

# Thailand Company Focus

## Asiasoft Corporation

Bloomberg: AS TB | Reuters: AS.BK

DBS Group Research . Equity

26 Aug 2010

**BUY Bt10.60** SET : 884.51

**Price Target** : 12-month Bt 14.00 (Prev Bt 11.10)

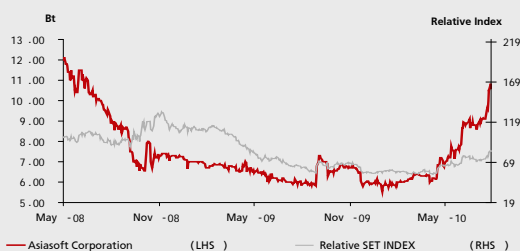
**Reason for Report** : Analyst meeting & company update

**Potential Catalyst**: Strong APA and ARPU growth

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (Bt m)	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,437	1,515
EBITDA	406	389	464	483
Pre-tax Profit	263	274	359	374
Net Profit	185	178	264	275
Net Pft (Pre Ex.)	185	178	264	275
EPS (Bt)	0.6	0.6	0.8	0.9
EPS Pre Ex. (Bt)	0.6	0.6	0.8	0.9
EPS Gth Pre Ex (%)	(45)	(6)	44	4
Diluted EPS (Bt)	0.6	0.6	0.8	0.9
Net DPS (Bt)	0.6	0.6	0.8	0.8
BV Per Share (Bt)	4.2	4.0	4.0	4.1
PE (X)	17.2	18.3	12.7	12.2
PE Pre Ex. (X)	17.2	18.3	12.7	12.2
P/Cash Flow (X)	9.4	10.7	8.9	8.6
EV/EBITDA (X)	5.7	6.3	5.4	5.2
Net Div Yield (%)	5.9	5.4	7.5	7.8
P/Book Value (X)	2.5	2.6	2.6	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.3	14.3	21.0	21.4

**Earnings Rev (%)**: 16.4 16.1  
**Consensus EPS (Bt)**: 0.8 0.9

**ICB Industry** : Consumer Goods

**ICB Sector**: Leisure Goods

**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*

## Breakeven of overseas unit will boost group profit

- Strong 2Q10 profit of Bt74m (+58% y-o-y, +18% q-o-q) was due to successful launch of new game in Thailand and an overseas unit turning profitable
- Earnings should recover further in 2H10F with launches of more new popular games in Thailand and cost-saving measures at overseas unit
- Earnings will jump 48% in FY10F led by both domestic and overseas units; upgrade earnings, and TP to Bt14.00 based on 16.0x FY11F PE
- Given the strong earnings recovery and attractive FY10F valuation (12.7x PE, 7.5% dividend yield), we maintain our BUY rating

**Overseas unit remained profitable in 2Q10.** It is encouraging that its overseas unit continued to post net profit in 2Q10. Asiasoft implemented services sharing measure between Singapore and Malaysia units and cut its overseas staff count from 200 in 2009 to 140 in 2010.

**Absence of overseas losses a boost to group profit.** The overseas unit generated Bt40m loss in 2009, which means its breakeven should boost group bottomline by at least the same quantum in 2010.

**Maintain BUY.** Given its strong earnings momentum and attractive valuations at 12.7x FY10F PE and 7.5% FY10F dividend yield, we reiterate our BUY rating for Asiasoft.

### At A Glance

Issued Capital (m shrs)	314
Mkt. Cap (Btm/US\$m)	3,325 / 105
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)	561

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**2Q10 result review**

**Strong 2Q10 earnings recovery.** Asiasoft's 2Q10 net profit jumped 58% y-o-y and 18% q-o-q to Bt74m in 2Q10, higher than our estimate. EBITDA grew 31% y-o-y and 11% q-o-q to Bt124m in 2Q10. The strong earnings were led by (i) seasonal effect, (ii) good response to new games, (iii) lower cost at overseas units, and (iv) the absence of Bt10m extra expenses booked in 1Q10.

