BUY (Unchanged) | **TP: Bt 25.00** (From: Bt 23.50)

Change in Numbers | **Upside : 13.6%** | **19 JANUARY 2022**

Small Cap Research

Thanachart Securities

Ch. Karnchang Pcl (CK TB)

Backlog on the rise

CK remains our top sector pick as we not only see a strong earnings turnaround this year but its new backlog rising to Bt227bn/235bn in 2022-23F and its associates' earnings recovery securing growth over the next five years. At a 38% discount to its associates' market value vs. its 35% pre-COVID average, CK is a BUY with a new TP of Bt25.

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Catalysts lining up

Despite its 47% share price recovery from its low last year, we reaffirm our BUY call on CK as we still expect catalysts from: ***1)*** its strong earnings turnaround after the lockdown hiccup last year with growth of 276% this year (from a 54% fall in 2021F) and 89% in 2023F, ***2)*** five new potential project wins driving its backlog value to a record-high of Bt227bn at end 2022F and even higher to Bt235bn at end 2023F, ***3)*** 15-24% equity income growth in 2022-23F from its associates' earnings turnaround, and ***4)*** a cheap valuation with its shares trading at a 38% discount to its associates' market value vs. 10-26% in 2017-18 and 48-54% in 2020-21. Our TP implies a 30% discount in 2022F.

Raising our TP to Bt25, still a BUY

We lift our earnings for CK by 4-5% in 2022-23F as CK reported higher-than-expected new work value of Bt30bn in 2021F (vs. our forecast of Bt28bn). Moreover, our gross margin forecasts look too conservative. We thus raise them by 0.3-1.3% to 9.5% in 2021F and 9.2% in 2022-23F (vs. 9.7% in 9M21 and 9.3-9.4% in 2019-20). We assume lower gross margin in 2022-23F as we expect CK's operating leverage benefits to be offset by higher building material costs. As a result, our DCF-derived SOTP-based 12-month TP is raised to Bt25/share from Bt23.5.

Record-high backlog value this year…

We project CK's backlog value to end 2021F at Bt47bn and we expect it to increase to Bt227bn (13x of 2022F revenue) in 2022F from the Bt197bn combined value of three new potential projects vs. Bt17bn of revenue recognition depletion in 2022F. The three new projects are: ***1)*** a portion of the Bt79bn South Purple Line project, where CK has formed a JV with Sino-Thai Engineering (STEC TB, Bt15.1, BUY) to bid for it and we estimate the JV to win Bt40bn worth of the project value and for CK's portion to be half of that at Bt20bn, ***2)*** the Bt81bn construction value of the Luang Prabang hydropower plant, which CK Power (CKP TB, Bt5.0, BUY), CK's associate, is in final negotiations to secure a PPA, and ***3)*** the Bt96bn construction value of the West Orange Line, which we expect the government to open for bidding in 2H22F.

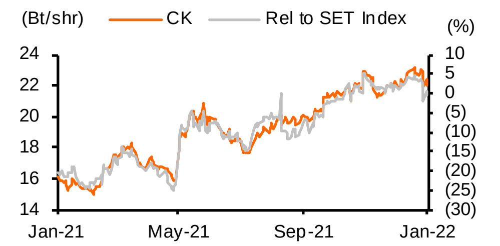
…and even higher in 2023F

We push out other potential projects into 2023F given the potential election this year. Those projects include Bt17bn of work from the Bt103bn Red Line Extension project and Bt13bn of work from the Bt264bn worth of remaining second-phase double-track railway projects. With Bt22bn of revenue recognition depletion in 2023F, we estimate CK's backlog value to rise further to Bt235bn (10x of 2023F revenue) in 2023F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	16,941	11,713	16,956	22,396
Net profit	612	696	604	1,127
Consensus NP	—	373	1,285	1,659
Diff frm cons (%)	—	*86.9*	*(53.0)*	*(32.1)*
Norm profit	337	170	604	1,127
Prev. Norm profit	—	(335)	564	1,054
Chg frm prev (%)	—	*na*	*7.2*	*6.9*
Norm EPS (Bt)	0.20	0.10	0.36	0.67
Norm EPS grw (%)	(65.0)	(49.5)	254.5	86.6
Norm PE (x)	110.6	218.8	61.7	33.1
EV/EBITDA (x)	240.1	na	217.8	103.5
P/BV (x)	1.4	1.4	1.4	1.4
Div yield (%)	0.9	0.7	0.6	1.2
ROE (%)	1.3	0.7	2.3	4.2
Net D/E (%)	131.8	134.5	130.8	121.6

