

Ch. Karnchang Pcl (CK TB) - BUY, Price Bt19.00, TP Bt26.00**Results Comment**

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Lower-than-expected 2Q21 results

- CK reported a normalized profit of Bt175m in 2Q21, up 174% y-y and versus a normalized loss of Bt175m in 1Q21. The results were lower than what we had expected due to lower-than-expected equity income.
- Besides the lower-than-expected 2Q21 results, we expect the ongoing Covid-19 and the lockdown of the construction worker camp for a month to also cause a fall in CK's earnings year on year in 3Q21F. We thus see a downside risk to our earnings forecast this year.
- However, we maintain our BUY rating on CK as 1) a fall in its share price looks priced in bad news, 2) valuation looks cheap as the share now trades at an over 50% discount on its subsidiaries, 's market value, and 3) we expect its strong earnings growth next year driven by the ease of the lockdown after the Covid-19 subsiding and the government continuing the implementation of mega projects.
- CK's revenue fell by 19% y-y in 2Q21. Besides its low backlog value of around Bt28bn as of end 2Q21, its utilization rate was lower due to the government's tighter regulations of construction sites to prevent the Covid-19 pandemic.
- Its gross margin sustained high at 9.5% in 2Q21 versus 10% in 2Q20. However, its gross profit was still not enough to offset its SG&A expenses, causing operating earnings to remain a loss in this quarter.
- It reported higher equity income by 577% y-y in 2Q21 due to higher earnings contribution from CKP.

Income Statement						Income Statement					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q20	3Q20	4Q20	1Q21	2Q21	(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	4,020	3,847	3,654	2,986	3,238	Revenue	8	(19)	54	11,522	18,722
Gross profit	407	342	322	292	307	Gross profit	5	(25)	68	885	1,591
SG&A	491	454	531	472	497	SG&A	5	1	53	1,844	2,078
Operating profit	(84)	(112)	(209)	(180)	(190)	Operating profit	na	na	39	(958)	(487)
EBITDA	100	70	(18)	(13)	(16)	EBITDA	na	na	16	(178)	329
Other income	431	407	194	175	429	Other income	146	(0)	50	1,208	1,121
Other expense	0	0	0	0	0	Other expense					
Interest expense	302	328	339	332	357	Interest expense	8	18	53	1,293	1,293
Profit before tax	44	(34)	(353)	(337)	(119)	Profit before tax	na	na	44	(1,043)	(660)
Income tax	17	12	12	8	9	Income tax	10	(48)	na	0	0
Equity & invest. income	45	546	249	160	306	Equity & invest. income	92	577	30	1,571	1,764
Minority interests	(9)	(2)	4	10	(4)	Minority interests	na	na	(67)	(10)	(16)
Extraordinary items	0	275	0	383	143	Extraordinary items	(63)	na	na	0	0
Net profit	64	774	(112)	208	318	Net profit	53	399	102	518	1,088
Normalized profit	64	499	(112)	(175)	175	Normalized profit	na	174	(0)	518	1,088
EPS (Bt)	0.04	0.46	(0.07)	0.12	0.19	EPS (Bt)	53	399	102	0.31	0.64
Normalized EPS (Bt)	0.04	0.29	(0.07)	(0.10)	0.10	Normalized EPS (Bt)	na	174	(0)	0.31	0.64

Balance Sheet						Financial Ratios					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q20	3Q20	4Q20	1Q21	2Q21	(%)	2Q20	3Q20	4Q20	1Q21	2Q21
Cash & ST investment	7,552	10,027	7,767	8,923	11,179	Sales growth	(27.4)	(21.0)	(30.5)	(44.9)	(19.5)
A/C receivable	3,689	3,683	3,659	3,624	3,036	Operating profit growth	na	na	na	na	na
Inventory	2,137	2,471	2,436	2,418	2,223	EBITDA growth	na	na	na	na	na
Other current assets	4,664	5,053	5,972	6,277	7,128	Norm profit growth	(56.4)	143.2	na	na	174.5
Investment	27,629	27,608	37,256	37,429	37,181	Norm EPS growth	(56.4)	143.2	na	na	174.5
Fixed assets	11,356	11,277	11,194	11,090	11,333	Gross margin	10.1	8.9	8.8	9.8	9.5
Other assets	24,267	24,668	14,490	14,867	15,074	Operating margin	(2.1)	(2.9)	(5.7)	(6.0)	(5.9)
Total assets	81,295	84,787	82,774	84,629	87,155	EBITDA margin	2.5	1.8	(0.5)	(0.4)	(0.5)
S-T debt	5,113	4,703	3,817	4,417	6,395	Norm net margin	1.6	13.0	(3.1)	(5.9)	5.4
A/C payable	2,936	2,874	2,636	2,365	2,768	D/E (x)	1.5	1.6	1.6	1.6	1.8
Other current liabilities	9,626	9,074	8,305	10,146	8,967	Net D/E (x)	1.2	1.2	1.3	1.3	1.3
L-T debt	33,928	37,954	38,586	38,576	39,734	Interest coverage (x)	0.3	0.2	(0.1)	(0.0)	(0.0)
Other liabilities	3,280	3,194	3,160	3,063	3,078	Interest rate	3.1	3.2	3.2	3.1	3.2
Minority interest	422	429	424	415	413	Effective tax rate	38.6	(35.6)	(3.5)	(2.4)	(7.6)
Shareholders' equity	25,990	26,559	25,847	25,647	25,799	ROA	0.3	2.4	(0.5)	(0.8)	0.8
Working capital	2,890	3,280	3,459	3,677	2,492	ROE	1.0	7.6	(1.7)	(2.7)	2.7
Total debt	39,041	42,656	42,403	42,993	46,129						
Net debt	31,489	32,630	34,636	34,069	34,950						

Sources: Company data, Thanachart estimates