

Asian Insulators Plc. (AI)

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Largest porcelain insulator producer in Southeast Asia

Asian Insulators (AI) is the largest producer of porcelain insulators in Southeast Asia. Its products are high quality electro-porcelain for low, medium and high voltage insulators used in the power transmission industry. The company has long-standing business ties with its two major customers – the Provincial Electricity Authority and the Metropolitan Electricity Authority – which account for 95% of its total sales.

AI is set for an initial public offering in late August with 20mn shares offered to the public. The IPO price has not yet been set. The proceeds from the IPO will be used to increase the capital of its contractor subsidiary, increase capacity of clay mixture plant, repay debt and for working capital requirement.

AI is expected to achieve sales growth of 22% this year to Bt804mn. The company is indirectly benefiting from the recent pick up in electricity demand, as delayed power projects are being resurrected and new investments made in upgrading Thailand's transmission line system. AI has captured roughly 45-55% of the Thai porcelain insulator market.

With its current plant at near full capacity of 7,500 tonnes per year, AI's future earnings growth will be through its new 40%-owned joint venture with Austrian PPC Insulators holding GmbH (PPC). The new plant, which is expected to be completed in December 2004 and commence operations by February 2005. It will have production capacity of 6,000 tonnes. The plant is expected to produce about 4,900 tonnes in its first year of operation for export to Europe and the U.S.

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We value AI shares at Bt36 based on a 2004 PER of 10x. We believe this is appropriate rating given AI's specialised niche market, near-term earnings growth potential and strong financial position which is projected to turn net cash positive after the IPO. Furthermore, we believe the company will pay a dividend of Bt1.40 from this year's earnings, representing a dividend yield of 4.44% based on our target price.

Figure 1: Earnings summary

	2002	2003	2004F	2005F	2006F
Sales (Btmn)	576	659	804	1,328	1,596
EBITDA (Btmn)	290	304	409	507	543
Norm profit (Btmn)	233	255	358	454	489
Net profit (Btmn)	233	255	358	454	489
EPS (Bt)	14.36	15.69	3.58	4.54	4.89
PER (x)	2.51	2.29	10.05	7.92	7.36
EV/EBITDA (x)	2.53	2.49	7.90	5.92	5.35
Free cash flow (Btmn)	151.73	0.85	353.81	464.32	307.82
CF/share (Bt)	9.35	0.05	3.54	4.64	3.08
BV/share (Bt)	25.80	30.49	11.51	14.45	17.44
Price/BV (x)	1.40	1.18	3.13	2.49	2.06
DPS (Bt)	10.04	11.00	1.40	1.60	1.90
Dividend yield (%)	30.56%	23.97%	4.44%	5.29%	5.41%
Gearing	0.36	0.35	net cash	net cash	net cash
ROE (%)	55.8%	55.7%	43.5%	35.0%	30.7%
ROA (%)	35.3%	35.5%	28.3%	28.2%	25.1%

Source: Company reports and Kelve research estimates.

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Leading producer of insulators for PEA and MEA

AI is the largest manufacturer of low, medium and high voltage insulators in Southeast Asia. The company has a strong foundation with its two founders and major shareholders, Narong and Thanit Thareerattanaviboon, and having long-term experience in the engineering field and long-standing connections with major customers.

Approximately 95% of AI's sales are to a few major customers, like the Provincial Electricity Authority (PEA) and the Metropolitan Electricity Authority (MEA). AI benefits from an industry that has only a few producers that qualify to meet rigid quality standards of the state enterprises. AI also benefits from the tendency of state enterprises to buy only from local producers due to the government's procurement policy.

We believe that AI's research and development department is one of the most advanced in porcelain insulator production for the power transmission industry. The company uses high quality material, technology, and production to create innovative porcelain insulators.

AI's current manufacturing plant has the capacity to produce 7,500 tonnes per year. The plant is operating at above 90% of capacity, due to strong domestic demand. AI exports only indirectly through contractors operating in neighbouring countries.

