

16 August 2010

# Asiasoft Corporation

## Cost-cutting fueled recovery

Media and  
Publishing  
Neutral

## BUALUANG RESEARCH

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# HOLD

 (downgraded)

Target Price: Bt10.40  
Price (11/08/10): Bt9.10  
AS TB / AS.BK

### Key Ratios & Statistics

Market cap	Bt2.85bn
12-mth price range	Bt5.55/Bt9.30
3-mth avg daily volume	Bt4.58m
# of shares (m)	299.4
Est. free float (%)	16
Foreign limit (%)	49

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	1,433	1,485
Net profit (Btm)	185	178	262	290
EPS (Bt)	0.69	0.60	0.86	0.95
BLS/Consensus (x)	n.m.	n.m.	1.04	1.05
Core profit (Btm)	185	178	262	290
Core EPS (Bt)	0.69	0.60	0.86	0.95
Core EPS Growth	-38.94	-13.04	42.92	10.92
PER (x)	12.84	17.33	12.13	10.93
Core PER (x)	12.84	17.33	12.13	10.93
PBV (x)	2.10	2.51	2.47	2.38
Dividend (Bt)	0.63	0.58	0.75	0.85
Dividend yield	7.11	5.54	7.21	8.17
ROE (%)	22.32	14.27	20.71	22.15
Net gearing (x)	0.02	0.02	0.00	0.00

CG Rating - 2009 N/A

SMALL CAPS

**Recovery driven by cost cuts:** AS reported 2Q10 earnings of Bt74m, up by 59.7% YoY and 17.6% QoQ, due mainly to a fall of 12.2% YoY and 5.9% QoQ in cost of sales and service, as well as a drop of 10.9% YoY and 11.6% QoQ in selling and administrative expenses. The 1H10 profit of Bt137m represents 66.2% of our earlier FY10 forecast of Bt207m.

**Results highlights:** Although 2Q10 gross margin rose to 49% from 41.1% in 2Q09 and 46.7% in 1Q10, the increase was driven by cost-cutting—online game sales remained flat in both YoY and QoQ. The cost cuts came from Singapore and Malaysia (SG&ML). As such, both countries are now being efficiently cost managed, so shouldn't be major burdens anymore.

**Outlook:** Management said that two new games for domestic sale, *Twelvesky2* and *Redviem Alive*, which were launched on Feb 10 and March 17, respectively, generated good income in 2Q10. Moreover, AS plans to launch five new games in Thailand and 5-7 games abroad. In July, the firm launched *Rohan* in Thailand. Management expects this game to be popular and a 3Q10 income generator, so there is perhaps scope for 2H10 revenue growth. AS anticipates that its investment in Vietnam will be concluded in 3Q10 and in Indonesia in late 2010. The firm may also make a market entry to the Philippines in 2011. Also, AS is interested in acquiring domestic games and websites, as well as online games-related businesses to boost profit growth.

**What's changed?** We have revised up our FY10-11 earnings forecasts by 26.1% and 28%, respectively (see Figure 2).

**Recommendation:** We have rolled over our investment horizon to YE11 with a new target price of Bt10.40 (our YE10 target was Bt9.10), based on an average long-term PER of 11x. Although we have upgraded our forecasts and target price, our upgrades reflect successful cost reductions. The unpredictability of the popularity of games to be launched makes it very difficult to forecast revenue growth with any confidence. At the same time, domestic online game sales growth remains flat, which implies that the potential for earnings expansion is limited. However, AS's dividend yield of 8.2%-9.3% for FY10-11 is attractive. We, therefore, have downgraded our rating to HOLD from BUY.

