

COMPANY QUICK COMMENT

We recently visited Sansiri (SIRI). The company is continuing with its expansion strategy that covers all market segments. Management expects the company's revenue from real estate sales in FY11F to increase by 9.1% y-y to THB19,500mn and for this growth to be driven by its high backlog. SIRI puts more emphasis on effective cost management and the shortening of its construction periods. The implementation of the company's prefabrication and construction management strategies play a key role in improving its gross margin. But it remains to be seen whether SIRI will be able to increase its profitability through the lowering of its SG&A expenses to total revenue ratio.

Price target : THB 5.49 (Bloomberg consensus)

Price (1 June 2011) : THB 4.56

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Take-aways from our meeting with SIRI

- Diversified portfolio with well-established brands:** As Thailand's second largest property developer in terms of revenue in FY10 SIRI had a market share of 12.1%. The company is continuing to pursue its expansion strategy that covers all market segments, which should help the company to deliver sustainable growth. Management expects the company's revenue from real estate sales in FY11F to increase by 9.1% y-y to THB19,500mn and for this growth to be driven by its high backlog on hand, which is sufficient to secure 77% of its revenue target. SIRI's revenue is likely to be well-balanced in terms of its product mix and segments. The company estimates that around 40% of its total revenue will come from the mid-priced segment, followed by 30% each from the high-end and low-end segments. Meanwhile, condos and single-detached houses (SDH) are both expected to account for around 40% of its revenue from real estate sales, with the remaining 20% coming from its townhouse (TH) projects.
- Prefabrication to improve gross margin:** SIRI puts more emphasis on effective cost management and the shortening of its construction periods in order to improve its gross margin. The company intends to use more precast construction methods starting with its lower-end brands (i.e. Habitia, Saransiri, Burasiri, Town Plus, and V Village). It has already started to invest in a fully-automated precast factory with a capacity of 150 units/ month, which will be used for SDH and for some parts of its condo and TH products. This new precast factory will be operational by around 1Q12F. SIRI's gross margin from real estate sales has continually improved to 33.5% in FY10 owing to the implementation of its prefabrication and construction management strategies, which have helped to shorten the length of its construction periods and business cycle. The company aims to increase its gross margin to 34-35% by FY12F, which is when its new precast factory is scheduled to start operations.
- Increasing profitability remains a challenge:** Over the past five years, SIRI's net profit margin has continued improved from a low base. The company's target is to increase its net profit margin this year from FY10's level of 10.2%. In our view, the key to achieving this goal will be its ability to lower its SG&A expenses as a percentage of its total revenue. The company tries to lower its SG&A expenses by: 1) using its marketing budget more efficiently; and 2) achieving economies of scale in terms of sharing resources and advertising media. But it remains to be seen whether SIRI will be able to continue to improve its profitability.

Forecasts & Valuation

31 Dec (THB mn)	FY10	FY11F	FY12F	FY13F
Revenue	18,595.8	19,382.9	22,311.9	25,104.3
EBITDA	2,919.0	2,923.7	3,386.7	3,963.0
Norm. Profit	1,897.7	1,676.4	1,935.4	2,386.5
Net Profit	1,897.7	1,676.4	1,935.4	2,386.5
EPS (THB)	1.28	0.94	1.00	1.28
EPS Growth (%)	95.0%	-27.1%	6.6%	27.8%
PER (x)	3.6	4.9	4.6	3.6
BV/share (THB)	6.39	6.07	6.80	8.12
P/BV (x)	0.71	0.75	0.67	0.56
DPS (THB)	0.12	0.45	0.49	0.54
Dividend yield (%)	2.6%	9.8%	10.7%	11.9%
ROE (%)	21.4	16.4	16.3	17.2
Int. bearing D/E (x)	1.69	n.a.	n.a.	n.a.

