

# Thai Tap Water - TTW

3QCY12 net profit seen up 13.02% y-y

Bloomberg | Reuters  
TTW TB | TTW.BK

## Report type: Company Preview

### Company Overview

TTW is engaged in the production and distribution of tap water under concessions from Provincial Waterworks Authority (PWA) and it has also acquired the rights to produce tap water and treat waste water in Banp Pa-In Industrial Estate.

- We expect TTW to report a 3QCY12 net profit of Bt625.38mn, up 13.02% y-y. The forecast assumes total revenue growth of 7.22% y-y on the back of rising sales volumes. The impact of higher tax expenses after the expiry of the BOI tax break could be offset by potential tax refund of Bt61mn from PTW and profit contribution from CK Power (CKP).
- Even though sales volumes remain on the rise in 4QCY12, we see scope for earnings to drop in 4QCY12 as a result of higher tax expenses. We leave our CY12 net profit outlook for TTW unchanged at Bt2,327.34mn for the meantime.
- Looking ahead into CY13, we assume total sales volume of treated water will rise by 5% y-y. The annual inflation-based water tariff increases and potential tax refund of another Bt325mn at PTW could offset the impact of higher tax expenses. We expect TTW to deliver profit growth of 14.18% y-y to Bt2,657.42mn in CY13.
- We upgrade TTW shares to 'ACCUMULATE' with a CY13 DCF-based target price of Bt8.20/share.

### What is the news?

TTW reported its total sales volume of treated water in 3QCY12 rose by 6.55% y-y in 3QCY12. On this basis, we forecast TTW to report 3QCY12 total revenue growth of 7.22% y-y. Tax expenses would rise after the expiry of the BOI tax break for TTW's capacity to produce the first 320,000 m3 per day of treated water sold to PWA on Jul 12, 2012 but the impact could be offset by potential tax refund of Bt61mn at PTW and profit contribution from CKP against none in the same year-ago period and a loss in the previous quarter. Overall we estimate TTW will post a 3QCY12 net profit of Bt625.38mn, up 13.02% y-y. Stripping out the above tax refund and profit contribution from CKP, the profit is expected to drop in 3QCY12.

### How do we view this?

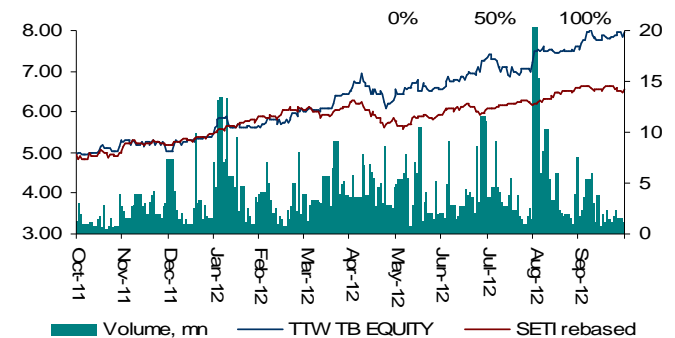
Even though sales volumes remain on the rise in 4QCY12, we see scope for earnings to drop in 4QCY12 as a result of higher tax expenses. For the meantime, we leave our CY12 net profit outlook for TTW unchanged at Bt2,327.34mn. Looking ahead into CY13, we assume total sales volume of treated water will rise by 5% y-y. The annual inflation-based water tariff increases and potential tax refund of another Bt325mn at PTW could offset the impact of higher tax expenses, in our view. We expect TTW to deliver profit growth of 14.18% y-y to Bt2,657.42mn in CY13.

### Investment Actions?

We upgrade TTW shares to 'ACCUMULATE' with a CY13 DCF-based target price of Bt8.20/share.

### Thai Tap Water

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	3.00	Neutral
<b>Target Price (Bt)</b>	<b>8.20</b>	
- Previous Target Price (Bt)	6.90	
Closing Price (Bt)	7.95	
Expected Capital Gains (%)	3.1%	
Expected Dividend Yield (%)	6.0%	
<b>Expected Total Return (%)</b>	<b>9.2%</b>	
Raw Beta (Past 2yrs weekly data)	0.43	
Market Cap. (USD mm)	1,033	
Enterprise Value (USD mm)	1,296	
Market Cap. (Bt mm)	31,721	
Enterprise Value (Bt mm)	40,048	
3M Average Daily T/O (mn)	3.8	
52 week range	4.9 - 8.05	
Closing Price in 52 week range		



