

Thailand Company Update

Ch. Karnchang

Bloomberg: CKTB | Reuters: CK.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Dec 2022

BUY

Last Traded Price (7 Dec 2022): Bt24.00 (SET: 1,622.28)

Price Target 12-mth: Bt29.00 (21% upside)

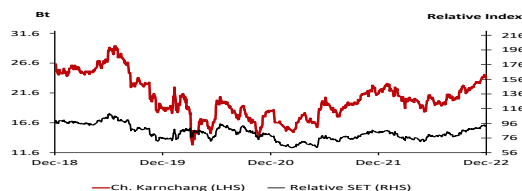
Analyst

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What's New

- New backlog expected to form S-curve
- Long-term outlook intact, driven by on bigger backlog and higher contribution from associates
- Earnings estimates raised by 2-16% in FY22F-FY24F to reflect high backlog on hands and strong equity income
- We maintain BUY; SOP-based TP of Bt29.00

Price Relative



Forecasts and Valuation

FY Dec (Btm)	2021A	2022F	2023F	2024F
Revenue	12,199	18,363	24,120	28,543
EBITDA	1,652	2,635	3,148	3,827
Pre-tax Profit	810	1,179	1,609	2,306
Net Profit	906	1,151	1,581	2,231
Net Pft (Pre Ex.)	261	1,151	1,581	2,231
Net Pft Gth (Pre-ex) (%)	(33.4)	341.0	37.3	41.1
EPS (Bt)	0.53	0.68	0.93	1.32
EPS Pre Ex. (Bt)	0.15	0.68	0.93	1.32
EPS Gth Pre Ex (%)	(33)	341	37	41
Diluted EPS (Bt)	0.55	0.70	0.96	1.35
Net DPS (Bt)	0.25	0.31	0.42	0.59
BV Per Share (Bt)	15.2	15.6	16.2	17.1
PE (X)	44.9	35.3	25.7	18.2
PE Pre Ex. (X)	155.7	35.3	25.7	18.2
P/Cash Flow (X)	nm	78.5	nm	399.7
EV/EBITDA (X)	47.0	30.1	26.3	22.1
Net Div Yield (%)	1.0	1.3	1.7	2.5
P/Book Value (X)	1.6	1.5	1.5	1.4
Net Debt/Equity (X)	1.4	1.4	1.5	1.5
ROAE (%)	3.5	4.4	5.9	7.9
Earnings Rev (%):		8	2	16
Consensus EPS (Bt):		0.68	1.11	1.60
Other Broker Recs:		B: 13	S: 0	H: 1

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P.

Ready for backlog jump in 2023

Investment Thesis

One of Thailand's three largest construction contractors. We still like Ch. Karnchang (CK) for its strong expertise in construction, solid potential in securing more infrastructure projects, and rising contribution from its associates – Bangkok Expressway & Metro (BEM) and CK Power (CKP). We expect its FY22F-FY24F earnings to rebound strongly to Bt1.2bn in FY22F (+341% y-o-y), Bt1.6bn in FY23F (+37% y-o-y), and Bt2.2bn in FY24F (+41% y-o-y) respectively, buoyed by income from associates and a bigger backlog.

New backlog expected to form S-curve. CK's backlog stood at Bt60bn at end-3Q22F. We expect the backlog to hit a new record-high of Bt260-270bn at the end of 2022, if we deduct contract realised and include i) the MRT Orange Line worth Bt127bn, and ii) Luang Prabang Hydropower worth Bt85bn.

Attractive valuation. CK's current stock price implies a 35% discount to the current market value of its associates. As such, we maintain our BUY call with a TP of Bt29.00, based on SOTP valuation.

Valuation:

We derive CK's TP of Bt29.00 using an SOTP valuation. We assume a 28.9x FY23F PE for its construction business and apply a 30% discount to the market value of its investment portfolio.

Where we differ:

We have conservatively factored in a lower margin and lower contributions from associates. As a result, our earnings forecast for FY23F/FY24F is lower than the consensus.

