

Thai Residential Property

Pre-emptive Measures to Cool Buying Frenzy

- **Banks turning more cautious on home loans** – Due to growing numbers of multiple-home buyers, Thai banks have voluntarily adopted more cautious lending policies before BoT announces additional measures to crimp speculation in the physical property market. Kasikorn Bank has started reducing LTV to 75-80% from 90-95% for third home buyers. TMB also cut its LTV to 70% from 90-95% for second- or vacation-home buyers. UOB Thailand and Thanachart Bank have also scrapped zero percent mortgages. Our conversation with developers also suggests Thai banks have applied stricter credit screening process, resulting in higher rejection rates YoY. According to LPN, its rejection rate in Jun-Jul 13 is approaching 9-10% vs 6-7% seen in 2012. SPALI also said its rejection rate has reached 9% recently vs 5% in 2012. PS's overall cancellation rate fell to 29% in 2Q13 vs 33% in 2012 due to higher presales from condo. However, the cancellation rate for TH is rather high at 38%.
- **Developers' self-imposed measures** – LPN took preemptive action to discourage speculation by charging a transfer fee amounting to 2% of the housing price if the buyers want to transfer their bookings to a third party before the project completion, and title deed is transferred from the company to the buyers. LPN also asks for >15% down payment on the projects that are likely to be in high demand. SPALI currently asks for >12% down payment for its condo projects and is likely to increase down payments further for mid-range projects.
- **Aggressive gimmicks still seen** – However, in contrast, we still see some developers implementing promotion campaigns to boost presales. For some low-end projects, AP offers 0% down payment for the first six months, which will be make up by one bullet payment before construction completion date (to make the total down payment hit 10% of unit value). SIRI also collects Bt999/month (implying <5% down payment) from buyers of some low-end D-Condo and The Base projects. The lower down payments lead to higher cancellation risk and hence lower quality of backlogs, in our view.
- **Expecting slower take-up rate in 2H13E** – We expect to see take-up rate to slowdown in 2H13E vs 1H13 on the back of tighter credit policies. Higher household debt and decelerated GDP growth are added major headwinds for property sales. Thus, we believe developers with launch plans concentrated in 2H13, mainly AP and SPALI, will find it more difficult to meet their respective presales targets.
- **Stay selective** – With increasing macro headwinds, we remain selective on stocks with defensive qualities, visible earnings growth, strong balance sheets and high yields. Our preference ladder is *LH*, *LPN* and *QH*. *LH* has good EPS growth potential and a short cash-conversion cycle as it focuses on landed property. *LPN* has a strong balance sheet, and high earnings growth and visibility. *QH* looks cheap at a housing P/E of 1.5x. For detail, please see [Thai Residential Property - Stay Selective Despite Sell-off: Buy LH, LPN and QH](#).

Amornrat Cheevavichawalkul, CFA

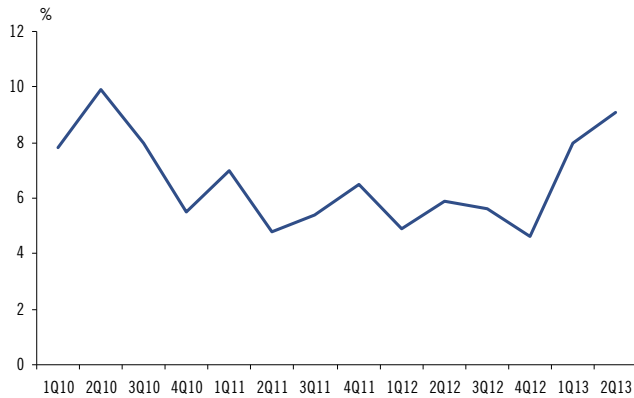
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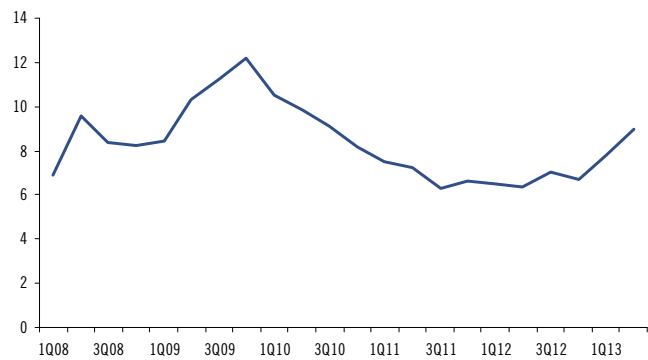
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Figure 1. SPALI – Mortgage Rejection Rate



