

# Quality Houses - QH

Fairly valued

Bloomberg | Reuters  
QH TB | QH.BK

## Report type: Company Update

### Company Overview

QH is an integrated property developer specializing in rental properties (offices and serviced apartments) and residential properties for sales.

- SDH/TH presales recovered at a slow pace but condo presales fared better.
- Earnings are expected to be strong this year on exceptional gains and better operating performance due to a low base of comparison in CY11.
- Strong earnings growth momentum is set to continue well into next year driven by condo backlog to be realized as revenue in CY13 and favorable SDH/TH presales outlook.
- Even if growth prospects are encouraging, QH however looks fairly valued at current trading levels as it is now trading near its historical P/E average. At the end of the day, we maintain a 'NEUTRAL' stance on QH with a target price of Bt2.20/share.

### What is the news?

Condo transfers would be a key driver of earnings growth for QH in 4QCY12. Earnings growth momentum is also set to continue well into CY13 driven by more condo transfers.

### How do we view this?

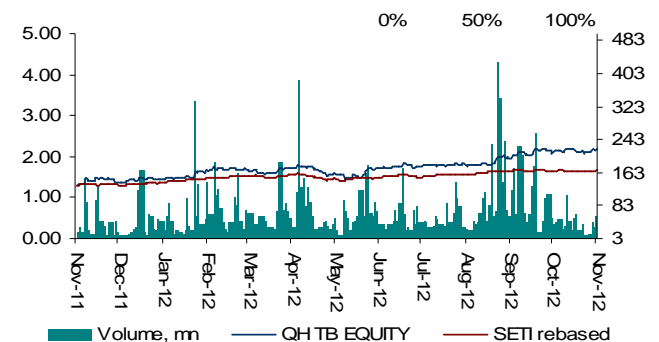
Earnings are highly likely to be impressive for QH in 4QCY12 based on our presales forecast and transfer schedule projection. Even though strong earnings growth momentum is poised to continue well into next year largely driven by condo backlog to be realized as revenue in CY13, much still depends on SDH/TH presales growth in CY13. In our view, earnings prospects are not a fresh catalyst for earnings revisions at the meantime.

### Investment Actions?

Even if growth prospects are encouraging, QH however looks fairly valued at current trading levels as it is now trading near its historical P/E average. At the end of the day, we maintain a 'NEUTRAL' stance on QH with a target price of Bt2.20/share.

### Quality Houses

<b>Rating</b>	<b>3.00</b>	<b>Neutral</b>
- Previous Rating	3.00	Neutral
<b>Target Price (Bt)</b>	<b>2.20</b>	
- Previous Target Price (Bt)	2.20	
Closing Price (Bt)	2.20	
Expected Capital Gains (%)	0.0%	
Expected Dividend Yield (%)	3.6%	
<b>Expected Total Return (%)</b>	<b>3.6%</b>	
Raw Beta (Past 2yrs weekly data)	1.08	
Market Cap. (USD mn)	658	
Enterprise Value (USD mn)	1,351	
Market Cap. (Bt mn)	20,204	
Enterprise Value (Bt mn)	41,580	
3MAverage Daily T/O (mn)	84.0	
52 week range	1.273847 - 2.22	
Closing Price in 52 week range		



### Major Shareholders

	(%)
1. LH	24.9
2. Government of Singapore Investment Corporation	10.8
3. Thai NVDR	7.1

### Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (Btmn)	9,931	12,030	14,461	14,651
Net Profit (Btmn)	853	2,108	1,806	1,847
EPS (Bt)	0.10	0.23	0.20	0.20
Net Profit, adj. (Btmn)	765	1,286	1,806	1,847
EPS, adj. (Bt)	0.09	0.15	0.20	0.20
P/E (X),adj.	24.0	15.1	11.2	10.9
BVPS (Bt)	1.55	1.79	1.91	2.12
P/B (X)	1.4	1.2	1.2	1.0
DPS (Bt)	0.01	0.06	0.08	0.08
Div. Yield (%)	0.4	2.6	3.6	3.7

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

P/E13 (10X)

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### **Pace of recovery in SDH/TH presales slow but condo presales faring better**

QH is one of the property developers hard hit by last year's floods especially its upper middle-end housing projects in Ratchapruuek area but its well-diversified portfolio in terms of project locations with development of lower middle-end housing projects under the brand '*The Trust*' allowed its SDH/TH presales in 9MCY12 to recover back near average presales of leading developers (-9% vs. -10%). We forecast its SDH/TH presales to grow by 6% and 2% this year and next respectively on expectations that sales of its high-end housing projects will remain weak.

Condo presales were exceptionally low last year as the pace of condo developments at QH was relatively slow compared to other developers but QH however appears to reap more benefit from a recovery of the condo market this year. Its three newly launched condo projects received strong response with 60%-70% sold out and the take-up rate for most of its existing 6-7 condo projects in the portfolio had already exceeded 70% against below 50% seen last year. As of 3QCY12, the average take-up rate for all condo projects in the portfolio rose to 69% from 43% at end-CY11. Higher condo take-up rate would give QH a bigger backlog to be realized as revenue in CY13, in our view.

