

## EDL-Generation Pcl.

Buy (TP LAK9,028)

### Seasonal low 1Q14 NP

Price LAK6,200

After seasonal low earnings in 1Q14 (accounting for 15% of our full-year forecast), we expect positive earnings momentum going forward with the peak in 3Q, thus making our full-year NP forecast achievable. Moreover, with a sustainable dividend yield of 7% p.a., potential capacity expansion in Lao PDR (as Electricite du Laos' investment arm), and its undemanding valuation, we retain our BUY rating.

### Facts and Figures

- EDL-Gen reported unaudited 1Q14 NP of 139,623mn kip (-16% YoY, -35% QoQ). Excluding the small forex loss of 2,157mn kip, it delivered a core profit of 141,780mn kip in the quarter (+18% YoY, -37% QoQ).

### Analysis

- On a YoY basis, the strong 18% increase in 1Q14 core profit was attributable to the improvement in profit generation both from its seven wholly-owned hydroelectric power plants amounting to 73,148mn kip (+14% YoY) and from the four JV IPPs totaling 68,632mn kip (+23% YoY).
- Meanwhile, on a QoQ basis, the dramatic 37% drop in 1Q14 core profit is largely blamed on the seasonal effect (power generation was quite low in the period given the dry season). Note that the 1Q14 core profit represented 15% of our full-year forecast, a bit higher than the 13% contribution in 1Q13.
- The EBITDA margin stayed solid at 90% in 1Q14 thanks to controllable costs (vs. 91% in 1Q13 and 81% in 4Q13 given larger seasonal SG&A expenses).
- There was no surprise in the 1Q14 earnings as the profit contribution accounted for 15% of our full-year forecast; we thus maintain our 2014E NP forecast of 901,721mn kip, with earnings to accelerate and peak in 3Q. Note that our 2014E NP breakdown calls for profit generation from its seven 387-MW hydroelectric power plants to amount to 474,362mn kip and profit contribution from its four 494-MW IPPs to amount to 427,359mn kip.

### 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
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)	12.6	7.8	8.4	8.3
PBV (x)	1.4	1.3	1.2	1.1
EV/EBITDA (X)	10.3	7.0	7.0	6.5
Dividend yield (%)	7.3	7.7	7.1	7.3
ROE (%)	12.7	16.8	14.6	14.1
Net Gearing (%)	15.8	12.9	5.4	net cash

### Share data

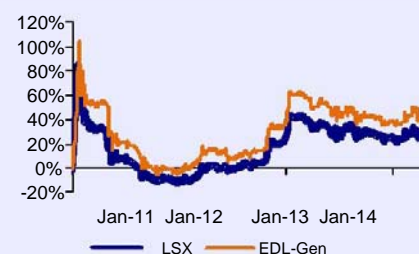
LSX code/ Bloomberg	EDL-GEN/ EDL LS
Sector	Power
Closing Price (USD, Kip)	0.78/ 6,300
Paid-up Shares (m)	1,226.22
Par (USD, Kip)	0.50 / 4,000
Market cap (Kip bn / USDmn)	7,725.17 / 960.84
Foreign limit / actual (%)	20% / 14.06
52 week High / Low (Kip)	6,750 / 5,800
Avg. daily T/O (shares 000)	63.45
Estimated free float (%)	14.06
Beta	0.23

### Major Shareholders

Electricite du Laos	75.00%
Ratch-Lao Service	6.46%
RH International (Singapore)	2.88%
Banque Pour Le Commerce	2.68%
Source: <a href="http://www.edlgen.com.la">http://www.edlgen.com.la</a>	

### Stock Performance (%)

	1M	3M	12M
Absolute	5.00	6.78	(6.67)
Relative to LSX	0.58	1.67	(1.29)



