

PPWSA (KH100010004 CSX)

September 05, 2017

Performance Highlights

| FY ends Dec (KHR'bn) | 1H17 | % YoY | 2Q17 | % QoQ | % YoY |
|----------------------|--------|---------|--------|----------|----------|
| Revenue* | 114.36 | 17.6% | 58.15 | 3.4% | 21.1% |
| EBITDA | 55.99 | 14.3% | 32.03 | 33.7% | 17.0% |
| EBIT | 37.37 | 20.0% | 22.69 | 54.6% | 23.0% |
| Net finance income | -18.71 | 219.4% | -18.30 | 4271.2% | 580.6% |
| PBT | 18.65 | -26.3% | 4.39 | -69.2% | -72.1% |
| Net profit | 14.55 | -27.3% | 3.24 | -71.4% | -74.0% |
| EBITDA margin | 49.0% | -1.4%pt | 55.1% | 12.5%pt | -1.9%pt |
| EBIT margin | 32.7% | 0.6%pt | 39.0% | 12.9%pt | 0.6%pt |
| Net margin | 12.7% | -7.9%pt | 5.6% | -14.6%pt | -20.4%pt |

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

1H17 review: Top line soars 17.6% YoY; net profit declines on forex loss

Water subscriptions continue to rise

- Total number of water subscriptions continue to rise, increasing by 12,472 subscribers during the first half of 2017 or 4.0% compared to the end of 2016, and reached 321,772 subscribers at the end of June. Of the total new subscribers in 1H17, 11,524 were household clients, 810 commercial and industrial clients, and 138 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 and a half years.

Top line soars 17.6% YoY in 1H17

- Total revenue in the first six months of 2017 came to KHR114.4bn, posting a 17.6% surge compared to the same period last year. The remarkable increase in revenue was driven by a solid growth in core water sales and a jump in income from construction services. Core water sales, which accounts for almost 86% of total revenue in 1H17, rose 10.7% YoY to KHR97.9bn thanks to the increase in total number of subscribers. Meanwhile, income from construction services jumped 123.3% from KHR3.4bn in 1H16 to KHR7.5bn in 1H17 as the company has recently been involved in a water pipeline construction project in Kampot province.

Operating profit surges on rising revenue; margins change slightly

- In 1H17, EBITDA rose 14.3% YoY to KHR55.99bn, while EBIT surged 20.0% YoY to KHR37.37bn. The increase in operating profit was mainly thanks to rising revenue, which is obvious as margins changed only slightly. EBITDA margin decreased 1.4%pts to 49.0%, but EBIT margin expanded slightly by 0.6%pts to 32.7%. This is confirmed by the growth in total operating expense of 16.5%, which is nearly as high as the revenue growth. Expense on construction service nearly doubled, while electricity, salaries, and raw materials for water connections, posted a double-digit increase.

Earnings decline 27.3% YoY on forex loss

- Despite a strong operating profit growth, net profit declined 27.3% to KHR14.6bn in 1H17 as net finance expense skyrocketed from KHR5.9bn in 1H16 to KHR18.7bn in 1H17. Change in net finance income/expense is significantly related to the fluctuation in foreign exchange loss or gain on borrowings.

Water subscriptions

| Client | 1H17 | 2016 | Change | %Change | 1H17 %total |
|------------------------------------|----------------|----------------|---------------|-------------|---------------|
| Household clients | 261,225 | 249,701 | 11,524 | 4.6% | 81.2% |
| Commercial & industrial clients | 54,930 | 54,120 | 810 | 1.5% | 17.1% |
| Houses for rent to garment workers | 4,928 | 4,790 | 138 | 2.9% | 1.5% |
| Others | 689 | 689 | 0 | 0.0% | 0.2% |
| Total | 321,772 | 309,300 | 12,472 | 4.0% | 100.0% |

