

## EDL-Generation Pcl.

Buy (TP LAK9,028)

## Seasonal peak earnings in 3Q14 as expected

Price LAK7,150

Given the company's positive earnings momentum in the years ahead following the planned new power assets acquisition from Electricite du Laos (EDL) and the potential capacity expansion of its existing projects, as well as its undemanding valuation against its attractive dividend yield, we retain our BUY call.

## Facts and Figures

- EDL-Gen reported unaudited 3Q14 NP of 374,836mn kip (EPS 306 kip), flat YoY, but +100% QoQ from the seasonal low earnings in last quarter. Excluding the forex gain, it delivered 3Q14 core profit of 367,631mn kip (-6% YoY, +93% QoQ).
- Its 9M14 NP was 701,816mn kip (-11% YoY) and core profit was 700,301mn kip (-7% YoY), both of which accounted for 78% of our full-year forecasts.

## Analysis

- Seasonal high 3Q earnings:** The seasonal peak 3Q14 core profit was mostly attributable to the larger profit generation at its seven 387MW hydroelectric power plants (234,730mn kip, -5% YoY, +249% QoQ) and the sustained profit contribution from its four 494MW IPPs (132,901mn kip, -6% YoY, +7.5% QoQ).
- Ahead-of-planned electricity generation at its 100%-owned projects:** The strong profit improvement at its seven hydroelectric power plants, particularly QoQ, was largely due to the 7% ahead-of-planned electricity generation to 820GWh in 3Q14 (vs. 769GWh planned), enabling its electricity sales to beat the target by 6% at 345,452mn kip in the quarter (+3.5% YoY, +116% QoQ).
- Weakening margin:** It delivered a 3Q14 EBITDA margin of 89%, particularly softening YoY from 94% in 3Q13, due to the higher operating and maintenance expenses YoY.
- 2014E earnings forecasts maintained:** Given that its 9M14 NP and core profit represented 78% of our full-year forecasts, we believe that our 2014E full-year core profit and NP forecasts of 901,721mn kip are achievable. We are in the process of rolling over our TP to 2015E to factor in 1) the planned issuance of Bt6.5bn debenture in late 2014, mainly to facilitate the acquisition of power assets from EDL (including the operational Nam Ngum 5, as well as four new projects named Nam Sana, Hoauy Lampan Ngai, Nam Khan 2 and Lower Hoauy Lampan, with combined 265MW equity capacity), as well as the potential capacity expansion of its existing projects; and 2) the contribution of these new projects.

## Financial and Valuation

FY Ended 31 Dec	2012	2013	2014E	2015E
Revenues (Kipmn)	913,103	1,347,338	1,227,918	1,270,553
Net profit (Kipmn)	602,469	971,742	901,721	920,660
Reported EPS (Kip)	590.08	792.61	735.37	750.81
EPS growth (%)	(13.4)	34.3	(7.2)	2.1
DPS (Kip)	450.00	475.00	441.22	450.49
BV (Kip)	4,560.64	4,897.08	5,191.23	5,491.56

FY Ended 31 Dec	2012	2013	2014E	2015E
PER (x)	14.6	9.0	9.7	9.5
PBV (x)	1.6	1.5	1.4	1.3
EV/EBITDA (x)	11.7	8.0	8.0	7.4
Dividend yield (%)	6.3	6.6	6.2	6.3
ROE (%)	12.7	16.8	14.6	14.1
Net Gearing (%)	15.8	12.9	5.4	-

## Share data

LSX code/ Bloomberg	EDL-GEN/ EDL LS
Sector	Power
Closing Price (USD, Kip)	0.88/ 7,100
Paid-up Shares (m)	1,226.22
Par (USD, Kip)	0.49 / 4,000
Market cap (Kip bn / USDmn)	8,706.1 / 1,079.9
Foreign limit / actual (%)	20% / 14.24
52 week High / Low (Kip)	7,200 / 5,800
Avg. daily T/O (shares 000)	58.76
Estimated free float (%)	14.24
Beta	0.85

