

# Hemaraj Land Development & WHA Corporation

**9 February 2016**
**HEMRAJ TB / HEMRAJ.BK      WHA TB / WHA.BK**

## Still belittled despite turbulence

### Investment thesis

We believe that WHA's operations will continue to grow at a steady pace while HEMRAJ will slowly recover, though the industrial property sector may not be out of the woods just yet. WHA remains a strong valuation play and the amount of core net profit growth YoY simply due to its interest savings from its leveraged buyout (LBO) loan repayment is deemed very significant for 2016-17. Additionally, HEMRAJ's recurring income will provide the conglomerate with a defensive earnings profile while its land sales slowly recover in the years ahead. The small hiccup in HREIT's IPO timeline has caused us to revise down our core net profit for WHA and target price by 8% and 10%, respectively, however, its overall picture remains little affected. Thus, we maintain our HOLD rating for HEMRAJ, TP: Bt4.40, and BUY for WHA, but revise down our target price to Bt3.60.

### Shift in HREIT timeline ...

We believe that the divestment of HEMRAJ's ready-built factories and warehouses, along with the IPO of its first ever REIT (HREIT), is likely to be delayed to 2Q16. The trust size has yet to be finalized—we currently expect ~Bt7.8bn, while the original filing indicated Bt9.0bn. Furthermore, WHART unit holder's right of first buy will also have to be amended during its EGM in March before the asset sale could occur. As a consequence, HREIT's second divestment (~Bt4.4bn size) is also pushed back to 1Q17, from the planned date of 4Q16.

### ... leads to net profit revision

Factoring in the delay of the trust's IPO (assumed as extra item/one-off income in our model); we revise down our 2016 and 2017 net profit to Bt6.2bn and Bt6.5bn for HEMRAJ, and Bt4.6bn and Bt6.4bn for WHA respectively. However, as we have assumed the HREIT sale as one-off income in our model, this leads to no change in HEMRAJ's core net profit and WHA's core net profit is only affected by higher interest payments—core net profit is revised down to Bt3.6bn and Bt7.2bn for 2016 and 2017 respectively.

### Upside still intact

Even though we now expect WHA's 2016 interest payment to climb to Bt1.5bn from its previous Bt1.2bn, the consolidation of HEMRAJ's operations as well as the remaining interest savings from its LBO loan repayment would still provide a whopping 97% YoY improvement in its core net profit. As for HEMRAJ, WHA has already secured 70% of its second tender—or ~98% of HEMRAJ's total shares. The tender offer has already proved successful and it is now a matter of time before HEMRAJ will be delisted (planned March 2016).

**Sector: Property (Industrial) – UNDERWEIGHT**

### HEMRAJ

**Rating: HOLD**
**Target Price: Bt4.40**
**Price (8 February 2016): Bt3.74**

### WHA

**Rating: BUY**
**Target Price: Bt3.60**
**Price (8 February 2016): Bt2.76**

### HEMRAJ Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	6,333	5,081	5,178	6,210
Net profit (Btm)	2,961	2,563	6,208	6,501
EPS (Bt)	0.31	0.26	0.64	0.67
EPS growth (%)	-32%	-13%	+142.2%	+4.7%
Core profit (Btm)	2,988	2,702	3,746	5,011
Core EPS (Bt)	0.31	0.28	0.39	0.52
Core EPS growth (%)	+4%	-10%	+38.6%	+33.8%
PER (x)	12.5	16.4	6.8	6.5
PBV (x)	2.5	2.8	3.4	1.8
Dividend (Bt)	0.1	0.6	0.2	0.3
Dividend yield (%)	3.5	13.4	4.4	5.9
ROE (%)	21.0	17.4	46.8	37.8

