

# Thailand Construction Sector

## Not all is lost

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	23.50	1,033	na	na	na	59.5	1.3	1.3	0.2	0.7
Pylon Pcl	PYLON TB	HOLD	4.34	4.30	100	(80.7)	245.3	93.4	27.1	3.3	3.0	0.5	2.8
Seafco Pcl	SEAFKO TB	BUY	4.78	5.30	109	na	na	na	25.3	2.3	2.1	0.0	2.0
Sino-Thai Eng & Con	STEC TB	BUY	13.30	17.50	625	(79.6)	399.5	114.8	23.0	1.4	1.4	0.3	1.3

Source: Thanachart estimates, Based on 30 August 2021 closing prices

**COVID, the lockdown, project bid delays, and a likely early election are undermining the construction sector's growth. We update its outlook and maintain our Overweight stance as not all the growth factors are lost after its share price collapse. CK is our top pick.**

### Overweight maintained

Given the COVID crisis, lockdown, project bid delays, and a likely early election next year, we cut our earnings for the construction sector to a Bt151m loss (from a Bt1.3bn profit) in 2021F, by 37% in 2022F and 19% in 2023F. However, we stay Overweight on the sector. **First**, despite delays in new mega project bids, backlog values remain high to support its earnings turnaround to a Bt1.7bn profit in 2022F. **Second**, we still expect the South Purple and West Orange Lines to open for bids after the election. **Third**, we see the sector having been punished enough trading at PE multiples of 36x in 2022F and 24x in 2023F PE versus its 35x pre-COVID average PE in 2015-19.

### The hiccups

Two key sector hiccups have been the COVID crisis slowing construction this year and a probable early election, expected in mid-2022F, delaying new project bids to late next year. After the government shut large construction sites in Bangkok and its vicinity in July, all sites can now reopen with strict COVID-containment measures. We expect higher costs and slower construction work through 2H21F with 3Q21F earnings reaching the bottom. We conservatively assume the Bt79bn-construction-value South Purple and Bt96bn West Orange Lines to be delayed until after the election. We expect no more mega-project bids in 2H21-1H22F.

### Not all the growth is gone

Despite the earnings hiccup this year, we project earnings turnaround to a Bt1.7bn profit in 2022F and grow 51% y-y in 2023F. Key drivers are **1)** a resumption of normal construction speed and a Bt132bn backlog value in 2021F increasing to Bt330bn in 2022F to drive revenue growth of 21-25% y-y in 2022-23F and **2)** higher utilization to drive its gross margin from 5% in 2021F to 7.4-7.7% in 2022-23F. Main earnings contributors we expect come from the existing projects like the Pink, Yellow, and East Orange Lines, and commercial buildings in 2022F and the new projects like double-track railways, Luang Prabang hydropower plant, U-Tapao Airport, and South Purple and West Orange Lines in 2023F.

### CK remains our top pick

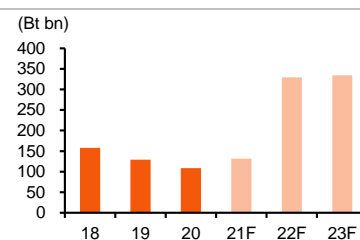
**First**, we project CK to offer the strongest earnings growth in 2022-25F from its high-potential new work value and earnings turnaround from its associates. **Second**, CK is the cheapest choice at a 48% discount to its associates' market value with an implied free construction business value vs. a 54% discount in 2020, 45% in 2019 and 10-26% in 2017-18. **Third**, we expect CK to win the Orange Line project in late 2022F.



SAKSID PHADTHANANARAK

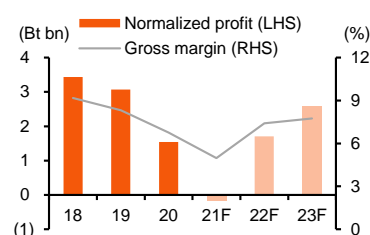
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### The Four Contractors' Backlog Value



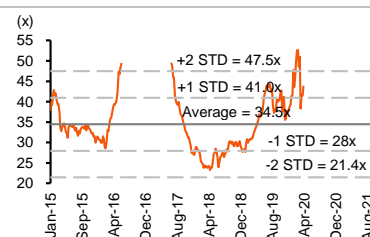
Sources: Company data, Thanachart estimates

### 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)
<b>CK's normalized earnings (Bt m)</b>				
New	(335)	564	1,054	23.5
Old	518	1,088	1,408	26.0
Change (%)	na	(48.2)	(25.2)	(9.6)
<b>STEC's normalized earnings (Bt m)</b>				
New	177	883	1,090	17.5
Old	710	1,254	1,288	19.0
Change (%)	(75.1)	(29.6)	(15.4)	(7.9)
<b>SEAFCO's normalized earnings (Bt m)</b>				
New	(27)	140	250	5.3
Old	56	201	279	5.6
Change (%)	na	(30.4)	(10.5)	(5.4)
<b>PYLON's normalized earnings (Bt m)</b>				
New	35	120	184	4.3
Old	64	180	194	4.3
Change (%)	(45.4)	(33.1)	(5.0)	—

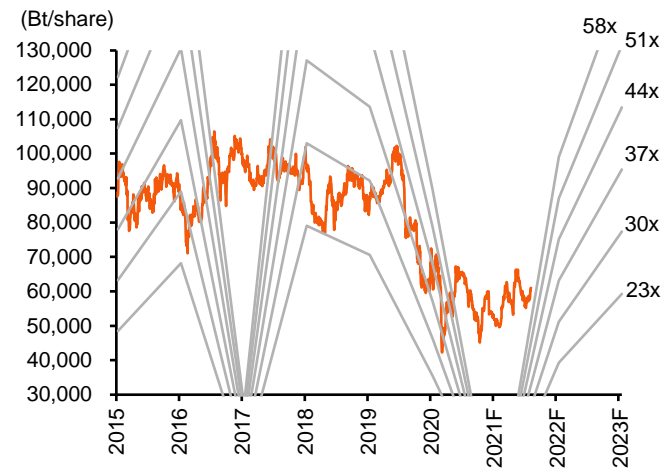
Source: Thanachart estimates

## Ex 2: Estimated Timeline For Infrastructure Projects Being Awarded To Contractors In 2021-23F

Project (Bt bn)	Project value	Construction value	2H21F	1H22F	2H22F	2023F
<b>To-be-signed contracts</b>						
Double-track Denchai - Chiang Khong	72	72	72	-	-	-
Double-track Banpai – Nakhon Phanom	55	55	55	-	-	-
U-Tapao Airport's First Phase	31	27	-	-	27	-
Luang Prabang Hydropower Plant	150	81	-	81	-	-
<b>Potential projects</b>						
South Purple Line	125	79	-	-	79	-
West Orange Line	129	96	-	-	96	-
Red Line Extension	103	67	-	-	-	67
Double-track Chira – Ubon	36	36	-	-	-	36
Double-track Khon Kaen - Nong Khai	25	25	-	-	-	25
<b>Total new work value</b>		<b>538</b>	<b>127</b>	<b>81</b>	<b>202</b>	<b>128</b>

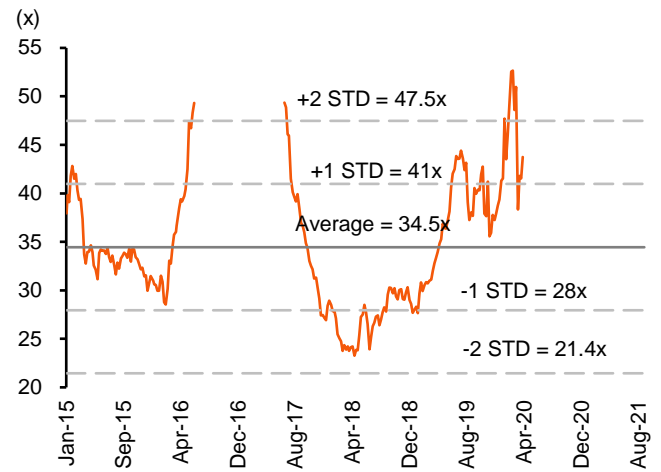
Sources: Company data, Thanachart estimates

**Ex 3: Sector's PE Band**



Sources: Bloomberg, Thanachart estimates

**Ex 4: Sector's PE Standard Deviation**



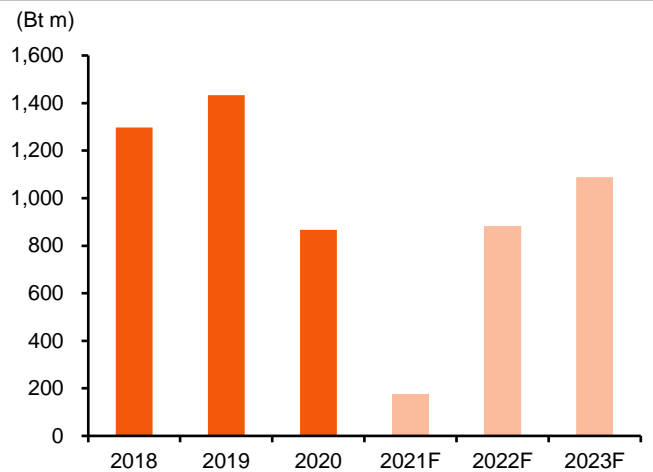
Sources: Bloomberg, Thanachart estimates

**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 Price (Bt)	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 (%)
Italian-Thai Devel.	ITD TB	2.38	85.2	na	na	na	1.0	1.1	11.2	10.3	na	na
Pre-Built	PREB TB	8.30	69.5	6.6	9.1	8.6	na	na	7.6	7.2	na	na
Sriracha Construction	SRICHA TB	20.60	191.9	41.0	15.4	10.9	3.9	3.7	9.9	6.8	6.3	8.3
CH Karnchang*	CK TB	19.80	na	na	na	59.5	1.3	1.3	na	315.3	0.2	0.7
Pylon Pcl*	PYLON TB	4.34	(80.7)	245.3	93.4	27.1	3.3	3.0	22.3	12.2	0.5	2.8
Seafo Pcl*	SEAFKO TB	4.78	na	na	na	25.3	2.3	2.1	25.9	10.3	0.0	2.0
Sino Thai Eng. & Cons*	STEC TB	13.30	(79.6)	399.5	114.8	23.0	1.4	1.4	15.5	7.3	0.3	1.3
<b>Average</b>			<b>37.3</b>	<b>173.1</b>	<b>58.2</b>	<b>25.7</b>	<b>2.2</b>	<b>2.1</b>	<b>15.4</b>	<b>52.8</b>	<b>1.5</b>	<b>3.0</b>

Source: Bloomberg

Note: \* Thanachart estimates using normalized EPS growth

Based on 30-Aug-21 closing prices

## Ex 8: Sector Valuation Comparison

		CK TB	PYLON TB	SEAFKO TB	STEC TB	Industry
Rating		BUY	HOLD	BUY	BUY	Overweight
Market cap	(US\$ m)	1,033	100	109	625	
Target price (Bt)	Thanachart	23.50	4.30	5.30	17.50	
	Consensus	23.56	4.49	5.22	16.67	
Consensus rec.	BUY	16	2	3	12	
	HOLD	0	3	3	4	
	SELL	0	3	2	1	
Sales (Bt m)	2020	16,941	1,415	2,560	35,841	56,757
	2021F	11,932	809	1,621	25,375	39,737
	2022F	16,831	1,370	1,977	29,363	49,542
	2023F	21,927	1,520	2,559	34,031	60,037
Normalized profits (Bt m)	2020	337	181	154	867	1,539
	2021F	(335)	35	(27)	177	(151)
	2022F	564	120	140	883	1,707
	2023F	1,054	184	250	1,090	2,578
Sales growth (%)	2020	(26.9)	(8.9)	(15.6)	8.6	(6.6)
	2021F	(29.6)	(42.9)	(36.7)	(29.2)	(30.0)
	2022F	41.1	69.4	21.9	15.7	24.7
	2023F	30.3	10.9	29.4	15.9	21.2
Normalized EPS growth (%)	2020	(65.0)	(31.4)	(62.3)	(39.5)	(49.9)
	2021F	na	(80.7)	na	(79.6)	(109.8)
	2022F	na	245.3	na	399.5	na
	2023F	87.0	53.3	78.6	23.4	51.0
Operating margin (%)	2020	(2.5)	14.7	7.6	2.5	1.6
	2021F	(8.8)	5.0	(3.0)	(0.0)	(2.7)
	2022F	(3.1)	10.5	8.0	3.0	1.3
	2023F	(1.1)	14.7	11.5	3.3	2.4
ROE (%)	2020	1.3	17.1	9.6	6.0	8.5
	2021F	na	3.4	na	1.2	2.3
	2022F	2.2	11.7	8.9	6.1	7.2
	2023F	4.0	16.4	14.4	7.1	10.5
Dividend yield (%)	2020	1.0	3.2	2.1	2.3	2.1
	2021F	0.2	0.5	0.0	0.3	0.3
	2022F	0.7	2.8	2.0	1.3	1.7
	2023F	1.3	4.3	3.5	1.6	2.7
P/BV (x)	2020	1.3	3.1	2.2	1.4	1.4
	2021F	1.3	3.3	2.3	1.4	1.4
	2022F	1.3	3.0	2.1	1.4	1.4
	2023F	1.2	2.8	1.9	1.3	1.3
Normalized PE (x)	2020	99.5	18.0	22.9	23.4	39.4
	2021F	na	93.4	na	114.8	na
	2022F	59.5	27.1	25.3	23.0	35.5
	2023F	31.8	17.6	14.1	18.6	23.5
EV/EBITDA (x)	2020	227.7	9.7	9.4	7.6	63.6
	2021F	na	22.3	25.9	15.5	21.2
	2022F	315.3	12.2	10.3	7.3	86.3
	2023F	121.3	8.6	7.2	5.8	35.7
Net D/E (x)	2020	1.3	(0.3)	0.2	(0.4)	0.2
	2021F	1.2	(0.2)	0.1	(0.4)	0.2
	2022F	1.1	(0.3)	0.1	(0.4)	0.1
	2023F	1.0	(0.4)	0.1	(0.4)	0.1

