

Gunkul Engineering (GUNKUL TB) - BUY, Price Bt5.15, TP Bt6.20**Results Comment**

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Weaker-than-expected 3Q22 profit

- GUNKUL reported Bt1.54bn net profit in 3Q22. However, after excluding Bt1.24bn gain from asset divestment and small gains from FX and hedging, we estimate its normalized profit was at Bt308m this quarter, down 31% y-y and 35% q-q.
- The weak earnings was mainly due to lower profit contribution from 170MW subsidized wind farms after GUNKUL transferred the projects into the new 50%-owned joint-venture company, with Gulf Energy Development Pcl (GULF), since 27 July 2022.
- Total gross profit from power business (including adders and shared profit from renewable projects in its affiliates) was Bt554m in 3Q22, fell 29% y-y and 32% q-q. Reduced stake in subsidized wind power projects and lower output from solar projects (both domestic and overseas) were the key draggers.
- Gross profits from trading and construction service businesses grew slightly 5% y-y to Bt242m in 3Q22. It increased 37% q-q on a larger chunk of construction revenue recognized this quarter. Gross margin from non-power businesses rose to 21% in 3Q22 from 18% in 3Q21, but it declined from 23% in 2Q22.
- GUNKUL announces a special interim dividend of Bt0.06/share for its 9M22's performance. We believe this is to reflect its gain from asset divestment in 3Q22. An XD date is on 24 November and a dividend payment date is on 8 December 2022.
- Note that there is a significant downside to our current earnings forecasts on GUNKUL since we have yet factored in impacts from a divestment of its major power plant asset (50% stake in 170MW subsidized wind farms). We need to revise our projections and recommendation on GUNKUL.

Income Statement						Income Statement					
(consolidated)						9M as					
Yr-end Dec (Bt m)	3Q21	4Q21	1Q22	2Q22	3Q22	(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	2,137	2,254	1,789	1,697	1,832	Revenue	8	(14)	52	10,176	12,718
Gross profit	603	640	464	635	560	Gross profit	(12)	(7)	50	3,311	4,579
SG&A	227	325	211	226	240	SG&A	6	6	64	1,054	1,245
Operating profit	375	315	254	409	320	Operating profit	(22)	(15)	43	2,257	3,334
EBITDA	767	709	639	799	606	EBITDA	(24)	(21)	55	3,737	4,979
Other income	357	473	214	331	100	Other income	(70)	(72)	43	1,486	1,550
Other expense	0	0	0	0	0	Other expense			na	0	0
Interest expense	243	246	244	250	196	Interest expense	(22)	(19)	74	927	919
Profit before tax	489	542	224	490	224	Profit before tax	(54)	(54)	33	2,816	3,966
Income tax	106	43	72	57	61	Income tax	7	(42)	68	282	476
Equity & invest. income	70	96	68	44	146	Equity & invest. income	232	110	76	340	65
Minority interests	(9)	(4)	(2)	(1)	(1)	Minority interests	na	na	30	(10)	(11)
Extraordinary items	144	(83)	286	303	1,231	Extraordinary items	307	752	na	0	0
Net profit	589	508	503	778	1,539	Net profit	98	161	98	2,864	3,543
Normalized profit	445	591	218	476	308	Normalized profit	(35)	(31)	35	2,864	3,543
EPS (Bt)	0.07	0.06	0.06	0.09	0.17	EPS (Bt)	98	161	98	0.32	0.40
Normalized EPS (Bt)	0.05	0.07	0.02	0.05	0.03	Normalized EPS (Bt)	(35)	(31)	35	0.32	0.40
Balance Sheet						Financial Ratios					
(consolidated)						(%)					
Yr-end Dec (Bt m)	3Q21	4Q21	1Q22	2Q22	3Q22	3Q21	4Q21	1Q22	2Q22	3Q22	
Cash & ST investment	3,960	1,729	1,362	1,455	1,737	Sales grow th	(7.5)	2.1	2.8	(6.5)	(14.3)
A/C receivable	1,468	1,466	1,168	1,512	1,258	Operating profit grow th	103.2	26.1	(25.5)	10.8	(14.8)
Inventory	872	809	830	897	940	EBITDA grow th	46.4	18.2	(10.7)	6.5	(21.0)
Other current assets	1,032	3,563	4,226	4,210	3,645	Norm profit grow th	126.1	8.2	(53.8)	(7.6)	(30.7)
Investment	1,657	1,833	383	1,917	5,750	Norm EPS grow th	126.1	8.2	(53.8)	(7.6)	(30.7)
Fixed assets	26,905	26,536	25,831	25,497	15,198	Gross margin	28.2	28.4	25.9	37.4	30.6
Other assets	6,628	6,550	8,509	7,217	5,057	Operating margin	17.6	14.0	14.2	24.1	17.4
Total assets	42,522	42,485	42,310	42,706	33,585	EBITDA margin	35.9	31.5	35.7	47.1	33.1
S-T debt	6,240	6,114	6,371	8,343	2,158	Norm net margin	20.8	26.2	12.2	28.0	16.8
A/C payable	1,449	1,681	1,663	1,710	1,893	D/E (x)	2.0	1.9	1.8	2.0	1.0
Other current liabilities	1,074	1,258	1,238	1,137	874	Net D/E (x)	1.6	1.7	1.7	1.9	0.9
L-T debt	19,185	18,630	18,183	17,173	12,972	Interest coverage (x)	3.2	2.9	2.6	3.2	3.1
Other liabilities	1,559	1,518	1,449	1,355	993	Interest rate	3.9	3.9	4.0	4.0	3.9
Minority interest	159	162	64	63	68	Effective tax rate	21.6	7.9	32.1	11.7	27.4
Shareholders' equity	12,857	13,122	13,342	12,925	14,628	ROA	4.1	5.6	2.1	4.5	3.2
Working capital	891	593	335	700	305	ROE	14.0	18.2	6.6	14.5	8.9
Total debt	25,424	24,744	24,554	25,516	15,129						
Net debt	21,464	23,015	23,192	24,061	13,392						

Sources: Company data, Thanachart estimates

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