

August 19, 2004

## Aapico Hitech Plc. (AH)

**NEW :** L-T BUY  
**PREVIOUS :** L-T BUY

**VEHICLE**

### 2Q04 earnings strong driven by frames, expect second half to continue, revised earnings and target

**Price Target**

**Bt29.75** Aapico Hitech (AH) announced strong 2Q04 earnings of Bt182mn (EPS **Bt40.00** Bt0.76), up 15% qoq and 274% yoy. This was due to Aapico Amata sales input. The company, purchased in June 2003, performed well above target and generated high income for AH.

Second quarter sales remained strong at Bt1,562mn up 7% and 152% yoy. The major sales contributor remains frames for the D-max and Colorado pickups, which account for around 47% of total sales. In this quarter, frames continued up by 14% qoq to 56,156 units.

Analyst: Surachai  
 Pramualcharoenkit  
 Tel : 0-2658-6300 Ext  
 1420  
 E-mail:  
 Surachai.p@kimeng.co.th

Currently, AH produces frames for the Isuzu D-Max and the Chevrolet Colorado pickup at nearly 20,000 units per month. Management has targeted frame sales at 230,000 units for this year, after first half sales of 105,622 units and up to 270,000 units next year.

#### AH Quarterly earnings (Btmn)

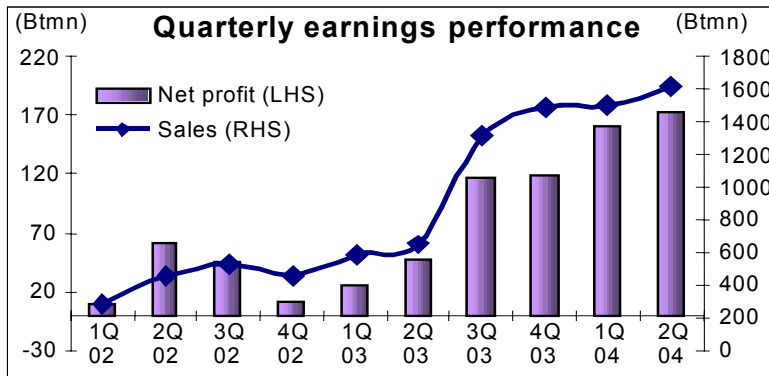
	2Q04	1Q04	qoq	2Q03	yoy	1H04	yoy	1H/04F
Sales	1,562	1,462	7%	620	152%	3,024	155%	47%
Other Income	44	35	27%	24	84%	78	124%	56%
COGS	1,290	1,202	7%	563	129%	2,492	131%	47%
Depreciation & amortisation	81	75	8%	12	595%	155	591%	52%
Gross profit	191	186	3%	45	321%	377	326%	46%
Gross margin (%)	12.2%	12.7%	-	7.3%	-	12.5%	-	-
SG&A	54	59	-10%	33	65%	113	90%	45%
SG&A/Sales (%)	3.4%	4.1%	-	5%	-	3.7%	-	-
EBITDA	262	236	11%	48	443%	498	475%	49%
EBITDA margin (%)	16.8%	16.1%	-	7.8%	-	16.5%	-	-
Interest expense	14	14	-3%	2	485%	28	582%	51%
Net profit before extra item	172	159	8%	47.5	262%	331	352%	48%
Extra item	10	(1)	nm	1.0	822%	9	323%	100%
Net profit	182	158	15%	48.5	274%	340	351%	49%
EPS (Bt) before extra item	0.72	0.66	8%	0.23	217%	1.38	295%	48%
EPS (Bt)	0.76	0.66	15%	0.23	228%	1.42	294%	49%

Source : AH reports and KeLive estimates. / Note: COGS does not include depreciation and amortisation

#### AH Quarterly sales breakdown (Btmn)

	2Q03	3Q03	4Q03	1Q04	2Q04	%qoq	%yoy
Total Sales	619.4	1,281.6	1,462.1	1,462.1	1,561.6	7%	152%
Jigs	56.8	17.5	55.0	9.8	30.5	213%	-46%
OEM Autoparts + Dies	168.2	191.0	221.9	216.6	227.2	5%	35%
Car Dealerships	394.5	493.0	559.2	558.0	573.9	3%	45%
Frames	-	580.0	626.0	677.7	730.0	8%	nm
%Portion							
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%		
Jigs	9.2%	1.4%	3.8%	0.7%	2.0%		
OEM Autoparts + Dies	27.1%	14.9%	15.2%	14.8%	14.5%		
Car Dealerships	63.7%	38.5%	38.2%	38.2%	36.8%		
Frames	0.0%	45.3%	42.8%	46.4%	46.7%		

Source : AH



Source : AH

The gross margin was stable at 12.2%, slightly down from 12.7% in the first quarter, but better than the previous year of 7.3%. The significant improvement of gross margin from the previous year is due to the greater portion of frames and a smaller portion of car sales in the top line.

For the second half of 2004 and for the year total, we expect sales and earnings to continue to show strong growth from (1) the inclusion of new revenue from rising frame sales, especially for the popular D-max, which has strong growth potential for both domestic and export sales, which management targets sales of 230,000 units, up from 90,000 units last year, (2) new OEM auto parts volume growth inline with auto industry growth from the Toyota IMV project and Isuzu export models and (3) new jig orders of Bt333mn, that will be delivered in the third and fourth quarters.

