

Hemaraj Land and Development - HEMRAJ PhillipCapital

Promising growth potential in 2HCY12

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Phillip Securities Research
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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.

- HEMRAJ's affiliate Gheco One became a damp on HEMRAJ's earnings performance in 1HCY12.
- Land sales in industrial estate continued to grow nicely; management raises CY12 sales target by 15%. Gheco One has commenced commercial operation in 2HCY12, which will help support considerable growth.
- For CY13, net profit is projected to continue to grow as power business is expected to be a key driver, though land sales would be lower y-y.
- We reiterate a 'NEUTRAL' rating on HEMRAJ shares with a target price of Bt3/share, as share prices already reflected in earnings growth outlook.

What is the news?

HEMRAJ delivered 1HCY12 net profit of Bt954mn, lower than our forecast of Bt1.2bn. Meanwhile, land sales are expected to see bright outlook ahead after up to 1,447 rais were sold in 1HCY12 and another 300 rais were sealed recently, which convinced HEMRAJ to adjust its CY12 sales target by 15%. In power business, the affiliate Gheco One commenced operation in Jul 2012.

How do we view this?

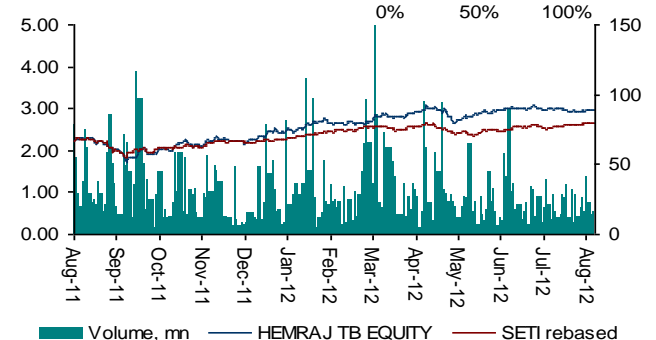
Excluding an extra item of Gheco One, operating performance remained strong in 1HCY12. We expect earnings to continue to grow until 2013 as land sales outlook appears upbeat and Gheco One already started operation.

Investment Actions?

We reiterate a 'NEUTRAL' rating on HEMRAJ shares as the share prices are offering capped upside to our target price of Bt3/share and already reflecting future growth.

Hemaraj Land and Development

Rating	3.00	Neutral
- Previous Rating		Neutral
Target Price (Bt)	3.00	
- Previous Target Price (Bt)	3.00	
Closing Price (Bt)	2.94	
Expected Capital Gains (%)	2.0%	
Expected Dividend Yield (%)	2.9%	
Expected Total Return (%)	5.0%	
Raw Beta (Past 2yrs weekly data)	1.01	
Market Cap. (USD mn)	910	
Enterprise Value (USD mn)	1,121	
Market Cap. (Bt mn)	28,533	
Enterprise Value (Bt mn)	35,198	
3M Average Daily T/O (mn)	22.7	
52 w week range	1.68 - 3.1	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. CREDIT AGRICOLE (SUISSE) SA, SINGAPORE BRANCH	8.8
2. Miss Penpannee Horroongreung	8.3
3. CHASE NOMINEES LIMITED 15	7.5

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	4,346	4,184	6,563	7,971
Net Profit (Btmn)	1,411	537	2,095	2,685
EPS (Bt)	0.15	0.06	0.22	0.28
Net Profit, adj. (Btmn)	1,276	554	1,535	2,685
EPS, adj. (Bt)	0.13	0.06	0.16	0.28
P/E (X),adj.	22.4	51.5	18.6	10.6
BV/PS (Bt)	0.94	0.94	1.15	1.44
P/B (X)	3.1	3.1	2.6	2.0
DPS (Bt)	0.06	0.06	0.09	0.11
Div. Yield (%)	1.9	1.9	2.9	3.8

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

Break-up Value

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Gheco One as a damp on 1HCY12 performance

In 1HCY12, net profit grew as much as Bt954mn versus loss of Bt1mn in 1HCY12. Revenue recognition skyrocketed 274% y-y to roughly Bt2.1bn as land sales jumped 75% and 192% in CY11 and 1QCY12, piling backlog to more than Bt4.5bn. Gross margin stayed flat as HEMRAJ has enough room to increase its prices to help offset rising construction cost. Operating profit increased considerably by 320% y-y to Bt933mn. However, booking of fixed expense and extra expense from delayed operation commencement, which caused Gheco One to be unable to contribute revenue to HEMRAJ, and FX loss from USD denominated loan dragged net profit lower than our forecast of Bt1.2bn. In sum, earnings outlook in the industrial estate segment remained upbeat.

