

Hemaraj Land and Development



A Subsidiary of Phatra Capital

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Better outlook; upgrade to Buy

Another beneficiary from the flood; new PO of Bt3.20

We are upgrading HEMRAJ to Buy from Neutral, having grown more positive that HEMRAJ will benefit from investors relocating from the north, resulting in stronger industrial land and rental demand. Together with our assumption of three more JVs on SPP projects, our earnings estimates for 2012E and 2013E are raised by 16% (to Bt2.3bn) and 21% (to Bt2.6bn). Our PO (based on SOTP) is raised from Bt2.55/share to Bt3.20/share. Despite good share price performance in the past, the current valuation still looks undemanding with PER of 11x with 2x earnings growth versus peers with average PER of 11x with weaker earnings growth. Catalysts for the share price would come from (1) a series of earnings upgrades from the street; (2) solid land sales momentum; and (3) JVs with SPP operators.

Higher land sales, expanded margin

HEMRAJ's land sales outlook is improving from the flood windfall and continued expansion of the auto industry. This prompts us to upgrade our land sales forecast this year from 1,400 rai to 1,800 rai (+8% YoY). We estimate that around 20% of land sales this year will come from relocation demand. Rental demand should also be boosted by the expansion of SMEs and demand for warehouses for distribution centers. We also expect the company's gross margin to expand from 42% last year to 45% by 2015 on the back of strong pricing power from rising demand for industrial land in the east.

More MW underway

HEMRAJ is negotiating with J-Power on a possible joint venture (25% stake) developing SPP projects. We believe the market does not currently expect HEMRAJ to undertake any joint venture projects, whereas we assume the company will secure at least three SPPs due to (1) the plants residing in HEMRAJ's industrial parks and (2) a relatively small amount of investment versus Gheco-One. A series of JV announcements would be a good catalyst for the share price. Our sensitivity analysis suggests that each SPP project would add Bt50-60mn p.a. to HEMRAJ's earnings and offer upside to our PO of around Bt0.04/share.

Risks

Risks to our forecast are (1) delays in commissioning of Gheco-One, (2) an unfavorable investment atmosphere, and (3) sharp slowdown in the global economy.

Rating change

Opinion & Financial Data

Buy

Target Price : Bt 3.20

Market Price : Bt 2.68

| | |
|---------------------|-----------------------|
| Date Established : | 26-March-2012 |
| Mkt. Value (mn) : | US\$845 / Bt26,010 mn |
| Shares Outstanding: | 9,705 mn shares |
| Book Value/Share: | 0.91 |
| (Dec-2011A) | |
| Debt/Equity: | 0.54x |
| (Dec-2011A) | |
| RoE 2012E | 22.3% |
| 2012E P/E Rel. to | 97.6% |
| Home Mkt: | |

Stock Data

| | |
|------------------------|-----------------|
| 52-Week Range: | Bt1.71 - Bt2.78 |
| | HEMRAJ |
| Bloomberg / Reuters | TB/HEMRAJ.BK |
| Current Exchange Rate: | THB30.78/US\$ |
| Current Free Float: | 61.77% |
| Average Daily | Bt181.24 mn / |
| Turnover: | US\$5.89 mn |

All figures are in local currency (Thai baht) except where otherwise noted.

| Estimates (Dec) | 2010A | 2011A | 2012E | 2013E | 2014E |
|---------------------------|---------|---------|---------|--------|-------|
| Net Income (Bt mn): | 1,411 | 537 | 2,148 | 2,453 | 2,588 |
| EPS (Bt): | 0.15 | 0.06 | 0.22 | 0.25 | 0.27 |
| P/E : | 18.4x | 48.5x | 12.1x | 10.6x | 10.1x |
| EPS Change (YoY): | 139.48% | -61.96% | 300.31% | 14.21% | 5.48% |
| Pre-ex Net Income (Bt mn) | 861 | 696 | 2,148 | 2,453 | 2,588 |
| Pre-ex EPS (Bt): | 0.09 | 0.07 | 0.22 | 0.25 | 0.27 |
| Pre-ex P/E : | 30.2x | 37.4x | 12.1x | 10.6x | 10.1x |
| Pre-ex EPS Change (YoY): | 67.74% | -19.19% | 208.77% | 14.21% | 5.48% |
| EV/EBITDA | 20.59 | 19.35 | 12.21 | 10.57 | 10.28 |
| Price/ Book | 2.40 | 2.40 | 2.03 | 1.71 | 1.46 |
| Dividend / Share | 0.06 | 0.06 | 0.11 | 0.13 | 0.13 |
| Gross Yield | 2.05% | 2.05% | 4.13% | 4.72% | 4.97% |

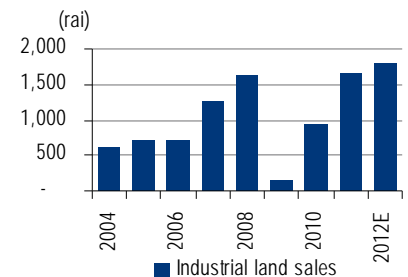
Source: Company, Phatra Securities estimates

