

BUY (Unchanged)

Change in Numbers

TP: Bt 4.00

Upside : 27.4%

(From: Bt 3.70)

14 SEPTEMBER 2016

Small Cap Research

WHA Corporation Pcl (WHA TB)

Still undervalued

Without seeing the need for an industry boom, we reaffirm our **BUY** on WHA on an asset-value basis with a DCF/NAV-derived SOTP-based TP of Bt4.0. Catalysts are ongoing asset sales or deleveraging to cut balance sheet risk and a potential listing of its utilities business.

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BUY on an NAV basis

We foresee WHA's businesses doing well longer term but experiencing mediocre core earnings growth for the next 2 years. We expect its core warehouse rental and asset-sale-to-REIT business to grow organically while industrial estate (IE) should take a few years to boom again in the transition when the government moves Thailand up the production value chain. We expect these 2 segments to contribute 41-47% of 2016-18F EBIT. That said, we BUY WHA on an asset-value basis. We lift our SOTP-based 12-month TP to Bt4.0 (from Bt3.7) as we adjust our NAV after rolling over our DCF to 2017F. (see NAV in Exhibit 1).

Strong growth isn't core

We look for 2016F EPS growth of 120% with most from the full-year Hemaraj Land & Development (HEMRAJ TB, not listed) takeover effect and a series of asset sales to REITs vs. mid-teen organic core growth. We forecast 2016-18 core EPS growth of 17-42%. We see WHA as an asset rather than a growth play with 3 key catalysts: value-unlocking asset sales, deleveraging to cut balance sheet risk and power and utilities business (WHAUP) spin-off. We expect net D/E to fall from 2.4x in 2Q16 to 1.5x and 0.9x in 2016-17F with estimated proceeds of: 1) one-off asset sales of Bt7.5bn in 4Q16F (Bt6bn of HEMRAJ asset sales to HREIT, Bt1.5bn to its JV with Daiwa House Industry); 2) the expected Bt20-25bn market cap WHAUP spin-off in 1H17F; and 3) Bt4.5bn in recurring warehouse-asset sales.

Utilities spin-off

WHA plans to spin off its power, industrial water and other utilities business (WHAUP) in HEMRAJ's IEs in 1H17. While this would result in a stake dilution from 100% to 70%, we expect the market to view it positively as a value-unlocking story. The process is a mix of WHA selling some of its WHAUP shares and WHAUP issuing new shares. There could be upside to WHAUP's value in the future from new investments such as industrial waste-to-energy power plants and industrial/community water projects.

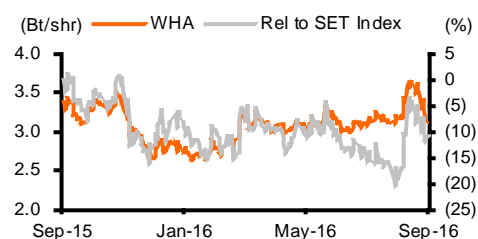
Growth beyond 2018F

Despite the warehouse/logistics business's organic growth outlook for the next few years, industry prospects still look bright long term as the government strongly intends to revive growth on the Eastern Seaboard, called the Eastern Economic Corridor (EEC). HEMRAJ has seven IEs in the EEC's target provinces of Rayong, Chonburi, and Chachoengsao. WHA is also looking to capitalize on HEMRAJ's and its own client base in cross-selling each other's products and offering more integrated services, including rental warehouse/factory and data center services. Abroad, WHA plans to enter the Vietnam IE business to ride strong FDI flows, expecting to get an investment license in 4Q16.

COMPANY VALUATION

Y/E Dec (Bt m)	2015A	2016F	2017F	2018F
Sales	11,437	10,866	11,349	12,783
Net profit	1,954	4,586	3,758	4,244
Consensus NP	—	4,492	4,290	4,387
Diff frm cons (%)	—	2.1	(12.4)	(3.3)
Norm profit	1,852	2,351	3,336	4,222
Prev. Norm profit	—	2,433	3,513	4,417
Chg frm prev (%)	—	(3.4)	(5.0)	(4.4)
Norm EPS (Bt)	0.1	0.2	0.2	0.3
Norm EPS grw (%)	51.2	18.5	41.7	17.0
Norm PE (x)	22.7	19.1	13.5	11.5
EV/EBITDA (x)	23.9	23.3	19.0	16.5
P/BV (x)	2.4	1.9	1.6	1.5
Div yield (%)	0.0	0.0	2.3	3.0
ROE (%)	16.0	11.2	12.4	13.2
Net D/E (%)	208.9	146.2	91.2	80.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 13-Sep-16 (Bt)	3.14
Market Cap (US\$ m)	1,289.5
Listed Shares (m shares)	14,322.4
Free Float (%)	32.9
Avg Daily Turnover (US\$ m)	6.7
12M Price H/L (Bt)	3.64/2.62
Sector	Industrial Estate
Major Shareholder	WHA Holding Co Ltd 25.1%

