

January 26, 2012

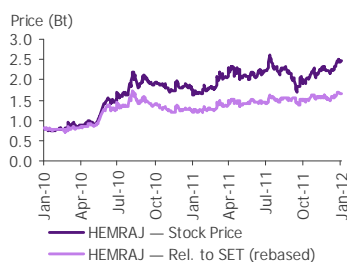
BUY

Stock Data

Last close (Jan 25) (Bt)	2.48
12-m target price (Bt)	3.1
Upside (Downside) to TP (%)	25.00
Mkt cap (Btbn)	24.07
Mkt cap (US\$mn)	762

Bloomberg code	HEMRAJ TB
Reuters code	HEMR.BK
Risk rating	M
Mkt cap (%) SET	0.28
Sector % SET	5.75
Shares issued (mn)	9,705
Par value (Bt)	0
12-m high / low (Bt)	2.6 / 1.6
Avg. daily 6m (US\$mn)	3.36
Foreign limit / actual (%)	49 / 48
Free float (%)	61.8
Dividend policy (%)	≥ 50

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	12.7	29.8	44.2
Relative to SET	10.2	15.4	33.5

Source: SET, SCBS Investment Research

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Positive news flow = Share price catalyst

- 2011 presales at 1,670 rai; it conservatively targets 1,500 rai this year,
- Cut 2011 forecast on FX loss, but maintain 2012-2013
- Upside risks: extra gain from GHECO One; profit from SPP; higher prices
- Flood dikes being built for HSIL, pressuring project margin

2011 wrap-up and 2012 target. HEMRAJ's 2011 land sales were 1,670 rai, achieving its full year target and our forecast; title deed transfers covered 921 rai, above our forecast of 670 rai. In 2012, HEMRAJ aims to sell 1,500 rai, down 10% YoY, with more than 100 rai carried forward from last year. We maintain our 1,700 rai forecast as its industrial estates could see some new customers moving in to avoid future flooding.

Earnings downgrade for 2011... We cut net profit forecast by 28% to Bt496bn for 2011: a higher FX loss of Gheco-One at Bt270mn against our expectation of Bt96mn wiped out the higher-than-expected land transfers of 921 rai vs. our forecast of 670 rai. We look for net profit of Bt343mn in 4Q11, +120% QoQ (released February 28).

... but maintain for 2012. We maintain our forecast as our expected transfer of 1,280 rai lines up with company guidance of 40% revenue growth YoY. About half is secured by backlog; two-thirds of its 900 rai backlog is expected to be transferred this year. Our forecast is 17% ahead of consensus for 2012 and 6% for 2013. We expect an extra gain of ~Bt390mn (maximum) as compensation for the delay in startup of GHECO-One to April 1, 2012 (already in the market), but this is not in our forecast.

JV agreement with SPP being signed soon. HEMRAJ will sign an agreement to take 25% equity in an SPP in early February – the first of seven potential projects. The investment is estimated at Bt360-390mn with equity contribution of Bt50mn a year starting from 2013. We conservatively factor this into our 2014 forecast.

Flood protection construction for HSIL. HEMRAJ plans to raise the height of its flood dikes around Hemraj Saraburi Industrial Land (HSIL) to 10 meters from 8 now, but it has not yet provided details. If we assume a similar procedure as being undertaken by ROJNA, this could raise cost of goods sold and pressure the margin for new land sales in HSIL; it could also lead to HEMRAJ raising the monthly service charge for existing clients (currently at Bt1,150/rai/month). Thus, we conservatively maintain our gross margin at 40%, despite the planned 10% bump up in selling price in 2012, after the 10% rise in October last year.

Maintain BUY. HEMRAJ's share price has risen 45% from bottom in October 2011 and is back to pre-flood levels – which we still consider cheap. We see our forecast and TP as achievable given its sound fundamentals plus share price catalyst from news flow, including the signing of an equity investment with an SPP in early February, operational startup of GHECO-One in early April, ~Bt390mn extra gain from GHECO-One, and potential target lift for land sales. In sum, we remain BUYers.

