20 October 2014

Eastern Water Resources Development - EASTW

3QFY14 net profit seen slower growth pace y-y

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Rating: **Accumulate**

Unchanged

Target Price (Bt)	**11.60**
Forecast Dividend (Bt)	0.44
Closing Price (Bt)	10.90
Potential Upside	**10.5%**

THAILAND | ENERG | COMPANY PREVIEW

BLOOMBERG EASTW TB | REUTERS EASTW.BK

- We expect 3QFY14 net profit to grow slightly 2.7% y-y on higher cost of raw water.
- In 4QFY14, sales volume of raw water and tap water are forecasted to continue to grow but profitability appears to turn lower when compared to the first three quarters, which is justified, as the company normally shoulders high expense in the final quarter of year. In y-y terms, net profit is expected to continue to grow.
- We cut our FY14 net profit forecast by 2.9% from the previous estimate to reflect higher cost of raw water but net profit is expected to continue to grow 3.9% this year and further by 8.1% next year. At current share price, we rate EASTW an 'ACCUMULATE' with a FY15 price target of Bt11.60.

In 3QFY14, sales volume of raw and tap water would grow 1.3% and 12.6% y-y respectively, at a price of Bt10.78 and Bt13.10 per unit while revenue from lease and services would rise 13.6%. In sum, total revenue would grow 14.8% y-y to Bt1,073mn while cost would jump 33.3% on higher electricity cost for producing raw water due to water diversion from Bang Pa Kong and Prasae rivers to the company's coverage areas. SG&A expense would stay level y-y but financial cost should decline slightly. Based on the assumptions, net profit would increase by 2.7% y-y to Bt355mn.

How we view this

In the final quarter of 2014, sales volume of raw and tap water is forecasted to keep growing but net profit would decline sequentially (potentially up y-y) as EASTW normally shoulders high expense in the final quarter of year. As we lower our estimated growth pace for sales volume of both raw and tap water for 2014, our net profit forecast consequently fall by 2.9% from the earlier projection. Despite this, the full-year net profit would continue to grow by 3.9% to Bt1,367mn this year and further by 8.1% y-y to bt1,478mn in 2015.

Investment Action

We maintain an 'ACCUMULATE' rating on EASTW with a FY15 price target of Bt11.60, based on P/E of 13x.

Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (Btmn)	3,250	3,677	3,760	4,334	4,607
NPAT (Btmn)	1,008	1,240	1,316	1,367	1,478
EPS (Bt)	0.61	0.75	0.79	0.80	0.89
NPAT, adj. (Btmn)	1,008	1,240	1,316	1,367	1,478
EPS, adj. (Bt)	0.61	0.75	0.79	0.80	0.89
P/E (X),adj.	17.9	14.5	13.8	13.6	12.2
BVPS (Bt)	4.17	4.40	4.75	5.12	5.56
P/B (X)	2.6	2.5	2.3	2.1	2.0
DPS (Bt)	0.42	0.44	0.42	0.42	0.44
Div. Yield (%)	3.9%	4.0%	3.9%	3.9%	4.0%

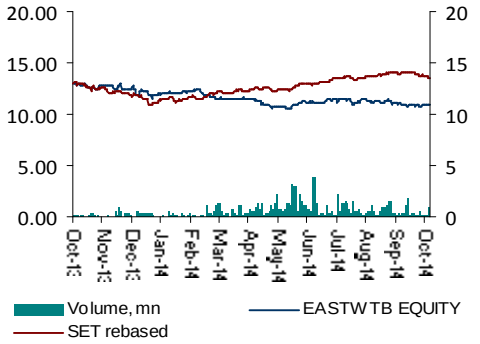
Source: Bloomberg, PSR est.
**Multiples and yields are based on latest closing price

Company Description

The Company takes responsible for the development and management of main water pipeline systems in the Eastern Seaboard by supplying raw water to industrial estates, factories and water works.

Company Data

Raw Beta (Past 2yrs weekly data)	0.42
Market Cap. (USDmn / Btmn)	560 / 18135
Ent. Value (USDmn / Btmn)	704 / 22801
3M Average Daily T/O (mn)	0.5
Closing Px in 52 week range	10.40 – 15.60



Major Shareholders as of	11/9/14 (%)
1. PWA	40.2
2. EGCO	18.7
3. Norbax Inc.,13	6.9

CG Report - 2013

(Excellent)

Valuation Method

P/E'15 (13x)

Analyst
Siam Tiyanont
Securities Investment Analyst #17970
Tel: 66 2 635 1700 # 483

3QFY14 net profit seen up 2.7% y-y

We expect net profit to grow a mere 2.7% y-y to Bt355mn in 3QFY14 due to higher cost.

In the period, sales volume of raw water would grow 1.3% y-y to 64.18mn cu.m. and that of tap water would grow 12.6% to 19.04mn cu.m. at the prices per unit at Bt10.78 for raw water and Bt13.10 for tap water. Revenue from sales of raw and tap water would increase 3.6% and 14.6% y-y and that of lease and services would grow 13.6%. Total revenue would grow 14.8% y-y to Bt1,073mn while cost would jump 33.3% on higher electricity expense for producing raw water due to water diversion from Bang Pa Kong and Prasae rivers to the company's coverage areas because of the drought. SG&A expense would stay level y-y but financial cost should decline slightly.

