

DEMCO

EPC business to be star performer

- 4Q14 net profit to increase 17% QoQ.
- Expect 46% earnings growth CAGR in 2015-2016.
- Four upcoming projects for DEMCO's portfolio.
- Restructuring Wind Energy Holdings Co., Ltd.
- Initiate coverage with a "Buy" rating and target price of Bt18.60.

Expect 46% earnings growth CAGR in 2015-2016.

We forecast a 2015 net profit of Bt744mn, an increase of 90% YoY, mainly on a jump in revenue from the engineering, procurement and construction (EPC) business to Bt8.3bn (+80% YoY) with a gross margin of 12%. DEMCO is expected to obtain two EPC projects from Energy Absolute Plc. (EA) - (1) solar farm #4 (90 MW) and (2) three wind farms (126 MW) - valued at roughly Bt1.8bn each. We expect DEMCO to report a 4Q14 net profit of Bt142mn (+29% YoY, +17% QoQ) mainly on higher EPC revenue of B1.7bn (+23% QoQ), especially from EA's solar farm #3 (90 MW).

EPC backlog to expand to Bt13bn.

At the end of 2014, DEMCO had an EPC backlog valued at Bt4.2bn. We expect it will acquire several EPC new projects with a total value of Bt8.9bn in 2015, especially from EA (216 MW) and government-approved solar energy projects (100 MW out of a total 1,882 MW). This will result in its EPC backlog jumping to Bt13.1bn. The company should therefore post revenue in 2015 of Bt8.3bn (+80% YoY).

To obtain four new projects.

DEMCO is in process of filing proposals for an investment in two waste-to-energy power plants (8 MW each) in Lopburi and Maha Sarakham provinces, a water supply project (Bt1bn), and underground electricity utilities (Bt400mn) in Laos. We expect two waste-to-energy projects (16 MW) will provide Bt60mn in earnings in 2017. Obtaining two utilities projects in Laos marks the first step for DEMCO in acquiring more EPC work for transmission line systems in Laos.

Restructuring Wind Energy Holdings Co., Ltd.

On January 21, the board of WEH approved two significant items: (1) the appointment of two new authorized signatories to the existing board in order for WEH to continue to operate normally; and (2) the restructuring of WEH to reduce Mr. Nopporn Suppipat's stake, who was the founder of the company and the first shareholder with a 45% shareholding, after he was accused of being a suspect in a criminal case. DEMCO's management estimated the restructuring would be complete in late 2Q15. Due to this, we expect the startup of six wind farms (510 MW) that was scheduled for that were scheduled to commence commercial operations in 2016 and 2017 will be delayed by roughly six months.

Initiate coverage of DEMCO with a "Buy" rating and a target price of Bt18.60.

We value DEMCO's contractor & trading business at Bt11.7 based on a PE of 18.5x, which is a discount to GUNKUL's forward PE of 19x for its contractor & trading business due to DEMCO's lower margin. We value its nine solar farms (5.2 MW) and nine wind farms (750 MW) at Bt5.60. We also add a half valuation of Bt1.2 for four upcoming potential projects into our target price with a 50% probability of a successful acquisition.

Stock Rating

BUY

Previous Rating	INITIAL COVERAGE
Fair Value	Bt18.60
Current Price	Bt14.90
Upside/(Downside)	25%
Consensus (median)	17.75
Sector	Energy
Sector Rating	Neutral

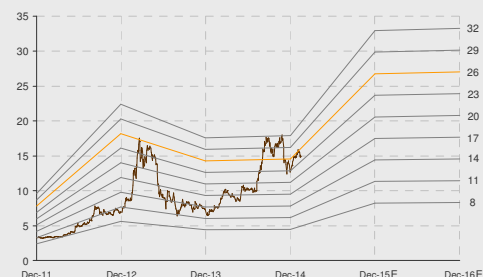
Financial Summary

YE Dec (Bt mn)	2013	2014E	2015E	2016E
Net profit	357	391	744	831
Net profit growth (%)	(8.98)	9.40	90.38	11.60
EPS (Bt)	0.55	0.56	1.03	1.04
EPS growth (%)	(24.84)	2.47	81.81	1.72
BV (Bt)	4.83	4.89	6.00	7.45
DPS (Bt)	0.16	0.20	0.31	0.31
P/E (x)	27.07	26.42	14.53	14.28
P/BV (x)	3.09	3.05	2.48	2.00
Yield (%)	1.07	1.34	2.06	2.10
ROE (%)	14.57	11.99	19.22	16.15

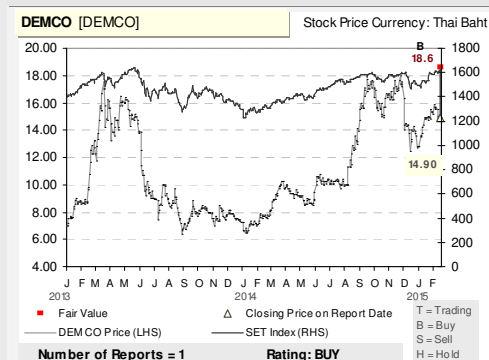
Key Data

Shares in Issue (mn)	730.33
Market Cap. (Bt mn)	10,881.96
12-mth High/Low (Bt)	18.30/7.50
Avg. Daily Turnover (Bt mn)	328.44
Foreign Limit/Actual (%)	49.00/1.53
Free Float (%)	70.47
NVDR (%)	4.69
Beta	1.44

P/E Band



KSS Stock Monitor



Kaweewit Thawilwithayanon
Kaweewit.thawilwithayanon@krungsrisecurities.com
Registration No. 51974

Investment theme

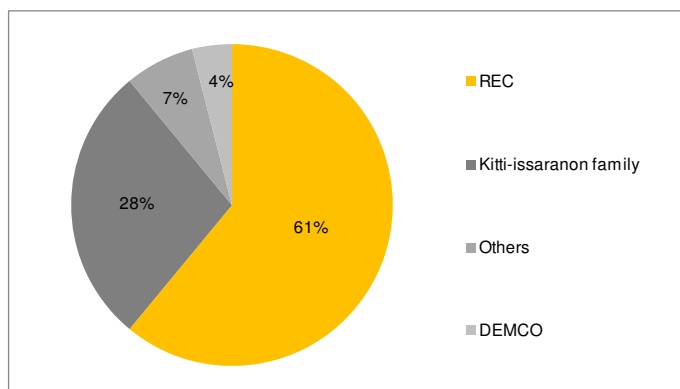
Restructuring Wind Energy Holdings Co., Ltd.

On January 21, the board of Wind Energy Holdings Co., Ltd. (WEH), which is the largest wind farm developer in Thailand with a total licensed capacity of 750 MW and 4% held by DEMCO, approved two significant matters.

The first was the appointment of two new authorized signatories to take the place of the Mr. Nopporn Suppipat and his associate. The change was undertaken after Nopporn was accused of being a suspect in a criminal case.

