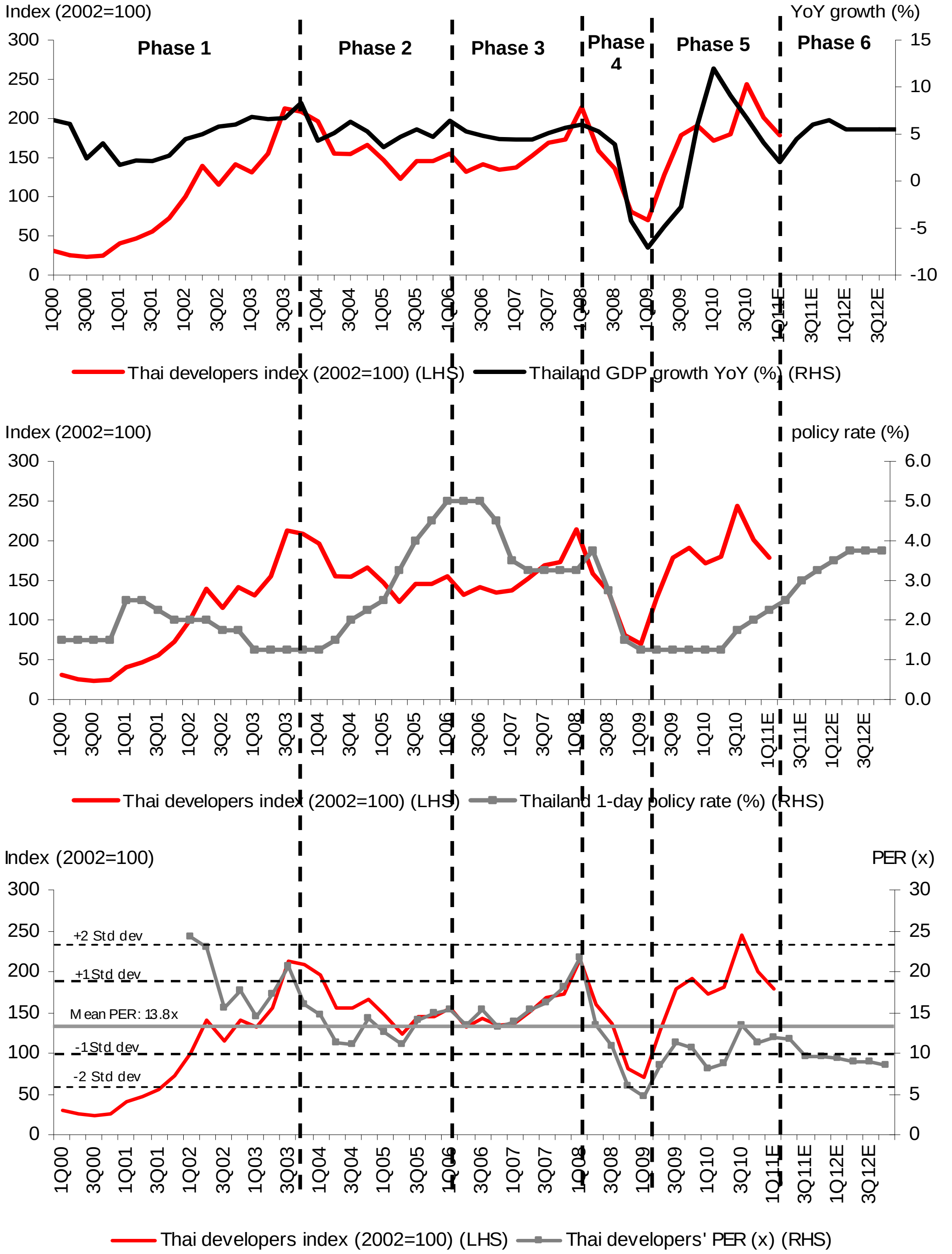
Source: Company data, Macquarie Research, February 2011

Interest rates, GDP growth, and valuation

Rate hikes will matter more this year, but valuations are low

The combined charts below show a clearly positive relationship between underlying economic growth and property share prices, as well as the negative correlation between interest rates and share prices. Our economist forecasts Thai GDP growth at 5.0% and 5.5% for 2011-12 (vs 8.0% in 2010E), and expects the policy rate to reach 3.2% and 3.75% for 2011-12 (vs 2.25% currently). In 2011-12, the interest rate upcycle would clearly increase the risk to property share prices as the market will be unlikely to absorb anywhere near the volume of peak presales of nearly 100,000 units in 2010. However, we expect that valuations should stay below the historical mean as the property sector's earnings growth will continue in 2011. This year, market concerns will likely focus on the demand and supply balance outlook, which appears to be less healthy than last year. We would focus on those companies with low valuations and strong earnings visibility. Our top picks are SPALI, PS and QH.

Fig 4 Property share prices vs GDP growth & interest rates & valuations



Developers' index is calculated based on weighed average market cap of AP, LH, LPN, PS, QH and SPALI
Source: Macquarie Research, February 2011

Valuation, PER and foreign ownership

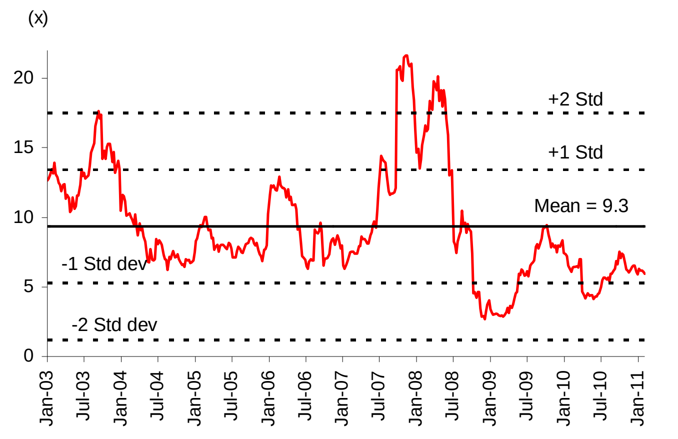
Property shares are trading around historical average

- **Trading around historical average.** In terms of PER , Thai property shares are generally trading around their historical averages. LH, LPN and QH are trading at or slightly above their eight-year means, while AP and PS are trading below their historical averages. SPALI trades at just 5.1x 2011E PER, the lowest in the Thai property sector under our coverage yet offers the best EPS growth prospects over the next two years. Given the combination of good growth and low valuation, SPALI is our top pick in the segment. We also like PS for its market leadership in our favourite TH segment, and QH for its low valuation.

Foreign ownership declined in LPN and PS

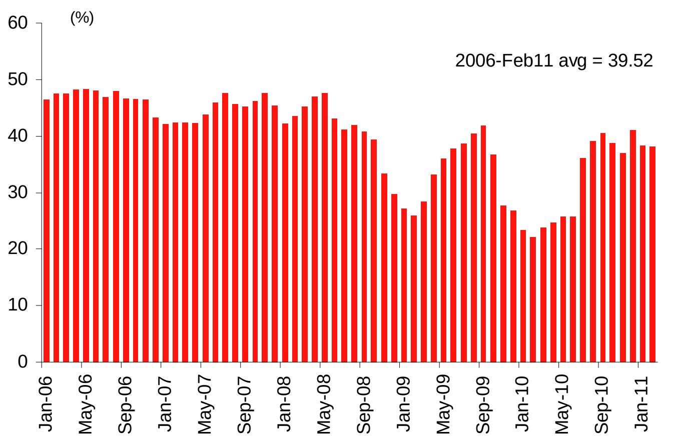
- **Foreign ownership, property stocks selectively sold down.** In the recent market correction, property stocks have been heavily sold down since late 3Q09. LPN and PS's foreign ownership fell to 54% and 7.7% vs the 2006–10 averages of 62% and 9.8%, respectively. SPALI, LH and QH are the three stocks with a foreign ownership above their historical averages.

Fig 5 AP PER



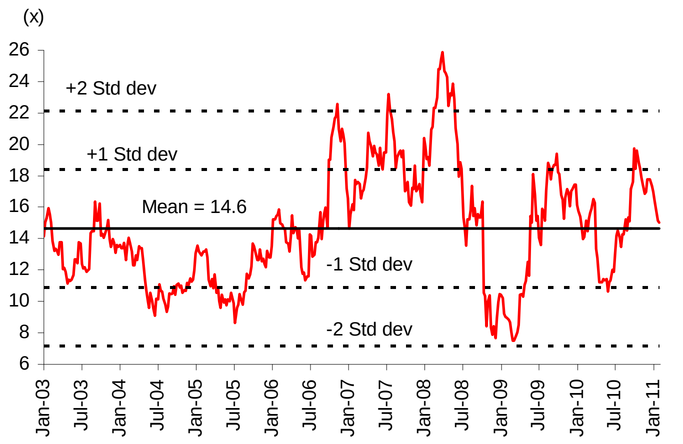
Source: Macquarie Research, February 2011

Fig 6 AP foreign ownership



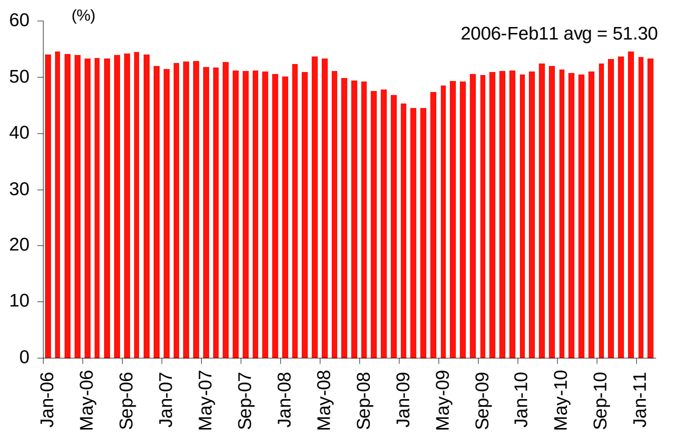
Source: Company data, Macquarie Research, February 2011

Fig 7 LH PER



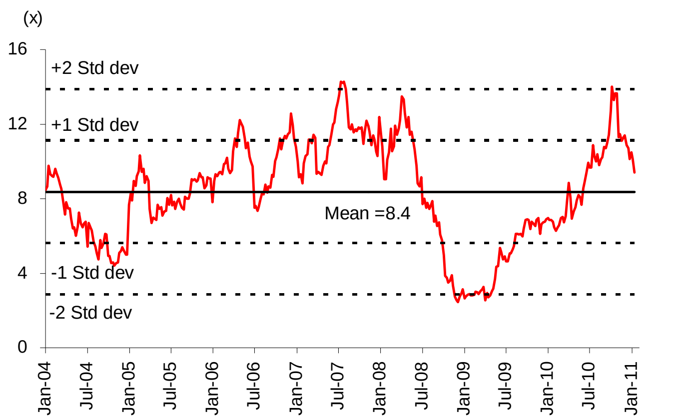
Source: Macquarie Research, February 2011

Fig 8 LH foreign ownership



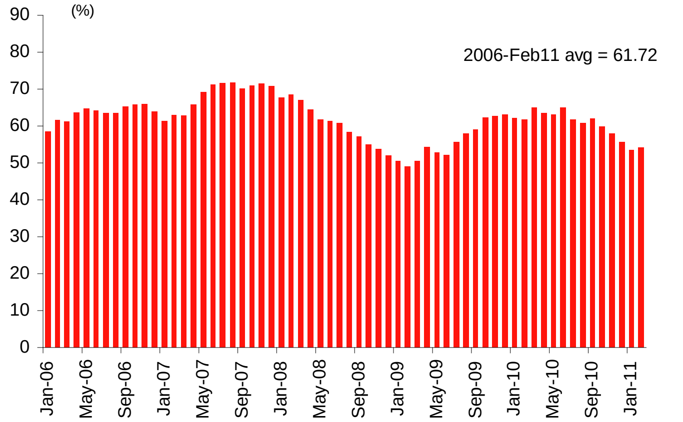
Source: Company data, Macquarie Research, February 2011

Fig 9 LPN PER



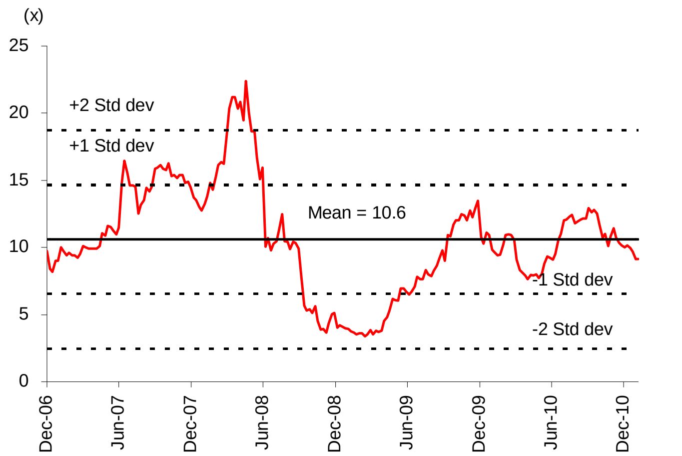
Source: Macquarie Research, February 2011

Fig 10 LPN foreign ownership



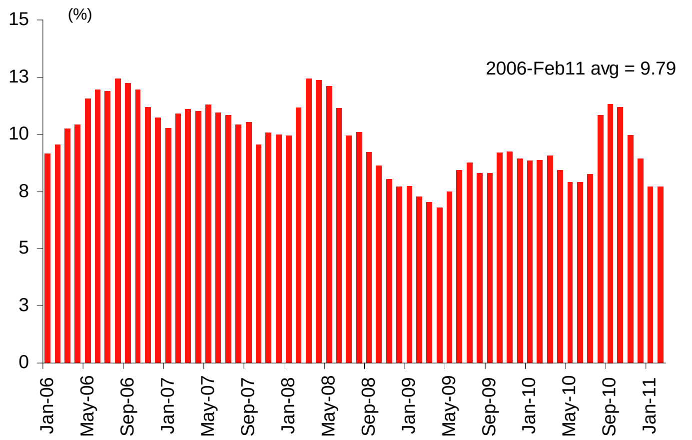
Source: Company data, Macquarie Research, February 2011

Fig 11 PS PER



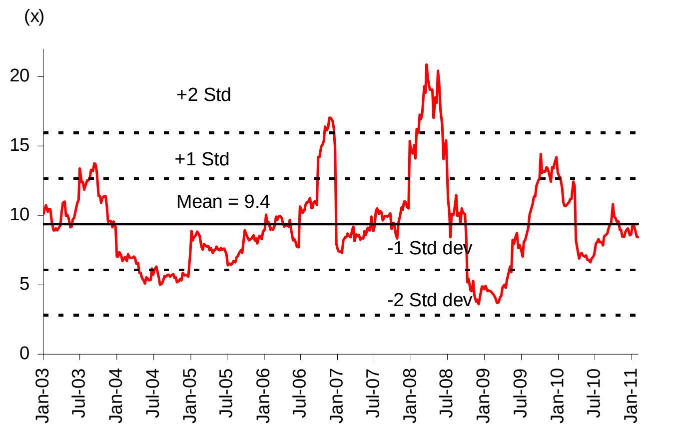
Source: Macquarie Research, February 2011

Fig 12 PS foreign ownership



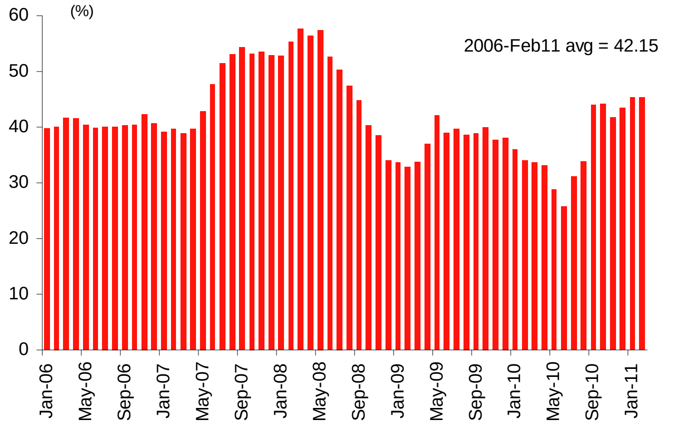
Source: Company data, Macquarie Research, February 2011

Fig 13 QH PER



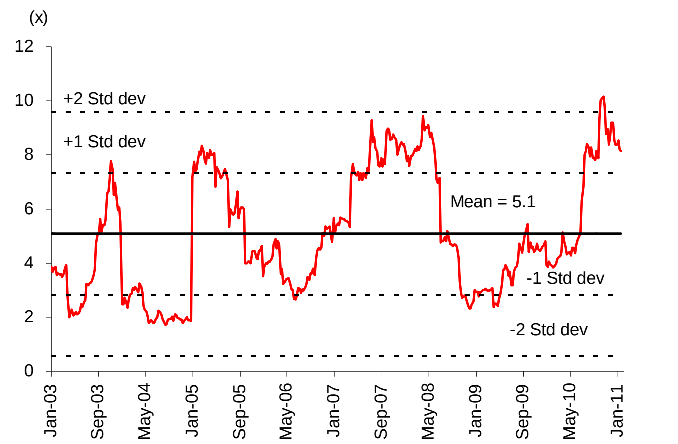
Source: Macquarie Research, February 2011

Fig 14 QH foreign ownership



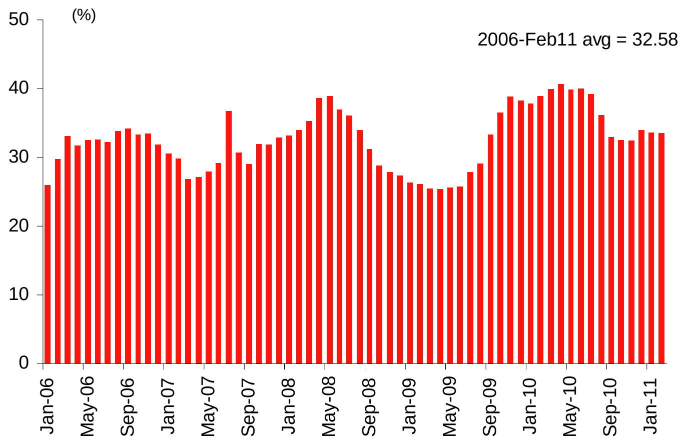
Source: Company data, Macquarie Research, February 2011

Fig 15 SPALI PER



Source: Macquarie Research, February 2011

Fig 16 SPALI foreign ownership



Source: Company data, Macquarie Research, February 2011

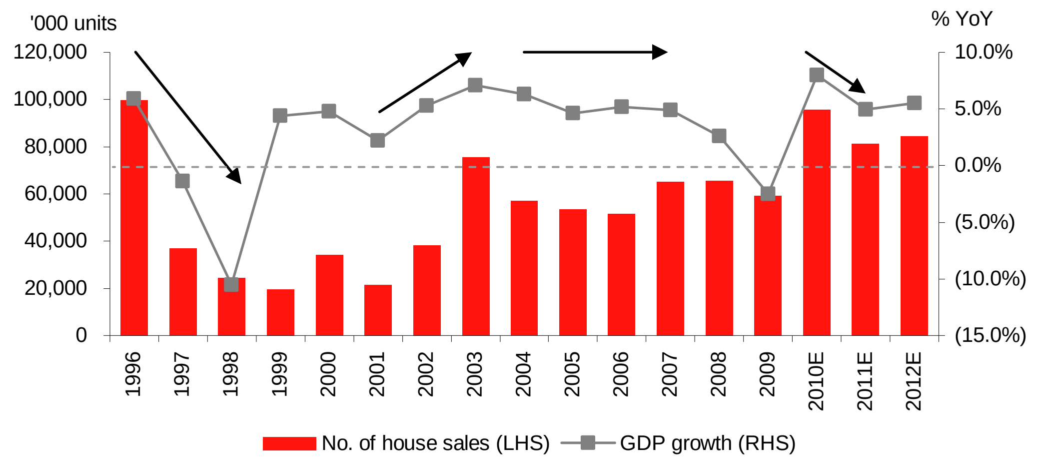
Year of growth normalization

Expect growth moderation from the very hot 2010

Moderate GDP growth for 2011-12

- **Expect GDP growth of 5.0% and 5.5% for 2011-12**. We expect economic growth to moderate in 2011. Our ASEAN economist, Philip McNicholas, forecasts Thailand GDP growth to moderate to 5.0% in 2011E and 5.5% in 2012E, from 8.0% in 2010E. While the lower growth number is partly driven by a high base effect, we expect there will be a moderation of presales momentum from a very strong 2010.

Fig 17 We expect presales moderation in 2011



Source: NESDB, AREA, Macquarie Research, February 2011

Strong purchasing power with low appetite

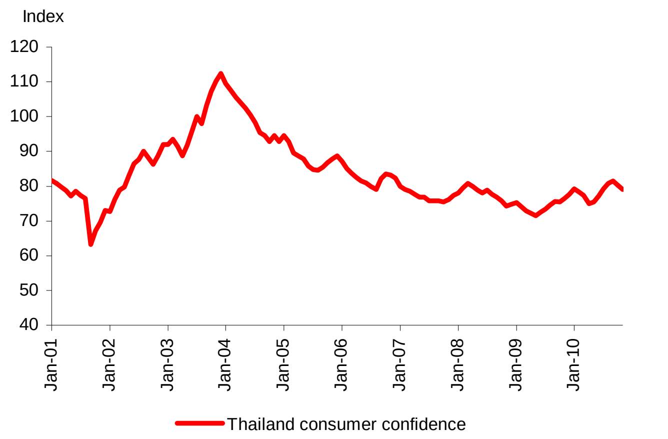
Job security still high, but confidence level remains low

- **Unemployment remains low...** We believe the employment rate and job security are two important indicators determining whether homebuyers can apply for mortgages. We believe the currently low unemployment of just 1%, amid the growing economy and agricultural activity, should continue to prompt continued housing demand.
- **…but people are getting more worried.** Given the rising interest rate environment, resurfacing political risk and tensions on the border, consumer confidence declined for two consecutive months in October-November 2010 before picking up in December 2010 and January 2011. We believe the relatively low confidence level could prompt homebuyers to be more cautious towards housing purchases.

Fig 18 While low unemployment positive...

Source: BoT, Macquarie Research, February 2011

Fig 19 ...shaky confidence does not bode well

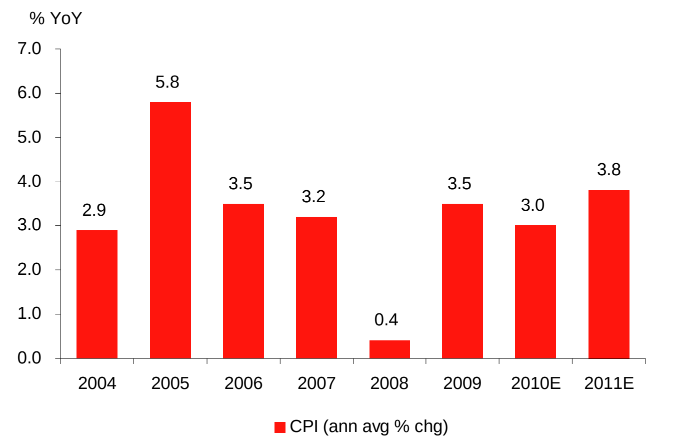


Source: BoT, Macquarie Research, February 2011

Higher inflation and global food prices to be mitigated by rising earnings growth

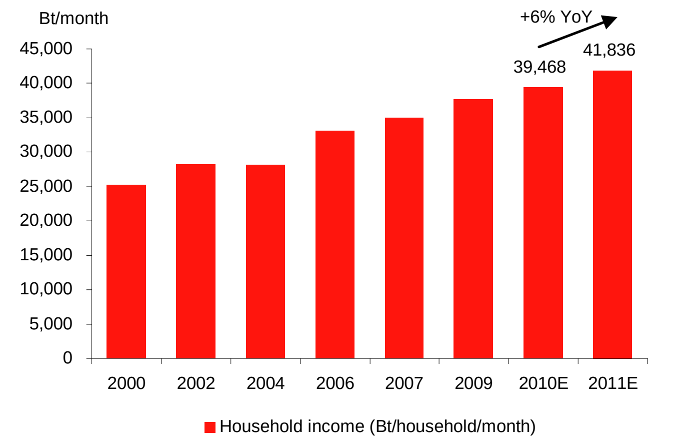
- **Higher inflation and food prices vs a rising pay check.** Our economist expects inflation will rise by 3.8% YoY. While this could be mitigated by the 6-9% increase in the minimum wage announced by the government, we still expect some easing of demand for property. This is because global food prices are rising sharply and the Ministry of Commerce is preparing to lift the food price cap in April 2011. Thus, we see the risk that the higher food prices and cost of living could capture a bigger share of homebuyers' wallets, which may make Thais reluctant to spend on big ticket items such as houses or cars.

Fig 20 Expect 3.8% inflation due to rising food prices



Source: Macquarie Research, February 2011

Fig 21 Expect 6% pay rise in 2011E



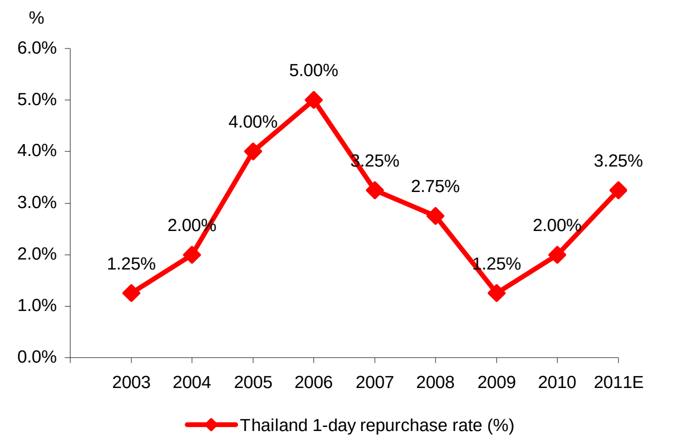
Source: Macquarie Research, February 2011

Rising interest rates could affect affordability

Steeper rate hikes could affect affordability

- **Estimate the interest rate at 3.25% and 3.75% by end-2011-12.** Our economist expects the policy rate to reach 3.25% by end-2011 and 3.75% by end-2012. The rising interest rate environment could affect homebuyers' affordability and sentiment. However, we believe the impact will be mitigated by rising household income during the early stage of the rate hike cycle.
- **Buyers should have some cushion during the early stage of the rate hike.** Since the mortgage rate normally follows the policy rate with a lag and a lower magnitude, we believe that there will be some cushion for affordability before real demand is affected. However, when rate hikes steepen, we expect housing demand in 2011-12 to be less strong than it was in 2010.

Fig 22 Expect the policy rate to reach 3.25% in 2011



Source: BoT, Macquarie Research, February 2011

Fig 23 Every 1% incr in MLR hurts affordability by 9%

MLR (%)	Household income (Bt)	Affordable price (Bt)	% change in affordability
6.125%	41,836	2,887,595	
6.375%	41,836	2,820,736	-2.3%
6.625%	41,836	2,756,224	-4.5%
6.875%	41,836	2,693,961	-6.7%
7.125%	41,836	2,633,853	-8.8%

Assumptions:

Wages increase 4.6% and 6% in 2010-11, respectively, from the Bt37,732/month of household income

Mortgage term of 25 years with a Debt-Service Ratio (DSR) of 45%

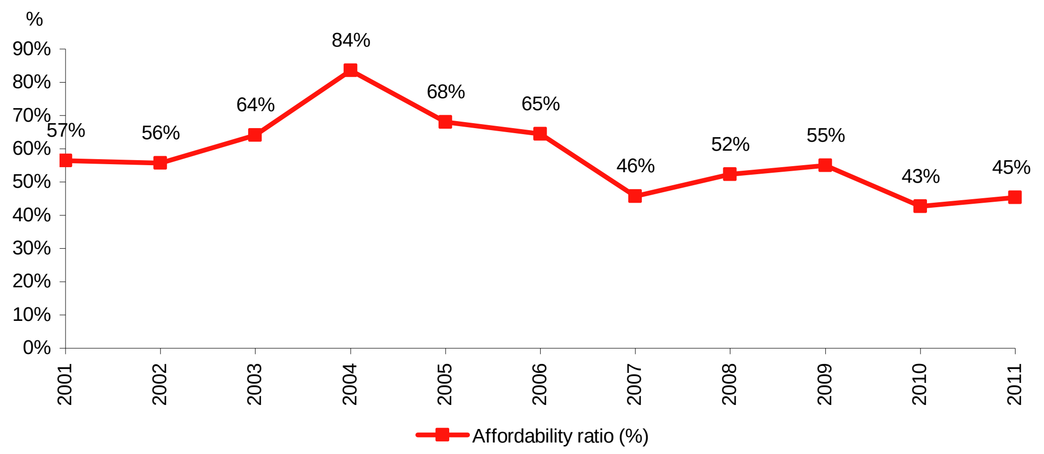
Source: NSO, BoT, Macquarie Research, February 2011

Affordability index and house price to income ratio

Affordability index at 45% and 43% in 2010-11

- **Improving affordability in 2010, thanks to developers downsizing their units.** Despite interest rates rising since mid-2010, Thailand's affordability index dropped to 43% in 2010 from 55% in 2009, which was positive for homebuyers. This is due to developers lowering the unit size and total unit price, to make it more affordable for homebuyers. In 2011, we believe this will continue and that the affordability index will be 45%, vs 43% in 2010.

Fig 24 Thailand's affordability index to stay around 45% in 2011E

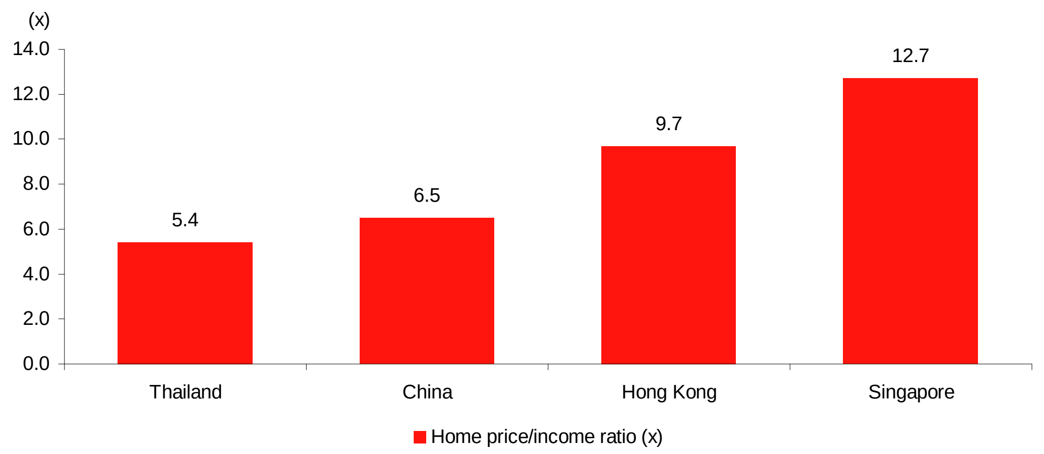


Source: AREA, Macquarie Research, February 2011

House price to income ratio at 5.4x in Thailand

- **Thai residential property prices are relatively cheaper than the rest of the region.** In 2010, Thailand's house price to income ratio stood at 5.4x, vs China's 6.5x, Hong Kong's 9.7x, and Singapore's 12.7x. In 2010, the average house price fell 19% YoY to Bt2.6m/unit.

Fig 25 House price to income ratio comparison



Source: AREA, Macquarie Research, February 2011

Increasing migration to support demand, low-rises and condos

The story of shrinking household size continues

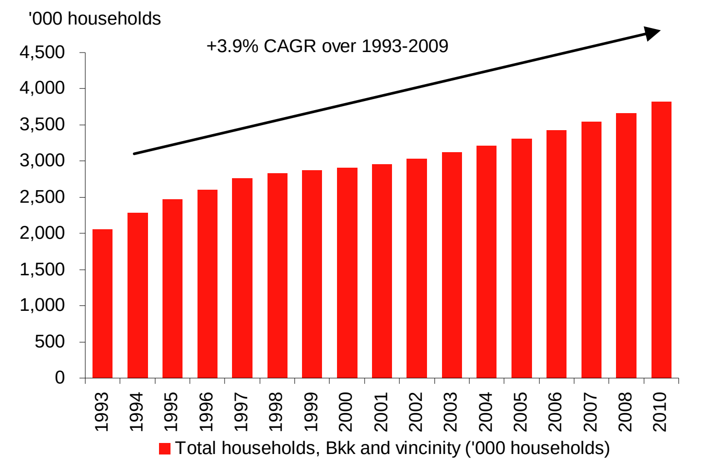
Growing population with shrinking family size

- **Growing numbers of households.** Based on the latest information from the Department of Provincial Administration (DOPA), the number of households in greater Bangkok was 3.8m in 2009, up 3.3% YoY. This increase was driven by

  ⇒ ***Population.*** Thailand's total population was 63.5m in 2009, up 0.7% YoY, while the population in greater Bangkok continued to grow at a faster rate to 8.9m, up 0.7%. We believe the higher growth was attributed to growing migration into the capital.

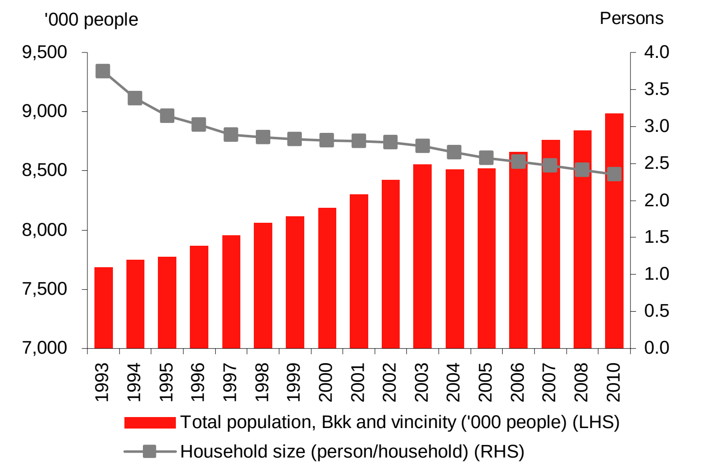
  ⇒ ***Smaller family size.*** Average family size in Greater Bangkok fell to 2.35 people in 2009 from 2.41 people in 2008. This lifestyle change may indicate that younger people prefer to live separately in their new properties.

Fig 26 No. of households rose 3.3% in 2009



Source: DOPA, Macquarie Research, February 2011

Fig 27 Population growth / shrinking household size



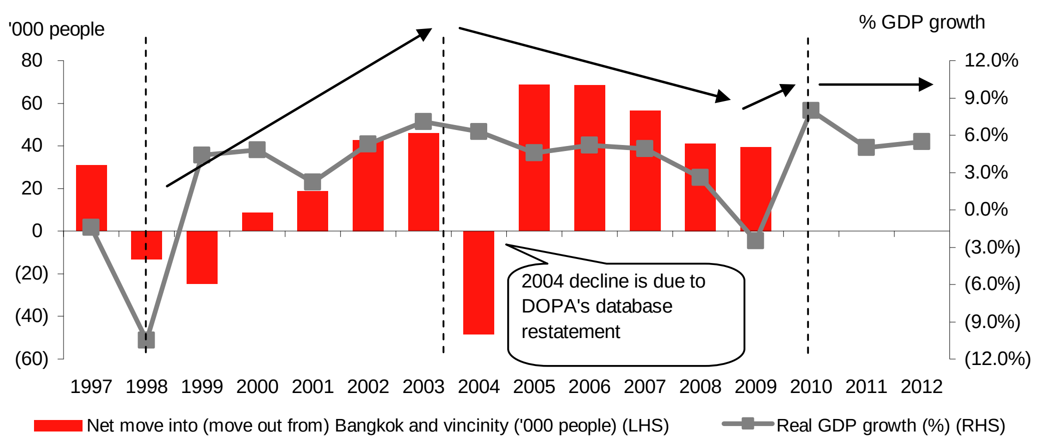
Source: DOPA, Macquarie Research, February 2011

Increasing migration to feed greater housing demand

Increasing net migration into Greater Bangkok is positive for demand

- **Positive net migration to Greater Bangkok.** The chart below shows the trend of net migration of people from rural cities into Greater Bangkok, including Bangkok, Nonthaburi, Samutprakarn and Pathumthani provinces. With a strong positive relationship between net migration and economic growth in the past, we believe inbound net migration into Greater Bangkok could be one of the reasons for the strong property sales during 2010. Given we expect reasonable growth of 5-5.5% for 2011-12, we expect the continued net migration trend to support household demand over the medium term.

Fig 28 Rising net migration into Greater Bangkok



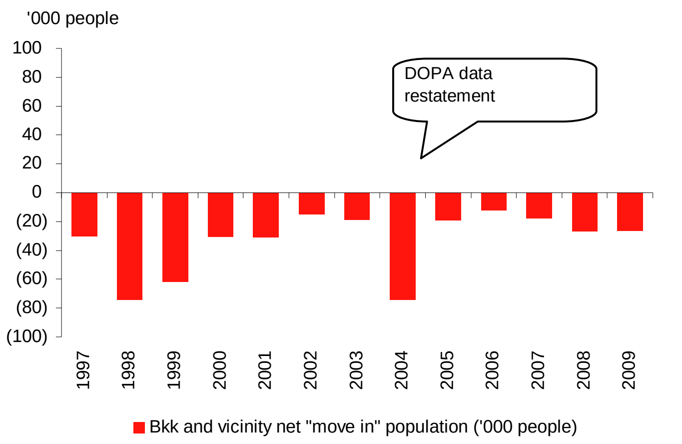
Source: DOPA, NESDB, Macquarie Research, February 2011

Micro-migration within Greater Bangkok to support low-rise demand

Micro-migration within Greater Bangkok to drive demand for landed properties

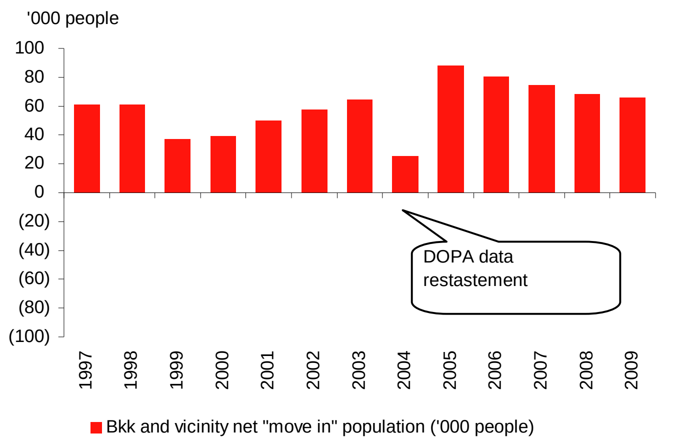
- **People are moving into the neighbouring provinces.** While we have seen constant migration to Greater Bangkok, Bangkok itself has experienced constant outbound migration from the capital city. It is the higher inbound migration into the neighbouring provinces (Samutprakarn, Nonthaburi, and Patumthani) that has offset and even brought the net migration to positive territory over the last decade.
- **Better road network makes low-rises on the outskirts more appealing.** The higher inbound migration into the vicinity provinces is supported by the improved road network that enables people to live further away from central Bangkok with a reasonable commuting time. We believe many homebuyers with growing families may prefer larger low-rise properties with a relatively cheaper value per area than the CBD condos.

Fig 29 A constant outbound migration from Bangkok



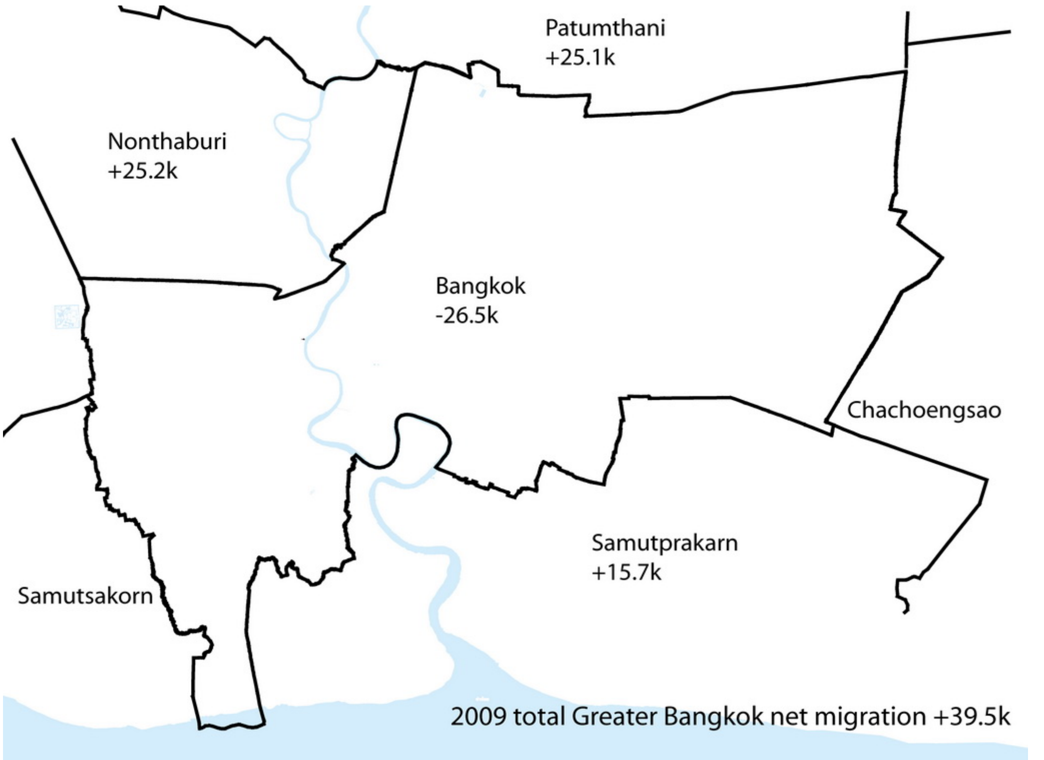
Remark: Bangkok net migration only
Source: DOPA, Macquarie Research, February 2011

Fig 30 Strong inbound migration found in vicinities



Remark: Vicinity provinces: Samutprakarn, Nonthaburi, and Patumthani
Source: DOPA, Macquarie Research, February 2011

Fig 31 Strong net inbound migration into vicinity provinces, not Bangkok



Remark: net migration = population moving into the provinces - population moving out of the provinces
Source: DOPA, Macquarie Research, February 2011

Property tax breaks expired at end of June 2010

Property tax incentives that save firms 4.3% of total sales ended in June 2010

Property tax breaks were granted from 31 March 2008. The main incentives were the reduction of the special business tax from 3.3% to 0.1%, and the reduction of the transfer free and mortgage registration fee from 1.0% to 0.01% each. These incentives expired at the end of June 2010.

Fig 32 Property tax incentives ended in June 2010

Property stimulus package	Current measures (%)	Property tax breaks (%)	Period	Expenses responsible by
Special business tax	3.30	0.10	Mar 08 - Mar 10	Developers
Transfer tax	1.00	0.01	Mar 08 - Jun 10	Developers and buyers
Mortgage registration fee	1.00	0.01	Mar 08 - Jun 10	Developers and buyers

Source: Macquarie Research, February 2011

Rate hikes: rising pressure on demand

Higher mortgage rate could affect housing affordability

Expect policy rates at 3.25% and 3.75% at end-2011 and end-12

- **We expect the Thai policy rate at 3.25% and 3.75% at end-2011 and end-2012, respectively.** Given the expected transition by the Bank of Thailand from interest rate normalisation to a tightening cycle in 2011-12, given the growing inflation threat, we expects the policy rate to rise another 100bp to 3.25% by end-2011 and another 50bp to 3.75% by end-2012, from 2.25% currently.

Mortgage rate rises to lag policy rate increases

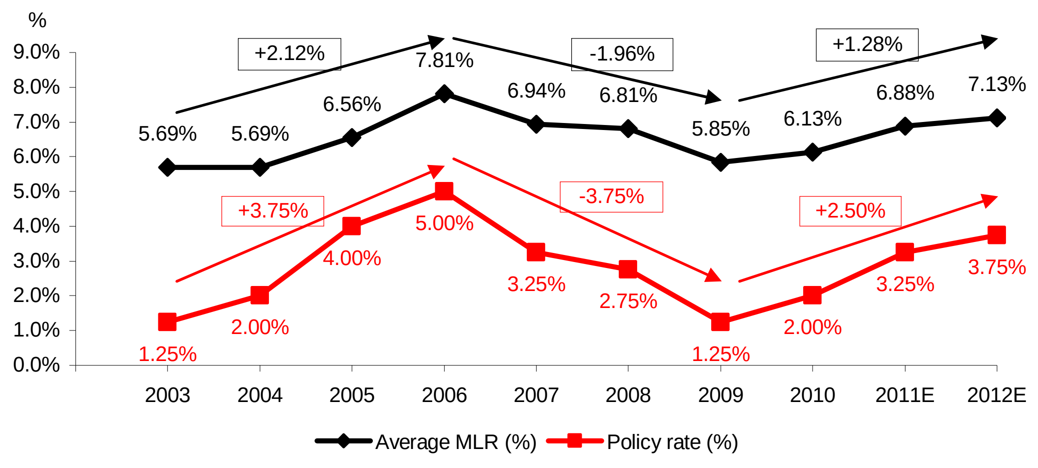
- **The mortgage rate increases will likely lag policy rate hikes**. Commercial bank loan rates usually follow policy rate changes but to a lesser degree. We expect the minimum lending rate (MLR) to rise by half the magnitude of the 1% policy rate increase until the end of 2011. This should result in a 0.5% increase in MLR to 6.875% at the end of 2011, from 6.375% currently.
- As and when these hikes feed into mortgage rates, it should start to impact affordability. However, we believe property buyers still have some cushion before affordability, and thereby real demand, is affected.

Fig 33 Expected changes in policy rate vs MLR for 2011-12E

Date	Policy rate (%)	Changes (bp)	MLR (%)	Changes (bp)
Dec-10	2.00%		6.125%	
Jan-11	2.25%	25.0	6.375%	25.0
Dec-11	3.25%	100.0	6.875%	50.0
Dec-12	3.75%	50.0	7.125%	100.0

Source: Bangkok of Thailand, Macquarie Research, February 2011

Fig 34 MLR to rise another 50bps to reach 6.875% by end-2011



Source: Bank of Thailand, Macquarie Research, February 2011

Rate hikes: How high before it hurts affordability

Sensitivity analysis of rate hikes and affordability

- We analyse the sensitivity of homebuyers' affordability to rising mortgage rates. In this exercise, we hold household incomes and 2010 average house prices constant.
- **Our assumptions**

Our assumptions

⇒ Current MLR at 6.0% and mortgage term at 25 years.

⇒ We forecast **Thai banks will raise the MLR at half the magnitude of the policy rate hike**. We estimate interest rates would rise to 6.875% and 7.125% by end-2011-12E.

⇒ **Average household income for Bangkok at Bt42k per month**. We assume wage increases of 4.6% in 2010 (2000-09 wage CAGR = 4.6%) and 6.0% in 2011, based on the government's recent announcement of a minimum wage increase of 6-7%, effective from 1Q11. This resulted in average household income for Greater Bangkok rising to Bt42k per month in 2010, up from an average of Bt37k/month in 2009. (Source: National Statistics Organization).

⇒ **Banks apply a debt service ratio (DSR) of 45%.** This implies a maximum of 45% of household income to be used for mortgage repayment. This is based on a survey of several banks, where we found that they usually apply a DSR ranging from 40% to 50% of household income to calculate the maximum allowable mortgage payment.

⇒ **A Bt2.7m average price for residential units.** This is based on an expected 5% increase in the average 2010 house price of Bt2.59m (source: Agency for Real Estate Affairs: AREA). We estimate that developers will raise house prices by 5.0% to keep up with rising construction raw material prices.

⇒ **We apply the Bt2.7m unit price as a cut-off price** to determine the level of interest rate that would begin to constrain future property sales.

⇒ If homebuyers have higher budgets than the Bt2.7m cut-off price, we would infer that they have **an 'affordability cushion'**, which is a buffer that would allow them to buy the same house even as rates are rising.

⇒ When the interest rate rises too high, and the maximum affordable price falls below the Bt2.7m cut-off price, we refer to this shortfall as an **'affordability deficit'**.

Our conclusions

Our conclusions

Rate hikes above 3.25% would hurt affordability

- **Rate hikes above 3.25% would hurt affordability.** We expect the affordability of the average homebuyers will be affected if the MLR reaches 6.875% or equivalent to the policy rate above 3.25% by end-2011. This is because at a 6.875% MLR rate, the average homebuyers' can afford a maximum house price of Bt2.69m based on their household income, and this is still below our cut-off point of Bt2.7m. Thus, if rates rise further, homebuyers with a lower income, and thus limited affordability cushion (household income below Bt42k/month), would face greater difficulty acquiring a mortgage from the bank.

Lower-end income households to be more vulnerable to rate hikes

- **Higher impact on lower-income clients.** We believe low- income households would be more affected by the rate hike, which would potentially result in this segment's already high rejection rate (between 20–25%) moving yet higher. Therefore, we would be more cautious on those developers that focus primarily on the lower-end segments priced below Bt2.5m, where we see affordability being hit the hardest.

Fig 35 Affordability to remain healthy until rate surpasses 3.25% in early-2012

Policy rate (%)	Expected date	Household income (Bt/mth)	MLR (%)	Mortgage terms (yrs)	DSR (%)	Affordable price (Bt/unit)
2.00%	Dec-10	41,836	6.125%	25	45.0%	2,887,595
2.25%	Jan-11	41,836	6.375%	25	45.0%	2,820,736
2.50%		41,836	6.500%	25	45.0%	2,788,193
2.75%		41,836	6.625%	25	45.0%	2,756,224
3.00%		41,836	6.750%	25	45.0%	2,724,818
3.25%	**Dec-11**	**41,836**	**6.875%**	**25**	**45.0%**	**2,693,961**
3.50%		41,836	7.000%	25	45.0%	2,663,644
3.75%	Dec-12	41,836	7.125%	25	45.0%	2,633,853

Source: BoT, Macquarie Research, February 2011

Mortgage rates exceeding 6.875% could hurt affordability

Affordability cushion when MLR below 6.875%

- **During early rate upcycle, homebuyers have affordability cushion.** Based on our aforementioned assumptions, at 6.375% current MLR, average homebuyers can afford to buy a house worth Bt2.82m; this provides an "affordability cushion" of Bt0.02m above the average house price of Bt2.7m (Bt2.82m affordable house price less Bt2.7m average house price). Therefore, we believe as long as average homebuyers can afford a house price higher than our cut-off house price of Bt2.7m, market demand should remain healthy.

