

18 May 2009

L.V. Technology

MAI
Neutral

Unexciting earnings but the firm remains strong

Unexciting earnings: LVT reported 1Q09 earnings of Bt47m, up by 18.6% YoY and 7.2% QoQ. However, the first-quarter profit represents only 20% of our FY09 forecast of Bt235m.

Results highlights: 1Q09 gross margin was 22.5%—driven by Asian margin of 23.7% and American margin of 22.6%—which was better than the 4Q08 gross margin of 18.3%. We expect the healthier margin came from a greater number of kiln upgrade jobs, whose project values range Bt10-300m and offer better margins than efficiency improvement jobs. Although 1Q08 margin of 45.4%—driven by vertical mill and ball mill jobs—was higher than 1Q09 margin, revenues from both jobs were smaller than income from kiln upgrade jobs.

Outlook: The market for electricity consumption reduction and production efficiency engineering is enormous. Moreover, reducing energy consumption requires expertise. Also, LVT has limited direct competition within its area of expertise. The outlook remains good.

What's changed? We maintain our FY09 projection unchanged.

Recommendation: We maintain our BUY rating with a YE09 target price of Bt2.80.

BUALUANG RESEARCH

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BUY (maintained)

Target Price: Bt2.80
Price (15/05/09): Bt2.14
LVT TB / LVT.BK

Key Ratios & Statistics

Market cap	Bt0.69bn
12-mth price range	Bt1.50/Bt2.90
3-mth avg daily volume	Bt6.94m
# of shares (m)	325.0
Est. free float (%)	63

Share price perf. (%)	1M	3M	12M
Relative to MAI	22.1	0.9	16.6
Absolute	30.5	1.9	(24.6)

Financial summary

FY ended Dec 31	2007	2008	2009E	2010E
Revenue (Btm)	533	1,561	1,705	1,768
Net profit (Btm)	63	222	235	244
EPS (Bt)	0.29	1.00	0.76	0.76
BLS/Consensus (x)	n.m.	n.m.	n.a.	n.a.
Core profit (Btm)	63	222	235	244
Core EPS (Bt)	0.29	1.00	0.76	0.76
Core EPS Growth	281.25	244.83	-24.20	-0.07
PER (x)	5.59	2.38	2.82	2.83
Core PER (x)	5.59	2.38	2.82	2.83
PBV (x)	0.84	0.90	0.76	0.63
Dividend (Bt)	0.15	0.22	0.16	0.17
Dividend yield (%)	9.26	9.24	7.66	8.04
ROE (%)	16.39	43.45	31.25	24.41
Net gearing (x)	0.02	0.03	0.02	0.00

Note: LVT-W1 of 93.1 million units were exercised on Feb 13, 09.
Presently, LVT-W1 is expired.

CG Rating - 2008



Figure 1: Acceptable 1Q09 earnings

Unit: Btm	1Q09	1Q08	YoY change	4Q08	QoQ change
Contract revenues					
Asia	184	87	112.6%	276	-33.2%
Europe	20	5	287.9%	59	-66.8%
USA	239	2	9802.5%	266	-9.8%
Others	1	0	8.8%	-3	-116.7%
Total	444	95	369.3%	597	-25.7%
Contract costs					
Asia	140	47	200.0%	224	-37.4%
Europe	18	3	431.8%	53	-66.0%
USA	185	1	15411.8%	209	-11.3%
Others	0	0	-76.1%	1	-96.1%
Total	344	52	566.2%	487	-29.5%
Gross profit					
Asia	44	40	9.6%	51	-15.1%
Europe	2	2	-5.9%	6	-73.6%
USA	54	1	4330.6%	57	-4.2%
Others	0	0	70.1%	-4	-110.8%
Total	100	43	132.7%	109	-8.7%
SG&A	57	41	37.9%	87	-34.3%
Operating profit	43	1	2785.1%	22	91.3%
Other income	19	41	-53.4%	39	-51.1%
Other expense	0	0	8.8%	1	-54.9%
EBIT	61	42	46.8%	60	1.9%
Interest expense	1	0	1716.2%	1	-31.1%
EBT	61	42	45.3%	59	2.4%
Tax	13	2	575.3%	15	-11.4%
Net profit	47	40	18.6%	44	7.2%
EPS	0.17	0.18	-5.6%	0.20	-14.2%
% Margin					
Gross profit					
Asia	23.7%	45.9%		18.6%	
Europe	8.0%	32.9%		10.0%	
USA	22.6%	50.6%		21.3%	
Others	90.8%	58.1%		139.6%	
Total	22.5%	45.4%		18.3%	
Operating profit	9.6%	1.6%		3.7%	
Net profit	10.2%	29.4%		6.9%	

