

SECTOR UPDATE

Property – Thailand

2Q23 Results Preview: Earnings To Decrease yoy But Improve qoq

We estimate a sector net profit of Bt7.1b in 2Q23 (-12% yoy, +16% qoq). The qoq increase would come from solid performances from developers that have a solid backlog and developers that are expected to recognise extra gains. PSH is expected to outperform its peers in 2Q23. We expect a recovery in the residential market in 2H23 amid many challenges. Maintain MARKET WEIGHT. We still consider AP as our top pick and recommend trading BUY for LH.

WHAT'S NEW

- **Expect 2Q23 sector earnings to fall yoy but increase qoq.** We estimate developers under our coverage to report a combined net profit of about Bt7.1b in 2Q23 (-12% yoy, +16% qoq). Overall, 2Q23 sector earnings are expected to show positive developments despite facing some challenges in core earnings and gross margins. Strong performance from developers such as AP and SPALI are likely to drive growth qoq. For gross margin, we anticipate a slight drop in qoq due to product mix, with the low-rise segment remaining as the key contributor. Nevertheless, developers with a strong market share are expected to maintain their margins at a healthy level. We expect PSH to outperform its peers as it will recognise extra gains in 2Q23.
- **A recovery in 2H23 amid many challenges.** Units sold of new project launches saw a slowdown in 1H23, compared with the prior year. This reflects the multiple headwinds facing the residential market in Thailand, such as the expiration of the eased Loan-to-Value (LTV) policy, higher transfer fee and rate hikes. We still expect a recovery in the residential market in 2H23 following an improvement in the economy and more project launches. However, we foresee many challenges. The decrease in units sold of new project launches in 1H23 might result in developers delaying project launches in 2H23. Developers are also concerned about the uncertainty of Thailand's political situation, as it affects homebuyers' decisions. Furthermore, tightening policy, if any, from banks would decrease homebuyers' purchasing power, especially in the mid-low-end segment.

ACTION

- **Maintain MARKET WEIGHT.** A recovery in the housing market has been facing multiple headwinds, such as changes in the LTV measure, higher transfer fees, and rate hikes. Hence, we reiterate selective BUY on developers with solid market share and profitability. We still consider AP as our top pick with its solid market share and more resilient profitability than its peers. We also recommend trading buy on LH for its: a) inexpensive valuation, b) expected improvement in earnings in 2H23, and c) attractive dividend yield.

PEER COMPARISON

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)	Upside (%)	Market Capitalization (Btm)	----- PE -----			----- EPS Growth -----			PB	ROE	Div Yield
							2022 (x)	2023F (x)	2024F (x)	2022 (%)	2023F (%)	2024F (%)	2023F (x)	2023F (%)	2023F (%)
AP (Thailand)	AP TB	BUY	12.20	14.70	20	38,380	6.5	6.3	6.1	29.4	3.6	3.6	0.9	15.7	5.5
Land and Houses	LH TB	BUY	8.45	11.10	31	100,975	12.1	13.1	11.2	19.8	-7.6	17.4	1.9	14.6	6.5
LPN Development	LPN TB	SELL	4.18	3.80	-9	6,079	10.0	11.0	10.2	104.0	-9.0	8.0	0.5	4.6	5.9
Origin Property	ORI TB	BUY	10.40	14.40	38	25,523	6.8	6.5	6.1	18.2	3.7	6.8	1.2	18.8	6.9
Pruksa Holding	PSH TB	HOLD	13.20	12.00	-9	28,888	10.4	9.4	9.0	17.8	10.9	4.6	0.6	6.7	7.3
Quality Houses	QH TB	HOLD	2.28	2.48	9	24,429	10.2	10.1	9.6	43.5	0.9	5.2	0.9	8.6	6.5
Supalai	SPALI TB	BUY	21.00	25.80	23	41,014	5.0	5.8	5.7	15.6	-13.3	1.9	0.8	14.3	6.1
Sector							7.0	7.3	7.0	22.4	-3.4	7.4	1.0	12.1	6.4

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

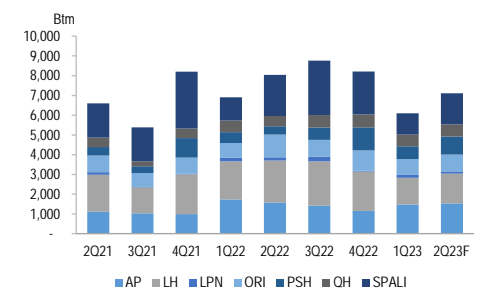
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SECTOR PICKS

