

COMPANY RESULTS

Italian-Thai Development (ITD TB)

3Q19: Core Profit Continues To Fall

ITD reported weak 3Q19 results on a lower proportion of high-margin projects. Although we expect ITD's performance to improve in 4Q19 on the high season, the weak results in 9M19 would lead to lower core profit growth this year. Next year, we expect ITD's core profit to contract further from high competition and increasing wage-related expenses. Maintain SELL. Target price cut to Bt1.30.

3Q19 RESULTS

Year to 31 Dec Dec (Btm)	3Q19	yoy % chg	9M19	yoy % chg	Remarks
Sales	15,646	6.2	46,603	6.5	Solid orderbook of Bt126b. Higher proportion of low-margin works.
Gross Profit	1,511	(6.4)	4,516	(2.8)	
EBITDA	1,343	(5.6)	4,478	7.6	
Pre-tax Profit	199	(40.6)	556	(40.0)	
Tax	(111)	146.7	(429)	25.1	
Net Profit	(107)	(189.9)	(433)	(315.4)	
Net Profit (Ex EI)	48	(79.1)	276	(36.1)	
EPS (Bt)	(0.02)	(189.8)	(0.08)	(315.2)	
Gross margin (%)	9.7%		9.7%		
EBITDA margin (%)	8.6%		9.6%		
Net margin (%)	(0.7%)		(0.9%)		

Source: Italian-Thai Development, UOB Kay Hian

RESULTS

• **Continued to deliver lower core profit yoy.** Italian-Thai Development's (ITD) 3Q19 core profit fell 79% yoy to Bt48m. The results are substantially below our forecast. This was due to a lower-than-expected gross margin. ITD's 3Q19 sales increased 6% yoy to Bt15.6b, underpinned by its solid orderbook (Bt126b, accounting for 2.1 years of sales as of 3Q19). Gross and EBITDA margins contracted to 10% (3Q18: 11%) and 9% (3Q18: 10%) respectively, on a higher proportion of low-margin projects. Including provision for doubtful debts, ITD's 3Q19 results turned into a net loss of Bt107m.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	55,237	60,644	62,500	67,518	74,440
EBITDA	5,984	5,939	6,360	5,573	5,862
Operating profit	3,562	2,895	2,880	2,053	2,300
Net profit (rep./act.)	413	306	(346)	175	182
Net profit (adj.)	1,435	503	363	175	182
EPS (Bt)	0.3	0.1	0.1	0.0	0.0
PE (x)	6.0	17.1	23.7	49.1	47.3
P/B (x)	0.7	0.6	0.6	0.6	0.6
EV/EBITDA (x)	9.2	9.3	8.7	9.9	9.4
Dividend yield (%)	0.0	0.9	0.0	1.0	1.1
Net margin (%)	0.7	0.5	(0.6)	0.3	0.2
Net debt/(cash) to equity (%)	275.9	310.7	329.1	323.1	329.9
Interest cover (x)	2.6	2.5	2.4	2.0	1.9
ROE (%)	3.2	2.3	n.a.	1.3	1.3
Consensus net profit	-	-	252	352	404
UOBKH/Consensus (x)	-	-	1.44	0.50	0.45

Source: Italian-Thai Development, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

SELL

(Maintained)

Share Price	Bt1.63
Target Price	Bt1.30
Upside	-20.2%
(Previous TP)	Bt1.60

COMPANY DESCRIPTION

The largest contractor in Thailand with vast experience in mass transit system, expressway, rail road, airport and dam projects. The company also has subsidiaries producing cement and is waiting for a potash mining licence. ITD also does construction work overseas, mainly in Asian countries.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	ITD TB
Shares issued (m):	5,279.9
Market cap (Btm):	8,606.2
Market cap (US\$m):	284.5
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

52-week high/low Bt2.66/Bt1.63

1mth	3mth	6mth	1yr	YTD
(13.8)	(13.8)	(25.9)	(39.2)	(23.8)