| Key Income Statement Data (Dec) (Bt Millions) | 2010A | 2011A | 2012E | 2013E | 2014E |
|--|---------|---------|---------|---------|---------|
| Sales | 4,322 | 4,150 | 6,235 | 6,238 | 5,865 |
| Gross Profit | 1,619 | 1,790 | 2,754 | 2,764 | 2,601 |
| Sell General & Admin Expense | (554) | (639) | (789) | (826) | (860) |
| Operating Profit | 1,065 | 1,150 | 1,965 | 1,938 | 1,741 |
| Net Interest & Other Income | (95) | (243) | (329) | (362) | (390) |
| Associates | N/A | N/A | N/A | N/A | N/A |
| Pretax Income | 970 | 908 | 1,636 | 1,577 | 1,350 |
| Tax (expense) / Benefit | 47 | 161 | 188 | 158 | 135 |
| Net Income (Adjusted) | 1,411 | 537 | 2,341 | 2,614 | 2,727 |
| Average Fully Diluted Shares Outstanding | 9,705 | 9,705 | 9,705 | 9,705 | 9,705 |
| Key Cash Flow Statement Data | | | | | |
| Net Income | 1,411 | 537 | 2,341 | 2,614 | 2,727 |
| Depreciation & Amortization | 181 | 187 | 235 | 285 | 315 |
| Change in Working Capital | (655) | 303 | 669 | 350 | (353) |
| Deferred Taxation Charge | N/A | N/A | N/A | N/A | N/A |
| Other Adjustments, Net | (277) | 669 | (470) | (734) | (985) |
| Cash Flow from Operations | 731 | 1,755 | 2,891 | 2,629 | 1,802 |
| Capital Expenditure | (2,485) | (1,383) | (701) | (701) | (701) |
| (Acquisition) / Disposal of Investments | 1,369 | 537 | 1,009 | 1,310 | 1,610 |
| Other Cash Inflow / (Outflow) | (3) | (3) | 0 | 0 | 0 |
| Cash Flow from Investing | (1,117) | (846) | 308 | 608 | 909 |
| Shares Issue / (Repurchase) | 0 | 0 | 0 | 0 | 0 |
| Cost of Dividends Paid | (532) | (532) | (506) | (505) | (505) |
| Cash Flow from Financing | 3,355 | (181) | 303 | 447 | 193 |
| Free Cash Flow | (746) | 382 | 2,543 | 2,548 | 1,988 |
| Net Debt | 4,494 | 4,724 | 2,570 | 412 | -1,169 |
| Change in Net Debt | 1,347 | 230 | (2,154) | (2,158) | (1,581) |
| Key Balance Sheet Data | | | | | |
| Property, Plant & Equipment | 574 | 945 | 940 | 909 | 872 |
| Other Non-Current Assets | 6,940 | 7,251 | 7,721 | 8,169 | 8,592 |
| Trade Receivables | 194 | 117 | 176 | 176 | 166 |
| Cash & Equivalents | 3,517 | 3,718 | 6,564 | 9,560 | 11,741 |
| Other Current Assets | 7,345 | 7,979 | 7,786 | 7,764 | 8,090 |
| Total Assets | 18,569 | 20,010 | 23,189 | 26,578 | 29,461 |
| Long-Term Debt | 7,231 | 8,134 | 7,972 | 9,072 | 9,072 |
| Other Non-Current Liabilities | 267 | 358 | 358 | 358 | 358 |
| Short-Term Debt | 780 | 308 | 1,162 | 900 | 1,500 |
| Other Current Liabilities | 1,125 | 2,081 | 2,616 | 2,943 | 2,906 |
| Total Liabilities | 9,402 | 10,881 | 12,108 | 13,273 | 13,835 |
| Total Equity | 8,801 | 8,803 | 10,637 | 12,746 | 14,969 |
| Total Equity & Liabilities | 18,569 | 20,010 | 23,188 | 26,577 | 29,460 |
| Bus Performance | | | | | |
| Return On Capital Employed | 6.4% | 6.5% | 10.1% | 8.5% | 6.9% |
| Return On Equity | 16.7% | 6.1% | 24.1% | 22.4% | 19.7% |
| Operating Margin | 24.6% | 27.7% | 31.5% | 31.1% | 29.7% |
| EBITDA Margin | 28.8% | 32.2% | 35.3% | 35.7% | 35.0% |
| Quality of Earnings | | | | | |
| Cash Realization Ratio | 0.5 x | 3.3 x | 1.2 x | 1.0 x | 0.7 x |
| Asset Replacement Ratio | 13.7 x | 7.4 x | 3.0 x | 2.5 x | 2.2 x |
| Tax Rate (Reported) | 4.8% | 17.7% | 11.5% | 10.0% | 10.0% |
| Net Debt-to-Equity Ratio | 0.51 | 0.54 | 0.24 | 0.03 | -0.08 |
| Interest Cover | 3.7 x | 2.9 x | 4.2 x | 3.6 x | 3.0 x |

Investment Case

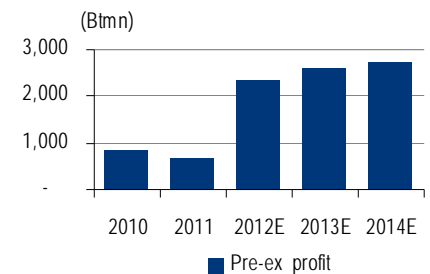
HEMRAJ is one of the three biggest industrial estate developers in Thailand. It has six industrial parks, five of which are in the eastern region. After 2012, HEMRAJ's earnings should be more resilient in comparison to its peers mainly due to contribution from utility sales (power and water). However, we believe the valuation has already priced in all the good news of the company in 2012E.

Chart 1: HEMRAJ - Industrial land sales



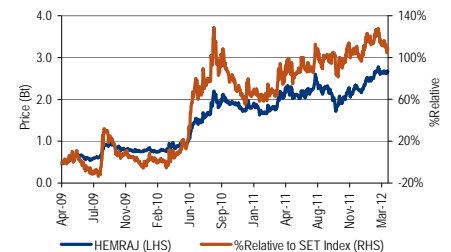
Source: HEMRAJ, Phatra Securities estimates

Chart 2: HEMRAJ - Industrial Pre-ex profit



Source: HEMRAJ, Phatra Securities estimates

Chart 3: HEMRAJ - Share price performance



Source: SET

Investment summary

We have turned more positive on HEMRAJ's operational outlook and believe the company should continue to achieve strong land sales in 2012. This momentum should come from (1) the expansion of auto-related suppliers following production expansions by auto makers inside HEMRAJ's industrial park; and (2) the recent floods which have changed the investment landscape in favor of developers in the eastern area (both land sales and rental demand).