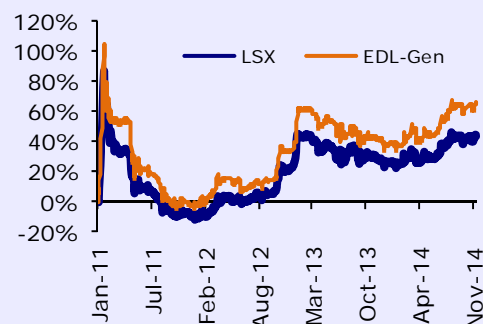
## Major Shareholders

Electricite du Laos	75.00%
Ratch-Lao Service	5.80%
RH International (Singapore)	4.31%
Banque Pour Le Commerce	2.35%

Source: <http://www.edlgen.com.la>, Bloomberg

## Stock Performance (%)

	1M	3M	12M
Absolute	1.42	(0.69)	17.21
Relative to LSX	0.13	0.48	4.42



## Company Profile

EDL-Gen owns/operates all power plant assets separated and privatized from EdL.

## Note:

BCEL-KT Securities is the underwriter of EDL-Gen.

BCEL-KT Securities Co., Ltd. is a joint venture company between BCEL Bank and KT ZMICO Securities (Thailand).

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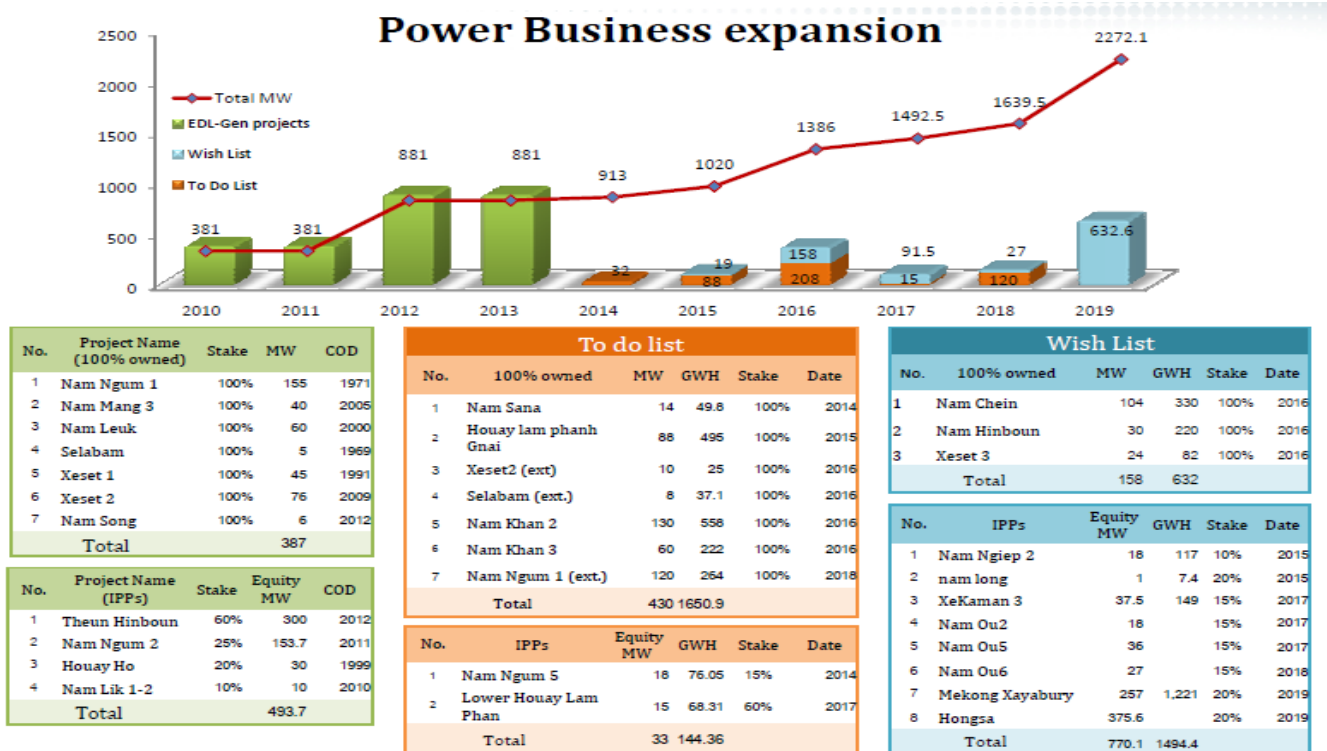
Figure 1: EDL-Gen's 3Q14 earnings results

