



# Eastern Water Resources Development and Management (EASTW.BK/EASTW TB)

## Outperform·Initiate

Price as of 10 Mar 2017	11.60
12M target price (Bt/shr)	14.20
Unchanged / Revised up (down) (%)	N.A.
Upside/downside (%)	22.4

### Key messages

We initiate coverage on EASTW with a rating of Outperform and target price of Bt14.20, based on DCF-methodology. We like EASTW in three core aspects: i) regaining growth momentum in raw water business, as drought conditions eased, ii) prime beneficiary of the Eastern Economic Corridor (EEC) scheme, and iii) high growth potential in its tap water business.

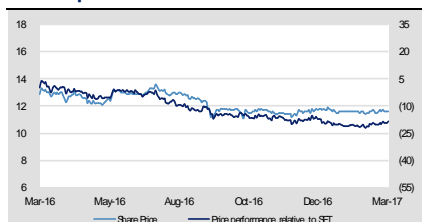
### Trading data

Mkt cap (Btbn/US\$mn)	19.3/551		
Outstanding shares (mn)	1,664		
Foreign ownership (mn)	252		
3M avg. daily trading (mn)	0.3		
52-week trading range (Bt)	11.1/13.6		
Performance (%)	3M	6M	12M
Absolute	0.0	(1.7)	(10.1)
Relative	(0.9)	(7.7)	(18.6)

### Quarterly EPS

Bt	1Q	2Q	3Q	4Q
2013	0.22	0.23	0.21	0.13
2014	0.22	0.22	0.19	0.17
2015	0.25	0.21	0.33	0.17
2016	0.23	0.21	0.20	0.15

### Share price chart



Source: SET

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## East's blood vessel

### Event

We initiate coverage on EASTW with a rating of Outperform and target price of Bt14.20. We like EASTW in three core aspects: i) regaining growth momentum in raw water business, as drought conditions eased, ii) prime beneficiary of the Eastern Economic Corridor (EEC) scheme, and iii) high growth potential in its tap water business.

### Impact

#### Water scarcity passed

We believe EASTW would regain its growth momentum from 2017 onwards, after a performance hiccup in 2016 due to water scarcity. We currently see three factors that could ease the problem: i) better water reserve, ii) additional capacity, and, iii) better rainfall in Thailand.

#### Beneficiary of Eastern Economic Corridor (EEC) scheme

The government's Eastern Economic Corridor (EEC) scheme should boost development in the Eastern region of Thailand, particularly the industrial segment, which accounted for 64% of EASTW's raw water sales in 2016.

#### Fast-growth in tap water business

Universal Utilities (UU), EASTW's subsidiary, is a tap water and waterworks management business. It is the fast-growing part of EASTW with its sales volume growth at 8.4% CAGR in 2009-2016. It has solid business potential since its 2016 tap water volume was only 7.6% of tap water demand in Thailand's provincial area.

#### Expect 8.8% CAGR for EPS in 2017-19E

The main performance drivers would be revenue increasing by 5.7% CAGR and gross profit margin (GPM) widening to 50.2-51.7% in 2017-19F, from 49.0% in 2016, given economies of scale and disappearance of extra expenses that arose due to the drought in 2016.

### Valuation & Action

We derived a 2017 fair value for EASTW of Bt14.20 based on DCF-methodology (WACC of 5.7% and terminal growth of 2.0%). The counter trades at an attractive 2017F PER of 13.5x, compared to TTW (TTW.BK/TTW TB)'s\* 16.6x and the Utility sector's 14.0x. From its last closing price, there is 22.4% upside to our fair value, we thus initiate coverage on EASTW with a rating of Outperform.

### Risks

Its businesses operate under concession agreements. However, we believe it could renew most of its agreements and continuously collect new ones in the future.

### Key financials and valuations

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (Bt mn)	4,367	4,377	4,662	4,919	5,176
Gross profit (Bt mn)	2,258	2,145	2,339	2,506	2,674
EBIT (Bt mn)	1,865	1,765	1,935	2,077	2,218
Net profit (Bt mn)	1,585	1,300	1,435	1,554	1,672
EPS (Bt)	0.95	0.78	0.86	0.93	1.01
DPS (Bt)	0.47	0.47	0.43	0.47	0.50
EPS growth (%)	18.8	(18.0)	10.4	8.3	7.6
P/E (x)	12.2	14.8	13.4	12.4	11.5
P/B (x)	2.1	2.0	1.8	1.7	1.6
EV/EBITDA (x)	11.5	11.3	10.3	10.1	9.8
Net Debt to Equity (x)	0.9	0.8	0.7	0.6	0.5
Dividend Yield (%)	4.1	4.1	3.7	4.0	4.3
Return on Avg. Equity (%)	16.7	12.9	13.3	13.4	13.5

Source: KGI Research

**Investment themes**

**Drought conditions have passed**

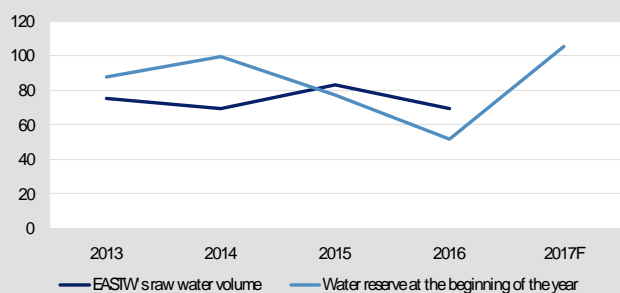
We believe EASTW would regain its growth momentum from 2017 onwards, after a performance hiccup in 2016. As a result of lower water reserves in key reservoirs in Eastern Thailand, following the drought conditions in 2014-16, EASTW’s raw water selling volume dropped 7.4% YoY in 2016 and there were additional raw water costs of approximately Bt23mn, which could translate to 1.8% of its net profit. We currently see three factors that could ease water scarcity: i) better water reserves in Chonburi, which was the problem area, ii) additional capacity from the new pipelines and water reserve pond, and, iii) better rainfall expected in Thailand, thanks to the transition to La Nina climate conditions, after two years of strong El Nino conditions.