With a better outlook, we have raised our earnings estimates for HEMRAJ by 16% for 2012E (to Bt2.3bn) and 21% for 2013E (to Bt2.6bn). We are 15% and 5% above the consensus estimates for 2012E and 2013E respectively. Our PO (based on SOTP) is also raised from Bt2.55/share to Bt3.20/share based on SOTP valuation. Despite good share price performance in the past, the current valuation still looks undemanding with PER of 11x with 2x earnings growth versus peers with average PER of 11x with weaker earnings growth. We believe that (1) a series of earnings upgrade from the street, (2) solid land sales momentum and (3) JVs with SPP operators would be good catalysts for the share price.

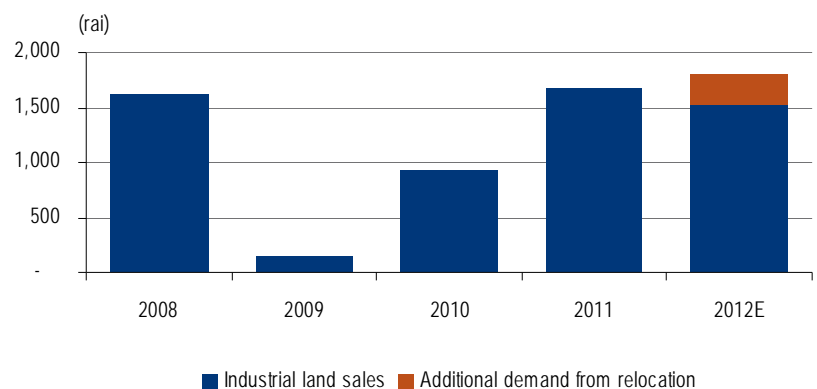
We believe that continued investment from auto-related manufacturers and additional demand from investors relocating from the north to mitigate the risks of flood damage will likely change the investment landscape and benefit developers in the east, including HEMRAJ. This change in investment landscape has prompted us to upgrade our land sales forecast this year from 1,300 rai to 1,800 rai (+8% YoY). We also expect a sharp increase in rental demand for HEMRAJ's ready-built factories (RBFs) from third-tier suppliers and below, and for its warehouses (from manufacturers looking for distribution centers to avoid future supply disruptions).

Looking forward, HEMRAJ is aiming to have more recurring income through utility services to mitigate the risk of land sales volatility. After the completion of 660MW coal-fired IPP, Gheco-One (GC1), HEMRAJ is now looking to expand MW coverage through a JV (25% stake) with J-Power group which is currently developing SPP projects inside HEMRAJ's industrial parks. This would strengthen the earnings resiliency of the company in the long term. The first contract is currently under negotiation and the management expects that the conclusion should be finalized soon. However, we believe they should win at least three JV contracts from SPPs given that (1) the projects are inside HEMRAJ's industrial parks, (2) there is less capex requirement in comparison to the investment in Gheco-One and (3) HEMRAJ has a healthy balance sheet. Our sensitivity analysis suggests that each additional SPP project should add Bt50-60mn p.a. and offer upside to our PO of around Bt0.04/share, depending on the client i.e. Automotive or Petrochemicals.

Better outlook; upgrade to Buy

We have turned more positive on HEMRAJ's industrial land sales operation and expect the company will continue to achieve strong land sales this year. We are upgrading our 2012 land sales forecast from 1,400 rai to 1,800 rai (+8% YoY). In addition to strong land sales from continued expansion of auto-related industry, changes in the investment landscape due to the flood should benefit developers in the east (both on land sales and rental demand). We estimate around 20% of land sales this year will come from demand from investors relocating from the flooded industrial parks in the north.

Chart 4: HEMRAJ – Industrial land sales



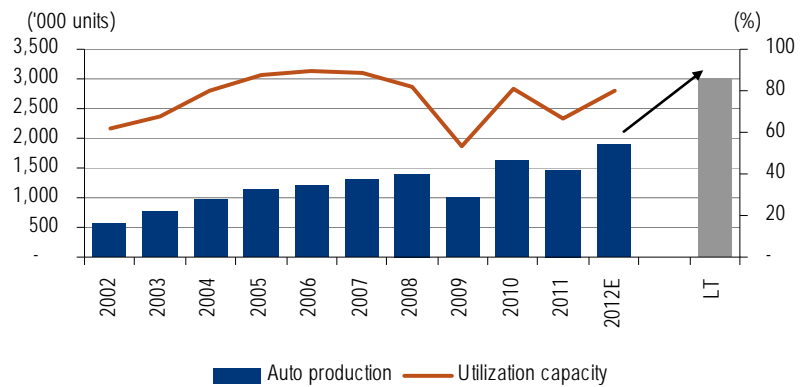
Source: HEMRAJ, Phatra Securities estimates

Auto-makers continue to lead capacity expansion

Despite components disruption and the shutdown of Honda's production plants from the flood, auto-makers have confirmed their intention to use Thailand as an export hub. Auto makers (except Honda) have shown solid recoveries with January production falling only 4% YoY to 140,040 units. If we were to take into account the lost Honda production (which normally accounts for 8-9% of industry production), the January production would reverse from YoY contraction to YoY growth of 5%. Production should continue to improve MoM and return to normal levels in 2Q12 when Honda resumes production. Total auto production this year should increase from 1.45mn units to 1.9mn units (+32% YoY).

The production should continue to grow and reach 3mn units by 2018 assuming no further disruptions. The Thailand Automotive Institute (TAI) is even more bullish on the outlook, expecting auto production to reach as high as 3mn units by 2015. Eco-cars should be the key driver for auto production. Nissan was the first mover in 2010, followed by Honda (2011). This will be followed by Mitsubishi and Suzuki (2012) and Toyota which will launch its model in 2013. These five models will ramp up their production volume and should reach 500,000 units by 2018. Given the current utilization of 90%, therefore, the auto supply chain (1st tier to 4th tier suppliers) will need to expand capacity to serve the upcoming new models.

