

Buy (unchanged)

CGR Scoring Rating



Share price: Bt8.15  
Target price: Bt11.80 (unchanged)

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### Stock Information

**Description** : The Company operates in 5 core businesses; 1) design, construction and contract all kinds of electrical engineering works such as transmission line, substation, renewable energy power plant 2) design, construction mechanic and electrical system 3) energy conservation business 4) telecommunications 5) fabrication and distribution of steel structure for transmission Line, and billboard signs.

Ticker :	DEMCO
Shares Issued (mn):	693
Market Cap (Btmn)	5,647
Market Cap (US\$ m)	173.19
3-mth Avg. Daily Turnover (Btmn)	25.79
SET index	1,325.33
Free float (%)	63.29

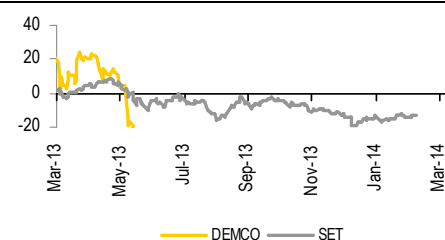
**Major Shareholders** :

Puipunthavong Family	20.05
Thai NVDR	7.21

### Key Indicators

ROE – annualised (%)	18.5
Net cash (Btmn):	-314
NTA/shr (Bt):	5.4
Interest cover (x):	6.7

### Historic Chart



### Performance

52-week High/Low	Bt 18.48/Bt 6.15				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	14.0	5.2	13.2	-35.8	12.4
Relative (%)	9.4	8.8	13.1	-25.4	10.2

## Demco PCL (DEMCO)

### Growing with the wind

**The 2013 earnings summary.** In 4Q13, the DEMCO norm profit was Bt194mn, slowing -6% QoQ due to the high base, as expected, but jumping strongly +1,396% YoY and beating our estimate by 13%. The key drivers were greater-than-estimated profit sharing from the wind projects with good wind speed in winter. Overall, the DEMCO 2013 norm profit was Bt450mn, growing 39.8% YoY and beating our estimate by 6% driven by the full benefit of 2 wind farms that performed well in 2H13 and thus shared a high Bt269mn profit with DEMCO vs. losses of -Bt12mn in 2012. The total revenue dropped 8% YoY due to the high EPC work in 2012 and some delays in solar farm start-ups in Dec 2013. The gross profit margin contracted from 14.7% to 12.0% as most projects in 2013 were solar farms (lower margin than wind). Moreover, the 3G tower market has been quiet.

DEMCO announced a 2H13 DPS of Bt0.10/share, showing a small 21% dividend payout vs. 45% last year. Management explained that the 2H13 dividend is paid only from DEMCO operations and the dividend from the wind project investments via Aeolus Power (59% of 2013 profit) will be paid later when Aeolus pay dividends to DEMCO by 1H14.

**What's next in 1Q14?** Management views the 2 existing wind farms will perform nicely 1Q14. When including the delayed solar projects of Bt300-400mn last quarter, we project the 1Q14 earnings to be flat QoQ, but to significantly grow YoY due to a low Bt24mn base in 1Q13.

**Recommendation.** Although we have cut the 2014 revenue down by 12% as the political tension may halt some private projects, the better-than-estimated profit share from Aeolus and a full-year profit recognition from the wind farms, our 2014 earnings forecast has been raised by 6% to Bt692mn (+51% YoY). Moreover, management has also revealed that 4 other wind farms will start up by 2H15, ahead of our assumption of 2016. We thus have also raised the 2015 earnings forecast up 67% to Bt805mn to reflect this action. With consistent recurring income and upside from new alternative energy projects, DEMCO is our top pick for an alternative energy stock. We reiterate a Buy call and an SOTP-based valuation of Bt11.80/share.