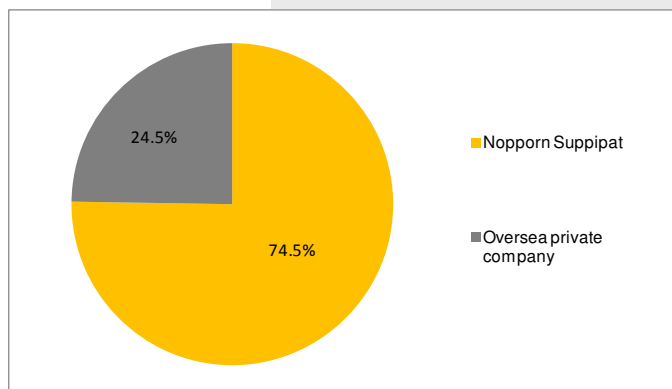
The second was the restructuring of the shareholding of WEH. Mr. Nopporn holds a 74.5% stake in Renewable Energy Corporation Co., Ltd. (REC), which is the major shareholder of WEH with a 61% stake, as shown in Figure 1-2. After Nopporn was charged by police, financial lenders stopped all financing for WEH’s six upcoming wind farms (510 MW) – the Watabak, Korat 02/01-02/04 and North Kitsana projects that were scheduled to commence commercial operations in 2016 and 2017. The lenders made continued financing conditional on a restructuring of WEH’s shareholding to reduce Mr. Nopporn’s stake. On January 21, the board agreed to seek new investors to restructure WEH. A number of domestic and overseas listed companies and private funds expressed interest. Management estimates the restructuring of WEH will be completed in late 2Q15. As a result, we estimate startup of the six wind farms will be delayed by roughly six months.

Figure 1: WEH shareholding structure



Sources: Company data and KSS Research

Figure 2: REC shareholding structure



Sources: Company data and KSS Research

Wind-farm business to generate steady cash flows.

DEMCO has nine wind farms with a total contracted capacity of 750 MW. Some are direct investments and some are indirect investments via Wind Energy Holdings Co., Ltd. (WEH) in which DEMCO holds a 4% stake. DEMCO thus has a total wind-farm capacity of 58 MW, as shown in Figure 3. All of its nine wind farms (750 MW) have already received PPA approval from the electricity regulator, the Electricity Generating Authority of Thailand (EGAT). The company has also taken a wind adder (incentive credit) of Bt3.50 per unit from the wind projects over a 10-year period.

The first two wind farms, the Huay Bong 2 and 3 projects (90 MW each), have operated in Nakhon Ratchasima province since February 8, 2013, and November 15, 2012, respectively. DEMCO invested in the two wind farms via Aeolus Power Co., Ltd. (Aelous), in which DEMCO holds a 25% stake with the remaining 75% held by WEH. Aelous invested in a 60% stake of the Huay Bong 2 and 3 projects. DEMCO's take, therefore, in the two wind farms is 17% or accounting for a 15 MW capacity in each project. We estimate the two wind farms will contribute Bt200mn per year in earnings to DEMCO during the 10-year-adder period.

The third wind farm phase, the Kao Koh project in Phetchabun province, has capacity of 60 MW. Construction of the project is ongoing with COD set for 4Q15, although there are some problems with one of the investors, WEH, which had to restructure its organization after founder Mr. Nopporn Suppipat was accused of being a suspect in a criminal case. Financial lenders still let the Kao Koh project go on, but WEH needs to reduce its stake in the project to 10%, while the remaining two investors Ratchaburi Electricity Generating Holding PCL. (RATCH) and DEMCO increased their investments to 77% and 13%, respectively. We estimate the Kao Koh project will generate earnings of Bt55mn per year for DEMCO during the wind-adder period.

The fourth wind farm phase, the Watabak project, has 60 MW in generating capacity located in Chaiyaphum province. WEH invested in a 75% stake while the remaining 25% is held by a private individual. DEMCO's stake in the project is 3% accounting for capacity of 1.8 MW. Although the civil works began on the project, work needed to pause temporarily as financial lenders stopped project financing. Once the WEH restructuring is completed, construction will continue. We expect COD to be delayed from 4Q15 to 2Q16, or by about six months from the previous target. We estimate earnings of Bt15mn per year to be contributed by the Watabak project to DEMCO during the wind-adder period.

The remaining five wind farms, the Korat 02/01-02/04 and North Kitsana projects, located in Nakhon Ratchasima province, have capacity of 90 MW each. WEH invested in a 100% stake in each of the five projects. DEMCO's stake is thus 4% or accounting for capacity of 3.6 MW in each. Construction of all five wind farms has stopped and will be delayed by roughly six months after WEH restructuring is completed. We forecast the five wind farms will potentially contribute total earnings of Bt140mn per year to DEMCO during the wind-adder period.

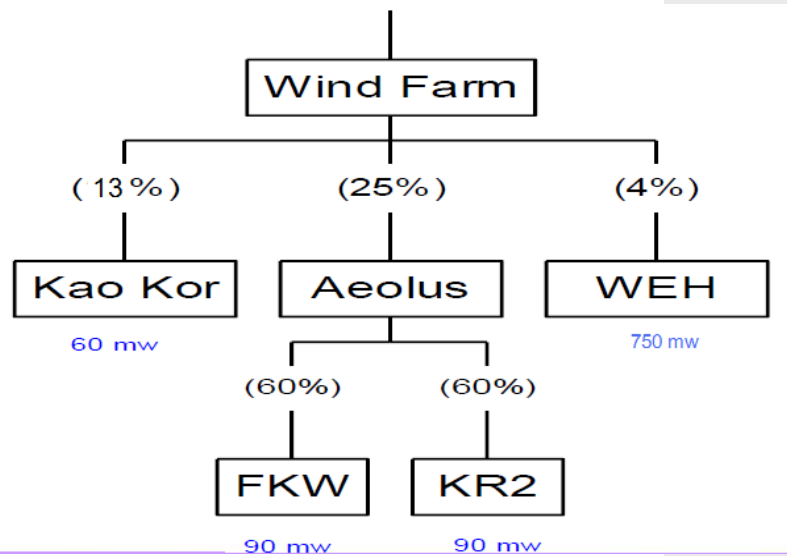
Basically, DEMCO stands to obtain around Bt410mn per year in earnings from all nine wind farms (750 MW) with its capacity to total 58 MW. Our assumptions are (1) capex for construction of Bt70mn per MW; (2) maintenance cost of Bt1.5mn per MW per year; and (3) a cost of debt of 6.00% for the Huay Bong 2 and 3 projects and 5.50% for the rest with a D/E ratio of 70:30.

Figure 3: Wind-farm business with combined capacity of 750 MW (DEMCO's share portion 58 MW)

No.	Wind farms	Contracted	DEMCO's equity	DEMCO's portions	Location	COD	Adder	PPA
1	Huay Bong 2	90 MW	17%	15.12 MW	Nakhon Ratchasima	8 Feb 2013	Adder of Bt 3.5	Signed PPA
2	Huay Bong 3	90 MW	17%	15.12 MW	Nakhon Ratchasima	15 Nov 2012	Adder of Bt 3.5	Signed PPA
3	Kao Koh	60 MW	13%	7.95 MW	Phetchabun	Q4/2015	Adder of Bt 3.5	Signed PPA
4	Watabak	60 MW	3%	1.80 MW	Chaiyaphum	Q2/2016	Adder of Bt 3.5	Signed PPA
5	Korat 02/01	90 MW	4%	3.60 MW	Nakhon Ratchasima	2017	Adder of Bt 3.5	PPA approval
6	Korat 02/02	90 MW	4%	3.60 MW	Nakhon Ratchasima	2017	Adder of Bt 3.5	PPA approval
7	Korat 02/03	90 MW	4%	3.60 MW	Nakhon Ratchasima	2017	Adder of Bt 3.5	PPA approval
8	Korat 02/04	90 MW	4%	3.60 MW	Nakhon Ratchasima	2017	Adder of Bt 3.5	PPA approval
9	North Kitsana	90 MW	4%	3.60 MW	Nakhon Ratchasima	2018	Adder of Bt 3.5	PPA approval
Total		750 MW		58 MW				

Sources: Company data and KSS Research

Figure 4: Structure of investment for wind farm business



Sources: Company data and KSS Research

Nine existing solar plants (5.2 MW) to generate minor recurring earnings.

