



# Sansiri PCL

SIRI TB	Neutral
Target Price	Bt 0.68
Price (18/05/2020)	Bt 0.70
Downside	% 2.86
Valuation	PER
Sector	Property Development
Market Cap	Btm 10,404
30-day avg turnover	Btm 35.13
No. of shares on issue	m 14,863
CG Scoring	Very Good
Anti-Corruption Indicator	Certified

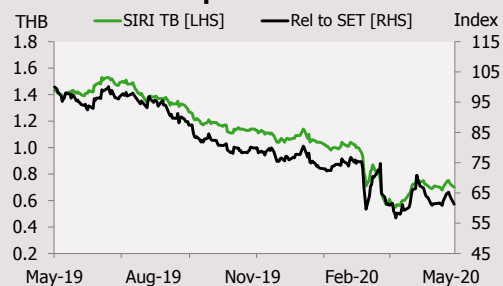
## Weak earnings result in new recap plan

- SIRI posted weak 1Q20 earnings of Bt62mn, down 85% YoY and 95% QoQ. This was far below expectations, mainly due to a big drop in margin.
- To deal with its high gearing, SIRI announced a capital increase that includes a perpetual bond, and new shares for a warrant, ESOP#8 and PP.
- We maintain our Neutral rating on SIRI with a 2020 TP of Bt0.68. Its current high DY may decline due to the new capital increase shares.

### Investment fundamentals

Year end Dec 31	2019A	2020E	2021E	2022E
<b>Company Financials</b>				
Revenue (Btmn)	24,310	25,853	27,951	30,516
Core profit (Btmn)	2,190	741	1,454	1,969
Net profit (Btmn)	2,392	1,063	1,454	1,969
Net EPS (Bt)	0.17	0.08	0.10	0.14
DPS (Bt)	0.08	0.05	0.07	0.09
BVPS (Bt)	2.19	2.18	2.22	2.28
Net EPS growth (%)	20.39	-55.58	36.82	35.40
ROA (%)	2.23	0.92	1.24	1.56
ROE (%)	7.74	3.44	4.67	6.18
Net D/E (x)	1.74	2.15	2.39	2.44
<b>Valuation</b>				
P/E (x)	6.44	9.32	6.81	5.03
P/BV (x)	0.50	0.32	0.31	0.31
EV/EBITDA (x)	23.98	45.13	27.04	22.83
Dividend yield (%)	7.62	7.82	9.94	12.93

### SIRI TB rel SET performance



Source: Bloomberg

(all figures in THB unless noted)

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Kasikorn Securities Public Company Limited

### Investment Highlights

- **1Q20 earnings fell sharply YoY and QoQ.** SIRI reported 1Q20 earnings of Bt62mn, down 84.7% YoY and 95.1% QoQ. This was 39.0% below our forecast of Bt102mn and 60.1% lower than the BB consensus of Bt155mn. It was also SIRI's lowest quarterly earnings since 1Q13. 1Q20 earnings accounted for 5.8% of our full-year earnings forecast. A heavy promotional campaign conducted in the quarter, which cut its profitability ratio dramatically, was the main reason for the weak result.
- **It's all about incremental expenses.** Due to the big promotional campaigns that were intended to quickly liquidate unsold inventory, SIRI's overall 1Q20 GPM fell to just 15.7% (housing GPM of 17.9%) from 25.1% in 1Q19 and 23.0% in 4Q19. This factor, together with one-time expenses of Bt250mn related to an office relocation, consolidation of The Standard business (which continued to make a loss as the hotel business was hurt by COVID-19) and overhead costs at the JV level that returned to SIRI, caused its SG&A-to-sales ratio to rise to 20.9% from 17.1% in 1Q19 and 13.7% in 4Q19 as well as to an even deeper contraction in the bottom line. At the same time core revenue fell 0.9% YoY and 28.4% QoQ. This was despite SIRI booking an extra gain of Bt127mn (before tax) from sale of investments and reversal of a loss on diminution in the value of property development (Fig 1).
- **Financial risk extended.** Apart from the higher property development for sale item, which required higher interest-bearing debt, a new accounting standard (TFRS 16) that increased long-term lease liabilities swelled SIRI's IBDE ratio at the end of 1Q20 to 1.9x from 1.8x in 4Q19 and 1.6x a year earlier. While IBDE ratio remained below its debt covenant of 2.5x, given the challenging housing market and a potentially higher amount of development projects on hand due to a number of condominium projects under construction and potential recurring losses from The Standard, SIRI decided to increase capital to strengthen its balance sheet.
- **Capital increase plan announced.** In addition to the new ordinary shares not exceeding 4,600mn shares (par value of Bt1.07) to be reserved for this new capital increase round, SIRI plans to issue a perpetual bond of as much as Bt2.5bn to Theatre Lane Limited, a HK-based investor, to support its equity base. Details of this perpetual bond such as the interest rate will be disclosed after the AGM on July 24. The 4,600mn new ordinary shares will be split into three types: 1) 2,500mn shares reserved for the conversion of 2,500mn units of new warrants to be offered to investors who invest in the perpetual bond; 2) 700mn shares for an offering of ESOP#8 for free to SIRI's directors/management/employees; and 3) 1,400mn for a private placement through a general mandate (see details in Fig 2).

