

PS: Pruksa Real Estate PCL

- ▶ We maintain our Buy call on PS with an unchanged 2011 fair value of Bt23.50. Poor 1Q11 earnings will provide another chance to accumulate the stock and enjoy a solid capital gain in the long term.
- ▶ We expect PS to post 1Q11 earnings of Bt590mn, down 52% YoY and 44% QoQ. Weak sales revenue as well as a high level of SG&A and tax should see the quarter set a bottom for earnings in 2011.
- ▶ However, we see earnings gradually improving in the remaining quarters, thanks to solid pre-sales and planned revenue from PS's large backlog, particularly from condominiums.
- ▶ Short-term catalyst: Big improvement in its international projects and the launch of two large low-rise projects at Pattanakarn and Changwattana.

Soft 1Q11 earnings to set a bottom for 2011

1Q11 earnings to fall 52% YoY and 44% QoQ

We expect PS to report 1Q11 earnings of Bt590mn, down 52% YoY and 44% QoQ on a lower contribution from condominium projects (no big projects were transferred in 1Q11 whereas the large IVY River and IVY Sathorn projects were transferred in 1Q10, and The Seed Musee in 4Q10) as well as continued construction problems at its low-rise housing, which while much improved from 2H10, should pull down sales revenue by 16% YoY and 19% QoQ. Also, large marketing expenses to support several new project launches in the quarter (25 projects worth Bt13.5bn) and the return of the 30% corporate tax rate in 1Q11 (up from the 25% it has paid for the past five years, due to the expiration of a tax privilege from listing on the SET) will add more pressure to 1Q11 earnings.

Nice 1Q11 pre-sales will allow PS to meet its big 2011 pre-sales target

PS should end 1Q11 with nice pre-sales of Bt8.3bn (Bt7.6bn for low-rise housing and Bt0.75bn for condominiums). Including the Bt1.5bn in pre-sales cancelled at The Tree Kiatkai, PS's 1Q11 pre-sales should reach nearly Bt10.0bn, which is equal to one-fourth of its 2011 pre-sales target of Bt42.0bn. This result was achieved despite the launch of only one small condominium in the quarter. Based on this, PS is maintaining its full-year target for 2011 (pre-sales of Bt42bn, +8% YoY, and sales revenue of Bt32bn, +37% YoY). The company believes that the strong response to its new low-rise housing in a new market segment (higher income group) and locations (inner Bangkok for low-rise and outskirts for condominiums) should more than offset the problems at some of its condominium projects.

Solid earnings growth in 2011 backed by huge backlog order

We believe 1Q11 should set a bottom for PS's quarterly earnings in 2011. The gradual improvement in construction speed in low-rise housing as well as rights transfers at many condominium projects (IVY Thonglor, Be-You and Condolette Lardprao in 2Q11 and The Seed Memory Siam in 4Q11) together with rising pre-sales at its low-rise projects should ensure its quarterly earnings improve steadily (Figure 2). Moreover, a huge current backlog that secures 85% of our 2011 revenue forecast (+28% YoY) will provide high earnings growth visibility for the stock this year despite a cancellation rate that is still high at 22%.

Thailand: Company Focus

5 April 2011

Buy (Maintain)

Event	Earnings preview	Mkt cap (Btbn)	43.7
Fair price (Bt)	23.50	6M avg (Btmn)	113.3
Stock price (Bt)	19.80	Free float (%)	25.9
Up/Dn (%)	18.69	% warrant dilution	None
Valuation	DDM	Bloomberg	PS TB
Industry	Property	Reuters	PS.BK

CG Score by IOD (2010)

Pass	Satisfactory	Good	Very Good	Excellent
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Recommendation of local peers

BUY: AP, LPN and SPALI

OUTPERFORM: LH

NEUTRAL: QH and SIRI

Quarterly Forecasts

Btmn	3Q10	4Q10E	1Q11E	YTD/FY
EBITDA	1,462	888	1,420	38.48
Core Profit	1,059	590	975	37.89
Core EPS (Bt)	0.48	0.27	0.44	38.10

YE Dec 31

	2010	2011E	2012E	2013E
Company Earnings & Financials				
EBITDA (Btmn)	4,850	5,998	6,853	8,451
Core Profit (Btmn)	3,488	4,129	4,690	5,840
Core EPS (Bt)	1.6	1.9	2.1	2.6
DPS (Bt)	0.50	0.60	0.70	0.85
Core EPS gr (%)	-3.7	17.7	13.3	24.2
ROE (%)	24.7	24.6	23.4	24.5
Net D/E (x)	0.8	0.8	0.9	0.6

