

## SIRI: Sansiri PCL

- ▶ We maintain our Buy rating on SIRI despite trimming our 2012 fair value to Bt1.35 from Bt1.45 following an earnings revision. The latest closing price still offers an attractive potential upside of nearly 20% to our fair value.
- ▶ Solid pre-sales at housing projects are a key factor supporting our positive view of SIRI's growth prospects although we are still concerned about its high gearing level, which will cause difficulties if pre-sales slow.
- ▶ Despite flood damage hurting its outlook, the high weighting of condominium products in SIRI's portfolio suggests the overall cancellation risk is low and that its current big backlog will allow the company to deliver strong earnings growth in 2012.
- ▶ Short-term catalyst: SIRI will be one of the few developers to deliver strong earnings growth both YoY and QoQ in 4Q11.

SIRI has survived flooding in better shape than most of its peers

### 30% of available for sales projects hit by floods; low impact on growth

Of the 54 projects SIRI has under development with a remaining sales value of Bt18.3bn, 12 projects with a remaining sales value of Bt5.6bn have been affected by the flooding (8 projects worth Bt4.1bn are surrounded by floodwater and 4 worth Bt1.5bn have water inside). This means 30% of SIRI's portfolio faces a likely sales slowdown. Despite this high ratio, we see the flooding having only a small impact on the company's growth outlook. This is because 74% of the total value of the 54 projects has been sold already. The Bt18.3bn in remaining value thus makes up the last 26% of SIRI's portfolio under development. The 30% portion of this remaining value is not much, in our view, compared with the number of new projects SIRI is launching to support its aggressive growth plan. The company plans to launch 31 new projects worth a total of Bt31bn in 2012, up almost double from the 14 projects valued Bt16.8bn it rolled out in 2011 (despite delaying 8 projects worth Bt13bn that were due to launch in 4Q11 to 2012).

### Strong pre-sales is the outstanding factor at SIRI

Due to the big delay in new projects in 4Q11, SIRI has cut its 2011 pre-sales target to Bt21bn from Bt26bn. However, this is still high compared with its 2010 pre-sales of Bt25bn and 2009 pre-sales of Bt14bn. Note that SIRI's YTD pre-sales have already reached Bt20.4bn. Excluding highly volatile condominium pre-sales that depend mostly on the value of new projects launched, pre-sales at its SDH and TH projects rose strongly. The YTD pre-sales of these products have already surpassed its 2010 pre-sales by 27% and 10%, respectively. Also, pre-sales at its newly launched condominium projects were very strong. DCondo Kathu in Phuket (Bt0.6bn) was fully booked in only one day. DCondo Bangkunnong in Bangkok (Bt0.5bn) was sold out in one week. Baan Sankram condominium in Hua Hin (Bt1.4bn) was closed within one month and The Base Changwattana (Bt2.4bn) was 40% booked in two months despite facing flood troubles.

### Healthy backlog to provide strong cushion for growth

Thanks to the strong pre-sales, SIRI's current backlog stands at an outstanding Bt32bn, up 33% from the beginning of 2011. Of this, Bt5.8bn is scheduled to be transferred in 4Q11, Bt14bn in 2012 and Bt12bn in 2013. In addition to the high level of this future revenue, as 76% of it is condominiums, which as a category were minimally impacted by the flooding, we see the cancellation risk as very low. While there may be some construction delays at the projects, SIRI's revenue prospects remain the same, although some incremental costs might arise, eroding some of the expected improvements in profitability. Revenue growth potential in the next two years, in our view, is therefore very strong.

## Thailand: Company Focus

28 November 2011

### Buy (Maintain)

Event	Update	Mkt cap (Btbn)	8.0
Fair price (Bt)	1.35	6M avg (Btmn)	34.0
Stock price (Bt)	1.13	Free float (%)	49.2
Up/Dn (%)	19.5	% warrant dilution	35%
Valuation	DDM	Bloomberg	SIRI.TB
Industry	Property	Reuters	SIRI.BK

CG Score by IOD (2010)

Pass	Satisfactory	Good	Very Good	Excellent
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Recommendation of local peers

BUY: AP, LPN and SPALI

OUTPERFORM: LH

UNDERPERFORM: PS and QH

### Quarterly Forecasts

Btmn	3Q11	4Q11E	4Q12E	YTD/FY
EBITDA	732	1,022	608	64.17
Profit	414	665	345	58.83
EPS (Bt)	0.06	0.09	0.05	61.78

