

COMPANY UPDATE

Sino-Thai Engineering & Construction (STEC TB)

Most Negative Factors Have Been Priced In; Looking For A Better Year Ahead

We believe the recent sharp correction in share price has fully discounted all negative issues, including the bribery case. Although these negative factors will still pressure share price amidst the market's poor sentiment, downside is limited. As we forecast STEC to have a brighter year ahead, share price should re-rate once market sentiment improves. Maintain BUY. Target price: Bt26.50.

WHAT'S NEW

- No fundamental impact from bribery allegation.** In mid-Nov-19, the National Anti-Corruption Commission (NACC) found evidence to prosecute Sino-Thai Engineering and Construction (STEC) and two of its executives for supporting four officials in receiving bribes. The incident took place in Feb 15, after three oversized ships used to deliver equipment to build a power plant had not been allowed to dock at a port in Nakhonsithammarat province. The state officials then allegedly demanded a bribe of Bt20m from Mitsubishi Hitachi Power Systems' (MHPS) representatives in exchange for allowing the oversized vessels to dock. MHPS and STEC were two contractors hired to build the power plant. MHPS then paid the bribe.

The NACC will forward its findings to the office of the Attorney-General to indict the six accused. STEC's management has denied any involvement and will take the case to the court. We expect the court case to take several years to reach a conclusion as the case may have to proceed all the way to the Supreme Court. For now, there is no impact on STEC's fundamentals as the company is still qualified to bid for all public projects on offer. In the worst case, should the verdict not be in favour of STEC, two of STEC's executives may have to resign and STEC will be subject to a fine of merely Bt2,000 under the Thai law.

- 2020 core profit still able to grow despite minimum wage hike.** Another worrying case for STEC is the issue of increase in daily minimum wage. Recently, the Labour Minister scheduled a review on the increase of minimum wage to be concluded by end-19, and for implementation next year. As the increase in minimum wage is likely to be implemented next year, we have incorporated the negative impacts of the increased wage into our 2020 model. This is to gauge its impact on STEC's core profit growth next year. Given the weak economic outlook, we use our base-case scenario of a 5% increase in minimum wage starting from 2020. Based on this scenario, we forecast STEC's gross margins in 2020 and 2021 to be at 5.5% and 5.7%, down from 6.7% and 6.8% respectively, as previously estimates. Under this scenario, we found that STEC's 2020 core profit will still able to increase by 10% yoy.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	20,075	27,537	30,028	38,280	42,110
EBITDA	1,564	2,220	2,063	2,275	2,518
Operating profit	1,083	1,600	1,273	1,452	1,669
Net profit (rep./act.)	(611)	1,617	1,065	1,304	1,477
Net profit (adj.)	1,388	1,363	1,187	1,304	1,477
EPS (Bt)	0.9	0.9	0.8	0.9	1.0
PE (x)	15.8	16.1	18.5	16.8	14.9
P/B (x)	2.4	2.0	2.0	1.8	1.7
EV/EBITDA (x)	9.5	6.7	7.2	6.5	5.9
Dividend yield (%)	0.0	3.5	2.4	3.0	3.4
Net margin (%)	(3.0)	5.9	3.5	3.4	3.5
Net debt/(cash) to equity (%)	(59.4)	(79.9)	(66.2)	(64.2)	(73.6)
Interest cover (x)	68.0	76.6	39.7	43.8	48.4
ROE (%)	n.a.	16.0	9.6	11.2	11.9
Consensus net profit	-	-	1,176	1,319	1,517
UOBKH/Consensus (x)	-	-	1.01	0.99	0.97

Source: Sino-Thai Engineering & Construction, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt14.40
Target Price	Bt26.50
Upside	+84.0%

COMPANY DESCRIPTION

One of the leading engineers and contractors in Thailand with over 50 years of experience in private and public projects. STEC's competitive advantage is its vast experience in the construction of power and petrochemical plants.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	STEC TB
Shares issued (m):	1,525.1
Market cap (Btm):	21,961.5
Market cap (US\$m):	725.6
3-mth avg daily t'over (US\$m):	17.4