Source: The Company

Net interest income affected by fluctuation in foreign exchange

| KHR'mn | 1H15 | 2H15 | 1H16 | 2H16 | 1H17 |
|----------------------------|--------------|--------------|---------------|--------------|----------------|
| Interest income | 22,806 | 10,405 | 4,901 | 15,293 | 3,721 |
| Interest expense | -14,537 | -5,333 | -10,760 | -6,312 | -22,436 |
| Net interest income | 8,269 | 5,072 | -5,859 | 8,981 | -18,715 |

Source: The Company

Current mkt. price **KHR 3,900**

Source: CSX, YSC Research

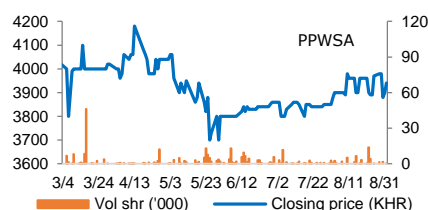
Stock info

| | |
|---|-------------------------------|
| Industry | Utilities (Water) |
| Market cap (KHRbn) | 339.20 |
| Outstanding shares (mn) | 87 |
| Majority shareholder | Ministry of Economy & Fin (%) |
| | 85 |
| Avg daily vol. (last 6 months, shr) | 2,418 |
| Free floating shares (last 6 months, %) | 2.24 |
| Price low/high (last 6 months, KHR) | 3,700~4,180 |

| | |
|---------------------|-------|
| EPS (KHR) (ttm) | 518 |
| P/E (x) (ttm) | 7.53 |
| P/B (x) (mrq) | 0.41 |
| P/B* (x) (mrq) | 0.79 |
| EV/EBITDA (x) (ttm) | 6.30 |
| D/E (%) (mrq) | 59.80 |

Note: ttm = trailing twelve months; mrq = most recent quarter (2Q17); *Excluding equity of Class A (non-voting) shares.

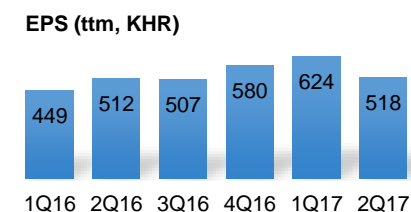
Stock performance



Trading volume and value in 2017

| | Monthly trading | | Average per day | |
|-----|-----------------|----------------|-----------------|----------------|
| | Volume (shr) | Value (KHR'mn) | Volume (shr) | Value (KHR'mn) |
| Jan | 37,073 | 152 | 1,765 | 7.3 |
| Feb | 5,988 | 25 | 299 | 1.2 |
| Mar | 80,804 | 323 | 3,848 | 15.4 |
| Apr | 20,455 | 82 | 1,136 | 4.6 |
| May | 59,614 | 229 | 3,138 | 12.1 |
| Jun | 63,190 | 241 | 3,160 | 12.0 |
| Jul | 27,166 | 104 | 1,294 | 4.9 |
| Aug | 47,317 | 185 | 2,057 | 8.0 |
| Sep | - | - | - | - |
| Oct | - | - | - | - |
| Nov | - | - | - | - |
| Dec | - | - | - | - |

Earning strength



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Revenue breakdown (1H17, 1H16, change, growth, share of total)

| Source | 1H17 (KHR'mn) | 1H16 (KHR'mn) | Change (KHR'mn) | %Change | 1H17 %total |
|-----------------------|------------------|------------------|--------------------|--------------|---------------|
| Water Sales | 97,878 | 88,421 | 9,457 | 10.7% | 85.6% |
| Construction Services | 7,532 | 3,373 | 4,159 | 123.3% | 6.6% |
| Other Incomes | 8,953 | 5,468 | 3,486 | 63.7% | 7.8% |
| Total revenue | 114,363 | 97,262 | 17,101 | 17.6% | 100.0% |

