

EDL-Generation

Earnings Review

Buy (16E TP LAK9,816/US\$1.20)

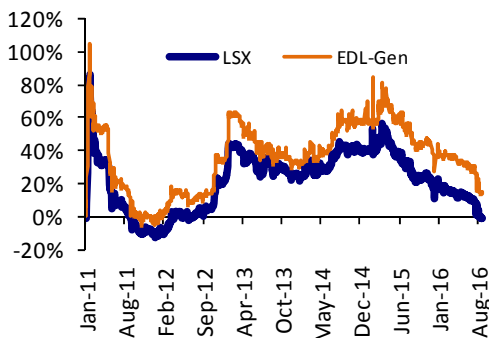
Close LAK4,900 / US\$0.60

August 30, 2016

Beat forecast / Below forecast / In line

2Q16 earnings bounce back

Price Performance (%)



Source: Bloomberg, KT ZMICO Research

	FY16	FY17
Consensus EPS (Kip)	464.13	571.88
KT ZMICO vs. consensus	0.0	0.0

Share data

Reuters / Bloomberg	EDL.BK/EDL LS
Paid-up Shares (m)	1,679.30
Par (USD, Kip)	0.49 / 4,000
Market cap (Kip bn/USDmn)	8,228.59 / 1,014.75
Foreign limit / actual (%)	25.00 / 13.8335
52 week High / Low (Kip)	6,400 / 4,900
Avg. daily T/O (shares 000)	43.44
Estimated free float (%)	11.1665
Beta	0.85
URL	www.edlgen.com.la

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).

KT ZMICO is a selling agent of EDL-Gen's capital increase totaling 453.09mn shares through a rights offering and public offering with the subscription period during 28 Aug. 2015 – 8 Sept. 2015.

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Earnings acceleration in 2H; growth prospects intact

Given the bounce back of 2Q16 earnings to be followed by accelerating earnings in 2H16E on improving power generation, alongside intact long-term earnings prospects underpinned by the contribution of new transferred power assets, we maintain our Buy rating, with its share price having largely priced in the two weak quarters in 4Q15-1Q16, causing it to trade at 0.08x 2017E PBV/ROE (vs. peers' average of 0.13x).

Reported 2Q16 NP of 176,765mn kip, strongly bouncing back QoQ

EDL-Gen reported 2Q16 NP of 176,765mn kip (-7% YoY, +137% QoQ) and core profit of 163,111mn kip (-10% YoY, +134% QoQ), with the stronger profit contribution from both the wholly-owned hydropower plants (HPPs) and IPPs as the main catalyst QoQ; meanwhile, the smaller profit contribution from IPPs was the main factor for the weakness YoY. HPPs (108,217mn kip, +36% YoY, +22% QoQ) contributed 66% of 2Q16 core profit thanks to sustained high power generation, with the rest from IPPs (54,894mn kip, -46% YoY, but reversed from a loss contribution in 1Q16, with the bounce back of power generation behind the big jump QoQ).

1H16 earnings had HPPs contribution as the main support

It posted 1H16 NP of 251,487mn kip (-3% YoY) and core profit of 232,869mn kip (-11% YoY), with the contribution of HPPs as the main support (196,840mn kip, +67% YoY), helping to offset the smaller contribution from IPPs (36,029mn kip, -75% YoY). The ten HPPs delivered higher power generation of 1,268.35GWh in 1H16, +67% YoY, given the incorporation of the power generation of newly-transferred assets, namely, Nam Khan 2, Houay Lumphan Gnai, and Nam Sana, since 1Q16. Meanwhile, its IPPs showed a big improvement in power generation at almost all plants QoQ (with preliminary data of 509GWh on an equity basis, +82% QoQ) thanks to the higher water inflow, making possible higher power declaration.

Announced 1H16 DPS of 130 kip

The company also announced a 1H16 DPS of 130 kip, implying a 2.7% dividend yield for the period. It will go XD on 14 Sept. 2016 and payment will be made on 29 Sept. 2016.

2016E earnings forecast maintained

Although the 1H16 NP accounted for 32% of our full-year forecast, we keep our NP forecast unchanged at 779,411mn kip given the expected earnings acceleration in 2H16E following the good development of water inflow, which will enable 3Q16E to be the peak quarter for power generation; meanwhile, a potential La Nina effect is the upside risk for continuing high power generation in 4Q16E.

Financials and Valuation

FY Ended 31 Dec	2014	2015	2016E	2017E	2018E
Sales (Kipmn)	839,193	847,759	1,315,325	1,586,553	1,947,247
Net profit (Kipmn)	907,684	640,839	779,411	960,359	1,086,545
EPS (Kip) -weighted	740.36	456.44	464.13	571.88	647.02
EPS (Kip) - FD	740.23	381.61	464.13	571.88	647.02
EPS growth – FD (%)	(6.6)	(48.4)	21.6	23.2	13.1
DPS (Kip)	450	260	278	343	388
BV (Kip)	5,155	5,421	5,607	5,836	6,095
FY Ended 31 Dec	2014	2015	2016E	2017E	2018E
PER (x)	6.6	12.8	10.6	8.6	7.6
EV/EBITDA (x)	6.1	9.8	8.9	7.7	7.6
PBV (x)	1.0	0.9	0.9	0.8	0.8
Dividend yield (%)	9.2	5.3	5.7	7.0	7.9
ROE (%)	14.7	8.3	8.4	10.0	10.8
Net gearing (%)	14.6	13.8	48.7	57.6	78.9

