

# Land and House

(LH.BK/LH TB)\*

## Neutral Reinitiate

Price as of 15 Jan 2016	8.60
12M target price (Bt/shr)	9.96
Unchanged / Revised up (down) (%)	N.A.
Upside/downside (%)	15.8

### Key messages

Due to LH's moderate growth and stretched valuation, we reinitiate our coverage with a rating of Neutral with a target price Bt9.96. While we believe LH's residential income is likely to resurge this year; its product mix could deteriorate profit margin. Also, the absence of revenue flow from assets sold to REIT like LHSC and LHHOTEL in 2014 and 2015, means LH might produce only moderate growth of 9.9% in 2016 and 8.6% in 2017.

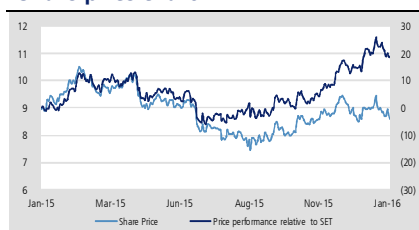
### Trading data

Mkt cap (Btbn/US\$m)	101/2,526		
Outstanding shares (mn)	11,748		
Foreign ownership (mn)	2,088		
3M avg. daily trading (mn)	16		
52-week trading range (Bt)	7.5-10.5		
Performance (%)	3M	6M	12M
Absolute	0.6	4.2	-2.3
Relative	14.6	23.8	19

### Quarterly EPS

Bt	1Q	2Q	3Q	4Q
2013	0.14	0.16	0.18	0.16
2014	0.14	0.20	0.16	0.30
2015	0.12	0.15	0.13	N.A.

### Share price chart



Source: SET

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## Mediocre growth with stretched valuation

### Event

We reinitiate our coverage on LH with a Neutral rating.

### Impact

#### Backlog secured 22% of FY16 incomes, 69% of condo revenue

LH's 9M15 backlog stood at Bt21,053mn. This consists of Bt3,879mn for 2015, Bt6,591mn for 2016 and Bt10,583mn for 2017. As such, the current backlog has already secured 22% of our FY16 revenue estimate and secured 69% of our estimate from condominium income.

#### Residential income to resurge but insufficient to boost growth

This will be the year of resurgence in residential income for LH as there are two huge condominium projects set to be recognized: 333 Riverside and The Bangkok Sathorn. These two luxury class condominium projects are combined worth about Bt14.5bn and expected to be key drivers for FY16 revenues. While we anticipate FY16 revenues to rise by 26.8% driven by the high-rise segment, we believe that income flow from condominium projects might be back-loaded as both 333 Riverside and The Bangkok Sathorn projects are scheduled to transfer ownership in 4Q16.

#### Absence of special gain and product mix to deteriorate margin

Though we estimate revenues to grow 26.8% in 2016, earnings are expected to edge up only 9.9%. This is mainly due to the absence of revenue flow from assets sold to REIT, like LHSC and LHHOTEL in 2014 and 2015, leaving just moderate growth this year. Besides, LH's product mix will weigh more on high-rise products and likely deteriorate gross profit margin to 33.8% from 34.7% in 2015.

### Valuation and action

Despite moderate growth in FY16, we believe LH should trade at premium due to the growing trend in the low-rise segment together with its core growth at around 25% (exclude extra gain). However, based on 10-year average PER of 15x, our target price is Bt9.96, thus, we reinitiate our coverage on LH with a Neutral rating since valuation provides limited upside with obscured broad housing outlook and just moderate growth.

### Risks

Worsening economic outlook, intensified competition in low-rise segment and delay in transfer and income recognition in 333 Riverside and The Bangkok Sathorn projects.

