

Sansiri

SIRI TB / SIRI.BK

August 16, 2018

Weak 2Q18 results as expected; unexciting 3Q18 outlook

 Sector: Residential Property **OVERWEIGHT**

Rating: HOLD

 Target Price: **Bt1.80**

 Price (August 15, 2018): **Bt1.61**

In line

SIRI posted a 2Q18 net profit of Bt387m, down 52% YoY but up 54% QoQ. Excluding Bt3m in gains on investment sales in 2Q18 and Bt36m in extra gains in 1Q18 (land sales and a reversal of asset impairment), core profit was Bt385m, down 51% YoY but up 78% QoQ. The result was in line with the BLS and street forecasts. SIRI announced interim DPS of Bt0.04 for 1H18 operations, implying a 2.5% simple yield, XD on Aug 28 and payment Sep 12.

Result highlights

Profit plunged YoY due to weak residential revenue and higher SG&A expenses. On a QoQ basis, earnings recovered thanks to top-line improvement. Residential revenue was Bt4.3bn in 2Q18 (77% low rises and 23% condos), down 48% YoY but up 8% QoQ. Low-rise revenue dropped 4% YoY but rose 8% QoQ. Condo revenue plunged 76% YoY but improved 15% QoQ. Residential gross margin (GM) rose from 33.6% in 2Q17 and 30.5% in 1Q18 to 34.1% in 2Q18 thanks to new low-rise projects. However, the ratio of SG&A expenses to total revenue jumped from 16.4% in 2Q17 and 24.2% in 1Q18 to 26.1% in 2Q18 (the highest since 1Q14). Equity income swung from a loss of Bt99m in 2Q17 to a profit of Bt105m in 2Q18, up 90% QoQ thanks to the JV condo business with BTS (unit transfers at The Line Ratchatewi). Net gearing rose from 1.3x at end-March to 1.5x at end-June.

Outlook

We should see a tepid QoQ recovery in 3Q18 profit, but continued weakness YoY. Residential revenue will plunge YoY but improve QoQ. GM should be higher YoY and stable QoQ. But marketing expenses (under SG&A) should remain high in 3Q18 due to an aggressive launch plan. Quarterly earnings are expected to improve YoY and QoQ in 4Q18, boosted by residential sales expansion and a jump in equity income. Units at two JV condos will start to transfer in 4Q18: *The Line Asoke-Ratchada* (project value Bt3bn, 99% booked) and *The Base Garden Rama 9*. (Bt2.3bn, 91% booked).

What's changed?

1H18 core profit provided only 20% of our full-year forecast and 21% of the street's. Thus, there is scope for earnings downside risk for both our forecast and the street's. We preliminarily estimate earnings downside risk to our 2018 model at 20-25%. 2018 will be a tough year for SIRI, with top-line slippage and margin pressure from marketing expenses.

Recommendation

We suggest that investors wait until the flow of earnings downside cuts is fully priced in. Despite strong presales forecast for 3Q18, earnings will be falling on a YoY basis and underperforming peers (our ResDev coverage sector will be reporting YoY growth). We will soon revisit our target price to reflect updated assumptions in a new model.

Financial summary

FY Ended 31 Dec	2017	2018E	2019E	2020E
Revenues (Btm)	30,829	30,207	33,242	35,931
Net profit (Btm)	2,825	2,942	3,372	3,801
EPS (Bt)	0.19	0.20	0.23	0.26
EPS growth (%)	-19.7%	+4.2%	+14.6%	+12.8%
Core profit (Btm)	2,908	2,942	3,372	3,801
Core EPS (Bt)	0.20	0.20	0.23	0.26
Core EPS growth (%)	-15.0%	+1.2%	+14.6%	+12.8%
PER (x)	11.7	8.1	7.1	6.3
PBV (x)	1.1	0.7	0.7	0.6
Dividend (Bt)	0.1	0.1	0.1	0.1
Dividend yield (%)	3.2	4.8	5.6	6.3
ROE (%)	9.6	9.4	10.1	10.6

CG/Anti-corruption



Declared

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Securities Fundamental Investment Analyst

