SELL (Unchanged)

Change in Numbers

TP: Bt 10.00 (From: Bt 11.00)

Downside : 24.2%

16 DECEMBER 2021

Thanachart Securities

Pruksa Holding Pcl (PSH TB)

Low ROE era

A declining property market share and the launch of its Vimut hospital this year will likely pressure PSH's ROE to remain low at 5.8-6.4% in 2022-24F. Its plan to open more hospitals in the next five years represents potential earnings downside. 2022F PE of 11.3x doesn't look cheap to us. Reaffirm SELL with a lower Bt10 TP.

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Reaffirming SELL

We reaffirm our SELL call on PSH. First, due to PSH's low-end focus which is sensitive to the weak economy, we project this year's presales to come at 51% of its 2018 peak. This is the new presales base and we expect 3-5% presales growth in 2022-24F. Second, after opening its first Vimut hospital this year, we see healthcare investment being a long-term plan that will drag on overall profit for the next five to 10 years. Third, ROE is expected to fall from 15.2% in 2018 to 5.3% in 2021F, among the sector's lowest and we expect it to stay low for many years. We cut our earnings estimates by 18-25% in 2021-23F and our DCF-based 12-month TP (2022F base year) to Bt10 (from Bt11) on lower presales and losses from its hospital business. Its 11.3x 2022F PE multiple is above its 9.1x average in 2015-19.

Property – not back to the glory days

From being a market leader by presales in 2014-18, PSH has lost presales share (from 22% in 2018 to 17% in 9M21) while we forecast this year's presales at Bt26bn, half of what it achieved in 2018. Though it has tried to expand into the higher-end segment, average selling price on Bt72bn of inventories as of 3Q21 was still at Bt3.45m/unit. PSH does not seem to be benefiting from the relaxed LTV ratio. We expect its 2MQTD (October-November) presales to come in at Bt4.1bn, or a monthly average of Bt2.06bn, 8% below the Bt2.2bn/month in 9M21.

Building a healthcare platform

PSH has a grand plan to build its healthcare platform. Following the opening of its first Vimut hospital (236 beds) in May this year, the company has set Bt15bn in capex for the next five years to launch three additional hospitals (150-200 beds each) and 13 health centers/nursing homes. For Vimut, it targets positive EBITDA in year 4 and profit breakeven in year 5. We estimate losses of Bt342m/293m/200m in 2022-24F and a profit in 2028F. We see earnings downside risk if new hospitals/health centers open up. In our view, the business transformation from residential development to the more recurring-income healthcare business, albeit with pain at first, is not a bad move.

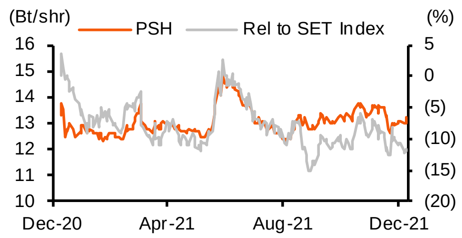
Low ROE

Weakening property profit due to falling property sales and gross margin brought down ROE from 15.2% in 2018 to 6.4% in 2020. With the launch of its Vimut hospital this year, we project ROE to drop further to 5.3%. Since we expect organic growth for PSH's property business and hospital losses for many years, we estimate its ROE at 5.8-6.4% in 2022-24F, half of the sector's average ROE of 10.0-10.3% over the same period.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	29,244	29,380	30,492	28,858
Net profit	2,771	2,287	2,555	2,586
Consensus NP	—	2,403	2,965	3,116
Diff frm cons (%)	—	*(4.8)*	*(13.8)*	*(17.0)*
Norm profit	2,771	2,287	2,555	2,586
Prev. Norm profit	—	2,781	3,144	3,429
Chg frm prev (%)	—	*(17.8)*	*(18.7)*	*(24.6)*
Norm EPS (Bt)	1.3	1.0	1.2	1.2
Norm EPS grw (%)	(48.3)	(17.5)	11.8	1.2
Norm PE (x)	10.4	12.6	11.3	11.2
EV/EBITDA (x)	12.0	12.9	11.0	10.6
P/BV (x)	0.7	0.7	0.6	0.6
Div yield (%)	7.3	4.8	5.3	5.4
ROE (%)	6.4	5.3	5.8	5.8
Net D/E (%)	54.1	46.9	38.1	34.4

