

BUY (Unchanged)

Change in Numbers

TP: Bt 5.50

Upside : 22.2%

(Unchanged)

6 DECEMBER 2022

Small Cap Research

Pylon Public Co Ltd (PYLON TB)

Strong growth secured

With a Bt1.6bn record-high backlog, improving margin from its operating leverage benefits, and potential high-value work from infrastructure projects, we believe PYLON has already secured its strong earnings growth of 53% y-y next year. At 15/14x PE in 2023-24F vs. its 24x five-year pre-COVID average, we rate PYLON as a BUY.



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Reaffirming BUY

We fine-tune our earnings for PYLON and reaffirm our BUY call with a 2023F DCF-based 12-month TP of Bt5.5/share as we see share price catalysts from **1)** secured strong earnings growth next year due to its record-high backlog value and higher utilization rate improving its margin, **2)** potential high-value work as infrastructure projects that were bid out this year will likely see construction start next year, and **3)** an attractive valuation with the stock trading at 15x PE in 2023F and 14x PE in 2024F, compared with its 24x average during the pre-COVID 2015-19 period.

90% of our 2023F revenue forecast is secured

Even though the high-rise building market is still weak, PYLON is able to obtain new work from commercial building and infrastructure projects, driving its backlog value up to a record-high of Bt1.6bn as of November 2022. Assuming Bt222m of revenue in 4Q22F, we expect PYLON's remaining backlog value of Bt1.4bn to be recognized as revenue next year. This implies that 90% of our 2023F revenue forecast is already secured. Moreover, there is more potential high-value work since infrastructure projects such as the South Purple and West Orange lines, U-tapao Airport's expansion, and Don Mueang Airport's phase 3 are scheduled to start construction in 2023-24F. We forecast PYLON's new work value at Bt1.6bn-1.7bn in 2023-24F vs. Bt1.1bn in 2022F, Bt1.8bn in 2021, and Bt1.6bn in 2019.

53% earnings growth next year

Given operating leverage benefits from a higher utilization rate, PYLON's gross margin recovered to 20% in 9M22 vs. 14% in 2021, 22% in 2020, and 26% in 2019. Along with lower cost pressure from falling steel prices, its labor shortage problem being resolved, and less bidding competition given higher demand for piling work, we estimate its gross margin to continue to recover to 23% in 2023-24F, driving its earnings growth by 53% y-y in 2023F and 5% y-y in 2024F. We also estimate its strong earnings recovery to drive its ROE back up to 19-20% in 2023-24F from 14% in 2022F and 4% in 2021 and ROA to 14-15% from 11% in 2022F and 3% in 2021.

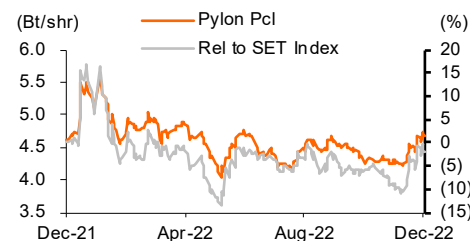
4Q earnings hiccup a chance to buy

We expect PYLON's earnings this quarter to fall by 27% q-q as the completion of many projects since late-3Q22 has led the company to spend time on moving its machinery to new construction sites, resulting in a lower utilization rate. However, we see this as just an earnings hiccup and management has already seen its utilization rate recover back to 80-85%. Therefore, if its share price takes a hit due to soft earnings in 4Q22F, we would see this as a chance to BUY the stock.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	785	1,210	1,550	1,616
Net profit	40	147	225	235
Consensus NP	—	153	212	235
Diff frm cons (%)	—	(4.3)	6.0	(0.2)
Norm profit	38	147	225	235
Prev. Norm profit	—	158	223	237
Chg frm prev (%)	—	(7.1)	0.8	(1.0)
Norm EPS (Bt)	0.1	0.2	0.3	0.3
Norm EPS grw (%)	(78.8)	283.2	53.2	4.5
Norm PE (x)	88.2	23.0	15.0	14.4
EV/EBITDA (x)	22.7	10.6	7.5	7.0
P/BV (x)	3.5	3.1	2.8	2.7
Div yield (%)	1.3	3.3	5.0	5.2
ROE (%)	3.8	14.3	19.8	19.1
Net D/E (%)	(38.0)	(44.6)	(47.8)	(52.0)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 6-Dec-22 (Bt)	4.50
Market Cap (US\$ m)	96.2
Listed Shares (m shares)	749.9
Free Float (%)	41.4
Avg Daily Turnover (US\$ m)	0.0
12M Price H/L (Bt)	5.60/4.04
Sector	Construction
Major Shareholder	Sangarayakul Family 51.5%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P6