Valuation

Core PER (x)	12.5	10.6	9.4	7.6
Div Yield (%)	2.5	3.0	3.5	4.3
PBV (x)	2.9	2.4	2.0	1.7
EV/EBITDA (x)	11.3	9.7	9.2	7.1

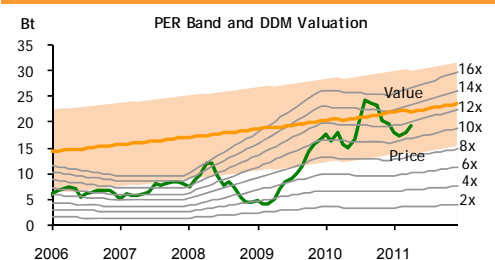
Relative to Consensus [(Company/Consensus)*100]

Core PER (x)	100	109	113	109
Div Yield (%)	100	92	91	105
PBV (x)	100	104	106	106
ROE (%)	100	103	102	107

Relative to Industry [(Company/Industry)*100]

Core PER (x)	114	103	106	100
Div Yield (%)	51	54	62	64
PBV (x)	139	132	125	118
ROE (%)	126	131	121	121

PER Band and DDM Valuation



Source: KS

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The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable, but their accuracy, completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information known to us then, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice.

No concrete improvement at international projects

Land acquisition for the first project in Vietnam and a second project in India has still not been finalized. PS believes it will take many months more to conclude this development stage, and then some more months to begin pre-sales as it needs to build infrastructure and sample houses.

The first phase of the Bt699mn Maldives project that sold out last year is the only foreseeable revenue and earnings contributor from PS's international operations this year. PS expects Bt240mn to be transferred in 2Q11 and 3Q11 (Bt120mn in each period) and the remaining units in 4Q11. Once the first phase starts rights transfers, PS plans to launch the second phase, which should be comparable to the first (9 buildings with a value of Bt700mn), and that it will become a revenue engine in 2012.

At its first project in Bangalore, India, (total value Bt1.6bn), PS has achieved good total pre-sales of Bt300mn since the launch on November 2010. However, based on the higher demand for single-detached houses than the townhouse units that are also available in the project, sales activities have been intentionally slowed down as the company wants to adjust the product mix to better match the real demand. This adjustment should hurt the pre-sales contribution from its international projects this year.

In our view, PS's international projects show no sign of making a concrete improvement over last year. Pre-sales target from this portion is set at Bt4.5bn, which is very likely to be cut if there is no significant improvement in the pace of development in the near future. Domestic projects will remain the key growth driver in 2011, we believe.

Buy rating maintained with unchanged 2011 fair value of Bt23.50

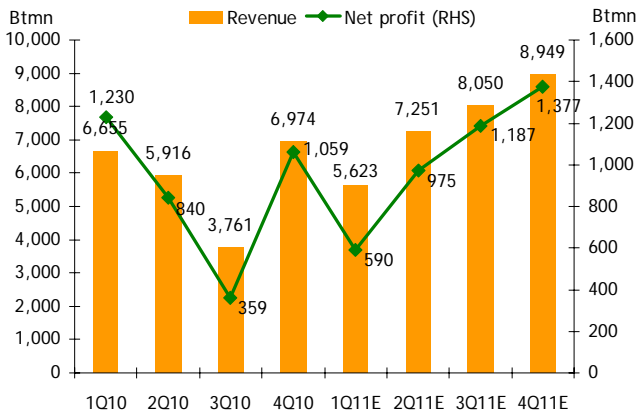
We maintain our earnings forecast as well as our 2011 fair value on a DDM base at Bt23.50 despite the expected unattractive 1Q11 earnings. Solid pre-sales, we believe, will remain the key factor driving earnings in the next several quarters. If PS's share price corrects as a result of these negative short-term factors (poor 1Q11 earnings expectation and weak progress of its international projects) after rallying 16% over the past two weeks, we see this as a good chance to accumulate the stock again to enjoy a good capital gain in the long term. Given the 19% upside potential from the latest closing price, we maintain our Buy call on the stock.