Key Risks to Our View:

Delays in project bids, delays in construction which could lead to cost overruns, a prolonged COVID-19 outbreak, and rising construction material price.

At A Glance

Issued Capital (m shrs)	1,658
Mkt. Cap (Btm/US\$m)	39,790 / 1,138
Major Shareholders (%)	
Mahasiri Siam Co Ltd	14.3
CH Karnchang Holding	11.2
Thai NVDR	6.1
Free Float (%)	65.5
3m Avg. Daily Val (US\$m)	3.5
GIC Industry : Industrials / Capital Goods	

Ch. Karnchang

WHAT'S NEW

Ready for backlog jump in 2023

Recap of 3Q22 performance

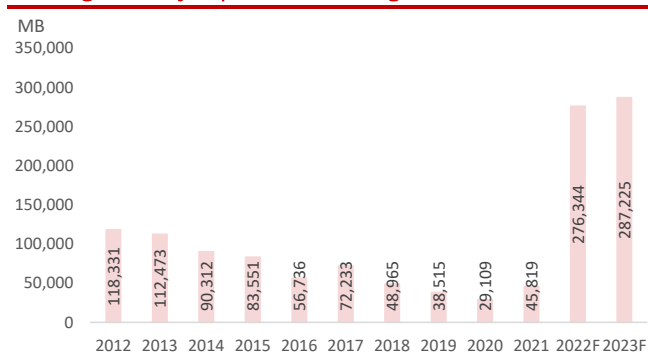
3Q22 earnings beat by higher associated income. CK reported a net profit of B571m (+108% y-o-y and +91% q-o-q), beating market estimate. The deviation came from higher-than-expected share of profit from associated income. Performance up to 9M22 accounts for 86% of our new FY22F forecast. The strong performance stemmed from i) a higher equity income from BEM and CKP of Bt736m, ii) a dividend income from TTW of Bt232m, and iii) a lower SG&A-to-sales ratio of 13.1% in 3Q22 (vs. 17.7% in 3Q21 and 14.3% in 2Q22).

Outlook

4Q22F expected to soften q-o-q. We expect CK's 4Q22F earnings to grow y-o-y but drop q-o-q, mainly from the absence of dividend income from TTW, coupled with lower equity income due to the seasonality effect from CKP. Going forward, we expect CK's quarterly earnings to remain strong from i) current projects set to gain pace, ii) a change in product mix toward high-margin projects – such as Denchai-Chiang Rai double-track railway and MRT Purple Line, and iii) lower SG&A-to-sales as labour starts to go on site.

CK backlogs to form the new S-Curve. CK's backlog stood at Bt60bn at end-3Q22F. CK believe that it is likely to sign large infrastructure projects soon including i) the MRT Orange Line worth Bt127bn, ii) the Luang Prabang Hydropower worth Bt85bn, and iii) the double deck expressway worth Bt35bn. Once the projects are awarded, CK's backlog should hit a record-high of Bt270-280, equivalent to more than eight years of revenue. We believe CK will no longer have issues regarding backlog for the next few years.

Backlog should jump to a record-high in FY22F-FY23F



Source of all data: Company, DBSVTH

Progress for Luang Prabang Hydropower Project (LPHPP).

The LPHPP project is expected to be signed with CK Power (CKP) at the end of FY22F or beginning of FY23F after finalising the engineering, procurement, and construction (EPC) contract and loan agreement. CKP will subcontract CK to be a contractor for this project. CK expects its backlog to be boosted by another Bt85bn from LPHPP. With a construction period of approximately eight years, we assume LPHPP offers high margins of c.8%, like the Xiyaburi project. We believe that there will be no major financial issues related to this project as CK's cash-on-hand remained high at Bt8.6bn, with a net IBD/E ratio and net D/E of 1.7x and 2.0x respectively at the end of 3Q22.