### **Earnings growth momentum set into continue into CY13**

QH made a 9MCY12 profit of Bt1.6bn, of which Bt887mn came from exceptional gain from the spin-off of assets into the property fund and the remaining Bt845mn from operating profit which grew 19% y-y. In our view, strong earnings growth momentum is likely to continue into 4QCY12 from 3QCY12 on a pre-exceptional basis. SDH/TH transfers and full-quarter transfers from condo project in Pinklao would be key drivers of growth for QH in 4QCY12. We estimate QH will achieve a 4QCY12 profit of Bt432mn based on assumptions that revenue will come in at Bt3.4bn. On this basis, full-year profit before exceptional items is expected to reach Bt1.2bn or Bt0.15 a share. Including exceptional item in 3QCY12, full-year net profit is forecast to hit Bt2.1bn.

Strong earnings momentum is also poised to continue well into CY13. We forecast QH to achieve CY13 revenue growth of 24% y-y to Bt13.4bn. The forecast assumes there will be a condo backlog of over Bt4bn to be realized as revenue in CY13 and SDH/TH presales will grow 2% y-y to Bt9.4bn. Margin is likely to stay at 30% as much of the revenue in CY13 would come from new projects which have margin of 30%. Effective tax rate would drift lower. Overall we expect QH to deliver profit growth of 40% y-y in CY13.

### **Fairly valued**

In our view, strong growth prospects are pretty much baked into the stock price already as QH stock is currently trading near its historical P/E average. The stock looks fairly valued at current levels. Our target price of Bt2.20/share for QH now offers total investment return including dividend yield of less than 4%. At the end of the day, we maintain a 'NEUTRAL' stance on QH.

FYE Dec	CY10	CY11	CY12F	CY13F	CY14F
<b>Valuation Ratios</b>					
P/E (X), adj.	10.9	24.0	15.1	11.2	10.9
P/B (X)	1.4	1.4	1.2	1.2	1.0
EV/EBITDA (X), adj.	18.2	49.4	29.8	23.3	23.0
Dividend Yield (%)	5.5	0.4	2.6	3.6	3.7
<b>Per share data (Bt)</b>					
EPS, reported	0.24	0.10	0.23	0.20	0.20
EPS, adj.	0.20	0.09	0.15	0.20	0.20
DPS	0.12	0.01	0.06	0.08	0.08
BVPS	1.58	1.55	1.79	1.91	2.12
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	16.0	-25.3	21.1	20.2	1.3
EBITDA	-3.6	-63.0	65.8	27.6	1.5
EBIT	-3.5	-69.8	93.7	35.1	1.3
Net Income, adj.	2.6	-54.5	68.1	40.5	2.3
<b>Margins</b>					
EBITDA margin	17.1	8.5	11.6	12.3	12.4
EBIT margin	15.0	6.1	9.7	10.9	10.9
Net Profit Margin	15.1	8.6	17.5	12.5	12.6
<b>Key Ratios</b>					
ROE (%)	15.5	6.4	14.9	11.5	10.8
ROA (%)	6.8	2.5	5.4	4.4	4.4
Net Debt-Cash	13,576	21,287	21,780	21,624	19,749
Net Gearing(X)	1.0	1.6	1.4	1.3	1.1
<b>Income Statement (Bt mn)</b>					
<b>Revenue</b>	<b>13,302</b>	<b>9,931</b>	<b>12,030</b>	<b>14,461</b>	<b>14,651</b>
<b>EBITDA</b>	<b>2,280</b>	<b>843</b>	<b>1,397</b>	<b>1,783</b>	<b>1,810</b>
Depreciation & Amortisation	279	239	227	203	210
<b>EBIT</b>	<b>2,001</b>	<b>604</b>	<b>1,170</b>	<b>1,580</b>	<b>1,600</b>
Net Finance (Expense)/Income	(249)	(295)	(287)	(277)	(254)
Other items	320	88	822	0	0
Associates & JVs	543	639	750	764	770
<b>Profit Before Tax</b>	<b>2,614</b>	<b>1,035</b>	<b>2,454</b>	<b>2,067</b>	<b>2,117</b>
Taxation	(611)	(182)	(346)	(260)	(269)
<b>Profit After Tax</b>	<b>2,003</b>	<b>853</b>	<b>2,108</b>	<b>1,806</b>	<b>1,847</b>
Non-controlling Interest	0	0	0	0	0
<b>Net Income, reported</b>	<b>2,003</b>	<b>853</b>	<b>2,108</b>	<b>1,806</b>	<b>1,847</b>
<b>Net Income, adj.</b>	<b>1,683</b>	<b>765</b>	<b>1,286</b>	<b>1,806</b>	<b>1,847</b>

Source: PSR est.