DEMCO operates three solar farms with a total licensed capacity of 3 MW and six solar rooftops with a total contracted capacity of 2.2 MW. However, the company does not hold 100% of most projects, resulting in DEMCO's share proportion of capacity being 1.6 MW and 1.4 MW, respectively, as shown in Figure 5. The company has already signed Power Purchasing Agreements for all nine solar plants (5.2 MW) with the electricity regulator, the Provincial Electricity Authority (PEA). For the buy-back of electricity, DEMCO has taken a solar adder (incentive credit) of Bt6.50 per unit from the three solar farms applied for 10 years, while the six solar rooftops have restricted incomes under the new Feed in Tariff (FIT) structure of Bt6.16 per unit for large size plants (250-1,000 KW per plant) and Bt6.55 per unit for medium size plants (10-250 KW per plant), which is a fixed rate for 25 years.

The three solar farms (3 MW) in which DEMCO holds a 46% stake in each 1 MW project started operations in January 2015. Meanwhile, the six solar rooftops (2.2 MW), consisting of phase 6 with 0.25 MW, phase 11 with 0.16 MW, phases 15-17 each with 0.27 MW, and the last phase of 1 MW have an expected COD in February 2015. DEMCO cooperated with the SUTEE Group to construct the two solar rooftops for phase 6 and phase 11 and purchased a 49% stake in them. In addition, DEMCO invested in a 51% stake of three solar rooftops for phases 15-17 on roof areas of Ticon Industrial Connection (TICON). In the last solar rooftop phase, DEMCO installed solar roof panels with a 100% investment.

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In 2015, we expect DEMCO will obtain earnings of Bt20mn from all nine solar plants (5.2 MW). Our assumptions are (1) capex for construction of Bt60mn per MW; (2) a maintenance cost of Bt1.0mn per MW per year; and (3) a cost of debt of 6.00% with a D/E ratio of 75:25.

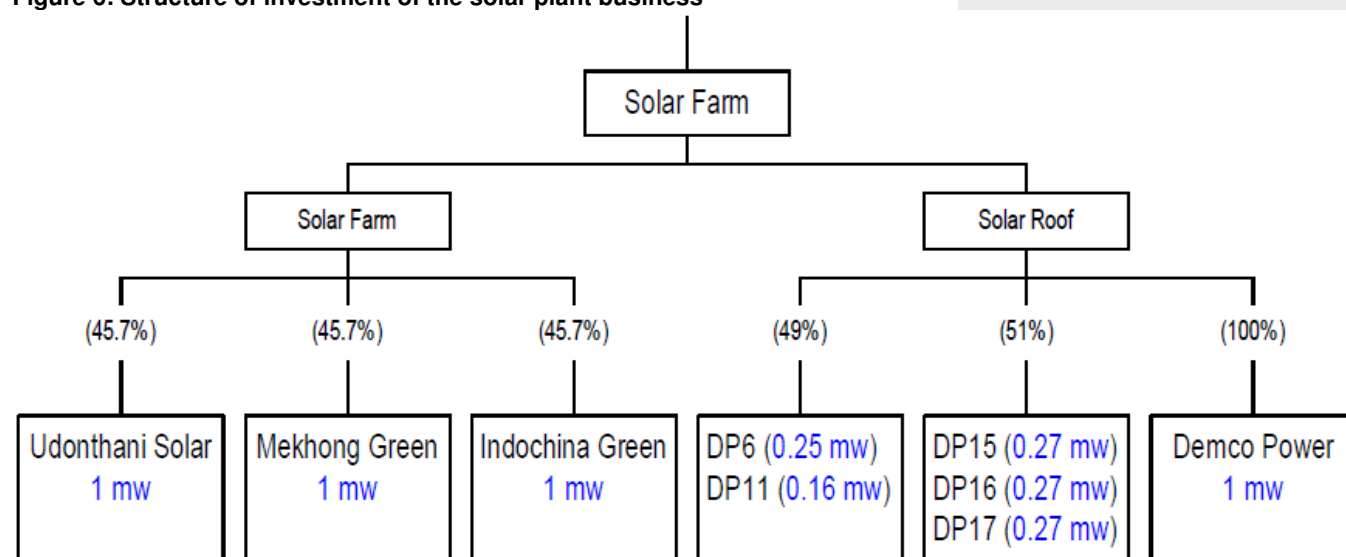
Figure 5: Solar-plant business with combined capacity of 5.2 MW (DEMCO's share portion 3.0 MW)

No.	Solar farms	Contracted	DEMCO's equity	DEMCO's portions	Location	COD	Revenue	PPA
1	Udonthani Solar	1.0 MW	46%	0.46 MW	Udon Thani	Jan 2015	Adder of Bt 6.5	Signed PPA
2	Mekhong Green	1.0 MW	46%	0.46 MW	Nong Khai	Jan 2015	Adder of Bt 6.5	Signed PPA
3	Indochina Green	1.0 MW	46%	0.46 MW	Nong Khai	Jan 2015	Adder of Bt 6.5	Signed PPA
Total		3.0 MW		1.4 MW				

No.	Solar rooftops	Contracted	DEMCO's equity	DEMCO's portions	Location	COD	Revenue	PPA
4	DP 6	0.25 MW	49%	0.12 MW	SUTEE's roofs	Feb 2015	FIT of Bt 6.16	Signed PPA
5	DP 11	0.16 MW	49%	0.08 MW	SUTEE's roofs	Feb 2015	FIT of Bt 6.55	Signed PPA
6	DP 15	0.27 MW	51%	0.14 MW	TICON's roofs	Feb 2015	FIT of Bt 6.16	Signed PPA
7	DP 16	0.27 MW	51%	0.14 MW	TICON's roofs	Feb 2015	FIT of Bt 6.16	Signed PPA
8	DP 17	0.27 MW	51%	0.14 MW	TICON's roofs	Feb 2015	FIT of Bt 6.16	Signed PPA
9	Demco Power	1.00 MW	100%	1.00 MW	DEMCO's roofs	Jan 2015	FIT of Bt 6.16	Signed PPA
Total		2.2 MW		1.6 MW				

Sources: Company data and KSS Research

Figure 6: Structure of investment of the solar plant business



Sources: Company data and KSS Research

A boost to EPC backlog of Bt13bn.