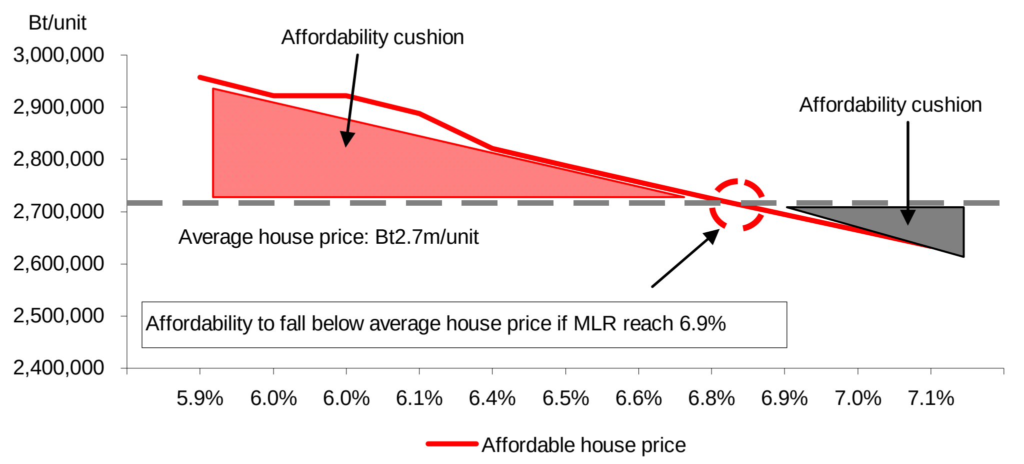
Affordability deficit when MLR hits 6.875%

- **When loan rate or MLR rises reach 6.875%, we begin to see affordability deficit.** However, if the MLR reaches 6.875% (or equivalent to a policy rate of more than 3.25%), we begin to see that the same homebuyers' affordability slip below the industry average house price of Bt2.7m. At 7.0% MLR, we estimate the affordable house price would decline to Bt2.66m, which represents an "affordability deficit" of Bt0.04m (Bt2.66m affordable house price less Bt2.7m average house price).

Lower-end house segments more vulnerable

- **Lower-end house segments at risk.** Once the interest rate hikes start to hurt homebuyer affordability, we believe the very low-end segments, especially condominiums, will hurt more, due to:
  - ⇒ Buyers at this end of the market generally have inferior credit records, making banks more cautious about lending. Even in normal circumstances, this segment has a higher rejection rate than the middle and high-end segments, and we expect this rejection rate to rise along with rates.
  - ⇒ Buyers in the low-end segment normally pay a very low downpayment on a new housing unit (10% in the condo segment and 5% for landed properties according to the Bank of Thailand's new LTV cap rate), and thus it is possible they could forgo the downpayment and walk away from a purchase.

Fig 36 **Average homebuyers could bear rate hikes until early 2012**



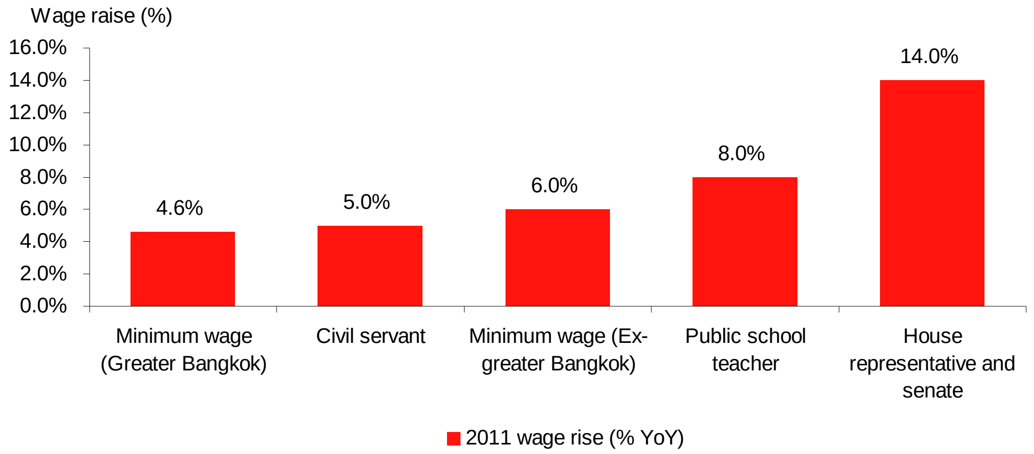
Note: The hump of the affordable house price line is due to different timing or different magnitude of the two rate changes
Source: BoT, AREA, Macquarie Research, February 2011

Mitigating factors for the rate hikes

Rising wages to weather lower affordability from rate hikes

- **Lower affordability may be partly offset by rising wages.** We have factored in the scenario of a 6% increase in an average wage of Thai households, to be inline with the 6-7% increase in minimum wages and 5% wage increase for civil servants in 2010. While we have already factored in this scenario for 2011, any further pay raise in 2012 could present upside to homebuyers' affordability.

Fig 37 2011 average wage rise expected to be 5-14% YoY



Source: Krungthep Turakij press, Macquarie Research, February 2011

Aggressive mortgage terms could continue

- **Banks continue to be aggressive on mortgage terms.** We expect that the rising rate environment and stringent control of the Bank of Thailand may limit the relaxed mortgage lending policies such as high LTV (loan-to-value) ratio or DSR (debt-service-ratio) that were seen in the past. However, the banks' competitiveness in expanding their consumer loan portfolios may prompt them to relax their lending requirements, which could alleviate the rate hike impact.

House prices could rise less than expected

- **House prices may increase less than expected.** Given that the housing stock reached 144k units at the end of 2010, the highest level since the 1997 crisis, we believe the competition to unload stock could somewhat limit the property companies' ability to raise price and/or pass on the prospective increase in raw material costs to homebuyers. While we have factored in a 5% increase in housing prices in 2011, the prospect of a higher supply level could limit the house price increase to a certain degree.

Homebuyers may adjust to lower-priced houses they can afford

- **Homebuyers may adjust their lifestyle, if required.** Developers have started to launch smaller units to provide more affordable products for homebuyers; we believe homebuyers could adjust their needs and look for smaller properties and/or properties located further away to match their finances as a result of the rising interest rates.

But rising rates still a constraint on growth

Even with the above-mentioned sources of potential upside to demand, rising loan rates can still be expected to constrain demand growth in the sector and adjustments made by either developers or buyers, which may be a constraint on developers' profit margins.

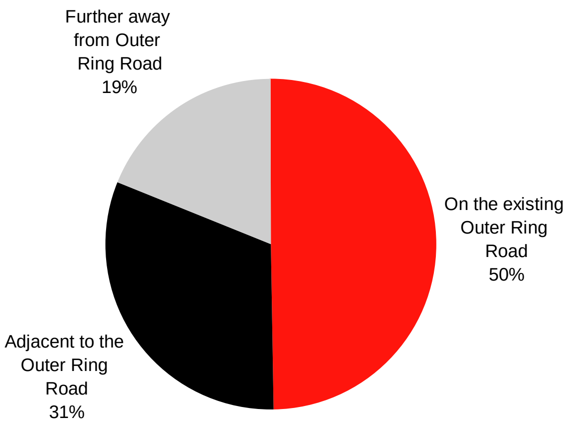
Road network opens new development area

Before 2002, low-rise houses mostly located in northern BKK, where the Outer Ring road was partly developed

Before 2002, low-rise projects were mainly in northern Bangkok

- **Event:** Over the past 20 years, Thailand planned for the Outer Ring Road (ORR) to cater to the transportation of industrial goods between production areas around Greater Bangkok and ports in central Bangkok and Rayong. During 1993-97, the north part of the ORR was gradually opened. This created a lot of low-rise developments around northern and northeast Bangkok, including Rangsit, Lumlukka, and Bangbuathong,
- **Impact:** Before 2002, about 50% of low-rise housing units sold were located along the ORR, with the focus on northern and northeastern Bangkok, where commuter services had been launched.
- **Our analysis:** Unlike the condo segment, which tends to benefit from people's lifestyle changes, demand for low-rise houses is driven more by a desire for easy-access and convenient road or highway networks.

Fig 38 Low-rise units sold by location prior to 2002…



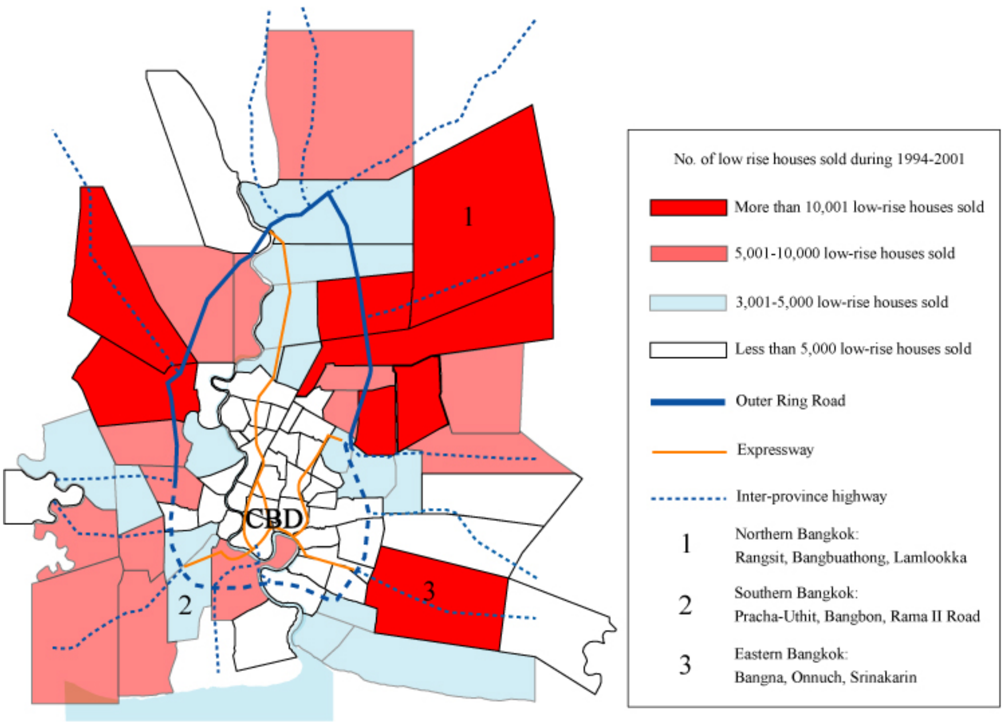
Source: AREA, Macquarie Research, February 2011

Fig 39 …50% of low-rise units were along the ORR

	Sold units (units)	% of total (%)
On the existing Outer Ring Road	**167,582**	**50%**
Adjacent to the Outer Ring Road	105,000	31%
Further away from Outer Ring Road	63,573	19%
Total low-rise units sold	**336,156**	**100%**

Source: AREA, Macquarie Research, February 2011

Fig 40 Low rise units sold were concentrated in Northern Bangkok in 1994–2001



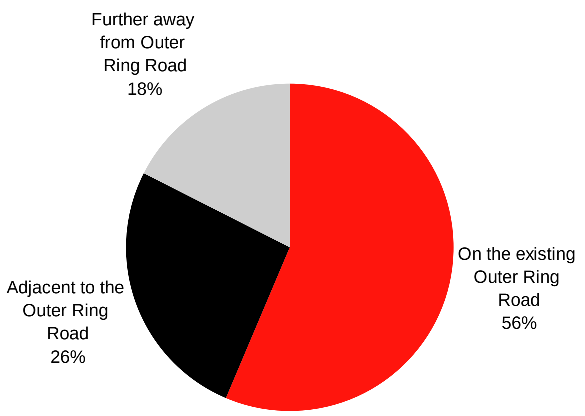
Source: AREA, Department of Highways, Macquarie Research, February 2011

After 2002, low-rise coverage area expanded into the southern and eastern BKK, where the Outer Ring Road gradually completed all the construction

From 2002, expanded road network provides access to new areas

- **Event:** During 2002-2008, the Outer Ring Road had gradually completed all the construction with the southern portion fully operated in early 2008. Also, the openings of the Industrial Ring Road (IRR) in 2006 and the completion of Motorway that connect Suwannabumi Airport in 2007 have provided more convenient and quicker accesses to the CBD area from the southern and eastern Bangkok, including Pracha-Uhit, Bangna, and On-Nuch. We believe these will act as a substitute for city condos.
- **Impact:** During 2002-2009, about 56% of total low rise sold units located along the ORR, focusing on southern and eastern Bangkok. The completed road network created wider low-rise development areas with certain new and fast-growing residential locations.
- **Our analysis:** Low-rise houses will gradually grow on the back of real demand. While more extensive road networks connecting to CBD area may not bring robust demand for low-rise houses, these should serve many clients with growing family members that prefer better atmosphere with larger space, rather than crowded city condos with limited spaces.

Fig 41 Low-rise units sold by location post 2002…



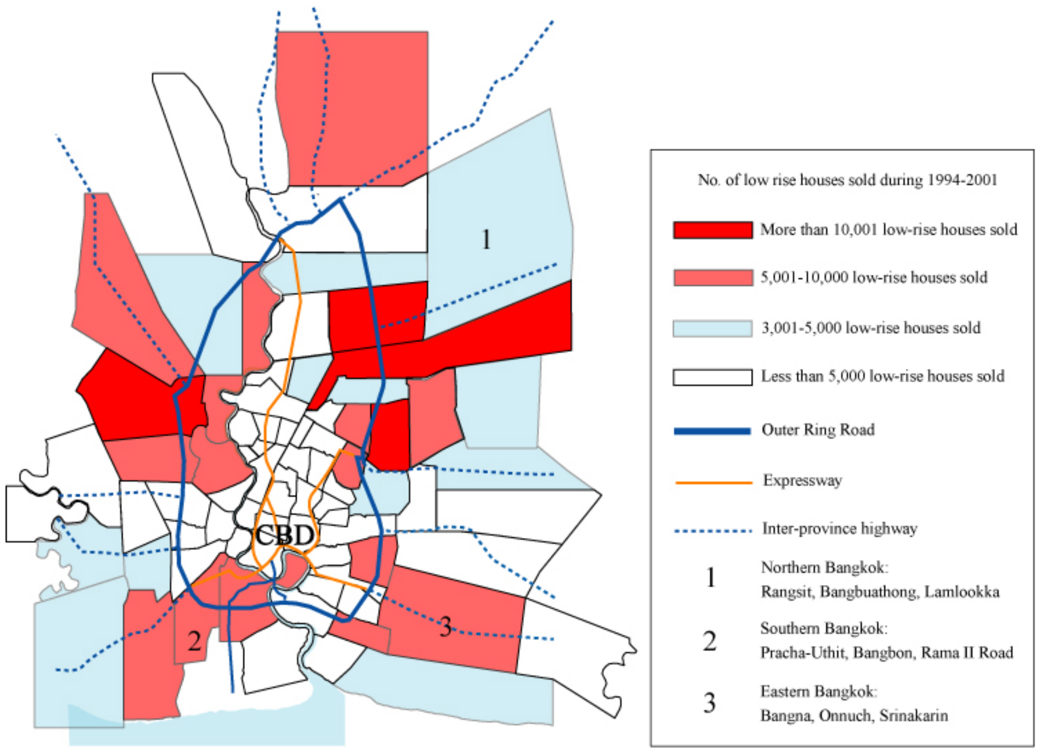
Source: AREA, Macquarie Research, February 2011

Fig 42 ...56% of low-rise units were along the ORR

	Sold units (units)	% of total (%)
On the existing Outer Ring Road	**142,846**	**56%**
Adjacent to the Outer Ring Road	66,383	26%
Further away from Outer Ring Road	44,660	18%
Total	**253,888**	**100%**

Source: AREA, Macquarie Research, February 2011

Fig 43 After 2002, low rise units sold focused in Southern and Eastern Bangkok



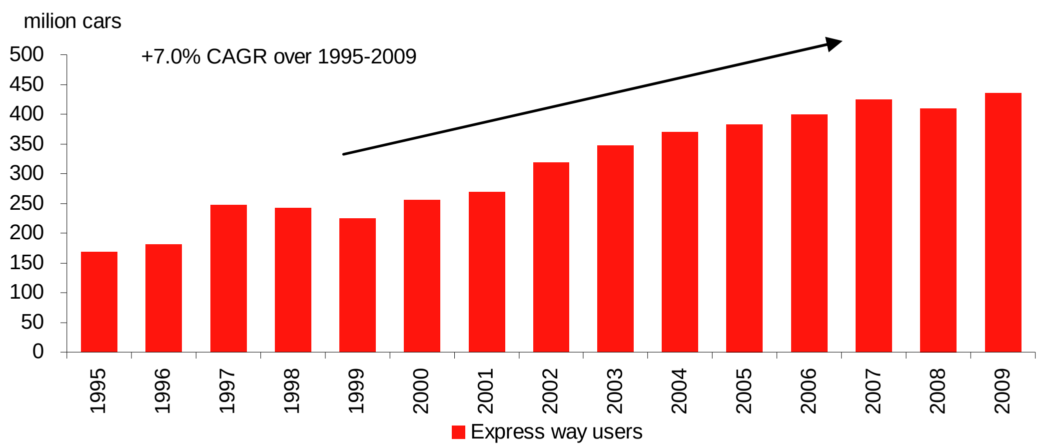
Source: AREA, Department of Highways, Macquarie Research, February 2011

Road network to unlock new low-rise development area

Expressway traffic almost tripled over 14 years

- **Increased road traffic supports outskirts expansion.** There has been gradual construction of the expressway over the last decade. We believe the extension of the expressway network has facilitated housing development projects by offering a convenient access to land that would otherwise have been poorly connected. Car traffic on the entire Greater Bangkok expressway network has grown at a 7.0% CAGR over 1995-2009, reaching 435k cars. We believe the increased traffic is partly the result of an increased population living on the outskirts of Bangkok.

Fig 44 Expressway traffic has grown constantly over the last decade

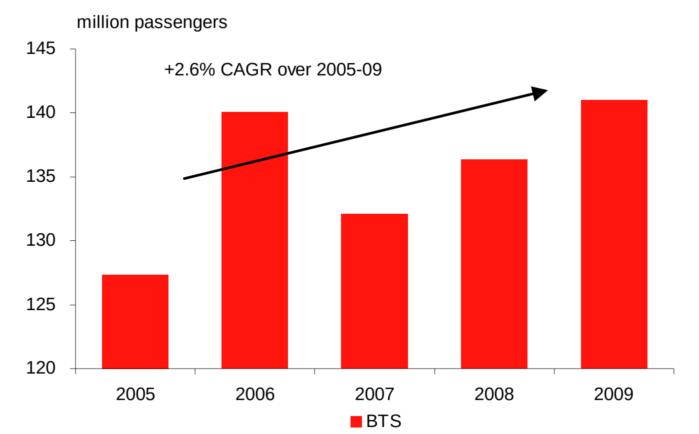


Source: AREA, Macquarie Research, February 2011

Also an increase in CBD mass transit traffic

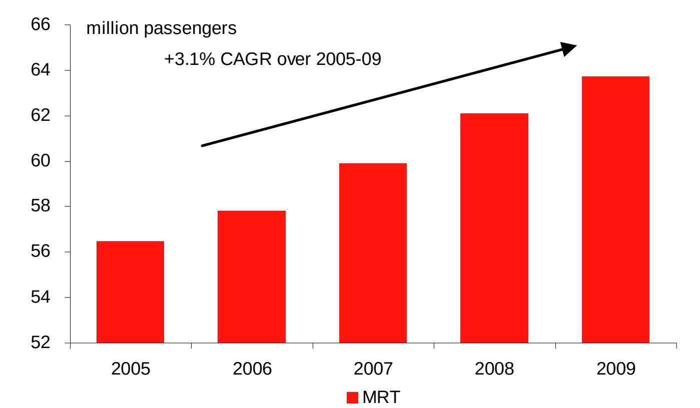
- **Along with increased traffic in the CBD.** While the increase in expressway traffic hints at a growing outskirt population, which benefits the low-rise housing segment, a gradual increase in mass transit traffic over the last five years should promote a similar trend for growth in condominium residents. We believe that there is sufficient growth in the number of households in Greater Bangkok to support both low and high rise housing development.

Fig 45 BTS passengers have continued to rise



Source: AREA, Company data, Macquarie Research, February 2011

Fig 46 ... as have MRT passengers



Source: AREA, Macquarie Research, February 2011

Strategy focus for developers for 2011

We believe that the larger, listed developers will continue to have an advantage over the smaller, unlisted players. They have more capital and better reputations, and better access to bank finance is a key advantage. As the residential market is expected to be more challenging in 2011, the developers should place more emphasis on right location and right segment than ever. Ultimately, the appropriate pricing strategy in different segments, as well as cost efficiency, will determine the winning developers this year.

Focus more on low-rise properties

Focusing more on landed properties

This year, the developers are expected to focus more on the landed property segments, including SDHs and THs, rather than condos like most of them did last year. This is because of the intensifying pace of new launches in the condo segment, especially among low-priced condos. Also, the BoT's recent LTV cap rule will somewhat impact low-income buyers. With faster asset turnover for landed properties, adding more low-rise properties to their portfolios will help the developers better control liquidity and cash flow management. The improving road network should be another important driver to create new development areas for low-rise developers, which in turn should organically support demand for low-rise houses.

'Pre-build' to 'Pre-sales' strategy

Shifting from 'pre-build' to 'pre-sales' construction strategy

Most Thai developers have already used a pre-sales construction strategy for their residential projects. Only LH, QH and some medium sized listed developers apply a pre-build strategy. Given that the residential market is getting more challenging, with growing competition, we see a rising trend of developers switching their construction strategy from 'pre-build' to 'pre-sales'. This is to secure the demand prior to the construction being completed. This strategy should help strengthen their backlogs, improve earnings visibility and avoid the risk of rising unsold housing stock.

Seeking additional growth in the provinces

Provincial expansion to seek incremental growth

The provincial market is another area where the Thai developers can find additional growth to their existing business in the Greater Bangkok. While Greater Bangkok is getting more crowded with aggressive launches by existing developers and newcomers, larger, listed players are seeking to tap into the new provincial markets to sustain their growth momentum. With strong expertise and brands, listed developers are keen to utilize their construction technology and economies of scale to launch projects in the provinces. SPALI, LH, PS, QH and LPN have already set their paths to penetrate further in the provinces.

Smaller housing unit trend continues

Unit downsizing continues

In 2011, we expect the continuing trend of the developers downsizing the unit size to make the total unit price more affordable for the lower-end markets. With an increase in interest rates, and rising LTV requirements, homebuyers' affordability could be adversely impacted somewhat. Similar to the trend in 2010, the total unit price, not selling price per square metre, will still be the factor that local buyers consider when determining affordability. In early 2011, LPN has initiated its new room design of one-bedroom with a unit space of just 22.5 sqm, vs one-bedroom of 25 sqm in 2010.

Joint marketing between developers and banks

Joint marketing with banks to cope with higher rates

Amid the rising interest rate environment in 2011, developers will be keen to maintain their sales momentum, while banks are trying to get higher, good quality mortgages. Banks are known to prefer selective lending to well-known developers with good reputations that tend to use loans from banks that offer good terms. Major developers are forming partnerships with commercial banks to secure clients with pre-approved credit. This is to help reduce the rejection risk at the time of transfer, while developers can get their units back to resell to other potential customers with a better credit profile.

Signing LT contracts to fix raw material cost in advance

Signing long-term contracts to lock up raw material costs

We expect rising construction raw material costs of around 5-7%, while we estimate that house prices will increase by a lower magnitude of 3-5% for 2011. This should pose a big challenge for developers to focus on cost control and accelerate the speed of construction. Signing long-term contracts to fix the prices for certain raw materials can help. Bigger, listed developers have the upper hand. They have stronger bargaining power when buying raw materials in bulk. For example, they can sign a one-year contract for concrete and a six-month contract for steel.

Improving technology to speed up construction

Speeding up construction speed

Another way to control costs is to shorten the construction time. PS has reduced its construction time for THs from 3–4 months to 2–3 months. LPN has also reduced its construction time for low-rise condos from 10–12 months to 6–8 months. The shorter the construction period, the better the liquidity is. We also see other big players such as LH, QH and AP applying a precast construction strategy for their housing projects. All developers are likely to try to accelerate their construction speed to reduce management costs this year.

Gearing control crucial amid highly competitive market

Balance sheet and gearing control still important

Developers' gearing is unlikely to significantly decline in 2011. This is because they are still expanding very aggressively. This year, most developers are maintaining or even raising their capital expenditure budgets for new land purchases for their aggressive expansion plans. A well-diversified portfolio with strong liquidity and cash flow management is crucial to prepare for healthy financials if their house unit transfers face delays. We prefer companies with well-diversified portfolios between low-rise SDHs and THs (liquidity management) and high-rise condos (earnings visibility). AP and SPALI fit into this category. Our estimated average gearing for the six developers covered in this report is 68% in 2011E, which is pretty stable from last year.

Provinces - incremental growth engine

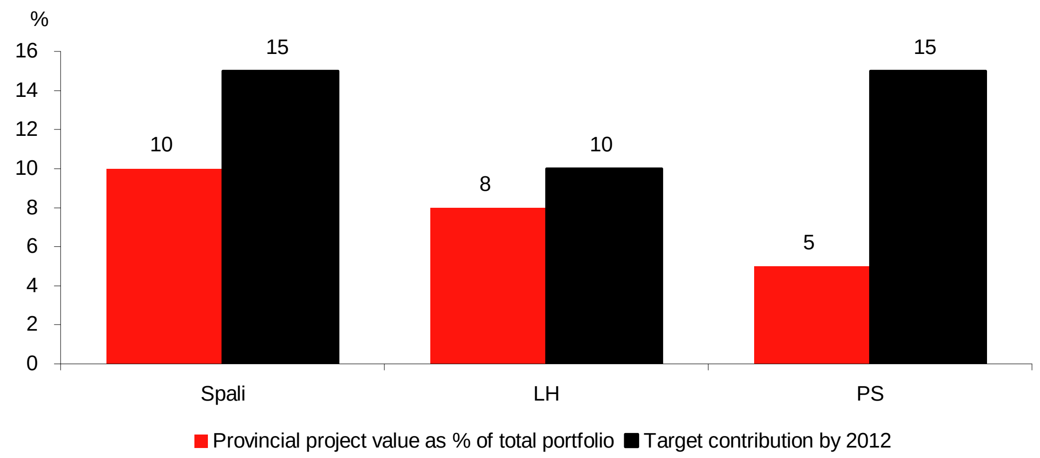
Expanding provincially to seek additional growth

- **Provincial expansion to bring additional growth.** While Greater Bangkok is getting more crowded with aggressive launches from existing developers and newcomers, larger, listed players are seeking to tap into the new provincial markets to sustain their growth momentum. With strong expertise and brands, listed developers are keen to utilize their construction technology and economies of scale to launch projects in the provinces.

SPALI, LH and PS are already exposed to the provinces

- **Some listed developers have already made a headstart.** A few property companies are already exposed to the provinces. SPALI and LH currently earn 10% of their revenue from provincial property projects and both are looking to expand this to 12-15% in the next two years. PS has recently launched its first upcountry project and is targeting to add more. Given PS's core operating strength, it is well positioned to tap into provincial demand. QH and LPN also branching out from Bangkok.

Fig 47 SPALI, LH and PS already have some exposure in the provincial market



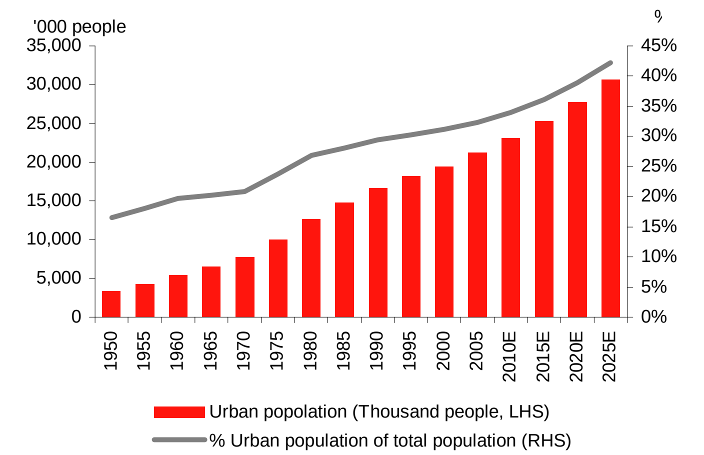
Source: Company data, Macquarie Research, February 2011

We see growing demand from provincial development

Rising provincial demand

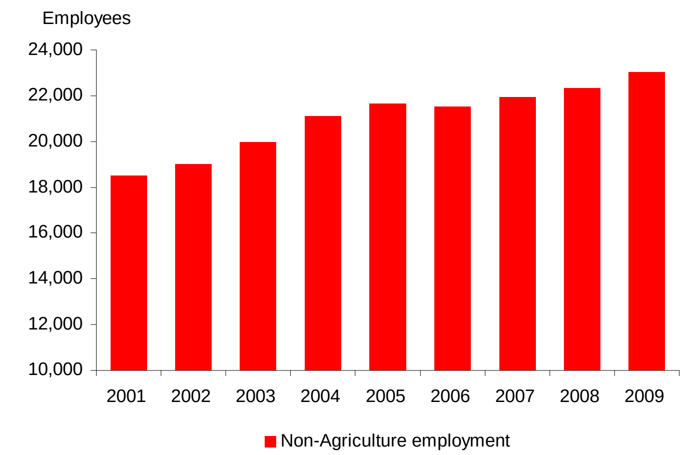
- **Shift in employment to lift provincial demand.** There has been a shift in employment away from agriculture to more stable-income jobs in the industrial and service sectors. There has been a gradual migration towards the provincial cities, mainly to seek stable-income employment opportunities. We believe this shifting of employment will provide these consumers accessibility to credit, which we view as vital for home purchases.

Fig 48 People gradually migrate into urban cities



Source: United Nations, Macquarie Research, February 2011

Fig 49 Non-farm, stable-income employees growing



Source: BoT, Macquarie Research, February 2011

Opportunity, affordability and preference: Central is the next market

Opportunity to convert rent demand to home ownership

Additional demand growth by converting 'Rent' to 'Buy'

- **People who rent can shift into buying houses.** Rent demand is another tool to gauge demand for the residential market. We believe there are incentives for locals to convert their rental payments into mortgage payments.
- **Household characteristics in Thailand.** At present, the Greater Bangkok has the highest proportion of renting tenants at 36%, followed by Central at 16%, the South at 11%, and the North and Northeast at 5% and 3% respectively. Strong demand growth still remains in Greater Bangkok, and there is a growing opportunity in Central, while the remaining regions can provide more value-added in terms of incremental growth to the overall residential businesses for the major large, listed developers from a long-term perspective.

Greater Bangkok still the largest market

- **Greater Bangkok is still the major market.** It has the single largest renting population of over a million households or 36% of total house occupancy. We expect that Greater Bangkok should continue to be the major market for the listed developers.
- **Provincial market is growing, fast.** Aside from Bangkok, we also see

Central is the next best thing

⇒ **Central is the biggest provincial market**. The Central region possesses the second largest population of renting population (16% of total). This should be mainly driven by the more developed tourist provinces like Pattaya and Chonburi, and the industrial estate provinces like Ayutthaya, Nakorn Pathom and Rayong,

The South, the North and the Northeast to add more growth

⇒ **The South, the North and the Northeast.** These three provincial regions should also act as potential markets that provide decent incremental growth, given the rising trend of urbanisation and faster-growing regional income growth compared to Bangkok.

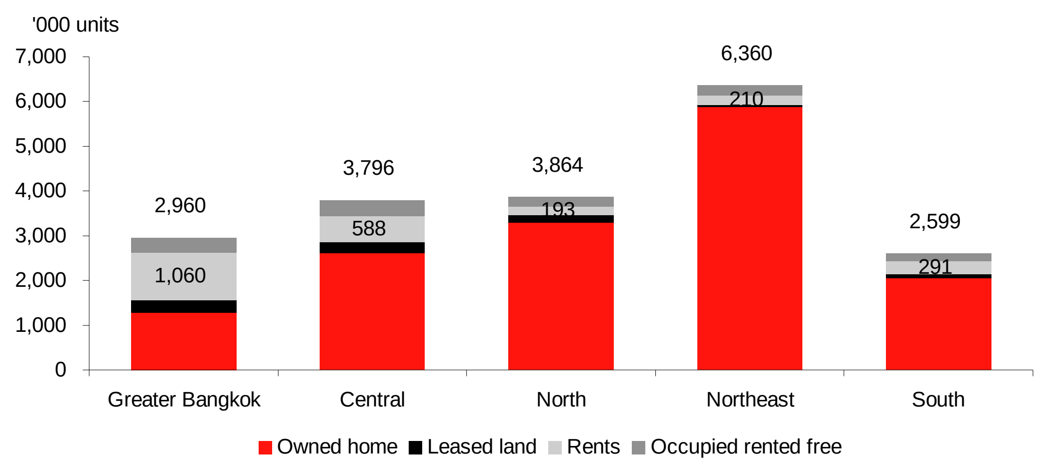
- **Major cities with growing urbanisation are key targets.** This is because the demand for residential projects in other regions is highly concentrated in the major provinces, such as Chiang Mai in the North, Kon Khen and Korat in the Northeast and Phuket in the South.

Fig 50 Percentage of households by major housing characteristics and region

	Total	Greater BKK	Central	North	Northeast	South
Owns dwelling and land	77	43	69	85	92	79
Owns dwelling on rented land	4	10	6	5	1	4
Rents	**12**	**36**	**16**	**5**	**3**	**11**
Rents Occupied rent free	7	11	9	5	4	7
Total	100	100	100	100	100	100

Source: NSO, Macquarie Research, February 2011

Fig 51 Central Thailand has good potential to tap additional growth



Source: NSO, Macquarie Research, February 2011

Affordability: Aiming for cheaper products

The provincial market appears to suit lower-priced houses

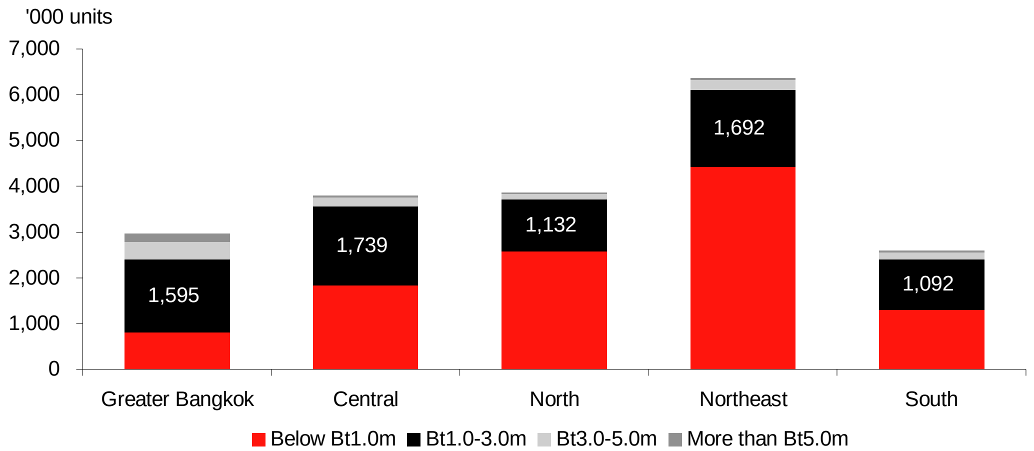
- **Majority of Thai people are low-income earners.** Based on data from the National Statistical Office (NSO), the majority of Thai residents are lower-income earners with monthly household incomes of less than Bt30k. The percentage of households with incomes below Bt30k account for about 62% of the Greater Bangkok population and 80% or more of the provincial population.
- **Houses priced Bt1-3m is the largest market.** Based on the income level distribution, we found there are large markets for housing priced between Bt1-3m in the provinces. As household incomes should continue to grow, we believe that households with an income range of Bt15-50k/month could be the market that supports future growth for the listed developers.
- **The provincial market appears to suit lower-end houses.** The developers who are keen to penetrate the provincial market and reach local buyers will have to present the right product and price to be successful in these new markets. Low-end housings appear to be the best answer, in our view.

Fig 52 Percentage of households by average monthly income and region

Household income (Bt/month)	Affordable house price (Btm/unit)	Total	Greater BKK	Central	North	Northeast	South
Below Bt10k	-	22	11	28	48	50	29
Bt10-15k	Below Bt1m	19	16	21	19	20	21
Bt15-30k	**Bt1-2m**	**27**	**35**	**34**	**22**	**20**	**30**
Bt30-50k	**Bt2-3m**	**11**	**19**	**12**	**7**	**7**	**13**
Bt50-100k	Bt3-5m	6	13	5	3	3	6
Above Bt100k	Above Bt5m	16	6	1	1	1	2
Total		100	100	100	100	100	100

Source: NSO, Macquarie Research, February 2011

Fig 53 Key potential markets are in Bt1-3m house segment



Source: NSO, Macquarie Research, February 2011

Preference: SDH is the product champion in the provinces

SDHs are most popular in the provinces

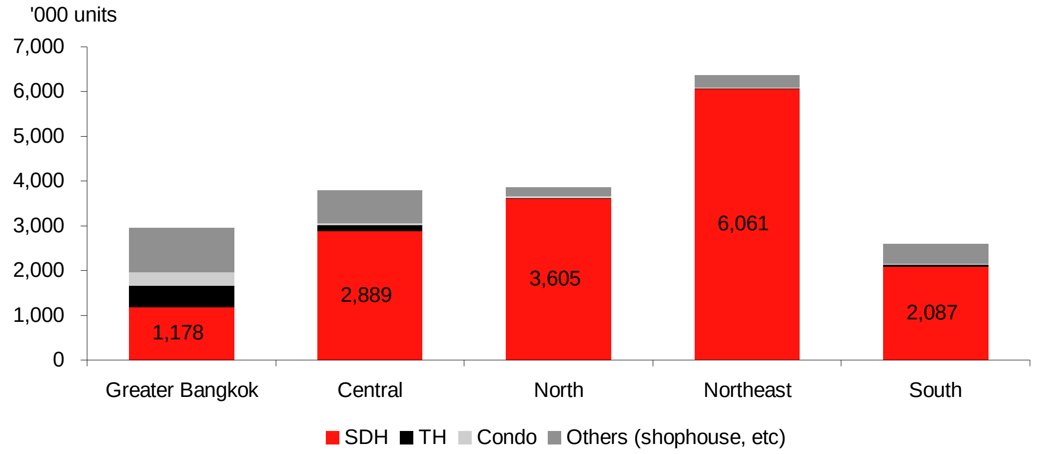
- **SDH is the most suitable product for the provinces.** Due to cheaper land prices in the provinces, single-detached housing seems to be the product of choice in these areas. While only 40% of households in Greater Bangkok live in SDH, 76-95% of the provincial households live in SDHs.
- **SPALI and LH are key players in the SDH provincial market.** During our last visit to Khon Kean, and Nakorn Ratchasima, we also found that Supalai and Land and Houses' key products are single-detached houses.

Fig 54 Percentage of households by major house type and region

	Total	Greater BKK	Central	North	Northeast	South
SDH	**81**	**40**	**76**	**93**	**95**	**80**
TH	4	17	3	1	0	2
Condo	2	10	1	1	0	1
Others (shop house, etc)	14	34	20	5	4	17
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: NSO, Macquarie Research, February 2011

Fig 55 Single-detached house is the product of choice



Source: NSO, Macquarie Research, February 2011

SPALI, LH, PS, QH and LPN all go upcountry

Where some developers have gone before

The major large, listed developers who are entering the provincial markets are mostly targeting local buyers rather than foreign investors. Examples of developers who have already headed for the provinces include:

- **SPALI: Pioneering into the provinces.** At end- 2010, about 10% of SPALI's total portfolio came from the provinces, including Chiangmai, Hadyai, Phuket, Khonkaen, and Chonburi. The company targets to raise the provincial project value to 15% of the total by 2012.
- **LH: A giant reaching out.** At end-2010, LH had 10 active housing projects in five provinces covering every region in Thailand. LH's provincial projects account for 8% of the total portfolio. LH targets its provincial project value to reach 10% of the total by 2012.
- **PS: Seeking additional growth.** PS started its first provincial project in Phuket at end-2010, which was successful with an 80% take up rate in two months. Of its presales target of Bt32bn in 2011, Bt5bn is expected from upcountry sales, or 16% of the total portfolio.
- **QH: Going Central and North.** QH has several housing projects in the provinces, including Chonburi, Cha-um, Rayong, and Chiengmai.
- **LPN: Start going out.** In 2011, LPN will open its first two low-end condos in Pattaya.

2011 swing factor: how can developers adjust new supply to match softer demand?

Aggressive launches, softer demand, expected flexible developers

Aggressive new launches continue in 2011 …

- **Aggressive new launches in 2011**
  - ⇒ In 2010, 117k new units were launched (+103%), worth Bt302bn (+65%).
  - ⇒ Based on our survey of the new launch plans announced by the listed and non-listed developers, we think that 2011 will continue to be a year of aggressive launches, following the substantial pre-sales success in 2010.
  - ⇒ In 2011, we estimate the total value of new launches at Bt346bn, up 14% YoY.

… demand should soften to reach a more normal level

- **Expect softer demand in 2011...** Our study shows that demand side should reach a more normal level in 2011.
  - ⇒ In 2010, total demand reached 96k total units (+62%) or Bt259bn (+47%).
  - ⇒ We believe 2010 demand, which reached a record high since 1996, is unlikely to be repeated this year. In our view, the 2010 record demand was driven by a combination of pent-up demand after the global crisis in 2009, strong economic recovery in 2010, and accelerated demand ahead of the property tax benefits from 2011.
  - ⇒ In 2011, we forecast that total take-up value will be Bt221bn, down 15% YoY. Note that 2010 was an abnormally high demand year which should result in slower demand the following year, but long-term demand prospects for Thai property should remain intact, supported by nominal household income growth (+8.5% p.a.)

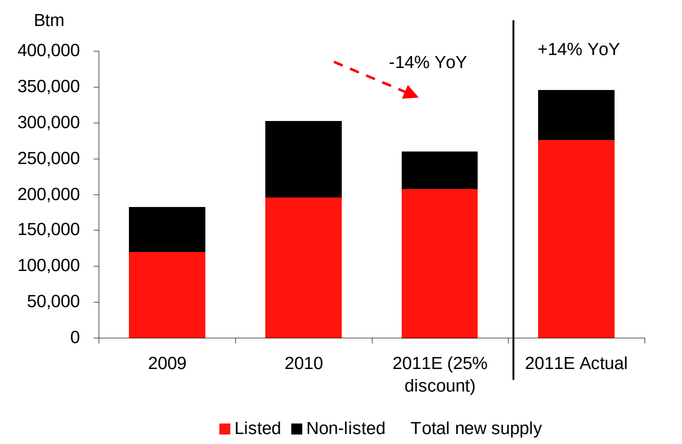
2011 swing factor – how much will the developers adjust new launches to avoid oversupply?

- **… the developers will need adjust their launches to avoid oversupply.** While our 2011 demand forecast of Bt221bn would fall short of 2011 expected new supply at Bt346bn, which should imply only a 64% take up rate, this compares to 78–103% over 2004–10. However, we remain hopeful that the Thai developers can always adjust their launches to match the demand. Thus, we apply a 25% discount to 2011 total new launched value, and derive an adjusted total new launch value of Bt259bn, down 14% from 2010. If this is the case, our calculation for adjusted take-up rate would improve to 85%, vs 82% in 2010.

We could be at the edge of oversupply if there is no easing of launch schedules

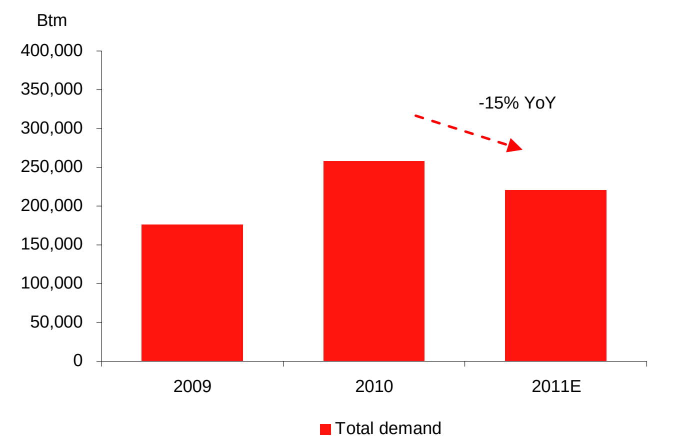
- **Our conclusion:** We think 2011 will be more of a year of consolidation. Developers will need to monitor the supply and demand situation closely to avoid getting near to oversupply. We believe that large, listed developers will continue to gain market share. These are professional developers who should know when to adjust supply if needed. With our assumption that the actual new launches will be less than what the developers have announced, we believe that the demand and supply dynamics should continue to be in balance for 2011.

Fig 56 2011E adjusted new supply at Bt259bn (-14%)



Source: AREA, Company data, Macquarie Research, February 2011

Fig 57 Expect 2011 demand at Bt221bn, down 15%



Source: AREA, Macquarie Research, February 2011

At first glance, 2011 total new launches will reach Bt346bn, up 14% YoY…

Aggressive new launched supply continues…

- **2011 total new launches expected at Bt346bn, up 14% YoY.** We conducted a survey among several listed developers, which suggested a total launch value of Bt346bn for 2011, up 14% from Bt302bn in 2010. Our Bt346bn figure is based on:
  - ⇒ **Our survey of listed developers, which found they intended to aggressively launch projects worth Bt277bn in 2011 (+41% YoY).** Of that, an estimated Bt205bn is from the seven developers under our coverage while an estimated Bt72bn is from the smaller listed developers in the market.
  - ⇒ **We assume 80% market share for total listed developers.** This is up from 65% in 2010 and 59% in 2009 based on data from the Agency of Real Estate Affairs (AREA). We believe the large listed developers will continue to gain market share with their stronger market positionings and easier access to funding.
  - ⇒ **Unlisted developers to launch Bt69bn of total projects (down 35%) in 2011.** We derive the total new launch value of unlisted developers at Bt69bn in 2011, down 35% from the Bt106bn in 2010 (based on AREA data). With banks becoming stricter on lending to smaller developers, we believe unlisted players will be squeezed out of the market this year.

Fig 58 Estimated total new launches at Bt346bn in 2011, up 14%

	2010	2011E	% YoY
Total new launched value			
Listed	196,391	276,706	41%
Unlisted	105,749	69,177	(35%)
Total	**302,140**	**345,883**	**14%**
Market share			
Listed	65%	80%	
Unlisted	35%	20%	
Total	100%	100%	

Source: AREA, Company data, Macquarie Research, February 2011

…but if developers are flexible, adjusted total new launches will be lower at Bt259bn, down 14% YoY

…but we think the developers will lower their launches during 2011

- **Without new supply adjustment, oversupply is looming.** We do not think that house demand will top or match the 2010 level due to rising rates and stricter mortgage conditions. If all the bigger listed developers insist on their aggressive new launch schedules, we think concerns over a looming oversupply could arise by the end of 2011.
- **Good news is we think the developers will adjust.** Since the bigger listed developers, who are more experienced, should dominate the market and gain market share, we believe they will adjust their new launches to match the actual demand in the market. Thus, we apply a discount of 25% to our estimated total new launch value of Bt346bn. This brings us to an adjusted total new launch value for 2011 of Bt259bn, down 14% from 2010.

Fig 59 If developers can adjust, 2011 total new launches will drop 14%

	2010	2011E (Adjusted)	% YoY
Total new launched value			
Listed	196,391	207,530	6%
Unlisted	105,749	51,882	(51%)
Total	**302,140**	**259,412**	**(14%)**
Market share			
Listed	65%	80%	
Unlisted	35%	20%	
Total	100%	100%	

Source: AREA, Company data, Macquarie Research, February 2011

Expect housing demand to soften in 2011

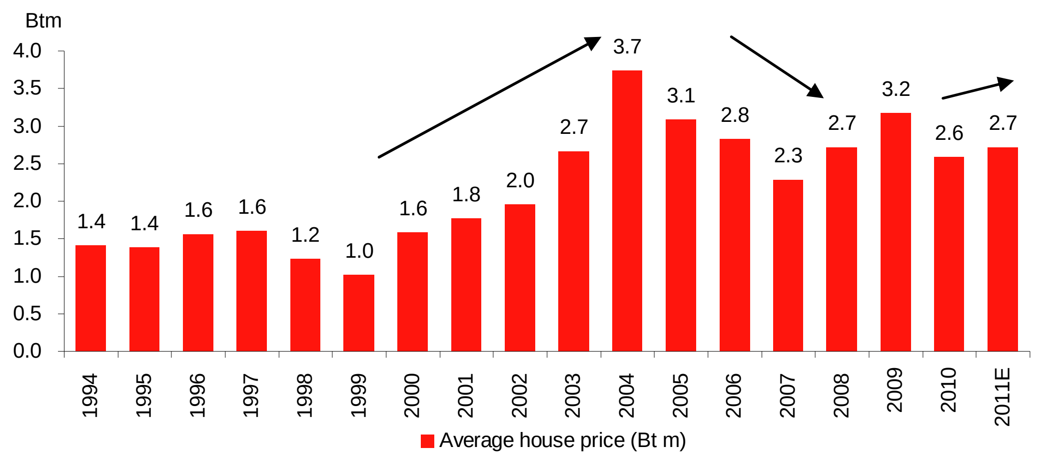
2010 total demand up 47%

- **2010 record demand may not be repeated.** In 2010, total housing demand reached a record high at Bt259bn (+47% YoY), the highest level in 11 years since 1996. This was due
  - ⇒ Strong pent-up demand after the global economic crisis in 2009
  - ⇒ Robust demand following solid economic growth and property tax incentives in 2010
  - ⇒ Acceleration in demand possibly from 2011 as some buyers might want to enjoy the benefits of low interest rates and tax incentives prior to their expiration in 2010.

