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## Recommendation:

### Underperform

20 May 2020

Target Price: Bt0.50

|                             |             |
|-----------------------------|-------------|
| Price (Bt)                  | 0.71        |
| Market Value (Bt mn)        | 10,219      |
| Date Established            | 20 May 2020 |
| Average Daily Value (Bt mn) | 31.12       |
| Free Float (%)              | 72.39       |

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## Sansiri: Stretched balance sheet, recap plan proposed

### Earnings cut, PO lowered

We cut our 2020E-2022E by 32% to take into account weaker margin assumptions and the issuance of perpetual bonds, for which we assume the borrowing cost at 7.5%. We lowered our PO for SIRI to Bt0.5/share (from Bt0.70) to take into account our earnings revision. We maintain our Underperform rating on SIRI on its stretched balance sheet and weak earnings outlook.

### 1Q – core operations at a loss

SIRI reported net profit of Bt62mn (down 85% YoY and 93% QoQ) in 1Q. Stripping out non-recurring gain of Bt112mn, SIRI reported pre-ex net loss of Bt51mn. Weak housing margin from promotions to boost presales of 17.9% was key. Housing revenue was Bt5.4bn, up 10% YoY but down 30% QoQ. Condo revenue accounted for 41% of the total. SIRI achieved presales of Bt6.7bn (flat YoY but down 4% QoQ) in 1Q. Condo presales grew 10% YoY and 7% QoQ mainly from promotions which also led to a YoY increase in equity income of Bt140mn.

### Presales target and outlook raised

SIRI continues to boost presales via promotions and year-to-date presales were Bt13.2bn. SIRI has raised its presales target to Bt32bn from Bt29bn. The company also raised its revenue target to Bt25bn from Bt24bn. SIRI should show strong revenue and weak margin in 2Q. The company expects the margin trend to improve in 2H from the stronger margin of its backlog on hand.

### Balance sheet and recap plan

SIRI has net D/E of 1.9x at end-1Q20. It plans to resell 720mn shares of treasury stock in June. In addition, SIRI plans to issue 5-year perpetual bonds valued at Bt2.5bn to Theatre Lane Limited. Free warrants of 2.5bn units will be offered for perpetual bond holders with a conversion ratio of 1:1 and a conversion price of Bt1.1. SIRI also plans to offer 700mn shares of ESOP with the same conversion price and ratio. Its recap plan will be voted under AGM on 24 July. Our forecast assumes that the perpetual bonds will be issued in August with a borrowing cost of 7.5%. This should bring down net D/E to 1.6x at end-2020.

#### Estimates (Dec)

| (Bt)                     | 2018A  | 2019A | 2020E  | 2021E | 2022E |
|--------------------------|--------|-------|--------|-------|-------|
| Net Income (report - mn) | 2,046  | 2,392 | 1,039  | 1,062 | 1,389 |
| EPS                      | 0.14   | 0.17  | 0.07   | 0.07  | 0.10  |
| EPS Change (YoY)         | -28.9% | 20.3% | -56.5% | 2.3%  | 30.7% |
| DPS                      | 0.12   | 0.08  | 0.10   | 0.10  | 0.10  |

#### Valuation (Dec)

|                      | 2018A  | 2019A   | 2020E | 2021E | 2022E |
|----------------------|--------|---------|-------|-------|-------|
| P/E                  | 5.1    | 4.2     | 10.1  | 10.1  | 7.1   |
| Dividend Yield       | 16.9%  | 11.3%   | 14.1% | 14.1% | 14.1% |
| EV / EBITDA          | 22.3   | 37.6    | 138.1 | 45.1  | 34.6  |
| Free Cash Flow Yield | -57.2% | -117.7% | 21.8% | 21.6% | 21.7% |

