



Company Update 3 May 2013

# Buy (unchanged)

**CGR Scoring Rating** 



Share price: Bt17.30

Target price: Bt19.50 (before XA)

(Bt16.30 after XA)

Jaroonpan Wattanawong http://www.maybank-ke.co.th (02) 658 6300

### Stock Information

<u>Description</u>: 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.

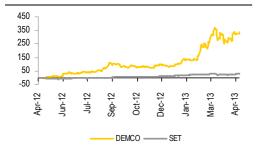
Ticker:	DEMCO
Shares Issued (mn):	629
Market Cap (Btmn):	10,882
Market Cap (US\$mn):	368.02
3-mth Avg. Daily Turnover (Btmn):	639.70
SET Index:	1,589.19
Free float (%):	46.12

Major Shareholders :	%
Puipunthavong Family	18.48
Thai NVDR	10.40

### **Key Indicators**

ROE – annualised (%)	18.5
Net cash (Btmn):	-561
NTA/shr (Btmn):	6.0
Interest cover (x):	8.9

### **Historical Chart**



# Performance

JZ-WEEK HIGH/L	.Ow	D(19.30/D(3.72			
	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	4.8	92.2	145.4	341.3	135.4
Relative (%)	2.2	78.3	101.8	244.1	106.2

D+10 50/D+2 72

# Demco PCL (DEMCO)

# Good decision making

Well controlled business risks. Although DEMCO has won fewer projects than market estimates, we still have a positive view on DEMCO pursuing only jobs DEMCO is expertise it with high margins. This will also help limit risks that DEMCO would have to guarantee the Chinese made solar panels over the long run and incur financial burdens, thus the d/e will not return to the high level again. The backlog has now already broken the Bt6bn level. Although we have downgraded our revenue and profit forecasts, the profit should still grow 79% YoY. We reiterate a Buy call with a TP of Bt19.50 before XA (Bt16.30/share after XA).

Signs solar farm contract of Bt1.4bn. Yesterday morning, DEMCO disclosed that DEMCO and HYDROCHINA ENGINEERING CORP. had signed a contract with EA Solar Nakorn Sawan (EA subsidiary) on 30 April 2013 to develop a 90MW solar farm valued at Bt5.5bn. Under the Consortium contract, DEMCO will take responsibility for engineering design, local material supply, civil work, electrical system, installation, and testing, valued at Bt1.38bn. HYDROCHINA will take responsibility to supply material from abroad, worth US\$143.3mn (Bt4.2bn).

This is a good decision. Previously, we estimated DEMCO would be the sole contractor on this project, but DEMCO has decided to take on only the engineering and construction work (high margin of 15-20%) and passed on the low margin solar equipment to the Chinese supplier (2-3% margin), with the need to guarantee quality for 20 years to EA. We view this as a good decision as 1) the long term product guarantee with low margins is not worth the high business risk over the long run and 2) the high level of equipment sold will create a heavier financial burden, assuming DEMCO needed to inject 70% of the cash in the project during the 8-month construction period. The interest cost would be high around Bt120mn, which would drive the d/e ratio to above the 2.0x level (vs. 1.5x in 2012 and 2.4x in 2011).

**Maintain a Buy rate.** We have cut the revenue from solar equipment sales valued at Bt4.2bn from our projection, leaving only engineering work of Bt1.38bn and thus our revenue forecast drops by 30% to Bt7.9bn. However, the gross margin will likely increase by 200bps to 14.4% from the absence of the low margin sales and thus the net profit forecast will drop only 15% to Bt710mn, reflecting strong growth of 79% YoY. Hence, our SOTP TP after XA will decline just 10% to Bt16.30/share (or Bt19.50 before XA).

**DEMCO – Summary Earnings Table** 

DEMICO - Sullillary Earlin	iys rabie				
FYE: Dec 31 (Btmn)	2010	2011	2012	2013F	2014F
Revenue	2,493	3,289	5,940	7,961	7,918
EBITDA	160	218	567	826	807
Recurring Net Profit	89	119	396	710	775
Net Profit	89	119	396	710	775
EPS (Bt)	0.23	0.27	0.78	0.94	1.03
EPS growth (%)	35.3	17.4	188.9	21.1	9.1
DPS (Bt)	0.15	0.12	0.35	0.38	0.41
PER	73.0	62.2	21.5	17.8	16.3
EV/EBITDA (x)	42.6	36.6	17.4	16.0	15.8
Div Yield (%)	0.9	0.7	2.1	2.2	2.5
P/BV(x)	6.29	6.83	4.87	3.29	2.92
Net Gearing (%)	22.1	58.1	78.1	14.6	2.3
ROE (%)	8.5	11.0	22.7	18.5	17.9
ROA (%)	4.5	3.2	8.9	11.4	11.6
Consensus Net Profit (Btmn)	-	-	396	663	811

Source: Company reports and MBKET estimates.

