

PPWSA (KH100010004 CSX)

September 28, 2018

Performance Highlights

FY ends Dec (KHR'bn)	1H18	% YoY	2Q18	% QoQ	% YoY
Revenue	115.81	1.3%	61.44	13.0%	5.7%
EBITDA	54.16	-3.3%	30.43	28.3%	-5.0%
EBIT	35.15	-5.9%	20.75	44.1%	-8.5%
Net finance expense/income	-0.86	-95.4%	3.62	NA	NA
PBT	34.29	83.8%	24.37	145.8%	455.0%
Net profit	27.48	88.8%	19.67	151.8%	507.6%
EBITDA margin	46.8%	-2.2%pt	49.5%	5.9%pt	-5.6%pt
EBIT margin	30.4%	-2.3%pt	33.8%	7.3%pt	-5.2%pt
Net margin	23.7%	11.0%pt	32.0%	17.7%pt	26.5%pt

Source: Company, YSC Research

1H18 review: Operating profit margin narrows as expenses on salaries & electricity surge

Water subscription sees strong increase in 2Q18

- Total water subscription reached 355,090 at the end of June, up almost 5% from the end of 1Q18. The increase of 16,798 subscribers during 2Q18 is the biggest quarterly growth since at least 2015, and could be mainly the result of the company's continued expansion of service coverage area and an increase in demand for water connections from completed houses of major housing development projects in the capital. In fact, subscription by household clients saw the highest growth, rising by 15,716 or 5.7% QoQ, compared to only 1,030 or 1.8% QoQ for the commercial and industrial clients.
- During the first six months of the year, the total number of subscribers rose by 21,802, of which 19,790 are household clients (up 7.3% compared to the end of last year), 1,765 commercial & industrial clients (+3.2%), 233 houses for rent to garment workers (+4.3%), and 14 other clients (government institutions, water distributors, and autonomous state authorities).

Top line rises 5.7% YoY in 2Q18; 1.3% YoY in 1H18

- In 2Q18, total revenue rose 5.7% YoY to KHR61.4bn. The moderate revenue growth in the second quarter was mainly driven by surges in income from construction services and other incomes. Income from construction services from April to June jumped 133.9% YoY to 3.6bn thanks to PPWSA's involvement in water-pipeline construction projects in Kampot and Siem Reap provinces. Meanwhile, other incomes—which include service fees from water subscription, replacement of water meter and other spare parts, and others—surged 43.8% YoY to KHR6.9bn as a result of the strong increase in water subscriptions. However, 2Q18 was marked by a decline in core water sales for the first time in more than four years, with the revenue from water sales decreasing 1.7% YoY to KHR51bn. Despite an increase in water consumption, water sales declined due to a drop in average water tariffs from KHR1,068 to KHR884 per cubic meter for households, and from KHR1,030 to KHR700 per cubic meter for houses for rent to garment workers.
- Total revenue in 1H18 came to KHR115.8bn, up modestly by 1.3% YoY. Income from construction services decreased by 14.9% compared to 1H17 when there were bigger construction projects. Meanwhile, water sales growth was modest, at only 1.4% YoY for the same reason mentioned above.

Operating profit margin narrows as expenses on salaries and electricity surge

- In the first half of 2018, EBITDA came to KHR54.2bn, down 3.2% YoY, while EBIT decreased 5.9% YoY to KHR35.2bn. EBITDA and EBIT margin narrowed 2.2%pt and 2.3%pt to 46.8% and 30.4%, respectively. Although total revenue during the period grew modestly by 1.3% YoY, total operating expense increased moderately by 4.76% YoY. The breakdown of total operating expense shows that expense on salaries and wages surged 24.1% YoY, while expense on electricity and raw materials for water treatment soared 11.4% and 10.1% YoY, respectively. The surges in such expenses could be attributed to PPWSA's further expansion of coverage area and the increase in water production to meet rising consumption.

Net income in 1H18 jumps 88.8% YoY

- With net interest expense reduced substantially from KHR18.7bn in 1H17 to slightly over 0.86bn in 1H18, net profit for the first six months of 2018 jumped 88.8% YoY to almost KHR27.5bn. The substantial amount of interest expense in the first six months of last year was mainly due to unrealized forex loss from borrowings in foreign currency.