### YE Dec 31

	2010	2011E	2012E	2013E
Company Earnings & Financials				
EBITDA (Btmn)	3,165	2,852	3,328	3,785
Net Profit (Btmn)	1,898	1,615	2,064	2,463
Net EPS (Bt)	1.3	0.2	0.3	0.3
DPS (Bt)	1.2	0.1	0.1	0.1
Net EPS gr (%)	93.5	-82.2	19.5	5.7
ROE (%)	19.4	16.0	17.8	17.9
Net D/E (x)	1.2	1.6	1.7	1.6

### Valuation

	2010	2011E	2012E	2013E
Net PER (x)	0.9	5.0	4.2	3.9
Div Yield (%)	104.4	10.0	11.7	12.2
PBV (x)	0.2	0.8	0.7	0.6
EV/EBITDA (x)	4.1	6.7	6.8	6.7

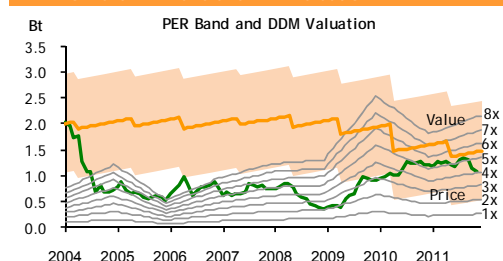
### Relative to Consensus [(Company/Consensus)\*100]

	2010	2011E	2012E	2013E
Net PER (x)	100	92	92	104
Div Yield (%)	100	81	82	105
PBV (x)	100	130	132	111
ROE (%)	100	137	132	98

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

	2010	2011E	2012E	2013E
Net PER (x)	11	52	51	61
Div Yield (%)	1,654	165	175	147
PBV (x)	11	51	51	54
ROE (%)	96	98	104	91

### 12M forward PER Band and DDM Valuation



Source: KS

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

### Pre-cast factory to boost margin and reduce wage concerns

SIRI still expects to complete construction of its pre-cast factory in mid-February 2012 despite the plant being located in a flood-hit area, Lamlukka, in Pratumthani province. The factory has been only slightly damaged and no water has entered the site. Also, the main equipment has not yet been installed. Once this plant is running at full capacity, SIRI expects it to help reduce the production period for its SDH projects from 180-240 days per unit to only 75 days. In addition to its capacity of 150 SDH units per month, the plant can be modified for TH and condominium products. SIRI thus expects its margin will improve on a faster cash cycle. Moreover, the facility should ease the impact of expected wage pressures following the end of the flood crisis.

### 4Q11 earnings to grow strongly both YoY and QoQ

Unlike other developers, SIRI remains optimistic about rights transfer activity in 4Q11 as most of the planned revenue will come from condominium projects, which have been less severely impacted by the flooding. Of the Bt6.0bn in sales revenue SIRI estimates it will receive in 4Q11, a high-margin condominium project in Thonglor, Quattro by Sansiri, is expected to contribute as much as Bt2.0bn. In addition, the project will enhance SIRI's profitability in the quarter as its GPM is nearly 40%, far above its average margin for condominiums of 33-35%. Moreover, as it is the last project to which SIRI has applied the percentage-of-completion accounting method for its tax calculations, the large amount of sales revenue from the project in 4Q11 will cut its corporate tax rate in the quarter to 20-22% from more than 30% during 9M11, as most of the tax expense was already booked during the construction period. We thus expect SIRI to be one of the few residential developers to report strong earnings growth in 4Q11 of 7% YoY and 61% QoQ to Bt665mn despite also experiencing flood-related troubles. This is despite SIRI needing to book additional expenses of at least Bt50mn in the quarter for flood-prevention costs.

### 2011-2013 earnings cut by 9.7-17.0%

We cut our earnings estimates for SIRI in 2011-2013 by 17.0%, 16.1% and 9.7%, respectively to reflect the impact from the flooding in central Thailand. Although we still see strong 4Q11 earnings, the flooding has slowed construction at many of the company's low-rise projects and forced Land Department offices to close, which could slow rights transfers. We believe delays in launching new projects, high competition for dry areas and more focus on condominium products will hurt SIRI's growth visibility compared with our previous projections. Nevertheless, we expect earnings to drop only 14.9% in 2011 before increasing by 27.8% in 2012 and 19.3% in 2013.

