

BUY (From: HOLD)
Change in Recommendation

TP: Bt 5.20
Upside : 13.0%

(From: Bt4.30)
28 JANUARY 2022

Small Cap Research

Pylon Public Co Ltd (PYLON TB)

Growth secured

Amid concerns over slow new high-rise building project launches, PYON has already secured a record-high backlog value of Bt1.5bn which should lift earnings from 1Q22F onward. While we forecast PYLON's earnings growth at 338/42% y-y in 2022-23F, its share price tumble of 18% from its peak this year offers a good chance to BUY.



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Raising our TP to Bt5.2; upgrading to BUY

Despite the COVID-19 crisis and slow new high-rise building project launches putting demand for piling work under pressure last year, PYLON was able to secure new work, especially from the high-value high-speed train linking three airports and property complex projects, driving its backlog value to a record high of Bt1.5bn at end 2021F. This leads us to revise up our backlog value assumptions by 59-110% to Bt1.5/1.3/1.3bn at end 2021-23F, resulting in our revenue estimates increasing by 9-12% in 2022-23F and our earnings by 19-28%. Our DCF-based 12-month TP (2022F base year) is thus raised to Bt5.2/share from Bt4.3 and we upgrade our rating on PYLON to BUY from Hold.

More potential projects in the pipeline

As most of the existing backlog will be recognized as revenue this year, this means that 95% of our 2022F revenue estimate is already secured. We also forecast PYLON to obtain new work with a value of Bt1.4bn this year and Bt1.6bn next year. Besides the Bt1bn-1.2bn of new work PYLON normally gets each year, we assume 1) an additional Bt395m from the Bt79bn South Purple Line, the winning main contractors for which are due to be announced in late 1Q22 while these main contractors should subcontract piling and diaphragm wall work to subcontractors, including PYLON, in 2H22F and 2) Bt480m from the Bt96bn West Orange Line, which we expect to open for bidding late this year with PYLON getting subcontracted work in 2023F.

Margin outlook

There has been concern over rising building material prices and a labor shortage. Despite that, we project PYLON's gross margin to improve from 14% last year to 17% this year and 21% in 2023F (vs. 23-26% during the pre-COVID 2015-19), driven by operating leverage benefits from a higher utilization rate. High building material prices are not management's major concern as the piling construction period is short (two to six months per project) and PYLON locks in the prices when it is awarded projects. The labor shortage issue has also eased as the government has already allowed contractors to bring in foreign workers.

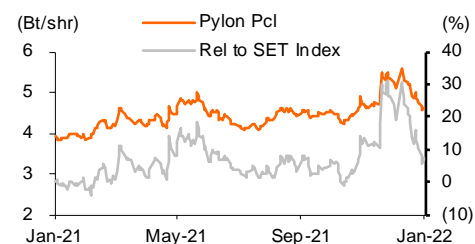
Valuation now looks inexpensive

PYLON's share price has tended to trade at a premium valuation vs. its peers' as it has the strongest profitability profile. We now see the 18% drop in PYLON's share price from its peak this year despite earnings growth of 338% this year and 42% in 2023F as a good opportunity to BUY the stock. PYLON now trades at 22/16x PE multiples in 2022-23F, below its average PE of 24x in the pre-COVID 2015-19 period.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	1,415	747	1,531	1,650
Net profit	183	35	154	218
Consensus NP	—	41	176	260
Diff frm cons (%)	—	(13.5)	(12.6)	(16.0)
Norm profit	181	35	154	218
Prev. Norm profit	—	35	120	184
Chg frm prev (%)	—	0.8	27.8	18.5
Norm EPS (Bt)	0.2	0.0	0.2	0.3
Norm EPS grw (%)	(31.4)	(80.6)	337.8	42.1
Norm PE (x)	19.1	98.2	22.4	15.8
EV/EBITDA (x)	10.3	24.0	10.6	7.9
P/BV (x)	3.3	3.5	3.1	2.8
Div yield (%)	3.0	0.5	3.3	4.8
ROE (%)	17.1	3.5	14.7	18.8
Net D/E (%)	(27.8)	(36.2)	(44.4)	(46.9)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 28-Jan-22 (Bt)	4.60
Market Cap (US\$ m)	103.3
Listed Shares (m shares)	749.9
Free Float (%)	40.6
Avg Daily Turnover (US\$ m)	0.2
12M Price H/L (Bt)	5.60/3.84
Sector	Construction
Major Shareholder	Sangarayakul Family 51.5%

