

Land and Houses LH TB / LH.BK

15 October 2015

Short-term pain, long-term gain

Investment thesis

In the short term, LH's share price will be stifled by weak 3Q15 results and failure to deliver on its FY15 business plan. However, quarterly earnings will become attractive in 4Q15 with the upside from gains on the Terminal 21 hotel sale. FY16 earnings growth profile is promising on our core profit growth forecast of 17%. We have rolled over valuations to YE16 with a SOTP-derived target price of Bt9.80 (housing PER of 16x and Bt3.0/share of market value of investment). LH trades at FY16 PER of 13.6x, a 12% below its FY06-14 mean PER. For long-term investors, this presents an opportunity to accrue the stock if its price fades in the short term.

Downside risk to LH's FY15 business plan

We expect presales for 9M15 of Bt17bn (79% in low rise and 21%, condos), down 35% YoY; 20% for low rises and 63% for condos. LH will delay eight project launches valued at Bt12bn from 4Q15 to FY16 resulting in only six low-rise projects to launch in 4Q15 (Bt22bn in total value). Total launches in FY15 are cut from Bt37bn to Bt25bn versus Bt41bn launched in FY14. Thus, there is a 15% downside risk to LH's presales target of Bt34bn for FY15, as presales in 9M15 would achieve only 50% of its target. The downside risk to its residential revenue target of Bt28bn is 5%.

Unattractive 3Q15 result but impressive 4Q15

We estimate an unattractive core profit contraction of 12% YoY and flat QoQ in 3Q15 on a 9% residential revenue gain YoY, flat QoQ. Then, LH will report the best quarter of the year in 4Q15—potential record core profit. Three sizable condos will drive that record residential revenue of Bt10bn in 4Q15—*The Key Wutthakat* (Bt1.2bn, fully booked), *The Room Pan Road* (Bt1.7bn, 72% booked) and *The Room Rama IV* (Bt2.2bn, fully booked).

Scope for upside from hotel sales in 4Q15

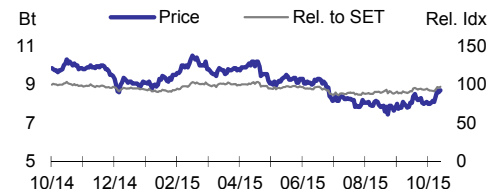
LH plans to divest its Terminal 21 hotel (LH holds 60% of the asset) to a newly set-up REIT in late 4Q15. The fund's size is expected at Bt4bn. There will also be gains from the sale, providing scope for earnings upside to us and the market. Assuming a 15% reinvestment rate in the new REIT, we estimate a Bt775m net-of-tax gain for the sales, implying an 11.4% upside to our FY15 bottom line (Figure 7). Gains from the asset sale will probably boost dividend upside to FY15 (we assume Bt0.23 of DPS for 2H15 core operations, a 2.6% simple yield and 5.3% annualized yield).

Promising outlook for FY16

The earnings growth outlook for FY16 has high visibility on Bt19bn of condos scheduled for completion against Bt6bn for FY15. Three sizable condos start transferring in FY16—*The Room Sukhumvit 69* in 1Q16 (Bt2.6bn in total value, 45% booked), *333 Riverside* in 3Q16 (Bt7bn, 90% booked), *The Room Sathorn 11* (Bt1.9bn, 29% booked) and *The Bangkok Sathorn* in 4Q15 (Bt7.5bn, 56% booked). Presales backlog secures 23% of our FY16 residential revenue forecast, the company's highest on record.

