

EASTW: Expect earnings to expand 123% YoY in 2Q21 from a low base



EastWater

Update

We maintain EASTW with a BUY rating while raise target price after EPS revision to Bt12.60 (Previous TP: Bt12.50), derived from DCF or equivalent to 16.3xPE'21E. We still recommend BUY for EASTW given its monopoly position in EEC area and earnings that anticipated to grow strongly in 2021-22E from the bottom in 2020.

- We expect the company to report 2Q21 net profit at Bt335 (+123%YoY, -10%QoQ). YoY expansion will be supported by demand recovery from industrial estate sector after hitting a low base in 2Q20, which was impacted by pandemic. However, we expect QoQ to be contracted due to long holiday in April.
- 2Q21 raw water sales volume reported at 70.7 million m³ (+30%YoY -1%QoQ), a slight drop from 71.6 million m³ in 1Q21. which was the seven-quarter high.
- We expect 3Q21 earnings to continue to expand YoY due to low base in 3Q20 while QoQ will be soften down from 2Q21 as a result from 3rd wave of pandemic.

Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	15.9	21.8	13.0	10.9	9.9
Recurring net profit growth (%)	(6.5)	(26.9)	67.7	18.7	10.0
Recurring EPS (Bt)	0.63	0.46	0.77	0.91	1.01
Recurring EPS growth (%)	(6.5)	(26.9)	67.7	18.7	10.0
PBV (x)	1.5	1.5	1.5	1.4	1.4
BVPS (Bt)	6.5	6.6	6.8	7.1	7.4
ROE (%)	9.7	7.0	11.6	13.2	13.9
DPS (Bt)	0.5	0.4	0.5	0.6	0.7
Dividend yield (%)	4.7	4.0	5.4	6.4	7.0
Enterprise value (Bt m)	23,431	24,822	24,135	24,158	23,823
EV-to-EBITDA (x)	10.2	12.1	8.9	7.9	7.1

EASTW PCL

Recommendation: BUY

Current price: Bt10.0

Target price: Bt12.60

Up/(downside): 26%

IOD: 5 out of 5

CAC: certified

Stock data

RIC code	EASTW.BK
Index	.SETI
SET Index (2 July 2021)	1,578.49
Market cap (Bt m)	16,637
Shares outstanding (million)	1,664
Par (Bt)	1.00



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EASTW: Updated scorecard

(Bt m)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	%QoQ	%YoY
Revenue	1,157	1,001	996	1,051	1,231	1,211	(1.6)	21.0
Cost of sales	(615)	(636)	(644)	(656)	(632)	(644)	1.9	1.3
Gross Profit	542	365	352	395	599	567	(5.4)	55.5
SG&A	(124)	(122)	(125)	(171)	(104)	(110)	5.4	(9.9)
Other (exp)/inc	11	7	5	12	7	8	19.0	19.5
EBIT	430	249	232	235	501	465	(7.3)	86.5
Finance cost	(44)	(43)	(42)	(42)	(42)	(42)	(0.7)	(1.8)
Other inc/(exp)	2	3	2	2	(0)	-	(100.0)	(100.0)
Earnings before taxes	388	209	192	196	459	423	(7.9)	102.1
Income tax	(70)	(56)	(48)	(34)	(85)	(85)	(0.8)	51.3
Earnings after taxes	317	153	144	162	374	338	(9.5)	120.6
Equity income	0	0	-	-	-	-	na.	na.
Minority interest	(3)	(3)	(3)	(3)	(3)	(3)	(4.4)	7.0
Earnings from cont. operations	314	151	141	158	371	335	(9.5)	122.7
Forex gain/(loss) & unusual items	-	-	-	0	-	-	na.	na.
Net profit	314	151	141	158	371	335	(9.5)	122.7
EBITDA	650	474	457	464	732	692	(5.4)	45.9
Recurring EPS (Bt)	0.19	0.09	0.08	0.10	0.22	0.20	(9.5)	122.7
Reported EPS (Bt)	0.19	0.09	0.08	0.10	0.22	0.20	(9.5)	122.7
Profits (%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	chg QoQ	chg YoY
Gross margin	46.8	36.4	35.3	37.6	48.7	46.8	11.1	1.8
Operating margin	37.1	24.9	23.2	22.4	40.7	38.4	18.3	3.6
Net margin	27.2	15.0	14.1	15.1	30.1	27.7	15.1	2.9