As of November 11 2014, the company had EPC work valued at Bt5.75bn. Excluding DEMCO's completed work in 4Q14 of Bt1.5bn, the company had an EPC backlog valued at Bt4.2bn at the end of 2014. The backlog consists of

- electrical engineering work valued at Bt2.0bn
- remaining EPC work from EA's solar farm #3 valued at Bt250mn
- WEH's wind farm #3 Kao Koh valued at Bt957mn
- WEH's wind farm # 4 Watabak valued at Bt980mn

We also add EPC contracts for several projects with a total value of Bt8.9bn that DEMCO is expected to acquire in 2015. Our assumptions for additional EPC work are:

- sub-station work #1 from EGAT valued at Bt600mn (status: the lowest bid)
- sub-station work #2 from EGAT valued at Bt500mn (status: negotiating price after offering the lowest bid)
- sub-station work #3 from EGAT valued at Bt800mn (status: the lowest bid)
- sub-station work #4 from EGAT valued at Bt200mn (status: negotiating price after offering the lowest bid)
- EA's solar farm #4 with 90 MW, valued Bt1.75bn
- EA's three wind farms with 126 MW valued at Bt1.76bn (assumption: 20% of capex at Bt70mn per MW)
- tap water utilities at Laos valued at Bt500mn
- electricity utilities in Laos valued at Bt400mn
- waste-to-energy plant #1 valued at Bt600mn
- waste-to-energy plant #2 valued at Bt600mn
- New solar EPC work from a solar relaunch valued Bt1.2bn (assumption: 100 MW from full additional capacity of 120 MW for solar EPC work)

As a result, DEMCO's EPC backlog is estimated to increase to Bt13.1bn. We also forecast the EPC business to generate revenue of around Bt8.3bn in 2015, up 80% YoY from Bt4.6bn in 2014, while the remaining Bt4.8bn should be realized in 2016. In addition, DEMCO has a good chance of acquiring EPC work from WEH's five wind farms, each of which has an EPC value of Bt1.4bn, assuming if the restructuring of WEH's shareholding is resolved. Meanwhile, we assume a gross margin for the EPC business of 15% for renewable energy work, 12% for electrical engineering and overseas work, and 10% for EA work, which has a lower margin due to the high value of EA projects. The historical average gross margin for the EPC business was 11.5% in 2014 and 12.4% in 2013.

Figure 7: Focus on contractor work for alternative energy



Sources: Company data and KSS Research

Trading business to generate revenue to DEMCO.

DEMCO is one of Thailand's largest manufacturers and suppliers of electrical equipment and steel towers used in transmission line systems and substations. The company has experience in the design and operation of electrical systems, from 220V at low-voltage houses to 230kV at high-voltage transmission line systems and substations. Other large solar developers such as EA, SPCG, and GUNKUL lack the expertise in constructing 230kV high voltage systems. In addition, the company plans to step up bidding for construction of a 500kV electricity system with its Spanish partner Cobra.

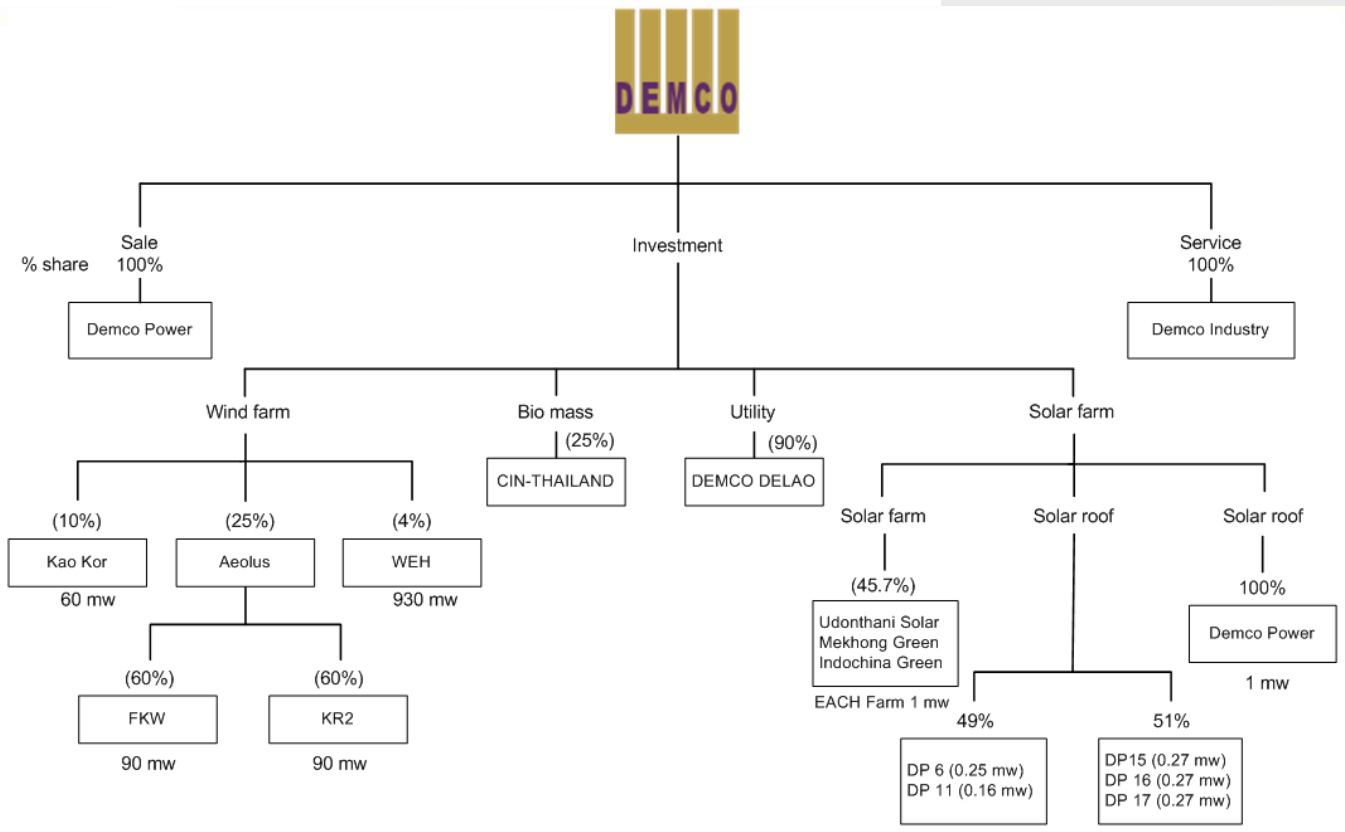
Management suggested that DEMCO's factory will absorb domestic demand for steel towers used for electricity systems and telecommunications networks with a full capacity value of Bt600mn per year. Therefore, we estimate DEMCO's trading business will contribute revenue of Bt450mn in 2015 and Bt473mn in 2016 with a 5% growth CAGR in 2014-2016. Meanwhile, we assume a gross margin for the trading business of 10%.

Figure 8: Thailand's electricity generating system



Sources: Company data and KSS Research

Figure 9: DEMCO's business structure



Sources: Company data and KSS Research

Potential near-term projects

Four upcoming potential projects.

The company is in the process of filing proposals to invest in two waste-to-energy power plants (8 MW each) in Lopburi and Maha Sarakham provinces, water supply utilities in Laos (capex Bt1.0bn), and underground electricity utilities in Laos (capex Bt400mn). The four projects will increase the proportion of recurring earnings to DEMCO. In addition, the investment in water supply and underground electricity utilities at Laos provide DEMCO a stronger chance of acquiring massive EPC work on transmission line systems in Laos, which is expanding the number of electricity generating dams.

Figure 10: Four potential projects

No.	Solar farms	Contracted	DEMCO's equity	Location	COD	Revenue	Status
1	Waste-to-energy power plant #1	8.0 MW	20%	Lopburi	2017	FIT of Bt 5.06	Waiting for PPA's approval in 2Q15
2	Waste-to-energy power plant #2	8.0 MW	20%	Maha Sarakham	2017	FIT of Bt 5.06	Waiting for PPA's approval in 4Q15
3	Water-supply utilities	Bt1.0bn	90%	Laos	2016	IRR of 12%	Waiting for concession's approval in Mar15
4	Underground-electricity utilities	Bt400mn	90%	Laos	2016	IRR of 18%	Waiting for concession's approval in Jun15

Sources: Company data and KSS Research

Waste-to-energy power plant business to be a new driver.