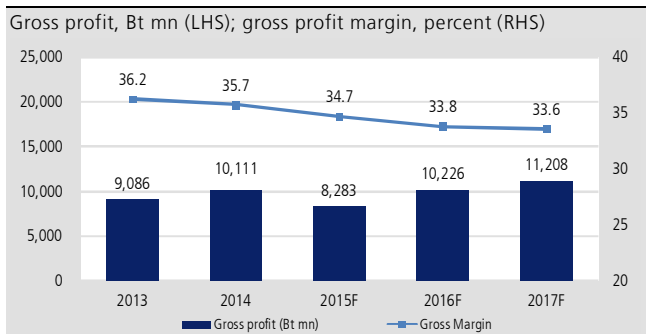
	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue (Bt mn)	25,076	28,317	23,866	30,262	33,371
Gross profit (Bt mn)	9,086	10,111	8,283	10,226	11,208
EBIT (Bt mn)	8,259	11,896	8,337	9,188	9,979
Net profit (Bt mn)	6,478	8,423	6,640	7,296	7,922
EPS (Bt)	0.65	0.77	0.60	0.66	0.72
DPS (Bt)	0.40	0.65	0.47	0.52	0.56
EPS growth (%)	14.0	18.7	(21.2)	9.9	8.6
P/E (x)	13.85	11.80	15.64	12.95	11.93
P/B (x)	2.58	2.25	2.40	2.10	2.02
EV/EBITDA (x)	14.0	10.3	15.7	13.6	12.8
Net Debt to Equity (x)	1.0	0.6	0.8	0.8	0.9
Dividend Yield (%)	4.47	7.18	5.01	6.05	6.57
Return on Avg. Equity (%)	19.2	21.3	15.2	16.6	17.3

**Figure 1: Company profile**

Land and House Plc. Develops residential housing in several segments, including single-detached house and condominium. However, its expertise and reputation is particularly in single-detached houses. To date almost all of its projects have been in Greater Bangkok and its vicinities and in other major cities in Thailand. In its market positioning, LH appears to target the mid-to-high-end with a broad-based brand using mixed business approach through different economic cycles.