Last close	KHR 3,240
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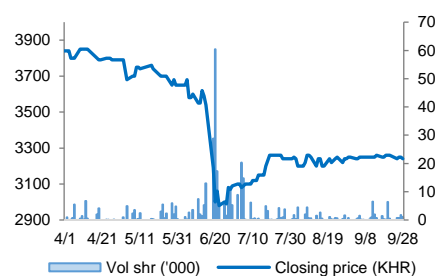
Source: CSX, YSC Research

Stock info

Industry	Utilities (Water)
Market cap (KHR'bn)	281.79
Outstanding shares ('mn)	87
Majority shareholder	Ministry of Economy & Fin (%)
	85
Avg. daily vol. (last 6 months, shr)	3,138
Free floating shares (last 6 months, %)	2.81
Price low/high (last 6 months, KHR)	2,980 ~ 3,850
EPS (KHR) (ttm)	533
P/E (x) (ttm)	6.08
P/B (x) (mrq)	0.34
P/B* (x) (mrq)	0.63
EV/EBITDA (x) (ttm)	5.29
D/E (%) (mrq)	66.80

Note: ttm = trailing twelve months; mrq = most recent quarter (2Q18); *Excluding equity of Class A (non-voting) shares.

Stock performance

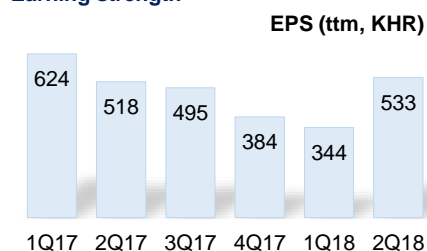


Trading volume and value in 2018

	Monthly trading		Average per day	
	Volume (shr)	Value (KHR'mn)	Volume (shr)	Value (KHR'mn)
Jan	44,907	161.7	2,245	8.1
Feb	8,753	32.8	438	1.6
Mar	12,958	49.2	617	2.3
Apr	23,080	88.1	1,282	4.9
May	39,462	145.3	2,321	8.5
Jun	184,669	583.3	9,719	30.7
Jul	70,259	220.5	3,346	10.5
Aug	24,149	78.0	1,050	3.4
Sep	25,492	82.9	1,342	4.4
Oct	-	-	-	-

Source: CSX, YSC Research

Earning strength



Note: EPS = earnings per share.

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Water subscriptions

Client	1H18	2017	Change	%Change	1H18 %total
Household clients	291,107	271,317	19,790	7.3%	82.0%
Commercial & industrial clients	57,656	55,891	1,765	3.2%	16.2%
Houses for rent to garment workers	5,630	5,397	233	4.3%	1.6%
Others	697	683	14	2.0%	0.2%
Total	355,090	333,288	21,802	6.5%	100.0%

Source: The Company

Revenue breakdown (1H18, 1H17, change, growth, share of total)

KHR'mn	1H18	1H17	Change	%Change	1H18 %total
Water Sales	99,293	97,878	1,415	1.4%	85.7%
Construction Services	6,411	7,532	-1,121	-14.9%	5.5%
Other Incomes	10,108	8,953	1,155	12.9%	8.7%
Total revenue	115,812	114,363	1,449	1.3%	100.0%

Source: The Company

Net interest income affected by fluctuation in unrealized foreign exchange gain/loss

KHR'mn	1H16	2H16	1H17	2H17	1H18
Interest income	4,901	15,293	3,721	2,424	8,945
Interest expense	-10,760	-6,312	-22,436	-10,369	-9,808
Net interest income	-5,859	8,981	-18,715	-7,945	-864

