

## Action

We reiterate our BUY rating after we raised our FY12F target price by 10% to THB3.20/share. This TP upgrade takes into account the latest upward revision on land sales (rai) target for FY12F. The 12% rise in HEMRAJ's share price over the past month and hit a new record-high of THB2.78/share reflects the strong likelihood that the company's land sales (rai) will exceed the consensus estimate. The key share price catalyst in the short term is likely to be the start-up of its GHECO-1 power plant in Apr-12F. HEMRAJ announced DPS of THB0.03 for 2HFY11 and will go XD on 13 March. The current share price reflects dividend yield of 1.1%

## Catalysts

Potential catalysts include higher-than-expected land sales, the start-up of HEMRAJ's GHECO-1 power plant and new investment in power business.

## Anchor themes

Continued expansion by Thailand's automotive industry; the shift of production bases to Thailand; the uncertainty with respect to changes in accounting method

Closing price on 28 Feb	THB2.66
Price target FY12F (PER)	<b>THB3.20</b> (from THB2.90)
Upside/downside	+20.3%
Difference from consensus	<b>+10.7%</b>
FY13F net profit (THBmn)	2,747.0
Difference from consensus	<b>+16.0%</b>

## CNS vs. consensus

Our FY12F NP forecast is 8% lower than the consensus estimate, while our FY12F TP implies a PER of 16.2x vs. the consensus PER of 13.8x.

## Land sales (rai) likely to increase further

### ① 4QFY11 NP beat our forecast and consensus estimate

HEMRAJ's 4QFY11 net profit of THB384mn was 6% higher than our forecast and 10% above the consensus estimate. Excluding extra items, the company's normalized profit amounted to THB463mn (+103% q-q, +373% y-y), which beat our projection by 8% due mainly to the higher-than-expected profit contribution from its affiliates. The key growth drivers included the increases in its land sales revenues on both q-q and y-y basis.

### ② Our FY12F land sales forecasts are higher than HEMRAJ's targets

We have revised up our FY12-13F targets for HEMRAJ's land sales to 1,800 rai/year (vs. 1,500 rai/year previously) after the company raised its own land sales targets for FY12F to 1,700 rai/year (vs. 1,500 rai/year previously). Note that this is the first time that our land sales estimates are higher than HEMRAJ's own targets. We think it is likely that the company will revise up its land sales projections for FY12F later this year. It is worth highlighting that HEMRAJ's new land sales targets represent increases of 200 rai, which are quite conservative when compared with its peers' that last week raised their land sales forecasts by 1,000 rai.

### ③ FY12-13F NP forecasts revised up by 6-9%

We have upgraded our FY12-13F NP forecasts for HEMRAJ to reflect the likelihood that the company's revenue from its land sales will exceed our previous estimates due to our upward revision on its land sales (rai) assumption during FY12-13F. Furthermore, we have raised our estimates for HEMRAJ's revenue from its sale of factories by 20-40%. However, we maintain our FY12-13F assumptions for the growth rates for its factory rental income at 22% and 13% respectively. Note that our revised earnings forecasts take into account the company's plan to build more factories during FY12F. HEMRAJ's revenue from its factory rental business is likely to account for 6% of its total revenue in FY12-13F.

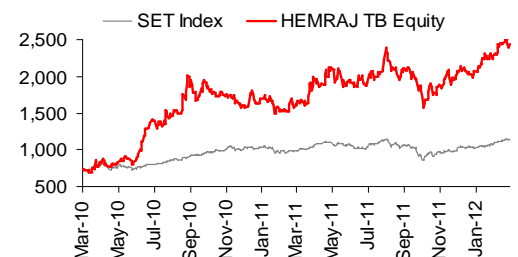
### ④ Revise up FY12F by 10% to THB3.20/share; maintain BUY rating

We have revised up our FY12F TP for HEMRAJ by 10% to THB3.20/share to reflect the potential for its higher-than-expected land sales. Note that our new TP, which would be a new record high, implies PERs for FY12-13F of 16.2x and 11.5x, respectively, vs. its historical mid-PER range of 10-15x and its average PER of 10.6x during the past 17 years. As HEMRAJ's current share price implies an upside potential of 20% to our FY12F TP, we maintain our BUY rating.

