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Recommendation:

Neutral

22 Aug 2018

Target Price: 1.80

Price (Bt)	1.64
Market Value (Bt mn)	24,375
Date Established	22 Aug 2018
Average Daily Value (Bt mn)	124.33
Free Float (%)	70.89

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Sansiri: Investment cycle to hurt 2018 growth

Downgrade to Neutral with PO of Bt1.80

We downgrade SIRI from Trading Buy to Neutral and lower our PO to Bt1.80/share. Despite SIRI's strong presales momentum, we expect SIRI to have an earnings contraction in 2018 and unexciting growth in 2019. SIRI is now in the investment cycle, which would lead to higher net gearing this year. However, our Neutral rating is justified in our view by its valuations, with SIRI trading at a discount to its book value. SIRI also looks attractive on dividend yield as it plans to maintain its absolute dividend per share.

Earnings cut

We revised down our 2018E by 13% and 2019E by 7%. The revision is to take into account lower housing revenue and higher operating expenses from more launch activities especially for condo projects, for which SIRI will be launching more projects on its own rather than JV projects like those in the past two years. This would lead to higher operating expenses and higher capex over the next few years. Meanwhile, SIRI is studying to double its precast concrete capacity, which will add capex of approximately Bt700mn next year. Note that our estimates are 14% and 10% below the Bloomberg consensus for 2018E and 2019E, respectively.

Earnings contraction in 2018E, strong growth to come in 2020E

We expect SIRI to have an earnings contraction of 18% this year due mainly to lower housing revenue given that SIRI has focused on launching condo projects under JV during the past three years. However, its strategies seem to be adjusted to having more condo projects to be developed on its own. Note that 10 out of 15 condo projects launched this year will be developed by SIRI itself, which would lead to higher operating expenses. We expect SIRI's earnings growth to recover next year and stronger growth should commence in 2020E.

Operations update

SIRI has achieved strong presales year-to-date. This was derived from a big improvement in landed property presales of both single detached houses and townhouses and higher presales of condo projects from more active launches. We see upside risk on its Bt45bn presales target given that SIRI has achieved 76% of its target.

Estimates (Dec)

(Bt)	2016A	2017A	2018E	2019E	2020E
Net Income (report - mn)	3,380	2,782	2,482	2,829	3,574
EPS	0.24	0.19	0.17	0.19	0.24
EPS Change (YoY)	-4.3%	-18.1%	-13.8%	14.0%	26.3%
DPS	0.12	0.12	0.12	0.12	0.14

Valuation (Dec)

	2016A	2017A	2018E	2019E	2020E
P/E	6.8	8.6	9.6	8.6	6.8
Dividend Yield	7.3%	7.3%	7.3%	7.3%	8.5%
EV / EBITDA	11.4	16.0	27.3	24.6	23.6
Free Cash Flow Yield	18.3%	-21.0%	-33.2%	-17.7%	-2.0%

