

13 September 2011

Produced by: Asia Plus Securities PCL and distributed on its behalf by RBS

Ticon Industrial

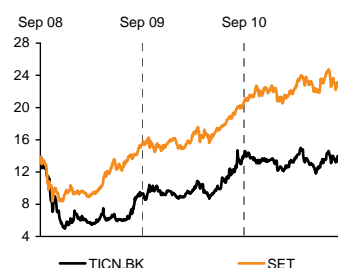
Strong demand on the ground

Buy

Target price
B18.00Price
B13.80Short term (0-60 days)
n/aMarket view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (B)	13.80	12.50	13.30
Absolute (%)	0.0	10.4	3.8
Rel market (%)	2.0	8.2	-7.8
Rel sector (%)	5.9	23.7	13.8

Market capitalisation
B10.78bn (US\$357.00m)Average (12M) daily turnover
B28.27m (US\$0.94m)Sector: BBG AP Real Estate
RIC: TICN.BK, TICON TB
Priced B13.80 at close 12 Sep 2011.
Source: Bloomberg

We revisit our investment case on Ticon given its high exposure to foreign demand. We still see strong support for Thai industrial property, driven mainly by expanding capacity in auto sector, Japanese investment and demand from Asia. We maintain Buy with TP of B18.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (Bm)	2,373	2,783	3,595	3,870 ▲	4,084
Reported net profit (Bm)	653.3	821.1	1,095	1,177 ▲	1,242
Reported EPS (B)	0.99	1.19	1.38	1.48 ▲	1.56
Reported PE (x)	13.90	11.60	9.98	9.31	8.83
Dividend per share (B)	0.80	1.00	1.05	1.12	1.18
Dividend yield (%)	5.80	7.25	7.61	8.12	8.55
Book value per share (B)	7.58	7.82	7.49	7.93	8.38
Price/book value (x)	1.82	1.76	1.84	1.74	1.65

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Dec, fully diluted

Demand ytd strong and in line, driven by auto sector

For 8M11, Ticon reported an increase in net leased space of 120,000sqm (up 70% yoy), fairly in line with our full-year forecast of 185,000sqm (up 80% yoy). The major driver for both rental factories (supply chains) and warehouses (industrial logistics) is auto-related industry. Demand mainly comes from Japan, driven by capacity expansion of the major Japanese auto producers and the strong Japanese yen relative to Thai Baht.

We remain positive on the sector and Ticon

We remain positive on the Thai industrial property sector and Ticon. The outlook is supported by: 1) more interest and a rising number of contracts (both rental and sales) from foreign investors, mainly Japanese; 2) a lack of signs of slowing industrial capacity utilisation or inventory reduction; 3) a shift in the mix of Thai exports to east Asia and Asean (from the US and Europe), where GDP growth remains strong; and 4) a potential shift in production or relocation to Asean (from Europe or the US) to improve efficiency and cost structure.

We see limited downside to our FY11-13F earnings

Management reconfirmed its plan to sell to its associates: 55,000sqm of warehouses to TLOGIS TB in 3Q11 and 65,000sqm of factories to TFUND TB in 4Q11, worth a total of B2.4bn. This is in line with our forecast of B2.3bn (up 32% yoy), which is based on an income-capitalisation approach and 10% cap rate. We maintain our forecasts of 14% profit growth in FY11 and 9% CAGR of fully-diluted EPS in FY11-13.

Maintain our B18 TP and Buy rating

We see Ticon's dominant position (40% market share) in Thai industrial rental property sector as sustainable over the next few years and believe it will benefit from Japanese investment inflows. We maintain our Buy rating and DCF-based TP of B18 on the back of a strong industry outlook, a discount in valuation relative to its long-term average of 11x PE and 2x PBV), and attractive dividend yield (8% for FY12F).

