

28 June 2011

Produced by: Asia Plus Securities PCL and distributed on its behalf by RBS

# Sansiri

## Improving efficiency

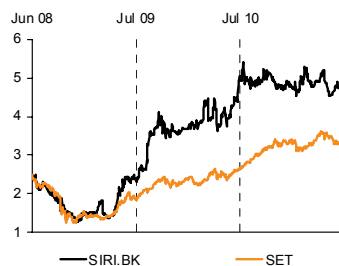
Initiation of coverage

### Buy

Target price  
B6.50Price  
B4.72Short term (0-60 days)  
n/aMarket view  
Overweight

#### Price performance

|                | (1M) | (3M) | (12M) |
|----------------|------|------|-------|
| Price (B)      | 4.54 | 4.84 | 4.46  |
| Absolute (%)   | 4.0  | -2.5 | 5.8   |
| Rel market (%) | 9.8  | 0.2  | -16.9 |
| Rel sector (%) | 6.3  | 0.8  | -2.7  |

Market capitalisation  
B8.67bn (US\$280.18m)Average (12M) daily turnover  
B32.92m (US\$1.06m)Sector: BBG AP Real Estate  
RIC: SIRS.BK, SIRS.TB  
Priced B4.72 at close 27 Jun 2011.  
Source: Bloomberg

#### Analyst

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#### Key forecasts

|                            | FY09A  | FY10A  | FY11F  | FY12F  | FY13F  |
|----------------------------|--------|--------|--------|--------|--------|
| Total property income (Bm) | 15,824 | 18,596 | 20,182 | 21,837 | 24,718 |
| Reported net profit (Bm)   | 969.7  | 1,898  | 2,023  | 2,303  | 2,779  |
| Reported EPS (B)           | 0.56   | 1.09   | 1.10   | 1.25   | 1.51   |
| Reported PE (x)            | 8.37   | 4.33   | 4.29   | 3.77   | 3.12   |
| Dividend per share (B)     | 0.52   | 0.12   | 0.46   | 0.55   | 0.62   |
| Dividend yield (%)         | 11.00  | 2.50   | 9.75   | 11.70  | 13.10  |
| Book value per share (B)   | 4.80   | 5.43   | 6.77   | 7.56   | 8.52   |
| Price/book value (x)       | 0.98   | 0.87   | 0.70   | 0.62   | 0.55   |

Accounting standard: Local GAAP  
Source: Company data, RBS forecasts

year to Dec, fully diluted

#### FY11F pre-sales likely to touch B27bn (+8% yoy), the second highest in the market

Sansiri (SIRI) is a leading Thai property developer, with a 10% pre-sales market share, a diversified property portfolio (50% condos and 50% low-rise) and strong brand awareness among middle- to high-income customers (ASP of B4m-5m/unit). We expect SIRI to post FY11 pre-sales of B27bn (+8% yoy) with projects worth B30bn (+9% yoy) due to be launched in 2011. Year-to-date pre-sales were fairly healthy at B10bn (+15% yoy).

#### Improving operating profit margins a key catalyst for share price

We forecast operating margins will improve from 15% in FY11 to 17% in FY13, given economies of scale that should drive SG&A efficiency, SIRI's strong branding, which allows it to set relatively aggressive ASPs, and management's commitment to improve the bottom line from FY11 onwards. We expect strong profit margins to drive the share price, easing investor concerns about SIRI's high dependence on outsourcing and excessive marketing spending.

#### Strong earnings likely in 2H11 (+50% hoh); we forecast 14% three-year profit CAGR

SIRI's current sales backlog of B28bn (B11bn of which is due to be delivered in FY11) already secures 80% of our FY11F revenues. We expect revenues to pick up 50% hoh in 2H11, with more condominiums due for delivery. We forecast FY11 profit growth of 7% and expect the momentum to continue in FY12 (+13% yoy) and FY13 (+21% yoy) given more condo deliveries and our expectation of improved operating profit margins.

#### Buy, with a PE-based target price of B6.50

We initiate coverage of SIRI at Buy and apply a target PE multiple of 6x (in line with the long-term historical average) to our FY11F EPS of B1.11 to arrive at our B6.50 target price. We believe the stock is undervalued at 4.3x FY11F PER given its positive earnings growth outlook, improving profit margins, strong branding and attractive dividend yield of nearly 10%. We also expect strong earnings and pre-sales momentum in 2H11 to drive the share price.

This note should be read along with our sector report (*Time to accumulate*, 28 June 2011) for a better understanding of the investment argument.

Pursuant to an agreement with Asia Plus Securities PCL (APS), this report is prepared by APS but distributed outside of Thailand by The Royal Bank of Scotland N.V. and affiliated companies (RBS). Please refer to the Disclosures Appendix.

# The basics

## Versus consensus

| EPS   | Ours | Cons | % diff |
|-------|------|------|--------|
| 2011F | 1.11 | 0.94 | +16%   |
| 2012F | 1.25 | 1.00 | +23%   |
| 2013F | 1.51 | 1.28 | +19%   |

Source: Bloomberg consensus, RBS forecasts

## Forced ranking\*

| Company            | Rec  | Upside / Downside |
|--------------------|------|-------------------|
| Asian Property     | Buy  | 56%               |
| Supalai            | Buy  | 51%               |
| Land & Houses      | Buy  | 50%               |
| Pruksa Real Estate | Buy  | 44%               |
| Sansiri            | Buy  | 38%               |
| LPN Development    | Hold | 11%               |
| Quality Houses     | Hold | 9%                |

\* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.  
Source: RBS forecasts

## Key events

| Date   | Event                    |
|--------|--------------------------|
| Aug 11 | 2Q and 6M results        |
| Nov 11 | 3Q and 9M results        |
| Mar 12 | FY2011 result & dividend |

Source: SET

## Catalysts for share price performance

Potential catalysts include: 1) stronger-than-expected earnings and margins relative to management guidance; 2) stronger-than-expected pre-sales of upcoming condo launches; 3) government policy that supports transfer momentum of properties and 4) commercial banks adopting a less stringent criteria for mortgages.

## Earnings momentum

We expect SIRI's revenues to pick up strongly in 2H11 (+50% hoh) with more condominiums due for delivery. We forecast FY11 profit growth of 7% and expect the momentum to continue in FY12 (13% yoy) and FY13 (21% yoy) given more condo deliveries and the improvements we expect in operating profit margins.

We expect operating margins to improve gradually from 15% in FY11 to 17% in FY13 (vs an average of 20% for peers we cover).

## Valuation and target price

We derive our target price of B6.50 by applying a target PE multiple of 6x (in line with SIRI's long-term historical average) to our FY11F EPS of B1.11, the same methodology we use to value all of our Thai property plays.

We believe the stock deserves to be re-rated given its current valuation (4.3x FY11F PER), property market position (second-largest in Thailand by share), strong brand awareness and our expectation of improved profit margins during FY11-13F. We believe that the discount to the closest mid-cap peers we cover (trading at 8-9x PER) is well justified due to SIRI's lower market cap and liquidity, weaker profit margins and higher debt levels.

## How we differ from consensus

Our FY11, FY12 and FY13 EPS forecasts are 16-23% above the Bloomberg consensus.

We assume higher revenues from condos in FY12 given the recent reported sales backlog, SIRI's confirmation on the delivery schedule of its condo projects and our more aggressive profit margin assumptions.

## Risks to the central scenario

Key risks to our target price: 1) a higher-than-expected increase in interest rates, which can potentially have a negative impact on purchasing power; 2) increased political uncertainty; 3) delays in the delivery of its condominiums and 4) lower earnings relative to management guidance or market expectation.