Figure 1: 1Q11 earnings preview - a weak quarter

	1Q10	2Q10	3Q10	4Q10	1Q11E	%YoY	%QoQ	%YTD2011E	2011E
Financials									
Sales (Btmn)	6,655	5,916	3,761	6,974	5,623	-15.5	-19.4	18.8	29,872
EBITDA (Btmn)	1,673	1,172	543	1,462	888	-46.9	-39.2	14.8	5,998
Operating Profit (Btmn)	1,602	1,087	459	1,356	798	-50.2	-41.2	14.2	5,637
Core Profit (Btmn)	1,230	840	359	1,059	590	-52.0	-44.3	14.3	4,129
Net Profit(Btmn)	1,230	840	359	1,059	590	-52.0	-44.3	14.3	4,129
Core EPS (Bt)	0.56	0.38	0.16	0.48	0.27	-52.0	-44.3	14.4	1.86
Performance Drivers									
Pre-sales (Btmn)	8,587	11,432	10,154	8,578	8,327	-3.0	-2.9	21.3	39,015
Asset turnover (x)	1.26	0.99	0.52	0.81	0.65	-48.3	-19.6		0.72
Net D/E (x)	-0.1	0.1	0.6	0.8	1.0	1,858.9	32.9		0.82
Ratios									
Gross margin (%)	36.2	37.3	38.1	38.7	36.5	0.3	-2.2	42.9	36.8
EBITDA margin (%)	25.1	19.8	14.4	21.0	15.8	-9.3	-5.2	15.8	20.1
Optg. Margin (%)	24.1	18.4	12.2	19.4	14.2	-9.9	-5.3	14.2	18.9
ROE (%)	36.1	23.9	10.2	28.7	10.6	-25.4	-18.1	10.6	24.6