Pursuant to an agreement with Asia Plus Securities PCL (APS), this report is prepared by APS but distributed outside of Thailand by The Royal Bank of Scotland N.V. and affiliated companies (RBS). Please refer to the Disclosures Appendix.

Analyst

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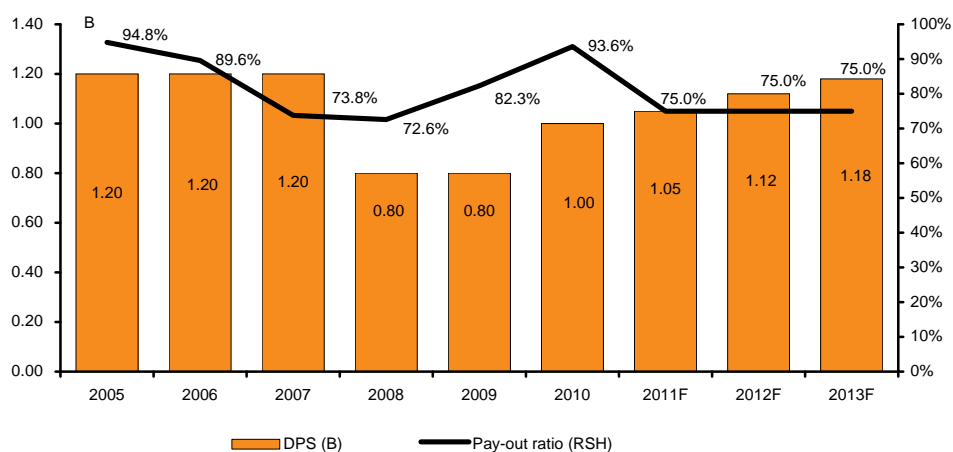
3/F Sathorn City Tower, 175 South
Sathorn Road, Yannawa, Bangkok
10120, Thailand

Table 1 : Earnings revision

	Net Profit (Bm)			EPS (B)			DPS (B)		
	Previous	New	% change	Previous	New	% change	Previous	New	% change
2011F	1,074	1,095	2.0	1.36	1.38	1.9	1.04	1.05	1.0
2012F	1,121	1,177	5.0	1.41	1.48	4.9	1.10	1.12	1.8
2013F	1,214	1,242	2.3	1.53	1.56	2.2	1.18	1.18	0.0