Result summary

- We expect the company to report 2Q21 net profit at Bt335 (+123%YoY, -10%QoQ). YoY expansion will be supported by demand recovery from industrial estate sector after hitting a low base in 2Q20, which was impacted by pandemic. However, we expect QoQ to be contracted due to long holiday in April.
- 2Q21 raw water sales volume reported at 70.7 million m³ (+30%YoY -1%QoQ), a slight drop from 71.6 million m³ in 1Q21, which was the seven-quarter high.
- Tap water sales volume reported at 24.7 million m³ (-1%YoY -1%QoQ)
- We expect 3Q21 earnings to continue to expand YoY due to low base in 3Q20 while QoQ will be soften down from 2Q21 as a result from 3rd wave of pandemic.

Story

Sales

P5F

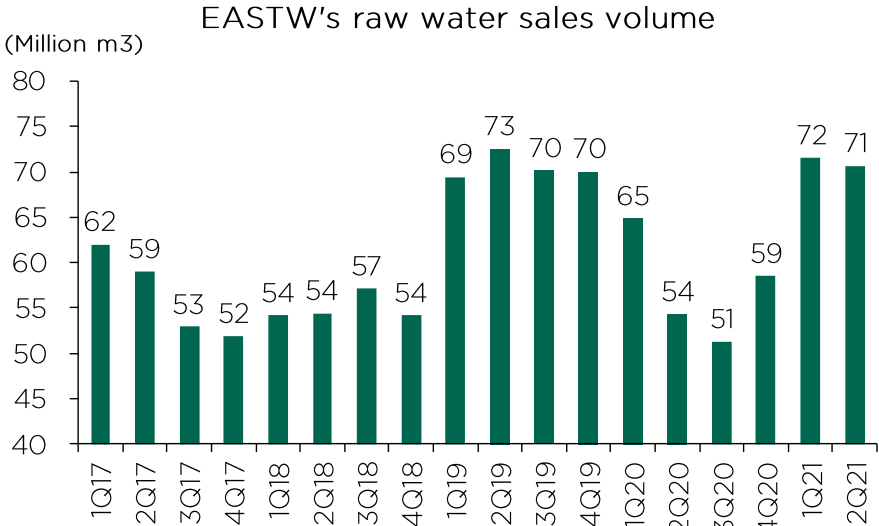
Team

WCB

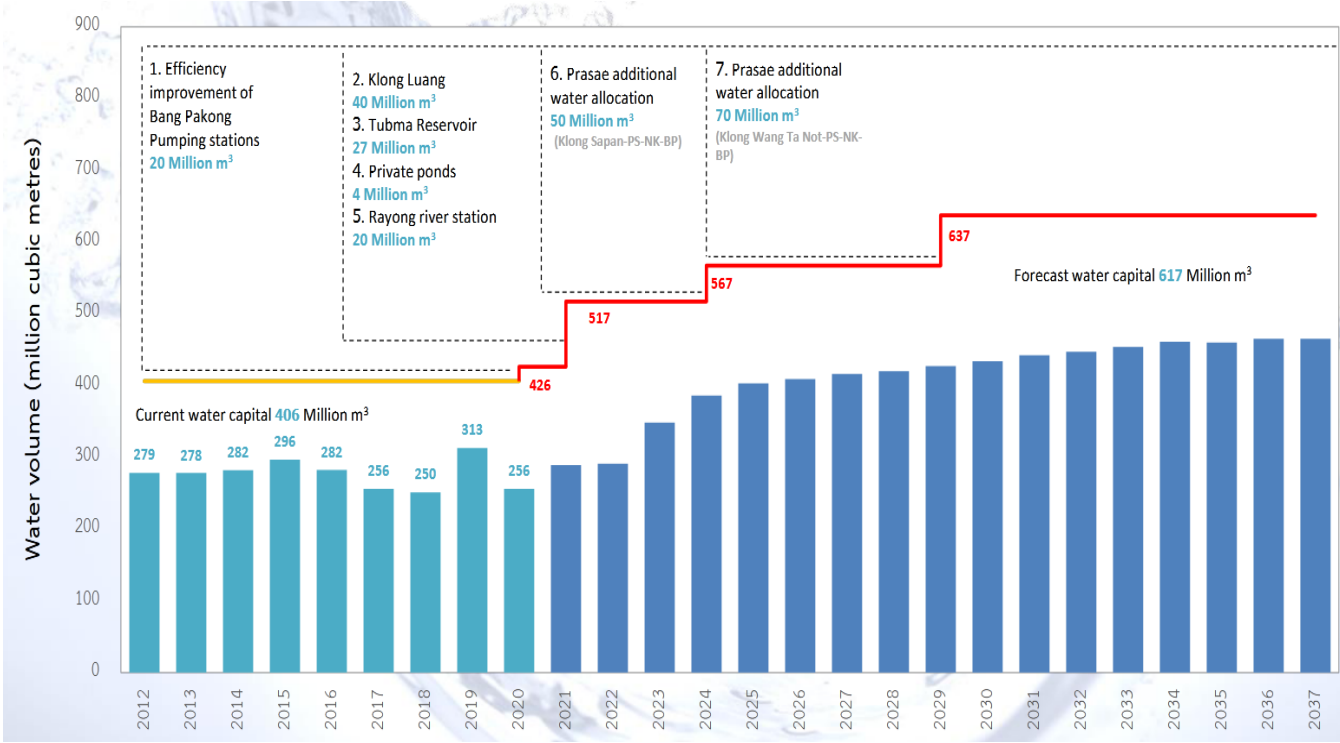
ESG

Value

Risks



Status of water supply and expected demand growth



EASTW: Revise up 2021E and 2022E earnings by 14% and 13%

Story

Sales

P5F

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ESG

Value

Risks

Revising up 2021-22E earnings by 14% and 13% respectively

