

Land and Houses LH TB / LH.BK

14 May 2013

1Q13 result beat our estimate, moderate 2Q13 outlook

Above our estimate

LH posted a net profit of Bt1.4bn for 1Q13, down by 1% YoY and 11% QoQ. Excluding huge gains of Bt515m in 1Q12 (asset sales to the property fund), 1Q13 core profit jumped 48% YoY but fell 11% QoQ. The net result was 18% above our estimate, due to 10% better-than-expected residential sales and a lower-than-modeled effective tax rate of 15% (we had assumed 18%).

Results highlights

YoY core earnings growth was driven by a 27% jump in residential sales to Bt5.3bn (led by low-rise sales). No new condo started transferring in 1Q13. Residential GM jumped from 31.9% in 1Q12 to 34.5% in 1Q13, due to higher prices. The high revenue meant that the SG&A/sales ratio declined from 15.7% in 1Q12 to 13% in 1Q13. Profit-sharing from affiliates totaled Bt431m, up 16% YoY.

The QoQ core earnings decline was due to the high base set by the record 4Q12 result. 1Q13 revenue fell 14% QoQ. Residential GM dipped 0.5% QoQ. Also, profit-sharing from affiliates declined 14% QoQ. Net gearing was stable QoQ at 0.8x at end-March.

Outlook

We anticipate that LH will post YoY earnings growth for 2Q13, led by residential sales, a fatter GM and a lower effective tax rate. However, on a QoQ basis, core profit is expected to fall, due to high marketing expenses tied to the launch of a big high-end condo, The Bangkok Sathorn (Bt7bn). LH will report strong YoY and QoQ growth in 3Q13 earnings, as three condos are slated to start transferring—The Room Sukhumvit 21, The Room Sukhumvit 40 and North 8 Chiangmai.

What's changed?

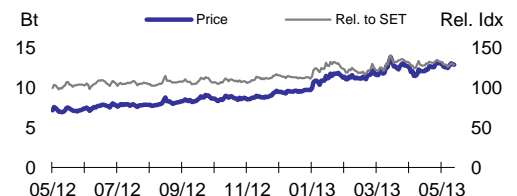
1Q13 profit represents 22% of our full-year forecast (23% of the street projection). For the time being, we maintain our model unchanged—bottom-line growth of 22% YoY for FY13. We assume 12% housing revenue expansion to Bt25bn in FY13 (in line with LH's target). Our housing GM assumption of 35.2% is more aggressive than LH's guidance of 34.5%.

Recommendation

We maintain a BUY rating on LH with a YE13 target price of Bt14.20, pegged to a sum-of-the parts valuation—a target housing PER of 20x (1SD above its FY06-12 mean) and Bt5.2/share of investment value. LH trades at an FY13 PER of 20.4x. There may be scope for earnings upside from asset sales over the medium- to long-term (stakes in QCON and/or Terminal 21).

Sector: Property (Residential) Overweight
Rating: BUY
Target Price: Bt14.20
Price (13 May 2013): Bt12.90

Price chart

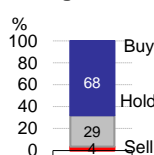


Share price perf. (%)	1M	3M	12M
Relative to SET	(1.4)	8.2	40.4
Absolute	4.9	14.2	79.2

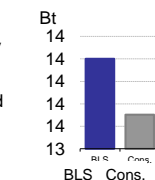
Key statistics

Market cap	Bt129.3bn	USD4.4bn
12-mth price range	Bt6.9/Bt14.1	
12-mth avg daily volume	Bt259m	USD8.7m
# of shares (m)	10,026	
Est. free float (%)	52.1	
Foreign limit (%)	30.0	