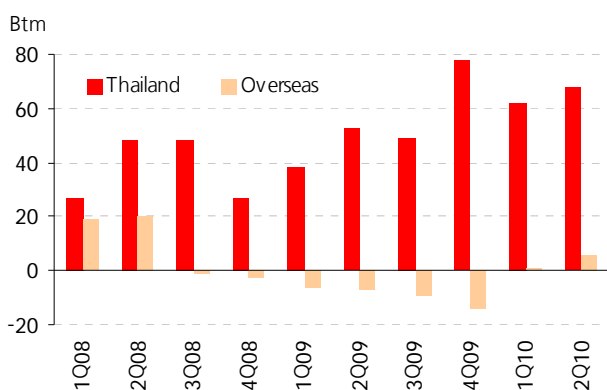
**Overseas unit remained profitable.** Overseas earnings recovered further to Bt5.9m net profit in 2Q10, from Bt7.2m net loss in 2Q09 and Bt1m net profit in 1Q10. This was due to its successful cost-cutting program.

**2Q10 result review**

YE Dec (Btm)	2Q09	1Q10	2Q10	Chg y-o-y	Chg q-o-q
<b>Profit &amp; Loss</b>					
<b>Turnover</b>	<b>361</b>	<b>360</b>	<b>354</b>	-1.9%	-1.6%
COGS	-182	-163	-153	-16%	-6.0%
Deprec. & amor.	-31	-30	-28	-8.8%	-5.5%
<b>Gross profit</b>	<b>149</b>	<b>168</b>	<b>174</b>	17%	3.2%
SG&A	-94	-90	-80	-15%	-12%
<b>Op. profit</b>	<b>54</b>	<b>78</b>	<b>94</b>	72%	21%
Oth. inc.	8	4	2	-72%	-43%
Net int. inc./(exp.)	3	2	2	-25%	-12%
<b>EBT</b>	<b>65</b>	<b>84</b>	<b>98</b>	50%	17%
Inc. tax	-18	-21	-24	30%	14%
<b>Net profit</b>	<b>47</b>	<b>63</b>	<b>74</b>	58%	18%
EPS.	0.15	0.20	0.24	53%	15%
Gross margin	41%	47%	49%		
EBITDA (Btm)	93	111	124		
EBITDA margin	26%	31%	35%		
Tax rate	28%	25%	24%		

Source: Company and DBS Vickers

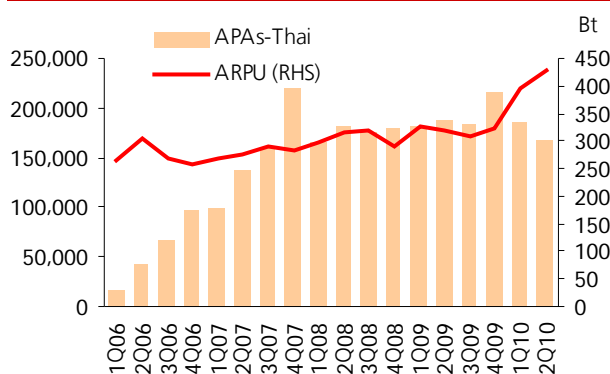
**Earnings contribution by geographical segments**



Source: Company and DBS Vickers

**Thailand: Softening APA but rising ARPU.** Online games revenue from the domestic market grew 9.5% y-o-y, but softened 2.3% q-o-q to Bt215m in 2Q10. Active paying accounts (APA) softened from c.186k in 1Q10 to c.168k in 2Q10. This was due to a higher number of games available in the market, following the launch of 8 new games by competitors in the quarter. Nonetheless, ARPU jumped from c.Bt396 in 1Q10 to c.Bt428 in 2Q10.