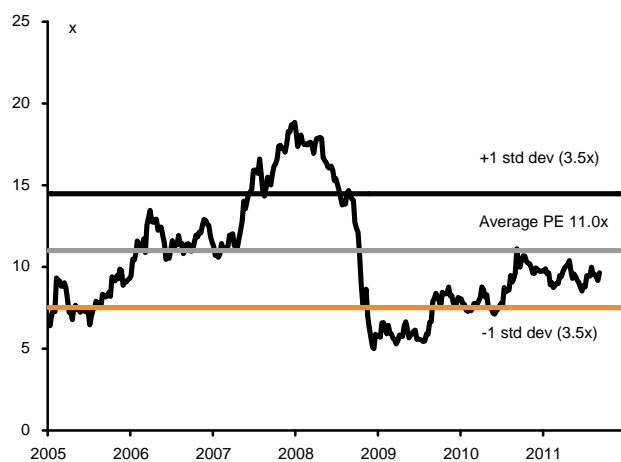
Source: Company data, RBS forecasts

Chart 1 : Dividend payment (DPS) and historical payout ratio



Source: Company data, RBS forecasts

Chart 2 : One-year forward PE



Source: Bloomberg, RBS forecasts

Chart 3 : One-year forward PBV



Source: Bloomberg, RBS forecasts

Income statement

Bm	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	809.2	850.9	1008	1085	1170
Prop development income	n/a	n/a	n/a	n/a	n/a
Other revenue	1650	2083	2760	2958	3087
Total property income	2459	2933	3768	4043	4257
Other costs	-1285	-1311	-1890	-1968	-2052
EBITDA	1174	1622	1878	2075	2205
DDA & Impairment (ex gw)	-258.6	-265.2	-279.6	-371.9	-403.9
EBITA	915.5	1357	1598	1703	1801
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	915.5	1357	1598	1703	1801
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Net interest	-293.8	-261.4	-280.9	-283.4	-321.3
Other pre-tax items	-91.8	-185.1	-100.0	-100.0	-100.0
Reported PTP	529.9	910.4	1217	1320	1380
Taxation	-35.3	-257.9	-316.5	-356.3	-372.5
Minority interests	-0.00	0.00	0.00	0.00	0.00
Other post-tax items	158.7	168.6	193.9	213.3	234.6
Reported net profit	653.3	821.1	1095	1177	1242
Dividends declared	-527.9	-686.3	-820.1	-874.7	-921.6
Tot normalised items	86.3	150.5	173.1	173.1	173.1
Normalised EBITDA	1088	1472	1705	1902	2032
Normalised PTP	443.6	759.9	1044	1147	1207
Normalised net profit	567.0	670.6	921.6	1004	1069

Source: Company data, RBS forecasts

year to Dec

Balance sheet

Bm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	82.8	183.2	183.8	219.5	268.2
Props under dev	0.00	n/a	n/a	n/a	n/a
Other current assets	81.3	940.0	1234	1357	1465
Investment prop	0.00	n/a	n/a	n/a	n/a
Other non-current assets	10945	11361	11720	12164	12328
Total assets	11109	12485	13138	13740	14061
Short term debt (2)	976.1	1159	1159	1217	1241
Long term debt (3)	4644	5014	5014	5165	5061
Other liabilities	495.4	714.4	864.6	902.1	934.6
Total liabilities	6115	6888	7038	7284	7237
Total equity (incl min)	4994	5597	6100	6457	6824
Total liab & sh equity	11109	12485	13138	13740	14061
Net debt	5537	5990	5989	6162	6034

Source: Company data, RBS forecasts

year ended Dec

Cash flow statement

Bm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	1174	1622	1878	2075	2205
Change in working capital	-59.8	-646.7	-144.2	-84.7	-76.1
Net interest (pd) / rec	-297.9	-284.0	-335.5	-341.8	-334.9
Taxes paid	-123.4	-336.4	-400.8	-441.4	-468.9
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	693.1	355.1	997.4	1207	1325
Capex (2)	-491.6	-617.2	-483.4	-656.6	-440.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	530.9	247.0	78.3	96.9	117.4
Cash flow from invest (3)	39.3	-370.2	-405.2	-559.7	-322.6
Incr / (decr) in equity	17.2	320.4	94.7	0.00	0.00
Incr / (decr) in debt	-281.3	553.1	0.00	208.4	-79.0
Ordinary dividend paid	-526.4	-757.7	-686.3	-820.1	-874.7
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	0.00	-0.41	0.00	0.00	0.00
Cash flow from fin (5)	-790.5	115.4	-591.7	-611.7	-953.7
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	-58.2	100.4	0.52	35.8	48.7
Equity FCF (1+2+4)	201.4	-262.1	514.0	550.6	885.0

