

August 1, 2011

Sansiri Plc.

BUY (Target Bt6.9)

The Forgotten One!

Initiate with BUY rating

We initiate coverage on SIRI with a BUY rating. Our 2011 TP of Bt6.9 is based on PER of 9x, offering 28% upside from the current share price. SIRI has been forgotten by investors due to substandard margins and higher expenses in the past compared to peers. In addition, due to its high leverage ratio, investors were concerned about a capital increase.

Key overhangs look to be resolved

At this point, all key issues look to be resolved. We benchmarked SIRI to a market performer (AP) and discovered that improved margins and expenses are nearing AP. Based on solid SDH and TH presales and strong condo transfers scheduled, net profit should rise by 9.8% and 29.4% for 2011-12F, respectively. However, if we assume all warrant and ESOPs are converted, FD EPS'11 would decline 39.8% but rise 29.4% in 2012 (vs. -27.4% and 7.6% of AP). Strong cashflow from condo transfers and cash from warrant and ESOPs conversion (~Bt4bn) should improve its financial positions and reduce the need to raise capital.

Earnings look secured and should improve by quarter

The current backlog of Bt14.4bn and 1Q revenue of Bt3.6bn accounted for 88% of our 2011 revenue forecast of Bt20.6bn, and 43% for 2012. As such, risk to the forecasts should be limited. Earnings should improve by quarter with 2Q11 estimated profit of Bt356m, up 48.7% YoY and 59% QoQ. 2H11 earnings should be stronger than 1H11 from three condos to be transferred.

Valuations at deep discount, excellent laggard play

SIRI appears to be at a deep discount considering a similar business platform and earnings profile to AP. The current market price implies FD PER 7x (5.4x non FD PER), which is still quite a distance from the 9x of AP. In our view, this is excellent laggard play.

Financial and Valuation

FY Ended 31 Dec	2008	2009	2010	2011E	2012E
Revenues (Btm)	15,037	15,824	18,596	20,353	26,151
Net profit (Btm)	914	970	1,898	2,084	2,697
FD EPS (Bt)	0.62	0.66	1.27	0.77	0.99
EPS growth (%)	29.1	6.1	93.5	-39.8	29.4
Dividend (Bt)	0.30	0.52	0.62	0.59	0.50
BV (Bt)	6.1	5.6	6.3	4.3	6.3

FY Ended 31 Dec	2008	2009	2010	2011E	2012E
FD PER (x)	8.7	8.2	4.2	7.0	5.4
EV/EBITDA (x)	6.1	6.3	6.7	5.9	5.2
PBV (x)	0.9	1.0	0.9	1.3	0.9
Dividend yield (%)	5.6	9.6	11.4	11.0	9.2
ROE (%)	10.6	11.3	21.4	19.8	18.7
Net gearing (%)	0.71	0.86	1.28	0.91	0.45

Share data

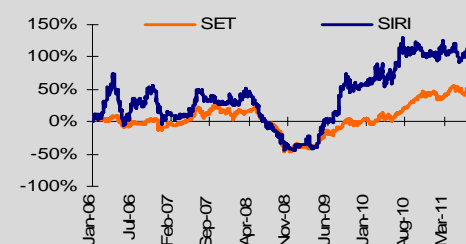
Reuters / Bloomberg	SIRI.BK / SIRI TB
Sector	Property Development
Price (Bt) (29/07/2011)	5.40
Paid-up Shares (m)	1,756.95
Par (Bt)	4.28
Market cap (Bt bn / US\$ m)	9/318
Foreign limit / actual (%)	39.00/22.25
52 week High / Low (Bt)	5.55/4.52
Avg. daily T/O (shares 000)	5,059.58
NVDR (%)	17.09
Estimated free float (%)	45.60
Beta	0.63

Major Shareholders (09/05/2011)

T.S. STAR CO., LTD.	21.13%
THAI NVDR CO., LTD.	16.32%
CHASE NOMINEES LIMITED 42	7.46%

Stock Performance (%)

	1M	3M	12M
Absolute	8.9	-0.9	-6.9
Relative to SET	4.7	-6.1	-28.1



	FY11	FY12
Consensus EPS (Bt)	0.96	1.08
KT ZMICO vs. consensus	-19.8%	-8.3%

Company Profile

is a property developer specialising in residential condominiums, apartments, office buildings in the central business district in Bangkok.

