

Thursday June 7, 2012

The Market

VNX Jumped, in Line with Peers on ECB, Bernanke Awaited; LSX & CSX Unchanged

VN Index jumped in the afternoon session to close at 426.39, up 1.28% on Wednesday, in line with regional peers ahead of ECB's policy meeting and Thursday's Bernanke speech. Meanwhile, US dollar offer among local banks has risen over VND 21,000/USD to hit the 1% ceiling at VND 21,036/USD on SBV's rate cut expectation after report that the government projected its full year growth as low as 5.2%, the slowest in more than a decade. Foreign investors remained net seller for the third consecutive day at VND 47 billion (USD 2.2 million) in moderate market turnover at VND 1.7 trillion (USD 83 million).

LSX Index ended at 1,005.44, unchanged from the yesterday's close in quiet trade valuing LAK 351 million (USD 43,700). BCEL sneaked into the positive territory during the first two sessions but later erased its gains from LAK 6,900 to close at LAK 6,850 with only 7,358 shares traded. EdL Gen traded at LAK 4,850 with 62,000 shares changing hand. CSX Index was also unchanged at 752.69 after yesterday's 2.19% rebound with low turnover of KHR 127 million (USD 31,500).

The regional markets buoyed by the good news from Australia which its 1Q12 GDP expanded 4.3%yoy, the fastest pace in more than four years. The ECB last night left its key rate at 1% and extended some liquidity operation. We believe that the Indochina market is likely to recoup from prior losses ahead of Bernanke speech. Investors are closely watching the signals for the third round of quantitative easing (QE3) in the upcoming FOMC meeting during June 19-20.

The News

- **Vietnam** - S&P Revises Vietnam and 2 Major Banks Outlook to Stable
- **Vietnam** - Dong Depreciates Against US Dollar
- **Vietnam** - State Bank Prepares Regulations on Bank Restructuring
- **Thailand** - PTTEP Wins Exploration Rights for Myanmar Blocks
- **Lao PDR** - Developer to Build Second Hydro Plant on Long River

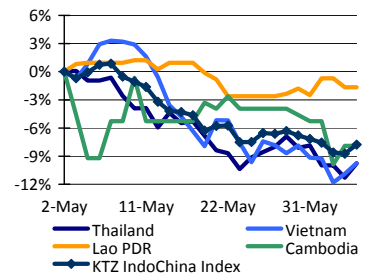
The Comment

EdL Gen: Strong earnings momentum continues - Buy (Target Price LAK 8,477; US\$ 1.06)

EdL-Gen provides valuation upside of more than 50% or US\$ 1.06/share. It is currently trading at only 5.7x PER with 10% dividend yield. The company strong earnings momentum will continue with solid expansions of its generation assets and equity MW of 22% CAGR during 2011-2020 to accommodate the rising demand domestically and regionally.

- Overall domestic and regional off-take growth supporting equity MW expansion
- Earnings growth momentum continues in 2012-13
- Incremental value from 4 IPPs outweighing dilution effect

Relative Performance



Source: Bloomberg as of June 6

	Last	Chg	(%)
FTSE ASEAN	527	+13	+2.6
Singapore	2,761	+49	+1.8
Thailand	1,118	+19	+1.7
Malaysia	1,569	+9	+0.6
Indonesia	3,841	+123	+3.3
Philippines	4,967	+41	+0.8
Vietnam	426	+5	+1.3
Lao PDR	1,005	0	0.0
Cambodia	753	0	0.0

Source: Bloomberg as of June 6

Per USD	Last	Chg	(%)
Baht	31.49	-0.14	-0.44
Dong	20,988	+38.00	+0.18
Kip	8,022.50	+2.50	+0.03
Riel	4,045.85	+16.75	+0.42
Kyat	840.82	+2.94	+0.35

Per Baht	Last	Chg	(%)
Dong	666.95	+4.81	+0.73
Kip	254.78	+1.31	+0.52
Riel	129.00	0.00	0.00
Kyat	26.70	+0.22	+0.84

Source: Bloomberg as of June 6

Upcoming Market Holiday:

Cambodia

- June 18: Birthday of Her Majesty the Queen-Mother Norodom Monineath Sihanouk

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Vietnam - S&P Revises Vietnam and 2 Major Banks Outlook to Stable

Standard & Poor's (S&P) on Wednesday revised Vietnam's outlook to stable from negative, citing the government's successful drive to bring down sky-high inflation. The ratings agency said in a statement that it affirmed Vietnam's long-term sovereign credit rating at BB- with a stable outlook and the short-term rating at B. 'The outlook revision reflects our assessment of a reduction in the risks to macroeconomic and financial stability in Vietnam,' the statement said. S&P also revised the outlooks on Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank) and Bank for Investment and Development of Vietnam (BIDV) to stable from negative. The agency affirmed its 'B+/B' issuer credit ratings on both banks. *We believe Vietnam has been successful in restoring its economic stability after the officials have introduced tightening measures through out 2011. The country's inflation as of May 2012 eased to 8.3%, from 18.1% in December 2011. The stable outlook awarded by S&P would restore investors' confidence and should lead to a new round of capital inflows into the country.*