| <b>Bus Performance (Dec)</b>                               | <b>2018A</b>  | <b>2019A</b>   | <b>2020E</b>   | <b>2021E</b>   | <b>2022E</b>   |
|--|---------------|----------------|----------------|----------------|----------------|
| Return on Asset  | 2.1%          | 2.2%           | 1.0%           | 1.0%           | 1.3%           |
| Return on Equity   | 6.6%          | 7.7%           | 3.2%           | 3.3%           | 4.3%           |
| Operating Margin   | 8.1%          | 6.2%           | 0.8%           | 4.5%           | 5.8%           |
| Free Cash Flow (Bt mn)                                     | -5,842        | -12,029        | 2,228          | 2,210          | 2,217          |
| <b>Quality of Earnings (Dec)</b>                           | <b>2018A</b>  | <b>2019A</b>   | <b>2020E</b>   | <b>2021E</b>   | <b>2022E</b>   |
| Cash Realization Ratio (x)                                 | -4.2          | -3.3           | 2.3            | 2.5            | 1.7            |
| Asset Replacement Ratio (x)                                | -1.8          | -5.3           | 0.1            | -0.1           | -0.1           |
| Net Debt-to-Equity Ratio                                   | 1.4           | 1.8            | 1.6            | 1.6            | 1.6            |
| Interest Cover   | 2.0           | 1.0            | 0.2            | 0.5            | 0.7            |
| <b>Income Statement Data (Dec)</b><br><b>(Bt Millions)</b> | <b>2018A</b>  | <b>2019A</b>   | <b>2020E</b>   | <b>2021E</b>   | <b>2022E</b>   |
| Sales  | 26,248        | 24,310         | 26,843         | 26,016         | 27,512         |
| % Change   | -15.1%        | -7.4%          | 10.4%          | -3.1%          | 5.8%           |
| EBIT   | 2,113         | 1,512          | 206            | 1,158          | 1,582          |
| % Change   | -39.3%        | -28.4%         | -86.4%         | 463.4%         | 36.6%          |
| EBITDA   | 2,335         | 1,769          | 460            | 1,395          | 1,803          |
| % Change   | -36.5%        | -24.2%         | -74.0%         | 203.5%         | 29.3%          |
| Net Interest & Other Income                                | 222           | 115            | -44            | -236           | -252           |
| Net Income (report - mn)                                   | 2,046         | 2,392          | 1,039          | 1,062          | 1,389          |
| % Change   | -26.4%        | 16.9%          | -56.6%         | 2.3%           | 30.7%          |
| <b>Free Cash Flow Data (Dec)</b><br><b>(Bt Millions)</b>   | <b>2018A</b>  | <b>2019A</b>   | <b>2020E</b>   | <b>2021E</b>   | <b>2022E</b>   |
| Net Income from Cont Operations (GAAP)                     | 2,046         | 2,392          | 1,039          | 1,062          | 1,389          |
| Depreciation & Amortization                                | 222           | 257            | 254            | 237            | 221            |
| Change in Working Capital                                  | -11,026       | -10,445        | 1,099          | 1,375          | 774            |
| Capital Expenditure  | -389          | -1,367         | 30             | -24            | -24            |
| Free Cash Flow   | -5,842        | -12,029        | 2,228          | 2,210          | 2,217          |
| Net Debt   | 41,878        | 55,394         | 52,520         | 51,929         | 51,332         |
| <b>Balance Sheet Data (Dec)</b><br><b>(Bt Millions)</b>    | <b>2018A</b>  | <b>2019A</b>   | <b>2020E</b>   | <b>2021E</b>   | <b>2022E</b>   |
| Cash & Equivalents   | 6,301         | 2,473          | 4,000          | 4,000          | 4,000          |
| Trade Receivables  | 889           | 1,970          | 1,970          | 1,970          | 1,970          |
| Other Current Assets                                       | 76,778        | 88,085         | 86,559         | 85,051         | 84,340         |
| Property, Plant & Equipment                                | 1,975         | 2,663          | 2,479          | 2,313          | 2,162          |
| Other Non-Current Assets                                   | 9,413         | 13,145         | 13,349         | 13,703         | 13,760         |
| <b>Total Assets</b>  | <b>95,357</b> | <b>108,336</b> | <b>108,358</b> | <b>107,037</b> | <b>106,232</b> |
| Short-Term Debt  | 18,635        | 15,807         | 32,563         | 42,105         | 49,508         |
| Other Current Liabilities                                  | 10,491        | 12,433         | 12,007         | 11,873         | 11,937         |
| Long-Term Debt   | 29,544        | 42,060         | 23,957         | 13,824         | 5,824          |
| Other Non-Current Liabilities                              | 5,835         | 6,161          | 6,121          | 6,081          | 6,041          |
| <b>Total Liabilities</b>                                   | <b>64,504</b> | <b>76,461</b>  | <b>74,648</b>  | <b>73,883</b>  | <b>73,309</b>  |
| Minority interest  | 4             | 931            | 781            | 781            | 781            |
| <b>Total Equity</b>  | <b>30,848</b> | <b>30,943</b>  | <b>32,929</b>  | <b>32,372</b>  | <b>32,141</b>  |
| <b>Total Equity &amp; Liabilities</b>                      | <b>95,357</b> | <b>108,336</b> | <b>108,358</b> | <b>107,037</b> | <b>106,232</b> |

