

PPWSA (KH100010004 CSX)

March 18, 2024

Performance Highlights

FY ends Dec (KHR'bn)	4Q23*	% QoQ	% YoY	2023*	% YoY
Revenue	100.92	-3.4%	9.4%	387.94	12.1%
EBITDA	54.75	-13.6%	27.8%	212.24	12.3%
EBIT	39.22	-17.8%	40.0%	150.26	16.1%
Net finance income	0.89	38.8%	N/A	3.21	206.8%
PBT	40.11	-17.1%	63.4%	153.47	17.6%
Net profit	35.19	-11.5%	59.3%	126.61	17.0%
EBITDA margin	54.2%	-6.4%pt	7.8%pt	54.7%	0.1%pt
EBIT margin	38.9%	-6.8%pt	8.5%pt	38.7%	1.3%pt
Net income margin	34.9%	-3.2%pt	10.9%pt	32.6%	1.4%pt

Note: *Unaudited
Source: Company, YSC Research

4Q23 Review: Strong Recovery and Resilience in Challenging Times

Number of household connections posts largest YoY growth since 2019

- In 4Q23, total water subscription reached 478,141 connections, an increase of 2.4% compared to the previous quarter, and 5.9% compared to the same period last year. Of the total subscriptions, household clients account for 381,752 connections, or 79.8%, while commercial and industrial clients account for 89,702 connections or 18.8%, with the remaining 1.4%, connections being subscriptions from government institutions, autonomous state authorities, private water distributors, and others. Compared to the previous year, the number of household clients increased by 20,804 connections or 5.8%, the largest YoY growth rate since 2019. Meanwhile, the growth momentum of commercial and industrial clients is slowing down to 6.9% YoY, it had the highest growth rate of 16.4% in 3Q22.

Top line increases despite declining construction services via strong water sales

- The total revenue generated in 4Q23 increased 9.4% compared to 4Q22, amounting to KHR100.92 bn. Water sales, which represent 86.8% of the total revenue, continued their robust growth of 10.1% YoY despite modest growth in water subscription. On the other hand, income from construction service came to KHR2.7 bn in 4Q23, down from KHR11.48 bn in 4Q22, representing a 76.4% decrease. Meanwhile, other incomes, which include service fees from replacement of water meter and other spare parts, skyrocketed eight-fold to KHR10.59 bn in 4Q23, up from just KHR1.18 bn in 4Q22.
- In 2023, revenue totaled to KHR387.94 bn, posting a robust increase of 12.1% compared to a year earlier. Despite moderate growth of 5.9% of additional subscriptions and strong demand amongst household clients, water sales increased by an impressive 16.7% YoY to KHR349.64 bn. On the other hand, income from construction services decreased by 33.3% from KHR24.98 bn in 2022 to KHR16.67 bn. Meanwhile, other income reached KHR21.64 bn, a 0.7% growth from the previous year. The core revenue from water sales was driven by strong water consumption demand, while the average water tariff remained almost unchanged.

EBITDA margin improve by 7.8%pt YoY in 4Q23

- In 4Q23, EBITDA came to KHR54.75 bn, up 27.8% YoY, but down 13.6% QoQ. Total operating expense in 4Q23 decreased by 9.8% YoY due to a 70.7% YoY decrease in construction service expense and a 163.1% YoY decrease in net forex gains/loss despite increases in expenses in every other category. As a result, EBITDA margin improved by 7.8pt% YoY to 54.2% in 4Q23.
- In 2023, PPWSA earned KHR212.2 bn (+12.3% YoY) in EBITDA and KHR150.3 bn (+16.1% YoY) in EBIT. Total operating expenses increased by 9.7% YoY, driven by increases in electricity (+20.1% YoY), salaries (+14.4% YoY), raw materials for water treatment (+30.8% YoY), and repair & maintenance (+45.5% YoY). As a result, the EBITDA margin and EBIT margin slightly improved by 0.1%pt YoY and 1.3%pt YoY, respectively.

