

THESIS

Fundamental Analysis of EDL Generation Public Company
in the Stock Exchange of Laos



Compiled by:

Vannaphone KEOKOUNNAVONG

Sdut.Id: 10.1571/PS/MM

MASTER OF MANAGEMENT
POSTGRADUATE PROGRAM
ATMA JAYA UNIVERSITY YOGYAKARTA

2013



ATMA JAYA UNIVERSITY YOGYAKARTA

POSTGRADUATE PROGRAM

MASTER OF MANAGEMENT

THESIS APPROVAL

Name : VANNAPHONE KEOKOUNNAVONG
Student ID : 115001571 / PS / MM
Major : Finance
Title of Thesis : Fundamental Analysis of EDL Generation Public
Company in the Stock Exchange of Laos

Supervisor's Names

Date

Signature

Prof. Dr. J. Sukmawati Sukamulja

July 10, 2013



ATMA JAYA UNIVERSITY YOGYAKARTA
POSTGRADUATE PROGRAM
MASTER OF MANAGEMENT

THESIS APPROVAL

Name : VANNAPHONE KEOKOUNNAVONG
Student ID : 115001571 / PS / MM
Major : Finance
Title of Thesis : Fundamental Analysis of EDL Generation Public Company in the
Stock Exchange of Laos

Examiner Names	Date	Signature
Prof. Dr. J. Sukmawati Sukamulja	July 10, 2013	
Dr. I Putu Sugiarta S., SE., M.Si.	July 16, 2013	
Felix Wisnu Isdaryadi, Drs., MBA	July 16, 2013	

Yogyakarta, July 17, 2013

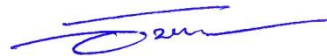
Master of Management Program Head,

Dr. M. Parnawa Putranta, MBA., Ph.D.

AUTHENTICITY STATEMENT

This is to certify that the study done on “Fundamental Analysis of EDL Generation Public Company in the Stock Exchange of Laos” is an honest work carried out by Vannaphone KEOKOUNNAVONG under my own thinking and writing. The thesis is submitted for the fulfillment of a two-year program for obtaining the Master Degree of Financial Management. This work has not been submitted anywhere else for any other degree.

Yogyakarta, July 10, 2013



Vannaphone KEOKOUNNAVONG

ACKNOWLEDGEMENT

This study was completed well due to the benign assistance of eminent persons. The help and co-ordination that I have received from various kinds achieving this work make me feel deeply indebted. This is not a work of only individual deeds, but of a number of persons who helped me directly or indirectly. So, I wish to express gratefulness to all those who have helped and assisted me in bringing the final shape of this study.

I wish to express my deepest gratitude to the Faculty of Economics mostly the Head of Master of Management Program and his Staff for their help and support during my studies at Atma Jaya University Yogyakarta. I would especially thank to my supervisor Prof. Dr. J. Sukmawati S, MM. for the valuable guidance, advice, encouragement, and kindness alongside the period of this study by helping me in my research. I am thankful to my examiners and lecturers' team for their comments and advices which are great part for completing this study. I would like to thank also my family and friends who have encouraged me.

With love,

CONTENTS

AUTHENTICITY ACKNOWLEDGEMENT	i
ACKNOWLEDGEMENT	iv
CONTENTS	v
LIST OF TABLE	xi
LIST OF FIGURE	xii
LIST OF APPENDIX	xiii
ABSTRACT	xvii
INTISARI	xviii
CHAPTER 1	1
INTRODUCTION	1
1.1 Background of the Study	3
1.2 Problem Identification	9
1.3 Objective of the Study	10
1.4 Significance of the Research.....	10
1.6 Limitations of the Study	11
1.7 Conceptual Frameworks	11
1.8 Data Collection	12

1.9	Reporting System.....	12
CHAPTER 2		14
THEORY AND LITERATURE REVIEW.....		14
2.1	Theoretical Reviews	14
2.1.1	Fundamental Analysis.....	14
2.1.2	The Major Financial Statements	19
2.1.3	Financial Ratios	20
2.1.4	Vertical (Common size) Analysis.....	26
2.1.5	Statement of Cash Flows	27
2.1.6	Holding Period Return (HPR).....	27
2.1.7	Risk and Return	28
2.1.8	Free Cash Flow	30
2.1.9	Approaches to the Valuation of Common Stock	31
2.1.10	Discounted Cash flow Model	32
2.1.11	Discounted Cash Flow Approaches	33
2.1.12	Intrinsic Value.....	35
2.1.13	Intrinsic Value and Market Price	35
2.1.14	Time Series Model.....	36