Chart 5: Actual auto production vs utilization capacity



Source: Thailand Automotive Institute (TAI), BOT, Phatra Securities estimates

In addition to growing production of eco-cars, Thailand's extensive supply chain and well-established infrastructure should continue to draw more investment from the existing makers, using Thailand as a production hub. The recent announcements from auto makers in 2011 were as follows:

- Toyota to invest Bt1.2bn to resume the production of Thai Auto Works (SUV factory) to expand production capacity of its Fortuner model. The commercial production will start in late 2012.
- Toyota to invest another Bt6bn to increase its engine production at Siam Toyota Manufacturing. The investment should raise the production capacity by 100,000 engines p.a. from the current production level of 740,000 engines which will supply both domestic and export markets due to growing demand for passenger cars in the Asia Pacific region.
- Isuzu has spent Bt6.5bn to expand the production capacity of its pickup line at Gateway industrial park. The additional capacity will be ready by October 2012.

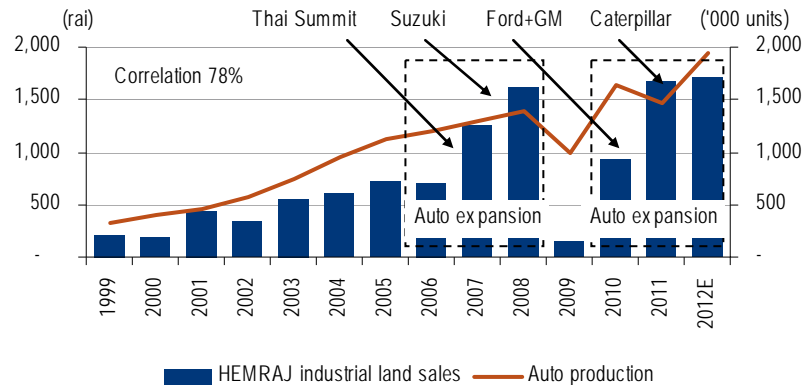
Table 1: Auto makers' investment plan

| Makers | Project | Investment value (Btmn) | Note |
|---------------------------------------|---|-------------------------|----------------|
| Announcement made in 2008-2009 | | | |
| Nissan | Eco-car | 5,500 | Completed 2010 |
| Honda | Eco-car | 5,290 | Completed 2011 |
| AAT | Sub-compact model | 15,000 | Completed 2010 |
| Toyota | Eco-car | 6,642 | Completed 2012 |
| Mitsubishi | Eco-car | 15,000 | Completed 2013 |
| Suzuki | Eco-car | 9,500 | Completed 2013 |
| Announcement made in 2010 | | | |
| Ford | New passenger car plant | 15,000 | Completed 2012 |
| General Motors | New diesel engine plant, new pickup lines | 15,000 | Completed 2012 |
| Toyota | Capacity expansion for pickups | 4,000 | Completed 2012 |
| Auto Alliance | New pickup production line | 11,000 | Completed 2012 |
| Announcement made in 2011 | | | |
| Toyota | Resume operation of TAW plant | 1,200 | Completed 4Q12 |
| Toyota | Capacity increase for engine plant | 7,000 | Completed 2013 |
| Isuzu | Capacity expansion for pickups | 6,500 | Completed 4Q12 |
| Total | | 116,632 | |

Source: Companies, Phatra Securities estimates

Although at first glance, HEMRAJ may have more petrochemical manufacturers and less auto-related customers in terms of client mix, we reiterate that HEMRAJ would also be a beneficiary of the expansion of auto and auto parts manufacturers. The majority of land sales in the past five years went to auto makers and auto-related suppliers. Key changes would be the investment of auto makers inside HEMRAJ's industrial park such as GM, Ford, Mazda and Suzuki.

Chart 6: HEMRAJ land sales vs auto production



Source: HEMRAJ, Thailand Automotive Institute, Phatra Securities estimates

Floods to change the investment landscape

We believe the flooding has changed Thailand's investment landscape. The developers in the east should command more market share than those in the north after seven northern industrial parks were submerged by the flood last year, causing parts supply disruption especially for autos and electronics production.

Table 2: Industrial estate flood situation (as of 19 October 2011)

| | Flooded | Area (rai) | No of factories | Employment (people) | Investment (Btmn) | Major investors | Major industries |
|-------------------|---------|---------------|-----------------|------------------------|----------------------|------------------------------|--|
| Ayudhya | | | | | | | |
| Saharat Nakorn | Yes | 905 | 43 | 16,056 | 19,840 | Japan (79%), China (6%) | Electronics, rubber, steels and metals |
| Hi-Tech | Yes | 1,858 | 143 | 51,186 | 65,312 | Japan (50%), Singapore (15%) | Electronics, rubber, machinery |
| Bang Pa-in | Yes | 1,386 | 89 | 27,590 | 29,283 | Japan (39%) USA (15%) | Electronics, rubber, machinery |
| Rojana | Yes | 3,675 | 198 | 42,100 | 55,742 | Japan (80%) | Electronics, metal, Auto parts, food |
| Factoryland | Yes | 130 | 99 | 6,015 | 11,186 | n/a | Electronics, Plastic |
| Pathumtani | | | | | | | |
| Nava Nakorn | Yes | 6,000 | 221 | 95,356 | 180,000 | n/a | Electronics, auto parts |
| Bang Kradi | Yes | 1,173 | 45 | 20,911 | 34,110 | n/a | IC, Electronic, Plastic product |
| Total | | 15,127 | 838 | 259,214 | 395,473 | | |

Source: Industrial Estate Authority of Thailand (IEAT), Bangkok Post, Mathichon

The Federation of Thai Industry (FTI) estimated flood damages at around Bt1.1trn for losses of the industrial, residential and agricultural sectors. Besides property losses, we also expect significant economic loss on the manufacturing sectors. For example, the estimated auto production halted could be as high as 300,000 units with total economic loss of around Bt180bn.

Despite the flood prevention measures from the government and industrial park developers, some of the affected investors could still be planning to set up other production plants or relocate to other locations to mitigate the potential flood impact in the future. This would be especially the case for auto and electronics manufacturers, while we think the food processors could remain in the north (due to the water supply constraints). Our expectation is supported by surveys from the Japan External Trade Organization (JETRO) and Japanese Chamber of Commerce, Bangkok (JCCB).