Following the relocation of its manufacturing plant to Sing Buri in 2001, AI has enjoyed tax exemption privileges for an eight year period and another 5 years of 50% tax benefits through Board of Investment since 2001. The company is also setting up a new 40%-owned joint venture in Sing Buri with PPC Insulators Holdings (PPC), one of the world's leading manufacturers of low, medium and high voltage insulators.

Figure 2: AI background

- AI established in 1981 with registered capital of Bt12mn.
 - The company began manufacturing and supplying low voltage insulators, such as spool insulators, to the PEA in 1983.
 - By 1987, AI began research on developing different types of medium voltage insulators, such as strain insulators, and started exporting low and medium voltage porcelain insulators to Australia.
 - From 1989 to 1991, AI had developed an underground cable support, the pin type, the suspension, solid core insulators such as line post type, and station post type, with its products being supplied to the PEA and the MEA. The company also received the Quality Assurance of AS 1182 - 1985 Suppliers Quality Systems for Production and Installation certificates by Standards Australia.
 - In 1997, the company received ISO 9002 – 1987 certification by the Thai Industrial Standards Institute and increased its registered capital to Bt150mn.
 - AI also received ISO 9001 – 2000 certification from the Management System Certification Institute (Thailand) in 2003.
 - AI increased its registered capital to Bt500mn and applied for listing on the Stock Exchange of Thailand in 2004. The company also joined forces with the PPC to set up a 40%-owned affiliated company, PPC Asian Insulators Company Limited.
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Source: AI

Type of business

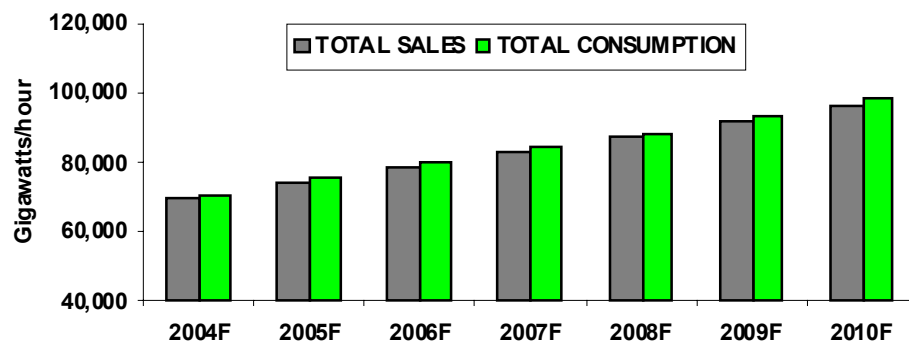
AI has developed a specialised niche in the insulator market. The company is capable of producing different types of insulators used in the power distribution and transmission in Thailand. Suspension insulators accounted for 59% of total sales in 2003, followed by station post insulators with a 23% portion and porcelain cable spacers at 17%.

In the first six months of this year, electricity demand was up 7.2% year-on-year. As the economy continues to recover, we expect to see electricity demand projections revised upward and long-delayed IPP power projects resurrected. According to the Thailand Load Forecast subcommittee's January 2004 report, electricity consumption through the PEA transmission system from 2004 to 2010 is projected to grow at an annual compound rate of 5.73% based on a low economic growth scenario, 8.33% based on a medium growth scenario and 10.35% based on a high growth scenario.

There will need to be a corresponding investment in electricity transmission by the PEA, MEA and EGAT. In particular, substantial new investment must be made in nationwide distribution and substations, as well as upgrading of systems developed under the "rural electrification" projects of the 1980's.

The PEA is embarking on a new project to transform the power transmission line into a loop, creating greater stability and security for its power transmission system. We believe the new project would further boost AI's revenue in the long term.

