

7 January 2021

TTW

Sector: Energy & Utilities

4Q20E earnings to slow on sluggish tap water sale volume, CKP's weaker profit contribution

Bloomberg ticker	TTW TB
Recommendation	HOLD (maintained)
Current price	Bt12.40
Target price	Bt14.00 (maintained)
Upside/Downside	+13%
EPS revision	2020E: +5% / 2021E: -2%

Bloomberg target price	Bt13.68
Bloomberg consensus	Buy 3 / Hold 3 / Sell 1

Stock data	
Stock price 1-year high/low	Bt14.70 / Bt11.00
Market cap. (Bt mn)	49,476
Shares outstanding (mn)	3,990
Avg. daily turnover (Bt mn)	64
Free float	36%
CG rating	Excellent
ESG rating	n.a.

Financial & valuation highlights				
FY: Dec (Bt mn)	2019A	2020E	2021E	2022E
Revenue	6,113	6,179	6,189	6,313
EBITDA	5,270	5,270	5,431	5,669
Net profit	3,128	3,101	3,294	3,514
EPS (Bt)	0.78	0.78	0.83	0.88
Growth	10.1%	-0.9%	6.2%	6.7%
Core EPS (Bt)	0.78	0.78	0.83	0.88
Growth	10.1%	-0.9%	6.2%	6.7%
DPS (Bt)	0.60	0.60	0.60	0.60
Div. yield	4.8%	4.8%	4.8%	4.8%
PER (x)	15.8	16.0	15.0	14.1
Core PER (x)	15.8	16.0	15.0	14.1
EV/EBITDA (x)	11.1	10.8	10.4	9.8
PBV (x)	3.8	3.6	3.4	3.1

Bloomberg consensus				
Net profit	3,128	3,077	3,346	3,505
EPS (Bt)	0.62	0.67	0.71	0.87



Source: Aspen

Price performance	1M	3M	6M	12M
Absolute	0.0%	0.8%	-7.5%	-8.8%
Relative to SET	-2.9%	-18.6%	-16.2%	-4.0%

Major shareholders	Holding
1. Mitsui Water Holdings (Thailand)	25.98%
2. CH. Karnchang	19.40%
3. Bangkok Expressway and Metro	18.47%

Analyst: Veeraya Rattanaworapip (Reg. no. 086645)

We reiterate a HOLD rating on TTW and target price of Bt14.00 based on SOTP method. We forecast 4Q20E net profit to decline each -10% YoY, QoQ to Bt839mn. A decline YoY would be due primarily to a high base in 4Q19, a period TTW's associate CKP booked FX gain of Bt500mn. A decrease QoQ would blame on seasonally lower rainfall. Tap water's sale volume is estimated to tick up +0.1% YoY but to decline -1% QoQ due to a greater number of holidays and a cut in production in the manufacturing sector. In 2020E, we raise our net profit forecast by 5% to Bt3.1bn, which represents a slight decline of -1%, as we revise up our estimate on CKP's profit contribution in light of higher-than-expected rainfall. However, we cut our 2021E net profit forecast by 2% to Bt3.3bn, up +6%, to reflect a slowed improvement in tap water demand.

TTW's share price remained roughly flat in the three-month timeframe but underperformed the SET Index by 19%. The stock will likely remain to be an underperformer in the near term, as tap water demand may weaken after some plants located in Samutsakorn provinces have had to temporarily shut due to a new round of the COVID-19 outbreak. Additionally, net profit from the tap water business is expected to edge down -1% in 2021E, although total net profit would rebound +6%.

Event: 4Q20E earnings preview

□ **Expect 4Q20E net profit to decline YoY, QoQ.** We forecast 4Q20E to decline by each 10% YoY, QoQ. A decline YoY would be due primarily to a high base in 4Q19, a period TTW's associate CKP booked FX gain of Bt500mn. A decrease QoQ would blame on CKP's weaker profit contribution of Bt126mn (Bt208mn in 3Q20) given seasonally lower rainfall.

