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Samart Corporation

Six waste-to-energy power plants factored in to our model Neutral

Samart Corporation

Investment thesis

We reiterate our BUY rating on SAMART, premised on the value it will add from its planned move into energy/ utilities projects over the next five years. We have factored in to our models and valuations the incremental value it will gain from the refuse-derived fuel (RDF) power plant in Chiang Mai and five other similar projects to be established during FY15-16, which have added Bt8/share to SAMART's sum-of-its-parts valuation. A huge upside will also come from its 2,000MW coal-fired power plant in Cambodia, which we will factor in once it signs the associated power purchase agreement (PPA) with EGAT in 2H15.

New JV set up to produce RDF ...

On March 18, 2015, SAMART approved the investment of Samart Waste2Power Co., Ltd.—its 99.99%-owned subsidiary under Samart U-Trans Co., Ltd. (one of SAMART's wholly-owned subsidiaries)—in a joint venture (JV) company (Chiang Mai Waste2Power Co., Ltd.) with Mlink Energy Co., Ltd. The JV, of which 50% is held by Samart Waste2Power and the rest by Mlink Energy, will produce RDF in Chiang Mai by converting solid and landfill waste into electricity, which will be then sold to the Provincial Electricity Authority (PEA).

... and add a 3-4% incremental impact to bottom line

Total investment cost for the 8MW Chiang Mai plant is Bt1bn (or Bt500m for Samart Waste2Power). We assume that its revenue contribution will commence in 2Q16, following a one-year construction period. Assuming the feed-in tariff of Bt6.8/Kwh, the load factor of 68% in the first year and the revenue recognition from 2Q16, we estimate it will achieve revenue of Bt295m and Bt122m in net profit for the JV (NM of 41.2%). Based on SAMART's

50percent stake, the plant will impact its FY16 top line by 0.5% and FY16 net profit by 3.2%. Assuming a 90% load factor in the second year, we estimate a Bt394m in annual revenue and Bt165m in annual net profit for the JV (or a 0.7% impact on its FY17 top line and 3.6% impact on its FY17 profit). We factored the Bt1.33/share value from the plant into our model and valuation.

Bt8/share for the six RDF power plants

The next RDF power plant in Buriram province is expected to be announced in May 2015 and the next four RDF power plant deals in 2H15-FY16. We have factored in the incremental values from the six plants (including the Chiang Mai location) into our FY16-17 model and valuation. Our top-line forecast rises by Bt394m (1.4%) for FY16 and by Bt985m (3.3%) for FY17 and our net profit projection increases by Bt162m (9.1%) for FY16 and by Bt411m (21.8%) for FY17. Our sum-of-the-parts valuation rises by 29% (to Bt36).

