Eastern Water Resources Development - EASTW

Downbeat sales of raw water in 2M4QCY13

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Bloomberg | Reuters
EASTW TB | EASTW.BK

Thailand Equities Research
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Report type: Company Update

Company Overview

EASTW is engaged in the development and management of water distribution pipeline systems and distribution of raw water in the Eastern Seaboard. It is also involved in tap water and waste water treatment businesses.

- In October-November, sales volume of raw water declined 9.5% y-y but that of treated water continued to grow 2.8%. Nevertheless, 4QCY13 net profit is expected to continue to grow y-y on significantly lower expense.
- EASTW discounted the rate of raw water to retail customers by 11.6% from November to December and by 9% in 2014. Reflecting this, we revise our CY13-CY14 net profit projections down by 1.4% and 7.5% from previous estimates.
- We maintain an 'ACCUMULATE' rating on EASTW with a target price of Bt12.70/share.

What is the news?

Sales volume of raw water declined sharply by 9.5% y-y to 38.10mn m^3 in October-November as some manufacturers reduced production capacity or entered into overhauls, and some used the rainwater catchment, instead of buying raw water. For treated water, sales volume continued to grow at normal pace of 2.8% y-y.

For consumer group, EASTW discounted the water rates by Bt1.10/m^3 to Bt9.40/m^3 for the November-December period. Due to the discount, even though EASTW announced to increase the water rate for all customer groups by Bt0.50/m^3, the water rate for consumer group increases to only Bt9.90/m^3, well below our previous estimate of Bt11/m^3.

How do we view this?

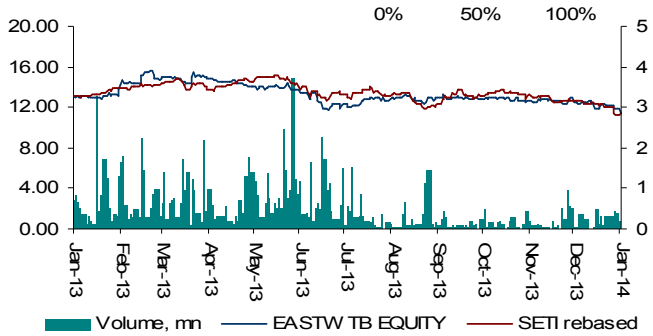
The sluggish sales of raw water and the offered discount rate for consumer group in the November-December period, total revenue is expected to decline y-y in 4QCY13. Nevertheless, a drastic drop in SG&A expense (EASTW booked numerous PR expense for its 20th anniversary of establishment in 4QCY12) appears to be a key growth driver to net profit in 4QCY13.

Reflecting downbeat sales and discount rate, we trim our CY13-CY14 net profit projections by 1.4% and 7.5% from previous forecasts.

Investment Actions?

At current share price, we reiterate an 'ACCUMULATE' rating on EASTW with a target price of Bt12.70.

EASTW		
Rating	**2.00**	**Accumulate**
- Previous Rating	*2.00*	*Accumulate*
Target Price (Bt)	**12.70**	
- Previous Target Price (Bt)	*13.70*	
Closing Price (Bt)	11.40	
Expected Capital Gains (%)	11.4%	
Expected Dividend Yield (%)	4.4%	
Expected Total Return (%)	**15.8%**	
Raw Beta (Past 2yrs weekly data)	0.50	
Market Cap. (USD mn)	573	
Enterprise Value (USD mn)	706	
Market Cap. (Bt mn)	18,966	
Enterprise Value (Bt mn)	23,147	
3M Average Daily T/O (mn)	0.2	
52 week range	11.4 - 15.8	
Closing Price in 52 week range	0% 50% 100%	



Major Shareholders	(%)
1. Provincial Waterworks Authority	40.2
2. EGCO	18.7
3. Norbax Inc.,13	8.4

CG Report - 2013

(Excellent)