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 16-Dec-21 (Bt)	13.20
Market Cap (US$ m)	864.3
Listed Shares (m shares)	2,188.5
Free Float (%)	28.2
Avg Daily Turnover (US$ m)	0.5
12M Price H/L (Bt)	14.80/12.30
Sector	Property
Major Shareholder	Vijitpongpun Family 67.99%

Sources: Bloomberg, Company data, Thanachart estimates

Building a healthcare platform

Entering healthcare business to create long-term recurring income

Diversifying from a property development business to generate more recurring income, Pruksa Holding Pcl (PSH) has moved into the healthcare business. On 1 February, it invested in a 51% stake in a JV company, Theptanyapa Co Ltd, which operates Theptarin Hospital. The JV shared an equity loss of Bt1m in 2Q21 and Bt4m in 3Q21. Given the COVID impact, management targets Bt400m in revenues and a slight loss of Bt10m-20m this year. Next year, it expects Bt500m-600m in revenues and profit of Bt30m, or shared profit of Bt15m.

1st hospital opened with more to come within the next five years

On 1 May, it opened its first greenfield hospital, Vimut (236 beds), on Phahonyothin Road in Bangkok as its main hospital targeting mid-level customers with an investment of Bt4.9bn. Seeing potential growth in the healthcare business, the company plans to build a network and has set a Bt15bn capex budget over the next five years for three additional hospitals (150-200 beds each) and 13 health centers/nursing homes. The first health center (a 50-bed hospital) with capex of Bt150m is under construction and located at the Gemo project (Sukhaphiban 2 Road) in front of one of PSH's housing projects.

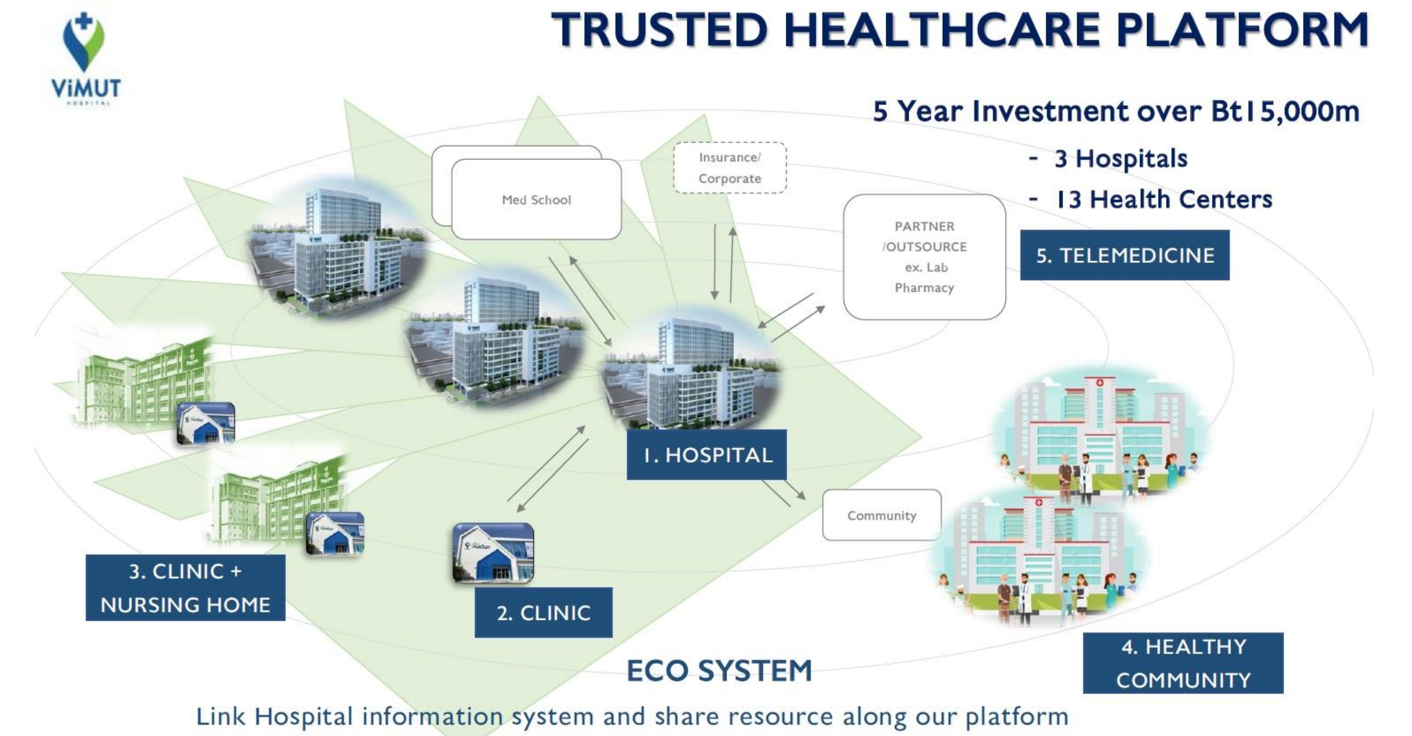
For Vimut, it targets positive EBITDA in year 4 and profit breakeven in year 5. We estimate losses of Bt342m/293m/200m in 2022-24F before turning a profit in 2028F. We see earnings downside risk if new hospitals/health centers open up as we have yet to include them in our projections and we expect those projects to make a loss in the first few years of operation. Though we expect years of pain before the healthcare business is no longer a drag and bears fruits, this is not a bad move in our view since Thailand is becoming an aging society and hospital services and healthcare facilities are crucial.

