

SIRI: Sansiri PCL

- ▶ We maintain our Buy call on SIRI as the latest closing price offers an attractive upside of 21.4% to our new 2012 fair value plus an 8.7% dividend yield following our earnings upgrade.
- ▶ Strong 1Q12 pre-sales of ~Bt11bn (34% of SIRI's full-year target and 37% of our previous forecast), supported by an aggressive launch schedule and a great response from homebuyers, suggest the company is on the right track with its development strategy. We thus raise our 2012-2014 earnings forecasts by 9.3-13.0%.
- ▶ The key factor behind SIRI's strong sales revenue outlook in the ST and good earnings growth potential in the LT is its brand-building, which has allowed the company to expand its development coverage to new market segments and locations.
- ▶ Short-term risks: Soft 1Q12 earnings due to unexciting sales revenue and the large marketing costs needed to drive pre-sales. Still, any correction in SIRI's share price will provide a good entry level for LT investors.

Great success underpinned by brand-building strategy

All time high pre-sales achieved in 1Q12

SIRI reported an all-time high for pre-sales in 1Q12 of Bt10.96bn, up 147% YoY and 166% QoQ. In addition to the great contribution from condominiums, which jumped 439% YoY and 174% QoQ, its low-rise products (SDH and TH) also showed robust growth (Figure 1). The great pre-sales result was due in part to pent-up demand from 4Q11 caused by the flood crisis. But we believe SIRI's strong brand and the large projects it launched in 1Q12 as well as the low level of damage its projects suffered from the floods also boosted the figure. SIRI's backlog at the end of 1Q12 (before deducting 1Q12 sales revenue) surged to Bt36.9bn, securing 74.7% of the company's 2012 sales revenue target of Bt27bn.

Great homebuyer response and heavy launch schedule behind success

In 1Q12, SIRI aggressively launched 15 projects worth a total of Bt14.7bn, up from just Bt5.9bn a year earlier and Bt3.9bn in 4Q11. Note that in all of 2011 it opened only 14 new projects worth Bt16.8bn (Figure 2). Clearly, the flooding in 4Q11 delayed many project launches until 1Q12. However, the impressive pre-sales were not simply the result of the high number of projects rolled out but also the attractiveness of the products, their locations and the firm's strong brand.

Branding key to success, but product quality, services also important

SIRI has been using brand building as a key development strategy for years, while also concentrating on improving the quality of its products and after-sales service. It believes that a strong brand will drive demand for its projects while the quality of the products and good after-sales service will foster the loyalty of homebuyers and give the company a greater understanding of consumer demand, which will be positive to its long-term growth prospects. It will thus continue to spend highly in these areas to capture more opportunities. SIRI believes the rest of the sector will have no choice but to follow such an approach.

Thailand: Company Focus

4 April 2012

Buy (Maintain)

Event	Update	Mkt cap (Btbn)	14.7
Fair price (Bt)	2.50	6M avg (Btmn)	163.5
Stock price (Bt)	2.06	Free float (%)	49.7
Up/Dn (%)	21.4	% warrant dilution	35.2
Valuation	DDM	Bloomberg	SIRI.TB
Industry	Property	Reuters	SIRI.BK

CG Score by IOD (2011)

Pass	Satisfactory	Good	Very Good	Excellent
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Recommendation of local peers

BUY: AP and LPN

OUTPERFORM: LH and SPALI

NEUTRAL: PS and QH

Quarterly Forecasts

Btmn	4Q11	1Q12E	2Q12E	YTD/FY
EBITDA	1,486	351	537	0.0
Profit	1,065	149	261	0.0
EPS (Bt)	0.15	0.02	0.04	0.0

YE Dec 31	2011	2012E	2013E	2014E
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Company Earnings & Financials

EBITDA (Btmn)	3,317	4,442	4,992	5,468
Net Profit (Btmn)	2,015	2,860	3,314	3,609
Net EPS (Bt)	0.29	0.38	0.39	0.37
DPS (Bt)	0.14	0.18	0.19	0.19
Net EPS gr (%)	-10.2	31.5	2.6	-4.6
ROE (%)	19.4	22.7	21.5	19.4
Net D/E (x)	1.3	1.2	1.2	1.2

Valuation

Net PER (x)	7.2	5.5	5.3	5.6
Div Yield (%)	6.8	8.7	9.0	9.0
PBV (x)	1.3	1.1	1.0	1.0
EV/EBITDA (x)	8.2	6.4	6.5	6.8

