

Thailand Equity Research

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Share Price (THB) 6.4
SET Index 647

Share Data

Outstanding shares (mn)	229
Market Capitalization (THBmn)	1,467
Market Capitalization (US\$m)	37.5
3 mo avg daily T/O (US\$'000)	103
12 mo avg daily T/O (US\$'000)	87
12 month high/low (THB)	8.0 / 5.2
Corp Governance Rating	B+
Major Shareholder (%)	
Thanong Chotisorayuth	25-30%
Nation Group	20%
Estimated Free Float	

DCF Assumptions

DCF Value/share (THB)	7.6
Premium (disc) to DCF (%)	(18.9)
Risk Free Rate	5.7
Equity Risk Premium	8.0
WACC (%)	13.6
Terminal Year	2015
Terminal Gr Rate (%)	5.0

Company Calls/Visits

Company Calls/Visits	Date
Pongsak Sivapatrakumpol - Deputy Managing Director	25/5/04

SE-Education

(SE-ED)

PRINT

July 7, 2004

Great market position and undervalued.

SE-ED has limited competition in its main business areas of distributing books and publishing technical books. As more people are able to attend universities, SE-ED stands to benefit from an increasing number of readers in Thailand.

Size advantages. As the largest book retailer in Thailand, SE-ED has economies of scale in distributing books and the best marketing intelligence in the business. Its closest competitor has one-half as many book stores and loses money.

Focused publishing. SE-Ed appears to have locked up a niche in publishing technical books.

Education levels rising. Thailand now has more than 1mn university students.

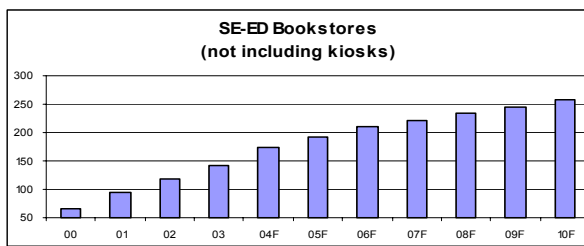
Cash, Cash, Cash. SE-ED has no debt and funds all capex through its strong cashflow.

Undervalued. At a SE-ED is trading at a 19% discount to our DCF value of THB 7.6/share.

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Total Revenues	1,977	2,377	2,574	2,954	3,217
EBITDA	156	215	266	305	332
Net Income	102	157	193	224	243
Earnings per share (THB)	0.5	0.6	0.7	0.8	0.8
Dividend Yield (%)	7.8	9.8	3.3	3.7	4.0
EBITDA Margin (%)	7.9	9.0	10.3	10.3	10.3
EBITDA gr (%Y-Y)	(21.2)	37.6	23.7	14.8	8.9
EV/EBITDA (X)	6.3	5.8	3.8	2.8	2.0
Price/Earnings (X)	13.2	10.4	9.1	8.0	7.5
Net debt to equity (%)	Cash	Cash	Cash	Cash	Cash
Price Performance			1m	3m	1yr
Absolute			4.1	(0.8)	14.4
Relative to SET			2.2	(0.7)	(19.0)

All about books. SE-ED is the largest publisher, distributor and retailer of books in Thailand. In publishing, the company focuses on books which are essential to national development, ie. academic, technical, business and children's books. While most of the books that it publishes are written by Thai authors, it also translates some foreign books into Thai. SE-ED has an agreement to translate and publish books published by Pearson, the largest academic publisher in the United States. The company also translates the "Rich Dad, Poor Dad" series into Thai.

SE-ED presently sells books through 153 full bookstores and 115-120 small kiosks. By end-FY04, SE-ED should have around 170-180 stores and 125-130 kiosks, a total of more than 300 selling points. By comparison, the second largest retailer of books, Nai-In Bookstores, has only 60-70 stores.



Advantages of size in distribution. By having the most retail book stores, SE-Ed is tough to compete against. SE-ED enjoys economies of scale in developing and managing store properties, transporting and warehousing books, and advertising. In building out its retail chain, the company has also been astute to place stores in areas with the high volumes of foot traffic.

Other book distributors are only marginally competitive with the company. While SE-ED earned THB157mn in FY03, its closest competitor (Nai-In) lost THB10mn. This year, Nai-In's parent company, Amarin Printing and Publishing (Amarin), sold down its stake in Nai-In from 40% to 19%. Amarin appears to have lost interest in distributing books.