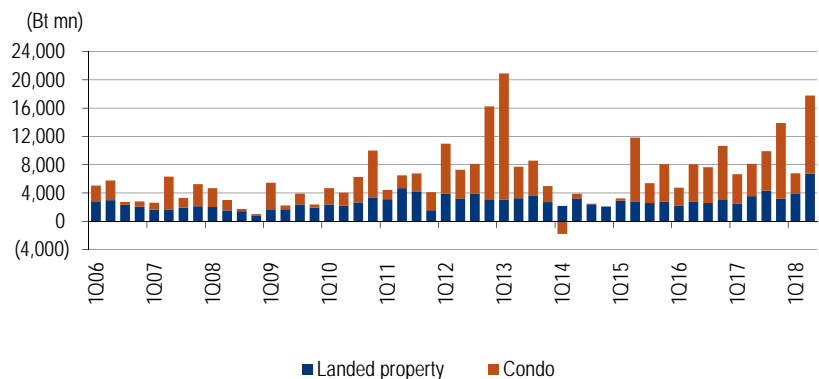
Bus Performance (Dec)	2016A	2017A	2018E	2019E	2020E
Return on Asset	4.6%	3.5%	2.7%	2.9%	3.5%
Return on Equity	12.0%	9.1%	8.0%	8.8%	10.5%
Operating Margin	13.3%	11.3%	8.3%	9.4%	9.4%
Free Cash Flow (Bt mn)	4,456	-5,113	-8,099	-4,319	-486
Quality of Earnings (Dec)	2016A	2017A	2018E	2019E	2020E
Cash Realization Ratio (x)	1.0	0.2	-2.3	-1.4	-0.1
Asset Replacement Ratio (x)	0.4	-1.2	-0.1	-0.1	-0.1
Net Debt-to-Equity Ratio	1.0	1.1	1.4	1.6	1.5
Interest Cover	3.3	2.6	1.4	1.2	1.2
Income Statement Data (Dec) (Bt Millions)	2016A	2017A	2018E	2019E	2020E
Sales	33,811	30,916	27,942	30,502	32,825
% Change	-8.5%	-8.6%	-9.6%	9.2%	7.6%
EBIT	4,490	3,480	2,329	2,853	3,095
% Change	2.5%	-22.5%	-33.1%	22.5%	8.5%
EBITDA	4,698	3,679	2,516	3,029	3,261
% Change	2.0%	-21.7%	-31.6%	20.4%	7.7%
Net Interest & Other Income	-179	177	69	-184	-235
Net Income (report - mn)	3,380	2,782	2,482	2,829	3,574
% Change	-3.6%	-17.7%	-10.8%	14.0%	26.3%
Free Cash Flow Data (Dec) (Bt Millions)	2016A	2017A	2018E	2019E	2020E
Net Income from Cont Operations (GAAP)	3,380	2,782	2,482	2,829	3,574
Depreciation & Amortization	208	199	187	176	166
Change in Working Capital	-204	-2,558	-8,404	-7,060	-3,962
Capital Expenditure	74	-244	-24	-24	-24
Free Cash Flow	4,456	-5,113	-8,099	-4,319	-486
Net Debt	29,050	34,361	44,233	50,290	52,615
Balance Sheet Data (Dec) (Bt Millions)	2016A	2017A	2018E	2019E	2020E
Cash & Equivalents	3,541	4,274	4,000	4,000	4,000
Trade Receivables	530	157	157	157	157
Other Current Assets	60,260	64,953	73,439	80,645	84,740
Property, Plant & Equipment	2,080	1,950	1,833	1,727	1,631
Other Non-Current Assets	6,363	8,816	11,070	11,224	11,378
Total Assets	72,774	80,150	90,499	97,753	101,906
Short-Term Debt	14,092	21,540	25,409	36,466	44,791
Other Current Liabilities	7,198	8,959	9,041	9,187	9,320
Long-Term Debt	18,499	17,094	22,824	17,824	11,824
Other Non-Current Liabilities	4,889	2,078	2,038	1,998	1,958
Total Liabilities	44,678	49,672	59,313	65,475	67,893
Minority interest	1	-29	-29	-29	-29
Total Equity	28,095	30,507	31,216	32,307	34,042
Total Equity & Liabilities	72,774	80,150	90,499	97,753	101,906

Operations update and outlook

Strong presales

SIRI achieved solid presales of Bt17.8bn in 2Q18, totaling Bt24.6bn in 1H18 (up 66% YoY) and representing 55% of its Bt45bn presales target. Stronger presales momentum was seen in landed property, mainly from the success of its luxury single detached housing project, Baan Sansiri Pattanakarn, as well as the success of its townhouse projects. Meanwhile, its condo presales remained firm and represented 57% of total presales in 1H18.