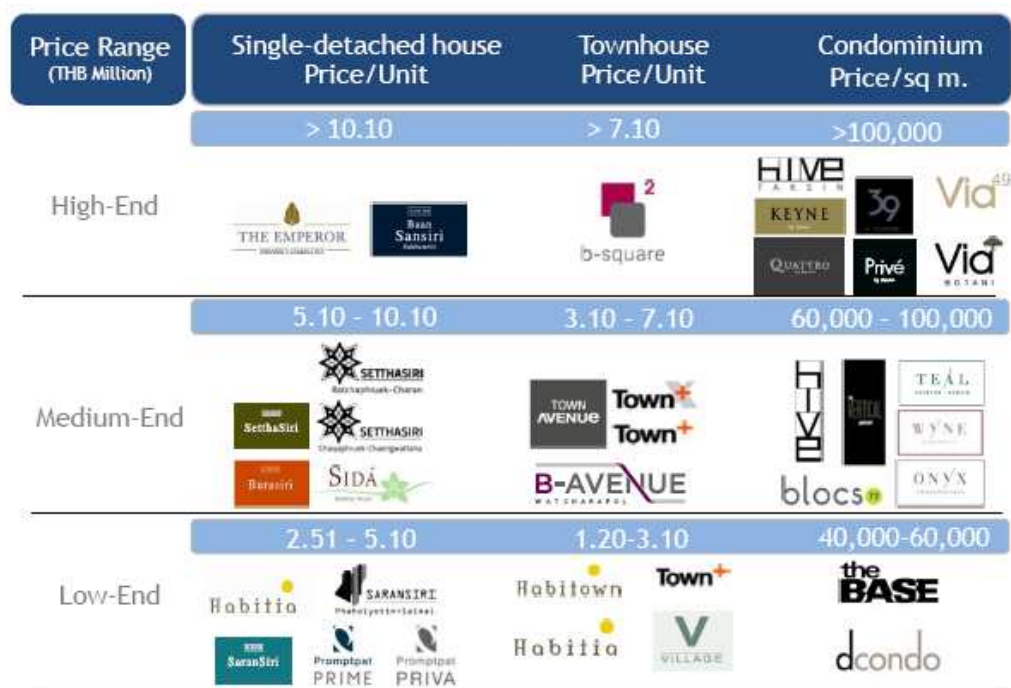
Diversified portfolio with well-established brands

We recently visited Sansiri (SIRI). As Thailand's second largest property developer in terms of revenue in FY10 SIRI had a market share of 12.1%. The company is continuing to pursue its expansion strategy that covers all market segments, which should help the company to deliver sustainable growth. At present, SIRI develops SDH, TH, and condominiums under various recognized brands across all segments ranging from high to low end markets (for details see Exhibit 1). The company estimates that around 40% of its total revenue comes from the mid-priced segment, followed by 30% each from the high-end and low-end segments.

At present, SIRI develops SDH, TH, and condominiums under various recognized brands across all segments ranging from high to low end markets

For FY11F, SIRI is planning to launch 23 projects including eight SDH projects, four TH projects, and 11 condo projects with a total value of THB30,479mn. It also plans to tap new segments (i.e. home offices, 3-storey SDH, and luxury townhouses with selling price above THB15mn/unit). For example, in 1Q11 the company launched a home office project under the B Square brand in the Rama IX-Mengjai area.

Exhibit 1: SIRI – Brand and product segment



Source: SIRI

Exhibit 2: SIRI – Quarterly presales breakdown

(THB mn)	1Q10	4Q10	1Q11	% q-q	% y-y
SDH	1,609	2,199	2,125	-3.4%	32.1%
TH	757	1,087	1,003	-7.7%	32.5%
Condo	2,316	6,719	1,308	-80.5%	-43.5%
Total	4,683	10,005	4,436	-55.7%	-5.3%