Net profit recovers strongly in 4Q23

- In 4Q23, net income surged from KHR22.1 in 4Q22 to KHR35.2 bn, a significant 59.3% increase YoY, as net interest income increased by 35.2% YoY and lead to better net margin (+10.9%pt YoY).
- Net income increased from KHR108.2 bn in 2022 to KHR126.6 bn in 2023, almost reaching all-time high from 2021, representing a 17.0% increase YoY, due to strong revenue growth and improved operating margin. Net margin came to 32.6%, up 1.4%pt YoY.
- The EPS increased 17% YoY from KHR1,244 in 2022 to KHR1,456 in 2023, at which PPWSA's stock is trading at a P/E of 5.00x.

Closing Price **KHR 7,260**

Source: CSX, YSC Research

Stock info

Industry	Utilities (Water)
Market cap (KHR'bn)	631
Outstanding shares ('mn)	21
Majority shareholder	Ministry of Economy & Fin (%)
	80
Avg. daily vol. (last 6 months, shr)	2,670
Free floating shares (last 6 months, %)	9.45
Price low/high (last 6 months, KHR)	7,120 – 7,440
EPS (KHR)	1,456
P/E (x)	4.95
P/E* (x, adj. earnings)	4.88
P/B (x)	0.45
P/B** (x)	0.63
EV/EBITDA (x)	8.41
D/E (%)	126.53

*Based on earnings adjusted for forex gain/loss
**Excluding equity of class A (non-voting) shares.

Stock Performance



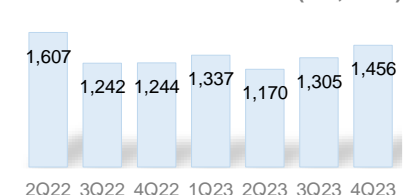
Trading Volume/Value in Last 12 Months

	Monthly trading		Average per day	
	Volume (shr)	Value (KHR'mn)	Volume (shr)	Value (KHR'mn)
Feb-24	14,416	104	437	3
Jan-24	30,854	224	735	5
Dec-23	47,766	345	2,171	16
Nov-23	89,953	651	357	3
Oct-23	35,021	252	168	1
Sep-23	60,791	437	289	2
Aug-23	80,537	589	426	3
Jul-23	43,719	327	238	2
Jun-23	38,637	288	276	2
May-23	76,216	584	577	4
Apr-23	76,689	594	767	6
Mar-23	41,968	326	552	4
Feb-23	122,536	949	1,857	14

Source: CSX, YSC Research

Earning Strength

EPS (ttm, KHR)



Note: EPS = earnings per share. ttm = trailing twelve months

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Water Subscription

Client	2023	2022	Change	%Change	2023 % total
Household clients	381,752	360,948	20,804	5.8%	79.8%
Commercial & industrial clients	89,702	83,874	5,828	6.9%	18.8%
Others	6,687	6,732	-45	-0.7%	1.4%
Total	478,141	451,554	26,587	5.9%	100.0%

Source: The Company

Revenue Breakdown

KHR'mn	2023	2022	Change	%Change	2023 % total
Water Sales	349,640	299,724	49,917	16.7%	90.1%
Construction Services	16,666	24,976	-8,311	-33.3%	4.3%
Other Incomes	21,638	21,478	159	0.7%	5.6%
Total revenue	387,943	346,178	41,765	12.1%	100.0%

Source: The Company

Operating Expense Breakdown

KHR'mn	2023	2022	Change	%Change	2023 % total
Depreciation & Amortization	61,978	59,455	2,523	4.2%	26.3%
Electricity	42,291	35,219	7,073	20.1%	18.0%
Salaries	80,292	70,175	10,117	14.4%	34.1%
Raw materials for water treatment	15,875	12,141	3,735	30.8%	6.7%
Raw materials for water connections	4,817	4,953	-137	-2.8%	2.0%
Repair & maintenance	11,651	8,009	3,642	45.5%	4.9%
Construction service expenses	9,732	16,618	-6,887	-41.4%	4.1%
Other operating expenses	15,155	11,243	3,912	34.8%	6.4%
Net gain/loss from forex	-4,111	-1,106	-3,005	271.8%	-1.7%
Total operating expense	237,681	216,708	18,742	9.7%	100.0%

