

August 18, 2004

Dhanamitr Factoring Plc. (DM)

IPO

Factoring in high growth prospects

IPO price Bt14.30
Fair value Bt16.75

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Dhanamitr Factoring Plc. (DM) is engaged in the factoring business – providing short-term working capital to small and medium-sized enterprises (SME) by purchasing their receivables at a discount. DM has developed a highly specialised niche in this market by being one of few finance companies offering factoring services to suppliers of modern trade stores.

This month, DM sold 4mn shares to the public at Bt14.30 per share, raising its paid-up capital to Bt100mn and its premium on share capital to Bt37.2mn. Proceeds of the IPO will be used to finance business expansion. DM is expected to be listed on August 25.

DM's major advantage is that it is backed by the largest retailing group in Thailand – the Central Group – as well as Siam Commercial Bank. Another advantage is that receivables from large retailers outside the Central Group should also be considered very low risk.

DM's profitability is basically determined by the spread in which it can borrow money and the rate at which it discounts the receivables owed by the large retail franchises. DM's average cost of funds is currently 2.5-3.0%, while it discounts receivables at 9.0-10.0%. As interest rates turn higher over the next year, we believe that DM will be able to raise the discount factor used to purchase the receivables from its clients.

We also assume that the growth potential of the company's factoring receivables is tied to the growth in sales of the modern trade stores. Last year, the company's factoring receivables more than doubled to Bt720mn. This year, we are forecasting factoring receivables to grow 63% to Bt1,171mn.

DM is a small company, but we like its growth prospects given the growth in modern trade sales and more suppliers relying on DM to help finance working capital. For this reason, we believe that the company deserves to trade at a premium to other finance companies. We are assigning a prospective PER of 14 and deriving a fair value estimate of Bt16.75.

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Figure 1: DM earning summary

	2002	2003	2004F	2005F	2006F
Operating profit (Btmn)	12.2	16.1	31.6	47.3	65.2
Net profit (Btmn)	8.3	11.1	24.3	37.9	52.2
EPS (Bt)	2.09	1.39	1.22	1.89	2.61
BVPS (Bt)	13.15	12.21	8.28	9.42	10.98
DPS (Bt)	0.00	0.35	0.38	0.76	1.04
P/E (x)	8.03	12.08	13.78	8.84	6.42
P/B (x)	1.27	1.37	2.02	1.78	1.53
Dividend Yield (%)	0.00%	2.09%	2.25%	4.52%	6.23%
ROE (%)	15.87%	11.36%	14.69%	20.11%	23.75%

Source: DM and KELIVE Research estimates * Share price is based on fair value estimate of Bt16.75

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Company profile

Dhanamitr Factoring Plc (DM) was established on January 5 1997 with registered capital of Bt20m. The original shareholders were Central Retail Corporation Co., Ltd with a 50% stake, the Siam Commercial Bank Group with 38% and others 12%.

DM's business is to provide short-term working capital by purchasing its customers' receivables at a discounted rate and then collecting its money from its customers' debtors.

DM's business focuses on small and medium-sized enterprises (SMEs), who are suppliers to the large modern trade retailers. This is a highly specialised niche with DM being one of the few finance company providing this service. Also, many of these SME businesses are not in strong enough financial positions to get credit from commercial banks.

Lending risks are somewhat mitigated since the debt is owed by the large retail groups who have strong financial positions, including DM's major shareholder – the Central Group.

Figure 2: DM background

1997	Set up the company on January 5, with registered capital of Bt20mn.
2001	Increase capital from Bt20mn to Bt40mn on July 16
2003	Increase capital from Bt40mn to Bt80mn
2004	Register as public company limited

Source: DM

IPO Terms

DM sold 4mn shares to the public on August 16 and 17 at Bt14.30 per share, raising its paid-up capital to Bt100mn and its premium on share capital to Bt37.2mn. Proceeds will be used to finance business expansion. DM shares are expected to begin trading in the market on August 25.

Figure 3 : DM IPO terms

Paid-up capital (Before IPO)	• Bt80mn
Par	• Bt5.0
Share offer	• 4mn shares newly issued to public
IPO Price	• Bt14.30
Paid up Capital after IPO	• Bt100mn
Use of Proceeds	• Business expansion
	• Working capital
Expected Subscription period	• 16-17 August 2004
Expected listing date	• 25 August 2004:
Lead underwriter	• Sicco Securities Plc
	• Kim Eng Securities (Thailand) Plc.
Financial advisory	• IFCT Advisory Co., Ltd.

