Sifting Through the Debris

For the brave, tips about Thai property counters

By Steven K. C. Poh

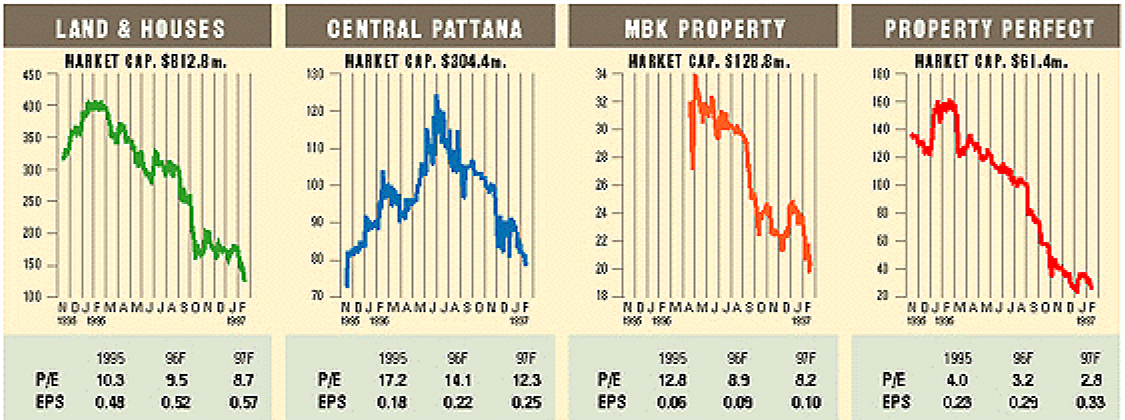
HERE'S ONE GOOD WAY of assessing the prospects of Thai property companies. "Looking at the various accounting tricks that are available to developers to convert potential losses to deceptive profits, the sector should be valued on cash flow rather than traditional earnings multiples," says Vikas Kawatra of Asia Equity Thailand. But be careful even then. "The misleading accounting policy of including 'land purchased for development in the future' with other long-term assets, rather than with inventory, may show positive cash flow," says the analyst. "In reality, almost all listed developers are operating with negative cash flow from operations due to rising accounts receivable and the massive number of project launches."

There are exceptions. Both Kawatra and Richard Henderson, head of research at Bangkok brokerage Krungthai Thanakit, have a buy on MBK Properties & Development, which owns a shopping mall in central Bangkok. The company has cash reserves equivalent to 3 baht per share. Kawatra also likes another mall owner, Central Pattana, whose shopping centers boast occupancy rates of over 90%. "Its new properties are being built in up-and-coming locations in the outskirts of Bangkok and in provinces with strong purchasing power," he says.

Analysts are less enthusiastic about developers that focus on other segments. Hiroaki Sengoku of the Bangkok branch of Japanese brokerage Nikko says there is a glut in industrial estates. "The condominium segment remains very speculative," he adds. "But townhouses and detached homes enjoy real demand, and the oversupply situation there is not as bad." This is one reason why Asia Equity's Kawatra likes Property Perfect, a small developer that concentrates on detached houses and townhomes. "Its pre-sales in the first nine months of 1996 rose by 16% due to its move to sell land plots," he says. Property Perfect and another of his picks, Quality Houses Co., "need only to make good on about 60% of their order books in the beginning of the year to achieve earnings per share growth of 20% to 25% in 1997."

In contrast, Land & Houses, which also specializes in detached homes, needs to realize 75% of pre- sale orders to gain earnings per share growth of 5% to 10%, says Kawatra. Meanwhile, debt levels are rising because the company continues to buy land, despite a land bank that can support three to four years of sales. "Although the balance sheet is relatively strong with low gearing and minimal accounts receivable, the rising proportion of short term debt as a percentage of total debt is a cause for concern," says Kawatra. "And the stock is expensive both on price-earnings ratio and net-asset value ratings."

The Asia Equity analyst is one of the brave few in Bangkok who see some value in property stocks. "Investors should stay underweight at the moment," counsels Krungthai Thanakit's Henderson. Somprasong Land's failure Feb. 5 to pay interest on its Eurobonds (see main story) has spooked the stock market. "Most players have negative cash flow," warns Phillip Otero, head of research at Bangkok-based Peregrine Nithi Finance & Securities. "Banks have definitely cut back on funding. Everyone is in a waiting mode." Somprasong Land's default, says Paul Wanglee of Hong Kong-based Goldman Sachs, "is the beginning of some major bad news. You can expect some more weaker companies to fall along the wayside."



All money values in U.S. dollars except share prices, which are in Thai baht. Sources: Datastream, First Call/World Equities, Asia Equity