We revised up our 2021E and 2022E net profit forecast by 14% and 13% respectively to account in the following factors; 1.) upward revision of gross profit margin assumption to 45.7% and 46.9% due to lower-than-expected electricity and maintenance costs arise from raw water business, and, 2.) SG&A to sales ratio is assumed to decrease in 2021-22E to 11.0% and 10.3% on the back of better-than-expected benefit from economies of scale.

	2021E		Change	2022E		Change	2023E		Change
	Revised	Previous	(%)	Revised	Previous	(%)	Revised	Previous	(%)
Financials									
Revenue (Bt mn)	5,066	5,066	0.0	5,606	5,606	0.0	5,964	5,964	0.0
Gross profit (Bt mn)	2,316	2,153	7.6	2,627	2,432	8.0	2,840	2,644	7.4
Net profit (Bt mn)	1,282	1,129	13.5	1,521	1,341	13.4	1,673	1,491	12.2
EPS (Bt/share)	0.77	0.68	13.5	0.91	0.81	13.4	1.01	0.90	12.2
Key financial ratios			Change			Change			Change
Revenue growth (%)	20.5	20.5	0.0	10.7	10.7	0.0	6.4	6.4	0.0
Gross profit margin (%)	45.7	42.5	3.2	46.9	43.4	3.5	47.6	44.3	3.3
SG&A to sales (%)	11.0	11.5	(0.4)	10.3	10.7	(0.4)	10.0	10.3	(0.4)
Net profit growth (%)	67.7	47.7	20.0	18.7	18.8	(0.1)	10.0	11.2	(1.2)
Net profit margin (%)	25.3	22.3	3.0	27.1	23.9	3.2	28.1	25.0	3.0



