

31 January 2020

Consumer Cyclical | Leisure & Entertainment

Central Pattana (CPN TB)

Buy (Maintained)

Seeking Resilient Growth In FY20; Keep BUY

Target Price (Return) THB79.00 (+32%)
 Price: THB60.00
 Market Cap: USD8,633m
 Avg Daily Turnover (THB/USD) 530m/17.0m

- Keep BUY, new THB79.00 DCF-based TP from THB83.50, 32% upside.** Central Pattana's 5-year THB115bn capex plan for mixed-use developments may secure its outlook from 2021F onwards. We expect 2020F earnings growth of 11% (2019F: +3%) on improving efficiency in completed new and enhanced projects in 2019 and profit margin hike. Solid 4Q19F performance and a cushion of extra gains from asset spin-offs to its REIT in 1Q20F may act as a near-term catalyst, while the stock looks undemanding (-1.5SD to its 5-year historical mean P/E).
- Gears up for more mixed-use developments.** In its 30 Jan CEO Forum, CPN introduced its 2020-2024 THB115bn capex plan. 61% of this will be for 15 new mixed-use developments over the period, 26% for mixed-use extensions at its existing retail mall projects, and the remaining 13% for asset enhancements. The budget may also include two potential malls at its second overseas market (Vietnam) by 2024. The massive investment should strongly support long-term earnings outlook and meet dynamic consumer behaviour. We expect its solid operating cash flow of >THB20bn pa, low gearing of <0.3x, and possible further asset monetisation to back up its funding ability.
- 2020 guidance includes 8-9% growth in total revenue,** combined 2ppts expansion in GPM and EBITDA margin, and 50% fall in financing cost post-debt repayment using cash to be received from the upcoming asset sales in 1Q. We expect the ongoing transfer of residential projects with THB3bn backlog, full-year utilisation of new malls and major renovated malls completed in 2019, and rising occupancy rates to be the key drivers of revenue and cost efficiency. Based on management's guidance, we revise down 2019F-2021F core profit by 3-4%, and expect a minimal growth of 3% in 2019 before ramping up to 11% in 2020 based on 8% topline growth, 0.4ppts GPM hike and 1.1ppts EBITDA margin hike.
- 4Q19-1Q20F likely solid quarters.** We expect 4Q19F core profit to grow 18% YoY and 3% QoQ, driven by rising occupancy rates at its key malls in Bangkok and strong residential unit transfer – mainly the condominium project in the northern province of Chiang Rai. For 1Q20F, CPN may strongly benefit on extra gains of THB1.75bn from the transfer of five retail projects to its REIT. We also expect no material impact of <THB50m to the bottomline from the adoption of Thai Financial Reporting Standards 16 and a net benefit from the new property tax measures starting this year.
- Maintain BUY.** Valuation looks undemanding at -1.5SD to its 5-year historical mean P/E, while our revised TP of THB79.00 implies 25x 2020F P/E, or a conservative -0.5SD. We believe this reflects the smaller 2019 growth, market concerns on rising competition in retail, and the extension of new mall openings to 2021F, but we are optimistic on an expected stronger outlook this year. The coronavirus outbreak may have a slight short-term effect on store traffic and rent on revenue-sharing basis, likely for a couple of quarters, but we do not expect an adverse impact on its same-store rental rate hike of 3% as it has been adjusted on an annualised basis.

