Ch. Karnchang Pcl (CK TB) - BUY, Price Bt21.00, TP Bt25.00

Results Comment

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Higher loss due to low equity income

- CK reported a normalized loss of Bt175m in 4Q21, vs. a loss of Bt112m in 4Q20 and a profit of Bt275m in 3Q21. The loss was higher than what we had expected given lower-than-expected equity income. There was also no dividend income from TTW this quarter.
- We expect CK to still make a loss in 1Q22F given low revenue recognition from its backlog value and no dividend income from TTW but its earnings should turn to a profit in 2Q22F onward when it recognizes more revenue and dividend income.
- We maintain a BUY on CK as 1) we expect its strong earnings turnaround this year driven by higher revenue recognition from its backlog value, 2) we expect CK to win Bt177bn new work value this year, and 3) valuation looks cheap as the share now trades at an 43% discount on its subsidiaries' market value with the construction business for free.
- CK's revenue fell by 1% y-y in 4Q21 given its low backlog value while its new work has yet to get started. We estimate its backlog value of Bt46bn at end 4Q21. This amount has yet to include new work from the Bt81bn Luang Prabang Hydropower plant and Bt17bn South Purple Line which are expected to sign the contracts this year.
- Its gross margin slightly dropped to 8.4% in 4Q21 vs. 8.8% in 4Q20. Given its low revenue, its gross profit was still not enough to offset its SG&A expenses, causing an operating loss for the construction business.
- Equity income fell by 24% y-y and 56% q-q due to lower earnings contribution from its 31%-owned CKP.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	4Q20	1Q21	2Q21	3Q21	4Q21
Revenue	3,654	2,986	3,238	2,561	3,604
Gross profit	**322**	**292**	**307**	**251**	**303**
SG&A	531	472	497	445	501
Operating profit	(209)	(180)	(190)	(193)	(198)
EBITDA	**(18)**	**(13)**	**(16)**	**(22)**	**(16)**
Other income	194	175	429	406	215
Other expense	0	0	0	0	0
Interest expense	339	332	357	357	339
Profit before tax	**(353)**	**(337)**	**(119)**	**(144)**	**(322)**
Income tax	12	8	9	8	13
Equity & invest. income	249	160	306	432	190
Minority interests	4	10	(4)	(4)	(30)
Extraordinary items	0	383	143	0	280
Net profit	**(112)**	**208**	**318**	**275**	**105**
Normalized profit	**(112)**	**(175)**	**175**	**275**	**(175)**
EPS (Bt)	(0.07)	0.12	0.19	0.16	0.06
Normalized EPS (Bt)	(0.07)	(0.10)	0.10	0.16	(0.10)

Income Statement			9M as		
(Bt m)	q-q%	y-y%	% 2021F	2021A	2022F
Revenue	41	(1)	106	12,389	16,956
Gross profit	**21**	**(6)**	**103**	**1,153**	**1,557**
SG&A	13	(6)	100	1,915	1,950
Operating profit	na	na	na	(761)	(393)
EBITDA	**na**	**na**	**na**	**(67)**	**333**
Other income	(47)	11	104	1,225	1,071
Other expense					
Interest expense	(5)	0	99	1,386	1,428
Profit before tax	**na**	**na**	**na**	**(922)**	**(750)**
Income tax	73	6	na	38	0
Equity & invest. income	(56)	(24)	92	1,088	1,361
Minority interests	na	na	555	(28)	(7)
Extraordinary items		na	153	806	0
Net profit	**(62)**	**na**	**130**	**906**	**604**
Normalized profit	**na**	**na**	**59**	**100**	**604**
EPS (Bt)	(62)	na	130	0.53	0.36
Normalized EPS (Bt)	na	na	59	0.06	0.36

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	4Q20	1Q21	2Q21	3Q21	4Q21
Cash & ST investment	7,767	8,923	11,179	8,402	6,973
A/C receivable	3,659	3,624	3,036	2,486	2,273
Inventory	2,436	2,418	2,223	2,231	2,988
Other current assets	5,972	6,277	7,128	7,612	7,835
Investment	37,256	37,429	37,181	37,400	37,638
Fixed assets	11,194	11,090	11,333	11,252	10,927
Other assets	14,490	14,867	15,074	15,216	14,786
Total assets	**82,774**	**84,629**	**87,155**	**84,598**	**83,421**
S-T debt	3,817	4,417	6,395	6,482	6,672
A/C payable	2,636	2,365	2,768	2,230	2,174
Other current liabilities	8,305	10,146	8,967	9,400	8,902
L-T debt	38,586	38,576	39,734	37,126	36,598
Other liabilities	3,160	3,063	3,078	3,081	2,966
Minority interest	424	415	413	416	439
Shareholders' equity	**25,847**	**25,647**	**25,799**	**25,864**	**25,669**
Working capital	3,459	3,677	2,492	2,487	3,087
Total debt	42,403	42,993	46,129	43,608	43,270
Net debt	**34,636**	**34,069**	**34,950**	**35,206**	**36,297**

Financial Ratios					
(%)	4Q20	1Q21	2Q21	3Q21	4Q21
Sales growth	(30.5)	(44.9)	(19.5)	(33.4)	(1.4)
Operating profit growth	na	na	na	na	na
EBITDA growth	na	na	na	na	na
Norm profit growth	na	na	174.5	(44.9)	na
Norm EPS growth	na	na	174.5	(44.9)	na
Gross margin	8.8	9.8	9.5	9.8	8.4
Operating margin	(5.7)	(6.0)	(5.9)	(7.5)	(5.5)
EBITDA margin	(0.5)	(0.4)	(0.5)	(0.9)	(0.4)
Norm net margin	(3.1)	(5.9)	5.4	10.7	(4.9)
D/E (x)	1.6	1.6	1.8	1.7	1.7
Net D/E (x)	1.3	1.3	1.3	1.3	1.4
Interest coverage (x)	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)
Interest rate	3.2	3.1	3.2	3.2	3.1
Effective tax rate	(3.5)	(2.4)	(7.6)	(5.3)	(4.1)
ROA	(0.5)	(0.8)	0.8	1.3	(0.8)
ROE	(1.7)	(2.7)	2.7	4.3	(2.7)

Sources: Company data, Thanachart estimates

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