CGR 2010



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Valuations at deep discount, excellent laggard play

Sansiri is one of the leading developers in Thailand

Sansiri Plc. (SIRI) is one of the leading developers in Thailand, with a diversified portfolio of products, including SDH, TH, and condos. In addition, SIRI has been among the leaders in the mid-to-high end, and has recently entered into the low-end market. The key strengths of SIRI are product design & quality, brand premium, and experienced management. This has resulted in a high take-up rate for products across the board. In addition, its property management and brokerage subsidiaries act to service existing clients as well as research on market demand.

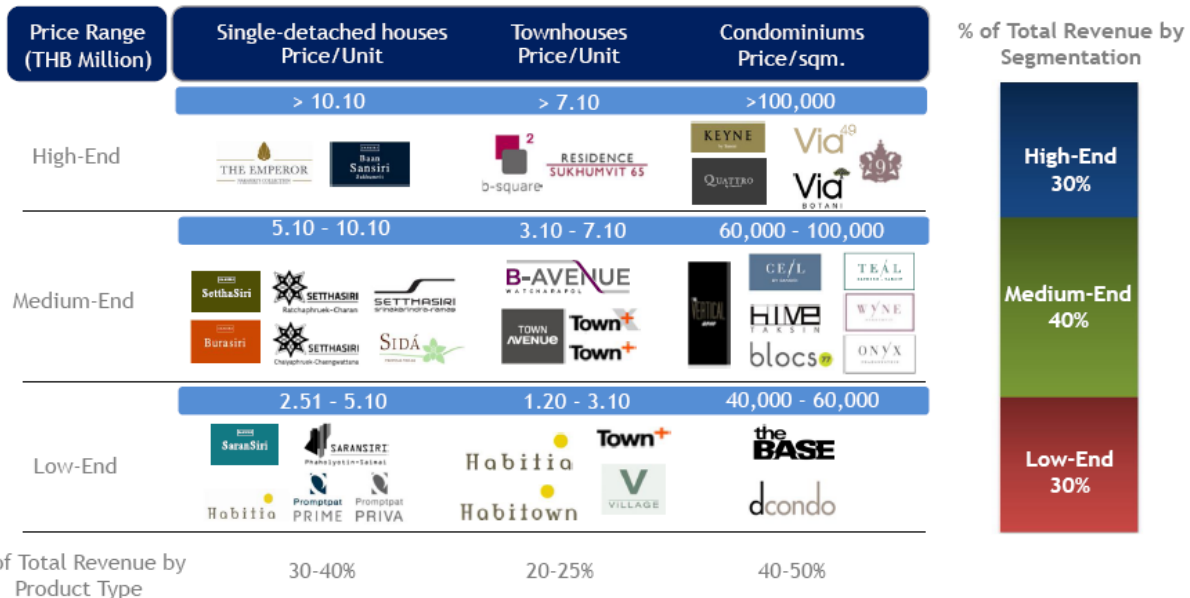
So why has it been forgotten?

There had been a few key concerns in the past, i.e., low margin and high expenses compared to peers, a high leverage ratio, and capital raising, that still overhung SIRI. These factors have caused investors to look past SIRI to other leading developers with better margins and stronger balance sheets.

Major risks dissipate

But after the recent rally of leading developers' share prices, we found that in fact SIRI is very interesting as the problems of the past have now faded. The margin has trended up over declining expenses (as a percentage of revenue). This has been made possible by brand building in the past, allowing SIRI to command premium prices on its products. Operational improvement will result in a stream of cashflow (especially from a strong schedule of condo transfers). In addition, SIRI has warrant and ESOP that is in-the-money. Based on solid cashflow and warrant and ESOP conversions, the risk of a capital increase should dissipate.