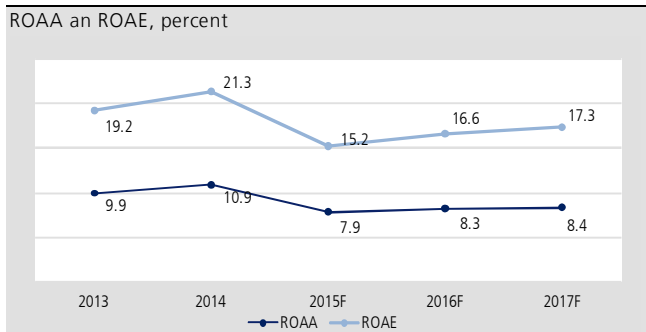
Source: KGI Research

**Figure 3: Gross profit**



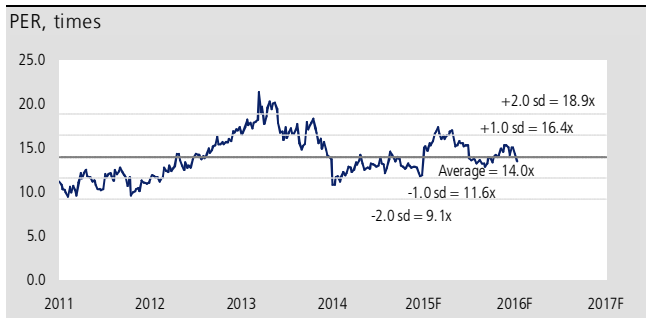
Source: AP, KGI Research

**Figure 5: Company ROAA and ROAE**



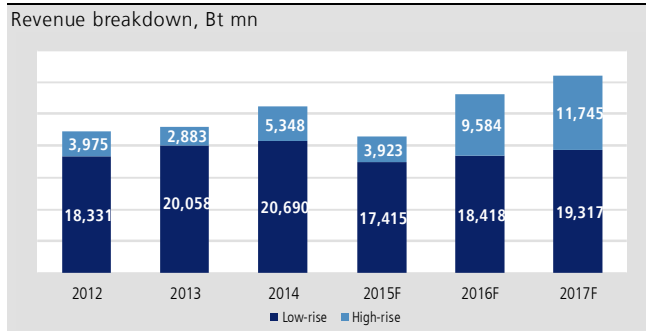
Source: Company data, KGI Research

**Figure 7: Company trading PER**



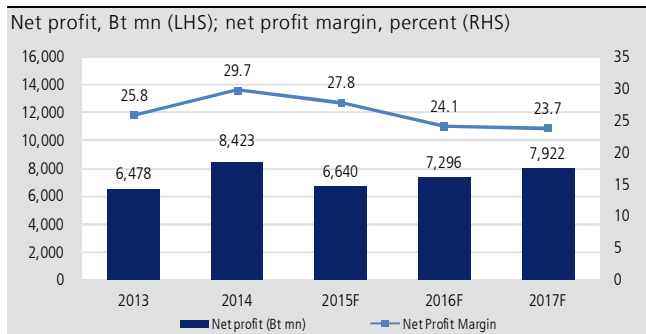
Source: KGI Research

**Figure 2: Revenue breakdown**



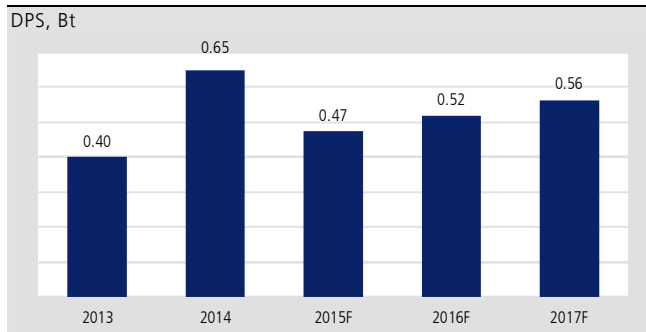
Source: Company data, KGI Research

**Figure 4: Net profit**



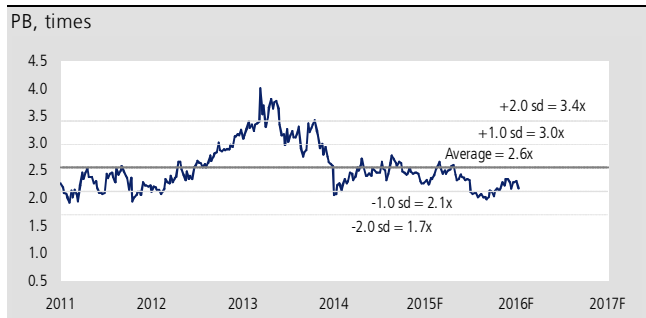
Source: Company data, KGI Research

**Figure 6: Company dividend per share (DPS)**



Source: Company data, KGI Research

**Figure 8: Company trading PB**



Source: KGI Research

**Quarterly Income Statement**

Quarterly Income Statement (Bt mn)	2013 Mar-13A	2013 Jun-13A	2013 Sep-13A	2013 Dec-13A	2014 Mar-14A	2014 Jun-14A	2014 Sep-14A	2014 Dec-14A	2015 Mar-15A	2015 Jun-15A	2015 Sep-15A
<b>Revenue</b>	<b>5,818</b>	<b>6,045</b>	<b>6,826</b>	<b>6,387</b>	<b>6,044</b>	<b>7,705</b>	<b>6,677</b>	<b>8,096</b>	<b>5,696</b>	<b>6,212</b>	<b>5,985</b>
Cost of Goods Sold	3,766	3,818	4,360	4,047	3,946	4,773	4,153	5,333	3,838	3,833	3,850
<b>Gross Profit</b>	<b>2,052</b>	<b>2,227</b>	<b>2,466</b>	<b>2,340</b>	<b>2,099</b>	<b>2,932</b>	<b>2,524</b>	<b>2,763</b>	<b>1,859</b>	<b>2,378</b>	<b>2,135</b>
<b>Operating Expenses</b>	<b>652</b>	<b>732</b>	<b>773</b>	<b>815</b>	<b>681</b>	<b>1,016</b>	<b>945</b>	<b>1,109</b>	<b>691</b>	<b>845</b>	<b>848</b>
<b>Operating Profit</b>	<b>1,400</b>	<b>1,495</b>	<b>1,694</b>	<b>1,525</b>	<b>1,418</b>	<b>1,916</b>	<b>1,579</b>	<b>1,653</b>	<b>1,168</b>	<b>1,534</b>	<b>1,287</b>
Depreciation of fixed assets	118	118	124	150	142	145	147	139	112	126	48
