

Thailand Company Focus

Asiasoft Corporation

Bloomberg: AS TB | Reuters: AS.BK

DBS Group Research . Equity

9 Jul 2010

BUY Bt8.85 SET : 817.57

Price Target : 12-month Bt 11.10 (Prev Bt 8.50)

Reason for Report : Company update

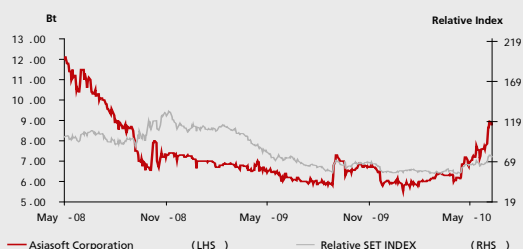
Potential Catalyst: Strong APA and ARPU growth

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Bt m)	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,512	1,581
EBITDA	406	389	448	464
Pre-tax Profit	263	274	333	348
Net Profit	185	178	227	237
Net Pft (Pre Ex.)	185	178	227	237
EPS (Bt)	0.6	0.6	0.7	0.7
EPS Pre Ex. (Bt)	0.6	0.6	0.7	0.7
EPS Gth Pre Ex (%)	(45)	(6)	24	5
Diluted EPS (Bt)	0.6	0.6	0.7	0.7
Net DPS (Bt)	0.6	0.6	0.7	0.7
BV Per Share (Bt)	4.2	4.0	4.0	4.0
PE (X)	14.3	15.3	12.3	11.8
PE Pre Ex. (X)	14.3	15.3	12.3	11.8
P/Cash Flow (X)	7.8	9.0	8.0	7.8
EV/EBITDA (X)	4.4	5.0	4.4	4.3
Net Div Yield (%)	7.1	6.4	7.7	8.0
P/Book Value (X)	2.1	2.2	2.2	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.3	14.3	18.1	18.7

Earnings Rev (%): +15.5% +14.6%
Consensus EPS (Bt): 0.7 73

ICB Industry : Consumer Goods

ICB 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.

Source of all data: Company, DBS Vickers, Bloomberg

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Overseas earnings recovering

- Loss recovery from overseas sustainable in 2Q aided by a full quarter impact from its cost-cutting program
- Earnings to recover in 2Q10F led by (i) strong traffic in Thailand, (ii) cost cuts at overseas units, and (iii) absence of additional expenses
- Assuming overseas units breakeven in FY10 from Bt40m loss in FY09, earnings can potentially jump 22%
- Maintain BUY with revised TP of Bt11.10, based on 15.5x FY10F PE

Overseas loss recovery to be sustainable. Our recent conversation with the management reaffirmed that recovery in losses at its overseas units would be sustainable in 2Q10F. Despite expecting revenues to be flat, we should see a full quarter impact from cost cutting initiatives.

Earnings to recover in 2Q10F. This is due to (i) seasonal effect; (ii) good response to the launch of a new game - *12 sky* - in Thailand; (iii) indirect positive impact from riots; (iv) a full quarter impact from its cost-cutting program; and (v) the absence of additional expenses of Bt10m that was booked in 1Q10.

Maintain BUY. Given its strong earnings recovery and compelling valuations of 4.4x FY10 EV/EBITDA and 7.7% FY10 dividend yield, we reiterate our BUY rating for Asiasoft with a revised target price of Bt11.10, based on 15.5x FY10F PE.

At A Glance

Issued Capital (m shrs)	308
Mkt. Cap (Btm/US\$m)	2,725 / 83.9
Major Shareholders	
Pramoth Sudjitporn (%)	43.1
Asia Investment Partners Limited (%)	9.9
Mr.Tan Tgow Lim (%)	9.7
Free Float (%)	15.6
Avg. Daily Vol.('000)	500

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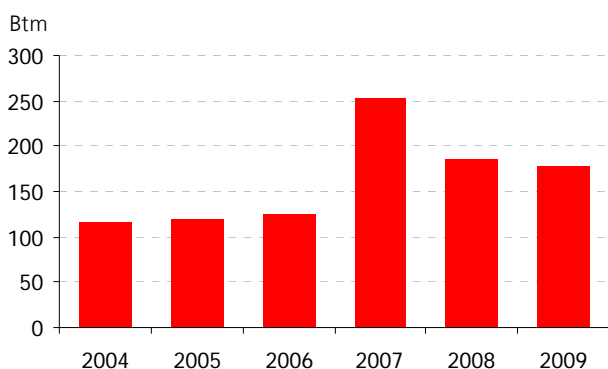
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DBS VICKERS SECURITIES

