

COMPANY UPDATE

Central Pattana (CPN TB)

Staying Focused On Future Growth

Management has slightly revised down its revenue growth target for the year mainly due to lower-than-expected condo transfers. Although we think it will be challenging for CPN to maintain its strong revenue growth momentum in 2020, earnings should be supported by asset enhancement and sale of assets to CPNREIT. Maintain BUY. Target price: Bt81.00.

WHAT'S NEW

- Trims guidance.** Central Pattana (CPN) maintained most of its 2019 revenue targets, including: a) rental revenue growth of 10-11%, which should be driven by same-store sales (SSS) growth of 3%, b) food revenue growth of 20%; and c) flat hotel revenue growth. However, management has slashed residential revenue growth to 0-10% from 20-25% mainly due to: a) delay in project completions; b) higher cancellations; and c) the implementation of LTV policy. CPN now targets total revenue growth of 9-11% (from 11-12%) for 2019, in line with our estimate of 10%.
- A year of asset enhancement and M&A.** Although there are no new mall openings in 2020 as CPN's three new malls in Aytthaya, Si Racha and Chathaburi are scheduled to open in 2021-22, earnings growth in 2020 is expected to be driven by a) the opening of an Apple store at Central World, more food destinations and improved operations at renovated malls; b) potential M&A; and c) earnings recognition from injected assets into CPNREIT in 1H20. We expect potential gains of Bt2.5b-3b in 1Q20 upon the completion of the lease agreement of assets to CPNREIT.
- Solid long-term plan for sustainable growth.** In addition to CPN's plan to launch three new malls over 2021-22, CPN is expected to have two major asset enhancements, namely Central Plaza Rama 2 and Central Plaza Ramindra, at Bt3.1b in 2020. CPN also plans to put 12 more projects under its asset enhancement programme by 2022. CPN is also expected to announce three new residential projects in 2020.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	28,785.0	33,887.1	37,410.4	40,151.7	44,027.9
EBITDA	9,156.9	10,193.8	10,482.6	11,888.4	13,484.2
Operating profit	9,156.9	10,193.8	10,482.6	11,888.4	13,484.2
Net profit (rep./act.)	13,567.6	11,215.7	11,487.9	12,806.6	14,305.1
Net profit (adj.)	9,892.6	10,822.7	11,689.9	12,806.6	14,305.1
EPS (Bt)	2.2	2.4	2.6	2.9	3.2
PE (x)	29.4	26.9	24.9	22.7	20.3
P/B (x)	4.7	4.4	4.0	3.6	3.3
EV/EBITDA (x)	34.2	30.7	29.9	26.3	23.2
Dividend yield (%)	2.2	1.7	1.7	1.9	2.1
Net margin (%)	47.1	33.1	30.7	31.9	32.5
Net debt/(cash) to equity (%)	8.4	21.5	18.8	19.6	17.1
Interest cover (x)	25.2	23.9	13.0	15.6	17.0
ROE (%)	23.8	17.6	16.6	16.8	16.9
Consensus net profit	-	-	11,854	12,947	14,166
UOBKH/Consensus (x)	-	-	0.99	0.99	1.01

Source: CPN, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt64.75
Target Price	Bt81.00
Upside	+25.1%

COMPANY DESCRIPTION

Thailand's largest retail property developer, focusing on developing retail properties like shopping malls in major cities such as Bangkok for rental, as well as other mall-related businesses like F&B, hotels and residential property.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CPN TB
Shares issued (m):	4,488.0
Market cap (Btm):	290,598.0
Market cap (US\$m):	9,626.3
3-mth avg daily t'over (US\$m):	18.4

Price Performance (%)

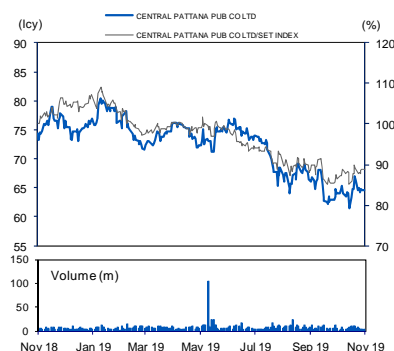
52-week high/low	Bt80.50/Bt61.50			
1mth	3mth	6mth	1yr	YTD
3.2	(8.2)	(14.0)	(18.0)	(13.4)