Figure 1: Well-diversified portfolio of products



Source: Company Data, KT ZMICO research

SIRI is comparable to AP in business platform and size

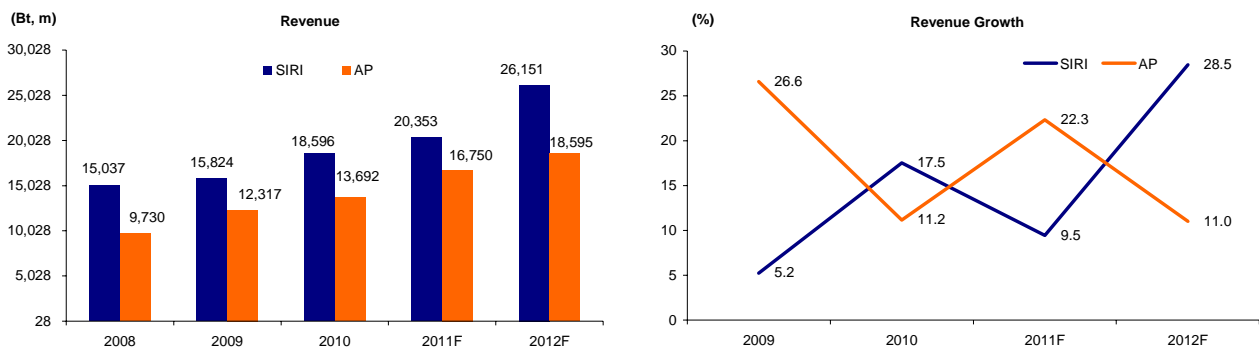
SIRI appears to be very interesting laggard play for the residential property sector as we found it to be a close match with AP. Both developers are well-known for strong brand recognition and product design offering a lifestyle. SIRI plans to launch 23 projects worth Bt30.5bn in 2011 (vs. Bt22bn of AP). SIRI is bigger on the revenue side. (see fig.3) In growth terms, we expect SIRI to generate revenue growth of 9.5% (vs. 22.3% of AP) in 2011F and 28.5% (vs. 11% of AP) in 2012F. For the first half, SIRI achieved presales of Bt11bn, compared to Bt8.3bn for AP. For backlogs, SIRI has 32.8bn, of which Bt14.4bn is for 2011. With 1Q11 revenue of Bt3.6bn, backlogs secure 88% of our 2011 revenue projection. In addition, the 2012 backlog represents 43% of revenue. Similarly, for AP the 2011 backlog and 1Q11 revenue represents 94% of the full-year revenue forecast, while the 2012 backlog is 37% of the forecast.

Figure 2: 2011 project launches

Year 2011	Single-Detached Houses	Townhouses	Condominiums	Number of Projects	Project Value (THB Million)
1Q2011	Habilia, SETHASIRI	D-square	C.E./L	4	5,711
2Q2011	SETHASIRI	RESIDENCE SUKHUMVIT 65	Elite Place	3	2,390
3Q2011				9	11,341
4Q2011				7	11,037
Number of Projects	8	4	11	23	
Project Value (THB Million)	10,338	3,241	16,900		30,479
%	34%	11%	55%		100%

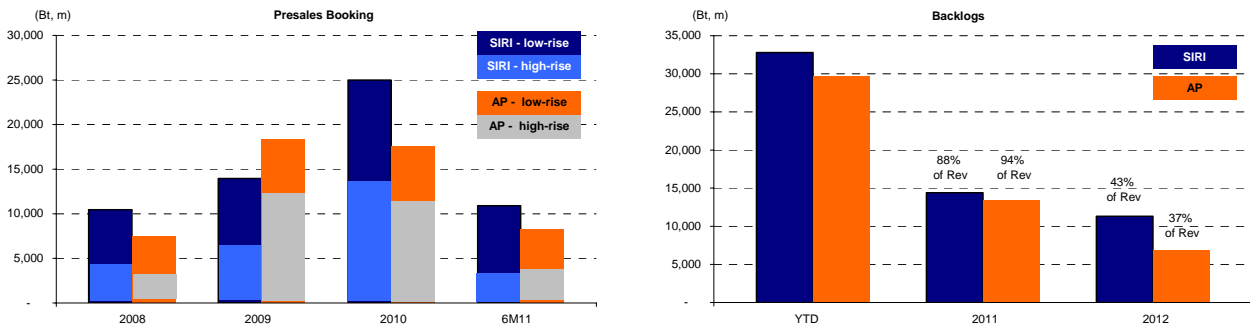
Source: Company Data, KT ZMICO research

Figure 3: Revenue and growth comparison between SIRI and AP



Source: Company data, KT ZMICO research estimates

Figure 4: SIRI saw stronger presales than AP in recent years, while backlogs (to revenue) are comparable



