

## COMPANY UPDATE

### CH Karnchang (CK TB)

A Turnaround In 2023 From A Record-high Backlog

**CK expects to turn around from 2023 onwards with the main emphasis on three projects to be signed with its associates, which will result in it seeing the strongest backlog improvement among peers despite having no other public projects to be put up for bidding in the next few months. Furthermore, the company will benefit from improvements from its associates. Maintain BUY. Target price: Bt29.50.**

#### WHAT'S NEW

- **A largely positive 2023 outlook.** At the analyst meeting, CH Karnchang (CK) reiterated a significantly positive outlook from 2023 onwards as its backlog is expected to hit a record-high again in 2023, with management's expectations of over Bt250b backlog in the next year, which is opposite to CK's backlog in 3Q21 that tumbled to a low of Bt26b in 3Q21. The Thai construction services sector suffered greatly in the last two years due to: a) low government spending on infrastructure projects, b) political instability and c) volatile economic condition, including COVID-19, Russia-Ukraine geopolitical conflicts, skyrocketing oil and steel prices and high inflation. CK expects the negative factors to turn the other way round in 2023 as: a) commodity prices have been falling from the peak in mid-22 and are likely to further decline, and b) the government is likely to accelerate the public spendings that were on hold during COVID-19.
- **Three target projects awaiting signing.** CK emphasises on three projects with its associates. The first one is the MRT Orange Line project, comprising of civil works for the Western section (worth Bt96b) and the electrical & mechanical (E&M) work for the entire project (worth Bt31b) with Bangkok Expressway and Metro (BEM). Management is confident that the project will be approved in the Cabinet meeting to avoid further concerns from the new government and speed up the project. The second one is the construction of the Luangprabang Hydroelectric dam in Laos (worth Bt90b), which is expected to be signed with CK Power (CKP) after the engineering, procurement and construction (EPC) contract and loan agreements are finalised. The third one is the construction of a double-decker expressway over the Si Rat Expressway with BEM (worth Bt35b), which is expected to begin in 1H23 after the revision of the environmental impact assessment (EIA) is completed.

These three projects awaiting signing are the only main focuses that will bring CK's backlog towards its goal and will result in it achieving its annual construction revenue target of Bt20b-30b for at least three years. CK is also interested in other public projects, but does not expect them to be rolled out before the upcoming election.

#### KEY FINANCIALS

| Year to 31 Dec (Btm)          | 2020   | 2021   | 2022F  | 2023F  | 2024F  |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover                  | 16,746 | 12,199 | 18,328 | 26,270 | 32,566 |
| EBITDA                        | 418    | 99     | 505    | 1,228  | 1,554  |
| Operating profit              | (308)  | (595)  | (234)  | 480    | 796    |
| Net profit (rep./act.)        | 612    | 906    | 820    | 1,720  | 2,261  |
| Net profit (adj.)             | 392    | 261    | 554    | 1,720  | 2,261  |
| EPS (Bt)                      | 0.2    | 0.2    | 0.3    | 1.0    | 1.4    |
| PE (x)                        | 103.1  | 153.1  | 72.2   | 23.2   | 17.7   |
| P/B (x)                       | 1.6    | 1.6    | 1.5    | 1.5    | 1.4    |
| EV/EBITDA (x)                 | 177.6  | 749.2  | 147.0  | 60.5   | 47.8   |
| Dividend yield (%)            | 0.8    | 0.7    | 1.1    | 2.4    | 2.7    |
| Net margin (%)                | 3.7    | 7.4    | 4.5    | 6.5    | 6.9    |
| Net debt/(cash) to equity (%) | 134.5  | 141.7  | 129.2  | 120.6  | 122.9  |
| Interest cover (x)            | 0.3    | 0.1    | 0.3    | 0.9    | 1.3    |
| ROE (%)                       | 2.3    | 3.5    | 3.2    | 6.4    | 8.0    |
| Consensus net profit          | -      | -      | 973    | 1,661  | 2,211  |
| UOBKH/Consensus (x)           | -      | -      | 0.57   | 1.04   | 1.02   |

Source: CH Karnchang, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

|               |          |
|---------------|----------|
| Share Price   | Bt24.10  |
| Target Price  | Bt29.50  |
| Upside        | +22.4%   |
| (Previous TP) | Bt25.50) |

#### COMPANY DESCRIPTION

CK is the second largest contractor in Thailand with experience in building mass transit systems, water treatment and hydro-electric dams. The company has equity stakes in many infrastructure companies in order to diversify its long-term revenue.

