

Thailand Company Focus

Asiasoft Corporation

Bloomberg: AS TB | Reuters: AS.BK

DBS Group Research . Equity

1 Jun 2010

BUY Bt7.05 SET : 750.43

Price Target: 12-month Bt8.50

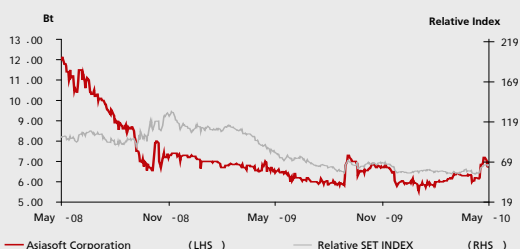
Reason for Report: Analyst meeting & company update

Potential Catalyst: Strong APA and ARPU growth

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Btm)	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,572	1,634
EBITDA	406	389	410	429
Pre-tax Profit	263	274	288	304
Net Profit	185	178	196	207
Net Pft (Pre Ex.)	185	178	196	207
EPS (Bt)	0.62	0.58	0.62	0.65
EPS Pre Ex. (Bt)	0.62	0.58	0.62	0.65
EPS Gth Pre Ex (%)	-45.3	-6.0	7.1	5.5
Diluted EPS (Bt)	0.62	0.58	0.62	0.65
Net DPS (Bt)	0.62	0.57	0.59	0.62
BV Per Share (Bt)	4.20	4.03	3.93	3.98
PE (X)	11.4	12.2	11.4	10.8
PE Pre Ex. (X)	11.4	12.2	11.4	10.8
P/Cash Flow (X)	9.3	8.2	7.0	6.6
EV/EBITDA (X)	3.1	3.5	3.5	3.4
Net Div Yield (%)	8.8	8.1	8.4	8.8
P/Book Value (X)	1.7	1.8	1.8	1.8
Net Debt/Equity (X)	cash	cash	cash	cash
ROAE (%)	22.3	14.3	15.8	16.5

Earnings Rev (%): -

Consensus EPS (Bt): 0.6

Sector: Media & Entertainment

Principal Business: Asiasoft is the largest provider of online game services in Southeast Asia. It had the largest market share in Thailand and Singapore, and second largest in Malaysia.

2010 could be record year

- Strong 1Q10 profit of Bt63m (+122% y-o-y, flat q-o-q) as overseas unit breaks even
- Earnings should recover further in 2Q10 led by higher traffic in Thailand, cost cuts at overseas units, and absence of extra expenses
- FY10F profit should jump if overseas unit breaks even for the year; overseas launch of popular games could be a bonus
- Maintain BUY and Bt8.50 TP based on 14x FY10F PE

Indirect positive impact of riots. Asiasoft's traffic and revenue grew during escalated political tension last month because more people stayed in, especially at night for security reasons.

Earnings recovery in 2Q10. This will be driven by (i) seasonal effect, (ii) good response to launch of new game – *12 sky* – in Thailand, (iii) indirect positive impact of riots, (iv) lower costs following its cost-cutting program, and (v) the absence of Bt10m extra expenses booked in 1Q10.

Maintain BUY. Given its strong earnings momentum and attractive valuations (3.5x FY10 EV/EBITDA and 8.4% FY10 dividend yield), we reiterate our BUY rating for Asiasoft with a target price of Bt8.50 based on 14x FY10F PE.

At A Glance

Issued Capital (m shrs)	300
Mkt. Cap (Btm/US\$m)	2,040 / 59
Major Shareholders	
Pramoth Sudjitporn (%)	43.5
Asia Investment Partner (%)	10.0
Surasak Khaoroptham (%)	9.0
Free Float (%)	15.6
Avg. Daily Vol. ('000)	92

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1Q10 result review

Strong 1Q10 earnings recovery. Asiasoft's 1Q10 net profit jumped 122% y-o-y but was flat q-o-q at Bt63m. This was 21% higher than our estimate. EBITDA grew 24% y-o-y but softened 9% q-o-q to Bt111m in 1Q10. The flat earnings q-o-q was impressive because 4Q is a high season for online game usage.

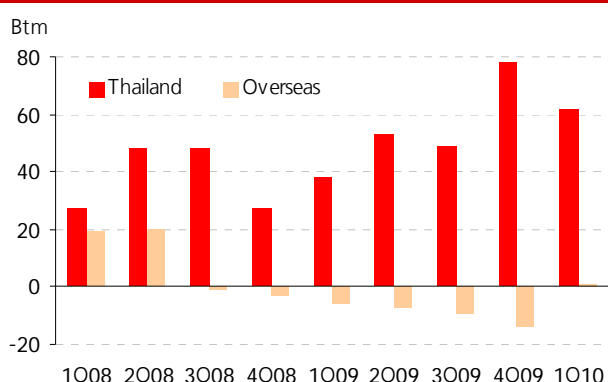
Overseas unit breaks even. The strong 1Q10 earnings were attributed to the recovery of its overseas operations, from Bt10m net loss in 1Q09 and Bt14m loss in 4Q10 to Bt1m profit in 1Q10. This was due to its successful cost-cutting program.