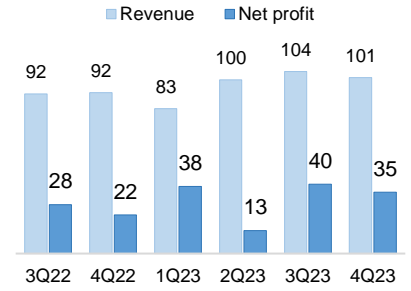
Source: The Company

Financial Ratios

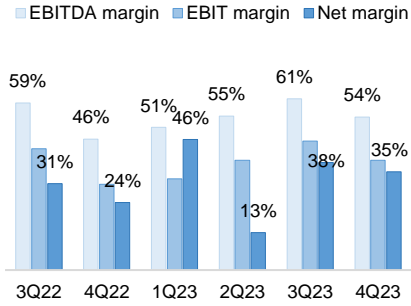
FY to Dec	2019	2020	2021	2022	2023
Per-share ratios					
EPS (KHR)	383	1,016	1,486	1,244	1,456
EPS* (KHR, adj. earnings)	390	1,096	1,412	1,202	1,547
BPS (KHR)	10,351	11,141	13,270	14,489	15,914
BPS** (KHR, excluding Class A)	5,855	6,644	8,773	9,992	11,417
EBITDA/shr (KHR)	1,169	2,069	2,441	2,119	2,440
SPS (KHR)	2,472	3,730	4,218	3,980	4,460
DPS (KHR)	230	262	310	330	N/A
Valuation ratios					
Share price at year end	6,000	6,100	7,160	7,560	7,280
P/E (x)	15.67	6.00	4.82	6.08	5.00
P/E* (x, adj. earnings)	15.38	5.57	5.07	6.29	4.70
P/B** (x, excluding Class A)	1.02	0.92	0.82	0.76	0.64
EV/EBITDA (x)	7.73	5.34	6.02	8.03	8.44
P/S (x)	2.43	1.64	1.70	1.90	1.63
Dividend yields (%)	3.83	4.30	4.33	4.37	N/A
Dividend payout (%)	60.09	25.79	20.86	26.53	N/A
Profitability ratios					
Gross margin (%)	74.21	76.33	78.74	77.77	78.25
EBITDA margin (%)	47.28	55.49	57.87	53.25	54.71
EBIT (%)	24.17	39.95	42.82	36.07	38.73
Net margin (%)	15.48	27.24	35.24	31.25	32.64
ROE (%)	3.67	9.32	12.03	8.87	9.50
ROE** (% , excluding Class A)	6.46	15.87	18.92	13.06	13.44
ROA (%)	2.18	5.09	6.20	4.34	4.33
Efficiency ratios					
Asset turnover (x)	0.14	0.19	0.18	0.14	0.13
Receivables turnover (x)	13.43	16.55	14.52	13.03	12.78
Payable turnover (x)	0.40	0.43	0.52	0.52	0.50
Financial strength					
Debt/equity (%)	75.6	89.9	97.7	111.0	126.5
Net debt/equity (%)	28.9	43.8	56.2	65.0	84.4
Interest coverage (x)	4.5	7.9	32.8	35.9	42.6
Inter & ST debt cover (x)	1.2	2.7	5.6	4.8	5.5
Current ratio (x)	0.9	1.3	2.1	2.3	2.9
Quick ratio (x)	0.4	0.7	1.0	1.1	0.7
Net debt/EBITDA (x)	2.6	2.4	3.1	4.4	5.5

Note: *Based on earnings adjusted for forex gain/loss on borrowings; **Excluding Class A (non-voting) shares
Source: The Company, YSC Research

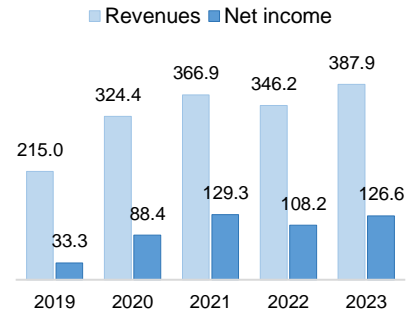
Quarterly Revenue & Net Profit (KHR'bn)