Background: East Water Resources Development and Management (EASTW) is 40% owned by the PWA, the sole state-enterprise with a monopoly over water supply in provincial areas of Thailand. The company develops and manages mains water distribution pipelines along Thailand's eastern seaboard (Chonburi, Rayong and Chachoengsao). The company operates a 491.8-kilometer (km) water grid connecting all six main water sources in Eastern Thailand. In 2018, EASTW distributed 220 million m³ of raw water to clients while supplying 97 million m³ of tap water via its subsidiary, Universal Utilities PCL.

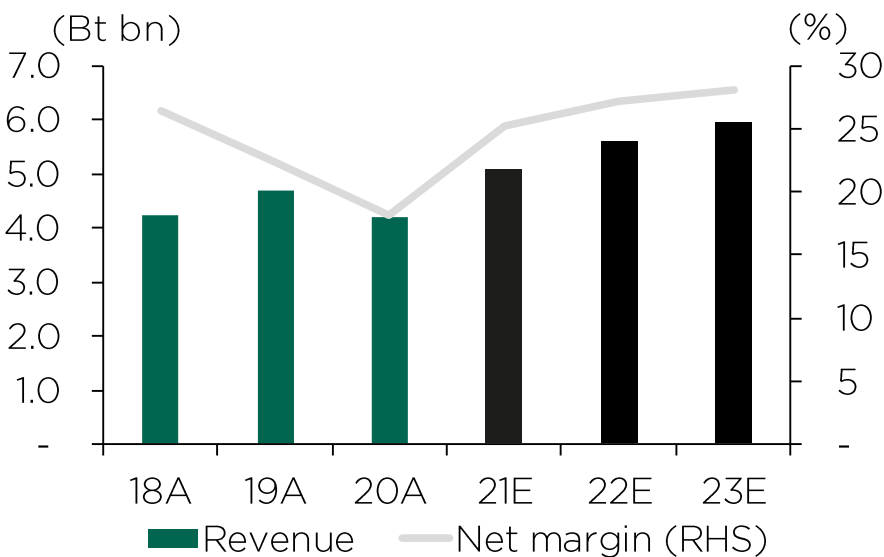
Story

Sales

Raw water accounts for 59% total revenue. EASTW supplies raw water to customers by its main water pipeline system. Raw water is distributed to industrial estates and the PWA before being redistributed to individual industrial plants, the consumer sector and other private sector clients.

Production and distribution of tap water accounts for 35% of EASTW's total revenue, which it operates under EASTW's wholly owned subsidiary, Universal Utilities. The tap water production process includes pumping, filtration and chemicalization. UU also has a facility to transform seawater to freshwater using the reverse-osmosis process before it distributes it to PWA, which passes it on to end consumers.

Others account for 6% of total revenue. These include rental income from the East Water Building located near Chatuchak market in Bangkok and construction revenue under concession agreements for tap water business.



