

Sansiri

SIRI TB / SIRI.BK

May 19, 2020

Deep miss; elevated balance sheet risk

Sector: Residential Property **UNDERWEIGHT**
Rating: SELL
Target Price: Bt0.50
Price (May 18, 2019): Bt0.70

Missed all estimates

SIRI reported a net profit of Bt62m for 1Q20, down by 85% YoY and 95% QoQ and a seven-year low. Excluding a Bt58.8m net-of-tax gain from divesting a stake in a JV company and the Bt53m reversal of an asset impairment, the core loss would be Bt51m (we had estimated a core profit of Bt316m; the street projection was a core profit of Bt227m).

Result highlights

The core loss was due to hard residential GM squeeze and a higher SG&A/sales ratio. Residential sales were Bt5.4bn (59% low-rise, 41% condo), up 10% YoY but down 29% QoQ. Management services income was Bt764m, down by 42% YoY and 41% QoQ. Residential GM was just 17.9% in 1Q20 (a 17-year low, due to deep price-cutting to clear inventories), down from 26.7% in 1Q19 and 30.5% in 4Q19. The SG&A/sales ratio was 21.2%, up by 3.8% YoY and 8% QoQ—costs tied to relocating the head office and compensation for staff that were resigned in a business re-organization. Equity income was Bt140m in 1Q20, a YoY turnaround but down 79% QoQ from a record high 4Q19. Net gearing inched up from 1.97x at YE19 to 2.00x at end-March.

Outlook

Assuming no one-time expenses in 2Q20, SIRI should post a profit, but steeply lower YoY. We expect residential sales to rise YoY (from a low 2Q19 base) but dive QoQ. Margins will be squeezed by inventory clearance sales. We don't expect an interim dividend for 1H20, as SIRI has the highest net gearing among our ResProp coverage. Although profitability should recover HoH in 2H20, it will fall steeply YoY from the very high base set by 2H19.

What's changed?

On May 18, 2020, SIRI's board approved five main agenda items to be voted on at an AGM on July 24: 1) issuance of a Bt2.5bn perpetual bond via private placement to Theatre Lane Limited (a financial investor), 2) issuance of 2.5bn common shares to be reserved for warrant conversion to the perpetual bond holder, 3) 700m ESOP shares (1:1 exercise ratio at a price of Bt1.10), 4) a general mandate of up to 1.4bn common shares for a capital increase, and 5) Bt10bn in new bond issuance. We have factored the Bt2.5bn perpetual bond into our model; net gearing is forecast of 1.8x at YE20 (below SIRI's 2.5x creditor covenant). We have cut our 2020 core profit forecast by 42% to adjust for the weak 1Q20 result (details in Figure 2).

Recommendation

The new bond issuance and recapitalization risk will slam the stock price for some time. SIRI also plans to resell some of the shares that it had earlier acquired in a stock buyback (720m shares, 4.8% of paid-up shares) during June 4-17, 2020, which will also hit the price. Our SELL call stands with a YE20 target price of Bt0.50, pegged to a PER of 7.0x.

Key statistics

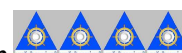
Market cap	Bt10.4bn	USD0.3bn
12-mth price range	Bt0.5/Bt1.6	
12-mth avg daily volume	Bt31m	USD1.0m
# of shares (m)	14,863	
Est. free float (%)	72.4	
Foreign limit (%)	39.0	

Share price perf. (%)	1M	3M	12M
Relative to SET	(10.5)	(13.4)	(31.1)
Absolute	(6.7)	(27.1)	(51.0)

Financial summary

FY Ended 31 Dec	2019	2020E	2021E	2022E
Revenues (Btm)	24,266	22,024	22,024	22,024
Net profit (Btm)	2,392	1,105	1,162	1,199
EPS (Bt)	0.16	0.07	0.08	0.08
EPS growth (%)	+16.9%	-53.8%	+5.1%	+3.2%
Core profit (Btm)	2,133	992	1,162	1,199
Core EPS (Bt)	0.14	0.07	0.08	0.08
Core EPS growth (%)	+1.7%	-53.5%	+17.0%	+3.2%
PER (x)	4.3	9.4	9.0	8.7
PBV (x)	0.3	0.3	0.3	0.3
Dividend (Bt)	0.1	0.0	0.0	0.0
Dividend yield (%)	11.4	5.6	5.9	6.1
ROE (%)	7.7	3.4	3.5	3.5

