

Interlink Communication Plc.

(ILINK.BK/ILINK TB)

Outperform Maintained

Price as of 11 May 2016	15.6
12M target price (Bt/shr)	22.0
Unchanged / Revised up (down) (%)	-
Upside/downside (%)	41.0

Key messages

ILINK reported 1Q16 earnings of Bt59.7mn, down 46% YoY but up 87% QoQ. The result was in line with our forecast. Therefore, we are maintaining our 2016 earnings forecast of Bt335mn, up 26% YoY. The key driver this year will be the Samui Island project which will be bid in June-July 2016, and could put 4Q16 net profit at Bt100mn-Bt200mn. We maintain our rating of Outperform with a target price of Bt22.00.

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1Q16 earnings review: As expected

Event

ILINK posted 1Q16 earnings of Bt59.7mn, down 46% YoY but up 87% QoQ, in line with our forecast of Bt58mn.

Impact

Revenues were in line

ILINK's cabling trading made up 72% of total revenue. The unit reported revenues of Bt518mn, up 21% YoY thanks to the demand for fiber optic from the rollout of 3G/4G networks. Revenues from engineering projects remained soft as the backlog was almost depleted. ILINK will build up its backlog again if it wins the auction for the underground line project, Nonsee project (excluded from our forecast) or submarine cable project to Samui Island (included in our forecast). For telecom revenues, data center was the main booster, rising 68% YoY as its utilization rate has now gone up to 85%. Meanwhile, EPC revenues from FTTX work made Bt61mn in the quarter while another Bt108mn will continue to be realized as percentage of completion going forward.

Maintain solid 2016 forecast relying on project backlog

Since actual revenues reported were in line with our forecast while GPM and SG&A to revenues were in the average range, we are maintaining our full-year forecast of Bt335mn, up 26% YoY. The key driver this year apart from great recurring revenue from cabling trading was engineering projects. We expect ILINK to get the submarine cable project to Samui Island, and this could put 4Q16 net profit at about Bt100mn-Bt200mn depending on the expected net profit margin of 10%-20%. Meanwhile, ILINK's board has approved investment in a second data center (Genesis), partnered with Advanced Information Technology (AIT.BK/AIT TB) and WHA Corporation (WHA.BK/WHA TB)*. This project should consist of 600 racks (200 racks presold) and is expected to be initiated in early 2017.

Valuation and action

We maintain our rating of Outperform for ILINK with a target price (fully-diluted) of Bt22.00 based on PER at 24x (+1 S.D. from 3 year trailing average).

Risks

Unexpected failure or delay in potential projects.

Figure 1: 1Q16 net profit of Bt59.7mn, down 46% YoY but up 87% QoQ

Bt mn	1Q16	1Q15	YoY (%)	4Q15	QoQ (%)	Comments
Revenue	720	957	(24.8)	671	7.3	Dropped YoY due to much lower revenues from engineering project
Cost of Goods Sold	(547)	(735)	(25.5)	(517)	5.9	
Gross Profit	172	223	(22.6)	154	12.0	
Operating Expenses	(93)	(85)	9.3	(105)	(11.9)	
Other Incomes	6	7	(15.3)	10	(39.9)	
Operating Profit	86	145	(40.9)	59	46.1	
Depreciation of fixed assets	(33)	(23)	46.4	(37)	(9.3)	
Operating EBITDA	113	161	(29.7)	85	32.3	
Interest Expenses	(10)	(6)	77.6	(16)	(37.5)	
Pre-tax Profit	75	139	(45.9)	42	78.7	
Current taxation	(16)	(27)	(42.6)	(10)	(52.3)	
Minorities	0	(1)	111.0	0	94.0	
Extraordinary items	-	-	-	-	-	
Net Profit	60	111	(46.2)	32	87.2	
EPS (Bt)	0.18	0.42	(58.1)	0.10	87.2	
Percent	1Q16	1Q15	YoY (ppts)	4Q15	QoQ (ppts)	
Gross margin	23.9	23.3	0.7	22.9	1.0	Slightly improvement in margin was due to higher selling cable price
SG&A/sales	12.9	8.8	4.0	15.7	(2.8)	
Effective tax rate	20.9	19.7	1.2	24.5	(3.6)	

Source: Company data, KGI Research estimates

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Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
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Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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