Gunkul Engineering (GUNKUL TB) - BUY, Price Bt4.80, TP Bt5.75

Results Comment

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Strong 3Q21, but lower-than-expected

- GUNKUL reported Bt445m norm profit (excluding impacts from FX and hedging gain/loss) in 3Q21, up strongly 126% y-y from higher output from its wind farms but down14% q-q due to an extraordinary high tax expense this quarter. This higher-than-expected tax rate also made GUNKUL's earnings this quarter fell short of our expectation.
- Gross profit from renewable power plants increased 39% y-y and 4% q-q to Bt714m in 3Q21 (76% of total gross profit), mainly backed by strong electricity generation from its wind farms in Thailand (up 36% y-y and 27% q-q) which more than offset seasonally lower solar output versus previous quarter.
- Gross profits from construction and other services business also grew 31% y-y and 43% q-q to Bt232m this quarter (24%). Higher gross margin of this business unit to 24.9% in 3Q21 (vs. 12.9% in 3Q20) from larger portion of solar rooftop installation was the key y-y growth driver, while a q-q growth was driven by more construction service progress post Covid.
- Total SG&A expenses dropped 11% y-y but up 9% q-q to Bt227m in 3Q21. SG&A-to-sales ratio improved to 10.6% in 3Q21, from 11.5% in 2Q21 and 11.1% in 3Q20 following a strong sales growth this quarter.
- The key factor resulting as GUNKUL's weaker-than-expected profit this quarter was an extraordinarily high effective tax rate to 21.6%, versus 4.6% in 1H21 and 8.9% in 2020. We need to recheck with the company on the reason behind this surge.
- As its 9M21's profit made up only 61% of our full-year forecast for 2021F, we see a downside to our numbers. However, we expect sequentially stronger earnings momentum for GUNKUL in 4Q21 backed by a high season of power generation from its wind farms. A positive market sentiment on a start of its hemp business is also a strong catalyst to its share price in our view.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	2,310	2,207	1,740	1,814	2,137
Gross profit	**441**	**535**	**551**	**578**	**603**
SG&A	257	285	211	209	227
Operating profit	185	250	340	369	375
EBITDA	**524**	**600**	**716**	**750**	**767**
Other income	250	503	324	292	357
Other expense	0	0	0	0	0
Interest expense	264	235	242	240	243
Profit before tax	**171**	**518**	**423**	**421**	**489**
Income tax	20	70	33	6	106
Equity & invest. income	53	100	86	105	70
Minority interests	(7)	(2)	(5)	(5)	(9)
Extraordinary items	805	1,147	138	9	144
Net profit	**1,001**	**1,694**	**609**	**524**	**589**
Normalized profit	**197**	**547**	**471**	**515**	**445**
EPS (Bt)	0.11	0.19	0.07	0.06	0.07
Normalized EPS (Bt)	0.02	0.06	0.05	0.06	0.05

Income Statement			9M as		
(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	18	(8)	71	8,048	9,088
Gross profit	**4**	**37**	**68**	**2,534**	**3,237**
SG&A	9	(11)	69	932	1,013
Operating profit	2	103	68	1,601	2,224
EBITDA	**2**	**46**	**70**	**3,198**	**3,840**
Other income	22	43	62	1,568	1,622
Other expense			na	0	0
Interest expense	1	(8)	76	954	879
Profit before tax	**16**	**187**	**60**	**2,215**	**2,967**
Income tax	1,596	435	65	222	356
Equity & invest. income	(34)	32	74	350	359
Minority interests	na	na	154	(12)	(12)
Extraordinary items	1,540	(82)	na	0	0
Net profit	**12**	**(41)**	**74**	**2,332**	**2,958**
Normalized profit	**(14)**	**126**	**61**	**2,332**	**2,958**
EPS (Bt)	12	(41)	74	0.26	0.33
Normalized EPS (Bt)	(14)	126	61	0.26	0.33

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Cash & ST investment	4,233	6,279	3,920	3,811	3,960
A/C receivable	1,421	2,864	2,625	2,894	1,468
Inventory	618	637	746	793	872
Other current assets	1,718	2,003	1,891	1,365	1,032
Investment	1,755	1,566	1,618	1,646	1,657
Fixed assets	26,366	26,943	26,602	26,789	26,905
Other assets	5,547	5,741	5,908	6,041	6,628
Total assets	**41,658**	**46,032**	**43,310**	**43,339**	**42,522**
S-T debt	4,492	7,975	5,622	4,818	6,240
A/C payable	1,928	2,404	2,006	1,828	1,449
Other current liabilities	3,489	2,604	2,512	2,466	1,074
L-T debt	19,212	18,793	18,439	19,974	19,185
Other liabilities	1,568	1,781	1,566	1,631	1,559
Minority interest	98	125	148	152	159
Shareholders' equity	**10,871**	**12,350**	**13,015**	**12,470**	**12,857**
Working capital	111	1,097	1,365	1,860	891
Total debt	23,704	26,768	24,062	24,793	25,424
Net debt	**19,471**	**20,489**	**20,142**	**20,982**	**21,464**

Financial Ratios					
(%)	3Q20	4Q20	1Q21	2Q21	3Q21
Sales growth	47.4	40.0	32.4	22.2	(7.5)
Operating profit growth	(65.3)	(1.1)	109.3	35.7	103.2
EBITDA growth	(36.7)	9.7	45.9	23.3	46.4
Norm profit growth	(79.4)	4.8	38.9	62.0	126.1
Norm EPS growth	(82.8)	4.8	38.9	62.0	126.1
Gross margin	19.1	24.2	31.7	31.8	28.2
Operating margin	8.0	11.3	19.6	20.3	17.6
EBITDA margin	22.7	27.2	41.1	41.3	35.9
Norm net margin	8.5	24.8	27.1	28.4	20.8
D/E (x)	2.2	2.2	1.8	2.0	2.0
Net D/E (x)	1.8	1.7	1.5	1.7	1.7
Interest coverage (x)	2.0	2.6	3.0	3.1	3.2
Interest rate	4.4	3.7	3.8	3.9	3.9
Effective tax rate	11.6	13.5	7.7	1.5	21.6
ROA	1.9	5.0	4.2	4.8	4.1
ROE	7.7	18.8	14.9	16.2	14.0

Sources: Company data, Thanachart estimates

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