Vietnam - Dong Depreciates Against US Dollar

The US dollar appreciated against the Vietnamese dong and peaked around VND21,000 per dollar Wednesday compared to the rate of 20,870 two months ago. Typically, Techcombank sells dollars at the highest exchange rate of VND21,015 per dollar and buys dollars at VND20,910 per dollar. Representatives of some banks attributed the situation to the fact that the credit institutions were buying dollars to balance the over-sale of dollars in the past and some enterprises wanted to buy dollars to deal with the mature debts. With the easing inflation, the State Bank of Viet Nam (SBV) has cut down to a total of 300 percentage points for key interest rates, interest rate on open market operations (OMO) and deposit interest rate in the past several months. *The market anticipates that inflation would ease further from 18.1% at the end of last year to 8.3% in May 2012 and to around 5% in 3Q12. Economists expect the central bank to cut its refinancing rate by another 2-3% by 3Q12 from 12% currently. We believe the loosening monetary measures would help release some pressures off the troubling businesses as well as dealing with the slowing global demand. We believe the recent depreciation of VND against USD is inline with its Indochina peers i.e. Lao Kip, Cambodia Riel, and Myanmar Kyat, with the exception of Thai Baht. VND is expected to regain its stability with fading outlook for any surprise devaluation.*

Vietnam - State Bank Prepares Regulations on Bank Restructuring

State Bank of Viet Nam Governor Nguyen Van Binh will announce this month new rules governing the restructuring of the banking sector, according to a report from a media agency "Vietnam Net". Some 17 SBV circulars and other documents will be issued in June covering a variety of matters including credit institution rankings and reorganisation – particularly mergers and acquisitions (M&A). The circulars will regulate the M&A activities of banks, financial institutions, leasing companies and credit funds. The governor will also make announcements on risk assessments, co-ordination between the central bank and the Ministry of Finance, and on preferential interest rates for some organisations and individuals. The SBV said one of its key tasks this year was to step up inspections and supervision of credit institutions to make sure they were secure and conformed with monetary and banking laws. It will closely observe the liquidity and credit growth of the entire banking system to gradually reduce the number of vulnerable institutions. *We believe the restructuring among banks in Vietnam is crucial for the economy to move forward. One of the major issues is the weakness of local banks that are in immediate needs for recapitalize and consolidate. However, given the foreign holding limit of 20% still in place, it is difficult for strong foreign banks to provide support as they are not able to manage the bank.*

Thailand - PTTEP Wins Exploration Rights for Myanmar Blocks

PTT Exploration and Production Plc (PTTEP) has won exploration rights for two onshore petroleum blocks in Myanmar. PTTEP South Asia Ltd and Win Precious Resources Pte, a Singaporean incorporated company, were the successful bidders for blocks PSC-G and EP-2, Tevin Vongvanich, PTTEP's president and chief executive, said in a statement yesterday. The PTTEP subsidiary will have a 90% interest in the blocks and Win Precious Resources the rest. Blocks PSC-G and EP-2 are located onshore in the Central Myanmar Basin, which is west of the new capital of Nay Pyi Taw. They are 13,330 and 1,345 square kilometres in size, respectively. PTTEP currently has investments in two exploration projects, Myanmar M3 and M11; one development project, Myanmar Zawtika, which is expected to start production next year; and two joint projects in the production phase, Yadana and Yetagun. *The two gas blocks are producing 1.1 billion cubic feet per day for Thailand. Myanmar natural gas reserves are abundant which British Petroleum estimated at 11.8 trillion cubic feet while Myanmar's energy ministry said the reserves are 22.5 trillion cubic feet. We maintain a TRADING BUY rating on PTTEP with a target price of Bt188 (a 19.4% upside from Wednesday closing of Bt157.5)*

Lao PDR - Developer to Build Second Hydro Plant on Long River

Local small-scale energy developer Nam Long Power Co Ltd plans to build a second hydropower plant on the Long River in Long district, Luang Namtha province. "Now we've completed the project study and are preparing to start construction," company President Mr Bounleuth Luangpaseuth said last week during an interview at a seminar on renewable energy development in Laos. The hydro plant will be called Nam Long 2 and will be about 4km from the Nam Long 1 plant now under construction. When the plant is operational, the electricity generated will be sold to the Electricite du Laos (EDL) power grid. It is forecast to generate about 37 million kWh annually. It will be another step towards ensuring that 85% of Luang Namtha's population has access to electricity by 2015, and may one day replace the need for imported electricity from China. Nam Long Power Co Ltd is a joint investment between Luangpaseuth Construction Sole Co Ltd, which holds 80%, and EDL, which holds the remaining 20%. *Lao has potential to generate 24,022MW by 2020 from the current installed capacity of around 3,000 MW. The country has been promoting the development of small and medium sized power plants for local supply to reduce the need for imported electricity. Eventually, 80% of the potential capacity will be exported to neighboring country including Thailand, China, and Vietnam.*



Company Report

June 6, 2012

EDL-Generation Pcl.

Buy (Target Price LAK 8,477; US\$ 1.06)
(Implied Fair Value LAK 10,227; US\$ 1.28)

Strong earnings momentum continues

Overall domestic and regional off-take growth supporting equity MW expansion

Demand for electricity in Lao PDR is projected to be stronger than the previous forecast. According to the new Power Development Plan, domestic power demand should increase by 18% CAGR to 3,488 MW in 2020, up 20% from the previous estimate. The rising domestic demand, together with the bright regional demand prospects (10% CAGR), will support EdL-Gen, which plans to increase generation assets and equity MW from 381 MW in 2011 to 2,224 MW by 2020, or 22% CAGR.