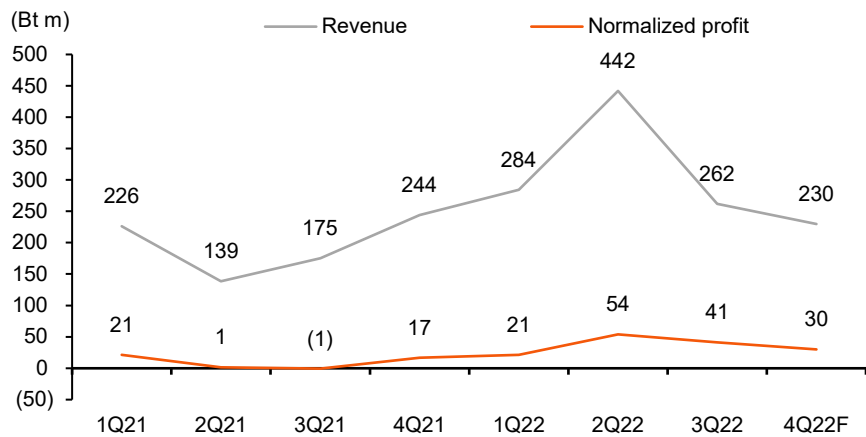


Ex 1: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
New work value (Bt m)					
New	741	1,759	1,120	1,600	1,680
Old			1,200	1,600	1,680
Change (%)			(6.7)	—	—
Revenue (Bt m)					
New	1,416	785	1,210	1,550	1,616
Old			1,584	1,736	1,640
Change (%)			(23.6)	(10.7)	(1.5)
Gross margin (%)					
New	21.5	13.9	20.0	23.0	23.0
Old			17.5	21.0	23.0
Change (pp)			2.5	2.0	-

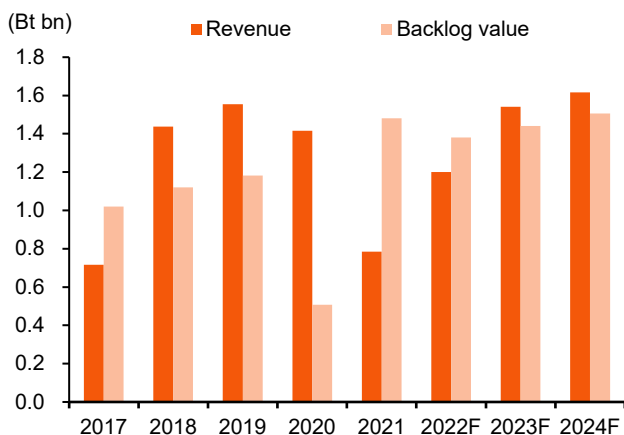
Sources: Company data, Thanachart estimates

Ex 2: We See PYLON's Earnings Hiccup In 4Q22F As A Chance To BUY As...



