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12 June 2015

Thailand Property

Reuters HEMRAJ.BK
Bloomberg HEMRAJ TB

Priced on 11 June 2015

Thai SET @ 1,514.8

12M hi/lo Bt5.25/3.68

12M price target Bt5.00
±% potential +11%

Shares in issue 9,705.2m
Free float (est.) 61.8%

Market cap US\$1,306m

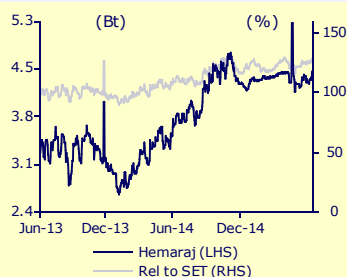
3M average daily volume
Bt91.1m (US\$2.8m)

Foreign s'holding 49.0%

Major shareholders
WHA 92.9%

Stock performance (%)

	1M	3M	12M
Absolute	5.6	0.9	18.3
Relative	4.7	2.8	14.3
Abs (US\$)	5.5	(1.8)	14.3



Source: Bloomberg

www.clsa.com

Power saver

Recurring income supports 2015 earnings; maintain O-PF

Amidst a weak domestic economic outlook, Hemaraj's rental and power businesses, which are more resilient than its industrial land sale, continue to support the company's earnings in 2015. While we believe land sale by Hemaraj has already passed its trough with more positive signs on auto production and BOI approvals, the recovery can be slow. The new power-plant contracts add Bt0.3 to our new Bt5.0 (from Bt4.10) 2016 target price. Given a 14% expected total return, we maintain our O-PF call.

Gradual recovery in land sale

HEMRAJ sold 186 rais of land in 1Q15 with a 2015 land-sale target of 1,400 rais. The majority of this came from H-ESIE 2, which recently got the Environmental Impact Assessment (EIA) approval. This new estate adds 2,513 rais to its land inventory, making a total land supply of 5,200 rais, and is likely to be the major contributor to the firm's 2015 land sale. While land demand is unlikely to return to its peak in 2012-13, robust auto export demand and the clear up of Board of Investment (BOI) project approval backlogs, will help sustain the demand from falling further. However, the recovery speed can be slow and still depends largely on the macroeconomic outlook and investor confidence.

More resilient RBF/LP business

Thanks to its recurring income nature, HEMRAJ's ready-built factory (RBF) and logistics park (LP) revenues continue to be more resilient than its land-sale revenue. Based on 1Q15 performance, we expect the LP rental area to increase 20,000sqm in 2015, in line with HEMRAJ's target, and the RBF rental area to grow 30,000sqm, lower than the company's 40,000sqm target.

Value addition from new power plants

HEMRAJ entered into several shareholder agreements in 1Q15 to own a 25% stake in seven small power plants (SPPs) with a total equity capacity of 221MW and 2016-19 operation date. We estimate a total NAV of Bt0.3 per share on US\$0.5m/MW.

Earnings bottomed in 2014

As the land-sale recovery is slower than what we previously expected, we cut 15CL earnings by 14%. A 22% increase in our target price comes mainly from 1) rollover valuation to next year and 2) the addition of new power plants. In our view, HEMRAJ's earnings already hit its bottom last year and the recovery will be more prominent next year due to 1) business synergy between Warehouse Asia and HEMRAJ and 2) continued land-sale recovery.

Financials

Year to 31 December	13A	14A	15CL	16CL	17CL
Revenue (Btm)	8,770	6,333	6,476	7,626	9,553
Rev forecast change (%)	-	-	(22.4)	(19.7)	-
Net profit (Btm)	4,338	2,961	3,102	3,634	4,453
NP forecast change (%)	-	-	(13.9)	(3.3)	-
EPS (Bt)	0.4	0.3	0.3	0.4	0.5
CL/consensus (11) (EPS%)	-	-	94	97	116
EPS growth (% YoY)	89.9	(31.8)	4.8	17.2	22.5
PE (x)	10.1	14.8	14.1	12.1	9.9
Dividend yield (%)	3.8	1.5	2.8	3.3	4.1
ROE (%)	36.2	21.0	19.5	19.8	21.2
Net debt/equity (%)	62.4	89.7	63.6	59.1	56.5

