

PPWSA (KH100010004 CSX)

February 20, 2017

Performance Highlights

FY ends Dec (KHR'bn)	4Q16	% QoQ	% YoY	2016*	% YoY
Revenue**	46.9	-13.1%	-6.0%	198.2	3.6%
EBITDA	17.5	-35.7%	-24.2%	93.7	4.9%
EBIT	8.4	-53.9%	-41.3%	57.7	5.6%
Net finance income	14.4	NA	187.4%	3.1	-76.6%
PBT	22.8	77.9%	18.0%	60.8	-10.5%
Net profit	20.2	97.6%	24.4%	50.5	-6.4%
EBITDA margin	37.3%	-13.1%pt	-9.0%pt	47.3%	0.6%pt
EBIT margin	17.9%	-15.8%pt	-10.8%pt	29.1%	0.6%pt
Net margin	43.1%	24.1%pt	10.5%pt	25.5%	-2.7%pt

Note: *Unaudited; **not including finance income
Source: Company, YSC Research

4Q16 review: earnings jump on soaring net finance income

Total subscriptions increase by 5,820 in 4Q16

- Total number of subscriptions increased by 5,820 during 4Q16, of which 5,415 were household clients, 392 commercial & industrial clients, and 20 houses “for rent to garment workers”. The increase in total subscriptions was quite stable, with the company gaining more than 4,000 new clients per quarter at least over the last two years. At the end of 4Q16, the total number of subscribers came to 309,300, up by 20,276 compared to the end of 2015 or a 7.0% YoY increase.

Total revenue declines 13.1% QoQ, 6.0% YoY

- Total revenue in the last quarter of 2016 came to KHR46.9bn, down 13.1% QoQ or 6.0% YoY. While the QoQ decline followed the previous quarter's record-high revenue, the YoY decline came for the first time in 11 quarters and was mainly driven by a 93.6% YoY drop in income from construction services and a 27.6% YoY decrease in other incomes. The income from construction services fell sharply because the company has already completed major constructions projects in Kampong Cham and Battambang provinces. Other incomes including subscription fees dropped, despite rising total number of subscribers, due to a significant increase in the number of subscriptions from low-income households to whom from 30% to 100% reductions on subscription fee are applied.
- In 2016, PPWSA earned KHR198.2bn in total revenue, achieving only 3.6% growth compared to 2015 due to decreased additional incomes. Although the annual water sales posted a double-digit growth of 10.5%, income from construction services decreased almost 70%, undermining the overall top-line growth.

Operating profit in 4Q16 fall sharply; margin squeezed

- In 4Q16, EBITDA plunged 35.7% QoQ or 24.2% YoY, while EBIT tumbled 53.9% QoQ or 41.3% YoY. Despite total revenue declining, total operating expense continued to swell, expanding 8.1% YoY. As expected, construction service expense fell significantly, down 15% YoY. However, it was not large enough to offset the growth of main expense items including a 14.2% YoY increase in salaries, a 46.3% YoY surge in raw material for household water connections, and a 34.6% rise in other operating expense, which were closely linked to rising number of subscriptions. With growing expenses and falling revenue, EBIT margin contracted 15.8%pt QoQ or 10.8%pt YoY to 17.9%.
- In 2016, however, the water supplier was able to achieve positive operating profit growth, although at a modest rate. EBITDA rose 4.9% YoY to KHR93.7bn, while EBIT was up 5.6% YoY to KHR57.7bn.

Earnings jump on soaring net finance income

- Net profit jumped 97.6% QoQ or 24.4% YoY to KHR20.2bn in 4Q16. In contrast to 3Q16, which saw earnings negatively affected by increasing net interest expense, the last quarter of 2016 was marked by earnings being boosted by soaring net interest income. Change in net finance income/expense is significantly related to fluctuation in foreign exchange as the company does not use any financial derivatives to hedge against the currency risk.
- Earnings fell 6.4% to KHR50.5bn, translating into an earnings per share (EPS) of KHR580 in 2016, vs KHR612 in 2015.

