

# PPSGroup superb and leading engineering consulting company.

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**PPS (1.31) my advocated investor choice to benefit from the coming massive Thai Govt. infrastructure spending and then some.**

For year 2017 one has to recognize the Thai economy will be primarily driven by government infrastructure spending. My recently new choice is Project Planning Service Public Co., PPS (1.31) which I favorably mentioned in our member-lounge already last December 23 2016 at the then price of 1.12 -and included in my latest model portfolio on January 2 2017 at back then price of 1.22.

This company founded in 1987 and was IPO on the MAI in September of 2012, at 0.70 Baht per share, with a PAR of 0.25 Baht. Since then it has a number of profitable subsidiaries, notably 35% owned Swan & Maclaren <http://www.swanmaclaren.com/2014/services.php> (link is external)

Little is known about this company PPS, or Project Planning Service which is nevertheless Thailand's largest listed construction consultant company. PPS provides comprehensive services on all aspects of project management from initial conception to completion of the project including continuation of services and maintenance tasks. What the company does is it acts on behalf of the owners to look after construction projects. Say I want to build a structure but before I get a blue print or hire a developer I hire PPS to consult on everything so I have the best service besides control costs. Now take that on to the big scale from government infrastructure projects to Central Embassy to Tesco Lotus express, Homepro etc.. PPS is hired across all major sectors as a professional consultant.

Here is how their web site describes themselves: *PPS group is one of the leading engineering professional service firms in Thailand, providing engineering and architectural services for both private and public sectors. PPS serves a wide range of clients includes retail, residential, healthcare, education, hospitality, industrial, office and public infrastructure.* PPS provides comprehensive services on all aspects of project management and engineering design from initial conception to completion of the project including continuation of services and facility management.

PPS is a high quality micro-cap listed on the MAI which got my attention. This company has 509,586,309 shares outstanding and so is small at barely ½ Bill. Baht market cap, yet its shares trades relatively well considering. You can see their tear sheet at this link: <http://www.set.or.th/set/factsheet.do?symbol=PPS&ssoPageld=3&language=en&country=US> (link is external)

**You can see the breakdown of their revenues over the past 2 years at the picture below.**

Engineering Services

**Revenue Breakdown** (Unit : MB)

Type of Revenue	9M/2016	%	9M/2015	%	Y2015	%	Y2014	%
1. Revenue from Services	198.85	95.27	182.40	91.62	234.22	98.83	263.65	98.82
(A.) Revenue from Construction Supervision	194.80	97.96	166.94	86.81	219.13	93.56	258.32	97.98
1) Office Buildings	17.03	8.74	16.31	9.77	22.73	10.37	23.95	9.27
2) Retail Areas	60.59	31.10	62.00	37.14	69.10	31.53	89.05	34.47
3) Residential Buildings	61.63	31.74	45.61	27.32	61.73	28.17	60.51	23.42
4) Multi-purpose Building (Mix Use)	8.25	4.24	14.24	8.53	17.95	8.19	35.31	13.67
5) Hotels	7.92	4.07	2.87	1.72	4.19	1.91	-	-
6) Hospital	15.39	7.90	8.02	4.80	11.22	5.12	12.22	4.73
7) Infrastructures	13.40	6.88	15.36	9.20	19.14	8.73	15.17	5.87
8) Others	10.39	5.33	2.53	1.52	13.07	5.96	22.11	8.56
(B.) Revenue from Design	4.05	2.04	2.01	1.19	2.99	1.28	5.33	2.02
(C.) Revenue from event	-	-	12.10	6.56	12.10	5.17	-	-
2. Other Revenues	9.88	4.73	3.36	1.82	4.71	1.97	3.16	1.18
<b>Total Revenues</b>	<b>208.73</b>	<b>100.00</b>	<b>194.41</b>	<b>100.00</b>	<b>238.93</b>	<b>100</b>	<b>266.81</b>	<b>100</b>

02.02.2017

Here is their web site: [www.pps.co.th](http://www.pps.co.th) (link is external) To understand their biz. model see here: <http://pps.co.th/investor.php> (link is external) Realize this interview was published in August 2015, well before the mega-infrastructure projects now taking off. 2015 was a bad year for PPS due to the outright stalling on so many construction projects including govt. spending, when the new (unelected) present government took over.

Visiting PPS's two seniors (both Dr's. in Engineering) one can see its decorated with all kinds of awards despite being a small cap., it also has an excellent 5 star CG scoring. I am not worried about corporate governance (CG) here. PPS is a company/consultant engineering of choice for big cap. firms like CPN, TESCO, Crown Property Bureau, AP, Homepro, Pullman, Renaissance, Amway, Mega Bagna, Central World, Terminal 21, Crown Property Bureau, Also Bangkok's Suvarnabhumi Airport phase 2, and many more.

Post my company visit I can see PPS's revenues hitting near records for all of year 2016 and clear records for year 2017 and beyond. Nicely moving up to 350 mill. Baht revenues for year 2017, with a 10% net profit margin (increased from 7.6% due to economies of scale). Previous record was 293 mill. in 2013. Hence PPS's estimated p/e for this year is closer to 17-18 and so higher then I originally thought here, but realize this sector trades at a p/e 25 to 30. However and this is the key: the total cake over the next 3-5 years is huge as PPS has a market share of some 30% and construction/infrastructure business will enjoy staggering growth over this coming period...not just by Thai government but the private sector as well. (see more on this below). My understanding is that due to economies of scale any revenues above some 280 mill Baht translate directly to their bottom line.

In December of 2015 the company reported backlog in its annual report of 300 mill. PPS now reports a 520 mill Baht backlog besides sits on some 0.30 Baht per share in cash -but realize it needs some of this to post bond on any government jobs. Hence it may opt for a stock, not cash, dividend likely to be announced in late February. No need for any capital increase anytime soon as it also issued some deep in the money 240 mill. warrants recently (see below) which will be converted to new shares by late 2018 if not before.