DEMCO set up a new subsidiary, CIN (Thailand) Co., Ltd., to invest in two waste-to-energy power plants of which CIN International Company Group, a Chinese firm, holds a 74% stake and DEMCO 26%. CIN (Thailand) Co., Ltd., will hold a 25% stake, DEMCO directly 13.5%, a local partner 10%, and CIN International Company Group 1.5%. A machinery producer will hold the major stake of 50%. DEMCO will hold an accumulative stake of 20%. For the buy-back of electricity, the two waste-to-energy power plants have restricted incomes under the FIT structure of Bt5.06 per unit, which is a fixed rate for 25 years.

DEMCO is filing a PPA for the first phase (8 MW) in Lopburi province and expects it to be approved by the electricity regulator in 2Q15. Management guided that the Gasification of Refuse Derived Fuel (RDF) technology was chosen for installation on its waste-to-energy power plant as it offers an 80%-85% efficiency in generating electricity. The company expects construction of such technology will take 18 months with capex of Bt1.4bn, and commercial operations to begin in late 4Q16. The second phase (8 MW) in Maha Sarakham province is expected to receive PPA approval in 4Q15.

We calculate the two waste-to-energy power plants (16 MW) will contribute earnings of around Bt60mn per year to DEMCO. Our assumptions are (1) capex for construction of Bt175mn per MW; (2) maintenance cost of Bt3mn per MW per year; and (3) a cost of debt of 7% with a D/E ratio of 50:50. However, we do not include the two projects in our earnings forecast yet until the company receive PPA approval.

Company Update | DEMCO

Two utility projects in Laos to be first foray into overseas business.

DEMCO set up a new subsidiary, Demco Delao Co., Ltd., to engage in work in Laos. DEMCO holds a 90% stake and a local partner 10%. Water supply and underground electricity utilities are two projects to be undertaken. However, we do not include the two projects in our earnings forecast until the company receives the concessions.

For the water supply utilities project with a total capex of Bt1bn, all engineering design is complete. The company expects to acquire a 30-year concession from Laos officials in March 2015 and then take around five months to complete construction, which means COD should be in late 4Q15. Management also guided that the beginning investment in water supply utilities is around Bt500mn for the full capacity of 14,400 cubic meters per day with a minimum guaranteed usage of 12,000 cubic meters per day. After that, the company will expand the water supply project every three years with capacity of 7,200 cubic meters per day (investment Bt70mn). Therefore, its total capacity in water supply utilities at the end should increase to 64,800 cubic meters per day, which is small compared with Bangkok's demand of more than 3.5 million cubic meters per day. The company receives a revenue structure from water supply utilities of LAK 2.0bn per cubic meter (Bt8.1 per cubic meter). Therefore, the water-supply project in Laos should contribute an internal rate of return of 13%, according to DEMCO's guidance.

The underground electricity utilities project has a capex of Bt400mn. Management suggested that it is in the feasibility study and engineering design stage. The project will have an IRR of 18%. The company plans to obtain a 30-year concession from local officials in June 2015. Construction is expected to take eight months and commercial operations begin in 1Q16.

Earnings outlook

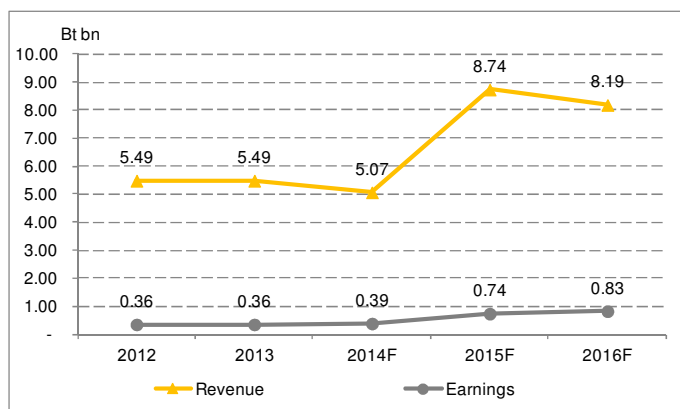
Expected earnings growth with 46% CAGR for 2015-2016.

We expect DEMCO will post earnings in 2015 of Bt744mn, up 90% YoY from Bt391mn in 2014, mainly on EPC revenue of Bt8.3bn (+80% YoY) with an average gross margin of 12%. DEMCO is expected to obtain EPC work for two EA projects - solar farm #4 (90 MW) and three wind farms (126 MW) with a high EPC value of about Bt1.8bn for each project. Meanwhile, all nine solar plants (5.2 MW), which are expected to commence commercial operations by 1Q15, should contribute Bt20mn in earnings to DEMCO in 2015.

Earnings in 2016 will increase by 12% YoY to Bt831mn after the third phase 60 MW Kao Koh wind farm project starts COD in 4Q15, which will contribute earnings of Bt55mn in 2016. DEMCO also has a strong chance of acquiring EPC work from WEH's five wind farms (450 MW) each of which with an EPC value of Bt1.4bn, assuming WEH shareholder restructuring is resolved in late 2Q15. We therefore assume EPC business revenue in 2016 to decrease slightly by 7% YoY to Bt7.7bn but provide a higher gross margin of 13.7% due to a decline in EA's low-margin EPC work.

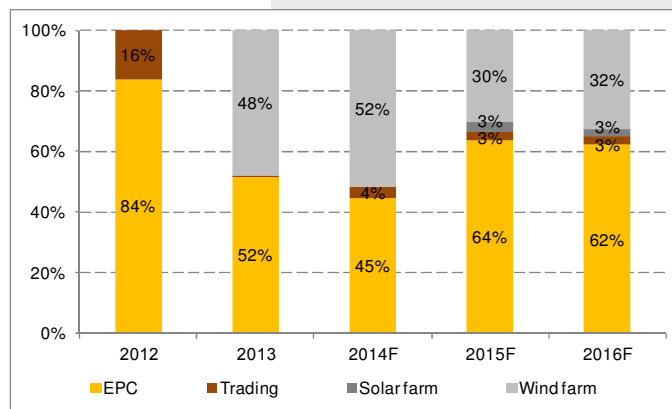
As DEMCO is just in the stage of filing proposals, we will add the four potential projects into our earnings forecast after the company receives a PPA in Thailand and concession in Laos, which management expects will occur in 1H15. The four projects consist of two waste-to-energy power plants (8 MW each) in Lopburi and Maha Sarakham provinces, and water supply and underground electricity utilities in Laos (Bt1bn and Bt400mn). We expect the two waste-to-energy projects (16 MW) will provide earnings for DEMCO of Bt60mn in 2017. Investment in the two utilities in Laos marks the first step for DEMCO in acquiring other large EPC work such as transmission line systems in Laos.

Figure 11: Revenue and earnings growth



Sources: Company data and KSS Research

Figure 12: EBIT breakdown



Sources: Company data and KSS Research

4Q14 net profit increased 17% QoQ.