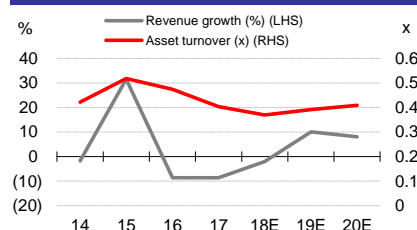
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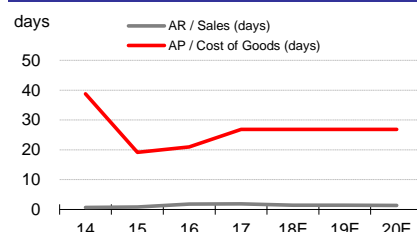
SIRI: Financial Tables – Year

PROFIT & LOSS (Btm)	2016	2017	2018E	2019E	2020E
Revenue	33,754	30,829	30,207	33,242	35,931
Cost of sales and services	(23,453)	(21,244)	(21,007)	(23,021)	(24,810)
Gross profit	10,301	9,585	9,200	10,221	11,120
SG&A	(5,828)	(6,103)	(6,290)	(6,826)	(7,266)
EBIT	4,473	3,483	2,910	3,394	3,855
Interest expense	(615)	(411)	(688)	(736)	(784)
Other income/exp.	453	585	607	630	656
EBT	4,311	3,658	2,828	3,289	3,726
Corporate tax	(944)	(819)	(725)	(832)	(940)
After-tax net profit (loss)	3,367	2,839	2,104	2,457	2,786
Minority interest	0.2	43.0	43.0	43.0	43.0
Equity earnings from affiliates	(78)	26	796	872	972
Extra items	91	(83)	0	0	0
Net profit (loss)	3,380	2,825	2,942	3,372	3,801
Reported EPS	0.24	0.19	0.20	0.23	0.26
Fully diluted EPS	0.24	0.19	0.20	0.23	0.26
Core net profit	3,289	2,908	2,942	3,372	3,801
Core EPS	0.23	0.20	0.20	0.23	0.26
EBITDA	4,666	3,667	3,099	3,587	4,050
KEY RATIOS					
Revenue growth (%)	(8.7)	(8.7)	(2.0)	10.0	8.1
Gross margin (%)	30.5	31.1	30.5	30.7	30.9
EBITDA margin (%)	13.8	11.9	10.3	10.8	11.3
Operating margin (%)	13.3	11.3	9.6	10.2	10.7
Net margin (%)	10.0	9.2	9.7	10.1	10.6
Core profit margin (%)	9.7	9.4	9.7	10.1	10.6
ROA (%)	4.8	3.7	3.6	4.0	4.3
ROCE (%)	5.4	4.2	4.2	4.6	5.0
Asset turnover (x)	0.5	0.4	0.4	0.4	0.4
Current ratio (x)	2.7	1.8	2.5	2.5	2.6
Gearing ratio (x)	1.3	1.3	1.2	1.2	1.1
Interest coverage (x)	7.3	8.5	4.2	4.6	4.9
BALANCE SHEET (Btm)					
Cash & Equivalent	3,540	2,978	1,521	1,657	1,703
Accounts receivable	170	157	117	127	135
Inventory	49,057	43,384	44,574	46,110	47,882
PP&E-net	2,080	1,950	4,708	5,014	5,321
Other assets	17,927	31,680	32,476	33,348	34,320
Total assets	72,774	80,150	83,396	86,256	89,361
Accounts payable	1,349	1,563	1,546	1,694	1,826
ST debts & current portion	14,092	21,540	12,868	12,868	12,868
Long-term debt	21,699	17,186	27,293	27,793	28,293
Other liabilities	7,538	9,382	9,382	9,382	9,382
Total liabilities	44,678	49,672	51,089	51,738	52,369
Paid-up capital	15,285	15,903	15,903	15,903	15,903
Share premium	1,470	2,296	2,296	2,296	2,296
Retained earnings	11,475	12,443	14,272	16,484	18,957
Shareholders equity	28,095	30,507	32,336	34,548	37,021
Minority interests	1	(29)	(29)	(29)	(29)
Total Liab.&Shareholders' equity	72,774	80,150	83,396	86,256	89,361
CASH FLOW (Btm)					
Net income	3,380	2,825	2,942	3,372	3,801
Depreciation and amortization	193	184	189	193	196
Change in working capital	(17,807)	(20,207)	(1,167)	(1,398)	(1,648)
FX, non-cash adjustment & others	22,745	19,135	0	0	(0)
Cash flows from operating activities	8,511	1,936	1,964	2,167	2,349
Capex (Invest)/Divest	(2,599)	(4,021)	(3,743)	(1,371)	(1,474)
Others	0	0	0	0	0
Cash flows from investing activities	(2,599)	(4,021)	(3,743)	(1,371)	(1,474)
Debt financing (repayment)	(2,527)	1,746	1,435	500	500
Equity financing	0	1,443	0	0	0
Dividend payment	(2,286)	(1,857)	(1,113)	(1,159)	(1,329)
Others	0	0	0	0	0
Cash flows from financing activities	(4,826)	1,531	322	(659)	(829)
Net change in cash	1,087	(554)	(1,457)	137	46
Free cash flow (Btm)	5,913	(2,085)	(1,779)	796	874
FCF per share (Bt)	0.41	(0.14)	(0.12)	0.05	0.06
KEY ASSUMPTIONS					
Total presales (Btm)	31,000	38,565	42,422	46,664	51,330
YoY change in presales	9%	24%	10%	10%	10%
Housing revenue (Btm)	30,099	26,080	23,000	25,000	26,500
YoY change in housing revenue	-14%	-13%	-12%	9%	6%
Secured revenue by backlogs (Btm)	-	-	7,000	640	3,767
% of secured revenue by backlogs	-	-	30%	3%	14%