#### STOCK DATA

|                                 |             |
|---------------------------------|-------------|
| GICS sector                     | Industrials |
| Bloomberg ticker:               | CK TB       |
| Shares issued (m):              | 1,657.9     |
| Market cap (Btm):               | 39,955.3    |
| Market cap (US\$m):             | 1,115.4     |
| 3-mth avg daily t'over (US\$m): | 3.8         |

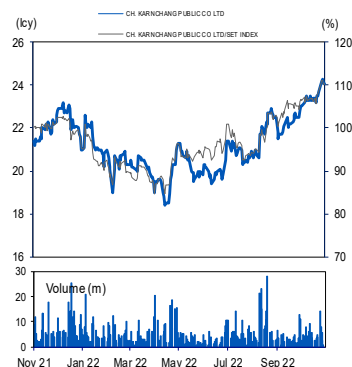
#### Price Performance (%)

|                  |      |      |                 |     |
|------------------|------|------|-----------------|-----|
| 52-week high/low |      |      | Bt24.30/Bt18.40 |     |
| 1mth             | 3mth | 6mth | 1yr             | YTD |
| 7.1              | 16.4 | 14.8 | 7.1             | 5.2 |

#### Major Shareholders

|                          | %     |
|--------------------------|-------|
| Mahasiri Siam            | 14.3  |
| CH.KARNCHANG HOLDING     | 11.2  |
| Thai NVDR                | 6.3   |
| FY22 NAV/Share (Bt)      | 15.81 |
| FY22 Net Debt/Share (Bt) | 20.43 |

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **No concern over TTW.** CK provided an explanation on investors' concern over TTW Public Company (TTW) regarding the upcoming expiry of the water production contract between Pathum Thani Water (TTW's subsidiary) and Provincial Waterworks Authority (PWA) as the contract is highly anticipated to be renewed after successful negotiation. In addition, Pathum Thani Water has the right for two 10-year extensions after the expiry based on the contract.

### STOCK IMPACT

- **A turnaround in 2023.** We expect CK's backlog will increase to around Bt250b driven by three large aforementioned projects, or Bt160b at worst if the company is unable to sign the MRT Orange Line project, which we anticipate extremely modest possibility. Therefore, CK has the strongest backlog increase among all Thai construction services companies in 2021-22. Together with CK's prudence in bidding process to only participate in high margin projects, its performance in 2023-25 is foreseen to substantially improve from higher construction revenue and healthy gross margin. Nonetheless, CK's 4Q22 performance may soften on a qoq basis due to the absence of dividend income and CKP's low season.

### EARNINGS REVISION/RISK

- **Forecast revised.** We raise our 2023 earnings projection to account for higher revenue, gross margin and share of profit from associates, mostly from CKP.

### EARNINGS REVISION

|              | 2022F  |        |      | 2023F  |        |      | 2024F  |        |      |
|--------------|--------|--------|------|--------|--------|------|--------|--------|------|
|              | Old    | New    | chg  | Old    | New    | chg  | Old    | New    | chg  |
| Sales        | 18,328 | 18,328 | 0%   | 25,910 | 26,270 | 1%   | 32,334 | 32,566 | 1%   |
| EBITDA       | 505    | 505    | 0%   | 966    | 1,228  | 27%  | 1,389  | 1,554  | 12%  |
| Core Profit  | 486    | 554    | 14%  | 1,620  | 1,720  | 6%   | 2,293  | 2,261  | -1%  |
| Gross Margin | 7.7%   | 7.7%   | 0.0% | 8.5%   | 8.7%   | 0.2% | 8.8%   | 8.9%   | 0.1% |

Source: CK, UOB Kay Hian

### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of Bt29.50 (previous: Bt25.50)** based on SOTP valuation, with the construction business valued using DCF methodology (WACC: 7.4%, terminal growth 3.0%). CK has the most outstanding backlog improvement among peers which can secure its performance in the next few years. Furthermore, CK will benefit from substantial improvement from its associate which can strengthen the company and the group as one of the leaders of Thai infrastructure companies.