<b>Operating EBITDA</b>	<b>1,518</b>	<b>1,613</b>	<b>1,818</b>	<b>1,674</b>	<b>1,560</b>	<b>2,060</b>	<b>1,726</b>	<b>1,793</b>	<b>1,280</b>	<b>1,660</b>	<b>1,335</b>
<b>Non-Operating Income</b>	<b>431</b>	<b>569</b>	<b>663</b>	<b>482</b>	<b>445</b>	<b>589</b>	<b>584</b>	<b>3,713</b>	<b>483</b>	<b>568</b>	<b>550</b>
Other Non-op Income	431	569	663	482	445	589	584	3,713	483	568	550
<b>Non-Operating Expenses</b>	<b>127</b>	<b>132</b>	<b>151</b>	<b>159</b>	<b>174</b>	<b>131</b>	<b>98</b>	<b>99</b>	<b>54</b>	<b>88</b>	<b>67</b>
Interest Expense	127	132	151	159	174	131	98	99	54	88	67
<b>Pre-tax Profit</b>	<b>1,704</b>	<b>1,931</b>	<b>2,206</b>	<b>1,847</b>	<b>1,688</b>	<b>2,373</b>	<b>2,065</b>	<b>5,267</b>	<b>1,597</b>	<b>2,013</b>	<b>1,770</b>
Current taxation	258	263	336	246	252	370	302	940	245	264	262
Minorities	25	19	29	37	16	18	32	1,041	6	45	27
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-
<b>Net Profit</b>	<b>1,422</b>	<b>1,650</b>	<b>1,842</b>	<b>1,564</b>	<b>1,421</b>	<b>1,985</b>	<b>1,731</b>	<b>3,286</b>	<b>1,345</b>	<b>1,704</b>	<b>1,482</b>
<b>Margins (%)</b>											
Gross profit margin	35.3	36.8	36.1	36.6	34.7	38.0	37.8	34.1	32.6	38.3	35.7
Operating margin	24.1	24.7	24.8	23.9	23.5	24.9	23.6	20.4	20.5	24.7	21.5
Operating EBITDA margin	26.1	26.7	26.6	26.2	25.8	26.7	25.9	22.1	22.5	26.7	22.3
Net profit margin	24.4	27.3	27.0	24.5	23.5	25.8	25.9	40.6	23.6	27.4	24.8
<b>Growth (%)</b>											
Revenue growth	25.5	4.2	1.2	(7.8)	3.9	27.5	(2.2)	26.8	(5.8)	(19.4)	(10.4)
Operating growth	53.3	31.6	11.5	(1.9)	1.3	28.1	(6.8)	8.4	(17.6)	(19.9)	(18.5)
Operating EBITDA growth	45.9	28.0	10.5	0.2	2.8	27.8	(5.0)	7.1	(17.9)	(19.5)	(22.7)
Net profit growth	(3.6)	44.8	20.2	2.0	(0.1)	20.3	(6.0)	110.1	(5.3)	(14.1)	(14.4)