**CG/Anti-Corruption**


### WHA Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	4,888	9,063	9,864	10,820
Net profit (Btm)	978	2,155	4,610	7,888
EPS (Bt)	0.10	0.15	0.32	0.55
EPS growth (%)	-36%	+46.9%	+113.9%	+71.1%
Core profit (Btm)	979	1,801	3,550	7,164
Core EPS (Bt)	0.10	0.12	0.23	0.46
Core EPS growth (%)	-36%	+13.5%	+97.1%	+101.8%
PER (x)	29.0	25.1	11.7	6.9
PBV (x)	6.3	2.3	2.0	1.9
Dividend (Bt)	0.0	0.1	0.1	0.1
Dividend yield (%)	0.0	1.3	1.3	1.3
ROE (%)	22.7	17.5	19.8	27.7

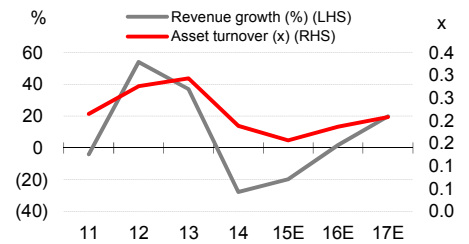
**CG/Anti-Corruption**

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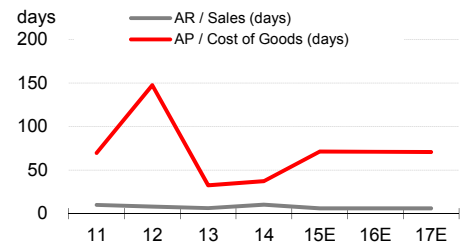
## HEMRAJ: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	8,770	6,333	5,081	5,178	6,210
Cost of sales and services	(4,582)	(3,206)	(2,258)	(1,483)	(1,904)
<b>Gross profit</b>	<b>4,188</b>	<b>3,127</b>	<b>2,823</b>	<b>3,695</b>	<b>4,306</b>
SG&A	(984)	(915)	(775)	(790)	(947)
<b>EBIT</b>	<b>3,204</b>	<b>2,211</b>	<b>2,047</b>	<b>2,905</b>	<b>3,358</b>
Interest expense	(652)	(762)	(707)	(583)	(400)
Other income/exp.	233	245	152	128	153
<b>EBT</b>	<b>2,785</b>	<b>1,695</b>	<b>1,493</b>	<b>2,450</b>	<b>3,112</b>
Corporate tax	(161)	(98)	(179)	(264)	(315)
<b>After-tax net profit (loss)</b>	<b>2,624</b>	<b>1,597</b>	<b>1,314</b>	<b>2,186</b>	<b>2,797</b>
Minority interest	(317)	(264)	(102)	(104)	(124)
Equity earnings from affiliates	559	1,655	1,490	1,664	2,338
Extra items	1,473	(28)	(139)	2,461	1,490
<b>Net profit (loss)</b>	<b>4,339</b>	<b>2,961</b>	<b>2,563</b>	<b>6,208</b>	<b>6,501</b>
Reported EPS	0.45	0.31	0.26	0.64	0.67
<b>Fully diluted EPS</b>	<b>0.45</b>	<b>0.31</b>	<b>0.26</b>	<b>0.64</b>	<b>0.67</b>
<b>Core net profit</b>	<b>2,866</b>	<b>2,988</b>	<b>2,702</b>	<b>3,746</b>	<b>5,011</b>
Core EPS	0.30	0.31	0.28	0.39	0.52
<b>EBITDA</b>	<b>3,775</b>	<b>2,789</b>	<b>2,585</b>	<b>3,430</b>	<b>3,512</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	37.0	(27.8)	(19.8)	1.9	19.9
Gross margin (%)	47.8	49.4	55.6	71.4	69.3
EBITDA margin (%)	43.0	44.0	50.9	66.2	56.6
Operating margin (%)	39.2	38.8	43.3	58.6	56.6
Net margin (%)	49.5	46.7	50.4	119.9	104.7
Core profit margin (%)	32.7	47.2	53.2	72.4	80.7
ROA (%)	14.5	8.8	7.9	22.4	21.8
ROCE (%)	17.0	10.0	8.9	24.8	22.6
Asset turnover (x)	0.3	0.2	0.2	0.2	0.2
Current ratio (x)	3.5	3.6	3.2	5.9	21.5
Gearing ratio (x)	1.0	1.0	0.8	0.9	0.5