**Figure 1: SIRI – Changes in basic assumptions**

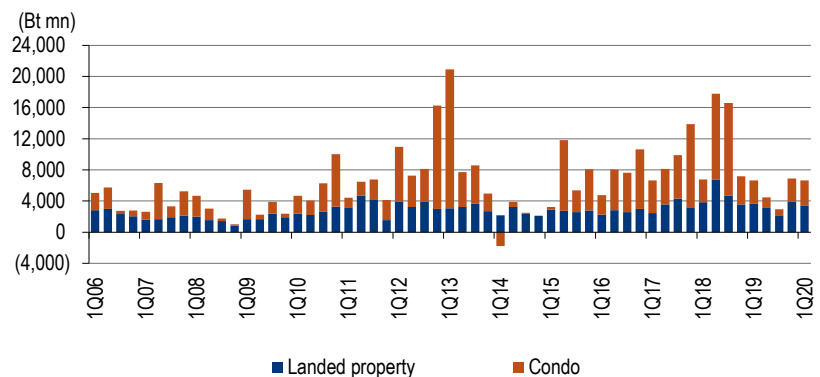
|  | 2020E   | 2021E   | 2022E   |
|--|---------|---------|---------|
| <b>Housing revenue (Bt mn)</b>         |         |         |         |
| Current                                | 23,492  | 22,629  | 24,088  |
| Previous                               | 21,590  | 22,507  | 26,727  |
| % Change                               | 8.81    | 0.54    | (9.87)  |
| <b>Housing gross margin (%)</b>        |         |         |         |
| Current                                | 23.0%   | 26.9%   | 28.2%   |
| Previous                               | 27.9%   | 28.3%   | 29.0%   |
| <b>Operating expenses to sales (%)</b> |         |         |         |
| Current                                | 20.3%   | 20.2%   | 20.3%   |
| Previous                               | 18.7%   | 18.3%   | 18.4%   |
| <b>Operating income (Bt mn)</b>        |         |         |         |
| Current                                | 206     | 1,158   | 1,582   |
| Previous                               | 1,511   | 1,910   | 2,491   |
| % Change                               | (86.39) | (39.37) | (36.49) |
| <b>Equity income/(losses) (Bt mn)</b>  |         |         |         |
| Current                                | 647     | 325     | 325     |
| Previous                               | 493     | 402     | 402     |
| % Change                               | 31.35   | (19.10) | (19.12) |
| <b>Recurring net income (Bt mn)</b>    |         |         |         |
| Current                                | 926     | 1,062   | 1,389   |
| Previous                               | 1,531   | 1,564   | 2,044   |
| % Change                               | (39.50) | (32.06) | (32.06) |
| <b>Reporting net income (Bt mn)</b>    |         |         |         |
| Current                                | 1,039   | 1,062   | 1,389   |
| Previous                               | 1,531   | 1,564   | 2,044   |
| % Change                               | (32.15) | (32.06) | (32.06) |