Raw water sales volume estimate revised down but tap water sales forecast up in 2014

In the first nine months of the year, sales volume of raw water would fall 1.4% y-y to 196.67mn cu.m. on a slowdown in the manufacturing sector while that of tap water would rise 8.6% to 56mn cu.m. on higher population living near the industrial estate areas, particularly Bo Win Pluak Daeng , and Sattahip.

We expect sales volume of both raw and tap water is expected to continue to grow in 4QFY14 but net profit would q-q but still grow y-y as cost normally climb on an adjustment transaction for the full-year cost and water diversion into the coverage areas. In view of lower sales volume in the first nine months, we reduce the growth pace in raw water sales volume from previously 5% to flat at 258mn cu.m. but upgrade tap water sales volume from earlier 6% to 9% to 74.56mn cu.m. We also increase our revenue estimate to Bt4,334mn but a rapid increase in cost prompts us to cut our net profit projection from Bt1,408mn to Bt1,367mn, which represents a 3.9% y-y growth. We expect the nine-month net profit of Bt1,097mn, which accounts for 80% of our full-year projection.

FY15 outlook strong with estimated growth of 8.1%

The contraction in sales volume of raw water thus far was largely attributed to the street protest during the beginning year that alarmed manufacturers to slow down their plans in order to check tab on economic conditions. As political stability has been improving, which gives no reason to stage the demonstration, and global economy has been improving, despite slowing growth in China and Europe, the country's manufacturing and auto sectors look likely to fare well next year. For this reason, we forecast sales volume of raw and tap water to grow 5% and 8% to 271mn and 81mn cu.m. respectively, and revenue would reach Bt4,607mn (+6.3%), potentially generating net profit of Bt1,478mn (+8.1%).

'ACCUMULALTE' rating maintained

In view of a weaker profitability, we derate FY15 P/E from 15x to 13x, based on its 5-year historical trading level, arriving at price target of Bt11.60. At current share price and an estimated dividend of Bt0.44, we maintain an 'ACCUMULATE' rating on EASTW.

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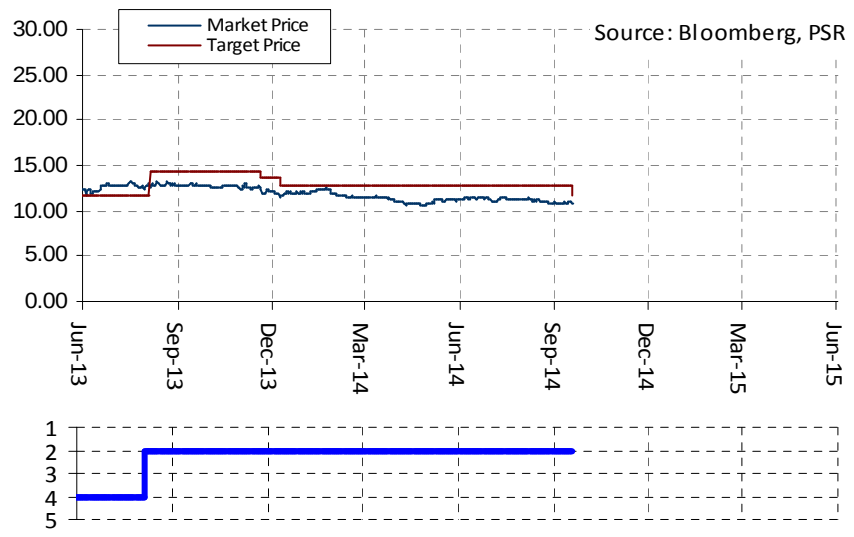
Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	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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Industry Group Name	Sector Name	Sector Index
Agro & Food Industry	Agribusiness	AGRI
[AGRO]	Food & Beverage	FOOD
Consumer Products	Fashion	FASHION
[CONSUMP]	Home & Office Products	HOME
	Personal Products & Phamaceuticals	PERSON
Financials	Banking	BANK
[FINCIAL]	Finance & Securities	FIN
	Insurance	INSUR
Industrials	Automotive	AUTO
[INDUS]	Industrail Materials & Machinery	IMM
	Packaging	PKG
	Paper & Printing Materials	PAPER
	Petrochemicals & Chemicals	PETRO
	Steel	STEEL
Property & Construction	Construction Materials	CONMAT
[PROPCON]	Construction Services	CONS
	Property Development	PROP
	Property Fund & REITs	FP&REIT
Resources	Energy & Utilities	ENERG
[RESOURC]	Mining	MINE
Services	Commerce	COMM
[SERVICE]	Media & Publishing	MEDIA
	Health Care Services	HELTH
	Tourism & Leisure	TOURISM
	Professionsl Services	PROF
	Transportation & Logistics	TRANS
Technology	Electronic Components	ETRON
[TECH]	Information & Communication Technology	ICT

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Score Range	Number of Logo
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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