

Current	Previous	Close	2019 TP	Exp Return	THAI CAC	CG 2017
BUY	BUY	7.70	12.30	+59.7%	N/A	4

Consolidated earnings				
BT (mn)	2016	2017	2018E	2019E
Normalized earnings	638	1,508	2,865	3,584
Net profit	638	2,021	2,865	3,584
EPS (Bt) - Norm	0.58	0.93	0.94	1.17
EPS (Bt)	0.58	1.24	0.94	1.17
% growth	-10.1	114.6	-24.7	25.1
Dividend (Bt)	0.18	0.60	0.43	0.47
BV/share (Bt)	1.99	3.15	2.43	3.13
EV/EBITDA (x)	12.9	9.5	7.9	6.2
Normalized PER (x)	13.3	8.3	8.2	6.6
PER (x)	13.3	6.2	8.2	6.6
PBV (x)	3.9	2.4	3.2	2.5
Dividend yield (%)	2.4	7.8	5.6	6.1
ROE (%)	23.2	31.5	32.8	32.9
YE No. of shares (million)	1,101	1,626	3,062	3,062
Par (Bt)	0.50	0.50	0.50	0.50

Source: Company data, FSS estimates

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Profit in 3Q18 beats estimate but challenging in 2019

3Q18 normalized earnings down 17% Q-Q and up 87% Y-Y

ORI's 3Q18 net profit comes in at Bt892mn (-12.5% Q-Q, +60% Y-Y). It was supported by an after-tax gain of Bt252mn from sales of the company's investment in its subsidiary. Excluding extra items, ORI's normalized earnings are equal to Bt640mn (-17% Q-Q, +87% Y-Y), beating our estimate and the street forecast by 13% and 15%, respectively, thanks to revenues from the company's management of projects for NRED, which more than doubled to Bt434mn. Since this type of revenues does not have cost, it helped gross margin to be wider than expected at 47.4% (vs. 44% in 2Q18 and 46.8% in 3Q17). The Q-Q decrease in ORI's normalized earnings can be blamed on transfer revenues which were down by 4% Q-Q to Bt3.2bn because there was no new project to transfer from. However, the gross margin of ORI's property development unit was flat Q-Q at 40%, even though the company realized from Park 24 (Phase 2) which has lower margin than others.

Maintain 2018 estimate, while 2019 is challenging

ORI's 9M18 normalized earnings amount to Bt1.9bn (+152% Y-Y). It's enough to secure just 66% of our full-year estimate. Looking ahead, we expect ORI's 4Q18 profit to accelerate to the peak of this year thanks to continued transfers from Park 24 (Phase 2). In addition, ORI will begin to transfer from Notting Hill Jatujak Interchange (Bt666mn, 94% sold) and Notting Sukhumvit 105 (Bt2.3bn, 80% sold). In this regard, the company has a backlog of Bt4.9bn that can be realized as revenues during the period. It's already enough to secure 96% of our full-year estimate. Hence, we stand by our 2018E normalized earnings at Bt2.8bn (+90% Y-Y). However, 2019 will prove to be challenging. ORI's management has disclosed that the property development market, as a whole, is pressured by a number of factors. They include the BoT's new mortgage loan rules and a slowdown in economic growth. Moreover, there is an international factor, i.e. trade wars, which has an impact on foreign customers. Given that, ORI has revised down its planned new launches and transfer revenues target by 7% to Bt17bn. ORI has planned to cope with the BoT's new criteria for mortgage loan where minimum down-payment increases from 12-15% to 15-20%. Specifically, the company will allow its customers to pay additional down-payment in six installments with 0% interest rate. However, ORI will continue to closely monitor negative impacts after the new rules are implemented.

Cut 2019E normalized earnings by 5% and 2019 TP to Bt12.3

We have revised down our 2019E normalized earnings by 5% to Bt35.8bn (+25% Y-Y). It factors in a decrease in our transfer revenues estimate by 5% to Bt18bn (+15% Y-Y) to be more in line with ORI's target. In this regard, ORI has a backlog that is enough to secure 65% of our transfer revenues estimate. After the cut, we have also decreased our 2019 TP from Bt13 to Bt12.3 (PER 10.5x). Although we maintain our BUY rating on ORI on the back of a wide upside of 58%, the sentiment is negative due to the company's cut in its transfer revenues target. Moreover, the condo market is clouded by the BoT's new mortgage loan rules due to the high level of a second home. Hence, we prefer developers of low-rise products where the demand is real. In this regard, we like QH.

Risks - Weaker-than-expected purchasing power, cancellation of presales, banks' loan rejection, construction delay, lower-than-expected presales

3Q18 Earnings Results

(Bt mn)	3Q18	2Q18	%Q-Q	3Q17	%Y-Y	Comment
Revenue	3,658	3,821	-4.3	1,665	119.7	<ul style="list-style-type: none"> In 3Q18, ORI's net profit dropped 12.5% Q-Q and jumped 60% Y-Y. Excluding an extra gain of Bt252mn, the company's normalized earnings tumbled 17% Q-Q and surged 87% Y-Y, 13% above our estimate. SG&A expense to revenues ratio surged to 18% (vs. 15.7% in 2Q18). The GPM of its property development business was flat Q-Q at 40%. However, the company's overall GPM increased to 47% (vs. 44% in 2Q18) thanks to revenues from its management of JV projects, which sharply increased 434% Q-Q due to new project launches.
Costs	1,923	2,139	-10.1	886	117.0	
Gross profit	1,735	1,682	3.2	779	122.7	
SG&A costs	664	599	10.8	367	81.1	
Interest charge	73	57	29.0	2	3,766.9	
Norm profit	640	770	-16.9	342	86.8	
Net profit	892	1,019	-12.5	556	60.3	
Gross margin (%)	47.4	44.0	3.4	46.8	0.6	
Norm earnings margin (%)	17.5	20.1	-2.7	20.6	-3.1	
Net profit margin (%)	24.4	26.7	-2.3	33.4	-9.0	

