

July 22, 2004

## SC Asset PCL (SC)

**NEW : ACCUMULATE**  
**PREVIOUS: BUY ON WEAKNESS**

### PROPERTY

### Expectations of a 54% qoq growth in 2Q04 normalised profit

**Price**  
**Target**
**Bt17.20**  
**Bt21.00**

After a recent visit with management, we have become much more optimistic on the earnings prospects of SC Asset Plc. We have revised SC's revenue projection up 56% to Bt1,912mn, despite a less than stellar 1Q04. We are now projecting SC to record 75% qoq growth in total revenues to Bt455mn after the company sold 40 units in its Bangkok Boulevard project in the quarter. With larger contributions from its property development arm, we believe the company should achieve 2Q04 earnings of Bt98mn, up 54% qoq.

SC is expected to achieve office rental income of Bt488mn based on a 100% occupancy rate in both Shinawatra Tower I and Tower II. Occupancy in Tower III, meanwhile, has risen from 86% to 93% in the second quarter.

For the full-year, we are projecting SC earnings growth of 150% to Bt333mn (EPS Bt1.04) due to revenue realisation from its current and new development projects in the pipeline. Meanwhile, recurring rental income from the three Shinawatra office towers and 110 substations and technical buildings should be sufficient to fund new projects without the need for additional borrowings. We are projecting SC's net gearing to remain at 0.30x this year.

SC shares look relatively expensive, trading on a high 2004 PER of 16.59x. However, the four new projects are expected to generate higher revenue and earnings next year, allowing the PER to drop to 12.63x in 2005. Due to strong earnings growth in 2004 and 2005 and quality cash flow, we are upgrading SC from a BUY ON WEAKNESS to **ACCUMULATE** with a new NPV of Bt21/share.

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**Table 1: Earnings summary**

	2002	2003	2004F	2005F	2006F
Sales (Btmn)	256	787	1,912	2,414	2,424
EBITDA (Btmn)	151	371	632	803	828
Normalised earnings (Btmn)	(35)	133	333	437	414
Earnings (Btmn)	(35)	133	333	437	414
EPS (Bt)	(0.19)	0.41	1.04	1.36	1.29
PER (X)	N.A.	41.55	16.59	12.63	13.33
EV/EBITDA (X)	26.01	15.53	632.05	803.50	827.97
Free cash flow (Btmn)	240.59	673.34	731.38	1,003.27	700.45
CF/share (Bt)	1.30	2.10	2.28	3.13	2.18
BVPS (Bt)	9.83	11.70	12.87	13.73	14.37
P/BV (X)	1.75	1.47	1.34	1.25	1.20
DPS (Bt)	-	-	0.20	0.50	0.65
Dividend yield (%)	-	-	1.2%	2.9%	3.8%
Net debt/equity (X)	0.40	0.06	0.30	0.47	0.85
No. of shares	185	321	321	321	321
ROA (%)	-1.3%	2.1%	5.3%	5.6%	4.2%
ROE (%)	-1.9%	4.8%	8.4%	10.2%	9.2%

Source: Company reports and Kelive research estimates.

### Bangkok Boulevard to contribute higher revenue for SC in the second quarter

In contrast to a slow 1Q04, we expect to see a 195% surge in SC's housing sales to Bt278mn, largely due to the success of Bangkok Boulevard project in the quarter. Out of the 272 units to be built, Bangkok Boulevard has sold 40 units in the second quarter. So far, more than 20% of the total, or 60 units, have been transferred.

Other projects, including Baan Chalisa in Krugthep Kreetha and in Lardprao, have been well received. Nearly all 81 units in Krungthep Kreetha have been booked, while 61 units have been transferred.

Baan Chalisa (Lardprao) had a successful launch with 40% of the units booked in the first quarter, while 15% of the total of 55 units have been transferred. Meanwhile, the low-rise "Centric Place" Condominium has had 54 units out of 77 units booked so far.

**Table 2: Quarterly forecast**

	2Q04F	1Q04	% Chg.
Property sales (Btmn)	278	94	195%
Income from rent	161	154	4%
Income from mgmt	12	11	6%
Total revenue	455	260	75%
COGS	252	144	74%
Gross Profit	203	116	76%
Gross margin	44.7%	44.4%	
SG&A	68	39	75%
Operating margin	29.8%	29.6%	
Interest expenses	17	16	9%
Normalised earnings	98	64	54%
Earnings	98	64	54%
EPS	0.31	0.20	54%

Source: Company reports and Kelve research estimates.

As the company was just listed in the fourth quarter of last year, no quarterly comparison can be drawn at this stage. However, compared with the previous quarter, SC's performance is expected to improve dramatically. Total revenue is expected to increase 75% qoq to Bt455mn. Margins have been squeezed by rising construction costs, but the company has managed to raise prices at Bangkok Boulevard to reflect higher costs. We are assuming a slight improvement in gross margins from 44.4% to 44.7%. Based on these assumption, earnings are expected to increase 54% qoq to Bt64mn (EPS Bt0.31).

### Recurrent revenue base from rental of offices, land and technical buildings

The three Shinawatra Towers I, II, and III generate a steady rental income base. Occupancy rates from the first two towers remains at 100%, while the occupancy rate of Shinawatra Tower III has risen from 86% during the first quarter to 93% in the second quarter. We expect the occupancy rate for Tower III to reach 100% by year-end. SC booked Bt154mn rental income in the first quarter. With higher occupancy in the second quarter, we are expecting office rental income to increase 4% qoq to Bt161mn.

Furthermore, SC is also receiving Bt12mn in monthly fixed income from its land and technical buildings. SC leases 110 substations to ADVANC and SHIN for technical communications purposes.

