

Loxley

Buy (TP Bt4.00)

Fundamentals look more convincing

While news about the review of the online lottery has reignited short-term speculation, Loxley's fundamentals are turning more convincing with a high backlog from ICT boosting revenue and its equity earnings continuing to contribute significantly. We resume coverage on Loxley with a "BUY" rating at a fair price of Bt4.00/share based on PER of 14x. Upside of Bt0.34-0.84/share is possible if the online lottery project is successfully reactivated by the current government.

High backlog to boost revenue in 4Q11-2012

We expect two big projects, i.e., 1) construction of 3G mobile networks for ToT worth Bt5.6bn and 2) installation of optical fiber cable for CAT worth Bt2.5bn to help boost Loxley's revenue in 4Q11 and 2012 significantly.

Fruitful investments contribute significantly

Sharing profits from affiliates makes up a significant part of Loxley's earnings. We expect the sharing will rise by 14% YoY to Bt406m in 2011, accounting for 111% of normalized profit. New investment, e.g., solar farm business, should also help boost its profit in the long term.

Online lottery to be reconsidered

Loxley already made a full provision for the online lottery project, while it is widely expected that the current government may review the project again. The revival of this project could add fair value of Bt0.34-0.84/share for Loxley.

Tapping retail market in China via Sinopec

Loxley's recent entry into an agreement to place Thai snack corners in Sinopec petrol stations is interesting. This could boost Loxley's trading revenue tremendously if the model is later expanded throughout Sinopec's 37,000 stations across China.

Normalized profit to rise 75% in '11 and 59% in '12

Loxley's earnings should be less volatile as the firm made a full provision for all doubtful assets last year. We expect rising revenue from the 3G network and fiber optic cable projects to boost Loxley's normalized profit by 75% YoY to Bt365m in 2011 and by 59% YoY to Bt580m in 2012.

Financial and Valuation

FY Ended 31 Dec	2009	2010	2011E	2012E	2013E
Revenues (Btm)	10,076	10,281	13,223	15,817	14,291
Net profit (Btm)	310	-139	365	580	576
EPS (Bt)	0.16	-0.07	0.18	0.29	0.29
EPS growth (%)	-115.6%	-144.8%	-362.6%	59.0%	-0.7%
Dividend (Bt)	0.00	0.05	0.10	0.10	0.10
BV (Bt)	2.02	2.01	2.14	2.23	2.42

FY Ended 31 Dec	2009	2010	2011E	2012E	2013E
PER (x)	20.0	-39.5	16.9	10.6	10.7
EV/EBITDA (x)	13.3	15.3	11.3	8.4	8.6
PBV (x)	1.5	1.4	1.4	1.4	1.3
Dividend yield (%)	0.0%	1.8%	3.2%	3.2%	3.2%
ROE (%)	7.8%	-3.4%	8.8%	13.3%	12.4%
Net gearing (%)	45.0%	33.5%	38.8%	40.8%	30.0%

Share data

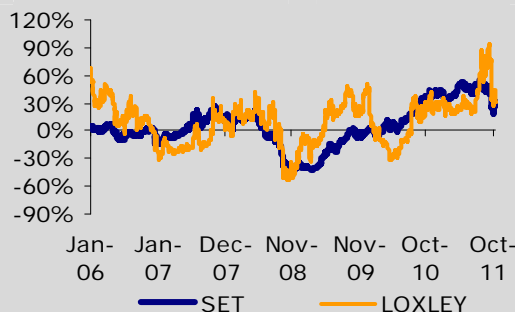
Reuters / Bloomberg	LOXL.BK/LOXLEY TB
Sector	Commerce
Price (Bt) (12/10/2011)	3.08
Paid-up Shares (m)	2,000.00
Par (Bt)	1.00
Market cap (Bt bn / US\$ m)	6/200
Foreign limit / actual (%)	30.00/4.00
52 week High / Low (Bt)	4.24/2.42
Avg. daily T/O (shares 000)	38,877.94
NVDR (%)	4.20
Estimated free float (%)	65.07
Beta	1.25

Major Shareholders (24/03/2011)

Ekpavee Co., Ltd.	27.82%
Thai NVDR	5.77%
Mrs. Aumpai Harnkraiwilai	2.00%

Stock Performance (%)

	1M	3M	12M
Absolute	0.0	18.5	14.9
Relative to SET	7.4	34.8	19.3



	FY11	FY12
Consensus EPS (Bt)	0.18	0.29
KT ZMICO vs. consensus	0.0%	0.0%

Company Profile

Importer, designer and installer of IT and telecom equipment, including a supplier of high-end technology equipment for the public sector and distributor of consumer products and industrial chemicals.

