

21 August 2012

# Hemaraj Land and Development

Property  
(Industrial)  
Neutral

Best visibility and sustainability  
in the sector

**Investment thesis:** We like HEMRAJ for its superior earnings visibility and sustainability in the sector, thanks to a strong land sales outlook, a big backlog on-hand and its investment in the power business. Moreover, the valuation is attractive. Although we expect a multiple de-rating, due to an earnings mix shift into electricity sales, HEMRAJ's FY13 PER of 8.3x is still below the 5-year historical mean PERs of both power producers (10.2x) and industrial estate operators (14.5x).

**New target price of Bt4.10:** We have rolled over our investment horizon to YE13 and arrived at a new target price of Bt4.10. We also cross-checked the historical average PER multiples of the Industrial Estate and Utilities sectors and our target price (which implies an FY13 PER of 11.5x) is in line with the weighted average PER of the two industries.

**Strong land sales momentum:** HEMRAJ sold 1,447 rai of land in 1H12 and recently sold another 306 rai to a Chinese tire maker. The firm has, thus, raised its FY12 land sales target to 2,300 rai from 2,000 rai, which we believe is achievable. This strong land sales momentum should continue for the next couple of years, led by capacity expansion—mainly in the automotive industry—ahead of the start of the ASEAN Economic Community in 2015.

**Robust demand for rent:** HEMRAJ rented out factory space of around 30K sq.m in 1H12, enlarging its factory portfolio by 46% to 190K sq.m at end-June. The firm targets growing the portfolio by 80K sq.m this year and renting out 80,000sq.m of warehouse space at Logistics Park (a new business) per year, starting 2H12.

**Minimal impact from GHECO-One shutdown:** Just after it started running on July 26, Gheco-One was forced to shut down for 20 days, due to boiler tube leaks and some issues related to the installation of equipment. The plant had previously been scheduled for a 14-day shutdown, so a six-day loss of the availability payment would cut HEMRAJ's FY12 profit by Bt34m (we think the loss should be claimable from the contractor).

## BUALUANG RESEARCH

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**BUY** (maintained)

Target Price: Bt4.10  
Price (20/08/12): Bt2.94  
HEMRAJ TB / HEMR.BK

### Key Ratios & Statistics

Market cap	Bt28.53bn
12-mth price range	Bt168/Bt3.10
12-mth avg daily volume	Bt813m
# of shares (m)	9,705.2
Est. free float (%)	58.8
Foreign limit (%)	49.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(3.7)	(10)	19.8
Absolute	(2.0)	7.3	34.9

### Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	4,150	6,255	7,563	6,515
Net profit (Btm)	537	2,219	3,439	3,099
EPS (Bt)	0.06	0.23	0.35	0.32
BLS/Consensus (x)	n.a.	0.99	1.18	0.99
EPS growth (%)	-62.0%	+313.6%	+55.0%	-9.9%
Core profit (Btm)	554	2,219	3,439	3,099
Core EPS (Bt)	0.06	0.23	0.35	0.32
Core EPS growth (%)	-56.6%	+300.6%	+55.0%	-9.9%
PER (x)	38.9	12.9	8.3	9.2
Core PER (x)	37.7	12.9	8.3	9.2
EV/EBITDA (x)	17.0	14.3	11.5	12.4
PBV (x)	2.3	2.7	2.3	2.0
Dividend (Bt)	0.055	0.114	0.177	0.160
Dividend yield (%)	2.6	3.9	6.0	5.4
ROE (%)	6.1	23.4	30.7	23.9
Net gearing (x)	0.5	0.6	0.5	0.4

CG Rating - 2011



### Company profile

Hemaraj Land and Development (HEMRAJ) is Thailand's largest industrial estate developer. Its six estates—Eastern Seaboard Industrial Estate (Rayong), Hemaraj Eastern Seaboard Industrial Estate (Rayong), Eastern Industrial Estate (Map Ta Put), Chonburi Industrial Estate, Saraburi Industrial Land (Saraburi) and Rayong Industrial Land (Rayong)—have a combined area of 31,279 rai, 5,158 rai of which is available for sale or under construction.

