

BUY (Unchanged)**TP: Bt 11.00**

(From: Bt 12.00)

Change in Numbers

Upside : 21.5%

16 OCTOBER 2024

Sino-Thai Eng. & Cons. (STEC TB)

Bottoming out

STEC's huge equity loss from the Pink and Yellow lines prompts us to cut our earnings and TP to Bt11. However, as we foresee 1) an earnings recovery with growth of 119/55% y-y in 2025-26F, and 2) it being one of the best plays on the government's new infrastructure investment cycle, we maintain our BUY call on STEC.

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Cutting our TP to Bt11; still a BUY

This report is a part of our construction sector report, "New cycle", dated 16 October 2024. STEC's huge equity loss from its 15%-owned Pink & Yellow lines prompts us to cut our earnings by 45-79% in 2024-26F. With our discount rates raised by 2ppts to 11.4-12.4% to reflect its higher beta and the rollover of the base year in our model to 2025F, our DCF-derived SOTP-based 12-month TP falls to Bt11/share from Bt12. We maintain our BUY call on STEC as **1)** the 39% share price fall from its peak last year looks to have priced in the bad news, **2)** we expect its earnings to recover with 119/55% y-y growth in 2025-26F, and **3)** we see it as one of the best plays on the government's new infrastructure investment cycle. Out of our Bt11 TP, we value its construction business at Bt3.5/share and its investment portfolio at Bt7.5.

Low backlog not a concern

We are not too concerned about STEC's low backlog of Bt62bn at end-2Q24 or 2x of its 2024F revenue as **1)** it has high-potential projects, including U-tapao Airport, data centers, and renewable energy power plants worth Bt54bn, in 2025-26F, and **2)** as one of the largest contractors in Thailand, we see it as one of the main beneficiaries of the government's plans to bid for new infrastructure projects worth Bt430bn in 2025-27F. We thus forecast STEC's new work value of Bt27/56/25bn in 2024-26F to boost its backlog to Bt72/97/89bn at the end of 2024-26F.

119/55% y-y earnings growth in 2025-26F

Given the expected equity loss of Bt522m, mainly from the first year of the Pink and Yellow lines' operation, we project STEC's earnings to fall by 77% y-y this year. However, we estimate its earnings to recover with growth of 119% y-y in 2025F and 55% y-y in 2026F as **1)** we expect revenue recognition from its backlog and high-potential projects to boost its construction revenue by 4/6% y-y in 2025-26F, **2)** despite assuming minimum wage hikes, we project its gross margin to improve from 4.8% this year (vs. 4.1% in 1H24) to 5/5.2% in 2025-26F due to a better project mix from the completion of low-margin projects and lower repair expenses for the Bueng Nong Bon drainage tunnel project, and **3)** we also expect lower equity losses of 452/398m in 2025-26F due to the ramp-up of the Pink and Yellow lines' ridership.

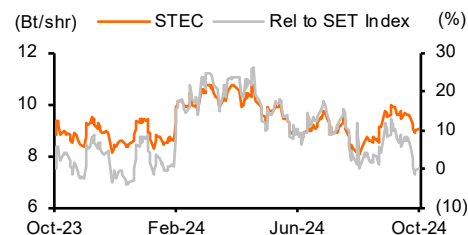
Become a holding company

STEC's restructuring plan to become a holding firm and invest in utility & power, logistics & transportation, and high-growth sectors could cause a valuation discount, but we believe success with the plan in the long term would help it to create a recurring and stable revenue stream and profits, and benefit from the synergies created. We have yet to factor in any value from this plan.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	29,598	29,709	30,750	32,489
Net profit	528	117	257	398
Consensus NP	—	270	477	650
Diff frm cons (%)	—	(56.5)	(46.2)	(38.8)
Norm profit	504	117	257	398
Prev. Norm profit	—	552	631	723
Chg frm prev (%)	—	(78.7)	(59.3)	(44.9)
Norm EPS (Bt)	0.3	0.1	0.2	0.3
Norm EPS grw (%)	(38.6)	(76.7)	118.6	55.2
Norm PE (x)	27.4	117.6	53.8	34.7
EV/EBITDA (x)	10.5	10.3	9.6	8.7
P/BV (x)	0.8	0.8	0.8	0.8
Div yield (%)	3.3	0.3	0.7	1.2
ROE (%)	2.7	0.7	1.5	2.2
Net D/E (%)	(2.5)	3.8	3.8	2.6