CGR 2010



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High backlog to boost revenue in 4Q11-2012

Loxley has revenue of around Bt10bn per year. About half of this comes from the ICT business, with the remaining 43% and 7% of revenue coming from the trading and service businesses, respectively. This year the company has been awarded two big projects, i.e., 1) construction of 3G mobile networks for ToT worth Bt5.6bn and 2) installation of optical fiber cable for CAT worth Bt2.5bn, which raises its order backlog from the normal level at only Bt2-3bn to Bt12bn (as of July). We expect these projects to help boost its revenue in 4Q11 and 2012 significantly.

Fruitful investments contribute significantly

Sharing profits from affiliates makes up a significant proportion of Loxley's earnings. We expect the sharing profits to rise by 14% YoY to Bt406m in 2011, accounting for 111% of normalized profit (vs. 101%-175% in 2009-2010). This comes mainly from its 40% investment in BP-Castrol (engine lubricants manufacturer) and 25% in BlueScope (coated steel roof and sheet manufacturer), which contribute sharing profits accounting for 55% and 30% to equity earnings, respectively.

We expect that BlueScope's profit will continue to be weak in 2H11-2012 due to an increasing impact from the price dumping of imported products. However, this should be offset by rising profit from other affiliates, especially new investments, e.g., its recent entrance into the solar farm business (expect sharing profit of Bt25-30m/year from 8.7MW in phase 1), which should help shore up equity earnings in the following years.

Online lottery to be reconsidered

This long-pending project, the two- and three-digit online lottery, was scrapped by Abhisit's government last year due to concern over social problems. Thus far, Loxley has already made a full provision of Bt667m for its 35% investment in Loxley GTech (LGT), the operator of this project, who already installed 6,700 lotto terminals nationwide. It is widely expected that the current government may revive this project again.

We estimate that reactivation of this project could add EPS of Bt0.02 to Loxley (based on our assumption of a utilization rate of 200 bets/terminal/day from existing terminals). This could add fair value of Bt0.34/share if multiplying with PER of 14x. The upside may increase to Bt0.84/share if more lotto terminals are installed to reach 12,000 machines as per the original contract.

Tapping retail business in China via Sinopec

Early this month Loxley signed an agreement with China Petroleum and Petrochemical Corp (Sinopec) to place Thai snack corners in Sinopec petrol stations starting from 2Q12 onward. This will begin with 2,400 petrol stations in Guangdong. We think the deal is quite interesting for Loxley as this could boost revenue from the trading business tremendously by 1x-2x to Bt1.0-1.5bn if the model is expanded throughout Sinopec's 37,000 stations across China.

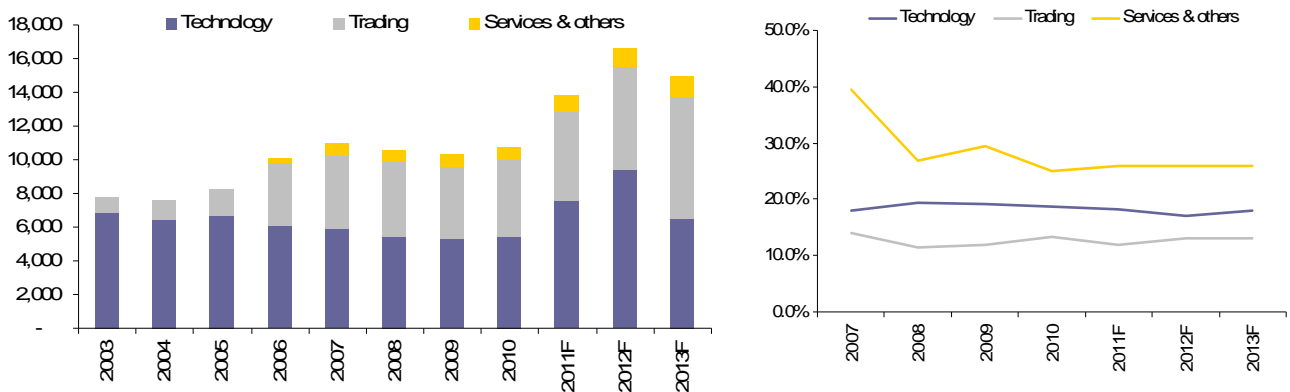
Normalized profit will rise by 59% in 2012

As the company already made a full provision for all doubtful assets in 2010, we expect Loxley's earnings to be less volatile from this year onward (compared with the past 4-5 years due to extra items/provisions). Increasing revenues from the construction of 3G networks and installation of fiber optic cables should raise Loxley's revenues by 29% YoY to Bt13.2bn in 2011 and by 20% YoY to Bt15.8bn in 2012. We assume a narrower margin from big projects and expect the gross margin to decline by 56-74bps to 15.3% and 15.1% in 2011-2012, respectively. This should boost Loxley's normalized profit by 75% YoY to Bt365m in 2011 and by 59% YoY to Bt580m in 2012.

