



Future Park Property Fund

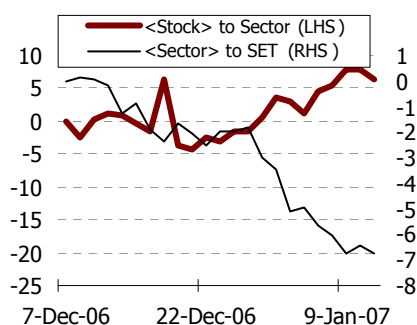
No more negative factors to price in

Company Update
12 January 2007
Property Fund
BUY (Maintained)
Bt8.40
@11/01/07
Target Price: Bt11.94

FUTUREPF TB/ FUTU.BK

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Stock/Sector, Sector/SET



Downside protection factors

Very high yield gap: we found that FUTUREPF offers a very attractive yield gap of over 5% above the 10-year government bond yield; the second-highest yield gap among PFPOs in Thailand.

No more selling pressure: FUTUREPF has the lowest percentage of its equity held by foreign investors of any major listed Thai property fund. We believe that short-term foreign investors have already completed their selling programs. Moreover, we think the BOT will eventually relax its capital controls for property funds.

Upside potential factors

Declining interest rate trend: The BOT is likely to cut its benchmark interest rate to encourage economic growth, which will benefit property funds by increasing the yield gap, so making them more attractive to investors.

Asset arbitrage: Given FUTUREPF's low risk profile and very high yield, investors are likely to switch to it from other PFPOs.

Recommend BUY: We reiterate our growth outlook of FUTUREPF based on an unchanged rental growth projection. The fund's attraction rests on its cheap valuation and high dividend. At its current price of Bt8.4, the unit offers an 11.37% dividend yield for this year and 11.87% next. FUTUREPF remains on our BUY list with a YE07 price target set at Bt11.94.

Market capitalization & share price info

Market cap	Bt3.98bn
12-mth price range	Bt8.10/Bt10.10
# of shares (m)	473.3

Financial summary

FY Ended 31 Dec	2006E	2007E	2008E	2009E	2010E
Revenues (Btm)	158	656	681	708	737
Net profit (Btm)	108	451	473	506	565
EPU (Bt)	0.23	0.96	1.01	1.08	1.20
Annualized EPU (Bt)	0.92	0.96	1.01	1.08	1.20
EPU growth (%)		+4.7%	+4.8%	+6.9%	+11.7%
Core EPU (Bt)	0.92	0.96	1.01	1.08	1.20
Core EPU growth (%)		+4.7%	+4.8%	+6.9%	+11.7%
PER (x)	9.2	8.7	8.3	7.8	7.0
Core PER (x)	9.2	8.7	8.3	7.8	7.0
EV/EBITDA (x)	7.7	7.3	6.9	6.5	6.1
PBV (x)	0.83	0.80	0.79	0.77	0.75
Dividend (Bt)	0.23	0.96	1.00	1.04	1.08
Ann. Div. yield (%)	10.91%	11.37%	11.87%	12.34%	12.88%
Ann. ROE (%)	9.05%	9.18%	9.42%	9.85%	10.71%