Revenue breakdown, by segments 2020

Raw water 59%



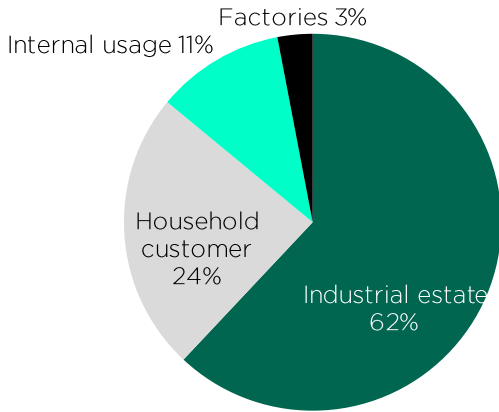
Tap water 35%



Others 6%



Raw water distribution by customer group in % 2020



EASTW: Financial summary

Story

Sales

Value

Profit & loss (Bt m)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Revenue	4,680	4,204	5,066	5,606	5,964	1,157	1,001	996	1,051	1,231
Cost of goods sold	(2,699)	(2,551)	(2,750)	(2,978)	(3,124)	(615)	(636)	(644)	(656)	(632)
Gross profit	1,981	1,653	2,316	2,627	2,840	542	365	352	395	599
SG&A	(539)	(534)	(560)	(577)	(594)	(124)	(122)	(125)	(171)	(104)
Other (exp)/inc	33	27	27	27	28	11	7	5	12	7
Operating profit	1,475	1,146	1,784	2,078	2,274	430	249	232	235	501
Finance cost	(166)	(171)	(171)	(172)	(181)	(44)	(43)	(42)	(42)	(42)
Other inc/(exp)	9	9	7	16	21	2	3	2	2	(0)
Earnings before taxes	1,318	984	1,620	1,922	2,114	388	209	192	196	459
Income tax	(262)	(208)	(324)	(384)	(423)	(70)	(56)	(48)	(34)	(85)
After-tax profit	1,056	776	1,296	1,538	1,692	317	153	144	162	374
Equity income	-	-	-	-	-	0	0	-	-	-
Minorities	(11)	(12)	(14)	(17)	(19)	(3)	(3)	(3)	(3)	(3)
Earnings from cont. operations	1,045	764	1,282	1,521	1,673	314	151	141	158	371
Forex gain/(loss) & unusual items	(0)	0	-	-	-	-	-	-	0	-
Net income	1,045	764	1,282	1,521	1,673	314	151	141	158	371
Recurring EPS (Bt)	0.63	0.46	0.77	0.91	1.01	0.19	0.09	0.08	0.10	0.22
Weighted average shares (m)	1,664	1,664	1,664	1,664	1,664	1,664	1,664	1,664	1,664	1,685
Balance sheet (Bt m)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Assets	21,181	22,854	23,276	24,138	24,958	22,097	22,471	22,358	22,854	24,641
Liabilities	10,167	11,785	11,808	12,197	12,496	10,766	11,430	11,445	11,785	13,199
Equity	10,840	10,902	11,286	11,742	12,244	11,153	10,870	10,744	10,902	11,271
Invested capital	17,636	19,058	18,770	19,267	19,452	18,452	18,600	18,668	19,058	19,200
Growth (YoY, %)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Revenue	10.9	(10.2)	20.5	10.7	6.4	(0.7)	(16.3)	(14.1)	(9.4)	6.4
Operating income	(4.3)	(22.4)	55.7	16.5	9.4	(5.8)	(33.3)	(33.5)	(21.1)	16.7
Recurring EPS	(6.5)	(26.9)	67.7	18.7	10.0	(10.0)	(43.4)	(39.5)	(25.1)	16.4
Assets	5.2	7.9	1.8	3.7	3.4	9.0	12.1	9.2	7.9	11.5
Liabilities	8.9	15.9	0.2	3.3	2.5	17.9	25.6	18.3	15.9	22.6
Equity	2.0	0.6	3.5	4.0	4.3	1.7	0.9	1.1	0.6	1.1
Profits (%)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Gross margin	42.3	39.3	45.7	46.9	47.6	46.8	36.4	35.3	37.6	48.7
Operating margin	31.5	27.3	35.2	37.1	38.1	37.1	24.9	23.2	22.4	40.7
Net margin	22.3	18.2	25.3	27.1	28.1	27.2	15.0	14.1	15.1	30.1
ROE	9.7	7.0	11.6	13.2	13.9	11.4	5.5	5.2	5.8	13.4
ROIC	6.7	4.9	7.5	8.7	9.4	7.8	3.9	3.7	4.1	8.5

Disclaimer

Investment ratings

BUY:	Expected return excluding dividends of more than 10% within the next 12 months.
HOLD:	Expected return excluding dividends between -10% and 10% within the next 12 months.
SELL:	Expected return excluding dividends of less than -10% within the next 12 months.
NR:	Not Rated- Stock is not in our research coverage.

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