

February 5, 2003

Golden Land Property

GOLD to regain its glitter in 2003

GOLD
<Bt8.95>

The share price of Golden Land Property (GOLD) has fallen 18% over the last three months on expectations of poor 4Q02 earnings. We expect GOLD's normalised earnings to plunge 82% yoy in the final quarter to Bt36mn, dragging down FY02 net profit to Bt220mn, a 13% decline yoy.

GOLD's main problem has been slower-than-expected revenue recognition from its Baan Ram Indra and Baan Lad Phrao II developments. As GOLD is not selling pre-built houses, the company requires at least eight months to realise sales. This year we expect GOLD to accelerate revenue recognition based on Bt1.5-1.7bn presales. Increasing sales at Baan Ladphrao II, Baan Sathorn and Baan Ramkamhaeng should lead to a 68% rebound in sales to Bt1.93bn. Gross margins should remain at 40%, while operating margins are expected to recover from an estimated 15.3% in 2002 to 20%. As a result, we expect net profit to surge 87% this year to Bt415mn.

As GOLD's revenue tends to be more volatile than strong niche players such as Land and Houses <BUY> and LPN Development <BUY>, we have cut our NPV estimate from Bt17/share to Bt14.5. At the current share price of Bt8.95, GOLD is trading at a very deep discount of 38% to our target price.

Fair value
Bt14.5share

TRADING
BUY

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Figure 1: GOLD's earnings forecasts

Year to Dec	2000	2001	2002E	2003E	2004E
Sales (Btmn)	86	1,283	1,146	1,930	2,527
Net profits (Btmn)	(174)	253	220	451	518
EPS (Bt)	(0.5)	0.5	0.4	0.8	0.9
Growth (%)	na	na	(29%)	105%	15%
Cash per share (Bt)	(0.5)	0.6	0.5	1.0	1.2
PER (X)	-	17.0	23.9	11.6	10.1
BPS (Bt)	9.7	9.4	8.2	8.9	9.6
EV/EBITDA (x)	(66.5)	23.0	26.1	14.0	6.9
Dividend Yield (%)	0.0%	0.0%	0.0%	1.3%	1.5%



Normalised profit to decline 82% yoy in 4Q02

GOLD's earnings in 4Q02 are projected to fall 78% yoy to Bt36mn. The weak final quarter will drag down FY02 net profit to Bt220mn, a 13% decline yoy. GOLD has a strong property portfolio, with several projects in prime locations that were acquired at a very low cost. Its main problem has been slower-than-expected revenue recognition from its Baan Ram Indra and Baan Lad Phrao II developments. As GOLD is not selling pre-built houses, the company requires at least eight months to realise sales. About 35% of its 1H02 revenue came from sales of house in Lad Phrao, which were sold in 2001.

In 2001 GOLD staged a strong turnaround, with net profit rising to Bt253mn (versus a loss of Bt174mn the previous year), with sales soaring 15-fold to Bt1.28bn. Last year sales are estimated to have fallen 11% to Bt1.15bn although gross margins are believed to remain over 40%. However, operating margins are expected to fall from 19.3% to 15.3% due to high overheads at many new housing and rental properties including Baan Sathorn, Baan Ramkamhaeng, the Mayfair Marriott and Ascott Piriya. Also, GOLD's interest expenses are projected to surge 137% last year to Bt109mn last year, due to rising funding needs. In 4Q02, normalised profit is forecasted to plunge 82% yoy to Bt36mn.

Table 2: GOLD's quarterly profit forecasts

	Net Profits			Normalised profits		
	2001	2002	% Chg	2001	2002	% Chg
Q1	(45)	95	313.8%	(52)	95	282.7%
Q2	11	22	106.6%	3	22	724.1%
Q3	124	67	(46.4%)	114	(14)	(111.9%)
Q4E	163	36	(77.7%)	198	36	(81.6%)
Year	253	220	(13.1%)	263	140	(46.9%)

But earnings expected to rebound 87% in 2003

This year we expect GOLD to accelerate revenue recognition based on Bt1.5-1.7bn presales. Booking of pre-sales from Baan Ladphrao II, Baan Sathorn and Baan Ramkamhaeng would lead to a 68% rebound in revenue to Bt1.93bn. Gross margins should remain at 40%, while operating margins are expected to recover from 20%. Net profit is expected to jump 87% from Bt220mn in 2002 to Bt415mn in 2003.