Sources: Company, Bualuang estimates/Research

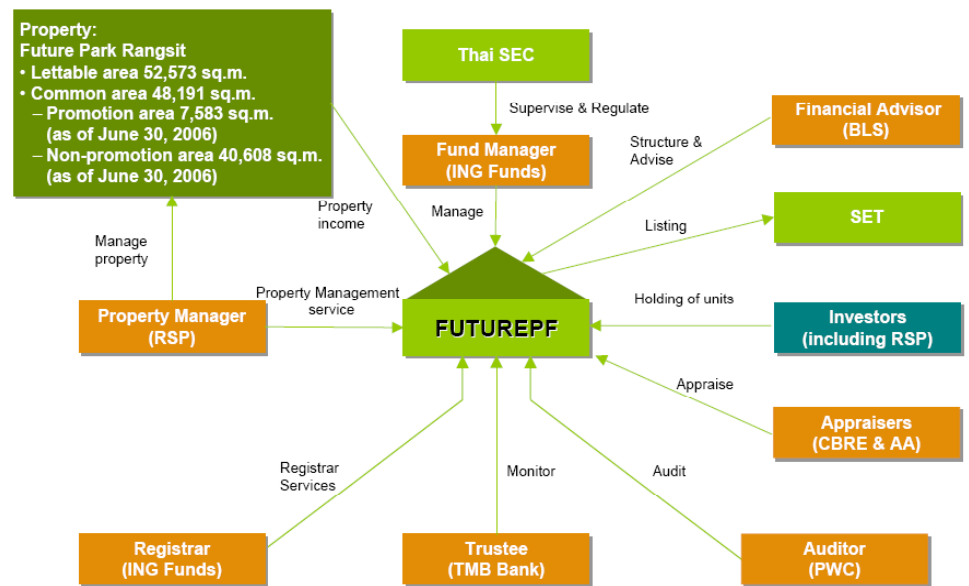
Background

The Future Park Property Fund (FUTUREPF) is a property fund for public offering (PFPO), or a Type-I property fund—similar to an American Real Estate Investment Trust (REIT). It was set up as a closed-ended indefinite life fund with an initial size of around Bt4.7bn.

FUTUREPF is to focus on the business of developing retail space for rent. Its initial business acquired the 20-year leasehold rights on part of the Future Park Rangsit Building that covers a lettable area of 52,573 sq.m and rights to use and seek benefits from common areas totaling 48,191 sq.m. The underlying initial assets of FUTUREPF are 29% and 100% of Future Park Rangsit's lettable area and common area (promotion space), respectively, totaling salable area of 60,156 sq.m (lettable area of 52,573 sq.m + promotion space in common area of 7,583 sq.m).

It rents space to tenants such as movie houses, fitness centers, and shops selling food & beverages, fashion, health & beauty products, computers, mobile phones and furniture, educational institutions and other service centers. The fund enters into lease agreements and grant rights to make use of the commercial areas in such a manner as is most advantageous to it.

Figure 1: Fund overview



Source: RSP

Event

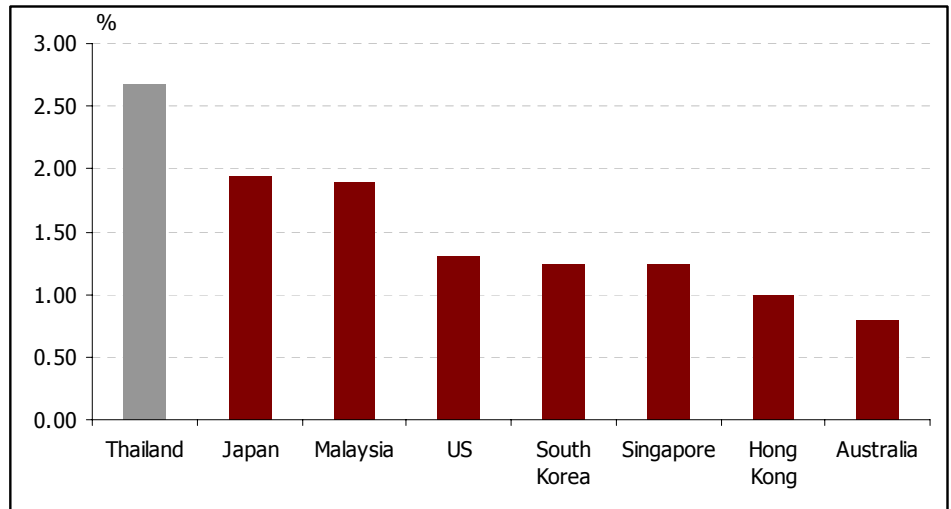
BOT capital controls: After the BOT imposed a non-remunerated reserve requirement under which commercial banks must hold a 30% reserve against capital inflows to counter currency speculation, effective Dec 19, the market tumbled almost 14%. There was huge foreign selling worth Bt26bn in one day. The 10-year Thai government bond yield soared to 5.12% from 4.92%. However, that evening the BOT exempted stock market investment by foreigners from the reserve requirement; the SET recovered strongly the next day. Although the BOT relaxed capital controls on SET investment, the non-remunerated reserve requirement remains in place for property funds for the moment. All property funds—including FUTUREPF—have been under selling pressure since the capital controls were implemented.