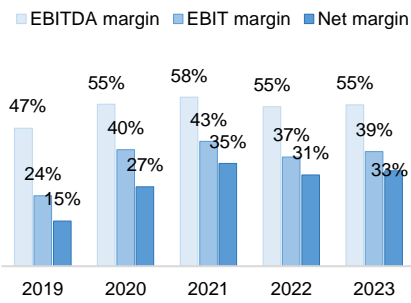
Quarterly Profit Margin



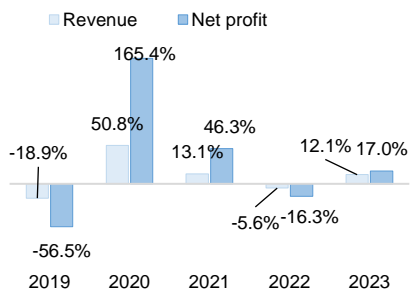
Annual Revenue and Net Profit (KHR'bn)



Annual Profit Margin



Annual Profit Growth (%)



Source: The Company, YSC Research

Investment Risk Analysis

The investment risk associated with PPWSA is a crucial factor to consider for potential investors. Here's an analysis of the key investment risks:

Investment Risk	Description	Impact	Assessment
Stock's Market Liquidity Risk	Market liquidity risk refers to the potential difficulty of buying or selling an asset without significantly affecting its market price due to the lack of active buyers or sellers in the market to facilitate transactions smoothly.	Market liquidity risk can lead to a higher trading cost as a result of an increase in price volatility, widening bid-ask spreads, and price manipulation. Most importantly, holding an illiquid stock can increase the overall risk of a portfolio as investors may struggle to liquidate their positions, potentially amplifying losses.	MODERATE - The trading value per day for PPWSA is experiencing a decreasing trend YoY from KHR50.93mn per day in 2020 down to KHR37.3mn per day in 2022. In comparison, ACLEDA Bank (ABC) has an average daily trading value of KHR 1,945mn in 2022. The lack of market liquidity may make investors sell their stocks at a discounted price, potentially amplifying losses.
Macro-economic risk	Macro-economic refers to the potential adverse impact of broader economic factors and trends on the company. These risks stem from factors that influence the overall economy, including fiscal and monetary policies, inflation, economic growth rates, exchange rates, and external factors (such as geopolitical events, global economic uncertainty, etc.).	Macro-economic risks as mentioned on the left can impact on the company's overall business performance. For example, higher interest rates can cause the company to decrease investments in infrastructure or expansion plans.	HIGH - PPWSA has been quite resilient to macro-economic risks due to its monopoly over water supply system that covers the greater Phnom Penh area. However, the robust growth of PPWSA in recent years has been driven mainly by the increase in industrial and commercial clients as Cambodia's economy transitions into industrialization. Therefore, macro-economic shocks could affect the business activities of these clients, which could adversely affect the water demand and the business performance of PPWSA.
Exchange rate Risk	Exchange rate risk, also known as currency risk, refers to the potential impact of fluctuations in exchange rates on a company's financial performance, particularly for business engaged in international trade, with foreign operations, or transact with two currencies.	Fluctuations in interest rates can affect the company's profitability. For example, if the currency of KHR depreciates relative to the dollar, the company would have to use "more" KHR to pay off dollar-denominated debts to overseas lenders.	HIGH - PWSA's exchange rate risk is inherently high as water tariffs are quoted in KHR and so its revenue is denominated in KHR while the currencies of its liabilities are denominated in USD, EURO, JYP, etc. The depreciation of KHR relative to the dollar or other currencies could potentially lead to significant realized forex loss for the company.

