

BUY (Unchanged)

Change in Numbers

TP: Bt 5.00

Upside : 14.2%

(From: Bt 5.30)

28 JANUARY 2022

Small Cap Research

SEAFCO Public Co Ltd (SEAFCO TB)

Slow recovery

The continued weak high-rise building market prompts us to cut our earnings for SEAFCO by 58/14% in 2022-23F and our TP to Bt5. However, we maintain our BUY rating as we expect a new round of infrastructure project bids in 2022-23F to drive strong earnings growth next year.

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Weak 1H22F outlook; cutting our TP to Bt5

SEAFCO's management expects its weak performance to continue in 1H22 from **1)** low revenue recognition due to its low backlog of Bt1.2bn at end 2021F, **2)** gross margin staying under pressure because of low-margin backlog as a result of fierce competition last year, **3)** weak demand for high-rise building projects causing property developers to delay new project launches, and **4)** infrastructure projects, especially the South Purple Line, still being under the bidding processes with construction starting late this year at the earliest. This prompts us to cut our earnings estimates for SEAFCO by 58% in 2022F and 14% in 2023F (see Exhibit 1) and our DCF-based 12-month TP (2022F base year) to Bt5/share from Bt5.3 previously.

Maintain BUY

However, we maintain our BUY rating on SEAFCO. **Firstly**, with its Bt1.2bn of existing backlog value and a resumption of construction work after the lockdown last year, we expect SEAFCO's earnings to turn around this year. **Secondly**, the South Purple Line is now under the bidding process and the main winning contractors are due to be announced in late 1Q22 while we expect the West Orange Line to open for bidding late this year. SEAFCO, the largest piling contractor in Thailand, is one of the few direct plays. **Finally**, we expect construction of these infrastructure projects to start next year and drive strong earnings growth for SEAFCO of 265% y-y in 2023F.

2022-23 project pipeline

We forecast SEAFCO's new work value to improve from Bt519m last year to Bt1.4bn this year and Bt2bn in 2023F vs. its Bt2.5bn a year on average during the pre-COVID 2015-19 period. Besides assuming Bt600m-Bt1bn of piling work value from high-rise building projects in 2022-23F, we assume that SEAFCO wins **1)** an additional Bt790m of piling and diaphragm wall work value from the Bt79bn South Purple Line in late 2022F, and **2)** Bt960m from the Bt96bn West Orange Line in 2023F.

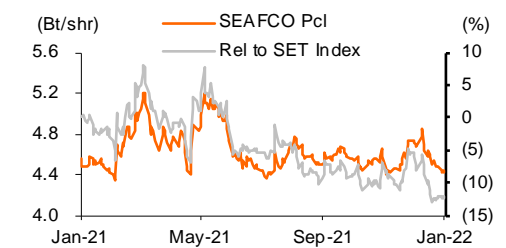
Margin outlook

We assume that SEAFCO's gross margin improves from 5% last year to 13% this year and 18% in 2023F (vs. 17-23% during the pre-COVID 2015-19 period) mainly because of operating leverage benefits from a higher utilization rate. High building material prices are not management's major concern as the piling construction period is normally short (two to six months per project) and the company locks in the prices once it gets the work. The labor shortage problem has also eased now with the government allowing contractors to bring in foreign workers with COVID-19 screening measures.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,560	1,379	1,360	2,154
Net profit	154	(40)	59	215
Consensus NP	—	(6)	156	280
Diff frm cons (%)	—	na	(62.3)	(23.1)
Norm profit	154	(40)	59	215
Prev. Norm profit	—	(27)	140	250
Chg frm prev (%)	—	na	(57.9)	(14.1)
Norm EPS (Bt)	0.2	(0.1)	0.1	0.3
Norm EPS grw (%)	(62.3)	na	na	264.9
Norm PE (x)	21.0	na	55.0	15.1
EV/EBITDA (x)	8.6	29.8	13.6	7.6
P/BV (x)	2.0	2.2	2.1	1.8
Div yield (%)	2.3	0.0	0.0	3.3
ROE (%)	9.6	na	3.9	13.0
Net D/E (%)	17.7	16.3	8.8	10.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 28-Jan-22 (Bt)	4.38
Market Cap (US\$ m)	97.0
Listed Shares (m shares)	739.7
Free Float (%)	73.8
Avg Daily Turnover (US\$ m)	0.2
12M Price H/L (Bt)	5.20/4.34
Sector	Construction
Major Shareholder	Thasnanipan Family 26.2%