Source: Company and FSS Research

Income Statement (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Revenue	2,010	3,153	9,252	15,615	17,951
Cost of sales	1,149	1,724	5,662	9,190	10,130
Gross profit	861	1,429	3,589	6,425	7,820
SG&A	404	666	1,452	2,350	2,712
Operating profit	457	762	2,137	4,075	5,108
Other income	45	46	95	80	90
EBIT	502	808	2,232	4,155	5,198
EBITDA	530	850	2,318	4,233	5,288
Interest charge	17	7	51	75	200
Tax on income	98	162	583	816	1,000
Earnings after tax	387	640	1,598	3,264	3,999
Minority Interests	0	2	0	0	15
Norm profit	386	638	1,380	2,865	3,584
Extraordinary items	0	0	641	0	0
Net profit	386	638	2,021	2,865	3,584

Balance Sheet (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Cash and equivalent	296	521	820	739	1,754
Current Investment	6	11	294	301	359
Accounts receivable	2,442	4,517	18,209	19,987	21,541
Inventory	384	1,119	1,127	1,249	1,346
Other current asset	3,128	6,269	20,460	22,277	25,001
Total current assets	95	8	1,049	151	170
Investment	70	367	1,021	1,069	1,257
PPE	55	114	396	450	503
Other non- assets	3,347	6,758	22,925	23,946	26,930
Total Assets	0	198	695	670	650
Short-term loans	254	529	3,544	3,596	3,685
Account payable	410	555	4,548	3,677	3,922
Other current liabilities	653	905	3,119	2,248	2,513
Total current liabilities	1,317	2,188	11,906	10,191	10,770
Long-term debt	281	1,823	3,827	5,022	5,277
Other LT liabilities	1	4	780	6	6
Total liabilities	1,599	4,015	16,513	15,219	16,053
Registered capital	302	553	1,025	1,025	1,025
Paid-up capital	300	551	813	1,531	1,531
Share Premium	1,248	1,254	2,234	2,234	2,234
Legal reserve	26	55	102	102	102
Retained earnings	197	393	2,068	3,672	5,823
Others	1	1	1	1	1
Minority Interest	0	550	1290	1290	1290
Shareholders' equity	1,748	2,743	6,412	8,727	10,877

Source: Company data, FSS research

Cash Flow Statement (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Net profit	386	638	1,380	3,264	3,999
Depreciation etc.	28	41	87	78	90
Change in working capital	-840	-2,258	-8,372	-3,584	-1,427
Other adjustments	0	0	0	0	0
Cash flow from operation	-425	-1,579	-6,483	-641	2,247
Capital expenditures	-50	-439	-1,577	812	-278
Others	0	0	0	0	0
Cash flow from investing	-50	-439	-1,577	812	-278
Free cash flow	-475	-2,018	-8,060	171	1,969
Net borrowings	-342	1,885	6,494	299	480
Equity capital raised	1,326	799	1,994	710	0
Dividend paid	-251	-441	-125	-1,260	-1,433
Others	0	0	-3	0	0
Cash flow from financing	733	2,243	8,359	-252	-953
Net Change in cash	258	225	299	-81	1,015

Important Ratios (Consolidated)

	2015	2016	2017	2018E	2019E
Growth (%)					
Revenue	265.3	56.9	193.4	68.8	15.0
EBITDA	422.7	60.3	172.8	82.6	24.9
Net profit	449.3	65.0	217.0	41.8	25.1
Normalized earnings	449.3	65.0	116.4	90.0	25.1
Profitability (%)					
Gross profit margin	42.9	45.3	38.8	41.1	43.6
EBITDA margin	26.4	27.0	25.1	27.1	29.5
EBIT margin	25.0	25.6	24.1	26.6	29.0
Normalized profit margin	19.2	20.2	14.9	18.3	20.0
Net profit margin	19.2	20.2	21.8	18.3	20.0
Normalized ROA	11.5	9.4	6.0	12.0	13.3
Normalize ROE	22.1	23.2	21.5	32.8	32.9
Normalized ROCE	19.0	13.9	12.5	20.8	22.2
Risk (x)					
D/E	0.9	1.5	2.6	1.7	1.5
Net D/E	0.7	1.2	2.4	1.7	1.3
Net debt/EBITDA	2.5	4.0	6.8	3.4	2.7
Per share data (Bt)					
Reported EPS	0.64	0.58	1.24	0.94	1.17
Normalized EPS	0.64	0.58	0.85	0.94	1.17
EBITDA	0.88	0.77	1.43	1.38	1.73
Book value	2.91	1.99	3.15	2.43	3.13
Dividend	0.17	0.18	0.60	0.43	0.47
Par	0.50	0.50	0.50	0.50	0.50
Valuations (x)					
P/E	12.0	13.3	6.2	8.2	6.6
Norm P/E	12.0	13.3	8.3	8.2	6.6
P/BV	2.6	3.9	2.4	3.2	2.5
EV/EBITDA	9.5	12.9	9.5	7.9	6.2
Dividend yield (%)	2.2	2.4	7.8	5.6	6.1

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Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

Note: The expected return may change as market risks increase or decline.

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Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2017

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

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Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

1 CG Score 2017 from Thai Institute of Directors Association (IOD)

2 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of July 31, 2017) are categorised into:

- companies that have declared their intention to join CAC, and
- companies certified by CAC.