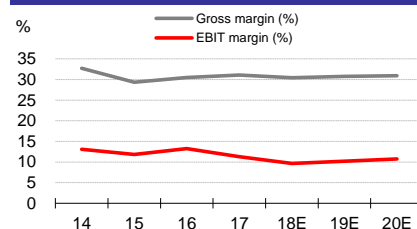
Revenue growth and asset turnover



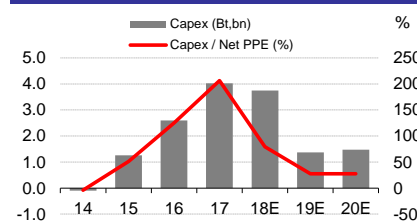
A/C receivable & A/C payable days



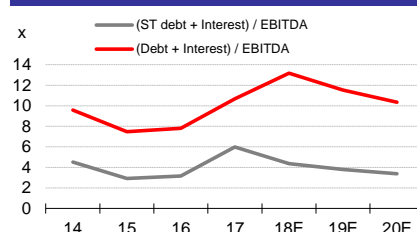
Profit margins



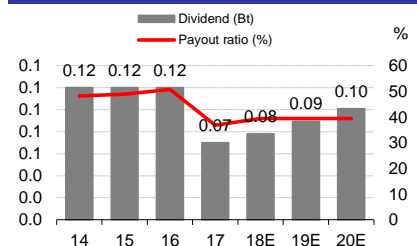
Capital expenditure



Debt serviceability



Dividend payout



SIRI: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q17	3Q17	4Q17	1Q18	2Q18
Revenue	8,463	7,123	8,366	4,952	5,338
Cost of sales and services	(5,810)	(4,798)	(5,885)	(3,613)	(3,599)
Gross profit	2,653	2,325	2,481	1,338	1,739
SG&A	(1,390)	(1,499)	(2,035)	(1,200)	(1,392)
EBIT	1,263	826	446	139	347
Interest expense	(184)	(201)	149	(113)	(153)
Other income/exp.	86	112	268	203	167
EBT	1,165	737	863	228	361
Corporate tax	(280)	(179)	(201)	(69)	(86)
After-tax net profit (loss)	886	558	662	159	276
Minority interest	(0.7)	23.8	21.6	0.9	1.5
Equity earnings from affiliates	(99)	142	68	57	108
Extra items	19	6	28	36	3
Net profit (loss)	806	730	779	252	387
Reported EPS	0.06	0.05	0.05	0.02	0.03
Fully diluted EPS	0.06	0.05	0.05	0.02	0.03
Core net profit	786	724	752	216	385
Core EPS	0.06	0.05	0.05	0.01	0.03
EBITDA	1,412	1,003	709	410	588