Source: DM

Shareholder structure

After the IPO, the equity stake held by the Jirathiwat family, the major shareholders of the Central Group, will be diluted from 60% to 48%. The Thanasathapana Group will see its stake diluted from 10% to 8% and Siam Commercial Bank from 5% to 4%.

Figure 4: DM shareholder structure

		Before IPO		After IPO	
		No. of share	%	No. of share	%
1	Jirathiwat family	9,600,000	60.0%	9,600,000	48.0%
2	Thanasathapana Group	1,600,000	10.0%	1,600,000	8.0%
3	Siam Commercial Bank	800,000	5.0%	800,000	4.0%
4	Mr. Wiwat Kongkasai	800,000	5.0%	800,000	4.0%
5	Hongratanawijit Group	800,000	5.0%	800,000	4.0%
6	Others	2,400,000	15.0%	2,400,000	12.0%
7	IPO investors	--	--	4,000,000	20.0%
	Total	16,000,000	100.0%	20,000,000	100.0%
	Par	Bt5.0		Bt5.0	
	Paid up capital	Bt80mn		Bt100mn	

Source: DM

Factoring business focused on modern trade industry

The retail industry is increasingly becoming oligopolistic with the major retailers, such as Central Department Store, Robinson Department Store, Big C, Lotus, Carrefour, Makro and 7-Eleven, rapidly building market share and taking business away from the traditional mom-and-pop shops.

Given the growth in market share through branch expansion and very competitive pricing, these modern trade franchises have developed very strong negotiating power with the product suppliers, forcing just-in-time delivery and lengthening payment terms. DM's role is to help finance these suppliers by buying their accounts receivables owed to them by the large modern trade retailers at a discount.

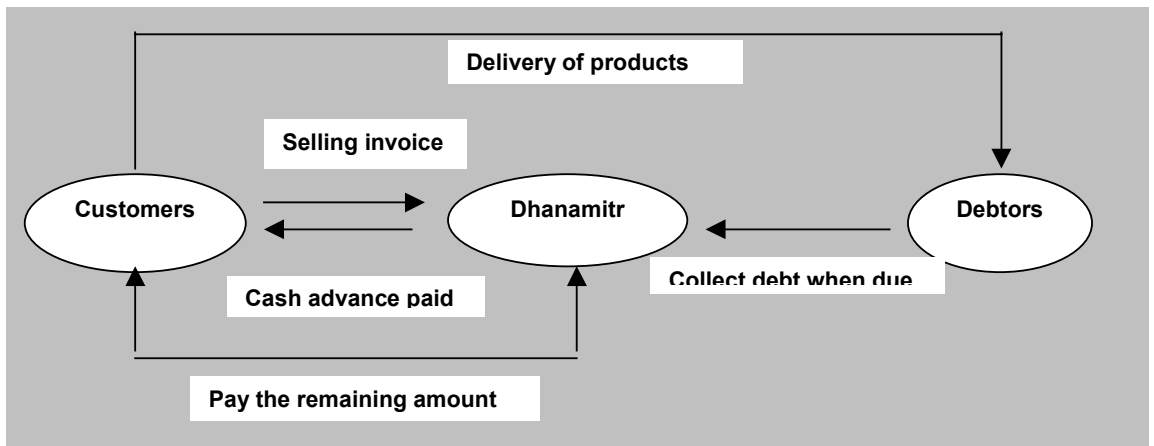
DM's major advantage is that it is backed by the largest retailing group in Thailand – the Central Group – as well as Siam Commercial Bank. Another advantage is that receivables from large retailers outside the Central Group should also be considered very low risk.

DM's profitability is basically determined by the spread in which it can borrow money and the rate at which it discounts the receivables owed by the large retail franchises. DM's average cost of funds is currently 2.5-3.0%, while it discounts the receivables at a rate of 9.0-10.0%. As interest rates turn higher over the next year, we believe that DM will be able to raise the discount factor used to purchase the receivables from its clients.

There are some risks in this type of business since DM provides working capital to its customers without collateral. However, DM has an advantage in mitigating a large portion of these risks through its close contact with the Central Group. We believe that DM will only offer factoring services to quality suppliers with long-standing relationships with the major retailers. In practice, the loan loss is very minimal as the default rate is only 0.1% of total factoring account receivables.