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 19-Jan-22 (Bt)	22.00
Market Cap (US$ m)	1,128.0
Listed Shares (m shares)	1,693.9
Free Float (%)	65.1
Avg Daily Turnover (US$ m)	4.5
12M Price H/L (Bt)	23.20/15.00
Sector	Construction
Major Shareholder	Trivisvavet group 38.5%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
New work value (Bt bn)					
New	11.8	7.3	29.6	197.0	30.0
Old			28.0	197.0	30.0
Change (%)			*5.6*	*-*	*-*
Normalized profit (Bt m)					
New	963	337	170	604	1,127
Old			(335)	564	1,054
Change (%)			*na*	*7.2*	*6.9*
Gross margin (%)					
New	9.3	9.4	9.5	9.2	9.2
Old			8.2	8.9	8.9
Change (pp)			*1.3*	*0.3*	*0.3*
Equity income (Bt bn)					
New	1.0	0.9	1.2	1.4	1.7
Old			0.9	1.4	1.7
Change (pp)			*34.3*	*-*	*-*

Sources: Company data, Thanachart estimates

Ex 2: CK's Potential New Work Value

Project	Project Value (Bn)	Construction Value (Bn)	Chance (%)	New work in 2021F (Bn)	New work in 2022F (Bn)	New work in 2023F (Bn)
Backlog value as of end 2020				**29**		
Newly signed contracts						
Water Transmission Tunnel				5		
Double-track Denchai - Chiang Khong				24		
Others				1		
To be signed contracts						
Luang Prabang Hydropower Plant	150	81	100	-	81	-
Potential projects						
South Purple Line	125	79	25	-	20	-
West Orange Line	129	96	100	-	96	-
Red Line Extension	103	67	25	-	-	17
Double-track Chira – Ubon	36	36	5	-	-	2
Double-track Khon Kaen - Nong Khai	25	25	5	-	-	1
Double-track Hat Yai - Padang Besar	7	7	5			0
Double-track Chumphon -Surat Thani	23	23	5			1
Double-track Surat Thani - Songkhla	56	56	5			3
Double-track Paknam Po - Den Chai	59	59	5			3
Double-track Den Chai - Chiang Mai	58	58	5	-	-	3
Total new work value		**384**		**30**	**197**	**30**
Backlog at year end				**47**	**227**	**235**

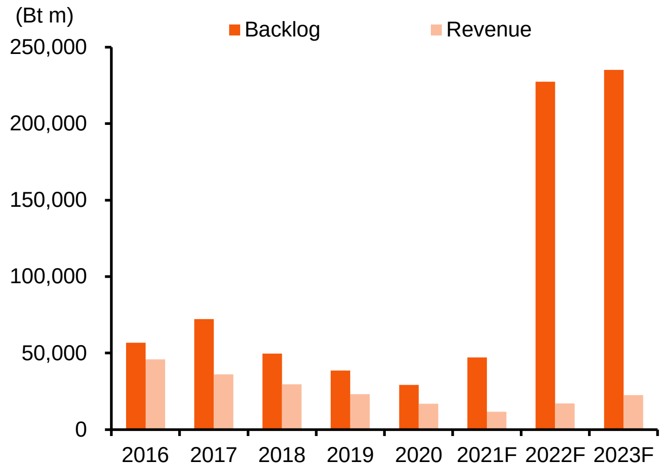
Sources: Company data, Thanachart estimates

Ex 3: Our SOTP-Based Investment Equity Valuation Of CK

	% holding	Our TP	Fair value (Bt m)	30% discount* (Bt m)	Share price (Bt/share)	Market value (Bt m)
TTW	19.4%	14.00	10,837	7,586	11.50	8,902
BEM	31.3%	10.00	47,873	33,511	8.15	39,016
CKP	30.7%	7.50	18,700	13,090	5.00	12,466
Total			**77,409**	**54,186**		**60,384**
Per CK share (Bt)			**45.7**	**32.0**		**35.6**
Construction business value (Bt)				**(7.2)**		
Our TP (Bt)				**24.8**		

