

BUY (Unchanged)

TP: Bt 26.00

(Unchanged)

Company Update

Upside : 27.5%

16 OCTOBER 2024

Ch. Karnchang Pcl (CK TB)

Continuing its growth path

CK's Bt223bn of existing backlog, Bt62bn of high-potential projects, and continued equity income growth make our 11% EPS CAGR estimate in 2024-26F look secure. With its shares trading at a 44% discount to its associates' market value and the construction business for free, CK is our top sector pick.



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Reaffirming our BUY call

This report is a part of our construction sector report, "New cycle", dated 16 October 2024. We fine-tune our earnings for CK and roll over the base year in our model to 2025F. However, as we raise our discount rate by 0.5ppts to 7.7-8.7% to reflect its higher beta, our DCF-derived SOTP-based 12-month TP stays at Bt26/share. We reaffirm our BUY call on CK due to share price catalysts from **1)** a 11% earnings CAGR in 2024-26F looking secure with its record-high backlog and a rise in equity income from earnings growth of its associates, **2)** it being one of the best plays on the government's implementation of new infrastructure projects worth Bt430bn in 2025-27F and having high-potential projects worth Bt62bn, and **3)** its cheapest valuation, on our estimates.

11% earnings CAGR in 2024-26F

CK is enjoying not only its construction business's earnings growth but also returns from its infrastructure firms. It has Bt223bn of existing backlog and Bt62bn of high-potential projects, which imply 8x its 2024F revenue. We expect them to drive construction revenue growth of 3/5/7% y-y in 2024-26F. Even though we project CK's gross margin to fall to 7.8% in 2024F (vs. 8% in 1H24) to 7.5% in 2025-27F due to a higher proportion of mega-size projects, which generally have a lower margin and 5/10% minimum wage hikes in 2024-25F, we estimate its equity income growth at 11/13/10% y-y in 2024-26F from its 36%-owned Bangkok Expressway & Metro's (BEM TB, Bt8.15, BUY) record-high earnings and its 30%-owned CK Power's (CKP TB, Bt3.92, BUY) earnings recovery, driving CK's earnings growth by 6/12/14% y-y in 2024-26F.

Cheapest play, on our estimates

CK's valuation is attractive in our view. Given an 11% earnings CAGR in 2024-26F, its PE multiples would fall from 22x in 2024F to 20/18x in 2025-26F. The shares also trade at a 44% discount to the market value of its investment portfolios. In other words, investors buying CK would get a 44% discount on BEM, CKP, and its 19%-owned TTW's (TTW TB, Bt9.25, not rated) market value and get the construction business for free.

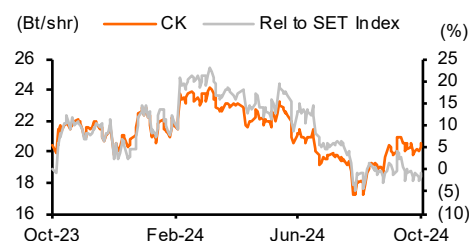
High D/E not a major concern to us

CK's net D/E ratio was high at 2x at end-2Q24, but we are not too worried about its financial constraints. Besides its debenture covenant ratio of 3x, its investment portfolio value of Bt62bn at the current market price is much higher than its Bt51bn net debt at end-2Q24. In fact, given its credit rating of A- from TRIS Rating, CK was successful in issuing 5.5bn debentures with a coupon rate of 3.4-4.1% a year to refinance its existing debts and to use as working capital.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	36,725	37,696	39,548	42,384
Net profit	1,501	1,540	1,723	1,965
Consensus NP	—	1,796	2,111	2,464
Diff frm cons (%)	—	(14.2)	(18.3)	(20.2)
Norm profit	1,452	1,540	1,723	1,965
Prev. Norm profit	—	1,554	1,818	1,996
Chg frm prev (%)	—	(0.9)	(5.2)	(1.6)
Norm EPS (Bt)	0.86	0.91	1.02	1.16
Norm EPS grw (%)	64.6	6.1	11.9	14.0
Norm PE (x)	23.8	22.4	20.1	17.6
EV/EBITDA (x)	43.9	55.6	55.3	50.3
P/BV (x)	1.4	1.3	1.3	1.2
Div yield (%)	1.5	1.8	2.0	2.3
ROE (%)	5.9	5.9	6.4	7.0
Net D/E (%)	183.6	192.3	183.2	172.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 15-Oct-24 (Bt)	20.40
Market Cap (US\$ m)	1,036.3
Listed Shares (m shares)	1,693.9
Free Float (%)	67.7
Avg Daily Turnover (US\$ m)	2.9
12M Price H/L (Bt)	24.20/17.20
Sector	Construction
Major Shareholder	Trivisvavet group 30.2%

Sources: Bloomberg, Company data, Thanachart estimates

Reaffirming our BUY call

We reiterate our BUY call on CK given...