CG/Anti-corruption



Certified

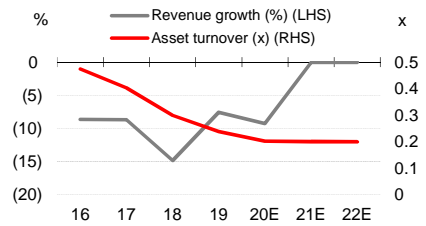
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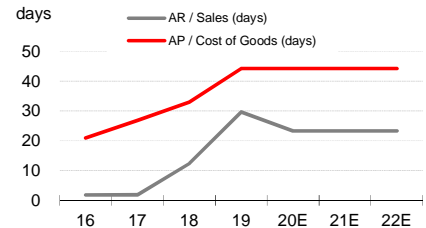
SIRI: Financial Tables – Year

PROFIT & LOSS (Btm)	2018	2019	2020E	2021E	2022E
Revenue	26,246	24,266	22,024	22,024	22,024
Cost of sales and services	(18,577)	(18,116)	(16,971)	(16,705)	(16,520)
Gross profit	7,669	6,150	5,053	5,319	5,504
SG&A	(5,555)	(4,591)	(4,611)	(4,611)	(4,611)
EBIT	2,114	1,559	442	708	893
Interest expense	(570)	(936)	(946)	(1,000)	(1,064)
Other income/exp.	791	1,057	1,044	1,044	1,044
EBT	2,335	1,680	541	752	873
Corporate tax	(546)	(455)	(188)	(230)	(240)
After-tax net profit (loss)	1,789	1,225	352	522	634
Minority interest	3.5	117.0	240.0	240.0	240.0
Equity earnings from affiliates	305	791	400	400	325
Extra items	(52)	260	112	0	0
Net profit (loss)	2,046	2,392	1,105	1,162	1,199
Reported EPS	0.14	0.16	0.07	0.08	0.08
Fully diluted EPS	0.14	0.16	0.07	0.08	0.08
Core net profit	2,098	2,133	992	1,162	1,199
Core EPS	0.14	0.14	0.07	0.08	0.08
EBITDA	2,318	1,791	546	818	1,007
KEY RATIOS					
Revenue growth (%)	(14.9)	(7.5)	(9.2)	0.0	0.0
Gross margin (%)	29.2	25.3	22.9	24.1	25.0
EBITDA margin (%)	8.8	7.4	2.5	3.7	4.6
Operating margin (%)	8.1	6.4	2.0	3.2	4.1
Net margin (%)	7.8	9.9	5.0	5.3	5.4
Core profit margin (%)	8.0	8.8	4.5	5.3	5.4
ROA (%)	2.3	2.3	1.0	1.1	1.1
ROCE (%)	2.7	2.7	1.2	1.2	1.2
Asset turnover (x)	0.3	0.2	0.2	0.2	0.2
Current ratio (x)	2.4	2.6	2.8	2.8	2.8
Gearing ratio (x)	1.7	2.0	1.8	1.8	1.8
Interest coverage (x)	3.7	1.7	0.5	0.7	0.8
BALANCE SHEET (Btm)					
Cash & Equivalent	6,301	2,473	2,609	3,296	4,076
Accounts receivable	889	1,970	1,408	1,408	1,408
Inventory	56,305	62,844	64,020	63,166	62,313
PP&E-net	1,975	2,663	2,970	3,278	3,586
Other assets	29,886	38,387	38,787	39,187	39,512
Total assets	95,357	108,336	109,794	110,336	110,894
Accounts payable	1,676	2,193	2,054	2,022	2,000
ST debts & current portion	18,635	17,136	16,238	16,238	16,238
Long-term debt	33,272	46,028	46,028	46,028	46,028
Other liabilities	10,922	11,105	11,105	11,105	11,105
Total liabilities	64,504	76,461	75,425	75,393	75,371
Paid-up capital	15,903	15,903	15,903	15,903	15,903
Share premium	2,296	2,296	2,296	2,296	2,296
Retained earnings	12,869	13,251	13,083	13,657	14,238
Shareholders equity	30,848	30,943	33,276	33,850	34,431
Minority interests	4	931	1,092	1,092	1,092
Total Liab.&Shareholders' equity	95,357	108,336	109,794	110,336	110,894
CASH FLOW (Btm)					
Net income	2,046	2,392	1,105	1,162	1,199
Depreciation and amortization	204	232	104	110	115
Change in working capital	(23,836)	(24,500)	(753)	821	831
FX, non-cash adjustment & others	15,779	14,588	0	0	0
Cash flows from operating activities	(5,807)	(7,287)	456	2,093	2,145
Capex (Invest)/Divest	(2,496)	(1,112)	(811)	(818)	(748)
Others	0	0	161	0	0
Cash flows from investing activities	(2,496)	(1,112)	(650)	(818)	(748)
Debt financing (repayment)	13,163	18,653	(897)	0	0
Equity financing	0	0	2,500	0	0
Dividend payment	(1,634)	(1,432)	(1,272)	(588)	(618)
Others	0	0	161	0	0
Cash flows from financing activities	9,333	6,702	331	(588)	(618)
Net change in cash	1,030	(1,697)	136	688	779
Free cash flow (Btm)	(8,303)	(8,400)	(355)	1,275	1,397
FCF per share (Bt)	(0.56)	(0.57)	(0.02)	0.09	0.09
KEY ASSUMPTIONS	2018	2019	2020E	2021E	2022E
Total presales (Btm)	48,500	20,356	18,320	19,786	21,369
YoY change in presales	26%	-58%	-10%	8%	8%
Housing revenue (Btm)	21,552	19,126	17,600	17,600	17,600
YoY change in housing revenue	-17%	-11%	-8%	0%	0%
Secured revenue by backlogs (Btm)	-	-	16,006	9,736	7,757
% of secured revenue by backlogs	-	-	91%	55%	44%
Housing GM	32.1%	29.0%	25.0%	26.0%	27.0%