Source: Company data, KGI Research

**Peer comparison – Key valuation stats**

	Rating	Target price (Bt)	Current price (Bt)	Upside (%)	14 EPS (Bt)	15F EPS (Bt)	16F EPS (Bt)	15F EPS growth (%)	16F EPS growth (%)	15F PER (x)	16F PER (x)	15F PBV (X)	16F PBV (X)	15F Div Yield (%)	15F ROAE (%)
ANAN	OP	4.70	3.84	22.4	0.39	0.34	0.47	(12.8)	38.2	11.3	8.2	1.6	1.4	1.8	15.2
AP	OP	7.60	5.50	38.2	0.83	0.90	0.95	8.0	5.5	6.1	5.8	1.0	0.9	5.4	16.8
LH	Neutral	9.96	8.60	15.8	0.77	0.60	0.66	(21.2)	9.9	14.2	12.9	2.2	2.1	5.5	15.2
LPN	Neutral	17.22	14.70	17.1	1.37	1.75	1.93	27.7	10.4	8.4	7.6	1.9	1.7	5.9	23.3
PS	OP	32.30	23.50	37.4	2.99	3.06	3.26	2.5	6.4	7.7	7.2	1.5	1.4	5.2	21.4
QH	Neutral	3.24	2.14	51.4	0.36	0.31	0.35	(14.2)	12.5	6.9	6.1	1.0	0.9	7.3	14.4
SIRI	UR	1.83	1.48	23.6	0.22	0.20	0.21	(11.6)	6.6	7.5	7.0	0.8	0.8	6.9	11.3
SPALI	Neutral	16.72	18.80	(11.1)	2.61	2.55	2.76	(2.4)	8.2	7.4	6.8	1.6	1.4	6.1	22.7
<b>Sector</b>	<b>Neutral</b>				<b>9.54</b>	<b>9.71</b>	<b>10.59</b>	<b>1.8</b>	<b>9.1</b>	<b>8.7</b>	<b>7.7</b>	<b>1.4</b>	<b>1.3</b>	<b>5.5</b>	<b>17.5</b>

Source: KGI Research

**Balance Sheet**

Year as of 31 Dec (Bt mn)	2013	2014	2015F	2016F	2017F
<b>Total Assets</b>	<b>75,369</b>	<b>86,887</b>	<b>88,231</b>	<b>95,142</b>	<b>101,421</b>
<b>Current Assets</b>	41,205	51,550	54,793	59,325	62,571
Cash & ST Investments	1,166	6,436	4,489	4,558	4,915
Inventories	38,496	43,024	48,696	52,728	55,407
Accounts Receivable	136	172	130	165	182
Others	1,407	1,918	1,478	1,874	2,066
<b>Non-current Assets</b>	34,164	35,337	33,438	35,817	38,850
LT Investments	22,387	26,604	26,066	26,469	28,543
Net fixed Assets	616	751	644	817	901
Others	11,161	7,982	6,728	8,530	9,407
<b>Total Liabilities</b>	<b>40,526</b>	<b>42,613</b>	<b>45,043</b>	<b>50,219</b>	<b>54,612</b>
<b>Current Liabilities</b>	13,656	16,195	16,139	19,051	21,387
Accounts Payable	2,806	3,089	2,466	3,127	3,448
ST Borrowings	8,507	9,965	11,025	12,567	14,237
Others	2,344	3,141	2,647	3,357	3,702
<b>Long-term Liabilities</b>	26,870	26,418	28,904	31,168	33,225
Long-term Debts	26,104	25,206	27,836	30,016	31,997
Others	766	1,212	1,068	1,152	1,228
<b>Shareholders' Equity</b>	<b>34,843</b>	<b>44,275</b>	<b>43,189</b>	<b>44,923</b>	<b>46,809</b>
Common Stock	10,026	10,986	10,986	10,986	10,986
Capital Surplus	10,643	13,043	13,043	13,043	13,043
Retained Earnings	12,904	18,803	17,598	19,181	20,900
Non-controlling interests	1,270	1,444	1,563	1,714	1,881

