

NOVEMBER 18, 2019

Earnings downgrade

Underperform

2020E TP: LAK3,504.00 / USD0.395 Close

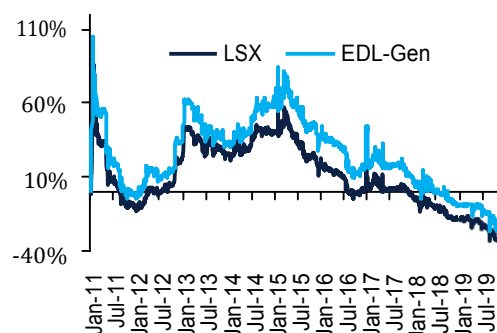
LAK3,140.00 / USD0.354

	FY19	FY20
Consensus EPS (Bt)	190.39	291.14
KT ZMICO vs. consensus	n.a.	n.a.

Share data

Reuters / Bloomberg	EDLS/EDL LS
Paid-up Shares (m)	1,679.30
Par (LAK)	4,000
Market cap (LAK m / USD m)	5,273,014 / 595.15
Foreign limit / actual (%)	25.00 / 13.1848
52 week High / Low (LAK)	4,050 / 3,140
Avg. daily T/O (shares 000)	21.07
Estimated free float (%)	11.8152
Beta	0.66
URL	http://www.edlgen.com.la

Price Performance



Source: SET Smart

Patcharin Karsemarnuntana, no. 17834

Patcharink@ktzmico.com

02-695-5837

Earnings bottomed out in 2019E but challenging years ahead

The company's earnings remain at risk at least toward 1H20E due to the drought, leading to our recent earnings cut for the sake of conservativeness. Meanwhile, in light of the slow kick-offs of the contributions of new projects, the uptrend of capital expenditures and its unsound financial management, we expect the company to face significant challenges in the years ahead, possibly weakening its earnings and financial position, and resulting in a lower dividend payment (with a payment unlikely in 2019E). As these risks are likely to pressure its share price, we maintain an Underperform rating on EDL-Gen, with the new 2020E TP of LAK3,504.

Forex loss behind the third consecutive quarterly loss in 3Q19

EDL-Gen reported another net loss of LAK45.4bn in 3Q19, albeit a smaller loss YoY and QoQ following a lesser forex loss. Meanwhile, it marked fading core profit of LAK63.3bn in the quarter (-65% YoY, -55% QoQ), with lower power generation at HPPs and IPPs as the main pressure.

Net loss in 9M19 but still marked a core profit, albeit with fading momentum

Its 9M19 performance reversed to a loss of LAK208.8bn, weighed down by huge finance costs and a massive forex loss. At the same time, it still registered a core profit, albeit with fading momentum by 29% YoY to LAK304.0bn in 9M19.

Weak momentum in 4Q19E; earnings cut in 2019-21E

We expect the weak momentum to continue in 4Q19E. Thus, we slash our 2019-21E core profit by 13%/33%/30% to reflect the cut in total power generation by 12-17% to be conservative on the possibility that the drought may persist. We also reduce our 2020E TP to LAK3,504/share (vs. LAK5,248 earlier), implying 0.7x 2020E PBV.

Financial position remains weak

The company's financial position remains weak, with its D/E ratio on an accelerating trend (to 1.66x at the end of September 2019) against a decelerating DSCR ratio (to 1.0x in 2019E).

Financial Valuations

FY Ended 31 Dec	2017	2018	2019E	2020E	2021E
Revenues (LAKmn)	1,219,825	1,137,430	1,338,890	1,389,500	1,683,580
Core profit (LAKmn)	519,749	495,971	319,725	488,915	649,737
Net profit (LAKmn)	472,448	66,959	-260,511	443,192	649,737
Core EPS (LAK)	309.5	295.34	190.39	291.14	386.91
Core EPS growth (%)	-15.57	-4.57	-35.54	52.92	32.89
EPS (LAK)	281.34	39.87	-155.13	263.91	386.91
EPS growth (%)	-14.35	-85.83	nm	nm	46.6
Dividend (LAK)	290	270	-	92	135
BV (LAK)	5,484	5,238	4,923	5,150	5,427
PER (x)	10.15	10.63	16.49	10.79	8.12
EV/EBITDA (x)	9.95	11.06	12.68	11.83	10.36
PBV (x)	0.57	0.6	0.64	0.61	0.58
Dividend yield (%)	9.24	8.6	0	2.94	4.31
ROE (%)	5.14	0.74	-3.05	5.24	7.32
Net gearing (%)	97.76	133.63	161.86	176.13	177.99