**Figure 1: Valuation**

Sum-of-the-parts value (YE13)	(Btm)		Earnings proportion	5-year avg PER	Weighted average
Industrial land (1)	17,191	<b>Multiples</b>			
Rental assets (2)	9,389	Industrial	33%	14.5	4.8
Industrial utilities (4)	3,885	Utilities	67%	10.2	6.8
Condominium (3)	607		100%		<b>11.6</b>
Investments in Power business (5)	14,500				
Other assets (6)	254				
<b>Total asset value (1+2+3+4+5+6)</b>	<b>45,826</b>				
Net debt	6,322				
<b>Net Asset Value (NAV)</b>	<b>39,504</b>				
Number of shares	9,705				
<b>NAV/share (Bt)</b>	<b>4.1</b>				

Sources: Company data, Bualuang Research estimates

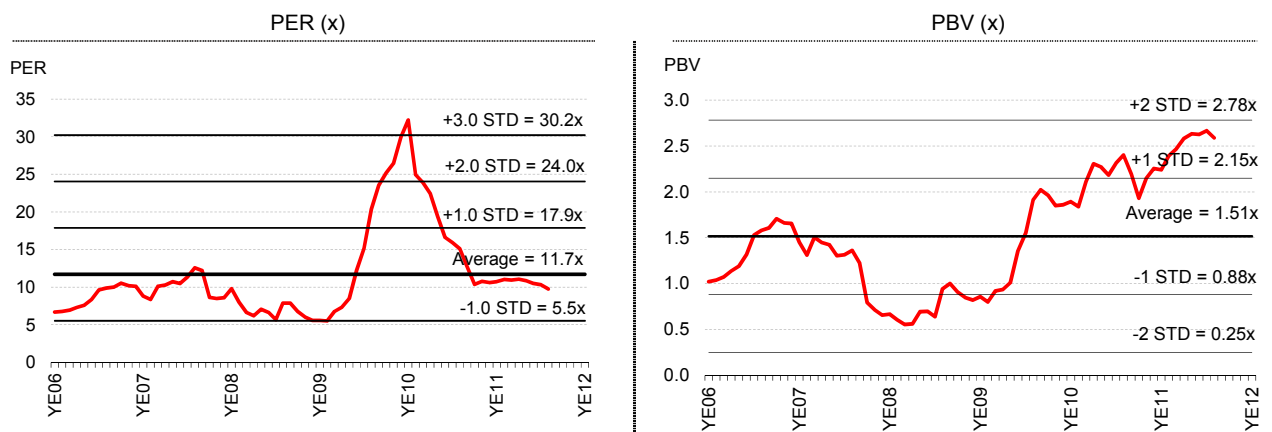
**Figure 2: Sector comparisons**

	Recom.	PER		2-yr EPS CAGR (%)		PBV		ROE		Div yield		EV/EBITDA	
		(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
		FY 11	FY 12E	FY 13E	FY 13-14	FY 12E	FY 13E	FY 12E	FY 13E	FY 12E	FY 13E	FY 12E	FY 13E
AMATA	BUY	19.1	15.9	10.7	15.4	2.7	2.4	17.7	23.3	4.2	4.8	11.6	8.4
HEMRAJ	BUY	53.2	12.9	8.3	18.2	2.7	2.3	23.4	30.7	3.9	6.0	14.3	11.5
ROJNA	BUY	-13.6	8.1	10.7	-17.5	15	15	29.8	19.4	3.1	4.1	15.5	9.8
TICON	HOLD	22.9	10.7	7.9	13.1	15	14	16.2	18.8	6.3	7.8	12.2	10.6
<b>Average</b>		<b>27.3</b>	<b>12.4</b>	<b>9.3</b>	<b>10.0</b>	<b>2.3</b>	<b>2.0</b>	<b>22.0</b>	<b>24.8</b>	<b>4.2</b>	<b>5.6</b>	<b>13.5</b>	<b>10.3</b>

Note: Prices as at 20/08/12

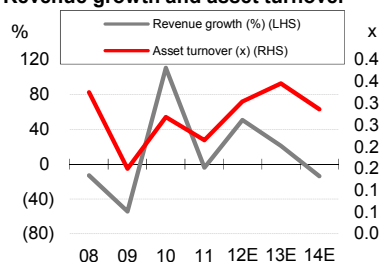
Sources: Company, Bualuang Research estimates