Source: KGI Research

**Key Ratios**

Year to 31 Dec (Bt mn)	2013	2014	2015F	2016F	2017F
<b>Growth (% YoY)</b>					
Sales	4.0	12.9	(15.7)	26.8	10.3
EBIT	12.8	44.0	(29.9)	10.2	8.6
EBITDA	12.1	42.2	(29.4)	11.0	8.8
NP	14.0	30.0	(21.2)	9.9	8.6
EPS	14.0	18.7	(21.2)	9.9	8.6
<b>Profitability (%)</b>					
Gross Margin	36.2	35.7	34.7	33.8	33.6
Operating Margin	32.9	42.0	34.9	30.4	29.9
EBITDA Margin	35.0	44.0	36.9	32.3	31.8
Net Profit Margin	25.8	29.7	27.8	24.1	23.7
ROAA	9.9	10.9	7.9	8.3	8.4
ROAE	19.2	21.3	15.2	16.6	17.3
<b>Stability</b>					
Gross Debt/Equity (%)	116.3	96.2	104.3	111.8	116.7
Net Debt/Equity (%)	96.0	64.9	79.6	84.6	88.3
Interest Coverage (X)	14.5	23.6	28.7	28.6	28.5
Interest & ST Debt Coverage (X)	0.9	1.1	0.7	0.7	0.7
Cash Flow/Interest Coverage (X)	1.1	5.1	2.7	15.6	18.9
Cash Flow/Interest & ST Debt (X)	0.1	0.2	0.1	0.4	0.5
Current Ratio (X)	3.0	3.2	3.4	3.1	2.9
Quick Ratio (X)	2.9	2.8	3.1	2.9	2.7
Net Debt (Bt mn)	33,445	28,735	34,372	38,025	41,319
<b>Per Share Data (Bt)</b>					
EPS	0.65	0.77	0.60	0.66	0.72
CFPS	0.71	0.92	0.66	0.73	0.80
BVPS	3.48	4.03	3.93	4.09	4.26
SPS	2.50	2.58	2.17	2.75	3.04
EBITDA/Share	0.87	1.14	0.80	0.89	0.97
DPS	0.40	0.65	0.47	0.52	0.56
<b>Activity</b>					
Asset Turnover (x)	0.4	0.3	0.3	0.3	0.3
Days Receivables	1.9	2.0	2.3	1.8	1.9
Days Inventory	810.7	817.2	1,074.2	923.8	890.4
Days Payable	36.0	38.0	42.5	33.7	36.0
Cash Cycle	776.6	781.2	1,034.0	891.9	856.4

Source: KGI Research

**Profit & Loss**

Year to 31 Dec (Bt mn)	2013	2014	2015F	2016F	2017F
<b>Sales</b>	<b>25,076</b>	<b>28,317</b>	<b>23,866</b>	<b>30,262</b>	<b>33,371</b>
Cost of Goods Sold	15,990	18,206	15,583	20,036	22,163
<b>Gross Profit</b>	<b>9,086</b>	<b>10,111</b>	<b>8,283</b>	<b>10,226</b>	<b>11,208</b>
Operating Expenses	3,436	4,005	3,308	4,010	4,505
Other income	2,609	5,790	3,362	2,972	3,276
<b>Operating Profit</b>	<b>8,259</b>	<b>11,896</b>	<b>8,337</b>	<b>9,188</b>	<b>9,979</b>
Net Interest Expense	570	503	290	322	350
Net Extraordinary (Incl. Minority Interests)	109	1,106	119	151	167
Pretax Income	7,689	11,393	8,047	8,866	9,630
Income Taxes	1,102	1,864	1,287	1,419	1,541
<b>Net Profit</b>	<b>6,478</b>	<b>8,423</b>	<b>6,640</b>	<b>7,296</b>	<b>7,922</b>
EBITDA	8,768	12,470	8,800	9,765	10,628
<b>EPS (Bt)</b>	<b>0.65</b>	<b>0.77</b>	<b>0.60</b>	<b>0.66</b>	<b>0.72</b>

