

Thailand Construction Sector

Picking up some pace

Sector Valuation			Current	Target	Market	Norm EPS grw		Norm PE		P/BV		Div. yield	
Company	BBG Code	Rec.	price (Bt)	Price (Bt)	Cap (US\$ m)	2021F (%)	2022F (%)	2021F (x)	2022F (x)	2021F (x)	2022F (x)	2021F (%)	2022F (%)
CH. Karnchang Pcl	CK TB	BUY	19.80	26.00	1,066	120.3	48.1	45.2	30.5	1.3	1.2	0.9	1.3
Seafoo Pcl	SEAFKO TB	BUY	4.92	5.60	116	(32.7)	94.5	35.0	18.0	2.2	2.0	1.4	2.8
Sino-Thai Eng & Con	STEC TB	BUY	14.40	19.00	698	19.5	24.0	21.2	17.1	1.5	1.4	1.4	1.8

Source: Thanachart estimates, Based on 21 June 2021 closing prices

After two years of no new projects, we expect the government to speed up the pace of mega-project bids during its remaining time in office. We see a Bt421bn combined project value in 2021-22F being enough for CK, STEC and SEAFKO to benefit from. OVERWEIGHT.

Upgrading to OVERWEIGHT

We now OVERWEIGHT (from Underweight) the construction sector. **First**, we expect the government to pick up the pace of mega-project biddings during its remaining time in office at a value of Bt421bn (Bt363bn of construction value). **Second**, we expect the construction of some already awarded and high potential projects (STEC's Bt27bn U-tapao Airport and CK's Bt81bn Luang Prabang hydropower plant) to start next year. **Third**, with an improving margin outlook, we project a sector earnings growth of 39% this year and 16-37% in 2022-23F. **Fourth**, the sector's PE multiple is still below its seven-year mean which is attractive to us given the strengthening outlook. Exhibit 1 shows our earnings and TP revisions.

Project biddings to gather pace

Of the total Bt363bn in construction value, we expect Bt206bn (Bt127bn already bid out in 1H21) to open for bidding this year and Bt157bn worth in 2022F. The total value can be accommodated by the normal annual budget with 26% of the total value under the Public-Private Partnership (PPP) scheme. Key projects are the Bt79bn South Purple Line and the Bt96bn West Orange Line.

Six-year turnaround cycle

The two-year lack of new mega-project bids brought down the sector's backlog value to Bt112bn in 2020 vs. a peak of Bt178bn in 2017. The sector's earnings fell to Bt1.4bn in 2020 vs. a peak of Bt3.2bn in 2018. We estimate 2020 to be the bottom and expect a six-year growth cycle of 37-39% in 2021-22F and 3-16% in 2023-26F. As total project value is far less than Bt1.1tr in the past cycle during 2016-19, we expect big players, including CK, STEC and SEAFKO, to be the key beneficiaries. Note that we assume a halt in project bidding in the election year in 2023 but earnings could still grow from accumulated backlog value in 2021-22F.

CK replaces STEC as our top sector pick

While we reiterate BUY on STEC and upgrade SEAFKO to BUY from Hold, we now see CK as the biggest beneficiary of this cycle. **First**, we project CK to enjoy the strongest earnings growth of 29-120% in 2021-23F driven by its highest new work value (Bt81bn Orange Line Extension and Bt95bn Luang Prabang hydropower plant) and earnings contribution from the business turnarounds of its associates. That compares to STEC's earnings growth of 2-24%. **Second**, CK's valuation looks cheaper than STEC's to us at a 48% discount to its associates' market value with an implied free construction business value. This compares to an average 54% discount in 2020, 45% in 2019 and 10-26% in 2017-18.

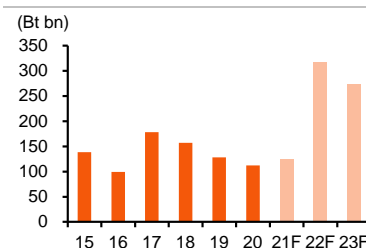


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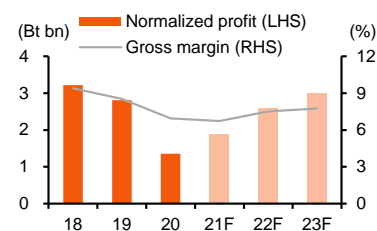
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The Three Contractors' Backlog Value



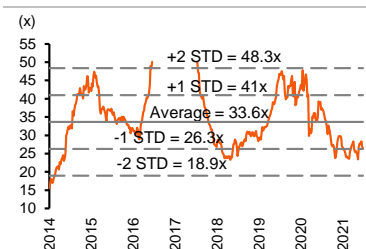
Sources: Company data, Thanachart estimates

Gross Margin Vs Normalized Profit



Sources: Company data, Thanachart estimates

The Sector's Standard Deviation



Sources: Bloomberg, Thanachart estimates

Ex 1: Earnings And TP Revisions

	2021F	2022F	2023F	TP (Bt/shr)
CK's Normalized earnings (Bt m)				
New	742	1099	1,416	26.0
Old	743	1,090	1,323	24.0
Change (pp)	(0.1)	0.8	7.0	8.3
STEC's Normalized earnings (Bt m)				
New	1,036	1,286	1,314	19.0
Old	1,060	1,325	1,407	18.5
Change (pp)	(2.3)	(2.9)	(6.6)	2.7
SEAFCO's Normalized earnings (Bt m)				
New	104	202	280	5.6
Old	104	202	247	4.9
Change (%)	-	-	13.5	14.3

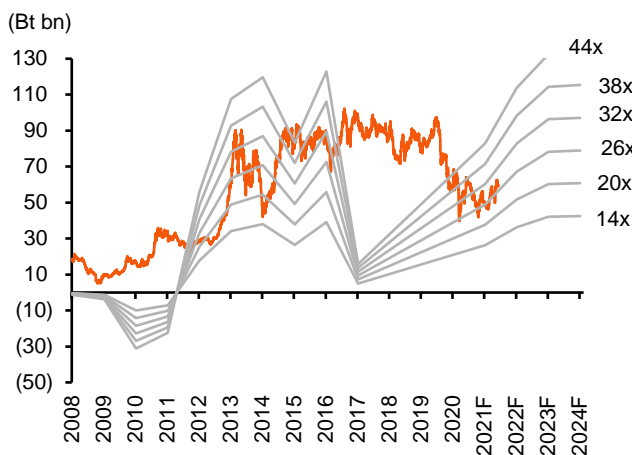
Source: Thanachart estimates

Ex 2: Potential Infrastructure Project Bids In 2021-23F

Project	Construction Value (Bt bn)	Bids in 2021F (Bn)	Bids in 2022F (Bn)	Bids in 2023F (Bn)	Bids in 2024F (Bn)
Projects already bid out					
Double-track Denchai - Chiang Khong	72	72			
Double-track Banpai – Nakhon Phanom	55	55			
Potential projects					
South Purple Line	79	79	-	-	-
West Orange Line	96	-	96	-	-
Red Line Extension	67	-	-	-	67
Double-track Chira – Ubon	36	-	36	-	-
Double-track Khon Kaen - Nong Khai	25	-	25	-	-
Total new work value	430	206	157	-	67

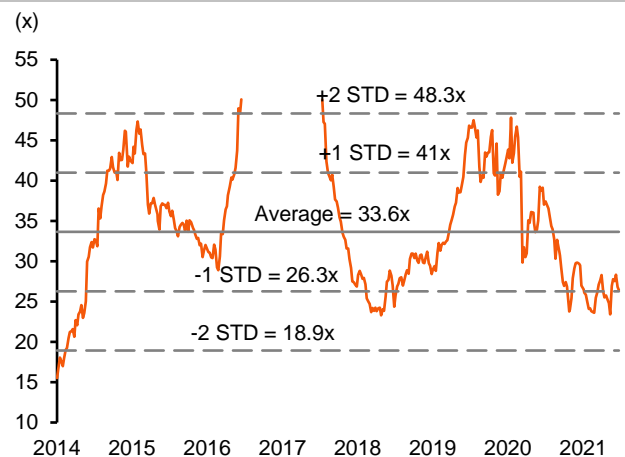
Sources: Company data, Thanachart estimates

Ex 3: Sector's PE Band



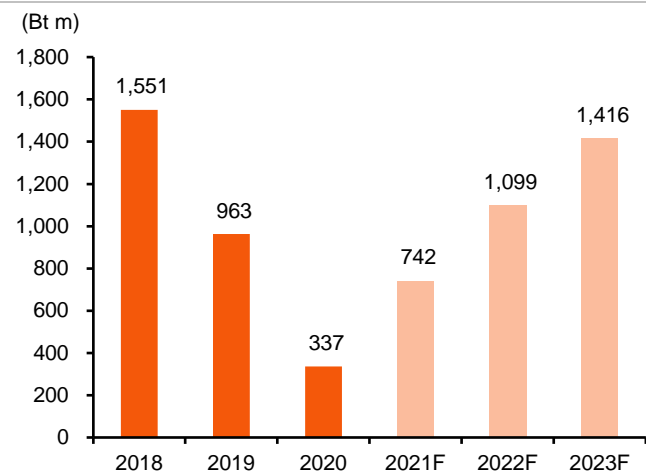
Sources: Bloomberg, Thanachart estimates