**Chonburi water reserve is back up**

At the beginning of 2017, water reserves in Chonburi’s reservoirs swung back to 106mn cubic meters, up 103.5% YoY to the highest level in the last five years. This is a good sign of easing problems of insufficient water for EASTW. In 2016, EASTW faced a raw water distribution shortfall of 20mn cubic meters that came solely from a lack of water in Chonburi water reservoirs (Figure 1).

**Figure 1: Lack of water in Chonburi should ease in 2017**

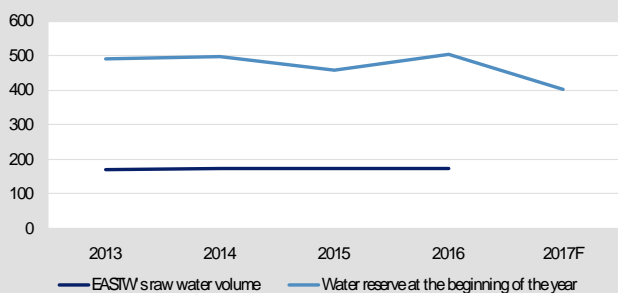
Raw water selling volume in Chonburi and water reserve at the beginning of the year, million cubic meters



Source: Company data, Royal Irrigation Department, KGI Research

**Figure 2: EASTW supplied water normally in Rayong**

Raw water selling volume in Rayong and water reserve at the beginning of the year, million cubic meters



Source: Company data, Royal Irrigation Department, KGI Research

**Enhanced water management ability through new capacity**

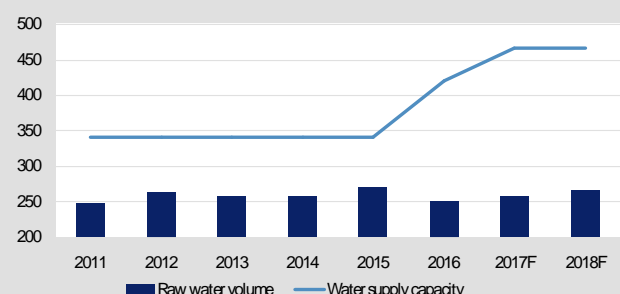
In 4Q16, EASTW started operations of two new pipelines; Prasae-Nongplalai and Nongplalai-Nongkho 2. This increased EASTW’s water supply capacity to 420mn cubic meters, up 23.5% YoY. By the end of 2017, the company will finish building a new water reservoir, Tamba project, which could increase its water supply capacity to 467mn cubic meters, up 11.2% YoY (Figure 3).

**La Nina should bring back the rain**

After the two years of strong El Nino, the climate has already turned to La Nina phase, which should fill up Thailand’s water reserve through its bringing humid weather.

**Figure 3: New capacity to enhance water supply**

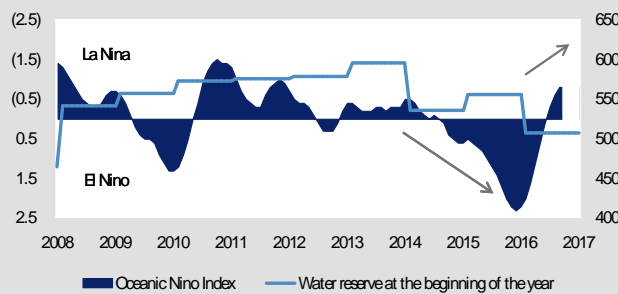
EASTW’s raw water selling volume and supply capacity at the ending of the year, million cubic meters



Source: Company data, KGI Research

**Figure 4: Transition to La Nina should boost water reserve**

Oceanic Nino index, points (LHS); water reserve at the beginning of the year, million cubic meters (RHS)



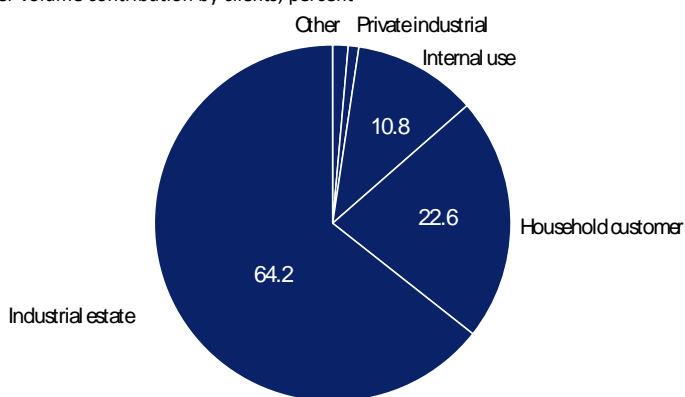
Source: Royal Irrigation Department, NOAA, KGI Research

**Beneficiary of Eastern Economic Corridor scheme**

The government’s Eastern Economic Corridor (EEC) scheme should boost development in Eastern Thailand, particularly the industrial segment, which contributed 64% of EASTW’s raw water sales in 2016. According to Industrial Estate Authority of Thailand data, there were 21 industrial estates ready for invest with area of approximately 14,660 Rai and six industrial estates that under development with area of approximately 15,190 Rai. These new industrial areas should demand 98mn cubic meters of raw water, which offers 39% upside to EASTW’s raw water selling volume in 2016 and matches its recent capacity expansion plan.

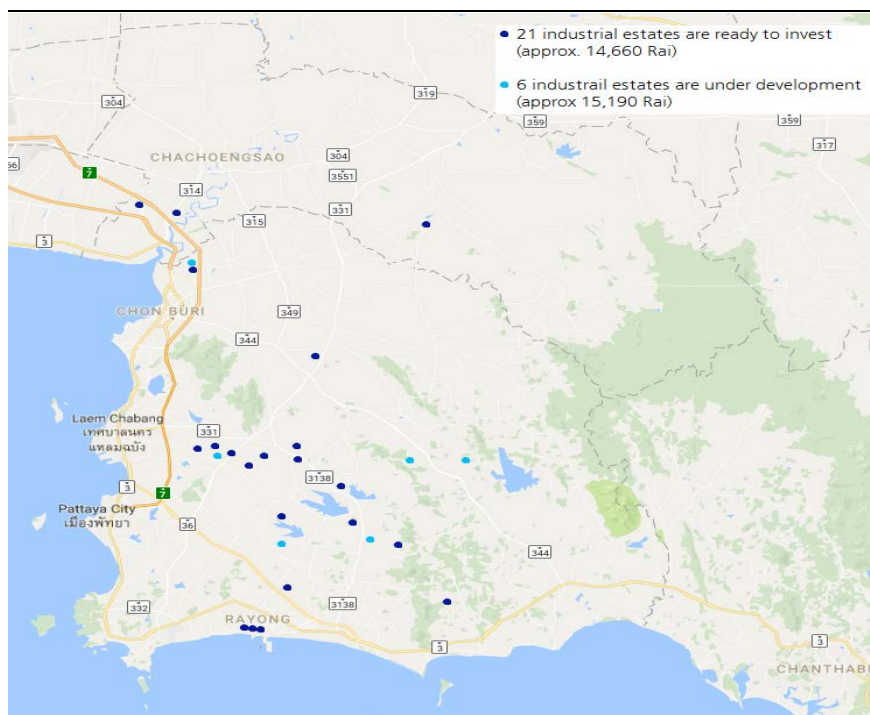
**Figure 5: Industrial estates are the company’s main clients for raw water**