Forecasts and valuation

Year to 31 Dec	Unit	2009*	2010*	2011F**	2012F**	2013F**
Revenue	(Btmn)	2,050	3,685	4,363	5,273	5,841
EBITDA	(Btmn)	866	1,654	1,322	3,235	3,463
Core profit	(Btmn)	575	1,071	496	2,400	2,645
Reported profit	(Btmn)	575	1,216	496	2,400	2,645
Core EPS	(Bt)	0.06	0.11	0.05	0.25	0.27
DPS	(Bt)	0.03	0.06	0.03	0.12	0.14
P/E, core	(x)	40.9	22.5	48.5	10.0	9.1
EPS growth, core	(%)	-49.8	81.7	-53.6	383.6	10.2
P/BV, core	(x)	2.8	2.6	2.6	2.1	1.9
ROE	(%)	6.9	12.1	5.4	23.5	22.0
Dividend yield	(%)	1.2	2.2	1.0	5.0	5.5
EV/EBITDA	(x)	69.1	38.6	50.2	20.5	19.4

Source: SCBS Investment Research

* Revenue recognition on percentage of completion

** Revenue recognition on title deed transfer

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2009*	2010*	2011F**	2012F**	2013F**
Total revenue	2,050	3,685	4,363	5,273	5,841
Cost of goods sold	1,189	2,255	2,443	3,042	3,350
Gross profit	860	1,430	1,920	2,231	2,491
SG&A	418	569	633	679	730
Other income	173	190	119	121	120
Interest expense	144	284	384	393	367
Pre-tax profit	471	767	1,022	1,280	1,514
Corporate tax	-47	47	184	173	159
Equity a/c profits	81	422	-270	1,364	1,361
Minority interests	-24	-71	-71	-71	-71
Core profit	575	1,071	496	2,400	2,645
Extra-ordinary items	0	145	0	0	0
Net Profit	575	1,216	496	2,400	2,645
EBITDA	866	1,654	1,322	3,235	3,463
Core EPS (Bt)	0.06	0.11	0.05	0.25	0.27
Net EPS (Bt)	0.06	0.11	0.05	0.25	0.27
DPS (Bt)	0.03	0.06	0.03	0.12	0.14

Balance Sheet (Btmn)

FY December 31	2009*	2010**	2011F**	2012F**	2013F**
Total current assets	7,684	11,056	9,467	11,527	13,669
Total fixed assets	5,996	7,514	9,702	10,263	10,980
Total assets	13,681	18,569	19,168	21,790	24,649
Total loans	4,058	8,011	8,648	9,117	10,531
Total current liabilities	3,165	1,905	1,779	3,834	5,683
Total long-term liabilities	2,057	7,498	8,260	6,674	6,239
Total liabilities	5,222	9,402	10,039	10,508	11,922
Paid-up capital	3,882	3,882	3,882	3,882	3,882
Total equity	8,459	9,167	9,130	11,282	12,727
BVPS (Bt)	0.89	0.94	0.94	1.16	1.31

Cash Flow Statement (Btmn)

FY December 31	2009*	2010*	2011F**	2012F**	2013F**
Core Profit	575	1,071	496	2,400	2,645
Depreciation and amortization	170	181	186	198	221
Operating cash flow	115	371	401	1,132	1,199
Investing cash flow	-416	-1,117	-2,375	-759	-938
Financing cash flow	280	3,355	103	221	214
Net cash flow	-21	2,609	-1,871	594	475

* Revenue recognition on percentage of completion
 ** Revenue recognition on title deed transfer

Key Financial Ratios

	2009*	2010*	2011F**	2012F**	2013F**
Gross margin(%)	42.0	38.8	44.0	42.3	42.6
Operating margin(%)	21.6	23.4	29.5	29.4	30.1
EBITDA margin(%)	42.2	44.9	30.3	61.4	59.3
EBIT margin(%)	30.0	28.5	32.2	31.7	32.2
Net profit margin(%)	28.1	33.0	11.4	45.5	45.3
ROE (%)	6.9	12.1	5.4	23.5	22.0
ROA (%)	4.2	6.6	2.6	11.7	11.4
D/E (x)	0.6	1.0	1.1	0.9	0.9
Interest cover (x)	6.0	5.8	3.4	8.2	9.4
Debt service cover (x)	0.5	0.7	1.1	3.1	1.1
Payout Ratio (%)	49.4	49.9	50.0	50.0	50.0

