Eastern Water Resources Development - EASTW

Single digit growth expected in CY14

Bloomberg | Reuters
EASTW TB | EASTW.BK

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Thailand Equities Research
24 March 2014

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.

- CY13 net profit grew moderately 6.2% y-y due to lower sales of raw water. EASTW announces to pay 2HCY13 dividend of Bt0.22. The stock will trade ex-dividend on 28 April.
- Earnings look downbeat in 1QCY14. EASTW raised raw water rates but sales volume fell 7.6% in the first two months of year. In contrast, treated water sales increased 1.7% in that same period.
- EASTW is seeking areas outside the Eastern areas to expand its water supply, implying further future growth.
- We keep our 'ACCUMULATE' call unchanged with a CY14 target price of Bt12.70.

What is the news?

EASTW reported a 6.2% growth in CY13 net profit to Bt1,316mn. Lower sales of raw water became a major drag on growth. The water supplier announces to pay a 2HCY13 dividend of Bt0.22. The stock will trade ex-dividend on 28 April.

In the first two months of 2014, sales volume of raw water fell 7.6% while treated water sales ticked up 1.7%.

How do we view this?

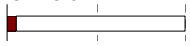
Given dull sales in Jan-Feb, revenue from raw water sales is expected to continue declining. EASTW increased the raw water rates, though. The first-quarter earnings appear to decline in line with lower sales.

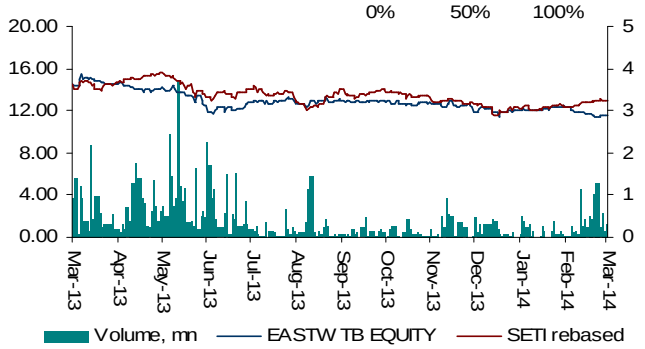
For the whole-year performance, the water supplier may witness just a single digit growth of 7%. Dividend is estimated Bt0.45/share.

Investment Actions?

We rate EASTW an 'ACCUMULATE' 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)	*12.70*	
Closing Price (Bt)	11.50	
Expected Capital Gains (%)	10.4%	
Expected Dividend Yield (%)	3.9%	
Expected Total Return (%)	**14.3%**	
Raw Beta (Past 2yrs weekly data)	0.44	
Market Cap. (USD mn)	591	
Enterprise Value (USD mn)	721	
Market Cap. (Bt mn)	19,133	
Enterprise Value (Bt mn)	23,399	
3M Average Daily T/O (mn)	0.2	
52 week range	11.3 - 15.6	
Closing Price in 52 week range		





Major Shareholders	(%)
1. Provincial Waterworks Authority	40.2
2. EGCO	18.7
3. Norbax Inc.,13	8.0

CG Report - 2013

(Excellent)

Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Revenue (Btmn)	3,677	3,760	4,049	4,287
Net Profit (Btmn)	1,240	1,316	1,408	1,476
EPS (Bt)	0.75	0.79	0.85	0.89
Net Profit, adj. (Btmn)	1,240	1,316	1,408	1,476
EPS, adj. (Bt)	0.75	0.79	0.85	0.89
P/E (X),adj.	15.3	14.6	13.5	12.9
BVPS (Bt)	4.40	4.76	5.19	5.62
P/B (X)	2.6	2.4	2.2	2.0
DPS (Bt)	0.44	0.42	0.45	0.47
Div. Yield (%)	3.8	3.7	3.9	4.1

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
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CY13 net profit up 6.2% y-y, a 4% short of forecast

CY13 net profit grew 6.2% to Bt1,316mn that fell short of our forecast by 4.4% as the fourth-quarter sales dropped at faster pace. EASTW declares a 2HCY13 dividend of Bt0.22. The stock will trade ex-dividend on 28 April.

Total revenue increased 2.3% y-y to Bt3,760mn. In raw water division, revenue increased 3.1% as water rate rose 5.7% to Bt10.49/m^3 but sales volume fell 2.5% to 256.77mn m^3, due to lower demand following capacity reduction and a higher amount of rainfall in 4QCY13 that its clients had utilized more water from its reserves tanks. In treated water unit, revenue grew 4.1% as the rate ticked up 1.7% to Bt12.81/ m^3 and sales volume rose 2.4% to 68.39mn m^3. In service and rental business, revenue jumped 15.2% to Bt190mn.