We fine-tune our earnings estimates for Ch. Karnchang (CK) and roll over the base year in our model to 2025F. However, given a rise in our discount rate by 0.5ppts to 7.7-8.7% to reflect its higher beta, our DCF-derived SOTP-based 12-month TP remains at Bt26/share.

Ex 1: CK's SOTP Value

	% holding	Our TP	Fair value (Bt m)	15% discount (Bt m)	Share price (Bt/share)	Market value (Bt m)
TTW	19.4%	10.0	7,741	6,580	9.3	7,160
BEM	36.4%	11.5	63,983	54,386	8.2	45,334
CKP	30.0%	5.0	12,194	10,365	3.9	9,560
Total			83,918	71,330		62,065
Per CK share (Bt)				42.1		36.6
Construction business value (Bt)				(16.2)		
Our TP (Bt)				26.0		

Sources: Company data, Thanachart estimates

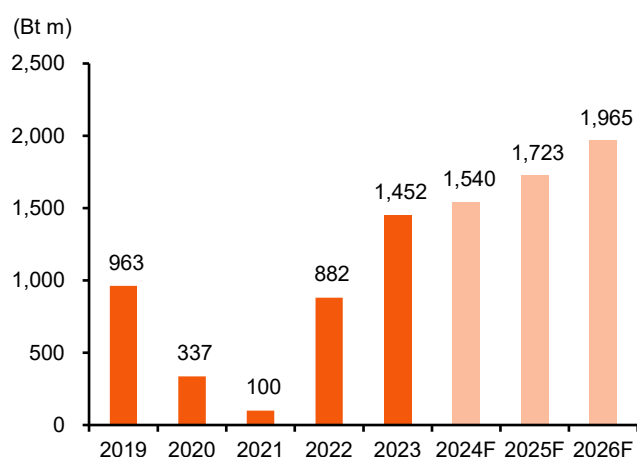
We reaffirm our BUY call because of the following share price catalysts:

...its secured earnings growth...

First, our earnings growth estimates of 6/12/14% y-y in 2024-26F look secure with:

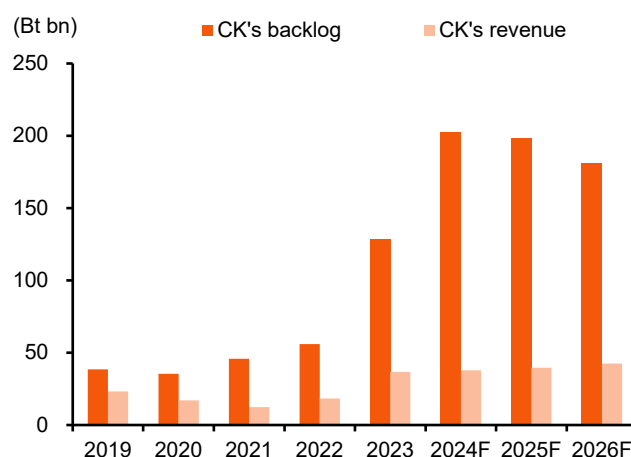
- 1) Its record-high backlog of Bt223bn at present, its high-potential projects worth Bt62bn, and the government's investment plan for new infrastructure projects worth Bt430bn in 2025-27F that looks set to drive its construction revenue growth by 3/5/7% y-y in 2024-26F.
- 2) Continued equity income growth of 11/13/10% y-y in 2024-26F, driven by its 36%-owned Bangkok Expressway & Metro's (BEM TB, Bt8.15, BUY) record-high earnings and its 30%-owned CK Power's (CKP TB, Bt3.92, BUY) earnings recovery.

Ex 2: CK's Secured Earnings Growth Driven By...