Sector: Residential Property – NEUTRAL
Rating: BUY
Target Price: Bt9.80
Price (14 October 2015); Bt8.70

Price chart

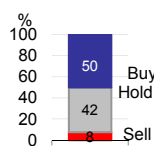


Share price perf. (%)	1M	3M	12M
Relative to SET	9.0	9.7	(2.5)
Absolute	11.5	4.2	(11.7)

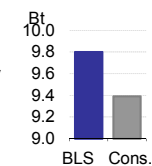
Key statistics

Market cap	Bt102.1bn	USD2.9bn
12-mth price range	Bt7.2/Bt10.5	
12-mth avg daily volume	Bt166m	USD4.7m
# of shares (m)	11,730	
Est. free float (%)	53.1	
Foreign limit (%)	30.0	

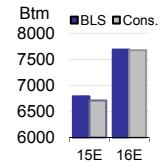
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	28,317	28,935	30,469	31,942
Net profit (Btm)	8,423	6,787	7,682	8,447
EPS (Bt)	0.77	0.56	0.64	0.70
EPS growth (%)	+18.7%	-26.3%	+13.2%	+10.0%
Core profit (Btm)	6,947	6,586	7,682	8,447
Core EPS (Bt)	0.63	0.55	0.64	0.70
Core EPS growth (%)	-1.6%	-13.3%	+16.6%	+10.0%
PER (x)	11.3	15.4	13.6	12.4
PBV (x)	2.2	2.2	2.1	2.0
Dividend (Bt)	0.7	0.5	0.5	0.6
Dividend yield (%)	7.5	5.5	6.2	6.9
ROE (%)	22.0	15.3	16.3	17.3

CG rating


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LH: Financial Tables – Year

Btm	2013	2014	2015E	2016E	2017E
Revenue	25,075	28,317	28,935	30,469	31,942
Cost of sales and services	(15,990)	(18,206)	(19,011)	(19,753)	(20,601)
Gross profit	9,085	10,111	9,924	10,716	11,341
SG&A	(3,436)	(4,005)	(4,380)	(4,260)	(4,352)
EBIT	5,649	6,106	5,544	6,455	6,989
Interest expense	(570)	(503)	(369)	(382)	(388)
Other income/exp.	464	467	500	579	611
EBT	5,544	6,070	5,674	6,652	7,211
Corporate tax	(1,102)	(1,235)	(1,189)	(1,378)	(1,513)
After-tax net profit (loss)	4,442	4,835	4,485	5,275	5,699
Minority interest	(109)	(98)	(150)	(125)	(125)
Equity earnings from affiliates	2,109	2,210	2,251	2,532	2,873
Extra items	37	1,476	201	0	0
Net profit (loss)	6,478	8,423	6,787	7,682	8,447
Reported EPS	0.65	0.77	0.56	0.64	0.70
Fully diluted EPS	0.65	0.77	0.56	0.64	0.70
Core net profit	6,442	6,947	6,586	7,682	8,447
Core EPS	0.64	0.63	0.55	0.64	0.70
EBITDA	6,133	6,615	6,117	7,084	7,631

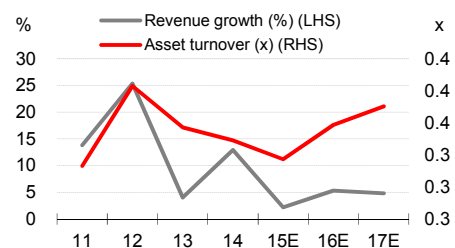
KEY RATIOS	2013	2014	2015E	2016E	2017E
Revenue growth (%)	4.0	12.9	2.2	5.3	4.8
Gross margin (%)	36.2	35.7	34.3	35.2	35.5
EBITDA margin (%)	24.5	23.4	21.1	23.2	23.9
Operating margin (%)	22.5	21.6	19.2	21.2	21.9
Net margin (%)	25.8	29.7	23.5	25.2	26.4
Core profit margin (%)	25.7	24.5	22.8	25.2	26.4
ROA (%)	9.2	10.4	7.9	9.0	9.8
ROCE (%)	10.0	11.3	8.6	9.8	10.6
Asset turnover (x)	0.4	0.3	0.3	0.4	0.4
Current ratio (x)	0.1	4.4	4.4	4.4	4.4
Gearing ratio (x)	1.0	0.8	0.6	0.6	0.6
Interest coverage (x)	9.9	12.1	15.0	16.9	18.0