2011 total demand estimated at Bt221bn, down 15%

- **2011 demand to decline 15%.** We do not think that housing demand will top or match the 2010 level. Rather, we think it will be back to normal in 2011. We forecast that the housing demand or total take-up value will reach Bt221bn in 2011, down 15% from 2010. Our estimate of declining demand in 2011 is based on the following:
  - ⇒ **Apply take-up units at 63,943 for a base year.** We use the 7-year average take-up of units over 2004–10 at 63,943 units to represent a normal year for Greater Bangkok housing demand. This is to avoid overshooting the abnormally low take-up in 2009 and abnormally high sales in 2010.
  - ⇒ **Estimate 2011 total take-up of units at 81,331.** We apply the take-up CAGR of 9.0% over 2004–10 and derive a regular total take-up of 73,937 units. Multiplying by 1.1x to reflect the smaller-sized unit trend, we derive 2011 total take-up at 81,331 units.
  - ⇒ **Average property price to rise 5.0% in 2011.** We estimate the average property price at Bt2.72m per unit in 2011, vs Bt2.59m in 2010. This is based on our assumption of a 5.0% property price increase in 2011, corresponding with the property price CAGR of 5.0% over 2000-10.

Fig 60 Average house price to increase 5.0% in 2011E



Source: AERA, Macquarie Research, February 2011

What if developers cannot adjust? Oversupply is likely

Sensitivity of demand/supply and inventory outlook

2011 total new launches to be a wild card

While we believe that developers will adjust their new supply to match the demand, it is still interesting to see what would happen if the developers do not adjust at all.

Sensitivity of supply demand and inventory picture

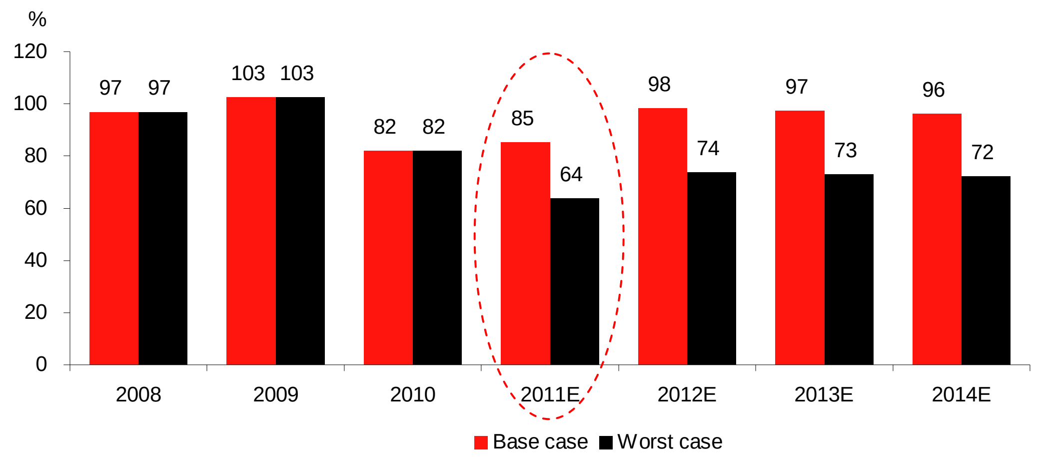
Base case: 85% take-up; 1.8 years to clear total inventory

- **Base case: Developers will adjust their launches.** As we stated earlier, we expect the developers to cut back their new launches by an average of 25% to Bt259bn in 2011, down 14% YoY. If this is the case, the take-up rate should stay healthy at 85% in 2011, vs 82% in 2010. The inventory clear-out time would be 1.8 years, in-line with the 10-year mean.

Worst case: 64% take-up; 2.2 years to clear total inventory, moving yet higher

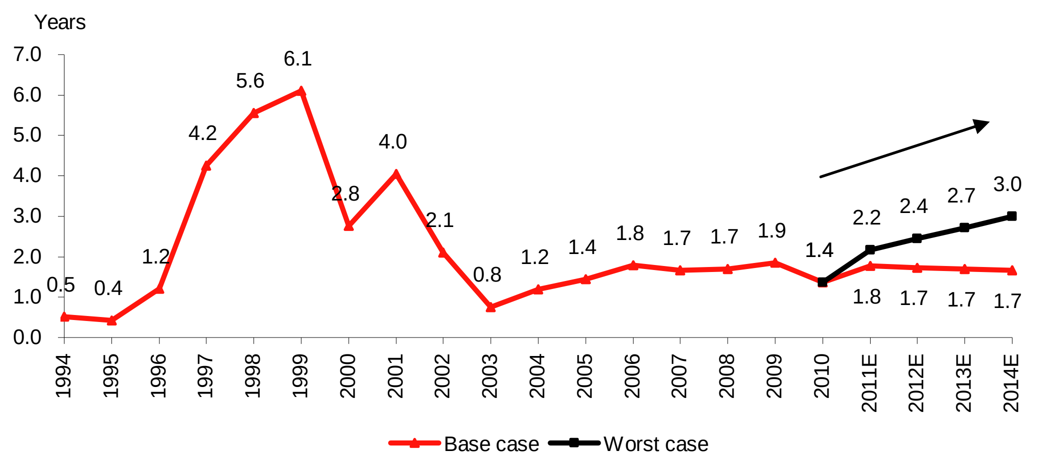
- **Worst case: No new supply adjustment.** If none of the developers backs off and they continue to aggressively open new projects as announced in early 2011, we estimate total new launch value will reach Bt346bn, up 14% YoY. If this is the case, our estimated take-up rate would significantly drop to 64% in 2011 from 82% in 2010. Likewise, the inventory clear-out time would surge to 2.2 years, vs 1.8 years in 2010. This could cause a rising inventory level in the market, and lead to more severe oversupply conditions in the future.

Fig 61 2011 take-up rate: 85% (base case) vs 64% (worst case)



Source: AREA, Macquarie Research, February 2011

Fig 62 Rising inventory clear-out time if no supply adjustment is assumed



Source: AREA, Macquarie Research, February 2011

Inventory clear-out time – a good gauge to check oversupply

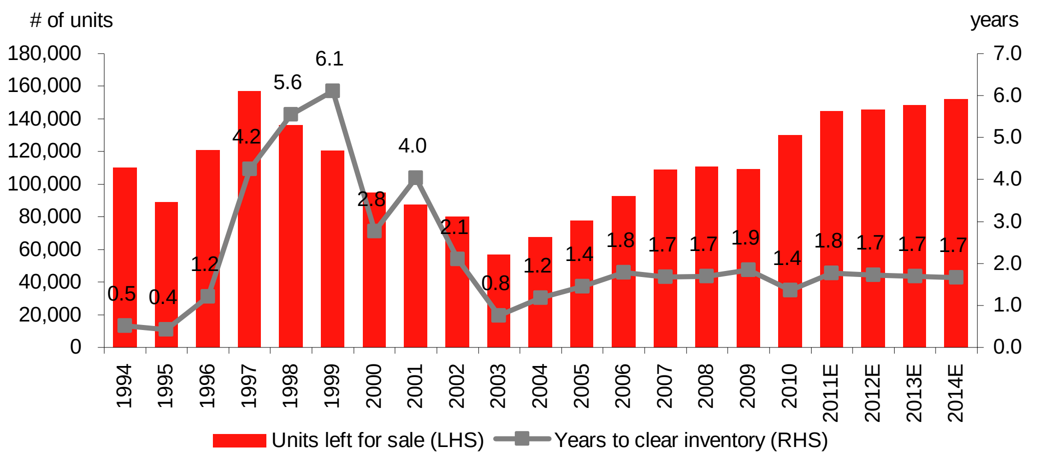
Inventory clear-out ratio – a good check on oversupply

- **Inventory clear-out time – a good gauge for checking oversupply.** We compared the outstanding accumulated housing stock with annual housing demand to calculate an average inventory clear-out period.
  - ⇒ The lower the ratio, the faster the developers could clear out their inventory and avoid default risk. The higher the ratio, the longer it would take developers to unload stock.
  - ⇒ The lower the ratio, the more likely the developers are to launch more projects. Conversely, the higher the ratio, the greater the risk of oversupply.

With new supply control, inventory clear-out time will remain healthy

- **Base case: If developers adjust, inventory clear-out time would be stable.** Assuming the developers adjust their new launches, we estimate 2011 total inventory will reach 144k units, up 11% from 2010. Applying total take-up units at 81,331 during the same year, we calculate the inventory clear-out time at 1.8 years. Under this scenario, our forecasts show the inventory clear-out time would remain relatively stable in the future.

Fig 63 Total inventory in check, if new launches are reasonable

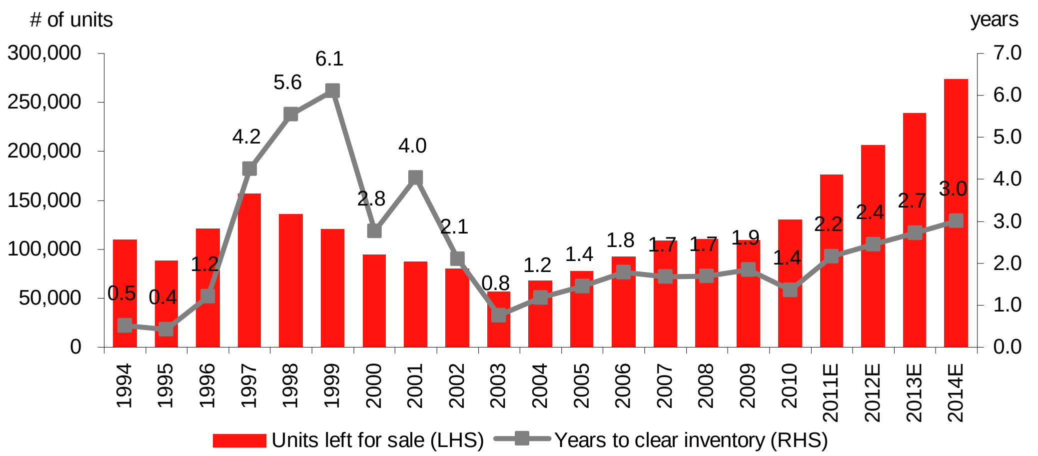


Source: AREA, Macquarie Research, February 2011

With no new launch discipline, inventory clear-out time will indicate an oversupply problem

- **Worst case: If no developer adjusts, oversupply is very likely.** Without any new supply adjustment, total overall inventory would reach 176k units in 2011, up 35%. Applying a similar take-up of 81,331 units, we calculate the inventory clear-out time at 2.2 years. Under this scenario, total inventory would surpass the peak level before the Asian crisis in 1997. If this is the case, we foresee a severe oversupply situation in the next few years.

Fig 64 Total inventory to surpass crisis level, if new launches are excessive



Source: AREA, Macquarie Research, February 2011

Segment analysis – we prefer TH; Neutral on SDH; and selective on condo

SDH – benign competition

Single detached houses (SDH) – benign competition

- This year, we expect the SDH demand and supply to grow along with the economic outlook. In 2011, we estimate the SDH inventory clear-out time to stay around 2.9 years, vs 2.7 years in 2010, which is the normal range for any SDH project to be developed, built and transferred. This is significantly lower than the worst period for the SDH segment at 5.4 years in 2006. Benign competition with organic demand growth should make the SDH segment fairly attractive this year. LH and QH should be the main beneficiaries.

TH – increasing attractiveness

Townhouses (TH) – increasing attractiveness

- With rising mortgage restrictions and relatively smaller condo unit, we expect some buyers to switch their preference from condo to TH, given the similar price range with a larger space. We expect TH inventory clear-out time at 1.6 years in 2011, which is significantly lower than the 2.4 years in 2010. Despite the expected strong TH demand, we still see this segment as highly competitive, as the target buyers are low-income earners who are price-sensitive. Only the larger players with high cost efficiency are likely to benefit. We see PS as a clear winner.

Condo – getting more challenge

Condominiums (condo) – getting more challenging

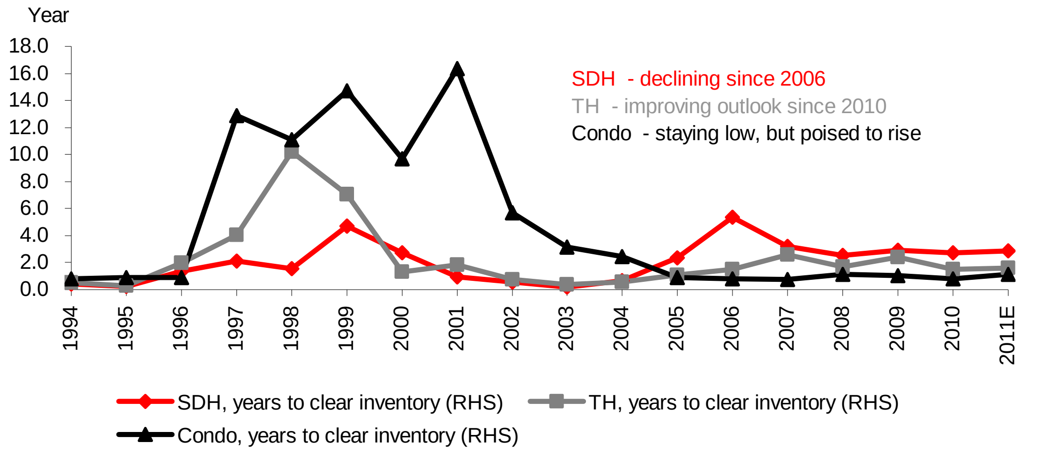
- Condo demand should remain strong with intensifying new and existing launches to bring a normalisation in take-up speed. Based on our assumption that new condo supply will drop 35% in 2011, we estimate the condo inventory clear-out time will rise to 1.1 years from 8 months in 2010. However, if this is not the case, we see condo oversupply as very likely in the future. Product, price, and location will determine which developers and which project/location will benefit. Strong players in this segment are AP and LPN.

Fig 65 2011 housing outlook by product type and segment

	SDH	TH	Condo
Low-end			
- Demand	Improving	Increasing	High but with lower affordability
- Supply	Low	High	Increasing
Middle-end			
- Demand	Improving	High	High
- Supply	Low	Stable	High
Luxury-to-high-end			
- Demand	Low (except in certain locations	Low	Low
- Supply	Declining	Stable	Limited

Source: Macquarie Research, February 2011

Fig 66 Inventory clear-out time improved significantly for TH



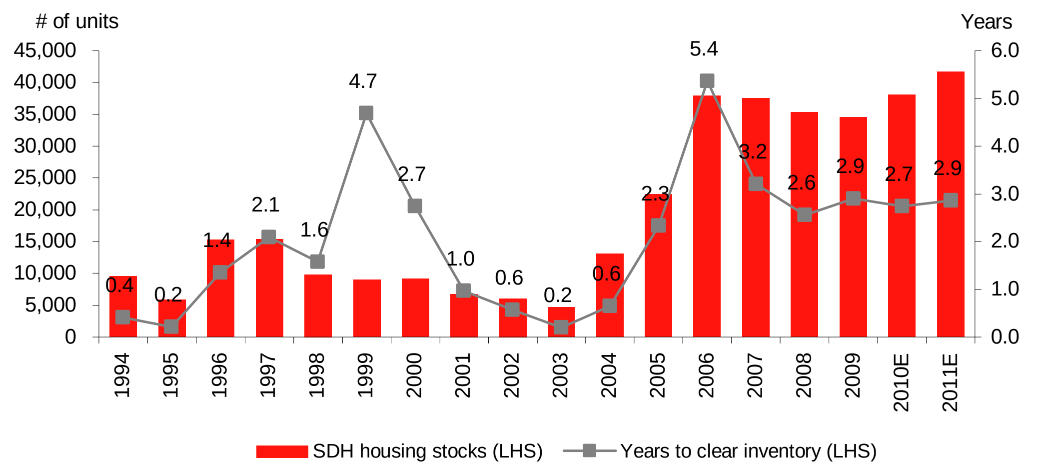
Source: AREA. Macquarie Research, February 2011

Single detached houses (SDH) – benign competition

SDH – inventory remains in check due to benign competition

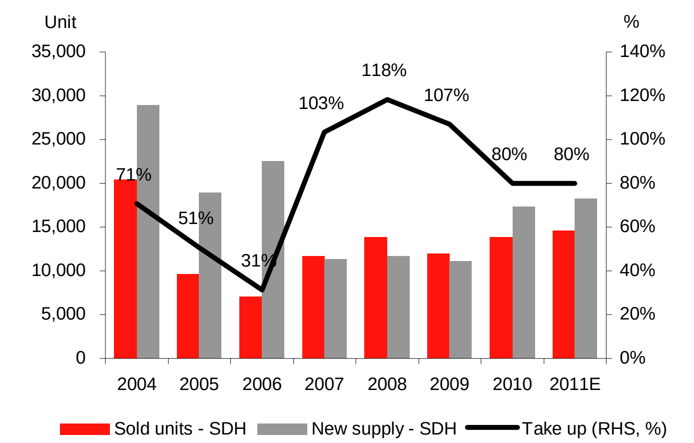
- **2010 SDH segment summary**
  - ⇒ **SDH inventory still in check at end-2010.** At the end of 2010, there were a total of 38,073 SDH units left available for sale, up 10% from the end of 2009.
  - ⇒ **Take-up of 80% is reasonable.** In 2010, total new launches for SDH were at 17,353 units (+56%) and total take-up was 13,869 units (+16%). This represented a take-up rate of 80%, the level above which price competition should not exist.
  - ⇒ **Shorter SDH inventory clear-out time** to 2.7 years, down from 2.9 years in 2009 and the worst period for the SDH segment of 5.4 years in 2006. The construction time of 2-3 years is the normal range for any SDH project to be developed, built and transferred.
  - ⇒ **Developers staying in mid-priced houses.** The average unit price for SDH declined to Bt4.6m in 2010 from Bt4.8m in 2009. Of the total SDH units sold in 2010, about 50% were houses priced at Bt3–5m, 24% priced Bt2-3m, and 20% priced Bt5-10m.
- **2011 outlook – growing organically.** In 2011, we project total SDH supply at 18,221 units (+5%), total demand of 14,652 units (+5%). We derive an SDH inventory clear-out time of 2.9 years and take-up of 80% for 2011, vs 2.7 years and 80% respectively in 2010.

Fig 67 SDH segment to show stable inventory clear-out ratio



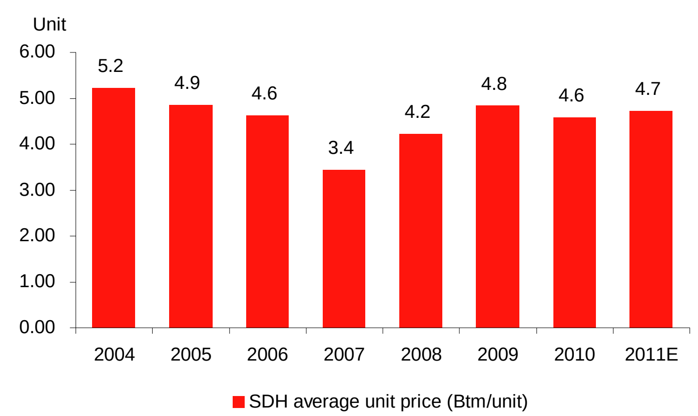
Source: AREA, Macquarie Research, February 2011

Fig 68 SDH take-up remained healthy at 80% in 2010



Source: AREA, Macquarie Research, February 2011

Fig 69 SDH average price of Bt4.6m in 2010



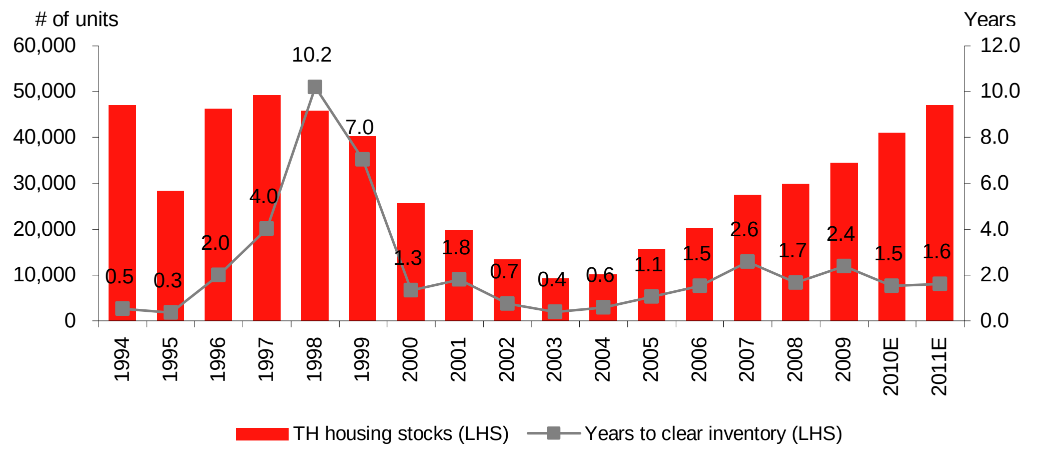
Source: AREA, Macquarie Research, February 2011

Townhouses (TH) – increasing attractiveness

TH – significant improvement in inventory clear-out time

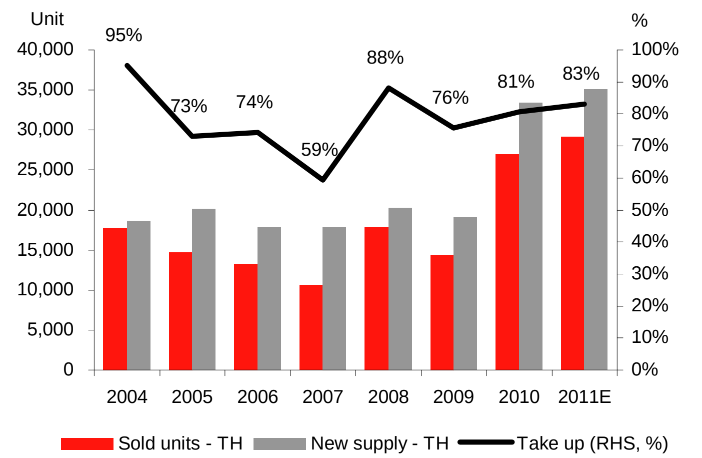
- **2010 TH segment summary**
  - ⇒ **TH inventory increased at end-2010.** At the end of 2010, TH total units left available for sale reached 40,983, up 19% from the end of 2009.
  - ⇒ **The highest take-up growth segment.** In 2010, total new launches for TH were at 33,407 units (+75%) and total take-up was 26,962 units (+87%, the highest growth in take-up units in 2010). This represented a take-up rate of 81%, up from 76% in 2010.
  - ⇒ **Much healthier TH inventory clear-out time.** With strong growth of TH take-up units, TH total inventory clear-out time significantly declined to just 1.5 years in 2011, down from 2.4 years in 2009. The best improvement among the three sub-segments, including SDH, TH and condo.
  - ⇒ **Low unit prices to match low-end clients.** The average unit price for TH was at Bt1.8m in 2010, vs Bt1.7m in 2009. Of the total TH units sold in 2010, about 55% were houses priced at Bt1-2m, 21% priced below Bt1m, and 11% priced Bt2-3m.
- **2011 outlook – the mostly likely to shine.** In 2011, we project total TH supply at 35,077 units (+5%), total demand of 29,119 units (+8%). We derive a stable TH inventory clear-out time of 1.6 years and better take-up of 83%, vs 1.5 years and 81% respectively in 2010.

Fig 70 Rising TH inventory with improving inventory clear-out time



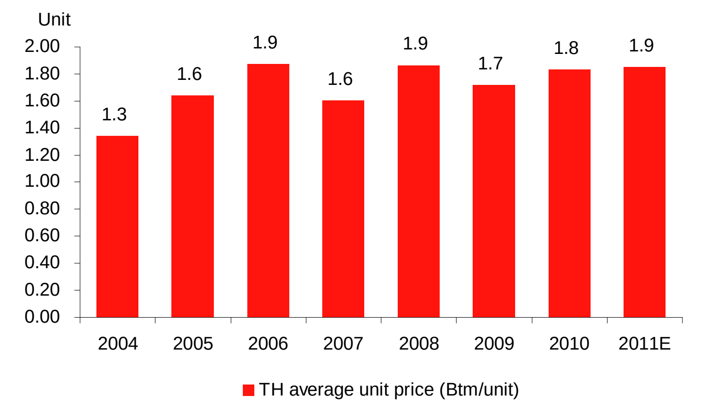
Source: AREA, Macquarie Research, February 2011

Fig 71 TH take-up improved to 83% in 2010



Source: AREA, Macquarie Research, February 2011

Fig 72 TH average unit price stood at Bt1.8m in 2010



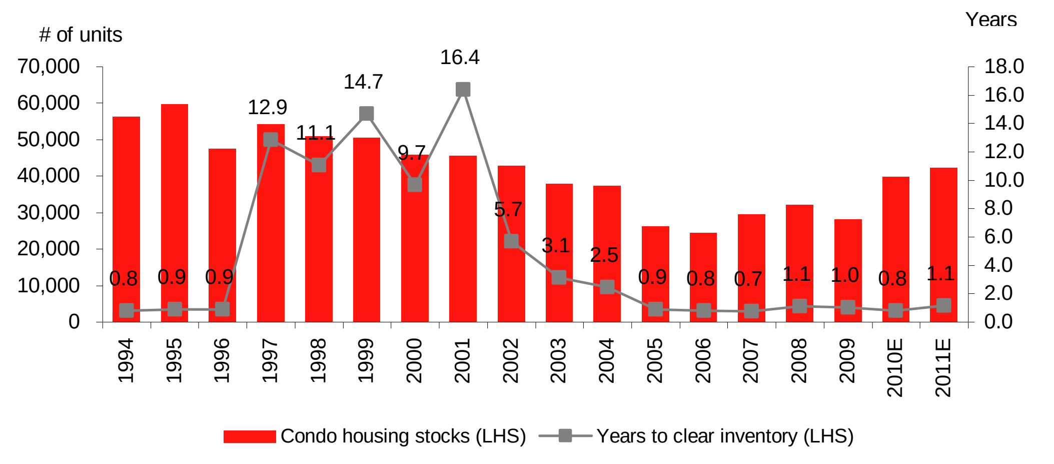
Source: AREA, Macquarie Research, February 2011

Condominiums – strong demand to continue with rising competition

Condo – intensifying new launches led to a big jump in inventory

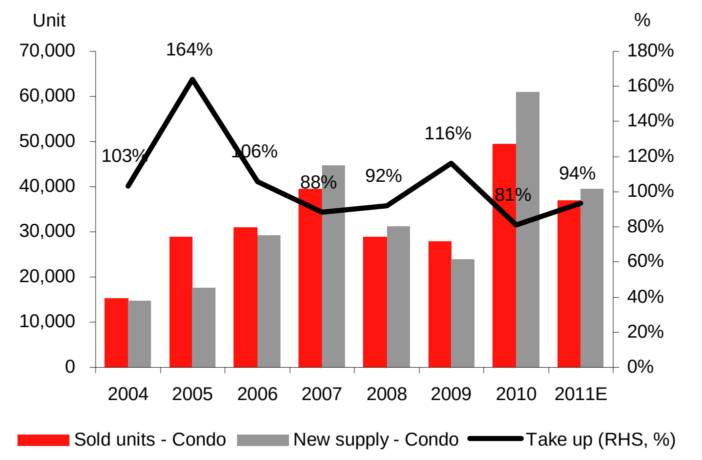
- **2010 condo segment summary**
  - ⇒ **Big jump in condo inventory at end-2010.** At the end of 1H10, condo total units left available for sale were at 39,825, up 41% from the end of 2009.
  - ⇒ **Declining take-up rate on aggressive new launches.** In 2010, total new launches for condos were at 60,972 units (+154%) and total take-up at 49,442 units (+77%). This represented a take-up rate of 81%, down from 116% in 2009, due to new condo supply outstripping demand over the past year.
  - ⇒ **Lower inventory clear-out time.** Despite higher total inventory, strong condo demand helped trim the inventory clear-out time for condos to 0.8 years, vs 1.0 year in 2009.
  - ⇒ **Downsizing units with lower unit prices.** In 2010, the average price for condos fell to Bt2.4m from Bt3.6m in 2009. This was due to the trend of developers downsizing their unit size to sell at a lower unit price to match the affordability of low-end clients.
- **2011 outlook – getting more challenging.** Assuming new condo supply will drop 35% to 39,632 units in 2011, we estimate the condo inventory clear-out time will rise to 1.1 years from 8 months in 2010. However, if the developers continue to be more aggressive in their new condo openings, we foresee an oversupply for condos as likely in the near future.

Fig 73 Condo inventory clear-out time at 0.8 years in 2010 and 1.1 years in 2011



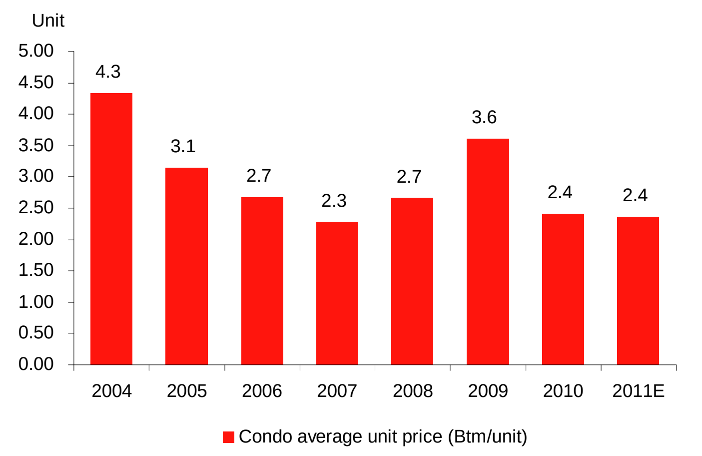
Source: AREA, Macquarie Research, February 2011

Fig 74 Lower take-up rate for condos at 81% in 2010



Source: AREA, Macquarie Research, February 2011

Fig 75 Lower unit price for condos at Bt2.4m in 2010



Source: AREA, Macquarie Research, February 2011

Cost impact on developers

We expect overall gross margin to fall 0.8-1.4% in 2011

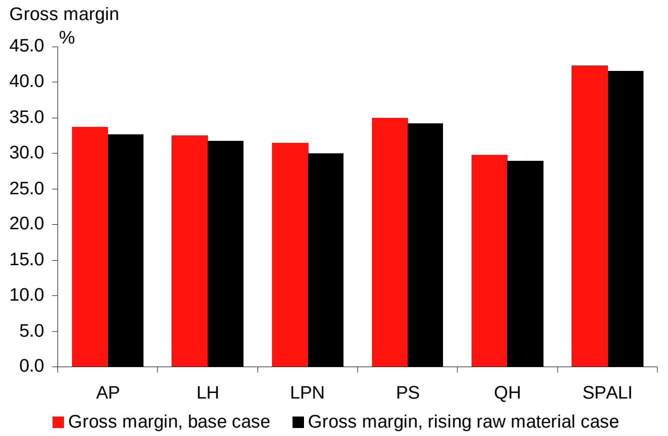
Our base case estimate of 2011 GM is at 34.2%

- **We estimate overall gross margin at 34.2% in 2011.** For 2011, we estimate the average gross margin of the six developers we cover at 34.2%, down from 35.0% from 2010E, as we expect steel and cement prices to rise 15% and 5%, respectively, YoY, driven by global soft commodity and energy price increases.

Sensitivity to raw material price increases

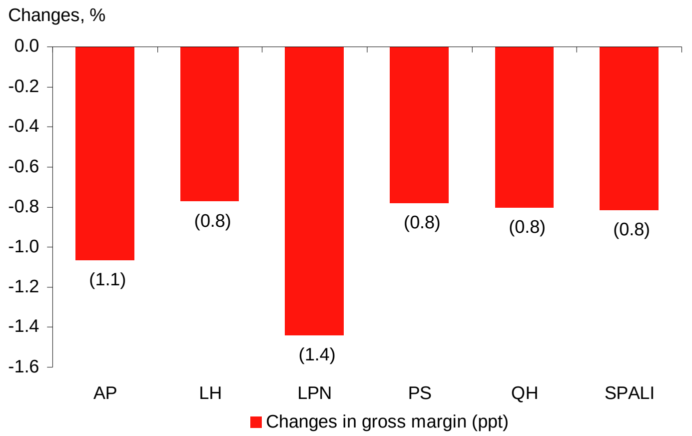
- If the steel price were to increase 15% from Bt22.1k/ton currently and the cement price by 5% from Bt2.6k/tonne, the developers' gross margins would be affected by an estimated 0.8-1.4%. Those developers with a larger condo revenue proportion would be affected the most, as steel accounts for 10–12% of the cost of sales for condos, compared to 4–5% for SDH and TH.

Fig 76 Sensitivity of major developers' GM for 2011E



Source: Macquarie Research, February 2011

Fig 77 Condo players are more vulnerable to steel price



Source: Macquarie Research, February 2011

Our assumptions

Different cost structure between low-rise and condo developers

- **Common-size worksheets to compare the effects.** We use common size financials to clarify the sensitivity of declining gross margins if the construction material prices rise in 2011. Each company is assumed to have started its sale numbers with 100 units in 2010.
- **Construction cost breakdown, low rise vs high rise.** Of the total construction cost for the low rise SDHs and THs, we assigned 10% for structure raw materials (4% steel, 6% cement), 50% for land and 40% for other costs (labour and architecture decoration). For high-rise condos, we use 22% for structure raw materials (10% steel, 12% cement), 30% for land and 48% for other costs (labour and architectural decoration).

Fig 78 If steel and cement prices rise further, we expect 0.8-1.4% gross margin pressure on developers

	AP Base	Case 1	LH Base	Case 1	LPN Base	Case 1	PS Base	Case 1	QH Base	Case 1	SPALI Base	Case 1
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
COGS	(66.2)	(67.3)	(67.5)	(68.3)	(68.5)	(69.9)	(65.0)	(65.8)	(70.3)	(71.1)	(57.6)	(58.4)
Gross profits	33.8	32.7	32.5	31.7	31.5	30.1	35.0	34.2	29.8	28.9	42.4	41.6
Profit margin												
Gross margin	33.8%	32.7%	32.5%	31.7%	31.5%	30.1%	35.0%	34.2%	29.8%	28.9%	42.4%	41.6%
Change		-1.1%		-0.8%		-1.4%		-0.8%		-0.8%		-0.8%
Assumption												
Sales breakdown												
SDH	10.0%	10.0%	68.0%	68.0%	0.0%	0.0%	30.0%	30.0%	50.0%	50.0%	40.0%	40.0%
TH	30.0%	30.0%	12.0%	12.0%	0.0%	0.0%	45.0%	45.0%	30.0%	30.0%	15.0%	15.0%
Condo	60.0%	60.0%	20.0%	20.0%	100.0%	100.0%	25.0%	25.0%	20.0%	20.0%	45.0%	45.0%
COGS Increase												
Steel		15.0%		15.0%		15.0%		15.0%		15.0%		15.0%
Cement		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%

Source: Macquarie Research, February 2011

Risks: What could go wrong?

While we are cautiously positive on the moderate growth outlook for the Thai economy in 2011, we think the sector's low valuation will be a key attraction for value investors over the longer term. We see some risks that could undermine the moderate growth prospects of the sector. In this section, we discuss those risk factors.

Country macro risk

Country macro risk: economic recovery and political risks

- **Our view:** Our regional economist expects that Thailand's real GDP will grow at 5% in 2011, vs 8.0% in 2010E, driven by improving domestic consumption and exports.
- **Risk to our view:** If the Thai economy fails to continue to expand and exports slow due to the re-emergence of global recession, then Thai household incomes are unlikely to rise by as much as we expect. If this is the case, it could result in reduced affordability for homebuyers. A weak economy could increase unemployment, when employment is the key factor for people considering a big-ticket purchase such as a property or a car.
- While we expect a more stable landscape on the political front going forward, the risk of political violence could affect people's willingness to buy a property.

Interest rate risk

Interest rate risk: a too-fast hike could hurt affordability

- **Our view:** Our house view is for the benchmark rate to rise another 100p to 3.25% at end-2011 (from 2.25% currently) and another 50bp to 3.75% at end-2012. Our Asean economist forecasts inflation at 3.8% and 3.5% for 2011-12 respectively.
- **Risk to our view:** As every 1% increase in interest rates diminishes home affordability by an estimated 8.9%, if the commercial banks increase their interest rates by more than 1% as early as 2H11, affordability and demand would be affected. New homebuyers may look for smaller properties to match their lower rate of affordability. A sudden rise in interest rates may mean that developers cannot increase prices, thus affecting profitability.

Oversupply risk

Oversupply risk: The supply influx from aggressive developers

- **Our view:** We expect the developers will be rational in launching new projects in 2011. We estimate the developers will eventually scale back their new launched value by an approximate of 25% from what they announced in early 2011 to still maintain a healthy balance of demand, supply, and inventory in the market.
- **Risk to our view:** If the outlook of aggressive new launches of around 100k units continues into 2011, the total overall inventory will continue to surpass its previous peak in the crisis in 1997. If this is the case, the overall inventory clear-out ratio could surge to an unhealthy level that could result in an oversupply situation thereafter.

Regulatory risk

Regulatory risk: More restrictions from the Bank of Thailand

- **Our view:** In 2H10, the Bank of Thailand (BoT) imposed a loan-to-value (LTV) cap rate of 90% for condo and 95% for landed properties to curb speculation. We expect that could send a signal to the market and that the developers will be more careful with their new launches. If so, we do not foresee any further stricter restrictions from the BoT.
- **Risk to our view:** If the new supply continues to grow rapidly, the BoT might consider implementing out stricter tightening policies to control the residential market.

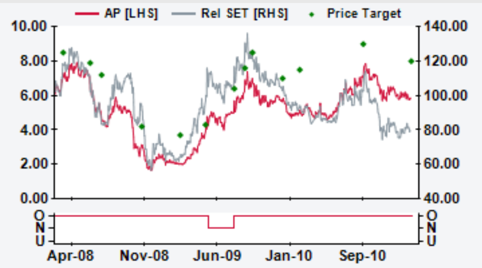
THAILAND

AP TB		**Outperform**
Price 7 Feb 11		**Bt5.90**
12-month target	**Bt**	**8.00**
Upside/Downside	**%**	**35.6**
Valuation - DCF	**Bt**	**8.10**
GICS sector		**Real Estate**
Market cap	**Btm**	**13,824**
30-day avg turnover	**US$m**	**2.8**
Market cap	**US$m**	**449**
Number shares on issue	**m**	**2,343**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	12,424	13,991	16,293	17,132
EBIT	m	2,781	2,852	3,112	3,426
EBIT growth	%	15.4	2.5	9.1	10.1
Reported profit	m	1,867	2,061	2,211	2,419
Adjusted profit	m	1,867	1,988	2,211	2,419
EPS rep	Bt	0.80	0.88	0.94	1.03
EPS rep growth	%	13.8	10.2	7.1	9.4
EPS adj	Bt	0.80	0.85	0.94	1.03
EPS adj growth	%	13.9	6.3	10.9	9.4
PER rep	x	7.4	6.7	6.3	5.7
PER adj	x	7.4	6.9	6.3	5.7
Total DPS	Bt	0.32	0.35	0.38	0.41
Total DPS growth	%	13.8	10.0	7.3	9.4
Total div yield	%	5.4	6.0	6.4	7.0
ROA	%	15.3	13.5	12.8	13.0
ROE	%	24.9	22.7	22.0	21.0
EV/EBITDA	x	4.9	4.8	4.4	4.0
Net debt/equity	%	76.1	99.9	92.9	77.2
P/BV	x	1.7	1.5	1.3	1.1

AP TB rel SET performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2011
(all figures in THB unless noted)

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8 February 2011

Asian Property Development

Valuation too cheap to ignore

Event

- We maintain our Outperform rating for Asian Property (AP), with a new DCF-based TP of Bt8.0 (previously Bt9.0). We revise our EPS estimate up 3% for 2010 to reflect stronger-than-expected revenues, but down 1-3% for 2011-12 to factor in our lower presale growth assumption. AP's key attractions are its cheap valuation, high earnings visibility and well-diversified portfolio.

Impact

- **2011 strategy – Less aggressive launches, more focus on low-rises.** In 2011, AP will open 15-20 projects valued at Bt20-25bn, vs 20 projects at Bt35bn in 2010. AP plans to shift its portfolio mix to 50% condo and 50% low-rise (vs 60:40 in 2010). We expect presales of Bt19bn in 2011, up 8% YoY. Despite modest presale growth, we expect AP to report revenue growth of 16% in 2011 on its strong backlog and increasing low-rise sales.
- **Well-diversified portfolio with high earning visibility.** At end-2010, AP's backlog stood at Bt23bn. This means AP has secured 60% of our revenue forecast for 2011, 26% for 2012, 34% for 2013, and 11% for 2014. AP's portfolio is well-diversified with 50% low-rise SDHs and THs (liquidity management) and 50% high-rise condos (earnings visibility).
- **Strong leadership in mid-to-high end TH segment.** We regard AP as the strongest player in the mid-to-high end townhouse segment with pricing of Bt3-6m per unit. Its brands "Baan Klang Muang" and "Baan Klang Krung" are highly regarded in terms of quality, decent neighbourhoods and locations. This year, AP will add a new TH brand, "The Pleno" to tap lower-end THs with prices between Bt2-3m. We expect a good response to this new TH segment.
- **A fair end to 2010.** AP achieved presales of Bt17.5bn in 2010, down 14% YoY due to limited new launches during 1H10. We estimate total revenue of Bt14bn, up 13% from 2009. We estimate AP's 4Q10 net profit at Bt446m, down 36% YoY but up 392% QoQ.

Earnings and target price revision

- We raise our EPS estimate 3% for 2010, but lower it 1% for 2011 and 3% for 2012. We lower our DCF-based target price to Bt8.0 from Bt9.0.

Price catalyst

- 12-month price target: Bt8.00 based on a DCF methodology.
- Catalyst: Rising presales and revenues with sustainable gross margin.

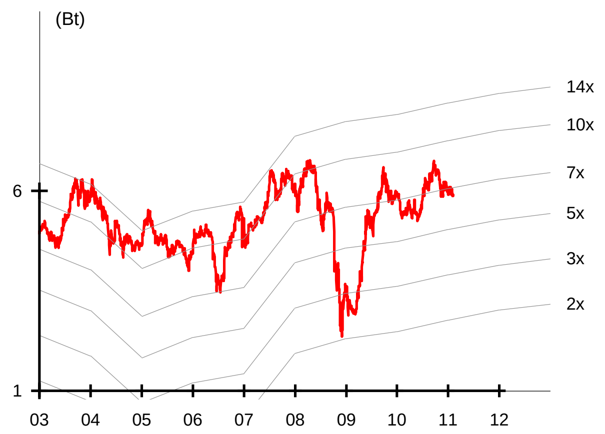
Action and recommendation

- AP is trading at 6.3x 2011E PER, below its historical mean of 9.3x. Our new TP of Bt8.0 implies 8.5x 2011E PER. We like AP on the perspective of highly secured revenues (60% of 2011E revenues), strong market positioning in the mid-to-high end TH segment, and cheap valuation. Maintain Outperform with a TP of Bt8.0.

Cheap valuation at 6.3x 2011E PER

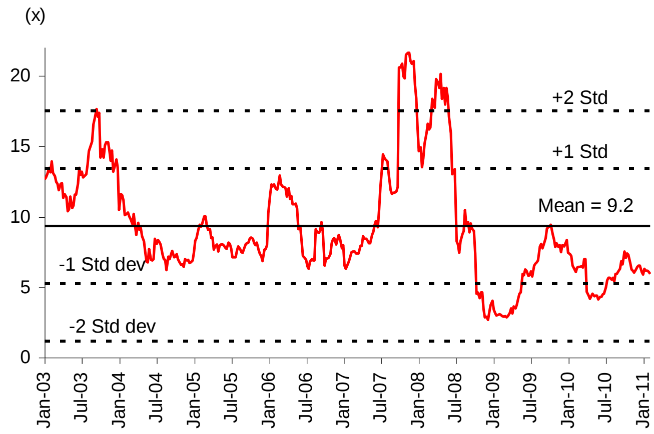
- **Forward PER at 6.3x 2011E.** AP is currently trading at 6.3x 2011E forward PER. This is below its historical mean of 9.3x. We believe the lower share price reflected its presale decline in 2010. With expected improving presales following aggressive new launches since 2H10, we foresee the possibility for AP's share price to re-rate given its still-attractive valuations.
- **1.3x forward 2011E P/BV.** This is lower than its historical mean of 2.5x P/BV.
- **Our new DCF-based TP of Bt8.0 implies 8.5x 2011E PER.** We apply a DCF valuation approach, using a 4.0% risk-free rate, 8.0% market risk premium, 3.0% terminal growth and 8.2% WACC. Our new 2011 DCF-based target price for AP is Bt8.0 (from Bt9.0). We raise our EPS estimates by 3% for 2010 to reflected a stronger-than-expected 4Q10 preview, but trim our numbers 1-3% for 2011-12E as we lower our presales assumption 5-8% to Bt19bn for 2011 and Bt21bn for 2012. Our new target price of Bt8.0 implies 8.5x 2011E PER, which is still lower than its long-term mean.
- **Maintain Outperform rating with a new TP of Bt8.0.** We think that 2011 will be more challenging for Thai property, with large listed developers continuing to dominate the market. AP, as a major player in mid-to-high end segments, should continue to stay competitive. With our expected EPS growth of 7% and a yield of 6.4% for AP in 2011, we view the current share price as a good entry point and maintain our Outperform rating.

Fig 1 AP: Forward PER at 6.3x for 2011E



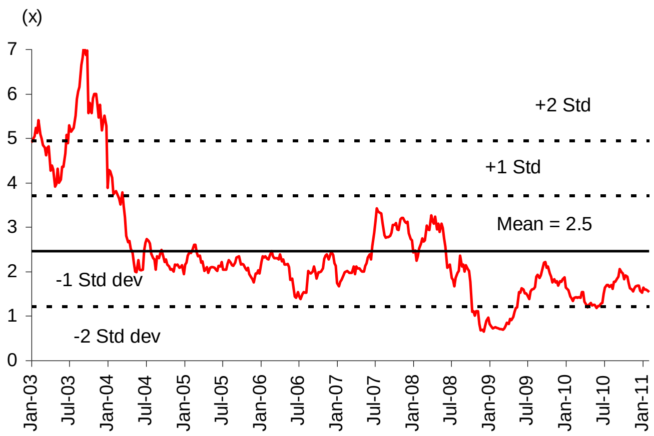
Source: Bloomberg, Macquarie Research, February 2011

Fig 2 AP: Trailing PER at below historical mean



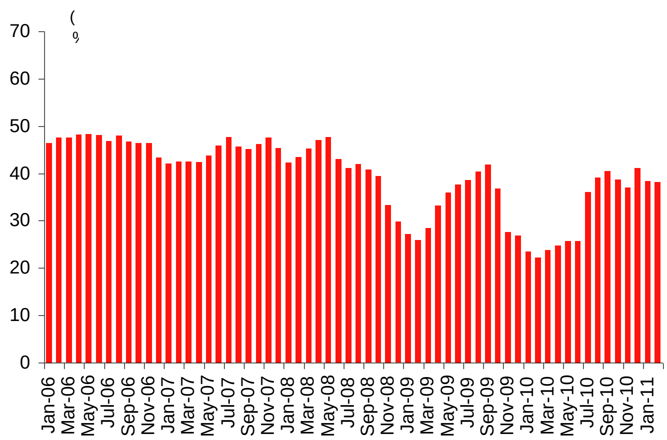
Source: Bloomberg, Macquarie Research, February 2011

Fig 3 AP: Trailing P/BV at 1.3x



Source: Bloomberg, Macquarie Research, February 2011

Fig 4 AP: Foreign ownership at 38% as of Jan 2011



Source: Bloomberg, Macquarie Research, February 2011

4Q10 preview, net profit up 392% QoQ

- **4Q10E net profit to rise 392% QoQ but down 36% YoY.** We expect AP's 4Q10 net profit to come in at Bt446m, up 392% QoQ but down 36% YoY.
- **Strong quarterly revenues.** We expect AP's 4Q10 revenue to be strong, up 210% QoQ to Bt4.3bn. Key contributions should come from its new low-rise projects opened in 2H10 and the transfer of Rhythm Ratchada condo worth Bt3.65bn, of which 50% was transferred in 2010.
- **Softer gross margin.** For the quarter, we expect AP's gross margin to be 33.8%, vs 32.9% in 4Q09 and 37.1% in 3Q10. We expect few cost revisions from project completion during the quarter.
- **2010E net profit to rise 10% YoY.** Including our 4Q estimate, we expect AP's 2010 net profit to reach Bt2.1bn, up 10% from 2009. We estimate total revenues in 2010 to reach Bt14bn, up 13% YoY and gross margin at 35.2% (vs 33.5% in 2009).