Figure 1: SIRI – Quarterly presales



Source: Company, Phatra Securities estimates

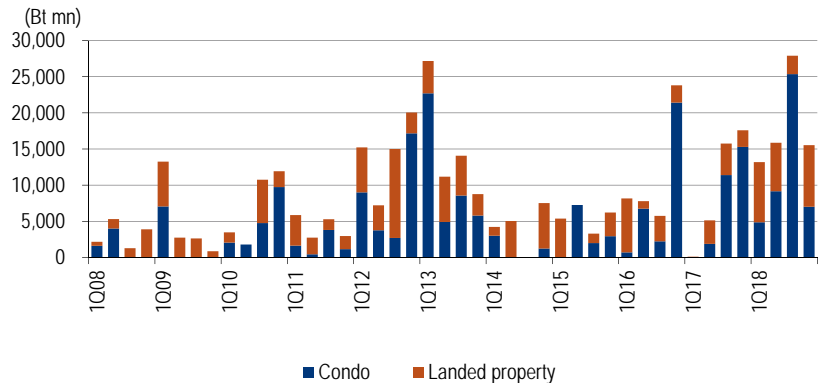
Launch plan adjusted, higher expenses expected

SIRI adjusted its launch plan to have 15 condo projects and 16 landed property projects with a higher value of Bt73bn. This was adjusted from 12 condo projects and 19 landed property projects with a combined value of Bt65bn. Five out of 15 condo projects will be developed with its JV partners. However, the majority of its condo launch value will be developed by SIRI on its own. This would signal higher marketing expenses for this year.

Solid presales expected in 3Q

The majority of the launches will be in 3Q, in terms of project value. Note that SIRI recently launched three condo projects with a combined value of Bt21.1bn. The take-up rate averaged at 34%. SIRI plans to do more activities to sell these three projects to foreign buyers. There would be an additional two condo projects to be launched this quarter and we expect presales to be highest in 3Q for this year.

Figure 2: SIRI – Quarterly launches



Source: Company, Phatra Securities estimates

Upside on presales target

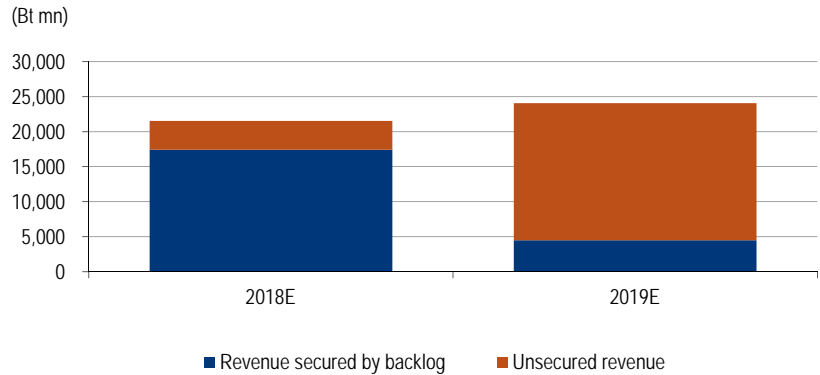
Year-to-date presales were Bt34.2bn, which represented 76% of its Bt45bn presales target. With more active launches planned, there remains upside on its presales forecast.

Revenue momentum to come in 4Q

SIRI targets to have housing revenue of Bt23bn. The majority of revenue will come in 4Q18 from the schedule of transfers. Note that SIRI has backlog on hand of Bt30.6bn of which Bt9.1bn will be recognized this year. Combined with 1H revenue, SIRI has secured Bt17.4bn revenue for this year, for which we see revenue risk on its target. Our revenue forecast is Bt21.6bn, which is 6% below its guidelines. SIRI has secured 81% of our 2018 revenue forecast. SIRI will need to fill the remaining by the presales of landed property, which has improved sharply lately, and sales of its condo stock on hand.

Currently, its backlog on hand for 2019 remains small at Bt4.5bn and SIRI plans to shift some backlog from 2020 to next year. Meanwhile, SIRI plans to launch condo projects to be completed next year.

