

COMPANY UPDATE

CH Karnchang (CK TB)

Still Able To Deliver Core Profit Growth Next Year Despite Falling Margins

Although CK's gross margin next year is expected to be dragged down by the increase in minimum wage, its 2020 core profit would still be able to grow with the help of associates. Investors may look beyond CK's weak performance this year and position for decent core profit growth next year. Share price has over-reacted to the likelihood of a weak gross margin next year. Maintain BUY. Cut target price to Bt22.00.

WHAT'S NEW

- Benefits of being a group company.** By operating as a group, CH Karnchang (CK) is able to help its associates (CK Power: CKP and Bangkok Expressway and Metro: BEM) grow. In return, these associates are able to provide contract works and financial support (dividends, equity accounts and gains from selling shares) to CK.
- No worries about low orderbook.** Due to the delays in mega project biddings and CH Karnchang's (CK) policy to only bid for projects with reasonable gross margins (8-10%), CK has been able to add only Bt3.4b new projects ytd. With another expressway project worth Bt6.2b pending contract signing soon, CK's new projects would add up to a total of Bt9.6b this year. We therefore expect CK's 2019 year-end orderbook to come in at Bt22.6b. This is considered low, and accounts for 0.8 years of sales or 1.4x market cap to orderbook. The recent signing of the contract involving the Bt220b high-speed train project linking three airports by the CP-led consortium, (CK is part of the consortium), means a potential Bt50b might be added to CK's orderbook next year. In addition, several mega projects worth a total of Bt600b-700b are expected to be put on bid next year. Besides this, CK's associates still have a number of major domestic and overseas projects which should be concluded or commence construction next year. We therefore have no worries about CK's low orderbook in 2019.
- Falling gross margin on increase in minimum wage next year.** The Ministry of Labour suggested that talks on minimum wage hikes should be held soon and a conclusion could be reached by end-19. Due to the current sluggish economy, we expect the minimum wage should be raised step by step. The first stage may take place in 2020 with an increase of 5%. We have included the negative impact of an increasing minimum wage into our 2020 model. This has led to a decline in our gross margin forecast from 9.2% this year to 7.6% next year (vs 8.6% in 2018). CK will still be able to deliver reasonable core profit growth of 8% yoy on the back of good cost control and equity accounts from associates.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	36,071	29,499	21,000	22,630	24,834
EBITDA	2,166	1,258	(95)	417	466
Operating profit	1,136	539	(595)	(195)	(154)
Net profit (rep./act.)	1,810	2,494	1,550	1,626	2,202
Net profit (adj.)	1,791	2,234	1,502	1,626	2,202
EPS (Bt)	1.1	1.3	0.9	1.0	1.3
PE (x)	17.3	13.9	20.6	19.1	14.1
P/B (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	28.2	48.6	n.m.	80.7	70.4
Dividend yield (%)	2.7	2.7	2.1	2.2	2.6
Net margin (%)	5.0	8.5	7.4	7.2	8.9
Net debt/(cash) to equity (%)	129.4	109.2	114.4	64.9	58.7
Interest cover (x)	1.6	1.0	(0.1)	0.4	0.7
ROE (%)	8.1	10.2	6.0	6.1	7.9
Consensus net profit	-	-	1,576	1,718	1,982
UOBKH/Consensus (x)	-	-	0.95	0.95	1.11

Source: CH Karnchang PCL, Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	Bt18.30
Target Price	Bt22.00
Upside	+20.2%
(Previous TP)	Bt28.50

COMPANY DESCRIPTION

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):	1,693.9
Market cap (Btm):	30,998.3
Market cap (US\$m):	1,026.5
3-mth avg daily t'over (US\$m):	6.8

Price Performance (%)

52-week high/low Bt29.50/Bt18.30

1mth	3mth	6mth	1yr	YTD
(21.1)	(21.8)	(31.6)	(26.5)	(26.8)

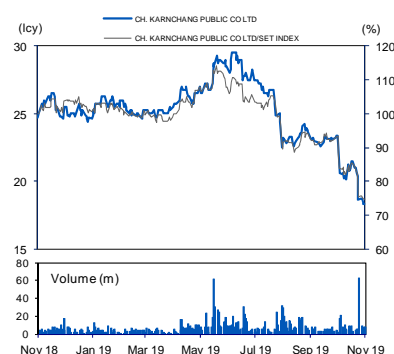
Major Shareholders

	%
Trivisavavet family	30.9
Thai NVDR	4.8
Bangkok Bank	2.3

FY19 NAV/Share (Bt) 15.36

FY19 Net Debt/Share (Bt) 17.58

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expect weak results in 4Q19.** With a low orderbook, a lack of new projects and the low season, we expect 4Q19 sales to fall by 57% yoy to Bt3.1b. Despite the expectation of a better gross margin at 9% vs 8% in 4Q18, the high expenses of keeping idle workers would cause EBITDA to fall. This, together with higher financial costs from more debenture issuances would result in a lower 4Q19 core profit of Bt29m, down 73% yoy, despite good contribution from associates.