## Forecasts & Valuation

31 Dec (THBmn)	FY11	FY12F	FY13F	FY14F
Revenue	4,233	5,384	6,164	6,421
EBITDA	1,420	1,986	2,396	2,536
Norm. Profit	798	1,646	2,551	2,747
Net Profit	537	1,913	2,709	2,747
EPS (THB)	0.055	0.197	0.279	0.283
EPS Growth (%)	(62.0)	256.5	41.6	1.4
PER (x)	48.1	13.5	9.5	9.4
BV/share (THB)	0.91	1.04	1.22	1.37
P/BV (x)	2.9	2.6	2.2	1.9
EV/EBITDA (x)	21.5	16.9	13.8	12.5
DPS (THB)	0.055	0.085	0.135	0.145
Dividend yield (%)	2.1	3.2	5.1	5.5
ROE (%)	6.1	20.3	24.7	21.9
Int. bearing D/E (x)	1.0	0.9	0.7	0.5

## Share price relative to SET



Relative Performance (%)	1m	6m	12m
HEMRAJ	9.02	16.67	51.14
Relative to SECTOR	4.75	12.68	33.98
Relative to SET	(2.39)	8.08	35.87
Shares in Issue (mn)			9,705.19
Market Cap (THBmn)			25,815.80
12-mth High / Low (THB)			2.80 / 1.68
3-mth avg daily turnover (THBmn)			74.87
Foreign Limit / Actual (%)			49.00 / 48.69
Free Float (%)			61.77
NVDR (%)			5.82
Dividend Policy (%)			> 50
Par Value (THB)			0.40
<b>Major Shareholders (%)</b>			
1.Horoongrung family			15.0
2.CREDIT AGRICOLE (SUISSE) SA, SINGAPORE			8.76
3.NOMURA SINGAPORE LIMITED-CUSTOMER			6.71

## Results and valuation

## 4QFY11 NP beat our forecast and consensus estimate

HEMRAJ's 4QFY11 net profit of THB384mn was 6% higher than our forecast and 10% above the consensus estimate. Excluding extra items, the company's normalized profit amounted to THB463mn (+103% q-q, +373% y-y), which beat our projection by 8% due mainly to the higher-than-expected profit contribution from its affiliates. The key growth drivers included the increases in its land sales revenues on both q-q and y-y basis. HEMRAJ's 4QFY11 results reflect strong q-q increase in its land sales that was in line with its peers' results. Additionally, HEMRAJ's higher-than-expected revenue from the sale of factories reflects the strong demand for factories for rent/sale, which explains why the company plans to build more factories.