Figure 1: EDL-GEN's 3Q19 earnings review

Profit and Loss (LAKmn)											YTD
Year-end 31 Dec	3Q18	2Q19	3Q19	% YoY	% QoQ	9M19	%YoY	2,018	2019E	% YoY	(% 19E)
Electricity sales	372,481	468,607	320,955	(13.8)	(31.5)	1,074,940	21.1	1,137,430	1,338,890	17.7	80.3
Cost of sales	(126,625)	(145,351)	(126,763)	0.1	(12.8)	(399,008)	11.5	(532,735)	(504,469)	(5.3)	79.1
Gross profit	245,856	323,256	194,192	(21.0)	(39.9)	675,932	27.5	604,695	834,421	38.0	81.0
SG&A expenses	(57,386)	(48,548)	(40,529)	(29.4)	(16.5)	(121,491)	(10.2)	(169,215)	(164,294)	(2.9)	73.9
Operating profit	188,470	274,708	153,663	(18.5)	(44.1)	554,441	40.4	435,480	670,127	53.9	82.7
Finance costs	(167,822)	(184,600)	(175,585)	4.6	(4.9)	(520,737)	24.2	(588,553)	(704,723)	19.7	73.9
Other income	7,581	14,835	6,133	(19.1)	(58.7)	22,333	(22.5)	26,476	20,440	(22.8)	109.3
Income tax	-	(7,837)	-	nm	(100.0)	(7,837)	nm	-	148	nm	nm
Forex gains (loss)	(260,658)	(245,169)	(108,711)	(58.3)	(55.7)	(512,837)	23.5	(429,012)	(580,235)	35.2	88.4
Profit from affiliates & JV	151,094	47,385	79,594	(47.3)	68.0	260,922	(37.8)	620,558	333,732	(46.2)	78.2
Minorities interest	567	(4,039)	(518)	nm	(87.2)	(5,078)	nm	2,010	-	(100.0)	nm
Net profit	(80,768)	(104,717)	(45,424)	nm	nm	(208,793)	nm	66,959	(260,511)	nm	80.1
Core profit	179,890	140,452	63,287	(64.8)	(54.9)	304,044	(28.8)	495,971	319,725	(35.5)	95.1
EPS (LAK)	(48)	(62)	(27)	(43.8)	(56.6)	(124)	nm	40	(155)	nm	80.2
GPM (%)	66.0	69.0	60.5			62.9		53.2	62.3		
EBITDA margin (%)	86.6	88.7	87.2			88.6		87.6	88.0		
NPM (%)	(15.4)	(20.3)	(11.3)			(15.6)		3.8	(15.6)		
ROE (%)	(3.6)	(4.9)	(2.2)			(3.3)		0.7	(3.1)		
IBD/Equity (x)	1.4	1.6	1.7			1.7		1.4	1.7		