Solid earnings outlook in FY22-FY24F. We expect CK to start to recognise revenue from new projects 4Q22F onwards and accelerate into an S-curve. We expect CK's solid earnings of Bt1.2bn in FY22F (+341% y-o-y), Bt1.6bn in FY23F (+37% y-o-y), and Bt2.2bn in FY24F (+41% y-o-y) – which would be driven by i) expansion of the backlog to drive revenue growth of 18%-51% in FY22-FY24F, ii) GPM expansion of 7.5-8.5% in FY22-FY24F from a change in product mix toward high margin projects, and iii) increased associated income from BEM and CKP.

Management earnings guideline in FY22F

FY22F	Management guideline	Our new assumption
Revenue (m Bt)	Bt17-18bn	Bt18.3bn
GPM (%)	7-10%	7.5%

Source: CK, DBSVTH

Investment business will be a growth driver. We believe the share of profit from associates will be the key driver for CK's growth, as it not only provides equity and dividend income but also new projects from associated companies. CK now has a 31.83% stake in BEM, a 30.0% stake in CKP, and a 19.4% stake in TTW. Thus, CKP should see strong earnings this year due to the high water level. Meanwhile, BEM should see 2022 traffic and ridership to recover in a V-shape trend to near-2020 numbers and reach pre-COVID level in 2023. For TTW, CK is confident in extending the water concession between Pathum Thani Water company (TTW's subsidiary) and the provincial waterwork authority (PWA) for another 20 years. Note that the water concession will expire on 14 October 2023.

We expect its share of profit from associate companies to come in at Bt1.7bn-Bt2.1bn in FY22F-FY24F, with operating losses from the construction business until FY23F.

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Potential auctions to be rolled out in 2023. There will be infrastructure projects – worth over Bt100bn – up for bidding in FY23F, as follows:

- i) MRT Red Line extension worth Bt22.5bn, which has already done market sounding. The bidding will be up in FY23F.
- ii) Double track railway projects including i) KhonKaen-Nong Khai worth Bt29bn, ii) Chira-Ubon worth Bt57bn, and iii) Pak Nam Pho-Denchai worth Bt59bn. The government plans to open bidding in FY23F.
- iii) Double Deck project worth Bt31.5bn, under EIA study.

For potential projects mentioned above, CK expects the auctions to be rolled out for bidding after the next Thai general election.

Raise FY22F/FY23F/FY24F earnings forecasts by 17%/21%/26%. The key change to our assumptions is a higher FY22F/FY23F/FY24 revenue growth of 51%/31%/18% (vs. our previous projection of 43%/38%/24%) and higher equity income of Bt1.7-Bt2.1bn (vs. our previous projection of Bt1.6bn-Bt1.7bn) to reflect the better business outlook and new projects start to gain pace.

Recommendation

Maintain BUY call with TP of Bt29.00. We still like CK for its strong expertise in construction, solid potential in securing more infrastructure projects, and rising contributions from its associates BEM and CKP.

We expect positive sentiment on the company going forward, arising from i) signing the contract of the Orange Line and the Luang Prabang Hydropower at the end of 2022; ii) a strong FY22-FY24F earnings buoyed by income from associates and improve margin; and iii) new backlog orders that are expected to form a new S-curve for the company.

We derive CK's TP of Bt29.00 using the SOTP valuation. We assume a 28.9x FY23 PE for its construction business and apply a 30% discount to the market value of its investment portfolio. We see CK's valuation attractive as CK's current stock price implies a 35% discount, based on the current market value of its associates.

SOP valuation

	Unit: Btm
FY23F Net profit	1,581
Less: Associate income	1,767
Net profit of core business	-186
Assigned 28.9x PE (-1.0 S.D. of historical mean)	28.9
Value of CK's construction business	-5,388
Bangkok Expressway and Metro PCL (31.83% stake)	45,855
TTW PCL (19.40% stake)	9,985
CK Power PCL (30.00% stake)	16,583
Value of CK's investments - 30% holding discount applied	51,305
Total	48,585
No. of shares (m)	1,694
Sum-of-parts per share (Bt)	29.0

Source: Company, DBSVTH

Company Background

One of Thailand's three largest construction contractors.