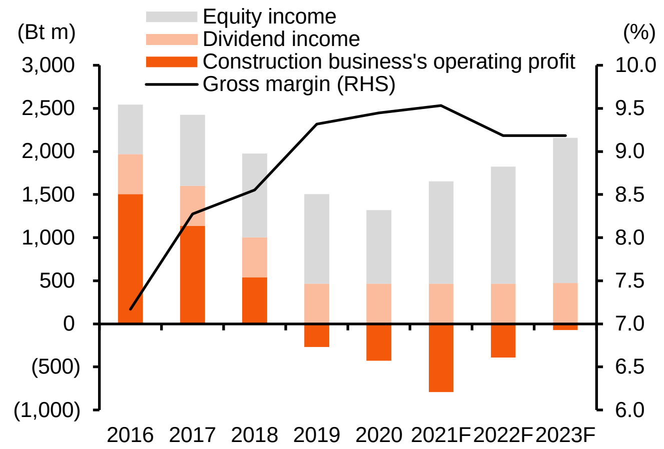
Sources: Company data, Thanachart estimates

Ex 4: CK's Backlog Value Vs. Revenue



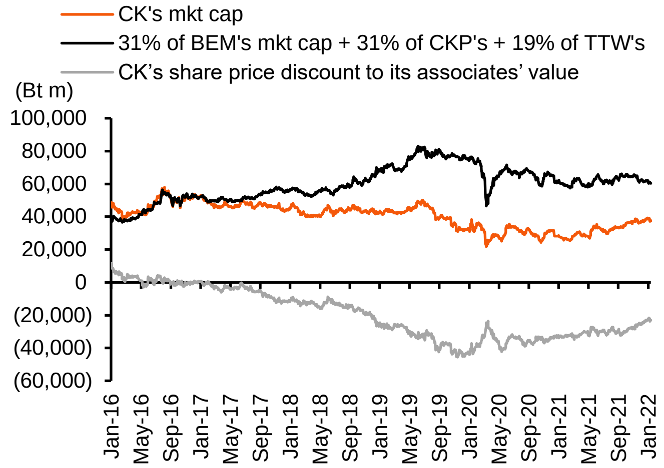
Sources: Company data, Thanachart estimates

Ex 5: CK's Operating Profit And Dividend & Equity Income



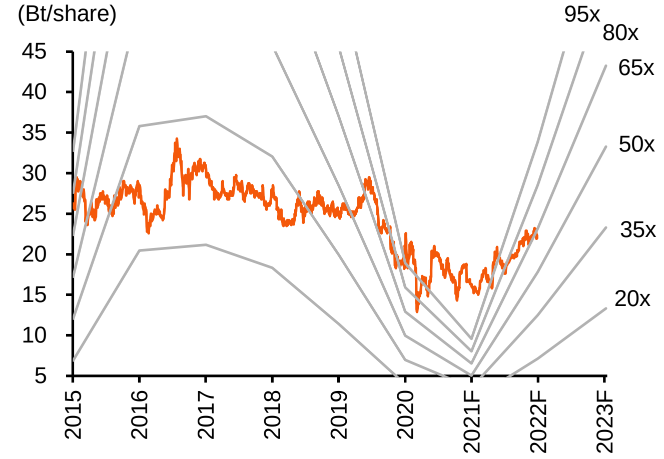
Sources: Company data, Thanachart estimates

Ex 6: CK's Market Cap Vs. Its Associates' Market Cap



Sources: Company data, Thanachart estimates

Ex 7: CK's PE Band



Sources: Company data, Thanachart estimates

Ex 8: EV Of Construction Business

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	333	687	846	1,105	1,493	1,980	2,157	2,060	1,738	1,429	1,094	—
Free cash flow	192	585	882	1,389	2,045	2,381	2,383	2,364	2,271	1,996	1,892	31,221
PV of free cash flow	191	509	715	1,032	1,410	1,524	1,416	1,304	1,163	909	796	13,141
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	7.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	24,109											
Net debt (2021F)	35,830											
Minority interest	429											
Equity value	(12,150)											
# of shares (m)	1,694											
Equity value/share (Bt)	**(7.2)**											

