

14 June 2010

Asiasoft Corporation

Media and
Publishing
Neutral

Cost control and strong local sales are key drivers

SMALL CAPS

Investment thesis: Foreign online game sales have not, so far, proven reliable bottom-line boosters, but AS's efficient cost control and a strong base of domestic online game sales will drive earnings growth in FY10-11. Moreover, the firm will invest in Vietnam in June and in Indonesia in late 2010, while market entry plans for the Philippines have been postponed to 2011. The implication is that foreign investment will be a long-term income driver (even though the market entries to SG&ML haven't yet met expectations), once domestic sales have matured. Although we are concerned about the uncertainty of foreign sales, efficient cost control and strong domestic sales limit the downside risk to earnings. We have revised up our FY10-11 forecasts by 23.9% and 22.6%, respectively. Our YE10 target is now Bt9.10, up 37.9% from our earlier target of Bt6.60. We have upgraded our rating to BUY from HOLD.

1Q10 earnings improved: AS reported a 1Q10 profit of Bt63m, up 121.7% YoY—as domestic online game sales grew 13.5% YoY—but down 1.9% QoQ. Management informed us that in 1Q10 the firm booked a Bt10m allowance for impairment of the investment in Malaysia. Although AS has maintained profitability through efficient cost management, it's not clear whether a foreign online game sales recovery is a realistic expectation.

Upside from the Red Shirt uprising: Management said that two new games for domestic sale, *Twelvesky2* and *Redviem Alive*, were launched on Feb 10 and March 17, respectively. Both games are very likely to generate income for 2Q10. Thailand's political chaos during April-May proved an unexpected boost for AS's sales—people were apparently much more likely to stay home and play games during the period.

A continuing hunt for the right games: Although AS's new game launches in Singapore and Malaysia (SG&ML) have gained acceptance, they haven't proved runaway successes. As yet, foreign sales have not proved to be big revenue generators. The broad gaming dynamics of the two markets are obviously somewhat different to those of Thailand. It may take AS some time to work out what types of games will work best in SG&ML.

BUALUANG RESEARCH

Pongrat Ratanatavananda
pongprat@bualuang.co.th
+662 618 1336

BUY (upgraded)

Target Price: Bt9.10
Price (11/06/10): Bt7.55
AS TB / AS.BK

Key Ratios & Statistics

Market cap	Bt2.32bn
12-mth price range	Bt5.55/Bt7.90
3-mth avg daily volume	Bt2.24m
# of shares (m)	299.4
Est. free float (%)	16.5
Foreign limit (%)	49.0

Share price perf. (%)	1M	3M	12M
Relative to SET	23.1	19.8	(6.6)
Absolute	22.8	25.8	16.2

Financial summary

FY ended Dec 31	2008	2009	2010E	2011E
Revenue (Btm)	1,612	1,520	1,522	1,577
Net profit (Btm)	185	178	207	227
EPS (Bt)	0.69	0.60	0.69	0.75
BLS/Consensus (x)	n.m.	n.m.	1.06	1.10
Core profit (Btm)	185	178	207	227
Core EPS (Bt)	0.69	0.60	0.69	0.75
Core EPS Growth	-38.94	-13.04	14.61	9.26
PER (x)	12.84	12.58	10.98	10.05
Core PER (x)	12.84	12.58	10.98	10.05
PBV (x)	2.10	1.82	1.83	1.81
Dividend (Bt)	0.63	0.58	0.65	0.75
Dividend yield	7.11	7.64	8.61	9.93
ROE (%)	22.32	14.27	16.69	18.08
Net gearing (x)	0.02	0.02	0.00	0.00

CG Rating - 2009 N/A

Figure 1: 1Q10 earnings recovered YoY, due mainly to local online game sales

Unit: Btm	1Q10	1Q09	YoY change	4Q09	QoQ change
Online games					
Domestic sales	247	218	13.5%	279	-11.4%
Foreign sales	96	94	2.2%	130	-26.6%
Subtotal	343	311	10.1%	409	-16.2%
Offline games					
Domestic sales	12	19	-36.9%	9	27.2%
Foreign sales	5	8	-34.8%	8	-31.9%
Subtotal	17	27	-36.3%	17	0.0%
Total sales	360	339	6.3%	427	-15.6%
Cost of sales and services	192	196	-1.9%	233	-17.5%
Gross profit	168	143	17.6%	194	-13.2%
S&A	90	94	-3.4%	99	-8.3%
Operating profit	78	49	57.6%	95	-18.3%
Other income	6	6	-1.3%	1	565.4%
EBIT	84	56	50.9%	96	-12.6%
Interest expense	0	1	-77.3%	0	-11.9%
EBT	84	55	52.6%	96	-12.6%
Tax	21	27	-21.3%	32	-34.2%
Net profit	63	28	121.7%	64	-1.9%
EPS	0.21	0.10	110.0%	0.22	-2.5%
% Margin					
Gross profit	46.7%	42.2%		45.4%	
Operating profit	21.5%	14.5%		22.3%	
Net profit	17.1%	8.2%		15.0%	