### SHARE PRICE CATALYST

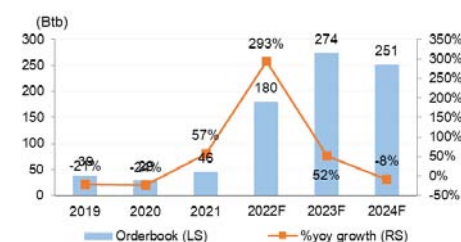
- Additional backlog from winning new projects.
- Excellent management of construction material purchases and workers.
- Decreasing construction material cost.

### SOTP-BASED VALUATION

| Business(es)             | Value (Btm)   | Note                             |
|--------------------------|---------------|----------------------------------|
| Construction             | 29,090        | Using DCF WACC 7.4%, growth 3.0% |
| Key investment(s)        | 53,190        |                                  |
| CKP                      | 8,263         | Market Price                     |
| BEM                      | 39,579        | Using In-house TP                |
| TTW                      | 5,348         | Using consensus TP               |
| (+)Net Cash/(-) Net Debt | -33,368       |                                  |
| <b>Total Value</b>       | <b>48,913</b> |                                  |
| number of shares (m)     | 1,658         |                                  |
| <b>Fair Value (Bt)</b>   | <b>29.50</b>  |                                  |

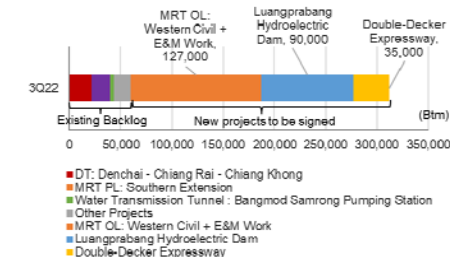
Source: CK, UOB Kay Hian

### YEARLY ORDERBOOK



Source: CK, UOB Kay Hian

### ORDERBOOK OUTLOOK (3Q22)



Source: CK, UOB Kay Hian

### YEARLY FORECAST



Source: CK, UOB Kay Hian

**PROFIT & LOSS**

| Year to 31 Dec (Btm)             | 2021       | 2022F      | 2023F        | 2024F        |
|----------------------------------|------------|------------|--------------|--------------|
| Net turnover                     | 12,199     | 18,328     | 26,270       | 32,566       |
| EBITDA                           | 99         | 505        | 1,228        | 1,554        |
| Deprec. & amort.                 | 695        | 739        | 748          | 758          |
| EBIT                             | (595)      | (234)      | 480          | 796          |
| Total other non-operating income | 1,059      | 823        | 1,125        | 1,130        |
| Associate contributions          | 1,088      | 1,522      | 1,866        | 2,020        |
| Net interest income/(expense)    | (1,386)    | (1,501)    | (1,404)      | (1,203)      |
| <b>Pre-tax profit</b>            | <b>166</b> | <b>610</b> | <b>2,068</b> | <b>2,744</b> |
| Tax                              | (38)       | (95)       | (319)        | (453)        |
| Minorities                       | (28)       | (28)       | (29)         | (29)         |
| <b>Net profit</b>                | <b>906</b> | <b>820</b> | <b>1,720</b> | <b>2,261</b> |
| Net profit (adj.)                | 261        | 554        | 1,720        | 2,261        |

**BALANCE SHEET**

| Year to 31 Dec (Btm)                  | 2021          | 2022F         | 2023F         | 2024F         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets                          | 11,027        | 11,477        | 11,590        | 11,704        |
| Other LT assets                       | 52,325        | 53,859        | 55,759        | 57,746        |
| Cash/ST investment                    | 6,973         | 8,333         | 7,627         | 4,157         |
| Other current assets                  | 13,096        | 11,785        | 11,782        | 14,606        |
| <b>Total assets</b>                   | <b>83,421</b> | <b>85,453</b> | <b>86,757</b> | <b>88,212</b> |
| ST debt                               | 6,721         | 5,504         | 11,106        | 14,908        |
| Other current liabilities             | 11,027        | 12,904        | 14,312        | 15,201        |
| LT debt                               | 36,634        | 36,702        | 29,678        | 24,586        |
| Other LT liabilities                  | 2,931         | 3,666         | 3,678         | 4,234         |
| Shareholders' equity                  | 25,669        | 26,211        | 27,487        | 28,758        |
| Minority interest                     | 439           | 467           | 496           | 526           |
| <b>Total liabilities &amp; equity</b> | <b>83,421</b> | <b>85,453</b> | <b>86,757</b> | <b>88,212</b> |

