

COMPANY RESULTS

TTCL (TTCL TB)

3Q19: Unexpected Net Loss; Downgrade to HOLD

TTCL reported 3Q19 net loss of Bt235m, which surprised us. The loss was due to provision for an overseas project. TTCL might have to book additional provision for this project. We see more risks to TTCL's earnings. Downgrade to HOLD. Target price: Bt6.10. Entry price: Bt5.00.

3Q19 RESULTS

Year to 31 Dec (Btm)	3Q19	3Q18	2Q19	yoy chg %	qoq chg %
Sales	2,511	2,296	3,040	9	-17
Gross Profit	215	283	356	-24	-40
EBITDA	75	150	209	-50	-64
Pre-tax Profit	(232)	20	397	nm	nm
Net Profit	(235)	48	406	nm	nm
Core Profit	(2)	58	137	nm	nm
EPS (Bt)	(0.382)	0.081	0.659	nm	nm
Gross Margin (%)	8.5	12.3	11.7		
EBITDA Margin (%)	3.0	6.5	6.9		
Net Margin (%)	-9.4	2.1	13.4		

Source: TTCL, UOB Kay Hian

RESULTS

- **Net loss of Bt235m.** TTCL reported a net loss of Bt235m in 3Q19 (2Q18: net profit of Bt48m). We had expected a net profit of Bt62m in 3Q19.
- **Huge provision.** 3Q19 net loss was mainly due to provision of Bt277m for a water desalination project in Qatar as it has a debt collection issue from the project owners. The company said there is another Bt500m in uncollected debt related to the project. Hence, TTCL might have to book in this Bt500m as an expense.
- **Margin declined.** Despite revenue yoy expansion, margins fell significantly yoy and qoq due to the deconsolidation of a power business which has higher margin than the EPC construction business. Even excluding the provision, gross and EBITDA margins came in at only 8.5% and 3% in 3Q19 respectively.
- **To sell power company, SSP.** In Nov 19, TTCL announced it will sell a 40% stake in Siam Solar Power (SSP). SSP contributed nearly Bt25m to TTCL's share of income annually. With the stake sale, TTCL's recurring profit will decline.
- **No big contract signed ytd.** TTCL did not clinch any significant new contracts ytd. Currently, TTCL has a backlog of only Bt10b, equivalent to only one year of revenue recognition.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	10,447	8,328	10,883	11,550	9,200
EBITDA	412	(1,506)	812	512	369
Operating profit	362	(1,546)	750	445	297
Net profit (rep./act.)	53	(1,980)	502	257	198
Net profit (adj.)	1	(1,836)	163	257	198
EPS (Bt)	0.0	(3.1)	0.3	0.4	0.3
PE (x)	3,249.5	n.m.	23.1	14.6	19.0
P/B (x)	0.8	1.2	1.1	1.0	1.0
EV/EBITDA (x)	21.6	n.m.	11.0	17.4	24.1
Dividend yield (%)	3.6	0.0	0.0	3.4	2.6
Net margin (%)	0.5	(23.8)	4.6	2.2	2.1
Net debt/(cash) to equity (%)	243.8	250.3	146.8	101.4	30.4
Interest cover (x)	1.0	(3.3)	2.3	1.8	1.8
ROE (%)	1.1	n.a.	15.4	7.2	5.4
Consensus net profit	-	-	583	401	378
UOBKH/Consensus (x)	-	-	0.28	0.64	0.52

Source: TTCL, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	Bt6.10
Target Price	Bt6.10
Upside	-0.0%
(Previous TP)	Bt11.00

COMPANY DESCRIPTION

TTCL is the first integrated engineering, procurement and construction (Integrated EPC) company in Thailand. TTCL has expertise in EPC of turnkey projects, especially in the energy, petrochemical, chemical, power industries.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	TTCL TB
Shares issued (m):	616.0
Market cap (Btm):	4,435.2
Market cap (US\$m):	146.2
3-mth avg daily t'over (US\$m):	0.4

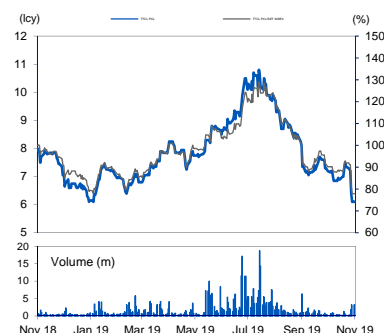
Price Performance (%)

52-week high/low	Bt10.80/Bt6.10			
1mth	3mth	6mth	1yr	YTD
(5.3)	(27.3)	(2.7)	(15.8)	6.7

Major Shareholders

	%
-	-
-	-
-	-
FY19 NAV/Share (Bt)	6.30
FY19 Net Debt/Share (Bt)	8.94

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Growth from EPC business could decelerate.** As TTCL did not secure any new projects ytd, we expect revenue growth from the EPC construction to fall to only 10% growth in 2020 from our forecast of a 42% growth for 2019.
- **Lower recurring income increases overall risk for TTCL.** We have a negative view on the stake sale in power plant projects (40% of SSP and 60% of TTGP). By selling these stakes, TTCL's earnings risk will increase as the recurring income will be reduced.
- **PPA for Ahlone expansion is likely to be delayed.** According to management, the PPA for an extension of the Ahlone gas-fired power plant is likely to be delayed due to an environmental issue. Management had expected the PPA to be finalised at end-19.