Since occupancy in the first two towers is at 100% and the third tower is almost full, office rental income should be constant going forward. Growth will primarily come from an increase in rental rates as current leases expire. Meanwhile, AIS and SHIN both have full network coverage around the country and there is unlikely to be a need to further expand their substations.

### New Projects to launch by year end

After the successful launch of single-detached house development Baan Chalisa (Lardprao) and the low-rise condominium Centric Place at the beginning of the year, the company is looking forward to the launch of a new high-rise condominium in Soi Poholyothin 9 worth more than Bt600mn. SC is expecting high demand from this project with 90% booking projected by the end of this year.

The company is also planning to re-launch Bangkok Boulevard in hopes of boosting sales before the end of the year. If these projects sell as expected, we believe that SC can achieve housing sales this year of Bt1,187mn.

In addition, SC plans to launch another three projects, including a 120-unit housing project for medium-income homebuyers on Rama V, a high-end single-detached home project in the Pinklao area worth more than Bt2bn and a home office-townhouse project in Soi Watcharapol worth Bt400mn. These three projects are now under construction and, we believe, initial sales will begin by the end of this year and revenue will be realised mainly in 2005.

**Table 3: Current and upcoming projects**

Project Names	Total Units Value (Bt mn)	Sales as of Jun-04 Value % of (Bt mn) total	Remaining Value (Bt mn)	% of Completion	Launch period
<b>On-going projects</b>					
Bangkok Boulevard	272 2,450	1,33354%	1,117	50%	Jun-03
Baan Chalisa I	81210	20497%	6	98%	Aug-03
Centric Place	77 270-290	20370%	87	20%	1Q04
Baan Chalisa II	55 160-180	72 40%	108	40%	4Q03
Royal Park III	65150	14999%	1	100%	Jun-03
<b>New Projects</b>					
Paholyothin 9 Condo	N/A			10%	4Q04
Rama V	120+1700-1800		1,800	3%	2005
Pinklao	135 2000		2,000	2%	2005
Watcharapol	110 400		400	2%	2005
<b>Total</b>	<b>915 7,480</b>	<b>1,96126%</b>	<b>5,519</b>		

Source: Company reports and Kelve research estimates.

### Earnings forecast revised up 56% to Bt1,912mn

With stronger sales expected in the second quarter, we have a much more positive view on SC's earnings prospects. We believe SC is in a position to speed up its sales volume in the second half of 2004. We also like the company's strategy of targeting middle-income homebuyers, as we believe these new buyers are seeking high-quality homes with affordable prices.

We have revised up our full-year 2004 revenue forecast by 56% from Bt1,223mn, to Bt1,912mn and our earnings forecast by 54% from Bt216mn to Bt333mn.

**Table 4: Earnings revision**

	2004F	Original 2005F	2004F	Revision 2005F	2004	% Change 2005
Sales (Btmn)	1,223	1,888	1,912	2,414	56%	28%
COGS	600	877	1,101	1,400	84%	60%
Gross Profit	623	1,011	811	1,014	30%	0%
Gross margin	50.9%	53.5%	42.4%	42.0%		
SG&A	146	188	205	241	40%	28%
Operating margin	39.0%	43.6%	31.7%	32.0%		
Earnings	216	443	333	437	54%	-1%
EPS	0.67	1.21	1.04	1.36	54%	13%

Source: Kelve research estimates.

### Strong cash flow from recurring income to further expand projects

SC is expected to generate strong cash flow of approximately Bt732mn, or Bt2.28/share, this year. The company has strong recurrent income base, including a projected Bt488mn rental income and Bt237mn management services income. We believe this steady revenue and strong cash flow will enable the company to further expand its property portfolio without the need to finance through additional borrowings.

### Upgrade to ACCUMULATE with a new target price of Bt21/share

Currently, SC is trading on a relatively high PER of 16.59x for 2004. However, with EPS growth projected at 31% next year, the company's PER should come down to a more attractive 12.63x in 2005.

We have raised our fair value estimate from Bt18.25/share to Bt21/share based on our revised discount cash flow model with a discount rate of 10%. At the current share price, the stock offers a 22% upside potential.

The company expects to pay a dividend to its shareholders of no more than 50% of net profit after taxes. We are, thus, forecasting SC to pay a Bt0.20/share dividend from 2004 earnings – the company's first full-year of operations. At the current share price, this represents a dividend yield of 1.2%.

Due to low financial risk, consistent internal cash flow, including 150% projected EPS growth in 2004, we are upgrading our recommendation on SC from a BUY ON WEAKNESS to **ACCUMULATE**.

**Table 5: Income statement**

	2002	2003	2004F	2005F	2006F
Sales	256	787	1,912	2,414	2,424
Other income	7	233	26	31	37
Total revenues	263	1,020	1,938	2,444	2,461
Cost of goods sold	108	531	1,101	1,400	1,394
SG&A and others expenses	4	118	205	241	239
EBITDA	151	371	632	803	828
Interest expenses	50	59	52	64	105
Net profit before extra items	(35)	133	333	437	414
Net profit	(35)	133	333	437	414
EPS (Fully diluted)	(0.19)	0.41	1.04	1.36	1.29
EPS growth	N.A.	N.A.	150%	31%	-5%
PER	N.A.	41.55	16.59	12.63	13.33
EV / EBITDA	26.01	15.53	632.05	803.50	827.97
BV / Shr	9.83	11.70	12.87	13.73	14.37
P / BV	1.75	1.47	1.34	1.25	1.20
P / Sale	12.47	7.02	2.89	2.29	2.28
Dividend / Share	N.A.	N.A.	0.20	0.50	0.65
Debt / Equity	0.44	0.29	0.34	0.51	0.91
No. Share	185.40	321.00	321.00	321.00	321.00

Source: Company reports and Kelve research estimates.

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