Figure 1: EDL-Gen's 2Q16 and 1H16 earnings review

Unit: mnkip	2Q15	1Q16	2Q16	% YoY	% QoQ	1H15	1H16	% YoY	2015	2016E	% YoY	% YTD
Electricity sales	179,215	286,318	278,678	55.5	(2.7)	321,497	564,996	75.7	847,759	1,315,325	55.2	43.0
Cost of sales	(57,739)	(139,444)	(114,840)	98.9	(17.6)	(121,071)	(254,284)	110.0	(269,374)	(397,561)	47.6	64.0
Gross profit	121,476	146,874	163,838	34.9	11.6	200,426	310,712	55.0	578,385	917,764	58.7	33.9
Profit from associates	102,059	(18,865)	54,894	(46.2)	nm	144,207	36,029	(75.0)	286,218	318,592	11.3	11.3
Other income	8,946	3,388	1,793	(80.0)	(47.1)	11,436	5,181	(54.7)	16,198	11,223	(30.7)	46.2
Exchange gains (loss)	8,218	4,964	13,654	66.1	175.1	(3,313)	18,618	nm	(9,975)	(351)	(96.5)	nm
Total revenue	298,438	275,805	349,019	16.9	26.5	473,827	624,824	31.9	1,140,200	1,644,790	44.3	38.0
Gain before expenses	240,699	136,361	234,179	(2.7)	71.7	352,756	370,540	5.0	870,826	1,247,229	43.2	29.7
Admin. expenses	(31,275)	(22,720)	(20,697)	(33.8)	(8.9)	(52,955)	(43,417)	(18.0)	(121,027)	(146,911)	21.4	29.6
Finance costs	(9,541)	(28,477)	(22,862)	139.6	(19.7)	(28,313)	(51,339)	81.3	(61,937)	(260,713)	320.9	19.7
Income tax	(9,889)	(10,442)	(13,855)	40.1	32.7	(12,923)	(24,297)	88.0	(39,954)	(60,193)	50.7	40.4
Net profit	189,994	74,722	176,765	(7.0)	136.6	258,565	251,487	(2.7)	640,839	779,411	21.6	32.3
Core profit	181,776	69,758	163,111	(10.3)	133.8	261,878	232,869	(11.1)	650,814	779,762	19.8	29.9
EPS (weighted)	155.0	44.50	105.26	(32.1)	136.6	210.90	149.76	(29.0)	456.44	464.13	1.7	32.3
GPM* (%)	67.8	51.3	58.8			62.3	55.0		70.3	71.4		
EBITDA margin (%)	86.9	88.7	83.8			83.8	86.0		84.9	87.5		
Net profit margin (%)	63.7	27.1	50.6			54.6	40.2		56.2	47.4		
ROE (%)	12.0	3.3	7.7			8.3	5.5		8.3	8.4		
Debt/Equity ratio (x)	0.38	0.26	0.72			0.38	0.72		0.27	0.77		

Note: *GPM (gross profit margin) = gross profit from operation / electricity sales

Source: KT ZMICO Research

Note:

KT ZMICO has two major shareholders, Krungthai Bank PLC (KTB) and Seamico Securities PLC (ZMICO). Therefore, prior to making investments in the securities of KTB and ZMICO, investors should consider the risk factors carefully.

An executive of KT ZMICO Securities is also a board member of BCP, BTC, CI, CPI, KBS, MAJOR, MK, PACE, PSL, SVH, VNG, ZMICO, SAWAD, TFG.






A management member of KT ZMICO Securities is also a board member of BTC and NFC.

KT ZMICO is a financial advisor for U, LOXLEY, ZMICO, MAKRO, CPALL, SAFARI, PACE, PLE, TPOLY, M-CHAI, CI, EARTH, CWT.

KT ZMICO is a co-underwriter of ALT, EKH, RJH, BCPG.

Corporate Governance Report (CGR)

Source: Sec, Thai Institute of Directors Association (IOD)

 Excellent (scores: 90 - 100)	 Satisfactory (scores: 60 – 69)
 Very Good (scores: 80 – 89)	 Pass (scores: 50 – 59)
 Good (scores: 70 – 79)	No Logo N/A (scores: below 50)

Anti-corruption Progress Indicator

Source: Sec, Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

- **Level 1 (Committed)** : Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws.
- **Level 2 (Declared)** : Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
- **Level 3 (Established)** : Public out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
- **Level 4 (Certified)** : Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
- **Level 5 (Extended)** : Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
- **Insufficient or not clearly defined policy**
- **Data not available / no policy**

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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

OUTPERFORM: Expecting total returns between -10% to +15%; returns expected to exceed market returns over a six-month period due to specific catalysts

UNDERPERFORM: Expecting total returns between -10% to +15%; returns expected to be below market returns over a six-month period due to specific catalysts

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.

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