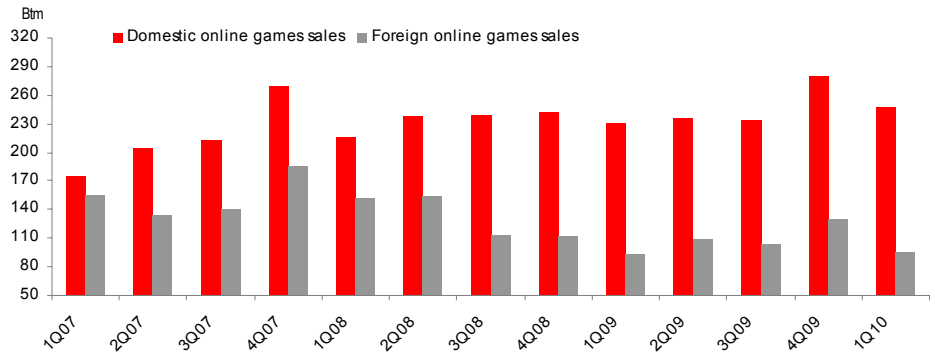
Sources: Company data, Bualuang Research

Figure 2: Revise up earnings forecast in FY10-11

FY10E			
Unit: Btm	New	Old	Change
Sales	1,522	1,515	0.5%
COGS	852	875	-2.6%
Gross profit	670	640	4.7%
S&A	365	391	-6.5%
Operating profit	305	249	22.3%
Interest expense	1	0	100.0%
EBT	304	249	22.1%
Tax	97	82	18.4%
Net profit	207	167	23.9%
EPS	0.69	0.57	21.0%
% Margin			
Gross profit	44.0%	42.3%	
Operating profit	20.0%	16.5%	
Net profit	13.6%	11.1%	
FY11E			
Unit: Btm	New	Old	Change
Sales	1,577	1,572	0.3%
COGS	867	893	-2.9%
Gross profit	711	679	4.6%
S&A	372	399	-6.8%
Operating profit	338	280	20.8%
Interest expense	0	0	0.0%
EBT	338	280	20.8%
Tax	112	95	17.2%
Net profit	227	185	22.6%
EPS	0.75	0.63	19.8%
% Margin			
Gross profit	45.0%	43.2%	
Operating profit	21.4%	17.8%	
Net profit	14.4%	11.8%	

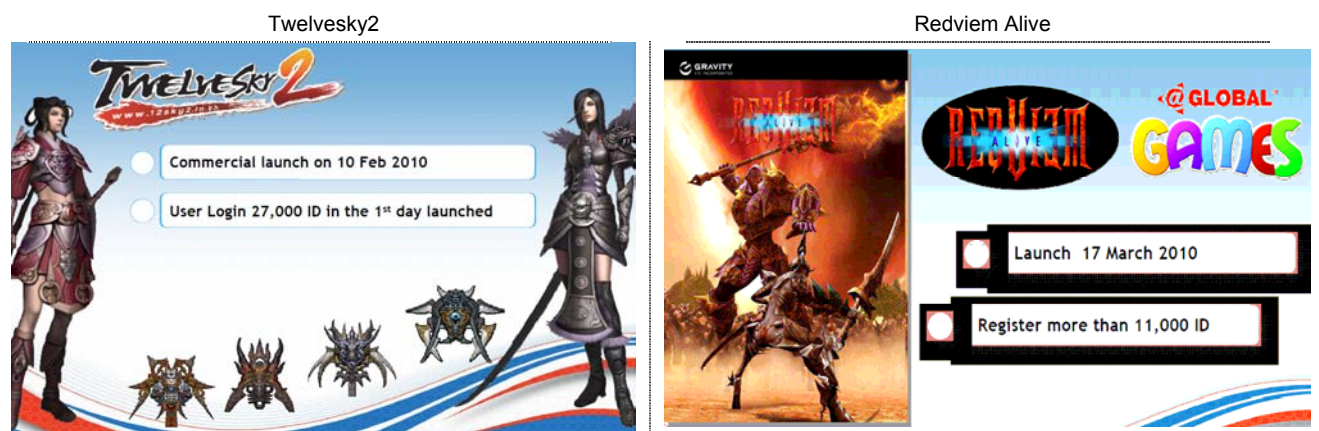
Sources: Company data, Bualuang Research

