Sino Thai Eng. & Const. (STEC TB) - BUY, Price Bt12.40, TP Bt17.5

Results Comment

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Slightly 2Q earnings miss

- STEC reported a normalized profit of Bt173m in 2Q22, up 38% y-y but down 25% q-q. The results were slightly lower than what we had expected due to lower revenue from a labor shortage problem. 6M22 earnings make up 45% of our full-year forecast.
- We expect STEC to report stronger earnings in 2H22F driven by higher revenue recognition from its high backlog value from the labor shortage problem being resolved after the government allowed contractors to bring in foreign workers.
- We maintain a BUY rating on STEC as 1) we still expect its strong earnings recovery this year with strong growth next year driven by higher revenue recognition from its high backlog value and 2) valuation is cheap at PEs of 21/18x in 2022/23F vs. its 34x pre-COVID average in 2015-19.
- Despite its high backlog value, STEC's revenues decreased by 4% y-y in 2Q22 due to the labor shortage problem while the new projects have yet to get started. We estimate its backlog value of Bt89bn at end 2Q22. This has yet to include the Bt27bn U-Tapao airport project.
- Its gross margin improved to 4.1% in 2Q22 versus 3.2% in 2Q21 after the completion of the zero-margin new parliament building project.
- While SG&A expenses increased 7% y-y, other income rose by 19% y-y mainly due to higher dividend income from its 1.9% owned GULF.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	7,072	6,072	6,982	7,620	6,759
Gross profit	**230**	**267**	**405**	**431**	**276**
SG&A	203	169	133	182	217
Operating profit	26	98	272	249	59
EBITDA	**306**	**382**	**562**	**526**	**330**
Other income	111	57	51	34	132
Other expense	0	0	0	0	0
Interest expense	8	7	7	7	5
Profit before tax	**129**	**148**	**316**	**277**	**186**
Income tax	21	12	78	55	23
Equity & invest. income	20	2	(1)	12	13
Minority interests	(3)	(2)	(2)	(2)	(2)
Extraordinary items	(124)	0	141	0	0
Net profit	**1**	**136**	**376**	**232**	**173**
Normalized profit	**125**	**136**	**235**	**232**	**173**
EPS (Bt)	0.00	0.09	0.25	0.15	0.11
Normalized EPS (Bt)	0.08	0.09	0.15	0.15	0.11

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(11)	(4)	48	30,084	34,331
Gross profit	**(36)**	**20**	**43**	**1,661**	**1,940**
SG&A	19	7	53	752	790
Operating profit	(76)	124	34	909	1,150
EBITDA	**(37)**	**8**	**41**	**2,098**	**2,353**
Other income	287	19	78	214	193
Other expense					
Interest expense	(16)	(33)	37	32	41
Profit before tax	**(33)**	**44**	**42**	**1,090**	**1,301**
Income tax	(58)	9	36	218	260
Equity & invest. income	2	(37)	56	45	45
Minority interests	na	na	38	(11)	(13)
Extraordinary items					
Net profit	**(25)**	**12,127**	**45**	**906**	**1,074**
Normalized profit	**(25)**	**38**	**45**	**906**	**1,074**
EPS (Bt)	(25)	12,127	45	0.59	0.70
Normalized EPS (Bt)	(25)	38	45	0.59	0.70

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	7,784	6,988	7,661	10,550	8,566
A/C receivable	7,975	7,749	8,180	7,419	8,530
Inventory	2,750	2,778	2,745	3,172	2,929
Other current assets	1,787	1,400	1,497	1,742	1,924
Investment	4,521	5,352	5,391	5,625	5,949
Fixed assets	5,330	5,353	5,431	5,297	5,128
Other assets	13,135	14,564	15,716	16,867	15,824
Total assets	**43,282**	**44,184**	**46,622**	**50,672**	**48,850**
S-T debt	0	0	0	42	0
A/C payable	22,135	21,552	22,642	25,130	24,661
Other current liabilities	3,838	3,641	3,549	3,500	3,192
L-T debt	0	0	0	0	0
Other liabilities	2,564	2,821	3,064	3,252	3,004
Minority interest	284	287	288	290	292
Shareholders' equity	**14,461**	**15,882**	**17,079**	**18,457**	**17,700**
Working capital	(11,410)	(11,025)	(11,716)	(14,539)	(13,202)
Total debt	0	0	0	42	0
Net debt	**(7,784)**	**(6,988)**	**(7,661)**	**(10,508)**	**(8,566)**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	(21.6)	(29.5)	(21.4)	0.9	(4.4)
Operating profit growth	(71.4)	(62.6)	(10.4)	22.6	124.4
EBITDA growth	(15.7)	(27.9)	(3.2)	9.8	7.9
Norm profit growth	(30.7)	(42.0)	(3.0)	17.3	38.1
Norm EPS growth	(30.7)	(42.0)	(3.0)	17.3	38.1
Gross margin	3.2	4.4	5.8	5.7	4.1
Operating margin	0.4	1.6	3.9	3.3	0.9
EBITDA margin	4.3	6.3	8.1	6.9	4.9
Norm net margin	1.8	2.2	3.4	3.0	2.6
D/E (x)	-	-	-	0.0	-
Net D/E (x)	(0.5)	(0.4)	(0.4)	(0.6)	(0.5)
Interest coverage (x)	37.6	52.3	82.5	80.8	60.1
Interest rate	na	na	na	122.56	103.30
Effective tax rate	16.4	8.0	24.8	20.0	12.4
ROA	1.1	1.2	2.1	1.9	1.4
ROE	3.4	3.6	5.7	5.2	3.8

Sources: Company data, Thanachart estimates

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