

Buy (unchanged)

CGR Scoring Rating



Share price: Bt7.85
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)	5,439
Market Cap (US\$ m)	165.96
3-mth Avg. Daily Turnover (Btmn)	29.63
SET index	1,280.25
Free float (%)	63.29

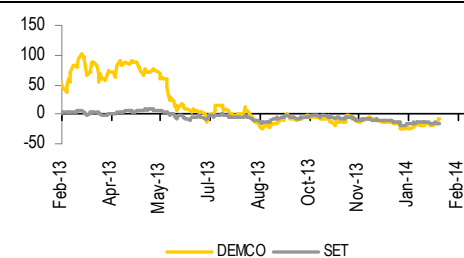
Major Shareholders :

	%
Puipunthavong Family	20.05
Thai NVDR	7.21

Key Indicators

ROE – annualised (%)	19.2
Net cash (Btmn):	-707
NTA/shr (Bt):	4.9
Interest cover (x):	7.8

Historic Chart



Performance

52-week High/Low	Bt 18.48/Bt 6.15				
	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	3.5	-25.3	-28.3	#N/A	-6.8
Relative (%)	-2.0	-19.8	-20.8	#N/A	-6.4

Demco PCL (DEMCO)

Clearer profit base for 2014

2 new wind farms. Despite a weak economy, private solar farm projects have moved forward and will support DEMCO earnings for 4Q13 over 730.8% YoY reflecting earnings volatility ending in 2013. We view at least a Bt190mn profit/year is strong enough to sustain DEMCO growth over the long term. With the current PER valuation at 8.2x remaining lower than the sector average of 9.7x, we reiterate a Buy call at our TP of Bt11.80 (SOTP). Technically, with a sharp increase in share price yesterday, we recommend investor employ a buy on weakness strategy.

4Q13 norm profit to soften QoQ, but jump 730.8% YoY. We expect the DEMCO 4Q13 norm profit at Bt172mn, softening 16.9% QoQ. Although the EA projects are mostly transferred and recognised in 2013, the Rojana Energy projects have been delayed due to the delayed panel deliveries from suppliers and thus revenue recognition of Bt300-400mn has been delayed to 1Q14, dragging the yearly revenue below our estimate by 13%. However, we do expect an impressive profit share of Bt80mn from Huai Bong 2 & 3 projects due to winter wind speeds. Hence, the 4Q13 norm profit will expand by 730.8% YoY driven by the low base of last year, a 53.5% YoY in revenue growth (many projects in 2H13) and a healthy profit share from the 2 wind farms. As the result, the yearly norm profit may beat our estimate by 4%.

Everything for 2014 looks good. Management has revealed that DEMCO could receive a PPA for 4 other wind farms this year and will open the 4th wind project (Watabak 60 MW) in 2Q14, compounded with the new EA project auction (90 MW or Bt1.4bn). The 3G tower business has been recovering after the formation of the TRUEIF with a telecom tower market estimate of 5,000 towers this year or Bt1.5bn vs. zero in 2013. TRUE remains the main DEMCO client.

WEH IPO in 2015. WEH (DEMCO associate) is now under the business restructuring before an IPO by 2015, which will be good timing as 3 new wind projects will be ready to start up with 4-5 other projects under construction and 4 more 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). With an unchanged long term growth prospect, we reiterate a Buy call.

Risks. Wind production drops in 1Q-2Q on seasonality.

DEMCO – Summary Earnings Table

FYE: Dec 31 (Btmn)	2011	2012	2013F	2014F	2015F
Revenue	3,289	5,940	6,266	7,463	5,930
EBITDA	218	567	400	664	374
Recurring Net Profit	119	396	424	654	481
Net profit	119	396	424	654	481
EPS (Bt)	0.27	0.78	0.61	0.94	0.66
EPS growth (%)	17.4	188.9	(21.5)	54.1	(30.2)
DPS (Bt)	0.12	0.35	0.24	0.38	0.26
PER	29.1	10.1	12.8	8.3	11.9
EV/EBITDA (x)	18.6	9.4	16.1	9.3	14.8
Div Yield (%)	1.5	4.5	3.1	4.8	3.4
P/BV(x)	3.19	2.28	1.83	1.59	1.39
Net Gearing (%)	58.1	78.1	33.1	20.7	(5.0)
ROE (%)	11.0	22.7	14.3	19.2	11.7
ROA (%)	3.2	8.9	7.9	11.1	7.4
Cons. Net Profit (Btmn)	-	-	401	588	605

Source: Company reports and MBKET estimates.

