

October 26, 2004

LPN Development (LPN)

New : Buy
Previous : Buy

Construction

Strong revenue recognition to boost earnings in 3Q04

Price
Target
Bt 2.68
Bt 3.88

LPN is projected to record strong revenue of Bt1.20bn in 3Q04, representing an increase of 129% from the previous year and 55% from the previous quarter. This was mainly due to sales recognition from its Lumpini - Sukhumvit 41 project, which was completed in 3Q04. Gross margins are expected to widen to 33.4% versus 32.9% in 2Q04 since the Lumpini - Sukhumvit 41 project is expected to achieve high margins. Meanwhile, SG&A expenses are forecast to increase 99% yoy and 21% qoq following the increase in sales. As a result, we expect LPN to announce impressive 3Q04 earnings of Bt234mn, up 81% yoy and 52% qoq. Earnings in the first nine months of this year are estimated to reach Bt406mn, accounting for 79% of our full-year earnings projection. We are maintaining our 2004 sales and earnings forecast at Bt2.74bn and Bt512mn, respectively.

We have revised down our full-year 2005 sales forecast by 6% to Bt3.86bn to reflect the delay of Lumpini Ville–Pahol 37 and Lumpini Ratchada-Ladphrao projects. 2005 earnings estimate has been downgraded by 3.6% to Bt696mn.

With a 50% dividend payout, we expect LPN to pay a dividend of Bt0.22/share for 2004 earnings, implying an attractive yield of 8.1% at the current price.

Based on our revised projections, LPN is trading on 2004 and 2005 PERs of 6.2x and 4.6x, respectively, and a 45% discount to our fair value estimate. Accordingly, we are maintaining our **BUY** recommendation on LPN shares with a DCF target price of Bt3.88/share.

Surasak Anutarasoth
Tel : 0-2658-6300
Ext 1520
E-mail:
surasak.a@kimeng.co.th

Table 1: LPN 3Q04 earnings estimates (Btmn)

	3Q04	3Q03	% Chg	2Q04	% Chg	9M04	9M03	% Chg
Sales	1,197	522	129.1%	772	55.0%	2,136	893	139.2%
COGS	797	348	128.9%	518	53.9%	1,409	602	134.0%
Gross profit	400	174	129.3%	254	57.3%	727	291	149.9%
SG& A	98	49	99.2%	81	20.7%	237	125	88.7%
Operating profit	302	125	141.2%	173	74.4%	490	165	196.2%
Interest expenses	0	0	(30.3%)	0	(8.5%)	1	1.4	(43.9%)
Non-operating income	5	8	(39.7%)	9	(47.2%)	19	43	(54.7%)
Pre-tax income	307	133	130.4%	182	68.3%	509	207	145.8%
Normalised profit	234	130	80.7%	159	47.6%	410	210	95.2%
Net profit	234	130	80.7%	154	51.9%	406	210	93.1%
EPS	0.20	0.14	42.0%	0.16	20.8%	0.34	0.22	51.8%
Gross margin (%)	33.4	33.4		32.9		34.0	32.6	
Operating margin (%)	25.2	24.0		22.4		22.9	18.5	

Source: Company reports and KELIVE estimates.

Remaining presales rose to Bt3.0bn

LPN's remaining presales rose to Bt3.0bn as of September 2004, driven by Lumpini Ville - Sapankwai project launched in 3Q04. We expect the company's presales to increase to Bt3.8-4.0bn at the year end, boosted by a new project to be launched in 4Q04, Lumpini Sukhumvit 77 phase 2. This is a 20-story project with a value of Bt1.0bn. Construction on this project should be completed in 13-15 months and able to transfer in 1Q06. With proximity to the skytrain and commercial areas along with a good response in phase 1, sales of this project should be quite successful.

LPN has postponed the launch date of Lumpini Ville - Pahol 37 project to early next year due to the delay of land purchase. Meanwhile Lumpini Ratchada-Ladphrao project is expected to receive EIA approval at the end of October and restart construction in November 2004. LPN is projected to recognise revenue from this project in 3Q05.

LPN is projected to recognise sales from condominium units of Bt1.17bn in 3Q04, derived mainly from presales of Lumpini Suites - Sukhumvit 41, Lumpini Place Narathiwat and Lumpini Center Ladphrao 111. Meanwhile Sukhumvit 77 phase 1 project is expected to begin transfer in 4Q04. We expect LPN to recognise sales of Bt605mn in 4Q04 from our full-year recognised sales estimate of Bt2.74bn.

2005 earnings revised down to Bt696mn

Given the delay of Lumpini Ville-Pahol 37 and Lumpini Ratchada-Ladphrao projects, we have cut our full-year 2005 revenue forecast by 6% to Bt3.86bn. To reflect this, we have downgraded our 2005 earnings estimate by 3.6% to Bt696mn. Meanwhile we are maintaining our 2004 sales and earnings forecast at Bt2.74bn and Bt512mn, respectively.