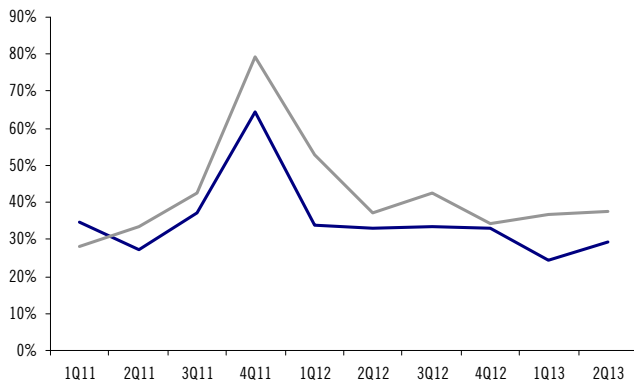
Source: Company data

Figure 2. LPN – Mortgage Rejection Rate



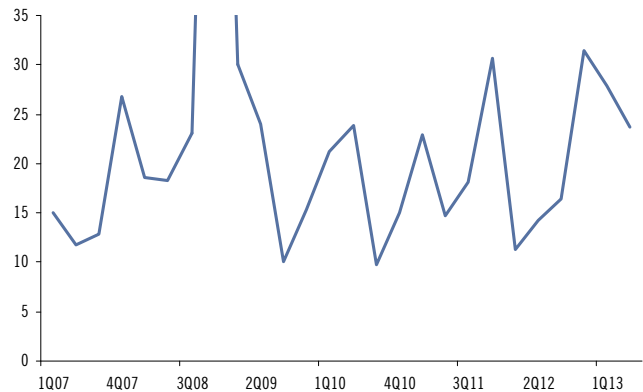
Source: Citi Research; Company data

Figure 3. PS – Cancellation Rate (Rejection Rate Plus Buyers Voluntarily Cancelling Rate)



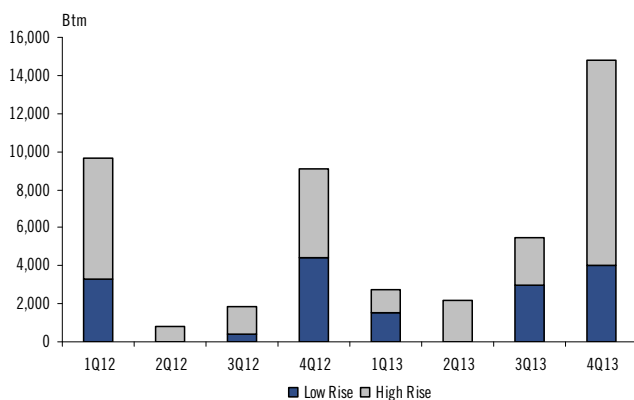
Source: Citi Research; Company data

Figure 4. AP – Cancellation Rate (Rejection Rate Plus Buyers Voluntarily Cancelling Rate)



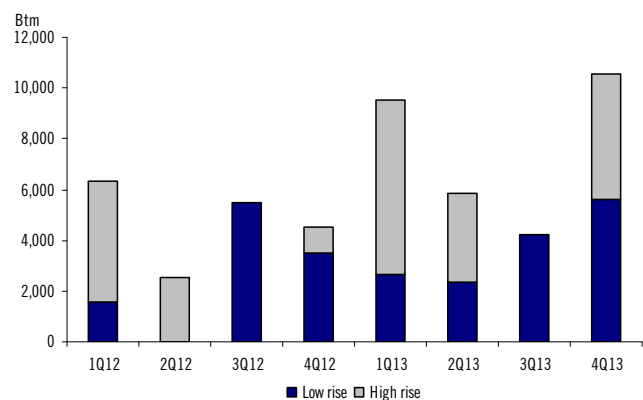
Source: Citi Research; Company data

Figure 5. SPALI – Quarterly Launch



Source: Citi Research; Company data

Figure 6. AP – Quarterly Launch



Source: Citi Research; Company data

Land & Houses

(LH.BK; Bt10.90; 1)

Valuation

Our target price for LH of Bt13.5 is based on a SOTP methodology. For the housing business, we use a target 2013E P/E of 17.0x, set slightly higher than the 7-year average of 16x to reflect a strong growth outlook, especially in the provincial market. We value LH's investments in associated companies using market values for listed companies, the Citi Research target price for its QH stake, and 1.5x P/B for non-listed companies.