Source: KT Zmico Research

Forex loss behind the third consecutive quarterly loss in 3Q19

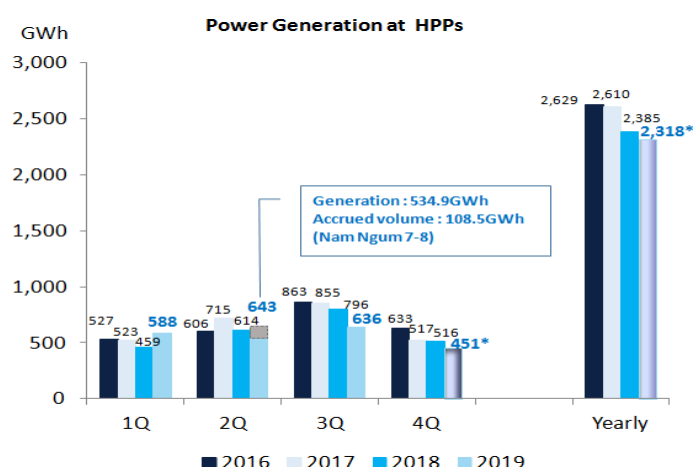
EDL-Gen reported another net loss of LAK45.4bn in 3Q19, albeit a smaller loss YoY and QoQ following a lesser forex loss of LAK108.7bn (vs. forex loss of LAK260.7bn in 3Q18 and LAK245.2bn in 2Q19). The company also marked a fading core profit of LAK63.3bn in the quarter, decreasing 65% YoY, with lower power generation at HPPs and IPPs as the main pressure; meanwhile, its core profit fell 55% QoQ, with HPPs as the main drag due to the absence of accrued recognition of volume and revenue from Nam Ngum 7-8 as in 2Q19. On the other hand, IPPs were the main contributors with profit generation of LAK79.6bn in 3Q19 (-47% YoY, +68% QoQ), but HPPs contributed a loss of LAK16.3bn (reversing from profit in 3Q18 and 2Q19) given smaller power generation and sustained high finance costs (to LAK175.6bn, +5% YoY, -5% QoQ).

Given the drought and the resultant decrease of water inflow, HPPs marked abnormally low power generation of 636GWh in 3Q19, -20% YoY from the normal peak in 3Q, and -1% QoQ from the base effect in 2Q19 on the accrued recognition of volume from Nam Ngum 7-8 after completion of the asset transfer in the quarter. Meanwhile, IPPs delivered smaller power generation of 502GWh (-25% YoY, +6% QoQ), with the drought also the reason.

Net loss in 9M19 but still marked a core profit, albeit with fading momentum

The company's 9M19 performances reversed to a loss of LAK208.8bn, weighed down by huge finance costs (LAK520.7bn, +24% YoY) and a massive forex loss (LAK512.8bn, +24% YoY), mainly an unrealized forex loss linked to the recent Bt17.5bn bond issuance following the depreciation of the kip against the baht. Meanwhile, it still registered a core profit, albeit with fading momentum by 29% YoY to LAK304.0bn in 9M19, weighed down by a smaller profit contribution from IPPs to LAK260.9bn (-38% YoY) in line with lower power generation (to 1,666GWh, -16% YoY), against a negligible profit contribution from HPPs of LAK43.1bn (improving YoY), with the accrued recognition of volume from Nam Ngum 7-8 as the volume cushion and a higher GPM in the period.

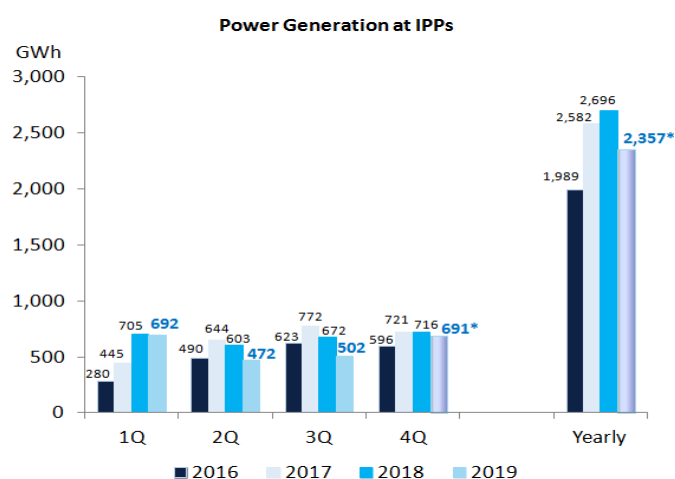
Figure 2: Quarterly power generation of HPPs



Sources: The Company, KT Zmico Research

Note: *forecast

Figure 3: Quarterly power generation of IPPs



Sources: The Company, KT Zmico Research

Note: *forecast

Weak momentum in 4Q19E; earnings cut in 2019-21E

We expect the weak core profit to continue in 4Q19E, anticipating a bigger net loss QoQ, weighed down by continued forex losses (albeit at a lesser extent), with lower power generation, particularly at HPPs, as the main pressure. Thus, we cut our 2019E core profit by 13% after lowering the total power generation at HPPs and IPPs by 12% on account of the drought. We also expect a bigger net loss of LAK260.5bn in 2019E due to the ongoing depreciation of the kip against the baht and US dollar.