Table 2: Forecast revision

	Original forecasts			Revision			% Change		
	2003	2004F	2005F	2003	2004F	2005F	2003	2004F	2005F
Revenues	1,880	2,741	4,095	1,880	2,741	3,855	0%	0%	(6%)
Gross margin (%)	33.9%	32.0%	31.5%	33.9%	32.0%	32.1%			
Operating margin (%)	21.5%	21.0%	22.5%	21.5%	21.0%	22.9%			
Normalised profit (Btmn)	466	512	722	466	512	696	0%	0%	(4%)
Net profits (Btmn)	465	512	722	465	512	696	0%	0%	(4%)

Source: Company reports and KeLive estimates.

With a generous cash flow of Bt0.4/share and a 50% dividend payout, we expect LPN to pay a dividend of Bt0.22/share from 2004 earnings, representing an attractive yield of 8.1%.

Table 3 : LPN earnings summary (Btmn)

	2001	2002	2003	2004F	2005F
Sales (Btmn)	473	994	1,880	2,741	3,855
EBITDA (Btmn)	(34)	72	417	591	899
Normalised earnings (Btmn)	(33)	135	466	512	696
Earnings (Btmn)	301	163	465	512	696
EPS (Bt)	2.49	0.32	0.50	0.43	0.59
PER (x)	4.1	8.3	5.4	6.2	4.6
EV/EBITDA (x)	(112.2)	48.7	9.0	6.2	4.4
Free cash flow (Btmn)	721	(117)	(325)	7	(54)
CF/share (Bt)	(0.05)	0.21	0.48	0.42	0.56
BVPS (Bt)	1.27	2.22	1.45	1.79	2.15
P/BV (x)	2.1	1.2	1.8	1.5	1.2
DPS (Bt)	-	0.10	0.25	0.22	0.29
Dividend yield (%)	0.0%	3.7%	9.3%	8.1%	11.0%
Net debt/equity (x)	1.17	0.26	0.35	0.21	0.26
ROA (%)	(1.5%)	7.4%	17.9%	14.0%	14.6%
ROE (%)	(5.6%)	14.9%	31.5%	24.3%	25.1%

Source : Company reports and KELIVE Research estimates.

Singapore

Kim Eng Securities
(Private) Limited
(Member of the SES)
9 Temasek Boulevard
#39-00 Suntec Tower 2
Singapore 038989
Telephone: 65 6336 9090
Telex: KESECS RS 25871
& RS 21857
Facsimile: 65 6339 6003

London

Kim Eng Securities
(London) Limited
(Member of the FSA)
6th Floor, 20 St. Dunstan's Hill
London EC3R 8HY, UK
Telephone: 20 7621 9298
Dealers' telephone: 20 7626 2828
Facsimile: 20 7283 6674

New York

Kim Eng Securities USA Inc
(Member of the NASD)
406, East 50th Street
New York, NY 10022
U.S.A.
Telephone: 212 688 8886
Facsimile: 212 688 3500

Hong Kong

Kim Eng Securities
(Hong Kong) Limited
(Exchange Participant)
Room 1901, Bank of America
Tower 12 Harcourt Road
Central, Hong Kong
Telephone: 852 2810 7755
Telex: KIMEN HX 68698
Facsimile: 852 2877 0104

Malaysia

Kim Eng Research Sdn Bhd
(Formerly known as
Mutual Scope Sdn Bhd)
Co. No. 274244V
Suite 16.02, 16th Floor
Kompleks Antarabangsa
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia
Telephone: 603 2141 1555
Facsimile: 603 2141 1045

Indonesia

PT Kim Eng Securities
9th Floor, Deutsche Bank Bldg
Jl. Imam Bonjol 80
Jakarta 10310
Indonesia
Telephone: 62 21 3983 1360
Facsimile: 62 21 3983 1361

Philippines

ATR-Kim Eng Securities, Inc.
(Member of the PSE)
17th Floor Tower One &
Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines
Telephone: 63 2 849 8888
Facsimile: 63 2 848 5738

Thailand

Kim Eng Securities (Thailand)
Limited
(Member of the SET)
10th Floor, Mercury Tower
540 Ploenchit Road
Bangkok 10330
Thailand
Telephone: 66 2 658 6300
Facsimile: 66 2 658 6384

Taiwan

Yuanta Core Pacific Securities
11/F, No 225, Nanking East Rd
Section 3 Taipei
Taiwan
Telephone: 63 2 849 8888
Facsimile: 63 2 848 5738

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation, or particular needs of any specific person who may receive this report. The information contained herein is provided on the basis of information received or provided to us, but its completeness and accuracy are not guaranteed. Opinions expressed in this report are subject to change without notice, and no part of this publication is to be construed as an offer, or solicitation of an offer, to buy or sell any securities or financial instruments whether referred to therein or otherwise. We do not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report, or a reliance on our opinion expressed in this report. Kim Eng Securities (Thailand) Public Company Limited, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.