Figure 3: PEA Energy consumption forecast in a low economic growth of all regions in Thailand



Source: Eppo.go.th

AI also supplies insulator products for BTS sky train as well as the new Mass Rapid Transit Authority (MRTA) subway line. The company, therefore, will benefit from the government's plan to expand the new electrified train system mainly the BTS with 291 km of railway extension over the next 4-5 years.

In Thailand, AI was the first to manufacture porcelain cable spacers used to support transmission lines. This product is commonly used in transmission lines around the country since the product allows the replacement of power poles and insulators without cutting the power supply. With new transmission projects scheduled, sales of porcelain cable spacers are expected to jump more than 50% in 2005.

Figure 4: AI product line and sales breakdown

(Btmn)	2002	%	2003	%	1Q04	%
Suspension insulators	186.23	32%	387.93	59%	141.26	59%
Station post type insulators	82.90	14%	151.48	23%	75.38	31%
Porcelain cable spacer	123.71	21%	113.09	17%	23.08	10%
Pin post insulators	179.58	31%	2.03	0%	-	0%
Line-post insulators	2.99	1%	1.76	0%	1.07	0%
Strain insulators	0.27	0%	1.75	0%	0.50	0%
Pin Type insulators	0.11	0%	1.20	0%	0.11	0%
Underground cable support	0.36	0%	0.09	0%	-	0%
Spool insulators	0.03	0%	-	0%	0.03	0%
General insulators	-	0%	-	0%	-	0%
Total Sales	576.18		659.33		241.43	
Growth %	6%		14%		29%	

Source: Company reports and Kelve research estimates.

AI imports approximately 60-70% of its total raw material requirements, which are primarily high-quality metal parts used in insulator production. The remaining costs are domestically-sourced in high quality clay and glaze. AI uses LPG to fire its kiln.

Figure 5: Sources of raw material

	2001		2002		2003		1Q04	
	Btmn	%	Btmn	%	Btmn	%	Btmn	%
Net domestic raw material	112.96	63%	120.98	61%	38.82	27%	15.29	39%
Net imported raw material	67.67	37%	75.89	39%	106.26	73%	24.35	61%
Total	180.63		196.87		145.08		39.64	

Source: AI

New 40% owned affiliate to begin selling in overseas market in February 2005

Earlier this year, AI announced that it was setting up a 40%-owned joint venture with PPC from Austria. PPC is considered one of the world's leading producers of insulators with production plants in Sweden, Germany, Austria, U.S.A. and Slovakia.

Production from the new plant will focus on IEC and ANSI products not currently in AI's product range. The capacity of the plant is 6,000 tonnes per year. The plant is expected to begin commercial operations by early next year and produce about 4,900 tonnes in its first year of operation.

AI has the right to sell part of the production from the new plant in Thailand, Burma, Laos, Cambodia and Vietnam, while PPC is responsible for exporting outside of these countries. According to management the JV Company will initially sell 100% of production in the export market, primarily to Europe and U.S.A.

Domestic competitors

Domestically, AI has about a 45-55% share of the insulator market in Thailand. Modern Ceramics Co. Ltd. is the biggest rival with about a 25% share. The remaining seven suppliers are much smaller, representing a combined 30% share. Within the Asian region, a large Japanese company, NGK Insulators, Ltd., is the major producer of insulators.

We believe that AI will continue to dominate the insulator market, given the company's long-standing relationship with state enterprises, cost advantages and the ability to develop products, especially after the joint venture with PPC is formed.

Figure 6: Domestic market share for porcelain insulators

Market share	No. of products offer	%
AI	>18	45%
Modern Ceramics Co., Ltd.	14	25%
7 other small suppliers	<10	30%

Source: AI

20mn shares for IPO debut

AI is issuing 20 million shares (par Bt5) in the initial public offering in late August 2004. The IPO price will be announced later. The listing date is expected to be September 9. The proceeds will be used to increase the capital of its contractor subsidiary, increase capacity of clay mixture plant, repay debt and for working capital requirement.