EARNINGS REVISION/RISK

- **Lower forecast revisions.** To factor in the lower-than-expected 3Q19 results, we revise down 2019 and 2020 sales and earnings forecasts.
- **Core profit to increase 8% yoy in 2020.** Based on our assumption that only a few projects have been added to CK's orderbook in 2019, we forecast 2019 sales to decline by 29% yoy to Bt21.0b. Despite our estimate of better contribution from associates, CKP and BEM, the high SG&A expenses of keeping idle workers would result in a lower 2019 core profit of Bt1.5b, down 33% yoy. Moving into 2020, despite the expectation of a growing orderbook, several mega projects should start construction works in 3Q-4Q20. We therefore expect 2020 sales to rise by only 8% yoy to Bt22.6b. With lower SG&A expenses – in-line with the higher sales – and good contribution from associates, we expect CK's 2020 core profit to rise by 8% yoy to Bt1.6b.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Despite the expected weak results this year, we are looking for core profit growth next year - even after incorporating an increase in minimum wage. Factors contributing to CK's good performance next year would be growing sales and contribution from associates. In-line with the lower earnings forecasts, we cut our target price to Bt22.00, based on SOTP valuation.

SHARE PRICE CATALYST

- CK bidding for and winning major contracts.

FORECAST REVISIONS

(Btm)	2019F			2020F		
	Old	New	% chg	Old	New	% chg
Sales	25,210	21,000	-17	30,628	22,630	-26
Net profits	1,952	1,502	-23	2,089	1,626	-22

Source: UOB Kay Hian

SOTP VALUATION

	Value (Btm)	Bt/share	Note
CK TB	24,155	14.26	97.1x 2020F EV/EBITDA
BEM TB (32%)	10,230	6.04	market price
CKP TB (33%)	2,882	1.70	market price
Total	37,627	22.0	

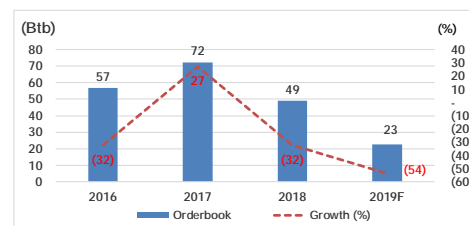
Source: UOB Kay Hian

RESULTS PREVIEW

Year to 31 Dec (Btm)	4Q19F		2019F		2020F	
	yoy % chg	qoq % chg	yoy % chg	yoy % chg	yoy % chg	yoy % chg
Sales	3,068	(57.2)	(37.0)	21,000	(28.8)	(28.8)
Gross Profit	285	(52.6)	(39.9)	1,935	(23.3)	(23.3)
EBITDA	(196)	(215.3)	145.0	(95)	(107.6)	(107.6)
Pre-tax Profit	(335)	#DIV/0!	1,096.4	(266)	(137.6)	(137.6)
Tax	-	(100.0)	(100.0)	(94)	(32.4)	(32.4)
Net Profit	29	(92.1)	(85.9)	1,550	(37.9)	(37.9)
Net Profit (Ex EI)	29	(73.1)	(85.9)	1,502	(32.8)	(32.8)
EPS (Bt)	0.02	(91.6)	(84.9)	0.92	(37.9)	(37.9)
Gross margin (%)	9.3			9.2		
EBITDA margin (%)	(6.4)			(0.5)		
Net margin (%)	0.9			7.4		