Source: SIRI

SIRI expects its revenue from real estate sales in FY11F to increase by 9.1% y-y to THB19,500mn and for this growth to be driven by its high backlog on hand, which is sufficient to secure 77% of its revenue target. As of 24 May 2011, its backlog amounted to THB28,440mn, most of which (THB22,356mn) came from condo sales, followed by SDH sales (THB3,656mn) and TH sales (THB2,427mn). The contributions from condos and SDH are expected to be same (i.e. at around 40% of revenue from real estate sales) and the remaining 20% should come from its TH projects. SIRI's presales YTD (i.e. as of 24 May 2011) amounted to THB8,069mn to account for 31% of its presales target for FY11 of THB26,000mn. On a y-y basis, its presales of low-rise housing showed impressive growth of 32% owing to the favorable response from customers to its "Setthasiri Ratchaphruek-Charan", "Baan Sansiri Sukhumvit 67", and "B Square Rama IX-Mengjai" projects. However, presales for SIRI's condos dropped sharply to 44%, as the company launched only the "CEIL by Sansiri" project in 1Q11. The take-up rate for this project was 55% compared to "PYNE by Sansiri" that sold out on the launch day. However, the momentum for SIRI's presales is expected to be stronger in 2H11F given the projected increase in the value of its new project launches to THB19,614mn from only THB10,865mn in 1H11.

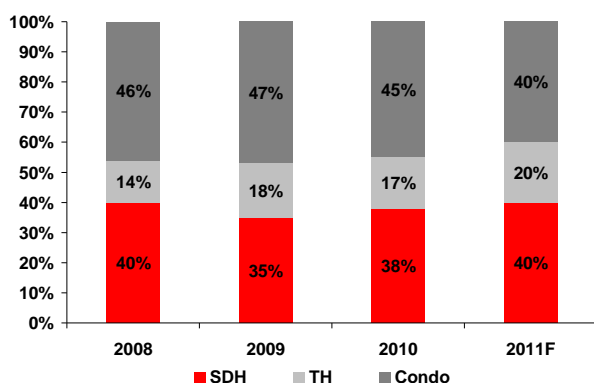
SIRI expects its revenue from real estate sales in FY11F to increase by 9.1% y-y to THB19,500mn and for this growth to be driven by its high backlog on hand, which is sufficient to secure 77% of its revenue target.

Exhibit 3: SIRI – New project launches in FY11F

Launch period	Housing type	Project	Project value (THB mn)	Total units	Price/unit (THB mn)
1Q11	SDH	Setthasiri Ratchaphruek-Charan (Phase 1)	2,200	234	9.40
		Habitia Watcharapol	976	206	4.74
	TH	B Square Rama IX-Mengjai	920	78	11.79
	Condo	CEIL by Sansiri	1,615	376	4.30
	Total - 1Q11 (4 projects)			5,711	894
2Q11	SDH	2 projects			
	TH	1 project			
	Condo	9 Elvaston Place - London	525	6	87.50
Total - 2Q11 (6 projects)			5,154		
3Q11	SDH	3 projects			
	TH	1 project			
	Condo	4 projects			
Total - 3Q11 (8 projects)			9,871		
4Q11	SDH	1 project			
	TH	1 project			
	Condo	3 projects			
Total - 4Q11 (5 projects)			9,743		
Total - 2011 (23 projects)			30,479		