Sources: Company data, Thanachart estimates

Ex 3: ...Its Record-high Backlog...



Sources: Company data, Thanachart estimates

Ex 4: ...Its High-potential Projects...

High-potential projects	Bt bn
Double-deck expressway	35.0
M&E work for the South Purple Line	27.0
Total	62.0

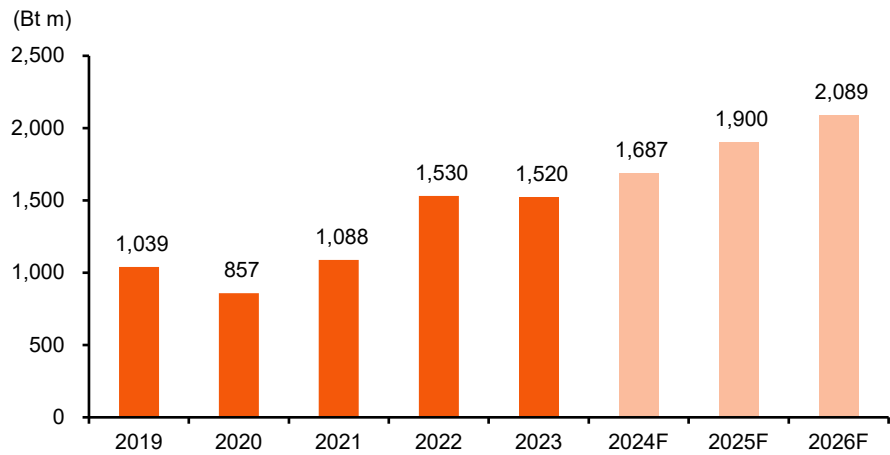
Sources: Company data, Thanachart estimates

Ex 5: ...The Government's Infra. Investment Plan, And...

Projects	Bt bn
Mass transit	65.9
Double-track railways	245.8
Motorways	71.0
Airports	46.8
Total	429.5

Sources: Company data, Thanachart estimates

Ex 6: ...Equity Income Growth

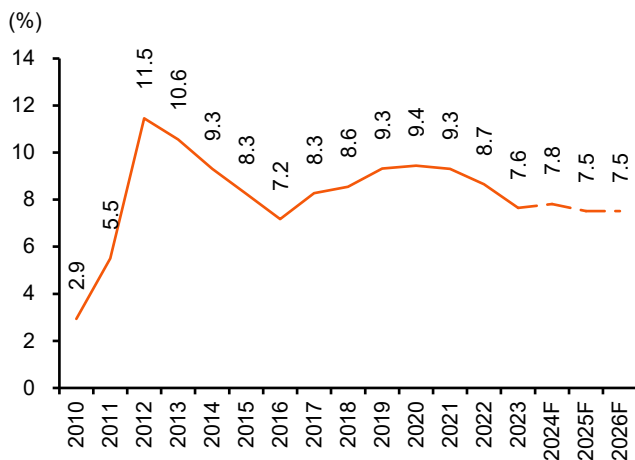


Sources: Company data, Thanachart estimates

...limited impact from minimum wage hikes, and...

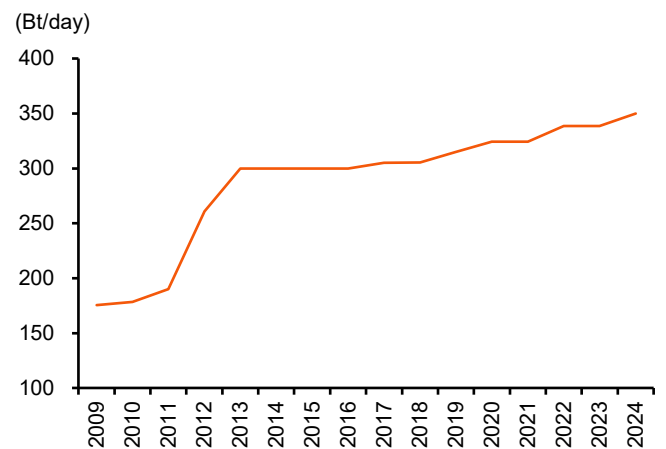
Secondly, this is despite us cutting our gross margin assumption from 7.8% in 2024F (vs. 8% in 1H24) to 7.5% in 2025-26F due to a higher proportion of mega-sized projects, which generally have a lower margin, and factoring in 5/10% minimum wage hikes in 2024-25F.