Sources: Bloomberg, Company data, Thanachart estimates



Ex 1: SOTP DCF NAV-based 12-month TP Calculation, Using A Base Year Of 2017F

	Sellable area (rai)	Sum Of The Parts (%)	Equity Value (Bt m)	Value/Share* (Bt/Share)
Hemaraj CIE	186			
Hemaraj CIE 2	307			
ESIE	600			
Hemaraj ESIE	599			
Hemaraj ESIE 2	2,643			
Hemaraj EIE	279			
Hemaraj SIL	83			
Hemaraj RIL	432			
Industrial estate underdevelopment	1,447			
Industrial estate under planning	4,400			
Total land bank	10,976			
Industrial land bank value at cost		8	4,874	0.3
Warehouse & factory rental business (100% stake); utilities business (70% stake)		56	34,652	2.2
Power business (70% stake)		21	13,243	0.9
REITs & Property funds: WHART, WHABT, HREIT, HPF, WHAPF		15	9,076	0.6
Total equity value			61,844	4.0

Sources: Company data, Thanachart estimates

Note: *Share count adjusted to reflect warrants WHA-W1

Valuation Comparison

Ex 2: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		—Div yield—	
			16F (%)	17F (%)	16F (x)	17F (x)	16F (x)	17F (x)	16F (x)	17F (x)	16F (%)	17F (%)
Mitsubishi Logistics Corp	9301 JP	Philippines	10.7	4.8	30.9	29.5	1.0	1.1	12.3	12.5	0.8	0.9
Prologis Inc	PLD US	USA	(2.1)	(24.1)	34.3	45.2	1.6	1.6	26.5	26.3	3.2	3.3
Global Logistic Properties Ltd	GLP SP	Singapore	3.9	3.8	34.3	33.1	1.0	1.0	30.4	27.2	2.1	2.5
Amata Corporation *	AMATA TB	Thailand	7.3	24.7	12.8	10.2	1.1	1.0	14.6	12.8	2.7	3.4
Amata VN *	AMATAV TB	Thailand	11.1	39.6	32.0	22.9	2.1	1.9	17.1	12.0	0.8	1.1
Rojana Industrial Park *	ROJNA TB	Thailand	157.7	6.1	7.8	7.3	0.7	0.7	7.8	7.5	6.4	6.8
Ticon Industrial Connection *	TICON TB	Thailand	(25.3)	10.0	27.1	24.6	1.3	1.3	22.4	22.7	2.4	2.6
WHA Corp PCL *	WHA TB	Thailand	18.5	41.7	19.1	13.5	1.9	1.6	23.3	19.9	0.0	2.3
Average			22.7	13.3	24.8	23.3	1.3	1.3	19.3	17.6	2.3	2.9

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

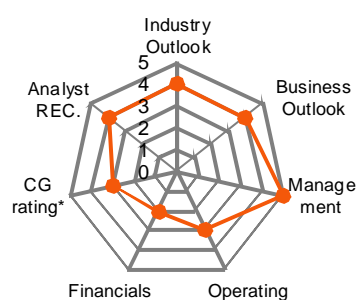
Based on 13 September 2016 closing prices

COMPANY DESCRIPTION

WHA Corporation (WHA) develops logistics facilities for lease and sales and leaseback. Its product range includes build-to-suit and warehouse farms targeting manufacturers, retailers and third-party logistics providers. Its portfolio is in logistics hub areas, i.e. Bangna-Trad Km 18-23, and industrial estates. The company currently uses 18%-owned WHA Premium Growth (WHART) as a recurring vehicle to buy its warehouse assets. WHA also owns Hemaraj Land & Development (HEMRAJ) which is a leading developer of industrial estates, utilities and rental logistics facilities in Thailand.

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

- Lots of experience and expertise in developing build-to-suit warehouses and logistics centers.
- Very strong client profiles and enjoys a good reputation among MNCs and big-name Thai firms.
- WHA's warehouse portfolio and land bank are in prime locations that are not prone to flooding.

O — Opportunity

- Rising urbanization trend and modern trade expansion.
- Growing warehouse outsourcing trend.
- Thailand becoming the ASEAN logistics hub as a result of its growing logistics network.
- Expanding to new product, ie, build-to-suit factories.

W — Weakness

- Factory and warehouse for rent business needs high investment capital and has a long payback period.
- Reliance on major customers.