2.2	Literature Review	37
CHAPTER 3		42
RESEARCH METHOD		42
3.1	Data Gathering and Sample Selection	42
3.2	Sources of Secondary Data	43
3.3	Research Variable	43
3.3.1	Independent Variable	43
3.3.2	Dependent Variable	43
3.3	Steps of Analysis	44
3.3.1	Economic Analysis	44
3.3.2	Industry Analysis	45
3.3.3	Company Analysis	46
3.4	Financial Statements	48
3.4.1	Balance Sheet Analysis by Using Common Size Model	48
3.4.2	Income Statement Analysis by Using Common Size Model	48
3.4.3	The Cash-Flow Statement	48
3.5	Ratio Analysis	49
3.5.1	Leverage Ratios	49

3.5.2	Asset Utilization	50
3.5.3	Profitability Ratios	50
3.5.4	Liquidity Ratios	51
3.5.5	Market Price Ratio	51
3.6	Evaluation of the Company's Stock	51
3.6.1	Calculation FCFF from CFO	52
3.6.2	Discounted Cash Flow with the weight Average Cost of Capital	53
3.6.3	The Weighted Average Cost of Capital	55
3.6.4	Calculation of the Terminal Value.....	57
3.6.5	The Intrinsic Value of the Company Value	59
3.7	Determination of Securities Rate Risk of Return Using HPR Model....	59
3.7.1	EDL-Gen Rate of Return	59
3.7.2	EDL-Gen of Rate of Risk	60
CHAPTER 4		61
DATA ANALYSIS		61
4.1	Economy Analysis	61
4.1.1	Analysis of ASEAN Economic.....	61
4.2	Overview of Laos Economic	67

4.2.1	Driven Factors of the Laos Economic Growth	73
4.3	Overview of the Laos Economic Partners	77
4.3.1	Vietnam Economic	77
4.3.2	Thailand Economic	80
4.3.3	Cambodia Economic	84
4.4	Analysis of Hydropower Industry.....	88
4.4.1	Analysis of the Factors Effecting to Industry Performance.....	88
4.4.2	Hydropower Industry Situation	91
4.5	Analysis of EDL-Gen Company	98
4.5.1	Company Qualitative Analysis	98
4.5.2	Quantitative Analysis.....	108
4.5.3	Ratio Financial Statement.....	118
4.6	Company's Stock Valuation	121
4.7	Result of the Risk and Return Rate.....	123
CHAPTER 5		125
CONCLUSION AND SUGGESTIONS		125
5.1	Summary	125
5.2	Conclusion	125

5.3	Recommendations.....	127
5.4	Limitations and Further Research.....	129
	REFERENCES.....	xvi



LIST OF TABLE

Table 1: Growth rate of power demand in ASEAN countries	66
Table 2: Development of Power Sources.....	78
Table 3: Electricity consumption and generation	82
Table 4: Electricity generation, household and consumption per capita	87
Table 5: Statistics of energy imported from neighboring countries.....	96
Table 6: Statistics of installed capacity and generation per year	103
Table 7: Total Generation in 2010-11.....	104
Table 8: Total Generation in 2012 (GWh).....	105
Table 9: Total energy sale in 2012.....	105
Table 10: Statement of financial position	108
Table 11: Statement of Income	111
Table 12: Statement of Cash Flow	114
Table 13: Result of Ratios Analysis.....	118
Table 14: Intrinsic value calculation.....	121
Table 15: Result of risk and return rate.....	124

LIST OF FIGURE

Figure 1: Yearly closing price index 2011-2012	8
Figure 2: Conceptual Framework	11
Figure 3: Progress on ASEAN Interconnection Projects	66
Figure 4: Country Electricity Generation from 1975 to Year 2020	75
Figure 5: Growth of Tourism	76
Figure 6: Fuel consumption for electric generation 2012	83
Figure 7: Proportion of energy sent out by sources in 2010	86
Figure 8: Electricity consumption in different sectors in BaU scenario	89
Figure 9: Forecast electricity capacity and consumption demand	94
Figure 10: Generation, import, export and domestic sale 1990-2010.....	95
Figure 11: Equity structure	101
Figure 12: Capital structure.....	102