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btmn)	3,250	3,677	3,773	4,019
Net Profit (Btmn)	1,008	1,240	1,377	1,411
EPS (Bt)	0.61	0.75	0.83	0.85
Net Profit, adj. (Btmn)	1,008	1,240	1,377	1,411
EPS, adj. (Bt)	0.61	0.75	0.83	0.85
P/E (X),adj.	18.7	15.2	13.7	13.4
BVPS (Bt)	4.17	4.40	4.78	5.12
P/B (X)	2.7	2.6	2.4	2.2
DPS (Bt)	0.42	0.44	0.46	0.50
Div. Yield (%)	3.7	3.9	4.0	4.4

Source: Bloomberg, PSR est.
*All multiples & yields based on current market price

Valuation Method

P/E'14 (15x)

Analyst
Siam Tiyanont
Securities Investment Analyst #17970
Tel. 662-2-635-1700 Ext. 483

Raw water sales volume fall 9.5% y-y in 2M4QCY13 but quarterly net profit to continue to grow y-y

EASTW reported the multi-year low in sales of raw water in October-November, falling 9.5% from 42.10mn m^3 a year earlier to 38.10mn m^3, as (i) some customers instead used rainwater from their catchments; (ii) some reduced demand following capacity reduction or overhauls; and (iii) the Provincial Waterworks at Ban Chang temporary stopped the purchases of raw water in the period. In November-December, EASTW offered discount rate for raw water by Bt1.10/m^3 to Bt9.40/m^3 to consumer group, accounting for 28% of total sales volume. Nevertheless, an average raw water rate charged all customer segments staying at Bt10/m^3 appears to exceed that of 4QCY12.

In treated water unit, sales volume seems to increase at a normal pace of 2.8% y-y to 11.21mn m^3, but the treated water rate appears to advance slightly.

Even though total revenue would be subdued, a significant decrease in SG&A expense (EASTW booked unexceptionally high PR and marketing expense in favor of the 20th anniversary of establishment) become a key growth driving earnings higher y-y in 4QCY13.

CY13-CY14 valuation assumptions reviewed

In views of lower sales volume of raw water and discounts of raw water offered to consumer group in 4QCY13, we revise downwardly our CY13 assumptions on raw water sales volume by 3% from previous estimate to 257.22mn m^3 (representing a 2.3% y-y decline) as well as average water rate from Bt10.54/m^3 to Bt10.49/m^3, higher than Bt9.92/m^3 a year ago. For treated water, sales volume is estimated at 68.53mn m^3 (up 2.6% y-y) and average rate at Bt12.82/m^3 (+1.8% y-y).

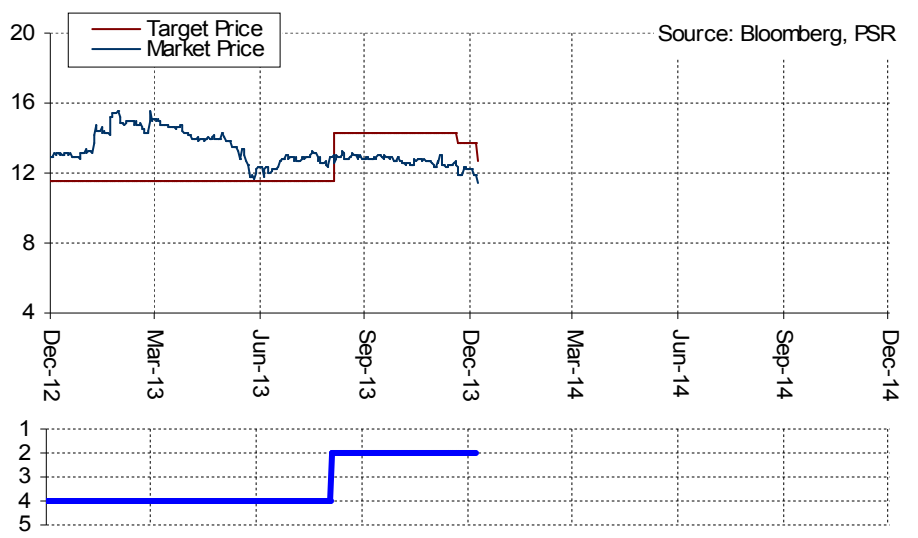
In CY14, EASTW has increased its raw water tariff charged all customer groups by Bt0.50/m^3. The rate for consumer group increases to Bt9.90/m^3, still below the previous assumption of Bt11 since EASTW lowered the raw water rate to Bt9.40/ m^3 in 4QCY13. The raw water rates for manufacturers in the state industrial estate and private industrial estates, and factories outside industrial estate areas are Bt11/m^3, Bt12/m^3, and Bt13/m^3, respectively. The water rates for all segments average at Bt10.73/m^3, lower from earlier estimate of Bt11.54/m^3. Total sales volume is estimated to grow 4% y-y to 267.51mn m^3 on the back of new manufacturers relocated to free-flood areas. Sales of treated water would grow 3% y-y to 72mn m^3 and the water rate would tick up by 2% to Bt13.07/m^3.