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 15-Oct-24 (Bt)	9.05
Market Cap (US\$ m)	413.9
Listed Shares (m shares)	1,525.1
Free Float (%)	66.4
Avg Daily Turnover (US\$ m)	1.3
12M Price H/L (Bt)	10.70/8.05
Sector	Construction
Major Shareholder	C.T.Venture Co.,Ltd 17.1%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P27



Cutting our earnings and TP to Bt11...

We cut our earnings forecasts for STEC

We cut our earnings estimates for Sino-Thai Engineering & Construction (STEC) by 79/59/45% y-y in 2024-26F as:

Firstly, huge repair expenses for the Bueng Nong Bon drainage tunnel project caused STEC's gross margin to fall to 4.1% in H24. However, as STEC's management expects gross margin to improve from 2H24F onward due to lower repair expenses and a better project mix, we cut our gross margin assumption to 4.8% this year before the figures improve to 5% in 2025F and 5.2% in 2026F.

Secondly, its equity loss of Bt312m in 1H24 due to the first year of operation for the Pink and Yellow lines is also higher than we had expected earlier, so we raise our equity loss assumptions to Bt522/452/398m in 2024-26F.

Our TP falls to Bt11

With our discount rate assumptions raised by 2ppts to 11.4-12.4% to reflect its higher beta and the rollover of the base year in our model to 2025F, our DCF-derived SOTP-based 12-month TP falls to Bt11/share from Bt12.

Ex 1: Key Assumption Changes

	2021	2022	2023	2024F	2025F	2026F
Gross margin (%)						
New	4.6	5.1	4.4	4.8	5.0	5.2
Old				5.0	4.7	4.7
Change (ppt)				(0.2)	0.3	0.5
Equity income (Bt m)						
New	40	34	(70)	(522)	(452)	(398)
Old				(256)	(199)	(170)
Change (%)				na	na	na
Normalized profit (Bt m)						
New	694	821	504	117	257	398
Old				552	631	723
Change (%)				(78.7)	(59.3)	(44.9)

Sources: Company data, Thanachart estimates

Ex 2: STEC's SOTP Value

BBG code	% holding	Fair value (Bt m)	15% discount (Bt m)	Share price (Bt/share)	Market value (Bt m)
GULF TB	1.9%	11,911	10,125	65.5	14,448
TSE TB	9.0%	191	162	1.1	200
BGSR	10.0%	402	342	na	na
Pink & Yellow lines	15.0%	1,106	940	na	na
Total		13,610	11,569		14,648
Per STEC share (Bt)			7.5		9.6
Construction business value (Bt)			3.5		
Our TP (Bt)			11.0		

Sources: Company data, Thanachart estimates

...but we maintain our BUY call

But we reaffirm BUY...

Despite our earnings cuts, we maintain our BUY call on STEC.

...as the bad news looks priced in...

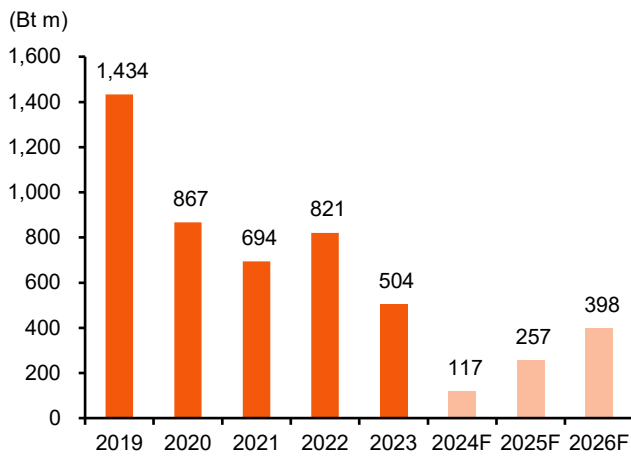
First, the 39% fall in its share price from its peak last year looks to have already priced in the negative news.