We expect revenue from the core tap water business to edge up +0.3% YoY but decrease -1% QoQ, as sales volume is estimated to tick up +0.1% YoY but to reduce -1% QoQ to 81mn cu.m. due to a weaker demand given a greater number of holidays and a temporary shut in several plants. Gross profit margin will likely remain roughly flat at 69.5%.

□ **Upgrade our 2020E and downgrade 2021E earnings forecast.** In 2020E, we raise our net profit forecast by 5% to Bt3.1bn, which indicates a tepid decrease of -1%, as we revise up our CKP's profit contribution estimate by 74% to Bt225mn to reflect the stronger-than-expected 3Q20 earnings performance because of heavier rainfall.

In 2021E, we cut our net profit forecast by 2% to Bt3.3bn, which represents a rise of +6%, as we revise down our estimates on 1) tap water's sales volume growth to +1% from +2% earlier, and 2) gross profit margin to 70% from 71%. Despite this, TTW is expected to enjoy a decrease in cost of finance, as the company refinanced its long-term loan worth Bt2.8bn in mid-2020.

As for a temporary shut of Pattaya Food's plants, a producer of Nautilus canned tuna, we estimate impact on TTW's revenue of Bt500k-700k, assuming that Pattaya Food will shut its plant for 14 days. According to our inquiries with TTW, Pattaya Food's tap water consumption is just 0.7%, or 3,000 cu.m. per day, of TTW plant's total sales.

Valuation/Catalyst/Risk

Our target price is Bt14.00 based on SOTP method. We expect the core tap water business to grow +1% CAGR in 2019-2022E. An escalation of the COVID-19 outbreak in Samutsakorn province is a major downside risk to our forecast.



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4Q20E earnings preview

FY: Dec (Bt mn)	4Q20E	4Q19	YoY	3Q20	QoQ	2020E	2019	YoY
Revenues	1,542	1,537	0.3%	1,556	-0.9%	6,179	6,113	1.1%
CoGS	(471)	(468)	0.6%	(475)	-1.0%	(1,844)	(1,795)	2.8%
Gross profit	1,071	1,070	0.1%	1,081	-0.9%	4,334	4,318	0.4%
SG&A	(119)	(127)	-6.3%	(118)	0.7%	(492)	(502)	-2.1%
EBITDA	1,384	1,452	-4.7%	1,470	-5.9%	5,270	5,270	0.0%
Other inc./exps	8	12	-34.1%	4	111.9%	27	53	-49.2%
Share of income	126	215	-41.6%	208	-39.5%	225	280	-19.8%
Interest expenses	(67)	(76)	-12.3%	(66)	2.0%	(276)	(305)	-9.3%
Income tax	(175)	(154)	13.3%	(174)	0.5%	(697)	(697)	0.0%
Core profit	839	934	-10.2%	929	-9.7%	3,101	3,128	-0.9%
Net profit	839	934	-10.2%	929	-9.7%	3,101	3,128	-0.9%
EPS (Bt)	0	0	-10.2%	0	-9.7%	1	1	-0.9%
Gross margin	69.5%	69.6%		69.5%		70.2%	70.6%	
Net margin	54.4%	60.8%		59.7%		50.2%	51.2%	

Fig 2: TTW's service areas



Source: Company

Quarterly income statement

(Bt mn)	3Q19	4Q19	1Q20	2Q20	3Q20
Sales	1,545	1,537	1,534	1,547	1,556
Cost of sales	(454)	(468)	(436)	(463)	(475)
Gross profit	1,090	1,070	1,098	1,084	1,081
SG&A	(123)	(127)	(131)	(124)	(118)
EBITDA	1,273	1,452	1,180	1,236	1,470
Finance costs	(73)	(76)	(74)	(69)	(66)
Core profit	726	934	638	694	929
Net profit	726	934	638	694	929
EPS	0.18	0.23	0.16	0.17	0.23
Gross margin	70.6%	69.6%	71.6%	70.1%	69.5%
EBITDA margin	82.4%	94.5%	76.9%	79.9%	94.5%
Net profit margin	47.0%	60.8%	41.6%	44.9%	59.7%