Risks

The key downside risks to our investment thesis and target price on LH include: 1) Higher rejection rates from the banks if buyers' affordability deteriorates; 2) Higher-than-expected marketing expenses to support new launches; 3) Slower-than-expected SDH demand; 4) Regulatory risks imposed by the Bank of Thailand.

LPN Development

(LPN.BK; Bt22.90; 1)

Valuation

We value LPN using P/E, based on our view that property stocks in Thailand trade on expectations rather than NAV. We use a target 2013E P/E of 13.6x, derived from an average ROE of 33.3% in 2013E-14E, a three-year net profit CAGR of 19.9%, and cost of equity of 13.0%. Applying this to 2013E EPS of Bt2.04, we derive a target price of Bt27.8.

Risks

Downside risks that could prevent the stock from reaching our target price include: 1) Lower-than-expected affordability in the low-end market, LPN's core market; 2) More intense competition in the low-priced condominium space; 3) Higher building material and labour cost pressures. 4) Regulatory risks imposed by the Bank of Thailand such as a lower loan to value ratio.

Quality Houses

(QH.BK; Bt3.10; 1)

Valuation

We use a sum-of-the-parts (SOTP) methodology to value QH. For the core housing business, we use P/E as it is hard to predict income streams beyond three years. This is consistent with the valuation methodology we use for other Thai residential property developers. We prefer P/E to NAV in valuing QH's housing business as Thai property stocks trade on earnings expectations. For the housing business, we use a target P/E of 8.0x 2013E, representing a slight discount to its mid-cap peers due to lower than average ROE. We use market values for the HMPRO and QHPF equity holdings, and a mid-cycle P/BV ratio of 1.5x for LH Financial Group.

Combining the value of QH's core business and equity holdings gives us a SOTP target price of Bt4.30.

Risks

The key downside risks to our investment thesis and target price for QH include: 1) Lower-than-expected take-up rates on SDH and TH, QH's main source of income; 2) Higher-than-expected supply of SDH and TH, adding pressure on QH's selling price; 3) Increasing building material costs; 4) Slower-than-expected depletion of low-margin projects.

Appendix A-1

Analyst Certification

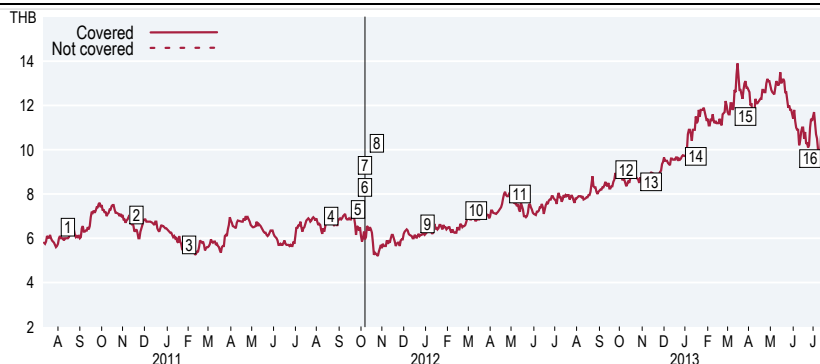
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Land & Houses (LH.BK)

Ratings and Target Price History Fundamental Research

Analyst: Amornrat Cheevavichawakul, CFA



| | Date | Rating | Target Price | Closing Price |
|---|-----------|-----------------------------|--------------|---------------|
| 1 | 16-Aug-10 | 1M | *7.30 | 6.00 |
| 2 | 19-Nov-10 | *2M | *6.70 | 6.40 |
| 3 | 2-Feb-11 | 2M | *6.20 | 5.50 |
| 4 | 22-Aug-11 | 2M | *7.70 | 6.95 |
| 5 | 28-Sep-11 | *1M | 7.70 | 6.50 |
| 6 | 7-Oct-11 | Stock rating system changed | | |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7 | 7-Oct-11 | *1 | 7.70 | 5.95 |
| 8 | 25-Oct-11 | 1 | *6.80 | 5.25 |
| 9 | 4-Jan-12 | 1 | *6.90 | 6.30 |
| 10 | 13-Mar-12 | 1 | *7.90 | 6.80 |
| 11 | 13-May-12 | 1 | *8.50 | 7.30 |
| 12 | 10-Oct-12 | 1 | *9.50 | 8.35 |