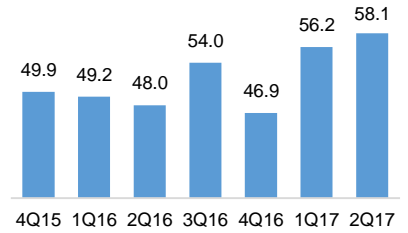
Source: The Company

Financial Ratios

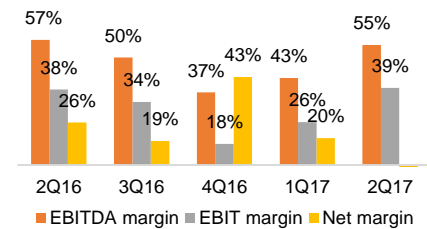
| FY to Dec | 2013 | 2014 | 2015 | 2016 | 1H17 (ttm) |
|--|-------|-------|-------|-------|------------|
| Per-share ratios | | | | | |
| EPS (KHR) | 438 | 526 | 655 | 567 | 518 |
| BPS (KHR) | 7,955 | 8,431 | 8,988 | 9,405 | 9,410 |
| BPS* (KHR, excluding Class A) | 3,458 | 3,935 | 4,491 | 4,908 | 4,913 |
| EBITDA/shr (KHR) | 874 | 905 | 1,027 | 1,075 | 1,158 |
| SPS (KHR) | 1,743 | 1,800 | 2,200 | 2,279 | 2,475 |
| DPS (KHR) | 55 | 106 | 153 | 160 | - |
| Valuation ratios at Sep 5, 2017 | | | | | |
| P/E (x) | 8.91 | 7.41 | 5.96 | 6.88 | 7.53 |
| P/B (x) | 0.49 | 0.46 | 0.43 | 0.41 | 0.41 |
| P/B* (x, excluding Class A) | 1.13 | 0.99 | 0.87 | 0.79 | 0.79 |
| EV/EBITDA (x) | 8.35 | 8.07 | 7.11 | 6.79 | 6.30 |
| P/S (x) | 2.24 | 2.17 | 1.77 | 1.71 | 1.58 |
| Dividend yields (%) | 1.40 | 2.70 | 3.91 | 4.10 | - |
| Dividend payout (%) | 12.50 | 20.00 | 23.30 | 28.24 | - |
| Profitability ratios | | | | | |
| Gross margin (%) | 68.51 | 71.38 | 66.96 | 68.66 | 68.31 |
| EBITDA margin (%) | 50.18 | 50.27 | 46.66 | 47.16 | 46.78 |
| EBIT (%) | 34.00 | 28.52 | 28.56 | 29.00 | 29.69 |
| Net margin (%) | 25.56 | 29.39 | 28.19 | 25.45 | 20.91 |
| ROE (%) | 5.72 | 6.43 | 7.10 | 6.29 | 5.50 |
| ROE* (% , excluding Class A) | 13.54 | 14.17 | 14.62 | 12.27 | 10.52 |
| ROA (%) | 3.69 | 4.06 | 4.48 | 3.97 | 3.43 |
| Efficiency ratios | | | | | |
| Asset turnover (x) | 0.14 | 0.14 | 0.16 | 0.16 | 0.17 |
| Receivables turnover (x) | 5.22 | 5.18 | 5.89 | 5.72 | 4.62 |
| Payable turnover (x) | 1.27 | 1.74 | 2.59 | 2.05 | 1.94 |
| Financial strength | | | | | |
| Debt/equity (%) | 58.1 | 58.4 | 58.2 | 58.3 | 59.8 |
| Interest coverage (x) | 35.2 | 36.0 | 34.7 | 32.9 | 36.0 |
| Inter & ST debt cover (x) | 4.3 | 3.8 | 2.8 | 3.4 | 2.2 |
| Current ratio (x) | 1.3 | 1.1 | 1.1 | 1.1 | 0.8 |
| Quick ratio (x) | 4.5 | 5.4 | 5.1 | 3.3 | 2.8 |
| Net debt/EBITDA (x) | 3.8 | 4.6 | 4.2 | 2.7 | 0.7 |

Note: *Excluding capital of Class A (non-voting) shares of KHR391bn
Source: The Company, YSC Research

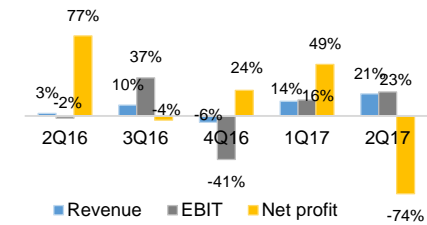
Quarterly revenue (KHR'bn)