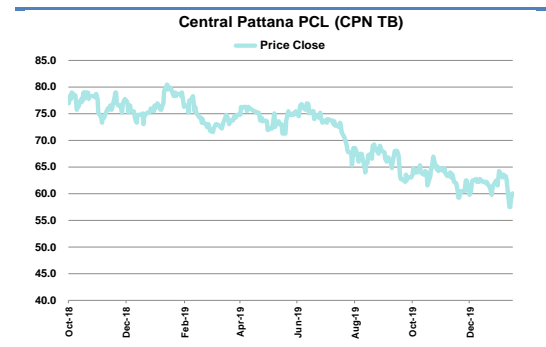
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.6)	(3.6)	(6.3)	(18.1)	(24.8)
Relative	(0.1)	(0.1)	(1.4)	(7.4)	(18.1)
52-wk Price low/high (THB)	56.00 - 80.75				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (THBm)	28,785	33,887	36,738	39,576	41,375
Net profit (THBm)	13,568	11,216	11,197	14,103	13,490
Recurring net profit (THBm)	9,893	10,823	11,108	12,350	13,490
Recurring net profit growth (%)	7.0	9.4	2.6	11.2	9.2
Recurring EPS (THB)	2.20	2.41	2.48	2.75	3.01
Recurring P/E (x)	27.2	24.9	24.2	21.8	20.0
P/B (x)	4.2	3.6	3.3	3.0	2.7
P/CF (x)	18.0	22.2	11.2	11.9	12.3
Dividend Yield (%)	2.3	1.8	1.7	2.1	2.0
EV/EBITDA (x)	15.8	15.3	13.8	12.2	11.3
ROE (%)	23.2	16.2	14.5	16.5	14.3
Net debt to equity (%)	11.1	36.9	28.9	15.4	8.8

Source: Company data, RHB

See important disclosures at the end of this report

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Thailand	Recurring EPS (THB)	2.20	2.41	2.48	2.75	3.01
Consumer Cyclical	DPS (THB)	1.40	1.10	1.00	1.26	1.20
Central Pattana	BVPS (THB)	14.23	16.53	17.98	20.12	21.87
Bloomberg CPN TB	ROE (%)	23.22	23.22	23.22	23.22	23.22
Buy						
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
We use DCF:	Recurring P/E (x)	27.2	24.9	24.2	21.8	20.0
i. COE of 11.1%;	P/B (x)	4.22	3.63	3.34	2.98	2.74
ii. WACC of 7.6%;	FCF Yield (%)	(0.46)	(10.70)	5.71	4.11	3.40
iii. 3% long-term growth.	Dividend yield (%)	2.3	1.8	1.7	2.1	2.0
Key drivers	EV/EBITDA (x)	15.8	15.3	13.8	12.2	11.3
i. Opening of new shopping mall projects;	EV/EBIT (x)	22.7	22.0	20.3	17.9	16.4
ii. Renovating existing projects may increase NLA and help improve average rental rate;						
iii. Improving domestic consumption would boost customer traffic and income from revenue-sharing contracts.						
Key risks	Income statement (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Upside risks include delays in the opening of new projects, popularity of online trading channels, and uncertainties – eg natural disasters, riots, and terrorism. Downside risks include prolonged pandemic outbreaks, local consumption slowdowns, and weaker-than-expected profit margins enhancement.	Total turnover	28,785	33,887	36,738	39,576	41,375
	Gross profit	14,267	16,308	17,316	18,784	19,732