JETRO did a survey on 192 Japanese corporations attending the seminar on November 18, 2011. JETRO found that around 70% of those surveyed decided to stay at the same site, 10% decided to look for new sites in Thailand to mitigate risks from the flood, and 16% intended to leave the north but had not yet considered whether to stay in Thailand. The 25% of total submerged factories could imply additional demand for industrial land of 7,000-8,000 rai which could potentially flow to the dry areas. The industrial parks with proximity to the north could enjoy the windfall more than those in more distant areas i.e. Rayong province.

The survey of JCCB, conducted between December 16-January 2012 with 366 respondents from JCCB's 1,345 members, also suggested that investment sentiment deteriorated in the latter half of 2011 from the flood. Around 25% of the companies surveyed have resumed either partial or full production since December, while 21% target resumption in April or May. In addition, the survey found that around 8% of the firms have decided to relocate outside Thailand (mainly those in the electrical and electronics industry) using alternative production sites in Japan, Asean or China while 85% indicated they would stay.

We attribute the following reasons to the decision to relocate:

- Risks of logistics disruption: We think that floodways and dikes would only prevent damage to property. However, we have not yet seen measures to prevent logistics (between suppliers and clients) being disrupted during floods. The inability to deliver components during flooding could create a parts supply shortage, creating risks of production disruption.
- Higher running cost: Although the manufacturers are now receiving compensation claims for damages, looking forward they would have to bear the higher insurance cost. The Office of Insurance Commission (OIC) expects to increase the premium especially for flood-related insurance i.e. property damages and business interruption. The flood-prone areas are likely to be subjected to higher insurance premiums in comparison to flood-proof areas. The running cost also includes monthly fees paid to park developers on construction of the dikes.

Based on the JETRO and JCC surveys, around 30% of total land lease in the seven flooded industrial parks would potentially relocate from the north to other

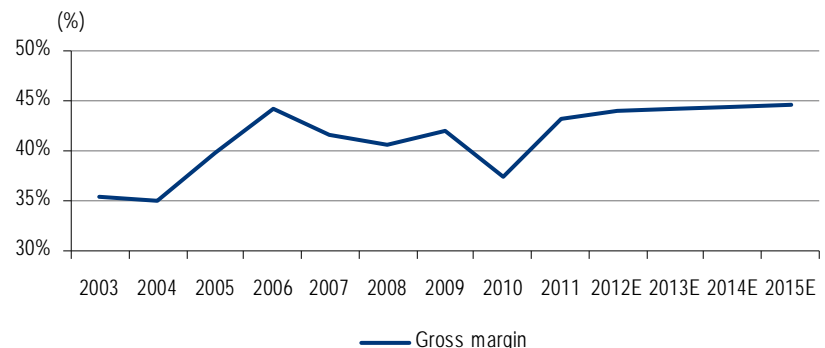
locations. This could imply additional industrial land demand of 5,000 rai for this year. Looking forward, we estimate additional demand of 900 rai (20% of relocation demand) for industrial parks in the dry areas. The demand should be different for each industrial park based on the proximity to the north.

HEMRAJ should also benefit from the relocation (especially for auto investors), however, the magnitude could be smaller in comparison to AMATA with better proximity to the north. We estimate that around 5% of total relocations, equivalent to around 250 rai p.a., could be on top of HEMRAJ's organic land sales for 2012-2013.

Margin expansion

HEMRAJ should enjoy stronger pricing power over its customers from rising industrial land demand. However, because of the location (Rayong) which is farther from the north and has more competition, we expect the average selling price to gradually improve only at Hemraj Eastern Seaboard (HESIE) where auto makers and suppliers reside. We expect average selling price at HESIE to increase by around 3% p.a. in the next three years. With our expectation that HESIE will contribute around 45% of HEMRAJ's land sales in the next three years, we expect HEMRAJ's blended margin to expand from 43% in 2011 to 45% in 2015.

Chart 7: HEMRAJ – Gross margin



Source: HEMRAJ, Phatra Securities estimates

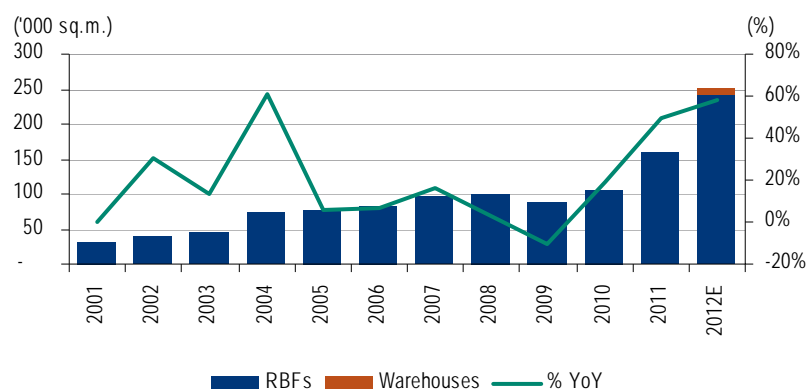
Windfall on rental demand

We expect sharp rises in rental demand in the eastern area, coming from (1) capacity expansion of third- and fourth-tier suppliers to serve higher production demand of their customers, and (2) the use of ready-built factories (RBFs) or logistics warehouses as distribution centers for manufacturers in the north to avoid parts supply disruption. This should directly benefit HEMRAJ's RBFs and logistic parks.

According to the management guidance, HEMRAJ expects its leased portfolio of RBFs to increase by 50-60% YoY, equivalent to additional leases of 80,000 sq.m. It also expects to lease around 10,000 sq.m. in its new logistics warehouses. Although the growth target is aggressive given that the target is 6.2x HEMRAJ's

average historical new lease area of 13,000 sq.m., we believe it is possible since (1) there are currently pre-leased contracts of custom-built RBFs of 30,000 sq.m., (2) there is a sharp rise in rental demand in the east resulting in higher occupancy rates of major developers e.g. TICON which has a current occupancy rate of 100% and TICON would take at least 6-9 months (depending on the size of factory) to build a new factory. Therefore, with available RBF on hand, HEMRAJ would be able to grab the opportunities from its peers.