CY13-CY14 outlook downgraded

We downgrade our CY13-CY14 earnings projection to reflect the revisions in valuation assumptions. Total revenue is projected at Bt3,773mn (down 2.4% from previous estimate) for CY13 and Bt4,019mn (-4.0% from earlier forecast) for CY14. Our net profit projections are adjusted down by 1.4% and 7.5% from previous estimates to Bt1,377mn (representing a 11.1% y-y growth) and Bt1,411 (up 2.5% y-y) in CY13-CY14.

We assign a forward P/E target of 15x, arriving at Bt12.70 fair value estimate. At current share price, we reiterate an 'ACCUMULATE' rating on EASTW.

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
>-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Name	Analyst Reg No.	Tel	Sector
Sasikorn Charoensuwan, CFA, CAIA	Capital Market Investment Analyst#9744	662 635 1700#480	Consumer, Commerce
Rutsada Tweesaengsakulthai	Securities Investment Analyst#17972	662 635 1700#482	ICT, Energy, Health Care
Danai Tunyaphisitchai, CFA	Capital Market Investment Analyst #2375	662 635 1700#481	Construction Materials, Property Development
Naree Apisawaittakan	Securities Investment Analyst #17971	662 635 1700#484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment Analyst #17970	662 635 1700#483	Transportation, Media & Publishing, Tourism
Ornmongkol Tantitanatorn	Capital Market Investment Analyst #34100	662 635 1700#491	Automotive, Energy, Packaging
Adisorn Muangparnchon	Securities Investment Analyst #18577	662 635 1700#497	Banking, Securities & Finance, Insurance
Chantaramanee Tavivorakiat	Assistant Analyst		
Vichuda Siriploypraykray	Assistant Analyst		
Suthanuch Chaisumrej	Assistant Analyst		

Strategy:

Teerada Charnyingyong	Securities Investment Analyst #9501	662 635 1700#487
Chutikarn Santimetvirul	Derivatives Investment Analyst #37928	662 635 1700#491
Werajak Jungkiatkajorn	Capital Market Investment Analyst #28087	662 635 1700#495
Chonlada Lertsanguansinchai	Assistant Analyst	
Rittiporn Songsermsawad	Assistant Analyst	

Technical:

Sasima Hattakitnikorn	Securities Investment Analyst #8328	662 635 1700#490
Kanoksak Vutipan	Capital Market Investment Analyst #32423	662 635 1700#485

Database & Production:

Manunpat Yuenyongwatanakorn
Sutiporn Oupkaew
Mathurin Karnsomprot

Translation:

Chaiyot Ingkhasorarat
Naowarat Angurasuchon

Results Presentation

Score Range	Number of Logo
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60 - 69	
70 - 79	
80 - 89	
90 - 100	