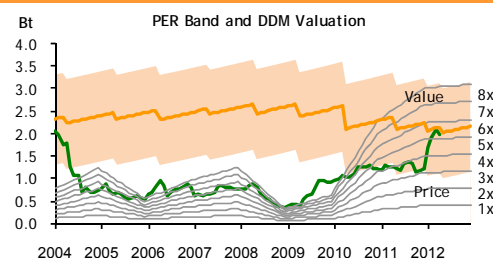
Relative to Consensus [(Company/Consensus)*100]

Net PER (x)	100	80	90	92
Div Yield (%)	100	118	105	108
PBV (x)	100	95	100	111
ROE (%)	100	114	105	103

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

Net PER (x)	54	40	44	57
Div Yield (%)	199	216	195	164
PBV (x)	49	48	50	54
ROE (%)	96	126	118	97

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.

Provincial areas, not international projects, to be key growth driver

Like other big developers, SIRI sees the provincial market as the blue ocean for its long-term growth prospects. Apart from Hua Hin (Prachuabkirikan province), where it has had a presence for more than 20 years and now has 12 projects (completed and under development), the company expanded into Phuket last year, attracting a lot of interest from local people with its two condominium projects there selling out quickly. Phuket thus will be a key strategic location for SIRI in the future. In 2012, SIRI plans to extend its coverage to Pattaya (Chonburi province), Khao Yai (Nakornratchasima province) and will look at Chiangmai, Khonkaen and Had Yai (Songkla province) as well. It is also conservatively studying an international expansion, with one small project in the U.K. already in its portfolio but no concrete expansion plan for other countries at the moment.

Figure 1: All-time high pre-sales in 1Q12

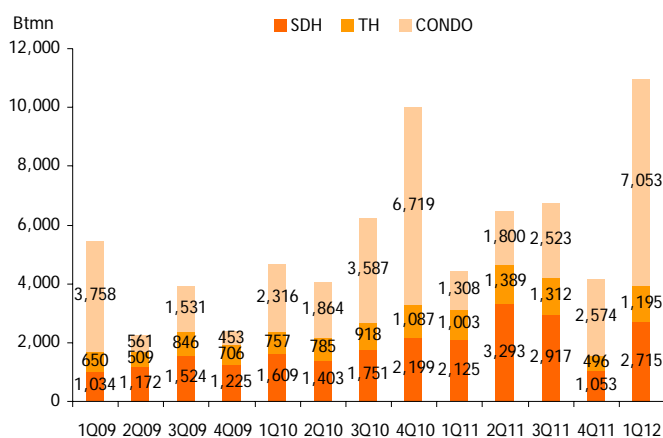
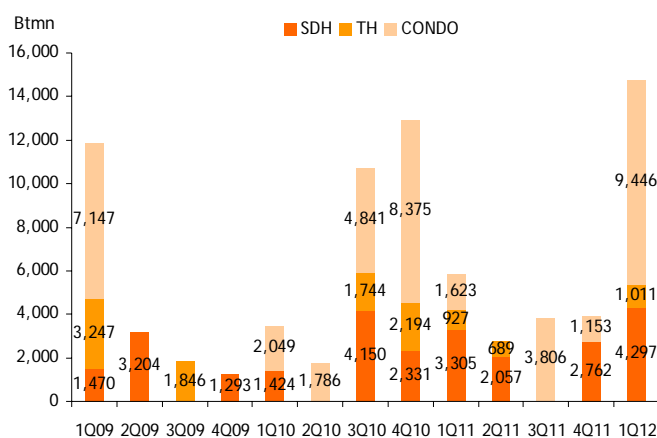


