

**HOLD** (Unchanged) **TP: Bt13.80** \* (pre-XR) (Unchanged)New Information **Upside: 6.2%**

## Ticon Industrial Connection (TICON TB)

### Ayutthaya site visits

**We were relieved during the site visits to see that flood walls are near completion. New demand in the east remains strong. Tenant outflows from Ayutthaya sites are falling but 2Q12F earnings will still be weak. TICON plans to issue short-term warrants to existing shareholders with ~11% earnings dilution. Maintain HOLD with a Bt13.80 TP (pre-XR).**

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#### Eight funds joined site visits

We arranged site visits for local fund managers/analysts to Hi-Tech Industrial Estate (Hi-Tech) and Rojana Industrial Park (Rojana) in Ayutthaya to take a look at TICON's rental factories and flood walls there. There was a lot of interest in the progress of TICON's factory rental recovery and flood wall construction after it was hit hard by the massive flooding in 4Q11. Ten fund managers and analysts from eight funds joined this site visit.

#### Business flows bottoming out

TICON has 60 rental factories in the Hi-Tech and Rojana estates or 30% of its total portfolio. Due to tenant outflows post flooding, average occupancy rate in these estates is down from 95% last year to 50% now. Most of the outflow tenants were in the electronic and electrical appliance sectors as they were impacted by the floods and wage hike. TICON's customers in these two sectors declined from 42% of its total portfolio in 2011 to 34% in 2Q12. But tenant outflows have slowed down sharply since last month while 90-95% of remaining tenants have resumed their operations since June. Flood wall construction is 70% completed and should be finished by September.

#### Tenant outflows slow down

Tenant outflows fell in June at only 3,000 sqm versus 80,000 sqm in 5M12, implying a total outflow of 83,000 sqm in 1H12. Due to large outflows in 1H12, TICON's net new leased space increased by only 27,000 sqm during the period. Tenant outflows have continued to fall this month. As for demand, although it remains weak in its portfolio in Ayutthaya, the company is seeing strong demand for its factories in the east, accounting for 95% of total demand. Demand is mainly coming from the auto sector and Japanese investors. Management now targets net new leased space at 200,000 sqm versus its previous guidance of 150,000 sqm. Our forecast is 150,000 sqm.

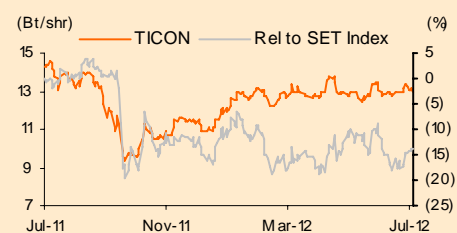
#### 2Q12F earnings slow, but to improve in 2H12F

We forecast TICON to report weak profits of Bt49m, down a steep 67% y-y and 80% q-q. The y-y drop is expected to be because of a falling gain from factory sales and increased renovation expenses. The q-q drop will be a result of no factory sales to TFUND unlike in 1Q12, rising renovation expenses and no insurance reimbursement. However, we expect TICON's earnings to improve strongly in 2H12 driven by three reasons. First, its flood-hit portfolio should resume operations fully. Second, there will be more assets sales to property funds of Bt2.2bn in 3Q12 and ~Bt1.5bn in 4Q12. Lastly, there will be more net new leased space in 2H12.

#### COMPANY VALUATION

FY ending Dec	2011A	2012F	2013F	2014F
Sales	1,999	4,907	3,844	3,775
Net profit	436	1,124	1,077	1,124
Consensus NP	—	1,085	1,219	1,479
Diff frm cons (%)	—	3.6	(11.7)	(24.0)
Norm profit	508	1,020	1,077	1,124
Prev. Norm profit	—	1,020	1,077	1,124
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	0.7	1.3	1.3	1.4
Norm EPS grw (%)	(42.0)	94.4	4.2	4.4
Norm PE (x)	19.9	10.3	9.8	9.4
EV/EBITDA (x)	19.2	9.5	11.0	11.1
P/BV (x)	1.8	1.6	1.6	1.5
Div yield (%)	3.0	8.0	8.1	8.5
ROE (%)	9.0	16.6	16.2	16.3
Net D/E (%)	150.2	135.2	149.7	156.7

#### PRICE PERFORMANCE



#### COMPANY INFORMATION

Price as of 26 Jul 12 (Bt)	13.00
Market cap (US\$ m)	324
Listed shares (m shares)	781
Free float (%)	55
Avg daily turnover (US\$ m)	0.64
12M price H/L (Bt)	14.7/9.2
Sector	Industrial Estate
Major shareholder	ROJNA 21.4%

Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: Part Of The Finished Flood Wall At Rojana**



Source: Company data

**Ex 2: Flood Wall Construction At Hi-Tech**



Source: Company data

**Ex 3: Flood Wall Under Construction At Rojana**



Source: Company data

**Ex 4: TICON's Factory For Rent At Hi-Tech**



Source: Company data

**Ex 5: Flood Level At Rojana**



Source: Company data

**Ex 6: Flood Level At Hi-Tech**



Source: Company data

**COMPANY DESCRIPTION**

Ticon Industrial (TICON) and its two subsidiaries, Eco Industrial Services Co., Ltd. (EISCO) and TICON Logistics Park Co., Ltd. (TPARK), are in the business of developing standard factories and logistics warehouses in industrial estates, industrial parks and other potential locations for rent/sale. TICON and EISCO are providers of standard factories while TPARK provides logistics warehouses. TICON owns 28.0% of TICON Property Fund (TFUND) and 19.7% of TPARK Logistics Property Fund (TLOGIS). These funds were established in 2005 and 2009 as TICON's funding vehicles by selling assets to these funds.

Source: Thanachart

**THANACHART'S SWOT ANALYSIS**

**S — Strength**

- TICON and its subsidiaries have strong expertise in the business of developing factories and warehouses for lease with the highest market share of 70%.
- TICON's factory and warehouse portfolio enjoys a variety of good locations.

**O — Opportunity**

- Economic improvement and strong growth in the electronics and auto industries.
- Falling deposit guarantee will increase demand for investment in property funds.

**CONSENSUS COMPARISON**

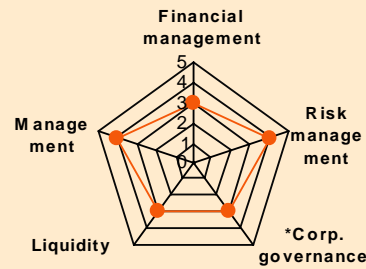
	Consensus	Thanachart	Diff
Target price (Bt)	14.50	13.80	-4.8%
Net profit 12F (Bt m)	1,085	1,124	3.6%
Net profit 13F (Bt m)	1,219	1,077	-11.7%
<b>Consensus REC</b>	<b>BUY: 8</b>	<b>HOLD: 5</b>	<b>SELL: 2</b>

**HOW ARE WE DIFFERENT FROM THE STREET?**

- Our earnings forecast in 2013 and TP are lower than the consensus because we are more conservative on new leased space.

Sources: Bloomberg consensus, Thanachart

**COMPANY RATING**



**Rating Scale**

<b>Very Strong</b>	<b>5</b>
<b>Strong</b>	<b>4</b>
<b>Good</b>	<b>3</b>
<b>Fair</b>	<b>2</b>
<b>Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Awards, no rating

**W — Weakness**

- Factory and warehouse for rent business needs high investment capital and has a long payback period.

**T — Threat**

- Rising competition from leading industrial estate developers such as AMATA and HEMRAJ.
- Natural disasters.

**RISKS TO OUR INVESTMENT CASE**

- If the growth of the global or domestic economy is disrupted, tenants may terminate or not renew their lease contracts.
- Further flood disasters.