Ex 4: Sector's PE Standard Deviation



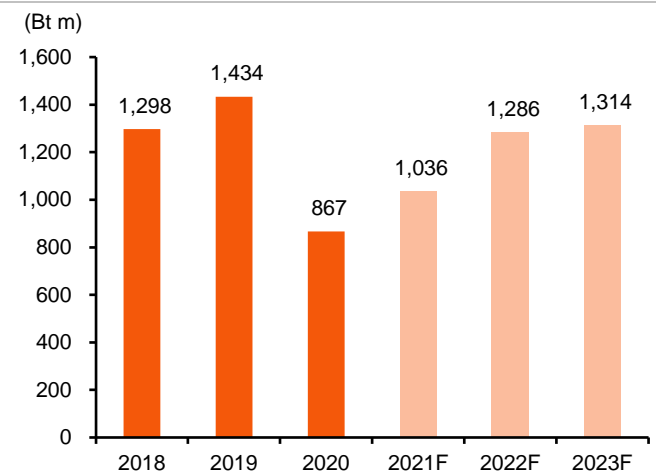
Sources: Bloomberg, Thanachart estimates

Ex 5: CK's Earnings



Sources: Company data, Thanachart estimates

Ex 6: STEC's Earnings



Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Peer Valuation Comparison

Name	BBG code	Current	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
		Price (Bt)	21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Italian-Thai Devel.	ITD TB	2.68	85.2	na	na	na	1.2	1.2	11.4	10.5	0.0	0.0
Pre-Built	PREB TB	8.60	69.5	6.6	9.6	9.0	na	na	8.4	8.0	6.7	7.2
Unique Eng & Const.	UNIQ TB	7.85	32.4	3.7	29.6	28.6	na	na	10.0	9.7	na	na
CH Karnchang*	CK TB	19.80	120.3	48.1	45.2	30.5	1.3	1.2	1,022.7	205.4	0.9	1.3
Seafco Pcl*	SEAFKO TB	4.92	(32.7)	94.5	35.0	18.0	2.2	2.0	12.1	8.3	1.4	2.8
Sino Thai Eng. & Cons*	STEC TB	14.40	19.5	24.0	21.2	17.1	1.5	1.4	7.7	6.0	1.4	1.8
Average			49.0	35.4	28.1	20.6	1.6	1.5	178.7	41.3	2.1	2.6

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 21-Jun-21 closing prices

Ex 8: Sector Valuation Comparison

		CK TB	SEAFCO TB	STEC TB	Industry
Rating		BUY	BUY	BUY	Overweight
Market cap	(US\$ m)	1,066	116	698	
Target price (Bt)	Thanachart	26.00	5.60	19.00	
	Consensus	22.63	5.35	17.83	
Consensus rec.	BUY	17	2	14	
	HOLD	0	5	3	
	SELL	0	1	1	
Sales (Bt m)	2020	16,941	2,560	35,841	55,342
	2021F	13,842	2,203	36,304	52,350
	2022F	18,722	2,444	37,825	58,991
	2023F	26,611	2,754	38,574	67,939
Norm profits (Bt m)	2020	337	154	867	1,358
	2021F	742	104	1,036	1,883
	2022F	1,099	202	1,286	2,587
	2023F	1,416	280	1,314	3,010
Sales growth (%)	2020	(26.9)	(15.6)	8.6	(6.5)
	2021F	(18.3)	(13.9)	1.3	(5.4)
	2022F	35.3	10.9	4.2	12.7
	2023F	42.1	12.7	2.0	15.2
Norm EPS growth (%)	2020	(65.0)	(62.3)	(39.5)	(51.6)
	2021F	120.3	(32.7)	19.5	38.6
	2022F	48.1	94.5	24.0	37.4
	2023F	28.8	38.6	2.2	16.3
Operating margin (%)	2020	(2.5)	7.6	2.5	1.2
	2021F	(5.2)	5.2	3.0	0.9
	2022F	(2.7)	9.5	3.7	1.9
	2023F	(0.5)	11.8	3.6	2.4
ROE (%)	2020	1.3	9.6	6.0	5.6
	2021F	2.8	6.4	7.0	5.4
	2022F	4.1	11.8	8.3	8.1
	2023F	5.1	14.9	8.0	9.4
Dividend yield (%)	2020	1.0	2.0	2.1	1.7
	2021F	0.9	1.4	1.4	1.2
	2022F	1.3	2.8	1.8	1.9
	2023F	1.7	3.9	1.8	2.4
P/BV (x)	2020	1.3	2.3	1.5	1.4
	2021F	1.3	2.2	1.5	1.4
	2022F	1.2	2.0	1.4	1.3
	2023F	1.2	1.9	1.3	1.3
Norm PE (x)	2020	99.5	23.6	25.3	43.5
	2021F	45.2	35.0	21.2	31.4
	2022F	30.5	18.0	17.1	22.9
	2023F	23.7	13.0	16.7	19.6
EV/EBITDA (x)	2020	227.7	9.6	8.4	81.9
	2021F	1,022.7	12.1	7.7	347.5
	2022F	205.4	8.3	6.0	73.2
	2023F	86.9	6.4	5.3	32.9
Net D/E (x)	2020	1.3	0.2	(0.4)	0.4
	2021F	1.2	0.1	(0.4)	0.3
	2022F	1.2	(0.0)	(0.4)	0.2
	2023F	1.0	(0.1)	(0.5)	0.2

Source: Bloomberg

Note: * Thanachart estimates, using normalized EPS

STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET INDEX	3.0	2.2	18.4	10.5	—	—	—	—
Construction	6.4	0.1	16.9	13.6	3.4	(2.1)	(1.5)	3.1
CK TB	4.2	12.5	(2.9)	19.3	1.2	10.3	(21.4)	8.8
SEAFCO TB	0.8	2.1	(8.9)	10.8	(2.2)	(0.1)	(27.3)	0.3
STEC TB	(5.3)	(3.4)	(7.1)	13.4	(8.3)	(5.6)	(25.5)	2.9

Source: Bloomberg

SECTOR - SWOT ANALYSIS

S — Strength

- Class-A contractors able to bid for all construction work
- Experts in mega-project construction

O — Opportunity

- Thailand is in the middle of the infrastructure investment cycle.
- The government intends to invest in infrastructure projects to improve Thailand's competitiveness and attract private investments.

W — Weakness

- The majority of revenues are based on projects contractors have to bid for, and there are no guarantees they will win the bidding contests.
- The construction business is labor-intensive. Thus, there are risks of higher labor costs and labor shortages.

T — Threat

- Volatility in building material prices is a major risk while the minimum wage will increase next year.
- High public debt could cause the government to delay some infrastructure investments.

REGIONAL COMPARISON

Name	—EPS growth—		— PE —		— P/BV —		— EV/EBITDA —		— Div. Yield —	
	21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
China	11.5	9.0	3.8	3.5	0.5	0.4	7.4	6.6	4.7	5.0
India	(31.5)	109.9	28.9	13.6	1.7	1.6	11.6	6.9	0.5	0.7
Malaysia	(1.7)	28.5	20.2	15.5	0.8	0.7	13.0	10.9	1.7	3.1
South Korea	30.4	10.5	9.6	8.6	1.2	1.0	5.0	4.6	1.2	1.5
Thailand	38.6	37.4	31.4	22.9	1.4	1.3	347.5	73.2	1.2	1.9
Average	9.5	39.1	18.8	12.8	1.1	1.0	76.9	20.4	1.9	2.4
CK TB	120.3	48.1	45.2	30.5	1.3	1.2	1,022.7	205.4	0.9	1.3
SEAFCO TB	(32.7)	94.5	35.0	18.0	2.2	2.0	12.1	8.3	1.4	2.8
STEC TB	19.5	24.0	21.2	17.1	1.5	1.4	7.7	6.0	1.4	1.8
Average	38.6	37.4	31.4	22.9	1.4	1.3	347.5	73.2	1.2	1.9

Sources: Bloomberg Consensus

Note: * Thanachart estimate – using normalized EPS

BUY (Unchanged)

TP: Bt 26.00

(From: Bt 24.00)

Change in Numbers

Upside : 31.3%

22 JUNE 2021

Ch. Karnchang Pcl (CKTB)

Factoring in West Orange Line

Factoring in the West Orange Line project, we raise our new work value for CK by 100% in 2022F, our earnings by 1-7% in 2022-23F, and TP to Bt26. With the highest earnings growth of 29-120% in 2021-23F among peers while its shares are still trading at a 48% discount to its associates' market value, CK is now our top sector pick.



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The West Orange Line project

The bid for the construction and operation of the West Orange Line project (Bt127bn) opened in late 2020 but it was cancelled due to a change in the bidding method by the project owner, the Mass Rapid Transit Authority (MRTA), causing one bidder to take the case to court. The court's decision is still pending but we expect MRTA to relaunch the bid by next year as **1)** we see infrastructure projects as one of the government's economic stimulus measures after COVID subsidies, **2)** the West Orange Line will be implemented under the public-private partnership scheme, so it will not burden the government's budget and **3)** the bidding delay will mean there is no operator for the East Orange Line which is due to be completed in 2023 and the government will have to pay Bt150-200m a year for maintenance.

Raising our TP to Bt26; reaffirming BUY call

We take the view that BEM will win this project given its operational advantages (it is the only subway operator in Thailand), its lower costs (economies of scale) and construction capabilities (its parent firm, CK, is one of two contractors that have experience in building subways). BEM would then subcontract the construction work to CK. Factoring in this Bt96bn of work, we raise our earnings for CK by 1-7% over 2022-23F. Rolling over of the base year in our model to 2022F, we lift our DCF-derived SOTP-based 12-month TP to Bt26/share from Bt24 and reaffirm our BUY rating on CK. Please note that we assume no new infrastructure project bids open in 2023F due to the election year but that accumulated backlog value in 2021-22F is large enough to still drive CK's earnings growth by 29% in 2023F.

48% discount to associates' value

CK is now our top sector pick as, among the contractors we cover, we estimate it to offer the highest earnings growth of 29-120% in 2021-23F driven by its high new work value and earnings contributions from its associates. Its valuation also looks cheap to us with the shares trading at a 48% discount to its associates' market value (see Exhibit 5). We believe this is because of operating losses of the construction business. However, with the construction business's earnings recovery driven by high new work value, we expect the discount to narrow.