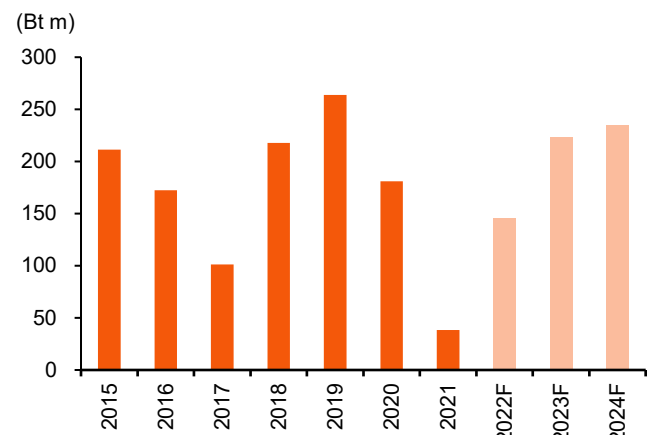
Source: Company data, Thanachart estimates

Ex 3: Its High Backlog at End-4Q22F Would Drive Sales...



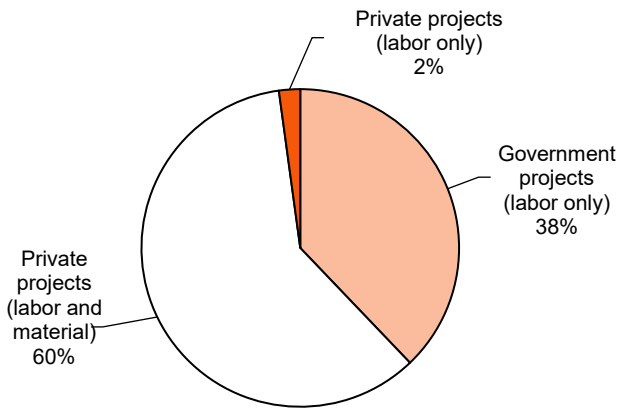
Sources: Company data, Thanachart estimates

Ex 4: ...And Earnings In 2023F



Sources: Company data, Thanachart estimates

Ex 5: PYLON's Backlog As Of 23 Nov 2022



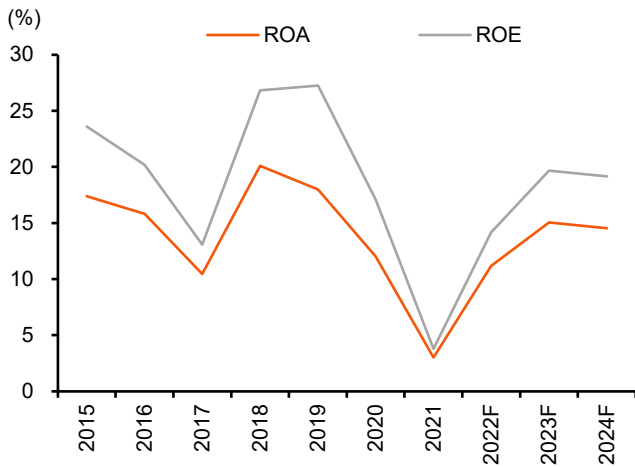
Sources: Company data, Ch. Karnchang, Thanachart estimates

Ex 6: Potential High-value Work In 2023-24F

Type	Project	Project Value (Bt bn)
Mass transit	South Orange Line	109
Mass transit	Red Line Extensions	66
Double-track rail	Khonkaen – Nong Khai	29
Double-track rail	Chira Junction – Ubon.	36
Double-track rail	Pak Nam Pho – Den Chai	63
Airport	Don Mueang Airport's phase 3	37
Total		340