2016 raw water volume contribution by clients, percent



Source: Company data , KGI Research

**Figure 6: Solid raw water demand from industrial estates**



Source: Google Maps, Industrial Estate Authority of Thailand , KGI Research

**Potential upside from SEZ Sa Kaeo**

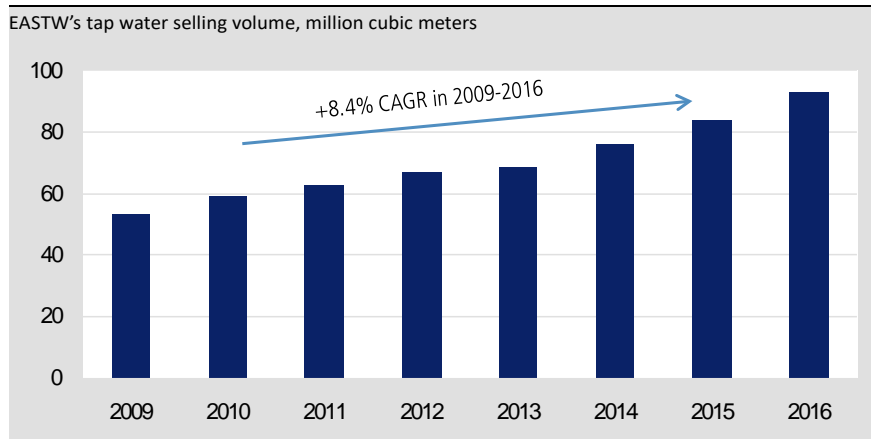
The Special Economic Zone (SEZ) scheme in Sa Kaeo province should raise demand for raw water in the area. We believe it might be a potential new service area for EASTW as Sa Kaew is adjacent to Chachoengsao and the SEZ area is only 200 km away from EASTW's current water pipe network.

**Fast-growing tap water business**

Universal Utilities (UU), EASTW's subsidiary, is a tap water and waterworks management business that currently has 13 concession agreements. UU is the fast-growing part of EASTW with its tap water selling volume growth of 8.4% CAGR in 2009-2016. Its business potential is solid as its 2016 tap water volume of 93mn cubic meters was only 7.6% of tap water demand in Thailand's provincial area. Note that the scope of its work is not limited to just the Eastern region, as it has concession agreements in Nakornsawan and Phitsanulok.

**UU spin-off could be a catalyst in the mid-to-long term**

EASTW's plan to spin-off UU in 2016 has been indefinitely postponed. We see this as a potential catalyst for the company in the next few years. The spin-off should unlock UU's value and encourage speculation on EASTW for preemptive rights.

**Figure 7: Tap water volume grew 8.4% CAGR in 2009-2016**


Source: Company data, KGI Research

**Bear market hideaway**

We see EASTW as an attractive choice for investors that are taking a bearish view. With its Beta at 0.57, EASTW is a safe haven in the SET index universe. In the last five times the SET index yearly performance fell, EASTW outperformed the index four times with an average of 17.6%.

**Figure 8: EASTW outperformed SET index in 4 out of 5 correction years of SET**

Performance (%)	2006	2008	2011	2013	2015
Set Index	(4.7)	(47.6)	(0.7)	(6.7)	(14.0)
EASTW	34.8	(39.2)	(6.8)	(5.4)	7.4
Outperform/Underperform	39.6	8.3	(6.0)	1.3	21.4

Source: Bloomberg, KGI Research

**Financial highlight**

**Expect 8.8% CAGR for net profit in 2017-19F**

We expect EASTW’s net profit to grow at 8.8% CAGR in 2017-19F, compared to normalized profit contraction of 7.3% YoY in 2016. The main performance drivers would be revenue increasing by 5.7% CAGR and gross profit margin (GPM) widening to 50.2-51.7% in 2017-19F, from 49.0% in 2016, given economies of scale and disappearance of extra expenses due to drought conditions like in 2016.

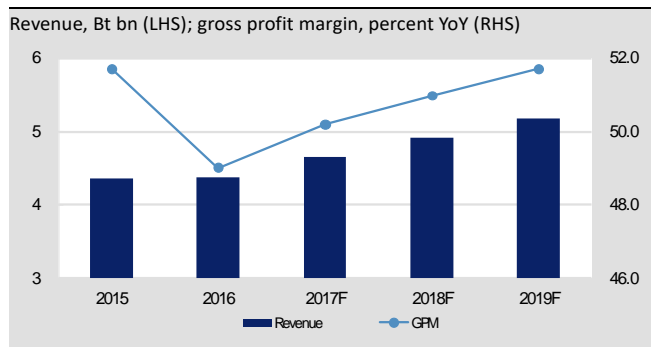
**Expect 4.5% CAGR for raw water revenue in 2017-19F**

We expect EASTW’s raw water revenue to grow at 4.5% CAGR in 2017-19F, recovering from a contraction of 7.0% YoY in 2016. We assume i) raw water volume to grow 3.0% CAGR in 2017-19F, resuming to the same pace as in 2011-15, after drought conditions caused a 7.4% contraction in volume in 2016, and, ii) raw water price to increase 1.5% CAGR, since there have been no price increases for two years.