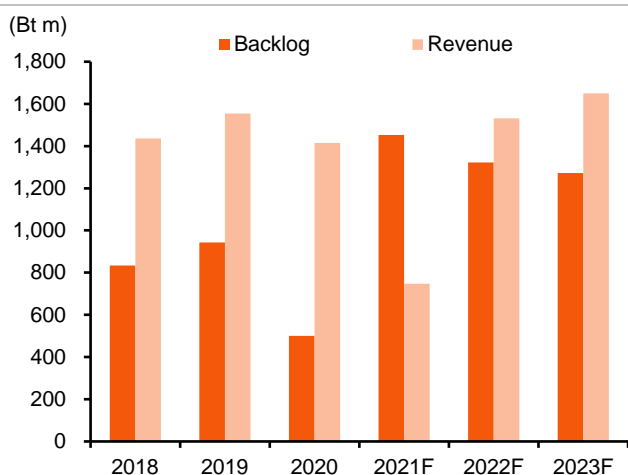
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Our Key Assumption Changes

	2019	2020	2021F	2022F	2023F
Backlog value (Bt m)					
New	943	500	1,453	1,322	1,272
Old			691	721	801
Change (%)			110.2	83.3	58.8
Revenue (Bt m)					
New	1,554	1,415	747	1,531	1,650
Old			809	1,370	1,520
Change (%)			(7.7)	11.8	8.6
Normalized profit (Bt m)					
New	278	183	35	154	218
Old			35	120	184
Change (%)			0.8	27.8	18.5

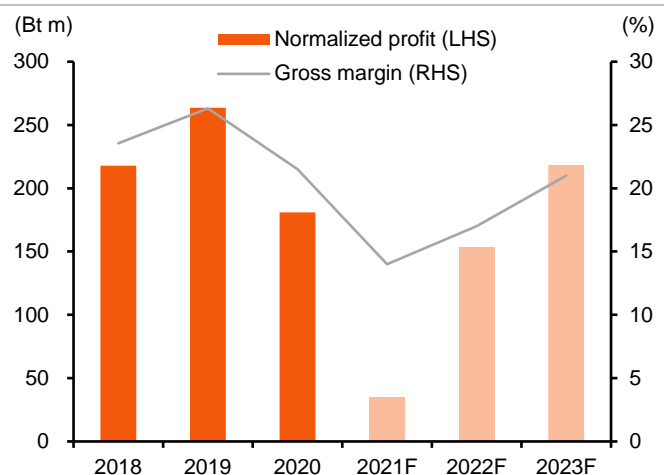
Source: Thanachart estimates

Ex 2: PYLON's Backlog Value Vs. Revenue



Sources: Company data, Thanachart estimates

Ex 3: PYLON's Gross Margin Vs. Earnings



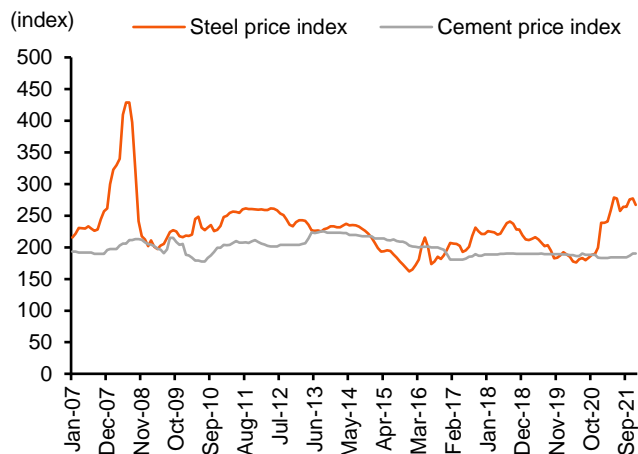
Sources: Company data, Thanachart estimates