Overseas units a drag

Strong earnings prior 2008. Asiasoft earnings grew strongly since its inception in 2003 due to the strong demand for online games in the region. However, earnings started to soften in 2008 due to (i) a hacking problem at its Singapore servers; and (ii) rising cost at its Malaysian office.

Annual net profit



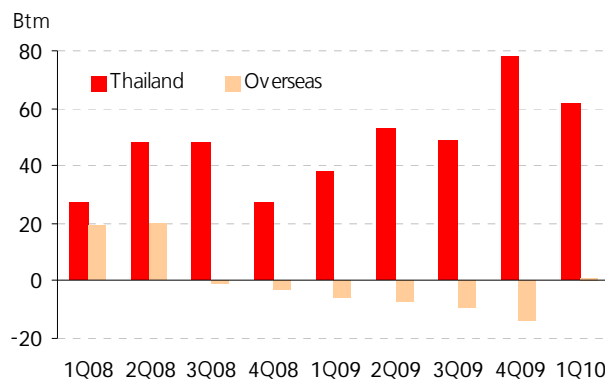
Source: Company and DBS Vickers

Hacking problem hurting top line. The company faced a problem in the Singapore market since 3Q08, when the server for its popular game 'Maple Story' was hacked by a Chinese hacker. Although the problem was resolved within a couple of months, gamers' confidence continued to be weak, and they were reluctant to purchase new items or add credits in the game in subsequent quarters.

Expansion in Malaysia pushed costs up. The cost at overseas units also rose after its expansion in Malaysia. Previously, its office in Malaysia had less than 10 employees handling marketing. In 2H08, the office was expanded and a new IT facility, including game servers, was added. This led to an increase in overhead costs, while the additional income from new game launches in the country did not meet expectations. Its new investment in Malaysia apparently generated negative returns.

Six consecutive quarters of losses at overseas units. As a result of these two problems, losses at its overseas units have been increasing since 3Q08.

Earnings contribution by geographical segment



Source: Company and DBS Vickers

Overseas units reach breakeven point

Overseas unit breaks even. Asiasoft surprised the market by reporting strong 1Q10 earnings, which were attributable to overseas units reporting a small profit of Bt1m compared to Bt10m net loss in 1Q09 and Bt14m loss in 4Q09. This was largely due to its successful cost-cutting program.

Successful cost-cutting program. As the company has capacity in its Malaysia office, some staff were relocated from Singapore to Malaysia in 1Q10 to take advantage of the lower wages. The company also implemented a redundancy exercise and shared resources between two markets, especially IT and call center, to save on costs.

Sustainable in the future. The cost savings was minimal in 1Q10 as there were some one-time expenses incurred. We believe the benefit would be noticeable from 2Q10.

Stronger 2Q10F earnings

Stronger earnings expected in 2Q10F. This will be driven by :

- First, the seasonal effect. The school holidays in Thailand is from March to mid-May.
- Second, good response to new game - *12 sky*- launched in Feb 2010.
- Third, indirect positive impact from riots as more people stayed at home, especially at night.
- Fourth, a full quarter benefit from its cost-cutting program.
- Fifth, an absence of Bt10m of additional impairment expenses booked in 1Q10.

Recommendation

Absence of overseas loss to drive profit growth. Assuming (i) overseas bottom line recovers from Bt40m loss in 2009 to just breakeven in FY10F (Bt1m net profit in 1Q10), and (ii) contribution from domestic market is flat y-o-y, which is quite conservative, Asiasoft's overall net profit would jump by Bt40m, which represents 22% earnings growth in 2010F.

Possible successful game will be a bonus. Overseas growth could even be stronger if a new game becomes a huge success.

Earnings upgrade. As its overseas units should post sustainable recovery in losses, we believe Asiasoft's overall earnings growth should be strong this year. We have upgraded our earnings forecast by 15.5% for FY10F and 14.6% for FY11F. Our target price also has been revised up from Bt8.50 to Bt11.10, based on its 15.5x FY10PE.