**Figure 1: 2Q10 earnings improved significantly**

Unit: Btm	2Q10	2Q09	YoY change	1Q10	QoQ change	1H10	1H09	Change
<b>Online games</b>								
Domestic sales	246	225	9.4%	247	-0.3%	494	443	11.4%
Foreign sales	107	108	-0.9%	96	12.3%	203	202	0.5%
Subtotal	354	334	6.1%	343	3.2%	697	645	8.0%
<b>Offline games</b>								
Domestic sales	0	12	-99.0%	12	-98.9%	12	31	-61.4%
Foreign sales	0	4	-90.1%	5	-93.5%	6	12	-51.3%
Subtotal	0	16	-97.0%	17	-97.2%	18	43	-58.6%
<b>Total sales</b>	<b>354</b>	<b>350</b>	<b>1.4%</b>	<b>360</b>	<b>-1.6%</b>	<b>714</b>	<b>688</b>	<b>3.8%</b>
Cost of sales and services	181	206	-12.2%	192	-5.9%	373	402	-7.3%
<b>Gross profit</b>	<b>174</b>	<b>144</b>	<b>20.8%</b>	<b>168</b>	<b>3.2%</b>	<b>342</b>	<b>286</b>	<b>19.3%</b>
S&A	80	90	-10.9%	90	-11.6%	170	183	-6.9%
<b>Operating profit</b>	<b>94</b>	<b>54</b>	<b>73.3%</b>	<b>78</b>	<b>20.6%</b>	<b>171</b>	<b>103</b>	<b>65.8%</b>
Other income	4	11	-61.8%	6	-30.9%	11	18	-40.0%
<b>EBIT</b>	<b>98</b>	<b>65</b>	<b>49.9%</b>	<b>84</b>	<b>16.7%</b>	<b>182</b>	<b>121</b>	<b>50.3%</b>
Interest expense	0	1	-80.1%	0	-14.1%	0	1	-78.6%
<b>EBT</b>	<b>98</b>	<b>65</b>	<b>51.3%</b>	<b>84</b>	<b>16.8%</b>	<b>181</b>	<b>120</b>	<b>51.9%</b>
Tax	24	18	30.0%	21	14.4%	45	45	-0.3%
<b>Net profit</b>	<b>74</b>	<b>46</b>	<b>59.7%</b>	<b>63</b>	<b>17.6%</b>	<b>137</b>	<b>75</b>	<b>83.3%</b>
<b>EPS</b>	<b>0.24</b>	<b>0.15</b>	<b>60.0%</b>	<b>0.21</b>	<b>14.3%</b>	<b>0.45</b>	<b>0.25</b>	<b>80.0%</b>
<b>% Margin</b>								
Gross profit	49.0%	41.1%		46.7%		47.8%	41.6%	
Operating profit	26.4%	15.4%		21.5%		24.0%	15.0%	
Net profit	20.6%	12.8%		17.1%		18.9%	10.6%	

Sources: Company data, Bualuang Research

**Figure 2: Revise up FY10-11 earnings forecast**

<b>FY10E</b>			
Unit: Btm	New	Old	Change
Sales	1,433	1,522	-5.8%
COGS	749	852	-12.1%
<b>Gross profit</b>	<b>684</b>	<b>670</b>	<b>2.1%</b>
S&A	331	365	-9.4%
<b>Operating profit</b>	<b>353</b>	<b>305</b>	<b>15.7%</b>
Interest expense	1	1	100.0%
<b>EBT</b>	<b>352</b>	<b>304</b>	<b>15.8%</b>
Tax	91	97	-6.4%
<b>Net profit</b>	<b>262</b>	<b>207</b>	<b>26.1%</b>
<b>EPS</b>	<b>0.86</b>	<b>0.69</b>	<b>24.7%</b>
<b>% Margin</b>			
Gross profit	47.7%	44.0%	
Operating profit	24.6%	20.0%	
Net profit	18.3%	13.6%	
<b>FY11E</b>			
Unit: Btm	New	Old	Change
Sales	1,485	1,577	-5.8%
COGS	762	867	-12.0%
<b>Gross profit</b>	<b>723</b>	<b>711</b>	<b>1.7%</b>
S&A	330	372	-11.4%
<b>Operating profit</b>	<b>393</b>	<b>338</b>	<b>16.2%</b>
Interest expense	0	0	0.0%
<b>EBT</b>	<b>393</b>	<b>338</b>	<b>16.2%</b>
Tax	103	112	-7.8%
<b>Net profit</b>	<b>290</b>	<b>227</b>	<b>28.0%</b>
<b>EPS</b>	<b>0.95</b>	<b>0.75</b>	<b>26.6%</b>
<b>% Margin</b>			
Gross profit	48.7%	45.0%	
Operating profit	26.5%	21.4%	
Net profit	19.5%	14.4%	

