

Thailand Company Focus

Asiasoft Corporation

Bloomberg: AS TB | Reuters: AS.BK

DBS Group Research . Equity

25 Nov 2010

BUY Bt10.40 SET : 1,005.97

Price Target: 12-month Bt13.75 (Prev Bt14.00)

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	1,438	1,516
EBITDA	406	389	448	471
Pre-tax Profit	263	274	346	373
Net Profit	185	178	255	274
Net Pft (Pre Ex.)	185	178	255	274
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)	39	8
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)	16.9	17.9	12.9	12.0
PE Pre Ex. (X)	16.9	17.9	12.9	12.0
P/Cash Flow (X)	9.2	10.5	9.0	8.6
EV/EBITDA (X)	5.6	6.2	5.4	5.1
Net Div Yield (%)	6.0	5.5	7.4	7.9
P/Book Value (X)	2.5	2.6	2.6	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.3	14.3	20.4	21.4

Earnings Rev (%): (3.5) (0.5)
Consensus EPS (Bt): 0.9 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

Recovery intact

- 3Q10 profit of Bt59m (+47% y-o-y, -21% q-o-q) was lower than expected due to extra expenses
- Thai operations remain strong, and overseas earnings have been in positive territory for three quarters following successful cost cutting measures
- Turnaround in overseas operations will boost FY10 group earnings by 43%; success in FY11F would depend on expansion into Vietnam and Indonesia
- Given the strong earnings recovery and attractive valuations (12.0x FY11F PE, 7.9% FY11F dividend yield), we reiterate our BUY rating with a revised target price of Bt13.75, based on 16x FY11F PE

Strong turnaround in overseas earnings. We forecast overseas earnings will recover from Bt40m net loss in 2009 to Bt13m net profit in 2010; this alone would improve 2010 overall earnings by Bt53m. And following its successful cost cutting measures, the profitability of its overseas operations should be sustainable in 2011F.

Expansion into Vietnam and Indonesia. Asiasoft plans to expand into Vietnam and Indonesia soon. The management is deciding between a direct investment or partnerships with existing operators. This expansion plan will be a critical growth driver for 2011.

Maintain BUY. Given its strong earnings momentum and attractive valuation at 12.0x FY11F PE and 7.9% FY11F dividend yield, we reiterate our BUY rating for Asiasoft.

At A Glance

Issued Capital (m shrs)	314
Mkt. Cap (Btm/US\$m)	3,262 / 108
Major Shareholders	
Pramoth Sudjitporn (%)	41.8
Asia Investment Partners Limited (%)	9.6
Mr.Tan Tgow Lim (%)	9.4
Free Float (%)	39.2
Avg. Daily Vol.('000)	253

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3Q10 result review

Lower-than-expected 3Q10 earnings. Asiasoft's 3Q10 net profit jumped 47% y-o-y, but fell 21% q-o-q to Bt59m in 3Q10. This was 16% below our estimate due to c.Bt14m extra expenses. EBITDA grew 23% y-o-y, but fell 23% q-o-q to Bt103m in the quarter. The y-o-y earnings growth was due to (i) successful new game launches in Thailand, e.g. 12 Sky2 in February, Rohan in July, and Tian Long Pa Pu in September, and (ii) lower operating costs at its overseas unit.

Meanwhile, the weaker earnings q-o-q were due to extra expenses, as follows:

- Bt6m provision for A/R in Vietnam;
- Bt2.5m impairment for RichMan game in Singapore; and
- Bt4m impairment in tax asset at Fun Box.

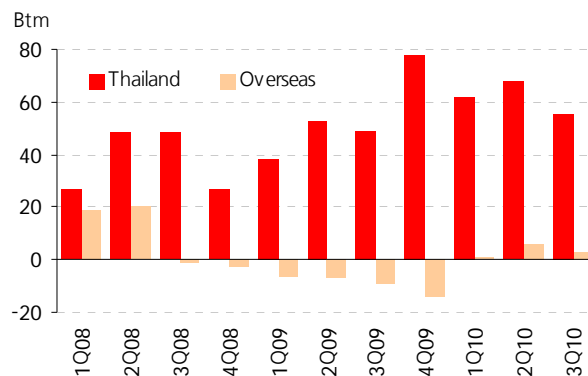
Asiasoft: 3Q10 result review

YE Dec (Btm)	3Q09	2Q10	3Q10	Chg y-o-y	Chg q-o-q
Profit & Loss					
Turnover	357	354	359	0.7%	1.4%
COGS	-182	-153	-162	-11%	6.3%
Deprec. & amor.	-28	-28	-26	-6.6%	-7.7%
Gross profit	147	174	171	17%	-1.4%
SG&A	-93	-80	-94	1.5%	18%
Op. profit	54	94	77	43%	-18%
Oth. inc.	3	2	1	-71%	-66%
Net int. inc./(exp.)	2	2	3	79%	70%
EBT	58	98	81	39%	-17%
Inc. tax	-18	-24	-22	21%	-6.1%
Net profit	40	74	59	47%	-21%
EPS.	0.13	0.24	0.19	42%	-21%
Gross margin	41%	49%	48%		
EBITDA (Btm)	84	124	103		
EBITDA margin	24%	35%	29%		
Tax rate	32%	24%	28%		