INCOME STATEMENT (Btmn)					BALANCE SHEET (Btmn)				
FY December	2011	2012	2013F	2014F	FY December	2011	2012	2013F	2014F
Revenue	3,289	5,940	7,961	7,918	Fixed Assets	307	315	336	349
EBITDA	218	567	826	807	Other LT Assets	777	1,320	2,315	2,315
Depreciation & Amortisation	33	23	25	27	Cash / ST Investments	201	204	490	934
Operating Profit (EBIT)	185	544	801	780	Other Current Assets	2,371	2,600	3,104	3,106
Interest (Exp) / Inc	(41)	(108)	(90)	(72)	Total Assets	3,656	4,439	6,245	6,705
Associates	(11)	(12)	(14)	(15)					
One-offs	-	-	-	-	ST Debt	768	1,530	1,030	1,030
Pre-Tax Profit	176	506	931	1,015	Other Current Liabilities	1,746	1,099	1,317	1,301
Tax	(48)	(78)	(186)	(203)	LT Debt	31	11	3	-
Minority Interest	3	(20)	(21)	(22)	Other LT Liabilities	35	52	52	53
Net Profit	119	396	710	775	Minority Interest	18	38	38	38
Recurring Net Profit	119	396	710	775	Shareholders' Equity	1,058	1,709	3,805	4,283
_					Total Liabilities-Capital	3,656	4,439	6,245	6,705
Revenue Growth %	31.9	80.6	34.0	(0.5)					
EBITDA Growth (%)	36.0	159.9	45.7	(2.3)	Share Capital (mn)	438	507	752	752
EBIT Growth (%)	57.2	193.9	47.2	(2.6)	Gross Debt / (Cash)	826	1,569	1,051	1,033
Net Profit Growth (%)	33.0	233.4	79.4	9.1	Net Debt / (Cash)	625	1,365	561	99
Recurring Net Profit Growth (%)	33.0	233.4	79.4	9.1	Working Capital	58	175	1,247	1,709
Tax Rate %	27.5	15.4	20.0	20.0	BVPS	2.46	3.45	5.11	5.75
CASH FLOW (Btmn)					RATES & RATIOS				
FY December	2011	2012	2013F	2014F	FY December	2011	2012	2013F	2014F
Profit before taxation	176	506	931	1,015	Gross Margin %	12.4	14.7	14.4	14.4
Depreciation	33	23	25	27	EBITDA Margin %	6.6	9.6	10.4	10.2
Net interest receipts / (payments)	(41)	(108)	(90)	(72)	Op. Profit Margin %	5.6	9.2	10.1	9.9
Working capital change	(222)	540	(269)	` ź	Net Profit Margin %	3.6	6.7	8.9	9.8
Cash tax paid	(48)	(78)	(186)	(203)	ROE %	11.0	22.7	18.5	17.9
Others (inc. exceptional items)	518	(1,288)	48	27	ROA %	3.2	8.9	11.4	11.6
Cash flow from operations	416	(405)	459	799	Net Margin Ex. El %	3.6	6.7	8.9	9.8
Capex	(31)	(27)	(40)	(40)	Dividend Cover (x)	0.4	0.4	0.4	0.4
Disposals / (purchases)	-	1	2	3	Interest Cover (x)	4.5	5.1	8.9	10.9
Others	(692)	(557)	(1,002)	(3)	Asset Turnover (x)	0.9	1.3	1.3	1.2
Cash flow from investing	(723)	(583)	(1,040)	(40)	Asset / Debt (x)	1.4	1.6	2.6	2.8
Debt raised / (repaid)	404	743	(518)	(18)	Debtors Turn (days)	218.6	72.4	73.0	73.0
Equity raised / (repaid)	(26)	377	1,616	. ,	Creditors Turn (days)	112.8	45.2	45.6	45.6
Dividends (paid)	(35)	(129)	(231)	(297)	Inventory Turn (days)	27.4	14.8	15.2	15.2
Interest payments	(41)	(108)	(90)	(72)	Net Gearing %	59.0	79.9	14.8	2.3
Others	41	108	91	72	Debt / EBITDA (x)	11.8	4.7	2.9	3.0
Cash flow from financing	343	991	867	(315)	Debt / Market Cap (x)	0.4	0.3	0.2	0.2

Source: Company reports and MBKET estimates.

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Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct its own analysis of the product and consult with its own professional advisers as to the risks involved in making such a purchase.