Sources: Company data, Bualuang Research

<b>Financial tables</b>					
<b>PROFIT &amp; LOSS (Btm)</b>					
Sales	1,559	1,612	1,520	1,433	1,485
COGS	896	925	862	749	762
<b>Gross profit</b>	<b>662</b>	<b>687</b>	<b>657</b>	<b>684</b>	<b>723</b>
S&A	324	423	382	331	330
<b>Operating profit</b>	<b>338</b>	<b>264</b>	<b>276</b>	<b>353</b>	<b>393</b>
Interest expense	1	2	2	1	0
<b>EBT</b>	<b>338</b>	<b>263</b>	<b>274</b>	<b>352</b>	<b>393</b>
Tax	86	78	95	91	103
<b>Earnings before minority interest</b>	<b>252</b>	<b>185</b>	<b>178</b>	<b>262</b>	<b>290</b>
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>252</b>	<b>185</b>	<b>178</b>	<b>262</b>	<b>290</b>
<b>EPS</b>	<b>1.13</b>	<b>0.69</b>	<b>0.60</b>	<b>0.86</b>	<b>0.95</b>
Dividend (Bt)	Na	0.63	0.58	0.75	0.85
<b>KEY RATIOS</b>					
Revenue growth (%)	47.41	3.42	-5.72	-5.67	3.62
EPS growth (%)	50.67	-38.94	-13.04	42.92	10.92
Gross margin (%)	42.49	42.61	43.26	47.73	48.67
Operating margin (%)	21.72	16.40	18.15	24.63	26.47
Net margin (%)	16.18	11.49	11.74	18.25	19.54
Effective tax rate (%)	25.37	29.52	34.76	25.74	26.19
<b>BALANCE SHEET (Btm)</b>					
Cash & cash equivalents	180	205	470	339	321
S-t investment	118	705	342	600	702
Trade accounts receivable	235	235	291	237	186
Other current assets	81	84	131	103	107
<b>Total current assets</b>	<b>614</b>	<b>1,229</b>	<b>1,234</b>	<b>1,279</b>	<b>1,315</b>
Equipments	119	132	128	115	119
Intangible assets	116	242	271	229	193
Other assets	14	110	67	72	74
<b>Total assets</b>	<b>863</b>	<b>1,713</b>	<b>1,700</b>	<b>1,694</b>	<b>1,701</b>
Short-term loans from financial institutions	0	40	0	0	0
Trade accounts payable	65	50	39	29	45
Accrued copyright expense	47	43	52	42	40
Deferred revenue airtime card and license fee	206	201	240	215	193
Other current liabilities	131	113	115	122	89
<b>Total current liabilities</b>	<b>450</b>	<b>446</b>	<b>451</b>	<b>407</b>	<b>368</b>
Other liabilities	16	6	9	0	0
<b>Total liabilities</b>	<b>466</b>	<b>452</b>	<b>460</b>	<b>407</b>	<b>368</b>
<b>Total shareholders' equity</b>	<b>398</b>	<b>1,261</b>	<b>1,240</b>	<b>1,287</b>	<b>1,333</b>
<b>Total liab. &amp; shareholders' equity</b>	<b>863</b>	<b>1,713</b>	<b>1,700</b>	<b>1,694</b>	<b>1,701</b>
Total debt (Btm)	0	40	0	0	0
Net debt (Cash) (Btm)	-180	-165	-470	-339	-321
BV per share (Bt)	1.77	4.23	4.14	4.22	4.37

Sources: Company data, Bualuang Research estimates

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**Financial tables**

<b>QUARTERLY PROFIT &amp; LOSS (Btm)</b>	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>	<b>1Q10</b>	<b>2Q10</b>
Sales	350	357	427	360	354
COGS	206	210	233	192	181
<b>Gross profit</b>	<b>144</b>	<b>147</b>	<b>194</b>	<b>168</b>	<b>174</b>
S&A	90	93	99	90	80
<b>Operating profit</b>	<b>54</b>	<b>54</b>	<b>95</b>	<b>78</b>	<b>94</b>
Other income	11	5	1	6	4
<b>EBIT</b>	<b>65</b>	<b>59</b>	<b>96</b>	<b>84</b>	<b>98</b>
Interest expense	1	1	0	0	0
<b>EBT</b>	<b>65</b>	<b>58</b>	<b>96</b>	<b>84</b>	<b>98</b>
Tax	18	18	32	21	24
<b>Net profit</b>	<b>46</b>	<b>40</b>	<b>64</b>	<b>63</b>	<b>74</b>
<b>EPS</b>	<b>0.15</b>	<b>0.14</b>	<b>0.22</b>	<b>0.21</b>	<b>0.24</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	4.57	0.25	18.18	-14.29	-2.15
EPS growth (%)	50.00	-6.67	53.82	-2.48	14.29
Gross margin (%)	41.12	41.10	45.41	46.67	48.99
Operating margin (%)	15.44	15.08	22.28	21.55	26.41
Net margin (%)	12.82	11.01	14.98	17.15	20.60
Effective tax rate (%)	28.43	31.69	33.12	24.95	24.43
<b>QUARTERLY BALANCE SHEET (Btm)</b>					
Cash & cash equivalents	130	105	470	515	344
S-t investment	694	675	342	434	541
Trade accounts receivable	243	246	291	261	270
Other current assets	90	156	131	119	110
Total current assets	1,157	1,182	1,234	1,329	1,265
Equipments	121	114	128	119	118
Intangible assets	250	242	271	259	258
Other assets	97	59	67	67	65
<b>Total assets</b>	<b>1,624</b>	<b>1,597</b>	<b>1,700</b>	<b>1,775</b>	<b>1,706</b>
Short-term loans from financial institutions	40	0	0	0	0
Trade accounts payable	45	44	39	29	33
Accrued copyright expense	49	75	52	52	37
Deferred revenue airtime card and license fee	8	6	240	239	243
Other current liabilities	89	78	115	146	112
Total current liabilities	424	423	451	465	425
Other liabilities	7	6	9	8	5
<b>Total liabilities</b>	<b>432</b>	<b>429</b>	<b>460</b>	<b>473</b>	<b>430</b>
<b>Total shareholders' equity</b>	<b>1,193</b>	<b>1,167</b>	<b>1,240</b>	<b>1,302</b>	<b>1,276</b>
<b>Total liab. &amp; shareholders' equity</b>	<b>1,624</b>	<b>1,597</b>	<b>1,700</b>	<b>1,775</b>	<b>1,706</b>
Total debt (Btm)	40	0	0	0	0
Net debt (Cash) (Btm)	-90	-105	-470	-515	-344
BV per share (Bt)	3.93	3.85	4.14	4.35	4.18

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Sources: Company data, Bualuang Research

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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.