

BUY (Unchanged) **TP: Bt 6.70** (From: Bt 7.50)

Dropping Coverage **Upside: 25.2%**



Siam Future Development (SF TB)

Dropping coverage

We drop our coverage of SF because we see the outlook for the performance of its existing business as mediocre while we regard its new business plan as unstable. Also, trading liquidity has dried up. Our latest rating is a BUY with a 12-month DCF-based TP of Bt6.70.



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Dried-up liquidity, mediocre business outlook

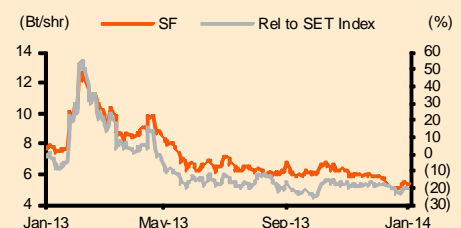
- We drop SF from our small-cap (Ad Hoc research) coverage because:
 - its trading liquidity has dried up, 2) we see the outlook for its existing business as mediocre, and 3) we regard its new business plan as unstable. Average daily trading turnover has plunged from US\$5.8m in 1H13 to only US\$0.7m in 2H13 and US\$0.2m so far this year.
- SF is an open-air shopping center developer and management service provider. It operated 30 shopping centers with a total rental space of 369,600 sq m as at the end of 2012 with properties such as Megabangna (JV project), Esplanade and J Avenue - Thonglor 15, etc.
- With no new projects opened last year, SF's core profit contribution from its business has been unexciting for the past few quarters. SF posted net profit of Bt124m in 3Q13, down 9% y-y and 13% q-q, below our and the market expectations, mainly on rental income coming in weaker than we had expected and a Bt45m loss on the fair value adjustment of its property investments resulting from the domestic consumption slowdown. The company's earnings decline from 3Q12 was due to its loss on fair value adjustment rising from Bt19m in 3Q12 to Bt45m in 3Q13. Its earnings drop from 2Q13 was a result of its rental income falling by 4% q-q to Bt325m and its loss on fair value adjustment increasing from Bt27m in 2Q13 to Bt45m in 3Q13. We expect this trend to continue in 4Q13.
- Previously, SF planned to open two new shopping malls, one at LPN's Township project in early 2014 and another at a new location in mid-2014. It also planned to develop two open-air, neighborhood shopping malls via a 50-50% JV with Aeon Town (a subsidiary of Aeon Japan) each in 2014 and 2015. However, the launch schedule for the shopping mall at the LPN site has been postponed to 2Q14 while its other self-owned and JV projects have not yet made any progress.
- We still believe SF has only a mediocre earnings growth outlook. Based on our assumptions of it opening only one self-owned new project in mid-2014 as we project the average occupancy rate to be at 92% in 2014 and 90% in 2015, we forecast only 9% average EPS growth p.a. in 2014-16. Meanwhile, the potential strong key earnings driver from the second IKEA store (49% JV with Ikano) in the west of Bangkok is not due to kick off until 2018. Given that investment capex for an open-air shopping center is not that high, together with what we regard as SF's unstable business plan, we thus see new rivals entering the market and dominating many prime locations in Bangkok over the next two years.

The summary table to the right shows our latest forecasts for SF after we cut earnings by 7-10% in 2014-16F to reflect our assumptions for the risk from its investment delays and the economic slowdown.

COMPANY VALUATION

Y/E Dec (Bt m)	2012A	2013F	2014F	2015F
Sales	1,324	1,322	1,374	1,435
Net profit	1,401	527	587	647
Consensus NP	—	685	841	925
Diff frm cons (%)	—	(23.0)	(30.2)	(30.1)
Norm profit	1,571	527	587	647
Prev. Norm profit	—	527	629	720
Chg frm prev (%)	—	0.0	(6.7)	(10.2)
Norm EPS (Bt)	1.4	0.4	0.4	0.5
Norm EPS grw (%)	235.0	(70.8)	7.4	10.1
Norm PE (x)	3.8	12.9	12.0	10.9
EV/EBITDA (x)	13.6	16.1	16.4	15.2
P/BV (x)	1.1	1.2	1.1	1.0
Div yield (%)	0.3	2.2	2.5	2.8
ROE (%)	32.4	9.1	9.4	9.6
Net D/E (%)	41.7	37.2	37.8	30.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 22-Jan-14 (Bt)	5.35
Market cap (US\$ m)	214.1
Listed shares (m shares)	1,316.0
Free float (%)	43.1
Avg daily turnover (US\$ m)	0.6
12M price H/L (Bt)	11.9/5.0
Sector	Property
Major shareholder	Major Cineplex Group 20.1%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: 12-month DCF-based TP Calculation