### 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 1Q14 earnings results

Financial Summary	1Q13	4Q13	1Q14	% YoY	% QoQ	2014E	% YoY	YTD (% of 14E)
<b>Electricity sales</b>	<b>141,348</b>	<b>214,003</b>	<b>147,543</b>	4.4	(31.1)	<b>796,748</b>	(7.6)	18.5
Cost of sales	(47,705)	(51,532)	(44,069)	(7.6)	(14.5)	(211,254)	6.6	20.9
Gross profit	93,643	162,471	103,474	10.5	(36.3)	585,494	(11.9)	17.7
Profit from associates and JV	55,918	122,206	68,632	22.7	(43.8)	427,359	(5.8)	16.1
Other income	896	794	872	(2.7)	9.8	1,045	(84.4)	83.4
Currency exchange gains	45,739	(9,981)	(2,157)	nm	(78.4)	0	(100.0)	nm
<b>Total revenue</b>	<b>243,901</b>	<b>327,022</b>	<b>214,890</b>	(11.9)	(34.3)	<b>1,227,918</b>	(8.9)	17.5
Gain before expenses	196,196	275,490	170,821	(12.9)	(38.0)	1,016,664	(11.5)	16.8
Administrative expenses	(15,117)	(49,158)	(19,192)	27.0	(61.0)	(62,306)	(45.1)	30.8
Finance costs	(8,963)	(7,827)	(8,251)	(7.9)	5.4	(27,526)	(10.8)	30.0
Income tax	(6,192)	(4,846)	(3,755)	(39.4)	(22.5)	(25,112)	(8.1)	15.0
<b>Net profit</b>	<b>165,924</b>	<b>213,659</b>	<b>139,623</b>	(15.9)	(34.7)	<b>901,721</b>	(7.2)	15.5
<b>EPS (Kip)</b>	<b>135.31</b>	<b>174.24</b>	<b>113.86</b>	(15.9)	(34.7)	<b>735.37</b>	(7.2)	15.5
Gross profit margin (%) *	66.2	75.9	70.1			75.5		
EBITDA margin (%)	90.9	81.0	90.1			92.4		
Net profit margin (%)	68.0	65.3	65.0			73.4		
ROE (%)	11.7	14.5	9.2			14.6		
Interest bearing debt/equity (x)	0.2	0.1	0.1			0.2		