Fiscal Year-Ended December	4QFY10	3QFY11	4QFY11	% y-y	% q-q	FY11	% y-y	FY12F	% y-y
Sales & Services	913	1,184	1,595	74.6	34.7	4,233	(4.5)	5,384	27.2
Gross Profit	402	528	692	71.8	30.9	1,872	8.1	2,385	27.4
<b>EBITDA</b>	<b>232</b>	<b>428</b>	<b>518</b>	<b>123.0</b>	<b>20.9</b>	<b>1,420</b>	<b>4.4</b>	<b>1,986</b>	<b>39.9</b>
Interest expense	(99)	(94)	(108)	8.8	15.7	(397)	39.9	(416)	4.7
Corporate tax	12	(51)	(45)	(470.9)	(13.2)	(161)	246.3	(210)	30.2
EAT	129	247	343	166.7	38.9	747	(19.3)	1,203	61.0
Other extraordinary items	135	-	(17)	(112.9)	nm	(17)	(112.9)	-	nm
Gn (Ls) from affiliates	33	(81)	73	119.8	(190.1)	(133)	(131.4)	774	(683.9)
<b>Net profit (loss)</b>	<b>265</b>	<b>154</b>	<b>384</b>	<b>44.8</b>	<b>148.5</b>	<b>537</b>	<b>(62.0)</b>	<b>1,913</b>	<b>256.5</b>
<b>Normalized profit (loss)</b>	<b>98</b>	<b>228</b>	<b>463</b>	<b>373.3</b>	<b>103.2</b>	<b>798</b>	<b>(7.0)</b>	<b>1,646</b>	<b>106.3</b>
Reported EPS (THB)	0.03	0.016	0.040	44.8	148.5	0.055	(62.0)	0.20	256.5
Gross margin (%)	44.1	44.6	43.4			44.2		44.3	
EBITDA margin (%)	25.4	36.2	32.5			33.5		36.9	
Net margin (%)	29.0	13.0	24.1			12.7		35.5	
Current ratio (x)	5.8	4.4	4.9			4.9		2.4	
Interest coverage (x)	1.8	4.1	4.3			3.1		4.3	
Int bearing debt to equity (x)	0.9	0.8	1.0			1.0		0.9	
BV (THB)	0.9	0.9	0.9			0.9		1.0	
ROE (%)	12.3	7.3	17.8			6.1		20.3	

Source: HEMRAJ, CNS

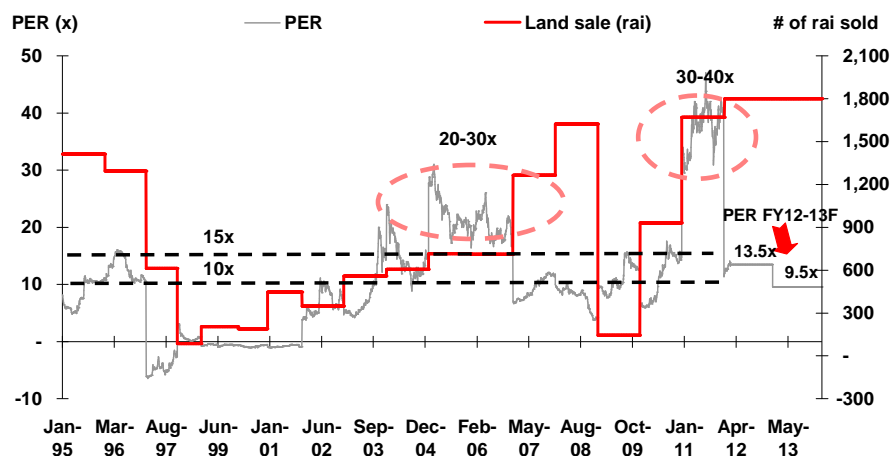
\* Normalized profit excluding FX loss/gain from GHECO I

## Valuation and risks

We have revised up our FY12F TP for HEMRAJ by 10% to THB3.2/share. Note that our FY12F TP is still based on the PER valuation method. Our new FY12F TP of THB3.2/share implies PERs for FY12-13F of 16.2x and 11.5x, respectively, vs. its historical mid-PER range of 10-15x and its average PER of 10.6x during the past 17 years (see graph next page). We believe our target PERs for FY12-13F are justified given that our revised earnings forecasts call for HEMRAJ's NP to grow by 257% y-y in FY12F and 42% in FY13F. As HEMRAJ's current share price implies an upside potential of 20% to our FY12F TP, we maintain our BUY rating.

**We have valued HEMRAJ's GHECO-I project at THB1.1/share using the DFC-method, while our estimate for the value of the company's core businesses is THB2.1/share (see table on page 3).**

## HEMRAJ's PER and land sales in FY95-FY13F



Source: HEMRAJ, CNS

The table below shows the composition of our FY12F TP of THB3.2/share. We have valued HEMRAJ's GHECO-I project at THB1.1/share using the DFC-method, while our estimate for the value of the company's core businesses is THB2.1/share.