We also slash our 2020-21E core earnings by 30-33%, mainly due to the cut in total power generation at HPPs and IPPs by 15-17% to be conservative on the possibility that the effect of the drought may persist, particularly in 2020E owing to lower water levels in 2019E, which is likely to put the 1H20E power generation under pressure before the upcoming rainy season. Our newly revised earnings call for core profit growth at a 9% CAGR in 2019-21E, with the drought and the slow kick-offs of new projects as the main challenges. Given the downward earnings revision, we also slash our 2020E TP to LAK3,504/share (vs. LAK5,248 earlier), implying 0.7x 2020E PBV.

Figure 4: Key assumptions behind EDL-Gen's downward revision during 2019-21E

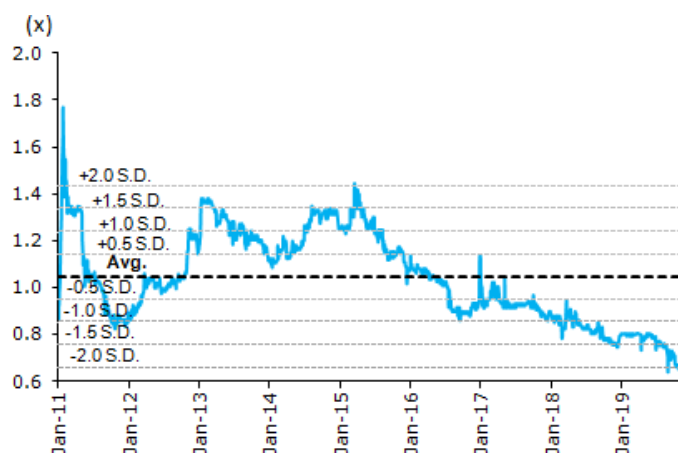
	New			Old			% chg. from old		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Power generation (GWh)									
HPPs	2,318	2,379	2,885	2,634	2,929	3,434	-12%	-19%	-16%
IPPs	2,357	3,921	4,262	2,668	4,689	4,932	-12%	-16%	-14%
Total	4,675	6,300	7,147	5,302	7,618	8,366	-12%	-17%	-15%
unit: LAKmn									
Finance costs	704,723	723,650	779,008	706,159	761,505	802,171	0%	-5%	-3%
Profit contribution from affiliates	333,732	556,452	631,255	447,469	825,525	909,236	-25%	-33%	-31%
Core profit	319,725	488,915	649,737	368,447	731,822	931,065	-13%	-33%	-30%
Forex gain (loss)	(580,235)	(45,722)	-	(542,437)	(72,508)	-	nm	nm	nm
NP	(260,511)	443,192	649,737	(173,990)	659,314	931,065	nm	-33%	-30%
2020E TP (LAK)		3,504			5,248			-33%	

Source: KT Zmico Research

Financial position remains weak

The company's financial position remains weak with its debt-to-equity ratio (D/E) rising to 1.66x as of the end of September 2019 and a portion of its loans subject to the debt covenant stipulating that the D/E not exceed 1.6x. Meanwhile, we expect its debt service coverage ratio (DSCR) to weaken to 1.0x in 2019E before easing in the year ahead following the expected larger contributions from new power asset transfers, particularly the full-year contribution from the Xayaburi project (equity capacity of 257MW, with the contribution starting in 4Q19E) and Nam Ou 2, 5 and 6 (with combined equity capacity of 81MW and the contribution starting in late 2019E).

Figure 5: EDL-GEN's PBV band



2020E	PBV (x)	Implied market price (kip)	Upside/ Downside to current price (%)
+2.0SD	1.4	7,365	135
+1.5SD	1.3	6,868	119
+1.0SD	1.2	6,370	103
+0.5SD	1.1	5,873	87
Average	1.0	5,375	71
-0.5SD	0.9	4,878	55
-1.0SD	0.9	4,380	40
-1.5SD	0.8	3,883	24
-2.0SD	0.7	3,386	8
2020E fully-diluted BPS (Bt)	5,150		
Market price (15 Nov 19)	3,140		