BUY reiterated. Given its strong earnings recovery and compelling valuations of 4.4x FY10 EV/EBITDA and 7.7% FY10 dividend yield, we reiterate our BUY rating for Asiasoft.

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		
SNDA US	Shanda Interactive-Spon Adr	2,487	15.1	12.0	1.4	1.3	4.0	3.5	-	9.6
SINA US	Sina Corp	2,172	23.6	18.7	1.7	1.5	14.6	11.7	-	7.7
SOHU US	Sohu.Com Inc	1,588	10.9	9.0	2.1	1.7	4.2	3.5	-	20.9
GIGM US	Gigamedia Ltd	118	19.7	7.8	na	na	6.4	2.8	na	na
NTES US	Netease.Com Inc-Adr	4,333	13.2	10.7	3.1	2.4	7.8	6.5	-	26.0
NCTY US	The9 Ltd-Adr	104	na	na	0.0	0.1	6.6	5.8	-	na
035420 KS	Nhn Corp	7,803	18.6	15.8	na	na	13.9	12.2	0.1	41.3
095660 KS	Neowiz Games Corp	705	na	na	na	na	na	na	na	na
036570 KS	Ncsoft Corporation	3,685	19.4	14.3	5.3	4.0	13.2	10.4	0.6	30.1
5478 TT	Soft-World Intl Corp	631	12.8	11.2	3.8	3.4	49.9	47.9	5.2	24.7
6180 TT	Gamania Digital Entertainmen	269	16.7	11.8	2.8	2.1	na	na	3.0	na
3888 HK	Kingsoft Corp Ltd	556	8.2	6.8	2.4	2.0	4.6	3.7	4.0	25.9
700 HK	Tencent Holdings Ltd	31,962	27.5	20.8	13.0	8.8	19.8	14.9	0.4	48.6
AS TB	Asiasoft Corp Pcl	86	13.2	12.1	2.2	2.1	4.5	4.3	7.1	16.4
Average (simple)			16.6	12.6	3.4	2.7	12.5	10.6	1.7	25.1

Source: Bloomberg and DBS Vickers

Asiasoft Corporation

Income Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,512	1,581
Cost of Goods Sold	(925)	(862)	(820)	(856)
Gross Profit	662	634	693	724
Other Opng (Exp)/Inc	(423)	(382)	(378)	(395)
Operating Profit	240	252	314	329
Other Non Opq (Exp)/Inc	12	11	11	12
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	11	10	7	7
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	263	274	333	348
Tax	(78)	(95)	(107)	(112)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	185	178	227	237
Net Profit before Except.	185	178	227	237
EBITDA	406	389	448	464
Sales Gth (%)	1.9	(5.8)	1.1	4.5
EBITDA Gth (%)	(10.0)	(4.4)	15.3	3.7
Opq Profit Gth (%)	(28.9)	5.1	24.8	4.7
Net Profit Gth (%)	(27.0)	(3.6)	27.0	4.6
Effective Tax Rate (%)	29.5	34.8	32.0	32.0

Cash Flow Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Pre-Tax Profit	263	274	333	348
Dep. & Amort.	154	125	122	123
Tax Paid	(78)	(95)	(107)	(112)
Assoc. & JV Inc/(Loss)	0	0	0	0
Chg in Wkg.Cap.	(64)	(40)	4	0
Other Operating CF	(33)	(18)	2	(4)
Net Operating CF	243	246	355	357
Capital Exp.(net)	(167)	(121)	(93)	(94)
Other Invts.(net)	(36)	39	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(158)	(25)	(50)	(49)
Net Investina CF	(360)	(107)	(142)	(144)
Div Paid	(182)	(161)	(215)	(220)
Chg in Gross Debt	42	(47)	(5)	0
Capital Issues	859	(39)	8	0
Other Financing CF	11	10	7	7
Net Financia CF	730	(237)	(205)	(213)
Net Cashflow	612	(98)	7	0

Quarterly / Interim Income Statement (Bt m)