Strong land sales, CY12 target upped 15%; Gheco One expecting to start contribution after operation commencement in Jul; 2HCY12 earnings likely to grow remarkably

HEMRAJ sold roughly 1,700 rais so far—1,447 rais in 1HCY12 and 300 rais in 3QCY12. This positive outlook convinces HEMRAJ to increase its CY12 sales target by 15% to 2,300 rais.

We project CY12 net profit to jump 290% y-y to Bt2bn versus Bt536mn a year ago. Revenue recognition from land sales is expected to grow 82% to Bt4.4bn, which is likely to be achievable as HEMRAJ already realized revenue up to Bt2.1bn in 1HCY12 and backlog at end-2QCY12 was more than Bt3.3bn, of which about Bt2.3bn would be realized in 2HCY12. Revenue from utilities service and leased factory would grow 22% to Bt2.1bn, in line with increasing land sales as the higher customers in industrial estate, the greater utilities would be consumed. Total revenue is forecast to increase 56% while gross margin would stay flat on effective cost control. Operating profit is expected to grow remarkably by 198% and Gheco One is expected to contribute up to Bt688mn (versus loss of Bt132mn) after operation commencement in Jul, which would boost net profit to Bt2bn, compared to Bt536mn a year ago. Note that we trim our CY12 forecast by 6% to reflect extra expense in Gheco One in 1HCY12. Overall, earnings outlook in 2HCY12 appears to be bullish.

CY13 profit to continue to grow on upbeat power business amid lower land sales

Equity income from Gheco One, which will run at full-year capacity in 2013, is expected to contribute roughly Bt1bn to HEMRAJ's earnings. Meanwhile, revenue from land sales are forecast to grow 21% to Bt5.3bn on the back of exceptionally high land sales of 2,300 rais, valued Bt7bn, in 2012. Land sales are a bit challenging to make exact estimate at the moment; however we foresee HEMRAJ would get a shot from some customers who relocate from flood-risked area. Based upon this scenario and our conservative perspective, we project 2013 land sales to lower to 1,400 rais. In spite of expected lower land sales, backlogs carried forward from 2012 would help drive land sales revenue in 2013. Looking at big picture, land sales revenue is expected to be driven by 2012 backlog and full-year operation of Gheco One would help support

overall earnings. We expect net profit to continue to grow by 28% y-y.

'NEUTRAL' maintained on capped upside

We believe the market already priced in high earnings growth outlook. Since the current share prices are trading at capped upside to our sum-of-the-parts target price of Bt3/share (industrial estate of 11x CY12 P/E, power business Gheco One of Bt0.64/share and SPP7 of Bt0.08/share), we keep a 'NEUTRAL' rating on HEMRAJ shares unchanged.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Valuation Ratios					
P/E (X), adj.	47.9	22.4	51.5	18.6	10.6
P/B (X)	3.4	3.1	3.1	2.6	2.0
EV/EBITDA (X), adj.	54.4	27.6	25.6	14.7	12.3
Dividend Yield (%)	1.0	1.9	1.9	2.9	3.8
Per share data (Bt)					
EPS, reported	0.06	0.15	0.06	0.22	0.28
EPS, adj.	0.06	0.13	0.06	0.16	0.28
DPS	0.03	0.06	0.06	0.09	0.11
BVPS	0.87	0.94	0.94	1.15	1.44
Growth & Margins (%)					
Growth					
Revenue	-54.2	109.0	-3.7	56.8	21.5
EBITDA	-56.8	97.3	7.9	74.0	19.0
EBIT	-64.9	130.9	8.6	82.6	19.3
Net Income, adj.	-49.2	121.9	-56.6	177.0	75.0
Margins					
EBITDA margin	31.1	29.4	32.9	36.5	35.8
EBIT margin	22.7	25.1	28.3	32.9	32.4
Net Profit Margin	28.8	34.1	14.3	33.4	35.5
Key Ratios					
ROE (%)	7.3	16.7	6.1	21.6	22.5
ROA (%)	4.2	8.8	2.8	9.6	10.6
Net Debt-Cash	3,148	4,494	4,724	6,669	9,050
Net Gearing(X)	0.4	0.5	0.5	0.6	0.6
Income Statement (Bt m n)					
Revenue	2,080	4,346	4,184	6,563	7,971
EBITDA	647	1,277	1,377	2,396	2,853
Depreciation & Amortisation	175	186	193	234	273
EBIT	472	1,090	1,184	2,162	2,580
Net Finance (Expense)/Income	(70)	(207)	(325)	(373)	(397)
Other items	69	223	31	9	14
Associates & JVs	81	422	(133)	688	1,069
Profit Before Tax	552	1,529	758	2,486	3,266
Taxation	47	(46)	(161)	(291)	(439)
Profit After Tax	599	1,482	597	2,194	2,827
Non-controlling Interest	24	71	60	100	141
Net Income, reported	575	1,411	537	2,095	2,685
Net Income, adj.	575	1,276	554	1,535	2,685