Source: YSC Research

Environmental, Social, and Governance (ESG) Analysis

Environmental Factors

PPWSA has fully complied with environmental protection laws laid out in accordance with the policy and laws of the Royal Government, in particular the Ministry of Environment. For example, initiatives to expand production systems and primary transmission networks commence with the preparation of an E&S report, which will then be submitted to the Ministry of Environment for approval. Following approval and project initiation, PPWSA must conduct bi-annual site visits to assess the side effects, if any, to the surrounding environment and report its findings to the Ministry of Environment. Based on 4Q23 filing report, the NRW (water that was pumped but unaccounted for, or leakage) rate, rose moderately to 10.36%. However, the increase was attributed to PPWSA's washing of water pipes at the Ba Kheng water treatment plant. In other words, it was a one-off event. Nevertheless, the company has been very efficient in maintaining its water supply despite exponential increase in road repair and widening activities throughout the city.

Key KPIs	2019	2020	2021	2022	2023
Non-Revenue Water (NRW) Rate	8.90%	9.74%	9.70%	8.50%	10.36%
<i>%pt YoY change</i>		0.84%	-0.04%	-1.20%	1.86%

Source: The Company, YSC Research

Social Factors

In line with the Government's Poverty Reduction Policy, PPWSA has been actively involved in providing clean water to economically disadvantaged residents in both urban and suburban areas of Phnom Penh since 1999 through its "Clean Water for the Poor" initiative. To facilitate access to clean water for low-income households, PPWSA has introduced three different installment payment plans: spanning 10, 15 and 20 months, allowing residents to choose the option that best suits their financial situation. Furthermore, there is a 20% discount on connection fees for impoverished individuals residing in urban communities. PPWSA has implemented a subsidy program for low-income families since May 2005. This program offers varying levels of financial assistance, from 30% and up to 100% of the total connection fees, depending on the extent of the applicant's poverty – In 2022, PPWSA provided subsidies for 1,447 connections.

Key KPIs	2019	2020	2021	2022	2023
Low-income household connections	1,390	820	1,162	1,447	2,239
%pt YoY change		-41.01%	41.71%	24.53%	54.73%