In the factoring business, account receivables are short-term in nature. Therefore, DM's loans to retail suppliers are primarily short-term. DM largely uses short-term borrowings to finance the growth of its business. Currently, DM has credit lines totaling Bt805mn from six financial institutions. DM can maintain its interest spread as it can mark up its discounted (lending) rate in line with its borrowing rate.

Figure 5: Factoring transactions



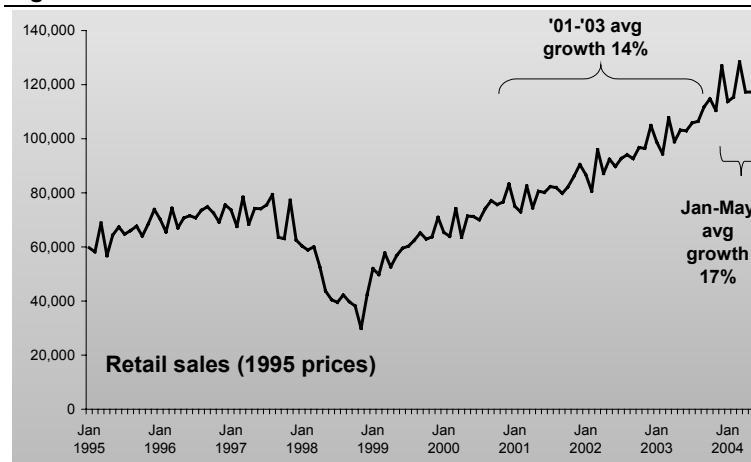
Source DM

Since the accounts paid by the large modern trade stores are quite predictable, the company can efficiently match its lending with its own borrowings. Proceeds from its IPO raising will also help DM to maintain a sufficient equity ratio. DM's debt-to-equity ratio stood at 6.4x at the end of last year and 5.2x in March 2004. For a finance company, this is a sufficient equity-to-asset base of 13.5%.

The growth potential of the company's factoring receivables is tied to the growth in sales of the modern trade stores. Last year, the company's factoring receivables more than doubled to Bt720mn. This year, we are forecasting factoring receivables to grow 63% to Bt1,171mn.

According to the Bank of Thailand, total retail sales increased by an inflation-adjusted 11.8% in 2001, 14.6% in 2002 and 15.5% in 2003. In the first five months of this year, retail sales have further accelerated to 17.7% yoy. The BOT calculates retail sales from VAT collection on all retail trade, excluding motor vehicles and motorcycles. We estimate that the modern trade sector accounts for roughly 40-50% of retail trade.

Figure 6: Growth in retail sales



Source Bank of Thailand

Financial Status

In 2003, DM's business began to expand rapidly with factoring receivables more than doubling from Bt345mn to Bt720mn at the end of last year. The growth was largely financed through borrowings with the company's debt-to-equity ratio increasing to 6.3:1 in December 2003.

With the growth in DM's factoring receivables, factoring income rose 32.2% last year to Bt27.5mn. Meanwhile, the company was able to source cheap financing and interest expenses rose only marginally from Bt6.9mn in 2002 to Bt7.2mn in 2003. As a result, the company's earnings increased to Bt11.1mn last year.

Figure 7: Revenue structure

	2001		2002		2003		2004 (1H04)	
	Btmn	%	Btmn	%	Btmn	%	Btmn	%
Factoring income	13.3	64.3%	20.8	68.1%	27.5	71.7%	20.9	76.4%
Fees and services income	7.3	35.7%	9.7	31.9%	10.6	27.8%	6.2	22.9%
Other income	0	0.0%	0	0.0%	0.2	0.6%	2	0.7%
Total	20.6	100.0%	30.5	100.0%	38.3	100.0%	27.3	100.0%

Source: DM

This year, DM is fully benefiting from last year's growth in its factoring receivables business. In 1H03, the company achieved factoring income growth of 59.9%yoy to Bt20.9mn and earnings growth of 24.8% yoy to Bt8.5mn.

However, factoring receivables dropped slightly to Bt699.6mn in June since the company's peak season tends to be at the end of each year when modern trade stores stock up on merchandise ahead of holiday shopping. The company's debt-to-equity ratio was maintained at 6.3:1.

We believe that DM will achieve full-year 2004 earnings growth of 119% to Bt24.3mn. The main reason is the continuing expansion of its factoring business supported by shareholders and the proceeds raised from its IPO. Furthermore, DM should again see very strong growth in factoring receivables at year-end in line with the sales of the modern trade stores.