### Valuation and Recommendation

- We maintain our Neutral rating on SIRI with a 2020 TP of Bt0.68. While we see its 2Q20 earnings improving from a low level in 1Q20, it will be due to an extra gain from the sale of Office 77. Meanwhile, its profitability outlook will remain under pressure from its heavy inventory liquidation policy. Although SIRI's shares offer a high DY at the current level, the new capital shares will reduce the attractiveness of the stock from this angle.



**Fig 1 1Q20 earnings fell 84.7% YoY and 95.1% QoQ**

	1Q19	2Q19	3Q19	4Q19	1Q20	%YoY	%QoQ	%YTD2020E	2020E	
<b>Financials</b>										
Sales (Btmn)	6,310	3,966	5,302	8,731	6,252	-0.9	-28.4	24.2	25,853	
EBITDA (Btmn)	914	530	399	1,149	163	-82.2	-85.8	9.7	1,689	
Operating profit (Btmn)	826	436	281	1,020	-24	-102.8	-102.3	-1.8	1,292	
Core profit (Btmn)	438	373	107	1,272	-36	-108.1	-102.8	-4.8	741	
Net profit (Btmn)	405	285	451	1,251	62	-84.7	-95.1	5.8	1,063	
Net EPS (Bt)	0.03	0.02	0.03	0.09	0.00	-84.4	-95.1	5.9	0.08	
<b>Performance Drivers</b>										
Presales (Btmn)	6,628	4,456	2,856	6,416	6,835	3.1	6.5	25.6	26,733	
New launch (Btmn)	2,109	10,252	1,602	15,595	1,300	-38.4	-91.7	5.4	24,000	
Net D/E (x)	1.4	1.8	1.9	1.7	1.8	30.0	5.3	85.1	2.1	
						<b>Change **</b>	<b>Avg YTD</b>	<b>2020E</b>		
Gross margin (%)	25.1	32.3	24.2	23.0	15.7	-9.4	-7.2	15.7	22.9	
EBITDA margin (%)	14.5	13.4	7.5	13.2	2.6	-11.9	-10.6	2.6	6.5	
Optg. margin (%)	13.1	11.0	5.3	11.7	-0.4	-13.5	-12.1	-0.4	5.0	
ROE (%)	5.2	3.8	6.1	16.2	0.8	-4.5	-15.4	0.8	0.0	

Remark: \*\* = Change in ppt

Source: Company data and KS Research

**Fig 2 New recapitalization plan**

Type of capital increase	Specifying the purpose of using proceeds (3,200mn shares)		General mandate (1,400 mn shares)
Purpose	Warrant under Private placement	ESOP # 8	Private placement
Type of share	Ordinary share	Ordinary shares	Ordinary shares
No.of shares/units (mn shares)	No more than 2,500	No more than 700	No more than 1,400
% to current paid-up share	16.8%	4.7%	9.4%

Purpose of capital increase	No.of shares/units	Exercise ratio	Exercise price (Bt.)
Warrant for perpetual bond's buyers	2,500	1 unit of warrant: 1 ordinary share	1.10
ESOP # 8	700	2 unit of warrant: 1 ordinary share	1.10
General mandate	1,400		

Remark: Maturity period of the warrant and ESOP#8 is set at 5 years beginning from the date of their issuance

Source: Company data and KS Research


**Year-end 31 Dec**

Income Statement (Btmn)	2018A	2019A	2020E	2021E	2022E
Revenue	26,246	24,310	25,853	27,951	30,516
Cost of sales and services	-18,577	-18,154	-19,920	-20,589	-22,309
<b>Gross Profit</b>	7,669	6,156	5,933	7,362	8,208
SG&A	-5,555	-4,644	-5,733	-5,717	-5,880
Other income	792	1,050	1,092	1,155	1,228
<b>EBIT</b>	3,145	3,833	2,292	2,934	3,675
<b>EBITDA</b>	3,216	2,991	1,689	3,146	3,887
Interest expense	-570	-936	-972	-1,073	-1,162
Equity earnings	444	881	608	135	119
<b>EBT</b>	2,576	2,897	1,320	1,861	2,512
Income tax	-533	-622	-302	-382	-516
<b>NPAT</b>	2,042	2,275	1,018	1,479	1,997
Minority Interest	4	117	45	-25	-28
<b>Core Profit</b>	2,271	2,190	741	1,454	1,969
Extraordinary items	-225	203	321	0	0
FX gain (loss)	0	0	0	0	0
<b>Reported net profit</b>	2,046	2,392	1,063	1,454	1,969