LIST OF APPENDIX

Appendix 1: Statement of Financial Position by Common-size Model

Appendix 2: Statement of Income by Common-Size model

Appendix 3: Statement of Cash flow by Common-Size Model

Appendix 4: Result of Ratios Analysis

Appendix 5: Calculation Fair Value

Appendix 6: Calculation Return by Holding Period Return Model (HPR)

Appendix 7: Result of Risk and Return

Appendix 8: Calculation Betaby SPSS

ABBREVIATION AND SYMBOLS

ASEAN: Association of Southeast Asian Nations

APS: Alternative Policy Scenario

ADB: ASIAN Development Bank

Avg: Average

BN: Billion Tons

BOL: Bank of the Lao PDR

BAU: Business as Usual Scenario

CPI: Consumption Price Index

CAGR: Compound Annual Growth Rate

Capex: Capital expenditures

CA: Concession Agreement

D&A : Depreciation and Amortization

DCF: Discount Free Cash Flow

EV: Enterprise Value

EAC: Electricity Authority of Cambodia

FCFF: Free Cash Flow to the Firm

FY: Fiscal Year

FDI: Foreign Direct Investment

FFRC: Finland Futures Research Center

G: Growth rate

GMS: Greater Mekong Sub-region

GDP: Gross Domestic Product

GOL: Government of the Lao People's Democratic Republic

GWh: Gigawatt-hour

GNV: Vietnam Government

IMF: International Monetary Fund

IPP: Independent Power Producers

K: Discount rate

KWh: Killowatt-hour

KTOE: Thousand tons of oil equivalent

LAK: Currency Lao kip

LSX: Lao Securities Exchange

Lao PDR: Lao People's Democratic Republic

MN: Million Tons

MTOE: Million Tons of Oil Equivalents

MIME: Mines and Energy

MWh: Megawatt-hour

MDGs: Millennium Development Goals

NSDP: Laos' 7th National Social-Economic Development Plan

OCF: Operating Free Cash Flow

OMOs: Open Market Operation

RE: Renewable Energy (RE) Electricity

RR: Retention Rate

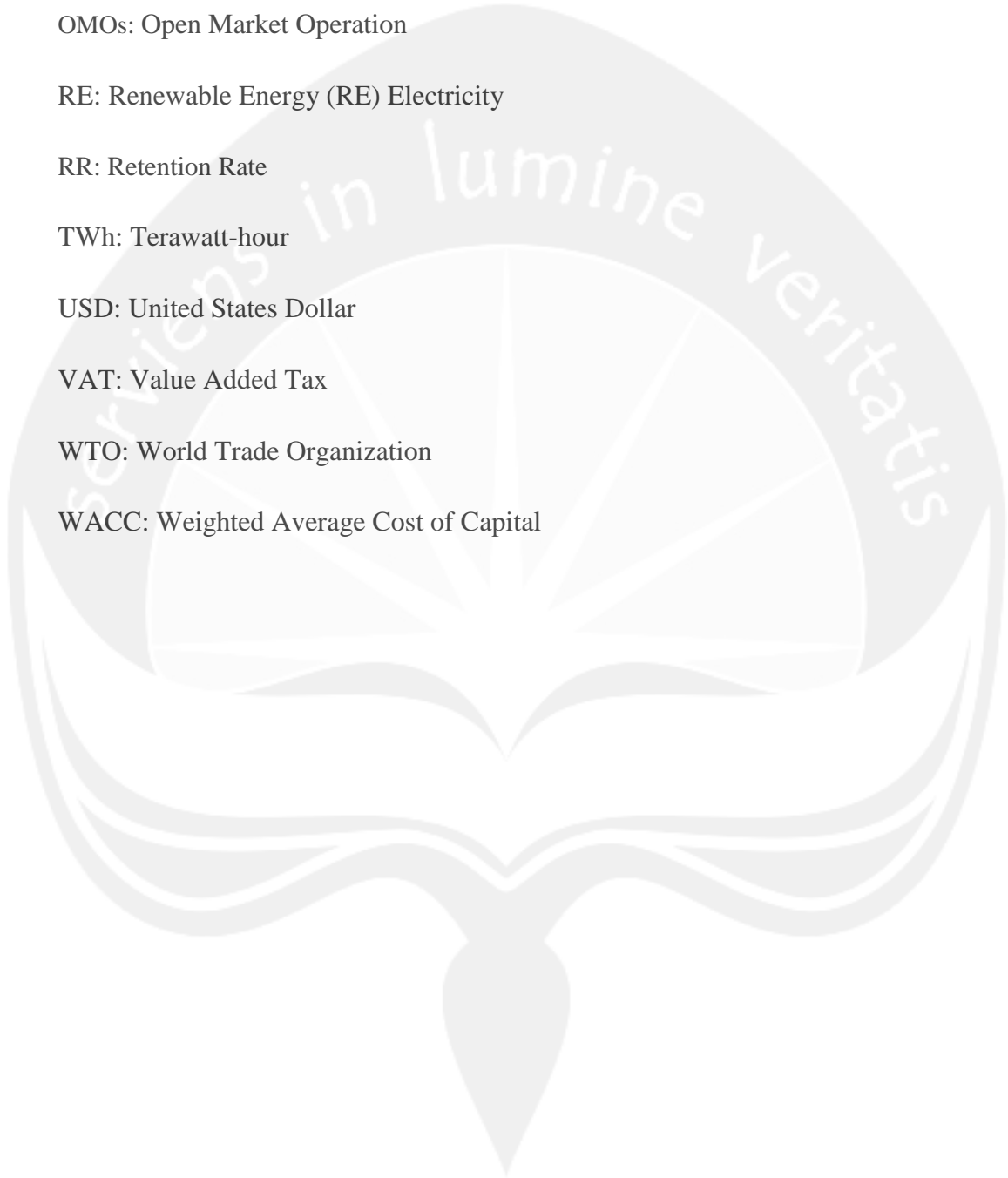
TWh: Terawatt-hour

USD: United States Dollar

VAT: Value Added Tax

WTO: World Trade Organization

WACC: Weighted Average Cost of Capital



ABSTRACT

