Gunkul Engineering (GUNKUL TB) - BUY, Price Bt5.10, TP Bt5.75

Results Comment

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Very weak 1Q22 profit

- GUNKUL reported a much weaker-than-expected normalized profit (excluding FX gain and hedging loss) at Bt218m in 1Q22, down 54% y-y and 63% q-q. The key weakness was due to a sharp fall in electricity output from its wind power projects.
- Electricity sales from renewable power projects dropped 15% y-y and 26% q-q to Bt947m in 1Q22, contributing 53% of total revenue (including adders), pressured by a weak power output from wind power projects, while output from solar farms (both domestic and overseas) was stable y-y.
- Revenue from other businesses was at Bt842m, grew 34% y-y backed by higher revenue from development of solar rooftop projects for the customers but it fell 13% q-q from lower revenue from construction services.
- Total SG&A was at Bt221m in 1Q22, flat y-y but down 35% q-q from a seasonally high expense quarter in 4Q. However, given a revenue fall, total EBITDA (including adders) went down 17% y-y and 27% q-q to Bt845m with EBITDA margin weakened to 47% in 1Q22 (from 52% in 4Q21 and 59% in 1Q21).
- Equity income also lowered 21% y-y and 30% q-q to Bt68m in 1Q22 given there were some adders expiration in its invested projects despite stable output from those solar farms.
- We see significant downside to our numbers as the output from GUNKUL's renewable projects was much weaker than we had expected in 1Q22. Meanwhile, revenue from ramping up hemp plantation business is also being delayed from its initial plan. We need to revise down our numbers.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	1Q21	2Q21	3Q21	4Q21	1Q22
Revenue	1,740	1,814	2,137	2,254	1,789
Gross profit	**551**	**578**	**603**	**640**	**464**
SG&A	211	209	227	325	211
Operating profit	340	369	375	315	254
EBITDA	**716**	**750**	**767**	**709**	**639**
Other income	324	292	357	473	214
Other expense	0	0	0	0	0
Interest expense	242	240	243	246	244
Profit before tax	**423**	**421**	**489**	**542**	**224**
Income tax	33	6	106	43	72
Equity & invest. income	86	105	70	96	68
Minority interests	(5)	(5)	(9)	(4)	(2)
Extraordinary items	138	9	144	(83)	286
Net profit	**609**	**524**	**589**	**508**	**503**
Normalized profit	**471**	**515**	**445**	**591**	**218**
EPS (Bt)	0.07	0.06	0.07	0.06	0.06
Normalized EPS (Bt)	0.05	0.06	0.05	0.07	0.02

Income Statement			3M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(21)	3	20	9,088	10,832
Gross profit	**(27)**	**(16)**	**14**	**3,237**	**4,832**
SG&A	(35)	(0)	21	1,013	1,090
Operating profit	(20)	(25)	11	2,224	3,742
EBITDA	**(10)**	**(11)**	**17**	**3,840**	**5,414**
Other income	(55)	(34)	13	1,622	1,640
Other expense			na	0	0
Interest expense	(1)	1	28	879	740
Profit before tax	**(59)**	**(47)**	**8**	**2,967**	**4,642**
Income tax	67	120	20	356	696
Equity & invest. income	(30)	(21)	19	359	35
Minority interests	na	na	13	(12)	(12)
Extraordinary items	na	107	na	0	0
Net profit	**(1)**	**(17)**	**17**	**2,958**	**3,968**
Normalized profit	**(63)**	**(54)**	**7**	**2,958**	**3,968**
EPS (Bt)	(1)	(17)	17	0.33	0.45
Normalized EPS (Bt)	(63)	(54)	7	0.33	0.45

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	1Q21	2Q21	3Q21	4Q21	1Q22
Cash & ST investment	3,920	3,811	3,960	1,729	1,362
A/C receivable	2,625	2,894	1,468	1,466	1,168
Inventory	746	793	872	809	830
Other current assets	1,891	1,365	1,032	3,563	4,226
Investment	1,618	1,646	1,657	1,833	383
Fixed assets	26,602	26,789	26,905	26,536	25,831
Other assets	5,908	6,041	6,628	6,550	8,509
Total assets	**43,310**	**43,339**	**42,522**	**42,485**	**42,310**
S-T debt	5,622	4,818	6,240	6,114	6,371
A/C payable	2,006	1,828	1,449	1,681	1,663
Other current liabilities	2,512	2,466	1,074	1,258	1,238
L-T debt	18,439	19,974	19,185	18,630	18,183
Other liabilities	1,566	1,631	1,559	1,518	1,449
Minority interest	148	152	159	162	64
Shareholders' equity	**13,015**	**12,470**	**12,857**	**13,122**	**13,342**
Working capital	1,365	1,860	891	593	335
Total debt	24,062	24,793	25,424	24,744	24,554
Net debt	**20,142**	**20,982**	**21,464**	**23,015**	**23,192**

Financial Ratios					
(%)	1Q21	2Q21	3Q21	4Q21	1Q22
Sales growth	32.4	22.2	(7.5)	2.1	2.8
Operating profit growth	109.3	35.7	103.2	26.1	(25.5)
EBITDA growth	45.9	23.3	46.4	18.2	(10.7)
Norm profit growth	38.9	62.0	126.1	8.2	(53.8)
Norm EPS growth	38.9	62.0	126.1	8.2	(53.8)
Gross margin	31.7	31.8	28.2	28.4	25.9
Operating margin	19.6	20.3	17.6	14.0	14.2
EBITDA margin	41.1	41.3	35.9	31.5	35.7
Norm net margin	27.1	28.4	20.8	26.2	12.2
D/E (x)	1.8	2.0	2.0	1.9	1.8
Net D/E (x)	1.5	1.7	1.7	1.8	1.7
Interest coverage (x)	3.0	3.1	3.2	2.9	2.6
Interest rate	3.8	3.9	3.9	3.9	4.0
Effective tax rate	7.7	1.5	21.6	7.9	32.1
ROA	4.2	4.8	4.1	5.6	2.1
ROE	14.9	16.2	14.0	18.2	6.6

Sources: Company data, Thanachart estimates

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