Ex 1: Vimut Hospital Assumptions

(Bt m)	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Total revenues	**326**	**727**	**970**	**1,181**	**1,406**	**1,471**	**1,541**	**1,615**	**1,694**	**1,778**	**1,866**	**1,961**
IPD	69	241	496	682	877	904	931	959	988	1,017	1,048	1,079
OPD	229	383	414	448	484	524	566	612	662	716	775	838
Moderna vaccine	28	104	60	52	44	44	44	44	44	44	44	44
Gross profit	**(119)**	**50**	**145**	**208**	**286**	**327**	**373**	**422**	**475**	**533**	**560**	**588**
IPD	(30)	7	69	116	175	199	223	249	277	305	314	324
OPD	(98)	11	58	76	97	115	136	159	185	215	232	251
Moderna vaccine	8	31	18	16	13	13	13	13	13	13	13	13
Net profit	**(342)**	**(293)**	**(200)**	**(154)**	**(96)**	**(58)**	**(17)**	**23**	**63**	**94**	**98**	**103**

Source: Thanachart estimates

Ex 2: PSH's Healthcare Platform



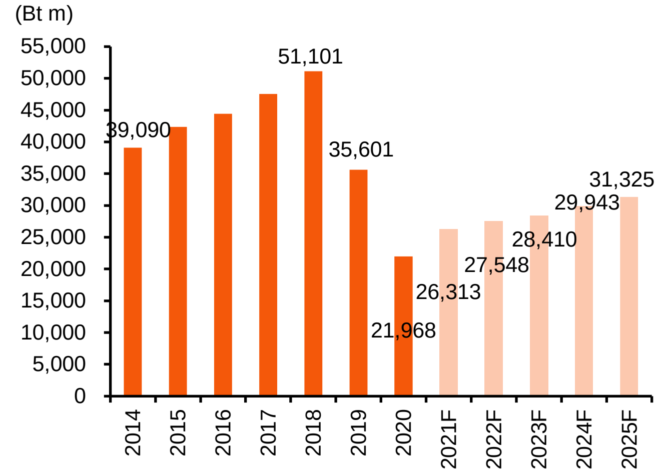
Source: Company data

Ex 3: Key Assumption Changes

	2021F	2022F	2023F
Presales (Bt m)			
- New	26,313	27,548	28,410
- Old	30,126	31,112	32,346
Change (%)	*(13)*	*(11)*	*(12)*
Property sales (Bt m)			
- New	29,055	29,764	27,888
- Old	30,020	31,305	32,801
Change (%)	*(3)*	*(5)*	*(15)*
Hospital profit (loss) (Bt m)			
- New	(342)	(293)	(200)
- Old	0	0	0
Normalized profit (Bt m)			
- New	2,287	2,555	2,586
- Old	2,781	3,144	3,429
Change (%)	*(18)*	*(19)*	*(25)*