Figure 8: DM earnings summary

	2002	2003	2004F	2005F	2006F
Operating profit (Btmn)	12.2	16.1	31.6	47.3	65.2
Net profit (Btmn)	8.3	11.1	24.3	37.9	52.2
EPS (Bt)	2.09	1.39	1.22	1.89	2.61
BVPS (Bt)	13.15	12.21	8.28	9.42	10.98
DPS (Bt)	0.00	0.35	0.38	0.76	1.04
P/E (x)	8.03	12.08	13.78	8.84	6.42
P/B (x)	1.27	1.37	2.02	1.78	1.53
Dividend Yield (%)	0.00%	2.09%	2.25%	4.52%	6.23%
ROE (%)	15.87%	11.36%	14.69%	20.11%	23.75%

Source: DM and KELIVE Research estimates

Figure 9: DM income statement estimates

	2002	2003	2004F	2005F	2006F
Total revenues	30.6	38.3	66.8	103.1	144.7
Factoring income	20.8	27.5	52.4	75.0	105.6
Fees & services income	9.7	10.7	14.0	27.5	37.6
Other income	0.0	0.2	0.3	0.5	1.4
Total expenses	-18.4	-22.2	-35.2	-55.7	-79.5
Interest expenses	-6.9	-7.2	-16.3	-25.5	-36.0
Non-interest expenses	-11.5	-15.1	-18.9	-30.3	-43.5
Operating profit	12.2	16.1	31.6	47.3	65.2
Income tax	-3.8	-5.0	-7.3	-9.5	-13.0
Net profit	8.3	11.1	24.3	37.9	52.2
EPS (Bt)	2.09	1.39	1.22	1.89	2.61
No. of shares (mn)		8.0	16.0	20.0	20.0

Source: DM and KELIVE Research estimates

Figure 10: DM Balance sheet estimates and ratio analysis

	2002	2003	2004F	2005F	2006F
Factoring account receivable - net	345.1	720.0	1,170.9	1,619.1	2,225.1
Total assets	347.8	722.8	1,177.7	1,627.3	2,235.4
ST borrowings	276.1	611.0	809.7	1,151.2	1,612.7
Total liabilities	295.2	625.2	1,012.1	1,439.0	2,015.8
Shareholders' equity	52.6	97.7	165.6	188.3	219.6
Gross profit margin (%)	68.1%	71.7%	78.5%	72.8%	73.0%
Net profit margin (%)	27.3%	28.9%	36.4%	36.7%	36.1%
Earning per share (Bt)	2.09	1.39	1.22	1.89	2.61
Return on equity (%)	15.87%	11.36%	14.69%	20.11%	23.75%
Interest received (%)	8.85%	5.32%	4.48%	4.63%	4.75%
Interest paid (%)	3.42%	1.58%	2.01%	2.09%	2.09%
Net interest margin (%)	5.43%	3.74%	2.47%	2.54%	2.65%
Return on assets (%)	3.1%	2.1%	2.6%	2.7%	2.7%
Debt to Equity (x)	5.6	6.4	6.1	7.6	9.2
Dividend payout (%)	71.9%	90.2%	50.0%	50.0%	50.0%

Source: DM and KELIVE Research estimates

Valuation

Given DM's strong growth prospects, we estimate the company's fair market value at Bt16.75/share, based on a 2004 PER of 14x and price/book value of 2.0x. Based on this fair value estimate, our earnings forecast and an assumed 50% dividend payout ratio, the stock would offer a dividend yield of 2.25%.

There are no perfect listed comparables to DM on our coverage list since DM has its own unique niche in the finance market. We believe the best comparables are other high growth financial companies, such as KTC, AEONTS and TK. As of August 16, KTC's 2004 PER stood at 8.59x, AEONTS at 11.35x and TK at 7.90x. Our fair value estimate for these three companies are PERs of 12x, 13x and 12x, respectively.

We are assigning a higher PER rating for DM this year since the company is in the very early phase of its growth. Based on our earnings growth projection of 56% for 2005, DM would be on a 2005 PER of 8.84x, much more in line with the average PER rating for the three comparables of 7.41x.

Figure 11: PER comparison table (price as of Aug 16, 2004)

	PER		2004 target	P/BVPS	
	2004F	2005F		2004F	2005F
KTC	8.59	5.36	13.00	1.08	0.96
AEONTS	11.35	9.87	12.00	3.17	2.59
TK	7.90	7.00	12.00	1.63	1.43
Average	9.28	7.41	12.30	1.96	1.66

Source: DM and KELIVE Research estimates

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