## NP estimates, TPs and PERs for HEMRAJ with and without GHECO-I

	FY12F	FY13F	FY14F
Net profit (THBmn)	1,913	2,709	2,747
NP (excluding GHECO I)	1,124	1,462	1,643
Profit contribution from GHECO I	789	1,246	1,104
<b>FY12F TP (THB)</b>	<b>3.20</b>	<b>3.20</b>	<b>3.20</b>
DCF-based value of GHECO I (WACC of 9%, LTG 1%)	1.10	1.10	1.10
TP (excluding GHECO I)	2.10	2.10	2.10
<b>PER (including GHECO I)</b>	<b>16.2</b>	<b>11.5</b>	<b>11.3</b>
PER of GHECO I	9.5	7.3	6.5
PER of other businesses (excluding GHECO I)	25.8	16.4	18.5

Source: CNS

\* Including FX gain/loss

The key downside risks to our NP forecasts for HEMRAJ include: 1) the possibility of delays in the start-up of its GHECO-I power plant project from our estimate of May-12F; 2) political uncertainty; and 3) weaker-than-expected GDP growth for Thailand. Meanwhile, key upside risks to our forecasts include: 1) higher-than-expected revenue from HEMRAJ's sales of land/condominium units; and 2) faster-than-anticipated progress with its real estate development projects and its SPP investment program.

## Key assumptions

	FY11	FY12F	FY13F	FY14F
# of rai sold	1,670	1,800	1,800	1,500
Backlog beginning (THBmn)	420	1,888	3,045	3,607
Value of land sold during the year (THBmn)	3,253	3,891	3,891	3,048
Total	3,673	5,779	6,936	6,656
<b>Revenues from land transferrable (THBmn)</b>	<b>1,785</b>	<b>2,733</b>	<b>3,329</b>	<b>3,755</b>
<b>Backlog ending (THBmn)</b>	<b>1,888</b>	<b>3,045</b>	<b>3,607</b>	<b>2,900</b>

Source: HEMRAJ, CNS

# Financial statements

## Profit & Loss Statement

Year-end 31 Dec (THBmn)	FY09*	FY10	FY11	FY12F	FY13F	FY14F
<b>Revenue</b>	<b>2,149</b>	<b>4,434</b>	<b>4,233</b>	<b>5,384</b>	<b>6,164</b>	<b>6,421</b>
Cost of goods sold	(1,189)	(2,703)	(2,361)	(3,000)	(3,371)	(3,483)
<b>Gross profit</b>	<b>959</b>	<b>1,731</b>	<b>1,872</b>	<b>2,385</b>	<b>2,793</b>	<b>2,939</b>
SG&A	(418)	(552)	(639)	(606)	(622)	(637)
<b>EBIT</b>	<b>541</b>	<b>1,179</b>	<b>1,233</b>	<b>1,778</b>	<b>2,171</b>	<b>2,301</b>
Depreciation & amortization	170	181	187	208	225	235
<b>EBITDA</b>	<b>711</b>	<b>1,360</b>	<b>1,420</b>	<b>1,986</b>	<b>2,396</b>	<b>2,536</b>
Interest expense	(144)	(284)	(397)	(416)	(424)	(412)
Other income	74	77	72	50	30	30
<b>Pre-tax profit (loss)</b>	<b>471</b>	<b>972</b>	<b>908</b>	<b>1,412</b>	<b>1,777</b>	<b>1,919</b>
Income tax	47	(46)	(161)	(210)	(257)	(271)
<b>After-tax profit (loss)</b>	<b>518</b>	<b>926</b>	<b>747</b>	<b>1,203</b>	<b>1,520</b>	<b>1,648</b>
Forex gain (loss)	0	(0)	0	-	-	-
Other extraordinary Items	-	135	(17)	-	-	-
Gn (Ls) from affiliates	81	422	(133)	774	1,252	1,160
Minority interests	(24)	(71)	(60)	(64)	(64)	(61)
<b>Net profit (loss)</b>	<b>575</b>	<b>1,411</b>	<b>537</b>	<b>1,913</b>	<b>2,709</b>	<b>2,747</b>
<b>Normalized net profit (loss)**</b>	<b>520</b>	<b>858</b>	<b>798</b>	<b>1,646</b>	<b>2,551</b>	<b>2,747</b>
<b>Reported EPS (THB)</b>	<b>0.06</b>	<b>0.15</b>	<b>0.06</b>	<b>0.20</b>	<b>0.28</b>	<b>0.28</b>