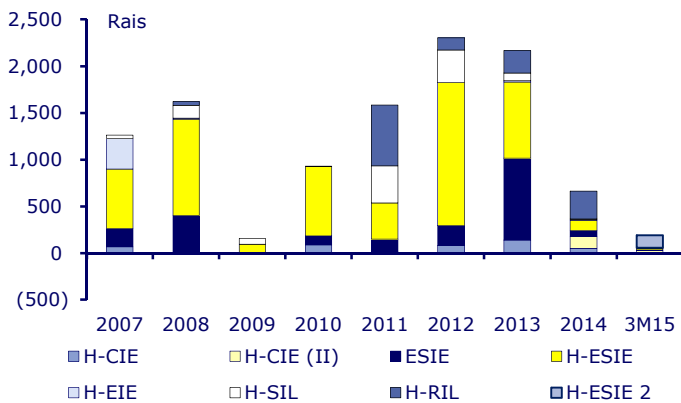
Source: CLSA

Gradual recovery in land sale

HEMRAJ sold 186 rais of land in 1Q15 with a 2015 land sale target of 1,400 rais. The majority of its 1Q15 land sale came from H-ESIE 2, which recently got the Environmental Impact Assessment (EIA) approval. This new estate adds 2,513 rais to HEMRAJ's land inventory, making a total land supply of 5,200 rais (excluding industrial estates under development/planning). It is likely to be the major contributor to 2015 land sale.