Ex 7: CK's Gross Margin



Sources: Company data, Thanachart estimates

Ex 8: Thailand's Average Minimum Wage

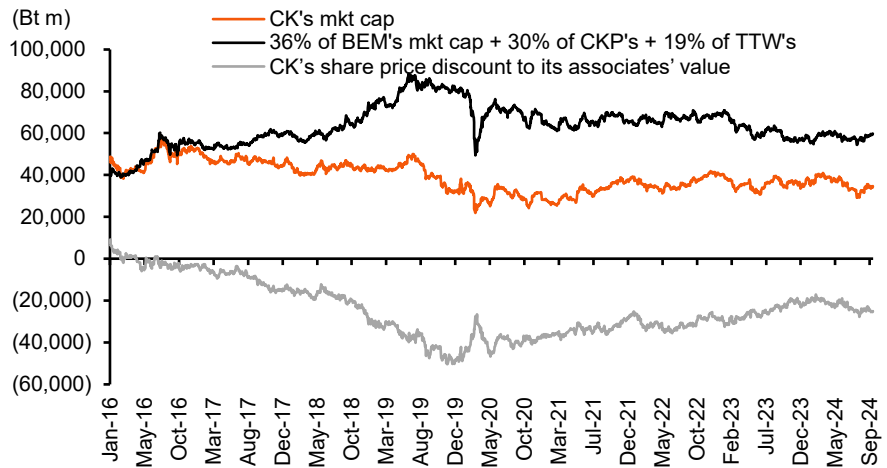


Sources: Ministry of Labour, Today Bizview, Thanachart compilation

...cheapest valuation, our estimates

Thirdly, its valuation is the cheapest among its peers, based on our estimates, as the shares trade at a 44% discount to the market value of its associates. This implies that investors buying CK would get a 44% discount on its investment portfolio's market value and the construction business for free.

Ex 9: CK's Market Cap Vs. Its Associates' Market Cap



Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Ch. Karnchang Pcl (CK) is one of Thailand's leading contractors and basic infrastructure developers. It has more than 30 years of experience constructing large-scale infrastructure, building complexes, and general civil work. The company has also been investing in the government's concession projects to expand its operations and generate steady long-term income.

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

- One of the Big Four contractors in Thailand and categorized as class-A in terms of being qualified to bid for most large-scale investments.
- Business diversification into infrastructure investments to stabilize its long-term earnings.

O — Opportunity

- Thailand is in an infrastructure investment cycle.
- Its exposure to high-potential projects abroad, especially hydroelectric work in Laos.

W — Weakness

- Most of CK's revenue comes from projects it has to bid for, and there are no guarantees it will win these bids.
- CK's interest expenses are high, leading to a significant risk of earnings losses if revenues fall.
- The construction business is labor-intensive, so there are risks of higher labor costs and labor shortages.

T — Threat

- The COVID-19 impact and the government's time-consuming implementation processes could cause delays to Thailand's infrastructure investment.
- Volatility in building material prices is another risk.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	26.27	26.00	-1%
Net profit 24F (Bt m)	1,796	1,540	-14%
Net profit 25F (Bt m)	2,111	1,723	-18%
Consensus REC	BUY: 14	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings are 14-18% lower than the Bloomberg consensus estimates, which we believe is due to us having more conservative equity income assumptions.
- However, our SOTP-based TP is only 1% lower than other brokers', which we attribute to our having a more bullish view of the business prospects of its associates.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if the government's infrastructure investment projects cannot be implemented, as this would likely prompt us to adjust down our new work value assumptions.
- Building material expenses account for 20% of CK's total costs. Therefore, adverse fluctuations in prices present a secondary downside risk to our earnings forecasts.
- The weak economy could have a significant negative impact upon people's confidence and new investments.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	18,293	36,725	37,696	39,548	42,384
Cost of sales	16,711	33,917	34,748	36,576	39,199
Gross profit	1,583	2,808	2,948	2,972	3,185
% gross margin	8.7%	7.6%	7.8%	7.5%	7.5%
Selling & administration expenses	1,927	2,051	2,149	2,215	2,331
Operating profit	(344)	757	799	757	854
% operating margin	-1.9%	2.1%	2.1%	1.9%	2.0%
Depreciation & amortization	638	1,117	761	806	851
EBITDA	294	1,874	1,560	1,563	1,705
% EBITDA margin	1.6%	5.1%	4.1%	4.0%	4.0%
Non-operating income	1,145	1,182	1,078	1,036	990
Non-operating expenses	0	0	0	0	0
Interest expense	(1,411)	(1,830)	(1,774)	(1,662)	(1,566)
Pre-tax profit	(610)	109	103	131	279
Income tax	21	83	154	207	295
After-tax profit	(631)	26	(51)	(76)	(16)
% net margin	-3.5%	0.1%	-0.1%	-0.2%	0.0%
Shares in affiliates' Earnings	1,530	1,520	1,687	1,900	2,089
Minority interests	(16)	(93)	(96)	(101)	(108)
Extraordinary items	222	49	0	0	0
NET PROFIT	1,105	1,501	1,540	1,723	1,965
Normalized profit	882	1,452	1,540	1,723	1,965
EPS (Bt)	0.7	0.9	0.9	1.0	1.2
Normalized EPS (Bt)	0.5	0.9	0.9	1.0	1.2