Analysis

Downside protection factors

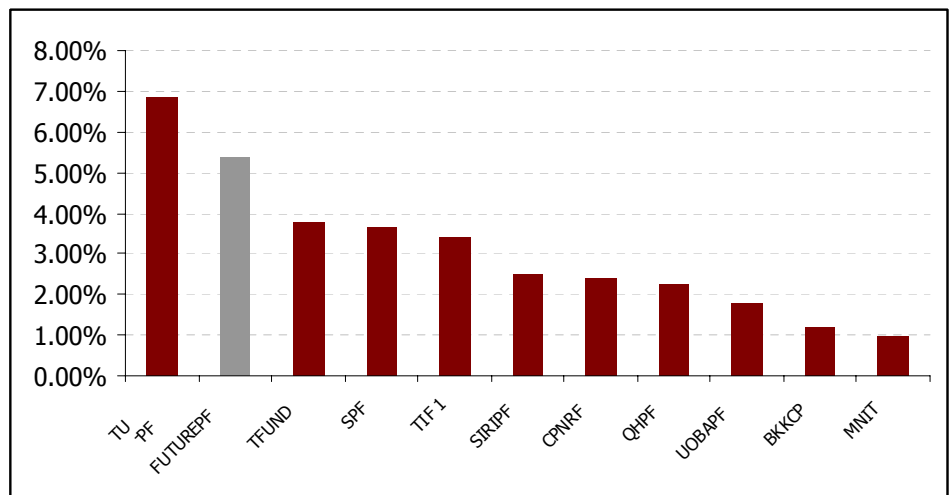
Very high yield gap: The spread, or yield gap, between the average yield of listed property funds and the 10-year Thai government bond yield is significantly wider than other country spreads—its average being more than 2.50% (see graph below). That indicates property funds in Thailand are on average very cheap. Moreover, when we compare the spread among the property funds in Thailand, we found that FUTUREPF offers a very attractive yield—more than 5% above the 10-year government bond yield. Downside for FUTUREPF’s unit price is very low, given its very high yield and the fact that its fundamental earning prospects have not been affected by the capital controls. This presents a great opportunity for investors seeking a secure high-yield long-term investment.

Figure 2: International yield gap comparison



Sources: Company, Bualuang estimates/Research, Bloomberg

Figure 3: Thailand yield gap comparison

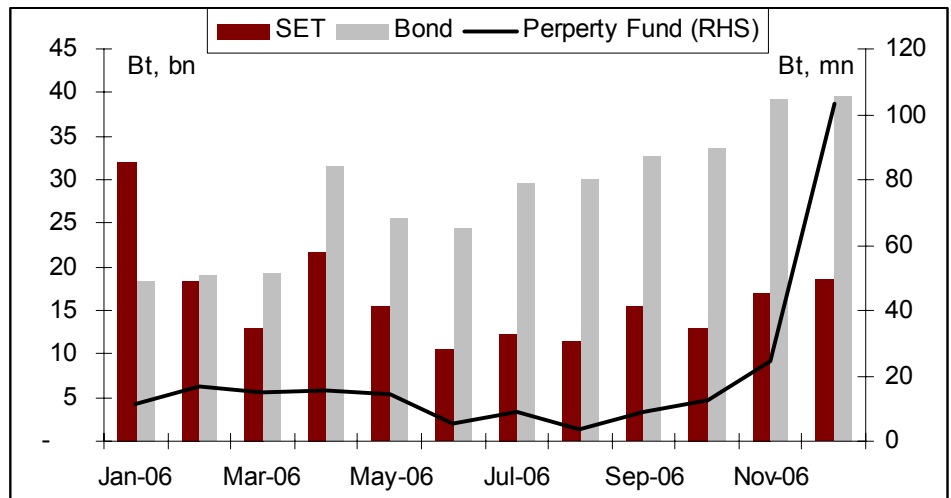


Sources: Company, Bualuang estimates/Research, SET (as of 27/12/06)

No more selling pressure: According to information garnered from property fund managers, we found that the foreign equity holding FUTUREPF is the lowest of any sizeable listed property fund—around 21% of its units are foreign held compared to other big-cap property funds like CPNPF ~80%, SPF ~100%, QHPF ~30-40% and TFUND ~26%. That indicates that post-capital control foreign speculative selling pressure on FUTUREPF is effectively an event that has already passed. At its current unit price, we believe downside is very limited—even if the non-remunerated reserve requirement remains in place.