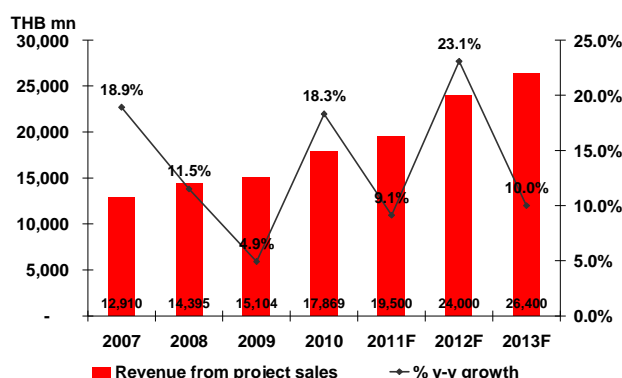
Source: SIRI, CNS estimates

Exhibit 4: SIRI – Revenue from project sales breakdown



Source: SIRI

Exhibit 5: SIRI – Revenue from project sales in 2007-2013F



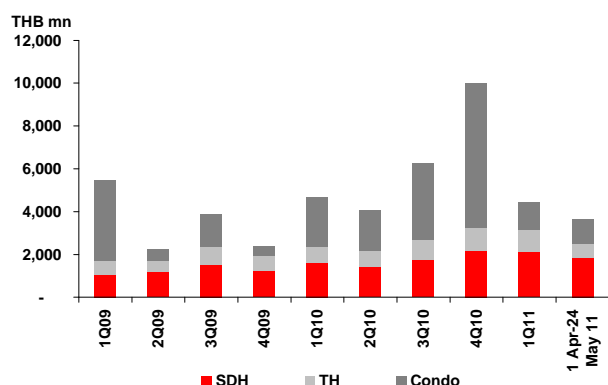
Source: SIRI

Exhibit 6: SIRI – Schedule of condo transfer

Project	Target transfer start	Estimated transfer (THB mn)		
		2011F	2012F	2013F
1 Prive' by Sansiri	2Q10	26	-	-
2 HIVE Sathorn	4Q10	26	-	-
3 39 by Sansiri	4Q10	131	-	-
4 HIVE Taksin	1Q11	1,178	-	-
5 The Vertical Aree	2Q11	985	-	-
6 Dcondo Onnut-Suvarnabhumi	3Q11	868	-	-
7 Blocs 77	3Q11	1,270	3	-
8 Quattro by Sansiri	4Q11	1,774	1,430	-
9 Via 49	1Q12	-	598	-
10 Dcondo Ramindra	2Q12	-	765	-
11 Dcondo Ramkhamhaeng	2Q12	-	1,502	-
12 WYNE Sukhumvit	3Q12	-	799	-
13 Via BOTANI	3Q12	-	562	10
14 CEIL by Sansiri	4Q12	-	315	440
15 PYNE by Sansiri	4Q12	-	1,551	498
16 The Base	4Q12	-	584	1,451
17 KEYNE by Sansiri	4Q12	-	130	1,535
18 ONYX Phaholyothin	1Q13	-	-	2,289
19 TEAL Sathorn-Taksin	1Q13	-	-	1,381
Total		6,258	8,239	7,604

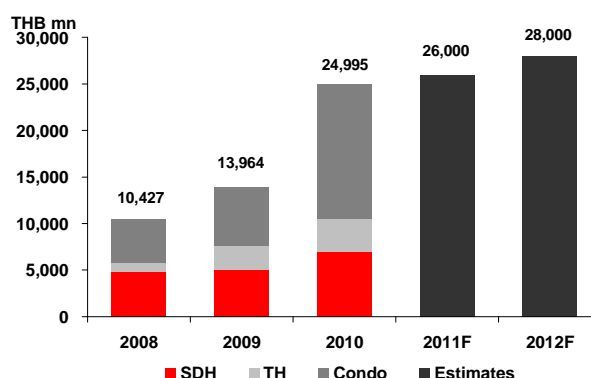
Source: SIRI

Exhibit 7: SIRI – Quarterly presales



Source: SIRI

Exhibit 8: SIRI – Presales in 2008-2012F



Source: SIRI

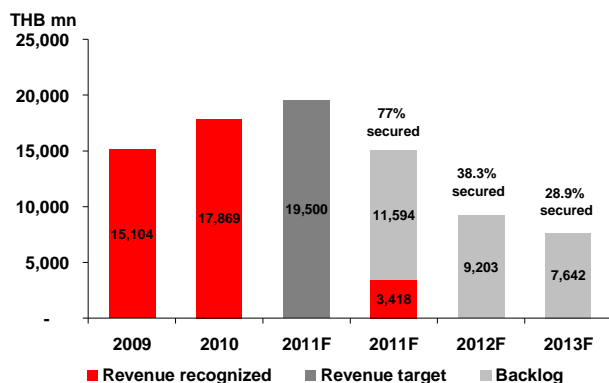
Prefabrication to improve gross margin

SIRI puts more emphasis on effective cost management and the shortening of its construction periods. The implementation of the company's prefabrication and construction management strategies play a key role in helping to improve its gross margin. The company started using prefabrication technology about two years ago. At present, it has 2 precast yards (free mold) with a capacity of 30 units/ month/ yard. SIRI uses precast concrete parts from these yards to build SDH under its Habitia brand. The use of precast methods helps to reduce its construction period to 75 days/ unit compared to 6-8 months for conventional methods. The company also makes use of tunnel form technology to construct TH with a capacity of 15 units/ month/ project. About five TH projects under its Town Plus brand use this technology. SIRI intends to use more precast methods for other projects starting from its lower-end brands (i.e. Saransiri, Burasiri, and V Village). Moreover, the company is preparing for the growth in the demand for precast parts by investing in a fully-automated precast factory with a capacity of 150 units/ month, which will be used for its SDH and some parts of condo and TH products. This new precast factory is scheduled to become operational by around 1Q12F.