Source: The Company

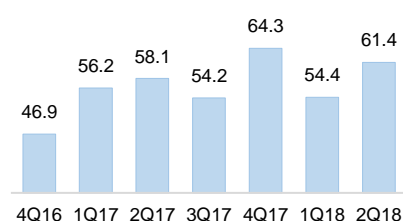
Financial Ratios

FY to Dec	2014	2015	2016	2017	2Q18 (ttm)
Per-share ratios					
EPS (KHR)	526	655	567	380	533
BPS (KHR)	8,431	8,988	9,405	9,588	9,636
BPS* (KHR, excluding Class A)	3,935	4,491	4,908	5,091	5,139
EBITDA/shr (KHR)	905	1,027	1,075	1,339	1,318
SPS (KHR)	1,800	2,200	2,279	2,678	2,694
DPS (KHR)	106	153	160	154	-
Valuation ratios on September 28, 2018					
P/E (x)	6.16	4.95	5.72	8.52	6.08
P/B (x)	0.38	0.36	0.34	0.34	0.34
P/B** (x, excluding Class A)	0.82	0.72	0.66	0.64	0.63
EV/EBITDA (x)	6.95	6.21	5.90	4.92	5.29
P/S (x)	1.80	1.47	1.42	1.21	1.20
Dividend yields (%)	3.25	4.71	4.94	4.75	-
Dividend payout (%)	20.00	23.30	28.24	40.50	-
Profitability ratios					
Gross margin (%)	71.38	66.96	68.66	71.04	72.22
EBITDA margin (%)	50.27	46.66	47.16	50.01	48.92
EBIT (%)	28.52	28.56	29.00	34.13	32.97
Net margin (%)	29.39	28.19	25.45	15.43	19.73
ROE (%)	6.43	7.10	6.29	4.33	5.48
ROE* (% , excluding Class A)	14.17	14.62	12.27	8.20	10.22
ROA (%)	4.06	4.48	3.97	2.70	3.29
Efficiency ratios					
Asset turnover (x)	0.14	0.16	0.16	0.18	0.17
Receivables turnover (x)	5.18	5.89	5.72	5.84	3.58
Payable turnover (x)	1.74	2.59	2.05	1.60	1.49
Financial strength					
Debt/equity (%)	58.4	58.2	58.3	62.3	66.8
Net debt/equity (%)	36.0	34.7	32.9	34.8	38.1
Interest coverage (x)	3.8	2.8	3.4	2.4	3.8
Inter & ST debt cover (x)	1.1	1.1	1.1	1.0	1.2
Current ratio (x)	5.4	5.1	3.3	2.0	1.9
Quick ratio (x)	4.5	4.1	2.6	1.4	1.1
Net debt/EBITDA (x)	3.4	3.1	2.9	2.5	2.8

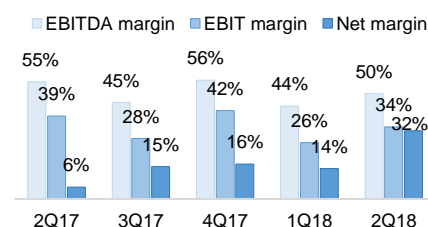
*Excluding capital of Class A (non-voting) shares of KHR391bn

Source: The Company, YSC Research

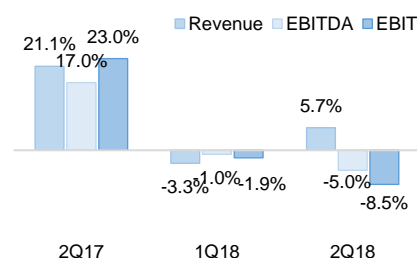
Quarterly revenue (KHR'bn)



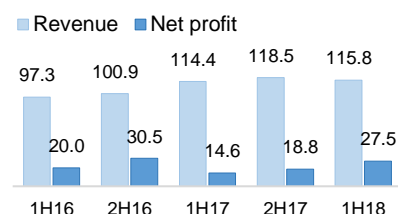
Quarterly profit margin



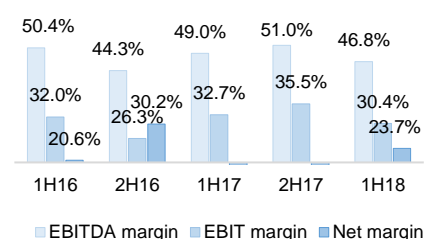
Quarterly revenue and profit growth (YoY)



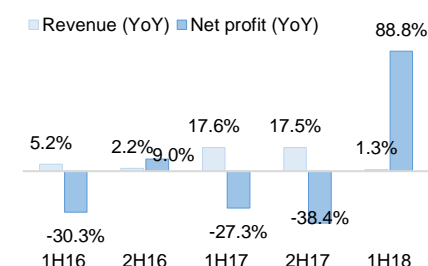
Six-month revenue and net profit (KHR'bn)