Chart 8: HEMRAJ – Leased portfolio



Source: HEMRAJ, Phatra Securities estimates

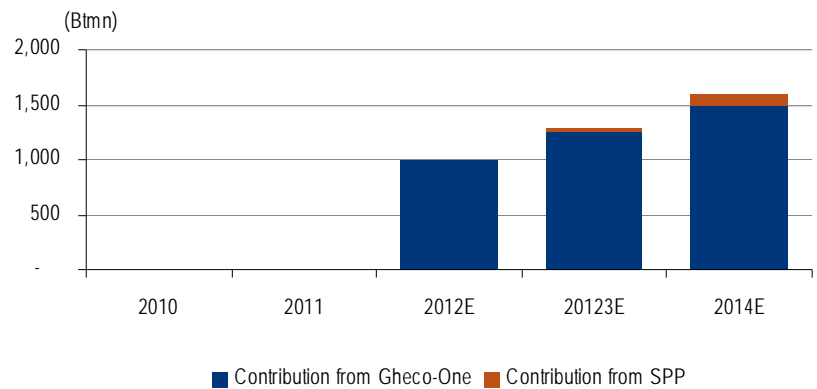
More MW underway

HEMRAJ has confirmed the commissioning date of a 660MW coal-fired IPP, Gheco-One, in the middle of May. This is in line with our expectation. The management expects contribution from the project should be around Bt1.4bn p.a. on average for the next five years. This is slightly better than our expectation of Bt1.3bn p.a.

Looking forward, HEMRAJ should continue to increase the proportion of income from non-land sales operation to mitigate the impact from land sales volatility. Now HEMRAJ is looking for JV opportunities with eight potential SPP projects (COD during 2013-2016), of which seven belong to J-Power. According to the company, they are now reviewing the first JV contract and expect to reach a decision soon. While we think the market has not yet factored in the JV on the SPP, we believe HEMRAJ is in a good position and should complete a JV for at least three SPP projects. Our rationale is (1) the projects are inside HEMRAJ industrial parks, and therefore the company should have good bargaining power, (2) investment cost of Bt600mn for each JV is relatively lower in comparison to the investment on Gheco-One project whose investment cost is around Bt2bn, and (3) HEMRAJ has a healthy balance sheet.

Therefore, we have raised our forecast on equity contribution from the power projects and expect the contribution from these projects to rise from Bt1bn in 2012 to Bt1.6bn in 2014.

Chart 9: HEMRAJ – Contribution from power projects



Source: HEMRAJ, Phatra Securities estimates

Our sensitivity analysis suggests that an additional SPP contract would offer an upside to our earnings estimates of Bt50-60mn p.a. and additional fair value of Bt0.04/share.

Earnings and PO upgrade

To incorporate (1) our new land sales assumption of 1,800 rai in 2012 and 1,500 rai in 2013, (2) stronger-than-expected rental demand, (3) additional contribution from three SPP projects and (4) our fine-tuning of the estimated contribution from Gheco-One, we have raised our earnings estimates by 16% for 2012E (to Bt2.3bn) and 21% for 2013E (to Bt2.6bn). We now expect HEMRAJ to post pre-ex earnings growth of 236% in 2012 and 12% in 2013. We are ahead of the consensus estimates for 2012E (Bt2bn) and 2013E by 15% and 5% respectively.

Table 3: HEMRAJ - Change in basic assumptions

| | | 2012E | 2013E |
|-------------------|------------|-------|-------|
| Land sales | Previous | 1,300 | 1300 |
| | Current | 1,800 | 1,500 |
| | % Change | 38% | 15% |
| Total revenue | Previous | 5,620 | 5,343 |
| | Current | 6,235 | 6,238 |
| | % Change | 11% | 17% |
| Gross margin | Previous | 41% | 41% |
| | Current | 44% | 44% |
| | bps Change | 363 | 374 |
| EBITDA | Previous | 1,898 | 1,807 |
| | Current | 2,200 | 2,224 |
| | % Change | 16% | 23% |
| Pre-ex net profit | Previous | 2,020 | 2,159 |
| | Current | 2,341 | 2,614 |
| | % Change | 15.9% | 21.1% |

Source: Phatra Securities estimates

New PO of Bt3.20/share

Our PO is also raised by 24% from Bt2.55/share to Bt3.20/share based on SOTP valuation.

Table 4: HEMRAJ – 12-month PO

| | Bt/share | Methodology |
|----------------------------------|----------|---|
| Industrial land sales | 1.50 | PER target of 18x |
| RBF and condominium sales | 0.06 | PER target of 12.5x |
| Non-land sales (water + utility) | 1.61 | WACC of 8% from Rf of 5.5% and Rp of 7% |
| Estimated fair value | 3.20 | |

Source: Phatra Securities estimates

We value the industrial land sales segment at Bt1.50/share based on target PER of 18x which is at par to AMATA. The target PER is 20% above the average trading range of the sector in the past four years as we think HEMRAJ deserves to trade at higher multiples due to (1) higher pricing power; (2) cluster mix of automotive which would be a direct beneficiary of auto expansion; and (3) expanded coverage given diversified locations with six industrial parks in the north (Saraburi) and the east. For other property sales (RBF and condominiums), we apply target PER of 11x which is the average target PER of property firms under Phatra coverage. We value the property sales at 0.06/share.

Our valuation of Bt1.59/share on contribution from Gheco-One, three JVs on the SPP projects and service income is based on DCF valuation. Our DCF valuation is based on WACC of 9% with a risk-free rate assumption of 5.5% and market risk premium of 7%.