Source: Company data, KT ZMICO research estimates

Figure 5: Estimated transfers of condos

Project Name	Target transfer Start	Estimated Transferred (MB)		
		2011	2012	2013
1 Prive' by Sansiri	2Q2010	26	-	-
2 39 by Sansiri	4Q2010	141	-	-
3 HIVE	4Q2010	27	-	-
4 HIVE Taksin	1Q2011	1,289	-	-
5 The Vertical Aree	2Q2011	987	-	-
6 Dcondo Onnuch-Suvarabhumi	3Q2011	914	-	-
7 Blocs 77	3Q2011	1,272	8	-
8 Quattro by Sansiri	4Q2011	1,756	1,617	-
9 Via 49	1Q2012	-	598	-
10 Dcondo Ramindra	2Q2012	-	928	-
11 Dcondo Ramkamhang	2Q2012	-	1,700	-
12 WYNE Sukhumvit	3Q2012	-	795	-
13 Via BOTANI	3Q2012	-	619	10
14 CEIL by Sansiri	4Q2012	-	552	421
15 PYNE by Sansiri	4Q2012	-	1,543	498
16 The Base	4Q2012	-	613	1,689
17 KEYNE by Sansiri	4Q2012	-	141	1,548
18 TEAL Sathorn-Taksin	4Q2012	-	775	605
19 ONYX Phaholyothin	2Q2013	-	-	2,302
Total		6,412	9,889	7,071

Source: Company Data, KT ZMICO research

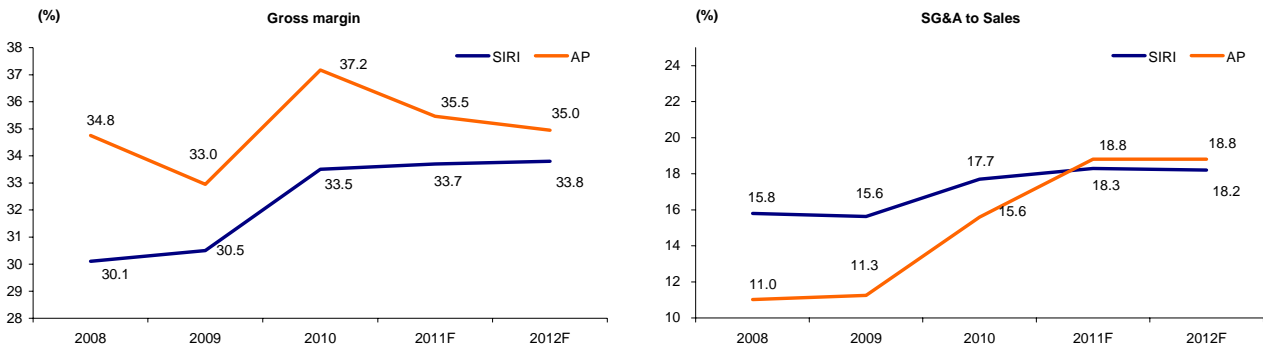
Margins and expenses are approaching peers

The substandard margins and high expenses seen in the past are now much closer to peers. Brand premium, economies of scale, and improved speed of construction has resulted in a better gross margin. Figure 4 shows that the gross margin improved to 33.5% in 2010 from ~30% in 2008-09. The economies of scale (through higher revenue) also translated into a lower SG&A expense to revenue ratio.

New pre-cast factory to improve speed of construction

Recently SIRI invested in a new pre-cast factory with capacity of 150units/month. With an existing mobile pre-cast factory of 50units/month, SIRI will achieve 200units/month after completion in 1Q12. In comparison to the conventional method of construction requiring 180-240 days for a house, the pre-cast method shortens construction time to 75 days.