**Expect 8.8% CAGR for tap water revenue in 2017-19F**

We expect EASTW’s tap water revenue to growth at 8.8% CAGR in 2017-19F, following 11.7% CAGR in 2011-16. We assume i) tap water volume to grow 6.0% CAGR in 2017-19F, following 7.9% CAGR in 2011-16, and, ii) tap water price to increase 2.7% CAGR, following 3.5% CAGR in 2011-16.

**Figure 9: Gradual increase in revenue and GPM**



Source: Company data, KGI Research

**Figure 10: 2017-19 revenue forecast by businesses**

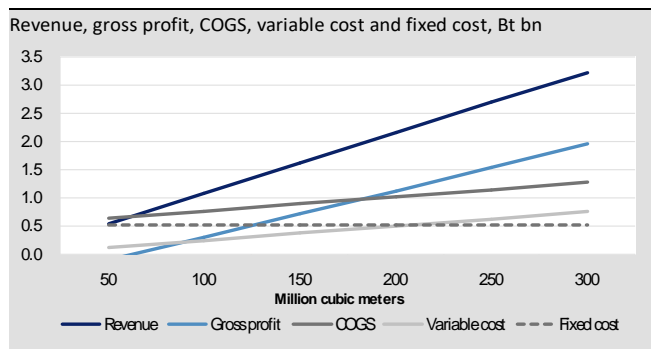
Bt mn	2015	2016	2017F	2018F	2019F
<b>Raw water</b>	<b>2,899</b>	<b>2,696</b>	<b>2,819</b>	<b>2,947</b>	<b>3,081</b>
% growth	4.7	(7.0)	4.5	4.5	4.5
<b>Tap water</b>	<b>1,160</b>	<b>1,393</b>	<b>1,550</b>	<b>1,676</b>	<b>1,795</b>
% growth	17.3	20.1	11.3	8.1	7.1
<b>Construction</b>	<b>96</b>	<b>118</b>	<b>120</b>	<b>120</b>	<b>120</b>
% growth	(64.4)	23.6	1.5	-	-
<b>Rental and service</b>	<b>212</b>	<b>169</b>	<b>173</b>	<b>176</b>	<b>180</b>
% growth	(1.8)	(20.2)	2.0	2.0	2.0
<b>Total</b>	<b>4,367</b>	<b>4,377</b>	<b>4,662</b>	<b>4,919</b>	<b>5,176</b>
% growth	2.9	0.2	6.5	5.5	5.2

Source: Company data, KGI Research

**Good degree of operating leverage**

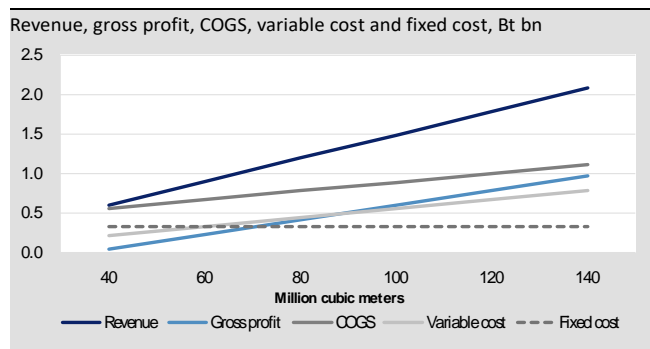
EASTW’s raw water and tap water businesses have a good degree of operating leverage (gross profit level) at 1.33 and 1.54, respectively. The recovery in raw water volume, ongoing growth in tap water volume, increased water price and enough new investment should gear the company’s earnings upward.

**Figure 11: Raw water business’s DOL at 1.33**



Source: Company data, KGI Research

**Figure 12: Tap water business’s DOL at 1.54**



Source: Company data, KGI Research

**Rate Outperform with a target price of Bt14.20**

We derived EASTW's 2017 fair value of Bt14.20 based on DCF-methodology (WACC of 5.7% and terminal growth of 2.0%). EASTW trades at an attractive 2017F PER of 13.5x, compared to TTW's 16.6x and the Utility sector's 14.0x. From its last closing price, there is 22.4% upside to our fair price, we thus initiate coverage with a rating of Outperform on EASTW.

**Figure 13: EASTW's fair value at Bt14.20**

Bt mn	2017F	2018F	2019E	2020E	2021E	2022E	2023E	2024E
Net Income + Non-Cash Charge + Interest * (1-Tax Rate)	2,114	2,250	2,382	2,512	2,648	2,808	3,011	1,416
	115	106	97	88	79	52	52	52
Gross Cash Flow	2,229	2,356	2,479	2,600	2,727	2,860	3,063	1,469
Increase in Working Capital	18	0	(0)	(1)	(1)	(3)	(3)	5
Capital Expenditure	(900)	(600)	(600)	(600)	(600)	(500)	(500)	(500)
Free Cash Flow to the Firm (FCFF)	1,347	1,756	1,879	1,999	2,126	2,357	2,560	974

Assumption for valuation							
WACC	5.7%	Wc	61.4%	Ke	8.56%	Rf	4.00%
g - Terminal	2.0%	Wd	38.6%	Kd	1.49%	Rm	12.00%
				Kd(1-tax)	1.19%	Beta	0.57

PV of sum of FCFF	12,362
PV of terminal value	18,099
Sum of PV at YE-2017	30,460
- Market Value of net debt	6,872
<b>Total Firm Value</b>	<b>23,589</b>
No. of Share Outstanding	1,664
<b>Value per Share</b>	<b>14.18</b>