Figure 1

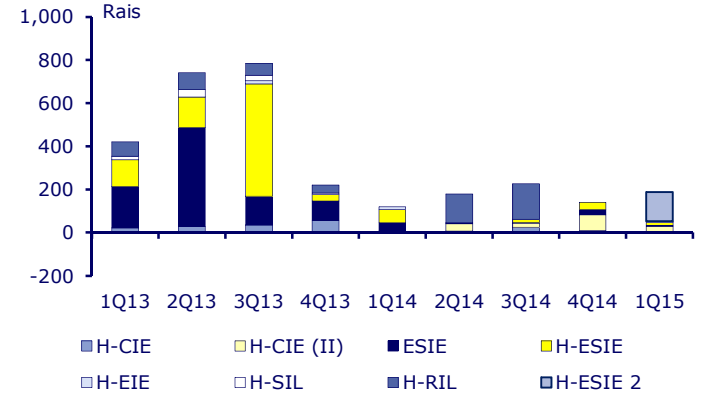
HEMRAJ's industrial land sale



Source: HEMRAJ

Figure 2

HEMRAJ's quarterly industrial land sale

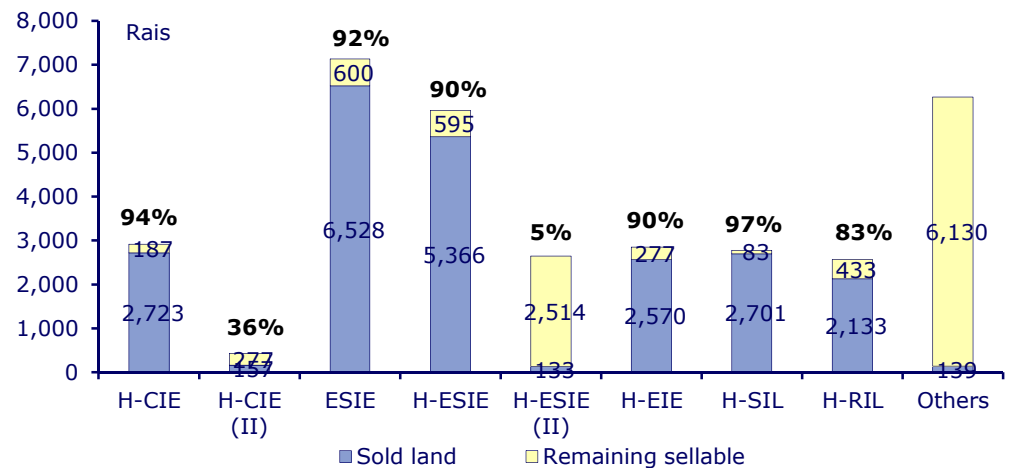


Source: HEMRAJ

HEMRAJ has around 5,200 rais land supply from developed industrial estates

Figure 3

HEMRAJ's available land supply



Source: HEMRAJ

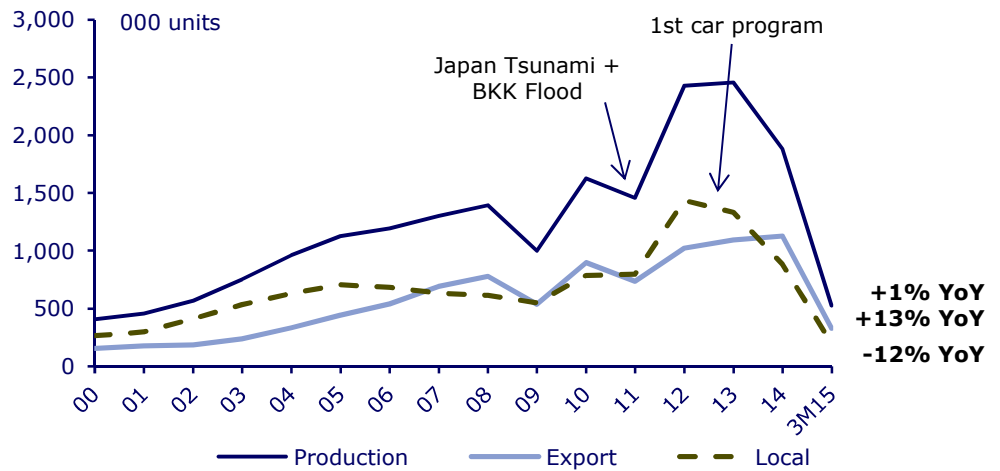
* Others mainly comprise 1) 1,447 rais of H-ESIE 4 (Under development) and 2) 4,559 rais of H-Rayong 36, H-SIL (2) and H-ESIE 3 (Under planning).

While the land demand is unlikely to return to its peak in 2012-13, when Eastern Seaboard area benefited from both the flood in the Central area and tsunami in Japan in 2011, robust auto export demand and the clear up of BOI project approval backlogs, will help sustain the demand from falling further. However, the recovery speed can be slow and still depend largely on investor confidence, political development and the overall economic condition. We currently assume 2015 land sale of 1,300 rais, slightly lower than HEMRAJ's target.

Auto production was roughly flat YoY thanks largely to robust export volume

Figure 4

Thailand auto production

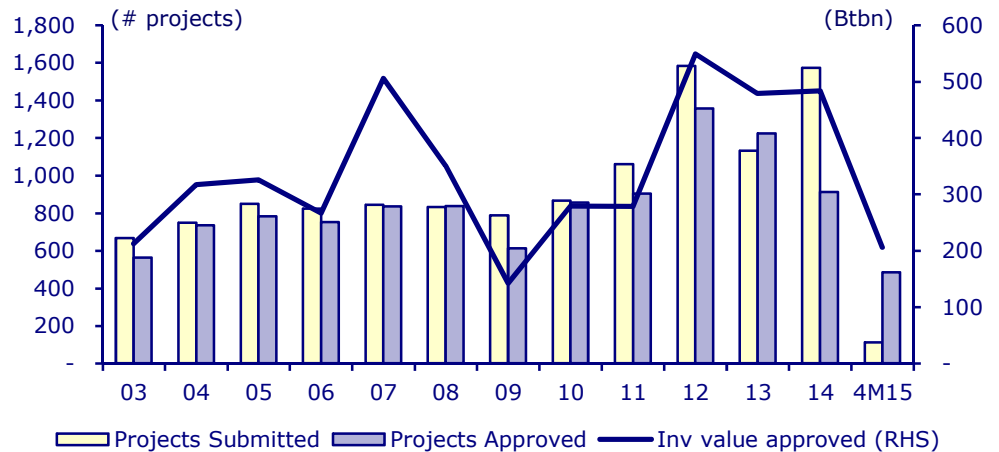


Source: Thailand Automotive Institute

Delayed BOI approvals from 2014

Figure 5

BOI approval



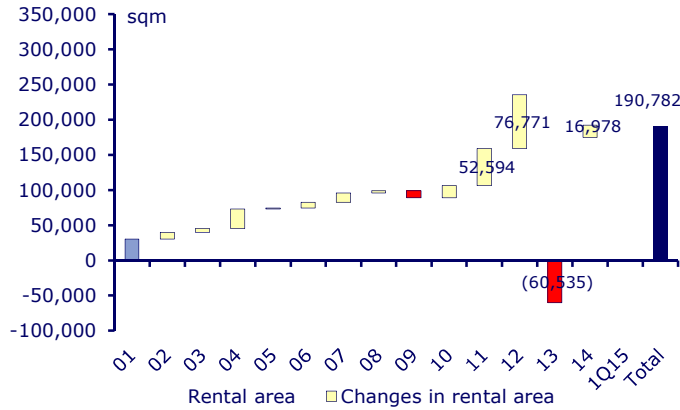
Source: Board of Investment (BOI)

More resilient RBF/LP business

Thanks to its recurring income nature, HEMRAJ's RBF and LP revenues continue to be more resilient than its land-sale revenue. Based on the 1Q15 performance, we expect the LP rental area to increase 20,000sqm in 2015, in line with HEMRAJ's target, and the RBF rental area to grow 30,000sqm, lower than the company's 40,000sqm target. Business synergy between Warehouse Asia and Hemaraj can provide further upside to our assumptions.