Interest coverage (x)	5.8	3.7	3.7	5.9	8.8
<b>BALANCE SHEET (Btm)</b>					
Cash & Equivalent	4,780	2,087	3,017	3,790	7,902
Accounts receivable	152	179	85	86	104
Inventory	11,138	8	100	100	100
PP&E-net	8,366	8,878	5,401	2,391	9,379
Other assets	8,997	22,529	22,655	17,804	18,062
<b>Total assets</b>	<b>33,434</b>	<b>33,682</b>	<b>31,257</b>	<b>24,172</b>	<b>35,547</b>
Accounts payable	408	327	441	289	369
ST debts & current portion	2,071	2,352	1,885	2,637	532
Long-term debt	12,419	12,952	9,918	8,239	10,639
Other liabilities	3,879	3,022	3,834	719	719
<b>Total liabilities</b>	<b>18,778</b>	<b>18,653</b>	<b>16,078</b>	<b>11,884</b>	<b>12,259</b>
Paid-up capital	3,882	3,882	3,882	3,882	3,882
Share premium	439	439	439	439	439
Retained earnings	8,353	9,511	10,760	12,530	16,402
<b>Shareholders' equity</b>	<b>13,532</b>	<b>14,709</b>	<b>14,758</b>	<b>11,762</b>	<b>22,638</b>
Minority interests	1,125	320	422	525	650
<b>Total Liab.&amp;Shareholders' equity</b>	<b>33,434</b>	<b>33,682</b>	<b>31,257</b>	<b>24,172</b>	<b>35,547</b>
<b>CASH FLOW (Btm)</b>					
Net income	4,339	2,961	2,563	6,208	6,501
Depreciation and amortization	338	332	385	397	408
Change in working capital	(4,153)	(4,988)	1,279	669	520
FX, non-cash adjustment & others	(842)	(471)	(747)	(3,308)	(715)
<b>Cash flows from operating activities:</b>	<b>(319)</b>	<b>(2,166)</b>	<b>3,480</b>	<b>3,965</b>	<b>6,714</b>
Capex (Invest)/Divest	1,798	794	(392)	(392)	(392)
Others	(70)	(119)	0	0	0
<b>Cash flows from investing activities:</b>	<b>1,728</b>	<b>675</b>	<b>(392)</b>	<b>(392)</b>	<b>(392)</b>
Debt financing (repayment)	3,187	1,375	(3,501)	(927)	295
Equity financing	0	0	0	0	0
Dividend payment	(1,503)	(2,584)	(1,351)	(1,873)	(2,506)
Others	(70)	(119)	0	0	0
<b>Cash flows from financing activities</b>	<b>1,677</b>	<b>(1,209)</b>	<b>(4,852)</b>	<b>(2,800)</b>	<b>(2,211)</b>
Net change in cash	3,086	(2,700)	(1,763)	773	4,112
<b>Free cash flow (Btm)</b>	<b>1,479</b>	<b>(1,372)</b>	<b>3,088</b>	<b>3,573</b>	<b>6,322</b>
<b>FCF per share (Bt)</b>	<b>0.2</b>	<b>(0.1)</b>	<b>0.3</b>	<b>0.4</b>	<b>0.7</b>
<b>Key assumptions</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
Land pre-sales (rai)	2,200	665	1,050	900	900
Land revenue (Btm)	6,191	3,680	2,030	2,387	3,069
Services revenue (Btm)	2,579	2,653	3,051	2,791	3,141
Land sales margin	48%	52%	52%	52%	52%
Services margin	47%	46%	60%	60%	60%