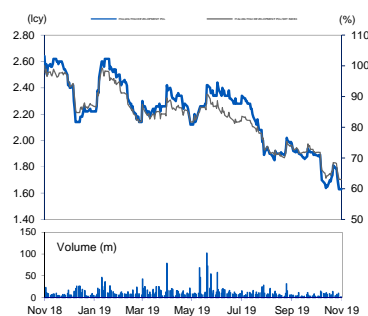
Major Shareholders

	%
Karnasuta family	13.8
Charanachitta family	7.6
Thai NVDR	4.2

FY19 NAV/Share (Bt) 2.52

FY19 Net Debt/Share (Bt) 8.29

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Core profit to start growing yoy in 4Q19.** As 4Q has always been a good quarter for ITD and with a higher proportion of high-margin projects (such as power plants and the Orange Mass Transit Line), we expect 4Q19 sales would continue to grow yoy while margins should improve yoy. This would result in a better 4Q19 core profit on a yoy basis.
- **Expect lower margins going forward.** Due to high competition from Chinese contractors, and the up-coming minimum wage hike (expected to rise by 5% effective 2020), we expect margins should continue to come down in 2020. In 2019, we expect ITD's gross margin to come down slightly to 10% (2018: 11%) from a lower proportion of high-margin works. However, we forecast ITD's 2020 gross margin to contract further to 9%.

EARNINGS REVISION/RISK

- **Downward revision to forecasts.** As 3Q19 core profit was substantially lower than our estimate, we revise down our 2019 and 2020 core profit forecasts while leaving our sales estimates unchanged.
- **Core profit to decline this and next year.** Although ITD's 2019 and 2020 sales are expected to continue growing by 5% and 8% yoy to Bt62.5b and 67.5b, respectively on a strong orderbook. We forecast its margins to contract both in 2019 and 2020. Based on the falling margins, we expect ITD's 2019 and 2020 core profit to fall by 28% and 52% yoy to Bt363m and Bt175m respectively.

VALUATION/RECOMMENDATION

- **Cut target price to Bt1.30.** We cut our target price to Bt1.30 to capture ITD's falling core profit in 2020. Our target price is pegged to 6.8x 2020 EV/EBITDA which is -1.5 SD below its average five-year EV/EBITDA mean.
- **Maintain SELL** on falling core profits both in 2019 and 2020 on softer margins from high competition and the expected minimum wage hike next year.

SHARE PRICE CATALYST

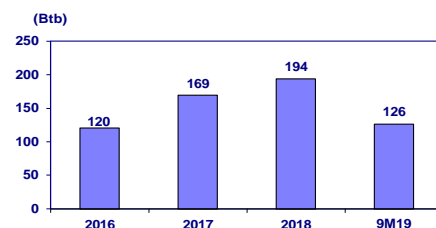
- Announcements of more new mega projects and tender wins.
- Progress in Dawei and potash mining projects.

FORECAST REVISION

(Btm)	2019F			2020F		
	Old	New	%chg	Old	New	%chg
Sales	62,500	62,500	0%	67,518	67,518	0%
Core profits	438	363	-17%	218	175	-20%