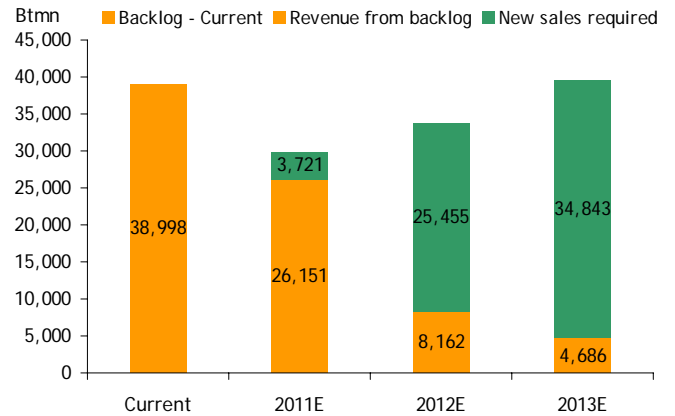
Source: PS and KS

Figure 2: Quarterly earnings in 2011, to gradually improve



Source: PS and KS

Figure 3: Current solid backlog



Source: PS and KS

Year-end 31 Dec

Income Statement (Btmn)	2009A	2010A	2011E	2012E	2013E	Cashflow (Btmn)	2009A	2010A	2011E	2012E	2013E
Revenue	18,966	23,307	29,872	33,644	39,616	Net profit	3,622	3,488	4,129	4,690	5,840
Cost of sales and services	(11,749)	(14,561)	(18,887)	(21,435)	(25,257)	Depreciation & amortization	216	246	281	310	341
Gross Profit	7,217	8,746	10,985	12,209	14,360	Change in working capital	1,400	-	-	-	-
SG&A	(2,438)	(4,243)	(5,348)	(5,754)	(6,346)	Others	(1,063)	(13,753)	(6,107)	(7,604)	(1,396)
Other income	67	100	80	88	96	CF from operation activities	4,175	(10,019)	(1,698)	(2,603)	4,785
EBIT	4,846	4,603	5,717	6,543	8,110	Capital expenditure	(163)	(1,305)	(944)	(705)	(756)
EBITDA	5,062	4,850	5,998	6,853	8,451	Investment in subs and affiliates	-	-	-	-	-
Interest expense	(47)	(67)	(103)	(192)	(243)	Others	(2,296)	2,154	(1,142)	76	(33)
Equity earnings	-	-	-	-	-	CF from investing activities	(2,458)	849	(2,086)	(629)	(789)
EBT	4,799	4,536	5,615	6,350	7,867	Cash dividends	(725)	(1,214)	(1,103)	(1,332)	(1,558)
Income tax	(1,177)	(1,048)	(1,486)	(1,660)	(2,027)	Net proceeds from debt	(1,687)	10,977	4,930	5,588	(1,006)
NPAT	3,622	3,488	4,129	4,690	5,840	Capital raising	15	-	12	5	5
Minority Interest	0	-	-	-	-	Others	0	-	-	-	-
Core Profit	3,622	3,488	4,129	4,690	5,840	CF from financing activities	(2,396)	9,763	3,838	4,261	(2,558)
Extraordinary items	-	-	-	-	-	Net change in cash	(680)	593	54	1,030	1,438
FX gain (loss)	-	-	-	-	-	Key Statistics & Ratio					
Reported net profit	3,622	3,488	4,129	4,690	5,840	Per share (Bt)					
Balance Sheet (Btmn)						Reported EPS	1.64	1.58	1.86	2.11	2.62
Cash & equivalents	3,151	1,630	2,987	4,205	5,942	Core EPS	1.64	1.58	1.86	2.11	2.62
Accounts receivable	60	120	90	101	119	DPS	0.55	0.50	0.60	0.70	0.85
Inventories	13,202	27,801	33,530	41,540	43,578	BV	5.90	6.92	8.26	9.76	11.66
Total current assets	17,104	31,356	37,921	47,326	51,382	EV	19.19	24.62	26.21	28.17	26.94
Investment in subs & others	128	250	358	387	436	Free Cash Flow	5,157	(11,196)	(2,394)	(2,884)	4,516
Fixed assets-net	1,299	2,159	2,542	2,626	2,699	Valutaion analysis					
Total assets	18,871	34,211	41,419	51,012	55,309	Reported P/E (X)	12.06	12.53	10.64	9.39	7.56
Short-term debt	600	4,004	5,504	8,504	4,004	Core P/E (X)	12.06	12.53	10.64	9.39	7.56
Accounts payable	799	1,425	1,195	1,346	1,585	P/BV (X)	3.36	2.86	2.40	2.03	1.70
Total current liabilities	4,307	9,791	10,582	14,223	10,739	EV / EBITDA (X)	8.36	11.31	9.74	9.16	7.10
Long-term debt	1,500	9,107	12,503	15,091	18,585	Price / Cahflow (X)	12.49	(4.24)	(28.92)	(15.35)	10.11
Total liabilities	5,848	18,948	23,085	29,314	29,324	Dividend yield (%)	2.78	2.53	3.03	3.54	4.29
Paid up capital	2,207	2,207	2,219	2,224	2,229	Profitability ratio					
Share premium	1,362	1,362	1,362	1,362	1,362	Gross margin (%)	38.05	37.53	36.77	36.29	36.25
Retained earnings	9,228	11,503	14,528	17,887	22,169	EBITDA margin (%)	26.69	20.81	20.08	20.37	21.33
Minority interests	0	-	-	-	-	EBIT margin (%)	25.55	19.75	19.14	19.45	20.47
Total shareholders' equity	13,023	15,263	18,334	21,698	25,985	Net profit margin (%)	19.10	14.97	13.82	13.94	14.74
Total equity & liabilities	18,871	34,211	41,419	51,012	55,309	Core ROA (%)	20.60	13.14	10.92	10.15	10.99
Key Asumptions						Core ROE (%)	31.31	24.66	24.58	23.43	24.50
New launch (Btmn)	17,700	62,703	62,400	71,760	75,348	Liquidity ratio					
Pre-sales	22,776	38,751	39,015	41,423	44,258	Current ratio (X)	3.97	3.20	3.58	3.33	4.78
Revenue growth (%)	46.2	22.9	28.2	12.6	17.8	Quick ratio (X)	0.91	0.36	0.41	0.41	0.73
Gross margin (%)	38.1	37.5	36.8	36.3	36.2	Leverage Ratio					
SG&A to sales (%)	14.6	12.9	18.2	17.9	17.1	D/E ratio (X)	0.16	0.86	0.98	1.09	0.87
						Net debt/EBITDA (X)	0.41	2.70	3.00	3.44	2.67
						Net debt/equity	(0.08)	0.75	0.82	0.89	0.64
						Int. coverage ratio (X)	102.99	68.62	55.72	34.01	33.38
						Growth					
						Revenue (%)	46.25	22.89	28.17	12.63	17.75
						EBITDA (%)	55.71	(4.19)	23.69	14.25	23.32
						Reported net profit (%)	52.60	(3.69)	18.37	13.60	24.52
						Reported EPS (%)	51.31	(3.69)	17.73	13.34	24.24
						Core profit (%)	52.60	(3.69)	18.37	13.60	24.52
						Core EPS (%)	51.31	(3.69)	17.73	13.34	24.24

Source: KS