Quarterly income statement

(Btmn)	4Q13F	3Q13	QoQ	4Q12	YoY
Revenues	1,750	1,791	(2.3%)	1,140	53.5%
COGS	1,523	1,522	0.0%	944	61.3%
Gross profits	228	269	(15.4%)	196	15.9%
Gross margin (%)	13.0%	15.0%	-	17.2%	-
SG&A	(96)	(95)	1.5%	(77)	25.8%
Operating profit	131	174	(24.6%)	120	9.6%
Operating margin (%)	7.5%	9.7%	-	10.5%	-
EBITDA	103	179	(42.3%)	124	(16.8%)
EBITDA margin (%)	5.9%	10.0%	-	10.9%	-
Interest expenses	20	20	2.2%	28	(29.1%)
Share of associate net Income	80	79	0.9%	(16)	(601.1%)
Normalised earnings	172	207	(16.9%)	21	730.8%
Extraordinary gains (losses)					
- Forex gains (losses)	0	0	n.m.	0	n.m.
- Sale of fixed assets	0	9	n.m.	(0)	n.m.
Net profit	172	216	(20.4%)	21	730.8%
EPS (Bt) before extra items	0.25	0.33	(23.8%)	0.11	125.4%
EPS (Bt)	0.25	0.34	(26.9%)	0.11	125.4%

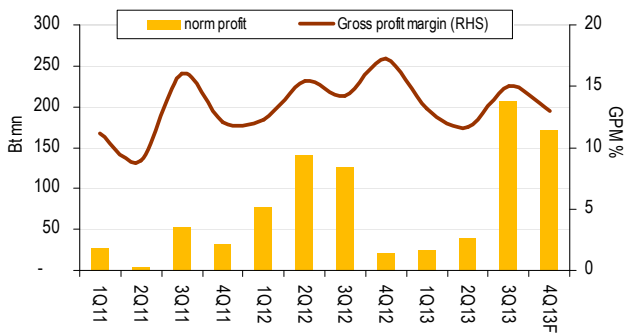
Source : Company reports and MBKET estimates.

Figure 1 : 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	...	Theparak	90	2016	accepted	1,107
6	Korat 02/02	...	Tropical	90	2016	accepted	1,107
7	Korat 02/03	...	KRS3	90	2016	accepted	1,107
8	North Krissana	...	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	...	Romkiao	60	2017	proposed	738
Total				930			11,612

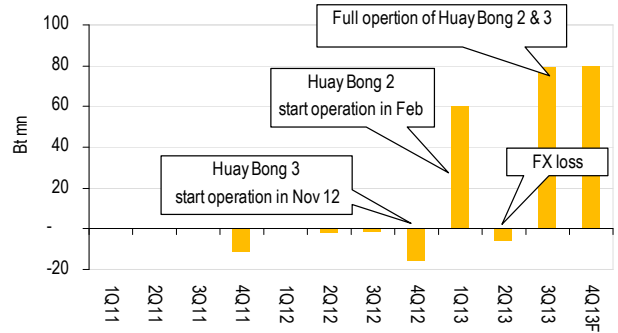
Source : Company report & MBKET

Figure 2: 2H13 profit much greater than 1H13



Source: Company report & MBKET estimates.

Figure 3: Profit share from Aeolus power



Source: Company report & MBKET estimates.

INCOME STATEMENT (Btmn)

FY December	2012	2013F	2014F	2015F
Revenue	5,940	6,266	7,463	5,930
EBITDA	567	400	664	374
Depreciation & Amortisation	23	24	25	26
Operating Profit (EBIT)	544	376	639	348
Interest (Exp) / Inc	(108)	(96)	(82)	(82)
Associates	(12)	182	190	194
One-offs	-	-	-	-
Pre-Tax Profit	506	315	593	372
Tax	(78)	(63)	(119)	(74)
Minority Interest	(20)	(10)	(11)	(11)
Net Profit	396	424	654	481
Recurring Net Profit	396	424	654	481
Revenue Growth %	80.6	5.5	19.1	(20.5)
EBITDA Growth (%)	159.9	(29.5)	66.2	(43.6)
EBIT Growth (%)	193.9	(31.0)	70.1	(45.5)
Net Profit Growth (%)	233.4	7.1	54.1	(26.4)
Recurring Net Profit Growth (%)	233.4	7.1	54.1	(26.4)
Tax Rate %	15.4	20.0	20.0	20.0

BALANCE SHEET (Btmn)

FY December	2012	2013F	2014F	2015F
Fixed Assets	315	317	312	306
Other LT Assets	1,320	2,115	2,115	2,115
Cash / ST Investments	204	218	476	1,384
Other Current Assets	2,600	2,710	3,002	2,655
Total Assets	4,439	5,359	5,905	6,461
ST Debt	1,530	1,180	1,180	1,180
Other Current Liabilities	1,099	1,152	1,262	1,106
LT Debt	11	3	-	-
Other LT Liabilities	52	52	53	53
Minority Interest	38	38	38	38
Shareholders' Equity	1,709	2,935	3,373	4,084
Total Liabilities-Capital	4,439	5,359	5,905	6,461
Share Capital (mn)	507	693	693	731
Gross Debt / (Cash)	1,569	1,201	1,183	1,180
Net Debt / (Cash)	1,365	983	707	(204)
Working Capital	175	596	1,036	1,753
BVPS	3.45	4.29	4.92	5.64

CASH FLOW (Btmn)