BALANCE SHEET (Btm)	2013	2014	2015E	2016E	2017E
Cash & Equivalent	1,216	6,738	2,606	2,793	4,055
Accounts receivable	136	172	156	164	172
Inventory	38,496	43,024	44,640	44,813	45,335
PP&E-net	4,375	4,478	4,657	4,757	4,857
Other assets	31,146	32,476	32,589	32,715	32,859
Total assets	75,369	86,888	84,648	85,242	87,277
Accounts payable	2,806	3,089	2,583	2,684	2,799
ST debts & current portion	8,836	10,365	4,090	4,170	4,171
Long-term debt	26,104	25,206	26,500	25,000	25,001
Other liabilities	2,780	3,953	3,953	3,953	3,953
Total liabilities	40,526	42,613	37,126	35,807	35,924
Paid-up capital	10,026	10,986	12,015	12,015	12,015
Share premium	10,026	10,986	12,015	12,015	12,015
Retained earnings	11,957	16,157	15,803	17,716	19,635
Shareholders equity	33,573	42,831	46,079	47,992	49,910
Minority interests	1,270	1,444	1,444	1,444	1,444
Total Liab.&Shareholders' equity	75,369	86,887	84,648	85,242	87,277

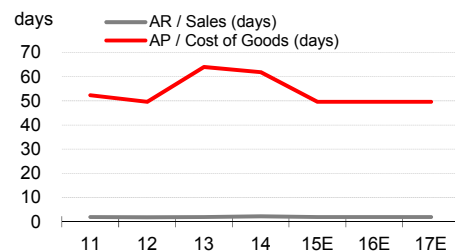
CASH FLOW (Btm)	2013	2014	2015E	2016E	2017E
Net income	6,478	8,423	6,787	7,682	8,447
Depreciation and amortization	484	509	574	629	642
Change in working capital	(14,504)	(19,775)	(20,311)	(2,056)	(205)
FX, non-cash adjustment & others	8,203	13,433	16,009	(542)	(3,069)
Cash flows from operating activities	662	2,590	3,059	5,712	5,816
Capex (Invest)/Divest	(2,828)	4,620	1,330	1,663	1,974
Others	(39)	729	0	0	0
Cash flows from investing activities	(2,867)	5,349	1,330	1,663	1,974
Debt financing (repayment)	6,075	(370)	(4,632)	(1,250)	251
Equity financing	0	3,396	3,602	0	0
Dividend payment	(3,977)	(5,123)	(7,141)	(5,769)	(6,529)
Others	(39)	729	0	0	0
Cash flows from financing activities	1,945	(2,650)	(8,520)	(7,189)	(6,527)
Net change in cash	(260)	5,289	(4,131)	186	1,262
Free cash flow (Btm)	(2,166)	7,209	4,389	7,375	7,789
FCF per share (Bt)	(0.22)	0.66	0.37	0.61	0.65

KEY ASSUMPTIONS	2013	2014	2015E	2016E	2017E
Total bookings (Btm)	30,191	31,514	34,035	37,439	41,182
Housing revenue (Btm)	22,939	26,037	26,835	28,222	29,560
Housing revenue growth	3%	14%	3%	5%	5%
Housing GM	35.8%	35.4%	33.5%	34.4%	34.7%
Presales backlogs (Btm)	-	-	14,844	6,570	9,847
% secured housing revenue by backlogs	-	-	55%	23%	33%