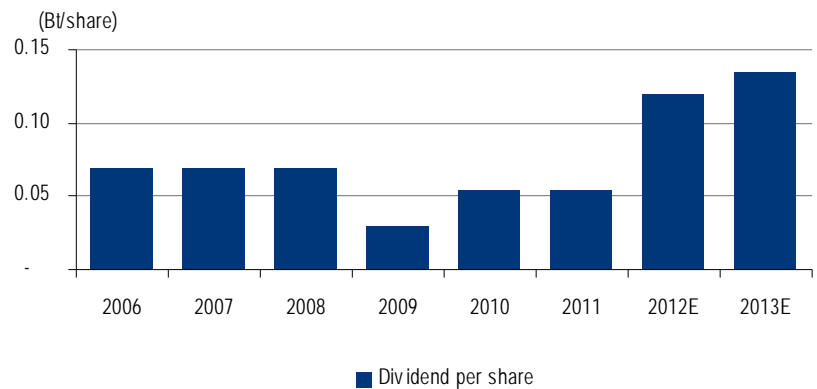
Table 5: HEMRAJ – Valuation on service and utility income (Bt mn unless otherwise stated)

| | 2012E |
|---------------------------------------|---------------|
| Sum of PV | 9,039 |
| Terminal value | 13,875 |
| NPV | 22,914 |
| Less: Debt | 7,480 |
| Total Equity value | 15,434 |
| No. of shares outstanding (mn shares) | 9,705 |
| Value per share (Bt) | 1.61 |

Source: HEMRAJ, Phatra Securities estimates

We also cross-checked our fair value with PBV target. At our target price, HEMRAJ would trade at a PBV of 2.7x against its seven-year historical average of 1.5x. This is justified by strong ROE of 22% versus its seven-year historical average of 13%. We also expect HEMRAJ's dividend per share to increase by 100% from 5.5 satang to 12 satang, implying 2012 dividend yield of 4.5%.

Chart 10: HEMRAJ – Dividend per share



Source: HEMRAJ, Phatra Securities estimates

HEMRAJ also looks attractive in comparison to its peers. Despite continued solid share performance, it is now trading at 2012 PER of 11x with 2x earnings growth, implying PEG ratio of 0.05. This is superior in comparison to its peers whose PER is about the same at 12x but which have weaker earnings growth and PEG ratio of 0.4. Its ROE is also the highest in this year at 23% versus the peer average of 15%.

Table 6: Valuation comp

| | Price (Bt) | EPS | | | PER | | | EPS growth | | | PE/G | | | PBV | | | ROAE | | |
|---------|------------|------|-------|-------|-------|-------|-------|------------|-------|-------|--------|-------|-------|------|-------|-------|-------|-------|-------|
| | | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E |
| AMATA | 16.30 | 0.87 | 1.15 | 1.63 | 18.66 | 14.22 | 9.99 | 40% | 31% | 42% | 0.47 | 0.46 | 0.24 | 2.89 | 2.57 | 2.22 | 16.3% | 19.1% | 23.9% |
| ROJNA | 6.10 | 0.27 | 0.48 | 0.53 | 22.59 | 12.71 | 11.51 | -72% | 78% | 10% | (0.31) | 0.16 | 1.10 | 1.10 | 1.01 | 0.91 | 7.5% | 9.2% | 9.1% |
| TICON | 12.60 | 0.57 | 1.31 | 1.42 | 22.11 | 9.62 | 8.87 | -53% | 130% | 8% | (0.41) | 0.07 | 1.06 | 1.66 | 1.54 | 1.48 | 9.1% | 17.4% | 17.9% |
| HEMRAJ | 2.66 | 0.07 | 0.24 | 0.27 | 37.11 | 11.03 | 9.88 | -19% | 236% | 12% | (1.93) | 0.05 | 0.84 | 2.93 | 2.43 | 2.03 | 6.1% | 23.1% | 20.2% |
| Average | | 0.45 | 0.79 | 0.96 | 25.12 | 11.90 | 10.06 | -26% | 119% | 18% | (0.55) | 0.19 | 0.81 | 2.15 | 1.89 | 1.66 | 9.7% | 17.2% | 17.8% |

Source: Companies, Phatra Securities estimates

Upside potential / downside risks

We see the following as offering potential upside to our earnings projection:

- **More SPP investments:** Looking forward, we believe HEMRAJ has opportunities for more exposure in power business. J-Power, one of the biggest private power operators, has won five SPP contracts from 3.5GW SPP bidding in early 2011 and it is now waiting for a final decision on another two SPP contracts. Because the proposed locations for these power plants are in HEMRAJ's industrial parks, HEMRAJ will have first right of refusal to do a JV with JP for 20% stakes in each SPP project. We believe HEMRAJ will eventually undertake at least three power plant projects with JP. Assuming each unit has power generation capacity of 120MW, and project IRR of 15%, one project will offer around Bt50-60mn p.a.
- **More power projects:** HEMRAJ Energy, HEMRAJ's affiliate, has jointly set up a new company (Glow Hemaraj Wind) to do a feasibility study to develop

and invest in wind power plants at Chaiyaphum province. The project will be held by HEMRAJ (51%) and GLOW (49%). We believe the feasibility study would take around one year and the project would be ready for commercial operation in 1H14 at the earliest.

- **Potential residential project by 2013:** Apart from The Park, HEMRAJ is looking for an opportunity to develop a townhouse project in Bangkok with total project value of Bt600mn. According to management, the project is delayed from the original plan of 4Q11 to 2012, depending on the situation in the property market.

Meanwhile, the following could pose risks to our price objective:

- **Unfavorable investment atmosphere from political unrest:** Based on the historical land sales in the past five years, investment (land sales activities) slows down during periods of political turmoil as investors take a wait-and-see approach before making further investment.
- **Significant slowdown in global economy:** Around 50% of Thailand's auto production (72% correlation to land sales) is for the export market. A slowdown in the global economy could therefore curb investment for capacity expansion.

4Q11 result review

HEMRAJ reported 4Q11 net income of Bt366mn (+192% YoY, +137% QoQ). Excluding forex impact, 4Q11 pre-ex profit would be around Bt336mn (+340% YoY, +47% QoQ), bringing full-year pre-exceptional profit to Bt696mn, down 19% YoY. The result was slightly below our expectation of Bt748mn. The weaker-than-expected result was due to slighter higher-than-expected SG&A and interest expenses in 4Q11.