Sources: Bloomberg, KT Zmico Research

Financial Table

Financial Summary unit: LAKmn	2016	2017	2018	2019E	2020E	2021E
Consolidated Income Statement						
Electricity sales	1,241,181	1,219,825	1,137,430	1,338,890	1,389,500	1,683,580
Cost of sales	(486,391)	(489,057)	(532,735)	(504,469)	(532,038)	(654,442)
Gross profit	754,790	730,768	604,695	834,421	857,462	1,029,138
Administrative expenses	(124,265)	(140,850)	(169,215)	(164,294)	(173,340)	(196,790)
Operating profit	630,525	589,918	435,480	670,127	684,122	832,348
Finance costs	(154,918)	(491,902)	(588,553)	(704,723)	(723,650)	(779,008)
Dividend income	0	0	0	0	0	0
Other income	11,065	25,710	26,476	20,440	20,500	20,500
Income tax	(49,110)	(15,943)	0	148	(48,509)	(55,358)
Currency exchange gains (loss)	(64,012)	(47,301)	(429,012)	(580,235)	(45,722)	0
Profit from affiliates and JV	178,051	410,703	620,558	333,732	556,452	631,255
Minorities interest		1,263	2,010			
Net profit	551,601	472,448	66,959	(260,511)	443,192	649,737
Core profit	615,613	519,749	495,971	319,725	488,915	649,737
EPS (weighted)	328.5	281.3	39.9	(155.1)	263.9	386.9
EPS (FD)	328.5	281.3	39.9	(155.1)	263.9	386.9
Consolidated Balance Sheets						
Cash and cash equivalents	2,249,635	756,738	642,106	436,409	117,623	510,330
Current assets	3,738,723	2,493,832	1,764,123	2,386,594	1,922,666	2,289,630
Advance payment for investments	3,133,596	4,436,159	6,298,672	2,358,433	1,616,537	1,212,934
Property, plant and equipment-Net	9,435,337	9,790,198	9,735,008	9,710,839	12,045,199	13,556,536
Investment in subsidiaries	0	0	0	0	0	0
Investment in JV and interests in associates	2,297,166	2,606,394	3,705,289	7,645,528	8,387,424	8,791,027
Non-current assets	124,743	292,610	492,436	517,058	542,911	570,056
Total assets	18,729,565	19,619,193	21,995,528	22,618,451	24,514,737	26,420,183
Payables for assets under concessions	3,957,400	0	0	0	0	0
Total current liabilities	4,572,582	2,047,288	1,988,236	1,268,010	813,199	2,600,173
Long term loans	4,824,905	8,359,230	11,211,066	13,083,415	15,053,366	14,706,136
Non-current liabilities	145,676	3,856	0	0	0	0
Total liabilities	9,543,163	10,410,374	13,199,302	14,351,425	15,866,565	17,306,308
Paid up capital	6,717,215	6,717,215	6,717,215	6,717,215	6,717,215	6,717,215
Retained earnings	1,068,179	1,040,000	612,482	83,283	420,109	820,838
Minorities interest		(263)	(2,273)	(2,273)	(2,273)	(2,273)
Total equities	9,186,402	9,208,819	8,796,226	8,267,027	8,648,172	9,113,875
Cash flow						
Net earnings	551,601	472,448	64,949	(260,511)	443,192	649,737
DD&A	434,106	434,274	483,929	467,426	493,228	611,634
Unrealized FX Gain (Loss)	64,012	47,301	429,012	580,235	45,722	0
Other non-cash charges						
Cash earnings						
Change in working capital	(984,250)	(1,901)	771,236	(1,097,534)	128,604	82,620
Capital expenditures	(5,526,313)	(789,135)	(428,739)	(443,257)	(2,827,588)	(2,122,971)
Investments in affiliates	38,654	(112,223)	(715,552)	(3,804,696)	(458,076)	(68,710)
Free cash flows	(4,940,137)	(1,616,671)	(1,840,847)	(778,263)	(1,742,694)	(806,126)
Debt Financing	2,503,750	4,673,025	2,207,613	841,254	1,485,955	1,382,866
Dividend paid	(470,205)	(453,412)	(486,998)	(268,689)	(62,047)	(184,033)
Capital increase	0	0	0	0	0	0
Others	0	0	0	0	0	0
Net cash flows	(2,906,592)	2,602,942	(120,232)	(205,697)	(318,786)	392,707
Cash equivalents - beginning	1,213,770	2,249,635	756,738	642,106	436,409	117,623
Adj. for FX						
Cash equivalents - ending	2,249,635	756,738	642,106	436,409	117,623	510,330