Current mkt. price **KHR 4,140**

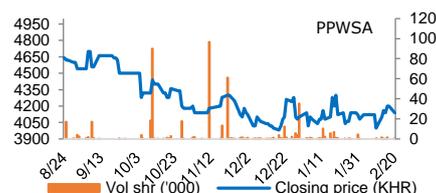
Source: CSX, YSC Research

Stock info

Industry	Utilities (Water)
Market cap (KHRbn)	360.07
Outstanding shares (mn)	87
Majority shareholder	Ministry of Economy & Fin (%)
	85
Avg daily vol. (last 6 months, shr)	3,835
Free floating shares (last 6 months, %)	3.64
Price low/high (last 6 months, KHR)	3,980–4,700
EPS (KHR) (ttm)	580
P/E (x) (ttm)	7.13
P/B (x) (mrq)	0.44
P/B* (x) (mrq)	0.84
EV/EBITDA (x) (ttm)	6.72
D/E (%) (mrq)	58.30

Note: ttm = trailing twelve months (2016); mrq = most recent quarter (4Q16); *Excluding equity of Class A (non-voting) shares.

Stock performance

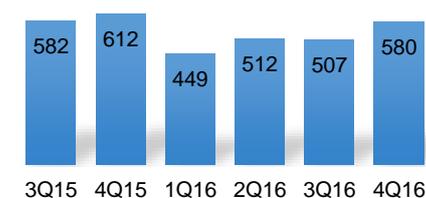


Trading volume and value in 2016

	Monthly trading		Average per day	
	Volume (shr)	Value (KHR'mn)	Volume (shr)	Value (KHR'mn)
Jan	14,761	73	777	3.9
Feb	148,759	722	7,438	36.1
Mar	13,614	66	619	3.0
Apr	17,227	83	957	4.6
May	9,969	47	586	2.8
Jun	12,070	58	575	2.8
Jul	57,305	273	2,729	13.0
Aug	45,949	212	1,998	9.2
Sep	24,635	112	1,173	5.4
Oct	135,764	595	7,145	31.3
Nov	179,698	757	9,983	42.1
Dec	71,919	294	3,269	13.4

Earning strength

EPS (ttm, KHR)



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Water subscriptions

Client	2016	2015	Change	%Change	2016 %total
Household clients	249,701	232,332	17,369	7.5%	80.7%
Commercial & industrial clients	54,120	51,256	2,864	5.6%	17.5%
Houses for rent to garment workers	4,790	4,603	187	4.1%	1.5%
Distribution representative	23	24	-1	-4.2%	0.0%
Others	666	809	-143	-17.7%	0.2%
Total	309,300	289,024	20,276	7.0%	100.0%

Source: The Company

Revenue breakdown (2016, 2015, change, growth, share of total)

Source	2016 (KHR'mn)	2015 (KHR'mn)	Change (KHR'mn)	%Change	2016 %total
Water Sales	179,007	162,028	16,978	10.5%	90.3%
Construction Services	5,421	17,969	-12,548	-69.8%	2.7%
Other Incomes	13,753	11,351	2,401	21.2%	6.9%
Total revenue	198,180	191,348	6,832	3.6%	100.0%

Source: The Company

Net interest income affected by fluctuation in foreign exchange

KHR'mn	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Interest income	20,767	2,039	2,796	7,608	3,257	1,644	1,793	13,500
Interest expense	-2,716	-11,821	-2,724	-2,608	-6,428	-4,332	-7,180	869
Net interest income	18,051	-9,783	72	5,000	-3,171	-2,688	-5,388	14,369