Figure 6

HEMRAJ's RBF occupied rental area - 1Q15 pre-leased area = 6,028sqm (2Q15 lease start)

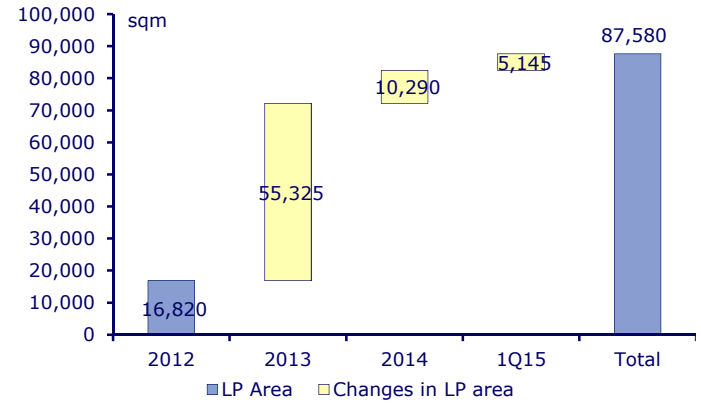


Source: HEMRAJ

Note: 2013 changes in occupied rental area comprised the sale of 122,094sqm occupied rental areas into HPF. Excluding this sale, 2013 net occupied area increase would be 61,559sqm.

Figure 7

HEMRAJ's logistics park rental area



Source: HEMRAJ

Value addition from investment in new power plants

HEMRAJ entered into several shareholder agreements in 1Q15 to own a 25% stake in seven new small power plants currently under development with a total equity capacity of 221MW and 2016-19 operation date. We estimate a total NAV of Bt0.3 per share on US\$0.5m/MW. Figure 8 shows more details of HEMRAJ's investment in power business.

Figure 8

HEMRAJ's investment in power business

Project	Type	Fuel	Ownership	MW - Total	MW - Equity	Operation date
Glow IPP	IPP	Gas	5%	713	36	2001
Houy Ho	SPP	Hydro	13%	152	19	1999
GHECO 1	IPP	Coal	35%	660	231	2012
Gulf-J Power	SPP	Cogen gas	25%	126	32	2013
SPRC	VSPP	Solar	25%	0.6	0	2014
Total in operation			19%	1,652	318	
GVTP	SPP	Cogen gas	25%	130	33	2017
GTS1	SPP	Cogen gas	25%	130	33	2017
GTS2	SPP	Cogen gas	25%	130	33	2017
GTS3	SPP	Cogen gas	25%	120	30	2017
GTS4	SPP	Cogen gas	25%	120	30	2018
GNLL2	SPP	Cogen gas	25%	120	30	2019
Bowin	SPP	Cogen gas	25%	132	33	Nov 2016
Total under development			25%	882	221	
Grand total			21%	2,534	538	

Source: HEMRAJ

New target price of Bt5.0

As the land-sale recovery is slower than what we previously expected, we cut 15CL earnings by 14%. A 22% increase in our target price comes mainly from 1) rollover valuation to next year and 2) the addition of new power plants. In our view, HEMRAJ's earnings already hit its bottom last year and the recovery will be more prominent next year due to 1) business synergy between Warehouse Asia and HEMRAJ and 2) continued land-sale recovery. Warehouse Asia currently owns 93% of HEMRAJ's share.

Please note that we have not yet included the followings in our financial forecast.

- 1) The sale of HEMRAJ's office and land on Koh Lan of Bt3.0bn in late April 2015.
- 2) The planned sale of HEMRAJ's RBF and LP into the newly established Reits.
- 3) Special dividend of around Bt0.4-0.5 in 3Q15 (from asset sale mentioned in 1), and 2H14 performance, which was delayed due to the acquisition).