Source: Bloomberg

Note: \* Thanachart estimates, using normalized EPS

## STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET INDEX	7.3	2.5	24.7	12.7	—	—	—	—
Construction	9.5	0.2	19.2	10.0	2.1	(2.3)	(5.5)	(2.8)
CK TB	8.2	(2.5)	2.6	19.3	0.8	(5.0)	(22.1)	6.6
PYLON TB	5.9	(10.3)	0.5	10.2	(1.5)	(12.9)	(24.2)	(2.6)
SEAFKO TB	9.1	(8.1)	(15.4)	7.7	1.8	(10.6)	(40.1)	(5.1)
STEC TB	9.0	(16.9)	0.8	4.7	1.7	(19.4)	(23.9)	(8.0)

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	10.4	9.0	3.6	3.3	0.4	0.4	7.2	6.6	5.1	5.5
India	(31.5)	110.5	30.9	14.2	1.9	1.6	12.0	6.9	0.5	0.7
Malaysia	(7.8)	29.1	20.8	16.0	0.8	0.7	12.7	10.7	1.2	3.3
South Korea	47.2	(4.6)	8.0	7.7	1.0	0.9	5.7	5.5	1.3	1.8
Thailand	(109.8)	na	na	35.5	1.4	1.4	21.2	86.3	0.3	1.7
<b>Average</b>	<b>(18.3)</b>	<b>36.0</b>	<b>15.8</b>	<b>15.3</b>	<b>1.1</b>	<b>1.0</b>	<b>11.8</b>	<b>23.2</b>	<b>1.7</b>	<b>2.6</b>
CK TB	na	na	na	59.5	1.3	1.3	na	315.3	0.2	0.7
PYLON TB	(80.7)	245.3	93.4	27.1	3.3	3.0	22.3	12.2	0.5	2.8
SEAFKO TB	na	na	na	25.3	2.3	2.1	25.9	10.3	0.0	2.0
STEC TB	(79.6)	399.5	114.8	23.0	1.4	1.4	15.5	7.3	0.3	1.3
<b>Average</b>	<b>(109.8)</b>	<b>na</b>	<b>na</b>	<b>35.5</b>	<b>1.4</b>	<b>1.4</b>	<b>21.2</b>	<b>86.3</b>	<b>0.3</b>	<b>1.7</b>

Sources: Bloomberg Consensus

Note: \* Thanachart estimate – using normalized EPS

**BUY** (Unchanged)

Change in Numbers

**TP: Bt 23.50**

Upside : 18.7%

(From: Bt 26.00 )

**31 AUGUST 2021**

Small Cap Research

# Ch. Karnchang Pcl (CK TB)

## New backlog cycle

CK is our top sector pick. The company is seeing a major turnaround of its backlog cycle from a low of Bt29bn in 2020 to a Bt231bn peak in 2023F. Associates' earnings contributions have also started to turn around this year. At a 48% discount to its SOTP value vs. its 35% pre-COVID average, CK looks inexpensive to us. Reaffirm BUY.

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### Major backlog turnaround story

This is a part of the Construction Sector report, *Not all is lost*, dated 31 August 2021. CK is seeing a major backlog turnaround cycle. Its backlog bottomed at Bt29bn in 2020 and we project a peak of Bt231bn in 2023F. Key projects are 1) Bt23bn of work from the double-track railways; 2) the Bt81bn Luang Prabang hydropower plant; 3) Bt20bn of work from the Bt79bn South Purple Line; 4) the Bt96bn West Orange Line; and 5) Bt17bn of work from the Bt67bn Red Line extensions. Note that CK, under CK-STECH JV, is already the lowest bidder for #1 and a bid isn't required for #2, which is owned by its associate, CK Power (CKP TB, Bt5.55, BUY). We expect CKP to get a PPA for #2 in 1H22F. CK is also a potential winner for a part of the South Purple Line which has six separate contracts and the West Orange Line given its lengthy experience in building subway projects. We conservatively assume both lines to open for bidding in 2H22F.

### Strongest earnings growth in the sector

We estimate CK's earnings CAGR at 56% in 2022-25F, driven not only by its construction business's earnings turnaround but also higher equity income from its associates' earnings recovery. Despite weak earnings from its 31%-owned Bangkok Expressway & Metro's (BEM TB, Bt8.55, BUY), we forecast CK's equity income to rise 2% this year driven by its 31%-owned CKP's earnings growth and to grow further by 54% in 2022F and 24% in 2023F driven by BEM's earnings rebound.

### Too steep a discount, in our view

CK's share price has been trading at a discount to its associates' market value since 2017 when its construction business was weak and made losses due to a lower backlog value. The discount widened from 10-26% in 2017-18 to 54% in 2020. At a 48% discount now with the prospect of lower losses from the construction business due to the new backlog cycle and associates' earnings turnaround, CK looks inexpensive to us and we expect its discount to narrow down. Our DCF-derived SOTP-based 12-month TP is trimmed to Bt23.5 (from Bt26).

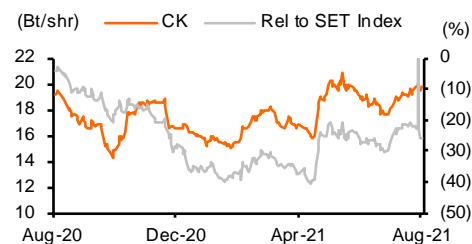
### COVID impact no longer news

We cut our earnings for CK to a Bt335m loss (from a Bt518m profit) in 2021F, by 48% in 2022F and 25% in 2023F to reflect the COVID-19 impact as explained in our sector report. However, we reaffirm our BUY call on CK as our sector top pick. **First**, its earnings hiccup this year is not new news and 4Q21F earnings look to have bottomed out. **Second**, we expect CK to win the highest new work value in the sector over the next two years. **Lastly**, with its associates' earnings turnaround, we forecast CK to offer the strongest earnings growth over the next four years.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	16,941	11,932	16,831	21,927
Net profit	612	191	564	1,054
Consensus NP	—	610	1,424	1,946
Diff frm cons (%)	—	(68.7)	(60.4)	(45.9)
Norm profit	337	(335)	564	1,054
Prev. Norm profit	—	518	1,088	1,408
Chg frm prev (%)	—	na	(48.2)	(25.2)
Norm EPS (Bt)	0.20	(0.20)	0.33	0.62
Norm EPS grw (%)	(65.0)	na	na	87.0
Norm PE (x)	99.5	na	59.5	31.8
EV/EBITDA (x)	227.7	na	315.3	121.3
P/BV (x)	1.3	1.3	1.3	1.2
Div yield (%)	1.0	0.2	0.7	1.3
ROE (%)	1.3	na	2.2	4.0
Net D/E (%)	131.8	117.7	112.3	104.4

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 30-Aug-21 (Bt)	19.80
Market Cap (US\$ m)	1,033.3
Listed Shares (m shares)	1,693.9
Free Float (%)	65.1
Avg Daily Turnover (US\$ m)	7.2
12M Price H/L (Bt)	20.90/14.30
Sector	Construction
Major Shareholder	Trivisvavet group 38.5%

Sources: Bloomberg, Company data, Thanachart estimates

## Ex 1: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
<b>New work value (Bt bn)</b>					
New	11.8	7.3	28.0	197.0	30.0
Old			29.0	200.0	10.0
Change (%)			(3.4)	(1.5)	(200.0)
<b>Normalized profit (Bt m)</b>					
New	963	337	(335)	564	1,054
Old			518	1,088	1,408
Change (%)			na	(48.2)	(25.2)
<b>Gross margin (%)</b>					
New	9.3	9.4	8.2	8.9	8.9
Old			7.7	8.5	8.5
Change (pp)			0.5	0.4	0.4

Source: Thanachart estimates

## Ex 2: CK's Potential New Work Value

Project	Project Value (Bn)	Construction Value (Bn)	Chance (%)	New work in 2021F (Bn)	New work in 2022F (Bn)	New work in 2023F (Bn)
<b>Backlog value as of end 2020</b>				<b>26</b>		
<b>Newly signed contracts</b>						
Water Transmission Tunnel				5		
Others				1		
<b>To be signed contracts</b>						
Double-track Denchai - Chiang Khong's Contract 2,3	46	46	50	23	-	-
Luang Prabang Hydropower Plant	150	81	100	-	81	-
<b>Potential projects</b>						
South Purple Line	125	79	25	-	20	-
West Orange Line	129	96	100	-	96	-
Red Line Extension	103	67	25	-	-	17
Double-track Chira – Ubon	36	36	5	-	-	2
Double-track Khon Kaen - Nong Khai	25	25	5	-	-	1
Others	-	-	-	-	-	10
<b>Total new work value</b>		<b>430</b>		<b>28</b>	<b>197</b>	<b>30</b>
<b>Backlog at year end</b>				<b>45</b>	<b>226</b>	<b>231</b>

Sources: Company data, Thanachart estimates

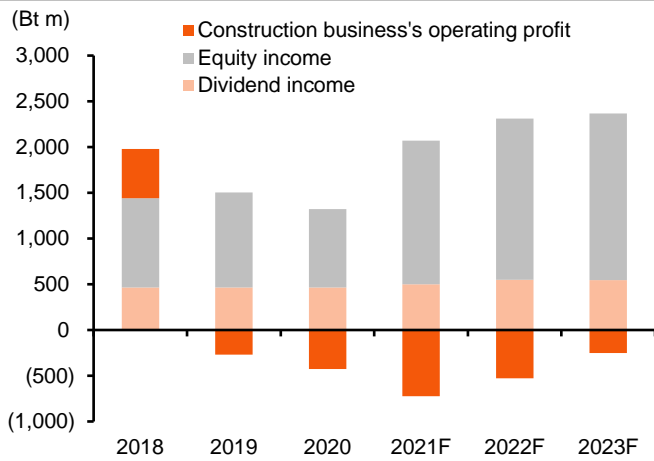
**Ex 3: Our SOTP-Based Investment Equity Valuation Of CK**

	% 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%	10.00	47,873	33,511	8.65	41,410
CKP	30.0%	7.50	18,291	12,804	5.65	13,779
<b>Total</b>			<b>77,001</b>	<b>53,900</b>		<b>64,478</b>
<b>Per CK share (Bt)</b>			<b>45.5</b>	<b>31.8</b>		<b>38.1</b>
<b>Construction business's value (Bt)</b>				<b>(8.3)</b>		
<b>Our TP (Bt)</b>				<b>23.5</b>		

Sources: Company data, Thanachart estimates

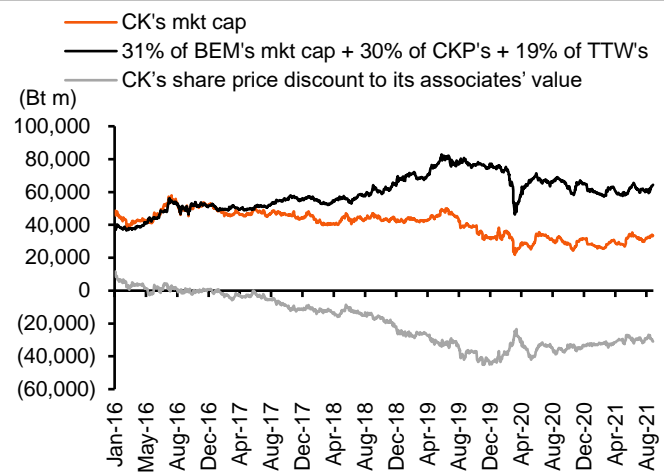
Note: \*We assume a holding company discount of 30% to our fair value of CK's associates.

