

Sansiri Public Co Ltd

An overlooked growth play with high yields

OUTPERFORM	Maintained
THB5.50	Target: THB10.50
Mkt.Cap: THB8,203m/US\$269m	
Property Development	

SIRI TB / SIRI.BK

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Upside surprise for 4Q10 and FY10 seen

Reiterate OUTPERFORM. We estimate SIRI's FY10 net profit beat consensus by 9-10% and our estimate by 40%, thanks to a better-than-expected gross margin and lower effective tax rates. We believe SIRI's net profit grew 7% in FY10, following FY09's high base of a 76% gain. We raise our FY10-12 EPS estimates by 19-40% due to solid sales, better margins and lower effective tax rates. We also raise our target price from THB9.47, based on 7x CY12 P/E, to THB10.50, based on 6.5x CY12 P/E. SIRI is trading at a mere 3.4x CY12 P/E, the lowest among its peers who average 9.0x, and is well-positioned to offer an EPS CAGR of 19.6% from FY11 to FY13 with a prospective dividend yield of 10%. We see the narrowing of the investor perception gap as a potential re-rating catalyst. We maintain our OUTPERFORM call.

Further growth despite high base

Quarterly record high 4Q10 expected. We estimate 4Q10 net profit grew 50% yoy and 261% qoq to THB894m, thanks to high sales growth (+2% yoy and +94% qoq), an impressive improvement of 32.5% (vs. 31.1% in 4Q09) in the gross margin and a lower effective tax rate of an expected 24% (vs. 38.4% in 4Q09). The lower effective tax rate is a result of a change in the revenue booking method from revenue recognition based on percentage of completion to based on transfers.

Better-than-expected FY10 seen. We believe FY10 net profit beat consensus by 9-10% and our estimate by 40% on the back of a better-than-expected gross margin and lower effective tax rates. We expect SIRI's FY10 net profit to have grown 7% yoy to THB1.7bn following FY09's strong growth of 76% yoy to THB1.6bn. Although SG&A is estimated to have risen from 13.9% of sales and service revenue in FY09 to 18% in FY10, we believe it was driven by the removal of tax incentives and aggressive presales, which we expect to be THB25bn (+78% yoy). Given more active land purchases to support more aggressive new project launches, we estimate that SIRI's gross gearing ratio (interest-bearing debt to equity) rose from 1.1x in FY09 to 1.6x. We see the ratio dropping to 1x by FY13.

Solid property launches to secure future revenue. We see sales growth coming from more solid property launches and a healthy backlog with a rejection rate of 5-7%. SIRI targets FY11 presales of THB26bn-27bn from 23 projects vs. THB25bn in FY10. The backlog as at end-FY10 was THB24bn, of which THB7.3bn is expected to be transferred in FY11, THB8.7bn in FY12 and THB8.0bn in FY13. Some 36% of our FY11 sales revenue is secured by backlog. Single-detached houses (SDH) and townhouses (TH) are expected to contribute 65% to FY11 sales revenue vs. 35% from condos. Note that the SDH segment is expected to have raked in THB10bn or 57% of the company's total sales in FY10.

FY10-12 EPS upgrade of 19-40%. Given better sales and service income, a higher-than-expected gross margin and lower effective tax rates, we raise our FY10-12 EPS estimates by 19-40%. Despite FY09's high EPS growth base, we believe SIRI's bottomline will continue to expand, driven by strong backlog, improving gross margins on the back of a product mix geared towards the mid- to high-end market with the introduction of new products, entry into new segments and better pricing power as well as more effective SG&A expense control. We see effective tax rates normalising to around 30% vs. an average 40% over FY05-09.