T — Threat

- Rising competition from major industrial estate developers such as Ticon Industrial Connection (TICON TB, Bt14.8, SELL), Amata Corp (AMATA TB, Bt11.1, BUY).
- Politics and natural disasters.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.70	4.00	8%
Net profit 16F (Bt m)	4,492	4,586	2%
Net profit 17F (Bt m)	4,290	3,758	-12%
Consensus REC	BUY: 7	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is above the Bloomberg consensus number which we attribute to us rolling over our valuation base year to 2017F.
- Our 2016F earnings are in line with the Street's, but 2017F earnings are lower which we believe is because we are more conservative in our assumption of revenue recognition from industrial land sales.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If global or domestic economic growth is disrupted, tenants may terminate or not renew their lease contracts.
- If asset sales to REITs are lower or if they are significantly delayed from our current expectations.
- There would be downside risk to our earnings forecasts if the commercial-operating dates (COD) of six new small power producer (SPP) projects are significantly delayed from our current expectations.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2014A	2015A	2016F	2017F	2018F
Sales	4,888	11,437	10,866	11,349	12,783
Cost of sales	3,269	7,431	7,262	7,214	7,910
Gross profit	1,619	4,006	3,604	4,136	4,873
% gross margin	33.1%	35.0%	33.2%	36.4%	38.1%
Selling & administration expenses	283	1,133	917	907	954
Operating profit	1,335	2,873	2,688	3,229	3,919
% operating margin	27.3%	25.1%	24.7%	28.4%	30.7%
Depreciation & amortization	179	775	896	857	928
EBITDA	1,514	3,648	3,584	4,086	4,847
% EBITDA margin	31.0%	31.9%	33.0%	36.0%	37.9%
Non-operating income	170	526	696	817	927
Non-operating expenses	0	0	0	0	0
Interest expense	(295)	(2,284)	(2,010)	(1,424)	(1,224)
Pre-tax profit	1,210	1,114	1,375	2,622	3,622
Income tax	224	87	206	393	543
After-tax profit	986	1,027	1,168	2,228	3,079
% net margin	20.2%	9.0%	10.8%	19.6%	24.1%
Shares in affiliates' Earnings	(8)	1,038	1,385	1,357	1,423
Minority interests	0	(213)	(203)	(249)	(280)
Extraordinary items	0	101	2,234	421	21
NET PROFIT	979	1,954	4,586	3,758	4,244
Normalized profit	979	1,852	2,351	3,336	4,222
EPS (Bt)	0.1	0.1	0.3	0.3	0.3
Normalized EPS (Bt)	0.1	0.1	0.2	0.2	0.3

Earnings to almost double in 2017F from 2015 on deleveraging impact, power expansion

BALANCE SHEET

FY ending Dec (Bt m)	2014A	2015A	2016F	2017F	2018F
ASSETS:					
Current assets:	5,682	26,233	27,632	30,528	32,887
Cash & cash equivalent	371	2,555	2,500	2,500	2,500
Account receivables	104	346	298	342	385
Inventories	3,305	19,412	20,890	23,717	26,006
Others	1,902	3,920	3,945	3,969	3,996
Investments & loans	2,138	12,166	14,730	16,471	16,827
Net fixed assets	8,025	18,481	14,397	15,165	16,992
Other assets	107	22,216	22,436	22,920	25,212
Total assets	15,952	79,095	79,196	85,084	91,918
LIABILITIES:					
Current liabilities:	2,931	20,902	15,641	13,989	14,129
Account payables	1,087	3,381	3,382	3,360	3,684
Bank overdraft & ST loans	250	1,733	1,441	1,226	1,186
Current LT debt	1,500	15,067	9,934	8,449	8,173
Others current liabilities	94	721	883	955	1,086
Total LT debt	8,369	31,005	28,302	21,346	16,519
Others LT liabilities	172	5,529	5,806	6,096	6,401
Total liabilities	11,472	57,436	52,749	49,431	53,048
Minority interest	0	3,003	3,205	5,129	5,409
Preferreds shares	0	0	0	0	0
Paid-up capital	964	1,432	1,432	1,551	1,551
Share premium	1,549	12,391	12,391	16,361	16,361
Warrants	0	803	803	803	803
Surplus	166	274	274	274	274
Retained earnings	1,801	3,755	8,341	11,535	14,472
Shareholders' equity	4,480	18,656	23,241	30,524	33,461
Liabilities & equity	15,952	79,095	79,196	85,084	91,918