Balance sheet

FY: Dec (Bt mn)	2018	2019	2020E	2021E	2022E
Cash & deposits	99	77	113	310	335
Accounts receivable	565	565	572	573	585
Inventories	0	0	0	0	0
Other current assets	3,552	3,089	3,146	3,261	3,361
Total cur. assets	4,216	3,731	3,832	4,144	4,280
Investments	4,685	5,917	6,142	6,597	7,187
Fixed assets	14,404	13,436	12,384	12,305	11,310
Other assets	24	74	74	74	74
Total assets	23,330	23,158	22,432	23,120	22,852
Short-term loans	0	0	0	0	0
Accounts payable	134	160	160	161	162
Current maturities	1,935	3,560	240	2,216	1,274
Other current liabilities	475	445	445	445	445
Total cur. liabilities	2,545	4,165	845	2,823	1,881
Long-term debt	8,256	5,696	7,556	5,340	4,865
Other LT liabilities	165	173	179	185	189
Total LT liabilities	8,421	5,869	7,735	5,525	5,054
Total liabilities	10,966	10,033	8,580	8,348	6,936
Registered capital	3,990	3,990	3,990	3,990	3,990
Paid-up capital	3,990	3,990	3,990	3,990	3,990
Share premium	2,638	2,638	2,638	2,638	2,638
Retained earnings	6,238	6,974	7,681	8,580	9,701
Others	(544)	(521)	(521)	(521)	(521)
Minority interests	43	44	64	86	109
Shares' equity	12,365	13,125	13,852	14,773	15,916

Cash flow statement

FY: Dec (Bt mn)	2018	2019	2020E	2021E	2022E
Net profit	2,842	3,128	3,101	3,294	3,514
Depreciation	1,062	1,121	1,176	1,131	1,121
Chg in working capital	25	31	(13)	0	(11)
Others	(85)	(303)	6	6	4
CF from operations	3,844	3,977	4,269	4,431	4,628
Capital expenditure	(54)	(134)	(124)	(1,052)	(126)
Others	(1,115)	(512)	(275)	(570)	(690)
CF from investing	(1,168)	(646)	(398)	(1,622)	(816)
Free cash flow	2,676	3,331	3,870	2,809	3,812
Net borrowings	(479)	(935)	(1,460)	(240)	(1,416)
Equity capital raised	0	0	0	0	0
Dividends paid	(2,394)	(2,394)	(2,394)	(2,394)	(2,394)
Others	(20)	(25)	20	22	23
CF from financing	(2,893)	(3,353)	(3,834)	(2,612)	(3,787)
Net change in cash	(217)	(23)	37	197	25

Key assumptions

FY: Dec (Bt mn)	2018	2019	2020E	2021E	2022E
Sales vol. (mn m ³ /year)	313	324	327	330	337
Capacity (m ³ /day)	1,076k	1,076k	1,076k	1,076k	1,076k

Source: Company, KTBST

Forward PER band



Income statement

FY: Dec (Bt mn)	2018	2019	2020E	2021E	2022E
Sales	5,926	6,113	6,179	6,189	6,313
Cost of sales	(1,722)	(1,795)	(1,844)	(1,857)	(1,862)
Gross profit	4,203	4,318	4,334	4,332	4,451
SG&A	(529)	(502)	(492)	(514)	(519)
EBITDA	4,911	5,270	5,270	5,431	5,669
Depre. & amortization	(1,062)	(1,121)	(1,176)	(1,131)	(1,121)
Equity income	152	280	225	455	590
Other income	23	53	27	27	27
EBIT	3,849	4,149	4,094	4,300	4,548
Finance costs	(372)	(305)	(276)	(270)	(274)
Income taxes	(616)	(697)	(697)	(715)	(737)
Net profit before MI	2,861	3,147	3,121	3,315	3,537
Minority interest	(19)	(19)	(20)	(22)	(23)
Core profit	2,842	3,128	3,101	3,294	3,514
Extraordinary items	0	0	0	0	0
Net profit	2,842	3,128	3,101	3,294	3,514