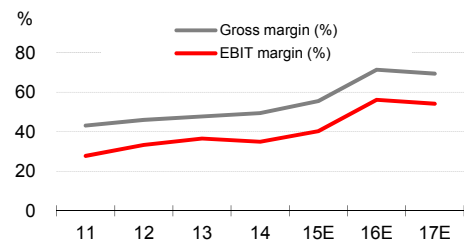
### Revenue growth and asset turnover



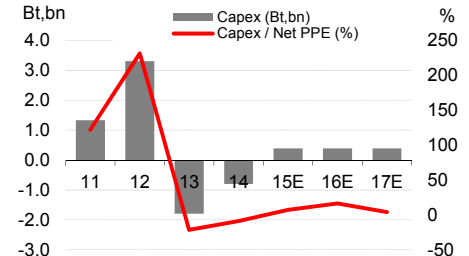
### A/C receivable & A/C payable days



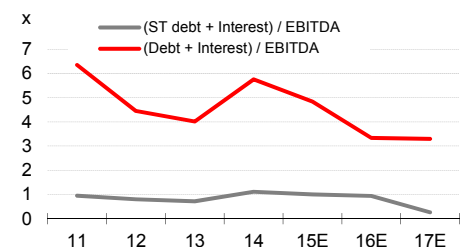
### Profit margins



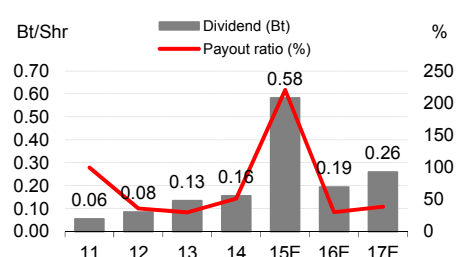
### Capital expenditure



### Debt serviceability



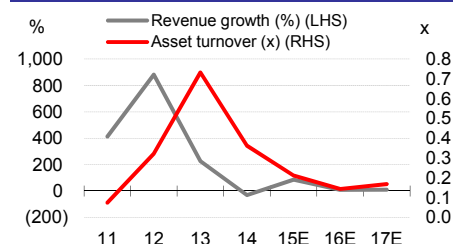
### Dividend payout



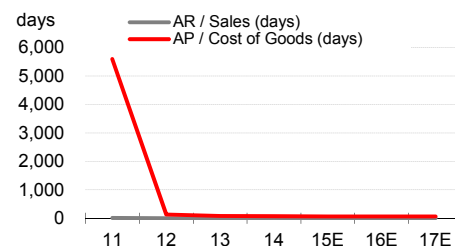
## WHA: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	7,085	4,888	9,063	9,864	10,820
Cost of sales and services	(5,141)	(3,269)	(5,158)	(4,646)	(3,069)
<b>Gross profit</b>	<b>1,945</b>	<b>1,619</b>	<b>3,905</b>	<b>5,219</b>	<b>7,752</b>
SG&A	(132)	(283)	(794)	(795)	(771)
<b>EBIT</b>	<b>1,813</b>	<b>1,335</b>	<b>3,111</b>	<b>4,424</b>	<b>6,981</b>
Interest expense	(183)	(295)	(2,110)	(1,547)	(655)
Other income/exp.	84	170	292	9	68
<b>EBT</b>	<b>1,714</b>	<b>1,210</b>	<b>1,294</b>	<b>2,885</b>	<b>6,394</b>
Corporate tax	(249)	(224)	(385)	(660)	(1,049)
<b>After-tax net profit (loss)</b>	<b>1,465</b>	<b>986</b>	<b>908</b>	<b>2,225</b>	<b>5,344</b>
Minority interest	0	0	(303)	(222)	(352)
Equity earnings from affiliates	0	(8)	1,195	1,546	2,172
Extra items	0	(1)	354	1,061	724
<b>Net profit (loss)</b>	<b>1,465</b>	<b>978</b>	<b>2,155</b>	<b>4,610</b>	<b>7,888</b>
Reported EPS	0.16	0.10	0.15	0.32	0.55
<b>Fully diluted EPS</b>	<b>0.16</b>	<b>0.10</b>	<b>0.14</b>	<b>0.30</b>	<b>0.50</b>
<b>Core net profit</b>	<b>1,465</b>	<b>979</b>	<b>1,801</b>	<b>3,550</b>	<b>7,164</b>
Core EPS	0.16	0.10	0.12	0.23	0.46
<b>EBITDA</b>	<b>1,950</b>	<b>1,514</b>	<b>3,356</b>	<b>4,728</b>	<b>7,279</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	226.7	(31.0)	85.4	8.8	9.7
Gross margin (%)	27.4	33.1	43.1	52.9	71.6
EBITDA margin (%)	27.5	31.0	37.0	47.9	67.3
Operating margin (%)	25.6	27.3	34.3	44.8	64.5
Net margin (%)	20.7	20.0	23.8	46.7	72.9
Core profit margin (%)	20.7	20.0	19.9	36.0	66.2
ROA (%)	15.1	7.2	5.0	6.7	12.3
ROCE (%)	19.4	8.8	5.4	7.1	13.4
Asset turnover (x)	0.7	0.4	0.2	0.1	0.2
Current ratio (x)	1.3	1.9	3.6	5.0	12.6
Gearing ratio (x)	1.1	2.0	1.9	1.3	0.9
Interest coverage (x)	9.9	4.5	1.5	2.9	10.7
<b>BALANCE SHEET (Btm)</b>					
Cash & Equivalent	983	2,186	16,006	20,195	9,372
Accounts receivable	48	104	44	48	53
