

Sino Thai Eng. & Const. (STEC TB) - BUY, Price Bt12.3, TP Bt19.0**Results Comment**

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Lower-than-expected 2Q21 earnings

- STEC reported a normalized profit of Bt125m in 2Q21, down 31% y-y and 37% q-q. The results were lower than what we had expected. A fall in earnings was mainly due to lower revenue and gross margin. STEC's 1H21 normalized earnings make up 45% of our full-year earnings forecast.
- 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 STEC'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 STEC as 1) a fall in its share price looks priced in bad news and 2) 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.
- Despite its high backlog value of Bt106bn, STEC's revenues decreased by 22% y-y in 2Q21. We believe this was due to lower utilization rate from the government's tighter regulations of construction sites to prevent the Covid-19 pandemic.
- Its gross margin dropped to 3.2% in 2Q21 versus 3.4% in 2Q20 while SG&A slightly decreased by 5% y-y.
- Its equity income fell by 46% y-y due to lower earnings contribution from the Eastern and Northern Bangkok Monorail companies.

| 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 | 9,018 | 8,606 | 8,888 | 7,549 | 7,072 | Revenue | (6) | (22) | 44 | 33,037 | 37,825 |
| Gross profit | 307 | 428 | 459 | 385 | 230 | Gross profit | (40) | (25) | 43 | 1,444 | 2,137 |
| SG&A | 215 | 165 | 156 | 182 | 203 | SG&A | 12 | (5) | 52 | 743 | 757 |
| Operating profit | 92 | 263 | 304 | 203 | 26 | Operating profit | (87) | (71) | 33 | 701 | 1,381 |
| EBITDA | 362 | 530 | 580 | 479 | 306 | EBITDA | (36) | (16) | 47 | 1,674 | 2,464 |
| Other income | 94 | 20 | 28 | 36 | 111 | Other income | 206 | 18 | 86 | 170 | 174 |
| Other expense | 0 | 0 | 0 | 0 | 0 | Other expense | | | | | |
| Interest expense | 12 | 13 | 15 | 11 | 8 | Interest expense | (27) | (32) | 30 | 65 | 68 |
| Profit before tax | 174 | 269 | 317 | 228 | 129 | Profit before tax | (43) | (26) | 44 | 806 | 1,487 |
| Income tax | 28 | 61 | 95 | 46 | 21 | Income tax | (54) | (25) | 42 | 161 | 297 |
| Equity & invest. income | 38 | 29 | 23 | 18 | 20 | Equity & invest. income | 10 | (46) | 51 | 75 | 75 |
| Minority interests | (3) | (3) | (3) | (3) | (3) | Minority interests | na | na | 58 | (9) | (11) |
| Extraordinary items | 0 | 0 | 226 | 0 | (124) | Extraordinary items | | | | | |
| Net profit | 181 | 235 | 468 | 197 | 1 | Net profit | (99) | (99) | 28 | 710 | 1,254 |
| Normalized profit | 181 | 235 | 242 | 197 | 125 | Normalized profit | (37) | (31) | 45 | 710 | 1,254 |
| EPS (Bt) | 0.12 | 0.15 | 0.31 | 0.13 | 0.00 | EPS (Bt) | (99) | (99) | 28 | 0.47 | 0.82 |
| Normalized EPS (Bt) | 0.12 | 0.15 | 0.16 | 0.13 | 0.08 | Normalized EPS (Bt) | (37) | (31) | 45 | 0.47 | 0.82 |

| 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 | 4,940 | 4,353 | 6,496 | 7,915 | 7,784 | Sales growth | 23.6 | (4.8) | (2.9) | (19.1) | (21.6) |
| A/C receivable | 9,567 | 9,564 | 9,905 | 8,811 | 7,975 | Operating profit growth | (59.5) | (28.6) | (3.9) | (17.7) | (71.4) |
| Inventory | 3,737 | 3,441 | 3,227 | 3,002 | 2,750 | EBITDA growth | (13.1) | (7.6) | 11.5 | (0.8) | (15.7) |
| Other current assets | 1,867 | 1,357 | 1,468 | 1,721 | 1,787 | Norm profit growth | (32.5) | (30.4) | (50.1) | (5.7) | (30.7) |
| Investment | 3,902 | 4,025 | 4,291 | 4,603 | 4,521 | Norm EPS growth | (32.5) | (30.4) | (50.1) | (5.7) | (30.7) |
| Fixed assets | 5,627 | 5,753 | 5,537 | 5,840 | 5,330 | Gross margin | 3.4 | 5.0 | 5.2 | 5.1 | 3.2 |
| Other assets | 17,934 | 17,476 | 13,110 | 12,486 | 13,135 | Operating margin | 1.0 | 3.1 | 3.4 | 2.7 | 0.4 |
| Total assets | 47,574 | 45,969 | 44,033 | 44,377 | 43,282 | EBITDA margin | 4.0 | 6.2 | 6.5 | 6.3 | 4.3 |
| S-T debt | 0 | 0 | 1,000 | 0 | 0 | Norm net margin | 2.0 | 2.7 | 2.7 | 2.6 | 1.8 |
| A/C payable | 26,246 | 25,771 | 21,673 | 22,662 | 22,135 | D/E (x) | - | - | 0.1 | - | - |
| Other current liabilities | 3,666 | 3,750 | 3,921 | 3,997 | 3,838 | Net D/E (x) | (0.3) | (0.3) | (0.4) | (0.5) | (0.5) |
| L-T debt | 0 | 0 | 0 | 0 | 0 | Interest coverage (x) | 30.2 | 39.3 | 39.9 | 42.8 | 37.6 |
| Other liabilities | 3,269 | 2,911 | 2,727 | 2,613 | 2,564 | Interest rate | na | na | 11.6 | 9.0 | na |
| Minority interest | 275 | 278 | 279 | 282 | 284 | Effective tax rate | 16.1 | 22.6 | 30.1 | 20.3 | 16.4 |
| Shareholders' equity | 14,117 | 13,258 | 14,433 | 14,824 | 14,461 | ROA | 1.5 | 2.0 | 2.2 | 1.8 | 1.1 |
| Working capital | (12,942) | (12,766) | (8,541) | (10,849) | (11,410) | ROE | 5.4 | 6.9 | 7.0 | 5.4 | 3.4 |
| Total debt | 0 | 0 | 1,000 | 0 | 0 | | | | | | |
| Net debt | (4,940) | (4,353) | (5,496) | (7,915) | (7,784) | | | | | | |

Sources: Company data, Thanachart estimates

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