Figure 2: Aggressive new launch schedule in 1Q12



Source: SIRI and KS

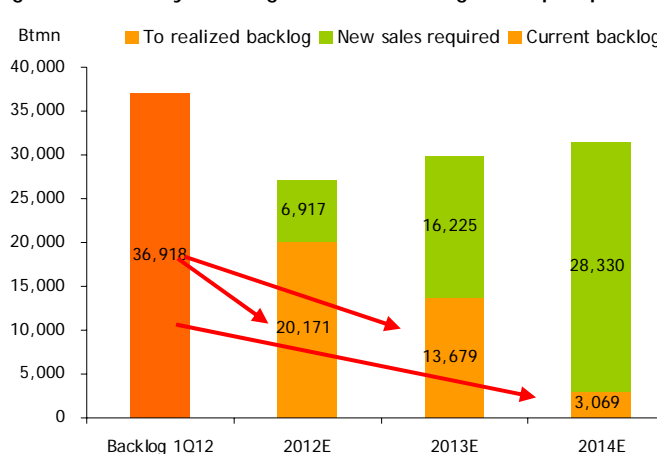
Source: SIRI and KS

Figure 3: Details of new launch schedule in 2012

Year 2012	Single-Detached Houses	Townhouses	Condominiums	Number of Projects	Project Value (THB Million)
1Q2012	NARASIRI, BETTHASIRI, CHANOKKIRITAN, PRAKHOONKIRITAN, Robilla, 21 villa	VILLAGE, Robilla, HORN	condo, BASE, 21condo, condo, SISI, CHANOKKIRITAN	15	14,754
2Q2012			SUNSHINE, shophouse	6	6,446
3Q2012				18	16,380
4Q2012				5	7,588
Number of Projects	14	11	19	44	
Project Value (THB Million)	19,840	6,861	18,467		45,168
%	44	15	41		100

Source: SIRI and KS

Figure 4: Healthy backlog secures future growth prospects



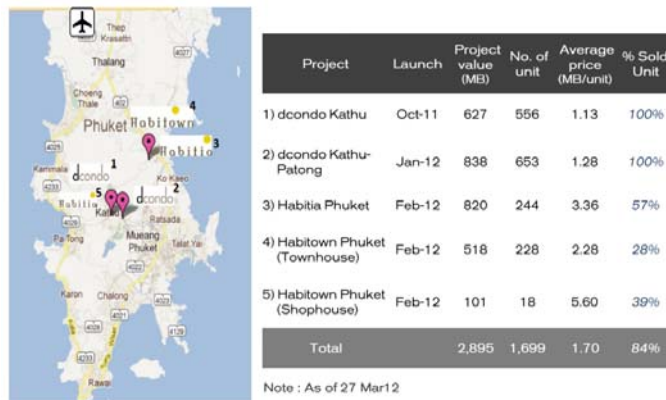
Source: SIRI and KS

Figure 5: Provincial expansion



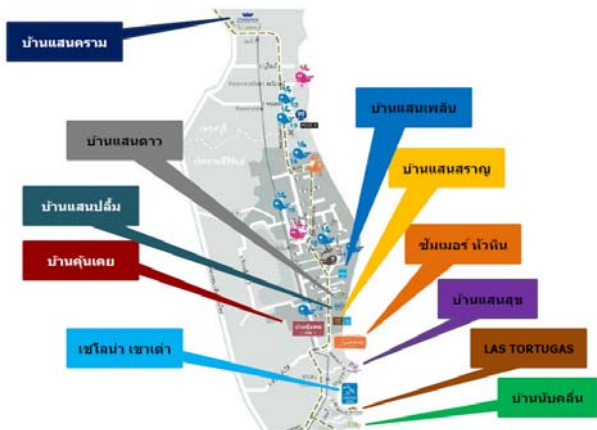
Source: SIRI and KS

Figure 6: Success in Phuket



Source: SIRI and KS

Figure 7: A number of projects in Hua Hin



Source: SIRI and KS

Figure 8: Developments in Hua Hin



Source: SIRI and KS

2012-2014 earnings revised up by 9.3-13.0%

To reflect SIRI's recent successes and the likelihood it will repeat such good results at new projects, we revise up our 2012-2014 earnings projections by 9.3%, 12.7% and 13.0%, respectively. Despite maintaining a conservative NPM by lifting it to just 10.2-11.1% from 10.0-10.5%, we raise our sales revenue forecasts by 6.8-7.5%. Based on this, we expect SIRI will show excellent earnings growth of 42%, 16% and 9% during 2012-2014, respectively. Unlike in the past, in 2012 SIRI has a few pre-built condominium projects that can be transferred in the year of launch such as DCondo Rattanatibet (Bt1.45bn in 2Q12) and Chelona Khao Tao (Bt1.13bn in 4Q12). This should help it achieve its aggressive sales revenue growth target of 36.5% to Bt27bn even though its current backlog of Bt36.9bn already secures 74.7% of its 2012 sales revenue target based on its schedule for rights transfers of Bt20.2bn of backlog this year.