Sources: Bloomberg, Company data, Thanachart estimates

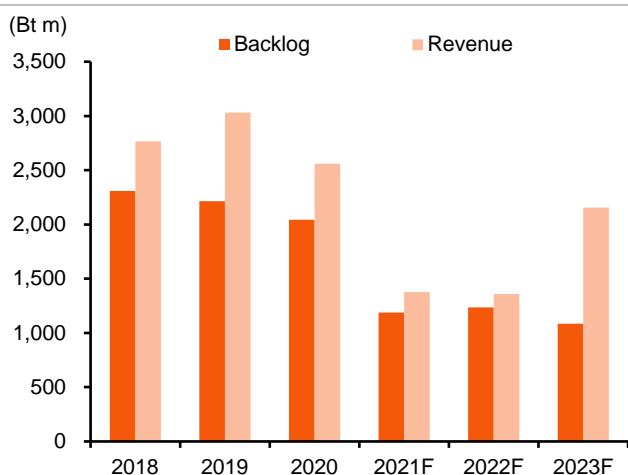


Ex 1: Our Key Assumption Changes

	2019	2020	2021F	2022F	2023F
Backlog value (Bt m)					
New	2,215	2,043	1,189	1,235	1,085
Old			1,027	1,055	1,200
Change (%)			15.8	17.1	(9.6)
Revenue (Bt m)					
New	3,032	2,560	1,379	1,360	2,154
Old			1,621	1,977	2,559
Change (%)			(15.0)	(31.2)	(15.8)
Normalized profit (Bt m)					
New	410	154	(40)	59	215
Old			(27)	140	250
Change (%)			na	(57.9)	(14.1)

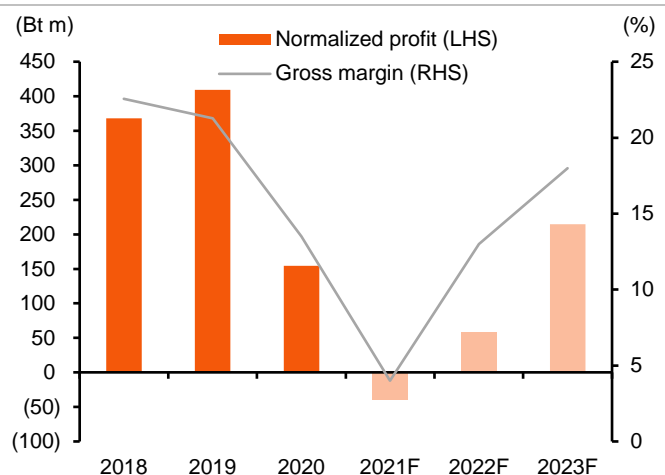
Source: Thanachart estimates

Ex 2: SEAFCO's Backlog Value Vs. Revenue



Sources: Company data, Thanachart estimates

Ex 3: SEAFCO's Gross Margin Vs. Earnings

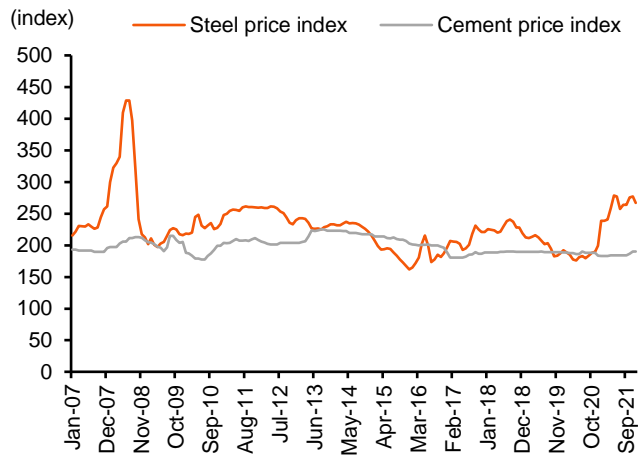


Sources: Company data, Thanachart estimates

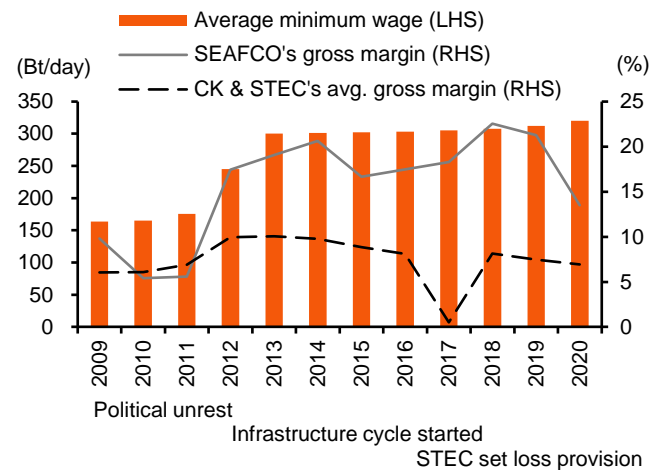
Ex 4: Estimated Piling Work Value For Mega-Projects In 2022-23

