

18 January 2010

# Prinsiri

Property  
(Residential)  
Overweight

## Changes build critical mass

SMALL CAPS

**Investment thesis:** PRIN's ability to raise its sales prices signals that its profitability is improving and its competitive advantage is increasing. Note that its earnings are now the highest they have been since 2004. The implication is that if PRIN can achieve its FY10 targets, it will join the ranks of the first-tier developers—LH, PS, QH, AP, LPN and SPALI. The firm currently trades at a YE10 PBV of only 0.6x, a steep 45.5% discount to its long-term mean of 1.1x (sub-sectoral average PBV of 1.9x). The stock is very cheap.

**Sales weaker in 4Q09 but margin improved:** This was because PRIN's two new projects (Six Nature Kalapapruek, worth Bt1.4bn, and Six Nature Wacharapol Zone C2, Bt529m) launched in 4Q09 and most of the income from them will be recognized in FY10, while rising sales in 1Q09-3Q09 were driven by 14 old projects. However, in 4Q09 PRIN increased the average sales prices for a condominium project to Bt80,000/sqm from Bt50,000, boosting gross margin to 28% for 4Q09 and nearly 23% for FY09 (see Figure 1).

**Construction method shift to enhance profit:** For townhouse (TH) projects, which are PRIN's key growth driver, the firm now uses Tunnel Form Technology. This method can boost gross margin by 5-8% and reduce the time required for construction to four months from eight months while maintaining a high standard. PRIN is also developing a new construction method for SDH projects to increase the GM of new projects to 30%.

**Four existing condos are on schedule:** The Bridge Paholyothin 37 (to be transferred in early Feb; the average sales price for unsold units has increased to Bt55,000/sqm from Bt42,000), the Complete Narathiwas (to be transferred in 2Q10), Smart Condo @ Rama II (to be transferred in 3Q10; the BOI has waived corporate income tax for 85% of its 2,062 units) and the Pride Pattaya Sai 2 (Tower B) are to be transferred on time.

**Our forecast is more conservative:** PRIN's recovery continues to sustain momentum. Its FY10 targets are 15-20% sales growth, 25-27% gross margin and 15-19% net margin. Our forecast is more conservative than PRIN's targets. The implication is that if PRIN achieves its targets, we will have to revise up our earnings forecast and target price.

## BUALUANG RESEARCH

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**BUY** (maintained)

Target Price: Bt2.70  
Price (15/01/10): Bt2.06  
PRIN TB / PRIN.BK

### Key Ratios & Statistics

Market cap	Bt2.07bn
12-mth price range	Bt0.55/Bt2.16
3-mth avg daily volume	Bt4.73m
# of shares (m)	1,005.0
Est. free float (%)	31

Share price perf. (%)	1M	3M	12M
Relative to SET	(7.7)	(2.6)	178.6
Absolute	(7.2)	2.8	254.9

### Financial summary

FY ended Dec 31	2008	2009E	2010E	2011E
Revenue (Btm)	3,634	4,388	5,230	5,783
Net profit (Btm)	316	476	562	670
EPS (Bt)	0.31	0.47	0.56	0.67
BLS/Consensus (x)	n.m.	1.01	1.10	1.21
Core profit (Btm)	316	476	562	670
Core EPS (Bt)	0.31	0.47	0.56	0.67
Core EPS growth (%)	244.44	52.87	17.94	19.24
PER (x)	6.23	4.35	3.69	3.09
Core PER (x)	6.23	4.35	3.69	3.09
PBV (x)	0.77	0.69	0.61	0.54
Dividend (Bt)	0.00	0.20	0.23	0.27
Dividend yield (%)	0.00	9.71	11.17	13.11
ROE (%)	13.27	17.22	17.60	18.62
Net gearing (x)	0.90	0.58	0.20	0.07

CG Rating - 2009



### Company profile

PRIN is a leading low-end to upper-mid range housing developer. PRIN has a 51% stake in Prin Venture Co Ltd (an SDH developer) and 99.99% holdings in Gro Yotha Group Co Ltd (construction and distributor of building materials) and CNSPR (Thailand) Co Ltd (rents properties and buys/sells properties held for development but from which PRIN cannot generate any income).