Profit and Loss Statement (Btmn)

FY December 31	3Q10*	4Q10*	1Q11**	2Q11**	3Q11**
Total revenue	592	587	286	566	861
Cost of goods sold	355	337	145	312	490
Gross profit	237	250	141	254	371
SG&A	107	109	240	132	136
Other income	36	26	85	20	41
Interest expense	55	90	99	97	99
Pre-tax profit	111	77	-114	45	177
Corporate tax	24	20	-40	24	42
Equity a/c profits	-16	311	33	-37	-88
Minority interests	-17	-16	-34	-18	-17
Core profit	54	354	-75	-33	31
Extra-ordinary items	0	0	145	-1	0
Net Profit	54	354	71	-34	31
EBITDA	212	213	35	189	327
Core EPS (Bt)	0.01	0.04	-0.01	0.00	0.00
Net EPS (Bt)	0.01	0.04	0.01	0.00	0.00

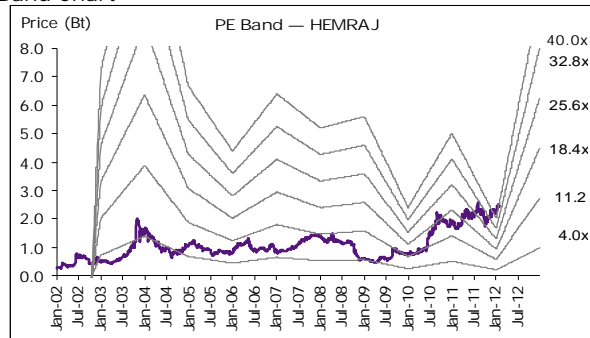
Balance Sheet (Btmn)

FY December 31	3Q10*	4Q10**	1Q11**	2Q11**	3Q11**
Total current assets	9,220	9,706	11,056	10,959	10,302
Total fixed assets	6,891	8,508	7,514	7,510	7,832
Total assets	16,111	18,215	18,569	18,469	18,134
Total Loans	6,021	8,010	8,011	7,731	7,514
Total current liabilities	2,717	2,577	1,905	2,174	2,219
Total long-term liabilities	4,723	6,816	7,498	7,245	7,108
Total liabilities	7,440	9,393	9,402	9,419	9,327
Paid-up capital	3,882	3,882	3,882	3,882	3,882
Total equity	8,671	8,821	9,167	9,050	8,807
BVPS (Bt)	0.89	0.91	0.94	0.93	0.91

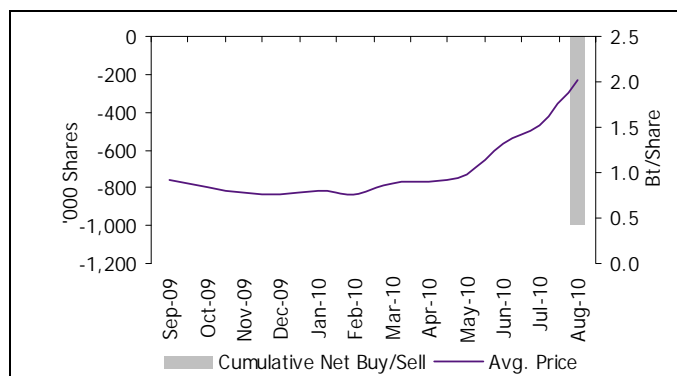
Main Assumptions

	2009*	2010*	2011F**	2012F**	2013F**
IE land sales (Rai)	87	928	1,700	1,700	1,400
Revenue of IE (Btmn)	689	1,486	1,994	2,560	3,000
Revenue of factory sales	43	272	110	110	110
Revenue of residential property	(57)	494	463	500	240
Revenue of utility services	1,376	1,433	1,795	2,103	2,491
Ghecho-One contribution	62	404	(262)	1,350	1,347