Source: The Company

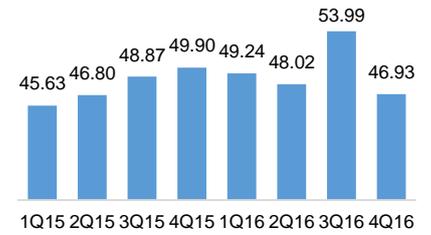
Financial Ratios

FY to Dec	2012	2013	2014	2015	2016*
Per-share ratios					
EPS (KHR)	396	438	526	655	580
BPS (KHR)	7,568	7,955	8,431	8,988	9,419
BPS* (KHR, excluding Class A)	3,071	3,458	3,935	4,491	4,922
EBITDA/shr (KHR)	737	874	905	1,027	1,077
SPS (KHR)	1,554	1,743	1,800	2,200	2,279
DPS (KHR)	28	55	106	153	-
Valuation ratios, as of February 20, 2017					
P/E (x)	10.46	9.45	7.87	6.32	7.13
P/B (x)	0.55	0.52	0.49	0.46	0.44
P/B* (x, excluding Class A)	1.35	1.20	1.05	0.92	0.84
EV/EBITDA (x)	9.83	8.28	8.00	7.05	6.72
P/S (x)	2.66	2.38	2.30	1.88	1.82
Dividend yields (%)	0.67	1.32	2.54	3.69	
Dividend payout (%)	7.00	12.50	20.00	23.30	
Profitability ratios					
Gross margin (%)	67.43	68.51	71.38	66.96	68.36
EBITDA margin (%)	47.41	50.18	50.27	46.66	47.28
EBIT (%)	31.60	34.00	28.52	28.56	29.12
Net margin (%)	25.47	25.56	29.39	28.19	25.47
ROE (%)	5.22	5.57	6.25	6.88	6.22
ROE** (% , excluding Class A)	12.82	12.74	13.33	13.73	12.02
ROA (%)	3.44	3.53	3.95	4.35	3.90
Efficiency ratios					
Asset turnover (x)	0.14	0.14	0.14	0.16	0.16
Receivables turnover (x)	3.95	5.22	5.18	5.89	5.85
Payable turnover (x)	1.16	1.27	1.74	2.59	2.07
Financial strength					
Debt/equity (%)	51.6	58.1	58.4	58.2	58.3
Interest coverage (x)	29.2	35.2	36.0	34.7	32.8
Inter & ST debt cover (x)	6.5	4.3	3.8	2.8	3.4
Current ratio (x)	2.0	1.3	1.1	1.1	1.1
Quick ratio (x)	4.1	4.5	5.4	5.1	3.3
Net debt/EBITDA (x)	3.1	3.8	4.6	4.2	0.8

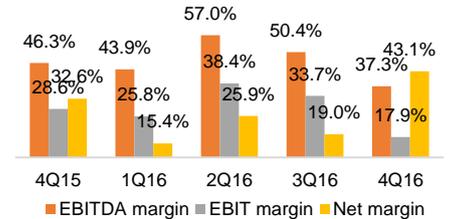
Note: *Unaudited; **Excluding capital of Class A (non-voting) shares of KHR391bn

Source: The Company, YSC Research

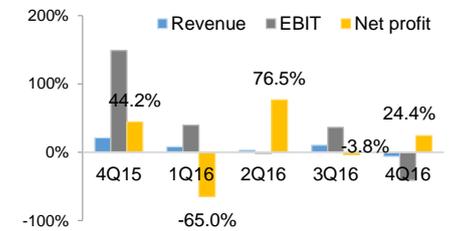
Quarterly revenue (KHR'bn)



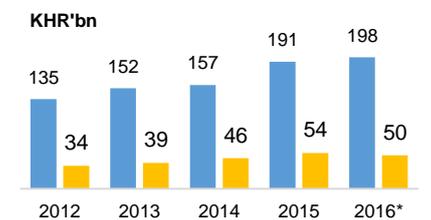
Quarterly profit margin



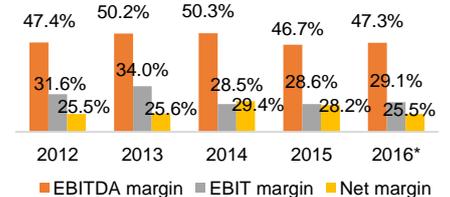
Quarterly revenue and profit growth (YoY)



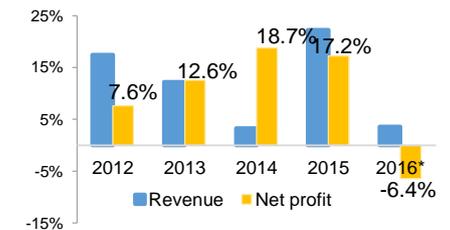
Annual revenue and net profit (KHR'bn)