Figure 3: AS's sales structure



Source: Company

Figure 4: AS's new games launches



Source: Company

Financial tables					
PROFIT & LOSS (Btm)					
Sales	2007	2008	2009	2010E	2011E
	1,559	1,612	1,520	1,522	1,577
COGS	896	925	862	852	867
Gross profit	662	687	657	670	711
S&A	324	423	382	365	372
Operating profit	338	264	276	305	338
Interest expense	1	2	2	1	0
EBT	338	263	274	304	338
Tax	86	78	95	97	112
Earnings before minority interest	252	185	178	207	227
Minority interest	0	0	0	0	0
Net profit	252	185	178	207	227
EPS	1.13	0.69	0.60	0.69	0.75
Dividend (Bt)	Na	0.63	0.58	0.65	0.75
KEY RATIOS					
Revenue growth (%)	47.41	3.42	-5.72	0.18	3.61
EPS growth (%)	50.67	-38.94	-13.04	14.61	9.26
Gross margin (%)	42.49	42.61	43.26	44.03	45.05
Operating margin (%)	21.72	16.40	18.15	20.03	21.45
Net margin (%)	16.18	11.49	11.74	13.63	14.37
Effective tax rate (%)	25.37	29.52	34.76	31.83	33.00
BALANCE SHEET (Btm)					
Cash & cash equivalents	180	205	470	361	259
S-t investment	118	705	342	515	672
Trade accounts receivable	235	235	291	251	197
Other current assets	81	84	131	110	114
Total current assets	614	1,229	1,234	1,237	1,242
Equipments	119	132	128	122	126
Intangible assets	116	242	271	244	205
Other assets	14	110	67	76	79
Total assets	863	1,713	1,700	1,678	1,652
Short-term loans from financial institutions	0	40	0	0	0
Trade accounts payable	65	50	39	30	47
Accrued copyright expense	47	43	52	44	43
Deferred revenue airtime card and license fee	206	201	240	228	205
Other current liabilities	131	113	115	129	95
Total current liabilities	450	446	451	432	391
Other liabilities	16	6	9	0	0
Total liabilities	466	452	460	432	391
Total shareholders' equity	398	1,261	1,240	1,246	1,262
Total liab. & shareholders' equity	863	1,713	1,700	1,678	1,652
Total debt (Btm)	0	40	0	0	0
Net debt (Cash) (Btm)	-180	-165	-470	-361	-259
BV per share (Bt)	1.77	4.23	4.14	4.13	4.18

Sources: Company data, Bualuang Research estimates

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	1Q09	2Q09	3Q09	4Q09	1Q10
Sales	339	361	357	427	360
COGS	196	212	210	233	192
Gross profit	143	149	147	194	168
S&A	94	94	93	99	90
Operating profit	49	54	54	95	78
Other income	6	11	5	1	6
EBIT	56	66	59	96	84
Interest expense	1	1	1	0	0
EBT	55	65	58	96	84
Tax	27	18	18	32	21
Net profit	28	47	40	64	63
EPS	0.10	0.15	0.14	0.22	0.21
KEY RATIOS					
Revenue growth (%)	-17.84	7.93	-2.87	18.18	-14.29
EPS growth (%)	10.60	50.00	-6.67	53.82	-2.48
Gross margin (%)	42.20	41.22	41.10	45.41	46.67
Operating margin (%)	14.53	15.06	15.08	22.28	21.55
Net margin (%)	8.21	12.52	11.01	14.98	17.15
Effective tax rate (%)	48.34	28.26	31.69	33.12	24.95
QUARTERLY BALANCE SHEET (Btm)					
Cash & cash equivalents	188	130	105	470	515
S-t investment	739	694	675	342	434
Trade accounts receivable	219	243	246	291	261
Other current assets	79	90	156	131	119
Total current assets	1,225	1,157	1,182	1,234	1,329
Equipments	113	121	114	128	119
Intangible assets	261	250	242	271	259
Other assets	105	97	59	67	67
Total assets	1,704	1,624	1,597	1,700	1,775
Short-term loans from financial institutions	40	40	0	0	0
Trade accounts payable	42	45	44	39	29
Accrued copyright expense	46	49	75	52	52
Deferred revenue airtime card and license fee	9	8	6	240	239
Other current liabilities	121	89	78	115	146
Total current liabilities	450	424	423	451	465
Other liabilities	5	7	6	9	8
Total liabilities	455	432	429	460	473
Total shareholders' equity	1,249	1,193	1,167	1,240	1,302
Total liab. & shareholders' equity	1,704	1,624	1,597	1,700	1,775
Total debt (Btm)	40	40	0	0	0
Net debt (Cash) (Btm)	-148	-90	-105	-470	-515
BV per share (Bt)	4.16	3.93	3.85	4.14	4.35

Sources: Company data, Bualuang Research

BUALUANG SECURITIES PUBLIC COMPANY LIMITED – DISCLAIMER






BUALUANG SECURITIES PUBLIC COMPANY LIMITED (BLS) is a subsidiary of BANGKOK BANK PUBLIC COMPANY LIMITED (BBL). This document is produced based upon sources believed to be reliable but their accuracy, completeness or correctness is not guaranteed. The statements or expressions of opinion herein were arrived at after due and careful consideration to use as information for investment. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information shall be at the sole discretion and risk of the user.

This research report was prepared by Bualuang Securities Public Company Limited and refers to research prepared by Morgan Stanley. Morgan Stanley does not warrant or guarantee the accuracy or completeness of its research reports. Morgan Stanley reserves copyright and other proprietary rights in the material reproduced in this report. Morgan Stanley is under no obligation to inform Bualuang Securities or you if the views or information referred to or reproduced in this research report change.

Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association (“IOD”) regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not base on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

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

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

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

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

SECTOR RECOMMENDATIONS

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