# Key assumptions and sensitivities

**Table 1 : Key assumptions**

|                        | <b>FY09</b> | <b>FY10</b> | <b>FY11F</b> | <b>FY12F</b> | <b>FY13F</b> |
|------------------------|-------------|-------------|--------------|--------------|--------------|
| Gross margin (%)       | 29.5%       | 32.6%       | 33.6%        | 33.9%        | 34.4%        |
| SG&A to sales (%)      | 16.4%       | 18.4%       | 18.5%        | 18.0%        | 17.5%        |
| Effective tax rate (%) | 49.5%       | 27.0%       | 30.0%        | 30.0%        | 30.0%        |

Source: Company data, RBS forecasts

**Table 2 : Sensitivities**

|                       | <b>Bear case</b> | <b>Base case</b> | <b>Bull case</b> |
|-----------------------|------------------|------------------|------------------|
| Gross margin (%)      | 32.0%            | 33.6%            | 35.0%            |
| FY11F net profit (Bm) | 1,793            | 2,023            | 2,217            |
| % change              | -11.4%           | -                | +9.6%            |
| SG&A to sales (%)     | 20.0%            | 18.5%            | 17.0%            |
| FY11F net profit (Bm) | 1,811            | 2,023            | 2,234            |
| % change              | -10.5%           | -                | +10.4%           |

Source: Company data, RBS forecasts

We believe our assumptions are not overly aggressive relative to management guidance (33-34% gross margin and 17-18% SG&A to sales), taking into account SIRI's inconsistent track record of providing in-line guidelines. We see potential upside if management delivers, supported by management's firm commitment to improve the bottom line.

Based on our estimates, a 1% increase in gross profit margin would likely result in a 7% increase in FY11F net profit. Meanwhile, a 1% reduction in SG&A expenses relative to sales would result in a 7% increase in FY11F net profit.

In our view, improving operating profit margins (from both higher gross margin and lower SG&A expenses) would be a key catalyst for SIRI's share price and support a re-rating towards the valuations of its closest mid-cap peers.

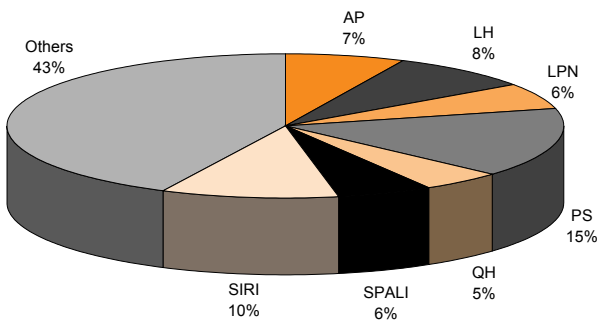
# Improving efficiency

**We initiate coverage of SIRI at Buy with a B6.50 target price. We believe the stock is undervalued at 4.3x FY11F PER. Strong branding and our expectations of profit margin improvements support SIRI's positive earnings growth outlook and a rerating of the stock.**

**SIRI is Thailand's second-largest property developer by pre-sales**

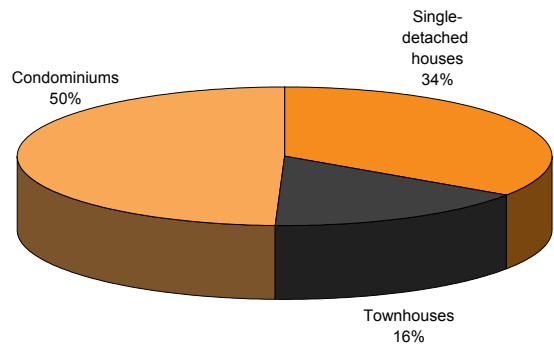
Sansiri (SIRI) is a leading residential property developer in Thailand with the second-largest market share (10%) based on total FY10 pre-sales figures. The company focuses on both condominiums (50% of portfolio) and low-rise properties (34% single-detached houses and 16% townhouses) and mainly targets middle to high-income customers (ASP of B4m-5m/unit).

**Chart 1 : Market share of companies we cover based on FY10 pre-sales**



Source: Company data, AREA, RBS estimates

**Chart 2 : Breakdown of value of existing projects (out of total B64bn, as of 18 May 2011)**



Source: Company data

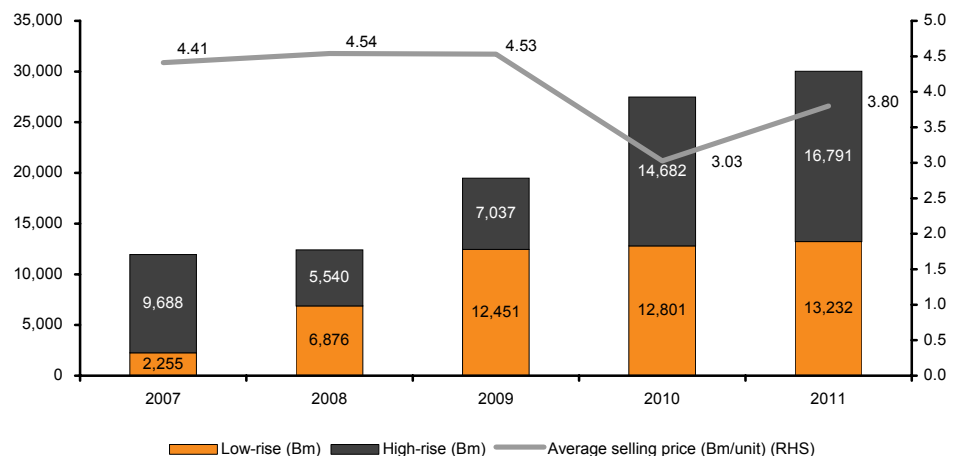
**SIRI is well-known among mid-to-high end customers**

SIRI is very well-known among its target customers given its good designs, quality products and convenient locations. Based on our own observations, SIRI has one of the strongest condo brands, supported by a relatively high take-up rate (over 50% within a month for nearly all projects), despite the premium it charges relative to competitors in the same locations.

**In 2011, SIRI plans to launch 22 projects worth B30bn (+9% yoy)**

Last year, SIRI launched 23 projects worth B27bn (+38% yoy) and diversified into the low-priced segment (ASP of B1m-2m/unit) to capture over 55% of property units sold in Thailand in FY10 (average household income of B40k/month). In 2011, SIRI plans to launch 22 projects worth B30bn (+9% yoy), excluding a project in England (6 Elvaston Place, South Kensington: value B525m, six units). SIRI has reported ytd pre-sales of B10bn (+15% yoy), with five projects worth B8bn launched year to date.

**Chart 3 : Value of launches and ASPs**



Source: Company data, RBS forecasts

**Figure 1 : SIRI's launches in 2011**

| Year 2011                          | Single Detached Houses                | Townhouses            | Condominiums | Number of Projects | Project Value (THB Million) |
|------------------------------------|---------------------------------------|-----------------------|--------------|--------------------|-----------------------------|
| 1Q2011                             | Habitia, SETHASIRI, Natchaphak-Cheran | b-square <sup>2</sup> | CE/L         | 4                  | 5,711                       |
| 2Q2011                             |                                       |                       |              | 6                  | 5,154                       |
| 3Q2011                             |                                       |                       |              | 8                  | 9,871                       |
| 4Q2011                             |                                       |                       |              | 5                  | 9,743                       |
| <b>Number of Projects</b>          | 8                                     | 4                     | 11           | 23                 |                             |
| <b>Project Value (THB Million)</b> | 10,333                                | 3,241                 | 16,900       |                    | 30,479                      |
| <b>%</b>                           | 34%                                   | 11%                   | 55%          |                    | 100%                        |