... we foresee a strong earnings recovery from 2025F onward...

Second, although we forecast STEC's earnings to fall by 77% y-y this year, we expect an earnings recovery with growth of 119% y-y in 2025F and 55% y-y in 2026F driven by:

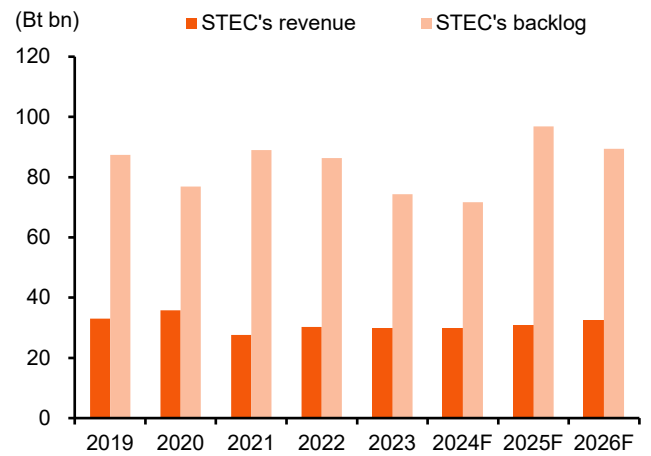
- 1) Revenue recognition from its backlog worth Bt62bn at end-2Q24 and high-potential projects worth Bt54bn boosting its construction revenue to grow 4/6% y-y in 2025-26F.
- 2) Gross margin improvement from 4.8% this year to 5% in 2025F and 5.2% in 2026F due to lower repair expenses for the Bueng Nong Bon drainage tunnel project, which is scheduled for completion in early 2026 and a better project mix from the completion of low-margin projects.
- 3) Lower equity losses at Bt452m in 2025F and Bt398m in 2026F from Bt522m this year due to the ramp-up of ridership on the Pink and Yellow lines.

Ex 3: STEC's Strong Earnings Recovery Driven By...



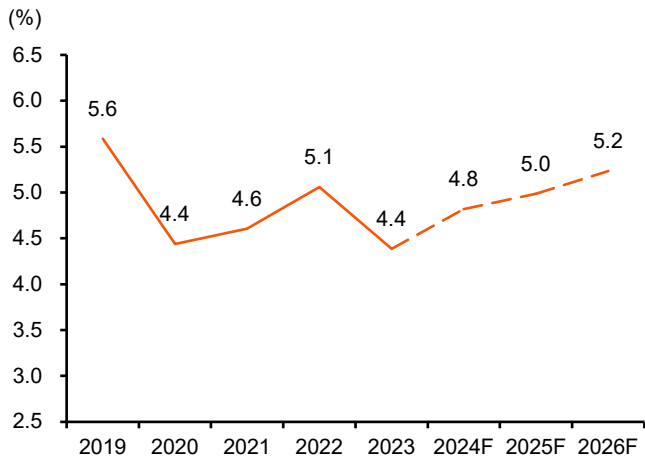
Sources: Company data, Thanachart estimates

Ex 4: ...Construction Revenue Growth...



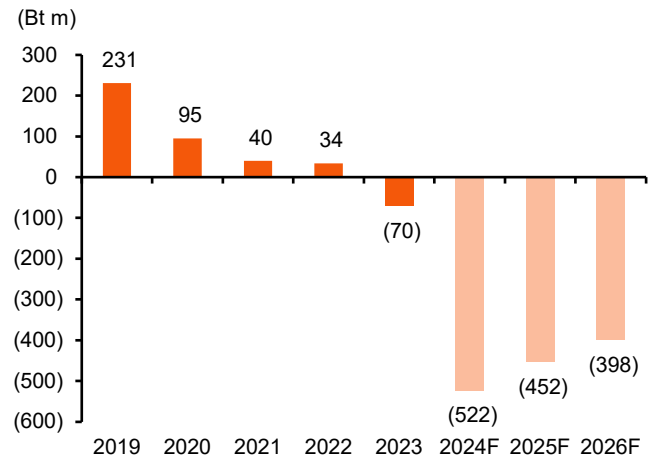
Sources: Company data, Thanachart estimates

Ex 5: ...Gross Margin Recovery, And...



