

# RENEWABLE ENERGY ELECTRIFYING DEMCO

## EXECUTIVE Q&A

SHAREINVESTOR

*Demco Plc operates five core businesses: design, construction and contracting for all kinds of electrical engineering work such as transmission lines and substations; mechanical and electrical systems; energy conservation and renewable energy; telecommunications; fabrication and distribution of steel structure for transmission lines; and billboards. The company was established on June 1, 1992 and listed on the MAI on Dec 14, 2006, moving to the SET this past Feb 4 with registered capital of 635 million baht, of which 443 million is paid up. The company is managed by senior-level engineers with more than 20 years' experience. Director Phongsak Siricupta discusses the company's strategy and outlook.*

### **Please explain Demco's business model.**

Demco is an engineering company working in the electrical, mechanical and telecommunications industries. For electrical engineering, we build everything required to transmit power from power plants to substations to end-users including transmission lines, substation facilities and distribution lines; for mechanical and electrical systems, we provide electrical work and instruments to factories and the petrochemical industry; and for telecommunications, we install fibre-optic cables. To support all three businesses, we have departments covering fabrication of steel structures, civil design and construction. In 2010, Demco expanded into the energy conservation and renewable energy sector as a contractor and project investor.

### **Who are Demco's customers?**

Our customers are in both the private and the public sectors. In the private sector, we service, for example, the PTT Group, Rojana, AIS and DTAC among others. Our public-sector customers include TOT, CAT, the MEA [Metropolitan Electricity Authority] and the PEA [Provincial Electricity Authority].

### **Demco recently entered the renewable energy sector. What projects are you working on?**

We entered renewable energy to diversify and expand our business and also because this sector is strongly

supported by the government through the adder programme. This provides Demco a good future in this sector, as we can transfer our electrical engineering knowledge to the renewable energy business and act as both a contractor and an investor, depending on the project. Currently, we have three wind farm projects planned — a 60-megawatt farm in Phetchabun worth 900 million baht and two 90-MW projects in Nakhon Ratchasima with a combined value of



**Phongsak: Wind and solar the way forward**

2.6 billion baht. For these, we will build the foundation, the transmission lines to the selling points — which are Egat [Electricity Generating Authority of Thailand] substations — access roads, the main substation, underground cables and so forth. We expect to begin work on all three projects in the second and third quarter. In addition to these three wind farms, we have seven more projects Egat awaiting approval. Demco is also involved in the solar industry and have already signed a memorandum of understanding with Inter Far East Engineering Plc for two 5-MW solar power plants in Kanchanaburi province with a combined value of 850 million baht. We will retain an equity stake in these.

### **What are your biggest costs? Raw materials? Has the increase in commodity prices affected your business?**

When we submit quotations for a project, we set the raw material prices with our suppliers, and if we win the project we immediately issue a letter of intent setting the raw material prices.

As we have a long relationships with our suppliers, there have not been any major issues with our raw material prices.

### **What is Demco's competitive advantage?**

Demco began in 1992, and all of our management came from the PEA. Therefore, we have more than 30 years' experience in this industry. We are essentially a one-stop shop for our clients, as we're able to provide full electrical engineering services as well as steel structure fabrication. For example, a wind farm project contacts a bank for financing, the bank prefers to minimise its risk by dealing with as few contractors as possible — Demco is a great solution, as we can supply each step of the electrical engineering process.

### **Demco has repurchased 32.5 million shares in the past six months. Why?**

The main reason was to manage our cash flow. When we decided on the share repurchase, we had funds from the exercise of warrant 1 and warrant 2 totalling 442 million baht and were going to receive 20% of the value of the wind farm projects, giving us nearly one billion baht on hand. So we decided that to manage our cash resources efficiently, we would repurchase shares. The benefit to our shareholders is the number of paid-up stocks in the market will be reduced, meaning higher dividends per share. For the company, we anticipate that entering the renewable energy sector will improve our financial performance. Perhaps in the future we can make a private placement to raise funds to invest in projects.

### **What are the biggest risks facing your business today?**

Politics, because a change in government means private investment is delayed and decisions are delayed. There may also be changes in government policy.

### **Where do you see Demco five years from now?**

Demco's core business has consistently been able to achieve 2-2.5 billion baht in recent years, and we expect this to continue. But the face of Demco has now changed with our expansion into renewable energy, and we expect revenue to reach 5 billion baht thanks the wind farm and solar projects. We're confident we can sustain this level of revenue, especially with the seven potential wind farm projects awaiting approval. Also with renewable energy, we'll invest in selected projects, so our revenue will be constant, and we believe the future is very bright for Demco.

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