-4-

Source: Company data

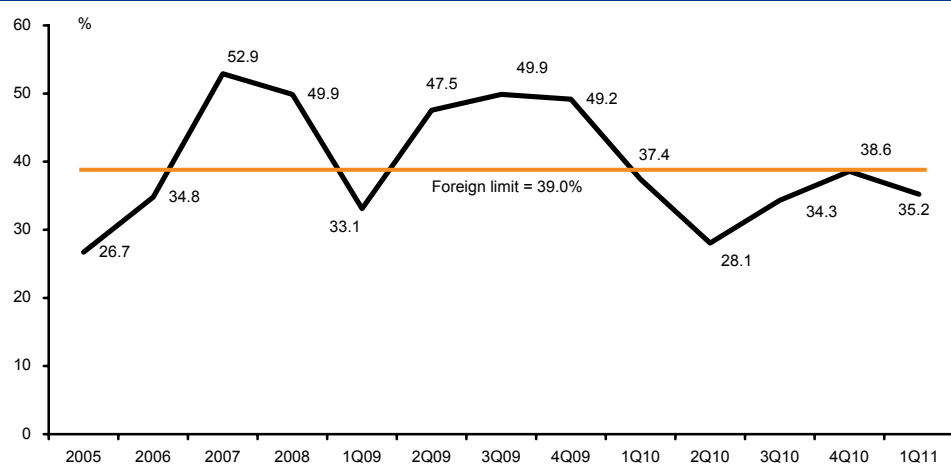
SIRI's major shareholder is Mr Srettha Thavisin (21.13%, through a holding company called TS Star), the president of the company who plays an active role in the company's operation.

**Table 3 : Top 10 major shareholders**

|    | Major Shareholders                              | Type                    | # Shares    | %     |
|----|---|-------------------------|-------------|-------|
| 1  | Mr Srettha Thavisin (through T.S. Star Co, Ltd) | Local Juristic Person   | 318,174,400 | 21.13 |
| 2  | Thai NVDRs                                      | Local Juristic Person   | 245,845,230 | 16.32 |
| 3  | CHASE NOMINEES LIMITED                          | Foreign Juristic Person | 112,365,600 | 8.95  |
| 4  | The Viriya Insurance (Thailand)                 | Local Juristic Person   | 94,368,000  | 6.27  |
| 5  | UBS AG SINGAPORE BRANCH                         | Foreign Juristic Person | 84,347,500  | 5.60  |
| 6  | Finansa Life Assurance Co., Ltd                 | Local Juristic Person   | 53,572,800  | 3.56  |
| 7  | Ms Sumalee Ongjit                               | Local Individual        | 45,000,000  | 2.99  |
| 8  | TFB FOR MFC-THAI FUND INVESTMENT PLAN           | Local Juristic Person   | 38,495,800  | 2.56  |
| 10 | Kasikorn Bank                                   | Local Juristic Person   | 20,661,487  | 1.37  |
| 11 | Mr Wanchak Buranasiri                           | Local Individual        | 19,616,266  | 1.30  |

Source: Company data

**Chart 4 : Foreign holdings of SIRI**

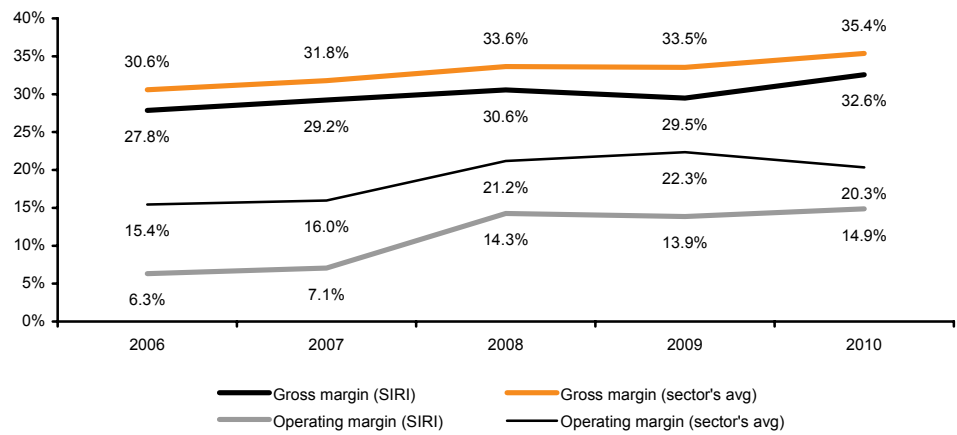


Source: SET

**Profitability has been weaker vs peers**

Despite being one of the top-three Thai property developers, SIRI's ability to generate profit margins has been weaker than other leading property companies we cover. We believe this is one of the key reasons for its historically discounted valuation relative to peers (6x PER vs a sector' average of around 10x).

**Chart 5 : Siri's gross margin and operating margin vs sector average**

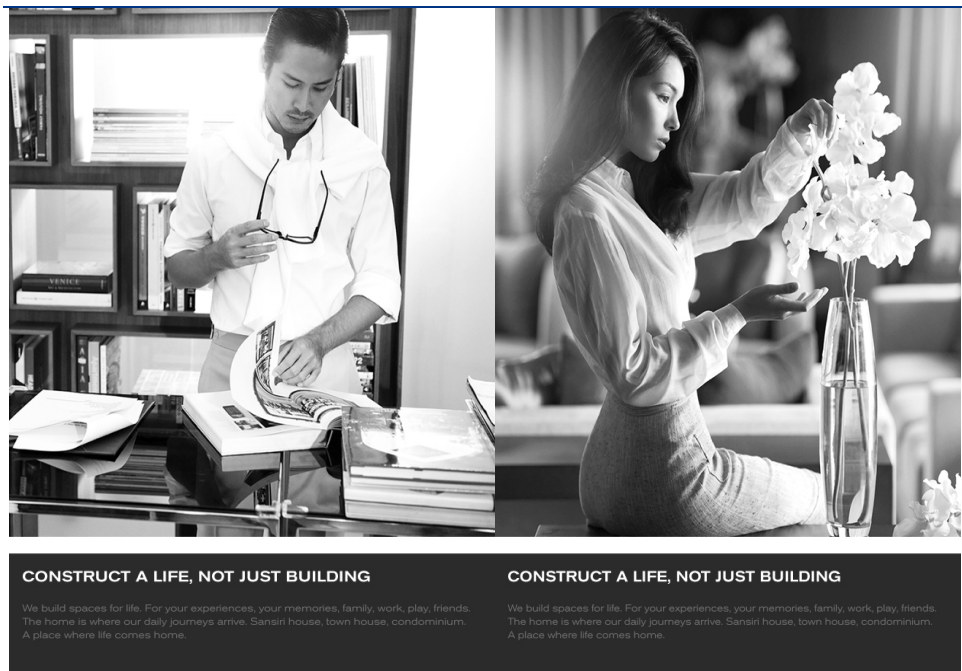


Source: Company data

**High dependence on outsourcing and marketing expense**

According to management, the relatively low gross margins were due to the company's high dependence on outsourcing (construction, designs, sales, etc), its more expensive building materials and less aggressive ASPs in some of its projects. Meanwhile, the relatively low operating margins (or high SG&A) were attributed to its strategy to spend more on selling and marketing expenses (eg, TV commercials, expensive brochures, stylish show units, event sponsorship, etc) to create brand awareness among homebuyers.