1Q10 result

YE Dec (Btm)	1Q09	4Q09	1Q10	Chg y-o-y	Chg q-o-q
Profit & Loss					
Turnover	351	427	360	2.5%	-16%
COGS	-169	-204	-163	-3.7%	-20%
Deprec. & amor.	-38	-29	-30	-23%	3.5%
Gross profit	144	194	168	16%	-13%
SG&A	-95	-99	-90	-5.0%	-8.7%
Op. profit	49	95	78	58%	-18%
Oth. inc.	2	-1	4	96%	-412%
Net int. inc./(exp.)	4	2	2	-38%	14%
EBT	55	95	84	53%	-12%
Inc. tax	-27	-32	-21	-21%	-34%
Net profit	28	64	63	122%	-1.3%
EPS.	0.09	0.21	0.20	116%	-1.3%
Gross margin	41%	45%	47%		
EBITDA (Btm)	89	122	111		
EBITDA margin	25%	29%	34%		
Tax rate	48%	33%	25%		

Source: Company and DBS Vickers

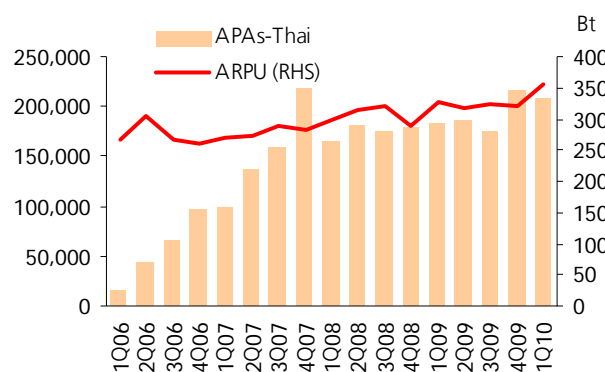
Earnings contribution by geographical segment



Source: Company and DBS Vickers

Thailand: Softening APA but rising ARPU. Revenue growth momentum in Thailand remained strong in 1Q10. Active paying accounts (APA) softened from c. 216k in 4Q09 to c. 208k in 1Q10, as 4Q is high season due to the school break. Nonetheless, ARPU rose from c. Bt320 in 4Q09 to c. Bt360 in 1Q10.

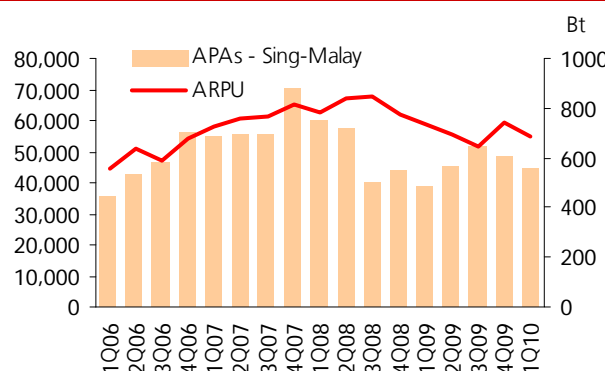
Thailand: APA and ARPU



Source: Company and DBS Vickers

Overseas unit: Slowing APA and ARPU. APA in Singapore/Malaysia markets softened from c. 48k in 4Q09 to c. 45k in 1Q10 due to 4Q being a high season for online games there (festive season and school break). Overseas ARPU also softened from c. Bt740 in 4Q09 to c. Bt690 in 1Q10. This was due to the high base effect following successful events (e.g. Christmas) to promote *Maple Story* in 4Q09.

Singapore-Malaysia: APA and ARPU



Source: Company and DBS Vickers

Bright earnings outlook

Stronger earnings expected in 2Q10. This will be driven by (i) a seasonal effect, (ii) good response to new games, (iii) indirect positive impact of riots, (iv) lower cost following its cost-cutting program, and (v) the absence of Bt10m extra expenses booked in 1Q10.

I. 2Q is high season in Thailand. This is because of the school break from March to mid-May.

II. Good response to *12 sky*. The launch of *12 sky* on 10 Feb 2010 was a success with high traffic. The game's ARPU may not be high (c. Bt200+), but it has a large target segment (18-30 year olds), which could translate into huge subscriber growth potential. The game contributed to c. 4% of Asiasoft's overall online game revenue in 1Q10, which is impressive.

