

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.

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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.

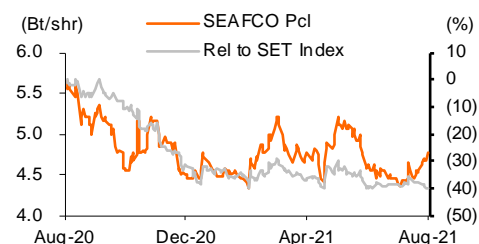
Valuation not demanding in our view

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%

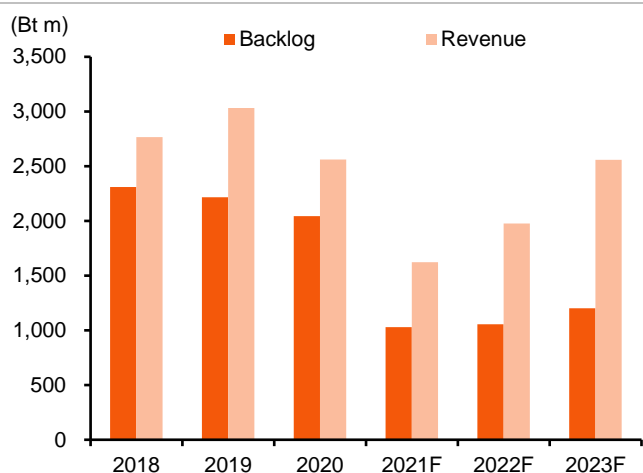
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

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

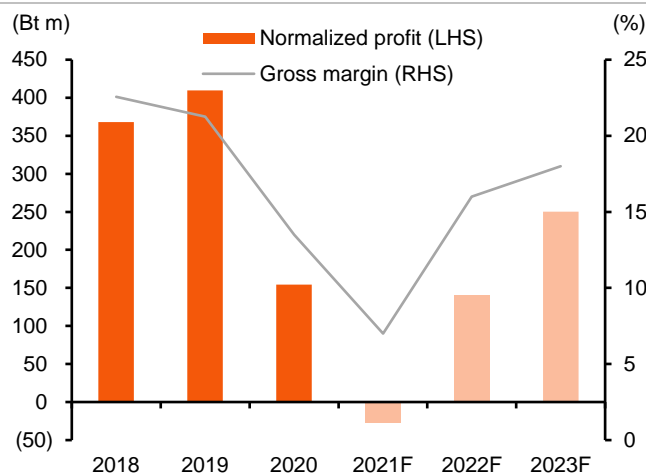
Source: Thanachart estimates

Ex 2: SEAFCO's Backlog Value Vs. Revenue



Sources: Company data, Thanachart estimates

Ex 3: SEAFCO's Gross Margin Vs. Earnings

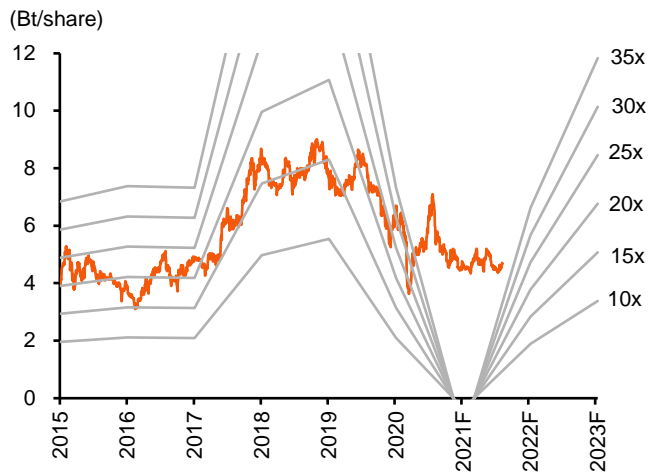


Sources: Company data, Thanachart estimates

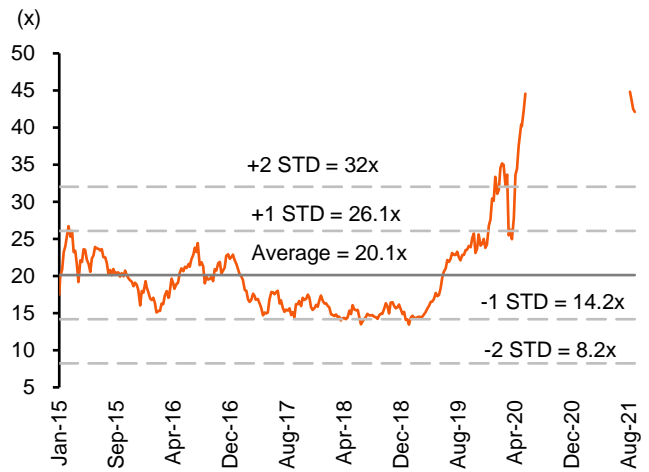
Ex 4: Estimated Piling Work Value For The Mega Projects In 2022-23

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
Total	316	10.5	

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											
Target price/share (Bt)	5.30											

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

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
Gross profit	645	345	113	316	461
% gross margin	21.3%	13.5%	7.0%	16.0%	18.0%
Selling & administration expenses	158	150	162	158	166
Operating profit	487	196	(49)	158	294
% operating margin	16.1%	7.6%	-3.0%	8.0%	11.5%
Depreciation & amortization	180	213	194	203	214
EBITDA	668	408	145	361	508
% 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)
Pre-tax profit	494	197	(38)	170	306
Income tax	83	48	(8)	34	61
After-tax profit	411	149	(30)	136	245
% 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
NET PROFIT	410	154	(27)	140	250
Normalized profit	410	154	(27)	140	250
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
ASSETS:					
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
Total assets	3,168	3,078	2,832	3,023	3,358
LIABILITIES:					
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
Total LT debt	229	197	161	141	121
Others LT liabilities	222	266	330	354	389
Total liabilities	1,531	1,466	1,324	1,379	1,540
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)
Retained earnings	1,093	1,076	976	1,116	1,296
Shareholders' equity	1,623	1,605	1,505	1,645	1,825
Liabilities & equity	3,168	3,078	2,832	3,023	3,358

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
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)
Cash flow from operations	95	575	179	259	373
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)
Cash flow from investments	(232)	(241)	(43)	(219)	(261)
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
Cash flow from financing	(66)	(418)	(146)	(40)	(112)
Free cash flow	(241)	689	79	109	223

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
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
(Bt)					
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
Growth Rate					
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
Operating performance					
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
DuPont					
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

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