**Ex 4: CK's Earnings Breakdown**



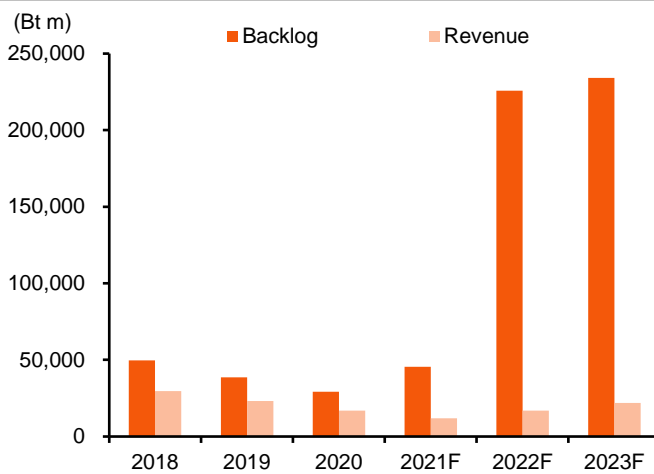
Sources: Company data, Thanachart estimates

**Ex 5: CK's Market Cap Vs. Its Associates' Market Cap**



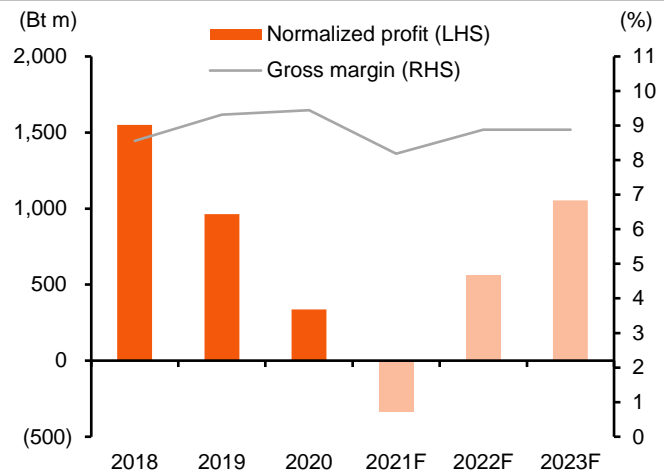
Source: Bloomberg

**Ex 6: CK's Backlog Value Vs. Revenue**



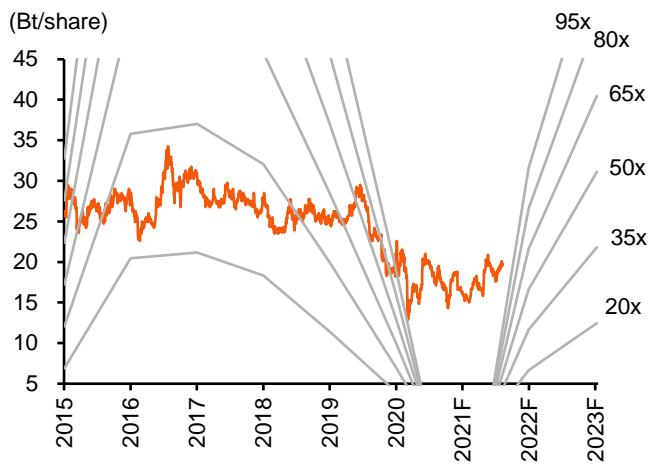
Sources: Company data, Thanachart estimates

**Ex 7: CK's Gross Margin Vs. Earnings**



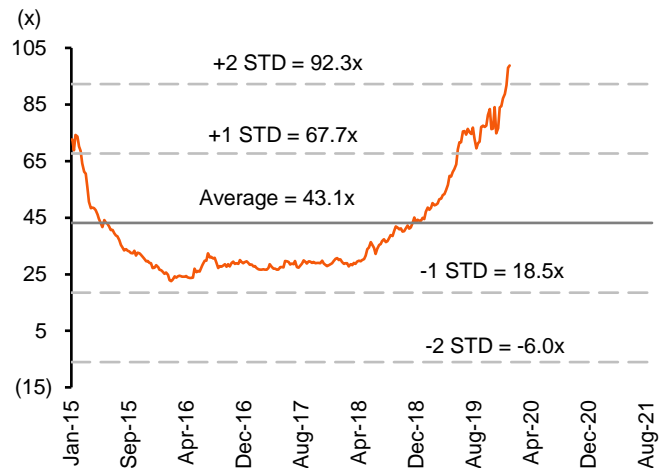
Sources: Company data, Thanachart estimates

## Ex 8: CK's PE Band



Sources: Bloomberg, Thanachart estimates

## Ex 9: CK's PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

## Ex 10: EV Of Construction Business

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	201	513	1,056	1,586	2,411	2,759	2,554	1,907	1,603	1,324	883	—
Free cash flow	84	285	724	993	1,532	2,160	2,715	2,528	1,996	1,855	1,118	18,458
PV of free cash flow	84	248	587	737	1,057	1,382	1,613	1,394	1,022	845	471	7,769
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	7.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	17,208											
Net debt (2021F)	30,765											
Minority interest	434											
Equity value	(13,992)											
# of shares (m)	1,694											
<b>Equity value/share (Bt)</b>	<b>(8.3)</b>											

Sum of the parts	% holding	(Bt m)
<b>Enterprise value from construction business</b>		<b>17,208</b>
<b>Investment equity value</b>		<b>53,900</b>
TTW	19.4%	7,586
BEM	31.3%	33,511
CKP	30.0%	12,804
<b>Total enterprise value</b>		<b>71,108</b>
(Less) Net debt		(30,765)
(Less) Minority interest		(434)
<b>Total enterprise value</b>		<b>39,909</b>
# of shares (fully diluted) (m shares)		1,694
<b>Sum of the parts (Bt/share)</b>		<b>23.6</b>

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

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

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 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
<b>Target price (Bt)</b>	23.56	23.50	0%
<b>Net profit 21F (Bt m)</b>	610	191	-69%
<b>Net profit 22F (Bt m)</b>	1,424	564	-60%
<b>Consensus REC</b>	<b>BUY: 16</b>	<b>HOLD: 0</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings are 60% lower than the Bloomberg consensus estimates, which we believe is due to us having a more conservative view on revenue and gross margins due to delays in mega project bids and the labour shortage.
- However, our SOTP-based TP is in line with 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 a secondary 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	11,932	16,831	21,927
Cost of sales	21,028	15,341	10,955	15,336	19,979
<b>Gross profit</b>	<b>2,161</b>	<b>1,601</b>	<b>977</b>	<b>1,495</b>	<b>1,948</b>
% gross margin	9.3%	9.4%	8.2%	8.9%	8.9%
Selling & administration expenses	2,430	2,027	2,028	2,020	2,193
<b>Operating profit</b>	<b>(268)</b>	<b>(427)</b>	<b>(1,052)</b>	<b>(524)</b>	<b>(244)</b>
% operating margin	-1.2%	-2.5%	-8.8%	-3.1%	-1.1%
Depreciation & amortization	526	726	694	726	758
<b>EBITDA</b>	<b>258</b>	<b>299</b>	<b>(358)</b>	<b>201</b>	<b>513</b>
% EBITDA margin	1.1%	1.8%	-3.0%	1.2%	2.3%
Non-operating income	1,560	1,226	1,190	1,113	1,010
Non-operating expenses	0	0	0	0	0
Interest expense	(1,226)	(1,276)	(1,338)	(1,356)	(1,362)
<b>Pre-tax profit</b>	<b>65</b>	<b>(477)</b>	<b>(1,200)</b>	<b>(768)</b>	<b>(596)</b>
Income tax	126	28	0	0	0
<b>After-tax profit</b>	<b>(61)</b>	<b>(505)</b>	<b>(1,200)</b>	<b>(768)</b>	<b>(596)</b>
% net margin	-0.3%	-3.0%	-10.1%	-4.6%	-2.7%
Shares in affiliates' Earnings	1,039	857	875	1,346	1,669
Minority interests	(15)	(15)	(10)	(15)	(19)
Extraordinary items	815	275	526	0	0
<b>NET PROFIT</b>	<b>1,778</b>	<b>612</b>	<b>191</b>	<b>564</b>	<b>1,054</b>
<b>Normalized profit</b>	<b>963</b>	<b>337</b>	<b>(335)</b>	<b>564</b>	<b>1,054</b>
EPS (Bt)	1.0	0.4	0.1	0.3	0.6
Normalized EPS (Bt)	0.6	0.2	(0.2)	0.3	0.6

*We forecast CK's earnings to turn around next year...*

*...driven by higher earnings contributions from its associates*

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

*...driven by higher backlog value from mega-project bids in 2021-23F*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	18,953	19,834	18,866	22,435	25,908
Cash & cash equivalent	9,160	7,767	10,000	10,000	10,000
Account receivables	3,643	3,659	2,779	3,920	5,106
Inventories	3,751	5,757	4,202	5,882	7,389
Others	2,400	2,650	1,885	2,633	3,412
Investments & loans	51,255	50,366	47,866	45,366	42,866
Net fixed assets	11,164	11,194	11,300	11,375	11,417
Other assets	1,213	1,381	1,013	1,382	1,766
<b>Total assets</b>	<b>82,586</b>	<b>82,774</b>	<b>79,045</b>	<b>80,559</b>	<b>81,957</b>
<b>LIABILITIES:</b>					
Current liabilities:	17,909	14,758	13,577	14,454	15,176
Account payables	13,950	10,631	9,605	10,504	11,221
Bank overdraft & ST loans	1,874	147	0	0	0
Current LT debt	1,525	3,670	3,669	3,593	3,483
Others current liabilities	559	309	303	356	471
<b>Total LT debt</b>	<b>33,605</b>	<b>38,586</b>	<b>37,096</b>	<b>36,330</b>	<b>35,222</b>
Others LT liabilities	3,259	3,160	2,239	3,140	4,077
<b>Total liabilities</b>	<b>54,773</b>	<b>56,503</b>	<b>52,912</b>	<b>53,924</b>	<b>54,475</b>
Minority interest	420	424	434	449	468
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
<b>Retained earnings</b>	<b>14,488</b>	<b>14,711</b>	<b>14,563</b>	<b>15,050</b>	<b>15,879</b>
Shareholders' equity	27,393	25,847	25,699	26,186	27,014
<b>Liabilities &amp; equity</b>	<b>82,586</b>	<b>82,774</b>	<b>79,045</b>	<b>80,559</b>	<b>81,957</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	65	(477)	(1,200)	(768)	(596)
Tax paid	(121)	(51)	3	0	5
Depreciation & amortization	526	726	694	726	758
Chg In working capital	2,165	(5,342)	1,409	(1,922)	(1,977)
Chg In other CA & CL / minorities	3,212	461	1,630	651	1,000
<b>Cash flow from operations</b>	<b>5,847</b>	<b>(4,683)</b>	<b>2,537</b>	<b>(1,313)</b>	<b>(810)</b>
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	(22)	537	558
<b>Cash flow from investments</b>	<b>(6,124)</b>	<b>49</b>	<b>1,673</b>	<b>2,232</b>	<b>2,253</b>
Debt financing	308	5,399	(1,638)	(842)	(1,218)
Capital increase	0	0	0	0	0
Dividends paid	(847)	(339)	(339)	(76)	(225)
Warrants & other surplus	1,041	(1,819)	0	0	0
<b>Cash flow from financing</b>	<b>502</b>	<b>3,241</b>	<b>(1,977)</b>	<b>(919)</b>	<b>(1,443)</b>
<b>Free cash flow</b>	<b>3,945</b>	<b>(5,439)</b>	<b>1,737</b>	<b>(2,113)</b>	<b>(1,610)</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	34.8	99.5	na	59.5	31.8
Normalized PE - at target price (x)	41.3	118.1	na	70.6	37.8
PE (x)	18.9	54.8	175.8	59.5	31.8
PE - at target price (x)	22.4	65.0	208.7	70.6	37.8
EV/EBITDA (x)	238.1	227.7	na	315.3	121.3
EV/EBITDA - at target price (x)	262.4	248.6	na	346.5	133.5
P/BV (x)	1.2	1.3	1.3	1.3	1.2
P/BV - at target price (x)	1.5	1.5	1.5	1.5	1.5
P/CFO (x)	5.7	(7.2)	13.2	(25.5)	(41.4)
Price/sales (x)	1.4	2.0	2.8	2.0	1.5
Dividend yield (%)	2.0	1.0	0.2	0.7	1.3
FCF Yield (%)	11.8	(16.2)	5.2	(6.3)	(4.8)
<b>(Bt)</b>					
Normalized EPS	0.6	0.2	(0.2)	0.3	0.6
EPS	1.0	0.4	0.1	0.3	0.6
DPS	0.4	0.2	0.0	0.1	0.2
BV/share	16.2	15.3	15.2	15.5	15.9
CFO/share	3.5	(2.8)	1.5	(0.8)	(0.5)
FCF/share	2.3	(3.2)	1.0	(1.2)	(1.0)