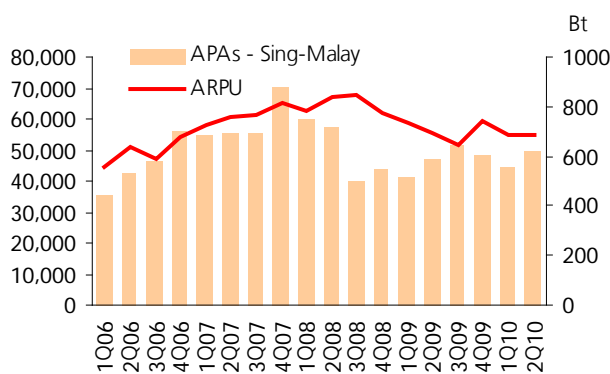
**Thailand: APA and ARPU**



Source: Company and DBS Vickers

**Overseas unit: Higher APA but flat ARPU.** Online games revenue from the overseas unit grew 4.4% y-o-y and 12% q-o-q to Bt103m in 2Q10. APA in Singapore/Malaysia markets rose from c.45k in 1Q10 to c.50k in 2Q10 due to good response to its recently-launched Ray City and Monster Forest games. Meanwhile, overseas ARPU was flat q-o-q at c. Bt689 in 2Q10.

**Singapore-Malaysia: APA and ARPU**



Source: Company and DBS Vickers

### New game launches

**Domestic market: two new games in 2H10F.** Asiasoft launched one new game - Rohan - in late July. It received strong response from the market and would be the company's growth driver in 2H10F.

It will commercially launch Tian Long Pa Pu in September. This game is likely to be successful in Thailand, because it was very popular in China, Hong Kong and Vietnam.

**Overseas market: two new games in 2H10F.** The company plans to launch PistonTale II in Singapore in September, and Battle of Immortal in Malaysia in 4Q10F.

### Earnings outlook

**Overseas unit remained profitable in 2Q10.** It is encouraging that the overseas unit continued to post net profit in 2Q10 (Bt5.9m) vs. Bt7.2m net loss in 2Q09 and Bt1m net profit in 1Q10. This was attributed to cost-cutting measures. Asiasoft implemented services sharing measures between Singapore and Malaysia units and cut overseas staff count (Singapore and Malaysia) from 200 in 2009 to 140 in 2010.

**Absence of overseas losses a boost to group profit.** The overseas unit generated Bt40m loss in 2009, which means its breakeven should boost group bottomline at least by the same quantum in 2010.

**Rising earnings at Thai unit.** The profitability of its Thai unit continues to rise due to mild competition in the market and its well-diversified game portfolio.

**Record high earnings in 2010.** The CEO is aiming for FY10 profit to be the highest for the company. Annual profit last peaked at Bt254m in 2007.

### Recommendation

**Bt0.43 interim DPS for 1H10.** The stock will go XD on 26 Aug and payment will be on 9 Sep. The interim dividend represents 96% payout ratio, within our and market expectations. We expect the company to pay a final Bt0.36 DPS for FY10F.

**Raised earnings and target price.** Given the stronger-than-expected 2Q10 earnings and bright earnings outlook, we raised earnings by 16.4% for FY10F and 16.1% for FY11F. Following this, and after rolling over our valuation base to 2011, our target price is raised from Bt11.10 to Bt14.00, based on 16.0x FY11F PE and 6.0% FY11F dividend yield.

**Reiterate BUY.** Given its strong earnings momentum and attractive valuation at 12.7x FY10F PE and 7.5% FY10F dividend yield, we reiterate our BUY rating for Asiasoft.