Figure 3: SIRI - Revenue secured by backlog on hand

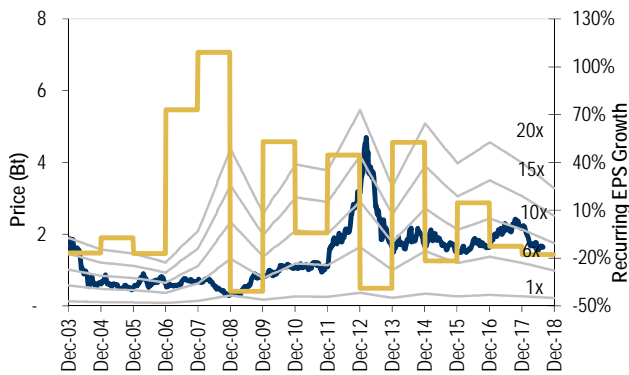


Source: Company, Phatra Securities estimates

Investment – no benefit seen in 2019

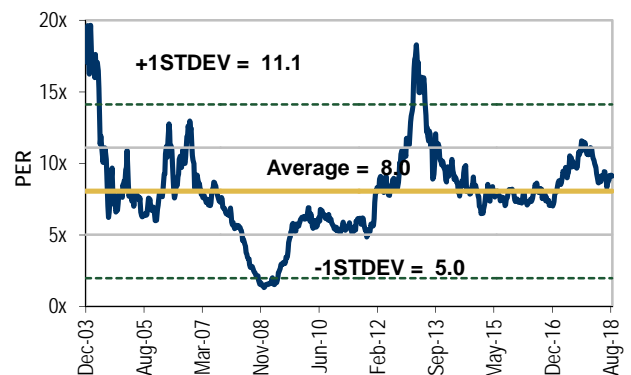
SIRI has been investing in businesses outside of residential development in Thailand. This includes Just Co, which is a co-working space company, and Standards and Monocle. These companies are in the period of investments and would not benefit SIRI in the near term.

Figure 4: SIRI – P/E Band



Source: SET, Phatra Securities estimates

Figure 5: SIRI – Trailing P/E



Source: SET, Phatra Securities estimates

Figure 6: Property Comp

	Price (Bt)	Market cap (US\$ mn)	Recurring EPS growth			Core PER (x)			Yield (%)			PBV (x)	ROE (%)		Housing P/E	
			17A	18E	19E	17A	18E	19E	17A	18E	19E	18E	18E	19E	18E	19E
AP	9.40	891	17.9%	15.4%	7.5%	9.57	8.29	7.71	3.74	4.34	4.67	1.23	15.6%	15.1%	8.29	7.71
QH	3.48	1,123	-0.7%	14.8%	12.2%	11.24	9.79	8.73	5.75	6.33	7.11	1.41	14.9%	15.6%	(0.22)	(0.19)
SPALI	23.90	1,236	4.4%	-6.1%	10.8%	8.04	8.56	7.73	-	5.33	5.91	1.26	19.6%	18.9%	8.56	7.73
LH	11.50	4,139	14.0%	6.2%	5.2%	14.95	14.08	13.39	6.47	6.74	6.35	2.62	19.0%	19.3%	5.86	5.85
LPN	10.20	453	-50.9%	47.7%	32.5%	14.17	9.59	7.24	4.31	6.36	8.43	1.13	12.2%	15.0%	9.59	7.24
PSH	21.10	1,390	-8.2%	9.2%	12.3%	8.44	7.73	6.88	6.11	6.68	7.50	1.12	15.1%	15.6%	7.73	6.88
SIRI	1.64	734	-12.5%	-17.8%	14.0%	8.07	9.82	8.62	7.32	7.13	7.54	0.78	8.0%	8.8%	9.82	8.62
ANAN	5.15	517	-12.1%	82.5%	17.4%	15.15	8.30	7.07	2.48	2.88	4.15	1.24	15.8%	16.7%	8.30	7.07
SC	3.58	451	-30.0%	48.5%	9.0%	11.09	7.47	6.85	3.79	5.63	6.13	0.91	12.8%	12.4%	7.47	6.85
Average			-2.9%	10.0%	10.8%	11.88	10.72	9.84	5.07	6.12	6.44	1.72	15.4%	15.8%	6.58	6.07