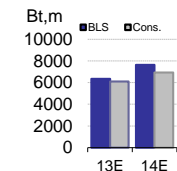
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2012	2013E	2014E	2015E
Revenues (Btm)	24,103	27,143	31,409	35,718
Net profit (Btm)	5,494	6,348	7,645	8,793
EPS (Bt)	0.55	0.63	0.76	0.88
EPS growth (%)	-4.1%	+15.6%	+20.4%	+15.0%
Core profit (Btm)	5,205	6,348	7,645	8,793
Core EPS (Bt)	0.52	0.63	0.76	0.88
Core EPS growth (%)	+59.4%	+22.0%	+20.4%	+15.0%
PER (x)	23.5	20.4	16.9	14.7
PBV (x)	4.0	3.8	3.6	3.3
Dividend (Bt)	0.5	0.5	0.6	0.7
Dividend yield (%)	3.5	3.9	4.7	5.4
ROE (%)	18.2	20.0	22.5	24.0

CG rating


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LH : Financial Tables – Year

Btm	2011	2012	2013E	2014E	2015E
Revenue	19,229	24,103	27,143	31,409	35,718
Cost of sales and services	(12,981)	(15,792)	(17,452)	(20,129)	(23,419)
Gross profit	6,248	8,310	9,691	11,281	12,299
SG&A	(3,062)	(3,518)	(3,797)	(4,249)	(4,388)
EBIT	3,185	4,793	5,895	7,031	7,910
Interest expense	(310)	(488)	(507)	(507)	(484)
Other income/exp.	284	330	330	329	328
EBT	3,159	4,634	5,718	6,853	7,754
Corporate tax	(1,132)	(1,150)	(1,404)	(1,689)	(1,941)
After-tax net profit (loss)	2,027	3,485	4,314	5,165	5,813
Minority interest	82	(47)	(47)	(47)	(47)
Equity earnings from affiliates	1,156	1,767	2,081	2,527	3,026
Extra items	2,466	289	0	0	0
Net profit (loss)	5,731	5,494	6,348	7,645	8,793
Reported EPS	0.57	0.55	0.63	0.76	0.88
Fully diluted EPS	0.57	0.55	0.63	0.76	0.88
Core net profit	3,265	5,205	6,348	7,645	8,793
Core EPS	0.33	0.52	0.63	0.76	0.88
EBITDA	3,502	5,143	6,379	7,436	8,348

KEY RATIOS

Revenue growth (%)	13.8	25.3	12.6	15.7	13.7
Gross margin (%)	32.5	34.5	35.7	35.9	34.4
EBITDA margin (%)	18.2	21.3	23.5	23.7	23.4
Operating margin (%)	16.6	19.9	21.7	22.4	22.1
Net margin (%)	29.8	22.8	23.4	24.3	24.6
Core profit margin (%)	17.0	21.6	23.4	24.3	24.6
ROA (%)	9.9	8.8	9.8	11.5	12.9
ROCE (%)	10.6	9.4	10.5	12.4	14.0
Asset turnover (x)	0.3	0.4	0.4	0.5	0.5
Current ratio (x)	0.3	0.1	0.2	0.2	0.2
Gearing ratio (x)	0.9	0.9	0.8	0.7	0.6
Interest coverage (x)	10.3	9.8	11.6	13.9	16.3

BALANCE SHEET (Btm)

Cash & Equivalent	1,199	1,462	1,279	1,538	1,548
Accounts receivable	105	120	146	169	193
Inventory	31,472	32,537	33,536	34,833	35,197
PP&E-net	1,025	965	1,225	1,325	1,425
Other assets	27,032	29,318	29,526	29,779	30,081
Total assets	60,832	64,401	65,713	67,644	68,444
Accounts payable	1,862	2,146	2,371	2,735	3,182
ST debts & current portion	8,841	7,632	4,881	4,881	4,556
Long-term debt	17,941	20,163	22,163	21,163	19,163
Other liabilities	1,716	2,498	2,498	2,498	2,498
Total liabilities	30,360	32,438	31,913	31,276	29,398
Paid-up capital	10,026	10,026	10,026	10,026	10,026
Share premium	10,643	10,643	10,643	10,643	10,643
Retained earnings	8,549	10,171	12,008	14,575	17,253
Shareholders equity	29,396	30,841	32,677	35,245	37,922
Minority interests	1,076	1,123	1,123	1,123	1,123
Total Liab.&Shareholders' equity	60,833	64,401	65,713	67,644	68,444