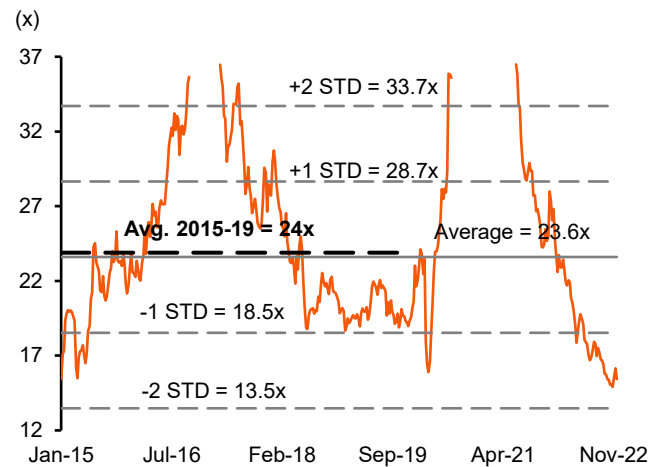
Sources: Company data, Ch. Karnchang, Thanachart estimates

Ex 7: PYLON's ROA & ROE



Sources: Company data, Thanachart estimates

Ex 8: PYLON's PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

Ex 9: 12-month DCF-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA	375	391	411	430	444	459	473	488	506	525	544	—
Free cash flow	197	247	262	278	293	305	316	328	344	360	377	4,822
PV of free cash flow	196	208	199	193	186	177	168	159	146	139	132	1,695
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	9.0											
Terminal growth (%)	2.0											
Enterprise value - add investments	3,600											
Net debt (2022F)	(481)											
Minority interest	-											
Equity value	4,082											
# of shares (m)*	750											
Target price/share (Bt)	5.5											

Sources: Company data, Thanachart estimates

Valuation Comparison**Ex 10: Peer Valuation Comparison**

Name	BBG code	Current	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
		Price (Bt)	22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Italian-Thai Devel.	ITD TB	1.88	(758.7)	65.6	na	na	0.9	0.9	10.7	9.3	0.0	0.0
Sriracha Construction	SRICHA TB	9.60	na	na	na	6.8	1.7	1.6	28.6	4.1	0.0	11.8
CH Karnchang*	CK TB	24.50	897.1	25.6	41.7	33.2	1.6	1.5	na	113.1	1.0	1.2
Pylon Pcl*	PYLON TB	4.50	283.2	53.2	23.0	15.0	3.1	2.8	10.6	7.5	3.3	5.0
Seafoo Pcl*	SEAFKO TB	3.66	na	na	na	17.5	2.0	1.8	na	7.7	0.0	2.9
Sino Thai Eng. & Cons*	STEC TB	12.20	5.1	21.1	25.5	21.1	1.1	1.0	7.1	6.1	1.2	1.7
Average			106.7	41.4	30.1	18.7	1.7	1.6	14.3	24.6	0.9	3.8

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

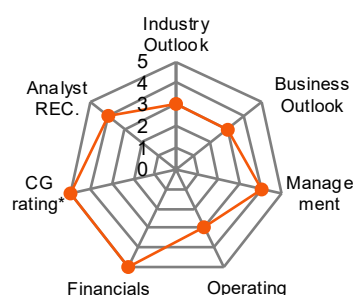
Based on 6-Dec-22 closing prices

COMPANY DESCRIPTION

Pylon Public Company Limited (PYLON) was incorporated in 2002. The company provides construction services related to foundation work with three product lines: bored piling, diaphragm wall and ground improvement by jet grouting. At end-2015, PYLON had 20 sets of piling machines and two sets of diaphragm walling machines.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Its 14 years of experience, knowledge and innovation allow the company to qualify for almost all kinds of foundation work.
- Cost competitiveness due to economies of scale and strong cost management.
- Robust financial position with a net cash position.

O — Opportunity

- Thailand is entering a new multi-year infrastructure investment cycle.
- High-rise building trend in Bangkok given rising land costs.
- Thick and very soft clay terrain in Bangkok requires more piling foundation work.

W — Weakness

- The business is capital intensive and requires high asset utilization.
- Bored piling work requires high reliability.
- Capacity constraints to fully enjoy the massive infrastructure investment cycle.