CH. Karnchang PCL (CK) is one of Thailand's leading general contractors. It is involved in the construction of large-scale infrastructure and buildings, alongside general civil work.

Large investment portfolios. CK invests in government concession projects to expand into businesses that could generate long-term recurring income. These include toll roads, MRT operations, power plants, and tap water businesses.

As at end-3Q22, CK had investments in several companies, including Bangkok Expressway and Metro PLC (31.79% stake), CK Power PLC (30.00%), and TTW PLC (19.40%).

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Quarterly / Interim Income Statement (Btm)

FY Dec	3Q2021	2Q2022	3Q2022	% chg y-o-y	% chg q-o-q
Revenue	2,515	3,474	3,663	45.6	5.4
Cost of Goods Sold	(2,309)	(3,230)	(3,414)	47.8	5.7
Gross Profit	205	244	248	20.9	1.6
Other Oper. (Exp)/Inc	(445)	(496)	(480)	8.0	(3.2)
Operating Profit	(239)	(252)	(232)	(3.0)	(7.8)
Other Non Opg (Exp)/Inc	309	301	304	(1.5)	0.9
Associates & JV Inc	432	468	736	70.6	57.2
Net Interest (Exp)/Inc	(214)	(213)	(238)	(11.1)	(11.6)
Exceptional Gain/(Loss)	0.0	0.0	27.9	nm	nm
Pre-tax Profit	287	305	598	108.3	96.2
Tax	(7.6)	(5.3)	(12.0)	57.4	124.2
Minority Interest	(4.4)	(0.1)	(15.1)	(240.2)	24,675.4
Net Profit	275	300	571	107.6	90.7
Net profit bef Except.	275	300	544	97.7	81.6
EBITDA	702	662	1,013	44.3	53.0
Margins (%)					
Gross Margins	8.2	7.0	6.8		
Opg Profit Margins	(9.5)	(7.3)	(6.3)		
Net Profit Margins	10.9	8.6	15.6		

Historical PE and PB band



Source: Bloomberg Finance L.P., DBSVTH estimates



Source: Bloomberg Finance L.P., DBSVTH estimates

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Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Bt m)	16,746	12,199	18,363	24,120	28,543
Gross margin (%)	8.4	7.9	7.6	8.5	8.5
SG&A-to-sale (%)	12.1	15.7	11.0	9.3	8.0
Equity income (Bt m)	857	1,088	1,714	1,767	2,069
New project sign (Bt m)	6,247	27,924	238,532	35,000	25,000

Income Statement (Btm)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	16,746	12,199	18,363	24,120	28,543
Cost of Goods Sold	(15,341)	(11,236)	(16,975)	(22,077)	(26,111)
Gross Profit	1,405	963	1,388	2,043	2,431
Other Opng (Exp)/Inc	(2,027)	(1,915)	(2,020)	(2,243)	(2,283)
Operating Profit	(622)	(951)	(632)	(200)	148
Other Non Opng (Exp)/Inc	779	821	821	821	821
Associates & JV Inc	857	1,088	1,714	1,767	2,069
Net Interest (Exp)/Inc	(634)	(792)	(723)	(778)	(731)
Exceptional Gain/(Loss)	220	645	0.0	0.0	0.0
Pre-tax Profit	600	810	1,179	1,609	2,306
Tax	26.7	123	0.0	0.0	(47.4)
Minority Interest	(14.8)	(27.8)	(27.8)	(27.8)	(27.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	612	906	1,151	1,581	2,231
Net Profit before Except.	392	261	1,151	1,581	2,231
EBITDA	1,740	1,652	2,635	3,148	3,827