FY Dec	2Q2009	3Q2009	4Q2009	1Q2010
Turnover	361	357	427	360
Cost of Goods Sold	(212)	(210)	(233)	(192)
Gross Profit	149	147	194	168
Other Oper. (Exp)/Inc	(94)	(93)	(99)	(90)
Operating Profit	54	54	95	78
Other Non Opq (Exp)/Inc	8	3	(1)	4
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	3	2	2	2
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	65	58	95	84
Tax	(18)	(18)	(32)	(21)
Minority Interest	0	0	0	0
Net Profit	47	40	64	63
Net profit bef Except.	47	40	64	63
EBITDA	93	84	122	111
Sales Gth (%)	2.7	(1.2)	19.6	(15.6)
EBITDA Gth (%)	4.0	(9.6)	45.2	(9.0)
Opq Profit Gth (%)	10.4	(1.1)	76.0	(18.0)
Net Profit Gth (%)	64.5	(14.6)	59.9	(1.3)
Gross Margins (%)	41.2	41.1	45.4	46.7
Opq Profit Margins (%)	15.1	15.1	22.2	21.5
Net Profit Margins (%)	12.9	11.2	14.9	17.4

Balance Sheet (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Net Fixed Assets	132	128	98	70
Invts in Associates & JVs	0	0	0	0
Other LT Assets	352	339	389	438
Cash & ST Invts	910	812	819	820
Inventory	16	11	11	12
Debtors	235	291	294	307
Other Current Assets	68	120	121	127
Total Assets	1,713	1,700	1,733	1,773
ST Debt	52	5	0	0
Other Current Liab	394	446	464	487
LT Debt	6	6	6	6
Other LT Liabilities	0	3	3	4
Shareholder's	1,261	1,240	1,259	1,276
Minority Interests	0	0	0	0
Total Cap. & Liab.	1,713	1,700	1,733	1,773
Non-Cash Wkg. Capital	(75)	(24)	(38)	(42)
Net Cash/(Debt)	852	801	813	814

Rates & Ratio

FY Dec	2008A	2009A	2010F	2011F
Gross Margins (%)	41.7	42.4	45.8	45.8
Opq Profit Margin (%)	15.1	16.8	20.8	20.8
Net Profit Margin (%)	11.7	11.9	15.0	15.0
ROAE (%)	22.3	14.3	18.1	18.7
ROA (%)	14.4	10.5	13.2	13.5
ROCE (%)	19.5	12.8	17.0	17.5
Div Payout Ratio (%)	101.3	98.3	95.0	95.0
Net Interest Cover (x)	NM	NM	NM	NM
Asset Turnover (x)	1.2	0.9	0.9	0.9
Debtors Turn (avg days)	54.0	64.2	70.5	69.4
Creditors Turn (avg days)	27.2	22.0	19.9	18.8
Inventory Turn (avg days)	6.8	6.7	5.8	5.7
Current Ratio (x)	2.8	2.7	2.7	2.6
Quick Ratio (x)	2.6	2.4	2.4	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.7)	(0.6)	(0.6)	(0.6)
Capex to Debt (%)	287.3	1,062.0	1,544.6	1,569.0
Z-Score (X)	5.3	5.3	4.8	5.0
N. Cash/(Debt)PS (Bt)	2.8	2.6	2.6	2.6
Opq CFPS (Bt)	1.0	0.9	1.1	1.1
Free CFPS (Bt)	0.3	0.4	0.8	0.8

Revenue Breakdown (Btm)

FY Dec	2008A	2009A	2010F	2011F
-Airtime Rev. (Thai)	11	-	-	-
-Item Sale (Thai)	662	751	883	951
-Item Sale (Sina-Malav)	489	359	338	324
-Distribution	358	372	242	254
-Others	63	47	50	52
Total Revenues	1,587	1,496	1,512	1,581
Cost of Online Services	(736)	(672)	(730)	(762)
Cost of Distribution	(166)	(173)	(73)	(76)
Cost of Others	(23)	(17)	(18)	(19)
Total COGS	(925)	(862)	(820)	(856)
SG&A/Sales (%)	26.6	25.5	25.0	25.0
Effective tax rate (%)	29.5	34.8	32.0	32.0
Capex (Btm)	263	164	140	140

Source: Company, DBS Vickers

DBSV recommendations are based on Absolute Total Return* Rating system, defined as follows:

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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