PE Band Chart

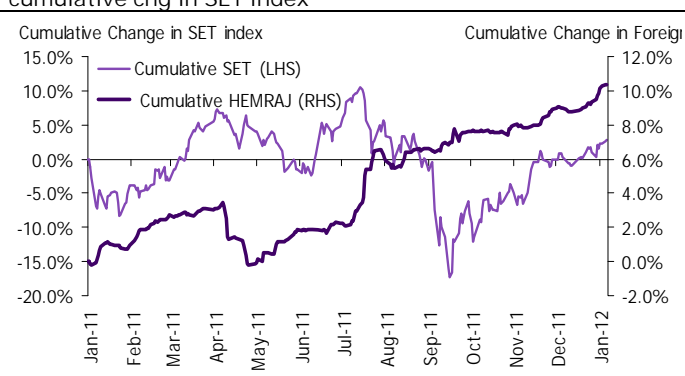


12-Month Cumulative directors trade

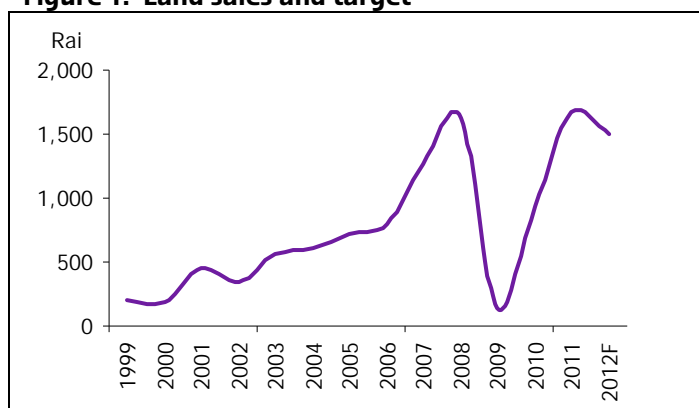


Source: SEC

12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 1: Land sales and target

Source: HEMRAJ

Figure 2: Earnings revision

	2011F			2012F			2013F		
	Previous	Current	% chg	Previous	Current	% chg	Previous	Current	% chg
Net profit from ops	720	702	-2.4	972	972	-0.0	1,220	1,219	-0.0
Equity income	-96	-270	180.2	1,364	1,364	-	1,361	1,361	-
Dividend income	64	64	-	64	64	-	64	64	-
Net profit	688	496	-27.8	2,400	2,400	-0.0	2,645	2,645	-0.0
Revenue (Btmn)									
IE	1,433	1,994	39.2	2,560	2,560	-	3,000	3,000	-
Investment property	242	110	-54.5	242	110	-54.5	242	110	-54.5
Condo	389	463	19.1	350	500	42.9	440	240	-45.5
Services	1,795	1,795	-	2,103	2,103	-	2,491	2,491	-
Gross \ margin (%)									
IE revenue	45	45.0	-	40	40.0	-	40	40.0	-
Rental property	34	34.4	-	34	34.4	-	34	34.4	-
Condo revenue	45	45.2	-	39	45.2	6.5	37	45.2	8.3
Services	43	43.2	-	45	44.8	-	46	46.0	-

Source: SCBS Investment Research

CG Rating 2011 Companies with CG Rating under SCBS's Coverage

★★★★★	ADVANC, AOT, BANPU, BAY, BBL, BCP, BMCL, CPF, CSL, EGCO, HEMRAJ, IRPC, KBANK, KK, KTB, LPN, MCOT, PS, PSL, PTT, PTTEP, QH, RATCH, SAT, SCB, SCC, TISCO, TMB, TOP
★★★★	AMATA, AP, ASP, BEC, BECL, BH, BIGC, BLA, BTS, CK, CPALL, DELTA, DRT, DTAC, GFPT, GLOW, HANA, HMPRO, INTUCH, KCE, KEST, LH, IVL, MAJOR, MAKRO, PHATRA, SCCC, SMT, SPALI, SIRI, STANLY, STEC, SVI, TCAP, THAI, TRUE, TTA, TTW
★★★	AEONTS, AH, CCET, DCC, ESSO, ITD, KH, KTC, RCL, ROJNA, TICON, TPIPL
N/A	BGH, BLS, CPNRF, LHBANK, POPF, QHPF, SAMART, SAMTEL, SSI, TFUND, TLOGIS, WHAPF
	PTTGC is the merged entity of PTTC and PTTAR

Corporate Governance Report disclaimer

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