Figure 6: Margins and SG&A expenses are approaching peers



Source: Company data, KT ZMICO research estimates

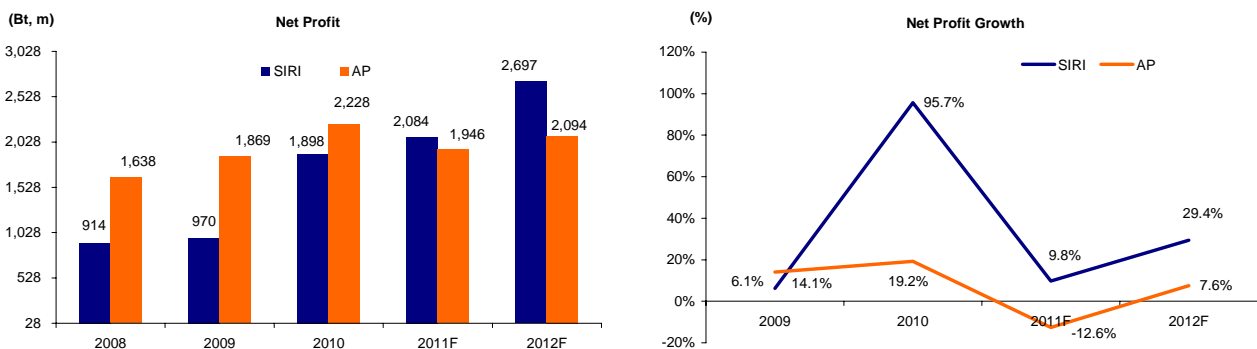
Estimated profit growth of 9.8% and 29.4% for 2011-12, respectively

We estimated SIRI's net profit of Bt2.1bn and Bt2.7bn, rising 9.8% and 29.4% for 2011-12F, respectively. However, after accounting for the 2011 stock dividend (251m shares) and conservatively assuming all SIRI-w1 (736.8m, exercise price at Bt4.457, exercise ratio at 1.167 new share, exercise period Mar'12-Jan'15) and all ESOPs (88.4m, exercise price at Bt4.286, exercise ratio at 1.167) converted to common shares, we derive a fully-diluted EPS of Bt0.77 and Bt0.99 for 2011-12F, respectively. FD EPS'11 would imply an earnings contraction of 39.8%, with an increase of 29.4% for 2012.

Strong cashflow and proceeds from warrant conversion eliminate risk of capital increase

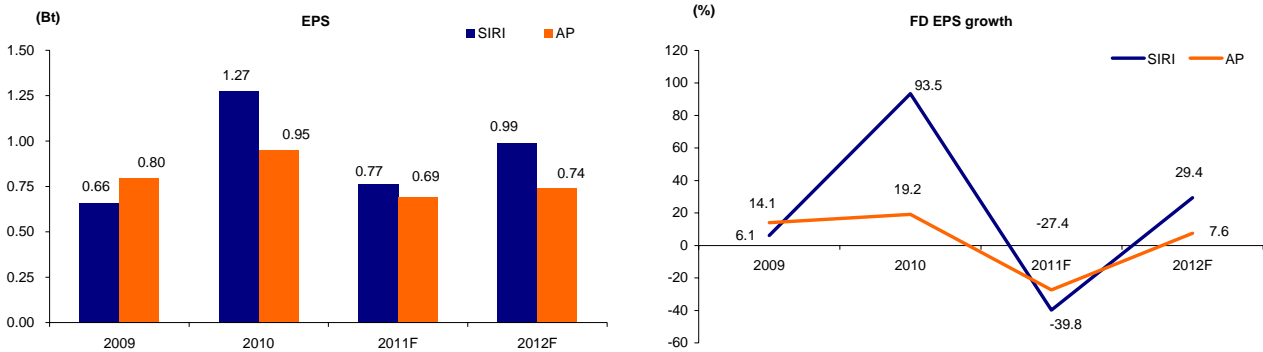
SIRI should receive Bt4bn from warrant and ESOPs conversion. This should lower the interest bearing debt to equity ratio to 0.86x from 1.47x currently. In addition, based on scheduled condo transfers (Bt6.4bn for 2011, Bt9.9bn for 2012, and Bt7bn for 2013), the stream of cashflow should eliminate risk of a future capital increase.