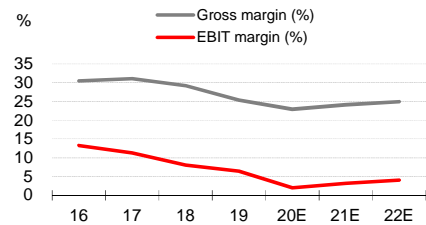
Revenue growth and asset turnover



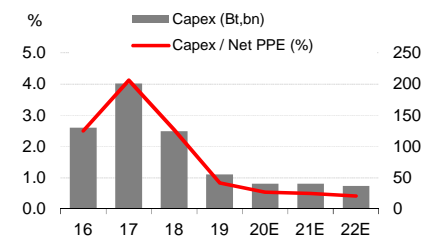
A/C receivable & A/C payable days



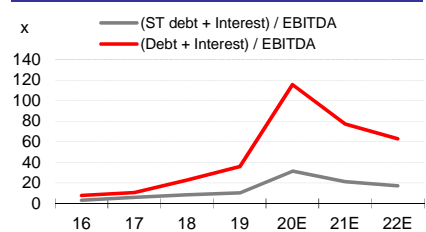
Profit margins



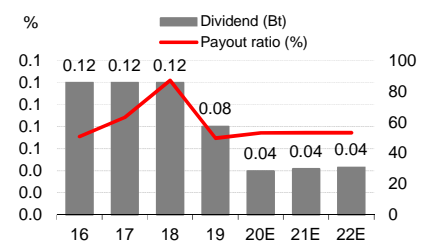
Capital expenditure



Debt serviceability



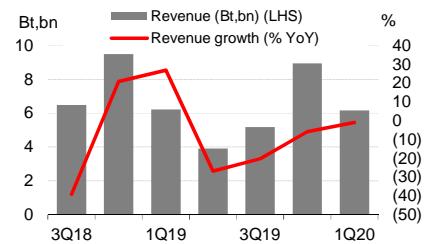
Dividend payout



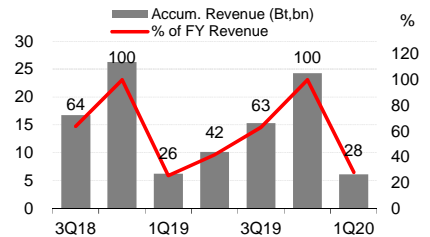
SIRI: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q19	2Q19	3Q19	4Q19	1Q20
Revenue	6,232	3,909	5,183	8,942	6,169
Cost of sales and services	(4,644)	(2,602)	(3,906)	(6,964)	(5,185)
Gross profit	1,588	1,307	1,276	1,978	984
SG&A	(1,081)	(1,122)	(1,204)	(1,183)	(1,305)
EBIT	506	185	72	795	(321)
Interest expense	(191)	(158)	(282)	(304)	(202)
Other income/exp.	320	294	209	235	298
EBT	635	320	(1)	726	(225)
Corporate tax	(132)	(28)	(65)	(231)	(25)
After-tax net profit (loss)	503	293	(65)	495	(250)
Minority interest	0.5	0.7	27.1	88.8	59.6
Equity earnings from affiliates	(120)	39	201	670	140
Extra items	21	(47)	288	(2)	112
Net profit (loss)	405	285	451	1,252	62
Reported EPS	0.03	0.02	0.03	0.08	0.00
Fully diluted EPS	0.03	0.02	0.03	0.08	0.00
Core net profit	383	333	163	1,254	(51)
Core EPS	0.03	0.02	0.01	0.08	(0.00)
EBITDA	907	580	323	1,037	(24)
KEY RATIOS					
Gross margin (%)	25.5	33.4	24.6	22.1	15.9
EBITDA margin (%)	14.5	14.8	6.2	11.6	(0.4)
Operating margin (%)	8.1	4.7	1.4	8.9	(5.2)
Net margin (%)	6.5	7.3	8.7	14.0	1.0
Core profit margin (%)	6.2	8.5	3.1	14.0	(0.8)
BV (Bt)	2.1	2.0	2.0	2.1	2.2
ROE (%)	5.2	3.8	6.0	16.2	0.8
ROA (%)	1.6	1.1	2.0	4.6	0.2
Current ratio (x)	2.8	2.4	2.2	2.6	2.6
Gearing ratio (x)	1.8	2.2	1.7	2.0	2.1
Interest coverage (x)	2.6	1.2	0.3	2.6	n.m.
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	7,063	5,787	5,013	2,473	3,288