HEMRAJ takeover mainly financed by debt

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2014A	2015A	2016F	2017F	2018F
Earnings before tax	1,210	1,114	1,375	2,622	3,622
Tax paid	(380)	(111)	(144)	(422)	(512)
Depreciation & amortization	179	775	896	857	928
Chg In working capital	(1,443)	(14,055)	(1,428)	(2,894)	(2,008)
Chg In other CA & CL / minorities	125	4,413	1,309	2,875	1,089
Cash flow from operations	(309)	(7,864)	2,008	3,039	3,119
Capex	(1,991)	(10,960)	3,457	(1,355)	(2,486)
ST loans & investments	(1,164)	(1,120)	0	0	0
LT loans & investments	(737)	(10,028)	(2,565)	(1,741)	(356)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(140)	(17,752)	3,672	2,690	2,172
Cash flow from investments	(4,033)	(39,861)	4,565	(406)	(670)
Debt financing	5,045	37,686	(8,128)	(8,657)	(5,143)
Capital increase	46	11,311	0	4,089	0
Dividends paid	(652)	0	0	(564)	(1,306)
Warrants & other surplus	(46)	911	0	0	0
Cash flow from financing	4,393	49,908	(8,128)	(5,132)	(6,450)
Free cash flow	(2,301)	(18,824)	5,465	1,684	633

Free cash flow should turn positive in 2016F

VALUATION

FY ending Dec	2014A	2015A	2016F	2017F	2018F
Normalized PE (x)	34.3	22.7	19.1	13.5	11.5
Normalized PE - at target price (x)	43.6	28.9	24.4	17.2	14.7
PE (x)	34.3	21.5	9.8	12.0	11.5
PE - at target price (x)	43.6	27.4	12.5	15.3	14.6
EV/EBITDA (x)	28.6	23.9	23.3	19.0	16.5
EV/EBITDA - at target price (x)	34.6	27.1	26.8	22.0	19.3
P/BV (x)	7.5	2.4	1.9	1.6	1.5
P/BV - at target price (x)	9.5	3.1	2.5	2.0	1.9
P/CFO (x)	(108.5)	(5.3)	22.4	14.8	15.6
Price/sales (x)	9.2	3.9	4.1	4.0	3.5
Dividend yield (%)	0.0	0.0	0.0	2.3	3.0
FCF Yield (%)	(6.9)	(44.8)	12.2	3.7	1.3
(Bt)					
Normalized EPS	0.1	0.1	0.2	0.2	0.3
EPS	0.1	0.1	0.3	0.3	0.3
DPS	0.0	0.0	0.0	0.1	0.1
BV/share	0.4	1.3	1.6	2.0	2.2
CFO/share	(0.0)	(0.6)	0.1	0.2	0.2
FCF/share	(0.2)	(1.4)	0.4	0.1	0.0

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2014A	2015A	2016F	2017F	2018F
Growth Rate					
Sales (%)	(31.0)	134.0	(5.0)	4.5	12.6
Net profit (%)	(33.1)	99.6	134.7	(18.1)	12.9
EPS (%)	(33.8)	59.4	119.1	(18.2)	4.4
Normalized profit (%)	(33.1)	89.3	26.9	41.9	26.6
Normalized EPS (%)	(33.8)	51.2	18.5	41.7	17.0
Dividend payout ratio (%)	0.0	0.0	0.0	30.0	35.0
Operating performance					
Gross margin (%)	33.1	35.0	33.2	36.4	38.1
Operating margin (%)	27.3	25.1	24.7	28.4	30.7
EBITDA margin (%)	31.0	31.9	33.0	36.0	37.9
Net margin (%)	20.2	9.0	10.8	19.6	24.1
D/E (incl. minor) (x)	2.3	2.2	1.5	0.9	0.7
Net D/E (incl. minor) (x)	2.2	2.1	1.5	0.9	0.8
Interest coverage - EBIT (x)	4.5	1.3	1.3	2.3	3.2
Interest coverage - EBITDA (x)	5.1	1.6	1.8	2.9	4.0
ROA - using norm profit (%)	7.2	3.9	3.0	4.1	4.8
ROE - using norm profit (%)	22.7	16.0	11.2	12.4	13.2
DuPont					
ROE - using after tax profit (%)	22.8	8.9	5.6	8.3	9.6
- asset turnover (x)	0.4	0.2	0.1	0.1	0.1
- operating margin (%)	30.8	29.7	31.1	35.6	37.9
- leverage (x)	3.1	4.1	3.8	3.1	2.8
- interest burden (%)	80.4	32.8	40.6	64.8	74.7
- tax burden (%)	81.5	92.2	85.0	85.0	85.0
WACC (%)	8.5	8.5	8.5	8.5	8.5
ROIC (%)	12.2	18.6	3.6	4.4	5.3
NOPAT (Bt m)	1,088	2,649	2,285	2,744	3,331

Sources: Company data, Thanachart estimates

WHA's clear asset-sales plan should push down its net D/E ratio

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