Source: Company data, KGI Research

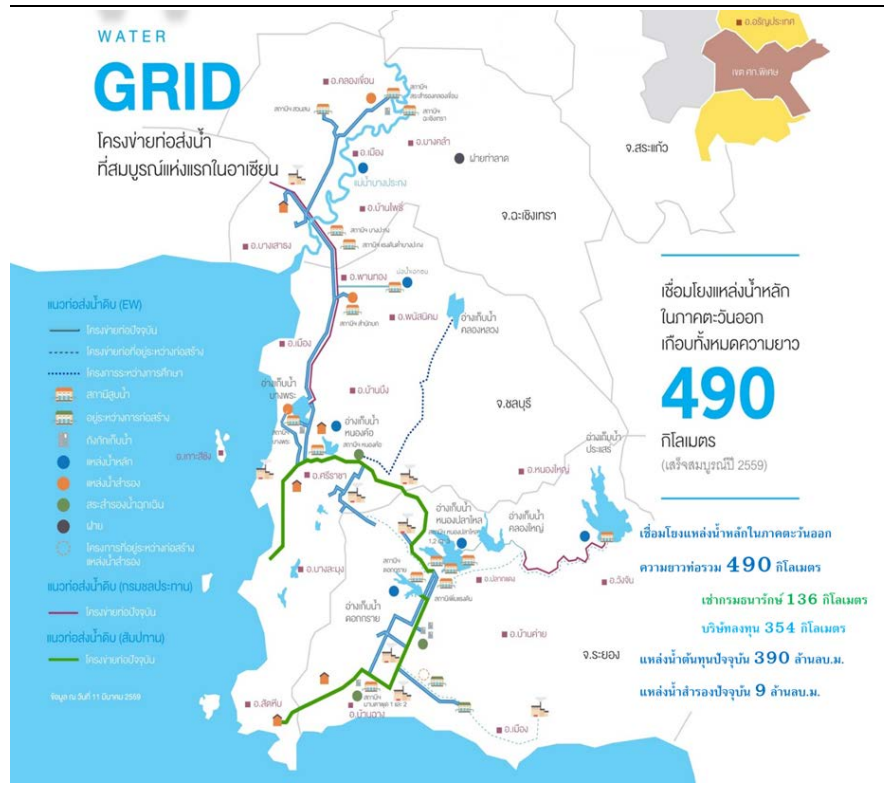
**Attractive dividend yield of 3.7-4.3% in 2017-19F**

We expect EASTW to deliver a dividend yield of 3.7-4.3% in 2017-19E. With its strong operating cash flow of roughly Bt2.1-2.4bn in 2017-2019E, less CAPEX requirement and low liabilities, the company would be able to pay as much as Bt718-836mn in dividend in 2017-2019E, which is equivalent to a payout ratio of 50%. This dividend yield is in line with the 4.0-4.5% in 2017-18F for electricity utility peers.

**Key risks**

- An agreement with the Ministry of Finance to manage and operate the major water distribution pipeline systems in the Eastern Seaboard area will end in 2023. This should be an uncertainty to EASTW’s raw water business. Nevertheless, we believe the company will very likely have the contract renewed as i) the pipeline systems under agreement (136 Km) need to be jointly operated with EASTW owned investment pipeline systems (354 Km) to source water efficiently in the area, and, ii) a major shareholder of EASTW is Provincial Waterworks Authority (40.2%), so the business benefit would still belong to the government. Our target price has already taken into account that its raw water business will end operation in 2023. In the case that it can renew the agreement, we estimate 58% upside to our target price.
- Its tap water business operates under 13 concessions which will end during 2020-2047. However, we believe the company will not lose much benefit when the concessions end, given its business nature as a service provider. Contract providers would still need EASTW’s specialty to generate tap water systems.

**Figure 14: Eastern water pipeline system operated by EASTW**



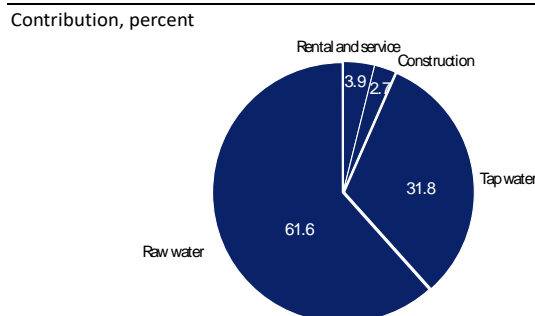
Source: Company data , KGI Research

**Figure 15: Company profile**

Eastern Water Resources Development and Management (EASTW) is responsible for the development and management of main water pipeline systems in the Eastern Seaboard (Chachoengsao, Chonburi and Rayong provinces) by supplying raw water to industrial estates, factories and water works. It currently operates 395 Km of water pipeline networks which could supply 420mn cubic meters in raw water per year. It distributed 251mn cubic meters of raw water in 2016. The company also operates tap water and waterworks management business under its subsidiary, Universal Utilities (UU). It distributed 93mn cubic meters of tap water in 2016.