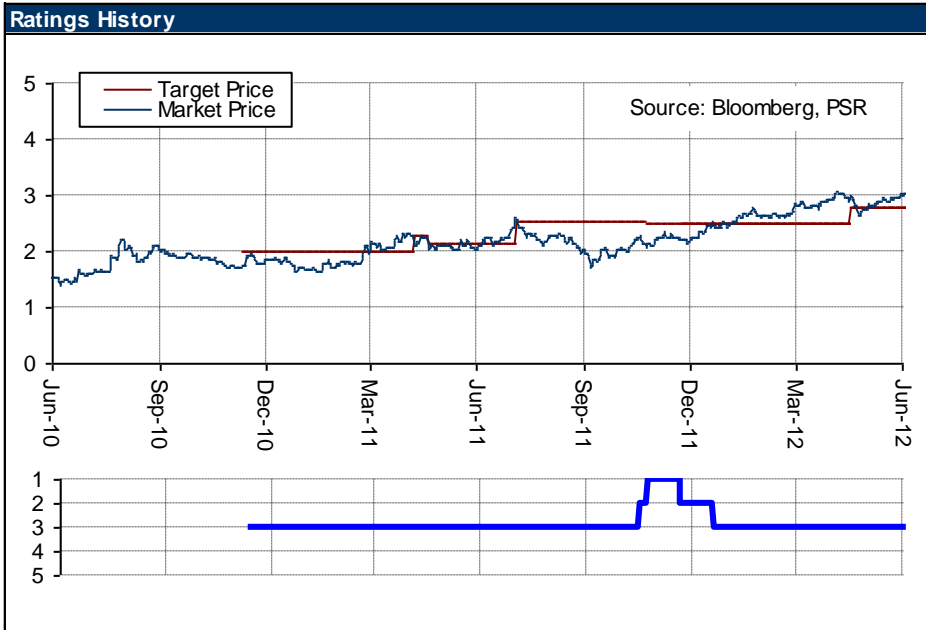
Source: PSR est.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Balance Sheet (Bt mn)					
Cash	909	3,517	3,718	2,376	333
ST Investments	1	0	0	0	0
Accounts Receivables	351	204	133	174	173
Inventories	6,384	7,278	7,890	8,806	12,007
Others	40	56	74	605	605
Total current assets	7,684	11,055	11,814	11,960	13,117
PPE	440	574	945	1,220	1,397
Property Investments	2,077	2,021	2,250	4,795	5,437
Associates & JVs	763	3,479	4,327	5,400	6,468
Investments	144	144	144	144	144
Others	2,571	1,296	530	248	248
Total non-current assets	5,996	7,514	8,196	11,806	13,694
Total Assets	13,681	18,569	20,010	23,767	26,812
Short term loans	2,199	780	308	2,069	2,807
Accounts Payables	219	581	916	1,453	1,333
Others	758	544	1,165	1,665	1,665
Total current liabilities	3,176	1,905	2,389	5,187	5,805
Long term loans	1,859	7,231	8,134	6,976	6,576
Others	187	267	358	441	441
Total liabilities	5,222	9,402	10,881	12,604	12,822
Non-controlling interest	367	366	326	556	698
Shareholder Equity	8,092	8,801	8,803	10,606	13,292

Cashflow Statements (Bt mn)

CFO					
PBT	158	552	399	692	694
Adjustments	(17)	(79)	101	(70)	(60)
Cash from ops before WC changes	141	473	500	622	634
WC changes	55	(1,523)	(149)	719	(592)
Cash generated from ops	195	(1,050)	351	1,341	42
Taxes paid, net	(9)	25	(12)	(105)	(92)
Interest paid	(46)	(126)	(91)	(104)	(104)
Cashflow from ops	140	(1,151)	247	1,133	(153)
CFI					
CAPEX, net	(33)	(75)	(25)	(273)	(273)
Dividends from associates & JVs	1	(17)	0	0	0
Dividends/Interest from Investments	0	65	48	0	0
Purchase/sale of investments	0	1,144	3	0	0
Investments in subs & associates	0	(173)	(386)	0	0
Others	(5)	517	186	0	0
Cashflow from investments	(36)	1,460	(174)	(273)	(273)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	140	11	1,407	651	600
Dividends to minority interests	0	(50)	(80)	0	0
Dividends to shareholders & capital reduction	(0)	(1)	(0)	0	0
Others	0	0	60	0	0
Cashflow from financing	139	(40)	1,387	651	600
Net change in cash	243	269	1,460	1,511	174
Effects of exchange rates	(0)	(0)	0	0	0
CCE, end	909	3,517	3,718	2,376	333

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

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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