III. Indirect positive impact of riots. Asiasoft is one of a few companies that benefited from the riots in Bangkok. Its traffic and revenue was up during the escalated political tension last month because more people stayed in, especially in the night, due to security reasons.

IV. Lower cost in 2Q10. Asiasoft launched two new games in 2Q10 (*Ray City* in April and *Monster Forest* in June in Singapore), compared to only one game (*12 sky* in Thailand) in 1Q10. Hence, marketing costs could rise slightly q-o-q in 2Q10.

However, in 1Q10, Asiasoft implemented redundancy programs in its overseas units and also reallocated some staff from Singapore to Malaysia to save costs. The cost saving was only minimal in 1Q10, but would be noticeable from 2Q10 onwards. We believe its overall cost would drop in 2Q10.

V. Absence of extra expenses in 2Q10. Asiasoft booked c. Bt10m extra expense (deferred tax) related to impairment of investment in Malaysia in 1Q10. The company is unlikely to book more impairment charge, as the cumulative impairment is sufficient and its overseas units have reached breakeven.

Strategy for 2010

Thai operations on uptrend. The management is not concerned about the Thailand market, as the unit's profitability is on an uptrend. Competition in the domestic market is mild and the company has a well-diversified game portfolio.

Overseas market. This had been a drag on group profitability for six consecutive quarters, but the management hopes the effects of its cost-cutting program will be seen in 1H10. It will be followed with a strategy to boost top line in 2H10.

- **Singapore:** Customers in Singapore are more sensitive to service quality and image than price. Hence, Asiasoft will try to launch games with good branding in the market.
- **Malaysia:** Most online gamers in Malaysia are Chinese. Hence, Asiasoft will concentrate on games that appeal to this segment.

Absence of loss contribution from overseas units sufficient to drive profit growth. The management believes group net profit will jump this year if there is no loss contribution from overseas units – they contributed Bt40m loss in 2009. The management is aiming for the overseas units to breakeven for this year. And if it finds a new big hit game title for the overseas market, it would be a bonus. The CEO is aiming for FY10 earnings to be the highest for the company to date. Its annual profit last peaked at Bt254m in 2007.

Recommendation

BUY reiterated. Given its strong earnings momentum and attractive valuations (3.5x FY10 EV/EBITDA and 8.4% FY10 dividend yield), we reiterate our BUY rating for Asiasoft with a target price of Bt8.50 based on 14x FY10F PE.

Comparison: Online Games Companies

BB Ticker	Name	Market Cap (US\$m)	PE (x)		P/BV (x)		EV/EBITDA (x)		Div Yield (%)	ROE (%)
			10F	11F	10F	11F	10F	11F		
035420 KS	NHN Corp	6,959	na	na	na	na	na	na	0.1	na
095660 KS	Neowiz Games Corp	759	12.3	10.2	2.8	2.2	7.7	6.4	-	26.2
036570 KS	Ncsoft Corporation	3,506	18.7	14.1	5.0	3.8	12.4	9.5	0.7	30.1
5478 TT	Soft-World Intl Corp	682	14.9	14.8	na	na	na	na	4.8	na
6180 TT	Gamania Digital Entertainment	299	18.8	14.3	3.0	2.4	na	na	2.6	na
3888 HK	Kingsoft Corp Ltd	628	9.2	7.3	2.7	2.2	5.1	4.0	3.9	27.1
700 HK	Tencent Holdings Ltd	35,260	30.5	22.9	14.2	9.5	22.0	16.5	0.4	48.7
AS TB	Asiasoft Corp Pcl	67	11.4	10.8	1.8	1.8	3.5	3.4	8.4	15.8
SNDA US	Shanda Interactive-Spon Adr	2,738	13.4	10.8	1.6	1.4	3.1	2.7	-	12.4
SINA US	Sina Corp	2,261	24.5	19.5	1.7	1.5	15.9	12.8	-	7.7
SOHU US	Sohu.Com Inc	1,671	11.5	9.7	2.2	1.7	4.5	3.7	-	20.9
GIGM US	Gigamedia Ltd	137	22.9	9.0	na	na	5.0	2.2	na	na
NTE5 US	Netease.Com Inc-Adr	3,929	11.9	9.5	2.8	2.2	6.7	5.7	-	26.5
NCTY US	The9 Ltd-Adr	111	na	na	0.0	0.1	6.3	3.8	-	na
Average (simple)			16.6	12.6	3.4	2.6	8.3	6.4	1.6	24.1