However, we have studied the trading volumes of the two main markets for bonds and stocks and compared with property fund units trading on the SET last year. Average trading volume of property funds is less than 0.10% of either of the two markets. That means that this asset class would be an almost useless vehicle for foreign speculative investors trying to bid up the baht. We expect the BOT to eventually relax capital controls for property fund investment. The worst of the BOT’s measures have already been implemented. Under the worst-case scenario, the capital controls would stay in place as they are.

Figure 4: Trading volumes of SET, bond market and property funds



Sources: SET, Bloomberg

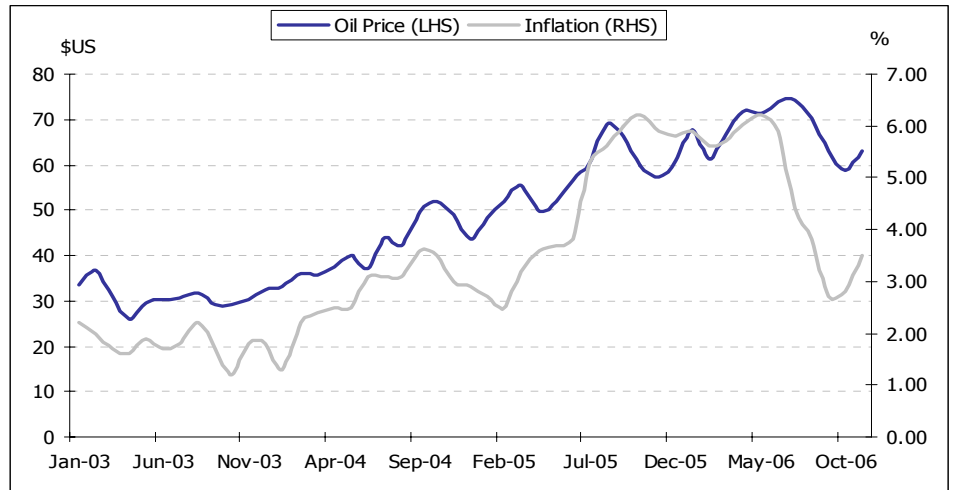
Upside potential factors

Declining interest rate trend: Our house view is that Thai interest rates will start to decline around the first-quarter of this year as the government tries to boost economic growth, given only mild inflationary pressure, weakening oil prices and lower consumer confidence since the New Year’s Eve Bangkok bombings. Morgan Stanley also expects an interest rate cut of 0.50-1.00% this year.

The average oil price for FY06 was about \$69/bbl. As global GDP growth is widely expected to decelerate this year, the average oil price for 2007 is currently forecast at \$60-\$65/bbl. Moreover, due to the New Year’s Eve bombings in Bangkok political stability has again become an issue. Therefore, we expect shell-shocked consumer confidence to dampen private consumption and new investment, which should weaken inflation in 1H07. The implication is that the BOT is likely to cut its benchmark interest rate to encourage economic growth. We now think the central bank might cut its Repurchase Rate sooner than we previously expected.