Source: The Company, YSC Research

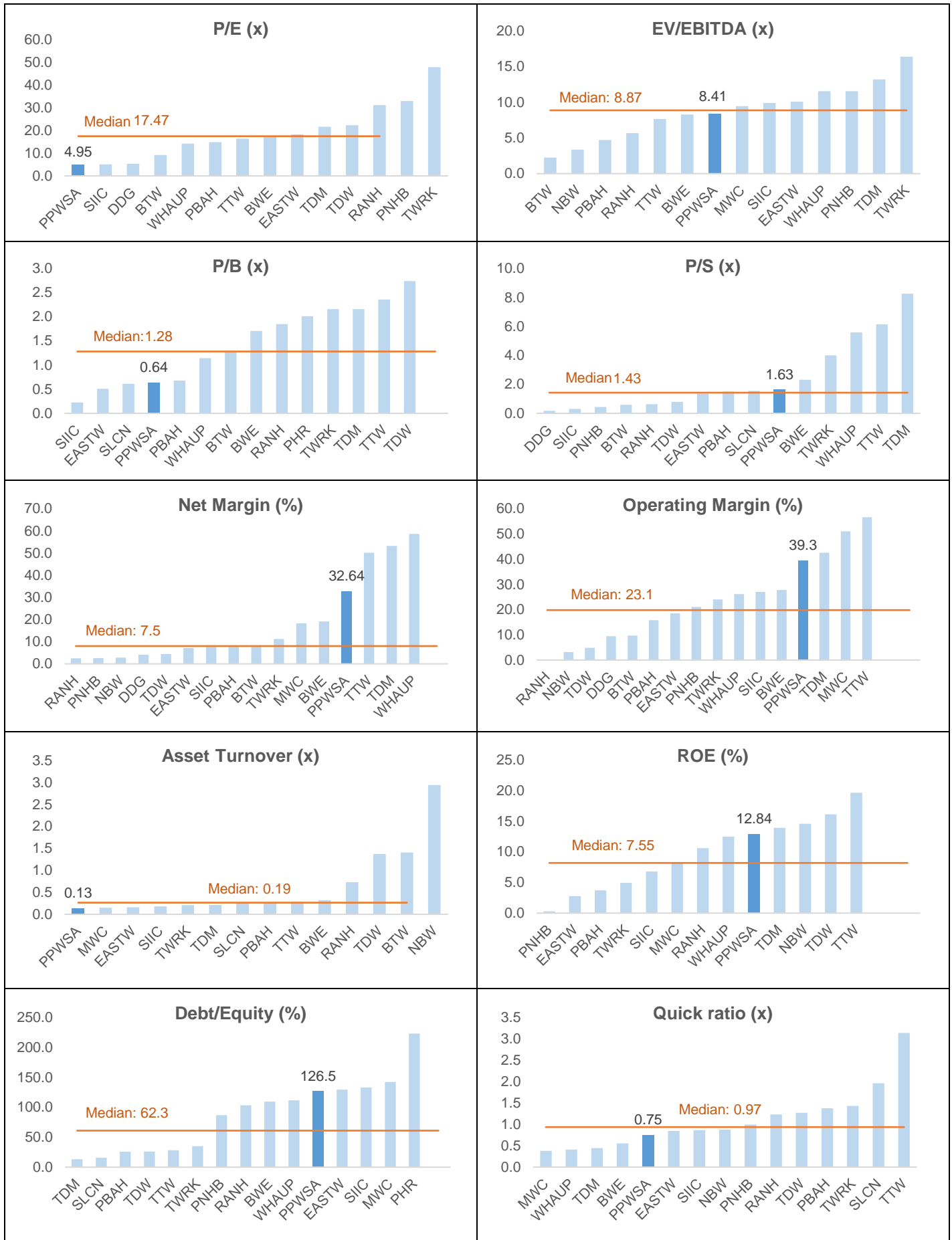
Governance Factors

PPWSA upholds robust governance practices, ensuring transparency and adherence to its stringent Code of Business Conduct. The company's strong anti-corruption policy ensures equal treatment of all customers, irrespective of background. Procurement processes are transparent, with goods/services sourced through open bids to secure the best value. Additionally, senior officers declare their assets every two years, reinforcing accountability. PPWSA prioritizes professional development, offering a range of training programs both locally and internationally, covering diverse subjects from language skills to technical expertise. However, a notable concern is the underrepresentation of female senior officers in the management team, with only four out of twenty-five senior staff members being female.

Risks and Opportunities

PPWSA demonstrates commendable compliance with environmental protection laws and regulations, exemplified by its rigorous environmental impact assessment procedures and bi-annual site visits to evaluate environmental effects. Despite a moderate increase in non-revenue water (NRW) rates attributed to a one-off event, PPWSA maintains efficient water supply management amidst city infrastructure developments. However, the underrepresentation of female senior officers raises concerns about diversity and inclusion within the company's governance framework. PPWSA's initiatives to provide clean water to economically disadvantaged residents, including installment payment plans and subsidy programs, offer promising opportunities for positive social and environmental impact. By addressing gender disparities in leadership roles and expanding outreach efforts, PPWSA can enhance governance effectiveness, promote social equity, and contribute to long-term sustainability goals.

ASEAN Peers Comparison



Note: All figures are trailing-twelve-month figures obtained from S&P Capital IQ; Share price as of Mar 18, 2024; PPWSA's price data is as of Mar 18, 2024
 Source: S&P Capital IQ, YSC Research