We expect DEMCO to report earnings in the last quarter of 2014 of Bt142mn, up 29% YoY and 17% QoQ. The quarterly growth was due to (1) higher EPC revenues mainly from EA's solar farm #3 (90 MW) of B1.7bn (+23% QoQ); and (2) higher earnings from two existing wind farms, the Huay Bong 2 and 3 projects (90 MW each) to Bt60mn due to a seasonal effect. But SG&A expense rose to Bt90mn (+16% QoQ) due to an increase in bonus expense in 4Q14. DEMCO's earnings in 2014 should therefore increase by 9% YoY to Bt391mn.

Figure 13: 4Q14 earnings preview

YE Dec (Bt mn)	4Q13	1Q14	2Q14	3Q14	4Q14F	%QoQ	%YoY
Revenue	1,764	802	930	1,507	1,830	17.6%	3.8%
Gross profit	152	115	113	165	183	9.6%	20.7%
SG&A	87	75	76	75	90	16.1%	3.9%
Net other income	14	10	16	12	20	39%	38.5%
Share profit of associates	67	43	24	50	60	17.4%	-10.6%
EBIT	65	40	36	90	93	3%	43.1%
Interest expenses	19	17	15	18	17	-8.9%	-11.7%
EBT	61	34	37	84	96	12.8%	59.1%
Taxes	18	5	7	15	14	-5.7%	-20.8%
Core profit	110	72	54	118	142	16.6%	29.4%
Net profit	110	72	59	118	142	16.6%	29.4%
EBITDA	69	45	42	96	98	2.7%	42.3%
Core EPS (Bt)	0.16	0.10	0.08	0.17	0.20	16.6%	29.4%
EPS (Bt)	0.16	0.10	0.08	0.17	0.20	16.6%	29.4%
Key Ratios							
Gross margin (%)	8.60	14.34	12.12	10.97	10.00		
SG&A/Revenue (%)	4.91	9.32	8.20	5.01	4.92		
EBITDA margin (%)	3.92	5.65	4.51	6.35	5.38		
Interest Coverage (x)	7.77	5.58	5.34	8.36	10.38		
Net profit margin (%)	6.22	9.00	6.31	7.85	7.75		

Sources: Company data and KSS Research

Recommendation and valuation

Initiate coverage with a “Buy” rating and a target price of Bt18.60.

We initiate coverage of DEMCO with a “Buy” rating and a 2015 target price of Bt18.60. We value the contractor and trading business at Bt11.7 based on a P/E of 18.5x, which is a discount to GUNKUL’s forward P/E of 19x for its contractor & trading business as we estimate a lower gross margin for DEMCO in 2015 of 12% vs 15% for GUNKUL.

We value the power business using the discounted cash flow (DCF) method. DEMCO currently has nine solar plants (5.2MW) and nine wind farms (750MW); however, the company does not hold 100% stakes in most of the projects. DEMCO should thus have a remaining capacity of 3 MW and 58 MW, respectively. We also value 10 solar plants at Bt0.3 and nine wind farms at Bt5.3, as shown in the Figures 15-16. Based on DEMCO’s entire existing business, we derive a value of Bt17.4.

In addition, we add a half valuation for four upcoming potential projects, two waste-to-energy power plants (8 MW Bt5.3) in Lopburi and Maha Sarakham provinces, water supply and underground electricity utilities projects in Laos (capex Bt1bn and Bt400mn, respectively) into our target price at Bt1.2 with a 50% probability of a successful acquisition. In conclusion, our target price for 2015 is Bt18.60. We will closely monitor developments of these potential projects, which should be clear by 1H15.

Figure 14: Valuation of contractor & trading business

Contractor & Trading business		
P/ E (x)	2015 EPS (Bt)	Target Price (Bt)
18.0	0.634	11.42
18.5	0.634	11.73
19.0	0.634	12.05

Sources: Company data and KSS Research

Valuation of the solar plant business.

We apply a WACC of 5.9% for the three solar farms (3 MW) and six solar rooftops (2.2 MW) based on a CoD of 6% and CoE of 9.2% with a D/E ratio of 75:25. We therefore value the nine solar farms (5.2 MW) at Bt0.3.

Figure 15: Valuation of solar plant business based on the DCF method using a WACC of 5.9%

Solar plant business			
Project	Project Capacity	DEMCO's Capacity	Target Price (Bt)
Udonthani Solar	1.00 MW	0.46 MW	0.06
Mekhong Green	1.00 MW	0.46 MW	0.06
Indochina Green	1.00 MW	0.46 MW	0.06
6 solar rooftops	2.22 MW	1.61 MW	0.13
Total	5.2 MW	3.0 MW	0.31

Sources: Company data and KSS Research

Valuation of the wind farm business.

We apply a WACC of 6% for the two existing wind farms, the Huay Bong 2 and 3 projects, based on a CoD of 5.8% and CoE of 9.2% with a D/E ratio of 70:30. We assume a WACC of 5.8% for seven upcoming wind farms based on a COD of 5.5% and COE of 9.2% with a D/E ratio of 70:30. We thus value the nine wind farms (750 MW) at Bt5.30.

Figure 16: Valuation of wind farm business based on DCF method using a WACC of 6% for existing projects and 5.8% for new projects

Wind farm business			
Project	Project Capacity	DEMCO's Capacity	Target Price (Bt)
Huay Bong 2	90 MW	15.12 MW	1.37
Huay Bong 3	90 MW	15.12 MW	1.37
Kao Koh	60 MW	6.72 MW	0.70
Watabak	60 MW	1.80 MW	0.18
Korat 02/01	90 MW	3.60 MW	0.34
Korat 02/02	90 MW	3.60 MW	0.34
Korat 02/03	90 MW	3.60 MW	0.34
Korat 02/04	90 MW	3.60 MW	0.34
North Kitsana	90 MW	3.60 MW	0.33
Total	750 MW	56.8 MW	5.33

Sources: Company data and KSS Research

Valuation of future potential projects.

We apply a WACC of 7.4% for two waste-to-energy power plants based on a CoD of 5.6% and CoE of 9.2% with a D/E ratio of 50:50. We use a WACC for the water supply and underground electricity utilities projects in Laos of 6.1% based on a COD of 6.0% and COE of 9.2% with a D/E ratio of 70:30. We therefore value each 60 MW waste-to-energy power plant at Bt0.4, the Laos water-supply utilities project at Bt0.9, and the Laos underground electricity utilities project at Bt0.7. The four potential projects at a half valuation of Bt1.20 is already included in our target price.

Figure 17: Valuation of future potential projects based on DCF method using a WACC of 7.4% for two waste-to-energy power plants and 6.1% for water supply and underground electricity utilities projects in Laos

Project	Target Price (Bt)			
	Confidence 25%	Confidence 50%	Confidence 75%	Confidence 100%
Waste #1 (8MW)	0.1	0.2	0.3	0.4
Waste #2 (8MW)	0.1	0.2	0.3	0.4
Water- supply @ Laos	0.2	0.4	0.7	0.9
Electricity @ Laos	0.2	0.3	0.5	0.7

Sources: Company data and KSS Research

Financial tables

Consolidated Profit and Loss (Bt mn)

Year to Dec	2012	2013	2014E	2015E	2016E
Sales	5,940	5,487	5,069	8,738	8,187
Cost of goods sold	(5,068)	(4,831)	(4,493)	(7,684)	(7,075)
Gross profit	871	657	576	1,054	1,112
Depreciation and amortization	23	22	22	26	27
EBITDA	567	291	281	643	730
SG&A expense	(327)	(389)	(316)	(437)	(409)
EBIT	544	268	260	617	703
Interest expense	(108)	(78)	(67)	(107)	(101)
Net other income	69	41	58	53	54
EBT	506	231	251	562	657
Tax	(86)	(53)	(41)	(95)	(111)
Net equity earnings	(12)	169	177	277	285
Minority interest	(15)	3	0	0	0
Core profit	393	349	386	744	831
Forex gain (loss)	0	0	0	0	0
Extraordinary items	0	8	5	0	0
Reported net profit	393	357	391	744	831
EPS (Bt)	0.73	0.55	0.56	1.03	1.04

