

Supalai PLC (SPALI)

BUY

NPV revised up to Bt4.20/share

◆ Upgraded to BUY

To reflect the strong presales pick up in 2Q07, we have revised up our SPALI NPV estimate from Bt3.72/share to Bt4.20, which would push the stock to a 2007 PER of 8.1x based on a fully diluted EPS. SPALI remains one of the cheapest property stocks in the market with a 2007 fully-diluted PER of just 6.8x, compared with the sector average of 10x. Given an upside potential of 19% to our new target price, we have upgraded our recommendation to BUY. SPALI is also a good dividend play with an expected yield of 6.8% for 2007 operations.

◆ Strong presales improvement in 2Q07

After weak presales of Bt770mn in 1Q07, we have seen a strong improvement in presales this quarter with Bt500mn in sales booked each month in April and May. We expect consumer confidence to pick up in 2H07, supported by a better political situation with elections expected by the year end and the government stimulus measures to increase tax deductions on home mortgage interest payments, up to Bt100,000 per year, plus a further downward revision in mortgage rates. In addition, seven new projects worth Bt6.17bn to be launched in 2H07 should help boost the company sales performance.

◆ Revenue stream secured by the large presales backlog

When including presales made in April and May, the SPALI presales backlog has increased to Bt8.46bn. Of this total, we expect around Bt2.83bn to be recognised in the remainder of this year. This will secure 83% of our revenue estimate for 2007 of Bt5.12bn.

◆ Strong financial position

The SPALI balance sheet appears healthy with gearing of just 0.46x. The sizeable transfer of the City Home project units should help reduce gearing even further in 2Q07. This should allow the company to rapidly expand whenever the market picks up.

Company Update

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Price (Bt)	3.52
Target (Bt)	4.20
SET Index	770.61

Historical Chart



Stock Information

Paid up shares (mn)	1,598
Par value (Bt)	1.00
Free Float (%)	72.75
Market Capitalisation (Btmn)	5,623
Foreign Limit (%)	35.00

Major Shareholders

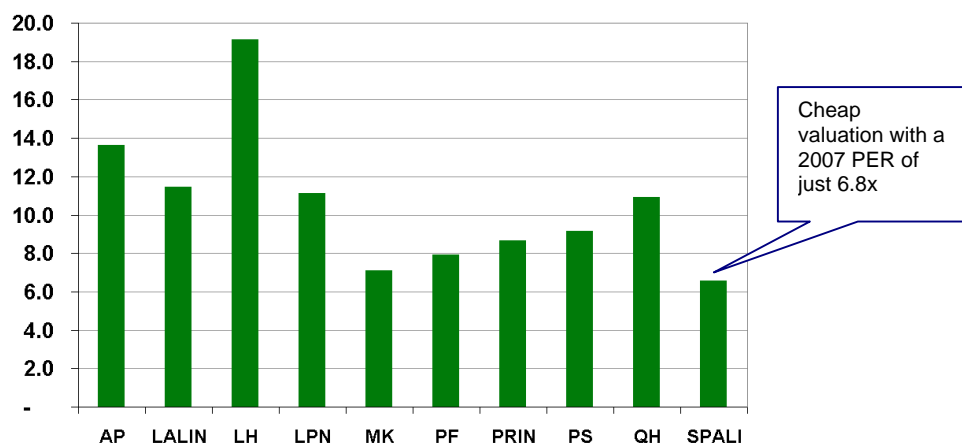
Prateep Tangmatitham (%)	19.01
Thai NVDR (%)	9.01
Atchara Tangmatitham (Pte)	5.63

