

**HOLD** (Unchanged) **TP: Bt8.20** (From Bt7.00)**Change in Numbers** **Downside: -8.9%**

## Siam Future Development (SF TB)

### Megabangna site visit

**With its great layout, strong shop franchises and decent traffic, we see lower risk in the long term for SF's mega-size Megabangna project and lift our long-term rental rate growth assumption, earnings and TP to Bt8.20. But given its high PE and no new catalysts, we recommend a switch into MAJOR, which has a 23% stake in SF, for its cheaper valuation.**

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Site visit to SF's newly opened shopping complex

Megabangna is Thailand's largest shopping complex and includes the first IKEA store. IKEA and SF each have 49% stakes while S.P.S. Global Trade holds 2%. On seeing the great shop layout, strong shop franchises and decent traffic, we feel more comfortable with the project's long-term outlook and lift our long-term rental rate growth assumption from 3% to 5% post 2014. We already forecast a 5% rental rate hike in the first years of operation in 2012-14 resulting in an average 10% rise in earnings after 2014. This leads us to boost our TP from Bt7.00 to Bt8.20. We now factor in a Bt500m gain from asset revaluation on Megabangna being booked in 1Q12, causing our 2012F profit to soar by 108%.

Interest high with 11 funds joining us on the visit

We arranged a site visit for local fund managers at Megabangna on Tuesday after the 5 May grand opening with the help of SF and three of its major tenants, Home Product Center, Major Cineplex and Robinson Department Store. Interest in Thailand's largest-ever shopping complex with 185,000 sq m of saleable area in the east of Bangkok was high and 20 fund managers and analysts from 11 funds joined the visit.

Megabangna will drive SF's growth for next two years

Owning a 49% stake in Megabangna, SF recognizes earnings from this mall as equity income. Given no new store openings this year, Megabangna will be SF's key earnings driver over the next two years and, excluding the gain from asset revaluation, we forecast SF's profit to grow 13% in 2012 and 28% in 2013. Note that as SF books Megabangna in equity income, Megabangna's asset revaluation is also booked in equity income rather than under extraordinary items in SF's income statement. SF has three new projects in the pipeline. Expansions of two existing projects are scheduled to open in early 2013 and a new project in late 2013 and we expect 10% profit growth in 2014.

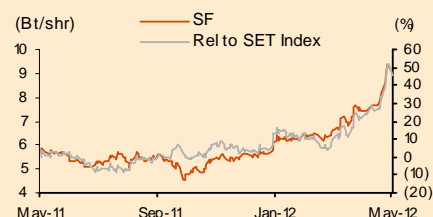
Good news in the price – Switch to MAJOR

We maintain our HOLD call on SF as the good news from Megabangna's opening and non-cash asset revaluation booked in 1Q12 has been reflected in its share price, which is now on 20.3x PE in 2012F. Given its low equity base for the accommodation of another sizeable project and less sustainable growth outlook versus other listed retailers, SF shouldn't trade at the same valuation as them. We recommend a switch into MAJOR. First, with a 23% stake in SF, MAJOR can enjoy Megabangna's success and ~Bt1.4bn in hidden value from SF's current price versus MAJOR's investment cost. Second, MAJOR trades in line with SF at 20.4x PE but MAJOR has a more sustainable profit outlook with a three-year EPS CAGR of 16% against SF's 12%. Third, MAJOR also has better fundamentals, a stronger balance sheet, greater expansion capability and a higher dividend yield of 4.4% versus SF's 1.7%.

#### COMPANY VALUATION

Y/E Dec (Bt m)	2011	2012F	2013F	2014F
Sales	1,368	1,500	1,625	1,682
Net profit	709	998	635	697
Consensus NP	—	501	801	688
Diff from cons (%)	—	99.2	(20.8)	1.3
Norm profit	439	998	635	697
Prev norm profit	—	468	562	615
Chg from prev (%)	—	113.3	12.9	13.3
Norm EPS (Bt)	0.4	0.9	0.5	0.6
Norm EPS gr (%)	(15.6)	112.8	(39.9)	9.8
Norm PE (x)	21.2	10.0	16.6	15.1
EV/EBITDA (x)	17.0	17.2	16.2	14.7
P/BV (x)	2.3	2.3	2.1	1.9
Div. yield (%)	0.2	1.7	1.8	2.0
ROE (%)	11.4	22.7	13.0	13.0
Net D/E (%)	46.2	54.4	48.2	36.1