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
AP (Thailand)	AP TB	BUY	12.20	14.70
Land and Houses	LH TB	BUY	8.45	11.10
Origin Property	ORI TB	BUY	10.40	14.40
Supalai	SPALI TB	BUY	21.00	25.80

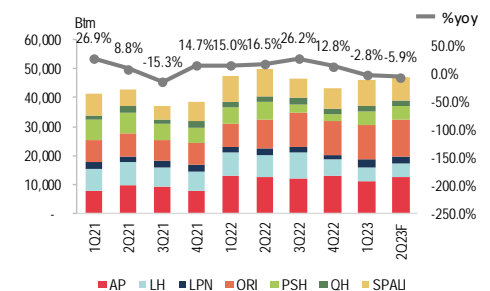
Source: UOB Kay Hian

SECTOR NET PROFIT



Source: Respective companies UOB Kay Hian

SECTOR PRESALES



Source: Respective companies UOB Kay Hian

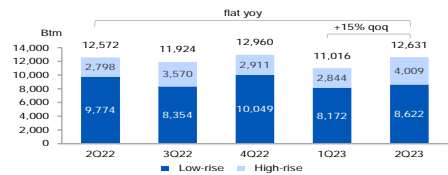
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ESSENTIALS

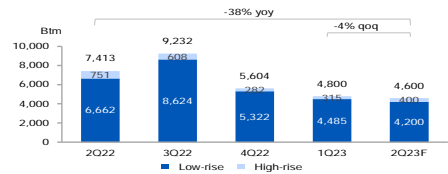
- AP (Thailand) (AP):** We anticipate its 2Q23 net profit to come in at Bt1.5b (-2% yoy, +4% qoq). We estimate AP's transfers for the quarter at Bt9.3b (-4% yoy, +1% qoq). We expect a marginal increase in 2Q23 transfers from the previous quarter, underpinned by the low-rise segment. In addition, residential gross margin is estimated to stand at a healthy level of 35.3%, due to the low-rise segment maintaining its margin. We expect SG&A-to-sales to improve slightly qoq to 19.2% due to higher revenue and expense control. We expect equity income to come in at Bt272m in 2Q23 (2Q22: Bt378m, 1Q23: Bt238m), with a continuous transfer in JV projects.
- Land & Houses (LH):** We estimate net profit of Bt1.5b in 2Q23 (-30% yoy, +11% qoq). 2Q23 residential revenue is expected to improve slightly qoq to Bt4.9b, underpinned by its backlog. Meanwhile, rental income is likely to be flat qoq. We expect the residential segment's gross margin to remain vulnerable but improve slightly qoq to 29.7%. We also estimate SG&A-to-sales at 18%, flat qoq. Equity income is expected to come in at Bt819m, which will be mainly contributed by Home Product Center (HMPRO), Quality Houses (QH) and LH Financial Group (LHFG) (2Q22: Bt651m, 1Q23: Bt848m).
- L.P.N. Development (LPN):** We estimate 2Q23 earnings at Bt110m (-26% yoy, -24% qoq). We expect transfers at Bt1.2b (-21% yoy, -5% qoq), which remains weak due to the absence of newly-completed projects and the low-end segment affected by rate hikes. We expect residential gross margin to decrease from the prior quarter to 21.8% due to promotional campaigns being carried out. We also expect SG&A-to-sales ratio to increase to 14.4% on a lower revenue base.
- Origin Property (ORI):** We expect a net profit of Bt860m in 2Q23 (-26% yoy, +8% qoq). We estimate transfers (non-JV) to come in at Bt1.9b (-34% yoy, -10% qoq), as the absence of newly-completed condo projects would pressure residential revenue. However, ORI's transfer activities (including JV projects) are likely to improve yoy and qoq, driven by transfers in JV projects. Residential gross margins are estimated to remain flat from the previous quarter at 34% as the low-rise segment (with lower margins than the high-rise segment) remains the key contributor in its product mix. We expect SG&A-to-sales to rise to 23.5% following more project launches. In addition, we expect extra gains of about Bt360m from the signing of 20-25 JV projects.
- Pruksa Holding (PSH):** We forecast a net profit of Bt912m in 2Q23 (+112% yoy, +40% qoq). An extra gain from restructuring its precast business would underpin its outstanding performance. Meanwhile, transfer activities are estimated at Bt5.6b (+10% yoy, -7% qoq), with lower condo backlogs causing the qoq decrease. We expect residential gross margins to fall to 32% on a lower proportion of healthy margin condominiums. SG&A-to-sales is likely to increase qoq to 21.4% on lower revenue.
- Quality Houses (QH):** We estimate 2Q23 earnings at Bt615m (+19% yoy, +4% qoq). We expect transfers at Bt1.8b (-10% yoy, +12% qoq). Transfers could have increased from the prior quarter, underpinned by its backlog. We expect residential gross margin to decrease to 33% on a lower margin in the low-rise segment. SG&A-to-sales is estimated at 24.5%, improving qoq on higher transfers. Equity income is expected at Bt450m in 2Q23 (2Q22: Bt363m, 1Q23: Bt452m), mainly contributed by HMPRO.
- Supalai (SPALI):** We expect a net profit of Bt1.5b in 2Q23 (-25% yoy, +45% qoq). Transfers are expected to come in at Bt8.0b (flat yoy, +43% qoq). The qoq improvement will be driven by a newly completed condo project Loft Sathorn-Ratchapruuek and low-rise transfers, including transfers in Australia. Residential gross margin could have decreased to 35.9% in 2Q23 due to its product mix and higher revenue from its operations in Australia. SG&A-to-sales ratio is estimated to improve to 12.2% following higher revenue. SPALI's share of profit from JV projects is expected to come in at about Bt85m in 2Q23 (2Q22: Bt83m, 1Q23: Bt66m).