Annual profit margin



Annual profit growth (YoY)



Note: *Unaudited report

Condensed Financial Statements

Statement of comprehensive income				
FY to Dec (KHRbn)	2013	2014	2015	2016*
Revenues	151.6	156.5	191.3	198.2
COGS	-47.7	-44.8	-63.2	-62.7
Gross profit	103.8	111.7	128.1	135.5
Operating expenses	-26.5	-35.2	-35.8	-42.6
Net gain/loss from forex	-1.3	2.1	-3.1	0.9
EBITDA	76.1	78.7	89.3	93.7
Depreciation & Amortization	-24.5	-34.0	-34.6	-36.0
EBIT	51.5	44.7	54.6	57.7
Interest income	8.6	23.1	33.2	20.2
Interest expense	-12.0	-11.7	-19.9	-17.1
PBT	48.1	56.1	68.0	60.8
Income tax expense	-9.3	-10.1	-14.1	-10.3
Net profit of the period	38.7	46.0	53.9	50.5
Actuarial loss/gain on retirement benefit	-0.7	-0.3	3.0	0.0
Comprehensive income	38.1	45.7	56.9	50.5

Statement of cash flow				
FY to Dec (KHRbn)	2013	2014	2015	2016*
Operating cash flow	74.8	84.2	78.7	100.9
Net profit	38.7	46.0	55.6	60.6
Depreciation & amortization	24.5	34.0	34.5	36.0
Change in working capital	6.8	1.9	-10.2	17.9
Others	4.8	2.3	-1.1	-13.6
Investing cash flow	-112.0	-101.1	-81.5	-74.9
Net CAPEX	-86.9	-86.6	-91.8	-135.3
ST investment	-26.3	-22.1	1.9	46.2
Others	1.2	7.5	8.5	14.2
Financing cash flow	33.8	21.3	0.3	-22.0
Net change in share capital	0	0	0	0
Net change in debt	41.9	38.6	19.5	8.6
Cash dividend	-2.4	-4.8	-9.1	-13.3
Others	-5.7	-12.5	-10.0	-17.3
Net change in cash & equivalent	-3.4	4.4	-2.4	4.0
Beginning cash & equivalent	14.0	10.6	15.0	12.6
Ending cash & equivalent	10.6	15.0	12.6	16.6

Note: *Unaudited

Statement of financial position				
FY to Dec (KHRbn)	2013	2014	2015	2016*
Non-current assets	846.4	878.1	939.4	1,038.5
Fixed assets	835.6	874.7	936.7	1,036.2
Intangible assets	3.3	2.9	2.3	2.0
Other non-current assets	7.6	0.5	0.4	0.3
Current assets	252.5	288.0	300.6	261.4
Inventories	35.1	40.5	53.7	48.6
Trade receivables	29.8	30.6	34.1	34.8
Cash & cash equivalent	10.6	15.0	12.5	16.6
Short-term investment	174.3	196.3	194.5	148.3
Other current assets	2.8	5.5	5.7	13.2
Total assets	1,099.0	1,166.1	1,239.9	1,299.9
Non-current liabilities	347.2	376.6	400.8	400.7
Long-term debts	228.3	251.3	256.4	251.6
Refundable water deposits	31.2	36.3	46.2	45.5
Other non-current liabilities	87.8	89.1	98.2	103.6
Current liabilities	56.6	53.3	58.9	78.0
Short-term debts	26.7	28.8	28.5	34.7
Trade & other payables	29.9	21.5	27.2	33.4
Other current liabilities	0.0	2.9	3.2	10.0
Total liabilities	403.8	429.9	459.7	478.7
Shareholders' equity	695.2	736.2	780.2	821.2
Share capital	541.2	541.2	541.2	541.2
Capital reserves	115.9	149.2	185.8	229.5
Retained earnings	38.1	45.7	53.2	50.5
Total liabilities & equity	1,099.0	1,166.1	1,239.9	1,299.9
Net debt	244.4	265.1	272.4	269.7
Total debt	255.0	280.1	284.9	286.3

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