Figure 1: Earnings revisions: new vs. old

P&L FYE Dec (THB m)	New			Old			% change		
	2010F	2011F	2012F	2010F	2011F	2012F	2010F	2011F	2012F
Revenue - housing sales	17,550	20,183	23,210	17,500	20,650	23,748	0.3%	-2.3%	-2.3%
Revenue - service	1,100	1,210	1,331	742	831	914	48.3%	45.7%	45.7%
Other income	250	263	276	156	164	172	60.5%	60.5%	60.5%
Total revenue	18,900	21,655	24,817	18,397	21,644	24,833	2.7%	0.0%	-0.1%
Cost of sales	(11,881)	(13,522)	(15,435)	(12,040)	(14,125)	(16,148)	-1.3%	-4.3%	-4.4%
Cost of service	(724)	(811)	(892)	(482)	(498)	(548)	50.1%	62.7%	62.7%
Other cost	(235)	(242)	(249)	(307)	(320)	(335)	-23.4%	-24.5%	-25.6%
Total cost	(12,840)	(14,575)	(16,575)	(12,829)	(14,943)	(17,031)	0.1%	-2.5%	-2.7%
Gross profit	6,045	7,060	8,215	5,720	6,858	7,965	5.7%	2.9%	3.1%
% margin	32	33	33	31	32	32	3.4%	3.4%	3.6%
GPM - housing	5,669	6,660	7,775	5,460	6,525	7,599	3.8%	2.1%	2.3%
% margin	32.3	33.0	33.5	31.2	31.6	32.0	3.5%	4.4%	4.7%
GPM - service	376	399	439	260	332	366	44.9%	20.2%	20.2%
% margin	34.2	33.0	33.0	35.0	40.0	40.0	-2.3%	-17.5%	-17.5%
SG&A	(3,402)	(4,049)	(4,343)	(3,404)	(4,047)	(4,346)	0.0%	0.0%	-0.1%
EBIT	2,658	3,031	3,898	2,165	2,653	3,456	22.8%	14.2%	12.8%
Interest expense	(238)	(276)	(334)	(238)	(277)	(335)	0.0%	-0.3%	-0.4%
Earnings before taxes	2,420	2,755	3,564	1,928	2,377	3,121	25.6%	15.9%	14.2%
Taxes	(695)	(826)	(1,069)	(694)	(832)	(1,030)	0.1%	-0.6%	3.8%
Minority	(6.0)	(7.0)	(8.0)	(6.0)	(7.0)	(8.0)	0.0%	0.0%	0.0%
Net profit	1,720	1,921	2,487	1,228	1,538	2,083	40.1%	24.9%	19.4%
EPS (THB)*	1.16	1.27	1.61	0.83	1.02	1.35	39.9%	24.8%	19.3%
EPS growth %	6.6	9.4	26.7	(23.8)	22.6	32.6	-127.6%	-58.4%	-17.9%

Source: Company, CIMB Research NB: * = Fully diluted EPS

Valuation and recommendation

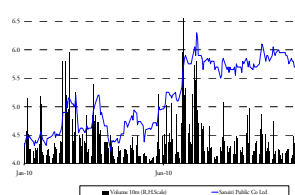
Reiterate OUTPERFORM with a new target price of THB10.50. Following our EPS upgrades, we raise our target price from THB9.47, based on 7x CY12 P/E, to THB10.50, based on 6.5x CY12 P/E. Note that we cut our P/E multiple to reflect unfavourable sentiment in the property sector. Our new P/E target of 6.5x is about one standard deviation above its 2-year average of 5.6x to reflect SIRI's new business paradigm. We see a strong positive relationship between consumer sentiment and housing registrations (see our sector note dated 15 Dec 2010).

We are of the view that the narrowing of the huge investor perception gap on SIRI will offer a potential catalyst for the re-rating of the stock should SIRI deliver what it has promised. The stock is trading at a mere 3.4x CY12 P/E, the lowest among its peers who average 9.0x. However, SIRI is well-positioned to offer an EPS CAGR of 19.6% over FY11 to FY13 with a prospective dividend yield of 9-10%. We strongly believe that there is good value in the counter and advocate a firm buy call on SIRI. Near-term catalysts are upside to market expectations in its 4Q10/FY10 results, a better margins profile, decent presales and positive backlog reports.