### High financial risk is our key concern with the stock

We are still concerned about SIRI's financial status. At the end of 3Q11, its net gearing ratio reached 1.6x - a new high since the financial crisis. Although this is also the key factor that has allowed the company to build up such a large backlog, it is not a healthy level given the current market situation with much uncertainty surrounding housing demand as well as the high competition expected for new plots in dry areas next year. Based on its aggressive growth plan in 2012, SIRI's net gearing should stay at a high level despite the solid expected earnings growth. Its financial status, in our view, remains at a high risk level and the company will face a liquidity crunch should its sales and revenue realization next year fall short of its targets, since it will still require a lot of cash to build the booked condominium units in its backlog. Note that SIRI has set aggressive targets for 2012 pre-sales of Bt26bn, up 24% YoY, and for 2012 sales revenue at Bt27bn, up 48% YoY.

### Buy rating maintained despite 2012 fair value being trimmed to Bt1.35

We cut SIRI's 2012 fair price based on a DDM valuation to Bt1.35 from Bt1.45 following our earnings downgrade. Given the attractive potential upside of 19.5% plus the potential dividend yield from its 2011 operation of 10%, we maintain our Buy call on the stock. Moreover, SIRI's share price is trading at very low 2011 and 2012 PERs of just 5.0x and 4.2x, respectively. However, a 35% dilution effect may occur over the next four years from SIRI-W1, ESOP#5 and ESOP#6, which would reduce the attractiveness of its valuation. Also, in the short term, we have doubts about the dividend payout from its 2011 operation and specifically whether the company will choose to pay cash as normal or pay a stock dividend to boost its balance sheet. In our view, the later action may have a short-term negative impact on its share price as we saw when it used the dividend payment method this year. At the moment, SIRI is less attractive when compared to LPN, AP and SPALI.