Focused publishing. SE-ED has confined its publishing activities mainly to areas of limited interest, such as technical books in software and engineering. Nobody really competes with the company in this as there is a limited supply of authors to write the books and many are already affiliated with SE-ED.

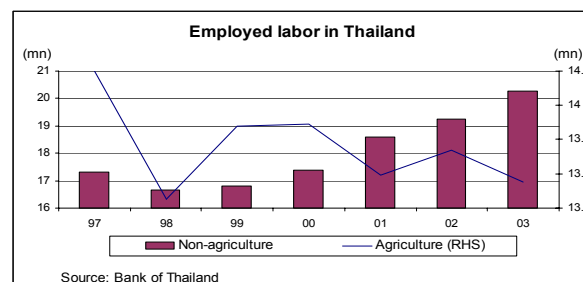
As a general rule, SE-ED does not publish blockbuster type books, eg. Harry Potter. Because publishers often engage in bidding wars for such books, publishing blockbusters can be risky. SE-ED, however, is still able to profit through distributing such books.

Crossover benefits. SE-ED's market position in distributing is a huge advantage for its publishing business. By having a large retail bookstore presence, SE-ED has the best marketing intelligence in Thailand for bidding on books to publish. It also has the best statistical models for deciding where and how to place books in its stores. Authors who want to publish in one of SE-ED's speciality areas may also be concerned, in the event that another company publishes their book, that SE-ED would not promote it effectively. In effect, the company's wide-ranging ability to distribute books allows it to pay authors less and charge consumers more.

Education levels rising. Education levels in Thailand are clearly rising. There are currently more than 1mn university level students in the country. Approximately 20% of university students concentrate in technical fields, ie. science and engineering.

Since 1998, Thai universities have been shifting admissions criteria away from exams and towards grade point averages. As a result, more students are able to obtain admissions to universities.

Thailand's rapidly growing economy is also creating (non-agricultural) jobs. From FY00 to FY03, 3mn new non-agricultural positions were created.



Better educated people buy more books.

There is no better example of Thailand's growing demand for books than SE-ED's revenues. The company's revenues have increased at an average of 31%y-y since 1991. We believe that there is still considerable growth potential for the company.

Cash, cash, cash. SE-ED has a highly enviable business model, with low fixed costs, no debt and significant free cashflow. Because its inventory, aside from self-published books, is largely held on consignment from other publishers, it only incurs costs for inventory which is actually sold. By sharing a portion of their revenues with landlords, many of its retail stores are also able to minimize fixed rental expenses.

The only clear financial risks that the company appears to take is in bidding for books to publish. It mitigates this through having the best marketing intelligence in Thailand, ie. the most retail bookstores, by focusing on technical books, and by not bidding on runaway bestsellers.

Needless to say, the company generates significant amounts of free cashflow. It funds all capex entirely through free cashflow and still manages to pay out significant dividends. For each of the past two years, SE-ED paid out more than 100% of net income before minority interest as dividends. The company has an insignificant amount of short term debt, less than 1% of sales, and no long term debt.

E-books not a threat. The company is very much aware that, in the future, e-books may take market share away from books published on paper. Our view, however, is that SE-ED would be in the best position to sell the e-books. We do not consider this to be a significant threat to the company's revenues. SE-ED is further studying e-commerce as a means to sell and distribute books.

Under-valued. The company's enviable market and financial positions merit valuing the company with a relatively low discount rate. Using an equity risk premium of 8% above the risk free rate of 5.7%, our DCF value for the company is THB7.6/share, which indicates that the company is trading at a 19% discount to its intrinsic value. All earnings based valuation multiples are in single digits.

Income Statement

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Sales	1,975	2,377	2,573	2,953	3,216
Service Income	-	-	-	-	-
Other oper rev	2	0	0	1	1
Total Revenues	1,977	2,377	2,574	2,954	3,217
Cost of sales	(1,341)	(1,576)	(1,673)	(1,920)	(2,091)
SGA	(479)	(585)	(633)	(727)	(791)
Cost of service	-	-	-	-	-
Other op exp	(2)	(2)	(2)	(2)	(2)
EBITDA	156	215	266	305	332
Depr & Amort	(43)	(54)	(59)	(65)	(71)
EBIT	114	161	207	241	261
Other income	26	53	57	66	71
Interest expense	(0)	(0)	(0)	(0)	(0)
Other non op exp	-	-	-	-	-
Prof bef tax & ex items	139	214	264	306	332
Forex gain (loss)	-	-	-	-	-
Disposal of PPE	-	-	-	-	-
Gain (loss) on invest	-	-	-	-	-
Extraord gains (losses)	-	-	-	-	-
Profit bef taxes	139	214	264	306	332
Taxes	(37)	(57)	(71)	(82)	(89)
Profit bef min interest	102	157	193	224	243
Minority Interest	-	-	-	-	-
Net Income	102	157	193	224	243