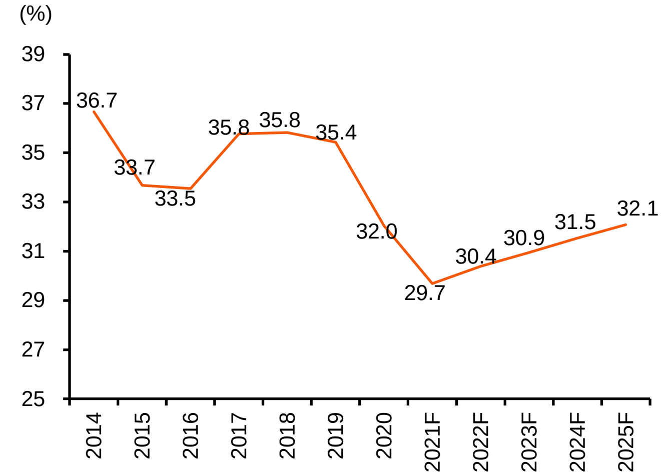
Source: Thanachart estimates

Ex 4: Presales



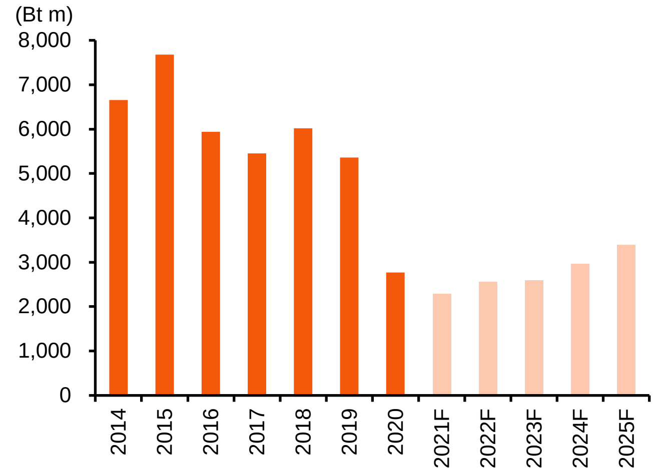
Sources: Company data, Thanachart estimates

Ex 5: Property Gross Margin



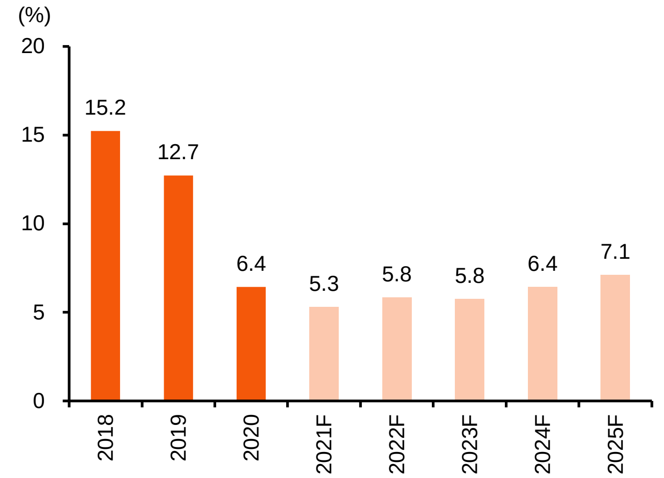
Sources: Company data, Thanachart estimates