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, RBS forecasts

year to Dec

Standard ratios	Ticon					Amata Corporation			Thailand aggregate		
Performance	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	2011	2012	2013
Normalised EPS growth (%)	-7.34	13.8	19.4	8.61	6.30	43.7	11.0	9.90	n/a	n/a	n/a
EBIT margin (%)	33.7	41.1	37.8	37.8	38.2	37.2	38.2	38.8	13.6	15.3	16.3
Net profit margin (%)	23.1	22.9	24.5	24.8	25.1	24.5	26.1	26.5	10.0	10.9	11.3
Return on avg assets (%)	6.77	7.24	8.73	8.94	9.31	11.1	11.1	11.4	4.64	4.75	4.77
Return on avg equity (%)	11.5	12.7	15.8	16.0	16.1	20.6	19.9	19.2	20.4	20.2	19.3
Return on cap empl (%)	7.84	10.9	12.0	12.4	12.8	17.8	17.5	18.3	22.6	25.2	27.2
ROIC (%)	5.47	8.02	8.61	8.86	9.03	13.1	12.7	13.1	18.3	19.4	21.9
	year to Dec					year to Dec			year to Dec		
Valuation	FY09A	FY10A	FY11F	FY12F	FY13F	FY09A	FY10A	FY11F	FY12F	FY13F	
Normalised PE (x)	16.03	14.09	11.80	10.86	10.22	10.86	9.78	8.90	10.35	8.89	8.10
Dividend yield (%)	5.80	7.25	7.61	8.12	8.55	3.00	3.71	3.93	4.20	4.98	5.56
Price/book value (x)	1.82	1.76	1.84	1.74	1.65	2.08	1.82	1.61	1.93	1.68	1.47
Disc/(prem) to adj BV (%)	-82.0	-76.4	-84.1	-74.0	-64.6	-107.9	-82.4	-60.6	-117.8	-94.3	-72.0
PEG 3yr (%)	n/a	n/a	1.05	n/a	n/a	0.53	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	15.0	11.4	9.84	8.91	8.27	8.33	7.59	6.61	6.77	5.59	4.83
	year to Dec					year to Dec			year to Dec		
Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	658.5	715.5	813.9	813.9	813.9	Net debt to equity (%)	110.9	107.0	98.2	95.4	88.4
Reported EPS (THB)	0.99	1.19	1.38	1.48	1.56	Net debt to tot ass (%)	49.8	48.0	45.6	44.8	42.9
Normalised EPS (THB)	0.86	0.98	1.17	1.27	1.35	Net debt to EBITDA	5.09	4.07	3.51	3.24	2.97
Dividend per share (THB)	0.80	1.00	1.05	1.12	1.18	Current ratio (x)	0.14	0.70	0.81	0.85	0.91
Equity FCF per share (THB)	0.31	-0.37	0.63	0.68	1.09	Operating CF int cov (x)	3.74	3.43	5.17	5.82	6.36
Book value per sh (THB)	7.58	7.82	7.49	7.93	8.38	Dividend cover (x)	1.07	0.98	1.12	1.15	1.16
	year to Dec						year to Dec				

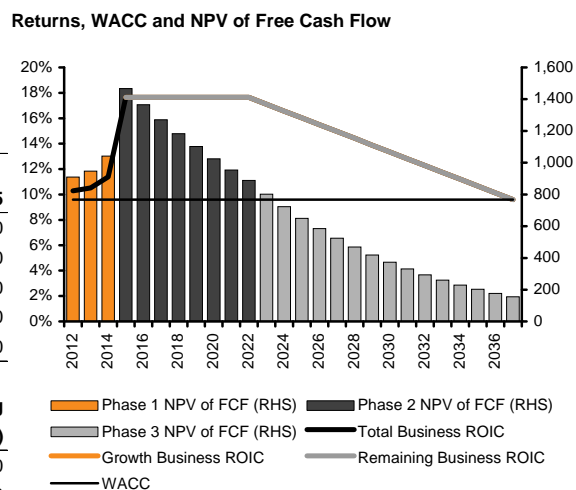
Priced as follows: TICON.BK - B13.80; AMAT.BK - B14.00
Source: Company data, RBS forecasts