Major Shareholders

	%
Central Holding	26.2
Thai NVDR	5.6
HSBC (SINGAPORE) NOMINEES	2.8

FY19 NAV/Share (Bt)	16.10
FY19 Net Debt/Share (Bt)	3.03

PRICE CHART



Source: Bloomberg

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3Q19 RESULTS RECAP

Year to 31 Dec (Btm)	3Q18	2Q19	3Q19	yoy % chg	qoq % chg
Rental Revenue	7,104	7,664	7,726	8.8	0.8
Food Revenue	459	561	534	16.2	-4.7
Hotel Revenue	265	264	274	3.2	3.6
Condo Revenue	818	485	602	-26.4	24.1
Total Revenue	9,528	9,661	9,779	2.6	1.2
Net Profit	2,928	2,470	2,816	-3.8	14.0
Core Earnings	2,620	2,701	2,816	7.5	4.3
(%)				yoy ppt chg	qoq ppt chg
Operating GPM	47.5	45.9	46.5	(1.0)	0.7
SG&A/Sales (excl. dep)	16.8	18.8	16.7	(0.0)	(2.1)
Net Profit Margin	30.7	25.6	28.8	(1.9)	3.2
Core earnings Margin	27.5	28.0	28.8	1.3	0.8

Source: CPN, UOB Kay Hian

- Results in line.** CPN reported 3Q19 net profit of Bt2,816m, down 4% yoy but up 14% qoq. However, CPN had one-off gains of Bt308m from the reversal of advanced leasehold right in 3Q18 and one-off employee benefit expense of Bt131m in 2Q19. Excluding one-off items, core earnings increased 8% yoy and 4% qoq, in line with our and consensus estimates. Core earnings growth was driven by stronger revenue from rental and food businesses and lower SG&A-to-sales ratio.
- Rental revenue increased 9% yoy in 3Q19, underpinned by SSS growth of 3.1% yoy, contribution from new malls and operational improvement at malls. The average occupancy rate for CPN's domestic malls stood at 92%, flat yoy. Other mall-related businesses continued to perform, except for the residential business as condo completions were delayed in 3Q19. Operating gross margin dipped 100bp yoy to 46.5% due to higher maintenance cost from renovated projects, depreciation and servicing cost. SG&A-to-sales ratio was flat yoy but dropped 210bp qoq to 16.7% on an absence of employee benefit expense. Interest expense was Bt224m (3Q18: Bt110m) due to a rise in cost of debt on the inclusion of GLAND's debt.

EARNINGS REVISION/RISK

- None.

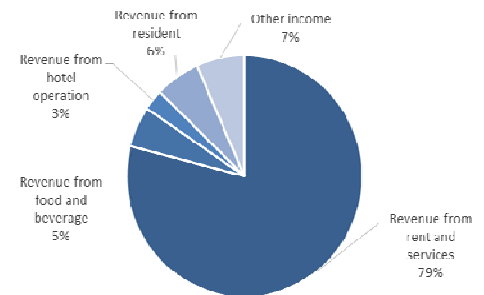
VALUATION/RECOMMENDATION

- Maintain BUY and target price of Bt81.00.** We value CPN's core business at Bt79.30/share, based on DCF, assuming WACC of 6.45%, risk-free rate of 1.50%, debt premium of 1.50%, equity risk premium of 8.6%, and terminal growth rate of 2.5%. Cash flows are discounted to 2020. We value the residential business at Bt1.70/share, assuming 12.5x 2020F PE.
- Our target price of Bt81.00 implies 28x 2020F PE, or +0.25SD above CPN's 10-year average. We believe CPN is justified to trade at above its long-term PE mean, given healthy financials, strong earnings visibility and moderate three-year core earnings growth.

SHARE PRICE CATALYST

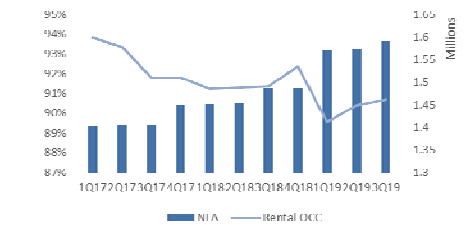
- Better-than-expected performances, especially from the rental segment, b) announcement of new projects, c) gross margin improvement, and d) lower SG&A-to sales ratio.