Operating cost climbed 6.9% on amortization and maintenance expenses (a completion of Line 3 water pipeline project at Nongplali, Map Ta Phut), and an outsourcing expense in the treated water business. SG&A expense dropped 20.7% on lower marketing and PR expense that EASTW registered a huge amount in favor of its 20 year anniversary in 2012. Financial cost jumped 25.5% after EASTW got Line 3 water pipeline project at Nongplali, Map Ta Phut.

1QCY14 outlook weak on lower raw water sales

In the first two months, sales volume of raw water dropped as much as 7.6% y-y to 40.45mn m^3. Water rate increased by Bt0.50/ m^3 to an average of Bt10.80/ m^3 (up 2.5% y-y) that was still not enough to offset the loss from lower sales volume. Revenue from raw water sales is expected to decline in 1QCY14. In that same period, sales volume of treated water increased 1.7% to 11.46mn m^3 while water rate adjusted up as well, at a moderate level though. Nevertheless, an increase in amortization charges following the completion of Line 3 water pipeline at Nongplalai, Map Ta Phut, and the Ft hike will likely drag earnings lower y-y in 1QCY14.

Seeking to expand water supply area out of the Eastern region

Petrochemical and energy businesses in the eastern part of the country practically reached saturation level. There is still some expansion, though, but those generally require low raw water, and this is a crucial factor bringing down sales volume of raw water. It's a reason why EASTW ventured new supply areas outside of the eastern part. For example, the tap water supply at Phitsanulook province that will start to generate revenue in 2015. Another local project is at Pang Nga – Phuket that has been in feasibility study as to provide either raw or tap water. The project is in large-scale size that would make a big impact to future growth. One overseas tap water project is at Suwannakhet, Laos. For existing area in Cholburi province, EASTW will increase capacity by 12,000 m^3 per day to 40,800 m^3 per day from late 1QCY14.

CY14 outlook slightly downgraded

We adjust our CY14 sales estimates. Sales volume of raw water is expected to grow 5% and that of tap water would increase 6%. Water rates would increase by 2.5% to Bt10.75/ m^3 for raw water and Bt13.13/ m^3 for tap water. Total revenue is expected at Bt4,049mn and net profit would decline slightly from previous estimate to Bt1,408mn, representing a 7% growth. At current share price, we reiterate an 'ACCUMULATE' rating on EASTW with a Bt12.70 target price, based on P/E of 15x.

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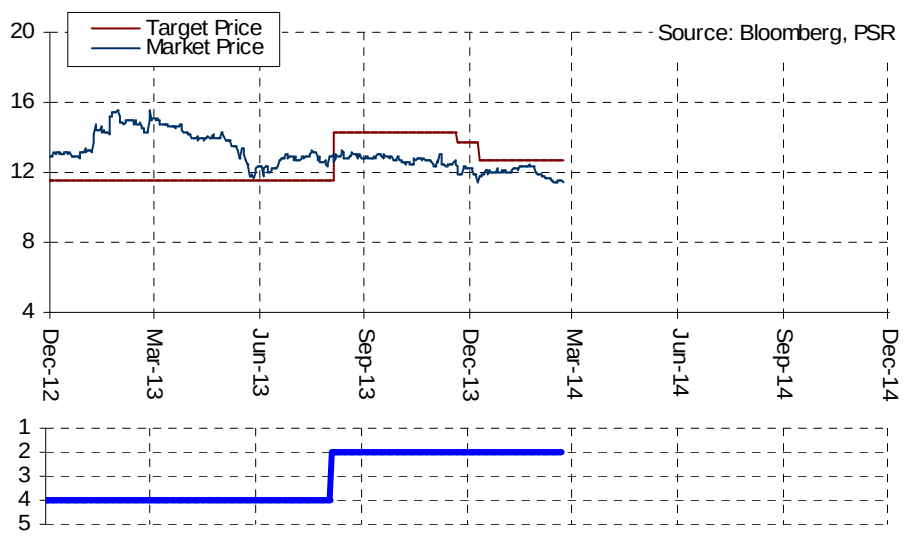
Ratings History



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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Less than 50	No logo given
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60 - 69	
70 - 79	
80 - 89	
90 - 100	

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