AP PRESALES



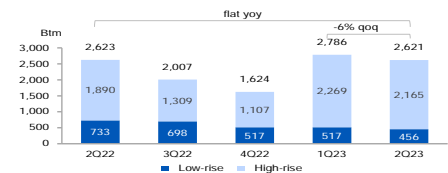
Source: AP, UOB Kay Hian

LH PRESALES



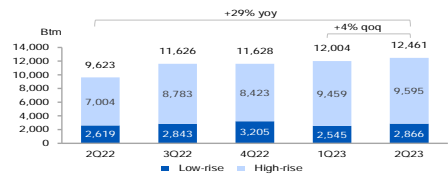
Source: LH, UOB Kay Hian

LPN PRESALES



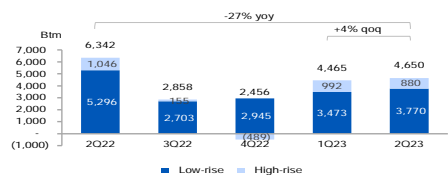
Source: LPN, UOB Kay Hian

ORI PRESALES



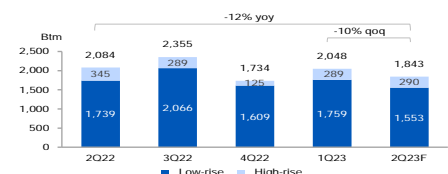
Source: ORI, UOB Kay Hian

PSH PRESALES



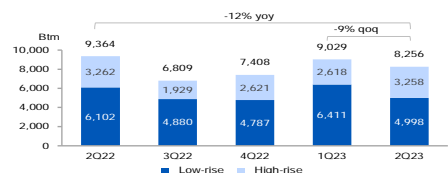
Source: PSH, UOB Kay Hian

QH PRESALES



Source: QH, UOB Kay Hian

SPALI PRESALES



Source: SPALI, UOB Kay Hian

2023 RESULTS PREVIEW

	2Q22	1Q23	2Q23F	yoy (%)	qoq (%)
Residential revenue (Btm)					
AP	9,620	9,144	9,269	(3.6)	1.4
LH	8,360	4,832	4,890	(41.5)	1.2
LPN	1,539	1,280	1,220	(20.8)	(4.7)
ORI	2,914	2,150	1,935	(33.6)	(10.0)
PSH	5,101	6,030	5,607	9.9	(7.0)
QH	1,970	1,590	1,781	(9.6)	12.0
SPALI	8,136	5,641	8,048	(1.1)	42.7
Total	37,641	30,669	32,751	(13.0)	6.8
Core profit (Btm)					
AP	1,637	1,452	1,527	(6.7)	5.2
LH	1,215	419	501	(58.8)	19.6
LPN	147	145	110	(25.6)	(24.3)
ORI	667	700	572	(14.3)	(18.3)
PSH	353	529	312	(11.8)	(41.0)
QH	152	140	165	8.6	17.7
SPALI	2,075	1,080	1,563	(24.7)	44.7
Total	6,247	4,465	4,750	(24.0)	6.4
Net profit (Btm)					
AP	1,574	1,478	1,535	(2.4)	3.9
LH	2,139	1,354	1,508	(29.5)	11.4
LPN	147	145	110	(25.6)	(24.3)
ORI	1,155	798	860	(25.6)	7.8
PSH	430	652	912	112.1	39.8
QH	515	592	615	19.3	3.8
SPALI	2,075	1,080	1,563	(24.7)	44.7
Total	8,036	6,101	7,103	(11.6)	16.4
Residential gross margin (%)					
AP	32.4	35.5	35.3	2.9	(0.2)
LH	33.6	28.7	29.7	(3.9)	1.0
LPN	22.0	24.1	21.8	(0.2)	(2.3)
ORI	36.3	33.9	33.4	(2.9)	(0.5)
PSH	32.4	34.1	32.0	(0.4)	(2.1)
QH	34.0	33.6	33.0	(1.0)	(0.6)
SPALI	39.5	36.4	35.9	(3.6)	(0.5)
Total	34.1	33.6	33.3	(0.8)	(0.3)
SG&A to total revenue (%)					
AP	17.4	19.7	19.2	1.8	(0.5)
LH	13.2	18.6	18.0	4.8	(0.6)
LPN	14.8	13.8	14.4	(0.4)	0.6
ORI	21.3	20.3	23.5	2.2	3.2
PSH	20.5	20.0	21.4	0.9	1.4
QH	24.2	25.3	24.5	0.3	(0.9)
SPALI	11.5	14.2	12.2	0.7	(2.0)
Total	16.2	18.7	18.3	2.1	(0.4)