Inventory	0	0	0	0	0
PP&E-net	6,275	8,078	7,658	8,680	11,682
Other assets	3,743	5,584	45,805	38,741	39,513
<b>Total assets</b>	<b>11,049</b>	<b>15,952</b>	<b>69,514</b>	<b>67,663</b>	<b>60,619</b>
Accounts payable	1,123	597	881	791	521
ST debts & current portion	290	657	7,771	6,016	331
Long-term debt	4,202	8,369	35,724	30,183	25,698
Other liabilities	1,280	1,849	1,816	1,816	1,816
<b>Total liabilities</b>	<b>6,895</b>	<b>11,472</b>	<b>46,192</b>	<b>38,806</b>	<b>28,365</b>
Paid-up capital	918	964	1,446	1,446	1,446
Share premium	1,549	1,549	9,330	12,222	12,222
Retained earnings	1,520	1,801	3,233	7,121	14,286
<b>Shareholders' equity</b>	<b>4,154</b>	<b>4,480</b>	<b>20,100</b>	<b>26,524</b>	<b>30,521</b>
Minority interests	0	0	3,221	329	(1,840)
<b>Total Liab.&amp;Shareholders' equity</b>	<b>11,049</b>	<b>15,952</b>	<b>69,514</b>	<b>65,659</b>	<b>57,045</b>
<b>CASH FLOW (Btm)</b>					
Net income	1,465	978	2,155	4,610	7,888
Depreciation and amortization	137	179	245	305	298
Change in working capital	(123)	(378)	(10,524)	(3,355)	(5,975)
FX, non-cash adjustment & others	(1,265)	(775)	0	0	0
<b>Cash flows from operating activities:</b>	<b>214</b>	<b>4</b>	<b>(8,124)</b>	<b>1,560</b>	<b>2,211</b>
Capex (Invest)/Divest	(603)	(2,992)	170	(945)	(3,140)
Others	(1,150)	(1,607)	464	0	0
<b>Cash flows from investing activities:</b>	<b>(1,753)</b>	<b>(4,599)</b>	<b>634</b>	<b>(945)</b>	<b>(3,140)</b>
Debt financing (repayment)	981	5,298	14,260	2,781	(10,171)
Equity financing	0	0	9,288	0	0
Dividend payment	(96)	(652)	(723)	(723)	(723)
Others	(1,150)	(1,607)	464	0	0
<b>Cash flows from financing activities:</b>	<b>884</b>	<b>4,647</b>	<b>22,825</b>	<b>2,058</b>	<b>(10,894)</b>
Net change in cash	(655)	51	15,335	2,673	(11,823)
<b>Free cash flow (Btm)</b>	<b>(389)</b>	<b>(2,988)</b>	<b>(7,954)</b>	<b>615</b>	<b>(929)</b>
<b>FCF per share (Bt)</b>	<b>(0.0)</b>	<b>(0.3)</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(0.1)</b>
<b>Key Assumptions</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
Net profit ex. asset divestment (Bt m)	166	(51)	865	2,608	6,274
Leased area (sq.m)	294,261	255,462	186,548	229,126	276,981
New lease area (sq.m)	n.a.	n.a.	120,000	200,000	210,000
Spin-off space (sq.m)	n.a.	n.a.	174,914	157,422	162,145