Earnings growth momentum continues in 2012-13

The key earnings catalysts this year will be completion of the share investment transfer of four operational IPPs in 3Q12. This will enable EdL-Gen to gain earnings momentum, with EPS growth of 30% in 2012. Meanwhile, strong sustainable earnings growth in '13 will be derived mainly from the full period earnings recognition of four IPPs.

Incremental value from 4 IPPs outweighing dilution effect

The acquisition of four IPPs will cost EdL-Gen around US\$ 202m, with the company using equity financing in entirety. Taking into account the dilution from the capital increase of 41%, acquiring equity capacity from four IPPs of 494 MW will add fair value to EdL-Gen by 86% (from LAK 5,498/share to LAK 10,277/share under fully-diluted shares), which can compensate investors for the dilution effect.

Maintain "Buy" for inexpensive current valuation and high dividend yield

We maintain "Buy" EdL-Gen by virtue of its cheap valuation and very attractive dividend yield of around 10%. Its current share price is deeply undervalued from our '12 fully-diluted DCF fair value of LAK 10,227 (US\$ 1.28) (based solely on projected cash flow generated by its existing projects and the acquisition of 4 IPPs). Nevertheless, its deep discount trading PER of only 5.7X provides valuation upside of more than 50% or US\$ 1.06/share (based on a 20% discount from 12.6X PER of the regional peer average) if the stock is re-rated over the medium term.

Financial and Valuation

FY Ended 31 Dec	2009*	2010*	2011	2012E**	2013E**
Revenues (US\$m)	82	95	111	208	269
Net profit (US\$m)	34	31	71	105	118
EPS (US\$)	0.05	0.05	0.08	0.11	0.10
EPS growth (%)	-1	-8	70	30	-9
Dividend (US\$)	-	-	0.06	0.06	0.08
BV (US\$)	0.50	0.51	0.57	0.68	0.70
FY Ended 31 Dec	2009	2010*	2011	2012E**	2013E**
PER (x)	11.73	12.75	7.49	5.75	6.34
PBV (x)	1.21	1.20	1.07	0.90	0.73
EV/EBITDA (X)	na.	na.	6.23	7.74	5.89
Dividend yield (%)	-	-	10.27	10.27	12.62
ROE (%)	10.7	9.5	17.2	15.8	12.7
Gearing (%)	63	50	27	92	69

*Pro forma basis as if the Company had existed and was operating

**Per share data and EV for '12 is based on share capital of 1,226.22 ms

Share data

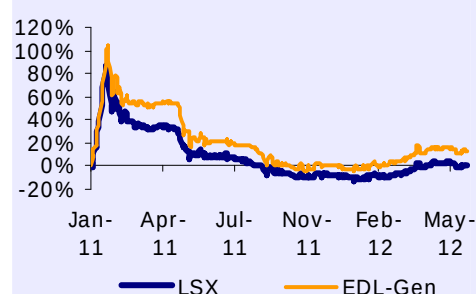
LSX code/ Bloomberg	EDL-GEN/ EDL LS
Sector	Power
Closing Price (US\$, Kip)	0.61/ 4,850
Paid-up Shares (m)	868.60
-After capital increase (m)	1,226.22
Par (US\$, Kip)	0.50/ 4,000
Market cap (Kip bn / US\$m)	4,213/ 526
Foreign limit / actual (%)	20% /11.88%
52 week High / Low (Kip)	5,500/4,100
Avg. daily T/O (shares 000)	42.39
Estimated free float (%)	25.00
Beta	1.20

Major Shareholders (December 2011)

Electricite du Laos	75.00%
Ratch-Lao Service	6.46%
RH International (Singapore)	2.88%
Banque Pour Le Commerce	2.68%

Stock Performance (%)

	1M	3M	12M
Absolute	-3.0	+7.8	-7.6
Relative to LSX	-0.4	+0.3	+0.7



Company Profile

EdL-Gen owns/operates all power plant assets separated and privatized from EdL.

Note:

BCEL-KT Securities is the underwriter of EDL-Gen.

BCEL-KT Securities Co., Ltd. is a joint venture company between BCEL Bank and KT ZMICO Securities (Thailand).