SIRI puts more emphasis on effective cost management and the shortening of its construction periods. The implementation of the company's prefabrication and construction management strategies play a key role in improving its gross margin.

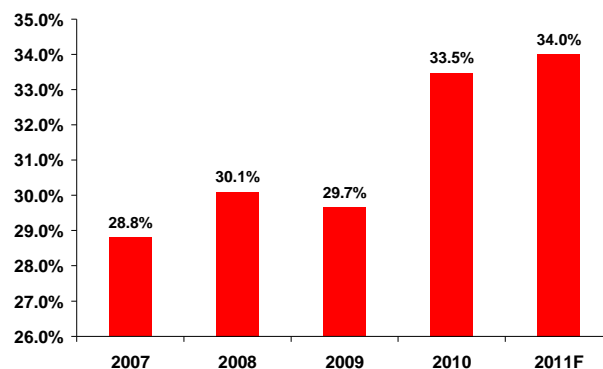
SIRI's gross margin from real estate sales improved to 33.5% in FY10 from 29.7% in FY09. The main reason for this improvement in its gross margin improvement was the implementation of prefabrication construction methods and better construction management, which helped to shorten its construction period and business cycle. SIRI's goal is to boost its gross margin to 34-35% by FY12F, which is when its new precast factory is scheduled to start operations.

Exhibit 9: SIRI – Revenue and backlog



Source: SIRI

Exhibit 10: SIRI – Gross margin from real estate sales



Source: SIRI

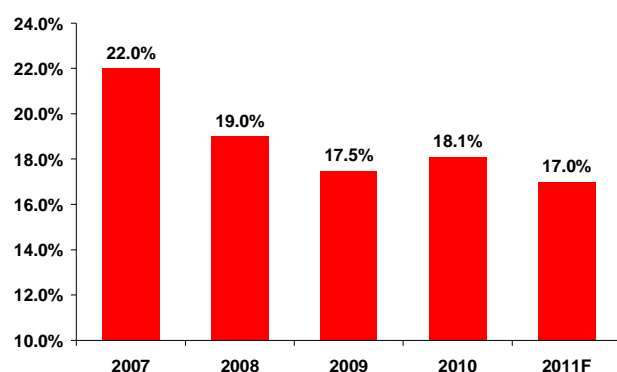
Increasing profitability remains a challenge

Over the past five years, SIRI's net profit margin has continued improved from a low base. The company's target is to increase its net profit margin this year from FY10's level of 10.2%. In our view, the key to achieving this goal will be its ability to lower its SG&A expenses as a percentage of its total revenue. The company tries to lower its SG&A expenses by: 1) using its marketing budget more efficiently; and 2) achieving economies of scale in terms of sharing resources and advertising media (i.e. billboards and using social media). For example, the company uses one sales office to sell 3-4 condo projects in the Sukhumvit area. The company expects its administrative costs, especially its staff expenses as a percentage of its total revenue, to decrease when its revenue base is larger. But it remains to be seen whether SIRI will be able to continue to improve its profitability.

Over the past five years, SIRI's net profit margin has continued improved from a low base. The company's target is to increase its net profit margin this year from the 10.2% level seen in FY10.