Ex 6: Net Profit



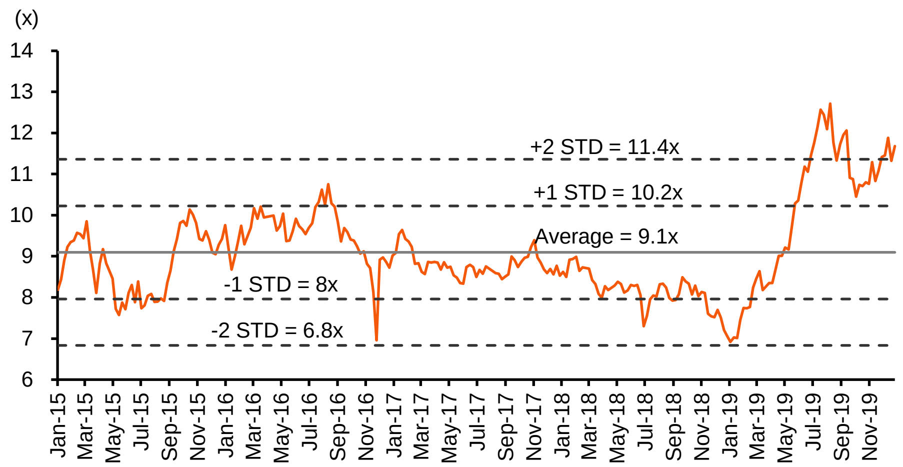
Sources: Company data, Thanachart estimates

Ex 7: ROE



Sources: Company data, Thanachart estimates

Ex 8: PSH's PE



Sources: Company data, Bloomberg

Ex 9: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA		4,202	4,222	4,735	5,197	5,972	6,267	6,535	6,936	7,145	7,315	7,484	
Free cash flow		4,844	3,177	1,899	6,508	4,346	4,037	4,362	4,710	3,941	4,035	4,186	49,276
PV of free cash flow		4,830	2,640	1,438	4,490	2,675	2,255	2,211	2,166	1,645	1,528	1,372	16,156
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.2												
WACC (%)	9.7												
Terminal growth (%)	2.0												
Enterprise value - add investments	43,406												
Net debt	20,680												
Minority interest	864												
Equity value	21,862												
# of shares (m)	2,187												
Equity value/share (Bt)	**10.00**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 10: Valuation Comparison With Regional Peers

			EPS growth		—— PE ——		— P/BV —		EV/EBITDA		Div yield	
Name	**BBG Code**	**Country**	**21F (%)**	**22F (%)**	**21F (x)**	**22F (x)**	**21F (x)**	**22F (x)**	**21F (x)**	**22F (x)**	**21F (%)**	**22F (%)**
Poly Real Estate Group	600048 CH	China	0.5	8.6	5.6	5.1	0.9	0.8	9.4	8.9	5.1	5.4
Agile Property Holdings	3383 HK	China	4.6	4.7	1.8	1.7	0.3	0.2	4.5	4.2	21.0	22.2
Country Garden Holdings	2007 HK	China	(12.1)	9.4	4.4	4.0	0.8	0.7	4.8	4.4	6.8	7.4
China Overseas Land & Invest	688 HK	Hong Kong	7.1	7.2	5.0	4.7	0.6	0.6	5.1	4.7	6.0	11.5
China Resources Land	1109 HK	Hong Kong	10.4	14.8	8.6	7.5	1.1	1.0	6.3	5.7	4.2	4.7
Hang Lung Properties	101 HK	Hong Kong	13.5	13.0	14.3	12.7	0.5	0.5	16.2	14.5	5.0	5.1
Henderson Land Development	12 HK	Hong Kong	(1.2)	1.5	11.1	10.9	0.5	0.5	20.4	19.6	5.5	5.6
Shimao Property Holdings	813 HK	Hong Kong	4.6	5.0	1.5	1.4	0.2	0.2	5.3	5.1	22.0	25.1
Sun Hung Kai Properties	16 HK	Hong Kong	0.0	5.7	8.9	8.5	0.5	0.4	9.2	8.7	5.3	5.4
Sino Land	83 HK	Hong Kong	105.8	(25.3)	7.0	9.4	0.4	0.4	3.3	4.5	6.8	5.9
CapitaLand	CAPL SP	Singapore	30.5	11.2	na	na	na	na	na	na	na	na
City Developments	CIT SP	Singapore	34.7	113.5	30.0	14.1	0.7	0.7	26.7	19.1	1.9	2.2
Asian Property Devt *	AP TB	Thailand	4.7	10.4	6.8	6.1	0.9	0.8	10.9	11.0	5.2	5.7
Land and Houses *	LH TB	Thailand	6.9	19.9	14.9	12.4	2.1	2.0	21.3	19.0	5.7	6.8
LPN Development *	LPN TB	Thailand	(50.5)	11.7	20.1	18.0	0.7	0.7	23.4	19.5	3.0	3.3
Pruksa Holding *	PSH TB	Thailand	(17.5)	11.8	12.6	11.3	0.7	0.6	12.9	11.0	4.8	5.3
Quality Houses *	QH TB	Thailand	(10.6)	17.0	12.4	10.6	0.8	0.8	46.5	46.9	4.8	5.7
Sansiri *	SIRI TB	Thailand	(11.6)	12.3	14.4	12.8	0.5	0.5	22.5	22.3	2.8	3.1
Supalai *	SPALI TB	Thailand	36.2	13.3	8.2	7.2	1.2	1.1	9.9	8.6	4.9	5.6
Average			**8.2**	**14.0**	**10.4**	**8.8**	**0.7**	**0.7**	**14.4**	**13.2**	**6.7**	**7.6**