Ex 4: Estimated Piling Work Value For PYLON

Project	Total construction value (Bt bn)	Estimated piling value for PYLON (Bt bn)	Estimated year for piling work
South Purple Line	79	0.4	2H22F
Other projects		1.0	2022F
West Orange Line	96	0.5	2H23F
Other projects		1.1	2023F

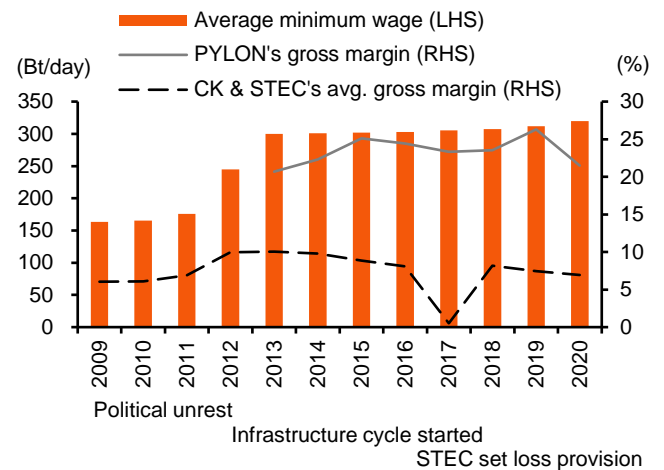
Sources: Thanachart estimates

Ex 5: Steel & Cement Price Index



Source: Ministry of Commerce

Ex 6: Contractors' Gross Margin Vs. Minimum Wages



Sources: NESDC, Company data, Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	239	323	385	399	406	414	421	428	435	442	449	—
Free cash flow	88	216	213	255	271	278	285	293	300	307	314	4,018
PV of free cash flow	87	182	165	181	172	162	151	142	133	124	110	1,413
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	9.0											
Terminal growth (%)	2.0											
Enterprise value - add investments	3,494											
Net debt (2021F)	(353)											
Minority interest	-											
Equity value	3,847											
# of shares (m)*	750											
Target price/share (Bt)	5.2											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Peer Valuation Comparison

Name	BBG code	Current Price (Bt)	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Italian-Thai Devel.	ITD TB	2.08	44.8	62.5	na	na	0.9	0.9	17.0	14.8	na	na
Sriracha Construction	SRICHA TB	15.0	165.8	18.9	12.3	10.3	2.7	2.6	7.7	6.5	7.0	8.0
Unique Engineering	UNIQ TB	5.55	(75.5)	280.0	111.0	29.2	na	na	10.9	9.6	na	na
CH Karnchang*	CK TB	21.00	(49.5)	254.5	208.8	58.9	1.4	1.3	na	212.8	0.8	0.7
Pylon Pcl*	PYLON TB	4.60	(80.6)	337.8	98.2	22.4	3.5	3.1	24.0	10.6	0.5	3.3
Seafoo Pcl*	SEAFKO TB	4.38	na	na	na	55.0	2.2	2.1	29.8	13.6	0.0	0.0
Sino Thai Eng. & Cons*	STEC TB	14.20	(31.1)	48.1	36.2	24.5	1.5	1.4	8.9	6.7	0.8	1.4
Average			(4.4)	167.0	93.3	33.4	2.0	1.9	16.4	39.2	1.8	2.7

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 28-Jan-22 closing prices

COMPANY DESCRIPTION

Pylon Public Company Limited (PYLON) was incorporated in 2002. The company provides construction services related to foundation work with three product lines: bored piling, diaphragm wall and ground improvement by jet grouting. At end 2020, PYLON had 30 sets of piling machines.

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

- Its 14 years of experience, knowledge and innovation allow the company to qualify for almost all kinds of foundation work.
- Cost competitiveness due to economies of scale and strong cost management.
- Robust financial position with a net cash position.