With growth in client orders, AH plans to invest Bt500mn to build a new factory on 15 rai of land next to the current factory, which expected to be built this third quarter. The new plant will be the same size as the current plant. In addition, AH plans to invest around Bt100mn per year to invest in Aapico Amata to increase capacity. AH plans to use current operating cash flow for the source of funds wherein AH can currently generate operating cash flow of nearly Bt1,000mn per year.

To reflect the strong earnings performance in the first half of this year and the second half, which should continue to be strong, we have revised up our 2004 sales to Bt6,456mn from Bt5,892mn and the net profit to Bt698mn from Bt623mn.

The current price of AH is trading at a 2004 PER of 10.2x with an EV/EBITDA 8.2x, which is not expensive when compared with the high growth potential. We have also revised up our fair value to Bt40 from Bt35, which is based on our DCF and trading on a PER of 13.7x. Overall, we are maintaining our recommendation of "LONG-TERM BUY".

#### AH Earnings Summary

	2001	2002	2003	2004F	2005F	2006F
Sales (Btmn)	1,200	1,674	3,933	6,456	6,778	7,117
EBITDA (Btmn)	89	197	508	1,011	1,018	1,030
Normalised earnings (Btmn)	25	128	309	689	705	767
Earnings (Btmn)	19	132	310	698	705	767
EPS (Bt)	0.15	0.89	1.45	2.91	2.94	3.19
PER (x)	198.7	33.4	20.6	10.2	10.1	9.3
EV/EBITDA (x)	46.9	22.2	15.3	8.2	7.4	6.8
BVPS (Bt)	1.3	3.9	6.8	8.8	11.0	13.0
P/BV (x)	22.3	7.7	4.4	3.4	2.7	2.3
DPS (Bt)	-	0.09	0.26	0.73	1.18	1.28
Dividend yield (%)	0.0%	0.3%	0.9%	2.4%	4.0%	4.3%
Net debt/equity (x)	1.6	Cash	0.9	0.6	0.2	Cash
ROA (%)	3.0%	14.9%	12.2%	16.3%	16.2%	18.3%
ROE (%)	11.9%	35.3%	30.5%	39.2%	29.8%	26.6%
No. Share (mn)	130.0	148.6	214.5	240.0	240.0	240.0

Source : AH and KELIVE Research estimates.

#### **Singapore**

Kim Eng Securities  
(Private) Limited  
(Member of the SES)  
9 Temasek Boulevard  
#39-00 Suntec Tower 2  
Singapore 038989  
Telephone: 65 6336 9090  
Telex: KESECS RS 25871  
& RS 21857  
Facsimile: 65 6339 6003

#### **London**

Kim Eng Securities  
(London) Limited  
(Member of the FSA)  
6<sup>th</sup> Floor, 20 St. Dunstan's Hill  
London EC3R 8HY, UK  
Telephone: 20 7621 9298  
Dealers' telephone: 20 7626 2828  
Facsimile: 20 7283 6674

#### **New York**

Kim Eng Securities USA Inc  
(Member of the NASD)  
406, East 50<sup>th</sup> Street  
New York, NY 10022  
U.S.A.  
Telephone: 212 688 8886  
Facsimile: 212 688 3500

#### **Hong Kong**

Kim Eng Securities  
(Hong Kong) Limited  
(Exchange Participant)  
Room 1901, Bank of America  
Tower 12 Harcourt Road  
Central, Hong Kong  
Telephone: 852 2810 7755  
Telex: KIMEN HX 68698  
Facsimile: 852 2877 0104

#### **Malaysia**

Kim Eng Research Sdn Bhd  
(Formerly known as  
Mutual Scope Sdn Bhd)  
Co. No. 274244V  
Suite 16.02, 16<sup>th</sup> Floor  
Kompleks Antarabangsa  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia  
Telephone: 603 2141 1555  
Facsimile: 603 2141 1045

#### **Indonesia**

PT Kim Eng Securities  
9<sup>th</sup> Floor, Deutsche Bank Bldg  
Jl. Imam Bonjol 80  
Jakarta 10310  
Indonesia  
Telephone: 62 21 3983 1360  
Facsimile: 62 21 3983 1361

#### **Philippines**

ATR-Kim Eng Securities, Inc.  
(Member of the PSE)  
17<sup>th</sup> Floor Tower One &  
Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines  
Telephone: 63 2 849 8888  
Facsimile: 63 2 848 5738

#### **Thailand**

Kim Eng Securities (Thailand)  
Limited  
(Member of the SET)  
10<sup>th</sup> Floor, Mercury Tower  
540 Ploenchit Road  
Bangkok 10330  
Thailand  
Telephone: 66 2 658 6300  
Facsimile: 66 2 658 6384

#### **Taiwan**

Yuanta Core Pacific Securities  
11/F, No 225, Nanking East Rd  
Section 3 Taipei  
Taiwan  
Telephone: 63 2 849 8888  
Facsimile: 63 2 848 5738

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