Source: Company and DBS Vickers

Overseas units remained profitable. Although net profit contribution from its overseas units fell from Bt5.9m in 2Q10 to Bt2.8m in 3Q10, it was much better than the Bt9m net loss in 3Q09. The positive earnings contribution from its overseas unit is good news, and is the result of its successful cost-cutting program.

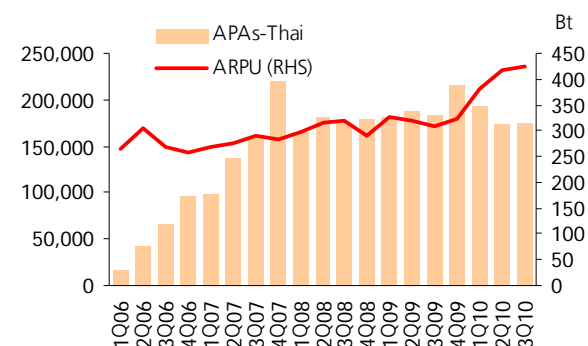
Earnings contribution by geographical segments



Source: Company and DBS Vickers

Thailand: Stronger APA and ARPU. Online games revenue from the domestic market grew 27% y-o-y and 3% q-o-q to c.Bt222m in 3Q10. Active paying accounts (APA) grew from c.173k in 2Q10 to c.175k in 3Q10, while ARPU rose from c.Bt415 in 2Q10 to c.Bt425 in 3Q10. This was attributed to the popularity of Rohan, which was released on 29 Jul.

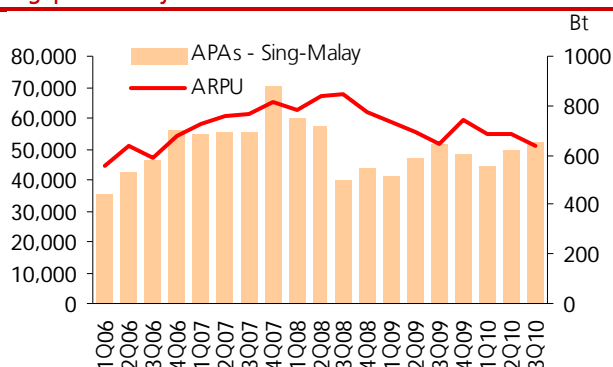
Thailand: APA and ARPU



Source: Company and DBS Vickers

Overseas unit: Higher APA but lower ARPU. Online games revenue from the overseas unit grew 35% y-o-y, but edged down 3% q-o-q to c.Bt100m in 3Q10. APA in Singapore/Malaysia markets rose from c.50k in 2Q10 to c.52k in 3Q10 due to continued popularity of Ray City that was launched in Apr 2010, and Monster Forest in May. Nonetheless, overseas ARPU fell from c.Bt690 in 2Q10 to c.Bt640 in 3Q10.

Singapore-Malaysia: APA and ARPU



Source: Company and DBS Vickers

New game launches

Domestic market: One new game in 4Q10F. Asiasoft's subsidiary Fun Box launched "Monsters's Master Online" under a close beta scheme during 19-24 Nov. After commercial launch, the game is expected to generate c.1% revenue contribution in the early stage of operations.

Overseas market: two new games in 4Q10F. The company launched PistonTale II in Singapore on 28 Sep. The game should contribute 2% of group revenue in 4Q10. In addition, the company plans to launch Battle of Immortal in Malaysia by year-end.

Earnings outlook

Bright outlook for 4Q10F. Earnings in the quarter should be strong due to (i) seasonality – school break in Thailand (Oct) and Singapore (Nov-Dec), and (ii) strong momentum in its new game Rohan that was launched on 29 July. It received strong market response and generated c.Bt13m revenue in October.

Focusing on growth in 2011. The improvement in 2010 profitability was attributed to its successful cost cutting measures, especially in its overseas markets. Going into 2011, Asiasoft aims to focus on revenue growth in both its domestic and overseas markets.

Expansion into Vietnam and Indonesia. Asiasoft plans to expand into Vietnam by year-end or early 2011 at the latest, and into Indonesia in 1Q10. The management is considering if they should invest directly or through partnerships with existing operators.

Indonesia has strong potential. The country has a 242m population and only 30m Internet users, albeit the second largest Internet user population in the world after the US. Given only 12.3% Internet penetration rate, there is ample room for Internet users to grow.