Consolidated Balance Sheet (Bt mn)

Year to Dec	2012	2013	2014E	2015E	2016E
Cash & cash equivalents	204	370	350	548	2,007
Accounts receivable	2,149	2,256	2,084	2,873	2,692
Inventories	205	252	234	315	290
Total current assets	2,803	3,213	3,003	4,071	5,324
Investments	1,297	2,367	2,367	2,923	3,066
Fixed assets	315	267	350	353	356
Total assets	4,460	5,879	5,751	7,379	8,778
Short-term debt	1,530	1,108	760	1,309	1,226
Accounts payable	628	1,003	932	1,049	965
Total current liabilities	2,629	2,689	2,246	2,911	2,745
Long-term debt	11	5	68	62	55
Total liabilities	2,691	2,744	2,364	3,023	2,851
Paid-up capital	553	693	693	730	796
Share premium	697	1,660	1,660	2,070	2,994
Retained earnings	479	781	1,034	1,554	2,136
Minority interest	40	1	1	1	1
Total shareholders' equity	1,769	3,135	3,387	4,356	5,927
Shares (mn)	536	649	693	726	796

Consolidated Cash Flow Statement (Bt mn)

Year to Dec	2012	2013	2014E	2015E	2016E
Net profit	393	357	391	744	831
Depreciation and amortization	23	22	22	26	27
Change in working capital	(431)	221	119	(753)	123
Operating cash flow	(405)	425	532	18	980
Net capital expenditure	(23)	57	(104)	(29)	(30)
Free cash flow	(428)	482	428	(12)	950
Investing cash flow	(583)	(838)	(104)	(586)	(173)
Dividend paid	(129)	(148)	(139)	(223)	(249)
Equity issued	107	139	0	37	66
Financing cash flow	991	579	(448)	767	652
Net cash	3	166	(20)	198	1,459

Ratio Analysis

Year to Dec	2012	2013	2014E	2015E	2016E
Growth (%)					
Sales growth	80.60	(7.61)	(7.63)	72.39	(6.30)
EBITDA growth	157.70	(48.77)	(3.17)	128.42	13.55
Net profit growth	230.03	(8.98)	9.40	90.38	11.60
Profitability ratios (%)					
Gross margin	14.67	11.97	11.36	12.06	13.59
EBITDA margin	9.55	5.30	5.55	7.36	8.91
Net profit margin	6.61	6.51	7.71	8.52	10.14
Effective tax rate	17.37	13.11	9.58	11.30	11.78
SG&A/net sales	5.50	7.08	6.24	5.00	5.00
Leverage ratios (x)					
Total debt/equity	1.52	0.88	0.70	0.69	0.48
Net debt/equity	0.77	0.25	0.14	0.19	(0.12)
Net debt/EBITDA	2.41	2.66	1.72	1.29	(0.98)
Interest coverage	5.45	6.29	7.48	8.81	10.36
Per share data (x)					
Price/sales	1.83	1.98	2.15	1.24	1.33
Price/OCF	(26.86)	25.59	20.44	621.03	11.10
Price/FCF	(25.41)	22.55	25.41	(913.81)	11.45

Key Assumptions

Year to Dec	2012	2013	2014E	2015E	2016E
EBIT breakdowns					
EPC (%)	84	52	45	64	62
Trading (%)	16	0	4	3	3
Solar farm (%)	0	0	0	3	3
Wind farm (%)	0	48	52	30	32

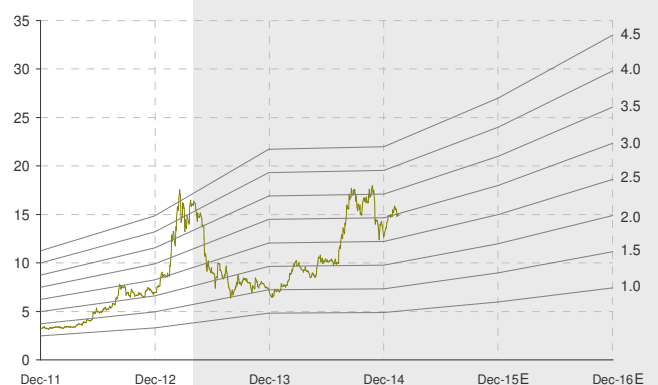
Sources: Company data and KSS Research

4Q14 performance preview

YE Dec (Bt mn)	4Q13	1Q14	2Q14	3Q14	4Q14F	%QoQ	%YoY
Revenue	1,764	802	930	1,507	1,830	17.6%	3.8%
Gross profit	152	115	113	165	183	9.6%	20.7%
SG&A	87	75	76	75	90	16.1%	-3.9%
Net other income	14	10	16	12	20	39%	38.5%
Share profit of associates	67	43	24	50	60	17.4%	-10.6%
EBIT	65	40	36	90	93	3%	43.1%
Interest expenses	19	17	15	18	17	-8.9%	-11.7%
EBT	61	34	37	84	96	12.8%	59.1%
Taxes	18	5	7	15	14	-5.7%	-20.8%
Core profit	110	72	54	118	142	16.6%	29.4%
Net profit	110	72	59	118	142	16.6%	29.4%
EBITDA	69	45	42	96	98	2.7%	42.3%
Core EPS (Bt)	0.16	0.10	0.08	0.17	0.20	16.6%	29.4%
EPS (Bt)	0.16	0.10	0.08	0.17	0.20	16.6%	29.4%
Key Ratios							
Gross margin (%)	8.60	14.34	12.12	10.97	10.00		
SG&A/Revenue (%)	4.91	9.32	8.20	5.01	4.92		
EBITDA margin (%)	3.92	5.65	4.51	6.35	5.38		
Interest Coverage (x)	7.77	5.58	5.34	8.36	10.38		
Net profit margin (%)	6.22	9.00	6.31	7.85	7.75		

Source: KSS Research

P/BV band



Source: KSS Research



BAFS	BCP	BTS	CPN	EGCO	GRAMMY	HANA	INTUCH	IRPC	IVL
KBANK	KKP	KTB	MINT	PSL	PTT	PTTEP	PTTGC	SAMART	SAMTEL
SAT	SC	SCB	SE-ED	SIM	SPALI	TISCO	TMB	TOP	






To recognize well performers, the list of companies attaining "Good", "Very Good" and "Excellent" levels of recognition without regulatory notation (from January 1, 2013 to October 22, 2014) is publicized.