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

Source: KTZmico Research

Figure 2: EDL-Gen's valuation comparison with regional peers

Name	Mkt Cap (USDmnn)	PER (x)		PBV (x)		EV/EBITDA (x)		YLD (%)		ROE (%)	
		14E	15E	14E	15E	14E	15E	14E	15E	14E	15E
CLP HOLDINGS LTD	24,843	15.72	14.67	1.65	1.59	10.25	9.93	4.27	4.34	10.54	10.61
DATANG INTL POWER GEN CO-H	8,556	6.88	5.88	0.81	0.72	8.73	7.94	4.16	4.83	9.52	10.31
HUANENG POWER INTL INC-H	15,816	7.84	7.64	1.56	1.44	6.07	5.89	5.15	5.39	17.00	16.09
HUADIAN POWER INTL CORP-H	4,727	6.47	6.40	1.21	1.10	7.12	6.69	4.51	4.61	15.77	13.76
CHINA POWER INTERNATIONAL	2,853	5.95	5.56	0.88	0.82	8.02	7.39	5.27	5.70	12.35	11.94
CHINA RESOURCES POWER HODG	14,650	7.99	7.20	1.25	1.12	7.16	6.46	3.96	4.49	16.49	16.03
<b>Hong Kong</b>		<b>8.47</b>	<b>7.89</b>	<b>1.23</b>	<b>1.13</b>	<b>7.89</b>	<b>7.38</b>	<b>4.55</b>	<b>4.89</b>	<b>13.61</b>	<b>13.12</b>
KOREA ELECTRIC POWER CORP	25,578	na	na	0.49	0.47	4.58	4.19	1.91	2.30	4.94	6.06
<b>S. Korea</b>		<b>na</b>	<b>na</b>	<b>0.49</b>	<b>0.47</b>	<b>4.58</b>	<b>4.19</b>	<b>1.91</b>	<b>2.30</b>	<b>4.94</b>	<b>6.06</b>
TENAGA NASIONAL BHD	20,731	13.44	12.44	1.74	1.59	7.42	6.78	2.47	2.71	12.83	12.96
YTL POWER INTERNATIONAL BHD	3,287	11.29	10.54	1.12	1.02	8.10	7.71	0.96	1.08	10.46	10.09
PETRONAS GAS BHD	14,196	26.94	25.64	4.23	3.96	14.57	14.46	2.50	2.56	16.16	16.03
<b>Malaysia</b>		<b>17.23</b>	<b>16.21</b>	<b>2.36</b>	<b>2.19</b>	<b>10.03</b>	<b>9.65</b>	<b>1.98</b>	<b>2.12</b>	<b>13.15</b>	<b>13.03</b>
NTPC LTD	15,977	8.92	9.24	1.08	1.02	7.74	7.65	4.47	4.31	12.91	11.64
TATA POWER CO LTD	3,468	19.07	12.08	1.53	1.40	7.71	7.13	1.44	1.61	8.20	12.10
POWER GRID CORP OF INDIA LTD	8,957	11.87	10.16	na	na	9.29	7.90	2.74	na	14.67	14.40
RELIANCE POWER LTD	3,177	19.06	16.74	0.98	0.92	22.43	13.53	0.00	0.00	5.28	5.44
LANCO INFRA TECH LTD	287	na	na	0.62	0.82	16.73	12.08	0.00	0.00	nm	nm
<b>India</b>		<b>14.73</b>	<b>12.05</b>	<b>1.05</b>	<b>1.04</b>	<b>12.78</b>	<b>9.66</b>	<b>1.73</b>	<b>1.48</b>	<b>10.26</b>	<b>10.90</b>
MANILA ELECTRIC COMPANY	6,931	15.81	16.13	3.65	3.37	7.81	7.84	3.83	4.09	24.19	21.50
<b>Philippines</b>		<b>15.81</b>	<b>16.13</b>	<b>3.65</b>	<b>3.37</b>	<b>7.81</b>	<b>7.84</b>	<b>3.83</b>	<b>4.09</b>	<b>24.19</b>	<b>21.50</b>
ELECTRICITY GENERATING PCL	2,115	9.74	11.09	0.94	0.90	14.44	16.98	4.60	4.60	9.90	8.29
RATCHABURI ELEC GEN HODG PCL	2,375	12.10	11.15	1.31	1.24	9.04	8.42	4.28	4.72	11.21	11.42
GLOW ENERGY PCL	3,436	14.07	13.99	2.52	2.31	8.44	7.80	3.55	3.57	18.88	17.20
SPCG PCL	558	14.33	9.34	4.20	3.00	11.90	9.57	2.29	4.05	35.36	34.80
CKP	550	25.02	22.85	1.12	1.08	7.96	7.68	1.60	1.75	4.56	4.81
<b>Thailand</b>		<b>15.05</b>	<b>13.68</b>	<b>2.02</b>	<b>1.71</b>	<b>10.35</b>	<b>10.09</b>	<b>3.27</b>	<b>3.74</b>	<b>15.98</b>	<b>15.31</b>
EDL-GENERATION PCL	961	8.43	8.26	1.19	1.13	7.00	6.46	7.12	7.27	14.58	14.06
<b>Laos</b>		<b>8.43</b>	<b>8.26</b>	<b>1.19</b>	<b>1.13</b>	<b>7.00</b>	<b>6.46</b>	<b>7.12</b>	<b>7.27</b>	<b>14.58</b>	<b>14.06</b>
<b>AVERAGE</b>		<b>13.29</b>	<b>12.37</b>	<b>1.71</b>	<b>1.58</b>	<b>8.64</b>	<b>7.90</b>	<b>3.48</b>	<b>3.70</b>	<b>13.82</b>	<b>13.42</b>

Source: KT ZMICO Research, Bloomberg



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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.