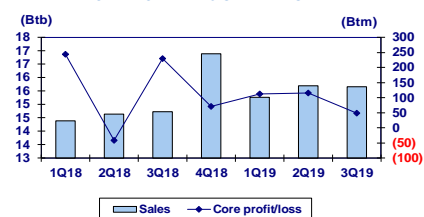
Source: UOB Kay Hian

ORDERBOOK



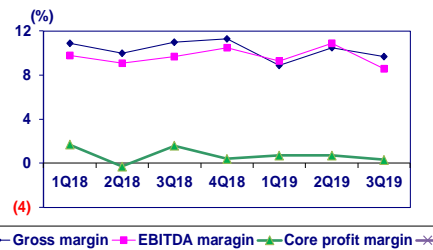
Source: ITD, UOB Kay Hian

QUARTERLY SALES AND CORE PROFIT



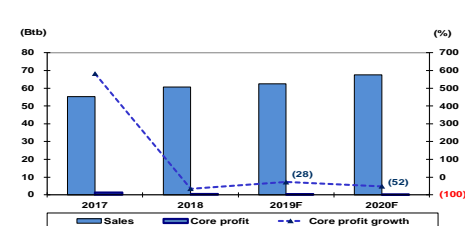
Source: ITD, UOB Kay Hian

QUARTERLY MARGINS



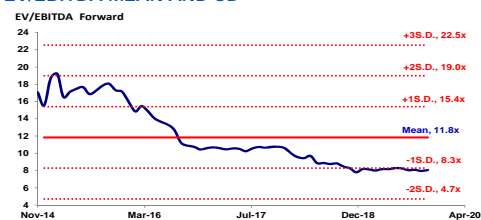
Source: ITD, UOB Kay Hian

SALES AND CORE PROFIT GROWTH



Source: ITD, UOB Kay Hian

EV/EBITDA MEAN AND SD



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	60,644	62,500	67,518	74,440
EBITDA	5,939	6,360	5,573	5,862
Deprec. & amort.	3,044	3,480	3,521	3,562
EBIT	2,895	2,880	2,053	2,300
Total other non-operating income	887	795	796	797
Associate contributions	164	250	275	303
Net interest income/(expense)	(2,393)	(2,667)	(2,725)	(3,026)
Pre-tax profit	1,553	1,258	398	373
Tax	(680)	(760)	(84)	(48)
Minorities	(370)	(135)	(139)	(143)
Net profit	306	(346)	175	182
Net profit (adj.)	503	363	175	182

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	(503)	8,300	452	(195)
Pre-tax profit	1,192	299	123	71
Tax	(680)	(760)	(84)	(48)
Deprec. & amort.	3,044	3,480	3,521	3,562
Associates	164	250	275	303
Working capital changes	(3,886)	4,707	(2,969)	(3,636)
Non-cash items	33	459	(275)	(303)
Other operating cashflows	(370)	(135)	(139)	(143)
Investing	(5,757)	(9,206)	(1,134)	(1,166)
Capex (growth)	(5,757)	(9,206)	(1,134)	(1,166)
Proceeds from sale of assets	n.a.	n.a.	n.a.	n.a.
Financing	6,402	(1,212)	866	1,136
Dividend payments	0	(153)	173	(88)
Issue of shares	0	0	0	0
Proceeds from borrowings	6,402	0	693	1,224
Loan repayment	0	(1,059)	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	142	(2,117)	184	(225)
Beginning cash & cash equivalent	3,898	4,040	1,923	2,107
Ending cash & cash equivalent	4,040	1,923	2,107	1,882

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	23,390	27,595	27,865	28,138
Other LT assets	22,725	23,265	23,831	24,423
Cash/ST investment	4,040	1,923	2,107	1,882
Other current assets	47,860	52,004	55,872	61,185
Total assets	98,015	104,787	109,675	115,627
ST debt	22,106	19,235	27,006	34,210
Other current liabilities	26,177	34,293	37,571	41,422
LT debt	24,823	26,470	19,209	13,028
Other LT liabilities	8,439	8,818	9,569	10,553
Shareholders' equity	13,804	13,305	13,654	13,748
Minority interest	2,666	2,666	2,666	2,666
Total liabilities & equity	98,015	104,787	109,675	115,627

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	9.8	10.2	8.3	7.9
Pre-tax margin	2.6	2.0	0.6	0.5
Net margin	0.5	(0.6)	0.3	0.2
ROA	0.3	n.a.	0.2	0.2
ROE	2.3	n.a.	1.3	1.3
Growth				
Turnover	9.8	3.1	8.0	10.3
EBITDA	(0.8)	7.1	(12.4)	5.2
Pre-tax profit	(27.4)	(19.0)	(68.4)	(6.3)
Net profit	(25.9)	(213.1)	n.a.	3.7
Net profit (adj.)	(64.9)	(27.9)	(51.7)	3.7
EPS	(64.9)	(27.9)	(51.7)	3.7
Leverage				
Debt to total capital	74.0	74.1	73.9	74.2
Debt to equity	340.0	343.5	338.5	343.6
Net debt/(cash) to equity	310.7	329.1	323.1	329.9
Interest cover (x)	2.5	2.4	2.0	1.9