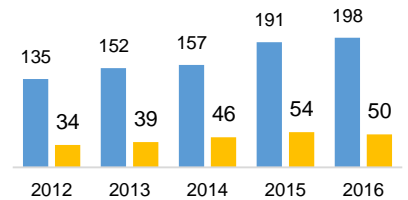
Quarterly profit margin



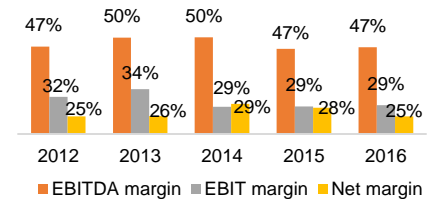
Quarterly revenue and profit growth (YoY)



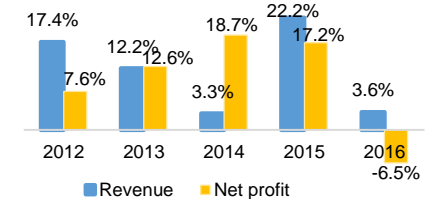
Annual revenue and net profit (KHR'bn)



Annual profit margin



Annual profit growth (YoY)



Condensed Financial Statements

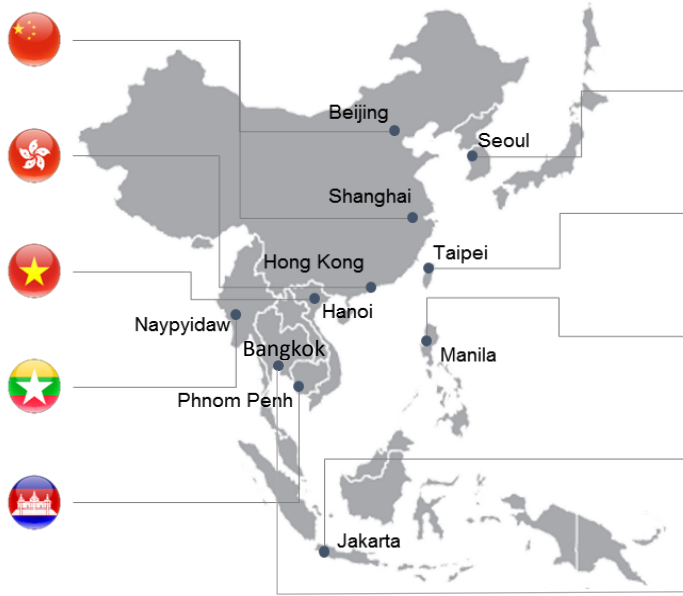
| Statement of comprehensive income | | | | |
|---|--------------|--------------|--------------|--------------|
| FY to Dec (KHRbn) | 2014 | 2015 | 2016 | 1H17 |
| Revenues | 156.5 | 191.3 | 198.2 | 114.4 |
| COGS | -44.8 | -63.2 | -62.1 | -35.5 |
| Gross profit | 111.7 | 128.1 | 136.1 | 78.9 |
| Operating expenses | -35.2 | -35.8 | -43.5 | -23.7 |
| Net gain/loss from forex | 2.1 | -3.1 | 0.9 | 0.9 |
| EBITDA | 78.7 | 89.3 | 93.5 | 56.0 |
| Depreciation & Amortization | -34.0 | -34.6 | -36.0 | -18.6 |
| EBIT | 44.7 | 54.6 | 57.5 | 37.4 |
| Interest income | 23.1 | 33.2 | 20.2 | 3.7 |
| Interest expense | -11.7 | -19.9 | -17.1 | -22.4 |
| PBT | 56.1 | 68.0 | 60.6 | 18.7 |
| Income tax expense | -10.1 | -14.1 | -10.2 | -4.1 |
| Net profit of the period | 46.0 | 53.9 | 50.4 | 14.6 |
| Actuarial loss/gain on retirement benefit | -0.3 | 3.0 | -1.2 | 0.0 |
| Comprehensive income | 45.7 | 56.9 | 49.3 | 14.6 |