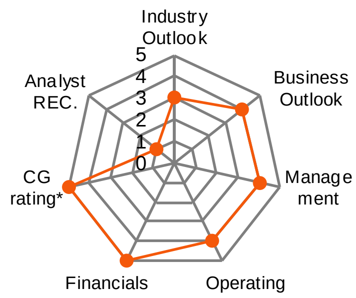
Sources: Bloomberg consensus, *Thanachart estimates
Based on 16 December 2021 closing prices

COMPANY DESCRIPTION

Pruksa Holding Pcl's (PSH) principal activity is the development and construction management of real estate for residential purposes – townhouses (TH), single-detached houses (SDH), and condominiums mostly in Bangkok and surrounding areas. Its key segment is the low-end one with unit prices below Bt3m while its core product is townhouses (TH). Currently, it operates 14 house brands; 10 brands under its value business and four under its premium business. It is diversifying into the hospital business with its first hospital, Vimut opened in 2Q21.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Proactive product strategy.
- Efficient as an integrated developer with precast factories.
- Short construction period leads to rapid turnaround time.
- Good economies of scale from high volume.

W — Weakness

- Products are developed by each business unit and they can compete with each other.
- Coming from being a low-end housing developer, brand perception has to be built up.
- High risk from larger sales base.

O — Opportunity

- Opportunities in new hospital business.
- Operating efficiency could be improved further via its precast factories.

T — Threat

- Rising land prices would dampen profitability and make it difficult to develop low-end houses.
- Natural disasters.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	12.09	10.00	-17%
Net profit 21F (Bt m)	2,403	2,287	-5%
Net profit 22F (Bt m)	2,965	2,555	-14%
Consensus REC	**BUY: 3**	**HOLD: 7**	**SELL: 10**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profit forecasts are 5-14% below those of the Bloomberg consensus, likely as we factor in lower presales and hospital losses.
- Our DCF-based TP is 17% below the consensus number, which we attribute to us having lower presales and sales assumptions over the long term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Faster-than-expected economic growth would impact housing demand and presents the key upside risk to PSH's presales/sales base.
- Potential upside would come if PSH can expand its products in the premium segment faster than we currently expect with a decent sales rate.
- Another upside risk would be if its hospital experiences strong patient flows with good pricing power and contributes significant profits in the future.