Table 3: GOLD's housing project portfolios

Housing projects	land size (Rais)	Units	Price (Btmn)	Value (Btmn)	Lauch Date
Baan Ladphrao II	61	140	10	1,400	Nov-01
Baan Ram Indra	36	124	4	496	May-01
Baan Sathorn	100	200	8 to 10	2,000	Q3 02
Baan Ramkamhaeng	50	167	5 to 8	1,169	Q3 02
Project in the pipeline					
Srinakarin-Rama IX	160	231	9	2,000	Q3 03
Baan Ladphrao III	150	350	na	2,000	Q3 03

GOLD aims to speed up construction of its flagship Baan Sathorn development, which have been delayed due to road resurfacing. GOLD recently expanded a private road on the other side of the estate to improve transport of construction materials. We expect the company to record sales of Bt360mn or 18% of the total value from Baan Sathorn this year. Additionally, sales from Baan Lad Phrao II and Baan Ramkamhaeng should rise to Bt900mn - equal to nearly half of total 2003 revenue.

Investment in rental properties and land bank to boost debt levels

By 2H03, GOLD should have received 20-30% of the value of most of its housing projects. In addition, the company will start receiving cash from the Mayfair Marriott and Narayana Pavillion developments, which are scheduled to open in late 1Q03. Cash from all these projects will be used to help GOLD finance three new rental properties as well as replenish its land bank.

Table 4: GOLD's rental property portfolio

Rental properties	Type	Lettable sq metres	Stake (%)	Partners	Lauch Date
Existing projects					
Kallisata	Apartment	19,754	60%	Ascott	
Somerset	Apartment	6,611	60%	Ascott	
Developing projects					
The Mayfair Marriot	Apartment	16,000	100%	Marriott	Q1 03
Naraya Pavillion	Office	11,064	100%		Q1 03
Vovage Panorama	Golf course	2470 rais	100%		Q4 02
Ascott Piriya	Apartment	40,000	60%	Ascott	Q4 03
Polo Park	Residential	na.	35%	Morgan Stanly.	Q105
Potential development					
Sathorn Square	Mix uses	100,000	50%	New world HK	na.

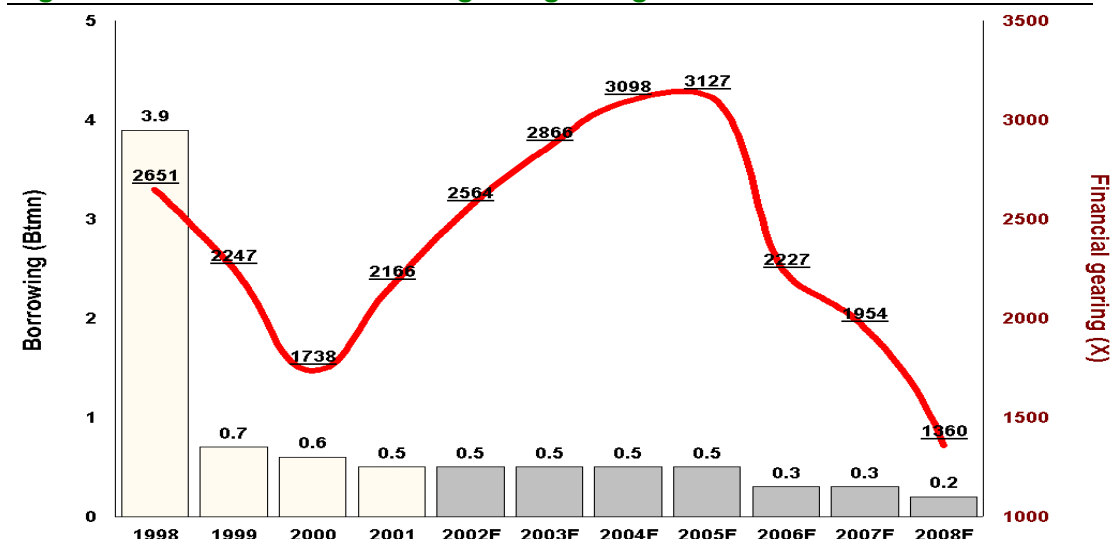
GOLD is expected to share Bt2.1bn of the total Bt6bn development cost of the residential Polo Park project over the next two years. The company owns a 35% stake in this project, with the rest held by the Morgan Stanley Property Fund. Another joint venture, the Ascott Piriya apartment complex, is expected to cost GOLD Bt1bn in investment costs this year. However, the company has not yet finalised an investment plan for the Sathorn Square project in which it holds a 50% stake.