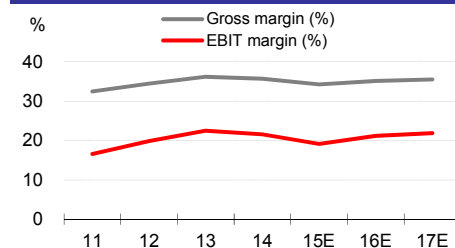
Revenue growth and asset turnover



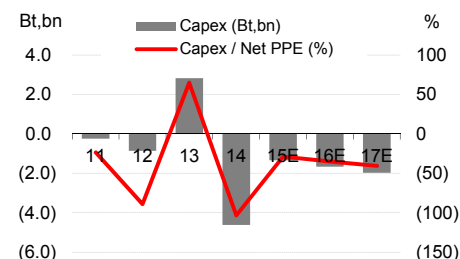
A/C receivable & A/C payable days



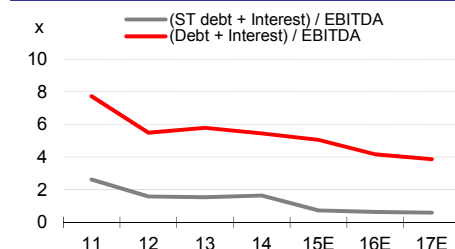
Profit margins



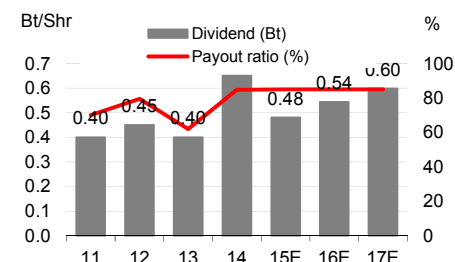
Capital expenditure



Debt serviceability



Dividend payout



LH: Financial Tables – Quarter

Revenue	7,608	6,569	8,096	5,696	5,885
Cost of sales and services	(4,773)	(4,153)	(5,333)	(3,838)	(3,833)
Gross profit	2,834	2,415	2,763	1,859	2,051
SG&A	(1,010)	(944)	(1,364)	(840)	(842)
EBIT	1,824	1,471	1,398	1,019	1,209
Interest expense	(131)	(98)	(99)	(54)	(88)
Other income/exp.	97	109	155	149	110
EBT	1,790	1,482	1,454	1,114	1,231
Corporate tax	(370)	(302)	(211)	(245)	(250)
After-tax net profit (loss)	1,420	1,179	1,243	869	981
Minority interest	(18)	(32)	(33)	(6)	(45)
Equity earnings from affiliates	589	584	567	484	568
Extra items	(6)	(1)	1,508	(1)	201
Net profit (loss)	1,985	1,731	3,286	1,345	1,704
Reported EPS	0.20	0.16	0.30	0.12	0.15
Fully diluted EPS	0.20	0.16	0.30	0.11	0.14
Core net profit	1,991	1,732	1,777	1,346	1,504
Core EPS	0.20	0.16	0.16	0.12	0.13
EBITDA	2,066	1,727	1,693	1,280	1,445

KEY RATIOS

Gross margin (%)	37.3	36.8	34.1	32.6	34.9
EBITDA margin (%)	27.2	26.3	20.9	22.5	24.6
Operating margin (%)	24.0	22.4	17.3	17.9	20.6
Net margin (%)	26.1	26.3	40.6	23.6	29.0
Core profit margin (%)	26.2	26.4	22.0	23.6	25.6
BV (Bt)	4.1	3.8	4.0	4.4	3.9
ROE (%)	20.2	17.7	30.7	11.5	15.6
ROA (%)	9.3	8.4	15.1	6.2	7.6
Current ratio (x)	2.7	2.6	3.2	3.2	3.6
Gearing ratio (x)	0.9	0.9	0.8	0.7	0.8
Interest coverage (x)	13.9	15.0	14.1	18.8	13.7

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	5,677	1,051	6,738	2,824	5,403
Accounts receivable	116	135	172	147	155
Inventory	42,112	43,085	43,024	43,964	44,450
PP&E-net	4,389	4,425	4,478	6,848	6,658
Other assets	33,018	33,618	32,476	33,378	33,530
Total assets	85,312	82,314	86,888	87,161	90,197
Accounts payable	2,799	2,877	3,089	2,923	2,731
ST debts & current portion	12,798	11,911	10,365	8,635	8,119
Long-term debt	25,468	23,231	25,206	22,694	29,183
Other liabilities	3,560	3,773	3,953	4,773	5,055
Total liabilities	44,624	41,792	42,613	39,025	45,088
Paid-up capital	10,026	10,798	10,986	10,996	11,695
Share premium	10,643	10,643	12,574	13,042	0
Retained earnings	13,864	12,900	16,157	17,502	14,538
Shareholders equity	39,384	39,187	42,831	46,686	43,614
Minority interests	1,304	1,335	1,444	1,450	1,495
Total Liab.&Shareholders' equity	85,312	82,314	86,887	87,161	90,197