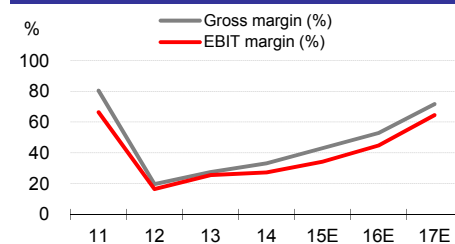
### Revenue growth and asset turnover



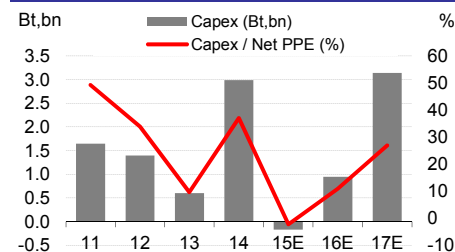
### A/C receivable & A/C payable days



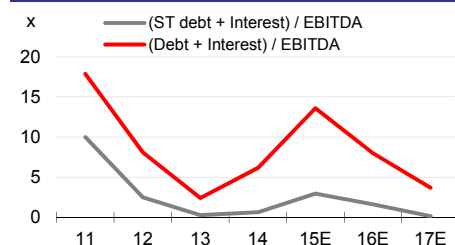
### Profit margins



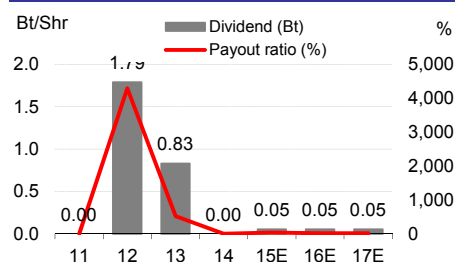
### Capital expenditure



### Debt serviceability



### Dividend payout



## Sector Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Amata Corporation	AMATA TB	THB12.50	376	9.7	11.1	-38.2	-12.5	0.7	0.7	10.6	7.5	3.1	3.6
Hemaraj Land and Developer	HEMRAJ TB	THB3.74	1,022	14.2	5.8	-13.4	142.2	2.4	3.0	17.4	46.8	15.6	5.2
Ticon Industrial Connection	TICON TB	THB11.60	359	16.8	16.1	-0.1	4.4	0.8	0.6	5.5	4.1	4.2	4.4
Thai Factory Development	TFD TB	THB2.60	94	8.3	6.0	n.m.	38	0.9	0.7	20.6	15.7	9.8	10.0
Wha Corporation	WHA TB	THB2.76	1,113	18.4	6.5	47.7	184.1	1.7	1.5	19.1	28.5	2.3	6.7
<b>Simple average</b>				<b>13.5</b>	<b>9.1</b>	<b>-1.0</b>	<b>71.3</b>	<b>1.3</b>	<b>1.3</b>	<b>14.6</b>	<b>20.5</b>	<b>7.0</b>	<b>6.0</b>

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

**CG Rating**

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

**Anti-Corruption Progress Indicator**

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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## 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.