Fig 5 Preview 4Q10 results (-36% YoY and +392% QoQ) and 2010 (+10%)

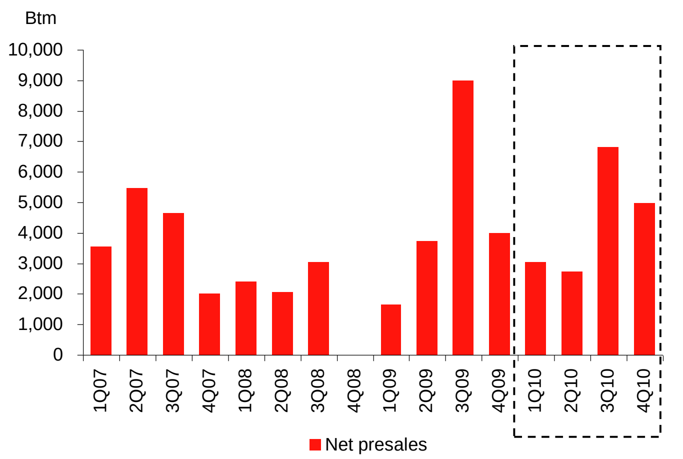
Btm	4Q10	4Q09	YoY (%)	3Q10	QoQ (%)	2010	2009	YoY (%)
Sales and services	4,330	4,484	(3.4)	1,396	210.3	13,991	12,424	12.6
Cost of sales	(2,868)	(3,008)	(4.6)	(878)	226.6	(9,065)	(8,258)	9.8
Gross profit	1,461	1,476	(1.0)	517	182.5	4,926	4,166	18.2
SG&A	(823)	(436)	88.7	(379)	117.2	(2,074)	(1,385)	49.7
EBIT	639	1,040	(38.6)	139	360.6	2,852	2,781	2.5
EBITDA	646	1,046	(38.3)	146	343.4	2,878	2,803	2.7
Interest expenses	(32)	(40)	(18.8)	(7)	350.8	(117)	(169)	(30.7)
Corporate income tax	(210)	(337)	(37.8)	(60)	249.0	(903)	(816)	10.6
Net profit	**446**	**697**	**(36.0)**	**91**	**392.0**	**2,061**	**1,866**	**10.4**
EPS (Bt)	0.19	0.30	(36.2)	0.04	391.4	0.88	0.80	10.0
Percent	**4Q10**	**4Q09**	**YoY (ppts)**	**3Q10**	**QoQ (ppts)**	**2010**	**2009**	**YoY (ppts)**
Gross margin	33.8	32.9	0.8	37.1	(3.3)	35.2	33.5	1.7
SG&A to sales	19.0	9.7	9.3	27.1	(8.1)	14.8	11.1	3.7
EBIT margin	14.8	23.2	(8.4)	9.9	4.8	20.4	22.4	(2.0)
Net margin	10.3	15.5	(5.2)	6.5	3.8	14.7	15.0	(0.3)

Source: Company data, Macquarie Research, February 2011

Softer presales in 2010, down 4% YoY

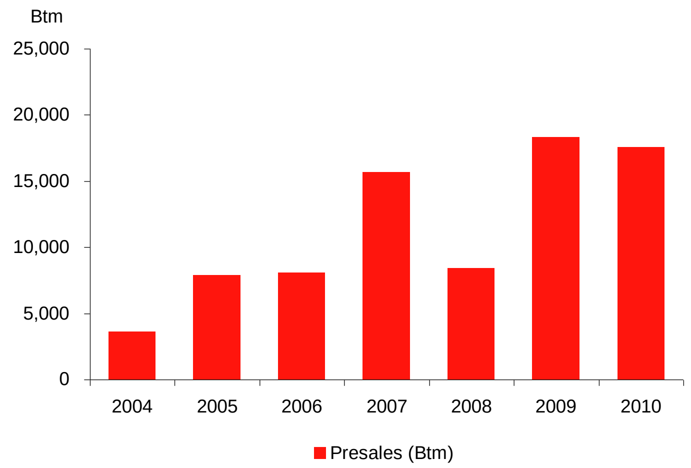
- **2010 presales down 4% YoY.** In 2010, AP achieved presales of Bt17.5bn, down 4% YoY. Of that, 40% was from low-rise sales and 60% from condo sales. Its softer presales were because most of its new projects were launched during the second half of 2010.
- **4Q10 momentum up YoY.** In 4Q10, AP recorded quarterly presales of Bt5.0bn, up 25% YoY but down 27% QoQ. Key contributions were from most of its low-rise projects opened in 2H10 and two low-end condos opened in the quarter, including Aspire Rama 4 (Worth Bt2.6bn) and Aspire Ngamwongwan (Bt1.6bn).

Fig 6 4Q10 presales of Bt5.0bn, up 25% YoY



Source: Company data, Macquarie Research, February 2011

Fig 7 2010 presales of Bt17.5bn, down 4% YoY



Source: Company data, Macquarie Research, February 2011

2011 strategy – focusing more on landed properties

Less aggressive in new launches for 2011

- **15-20 new projects of Bt20-25bn.** In 2011, AP plans to launch 15-20 new projects worth a total between Bt20bn to Bt25bn, vs 20 projects worth Bt35bn in 2010. Of these, ten projects worth a combined Bt11bn will be opened in 1H11, and the rest in 2H10.
- **Well-diversified portfolio, focusing on mid-range segments**. In 2011, AP will shift its portfolio mix to 50% condo (vs 60% in 2010) and 50% low-rise (vs 40% in 2010). Average unit price is expected to decrease slightly to Bt3.5-3.7m from Bt3.8m last year as the company will focus more on the middle-to-low income segments with pricing of Bt2.0-5.0m per unit.
- **Capex for new land purchase.** AP has budgeted Bt5.0bn for its new land acquisition for 2011, vs Bt5.5bn in 2010 and its five-year average capex of Bt3.8bn per year.

Fig 8 AP to open 15-20 new projects of Bt20-25bn in 2011

	Total no. of projects	Total project value (Btm)	Total unit	Avg. price (Btm)	Capex (Btm)
2008	16	19,170	4,200	4.6	3,500
2009	9	16,310	2,694	6.1	4,000
2010	20	35,080	9,214	3.8	5,500
2011E	**15-20**	**20,000-25,000**	**5,500-7,000***	**3.6-3.7***	**5,000**

*Macquarie estimates
Source: Company data, Macquarie Research, February 2011

Fig 9 Details of projects to be opened in 1H11

	Type	Total value (Bt m)	Total units	Unit price (Bt m)	Launch
The Palazzo - Sukawat	SDH	1,750	140	12.5	2Q11
Baan Klang Muang S-Sense - Srinakarin	TH	900	212	4.2	1Q11
Baan Klang Muang - Ladprao Sena II	TH	500	97	5.2	2Q11
The Pleno - Suksawat	TH	1,480	680	2.2	2Q11
The Pleno - Bangbon	TH	1,000	434	2.3	2Q11
The Pleno - Bangkruay	TH	1,050	450	2.3	2Q11
Baan Klang Krung - Rama 3 Wongwean	TH	500	57	8.8	2Q11
Baan Klang Muang - Sathorn Ratchaphruek	TH	600	150	4.0	2Q11
Baan Klang Muang - Ladprao 101	TH	330	79	4.2	3Q11
Rhythm - Sukhumvit 44	Condo	2,400	493	4.9	2Q11
Aspire Srinakarin	Condo	440	330	1.3	2Q11
Total		**11,650**	**3,287**	**3.5**	

Source: Company data, Macquarie Research, February 2011

New brands to penetrate into new segments

- **Three new brands for three new segments.** This is to broaden its market coverage into the lower-end TH and condo and high-end SDHs. AP's three new brands include "The Pleno" for low-end THs priced below Bt3m, "Aspire" for low-end condo priced below Bt2.5m, and "The Palazzo" for high-end SDHs priced above Bt10m.

Fig 10 Adding three new brands to cover three new segments

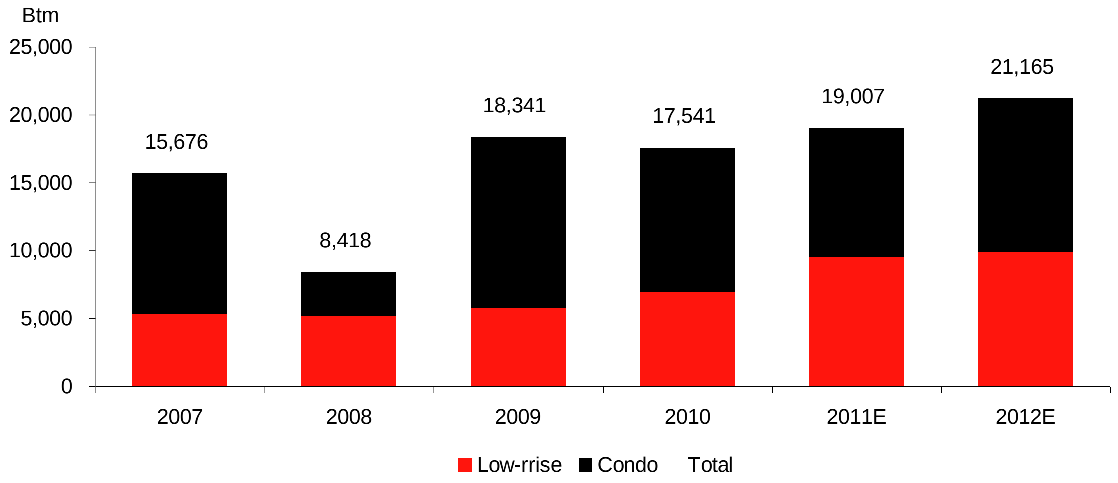
Brand	Type	Target client	Unit price (Btm)
Baan Klang Krung	TH	Mid-to-high	> Bt10m
Baan Klang Muang	TH	Mid-end	Bt3-7m
The Pleno (New)	TH	Mid-to-low	Bt2-3m
The Address	Condo	Mid-to-high end	> Bt5m
The Rhythm	Condo	Mid-end	Bt3-5m
Lite @	Condo	Mid-to-low	Bt2-4m
Aspire (New)	Condo	Low-end	Bt1-2m
The Palazzo (New)	SDH	High-end	>Bt10m
Baan Klang Krung	SDH	Mid-to-high	Bt5-10m
The City	SDH	Mid-end	Bt3-5m
Centro	SDH	Mid-to-low	Bt2-3m

Source: Company data, Macquarie Research, February 2011

2011 presales to rise 8% by our estimate

- **We expect 2011 presales growth of 8% at Bt19bn.** Of that, we estimate about 50% will be from low-rise sales and another 50% from condo sales. This year, we expect its low-rise presale to be significantly stronger to Bt9.5bn, up 37% YoY, while we estimate condo presales to decline 10% YoY.
- **Pricing strategy for 2011.** AP expects to increase its selling price by 1–3% for certain projects in certain locations in 2011. Although AP expects the overall construction costs to rise 5% this year, it is confident that it can better control costs by pre-negotiating raw materials in bulk with suppliers.

Fig 11 We forecast 2011 presales growth will be modest at 8% at Bt19bn

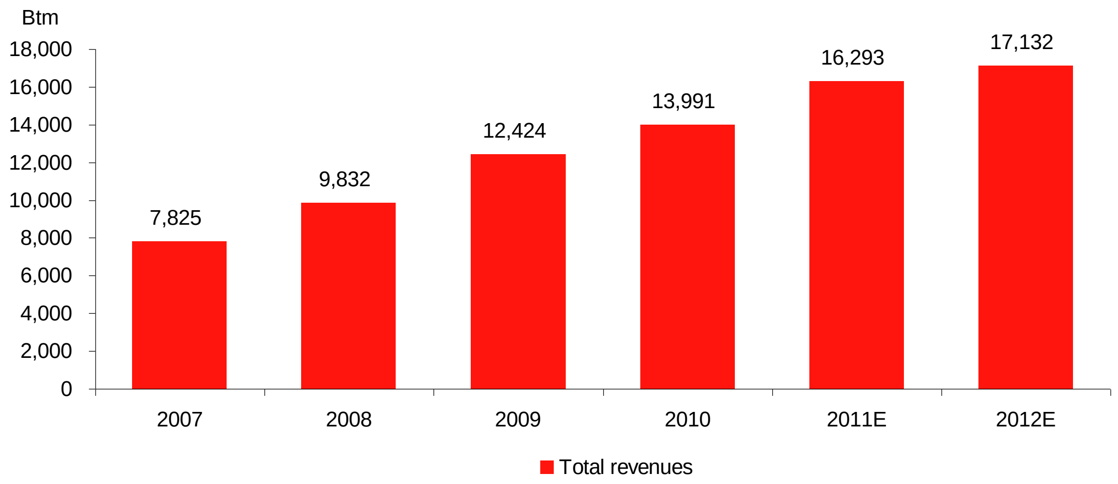


Source: Company data, Macquarie Research, February 2011

2011 revenues should rise 16% by our estimate, vs AP's +20%

- **AP's guidance: 20% revenue growth.** AP expects its revenue growth to reach 20% for 2011. Four condos should be transferred in 2011, including Rhythm Ratchada (worth Bt3.6bn; 50% to be transferred in 2011), The Address Pathumwan (Bt1.05bn), The Address Phayathai (Bt1.07bn) and Life Ladprao 18 (Bt1.6bn).
- **Macquarie's forecast is for 16% growth; lower than management's** We are more conservative than AP's revenue guidance, expecting its 2011 total revenue to reach Bt16bn, up 16%.

Fig 12 AP's total revenues to increase 16% in 2011E

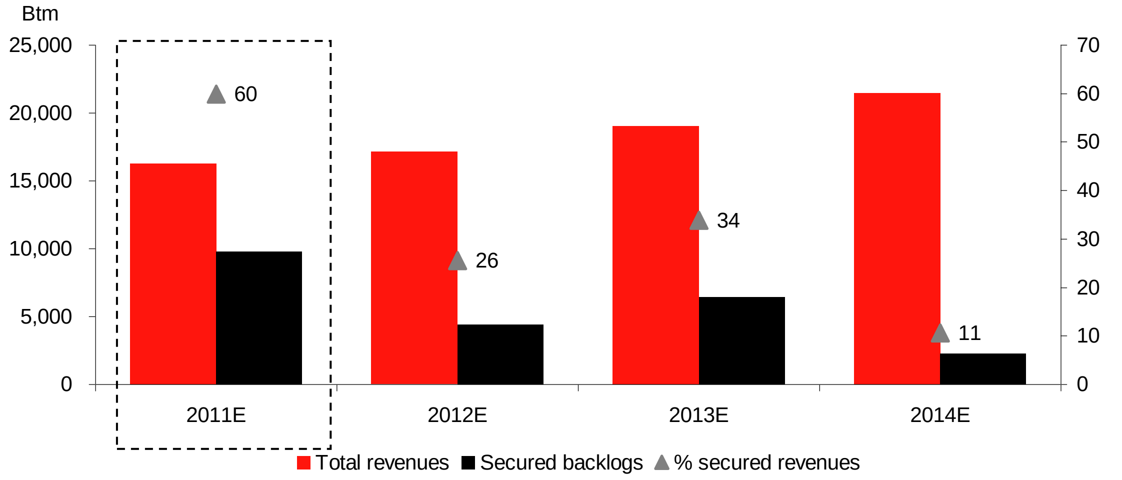


Source: Company data, Macquarie Research, February 2011

Strong backlog to secure revenues into 2011–14

- **60% of 2011 revenue already secured.** At end-2010, AP's total backlog stood at Bt23.4bn, of which Bt4.4bn was from low-rise presales and Bt19bn from condo presales. This means that our revenue forecasts for AP are already secured with 60% for 2011, 26% for 2012, 34% for 2013, and 11% for 2014.
- **More work required to boost low-rise sales.** Like other developers, AP expects a slower take-up for condos in 2011, while low-rise SDH and TH sales will show rising momentum.

Fig 13 High secured backlog for 2011



Source: Company data, Macquarie Research, February 2011

Estimated EPS growth of 7% for 2011 and 9% for 2012

- **Earnings revision for 2010–12E.** We increase our EPS estimates by 3% for 2010 on stronger-than-expected 4Q revenues, but trim our EPS estimates by 1% for 2011 and 3% for 2012 as we lower our presales assumption by 5-8% to Bt19bn for 2011 and Bt21bn for 2012.
- **EPS growth of 7% and 9% for 2011–12E,** feeds into EPS CAGR of 9% over 2009–12E.
- **Expect GM to soften.** Given that we expect a more challenging year for the Thai property market, we would emphasise volume driver growth as the key. We estimate that overall property prices will increase 3–5% for the low-end to mid-range segment and that the construction raw material cost will increase by 5-7%, posing a big challenge for the developers to focus on cost control and speed of construction. Thus we forecast AP's gross margin will decline to 33.8% in 2011E, vs 35.2% in 2010E.

Fig 14 Expect EPS growth of 7% and 9% for 2011–12E

(Bt m)	2009A	2010E	2011E	2012E	2009-12E CAGR
Total revenue	12,424	13,991	16,293	17,132	11%
Gross profits	4,166	4,926	5,515	5,825	12%
EBIT	2,781	2,852	3,112	3,426	7%
EBITDA	2,803	2,878	3,154	3,471	7%
Net profits	1,866	2,061	2,211	2,419	9%
EPS (Bt)	0.80	0.88	0.94	1.03	9%
Revenue growth (%)	26.4%	12.6%	16.5%	5.2%	
EBIT growth (%)	15.4%	2.5%	9.1%	10.1%	
EPS growth (%)	13.8%	10.0%	7.3%	9.4%	
Gross margin (%)	33.5%	35.2%	33.8%	34.0%	
EBIT margin (%)	22.4%	20.4%	19.1%	20.0%	
Net margin (%)	15.0%	14.7%	13.6%	14.1%	

Source: Company data, Macquarie Research, February 2011

Fig 15 Our projections vs the consensus

Bt m	2010E Macq	Consensus	Variance	2011E Macq	Consensus	Variance	2012E Macq	Consensus	Variance
Revenue	13,991	13,521	3%	16,293	15,408	6%	17,132	18,190	-6%
EBIT	2,852	2,935	-3%	3,112	3,072	1%	3,426	3,741	-8%
Net Profit	2,061	2,003	3%	2,211	2,071	7%	2,419	2,431	-1%

Source: Bloomberg, Macquarie Research, February 2011

Funding, cashflow and returns – the broader perspective

- **Balance sheet check.** At end-3Q10, AP reported its total assets at Bt21bn (+19% YoY), total liability of Bt12bn (+18%), and total equity of Bt21bn (+19%). At end-3Q10, AP had net interest-bearing debt of Bt8.4bn, representing a net gearing of 94%. We expect AP's 4Q10 realised revenue momentum to rise QoQ in 4Q10 and more condo transfers in 2011. We forecast its net gearing at 100% at end-2010 and 93% at end-2011.
- **Cashflow check.** This year we expect AP to transfer and realise revenue from its low-rise projects and condo of around Bt19bn, of which 60% has already been secured. Meanwhile, AP plans for capital expenditure for new land purchase of Bt5.0bn in 2011. The company has an internal target for its gearing of not higher than 100% in 2011, depending on how aggressive its expansion plans turn out to be. According to management, its cost of funds averaged 4% at the end of 2010.
- **Good returns.** Based on its aggressive new launches over 2010–11 that should feed into improving revenues, we forecast AP's ROE to stay around 21-24% during 2010–12. In terms of yield, we estimate AP's dividend yield will be around 6.4%, vs the sector average at 5.0%.

Fig 16 AP – funding, cashflow and returns

Bt m	2008	2009	2010E	2011E	2012E
OD & ST Loans	165	15	125	125	125
CP of LT Loans	146	0	1,335	1,166	1,166
CP of Debentures	750	1,500	1,154	923	923
Total short term debt	**1,061**	**1,515**	**2,614**	**2,214**	**2,214**
LT Loans	3,425	1,427	4,245	5,684	5,684
Debentures	3,500	5,000	3,846	3,077	3,077
Total long-term debt	**6,925**	**6,427**	**8,091**	**8,761**	**8,761**
Cash & Equivalent	1,758	1,708	1,369	1,005	1,507
Total Debt	7,986	7,942	10,706	10,975	10,975
Net Debt	6,227	6,234	9,337	9,970	9,468
Total Equity	6,787	8,182	9,341	10,728	12,262
ST Debt / Total Debt	13%	19%	24%	20%	20%
Total Debt / Equity	118%	97%	115%	102%	90%
Net Debt / Equity	92%	76%	100%	93%	77%
Cash flow breakdown					
Operating cash flow	1,652	1,888	2,087	2,253	2,463
Change in working cap	-2,694	-1,294	-4,179	-1,968	-980
Investing activities	-32	-133	-108	-94	-97
Cash flow prior to funding	**-1,074**	**461**	**-2,200**	**191**	**1,386**
Funding activities	2,156	-624	1,861	-555	-884
Net change in cash	**1,082**	**-163**	**-339**	**-364**	**502**
Returns (annualised)					
EBITDA/Total Assets	15.9%	15.4%	13.6%	12.9%	13.2%
Return on Assets*	10.7%	10.3%	9.8%	9.1%	9.2%
Return on Equity*	26.6%	24.9%	23.5%	22.0%	21.0%

*ROA and ROE are based on total liability and equity
Source: Company data, Macquarie Research, February 2011

Asian Property Development (AP TB, Outperform, Target Price: Bt8.00)

Quarterly Results		3Q/10A	4Q/10E	1Q/11E	2Q/11E
Net Property Income	m	0	0	0	0
Development Income	m	1,396	4,330	3,146	3,352
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**1,396**	**4,330**	**3,146**	**3,352**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,250	-3,684	-2,530	-2,696
EBITDA	**m**	**146**	**646**	**616**	**656**
Dep & Amortisation	m	7	7	10	10
EBIT	**m**	**139**	**639**	**606**	**645**
Net Interest Income	m	-7	-32	-51	-51
Associates	m	4	2	2	2
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	15	47	47	50
Pre-Tax Profit	**m**	**151**	**656**	**603**	**646**
Tax Expense	m	-60	-210	-181	-194
Net Profit	**m**	**91**	**446**	**422**	**452**
Minority Interests	m	-0	0	0	0
Reported Earnings	**m**	**91**	**446**	**422**	**452**
Adjusted Earnings	**m**	**91**	**446**	**422**	**452**
EPS (rep)		0.04	0.19	0.18	0.19
EPS (adj)		0.04	0.19	0.18	0.19
EPS Growth yoy (adj)	%	-73.3	-36.2	-63.9	57.5
EBITDA Margins	%	10.4	14.9	19.6	19.6
EBIT Margins	%	9.9	14.8	19.3	19.3
Earnings Split	%	4.6	22.4	19.1	20.5
Revenue Growth	%	-48.7	-3.4	-48.4	54.2
EBIT Growth	%	-73.7	-38.6	-63.5	56.2

Profit & Loss		2009A	2010E	2011E	2012E
Net Property Income	m	0	0	0	0
Development Income	m	12,424	13,991	16,293	17,132
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**12,424**	**13,991**	**16,293**	**17,132**
Management Fees	m	0	0	0	0
Other Expenses	m	-9,621	-11,113	-13,139	-13,662
EBITDA	**m**	**2,803**	**2,878**	**3,154**	**3,471**
Dep & Amortisation	m	22	26	42	44
EBIT	**m**	**2,781**	**2,852**	**3,112**	**3,426**
Net Interest Income	m	-161	-106	-205	-193
Associates	m	3	11	8	8
Exceptionals	m	0	104	0	0
Other Pre-Tax Income	m	62	104	244	213
Pre-Tax Profit	**m**	**2,685**	**2,965**	**3,158**	**3,455**
Tax Expense	m	-816	-903	-948	-1,037
Net Profit	**m**	**1,869**	**2,062**	**2,211**	**2,419**
Minority Interests	m	-2	-2	0	0
Reported Earnings	**m**	**1,867**	**2,061**	**2,211**	**2,419**
Adjusted Earnings	**m**	**1,867**	**1,988**	**2,211**	**2,419**
EPS (rep)		0.80	0.88	0.94	1.03
EPS (adj)		0.80	0.85	0.94	1.03
EPS Growth (adj)	%	13.9	6.3	10.9	9.4
PE (rep)	x	7.4	6.7	6.3	5.7
PE (adj)	x	7.4	6.9	6.3	5.7
Total DPS		0.32	0.35	0.38	0.41
Total Div Yield	%	5.4	6.0	6.4	7.0
Weighted Average Shares	m	2,335	2,339	2,343	2,343
Period End Shares	m	2,335	2,335	2,335	2,335

Profit & Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	26.4	12.6	16.5	5.2
EBITDA Growth	%	15.6	2.7	9.6	10.1
EBIT Growth	%	15.4	2.5	9.1	10.1
EBITDA Margins	%	22.6	20.6	19.4	20.3
EBIT Margins	%	22.4	20.4	19.1	20.0
Net Profit Margins	%	15.0	14.7	13.6	14.1
Payout Ratio	%	40.0	41.4	40.0	40.0
EV/EBITDA	x	4.9	4.8	4.4	4.0
EV/EBIT	x	4.9	4.8	4.4	4.0
Balance Sheet Ratios					
ROE	%	24.9	22.7	22.0	21.0
ROA	%	15.3	13.5	12.8	13.0
ROIC	%	14.9	13.8	11.7	11.6
Net Debt/Equity	%	76.1	99.9	92.9	77.2
Interest Cover	x	17.3	27.0	15.2	17.8
Price/Book	x	1.7	1.5	1.3	1.1
Book Value per Share		3.5	4.0	4.6	5.3

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**2,803**	**2,878**	**3,154**	**3,471**
Tax Paid	m	-816	-903	-948	-1,037
Chg in Working Capital	m	1,294	4,179	1,968	980
Net Interest Paid	m	-169	-117	-208	-196
Other	m	-2,517	-8,128	-3,681	-1,735
Operating Cashflow	**m**	**594**	**-2,092**	**285**	**1,483**
Acquisitions	m	114	-24	41	48
Capex	m	-26	-26	-26	-26
Asset Sales	m	0	0	0	0
Other	m	-221	-58	-109	-118
Investing Cashflow	**m**	**-133**	**-108**	**-94**	**-97**
Dividend (Ordinary)	m	-584	-746	-824	-884
Equity Raised	m	0	-155	0	0
Debt Movements	m	-44	2,764	269	0
Other	m	4	-2	0	0
Financing Cashflow	**m**	**-624**	**1,861**	**-555**	**-884**
Net Chg in Cash/Debt	**m**	**-163**	**-339**	**-364**	**502**
Free Cashflow	**m**	**568**	**-2,118**	**259**	**1,457**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	1,708	1,369	1,005	1,507
Receivables	m	73	82	95	100
Inventories	m	15,513	19,869	22,146	23,234
Investments	m	0	0	0	0
Fixed Assets	m	109	237	250	261
Intangibles	m	0	0	0	0
Other Assets	m	1,604	1,721	1,980	2,102
Total Assets	**m**	**19,007**	**23,278**	**25,477**	**27,204**
Payables	m	1,674	1,872	2,193	2,304
Short Term Debt	m	1,515	2,614	2,214	2,214
Long Term Debt	m	6,427	8,091	8,761	8,761
Provisions	m	1,203	1,355	1,578	1,659
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**10,820**	**13,933**	**14,745**	**14,938**
Shareholders' Funds	m	8,182	9,341	10,728	12,262
Minority Interests	m	5	4	4	4
Total S/H Equity	**m**	**8,187**	**9,345**	**10,732**	**12,266**
Total Liab & S/H Funds	**m**	**19,007**	**23,278**	**25,477**	**27,204**

All figures in THB unless noted.
Source: Company data, Macquarie Research, February 2011

THAILAND

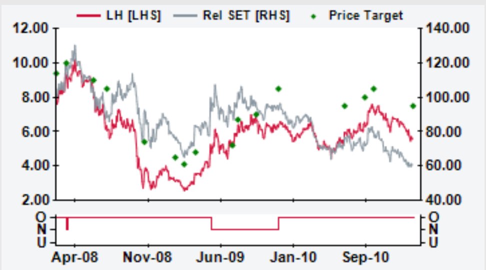
LH TB	Outperform
Price 3 Feb 11	Bt5.50

12-month target	**Bt**	**7.00**
Upside/Downside	**%**	**27.3**
Valuation - DCF	**Bt**	**7.00**
GICS sector		**Real Estate**
Market cap	**Btm**	**55,143**
30-day avg turnover	**US$m**	**3.4**
Market cap	**US$m**	**1,787**
Number shares on issue	**m**	**10,026**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	17,901	16,830	20,936	24,949
EBIT	m	4,200	3,432	4,693	5,469
EBIT growth	%	17.5	-18.3	36.7	16.5
Reported profit	m	3,908	3,883	4,367	4,893
Adjusted profit	m	3,908	3,692	4,367	4,893
EPS rep	Bt	0.39	0.39	0.44	0.49
EPS rep growth	%	12.0	-0.6	12.5	12.0
EPS adj	Bt	0.39	0.37	0.44	0.49
EPS adj growth	%	12.1	-5.5	18.3	12.0
PER rep	x	14.1	14.2	12.6	11.3
PER adj	x	14.1	14.9	12.6	11.3
Total DPS	Bt	0.34	0.31	0.30	0.34
Total DPS growth	%	-1.3	-9.2	-1.6	12.0
Total div yield	%	6.2	5.6	5.5	6.2
ROA	%	9.0	7.1	9.0	9.9
ROE	%	15.0	14.1	16.1	17.1
EV/EBITDA	x	12.8	14.0	11.2	9.9
Net debt/equity	%	53.9	63.1	66.6	67.0
P/BV	x	2.1	2.1	2.0	1.9

LH TB rel SET performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2011

(all figures in THB unless noted)

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4 February 2011

Land & Houses

Banking on rising SDH momentum

Event

- We retain our Outperform rating on Land & Houses (LH), with a new DCF-based TP of Bt7.0 (previously Bt8.50). We cut our EPS estimates by 9-13% for 2010-12 to reflect both slower transfers in 4Q10 and a lowering of presale growth assumptions. LH has set aggressive growth targets for 2011. While momentum is improving, we are slightly more conservative than management.

Impact

- **2011 business strategy – more aggressive and balanced portfolio.** In 2011, LH plans to open 18 new projects worth Bt42bn vs 19 projects worth Bt31bn in 2010. LH's core focus will be on mid-end SDHs, which represent 78% of the total value of new launches. Its two new condos are well located and should see strong presales. We project LH's presales to reach Bt24bn, up 21% YoY (vs LH's target of 25%), and revenues to reach Bt20bn, up 25% YoY (vs LH's target of 30%).
- **Active in provincial markets.** Of LH's total 47 existing projects, 10 projects worth Bt5bn are located in provincial markets, including Chiengmai, Phuket, Khonkaen, Korat and Hua Hin. In 2011, LH plans to open two more projects worth Bt590m in Chiengmai and Phuket. This will raise LH's total project value in the upcountry to Bt5.6bn, representing 10% of its total portfolio.
- **Expect rising rental revenues and affiliated incomes.** LH expects Terminal 21, a retail mall and serviced apartment project, to start operations in late 2011. LH expects rental revenue growth of 60% in 2011 and another 50% in 2012. This year LH expects its equity income to increase by 15%, vs Bt1.2-1.4bn in 2010E. LH expects to list its LH Financial Group in mid-2011.
- **A good end to 2010, but not great.** LH achieved total presales of Bt20bn, up 20% YoY, thanks to improving low-rise sales and more penetration in condos. At end-2010, LH had the highest SDH market share of 20%, followed by 4% in TH and 2% in condos. We expect LH's 4Q10 revenue to be its strongest quarter for the year, up 14% YoY and 64% QoQ to Bt5.3bn. However, this is down from our earlier estimates as transfers were slower than expected.

Earnings and target price revision

- We cut EPS estimates by 9-13% for 2010-12. We lower our DCF-based target price to Bt7.0 from Bt8.50.

Price catalyst

- 12-month price target: Bt7.00 based on a DCF methodology.
- Catalyst: Good 4Q results, rising presales and revenues with sustainable GM.

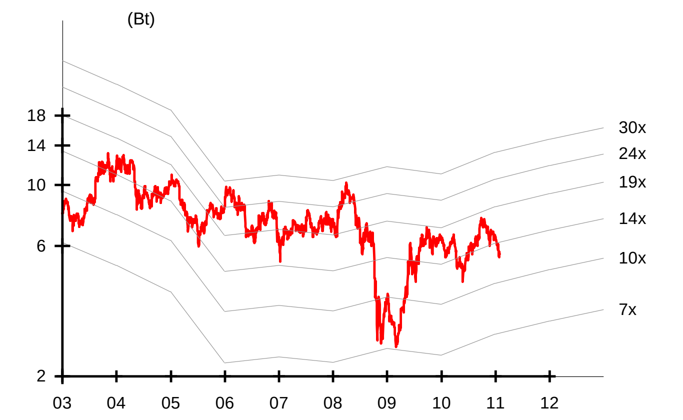
Action and recommendation

- LH is trading at 12.6x 2011E PER, which is lower than its historical mean of 14.6x. Our new TP of Bt7.0 implies 16x 2011E PER. We think LH's current share price has not yet factored in the better presale and revenue momentum we expect in 2011. Maintain Outperform with a new TP of Bt7.0.

Valuation no longer expensive

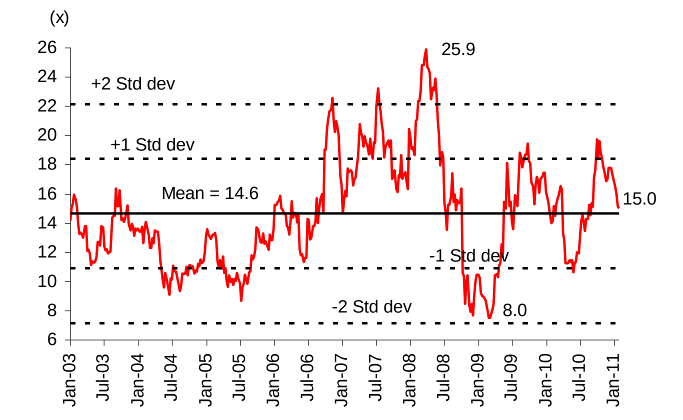
- **Forward PER at 12.6x 2011E.** LH is currently trading at 12.6x 2011E forward PER. This is below its historical mean of 14.6x. This is no longer expensive, compared to its recent high of 19.6x in October 2010. We believe the lower share price reflects the market's overly pessimistic view of the possibility of oversupply in the overall residential market in 2011, following all developers' aggressive new launches in 2010. Excluding non-core investments in subsidiaries, LH's non-core 2011E PER is 10.1x.
- **2.0x forward 2011E P/BV.** This is lower than its historical mean of 2.7x P/BV.
- **Our new DCF-based TP of Bt7.0 implies 16x 2011E PER.** We apply a DCF valuation approach, using a 4% risk-free rate, 8% market risk premium, 3% terminal growth and 8.7% WACC. Our new 2011 DCF-based target price for LH is Bt7.0 (from Bt8.50). We reduce our EPS estimates by 9-13% for 2010-12E as we lower our presales assumption by 15% to Bt23.9bn for 2011 and by 6% to Bt24bn for 2012. Our new target price of Bt7.0 implies 16x 2011E PER, which is still less than one standard deviation above its long-term mean.
- **Maintain Outperform rating with a new TP of Bt7.0.** We think that 2011 will be more challenging for Thai property, with large listed developers continuing to dominate the market. LH, as a major player in mid-end landed properties, should continue to stay competitive thanks to its strong brand and wider coverage area. With our expected EPS growth of 13% and a yield of 5.5% for LH in 2011, we view the current share price as a decent entry point and maintain our Outperform rating.

Fig 1 LH: Forward PER at 12.6x for 2011E



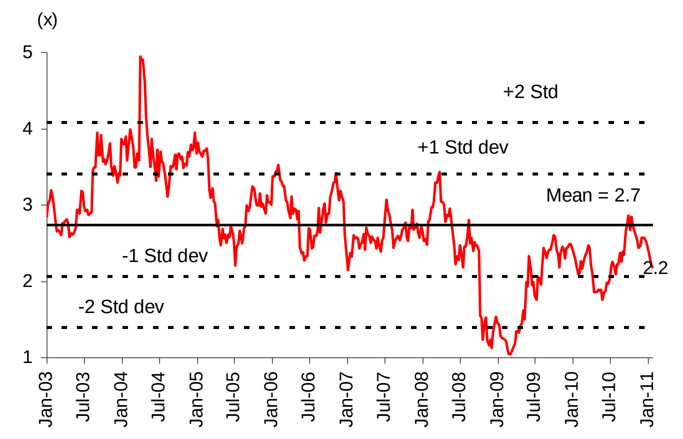
Source: Bloomberg, Macquarie Research, February 2011

Fig 2 LH: Trailing PER at historical mean of 15x



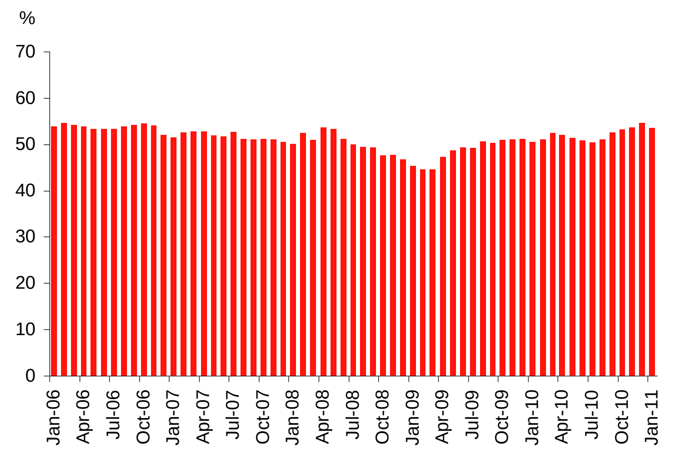
Source: Bloomberg, Macquarie Research, February 2011

Fig 3 LH: Trailing P/BV at 2.0x



Source: Bloomberg, Macquarie Research, February 2011

Fig 4 LH: Foreign ownership at 53% as of Jan 2011



Source: Bloomberg, Macquarie Research, February 2011

4Q10 preview, net profit up 13% YoY and 42% QoQ

- **4Q10E net profit to rise 13% YoY and 42% QoQ.** We expect LH's 4Q10 net profit to come in at Bt1.1bn, up 13% YoY and 42% QoQ. Strong revenues, improving gross margin and higher equity income should be key factors supporting this increase. While this is a good result in terms of YoY and QoQ growth, it is actually lower than our earlier estimates. Recent management guidance suggests transfers of landed property in 4Q10 were slower than we had anticipated. Transfers of The Room Sukhumvit 62 were also marginally below our estimates.
  - ⇒ **The highest quarterly revenues for 2010.** We expect LH's 4Q10 revenue to be its strongest quarterly revenue for the year, up 14% YoY and 64% QoQ to Bt5.3bn. Key revenue contributions should come from its new low-rise projects opened in 2H10 and the transfer of The Room Sukhumvit 62 condo worth Bt2.45bn, of which 70-75% was transferred in 2010.
  - ⇒ **Higher gross margin.** For the quarter, we expect LH's gross margin to be 33.0%, vs 30.8% in 4Q09 and 32.0% in 3Q10. This should be driven by its pricing power and better cost control.
  - ⇒ **Higher SG&A expenses expected.** We expect 4Q10 SG&A expenses to be up 62% YoY, or 11.8% of total sales, vs 8.3% in 4Q09, due to the booking of employee bonus and benefits for year-end 2010 and resumption of the special business tax and transfer fee starting from 2Q10.
  - ⇒ **Rising equity income.** We forecast LH's equity income to reach Bt312m, up 8% QoQ and flat YoY. Major contributions should come from Quality Houses (QH TB, Bt2.04, Outperform, TP: Bt3.20), Bangkok Chain Hospital (KH TB, Bt6.30, Not rated), Home Product Center (HMPRO TB, Bt8.15, Outperform, TP: Bt11.50) and LH Financial Group (non-listed).
- **2010E net profit flat YoY.** Including our 4Q estimate, we expect LH's 2010 net profit to reach Bt3.9bn, down 1% from 2009. We estimate total revenues in 2010 to reach Bt16.60bn, down 6% YoY and gross margin at 32.2% (vs 31.0% in 2009).

Fig 5 We expect good results in 4Q10 (NP +13% YoY and 42% QoQ) and 2010 (NP flat YoY)

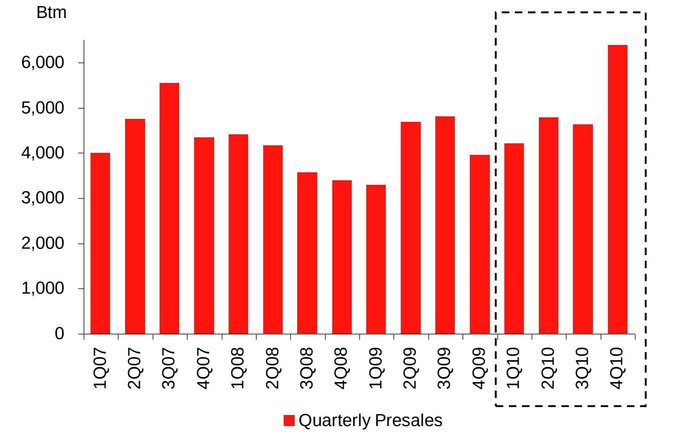
Btm	4Q10E	4Q09	YoY (%)	3Q10	QoQ (%)	2010E	2009	YoY (%)
Sales and services	5,268	4,618	14.1	3,211	64.1	16,574	17,656	(6.1)
Cost of sales	(3,529)	(3,198)	10.4	(2,182)	61.8	(11,230)	(12,175)	(7.8)
Gross profit	1,738	1,420	22.4	1,029	69.0	5,344	5,481	(2.5)
SG&A	(619)	(383)	61.7	(580)	6.7	(2,168)	(1,526)	42.1
EBIT	1,119	1,038	7.9	449	149.6	3,176	3,955	(19.7)
EBITDA	1,225	1,194	2.6	525	133.2	3,517	4,274	(17.7)
Interest expenses	(76)	(78)	(3.1)	(51)	49.3	(270)	(268)	0.9
Corporate income tax	(337)	(324)	4.0	(160)	110.9	(1,057)	(1,219)	(13.3)
(Gain) loss of minority interest	29	10	180.8	29	0.0	95	40	134.9
Net profit	**1,127**	**1,002**	**12.5**	**793**	**42.1**	**3,883**	**3,908**	**(0.6)**
EPS (Bt)	0.11	0.10	12.5	0.08	42.1	0.39	0.39	(0.6)
Percent	**4Q10E**	**4Q09**	**YoY (ppt)**	**3Q10**	**QoQ (ppt)**	**2010E**	**2009**	**YoY (ppt)**
Gross margin	33.0	30.8	2.2	32.0	1.0	32.2	31.0	1.2
SG&A to sales	11.8	8.3	3.5	18.1	(6.3)	13.1	8.6	4.4
EBIT margin	21.3	22.5	(1.2)	14.0	7.3	19.2	22.4	(3.2)
Net margin	21.4	21.7	(0.3)	24.7	(3.3)	23.4	22.1	1.3

Source: Company data, Macquarie Research, February 2011

2010 summary – presales target achieved, up 20% YoY

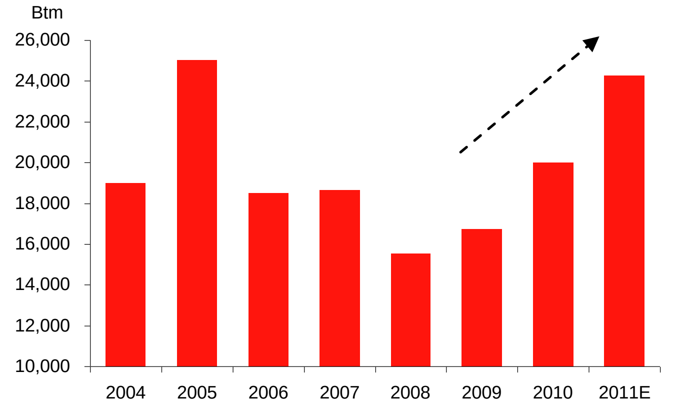
- **2010 presales up 20% YoY.** In 2010, LH achieved total presales of Bt20bn, up 20% from 2009. Of that, 65% was from single detached house (SDH) sales, 27% from condo sales and 8% from townhouse (TH) sales. In 2010, LH opened 19 new projects with a combined worth of Bt31bn.
- **Focus on mid-end segment.** By segment, LH's core focus was on the mid-end segment. Of its 2010 presales, Bt3-5m/unit houses accounted for 38%; Bt5-7m/unit, 25%; Bt7-10m/unit, 18%; above Bt10m/unit, 9%; and the rest was below Bt3m/unit.
- **4Q10 momentum picking up.** LH recorded 4Q10 presales of Bt6.4bn, up 62% YoY and 38% QoQ. Key contributions were from most of its low-rise projects opened in 2H10 and three condos opened in the quarter, including Ocas Hua Hin (worth Bt1.6bn), The Room Sukhumvit 21 (Bt1.3bn) and The Room Sathorn Thaksin (Bt1.3bn), all of which achieved average presales of 30-40% each. Also, its Room Sukhumvit 62 condo worth Bt2.45bn, which opened in 2Q10, has already achieved presales of 85% and completed transfers of 70-75% at end-2010.
- **Growing existing projects.** At the end of 2010, LH's total remaining projects for sale were 47 projects worth Bt39bn, vs 39 projects worth Bt28bn in 2009. Of these, 37 projects are in Bangkok and its vicinities and 10 projects are in the provinces.
- **Strong SDH market share.** At end-2010, LH had the highest SDH market share of 20%, followed by 4% in TH and 2% in condos.

Fig 6 4Q10 presales of Bt6.4bn, up 62% YoY



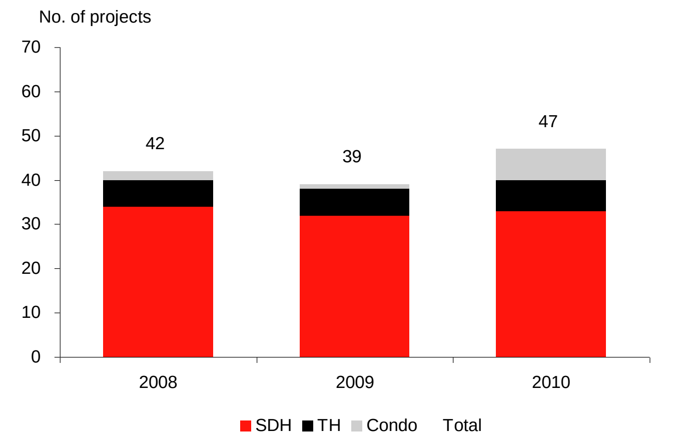
Source: Company data, Macquarie Research, February 2011

Fig 7 2010 presales of Bt20bn, up 20% YoY



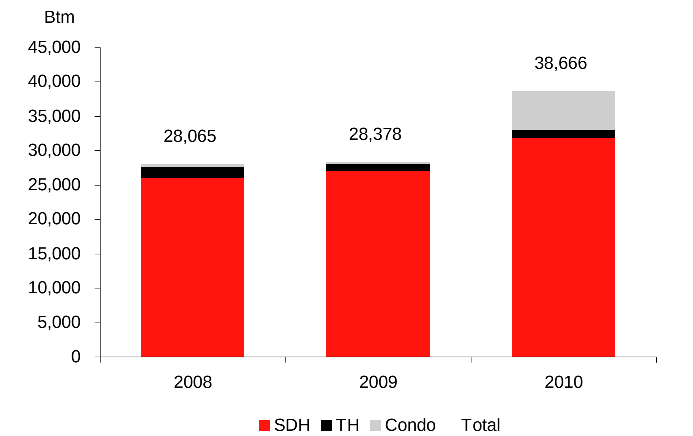
Source: Company data, Macquarie Research, February 2011

Fig 8 Total existing no. of projects at end-2010



Source: Company data, Macquarie Research, February 2011

Fig 9 Total existing project value at end-2010



Source: Company data, Macquarie Research, February 2011

2011 business strategy – more aggressive and better balanced portfolio

More aggressive in new launches for 2011

- **18 new projects of Bt42bn.** In 2011, LH plans to open 18 new projects worth Bt42bn, vs 18 projects with a value of Bt31bn in 2010. This will include 14 SDHs at Bt33bn; 2 THs at Bt2bn, and 2 condos at Bt7bn.
- **More balanced portfolio, focusing on mid-end segment.** In 2011, LH aims for its core focus to be on low-rise SDHs, which represent 78% of the total value of new launches, followed by condos at 17% and TH at 5% and. By segment, LH aims to better balance its portfolio, focusing on the mid-end segment. Its target breakdown is 30% for houses priced at Bt3-5m, 25% for Bt5-7m, 15% for Bt7-10m, 15% above Bt10m and the rest for below Bt3m.
- **Capex for new land purchases.** LH has budgeted Bt6bn for its capital expenditure for new land purchases in 2011, vs Bt8.8bn in 2010 and its five-year average capex of Bt3.9bn per year. Apart from this, LH also set another capex totalling Bt2bn for investments in subsidiaries, including Bt1.8bn for its LH Bank investment and Bt229m for L&H Property.