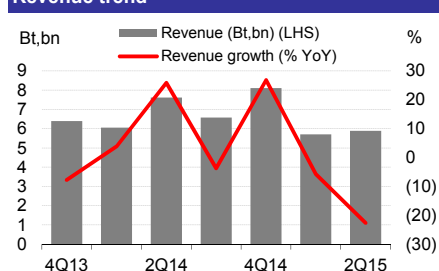
KEY STATS

	2Q14	3Q14	4Q14	1Q15	2Q15
Total bookings (Btm)	8,872	10,880	5,198	5,601	5,632
YoY change in total booking	23%	9%	0%	-15%	-37%
Housing revenue (Btm)	7,075	5,965	7,440	5,214	5,395
YoY change in housing revenue	13%	3%	34%	-26%	-10%
Housing GM	37.2%	36.3%	33.4%	32.4%	34.0%
Rental revenue (Btm)	532	603	656	482	489

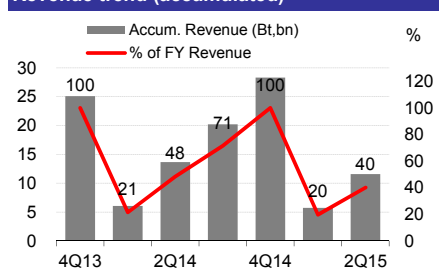
Company profile

Land and Houses Public Company Limited (LH) is the largest home builder in Thailand by market capitalization and pioneered the prebuilt model in the Kingdom. It is the leader in the Single Detached House (SDH) category, although most of its developments have been in greater Bangkok and vicinity. The 1H15 residential revenue breakdown is 80% low rises and 20% condos. LH has recurring income on four serviced apartments (*Grande Center Point Hotel Ratchadamri*, Wireless Road, and Sukhumvit 21), and retail space (Terminal 21). LH has stakes in the following—35% of LHBANK, 30% of HMPRO, 25% of QH and 21% of Q-CON.

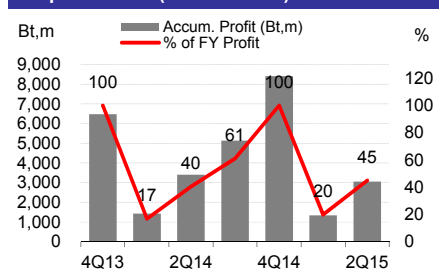
Revenue trend



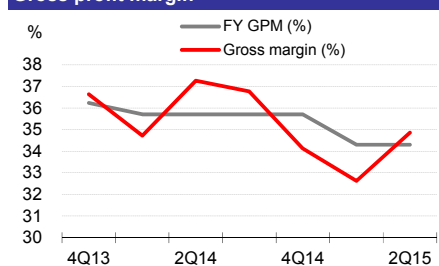
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

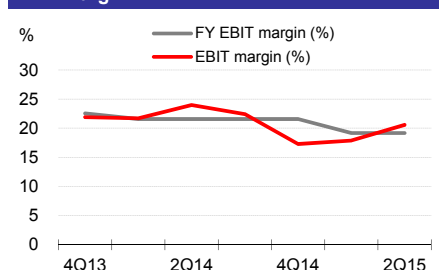


Figure 1 : Comparisons between presales in 1H15 against FY15 company targets

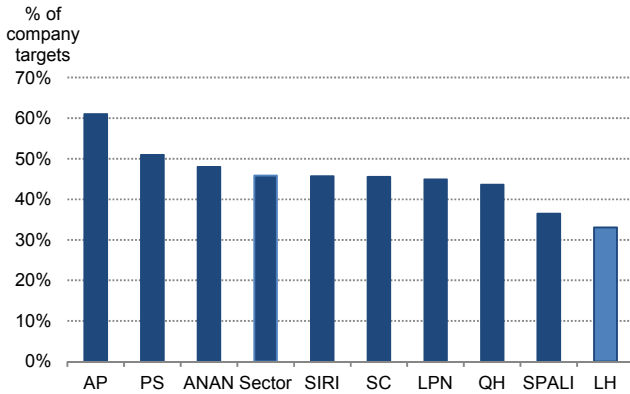


Figure 2 : Comparisons between residential revenue in 1H15 against FY15 company targets