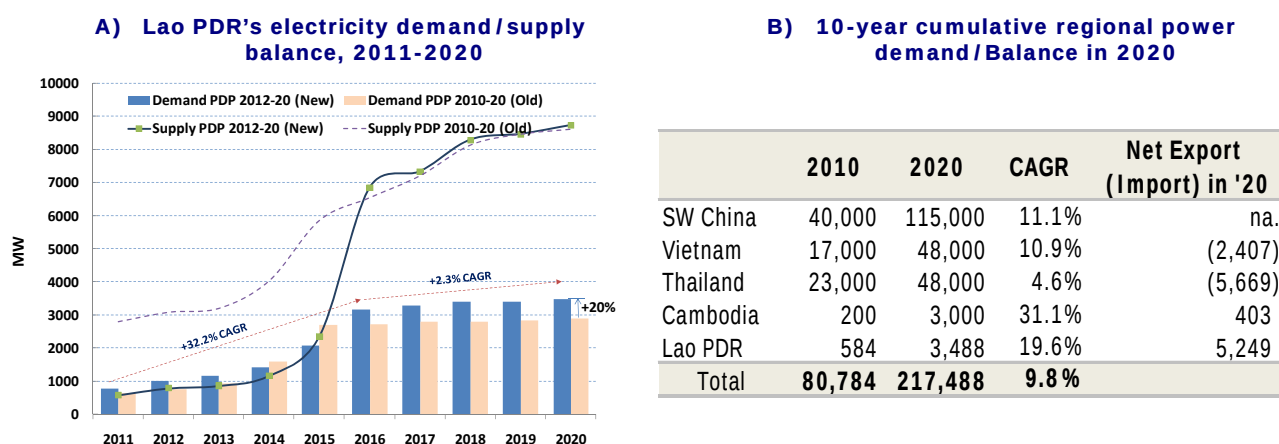
This paper is a co-operation between the BCEL-KT and KT ZMICO teams

Outlook of Lao PDR's Power Industry

The latest PDP indicates stronger outlook than previously forecast

According to the new Power Development Plan (PDP 2012-2020) of Lao PDR, projected domestic power demand is stronger than the previous forecast. Over the nine-year period, Electricite du Laos (EDL), which drafted the plan, projects that electricity demand will increase to 3,488 MW in 2020, up 20% from the previous forecast (2,905 MW according to PDP 2010-2020). This translates to a compound annual growth rate (CAGR) of 18%. Moreover, its medium-term outlook from last year to 2016 is upbeat as it foresees electricity demand surging by 32% p.a. In 2012, EDL projects power demand growth of 30% to 1,021 MW.

Figure 1: Power demand outlook



Source: Lao PDR's PDP, Cambodia PDP, MINE, ADB, and KT ZMICO Research

Becoming a net exporter in 2015

Figure 1A indicates that the domestic demand and supply balance will be positive during 2015-20, which will turn the country into a net exporter of electricity in 2015. Laos will be a net importer of electricity during 2010-14 as the demand and supply balance will be negative. However, the demand and supply balance will turn positive during 2015-20. The table in Figure 1B shows regional power demand, which exhibits about 10% CAGR from 2010-2020. In 2020, Thailand and Vietnam will have a combined supply shortfall of around 8,000 MWW. Such solid electricity demand will pave the way for Lao PDR to become a net exporter.

Growth opportunities remain robust

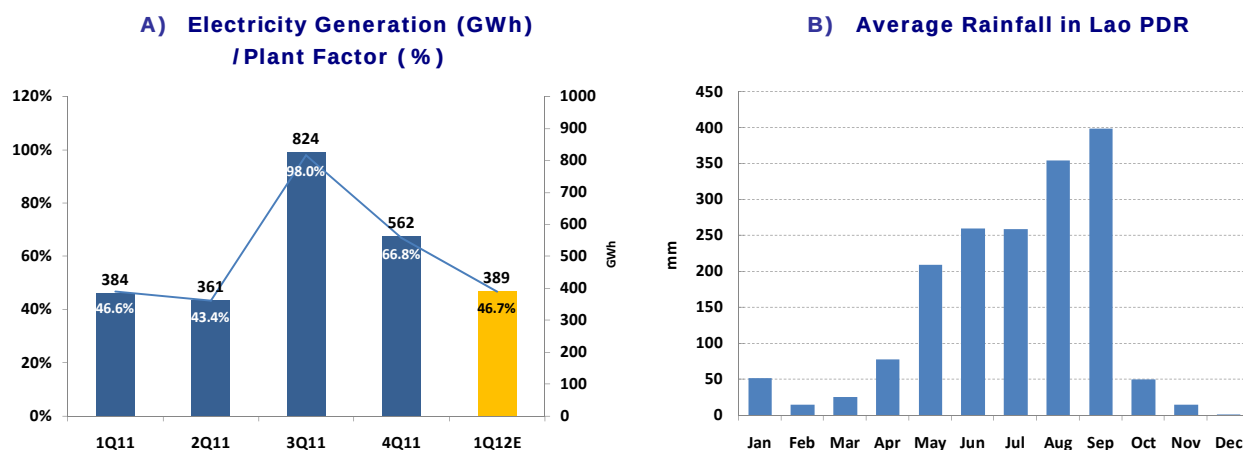
As a result of the strong upward revision in power demand both domestically and abroad, EdL-Gen will remain a prime beneficiary as the owner and operator of a growing portfolio of power generation assets, both wholly-owned and under development, as well as from investment in future IPP/SPP projects. Bright power demand prospects will support its business plan to increase generation assets and equity MW from 381 MW in 2011 to 2,224 MW by 2020, or 22% CAGR.