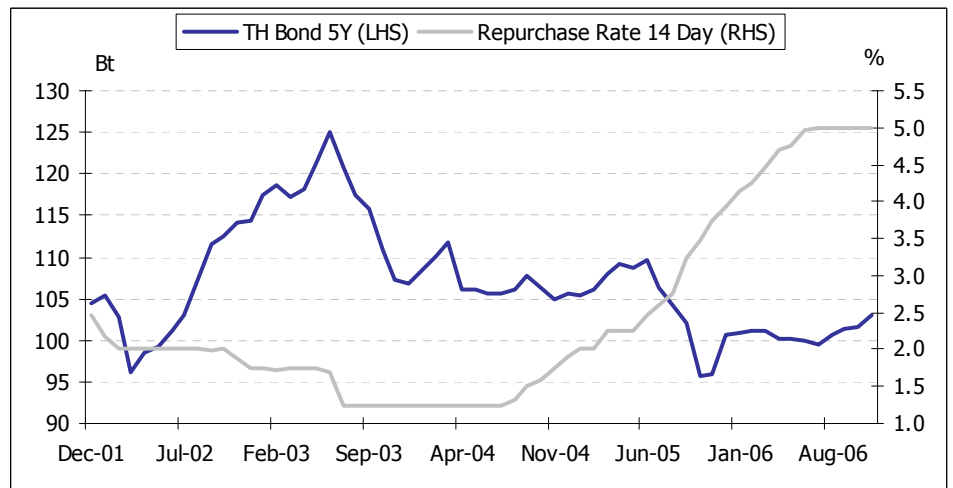
As investors use bond yields as a benchmark to compare the dividend yields of property funds against for evaluating fund prices, the movement between property funds and bond yields normally correlates quite closely. If interest rates decline—ceteris paribus—property fund unit holders will benefit from capital gains as unit prices increase.

Figure 5: Relationship between the oil price and inflation



Source: Bank of Thailand

Figure 6: Bond price and interest rate movements are negatively correlated



Source: Bank of Thailand

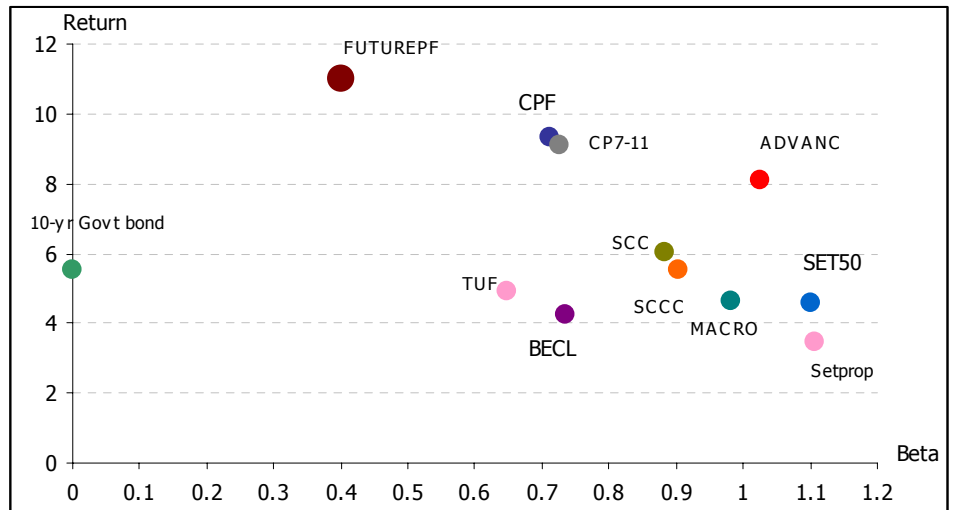
Asset arbitrage: If we compare each industry in terms of its general risk profile, normally retailing should offer a lower yield return due to its low risk profile. But if we look at the distribution of the yield returns of property funds in Thailand right now, FUTUREPF trades at an unusual high rate of return, given its low risk profile. This situation offers a rare opportunity for investors already investing in property funds to arbitrage by switching from other PFPOs. Furthermore, if we compare FUTUREPF with other asset classes like dividend stocks, property stocks and blue chip companies in terms of their respective "risk-return" profiles, it gives a very high return, given its market risk. When traders eventually start arbitraging FUTUREPF, its unit price will increase.

