Ch. Karnchang Pcl (CK TB) - BUY, Price Bt21.80, TP Bt23.50

Results Comment

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3Q21 profit, beat expectation

- CK reported a normalized profit of Bt275m in 3Q21, down 45% y-y but up 57% q-q. The results were higher than what we had expected. We are surprised with CK's gross margin that was able to sustain high in 3Q21 despite the closure of construction sites in July and we need to ask the company about this issue. With dividend income from TTW and earnings contribution from CKP, CK made a profit in this quarter.
- Even though we still expect CK to make a loss in 4Q21F due to no dividend income from TTW and lower earnings contribution from CKP, we now see an upside to our earnings forecast in 2021F.
- We maintain a BUY on CK as 1) we expect its turnaround next year driven by higher revenue recognition from its existing backlog value and new projects and 2) valuation looks cheap as the share now trades at an 43% discount on its subsidiaries' market value with the construction business for free.
- CK's revenue fell by 33% y-y in 3Q21. Besides its low backlog value, its utilization rate was also lower due to the closure of construction sites for a month in July. We estimate its backlog value of Bt25.8bn at end 3Q21. This amount has yet to include Bt46bn double-track railway projects CK and STEC won early this year.
- Its gross margin sustained high at 9.8% in 3Q21 versus 8.9% in 3Q20. However, its gross profit was still not enough to offset its SG&A expenses, causing the continued operating loss for the construction business.
- Fortunately, Bt232m dividend income from TTW and Bt432m equity income mainly from CKP helped it to report a normalized profit in this quarter.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	3,847	3,654	2,986	3,238	2,561
Gross profit	**342**	**322**	**292**	**307**	**251**
SG&A	454	531	472	497	445
Operating profit	(112)	(209)	(180)	(190)	(193)
EBITDA	**70**	**(18)**	**(13)**	**(16)**	**(22)**
Other income	407	194	175	429	406
Other expense	0	0	0	0	0
Interest expense	328	339	332	357	357
Profit before tax	**(34)**	**(353)**	**(337)**	**(119)**	**(144)**
Income tax	12	12	8	9	8
Equity & invest. income	546	249	160	306	432
Minority interests	(2)	4	10	(4)	(4)
Extraordinary items	275	0	383	143	0
Net profit	**774**	**(112)**	**208**	**318**	**275**
Normalized profit	**499**	**(112)**	**(175)**	**175**	**275**
EPS (Bt)	0.46	(0.07)	0.12	0.19	0.16
Normalized EPS (Bt)	0.29	(0.07)	(0.10)	0.10	0.16

Income Statement			9M as		
(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	(21)	(33)	74	11,932	16,831
Gross profit	**(18)**	**(27)**	**87**	**977**	**1,495**
SG&A	(11)	(2)	70	2,028	2,020
Operating profit	na	na	na	(1,052)	(524)
EBITDA	**na**	**na**	**na**	**(358)**	**201**
Other income	(5)	(0)	85	1,190	1,113
Other expense					
Interest expense	0	9	78	1,338	1,356
Profit before tax	**na**	**na**	**na**	**(1,200)**	**(768)**
Income tax	(15)	(37)	na	0	0
Equity & invest. income	41	(21)	103	875	1,346
Minority interests	na	na	na	(10)	(15)
Extraordinary items			100	526	0
Net profit	**(14)**	**(64)**	**420**	**191**	**564**
Normalized profit	**57**	**(45)**	**na**	**(335)**	**564**
EPS (Bt)	(14)	(64)	420	0.11	0.33
Normalized EPS (Bt)	57	(45)	na	(0.20)	0.33

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Cash & ST investment	10,027	7,767	8,923	11,179	8,402
A/C receivable	3,683	3,659	3,624	3,036	2,486
Inventory	2,471	2,436	2,418	2,223	2,231
Other current assets	5,053	5,972	6,277	7,128	7,612
Investment	27,608	37,256	37,429	37,181	37,400
Fixed assets	11,277	11,194	11,090	11,333	11,252
Other assets	24,668	14,490	14,867	15,074	15,216
Total assets	**84,787**	**82,774**	**84,629**	**87,155**	**84,598**
S-T debt	4,703	3,817	4,417	6,395	6,482
A/C payable	2,874	2,636	2,365	2,768	2,230
Other current liabilities	9,074	8,305	10,146	8,967	9,400
L-T debt	37,954	38,586	38,576	39,734	37,126
Other liabilities	3,194	3,160	3,063	3,078	3,081
Minority interest	429	424	415	413	416
Shareholders' equity	**26,559**	**25,847**	**25,647**	**25,799**	**25,864**
Working capital	3,280	3,459	3,677	2,492	2,487
Total debt	42,656	42,403	42,993	46,129	43,608
Net debt	**32,630**	**34,636**	**34,069**	**34,950**	**35,206**

Financial Ratios					
(%)	3Q20	4Q20	1Q21	2Q21	3Q21
Sales growth	(21.0)	(30.5)	(44.9)	(19.5)	(33.4)
Operating profit growth	na	na	na	na	na
EBITDA growth	na	na	na	na	na
Norm profit growth	143.2	na	na	174.5	(44.9)
Norm EPS growth	143.2	na	na	174.5	(44.9)
Gross margin	8.9	8.8	9.8	9.5	9.8
Operating margin	(2.9)	(5.7)	(6.0)	(5.9)	(7.5)
EBITDA margin	1.8	(0.5)	(0.4)	(0.5)	(0.9)
Norm net margin	13.0	(3.1)	(5.9)	5.4	10.7
D/E (x)	1.6	1.6	1.6	1.8	1.7
Net D/E (x)	1.2	1.3	1.3	1.3	1.3
Interest coverage (x)	0.2	(0.1)	(0.0)	(0.0)	(0.1)
Interest rate	3.2	3.2	3.1	3.2	3.2
Effective tax rate	(35.6)	(3.5)	(2.4)	(7.6)	(5.3)
ROA	2.4	(0.5)	(0.8)	0.8	1.3
ROE	7.6	(1.7)	(2.7)	2.7	4.3

Sources: Company data, Thanachart estimates

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