**Figure 2 : Recent advertisement from SIRI**



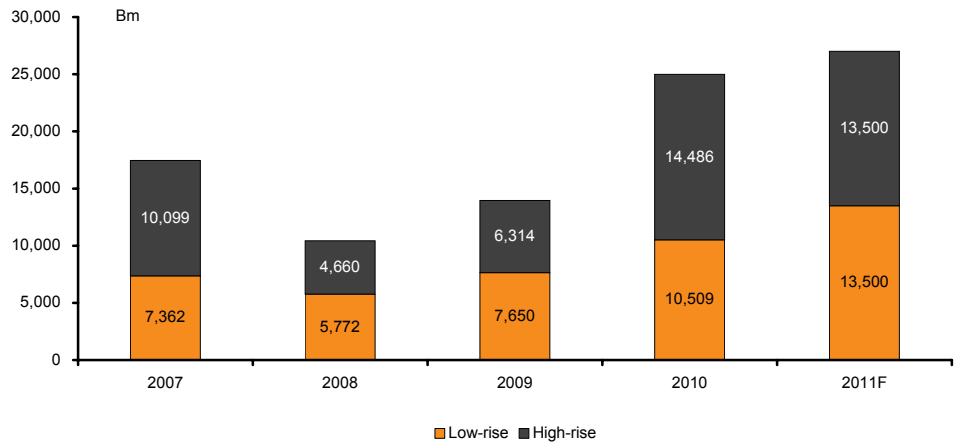
Source: Company

We believe SIRI's excessive marketing spend has been fairly successful in building good brand perception among Thai property buyers.

**We forecast 8% FY11 pre-sales growth**

We forecast SIRI will post FY11 pre-sales of B27bn (+8% yoy), in line with management guidance, and believe it will continue to gain market share, reaching 11% by end-2011 (vs 10% in FY10) based on total pre-sales figures, making SIRI the second-largest property developer in Thailand for two consecutive years (behind Pruksa Real Estate and ahead of Land and Houses).

**Chart 6 : SIRI pre-sales breakdown and our forecasts (FY07-11F)**

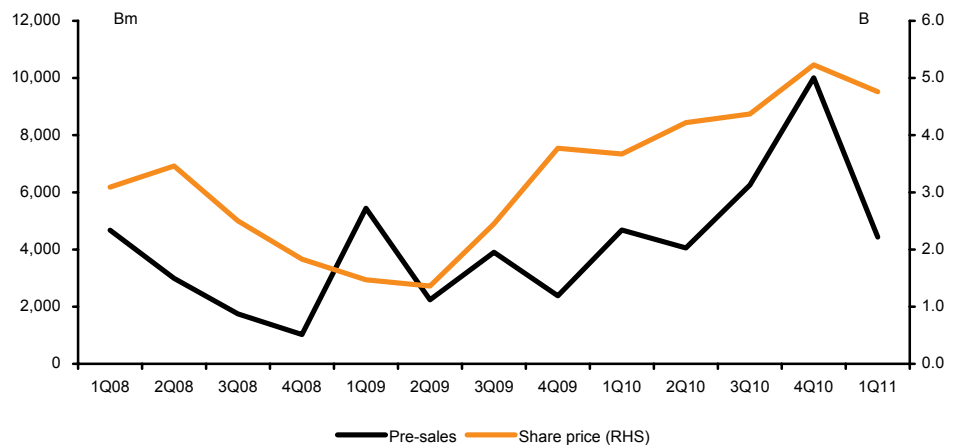


Source: Company data, RBS forecasts

**Stronger 2H11 pre-sales will likely be a share price driver**

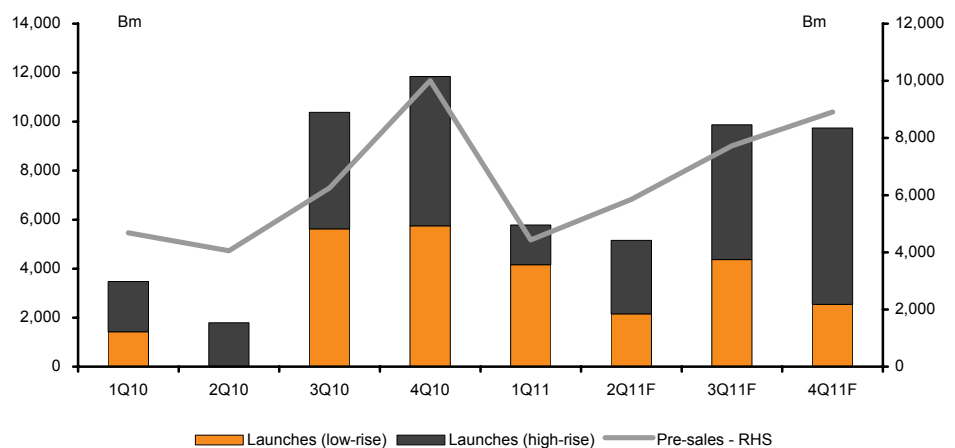
In line with most of other property plays we cover, we found a positive relationship between SIRI's share price and its quarterly pre-sales. Based on SIRI's 2011 launch schedule (Chart 7), we believe its pre-sales momentum will be particularly strong in 2H11 vs 1H11 mainly due to a greater number of condo launches (+175% hoh), which normally have a much higher take-up rate than low-rise properties. The 2H11 launches will be 80% more than those in 1H11.

**Chart 7 : Pre-sales and share prices are positively correlated**



Source: Bloomberg

**Chart 8 : Pre-sales and share prices are positively correlated**

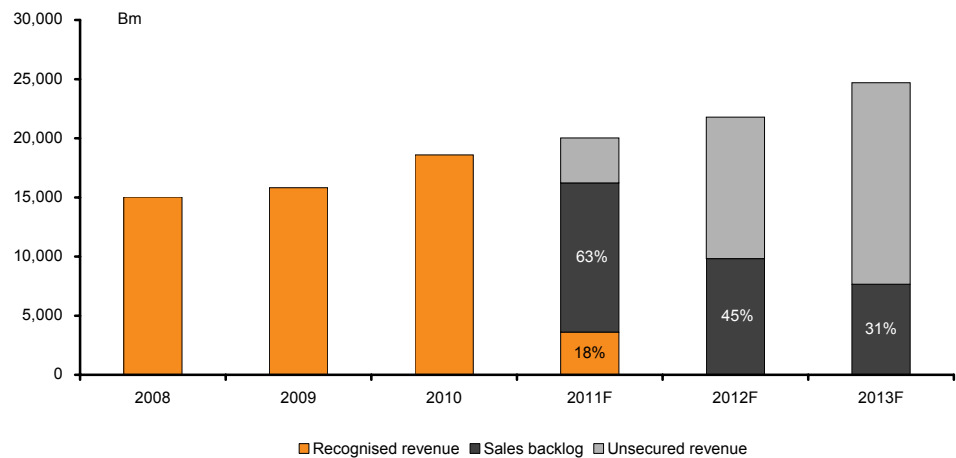


Source: Bloomberg, RBS forecasts

**Current sales backlog secures 80% of our FY11F revenues**

We expect SIRI to post 8% growth in FY11 revenues to B20bn (roughly in line with management guidance of 10%). This is based on our estimates using the sales backlog of B30bn as of 14 June (including properties worth B12.6bn due to be delivered this year) and secures 80% of our FY11 projection and 30-45% of our FY12-13 projection. We also take account of average pre-sales momentum, delivery momentum and current inventory.