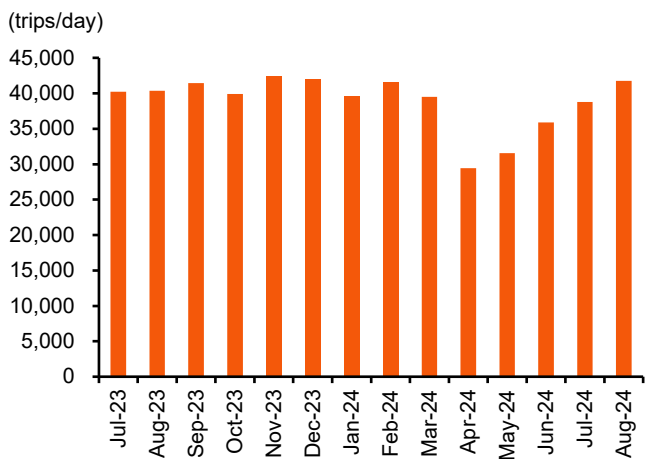
Sources: Company data, Thanachart estimates

Ex 6: Lower Equity Losses



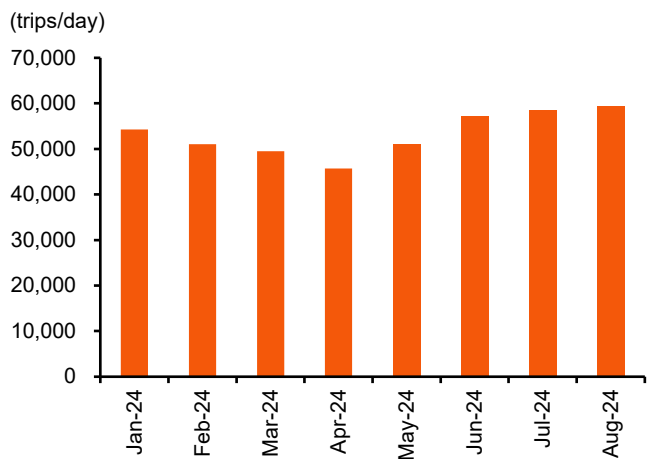
Sources: Company data, Thanachart estimates

Ex 7: Yellow Line's Ridership



Source: Company data

Ex 8: Pink Line's Ridership



Source: Company data

...it is a major beneficiary of the new infrastructure investment cycle...

Third, as one of the largest contractors in Thailand, we see STEC as one of the biggest beneficiaries of the government's new infrastructure investment cycle worth Bt430bn in 2025-27F due to its available capacity for new work and no financial constraints like its key rival, Italian-Thai Development (ITD TB, Bt0.72, not rated).

Ex 9: STEC's High-potential Projects

High potential projects	Bt bn
U-tapao Airport Expansion Phase 1	27.0
Data centers	7.2
Renewable energy power plants	6.0
Others	14.0
Total	54.2