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
<b>Growth Rate</b>					
Sales (%)	(21.4)	(26.9)	(29.6)	41.1	30.3
Net profit (%)	(28.7)	(65.6)	(68.8)	195.5	87.0
EPS (%)	(28.7)	(65.6)	(68.8)	195.5	87.0
Normalized profit (%)	(37.9)	(65.0)	na	na	87.0
Normalized EPS (%)	(37.9)	(65.0)	na	na	87.0
Dividend payout ratio (%)	38.1	55.3	40.0	40.0	40.0
<b>Operating performance</b>					
Gross margin (%)	9.3	9.4	8.2	8.9	8.9
Operating margin (%)	(1.2)	(2.5)	(8.8)	(3.1)	(1.1)
EBITDA margin (%)	1.1	1.8	(3.0)	1.2	2.3
Net margin (%)	(0.3)	(3.0)	(10.1)	(4.6)	(2.7)
D/E (incl. minor) (x)	1.3	1.6	1.6	1.5	1.4
Net D/E (incl. minor) (x)	1.0	1.3	1.2	1.1	1.0
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	0.2	0.2	na	0.1	0.4
ROA - using norm profit (%)	1.2	0.4	na	0.7	1.3
ROE - using norm profit (%)	3.6	1.3	na	2.2	4.0
<b>DuPont</b>					
ROE - using after tax profit (%)	na	na	na	na	na
- asset turnover (x)	0.3	0.2	0.1	0.2	0.3
- operating margin (%)	5.6	na	na	na	na
- leverage (x)	3.1	3.1	3.1	3.1	3.1
- interest burden (%)	5.1	(59.6)	(866.8)	(130.5)	(77.9)
- tax burden (%)	na	na	na	na	na
WACC (%)	7.3	7.3	7.3	7.3	7.3
ROIC (%)	0.5	(0.8)	(1.4)	(0.7)	(0.3)
NOPAT (Bt m)	250	(427)	(841)	(419)	(196)
invested capital (Bt m)	55,237	60,483	56,464	56,109	55,719

Sources: Company data, Thanachart estimates

*We expect net D/E ratio to fall further to 1.1x in 2022F and 1x in 2023F from 2.7x in 2011*

**HOLD** (Unchanged)

Company update

**TP: Bt 4.30**

Downside : 0.9%

(Unchanged)

31 AUGUST 2021

Small Cap Research

# Pylon Public Co Ltd (PYLON TB)

## Fair valuation

The COVID crisis prompts us to cut PYLON's earnings by 5-33% in 2022-23F but as we lower our discount rate, our TP remains at Bt4.3. Even though we see PYLON as one of the beneficiaries from the new mega-project bid cycle, its valuation looks fair to us at 2022F PE of 27x, falling to 18x in 2023F vs. its pre-COVID avg. PE of 22x in 2015-19.

**SAKSID PHADTHANANARAK**

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### Maintain HOLD rating

This is a part of the Construction Sector report, *Not all is lost*, dated 31 August 2021. We cut our earnings for PYLON by 45% in 2021F, 33% in 2022F and 5% in 2023F to reflect the COVID crisis and project delays. However, these negative factors are offset by us lowering our WACC assumption by 1pp to 9-10% in 2022-32F. As such, we maintain our DCF-based 12-month TP (2022F base year) at Bt4.3 and a HOLD rating on PYLON. Even though we believe PYLON, as the second-largest piling contractor in Thailand, will likely enjoy piling demand from the new mega-project bid cycle, its valuation looks fair in our view at PE multiples of 27x in 2022F and 18x in 2023F vs. its pre-COVID average PE of 22x in 2015-19.

### High new work despite COVID impact

Despite the COVID pandemic, PYLON's new-work value is high at Bt911m so far this year and its backlog value has increased to Bt1.2bn. However, Bt400m of its new work is from the high-speed train project linking three airports where we are still concerned about the government's land delivery. We thus decide not to factor in this project yet. Despite that, PYLON is in negotiations for Bt500m of piling work for high-rise commercial building projects and we see it as a potential winner of piling work for the Rama 3-Dao Kanong Expressway, South Purple Line and East Orange Line. We estimate PYLON's new work value at Bt1bn in 2021F, Bt1.4bn in 2022F and Bt1.6bn in 2023F vs. its average new work value of Bt1.2bn pre-COVID in 2015-19.

### Labor shortage still a worry

Building material price volatility is not a management concern as piling work takes only three to four months to complete and it can lock in raw material prices once the projects are awarded. However, labor shortages are still a worry and it could slow down PYLON's utilization ramp-up and gross margin recovery. Management believes that after COVID subsides in 4Q21F, the government will allow it to bring in foreign workers. We assume its gross margin to recover from 15.5% in 2021F to 17% in 2022F and 21% in 2023F vs. 23-26% in pre-COVID 2015-19.

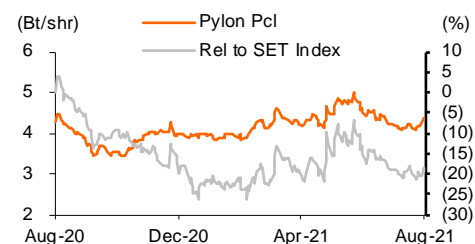
### We prefer SEAFCO to PYLON

We however prefer SEAFCO (please see our SEAFCO report, titled *Second-tier beneficiary*, dated 23 August 2021) to PYLON because of **1**) its cheaper valuation (14-25x PE in 2022-23F), **2**) its largest capacity to likely enjoy economies of scale once its utilization rate ramps up and **3**) more potential high-value high-margin piling work from the new mega-projects given strong relationships with large civil contractors, especially Ch. Karnchang (CK TB, Bt19.8, BUY).

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	1,415	809	1,370	1,520
Net profit	183	35	120	184
Consensus NP	—	113	194	288
Diff frm cons (%)	—	(69.3)	(37.9)	(35.8)
Norm profit	181	35	120	184
Prev. Norm profit	—	64	180	194
Chg frm prev (%)	—	(45.4)	(33.1)	(5.0)
Norm EPS (Bt)	0.2	0.0	0.2	0.2
Norm EPS grw (%)	(31.4)	(80.7)	245.3	53.3
Norm PE (x)	18.0	93.4	27.1	17.6
EV/EBITDA (x)	9.7	22.3	12.2	8.6
P/BV (x)	3.1	3.3	3.0	2.8
Div yield (%)	3.2	0.5	2.8	4.3
ROE (%)	17.1	3.4	11.7	16.4
Net D/E (%)	(27.8)	(22.8)	(28.6)	(37.9)

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 30-Aug-21 (Bt)	4.34
Market Cap (US\$ m)	100.3
Listed Shares (m shares)	749.9
Free Float (%)	40.6
Avg Daily Turnover (US\$ m)	0.2
12M Price H/L (Bt)	5.00/3.42
Sector	Construction
Major Shareholder	Sangarayakul Family 51.5%

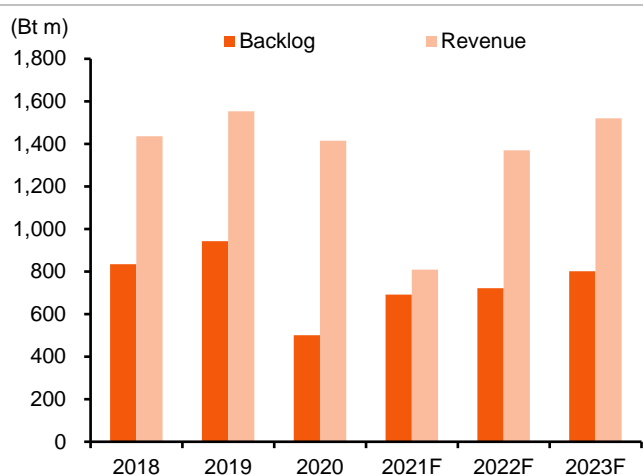
Sources: Bloomberg, Company data, Thanachart estimates

## Ex 1: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
<b>New work value (Bt m)</b>					
New	1,663	972	1,000	1,400	1,600
Old			1,300	1,346	1,393
Change (%)			(23.1)	4.0	14.9
<b>Normalized profit (Bt m)</b>					
New	278	183	35	120	184
Old			64	180	194
Change (%)			(45.4)	(33.1)	(5.0)
<b>Gross margin (%)</b>					
New	26.3	21.5	15.5	17.0	21.0
Old			16.0	22.0	22.5
Change (pp)			(0.5)	(5.0)	(1.5)

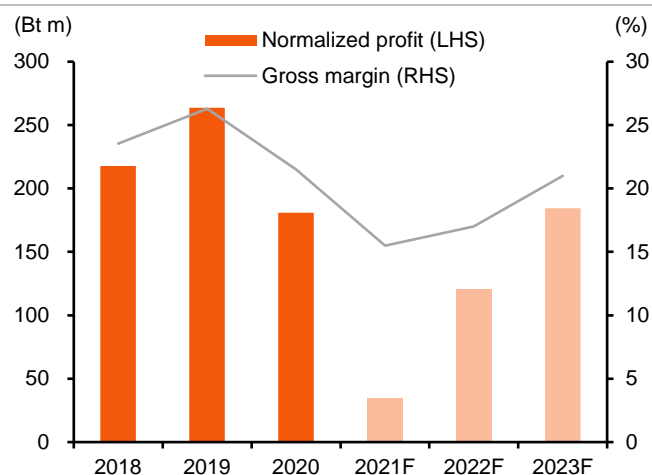
Source: Thanachart estimates

## Ex 2: PYLON's Backlog Value Vs. Revenue



Sources: Company data, Thanachart estimates

## Ex 3: PYLON's Gross Margin Vs. Earnings



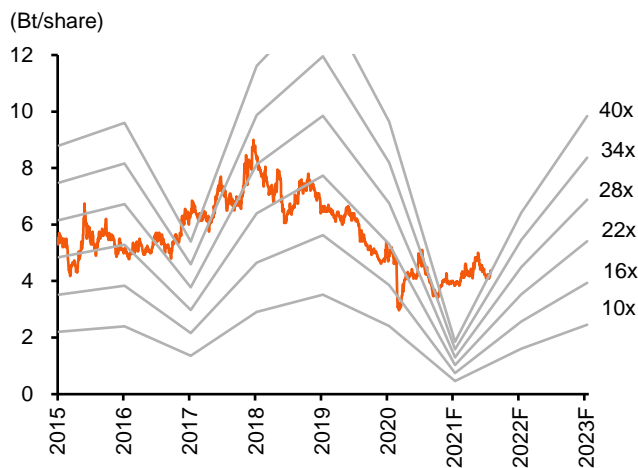
Sources: Company data, Thanachart estimates

## Ex 4: Estimated Piling Work Value For The Mega Projects In 2022-23

Project	Construction value (Bt bn)	Estimated piling value (Bt bn)	Estimated year for piling work
Double-track Denchai - Chiang Khong	72	0.7	1H22F
Double-track Ban Pai-Nakhon Phanom	55	0.6	1H22F
Rama 3 – Dao Kanong - Outer Ring Road	14	0.4	1H22F
South Purple Line	79	4.0	1H23F
West Orange Line	96	4.8	1H23F
<b>Total</b>	<b>316</b>	<b>10.5</b>	

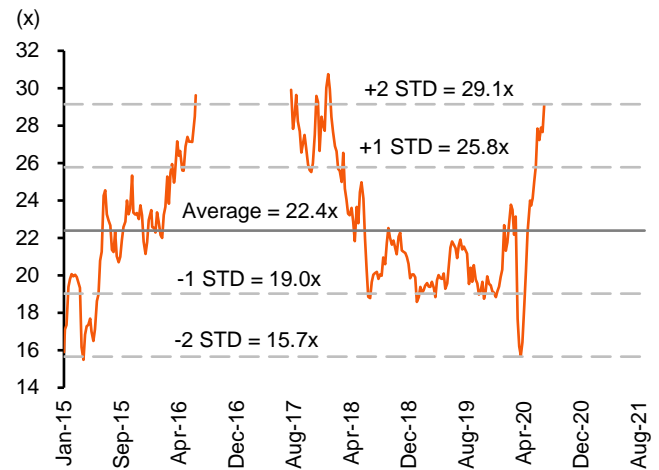
Sources: Company data, Thanachart estimates

## Ex 5: PYLON's PE Band



Sources: Bloomberg, Thanachart estimates

## Ex 6: PYLON'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	239	323	385	399	406	414	421	428	435	442	449	—
Free cash flow	88	216	213	255	271	278	285	293	300	307	314	4,018
PV of free cash flow	87	182	165	181	172	162	151	142	133	124	110	1,413
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	9.0											
Terminal growth (%)	2.0											
Enterprise value - add investments	3,021											
Net debt (2021F)	(222)											
Minority interest	—											
Equity value	3,243											
# of shares (m)*	750											
<b>Target price/share (Bt)</b>	<b>4.30</b>											

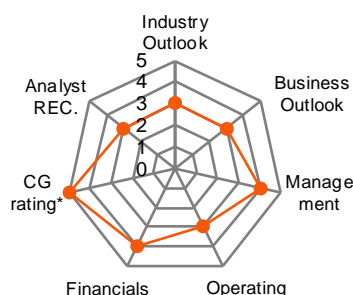
Sources: Company data, Thanachart estimates

## COMPANY DESCRIPTION

Pylon Public Company Limited (PYLON) was incorporated in 2002. The company provides construction services related to foundation work with three product lines: bored piling, diaphragm wall and ground improvement by jet grouting. At end 2015, PYLON had 20 sets of piling machines and two sets of diaphragm walling machines.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Its 14 years of experience, knowledge and innovation allow the company to qualify for almost all kinds of foundation work.
- Cost competitiveness due to economies of scale and strong cost management.
- Robust financial position with a net cash position.