FY December	2012	2013F	2014F	2015F
Profit before taxation	506	315	593	372
Depreciation	23	24	25	26
Net interest receipts / (payments)	(108)	(96)	(82)	(82)
Working capital change	540	(40)	(159)	202
Cash tax paid	(78)	(63)	(119)	(74)
Others (inc. exceptional items)	(1,288)	260	254	257
Cash flow from operations	(405)	401	512	701
Capex	(27)	(20)	(20)	(20)
Disposals / (purchases)	1	2	3	4
Others	(557)	(802)	(3)	(4)
Cash flow from investing	(583)	(820)	(20)	(20)
Debt raised / (repaid)	743	(368)	(18)	(3)
Equity raised / (repaid)	377	975	-	457
Dividends (paid)	(129)	(174)	(216)	(227)
Interest payments	(108)	(96)	(82)	(82)
Others	108	96	83	82
Cash flow from financing	991	434	(233)	227
Change in cash	3	14	259	908

RATES & RATIOS

FY December	2012	2013F	2014F	2015F
Gross Margin %	14.7	12.3	13.4	12.3
EBITDA Margin %	9.6	6.4	8.9	6.3
Op. Profit Margin %	9.2	6.0	8.6	5.9
Net Profit Margin %	6.7	6.8	8.8	8.1
ROE %	22.7	14.3	19.2	11.7
ROA %	8.9	7.9	11.1	7.4
Net Margin Ex. EI %	6.7	6.8	8.8	8.1
Dividend Cover (x)	0.4	0.4	0.4	0.4
Interest Cover (x)	5.1	3.9	7.8	4.3
Asset Turnover (x)	1.3	1.2	1.3	0.9
Asset / Debt (x)	1.6	2.2	2.4	2.8
Debtors Turn (days)	72.4	73.0	73.0	73.0
Creditors Turn (days)	45.2	45.6	45.6	45.6
Inventory Turn (days)	14.8	15.2	15.2	15.2
Net Gearing %	79.9	33.5	21.0	(5.0)
Debt / EBITDA (x)	4.7	6.0	3.8	6.2
Debt / Market Cap (x)	0.7	0.4	0.5	0.4

Source: Company reports and MBKET estimates.

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Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
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
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THAI INSTITUTE OF DIRECTORS ASSOCIATION (IOD) CORPORATE GOVERNANCE REPORT RATING 2014

▲▲▲▲▲ 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
		BKI ERW	MINT	QH	SIM	THRE	TM6	TRUE
		BROOK GRAMMY	NKI	RATCH	SIS	TIP	TNITY	TTW
		BTS HANA	NOBLE	ROBINS	SITHAI	TISCO	TOP	TVO
								UV
								VGI
								WACOAL
▲▲▲▲ Very Good		ECL	JAS	MAKRO	PE	SINGER	THANI	TTCL
		2S BH	EE	JUBILE	MBK	PF	SIRI	THIP
		ACAP BIGC	EIC	KBS	MBKET	PJW	SKR	TICON
		AF BJC	ESSO	KCE	MFC	PM	SMT	TIPCO
		AHC BLA	FE	KGI	MFEC	PPM	SNP	TK
		AIT BMCL	FORTH	KKC	MODERN	PPP	SPCG	TLUXE
		AKP BWG	GBX	KSL	MTI	PREB	SPPT	TMILL
		AMANAH CCET	GC	KWC	NBC	PRG	SSF	TMT
		AMARIN CENTEL	GFPT	L&E	NCH	PT	STANLY	TNL
		AMATA CFRESH	GL	LANNA	NINE	PYLON	STEC	TOG
		AP CGS	GLOW	LH	NMG	QTC	SUC	TQC
		APCO CHOW	GOLD	LHBANK	NSI	RASA	SUSCO	TPCORP
		APCS CM	GSTEL	LHK	NWR	SABINA	SYNTEC	TPIPL
		ASIA CNT	GUNKUL	LIVE	OCC	SAMCO	TASCO	TRT
		ASK CPALL	HMPRO	LOXLEY	OFM	SCCC	TCP	TRU
		ASP CSC	HTC	LRH	OGC	SCG	TF	TSC
		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
		AAV BLAND	DRACO	IFS	LEE	PICO	SMT	TIW
		AEC BOL	EA	IHL	MATCH	PL	SMK	TKS
		AEONTS BROCK	EARTH	ILINK	MATI	POST	SOLAR	TMC
		AFC BSBM	EASON	INOX	MBAX	PRECHA	SPC	TMD
		AGE CHARAN	EMC	IRC	MDX	PRIN	SPG	TMI
		AH CHUO	EPCO	IRCP	PRINC	Q-CON	SRICHA	TNDT
		AI CI	F&D	IT	MJD	QLT	SSC	TNCP
		AJ CIG	FNS	JMART	MK	RCI	STA	TOPP
		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
		AS CRANE	GFM	KC	NIPPON	SCP	TBSP	TVD
		BAT-3K CSP	GJS	KCAR	NNCL	SENA	TCCC	TM
		BCH CSR	GLOBAL	KDH	NTV	SF	TEAM	TWZ
		BEAUTY CTW	HFT	KTC	OSK	SGP	TGCI	UBIS

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