Sources: Company data

Ex 10: The Government's Infrastructure Investment Plan

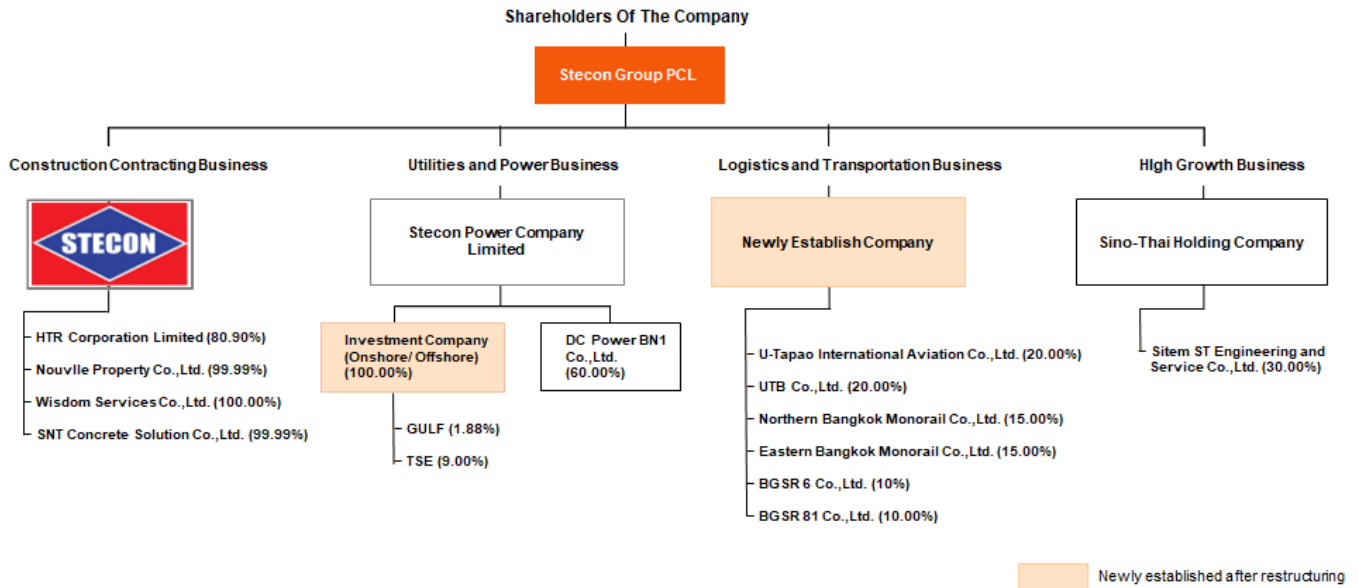
Projects	Bt bn
Mass transit	65.9
Double-track railways	245.8
Motorways	71.0
Airports	46.8
Total	429.5

Sources: Company data, Thanachart estimates

...we see potential benefits from its restructuring plan in the long term

Finally, STEC is restructuring its business to become a holding company and diversify its construction business into utility & power, logistics & transportation, and high-growth (e.g., technology) businesses. Even though investors normally assign a valuation discount to the holding company structure, the plan is not new. In the long term, we believe the plan's success would help STEC reduce the volatility of the construction business, create a recurring and stable revenue stream and profits, and allow benefits from the synergies created. However, we have yet to factor in any value from this plan.

Ex 11: STEC's Potential New Shareholding Structure



Source: Company data

COMPANY DESCRIPTION

Sino-Thai Engineering & Construction (STECON) is one of Thailand's three biggest engineering and construction companies, engaged in civil and mechanical work in buildings, infrastructure, energy, environment, and industrial projects. It operates and offers services as a main contractor, sub-contractor, and joint-venture partner to government and private sector clients. It classifies its construction services into five categories: infrastructure construction, industrial, building construction, power & energy, and environmental projects.

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

- Strongest financial position in the sector, with net cash.
- Class-A contractor able to bid for all construction work.
- Expert in power plant construction.

O — Opportunity

- Thailand is in an infrastructure investment cycle.
- Concerns about electricity shortages are also driving investments in power-plant projects.

W — Weakness

- The majority of STEC's revenues are based on projects it has to bid for, and there are no guarantees it will win these bidding contests.
- The construction business is labor-intensive. Thus, there are risks from higher labor costs and labor shortages.