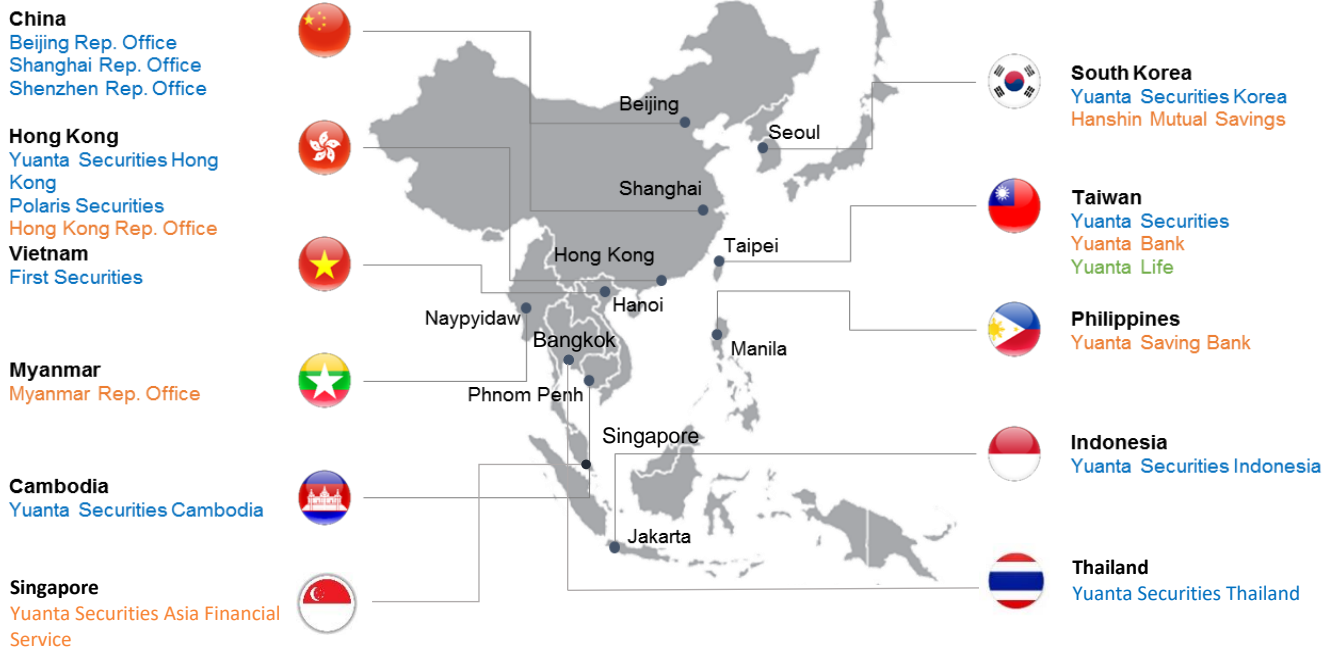
Peer Companies Information

No	Stock Symbol	Company Name	Stock Exchange	Country
1	BTW	Ben Thanh Water Supply Joint Stock Company	HNX	Vietnam
2	BWE	Binh Duong Water - Environment Joint Stock Company	HOSE	Vietnam
3	CLW	Cholon Water Supply Joint Stock Company	HOSE	Vietnam
4	DDG	Indochine Import Export Industrial Investment Joint Stock Company	HNX	Vietnam
5	EASTW	Eastern Water Resources Development and Management Public Company Limited	SET	Thailand
6	GDW	Gia Dinh Wasuco Joint Stock Company	HNX	Vietnam
7	MWC	Manila Water Company, Inc.	PSE	Philippines
8	NBW	Nha Be Water Supply Joint Stock Company	HNX	Vietnam
9	PBAH	PBA Holdings Bhd	KLSE	Malaysia
10	PHR	PH Resorts Group Holdings, Inc.	PSE	Philippines
11	PNHB	Puncak Niaga Holdings Berhad	KLSE	Malaysia
12	RANH	Ranhill Holdings Berhad	KLSE	Malaysia
13	SII	Saigon Water Infrastructure Corporation	HOSE	Vietnam
14	SIIC	SIIC Environment Holdings Ltd.	SGX	Singapore
15	SLCN	Salcon Berhad	KLSE	Malaysia
16	TDM	Thu Dau Mot Water Joint Stock Company	HOSE	Vietnam
17	TDW	Thu Duc Water Supply Joint Stock Company	HOSE	Vietnam
18	TTW	TTW Public Company Limited	SET	Thailand
19	TWRK	Taliworks Corporation Berhad	KLSE	Malaysia
20	WHAUP	WHA Utilities and Power Public Company Limited	SET	Thailand