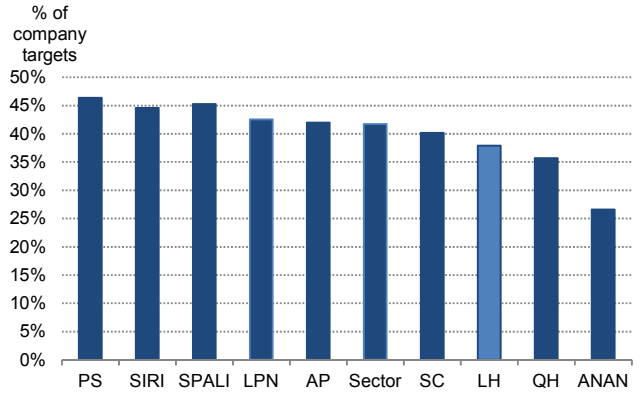


Figure 3 : Condo completion schedule and our total residential revenue forecast

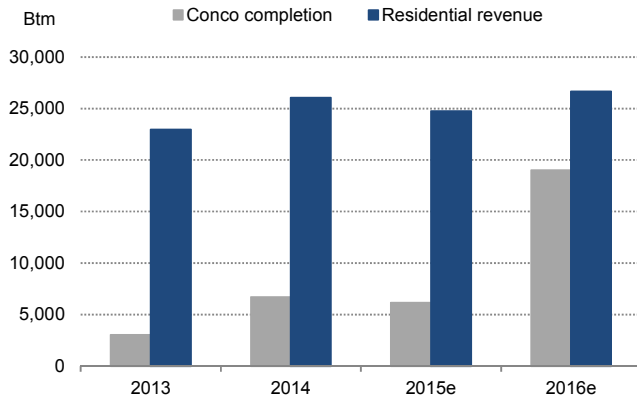


Figure 4 : Condo completion versus take-up rate

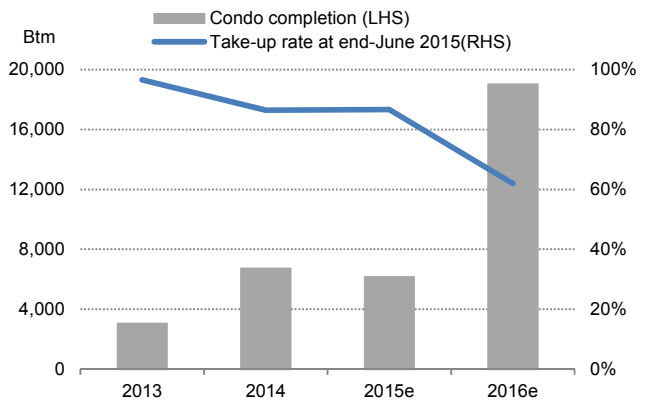


Figure 5 : Condo transference schedule