REVENUE CONTRIBUTION IN 3Q19



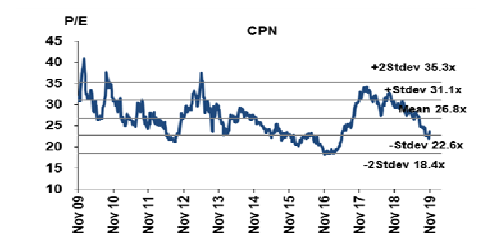
Source: CPN, UOB Kay Hian

NLA AND OCC BY QUARTER



Source: CPN, UOB Kay Hian

VALUATION



Source: CPN, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	33,887	37,410	40,152	44,028
EBITDA	10,194	10,483	11,888	13,484
Deprec. & amort.	0	0	0	0
EBIT	10,194	10,483	11,888	13,484
Total other non-operating income	2,686	3,119	3,111	3,204
Associate contributions	987	1,106	1,216	1,338
Net interest income/(expense)	(426)	(806)	(764)	(795)
Pre-tax profit	13,440	13,901	15,452	17,231
Tax	(2,057)	(2,141)	(2,364)	(2,636)
Minorities	(168)	(273)	(281)	(289)
Net profit	11,216	11,488	12,807	14,305
Net profit (adj.)	10,823	11,690	12,807	14,305

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	17,139	18,248	20,558	22,594
Pre-tax profit	13,440	13,901	15,452	17,231
Tax	(2,057)	(2,141)	(2,364)	(2,636)
Deprec. & amort.	5,906	6,704	7,142	7,639
Working capital changes	(1,550)	(1,023)	(435)	(434)
Other operating cashflows	1,400	806	764	795
Investing	(18,450)	(14,931)	(16,508)	(17,354)
Capex (growth)	(8,988)	(13,020)	(15,890)	(16,730)
Investments	(9,462)	(1,911)	(618)	(624)
Financing	1,884	(2,805)	(6,162)	(4,736)
Dividend payments	(6,282)	(4,937)	(4,836)	(5,379)
Issue of shares	0	0	0	0
Proceeds from borrowings	24,829	6,000	1,000	3,000
Loan repayment	(12,570)	(2,500)	(1,000)	(1,000)
Others/interest paid	(4,092)	(1,368)	(1,326)	(1,357)
Net cash inflow (outflow)	574	511	(2,112)	504
Beginning cash & cash equivalent	2,418	3,021	3,532	1,420
Changes due to forex impact	29	0	0	0
Ending cash & cash equivalent	3,021	3,532	1,420	1,925

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	124,144	130,460	139,208	148,299
Other LT assets	22,262	24,173	24,791	25,415
Cash/ST investment	3,021	3,532	1,420	1,925
Other current assets	12,280	12,823	13,341	13,911
Total assets	161,708	170,990	178,761	189,551
ST debt	14,218	14,218	14,218	14,218
Other current liabilities	7,467	6,987	7,069	7,206
LT debt	2,928	2,928	2,928	2,928
Other LT liabilities	62,919	65,857	65,295	66,733
Shareholders' equity	65,726	72,277	80,247	89,174
Minority interest	8,450	8,722	9,003	9,293
Total liabilities & equity	161,708	170,990	178,761	189,551

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	30.1	28.0	29.6	30.6
Pre-tax margin	39.7	37.2	38.5	39.1
Net margin	33.1	30.7	31.9	32.5
ROA	7.9	6.9	7.3	7.8
ROE	17.6	16.6	16.8	16.9
Growth				
Turnover	17.7	10.4	7.3	9.7
EBITDA	11.3	2.8	13.4	13.4
Pre-tax profit	(13.1)	3.4	11.2	11.5
Net profit	(17.3)	2.4	11.5	11.7
Net profit (adj.)	9.4	8.0	9.6	11.7
EPS	9.4	8.0	9.5	11.7
Leverage				
Debt to total capital	18.8	17.5	16.1	14.8
Debt to equity	26.1	23.7	21.4	19.2
Net debt/(cash) to equity	21.5	18.8	19.6	17.1
Interest cover (x)	23.9	13.0	15.6	17.0

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