When we look at potential projects from the government sector. Conservatively 2016-2017 will see as much as 300 billion worth of infrastructure projects being awarded with expected timeline of completion between 3-4 years. This is the most since year 1993! (see Nation Newspaper clip below). On an average basis 1.75-2% of total cost is consulting fees which means that the total cake for this business is as much as 5.2-6 Bill Baht, spread over a period of 3-4 years. With PPS having a reported market share of 30-40% in this segment one could expect revenues of as much as B300-400m per year, just from the Thai government sector alone. From the private sector side PPS has

been the consultant of choice for the likes of CPN, TESCO, Crown Property Bureau, AP, Homepro, Pullman, Renaissance, Amway, Mega Bagna, Central World, Terminal 21 and more as noted.

Currently the company sits on a backlog of B522m over a period 3 years with the main portion of it coming from AOT Airport phase 2. Apart from being in the right sector at the right time I love PPS for the five reasons below:

1. The seniors there are young, energetic and highly University/academic schooled. PPS has a nice cost structure. The company which is a leader has about 300 employees with each employee capable of generating B1-1.5m in yearly revenues. The company's cost has been stable at B180-200m per year with additional SG&A of 60-70m Baht, which means that any revenue generated above B270bn directly translates into the bottom line. In addition PPS has the capability to do as much as B350-400m in yearly revenues before it will need to hire additional people which means that in the best case scenario PPS could generate as much as B100-150m yearly profit, without any additional big costs.
2. The company sits on a cash balance plus cash equivalent at B146m or 0.30 Baht per share or nearly 23% of its current share price.
3. Based on the company's 9M16 earnings the company made a net profit of B15.9m on track to match its record high earnings generated in 2013. (There was a 5 for 1 stock dividend last May '16 and I expect the same or similar this year, this is positive as it increases shares outstanding and so its size of market cap.). With secured backlogs coming in starting 2H16, one can expect a record year for 2017 with potential earnings reaching to the tune of 40 mill., or an EPS of 0.08 Baht per share. Based on construction companies trading at 20-30 times one could expect a significant upside in share price at some point in 2017. My own target price for PPS would be 1.60 at some point this year.
4. While it's hard to grasp any valuation on PPS but the best example would be to look at Stonehenge which was bought by Uni Ventures (UV). UV bought a 35% stake in the company for 400 mill.Baht. Stonehenge is half the size of PPS with 140 employee's vs 300 for PPS. Based on UV's acquisition price, Stonehenge is valued at B1.1bn or B8.1m per employee. Based on the same calculation, PPS would be worth B2.4bn or four times the current market cap.

<http://www.dealstreetasia.com/stories/thai-realty-firm-univentures-buy-3> (link is external)...

<http://stonehenge.co.th/2014/index.php/construction-management> (link is external)

5. PPS is not a typical small company with cooperate governance concerns. The company has an excellent management te





am with all the available awards despite being a small cap company and has also been awarded with 5 star Excellent CG scoring. This is re-affirmed through research, the visit in person, their very professional web site and my in person impression. (Photo, seniors are to the right).

My buy view here today is re-stated despite the 20% share price rise since first pounding the table on it here for you last Christmas Eve.

#### **PPS Warrants #1 :**

*PPS has some warrants outstanding, convertible every 6 months at 0.40 Baht, 1 warrant for 1 new share with an expiration date of December 2018. PPS-W1 are just now trading at 0.79 Baht, per unit. Meaning, one could buy/accumulate the PPS warrants #1 (PPS-W1) at say 0.80 -and then convert by paying 0.40 Baht per new share, or for a total cost of 1.20 or well below the current market price of 1.31. If you live in Thailand and have a good broker its relatively easy to convert at the next determined conversion date, just ask your Thai marketing officer. The first exercise date (to convert) just passed at the end of December '16, so to correct my earlier statement in our lounge its too late to convert to get the next dividend -or as is likely stock dividend. These warrants are convertible only every six months. Note, stock dividends do not generate a dilution clause in the conversion price of the warrants. So the conversion price remains the same at 0.40 Baht if the company announces any stock dividend, as I expect.*

Still the PPS-W1 are trading deep "in the money" ( $1.31 - 0.40$ ) by 0.91 Baht, yet at a discount just now offered at 0.79 per warrant unit. This makes little sense...as it shows again when Thai companies issue deep-in-the-money warrants, as so always advised by their financial advisor, they get mispriced and trade at a discount to their intrinsic real value -and so command no time premium.. in fact as in this case a discount! Realize, if you invest in the warrants for purpose of conversion later, it means for the same amount of capital you can control some 60% more shares ( $0.79$  divided by  $1.31$ ).

PPS warrants#1 trade at a discount which is a sort of detriment of shareholder value as viewed in the past as these never benefited from any time premium. Anyway, this is the old story and I think PPS will in the future if they ever issue warrants again, set the conversion price much closer or even above the current market price, as I explain them to do..and they agreed. As explained and showed here for years, issuing warrants so deep in the money end up invariably trading at a discount instead of some (time) premium. Yet, this gives us new investors the opportunity to in this case own PPS around 1.20 through buying the warrants and then converting these in time, vs. PPS's 1.31 current market price. Realize of course the PPS W1 trade less active and so this its limited by the ability to

accumulate a decent position and so all depends what level of investor you are.

My buy view here is re-stated today on PPS despite its 20% share price rise since first pounding the table here for members last Christmas Eve and post my good near 2 hour visit last week -and the reasons why as here outlined.

Best Regards,

*Paul A. Renaud.*

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