Margin improvement is a key share price driver in the medium to long term

Even though top-line growth has been the engine driving earnings growth for many years, we believe at some point in the near future, economies of scale will become the key factor for earnings growth for SIRI, given its current NPM of about 10% is far below the sector's normal level of 14-15%. At the moment, SIRI plans to boost this key metric to 11% in 2012 and to 12-13% in the next few years. This will clearly usher in a new era of share price expansion for SIRI.

SIRI-W1 will cause a dilution but also strengthen SIRI's balance sheet

In addition to its low profitability when compared with its peers, another key concern of investors is SIRI's balance sheet, which remains at a high debt level (2011 D/E ratio of 2.18x and 2011 net interest-bearing D/E of 1.31x). The current big expansion plan indicates its debt level will stay at a high level for some time. The gradual conversion of 2.947bn units of SIRI-W1 that will last until January 2015 (the first conversion occurred in March 2012) with an exercise ratio of 1 SIRI:1.167 new shares at an exercise price of Bt1.11 per share will strengthen its balance sheet. However, it will also have a huge dilution effect on all per share data. Including a big block of new shares from ESOP#5 and ESOP#6, we see a total dilution effect of 35.2% from the current level. Moreover, if the 355mn units of ESOP#7 are approved by the AGM on 20 April 2012, the dilution effect will increase by a further 3.26%. However, we see no value dilution for existing shareholders from ESOP#7 as the exercise price of Bt2.0 is on par with the stock's current trading price.

Buy rating maintained with a new 2012 fair value of Bt2.50

Following our earnings revision, our 2012 fair value on a DDM base for SIRI rises to Bt2.50 from Bt2.20. Given the potential upside from the latest closing price of 21.4% plus an attractive dividend yield for its 2012 operation of 8.7%, we maintain our Buy call on the stock. Moreover, despite assuming all current warrants and ESOPs are converted, the adjusted 2012 fair value of Bt2.15 remains higher than the current trading price. In the short term, we see a contraction in its 1Q12 earnings caused by a slowdown in sales revenue to around Bt4.0bn from Bt7.6bn in 4Q11, and more significantly from promotional expenses related to the new projects launched in the quarter and lingering flood expenses possibly triggering a possible share price decline. This would create a comfortable entry level for long-term investors in SIRI.

Year-end 31 Dec

Income Statement (Btmn)	2010A *	2011A	2012E	2013E	2014E
Revenue	18,596	20,542	27,882	30,733	32,258
Cost of sales and services	(12,541)	(13,509)	(18,929)	(20,846)	(22,005)
Gross Profit	6,055	7,032	8,953	9,886	10,253
SG&A	(3,291)	(4,166)	(5,104)	(5,564)	(5,645)
Other income	159	137	146	146	258
EBIT	2,922	3,004	3,995	4,468	4,866
EBITDA	3,165	3,317	4,442	4,992	5,468
Interest expense	(245)	(222)	(256)	(300)	(355)
Equity earnings	-	-	-	-	-
EBT	2,677	2,781	3,738	4,168	4,511
Income tax	(702)	(779)	(879)	(854)	(902)
NPAT	1,975	2,003	2,860	3,314	3,609
Minority Interest	(0)	(1)	-	-	-
Core Profit	1,975	2,002	2,860	3,314	3,609
Extraordinary items	(77)	13	-	-	-
FX gain (loss)	-	-	-	-	-
Reported net profit	1,898	2,015	2,860	3,314	3,609

Balance Sheet (Btmn)

Cash & equivalents	3,520	3,019	3,736	4,118	4,323
Accounts receivable	50	48	70	77	81
Inventories	24,094	29,127	35,322	42,896	49,097
Total current assets	27,694	32,293	39,226	47,198	53,613
Investment in subs & others	1,158	1,336	1,656	1,751	1,830
Fixed assets-net	2,290	1,881	1,942	2,278	2,711
Total assets	31,190	36,238	43,546	52,012	58,992
Short-term debt	5,207	8,693	8,686	8,688	-
Accounts payable	1,268	2,359	1,464	1,613	1,694
Total current liabilities	10,747	14,868	15,955	16,700	8,410
Long-term debt	9,470	9,274	11,369	15,956	29,187
Total liabilities	21,743	24,860	29,684	35,115	38,726
Paid up capital	6,380	7,547	8,145	9,194	10,493
Share premium	13	550	571	614	668
Retained earnings	2,682	2,797	4,512	6,290	8,128
Minority interests	(0)	0	(8)	(9)	(10)
Total shareholders' equity	9,448	11,378	13,862	16,897	20,266
Total equity & liabilities	31,190	36,238	43,546	52,012	58,992