Sources: Company data, Bualuang Research

Financial tables					
PROFIT & LOSS (Btm)					
	2006	2007	2008	2009E	2010E
Contract revenues	369	475	1,378	1,518	1,578
Contract costs	301	305	1,076	1,199	1,231
Gross profit	67	170	303	319	347
SG&A	133	153	228	235	246
Operating profit	-66	17	75	84	101
Other income	38	58	183	187	190
Other expense	1	2	2	2	2
EBIT	-29	74	255	269	288
Interest expense	4	0	3	3	3
EBT	-33	73	252	266	285
Tax	0	11	30	31	42
Net profit	-33	63	222	235	244
EPS	-0.16	0.29	1.00	0.76	0.76
DPS	0.00	0.15	0.22	0.16	0.17
KEY RATIOS					
Revenue growth (%)	-61.71	31.08	192.63	9.26	3.68
EPS growth (%)	-133.33	281.25	244.83	-24.20	-0.07
Gross margin (%)	18.30	35.80	21.95	20.99	21.99
Operating margin (%)	-17.89	3.62	5.44	5.52	6.37
Net margin (%)	-8.03	11.77	14.22	13.79	13.79
Effective tax rate (%)	0.00	14.34	12.01	11.57	14.58
BALANCE SHEET (Btm)					
Cash and cash equivalents	96	171	192	307	340
Trade accounts receivable, net	128	67	212	273	298
Due from customers on project contracts	69	64	80	146	194
Prepaid equipment	16	75	264	175	192
Other current assets	15	9	44	21	23
Total current assets	323	387	792	921	1,047
Deposits at financial institutions	142	207	318	235	251
Investments in associates and JVs	59	87	191	301	416
Other assets	16	12	19	24	24
Total assets	541	693	1,321	1,482	1,738
Short-term borrowing	15	2	28	0	0
Trade accounts payable	94	38	129	227	265
Due to customers on project contracts	60	194	408	225	256
Other current liabilities	25	40	153	126	123
Total liabilities	194	273	719	578	644
Total shareholders' equity	347	419	602	903	1,094
Total liab. & shareholders' equity	541	693	1,321	1,482	1,738
Total debt (Btm)	15	2	28	0	0
Net debt (Cash) (Btm)	-81	-169	-163	-307	-340
BV per share (Bt)	1.65	1.92	2.63	2.81	3.40

Sources: Company data, Bualuang Research estimates

Financial tables					
QUAETERLY PROFIT & LOSS (Btm)	1Q08	2Q08	3Q08	4Q08	1Q09
Contract revenues	95	130	558	597	444
Contract costs	52	76	461	487	344
Gross profit	43	54	97	109	100
SG&A	41	39	60	87	57
Operating profit	1	15	37	22	43
Other income	41	49	54	39	19
Other expense	0	1	0	1	0
EBIT	42	63	90	60	61
Interest expense	0	1	1	1	1
EBT	42	62	89	59	61
Tax	2	5	8	15	13
Net profit	40	58	81	44	47
EPS	0.18	0.26	0.37	0.20	0.17
KEY RATIOS					
Revenue growth (%)	34.37	32.31	242.20	3.89	-27.22
EPS growth (%)	2,966.29	44.44	42.31	-46.48	-14.15
Gross margin (%)	45.41	41.39	17.35	18.32	22.51
Operating margin (%)	1.57	11.34	6.55	3.74	9.63
Net margin (%)	29.38	32.23	13.19	6.92	10.18
Effective tax rate (%)	4.79	7.36	9.52	25.73	22.27
QUARTERLY BALANCE SHEET (Btm)					
Cash and cash equivalents	111	87	263	192	124
Trade accounts receivable, net	64	97	209	212	124
Due from customers on project contracts	91	83	19	80	164
Prepaid equipment	155	189	298	264	343
Other current assets	19	18	34	44	65
Total current assets	440	474	823	792	820
Deposits at financial institutions	278	324	244	318	351
Investments in associates and JVs	106	150	187	191	155
Other assets	11	11	17	19	17
Total assets	835	958	1,272	1,321	1,343
Short-term borrowing	7	56	74	28	24
Trade accounts payable	72	66	191	129	143
Due to customers on project contracts	273	326	409	408	320
Other current liabilities	32	34	46	153	98
Total liabilities	385	482	719	719	585
Total shareholders' equity	450	477	553	602	758
Total liab. & shareholders' equity	835	958	1,272	1,321	1,343
Total debt (Btm)	7	56	74	28	24
Net debt (Cash) (Btm)	-104	-31	-189	-163	-100
BV per share (Bt)	2.06	2.17	2.46	2.63	2.36

Sources: Company data, Bualuang Research

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50 – 59		Pass
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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index 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 over the next 12 months.