**Figure 1: PRIN should post satisfactory 4Q09 earnings**

Unit: Btm	4Q09E	4Q08	YoY change	3Q09	QoQ change	2009E	2008	Change
Sales of real estate	921	977	-5.6%	1,432	-35.7%	4,322	3,472	24.5%
Cost of sales	662	734	-9.8%	1,145	-42.1%	3,338	2,641	26.4%
<b>Gross profit</b>	<b>259</b>	<b>243</b>	<b>6.8%</b>	<b>288</b>	<b>-9.9%</b>	<b>984</b>	<b>831</b>	<b>18.4%</b>
S&A	98	84	16.7%	65	50.5%	310	377	-17.7%
<b>Operating profit</b>	<b>161</b>	<b>158</b>	<b>1.5%</b>	<b>222</b>	<b>-27.6%</b>	<b>674</b>	<b>454</b>	<b>48.4%</b>
Other income								
Sales of goods	7	4	51.3%	6	20.4%	22	30	-27.0%
Other income	19	34	-44.4%	-6	-436.9%	44	132	-67.0%
Total	25	38	-33.3%	0	93916.3%	66	162	-59.5%
Other expense								
Cost of sales of goods	7	3	96.9%	5	30.1%	20	28	-27.0%
Other expenses	2	51	-96.9%	0	100.0%	2	57	-97.0%
Total	8	55	-84.9%	5	60.8%	22	84	-74.0%
<b>EBIT</b>	<b>178</b>	<b>142</b>	<b>25.6%</b>	<b>217</b>	<b>-18.0%</b>	<b>718</b>	<b>532</b>	<b>35.0%</b>
Interest expense	9	15	-41.6%	14	-38.4%	52	63	-17.5%
<b>EBT</b>	<b>169</b>	<b>127</b>	<b>33.6%</b>	<b>203</b>	<b>-16.6%</b>	<b>665</b>	<b>469</b>	<b>42.0%</b>
Tax	72	28	159.3%	45	59.2%	185	137	34.3%
<b>Earnings before MI</b>	<b>97</b>	<b>99</b>	<b>-1.8%</b>	<b>157</b>	<b>-38.4%</b>	<b>481</b>	<b>331</b>	<b>45.2%</b>
Minority interest	-3	-7	Na	-2	Na	-5	-15	Na
<b>Net profit</b>	<b>94</b>	<b>91</b>	<b>3.2%</b>	<b>156</b>	<b>-39.4%</b>	<b>476</b>	<b>316</b>	<b>50.9%</b>
<b>EPS</b>	<b>0.09</b>	<b>0.09</b>	<b>4.5%</b>	<b>0.15</b>	<b>-37.4%</b>	<b>0.47</b>	<b>0.31</b>	<b>52.9%</b>
<b>% Margin</b>								
Gross profit	28.1%	24.9%		20.1%		22.8%	23.9%	
Operating profit	17.5%	16.2%		15.5%		15.6%	13.1%	
Net profit	10.0%	9.0%		10.9%		10.9%	8.7%	

Sources: Company data, Bualuang Research estimates

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**Financial tables**

<b>PROFIT &amp; LOSS (Btm)</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Sales of real estate	2,524	3,472	4,322	5,164	5,737
Cost of sales of real estate	1,935	2,641	3,338	3,971	4,351
<b>Gross profit</b>	<b>588</b>	<b>831</b>	<b>984</b>	<b>1,193</b>	<b>1,387</b>
S&A	461	377	310	420	459
<b>Operating profit</b>	<b>127</b>	<b>454</b>	<b>674</b>	<b>773</b>	<b>928</b>
Other income	87	162	66	66	46
Other expense	56	84	22	23	23
<b>EBIT</b>	<b>158</b>	<b>532</b>	<b>718</b>	<b>817</b>	<b>950</b>
Interest expense	7	63	52	31	15
<b>EBT</b>	<b>151</b>	<b>469</b>	<b>665</b>	<b>786</b>	<b>935</b>
Tax	63	137	185	212	266
<b>Earnings before minority interest</b>	<b>88</b>	<b>331</b>	<b>481</b>	<b>574</b>	<b>670</b>
Minority interest	-10	-15	-5	-12	0
<b>Net profit</b>	<b>78</b>	<b>316</b>	<b>476</b>	<b>562</b>	<b>670</b>
<b>EPS</b>	<b>0.09</b>	<b>0.31</b>	<b>0.47</b>	<b>0.56</b>	<b>0.67</b>
Dividend (Bt)	0.03	0.00	0.20	0.23	0.27
<b>KEY RATIOS</b>					
Revenue growth (%)	-11.80	39.16	20.75	19.21	10.57
EPS growth (%)	-86.57	244.44	52.87	17.94	19.24
Gross margin (%)	23.32	23.93	22.76	23.11	24.17
Operating margin (%)	5.04	13.08	15.59	14.97	16.17
Net margin (%)	2.99	8.68	10.85	10.74	11.58
Effective tax rate (%)	41.93	29.34	27.75	27.01	28.40
<b>BALANCE SHEET (Btm)</b>					
Cash and cash equivalents	113	66	88	97	100
Trade accounts receivable, net	16	2	8	4	6
Inventories, net	4,809	6,472	4,806	5,008	5,286
Other current assets	639	332	235	249	265
Land held for development	127	127	127	127	127
Other assets	145	144	72	72	72
<b>Total assets</b>	<b>5,849</b>	<b>7,144</b>	<b>5,336</b>	<b>5,557</b>	<b>5,855</b>
O/D & short-term loans	434	739	193	104	125
Short-term loans - P/N	295	249	201	63	32
Trade accounts and notes payable	249	203	195	275	307
Unrealized installment income	265	388	138	422	461
Current portion of l-t liabilities	764	1,347	593	447	399
Other current liabilities	277	301	425	574	633
Long-term loans	1,261	1,306	509	212	0
Other liabilities	77	83	78	83	82
<b>Total liabilities</b>	<b>3,621</b>	<b>4,616</b>	<b>2,331</b>	<b>2,180</b>	<b>2,040</b>
<b>Total shareholders' equity</b>	<b>2,228</b>	<b>2,528</b>	<b>3,004</b>	<b>3,377</b>	<b>3,816</b>
<b>Total liab. &amp; shareholders' equity</b>	<b>5,849</b>	<b>7,144</b>	<b>5,336</b>	<b>5,557</b>	<b>5,855</b>
Total debt (Btm)	2,754	3,641	1,495	826	556
Net debt (Cash) (Btm)	2,641	3,575	1,407	729	455
BV per share (Bt)	2.22	2.52	2.99	3.36	3.80