1Q12 Earnings Preview

Expected 1Q12 earnings of LAK 91bn

Although abnormally heavy rainfall in Lao PDR last year resulted in a higher-than-normal water level in many reservoirs in the country at yearend, EdL-Gen has tried to keep seasonal electricity generation similar to last year. As such, we project the combined electricity generation from its existing assets during the first quarter this year at 389 GWh, up slightly from the same quarter last year. Based on an escalating tariff rate of LAK 418.02/kWh this year, we project 1Q12 electricity sales of LAK 162bn, up 2%YoY but down 30%QoQ. Given no major extra expenses during the quarter, we forecast EdL-Gen's 1Q12 earnings of LAK 91bn. According to last year's operational performance, EdL-Gen generated the highest electrical output (plant factor) in 3Q11 (Figure 2A), which is normally the peak of the rainy season (Figure 2B). Thus, we expect to see quarterly earnings from existing assets pick up substantially by more than one-fold during 2H12. Table 1 shows the quarterly results and our 1Q12 preview.

Figure 2: Operational performance



Source: EdL-Gen, climatetemp.info and KT ZMICO Research

Table 1: Quarterly earnings results/preview

Mil. Kip	1H 11	3Q 11	4Q 11	1Q 12E	US \$m
Sale	308,175	341,066	232,507	162,613	20
Cost of sale	(76,740)	(45,549)	(82,382)	(51,168)	(6)
Gross profit	231,435	295,517	150,125	111,445	14
Other income	188	7,702	1,891	2,445	0
Foreign exchange gain (loss), net	(731)	(6,567)	3,403	0	0
Profit before expense	230,892	296,652	155,419	113,891	14
Administrative expenses	(13,707)	(17,042)	(17,264)	(12,003)	(2)
Operating profit before financial cost and corporate income tax	217,185	279,610	138,155	101,887	13
Financial costs	(18,719)	(19,335)	(3,224)	(3,224)	(0)
Equity income					
Profit before corporate income tax	198,466	260,275	134,931	98,663	12
Income tax expenses	(9,955)	(11,832)	(8,317)	(7,526)	(1)
Net profit for the period	188,511	248,443	126,614	91,137	11
EPS (Kip) (US Cent)	217.03	286.03	178.70	104.92	1.31
EBITDA (Mil. Kip)	282,198	318,883	191,881	159,016	
Gross Margin	75.1%	86.6%	64.6%	68.5%	
EBIT Margin	70.5%	82.0%	59.4%	62.7%	
Pretax Margin	64.4%	76.3%	58.0%	60.7%	
Net Margin	61.2%	72.8%	54.5%	56.0%	
Effective tax rate	5%	5%	5%	5%	

Source: EdL-Gen and KT ZMICO Research

Earnings Momentum Continues

Strong earnings momentum contributed by 4 IPPs

If EdL-Gen's 1Q12 earnings come out as expected, the quarterly results will represent about 11% of our 2012 forecast of US\$ 105m. Nevertheless, we expect to see strong quarterly earnings momentum for the remaining periods of this year. Apart from higher seasonal plant factors during 2H12, the key earnings catalysts will be from the completion of the share investment transfer of four operational IPPs in 3Q12 along with the projected COD of 6-MW Nam Song (lifting EdL-Gen's operational equity capacity from 381 MW to 881 MW). Despite the delay of share transfer by a quarter, our earnings projection in 2012 is intact due to stronger-than-expected electricity demand with normal rainfall in Lao PDR this year. Meanwhile, the strong sustainable earnings growth in 2013 will be derived mainly from the full period earnings recognition of four IPPs.

Sustained earnings from existing assets with booster from 4 IPPs

We expect to see a sustained earnings contribution from EdL-Gen's five existing power assets this year. Thus, the earnings booster would be from shared earnings recognition from the four operational IPPs. EdL-Gen will consolidate the earnings performance of Theun Hinboun hydropower plant (THPC) (60% holding) and record equity income from the Nam Ngum 2 (25%) and Houay Ho (20%) projects (HHPC). Meanwhile, it will earn dividend income from a 10% investment in Nam Lik 1-2. Table 2 summarizes the project descriptions of the four IPPs.

Table 2: Project summary of four IPPs

	Theun Hinboun		Nam Ngum 2	Nam Lik 1-2	Houay Ho
	Current	Expansion			
Location	Bolikhamxai	Bolikhamxai	Vientiane	Vientiane	Champasak
Installed Capacity (MW)	220	280	615	100	150
EdL Stake (%) / (MW)	60.0% / 126 MW	60.0% / 174 MW	25.0% / 153.75 MW	10.0% / 10 MW	20.0% / 30 MW
CA period (ending)	30 years (2039)	28 years (2039)	27 years (2038)	25 years (2035)	30 years (2029)
COD / IOD	1998	Oct-12	Mar-11 (IOD) / Sept-13 (COD)	2011	1999
Export / Domestic	99/1	90 / 10	100 / 0	0 / 100	99/1
Construction cost (USD Million)	240	709.5	885.3	150	234
Debt / Equity	88/12	83/17	73/27	80/20	69/31

Source: EdL-Gen and KT ZMICO Research

THPC: The biggest earnings contribution

Among the four IPPs, the biggest earnings contribution will be from THPC, whose combined capacity (including expansion phase of 280 MW with 83% debt financing) is 500 MW. Despite being a run-of-river hydropower plant, THPC's plant factor has exhibited a rather high average of 73.34% over the past six years. Since its expanded capacity will begin COD by October this year, the plant's electricity generation is projected to be around 2,989 GWh, up one-fold from last year's figure (which was lower than normal due to the construction phase). We estimate THPC's earnings contribution to EdL-Gen in 2012 at US\$ 23m before ramping up to US\$ 52m in 2013.