AAV	ACAP	ADVANC	ANAN	AOT	ASIMAR	ASK	ASP	BANPU	BAY
BBL	BECL	BIGC	BKI	BLA	BMCL	BROOK	CENTEL	CFRESH	CIMBT
CK	CNT	CPF	CSL	DELTA	DRT	DTAC	DTC	EASTW	EE
ERW	GBX	GC	GFPT	GUNKUL	HEMRAJ	HMPRO	ICC	KCE	KSL
LANNA	LH	LHBANK	LOXLEY	LPN	MACO	MC	MCOT	NBC	NCH
NINE	NKI	NMG	NSI	OCC	OFM	PAP	PE	PG	PHOL
PJW	PM	PPS	PR	PRANDA	PS	PT	QH	RATCH	ROBINS
RS	S&J	SAMCO	SCC	SINGER	SIS	SITHAI	SNC	SNP	SPI
SSF	SSI	SSSC	STA	SVI	TCAP	TF	THAI	THANI	THCOM
TIP	TIPCO	TK	TKT	TNITY	TNL	TOG	TRC	TRUE	TSTE
TSTH	TTA	TTW	TVO	UAC	VGI	VNT	WACOAL		



2S	AF	AH	AHC	AIT	AJ	AKP	AKR	AMANAH	AMARIN
AMATA	AP	APCO	APCS	AQUA	ARIP	AS	ASIA	AYUD	BEAUTY
BEC	BFIT	BH	BJC	BJCHI	BOL	BTNC	BWG	CCET	CGD
CGS	CHOW	CI	CKP	CM	CMR	CSC	CSP	CSS	DCC
DEMCO	DNA	EA	ESSO	FE	FORTH	FPI	GENCO	GL	GLOBAL
GLOW	GOLD	HOTPOT	HTC	HTECH	HYDRO	IFS	IHL	INET	IRC
IRCP	ITD	KBS	KGI	KKC	KTC	L&E	LRH	LST	MAJOR
MAKRO	MATCH	MBK	MBKET	MEGA	MFC	MFEC	MJD	MODERN	MONO
MOONG	MPG	MTI	NC	NTV	NUSA	NWR	NYT	OGC	OISHI
PACE	PATO	PB	PDI	PICO	PPM	PPP	PREB	PRG	PRIN
PTG	QLT	QTC	RCL	SABINA	SALEE	SCBLIF	SCCC	SCG	SEAFCO
SEOIL	SFP	SIAM	SIRI	SKR	SMG	SMK	SMPC	SMT	SOLAR
SPC	SPCG	SPPT	SST	STANLY	STEC	STPI	SUC	SWC	SYMC
SYNEX	SYNTEC	TASCO	TBSP	TEAM	TFD	TFI	THANA	THIP	THREL
TIC	TICON	TIW	TKS	TLUXE	TMI	TMT	TNDT	TPC	TPCORP
TRT	TRU	TSC	TTCL	TUF	TVD	TWFP	UMI	UP	UPF
UPOIC	UT	UV	UWC	VIH	WAVE	WHA	WIN	WINNER	YUASA
ZMICO									

Score Range	Number of Logos	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
Below 50	No logo given	N/A

Disclaimer

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Krungsri Securities Public Company Limited does not confirm nor certify the accuracy of such survey result.



Krungsri Securities Public Company Limited

Headquarters

898 Ploenchit Tower, 3rd Floor, Ploenchit Road, Lumpini
Pathumwan, Bangkok 10330
Tel: 0-2659-7000 Fax: 0-2658-5699
Internet Trading: 0-2659-7777

Branches

Emporium

662 Emporium Tower, Fl. 10, Sukhumvit 24 Road
Klongton, Klongtoey, Bangkok 10110
Tel: 0-2695-4500 Fax: 0-2695-4599

Central Bangna

589/151 Central City Tower 1 Office, Fl. 27
Bangna-Trad Road, Bangna, Bangkok 10260
Tel: 0-2763-2000 Fax: 0-2399-1448

Rama II

111/917-919 Rama II Road, Smaedum,
Bangkhuntien, Bangkok 10150
Tel: 0-2895-9575 Fax: 0-2895-9557

Vibhavadi-rangsit

Bank of Ayudhya Public Company Limited
123 Sun Towers (B) Building, Vibhavadirangsit Road,
Jompol, Jatujak, Bangkok 10900
Tel: 0-2273-8388 Fax: 0-2273-8399

Chonburi

64/17 Sukhumvit Road, Tambol Bang Plasoi,
Amphur Muang, Chonburi 20000
Tel: 0-3879-0430 Fax: 0-3879-0425

Hat Yai Branch

90-92-94 Nipat U Tit Nueng Road, Tambol Hat Yai,
Amphur Hat Yai, Songkhla 90110
Tel: 0-7422-1229 Fax: 0-7422-1411

Nakhon Pathom

67/1 Ratchadamnoen Road, Tambol Phra Pathom Jaedee,
Amphur Muang, Nakhon Pathom 73000
Tel: 0-3427-5500-7 Fax: 0-3421-8989

Suphanburi

249/171-172 Moo 5 Tambol Ta Rahad,
Amphur Muang, Suphanburi, 72000
Tel: 0-3550-1234 Fax: 0-3552-2449

Nakhon Ratchasima

168 Chomphon Road, Tambol Nai Muang,
Amphur Muang Nakhon Ratchasima,
Nakhon Ratchasima 30000
Tel: 0-4425-1211-4 Fax: 0-4425-1215

Khon Kaen

114 Sri Chan Road, Tambol Nai Muang,
Amphur Muang, Khon Kaen 40000
Tel: 0-4322-6120 Fax: 0-4322-6180

Chiang Mai

70 Chang Phuak Road, Tambol Sri Phum
Amphur Muang, Chiang Mai 50200
Tel: 0-5321-9234 Fax: 0-5321-9247

Chiang Rai

231-232 Thamalai Road, Tambol Wiang,
Amphur Muang, Chiang Rai 57000
Tel: 0-5371-6489 Fax: 0-5371-6490

Phitsanulok

275/1 Phichaisongkram Road, Tambol Nai Muang,
Amphur Muang, Phitsanulok 65000
Tel: 0-5530-3360 Fax: 0-5530-2580

Analyst Team	Name	Sector Coverage	E-mail
Central line: 66.2659.7000 ext. 5017,5018 Fax. 66.2658.5643	Kasamapon Hamnilrat	Strategy	kasamapon.hamnilrat@krungsrisecurities.com
	Chatree Srismacharoen	Contractor, Construction Materials, Property	chatree.srismacharoen@krungsrisecurities.com
	Charnvut Taecha-amorntanakij	Energy, Petrochemical	charnvut.taechaamorntanakij@krungsrisecurities.com
	Kaweewit Thawilwithayanon	Small cap Energy, Petrochemical	kaweewit.thawilwithayanon@krungsrisecurities.com
	Tanadech Rungsrithananon	Big cap, Banking, Finance & Securities	tanadech.rungsrithananon@krungsrisecurities.com
	Chanyut Srisawatsakun	Small cap, Food & Beverage	chanyut.srisawatsakun@krungsrisecurities.com
	Thakol Banjongruck	Automotive, Healthcare, ICT, Media	thakol.banjongruck@krungsrisecurities.com
	Vatcharut Vacharawongsith	Electronics, Commerce, Hotel, Property	vatcharut.vacharawongsith@krungsrisecurities.com
	Piyapat Patarapuvadol	Strategy / Small Cap	piyapat.patarapuvadol@krungsrisecurities.com
	Apisak Limthumrongkul	Technical	apisak.limthumrongkul@krungsrisecurities.com
Ratasak Piriyanont	Assistant Analyst		

Recommendations

- Buy - Stocks with strong fundamentals and an expected total return of more than 10% over the next year.
- Hold - Stocks with strong fundamentals and an expected total return of 5-10% over the next year.
- Sell - Stocks that are overvalued or that have weak fundamentals.
- Trading - Stocks with weak fundamentals but that have a story for trading.