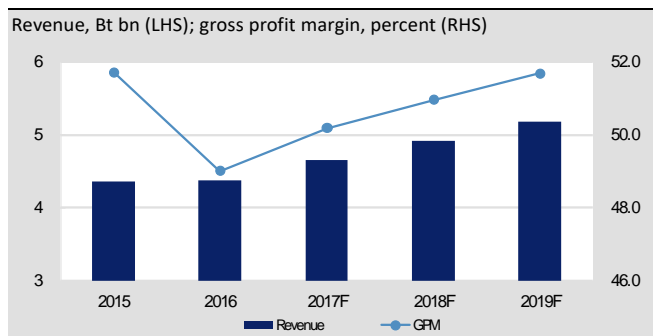
Source: Company data, KGI Research

**Figure 16: 2016 revenue contribution by businesses**



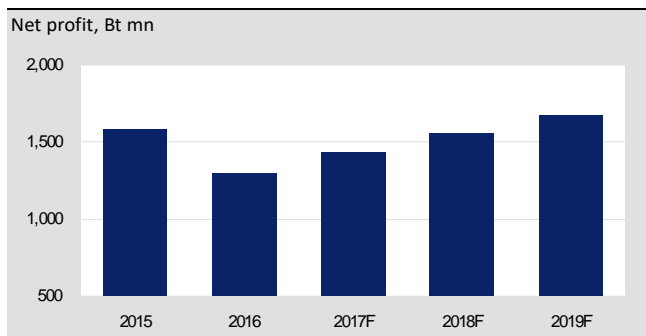
Source: Company data, KGI Research

**Figure 17: Revenue and gross profit margin**



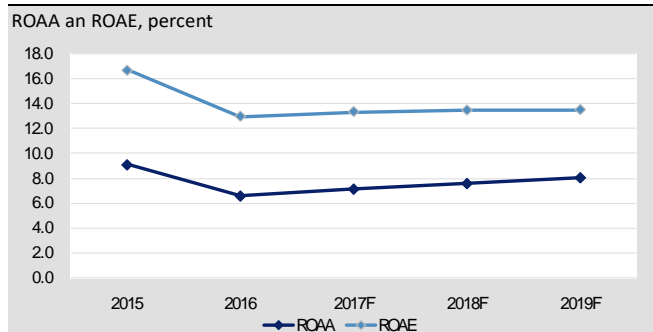
Source: Company data, KGI Research

**Figure 18: Net profit should resume growth phase in 2017F**



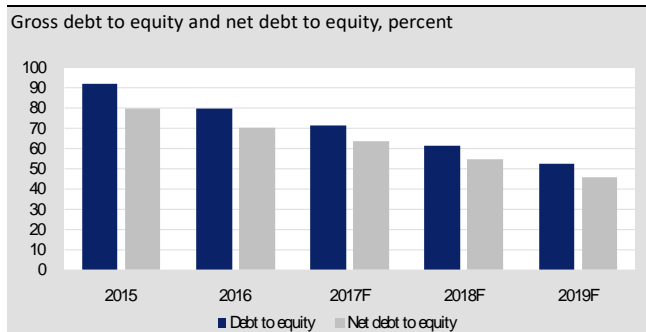
Source: Company data, KGI Research

**Figure 19: Company ROAA and ROAE**



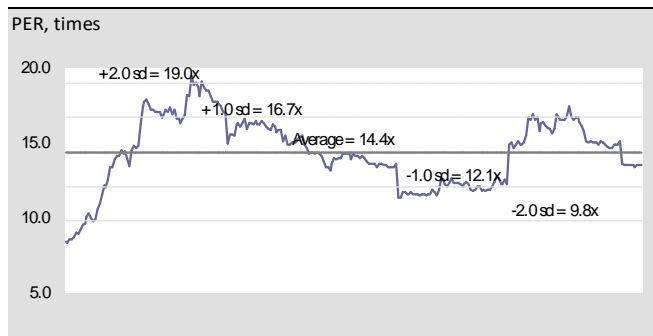
Source: Company data, KGI Research

**Figure 20: Well-leveraged balance sheet**



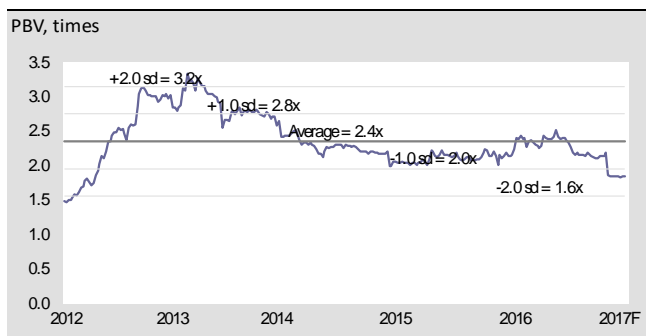
Source: Company data, KGI Research

**Figure 21: Trades at 13.5x PER 2017F**



Source: Bloomberg, KGI Research

**Figure 22: Trading at 1.8x PBV 2017F**



Source: Bloomberg, KGI Research



## Quarterly Income Statement

(Bt mn)	Mar-14A	Jun-14A	Sep-14A	Dec-14A	Mar-15A	Jun-15A	Sep-15A	Dec-15A	Mar-16A	Jun-16A	Sep-16A	Dec-16A
Revenue	973	1,066	974	1,014	1,079	1,142	1,088	1,058	1,103	1,129	1,040	1,104
Cost of Goods Sold	(409)	(520)	(511)	(657)	(467)	(534)	(548)	(560)	(518)	(549)	(518)	(647)
Gross Profit	564	545	463	356	612	607	540	498	585	581	522	457
Operating Expenses	(82)	(123)	(107)	(101)	(83)	(109)	(141)	(126)	(87)	(108)	(99)	(123)
Other incomes	6	78	65	130	11	21	23	11	8	15	5	9
Operating Profit	488	500	421	386	540	519	422	384	506	488	429	342
Depreciation of fixed assets	79	82	113	90	130	122	143	160	161	161	162	161
Operating EBITDA	567	582	534	475	669	641	564	544	667	649	591	497
Non-Operating Income	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-
Other Non-op Income	-	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Expenses	(26)	(27)	(26)	(42)	(32)	(24)	(26)	(32)	(31)	(25)	(25)	(38)
Interest Expense	(26)	(27)	(26)	(42)	(32)	(24)	(26)	(32)	(31)	(25)	(25)	(38)
Other Non-op Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Net Investment Income/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax Profit	462	473	395	344	508	495	396	352	475	462	404	304
Current taxation	(90)	(102)	(80)	(68)	(99)	(99)	(36)	(110)	(91)	(101)	(74)	(60)
Minorities	-	0	-	0	(0)	(0)	(1)	(5)	(5)	(5)	(5)	(5)
Extraordinary items	-	-	-	-	-	-	183	-	-	-	-	-
Net Profit	372	371	315	277	409	396	542	238	379	357	325	239
EPS (Bt)	0.22	0.22	0.19	0.17	0.25	0.21	0.33	0.17	0.23	0.21	0.20	0.15
Margins (%)												
Gross profit margin	58.0	51.2	47.5	35.1	56.7	53.2	49.6	47.1	53.1	51.4	50.2	41.4
Operating margin	50.2	47.0	43.2	38.1	50.0	45.5	38.8	36.3	45.9	43.2	41.2	31.0
Operating EBITDA margin	58.3	54.6	54.8	46.9	62.1	56.2	51.9	51.4	60.5	57.4	56.8	45.0
Net profit margin	38.2	34.8	32.4	27.3	37.9	34.7	49.9	22.4	34.3	31.6	31.2	21.7
Growth (%)												
Revenue growth	(1.5)	9.2	9.4	18.3	10.9	7.2	11.7	4.4	2.3	(1.1)	(4.4)	4.3
Operating growth	(0.4)	(5.4)	(9.7)	31.4	10.7	3.8	0.2	(0.5)	(6.3)	(6.1)	1.7	(10.8)
Operating EBITDA growth	0.7	(3.4)	2.0	17.2	18.0	10.1	5.8	14.4	(0.3)	1.2	4.7	(8.7)
Net profit growth	0.8	(5.0)	(8.7)	33.0	10.0	6.8	72.0	(14.1)	(7.4)	(9.9)	(40.1)	0.8