**Risks.** Lower wind speeds from late 1Q and delayed equipment deliveries.

### DEMCO – Summary Earnings Table

FYE: Dec 31 (Btmn)	2011	2012	2013	2014F	2015F
Revenue	3,289	5,940	5,487	6,590	7,367
EBITDA	218	567	291	545	612
Recurring Net Profit	119	393	450	692	805
Net profit	119	393	459	692	805
EPS (Bt)	0.27	0.78	0.71	1.00	1.10
EPS growth (%)	17.4	188.9	(9.0)	40.7	10.2
DPS (Bt)	0.12	0.35	0.15	0.40	0.44
PER	30.2	10.4	11.5	8.2	7.4
EV/EBITDA (x)	19.2	9.7	20.9	10.9	8.7
Div Yield (%)	1.4	4.3	1.8	4.9	5.4
P/BV(x)	3.31	2.34	1.63	1.51	1.27
Net Gearing (%)	58.1	77.2	23.9	8.4	(13.0)
ROE (%)	11.0	22.2	14.2	18.5	17.1
ROA (%)	3.2	8.8	7.7	10.4	10.4
Cons. Net Profit (Btmn)	119	393	459	572	573

Source: Company reports and MBKET estimates.

**Quarterly income statement**

(Btmn)	4Q13	3Q13	QoQ	4Q12	YoY	2012	2013	YoY
Revenues	1,764	1,791	(1.5%)	1,140	54.7%	5,940	5,487	(7.6%)
COGS	1,612	1,522	5.9%	944	70.8%	5,068	4,831	(4.7%)
<b>Gross profits</b>	<b>152</b>	<b>269</b>	<b>(43.6%)</b>	<b>196</b>	<b>(22.8%)</b>	<b>871</b>	<b>657</b>	<b>(24.6%)</b>
Gross margin (%)	8.6%	15.0%	-	17.2%	-	14.7%	12.0%	-
SG&A	(87)	(95)	(8.6%)	(77)	13.2%	(327)	(389)	18.9%
Operating profit	65	174	(62.7%)	120	(45.7%)	544	268	(50.7%)
Operating margin (%)	3.7%	9.7%	-	10.5%	-	9.2%	4.9%	-
<b>EBITDA</b>	<b>69</b>	<b>179</b>	<b>(61.4%)</b>	<b>126</b>	<b>(45.3%)</b>	<b>567</b>	<b>291</b>	<b>(48.8%)</b>
EBITDA margin (%)	3.9%	10.0%	-	11.1%	-	9.6%	5.3%	-
Interest expenses	19	20	(3.5%)	28	(33.1%)	108	78	(27.8%)
Share of associate net Income	137	79	72.3%	(9)	(1617.5%)	(12)	270	n.m.
<b>Normalised earnings</b>	<b>194</b>	<b>207</b>	<b>(6.5%)</b>	<b>13</b>	<b>1396.5%</b>	<b>322</b>	<b>450</b>	<b>39.8%</b>
Extraordinary gains (losses)								
- Forex gains (losses)	0	0	n.m.	0	n.m.	0	0	n.m.
- Others	(0)	0	n.m.	0	(101.7%)	0	0	n.m.
- Gain from sale investment in assoc.	0	9	n.m.	54	n.m.	70	9	(87.4%)
<b>Net profit</b>	<b>194</b>	<b>216</b>	<b>(10.4%)</b>	<b>67</b>	<b>189.7%</b>	<b>393</b>	<b>459</b>	<b>17.0%</b>
EPS (Bt) before extra items	0.26	0.33	(18.9%)	0.02	1263.0%	0.63	0.70	10.2%
<b>EPS (Bt)</b>	<b>0.26</b>	<b>0.34</b>	<b>(22.2%)</b>	<b>0.10</b>	<b>163.8%</b>	<b>0.77</b>	<b>0.71</b>	<b>(7.8%)</b>

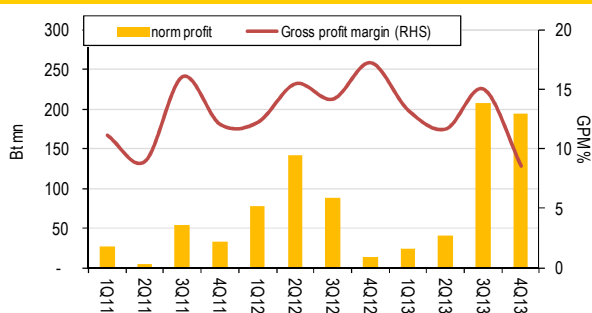
Source : Company reports and MBKET

**Key operational highlight**

	4Q13	3Q13	QoQ	4Q12	YoY	2012	2013	YoY
<b>Revenue portion</b>								
Service (construction, elect. Engr.)	95.6%	95%		88%		84%	96%	
Sales (telecom towers, equipment)	4.4%	5%		12%		16%	4%	
<b>Gross profit margin</b>								
Service	8.3%	15.1%		14.9%		14.7%	12.4%	
Sales	12.4%	12.6%		32.0%		14.6%	2.3%	
<b>Total GP</b>	<b>8.6%</b>	<b>15.0%</b>		<b>17.2%</b>		<b>14.7%</b>	<b>12.0%</b>	