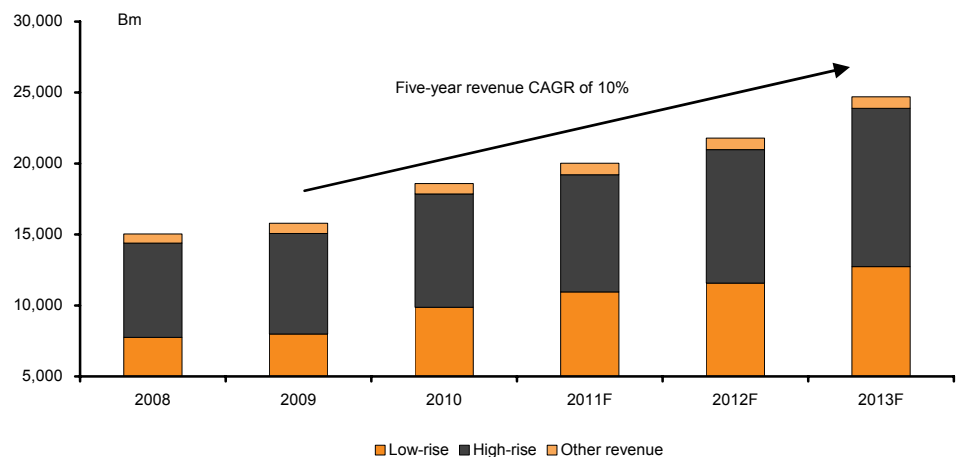
**Chart 9 : SIRI's sales backlog as of 14 June 2011 and our forecasts**



Source: Company data, RBS forecasts

We forecast 9% and 14% revenue growth for FY12-13, driven by revenues from condos and low-rise properties.

**Chart 10 : Siri's revenue breakdown and our forecasts**



Source: Company data, RBS forecasts

**Management has committed to improving its bottom line this year**

This year management has set relatively aggressive guidance, committing to improve its bottom line via a gross profit margin target of 34-35% (vs a historical average of 30-33%), SG&A expenses to sales of 17-18% (vs a historical average of 18-22%) and net profit margin of 11-12% (vs a historical average of 6-10%) leading to an improvement in net profit margins of 1-2% per year over the next three to five years.

**We believe profit margins will improve**

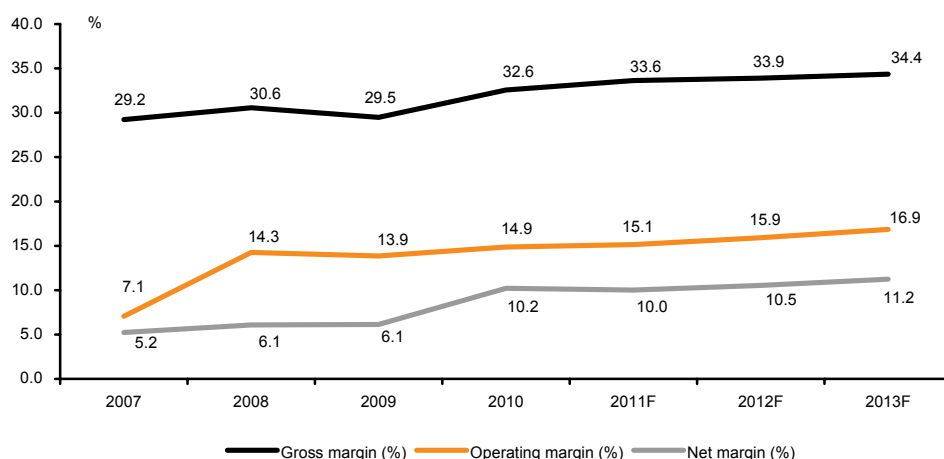
Despite its track record of providing an overly aggressive guidance, we believe SIRI will be able to improve its profitability over FY11-13F, supported by: 1) economies of scale, which should drive more efficient marketing spend and administrative expenses; 2) its strong branding, which allows SIRI to command higher ASPs than competitors in the same location, 3) strengthening market share, which leads to greater bargaining power with suppliers of building materials; and 4) completing its pre-cast factory, which is aimed at shortening the production cycle of its mid-to-low end products and is to start operations in 1Q12.

**We see potential upside to our estimates**

We expect SIRI's operating margin to improve gradually from 15% in FY11 to 17% in FY13 (vs an average of 20% for peers we cover) and estimate that its net profit margins will rise from 10% in FY11 to 11.2% in FY13, which is less aggressive than management guidance. We see potential upside if the company is able to deliver on its promises.



**Chart 11 : SIRI's margins and our forecasts**

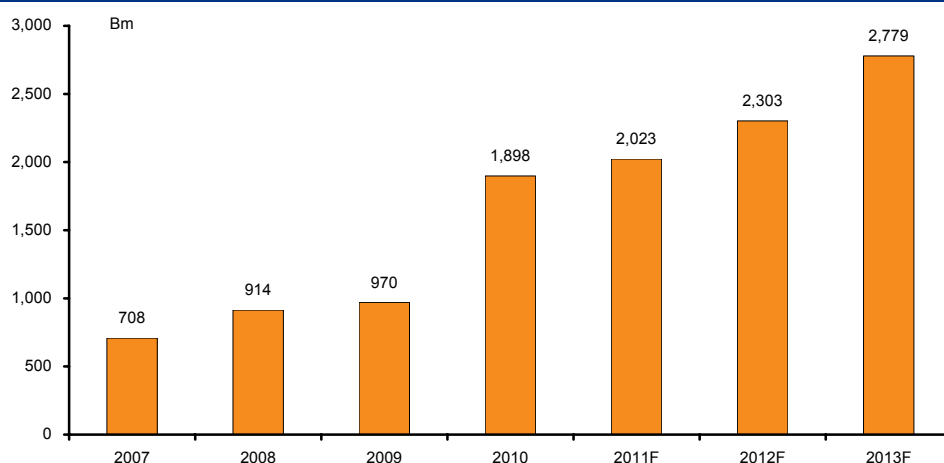


Source: Company data, RBS forecasts

**We forecast 14% FY10-13 profit CAGR**

We forecast FY11 profit growth of 7% and expect relatively stable net profit margins of around 10% for FY11. We also expect the positive earnings momentum to continue in FY12 (14% yoy) and FY13 (21% yoy) given more condo deliveries and our expectations of improved operating profit margins.

**Chart 12 : SIRI's net profit and our forecasts**



Source: Company data, RBS forecasts

**We already assume in-the-money warrants into our EPS forecasts**

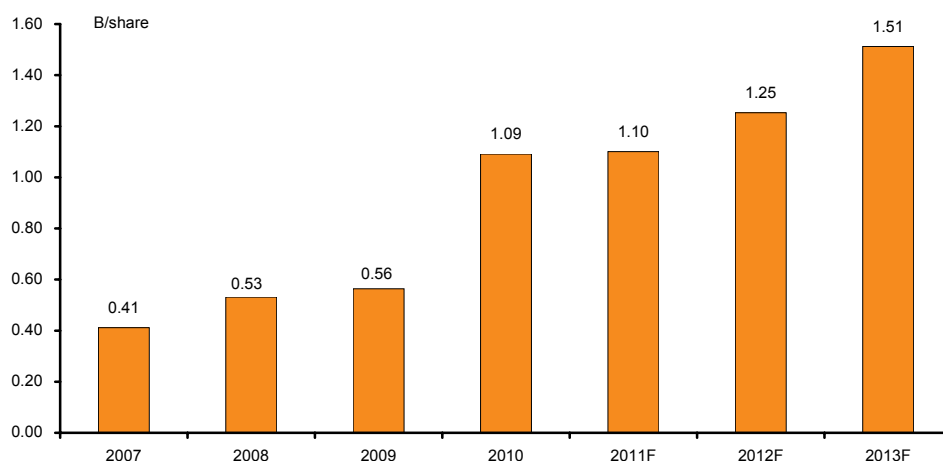
Based on SIRI's end-1Q11 financial statement, the company has 92.43m unexercised warrants that are in-the-money. We include all 92.43m warrants (ESOP#5 and ESOP#6), but not 736.7m shares of SIRI-W1 TB, into our EPS forecasts. Taking into account all the in-the-money warrants, our three-year EPS CAGR (FY10-13F) is 11% (vs 14% for net profit).