Table 7: HEMRAJ - 4Q11 result

| INCOME STATEMENT (Bt mn) | 4Q11 | 4Q10 | % YoY | 3Q11 | % QoQ | 2011 | 2010 | % YoY |
|---|-------|------|-------|-------|-------|-------|-------|-------|
| Total revenue | 1,545 | 923 | 67% | 1,178 | 31% | 4,150 | 4,322 | -4% |
| Total cost of revenue | 903 | 592 | 52% | 656 | 38% | 2,361 | 2,703 | -13% |
| Gross profit | 642 | 330 | 94% | 522 | 23% | 1,790 | 1,619 | 11% |
| Total operating expenses | 224 | 226 | -1% | 147 | 52% | 639 | 554 | 15% |
| EBIT | 418 | 104 | 302% | 375 | 12% | 1,151 | 1,065 | 8% |
| EBITDA | 468 | 153 | 207% | 422 | 11% | 1,338 | 1,246 | 7% |
| Dividend and interest income | 76 | 78 | -3% | 11 | 590% | 121 | 142 | -15% |
| Other income | 1 | 6 | -77% | 6 | -74% | 34 | 47 | -29% |
| Other expenses | - | - | n/a | - | n/a | - | - | n/a |
| Interest expenses | 108 | 99 | 9% | 94 | 16% | 397 | 284 | 40% |
| EBT | 388 | 89 | 334% | 298 | 30% | 908 | 970 | -6% |
| Tax expenses | 45 | (40) | -212% | 51 | -13% | 161 | 47 | 243% |
| EAT before special items | 343 | 129 | 166% | 247 | 39% | 747 | 923 | -19% |
| Minority interest in subs (loss) profit | 32 | 39 | -17% | 11 | 190% | 60 | 71 | -16% |
| Equity income (loss) | 25 | (14) | -282% | (8) | -415% | 9 | 9 | 4% |
| CORE profit before extra and FX | 336 | 76 | 340% | 228 | 47% | 696 | 861 | -19% |
| FX gain (loss) | 48 | 49 | -2% | (73) | n/a | (142) | 415 | -134% |
| Total extraordinary items | (17) | - | n/a | - | n/a | (17) | 135 | -113% |
| NI | 366 | 125 | 192% | 154 | 137% | 537 | 1,411 | -62% |
| Blended gross margin (%) | 42% | 36% | n/a | 44% | n/a | 43% | 37% | 15% |
| SG&A to sales (%) | 14% | 25% | n/a | 13% | n/a | 15% | 13% | 20% |
| OP margin (%) | 27% | 11% | n/a | 32% | n/a | 28% | 25% | 13% |
| EBITDA margin (%) | 30% | 17% | n/a | 36% | n/a | 32% | 29% | 12% |

Source: Company, Phatra Securities estimates

Company background

HEMRAJ is one of the top three private industrial estate developers in Thailand. The company develops and manages six industrial estates of 31,350 rai or 13,000 acres with automotive, petrochemical and other clusters comprising 450 distinct customers, 150 automotive customers, 650 land or factory contracts, and a customer investment estimate of US\$ 20 billion.

Price objective basis and risk

Our 12-month price objective of Bt3.20/share is based on SOTP valuation. We apply different methodologies to the company's different businesses.

We value the industrial land sales segment at Bt1.50/share based on target PER of 18x. Our target PER is 20% above the average trading range of the sector in the past four years as we expect HEMRAJ should deserve to trade at higher multiples due to (1) higher pricing power from the flood and (2) diversified locations with six industrial parks in the north (Saraburi) and the east. For other property sales (RBF and condominiums), we apply target PER of 11x which is the average target PER of property firms under Phatra coverage. We value the property sales at 0.06/share.

Our valuation of Bt1.61/share on contribution from Gheco-One and service income is based on DCF valuation. Our DCF valuation is based on WACC of 9% with a risk-free rate assumption of 5.5% and market risk premium of 7%.

Risks to our price objective are 1) continued political turmoil, 2) a significant global economic slowdown, 3) delay in commissioning of Gheco-One and 4) rising land and development cost.

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Corporate Governance Report of Thai Listed Companies 2010

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Companies with Excellent CG Scoring by alphabetical order under Phatra's Coverage

| | | | | |
|-----------------------|----------------------------|------------------------|--------------------------|-----------------------------------|
| Advanced Info Service | Airports of Thailand | Amata Corporation | Bangchak Petroleum | Bank of Ayudhya |
| Banpu | Central Pattana | Charoen Pokphand Foods | Electricity Generating | Hemaraj Land and Development |
| IRPC Plc | Kasikornbank | Krung Thai Bank | LPN Property Development | MCOT |
| PTT | PTT Aromatics and Refining | PTT Chemical Plc | PTT Exploration | Ratchaburi Electricity Generating |
| Siam Cement | Siam Commercial Bank | Thai Military Bank | Thai Oil | Thanachart Capital |
| The Erawan Group | Tisco Financial Group | | | |



Companies with Very Good CG Scoring by alphabetical order under Phatra's Coverage

| | | | | |
|----------------------------|---------------------------|--------------------------------|-----------------------------|----------------------------|
| Asian Property Development | Bangkok Bank | Bangkok Dusit Medical Services | BEC World | BIG C Supercenter |
| Bumrungrad Hospital | Central Plaza Hotel | CP All | ESSO (Thailand) | Glow Energy |
| Land & Houses | Major Cineplex Group | Minor International | Preuksa Real Estate | Quality Houses |
| Rojana Industrial Park | Siam City Cement | Siam Makro | Supalai | Thai Airways International |
| Thai Stanley Electric | Thai Union Frozen Product | Thai Vegetable Oil | Ticon Industrial Connection | Total Access Communication |
| True Corporation | | | | |



Companies with Good CG Scoring by alphabetical order under Phatra's Coverage

| | | | | |
|--------------------|------------------------|--|--|--|
| BTS Group Holdings | Bangkok Chain Hospital | | | |
|--------------------|------------------------|--|--|--|

N/A

Companies without survey result available by alphabetical order under Phatra's Coverage

| | | | |
|---------------|---------------------------------|-------------------|--|
| Thai Beverage | CPN Retail Growth Property Fund | Indorama Ventures | |
|---------------|---------------------------------|-------------------|--|