NN2: Long-term cash flow stream from brand new IPP

The second biggest earnings contribution will be from 615-MW Nam Ngum 2 (NN2), which is in the second year of the operating concession (27 years starting from Initial Operating Date in March 2011). Under the Power Purchase Agreement, the Electricity Generating Authority of Thailand (EGAT) agrees to purchase electricity from NN2 at a minimum of 2,310 GWh per year. However, EGAT can purchase more than the minimum guaranteed amount each year depending on its demand. We project that NN2 will contribute equity income to EdL-Gen at around US\$ 7m this year, doubling to US\$ 15m in 2013.

HHPC: Back-to-normal operation in 2012

After suffering from unusually low production volume in 2011 due to the impact from the drought in 2010, HHPC has been able to accumulate sufficient water in its reservoir, enabling the plant to return to normal operation in 2012. Based on the rainfall and water levels of the reservoir at yearend 2011 (which was the highest level since 2001), HHPC plans to produce electricity of 442 GWh this year, up substantially from 90 GWh in 2011. Actual production volume in 1Q12 recorded at 118 GWh compared to only 25 GWh in 1Q11, with its 1Q12 normalized earnings coming out at US\$ 2.5m. Meanwhile, we project equity income of HHPC that EdL-Gen will recognize in 2012 at around US\$ 1m and US\$ 2m in 2013.

Incremental value from 4 IPPs outweighing dilution effect

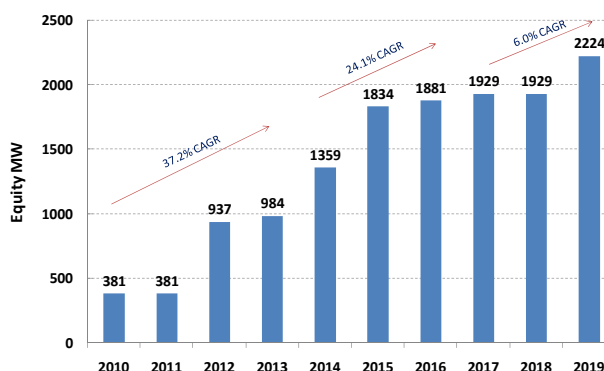
The acquisition of four IPPs will cost EdL-Gen around US\$ 202m, with the company using equity financing in entirety. EdL-Gen will pay EDL for four IPPs investment in both new paid-up shares and cash. Meanwhile, EDL intends to keep its 75% stake through both rights and public offering subscription. The capital increase of 357.62 million shares (ms) will be allotted to existing shareholders (rights offering) for 217.15 ms with a ratio of 4 existing shares to 1 new share. The remaining of 140.47 ms will be allotted to the public (public offering). If existing investors exercise their rights offering, the effect of full dilution will not be greater than 11.5%. Taking into account the expected dilution from the capital increase (from 868.60 ms to 1,226.22 ms or 41% increase), we estimate acquiring equity capacity from four IPPs of 494 MW will add fair value to EdL-Gen by 86% (from LAK 5,498/share to LAK 10,277/share under fully-diluted shares), which can compensate investors for the dilution effect.

Figure 3: Future assets development plan

A) Medium-term Acquisition Target

	Hoauy Lampan Ngai	Nam Khan 2
Location	Sekong	Luang Prabang
Installed Capacity (MW)	88	126.9
EdL Stake (%)	100%	100%
COD	2015	2014
Export / Domestic	0 / 100	0 / 100
Construction cost (USD million)	206.3	314.6
Loan terms	20 years at 2%	20 years at 2%
Debt / Equity (USD Million)	95/5	95/5
Plant Factor (expected)	65%	51%

B) Generation Assets Growth



Source: EdL-Gen and KT ZMICO Research



Another two quality assets are medium-term acquisition targets

Another two projects that will be transferred from EDL are in the construction phase, the 127-MW Nam Khan 2 (NK2) and 88-MW Houay Lamphan Ngai (HLPN), with estimated costs of US\$ 314m and US\$ 206m, respectively. Since their project costs have already been funded with 95% debt financing (with a 13-year grace period), EdL-Gen should spend less money (~US\$ 26m) to acquire their equity portions (we thus foresee no need for a capital increase to fund these projects). Nevertheless, the cheaper cost of debt (2%) than existing projects (3.2%) will enable EdL-Gen to benefit from higher equity IRR. We expect EdL-Gen to consolidate these two plants' earnings in the year of their CODs in 2014 and 2015. Figure 3A summarizes the profiles of these medium-term acquisition targets.

Capacity growth intact

Apart from the transfer of two hydropower plant projects and share purchases in four operating IPPs from EDL totaling 707.8 MW in 2012, the next growth step will be from EDL's wholly-owned assets under construction and planned projects, as well as equity shares of IPPs under construction along with planned IPPs. We assume that EdL-Gen will acquire these assets and equity shares before their CODs. According to Lao PDR's PDP 2012-2020, there are another 10 EDL wholly-owned projects with combined capacity of 547 MW planned to start COD during 2014-2016. Meanwhile, 12 IPPs under EDL investment (10%-25% holding) with total equity MW of 713 MW will come on stream during 2014-2019. Under this projection, we will see EdL-Gen's equity capacity grow significantly from 381 MW in 2011 to 954 MW in 2013 or 37.2% CAGR. Figure 3B shows the generation asset growth in terms of equity MW from the existing assets in 2011 to planned future projects until 2019.