We forecast CK to secure its earnings growth in 2024-26F, driven by...

...higher revenue recognition from its record-high backlog...

...and higher earnings contributions from its associates

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	23,057	32,666	35,054	36,523	38,709
Cash & cash equivalent	7,061	7,784	6,000	6,000	6,000
Account receivables	2,549	4,215	4,647	4,876	5,225
Inventories	5,639	8,954	12,376	13,027	13,961
Others	7,807	11,713	12,030	12,620	13,522
Investments & loans	49,757	51,490	52,990	54,490	55,990
Net fixed assets	10,116	10,287	10,526	10,721	10,870
Other assets	2,221	2,302	2,601	2,729	2,922
Total assets	85,151	96,745	101,171	104,462	108,490
LIABILITIES:					
Current liabilities:	20,043	27,258	26,042	28,151	31,132
Account payables	2,850	4,058	3,808	5,511	8,055
Bank overdraft & ST loans	2,705	6,801	5,818	5,792	5,714
Current LT debt	5,439	8,000	7,855	7,820	7,714
Others current liabilities	9,049	8,400	8,562	9,027	9,649
Total LT debt	37,945	40,724	44,509	44,312	43,715
Others LT liabilities	2,696	2,755	3,483	3,654	3,915
Total liabilities	60,684	70,737	74,034	76,117	78,762
Minority interest	440	526	622	723	831
Preferreds shares	0	0	0	0	0
Paid-up capital	1,694	1,694	1,694	1,694	1,694
Share premium	4,869	4,869	4,869	4,869	4,869
Warrants	0	0	0	0	0
Surplus	1,704	2,023	2,023	2,023	2,023
Retained earnings	15,759	16,896	17,929	19,036	20,312
Shareholders' equity	24,026	25,482	26,515	27,622	28,898
Liabilities & equity	85,151	96,745	101,171	104,462	108,490

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	(610)	109	103	131	279
Tax paid	(21)	(82)	(155)	(206)	(295)
Depreciation & amortization	638	1,117	761	806	851
Chg In working capital	(2,252)	(3,773)	(4,104)	824	1,259
Chg In other CA & CL / minorities	1,759	(2,708)	1,533	1,775	1,809
Cash flow from operations	(486)	(5,336)	(1,862)	3,330	3,902
Capex	173	(1,288)	(1,000)	(1,000)	(1,000)
Right of use	(98)	74	(5)	(5)	(5)
ST loans & investments	0	(30)	0	0	0
LT loans & investments	1,069	(1,732)	(1,500)	(1,500)	(1,500)
Adj for asset revaluation	0	107	0	0	0
Chg In other assets & liabilities	(643)	(354)	434	48	73
Cash flow from investments	501	(3,224)	(2,071)	(2,457)	(2,432)
Debt financing	2,819	9,435	2,657	(257)	(781)
Capital increase	0	0	0	0	0
Dividends paid	(663)	(421)	(508)	(616)	(689)
Warrants & other surplus	(2,084)	269	0	0	0
Cash flow from financing	72	9,283	2,149	(873)	(1,470)
Free cash flow	(313)	(6,624)	(2,862)	2,330	2,902