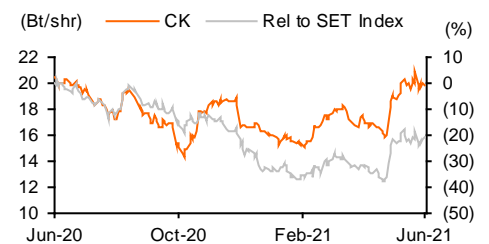
Short-term catalyst

We expect a short-term catalyst for contractor stocks including CK from the MRTA scheduling to open bids for the South Purple Line project (Bt108bn). The announcement of the term of reference (TOR) is planned for 5 July this year, the submission of bids in October and the announcement of the winners early next year. We have factored in CK winning 25% of the value.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	16,941	13,842	18,722	26,611
Net profit	612	742	1,099	1,416
Consensus NP	—	878	1,462	1,872
Diff frm cons (%)	—	(15.4)	(24.8)	(24.4)
Norm profit	337	742	1,099	1,416
Prev. Norm profit	—	743	1,090	1,323
Chg frm prev (%)	—	(0.1)	0.8	7.0
Norm EPS (Bt)	0.20	0.44	0.65	0.84
Norm EPS grw (%)	(65.0)	120.3	48.1	28.8
Norm PE (x)	99.5	45.2	30.5	23.7
EV/EBITDA (x)	227.7	1,022.7	205.4	86.9
P/BV (x)	1.3	1.3	1.2	1.2
Div yield (%)	1.0	0.9	1.3	1.7
ROE (%)	1.3	2.8	4.1	5.1
Net D/E (%)	131.8	124.6	115.0	104.5

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 21-Jun-21 (Bt)	19.80
Market Cap (US\$ m)	1,066.4
Listed Shares (m shares)	1,693.9
Free Float (%)	65.1
Avg Daily Turnover (US\$ m)	9.1
12M Price H/L (Bt)	21.00/14.30
Sector	Construction
Major Shareholder	Trivisvavet group 38.5%

Sources: Bloomberg, Company data, Thanachart estimates



Ex 1: Key Assumption Changes

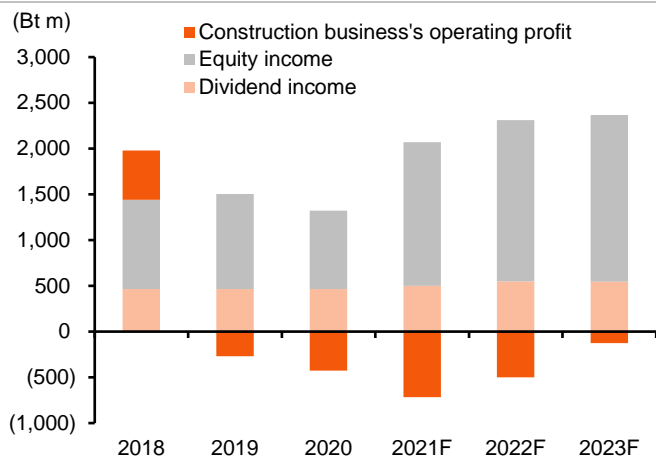
	2021F	2022F	2023F
New work value (Bt bn)			
New	29.0	200.0	10.0
Old	25.0	100.0	25.0
Change (%)	16.0	100.0	(60.0)
Normalized earnings (Bt m)			
New	742	1099	1,416
Old	743	1,090	1,323
Change (pp)	(0.1)	0.8	7.0

Sources: Thanachart estimates

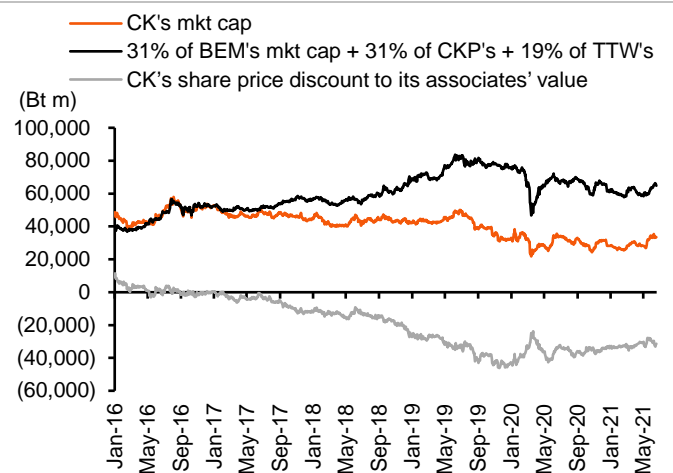
Ex 2: CK's Potential New Work Value

Project	Construction Value (Bt bn)	Chance (%)	New work in 2021F (Bn)	New work in 2022F (Bn)	New work in 2023F (Bn)	New work in 2024F (Bn)
Backlog value as of January 2021			26			
Newly signed contracts						
Water Transmission Tunnel			5			
Maintenance of BMCL's structures			1			
To be signed contracts						
Double-track Denchai - Chiang Khong			23			
Potential projects						
South Purple Line	79	25	-	20	-	-
West Orange Line	96	100	-	96	-	-
Red Line Extension	67	25	-	-	-	17
Double-track Chira – Ubon	36	5	-	2	-	-
Double-track Khon Kaen - Nong Khai	25	5	-	1	-	-
Luang Prabang Hydropower Plant	81	100	-	81	-	-
Others	-	-	-	-	10	10
Total new work value	384		29	200	10	27

Sources: Company data, Thanachart estimates

Ex 3: CK's Earnings Breakdown

Sources: Company data, Thanachart estimates

Ex 4: CK's Market Cap Vs. Its Associates' Market Cap

Source: Bloomberg

Ex 5: Our SOTP-Based Investment Equity Valuation Of CK

	% holding	Our TP	Fair value (Bt m)	30% discount* (Bt m)	Share price (Bt/share)	Market value (Bt m)
TTW	19.4%	14.00	10,837	7,586	12.00	9,289
BEM	31.3%	11.50	55,054	38,537	8.55	40,931
CKP	30.7%	7.50	18,700	13,090	5.65	14,087
Total			84,590	59,213		64,307
Per CK share (Bt)			50.0	35.0		38.0
Construction business's value (Bt)				(9.0)		
Our TP (Bt)				26.0		

Sources: Company data, Thanachart estimates

Note: *We assume a holding company discount of 30% to our fair value of CK's associates.

Ex 6: EV Of Construction Business

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	317	728	901	1,177	1,522	1,635	1,317	1,085	726	771	807	—
Free cash flow	552	938	1,221	1,467	1,040	1,452	1,828	1,795	1,924	1,726	1,344	22,178
PV of free cash flow	550	815	990	1,089	717	929	1,086	990	985	786	566	9,335
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	7.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	18,838											
Net debt (2021F)	33,245											
Minority interest	436											
Equity value	(14,843)											
# of shares (m)	1,694											
Equity value/share (Bt)	(8.8)											

Sum of the parts	% holding	(Bt m)
Enterprise value from construction business		18,838
Investment equity value		59,213
TTW	19.4%	7,586
BEM	31.3%	38,537
CKP	30.7%	13,090
Total enterprise value		78,051
(Less) Net debt		(33,245)
(Less) Minority interest		(436)
Total enterprise value		44,370
# of shares (fully diluted) (m shares)		1,694
Sum of the parts		26

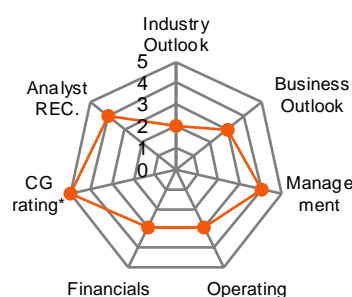
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Ch. Karnchang Pcl (CK) is one of Thailand's leading contractors and basic infrastructure developers. It has more than 30 years of experience in constructing large-scale infrastructure, building complexes and general civil work. The company has also been investing in the government's concession projects in order to expand its operations and generate steady long-term income.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- One of the Big Four contractors in Thailand and categorized as class-A in terms of being qualified to bid for most large-scale investments.
- Business diversification into infrastructure investments to stabilize its long-term earnings.

O — Opportunity

- Thailand is in the middle of the infrastructure investment cycle.
- Its exposure to high-potential projects abroad, especially hydroelectric work in Laos.

W — Weakness

- Most of CK's revenues come from projects it has to bid for, and there are no guarantees it will win these bids.
- CK's interest expenses are high, leading to a significant risk of earnings losses if revenues fall.
- The construction business is labour-intensive, so there are risks of higher labor costs and labor shortages.