Figure 7: Net profit and growth pattern similar to AP



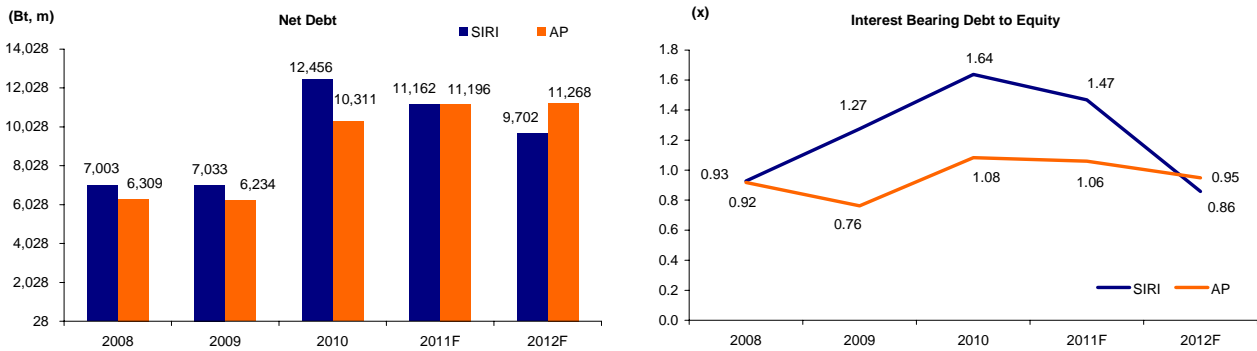
Source: Company data, KT ZMICO research estimates

Figure 8: Fully-diluted EPS and growth



Source: Company data, KT ZMICO research estimates

Figure 9: Financial position should improve from cashflow and cash from warrant conversion

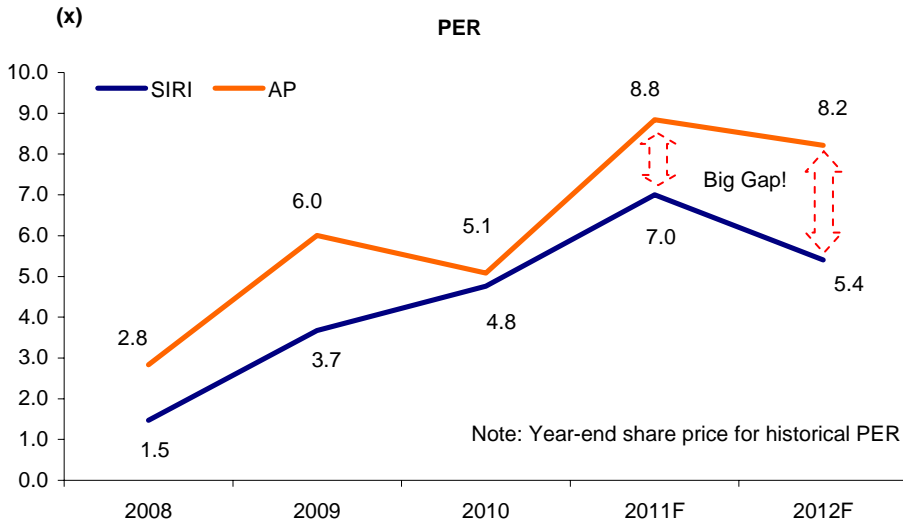


Source: Company data, KT ZMICO research estimates

Initiate with BUY, TP of Bt6.90

This report clearly shows that the business profile of SIRI is comparable to that of AP. In fact, the 2012 earnings growth of SIRI appears stronger due to a greater number of condos scheduled to transfer. Therefore, we think it is sensible to assign PER of 9x similar to AP's. We derive a 2011 target price for SIRI of Bt6.90, which offers 28% upside from the current share price. Note that big PER gap in the past between SIRI and AP was deserved by margins, expenses, and capital increase concerns. But as this report shows major concerns already dissipate, therefore we think SIRI no longer deserves to be traded at big valuation gap.