Source: Company data, KGI Research

## Peer comparison – Key valuation stats

	Rating	Target price (Bt)	Current price (Bt)	Upside (%)	16 core EPS (Bt)	17F core EPS (Bt)	18F core EPS (Bt)	17F EPS gr. (%)	18F EPS gr. (%)	17F PER (x)	18F PER (x)	17F PBV (X)	18F PBV (X)	17F Div Yield (%)	18F Div Yield (%)	17F ROAE (%)	18F ROAE (%)
EASTW	OP	14.20	11.60	22.4	0.78	0.86	0.93	10.3	8.1	13.5	12.5	1.8	1.7	3.7	4.1	13.4	13.5
TTW***	NR	12.15	11.10	9.5	0.62	0.66	0.69	6.5	4.5	16.8	16.1	3.8	3.7	5.7	5.9	22.4	23.5
BFP	N	25.00	24.40	0.4	1.37	1.66	1.94	21.8	16.6	14.7	12.6	1.7	1.5	2.7	3.2	11.3	12.1
CKP*	N	3.00	3.18	(6.3)	0.06	0.07	0.11	14.5	42.7	42.9	30.1	0.8	0.7	1.9	2.3	1.8	2.4
EGOO*	OP	230.00	205.00	13.3	17.39	18.70	18.95	7.5	1.3	11.0	10.8	1.3	1.2	3.4	3.7	11.6	11.0
GLOW*	OP	88.00	79.25	11.7	5.98	5.82	5.76	(2.7)	(1.0)	13.6	13.8	2.0	1.9	7.3	7.3	14.5	13.9
GFSC*	N	36.00	31.50	12.5	1.80	1.90	2.46	5.3	29.9	16.6	12.8	1.2	1.1	3.9	5.1	7.1	8.9
RATCH	OP	63.00	50.00	25.4	3.82	4.29	4.89	12.2	13.9	11.6	10.2	1.1	1.0	5.2	5.2	9.2	10.0
Sector										17.6	14.8	1.7	1.6	4.2	4.6	11.4	11.9

Source: KGI Research, \*SET100, \*\* Bloomberg Consensus

**Balance Sheet**

As of 31 Dec (Bt mn)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Total Assets</b>	<b>19,627</b>	<b>19,860</b>	<b>20,359</b>	<b>20,607</b>	<b>20,915</b>
<b>Current Assets</b>	1,664	1,384	1,317	1,314	1,382
Cash & ST Investments	1,174	922	827	797	840
Inventories	9	11	11	11	12
Accounts Receivable	447	421	448	473	498
Others	34	31	32	32	33
<b>Non-current Assets</b>	17,963	18,476	19,041	19,293	19,533
LT Investments	217	194	194	196	198
Net fixed Assets	13,266	14,062	14,543	14,707	14,857
Others	4,480	4,220	4,304	4,390	4,478
<b>Total Liabilities</b>	<b>10,128</b>	<b>9,812</b>	<b>9,585</b>	<b>9,047</b>	<b>8,510</b>
<b>Current Liabilities</b>	2,938	3,027	3,363	3,389	3,415
Accounts Payable	198	251	261	272	282
ST Borrowings	2,355	2,410	2,700	2,700	2,700
Others	386	366	402	418	433
<b>Long-term Liabilities</b>	7,190	6,786	6,221	5,658	5,096
Long-term Debts	6,407	5,598	4,998	4,398	3,798
Others	782	1,187	1,223	1,260	1,297
<b>Shareholders' Equity</b>	<b>9,500</b>	<b>10,048</b>	<b>10,774</b>	<b>11,560</b>	<b>12,405</b>
Common Stock	1,664	1,664	1,664	1,664	1,664
Capital Surplus	2,139	2,139	2,139	2,139	2,139
Retained Earnings	5,470	6,021	6,739	7,516	8,352
Non-controlling interests	205	207	215	223	232

Source: Company date; KGI Research

**Key ratio**

Year to 31 Dec (Bt mn)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Forecast Drivers</b>					
Raw water volume (Mn cubic meters)	271	251	258	266	274
Raw water price (Bt/Cubic meters)	10.7	10.8	10.9	11.1	11.3
Tap water volume (Mn cubic meters)	84	93	100	106	111
Tap water price (Bt/Cubic meters)	13.8	14.9	15.5	15.9	16.2
<b>Growth (% YoY)</b>					
Sales	2.9	0.2	6.5	5.5	5.2
CP	3.9	(5.4)	9.7	7.3	6.8
EBITDA	5.8	(0.6)	8.8	6.1	5.6
NP	18.8	(18.0)	10.4	8.3	7.6
EPS	18.8	(18.0)	10.4	8.3	7.6
<b>Profitability (%)</b>					
Gross Margin	51.7	49.0	50.2	51.0	51.7
Operating Margin	42.7	40.3	41.5	42.2	42.8
EBITDA Margin	55.4	54.9	56.1	56.4	56.6
Net Profit Margin	36.3	29.7	30.8	31.6	32.3
ROAA	9.1	6.6	7.1	7.6	8.1
ROAE	16.7	12.9	13.3	13.4	13.5
<b>Stability</b>					
Gross Debt/Equity (%)	109.0	99.7	90.8	79.8	69.9
Net Debt/Equity (%)	90.9	79.5	72.0	62.1	52.5
Interest Coverage (x)	N.A.	14.8	16.8	19.6	22.9
Interest & ST Debt Coverage (x)	N.A.	0.7	0.7	0.7	0.8
Cash Flow Interest Coverage (x)	N.A.	21.1	18.6	21.2	24.5
Cash Flow/Interest & ST Debt (x)	N.A.	1.0	0.8	0.8	0.9
Current Ratio (x)	0.6	0.5	0.4	0.4	0.4
Quick Ratio (x)	0.6	0.5	0.4	0.4	0.4
Net Debt (Bt mn)	8,451	7,822	7,608	7,037	6,395
<b>Per Share Data (Bt)</b>					
EPS	1.0	0.8	0.9	0.9	1.0
CFPS	1.5	1.5	1.3	1.4	1.4
BVPS	5.6	5.9	6.3	6.8	7.3
SPS	2.6	2.6	2.8	3.0	3.1
EBITDA/Share	1.5	1.4	1.6	1.7	1.8
DPS	0.5	0.5	0.4	0.5	0.5
<b>Activity</b>					
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.2
Days Receivables	36.3	36.2	34.0	34.2	34.2
Days Inventory	1.6	1.6	1.7	1.7	1.7
Days Payable	69.8	36.7	40.3	40.3	40.4
Cash Cycle	(31.9)	1.1	(4.6)	(4.4)	(4.4)