Figure 7: IPO details

Paid-up capital (before IPO)	: Bt400mn (80mn shares/ Par Bt5)
Par	: Bt5
Share offer	: 20 mn shares
IPO price	: August 27th
Proceeds	: Bt800mn-Bt1,200mn
Paid-up capital (after IPO)	: Bt500mn (100 mn shares)
Objective	: Increase production output by 65%
Subscription period	: 30-31 August and 1 September 2004
Listing date	: September 9 th 2004
Lead underwriter	: Finansa Securities Ltd.

Source: AI

Currently, the Thareeratanaviboon Group holds 89.15% of AI shares. Following the issue of new shares through the IPO, their equity stake will be diluted to 71.32%.

Figure 8: Shareholder's structure

Shareholders (mn)	Pre IPO		Post IPO	
	Shareholders (mn)	%	Shareholders (mn)	%
Thareeratanaviboon group	71.32	89.15%	71.32	71.32%
Vorakitjanuwat group	4.00	5.00%	4.00	4.00%
Garintaragul group	3.20	4.00%	3.20	3.20%
Mr. Surachai Kayanngan	1.49	1.85%	1.48	1.48%
IPO			20.00	20.00%
Total	80	100.0%	100	100%

Source: AI

Sales expected to jump 22% this year due to new investment in transmission systems

AI sales are forecast to rise 22% this year to Bt804mn. Based on the assumption that operating margins narrow slightly from 47.60% to 45.97%, the company's normalised earnings are expected to increase 41% to Bt358mn (fully diluted EPS Bt3.58/share).

Figure 9: Earnings performance from 2001-2003 and the first 3 months of 2004

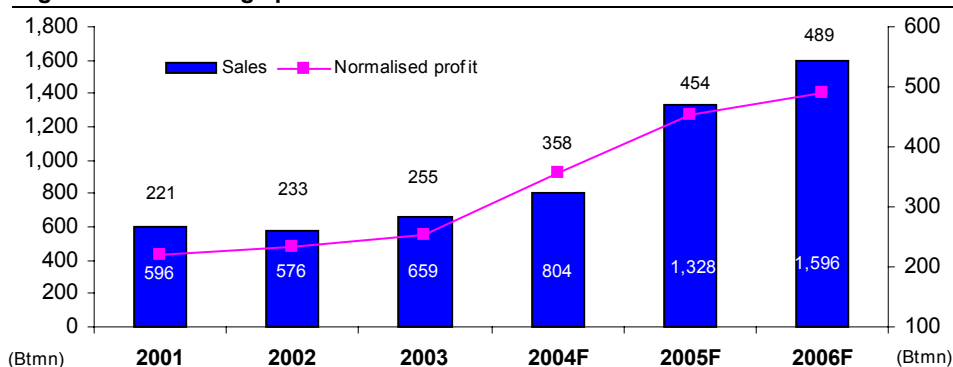
	2003	2002	Yoy	1Q04	1Q03	yoy
Sales	659	576	14%	241	187	29%
COGS	287	317	-9%	91	74	23%
Gross profit	372	259	44%	150	112	33%
Gross margin (%)	56%	45%		62%	60%	
SG&A	58	63	-8%	18	18	0%
Operating margin (%)	48%	34%		55%	51%	
Interest expense	8	11	-20%	1.65	2	-33%
Net profit	255	233	9%	130	96	35%
EPS (Bt)	15.69	14.36	9%	7.98	5.90	35%

Source: AI and Kelve research estimates.

AI had an impressive first quarter of 2004 with revenue surging 29% from the year before to Bt241mn and the net profit rising 35% to Bt130mn. However, some sales were delayed from the end of the fourth quarter 2004 and booked at the beginning of this year. With stronger sales, gross margins widened to 62%.