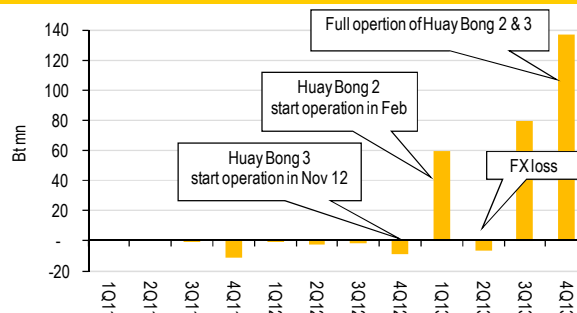
Source : Company reports and MBKET

**Figure 1: Great performance in 2H13**



Source: Company report & MBKET

**Figure 2: Share profit from Wind farm (Aeolus power)**



Source: Company report & MBKET

**Private Renewable Power plants still moving.** Management has revealed that WEH could receive a PPA for 4 other wind farms this year and DEMCO will start a 4th wind project construction (Watabak 60 MW) in 2Q14, compounded with the new EA project auction (90MW or Bt1.4bn) in 1H14. The 4 WEH farms will begin construction in 2H15.

Figure 3 : Wind energy projects by WEH

No	Project	Relation with DEMCO	Project company	PPA (MW)	COD	PPA with EGAT	Est. DEMCO job (Btmn)
1	Huay Bong 2	Contractor	Aeolus/ KR2	90	Feb-13	signed	1,375
2	Huay Bong 3	Contractor	Aeolus/ FKW	90	Nov-12	signed	925
3	Khao Kor	Contractor	Sustainable/ Khao Kor	60	2013	signed	822
4	Watabak	Contractor	Watabak	60	2014	accepted	738
5	Korat 02/01	High chance	Theparak	90	2016	accepted	1,107
6	Korat 02/02	High chance	Tropical	90	2016	accepted	1,107
7	Korat 02/03	High chance	KRS3	90	2016	accepted	1,107
8	North Krissana	High chance	Krissana	90	2016	accepted	1,107
9	Korat 02/04	...	KR1	90	2017	proposed	1,107
10	ST1	...	Infinite	60	2018	proposed	738
11	Roy Ed	...	Roi-Et	60	2017	proposed	738
12	Mukdaharn	...	Romklao	60	2017	proposed	738
<b>Total</b>				<b>930</b>			<b>11,612</b>

Source : Company report & MBKET

**Upside from the WEH IPO in 2015.** Wind Energy Holdings (WEH) is now under business restructuring before a planned IPO by 2015, which will be good timing as 3 new wind projects will be in operation with 4-5 other projects under construction and 4 in planning. Hence, the IPO will be at a higher range, benefiting DEMCO indirectly as DEMCO holds a 4% stake in WEH (4.2mn shares valued at Bt800mn).

**INCOME STATEMENT (Btmn)**

FY December	2012	2013	2014F	2015F
Revenue	5,940	5,487	6,590	7,367
EBITDA	567	291	545	612
Depreciation & Amortisation	23	22	28	29
<b>Operating Profit (EBIT)</b>	<b>544</b>	<b>268</b>	<b>517</b>	<b>582</b>
Interest (Exp) / Inc	(108)	(78)	(77)	(76)
Associates	(12)	270	316	324
One-offs	-	9	-	-
<b>Pre-Tax Profit</b>	<b>506</b>	<b>231</b>	<b>482</b>	<b>618</b>
Tax	(86)	(53)	(111)	(142)
Minority Interest	(15)	3	5	5
<b>Net Profit</b>	<b>393</b>	<b>459</b>	<b>692</b>	<b>805</b>
<b>Recurring Net Profit</b>	<b>393</b>	<b>450</b>	<b>692</b>	<b>805</b>
Revenue Growth %	80.6	(7.6)	20.1	11.8
EBITDA Growth (%)	159.9	(48.8)	87.6	12.2
EBIT Growth (%)	193.9	(50.7)	92.9	12.6
Net Profit Growth (%)	230.5	17.0	50.7	16.2
Recurring Net Profit Growth (%)	230.5	14.7	53.7	16.2
Tax Rate %	16.9	23.1	23.0	23.0