### O — Opportunity

- Thailand is entering a new multi-year 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.
- Capacity constraints to fully enjoy the massive infrastructure investment cycle.

### T — Threat

- Political instability causing delays to Thailand's new investment cycle and private construction projects.
- High volatility for steel and cement prices over short periods of time.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	4.49	4.30	-4%
<b>Net profit 21F (Bt m)</b>	113	35	-69%
<b>Net profit 22F (Bt m)</b>	194	120	-38%
<b>Consensus REC</b>	<b>BUY: 2</b>	<b>HOLD: 3</b>	<b>SELL: 3</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimate for 2022F is 38% lower than the Bloomberg consensus forecast, which we believe is because we have a more conservative view on revenue and gross margin because of labor shortage.
- Our DCF-based TP is also lower than the Street's, following our lower earnings projection.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- Delays to the government's infrastructure projects and private construction projects could impact our new work value assumptions.
- Delays could also hurt PYLON's gross margins given its high operating leverage.
- Fluctuations in building material prices over short periods of time also present a major risk to our earnings projections.

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	1,554	1,415	809	1,370	1,520
Cost of sales	1,145	1,111	683	1,137	1,201
<b>Gross profit</b>	<b>409</b>	<b>304</b>	<b>125</b>	<b>233</b>	<b>319</b>
% gross margin	26.3%	21.5%	15.5%	17.0%	21.0%
Selling & administration expenses	100	96	85	89	96
<b>Operating profit</b>	<b>309</b>	<b>208</b>	<b>40</b>	<b>144</b>	<b>223</b>
% operating margin	19.9%	14.7%	5.0%	10.5%	14.7%
Depreciation & amortization	86	98	96	98	102
<b>EBITDA</b>	<b>395</b>	<b>306</b>	<b>136</b>	<b>242</b>	<b>326</b>
% EBITDA margin	25.4%	21.7%	16.8%	17.6%	21.4%
Non-operating income	9	10	5	8	9
Non-operating expenses	0	0	0	0	0
Interest expense	(3)	(4)	(2)	(2)	(2)
<b>Pre-tax profit</b>	<b>314</b>	<b>214</b>	<b>44</b>	<b>150</b>	<b>231</b>
Income tax	51	33	9	30	46
<b>After-tax profit</b>	<b>264</b>	<b>181</b>	<b>35</b>	<b>120</b>	<b>184</b>
% net margin	17.0%	12.8%	4.3%	8.8%	12.1%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	14	2	0	0	0
<b>NET PROFIT</b>	<b>278</b>	<b>183</b>	<b>35</b>	<b>120</b>	<b>184</b>
<b>Normalized profit</b>	<b>264</b>	<b>181</b>	<b>35</b>	<b>120</b>	<b>184</b>
EPS (Bt)	0.4	0.2	0.0	0.2	0.2
Normalized EPS (Bt)	0.4	0.2	0.0	0.2	0.2

*We still expect strong piling work demand from commercial building and infrastructure projects ....*

*...to boost PYLON's earnings in 2022-23F*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	1,024	718	708	912	1,021
Cash & cash equivalent	326	343	270	360	495
Account receivables	638	329	399	488	458
Inventories	59	44	37	62	66
Others	1	2	1	2	2
Investments & loans	0	0	0	0	0
Net fixed assets	645	505	432	376	356
Other assets	20	97	99	114	118
<b>Total assets</b>	<b>1,689</b>	<b>1,321</b>	<b>1,239</b>	<b>1,403</b>	<b>1,496</b>
<b>LIABILITIES:</b>					
Current liabilities:	535	190	174	212	205
Account payables	388	116	94	125	115
Bank overdraft & ST loans	67	19	18	19	18
Current LT debt	23	18	16	18	17
Others current liabilities	57	37	46	51	54
<b>Total LT debt</b>	<b>32</b>	<b>15</b>	<b>14</b>	<b>15</b>	<b>14</b>
Others LT liabilities	56	69	75	97	103
<b>Total liabilities</b>	<b>622</b>	<b>274</b>	<b>262</b>	<b>323</b>	<b>323</b>
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	375	375	375	375	375
Share premium	154	154	154	154	154
Warrants	0	0	0	0	0
Surplus	(6)	(6)	(6)	(6)	(6)
<b>Retained earnings</b>	<b>544</b>	<b>523</b>	<b>453</b>	<b>556</b>	<b>650</b>
Shareholders' equity	1,067	1,047	976	1,079	1,173
<b>Liabilities &amp; equity</b>	<b>1,689</b>	<b>1,321</b>	<b>1,239</b>	<b>1,403</b>	<b>1,496</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	314	214	44	150	231
Tax paid	(38)	(45)	(6)	(31)	(44)
Depreciation & amortization	86	98	96	98	102
Chg In working capital	(21)	52	(86)	(83)	17
Chg In other CA & CL / minorities	(69)	(7)	7	4	1
<b>Cash flow from operations</b>	<b>272</b>	<b>312</b>	<b>55</b>	<b>139</b>	<b>307</b>
Capex	(202)	41	(20)	(40)	(80)
Right of use	0	(78)	(3)	(3)	(3)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	70	15	4	8	3
<b>Cash flow from investments</b>	<b>(131)</b>	<b>(22)</b>	<b>(19)</b>	<b>(35)</b>	<b>(80)</b>
Debt financing	56	(70)	(4)	3	(1)
Capital increase	0	0	0	0	0
Dividends paid	(75)	(202)	(105)	(17)	(90)
Warrants & other surplus	(2)	(1)	0	0	0
<b>Cash flow from financing</b>	<b>(21)</b>	<b>(273)</b>	<b>(109)</b>	<b>(14)</b>	<b>(91)</b>
<b>Free cash flow</b>	<b>70</b>	<b>353</b>	<b>35</b>	<b>99</b>	<b>227</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	12.3	18.0	93.4	27.1	17.6
Normalized PE - at target price (x)	12.2	17.8	92.6	26.8	17.5
PE (x)	11.7	17.8	93.4	27.1	17.6
PE - at target price (x)	11.6	17.7	92.6	26.8	17.5
EV/EBITDA (x)	7.7	9.7	22.3	12.2	8.6
EV/EBITDA - at target price (x)	7.7	9.6	22.1	12.1	8.5
P/BV (x)	3.0	3.1	3.3	3.0	2.8
P/BV - at target price (x)	3.0	3.1	3.3	3.0	2.7
P/CFO (x)	12.0	10.4	59.4	23.4	10.6
Price/sales (x)	2.1	2.3	4.0	2.4	2.1
Dividend yield (%)	6.2	3.2	0.5	2.8	4.3
FCF Yield (%)	2.1	10.8	1.1	3.0	7.0
<b>(Bt)</b>					
Normalized EPS	0.4	0.2	0.0	0.2	0.2
EPS	0.4	0.2	0.0	0.2	0.2
DPS	0.3	0.1	0.0	0.1	0.2
BV/share	1.4	1.4	1.3	1.4	1.6
CFO/share	0.4	0.4	0.1	0.2	0.4
FCF/share	0.1	0.5	0.0	0.1	0.3

Sources: Company data, Thanachart estimates

*Valuation now looks fair to us at 27x PE in 2022F, falling to 18x in 2023F versus 22x in pre-COVID 2015-19*

**FINANCIAL RATIOS**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Growth Rate</b>					
Sales (%)	8.2	(8.9)	(42.9)	69.4	10.9
Net profit (%)	27.5	(34.2)	(80.9)	245.3	53.3
EPS (%)	27.5	(34.2)	(80.9)	245.3	53.3
Normalized profit (%)	21.1	(31.4)	(80.7)	245.3	53.3
Normalized EPS (%)	21.1	(31.4)	(80.7)	245.3	53.3
Dividend payout ratio (%)	72.9	57.5	50.0	75.0	75.0
<b>Operating performance</b>					
Gross margin (%)	26.3	21.5	15.5	17.0	21.0
Operating margin (%)	19.9	14.7	5.0	10.5	14.7
EBITDA margin (%)	25.4	21.7	16.8	17.6	21.4
Net margin (%)	17.0	12.8	4.3	8.8	12.1
D/E (incl. minor) (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.2)	(0.3)	(0.2)	(0.3)	(0.4)
Interest coverage - EBIT (x)	101.3	50.1	23.1	83.1	110.6
Interest coverage - EBITDA (x)	129.5	73.8	77.9	139.6	161.3
ROA - using norm profit (%)	18.0	12.0	2.7	9.1	12.7
ROE - using norm profit (%)	27.3	17.1	3.4	11.7	16.4
<b>DuPont</b>					
ROE - using after tax profit (%)	27.3	17.1	3.4	11.7	16.4
- asset turnover (x)	1.1	0.9	0.6	1.0	1.0
- operating margin (%)	20.4	15.4	5.6	11.1	15.3
- leverage (x)	1.5	1.4	1.3	1.3	1.3
- interest burden (%)	99.0	98.1	96.1	98.9	99.1
- tax burden (%)	83.9	84.7	80.0	80.0	80.0
WACC (%)	9.0	9.0	9.0	9.0	9.0
ROIC (%)	35.7	20.4	4.3	15.3	23.2
NOPAT (Bt m)	259	176	32	115	179
invested capital (Bt m)	863	756	754	770	728

*We forecast low gearing  
but decent ROE*

Sources: Company data, Thanachart estimates

**BUY** (Unchanged)

Change in Numbers

**TP: Bt 5.30**

Upside : 10.9%

(From: Bt 5.60)

**31 AUGUST 2021**

Small Cap Research

# SEAFCO Public Co Ltd (SEAFCO TB)

## Second-tier beneficiary

The COVID crisis prompts us to cut SEAFCO's earnings by 11-30% in 2022-23F and our TP to Bt5.3 but we reaffirm BUY as its share price fall looks to have priced in the bad news while we expect its earnings to turn around next year, driven by a resumption of construction work and piling demand for commercial building and mega projects.

**SAKSID PHADTHANANARAK**

662 – 779 9112

saksid.pha@thanachartsec.co.th

### Cutting our earnings but still a BUY

This is a part of the Construction Sector report, *Not all is lost*, dated 31 August 2021. We cut our earnings for SEAFCO to a loss of Bt27m this year (from a profit of Bt56m) and by 30% in 2022F and 11% in 2023F to reflect the COVID impact and project delays. Our SOTP-derived DCF-based TP (2022F base year) falls to Bt5.3/share from Bt5.6. However, we maintain our BUY call on SEAFCO as, **first**, its earnings hiccup this year is not new news and we expect 3Q21F earnings to be the bottom. **Secondly**, with its Bt1.5bn existing backlog value and a resumption of construction work, we expect SEAFCO's earnings turnaround next year. **Lastly**, despite facing the delays, we still expect the South Purple and West Orange Lines to open for bids late next year and SEAFCO, the largest piling contractor in Thailand, is one of the few direct plays.

### Potential high-value new work

Given the pandemic, SEAFCO's new work value so far this year is only Bt382m and its backlog value remains at Bt1.5bn. However, management expects a recovery in piling work demand from high-rise commercial buildings projects to turn around its earnings next year. We also expect Bt316bn of mega-projects (see Exhibit 4) with an estimated piling work value of Bt11bn in 2022-23F to further drive SEAFCO's earnings growth of 79% y-y in 2023F. We assume SEAFCO's new work value at Bt600m in 2021F, Bt2bn in 2022F and Bt2.7bn in 2023F. SEAFCO's new work value peaked at Bt3.6bn in 2017 and its average new work value stood at Bt2.5bn during the pre-COVID 2015-19.