Fig 10 LH to open 18 new projects worth Bt42bn in 2011

	Total no. of projects	Total project value (Btm)	Total units	Avg. price (Btm)	Capex (Btm)
2008	14	12,006	2,369	5.1	4,000
2009	10	15,197	2,978	5.1	4,000
2010	19	31,191	7,298	4.3	5,750
2011E	**18**	**41,820**	**5,888**	**7.1**	**6,000**

Source: Company data, Macquarie Research, February 2011

Fig 11 2011 new launches by product type

2011 new projects	No. of projects	Total value (Bt m)	Total units	Unit price (Bt m)	% of total
SDH	14	32,870	4,414	7.4	78%
TH	2	2,000	640	3.1	5%
Condo	2	6,950	834	8.3	17%
Total	**18**	**41,820**	**5,888**	**7.1**	**100%**

Source: Company data, Macquarie Research, February 2011

Fig 12 2011 new launches by project

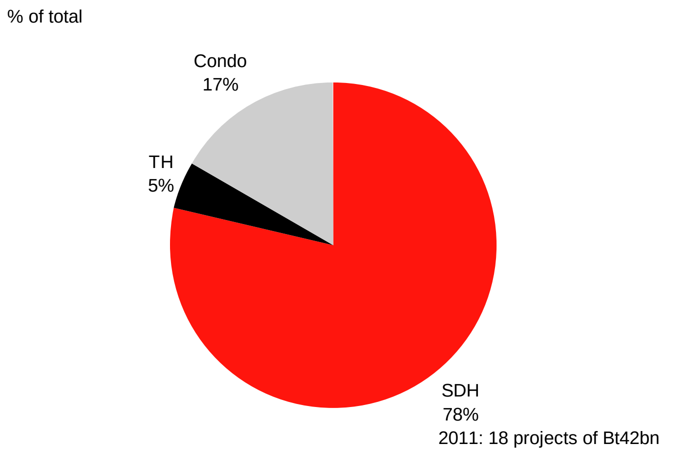
Project	Type	Total value (Btm)	Total units	Unit price (Btm)	Launch date
Seewalee - Bangna	SDH	2,080	399	5.2	1Q11
Mantana - Wacharaphon	SDH	6,000	799	7.5	1Q11
Inizio - Pinklao Wongwhan	SDH	990	357	2.8	1Q11
88 Land and Houses	SDH	420	63	6.7	1Q11
Indy - Bangna km 26	TH	580	348	1.7	1Q11
Ladawan - Rattanathibet	SDH	1,840	46	40.0	2Q11
Ladawan - Rajapruk	SDH	10,290	245	42.0	2Q11
Seewalee - Ramkamhaeng	SDH	1,200	221	5.4	2Q11
Mantana - Bangyai	SDH	900	132	6.8	2Q11
Mantana - Buddhabucha	SDH	900	116	7.8	2Q11
Pruklada - Pracha Utid 90	SDH	3,050	735	4.1	2Q11
Inizio - Rama II	SDH	1,350	451	3.0	2Q11
Terrance - Ramindra 65	TH	1,420	292	4.9	2Q11
Pruklada 2 - Chieng Mai	SDH	170	45	3.8	3Q11
Inizio - Salaya	SDH	980	355	2.8	4Q11
The Room - Soi Aree	Condo	950	174	5.5	4Q11
The Bangkok - Sathorn	Condo	6,000	660	9.1	4Q11
Mantana - Wongwhan Onnuch 3	SDH	2,700	450	6.0	4Q11
Total		**41,820**	**5,888**	**7.1**	

Source: Company data, Macquarie Research, February 2011

Key focus on SDHs and condos in good locations

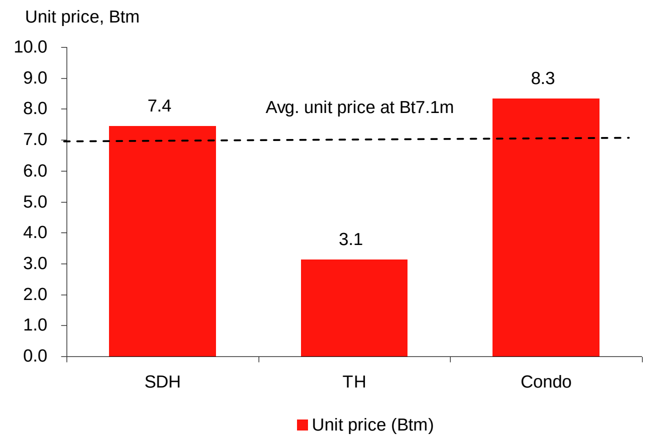
- **78% of total new launches are SDHs.** Of its 18 new projects for 2011, 14 projects will be SDHs with a combined worth of Bt33bn or 78% of the total value of new launches. Of that, a major proportion will be mid-to-high SDHs in the Ratjapruk area, which is a high density and fast-growing demand location. We think this will be a key advantage for LH as SDHs are its core segment.
- **Two new condos should be successful.** In addition, LH's two new condos this year will be in very good locations, Soi Aree and Surasak Sathorn, both of which are very close to the BTS stations. These two projects are The Room Soi Aree (worth Bt950m) and The Bangkok (Bt6bn). We expect these two condos to achieve strong presales due to their location despite an expected slowdown in the condo segment.
- **No plans to enter the very low end segment.** According to management, LH has no plans to launch projects with residence prices lower than Bt1m as the company lacks experience in this market. Besides, the company considers this very low end market to be highly competitive.

Fig 13 78% of new launches are SDHs



Source: Company data, Macquarie Research, February 2011

Fig 14 Average unit price by type



Source: Company data, Macquarie Research, February 2011

Expansion in provincial markets

- **Being active in provincial markets.** Of LH's 47 existing projects, 10 projects with a total worth of Bt5bn are located in the provincial markets, including Chiengmai, Phuket, Khonkaen, Korat and Hua Hin. In 2011, LH plans to open two new projects with a combined worth of Bt590m in Chiengmai and Phuket. This will raise LH's total project value in the upcountry to Bt5.6bn, up 12% from 2010.
- **Targeting provincial mix of 10% in 2011.** Given strong growth in the provincial market, LH aims to increase its provincial contribution to 10% of its total portfolio in 2011, up from 8% in 2010. This could lead to additional growth for the company amid the expected slowdown in presales growth in Bangkok and its vicinity.

Fig 15 12 projects worth Bt5.6bn in provincial markets

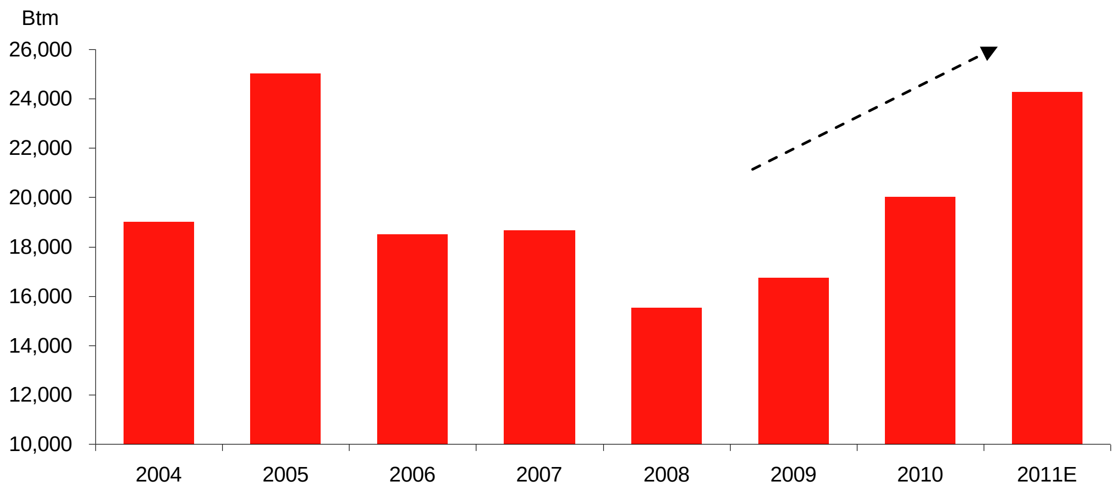
	At end-2010		New projects in 2011		Total provincial projects	
Provinces	**No. of projects**	**Value (Btm)**	**No. of projects**	**Value (Btm)**	**No. of projects**	**Value (Btm)**
Chiengmai	5	1,700	1	170	6	1,870.0
Khonkaaen	3	1,250			3	1,250.0
Nakornrachasima (Korat)	1	20			1	20.0
Hua Hin	1	2,000			1	2,000.0
Phuket			1	420	1	420.0
Total	**10**	**4,970**	**2**	**590**	**12**	**5,560**

Source: Company data, Macquarie Research, February 2011

2011 presales to rise 21% by our estimate vs LH's +25%

- **LH's guidance: 25% presales growth.** LH projects its 2011 presales will reach Bt25bn, up 25% YoY (vs 20% growth in 2010). Its aggressive target is due to its strategy to focus more on mid-to-high-end SDHs, where LH enjoys the highest market share of 20% of the total SDH segment.
- **Macquarie's forecast: 21% presales growth.** In view of limited competition in the SDH segment and the bright prospects for its two new condos in good locations, we estimate LH's 2011 presales will reach Bt24bn, up 21% from 2010, which is slightly lower than LH's guidance.
- **Pricing strategy for 2011.** LH expects to gradually increase its selling price by 3-5% in 2011. Although LH expects the overall construction cost to rise 5-7% this year, the company is confident that it can better control costs by pre-negotiating raw materials in bulk with suppliers.

Fig 16 We expect 2011 presales to reach Bt24bn, up 21% YoY

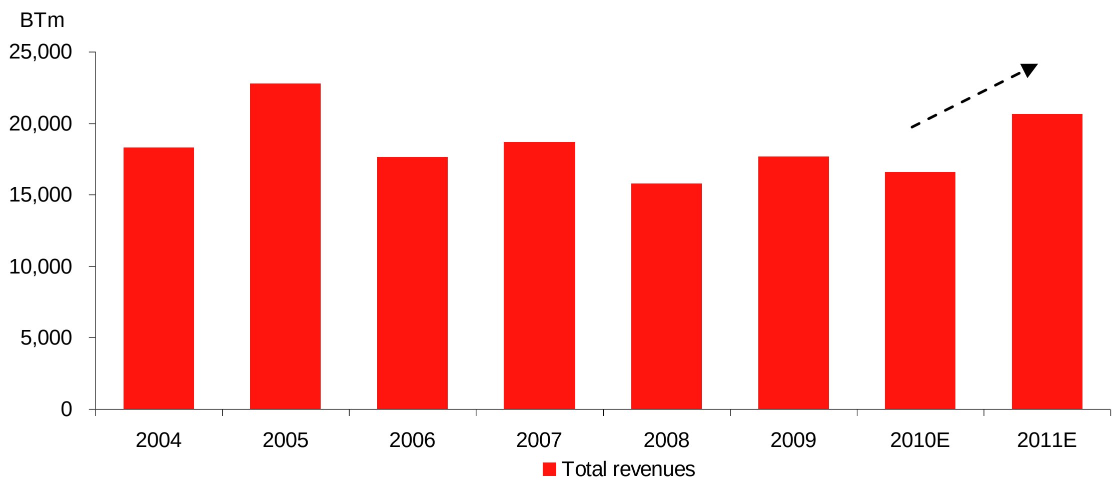


Source: Company data, Macquarie Research, February 2011

In terms of realised revenues, 2011 should show 25% growth

- **LH's guidance: 30% revenue growth.** LH expects its realised revenues to reach Bt22bn in 2011, up 30% from 2010. Three condos should be transferred in 2011, including The Room Sukhumvit 62 (worth Bt2.45bn; 30% to be transferred in 2011), The Room Sathorn Thaksin (Bt1.3bn) and Ocas Hua Hin (Bt1.6bn). Also, LH expects rising momentum from its new SDHs opened in 2H10-2011.
- **Macquarie's forecast 25% growth, lower than management's**. We are more conservative than LH's revenue guidance, expecting its 2011 revenue to reach Bt20bn, up 25%.

Fig 17 LH's total revenues to increase 25% in 2011 on our estimate



Source: Company data, Macquarie Research, February 2011

Building up condo backlog

- **Current backlog of Bt3bn.** At end-2010, LH's total backlog stood at Bt3bn, all of which was from its condo sales. This will be gradually transferred and realised as revenues during 2011-12. Since LH relies on the pre-build construction strategy for its landed property projects, which can be attributed to more than 70% of its total portfolio, LH's backlog is lower than that of its peers that mostly use the presale construction strategy.
- **Housing stock available for sale**. At end-2010, LH had a total housing stock of 500-600 units with a combined value of Bt2.5-3.0bn. These should somewhat translate into sales during 1H11 by our estimate.

Estimated EPS growth of 12-13% for 2011-12E

- **Reduce EPS estimates by 9-13% for 2010-12E.** We cut our EPS estimates by 9% for 2010, 13% for 2011 and 9% for 2012. This is because we lower our presales assumption by 15% to Bt20bn for 2011 and 6% to Bt24bn for 2012.
- **EPS growth of 13% and 12% for 2011-12E** feeds into an EPS CAGR of 8% over 2009-12E.
- **Expect GM to remain stable.** We estimate that overall property prices will increase 3-5% for the low-end to mid-range segment and that construction raw material costs will increase by 5%, posing a big challenge for developers in terms of cost control and speed of construction. LH has recently locked in prices for 50% of its construction materials for one year, with the remainder for six months, so it is confident it can control rising costs to 3% per year, while it plans to raise prices by 3-5% on average. Thus, we believe that LH should be able to maintain its gross margins at around 32-33% in 2011E, unchanged from 2010E.
- **Expect rising rental revenues and affiliated incomes.** In late 2011, Terminal 21, a retail shopping mall and serviced apartment project, is due to start operations. LH expects rental revenue growth of 60% in 2011 and another 50% in 2012. This year LH expects its equity income from affiliated investments to increase by 15% vs Bt1.2-1.4bn in 2010E. LH expects to list its LH Financial Group in 2Q11, while estimating its own portion to be injected into the bank at Bt1.8bn in February 2011.

Fig 18 We expect EPS growth of 13% and 12% respectively for 2011–12E*

(Bt m)	2009A	2010E	2011E	2012E	2009-12E CAGR
Total revenue (excluding other income)	17,656	16,574	20,627	24,581	12%
Gross profits	5,481	5,344	6,704	7,866	13%
EBIT	3,955	3,176	4,383	5,100	9%
EBITDA	4,274	3,517	4,857	5,626	10%
Net profits	3,908	3,883	4,367	4,893	8%
EPS (Bt)	0.39	0.39	0.44	0.49	8%
Revenue growth (%)	12.0%	-6.1%	24.5%	19.2%	
EBIT growth (%)	17.8%	-19.7%	38.0%	16.4%	
EPS growth (%)	9.8%	-0.6%	12.5%	12.0%	
Gross margin (%)	31.0%	32.2%	32.5%	32.0%	
EBIT margin (%)	22.4%	19.2%	21.3%	20.8%	
Net margin (%)	22.1%	23.4%	21.2%	19.9%	

*Total revenue, EBIT, EBITDA are different from the first page as we exclude other income from total revenue
Source: Company data, Macquarie Research, February 2011

Fig 19 Our projections vs the consensus

Bt m	2010E Macq	Consensus	Variance	2011E Macq	Consensus	Variance	2012E Macq	Consensus	Variance
Revenue	16,574	18,225	-9%	20,627	21,301	-3%	24,581	24,152	2%
EBIT	3,176	3,934	-19%	4,383	4,659	-6%	5,100	5,376	-5%
Net Profit	3,883	3,869	0%	4,398	4,355	1%	4,928	4,807	3%

Source: Bloomberg, Macquarie Research, February 2011

Funding, cashflow and returns – the broader perspective

- **Balance sheet check.** At end-3Q10, LH reported total assets of Bt53bn (+15% YoY), total liabilities of Bt25bn (+36%) and total equity of Bt28bn (+15%). At end-3Q10, LH had net interest-bearing debt of Bt21bn, representing a net gearing of 78%. Of its total outstanding loans, 79% are fixed rate and 21% are floating. We expect LH's 4Q10 realised revenues to be the highest quarterly revenue for 2010. We forecast its net gearing at 65% at end-2010 and to be maintained relatively stable into 2011.
- **Cashflow check.** This year we expect LH to transfer and realise revenue from its low-rise projects and condos of around Bt20bn, of which 88% will be from landed property sales. Meanwhile, LH plans for capital expenditure for new land purchases of Bt6bn and cash injection into its subsidiary, LH Bank, of Bt1.8bn in 2011. In 2011, LH plans to issue bonds worth Bt4bn to be used as working capital and for refinancing. According to management, its cost of funds averaged 4.1% in 2010.
- **Fair returns.** Given its aggressive business expansion plan, LH management advised that its dividend payout is likely to be reduced from a normal payout of 80% in the past few years, but the absolute amount will not be less. We forecast its payout will be around 70% and that its dividend yield will be around 5-6% for 2011-12, which are in line with the sector average. We forecast LH's ROE to remain fair at about 14-17% during 2010–12E.

Fig 20 LH – funding, cashflow and returns

Bt m	2008	2009	2010E	2011E	2012E
OD & ST Loans	1,923	335	350	350	350
CP of LT Loans	754	2,209	1,202	1,302	1,402
CP of Debentures	1,500	2,000	0	0	0
Total short term debt	**4,177**	**4,543**	**1,552**	**1,652**	**1,752**
LT Loans	4,709	4,809	10,816	11,716	12,616
Debentures	7,000	7,000	7,000	7,000	7,000
Total long-term debt	**11,709**	**11,809**	**17,816**	**18,716**	**19,616**
Cash & Equivalent	1,233	2,168	2,231	1,616	1,133
Total Debt	15,886	16,353	19,368	20,368	21,368
Net Debt	14,653	14,185	17,137	18,752	20,236
Total Equity	25,957	25,999	26,488	27,749	29,585
ST Debt / Total Debt	26%	28%	8%	8%	8%
Total Debt / Equity	61%	63%	73%	73%	72%
Net Debt / Equity	56%	55%	65%	68%	68%
Cash flow breakdown					
Operating cash flow	3,744	4,228	4,225	4,841	5,419
Change in working cap	-2,923	1,689	-4,382	-493	-1,854
Investing activities	-1,561	-1,120	659	-3,566	-2,033
Cash flow prior to funding	**-740**	**4,797**	**501**	**783**	**1,532**
Funding activities	946	-3,862	-438	-1,397	-2,016
Net change in cash	**206**	**935**	**63**	**-615**	**-484**
Returns (annualised)					
EBITDA/Total Assets	8.4%	9.2%	7.2%	9.3%	10.1%
Return on Assets*	7.6%	8.3%	7.8%	8.2%	8.6%
Return on Equity*	13.7%	15.0%	14.8%	16.1%	17.1%

*ROA and ROE are based on total liability and equity
Source: Company data, Macquarie Research, February 2011

LH Financial Group to be listed in 1H11

- **Upcoming listing of LH Financial Group.** LH Financial Group, in which LH holds a 41% stake, plans to increase its registered capital from Bt5.5bn (5.5bn shares, par of Bt1/sh) to Bt12bn in 1H11 as part of its listing process. Total new shares to be issued will be 6,484m shares, with the breakdown as follows:
  - ⇒ 4,412m shares for a rights offering (RO) at a ratio of 5 old shares for 4 new shares at par of Bt1.
  - ⇒ 1,443m shares for the initial public offering (IPO). IPO price is yet to be announced.
  - ⇒ 423m shares as a reserve for warrant 1. Exercise price at Bt1, expiring 30 November 2014.
  - ⇒ 205m shares as a reserve for warrant 2. Exercise price at Bt1, expiring 30 November 2014.
- **Registered capital post recap of Bt11.4bn.** After the RO and IPO, LH Financial Group will have total registered capital of Bt11.37bn (11.37m shares with a par value of Bt1/share).
- **Major shareholdings of LH Financial Group**:
  - ⇒ Land & Houses (LH): 41%
  - ⇒ Quality Houses (QH): 26%
  - ⇒ Pangjai Harnpanich: 20%
- **Our analysis: Potential realised gain of Bt0.03/share.** Assuming the IPO shares will be priced at around 1.5x PBV, and LH will sell out its new subscribing IPO portion (12.69% of total shares), we estimate that LH will have a total unrealised gain of Bt2.7bn and estimated realised gain for the IPO portion of Bt340m. If we assume LH to sell out all its IPO shares, then LH's realised gain per share will be Bt0.03/share. This represents about 8% upside to our current forecast of LH's 2011E EPS of Bt0.44/share.

Fig 21 We expect realised gain of Bt0.03/share post LH Financial Group listing

	Pre recap	Recap	Post recap
LH bank's paid up (Btm)	5,516	5,856	11,371
Reserve	25	0	25
Other reserve	547	0	547
Total equity value	**6,088**		**11,943**
Assumed price of 1.5-1.8x book			1.5
1.5-1.8x book - total value			**17,915**
LH			
LH's stakes			41%
LH's stake value - at par			4,662
LH's stake value - 1.5-1.8x book			7,345
LH's unrealised gain on LH Bank			**2,683**
Total shares outstanding (m)			10,026
Expected unrealised gain per share (Bt/sh)			0.27
IPO portion of total new shares (%)			12.69%
Estimated total realised gain for LH (Btm)			**340**
Per share realised gain for LH (Bt/sh)			**0.03**
LH's 2011E EPS (Bt/sh)			0.44
Upsides to 2011E EPS (%)			8%

Source: Macquarie Research, February 2011

Land & Houses (LH TB, Outperform, Target Price: Bt7.00)

Quarterly Results		3Q/10A	4Q/10E	1Q/11E	2Q/11E
Net Property Income	m	87	131	125	126
Development Income	m	3,123	5,137	4,886	4,945
Other Revenue	m	45	79	75	76
Total Revenue	**m**	**3,256**	**5,347**	**5,086**	**5,147**
Management Fees	m	0	0	0	0
Other Expenses	m	-2,686	-4,043	-3,828	-3,875
EBITDA	**m**	**570**	**1,304**	**1,258**	**1,272**
Dep & Amortisation	m	77	105	118	118
EBIT	**m**	**494**	**1,198**	**1,140**	**1,154**
Net Interest Income	m	-51	-76	-127	-127
Associates	m	289	312	330	330
Exceptionals	m	197	0	0	0
Other Pre-Tax Income	m	-5	0	0	0
Pre-Tax Profit	**m**	**924**	**1,434**	**1,343**	**1,357**
Tax Expense	m	-160	-337	-304	-308
Net Profit	**m**	**764**	**1,098**	**1,039**	**1,049**
Minority Interests	m	29	29	29	29
Reported Earnings	**m**	**793**	**1,127**	**1,069**	**1,078**
Adjusted Earnings	**m**	**656**	**1,127**	**1,069**	**1,078**
EPS (rep)		0.08	0.11	0.11	0.11
EPS (adj)		0.07	0.11	0.11	0.11
EPS Growth yoy (adj)	%	-43.5	12.5	-4.3	36.0
EBITDA Margins	%	17.5	24.4	24.7	24.7
EBIT Margins	%	15.2	22.4	22.4	22.4
Earnings Split	%	17.8	30.5	24.5	24.7
Revenue Growth	%	-37.1	14.5	16.6	33.1
EBIT Growth	%	-61.6	9.9	14.8	54.5

Profit & Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	12.0	-6.0	24.4	19.2
EBITDA Growth	%	16.2	-16.5	36.9	16.0
EBIT Growth	%	17.5	-18.3	36.7	16.5
EBITDA Margins	%	25.2	22.4	24.7	24.0
EBIT Margins	%	23.5	20.4	22.4	21.9
Net Profit Margins	%	21.6	22.5	20.3	19.1
Payout Ratio	%	87.5	84.1	70.0	70.0
EV/EBITDA	x	12.8	14.0	11.2	9.9
EV/EBIT	x	13.5	15.0	12.1	10.7
Balance Sheet Ratios					
ROE	%	15.0	14.1	16.1	17.1
ROA	%	9.0	7.1	9.0	9.9
ROIC	%	7.6	6.4	8.0	8.6
Net Debt/Equity	%	53.9	63.1	66.6	67.0
Interest Cover	x	16.3	12.7	9.3	10.3
Price/Book	x	2.1	2.1	2.0	1.9
Book Value per Share		2.6	2.6	2.8	3.0

Profit & Loss		2009A	2010E	2011E	2012E
Net Property Income	m	382	379	538	716
Development Income	m	17,273	16,195	20,089	23,865
Other Revenue	m	245	256	309	369
Total Revenue	**m**	**17,901**	**16,830**	**20,936**	**24,949**
Management Fees	m	0	0	0	0
Other Expenses	m	-13,382	-13,057	-15,771	-18,954
EBITDA	**m**	**4,519**	**3,773**	**5,166**	**5,995**
Dep & Amortisation	m	319	341	473	526
EBIT	**m**	**4,200**	**3,432**	**4,693**	**5,469**
Net Interest Income	m	-257	-270	-507	-532
Associates	m	1,174	1,418	1,320	1,320
Exceptionals	m	0	274	0	0
Other Pre-Tax Income	m	-31	-8	0	0
Pre-Tax Profit	**m**	**5,087**	**4,845**	**5,506**	**6,258**
Tax Expense	m	-1,219	-1,057	-1,256	-1,481
Net Profit	**m**	**3,868**	**3,788**	**4,250**	**4,776**
Minority Interests	m	40	95	117	117
Reported Earnings	**m**	**3,908**	**3,883**	**4,367**	**4,893**
Adjusted Earnings	**m**	**3,908**	**3,692**	**4,367**	**4,893**
EPS (rep)		0.39	0.39	0.44	0.49
EPS (adj)		0.39	0.37	0.44	0.49
EPS Growth (adj)	%	12.1	-5.5	18.3	12.0
PE (rep)	x	14.1	14.2	12.6	11.3
PE (adj)	x	14.1	14.9	12.6	11.3
Total DPS		0.34	0.31	0.30	0.34
Total Div Yield	%	6.2	5.6	5.5	6.2
Weighted Average Shares	m	10,026	10,026	10,026	10,026
Period End Shares	m	10,026	10,026	10,026	10,026

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**4,274**	**3,517**	**4,857**	**5,626**
Tax Paid	m	-1,219	-1,057	-1,256	-1,481
Chg in Working Capital	m	-1,689	4,382	493	1,854
Net Interest Paid	m	-268	-270	-507	-532
Other	m	4,818	-6,730	761	-1,902
Operating Cashflow	**m**	**5,916**	**-158**	**4,348**	**3,565**
Acquisitions	m	-739	-1,314	-2,821	-1,291
Capex	m	-390	-470	-472	-474
Asset Sales	m	0	0	0	0
Other	m	9	2,443	-272	-268
Investing Cashflow	**m**	**-1,120**	**659**	**-3,566**	**-2,033**
Dividend (Ordinary)	m	-3,946	-3,420	-3,107	-3,057
Equity Raised	m	7	25	0	0
Debt Movements	m	45	2,861	1,592	924
Other	m	32	95	117	117
Financing Cashflow	**m**	**-3,862**	**-438**	**-1,397**	**-2,016**
Net Chg in Cash/Debt	**m**	**935**	**63**	**-615**	**-484**
Free Cashflow	**m**	**5,526**	**-628**	**3,876**	**3,091**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	2,168	2,231	1,616	1,133
Receivables	m	14	13	16	19
Inventories	m	22,999	27,244	28,256	30,305
Investments	m	0	0	0	0
Fixed Assets	m	8,984	6,412	7,645	8,800
Intangibles	m	0	0	0	0
Other Assets	m	12,756	14,284	16,307	16,819
Total Assets	**m**	**46,920**	**50,184**	**53,841**	**57,076**
Payables	m	905	764	1,306	1,180
Short Term Debt	m	4,975	1,917	2,275	2,315
Long Term Debt	m	11,809	17,816	18,716	19,616
Provisions	m	2,089	1,961	2,441	2,909
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**19,779**	**22,459**	**24,738**	**26,019**
Shareholders' Funds	m	25,999	26,488	27,749	29,585
Minority Interests	m	1,142	1,237	1,354	1,471
Total S/H Equity	**m**	**27,141**	**27,725**	**29,103**	**31,057**
Total Liab & S/H Funds	**m**	**46,920**	**50,184**	**53,841**	**57,076**

All figures in THB unless noted.
Source: Company data, Macquarie Research, February 2011

THAILAND

LPN TB Outperform

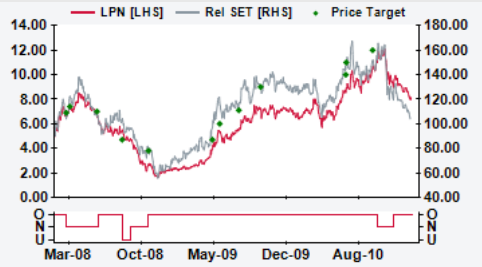
Price 21 Jan 11 Bt8.60

12-month target	**Bt**	**10.50**
Upside/Downside	**%**	**22.1**
Valuation - DCF	**Bt**	**10.60**
GICS sector		**Real Estate**
Market cap	**Btm**	**12,691**
30-day avg turnover	**US$m**	**3.7**
Market cap	**US$m**	**414**
Number shares on issue	**m**	**1,476**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	8,513	9,808	12,047	13,765
EBIT	m	1,879	2,090	2,339	2,674
EBIT growth	%	10.2	11.2	11.9	14.3
Reported profit	m	1,359	1,577	1,793	2,051
Adjusted profit	m	1,359	1,577	1,793	2,051
EPS rep	Bt	0.93	1.07	1.22	1.39
EPS rep growth	%	13.3	15.5	13.7	14.4
EPS adj	Bt	0.93	1.07	1.22	1.39
EPS adj growth	%	13.3	15.5	13.7	14.4
PER rep	x	9.3	8.0	7.1	6.2
PER adj	x	9.3	8.0	7.1	6.2
Total DPS	Bt	0.50	0.53	0.61	0.69
Total DPS growth	%	21.1	8.0	13.7	14.4
Total div yield	%	5.8	6.2	7.1	8.1
ROA	%	22.2	23.7	21.6	20.8
ROE	%	27.9	28.0	27.5	27.0
EV/EBITDA	x	6.6	5.9	5.3	4.7
Net debt/equity	%	-5.7	12.2	18.8	15.0
P/BV	x	2.4	2.1	1.8	1.6

LPN TB rel SET performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2011

(all figures in THB unless noted)

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25 January 2011

LPN Development

High secured revenue is a key driver

Event

- We maintain our Outperform rating on LPN, with a new DCF-based TP of Bt10.50 (from Bt12.0). We trim EPS estimates by 1-4% for 2010-12 along with our expected slower presales momentum. Near-term catalysts should be its strong 4Q10 results and high backlog to secure 2011 revenue forecasts. Also, LPN's high yield, attractive ROE and low leverage add to its attractiveness.

Impact

- **A record year for 2010.** LPN achieved record presales at Bt15bn in 2010, up 40% YoY, thanks to the strong demand for condo and its successful new room design of 22-25 sqm. We estimate record total revenues of Bt9.8bn, up 15% YoY. In 4Q10, LPN opened its large-scale Riverside Rama 3 condo of Bt5.5bn and achieved 55% presales. This disappointed the market as the consensus expected higher than 80% presales during its first launched dates.
- **2011 outlook – modest presale growth; highly secured revenue.** In 2011, LPN plans to open ten new condos of Bt16bn, vs six projects of Bt14bn in 2010. Of these, eight projects will be in Bangkok and two in upcountry, Pattaya. We expect LPN's presales at Bt16bn in 2011, up 7% YoY. Despite our expected single-digit presale growth, we think LPN should report good revenue growth of 23% in 2011, with its strong backlog of Bt14.4bn at end-2010. This means 95% of LPN's 2011 revenue forecast has already secured.
- **Product and segment focuses.** LPN will focus on smaller condo size of 22 sqm with a unit price below Bt1m as it sees real demand in the segment. LPN will also penetrate into the townhouse market via its subsidiary, Pornsanti (100% owned by LPN), which will open five TH projects worth Bt2bn. This is to tap existing clients with growing family size, which need larger spaces to fit in.
- **Expect strong 4Q10, up 169% YoY.** We project LPN's 4Q10 net profit at Bt511m, up 169% YoY and 74% QoQ. Including our 4Q10 estimate, we see 2010 net profit at Bt1.6bn, up 16% from 2009. Strong revenues and sustainably high gross margin are key supports.

Earnings and target price revision

- We revise down our EPS estimates by 1-4% for 2010-12. We revise our DCF-based target price to Bt10.50 from Bt12.0.

Price catalyst

- 12-month price target: Bt10.50 based on a DCF methodology.
- Catalyst: Sustainable presales and gross margin, no transfer delay.

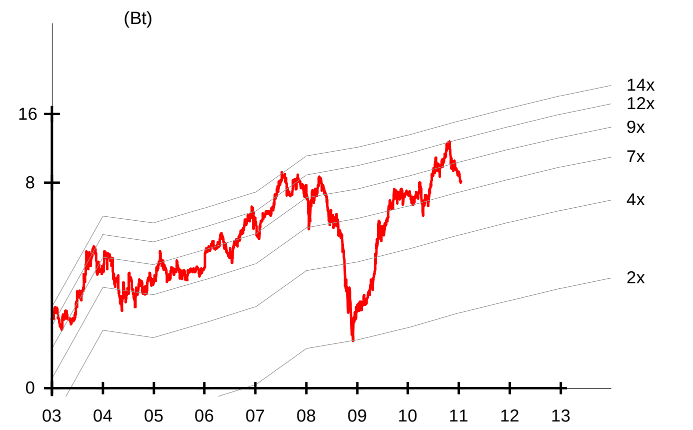
Action and recommendation

- LPN is trading at a 7.1x 2011E PER, below its historical mean. Our new TP of Bt10.5 implies 8.6x 2011E PER. We like LPN on the perspectives of its highly secured revenues (95% of 2011E revenues), attractive ROE (27.5% for 2011) and high yield (7.1% for 2011). Maintain Outperform with a TP of Bt10.50.

Current valuation is cheap at 7.1x 2011E PER

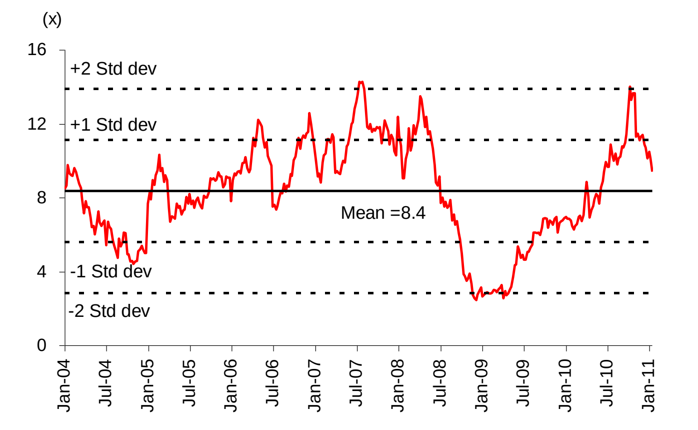
- **Forward PER at 7.1x 2011E, below LT mean.** LPNs share price is currently trading at 7.1x 2011E forward PER, vs its historical mean of 8.46x. This is no longer expensive, compared to its highest level of 12x in early October 2010. Share price has come down to reflect the market being overly optimistic on the 100% presales expectation of its latest condo launch, Riverside Rama3, which actually achieved about 50% presales during the first few days of launch.
- **1.8x PBV 2011E PER.** This is much relatively lower than its peak of 3.1x PBV in mid 2010. Improving expected earnings and rising equity are key reasons.
- **Our new DCF-based TP of Bt10.50 implies 8.6x 2011E PER.** We apply a DCF valuation approach to value PS, using 4% risk-free rate, 8% market risk premium, 3% terminal growth, and 9.6% WACC. We derive our new 2011 DCF-based target price for LPN of Bt10.50 (from Bt12.0), as we trim our EPS estimates by 1-4% for 2010-12 following slower presales expectation for 2011. Our new target price of Bt10.50 implies 8.6x 2011E PER, which is in line with its long-term mean.
- **Maintain Outperform rating with a new TP of Bt10.50.** 2011 will be a more challenging for Thai property, with large-listed developers to still dominate the market. LPN, as the largest market share in the low-end condo segment, should continue to stay highly competitive, thanks to its strong brand and large existing client base. With our expected EPS growth of 14% and a yield of 7.1% for LPN in 2011, the current LPN share price should offer a good entry point with cheap valuation.

Fig 1 LPN: Forward PER at 7.1x for 2011E



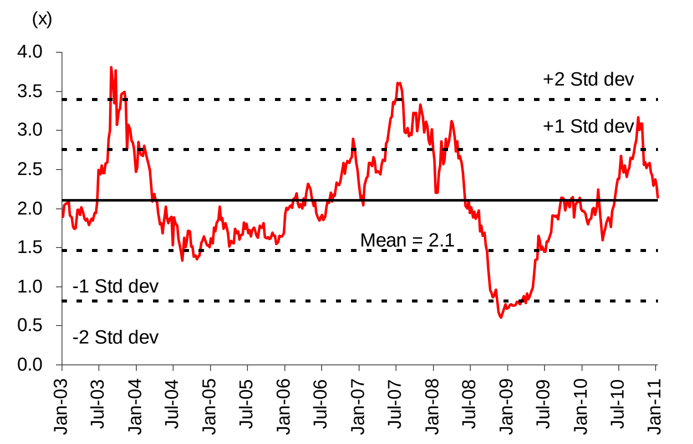
Source: Bloomberg, Macquarie Research, January 2011

Fig 2 LPN: Trailing PER at 9.4x for 2011E



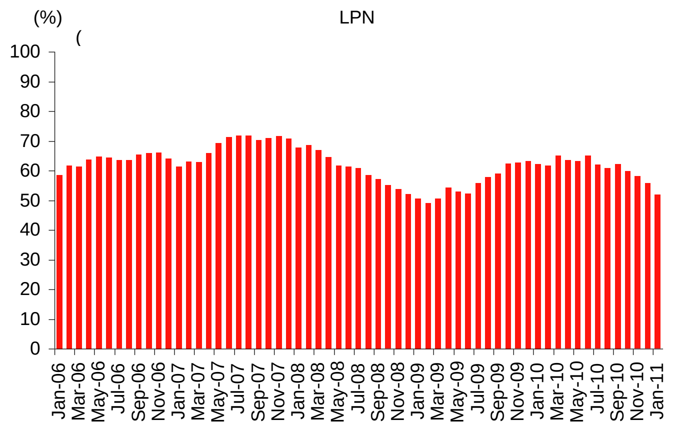
Source: Bloomberg, Macquarie Research, January 2011

Fig 3 LPN: PBV band



Source: Bloomberg, Macquarie Research, January 2011

Fig 4 LPN: Foreign ownership



Source: Bloomberg, Macquarie Research, January 2011

Expect strong 4Q10 YoY and QoQ

- **4Q10E results to be strong.** We expect LPN's 4Q10 net profit of Bt511m, up 169% YoY and 74% QoQ. Strong revenues and sustainably high gross margin are key supports.
- **The highest quarterly revenues.** We expect LPN to be the highest quarterly revenues of Bt3.4bn in 4Q10, up 67% YoY and 89% QoQ. Key revenue contribution should come from its Condotown Ramintra Nawamintr, Lumpini Ville Ratburana Riverview, Lumpini Ville Ladprao Chokchai 4 and the start of Lumpini Place Rama 9 Phase 2.
- **Sustainably high gross margin.** For the quarter, we expect LPN's gross margin to remain high at 33.4%, vs 29.6% in 4Q09 and 35.4% in 3Q10. This should come from its pricing power of selling its remaining units of the old projects opened several years ago.
- **2010 net profits up 16% YoY.** Including our 4Q estimate, we expect LPN's 2010 net profit to reach at Bt1.6bn, up 16% from 2009.

Fig 5 Expect strong results in 4Q10 (+169% YoY and 74% QoQ) and 2010 (+16%)

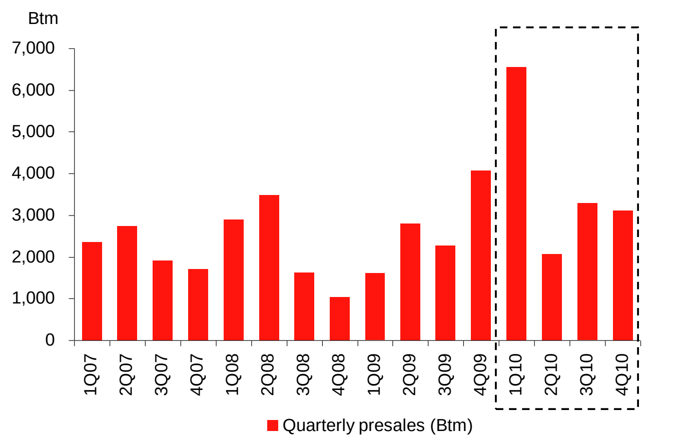
Btm	4Q10E	4Q09	YoY (%)	3Q10	QoQ (%)	2010E	2009	YoY (%)
Sales and services	3,430	2,058	66.7	1,812	89.4	9,808	8,513	15.2
Cost of sales	(2,284)	(1,450)	57.5	(1,169)	95.3	(6,522)	(5,840)	11.7
Gross profit	1,146	608	88.4	642	78.6	3,286	2,673	22.9
SG&A	(482)	(306)	57.4	(255)	88.9	(1,196)	(794)	50.7
EBIT	665	302	119.9	387	71.8	2,090	1,879	11.2
EBITDA	672	311	116.5	395	70.4	2,122	1,914	10.9
Interest expenses	(1)	(2)	(52.6)	(1)	0.0	(3)	(11)	(74.0)
Corporate income tax	(219)	(108)	102.2	(122)	80.1	(675)	(589)	14.7
Net profit	**511**	**190**	**169.2**	**293**	**74.2**	**1,577**	**1,359**	**16.1**
EPS (Bt)	0.35	0.13	167.8	0.20	74.2	1.07	0.93	15.5
Percent	**4Q10E**	**4Q09**	**YoY (ppts)**	**3Q10**	**QoQ (ppts)**	**2010E**	**2009**	**YoY (ppts)**
Gross margin	33.4	29.6	3.9	35.4	(2.0)	33.5	31.4	2.1
SG&A to sales	14.0	14.9	(0.8)	14.1	(0.0)	12.2	9.3	2.9
EBIT margin	19.4	14.7	4.7	21.4	(2.0)	21.3	22.1	(0.8)
Net margin	14.9	9.2	5.7	16.2	(1.3)	16.1	16.0	0.1

Source: Company data, Macquarie Research, January 2011

Record presales for 2010

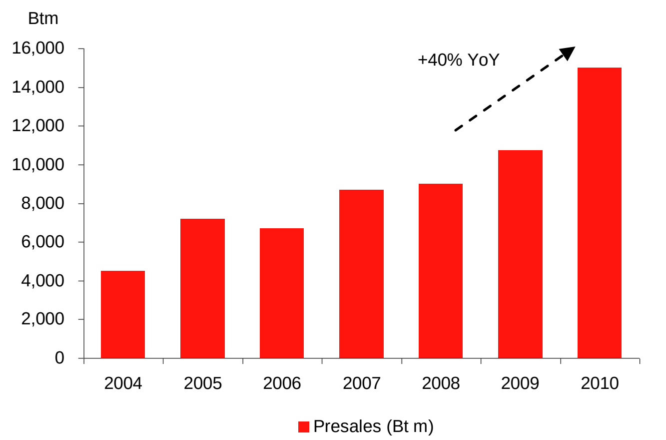
- **2010 presales up 40% YoY.** In 2010, LPN achieved record presales of Bt15bn, up 40% YoY. This was thanks to its strong success of condo launches, including Lumpini Place Ratchayothin (worth Bt3.2bn), Lumpini Place Rama 4 (Bt1.5bn) and Lumpini Place Rama9 Phase 2 (Bt2.6bn).
- **Momentum faded during 4Q10.** In 4Q10, LPN's presales were at Bt3.1bn, down 24% YoY and 5% QoQ. In early 4Q10, LPN opened its large project, Lumpini Park Riverside Rama 3 (worth Bt5.5bn) and achieved 55% presales at the end of 2010. This was disappointed by the market's overly high expectation of 80-100% during its first launched date.

Fig 6 4Q10 presales of Bt3.1bn, down 24% YoY



Source: Company data, Macquarie Research, January 2011

Fig 7 2010 presales of Bt15bn, up 40% YoY



Source: Company data, Macquarie Research, January 2011

2011 outlook – modest presales growth; big jump in revenues

More aggressive in new launches for 2011

- **Ten new projects of Bt16bn.** In 2011, LPN plans to launch ten new projects worth a total of Bt16bn, vs six projects of Bt14bn in 2010. Of these, eight projects will be in Greater Bangkok and two projects will be in upcountry, including Pattaya. Average unit price is expected to decrease to Bt1.0m from Bt1.8m last year.
- **Focusing on lower-end condo segment.** This year, LPN will revise its business model to reduce both the size and the cost of its condo units. LPN plans to focus on a unit size of 22 sqm with a unit price below Bt1m as it sees demand for residences of this size and price in the market.
- **Entering the townhouse market via subsidiary.** Apart from its ten new condos, LPN will have its subsidiary, Pornsanti (100% owned by LPN) open five townhouses worth Bt2bn. This is to tap its existing clients with growing family size which need larger spaces. Average unit price is Bt3-5m as the project location will be closer to the inner Bangkok. LPN expects TH sales of Bt1bn in 2011. We have not yet factored in this in our earnings projection due to insufficient information.
- **Capex for new land purchase.** LPN has budgeted Bt3bn for its total capital expenditure in 2011. This includes Bt2.5bn for its new land acquisition and Bt500m for its townhouse development.

Fig 8 LPN to open 10 new projects of Bt16bn in 2010

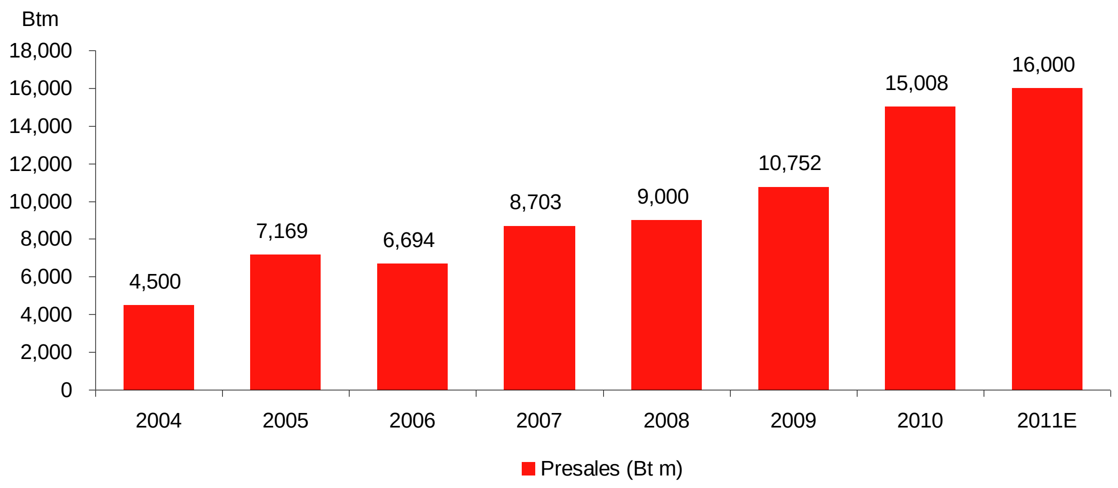
	2006	2007	2008	2009	2010	2011E
No. of projects	**4**	**6**	**5**	**5**	**6**	**10**
Total project value (Btm)	**6,100**	**9,550**	**6,550**	**9,210**	**14,010**	**16,000**
Total units	3,471	9,783	3,747	7,840	7,764	16,500*
Average price (Btm)	1.8	1.0	1.7	1.2	1.8	1.0*

*Macquarie's estimates
Source: Company data, Macquarie Research, January 2011

2011 presales to rise 7% by our estimate

- **We expect 2011 presales growth of 7% at Bt16bn.** This is in line with management's guidance. Given LPN's strong brand recognition and large client base in the low-end condo segment, we believe its target should be plausible. We also expect the remaining units of its Riverside Rama 3 at 45% of total value to be sold out this year.
- **Pricing strategy for 2011.** Despite the expectation of the cost of construction and raw material to increase around 5% this year, LPN has no plan to raise its selling price for its new projects, but will focus more on its cost control and fasten its speed of construction. Thus, we conservatively estimate LPN's gross margin to slightly decline to 31-32% in 2011, vs 33-34% in 2010.

Fig 9 We forecast 2011 presales growth will be modest at 7% at Bt16bn

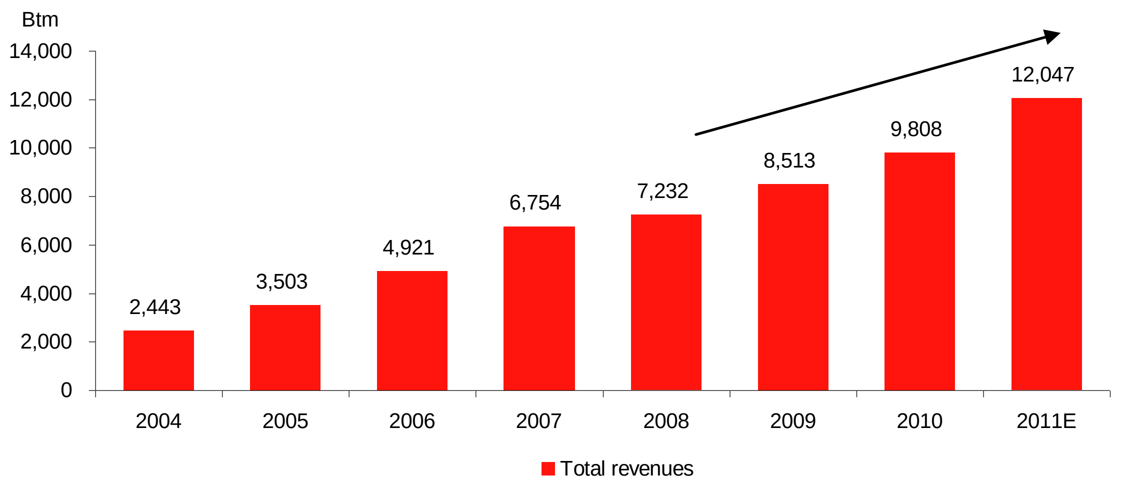


Source: Company data, Macquarie Research, January 2011

In terms of realised revenues, 2011 will show 23% growth

- **Expect revenues of Bt12bn for 2011, up 23%.** Despite its modest presales target, we estimate LPN's realised revenues will be Bt12bn in 2011, up 23% from 2010. Five projects should be delivered in 2011, including Ramintra Nawamintr Tower D (worth Bt550m), Rama 9 Phase 2 (Bt2.6bn), Ratchayothin (Bt3.2bn), Park Pinklao (Bt3.6bn) and Rama 4-Kluai Nam Thai (Bt1.5bn).
- **Loan rejection still remains low.** During 2010, the loan rejection rate of its customers who applied for bank's mortgages averaged at 9-10%, vs 11-12% in 2009. In 2011, we estimate the rejection to slightly increase to 13-14% following the stricter BoT's new LTV ratio of 90% for the condo segment. According to management, LPN will use the pre-approval process with banks to check the affordability. If the process indicates such customers' insufficient affordability, then LPN will return the deposits to customers and get the units back for reselling soon afterward.

