

# Thai Tap Water - TTW

Sales volume risen 3.57% y-y in 2MCY13

Bloomberg | Reuters  
TTW TB | TTB.BK

Phillip Securities Research Pte Ltd  
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## Report type: Company Update

### 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.

- Total sales volume grew 3.57% y-y in the first two months of 2013 while average water tariff increased by 1.95%. The sooner than expected summer season is likely to boost consumption demand.
- New investment projects remains on the table, though it appears to be a lack of development at the moment; however the business venture in Myanmar seems to shape up.
- We revise down our CY13 earnings outlook as an adjustment of water tariff was a tepid below expectation.
- We rate TTW an 'ACCUMULATE' with a target price of Bt11.10/share.

### What is the news?

Water supply in 2MCY13 increased 3.57% y-y while average water tariff rose 1.95% as TTW and PTW managed to adjust up the water tariff but BLDC still kept the rate on hold.

### How do we view this?

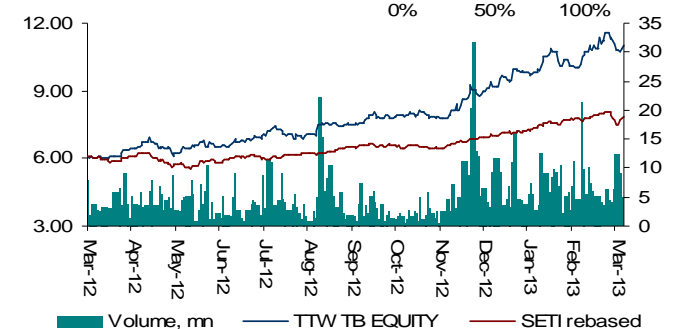
We are optimistic about rising consumption demand, particularly in the summer season with temperature climbing pretty high. The drought conditions in some areas of the country as well as rising manufacturing and expanding household will likely help buoy water consumption.

### Investment Actions?

Our target price of Bt11.10 is based on DCF method. At current share prices, we rate TTW an 'ACCUMULATE' stance.

### Thai Tap Water

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	3.00	Neutral
<b>Target Price (Bt)</b>	<b>11.10</b>	
- Previous Target Price (Bt)	8.25	
Closing Price (Bt)	11.00	
Expected Capital Gains (%)	0.9%	
Expected Dividend Yield (%)	4.9%	
<b>Expected Total Return (%)</b>	<b>5.8%</b>	
Raw Beta (Past 2yrs weekly data)	0.50	
Market Cap. (USD mn)	1,497	
Enterprise Value (USD mn)	1,748	
Market Cap. (Bt mn)	43,890	
Enterprise Value (Bt mn)	51,573	
3M Average Daily T/O (mn)	6.8	
52 week range	5.95 - 11.6	
Closing Price in 52 week range		



### Major Shareholders

	(%)
1. Mitsui Water Holdings (Thailand) Co., Ltd.	26.0
2. BECL	20.2
3. CK	19.0

### Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btmn)	4,546	4,925	5,282	5,572
Net Profit (Btmn)	2,113	2,421	2,683	2,494
EPS (Bt)	0.53	0.61	0.67	0.63
Net Profit, adj. (Btmn)	2,113	2,269	2,358	2,494
EPS, adj. (Bt)	0.53	0.57	0.59	0.63
P/E (X), adj.	20.8	19.3	18.6	17.5
BVPS (Bt)	2.55	2.68	2.86	2.98
P/B (X)	4.3	4.1	3.8	3.7
DPS (Bt)	0.40	0.52	0.54	0.54
Div. Yield (%)	3.6	4.7	4.9	4.9

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

DCF (WACC 9.04%, Terminal g 3%)

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### **CY12 net profit growth of 14.59% y-y, slightly better than expected**

TTW delivered slightly than expected net profit in CY12, rising 14.59% y-y to Bt2,421mn, thanks to lower effective tax rate.

Total revenue rose 8.34% y-y to Bt4,925mn partly driven by an increase in water tariff for extra amount by TTW and PTW. Overall sales volume expanded 6.91% y-y to 272.83mn m<sub>3</sub> with TTW's sales volume seeing the fastest growth pace of 9.21%, followed by PTW +5.61% and BLDC -11.93%. Operating cost jumped 13.03% on higher expenses in chemical substances and electricity while SG&A soared 18.19% due chiefly to rising consulting fees and insurance. In 2012, PTW received tax refund of Bt61.6mn while an expiration of BOI privileged tax since Jul 20, 2013 affected TTW's tax expense increased by 23.03%.

### **Sales volume risen 3.57% y-y in 2MCY13 and water tariff adjusted up tracking higher inflation**

In Jan-Feb 2013, sales volume generated by TTW, PTW and BLDC rose 2.59%, 3.39% and 42.69% y-y, respectively. BLDC saw the biggest growth rate as its clients in the Bang Pa-In industrial estate suffered badly from flood in late 2011 to early 2012. The increase could translate to a rise of 5.41% per day. Total sales volume turned out to increase 3.57% y-y only as there were 29 days in Feb 2012 and the sooner summer season led to higher water consumption demand. As a result, PTW supplied up to 386k m<sub>3</sub> per day, near its full capacity of 388k m<sub>3</sub>. The water tariff was also adjusted up. For TTW, the tariff for an amount of 300k m<sub>3</sub> increased to Bt26.86/ m<sub>3</sub> (previously Bt26.01) and the surplus was charged at Bt11.72/ m<sub>3</sub> (earlier Bt11.49). For PTW, the tariff for the first 300k m<sub>3</sub> increased to Bt12.15 from Bt11.83. BLDC still kept the rate unchanged.

### **New projects still on the table including a project in Myanmar**

TTW expected to see more development of its new projects some time in 2013. The new project would either be a water supply for an industrial estate or a electricity supply generated from garbage while a solar farm project appears to be delayed for a while. Furthermore, TTW plans to penetrate into neighboring country under the terms of joint venture or acquisition that the company has paved the way by collaborating with Myanmar's government for example. The overseas projects would be among water business or renewable energy as well as environmental-related business. If the water supply business gets a green light from Myanmar, TTW will be able to materialize the soonest in 2014 with estimated maximum capacity of 100k m<sub>3</sub> on a minimum CAPEX of Bt3,000mn.

### **Slight adjustment in CY13 earnings outlook**

We adjust our CY13 earnings forecast to factor in rising revenue estimate of Bt5,828mn and higher sales volume of 5% y-y to 288mn m<sub>3</sub>. We arrive at net profit of Bt2,683mn. Our project has yet priced in new business potential and gains from selling shares in CK Power (TTW sold 1m shares in CK Power via IPO). The company adjusted its payout ratio to 80% from 75% on high dividend in the prior year. We expect CY13 dividend of Bt0.54/share.

### **CY13 target price of Bt11.10**

Based on our DCF valuation model, WACC is increased to 9.04% (previously 9.68%) and terminal growth is set at 3% (earlier 2%). We arrive at a target price of Bt11.10/share which has yet priced in potential projects. At current share prices, we rate TTW an 'ACCUMULATE' stance.

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