### Labor shortage is still a concern

Management is not concerned about building material price volatility as piling work takes only three to four months and it can lock in raw material prices once the projects are awarded. However, the labor shortage is still a worry and it could slow the ramping-up of SEAFCO's utilization. Management expects the problem to be solved after COVID subsides and the government allows it to bring in foreign workers. We thus assume higher costs through 2H21F, causing its gross margin to recover from 7% in 2021F to 16% in 2022F and 18% in 2023F vs. 17-23% during the pre-COVID 2015-19.

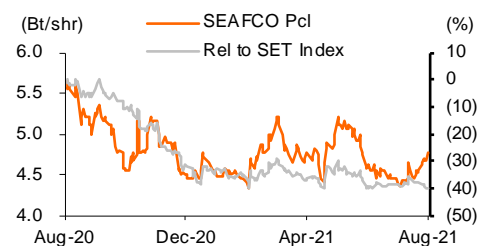
### Valuation not demanding in our view

The fall in SEAFCO's share price by 9% from its peak this year looks to have priced in the bad news. Its valuation is not too demanding in our view at 25x PE in 2022F, before falling to 14x in 2023F. This is compared to its 20x average PE during the pre-COVID 2015-19.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,560	1,621	1,977	2,559
Net profit	154	(27)	140	250
Consensus NP	—	96	219	294
Diff frm cons (%)	—	na	(36.2)	(15.0)
Norm profit	154	(27)	140	250
Prev. Norm profit	—	56	201	279
Chg frm prev (%)	—	na	(30.4)	(10.5)
Norm EPS (Bt)	0.2	(0.0)	0.2	0.3
Norm EPS grw (%)	(62.3)	na	na	78.6
Norm PE (x)	22.9	na	25.3	14.1
EV/EBITDA (x)	9.4	25.9	10.3	7.2
P/BV (x)	2.2	2.3	2.1	1.9
Div yield (%)	2.1	0.0	2.0	3.5
ROE (%)	9.6	na	8.9	14.4
Net D/E (%)	17.7	14.9	11.2	7.9

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 30-Aug-21 (Bt)	4.78
Market Cap (US\$ m)	108.9
Listed Shares (m shares)	739.7
Free Float (%)	73.8
Avg Daily Turnover (US\$ m)	0.5
12M Price H/L (Bt)	5.65/4.34
Sector	Construction
Major Shareholder	Thasnanipan Family 26.2%

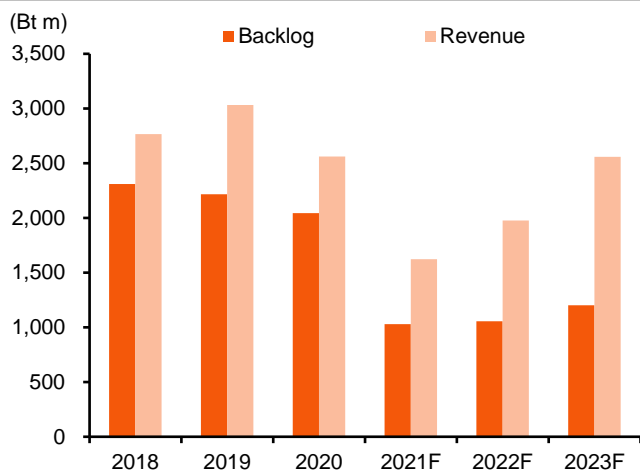
Sources: Bloomberg, Company data, Thanachart estimates

## Ex 1: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
<b>New work value (Bt m)</b>					
New	2,936	2,384	600	2,000	2,700
Old			1,700	2,500	3,000
Change (%)			(64.7)	(20.0)	(10.0)
<b>Normalized profit (Bt m)</b>					
New	410	154	(27)	140	250
Old			56	201	279
Change (%)			na	(30.4)	(10.5)
<b>Gross margin (%)</b>					
New	21.3	13.5	7.0	16.0	18.0
Old			8.5	16.0	18.0
Change (pp)			(1.5)	—	—

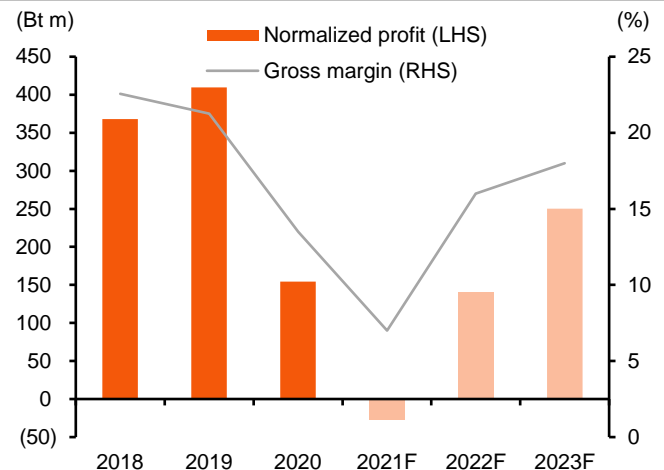
Source: Thanachart estimates

## Ex 2: SEAFCO's Backlog Value Vs. Revenue



Sources: Company data, Thanachart estimates

## Ex 3: SEAFCO's Gross Margin Vs. Earnings

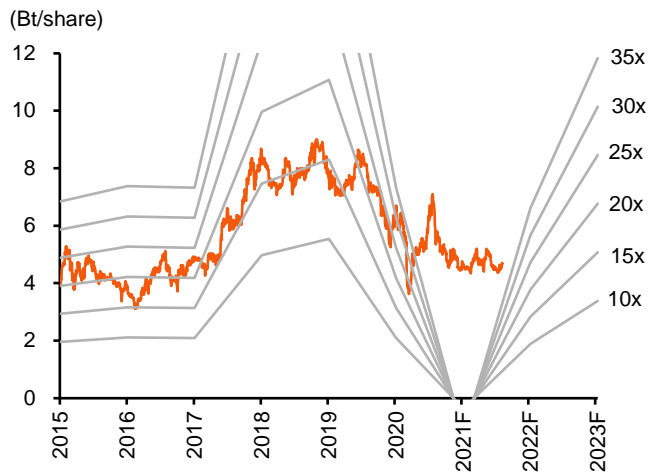


Sources: Company data, Thanachart estimates

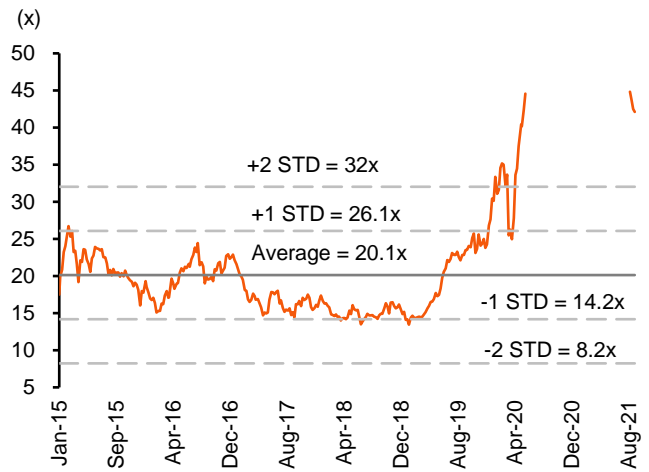
## Ex 4: Estimated Piling Work Value For The Mega Projects In 2022-23

Project	Construction value (Bt bn)	Estimated piling value (Bt bn)	Estimated year for piling work
Double-track Denchai - Chiang Khong	72	0.7	1H22F
Double-track Ban Pai-Nakhon Phanom	55	0.6	1H22F
Rama 3 – Dao Kanong - Outer Ring Road	14	0.4	1H22F
South Purple Line	79	4.0	1H23F
West Orange Line	96	4.8	1H23F
<b>Total</b>	<b>316</b>	<b>10.5</b>	

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	361	508	549	560	571	582	593	604	615	626	637	—
Free cash flow	148	292	335	345	356	367	378	389	400	411	422	5,465
PV of free cash flow	147	246	259	241	227	214	202	190	178	160	150	1,939
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	8.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	4,154											
Net debt (2021F)	224											
Minority interest	3											
Equity value	3,927											
# of shares (m)*	740											
<b>Target price/share (Bt)</b>	<b>5.30</b>											

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

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Its 40 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 entering a new multi-year infrastructure investment cycle.
- Higher-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

- Political instability causing delays to Thailand's new investment cycle and private construction projects.
- High volatility for steel and cement prices over short periods of time.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	5.22	5.30	2%
<b>Net profit 21F (Bt m)</b>	96	(27)	na
<b>Net profit 22F (Bt m)</b>	219	140	-36%
<b>Consensus REC</b>	<b>BUY: 3</b>	<b>HOLD: 3</b>	<b>SELL: 2</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2022F are 36% lower than the Bloomberg consensus forecasts, which we believe is due us having a more conservative view on revenue and gross margin because of labor shortages and delays in mega project bids.
- Our DCF-based TP is however 2% 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 impact our new work value assumptions.
- Delays could also hurt SEAFCO's gross margins given its high operating leverage.
- Fluctuations in building material prices over short periods of time also present a major risk to our earnings projections.

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	3,032	2,560	1,621	1,977	2,559
Cost of sales	2,387	2,214	1,508	1,660	2,098
<b>Gross profit</b>	<b>645</b>	<b>345</b>	<b>113</b>	<b>316</b>	<b>461</b>
% gross margin	21.3%	13.5%	7.0%	16.0%	18.0%
Selling & administration expenses	158	150	162	158	166
<b>Operating profit</b>	<b>487</b>	<b>196</b>	<b>(49)</b>	<b>158</b>	<b>294</b>
% operating margin	16.1%	7.6%	-3.0%	8.0%	11.5%
Depreciation & amortization	180	213	194	203	214
<b>EBITDA</b>	<b>668</b>	<b>408</b>	<b>145</b>	<b>361</b>	<b>508</b>
% EBITDA margin	22.0%	16.0%	8.9%	18.3%	19.9%
Non-operating income	30	25	30	30	30
Non-operating expenses	0	0	0	0	0
Interest expense	(23)	(24)	(19)	(18)	(19)
<b>Pre-tax profit</b>	<b>494</b>	<b>197</b>	<b>(38)</b>	<b>170</b>	<b>306</b>
Income tax	83	48	(8)	34	61
<b>After-tax profit</b>	<b>411</b>	<b>149</b>	<b>(30)</b>	<b>136</b>	<b>245</b>
% net margin	13.6%	5.8%	-1.9%	6.9%	9.6%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(2)	5	3	4	5
Extraordinary items	0	0	0	0	0
<b>NET PROFIT</b>	<b>410</b>	<b>154</b>	<b>(27)</b>	<b>140</b>	<b>250</b>
<b>Normalized profit</b>	<b>410</b>	<b>154</b>	<b>(27)</b>	<b>140</b>	<b>250</b>
EPS (Bt)	0.6	0.2	(0.0)	0.2	0.3
Normalized EPS (Bt)	0.6	0.2	(0.0)	0.2	0.3