KEY RATIOS

Gross margin (%)	31.4	32.6	29.7	27.0	32.6
EBITDA margin (%)	16.7	14.1	8.5	8.3	11.0
Operating margin (%)	14.9	11.6	5.3	2.8	6.5
Net margin (%)	9.5	10.2	9.3	5.1	7.3
Core profit margin (%)	9.3	10.2	9.0	4.4	7.2
BV (Bt)	2.0	2.0	2.1	2.1	2.0
ROE (%)	11.4	10.3	10.2	3.3	5.1
ROA (%)	4.2	3.8	3.9	1.2	1.8
Current ratio (x)	2.3	2.2	1.8	1.9	2.0
Gearing ratio (x)	1.4	1.4	1.3	1.5	1.6
Interest coverage (x)	6.9	4.1	(3.0)	1.2	2.3

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	3,454	2,749	2,978	4,620	4,179
Accounts receivable	108	422	157	121	128
Inventory	53,204	53,271	43,384	45,263	50,388
PP&E-net	9,324	9,463	17,111	17,540	17,763
Other assets	10,207	11,754	16,519	16,760	15,679
Total assets	76,296	77,659	80,150	84,304	88,137
Accounts payable	1,475	1,297	1,563	1,360	1,390
ST debts & current portion	11,383	8,865	8,368	10,865	10,918
Long-term debt	27,314	30,562	32,000	33,783	37,599
Other liabilities	7,836	8,526	7,740	7,532	8,124
Total liabilities	48,007	49,249	49,672	53,541	58,031
Paid-up capital	15,285	15,285	15,903	15,903	15,903
Share premium	1,470	1,470	0	1,470	1,470
Retained earnings	11,649	11,664	12,443	12,695	12,043
Shareholders equity	28,278	28,420	30,507	30,757	30,101
Minority interests	10.5	(10.3)	(29.4)	6.7	5.2
Total Liab.&Shareholders' equity	76,296	77,659	80,150	84,304	88,137

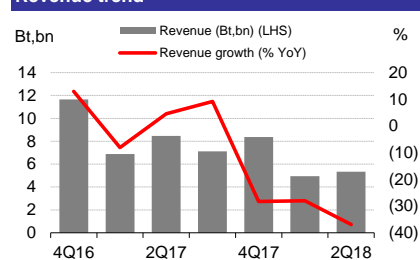
KEY STATS

Total presales (Btm)	8,127	9,903	13,884	6,784	17,000
YoY change in presales	1%	29%	30%	2%	109%
Resi revenue (Btm)	7,489	5,934	6,954	4,039	4,266
YoY change in resi revenue	2%	7%	-32%	-29%	-43%
Resi GM	33.6%	33.4%	32.1%	30.5%	34.1%
Rental revenue (Btm)	974	1,189	1,413	913	1,072

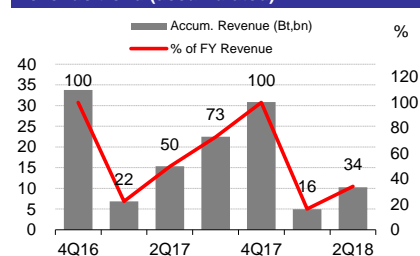
Company profile

Sansiri Public Company Limited (SIRI) builds single-detached housing, townhouses and condos using a presales model. The company had earlier focused on the upper-mid to high-end of the market. In 2H10, the company expanded to the low-end segment, particularly for condos. SIRI also owns Plus Property Co., Ltd., which is a property and asset management, brokerage service and property sales management firm. Residential sales income provides the core revenue contribution. Its residential presales breakdown is approximately 60% condo and 40% low rise. In 2015, SIRI started a joint venture business with a strong partner, the BTS Group, to develop condos near mass transit stations.