EARNINGS REVISION/RISK

- **Lower earnings projections.** We cut our 2019-20 net profit forecasts by 16% and 46% respectively due to: a) lower revenue as there are no new contracts signed ytd; and b) lower share of profit after the stake sale of SSP.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a lower target price of Bt6.10** as earnings risk has increased due to lower profit contribution from the power business as well as a glooming outlook for an EPC business. We peg our target price to a lower PE of 10x (from 15x) for the EPC business to reflect a weaker-than-expected backlog. We also incorporate potential provision of Bt500m for the Qatar water desalination project into our fair price. Entry price is Bt5.00.

SHARE PRICE CATALYST

- Conclusion of PPA for an NLG-fired power plant in Myanmar.

EARNINGS REVISION

(Btm)	2019F			2020F		
	Old	New	% chg	Old	New	% chg
Sales	12,160	10,883	(11)	15,710	11,550	(26)
Core profit	527	440	(16)	472	257	(46)

Source: UOB Kay Hian

P/B BAND



Source: UOB Kay Hian

VALUATION

Business	Value (Bt)
Core EPC business	2.0
Power business	2.7
120 MW Gas fired plant in Ahlone	2.4
SSP	0.4
Gain on stakes sold in the power business	1.4
Additional provision expense	(0.8)
Cash proceeded from Sojitz	0.7
Total Value	6.1

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	8,328	10,883	11,550	9,200
EBITDA	(1,506)	812	512	369
Deprec. & amort.	40	62	66	72
EBIT	(1,546)	750	445	297
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	23	80	127	127
Net interest income/(expense)	(462)	(346)	(280)	(207)
Pre-tax profit	(1,985)	484	292	217
Tax	154	(31)	(35)	(19)
Minorities	30	(13)	0.0	0.0
Net profit	(1,980)	502	257	198
Net profit (adj.)	(1,836)	163	257	198

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	1,031	(1,584)	1,768	2,900
Pre-tax profit	(2,164)	546	292	217
Tax	154	(31)	(35)	(19)
Deprec. & amort.	40	62	66	72
Associates	23	80	127	127
Working capital changes	2,262	(1,232)	854	3,190
Non-cash items	715	(1,010)	464	(686)
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	485	4,061	(49)	(113)
Capex (growth)	263	(40)	(62)	(66)
Investments	(21)	(1,154)	0.0	0.0
Proceeds from sale of assets	244	5,255	13	(47)
Others	0.0	0.0	0.0	0.0
Financing	(2,765)	(1,083)	(2,134)	(800)
Dividend payments	0.0	0.0	(128)	(99)
Issue of shares	56	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(3,654)	(990)	(1,879)	(575)
Others/interest paid	833	(93)	(127)	(127)
Net cash inflow (outflow)	(1,249)	1,393	(415)	1,986
Beginning cash & cash equivalent	2,236	987	2,381	1,966
Ending cash & cash equivalent	987	2,381	1,966	3,952

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	379	358	353	348
Other LT assets	6,885	2,624	2,624	2,624
Cash/ST investment	987	2,381	1,966	3,952
Other current assets	11,108	12,033	11,319	7,636
Total assets	19,360	17,395	16,262	14,560
ST debt	2,082	5,379	4,575	5,089
Other current liabilities	7,452	6,134	6,739	5,560
LT debt	6,450	2,164	1,089	0.0
Other LT liabilities	378	218	231	184
Shareholders' equity	3,015	3,517	3,645	3,744
Minority interest	(17)	(17)	(17)	(17)
Total liabilities & equity	19,360	17,395	16,262	14,560

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	(18.1)	7.5	4.4	4.0
Pre-tax margin	(23.8)	4.5	2.5	2.4
Net margin	(23.8)	4.6	2.2	2.1
ROA	n.a.	2.7	1.5	1.3
ROE	n.a.	15.4	7.2	5.4
Growth				
Turnover	(20.3)	30.7	6.1	(20.3)
EBITDA	(465.4)	n.a.	(37.0)	(27.9)
Pre-tax profit	n.a.	n.a.	(39.8)	(25.7)
Net profit	(3,866.7)	n.a.	(48.8)	(23.0)
Net profit (adj.)	#####	n.a.	57.7	(23.0)
EPS	#####	n.a.	57.7	(23.0)
Leverage				
Debt to total capital	74.0	68.3	61.0	57.7
Debt to equity	283.0	214.5	155.4	135.9
Net debt/(cash) to equity	250.3	146.8	101.4	30.4
Interest cover (x)	(3.3)	2.3	1.8	1.8