Figure 7: Opportunity to arbitrage anomalous risk-return trade-off

Stock	Dividend Yield	Industry Subgroup
TU-PF	12.00	Residential
FUTUREPF	10.90	Retail sale
CPNRF	8.84	Retail sale
TFUND	8.72	Industrial estates
TIF1	8.53	Industrial estates
SPF	8.52	Industrial estates
SIRIPF	8.07	Residential
QHPF	7.40	Office
BOAAPF	6.73	Residential
BKKCP	6.33	Office
MNIT	6.11	Leasing Property
MIPF	5.59	Office

Sources: Company, Bualuang estimates/Research, Bloomberg (as of 27/12/06)

Figure 8: Risk-return diagram



Sources: Company, Bualuang estimates/Research, SET (as of 27/12/06)

Unchanged in growth outlook: We reiterate that our optimistic view on FUTUREPF’s growth outlook based on potential rental growth. The property it manages is in a strategic location with ongoing population and housing growth in surrounding areas.

In addition, Future Park Rangsit’s anchor tenants comprise leading brands—Central Department Store, Robinson Department Store, Big C, EGV, Fitness First and IT City. These stores are the main magnets that draw customers to the mall. However, FUTUREPF’s anchor tenants account for only 16% (EGV, Fitness First and IT City) of the total leasable area. Although the structure of the lease portfolio implies high retail tenant turnover, that also means potential rental income growth is higher due to the fact that most of the space is rented out on more expensive, short-term lease agreements.

Moreover, completion of the current renovation of 2% of the space will generate more rental income. This will positively impact on occupancy rates, so will create higher potential yields for the fund. Note that we have not yet factored this potential upside into our forecast.

Furthermore, currently the total common area utilized for promotions totals only 7,583 sq.m of 48,191 sq.m. There is room for another 2,000-3,000 sq.m to be used as promotion space, which would increase the yield to unit holders in the future.

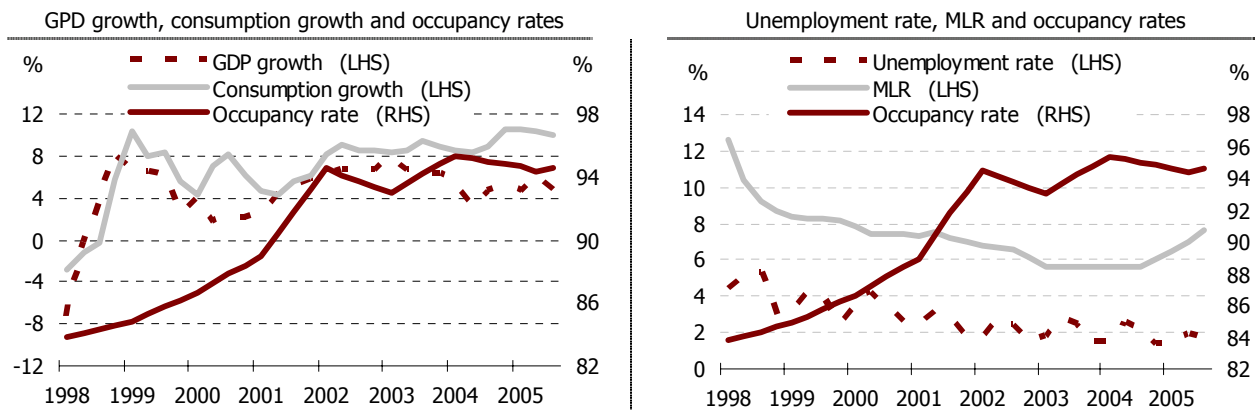
Besides, the current average rental rate is around Bt759/sq.m/month, discounted from average downtown rates by 40-60%. The limited scope for new competitors to set up shop in the Rangsit area suggests high growth potential for rental rates.

Retail property industry outlook

Little new supply in suburban areas: According to CBRE, the total supply of retail space at end-Sept was 4.51m sq.m, representing an increase of 12.1% YoY and 1.5% QoQ. A full 98% of the new supply in 3Q06 came from the completion of Central World and retail space at Exchange Tower. Both properties are located in downtown Bangkok. New supply in outer suburban areas, in contrast, is limited as new developments for 2006-07 focus on downtown and midtown areas. Total Bangkok retail space supply in 2007 is expected to increase by only 100,000 sq.m, or 2.2%.