Source: Thanachart

Opened first hospital in 2021; likely to drag on profit for many years

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	39,885	29,244	29,380	30,492	28,858
Cost of sales	25,754	19,876	20,876	21,396	20,084
Gross profit	**14,131**	**9,368**	**8,505**	**9,096**	**8,774**
% gross margin	35.4%	32.0%	28.9%	29.8%	30.4%
Selling & administration expenses	7,060	5,437	5,162	5,403	5,087
Operating profit	**7,071**	**3,931**	**3,342**	**3,693**	**3,687**
% operating margin	17.7%	13.4%	11.4%	12.1%	12.8%
Depreciation & amortization	451	455	493	522	547
EBITDA	**7,522**	**4,386**	**3,836**	**4,215**	**4,234**
% EBITDA margin	18.9%	15.0%	13.1%	13.8%	14.7%
Non-operating income	267	269	217	231	245
Non-operating expenses	0	0	0	0	0
Interest expense	(324)	(515)	(552)	(454)	(440)
Pre-tax profit	**7,014**	**3,685**	**3,008**	**3,470**	**3,492**
Income tax	1,555	858	704	790	775
After-tax profit	**5,459**	**2,827**	**2,304**	**2,679**	**2,717**
% net margin	13.7%	9.7%	7.8%	8.8%	9.4%
Shares in affiliates' Earnings	(0)	0	107	10	12
Minority interests	(100)	(56)	(125)	(134)	(143)
Extraordinary items	0	0	0	0	0
NET PROFIT	**5,359**	**2,771**	**2,287**	**2,555**	**2,586**
Normalized profit	**5,359**	**2,771**	**2,287**	**2,555**	**2,586**
EPS (Bt)	2.5	1.3	1.0	1.2	1.2
Normalized EPS (Bt)	2.5	1.3	1.0	1.2	1.2

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	79,756	69,853	66,962	64,851	63,758
Cash & cash equivalent	1,774	1,337	1,245	1,578	1,600
Account receivables	0	0	0	0	0
Inventories	76,244	66,863	64,057	61,550	60,527
Others	1,737	1,653	1,661	1,723	1,631
Investments & loans	819	826	826	826	826
Net fixed assets	5,238	6,010	6,529	7,020	7,486
Other assets	969	1,585	1,595	1,619	1,553
Total assets	**86,782**	**78,273**	**75,913**	**74,316**	**73,624**
LIABILITIES:					
Current liabilities:	24,574	16,065	17,574	16,318	15,226
Account payables	2,191	1,277	1,373	1,348	1,100
Bank overdraft & ST loans	6,000	1,500	4,385	3,779	3,525
Current LT debt	7,150	6,950	5,262	4,534	4,231
Others current liabilities	9,233	6,337	6,554	6,656	6,369
Total LT debt	**17,950**	**16,557**	**12,278**	**10,580**	**9,871**
Others LT liabilities	466	1,865	1,964	2,004	1,917
Total liabilities	**42,990**	**34,487**	**31,816**	**28,902**	**27,014**
Minority interest	736	740	864	999	1,142
Preferreds shares	0	0	0	0	0
Paid-up capital	2,189	2,189	2,187	2,187	2,187
Share premium	1,873	1,873	1,873	1,873	1,873
Warrants	0	0	0	0	0
Surplus	(106)	(115)	(115)	(115)	(115)
Retained earnings	**39,101**	**39,100**	**39,288**	**40,471**	**41,524**
Shareholders' equity	43,056	43,047	43,232	44,416	45,469
Liabilities & equity	**86,782**	**78,273**	**75,913**	**74,316**	**73,624**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	7,014	3,685	3,008	3,470	3,492
Tax paid	(1,697)	(1,124)	(640)	(810)	(777)
Depreciation & amortization	451	455	493	522	547
Chg In w orking capital	(4,376)	8,467	2,902	2,482	775
Chg In other CA & CL / minorities	(1,097)	(3,204)	(160)	(318)	(588)
Cash flow from operations	**294**	**8,278**	**5,603**	**5,346**	**3,450**
Capex	(950)	(1,226)	(1,000)	(1,000)	(1,000)
Right of use	0	(629)	(19)	(1)	(1)
ST loans & investments	0	0	0	0	0
LT loans & investments	(5)	(7)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	465	2,019	507	390	372
Cash flow from investments	**(490)**	**157**	**(512)**	**(610)**	**(628)**
Debt financing	4,000	(6,093)	(3,082)	(3,031)	(1,266)
Capital increase	0	0	(2)	0	0
Dividends paid	(3,502)	(2,758)	(2,099)	(1,372)	(1,533)
Warrants & other surplus	27	(22)	0	0	0
Cash flow from financing	**526**	**(8,873)**	**(5,183)**	**(4,403)**	**(2,800)**
Free cash flow	**(656)**	**7,052**	**4,603**	**4,346**	**2,450**

VALUATION

PSH is trading at high PE multiples..