**Figure 3: Valuation multiples**

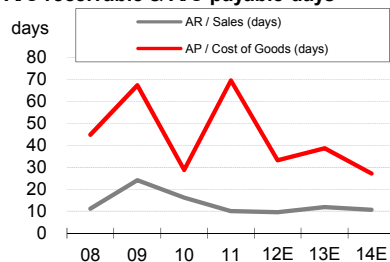


Sources: Company data and Bualuang Research

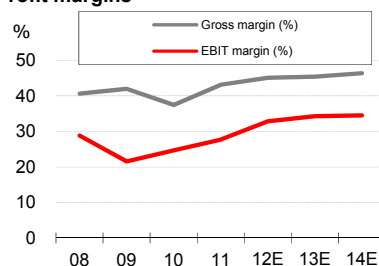
## Revenue growth and asset turnover



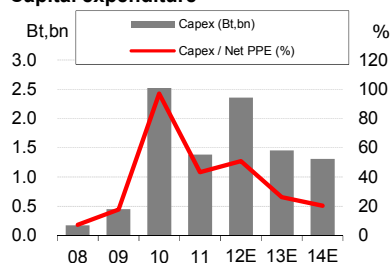
## A/C receivable &amp; A/C payable days



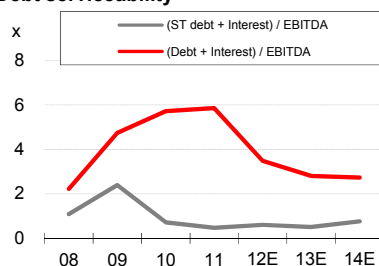
## Profit margins



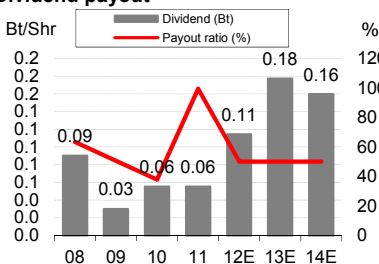
## Capital expenditure



## Debt serviceability



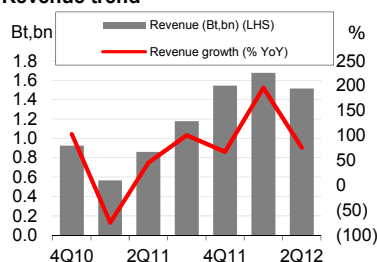
## Dividend payout



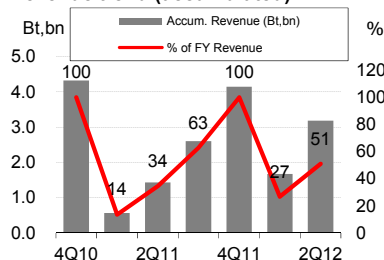
	2010	2011	2012E	2013E	2014E
<b>PROFIT &amp; LOSS (Btm)</b>					
Revenue	4,322	4,150	6,255	7,563	6,515
Cost of sales and services	(2,703)	(2,361)	(3,433)	(4,129)	(3,493)
<b>Gross profit</b>	<b>1,619</b>	<b>1,790</b>	<b>2,821</b>	<b>3,434</b>	<b>3,022</b>
SG&A	(552)	(639)	(767)	(840)	(776)
<b>EBIT</b>	<b>1,067</b>	<b>1,151</b>	<b>2,055</b>	<b>2,594</b>	<b>2,246</b>
Interest expense	(284)	(397)	(478)	(489)	(485)
Other income/exp.	190	155	156	157	159
<b>EBT</b>	<b>972</b>	<b>908</b>	<b>1,733</b>	<b>2,262</b>	<b>1,920</b>
Corporate tax	(46)	(161)	(170)	(227)	(267)
<b>After-tax profit (loss)</b>	<b>926</b>	<b>747</b>	<b>1,564</b>	<b>2,036</b>	<b>1,653</b>
Minority interest	(71)	(60)	(81)	(22)	(4)
Equity earnings from affiliates	422	(133)	737	1,425	1,450
Extra items	135	(17)	0	0	0
<b>Net profit (loss)</b>	<b>1,411</b>	<b>537</b>	<b>2,219</b>	<b>3,439</b>	<b>3,099</b>
Reported EPS	0.15	0.06	0.23	0.35	0.32
Fully diluted EPS	0.15	0.06	0.23	0.35	0.32
<b>Core net profit</b>	<b>1,276</b>	<b>554</b>	<b>2,219</b>	<b>3,439</b>	<b>3,099</b>
Core EPS	0.13	0.06	0.23	0.35	0.32
<b>EBITDA</b>	<b>1,443</b>	<b>1,509</b>	<b>2,457</b>	<b>3,051</b>	<b>2,753</b>
<b>KEY RATIOS</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Revenue growth (%)	110.9	(4.0)	50.7	20.9	(13.9)
Gross margin (%)	37.5	43.1	45.1	45.4	46.4
EBITDA margin (%)	33.4	36.3	39.3	40.3	42.3
Operating margin (%)	24.7	27.7	32.9	34.3	34.5
Net margin (%)	32.6	12.9	35.5	45.5	47.6
Core profit margin (%)	29.5	13.3	35.5	45.5	47.6
ROA (%)	8.8	2.8	10.8	15.7	13.6
ROCE (%)	9.7	3.1	12.2	17.4	14.8
Asset turnover (x)	0.3	0.2	0.3	0.3	0.3
Current ratio (x)	5.8	4.9	3.6	4.4	3.7
Gearing ratio (x)	0.9	0.9	0.8	0.6	0.5
Interest coverage (x)	3.8	2.9	4.3	5.3	4.6