Source: Phatra Securities estimates

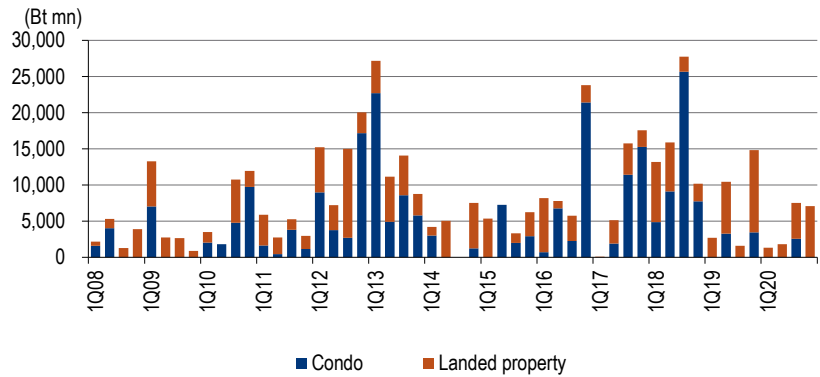
**Figure 2: SIRI – 1Q results review**

| (Bt mn)                                | 1Q20         | 1Q19         | % YoY          | 4Q19         | % QoQ          |
|--|--------------|--------------|----------------|--------------|----------------|
| Revenue from project sales             | 5,383        | 4,893        | 10.0           | 7,634        | (29.5)         |
| <b>Total revenue</b>                   | <b>6,252</b> | <b>6,310</b> | <b>(0.9)</b>   | <b>8,731</b> | <b>(28.4)</b>  |
| Cost of project sales                  | 4,420        | 3,587        | 23.2           | 5,306        | (16.7)         |
| <b>Total cost of sales</b>             | <b>5,269</b> | <b>4,727</b> | <b>11.5</b>    | <b>6,725</b> | <b>(21.7)</b>  |
| Gross profit from project sales        | 963          | 1,305        | (26.2)         | 2,328        | (58.6)         |
| Total gross profit                     | 984          | 1,583        | (37.9)         | 2,006        | (51.0)         |
| Total operating expenses               | 1,305        | 1,081        | 20.7           | 1,248        | 4.6            |
| <b>EBIT</b>                            | <b>(321)</b> | <b>501</b>   | <b>(164.0)</b> | <b>759</b>   | <b>(142.3)</b> |
| Other income                           | 201          | 222          | (9.4)          | 87           | 130.8          |
| Interest income                        | 97           | 103          | (6.0)          | 119          | (18.5)         |
| Interest expense                       | 202          | 191          | 5.6            | 304          | (33.6)         |
| EBT                                    | (225)        | 635          | (135.5)        | 660          | (134.2)        |
| Taxes                                  | 25           | 132          | (81.1)         | 189          | (86.8)         |
| EAT & before special items             | (250)        | 503          | (149.8)        | 471          | (153.1)        |
| Equity income / (loss)                 | 140          | (120)        | n/a            | 670          | (79.1)         |
| <b>CORE profit before extra and FX</b> | <b>(51)</b>  | <b>384</b>   | <b>(113.2)</b> | <b>1,231</b> | <b>(104.1)</b> |
| Total extraordinary items              | 112          | 21           | 427.9          | (317)        | n/a            |
| NI                                     | 62           | 405          | (84.7)         | 914          | (93.2)         |
| Gross margin - housing (%)             | 17.9%        | 26.7%        | n/a            | 30.5%        | n/a            |
| Gross margin (%)                       | 15.7%        | 25.1%        | n/a            | 23.0%        | n/a            |
| OP margin (%)                          | -5.1%        | 7.9%         | n/a            | 8.7%         | n/a            |
| Net D/E                                | 1.92         | 1.41         | n/a            | 1.79         | n/a            |

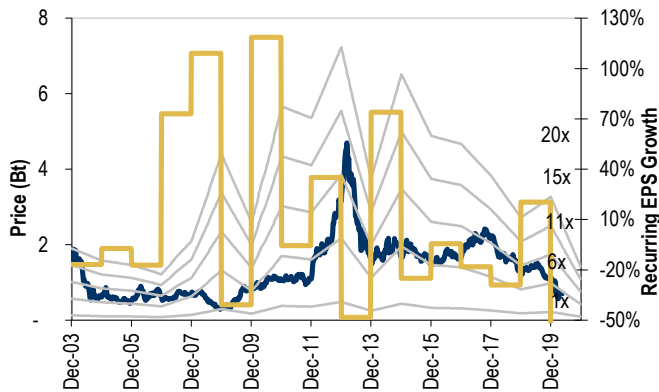
Source: Company, Phatra Securities estimates

**Figure 3: SIRI – Quarterly presales**


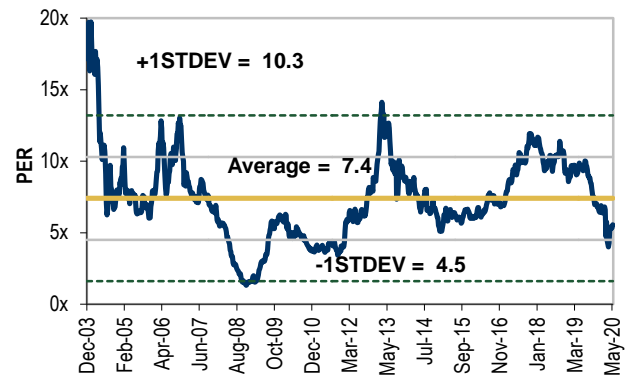
Source: Company, Phatra Securities estimates