Key Assumptions

Pre-sales					
- Single-detached houses	6,962	9,388	10,758	10,952	11,500
- Townhouses	3,548	4,200	4,939	6,693	7,027
- Condominiums	14,486	8,205	17,039	16,798	17,638
Sales revenue					
- Single-detached houses	6,818	7,078	8,971	9,390	10,141
- Townhouses	3,081	3,399	4,971	7,276	7,820
- Condominiums	7,988	9,280	13,146	13,238	14,297
Blended gross margin	33	35	32	32	32
SG&A to sales	18	20	18	18	18

Cashflow (Btmn)	2010A *	2011A	2012E	2013E	2014E
Net profit	1,898	2,015	2,860	3,314	3,609
Depreciation & amortization	243	313	447	524	603
Change in working capital	(1,956)	(1,840)	(4,911)	(7,083)	(5,939)
Others	(2,792)	(3,454)	1,337	308	(1,219)
CF from operation activities	(2,608)	(2,966)	(266)	(2,937)	(2,946)
Capital expenditure	(169)	97	(1,909)	(1,224)	(1,478)
Investment in subs and affiliates	(130)	-	(0)	-	-
Others	(101)	(525)	1,085	207	311
CF from investing activities	(400)	(428)	(824)	(1,017)	(1,167)
Cash dividends	(766)	(178)	(1,002)	(1,370)	(1,590)
Net proceeds from debt	3,609	2,984	2,088	4,589	4,543
Capital raising	90	102	619	1,092	1,352
Others	(33)	18	7	(1)	(1)
CF from financing activities	2,900	2,926	1,712	4,310	4,304
Net change in cash	(108)	(468)	622	356	191

Key Statistics & Ratio

Per share (Bt)

Reported EPS	0.32	0.29	0.38	0.39	0.37
Core EPS	0.33	0.28	0.38	0.39	0.37
DPS	1.18	0.14	0.18	0.19	0.19
BV	1.58	1.61	1.82	1.97	2.07
EV	2.60	1.51	1.59	1.83	2.07
Free Cash Flow	(0.20)	(0.22)	(0.07)	(0.37)	(0.33)

Valuation analysis

Reported P/E (X)	6.47	7.21	5.48	5.34	5.60
Core P/E (X)	6.22	7.26	5.48	5.34	5.60
P/BV (X)	1.30	1.28	1.13	1.05	1.00
EV / EBITDA (X)	7.36	8.17	6.41	6.54	6.77
Price / Cashflow (X)	(3.58)	(9.02)	(4.12)	(4.93)	(10.56)
Dividend yield (%)	57.28	6.80	8.74	8.98	8.98

Profitability ratio

Gross margin (%)	33.47	34.69	32.30	32.33	32.00
EBITDA margin (%)	17.02	16.15	15.93	16.24	16.95
EBIT margin (%)	15.72	14.62	14.33	14.54	15.08
Net profit margin (%)	10.21	9.81	10.26	10.78	11.19
Core ROA (%)	6.71	5.98	7.17	6.94	6.50
Core ROE (%)	19.39	19.35	22.66	21.55	19.42

Liquidity ratio

Current ratio (X)	2.58	2.17	2.46	2.83	6.38
Quick ratio (X)	0.33	0.21	0.24	0.26	0.54

Leverage Ratio

D/E ratio (X)	2.30	2.18	2.14	2.08	1.91
Net debt/EBITDA (X)	3.52	4.51	3.67	4.11	4.55
Net debt/equity	1.18	1.31	1.18	1.21	1.23
Int. coverage ratio (X)	11.92	13.51	15.58	14.88	13.71

Growth

Revenue (%)	17.52	10.47	35.73	10.22	4.96
EBITDA (%)	23.58	4.79	33.93	12.39	9.53
Reported net profit (%)	95.70	6.18	41.92	15.87	8.90
Reported EPS (%)	93.46	(10.24)	31.50	2.65	(4.58)
Core profit (%)	56.32	1.39	42.84	15.87	8.90
Core EPS (%)	54.54	(14.29)	32.35	2.65	(4.58)

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

Source: KS