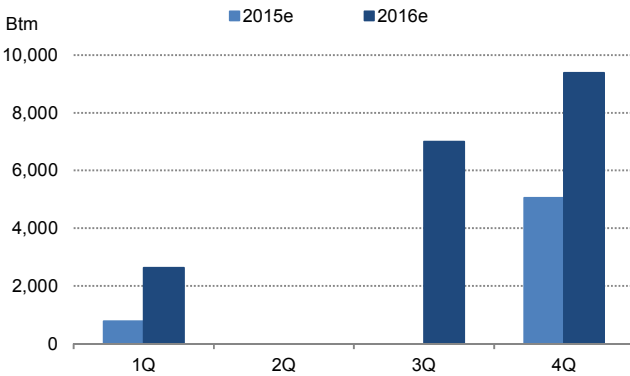


Figure 6 : Quarterly earnings

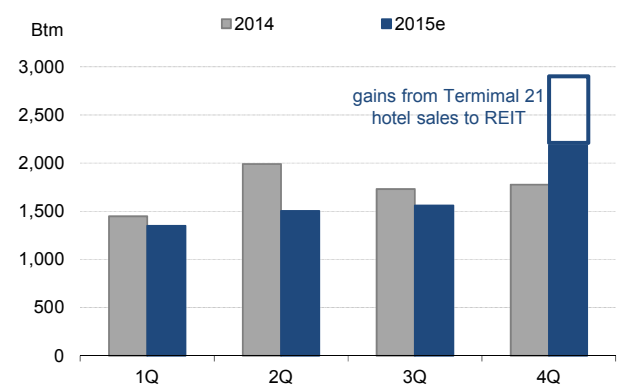


Figure 7 : Gains of Terminal 21 hotel sale forecast to our FY15 bottom-line

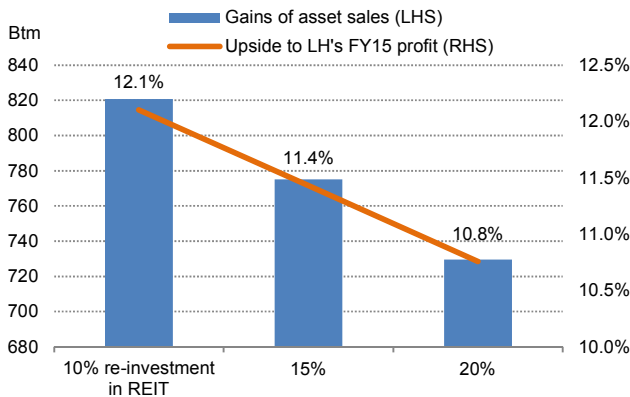
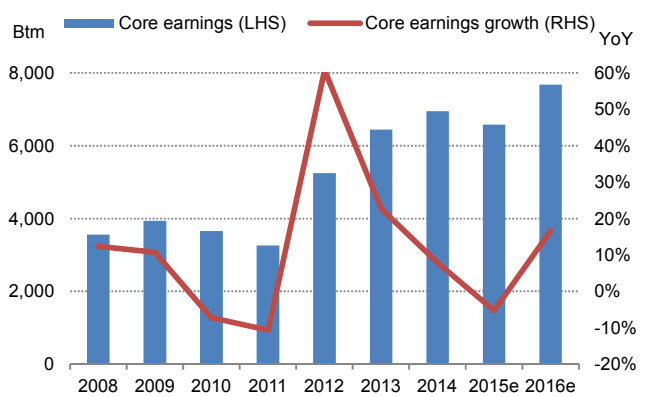