T — Threat

- The Covid-19 impacts and the government's time-consuming implementation processes could cause delays to Thailand's infrastructure investment.
- Volatility in building material prices is another risk.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	22.63	26.00	15%
Net profit 21F (Bt m)	878	742	-15%
Net profit 22F (Bt m)	1,462	1,099	-25%
Consensus REC	BUY: 17	HOLD: 0	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are 15-25% lower than the Bloomberg consensus estimates, which we believe is due to us having a more conservative view on revenue and gross margin.
- However, our SOTP-based TP is 15% higher than other brokers', which we attribute to us having a more bullish view on its associates' business prospects.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if the government's infrastructure investment projects cannot be implemented, as this would likely prompt us to adjust down our new work value assumptions.
- Building material expenses account for 50-60% of CK's total costs. Therefore, adverse fluctuations in prices present another downside risk to our earnings forecasts.
- The weak economy could have a significant negative impact upon people's confidence and new investments.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	23,189	16,941	13,842	18,722	26,611
Cost of sales	21,028	15,341	12,661	17,124	24,340
Gross profit	2,161	1,601	1,181	1,598	2,271
% gross margin	9.3%	9.4%	8.5%	8.5%	8.5%
Selling & administration expenses	2,430	2,027	1,896	2,097	2,395
Operating profit	(268)	(427)	(715)	(499)	(124)
% operating margin	-1.2%	-2.5%	-5.2%	-2.7%	-0.5%
Depreciation & amortization	526	726	780	816	852
EBITDA	258	299	65	317	728
% EBITDA margin	1.1%	1.8%	0.5%	1.7%	2.7%
Non-operating income	1,560	1,226	1,190	1,141	1,065
Non-operating expenses	0	0	0	0	0
Interest expense	(1,226)	(1,276)	(1,291)	(1,290)	(1,323)
Pre-tax profit	65	(477)	(816)	(648)	(382)
Income tax	126	28	0	0	0
After-tax profit	(61)	(505)	(816)	(648)	(382)
% net margin	-0.3%	-3.0%	-5.9%	-3.5%	-1.4%
Shares in affiliates' Earnings	1,039	857	1,571	1,764	1,821
Minority interests	(15)	(15)	(12)	(16)	(23)
Extraordinary items	815	275	0	0	0
NET PROFIT	1,778	612	742	1,099	1,416
Normalized profit	963	337	742	1,099	1,416
EPS (Bt)	1.0	0.4	0.4	0.6	0.8
Normalized EPS (Bt)	0.6	0.2	0.4	0.6	0.8

We forecast CK's earnings to recover this year...

...driven by higher earnings contributions from its associates

We also expect a recovery in CK's construction business...

...driving further earnings growth in 2022-23F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	18,953	19,834	17,756	21,350	26,827
Cash & cash equivalent	9,160	7,767	7,500	7,500	7,500
Account receivables	3,643	3,659	3,223	4,360	6,197
Inventories	3,751	5,757	4,856	6,568	9,002
Others	2,400	2,650	2,177	2,922	4,127
Investments & loans	51,255	50,366	47,866	45,366	42,866
Net fixed assets	11,164	11,194	11,214	11,197	11,145
Other assets	1,213	1,381	1,155	1,523	2,114
Total assets	82,586	82,774	77,991	79,436	82,953
LIABILITIES:					
Current liabilities:	17,909	14,758	11,637	12,824	15,580
Account payables	13,950	10,631	7,631	8,914	11,670
Bank overdraft & ST loans	1,874	147	0	0	0
Current LT debt	1,525	3,670	3,667	3,523	3,356
Others current liabilities	559	309	339	388	555
Total LT debt	33,605	38,586	37,078	35,620	33,932
Others LT liabilities	3,259	3,160	2,590	3,487	4,937
Total liabilities	54,773	56,503	51,305	51,932	54,448
Minority interest	420	424	436	452	476
Preferreds shares	0	0	0	0	0
Paid-up capital	1,694	1,694	1,694	1,694	1,694
Share premium	4,869	4,869	4,869	4,869	4,869
Warrants	0	0	0	0	0
Surplus	6,341	4,572	4,572	4,572	4,572
Retained earnings	14,488	14,711	15,115	15,917	16,893
Shareholders' equity	27,393	25,847	26,250	27,052	28,029
Liabilities & equity	82,586	82,774	77,991	79,436	82,953

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	65	(477)	(816)	(648)	(382)
Tax paid	(121)	(51)	5	(0)	8
Depreciation & amortization	526	726	780	816	852
Chg In working capital	2,165	(5,342)	(1,664)	(1,566)	(1,516)
Chg In other CA & CL / minorities	3,212	461	2,069	1,067	776
Cash flow from operations	5,847	(4,683)	375	(331)	(263)
Capex	(1,902)	(756)	(800)	(800)	(800)
Right of use	0	(121)	(5)	(5)	(5)
ST loans & investments	214	(8)	0	0	0
LT loans & investments	(5,165)	889	2,500	2,500	2,500
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	730	45	(339)	534	863
Cash flow from investments	(6,124)	49	1,356	2,229	2,558
Debt financing	308	5,399	(1,659)	(1,602)	(1,856)
Capital increase	0	0	0	0	0
Dividends paid	(847)	(339)	(339)	(297)	(440)
Warrants & other surplus	1,041	(1,819)	0	0	0
Cash flow from financing	502	3,241	(1,997)	(1,899)	(2,295)
Free cash flow	3,945	(5,439)	(425)	(1,131)	(1,063)

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	34.8	99.5	45.2	30.5	23.7
Normalized PE - at target price (x)	45.7	130.7	59.3	40.1	31.1
PE (x)	18.9	54.8	45.2	30.5	23.7
PE - at target price (x)	24.8	71.9	59.3	40.1	31.1
EV/EBITDA (x)	238.1	227.7	1,022.7	205.4	86.9
EV/EBITDA - at target price (x)	278.8	262.7	1,183.6	238.5	101.3
P/BV (x)	1.2	1.3	1.3	1.2	1.2
P/BV - at target price (x)	1.6	1.7	1.7	1.6	1.6
P/CFO (x)	5.7	(7.2)	89.5	(101.4)	(127.7)
Price/sales (x)	1.4	2.0	2.4	1.8	1.3
Dividend yield (%)	2.0	1.0	0.9	1.3	1.7
FCF Yield (%)	11.8	(16.2)	(1.3)	(3.4)	(3.2)
(Bt)					
Normalized EPS	0.6	0.2	0.4	0.6	0.8
EPS	1.0	0.4	0.4	0.6	0.8
DPS	0.4	0.2	0.2	0.3	0.3
BV/share	16.2	15.3	15.5	16.0	16.5
CFO/share	3.5	(2.8)	0.2	(0.2)	(0.2)
FCF/share	2.3	(3.2)	(0.3)	(0.7)	(0.6)

Sources: Company data, Thanachart estimates

*CK now trades 48%
below its associates'
market value...*

*...which we believe is
unjustified*

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(21.4)	(26.9)	(18.3)	35.3	42.1
Net profit (%)	(28.7)	(65.6)	21.3	48.1	28.8
EPS (%)	(28.7)	(65.6)	21.3	48.1	28.8
Normalized profit (%)	(37.9)	(65.0)	120.3	48.1	28.8
Normalized EPS (%)	(37.9)	(65.0)	120.3	48.1	28.8
Dividend payout ratio (%)	38.1	55.3	40.0	40.0	40.0
Operating performance					
Gross margin (%)	9.3	9.4	8.5	8.5	8.5
Operating margin (%)	(1.2)	(2.5)	(5.2)	(2.7)	(0.5)
EBITDA margin (%)	1.1	1.8	0.5	1.7	2.7
Net margin (%)	(0.3)	(3.0)	(5.9)	(3.5)	(1.4)
D/E (incl. minor) (x)	1.3	1.6	1.5	1.4	1.3
Net D/E (incl. minor) (x)	1.0	1.3	1.2	1.2	1.0
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	0.2	0.2	0.1	0.2	0.6
ROA - using norm profit (%)	1.2	0.4	0.9	1.4	1.7
ROE - using norm profit (%)	3.6	1.3	2.8	4.1	5.1
DuPont					
ROE - using after tax profit (%)	na	na	na	na	na
- asset turnover (x)	0.3	0.2	0.2	0.2	0.3
- operating margin (%)	5.6	na	na	na	na
- leverage (x)	3.1	3.1	3.1	3.0	2.9
- interest burden (%)	5.1	(59.6)	(171.7)	(100.9)	(40.6)
- tax burden (%)	na	na	na	na	na
WACC (%)	7.3	7.3	7.3	7.3	7.3
ROIC (%)	0.5	(0.8)	(0.9)	(0.7)	(0.2)
NOPAT (Bt m)	250	(427)	(572)	(399)	(99)
invested capital (Bt m)	55,237	60,483	59,495	58,695	57,816

Sources: Company data, Thanachart estimates

BUY (From: HOLD)

Change in Recommendation

TP: Bt 5.60

Upside : 13.8%

(From: Bt 4.90)

22 JUNE 2021

Small Cap Research

SEAFCO Public Co Ltd (SEAFCO TB)

An early call

The COVID-19 crisis could still keep pressuring SEAFCO's earnings this year but we are more confident on its earnings turnaround next year given more infrastructure project bids scheduled from this year onward. Given our earnings upgrade in 2023F and rolling over our base year to 2022F, we raise our TP to Bt5.6. Upgrade to BUY.

**SAKSID PHADTHANANARAK**

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Raising our TP to Bt5.6; upgrading to BUY

We still expect the COVID-19 crisis to cause a slowdown in the launch of high-rise building projects, with intense bidding competition and a labor shortage pressuring SEAFCO's earnings for the rest of the year. However, we are more confident about its earnings turning around next year given more infrastructure projects scheduled to open for bidding from this year onward. With our expectation for Bt634bn in infrastructure project bids in 2021-23F, we raise our earnings estimates for SEAFCO by 13% in 2023F as we revise up **1)** our new work value assumptions by 9% in 2023F, and **2)** our gross margin assumptions to 18% in 2023F (versus 17% previously and 21-23% pre-COVID gross margin in 2018-19). After rolling over the base year in our model to 2022F, we raise our DCF-based 12-month TP to Bt5.6/share from Bt4.9 and upgrade our rating on SEAFCO to BUY from Hold.

Our early call case

Our early BUY call on SEAFCO is based on, **first**, our view of a new round of infrastructure project bids in 2021-23F and SEAFCO, the largest piling contractor in the country, being one of the few direct, high operating-leverage plays. **Secondly**, we expect a strong earnings turnaround with growth of 95% y-y in 2022F and 39% y-y in 2023F after the labor shortage problem is solved and when new work from the infrastructure project bids boosts its utilization rate and gross margin. **Thirdly**, despite weak earnings, we expect its share price to start reacting to positive news of bids for infrastructure projects from 2H21 onward.