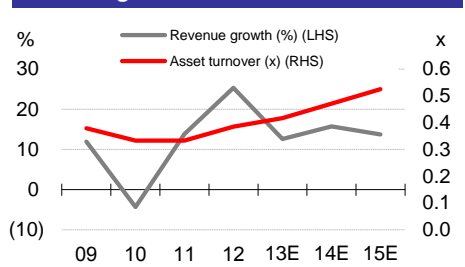
CASH FLOW (Btm)

Net income	5,731	5,494	6,348	7,645	8,793
Depreciation and amortization	317	351	484	404	437
Change in working capital	(13,552)	(14,541)	(13,936)	(847)	(1,003)
FX, non-cash adjustment & others	6,493	13,705	10,973	(2,602)	(1,928)
Cash flows from operating activities	(1,011)	5,009	3,870	4,600	6,299
Capex (Invest)/Divest	239	858	1,209	1,737	2,154
Others	(101)	27	0	0	0
Cash flows from investing activities	138	885	1,209	1,737	2,154
Debt financing (repayment)	4,056	(415)	(501)	(750)	(1,750)
Equity financing	112	0	0	0	0
Dividend payment	(3,487)	(5,266)	(4,512)	(5,078)	(6,117)
Others	(101)	27	0	0	0
Cash flows from financing activities	(59)	(5,630)	(5,263)	(6,078)	(8,442)
Net change in cash	(932)	264	(184)	259	10
Free cash flow (Btm)	(772)	5,867	5,079	6,337	8,452
FCF per share (Bt)	(0.08)	0.59	0.51	0.63	0.84

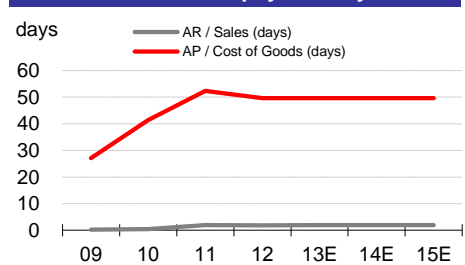
KEY ASSUMPTIONS

	2011	2012	2013E	2014E	2015E
Total bookings (Btm)	19,998	19,200	25,074	30,000	34,500
YoY change in total booking	-	-4%	31%	20%	15%
Housing revenue (Btm)	18,580	22,305	25,011	29,074	33,148
Housing revenue growth	12%	20%	12%	16%	14%
Housing GM	32.6%	34.0%	35.2%	35.2%	35.3%
Presales backlogs (Btm)	0	18,541	4,413	3,171	8,000