T — Threat

- Political instability causing delays to Thailand's new investment cycle and private construction projects.
- High volatility for steel and cement prices over short periods of time.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	5.42	5.50	2%
Net profit 22F (Bt m)	153	147	-4%
Net profit 23F (Bt m)	212	225	6%
Consensus REC	BUY: 5	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimate for 2023F is 6% higher than the Bloomberg consensus estimate, which we believe is because we have a more aggressive view on revenue growth and improving gross margin.
- Our DCF-based TP is also higher than the Street's, following our higher earnings forecast.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Delays to the government's infrastructure projects and private construction projects could impact our new work value assumptions.
- Delays could also hurt PYLON's gross margins given its high operating leverage.
- Fluctuations in building material prices over short periods of time also present a major risk to our earnings projections.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	1,416	785	1,210	1,550	1,616
Cost of sales	1,111	676	968	1,194	1,244
Gross profit	305	109	242	357	372
% gross margin	21.5%	13.9%	20.0%	23.0%	23.0%
Selling & administration expenses	96	73	67	84	87
Operating profit	209	36	175	272	284
% operating margin	14.8%	4.6%	14.5%	17.6%	17.6%
Depreciation & amortization	98	97	99	103	107
EBITDA	307	133	274	375	391
% EBITDA margin	21.7%	16.9%	22.6%	24.2%	24.2%
Non-operating income	9	9	9	9	10
Non-operating expenses	0	0	0	0	0
Interest expense	(4)	(3)	(1)	(1)	(1)
Pre-tax profit	214	42	183	281	294
Income tax	33	4	37	56	59
After-tax profit	181	38	147	225	235
% net margin	12.8%	4.9%	12.1%	14.5%	14.5%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	2	1	0	0	0
NET PROFIT	183	40	147	225	235
Normalized profit	181	38	147	225	235
EPS (Bt)	0.2	0.1	0.2	0.3	0.3
Normalized EPS (Bt)	0.2	0.1	0.2	0.3	0.3

We expect strong piling work demand from commercial building and infrastructure projects

...to boost PYLON's earnings in 2023F

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	718	665	858	1,046	1,150
Cash & cash equivalent	343	418	496	585	670
Account receivables	329	177	265	340	354
Inventories	44	41	53	65	68
Others	2	28	43	56	58
Investments & loans	0	0	0	0	0
Net fixed assets	505	465	446	423	397
Other assets	97	83	95	106	110
Total assets	1,321	1,212	1,399	1,575	1,657
LIABILITIES:					
Current liabilities:	190	199	258	307	320
Account payables	117	124	186	229	239
Bank overdraft & ST loans	19	31	9	10	10
Current LT debt	18	16	5	5	5
Others current liabilities	36	28	58	63	66
Total LT debt	15	0	0	0	0
Others LT liabilities	69	36	62	74	77
Total liabilities	274	235	320	381	397
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	375	375	375	375	375
Share premium	154	154	154	154	154
Warrants	0	0	0	0	0
Surplus	(6)	(6)	(6)	(6)	(6)
Retained earnings	523	454	556	671	737
Shareholders' equity	1,047	978	1,079	1,194	1,260
Liabilities & equity	1,321	1,212	1,399	1,575	1,657

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	214	42	183	281	294
Tax paid	(45)	(4)	(37)	(56)	(59)
Depreciation & amortization	98	97	99	103	107
Chg In working capital	53	161	(38)	(44)	(8)
Chg In other CA & CL / minorities	(8)	(33)	14	(7)	0
Cash flow from operations	312	264	222	277	334
Capex	41	(56)	(80)	(80)	(80)
Right of use	(78)	13	(3)	(3)	(3)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	15	(32)	17	5	2
Cash flow from investments	(22)	(75)	(66)	(78)	(81)
Debt financing	(70)	(5)	(32)	0	0
Capital increase	0	0	0	0	0
Dividends paid	(202)	(105)	(45)	(110)	(168)
Warrants & other surplus	(1)	(4)	0	0	0
Cash flow from financing	(273)	(114)	(77)	(110)	(168)
Free cash flow	353	208	142	197	254