**Balance Sheet (Btmn)**

Cash & equivalents	3,933	2,132	2,327	2,516	2,746
ST investments	2,369	341	388	419	458
Accounts receivable	122	1,970	2,068	2,236	2,441
Inventories	57,846	64,157	67,450	76,330	78,660
Other current assets	6,473	5,983	6,567	6,892	7,290
<b>Total current assets</b>	70,742	74,583	78,800	88,393	91,595
Investment in subs & others	726	561	582	629	687
Fixed assets-net	16,048	22,886	22,588	22,745	24,476
Other assets	7,841	10,306	11,957	12,927	14,114
<b>Total assets</b>	95,357	108,336	113,926	124,694	130,871
Short-term debt	18,635	15,807	20,553	23,757	25,670
Accounts payable	1,676	2,193	2,327	2,516	2,746
Other current liabilities	8,815	10,240	8,984	9,713	10,604
<b>Total current liabilities</b>	29,125	28,240	31,864	35,985	39,021
Long-term debt	29,544	42,060	48,489	54,349	56,365
Other liabilities	5,835	6,161	2,723	2,929	3,198
<b>Total liabilities</b>	64,504	76,461	83,076	93,262	98,584
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
Reserves & others, net	1,348	1,116	1,116	1,116	1,116
Retained earnings	11,301	11,628	11,533	12,115	12,970
Minority interests	4	931	2	2	2
<b>Total shareholders' equity</b>	30,852	31,875	30,850	31,432	32,287
<b>Total equity &amp; liabilities</b>	95,357	108,336	113,926	124,694	130,871

**Key Assumptions**

New launch (Btmn)	65,020	29,558	24,000	29,000	32,000
Pre-sales	48,344	20,357	26,733	29,730	30,020
Revenue growth (%)	-14.87	-7.37	6.35	8.11	9.18
Gross margin (%)	29.22	25.32	22.95	26.34	26.90
SG&A to sales (%)	21.17	19.10	22.18	20.45	19.27

Cashflow (Btmn)	2018A	2019A	2020E	2021E	2022E
Net profit	2,042	2,275	1,018	1,479	1,997
Depreciation & amortization	310	429	397	346	331
Change in working capital	-23,065	-23,661	-7,532	-8,365	-1,682
Others	14,905	13,669	-1,000	-135	-119
<b>CF from operation activities</b>	-5,807	-7,287	-7,117	-6,674	527
Capital expenditure	-639	-2,131	-436	-424	-423
Investment in subs and affiliates	-175	180	-21	-47	-58
Others	-1,682	838	-1,364	-831	-2,604
<b>CF from investing activities</b>	-2,496	-1,112	-1,822	-1,302	-3,085
Cash dividend	-1,634	-1,432	-1,157	-872	-1,113
Net proceeds from debt	11,359	8,359	11,175	9,063	3,930
Capital raising	0	0	0	0	0
Others	-466	-328	-930	0	0
<b>CF from financing activities</b>	9,258	6,599	9,088	8,191	2,817
<b>Net change in cash</b>	955	-1,801	150	214	259

**Key Statistics & Ratios**
**Per share (Bt)**

Reported EPS	0.14	0.17	0.08	0.10	0.14
Core EPS	0.16	0.15	0.05	0.10	0.14
DPS	0.12	0.08	0.05	0.07	0.09
BV	2.12	2.19	2.18	2.22	2.28
EV	4.06	5.07	5.39	6.02	6.27
Free Cash Flow	-0.44	-0.67	-0.53	-0.50	0.01

**Valuation analysis**

Reported P/E (x)	8.40	6.44	9.32	6.81	5.03
Core P/E (x)	7.56	7.04	13.35	6.81	5.03
P/BV (x)	0.56	0.50	0.32	0.31	0.31
EV/EBITDA (x)	18.37	23.98	45.13	27.04	22.83
Price/Cash flow (x)	-2.96	-2.12	-1.39	-1.48	18.78
Dividend yield (%)	10.15	7.62	7.82	9.94	12.93

**Profitability ratios**

Gross margin (%)	29.22	25.32	22.95	26.34	26.90
EBITDA margin (%)	12.25	12.31	6.53	11.25	12.74
EBIT margin (%)	11.98	15.77	8.86	10.50	12.04
Net profit margin (%)	7.78	9.36	3.94	5.29	6.54
ROA (%)	2.32	2.23	0.92	1.24	1.56
ROE (%)	6.62	7.74	3.44	4.67	6.18

**Liquidity ratios**

Current ratio (x)	2.43	2.64	2.47	2.46	2.35
Quick ratio (x)	0.22	0.16	0.15	0.14	0.14

**Leverage Ratios**

Liabilities/Equity ratio (x)	2.09	2.40	2.69	2.97	3.05
Net debt/EBITDA (x)	13.02	18.52	39.27	23.90	20.28
Net debt/equity (x)	1.36	1.74	2.15	2.39	2.44
Int. coverage ratio (x)	5.52	4.10	2.36	2.73	3.16

**Growth**

Revenue (%)	-14.87	-7.37	6.35	8.11	9.18
EBITDA (%)	-25.67	-6.97	-43.53	86.23	23.57
Reported net profit (%)	-27.57	16.93	-55.58	36.82	35.40
Reported EPS (%)	-26.07	20.39	-55.58	36.82	35.40
Core profit (%)	-23.29	-3.59	-66.15	96.12	35.40
Core EPS (%)	-21.70	-0.74	-66.15	96.12	35.40

Source: Company, KS estimate



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