### Major Shareholders

	(%)
1. CK	30.0
2. Mitsui Water Holdings (Thailand) Co., Ltd.	26.0
3. BECL	9.2

### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	4,395	4,546	5,004	5,362
Net Profit (Btmn)	2,063	2,113	2,327	2,657
EPS (Bt)	0.52	0.53	0.58	0.67
Net Profit, adj. (Btmn)	2,063	2,113	2,175	2,332
EPS, adj. (Bt)	0.52	0.53	0.55	0.58
P/E (X), adj.	15.3	15.0	14.5	13.7
BVPS (Bt)	2.37	2.55	2.73	3.00
P/B (X)	3.4	3.1	2.9	2.7
DPS (Bt)	0.35	0.40	0.45	0.48
Div. Yield (%)	4.4	5.0	5.7	6.0

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

DCF (WACC 9.68%, Terminal g 2%)

### Analyst

Phillip Research Team

+65 65311240

research@phillip.com.sg

### 3QCY12 net profit seen up 13.02% y-y

We expect TTW to report a 3QCY12 net profit of Bt625.38mn, up 13.02% y-y on the back of rising sales volumes, potential tax refund of Bt61mn and profit contribution from CK Power (CKP).

TTW reported that its total sales volume of treated water in 3QCY12 rose by 6.55% y-y to 69.98 million cubic meters (MCM). Much of the growth was attributable to a rise of 10.65% and 4.06% y-y in tap water sales volumes from TTW and its 98%-owned subsidiary PTW driven by rising demand from household and industrial sectors. Only BLDC posted a drop of 18.41% y-y in tap water sales volume due chiefly to the lingering impact of last year's floods at Bang Pa-In Industrial Estate. Thanks to inflation-based water tariff increases at TTW and PTW at the start of the year, revenue from tap water sales grew by 7.67% y-y. Coupled with service revenue, we expect TTW to report total revenue growth of 7.22% y-y to Bt1,250.58mn in 3QCY12. We also assume (1) costs will be up by 12.37% y-y due chiefly to bigger electricity bills as a result of the Ft increases and higher power consumption along with growing sales volumes, and (2) SG&A expenses will rise by 39.76% y-y. We also expect TTW to see high profit contribution from CKP in 3QCY12 on the back of a seasonal up-tick in electricity production during the rainy season, against none in the same year-ago period and a loss of Bt29.30mn in the previous quarter. Even though interest expenses at CKP would drift lower, the expiry of the BOI tax break for TTW's capacity to produce the first 320,000 m<sup>3</sup> per day of treated water sold to PWA on Jul 12, 2012 should drive total tax expenses higher. The forecast also assumes that potential tax refund of Bt61mn from PTW will be recorded in 3QCY12, earlier than what we have previously expected for 4QCY12. Stripping out profit contribution from CKP and tax refund from PTW, TTW is expected to report a 3QCY12 profit drop in both q-q and y-y terms as a result of mounting tax expenses.

### CY12 profit outlook unchanged at Bt2,327.34mn

Even if demand for tap water remains on the rise in 4QCY12, we see scope for earnings to drop in 4QCY12 due to full-quarter tax expenses on TTW's capacity to produce the first 320,000 m<sup>3</sup> per day of treated water sold to PWA after the expiry of the BOI tax break. For this reason, we leave our CY12 net profit outlook for TTW unchanged at Bt2,327.34mn.

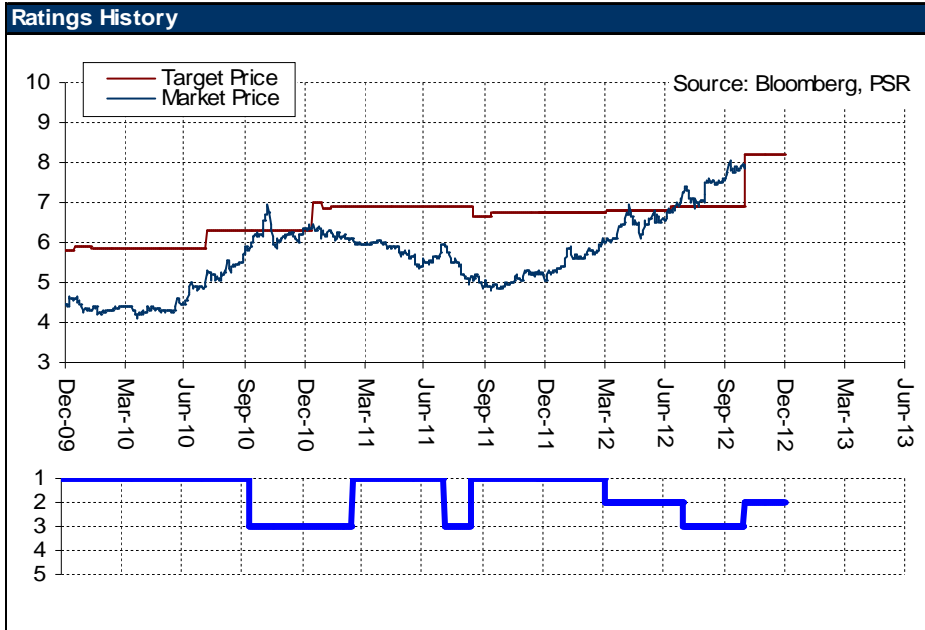
### CY13 earnings to be hit by full-year tax expenses but impact to be offset by PTW's potential tax refund