O — Opportunity

- Thailand is entering a new multi-year infrastructure investment cycle.
- High-rise building trend in Bangkok given rising land costs.
- Thick and very soft clay terrain in Bangkok requires more piling foundation work.

W — Weakness

- The business is capital intensive and requires high asset utilization.
- Bored piling work requires high reliability.
- Capacity constraints to fully enjoy the massive infrastructure investment cycle.

T — Threat

- Political instability causing delays to Thailand's new investment cycle and private construction projects.
- High volatility for steel and cement prices over short periods of time.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	5.78	5.20	-10%
Net profit 21F (Bt m)	41	35	-14%
Net profit 22F (Bt m)	176	154	-13%
Consensus REC	BUY: 2	HOLD: 5	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimate for 2022F is 13% lower than the Bloomberg consensus forecast, which we believe is because we have a more conservative view on revenue and gross margin.
- Our DCF-based TP is also lower than the Street's, following our lower earnings projection.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Delays to the government's infrastructure projects and high-rise building project launches could impact our new work value assumptions.
- Delays could also hurt PYLON's gross margins given its high operating leverage.
- Fluctuations in building material prices over short periods of time also presents a major risk to our gross margin projections.
- Construction site lockdowns due to the COVID-19 pandemic also presents a major risk to our earnings forecast.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	1,554	1,415	747	1,531	1,650
Cost of sales	1,145	1,111	642	1,271	1,304
Gross profit	409	304	105	260	347
% gross margin	26.3%	21.5%	14.0%	17.0%	21.0%
Selling & administration expenses	100	96	71	77	83
Operating profit	309	208	34	184	264
% operating margin	19.9%	14.7%	4.5%	12.0%	16.0%
Depreciation & amortization	86	98	96	96	99
EBITDA	395	306	129	280	363
% EBITDA margin	25.4%	21.7%	17.3%	18.3%	22.0%
Non-operating income	9	10	9	9	10
Non-operating expenses	0	0	0	0	0
Interest expense	(3)	(4)	(1)	(1)	(1)
Pre-tax profit	314	214	41	192	273
Income tax	51	33	6	38	55
After-tax profit	264	181	35	154	218
% net margin	17.0%	12.8%	4.7%	10.0%	13.2%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	14	2	0	0	0
NET PROFIT	278	183	35	154	218
Normalized profit	264	181	35	154	218
EPS (Bt)	0.4	0.2	0.0	0.2	0.3
Normalized EPS (Bt)	0.4	0.2	0.0	0.2	0.3

We expect PYLON's current high backlog value to boost earnings in 2022-23F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,024	718	674	968	1,095
Cash & cash equivalent	326	343	375	515	590
Account receivables	638	329	245	398	452
Inventories	59	44	53	52	50
Others	1	2	1	2	3
Investments & loans	0	0	0	0	0
Net fixed assets	645	505	432	378	362
Other assets	20	97	99	121	125
Total assets	1,689	1,321	1,205	1,467	1,581
LIABILITIES:					
Current liabilities:	535	190	149	242	248
Account payables	388	116	88	174	179
Bank overdraft & ST loans	67	19	8	8	7
Current LT debt	23	18	7	7	7
Others current liabilities	57	37	45	52	56
Total LT debt	32	15	6	6	6
Others LT liabilities	56	69	74	106	112
Total liabilities	622	274	229	354	365
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	375	375	375	375	375
Share premium	154	154	154	154	154
Warrants	0	0	0	0	0
Surplus	(6)	(6)	(6)	(6)	(6)
Retained earnings	544	523	454	590	693
Shareholders' equity	1,067	1,047	977	1,113	1,216
Liabilities & equity	1,689	1,321	1,205	1,467	1,581