In 2005, we expect a 65% rise in sales due to the plant expansion to be ready by February 2005. Earnings are expected to climb 18% to Bt362mn. Gross margins are expected to be lower in the first half of 2005 as the new plant expansion will take six months before running at full capacity. Once the new plant is running, gross margins are still likely to be lower since export sales of the JV company are expected to produce gross margins of around 38-40%.

Figure 10: AI earnings performance



Source: Company reports and Kelve research estimates.

Strong financial position and attractive dividend yield

AI has relatively low financial risk with the company expected to be net cash by the end of 2004 from the strong cash flow of Bt3.54/share and the proceeds of the IPO. No further borrowing will be needed for the JV expansion project.

Last year, the company paid dividends to shareholders of 70% of net profit after tax. Currently, the company's policy is to pay at least 40% of earnings. Based on the total number of shares of 100mn after the IPO, we expect AI to pay a dividend of Bt1.40/share for a dividend yield of 4.44% based on our fair value estimate of Bt36.

AI shares are worth Bt36 per share

We believe that AI's shares are worth Bt36 apiece, based on a 2004 PER of 10x.

There are no exact comparables listed on the Thai stock market. However, we believe that it is still appropriate to compare AI's valuation to high-quality, low-debt listed industrial companies with their own specialised niches, such as HANA, DCC, S-PAC, TRU and VNG.

These stocks are currently trading on PERs in the range of 7-10x. However, given the current weak stock market conditions, we believe these stocks are undervalued and have rated each as either a BUY or a LONG-TERM BUY.

Our target price for these companies would put their PERs in the range of 11-13x. As a result, we believe that a 10x PER rating for AI is appropriate. A possible drawback for AI could be relatively lower trading liquidity since the free float will only be 20% or 20mn shares.

Figure 11: Comparison with other non-cyclical stocks

Stocks	Price (Bt/shr)	Target (Bt/shr)	Upsides (%)	Rating	Market cap	Par (Bt)	Daily turnover (Btmn)		% free Float
							YTD	Since Jul	
AI	N.A.	36	N.A.	N.A.	3,600	5	N.A.	N.A.	20%
DCC	19.8	28	41%	LT-BUY	8,078	1	19	14	51%
HANA	20.1	30.7	53%	BUY	15,862	1	61	95	50%
S-PAC	14.6	24.5	68%	BUY	876	5	N.A.*	2	28%
TRU	13.4	21	57%	LT-BUY	6,700	1	66	40	36%
VNG	9.95	18	81%	BUY	12,944	1	61	28	44%

*Listed on March 30th

	EPS			Growth		PE (X)		PE(x)@ target		DE (x)	ROE
	2003	04F	05F	04F	05F	04F	05F	04F	05F	2004	2004
AI	2.55	3.58	4.54	22%	65%	10.0	7.9	10.0	7.9	cash	43.5%
DCC	1.23	2.07	2.47	68%	19%	9.6	8.0	13.5	11.3	0.1	45.1%
HANA	2.05	2.56	2.57	25%	0%	7.9	7.8	12.0	11.9	cash	26.3%
S-PAC	2.40	2.13	2.58	-11%	21%	6.9	5.7	11.5	9.5	cash	13.9%
TRU	0.67	1.54	1.67	130%	8%	8.7	8.0	13.6	12.6	cash	29.6%
VNG	0.88	1.20	1.49	36%	24%	8.3	6.7	15.0	12.1	1.0	37.5%

Source: Kelive research estimates

Figure 12: Income statement

	2002	2003	2004F	2005F	2006F
Sales	576	659	804	1,328	1,596
Other income	66	5	6	9	11
Total revenues	642	664	809	1,338	1,607
Cost of goods sold	284	248	334	711	917
Depreciation and amortisation	33	39	43	47	47
SG&A and others expenses	68	112	66	120	148
EBITDA	290	304	409	507	496
Interest expenses	11	8	5	2	3
Net profit before extra items	233	255	358	454	489
Net profit	233	255	358	454	489
EPS growth	0%	9%	-77%	27%	8%
PER	2.51	2.29	10.05	7.92	7.36
EV / EBITDA	2.53	2.49	7.90	5.92	5.35
BV / share	25.80	30.49	11.51	14.45	17.44
P / BV	1.40	1.18	3.13	2.49	2.06
P / sale	1.01	0.89	4.48	2.71	2.26
Debt / equity	0.45	0.39	0.05	0.03	0.05
No. of shares	16.23	16.23	100.00	100.00	100.00