Figure 10: Big valuations gap between SIRI and AP



Source: Company Data, KT ZMICO research

Financial tables

	2008	2009	2010E	2011E	2012E
PROFIT & LOSS (Btm)					
Revenues	15,037	15,824	18,596	20,353	26,151
Cost of sales and service	10,520	11,158	12,541	13,493	17,308
Gross profit	4,517	4,666	6,055	6,860	8,843
SG&A	2,374	2,474	3,291	3,725	4,760
EBITDA	2,344	2,397	2,996	3,374	4,331
Depreciation & amortization	200	205	233	238	247
EBIT	2,143	2,192	2,763	3,135	4,083
Interest expense	92	124	245	241	315
Equity earnings	0	0	0	0	0
Other income / exp.	(408)	(145)	82	84	85
EBT	1,643	1,923	2,600	2,978	3,853
Corporate tax	726	951	702	893	1,156
Minority interests	(3)	(2)	(0)	0	0
Net profit	914	970	1,898	2,084	2,697
Reported EPS	0.62	0.66	1.27	1.19	0.99
Fully diluted EPS	0.62	0.66	1.27	0.77	0.99
Core net profit	914	970	1,898	2,084	2,697
Core EPS	0.62	0.66	1.27	1.19	0.99
Dividend (Bt)	0.30	0.52	0.62	0.59	0.50
BALANCE SHEET (Btm)					
Cash and equivalents	1,976	3,439	3,331	5,345	6,087
Inventories	17,566	17,503	22,339	23,431	27,721
PP&E-net	543	999	1,390	1,651	1,454
Other assets	3,408	3,841	4,130	3,334	3,346
Total assets	23,492	25,783	31,190	33,762	38,608
ST debt & current portion	4,042	6,074	5,207	5,215	5,215
Long-term debt	4,261	4,442	10,258	10,652	8,660
Total liabilities	14,537	17,532	21,743	22,137	21,381
Minority interests	(9)	(6)	(0)	(0)	(0)
Shareholder equity	8,955	8,251	9,448	11,625	17,226
Total liab. & shareholder equity	23,492	25,783	31,190	33,762	38,608
CASH FLOW (Btm)					
Net income	1,643	1,923	2,600	2,978	3,853
Depreciation & amortization	200	205	233	238	247
Change in working capital	(1,323)	2,643	(4,800)	(1,037)	(4,057)
FX, non-cash adjustment & others	(1,445)	(2,730)	(640)	0	0
Cash flow from operations	(924)	2,041	(2,608)	2,179	44
Capex (Invest)/Divest	113	(456)	(390)	(262)	197
Others	(458)	99	(10)	803	0
Cash flow from investing	(345)	(358)	(400)	541	197
Debt financing (repayment)	2,998	1,497	5,411	333	(1,000)
Equity financing	0	(0)	85	1,140	4,252
Dividend payment	(481)	(725)	(766)	(1,042)	(1,349)
Others	(1,078)	(1,031)	(1,797)	(1,102)	(1,338)
Cash flow from financing	1,440	(259)	2,933	(672)	566
Net change in cash	171	1,425	(75)	2,048	807
Free cash flow	-811	1,584	-2,998	1,917	241
FCF per share (Bt)	-0.55	1.08	-2.01	1.09	0.09
PROFITABILITY					
Revenue growth (%)	11.0	5.2	17.5	9.5	28.5
EBITDA growth (%)	126.6	2.3	25.0	12.6	28.4
EPS growth (%)	29.1	6.1	93.5	(6.8)	(16.4)
Gross margin (%)	30.0	29.5	32.6	33.7	33.8
EBITDA margin (%)	15.6	15.1	16.1	16.6	16.6
Operating margin (%)	14.3	13.9	14.9	15.4	15.6
Net margin (%)	6.1	6.1	10.2	10.2	10.3
Core profit margin (%)	6.1	6.1	10.2	10.2	10.3
Effective tax rate (%)	44.2	49.5	27.0	30.0	30.0

Source: Company, KT ZMICO research

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KT ZMICO RESEARCH – RECOMMENDATION DEFINITIONS

STOCK RECOMMENDATIONS

BUY: Expecting positive total returns of 15% or more over the next 12 months

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

HOLD: Expecting total returns of between -15% and +15% over the next 12 months

SELL: Expecting negative total returns of 15% or more over the next 12 months

AVOID: Expecting the stock to be materially affected by fundamental changes in the future (i.e., regulatory changes, etc); however, the impact cannot be assessed/reflected in the current forecast

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% 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 by 10% over the next 12 months.