	2016	2017	2018	2019E	2020E	2021E
Per share data						
EV - fully diluted	4,801.3	8,501.1	10,139.5	11,108.4	12,210.4	12,800.0
EPS - fully diluted	328.5	281.3	39.9	(155.1)	263.9	386.9
EPS - weighted	328.5	281.3	39.9	(155.1)	263.9	386.9
DPS	290.0	290.0	270.0	0.0	92.4	135.4
BV	5,470.4	5,483.7	5,238.0	4,922.9	5,149.9	5,427.2
PER (x)	8.6	10.1	10.6	16.5	10.8	8.1
PBV (x)	0.6	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	6.5	9.9	11.1	12.7	11.8	10.4
Div. yield (%)	9.2	9.2	8.6	0.0	2.9	4.3
Div. payout ratio (%)*	79.1	93.9	91.8	0.0	35.0	35.0
*refer to DPS/core EPS						
Percentage Growth (%)						
Sales Growth	46.4	(1.7)	(6.8)	17.7	3.8	21.2
Core Profit Growth	(5.4)	(15.8)	(4.7)	(35.3)	52.9	32.9
Net Profit Growth	(13.9)	(14.6)	(86.2)	nm	nm	46.6
EPS growth - FD (%)	(13.9)	(14.3)	(85.8)	nm	nm	46.6
EBITDA Growth	29.2	15.5	7.3	(4.5)	17.8	19.7
Profitability Ratio (%)						
Gross profit margin	60.8	59.9	53.2	62.3	61.7	61.1
EBIT margin	57.0	61.4	60.1	60.0	63.8	63.2
EBITDA margin	87.6	88.0	87.6	88.0	89.1	89.6
Net profit margin	38.9	29.0	3.8	(15.6)	22.8	28.1
ROE	6.0	5.1	0.7	(3.1)	5.2	7.3
ROA	3.6	2.5	0.3	(1.2)	1.9	2.6
ROCE	4.3	3.0	0.4	(1.3)	2.0	2.7
S-T SOLVENCY OR LIQUIDITY RATIOS (x)						
Current ratio	0.8	1.2	0.9	1.9	2.4	0.9
Quick ratio	0.8	1.2	0.9	1.9	2.4	0.9
Cash ratio	0.5	0.4	0.3	0.3	0.1	0.2
Net working capital to total assets	(0.0)	0.0	(0.0)	0.0	0.0	(0.0)
Long-Term Solvency Ratios (x)						
Total debt/Equity ratio	1.0	1.1	1.5	1.7	1.8	1.9
Interest bearing debt/Equity ratio	1.0	1.1	1.4	1.7	1.8	1.8
Interest coverage ratio	4.9	2.0	1.1	0.6	1.7	1.9
Debt service coverage ratio	3.4	1.4	1.0	1.0	1.7	0.7
Asset/Equity (Equity multiplier)	2.0	2.1	2.5	2.7	2.8	2.9
Net debt/Equity	0.3	1.0	1.3	1.6	1.8	1.8
Net debt/EBITDA	2.2	6.3	7.6	9.1	8.8	7.8

**BCEL-KT Securities Co., Ltd**

LSX building, 7th floor, Ban Phonethan Nuea
 Kamphaengmouang Road, Xaysettha District, Vientiane Capital, Lao PDR
 Telephone: (856) 21-265-477
 Fax: (856) 21-265-488

**KT•ZMICO Securities Company Limited**

8th-9th, 15th-17th, 21st Floor, Liberty Square Bldg.,
 287 Silom Road, Bangrak,
 Bangkok, Thailand 10500
 Telephone: (66-2) 695-5000
 Fax: (66-2) 631-170

Disclaimer

This document is produced using open sources believed to be reliable. However, their accuracy and completeness cannot be guaranteed. The statements and opinions herein were formed after due and careful consideration for use as information for the purposes of investment. The opinions contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information contained in this document shall be at the sole discretion and risk of the user.

KTZmicoResearch-RecommendationDefinitions**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.