

Construction Sector – Overweight

News update

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Bt319bn infrastructure projects in progress

- They are planned to get the cabinet's approvals this year.
 - The impact on the 2.9% minimum wage hike is minimal.
 - We expect the sector's earnings recovery this year.
 - CK remain our top sector pick.
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- The Minister of Transport plans to get the cabinet's approvals to implement the infrastructure projects with the total value of Bt319bn this year. Those projects include:
 - 1) Bt7bn Red Line Extension: Rangsit – Thammasat University
 - 2) Bt15bn Red Line Extension: Taling Chan – Siriraj Hospital
 - 3) Bt44bn double track railway: Chira – Ubonratchathani
 - 4) Bt81bn double track railway: Pak Nam Pho – Den Chai
 - 5) Bt8bn double track railway: Hat Yai – Padang Besar
 - 6) Bt30bn double track railway: Chum Phon – Surat Thani
 - 7) Bt66bn double track railway: Surat Thani – Had Yai
 - 8) Bt68bn double track railway: Den Chai – Chiang Mai
 - We also expect the major projects like the Bt37bn Don Mueang Airport Phase 3, Bt10bn Suvarnabhumi Airport East expansion, and Bt35bn double-deck expressway to open for bidding this year.
 - The implementation of these infrastructure projects is good news for the construction sector. We thus maintain our Overweight rating as 1) these new projects will add more work to the contractors' already high backlog and prolong their growth cycle and 2) valuation look attractive, in our view, with the sector trading at almost 1x below its standard deviation.
 - The construction sector underperformed the SET by 21% last year while the contractors under our coverage, CK and STECON, underperformed the SET by 7-8%. We believe this was due to their weak earnings last year and the market's concerns on the minimum wage hike.
 - However, we expect CK and STECON's earnings recovery with a growth of 19% y-y this year driven by higher revenue recognition from its existing high backlog and its associates' earnings growth. The impacts on the minimum wage hike is also minimal as the cabinet late last month announced the hike by only 2.9% y-y on average this year.
 - We rate CK and STECON as BUYs and we prefer CK because we believe it offers more secured earnings in 2024-26F from its higher existing backlog, higher gross margin, and its associates' earnings growth.

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