Growth

Revenue Gth (%)	(27.2)	(27.2)	50.5	31.4	18.3
EBITDA Gth (%)	(36.7)	(5.1)	59.5	19.5	21.6
Opg Profit Gth (%)	39.0	52.9	(33.5)	(68.3)	(173.8)
Net Profit Gth (Pre-ex) (%)	(77.3)	(33.4)	341.0	37.3	41.1

Margins & Ratio

Gross Margins (%)	8.4	7.9	7.6	8.5	8.5
Opg Profit Margin (%)	(3.7)	(7.8)	(3.4)	(0.8)	0.5
Net Profit Margin (%)	3.7	7.4	6.3	6.6	7.8
ROAE (%)	2.3	3.5	4.4	5.9	7.9
ROA (%)	0.7	1.1	1.3	1.7	2.3
ROCE (%)	(1.1)	(1.5)	(1.0)	(0.3)	0.2
Div Payout Ratio (%)	55.4	46.8	45.0	45.0	45.0
Net Interest Cover (x)	(1.0)	(1.2)	(0.9)	(0.3)	0.2

Source: Company, DBSVTH

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Quarterly Income Statement (Btm)

FY Dec	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022
Revenue	2,515	3,557	7,039	3,474	3,663
Cost of Goods Sold	(2,309)	(3,301)	(6,449)	(3,230)	(3,414)
Gross Profit	205	257	590	244	248
Other Oper. (Exp)/Inc	(445)	(501)	(469)	(496)	(480)
Operating Profit	(239)	(244)	122	(252)	(232)
Other Non Opg (Exp)/Inc	309	104	106	301	304
Associates & JV Inc	432	190	83.9	468	736
Net Interest (Exp)/Inc	(214)	(182)	(193)	(213)	(238)
Exceptional Gain/(Loss)	0.0	224	0.0	0.0	27.9
Pre-tax Profit	287	91.8	119	305	598
Tax	(7.6)	42.8	(4.4)	(5.3)	(12.0)
Minority Interest	(4.4)	(30.1)	6.87	(0.1)	(15.1)
Net Profit	275	105	121	300	571
Net profit bef Except.	275	(119)	121	300	544
EBITDA	702	232	478	662	1,013

Growth

Revenue Gth (%)	(21.2)	41.5	97.9	(50.6)	5.4
EBITDA Gth (%)	31.7	(67.0)	106.2	38.5	53.0
Opg Profit Gth (%)	0.5	2.1	(149.8)	(307.2)	(7.8)
Net Profit Gth (Pre-ex) (%)	35.2	(143.3)	(201.9)	146.8	81.6

Margins

Gross Margins (%)	8.2	7.2	8.4	7.0	6.8
Opg Profit Margins (%)	(9.5)	(6.9)	1.7	(7.3)	(6.3)
Net Profit Margins (%)	10.9	2.9	1.7	8.6	15.6

Balance Sheet (Btm)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	11,194	10,927	12,085	13,392	13,699
Invts in Associates & JVs	37,256	37,638	39,352	41,119	43,187
Other LT Assets	14,490	14,786	14,786	14,786	14,786
Cash & ST Invts	7,566	6,772	5,948	3,667	2,933
Inventory	2,059	2,590	2,012	2,313	2,346
Debtors	3,659	2,273	3,522	3,965	3,910
Other Current Assets	6,550	8,435	12,697	16,677	19,735
Total Assets	82,774	83,421	90,402	95,919	100,597
ST Debt	3,817	6,672	6,672	6,672	6,672
Creditor	2,636	2,174	2,929	2,181	1,113
Other Current Liab	8,305	8,902	13,401	17,602	20,830
LT Debt	38,586	36,598	37,598	38,598	39,598
Other LT Liabilities	3,160	2,966	2,966	2,966	2,966
Shareholder's Equity	25,847	25,669	26,396	27,459	28,979
Minority Interests	424	439	439	439	439
Total Cap. & Liab.	82,774	83,421	90,402	95,919	100,597
Non-Cash Wkg. Capital	1,327	2,221	1,900	3,171	4,049
Net Cash/(Debt)	(34,837)	(36,498)	(38,322)	(41,604)	(43,338)
Debtors Turn (avg days)	79.6	88.7	57.6	56.6	50.4
Creditors Turn (avg days)	57.1	70.5	51.0	39.6	21.8
Inventory Turn (avg days)	50.4	75.5	49.5	35.8	32.6
Asset Turnover (x)	0.2	0.1	0.2	0.3	0.3
Current Ratio (x)	1.3	1.1	1.1	1.0	1.0
Quick Ratio (x)	1.2	1.0	1.0	0.9	0.9
Net Debt/Equity (X)	1.3	1.4	1.4	1.5	1.5
Net Debt/Equity ex MI (X)	1.3	1.4	1.5	1.5	1.5
Capex to Debt (%)	1.8	1.0	4.3	4.6	2.4
Z-Score (X)	0.8	0.8	0.8	0.8	NA