Source: AI and Kelive research estimates

Figure 13: Financial ratios

	2002	2003	2004F	2005F	2006F
Gross margin	45.00%	56.45%	53.10%	42.95%	39.63%
Tax rate	5.64%	0.79%	0.79%	0.79%	0.79%
Fixed costs / Total costs	25.28%	28.27%	24.57%	18.97%	17.50%
Collection period (days)	86.91	90.03	86.28	71.40	79.84
Inventory turnover (days)	83.46	120.01	140.19	77.56	91.28
Fixed asset turnover (days)	1.42	1.62	1.79	2.70	3.24
Payable period (days)	54.07	30.79	31.63	34.12	34.01
Debts to assets	(17.56%)	28.65%	5.56%	2.69%	4.54%
Times-interest-earned	24.36	31.46	72.51	218.14	175.01
Current ratio	119.78%	134.08%	688.34%	677.23%	713.57%
Quick ratio	84.35%	89.17%	548.50%	587.64%	559.44%
Debt equity ratio	0.45	0.39	0.05	0.03	0.05
Net debt equity ratio	0.36	0.35	net cash	net cash	net cash

Source: AI and Kelive research estimates

Figure 14: Balance sheet

	2002	2003	2004F	2005F	2006F
ASSETS					
Cash & Deposits	8	1	427	637	774
Accounts receivable	146	179	201	319	379
Inventories	65	98	159	143	315
Total current assets	264	296	789	1,102	1,471
Property, Plant and Equipment	396	420	477	506	479
Total Assets	661	717	1,267	1,609	1,952
LIABILITIES					
OD + Current portion of L-T debt	110	192	55	39	81
Account payable + Trust Receipt	27	15	43	90	81
Other current liabilities	11	2	3	6	8
Total current liabilities	220	221	115	163	206
Long term debts	20	-	-	-	-
Total liabilities	242	222	116	164	208
Minority Interest	-	-	-	-	-
SHAREHOLDERS' EQUITIES					
Shares + Warrants	162	162	500	500	500
Premium on shares	76	76	176	176	176
Retained earnings + Revaluation	164	241	459	753	1,052
Total shareholders' equity	419	495	1,151	1,445	1,744
Total liabilities and equity	661	717	1,267	1,609	1,952

Source: AI and Kelive research estimates

Figure 15: Statement of cash flow

	2002	2003	2004F	2005F	2006F
Net profit	233	255	358	454	489
+ Depreciation & Amortization	33	39	43	47	47
- Sales of fixed assets	-	-	-	-	-
+ Decrease in working capital	(30)	(75)	(52)	(39)	(231)
+ Others	90	-	-	-	-
Operating cashflows	325	218	349	462	305
Purchase of fixed assets	(11)	(63)	(100)	(76)	(20)
Investment in affiliated	(18)	14	17	-	-
Other investing activities	420	-	-	-	-
Investing cashflows	391	(49)	(83)	(76)	(20)
Payment of dividend	(163)	(179)	(140)	(160)	(190)
Equity Increase	-	-	438	-	-
Other debt financing	(266)	2	(426)	(210)	(137)
Internal financing cash flows	(429)	(177)	(129)	(370)	(327)
External financing	(287)	7	(137)	(16)	42
Issuing debentures and CDs	-	-	-	-	-
Borrowing from banks	(287)	7	(137)	(16)	42
Last year outstanding debt	172	190	192	55	39
This year outstanding debt	(115)	197	55	39	81

Source: AI and Kelive research estimates

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