Source: Companies, Phatra Securities estimates

Price objective basis and risk

Our 12-month price objective of Bt1.80/share is based on our fair value at end-2018. This is based on the average of a) P/E of 8.6x, which is the average P/E of mid-cap peers, and b) our DCF valuations. We incorporate DCF valuations to take into account its backlog on hand which has secured part of the revenue during 2018E-2020E. The DCF valuation is based on a discount rate of 7.2%-7.7% and terminal growth rate of 2%. The downside risks to achieving our price objective are weaker-than-expected economic conditions, a tighter credit market for developers, higher-than-expected competition among developers, rising construction cost, a stronger-than-expected increase in interest rates, tighter mortgage financing policy from commercial banks, weaker presales from soft demand or higher competition and slower-than-expected recovery of the provincial market economy. Meanwhile, the upside risks to our price objective are better-than-expected revenue/transfers and presales momentum.

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Corporate Governance Report of Thai Listed Companies 2017

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ADVANC	ANAN	AOT	AP	BANPU	BCP	CK	CPF	CPN	DTAC	EGCO	GFPT	HMPRO	INTUCH
IRPC	IVL	KBANK	KTB	KTC	LPN	MINT	MONO	PSH	PTT	PTTEP	PTTGC	QH	RATCH
ROBINS	SC	SCB	SCC	SCCC	SPALI	SPRC	STEC	TCAP	TISCO	TMB	TOP	TRUE	TTCL
TU													



Companies with Very Good CG Scoring by alphabetical order under Phatra’s Coverage

BBL	BCPG	BDMS	BEC	BJC	CENTEL	CHG	EPG	ERW	GLOBAL	GLOW	ITD	LH	M
MAJOR	MALEE	MEGA	MTLS	OISHI	SAWAD	SIRI	STPI	TFG	THANI	TIPCO	TWPC	VNT	



Companies with Good CG Scoring by alphabetical order under Phatra’s Coverage

AEONTS	BCH	BH	CBG	ESSO									
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N/A - Companies without survey result available by alphabetical order under Phatra’s Coverage

BGRIM	CPALL	DIF	GGC	JAS	THBEV	TLGF	UNIQ	WORK	GULF				
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BTS	CBG	COM7	CPALL	CPF	CPN	DELTA	DTAC	EA	GLOBAL	GPSC	HMPRO	IRPC
IVL	KBANK	KCE	KTB	LH	MINT	MTC	PTG	PTT	PTTEP	PTTGC	ROBINS	S
SAWAD	SCB	SCC	SPALI	SPRC	STEC	THAI	TMB	TOP	TRUE	TU	VGI	WHA

Anti-Corruption Progress Indicator of Thai Listed Companies 2018

Disclosure

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Certified										
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GGC	GLOW	HMPRO	IRPC	IVL	KBANK	KTC	M	MALEE	MINT	MONO
PSH	PTT	PTTEP	PTTGC	QH	RATCH	ROBINS	SC	SCB	SCC	SCCC
SIRI	SPRC	TCAP	TFG	THANI	TIPCO	TISCO	TMB	TOP	TRUE	TU
VNT										
Declared										
ANAN	BJC	JAS								
N/A										
AEONTS	AOT	AP	BBL	BDMS	BEC	BGRIM	BH	CBG	CHG	CK
DIF	EGCO	EPG	ERW	ESSO	GLOBAL	GULF	INTUCH	ITD	KTB	LH
LPN	MAJOR	MEGA	MTC	OISHI	SAWAD	SPALI	STEC	STPI	THBEV	TLGF
TTCL	TWPC	UNIQ	WORK							