

Construction Sector – Overweight

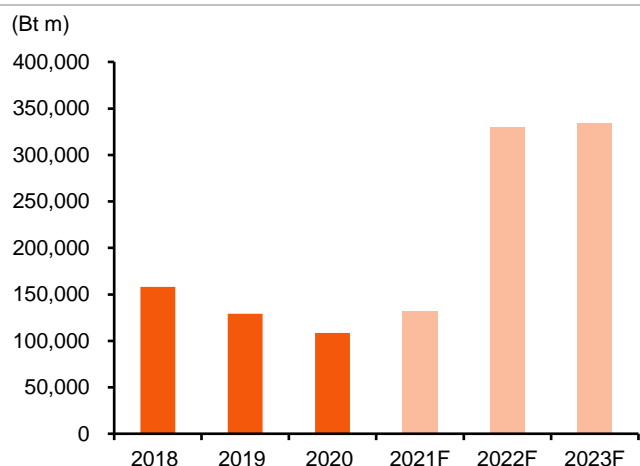
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News update

New backlog cycle starts

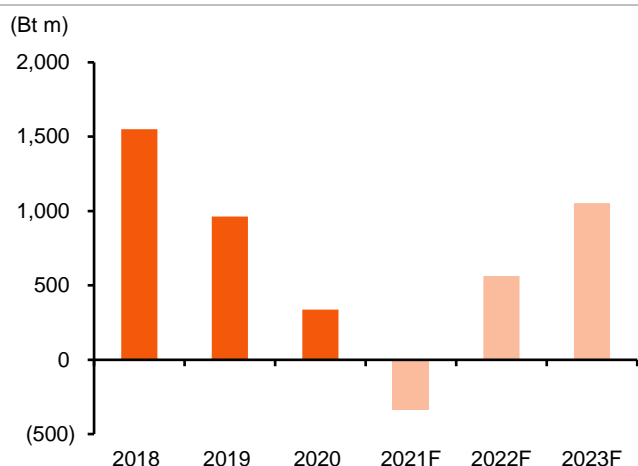
- **Bt79bn Purple Line is under the bidding process.**
 - **Bt128bn double track railway was awarded.**
 - **Bt96bn Orange Line should open for bidding next year.**
 - **The contractors are now in the new backlog cycle.**
- As the government has started to implement the infrastructure projects again, our view on the contractors' earnings turnaround next year looks promising.
 - On 27 December 2021, five contractors, ITD, CK, STEC, UNIQ, and NWR, submitted the bidding prices for the Bt79bn construction value of the South Purple Line project. We expect the government to announce the winners in February 2022 and the project to start the construction in 2H22.
 - Yesterday, ITD, CK, STEC, UNIQ, NWR, and AS Associate signed the construction contracts with the government for the double-track railway projects with the total value of Bt128bn and we expect the projects to start the construction in 2Q22.
 - We also expect the West Orange Line project with the construction value of Bt96bn to open for bidding in 2H22F and start the construction in 1H23F.
 - We project the sector's 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.
 - A rise in the building material prices, especially steel prices, is a concern. Steel and cement costs make up around 20-25% of the total costs. However, under the contracts, the government will help to subsidize some rising costs (K factor) while we also take into account higher costs (CK's gross margin of 8.9% in 2022-23F vs. 9.7% in 9M21 and 9.4% in 2020 and STEC's gross margin of 5.5-5.6% in 2022-23F vs. 4.3% in 9M21 and 4.4% in 2020).
 - CK is our top sector pick with a TP of Bt23.5/share. After signing the double track railway project, we expect CK's backlog value to increase from Bt25.7bn as of end 3Q21 to Bt49bn. With the potential winner of 1) the Bt81bn Luang Prabang hydropower plant, 2) Bt20bn of work from the Bt79bn South Purple Line, and 3) the Bt96bn West Orange Line, we forecast its backlog value to rise to Bt226bn at end 2022F and its normalized earnings to turn from a loss of Bt335m this year to a profit of Bt564m in 2022F and Bt1.1bn in 2023F.
 - We also have a BUY call on STEC with a TP of Bt17.5/share. After signing the double track railway project, we expect STEC's backlog value to increase from Bt69bn as of end 3Q21 to Bt92bn. With the potential winner of 1) the Bt27bn U-tapao Airport and 2) Bt20bn of work from the Bt79bn South Purple Line, we forecast its backlog value to rise to Bt102bn at end 2022F and its normalized earnings to grow 400% y-y in 2022F and 23% y-y in 2023F.

Ex 1: CK, STEC, SEAFCO, PYLON's Backlog



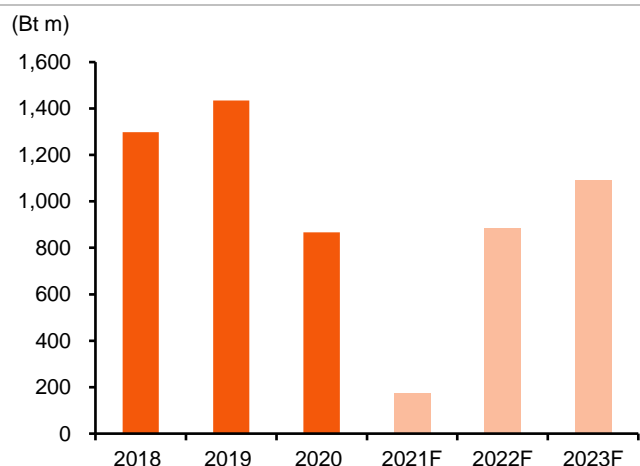
Sources: Company data; Thanachart estimates

Ex 2: CK's Earnings



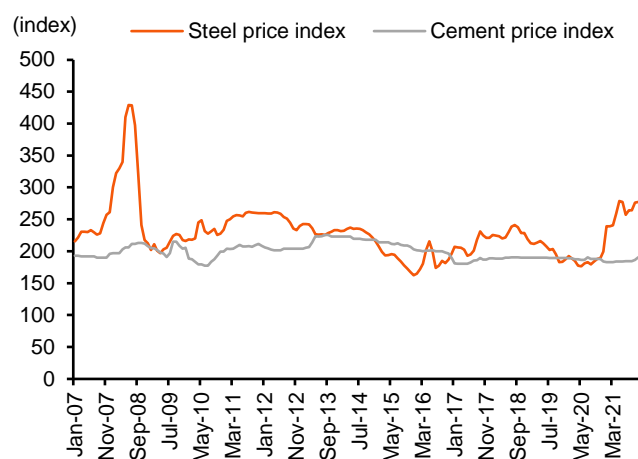
Sources: Company data; Thanachart estimates

Ex 3: STEC's Earnings



Sources: Company data; Thanachart estimates

Ex 4: Steel And Cement Price Index



Source: Ministry of Commerce

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