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### **Definition of Ratings**

Maybank Kim Eng Research uses the following rating system:

**BUY** Return is expected to be above 10% in the next 12 months (excluding dividends)

**HOLD** Return is expected to be between - 10% to +10% in the next 12 months (excluding dividends)

SELL Return is expected to be below -10% in the next 12 months (excluding dividends)

### **Applicability of Ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

### Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure FCF = Free Cashflow PE = Price Earnings PEG = PE Ratio To Growth BV = Book Value FV = Fair Value CAGR = Compounded Annual Growth Rate FY = Financial Year PER = PE Ratio FYE = Financial Year End QoQ = Quarter-On-Quarter Capex = Capital Expenditure 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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THAI INSTITUT	TE OF DIRECTOR	RS ASSOCIATION	(IOD) CORPORA	TE GOVERNANCE	REPORT RATING	2012		
	<u> </u>	GRAMMY	NORLE	RS	SNC	<del></del>		
ADVANC	BKI	HBMRAJ	PHOL	SAMART	SYMC	Score Range	Number of Logo	Description
A0T	BMCL	ICC	PS	SAMTEL	THAI	90-100		Excellen
ASIMAR	BTS	IRPC	PSL	SAT	TIP	80-89	$\triangle \triangle \triangle \triangle$	Very Good
BAFS	CPN	KBANK	PTT	SC	TIPCO	70-79	$\Delta \Delta \Delta$	Good
BANPU	CSL	KK	PTTEP	SCB	TISCO	60-69	ΔΔ	Satisfactory
BAY	DRT	КТВ	PTTGC	scc	TKT	50-59		Pass
BBL	EASTW	LPN	QH	SE-ED	TIMB	Lower than 50	No logo given	N/A
BCP	EGCO	MCOT	RATCH	SIM	TOP	TTA		
BECL	ERW	NKI	ROBINS	SIS	TSTE			
		ECL	ITD	MINT	PM	SPCG	THCOM	TSC
28	BWG	EE	IVL	MODERN	PR	SPI	THIP	TSTH
ACAP	CENTEL	EIC	JAS	MTI	PRANDA	SPPT	THRE	TTW
AF	CFRESH	ESSO	KCE	NBC	PRG	SSF	TIC	TUF
AIT	CGS	FE	KGI	NCH	PT	SSSC	TICON	TV0
AKR	CHOW	FORTH	KSL	NINE	PYLON	STANLY	TIW	UAC
AMATA	CIMBT	GBX	L&E	NMG	S&J	STEC	TK	UMI
AP	CK	GC	LANNA	NSI	S&P	SUC	TLUXE	UP
ASK	CM	GFPT	LH	000	SABINA	SUSCO	TMT	UPOIC
ASP	CPALL	GL	LRH	OFM	SAMCO	SVI	TNITY	UV
AYUD	CPF	GLOW	LST	OGC	sccc	SYNTEC	TNL	MBHA
BEC	csc	GUNKUL	MACO	OISHI	SCG	TASCO	TOG	VNT
BFIT	DCC	HANA	MAKRO	PAP	SCSMG	TCAP	TPC	WACOAL
вн	DELTA	HMPRO	MBK	PDI	SFP	TCP	TRC	YUASA
BIGC	DBMCO	HTC	MBKET	PE	SITHAL	TFD	TRT	ZMICO
BJC	DTAC	IFEC	MFC	PG	SMT	TFI	TRU	
BROOK	DTC	INTUCH	MFEC	PJW	SPALI	THANA	TRUE	
$\triangle \triangle \triangle$								
Delta Conta		EASON	JMART	MAJOR	POST	SF	TEAM	UEC
AEONTS	BROCK	BMC	JTS	MATCH	PPM	SGP	TF	UIC
AFC	BSBM	EPCO	JUBILE	MATI	PREB	SIAM	TGCI	UMS
AGE	BTNC	FNS	JUTHA	MBAX	PRECHA	SIMAT	THANI	UOBKH
AH	BUI	FOCUS	KASET	M-CHAI	PRIN	SINGER	TKS	UPF
AHC	CCET	FSS	KBS	MDX	PSAAP	SIRI	TMD	US
Al	CEN	GENCO	KC	MUD	PTL	SKR	TMI	UT
AJ	CHUO	GFM	KDH	MK	Q-CON	SMIT	TNH	VARO
ALUCON	CI	GLOBAL	KIAT	MOONG	QLT	SMK	TNPC	WAVE
AMANAH	CIG	GOLD	KKC	MPIC	QTC	SOLAR	TOPP	WG
APC0	CITY	HFT	ктс	MSC	RASA	SPC	TPA	WIN
APCS	CMO	HTECH	KWC	NC	RCL	SPG	TPAC	WORK
APRINT	CNS	HYDRO	KWH	NNCL	RICH	SSC	TPCORP	
ARIP	CNT	IFS	KYE	NTV	ROJNA	SST	TPIPL	
AS	CPL	IHL	LALIN	OSK	RPC	STA	TPP	
ASIA	CRANE	ILINK	LEE	PAE	SAM	SV0A	TR	
BGT	CSP	INET	LHBANK	PATO	SCBLIF	SWC	πcι	
BLA	CSR	IRC	LHK	PB	SCP	SYNEX	TWFP	
BNC	CTW			PICO	SEAFCO		TYCN	
		IRCP	LIVE			TBSP	UBIS	
BOL Their teet	DRACO	IT IOD	LOXLEY	PL	SENA	ТСВ	UBIS	
source: That Insti	itute of Directors (h	00)						

## **Disclaimer**

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