**CASH FLOW**

| Year to 31 Dec (Btm)             | 2021         | 2022F          | 2023F          | 2024F          |
|----------------------------------|--------------|----------------|----------------|----------------|
| <b>Operating</b>                 | <b>(330)</b> | <b>3,256</b>   | <b>2,045</b>   | <b>(904)</b>   |
| Pre-tax profit                   | 971          | 943            | 2,068          | 2,744          |
| Tax                              | (38)         | (95)           | (319)          | (453)          |
| Deprec. & amort.                 | 695          | 739            | 748            | 758            |
| Associates                       | (1,088)      | (1,522)        | (1,866)        | (2,020)        |
| Working capital changes          | (1,683)      | 1,486          | 800            | (2,137)        |
| Non-cash items                   | 813          | 1,701          | 611            | 201            |
| Other operating cashflows        | 0            | 3              | 3              | 3              |
| <b>Investing</b>                 | <b>(123)</b> | <b>(470)</b>   | <b>(886)</b>   | <b>(286)</b>   |
| Capex (growth)                   | (373)        | (1,188)        | (861)          | (872)          |
| Investments                      | (523)        | (1,122)        | (1,367)        | (1,454)        |
| Others                           | 773          | 1,840          | 1,342          | 2,040          |
| <b>Financing</b>                 | <b>(341)</b> | <b>(1,427)</b> | <b>(1,865)</b> | <b>(2,280)</b> |
| Dividend payments                | (332)        | (277)          | (444)          | (990)          |
| Issue of shares                  | 0            | 0              | 0              | 0              |
| Proceeds from borrowings         | 827          | 0              | 0              | 0              |
| Loan repayment                   | 0            | (1,149)        | (1,421)        | (1,290)        |
| Others/interest paid             | (836)        | 0              | 0              | 0              |
| <b>Net cash inflow (outflow)</b> | <b>(793)</b> | <b>1,359</b>   | <b>(706)</b>   | <b>(3,470)</b> |
| Beginning cash & cash equivalent | 7,767        | 6,973          | 8,333          | 7,627          |
| Ending cash & cash equivalent    | 6,973        | 8,333          | 7,627          | 4,157          |

**KEY METRICS**

| Year to 31 Dec (%)        | 2021   | 2022F | 2023F | 2024F |
|---------------------------|--------|-------|-------|-------|
| <b>Profitability</b>      |        |       |       |       |
| EBITDA margin             | 0.8    | 2.8   | 4.7   | 4.8   |
| Pre-tax margin            | 1.4    | 3.3   | 7.9   | 8.4   |
| Net margin                | 7.4    | 4.5   | 6.5   | 6.9   |
| ROA                       | 1.1    | 1.0   | 2.0   | 2.6   |
| ROE                       | 3.5    | 3.2   | 6.4   | 8.0   |
| <b>Growth</b>             |        |       |       |       |
| Turnover                  | (27.2) | 50.2  | 43.3  | 24.0  |
| EBITDA                    | (76.3) | 409.7 | 143.0 | 26.5  |
| Pre-tax profit            | (56.4) | 268.7 | 238.8 | 32.7  |
| Net profit                | 48.0   | (9.5) | 109.8 | 31.5  |
| Net profit (adj.)         | (33.4) | 112.1 | 210.6 | 31.5  |
| EPS                       | (32.7) | 112.1 | 210.6 | 31.5  |
| <b>Leverage</b>           |        |       |       |       |
| Debt to total capital     | 62.4   | 61.3  | 59.3  | 57.4  |
| Debt to equity            | 168.9  | 161.0 | 148.4 | 137.3 |
| Net debt/(cash) to equity | 141.7  | 129.2 | 120.6 | 122.9 |
| Interest cover (x)        | 0.1    | 0.3   | 0.9   | 1.3   |

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