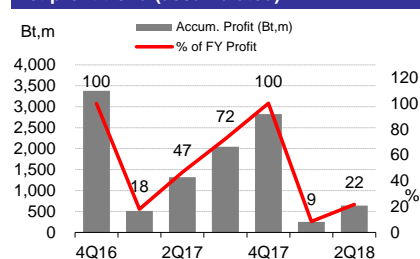
Revenue trend



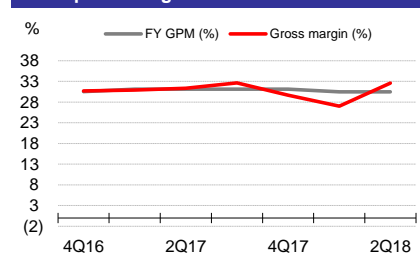
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

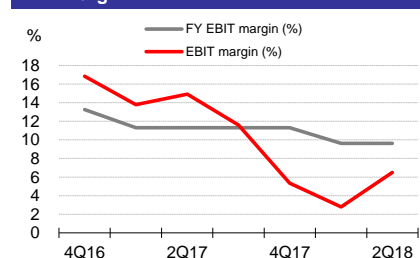


Figure 1 : 2Q18 results

FY Ended 31 Dec (Btm)	2Q18	2Q17	YoY %	1Q18	QoQ %	6M18	6M17	YoY %	6M18 vs. FY18E
Income Statement									
Revenue	5,338	8,463	(37)	4,952	8	10,289	15,340	(33)	34
Cost of sales and services	(3,599)	(5,810)	(38)	(3,613)	(0)	(7,212)	(10,560)	(32)	34
EBITDA	588	1,412	(58)	410	43	998	2,540	(61)	32
EBIT	347	1,263	(73)	139	151	486	2,211	(78)	17
Interest expense	(153)	(184)	(17)	(113)	35	(266)	(359)	(26)	39
Other income/exp.	167	86	94	203	(18)	370	205	80	61
Equity earnings from affiliates	108	(99)	0	57	0	164	(184)	0	0
Extra items	3	19	(87)	36	(93)	38	(117)	nm	
EBT	361	1,165	(69)	228	58	590	2,057	(71)	21
Corporate tax	(86)	(280)	nm	(69)	nm	(155)	(438)	nm	
Minority interest	1.5	(0.7)	100	0.9	100	2.4	(1.2)	100	
Net profit (loss)	387	806	(52)	252	54	639	1,317	(51)	22
Reported EPS	0.03	0.06	(54)	0.02	54	0.04	0.09	(53)	
Core net profit	385	786	(51)	216	78	601	1,434	(58)	20
Key ratios									
Gross margin (%)	32.6	31.4		27.0		29.9	31.2		
EBITDA margin (%)	11.0	16.7		8.3		9.7	16.6		
EBIT margin (%)	6.5	14.9		2.8		4.7	14.4		
Tax rate (%)	23.7	24.0		30.4		26.3	21.3		
Net margin (%)	7.3	9.5		5.1		6.2	8.6		
Current ratio (x)	2.0	2.3		1.9		2.0	2.3		
Gearing ratio (x)	1.6	1.4		1.5		1.6	1.4		
Interest coverage (x)	2.3	6.9		1.2		1.8	6.2		
Balance Sheet									
Cash & Equivalent	4,179	3,454	21	4,620	(10)				
Total assets	88,137	76,296	16	84,304	5				
ST debts & current portion	10,918	11,383	(4)	10,865	0				
Long-term debt	37,599	27,314	38	33,783	11				
Total liabilities	58,031	48,007	21	53,541	8				
Retained earnings	12,043	11,649	3	12,695	(5)				
Shareholders equity	30,101	28,278	6	30,757	(2)				
Minority interests	5	10	(51)	7	(22)				
BV (Bt)	2.0	2.0	2	2.1	(2)				

- Residential revenue was Bt4.3bn in 2Q18, down 43% YoY and up 8% QoQ.
- Bt3m investment sales in 2Q18.
- Core profit was in line with our estimate and the street's forecast.
- Fatter residential gross margin, but a higher SG&A expenses-to-revenue ratio.

Sources: Company data, Bualuang Research estimates

Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors

- companies that have **declared** their intention to join CAC, and
- companies **certified** by CAC.

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

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

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

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

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

SECTOR RECOMMENDATIONS

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