Fig 10 LPN's total revenues to increase 23% in 2011

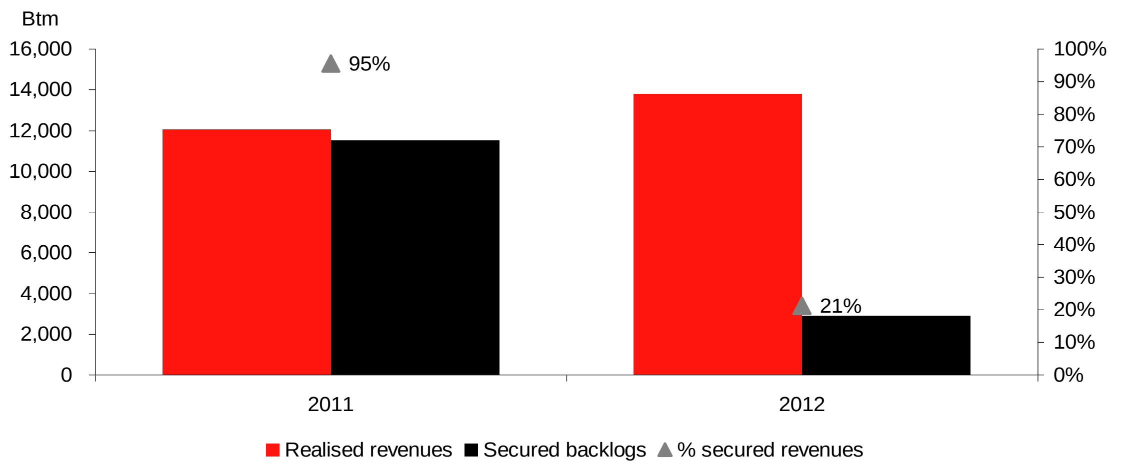


Source: Company data, Macquarie Research, January 2011

95% secured revenues for 2011

- **Strong backlogs to secure future revenues.** At end-2010, LPN's total backlogs stood at Bt14.4bn, of which Bt11.5bn will be realised in 2011. Based on our 2011 revenue forecast of Bt12bn, this means that at least 95% of LPN's 2011E revenue has already been secured. Among the seven developers under our coverage, LPN has the highest secured revenues for 2011.

Fig 11 Highly secured backlogs for 2011



Source: Company data, Macquarie Research, January 2011

Estimate EPS growth of 14% for 2011-12E

- **Revised our EPS estimates by 1-4% for 2010-12E.** We trim our EPS estimates by 2% for 2010, 1% for 2011 and 4% for 2012. This is to reflect expected slower presales and higher competition in the low-end condo segment.
- **EPS growth of 14% pa for 2011-12.** This represents EPS CAGR of 15% over 2009-12E.
- **Conservatively expect GM to gradually decline.** Given that we expect a more challenging year for the Thai property market, we would emphasise volume driver growth as the key. We estimate overall property price to stay stable or slightly increase by 0-3% for the low-end condo segment and that the construction raw material cost will increase by 5%, leaving a big challenge for the developers to focus on cost control and speed of construction. Thus, we estimate LPN to report its gross margin at around 31-32% in 2011E, vs 33.5% in 2010E.

Fig 12 Expect EPS growth of 14% each for 2011-12E

(Bt m)	2009A	2010E	2011E	2012E	2009-12E CAGR
Revenues	8,513	9,808	12,047	13,765	17%
Other income	75	124	211	241	47%
Total revenues	8,589	9,932	12,258	14,007	18%
Gross profits	2,673	3,286	3,792	4,333	17%
EBIT	1,879	2,090	2,339	2,674	12%
EBITDA	1,914	2,122	2,385	2,723	12%
Net profits	1,359	1,577	1,793	2,051	15%
EPS (Bt)	0.93	1.07	1.22	1.39	15%
Revenue growth (%)	17.7%	15.2%	22.8%	14.3%	
EBIT growth (%)	14.2%	11.2%	11.9%	14.3%	
EPS growth (%)	13.2%	15.5%	13.7%	14.4%	
Gross margin (%)	31.4%	33.5%	31.5%	31.5%	
EBIT margin (%)	22.1%	21.3%	19.4%	19.4%	
Net margin (%)	16.0%	16.1%	14.9%	14.9%	

Source: Company data, Macquarie Research, January 2011

Fig 13 We are in-line with the consensus estimates for 2011-12

Btm	2010E Macq	Consensus	Variance	2011E Macq	Consensus	Variance	2012E Macq	Consensus	Variance
Revenue	9,808	9,858	-1%	12,047	11,902	1%	13,765	13,930	-1%
EBIT	2,090	2,129	-2%	2,339	2,473	-5%	2,674	2,852	-6%
Net Profit	1,577	1,542	2%	1,793	1,789	0%	2,051	2,053	0%

Source: Bloomberg, Macquarie Research, January 2011

Funding, cashflow and returns – the broader perspective

- **Balance sheet check.** At end-3Q10, LPN reported its total assets at Bt10bn (+30% YoY), total liability of Bt4.5bn (+66% YoY), and total equity of Bt5.6bn (+11% YoY). At end-3Q10, LPN had net interest-bearing debt of Bt1.7bn, representing a net gearing of 30%. We expect LPN's 4Q10 realised revenues to be the highest quarter of 2010, and that the momentum will continue into 2011. Thus, we forecast its net gearing at 12% at end-2010 and 19% at end-2011.
- **Cash flow check.** Faster speed of condo construction is one of LPN's competitive advantages over other condo developers. At present, LPN can complete its condo construction within 8-10 months for low-rise condos (not exceeding nine floors) and 15-18 months for high-rise condo projects (higher than nine-floors). This is evidenced by its strong cash flow from operation. This year, LPN plans for a total capital expenditure of Bt3.0bn, including Bt2.5bn for its new land purchase and Bt500m for its TH project development via its subsidiary, "Pornsanti". LPN also plans to issue debentures of Bt2bn for future land acquisition and project development in 2011.
- **Good returns.** The company's return mainly on residential product sales. Based on its aggressive new launches over 2010-11, plus expected improving revenues, we forecast LPN's ROE to remain solid at about 27-28% during 2010-12. This is thanks to its quick assets turnover and efficient cost control. In terms of yield, we estimate LPN's dividend yield will be the second highest dividend yield of 7%, vs Supalai's (SPALI TB, Bt10.0, Outperform, TP: Bt16.0) at 8% and the sector average at 5.0%.

Fig 14 LPN: Funding, cashflow and returns

	2008	2009	2010E	2011E	2012E
OD & ST Loans	1,345	285	285	285	285
CP of LT Loans	719	477	800	1,448	1,448
CP of Debentures	0	0	0	0	0
Total short term debt	**2,064**	**761**	**1,085**	**1,733**	**1,733**
LT Loans	531	259	435	787	787
Debentures	0	0	0	0	0
Total long term debt	**531**	**259**	**435**	**787**	**787**
Cash & Equivalent	1,691	1,319	785	1,201	1,292
Total Debt	2,594	1,020	1,520	2,520	2,520
Net Debt	904	-299	736	1,320	1,229
Total Equity	4,484	5,269	6,010	7,015	8,169
ST Debt / Total Debt	80%	75%	71%	69%	69%
Total Debt / Equity	58%	19%	25%	36%	31%
Net Debt / Equity	20%	-6%	12%	19%	15%
Cash flow breakdown					
Operating cash flow	1,242	1,393	1,609	1,840	2,100
Change in working cap	-218	298	-1,704	-1,423	-952
Investing activities	-131	89	-104	-213	-161
Cash flow prior to funding	**893**	**1,780**	**-199**	**204**	**987**
Funding activities	343	-2,151	-335	212	-896
Net change in cash	**1,236**	**-372**	**-535**	**416**	**91**
Returns (annualised)					
EBITDA/Total Assets	21.0%	22.6%	24.0%	22.0%	21.2%
Return on Assets*	15.0%	16.0%	17.9%	16.6%	16.0%
Return on Equity*	29.0%	27.9%	28.0%	27.5%	27.0%

*ROA and ROE are based on total liability and equity
Source: Company data, Macquarie Research, January 2011

LPN Development (LPN TB, Outperform, Target Price: Bt10.50)

Quarterly Results		3Q/10A	4Q/10E	1Q/11E	2Q/11E
Net Property Income	m	0	0	0	0
Development Income	m	1,812	3,430	2,243	2,528
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**1,812**	**3,430**	**2,243**	**2,528**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,417	-2,758	-1,797	-2,026
EBITDA	**m**	**395**	**672**	**446**	**502**
Dep & Amortisation	m	8	8	12	12
EBIT	**m**	**387**	**665**	**435**	**490**
Net Interest Income	m	-1	-1	-2	-2
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	29	66	43	48
Pre-Tax Profit	**m**	**415**	**730**	**476**	**537**
Tax Expense	m	-122	-219	-143	-161
Net Profit	**m**	**293**	**511**	**333**	**376**
Minority Interests	m	-0	-0	-0	-0
Reported Earnings	**m**	**293**	**511**	**333**	**376**
Adjusted Earnings	**m**	**293**	**511**	**333**	**376**
EPS (rep)		0.20	0.35	0.23	0.25
EPS (adj)		0.20	0.35	0.23	0.25
EPS Growth yoy (adj)	%	-26.9	167.8	23.0	-25.2
EBITDA Margins	%	21.8	19.6	19.9	19.9
EBIT Margins	%	21.4	19.4	19.4	19.4
Earnings Split	%	18.6	32.4	18.6	21.0
Revenue Growth	%	-15.2	66.7	50.8	-17.9
EBIT Growth	%	-30.4	119.9	43.8	-33.4

Profit & Loss		2009A	2010E	2011E	2012E
Net Property Income	m	0	0	0	0
Development Income	m	8,513	9,808	12,047	13,765
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**8,513**	**9,808**	**12,047**	**13,765**
Management Fees	m	0	0	0	0
Other Expenses	m	-6,600	-7,687	-9,662	-11,042
EBITDA	**m**	**1,914**	**2,122**	**2,385**	**2,723**
Dep & Amortisation	m	34	32	46	49
EBIT	**m**	**1,879**	**2,090**	**2,339**	**2,674**
Net Interest Income	m	4	-1	-8	-8
Associates	m	4	39	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	60	125	231	264
Pre-Tax Profit	**m**	**1,947**	**2,253**	**2,562**	**2,930**
Tax Expense	m	-589	-675	-769	-879
Net Profit	**m**	**1,359**	**1,577**	**1,794**	**2,051**
Minority Interests	m	-0	-0	-0	-0
Reported Earnings	**m**	**1,359**	**1,577**	**1,793**	**2,051**
Adjusted Earnings	**m**	**1,359**	**1,577**	**1,793**	**2,051**
EPS (rep)		0.93	1.07	1.22	1.39
EPS (adj)		0.93	1.07	1.22	1.39
EPS Growth (adj)	%	13.3	15.5	13.7	14.4
PE (rep)	x	9.3	8.0	7.1	6.2
PE (adj)	x	9.3	8.0	7.1	6.2
Total DPS		0.50	0.53	0.61	0.69
Total Div Yield	%	5.8	6.2	7.1	8.1
Weighted Average Shares	m	1,468	1,476	1,476	1,476
Period End Shares	m	1,476	1,476	1,476	1,476

Profit & Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	16.7	15.2	22.8	14.3
EBITDA Growth	%	9.9	10.9	12.4	14.2
EBIT Growth	%	10.2	11.2	11.9	14.3
EBITDA Margins	%	22.5	21.6	19.8	19.8
EBIT Margins	%	22.1	21.3	19.4	19.4
Net Profit Margins	%	16.0	16.1	14.9	14.9
Payout Ratio	%	53.5	50.0	50.0	50.0
EV/EBITDA	x	6.6	5.9	5.3	4.7
EV/EBIT	x	6.7	6.0	5.4	4.7
Balance Sheet Ratios					
ROE	%	27.9	28.0	27.5	27.0
ROA	%	22.2	23.7	21.6	20.8
ROIC	%	24.3	29.4	24.3	22.5
Net Debt/Equity	%	-5.7	12.2	18.8	15.0
Interest Cover	x	nmf	1,403.5	299.4	329.5
Price/Book	x	2.4	2.1	1.8	1.6
Book Value per Share		3.6	4.1	4.8	5.5

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**1,914**	**2,122**	**2,385**	**2,723**
Tax Paid	m	-589	-675	-769	-879
Chg in Working Capital	m	-298	1,704	1,423	952
Net Interest Paid	m	-11	-3	-8	-8
Other	m	675	-3,242	-2,615	-1,639
Operating Cashflow	**m**	**1,691**	**-95**	**417**	**1,148**
Acquisitions	m	48	1	5	5
Capex	m	-47	-47	-47	-47
Asset Sales	m	0	0	0	0
Other	m	88	-59	-170	-119
Investing Cashflow	**m**	**89**	**-104**	**-213**	**-161**
Dividend (Ordinary)	m	-630	-727	-789	-897
Equity Raised	m	39	-109	0	0
Debt Movements	m	-1,577	501	1,001	1
Other	m	17	0	0	-0
Financing Cashflow	**m**	**-2,151**	**-335**	**212**	**-896**
Net Chg in Cash/Debt	**m**	**-372**	**-535**	**416**	**91**
Free Cashflow	**m**	**1,644**	**-142**	**370**	**1,101**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	1,319	785	1,201	1,292
Receivables	m	35	40	49	56
Inventories	m	4,907	6,790	8,595	9,820
Investments	m	0	0	0	0
Fixed Assets	m	1,308	1,379	1,541	1,648
Intangibles	m	0	0	0	0
Other Assets	m	519	582	692	778
Total Assets	**m**	**8,088**	**9,576**	**12,078**	**13,594**
Payables	m	724	807	1,021	1,167
Short Term Debt	m	761	1,085	1,733	1,733
Long Term Debt	m	259	435	787	787
Provisions	m	1,075	1,238	1,521	1,738
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**2,819**	**3,565**	**5,062**	**5,425**
Shareholders' Funds	m	5,269	6,010	7,015	8,169
Minority Interests	m	0	0	0	0
Total S/H Equity	**m**	**5,269**	**6,010**	**7,015**	**8,169**
Total Liab & S/H Funds	**m**	**8,088**	**9,576**	**12,078**	**13,594**

All figures in THB unless noted.
Source: Company data, Macquarie Research, January 2011

THAILAND

PS TB Outperform

Price 17 Jan 11 Bt18.30

12-month target	**Bt**	**25.00**
Upside/Downside	**%**	**36.6**
Valuation	**Bt**	**25.50**
- DCF		
GICS sector		**Real Estate**
Market cap	**Btm**	**40,385**
30-day avg turnover	**US$m**	**3.3**
Market cap	**US$m**	**1,325**
Number shares on issue	**m**	**2,207**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	19,033	23,379	32,502	37,983
EBIT	m	4,846	4,657	5,894	6,699
EBIT growth	%	58.3	-3.9	26.6	13.7
Reported profit	m	3,622	3,510	4,223	4,765
Adjusted profit	m	3,622	3,510	4,223	4,765
EPS rep	Bt	1.64	1.59	1.91	2.16
EPS rep growth	%	51.7	-3.3	20.3	12.8
EPS adj	Bt	1.64	1.59	1.91	2.16
EPS adj growth	%	51.6	-3.2	20.3	12.8
PER rep	x	11.1	11.5	9.6	8.5
PER adj	x	11.1	11.5	9.6	8.5
Total DPS	Bt	0.49	0.48	0.57	0.65
Total DPS growth	%	48.1	-3.0	20.3	12.8
Total div yield	%	2.7	2.6	3.1	3.5
ROA	%	27.6	17.5	15.5	15.5
ROE	%	31.3	24.6	24.7	23.3
EV/EBITDA	x	8.0	8.3	6.6	5.8
Net debt/equity	%	-5.4	89.9	83.3	65.1
P/BV	x	3.1	2.6	2.2	1.8

PS TB rel SET performance, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2011

(all figures in THB unless noted)

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18 January 2011

Pruksa Real Estate

Maintaining market leadership

Event

- We maintain Outperform on Pruksa (PS), with a new DCF-based TP of Bt25 (from Bt27). We trim our EPS estimates by 3–5% for 2010–12 along with our higher effective tax rate assumptions. We like PS for its strong position in the mass market, which is seeing real demand. We think its record backlog should significantly drive revenue growth (+37%) and earnings growth (+20%) in 2011.

Impact

- **Finishing 2010 with all-new records:** In 2010, PS achieved record high presales at Bt38.8bn, up 70% YoY, thanks to the continuing success of its new business platform. We estimate record total revenue of Bt23.2bn from project sales in 2010, up 23% from 2009. During 2H10, PS experienced a unit delivery problem due to fast-growing presales. In May 2011, PS will open its fifth precast factory, which should solve the construction delay issue by 1H11.
- **2011 outlook – softer presales but big revenue jump on strong backlog:** In 2011, PS plans to open 78 projects worth Bt54bn, vs 72 projects of Bt63bn in 2010. PS will be less aggressive in condos but more proactive in the low-rise segment. We expect PS's presales to decline 10% in 2011 (vs PS's target of +8%) as doubling SDH sales will be its big challenge. Despite our expected softer presales, we think PS should report significant revenue growth of 37% in 2011, with its strong backlog of Bt31bn at end 2010.
- **Overseas success remains to be seen:** PS is expanding into India, the Maldives and Vietnam as part of its plan to sustain business growth through overseas expansion. We view this strategy as high risk. Thus, we estimate overseas presales will rise only slightly to Bt1bn in 2011 from Bt699m in 2010, vs the company's overseas presales target of Bt4.5bn for 2011.
- **Expect strong 4Q10, up 201% QoQ:** We project PS's 4Q10 net profit at Bt1.1bn, up 201% QoQ but down 34% YoY. Including our 4Q10 estimate, we see 2010 net profit at Bt3.5bn, down 3% from 2009. This is partly due to its low-rise delivery issue following robust presales over the past six months.

Earnings and target price revision

- We trim our EPS estimates by 3–5% for 2010–12 to reflect a higher effective tax rate assumption. We revise our DCF-based target price to Bt25 from Bt27.

Price catalyst

- 12-month price target: Bt25.00 based on a DCF methodology.
- Catalyst: Sustainable presales and gross margin with no transfer delay.

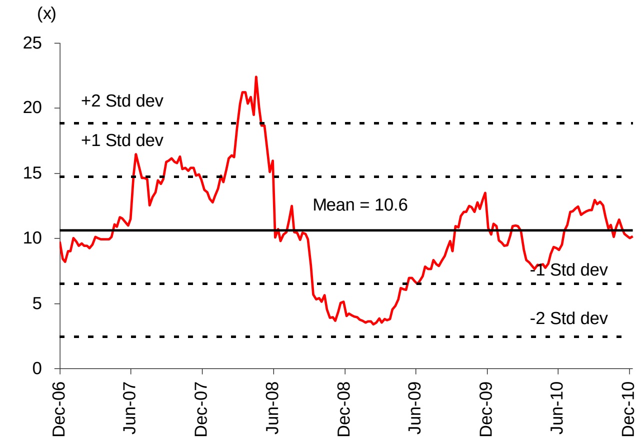
Action and recommendation

- PS is trading at a 9.6x 2011E PER, below its historical mean of 10.6x. Our new Bt25 TP implies 13.1x 2011E PER. We expect PS to maintain its position as Thailand's largest developer. With the market interest expected to shift back to low-rise segments, PS should be one of the prime beneficiaries.

Valuation no longer expensive

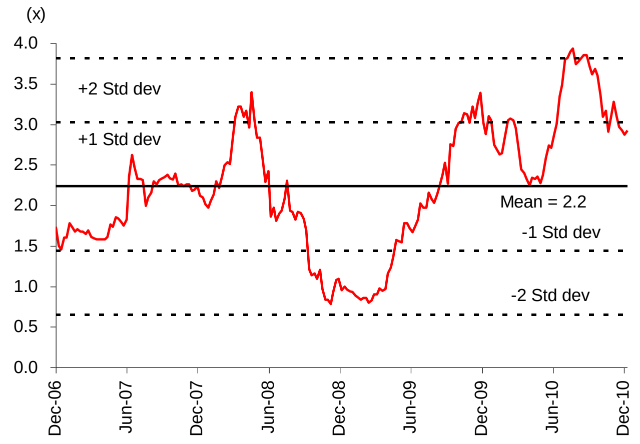
- **Trading at 9.6x 2011E PER, below LT mean:** PS's share price is trading at 9.6x 2011E PER, vs its historical mean of 10.6x. This is no longer expensive, compared to its recent high of 13-14x in August 2010. The share price has come down to reflect the market's overly optimistic view of the presales momentum in 3Q10, on top of the execution risk in delivery time following the mismatch between too fast-growing presales and available construction and back office resources in 2H10.
- **2.2x PBV 2011E:** This is significantly lower than its peak of 3.9x PBV in mid-2010, supported by expected earnings, adding to equity.
- **Our new DCF-based TP of Bt25 implies 13.1x 2011E PER:** We apply a DCF valuation approach to value PS, using a 4% risk-free rate, 8% market risk premium, 3% terminal growth, and 8.3% WACC. We derive our new 2011 DCF-based target price at Bt25 (from Bt27) as we trim our EPS estimates by 3-5% for 2010-12 following our higher effective tax rate assumption to 26-28% for 2011-12 from 23-25% for 2010. Our new target price of Bt25 implies 13.1x 2011E PER, which is still less than one standard deviation above its long-term mean.
- **Maintain Outperform with a TP of Bt25.** We believe 2011 will be a more challenging for the Thai property sector, with large-listed developers to still dominate the market. PS, as now Thailand's No. 1 developer in terms of presales and revenues, should continue to stay highly competitive in its core low-end housing segments. With our expected EPS growth of 20% for PS in 2011, we believe the PS current share price offer a good value to invest for 2011.

Fig 1 PS now trading at 9.7x 2011E PER



Source: Bloomberg, Macquarie Research, January 2011

Fig 2 PS – P/BV band

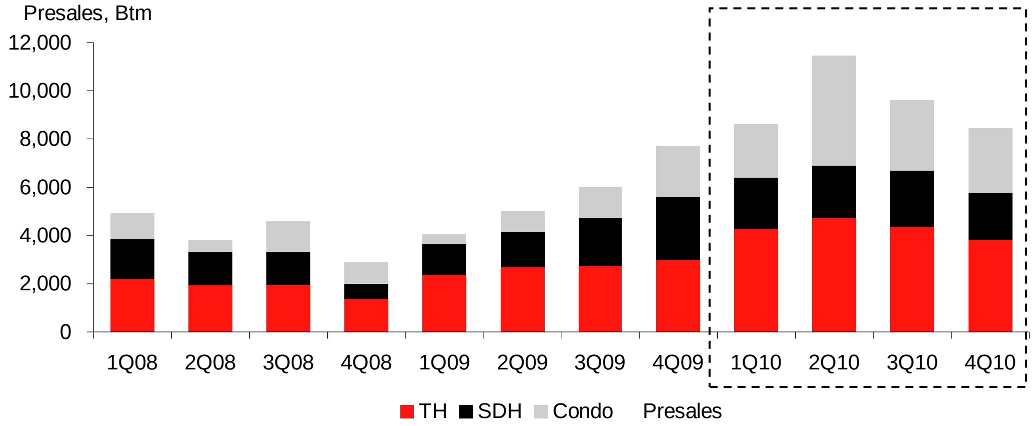


Source: Bloomberg, Macquarie Research, January 2011

Finishing 2010 with all-new records

- **The highest presales of any developer in 2010.** In 2010, PS achieved record high presales at Bt38.8bn, up 70% YoY, thanks to the continuing success of its new business platform: expanding its coverage area, adding new products to penetrate new segments, including single detached houses (SDH), townhouses (TH) and condominiums.
- **Improving presales in all segments.** With new products and new coverage areas, coupled with the support of the property tax benefits in 1H10, PS's presales momentum stayed very strong in 2010. Its presales rose in all segments, including
  - ⇒ **TH sales up 47% YoY** to Bt17.0bn: This was thanks to its strategy to maximize the market share in the TH segment by expanding into the inner city TH area and penetrating new areas with new designs, pricing and products. Aggressive TH new launch was a key reason. PS opened 44 TH projects in 2010, vs 19 projects in 2009.
  - ⇒ **SDH up 35% YoY** to Bt8.8bn. This is the result of new SDH development areas and product designs. PS's market share in the SDH segment increased to 25% in 2010 from 18% in 2009. PS launched 15 SDH projects in 2010, vs 10 projects in 2009.
  - ⇒ **Condo sales up 161% YoY** to Bt12.3bn. This was thanks to its aggressive new condo launches in 2010 to reap the benefit of strong demand in the condo segment last year. PS had 11 condo openings in 2010, up from just 4 projects in 2009.
- **Record revenues in 2010, despite construction delay:** We expect PS to deliver record total revenue of Bt23.2bn from project sales in 2010, up 23% from 2009. Strong presales and fast construction/business cycle were key supports. PS has experienced an execution risk on delivery time in 2H10, causing a certain amount of its low-rise sales remained un-transferred. At end 2010, PS' total low-rise backlog not yet transferred was at Bt13bn, all of which will be realised in 1H11.

Fig 3 Record presales at Bt38.8bn for 2010, up 70% YoY



Source: Company data, Macquarie Research, January 2011

2011 outlook – modest presales but a big jump in revenue

Less aggressive in new launches for 2011

- **78 new projects of Bt54bn.** In 2011, PS plans to launch 78 new projects worth a total of Bt54bn, vs 72 projects worth Bt63bn in 2010. Of these, 42 will be THs, 17 SDHs, 15 condos, and four overseas projects. The BOI house projects will represent 13% of total portfolio, vs 15% in 2010.
- **Less focus on condos.** This year, PS will cut back its condo exposure in the market as it expects the competition level in the condo segment to intensify. Although the number of condo projects in 2011 is set at 15 (vs 11 in 2010), the total new condo value is expected to be significantly lower as PS will focus on lower-priced condo units, including the BOI-condo priced below Bt1m/unit. We estimate PS's total new condo project value will be at Bt10–12bn in 2011, vs Bt21bn in 2010.
- **Shifting toward more low-rise developments.** Given that PS has already had a very large business base in the TH segment, and that it plans to cut back on its condo project expansion, PS will have to rely heavily on the success of its SDH sales to sustain its presales growth. According to management, PS will set a new small business unit (SBU) for its SDH project expansion. The client target group is expected to be a higher priced range as PS plans to move its locations for low-rise SDH and TH projects closer to central Bangkok.

Fig 4 PS to become less aggressive in new launches in 2011

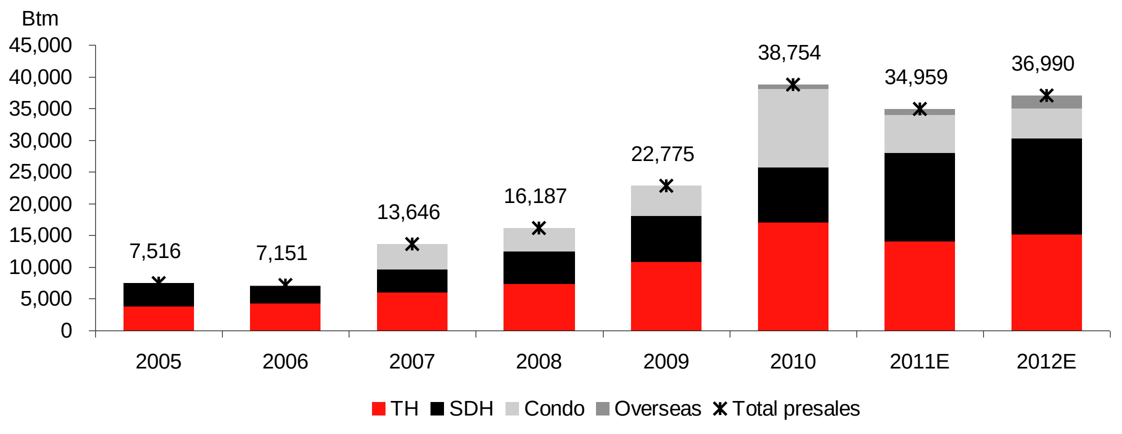
	2007	2008	2009	2010	2011E
TH	18	21	19	44	42
SDH	6	11	10	15	17
Condo	4	6	4	11	15
Overseas	0	0	1	2	4
Total no. of projects	**28**	**38**	**34**	**72**	**78**
Total project value (Btm)	**18,322**	**20,937**	**12,759**	**62,703**	**54,000**

Source: Company data, January 2011

2011 presales to decline by 10% by our estimate, vs PS's of +8%

- **PS's guidance: 8% presale growth.** PS projected its 2011 presales will reach Bt42bn, up 8% YoY. This is much lower than 70% presale growth in 2010, mainly due to the cut-back in the condo proportion on expectation of fiercer competition and slower take-up this year.
- **Macquarie's forecast: 10% presale decline**. We are more conservative than PS management's guidance for its presales in 2011. We expect PS's presales will reach Bt35bn, down 10% from 2010. We estimate slower momentum from its condo sales, while do not expect its SDH sales to rise as fast as TH sales during the past several quarters.

Fig 5 Record presales for 2010. We forecast 2011 presales will fall 10% YoY

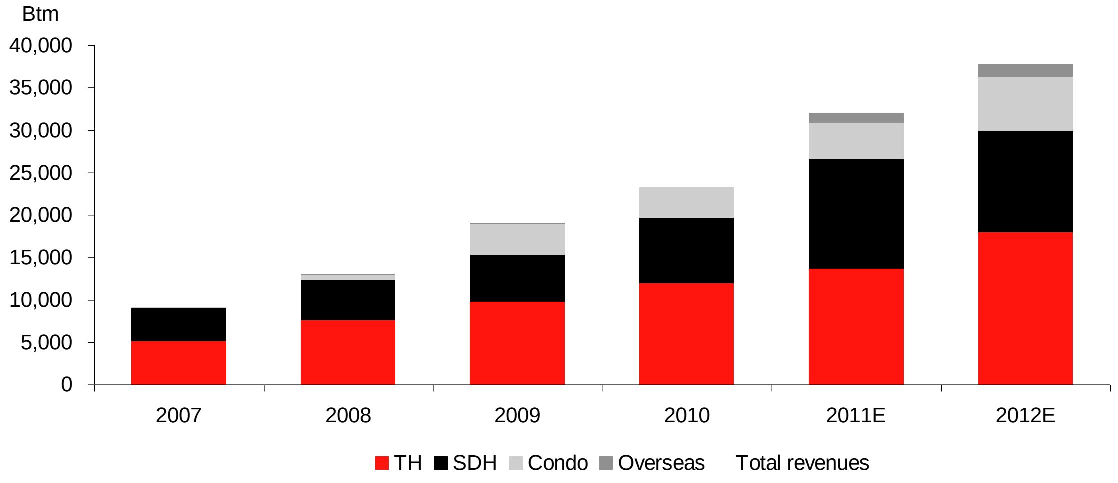


Source: Company data, Macquarie Research, January 2011

In terms of realised revenues, 2011 will be a big jump

- **PS's guidance: 37% revenue growth.** Despite its modest presales target, PS set what we see as an aggressive revenue growth target of 37% for 2011. The company expects its total revenues will reach Bt32bn, up 37% YoY. Of that, 66% will come from SDH and TH sales, 23% from condo sales and the rest from overseas businesses. According to management, PS's key revenue contributions will come from expected sustainable TH sales and a surge in SDH sales.
- **Macquarie's forecast in line with PS guidance.** We think PS's aggressive revenue growth projection of 37% for 2011 is plausible. We estimate revenue will reach Bt32bn, up 38%, which is in line with management guidance.

Fig 6 PS's revenues to significantly rise in 2011E, up 37% YoY



Source: Company data, Macquarie Research, January 2011

Strong backlog will secure future revenues

- **56% of 2011 revenue already secured.** At end-2010, PS had a total backlog of Bt31bn, of which Bt18bn will be realised in 2011 and the rest in 2012-13. This means our revenue forecast for PS is already 56% secured for 2011.
- **More work required to boost SDH sales...** Of the total backlog of Bt18bn to be realised in 2011, about Bt9bn is from TH sales, Bt4bn from SDH sales, Bt4bn from condo sales and the rest from overseas sales. In terms of its revenue targets by segment, this means it has secured 67% for THs, 34% for SDHs, 106% for condos, and 25% for overseas sales. In our view, PS will have to work hard to achieve its SDH sales target of Bt12bn this year.
- **…or PS can switch back to THs.** According to management, PS will view sales from SDHs and THs similarly. Thus, the company is willing to be flexible if the sentiment of the SDH segment turns out to be not as good. If that is the case, PS will consider shifting its focus backward to expand more on its core TH segment.

Fig 7 PS's challenge to boost its SDH sales to reach 2011 revenue target

Project sales (Bt m)	2011E revenue	Secured backlogs	% secured
TH	13,040	8,764	67%
SDH	12,292	4,220	34%
Condo	4,226	4,496	106%
Overseas	2,442	599	25%
Total	**32,000**	**18,079**	**56%**

Source: Company data, Macquarie Research, January 2011

New precast factory to speed up transfer

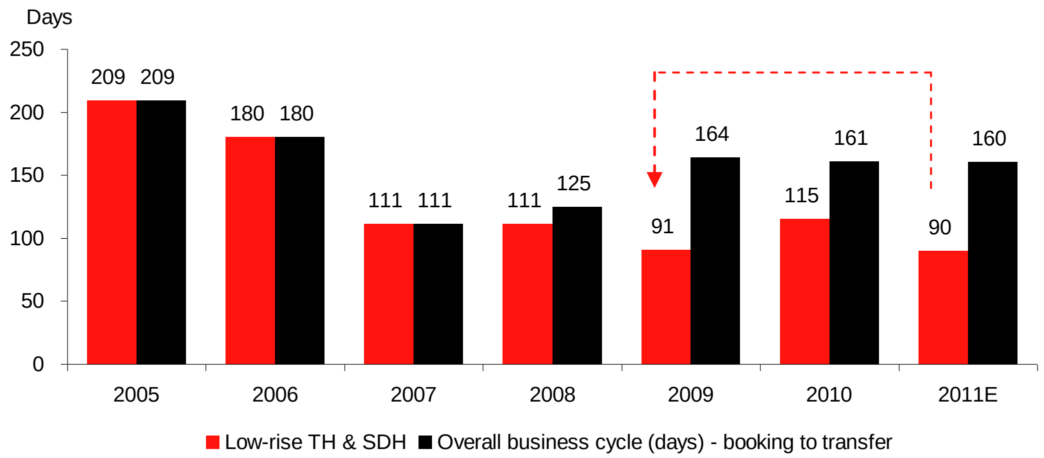
- **Construction & delivery delay in 2010.** With its fast-growing presales in all segments in 2010, PS faced a delivery problem, causing a delay in revenue recognition from its low-rise TH and SDH sales in 2H10. PS will open its fifth precast factory in May 2011. This should help resolve its construction and delivery issues, and translate into stronger revenue for 2H11.
- **New precast factory to enhance production capacity.** We expect PS to resolve its delivery problem by late 1H11. Its new precast factory will lift its construction capacity to 690 units per month, up from its existing precast plant of 260 units per month.
- **Shortened business cycle time.** With the expanding capacity from its new precast factory, PS should shorten its business cycle (Booking to Transfer) for its low-rise SDH and TH projects back to normal at 90 days in 2H11, down from 115 days in 2010. If successful, we estimate that PS's revenue momentum will accelerate in 1H11 following the recognition of its low-rise backlog carried forward from 2H10.

Fig 8 Precast factories to shorten construction time and save on costs

Plant	Production line	Output	Expected capacity/month
Precast 1 (Carrousel I)	Semi automated carrousel system	House Wall (for SDH)	76,000 sqm (gross area) or 260 house units
Precast 2 (Fence factory)	Fixed mould system	House fence	2,600 cubic metres or 1,200 house fence
Precast 3 (Slab & special element factory	Fixed mould system	Slab & special element for house	4,800 cubic metres or 690 house units
Precast 4 (Condo & façade factory) (New)	Fixed mould system	Condominium wall and façade Townhouse façade	16,000 sqm or 320 units 2,000 sqm or 900 house units
Precast 5 (Carrousel II) (New)	Fully automated carrousel system	House Wall (for SDH & TH)	126,000 sqm or 430 house units

Source: Company data, Macquarie Research, January 2011

Fig 9 New precast factory to shorten TH business cycle to 90 days in 2H11E



Source: Company data, Macquarie Research, January 2011

Overseas projects – success remains to be seen

- **Management hopes for overseas expansion to add future growth.** Saying domestic growth could be decelerating in the next five years, PS expects to sustain its growth by expanding overseas. We view this strategy as a high risk project for PS.
- **Three overseas markets in focus.** At present, PS's overseas interests include
  - ⇒ **Maldives, Huldumale:** 80% JV with the Housing Development Corporation (HDC) of the Republic of Maldives. Total project value is Bt3.5bn. In 2H10, PS opened its first phase worth Bt607m and achieved 98% presales. PS expects to launch its second phase in 2Q11.
  - ⇒ **India, Bangalore:** This project is wholly owned by PS. Target market is low-rise TH and SDH segments. Total project value is Bt1.6bn and 438 units. At end-2010, PS achieved presales of Bt129m. The grand opening will be in June 2011 when all facility is ready.
  - ⇒ **India, Mumbai:** 50% JV with Soham Group. Location is in Pimplas Village, Thane. Target group is mid- to-high income clients for low-rise SDHs and THs. Total project value is Bt1.5bn and 300 units. The first phase is expected to be opened in 2Q11.
  - ⇒ **India, Chennai:** 70% JV with Mohan Mutha Exports. Currently at the land acquisition stage.
  - ⇒ **Vietnam, Hai Phong:** 85% JV with Hoang Huy Service Investment. The right of land usage has already been transferred to the JV, while land purchasing is in process. This will be a condo project worth Bt3.9bn with the first phase of Bt500m to be opened for booking in 1H11.

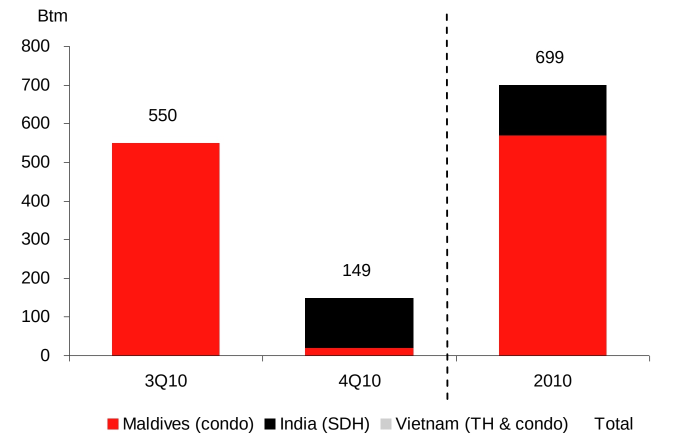
Fig 10 Three overseas markets include India, Vietnam and Maldives

Country/city	Ownership	JV partner	Project value	Total units	Launch
India					
Bangalore	100%	-	1,600	438	4Q10
Mumbai	50%	Soham	1,500	300	2Q11
Chennai	70%	Mohan Mutha	n.a	n.a.	n.a.
Total - India			**3,100**		
Vietnam					
Hai Phong	85%	Hoang Huy	3,900	n.a.	1H11
Maldives					
Male' and Hulhumale', 3 phases	80%	HDC, Maldives	3,500	n.a.	3Q10
Grand total			**10,500**		

Source: Company data, Macquarie Research, January 2011

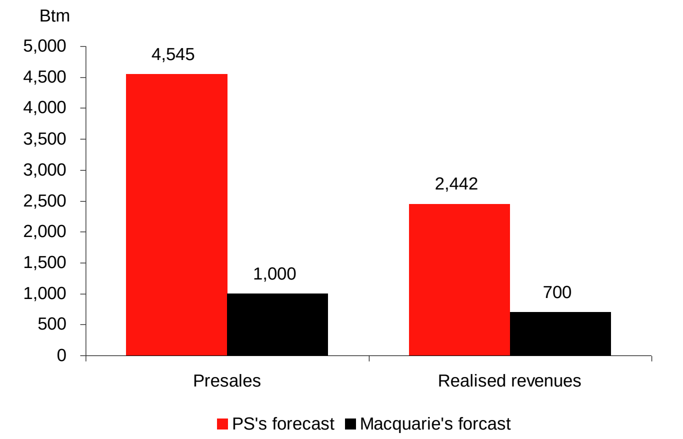
- **We expect limited contribution from overseas this year.** Given its current investment is to be limited to Bt2-4bn for each overseas project, we think that downside risks could be manageable should things not go as well as PS expects. Thus, we conservatively estimate its presales from overseas will slightly rise to Bt1bn in 2011 from Bt699m in 2010. Note that our forecasts are more conservative than PS's guidance of its overseas presales at Bt4.5bn in 2011.

Fig 11 Presales progress from overseas projects



Source: Company data, Macquarie Research, January 2011

Fig 12 2011E overseas projection - PS vs Macquarie



Source: Company data, Macquarie Research, January 2011

Expect strong 4Q10, up 201% QoQ

- **We forecast 4Q10 to be strong QoQ.** We expect PS's 4Q10 net profit to come in at Bt1.1bn, up 201% QoQ but down 34% YoY. We estimate revenue momentum returned and reached Bt6.9bn in 4Q10, up 85% QoQ but down 10% YoY. Of that, Bt3.9bn should have come from TH sales, Bt2.1bn from SDH sales and Bt900m from condo sales. Gross margin is estimated at 36.5%, vs 38.1% in 3Q10. This quarter, PS has started to transfer two condos, The Seed Musee and Ivy Pinklao.
- **2010E net profit flat YoY.** Including our 4Q10 estimate, we estimate PS's 2010 net profit at Bt3.5bn, down 3% from 2009. This is partly due to its low-rise delivery problem following robust presales over the past six months.

Fig 13 We estimate 4Q10 net profit rose 204% QoQ

Bt m	4Q10E	4Q09	YoY (%)	3Q10	QoQ (%)	2010E	2009	YoY (%)
Sales and services	6,943	7,734	(10.2)	3,761	84.6	23,276	18,966	22.7
Cost of sales	(4,409)	(4,567)	(3.5)	(2,330)	89.2	(14,696)	(11,749)	25.1
Gross profit	2,534	3,167	(20.0)	1,431	77.0	8,580	7,217	18.9
SG&A	(1,128)	(998)	13.1	(973)	16.0	(4,027)	(2,438)	65.1
EBIT	1,406	2,169	(35.2)	459	206.5	4,553	4,779	(4.7)
EBITDA	1,466	2,224	(34.1)	519	182.2	4,786	4,994	(4.2)
Interest expenses	(36)	(13)	166.7	(14)	154.4	(74)	(47)	57.0
Corporate income tax	(323)	(524)	(38.5)	(112)	189.1	(1,073)	(1,177)	(8.8)
Normalized profit	0	(0)	(100.0)	0	#DIV/0!	0	(0)	(268.8)
Net profit	**1,080**	**1,644**	**(34.3)**	**359**	**200.8**	**3,510**	**3,622**	**(3.1)**
EPS (Bt)	0.49	0.74	(34.2)	0.16	200.8	1.59	1.64	(3.0)
Percent	**4Q10E**	**4Q09**	**YoY (ppts)**	**3Q10**	**QoQ (ppts)**	**2010E**	**2009**	**YoY (ppts)**
Gross margin	36.5	41.0	(4.5)	38.1	(1.6)	36.9	38.1	(1.2)
SG&A to sales	16.3	12.9	3.3	25.9	(9.6)	17.3	12.9	4.4
EBIT margin	20.3	28.0	(7.8)	12.2	8.1	19.6	25.2	(5.6)
Net margin	15.6	21.3	(5.7)	9.5	6.0	15.1	19.1	(4.0)

Source: Company data, Macquarie Research, January 2011

Estimate EPS growth of 20% and 13% for 2011-12E

- **Revised our EPS estimates by 3-5% for 2010-12.** We trim our EPS estimates by 3% for 2010, 4% for 2011, and 5% for 2012. This is to reflect our increase effective tax rate assumption to 26-28% in 2011-12, up from 23-25% in 2010. Note that PS's tax incentive of 25% ended at end-2010.
- **EPS growth of 20% and 13% for 2011-12E respectively.** This represents EPS CAGR of 10% over 2009-12E.
- **Conservatively expect GM to gradually decline.** Given that we expect a more challenging year for the Thai property market, we would emphasise volume driven growth as the key. We estimate overall property prices will increase 3-5% for the low-rise segments and that the construction raw material cost will increase by 5%, leaving a big challenge for the developers to focus on cost control and speed of construction. Thus, we expect PS to report its gross margin at around 35.0% in 2011E, vs 36.9% in 2010E.

Fig 14 Expect EPS CAGR growth of 10% for 2009-12E

(Bt m)	2009A	2010E	2011E	2012E	2009-12E CAGR
Total revenue	18,966	23,276	32,350	37,805	26%
Gross profits	7,217	8,580	11,322	13,043	22%
EBIT	4,779	4,553	5,742	6,521	11%
EBITDA	4,994	4,786	6,006	6,834	11%
Net profits	3,622	3,510	4,223	4,765	10%
EPS (Bt)	1.64	1.59	1.91	2.16	10%
Revenue growth (%)	46.2%	22.7%	39.0%	16.9%	
EBIT growth (%)	59.5%	-4.7%	26.1%	13.6%	
EPS growth (%)	51.1%	-3.0%	20.3%	12.8%	
Gross margin (%)	38.1%	36.9%	35.0%	34.5%	
EBIT margin (%)	25.2%	19.6%	17.8%	17.3%	
Net margin (%)	19.1%	15.1%	13.1%	12.6%	

Source: Company data, Macquarie Research, January 2011

Funding, cashflow and returns – the broader perspective

- **Balance sheet check.** At end-3Q10, PS had total interest-bearing debt of Bt8.2bn, representing a net gearing of 57%. Due to its aggressive new launches and a significant increase in total asset values in 2H10, PS expects its net gearing to reach 86% at end-2010 (Macq: 87%). In 2011, PS expects its gearing status to slightly decline to 82% (Macq: 80%).
- **Cash flow check.** PS expects to transfer and realise its low-rise projects and condominiums of around Bt32bn in 2011, of which 56% has already been secured. In 2011, PS plans for a total capital expenditure of Bt32bn, of which Bt13bn will be used for land acquisition, Bt18bn for land development and construction, Bt650m for its subsidiaries (overseas and local) investments, and Bt394m for fixed asset investments. In mid 2011, PS plans to issue bonds worth a total of Bt5bn. With cash inflow and outflow nearly matched for 2011, we estimate its net gearing to remain relatively stable at 80% level at the end of 2011.
- **Good returns.** The company's returns depend mainly on residential product sales. Based on its aggressive new launches over 2010-11, plus expected improving revenues, we forecast PS's ROE to remain solid at about 24% during 2011-12.