The aim of this study is to perform a fundamental analysis including intrinsic value calculation and analysis of risk and return for securities Investment of EDL-Gen in the Stock Exchange of Laos. The research adopts the use of fundamental implications and tries to find their impacts on the company performance. Finally, the study uses financial instrument to determine the intrinsic value, the risk and return for a better decision making in terms of investment. For this point, DCF model throughout FCFF from operating cash flow helps to find the intrinsic value. The result has shown that the company's intrinsic value is less than the current price and is overvalued. In fact, investor should adopt the strategy "sell". Besides, the rate of risk and return in 2012 is more efficient than in 2011. Thus, the result on the fundamental factors indicates that the company's financial health is not quite good. Though, the company traces a potential significant growth for the future which implies that EDL-Gen's shares are attractive for long term investment.

INTISARI

Tujuan dari penelitian ini adalah untuk melakukan analisis fundamental, mengevaluasi nilai intrinsik dan analisis risiko dan pengembalian untuk keamanan investasi di EDL-Gen di Pasar Modal Laos. Penelitian ini mengadopsi penggunaan implikasi mendasar dan menemukan dampaknya terhadap kinerja perusahaan. Akhirnya, dengan menggunakan instrumen keuangan untuk menentukan nilai intrinsik, risiko dan *return* untuk pengambilan keputusan bidang investasi. Untuk saat ini, model yang DCF seluruh FCFF dari arus kas operasi bantuan untuk menemukan nilai intrinsik. Hasil penelitian menunjukkan nilai intrinsik perusahaan adalah kurang dari harga saat ini dinilai terlalu tinggi jadi investor harus mengadopsi strategi menjual dan tingkat risiko dan pengembalian pada tahun 2012 lebih efisiensi dari 2011. Selanjutnya hasilnya menunjukkan bahwa faktor fundamental ditunjukkan kesehatan keuangan perusahaan tidak cukup baik, dan juga perusahaan potensi pertumbuhan yang signifikan di masa depan yang baik saham EDL-Gen adalah ketertarikan untuk investasi jangka panjang.