Trimegah SECURITIES

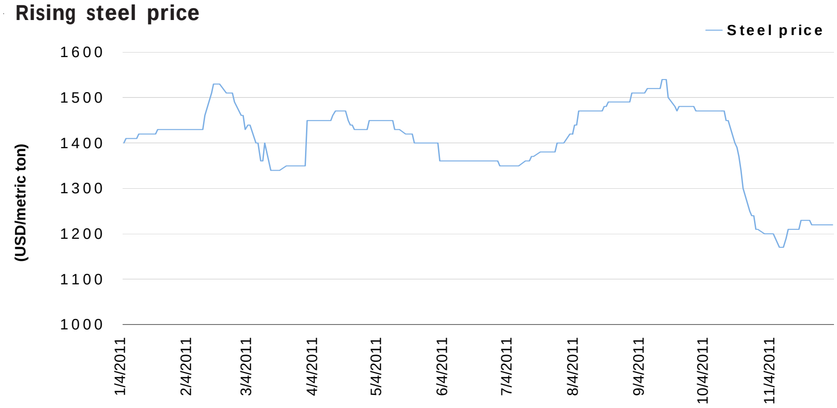
TRIM Notes

TOTL: Passing on Rising Cost

Despite Rising Steel Price...

The construction companies with contract signed before FY11 to contribute lower construction margin as the rising steel price and property boom in FY11. Currently the industries are running at 3.2% NPM in 3Q11, lower 0.9% YoY.

Rising steel price

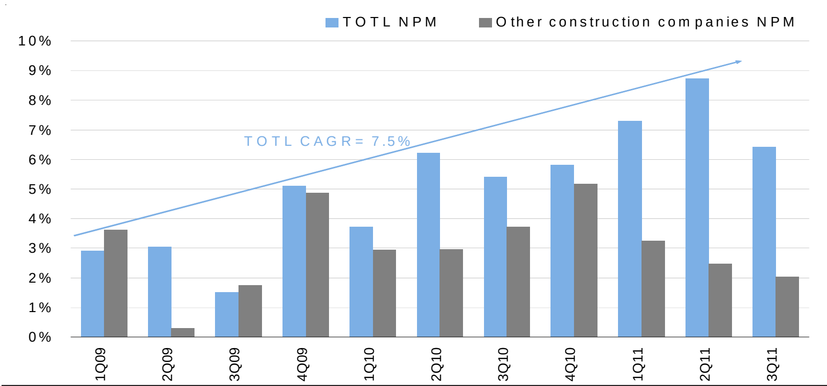


Source: Bloomberg

...Margin Will Stay...

TOTL already adopted new cost method, through passing the material cost to consumers; it will be most defensive toward the NPM squeeze. Hence, it already capable to add 1.0% YoY NPM margin to 6.4% in 3Q11 vs peers at average of 3.2%. Currently D/E stands at 0%, the interest expense should be low. During 3 years, CAGR stayed at 7.5%.

NPM CAGR



Source: Company, TRIM Research

...As Cost Pass On to Developer and Pass On to Final User

TOTL acts as the defensive stock in the sector as it has domestic demand exposure. We believe the strong domestic demand for property and high-rise building still high as cement sales reached 13% YoY growth. Hence as TOTL already pass the steel price to the property developers, the developers could pass on the higher material cost due to buoyant property demand. Although it doesn't capture most of government projects, TOTL price reflected the growing private property demand.

Valuation

We believe the construction companies will continue to deliver high-rise building needed as well as feeding the landed house complimentary means such as malls and universities. TOTL currently traded at 7.7 x forward PE, a premium toward its peers at 7.4 x forward PE.

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