Accounts receivable	125	2,128	141	1,970	1,973
Inventory	58,701	65,016	54,804	62,844	66,443
PP&E-net	15,652	16,979	17,263	20,608	21,202
Other assets	17,212	17,179	14,699	20,442	22,293
Total assets	98,753	107,088	91,919	108,336	115,199
Accounts payable	1,755	1,643	1,584	2,193	2,271
ST debts & current portion	8,166	11,655	11,178	6,897	6,715
Long-term debt	48,227	54,323	39,984	58,197	61,536
Other liabilities	9,639	9,780	9,336	9,174	11,601
Total liabilities	67,787	77,402	62,082	76,461	82,123
Paid-up capital	15,903	15,903	15,903	15,903	15,903
Share premium	0	2,296	2,296	2,296	2,296
Retained earnings	12,987	11,867	11,812	13,251	13,211
Shareholders' equity	30,963	29,683	29,832	30,943	31,984
Minority interests	3.6	2.9	4.6	931.5	1,092.3
Total Liab.&Shareholders' equity	98,753	107,088	91,919	108,336	115,199
KEY STATS					
Total presales (Btm)	6,628	4,456	2,856	6,416	6,835
YoY change in presales	-2%	-75%	-83%	-10%	3%
Resi revenue (Btm)	4,893	2,525	4,074	7,634	5,383
YoY change in resi revenue	22%	-41%	-24%	-4%	10%
Resi GM	26.7%	32.6%	26.8%	30.5%	17.9%
Rental revenue (Btm)	1,340	1,384	1,109	1,307	786

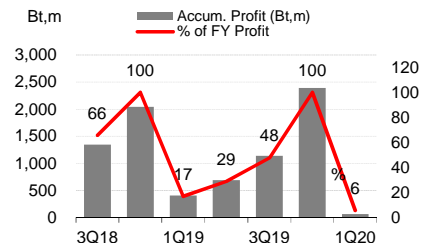
Revenue trend



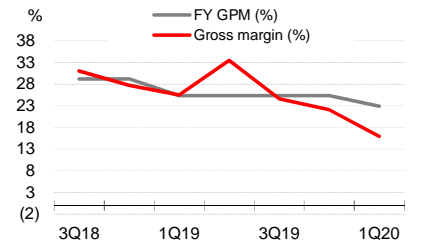
Revenue trend (accumulated)



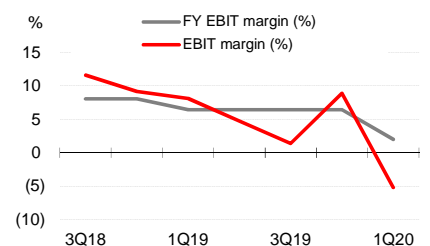
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Company profile

Sansiri Plc (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, a property and asset management, brokerage service, and property sales management firm. The core revenue generator is residential sales. Its residential presales breakdown is typically 60% condo and 40% low-rise. In 2015, SIRI started a JV with BTS Group, to develop condos near mass transit stations.