Undemanding valuation, in our view

SEAFCO's weak earnings this year look to be priced in by the market given the fall in its share price by 31% from its peak in August 2020. The stock now trades at 18x PE in 2022F and 13x in 2023F, compared with its average PE of 18x during the cycle's trough in 2008-13 while its average PE stood at 20x in 2014-19 during the infrastructure cycle boom.

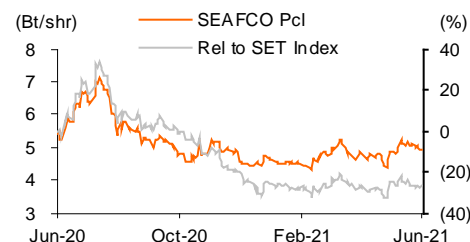
New round of infrastructure project bids

After the bids for the double-track railway projects with a total value of Bt127bn last month, we see a further share price catalyst for contractors including SEAFCO from bidding for the South Purple Line project with a total value of Bt79bn. The term of reference (TOR) is scheduled to be announced on 5 July, the submission of bidding prices in October and the announcement of the winners late this year or early next year. We now expect bids for Bt206bn worth of infrastructure projects to open this year and Bt157bn in 2022F (please see our sector report, *Picking up some pace*, dated 22 June 2021).

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,560	2,203	2,444	2,754
Net profit	154	104	202	280
Consensus NP	—	158	220	334
Diff frm cons (%)	—	(34.1)	(8.1)	(16.0)
Norm profit	154	104	202	280
Prev. Norm profit	—	104	202	247
Chg frm prev (%)	—	0.0	0.0	13.4
Norm EPS (Bt)	0.2	0.1	0.3	0.4
Norm EPS grw (%)	(62.3)	(32.7)	94.5	38.6
Norm PE (x)	23.6	35.0	18.0	13.0
EV/EBITDA (x)	9.6	12.1	8.3	6.4
P/BV (x)	2.3	2.2	2.0	1.9
Div yield (%)	2.0	1.4	2.8	3.9
ROE (%)	9.6	6.4	11.8	14.9
Net D/E (%)	17.7	7.3	(0.4)	(8.6)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 21-Jun-21 (Bt)	4.92
Market Cap (US\$ m)	115.7
Listed Shares (m shares)	739.7
Free Float (%)	73.8
Avg Daily Turnover (US\$ m)	1.2
12M Price H/L (Bt)	7.10/4.34
Sector	Construction
Major Shareholder	Thasnanipan Family 26.2%

Sources: Bloomberg, Company data, Thanachart estimates

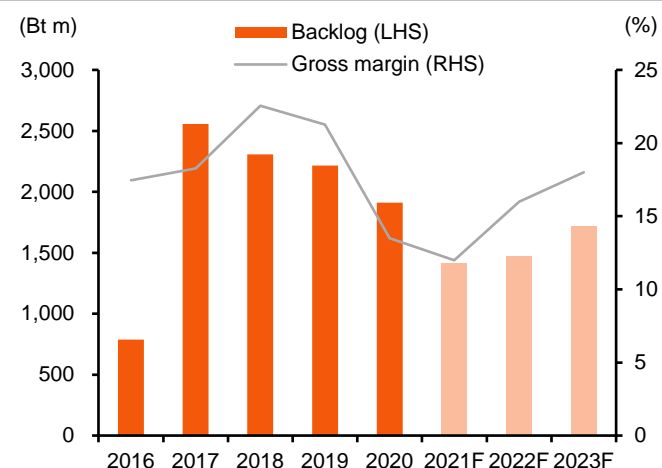


Ex 1: Key Assumption Changes

	2021F	2022F	2023F
New work value (Bt m)			
New	1,700	2,500	3,000
Old	1,700	2,500	2,750
Change (%)	-	-	9.1
Earnings (Bt m)			
New	104	202	280
Old	104	202	247
Change (%)	-	-	13.4
Gross margin (%)			
New	12.0	16.0	18.0
Old	12.0	16.0	17.0
Change (pp)	-	-	1.0

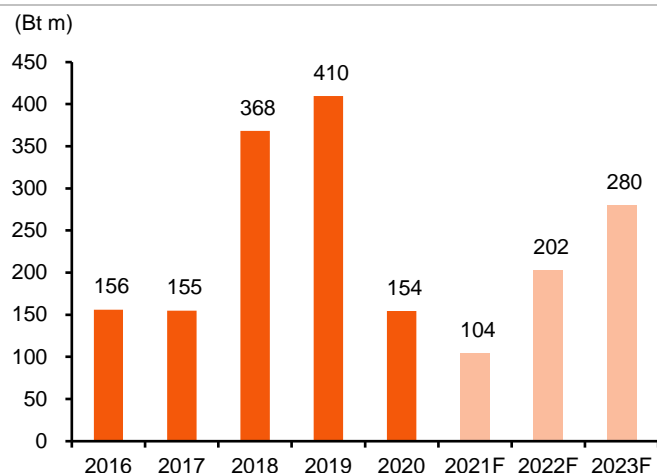
Source: Thanachart estimates

Ex 2: SEAFCO's Backlog Value Vs. Gross Margin



Sources: Company data, Thanachart estimates

Ex 3: SEAFCO's Earnings

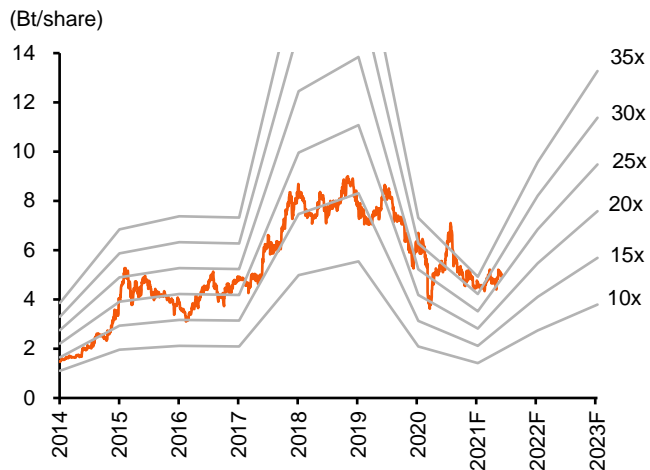


Sources: Company data, Thanachart estimates

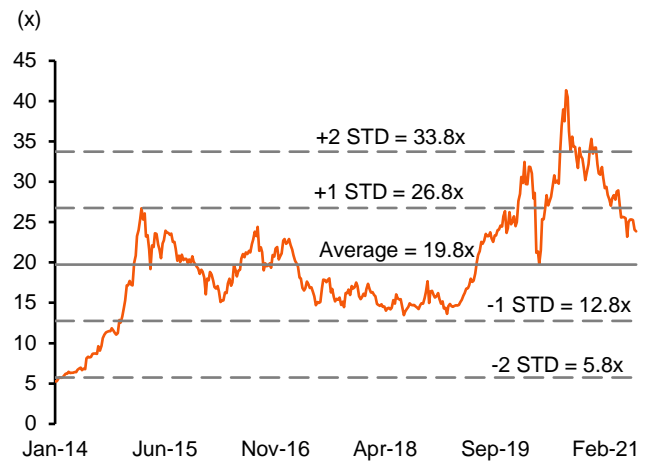
Ex 4: Potential Infrastructure Project Bids In 2021-22

Project	Construction value (Bt bn)
West Orange Line	96
South Purple Line	79
Double track Denchai - Chiang Khong	72
Double track Ban Pai - Nakhon Phanom	55
Double-track Chira – Ubon	36
Double-track Khon Kaen - Nong Khai	25
Total	363

Sources: Company data, Thanachart estimates

Ex 5: SEAFCO's PE Band

Sources: Bloomberg, Thanachart estimates

Ex 6: SEAFCO's PE Standard Deviation

Sources: Bloomberg, Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	439	542	509	513	584	587	598	608	619	630	641	—
Free cash flow	227	321	296	307	376	370	382	393	404	415	426	5,522
PV of free cash flow	226	271	229	214	240	216	204	192	180	162	151	1,959
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	8.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	4,245											
Net debt (2021F)	119											
Minority interest	2											
Equity value	4,124											
# of shares (m)*	740											
Target price/share (Bt)	5.60											

Source: Thanachart estimates

COMPANY DESCRIPTION

Seafo Public Company Limited (SEAFCO) is a construction and engineering company that uses bored piles, diaphragm walls and underground engineering technology to provide cost-effective solutions for foundation problems, basement construction and development of underground facilities and sub-structure work in Bangkok and other large cities. It operates and offers services as a main contractor, sub-contractor, and joint-venture partner to both government and private sector clients.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Its 42 years of experience, knowledge and innovation allow the company to dominate the market.
- Cost competitiveness due to economies of scale.
- Strong financial position with very low gearing.

O — Opportunity

- Thailand is in the middle of the infrastructure investment cycle.
- High-rise building trend in Bangkok given rising land costs.
- Thick and very soft clay terrain in Bangkok requires more piling foundation work.

W — Weakness

- The business is capital intensive and requires high asset utilization.
- Bored piling work requires high reliability.
- Risk from the company relying on key management personnel who are quite elderly.