Valuation methodology

Economic Profit Valuation	Bm	%	Discounted Cash Flow Valuation	Bm	%
Adjusted Opening Invested Capital	12783.1	63	Value of Phase 1: Explicit (2012 to 2014)	2897.9	14
NPV of Economic Profit During Explicit Period	389.5	2	Value of Phase 2: Value Driver (2015 to 2022)	9254.9	46
NPV of Econ Profit of Remaining Business (1, 2)	6272.1	31	Value of Phase 3: Fade (2023 to 2037)	6192.3	31
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	718.6	4	Terminal Value	1824.3	9
Enterprise Value	20163.3	100	Enterprise Value	20169.3	100
Plus: Other Assets	260.1	1	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		3.4
Less: Minorities	0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		1.9
Less: Net Debt (as at 13 Sep 2011)	5989.4	30			
Equity Value	14434.0	72			
No. Shares (millions)	813.9				
Per Share Equity Value	18.00				
Current Share Price	13.80				

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	7.6%	23.00	24.00	24.00	25.00	25.00
	8.6%	21.00	21.00	21.00	22.00	22.00
	9.6%	18.00	19.00	19.00	19.00	19.00
	10.6%	16.00	16.00	17.00	17.00	17.00
	11.6%	14.00	15.00	15.00	15.00	15.00

Performance Summary	2012	2013	2014	Phase 2 Avg (2015 - 2022)
Invested Capital Growth (%)	4.3	1.9	1.1	2.0
Operating Margin (%)	46.9	47.4	47.5	49.0
Capital Turnover (x)	0.3	0.3	0.3	0.5



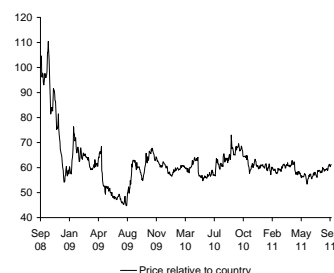
1. In periods following the Explicit Period i.e., Phase 2 and Phase 3.
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter.
3. Net Investment is defined as capex over and above depreciation after Phase 1.
Source: RBS forecasts

Company description

Buy

Price relative to country

TICON Industrial Connection is Thailand's largest provider of ready-built factories (RBFs), with about a 70% market share. Its rental factories are in 13 different industrial estates across the country. The company has also developed three logistics parks where it offers warehouses on a rental basis, mainly for the general logistics, retailers and consumer products industries. Ticon's major RBF clients are Japanese, mostly in the electronics and auto-parts industries and historically it has maintained an occupancy rate above 80%. Since 2005, sales of properties to Ticon's associate, TFUND (in which Ticon held 30% at end-February 2009), have become the largest source of income for the company to finance business expansion, in addition to income from rental and related services. Ticon aims to raise funds through TFUND continuously.



Strategic analysis

Average SWOT company score:

4

Revenue breakdown, 2010A

Strengths

5

Ticon is a market leader in ready-built factories for rent. 13 different locations cover all major areas for industrial activities. Its logistics park (TPARK) is also the most standard park in Thailand. Ticon has a strong reputation among foreign companies.

Weaknesses

3

Being in an industrial-related business, the company's earnings are highly exposed to changes in business sentiment and the state of the economy. Yet rental income is rather more consistent than land sales.

Opportunities

4

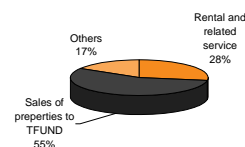
The logistic parks business is relatively new to Thailand, so there is still strong demand for standard warehouses from a variety of industries in addition to electronics and automotive.

Threats

4

Other industrial estate companies are trying to do the same thing as Ticon by providing rental factories for clients as a means of generating higher recurring income.

Scoring range is 1-5 (high score is good)



Source : Company data

Market data

Headquarters

Sathorn City Tower, Floor 13/1, 175 South Sathorn Road, Thungmahamek, Sathorn Bangkok 10120

Website

www.ticon.co.th

Shares in issue

781.0m

Freefloat

64%

Majority shareholders

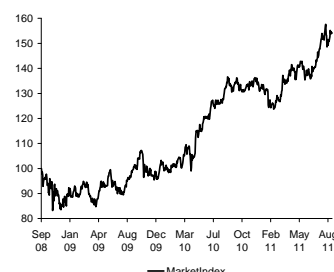
Rojana Industrial Park Plc (21%), Thai NVDR Limited (6%), Mr. Pracha Kijvorametha (6%)