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Sources: Company data, Bualuang Research estimates

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**Financial tables**

<b>QUAETERLY PROFIT &amp; LOSS (Btm)</b>	<b>3Q08</b>	<b>4Q08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>
Sales of real estate	978	977	582	1,386	1,432
Cost of sales of real estate	760	734	448	1,084	1,145
<b>Gross profit</b>	<b>219</b>	<b>243</b>	<b>134</b>	<b>303</b>	<b>288</b>
S&A	79	84	64	82	65
<b>Operating profit</b>	<b>140</b>	<b>158</b>	<b>70</b>	<b>221</b>	<b>222</b>
Other income	106	38	14	27	0
Other expense	6	55	5	4	5
<b>EBIT</b>	<b>239</b>	<b>142</b>	<b>79</b>	<b>243</b>	<b>217</b>
Interest expense	20	15	11	18	14
<b>EBT</b>	<b>219</b>	<b>127</b>	<b>68</b>	<b>226</b>	<b>203</b>
Tax	59	28	18	50	45
<b>Earnings before minority interest</b>	<b>161</b>	<b>99</b>	<b>50</b>	<b>176</b>	<b>157</b>
Minority interest	-5	-7	0	-0	-2
<b>Net profit</b>	<b>155</b>	<b>91</b>	<b>50</b>	<b>176</b>	<b>156</b>
<b>EPS</b>	<b>0.15</b>	<b>0.09</b>	<b>0.05</b>	<b>0.17</b>	<b>0.15</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	2.14	-6.41	-41.25	137.06	1.36
EPS growth (%)	66.67	-40.11	-44.35	240.00	-11.76
Gross margin (%)	22.38	24.86	23.08	21.83	20.08
Operating margin (%)	14.27	16.22	12.10	15.91	15.52
Net margin (%)	14.33	9.01	8.43	12.45	10.88
Effective tax rate (%)	26.77	21.98	25.92	21.97	22.35
<b>QUARTERLY BALANCE SHEET (Btm)</b>					
Cash and cash equivalents	163	66	201	162	99
Trade accounts receivable, net	4	2	4	9	10
Inventories, net	6,691	6,472	6,465	5,631	5,037
Other current assets	333	332	324	265	304
Land held for development	127	127	127	127	127
Other assets	153	144	169	148	137
<b>Total assets</b>	<b>7,471</b>	<b>7,144</b>	<b>7,288</b>	<b>6,342</b>	<b>5,714</b>
O/D & short-term loans	762	739	884	673	271
Short-term loans - P/N	303	249	359	316	287
Trade accounts and notes payable	278	203	172	163	239
Unrealized installment income	409	388	366	255	136
Current portion of l-t liabilities	1,229	1,347	1,301	972	678
Other current liabilities	355	301	319	432	418
Long-term loans	1,618	1,306	1,222	695	697
Other liabilities	88	83	87	82	75
<b>Total liabilities</b>	<b>5,041</b>	<b>4,616</b>	<b>4,710</b>	<b>3,587</b>	<b>2,802</b>
<b>Total shareholders' equity</b>	<b>2,430</b>	<b>2,528</b>	<b>2,578</b>	<b>2,755</b>	<b>2,912</b>
<b>Total liab. &amp; shareholders' equity</b>	<b>7,471</b>	<b>7,144</b>	<b>7,288</b>	<b>6,342</b>	<b>5,714</b>
Total debt (Btm)	3,911	3,641	3,767	2,655	1,934
Net debt (Cash) (Btm)	3,748	3,575	3,566	2,493	1,835
BV per share (Bt)	2.42	2.52	2.57	2.74	2.90

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Sources: Company data, Bualuang Research

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
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Below 50	No logo given	N/A

## 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.