T — Threat

- High volatility of steel and cement prices over short periods of time.
- The Covid-19 impact causing delays to Thailand's investment cycle and private construction projects.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	5.35	5.60	5%
Net profit 21F (Bt m)	158	104	-34%
Net profit 22F (Bt m)	220	202	-8%
Consensus REC	BUY: 2	HOLD: 5	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2021-22F are 8-34% below the Bloomberg consensus numbers, which we believe is due us having a more conservative view on gross margin because of labor shortages and low backlog quality.
- Our DCF-based TP is however 5% higher than the Street's, as we expect a strong earnings turnaround over the long term driven by a new round of infrastructure project bids.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Delays to the government's infrastructure projects and private construction projects could negatively impact our new-work-value assumptions and present the key downside risk to our call.
- Project delays could also hurt SEAFCO's gross margin given its high operating leverage.
- Fluctuations in building material prices over short periods of time also present a secondary downside risk to our earnings forecasts.
- Higher-than-expected new work value would positively impact our earnings forecasts and TP.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	3,032	2,560	2,203	2,444	2,754
Cost of sales	2,387	2,214	1,939	2,053	2,258
Gross profit	645	345	264	391	496
% gross margin	21.3%	13.5%	12.0%	16.0%	18.0%
Selling & administration expenses	158	150	150	159	171
Operating profit	487	196	115	232	325
% operating margin	16.1%	7.6%	5.2%	9.5%	11.8%
Depreciation & amortization	180	213	196	206	217
EBITDA	668	408	310	439	542
% EBITDA margin	22.0%	16.0%	14.1%	17.9%	19.7%
Non-operating income	30	25	30	30	30
Non-operating expenses	0	0	0	0	0
Interest expense	(23)	(24)	(20)	(16)	(12)
Pre-tax profit	494	197	124	246	343
Income tax	83	48	25	49	69
After-tax profit	411	149	99	197	274
% net margin	13.6%	5.8%	4.5%	8.1%	10.0%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(2)	5	5	5	6
Extraordinary items	0	0	0	0	0
NET PROFIT	410	154	104	202	280
Normalized profit	410	154	104	202	280
EPS (Bt)	0.6	0.2	0.1	0.3	0.4
Normalized EPS (Bt)	0.6	0.2	0.1	0.3	0.4

We expect SEAFCO's earnings to still face pressure in 2021F...

...before a strong earnings turnaround in 2022F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,134	975	911	1,047	1,208
Cash & cash equivalent	196	111	100	150	200
Account receivables	441	459	392	435	490
Inventories	98	82	69	73	80
Others	399	323	350	388	437
Investments & loans	26	60	60	60	60
Net fixed assets	1,613	1,286	1,240	1,184	1,116
Other assets	395	757	765	816	880
Total assets	3,168	3,078	2,977	3,107	3,264
LIABILITIES:					
Current liabilities:	1,080	1,003	900	908	930
Account payables	510	593	531	562	619
Bank overdraft & ST loans	295	41	23	15	3
Current LT debt	119	158	88	57	12
Others current liabilities	156	210	258	274	296
Total LT debt	229	197	109	71	16
Others LT liabilities	222	266	330	345	363
Total liabilities	1,531	1,466	1,339	1,324	1,309
Minority interest	14	7	2	(3)	(9)
Preferreds shares	0	0	0	0	0
Paid-up capital	370	370	370	370	370
Share premium	164	164	164	164	164
Warrants	0	0	0	0	0
Surplus	(3)	(5)	(5)	(5)	(5)
Retained earnings	1,093	1,076	1,106	1,257	1,436
Shareholders' equity	1,623	1,605	1,635	1,786	1,965
Liabilities & equity	3,168	3,078	2,977	3,107	3,264

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	494	197	124	246	343
Tax paid	(86)	(55)	(24)	(49)	(67)
Depreciation & amortization	180	213	196	206	217
Chg In working capital	(239)	81	18	(16)	(6)
Chg In other CA & CL / minorities	(255)	139	20	(22)	(30)
Cash flow from operations	95	575	334	366	458
Capex	(336)	115	(150)	(150)	(150)
Right of use	0	(375)	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	(22)	(34)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	126	53	67	(26)	(36)
Cash flow from investments	(232)	(241)	(93)	(186)	(196)
Debt financing	119	(246)	(177)	(77)	(111)
Capital increase	34	0	0	0	0
Dividends paid	(178)	(155)	(74)	(52)	(101)
Warrants & other surplus	(41)	(17)	0	0	0
Cash flow from financing	(66)	(418)	(251)	(129)	(212)
Free cash flow	(241)	689	184	216	308

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	8.9	23.6	35.0	18.0	13.0
Normalized PE - at target price (x)	10.1	26.8	39.8	20.5	14.8
PE (x)	8.9	23.6	35.0	18.0	13.0
PE - at target price (x)	10.1	26.8	39.8	20.5	14.8
EV/EBITDA (x)	6.1	9.6	12.1	8.3	6.4
EV/EBITDA - at target price (x)	6.9	10.8	13.7	9.4	7.3
P/BV (x)	2.2	2.3	2.2	2.0	1.9
P/BV - at target price (x)	2.6	2.6	2.5	2.3	2.1
P/CFO (x)	38.5	6.3	10.9	10.0	8.0
Price/sales (x)	1.2	1.4	1.7	1.5	1.3
Dividend yield (%)	5.3	2.0	1.4	2.8	3.9
FCF Yield (%)	(6.6)	18.9	5.0	5.9	8.5
(Bt)					
Normalized EPS	0.6	0.2	0.1	0.3	0.4
EPS	0.6	0.2	0.1	0.3	0.4
DPS	0.3	0.1	0.1	0.1	0.2
BV/share	2.2	2.2	2.2	2.4	2.7
CFO/share	0.1	0.8	0.5	0.5	0.6
FCF/share	(0.3)	0.9	0.2	0.3	0.4

Sources: Company data, Thanachart estimates

After its 31% share price fall from its 2020 peak, PE is at only 18x in 2022F and 13x in 2023F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	9.6	(15.6)	(13.9)	10.9	12.7
Net profit (%)	11.2	(62.3)	(32.7)	94.5	38.6
EPS (%)	11.2	(62.3)	(32.7)	94.5	38.6
Normalized profit (%)	11.2	(62.3)	(32.7)	94.5	38.6
Normalized EPS (%)	11.2	(62.3)	(32.7)	94.5	38.6
Dividend payout ratio (%)	47.0	47.9	50.0	50.0	50.0
Operating performance					
Gross margin (%)	21.3	13.5	12.0	16.0	18.0
Operating margin (%)	16.1	7.6	5.2	9.5	11.8
EBITDA margin (%)	22.0	16.0	14.1	17.9	19.7
Net margin (%)	13.6	5.8	4.5	8.1	10.0
D/E (incl. minor) (x)	0.4	0.2	0.1	0.1	0.0
Net D/E (incl. minor) (x)	0.3	0.2	0.1	(0.0)	(0.1)
Interest coverage - EBIT (x)	20.7	8.1	5.6	14.6	27.3
Interest coverage - EBITDA (x)	28.4	17.0	15.1	27.5	45.6
ROA - using norm profit (%)	13.3	4.9	3.4	6.6	8.8
ROE - using norm profit (%)	27.1	9.6	6.4	11.8	14.9
DuPont					
ROE - using after tax profit (%)	27.2	9.2	6.1	11.5	14.6
- asset turnover (x)	1.0	0.8	0.7	0.8	0.9
- operating margin (%)	17.1	8.6	6.6	10.7	12.9
- leverage (x)	2.0	1.9	1.9	1.8	1.7
- interest burden (%)	95.5	89.1	85.8	93.9	96.6
- tax burden (%)	83.2	75.5	80.0	80.0	80.0
WACC (%)	8.9	8.9	8.9	8.9	8.9
ROIC (%)	26.6	7.1	4.8	10.6	14.6
NOPAT (Bt m)	406	148	92	186	260
invested capital (Bt m)	2,070	1,892	1,755	1,778	1,796

Sources: Company data, Thanachart estimates

BUY (Unchanged)

TP: Bt 19.00

(From: Bt 18.50)

Change in Numbers

Upside : 31.9%

22 JUNE 2021

Sino-Thai Eng. & Cons. (STEC TB)

Further share price catalyst

We see the South Purple Line project bids with the TOR to be announced on 5 July as a share price catalyst for potential winners, including STEC. Rolling over our base year to 2022F, our TP rises to Bt19. We reaffirm BUY for its strong earnings recovery and net cash position along with being a pure play on the new construction cycle.



SAKSID PHADTHANANARAK

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Next is the South Purple Line project bid

After the State Railway (SRT) launched bids for double-track railway projects with a total value of Bt127bn in May (CKST JV, a JV between Ch. Karnchang (CK TB, BUY, Bt19.8 and STEC, won Bt46bn worth of contracts), we see a further share price catalyst for contractors including STEC from the Mass Rapid Transit Authority (MRTA) planning to launch bids for the South Purple Line project with a total project value of Bt106bn. The TOR are scheduled to be announced on 5 July 2021, the submission of bidding prices in October and the announcement of the winners late this year or early next year. The project is divided into six construction contracts and we see potential winners to include Italian-Thai Development (ITD TB, Unrated), CK, STEC and Unique Engineering (UNIQ TB, Unrated).

Raising our TP to Bt19; reaffirming BUY

We cut our earnings for STEC by 2-7% in 2022-23F as we lower our new work value assumptions by 7-60% in 2021-23F to Bt10bn-50bn to reflect the lower construction value of the South Purple Line project, delays in the bids for some double-track railway projects, and the election year in 2023F. However, this negative is offset by rolling over the base year in our model to 2022F, causing our SOTP-derived DCF-based TP to increase slightly to Bt19/share from Bt18.5. We reaffirm our BUY on STEC. Please note that despite no new infrastructure project bids in 2023F, STEC's accumulated backlog value in 2021-22F should still be large enough to drive its earnings growth by 2% in 2023F.