Source: KGI Research

**Cash Flow**

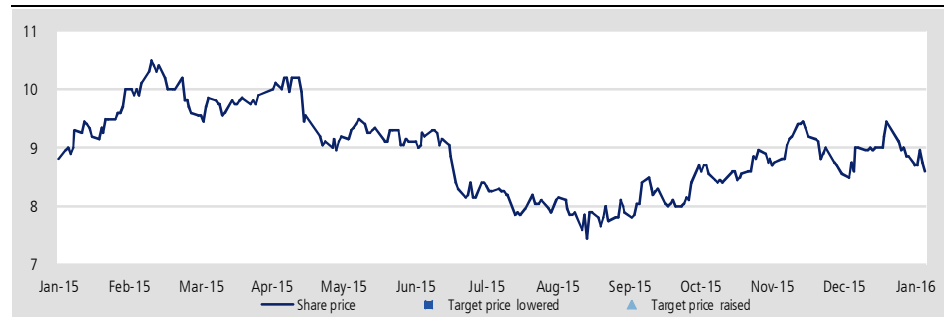
Year to 31 Dec (Bt mn)	2013	2014	2015F	2016F	2017F
<b>Operating Cash Flow</b>	612	2,590	772	5,016	6,591
Net Profit	6,588	9,529	6,759	7,447	8,089
Depreciation & Amortization	509	574	463	577	649
Change in Working Capital	18,424	18,996	6,591	3,405	2,375
Others	(11,939)	(11,483)	(141)	(397)	(228)
<b>Investment Cash Flow</b>	(2,818)	5,349	1,436	(2,956)	(3,682)
Net CAPEX	(3,757)	(603)	(356)	(750)	(733)
Change in LT Investment	960	5,916	8,455	(403)	(2,073)
Change in Other LT Assets	(21)	36	(6,663)	(1,803)	(876)
<b>Free Cash Flow</b>	1,908	(2,667)	(4,156)	(1,991)	(2,552)
<b>Financing Cash Flow</b>	(3,977)	(4,192)	(5,318)	(5,864)	(6,370)
Change in Share Capital	0	3,359	0	0	0
Net Change in Debt	5,885	(1,834)	1,163	3,873	3,818
Change in Other LT Liab.	(298)	5,272	(1,948)	69	357
<b>Net Cash Flow</b>	(298)	5,272	(1,948)	69	357

Source: KGI Research

**Rates of Return on Invested Capital**

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= <b>Operating Margin</b>		
2012	65.5%	2.1%	14.6%	17.8%		
2013	63.8%	2.0%	13.7%	20.5%		
2014	64.3%	2.0%	14.1%	19.5%		
2015F	65.3%	1.9%	13.9%	18.9%		
2016F	66.2%	1.9%	13.3%	18.6%		
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= <b>Capital Turnover</b>		
2012	1.46	2.7%	47.6%	0.51		
2013	1.64	2.5%	54.5%	0.45		
2014	1.82	2.7%	57.2%	0.41		
2015F	2.30	2.7%	67.6%	0.33		
2016F	1.96	2.7%	63.0%	0.38		
Year	<b>Operating Margin</b>	x	<b>Capital Turnover</b>	x	<b>Cash Tax Rate</b>	= <b>After-tax Return on Inv. Capital</b>
2012	17.8%		0.51		0.84	7.6%
2013	20.5%		0.45		0.86	7.9%
2014	19.5%		0.41		0.84	6.8%
2015F	18.9%		0.33		0.84	5.3%
2016F	18.6%		0.38		0.84	6.0%

Source: KGI Research

**LH – Recommendation & target price history**


Source: KGI Research

KGI Locations	Country	City	Address
China	China	Shanghai	Room 1907-1909 , Tower A, No. 100 Zunyi Road, Shanghai, PRC 200051
		Shenzhen	Room 24D1, 24/F, A Unit, Zhen Ye Building, 2014 Bao'annan Road, Shenzhen, PRC 518008
Taiwan	Taiwan	Taipei	700 Mingshui Road, Taipei, Taiwan Telephone 886.2.2181.8888 · Facsimile 886.2.8501.1691
Hong Kong	Hong Kong		41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800
Thailand	Thailand	Bangkok	8th - 11th floors, Asia Centre Building 173 South Sathorn Road, Bangkok 10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

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	Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
	Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
	Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
	Not Rated (NR)	The stock is not rated by KGI Securities.
	Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances. <i>Excess return = 12M target price/current price-</i>
	Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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