




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Alert

Thailand

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## 3Q12 earnings review: Beat our estimate and consensus

### What's new

LH posted 3Q12 earnings of Bt1.5bn, up 66.5% YoY and 33.6% QoQ. This beat our forecast by 12.9% and the Bloomberg consensus by 24.3% due mainly to a surprisingly strong gross margin of 35.5% and higher-than-expected revenue. Note that LH announced an interim dividend of Bt0.01/sh or equivalent to a yield of 1.1%. The XD would be on November 23 and payment would be December 12.

### Implications

Revenue jumped 34% YoY and 16.2% QoQ to Bt6.7bn, this beat our revenue forecast by 12.2%. We believe this should be due to strong demand for the company's low rise product combined with continued unit transfers of condo projects, i.e. The Key Chengwattana, The Room Sathorn Taksin, and Ocas Hua Hin. In the quarter, revenue from condominiums was Bt1.4bn while only Bt169mn in 3Q11 and Bt884mn in 2Q12.

LH's 3Q12 gross margin expanded to 35.5% from 32.3% in 3Q11 and 33.5% in 2Q12. This was blended 35.2% of property business and 40% of rental business. We believe the unexpectedly strong gross margin would be mainly from high margin revenue from condominiums.

SG&A expenses increased 32% YoY and 13.4% QoQ to Bt988mn. The increase was from provision arising from a judgment against LH by the Civil Court that it would have to pay the plaintiff reimbursement including interest in the amount of Bt134mn. The company has filed an appeal. SG&A to sales was at 14.7%.

LH realized profit contribution from its associates of Bt528mn, up 77% YoY and 45.1% QoQ. The increase was from the better operating results of affiliates and profit after tax from sale of assets in Quality Houses Plc. (QH.BK/QH TB) to Quality Houses Hotel and Residence Leasehold Property Fund (QHHR) in the amount of Bt173mn. Stripping out this item, core earnings from operation should be Bt979.6mn, up 64.5% YoY and 28% QoQ.

LH's 9M12 earnings were Bt4.1bn or 84% of our full-year estimate of Bt4.9bn. We expect to see decent earnings in 4Q12, so there is an upside risk to our full-year forecast. As such, we will revisit our forecast after LH's analyst meeting on November 14.

### Valuation & action

We rate the counter Neutral with a target price of Bt8.30 based on 17x of 13EPS.

Figure 1: 3Q12 earnings summary

Bt mn	3Q12	3Q11	YoY (%)	2Q12	QoQ (%)	Comment
Sales and services	6,743	5,034	34.0	5,801	16.2	12.2% above our forecast
Gross profit	2,396	1,627	47.3	1,942	23.4	
SG&A	(988)	(749)	32.0	(872)	13.4	
EBIT	1,408	878	60.3	1,070	31.5	
Interest expenses	(116)	(53)	119.1	(113)	2.6	
Corporate income tax	(412)	(294)	40.0	(252)	63.4	
Normalized profit	1,508	906	66.5	1,129	33.6	
<b>Net profit</b>	<b>1,508</b>	<b>906</b>	<b>66.5</b>	<b>1,129</b>	<b>33.6</b>	<b>12.9% above our estimate and 24.3% above the Bloomberg consensus</b>
EPS (Bt)	0.15	0.09	66.5	0.11	33.6	
Percent	<b>3Q12</b>	<b>3Q11</b>	<b>YoY (ppts)</b>	<b>2Q12</b>	<b>QoQ (ppts)</b>	
Gross margin	35.5	32.3	3.2	33.5	2.1	Better than our expectation of 33.5%
SG&A to sales	14.7	14.9	(0.2)	15.0	(0.4)	
Net margin	22.4	18.0	4.4	19.5	2.9	

Source: Company data; KGI Securities (Thailand)

\*The Company may be issuer of Derivative Warrants on these securities.

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