Balance Sheet

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Cash	79	146	158	182	198
Short term investment	306	257	610	803	1,005
Accounts receivable	66	79	86	98	107
Inventory	106	137	149	171	186
Other current assets	20	23	25	28	31
Current assets	576	643	1,028	1,282	1,527
Investments	11	34	34	34	34
Property plant & equipment	426	394	400	408	417
Intangible assets	-	-	-	-	-
Other non cur assets	28	34	37	43	46
Total assets	1,041	1,105	1,499	1,767	2,024
Accounts payable	463	478	518	594	647
Short term borrowings	19	21	23	26	28
Current maturities	-	-	-	-	-
Other cur liabilities	32	38	41	47	51
Current liabilities	514	537	581	667	727
Long term debt	-	-	-	-	-
Other non cur liab	4	2	2	3	3
Total liabilities	517	539	584	670	730
Share capital	211	255	250	256	261
Additional paid in capital	81	108	309	309	309
Retained earnings	184	180	316	472	643
Adjustments to ret earn	48	23	40	60	82
Minority Interest	-	-	-	-	-
Shareholders' equity	524	566	915	1,097	1,294
Liabilities and sh equity	1,041	1,105	1,499	1,767	2,024

Financial Ratios

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
EV/EBITDA (X)	6.3	5.8	3.8	2.8	2.0
EV/sales (X)	0.5	0.5	0.4	0.3	0.2
Price/Earnings (X)	13.2	10.4	9.1	8.0	7.5
Price/Book Value (X)	2.6	2.9	1.9	1.6	1.4
Earnings per share (THB)	0.5	0.6	0.7	0.8	0.8
Operating Margin (%)	5.7	6.8	8.1	8.1	8.1
EBITDA Margin (%)	7.9	9.0	10.3	10.3	10.3
Net Margin (%)	5.2	6.6	7.5	7.6	7.6
EBITDA/Assets (%)	15.0	19.5	17.7	17.3	16.4
Net Income/Assets (%)	9.8	14.2	12.9	12.7	12.0
EBITDA/Equity (%)	29.9	38.0	29.1	27.8	25.7
Net Income/Equity (%)	19.5	27.7	21.1	20.4	18.8
Free cashflow (THBmn)	(206)	174	108	106	133
Capex (THBmn)	82	88	95	109	119
Net Debt (THBmn)	Cash	Cash	Cash	Cash	Cash
Interest coverage (x)	663	1,048	818	841	820
Net debt to equity (%)	Cash	Cash	Cash	Cash	Cash
Dividend Yield (%)	7.8	9.8	3.3	3.7	4.0
Sales gr (%Y-Y)	20.8	20.2	8.3	14.8	8.9
EBITDA gr (%Y-Y)	(21.2)	37.6	23.7	14.8	8.9
Net Income gr (%Y-Y)	(17.4)	53.2	23.5	15.7	8.6

Cash Flow Statement

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Net income	102	157	193	224	243
Depr & Amort	43	54	59	65	71
Forex gain/(loss)	-	-	-	-	-
Net ch in working assets	139	(27)	23	44	31
Cashflow from operations	284	184	275	333	345
Net ch in PPE & intangibles	(61)	(47)	(47)	(53)	(58)
Net ch in investments	(2)	(23)	-	-	-
Net ch in other assets	(8)	(7)	(3)	(5)	(4)
Cashflow from investing	(70)	(76)	(49)	(59)	(62)
Dividends	(105)	(160)	(58)	(67)	(73)
Net ch in debt	(1)	1	2	4	3
Net ch in equity	-	71	196	5	5
Cashflow from financing	(106)	(89)	140	(58)	(65)
Net change in cash	108	19	365	216	218

Forecast Assumptions	FY02	FY03	FY04F	FY05F	FY06F
Stores	119	142	175	193	212
New Stores	25	23	33	18	19
Sales/Store (Mn/Mo)	1.38	1.39	1.35	1.34	1.33