Fig 15 PS: Funding, cashflow and returns

	2008	2009	2010E	2011E	2012E
OD & ST Loans	1,993	0	325	325	325
CP of LT Loans	400	600	5,007	6,199	5,801
CP of Debentures	0	0	0	0	0
Total short term debt	2,393	600	5,332	6,524	6,126
LT Loans	607	0	7,593	9,401	8,799
Debentures	600	1,500	1,500	1,000	0
Total long term debt	1,207	1,500	9,093	10,401	8,799
Cash & Equivalent	1,530	3,151	922	1,963	1,179
Total Debt	3,600	2,100	14,425	16,925	14,925
Net Debt	2,070	-1,051	13,503	14,962	13,746
Total Equity	10,110	13,023	15,478	18,664	22,178
ST Debt / Total Debt	66%	29%	37%	39%	41%
Total Debt / Equity	36%	16%	93%	91%	67%
Net Debt / Equity	20%	-8%	87%	80%	62%
Cash flow breakdown					
Operating cash flow	2,563	3,837	3,742	4,487	5,077
Change in working cap	-3,626	50	-16,549	-4,585	-2,272
Investing activities	-477	-118	-759	-519	-454
Cash flow prior to funding	-1,539	3,770	-13,566	-617	2,352
Funding activities	1,945	-2,182	11,274	1,492	-3,231
Net change in cash	406	1,588	-2,292	875	-879
Returns (annualised)					
EBITDA/Total Assets	23.3%	28.4%	18.0%	15.8%	15.9%
Return on Assets	17.3%	20.6%	13.2%	11.1%	11.1%
Return on Equity	25.9%	31.3%	24.6%	24.7%	23.3%

Source: Company data, Macquarie Research, January 2011

Pruksa Real Estate (PS TB, Outperform, Target Price: Bt25.00)

Quarterly Results		**3Q/10A**	**4Q/10E**	**1Q/11E**	**2Q/11E**
Net Property Income	m	0	0	0	0
Development Income	m	3,761	6,943	7,400	7,284
Other Revenue	m	26	33	35	34
Total Revenue	**m**	**3,788**	**6,976**	**7,435**	**7,318**
Management Fees	m	0	0	0	0
Other Expenses	m	-3,242	-5,477	-6,020	-5,925
EBITDA	**m**	**546**	**1,499**	**1,414**	**1,393**
Dep & Amortisation	m	61	60	66	66
EBIT	**m**	**485**	**1,439**	**1,348**	**1,327**
Net Interest Income	m	-14	-36	-47	-47
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**471**	**1,403**	**1,301**	**1,280**
Tax Expense	m	-112	-323	-338	-333
Net Profit	**m**	**359**	**1,080**	**963**	**947**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**359**	**1,080**	**963**	**947**
Adjusted Earnings	**m**	**359**	**1,080**	**963**	**947**
EPS (rep)		0.16	0.49	0.44	0.43
EPS (adj)		0.16	0.49	0.44	0.43
EPS Growth yoy (adj)	%	-45.0	-34.2	-21.7	12.7
EBITDA Margins	%	14.4	21.5	19.0	19.0
EBIT Margins	%	12.8	20.6	18.1	18.1
Earnings Split	%	10.2	30.8	22.8	22.4
Revenue Growth	%	-1.5	-9.9	11.4	23.1
EBIT Growth	%	-44.4	-34.1	-16.7	19.1

Profit & Loss		**2009A**	**2010E**	**2011E**	**2012E**
Net Property Income	m	0	0	0	0
Development Income	m	18,966	23,276	32,350	37,805
Other Revenue	m	67	103	152	178
Total Revenue	**m**	**19,033**	**23,379**	**32,502**	**37,983**
Management Fees	m	0	0	0	0
Other Expenses	m	-13,972	-18,490	-26,344	-30,971
EBITDA	**m**	**5,062**	**4,889**	**6,158**	**7,012**
Dep & Amortisation	m	216	233	264	313
EBIT	**m**	**4,846**	**4,657**	**5,894**	**6,699**
Net Interest Income	m	-47	-74	-188	-172
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**4,799**	**4,583**	**5,706**	**6,527**
Tax Expense	m	-1,177	-1,073	-1,484	-1,762
Net Profit	**m**	**3,622**	**3,510**	**4,223**	**4,765**
Minority Interests	m	-0	0	0	0
Reported Earnings	**m**	**3,622**	**3,510**	**4,223**	**4,765**
Adjusted Earnings	**m**	**3,622**	**3,510**	**4,223**	**4,765**
EPS (rep)		1.64	1.59	1.91	2.16
EPS (adj)		1.64	1.59	1.91	2.16
EPS Growth (adj)	%	51.6	-3.2	20.3	12.8
PE (rep)	x	11.1	11.5	9.6	8.5
PE (adj)	x	11.1	11.5	9.6	8.5
Total DPS		0.49	0.48	0.57	0.65
Total Div Yield	%	2.7	2.6	3.1	3.5
Weighted Average Shares	m	2,202	2,207	2,207	2,207
Period End Shares	m	2,210	2,210	2,210	2,210

Profit & Loss Ratios		**2009A**	**2010E**	**2011E**	**2012E**
Revenue Growth	%	46.0	22.8	39.0	16.9
EBITDA Growth	%	55.7	-3.4	26.0	13.9
EBIT Growth	%	58.3	-3.9	26.6	13.7
EBITDA Margins	%	26.6	20.9	18.9	18.5
EBIT Margins	%	25.5	19.9	18.1	17.6
Net Profit Margins	%	19.0	15.0	13.0	12.5
Payout Ratio	%	29.9	30.0	30.0	30.0
EV/EBITDA	x	8.0	8.3	6.6	5.8
EV/EBIT	x	8.3	8.7	6.9	6.0
Balance Sheet Ratios					
ROE	%	31.3	24.6	24.7	23.3
ROA	%	27.6	17.5	15.5	15.5
ROIC	%	29.3	28.9	14.8	14.3
Net Debt/Equity	%	-5.4	89.9	83.3	65.1
Interest Cover	x	103.0	63.0	31.3	39.0
Price/Book	x	3.1	2.6	2.2	1.8
Book Value per Share		5.9	7.0	8.4	10.0

Cashflow Analysis		**2009A**	**2010E**	**2011E**	**2012E**
EBITDA	**m**	**4,994**	**4,786**	**6,006**	**6,834**
Tax Paid	m	-1,177	-1,073	-1,484	-1,762
Chg in Working Capital	m	-50	16,549	4,585	2,272
Net Interest Paid	m	-47	-74	-188	-172
Other	m	168	-32,994	-9,018	-4,366
Operating Cashflow	**m**	**3,888**	**-12,807**	**-98**	**2,806**
Acquisitions	m	-0	-29	-61	-37
Capex	m	-450	-450	-450	-450
Asset Sales	m	0	0	0	0
Other	m	332	-280	-8	33
Investing Cashflow	**m**	**-118**	**-759**	**-519**	**-454**
Dividend (Ordinary)	m	-725	-1,087	-1,053	-1,267
Equity Raised	m	16	16	16	16
Debt Movements	m	-1,490	12,334	2,520	-1,988
Other	m	16	10	9	8
Financing Cashflow	**m**	**-2,182**	**11,274**	**1,492**	**-3,231**
Net Chg in Cash/Debt	**m**	**1,588**	**-2,292**	**875**	**-879**
Free Cashflow	**m**	**3,438**	**-13,257**	**-548**	**2,356**

Balance Sheet		**2009A**	**2010E**	**2011E**	**2012E**
Cash	m	3,151	922	1,963	1,179
Receivables	m	60	73	102	119
Inventories	m	13,202	30,197	36,006	39,010
Investments	m	0	0	0	0
Fixed Assets	m	1,427	1,877	1,969	2,012
Intangibles	m	0	0	0	0
Other Assets	m	1,032	1,266	1,759	2,056
Total Assets	**m**	**18,871**	**34,334**	**41,799**	**44,376**
Payables	m	799	835	1,194	1,406
Short Term Debt	m	950	5,739	7,106	6,812
Long Term Debt	m	1,500	9,093	10,401	8,799
Provisions	m	2,599	3,190	4,433	5,181
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**5,848**	**18,856**	**23,135**	**22,198**
Shareholders' Funds	m	13,023	15,478	18,664	22,178
Minority Interests	m	0	0	0	0
Total S/H Equity	**m**	**13,023**	**15,478**	**18,664**	**22,178**
Total Liab & S/H Funds	**m**	**18,871**	**34,334**	**41,799**	**44,376**

All figures in THB unless noted.
Source: Company data, Macquarie Research, January 2011

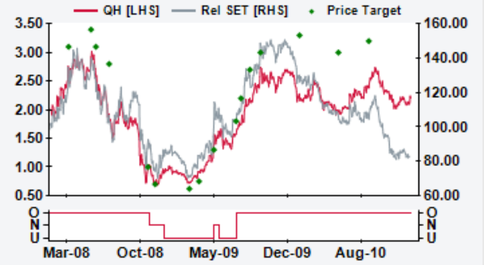
THAILAND

QH TB		Outperform
Price 10 Jan 11		Bt2.20
12-month target	**Bt**	**3.20**
Upside/Downside	**%**	**45.5**
Valuation - DCF	**Bt**	**3.22**
GICS sector		**Real Estate**
Market cap	**Btm**	**18,649**
30-day avg turnover	**US$m**	**2.7**
Market cap	**US$m**	**617**
Number shares on issue	**m**	**8,477**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	11,539	13,698	17,321	19,494
EBIT	m	2,150	2,263	2,743	3,095
EBIT growth	%	5.7	5.2	21.2	12.8
Reported profit	m	1,716	2,175	2,504	2,837
Adjusted profit	m	1,716	2,037	2,504	2,837
EPS rep	Bt	0.20	0.26	0.30	0.33
EPS rep growth	%	-0.3	26.7	15.2	13.3
EPS adj	Bt	0.20	0.24	0.30	0.33
EPS adj growth	%	-0.1	18.7	23.0	13.3
PER rep	x	10.9	8.6	7.4	6.6
PER adj	x	10.9	9.2	7.4	6.6
Total DPS	Bt	0.12	0.13	0.15	0.17
Total DPS growth	%	42.1	6.9	15.2	13.3
Total div yield	%	5.5	5.8	6.7	7.6
ROA	%	7.5	7.8	8.4	8.5
ROE	%	14.3	16.3	19.0	19.3
EV/EBITDA	x	11.4	9.7	7.9	7.0
Net debt/equity	%	94.0	109.3	99.6	96.0
P/BV	x	1.5	1.3	1.2	1.1

QH TB rel SET performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2011
(all figures in THB unless noted)

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11 January 2011

Quality Houses

The dark horse for 2011

Event

- We view the valuation argument for Quality Houses (QH) as compelling with a core PER of just 5.0x for 2011. In our view the market has over-penalised QH for the mixed results of its move into the mid and low end segments. We also expect a pickup in demand for low rise property in 2011 & 2012, for which QH is very well positioned. QH's solid FY2010 performance should be backed up by 15% earnings growth in 2011 and 13% in 2012; growth that we believe is not reflected in QH's current ratings. We maintain our Outperform rating for QH and our DCF-based target price of Bt3.20.

Impact

- **Compelling valuation.** On its current stated multiples, QH is trading on a PER of just 7.4x for 2011 and a P/BV of 1.2x. Both are inline with the historical means. If we subtract the value of QH's equity holdings (HMPRO, LH Bank and QH Property Fund) and exclude equity income from these investments, QH's core 2011 PER is just 5.0x.
- **Taking a broader strategic view.** While the market has not welcomed QH's mixed results in expanding into mid and low end segments, we view this as a necessary long term strategy for QH to maintain a leading position in the overall Thai property market. Our key concern is that QH is learning from its mistakes as it develops a foot hold in these segments. This can support longer term growth in line with the overall market.
- **Rising momentum from low-rise SDH segments.** Given limited new supply in the SDH segment, we see QH as very well positioned to capitalise on our expectation of a demand pick-up for low-rise property over the next two years. Growing interest in low rise was evident in late 2010 and, as the build-out of Bangkok's mass transit network becomes more concrete, we expect the popularity of suburban living to come back into vogue.
- **Top-line performance in 1H11 may surprise.** QH's sales performance may catch the market by surprise, supported by momentum from launches in 2H10 combined with new launches in 1H11. And for QH's 19 new launches of Bt26bn planned for 2011, the emphasis is on SHD projects (76% of value).

Earnings and target price revision

- We revise down our EPS estimates by 1% for 2010, 3% for 2011. We maintain our DCF-based target price at Bt3.20.

Price catalyst

- 12-month price target: Bt3.20 based on a DCF methodology.
- Catalyst: Rising presales, no transfer delay and sustainable gross margin.

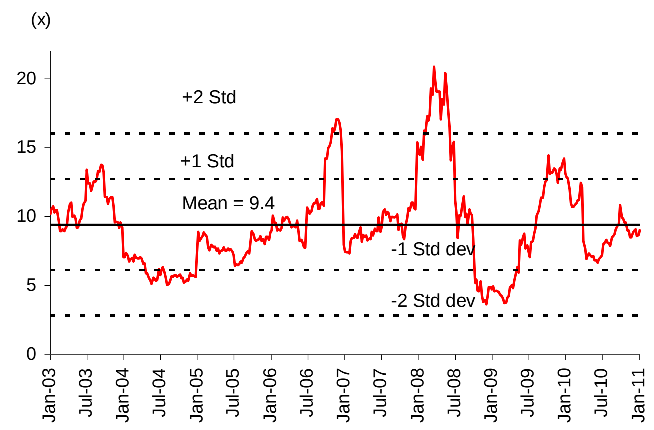
Action and recommendation

- Maintain Outperform and target price of Bt3.20. QH is trading at 7.4x 2011E PER. Stripping out its non-core businesses, its core PER is just 5.0x, the cheapest in the sector, and in our view represents compelling value.

Cheap valuation a key attraction

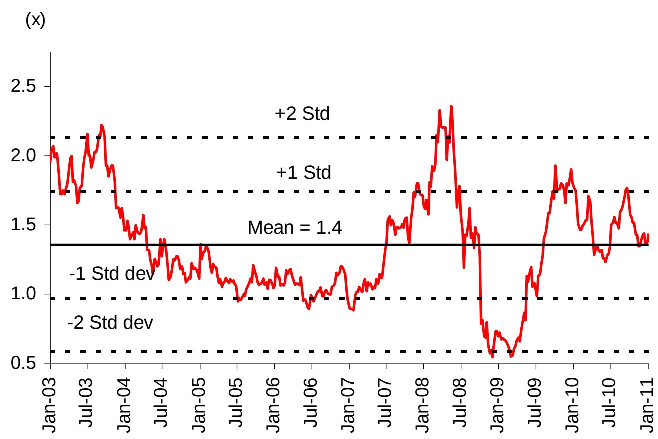
- **QH is trading at 7.4x 2011E PER…** which is lower than the sector average of 11x, despite expected EPS growth of 15% for 2011 and 13% for 2012. We think QH deserves to trade at higher multiples, given an improving outlook for low-rise demand and an expected picking up in presale momentum of its high-rise condo projects this year.
- **… and a core 2011E PER of just 5.0x,** if non-core business is excluded. Most of the Thai developers are pure real estate developers, unlike QH which has significant investment value in non-core areas. After stripping out the value of and the earnings from its affiliates, we estimate QH's current core market value at Bt7.8bn and its core net profits at Bt1.7bn for 2011. Excluding its non-core businesses, QH is trading on a core PER of just 5.0x for 2011E, by far the cheapest in the sector.

Fig 1 QH: PER band



Source: Bloomberg, Macquarie Research, January 2011

Fig 2 QH: PBV band



Source: Bloomberg, Macquarie Research, January 2011

- **In line with historical averages, but outlooks suggests upside.** On unadjusted valuation matrices (PER and P/BV) QH is currently trading in line with its historical averages. However, given a positive growth outlook, in addition to its attractiveness on a core-only basis, we see clear upside to the valuations QH can sustain through 2011.

Fig 3 QH's core PER at 5.0x for 2011E

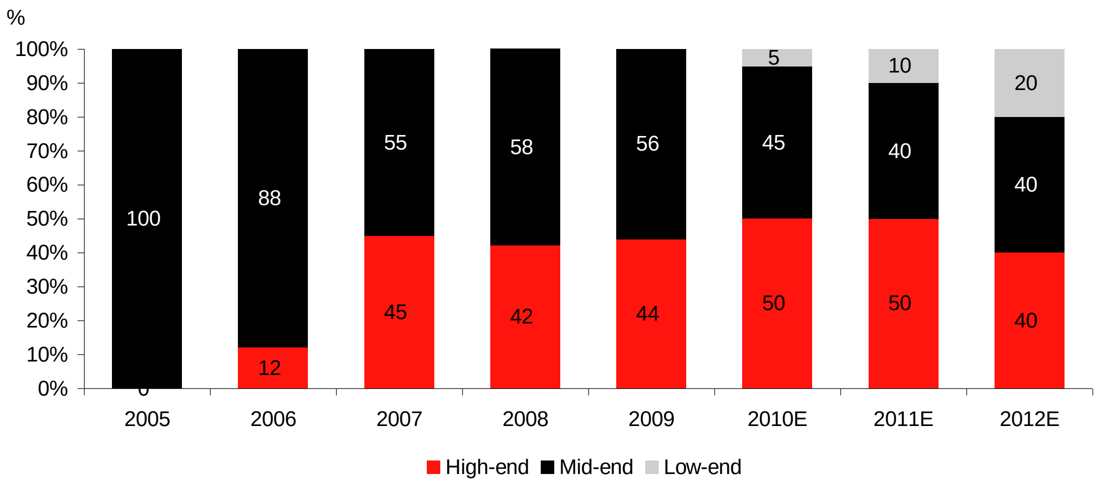
	Total shares (m.shares)	Share price (Bt/sh)	Target price (Bt/sh)	Mkt cap (Btm)	% stake	Mkt cap / Investment value (Btm)	Current mkt cap/ investment value per share	Target mkt cap/ investment value per share
Market value								
QH value per share	8,477	2.20	3.20	18,650	100%	18,650	2.20	3.20
Affiliates								
Home Products	3,723	8.65	13.00	32,204	21%	6,821	0.80	1.21
QH Property Funds	797	9.20	9.25	7,332	26%	1,881	0.22	0.22
LH Bank (at 1.5x PBV)				7,950	27%	2,147	0.25	0.25
Total affiliate value							**1.28**	**1.69**
QH's core mkt cap							***0.92***	***1.51***
Earnings						**Btm**	**Bt/share**	**Bt/share**
QH net profits						2,504	0.30	0.30
Equity income						772	0.09	0.09
QH Core net profits						1,733	0.19	0.19
QH's core PER (x)							**5.0x**	**8.2x**

Share prices as of 10 January 2011
Source: Company data, Macquarie Research, January 2011

Focused on core segments for 2011… the right move in our view

- **Mid-to-high-end segments the key focus.** In 2011, QH will focus most of its development projects on its core segments; the high-end and mid-end SDH segments. We think this is the right move for QH as the demand outlook for these segments remains strong given improving incomes and the continued build-out of the mass transit system into suburban Bangkok.
- **Emphasising QH's mid-to-high end focus.** While QH started to enter low-end segments in 2010, this will still remain only a small part of its overall business. Looking out to 2012, management still targets 40% of total revenue to come from the high-end segment, 40% from mid-end segment, and only 20% from the low-end segment. The key drivers to QH's revenue and profitability will remain the high and mid end segments.
  - ⇒ **High-end segment (unit prices >Bt7m):** QH's has seen improving presales from its high-end SDHs in 4Q10, selling 2-3 units a week, with prices around Bt30-60m (US$1-2m) per unit. QH is the market leader in this segment with 40% share of the high-end SDH market, supported by both QH's strong brand recognition and the resilient affordability of high-end homebuyers. We expect the high-end SDH segment to continue to perform strongly in 2011.
  - ⇒ **Mid-end segment (unit prices Bt2.5-7m):** This is the segment that currently enjoys strong real demand and a customer base with improving affordability. Rejection rates are lower when compared to the low-end segment, and take-up rates are higher than the high-end segment. With QH's strong brand image for the low-rise SDH, we believe QH is well placed to benefit from an expected shift in interest back to the low-rise.
  - ⇒ **Low-end segment (unit prices <Bt2.5m):** This is a segment that we see as QH's weakness in competing effectively with existing low-end players, such as LPN, PS and SPALI. QH has entered this segment feeling a need to at least establish a presence in the mass-end of the market, which over time can be a source of additional growth. Getting the right product, right location and right price has been a challenge for QH as they are still getting to know this segment's requirements. While results to date have been disappointing, we expect QH to limit its exposure in this segment until it gains experience and expertise to compete.

Fig 4 Key revenue drivers to remains the mid to high end segments

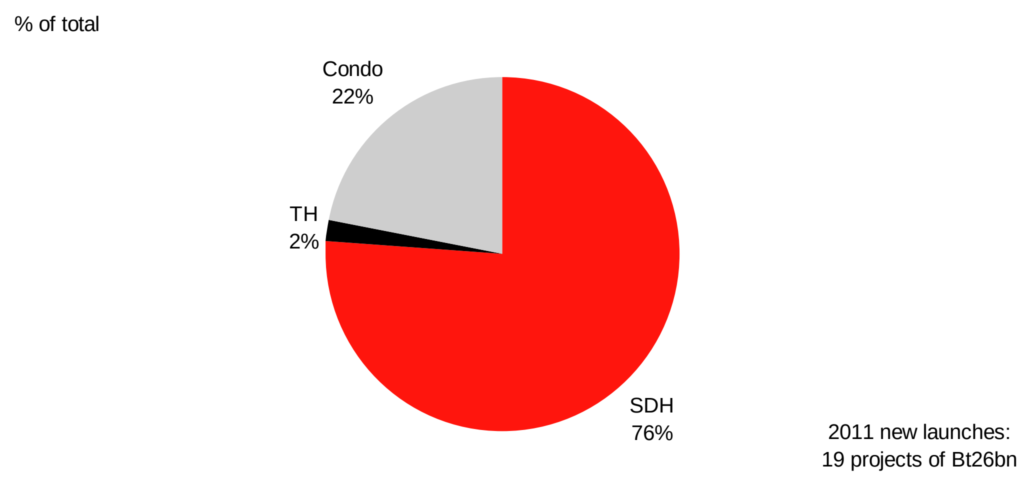


Source: Company data, Macquarie Research, January 2011

- **Branding strategy.** QH uses three primary brands for its property developments. The QH band is used for the high and mid-high end projects. The Casa brand is used for mid-end projects, while The Trust is the brand QH has launched for targeting the low-end market.

- **SDH the QH's first priority.** QH aims for portfolio mix to be 70% low-rise SDH & TH projects and 30% from condo projects by 2012. Based on its new launches for 2011, SDH will continue to dominate, accounting for 76% of launch value, with just 2% for THs and 22% for condos.
  - ⇒ **SDH is still a key driver.** QH has a very strong footprint in the SDH segment, especially in the mid-to-high end segment. QH's brand recognition is strong among the high-end segment and its product is well regarded in terms of product quality, social status and neighbourhood environment. For 2011 onward, we expect to see a pick-up in buyer interest in low-rise housing and we believe QH is positioned to be a prime beneficiary of this return in low-rise demand. While other developers are likely to start entering this market, QH's strong presence gives it a significant advantage in terms of existing land bank, its ability to acquire new land bank and strong brand acceptance from buyers in this market.
  - ⇒ **TH of little focus.** In 2011, QH currently plans to open only one townhouse (TH) project worth Bt510m under Casa City brand in Phraram 2 Banghuntian area. This represents just 2% of its planned total new launched value in 2011. We agree with this approach of limiting exposure as QH is still gaining its experience in the TH segment, and we are concerned that competition in this segment is intensifying.
  - ⇒ **Condo to be a wild card.** In our view, the condo segment will be the most challenging sector in 2011, given continuously rising new supply and the impact of the BoT's new LTV standard of 90% cap for the condo project priced under Bt10m. However, we believe the demand in the condo segment will remain strong in 2011, although take-up speed will be slower than seen in 1H10. Within this context, we see QH's targets for new launches from the condo sector accounting for only 22% of total launch value as realistic.

Fig 5 2011 QH's new project value by product



Source: Company data, Macquarie Research, January 2011

- **Pre-built for "QH" and "Casa" brand.** Applying a pre-built strategy, where only completed units are offered for sale, allows QH to avoid late design alternations. This helps the company better control its construction cost and project timing.
  - ⇒ Advantage: Better control, and fast money inflow, once the sales are done
  - ⇒ Disadvantage: Requires a significant amount of initial capital investment
- **Pre-sales for "The Trust" brand.** Pre-sales, where units are sold 'off-plan' or while construction is ongoing, is more suitable for the low-end income buyers as it allows them to accumulate savings for the deposit while construction is proceeding. Also, this method helps increase flexibility to manage projects from pre-sales information, whereby projects that meet with a poor response can be changed.
  - ⇒ Advantage: Smoother capital outlay. Lower risk of tied up capital for unsold housing inventory
  - ⇒ Disadvantage: Risk of cost overrun as the project prices have been already fixed.

Learning and adapting

- **A long term player looking to learn from experience.** One of the big blemishes on QH's track record has been its mixed results from expansion into the mid and lower segments of the Thai property. But we are less opposed to this move than other market commentators. The structure of the Thai property market has changed dramatically in the last five years with the emergence of a broader mass market. This is supported by demographics and a relatively resilient economy. Just as there are risks for QH in shifting with the market to build a presence in the new growth areas, there is also a risk of ignoring these areas and allowing potential competitors to get stronger. While mistakes have been made, we view the level of actual exposure as relatively well controlled and believe the market has over-penalised QH for following this strategy. Our key concern is that QH is learning from its mistakes as it develops a foothold in these segments. This can support longer term growth in line with the overall market.

Gaining experience with low-end condos….

- **Conversion of a low-end condo to a BOI-condo.** In early 2011, QH will be converting one of its announced low-end condo projects (previously called The Trust Residence Nuan Chan now renamed to The Trust Residence Kaset-Nawamin) into a BOI qualified project that will be exempt from corporate tax. This 1,090 unit project was originally to be priced at Bt1.2m/unit, but to meet BOI requirements the price will be cut to Bt1m/unit. In our view, this change should result in faster unit sales due to a reasonable location with a lower price, while the tax break will protect net margins. While the lower selling price will trim the project's expected gross margin to 22-23% from a normal GM of 30%, the net margin should still be maintained at 14-15%, due to the tax saving benefit.

Fig 6 BOI-condo project: Lower selling price with a tax exempt benefit

	Brand	Type	Total value (Btm)	Total units	Unit price (Btm)	Launch	Expected Transfer
The Trust Residence Kaset Nawamintr	The Trust	Condo	1,090	1,090	1.0	1Q11	2012

Source: Company data, Macquarie Research, January 2011

…while patience is required with its high-end condo…

- **Q. Langsuan – slow presales factored in.** As at the end of November, QH had sold 32 units of its Langsuan condos (Bt630m revenue is secured for 4Q10), representing presales of 18% of total project value of Bt3.5bn (177 units at an average selling price of Bt180k/sqm). Interestingly, 24 units were sold to Thai buyers and eight units to foreign investors.
- **Conservative projections.** QH expects to sell a further Bt1.4bn worth of units at its Langsuan condo in 2011, and the remaining units in 2012. Given its prime location in the heart of CBD Bangkok area and the fact that the project is cheaper than other newly launched high-end condos in the area (which have prices above Bt200k/sqm), we expect QH's Langusan project to gradually sell into 2011 and estimate 2011 sales for this project at Bt1.7bn, leaving Bt1.17bn to be sold in 2012.

… and construction strategy is improving.

- **Speed and cost efficiency in focus.** Like other large, listed developers, QH continues to focus on improving its construction speed and cost control to compete efficiently in a more challenging housing market in 2011 and 2012. Key to this is the use of precast construction.
- **Precast for "Casa" and "The Trust" brand.** Starting in late 2010, QH has applied a standardized precast construction strategy for its mid-to-low end housing segments. This has resulted in an improvement in its construction speed. According to management, QH has sped up house construction by 1-2 months and can now complete construction within 4 months,

Expect strong 4Q10 and 2010 results

- **4Q10E results to be strong QoQ.** We expect QH's 4Q10 net profit at Bt583m, up 31% YoY and 185% QoQ. Stronger revenue from newly opened low-rise projects and the start of booking of sales from the Langsuan condo are key contributors.
- **Rising revenues and gross margin expected.** We estimate strong revenue recognition at Bt3.6bn in 4Q10, up 20% YoY and 58% QoQ. Of that, Bt1.5bn will be from low-rise, Bt630m from Langsuan condo sales, and the rest will be from The Trust low-rise sales and estimated sales of pre-built units in December. For the quarter, we expect QH's gross margin to have improved to 30.4%, up from 29.6% in 3Q10 and 29.8% in 3Q09.
- **2010 net profits to surge 27% YoY.** Including our 4Q estimate, we expect QH's 2010 net profit to reach at Bt2.2bn, up 27% from 2009, which we expect to be the strongest earnings growth of the major listed property companies.

Fig 7 We expect strong results in 4Q10 (+31% YoY and 185% QoQ) and 2010 (+27%)

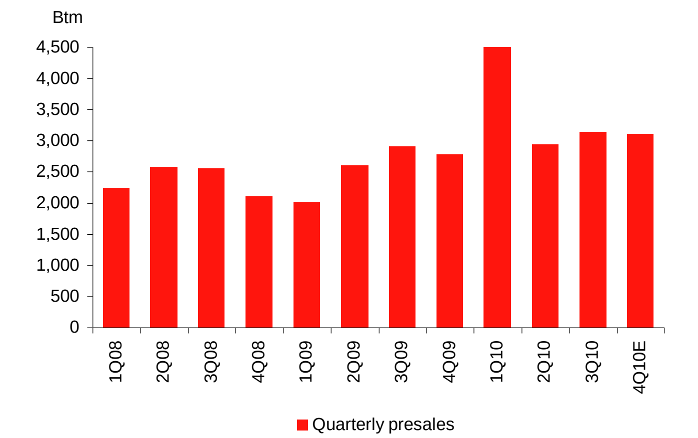
Btm	4Q10E	4Q09	YoY (%)	3Q10	QoQ (%)	2010E	2009	YoY (%)
Sales and services	3,577	2,992	19.6	2,269	57.6	13,616	11,355	19.9
Gross profit	1,087	893	21.7	672	61.8	4,055	3,377	20.1
SG&A	(532)	(448)	18.9	(506)	5.3	(1,874)	(1,411)	32.9
EBIT	555	445	24.6	166	233.6	2,181	1,966	10.9
EBITDA	617	505	22.2	229	169.6	2,418	2,201	9.8
Net profit	**583**	**445**	**31.1**	**205**	**185.0**	**2,175**	**1,716**	**26.7**
EPS (Bt)	0.07	0.05	31.1	0.02	185.0	0.26	0.20	26.7
Percent	**4Q10E**	**4Q09**	**YoY (ppts)**	**3Q10**	**QoQ (ppts)**	**2010E**	**2009**	**YoY (ppts)**
Gross margin	30.4	29.8	0.5	29.6	0.8	29.8	29.7	0.0
SG&A to sales	14.9	15.0	(0.1)	22.3	(7.4)	13.8	12.4	1.3
EBIT margin	15.5	14.9	0.6	7.3	8.2	16.0	17.3	(1.3)
Net margin	16.3	14.9	1.4	9.0	7.3	16.0	15.1	0.9

Source: Company data, Macquarie Research, January 2011

2010 presales to rise 33% YoY

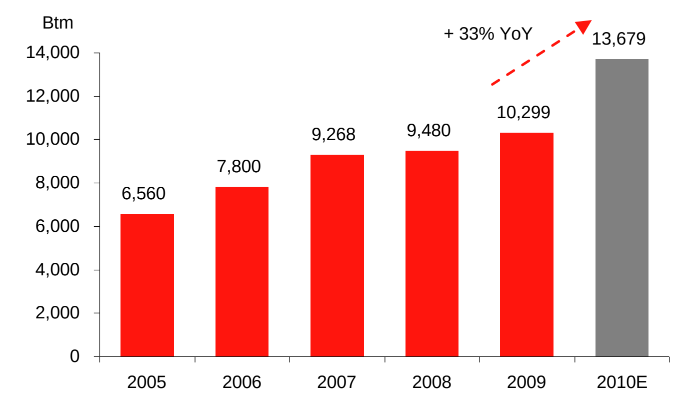
- **Strong 11M10 presales, up 51% YoY.** QH's 11M10 presales + prebuilt sales reached Bt13.1bn, up 51% YoY.
- **Major contributions are from low-rises**. Of the total, Bt9.4bn or 72% was from low-rise sales, while the rest has come from condo sales, including Q. Sathorn condo (Bt2.3bn), Q. Langsuan condo (Bt630m), Casa condo Thapra and Sukhumvit 97, and The Trust Residence Pinklao.
- **2010 presales to rise 33%.** We expect QH's presales in December to be light due to the long holidays at the year-end, and estimate QH's 2010 total presales + prebuilt sales to have reached Bt13.7bn, up 33% from 2009.

Fig 8 11M10 presales reached Bt13.1bn, up 51% YoY



Source: Company data, Macquarie Research, January 2011

Fig 9 Expect 2010 presales at Bt13.7bn, up 33% YoY

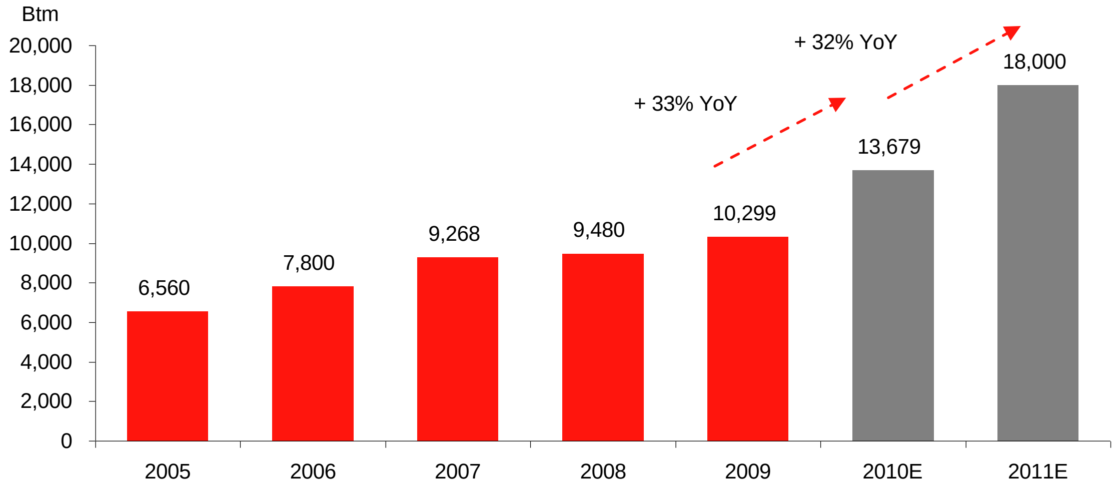


Source: Company data, Macquarie Research, January 2011

Positive top-line outlook for 2011

- **2011 presale growth to rise 32% YoY.** In 2011, we estimate QH's total presales to reach Bt18bn, up 32% from 2010E. Of that, we forecast that Bt12bn will be from its low-rise sales and the rest from condo presales.
- **Aggressive new launches in 2H10 to bear fruit in 2011.** In 2H10, QH opened 15 projects of Bt16.4bn, including ten low-rise projects of Bt8.3bn and another five condo projects of Bt8.2bn. This should contribute into continuing sales momentum for QH into 2011.

Fig 10 Estimate QH's 2011 presales will reach Bt18bn, up 32% YoY



Source: Company data, Macquarie Research, January 2011

- **19 new projects of Bt26bn for 2011.** This year, QH plans to open 19 new projects valued at Bt26bn. This includes 15 SDHs of Bt20bn, one THs of Bt510m and three condos of Bt6bn. This represents 76% of total will be SDHs, 2% THs and 22% condos. Of that, two projects will be in provinces, including Rayong and Cha-Am. In 2010, QH launched 18 projects of Bt23bn.
- **Emphasis on mid-end segment the right move.** Segment-wise, four projects of Bt8.5bn will be high-ends under the QH brand, 14 projects of Bt14.8bn will be mid-ends under the Casa brand, and one project of Bt2.8bn will be low-end under The Trust brand. We think QH's strategy to focus on the mid-end segment with unit prices of Bt2-5m is correct, as its is where real demand is strong and we see less problem of deteriorating affordability as we move up the rising interest rate cycle.
- **Limited exposure to the low-end segment is good news.** Interestingly, only 11% of its total new launched value is allocated to the low-end segment with pricings of below Bt2m per unit. We consider this a prudent approach for QH as we believe the company still needs to gain more experience in targeting this highly competitive segment of the market.

Fig 11 Of total new launches in 2011, 76% are SDHs

(Btm)	No. of project	Value	Units	Avg price	% of total
SDH	15	19,907	2,496	8.0	76%
TH	1	510	207	2.5	2%
Condo	3	5,699	3,207	1.8	22%
Total	**19**	**26,116**	**5,910**	**4.4**	**100%**

Source: Company data, Macquarie Research, January 2011

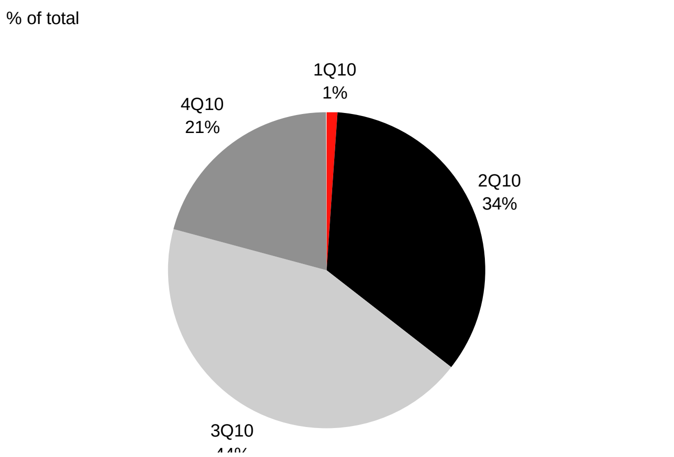
Fig 12 33% high-ends, 57% mid-ends, and 11% low-ends

(Btm)	No. of project	Value	Units	Avg price	% of total
QH	4	8,495	392	21.7	33%
Casa	14	14,822	3,839	3.9	57%
The Trust	1	2,799	1,679	1.7	11%
Total	**19**	**26,116**	**5,910**	**4.4**	**100%**

Source: Company data, Macquarie Research, January 2011

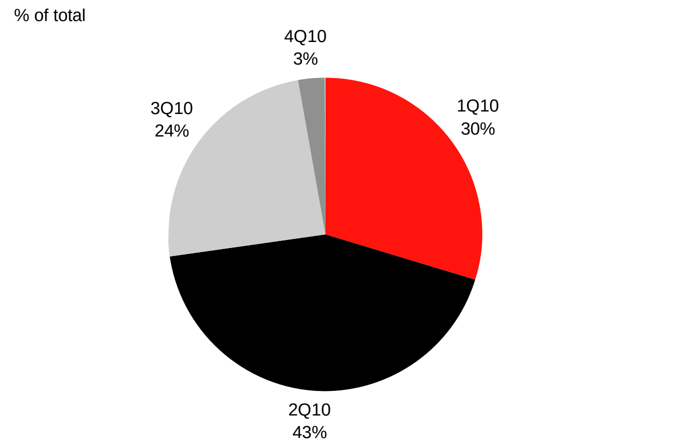
- **Maintaining top-line momentum into 2011**. We expect QH to maintain solid top line growth in 2011. About 73% of QH's planned new launched value (14 projects worth Bt19bn) is scheduled to launch in 1H11. Additionally, we should see continuing sales and realised revenue momentum from the new launches of 2H10, which included 16 projects worth Bt12.7bn. And 2011 revenues should be likely boosted by Laungsuan condo unit sales in 2011, along with Casa condo in Thapra to be transferred in 3Q11, Casa Condo Sukhumvit 97 to be transferred in 4Q11, and The Trust Residence Kaset Nawamintr condo to be transferred in 2011. These should all provide major drivers for QH's revenue recognition in 2011.

Fig 13 2010 new launched value (Bt23bn) by quarter



* Excluded the Laungsuan condo launches of Bt3.5bb in July 2010
Source: Company data, Macquarie Research, January 2011

Fig 14 2011 new project value (Bt26bn) by quarter



Source: Company data, Macquarie Research, January 2011

Fig 15 To open 19 new projects of Bt26bn in 2011

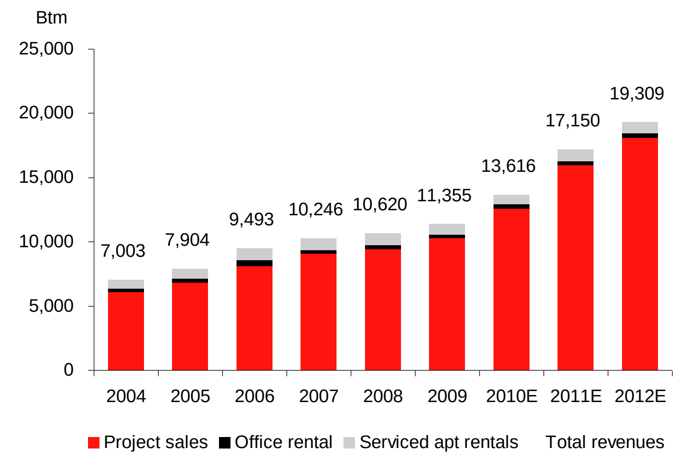
Future projects in 2011	Type	Total value (Btm)	Total units	Unit price (Btm)	Launch
Laddarom Elegance Ratchaphruk-Rattanathibet	SDH	2,305	134	17.2	1Q11
Q. Twelve	SDH	1,006	12	83.8	2Q11
Prukpirom Ratchaphruk-Rattanathibet	SDH	2,584	87	29.7	2Q11
Laddarom Elegence Outer Ring Road Sathorn	SDH	2,600	159	16.4	3Q11
Casa Ville Ramintra-Outer Ring Road	SDH	730	139	5.3	1Q11
Casa Ville Ramkamhaeng - Outer Ring Road	SDH	1,900	330	5.8	1Q11
Csa Grand Kaset Navamintr	SDH	340	34	10.0	2Q11
Casa Ville Ratchaphruk Rattanathibet 3	SDH	870	195	4.5	2Q11
Casa Ville Watcharapol Hathairat	SDH	1,600	343	4.7	2Q11
Casa Ville Pharam 2 Bangkhuntian	SDH	743	177	4.2	2Q11
Casa City Phraram 2 Bangkhuntian	TH	510	207	2.5	2Q11
Casa Grand Petchkasem Sai 1	SDH	700	79	8.9	3Q11
Casa Ville Ratchaphruk Chaengwattana 2	SDH	1,710	380	4.5	3Q11
Casa Ville Taksin Pharam 2	SDH	1,323	144	9.2	3Q11
Casa Resort Rayong (SDH - 1floor)	SDH	748	182	4.1	2Q11
Casa Resort Cha-Am (SDH - 1floor)	SDH	748	101	7.4	4Q11
Casa Condo Ratchada-Thapra 2	Condo	1,200	634	1.9	2Q11
Casa Condo Asoke Dindang	Condo	1,700	894	1.9	2Q11
The Trust Residence Ratchada Pharam 3	Condo	2,799	1,679	1.7	1Q11
Total		**26,116**	**5,910**	**4.4**	

Source: Company data, Macquarie Research, January 2011

Solid EPS CAGR growth of 18% over 2009-12E

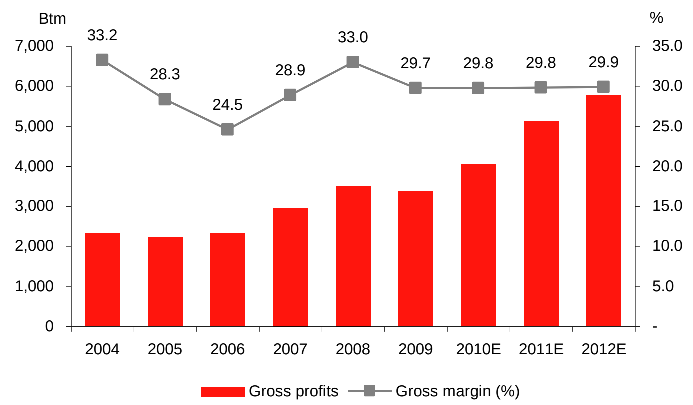
- **EPS CAGR growth of 18% over 2009-12E.** We expect QH to report strong EPS growth of 27% for 2010, 15% for 2011, and 13% for 2012. This represents a solid EPS CAGR growth of 18% over 2009-12E. A 2011 pick up in QH's condo presales and continuing demand growth in the low-rise single detached houses (SDH) segment are expected to be key drivers.
- **Expect rising revenues for 2011.** We estimate QH's 2010 total revenues will reach Bt13.6bn (+20% YoY), of which Bt9.6bn will be from low-rise sales, Bt3bn from condo sales, and Bt1bn from rental incomes from office and serviced apartment buildings. For 2011, we expect its revenues to be Bt15.9bn (+26% YoY), of which Bt12.8bn from low-rise sales and Bt3.1bn from condo sales.
- **Stable gross margin expected.** Despite a diversification toward the low-end segment since late 2010, we still expect QH to report a stable gross margin of 29.8% each for 2010 and 2011, vs 29.7% in 2009.
- **Better efficiency of the Casa brand to be a key margin driver.** Though QH is likely to experience lower gross margin (GM) of ~26-27% from the low-end The Trust brand, we still expect QH to deliver unchanged GM level of around 30% for 2011. This is because we expect the lower profitability from the lower-end segment to be compensated by increasing cost efficiency gained from the shift to pre-cast construction, which help save construction time and improve cost control. While we expect the GM from The Trust to be lower than 30%, the GM from the QH band to be 31-32%, while that from Casa to be just over 30%.
- **Upsides from affiliated investments.** What's even more interesting is that the QH share price is not reacting to the significant move in Home Product Center (HMPRO TB, Bt8.65, Outperform, TP: Bt11.50) which is 36% of QH's market cap (QH holds a 21% stake in HMPRO). QH also invests in Quality Houses Property Fund (QHPF TB, Bt9.20, NR) and LH Financial Group (Non-listed). Stripping out the market value of affiliates and equity income, QH's core activities trade at just 5.0x 2011E.

Fig 16 Expect rising revenues for 2010-12E



Source: Company data, Macquarie Research, January 2011

Fig 17 Gross margin to remain stable for 2010-12E



Source: Company data, Macquarie Research, January 2011

Fig 18 Key contributors to equity income

Company	TB Code	Nature of business	Stakes (%) 30 Sep 10	Stakes (%) 31 Dec 09	Equity income (3Q10)	Equity income (3Q09)	Diff	Cost 30 Sep 10	Equity value 30 Sep 10	Mkt cap 8 Nov 10
Home Product Center	HMPRO	Trading	20%	20%	80	56	25	663	1,314	8,390
Quality Houses Property Fund	QHPF	REIT	26%	26%	26	28	-2	2,045	1,404	1,963
LH Financial Group	-	Holding Co	26%	27%	29	34	-5	1,537	1,539	1,569
Total					**135**	**118**	**18**	**4,245**	**4,257**	**11,922**

Source: Company data, Macquarie Research, January 2011

Funding, cashflow and returns – the broader perspective

- **Balance sheet check.** At end-3Q10, QH had total interest-bearing debt of Bt13.7bn, representing a net gearing of 105%. We forecast its net gearing at 109% at end-2010 and 100% at end-2011. Unlike other developers that are mostly pure residential developers, QH's portfolio includes 20% recurring income assets. At present, QH owns six office buildings (total rentable space of 149,314sqm) and eight serviced apartment buildings (total rentable space of 128,455sqm). As of September, the total appraisal value was Bt8.5bn for its six office buildings and Bt8.7bn for its eight serviced apartment buildings.
- **Cash flow check.** QH expects to transfer and realise its Langsuan condo of around Bt1.4bn in 2011, and Casa condo Tharpa (worth Bt590m) and Sukhumvit 97 (worth Bt510m) to start revenue realisation in 2011. We expect the cash receipt from these project transfers to strengthen its cash flow status, and bring down its net gearing to a normal level around 100% in 2011.
- **Improving returns.** The company's returns depend mainly on residential project sales. Based on its aggressive new launches of low-rise projects in 2H11 and 2011, plus expected improving revenues, stable gross margin, and continuing profit sharing from equity investments, we forecast QH's ROE to improve to 19.0% in 2011, up from 17.4% in 2010 and 14.3% in 2009.
- **Divestment of profitable investments likely.** With LH Financial Group planning to be listing in 1Q10 with an objective to raise its registered capital to Bt12bn from Bt6bn, we estimate QH will have to put money for the right issue subscription of around Bt1.2-1.5bn. According QH management, QH's source of fund for the new share subscription will be from its working capital, cash inflow from its condo and low-rise project transfers, and potential divestment of its profitable equity investments, namely HMPRO. If this is the case, we expect QH to realise a decent gain from the sales of its investment in HMPRO, given that HMPRO share price has tripled over the past few years.

Fig 19 QH: Funding, cashflow & returns

	2008	2009	2010E	2011E	2012E
OD & ST Loans	3,914	1,600	250	250	250
CP of LT Loans	1,079	336	1,836	5,336	4,836
CP of Debentures	2,000	4,000	4,364	4,364	4,364
Total short term debt	**6,993**	**5,936**	**6,449**	**9,949**	**9,449**
LT Loans	780	0	0	0	0
Debentures	7,200	7,000	7,636	7,636	7,636
Total long term debt	**7,980**	**7,000**	**7,636**	**7,636**	**7,636**
Cash & Equivalent	876	1,187	458	3,761	2,234
Total Debt	**14,974**	**12,936**	**14,086**	**17,586**	**17,086**
Net Debt	**14,097**	**11,749**	**13,627**	**13,824**	**14,851**
Total Equity	11,497	12,504	12,463	13,880	15,464
ST Debt / Total Debt	47%	46%	46%	57%	55%
Total Debt / Equity	130%	103%	113%	127%	110%
Net Debt / Equity	**123%**	**94%**	**109%**	**100%**	**96%**
Cash flow breakdown					
Operating cash flow	1,813	1,951	2,412	2,771	3,135
Change in working cap	-5,013	1,188	-1,637	-1,469	-2,481
Investing activities	235	-80	-437	-412	-429
Cash flow prior to funding	**-2,965**	**3,059**	**337**	**890**	**225**
Funding activities	3,158	-2,835	-1,066	2,413	-1,752
Net change in cash	**193**	**224**	**-728**	**3,303**	**-1,527**
Returns (annualised)					
EBITDA/Total Assets	8.4%	7.7%	8.3%	8.7%	8.8%
Return on Assets	5.9%	6.0%	7.5%	7.7%	7.8%
Return on Equity	15.2%	14.3%	17.4%	19.0%	19.3%

ROA and ROE are based on total liability and equity
Source: Company data, Macquarie Research, January 2011

LH Financial Group to be listed in 1H11

- **Upcoming listing of LH Financial Group.** LH Financial Group in which QH holds a 27% stake, will increase its registered capital from Bt5.5bn (5.5bn shares, Par of Bt1/sh) to Bt12bn in 1H11 as part of its listing process. Total new share to be issued will be 6,484m shares, with breakdown as follows:
  - ⇒ 4,412m shares for Right Offering (RO) at a ratio of 5 old shares for 4 new shares at par of Bt1
  - ⇒ 1,443m shares for Initial Public Offering (IPO). IPO price has yet announced
  - ⇒ 423m shares as a reserve for warrant 1. Exercise price at Bt1, expiring 30 November 2014.
  - ⇒ 205m shares as a reserve for warrant 2. Exercise price at Bt1, expiring 30 November 2014.
- **Registered capital post recap of Bt11.4bn.** After the RO and IPO, LH Financial Group will have total registered capital of Bt11.37bn (11.37m shares with Par value of Bt1/share).
- **Major shareholdings of LH Financial Group**:
  - ⇒ Land & Houses (LH) : 41%
  - ⇒ Quality Houses (QH) : 26%
  - ⇒ Pangjai Harnpanich : 20%
- **Our analysis: Potential realised gain of Bt0.03/share.** Assuming the IPO shares will be priced at around 1.5x PBV, and QH will sell out its new subscribing IPO portion (12.69% of total shares), then we estimate that QH will have total unrealised gain of Bt1.7bn and estimated realised gain for IPO portion of Bt216m. If assumed QH to sell out all its IPO shares, then QH's realised gain per share will be Bt0.03/share. This represents about 8% upside to our current forecast of QH's 2011E EPS of Bt0.31/share.