*We expect the COVID hit to cause SEAFCO to make a loss in 2021F...*

*...before an earnings turnaround in 2022F*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	1,134	975	815	965	1,218
Cash & cash equivalent	196	111	100	100	100
Account receivables	441	459	311	379	491
Inventories	98	82	54	59	75
Others	399	323	350	427	552
Investments & loans	26	60	60	60	60
Net fixed assets	1,613	1,286	1,192	1,139	1,076
Other assets	395	757	765	858	1,005
<b>Total assets</b>	<b>3,168</b>	<b>3,078</b>	<b>2,832</b>	<b>3,023</b>	<b>3,358</b>
<b>LIABILITIES:</b>					
Current liabilities:	1,080	1,003	833	884	1,030
Account payables	510	593	413	455	575
Bank overdraft & ST loans	295	41	34	30	25
Current LT debt	119	158	130	114	97
Others current liabilities	156	210	256	285	333
<b>Total LT debt</b>	<b>229</b>	<b>197</b>	<b>161</b>	<b>141</b>	<b>121</b>
Others LT liabilities	222	266	330	354	389
<b>Total liabilities</b>	<b>1,531</b>	<b>1,466</b>	<b>1,324</b>	<b>1,379</b>	<b>1,540</b>
Minority interest	14	7	3	(1)	(7)
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)
<b>Retained earnings</b>	<b>1,093</b>	<b>1,076</b>	<b>976</b>	<b>1,116</b>	<b>1,296</b>
Shareholders' equity	1,623	1,605	1,505	1,645	1,825
<b>Liabilities &amp; equity</b>	<b>3,168</b>	<b>3,078</b>	<b>2,832</b>	<b>3,023</b>	<b>3,358</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	494	197	(38)	170	306
Tax paid	(86)	(55)	6	(33)	(59)
Depreciation & amortization	180	213	194	203	214
Chg In working capital	(239)	81	(4)	(32)	(7)
Chg In other CA & CL / minorities	(255)	139	20	(48)	(81)
<b>Cash flow from operations</b>	<b>95</b>	<b>575</b>	<b>179</b>	<b>259</b>	<b>373</b>
Capex	(336)	115	(100)	(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	(59)	(101)
<b>Cash flow from investments</b>	<b>(232)</b>	<b>(241)</b>	<b>(43)</b>	<b>(219)</b>	<b>(261)</b>
Debt financing	119	(246)	(72)	(40)	(42)
Capital increase	34	0	0	0	0
Dividends paid	(178)	(155)	(74)	0	(70)
Warrants & other surplus	(41)	(17)	0	0	0
<b>Cash flow from financing</b>	<b>(66)</b>	<b>(418)</b>	<b>(146)</b>	<b>(40)</b>	<b>(112)</b>
<b>Free cash flow</b>	<b>(241)</b>	<b>689</b>	<b>79</b>	<b>109</b>	<b>223</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	8.6	22.9	na	25.3	14.1
Normalized PE - at target price (x)	9.6	25.4	na	28.0	15.7
PE (x)	8.6	22.9	na	25.3	14.1
PE - at target price (x)	9.6	25.4	na	28.0	15.7
EV/EBITDA (x)	6.0	9.4	25.9	10.3	7.2
EV/EBITDA - at target price (x)	6.5	10.3	28.6	11.4	8.0
P/BV (x)	2.2	2.2	2.3	2.1	1.9
P/BV - at target price (x)	2.4	2.4	2.6	2.4	2.1
P/CFO (x)	37.4	6.2	19.8	13.6	9.5
Price/sales (x)	1.2	1.4	2.2	1.8	1.4
Dividend yield (%)	5.4	2.1	0.0	2.0	3.5
FCF Yield (%)	(6.8)	19.5	2.2	3.1	6.3
<b>(Bt)</b>					
Normalized EPS	0.6	0.2	(0.0)	0.2	0.3
EPS	0.6	0.2	(0.0)	0.2	0.3
DPS	0.3	0.1	0.0	0.1	0.2
BV/share	2.2	2.2	2.0	2.2	2.5
CFO/share	0.1	0.8	0.2	0.4	0.5
FCF/share	(0.3)	0.9	0.1	0.1	0.3

Sources: Company data, Thanachart estimates

*After its 9% share price fall from its peak, PE is not too demanding...*

*...in our view at 25x in 2022F and 14x in 2023F versus 20x in pre-COVID 2015-19*

## FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	9.6	(15.6)	(36.7)	21.9	29.4
Net profit (%)	11.2	(62.3)	na	na	78.6
EPS (%)	11.2	(62.3)	na	na	78.6
Normalized profit (%)	11.2	(62.3)	na	na	78.6
Normalized EPS (%)	11.2	(62.3)	na	na	78.6
Dividend payout ratio (%)	47.0	47.9	0.0	50.0	50.0
<b>Operating performance</b>					
Gross margin (%)	21.3	13.5	7.0	16.0	18.0
Operating margin (%)	16.1	7.6	(3.0)	8.0	11.5
EBITDA margin (%)	22.0	16.0	8.9	18.3	19.9
Net margin (%)	13.6	5.8	(1.9)	6.9	9.6
D/E (incl. minor) (x)	0.4	0.2	0.2	0.2	0.1
Net D/E (incl. minor) (x)	0.3	0.2	0.1	0.1	0.1
Interest coverage - EBIT (x)	20.7	8.1	na	8.6	15.9
Interest coverage - EBITDA (x)	28.4	17.0	7.5	19.6	27.4
ROA - using norm profit (%)	13.3	4.9	na	4.8	7.8
ROE - using norm profit (%)	27.1	9.6	na	8.9	14.4
<b>DuPont</b>					
ROE - using after tax profit (%)	27.2	9.2	na	8.6	14.1
- asset turnover (x)	1.0	0.8	0.5	0.7	0.8
- operating margin (%)	17.1	8.6	na	9.5	12.7
- leverage (x)	2.0	1.9	1.9	1.9	1.8
- interest burden (%)	95.5	89.1	203.2	90.2	94.3
- tax burden (%)	83.2	75.5	na	80.0	80.0
WACC (%)	8.9	8.9	8.9	8.9	8.9
ROIC (%)	26.6	7.1	(2.1)	7.3	12.9
NOPAT (Bt m)	406	148	(39)	127	235
invested capital (Bt m)	2,070	1,892	1,729	1,829	1,968

Sources: Company data, Thanachart estimates

BUY (Unchanged)

TP: Bt 17.50

(From: Bt 19.00)

Change in Numbers

Upside : 31.6%

31 AUGUST 2021

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

## Overly punished

STEC has been hit with a slew of bad news and its share price has fallen 17% from this year's peak. Given its major earnings hiccup, we cut our earnings by 15-75% over 2021-23F. However, at 23x 2022F PE and 19x in 2023F, vs. its 34x pre-COVID average in 2015-19, we believe STEC is overly punished and see this as an opportunity to BUY.



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### Maintaining our BUY rating

This is a part of the Construction Sector report, *Not all is lost*, dated 31 August 2021. We cut our earnings for STEC by 75%, 30% and 15% in 2021-23F and DCF-derived SOTP-based 12-month TP (2022F base year) to Bt17.5 (from Bt19) to reflect the COVID crisis and project delays. But we maintain our BUY call as, **first**, we expect STEC's 3Q21F earnings to reach bottom after the COVID-19 hit. **Second**, with its Bt72bn existing backlog value (Bt102bn at end 2022F if it wins a part of the South Purple Line work and signs the contract for U-Tapao Airport next year), we forecast its EPS growth to resume at 400% y-y in 2022F and 23% y-y in 2023F. **Lastly**, STEC looks to have been overly punished, in our view, trading at 23x PE in 2022F before falling to 19x in 2023F vs. its 34x pre-COVID average in 2015-19.

### A lot of bad news is already out

After the plunge in its 2Q21 earnings by 31% y-y and 37% q-q due to the COVID third-wave impact, the government announced a lockdown of construction sites in July. The sites were allowed to reopen in August with strict measures for the movement of workers, entry and exit from the sites, separation of infected workers, etc. Then there was negative news from its partner, BTS Group (BTS TB, Bt9.25, BUY), which lost its appeal at the Supreme Administrative Court regarding the East Orange Line's bidding criteria, implying to us that Ch. Karnchang (CK TB, Bt20.1, BUY) has a higher chance of winning the project. Its Pink and Yellow lines' construction also look set to be delayed for a year as the government cannot deliver the land on time. And the latest one is the cancelation of the South Purple Line bidding.

### Large backlog to secure growth

However, we expect STEC's earnings growth to resume strongly in 2022-23F after the government gradually eases the lockdown. Its existing backlog value is high at Bt72bn. Despite facing a delay, we still expect the South Purple Line to reopen for bidding in 2H22 and STEC to win one of its six construction contracts. We also forecast STEC to sign the contract for the U-Tapao Airport project late next year, driving its backlog value to rise to Bt102bn at end 2022F. That is 4x of its revenue base this year. Note that our numbers already assume delays in the Yellow and Pink Lines' completion to late 2022F.

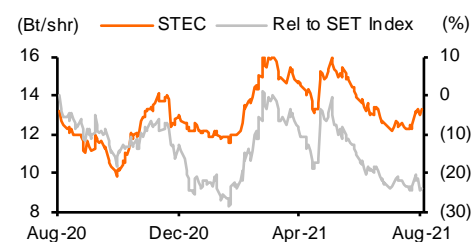
### Bad news looks priced in

Given the 17% fall in the share price from its peak this year, STEC now trades at an 23x PE multiple in 2022F and 19x in 2023F vs. its pre-COVID average of 34x in 2015-19. After taking out abnormal peaks and troughs, STEC has traded at an average PE of 24x over the past 10 years.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	35,841	25,375	29,363	34,031
Net profit	1,093	177	883	1,090
Consensus NP	—	901	1,233	1,317
Diff frm cons (%)	—	(80.4)	(28.4)	(17.3)
Norm profit	867	177	883	1,090
Prev. Norm profit	—	710	1,254	1,288
Chg frm prev (%)	—	(75.1)	(29.6)	(15.4)
Norm EPS (Bt)	0.6	0.1	0.6	0.7
Norm EPS grw (%)	(39.5)	(79.6)	399.5	23.4
Norm PE (x)	23.4	114.8	23.0	18.6
EV/EBITDA (x)	7.6	15.5	7.3	5.8
P/BV (x)	1.4	1.4	1.4	1.3
Div yield (%)	2.3	0.3	1.3	1.6
ROE (%)	6.0	1.2	6.1	7.1
Net D/E (%)	(37.4)	(36.4)	(38.8)	(43.7)

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 30-Aug-21 (Bt)	13.30
Market Cap (US\$ m)	624.9
Listed Shares (m shares)	1,525.1
Free Float (%)	65.2
Avg Daily Turnover (US\$ m)	6.3
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

	2019	2020	2021F	2022F	2023F
<b>New work value (Bt bn)</b>					
New	15.3	25.3	33.0	47.0	30.0
Old			33.0	50.0	10.0
Change (%)			—	(6.0)	200.0
<b>Normalized profit (Bt m)</b>					
New	1,434	867	177	883	1,090
Old			710	1,254	1,288
Change (%)			(75.1)	(29.6)	(15.4)
<b>Gross margin (%)</b>					
New	5.6	4.4	3.0	5.5	5.6
Old			4.4	5.7	5.7
Change (pp)			(1.4)	(0.2)	(0.1)

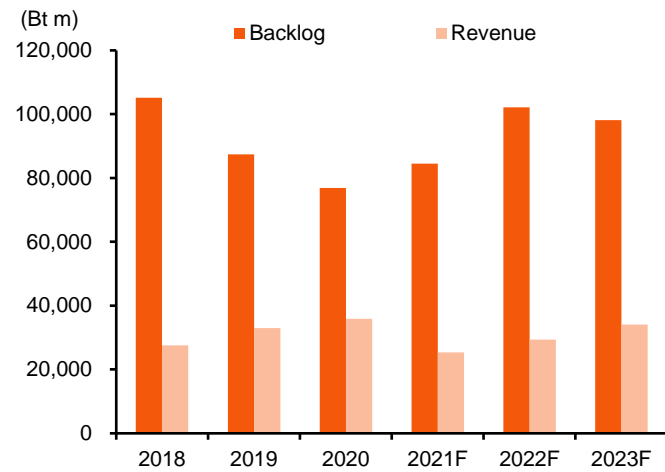
Source: Thanachart estimates

## Ex 2: STEC's Potential New Work Value

Project	Project Value (Bn)	Construction Value (Bn)	Chance (%)	New work in 2021F (Bn)	New work in 2022F (Bn)	New work in 2023F (Bn)
<b>Backlog value as of end 2020</b>				77		
<b>Newly signed contracts</b>						
Government Center Zone C				6		
Ayudhaya Division Canal				4		
<b>To be signed contracts</b>						
Double-track Denchai - Chiang Khong's Contract 2,3	46	46	50	23	-	-
U-Tapao Airport's First Phase	31	27	100	-	27	-
<b>Potential projects</b>						
South Purple Line	125	79	25	-	20	-
West Orange Line	129	96	-	-	-	-
Red Line Extension	103	67	25	-	-	17
Double-track Chira – Ubon	36	36	5	-	-	2
Double-track Khon Kaen - Nong Khai	25	25	5	-	-	1
Others	-	-	-	-	-	10
<b>Total new work value</b>		<b>376</b>		<b>33</b>	<b>47</b>	<b>30</b>
<b>Backlog at year end</b>				<b>85</b>	<b>102</b>	<b>98</b>

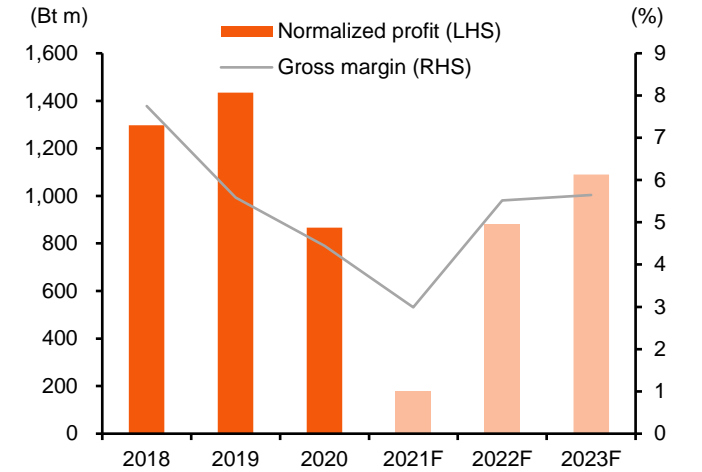
Sources: Company data, Thanachart estimates