**Table 4 : Existing warrants**

|   | Warrants             | # outstanding warrants | Conversion ratio | Exercise price | Expiration date |
|---|----------------------|------------------------|------------------|----------------|-----------------|
| 1 | ESOP # 5             | 23,430,000             | 1:1.167          | 4.286          | Jun 2014        |
| 2 | ESOP # 6             | 65,009,000             | 1:1.167          | 4.457          | Aug 2015        |
| 3 | SIRI-W1 TB (CP B1.2) | 736,792,026            | 1:1.167          | 4.457          | Jan 2015        |

Source: Company data

**Chart 13 : SIRI's EPS and our forecasts**



Source: Company data, RBS forecasts

## Valuation and recommendation

**We initiate coverage with a Buy and a B6.5 target price**

We initiate coverage of SIRI at Buy as we believe the stock is undervalued at 4.3x FY11F PE. We see over 40% potential upside to our PE-based target price of B6.5, which is derived by applying a target PE multiple of 6x (in line with SIRI's long-term historical average) to our FY11F EPS of B1.10.

**Table 5 : Valuation table of companies under our coverage**

| BB ticker       | MktCap 3M T/O |            | PER (x)    |            | PBV (x)    |            | Div yield (%) |             | ROE (%)     |             | Net D/E (x) |
|-----------------|---------------|------------|------------|------------|------------|------------|---------------|-------------|-------------|-------------|-------------|
|                 | USDm          | USDm       | 11F        | 12F        | 11F        | 12F        | 11F           | 12F         | 11F         | 12F         |             |
| AP TB           | 438           | 3.34       | 5.7        | 5.0        | 1.1        | 1.0        | 6.6           | 7.5         | 22.2        | 20.9        | 0.88        |
| LH TB           | 1831          | 7.4        | 9.9        | 11.3       | 1.9        | 1.8        | 5.8           | 6.4         | 19.0        | 15.3        | 0.67        |
| LPN TB          | 453           | 3.04       | 7.3        | 6.7        | 2.0        | 1.7        | 6.7           | 7.4         | 29.2        | 27.4        | 0.16        |
| PS TB           | 1240          | 3.05       | 8.4        | 7.2        | 2.0        | 1.7        | 3.9           | 4.3         | 26.3        | 25.0        | 0.62        |
| QH TB           | 475           | 4.12       | 9.2        | 7.2        | 1.1        | 1.0        | 5.4           | 6.9         | 11.7        | 14.0        | 1.09        |
| <b>SIRI TB</b>  | <b>283</b>    | <b>0.7</b> | <b>4.3</b> | <b>3.8</b> | <b>0.7</b> | <b>0.6</b> | <b>9.7</b>    | <b>11.7</b> | <b>18.5</b> | <b>17.5</b> | <b>1.24</b> |
| SPALI TB        | 588           | 2.53       | 6.1        | 5.5        | 1.7        | 1.5        | 6.6           | 7.5         | 30.4        | 28.9        | 0.46        |
| <b>Property</b> |               |            | <b>7.3</b> | <b>6.7</b> | <b>1.5</b> | <b>1.3</b> | <b>6.4</b>    | <b>7.4</b>  | <b>22.5</b> | <b>21.3</b> |             |

Priced at close on 27 June.  
Source: Bloomberg, RBS forecasts,

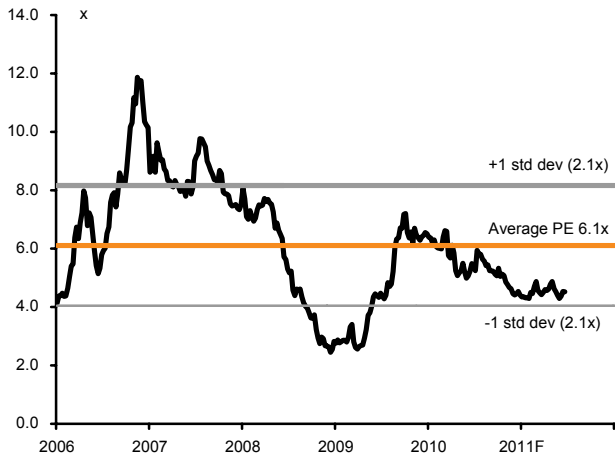
**We expect a re-rating beyond its long-term average**

In our view, SIRI deserves to be rerated given its current valuation (4.3x FY11F PER), strong branding, strengthening market share, improving profit margins and a positive earnings growth outlook (we forecast an 11% EPS CAGR for FY10-13F).

**Discount to peers justified by lower market cap, weaker profit margins and higher debt**

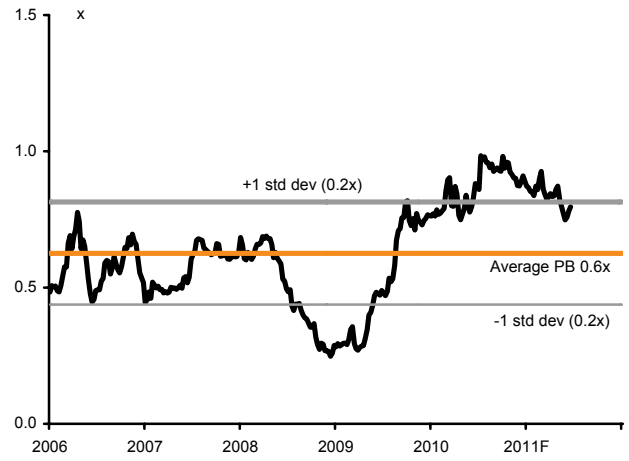
We believe its discount relative to closest mid-cap peers we cover (trading at 8-9x PER) is well justified by its lower market cap (US\$270m vs US\$400m-600m), lower liquidity (US\$0.6m vs US\$3m-5m), weaker operating profit margins (15% vs 20%) and higher debt levels (1.3x gearing at end-FY10 vs an average of 0.6x for peers we cover).

Chart 14 : One-year forward PER



Source: Bloomberg, RBS forecasts

Chart 15 : One-year forward PBV



Source: Bloomberg, RBS forecasts

## Income statement

| Bm                           | FY09A        | FY10A        | FY11F        | FY12F        | FY13F        |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net rental income            | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| Prop development income      | 15104        | 17869        | 19365        | 20979        | 23817        |
| Other revenue                | 846.2        | 855.8        | 946.7        | 987.5        | 1030         |
| <b>Total property income</b> | <b>15950</b> | <b>18725</b> | <b>20311</b> | <b>21966</b> | <b>24847</b> |
| Other costs                  | -13427       | -15600       | -16838       | -17997       | -20138       |
| EBITDA                       | 2523         | 3125         | 3474         | 3969         | 4709         |
| DDA & Impairment (ex gw)     | -204.7       | -232.5       | -289.5       | -366.1       | -412.8       |
| EBITA                        | 2318         | 2892         | 3184         | 3603         | 4296         |
| Goodwill (amort/impaird)     | n/a          | n/a          | n/a          | n/a          | n/a          |
| <b>EBIT</b>                  | <b>2318</b>  | <b>2892</b>  | <b>3184</b>  | <b>3603</b>  | <b>4296</b>  |
| Associates (pre-tax)         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| Net interest                 | -109.5       | -222.0       | -294.5       | -313.2       | -325.7       |
| Other pre-tax items          | -285.3       | -69.9        | 0.00         | 0.00         | 0.00         |
| <b>Reported PTP</b>          | <b>1923</b>  | <b>2600</b>  | <b>2890</b>  | <b>3290</b>  | <b>3971</b>  |
| Taxation                     | -951.3       | -702.3       | -866.9       | -987.0       | -1191        |
| Minority interests           | -2.12        | -0.36        | -0.36        | -0.36        | -0.36        |
| Other post-tax items         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| <b>Reported net profit</b>   | <b>969.7</b> | <b>1898</b>  | <b>2023</b>  | <b>2303</b>  | <b>2779</b>  |
| Dividends declared           | -894.0       | -205.2       | -845.2       | -1011        | -1139        |
| Tot normalised items         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| Normalised EBITDA            | 2523         | 3125         | 3474         | 3969         | 4709         |
| Normalised PTP               | 1923         | 2600         | 2890         | 3290         | 3971         |
| Normalised net profit        | 969.7        | 1898         | 2023         | 2303         | 2779         |