## Consolidated Balance Sheet Statement

Year-end 31 Dec (THBmn)	FY09*	FY10	FY11	FY12F	FY13F	FY14F
Cash & ST Investments	910	3,517	3,718	850	850	820
Accounts Receivable	135	191	114	153	169	162
Inventory	6,372	7,267	7,879	8,588	8,192	7,704
Other Current Assets	267	80	103	108	113	119
<b>Total Current Assets</b>	<b>7,684</b>	<b>11,055</b>	<b>11,814</b>	<b>9,700</b>	<b>9,324</b>	<b>8,805</b>
Fixed Assets	2,392	2,168	2,153	3,791	4,622	5,182
Other Assets	3,604	5,347	6,042	8,274	9,194	8,919
<b>Total Assets</b>	<b>13,681</b>	<b>18,569</b>	<b>20,010</b>	<b>21,764</b>	<b>23,141</b>	<b>22,906</b>
Accounts Payable	219	213	450	650	450	350
Short-term Loan and Overdraft	717	0	0	0	0	0
Current Portion of Long-Term Loans	1,031	750	308	1,654	481	1,500
Other Current Liabilities	1,208	941	1,630	1,698	1,917	1,755
<b>Total Current Liabilities</b>	<b>3,176</b>	<b>1,905</b>	<b>2,389</b>	<b>4,003</b>	<b>2,847</b>	<b>3,605</b>
LT Loans	1,859	7,231	8,134	6,919	7,638	5,138
Other Liabilities	187	267	358	368	378	388
<b>Total Liabilities</b>	<b>5,222</b>	<b>9,402</b>	<b>10,881</b>	<b>11,289</b>	<b>10,863</b>	<b>9,131</b>
Paid-up Capital	3,882	3,882	3,882	3,882	3,882	3,882
Share Premium	439	439	439	439	439	439
Retained Earnings	3,265	3,923	3,883	5,070	6,672	7,972
Other Adjustments	506	557	599	694	830	967
<b>Total Equity</b>	<b>8,092</b>	<b>8,801</b>	<b>8,803</b>	<b>10,085</b>	<b>11,823</b>	<b>13,260</b>
Minority Interest	367	366	326	390	454	515
<b>Total Liabilities and Equity</b>	<b>13,681</b>	<b>18,569</b>	<b>20,010</b>	<b>21,764</b>	<b>23,141</b>	<b>22,906</b>

Source: HEMRAJ, CNS

\* HEMRAJ's FY10-14F revenue recognition is based on a title transfer while its FY09 revenue recognition is based on the percentage of completion method.