Our BUY case

Even though we switch our top pick in the construction sector from STEC to CK given that it has more share price catalysts (please see our CK report, *Factoring in West Orange Line*, dated 22 June 2021), we still like STEC given, **first**, its strong earnings turnaround with growth of 20-24% in 2021-22F driven by higher revenue recognition from its Bt77bn backlog value as of January 2021, Bt33bn-50bn of new work value in 2021-22F and improving gross margin after the zero-margin new parliament building project was completed in May. **Secondly**, it is a pure play on the new round of infrastructure project bids. **Thirdly**, it has the strongest financial status with a net cash position.

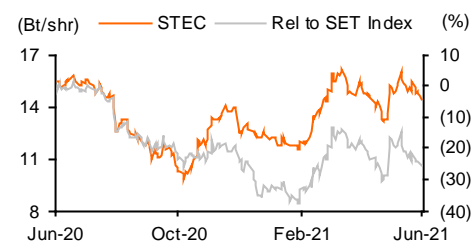
Attractive valuation in our opinion

STEC's valuation is also attractive in our view. Its shares now trade at a PE multiple of 17x in 2022F, compared with its average PE of 17x during the cycle's trough in 2008-13 while STEC's average new work value was at Bt21bn a year and its PE stood at 29x in 2014-20 during the infrastructure boom when its average new work value was Bt29bn a year.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	35,841	36,304	37,825	38,574
Net profit	1,093	1,036	1,286	1,314
Consensus NP	—	1,164	1,284	1,382
Diff frm cons (%)	—	(10.9)	0.1	(4.9)
Norm profit	867	1,036	1,286	1,314
Prev. Norm profit	—	1,060	1,325	1,407
Chg frm prev (%)	—	(2.2)	(3.0)	(6.6)
Norm EPS (Bt)	0.6	0.7	0.8	0.9
Norm EPS grw (%)	(39.5)	19.5	24.0	2.2
Norm PE (x)	25.3	21.2	17.1	16.7
EV/EBITDA (x)	8.4	7.7	6.0	5.3
P/BV (x)	1.5	1.5	1.4	1.3
Div yield (%)	2.1	1.4	1.8	1.8
ROE (%)	6.0	7.0	8.3	8.0
Net D/E (%)	(37.4)	(41.2)	(44.1)	(49.2)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 21-Jun-21 (Bt)	14.40
Market Cap (US\$ m)	698.3
Listed Shares (m shares)	1,525.1
Free Float (%)	65.2
Avg Daily Turnover (US\$ m)	10.2
12M Price H/L (Bt)	16.10/9.75
Sector	Construction
Major Shareholder	Chanvirakul family 21.7%

Sources: Bloomberg, Company data, Thanachart estimates



Ex 1: Key Assumption Changes

	2021F	2022F	2023F
New work value (Bt bn)			
New	33.0	50.0	10.0
Old	35.3	64.0	25.0
Change (%)	(6.5)	(21.9)	(60.0)
Normalized earnings (Bt m)			
New	1,036	1,286	1,314
Old	1,060	1,325	1,407
Change (pp)	(2.2)	(3.0)	(6.6)

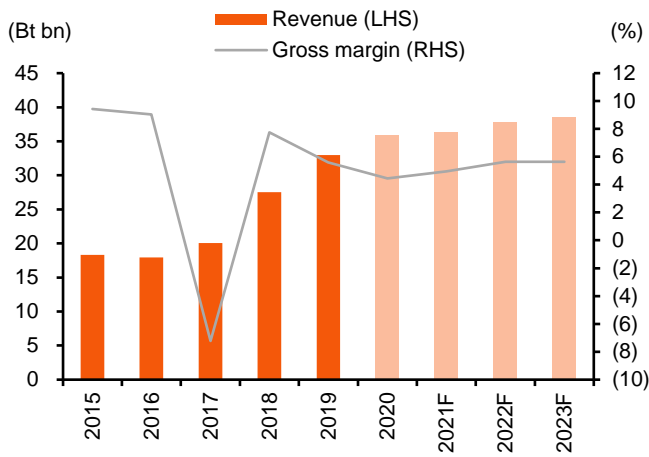
Source: Thanachart estimates

Ex 2: STEC's Potential New Work Value

Project	Construction Value (Bt bn)	Chance (%)	New work in 2021F (Bn)	New work in 2022F (Bn)	New work in 2023F (Bn)	New work in 2024F (Bn)
Backlog value as of January 2021			77			
Newly signed contracts						
Government Center Zone C			6			
Ayudhaya Diversion Canal			4			
To be signed contracts						
Double-track Denchai - Chiang Khong			23			
Potential projects						
South Purple Line	79	25	-	20	-	-
West Orange Line	96	-	-	-	-	-
Red Line Extension	67	25	-	-	-	17
Double-track Chira – Ubon	36	5	-	2	-	-
Double-track Khon Kaen - Nong Khai	25	5	-	1	-	-
U-Tapao Airport's First Phase	27	100	-	27	-	-
Others	-	-	-	-	10	10
Total new work value	330		33	50	10	27

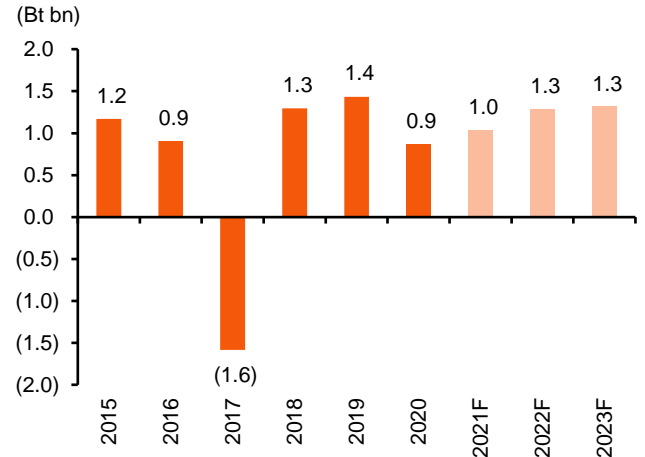
Sources: Company data, Thanachart estimates

Ex 3: STEC's Revenue And Gross Margin



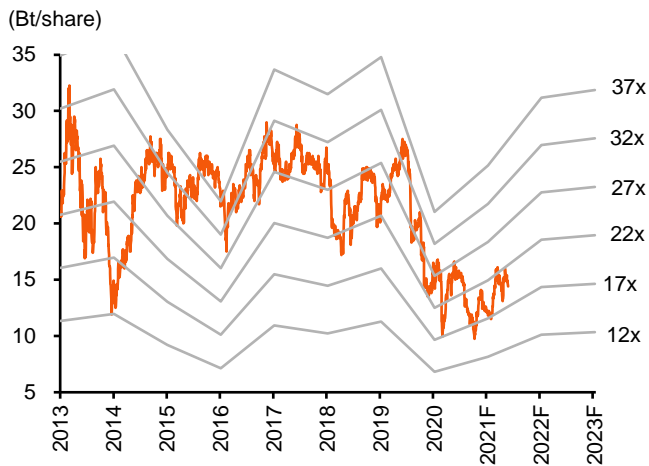
Sources: Company data, Thanachart estimates

Ex 4: STEC's Normalized Earnings



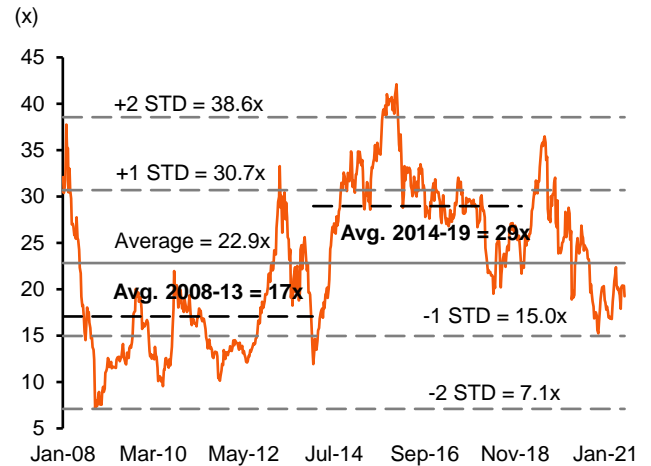
Sources: Company data, Thanachart estimates

Ex 5: STEC's PE Band



Sources: Bloomberg, Thanachart estimates

Ex 6: STEC's PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

Ex 7: 12-month SOTP-derived DCF-based TP Calculation, Using A 2022F Base Year

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	2,394	2,493	2,352	2,120	2,099	2,139	2,079	2,128	2,177	2,226	2,275	—
Free cash flow	849	1,392	1,125	1,371	1,593	1,507	1,049	1,245	1,294	1,344	1,394	17,104
PV of free cash flow	846	1,164	861	942	997	859	544	588	556	504	473	5,806
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	9.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	14,140											
Net debt (2020)	(6,300)											
Minority interest	290											
Equity value	20,150											
# of shares (m)	1,525											
Equity value/share (Bt)	13.2											
Sum-of-the-parts calculation												
								% holding				(Bt m)
Enterprise value from construction business												14,140
Investment equity value												8,896
TSE								9.00%				572
BSR JV								15.00%				1,523
GULF								1.88%				6,802
Total enterprise value												23,036
(Less) Net debt (2020F)												(6,300)
(Less) Minority interest												290
Total enterprise value												29,046
# of shares (fully diluted) (m shares)												1,525
Sum of the parts (SOTP)												19

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Sino-Thai Engineering & Construction (STECON) is one of the three biggest engineering and construction companies in Thailand, engaged in civil and mechanical work in buildings, infrastructure, energy, environment and industrial projects. It operates and offers services as a main contractor, sub-contractor, and joint-venture partner to both government and private sector clients. It classifies its construction services into five categories: infrastructure construction, industrial, building construction, power & energy, and environmental projects.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

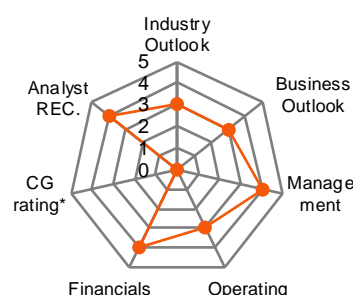
S — Strength

- Strongest financial position in the sector, with net cash.
- Class-A contractor able to bid for all construction work.
- Expert in power plant construction.