Condensed Financial Statements

Statement of comprehensive income					Statement of financial position				
FY to Dec (KHR'bn)	2020A	2021A	2022A	2023U	FY to Dec (KHR'bn)	2020A	2021A	2022A	2023U
Revenues	324.4	366.9	346.2	387.9	Non-current assets	1,586.7	1,906.4	2,215.1	2,505.4
COGS	-76.8	-78.0	-76.9	-84.4	Fixed assets	1,573.6	1,893.9	2,203.0	2,495.0
Gross profit	247.6	288.9	269.2	303.6	Intangible assets	13.1	12.5	12.1	10.5
Operating expenses	-64.3	-78.9	-81.4	-95.4	Other non-current assets	0.0	0.0	0.0	0.0
Net gain/loss from forex	-3.3	2.3	1.1	4.11	Current assets	277.9	400.4	469.0	653.6
EBITDA	180.0	212.3	188.9	212.2	Inventories	78.6	143.7	152.7	318.7
Depreciation & Amortization	-50.4	-55.2	-59.5	-62.0	Trade receivables	25.6	24.9	28.3	28.0
EBIT	129.6	157.1	129.5	150.3	Cash & cash equivalent	99.7	89.7	61.2	16.1
Interest income	7.6	13.6	4.7	6.7	Short-term investment	18.4	68.2	126.1	127.3
Interest expense	-16.5	-4.8	-3.6	-3.5	Other current assets	55.5	74.0	100.7	163.5
PBT	120.7	165.9	130.5	153.5	Total assets	1,864.6	2,306.8	2,684.1	3,159.1
Income tax expense	-32.4	-36.6	-22.3	-26.9	Non-current liabilities	663.8	948.9	1,209.6	1,535.9
Net profit of the period	88.4	129.3	108.2	126.6	Long-term debts	517.3	790.4	986.5	1,296.9
Other comprehensive income/(loss)	0.0	0.0	0.0	0.0	Refundable water deposits	65.2	69.4	76.8	82.9
Comprehensive income	88.4	129.3	108.2	126.6	Other non-current liabilities	81.3	89.1	146.3	156.1
Statement of cash flow					Current liabilities	218.8	191.3	202.4	228.6
FY to Dec (KHR'bn)	2020A	2021A	2022A	2023U	Short-term debts	30.8	23.1	23.5	23.7
Operating cash flow	68.8	69.3	62.2	-82.7	Trade & other payables	156.6	142.0	154.7	179.9
Net profit	88.4	129.3	108.2	126.6	Other current liabilities	31.3	26.2	24.2	25.0
Depreciation & amortization	50.4	55.2	59.5	62.0	Total liabilities	882.6	1,140.2	1,411.9	1,764.5
Change in working capital	-75.8	-61.5	-80.1	-202.8	Shareholders' equity	982.1	1,166.6	1,272.2	1,394.5
Others	5.9	-53.7	-25.3	-68.4	Share capital	541.2	619.3	620.8	620.8
Investing cash flow	-199.3	-342.9	-337	-266.0	Capital reserves	352.5	418.0	543.3	647.1
Net CAPEX	-195.9	-289.7	-281.6	-269.9	Retained earnings	88.4	129.3	108.2	126.6
ST investment	-0.5	-49.7	-58.0	-1.2	Total liabilities & equity	1,864.6	2,306.8	2,684.1	3,159.1
Others	-2.9	-3.4	2.5	5.1	Net debt	448.4	723.8	948.8	1,304.5
Financing cash flow	175.1	263.5	241.9	308	Total debt	548.1	813.5	1,010.0	1,320.6
Net change in share capital	0.0	78.1	1.4	0.0	Note: A = Audited, U = Unaudited				
Net change in debt	202.2	274.6	197.5	320.5	Source: The Company, YSC Research				
Cash dividend	-26.0	-3.4	-4.0	-4.3					
Others	-1.2	-85.7	46.9	-8.2					
Net change in cash & equivalent	44.5	-10.1	-32.9	-40.6					
Beginning cash & equivalent	55.2	99.7	89.7	56.7					
Ending cash & equivalent	99.7	89.7	56.7	16.1					

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