Sum of the parts	% holding	(Bt m)
Enterprise value from construction business		**24,109**
Investment equity value		**54,186**
TTW	19.4%	7,586
BEM	31.3%	33,511
CKP	30.7%	13,090
Total enterprise value		**78,295**
(Less) Net debt		(35,830)
(Less) Minority interest		(429)
Total enterprise value		**42,036**
# of shares (fully diluted) (m shares)		1,694
Sum of the parts (Bt/share)		**24.8**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Peer Valuation Comparison

Name	BBG code	Current Price (Bt)	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Italian-Thai Devel.	ITD TB	2.18	44.8	62.5	na	na	0.9	1.0	17.1	14.9	na	na
Sriracha Construction	SRICHA TB	14.60	165.8	18.9	12.0	10.1	2.7	2.6	7.4	6.3	7.2	8.2
Unique Engineering	UNIQ TB	6.10	(75.5)	280.0	122.0	32.1	na	na	11.2	9.9	na	na
CH Karnchang*	CK TB	22.00	(49.5)	254.5	218.8	61.7	1.4	1.4	na	217.8	0.7	0.6
Pylon Pcl*	PYLON TB	4.86	(80.7)	245.3	104.6	30.3	3.7	3.4	25.1	13.8	0.5	2.5
Seafco Pcl*	SEAFCO TB	4.48	na	na	na	23.7	2.2	2.0	24.4	9.7	0.0	2.1
Sino Thai Eng. & Cons*	STEC TB	15.10	(31.1)	48.1	38.5	26.0	1.6	1.5	9.8	7.4	0.8	1.3
Average			**(14.2)**	**151.6**	**99.2**	**30.7**	**2.1**	**2.0**	**15.8**	**40.0**	**1.8**	**2.9**

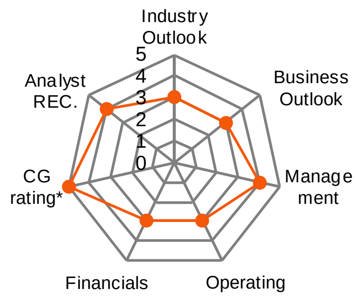
Source: Bloomberg
Note: * Thanachart estimates using normalized EPS growth
Based on 19-Jan-22 closing prices

COMPANY DESCRIPTION

Ch. Karnchang Pcl (CK) is one of Thailand's leading contractors and basic infrastructure developers. It has more than 30 years of experience in constructing large-scale infrastructure, building complexes and general civil work. The company has also been investing in the government's concession projects in order to expand its operations and generate steady long-term income.

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

- One of the Big Four contractors in Thailand and categorized as class-A in terms of being qualified to bid for most large-scale investments.
- Business diversification into infrastructure investments to stabilize its long-term earnings.

W — Weakness

- Most of CK's revenues come from projects it has to bid for, and there are no guarantees it will win these bids.
- CK's interest expenses are high, leading to a significant risk of earnings losses if revenues fall.
- The construction business is labour-intensive, so there are risks of higher labor costs and labor shortages.

O — Opportunity

- Thailand is in the infrastructure investment cycle.
- Its exposure to high-potential projects abroad, especially hydroelectric work in Laos.

T — Threat

- The Covid-19 impacts and the government's time-consuming implementation processes could cause delays to Thailand's infrastructure investment.
- Volatility in building material prices is another risk.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	25.81	25.00	-3%
Net profit 21F (Bt m)	373	696	87%
Net profit 22F (Bt m)	1,285	604	-53%
Consensus REC	**BUY: 15**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F net profit is 53% lower than the Bloomberg consensus estimate, which we believe is due to us having a more conservative view on revenue and gross margins due to delays in mega-project bids and the labour shortage.
- However, our SOTP-based TP is only slightly lower than other brokers', which we attribute to us having a more bullish view on its associates' business prospects.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if the government's infrastructure investment projects cannot be implemented, as this would likely prompt us to adjust down our new work value assumptions.
- Building material expenses account for 50-60% of CK's total costs. Therefore, adverse fluctuations in prices present a secondary downside risk to our earnings forecasts.
- The weak economy could have a significant negative impact upon people's confidence and new investments.