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (THB m)	15,177.7	17,497.3	18,900.0	21,655.0	24,816.5
EBITDA (THB m)	1,951.8	2,934.1	2,921.3	3,333.5	4,246.4
EBITDA margins (%)	12.9%	16.8%	15.5%	15.4%	17.1%
Pretax profit (THB m)	1,643.1	2,561.0	2,420.5	2,755.0	3,564.2
Net profit (THB m)	913.6	1,605.7	1,719.8	1,921.5	2,487.0
EPS (THB)	0.6	1.1	1.2	1.3	1.6
EPS growth (%)	25.6%	75.7%	6.5%	9.4%	26.8%
P/E (x)	8.9	5.0	4.7	4.3	3.4
Gross DPS (THB)	0.2	0.5	0.6	0.6	0.6
Dividend yield (%)	4.2%	9.5%	10.0%	10.4%	10.9%
P/BV (x)	0.9	0.8	0.8	0.8	0.7
ROE (%)	10.5%	16.8%	17.4%	18.7%	21.1%
Net gearing (%)	65.4%	51.3%	97.0%	88.1%	71.0%
P/FCFE (x)	4.8	3.3	6.7	22.4	10.4
EV/EBITDA (x)	7.2	4.5	6.0	5.4	4.1
% change in EPS estimates			39.9	24.8	19.3
CIMB/Consensus (x)			1.12	1.21	1.64

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 2: Sector comparisons

	Bloomberg		Price	Target	Mkt cap	Core		3-yr EPS	P/BV	ROE	Div
	ticker	Recom.	(Local)	price	(US\$ m)	P/E (x)		CAGR	(x)	(%)	yield (%)
				(Local)		CY2011	CY2012	(%)	CY2011	CY2011	CY2011
Sansiri Public	SIRI TB	O	5.50	10.50	269	4.3	3.4	13.9	0.8	18.7	10.4
Asian Property	AP TB	O	6.05	8.70	465	6.9	6.3	6.6	1.3	20.3	6.5
Land And Houses	LH TB	U	6.05	6.80	1,991	25.7	23.8	(2.6)	2.1	14.1	5.2
LPN	LPN TB	O	8.00	13.80	387	5.7	4.9	21.1	1.6	30.9	9.2
Pruksa Real Estate	PS TB	O	18.40	36.90	1,333	8.6	7.0	17.0	2.1	27.0	4.2
Quality Houses	QH TB	N	2.26	2.53	629	13.3	12.2	7.5	1.3	15.4	5.6
SPALI	SPALI TB	O	10.10	18.50	569	5.7	4.9	41.2	1.5	29.3	7.5
Simple average						10.1	9.0	14.8	1.6	22.2	6.9

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
 Source: Company, CIMB Research