#### PRICE PERFORMANCE



#### COMPANY INFORMATION

Price as of 8 May 12 (Bt)	9.00
Market cap (US\$ m)	340
Listed shares (m shares)	1,170
Free float (%)	40
Avg daily turnover (US\$ m)	1.24
12M price H/L (Bt)	9.8/4.4
Sector	Property
Major shareholder	Major Cineplex Group 23.3%

Sources: Bloomberg, Company data, Thanachart estimates

## More bullish on Megabangna project in longer term

*Lots of interest from local funds in the Megabangna site visit*

We arranged a site visit for local fund managers to Megabangna on Tuesday with the help of Siam Future Development (SF) and three of its major tenants, Home Product Center (HMPRO), Major Cineplex (MAJOR) and Robinson Department Store (ROBINS). Interest in Thailand's largest-ever shopping complex with 185,000 sq m of saleable area in the east of Bangkok was high and 20 fund managers and analysts from 11 funds signed up for the visit.

*We boost earnings post 2014 by 10% on average and our TP is lifted to Bt8.20/share*

Megabangna is Thailand's largest shopping complex and includes the first IKEA store. The project has been developed by SF Development Co., Ltd., a joint venture between SF, Ikeana Pte. Ltd. and S.P.S. Global Trade, with respective stakes of 49%, 49% and 2%.

On seeing the great shop layout, strong shop franchises and decent traffic, we now feel more comfortable about the long-term outlook for the Megabangna project. We therefore boost our long-term rental growth assumption from 3% to 5% post 2014 while we already forecast a good 5% rate increase in the first years of operation in 2012-14. This results in an average 10% rise in earnings post 2014 and our 9.8%-WACC DCF-based TP is lifted from Bt7.00 to Bt8.20/share. We now factor in a ~Bt500m gain from asset revaluation on Megabangna being booked in 1Q12, causing our 2012F profit to soar by 108%.

### Ex 1: Earnings Revisions

	2012F	2013F	2014F
<b>Equity income (Bt m)</b>			
- New	543	113	137
- Old	41	109	133
- Change (%)	1224.4	3.7	3.0
<b>SF's normalized profit (Bt m)</b>			
- New	998	635	697
- Old	480	628	688
- Change (%)	107.9	1.0	1.3

Source: Thanachart estimates

## But good news is in the price; switch to MAJOR

*But still maintain HOLD as the share price has reflected the good news*

Although we believe the Megabangna project will be the key earnings driver for SF over the next two years, given that it won't open any new shopping malls this year, we believe SF's share price has already reflected the good news from the project opening and non-cash asset revaluation being booked in 1Q12. SF is not cheap trading at 20.3x PE in 2012F (excluding the one-time gain from asset revaluation). In addition, given SF's low equity base to accommodate another sizeable project such as IKEA's second and third stores and less sustainable growth outlook versus other listed retailers, it doesn't deserve to trade at the same valuation as them. We thus maintain our HOLD rating on SF.

In our view, MAJOR is a good choice to switch into due to the following factors:

*Switch into MAJOR, the 23% owner of SF, for its cheaper valuation and stronger growth drivers*

**First**, with a 23% stake in SF, MAJOR can enjoy Megabangna's success and it has ~Bt1.4bn in hidden value from SF's current price versus MAJOR's investment cost which implies Bt1.60 per MAJOR share.

**Second**, MAJOR is trading in line with SF on a PE basis. MAJOR is at PE of 20.4x compared to SF's 20.3x in 2012F. However, MAJOR's profits are more sustainable with a three-year EPS CAGR of 16% versus SF's 12%.

**Third**, MAJOR also has better fundamentals, a stronger balance sheet, greater expansion capability and a higher dividend yield (as seen in Exhibit 2).

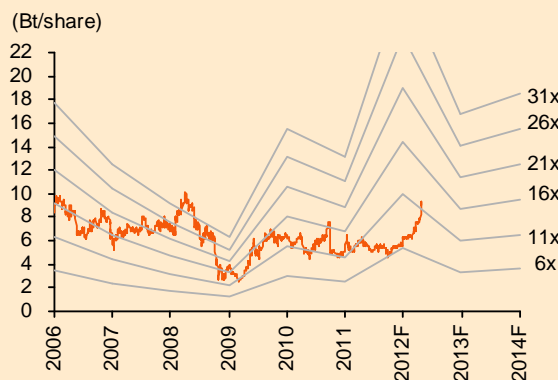
### Ex 2: Stock Comparison

Name	BBG Code	EPS growth		PE		ROE		P/BV		Div Yield		Net D/E	
		12F (%)	13F (%)	12F (x)	13F (x)	12F (%)	13F (%)	12F (x)	13F (x)	12F (%)	13F (%)	12F (%)	13F (%)
Siam Future	SF TB	112.8	(39.9)	20.3*	16.6	22.7	13.0	2.3	2.1	1.7	1.8	54.4	48.2
Major Cineplex	MAJOR TB	15.0	18.9	20.4	17.2	15.1	17.4	3.0	2.9	4.4	5.2	35.1	27.1