**Ex 3: STEC's Backlog Value Vs. Revenue**



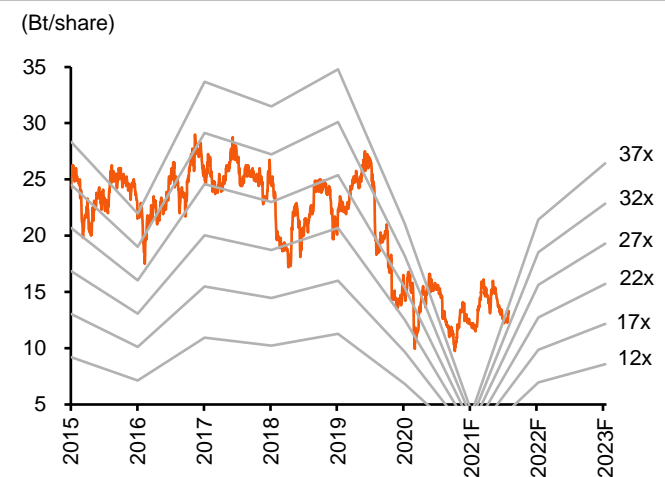
Sources: Company data, Thanachart estimates

**Ex 4: STEC's Gross Margin Vs. Earnings**



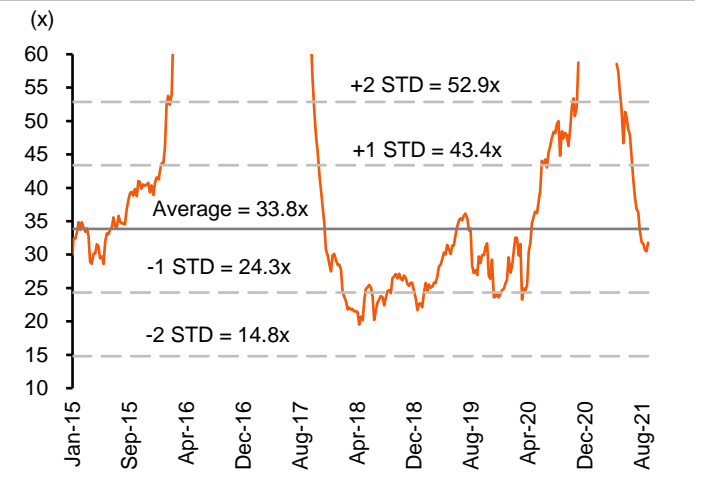
Sources: Company data, Thanachart estimates

**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 DCF-derived SOTP-based TP Calculation, Using A 2022F Base Year**

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	1,900	2,225	2,390	2,457	2,458	2,360	2,121	2,181	2,241	2,301	2,361	—
Free cash flow	130	709	1,060	1,447	1,475	1,440	1,430	1,213	1,273	1,334	1,395	17,116
PV of free cash flow	130	593	811	995	923	821	741	573	547	500	474	5,810
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	9.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	12,918											
Net debt (2021F)	(5,252)											
Minority interest	290											
Equity value	17,880											
# of shares (m)	1,525											
<b>Equity value/share (Bt)</b>	<b>11.7</b>											
<b>Sum-of-the-parts calculation</b>												
								<b>% holding</b>				<b>(Bt m)</b>
<b>Enterprise value from construction business</b>												<b>12,918</b>
<b>Investment equity value</b>												<b>8,896</b>
TSE								9.00%				572
BSR JV								15.00%				1,523
GULF								1.88%				6,802
<b>Total enterprise value</b>												<b>21,814</b>
(Less) Net debt (2020F)												(5,252)
(Less) Minority interest												290
<b>Total enterprise value</b>												<b>26,776</b>
# of shares (fully diluted) (m shares)												1,525
<b>Sum of the parts (SOTP) (Bt/share)</b>												<b>17.5</b>

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

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*No CG Rating

## 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 an infrastructure investment cycle.
- Concerns about electricity shortages are also driving investments in power-plant projects.

### 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
<b>Target price (Bt)</b>	16.67	17.50	5%
<b>Net profit 21F (Bt m)</b>	901	177	-80%
<b>Net profit 22F (Bt m)</b>	1,233	883	-28%
<b>Consensus REC</b>	<b>BUY: 12</b>	<b>HOLD: 4</b>	<b>SELL: 1</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profit for 2022F is 28% below the Bloomberg consensus number, which we believe is due to us having a more conservative revenue and gross margin assumption due to the labour shortage and delays in mega project bids.
- However, our TP is higher than other brokers', likely as we are more bullish on its long-term earnings.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if the implementation of infrastructure projects occurs more slowly 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.

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	32,992	35,841	25,375	29,363	34,031
Cost of sales	31,149	34,249	24,618	27,742	32,109
<b>Gross profit</b>	<b>1,843</b>	<b>1,591</b>	<b>757</b>	<b>1,621</b>	<b>1,923</b>
% gross margin	5.6%	4.4%	3.0%	5.5%	5.6%
Selling & administration expenses	530	686	761	734	783
<b>Operating profit</b>	<b>1,313</b>	<b>906</b>	<b>(4)</b>	<b>887</b>	<b>1,140</b>
% operating margin	4.0%	2.5%	0.0%	3.0%	3.3%
Depreciation & amortization	771	1,050	973	1,083	1,155
<b>EBITDA</b>	<b>2,084</b>	<b>1,956</b>	<b>969</b>	<b>1,970</b>	<b>2,295</b>
% EBITDA margin	6.3%	5.5%	3.8%	6.7%	6.7%
Non-operating income	277	166	182	183	190
Non-operating expenses	0	0	0	0	0
Interest expense	(51)	(53)	(37)	(44)	(43)
<b>Pre-tax profit</b>	<b>1,539</b>	<b>1,018</b>	<b>141</b>	<b>1,026</b>	<b>1,287</b>
Income tax	326	236	28	205	257
<b>After-tax profit</b>	<b>1,213</b>	<b>782</b>	<b>113</b>	<b>821</b>	<b>1,029</b>
% net margin	3.7%	2.2%	0.4%	2.8%	3.0%
Shares in affiliates' Earnings	231	95	75	75	75
Minority interests	(11)	(10)	(11)	(13)	(15)
Extraordinary items	50	226	0	0	0
<b>NET PROFIT</b>	<b>1,484</b>	<b>1,093</b>	<b>177</b>	<b>883</b>	<b>1,090</b>
<b>Normalized profit</b>	<b>1,434</b>	<b>867</b>	<b>177</b>	<b>883</b>	<b>1,090</b>
EPS (Bt)	1.0	0.7	0.1	0.6	0.7
Normalized EPS (Bt)	0.9	0.6	0.1	0.6	0.7

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

*...due to a resumption of construction work realizing higher revenues and gross margin*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	23,149	21,095	16,633	18,859	21,856
Cash & cash equivalent	7,261	6,496	6,255	6,935	8,055
Account receivables	10,342	9,905	6,952	8,045	9,324
Inventories	4,026	3,227	2,361	2,660	3,079
Others	1,520	1,468	1,066	1,219	1,398
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	2,307	2,256	2,205
<b>Total assets</b>	<b>49,207</b>	<b>44,033</b>	<b>40,586</b>	<b>43,247</b>	<b>46,609</b>
<b>LIABILITIES:</b>					
Current liabilities:	31,479	26,595	23,618	25,246	27,541
Account payables	27,802	21,673	19,222	20,522	22,432
Bank overdraft & ST loans	0	1,000	1,003	1,004	1,002
Current LT debt	0	0	0	0	0
Others current liabilities	3,677	3,921	3,394	3,720	4,107
<b>Total LT debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Others LT liabilities	3,081	2,727	2,528	2,718	2,945
<b>Total liabilities</b>	<b>34,560</b>	<b>29,321</b>	<b>26,146</b>	<b>27,964</b>	<b>30,486</b>
Minority interest	271	279	290	303	318
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
<b>Retained earnings</b>	<b>7,886</b>	<b>8,546</b>	<b>8,263</b>	<b>9,093</b>	<b>9,918</b>
Shareholders' equity	14,377	14,433	14,150	14,980	15,805
<b>Liabilities &amp; equity</b>	<b>49,207</b>	<b>44,033</b>	<b>40,586</b>	<b>43,247</b>	<b>46,609</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	1,539	1,018	141	1,026	1,287
Tax paid	(326)	(236)	(28)	(205)	(257)
Depreciation & amortization	771	1,050	973	1,083	1,155
Chg In working capital	1,492	(4,893)	1,368	(92)	213
Chg In other CA & CL / minorities	732	483	(51)	248	283
<b>Cash flow from operations</b>	<b>4,208</b>	<b>(2,577)</b>	<b>2,403</b>	<b>2,060</b>	<b>2,679</b>
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)	(177)	182	218
<b>Cash flow from investments</b>	<b>(4,914)</b>	<b>1,244</b>	<b>(2,187)</b>	<b>(1,328)</b>	<b>(1,292)</b>
Debt financing	(1,236)	1,000	3	2	(2)
Capital increase	0	0	0	0	0
Dividends paid	(763)	(458)	(460)	(53)	(265)
Warrants & other surplus	(31)	25	(0)	0	0
<b>Cash flow from financing</b>	<b>(2,030)</b>	<b>567</b>	<b>(457)</b>	<b>(51)</b>	<b>(267)</b>
<b>Free cash flow</b>	<b>2,328</b>	<b>(1,295)</b>	<b>403</b>	<b>560</b>	<b>1,179</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	14.1	23.4	114.8	23.0	18.6
Normalized PE - at target price (x)	18.6	30.8	151.0	30.2	24.5
PE (x)	13.7	18.6	114.8	23.0	18.6
PE - at target price (x)	18.0	24.4	151.0	30.2	24.5
EV/EBITDA (x)	6.2	7.6	15.5	7.3	5.8
EV/EBITDA - at target price (x)	9.3	10.8	22.1	10.5	8.6
P/BV (x)	1.4	1.4	1.4	1.4	1.3
P/BV - at target price (x)	1.9	1.8	1.9	1.8	1.7
P/CFO (x)	4.8	(7.9)	8.4	9.8	7.6
Price/sales (x)	0.6	0.6	0.8	0.7	0.6
Dividend yield (%)	2.3	2.3	0.3	1.3	1.6
FCF Yield (%)	11.5	(6.4)	2.0	2.8	5.8
<b>(Bt)</b>					
Normalized EPS	0.9	0.6	0.1	0.6	0.7
EPS	1.0	0.7	0.1	0.6	0.7
DPS	0.3	0.3	0.0	0.2	0.2
BV/share	9.4	9.5	9.3	9.8	10.4
CFO/share	2.8	(1.7)	1.6	1.4	1.8
FCF/share	1.5	(0.8)	0.3	0.4	0.8

Sources: Company data, Thanachart estimates

**STEC's valuation looks attractive to us at 23x PE in 2022F...**

**....falling to 19x in 2023F vs. its 34x in pre-COVID 2015-19**

**FINANCIAL RATIOS**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Growth Rate</b>					
Sales (%)	19.8	8.6	(29.2)	15.7	15.9
Net profit (%)	(8.2)	(26.3)	(83.8)	399.5	23.4
EPS (%)	(8.2)	(26.3)	(83.8)	399.5	23.4
Normalized profit (%)	10.5	(39.5)	(79.6)	399.5	23.4
Normalized EPS (%)	10.5	(39.5)	(79.6)	399.5	23.4
Dividend payout ratio (%)	30.8	42.0	30.0	30.0	30.0
<b>Operating performance</b>					
Gross margin (%)	5.6	4.4	3.0	5.5	5.7
Operating margin (%)	4.0	2.5	(0.0)	3.0	3.3
EBITDA margin (%)	6.3	5.5	3.8	6.7	6.7
Net margin (%)	3.7	2.2	0.4	2.8	3.0
D/E (incl. minor) (x)	0.0	0.1	0.1	0.1	0.1
Net D/E (incl. minor) (x)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Interest coverage - EBIT (x)	25.8	17.2	na	19.9	26.3
Interest coverage - EBITDA (x)	41.0	37.1	26.0	44.3	53.0
ROA - using norm profit (%)	3.0	1.9	0.4	2.1	2.4
ROE - using norm profit (%)	11.3	6.0	1.2	6.1	7.1
<b>DuPont</b>					
ROE - using after tax profit (%)	9.6	5.4	0.8	5.6	6.7
- asset turnover (x)	0.7	0.8	0.6	0.7	0.8
- operating margin (%)	4.8	3.0	0.7	3.6	3.9
- leverage (x)	3.7	3.2	3.0	2.9	2.9
- interest burden (%)	96.8	95.1	79.1	95.8	96.7
- 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	(0.0)	8.0	10.1
NOPAT (Bt m)	1,035	696	(3)	709	912
invested capital (Bt m)	7,116	8,937	8,898	9,049	8,752

Sources: Company data, Thanachart estimates

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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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