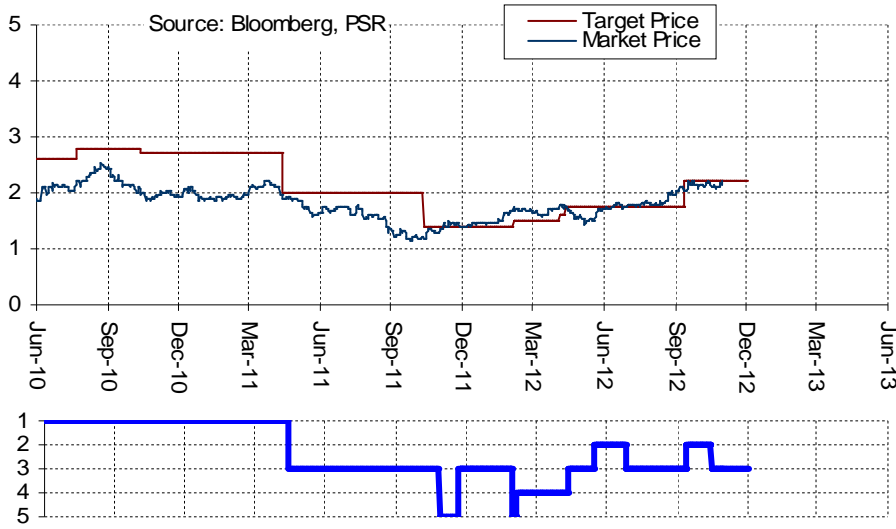
FYEDec	CY10	CY11	CY12F	CY13F	CY14F
<b>Balance Sheet (Bt mn)</b>					
Cash	1,114	1,113	302	858	232
ST Investments	0	0	0	0	0
Accounts Receivables	51	67	112	87	80
Inventories	10,856	16,427	20,412	20,659	20,019
Others	184	568	1,118	1,118	1,118
<b>Total current assets</b>	<b>12,205</b>	<b>18,176</b>	<b>21,945</b>	<b>22,723</b>	<b>21,449</b>
PPE	1,439	1,434	511	512	511
Property Investments	559	544	528	507	486
Associates & JVs	4,366	6,059	6,955	7,529	8,105
Investments	10,113	10,032	9,316	9,316	9,316
Others	1,866	1,721	1,307	1,324	1,337
<b>Total non-current assets</b>	<b>18,344</b>	<b>19,790</b>	<b>18,618</b>	<b>19,188</b>	<b>19,755</b>
<b>Total Assets</b>	<b>30,549</b>	<b>37,966</b>	<b>40,563</b>	<b>41,911</b>	<b>41,204</b>
Short term loans	3,200	9,677	6,882	9,982	11,082
Accounts Payables	621	546	614	621	588
Others	1,123	1,046	1,750	1,750	1,750
<b>Total current liabilities</b>	<b>4,944</b>	<b>11,269</b>	<b>9,245</b>	<b>12,352</b>	<b>13,420</b>
Long term loans	11,490	12,723	15,200	12,500	8,900
Others	742	806	915	892	870
<b>Total liabilities</b>	<b>17,176</b>	<b>24,799</b>	<b>25,360</b>	<b>25,745</b>	<b>23,190</b>
Non-controlling interest	0	0	0	0	0
<b>Shareholder Equity</b>	<b>13,373</b>	<b>13,168</b>	<b>15,203</b>	<b>16,166</b>	<b>18,014</b>

**Cashflow Statements (Bt mn)**

<b>CFO</b>					
Net Income	2,614	1,035	2,750	2,067	2,117
Adjustments	(366)	(199)	(1,302)	(306)	(327)
Cash from ops before WC changes	2,247	837	1,449	1,760	1,790
WC changes	(1,806)	(5,227)	(2,897)	433	1,209
Cash generated from ops	441	(4,390)	(1,448)	2,193	2,999
Taxes paid, net	(691)	(482)	(297)	(260)	(269)
Interest paid	(605)	(812)	(944)	(925)	(847)
<b>Cashflow from ops</b>	<b>(855)</b>	<b>(5,685)</b>	<b>(2,689)</b>	<b>1,008</b>	<b>1,882</b>
CFI	0	0	0	0	0
CAPEX, net	(87)	(106)	2,545	(80)	(80)
Dividends from associates & JVs	296	162	347	191	192
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	(174)	(1,103)	(1,053)	0	0
Others	10	14	453	(120)	(120)
<b>Cashflow from investments</b>	<b>45</b>	<b>(1,033)</b>	<b>2,291</b>	<b>(9)</b>	<b>(8)</b>
CFF	0	0	0	0	0
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	1,754	7,735	(335)	400	(2,500)
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(1,017)	(1,017)	(78)	(843)	0
Others	0	0	0	0	0
<b>Cashflow from financing</b>	<b>737</b>	<b>6,718</b>	<b>(413)</b>	<b>(443)</b>	<b>(2,500)</b>
<b>Net change in cash</b>	<b>(73)</b>	<b>(1)</b>	<b>(811)</b>	<b>556</b>	<b>(626)</b>
Effects of exchange rates	0	0	0	0	0
<b>CCE, end</b>	<b>1,114</b>	<b>1,113</b>	<b>302</b>	<b>858</b>	<b>232</b>

Source: PSR est.

**Ratings History**



**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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