\*\* Normalized profit excludes FX loss/gain from GHECO I

Cashflow (THBmn)						
Year-end 31 Dec	FY09*	FY10	FY11	FY12F	FY13F	FY14F
<b>Net Profit</b>	<b>575</b>	<b>1,411</b>	<b>537</b>	<b>1,913</b>	<b>2,709</b>	<b>2,747</b>
Forex & other extraordinary adjustment	(0)	0	(0)	0	0	0
Depreciation & amortization	170	181	187	208	225	235
Net change in working capital & others	20	(1,036)	630	(486)	394	227
<b>Net operating cash flows</b>	<b>765</b>	<b>556</b>	<b>1,354</b>	<b>1,635</b>	<b>3,328</b>	<b>3,209</b>
Net capital expenditure	(625)	(1,699)	(1,130)	(4,077)	(1,977)	(519)
<b>Free cash flow</b>	<b>139</b>	<b>(1,143)</b>	<b>224</b>	<b>(2,442)</b>	<b>1,351</b>	<b>2,690</b>
Other items	(69)	(91)	49	74	74	71
Debt issue	144	4,373	461	131	(454)	(1,481)
Equity issue	92	(0)	0	0	0	0
Dividend paid	(328)	(532)	(532)	(631)	(971)	(1,310)
<b>Net financing cash flows</b>	<b>(162)</b>	<b>3,751</b>	<b>(22)</b>	<b>(426)</b>	<b>(1,351)</b>	<b>(2,720)</b>
<b>Net cash / (Debt) at beginning</b>	<b>932</b>	<b>910</b>	<b>3,517</b>	<b>3,718</b>	<b>850</b>	<b>850</b>
Net cash	(22)	2,607	202	(2,868)	0	(30)
<b>Net Cash / (Debt) at ending</b>	<b>910</b>	<b>3,517</b>	<b>3,718</b>	<b>850</b>	<b>850</b>	<b>820</b>

## Valuation and Ratio Analysis

## Per Share (THB)

EPS	0.059	0.145	0.055	0.197	0.279	0.28
DPS	0.030	0.055	0.055	0.085	0.135	0.145
BVPS	0.8	0.9	0.9	1.0	1.2	1.4
EV	2.9	3.1	3.1	3.5	3	3

## Multiplier (x)

PER	44.9	18.3	48.1	13.5	9.5	9.4
P/BV	3.2	2.9	2.9	2.6	2.2	1.9
EV/EBITDA	40.1	22.3	21.5	16.9	13.8	12.5
Dividend yield (%)	1.1	2.1	2.1	3.2	5.1	5.5

## Growth (%)

Sales growth	(53.4)	106.3	(4.5)	27.2	14.5	4.2
EBITDA growth	(54.6)	91.2	4.4	39.9	20.6	5.8
normalized profit growth	(54.1)	64.9	(7.0)	106.3	55.0	7.7
Net profit growth	(57.1)	145.3	(62.0)	256.5	41.6	1.4
EPS growth	(58.6)	145.3	(62.0)	256.5	41.6	1.4

## Profitability Ratio (%)

Gross margin	44.6	39.0	44.2	44.3	45.3	45.8
EBITDA margin	33.1	30.7	33.5	36.9	38.9	39.5
EBIT margin	25.2	26.6	29.1	33.0	35.2	35.8
Net margin	26.8	31.8	12.7	35.5	43.9	42.8
ROE	7.3	16.7	6.1	20.3	24.7	21.9
ROA	4.2	8.8	2.8	9.2	12.1	11.9
ROCE	5.2	7.1	7.0	10.0	10.7	11.9

## Asset Utilization (x)

Fixed asset turnover	0.9	1.9	2.0	1.8	1.5	1.3
Receivable turnover	15.8	27.2	27.7	40.2	38.3	38.8
Inventory turnover	0.2	0.4	0.3	0.4	0.4	0.4
Payable turnover	2.3	7.9	3.4	7.4	3.6	1.3

## Liquidity ratio (x)

Current ratio	2.4	5.8	4.9	2.4	3.3	2.4
Quick ratio	0.3	1.9	1.6	0.3	0.4	0.3

## Leverage ratios (x)

Liabilities / equity	0.6	1.1	1.2	1.1	0.9	0.7
Interest-bearing debt / equity	0.4	0.9	1.0	0.9	0.7	0.5
Interest coverage	3.8	4.2	3.1	4.3	5.1	5.6
Debt service coverage	0.4	1.3	2.0	1.0	2.6	1.3

Source: HEMRAJ, CNS

#### Explanation of CNS rating system for Thailand companies under coverage:

##### Stocks:

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price) / Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

- A "Buy" recommendation indicates that potential upside is 15% or more.
- A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
- A "Reduce" recommendation indicates that potential downside is 5% or more.

##### Sectors:

A "Bullish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A "Neutral" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A "Bearish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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