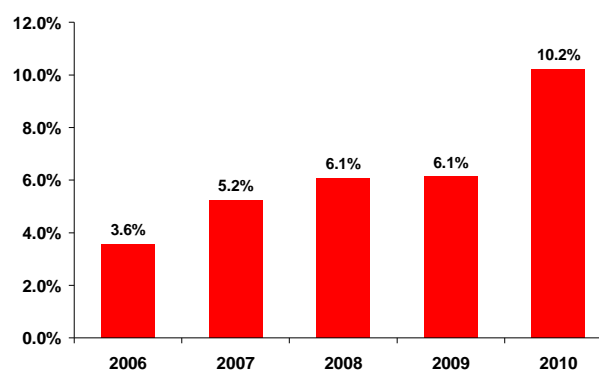
On the balance sheet side, SIRI's D/E ratio as of 31 Mar 2011 was rather high at 1.6x. Its D/E ratio is expected to be lower in 2H11F when three condo projects (including "Dcondo Onnut-Suvarnabhumi", "Blocs 77", and "Quattro by Sansiri" with a combined value of THB6,956mn) will be completed and transferred to their customers.

Exhibit 11: SIRI – SG&A expenses as pct of revenue



Source: SIRI

Exhibit 12: SIRI – Net profit margin



Source: SIRI

Exhibit 13: SIRI's FY10 ratios vs. peers

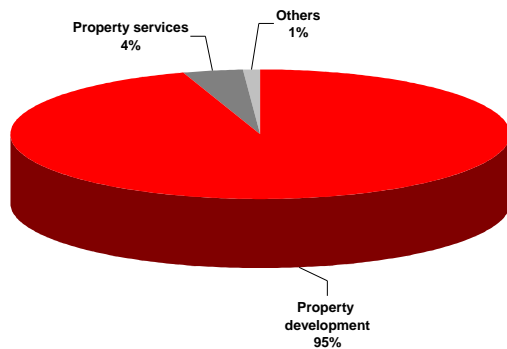
	Gross margin from real estate sales (%)	SG&A to total revenue (%)	Normalized profit margin (%)
AP	37.2%	15.4%	15.6%
LH	33.7%	13.6%	22.0%
LPN	34.3%	11.4%	16.2%
PS	37.5%	18.2%	15.0%
QH	29.2%	14.7%	13.4%
SIRI	33.5%	18.1%	10.2%
SPALI	43.0%	8.9%	23.1%

Source: SIRI, CNS estimates

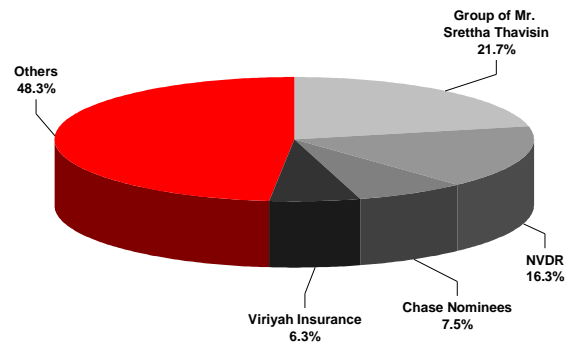
Company background

Sansiri Public Company Limited (SIRI) is one of Thailand's leading residential property developers. The company is involved in the property development business, including SDH, TH and condos for sale, as well as the development of property for rent (i.e. office buildings). SIRI also provides integrated property services (i.e. real estate brokerage services, sales management, building management services, and property development consultancy services). In addition, the company is engaged in other businesses consisting of hotels, medical spas, and education. SIRI was listed on the Stock Exchange of Thailand in July 1996. As of 9 May 2011 SIRI's major shareholders were the group headed by Mr. Srettha Thavisin (at 21.7%), followed by NVDRs (16.3%), Chase Nominees (7.5%), and Viriyah Insurance (6.3%).

SIRI is one of Thailand's leading residential property developers.

Exhibit 14: SIRI – Revenue breakdown by business in 1Q11

Source: SIRI

Exhibit 15: SIRI – Shareholders as of 9 May 2011

Source: SET

Explanation of CNS rating system for Thailand companies under coverage:**Stocks:**

Stock recommendations are based on absolute valuation upside (downside), which is defined as $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

- A "Buy" recommendation indicates that potential upside is 15% or more.
- A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
- A "Reduce" recommendation indicates that potential downside is 5% or more.

Sectors:

A "Bullish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A "Neutral" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A "Bearish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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