…while we see downside risk to earnings from costs associated with its hospital business

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	5.4	10.4	12.6	11.3	11.2
Normalized PE - at target price (x)	4.1	7.9	9.6	8.6	8.5
PE (x)	5.4	10.4	12.6	11.3	11.2
PE - at target price (x)	4.1	7.9	9.6	8.6	8.5
EV/EBITDA (x)	7.7	12.0	12.9	11.0	10.6
EV/EBITDA - at target price (x)	6.8	10.4	11.1	9.3	8.9
P/BV (x)	0.7	0.7	0.7	0.6	0.6
P/BV - at target price (x)	0.5	0.5	0.5	0.5	0.5
P/CFO (x)	98.1	3.5	5.2	5.4	8.4
Price/sales (x)	0.7	1.0	1.0	0.9	1.0
Dividend yield (%)	11.7	7.3	4.8	5.3	5.4
FCF Yield (%)	(2.3)	24.4	15.9	15.1	8.5
(Bt)					
Normalized EPS	2.5	1.3	1.0	1.2	1.2
EPS	2.5	1.3	1.0	1.2	1.2
DPS	1.6	1.0	0.6	0.7	0.7
BV/share	19.7	19.7	19.8	20.3	20.8
CFO/share	0.1	3.8	2.6	2.4	1.6
FCF/share	(0.3)	3.2	2.1	2.0	1.1

Sources: Company data, Thanachart estimates

ROE to stay low for years, dragged by hospital losses and a weak property biz

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(11.2)	(26.7)	0.5	3.8	(5.4)
Net profit (%)	(11.0)	(48.3)	(17.5)	11.8	1.2
EPS (%)	(11.0)	(48.3)	(17.5)	11.8	1.2
Normalized profit (%)	(11.0)	(48.3)	(17.5)	11.8	1.2
Normalized EPS (%)	(11.0)	(48.3)	(17.5)	11.8	1.2
Dividend payout ratio (%)	63.2	75.8	60.0	60.0	60.0
Operating performance					
Gross margin (%)	35.4	32.0	28.9	29.8	30.4
Operating margin (%)	17.7	13.4	11.4	12.1	12.8
EBITDA margin (%)	18.9	15.0	13.1	13.8	14.7
Net margin (%)	13.7	9.7	7.8	8.8	9.4
D/E (incl. minor) (x)	0.7	0.6	0.5	0.4	0.4
Net D/E (incl. minor) (x)	0.7	0.5	0.5	0.4	0.3
Interest coverage - EBIT (x)	21.8	7.6	6.1	8.1	8.4
Interest coverage - EBITDA (x)	23.2	8.5	7.0	9.3	9.6
ROA - using norm profit (%)	6.4	3.4	3.0	3.4	3.5
ROE - using norm profit (%)	12.7	6.4	5.3	5.8	5.8
DuPont					
ROE - using after tax profit (%)	13.0	6.6	5.3	6.1	6.0
- asset turnover (x)	0.5	0.4	0.4	0.4	0.4
- operating margin (%)	18.4	14.4	12.1	12.9	13.6
- leverage (x)	2.0	1.9	1.8	1.7	1.6
- interest burden (%)	95.6	87.7	84.5	88.4	88.8
- tax burden (%)	77.8	76.7	76.6	77.2	77.8
WACC (%)	9.7	9.7	9.7	9.7	9.7
ROIC (%)	8.2	4.2	3.8	4.5	4.6
NOPAT (Bt m)	5,504	3,016	2,561	2,852	2,869
invested capital (Bt m)	72,381	66,717	63,912	61,731	61,496

Sources: Company data, Thanachart estimates

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