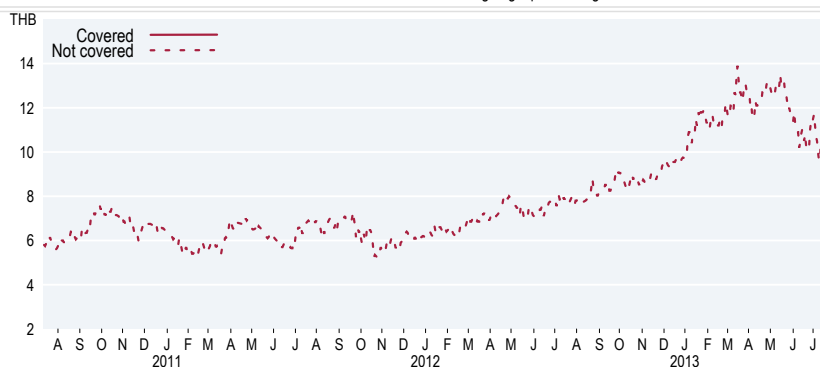
| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 14-Nov-12 | 1 | *10.20 | 9.00 |
| 14 | 16-Jan-13 | 1 | *13.30 | 11.50 |
| 15 | 27-Mar-13 | 1 | *15.00 | 13.10 |
| 16 | 26-Jun-13 | 1 | *13.50 | 11.00 |

Rating/target price changes above reflect Eastern Standard Time

Land & Houses (LH.BK)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Amornrat Cheevavichawakul, CFA



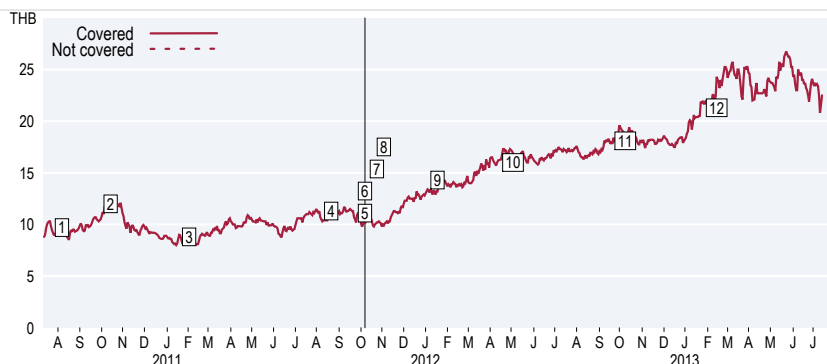
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LPN Development (LPN.BK)

Ratings and Target Price History Fundamental Research

Analyst: Amornrat Cheevavichawalkul, CFA



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 6-Aug-10 | 1M | *11.50 | 9.55 |
| 2 | 14-Oct-10 | 1M | *13.20 | 11.30 |
| 3 | 2-Feb-11 | 1M | *11.60 | 8.75 |
| 4 | 22-Aug-11 | *1L | *13.00 | 11.30 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|---|-----------|-----------------------------|--------------|---------------|
| 5 | 7-Oct-11 | Stock rating system changed | | |
| 6 | 7-Oct-11 | *1 | 13.00 | 10.10 |
| 7 | 25-Oct-11 | 1 | *12.10 | 10.20 |
| 8 | 3-Nov-11 | 1 | *12.50 | 9.90 |

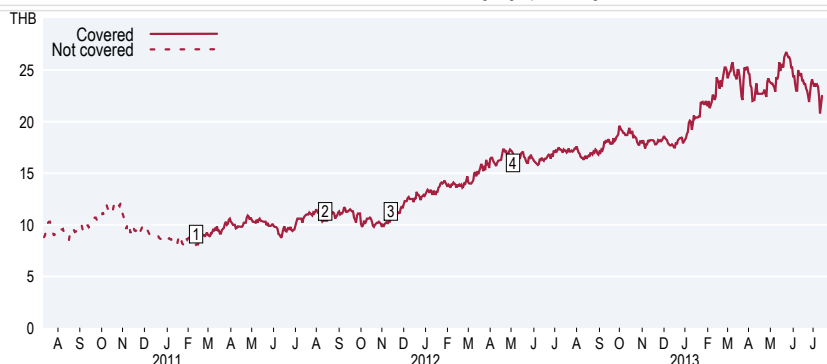
| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 9 | 18-Jan-12 | 1 | *15.50 | 13.20 |
| 10 | 3-May-12 | *2 | *16.30 | 16.90 |
| 11 | 9-Oct-12 | *1 | *22.00 | 18.70 |
| 12 | 14-Feb-13 | 1 | *27.80 | 24.30 |

Rating/target price changes above reflect Eastern Standard Time

LPN Development (LPN.BK)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Amornrat Cheevavichawalkul, CFA



| | Date | Rating | Target Price | Closing Price |
|---|-----------|---------|--------------|---------------|
| 1 | 11-Feb-11 | *ADD MP | - | 8.05 |
| 2 | 12-Aug-11 | *REM MP | - | 10.40 |