Figure 1 : 1Q20 results

FY Ended 31 Dec (Btm)	1Q20	1Q19	YoY %	4Q19	QoQ %	3M20	3M19	YoY %	3M20 vs. FY20E
Income Statement									
Revenue	6,169	6,232	(1)	8,942	(31)	6,169	6,232	(1)	28
Cost of sales and services	(5,185)	(4,644)	12	(6,964)	(26)	(5,185)	(4,644)	12	31
EBITDA	(24)	907	(103)	1,037	(102)	(24)	907	(103)	(4)
EBIT	(321)	506	(163)	795	(140)	(321)	506	(163)	(73)
Interest expense	(202)	(191)	6	(304)	(34)	(202)	(191)	6	21
Other income/exp.	298	320	(7)	235	27	298	320	(7)	29
Equity earnings from affiliates	140	(120)	0	670	0	140	(120)	0	0
Extra items	112	21	428	(2)	nm	112	21	428	
EBT	(225)	635	(136)	726	(131)	(225)	635	(136)	(42)
Corporate tax	(25)	(132)	nm	(231)	nm	(25)	(132)	nm	
Minority interest	59.6	0.5	100	88.8	100	59.6	0.5	100	
Net profit (loss)	62	405	(85)	1,252	(95)	62	405	(85)	6
Reported EPS	0.00	0.03	(85)	0.08	(95)	0.00	0.03	(85)	
Core net profit	(51)	383	(113)	1,254	(104)	(51)	383	(113)	(5)
Key ratios									
Gross margin (%)	15.9	25.5		22.1		15.9	25.5		
EBITDA margin (%)	(0.4)	14.5		11.6		(0.4)	14.5		
EBIT margin (%)	(5.2)	8.1		8.9		(5.2)	8.1		
Tax rate (%)	(11.1)	20.8		31.8		(11.1)	20.8		
Net margin (%)	1.0	6.5		14.0		1.0	6.5		
Current ratio (x)	2.6	2.8		2.6		2.6	2.8		
Gearing ratio (x)	2.1	1.8		2.0		2.1	1.8		
Interest coverage (x)	n.m.	2.6		2.6		(1.6)	2.6		
Balance Sheet									
Cash & Equivalent	3,288	7,063	(53)	2,473	33				
Total assets	115,199	98,753	17	108,336	6				
ST debts & current portion	6,715	8,166	(18)	6,897	(3)				
Long-term debt	61,536	48,227	28	58,197	6				
Total liabilities	82,123	67,787	21	76,461	7				
Retained earnings	13,211	12,987	2	13,251	(0)				
Shareholders equity	31,984	30,963	3	30,943	3				
Minority interests	1,092	4	nm	931	17				
BV (Bt)	2.2	2.1	7	2.1	4				

- Residential revenue was Bt5.4bn in 1Q20 (59% low-rise, 41% condo), up 10% YoY but down 29% QoQ
- Residential GM was deeply low at 17.9%
- Bt112m in net one-time gains in 1Q20 from divesting a stake in a JV and reversing an asset impairment
- Core loss—we and the street had expected a core profit

Sources: Company data, Bualuang Research estimates

Figure 2 : Forecast changes

Btm	2020e			2021e		
	Old	New	Chg.	Old	New	Chg.
Core profit	1,724	992	-42%	1,790	1,162	-35%
Core EPS (Bt)	0.12	0.07	-42%	0.12	0.08	-35%
DPS (Bt)	0.06	0.04	-36%	0.06	0.04	-35%
Dividend yield	8.8%	5.6%	-3.2%	9.1%	5.9%	-3.2%
Total revenue	20,973	22,024	5%	20,973	22,024	5%
Residential revenue	15,600	17,600	13%	15,600	17,600	13%
Residential GM	29.1%	25.0%	-4.1%	29.1%	26.0%	-3.1%
SG&A/Sale	18.9%	20.9%	2.0%	18.9%	20.9%	2.0%
Equity income	322	400	24%	372	400	8%
Core margin	8.2%	4.5%	-3.7%	8.5%	5.3%	-3.3%

Sources: Company data and Bualuang Securities Research

Bualuang Securities Public Company Limited

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ADVANC	AMATA	AOT	BANPU	BCH	BCP	BCPG	BDMS	BEM	BH	BJC	BTS	CBG	CENTEL	CHG
CK	CPALL	CPF	CPN	DTAC	EGCO	GLOBAL	GPSC	HANA	HIMPRO	INTUCH	IRPC	IVL	KBANK	KCE
KKP	KTB	KTC	MINT	PTG	PTT	PTTEP	PTTGC	QH	SAWAD	SCB	SCC	SPALI	SPRC	STEC
TASCO	THANI	TISCO	TKN	TOP	TRUE	TU	WHA	ESSO	CKP	STA	BGRIM	TOA	AEONTS	GULF
MTC	OSP	BEC	BPP	GUNKUL	AWC	RATCH	VGI	TMB	TCAP	CRC				

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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.