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	39.2	23.8	22.4	20.1	17.6
Normalized PE - at target price (x)	49.9	30.3	28.6	25.6	22.4
PE (x)	31.3	23.0	22.4	20.1	17.6
PE - at target price (x)	39.9	29.3	28.6	25.6	22.4
EV/EBITDA (x)	250.6	43.9	55.6	55.3	50.3
EV/EBITDA - at target price (x)	282.9	49.0	61.7	61.4	55.8
P/BV (x)	1.4	1.4	1.3	1.3	1.2
P/BV - at target price (x)	1.8	1.7	1.7	1.6	1.5
P/CFO (x)	(71.1)	(6.5)	(18.6)	10.4	8.9
Price/sales (x)	1.9	0.9	0.9	0.9	0.8
Dividend yield (%)	1.2	1.5	1.8	2.0	2.3
FCF Yield (%)	(0.9)	(19.2)	(8.3)	6.7	8.4
(Bt)					
Normalized EPS	0.5	0.9	0.9	1.0	1.2
EPS	0.7	0.9	0.9	1.0	1.2
DPS	0.3	0.3	0.4	0.4	0.5
BV/share	14.2	15.0	15.7	16.3	17.1
CFO/share	(0.3)	(3.2)	(1.1)	2.0	2.3
FCF/share	(0.2)	(3.9)	(1.7)	1.4	1.7

Sources: Company data, Thanachart estimates

*CK now trades 44%
below its associates'
market value...*

*...which we believe is
unjustified*

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate					
Sales (%)	47.7	100.8	2.6	4.9	7.2
Net profit (%)	22.0	35.9	2.6	11.9	14.0
EPS (%)	22.0	35.9	2.6	11.9	14.0
Normalized profit (%)	783.4	64.6	6.1	11.9	14.0
Normalized EPS (%)	783.4	64.6	6.1	11.9	14.0
Dividend payout ratio (%)	38.3	33.9	40.0	40.0	40.0
Operating performance					
Gross margin (%)	8.7	7.6	7.8	7.5	7.5
Operating margin (%)	(1.9)	2.1	2.1	1.9	2.0
EBITDA margin (%)	1.6	5.1	4.1	4.0	4.0
Net margin (%)	(3.5)	0.1	(0.1)	(0.2)	(0.0)
D/E (incl. minor) (x)	1.9	2.1	2.1	2.0	1.9
Net D/E (incl. minor) (x)	1.6	1.8	1.9	1.8	1.7
Interest coverage - EBIT (x)	na	0.4	0.5	0.5	0.5
Interest coverage - EBITDA (x)	0.2	1.0	0.9	0.9	1.1
ROA - using norm profit (%)	1.0	1.6	1.6	1.7	1.8
ROE - using norm profit (%)	3.6	5.9	5.9	6.4	7.0
DuPont					
ROE - using after tax profit (%)	na	0.1	na	na	na
- asset turnover (x)	0.2	0.4	0.4	0.4	0.4
- operating margin (%)	na	5.3	5.0	4.5	4.4
- leverage (x)	3.4	3.7	3.8	3.8	3.8
- interest burden (%)	(76.3)	5.6	5.5	7.3	15.1
- tax burden (%)	na	23.7	na	na	na
WACC (%)	7.7	7.7	7.7	8.2	8.2
ROIC (%)	(0.6)	0.3	1.0	0.8	0.9
NOPAT (Bt m)	(344)	179	719	666	726
invested capital (Bt m)	63,055	73,223	78,696	79,547	80,042

Sources: Company data, Thanachart estimates

We expect its earnings growth to cause net D/E ratio to fall from 2.1x in 2023 to 1.7x in 2026F

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Currently, long-term investment guidelines abroad are beginning to focus on investing in companies that have sustainable business practices. which considers environmental, social and governance factors (Environmental, Social and Governance or ESG) of the company in making investment decisions along with analyzing the company's financial data.

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Score range	Description
CCC - B	LAGGARD: A company lagging its industry based on its high exposure and failure to manage significant ESG risks
BB - BBB - A	AVERAGE : A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	LEADER: A company leading its industry in managing the most significant ESG risks and opportunities

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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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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