Source: Company data, RBS forecasts

year to Dec

## Balance sheet

| Bm                                | FY09A        | FY10A        | FY11F        | FY12F        | FY13F        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & market secs (1)            | 3439         | 3331         | 1793         | 2097         | 2777         |
| Props under dev                   | n/a          | n/a          | n/a          | n/a          | n/a          |
| Other current assets              | 18620        | 24363        | 30913        | 32812        | 35051        |
| Investment prop                   | n/a          | n/a          | n/a          | n/a          | n/a          |
| Other non-current assets          | 3723         | 3496         | 3195         | 3529         | 3816         |
| <b>Total assets</b>               | <b>25783</b> | <b>31190</b> | <b>35901</b> | <b>38437</b> | <b>41644</b> |
| Short term debt (2)               | 5226         | 5670         | 5954         | 6251         | 6564         |
| Long term debt (3)                | 4442         | 10258        | 11283        | 11622        | 11970        |
| Other liabilities                 | 7864         | 5815         | 6232         | 6675         | 7451         |
| <b>Total liabilities</b>          | <b>17532</b> | <b>21743</b> | <b>23468</b> | <b>24548</b> | <b>25985</b> |
| Total equity (incl min)           | 8251         | 9448         | 12432        | 13890        | 15659        |
| <b>Total liab &amp; sh equity</b> | <b>25783</b> | <b>31190</b> | <b>35901</b> | <b>38437</b> | <b>41644</b> |
| Net debt                          | 6229         | 12596        | 15444        | 15776        | 15757        |

Source: Company data, RBS forecasts

year ended Dec

## Cash flow statement

| Bm                               | FY09A         | FY10A         | FY11F        | FY12F         | FY13F         |
|----------------------------------|---------------|---------------|--------------|---------------|---------------|
| EBITDA                           | 2523          | 3125          | 3474         | 3969          | 4709          |
| Change in working capital        | 3490          | -7765         | -6133        | -1456         | -1463         |
| Net interest (pd) / rec          | -109.6        | -222.0        | -294.6       | -313.2        | -325.7        |
| Taxes paid                       | -951.3        | -702.3        | -866.9       | -987.0        | -1191         |
| Other oper cash items            | n/a           | n/a           | n/a          | n/a           | n/a           |
| <b>Cash flow from ops (1)</b>    | <b>4952</b>   | <b>-5565</b>  | <b>-3821</b> | <b>1213</b>   | <b>1730</b>   |
| Capex (2)                        | -1300         | -164.6        | -28.0        | -700.0        | -700.0        |
| Disposals/(acquisitions)         | 0.00          | 0.00          | 0.00         | 0.00          | 0.00          |
| Other investing cash flow        | -1950         | -498.2        | 40.3         | 0.00          | 0.00          |
| <b>Cash flow from invest (3)</b> | <b>-3250</b>  | <b>-662.8</b> | <b>12.3</b>  | <b>-700.0</b> | <b>-700.0</b> |
| Incr / (decr) in equity          | 1.76          | 64.9          | 1167         | 0.00          | 0.00          |
| Incr / (decr) in debt            | 654.2         | 6260          | 1309         | 636.2         | 661.2         |
| Ordinary dividend paid           | -894.0        | -205.2        | -205.2       | -845.2        | -1011         |
| Preferred dividends (4)          | n/a           | n/a           | n/a          | n/a           | n/a           |
| Other financing cash flow        | n/a           | 0.03          | -0.03        | n/a           | n/a           |
| <b>Cash flow from fin (5)</b>    | <b>-238.0</b> | <b>6119</b>   | <b>2271</b>  | <b>-209.1</b> | <b>-349.4</b> |
| Forex & disc ops (6)             | n/a           | n/a           | n/a          | n/a           | n/a           |
| <b>Inc/(decr) cash (1+3+5+6)</b> | <b>1464</b>   | <b>-107.9</b> | <b>-1538</b> | <b>303.5</b>  | <b>680.2</b>  |
| Equity FCF (1+2+4)               | 3652          | -5729         | -3849        | 512.6         | 1030          |

Lines in bold can be derived from the immediately preceding lines.