Six-month profit margin



Six-month profit growth (YoY)



Condensed Financial Statements

Statement of comprehensive income				
FY to Dec (KHRbn)	2015	2016	2017	1H18
Revenues	191.3	198.2	232.9	115.8
COGS	-63.2	-62.1	-67.4	-33.1
Gross profit	128.1	136.1	165.4	82.7
Operating expenses	-35.8	-43.5	-48.7	-28.5
Net gain/loss from forex	-3.1	0.9	-0.3	0.0
EBITDA	89.3	93.5	116.5	54.2
Depreciation & Amortization	-34.6	-36.0	-37.0	-19.0
EBIT	54.6	57.5	79.5	35.2
Interest income	33.2	20.2	6.1	8.9
Interest expense	-19.9	-17.1	-32.8	-9.8
PBT	68.0	60.6	52.8	34.3
Income tax expense	-14.1	-10.2	-16.9	-6.8
Net profit of the period	53.9	50.4	35.9	27.5
Actuarial loss/gain on retirement benefit	3.0	-1.2	-2.9	0.1
Comprehensive income	56.9	49.3	33.1	27.6

Statement of cash flow				
FY to Dec (KHRbn)	2015	2016	2017	1H18
Operating cash flow	78.7	100.6	83.4	-1.5
Net profit	53.9	50.4	35.9	34.3
Depreciation & amortization	34.5	36.0	37.0	19.0
Change in working capital	-10.2	17.8	-25.6	-51.4
Others	0.5	-3.6	36.1	-3.5
Investing cash flow	-81.5	-74.7	-60.1	-28.3
Net CAPEX	-91.8	-135.1	-115.4	-88.7
ST investment	1.9	46.2	51.6	59.6
Others	8.5	14.2	3.8	0.8
Financing cash flow	0.3	-22.0	-23.7	28.6
Net change in share capital	0	0.0	0.0	0
Net change in debt	19.5	8.6	-1.0	33.6
Cash dividend	-9.1	-13.3	-13.9	-2.0
Others	-10.0	-17.3	-8.7	-3.0
Net change in cash & equivalent	-2.4	3.8	-0.4	-1.3
Beginning cash & equivalent	15.0	12.6	16.4	16.0
Ending cash & equivalent	12.5	16.4	16.0	14.7

Statement of financial position				
FY to Dec (KHRbn)	2015	2016	2017	1H18
Non-current assets	939.4	1,038.6	1,129.5	1,195.2
Fixed assets	936.7	1,036.4	1,124.2	1,179.9
Intangible assets	2.3	2.0	5.2	15.2
Other non-current assets	0.4	0.3	0.1	0.0
Current assets	300.8	259.1	232.5	228.1
Inventories	53.7	48.4	64.5	88.7
Trade receivables	34.3	35.0	44.8	78.2
Cash & cash equivalent	12.6	16.4	16.0	14.7
Short-term investment	194.5	148.3	96.7	37.1
Other current assets	5.7	11.0	10.5	9.5
Total assets	1,240.1	1,297.7	1,362.0	1,423.3
Non-current liabilities	396.7	399.5	408.8	448.7
Long-term debts	256.4	251.6	258.3	292.8
Refundable water deposits	46.3	54.9	49.7	52.9
Other non-current liabilities	94.0	93.0	100.8	103.0
Current liabilities	59.5	78.3	114.1	121.3
Short-term debts	28.5	34.7	49.4	46.8
Trade & other payables	27.3	33.4	51.1	50.7
Other current liabilities	3.6	10.2	13.6	23.8
Total liabilities	456.2	477.8	522.9	570.0
Shareholders' equity	784.0	820.0	839.1	853.3
Share capital	541.2	541.2	541.2	541.2
Capital reserves	185.8	229.5	264.8	284.5
Retained earnings	56.9	49.3	33.1	27.6
Total liabilities & equity	1,240.1	1,297.7	1,362.0	1,423.3
Net debt	272.3	269.9	291.6	324.9
Total debt	284.9	286.3	307.6	339.6

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