

Sino Thai Eng. & Const. (STEC TB) - BUY, Price Bt13.7, TP Bt17.5**Results Comment**

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3Q21 profit, beat expectation

- STEC reported a normalized profit of Bt136m in 3Q21, down 42% y-y but up 9% q-q. The results were higher than what we had expected. We are surprised with STEC's gross margin that was able to sustain in 3Q21 despite the closure of construction sites in July and we need to ask the company about this issue.
- Given the easing of the lockdown measures and the reopening of construction sites since August, we expect STEC to report higher earnings in 4Q21F and, thus, we see an upside to our earnings forecast on STEC this year.
- We maintain a BUY rating on STEC as 1) we expect its strong earnings growth next year driven by the easing of the lockdown measures and higher revenue recognition from its high backlog value and 2) valuation is not too demanding at PEs of 24x in 2022F versus its 34x pre-COVID average in 2015-19.
- Despite its high backlog value, STEC's revenues decreased by 29% y-y in 3Q21 due to lower utilization rate from the closure of construction sites in July. We estimate its backlog value remains at Bt69bn at end 3Q21. This has yet to include the Bt27bn U-tapao project which is expected to be signed the contract early next year.
- Its gross margin decreased to 4.4% in 3Q21 versus 5% in 3Q20 while SG&A slightly decreased by 3% y-y.
- Its equity income fell by 92% y-y due to lower earnings contribution from the Eastern and Northern Bangkok Monorail companies.

Income Statement						Income Statement					
(consolidated)						9M as					
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21	(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	8,606	8,888	7,549	7,072	6,072	Revenue	(14)	(29)	82	25,375	29,363
Gross profit	428	459	385	230	267	Gross profit	16	(37)	116	757	1,621
SG&A	165	156	182	203	169	SG&A	(17)	3	73	761	734
Operating profit	263	304	203	26	98	Operating profit	273	(63)	na	(4)	887
EBITDA	530	580	479	306	382	EBITDA	25	(28)	120	969	1,970
Other income	20	28	36	111	57	Other income	(48)	187	112	182	183
Other expense	0	0	0	0	0	Other expense					
Interest expense	13	15	11	8	7	Interest expense	(10)	(46)	72	37	44
Profit before tax	269	317	228	129	148	Profit before tax	15	(45)	359	141	1,026
Income tax	61	95	46	21	12	Income tax	(44)	(80)	282	28	205
Equity & invest. income	29	23	18	20	2	Equity & invest. income	(89)	(92)	54	75	75
Minority interests	(3)	(3)	(3)	(3)	(2)	Minority interests	na	na	na	(11)	(13)
Extraordinary items	0	226	0	(124)	0	Extraordinary items					
Net profit	235	468	197	1	136	Net profit	9,510	(42)	190	177	883
Normalized profit	235	242	197	125	136	Normalized profit	9	(42)	260	177	883
EPS (Bt)	0.15	0.31	0.13	0.00	0.09	EPS (Bt)	9,510	(42)	190	0.12	0.58
Normalized EPS (Bt)	0.15	0.16	0.13	0.08	0.09	Normalized EPS (Bt)	9	(42)	260	0.12	0.58
Balance Sheet						Financial Ratios					
(consolidated)						%					
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21		3Q20	4Q20	1Q21	2Q21	3Q21
Cash & ST investment	4,353	6,496	7,915	7,784	6,988	Sales growth	(4.8)	(2.9)	(19.1)	(21.6)	(29.5)
A/C receivable	9,564	9,905	8,811	7,975	7,749	Operating profit growth	(28.6)	(3.9)	(17.7)	(71.4)	(62.6)
Inventory	3,441	3,227	3,002	2,750	2,778	EBITDA growth	(7.6)	11.5	(0.8)	(15.7)	(27.9)
Other current assets	1,357	1,468	1,721	1,787	1,400	Norm profit growth	(30.4)	(50.1)	(5.7)	(30.7)	(42.0)
Investment	4,025	4,291	4,603	4,521	5,352	Norm EPS growth	(30.4)	(50.1)	(5.7)	(30.7)	(42.0)
Fixed assets	5,753	5,537	5,840	5,330	5,353	Gross margin	5.0	5.2	5.1	3.2	4.4
Other assets	17,476	13,110	12,486	13,135	14,564	Operating margin	3.1	3.4	2.7	0.4	1.6
Total assets	45,969	44,033	44,377	43,282	44,184	EBITDA margin	6.2	6.5	6.3	4.3	6.3
S-T debt	0	1,000	0	0	0	Norm net margin	2.7	2.7	2.6	1.8	2.2
A/C payable	25,771	21,673	22,662	22,135	21,552	D/E (x)	-	0.1	-	-	-
Other current liabilities	3,750	3,921	3,997	3,838	3,641	Net D/E (x)	(0.3)	(0.4)	(0.5)	(0.5)	(0.4)
L-T debt	0	0	0	0	0	Interest coverage (x)	39.3	39.9	42.8	37.6	52.3
Other liabilities	2,911	2,727	2,613	2,564	2,821	Interest rate	na	11.6	9.0	na	na
Minority interest	278	279	282	284	287	Effective tax rate	22.6	30.1	20.3	16.4	8.0
Shareholders' equity	13,258	14,433	14,824	14,461	15,882	ROA	2.0	2.2	1.8	1.1	1.2
Working capital	(12,766)	(8,541)	(10,849)	(11,410)	(11,025)	ROE	6.9	7.0	5.4	3.4	3.6
Total debt	0	1,000	0	0	0						
Net debt	(4,353)	(5,496)	(7,915)	(7,784)	(6,988)						

Sources: Company data, Thanachart estimates

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