| Statement of cash flow | | | | |
|--|---------------|--------------|--------------|--------------|
| FY to Dec (KHRbn) | 2014 | 2015 | 2016 | 1H17 |
| Operating cash flow | 84.2 | 78.7 | 100.6 | 43.0 |
| Net profit | 46.0 | 53.9 | 50.4 | 18.7 |
| Depreciation & amortization | 34.0 | 34.5 | 36.0 | 18.6 |
| Change in working capital | 1.9 | -10.2 | 17.8 | -6.0 |
| Others | 2.3 | 0.5 | -3.6 | 11.7 |
| Investing cash flow | -101.1 | -81.5 | -74.7 | -33.0 |
| Net CAPEX | -86.6 | -91.8 | -135.1 | -47.1 |
| ST investment | -22.1 | 1.9 | 46.2 | 13.3 |
| Others | 7.5 | 8.5 | 14.2 | 0.9 |
| Financing cash flow | 21.3 | 0.3 | -22.0 | -15.0 |
| Net change in share capital | 0 | 0 | 0.0 | 0 |
| Net change in debt | 38.6 | 19.5 | 8.6 | 3.6 |
| Cash dividend | -4.8 | -9.1 | -13.3 | -13.9 |
| Others | -12.5 | -10.0 | -17.3 | -4.7 |
| Net change in cash & equivalent | 4.4 | -2.4 | 3.8 | -5.0 |
| Beginning cash & equivalent | 10.6 | 15.0 | 12.6 | 16.4 |
| Ending cash & equivalent | 15.0 | 12.5 | 16.4 | 11.3 |

| Statement of financial position | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| FY to Dec (KHRbn) | 2014 | 2015 | 2016 | 1H17 |
| Non-current assets | 878.1 | 939.4 | 1,038.6 | 1,061.0 |
| Fixed assets | 874.7 | 936.7 | 1,036.4 | 1,058.6 |
| Intangible assets | 2.9 | 2.3 | 2.0 | 2.2 |
| Other non-current assets | 0.5 | 0.4 | 0.3 | 0.2 |
| Current assets | 288.0 | 300.8 | 259.1 | 250.3 |
| Inventories | 40.5 | 53.7 | 48.4 | 43.4 |
| Trade receivables | 30.6 | 34.3 | 35.0 | 50.1 |
| Cash & cash equivalent | 15.0 | 12.6 | 16.4 | 11.3 |
| Short-term investment | 196.3 | 194.5 | 148.3 | 135.0 |
| Other current assets | 5.5 | 5.7 | 11.0 | 10.5 |
| Total assets | 1,166.1 | 1,240.1 | 1,297.7 | 1,311.3 |
| Non-current liabilities | 376.6 | 396.7 | 399.5 | 401.2 |
| Long-term debts | 251.3 | 256.4 | 251.6 | 260.4 |
| Refundable water deposits | 36.3 | 46.3 | 54.9 | 47.7 |
| Other non-current liabilities | 89.1 | 94.0 | 93.0 | 93.1 |
| Current liabilities | 53.3 | 59.5 | 78.3 | 89.5 |
| Short-term debts | 28.8 | 28.5 | 34.7 | 46.5 |
| Trade & other payables | 21.5 | 27.3 | 33.4 | 36.5 |
| Other current liabilities | 2.9 | 3.6 | 10.2 | 6.4 |
| Total liabilities | 429.9 | 456.2 | 477.8 | 490.7 |
| Shareholders' equity | 736.2 | 784.0 | 820.0 | 820.6 |
| Share capital | 541.2 | 541.2 | 541.2 | 541.2 |
| Capital reserves | 149.2 | 185.8 | 229.5 | 264.8 |
| Retained earnings | 45.7 | 56.9 | 49.3 | 14.6 |
| Total liabilities & equity | 1,166.1 | 1,240.1 | 1,297.7 | 1,311.3 |
| Net debt | 265.1 | 272.3 | 269.9 | 295.5 |
| Total debt | 280.1 | 284.9 | 286.3 | 306.9 |

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