Financial Summary										
	3Q13	2Q14	3Q14	% YoY	% QoQ	9M14	% YoY	2014E	% YoY	YTD (%14E)
<b>Electricity sales</b>	<b>333,858</b>	<b>160,119</b>	<b>345,452</b>	3.5	115.7	<b>653,114</b>	0.7	<b>796,748</b>	(7.6)	82.0
Cost of sales	(48,916)	(64,026)	(57,225)	17.0	(10.6)	(165,320)	12.4	(211,254)	6.6	78.3
Gross profit	284,942	96,093	288,227	1.2	199.9	487,794	(2.7)	585,494	(11.9)	83.3
Profit from associates	141,452	123,661	132,901	(6.0)	7.5	325,194	(6.7)	427,359	(5.8)	76.1
Dividend income								2,766	nm	0.0
Other income	1,847	1,614	2,118	14.7	31.2	4,604	(4.3)	1,045	(84.4)	440.4
Forex gain (loss)	(12,170)	(3,533)	7,205	nm	nm	1,515	(95.5)	0	(100.0)	nm
<b>Total revenue</b>	<b>464,987</b>	<b>281,861</b>	<b>487,676</b>	4.9	73.0	<b>984,427</b>	(5.0)	<b>1,227,918</b>	(8.9)	80.2
Gain before expenses	416,071	217,835	430,451	3.5	97.6	819,107	(7.8)	1,016,664	(11.5)	80.6
Administrative exp.	(17,311)	(21,413)	(36,445)	110.5	70.2	(77,050)	46.2	(62,306)	(45.1)	123.7
Finance costs	(9,541)	(5,525)	(6,472)	(32.2)	17.1	(20,248)	(20.4)	(27,526)	(10.8)	73.6
Income tax	(12,314)	(3,540)	(12,698)	3.1	258.7	(19,993)	(13.3)	(25,112)	(8.1)	79.6
<b>Net profit</b>	<b>376,905</b>	<b>187,357</b>	<b>374,836</b>	(0.5)	100.1	<b>701,816</b>	(10.9)	<b>901,721</b>	(7.2)	77.8
<b>Core profit</b>	<b>389,075</b>	<b>190,890</b>	<b>367,631</b>	(5.5)	92.6	<b>700,301</b>	(7.1)	<b>901,721</b>	(4.8)	77.7
<b>EPS (Kip)</b>	<b>307</b>	<b>153</b>	<b>306</b>	(0.5)	99.6	<b>573</b>	(10.4)	<b>735.37</b>	(7.2)	77.9
Gross margin (%)	85.3	60.0	83.4			74.7		75.5		
EBITDA margin (%)	94.3	85.4	89.4			88.4		92.4		
Net profit margin (%)	81.1	66.5	76.9			71.3		73.4		
ROE (%)	26.3	12.4	24.8			15.3		14.6		
Debt/Equity (x)	0.2	0.1	0.2			0.2		0.2		

Note: \*gross profit margin = gross profit from operation / electricity sales

Source: KT ZMICO Research

Figure 2: EDL-Gen's potential capacity expansion



Source: KT ZMICO Research

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## KT ZMICO RESEARCH – RECOMMENDATION DEFINITIONS

### STOCK RECOMMENDATIONS

**BUY:** Expecting positive total returns of 15% or more over the next 12 months

**TRADING BUY:** Expecting positive total returns of 10% or more over the next 3 months

**SELL INTO STRENGTH:** Expecting total returns between -10% to +10% over the next 12 month; share price has largely priced in fundamentals

**SELL:** Expecting negative total returns of 10% or more over the next 12 months

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.