Source: Thanachart

We forecast CK's earnings to turn around this year driven by…

…a recovery in CK's construction business and…

…higher earnings contributions from its associates

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	23,189	16,941	11,713	16,956	22,396
Cost of sales	21,028	15,341	10,596	15,399	20,339
Gross profit	**2,161**	**1,601**	**1,117**	**1,557**	**2,057**
% gross margin	9.3%	9.4%	9.5%	9.2%	9.2%
Selling & administration expenses	2,430	2,027	1,909	1,950	2,128
Operating profit	**(268)**	**(427)**	**(792)**	**(393)**	**(71)**
% operating margin	-1.2%	-2.5%	-6.8%	-2.3%	-0.3%
Depreciation & amortization	526	726	694	726	758
EBITDA	**258**	**299**	**(99)**	**333**	**687**
% EBITDA margin	1.1%	1.8%	-0.8%	2.0%	3.1%
Non-operating income	1,560	1,226	1,180	1,071	980
Non-operating expenses	0	0	0	0	0
Interest expense	(1,226)	(1,276)	(1,400)	(1,428)	(1,456)
Pre-tax profit	**65**	**(477)**	**(1,013)**	**(750)**	**(547)**
Income tax	126	28	0	0	0
After-tax profit	**(61)**	**(505)**	**(1,013)**	**(750)**	**(547)**
% net margin	-0.3%	-3.0%	-8.7%	-4.4%	-2.4%
Shares in affiliates' Earnings	1,039	857	1,189	1,361	1,684
Minority interests	(15)	(15)	(5)	(7)	(10)
Extraordinary items	815	275	526	0	0
NET PROFIT	**1,778**	**612**	**696**	**604**	**1,127**
Normalized profit	**963**	**337**	**170**	**604**	**1,127**
EPS (Bt)	1.0	0.4	0.4	0.4	0.7
Normalized EPS (Bt)	0.6	0.2	0.1	0.4	0.7

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	18,953	19,834	21,112	26,744	32,576
Cash & cash equivalent	9,160	7,767	8,500	8,500	8,500
Account receivables	3,643	3,659	2,728	3,949	5,215
Inventories	2,177	2,436	2,322	3,375	4,458
Others	3,973	5,972	7,562	10,920	14,403
Investments & loans	51,255	50,366	47,866	45,366	42,866
Net fixed assets	11,164	11,194	11,300	11,375	11,417
Other assets	1,213	1,381	997	1,392	1,801
Total assets	**82,586**	**82,774**	**81,275**	**84,876**	**88,660**
LIABILITIES:					
Current liabilities:	17,909	14,758	12,103	14,911	18,084
Account payables	2,574	2,636	2,177	2,531	3,065
Bank overdraft & ST loans	1,874	147	0	0	0
Current LT debt	1,525	3,670	3,990	3,940	3,813
Others current liabilities	11,936	8,305	5,936	8,440	11,206
Total LT debt	**33,605**	**38,586**	**40,340**	**39,836**	**38,553**
Others LT liabilities	3,259	3,160	2,199	3,163	4,163
Total liabilities	**54,773**	**56,503**	**54,642**	**57,910**	**60,800**
Minority interest	420	424	429	436	446
Preferreds shares	0	0	0	0	0
Paid-up capital	1,694	1,694	1,694	1,694	1,694
Share premium	4,869	4,869	4,869	4,869	4,869
Warrants	0	0	0	0	0
Surplus	6,341	4,572	4,572	4,572	4,572
Retained earnings	**14,488**	**14,711**	**15,069**	**15,394**	**16,279**
Shareholders' equity	27,393	25,847	26,204	26,530	27,415
Liabilities & equity	**82,586**	**82,774**	**81,275**	**84,876**	**88,660**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	65	(477)	(1,013)	(750)	(547)
Tax paid	(121)	(51)	3	1	6
Depreciation & amortization	526	726	694	726	758
Chg In working capital	7,933	(213)	586	(1,920)	(1,816)
Chg In other CA & CL / minorities	(2,556)	(4,668)	(2,774)	507	961
Cash flow from operations	**5,847**	**(4,683)**	**(2,504)**	**(1,436)**	**(639)**
Capex	(1,902)	(756)	(800)	(800)	(800)
Right of use	0	(121)	(5)	(5)	(5)
ST loans & investments	214	(8)	0	0	0
LT loans & investments	(5,165)	889	2,500	2,500	2,500
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	730	45	(46)	574	596
Cash flow from investments	**(6,124)**	**49**	**1,649**	**2,269**	**2,291**
Debt financing	308	5,399	1,927	(554)	(1,410)
Capital increase	0	0	0	0	0
Dividends paid	(847)	(339)	(339)	(279)	(242)
Warrants & other surplus	1,041	(1,819)	0	0	0
Cash flow from financing	**502**	**3,241**	**1,588**	**(833)**	**(1,652)**
Free cash flow	**3,945**	**(5,439)**	**(3,304)**	**(2,236)**	**(1,439)**