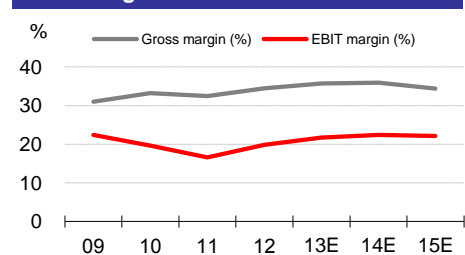
Revenue growth and asset turnover



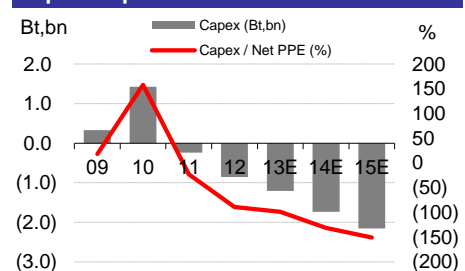
A/C receivable & A/C payable days



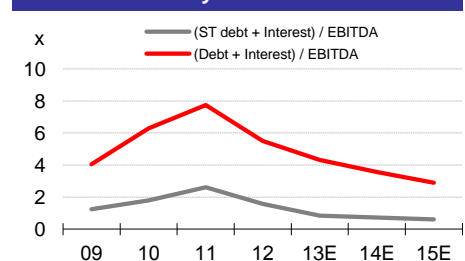
Profit margins



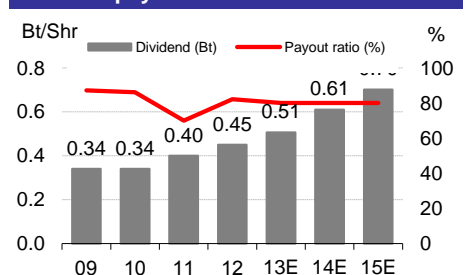
Capital expenditure



Debt serviceability



Dividend payout



LH : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q12	2Q12	3Q12	4Q12	1Q13
Revenue	4,635	5,801	6,743	6,923	5,818
Cost of sales and services	(3,113)	(3,859)	(4,347)	(4,473)	(3,766)
Gross profit	1,522	1,942	2,396	2,451	2,052
SG&A	(728)	(872)	(988)	(930)	(758)
EBIT	793	1,070	1,408	1,521	1,295
Interest expense	(134)	(113)	(116)	(126)	(127)
Other income/exp.	120	66	112	32	106
EBT	780	1,023	1,404	1,428	1,273
Corporate tax	(165)	(252)	(412)	(321)	(257)
After-tax net profit (loss)	615	771	991	1,107	1,016
Minority interest	(26)	(5)	(11)	(5)	(25)
Equity earnings from affiliates	371	364	528	504	431
Extra items	472	230	(390)	(23)	(8)
Net profit (loss)	1,432	1,360	1,119	1,582	1,414
Reported EPS	0.14	0.14	0.11	0.16	0.14
Fully diluted EPS	0.14	0.14	0.11	0.16	0.14
Core net profit	960	1,130	1,509	1,605	1,422
Core EPS	0.10	0.11	0.15	0.16	0.14
EBITDA	991	1,310	1,645	1,661	1,478

KEY RATIOS

Gross margin (%)	32.8	33.5	35.5	35.4	35.3
EBITDA margin (%)	21.4	22.6	24.4	24.0	25.4
Operating margin (%)	17.1	18.5	20.9	22.0	22.2
Net margin (%)	30.9	23.4	16.6	22.9	24.3
Core profit margin (%)	20.7	19.5	22.4	23.2	24.4
BV (Bt)	3.3	3.2	2.9	3.2	3.4
ROE (%)	18.2	17.5	16.2	20.5	17.2
ROA (%)	8.8	8.6	7.3	9.8	8.3
Current ratio (x)	3.1	3.1	2.4	3.1	3.0
Gearing ratio (x)	0.8	0.8	1.0	0.9	0.9
Interest coverage (x)	5.9	9.5	12.2	12.1	10.2

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,462	1,107	1,684	1,462	2,330
Accounts receivable	120	92	26	120	121
Inventory	32,537	31,681	32,064	32,537	34,571
PP&E-net	651	654	932	965	640
Other assets	30,284	29,739	26,427	29,318	30,802
Total assets	65,054	63,272	61,133	64,401	68,465
Accounts payable	2,146	2,038	1,841	2,146	2,241
ST debts & current portion	7,319	7,197	10,013	7,632	8,082
Long-term debt	20,163	19,383	17,490	20,163	21,043
Other liabilities	2,826	2,447	3,050	2,498	3,060
Total liabilities	32,453	31,065	32,395	32,438	34,426
Paid-up capital	10,026	10,026	10,026	10,026	10,026
Share premium	10,643	10,643	10,643	10,643	10,643
Retained earnings	9,460	8,850	6,915	10,171	10,882
Shareholders equity	31,439	31,102	27,635	30,841	32,853
Minority interests	1,161	1,104	1,104	1,123	1,186
Total Liab.&Shareholders' equity	65,054	63,272	61,133	64,401	68,465