### Comparison: Online Games Companies

BB Ticker	Name	Market Cap (US\$m)	PE		P/BV		EV/EBITDA		Div Yield (%)	ROE (%)
			10F	11F	10F	11F	10F	11F		
035420 KS	NHN Corp	7,624	18.9	16.3	nm	nm	13.2	11.6	0.3	39.9
095660 KS	Neowiz Games Corp	661	nm	nm	nm	nm	6.4	5.2	nm	nm
036570 KS	Ncsoft Corporation	3,981	21.4	16.0	5.6	4.3	13.9	11.4	0.5	29.6
5478 TT	Soft-World Intl Corp	578	12.1	10.7	3.5	3.1	36.9	40.4	5.4	24.7
6180 TT	Gamania Digital Entertainmen	237	14.6	10.4	2.4	1.9	nm	nm	3.4	nm
3888 HK	Kingsoft Corp Ltd	574	8.5	7.1	2.4	2.1	4.7	3.9	3.7	25.9
700 HK	Tencent Holdings Ltd	32,271	27.1	20.6	13.0	8.7	19.5	14.7	0.4	49.4
SNDA US	Shanda Interactive-Spon Adr	2,781	17.1	13.6	1.6	1.4	4.9	4.2	-	9.6
SINA US	Sina Corp	2,502	24.6	20.3	1.9	1.7	16.2	13.2	-	8.2
SOHU US	Sohu.Com Inc	1,780	12.3	10.2	2.3	1.8	5.1	4.2	-	21.9
GIGM US	Gigamedia Ltd	107	17.8	7.0	nm	nm	5.5	2.4	nm	
NTESE US	Netease.Com Inc-Adr	5,313	16.8	13.4	3.7	2.9	9.9	8.1	-	25.1
NCTY US	The9 Ltd-Adr	127	nm	nm	0.0	0.1	3.1	9.7	-	(17.0)
AS TB	Asiasoft Corp Pcl	104	12.6	11.7	2.6	2.5	5.4	5.2	7.3	19.6
<b>Average (simple)</b>			<b>17.0</b>	<b>13.1</b>	<b>3.6</b>	<b>2.8</b>	<b>11.1</b>	<b>10.3</b>	<b>1.7</b>	<b>21.5</b>

Source: Bloomberg and DBS Vickers

## Asiasoft Corporation

## Income Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,437	1,515
Cost of Goods Sold	(925)	(862)	(741)	(786)
<b>Gross Profit</b>	<b>662</b>	<b>634</b>	<b>695</b>	<b>729</b>
Other Opng (Exp)/Inc	(423)	(382)	(355)	(374)
<b>Operating Profit</b>	<b>240</b>	<b>252</b>	<b>340</b>	<b>355</b>
Other Non Opng (Exp)/Inc	12	11	11	12
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	11	10	8	8
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>263</b>	<b>274</b>	<b>359</b>	<b>374</b>
Tax	(78)	(95)	(95)	(99)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>185</b>	<b>178</b>	<b>264</b>	<b>275</b>
Net Profit before Except.	185	178	264	275
EBITDA	406	389	464	483
Sales Gth (%)	1.9	(5.8)	(4.0)	5.5
EBITDA Gth (%)	(10.0)	(4.4)	19.6	3.9
Opg Profit Gth (%)	(28.9)	5.1	35.1	4.2
Net Profit Gth (%)	(27.0)	(3.6)	47.8	4.3
Effective Tax Rate (%)	29.5	34.8	26.5	26.5

## Cash Flow Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Pre-Tax Profit	263	274	359	374
Dep. & Amort.	154	125	113	116
Tax Paid	(78)	(95)	(95)	(99)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	(64)	(40)	10	0
Other Operating CF	(33)	(18)	14	(6)
<b>Net Operating CF</b>	<b>243</b>	<b>246</b>	<b>401</b>	<b>385</b>
Capital Exp.(net)	(167)	(121)	(89)	(91)
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)	(54)	(52)
<b>Net Investing CF</b>	<b>(360)</b>	<b>(107)</b>	<b>(142)</b>	<b>(144)</b>
Div Paid	(182)	(161)	(243)	(246)
Chg in Gross Debt	42	(47)	(5)	0
Capital Issues	859	(39)	8	0
Other Financing CF	11	10	8	8
<b>Net Financial CF</b>	<b>730</b>	<b>(237)</b>	<b>(232)</b>	<b>(239)</b>
Net Cashflow	612	(98)	26	3