Source: Thanachart

## FINANCIAL SUMMARY

Income Statement		(consolidated) Quarterly Earnings					(consolidated)				
Yr-end Dec (Bt m)	2010A	2011A	2012F	2013F	2014F	1Q11	2Q11	3Q11	4Q11	1Q12	
Sales	2,783	1,999	4,907	3,844	3,775	Sales	223	381	1,210	185	997
Cost of sales	1,282	988	2,746	1,986	1,869	Cost of sales	62	137	727	63	502
<b>Gross profit</b>	<b>1,501</b>	<b>1,011</b>	<b>2,161</b>	<b>1,858</b>	<b>1,906</b>	<b>Gross profit</b>	<b>161</b>	<b>244</b>	<b>483</b>	<b>122</b>	<b>495</b>
SG&A	295	326	481	365	381	SG&A	72	73	72	109	90
<b>Operating profit</b>	<b>1,206</b>	<b>685</b>	<b>1,680</b>	<b>1,493</b>	<b>1,525</b>	<b>Operating profit</b>	<b>89</b>	<b>171</b>	<b>411</b>	<b>13</b>	<b>405</b>
Depre & amortization	265	303	375	396	420	Depre & amortization	69	75	81	93	28
<b>EBITDA</b>	<b>1,472</b>	<b>988</b>	<b>2,055</b>	<b>1,889</b>	<b>1,945</b>	<b>EBITDA</b>	<b>159</b>	<b>246</b>	<b>492</b>	<b>106</b>	<b>433</b>
Other income	(30)	73	(276)	(77)	(17)	Other income	39	39	36	18	33
Other expenses	(5)	(16)	(10)	(8)	(8)	Other expenses	0	0	0	0	0
Interest expense	(261)	(267)	(318)	(373)	(464)	Interest expense	(64)	(66)	(69)	(68)	(91)
Pre-tax profit	910	475	1,075	1,036	1,036	Pre-tax profit	66	144	314	(49)	241
Income tax	258	127	247	207	207	Income tax	23	44	64	(3)	66
After-tax profit	653	348	828	829	829	After-tax profit	43	100	250	(45)	175
Equity income	169	161	192	248	295	Equity income	49	48	46	19	24
Minority interests	(0)	(0)	0	0	0	Minority interests	0	0	0	0	0
Extraordinary items	0	(72)	104	0	0	Extraordinary items	0	0	0	(72)	40
<b>NET PROFIT</b>	<b>821</b>	<b>436</b>	<b>1,124</b>	<b>1,077</b>	<b>1,124</b>	<b>NET PROFIT</b>	<b>92</b>	<b>147</b>	<b>296</b>	<b>(99)</b>	<b>240</b>
<b>Normalized profit</b>	<b>821</b>	<b>508</b>	<b>1,020</b>	<b>1,077</b>	<b>1,124</b>	<b>Normalized profit</b>	<b>92</b>	<b>147</b>	<b>296</b>	<b>(27)</b>	<b>200</b>

Balance Sheet		(consolidated) Financial Ratios And Valuations									
Yr-end Dec (Bt m)	2010A	2011A	2012F	2013F	2014F	2010A	2011A	2012F	2013F	2014F	
Cash & equivalent	183	137	212	205	200	Norm profit (y-y%)	23.4	(42.0)	94.4	4.2	4.4
A/C receivables	42	107	67	53	52	Net profit (y-y%)	25.7	(46.9)	157.7	(4.3)	4.4
Inventories	0	0	0	0	0	Dividend payout (%)	83.6	71.6	75.0	80.0	80.0
Other current assets	893	1,012	1,015	1,018	1,022	Gross margin (%)	53.9	50.6	44.0	48.3	50.5
Investment	1,832	1,939	3,125	3,927	4,653	Operating margin (%)	43.4	43.4	43.4	43.4	43.4
Fixed assets	9,228	11,587	11,712	12,216	12,596	EBITDA margin (%)	52.9	49.4	41.9	49.1	51.5
Other assets	307	508	533	560	588	Net margin (%)	23.4	17.4	16.9	21.6	22.0
<b>Total assets</b>	<b>12,485</b>	<b>15,289</b>	<b>16,664</b>	<b>17,978</b>	<b>19,110</b>	ROA (%)	7.0	3.7	6.4	6.2	6.1
S-T debt	1,162	2,695	3,037	3,467	3,752	ROE (%)	15.5	9.0	16.6	16.2	16.3
A/C payables	196	329	339	245	230	Net D/E (x)	1.1	1.5	1.4	1.5	1.6
Other current liabilities	243	44	268	147	175	Norm PE (x)	11.6	19.9	10.3	9.8	9.4
L-T debt	5,014	6,061	6,029	6,882	7,448	Norm PE at TP (x)	12.3	21.2	10.9	10.4	10.0
Other liabilities	272	419	440	462	485	PE (x)	12	23	9.3	9.8	9.4
<b>Total liabilities</b>	<b>6,888</b>	<b>9,549</b>	<b>10,113</b>	<b>11,203</b>	<b>12,091</b>	EV/EBITDA (x)	10.6	19.2	9.5	11.0	11.1
Minority interest	0	0	0	0	0	P/BV (x)	1.7	1.8	1.6	1.6	1.5
<b>Shareholders' equity</b>	<b>5,597</b>	<b>5,740</b>	<b>6,551</b>	<b>6,775</b>	<b>7,019</b>	Dividend yield (%)	7.1	3.0	8.0	8.1	8.5
Working capital	(154)	(222)	(271)	(192)	(179)						
Total debt	6,176	8,757	9,066	10,349	11,200						
Net debt	5,993	8,620	8,854	10,144	11,000						

Sources: Company data, Thanachart estimates

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