Construction Sector – Overweight

News update

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The West Orange Line bid in 2Q-3Q22

- **MRTA and observers have signed the integrity pack.**
- **It schedules to open the bid in 2Q-3Q22.**
- **We take view that BEM will win this project and…**
- **…It will subcontract the construction work to CK.**

- The Mass Rapid Transit Authority of Thailand (MRTA) and observers signed the Integrity Pact to make sure that the bid for the West Orange Line is transparent. This could imply that the bid for the project is likely coming soon. Based on SRT's timeline, the bidding process is planned in March – August 2022, construction of the West Orange Line in August 2022, operation of the East Orange Line in August 2025, and operation of the West Orange Line in December 2027.
- To recap shortly, the bid for the construction and operation of the West Orange Line project opened in late 2020 but it was cancelled due to a change in the bidding method by MRTA, causing one bidder to take the case to court. After the court's decisions, MRTA relaunches the bid again. The total project value is around Bt127bn. Out of that, the construction value is around Bt95bn.
- As the winner must operate the Orange Line project, we believe only Bangkok Expressway & Metro (BEM TB, Bt8.4, BUY) and BTS Group (BTS TB, Bt9.1, BUY) will participate in the bid. We take view that BEM will win this project given its experience in building and operating the subway projects, cost advantages as the Orange Line will be directly connected to its Blue Line, and construction expertise from its parent company, Ch. Karnchang Pcl (CK TB, Bt20.0, BUY).
- We have an Overweight rating on the construction sector as, ***firstly***, we expect the contractors' earnings turnaround this year from low earnings base last year and higher revenue recognition from their high backlog values. ***Secondly***, we also expect high-value projects, e.g. the West Orange Lines, the Luang Prabang hydropower plant, and the U-tapao Airport to open for bidding and sign the construction contracts this year to drive their earnings in the next few years. ***Thirdly,*** despite rising building material prices, the contractors can pass on rising some costs to the government due to the K factor. ***Finally,*** a recent fall in the share prices despite earnings turnaround looks unjustified.
- CK is our top sector pick with a TP of Bt25/share given its strongest earnings growth in 2022-25F from its high-potential new work value and earnings turnaround from its associates, its cheapest valuation at a 39% discount to its associates' market value, and the potential West Orange Line project.
- We also have a BUY on Sino-Thai Engineering (STEC TB) to a TP of Bt17.5/share, SEAFCO (SEAFCO TB) to a TP of Bt5/share, and PYLON (PYLON TB) to a TP of Bt5.2/share.

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