Figure 9

HEMRAJ's target-price calculation

	Value	Bt/sh	% of total	Note
Industrial Estates	18,595	1.9	39%	17CL PE = 11.5x
Utilities				
- Industrial Estates Utilities	5,820	0.6	12%	PEG = 1.0x (PE = 12.0x)
- HHPC	1,027	0.1	2%	DCF (inclusive of debt repayment)
- GHECO 1	8,181	0.8	17%	DCF (inclusive of debt repayment)
- SPPs	4,200	0.4	9%	EV/MW= US\$0.5m
Rental Property	9,233	1.0	19%	Cap rate = 7.0%
Hemaraj Property Fund (HPF TB)	1,087	0.1	2%	23% owned by Hemaraj @ Bt10.0 mkt value
Grand Total	48,142	5.0	100%	
# shares (m)	9,705			

Source: CLSA

Figure 10

Peer comparison

Company	B'berg	Rec	Avg daily T/O (US\$m)	Mkt cap (US\$m)	Price (Bt)	Target (Bt)	+/-%	PE (x) 2015	Yield (%) 2015
Amata*	AMATA TB	na	3.9	502	13.7	na	na	11.0	3.7%
Hemaraj	HEMRAJ TB	O-PF	2.8	1,300	4.5	5.0	10.6%	14.1	2.8%
Rojana*	ROJNA TB	na	0.7	445	7.6	na	na	18.5	2.8%
Average								14.6	3.1%

Prices as of close 11 June 2015. Source: CLSA, *I/B/E/S

Figure 11

Major financial assumptions

	2012	2013	2014	15CL	16CL	1Q15	% 2015
Industrial land sales							
- Presale (rais)	2,300	2,199	663	1,300	1,500	186	14%
- Average Land price (Baht/rai)			3.0	3.3	3.4		
% Recognized Rev							
- End 14 Backlogs (Bt1,312 mm)				100%			
- 2015 presale				50%	25%		
- 2016 presale					60%		
Recognized Revenue							
- End 14 Backlogs (Bt1,312 mm)				1,312	-		
- 2015 presale				2,145	1,073		
- 2016 presale				-	3,060		
Total	3,972	5,771	3,446	3,457	4,133	874	25%
Utilities							
Industrial Estate Utilities	1,391	1,569	1,713	1,884	2,110	434	23%
% growth	20%	13%	9%	10%	12%		
RBF rental area							
Changes in RBF rental area	76,771	(60,535)	16,978	30,000	45,000	(1,470)	na
RBF rental area (End)	235,809	175,274	192,252	222,252	267,252		
RBF rental revenue	419	619	455	552	697	120	22%
Logistics Park rental area							
Changes in LP rental area		55,325	10,290	20,000	40,000	5,145	26%
LP rental revenue	15	99	141	196	287	39	20%
% breakdown (excluding power equity income)							
Industrial Estate Land Sales	62%	66%	54%	53%	54%		
Utilities	23%	18%	28%	30%	29%		
Rental Property	11%	12%	14%	17%	17%		
Sales of Property	4%	5%	4%	0%	0%		
Total	100%	100%	100%	100%	100%		
Gross margin assumptions							
Industrial Estate Land Sales	46%	48%	53%	53%	52%	56%	
Utilities	37%	36%	34%	35%	35%	31%	
Rental Property							
- Ready Built Factory	74%	72%	72%	72%	72%	74%	
- Piperack Rental	81%	87%	88%	88%	88%	89%	
- Commercial Office	43%	33%	41%	41%	41%	39%	
- Logistics Park	62%	70%	72%	72%	72%	72%	
Grand - Total	46%	48%	49%	50%	50%	51%	

Source: CLSA, HEMRAJ

Valuation details

Our Bt5.0 target price is based on sum-of-the-part valuation. For the industrial land-sale business, the valuation is based on 11.5x PE, which is in line with HEMRAJ's five-year historical average. For its utility business, our valuation is based on 12.0x PE, which is equivalent to 1.0x PEG. We use a DCF approach for HEMRAJ's power-plant assets given their lower earnings risks. Lastly, for its rental business, we use the ongoing cap rate of 7%.

Investment risks

Industrial land sale is largely dependent on foreign direct investment, which in turn can be significantly impacted by political environments. After enjoying two peak industrial land-sale years in 2012-13, HEMRAJ's land sale softened significantly in 2014 with political protests and weak domestic sentiments. Its rental and power businesses provide recurring income to the company, helping to sustain earnings during weak land-sale periods.

