

Land and Houses

(LH.BK/LH TB)*

Outperform Maintained

Price as of 12 May 2016	8.70
12M target price (Bt/shr)	10.00
Unchanged / Revised up (down) (%)	N.A.
Upside/downside (%)	14.9

Key messages

LH reported a 1Q16 net profit of Bt1.99bn, up 48% YoY but down 41% QoQ. The result beat our forecast by 13% and the market consensus by 8%. Top-line income and gross profit margin came were in line with expectations, but SG&A to sales was lower than expected as the company managed to maintain cost-efficiency and benefited from economies of scale from residential transfers. Overall, it was a solid performance driven by the low-rise housing segment thanks to the government's property stimulus. We expect to see continued improvement with earnings peaking in 4Q16. We maintain a rating of Outperform with a target price of Bt10.00 based on long-term average PER at 15.86x.

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1Q16 earnings review: Beat our forecast by 13.6%
Event

LH reported 1Q16 earnings of Bt1.99bn, up 48.3% YoY but down 41.1% QoQ. The result was 13.6% above our forecast of Bt1.76bn and 8.1% above the market consensus of Bt1.84bn. The result accounts for 27% of our FY16 estimate and we expect to see LH's earnings to peak in 4Q16 driven by the condominium project, 333 Riverside, which has a project value of Bt7bn.

Impact
Property stimulus sparked low-rise

Top-line income rose a considerable 34.2% YoY, gaining traction from low-rise housing as the government's property stimulus package stirred transfers. The top-line result was in line with our expectation. Gross profit margin was also in line at 33.7%, down from 34.4% in 4Q15 due to the company's portfolio composition. However, SG&A to sales came in lower than expected at 11.8%, versus our expectation of 12.3%. The company managed to maintain its cost-efficiency and benefited from economies of scale as SG&A remained below the company's normal range of 13-14%. Bottom-line earnings beat our forecast with solid growth of 48.3% YoY, while the earnings momentum appears distorted by extra gain from LHHOTEL in 4Q15 pulling growth down QoQ to 41.1%, as core earnings in 1Q16 grew nicely around 47% QoQ excluding extra items in 4Q15.

Valuation and action

The solid performance in the low-rise segment came in as expected driven by the government's property stimulus. Apart from the growth in low-rise housing, LH is expected to transfer condominiums, notably 333 Riverside in 4Q16, which will become a crucial growth engine in 2H16. We maintain a rating of Outperform with a target price of Bt10.00 based on its long-term average PER of 15.86x.

Risk

Deteriorating economic outlook, intensified competition in the housing market and weakening residential demand on post-stimulus.

1Q16 earnings were 13.6% above our forecast

Bt mn	1Q16	1Q15	YoY (%)	4Q15	QoQ (%)	Comments
Sales	7,645	5,696	34.2	8,830	(13.4)	Rising trend in low-rise housing boosted by property stimulus
COGS	5,067	3,838	32.0	5,792	(12.5)	
Gross profit	2,579	1,859	38.7	3,038	(15.1)	
SG&A	941	840	12.1	1,045	(9.9)	
Operating profit	1,637	1,019	60.7	1,993	(17.8)	
EBIT	2,447	1,651	48.2	4,983	(50.9)	
Interest expense	88	54	61.9	95	(7.5)	
Income tax expense	346	245	41.3	831	(58.3)	
Net profit	1,996	1,345	48.3	3,389	(41.1)	Beat our forecast by 13%
Percent	1Q16	1Q15	YoY (ppts)	4Q15	QoQ (ppts)	
Gross margin	33.7	32.6	1.1	34.4	(0.7)	Margin came in as expected
SG&A/sales	12.3	14.7	(2.4)	11.8	0.5	Cost-efficiency was well maintained

Source: KGI Research

KGI Locations

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Rating	Definition
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.
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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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