Source: Thanachart estimates

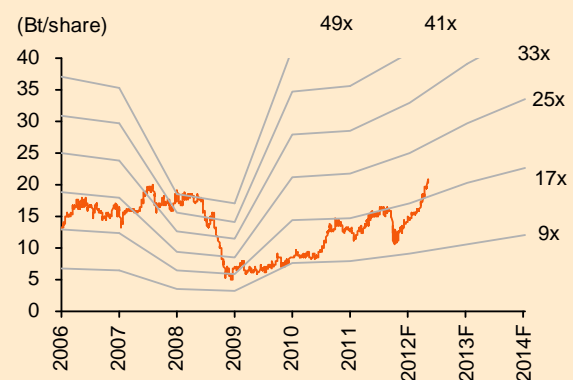
Note: \*Excluding the one-time gain from asset revaluation

### Ex 3: SF's PE Band Chart



Sources: Bloomberg, Company data, Thanachart estimates

### Ex 4: MAJOR's PE Band Chart



Sources: Bloomberg, Company data, Thanachart estimates

**Megabangna mall is located on Bangna-Trad Km 8 with 185,000 sq m in leased space and 8,000 car parking spaces**

### Megabangna - Thailand's largest shopping mall

Megabangna is the first low-rise (two level) super regional mall in Southeast Asia with an everything-under-one-roof retail model. The shopping mall is located on Bangna-Trad Km 8 with a total leasable area of 185,000 sq m of which 43,000 sq m is leased by IKEA. Another 51,000 sq m is leased by four main anchor tenants, Big C Supercenter (BIGC), HMPRO, MAJOR and ROBINS. Meanwhile, the remaining 91,000 sq m is leased by small tenants. The mall also has 8,000 car parking spaces on one level. So far, 95% of the leasable area has been occupied.

### Ex 5: Major Five Anchor Tenants At Megabangna Mall

Anchor tenants	Store	Leasable space (sq m)
Big C Supercenter	Big C Extra	13,000
Home Product Center	HomePro	8,000
IKEA	IKEA	43,000
Major Cineplex	Mega Cineplex	15,000
Robinson Department Store	Robinson	15,000

Source: Company data

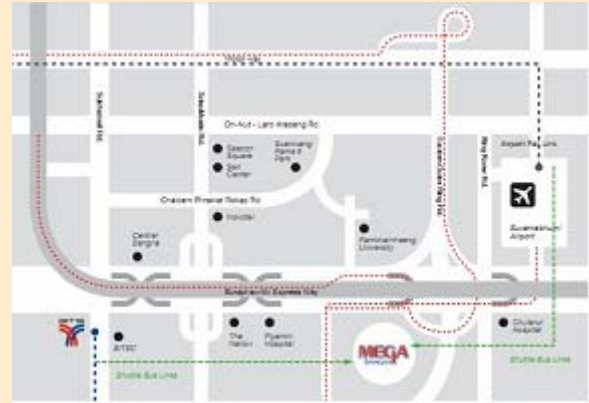
The mega mall's rental space for small tenants is divided into nine zones: Mega Food, Mega Fashion, Mega Kids, Mega Tech, Mega Home, Mega Wellness, Mega Sports, Mega Banking and Mega Lifestyle with 450 strong franchise brands. Megabangna had its soft launch and grand opening on 3 and 5 May 2012. Traffic on those days was more than SF's target of 110,000 people a day. The mall is open to shoppers from 10am to 10pm every day.