Source: Company, DBSVTH

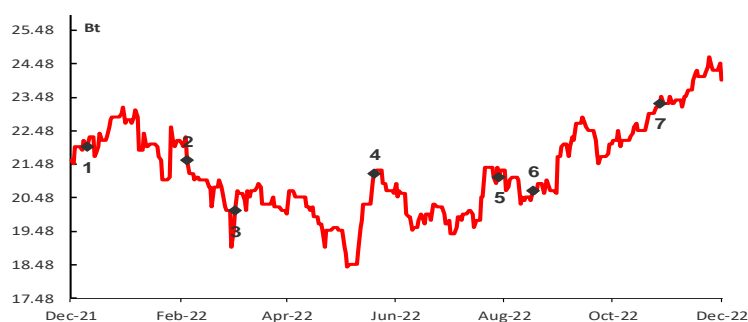
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Cash Flow Statement (Btm)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	600	810	1,179	1,609	2,306
Dep. & Amort.	726	695	733	761	789
Tax Paid	(132)	(64.8)	(179)	(188)	(230)
Assoc. & JV Inc/(loss)	(857)	(1,088)	(1,714)	(1,767)	(2,069)
Chg in Wkg.Cap.	(5,479)	(893)	320	(1,271)	(877)
Other Operating CF	1,421	497	179	188	183
Net Operating CF	(3,720)	(44.7)	518	(668)	102
Capital Exp.(net)	(756)	(428)	(1,891)	(2,068)	(1,096)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(756)	(428)	(1,891)	(2,068)	(1,096)
Div Paid	(847)	(339)	(423)	(518)	(711)
Chg in Gross Debt	5,399	867	1,000	1,000	1,000
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(1,105)	(849)	(27.8)	(27.8)	(27.8)
Net Financing CF	3,447	(321)	549	454	261
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(1,029)	(793)	(824)	(2,282)	(734)
Opg CFPS (Bt)	1.04	0.50	0.12	0.36	0.58
Free CFPS (Bt)	(2.6)	(0.3)	(0.8)	(1.6)	(0.6)

Source: Company, DBSVTH

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Dec 21	22.00	27.00	BUY
2:	10 Feb 22	21.60	27.00	BUY
3:	09 Mar 22	20.10	25.00	BUY
4:	26 May 22	21.20	25.00	BUY
5:	04 Aug 22	21.10	25.00	BUY
6:	23 Aug 22	20.70	25.00	BUY
7:	02 Nov 22	23.30	29.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVTH

Analyst: Sasikarn Udomvej

THAI-CAC
Corporate Governance CG Rating

THAI-CAC is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of May 2018) are categorised into:

Corporate Governance CG Rating is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

n/a



Score	Description	
Declared	Companies that have declared their intention to join CAC	
Certified	Companies certified by CAC.	
Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 8 Dec 2022 06:19:11 (THA)

Dissemination Date: 8 Dec 2022 06:21:25 (THA)

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