## Quarterly / Interim Income Statement (Bt m)

FY Dec	3Q2009	4Q2009	1Q2010	2Q2010
Turnover	357	427	360	354
Cost of Goods Sold	(210)	(233)	(192)	(181)
<b>Gross Profit</b>	<b>147</b>	<b>194</b>	<b>168</b>	<b>174</b>
Other Oper. (Exp)/Inc	(93)	(99)	(90)	(80)
<b>Operating Profit</b>	<b>54</b>	<b>95</b>	<b>78</b>	<b>94</b>
Other Non Opng (Exp)/Inc	3	(1)	4	2
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	2	2	2	2
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>58</b>	<b>95</b>	<b>84</b>	<b>98</b>
Tax	(18)	(32)	(21)	(24)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>40</b>	<b>64</b>	<b>63</b>	<b>74</b>
Net profit bef Except.	40	64	63	74
EBITDA	84	122	111	124
Sales Gth (%)	(1.2)	19.6	(15.6)	(1.6)
EBITDA Gth (%)	(9.6)	45.2	(9.0)	11.4
Opg Profit Gth (%)	(1.1)	76.0	(18.0)	20.6
Net Profit Gth (%)	(14.6)	59.9	(1.3)	17.6
Gross Margins (%)	41.1	45.4	46.7	49.0
Opg Profit Margins (%)	15.1	22.2	21.5	26.4
Net Profit Margins (%)	11.2	14.9	17.4	20.9

## Balance Sheet (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Net Fixed Assets	132	128	103	78
Invts in Associates & JVs	0	0	0	0
Other LT Assets	352	339	393	445
Cash & ST Invts	910	812	838	841
Inventorv	16	11	11	11
Debtors	235	291	279	294
Other Current Assets	68	120	115	122
<b>Total Assets</b>	<b>1,713</b>	<b>1,700</b>	<b>1,739</b>	<b>1,792</b>
ST Debt	52	5	0	0
Other Current Liab	394	446	461	484
LT Debt	6	6	6	6
Other LT Liabilities	0	3	3	4
Shareholder's Equity	1,261	1,240	1,269	1,298
Minority Interests	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>1,713</b>	<b>1,700</b>	<b>1,739</b>	<b>1,792</b>
Non-Cash Wkg. Capital	(75)	(24)	(56)	(57)
Net Cash/(Debt)	852	801	832	835

## Rates &amp; Ratio

FY Dec	2008A	2009A	2010F	2011F
Gross Margins (%)	41.7	42.4	48.4	48.1
Opg Profit Margin (%)	15.1	16.8	23.7	23.4
Net Profit Margin (%)	11.7	11.9	18.4	18.2
ROAE (%)	22.3	14.3	21.0	21.4
ROA (%)	14.4	10.5	15.3	15.6
ROCE (%)	19.5	12.8	19.8	20.2
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	0.8	0.9
Debtors Turn (avg days)	54.0	64.2	72.4	69.1
Creditors Turn (avg days)	27.2	22.0	21.0	18.8
Inventory Turn (avg days)	6.8	6.7	6.3	5.9
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)	(0.7)	(0.6)
Capex to Debt (%)	287.3	1,062.0	1,480.3	1,518.9
Z-Score (X)	5.3	5.3	4.8	6.5
N. Cash/(Debt)PS (Bt)	2.8	2.6	2.6	2.6
Opg CFPS (Bt)	1.0	0.9	1.2	1.2
Free CFPS (Bt)	0.3	0.4	1.0	0.9

## Segmental Breakdown / Assumptions

FY Dec	2008A	2009	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
<b>Total Revenues</b>	<b>1,587</b>	<b>1,496</b>	<b>1,572</b>	<b>1,634</b>
Cost of Online Services	(736)	(672)	(707)	(732)
Cost of Distribution	(166)	(173)	(182)	(191)
Cost of Others	(23)	(17)	(17)	(18)
<b>Total COGS</b>	<b>(925)</b>	<b>(862)</b>	<b>(906)</b>	<b>(941)</b>
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

DBSV recommendations are based on an 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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