Ch. Karnchang Pcl (CK TB) - BUY

Analyst Meeting

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Growth story bolstered

- **CK's existing backlog value should firm up its recovery.**
- **Many potential projects would offer growth longer term.**
- **K factor helps to limit impact of material price volatility.**
- **CK is our top sector pick.**

- The key takeaways from CK's analyst meeting are as follows:
- CK's backlog value rose to Bt60bn at end 2Q22 (vs. with the Bt3.2bn Bang Ban-Bang Sai floodway and Bt80bn Luang Prabang hydropower plant project contracts to be signed this year and the potential Bt127bn West Orange Line project under the bidding process.
- CK expects revenue growth of 35-45% this year to Bt17bn-18bn (vs. our forecast of Bt17bn). Given its high backlog value and potential projects, CK's revenue should continue to rise at least for the next five years.
- Its reported gross margin looks set to fall slightly to 8% this year (vs. our forecast of 9% and 9% in 2021) due to greater revenue recognition from low-margin projects while new high-margin projects (e.g. the double-track railways and the South Purple Line) have yet to get started. However, once construction of those new projects begins, CK expects its reported gross margin to recover back to 9%.
- High building material prices have yet to impact CK's performance as the government's projects have the K factor, allowing CK to pass on rising costs to the government. Moreover, its building material costs make up only 10-15% of its total costs while subcontractor costs account for 60-70%, labor costs 8-10%, and overheads 10%. Subcontractors can ask CK for help if their costs rise significantly but they have so far still honored the contracts. Moreover, building material and oil prices have started to fall, allowing CK to gradually stock up some materials.
- A minimum wage hike would hit CK but it should not be significant as most of its workers get paid more than the minimum wage.
- CK also expects Bt382bn worth of projects to open for bidding next year. The major projects include the Bt22bn Red Line extensions, Bt128bn of double-track railways and Bt72bn worth of motorways. The election next year could delay the bids for some projects, but not for too long as these projects have been going through the government's final processes prior to the bids.
- CK remains our top sector pick as we not only foresee a strong earnings turnaround this year but its rising new backlog and its associates' earnings recovery will also likely secure growth over the next five years. At a 45% discount to its associates' market value vs. its 35% pre-COVID average, we maintain our BUY call on CK with a TP of Bt25/share.

Key Valuations

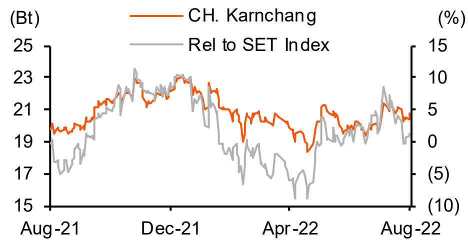
Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Revenue	12,389	16,967	22,194	30,373
Net profit	906	612	1,144	1,369
Norm net profit	100	612	1,144	1,369
Norm EPS (Bt)	0.1	0.4	0.7	0.8
Norm EPS gr (%)	(70.4)	513.3	86.8	19.6
Norm PE (x)	351.1	57.2	30.6	25.6
EV/EBITDA (x)	(524.1)	117.2	64.6	53.1
P/BV (x)	1.4	1.4	1.3	1.3
Div. yield (%)	1.2	0.7	1.3	1.6
ROE (%)	0.4	2.4	4.3	5.0
Net D/E (%)	139.0	125.7	104.6	87.4

Source: Thanachart estimates

Stock Data

Closing price (Bt)	20.70
Target price (Bt)	25.00
Market cap (US$ m)	970
Avg daily turnover (US$ m)	2.9
12M H/L price (Bt)	23.20/18.40

Price Performance



Source: Bloomberg

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