Year-end 31 Dec

Income Statement (Btmn)	2009A *	2010A *	2011E	2012E	2013E	Cashflow (Btmn)	2009A *	2010A *	2011E	2012E	2013E
Revenue	15,824	18,596	18,356	20,920	23,926	Net profit	970	1,898	1,615	2,064	2,463
Cost of sales and services	(11,158)	(12,541)	(12,324)	(14,233)	(16,365)	Depreciation & amortization	221	243	334	349	366
Gross Profit	4,666	6,055	6,032	6,687	7,561	Change in working capital	2,377	(1,956)	(5,724)	(6,720)	(5,476)
SG&A	(2,474)	(3,291)	(3,643)	(3,855)	(4,288)	Others	(2,165)	(2,792)	(2,223)	1,329	482
Other income	148	159	129	146	146	CF from operation activities	1,403	(2,608)	(5,997)	(2,979)	(2,166)
EBIT	2,340	2,922	2,518	2,979	3,419	Capital expenditure	(520)	(169)	(786)	(474)	(522)
EBITDA	2,561	3,165	2,852	3,328	3,785	Investment in subs and affiliates	20	(130)	(0)	-	-
Interest expense	(124)	(245)	(203)	(281)	(321)	Others	142	(101)	950	165	(187)
Equity earnings	-	-	-	-	-	CF from investing activities	(358)	(400)	164	(309)	(708)
EBT	2,217	2,677	2,315	2,698	3,098	Cash dividends	(442)	(766)	(1,759)	(803)	(1,005)
Income tax	(951)	(702)	(706)	(634)	(635)	Net proceeds from debt	184	3,609	5,166	3,851	3,155
NPAT	1,265	1,975	1,609	2,064	2,463	Capital raising	-	90	1,370	551	1,092
Minority Interest	(2)	(0)	(1)	-	-	Others	2	(33)	17	(1)	(1)
Core Profit	1,263	1,975	1,608	2,064	2,463	CF from financing activities	(257)	2,900	4,795	3,599	3,241
Extraordinary items	(293)	(77)	6	-	-	Net change in cash	789	(108)	(1,039)	312	367
FX gain (loss)	-	-	-	-	-	<b>Key Statistics &amp; Ratio</b>					
Reported net profit	970	1,898	1,615	2,064	2,463	<b>Per share (Bt)</b>					
<b>Balance Sheet (Btmn)</b>						Reported EPS	0.66	1.27	0.23	0.27	0.29
Cash & equivalents	3,489	3,520	2,460	2,803	3,206	Core EPS	0.86	1.32	0.23	0.27	0.29
Accounts receivable	3,595	50	46	52	60	DPS	0.52	1.18	0.11	0.13	0.14
Inventories	14,505	24,094	31,214	37,329	43,172	BV	6.87	6.34	1.50	1.64	1.75
Total current assets	21,635	27,694	33,748	40,216	46,474	EV	1.76	2.87	1.06	1.26	1.41
Investment in subs & others	1,333	1,158	1,173	1,247	1,687	Free Cash Flow	1.34	(0.78)	(0.61)	(0.41)	(0.26)
Fixed assets-net	2,364	2,290	1,643	1,510	1,394	<b>Valuation analysis</b>					
Total assets	25,375	31,190	36,749	43,170	49,763	Reported P/E (X)	1.72	0.89	4.98	4.17	3.95
Short-term debt	5,229	5,207	7,939	8,930	8,932	Core P/E (X)	1.32	0.85	5.00	4.17	3.95
Accounts payable	795	1,268	964	1,098	1,256	P/BV (X)	0.16	0.18	0.75	0.69	0.65
Total current liabilities	10,044	10,747	12,725	14,384	15,170	EV / EBITDA (X)	3.07	4.05	6.68	6.78	6.69
Long-term debt	4,454	9,470	11,904	14,764	17,917	Price / Cashflow (X)	0.87	(0.49)	(1.47)	(2.41)	(3.39)
Total liabilities	15,251	21,743	26,059	30,668	34,712	Dividend yield (%)	46.02	104.42	9.98	11.67	12.17
Paid up capital	6,307	6,380	7,619	8,152	9,201	<b>Profitability ratio</b>					
Share premium	-	13	143	161	205	Gross margin (%)	29.66	33.47	33.33	32.48	32.05
Retained earnings	3,545	2,682	2,457	3,615	4,950	EBITDA margin (%)	16.19	17.02	15.54	15.91	15.82
Minority interests	(6)	(0)	(8)	(8)	(9)	EBIT margin (%)	14.79	15.72	13.72	14.24	14.29
Total shareholders' equity	10,124	9,448	10,691	12,502	15,051	Net profit margin (%)	6.13	10.21	8.80	9.87	10.29
Total equity & liabilities	25,375	31,190	36,749	43,170	49,763	Core ROA (%)	3.97	6.71	4.75	5.16	5.30
<b>Key Assumptions</b>						Core ROE (%)	10.17	19.39	16.04	17.80	17.88
Pre-sales						<b>Liquidity ratio</b>					
- Single-detached houses	4,955	6,962	8,971	6,575	7,621	Current ratio (X)	2.15	2.58	2.65	2.80	3.06
- Townhouses	2,711	3,548	3,918	4,092	4,831	Quick ratio (X)	0.71	0.33	0.20	0.20	0.22
- Condominiums	6,304	14,486	8,085	10,414	11,798	<b>Leverage Ratio</b>					
Sales revenue						D/E ratio (X)	1.51	2.30	2.44	2.45	2.31
- Single-detached houses	5,319	6,818	6,513	6,371	6,542	Net debt/EBITDA (X)	2.42	3.52	6.09	6.28	6.25
- Townhouses	2,479	3,081	3,036	3,782	4,349	Net debt/equity	0.61	1.18	1.63	1.67	1.57
- Condominiums	8,829	7,988	8,008	9,885	12,137	Int. coverage ratio (X)	18.92	11.92	12.38	10.61	10.65
Blended gross margin	29.66	33.47	33.33	32.48	32.05	<b>Growth</b>					
SG&A to sales	15.63	17.70	19.85	18.43	17.92	Revenue (%)	5.23	17.52	(1.29)	13.97	14.37
						EBITDA (%)	2.44	23.58	(9.88)	16.66	13.74
						Reported net profit (%)	6.14	95.70	(14.91)	27.81	19.34
						Reported EPS (%)	6.14	93.46	(82.19)	19.46	5.73
						Core profit (%)	(13.61)	56.32	(18.55)	28.32	19.34
						Core EPS (%)	(13.61)	54.54	(82.95)	19.94	5.73

Remark: \* = old accounting standard (percentage of completion)

Source: KS