Source: Company date; KGI Research

**Profit & loss**

Year to 31 Dec (Bt mn)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Revenue</b>	<b>4,367</b>	<b>4,377</b>	<b>4,662</b>	<b>4,919</b>	<b>5,176</b>
Cost of Goods Sold	(2,109)	(2,232)	(2,322)	(2,413)	(2,502)
<b>Gross Profit</b>	<b>2,258</b>	<b>2,145</b>	<b>2,339</b>	<b>2,506</b>	<b>2,674</b>
Operating Expenses	(459)	(417)	(442)	(468)	(496)
Other incomes	66	37	38	39	40
<b>Operating Profit</b>	<b>1,865</b>	<b>1,765</b>	<b>1,935</b>	<b>2,077</b>	<b>2,218</b>
Depreciation of fixed assets	554	639	679	696	710
<b>Operating EBITDA</b>	<b>2,419</b>	<b>2,404</b>	<b>2,614</b>	<b>2,773</b>	<b>2,928</b>
<b>Non-Operating Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest Income	0	0	0	0	0
Other Non-op Income	0	0	0	0	0
<b>Non-Operating Expenses</b>	<b>(114)</b>	<b>(120)</b>	<b>(115)</b>	<b>(106)</b>	<b>(97)</b>
Interest Expense	(114)	(120)	(115)	(106)	(97)
Other Non-op Expenses	0	0	0	0	0
Equity Income/(Loss)	0	0	0	0	0
<b>Pretax Income</b>	<b>1,751</b>	<b>1,645</b>	<b>1,820</b>	<b>1,971</b>	<b>2,121</b>
Current taxation	(343)	(327)	(364)	(394)	(424)
Minorities	(6)	(19)	(21)	(23)	(24)
Extraordinary items	183	0	0	0	0
<b>Net Profit</b>	<b>1,585</b>	<b>1,300</b>	<b>1,435</b>	<b>1,554</b>	<b>1,672</b>
Norm. Profit	1,402	1,300	1,435	1,554	1,672
EPS(Bt)	1.0	0.8	0.9	0.9	1.0

Source: Company date; KGI Research

**Cash flow**

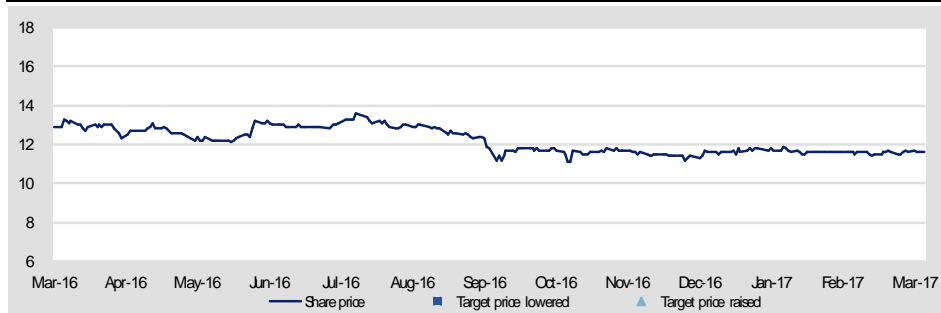
Year to 31 Dec (Bt mn)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Operating Cash Flow</b>	2,138	2,520	2,133	2,250	2,382
Net Profit	1,585	1,300	1,435	1,554	1,672
Depreciation & Amortization	554	643	679	696	710
Change in Working Capital	(370)	79	(18)	(15)	(15)
Others	369	499	36	15	15
<b>Investment Cash Flow</b>	<b>(4,273)</b>	<b>(598)</b>	<b>(1,244)</b>	<b>(948)</b>	<b>(950)</b>
Net CAPEX	(2,062)	(975)	(1,160)	(860)	(860)
Change in LT Investment	(1,456)	0	0	(2)	(2)
Change in Other Assets	(755)	377	(84)	(86)	(88)
<b>Free Cash Flow</b>	<b>(2,135)</b>	<b>1,922</b>	<b>888</b>	<b>1,302</b>	<b>1,432</b>
<b>Financing Cash Flow</b>	<b>2,333</b>	<b>(1,637)</b>	<b>(983)</b>	<b>(1,332)</b>	<b>(1,389)</b>
Change in Share Capital	0	0	0	0	0
Net Change in Debt	3,309	(755)	(274)	(563)	(562)
Change in Other LT Liab.	(976)	(882)	(709)	(768)	(827)
<b>Net Cash Flow</b>	<b>198</b>	<b>285</b>	<b>(95)</b>	<b>(29)</b>	<b>43</b>

Source: Company date; KGI Research

**Rates of Return on Invested Capital**

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= <b>Operating Margin</b>	
Dec-15A	35.6%	12.7%	10.5%	41.2%	
Dec-16A	36.4%	14.6%	9.5%	39.5%	
Dec-17F	35.3%	14.6%	9.5%	40.7%	
Dec-18F	34.9%	14.2%	9.5%	41.4%	
Dec-19F	34.6%	13.7%	9.6%	42.1%	
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= <b>Capital Turnover</b>	
Dec-15A	5.9%	3.04	1.03	0.24	
Dec-16A	4.1%	3.21	0.96	0.24	
Dec-17F	4.2%	3.12	0.92	0.24	
Dec-18F	4.3%	2.99	0.89	0.25	
Dec-19F	4.4%	2.87	0.87	0.26	
Year	$\frac{\text{Operating Margin}}{\text{Capital Turnover}}$	x	$\frac{\text{Cash Tax Rate}}{\text{Capital Turnover}}$	x	= <b>After-tax Return on Inv. Capital</b>
Dec-15A	41.2%	0.2	80.42		8.04
Dec-16A	39.5%	0.2	80.15		7.50
Dec-17F	40.7%	0.2	80.00		7.97
Dec-18F	41.4%	0.3	80.00		8.44
Dec-19F	42.1%	0.3	80.00		8.91

Source: Company date; KGI Research

**Eastern Water Resources Development and Management – Recommendation & target price history**


Source: KGI Research

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Rating	Definition
Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.  <i>Excess return = 12M target price/current price-</i>
Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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