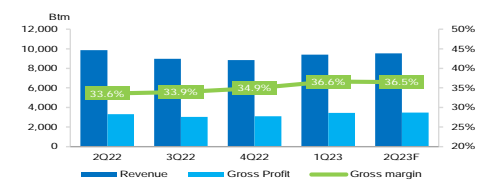
Source: Respective companies, UOB Kay Hian

- We estimate a sector net profit of Bt7.1b (-12% yoy, +16% qoq) in 2Q23, with the qoq increase to come from solid performances from developers that have a solid backlog and developers that are expected to recognise extra gains. Meanwhile, the sector's core earnings are anticipated at Bt4.8b (-24% yoy, +6% qoq). Residential revenue from property stocks under our coverage is expected to decrease yoy but increase qoq to Bt32.8b (-13% yoy and +7% qoq), mainly underpinned by AP and SPALI. Gross margin is expected to drop slightly qoq to 33.3% as the low-rise segment (with lower margins than the high-rise segment) remains the key contributor in its product mix. However, developers with a strong market share are expected to maintain their margins at a healthy level. SG&A-to-sales ratio is likely to improve slightly to 18.3%, down from the previous quarter, on higher revenue bases.

RISK

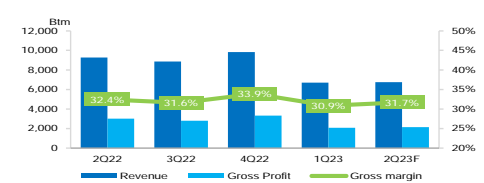
- Delay in project launches and completions, tightening of banks' policy, rising cost, labour shortage, interest rate hikes and weaker-than-expected economic growth.

AP GROSS MARGIN



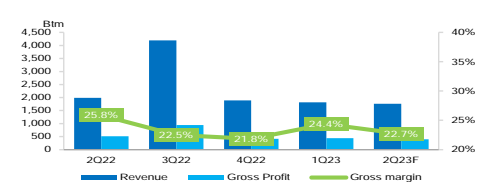
Source: AP, UOB Kay Hian

LH GROSS MARGIN



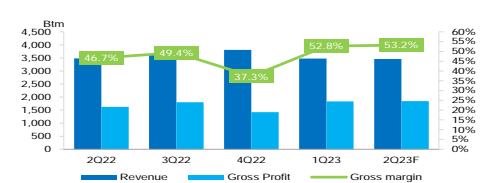
Source: LH, UOB Kay Hian

LPN GROSS MARGIN



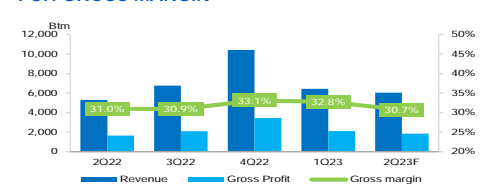
Source: LPN, UOB Kay Hian

ORI GROSS MARGIN



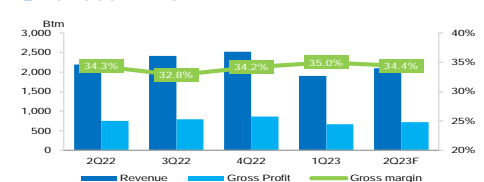
Source: ORI, UOB Kay Hian

PSH GROSS MARGIN



Source: PSH, UOB Kay Hian

QH GROSS MARGIN



Source: QH, UOB Kay Hian

SPALI GROSS MARGIN



Source: SPALI, UOB Kay Hian

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