Project	Total construction value (Bt bn)	Estimated piling value for Pylon (Bt bn)	Estimated year for piling work
South Purple Line	79	0.8	2H22F
Other projects		0.6	2022F
West Orange Line	96	1.0	2H23F
Other projects		1.0	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	248	451	488	507	526	545	565	585	605	625	646	
Free cash flow	87	238	273	300	318	335	353	371	389	407	426	5,517
PV of free cash flow	87	201	212	210	203	196	188	181	174	159	151	1,957
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	8.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	3,917											
Net debt (2021F)	243											
Minority interest	4											
Equity value	3,670											
# of shares (m)*	740											
Target price/share (Bt)	5.00											

Source: 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
Seafco Pcl*	SEAFCO 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

Seafo Public Company Limited (SEAFCO) is a construction and engineering company that uses bored piles, diaphragm walls and underground engineering technology to provide cost-effective solutions for foundation problems, basement construction and development of underground facilities and sub-structure work in Bangkok and other large cities. It operates and offers services as a main contractor, sub-contractor, and joint-venture partner to both government and private sector clients.

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 40 years of experience, knowledge and innovation allow the company to dominate the market.
- Cost competitiveness due to economies of scale.
- Strong financial position with very low gearing.

O — Opportunity

- Thailand is entering a new multi-year infrastructure investment cycle.
- Higher-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.
- Risk from the company relying on key management personnel who are quite elderly.

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)	4.92	5.00	2%
Net profit 21F (Bt m)	(6)	(40)	na
Net profit 22F (Bt m)	156	59	-62%
Consensus REC	BUY: 2	HOLD: 4	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2022F are 62% lower than the Bloomberg consensus forecasts, which we believe is due us assuming SEAFCO delivers a weak performance in 1H22F given its low backlog value and slow new high-rise building project launches.
- Our DCF-based TP is however 2% higher than the Street's, likely as we expect a strong earnings turnaround over the long term driven by a new round of infrastructure project bids.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Delays to the government's infrastructure projects and private construction projects could impact our new work value assumptions.
- Delays could also hurt SEAFCO's gross margins given its high operating leverage.
- Fluctuations in building material prices over short periods of time also present a major risk to our earnings projections.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	3,032	2,560	1,379	1,360	2,154
Cost of sales	2,387	2,214	1,323	1,183	1,767
Gross profit	645	345	55	177	388
% gross margin	21.3%	13.5%	4.0%	13.0%	18.0%
Selling & administration expenses	158	150	124	122	140
Operating profit	487	196	(69)	54	248
% operating margin	16.1%	7.6%	-5.0%	4.0%	11.5%
Depreciation & amortization	180	213	186	193	203
EBITDA	668	408	117	248	451
% EBITDA margin	22.0%	16.0%	8.5%	18.2%	20.9%
Non-operating income	30	25	35	35	35
Non-operating expenses	0	0	0	0	0
Interest expense	(23)	(24)	(20)	(19)	(20)
Pre-tax profit	494	197	(53)	70	263
Income tax	83	48	(11)	14	53
After-tax profit	411	149	(43)	56	210
% net margin	13.6%	5.8%	-3.1%	4.1%	9.8%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(2)	5	3	3	5
Extraordinary items	0	0	0	0	0
NET PROFIT	410	154	(40)	59	215
Normalized profit	410	154	(40)	59	215
EPS (Bt)	0.6	0.2	(0.1)	0.1	0.3
Normalized EPS (Bt)	0.6	0.2	(0.1)	0.1	0.3

We expect the COVID hit to cause SEAFCO to make a loss in 2021F...

...before a gradual earnings turnaround in 2022F and...

...strong growth in 2023F once construction of infrastructure projects starts

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,134	975	762	748	1,123
Cash & cash equivalent	196	111	100	100	100
Account receivables	441	459	264	261	413
Inventories	98	82	47	42	63
Others	399	323	350	345	547
Investments & loans	26	60	60	60	60
Net fixed assets	1,613	1,286	1,200	1,127	1,074
Other assets	395	757	765	770	999
Total assets	3,168	3,078	2,787	2,704	3,256
LIABILITIES:					
Current liabilities:	1,080	1,003	791	700	961
Account payables	510	593	363	324	484
Bank overdraft & ST loans	295	41	36	25	31
Current LT debt	119	158	137	95	117
Others current liabilities	156	210	255	256	329
Total LT debt	229	197	170	118	145
Others LT liabilities	222	266	330	336	388
Total liabilities	1,531	1,466	1,291	1,153	1,494
Minority interest	14	7	4	1	(4)
Preferreds shares	0	0	0	0	0
Paid-up capital	370	370	370	370	370
Share premium	164	164	164	164	164
Warrants	0	0	0	0	0
Surplus	(3)	(5)	(5)	(5)	(5)
Retained earnings	1,093	1,076	963	1,021	1,236
Shareholders' equity	1,623	1,605	1,492	1,551	1,765
Liabilities & equity	3,168	3,078	2,787	2,704	3,256

