

August 20, 2004

## Italian-Thai Development (ITD)

 New : BUY  
 Previous : BUY

### Construction

### Backlog surges 62% YTD to nearly Bt65bn

 Price  
 Target

 Bt 7.55  
 Bt11.50

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Since the beginning of this year, ITD has won total construction contracts worth Bt27.43bn. The company is also confident of securing Bt40bn in new contracts within this year. ITD's backlog has surged 62% YTD to Bt64.82bn. New projects worth Bt6.95bn were signed during July to August 10 in addition to the company being awarded projects worth Bt9.19bn. The current backlog accounts for 164% of our 2005 sales projection. Moreover, ITD has also submitted the lowest bids for additional projects worth a combined Bt7.31bn.

ITD's gross margins widened significantly in 2Q04 to 9.8% from 6.5% in the first three months. This was due to a higher revenue contributions and improved margins from subsidiaries. ITD's subsidiaries are involved in various aspects of construction including piling and foundation work and steel pipe production. Despite the improvement in margins in 2Q04, we are maintaining our gross margins assumption at 8.5% for 2004 and 11.2% in 2005 given recent rises in raw material costs, especially steel prices.

Given its expanding backlog, ITD's revenue is projected to surge 51% to Bt27.1bn in 2004 and 46% to Bt39.5bn in 2005. We expect earnings to grow 49% to Bt1.38bn in 2004 and 134% to Bt3.22bn in 2005. Our fair value estimate for ITD is Bt11.5/share, which is based on a 2005 PER of 15x. Given its potential upside of 52%, we reiterate our **BUY** recommendation on the stock.

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#### ITD Earnings Summary

Year to Dec	2001	2002	2003	2004F	2005F
Sales (Btmn)	17,936	21,034	17,920	27,075	39,468
Net profit (Bt)	(2,528)	6,336	921	1,376	3,217
EPS (Bt)	(0.92)	2.31	0.25	0.33	0.77
Growth (%)	36%	351%	(89%)	33%	134%
DPS (Bt)	-	-	0.05	0.07	0.15
CF/share(Bt)	0.2	0.6	0.5	0.6	1.0
PER (X)	-	3.3	30.7	23.0	9.8
BVPS (Bt)	(0.3)	3.4	2.8	3.9	4.6
EV/EBITDA (x)	27.2	13.6	16.9	14.5	7.8
Dividend Yield (%)	0.0%	0.0%	0.7%	0.9%	2.0%

Source: Company reports and KeLive estimates.

### Backlog rises by Bt27.4bn so far this year

Since the beginning of this year, ITD has secured new construction contracts worth a total Bt27.43bn. This has boosted its backlog from Bt39.97bn at end-2003 to Bt64.82bn. In addition, management expects to win about Bt40bn in new projects later this year.

ITD signed new projects worth Bt6.95bn during July to August 10. It was also awarded projects worth a combined Bt9.19bn during this period. Moreover ITD has also submitted the lowest bids for projects with a total value of Bt7.31bn.

<b>Total backlog, new projects signed, awarded and lowest bids</b>	
<b>Projects</b>	<b>Remaining Value (Btmn)</b>
<b>Backlog orders as of June 30, 2004</b>	
Building	8,862
Industrial plant and factories	461
Pipeline works, utilities and earth works	2,582
Highways, railways, mass transit, bridges and expressways	9,623
Airport, jetty, deep-seaport and marine works	13,859
Power plants, hydro-electric dams and tunnels	6,329
Steel structures	43
Mining	6,923
Subtotal	48,682
<b>New projects signed in July – August 10, 2004</b>	
South tunnel extension project	3,424
Bank of Thailand new head office	1,580
BMA flyover bridge group 3	880
BMA flyover bridge group 4	748
Others	320
Subtotal	6,952
<b>Awarded projects as of August 10, 2004</b>	
Nam Thuen II hydroelectric dam, Laos	8,030
Riverside Garden Marina	959
Others	200
Subtotal	9,189
<b>Total</b>	<b>64,823</b>
<b>Lowest bid projects as of August 10, 2004</b>	
Turnkey of Aua Arthon housing projects	3,630
Ramkhamhaeng elevated way (Lamsalee-Bangchan)	1,700
Marcos highway, Philippines	927
Others	1,050
Subtotal	7,307

Source: ITD

### High potential to win new infrastructure projects

ITD has a good chance to win the following projects given its position as the largest contractor in Thailand and strong track record in public sector projects.

- NBIA airport link project** This project, which has already received Cabinet approval, is an extension to the Skytrain system linking Suvarnabhumi airport to central Bangkok. Construction costs account for more than 50% of the total project value of Bt26bn. ITD will submit its bid in October. Given that the company was the builder and part owner of the Skytrain and has a proven track record with the State Railway of Thailand, ITD has a strong chance of winning the tender.
- MRTA – Blue line (subway expansion)** This project will extend the rail system from the existing subway and create a closed loop in the rail-transit system. The project's construction value is about Bt42bn. Among Thai contractors, only ITD and CK have experience in subway system construction. This project is currently under the design phase and should be ready for tender at the beginning of next year. This project should have good margins due to limited competition.