Valuation & Recommendation

Inexpensive valuation compared to regional peers

On a regional comparison, EdL-Gen's share price is currently traded at the lowest forward price-to-earnings ratio (PER) of 5.7X. Although projected EPS growth in 2012 is not top ranked, its low PEG (PER/EPS growth) of 0.19 indicates very attractive valuation after adjusting for earnings growth. At the same time, the share price is very cheap as it traded below its book value and peer average. Table 3 shows the relative valuation of EdL-Gen and regional utilities peers.

Table 3: Comparison with regional peers, 2012

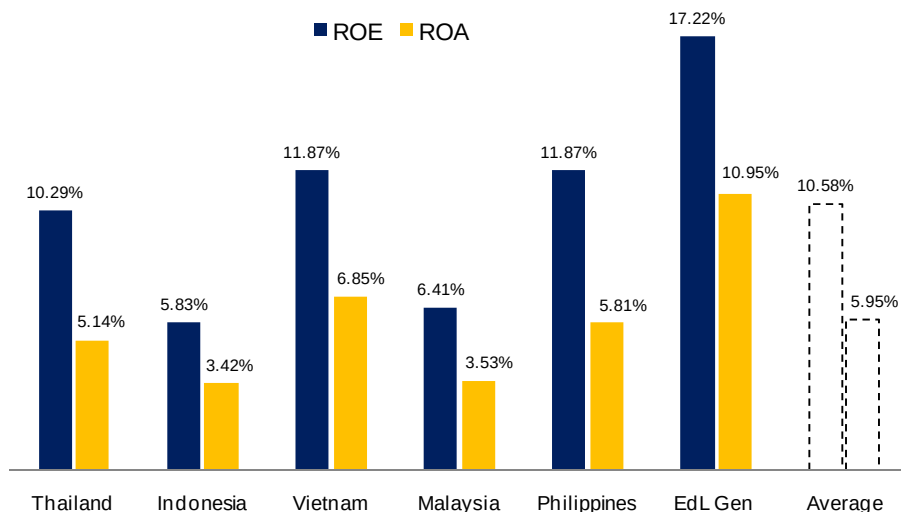
Company	Bloomberg Code	Country	PER (X)	'12 EPS Growth (%)	PEG	Dividend Yield (%)	PBV (X)	ROE (%)	EV/EBITDA (X)
CLP Holding	2 HK	Hongkong	13.51	17.71	0.76	4.06	1.74	13.30	11.11
Hongkong Electric Holdings	6 HK	Hongkong	12.89	5.95	2.17	4.36	1.91	15.31	16.08
China Resources Power Holdings	836 HK	Hongkong	10.74	31.44	0.34	2.90	1.29	12.66	8.52
Datang International Power Generation	991 HK	Hongkong	9.38	79.07	0.12	4.76	0.73	7.75	10.03
Huaneng Power International Inc	902 HK	Hongkong	11.74	173.95	0.07	4.36	0.98	8.05	8.00
Korea Electric	015760 KS	Korea	11.73	nm.	nm.	0.66	0.35	0.10	3.89
Tata Power	TPWR IN	India	15.56	58.28	0.27	1.46	1.70	11.22	15.79
YTL Power	YTLP MK	Malaysia	9.45	5.13	1.84	4.65	1.29	14.12	8.00
Tenaga Nasional	TNB MK	Malaysia	13.16	285.48	0.05	2.08	1.03	9.27	6.21
Manila Electric	MER PM	Philippines	19.61	4.40	4.45	3.40	3.40	22.23	7.37
Brookfield Renewable Power Fund	BRC UN	UK	13.21	3.81	3.47	2.48	1.45	10.12	7.01
Electricity Generating	EGCO TB	Thailand	8.62	3.49	2.47	5.41	0.84	9.96	13.62
Ratchaburi Electric	RATCH TB	Thailand	10.26	1.15	8.95	5.64	1.16	11.63	8.35
Glow Energy	GLOW TB	Thailand	14.19	58.05	0.24	3.66	2.44	17.87	11.07
Average			12.66	34.92	0.36	3.80	1.52	11.27	9.99
EdL-Gen	EDL LS	Lao PDR	5.75	30.19	0.19	10.27	0.90	15.78	7.74

Source: Bloomberg, company and KT ZMICO Research

High profitability due to high operating leverage

EdL-Gen is among the first tier in terms of profitability (Figure 4). Its return on assets (ROA) and equity (ROE) last year stood at 10.95% and 17.22%, which was far above the average of regional utilities at 5.95% and 10.58%, respectively. We believe the main factor for its solid profitability was its high operating leverage. As the main expenses of hydropower plants are fixed costs, especially non-cash depreciation expenses, EdL-Gen's operating income increases more rapidly with sales. Last year, its 16% revenue growth with a 63% net margin generated 70% EPS growth.