Summary financials

Year to 31 December	2013A	2014A	2015CL	2016CL	2017CL
Summary P&L forecast (Btm)					
Revenue	8,770	6,333	6,476	7,626	9,553
Op Ebitda	3,605	2,608	2,709	3,232	4,161
Op Ebit	3,254	2,259	2,346	2,837	3,735
Interest income	128	132	78	62	35
Interest expense	(652)	(762)	(717)	(656)	(669)
Other items	2,861	1,693	1,660	1,715	1,770
Profit before tax	5,590	3,323	3,368	3,959	4,871
Taxation	(504)	(98)	(103)	(134)	(183)
Minorities/Pref divs	(748)	(264)	(163)	(191)	(234)
Net profit	4,338	2,961	3,102	3,634	4,453
Summary cashflow forecast (Btm)					
Operating profit	3,254	2,259	2,346	2,837	3,735
Operating adjustments	-	-	-	-	-
Depreciation/amortisation	351	349	363	395	426
Working capital changes	(3,312)	(3,864)	853	(2,116)	(3,299)
Net interest/taxes/other	(612)	(903)	500	515	425
Net operating cashflow	(319)	(2,159)	4,062	1,630	1,286
Capital expenditure	(342)	(557)	(1,000)	(1,000)	(1,000)
Free cashflow	(661)	(2,716)	3,062	630	286
Acq/inv/disposals	(1,433)	(4)	-	-	-
Int, invt & associate div	3,503	1,236	-	-	-
Net investing cashflow	1,728	675	(1,000)	(1,000)	(1,000)
Increase in loans	3,187	1,375	(2,519)	(77)	431
Dividends	(1,263)	(1,744)	(679)	(1,241)	(1,454)
Net equity raised/other	(248)	(840)	0	-	-
Net financing cashflow	1,677	(1,209)	(3,199)	(1,317)	(1,022)
Incr/(decr) in net cash	3,086	(2,693)	(136)	(687)	(736)
Exch rate movements	0	0	0	0	0
Opening cash	1,694	4,780	2,087	1,951	1,264
Closing cash	4,780	2,087	1,951	1,264	528
Summary balance sheet forecast (Btm)					
Cash & equivalents	4,780	2,087	1,951	1,264	528
Debtors	152	163	161	190	237
Inventories	11,138	13,141	12,340	14,522	17,923
Other current assets	1,677	1,571	1,607	1,892	2,370
Fixed assets	8,366	8,878	9,515	10,121	10,695
Intangible assets	0	0	0	0	0
Other term assets	7,320	7,841	8,260	8,733	9,262
Total assets	33,434	33,682	33,834	36,722	41,016
Short-term debt	1,509	2,614	1,160	1,160	1,185
Creditors	408	327	374	440	543
Other current liabs	3,138	1,728	1,767	2,080	2,606
Long-term debt/CBs	12,419	12,952	11,952	11,952	12,452
Provisions/other LT liabs	1,303	1,032	1,032	1,032	1,032
Minorities/other equity	1,125	320	418	533	673
Shareholder funds	13,532	14,709	17,131	19,525	22,524
Total liabs & equity	33,434	33,682	33,834	36,722	41,016
Ratio analysis					
Revenue growth (% YoY)	37.0	(27.8)	2.3	17.8	25.3
Ebitda growth (% YoY)	45.6	(27.7)	3.9	19.3	28.7
Ebitda margin (%)	41.1	41.2	41.8	42.4	43.6
Net profit margin (%)	49.5	46.7	47.9	47.7	46.6
Dividend payout (%)	38.0	22.9	40.0	40.0	40.0
Effective tax rate (%)	9.0	3.0	3.0	3.4	3.8
Ebitda/net int exp (x)	6.9	4.1	4.2	5.4	6.6
Net debt/equity (%)	62.4	89.7	63.6	59.1	56.5
ROE (%)	36.2	21.0	19.5	19.8	21.2
ROIC (%)	17.6	10.8	10.3	11.8	13.5
EVA@/IC (%)	9.6	2.7	2.2	3.7	5.4

Source: CLSA



evalu@tor card

Hemaraj (HEMRAJ TB)



Bt4.52

OUTPERFORM

TSR: 13.7%

Hemaraj (HEMRAJ TB)