Source: Bloomberg and DBS Vickers

Income Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,572	1,634
EBITDA	406	389	410	429
Depr/Amort	(166)	(136)	(141)	(144)
Opg Profit	240	252	269	284
Asso & Other Inc	12	11	12	12
Interest (Exp)/Inc	11	10	7	7
Pre-Tax Profit	263	274	288	304
Tax	(78)	(95)	(92)	(97)
Minority Interest	-	-	-	-
Extra & Forex	-	-	-	-
Net Profit	185	178	196	207
Sales Growth (%)	1.9	(5.8)	5.1	3.9
Net Profit Gr (%)	(27.0)	(3.6)	9.9	5.5
EBITDA Mgn (%)	25.6	26.0	26.1	26.2
Tax Rate (%)	29.5	34.8	32.0	32.0

Balance Sheet (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Fixed assets	132	128	105	81
Other LT Assets	352	339	392	444
Cash/ST Investments	910	812	781	774
Other Current Assets	319	422	443	460
Total Assets	1,713	1,700	1,721	1,759
ST Debt	52	5	-	-
Other Current Liabilities	345	388	407	427
LT Debt	6	9	9	10
Minority Interests	-	-	-	-
Shareholders' equity	1,261	1,240	1,243	1,259
Total Capital	1,713	1,700	1,721	1,759
Share Capital (m)	300	308	316	316
Net cash/(debt)	852	801	775	768
Working capital	26	-34	-36	-33
Gearing (%)	cash	cash	cash	cash

Cash Flow Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
EBITDA	406	389	410	429
Change in W/C	(109)	(93)	(19)	(16)
Taxes paid	(83)	(44)	(79)	(83)
i) Operating FCF	215	251	312	330
Net interest payment	13	13	9	9
ii) Net FCF	227	264	320	338
Investing cashflow	(335)	(114)	(153)	(154)
iii) Residual cashflow	(107)	149	167	184
Cashflow fr equity	677	(201)	(193)	(191)
Change in net cash	570	(51)	(26)	(7)
Ending net cash	852	801	775	768
Gross CF/Shr (Bt)	1.1	1.0	1.1	1.1
CF Opera/Shr (Bt)	0.8	0.8	1.0	1.1
Net FCF/Shr (Bt)	0.8	0.9	1.0	1.1
CF Int. Cover (x)	128	111	560	859

Rates & Ratio

FY Dec	2008A	2009A	2010F	2011F
ROE (%)	22.3	14.3	15.8	16.5
ROA (%)	14.4	10.5	11.5	11.9
Net Margin (%)	11.7	11.9	12.5	12.7
Div. Coverage (x)	1.0	1.0	1.1	1.1
Interst Coverage (x)	158	122	519	793
Asset Turnover (x)	0.9	0.9	0.9	0.9
Asset/Debt (x)	29	149	287	293
Gearing (%)	4.6	0.9	0.5	0.5
Net Gearing (%)	cash	cash	cash	cash
Debt/EBITDA (x)	0.1	0.0	0.0	0.0
Debt/ Market Cap (x)	0.0	0.0	0.0	0.0
Capex/Debt (x)	5	14	26	26
Capex/Sales (x)	0.2	0.1	0.1	0.1
EV (Btm)	1,263	1,370	1,453	1,460
EV/EBITDA (x)	3.1	3.5	3.5	3.4

Quarterly / Interim Income Statement (Bt m)

FY Dec	2Q2009	3Q2009	4Q2009	1Q2010
Turnover	361	357	427	360
EBITDA	93	84	122	111
Depr/Amort	(39)	(30)	(27)	(30)
Opg Profit	54	54	95	78
Asso & Other Inc	8	3	(1)	4
Interest (Exp)/Inc	3	2	2	2
Pre-Tax Profit	65	58	95	84
Tax	(18)	(18)	(32)	(21)
Minority Interest	-	-	-	-
Extra & Forex	-	-	-	-
Net Profit	47	40	64	63
Sales Growth (%)	(12.2)	(6.2)	4.3	2.5
Net Profit Gr (%)	(31.2)	(16.4)	162.5	116.0
EBITDA Mgn (%)	25.8	23.6	28.6	30.8
Tax Rate (%)	28.3	31.7	33.3	25.0

Revenue Breakdown (Btm)

FY Dec	2008A	2009A	2010F	2011F
-Airtime Rev. (Thai)	11	-	-	-
-Item Sale (Thai)	662	751	812	866
-Item Sale (Sing-Malay)	489	359	321	308
-Distribution	358	372	391	410
-Others	63	47	49	50
Total Revenues	1,587	1,496	1,572	1,634
Cost of Online Services	(736)	(672)	(707)	(732)
Cost of Distribution	(166)	(173)	(182)	(191)
Cost of Others	(23)	(17)	(17)	(18)
Total COGS	(925)	(862)	(906)	(941)
SG&A/Sales (%)	26.6	25.5	25.3	25.0
Effective tax rate (%)	29.5	34.8	32.0	32.0
Capex (Btm)	263	164	157	157

Source: Company, DBS Vickers

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10 to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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