* Indicates change

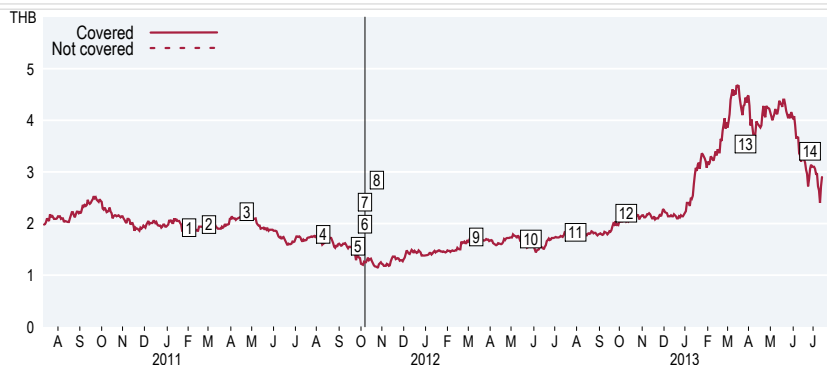
| | Date | Rating | Target Price | Closing Price |
|---|-----------|---------|--------------|---------------|
| 3 | 14-Nov-11 | *ADD MP | - | 10.70 |
| 4 | 3-May-12 | *REM MP | - | 16.90 |

Rating/target price changes above reflect Eastern Standard Time

Quality Houses (QH.BK)

Ratings and Target Price History Fundamental Research

Analyst: Amornrat Cheevavichawalkul, CFA



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 2-Feb-11 | 1H | *2.40 | 1.88 |
| 2 | 2-Mar-11 | *1L | *2.22 | 1.92 |
| 3 | 25-Apr-11 | *2L | *2.31 | 2.22 |
| 4 | 10-Aug-11 | 2L | *1.75 | 1.61 |
| 5 | 28-Sep-11 | 2L | *1.48 | 1.37 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|----|-----------|-----------------------------|--------------|---------------|
| 6 | 7-Oct-11 | Stock rating system changed | | |
| 7 | 7-Oct-11 | *1 | 1.48 | 1.25 |
| 8 | 25-Oct-11 | *2 | *1.20 | 1.16 |
| 9 | 13-Mar-12 | 2 | *1.66 | 1.68 |
| 10 | 29-May-12 | 2 | *1.66 | 1.59 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 11 | 31-Jul-12 | *1 | *2.15 | 1.79 |
| 12 | 10-Oct-12 | 1 | *2.50 | 2.04 |
| 13 | 27-Mar-13 | 1 | *5.50 | 4.44 |
| 14 | 26-Jun-13 | 1 | *4.30 | 3.06 |

Rating/target price changes above reflect Eastern Standard Time

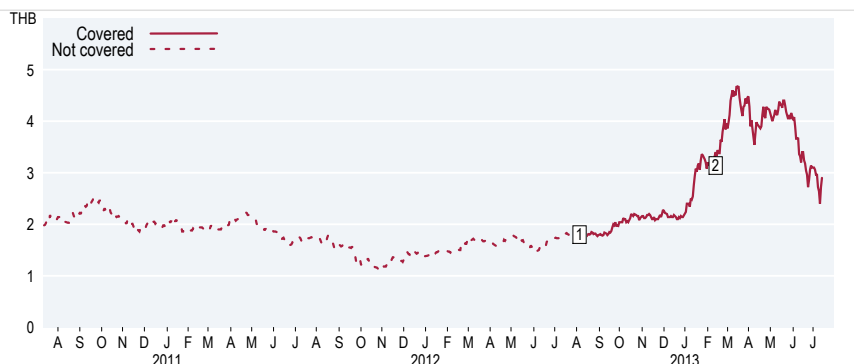
Quality Houses (QH.BK)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Amornrat Cheevavichawakul, CFA



| Date | Rating | Target Price | Closing Price |
|------------|---------|--------------|---------------|
| 1 6-Aug-12 | *ADD MP | - | 1.80 |

| Date | Rating | Target Price | Closing Price |
|-------------|---------|--------------|---------------|
| 2 13-Feb-13 | *REM MP | - | 3.40 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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|-----------------|------|------|-----------------|------|------|
| Buy | Hold | Sell | Buy | Hold | Sell |
| 48% | 40% | 12% | 6% | 88% | 6% |
| 53% | 50% | 45% | 58% | 51% | 49% |

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