### Subsidiaries boost gross margins in 2Q04

ITD's construction business saw relatively stable gross margins of about 6.75% in 1H04. Margins of its subsidiaries, which are involved in piling and foundation works, steel pipe production and construction, tend to be volatile. Gross margins of subsidiaries jumped to 16.2% in 2Q04 from a lowly 5.7% in 1Q04. With higher gross margins and bigger revenue contributions from subsidiaries, consolidated gross margins widened to 9.8% in 2Q04 from 6.5% in the previous quarter. Nonetheless, we are maintaining our gross margins estimate at 8.5% in 2004 and 11.2% in 2005 given recent rises in raw material cost, especially steel prices. The average steel rebar price has risen to Bt20.0-21.0/kg from Bt16.5/kg in May-June.

	Consolidated	The company only	Subsidiaries	% of revenue from subsidiaries
<b>1Q04</b>				
Revenue from construction	4,690	3,584	1,106	24%
Cost of construction	4,387	3,344	1,043	
Gross margins	6.5%	6.7%	5.7%	
<b>2Q04</b>				
Revenue from construction	6,018	4,092	1,926	32%
Cost of construction	5,428	3,814	1,614	
Gross margins	9.8%	6.8%	16.2%	

Source: Company reports and KeLive estimates.

<b>Income statement</b>						
	<b>(Btmn)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004F</b>	<b>2005F</b>
Sales		17,936	21,034	17,920	27,075	39,468
COGS		16,424	18,861	16,025	24,774	35,048
<b>Gross profit</b>		<b>1,512</b>	<b>2,173</b>	<b>1,895</b>	<b>2,301</b>	<b>4,420</b>
SG&A		1,280	855	786	812	868
<b>Operating profit</b>		<b>232</b>	<b>1,318</b>	<b>1,109</b>	<b>1,489</b>	<b>3,552</b>
Interest expenses		1,225	647	240	327	298
Other income		498	397	285	362	513
Pretax profits		(495)	1,068	1,154	1,524	3,766
Income taxes		118	229	265	274	565
Associate earnings		(89)	(9)	(4)	17	38
Minority interest		56	8	39	15	23
Extraordinary items		(1,770)	5,514	74	125	-
<b>Net income</b>		<b>(2,528)</b>	<b>6,336</b>	<b>921</b>	<b>1,376</b>	<b>3,217</b>
<b>Balance sheet</b>						
		<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004F</b>	<b>2005F</b>
Cash equivalents		4,603	3,323	2,551	1,774	553
Receivables		3,589	3,986	3,578	4,525	4,974
Inventories		2,019	4,075	5,301	6,176	6,913
Investment		2,774	956	1,242	2,742	3,632
Fixed assets		6,788	8,447	8,727	9,920	10,807
<b>Total assets</b>		<b>22,427</b>	<b>24,131</b>	<b>25,350</b>	<b>31,333</b>	<b>34,354</b>
Credits		5,509	5,343	4,469	4,751	5,569
ST-debts		6,418	1,854	2,448	2,994	2,849
LT-debts		6,231	4,005	3,451	2,791	2,220
Other liability		5,124	3,565	4,476	4,551	4,529
<b>Total liabilities</b>		<b>23,227</b>	<b>14,710</b>	<b>14,753</b>	<b>15,012</b>	<b>15,114</b>
<b>Equities</b>		<b>(856)</b>	<b>9,365</b>	<b>10,507</b>	<b>16,246</b>	<b>19,187</b>
<b>Cash flow statement</b>						
	<b>(Btmn)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004F</b>	<b>2005F</b>
Net profit		(2,528)	6,336	921	1,376	3,217
Depre. / Amort.		1,105	1,194	960	973	1,086
Net working cap.		7	(2,620)	(1,692)	(1,540)	(368)
Unrealised F/X		(98)	127	60	-	-
<b>Cash flow from operations</b>		<b>2,158</b>	<b>(591)</b>	<b>372</b>	<b>(1,661)</b>	<b>2,743</b>
CAPEX		(1,587)	(2,853)	(1,240)	(2,166)	(1,973)
Investment		(1,013)	(1,818)	286	(1,500)	(890)
<b>Cash flow from investing</b>		<b>66</b>	<b>(3,272)</b>	<b>(1,261)</b>	<b>(3,666)</b>	<b>(2,863)</b>
Debt movement		(271)	(6,790)	40	(114)	(716)
Capital call		-	(2,715)	-	4,550	-
Dividend paid		-	-	(125)	(187)	(275)
<b>Cash flow from financing</b>		<b>(271)</b>	<b>2,583</b>	<b>117</b>	<b>4,249</b>	<b>(991)</b>
<b>Free cash flow</b>		<b>571</b>	<b>(3,444)</b>	<b>(868)</b>	<b>(3,827)</b>	<b>769</b>
<b>Financial ratios</b>						
		<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004F</b>	<b>2005F</b>
Gross margin		8.4%	10.3%	10.6%	8.5%	11.2%
Operating margins		1.3%	6.3%	6.2%	5.5%	9.0%
Net gearing (X)		(9.40)	0.27	0.32	0.25	0.24
Interest coverage (X)		0.7	1.9	5.6	5.7	13.6
Inventory days		45	79	121	91	72
Collection days		73	69	73	61	46
Payment days		122	103	102	70	58

Source: Company reports and KeLive estimates

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