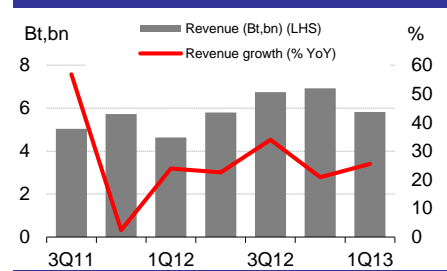
KEY STATS

	1Q12	2Q12	3Q12	4Q12	1Q13
Total bookings (Btm)	4,789	6,520	7,455	6,310	7,024
YoY change in total booking	-2%	7%	42%	115%	47%
Housing revenue (Btm)	4,200	5,385	6,277	6,443	5,316
YoY change in housing revenue	-9%	10%	16%	53%	-1%
Housing GM	31.9%	33.3%	35.1%	34.9%	34.5%
Rental revenue (Btm)	435	415	466	481	502

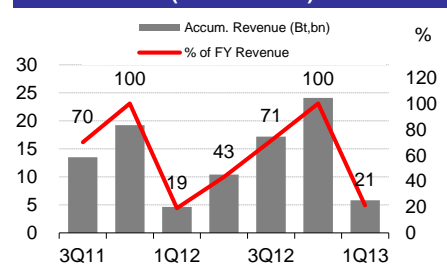
Company profile

Land and Houses Plc (LH) is the largest home builder in Thailand by market capitalization. It is the leader in the Single Detached House category. LH pioneered the prebuilt model in Thailand. Projects are in Bangkok and vicinity, Chiang Mai, Nakorn Ratchasima, Khonkaen, Hua Hin and Phuket. The 2012 housing portfolio breakdown is 83% low-rise and 17% condo. LH has recurring income on four serviced apartments (Center Point Rachadamri, Wireless Road, and Sukhumvit 21), and retail space (Terminal 21). LH has stakes in the following associates—35% of LHBANK, 30% of HMPRO, 25% of QH and 21% of Q-CON.

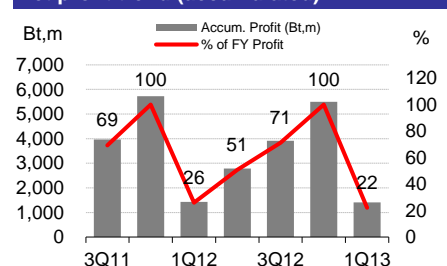
Revenue trend



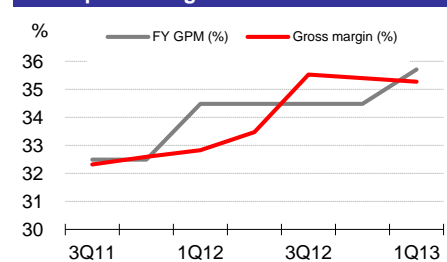
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