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	18.7	88.2	23.0	15.0	14.4
Normalized PE - at target price (x)	22.8	107.7	28.1	18.4	17.6
PE (x)	18.5	84.9	23.0	15.0	14.4
PE - at target price (x)	22.6	103.7	28.1	18.4	17.6
EV/EBITDA (x)	10.0	22.7	10.6	7.5	7.0
EV/EBITDA - at target price (x)	12.5	28.3	13.3	9.5	8.9
P/BV (x)	3.2	3.5	3.1	2.8	2.7
P/BV - at target price (x)	3.9	4.2	3.8	3.5	3.3
P/CFO (x)	10.8	12.8	15.2	12.2	10.1
Price/sales (x)	2.4	4.3	2.8	2.2	2.1
Dividend yield (%)	3.1	1.3	3.3	5.0	5.2
FCF Yield (%)	10.5	6.2	4.2	5.8	7.5
(Bt)					
Normalized EPS	0.2	0.1	0.2	0.3	0.3
EPS	0.2	0.1	0.2	0.3	0.3
DPS	0.1	0.1	0.1	0.2	0.2
BV/share	1.4	1.3	1.4	1.6	1.7
CFO/share	0.4	0.4	0.3	0.4	0.4
FCF/share	0.5	0.3	0.2	0.3	0.3

Sources: Company data, Thanachart estimates

Valuation looks attractive to us at 15x PE in 2023F vs. 24x in the pre-COVID 2015-19 period

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(8.9)	(44.6)	54.2	28.1	4.3
Net profit (%)	(34.2)	(78.2)	269.0	53.2	4.5
EPS (%)	(34.2)	(78.2)	269.0	53.2	4.5
Normalized profit (%)	(31.4)	(78.8)	283.2	53.2	4.5
Normalized EPS (%)	(31.4)	(78.8)	283.2	53.2	4.5
Dividend payout ratio (%)	57.5	113.2	75.0	75.0	75.0
Operating performance					
Gross margin (%)	21.5	13.9	20.0	23.0	23.0
Operating margin (%)	14.8	4.6	14.5	17.6	17.6
EBITDA margin (%)	21.7	16.9	22.6	24.2	24.2
Net margin (%)	12.8	4.9	12.1	14.5	14.5
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Interest coverage - EBIT (x)	50.3	12.7	162.9	na	473.1
Interest coverage - EBITDA (x)	74.0	46.9	254.4	na	na
ROA - using norm profit (%)	12.0	3.0	11.2	15.1	14.5
ROE - using norm profit (%)	17.1	3.8	14.3	19.8	19.1
DuPont					
ROE - using after tax profit (%)	17.1	3.8	14.3	19.8	19.1
- asset turnover (x)	0.9	0.6	0.9	1.0	1.0
- operating margin (%)	15.4	5.8	15.2	18.2	18.2
- leverage (x)	1.4	1.3	1.3	1.3	1.3
- interest burden (%)	98.1	93.7	99.4	99.8	99.8
- tax burden (%)	84.7	90.4	80.0	80.0	80.0
WACC (%)	9.0	9.0	9.0	9.0	9.0
ROIC (%)	20.5	4.3	23.1	36.4	36.5
NOPAT (Bt m)	177	32	140	218	228
invested capital (Bt m)	756	606	598	624	605

*We forecast low gearing
but decent ROE*

Sources: Company data, Thanachart estimates

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SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects

As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

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The Dow Jones Sustainability Indices (DJSI)

The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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90-100	▲▲▲▲▲	Excellent
80-89	▲▲▲▲	Very Good
70-79	▲▲▲	Good
60-69	▲▲	Satisfactory
50-59	▲	Pass
Below		N/A

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