**Figure 4: SIRI – Quarterly launches**


Source: Company, Phatra Securities estimates

**Figure 5: SIRI – P/E Band**


Source: SET, Phatra Securities estimates

**Figure 6: SIRI – Trailing P/E**


Source: SET, Phatra Securities estimates

**Figure 7: Property Comp**

|                | Price (Bt) | Market cap (US\$ mn) | Recurring EPS growth |               |              | Core PER (x) |              |             | Yield (%)    |             |             | PBV (x)     |             | ROE (%)     |             | Housing P/E |  |
|----------------|------------|----------------------|----------------------|---------------|--------------|--------------|--------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
|                |            |                      | 19A                  | 20E           | 21E          | 19A          | 20E          | 21E         | 19A          | 20E         | 21E         | 20E         | 21E         | 20E         | 21E         |             |  |
| LH             | 6.65       | 2,480                | -15.4%               | -32.5%        | 30.2%        | 10.33        | 15.30        | 11.75       | 10.53        | 6.94        | 7.23        | 1.53        | 10.0%       | 12.9%       | (9.85)      | (6.83)      |  |
| AP             | 4.66       | 457                  | -24.1%               | -27.0%        | 36.9%        | 4.88         | 6.68         | 4.88        | 8.58         | 5.54        | 7.58        | 0.54        | 8.2%        | 10.6%       | 6.68        | 4.88        |  |
| SPALI          | 14.20      | 864                  | -6.4%                | -25.5%        | 52.2%        | 5.63         | 7.56         | 4.97        | 6.39         | 4.66        | 7.24        | 0.77        | 10.0%       | 14.7%       | 7.56        | 4.97        |  |
| QH             | 2.06       | 689                  | -23.7%               | -42.0%        | 33.3%        | 7.64         | 13.16        | 9.87        | 9.71         | 5.70        | 7.09        | 0.84        | 6.3%        | 8.3%        | -           | -           |  |
| LPN            | 4.52       | 206                  | -5.4%                | -44.9%        | 57.9%        | 5.19         | 9.42         | 5.97        | 13.27        | 7.42        | 11.62       | 0.51        | 5.4%        | 8.4%        | 9.42        | 5.97        |  |
| PSH            | 10.80      | 738                  | -10.7%               | -52.2%        | 16.3%        | 4.39         | 9.17         | 7.89        | 14.35        | 6.88        | 8.00        | 0.56        | 6.0%        | 6.9%        | 9.17        | 7.89        |  |
| ANAN           | 1.40       | 146                  | -77.1%               | -6.6%         | 7.7%         | 9.06         | 9.70         | 9.00        | 8.39         | 5.27        | 5.70        | 0.28        | 2.9%        | 3.1%        | 9.70        | 9.00        |  |
| SC             | 1.97       | 257                  | 6.3%                 | -43.0%        | 20.1%        | 4.30         | 7.55         | 6.28        | 9.64         | 5.30        | 6.37        | 0.46        | 6.2%        | 7.2%        | 7.55        | 6.28        |  |
| SIRI           | 0.71       | 319                  | 1.3%                 | -55.7%        | 14.7%        | 4.88         | 11.03        | 9.62        | 11.27        | 14.01       | 14.01       | 0.31        | 2.9%        | 3.3%        | 11.03       | 9.62        |  |
| <b>Average</b> |            |                      | <b>-16.6%</b>        | <b>-37.7%</b> | <b>32.8%</b> | <b>7.51</b>  | <b>11.73</b> | <b>9.02</b> | <b>10.21</b> | <b>6.64</b> | <b>7.76</b> | <b>0.99</b> | <b>7.0%</b> | <b>9.1%</b> | <b>0.12</b> | <b>0.43</b> |  |

Source: Companies, Phatra Securities estimates

## Price objective basis and risk

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Our 12-month price objective of Bt0.5/share is based on our fair value at end-2020. This is based on P/E of 8.0x, which is the mid-value of the average P/E and one-standard deviation below the average P/E to reflect its stretched balance sheet and more investment in the non-housing business. 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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