(Bt m)	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	Terminal value
EBITDA	570	589	615	634	698	718	742	758	792	819	846	874	—
Free cash flow	(11)	(198)	312	390	435	507	525	539	564	586	608	600	7,287
PV of free cash flow	—	(197)	256	290	293	309	290	269	256	240	226	202	2,453
Risk-free rate (%)	4.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	10.4												
Terminal growth (%)	2.0												
Enterprise value - add investments*	11,671												
Net debt (2013F)	2,399												
Minority interest	389												
Equity value	8,883												
# of shares	1,316												
Equity value / share	6.7												
*Investments:													
IKEA 1 (or Megabangna)	5,552												
Aeon	—												
IKEA 2	1,232												

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Siam Future Development (SF) is an open-air shopping center developer and management service provider. It operated 30 shopping centers at the end of 2012 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 20% and 22% stakes. SF's direct rivals are classified into two groups. The first is closed-door 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

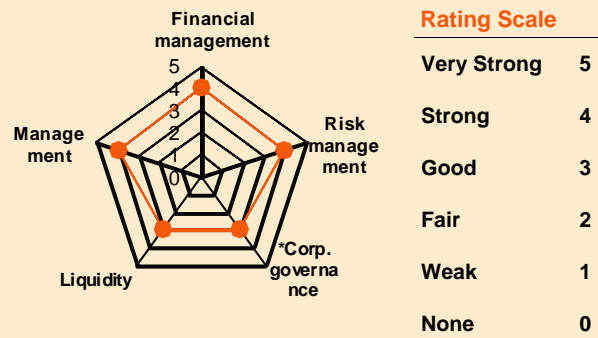
	Consensus	Thanachart	Diff
Target price (Bt)	8.80	6.70	-24%
Net profit 13F (Bt m)	685	527	-23%
Net profit 14F (Bt m)	841	587	-30%
Consensus REC	BUY: 2	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are below the Street's as we are more conservative on its new projects in pipeline and on the negative impact from domestic consumption slowdown.

Sources: Bloomberg consensus, Thanachart

COMPANY RATING



Source: Thanachart; *CG Awards

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

- Delays to new projects or fewer new projects opening over the next few years than we currently assume would negatively impact our earnings projections.
- If the economy slows down, SF's ability to increase rental and occupancy rates may be lower than our expectation at the moment.
- Risk from dilution effect. In the event SF needs more cash flow to invest in new projects, the company may resort to a capital increase.