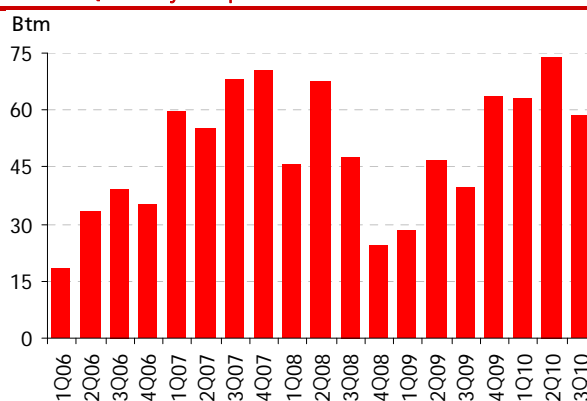
There are only 4.5m online gamers in the market with three major players, who control 80% of the market. There is little competition with a total of 10 operators and 30 game titles, compared to 30 operators and 105 game titles in Thailand.

Overseas unit to remain profitable in 2011. We believe its operations in Thailand will remain solid due to (i) its strong leading position in the market, (ii) its well-diversified game portfolio, and (iii) relatively mild competition in the market.

In our view, the swing factor is its overseas operations. It is encouraging that its overseas unit continued to generate net profit for three consecutive quarters. And with its successful cost cutting measures, profitability of its overseas operations will be sustainable in 2011.

Strong turnaround in overseas earnings. We forecast earnings contribution from its overseas unit will recover from Bt40m loss in 2009 to Bt13m net profit in 2010; this alone would result in a turnaround of Bt53m in the year, and should boost group bottom line substantially in 2010.

Asiasoft: Quarterly net profit



Source: Company and DBS Vickers

Asiasoft Corporation**Recommendation**

Bt14.00 to Bt13.75, based on 16.0x FY11F PE and 6.0% FY11F dividend yield.

Earnings revision. Given the lower-than-expected 3Q10 earnings and after fine-tuning of our assumptions, we downgraded earnings by 3.5% for FY10F and 0.5% for FY11F. As a result, our target price is revised down from

Reiterate BUY. Given its strong earnings momentum and attractive valuation at 12.0x FY11F PE and 7.9% FY11F 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		
035420 KS	NHN Corp	8,139	18.6	16.1	nm	nm	14.0	12.5	0.2	39.8
095660 KS	Neowiz Games Corp	887	13.0	11.2	nm	nm	nm	nm	nm	nm
036570 KS	Ncsoft Corporation	4,765	25.7	18.5	6.3	4.9	16.9	13.7	0.4	26.5
5478 TT	Soft-World Intl Corp	556	12.7	10.8	3.2	2.9	31.8	29.1	5.1	23.0
6180 TT	Gamania Digital Entertainmen	242	23.8	15.4	2.7	2.3	nm	nm	2.7	11.2
3888 HK	Kingsoft Corp Ltd	575	9.8	8.2	2.0	2.2	5.7	5.0	3.0	20.3
700 HK	Tencent Holdings Ltd	39,741	32.2	24.3	16.3	10.6	23.3	17.7	0.3	50.2
SNDA US	Shanda Interactive-Spon Adr	2,684	19.0	16.5	1.4	1.3	7.0	6.0	-	7.4
SINA US	Sina Corp	3,652	34.9	29.3	2.7	2.5	25.4	20.2	-	8.7
SOHU US	Sohu.Com Inc	2,767	18.1	14.9	3.6	2.8	8.7	7.3	-	22.8
GIGM US	Gigamedia Ltd	77	12.8	9.1	nm	nm	nm	nm	nm	nm
NTES US	Netease.Com Inc-Adr	4,952	15.2	12.4	3.5	2.7	8.9	7.3	-	25.2
NCTY US	The9 Ltd-Adr	162	nm	nm	0.1	0.1	1.9	2.2	-	0.1
AS TB	Asiasoft Corp Pcl	109	12.9	12.0	2.6	2.5	5.4	5.1	7.4	20.4
Average (simple)			18.8	15.7	2.3	2.0	9.6	8.0	1.2	14.1