<b>BALANCE SHEET (Btm)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>Cash &amp; Equivalent</b>	<b>3,517</b>	<b>3,718</b>	<b>1,520</b>	<b>1,559</b>	<b>1,467</b>
Accounts receivable	191	114	164	245	189
Inventory	7,278	7,890	9,276	9,494	8,890
PP&E-net	2,595	3,194	4,635	5,564	6,445
Other assets	4,988	5,093	5,516	5,766	5,866
<b>Total assets</b>	<b>18,569</b>	<b>20,010</b>	<b>21,110</b>	<b>22,627</b>	<b>22,857</b>
Accounts payable	213	450	313	438	260
ST debts & current portion	750	308	988	1,058	1,590
Long-term debt	7,231	8,134	7,086	7,028	5,438
Other liabilities	1,208	1,988	2,116	1,424	1,371
<b>Total liabilities</b>	<b>9,402</b>	<b>10,881</b>	<b>10,502</b>	<b>9,948</b>	<b>8,659</b>
Paid-up capital	3,882	3,882	3,882	3,882	3,882
Share premium	439	439	439	439	439
Retained earnings	4,511	4,514	5,912	7,936	9,400
<b>Shareholders' equity</b>	<b>8,801</b>	<b>8,803</b>	<b>10,200</b>	<b>12,225</b>	<b>13,689</b>
Minority interests	366	326	408	430	434
<b>Total Liab.&amp;Shareholders' equity</b>	<b>18,569</b>	<b>20,010</b>	<b>21,110</b>	<b>22,602</b>	<b>22,782</b>
<b>CASH FLOW (Btm)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Net income	1,411	537	2,219	3,439	3,099
Depreciation and amortization	186	203	246	299	348
Change in working capital	(655)	303	(1,573)	(174)	482
FX, non-cash adjustment & others	(571)	186	(656)	(1,403)	(1,446)
<b>Cash flows from operating activities</b>	<b>371</b>	<b>1,228</b>	<b>236</b>	<b>2,161</b>	<b>2,483</b>
Capex (Invest)/Divest	(2,520)	(1,383)	(2,357)	(1,457)	(1,307)
Others	1,404	537	1,053	737	1,425
<b>Cash flows from investing activities</b>	<b>(1,117)</b>	<b>(846)</b>	<b>(1,304)</b>	<b>(720)</b>	<b>118</b>
Debt financing (repayment)	3,989	431	(309)	12	(1,058)
Equity financing	0	0	0	0	0
Dividend payment	(634)	(612)	(822)	(1,415)	(1,634)
<b>Cash flows from financing activities</b>	<b>3,353</b>	<b>(181)</b>	<b>(1,131)</b>	<b>(1,403)</b>	<b>(2,692)</b>
Net change in cash	2,607	202	(2,198)	39	(92)
<b>Free cash flow (Btm)</b>	<b>(2,149)</b>	<b>(155)</b>	<b>(2,121)</b>	<b>704</b>	<b>1,176</b>
<b>FCF per share (Bt)</b>	<b>(0.22)</b>	<b>(0.02)</b>	<b>(0.22)</b>	<b>0.07</b>	<b>0.12</b>

Sources: Company data, Bualuang Research estimates

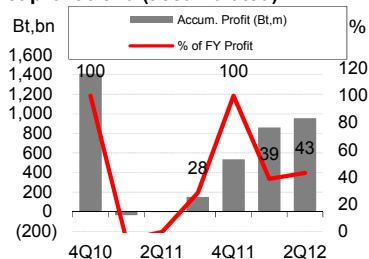
## Revenue trend



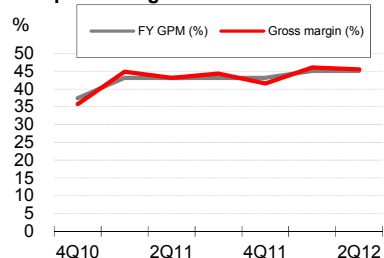
## Revenue trend (accumulated)