Source: UOB Kay Hian

ORDERBOOK



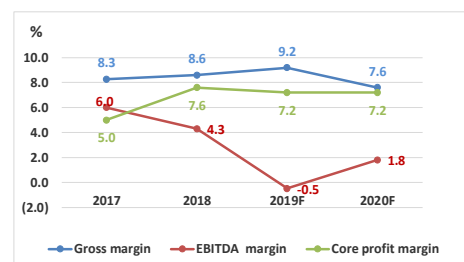
Source: CK, UOB Kay Hian

MEGA PROJECT DEVELOPMENTS

Projects	Value (Btm)
To be put on bid in 2020	
Double Track Railway	
Bangpai-Mukdaharn-Nakompanom	68.0
Denchai-Chiangrai-Chiangkhon	85.3
	153.3
Airport	
SVB: 2 nd Terminal	42.0
	42.0
Motorway	
Bangkhunthien-Bangpaew (P2Rama III - Nakhonprathom-Chaam	48.3
Tollway: Rangsit-Bangpain O&M:	79.0
	40.0
	167.3
Mass Transit	
Mass Transit Orange Line - West	142.6
Purple: Taopoon-Ratburana	101.1
Red: Hualumpung-Bangsue-Huamark	44.2
Red: Rangsit-Thammasat	6.6
Red: Talingchan-Siriraj	6.6
Red: Talingchan-Salaya	10.2
Total	311.3
Grand Total	673.9

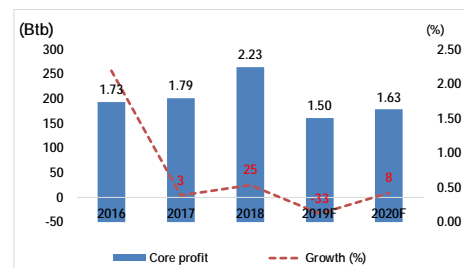
Source: UOB Kay Hian

MARGINS



Source: CK, UOB Kay Hian

CORE PROFIT GROWTH



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	29,499	21,000	22,630	24,834
EBITDA	1,258	(95)	417	466
Deprec. & amort.	719	500	612	620
EBIT	539	(595)	(195)	(154)
Total other non-operating income	1,416	1,584	1,147	785
Associate contributions	1,658	1,883	1,932	2,233
Net interest income/(expense)	(1,248)	(1,255)	(936)	(642)
Pre-tax profit	2,365	1,617	1,947	2,222
Tax	(139)	(94)	(300)	2
Minorities	8	(21)	(22)	(22)
Net profit	2,494	1,550	1,626	2,202
Net profit (adj.)	2,234	1,502	1,626	2,202

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	9,006	9,371	744	2,852
Pre-tax profit	967	(218)	16	(11)
Tax	(139)	(94)	(300)	2
Deprec. & amort.	719	500	612	620
Associates	1,658	1,883	1,932	2,233
Working capital changes	7,451	9,204	438	2,263
Non-cash items	(1,658)	(1,883)	(1,932)	(2,233)
Other operating cashflows	8	(21)	(22)	(22)
Investing	(5,709)	(10,458)	12,159	(1,440)
Capex (growth)	(5,709)	(10,458)	12,159	(1,440)
Proceeds from sale of assets	n.a.	n.a.	n.a.	n.a.
Financing	(3,259)	4,747	(8,423)	(3,777)
Dividend payments	(762)	(948)	(651)	(666)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	5,695	0	0
Loan repayment	(2,497)	0	(7,772)	(3,110)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	38	3,660	4,480	(2,365)
Beginning cash & cash equivalent	8,897	8,935	12,595	17,075
Ending cash & cash equivalent	8,935	12,595	17,075	14,710

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	9,788	12,722	12,848	12,974
Other LT assets	47,164	39,514	40,693	41,907
Cash/ST investment	8,935	12,595	17,075	14,710
Other current assets	17,614	26,334	13,730	15,011
Total assets	83,501	91,166	84,345	84,602
ST debt	11,146	7,782	3,123	6,010
Other current liabilities	17,892	19,259	19,236	21,067
LT debt	25,549	34,594	31,467	25,456
Other LT liabilities	3,085	3,099	3,113	3,127
Shareholders' equity	25,421	26,024	26,998	28,533
Minority interest	408	408	408	408
Total liabilities & equity	83,501	91,166	84,345	84,602

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	4.3	(0.5)	1.8	1.9
Pre-tax margin	8.0	7.7	8.6	8.9
Net margin	8.5	7.4	7.2	8.9
ROA	3.1	1.8	1.9	2.6
ROE	10.2	6.0	6.1	7.9
Growth				
Turnover	(18.2)	(28.8)	7.8	9.7
EBITDA	(41.9)	(107.5)	n.a.	11.7
Pre-tax profit	23.0	(31.6)	20.4	14.1
Net profit	37.8	(37.9)	4.9	35.5
Net profit (adj.)	24.7	(32.8)	8.2	35.5
EPS	24.7	(32.8)	8.2	35.5
Leverage				
Debt to total capital	58.7	61.6	55.8	52.1
Debt to equity	144.3	162.8	128.1	110.3
Net debt/(cash) to equity	109.2	114.4	64.9	58.7
Interest cover (x)	1.0	(0.1)	0.4	0.7

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