Source: Bloomberg and DBS Vickers

Income Statement (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Turnover	1,587	1,496	1,438	1,516
Cost of Goods Sold	(925)	(862)	(744)	(787)
Gross Profit	662	634	694	729
Other Opng (Exp)/Inc	(423)	(382)	(367)	(374)
Operatina Profit	240	252	327	354
Other Non Opg (Exp)/Inc	12	11	9	10
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	11	10	10	8
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	263	274	346	373
Tax	(78)	(95)	(92)	(99)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	185	178	255	274
Net Profit before Except.	185	178	255	274
EBITDA	406	389	448	471
Sales Gth (%)	1.9	(5.8)	(3.9)	5.4
EBITDA Gth (%)	(10.0)	(4.4)	15.3	5.1
Opg Profit Gth (%)	(28.9)	5.1	29.9	8.2
Net Profit Gth (%)	(27.0)	(3.6)	42.7	7.5
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	346	373
Dep. & Amort.	154	125	111	107
Tax Paid	(78)	(95)	(92)	(99)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	(64)	(40)	10	0
Other Operating CF	(33)	(18)	11	(6)
Net Operatina CF	243	246	387	374
Capital Exp.(net)	(167)	(121)	(88)	(87)
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)	(14)	(16)
Net Investina CF	(360)	(107)	(102)	(104)
Div Paid	(182)	(161)	(243)	(237)
Chg in Gross Debt	42	(47)	(5)	0
Capital Issues	859	(39)	8	0
Other Financing CF	11	10	10	8
Net Financia CF	730	(237)	(230)	(229)
Net Cashflow	612	(98)	55	42

Quarterly / Interim Income Statement (Bt m)

FY Dec	4Q2009	1Q2010	2Q2010	3Q2010
Turnover	427	360	354	359
Cost of Goods Sold	(233)	(192)	(181)	(188)
Gross Profit	194	168	174	171
Other Oper. (Exp)/Inc	(99)	(90)	(80)	(94)
Operatina Profit	95	78	94	77
Other Non Opa (Exp)/Inc	(1)	4	2	1
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	2	2	2	3
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	95	84	98	81
Tax	(32)	(21)	(24)	(22)
Minority Interest	0	0	0	0
Net Profit	64	63	74	59
Net profit bef Except.	64	63	74	59
EBITDA	122	111	124	103
Sales Gth (%)	19.6	(15.6)	(1.6)	1.4
EBITDA Gth (%)	45.2	(9.0)	11.4	(16.4)
Opg Profit Gth (%)	76.0	(18.0)	20.6	(17.9)
Net Profit Gth (%)	59.9	(1.3)	17.6	(20.8)
Gross Margins (%)	45.4	46.7	49.0	47.6
Opg Profit Margins (%)	22.2	21.5	26.4	21.4
Net Profit Margins (%)	14.9	17.4	20.9	16.3

Source: Company, DBS Vickers

Balance Sheet (Bt m)

FY Dec	2008A	2009A	2010F	2011F
Net Fixed Assets	132	128	104	85
Invts in Associates & JVs	0	0	0	0
Other LT Assets	352	339	353	370
Cash & ST Invts	910	812	867	909
Inventorv	16	11	11	11
Debtors	235	291	279	294
Other Current Assets	68	120	116	122
Total Assets	1,713	1,700	1,730	1,790
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	1,260	1,297
Minority Interests	0	0	0	0
Total Cap. & Liab.	1,713	1,700	1,730	1,790
Non-Cash Wkg. Capital	(75)	(24)	(55)	(57)
Net Cash/(Debt)	852	801	861	903

Rates & Ratio

FY Dec	2008A	2009A	2010F	2011F
Gross Margins (%)	41.7	42.4	48.3	48.1
Opg Profit Margin (%)	15.1	16.8	22.8	23.4
Net Profit Margin (%)	11.7	11.9	17.7	18.1
ROAE (%)	22.3	14.3	20.4	21.4
ROA (%)	14.4	10.5	14.8	15.6
ROCE (%)	19.5	12.8	19.1	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	72.3	69.1
Creditors Turn (avg days)	27.2	22.0	20.9	18.5
Inventory Turn (avg days)	6.8	6.7	6.2	5.8
Current Ratio (x)	2.8	2.7	2.8	2.8
Quick Ratio (x)	2.6	2.4	2.5	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.7)	(0.6)	(0.7)	(0.7)
Capex to Debt (%)	287.3	1,062.0	1,467.6	1,450.3
Z-Score (X)	5.3	5.3	4.8	6.2
N. Cash/(Debt)PS (Bt)	2.8	2.6	2.7	2.9
Opg CFPS (Bt)	1.0	0.9	1.2	1.2
Free CFPS (Bt)	0.3	0.4	0.9	0.9

Segmental Breakdown / Assumptions

FY Dec	2008A	2009	2010F	2011F
-Airtime Rev. (Thai)	11	-	-	-
-Item Sale (Thai)	662	751	881	939
-Item Sale (Sing-Malay)	489	359	398	410
-Distribution	358	372	131	137
-Others	63	47	27	29
Total Revenues	1,587	1,496	1,438	1,516
Cost of Online Services	-736	-672	-695	-735
Cost of Distribution	-166	-173	-39	-41
Cost of Others	-23	-17	-10	-10
Total COGS	-925	-862	-744	-787
SG&A/Sales (%)	26.6	25.5	25.5	24.7
Effective tax rate (%)	29.5	34.8	26.5	26.5
Capex (Btm)	263	164	100	100

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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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