CK now trades 38% below its associates' market value…

…which we believe is unjustified

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	38.7	110.6	218.8	61.7	33.1
Normalized PE - at target price (x)	44.0	125.7	248.6	70.1	37.6
PE (x)	21.0	60.9	53.5	61.7	33.1
PE - at target price (x)	23.8	69.2	60.8	70.1	37.6
EV/EBITDA (x)	252.5	240.1	na	217.8	103.5
EV/EBITDA - at target price (x)	272.2	257.1	na	233.1	110.9
P/BV (x)	1.4	1.4	1.4	1.4	1.4
P/BV - at target price (x)	1.5	1.6	1.6	1.6	1.5
P/CFO (x)	6.4	(8.0)	(14.9)	(25.9)	(58.3)
Price/sales (x)	1.6	2.2	3.2	2.2	1.7
Dividend yield (%)	1.8	0.9	0.7	0.6	1.2
FCF Yield (%)	10.6	(14.6)	(8.9)	(6.0)	(3.9)
(Bt)					
Normalized EPS	0.6	0.2	0.1	0.4	0.7
EPS	1.0	0.4	0.4	0.4	0.7
DPS	0.4	0.2	0.2	0.1	0.3
BV/share	16.2	15.3	15.5	15.7	16.2
CFO/share	3.5	(2.8)	(1.5)	(0.8)	(0.4)
FCF/share	2.3	(3.2)	(2.0)	(1.3)	(0.8)

Sources: Company data, Thanachart estimates

We forecast CK's net D/E ratio to fall to 1.3x in 2022F and 1.2x in 2023F from 2.7x in 2011

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(21.4)	(26.9)	(30.9)	44.8	32.1
Net profit (%)	(28.7)	(65.6)	13.8	(13.3)	86.6
EPS (%)	(28.7)	(65.6)	13.8	(13.3)	86.6
Normalized profit (%)	(37.9)	(65.0)	(49.5)	254.5	86.6
Normalized EPS (%)	(37.9)	(65.0)	(49.5)	254.5	86.6
Dividend payout ratio (%)	38.1	55.3	40.0	40.0	40.0
Operating performance					
Gross margin (%)	9.3	9.4	9.5	9.2	9.2
Operating margin (%)	(1.2)	(2.5)	(6.8)	(2.3)	(0.3)
EBITDA margin (%)	1.1	1.8	(0.8)	2.0	3.1
Net margin (%)	(0.3)	(3.0)	(8.7)	(4.4)	(2.4)
D/E (incl. minor) (x)	1.3	1.6	1.7	1.6	1.5
Net D/E (incl. minor) (x)	1.0	1.3	1.3	1.3	1.2
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	0.2	0.2	na	0.2	0.5
ROA - using norm profit (%)	1.2	0.4	0.2	0.7	1.3
ROE - using norm profit (%)	3.6	1.3	0.7	2.3	4.2
DuPont					
ROE - using after tax profit (%)	na	na	na	na	na
- asset turnover (x)	0.3	0.2	0.1	0.2	0.3
- operating margin (%)	5.6	na	na	na	na
- leverage (x)	3.1	3.1	3.2	3.2	3.2
- interest burden (%)	5.1	(59.6)	(261.7)	(110.5)	(60.2)
- tax burden (%)	na	na	na	na	na
WACC (%)	7.3	7.3	7.3	7.3	7.3
ROIC (%)	0.5	(0.8)	(1.0)	(0.5)	(0.1)
NOPAT (Bt m)	250	(427)	(634)	(314)	(56)
invested capital (Bt m)	55,237	60,483	62,034	61,805	61,281

Sources: Company data, Thanachart estimates

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