**Ex 6: Megabangna's Outside Layout**



Source: Company data

**Ex 7: Megabangna's Location**



Source: Company data

**Ex 8: Megabangna's Inside Layout – 1<sup>st</sup> Floor**



Source: Company data

**Ex 9: Megabangna's Inside Layout – 2<sup>nd</sup> Floor**



Source: Company data

**Ex 10: Mega Food Zone**



Source: Company data

**Ex 11: Mega Banking Zone**



Source: Company data



**Ex 12: Mega Cineplex**



Source: Company data

**Ex 13: Mega Cineplex**



Source: Company data

**Ex 14: Big C Extra**



Source: Company data

**Ex 15: Robinson Department Store**



Source: Company data

**Ex 16: HomePro Store**



Source: Company data

**Ex 17: IKEA Store**



Source: Company data

**COMPANY DESCRIPTION**

Siam Future Development (SF) is an open-air shopping center developer and management service provider. It operates 30 shopping centers with total rental space of 231,795 sq m as at the end of 2011 with properties such as Esplanade, J Avenue - Thonglor 15, Petchkasem Power Center, The Avenue Chaeng Watthana and The Avenue Pattaya, etc. Major Cineplex Group (MAJOR) and SF's management team hold 23% and 29% stakes. SF's direct rivals are classified into two groups. The first group is closed shopping center developers and the second open-air shopping center developers.

Source: Thanachart

**THANACHART'S SWOT ANALYSIS**

**S — Strength**

- One of the big open-air shopping center developers and management service providers.
- The major shareholder, the Poolwaraluck family, has many businesses under its umbrella, mostly entertainment complexes.

**O — Opportunity**

- Expansion in Bangkok and surrounding provinces.
- Changes in consumer lifestyles.

**CONSENSUS COMPARISON**

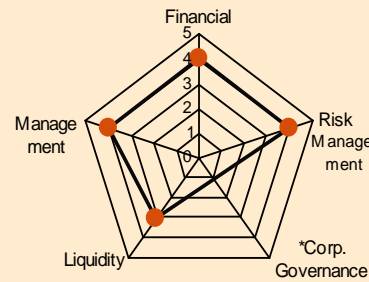
	Consensus	Thanachart	Diff
Target price (Bt)	7.38	8.20	11%
Net profit 12F (Bt m)	501	998	99%
Net profit 13F (Bt m)	801	635	-21%
Consensus REC	<b>BUY: 3</b>	<b>HOLD: 2</b>	<b>SELL: 0</b>

**HOW ARE WE DIFFERENT FROM THE STREET?**

- Our TP is above the Street's as we are more bullish on SF's earnings over the longer term because of rental rate growth while we have already factored in one new greenfield project in late 2013.
- Our higher earnings in 2012 result from a one-time gain from asset revaluation.

Sources: Bloomberg consensus, Thanachart

**COMPANY RATING**



**Rating Scale**

<b>Very Strong</b>	<b>5</b>
<b>Strong</b>	<b>4</b>
<b>Good</b>	<b>3</b>
<b>Fair</b>	<b>2</b>
<b>Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Awards, no data on CG rating

**W — Weakness**

- Highly capital-intensive business.
- Long payback period.

**T — Threat**

- Indirect competition from hypermarkets, especially upcountry.
- Risk of leasehold projects not being renewed.

**RISKS TO OUR INVESTMENT CASE**

- More or less new leasable space.
- Economic growth.