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Bangkok Offices

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Viphavadi	15th Fl., Lao Peng Nguan Tower 1 Tel : 0 2618 8400
Yaowarat	19th Fl., Kanchanadhat Bldg. Tel : 0 2622 7833
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Bangkapi 2	9th Fl., The Mall Office Tower-Bangkapi Tel : 0 2363 3269
Hua Lumphong	4th Fl., Tang Hua Pak Bldg., 320 Rama 4 Rd. Tel : 0 2639 1200
Rangsit	G Fl., Room#PLZ.G.SHP065A Future Park Rangsit Tel : 0 2958 5040
Sindhorn	19th Fl., Sindhorn Tower 3 Building, Tel : 0 2650 9717
Siam Discovery	11st Floor, Unit A2, Siam Tower,Tel : 02 658 0776

Provincial Offices

Chaing Mai	313/15 Moo6 Chaing Mai – Lamphun Nong Hoi, Tel 053-141969
Khon Kaen	4th Fl., Kow Yoo Hah Bldg.Tel : 0 4332 5044-8
Khon Kaen - Rim Bueng	3rd Fl., Arokaya Bldg., Tel : 0 4322 6026
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Suratthan	62/9 Donnok Rd., Tel : 077 206 131
Chumporn Investor Center	25/45 Krom Luang Chumporn Rd.,Tel : 0 7757 0652-3

Overseas Offices

SINGAPORE	Phillip Securities Pte Ltd Raffles City Tower Tel : (65) 6533 6001 www.poems.com.sg
HONG KONG	Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway, Tel (852) 22776600 www.phillip.com.hk
MALAYSIA	Phillip Capital Management Sdn Bhd, Block B Level 3 Megan Avenue II Tel (603) 21628841 www.poems.com.my
JAPAN	PhillipCapital Japan K.K. Nagata-cho Bldg., 8F, Tokyo Tel (81-3) 35953631 www.phillip.co.jp
INDONESIA	PT Phillip Securities Indonesia ANZ Tower Level 23B, Tel (62-21) 57900800 www.phillip.co.id
CHINA	Phillip Financial Advisory (Shanghai) Co. Ltd Ocean Tower Unit 2318 Tel (86-21) 51699200 www.phillip.com.cn
FRANCE	King & Shaxson Capital Limited 3rd Flr, 35 Rue de la Bienfaisance Tel (33-1) 45633100 www.kingandshaxson.com
UNITED KINGDOM	King & Shaxson Capital Limited 6th Flr, Candlewick House, Tel (44-20) 7426 5950 www.kingandshaxson.com
UNITED STATES	Phillip Futures Inc The Chicago Board of Trade Building Tel +1.312.356.9000
AUSTRALIA	PhillipCapital Australia Level 37, Collins Street, Melbourne, Tel (613) 96298380 Fwww.phillipcapital.com.au
SRI LANKA	Asha Phillip Securities Ltd Level 4, Millennium House, Tel: (+94) 11 2429 100 apsl@ashaphillip.net
TURKEY	Hak Menkul Kiymetler A.Ş Dr.Cemil Bengü Cad. Tel: (+90) (212) 296 84 84 (pbx) hakmenkul@hakmenkul.com.tr
INDIA	PhillipCapital (India) Private Limited No. 1, C- Block, 2nd Floor,Modern Center , Jacob Circle, K. K. Marg, Mahalaxmi Mumbai 400011 Tel: (9122) 2300 2999 Website: www.phillipcapital.in
DUBAI	PhillipCapital (India) Pvt Ltd.601, White Crown Building Plot no 58, Sheikh Zayed Road P.O, Box 212291, Dubai UAE. Mahalaxmi Mumbai 400011 Tel: (9122) 2300 2999 Website: www.phillipcapital.in
CAMBADIA	Building No71, St 163, Sangkat Toul Svay Prey I, Khan Chamkarmorn, Phnom Penh, Kingdom of Cambodia Tel: (855) 23 217 942 Website: www.kredit.com.kh

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