O — Opportunity

- Thailand is in the middle of an infrastructure investment cycle.
- Concerns about electricity shortages are also driving investments in power-plant projects.

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *No CG Rating

W — Weakness

- The majority of STEC's revenues are based on projects it has to bid for, and there are no guarantees it will win these bidding contests.
- The construction business is labor-intensive. Thus, there are risks from higher labor costs and labor shortages.

T — Threat

- Covid-19 impacts and the government's time-consuming implementation processes could cause delays to Thailand's infrastructure investment.
- Volatility in building material prices is a major risk that we expect to increase this year.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	17.83	19.00	7%
Net profit 21F (Bt m)	1,164	1,036	-11%
Net profit 22F (Bt m)	1,284	1,286	0%
Consensus REC	BUY: 14	HOLD: 3	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profit estimate for 2021F is 11% below the Bloomberg consensus number, which we believe is due to us having a more conservative gross margin assumption.
- Our TP is however higher than other brokers', likely as we are more bullish on its long-term earnings.

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if the implementation of infrastructure projects occurs slower than we currently expect. This would likely prompt us to adjust down our new work value assumptions and earnings forecasts.
- Building material expenses account for 50-60% of STEC's total costs. Therefore, higher prices present a downside risk to our earnings forecasts.
- A weaker-than-expected economic recovery could also have a significant negative impact upon people's confidence and new construction projects.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	32,992	35,841	36,304	37,825	38,574
Cost of sales	31,149	34,249	34,507	35,688	36,394
Gross profit	1,843	1,591	1,798	2,137	2,179
% gross margin	5.6%	4.4%	5.0%	5.7%	5.6%
Selling & administration expenses	530	686	726	757	771
Operating profit	1,313	906	1,072	1,381	1,408
% operating margin	4.0%	2.5%	3.0%	3.7%	3.6%
Depreciation & amortization	771	1,050	973	1,083	1,155
EBITDA	2,084	1,956	2,045	2,464	2,563
% EBITDA margin	6.3%	5.5%	5.6%	6.5%	6.6%
Non-operating income	277	166	175	179	186
Non-operating expenses	0	0	0	0	0
Interest expense	(51)	(53)	(63)	(64)	(63)
Pre-tax profit	1,539	1,018	1,184	1,496	1,531
Income tax	326	236	237	299	306
After-tax profit	1,213	782	947	1,196	1,225
% net margin	3.7%	2.2%	2.6%	3.2%	3.2%
Shares in affiliates' Earnings	231	95	100	100	100
Minority interests	(11)	(10)	(10)	(11)	(11)
Extraordinary items	50	226	0	0	0
NET PROFIT	1,484	1,093	1,036	1,286	1,314
Normalized profit	1,434	867	1,036	1,286	1,314
EPS (Bt)	1.0	0.7	0.7	0.8	0.9
Normalized EPS (Bt)	0.9	0.6	0.7	0.8	0.9

We expect STEC's earnings to turn around from this year onward...

...due to sustained high revenues and a recovery in gross margin

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	23,149	21,095	21,741	23,129	24,631
Cash & cash equivalent	7,261	6,496	7,000	7,800	9,000
Account receivables	10,342	9,905	9,946	10,363	10,568
Inventories	4,026	3,227	3,309	3,422	3,490
Others	1,520	1,468	1,485	1,544	1,573
Investments & loans	20,440	17,326	17,326	17,326	17,326
Net fixed assets	5,556	3,223	4,320	4,806	5,222
Other assets	62	2,389	2,330	2,273	2,215
Total assets	49,207	44,033	45,716	47,535	49,393
LIABILITIES:					
Current liabilities:	31,479	26,595	27,286	28,065	28,973
Account payables	27,802	21,673	22,217	22,977	23,931
Bank overdraft & ST loans	0	1,000	700	612	530
Current LT debt	0	0	0	0	0
Others current liabilities	3,677	3,921	4,370	4,476	4,512
Total LT debt	0	0	0	0	0
Others LT liabilities	3,081	2,727	3,131	3,185	3,196
Total liabilities	34,560	29,321	30,417	31,250	32,169
Minority interest	271	279	290	300	311
Preferreds shares	0	0	0	0	0
Paid-up capital	1,525	1,525	1,525	1,525	1,525
Share premium	2,097	2,097	2,097	2,097	2,097
Warrants	0	0	0	0	0
Surplus	2,869	2,264	2,264	2,264	2,264
Retained earnings	7,886	8,546	9,123	10,098	11,026
Shareholders' equity	14,377	14,433	15,010	15,984	16,912
Liabilities & equity	49,207	44,033	45,716	47,535	49,393

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,539	1,018	1,184	1,496	1,531
Tax paid	(326)	(236)	(237)	(299)	(306)
Depreciation & amortization	771	1,050	973	1,083	1,155
Chg In working capital	1,492	(4,893)	420	231	681
Chg In other CA & CL / minorities	732	483	531	147	108
Cash flow from operations	4,208	(2,577)	2,871	2,658	3,168
Capex	(1,880)	1,282	(2,000)	(1,500)	(1,500)
Right of use	0	(2,314)	(10)	(10)	(10)
ST loans & investments	(10)	(59)	0	0	0
LT loans & investments	(8,104)	3,114	0	0	0
Adj for asset revaluation	2,726	(605)	0	0	0
Chg In other assets & liabilities	2,352	(175)	403	51	10
Cash flow from investments	(4,914)	1,244	(1,607)	(1,459)	(1,500)
Debt financing	(1,236)	1,000	(300)	(88)	(82)
Capital increase	0	0	0	0	0
Dividends paid	(763)	(458)	(460)	(311)	(386)
Warrants & other surplus	(31)	25	(0)	0	0
Cash flow from financing	(2,030)	567	(760)	(399)	(468)
Free cash flow	2,328	(1,295)	871	1,158	1,668

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	15.3	25.3	21.2	17.1	16.7
Normalized PE - at target price (x)	20.2	33.4	28.0	22.5	22.1
PE (x)	14.8	20.1	21.2	17.1	16.7
PE - at target price (x)	19.5	26.5	28.0	22.5	22.1
EV/EBITDA (x)	7.1	8.4	7.7	6.0	5.3
EV/EBITDA - at target price (x)	10.4	12.0	11.1	8.8	8.0
P/BV (x)	1.5	1.5	1.5	1.4	1.3
P/BV - at target price (x)	2.0	2.0	1.9	1.8	1.7
P/CFO (x)	5.2	(8.5)	7.7	8.3	6.9
Price/sales (x)	0.7	0.6	0.6	0.6	0.6
Dividend yield (%)	2.1	2.1	1.4	1.8	1.8
FCF Yield (%)	10.6	(5.9)	4.0	5.3	7.6
(Bt)					
Normalized EPS	0.9	0.6	0.7	0.8	0.9
EPS	1.0	0.7	0.7	0.8	0.9
DPS	0.3	0.3	0.2	0.3	0.3
BV/share	9.4	9.5	9.8	10.5	11.1
CFO/share	2.8	(1.7)	1.9	1.7	2.1
FCF/share	1.5	(0.8)	0.6	0.8	1.1

Sources: Company data, Thanachart estimates

Despite a sharp recovery in its share price, STEC's valuation is still attractive in our view

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	19.8	8.6	1.3	4.2	2.0
Net profit (%)	(8.2)	(26.3)	(5.2)	24.0	2.2
EPS (%)	(8.2)	(26.3)	(5.2)	24.0	2.2
Normalized profit (%)	10.5	(39.5)	19.5	24.0	2.2
Normalized EPS (%)	10.5	(39.5)	19.5	24.0	2.2
Dividend payout ratio (%)	30.8	42.0	30.0	30.0	30.0
Operating performance					
Gross margin (%)	5.6	4.4	5.0	5.7	5.6
Operating margin (%)	4.0	2.5	3.0	3.7	3.6
EBITDA margin (%)	6.3	5.5	5.6	6.5	6.6
Net margin (%)	3.7	2.2	2.6	3.2	3.2
D/E (incl. minor) (x)	0.0	0.1	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)
Interest coverage - EBIT (x)	25.8	17.2	17.1	21.5	22.3
Interest coverage - EBITDA (x)	41.0	37.1	32.6	38.4	40.5
ROA - using norm profit (%)	3.0	1.9	2.3	2.8	2.7
ROE - using norm profit (%)	11.3	6.0	7.0	8.3	8.0
DuPont					
ROE - using after tax profit (%)	9.6	5.4	6.4	7.7	7.4
- asset turnover (x)	0.7	0.8	0.8	0.8	0.8
- operating margin (%)	4.8	3.0	3.4	4.1	4.1
- leverage (x)	3.7	3.2	3.0	3.0	2.9
- interest burden (%)	96.8	95.1	95.0	95.9	96.0
- tax burden (%)	78.8	76.8	80.0	80.0	80.0
WACC (%)	9.3	9.3	9.3	9.3	9.3
ROIC (%)	47.0	9.8	9.6	12.7	12.8
NOPAT (Bt m)	1,035	696	857	1,104	1,126
invested capital (Bt m)	7,116	8,937	8,710	8,797	8,442

Sources: Company data, Thanachart estimates

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