Growing demand: Continuing GDP and salary growth and a low and declining unemployment rate encourage people to spend. Continuing private consumption growth and an expected fall in interest rates within the next six months will support demand for retail space. GDP and consumption has each increased at an average annual rate of around 2.9%, 1998-2006, (excluding the 1998 figures, the rates would be closer to 4.7%), a little higher than new retail supply growth, which has averaged 2.3% during the same period—that suggests there is still room for retailing to expand. The fact that demand for retail space has grown at a faster rate than supply has resulted in continuing improvements to occupancy rates.

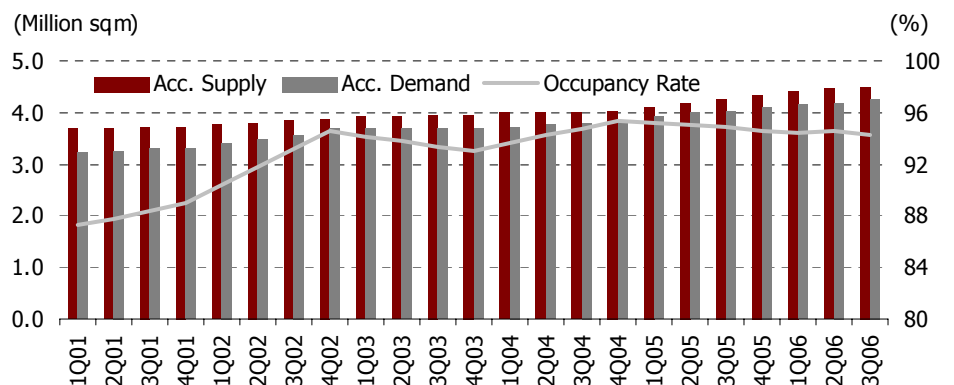
Figure 9: Relationship between key economic indicators and occupancy rates



Sources: BOT, CBRE, Bualuang Research

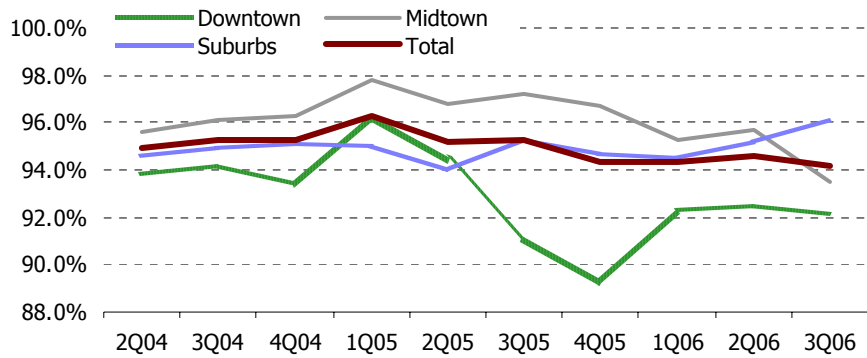
Occupancy rate is improving: As shown in Figure 10, the average occupancy rate of retail space in Bangkok has risen strongly from a nadir of 84.2% in 1999 to 94.2% at end-3Q06. Despite a slight drop in the occupancy rate in 3Q06 due to new supply with the launch of Central World, we expect the rate to improve from 4Q06 onwards due to the full opening of shops at Central World, Exchange Tower, and The Avenue Chaengwattana. Disaggregating the retail space occupancy rate by location, suburban districts have shown the strongest improvements—from 94.5% in 1Q06 to 96.1% in 3Q06—as there have been only limited new supply additions.

Figure 10: Cumulative supply & demand



Sources: CBRE, Bualuang Research

Figure 11: Occupancy rate broken down by location



Sources: CBRE, Bualuang Research

Stable rental rate: Average rents have been broadly stable in most retail centers since 2H05 due to the high level of new supply added to the market. However we expect rental rate increases in suburbs to outperform downtown, thanks to the paucity of new supply added.