Source: Thanachart

FINANCIAL SUMMARY

Income Statement		(consolidated) Quarterly Earnings					(consolidated)				
FY ending Dec (Bt m)	2011A	2012A	2013F	2014F	2015F	3Q12	4Q12	1Q13	2Q13	3Q13	
Sales	1,368	1,324	1,322	1,374	1,435	Sales	323	333	337	338	325
Cost of sales	533	526	562	592	623	Cost of sales	133	145	141	144	139
Gross profit	835	798	760	782	812	Gross profit	190	188	196	193	186
SG&A	183	197	205	208	213	SG&A	54	56	53	51	50
Operating profit	652	601	555	574	599	Operating profit	136	132	143	142	136
Depre & amortization	17	14	15	15	16	Depre & amortization	3	3	3	3	3
EBITDA	669	615	570	589	615	EBITDA	140	135	146	145	139
Other income	170	37	(92)	(35)	1	Other income	5	7	8	7	10
Other expenses	0	0	0	0	0	Other expenses	0	0	0	0	0
Interest expense	(106)	(102)	(105)	(119)	(128)	Interest expense	(25)	(25)	(27)	(24)	(27)
Pre-tax profit	716	535	359	420	472	Pre-tax profit	97	186	102	98	74
Income tax	238	42	72	84	94	Income tax	21	(33)	23	21	15
After-tax profit	478	493	287	336	378	After-tax profit	76	219	79	77	59
Equity income	28	1,081	275	288	307	Equity income	68	(35)	63	73	72
Minority interests	(67)	(4)	(35)	(36)	(38)	Minority interests	(7)	19	(11)	(7)	(7)
Extraordinary items	270	(170)	0	0	0	Extraordinary items	0	(170)	0	0	0
NET PROFIT	709	1,401	527	587	647	NET PROFIT	136	34	130	143	124
Normalized profit	439	1,571	527	587	647	Normalized profit	136	203	130	143	124
EPS (Bt)	0.7	1.3	0.4	0.4	0.5	EPS (Bt)	0.1	0.0	0.1	0.1	0.1
Normalized EPS (Bt)	0.4	1.4	0.4	0.4	0.5	Normalized EPS (Bt)	0.1	0.2	0.1	0.1	0.1
Balance Sheet		(consolidated) Financial Ratios And Valuations									
FY ending Dec (Bt m)	2011A	2012A	2013F	2014F	2015F	2011A	2012A	2013F	2014F	2015F	
Cash & equivalent	87	61	60	60	60	Norm profit (y-y%)	(15.2)	257.8	(66.4)	11.4	10.1
A/C receivables	76	66	67	70	73	Normalized EPS (%)	(15.6)	235.0	(70.8)	7.4	10.1
Inventories	0	0	0	0	0	Net profit (y-y%)	37.0	97.6	(62.4)	11.4	10.1
Other current assets	249	261	262	271	282	EPS (%)	36.3	85.0	(67.2)	7.4	10.1
Investment	1,487	2,569	2,919	3,319	3,319	Dividend payout (%)	2.0	1.2	30.0	30.0	30.0
Fixed assets	7,384	7,638	7,743	7,998	8,163	Gross margin (%)	61.1	60.3	57.5	56.9	56.6
Other assets	1,134	836	835	867	906	Operating margin (%)	47.6	45.4	42.0	41.8	41.8
Total assets	10,418	11,430	11,885	12,584	12,802	EBITDA margin (%)	48.9	46.5	43.1	42.9	42.8
S-T debt	303	1,438	984	1,070	937	Net margin (%)	34.9	37.3	21.7	24.4	26.3
A/C payables	8	9	10	10	11	ROA (%)	4.2	14.4	4.5	4.8	5.1
Other current liabilities	456	415	421	428	452	ROE (%)	11.4	32.4	9.1	9.4	9.6
L-T debt	2,422	1,085	1,475	1,605	1,405	Net D/E (x)	0.6	0.4	0.4	0.4	0.3
Other liabilities	1,115	1,104	1,103	1,146	1,197	Norm PE (x)	12.6	3.8	12.9	12.0	10.9
Total liabilities	5,919	5,527	5,436	5,670	5,379	Norm PE at TP (x)	15.8	4.7	16.1	15.0	13.6
Minority interest	350	354	389	425	463	PE (x)	7.8	4.2	12.9	12.0	10.9
Shareholders' equity	4,148	5,549	6,060	6,489	6,960	EV/EBITDA (x)	12.2	13.6	16.1	16.4	15.2
Working capital	68	57	57	59	62	P/BV (x)	1.3	1.1	1.2	1.1	1.0
Total debt	2,724	2,523	2,459	2,676	2,342	Dividend yield (%)	0.3	0.3	2.2	2.5	2.8
Net debt	2,637	2,462	2,399	2,616	2,282	BV/share (Bt)	4.0	4.7	4.6	4.9	5.3
Free cash flow	(367)	1,248	464	364	531	DPS (Bt)	0.0	0.0	0.1	0.1	0.1
Year End Shares (m)	1,034	1,105	1,268	1,316	1,316						

Sources: Company data, Thanachart estimates

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