	EBITDA (adj.)	17,467	19,379	21,172	23,212	24,639
	Depreciation & amortisation	5,315	5,906	6,762	7,355	7,665
	Operating profit	12,153	13,474	14,410	15,857	16,974
	Net interest	(364)	(426)	(864)	(869)	(602)
	Pre-tax profit	11,789	13,047	13,546	14,988	16,372
	Taxation	(1,795)	(2,057)	(2,384)	(2,473)	(2,701)
	Net profit	13,568	11,216	11,197	14,103	13,490
	Recurring net profit	9,893	10,823	11,108	12,350	13,490
Company Profile	Cash flow (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
CPN operates retail properties for rent, comprising large-scale shopping complexes under the Central Plaza, Central Festival, and CentralWorld brands, as well as other supportive businesses. The company's portfolio mainly consists of shopping centres, offices, hotels, and acts as property manager for such funds. It also operates a residential-for-sale business.	Change in working capital	(4,167)	(6,365)	6,066	1,198	793
	Cash flow from operations	15,001	12,129	24,025	22,657	21,948
	Capex	(13,978)	(33,232)	(13,714)	(11,050)	(12,350)
	Cash flow from investing activities	(16,248)	(40,945)	(8,639)	(11,601)	(12,794)
	Dividends paid	(3,725)	(6,283)	(4,937)	(4,479)	(5,641)
	Cash flow from financing activities	1,176	29,418	(9,787)	(11,523)	(9,626)
	Cash at beginning of period	2,489	2,418	3,021	8,620	8,152
	Net change in cash	(71)	603	5,599	(468)	(471)
	Ending balance cash	2,418	3,021	8,620	8,152	7,681
	Balance sheet (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	5,361	3,067	10,008	9,648	9,244
	Tangible fixed assets	97,855	125,181	132,132	135,827	140,513
	Total investments	6,494	11,992	12,232	12,477	12,726
	Total assets	120,574	161,708	164,585	168,323	172,920
	Short-term debt	2,274	2,928	3,883	6,783	3,135
	Total long-term debt	7,255	19,522	18,068	11,285	8,150
	Total liabilities	56,694	87,532	83,893	78,007	74,755
	Total equity	63,880	74,176	80,692	90,316	98,165
	Total liabilities & equity	120,574	161,708	164,585	168,323	172,920
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	4.2	17.7	8.4	7.7	4.5
	Recurrent EPS growth (%)	7.0	9.4	2.6	11.2	9.2
	Gross margin (%)	49.6	48.1	47.1	47.5	47.7
	Operating EBITDA margin (%)	60.7	57.2	57.6	58.7	59.5
	Net profit margin (%)	47.1	33.1	30.5	35.6	32.6
	Capex/sales (%)	48.6	98.1	37.3	27.9	29.8
	Interest cover (x)	33.4	31.6	16.7	18.3	28.2

