

Ch. Karnchang Pcl (CK TB) - BUY, Price Bt22.00, TP Bt26.00**Results Comment**

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Strong 2Q earnings in line

- CK reported a normalized profit of Bt486m in 2Q23, up 62% y-y and 188% q-q. The results were in line with what we had expected. The strong earnings growth y-y was mainly due to a rise in sales while the growth q-q was due to dividend income from its 19%-owned TTW (TTW TB, Unrated) and higher equity income.
- We expect CK to continue to report a strong profit in 3Q23 due to strong revenue recognition from its high backlog value and dividend income from TTW.
- We like CK as 1) we expect its strong earnings growth in 2023-24F driven by higher revenue recognition from its high backlog value and 2) valuation looks cheap as the share trades at a 40% discount on its subsidiaries' market value with the construction business for free.
- CK's revenue increased 164% y-y in 2Q23 due to higher revenue recognition from its new projects, especially the double-track railway, South Purple Line, and Luang Prabang Hydro Power Plant projects. We estimate its backlog value of Bt140bn at end 2Q23 (excluding the Bt109bn West Orange Line project).
- Its gross margin slightly fell to 7.9% in 2Q23 vs. 8.2% in 2Q22. SG&A expenses also slightly fell by 5% y-y.
- While its other income in 2Q23 increased by 204% q-q due to dividend income from TTW, equity income fell by 45% y-y due to lower earnings contribution from its 30%-owned CKP (CKP TB, Bt3.46, BUY).

Income Statement						Income Statement					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q22	3Q22	4Q22	1Q23	2Q23	(Bt m)	q-q%	y-y%	% 2023F	2023F	2024F
Revenue	3,517	3,702	3,988	9,481	9,276	Revenue	(2)	164	61	30,928	35,629
Gross profit	287	288	371	725	735	Gross profit	1	156	60	2,423	2,637
SG&A	496	480	481	495	470	SG&A	(5)	(5)	43	2,258	2,423
Operating profit	(209)	(192)	(110)	231	265	Operating profit	15	na	300	165	214
EBITDA	(36)	(24)	11	488	562	EBITDA	15	na	129	812	892
Other income	409	382	156	161	488	Other income	204	19	60	1,083	876
Other expense	0	0	0	0	0	Other expense					
Interest expense	363	355	362	396	474	Interest expense	20	30	59	1,471	1,429
Profit before tax	(163)	(166)	(317)	(5)	280	Profit before tax	na	na	(124)	(223)	(339)
Income tax	5	19	(8)	10	23	Income tax	140	328	na	0	0
Equity & invest. income	468	736	241	200	255	Equity & invest. income	28	(45)	31	1,486	1,811
Minority interests	(0)	(15)	(8)	(17)	(26)	Minority interests	na	na	na	(20)	(23)
Extraordinary items	0	35	188	49	0	Extraordinary items	na	na	na	50	0
Net profit	300	571	112	217	486	Net profit	124	62	54	1,293	1,450
Normalized profit	300	536	(75)	169	486	Normalized profit	188	62	53	1,243	1,450
EPS (Bt)	0.18	0.34	0.07	0.13	0.29	EPS (Bt)	124	62	54	0.76	0.86
Normalized EPS (Bt)	0.18	0.32	(0.04)	0.10	0.29	Normalized EPS (Bt)	188	62	53	0.73	0.86

Balance Sheet						Financial Ratios					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q22	3Q22	4Q22	1Q23	2Q23	(%)	2Q22	3Q22	4Q22	1Q23	2Q23
Cash & ST investment	7,314	8,738	7,061	5,970	8,875	Sales grow th	8.6	44.6	10.7	33.8	163.8
A/C receivable	1,991	2,516	2,549	10,032	3,366	Operating profit grow th	na	na	na	37.4	na
Inventory	4,700	5,591	5,639	5,376	7,202	EBITDA grow th	na	na	na	42.1	na
Other current assets	4,655	6,194	7,807	8,972	12,093	Norm profit grow th	71.2	94.9	na	39.0	62.3
Investment	37,125	36,950	38,938	40,697	40,063	Norm EPS grow th	71.2	94.9	na	39.0	62.3
Fixed assets	10,443	10,036	10,116	10,184	9,874	Gross margin	8.2	7.8	9.3	7.6	7.9
Other assets	15,330	12,763	13,040	12,515	12,791	Operating margin	(6.0)	(5.2)	(2.8)	2.4	2.9
Total assets	81,559	82,788	85,151	93,748	94,264	EBITDA margin	(1.0)	(0.7)	0.3	5.1	6.1
S-T debt	5,607	5,314	8,144	13,437	13,630	Norm net margin	8.5	14.5	(1.9)	1.8	5.2
A/C payable	2,140	2,864	2,850	4,569	4,174	D/E (x)	1.7	1.7	1.9	2.1	2.2
Other current liabilities	6,672	8,846	9,049	10,094	7,905	Net D/E (x)	1.4	1.4	1.6	1.9	1.8
L-T debt	38,672	37,949	37,945	38,393	40,905	Interest coverage (x)	(0.1)	(0.1)	0.0	1.2	1.2
Other liabilities	2,836	2,750	2,696	2,662	2,653	Interest rate	3.3	3.2	3.2	3.2	3.6
Minority interest	429	436	440	455	474	Effective tax rate	(3.3)	(11.4)	2.5	(203.5)	8.2
Shareholders' equity	25,202	24,630	24,026	24,137	24,522	ROA	1.5	2.6	(0.4)	0.8	2.1
Working capital	4,551	5,243	5,339	10,839	6,395	ROE	4.7	8.6	(1.2)	2.8	8.0
Total debt	44,279	43,263	46,090	51,830	54,535						
Net debt	36,965	34,525	39,029	45,860	45,661						

Sources: Company data, Thanachart estimates

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