GICS sector	Real estate
GICS industry	Real estate mgmt
Last price	Bt4.52
12M Hi/Lo	Bt5.25 / Bt3.68
CLSA target	Bt5.00
CLSA rec	Outperform
Analyst	Soraphob Panpiemras
Last model updated	11 Jun 2015
Mkt cap (US\$m)	1,300
3M ADTO (US\$m)	2.8
Free float (%)	61.8
Total stock return (%)	13.7

Price performance (%)

	1M	3M	6M	1Y
Local	5.6	0.9	5.6	18.3
US\$	6.0	(1.4)	3.1	14.3

Peak to trough levels (12M fwd)

(x)	PE	PB	
Peak	33.7	3.3	← Peak
Trough	6.8	1.3	← 5Y avg
Current	12.8	2.3	← Current
Average	13.0	2.3	← Trough

Corporate governance scores

	CG score (%)	Ctry rank	Sector rank
Discipline	46.4	21	56
Transparency	100.0	1	1
Independence	3.6	40	37
Responsibility	55.0	7	30
Fairness	50.0	29	42
ESG	42.1	46	72
Weighted/Ranking	50.1	37/49	60/88

Style analysis represents which quintile (among CLSA universe) the stock falls under based on the following style definitions:

- Value** - 12M fwd earnings yield, 12M fwd book yield
- Growth** - 2Y fwd EPS Cagr, sustainable growth
- Momentum** - 3M price change, EPS change (weighted)
- Defensive** - 12M fwd dividend yield, earnings certainty
- Quality** - Avg FY1-FY2 ROE, ROIC
- Garp** - PE/G, price of sustainable growth

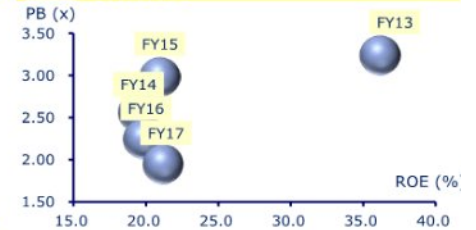
12M forward PE



12M forward PB



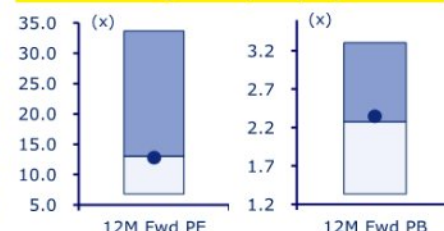
PB versus ROE



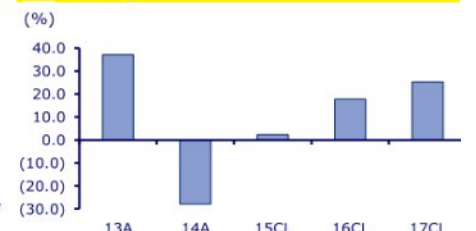
Price chart (5Y)



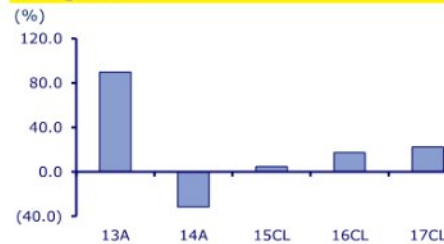
Peak-to-trough analysis (5Y)