Looking ahead into CY13, we assume that total sales volume of treated water will grow by 5% y-y to 291 million cubic meters (MCM) and PTW's average bulk water tariffs will be raised to Bt12.153/m<sup>3</sup> in line with a 2.7% rise in Jul nationwide inflation. For water tariff increase at TTW, much will depend on Nov and Dec inflation data in the central region and the inflation figures are likely to be higher than those of PTW. Tax expenses are set to rise in CY13 after the expiry of the BOI tax holiday but the impact could be offset by a drop in effective tax rate to 20% from 23% and potential tax refund of another Bt325mn to be booked in CY13 at PTW. Capacity expansion plan at PTW to boost capacity to 450,000 m<sup>3</sup> per day from 388,000 m<sup>3</sup> per day is unlikely to give a boost to overall earnings performance in CY13 as construction is slated to begin in 1QCY13 and to be completed in mid-CY14. On this basis, we forecast TTW to achieve total revenue growth of 7.16% y-y to Bt5,362mn. We expect its CY13 net profit to be higher than CY12 at Bt2,657.42mn. The forecast includes the potential tax refund of another Bt325mn from PTW. Excluding the above tax refund, profit is expected to fall modestly in CY13. Key factors to watch include the investment plan in alternative

energy business such as solar farm and production of green energy from waste/garbage and the new investment in tap water and waste water management business at other privately-run industrial estates like Bang Pa-In Industrial Estate.

### CY13 target price of Bt8.20/share

Our CY13 target price of Bt8.20/share for TTW is DCF-based, assuming WACC of 9.68% and terminal growth of 2%. At current prices, we upgrade TTW shares to 'ACCUMULATE' from 'NEUTRAL.'



**Phillip Group Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
>-20%	Sell	5

**Remarks**  
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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**Contact Information (Singapore Research Team)**

---

**Chan Wai Chee**

CEO, Research

Special Opportunities

+65 6531 1231

yebo@phillip.com.sg

**Magdalene Choong, CFA**

Investment Analyst

Regional Gaming

+65 6531 1791

magdalenechoongss@phillip.com.sg

**Ken Ang**

Investment Analyst

Financials, Telecoms

+65 6531 1793

kenangwy@phillip.com.sg

**Nicholas Ong**

Investment Analyst

Commodities, Offshore & Marine

+65 6531 5440

nicholasonghg@phillip.com.sg

**Joshua Tan**

Head of Research

Global Macro, Asset Strategy

+65 6531 1249

joshuatan@phillip.com.sg

**Go Choon Koay, Bryan**

Investment Analyst

Property

+65 6531 1792

gock@phillip.com.sg

**Ng Weiwen**

Macro Analyst

Global Macro, Asset Strategy

+65 6531 1735

ngww@phillip.com.sg

**Research Assistant**

General Enquiries

+65 6531 1240 (Phone)

research@phillip.com.sg

**Derrick Heng**

Deputy Head of Research

SG Equity Strategist &

Transport

+65 6531 1221

derrickhengch@phillip.com.sg

**Travis Seah**

Investment Analyst

REITs

+65 6531 1229

travisseahhk@phillip.com.sg

**Roy Chen**

Macro Analyst

Global Macro, Asset Strategy

+65 6531 1535

roychencz@phillip.com.sg

**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
JI Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Octa Phillip Securities Ltd**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel +61-03 9629 8288  
Fax +61-03 9629 8882  
Website: [www.octaphillip.com](http://www.octaphillip.com)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005