Buy with target price of Bt4.00

We resume coverage on Loxley with a “BUY” rating by estimating its fair price at Bt4.00/share based on PER of 14x, which is at its lower band compared with PER of 20x-26x during 2007-2010 (and 13x-22x for the commerce sector). Upside for Loxley could be from 1) reactivating of the two- and three-digit online lottery projects, which could add upside of 9%-21% on the fair price, 2) recovery of sharing profit at BlueScope (if this bounces back to Bt200-300m as in 2006-2008, it could raise Loxley’s EPS by 35-54%) and 3) faster-than-expected growth from its trading business in China. Risks could be from 1) uncertainty in obtaining new contracts and 2) project operational risk possibly reducing the profit margin.

Figure 1: Revenue and gross margin breakdown



Source: Loxley, KT ZMICO Research

Financial tables

	2009	2010	2011E	2012E	2013E
PROFIT & LOSS (Btm)					
Revenues	10,076	10,281	13,223	15,817	14,291
Cost of sales and service	(8,493)	(8,652)	(11,201)	(13,427)	(12,079)
Gross profit	1,583	1,630	2,022	2,389	2,212
SG&A	(1,436)	(1,578)	(1,909)	(2,004)	(1,941)
EBITDA	636	492	747	993	976
Depreciation & amortization	(132)	(123)	(127)	(138)	(144)
EBIT	505	369	620	855	832
Interest expense	(118)	(115)	(137)	(150)	(153)
Equity earnings	314	357	406	370	437
Other income / exp.	204	132	101	100	124
EBT	387	254	483	704	679
Corporate tax	(76)	(42)	(88)	(77)	(56)
Minority interests	(1)	(8)	(30)	(48)	(47)
Net profit	310	(139)	365	580	576
Reported EPS	0.16	(0.07)	0.18	0.29	0.29
Fully diluted EPS	0.16	(0.07)	0.18	0.29	0.29
Core net profit	310	204	365	580	576
Core EPS	0.16	0.10	0.18	0.29	0.29
Dividend (Bt)	0.00	0.05	0.10	0.10	0.10
PROFITABILITY					
Revenue growth (%)	(0.8)	2.0	28.6	19.6	(9.6)
EBITDA growth (%)	21.1	(22.6)	51.7	33.0	(1.7)
EPS growth (%)	(115.6)	(144.8)	(362.6)	59.0	(0.7)
Gross margin (%)	15.7	15.8	15.3	15.1	15.5
EBITDA margin (%)	6.3	4.8	5.6	6.3	6.8
Operating margin (%)	5.0	3.6	4.7	5.4	5.8
Net margin (%)	3.1	(1.4)	2.8	3.7	4.0
Core profit margin (%)	3.1	2.0	2.8	3.7	4.0
Effective tax rate (%)	19.6	16.6	18.2	10.9	8.2
BALANCE SHEET (Btm)					
Cash and equivalents	594	857	755	561	1,047
Inventories	885	665	921	1,104	993
PP&E-net	912	975	1,086	1,148	1,204
Other assets	7,759	7,296	8,213	8,992	8,817
Total assets	10,150	9,793	10,974	11,804	12,061
ST debt & current portion	1,222	1,117	1,300	1,300	1,300
Long-term debt	1,094	324	330	400	500
Total liabilities	5,845	5,558	6,445	7,045	6,879
Minority interests	270	215	245	293	340
Shareholder equity	4,304	4,235	4,529	4,759	5,182
Total liab. & shareholder equity	10,150	9,793	10,974	11,804	12,061
CASH FLOW (Btm)					
Net income	310	(139)	365	580	576
Depreciation & amortization	132	123	127	138	144
Change in working capital	(316)	885	(413)	(241)	133
FX, non-cash adjustment & others	944	8	30	48	47
Cash flow from operations	1,070	877	108	525	900
Capex (Invest)/Divest	(105)	(186)	(238)	(200)	(200)
Others	(108)	(233)	(107)	(110)	(113)
Cash flow from investing	(213)	(419)	(345)	(310)	(313)
Debt financing (repayment)	424	(256)	234	(10)	100
Equity financing	61	58	0	(198)	0
Dividend payment	0	0	(100)	(200)	(200)
Others	(1,444)	(51)	0	0	0
Cash flow from financing	485	(198)	134	(408)	(100)
Net change in cash	(10)	263	(102)	(194)	487
Free cash flow	857	458	-236	214	587
FCF per share (Bt)	0.43	0.23	-0.12	0.11	0.29

Source: Company, KT ZMICO estimate

DISCLAIMER

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KT ZMICO RESEARCH – RECOMMENDATION DEFINITIONS

STOCK RECOMMENDATIONS

BUY: Expecting positive total returns of 15% or more over the next 12 months

TRADING BUY: Expecting positive total returns of 15% or more over the next 3 months

HOLD: Expecting total returns of between -15% and +15% over the next 12 months

SELL: Expecting negative total returns of 15% or more over the next 12 months

AVOID: Expecting the stock to be materially affected by fundamental changes in the future (i.e., regulatory changes, etc); however, the impact cannot be assessed/reflected in the current forecast

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.

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