**CASH FLOW (Btmn)**

FY December	2012	2013	2014F	2015F
Profit before taxation	506	231	482	618
Depreciation	23	22	28	29
Net interest receipts / (payments)	(108)	(78)	(77)	(76)
Working capital change	540	578	(49)	(23)
Cash tax paid	(86)	(53)	(111)	(142)
Others (inc. exceptional items)	(1,280)	(276)	404	394
<b>Cash flow from operations</b>	<b>(405)</b>	<b>425</b>	<b>677</b>	<b>800</b>
Capex	(27)	(71)	(30)	(30)
Disposals / (purchases)	1	2	3	4
Others	(557)	(769)	(3)	(4)
<b>Cash flow from investing</b>	<b>(583)</b>	<b>(838)</b>	<b>(30)</b>	<b>(30)</b>
Debt raised / (repaid)	743	(450)	(18)	(18)
Equity raised / (repaid)	377	1,197	-	457
Dividends (paid)	(129)	(148)	(187)	(299)
Interest payments	(108)	(78)	(77)	(76)
Others	108	57	78	76
<b>Cash flow from financing</b>	<b>991</b>	<b>579</b>	<b>(205)</b>	<b>139</b>
Change in cash	3	166	442	909

**BALANCE SHEET (Btmn)**

FY December	2012	2013	2014F	2015F
Fixed Assets	315	267	274	274
Other LT Assets	1,342	2,500	2,496	2,497
Cash / ST Investments	204	370	812	1,721
Other Current Assets	2,600	2,843	3,076	3,260
<b>Total Assets</b>	<b>4,460</b>	<b>5,981</b>	<b>6,658</b>	<b>7,752</b>
ST Debt	1,530	1,108	1,108	1,108
Other Current Liabilities	1,099	1,581	1,758	1,889
LT Debt	11	5	-	-
Other LT Liabilities	52	50	50	51
Minority Interest	40	1	1	1
Shareholders' Equity	1,729	3,236	3,741	4,703
<b>Total Liabilities-Capital</b>	<b>4,460</b>	<b>5,981</b>	<b>6,658</b>	<b>7,752</b>
Share Capital (mn)	507	649	693	731
Gross Debt / (Cash)	1,569	1,144	1,126	1,108
Net Debt / (Cash)	1,365	774	314	(613)
Working Capital	175	524	1,023	1,984
BVPS	3.49	4.99	5.40	6.44

**RATES & RATIOS**

FY December	2012	2013	2014F	2015F
Gross Margin %	14.7	12.0	13.2	13.0
EBITDA Margin %	9.6	5.3	8.3	8.3
Op. Profit Margin %	9.2	4.9	7.9	7.9
Net Profit Margin %	6.6	8.4	10.5	10.9
ROE %	22.2	14.2	18.5	17.1
ROA %	8.8	7.7	10.4	10.4
Net Margin Ex. EI %	6.6	8.2	10.5	10.9
Dividend Cover (x)	0.4	0.2	0.4	0.4
Interest Cover (x)	5.1	3.5	6.7	7.7
Asset Turnover (x)	1.3	0.9	1.0	1.0
Asset / Debt (x)	1.7	2.2	2.3	2.5
Debtors Turn (days)	72.4	61.7	61.7	61.7
Creditors Turn (days)	45.2	75.8	75.8	75.8
Inventory Turn (days)	14.8	19.0	19.0	19.0
Net Gearing %	79.0	23.9	8.4	cash
Debt / EBITDA (x)	4.7	9.4	5.3	5.0
Debt / Market Cap (x)	0.7	0.5	0.5	0.5

Source: Company reports and MBKET estimates.