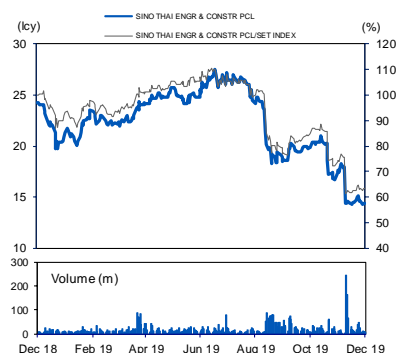
Price Performance (%)

52-week high/low	Bt27.50/Bt14.30			
1mth	3mth	6mth	1yr	YTD
(13.8)	(23.8)	(41.9)	(41.0)	(29.4)

Major Shareholders

	%
Charnvirakul family	23.4
Thai NVDR	10.0
UBS AG Singapore Branch	5.4
FY19 NAV/Share (Bt)	7.36
FY19 Net Cash/Share (Bt)	4.87

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expect lower 4Q19 core profit yoy.** After an acceleration of project works in 3Q19, we expect the pace of project works to slow down in 4Q19 in preparation for new projects next year. We expect the speed of project work to accelerate again next year, supported by its strong orderbook. We therefore expect its 4Q19 sales to decline by 32% yoy to Bt6.2b from the high-base in 4Q18. With lesser high-margin power plant projects, 4Q19 gross and EBITDA margins are forecasted to be lower than the same period last year at 5.7% (4Q18: 7.6%) and 7.1% (4Q18: 7.5%), respectively. We therefore expect STEC's 4Q19 core profit to be at Bt182m, a 59% decline yoy.
- **2020 core profit to grow 10%.** Based on its strong orderbook (Bt87b, accounting to 3.2 years of STEC's annual sales as of 9M19), we expect STEC's 2019 and 2020 sales to grow by 9% and 27%, to Bt30.0b and Bt38.3b, respectively. With an expectation of lower gross margin at 6.1% in 2019 (7.7% in 2018) from lesser works of high-margin power plant projects, 2019 core profit is forecasted to be at Bt1.2b, a drop of 13% yoy. Looking into 2020, we expect the rising sales and lower SG&A expenses (as a percentage of sales) to outweigh the negative impacts of increase of minimum wage. Although 2020 gross margin is expected to drop to 5.5%, 2020 core profit is forecasted to rise by 10% yoy to Bt1.3b.

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Maintain BUY.** We believe the recent sharp correction in share price has incorporated all negative factors - bribery case, increase of minimum wage and weak 4Q19 results. These factors may still place some pressure on share price amidst the poor market sentiment, but we believe share price downside is limited. As we are looking for a better year in 2020, we maintain our BUY call on STEC. Our target price remains at Bt26.50 based on SOTP valuation. Noted that our target price is higher than consensus' Bt22.00 as we include the values of future rental business and the market capitalisation of its 2% holding in GULF (which have been ignored by many investors).

SHARE PRICE CATALYST

- Announcement of mega projects' biddings and STEC's likely project wins.

4Q19 RESULTS PREVIEW

Year to 31 Dec (Btm)	4Q19F	yoy % chg	qoq % chg	2019F	yoy % chg
Sales	6,193	(33.6)	(31.5)	30,028	9.0
Gross Profit	355	(49.6)	(27.3)	1,823	(13.9)
EBITDA	442	(36.9)	(22.9)	2,063	(7.1)
Pre-tax Profit	245	(55.2)	(40.0)	1,486	(12.1)
Tax	(43)	(57.4)	(35.8)	(266)	(20.1)
Net Profit	182	(71.5)	(33.1)	1,065	(34.1)
Net Profit (Ex EI)	182	(58.6)	(46.0)	1,187	(12.9)
EPS (Bt)	0.11	(74.2)	(39.8)	0.70	(34.1)
Gross margin (%)	5.7			6.1	
EBITDA margin (%)	7.1			6.9	
Net margin (%)	2.9			3.5	

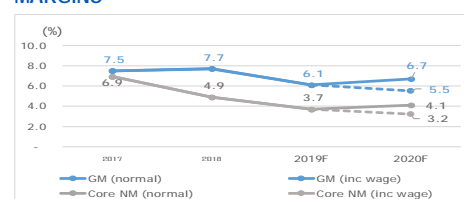
Source: UOB Kay Hian

STEC: SOTP VALUATION

	Value (Btm)	Value/share (Bt)	Note
STEC TB	32,341	21.21	13.7x 2020F EV/EBITDA
Mor Chit Land	2,055	1.35	DCF, discount rate 6%
GULF TB (1.9%)	6,016	3.94	market price
Total	40,412	26.50	