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	314	214	41	192	273
Tax paid	(38)	(45)	(3)	(38)	(53)
Depreciation & amortization	86	98	96	96	99
Chg In working capital	(21)	52	47	(66)	(47)
Chg In other CA & CL / minorities	(69)	(7)	6	6	1
Cash flow from operations	272	312	187	189	273
Capex	(202)	41	(20)	(40)	(80)
Right of use	0	(78)	(3)	(3)	(3)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	70	15	3	11	2
Cash flow from investments	(131)	(22)	(20)	(32)	(81)
Debt financing	56	(70)	(30)	(0)	(2)
Capital increase	0	0	0	0	0
Dividends paid	(75)	(202)	(105)	(18)	(115)
Warrants & other surplus	(2)	(1)	0	0	0
Cash flow from financing	(21)	(273)	(135)	(18)	(117)
Free cash flow	70	353	167	149	193

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	13.1	19.1	98.2	22.4	15.8
Normalized PE - at target price (x)	14.8	21.6	111.0	25.4	17.8
PE (x)	12.4	18.9	98.2	22.4	15.8
PE - at target price (x)	14.0	21.4	111.0	25.4	17.8
EV/EBITDA (x)	8.2	10.3	24.0	10.6	7.9
EV/EBITDA - at target price (x)	9.4	11.8	27.4	12.2	9.2
P/BV (x)	3.2	3.3	3.5	3.1	2.8
P/BV - at target price (x)	3.7	3.7	4.0	3.5	3.2
P/CFO (x)	12.7	11.1	18.5	18.2	12.6
Price/sales (x)	2.2	2.4	4.6	2.3	2.1
Dividend yield (%)	5.9	3.0	0.5	3.3	4.8
FCF Yield (%)	2.0	10.2	4.8	4.3	5.6
(Bt)					
Normalized EPS	0.4	0.2	0.0	0.2	0.3
EPS	0.4	0.2	0.0	0.2	0.3
DPS	0.3	0.1	0.0	0.2	0.2
BV/share	1.4	1.4	1.3	1.5	1.6
CFO/share	0.4	0.4	0.2	0.3	0.4
FCF/share	0.1	0.5	0.2	0.2	0.3

Sources: Company data, Thanachart estimates

*Valuation now looks
inexpensive to us at 22x
PE in 2022F...*

*... falling to 16x in 2023F
versus 24x in the pre-
COVID 2015-19 period*

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	8.2	(8.9)	(47.2)	105.0	7.8
Net profit (%)	27.5	(34.2)	(80.8)	337.8	42.1
EPS (%)	27.5	(34.2)	(80.8)	337.8	42.1
Normalized profit (%)	21.1	(31.4)	(80.6)	337.8	42.1
Normalized EPS (%)	21.1	(31.4)	(80.6)	337.8	42.1
Dividend payout ratio (%)	72.9	57.5	50.0	75.0	75.0
Operating performance					
Gross margin (%)	26.3	21.5	14.0	17.0	21.0
Operating margin (%)	19.9	14.7	4.5	12.0	16.0
EBITDA margin (%)	25.4	21.7	17.3	18.3	22.0
Net margin (%)	17.0	12.8	4.7	10.0	13.2
D/E (incl. minor) (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Interest coverage - EBIT (x)	101.3	50.1	26.0	243.0	324.5
Interest coverage - EBITDA (x)	129.5	73.8	100.1	370.0	445.8
ROA - using norm profit (%)	18.0	12.0	2.8	11.5	14.3
ROE - using norm profit (%)	27.3	17.1	3.5	14.7	18.8
DuPont					
ROE - using after tax profit (%)	27.3	17.1	3.5	14.7	18.8
- asset turnover (x)	1.1	0.9	0.6	1.1	1.1
- operating margin (%)	20.4	15.4	5.7	12.6	16.6
- leverage (x)	1.5	1.4	1.2	1.3	1.3
- interest burden (%)	99.0	98.1	97.0	99.6	99.7
- tax burden (%)	83.9	84.7	85.0	80.0	80.0
WACC (%)	9.0	9.0	9.0	9.0	9.0
ROIC (%)	35.7	20.4	3.8	23.6	34.1
NOPAT (Bt m)	259	176	29	147	211
invested capital (Bt m)	863	756	623	619	645

*We forecast low gearing
but decent ROE*

Sources: Company data, Thanachart estimates

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