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Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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▲▲▲▲▲ Excellent		HEMRAJ	PAP	RS	SNC			
Score Range	Number of Logo	Description						
90-100	▲▲▲▲▲	ADVANC CIMBT	ICC	PG	S&J	SPALI		Excellent
80-89	▲▲▲▲	AOT CK	INTUCH	PHOL	SAMART	SPI		Very Good
70-79	▲▲▲	ASIMAR CPF	IRPC	PR	SAMTEL	SSI		Good
60-69	▲▲	BAFS CPN	IVL	PRANDA	SAT	SSSC		Satisfactory
50-59	▲	BANPU CSL	KBANK	PS	SC	SM		Pass
Lower than 50	No logo given	BAY DRT	KKP	PSL	SCB	SYMC		N/A
		BBL DTAC	KTB	PTT	SCC	TCAP		
		BCP EASTW	LPN	PTTEP	SCSMG	THAI		
		BECL EGCO	MCOT	PTTGC	SE-ED	THCOM	TIT	TRC UV
		BKI ERW	MINT	QH	SIM	THRE	TMB	TRUE VGI
		BROOK GRAMMY	NKI	RATCH	SIS	TIP	TNITY	TTW WACOAL
		BTS HANA	NOBLE	ROBINS	SITHAI	TISCO	TOP	TVO
▲▲▲▲ Very Good		ECL	JAS	MAKRO	PE	SINGER	THANI	TTCL
2S	BH	EE	JUBILE	MBK	PF	SIRI	THIP	TUF
ACAP	BIGC	EIC	KBS	MBKET	PJW	SKR	TICON	TWFP
AF	BJC	ESSO	KCE	MFC	PM	SMT	TIPCO	TYM
AHC	BLA	FE	KGI	MFEC	PPM	SNP	TK	UAC
AIT	BMCL	FORTH	KKC	MODERN	PPP	SPCG	TLUXE	UMI
AKP	BWG	GBX	KSL	MTI	PREB	SPPT	TMILL	UMS
AMANAH	CCET	GC	KWC	NBC	PRG	SSF	TMT	UP
AMARIN	CENDEL	GFPT	L&E	NCH	PT	STANLY	TNL	UPOIC
AMATA	CFRESH	GL	LANNA	NINE	PYLON	STEC	TOG	UT
AP	CGS	GLOW	LH	NMG	QTC	SUC	TPC	VBHA
APCO	CHOW	GOLD	LHBANK	NSI	RASA	SUSCO	TPCORP	VH
APCS	CM	GSTEL	LHK	NWR	SABINA	SYNTEC	TPIPL	VNG
ASIA	CNT	GUNKUL	LIVE	OCC	SAMCO	TASCO	TRT	VNT
ASK	CPALL	HMPRO	LOXLEY	OFM	SCCC	TCP	TRU	YUASA
ASP	CSC	HTC	LRH	OGC	SCG	TF	TSC	ZMICO
AYUD	DCC	IFEC	LST	OISHI	SEAFCO	TFD	TSTE	
BEC	DELTA	INET	MACO	PB	SFP	TFI	TSTH	
BFIT	DTC	ITD	MAJOR	PDI	SIAM	THANA	TTA	
▲▲▲ Good		DEMCO	HTECH	KWH	PAE	SIMAT	TIC	UEC
A	BGT	DNA	HYDRO	LALIN	PATO	SLC	TIES	UOBKH
AAV	BLAND	DRACO	IFS	LEE	PICO	SMT	TIW	UPF
AEC	BOL	EA	IHL	MATCH	PL	SMK	TKS	UWC
AEONTS	BROCK	EARTH	ILINK	MATI	POST	SOLAR	TMC	VARO
AFC	BSBM	EASON	INOX	MBAX	PRECHA	SPC	TMD	VTE
AGE	CHARAN	EMC	IRC	MDX	PRIN	SPG	TMI	WAVE
AH	CHUO	EPCO	IRCP	PRINC	Q-CON	SRICHA	TNDT	WIG
AI	CI	F&D	IT	MJD	QLT	SSC	TNPC	WIN
AJ	CIG	FNS	JMART	MK	RCI	STA	TOPP	WORK
AKR	CITY	FOCUS	JMT	MOONG	RCL	SUPER	TPA	
ALUCON	CMR	FPI	JTS	MPIC	ROJNA	SVA	TPP	
ANAN	CNS	FSS	JUTHA	MSC	RPC	SWC	TR	
ARIP	CPL	GENCO	KASET	NC	SCBLIF	SYNEK	TTI	
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BAT-3K	CSP	GJS	KCAR	NNCL	SENA	TCCC	TM	
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