Key ratios

FY: Dec (Bt mn)	2018	2019	2020E	2021E	2022E
Growth YoY					
Revenue	5.9%	3.2%	1.1%	0.2%	2.0%
EBITDA	4.5%	7.3%	0.0%	3.1%	4.4%
Net profit	6.7%	10.1%	-0.9%	6.2%	6.7%
Core profit	6.7%	10.1%	-0.9%	6.2%	6.7%
Profitability ratio					
Gross profit margin	70.9%	70.6%	70.2%	70.0%	70.5%
EBITDA margin	82.9%	86.2%	85.3%	87.8%	89.8%
Core profit margin	48.0%	51.2%	50.2%	53.2%	55.7%
Net profit margin	48.0%	51.2%	50.2%	53.2%	55.7%
ROA	12.2%	13.5%	13.8%	14.2%	15.4%
ROE	23.1%	23.9%	22.5%	22.4%	22.2%
Stability					
D/E (x)	0.82	0.71	0.56	0.51	0.39
Net D/E (x)	0.82	0.70	0.55	0.49	0.36
Interest coverage ratio	10.4	13.6	14.8	15.9	16.6
Current ratio (x)	1.66	0.90	4.53	1.47	2.28
Quick ratio (x)	1.66	0.90	4.53	1.47	2.28
Per share (Bt)					
Reported EPS	0.71	0.78	0.78	0.83	0.88
Core EPS	0.71	0.78	0.78	0.83	0.88
Book value	3.09	3.28	3.46	3.68	3.96
Dividend	0.60	0.60	0.60	0.60	0.60
Valuation (x)					
PER	17.41	15.82	15.96	15.02	14.08
Core PER	17.41	15.82	15.96	15.02	14.08
P/BV	4.02	3.78	3.59	3.37	3.13
EV/EBITDA	12.13	11.13	10.85	10.44	9.75
Dividend yield	4.8%	4.8%	4.8%	4.8%	4.8%

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Corporate governance report of Thai listed companies 2020

CG rating by the Thai Institute of Directors Association (Thai IOD)

Score	Symbol	Description	ความหมาย
90-100		Excellent	ดีเลิศ
80-89		Very Good	ดีมาก
70-79		Good	ดี
60-69		Satisfactory	ดีพอใช้
50-59		Pass	ผ่าน
< 50	No logo given	n.a.	n.a.

IOD disclaimer

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information which companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("listed companies") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

KTBST's stock rating definition

- BUY** The stock's total return is expected to exceed 10% over the next 6-12 months. The stock has good fundamentals and attractive valuations.
- HOLD** The stock's total return is expected to be between 0% - 10% over the next 6-12 months. The stock has good fundamentals, but may lack of near-term catalysts or its valuations are not attractive.
- SELL** The stock's total return is expected to fall below 0% or more over the next 6-12 months. Stock should be sold as negative total return is anticipated due to deteriorating fundamentals compared with its valuations.

The stock's expected total return is the percentage difference between the target price and the current price, which excludes dividend yields.

ESG rating (ESG: Environmental, Social, and Governance)

KTBST believes environment, social and governance (ESG) practices will help determine the sustainability and future financial performance of companies. We thus incorporate ESG into our valuation model.

- ☐ **Environment.** Environment factors relate to corporate responsibility for its actions and how it manages its impact on the environment. KTBST analyzes revenue, which exposes to environment risks and opportunities.
- ☐ **Social.** Social factors deal with company's relationship with its employees and vendors. That also includes company's initiatives related to employee health and well-being, as well as community involvement. KTBST's evaluation on social practices is based on Bloomberg, which measure from company's social responsibility news.
- ☐ **Governance.** Corporate government factors include company's transparency, decision-making structure, concrete risk assessment method, treatment of minority shareholders and anti-corruption practices. KTBST conduct this analysis based on IOD's scores.

KTBST's ESG ratings score from 1-5

1. Excellent scores at 5
2. Very Good scores at 4
3. Good scores at 3
4. Satisfactory scores at 2
5. Pass scores at 1

KTBST provides "n.a." in cases of insufficient data.