Earnings summary

Year End Dec 31	2004	2005	2006	2007F	2008F
Sales (Btmn)	2,036	3,441	4,598	5,118	5,263
EBITDA (Btmn)	516	1,007	1,380	1,423	1,452
Normalised earnings (Btmn)	309	778	829	888	910
Earnings (Btmn)	481	830	880	888	910
EPS (Bt)	0.40	0.67	0.56	0.54	0.53
PER (x)	8.9	5.3	6.3	6.6	6.6
EV/EBITDA (x)	14.1	8.0	5.6	5.2	4.6
Free cash flow (Btmn)	(638)	14	(396)	583	877
CF/share (Bt)	0.37	0.70	0.59	0.58	0.58
BVPS (Bt)	2.13	2.47	2.41	2.61	2.87
P/BV (x)	1.7	1.4	1.5	1.3	1.2
DPS (Bt)	0.20	0.25	0.27	0.24	0.24
Dividend yield (%)	5.7%	7.1%	7.7%	6.8%	6.8%
Net debt/equity (x)	0.6	0.7	0.5	0.4	0.2
ROA (%)	6.2%	12.6%	11.4%	11.2%	10.9%
ROE (%)	12.4%	25.8%	22.8%	20.5%	18.7%

Source : Company reports and KELIVE Research estimates.

Chart 1: Comparative 2007 PER for property companies

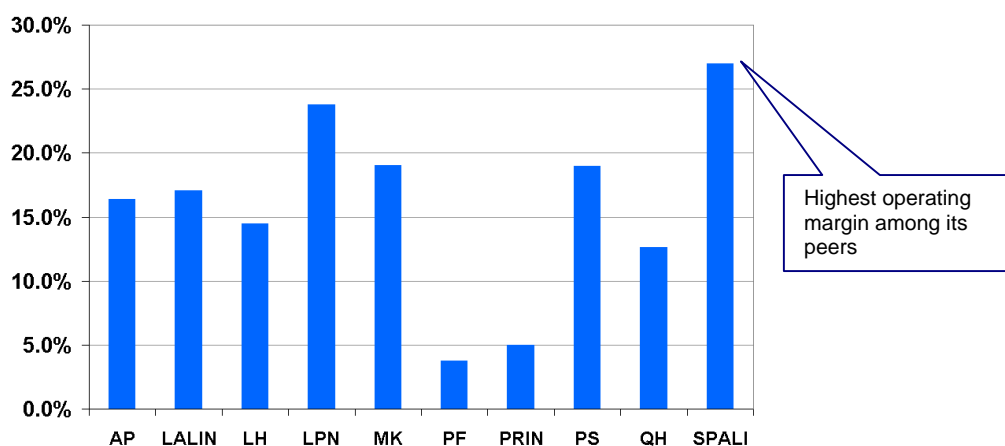


Source : Company reports and KELIVE estimates.

Strong profitability

Given the strong ability in acquiring land at low prices with good construction and overhead controls, SPALI is able to sustain the operating margin at a high level near 27.0% in 1Q07, which is the highest in the sector. This was despite revenue recognition from the City Home project, which has a low gross margin of about 35%. We expect the full-year operating margin of 27% and a net margin of 17% for 2007.

Chart 2: Operating margins for property companies



Source : Company reports and KELIVE estimates.

Table 1: New projects to be launched in 2007

Project Name	Type	Value (Bt mn)	Units	Avg. price (Btmn)	Launch Period
High Rise					
Phuket City Resort	Condo	350	268	0.9-1.5	3-4Q07
City Home Ratchada-Charunsanitwong	Condo	1,000	800	1.0 up	3-4Q07
City Home Thapra	Condo	2,200	1,520	1.0 up	4Q07
Low Rise					
Park Ville 2	SDH+TH	690	234	2.4-3.0	Jun-07
Ville Outer Ring Road, Pinklao - Rama V	TH+DP	630	323	1.5-1.9	3Q07
Garden Ville Outer Ring Road, Pinklao - Rama V	SDH	1,000	400	2.5-3.0	3Q07
Ville Ngamwongwan-Prachachuen	TH	300	110	2.5-3.0	3Q07
Total		6,170	3,655		

Source : SPALI

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