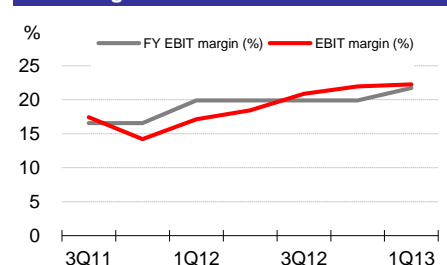


Figure 1 : 1Q13 results

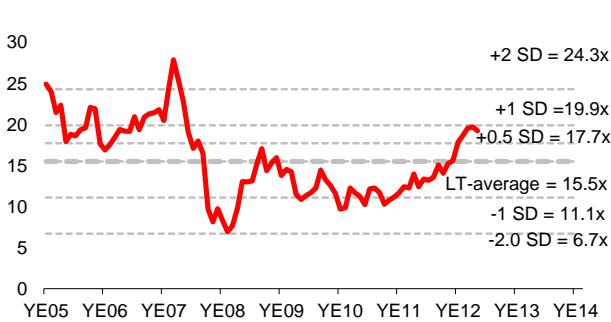
FY Ended 31 Dec (Btm)	1Q13	1Q12	YoY %	4Q12	QoQ %	3M13 vs. FY13E	
Income Statement							
Revenue	5,818	4,635	26	6,923	(16)	21	
Cost of sales and services	(3,766)	(3,113)	21	(4,473)	(16)	22	• Bt515m gain from asset sales to the property fund in 1Q12
EBITDA	1,478	991	49	1,661		23	
EBIT	1,295	793	63	1,521	(15)	22	
Interest expense	(127)	(134)	(5)	(126)	1	25	• The YoY core profit growth was driven by residential sales
Other income/exp.	106	120	(12)	32	226	32	
Equity earnings from affiliates	431	371	16	504	(14)	21	
Extra items	(8)	472	100	(23)	nm		• Low-rise was the major revenue contributor in 1Q13
EBT	1,273	780	63	1,428	(11)	22	
Corporate tax	(257)	(165)	56	(321)	(20)		
Minority interest	(25)	(26)	nm	(5)	nm		• No new condo started transferring in 1Q13
Net profit (loss)	1,414	1,432	(1)	1,582	(11)	22	
Reported EPS	0.14	0.14	(1)	0.16	(11)		
Core net profit	1,422	960	48	1,605	(11)	22	
Key ratios							
Gross margin (%)	35.3	32.8		35.4			• Housing GM rose from 31.9% in 1Q12 to 34.5% in 1Q13
EBITDA margin (%)	25.4	21.4		24.0			
EBIT margin (%)	22.2	17.1		22.0			• The SG&A/sales ratio dropped 3.1% YoY on higher revenue
Tax rate (%)	20.2	21.1		22.5			
Net margin (%)	24.3	30.9		22.9			
Current ratio (x)	3.0	3.1		3.1			• In 1Q13, profit-sharing from affiliates rose YoY, but declined QoQ
Gearing ratio (x)	0.9	0.8		0.9			
Interest coverage (x)	10.2	5.9		12.1			
Balance Sheet							
Cash & Equivalent	2,330	1,462	59	1,462	59		• Net gearing was stable QoQ at 0.9x at end-March
Total assets	68,465	65,054	5	64,401	6		
ST debts & current portion	8,082	7,319	10	7,632	6		
Long-term debt	21,043	20,163	4	20,163	4		
Total liabilities	34,426	32,453	6	32,438	6		
Retained earnings	10,882	9,460	15	10,171	7		
Shareholders equity	32,853	31,439	4	30,841	7		
Minority interests	1,186	1,161	2	1,123	6		
BV (Bt)	3.4	3.3	4	3.2	6		

Sources: Company data, Bualuang Research estimates

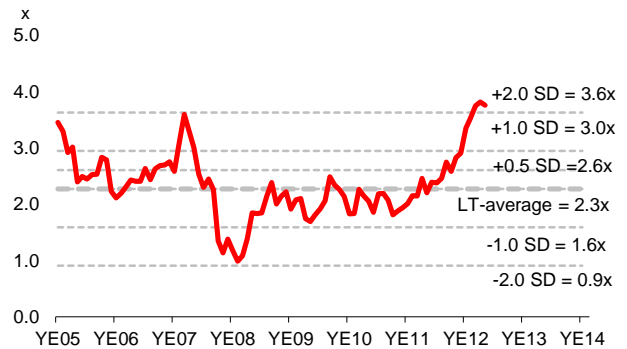
Sector Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Ananda Development	ANAN TB	THB4.06	456	9.7	7.6	n.m.	27.4	2.1	17	25.0	24.8	0.0	0.0
Asian Property Development	AP TB	THB8.55	824	9.4	8.0	12.4	18.8	1.7	15	19.3	19.9	3.4	4.1
Land and Houses	LH TB	THB12.90	4,356	20.4	16.9	15.6	20.4	3.8	3.6	20.0	22.5	3.9	4.7
L.P.N. Development	LPN TB	THB24.50	1218	13.4	11.3	22.0	18.0	3.6	3.1	29.5	29.4	3.7	4.4
Prukasa Real Estate	PSTB	THB27.00	2,020	10.8	9.0	41.6	20.3	2.4	2.0	24.8	24.6	2.8	3.3
Quality Houses	QHTB	THB4.22	1,305	14.8	12.8	9.1	15.6	2.3	2.1	16.1	16.9	3.4	3.9
SC Asset Corporation	SC TB	THB6.90	862	2.8	2.2	52.2	25.4	0.4	0.4	15.2	17.3	14.2	17.8
Sansiri	SIRI TB	THB4.02	1,232	10.4	8.7	12	18.6	2.2	1.9	24.3	23.4	5.0	6.0
Supalai	SPALI TB	THB20.50	1,185	10.7	8.6	19.4	24.9	2.3	2.0	24.2	25.6	3.9	4.9
Simple average				11.4	9.5	21.7	21.0	2.3	2.0	22.0	22.7	4.5	5.5

