

Khon Kaen Sugar Industry - KSL

4QFY12 results beat forecasts

Report type: Trade Flash

Company Overview

KSL is Thailand's fourth biggest sugar miller. Its businesses are categorized into three major groups: sugar, ethanol and power businesses.

- KSL reported better-than-expected 4QFY12 results due chiefly to strong selling prices and a reversal of inventory write-downs, which kept margins at high levels.
- Power, ethanol and sugar operations were key drivers of earnings growth for KSL in this period.
- A slump in global sugar prices would continue to put pressure on shares of sugar producers but earnings growth from power and ethanol businesses should lend support to overall earnings performance.
- We rate KSL shares an 'ACCUMULATE' with a target price of Bt15.10/share.

What is the news?

KSL posted a 4QFY12 net profit of Bt432mn, up 11% y-y but down 49% q-q. The quarterly profit beat our forecast on strong gross margin thanks to a reversal of inventory write-downs. In this period, sugar, electricity and ethanol sales volumes rose y-y. The sharp rise in ethanol sales volume was attributable to higher exports while growth in electricity sales volume contributed to capacity expansion at Bo Ploy. On a q-q basis, sugar sales volume dropped as crushing season came to a close but sugar selling prices in 4QFY12 were better than 3QFY12 as much of the sales came from white sugar. Electricity selling prices also edged higher on the back of power tariff increases. For the quarter, sales came in at Bt3,819mn, down 2% y-y and 46% q-q. Margin beat our forecast thanks to a reversal of inventory write-downs and strong selling prices. Exceptional item of around Bt50mn also pushed SG&A expenses lower. Overseas operations in Laos and Cambodia suffered an operating loss of around Bt14mn.

How do we view this?

Even though 4QFY12 earnings came in better than expected, FY13 earnings are expected to be lower than FY12 as a result of a downward drift in global sugar prices on huge sugar surplus.

Investment Actions?

We rate KSL shares an 'ACCUMULATE' with a target price of Bt15.10/share.

Valuation Method

P/E'13 (13x)

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