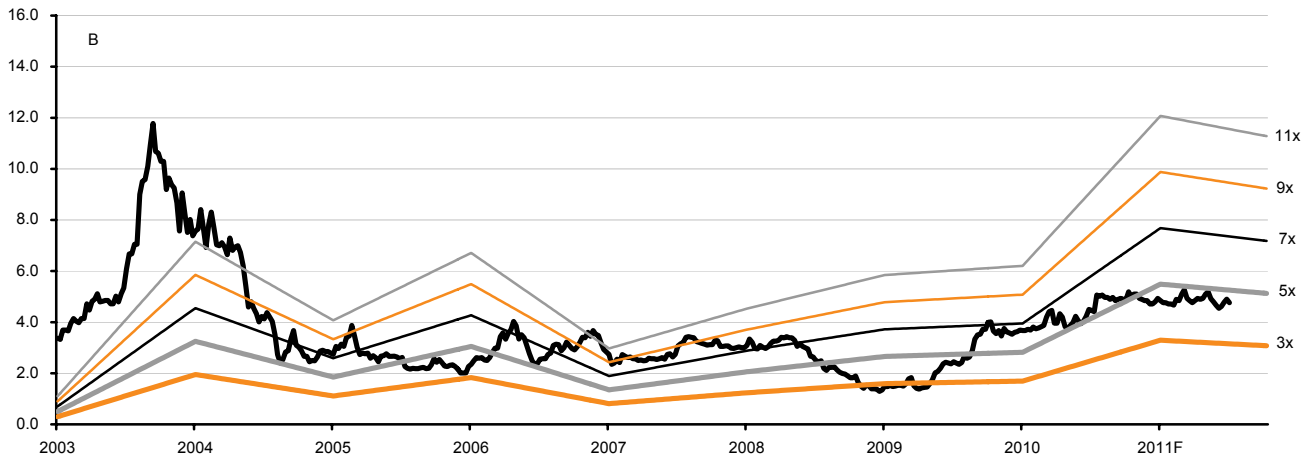
Source: Company data, RBS forecasts

year to Dec

**Standard ratios**

|                            | Sansiri |       |       |             |       | Asian Property           |       |             | Quality Houses |       |             |
|----------------------------|---------|-------|-------|-------------|-------|--------------------------|-------|-------------|----------------|-------|-------------|
|                            | FY09A   | FY10A | FY11F | FY12F       | FY13F | FY11F                    | FY12F | FY13F       | FY11F          | FY12F | FY13F       |
| <b>Performance</b>         |         |       |       |             |       |                          |       |             |                |       |             |
| Normalised EPS growth (%)  | 6.14    | 93.5  | 0.87  | 13.8        | 20.7  | 7.11                     | 12.7  | 36.1        | -21.2          | 27.6  | 15.3        |
| EBIT margin (%)            | 14.5    | 15.4  | 15.7  | 16.4        | 17.3  | 20.9                     | 20.6  | 21.8        | 12.7           | 13.5  | 13.8        |
| Net profit margin (%)      | 6.08    | 10.1  | 9.96  | 10.5        | 11.2  | 14.0                     | 13.9  | 14.9        | 12.3           | 12.6  | 13.0        |
| Return on avg assets (%)   | 4.26    | 7.21  | 6.64  | 6.79        | 7.51  | 9.56                     | 9.52  | 11.4        | 5.61           | 6.52  | 6.96        |
| Return on avg equity (%)   | 11.3    | 21.4  | 18.5  | 17.5        | 18.8  | 22.2                     | 20.9  | 24.3        | 11.7           | 14.0  | 14.8        |
| Return on cap empl (%)     | 15.2    | 15.8  | 12.8  | 12.5        | 14.1  | 16.8                     | 17.4  | 21.1        | 5.91           | 7.21  | 7.69        |
| ROIC (%)                   | 10.1    | 14.0  | 10.1  | 9.05        | 10.1  | 12.5                     | 12.4  | 16.0        | 4.31           | 5.24  | 5.56        |
|                            |         |       |       | year to Dec |       |                          |       | year to Dec |                |       | year to Dec |
| <b>Valuation</b>           |         |       |       |             |       |                          |       |             |                |       |             |
| Normalised PE (x)          | 8.37    | 4.33  | 4.29  | 3.77        | 3.12  | 5.68                     | 5.04  | 3.70        | 9.21           | 7.22  | 6.26        |
| Dividend yield (%)         | 11.0    | 2.50  | 9.75  | 11.7        | 13.1  | 6.64                     | 7.47  | 9.96        | 5.43           | 6.93  | 7.99        |
| Price/book value (x)       | 0.98    | 0.87  | 0.70  | 0.62        | 0.55  | 1.13                     | 0.99  | 0.83        | 1.06           | 0.97  | 0.89        |
| Disc/(prem) to adj BV (%)  | 1.73    | 13.1  | 30.2  | 37.6        | 44.6  | -13.5                    | 1.32  | 17.3        | -5.56          | 3.06  | 10.9        |
| PEG 3yr (%)                | n/a     | n/a   | 0.37  | n/a         | n/a   | 0.32                     | n/a   | n/a         | 1.83           | n/a   | n/a         |
| EV/EBITDA (x)              | 5.91    | 6.81  | 6.94  | 6.16        | 5.19  | 6.72                     | 5.77  | 4.53        | 15.2           | 12.0  | 10.8        |
|                            |         |       |       | year to Dec |       |                          |       | year to Dec |                |       | year to Dec |
| <b>Per share data</b>      |         |       |       |             |       | <b>Solvency</b>          |       |             |                |       |             |
| Tot adj dil sh, ave (m)    | 1719    | 1739  | 1837  | 1837        | 1837  | Net debt to equity (%)   | 75.5  | 133.3       | 124.2          | 113.6 | 100.6       |
| Reported EPS (THB)         | 0.56    | 1.09  | 1.10  | 1.25        | 1.51  | Net debt to tot ass (%)  | 24.2  | 40.4        | 43.0           | 41.0  | 37.8        |
| Normalised EPS (THB)       | 0.56    | 1.09  | 1.10  | 1.25        | 1.51  | Net debt to EBITDA       | 2.47  | 4.03        | 4.45           | 3.97  | 3.35        |
| Dividend per share (THB)   | 0.52    | 0.12  | 0.46  | 0.55        | 0.62  | Current ratio (x)        | 1.79  | 2.58        | 2.86           | 2.86  | 2.85        |
| Equity FCF per share (THB) | 2.12    | -3.29 | -2.09 | 0.28        | 0.56  | Operating CF int cov (x) | 54.9  | -20.9       | -9.03          | 8.02  | 9.97        |
| Book value per sh (THB)    | 4.80    | 5.43  | 6.77  | 7.56        | 8.52  | Dividend cover (x)       | 1.08  | 9.25        | 2.39           | 2.28  | 2.44        |
|                            |         |       |       | year to Dec |       |                          |       |             |                |       | year to Dec |

Priced as follows: SIRI.BK - B4.72; AP.BK - B4.82; QH.BK - B1.74  
 Source: Company data, RBS forecasts

**Valuation methodology - Sansiri PER band**


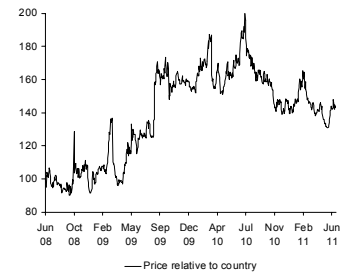
Source: Company data, RBS forecasts

## Company description

Buy

Price relative to country

Sansiri (SIRI) is one of Thailand's leading residential developers with the second largest market share (10% based on FY10 total pre-sales) and diversified property portfolio (50% condos and 50% low-rise properties). SIRI targets middle to high-income customers (ASP of B4m-5m/unit) and has recently diversified to the lower-end customers to capture the majority of Thai property demand and a younger generation. Despite its large top-line figures, its ability to generate profit remains weak compared to peers due to its reliance on outsourcing companies and high marketing expense, which are the key reasons for its discount valuation relative to peers, in our view. Mr Srettha Thavasin is a major shareholder (with 21%) and is a president of the company.



## Strategic analysis

Average SWOT company score:

4

Revenue breakdown – FY10A

### Strengths

4

The company's large client base, diversified property portfolio and strong branding are likely to support further market share gain.

### Weaknesses

3

Reliance on outsourcing and high marketing expenses have been key reasons for the company's weaker profit margins relative to peers.

### Opportunities

4

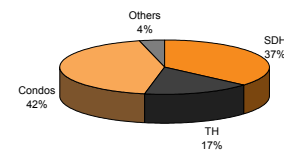
Diversification to lower-end market or Thailand's upcountry.

### Threats

4

Competition from leading developers - in terms of price, quality, product differentiation.

Scoring range is 1-5 (high score is good)



Source: Company data

## Market data

### Headquarters

Siripinyo Building, 16/F, 475 Si Ayutthaya Road, Ratchathewi, Bangkok

### Website

www.sansiri.com

### Shares in issue

1837.5m

### Freefloat

56%

### Majority shareholders

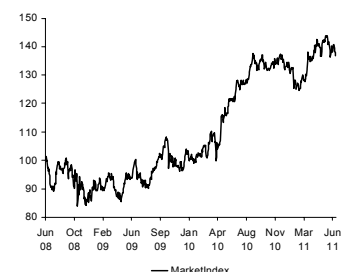
Mr. Srettha Thavasin Group (21%), Chase Nominees Limited (8%), Viriya Insurance Co. Ltd (6%)

## Country view: Thailand

Country rel to Asia Pacific

Thailand has been the best-performing market in the region on a 12-month basis, and we expect the outperformance to continue, driven by a mixture of strong domestic consumption and new investment cycle. The BOT has been one of the most hawkish central banks in the region thus far, and we believe this reduces the likelihood of future policy shocks. Meanwhile, the valuation for Thailand remains undemanding despite the recent rally. In view of the current tailwinds, we have upgraded Thailand from Neutral to Overweight.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



## Competitive position

Average competitive score:

4+

Broker recommendations

### Supplier power

4+

We believe SIRI has a strong bargaining power over its suppliers due to its large market share.

### Barriers to entry

4+

We believe it takes time to build reputation among homebuyers while smaller developers tend to have lower access to funding or less efficient after-sales services.

### Customer power

3-

Customer power is high given there are various alternatives from different in different locations.

### Substitute products

4+

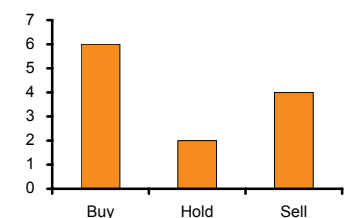
We believe Thai customers prefer to own a house and rental properties are not popular among those who can afford to buy one.

### Rivalry

4-

Competition is limited to large developers but in all product segments, including single-detached house, townhouses, and condominiums.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg