

Hemaraj Land & Development

BOI applications to drive land sales

Report type: Company Update

Company Overview

HEMRAJ is a developer of industrial real estate in Chonburi, Saraburi and Rayong Provinces and also an operator of power plant and residential property projects. Its strategy focuses on risk diversification and growth stability.

- The Board of Investment on Dec 26, 2012 approved 32 projects with a total investment of Bt107bn. Of the total, three projects are located in HEMRAJ-operated industrial estates with a total investment of Bt6bn.
- HEMRAJ has acquired an additional land plot in Rayong Province to expand its business.
- HEMRAJ is expected to see growth next year on the back of core industrial estate and power businesses.
- In our view, HEMRAJ is the best choice in the sector. We maintain an 'ACCUMULATE' rating on HEMRAJ with a target price of Bt3.40/share.

What is the news?

The Board of Investment on Dec 26, 2012 approved 32 projects with a total investment of Bt107bn. Of the total, three projects are located in HEMRAJ-operated industrial estates with a total investment of Bt6bn. HEMRAJ has also acquired an additional land plot of 2,000 rai for Bt1.2bn to expand its business.

How do we view this?

Three projects approved by BOI have a total investment value of Bt6bn. Normally around Bt600mn-Bt900mn or 10%-15% of the total investment will be spent on land acquisition. Our forecast shows the above projects will allow HEMRAJ to sell about 200-300 rai of land from end-2012 to early 2013. HEMRAJ sold 1,900 rai of land in 9MCY12. The chance is slim that HEMRAJ will miss full-year land sales target of 2,300 rai as it needs to generate another 300-400 rai of land. Operating momentum remains strong. Earnings growth is also expected to be strong in CY13 thanks to contribution from power business.

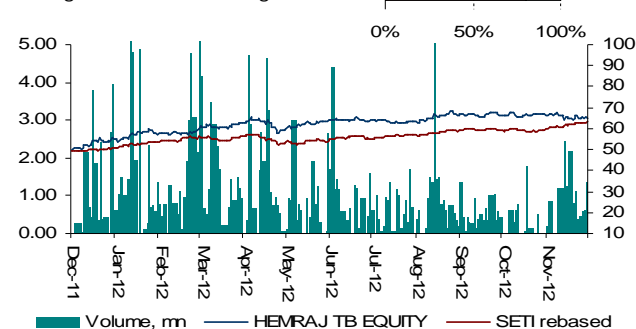
The Bt1.2bn acquisition of a 2,000-rai land plot will build up its land bank in Rayong Province as part of industrial estate business expansion plan in the next 1-2 years.

Investment Actions?

The outlook is favorable for core industrial estate business. Earnings are expected to grow by 24% in CY13. In our view, HEMRAJ is the best choice in the sector. We maintain an 'ACCUMULATE' rating on HEMRAJ with a target price of Bt3.40/share.

Hemaraj Land and Development

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (Bt)	3.40	
- Previous Target Price (Bt)	3.40	
Closing Price (Bt)	3.04	
Expected Capital Gains (%)	11.8%	
Expected Dividend Yield (%)	3.5%	
Expected Total Return (%)	15.3%	
Raw Beta (Past 2yrs weekly data)	1.08	
Market Cap. (USD mn)	962	
Enterprise Value (USD mn)	1,252	
Market Cap. (Bt mn)	29,504	
Enterprise Value (Bt mn)	38,441	
3M Average Daily T/O (mm)	18.7	
52 week range	2.14 - 3.26	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Miss Penpannee Horroongreung	11.0
2. Thai NVDR	9.1
3. CREDIT AGRICOLE (SUISSE) SA, SINGAPORE BRANCH	8.8

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (Btmn)	4,184	6,401	7,971	6,619
Net Profit (Btmn)	537	2,069	2,568	2,228
EPS (Bt)	0.06	0.21	0.26	0.23
Net Profit, adj. (Btmn)	554	1,509	2,568	2,228
EPS, adj. (Bt)	0.06	0.16	0.26	0.23
P/E (X),adj.	53.3	19.6	11.5	13.2
BV/PS (Bt)	0.94	1.11	1.39	1.63
P/B (X)	3.2	2.7	2.2	1.9
DPS (Bt)	0.06	0.09	0.11	0.00
Div. Yield (%)	1.8	2.8	3.5	-

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

Break-up Value

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BOI nodded to investment projects located in HEMRAJ's industrial estates

On Dec 26, 2012, BOI approved the 32 investment projects, requesting for privileges, worth Bt107bn. Out of which three projects have located in HEMRAJ's industrial estates.

1. Maxis International (Thailand) requested BOI's privileges for a production expansion of Radial tire for passenger car and 4WD car with an output capacity of 7.2mn tires/year. Total investment is estimated at Bt2,181.70mn. The project will be located in the Eastern Seaboard Industrial Estate, Rayong province.
2. Maxis International (Thailand) also submitted another production expansion of Radial tire for heavy-duty purpose at a total output capacity of 392k tires/year. The investment is estimated at Bt1,537.80mn. The plant will be located at Eastern Seaboard Industrial Estate, Rayong province.
3. Siam Michelin requested BOI for privileges of Radial tire for heavy duty purpose with a total output capacity of 530k tires/year. The CAPEX is estimated at Bt2,700.80mn. The project will be located in the plant belonging to SIA Land Industry, Saraburi province.

After getting approval from the BOI, the project owners will actually start to buy land plots and construction will begin afterwards. A value of land plot usually accounts for 10-15% of total project value. As the above three projects have total value of Bt6.1bn, we estimate they would spend up to Bt600mn-Bt900mn of the total project value for purchasing land plots with a combined 200-300 rais. For this reason, we believe the 2012 land sale target of 2,300 rais is more likely achievable as up to 1,900 rais were already sold in 9MCY12 and another 300-400 rais would not be that much challenges.

Acquisition of more land plots for expansion

HEMRAJ recently acquired a 100% shareholding in Rayong 2012 at a total price of Bt1.2bn. The company had a total land plot of 2,000 rais. In our view, this acquisition will pave the way for an expansion of the Eastern Seaboard Industrial Estate which will increase HEMRAJ's land sale potential for the following years.

Bright earnings outlook for CY12

We expect CY12 net profit to skyrocket by 285% y-y on expectation that revenue would jump 73% y-y, largely from land sales. In 9MCY12, land sales generated as much as revenue of Bt4.6bn, accounting for 71% of Bt6.4bn full-year revenue forecast. At end-3QCY12, backlog was Bt3.5bn which will gradually be realized as revenue until CY13. Our revenue estimate appears to be achievable. Looking at the power business, its affiliate started to generate income in mid-3QCY12 and we expect equity income to pick up remarkably from Bt132mn to Bt2.5bn, seen as another driver of the bottom line growth for CY12.

Even though CY13 land sale target is cut to 1,300 rais, backlog at end-2012 is expected to be as high as Bt3.1bn, which will be realized as revenue next year. We expect CY13 land sales to reach Bt2bn and some of which will be realized as revenue during the year. We project revenue from land sales to grow 27% y-y to Bt4bn and revenue from services would increase 20% y-y. Total revenue is expected to grow 24% y-y with estimated margin at 40%-42% as Gheco One will generate at full capacity from 2013 onwards. Equity income from the power business is expected to improve notable to Bt1bn from Bt631mn in CY12. Under this scenario, the bottom line would grow 24% y-y.

'ACCUMULATE' rating with target price of Bt3.40

In spite of high growth potential, the current share prices have offered capped upside. We therefore rate HEMRAJ an 'ACCUMULATE' with a target price of Bt3.40, based on breakup valuation (Bt2.00 in industrial estate minus 12x multiple in estimated CY13 profit in industrial estate and plus Bt1.40 in Gheco One and SPP 7 plants).

FYE Dec	CY10	CY11	CY12F	CY13F	CY14F
Valuation Ratios					
P/E (X), adj.	23.1	53.3	19.6	11.5	13.2
P/B (X)	3.2	3.2	2.7	2.2	1.9
EV/EBITDA (X), adj.	30.1	27.9	16.0	13.4	15.7
Dividend Yield (%)	1.8	1.8	2.8	3.5	-
Per share data (Bt)					
EPS, reported	0.15	0.06	0.21	0.26	0.23
EPS, adj.	0.13	0.06	0.16	0.26	0.23
DPS	0.06	0.06	0.09	0.11	0.00
BVPS	0.94	0.94	1.11	1.39	1.63
Growth & Margins (%)					
Growth					
Revenue	109.0	-3.7	53.0	24.5	-17.0
EBITDA	97.3	7.9	74.3	19.2	-14.4
EBIT	130.9	8.6	82.5	19.3	-17.4
Net Income, adj.	121.9	-56.6	172.4	70.2	-13.2
Margins					
EBITDA margin	29.4	32.9	37.5	35.9	37.0
EBIT margin	25.1	28.3	33.8	32.4	32.2
Net Profit Margin	34.1	14.3	33.8	33.9	35.4
Key Ratios					
ROE (%)	16.7	6.1	21.8	22.4	16.1
ROA (%)	8.8	2.8	9.5	9.9	7.2
Net Debt-Cash	4,494	4,724	8,906	9,383	11,467
Net Gearing(X)	0.5	0.5	0.8	0.7	0.7
Income Statement (Bt mn)					
Revenue	4,346	4,184	6,401	7,971	6,619
EBITDA	1,277	1,377	2,400	2,860	2,447
Depreciation & Amortisation	186	193	238	280	315
EBIT	1,090	1,184	2,162	2,580	2,132
Net Finance (Expense)/Income	(207)	(325)	(411)	(501)	(501)
Other items	223	31	6	14	14
Associates & JVs	422	(133)	632	1,029	1,029
Profit Before Tax	1,529	758	2,389	3,122	2,674
Taxation	(46)	(161)	(227)	(419)	(329)
Profit After Tax	1,482	597	2,162	2,703	2,345
Non-controlling Interest	71	60	93	135	117
Net Income, reported	1,411	537	2,069	2,568	2,228
Net Income, adj.	1,276	554	1,509	2,568	2,228

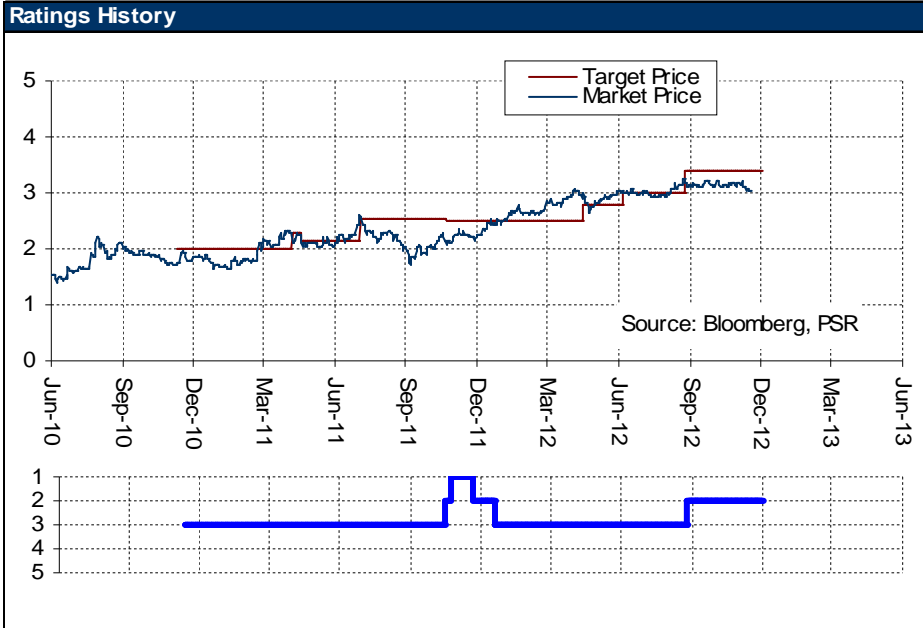
Source: PSR est.

FYE Dec	CY10	CY11	CY12F	CY13F	CY14F
Balance Sheet (Bt mn)					
Cash	3,517	3,718	2,067	1,928	2,244
ST Investments	0	0	0	0	0
Accounts Receivables	204	133	174	173	187
Inventories	7,278	7,890	8,350	11,542	14,212
Others	56	74	870	870	870
Total current assets	11,055	11,814	11,460	14,512	17,513
PPE	574	945	1,284	1,458	1,619
Property Investments	2,021	2,250	4,970	5,607	6,237
Associates & JVs	3,479	4,327	5,343	6,372	7,401
Investments	144	144	144	144	144
Others	1,296	530	253	253	253
Total non-current assets	7,514	8,196	11,994	13,835	15,654
Total Assets	18,569	20,010	23,455	28,347	33,168
Short term loans	780	308	2,212	2,950	5,350
Accounts Payables	581	916	(518)	1,333	1,409
Others	544	1,165	1,745	1,745	1,745
Total current liabilities	1,905	2,389	3,439	6,028	8,504
Long term loans	7,231	8,134	8,762	8,362	8,362
Others	267	358	512	512	512
Total liabilities	9,402	10,881	12,713	14,902	17,378
Non-controlling interest	366	326	550	685	802
Shareholder Equity	8,801	8,803	10,192	12,760	14,988

Cashflow Statements (Bt mn)

CFO					
PBT	552	399	584	660	720
Adjustments	(79)	101	40	(24)	(14)
Cash from ops before WC changes	473	500	624	636	706
WC changes	(1,523)	(149)	(1,256)	(592)	(606)
Cash generated from ops	(1,050)	351	(632)	44	100
Taxes paid, net	25	(12)	(99)	(87)	(99)
Interest paid	(126)	(91)	(130)	(130)	(130)
Cashflow from ops	(1,151)	247	(860)	(172)	(129)
CFI					
CAPEX, net	(75)	(25)	(273)	(273)	(277)
Dividends from associates & JVs	(17)	0	0	0	0
Dividends/Interest from Investments	65	48	0	0	0
Purchase/sale of investments	1,144	3	0	0	0
Investments in subs & associates	(173)	(386)	0	0	0
Others	517	186	0	0	0
Cashflow from investments	1,460	(174)	(273)	(273)	(277)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	11	1,407	541	600	600
Dividends to minority interests	(50)	(80)	0	0	0
Dividends to shareholders & capital reduction	(1)	(0)	0	0	0
Others	0	60	0	0	0
Cashflow from financing	(40)	1,387	541	600	600
Net change in cash	269	1,460	(592)	155	194
Effects of exchange rates	(0)	0	0	0	0
CCE, end	3,517	3,718	2,067	1,928	2,244

Source: PSR est.



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks
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