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	494	197	(53)	70	263
Tax paid	(86)	(55)	8	(15)	(49)
Depreciation & amortization	180	213	186	193	203
Chg In working capital	(239)	81	(1)	(30)	(13)
Chg In other CA & CL / minorities	(255)	139	20	7	(132)
Cash flow from operations	95	575	160	226	271
Capex	(336)	115	(100)	(120)	(150)
Right of use	0	(375)	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	(22)	(34)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	126	53	67	11	(166)
Cash flow from investments	(232)	(241)	(43)	(119)	(326)
Debt financing	119	(246)	(53)	(106)	55
Capital increase	34	0	0	0	0
Dividends paid	(178)	(155)	(74)	0	0
Warrants & other surplus	(41)	(17)	0	0	0
Cash flow from financing	(66)	(418)	(127)	(106)	55
Free cash flow	(241)	689	60	106	121

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	7.9	21.0	na	55.0	15.1
Normalized PE - at target price (x)	9.0	24.0	na	62.8	17.2
PE (x)	7.9	21.0	na	55.0	15.1
PE - at target price (x)	9.0	24.0	na	62.8	17.2
EV/EBITDA (x)	5.5	8.6	29.8	13.6	7.6
EV/EBITDA - at target price (x)	6.2	9.8	33.7	15.5	8.6
P/BV (x)	2.0	2.0	2.2	2.1	1.8
P/BV - at target price (x)	2.3	2.3	2.5	2.4	2.1
P/CFO (x)	34.3	5.6	20.3	14.4	12.0
Price/sales (x)	1.1	1.3	2.4	2.4	1.5
Dividend yield (%)	5.9	2.3	0.0	0.0	3.3
FCF Yield (%)	(7.4)	21.3	1.8	3.3	3.7
(Bt)					
Normalized EPS	0.6	0.2	(0.1)	0.1	0.3
EPS	0.6	0.2	(0.1)	0.1	0.3
DPS	0.3	0.1	0.0	0.0	0.1
BV/share	2.2	2.2	2.0	2.1	2.4
CFO/share	0.1	0.8	0.2	0.3	0.4
FCF/share	(0.3)	0.9	0.1	0.1	0.2

Sources: Company data, Thanachart estimates

Its PE is high at 55x in 2022F but...

...strong growth in 2023F should make the PE fall to 15x vs. 20x in the pre-COVID 2015-19 period

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	9.6	(15.6)	(46.1)	(1.4)	58.5
Net profit (%)	11.2	(62.3)	na	na	264.9
EPS (%)	11.2	(62.3)	na	na	264.9
Normalized profit (%)	11.2	(62.3)	na	na	264.9
Normalized EPS (%)	11.2	(62.3)	na	na	264.9
Dividend payout ratio (%)	47.0	47.9	0.0	0.0	50.0
Operating performance					
Gross margin (%)	21.3	13.5	4.0	13.0	18.0
Operating margin (%)	16.1	7.6	(5.0)	4.0	11.5
EBITDA margin (%)	22.0	16.0	8.5	18.2	20.9
Net margin (%)	13.6	5.8	(3.1)	4.1	9.8
D/E (incl. minor) (x)	0.4	0.2	0.2	0.2	0.2
Net D/E (incl. minor) (x)	0.3	0.2	0.2	0.1	0.1
Interest coverage - EBIT (x)	20.7	8.1	na	2.8	12.4
Interest coverage - EBITDA (x)	28.4	17.0	6.0	12.8	22.6
ROA - using norm profit (%)	13.3	4.9	na	2.1	7.2
ROE - using norm profit (%)	27.1	9.6	na	3.9	13.0
DuPont					
ROE - using after tax profit (%)	27.2	9.2	na	3.7	12.7
- asset turnover (x)	1.0	0.8	0.5	0.5	0.7
- operating margin (%)	17.1	8.6	na	6.6	13.1
- leverage (x)	2.0	1.9	1.9	1.8	1.8
- interest burden (%)	95.5	89.1	157.7	78.3	93.0
- tax burden (%)	83.2	75.5	na	80.0	80.0
WACC (%)	8.9	8.9	8.9	8.9	8.9
ROIC (%)	26.6	7.1	(2.9)	2.5	11.7
NOPAT (Bt m)	406	148	(55)	44	198
invested capital (Bt m)	2,070	1,892	1,735	1,688	1,958

Sources: Company data, Thanachart estimates

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