Beside investment in rental projects, GOLD has bought land in several areas in 2H02 including near the Srinakarin-Motorway, Pinklao and Nakronin. GOLD is also planning to spend Bt400-500mn a year to acquire more land in popular residential and commercial areas such as Sathorn, Ramkamhaeng, Pinklao and Srinakarin.

Borrowing expected to peak at Bt3.12bn in 2005

We are expecting GOLD's borrowing to rise from Bt2.17bn in 2001 to Bt2.56bn in 2002 and peak at about Bt3.12bn in 2005. As a result, GOLD is expected to post negative free cash flow of about Bt1.8bn from 2002-2005. From 2006, however, GOLD should enjoy large positive cash flows from its new housing and rental projects.

Figure 1: GOLD's total borrowing and gearing forecasts between 2002-2008



The company recently issued Bt1bn in debentures with three-year maturity at a coupon rate of 4.95%. There remains a possibility of a cash call, however, if GOLD decides to increase its stake in the Sathorn Square project or plans another major development.

Income statement					
(Btmn)	2000	2001	2002F	2003F	2004F
Sales	86	1,283	1,146	1,930	2,527
COGs	39	745	684	1,158	1,409
Gross profit	46	538	463	772	1,119
SG&A	199	290	287	386	379
Operating profit	(152)	248	176	386	740
Interest expenses	58	46	109	115	119
Other income	19	20	24	31	47
Pretax profits	(191)	221	91	302	667
Income taxes	-	7	-	(97)	200
Associate Earnings	(1)	33	26	29	10
Minority Interests	(9)	(15)	(22)	(23)	(40)
Extraordinary Items	9	(10)	80	-	-
Net income	(174)	253	220	451	518
Balance sheet					
(Btmn)	2000	2001	2002F	2003F	2004F
Cash equivalent	431	550	1,086	744	1,737
Receivable	64	749	251	159	97
Inventories	3,367	4,518	4,206	4,228	3,076
Investment	590	613	613	613	613
Fixed Assets	1,438	1,378	2,245	3,553	4,582
Total assets	5,940	7,972	8,524	9,488	10,327
Credits	108	488	416	444	471
ST-debts	784	879	1,026	1,577	1,190
LT-debts	955	1,287	1,538	1,290	1,909
Other liability	1,166	996	933	1,230	1,448
Equities	3,114	4,512	4,780	5,231	5,682
Cash flow statement					
(Btmn)	2000	2001	2002F	2003F	2004F
Net Profit	(174)	253	220	451	518
Depre./Amort.	53	53	83	142	221
Net Working Cap.	(420)	(1,457)	738	99	1,241
Unrealized F/X	20	3	-	-	-
Cash flow from operations	(549)	(1,156)	1,027	706	1,982
CAPEX	(5)	7	(950)	(1,450)	(1,250)
Investment	-	-	-	-	-
Cash flow from investing	605	(417)	(540)	(1,450)	(1,250)
Debt Movement	(508)	427	399	302	232
Capital Call	-	1,145	48	1	1
Dividend Paid	(0)	(0)	(0)	-	(68)
Cash flow from financing	(335)	1,321	447	303	165
Free cash flow	(554)	(1,149)	77	(744)	732
Financial ratios					
	2000	2001	2002F	2003F	2004F
Gross margins	54.0%	41.9%	40.3%	40.0%	44.3%
Operating margins	(178%)	19.3%	15.3%	20.0%	29.3%
Net gearing	0.42	0.36	0.31	0.41	0.24
Interest coverage	(2.3)	5.8	1.8	3.6	6.6
Inventory Days	31,212	2,214	2,245	1,333	797
Collection Days	272	213	80	30	14
Payment Days	1,003	239	222	140	122

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