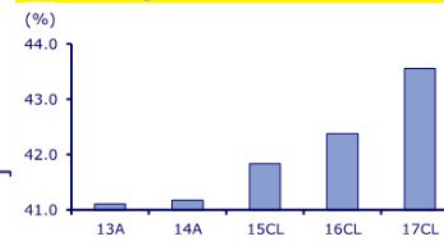
Revenue growth



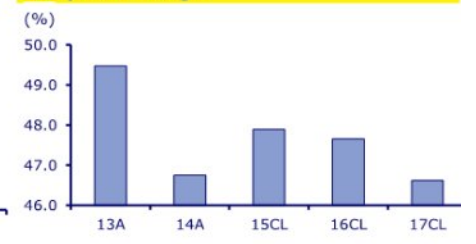
EPS growth



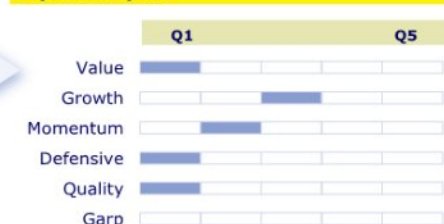
Ebitda margin



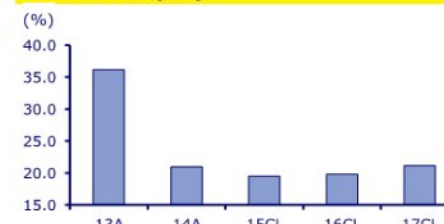
Net profit margin



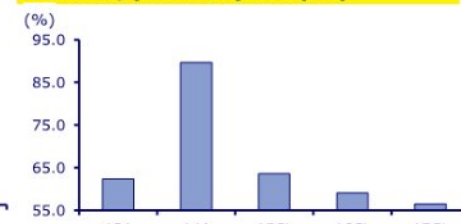
Style analysis



Return on equity



Net debt/(net cash) to equity



Year end: 31 Dec 2014

Companies mentioned

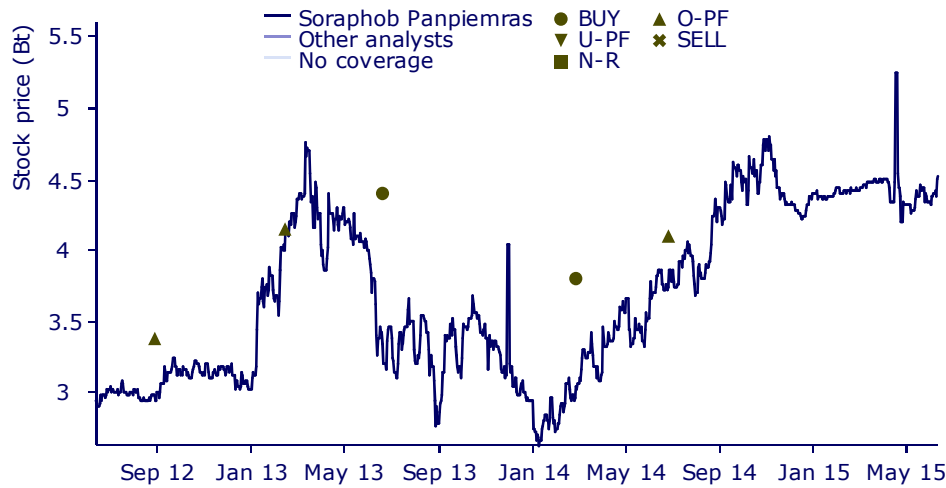
Hemaraj (HEMRAJ TB - BT4.52 - OUTPERFORM)
 Amata (N-R)
 Rojana Ind Park (N-R)
 WHA (N-R)

Analyst certification

The analyst(s) of this report hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

Important disclosures

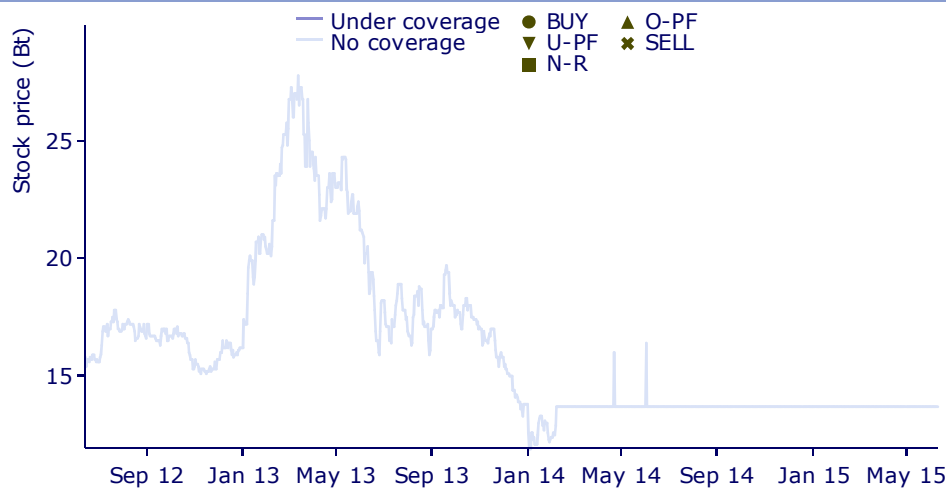
Recommendation history of Hemaraj Land & Development PCL HEMRAJ TB



Date	Rec	Target	Date	Rec	Target
26 Jun 2014	O-PF	4.10	13 Feb 2013	O-PF	4.15
26 Feb 2014	BUY	3.80	28 Aug 2012	O-PF	3.38
20 Jun 2013	BUY	4.40			

Source: CLSA

Recommendation history of Amata AMATA TB



Date	Rec	Target	Date	Rec	Target
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Source: CLSA

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