Figure 4: Profitability comparison with regional utilities, 2011



Source: Bloomberg and KT ZMICO Research

Implied fair value of LAK 10,227 (US\$ 1.28) from valuation of existing projects and investment in four IPPs

We strongly recommend “Buy” EdL-Gen with a fully-diluted fair value in 2012 of LAK 10,227 (US\$ 1.28) based on DCF valuation. Our valuation is based solely on projected cash flow generated by its existing projects and the acquisition of four operational IPP projects (including THXP), while excluding two hydropower assets currently in the construction phase as well as future expansion plans toward the achievement of 2,240 MW by 2020. The stock is rather inexpensive with a deep discount at more than 50% of trading multiples despite its solid earnings growth. This also implies significant valuation upside (12-month target price of LAK 8,477; US\$ 1.06/share based on 10X PER or a 20% discount from 12.6X PER of the regional peer average) in the event that the stock is re-rated to the average of peers over the medium term. Another investment rationale to have this stock in the portfolio is its very attractive dividend yield of around 10% (disbursement twice a year).

12-month target price discounted by LSX’s lack of development

We view that EdL-Gen’s valuation is constrained by the lack of liquidity, infrastructure, and development of the LSX. With the continued growth of generation assets boosting market capitalization as well as Lao PDR’s economy and stock market becoming better established over the long run, we expect to see the trading multiples of this stock re-rated to regional peers.



Table 4: EdL-Gen's power generation assets

Power Plant	Location	Designed Energy Capacity (GWh p.a.)	Installed Capacity (MW)	COD
Existing projects				
	Central			
Nam Ngum 1	Vientiane	1,002.0	155.0	1971
Nam Leuk	Vientiane	218.0	60.0	2000
Nam Mang 3	Vientiane	180.0	40.0	2005
Nam Song	Vientiane	13.5	6.0	2012
	South			
Xeset 1	Saravanh	180.0	45.0	1991
Xeset 2	Saravanh	309.0	76.0	2009
Xelabam	Champasak	21.0	5.0	1969
Sub Total		1,923.5	387.0	
Projects to be transferred from EDL				
Nam Khan 2	Luangprabang	568.0	126.9	2014
Houay Lamphan Ngai	Sekong	500.0	88.0	2014
Sub Total			214.9	
Share in EDL's IPPs				
		Equity Share	Equity Capacity (MW)	
Theun Hinboun	Bolikhamxay	60%	126.0	1998
+ Expansion	Bolikhamxay	60%	174.0	2012
Houay Ho	Champasak/ Attapeu	20%	30.0	1999
Nam Lik 1-2	Vientiane	10%	10.0	2010
Nam Ngum 2	Vientiane	25%	153.8	2010
Sub Total			493.8	
Grand Total			1,095.7	

Source: EdL-Gen

Financial tables

PROFIT & LOSS (USD Million)	2009*	2010*	2011	2012E	2013E
Sales of electricity	82	95	111	208	269
Cost of sales	(22)	(36)	(21)	(50)	(68)
Gross profit	60	59	90	158	201
Other income	0	0	1	1	1
Dividend income					
SG&A	(4)	(5)	(7)	(16)	(14)
EBIT	57	54	84	144	188
Finance costs	(5)	(6)	(5)	(25)	(56)
Equity earnings			0	13	16
FX gain (loss)					
EBT	52	48	79	132	148
Corporate tax	(18)	(17)	(9)	(12)	(9)
Minority interests	-	-	-	(16)	(21)
Net profit	34	31	71	105	118
Reported EPS (US\$)	0.05	0.05	0.08	0.11	0.10
Dividend (US\$)			0.06	0.06	0.08
BV per share (US\$)	0.50	0.51	0.57	0.68	0.84

KEY RATIOS	2009*	2010*	2011	2012E	2013E
Revenue growth (%)	2.4	15.8	16.2	87.9	29.2
EPS growth (%)	(0.6)	(8.0)	70.2	30.2	(9.3)
Gross margin (%)	73.5	62.0	81.3	76.1	74.7
Operating margin (%)	63.3	50.3	71.6	63.5	55.0
Net margin (%)	41.1	32.7	63.8	50.3	43.8
Core profit margin (%)	-	-	-	-	-
Effective tax rate (%)	35.0	35.0	10.8	8.7	6.2

BALANCE SHEET (USD Million)	2009*	2010*	2011	2012E	2013E
Cash and cash equivalents	45	111	43	156	133
Current assets	52	140	107	198	181
Non-current assets	507	495	551	1,454	1,619
Total Assets	559	635	658	1,652	1,800
Current liabilities	24	141	31	47	67
Long-term borrowing, net	207	164	135	771	705
Non-current liabilities	207	164	135	771	705
Total liabilities	231	305	166	818	772
Total equities	328	330	493	834	1,028

FINANCIAL QUALITY					
Current Ratio (X)	2.16	0.99	3.43	4.20	2.71
Debt/Equity Ratio (X)	0.63	0.50	0.27	0.92	0.69
Interest coverage (x)	12.07	8.37	17.53	5.87	3.35
ROA (%)	6.95	5.22	10.93	9.06	6.83
ROE (%)	10.74	9.47	17.19	15.78	12.66

Source: EdL-Gen and KT ZMICO estimate

*Pro forma basis as if the Company had existed and was operating from the beginning of 2008

Assuming LAK 8,004/US\$



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