Figure 3: Regional comparisons

			Price	Target price		Core	3-yr EPS	P/BV	ROE	Div yield (%)	
	BB ticker	Recom.	(Local)	(Local)	Mkt cap (US\$ m)	P/E (x)	CAGR (%)	(x)	(%)		
						CY2011	CY2012	CY2011	CY2011	CY2011	
Singapore											
Allgreen	AG SP	U	1.15	1.25	1,420	7.5	7.4	30.6	0.7	9.0	5.0
Bukit Sembawang	BS SP	O	4.84	5.86	920	8.4	6.5	127.1	1.2	15.7	4.5
CapitaLand	CAPL SP	N	3.71	4.04	12,279	18.6	15.1	14.5	1.1	5.4	0.9
CMA	CMA SP	U	1.92	2.15	5,790	28.2	30.6	3.9	1.2	4.5	0.5
City Devt	CIT SP	U	12.16	12.78	8,585	16.8	16.2	9.0	1.6	10.6	0.9
F&N	FNN SP	N	6.44	6.91	7,027	14.9	12.8	12.0	1.4	9.4	3.8
Ho Bee	HOBEE SP	O	1.56	2.07	893	7.3	10.4	(36.1)	0.7	10.6	1.7
Keppel Land	KPLD SP	O	4.73	5.88	5,326	18.6	15.4	19.8	1.6	9.2	2.0
OUE	OUE SP	O	3.60	4.14	2,744	22.0	16.6	212.1	1.5	7.1	2.3
Singland	SL SP	O	7.71	9.24	2,469	18.8	17.1	(3.6)	0.9	4.6	2.9
UOL	UOL SP	N	5.00	4.94	3,019	14.9	14.6	(5.8)	0.9	5.9	1.6
Wheelock	WP SP	O	1.93	2.37	1,793	6.8	11.9	5.1	0.8	12.5	5.9
Wing Tai	WINGT SP	O	1.70	2.19	1,048	6.4	8.2	(6.9)	0.7	11.3	3.1
Yanlord	YLLG SP	N	1.71	1.83	2,581	10.6	9.1	15.3	1.1	12.4	1.1
Simple average						14.3	13.7	28.4	1.1	9.1	2.6
Hong Kong/China											
Agile	3383 HK	N	12.80	9.04	5,718	11.6	10.4	26.3	2.2	20.2	1.4
CC Land	1224 HK	N	3.07	3.15	1,011	22.4	19.3	231.6	0.6	2.8	1.0
China Overseas Land	688 HK	O	15.24	19.06	16,021	13.1	11.9	16.9	2.3	18.7	1.9
R&F	2777 HK	N	12.24	11.05	5,073	7.7	7.1	27.3	1.5	21.3	3.5
Shimao Property	813 HK	O	13.22	17.10	6,032	8.5	7.7	24.8	1.5	18.7	2.9
Sino-Ocean	3377 HK	N	5.23	6.03	3,793	9.7	7.3	39.5	1.0	10.7	2.3
Simple average						12.2	10.6	61.1	1.5	15.4	2.2
Indonesia											
Alam Sutera	ASRI IJ	O	285.00	355.00	562	11.6	10.1	73.3	1.9	18.1	1.6
Bakrieland	ELTY IJ	U	144.00	165.00	635	50.5	32.4	10.3	0.7	1.4	-
BSD	BSDE IJ	N	820.00	900.00	1,585	18.5	13.8	52.8	2.1	11.8	0.8
Ciputra	CTRA IJ	O	330.00	510.00	553	14.8	9.3	40.3	1.0	6.6	-
Summarecon	SMRA IJ	O	1,010.00	1,375.00	767	16.3	11.9	50.0	2.7	17.6	0.9
Simple average						22.4	15.5	45.3	1.7	11.1	0.7
Malaysia											
E&O	EAST MK	O	1.34	1.63	366	18.1	15.4	11.8	1.0	5.9	2.9
KLCC Property	KLCC MK	U	3.37	3.03	1,030	15.5	13.7	10.1	0.6	5.0	4.5
SP Setia	SPSB MK	O	6.70	7.45	2,229	26.7	21.7	20.3	2.9	13.1	3.3
SunCity	SCITY MK	O	4.74	5.27	729	13.8	12.2	14.7	0.8	7.9	2.1
Simple average						18.5	15.7	14.1	1.3	8.0	3.2

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range	Description
90 - 100	Excellent
80 - 89	Very Good
70 - 79	Good
Below 70 or No Survey Result	N/A

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RECOMMENDATION FRAMEWORK #1 **

STOCK RECOMMENDATIONS

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

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RECOMMENDATION FRAMEWORK #2 **

STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2010.

ADVANC	Excellent	GLOBAL	not available	QH	Very Good
AMATA	Excellent	HANA	Very Good	ROBINS	Excellent
AOT	Excellent	HEMRAJ	Excellent	ROJNA	Very Good
AP	Very Good	HMPRO	Very Good	SAMART	Excellent
BANPU	Excellent	ITD	Very Good	SAMTEL	Excellent
BAY	Excellent	IVL	not available	SCB	Excellent
BBL	Very Good	KBANK	Excellent	SCC	Excellent
BCP	Excellent	KTB	Excellent	SCCC	Very Good
BEC	Very Good	LH	Very Good	SIRI	Very Good
BECL	Excellent	LPN	Excellent	SPALI	Very Good
BH	Very Good	MAJOR	Very Good	STA	Good
BIGC	Very Good	MCOT	Excellent	STEC	Very Good
CCET	Very Good	MINT	Very Good	TASCO	Very Good
CK	Very Good	PS	Very Good	THAI	Very Good
CPALL	Very Good	PSL	Excellent	TMB	Excellent
CPF	Excellent	PTT	Excellent	TOP	Excellent
CPN	Excellent	PTTAR	Excellent	TRUE	Very Good
DELTA	Very Good	PTTCH	Excellent	TTA	Excellent
DTAC	Very Good	PTTEP	Excellent	TUF	Very Good
FUTUREPF	not available				