## Net profit trend (accumulated)



## Gross profit margin



QUARTERLY PROFIT & LOSS (Btm)					
	2Q11	3Q11	4Q11	1Q12	2Q12
Revenue	861	1,178	1,545	1,676	1,514
Cost of sales and services	(490)	(656)	(903)	(904)	(824)
<b>Gross profit</b>	<b>371</b>	<b>522</b>	<b>642</b>	<b>772</b>	<b>689</b>
SG&A	(136)	(147)	(224)	(191)	(177)
<b>EBIT</b>	<b>235</b>	<b>375</b>	<b>418</b>	<b>581</b>	<b>513</b>
Interest expense	(99)	(94)	(108)	(106)	(104)
Other income/exp.	41	17	77	21	28
<b>EBT</b>	<b>177</b>	<b>298</b>	<b>388</b>	<b>496</b>	<b>437</b>
Corporate tax	(42)	(51)	(45)	(50)	(43)
<b>After-tax profit (loss)</b>	<b>135</b>	<b>247</b>	<b>343</b>	<b>446</b>	<b>394</b>
Minority interest	(17)	(11)	(15)	(14)	(26)
Equity earnings from affiliates	(88)	(81)	73	428	(275)
Extra items	0	(0)	(17)	0	(0)
<b>Net profit (loss)</b>	<b>31</b>	<b>154</b>	<b>384</b>	<b>861</b>	<b>94</b>
Reported EPS	0.00	0.02	0.04	0.09	0.01
Fully diluted EPS	0.00	0.02	0.04	0.09	0.01
<b>Core net profit</b>	<b>31</b>	<b>155</b>	<b>401</b>	<b>861</b>	<b>94</b>
Core EPS	0.00	0.02	0.04	0.09	0.01
<b>EBITDA</b>	<b>327</b>	<b>443</b>	<b>550</b>	<b>660</b>	<b>0</b>
KEY RATIOS					
Gross margin (%)	43.1	44.3	41.5	46.0	45.6
EBITDA margin (%)	37.9	37.6	35.6	39.4	0.0
Operating margin (%)	27.3	31.8	27.1	34.7	33.9
Net margin (%)	3.6	13.1	24.9	51.4	6.2
Core profit margin (%)	3.6	13.1	26.0	51.4	6.2
BV (Bt)	0.91	0.90	0.94	1.02	1.03
ROE (%)	1.4	7.3	17.8	37.3	3.9
ROA (%)	0.7	3.4	8.1	16.7	1.7
Current ratio (x)	4.6	4.4	4.9	3.6	0.0
Gearing ratio (x)	0.9	0.8	0.9	0.8	0.9
Interest coverage (x)	2.4	4.0	3.9	5.5	4.9
QUARTERLY BALANCE SHEET (Btm)					
	2Q11	3Q11	4Q11	1Q12	2Q12
<b>Cash &amp; Equivalent</b>	<b>2,542</b>	<b>2,258</b>	<b>3,718</b>	<b>3,051</b>	<b>2,128</b>
Accounts receivable	133	124	114	146	133
Inventory	7,535	7,563	7,890	8,612	9,027
PP&E-net	2,862	3,126	3,194	3,536	5,592
Other assets	5,063	5,006	5,093	5,864	5,889
<b>Total assets</b>	<b>18,134</b>	<b>18,077</b>	<b>20,010</b>	<b>21,210</b>	<b>22,769</b>
Accounts payable	344	422	450	640	709
ST debts & current portion	708	300	308	604	2,278
Long-term debt	6,806	6,735	8,134	7,615	6,826
Other liabilities	1,468	1,890	1,988	2,408	2,993
<b>Total liabilities</b>	<b>9,327</b>	<b>9,347</b>	<b>10,881</b>	<b>11,266</b>	<b>12,807</b>
Paid-up capital	3,882	3,882	3,882	3,882	3,882
Share premium	439	439	439	439	439
Retained earnings	4,218	4,130	4,514	5,375	5,178
<b>Shareholders equity</b>	<b>8,507</b>	<b>8,418</b>	<b>8,803</b>	<b>9,663</b>	<b>9,466</b>
Minority interests	301	312	326	280	496
<b>Total Liab.&amp;Shareholders' equity</b>	<b>18,134</b>	<b>18,077</b>	<b>20,010</b>	<b>21,210</b>	<b>22,769</b>

Sources: Company data, Bualuang Research

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90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Expected positive total returns of 15% or more over the next 12 months.

**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**SELL:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.