Source: UOB Kay Hian

MARGINS



Source: STEC, UOB Kay Hian

IMPACT OF MINIMUM WAGE TO 2020 CORE PROFIT

% inc. in minimum wage	0%	5%	10%	15%
Minimum wage (Bt)	325	341	358	374
2020F Core profit (Btm)	1,663	1,304	947	589
% dec from 2020 core profit	0%	22%	43%	65%
Target price (Bt)	26.90	21.21	20.30	17.10

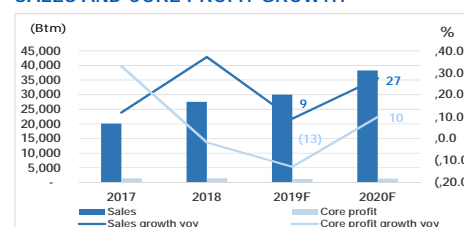
Source: UOB Kay Hian

STEC'S ORDERBOOK



Source: UOB Kay Hian

SALES AND CORE PROFIT GROWTH



Source: STEC, UOB Kay Hian

EV/EBITDA AND SD



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	27,537	30,028	38,280	42,110
EBITDA	2,220	2,063	2,275	2,518
Deprec. & amort.	620	790	823	849
EBIT	1,600	1,273	1,452	1,669
Total other non-operating income	120	265	269	269
Associate contributions	25	(10)	(10)	(11)
Net interest income/(expense)	(29)	(52)	(52)	(52)
Pre-tax profit	1,716	1,476	1,659	1,875
Tax	(333)	(266)	(332)	(375)
Minorities	(20)	(23)	(23)	(24)
Net profit	1,617	1,065	1,304	1,477
Net profit (adj.)	1,363	1,187	1,304	1,477

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	9,033	7,907	1,351	2,802
Pre-tax profit	1,945	1,364	1,669	1,886
Tax	(333)	(266)	(332)	(375)
Deprec. & amort.	620	790	823	849
Associates	25	(10)	(10)	(11)
Working capital changes	7,075	5,920	(786)	466
Non-cash items	(279)	132	10	11
Other operating cashflows	(20)	(23)	(23)	(24)
Investing	(6,128)	(8,488)	(601)	(487)
Capex (growth)	(6,128)	(8,488)	(601)	(487)
Others	n.a.	n.a.	n.a.	n.a.
Financing	397	(392)	(459)	(572)
Dividend payments	0	(809)	(532)	(652)
Issue of shares	0	0	0	0
Proceeds from borrowings	397	417	74	80
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	3,302	(973)	291	1,743
Beginning cash & cash equivalent	6,695	9,997	9,024	9,315
Ending cash & cash equivalent	9,997	9,024	9,315	11,058

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	4,447	5,811	6,042	6,221
Other LT assets	12,408	16,653	16,860	17,000
Cash/ST investment	9,997	9,024	9,315	11,058
Other current assets	18,724	25,807	31,285	33,869
Total assets	45,576	57,295	63,502	68,149
ST debt	462	600	606	612
Other current liabilities	32,365	43,411	48,772	52,515
LT debt	774	1,000	1,010	1,020
Other LT liabilities	754	807	864	928
Shareholders' equity	10,961	11,218	11,989	12,814
Minority interest	260	260	260	260
Total liabilities & equity	45,576	57,295	63,502	68,149

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	8.1	6.9	5.9	6.0
Pre-tax margin	6.2	4.9	4.3	4.5
Net margin	5.9	3.5	3.4	3.5
ROA	4.1	2.1	2.2	2.2
ROE	16.0	9.6	11.2	11.9
Growth				
Turnover	37.2	9.0	27.5	10.0
EBITDA	41.9	(7.1)	10.3	10.7
Pre-tax profit	42.9	(14.0)	12.4	13.0
Net profit	n.a.	(34.1)	22.5	13.2
Net profit (adj.)	(1.8)	(12.9)	9.9	13.2
EPS	(1.8)	(12.9)	9.9	13.2
Leverage				
Debt to total capital	9.9	12.2	11.7	11.1
Debt to equity	11.3	14.3	13.5	12.7
Net debt/(cash) to equity	(79.9)	(66.2)	(64.2)	(73.6)
Interest cover (x)	76.6	39.7	43.8	48.4

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