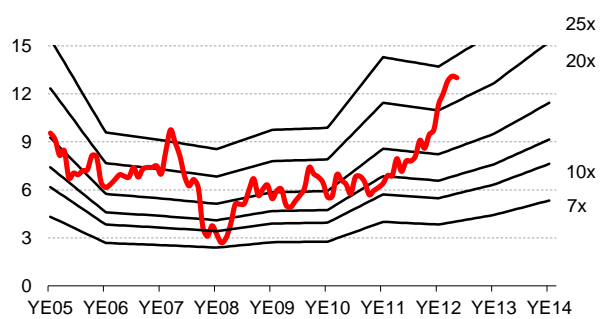
PER band versus SD (next 12 months)



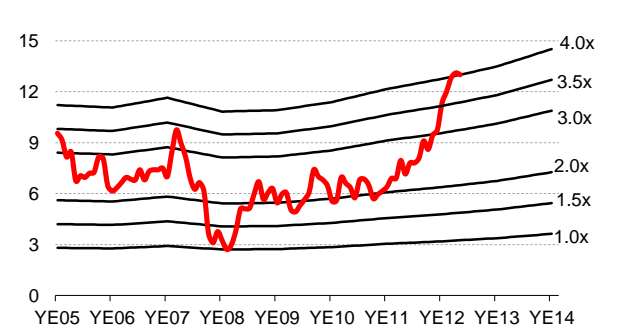
PBV band versus SD (next 12 months)



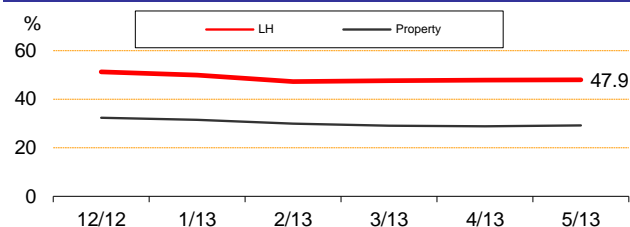
PER band and share price



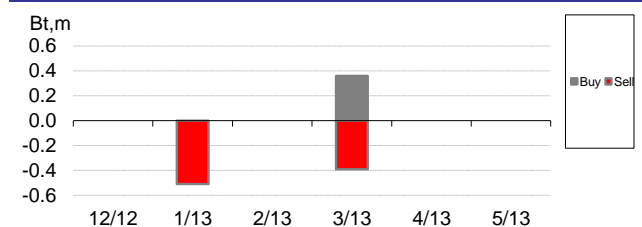
PBV band and share price



Foreign holding



Management trading activities during past six months








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DWs Underlying Stocks	Financial Advisor	Joint lead underwriter/ Co-underwriter
ADVANC, AOT, BANPU, BAY, BCP, BEC, BGH, BH, BIGC, BJC, BLA, BTS, CPALL, CPF, CPN, DTAC, EGCO, ESSO, GLOW, HMPRO, HEMRAJ, INTUCH, IRPC, IVL, JAS, KBANK, KK, KTB, LH, MAKRO, MINT, PS, PTT, PTTEP, PTTGC, ROBINS, SCB, SCC, SPALI, TCAP, THAI, TISCO, TOP, TMB, TPIPL, TRUE, TUF		MONO

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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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.