Source: Thanachart

## FINANCIAL SUMMARY

Income Statement						Quarterly Earnings					
(consolidated)						(consolidated)					
Yr-end Dec (Bt m)	2010	2011	2012F	2013F	2014F	4Q10	1Q11	2Q11	3Q11	4Q11	
Sales	2,027	1,368	1,500	1,625	1,682	Sales	1,041	408	324	353	283
Cost of sales	785	533	589	630	631	Cost of sales	400	164	126	139	105
<b>Gross profit</b>	<b>1,242</b>	<b>835</b>	<b>911</b>	<b>995</b>	<b>1,051</b>	<b>Gross profit</b>	<b>640</b>	<b>244</b>	<b>198</b>	<b>214</b>	<b>179</b>
SG&A	192	183	191	200	207	SG&A	74	46	41	41	55
<b>Operating profit</b>	<b>1,050</b>	<b>652</b>	<b>719</b>	<b>795</b>	<b>844</b>	<b>Operating profit</b>	<b>566</b>	<b>198</b>	<b>157</b>	<b>173</b>	<b>124</b>
Depre & amortization	0	17	18	20	20	Depre & amortization	5	4	4	4	0
<b>EBITDA</b>	<b>1,050</b>	<b>669</b>	<b>738</b>	<b>815</b>	<b>865</b>	<b>EBITDA</b>	<b>571</b>	<b>202</b>	<b>162</b>	<b>178</b>	<b>124</b>
Other income	111	170	30	33	34	Other income	(16)	12	31	162	(34)
Other expenses	0	0	0	0	0	Other expenses	0	0	0	0	0
Interest expense	150	106	101	116	115	Interest expense	31	27	26	27	27
Pre-tax profit	1,010	716	649	713	763	Pre-tax profit	519	183	162	309	62
Income tax	291	238	149	143	153	Income tax	156	52	57	100	28
After-tax profit	719	478	500	570	611	After-tax profit	363	131	105	208	34
Equity income	0	28	543	113	137	Equity income	0	0	17	24	(13)
Minority interests	(202)	(67)	(45)	(49)	(50)	Minority interests	(161)	(11)	(8)	(7)	(41)
Extraordinary items	0	270	0	0	0	Extraordinary items	0	0	0	0	270
<b>NET PROFIT</b>	<b>518</b>	<b>709</b>	<b>998</b>	<b>635</b>	<b>697</b>	<b>NET PROFIT</b>	<b>201</b>	<b>120</b>	<b>113</b>	<b>226</b>	<b>250</b>
<b>Normalized profit</b>	<b>518</b>	<b>439</b>	<b>998</b>	<b>635</b>	<b>697</b>	<b>Normalized profit</b>	<b>201</b>	<b>120</b>	<b>113</b>	<b>226</b>	<b>(20)</b>
EPS (Bt)	0.5	0.7	0.9	0.5	0.6	EPS (Bt)	0.2	0.1	0.1	0.2	0.2
Normalized EPS (Bt)	0.5	0.4	0.9	0.5	0.6	Normalized EPS (Bt)	0.2	0.1	0.1	0.2	(0.0)
Year End Shares (m)	1,030	1,036	1,170	1,170	1,170						
Balance Sheet						Financial Ratios And Valuations					
(consolidated)						(consolidated)					
Yr-end Dec (Bt m)	2010	2011	2012F	2013F	2014F	2010	2011	2012F	2013F	2014F	
Cash & equivalent	55	87	60	60	60	Norm profit (y-y%)	182.9	(15.2)	127.3	(36.4)	9.8
A/C receivables	86	76	82	89	92	Norm EPS (y-y%)	147.6	(15.6)	112.8	(39.9)	9.8
Inventories	0	0	0	0	0	Net profit (y-y%)	182.9	37.0	40.7	(36.4)	9.8
Other current assets	876	249	342	360	368	EPS (y-y%)	147.6	36.3	31.8	(39.9)	9.8
Investment	1,459	1,487	1,487	1,487	1,487	Dividend payout (%)	29.9	2.0	18.0	30.0	30.0
Fixed assets	6,944	7,384	7,846	8,306	8,336	Gross margin (%)	61.3	61.1	60.7	61.2	62.5
Other assets	1,065	1,134	1,243	1,347	1,395	Operating margin (%)	51.8	47.6	48.0	48.9	50.2
<b>Total assets</b>	<b>10,485</b>	<b>10,418</b>	<b>11,061</b>	<b>11,650</b>	<b>11,739</b>	EBITDA margin (%)	51.8	48.9	49.2	50.2	51.4
S-T debt	364	303	482	470	389	Net margin (%)	35.5	34.9	33.3	35.1	36.3
A/C payables	6	8	8	9	9	ROA (%)	5.4	4.2	9.3	5.6	6.0
Other current liabilities	411	456	402	488	478	ROE (%)	16.7	11.4	22.7	13.0	13.0
L-T debt	2,583	2,422	2,322	2,263	1,873	Net D/E (x)	0.5	0.5	0.5	0.5	0.4
Other liabilities	1,189	1,115	1,222	1,324	1,371	Norm PE (x)	17.9	21.2	10.0	16.6	15.1
<b>Total liabilities</b>	<b>6,215</b>	<b>5,919</b>	<b>6,020</b>	<b>6,105</b>	<b>5,637</b>	Norm PE at TP (x)	16.3	19.3	9.1	15.1	13.8
Minority interest	704	350	395	444	494	PE (x)	17.9	13.1	10.0	16.6	15.1
<b>Shareholders' equity</b>	<b>3,565</b>	<b>4,148</b>	<b>4,646</b>	<b>5,101</b>	<b>5,608</b>	EV/EBITDA (x)	11.0	17.0	17.2	16.2	14.7
Working capital	80	68	74	80	84	P/BV (x)	2.6	2.3	2.3	2.1	1.9
Total debt	2,947	2,724	2,804	2,734	2,262	Dividend yield (%)	1.7	0.2	1.7	1.8	2.0
Net debt	2,892	2,637	2,744	2,674	2,202	DPS (Bt)	0.1	0.0	0.2	0.2	0.2
						BV/share (Bt)	3.5	4.0	4.0	4.4	4.8

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word “Positive”, is used when we see the industry trend improving. An arrow pointing down, or the word “Negative”, is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word “Unchanged”, is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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