Country view: Thailand

Country rel to Asia Pacific

Thailand took the doubtful title as the worst performing market in ASEAN during the second quarter as investors booked some profits in the run-up to the 4 July election. A visit there, however, left us cautiously confident that politics - yet again - will be a poor excuse to both buy or sell this market. Investors should instead focus on the attractive macro story emanating from the first investment cycle in 15 years. Growing private consumption supported by rising rural incomes are another structural positive. We expect 2011 to be the year where Thai equities follow Indonesia in making the transition from value to growth.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score:

4+

Broker recommendations

Supplier power

4-

Industrial estates supply land to Ticon. As the company is a major buyer of land, it has some bargaining power.

Barriers to entry

4+

Any company with enough capital could enter the business, although a strong reputation among foreign companies would take time to establish.

Customer power

4+

As Ticon, including TFUND, controls about 70% market share, customers do not have many alternatives or much bargaining power.

Substitute products

5+

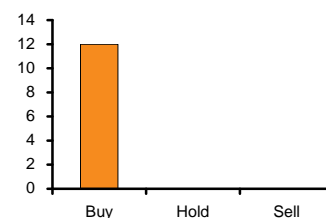
The closest substitute product for clients is to buy or build their own factory. If tenants do not have capital, there are no other choices.

Rivalry

4-

Ticon has only a few small direct competitors. Others are industrial-estate companies and do not offer the same quality of factory as TICON.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source : Bloomberg

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 13 Sep 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	845 (11)	550 (3)
Hold	416 (7)	227 (4)
Sell	86 (5)	50 (0)
Total (IB%)	1347 (9)	827 (3)

Source: RBS

Trading recommendations (as at 13 Sep 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (100)	1 (100)
Trading Sell	0 (0)	0 (0)
Total (IB%)	1 (100)	1 (100)

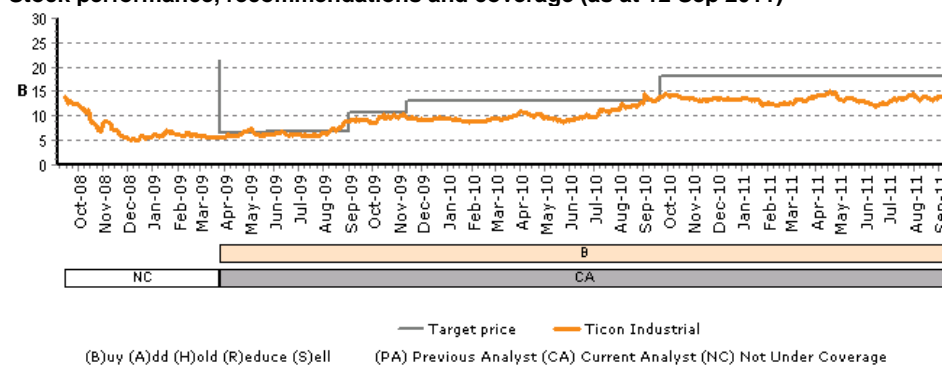
Source: RBS

Valuation and risks to target price

Ticon Industrial (RIC: TICN.BK, Rec: Buy, CP: B13.80, TP: B18.00): Key downside risks to our three-stage DCF-based target price are large-scale cancellation of contracts, failure of existing tenants to pay rent, inability to find new clients or renew contracts, selling properties to TFUND at a significant discount and worsening of the political situation.

Ticon Industrial coverage data

Stock performance, recommendations and coverage (as at 12 Sep 2011)



Trading recommendation history (as at 13 Sep 2011)

Date	Rec	Analyst
	n/a	

Source: RBS

Gift Srisomburanont started covering this stock on 25 Mar 09. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Regulatory disclosures

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