Fig 20 Expect realised gain of Bt0.03/share post LH Financial Group listing

	Pre recap	Recap	Post recap
LH bank's paid up (Btm)	5,516	5,856	11,371
Reserve	25	0	25
Other reserve	547	0	547
Total equity value	**6,088**		**11,943**
Assumed price of 1.5-1.8x book			1.5
1.5-1.8x book - total value			**17,915**
QH			
QH's stakes			26%
QH's stake value - at par			2,956
QH's stake value - 1.5-1.8x book			4,658
QH's unrealised gain on LH Bank			**1,701**
Total shares outstanding (m)			8,477
Expected gain per share (Bt/sh)			0.20
IPO portion of total new shares (%)			12.69%
Estimated total realised gain for QH (Btm)			**216**
Per share realised gain for QH (Bt/sh)			**0.03**
QH's 2011E EPS (Bt/sh)			0.30
Upsides to our 2011E EPS (%)			9%

Source: Macquarie Research, January 2011

Quality Houses (QH TB, Outperform, Target Price: Bt3.20)

Quarterly Results		3Q/10A	4Q/10E	1Q/11E	2Q/11E
Net Property Income	m	249	267	302	303
Development Income	m	2,020	3,310	3,195	3,449
Other Revenue	m	16	38	37	39
Total Revenue	**m**	**2,285**	**3,615**	**3,534**	**3,790**
Management Fees	m	0	0	0	0
Other Expenses	m	-2,040	-2,960	-2,910	-3,125
EBITDA	**m**	**245**	**655**	**624**	**666**
Dep & Amortisation	m	63	63	67	67
EBIT	**m**	**182**	**592**	**558**	**599**
Net Interest Income	m	-65	-66	-67	-67
Associates	m	135	215	157	169
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**252**	**741**	**648**	**701**
Tax Expense	m	-48	-158	-147	-160
Net Profit	**m**	**205**	**583**	**501**	**541**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**205**	**583**	**501**	**541**
Adjusted Earnings	**m**	**205**	**583**	**501**	**541**
EPS (rep)		0.02	0.07	0.06	0.06
EPS (adj)		0.02	0.07	0.06	0.06
EPS Growth yoy (adj)	%	-59.5	31.1	-42.0	40.3
EBITDA Margins	%	10.7	18.1	17.7	17.6
EBIT Margins	%	8.0	16.4	15.8	15.8
Earnings Split	%	10.0	28.6	20.0	21.6
Revenue Growth	%	-28.6	16.1	-27.0	28.2
EBIT Growth	%	-71.1	4.4	-47.3	38.9

Profit & Loss		2009A	2010E	2011E	2012E
Net Property Income	m	1,110	1,022	1,213	1,226
Development Income	m	10,245	12,594	15,938	18,084
Other Revenue	m	184	82	170	185
Total Revenue	**m**	**11,539**	**13,698**	**17,321**	**19,494**
Management Fees	m	0	0	0	0
Other Expenses	m	-9,154	-11,199	-14,311	-16,101
EBITDA	**m**	**2,386**	**2,499**	**3,010**	**3,393**
Dep & Amortisation	m	235	237	267	298
EBIT	**m**	**2,150**	**2,263**	**2,743**	**3,095**
Net Interest Income	m	-263	-250	-268	-283
Associates	m	453	602	772	869
Exceptionals	m	0	197	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**2,341**	**2,812**	**3,247**	**3,681**
Tax Expense	m	-625	-637	-743	-843
Net Profit	**m**	**1,716**	**2,175**	**2,504**	**2,837**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**1,716**	**2,175**	**2,504**	**2,837**
Adjusted Earnings	**m**	**1,716**	**2,037**	**2,504**	**2,837**
EPS (rep)		0.20	0.26	0.30	0.33
EPS (adj)		0.20	0.24	0.30	0.33
EPS Growth (adj)	%	-0.1	18.7	23.0	13.3
PE (rep)	x	10.9	8.6	7.4	6.6
PE (adj)	x	10.9	9.2	7.4	6.6
Total DPS		0.12	0.13	0.15	0.17
Total Div Yield	%	5.5	5.8	6.7	7.6
Weighted Average Shares	m	8,477	8,477	8,477	8,477
Period End Shares	m	8,477	7,449	7,449	7,449

Profit & Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	7.8	18.7	26.4	12.6
EBITDA Growth	%	4.2	4.8	20.4	12.7
EBIT Growth	%	5.7	5.2	21.2	12.8
EBITDA Margins	%	20.7	18.2	17.4	17.4
EBIT Margins	%	18.6	16.5	15.8	15.9
Net Profit Margins	%	14.9	15.9	14.5	14.6
Payout Ratio	%	59.3	53.4	50.0	50.0
EV/EBITDA	x	11.4	9.7	7.9	7.0
EV/EBIT	x	12.4	10.5	8.5	7.6
Balance Sheet Ratios					
ROE	%	14.3	16.3	19.0	19.3
ROA	%	7.5	7.8	8.4	8.5
ROIC	%	6.2	7.2	8.1	8.6
Net Debt/Equity	%	94.0	109.3	99.6	96.0
Interest Cover	x	8.2	9.0	10.2	10.9
Price/Book	x	1.5	1.3	1.2	1.1
Book Value per Share		1.5	1.7	1.9	2.1

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**2,201**	**2,418**	**2,839**	**3,208**
Tax Paid	m	-625	-637	-743	-843
Chg in Working Capital	m	-1,188	1,637	1,469	2,481
Net Interest Paid	m	-271	-257	-305	-305
Other	m	3,021	-2,387	-1,959	-3,885
Operating Cashflow	**m**	**3,139**	**774**	**1,302**	**655**
Acquisitions	m	28	39	47	48
Capex	m	-165	-365	-365	-365
Asset Sales	m	0	0	0	0
Other	m	56	-111	-94	-113
Investing Cashflow	**m**	**-80**	**-437**	**-412**	**-429**
Dividend (Ordinary)	m	-678	-1,017	-1,087	-1,252
Equity Raised	m	0	-1,198	0	0
Debt Movements	m	-2,039	1,150	3,500	-500
Other	m	-117	0	0	0
Financing Cashflow	**m**	**-2,835**	**-1,066**	**2,413**	**-1,752**
Net Chg in Cash/Debt	**m**	**224**	**-728**	**3,303**	**-1,527**
Free Cashflow	**m**	**2,974**	**409**	**937**	**290**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	1,187	458	3,761	2,234
Receivables	m	35	36	46	51
Inventories	m	10,449	10,478	11,541	12,988
Investments	m	0	0	0	0
Fixed Assets	m	12,076	14,179	15,284	16,758
Intangibles	m	0	0	0	0
Other Assets	m	4,512	4,704	4,982	5,171
Total Assets	**m**	**28,258**	**29,855**	**35,614**	**37,203**
Payables	m	440	527	664	747
Short Term Debt	m	5,936	6,449	9,949	9,449
Long Term Debt	m	7,000	7,636	7,636	7,636
Provisions	m	2,379	2,780	3,485	3,906
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**15,754**	**17,393**	**21,735**	**21,739**
Shareholders' Funds	m	12,504	12,463	13,880	15,464
Minority Interests	m	0	0	0	0
Total S/H Equity	**m**	**12,504**	**12,463**	**13,880**	**15,464**
Total Liab & S/H Funds	**m**	**28,258**	**29,855**	**35,614**	**37,203**

All figures in THB unless noted.
Source: Company data, Macquarie Research, January 2011

THAILAND

SPALI TB Outperform

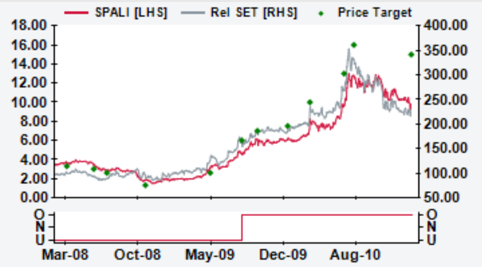
Price 31 Jan 11 Bt9.70

12-month target	**Bt**	**14.00**
Upside/Downside	**%**	**44.3**
Valuation - DCF	**Bt**	**14.20**
GICS sector		**Real Estate**
Market cap	**Btm**	**16,651**
30-day avg turnover	**US$m**	**2.9**
Market cap	**US$m**	**536**
Number shares on issue	**m**	**1,717**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	9,690	11,134	13,654	16,165
EBIT	m	3,676	3,867	4,586	5,313
EBIT growth	%	90.5	5.2	18.6	15.9
Reported profit	m	2,476	2,571	3,085	3,585
Adjusted profit	m	2,476	2,571	3,085	3,585
EPS rep	Bt	1.53	1.50	1.80	2.09
EPS rep growth	%	137.9	-1.9	20.0	16.2
EPS adj	Bt	1.53	1.50	1.80	2.09
EPS adj growth	%	138.0	-2.2	20.0	16.2
PER rep	x	6.4	6.5	5.4	4.6
PER adj	x	6.3	6.5	5.4	4.6
Total DPS	Bt	0.60	0.64	0.76	0.89
Total DPS growth	%	109.0	6.3	20.0	16.2
Total div yield	%	6.2	6.6	7.9	9.2
ROA	%	25.7	22.8	22.1	21.5
ROE	%	39.4	30.9	30.6	29.3
EV/EBITDA	x	4.4	4.2	3.6	3.1
Net debt/equity	%	37.1	45.6	47.2	41.8
P/BV	x	2.2	1.8	1.5	1.2

SPALI TB rel SET performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2011

(all figures in THB unless noted)

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1 February 2011

Supalai PCL

Cheap valuation with high returns

Event

- We maintain our Outperform rating on Supalai (SPALI), with a new DCF-based TP of Bt14.0 (previously Bt16.0). We cut our EPS estimates for 2010–12 by 6–10% on expectations of a slowdown in presales growth momentum. Near-term catalysts should include its strong 4Q10 results and high backlog to secure our 2011 revenue forecasts. Its cheap valuation, high yield and strong ROE also add to its attractiveness, in our view.

Impact

- **2011 outlook – modest presales; big jump in revenues.** In 2011, SPALI will open 14 new projects worth Bt17bn, vs 15 projects worth Bt15bn in 2010. Of these, 55% will be condos and 45% low-rises. We expect SPALI's presales to reach Bt16bn in 2011, up 10% YoY. Despite our expected modest presales growth forecast, we think SPALI will report good revenue growth of 23% in 2011, backed by strong condo backlog and expected increase in low-rise sales.
- **Strong backlog to secure future revenues.** At end-2010, SPALI's total backlog stood at Bt19bn. This means SPALI has already secured 60% of our revenue forecasts for 2011, 30% for 2012, 23% for 2013, and 10% for 2014.
- **Expanding in the provinces.** Given the expected strong growth in the provincial market, SPALI aims to increase provincial contribution to 15% of its total portfolio in 2012, up from 10% in 2010. At present, SPALI is expanding into Chiang Mai, Hadyai, Phuket, Khonkaen and Chonburi. This could bring additional growth to the company amid the expected slowdown in presales growth in Bangkok and vicinity.
- **A strong end to 2010.** SPALI achieved record presales of Bt14.5bn in 2010, up 14% YoY, thanks to the success of its new condo launches. We estimate total revenues of Bt11bn, up 14% from 2009. SPALI should also record the sector's highest net margin of 23–24% in 2010 vs a sector average of 14–15%. We expect SPALI's 4Q10 net profit to be Bt1.1bn, up 72% YoY and 620% QoQ. Including our 4Q estimate, we expect SPALI's 2010 net profit to reach Bt2.6bn, up 4% from 2009.

Earnings and target price revision

- We cut our EPS estimates by 6–10% for 2010–12. We revise our DCF-based target price to Bt14.0 from Bt16.0.

Price catalyst

- 12-month price target: Bt14.00 based on a DCF methodology.
- Catalyst: Strong 4Q results, sustainable presales and gross margin.

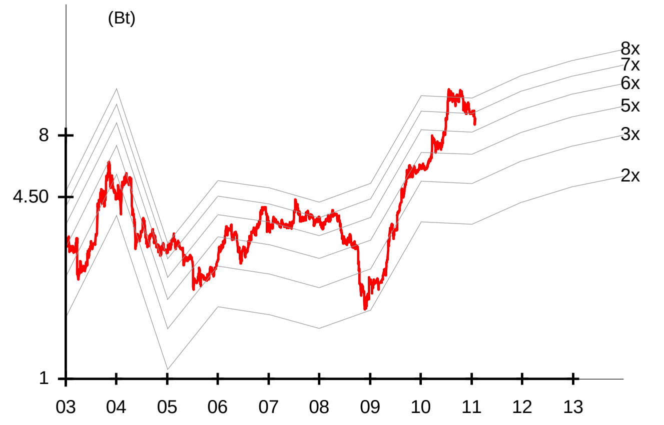
Action and recommendation

- SPALI is trading at just 5.4x 2011E PER, the cheapest in the residential sector. Our new TP of Bt14.0 implies 7.8x 2011E PER. We like SPALI due to its cheap valuation, high secured revenues (60% of 2011E revenues), attractive ROE (30.6% for 2011) and highest yield in the sector (7.9% for 2011). Maintain Outperform rating with a new TP of Bt14.0.

Cheap valuation at 5.4x 2011E PER

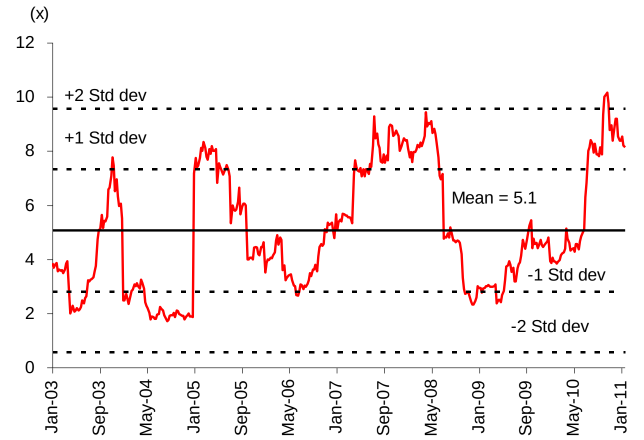
- **Forward PER at 5.4x 2011E.** SPALI is currently trading at 5.4x 2011E forward PER. This is in line with its historical mean of 5.1x but much lower than the sector's mean of 10.2x. We believe that SPALI has been overlooked by most institutional investors. However, with strong revenue and earnings growth helping lift its market capitalisation to become the fourth largest in the sector, we see a strong prospect for SPALI's share price to re-rate further given its still-attractive valuations.
- **1.5x forward 2011E P/BV.** This is lower than its peak of 2.7x P/BV reached in late 2010.
- **Our new DCF-based TP of Bt14.0 implies 7.8x 2011E PER.** We apply a DCF valuation approach to value per share, using a 4% risk-free rate, 8% market risk premium, 3% terminal growth, and 7.6% WACC. We derive our new 2011 DCF-based target price for SPALI of Bt14.0 (from Bt16.0), as we reduce our EPS estimates by 6–10% for 2010–12 on transfer delays in 2010 and slightly lower presales assumptions going forward. Our new target price of Bt14.0 implies 7.8x 2011E PER, which is still below the sector mean.
- **Maintain Outperform rating with a new TP of Bt14.0.** We think that 2011 will be more challenging for Thai property, with large listed developers continuing to dominate the market. SPALI, as a major player in the low-end to mid-range segments, should continue to stay competitive, thanks to its strong brand and highly efficient cost control. With our expected EPS growth of 20% and a yield of 7.9% for SPALI in 2011, we view the current SPALI share price as a good entry point, and maintain our Outperform rating.

Fig 1 SPALI – forward PER at 5.4x for 2011E



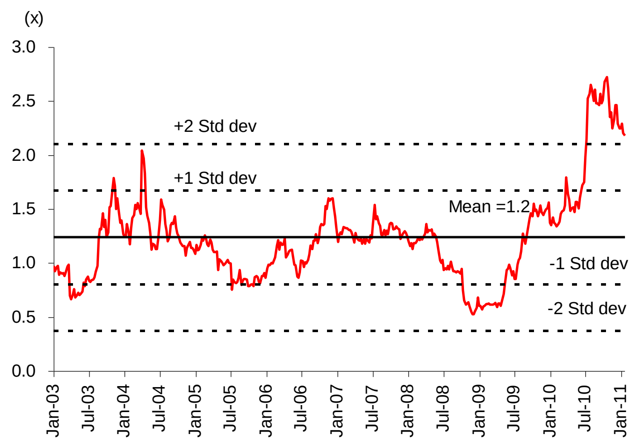
Source: Bloomberg, Macquarie Research, February 2011

Fig 2 SPALI – trailing PER high, but growth to come



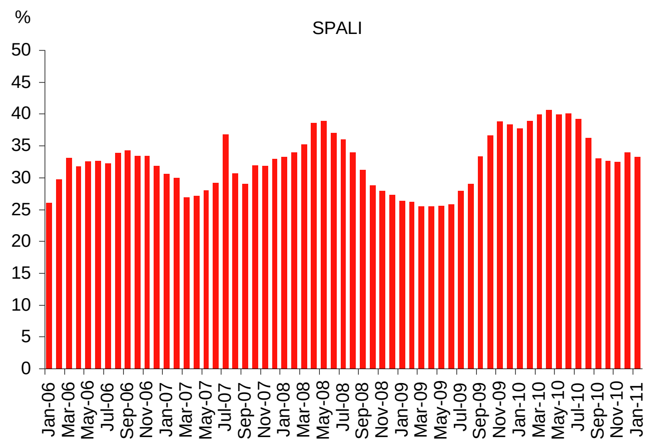
Source: Bloomberg, Macquarie Research, February 2011

Fig 3 SPALI – trailing P/BV high – but ROE over 30%



Source: Bloomberg, Macquarie Research, February 2011

Fig 4 SPALI – foreign ownership



Source: Bloomberg, Macquarie Research, February 2011

Record quarterly net profit in 4Q10, up 72% YoY

- **4Q10E results to be a record quarter.** We expect SPALI's 4Q10 net profit to come in at Bt1.1bn, up 72% YoY and 620% QoQ. Strong revenues and sustainably high gross margin should be key supports.
- **The highest quarterly revenues.** We expect SPALI's 4Q10 revenue to be its strongest quarterly revenue for the year, up 70% YoY and 337% QoQ to Bt4.6bn. Key revenue contributions should come from its new low-rise projects opened in 2H10, the City Home Ratchada Thapra condo, and Supalai Park @ Kaset condo.
- **Sustainably high gross margin.** For the quarter, we expect SPALI's gross margin to remain high at 42.9%, vs 41.4% in 4Q09 and 42.7% in 3Q10. This should be driven by its pricing power and superior construction cost control.
- **2010 net profit up 4% YoY.** Including our 4Q estimate, we expect SPALI's 2010 net profit to reach Bt2.6bn, up 4% from 2009.

Fig 5 Expect strong results in 4Q10 (+72% YoY and 620% QoQ) and 2010 (+4%)

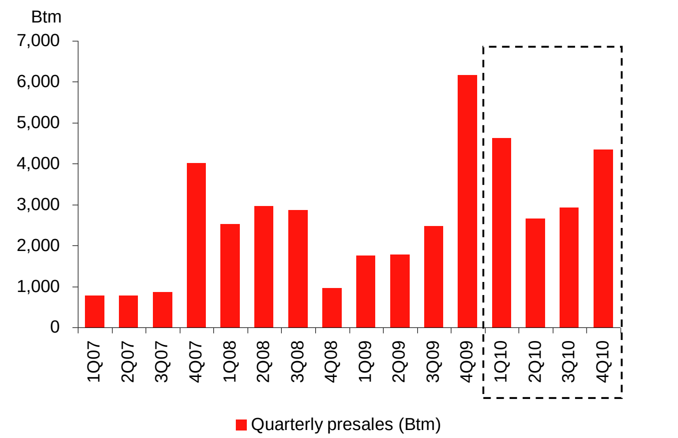
Bt m	4Q10	4Q09	YoY (%)	3Q10	QoQ (%)	2010	2009	YoY (%)
Sales and services	4,625	2,716	70.3	1,059	336.9	10,965	9,618	14.0
Cost of sales	(2,640)	(1,592)	65.8	(607)	335.2	(6,237)	(5,439)	14.7
Gross profit	1,986	1,125	76.6	452	339.2	4,728	4,179	13.1
SG&A	(416)	(170)	144.7	(204)	104.5	(1,030)	(575)	78.9
EBIT	1,569	955	64.4	249	531.4	3,698	3,603	2.6
EBITDA	1,590	975	63.0	270	489.5	3,781	3,684	2.6
Interest expenses	(25)	(20)	25.8	(32)	(20.4)	(93)	(92)	0.7
Corporate income tax	(491)	(289)	69.9	(72)	582.1	(1,136)	(1,085)	4.7
Net profit	**1,136**	**661**	**71.8**	**158**	**619.9**	**2,571**	**2,476**	**3.8**
EPS (Bt)	0.66	0.41	60.7	0.09	619.9	1.50	1.44	3.8
Percent	**4Q10**	**4Q09**	**YoY (ppts)**	**3Q10**	**QoQ (ppts)**	**2010**	**2009**	**YoY (ppts)**
Gross margin	42.9	41.4	1.5	42.7	0.2	43.1	43.4	(0.3)
SG&A to sales	9.0	6.3	2.7	19.2	(10.2)	9.4	6.0	3.4
EBIT margin	33.9	35.1	(1.2)	23.5	10.5	33.7	37.5	(3.7)
Net margin	24.6	24.3	0.2	14.9	9.7	23.4	25.7	(2.3)

Source: Company data, Macquarie Research, February 2011

Strong presales in 2010, up 14% YoY

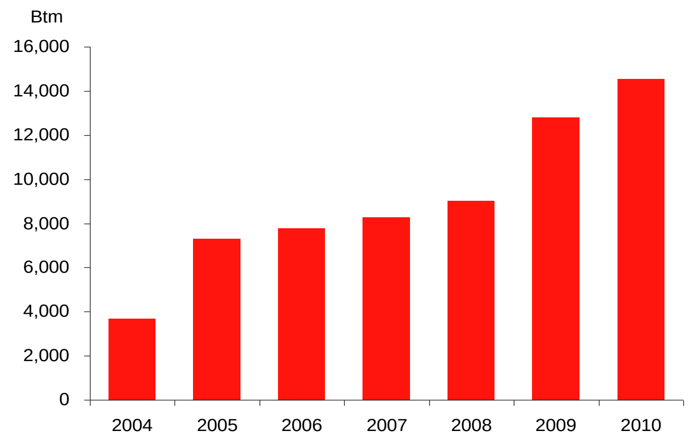
- **2010 presales up 14% YoY.** In 2010, SPALI achieved record presales of Bt14.5bn, up 14% YoY. Of that, 33% was from low-rise sales and 67% from condo sales. Its record presales were thanks to the strong success of its condo launches, including River Resort (Bt3.9bn), City Home Srinakarin (Bt1.25bn), Park Ratchapruek (Bt1.7bn) and Premier Ratchathewi (Bt3.1bn).
- **4Q10 momentum picking up.** In 4Q10, SPALI recorded quarterly presales of Bt4.3bn, down 30% YoY but up 49% QoQ. Key contributions were from most of its low-rise projects opened in 2H10 and two big condos opened in the quarter, including Park Ratchapruek and Premier Ratchathewi.

Fig 6 4Q10 presales of Bt4.3bn, up 49% QoQ



Source: Company data, Macquarie Research, February 2011

Fig 7 2010 presales of Bt14.5bn, up 14% YoY



Source: Company data, Macquarie Research, February 2011

2011 outlook – modest presales growth; big jump in revenues

More aggressive in new launches for 2011

- **14 new projects of Bt17.2bn.** In 2011, SPALI plans to launch 14 new projects worth a total of Bt17.2bn, vs 15 projects worth Bt15bn in 2010. Of these, ten projects worth a combined Bt8.3bn will be low-rise single detached house (SDH) and townhouse (TH) projects and four projects of Bt8.9bn in total will be condos.
- **Well-diversified portfolio, focusing on mid-range to low-end segments**. In 2011, SPALI will shift its portfolio mix to 55% condo (vs 60% in 2010) and 45% low-rise (vs 40% in 2010). Average unit price is expected to increase slightly to Bt3.2m from Bt3.0m last year. This is still the mid-range to low-end housing segment, the largest segment of Thailand's residential market.
- **Capex for new land purchase.** SPALI has budgeted Bt4.2bn for its capital expenditure in 2011, vs Bt4.5bn in 2010 and its five-year average capex of Bt2.2bn per year.

Fig 8 SPALI to open 14 new projects of Bt17.2bn in 2011

	Total no. of projects	Total project value (Btm)	Total unit	Avg. price (Btm)	Capex (Btm)
2008	8	5,829	2,939	2.0	2,300
2009	11	12,155	4,610	2.6	1,905
2010	15	15,000	5,000	3.0	4,500
2011E	**14**	**17,240**	**5,427***	**3.2***	**4,200**

*Macquarie estimates
Source: Company data, Macquarie Research, February 2011

Fig 9 2011 new launches by product type

2011 new projects	No. of projects	Total value (Bt m)	Total units	Unit price (Bt m)	% of total
SDH	7	7,540	2,138	3.5	44%
TH	3	800	341	2.3	5%
Condo	4	8,900	2,948	3.0	52%
Total	**14**	**17,240**	**5,427**	**3.2**	**100%**

Source: Company data, Macquarie Research, February 2011

Fig 10 2011 new launches by project

	Type	Location	Total value (Bt m)	Total units	Unit price (Bt m)	Launch
Pinklao-Bhuddhamondhol Sai 1	SDH	Suburb	1,360	146	9.3	1Q11
Lamlukka Klong 3	TH	Suburb	150	116	1.3	2Q11
Lamlukka Klong 3	SDH	Suburb	630	265	2.4	2Q11
Praholyothin 52	TH	Suburb	250	82	3.0	3Q11
Rama 2	SDH	Suburb	880	341	2.6	3Q11
Chalermphrakiat Rama 9	SDH	Suburb	1,000	211	4.7	3Q11
Lamlukka Klong 5	SDH	Suburb	1,350	491	2.7	3Q11
Romklao	SDH	Suburb	1,540	384	4.0	3Q11
Nonthaburi	TH	Suburb	400	143	2.8	3Q11
Phatumthani	SDH	Suburb	780	300	2.6	4Q11
Narathiwas Rama 3	Condo	Near CBD	4,000	931	4.3	1Q11
Kaerai	Condo	Suburb	1,400	759	1.8	3Q11
Asoke	Condo	CBD	2,600	670	3.9	3Q11
Phuket	Condo	Upcountry	900	588	1.5	4Q11
Total			**17,240**	**5,427**	**3.2**	

Source: Company data, Macquarie Research, February 2011

Expansion in provincial markets

Leader in provincial residential markets. At the end of 2010, about 10% of SPALI's total portfolio came from its expanding business in the provincial markets, including Chiang Mai, Hadyai, Phuket, Khonkaen, and Chonburi. Among the major listed developers we cover, SPALI is the most active player in the provincial markets.

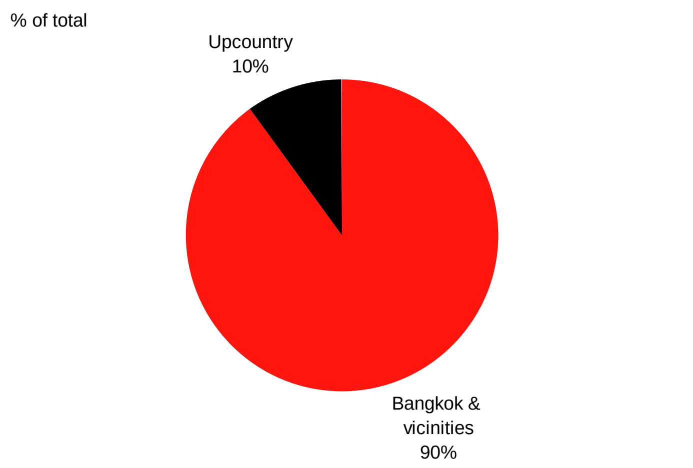
More active in provincial areas in 2011. At present, SPALI operates in the northeastern and southern provinces via its two subsidiaries as follows:

⇒ *Hadyai Nakarin* (SPALI holds a 49.89% stake). The key coverage area is Hadyai in southern Thailand, which is SPALI's biggest provincial market. At the end of 2010, the company had three active projects in Hadyai, which generated presales of Bt631m and revenues of Bt394m in 2010. In 2011, it plans to open four projects with expected presales value of Bt760m (+20% YoY). Revenues in Hadyai for 2011 are expected to reach Bt800m (+5% YoY) including recognition of backlog from past presales.

⇒ *Supalai Northeast* (SPALI holds 98.77%). Key coverage area is the northeastern part of Thailand, such as Khonkaen. At the end of 2010, the company had two active projects, which generated presales of Bt181m and revenues of Bt171m in 2010. In 2011, it plans to open four projects with expected presales value of Bt600m (up 230% YoY), while revenues for 2011 are expected to reach Bt320m (+87% YoY).

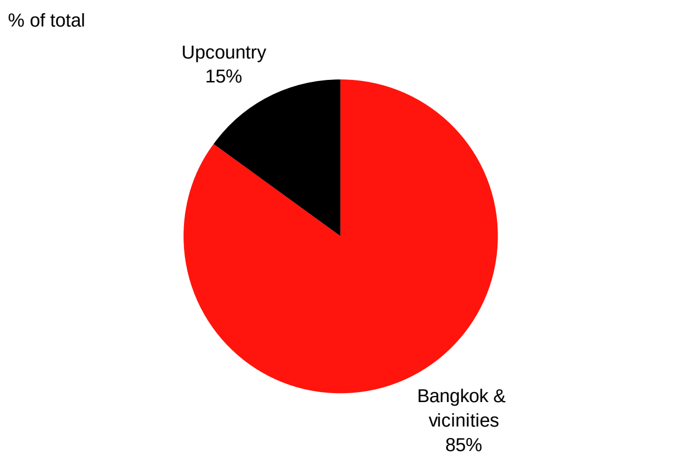
- **Targeting provincial mix of 15% in 2012.** Given expected strong growth in the provincial market, SPALI aims to increase its provincial contribution to 15% of its total portfolio in 2012, up from 10% in 2010. This could bring additional growth to the company amid the expected slowdown in presales growth in Bangkok and its vicinity.

Fig 11 2010 portfolio breakdown by geography



Source: Company data, Macquarie Research, February 2011

Fig 12 2011–12E portfolio breakdown by geography



Source: Company data, Macquarie Research, February 2011

Fig 13 SPALI's subsidiaries to penetrate into upcountry regions

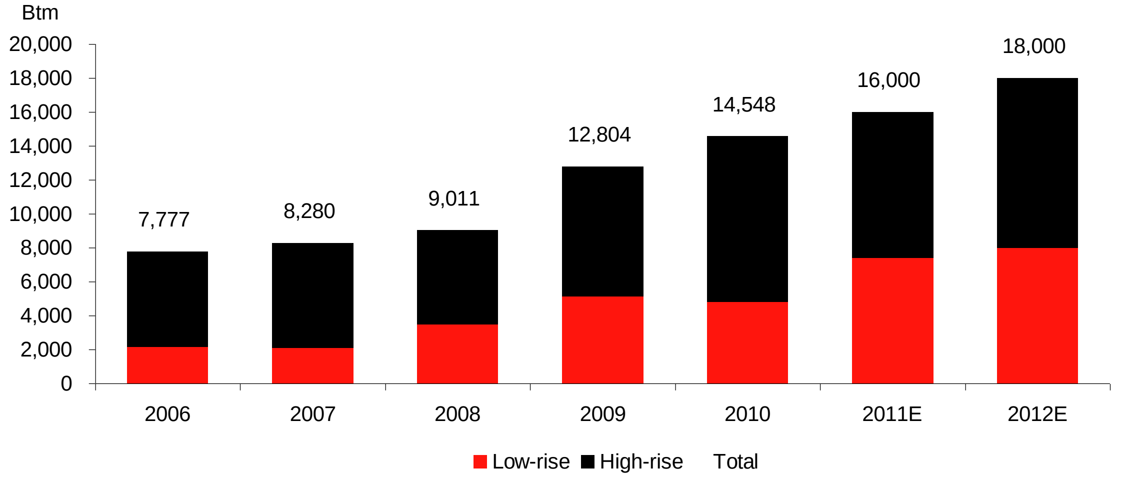
	Hadyai Nakarin (SPALI owns 49.89%)		Supalai Northeast (SPALI owns 98.77%)	
	2010E	2011E	2010E	2011E
No. of active projects	3	4	2	4
Presales value (Bt m)	631	760	181	600
Transfer value (Bt m)	394	800	171	320

Source: Company data, Macquarie Research, February 2011

2011 presales to rise 10% by our estimate, vs SPALI's +17%

- **SPALI's guidance: 17% presales growth.** SPALI projects its 2011 presales will reach Bt17bn, up 17% YoY (vs 14% growth in 2010). Its modest presales growth target is due to its strategy to focus more on low-rise projects, which normally deliver slower presales momentum than condos.
- **Macquarie's forecast: 10% presales growth.** We have turned more conservative, reducing our estimate for 2011 presales from Bt17bn to Bt16bn, but this is still up 10% YoY. We expect slower momentum from condo sales but rising momentum from low-rise SDH and TH sales.
- **Pricing strategy for 2011.** SPALI expects to increase its selling price by a minimum of 2–3% in 2011. Although SPALI expects the overall construction cost to rise 5% this year, the company is confident that it can better control cost by pre-negotiating raw materials in bulk with suppliers.

Fig 14 We forecast 2011 presales growth will be modest at 10% at Bt16bn

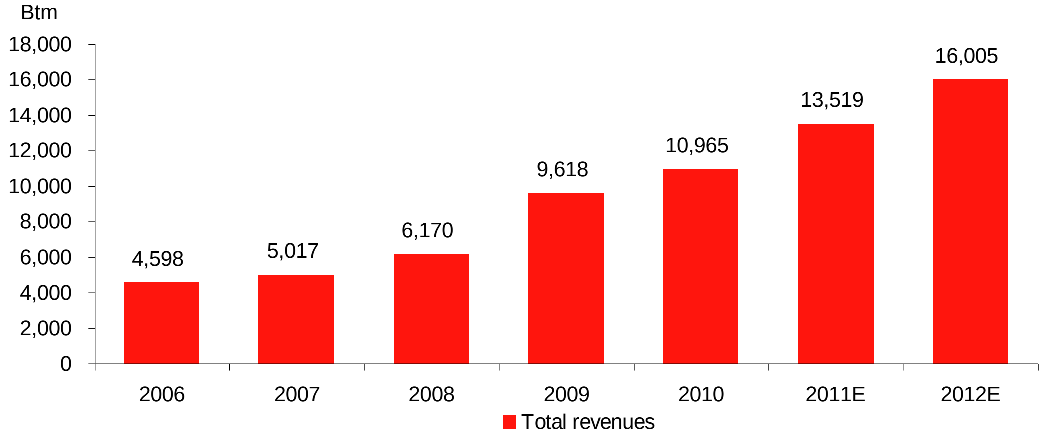


Source: Company data, Macquarie Research, February 2011

In terms of realised revenues, 2011 should show 23% growth

- **SPALI's guidance: 25% revenue growth.** Despite its modest presales target, SPALI expects its realised revenues to reach Bt13.0bn in 2011, up 25% from 2010. Four condos should be transferred in 2011, including Park Kaset (worth Bt3.1bn; 60% to be transferred in 2011), City Resort Ramkhamhaeng (Bt1.2bn), City Home Rattanathibeth (Bt1.8bn) and Park Tiwamon (Bt1.7bn).
- **Macquarie's forecast 23% growth; in line with SPALI's**. We think SPALI's 2011 revenue growth projection of 25% is possible, but keep our forecast at Bt13.5bn in 2011, up 23% YoY.

Fig 15 SPALI's total revenues to increase 23% in 2011E

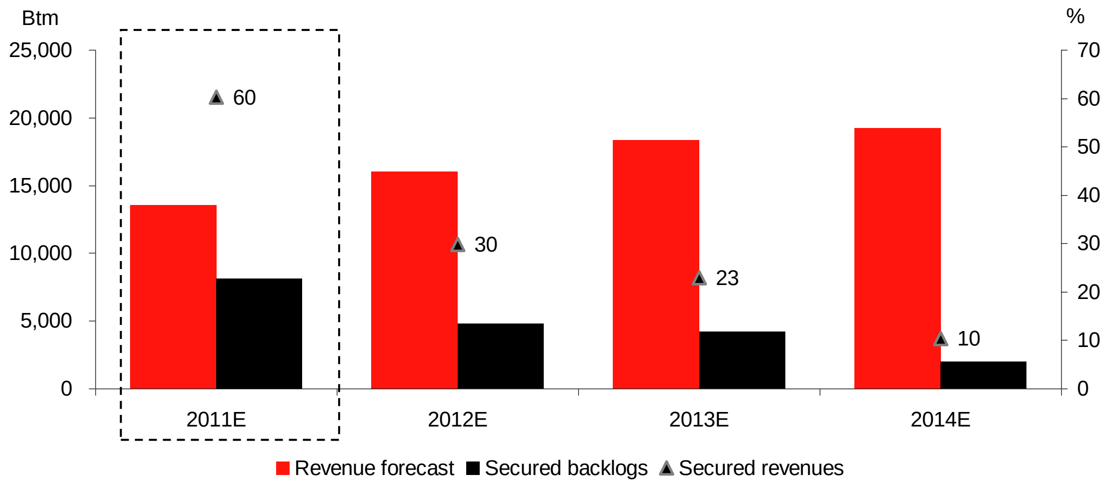


Source: Company data, Macquarie Research, February 2011

Strong backlog to secure revenues into 2011–14

- **60% of 2011 revenue already secured.** At end-2010, SPALI's total backlog stood at Bt19.1bn, of which Bt8.1bn will be realised in 2011, Bt4.8bn in 2012, Bt4.2bn in 2013, and Bt2.0bn in 2014. This means that our revenue forecast for SPALI is already secured by 60% for 2011, 30% for 2012, 23% for 2013, and 10% for 2014.
- **More work required to boost low-rise sales.** Like other developers, SPALI expects a slower take-up for condos in 2011, while low-rise SDH and TH sales will show rising momentum.

Fig 16 Highly secured backlog for 2011



Source: Company data, Macquarie Research, February 2011

Estimated EPS growth of 20% for 2011 and 16% for 2012

- **Reduce EPS estimates by 6–10% for 2010–12E.** We cut our EPS estimates by 6% for 2010, 10% for 2011 and 10% for 2012. This is to reflect delays in transfers impacting 2010, and a reduction in our presales targets due to increased competition in the condo segment.
- **EPS growth of 20% and 16% for 2011–12E,** feeds into EPS CAGR of 13% over 2009–12E.
- **Expect GM to remain strong.** Given that we expect a more challenging year for the Thai property market, we would emphasise volume driver growth as the key. We estimate that overall property prices will increase 3–5% for the low-end to mid-range segment and that the construction raw material cost will increase by 5%, posing a big challenge for the developers to focus on cost control and speed of construction. However, based on SPALI's strong cost control, we believe the company can maintain strong gross margins at around 41–42% in 2011E, vs 42–43% in 2010E.

Fig 17 Expect EPS growth of 20% and 16% for 2011–12E

(Bt m)	2009A	2010E	2011E	2012E	2009-12E CAGR
Total revenue	9,618	10,965	13,519	16,005	19%
Gross profits	4,179	4,728	5,735	6,713	17%
EBIT	3,603	3,698	4,451	5,153	13%
EBITDA	3,684	3,781	4,533	5,236	12%
Net profits	2,476	2,571	3,085	3,585	13%
EPS (Bt)	1.44	1.50	1.80	2.09	13%
Revenue growth (%)	55.9%	14.0%	23.3%	18.4%	
EBIT growth (%)	93.9%	2.6%	20.3%	15.8%	
EPS growth (%)	131.7%	3.8%	20.0%	16.2%	
Gross margin (%)	43.4%	43.1%	42.4%	41.9%	
EBIT margin (%)	37.5%	33.7%	32.9%	32.2%	
Net margin (%)	25.7%	23.4%	22.8%	22.4%	

Source: Company data, Macquarie Research, February 2011

Fig 18 Our projections vs the consensus

Bt m	2010E Macq	Consensus	Variance	2011E Macq	Consensus	Variance	2012E Macq	Consensus	Variance
Revenue	10,965	11,385	-4%	13,519	13,277	2%	16,005	15,162	6%
EBIT	3,698	3,992	-7%	4,451	4,570	-3%	5,153	5,168	0%
Net Profit	2,571	2,638	-3%	3,085	2,958	4%	3,585	3,424	5%

Source: Bloomberg, Macquarie Research, February 2011

Funding, cashflow and returns – the broader perspective

- **Balance sheet check.** At end-3Q10, SPALI reported its total assets at Bt18bn (+19% YoY from end-2009), total liability of Bt9.8bn (+33%), and total equity of Bt8.2bn (+5%). At end-3Q10, SPALI had net interest-bearing debt of Bt5.4bn, representing a net gearing of 66%. We expect SPALI's 4Q10 realised revenues to be the highest quarter of 2010. We forecast its net gearing at 46% at end-2010 and to be maintained below 50% for 2011.
- **Cashflow check.** This year we expect SPALI to transfer and realise revenue from its low-rise projects and condo of around Bt16bn, of which 60% has already been secured. Meanwhile, SPALI plans for capital expenditure for new land purchase of Bt4.2bn in 2011. The company has an internal target for its gearing at 50% in 2011, depending on how aggressive its expansion plans turn out to be. According to management, its cost of funds averaged 4% at the end of 2010.
- **Good returns.** Based on its aggressive new launches over 2010–11 that should feed into improving revenues, we forecast SPALI's ROE to remain solid at about 30–31% during 2010–12. In terms of yield, we estimate SPALI's dividend yield will be the highest of the top developers at around 8%, vs the sector average at 5.0%.

Fig 19 SPALI – funding, cashflow and returns

Bt m	2008	2009	2010E	2011E	2012E
OD & ST Loans	763	234	234	234	234
CP of LT Loans	1,780	980	2,302	2,936	3,253
CP of Debentures	998	0	997	997	997
Total short term debt	**3,542**	**1,214**	**3,533**	**4,167**	**4,484**
LT Loans	1,441	1,149	1,327	1,693	1,876
Debentures	0	997	0	0	0
Total long-term debt	**1,441**	**2,146**	**1,327**	**1,693**	**1,876**
Cash & Equivalent	101	461	620	548	718
Total Debt	4,982	3,360	4,860	5,860	6,360
Net Debt	4,882	2,899	4,240	5,312	5,642
Total Equity	5,291	7,817	9,296	11,250	13,485
ST Debt / Total Debt	71%	36%	73%	71%	71%
Total Debt / Equity	94%	43%	52%	52%	47%
Net Debt / Equity	92%	37%	46%	47%	42%
Cash flow breakdown					
Operating cash flow	1,144	2,557	2,654	3,167	3,668
Change in working cap	-1,687	-635	-2,771	-3,013	-2,556
Investing activities	-110	2	-123	-95	-93
Cash flow prior to funding	**-653**	**1,924**	**-241**	**59**	**1,019**
Funding activities	602	-1,564	399	-131	-849
Net change in cash	**-52**	**361**	**158**	**-72**	**170**
Returns (annualised)					
EBITDA/Total Assets	16.0%	25.7%	22.3%	21.9%	21.2%
Return on Assets*	9.0%	17.4%	15.6%	15.1%	14.7%
Return on Equity*	21.9%	39.4%	30.9%	30.6%	29.3%

*ROA and ROE are based on total liability and equity
Source: Company data, Macquarie Research, February 2011

Supalai PCL (SPALI TB, Outperform, Target Price: Bt14.00)

Quarterly Results		**3Q/10A**	**4Q/10E**	**1Q/11E**	**2Q/11E**
Net Property Income	m	0	0	0	0
Development Income	m	1,059	4,625	3,954	3,385
Other Revenue	m	22	93	40	34
Total Revenue	**m**	**1,081**	**4,718**	**3,993**	**3,418**
Management Fees	m	0	0	0	0
Other Expenses	m	-789	-3,036	-2,631	-2,250
EBITDA	**m**	**292**	**1,682**	**1,362**	**1,169**
Dep & Amortisation	m	21	20	21	21
EBIT	**m**	**271**	**1,662**	**1,342**	**1,148**
Net Interest Income	m	-32	-25	-31	-31
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**239**	**1,637**	**1,311**	**1,117**
Tax Expense	m	-72	-491	-393	-335
Net Profit	**m**	**167**	**1,146**	**917**	**782**
Minority Interests	m	-10	-10	-10	-10
Reported Earnings	**m**	**158**	**1,136**	**908**	**772**
Adjusted Earnings	**m**	**158**	**1,136**	**908**	**772**
EPS (rep)		0.09	0.66	0.53	0.45
EPS (adj)		0.09	0.66	0.53	0.45
EPS Growth yoy (adj)	%	-75.2	60.7	9.2	73.2
EBITDA Margins	%	27.0	35.7	34.1	34.2
EBIT Margins	%	25.1	35.2	33.6	33.6
Earnings Split	%	6.1	44.2	29.4	25.0
Revenue Growth	%	-52.9	72.6	25.0	59.7
EBIT Growth	%	-69.1	71.1	6.6	70.2

Profit & Loss		**2009A**	**2010E**	**2011E**	**2012E**
Net Property Income	m	0	0	0	0
Development Income	m	9,618	10,965	13,519	16,005
Other Revenue	m	73	168	135	160
Total Revenue	**m**	**9,690**	**11,134**	**13,654**	**16,165**
Management Fees	m	0	0	0	0
Other Expenses	m	-5,933	-7,185	-8,986	-10,768
EBITDA	**m**	**3,757**	**3,949**	**4,668**	**5,397**
Dep & Amortisation	m	81	82	82	84
EBIT	**m**	**3,676**	**3,867**	**4,586**	**5,313**
Net Interest Income	m	-92	-93	-125	-137
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**3,584**	**3,774**	**4,461**	**5,176**
Tax Expense	m	-1,085	-1,136	-1,338	-1,553
Net Profit	**m**	**2,499**	**2,638**	**3,123**	**3,623**
Minority Interests	m	-23	-67	-38	-38
Reported Earnings	**m**	**2,476**	**2,571**	**3,085**	**3,585**
Adjusted Earnings	**m**	**2,476**	**2,571**	**3,085**	**3,585**
EPS (rep)		1.53	1.50	1.80	2.09
EPS (adj)		1.53	1.50	1.80	2.09
EPS Growth (adj)	%	138.0	-2.2	20.0	16.2
PE (rep)	x	6.4	6.5	5.4	4.6
PE (adj)	x	6.3	6.5	5.4	4.6
Total DPS		0.60	0.64	0.76	0.89
Total Div Yield	%	6.2	6.6	7.9	9.2
Weighted Average Shares	m	1,621	1,717	1,717	1,717
Period End Shares	m	1,717	1,717	1,717	1,717

Profit & Loss Ratios		**2009A**	**2010E**	**2011E**	**2012E**
Revenue Growth	%	55.3	14.9	22.6	18.4
EBITDA Growth	%	87.4	5.1	18.2	15.6
EBIT Growth	%	90.5	5.2	18.6	15.9
EBITDA Margins	%	38.8	35.5	34.2	33.4
EBIT Margins	%	37.9	34.7	33.6	32.9
Net Profit Margins	%	25.8	23.7	22.9	22.4
Payout Ratio	%	39.1	42.5	42.5	42.5
EV/EBITDA	x	4.4	4.2	3.6	3.1
EV/EBIT	x	4.5	4.3	3.6	3.1
Balance Sheet Ratios					
ROE	%	39.4	30.9	30.6	29.3
ROA	%	25.7	22.8	22.1	21.5
ROIC	%	25.2	25.2	23.7	22.5
Net Debt/Equity	%	37.1	45.6	47.2	41.8
Interest Cover	x	39.9	41.7	36.8	38.7
Price/Book	x	2.2	1.8	1.5	1.2
Book Value per Share		4.4	5.3	6.5	7.8

Cashflow Analysis		**2009A**	**2010E**	**2011E**	**2012E**
EBITDA	**m**	**3,684**	**3,781**	**4,533**	**5,236**
Tax Paid	m	-1,085	-1,136	-1,338	-1,553
Chg in Working Capital	m	635	2,771	3,013	2,556
Net Interest Paid	m	-92	-93	-125	-137
Other	m	-1,220	-5,442	-5,929	-4,990
Operating Cashflow	**m**	**1,922**	**-118**	**154**	**1,113**
Acquisitions	m	1	-1	-0	-0
Capex	m	-32	-32	-32	-32
Asset Sales	m	0	0	0	0
Other	m	33	-89	-63	-61
Investing Cashflow	**m**	**2**	**-123**	**-95**	**-93**
Dividend (Ordinary)	m	-460	-1,028	-1,093	-1,311
Equity Raised	m	402	2	0	0
Debt Movements	m	-1,614	1,492	1,000	500
Other	m	109	-67	-38	-38
Financing Cashflow	**m**	**-1,564**	**399**	**-131**	**-849**
Net Chg in Cash/Debt	**m**	**361**	**158**	**-72**	**170**
Free Cashflow	**m**	**1,890**	**-150**	**122**	**1,081**

Balance Sheet		**2009A**	**2010E**	**2011E**	**2012E**
Cash	m	461	620	548	718
Receivables	m	3	4	5	6
Inventories	m	12,933	16,234	20,260	23,801
Investments	m	0	0	0	0
Fixed Assets	m	1,466	1,500	1,498	1,493
Intangibles	m	0	0	0	0
Other Assets	m	323	366	450	532
Total Assets	**m**	**15,186**	**18,724**	**22,760**	**26,550**
Payables	m	1,146	1,315	1,641	1,958
Short Term Debt	m	1,214	3,533	4,167	4,484
Long Term Debt	m	2,146	1,327	1,693	1,876
Provisions	m	2,862	3,253	4,010	4,746
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**7,368**	**9,428**	**11,510**	**13,064**
Shareholders' Funds	m	7,549	9,094	11,086	13,360
Minority Interests	m	269	202	163	125
Total S/H Equity	**m**	**7,817**	**9,296**	**11,250**	**13,485**
Total Liab & S/H Funds	**m**	**15,186**	**18,724**	**22,760**	**26,550**

All figures in THB unless noted.
Source: Company data, Macquarie Research, January 2011

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

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Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)
Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)
Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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