T — Threat

- 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 a major risk that we expect to increase this year.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	9.77	11.00	13%
Net profit 24F (Bt m)	270	117	-56%
Net profit 25F (Bt m)	477	257	-46%
Consensus REC	BUY: 9	HOLD: 4	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profits for 2024-25F are 46-56% below the Bloomberg consensus numbers, which we believe is due to us factoring in higher equity losses.
- However, our TP is 13% higher than other brokers', likely as we are more bullish on its construction business's long-term earnings prospects.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if the implementation of infrastructure projects occurs more slowly than we currently expect. This would likely prompt us to lower our new work value assumptions and earnings forecasts.
- Building material expenses account for 50-60% of STEC's total costs. Therefore, higher prices present a downside risk to our earnings forecasts.
- A weaker-than-expected economic recovery could also have a significant negative impact upon people's confidence and new construction projects.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	30,326	29,598	29,709	30,750	32,489
Cost of sales	28,792	28,299	28,277	29,217	30,789
Gross profit	1,534	1,299	1,432	1,533	1,701
% gross margin	5.1%	4.4%	4.8%	5.0%	5.2%
Selling & administration expenses	779	834	891	923	975
Operating profit	754	464	541	611	726
% operating margin	2.5%	1.6%	1.8%	2.0%	2.2%
Depreciation & amortization	1,038	805	867	900	921
EBITDA	1,793	1,270	1,408	1,511	1,647
% EBITDA margin	5.9%	4.3%	4.7%	4.9%	5.1%
Non-operating income	249	262	359	393	420
Non-operating expenses	0	0	0	0	0
Interest expense	(20)	(43)	(129)	(129)	(139)
Pre-tax profit	984	683	771	874	1,006
Income tax	187	102	123	157	201
After-tax profit	797	582	648	717	805
% net margin	2.6%	2.0%	2.2%	2.3%	2.5%
Shares in affiliates' Earnings	34	(70)	(522)	(452)	(398)
Minority interests	(9)	(8)	(8)	(8)	(9)
Extraordinary items	36	23	0	0	0
NET PROFIT	857	528	117	257	398
Normalized profit	821	504	117	257	398
EPS (Bt)	0.6	0.3	0.1	0.2	0.3
Normalized EPS (Bt)	0.5	0.3	0.1	0.2	0.3

We expect STEC's earnings to turn around from next year onward...

...due to a revenue and gross margin recovery and lower equity losses

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	22,160	20,636	19,982	21,532	22,453
Cash & cash equivalent	8,297	5,310	4,000	5,000	5,000
Account receivables	9,772	10,386	10,419	10,784	11,394
Inventories	2,728	3,274	3,486	3,602	3,796
Others	1,363	1,665	2,077	2,147	2,264
Investments & loans	23,473	21,395	21,395	21,395	21,395
Net fixed assets	3,442	3,951	4,384	4,783	5,163
Other assets	1,715	1,467	1,480	1,515	1,567
Total assets	50,790	47,449	47,240	49,226	50,578
LIABILITIES:					
Current liabilities:	27,472	26,698	26,732	28,470	29,479
Account payables	24,511	18,506	18,593	19,211	20,245
Bank overdraft & ST loans	0	4,745	4,672	5,678	5,466
Current LT debt	0	117	0	0	0
Others current liabilities	2,961	3,330	3,467	3,581	3,768
Total LT debt	0	0	0	0	0
Others LT liabilities	3,428	2,680	2,771	2,788	2,814
Total liabilities	30,900	29,377	29,502	31,258	32,293
Minority interest	297	371	379	387	396
Preferreds shares	0	0	0	0	0
Paid-up capital	1,525	1,525	1,525	1,525	1,525
Share premium	2,097	2,097	2,097	2,097	2,097
Warrants	0	0	0	0	0
Surplus	6,694	4,710	4,710	4,710	4,710
Retained earnings	9,276	9,369	9,027	9,249	9,557
Shareholders' equity	19,592	17,701	17,359	17,580	17,889
Liabilities & equity	50,790	47,449	47,240	49,226	50,578

STEC's financial status looks solid

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	984	683	771	874	1,006
Tax paid	(187)	(102)	(123)	(157)	(201)
Depreciation & amortization	1,038	805	867	900	921
Chg In working capital	295	(7,166)	(157)	137	230
Chg In other CA & CL / minorities	(412)	71	(797)	(408)	(328)
Cash flow from operations	1,718	(5,708)	562	1,346	1,627
Capex	(1,195)	(1,314)	(1,300)	(1,300)	(1,300)
Right of use	650	740	(10)	(10)	(10)
ST loans & investments	11	(55)	0	0	0
LT loans & investments	(2,440)	2,077	0	0	0
Adj for asset revaluation	2,037	(1,985)	0	0	0
Chg In other assets & liabilities	236	(1,171)	88	(7)	(16)
Cash flow from investments	(700)	(1,707)	(1,222)	(1,317)	(1,326)
Debt financing	0	4,862	(190)	1,006	(212)
Capital increase	0	0	0	0	0
Dividends paid	(381)	(457)	(460)	(35)	(90)
Warrants & other surplus	0	23	(0)	0	0
Cash flow from financing	(381)	4,428	(650)	971	(302)
Free cash flow	522	(7,022)	(738)	46	327