Figure 12: Rental rate range by area, 3Q06

Area	Ground Floor	Upper Floors
	Bt/sq.m/mth	Bt/sq.m/mth
Downtown		
Shophouses	1,200-2,500	400-600
Shopping Malls	1,800-3,000	1,500-2,800
Superstores	1,000-1,200	800-1,000
Midtown	1,500-2,700	1,000-2,200
Suburbs	1,200-1,500	800-1,200

Sources: CBRE, Bualuang Research

Recommendation and valuation

FUTUREPF's attraction rests on its cheap valuation and high dividend. At its current price of Bt8.4, the unit offers an 11.37% dividend yield for this year and 11.87% next. In addition, future arbitraging will bring capital gains. FUTUREPF remains on our BUY list with a YE07 price target of Bt11.94 calculated from a yield spread valuation methodology of 300 bps above our expected 10-year government bond yield in 2007 of 5.00%.

Financial tables

Income statement	Q4/06E	2007E	2008E	2009E	2010E
FYE Dec. (Btm)					
Gross revenues	158	656	681	708	737
Property expenses	-24	-100	-103	-106	-110
Net property income	133	556	579	602	627
Fund manager fees & Admin exp.	-4	-14	-14	-15	-15
Property manager's fees	-10	-42	-44	-46	-47
Amortization expenses	-12	-47	-47	-36	0
Net investment income	108	451	473	506	565
Unrealized gain/loss from asset revaluation	-41	144	96	87	78
Price (Bt)	8.40	8.40	8.40	8.40	8.40
No. of unit (m)	470	470	470	470	470
EPU (Bt)	0.23	0.96	1.01	1.08	1.20
Annualized EPU (Bt)	0.92	0.96	1.01	1.08	1.20
PER(x)	9.16	8.74	8.34	7.80	6.99
Distributable income	120	499	521	541	565
Dividend pay-out ratio	90%	90%	90%	90%	90%
Distribution	108	449	469	487	508
DPU (Bt)	0.23	0.96	1.00	1.04	1.08
Annualized DPU (Bt)	0.92	0.96	1.00	1.04	1.08
Div. Yield	10.91%	11.37%	11.87%	12.34%	12.88%
Retained earnings	Q4/06E	2007E	2008E	2009E	2010E
FYE Dec. (Btm)					
Retained earnings at the beginning of period	0	108	115	124	148
Net investment income	108	451	473	506	565
Dividend paid out (Cash)	0	445	464	483	503
DPU (Bt)	0	0.95	0.99	1.03	1.07
Payout ratio	90%	90%	90%	90%	90%
Retained earnings at the end of period	108	115	124	148	209
Unrealized gain/loss from asset revaluation	-41	103	199	286	364
Balance sheet	Q4/06E	2007E	2008E	2009E	2010E
FYE Dec. (Btm)					
Assets					
Cash	467	522	579	638	699
Investment properties:					
Leasehold & rights	4,384	4,528	4,624	4,711	4,789
Other assets	131	83	36	0	0
Total assets	4,982	5,133	5,238	5,349	5,488
Liabilities					
Rental deposits	200	200	200	200	200
Other liabilities	15	15	15	15	15
Total liabilities	215	215	215	215	215
Net assets	4,767	4,918	5,023	5,134	5,273
Unitholders' equity	4,700	4,700	4,700	4,700	4,700
Retained earnings	108	115	124	148	209
Unrealized gain/loss from asset revaluation	-41	103	199	286	364
Net assets	4,767	4,918	5,023	5,134	5,273
NAV/Share (Bt)	10.14	10.46	10.69	10.92	11.22
Cash flows	Q4/06E	2007E	2008E	2009E	2010E
FYE Dec. (Btm)					
Net income	108	451	473	506	565
Purchase of properties	-4,425	0	0	0	0
Increase in other assets	-131	47	47	36	0
Increase in deposit for lease of assets	200	0	0	0	0
Increase in other liabilities	15	0	0	0	0
Net cash used in operating activities	-4,233	499	521	541	565
Cash received from unitholders	4,700	0	0	0	0
Payments of dividends	0	-445	-464	-483	-503
Net cash from financing activities	4,700	-445	-464	-483	-503
Net increase in cash	467	54	57	59	62
Cash at beginning of period	0	467	522	579	638
Cash at end of period	467	522	579	638	699

Source: Company, Bualuang estimates/Research,

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.