Source: Company data, RHB

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Figure 1: CPN's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	15,857	16,974	18,183	19,652	21,287	22,475	23,718	25,097	26,564	28,141
EBIT (1-t)	13,240	14,173	15,183	16,409	17,774	18,766	19,805	20,956	22,181	23,498
Depreciation & amortisation	7,355	7,665	8,033	8,449	8,691	8,969	9,248	9,547	9,997	10,117
Change in net working capital	(4,867)	(405)	(201)	59	63	(330)	49	29	(24)	28
Capex	(11,050)	(12,350)	(11,050)	(11,050)	(8,050)	(8,050)	(8,050)	(9,050)	(9,050)	(9,050)
Net free cash flow to firm	14,413	9,893	12,366	13,749	18,353	20,015	20,954	21,424	23,152	24,537
Terminal value										546,065
PV	13,391	8,541	9,919	10,246	12,708	12,877	12,525	11,899	11,947	273,572
Terminal growth	3.0%									
WACC	7.6%									
Total discounted firm value	377,624									
Less: Net debt	13,916									
Less: Minority interest	8,450									
Equity value	355,258									
Number of shares (m)	4,488									
Equity value per share (THB)	79.00									

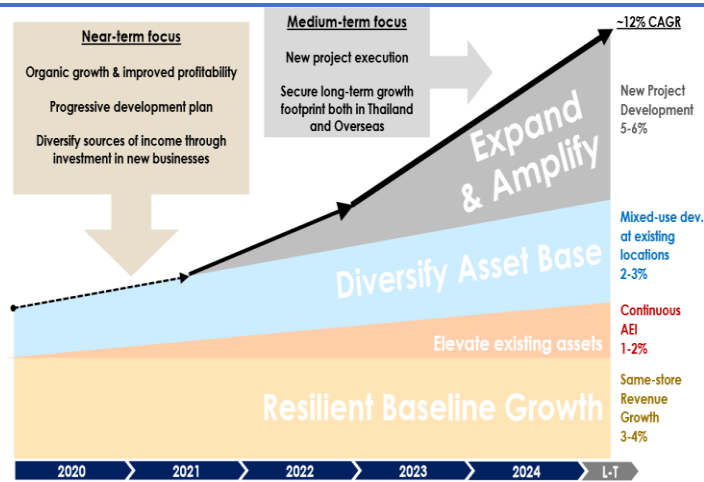
Source: RHB

Figure 2: CPN's 4Q19 results preview

FYE Dec (THBm)	4Q18	3Q19	4Q19F	YoY % chg	QoQ % chg	2018	2019F	YoY % chg	Remarks
Turnover	8,632	9,135	10,174	17.9	11.4	33,887	36,738	8.4	Solid transfer of residential units at its condominium project in the northern province of Chiang Rai and the opening of two new retail malls in the past 12 months.
Gross profit	4,062	4,252	4,858	19.6	14.3	16,308	17,316	6.2	
EBIT	3,080	3,619	3,796	23.3	4.9	13,474	14,410	7.0	
EBIT margin (%)	35.7	39.6	37.3			39.8	39.2		
EBITDA	4,623	5,291	5,665	22.5	7.1	19,379	21,172	9.3	
EBITDA margin (%)	53.6	57.9	55.7			57.2	57.6		
Interest expense	(183)	(224)	(218)	18.9	-2.7	(426)	(864)	102.7	
Pretax profit	2,897	3,395	3,578	23.5	5.4	13,047	13,546	3.8	
Tax	(396)	(608)	(633)	59.7	4.1	(2,057)	(2,384)	15.9	
Core profit	2,445	2,816	2,889	18.2	2.6	10,823	11,108	2.6	Residential business may help boost 4Q19F earnings to grow YoY. Expect a net extra gain of THB175m from selling 30% shares of its subsidiary CPN Village to the Japanese business partner Mitsubishi Estate Asia in Nov 2019.
Net profit	2,530	2,816	3,064	21.1	8.8	11,216	11,197	-0.2	
Gross margin (%)	47.1	46.5	47.8			48.1	47.1		
SG&A/sales (%)	21.7	17.9	18.0			18.0	17.9		Efficient opex control improved the ratio YoY.
Core profit margin (%)	28.3	30.8	28.4			31.9	30.2		
Net margin (%)	29.3	30.8	30.1			33.1	30.5		

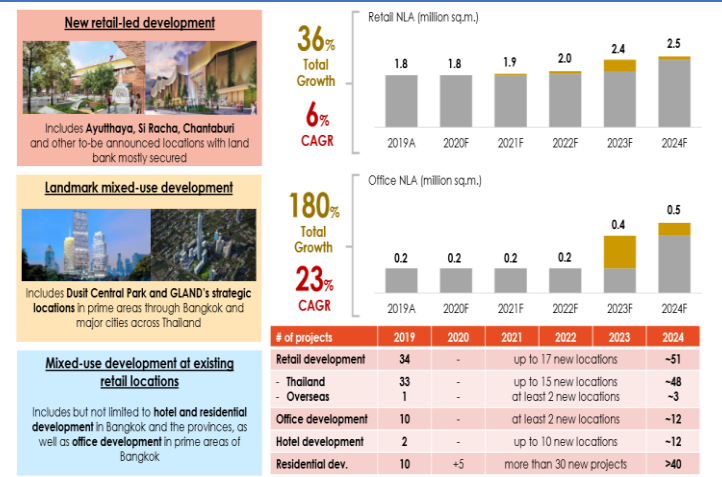
Source: Company data, RHB

Figure 3: CPN's growth strategy in 2020-2024



Source: Company data

Figure 4: Targeted net leasable area growth in the next five years



Source: Company data

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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ช่วงคะแนน Score	สัญลักษณ์ Rang Number of Logo	ความหมาย	Description
90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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