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	16.8	27.4	117.6	53.8	34.7
Normalized PE - at target price (x)	20.4	33.3	142.9	65.4	42.1
PE (x)	16.1	26.2	117.6	53.8	34.7
PE - at target price (x)	19.6	31.8	142.9	65.4	42.1
EV/EBITDA (x)	3.1	10.5	10.3	9.6	8.7
EV/EBITDA - at target price (x)	4.7	12.9	12.4	11.6	10.5
P/BV (x)	0.7	0.8	0.8	0.8	0.8
P/BV - at target price (x)	0.9	0.9	1.0	1.0	0.9
P/CFO (x)	8.0	(2.4)	24.6	10.3	8.5
Price/sales (x)	0.5	0.5	0.5	0.4	0.4
Dividend yield (%)	3.3	3.3	0.3	0.7	1.2
FCF Yield (%)	3.8	(50.9)	(5.3)	0.3	2.4
(Bt)					
Normalized EPS	0.5	0.3	0.1	0.2	0.3
EPS	0.6	0.3	0.1	0.2	0.3
DPS	0.3	0.3	0.0	0.1	0.1
BV/share	12.8	11.6	11.4	11.5	11.7
CFO/share	1.1	(3.7)	0.4	0.9	1.1
FCF/share	0.3	(4.6)	(0.5)	0.0	0.2

Sources: Company data, Thanachart estimates

*Its high PEs look justified
with its strong earnings
growth recovery*

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate					
Sales (%)	9.6	(2.4)	0.4	3.5	5.7
Net profit (%)	20.6	(38.5)	(77.8)	118.6	55.2
EPS (%)	20.6	(38.5)	(77.8)	118.6	55.2
Normalized profit (%)	18.3	(38.6)	(76.7)	118.6	55.2
Normalized EPS (%)	18.3	(38.6)	(76.7)	118.6	55.2
Dividend payout ratio (%)	53.6	87.1	30.0	35.0	40.0
Operating performance					
Gross margin (%)	5.1	4.4	4.8	5.0	5.2
Operating margin (%)	2.5	1.6	1.8	2.0	2.2
EBITDA margin (%)	5.9	4.3	4.7	4.9	5.1
Net margin (%)	2.6	2.0	2.2	2.3	2.5
D/E (incl. minor) (x)	0.0	0.3	0.3	0.3	0.3
Net D/E (incl. minor) (x)	(0.4)	(0.0)	0.0	0.0	0.0
Interest coverage - EBIT (x)	38.0	10.8	4.2	4.7	5.2
Interest coverage - EBITDA (x)	90.2	29.4	10.9	11.7	11.8
ROA - using norm profit (%)	1.7	1.0	0.2	0.5	0.8
ROE - using norm profit (%)	4.5	2.7	0.7	1.5	2.2
DuPont					
ROE - using after tax profit (%)	4.3	3.1	3.7	4.1	4.5
- asset turnover (x)	0.6	0.6	0.6	0.6	0.7
- operating margin (%)	3.3	2.5	3.0	3.3	3.5
- leverage (x)	2.7	2.6	2.7	2.8	2.8
- interest burden (%)	98.0	94.1	85.7	87.1	87.8
- tax burden (%)	81.0	85.1	84.0	82.0	80.0
WACC (%)	11.4	11.4	11.4	11.9	11.9
ROIC (%)	6.5	3.5	2.6	2.8	3.2
NOPAT (Bt m)	611	395	454	501	581
invested capital (Bt m)	11,295	17,253	18,031	18,259	18,355

Sources: Company data, Thanachart estimates

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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

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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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