Figure 8 : Core earnings growth profile

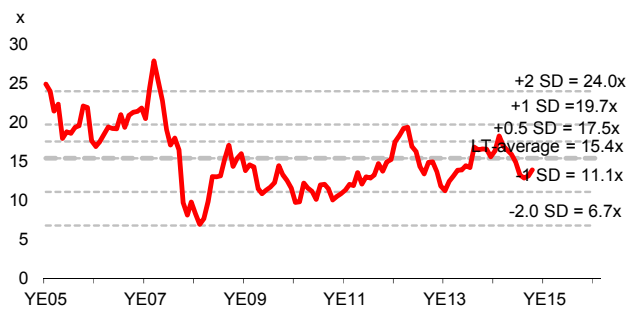


Sources: Company data, Bualuang Research

Sector Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Ananda Development	ANAN TB	THB3.96	374	13.5	9.9	-24.8	36.4	1.7	1.5	13.5	16.5	1.9	2.5
AP (Thailand)	AP TB	THB5.95	530	6.8	6.4	5.0	7.2	1.1	0.9	16.4	15.7	4.8	5.1
Land and Houses	LH TB	THB8.70	2,891	15.4	13.6	-26.4	13.2	2.2	2.1	15.3	16.3	5.5	6.2
L.P.N. Development	LPN TB	THB17.70	740	10.4	9.0	24.2	15.5	2.2	2.0	22.7	23.1	4.8	5.5
Prukha Real Estate	PS TB	THB27.75	1,754	9.2	7.9	1.1	17.0	1.8	1.5	21.0	21.2	3.6	4.3
Quality Houses	QH TB	THB2.58	783	8.7	7.5	-18.5	16.1	1.2	1.1	15.3	15.8	5.0	5.8
Raimon Land	RML TB	THB1.14	115	3.5	5.8	9.1	-40.3	0.8	0.7	31.1	15.8	9.2	5.5
SC Asset Corporation	SC TB	THB2.92	346	7.7	6.5	-5.2	17.6	0.9	0.9	12.9	13.8	5.2	6.1
Sansiri	SIRI TB	THB1.74	704	8.5	8.2	-11.9	3.6	1.0	0.9	12.0	11.7	6.9	7.2
Supalai	SPALI TB	THB18.80	914	7.4	6.5	-2.8	14.5	1.6	1.3	23.2	23.0	5.7	6.5
Simple average				9.1	8.1	-5.0	10.1	1.5	1.3	18.3	17.3	5.3	5.5

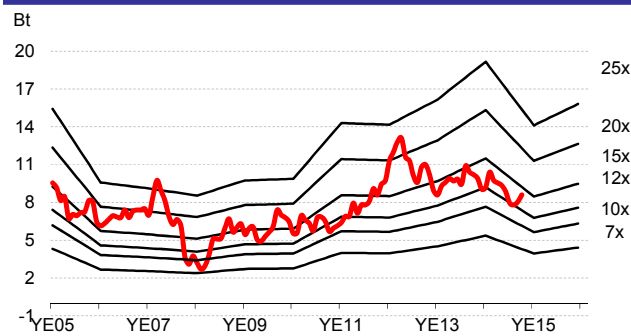
PER band versus SD (next 12 months)



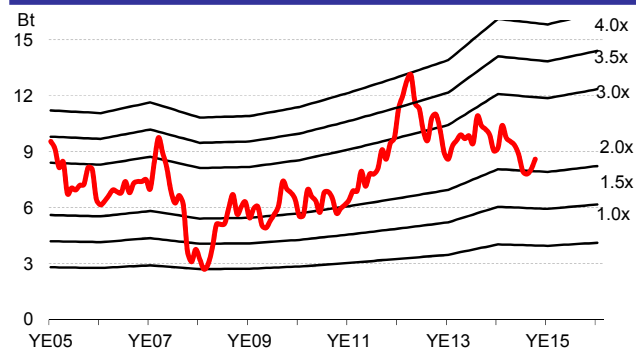
PBV band versus SD (next 12 months)



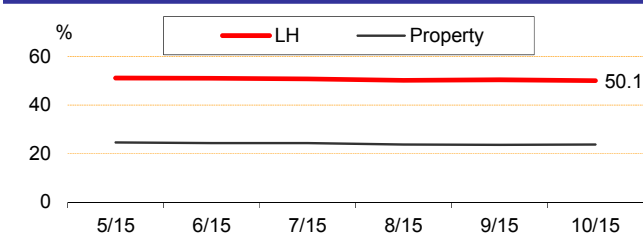
PER band and share price



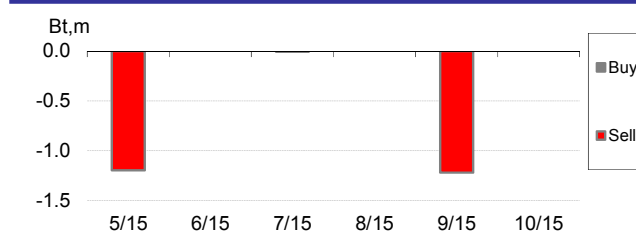
PBV band and share price



Foreign holdings



Management trading activities during past six months








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	TFG

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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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.