

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Sector

Construction

A silver lining towards year-end as the worst is gradually left behind.

Page 2

KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,544.81	11.44	0.75
SET50	947.96	7.06	0.75
Value (Btm) - SET	43,660		
Top 5 Sector			
BANK	349.90	3.41	0.98
PETRO	999.07	12.08	1.22
PROP	230.07	2.55	1.12
ENERG	24,032.78	355.55	1.50
ICT	174.06	0.51	0.29

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
PTTEP	158.00	2.60	17,274.5
PTT	34.50	2.99	61,647.6
SCB	95.25	1.33	18,430.8
CBG	111.00	(3.06)	14,215.7
BDMS	26.50	(1.85)	58,594.8

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
WGE	1.91	29.93	19,512.2
SK	1.13	29.89	12,900.5
TEKA	4.36	26.01	104,960.5
THANA	3.70	17.83	238,375.1
JCT	88.50	12.03	5.1

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NEWS	0.03	(25.00)	32,246.5
MEGA	47.50	(9.95)	11,263.1
QHOP	2.06	(9.65)	25.2
PMTA	10.50	(9.48)	214.3
KEX	23.40	(9.13)	32,071.6

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	106.3	(3.7)	(2.2)	42.1
Dubai crude*	107.2	(10.2)	(0.3)	40.1
Baltic Dry Index	2,150.0	(16.6)	1.7	(3.0)
Gold Spot***	1,707.9	(7.1)	(12.4)	(6.6)

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
33.2	18.0	3,459.8	8,742.3

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 36.71

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 5.25

SECTOR UPDATE

Construction – Thailand

A Silver Lining Towards Year-end As The Worst Is Gradually Left Behind

We are hopeful on the construction services sector towards 4Q22 in view of a faltering increase in construction material prices and more transport infrastructure projects to be rolled out that will secure backlog from 2023 onwards. We foresee both STEC and CK reporting positive 2Q22 earnings growth but remaining weak compared with 2019. Maintain MARKET WEIGHT with CK as a top pick for the strongest backlog turnaround. We also favour STEC for its stable earnings outlook.

WHAT'S NEW

- New projects planned for bidding.** We expect a number of transport infrastructure projects under the Ministry of Transport to be rolled out for bidding in 2H22-1Q23, particularly from 4Q22 afterwards. In Jun 22, State Railway of Thailand (SRT) unveiled the plan to release the terms of reference (TOR) for three SRT Red Line extensions worth Bt23b in Oct 22 and winners to be announced in 2Q23. Meanwhile, the Bang Sue – Hua Lamphong extension (Missing Link) worth Bt44b is currently under design adjustment for the walkways and is expected to be put for bidding in the next year after the revision of the environmental impact assessment (EIA). Moreover, the Khon Kaen – Nong Khai double-track railway is expected to be proposed for Cabinet approval in Aug 22 and put for bidding in 4Q22. Hence, we foresee the backlog of construction service companies remaining in an uptrend into 2023 which will secure future revenue.
- New Orange Line bidding remains uncertain.** Mass Rapid Transit Authority of Thailand (MRTA) released the TOR for the new bidding of the MRT Orange Line worth around Bt127b in Jun 22 with the bidding submission date previously intended on 27 Jul 22. Nevertheless, the Central Administrative Court subsequently declared the cancellation of the first round of bidding on 3 Feb 21 illegitimate, which subsequently led to the Transport Ministry ordering MRTA to curb the second round of bidding until related legal issues are resolved. We anticipate more clarifications by Jul 22 on the bidding process, including whether the bidding will continue or be restarted and the bidding terms to be used. If the bidding terms from the second round of bidding are used, we expect CH. Karnchang (CK) and Bangkok Expressway and Metro (BEM) to be at significant advantage over competitors and benefit from additional backlog. Conversely, there exists a downside risk to CK's earnings if CK is unable to secure this line.
- Material costs rose at slower rate.** In Jun 22, the Construction Material Price Index (CMI) increased 5.5% yoy to 120.9 as supply shortage and high energy costs persisted, but fell 1.1% from the peak of 122.2 in Apr 22. The mom decline mainly came from falling steel prices due to China's economic slowdown. We believe steel prices' peak may have passed but may remain high compared with 2020-21 as demand from China could pick up. Cement prices, on the contrary, are still expected to increase as coal prices continue to rise. Although CK and Sino-Thai Engineering and Construction (STEC) can defer some purchases as the two large projects they recently won do not require significant amounts of materials during the early phase (Denchai-Chiangkhong double-track railway and Contract 1 and 2 for the civil work of the MRT Purple Line Southern extension), we still expect some impact in the imminent quarters and the possibility that the companies will have to stockpile some materials at this point.

PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Core PE			CAGR 2021-23F (%)	P/B 2022F (%)	Yield 2022F (x)	ROE 2022F (%)	EV/EBITDA 2022F (x)
							2021 (x)	2022F (x)	2023F (x)					
Italian-Thai Development	ITD TB	HOLD	2.02	2.20	8.9	305	n.a.	41.8	14.2	na	0.8	1.0	1.6	8.0
CH. Karnchang	CK TB	BUY	20.10	23.80	18.4	973	127.7	38.1	17.0	174.4	1.3	1.3	4.2	98.5
Sino-Thai Engineering & Construction	STEC TB	BUY	12.50	16.20	29.6	545	27.4	17.1	13.7	41.6	0.9	2.6	5.7	5.1
Sector						1,822	97.2	28.4	15.4		1.0	1.6	3.8	13.6

Source: UOB Kay Hian

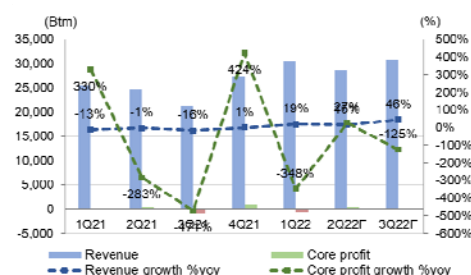
MARKET WEIGHT (Maintained)

SECTOR TOP PICK

Company	Rec	Share price (Bt)	Target price (Bt)
CK	BUY	20.10	23.80

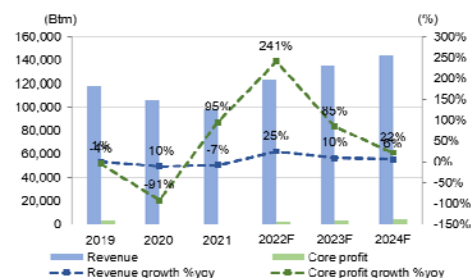
Source: UOB Kay Hian

SECTOR QUARTERLY PERFORMANCE



Source: STEC, CK, ITD, UOB Kay Hian

SECTOR YEARLY PERFORMANCE



Source: STEC, CK, ITD, UOB Kay Hian

ANALYST(S)

Waritthorn Kaewmuang
 +66 2090 8642
 waritthorn@uobkayhian.co.th

EARNINGS OUTLOOK

- 2Q22 results to improve but remain weak.** We anticipate some improvements in 2Q22 results on both yoy and qoq bases from the absence of suspension of construction progress due to COVID-19 this year. However, the overall bottom line still remains weak compared with 2019 results due to rising material cost, lower backlog on hand and some labour shortage concerns.
- STEC.** We expect STEC to report 2Q22 core profit of Bt304m (+203% yoy, +31% qoq). The increase is mainly from higher revenue as STEC attempted to accelerate the construction of the MRT Pink Line, MRT Yellow Line, Sriracha Power Plant and Pluakdaeng Power Plant. The yoy increase is also from improving gross margin from the absence of low-margin construction work of the parliament project. The qoq increase is supported by Bt97m dividend income from Gulf Energy Development (GULF).
- CK.** We expect CK to report 2Q22 core profit of Bt335m (+65% yoy, +388% qoq), from a Bt117m core loss in 1Q22. Aside from the absence of suspension of construction progress, the yoy increase is supported by: a) the recognition of revenue from preliminary construction work of Luangprabang hydroelectric dam in Laos owned by CK Power (CKP), and b) higher equity income from CKP due to more frequent rainfall at Xayaburi hydroelectric power plant in Laos and BEM from the recovery of traffic volume and ridership.
- ITD.** We expect ITD to continue to report 2Q22 core loss of Bt204m from declining gross margin and high finance cost. In addition, there is uncertainty regarding the construction progress based on its poor track record.

2Q22 RESULTS PREVIEW

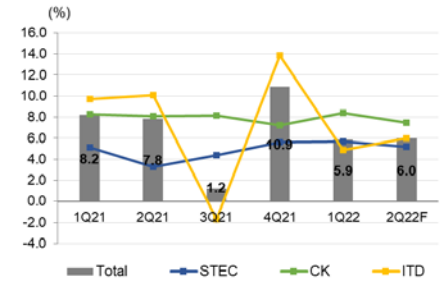
	2Q22F	2Q21	1Q22	yoy (%)	qoq (%)
Revenue (Btm)					
STEC	8,031	7,072	7,620	13.6	5.4
CK	3,966	3,190	7,039	24.3	-43.7
ITD	16,684	14,393	15,869	15.9	5.1
Total	28,682	24,656	30,529	16.3	-6.1
EBITDA (Btm)					
STEC	526	306	526	72.0	-0.1
CK	74	25	403	201.3	-81.6
ITD	1,440	1,907	1,200	-24.5	19.9
Total	2,040	2,237	2,130	-8.8	-4.2
Core profit (Btm)					
STEC	304	101	232	202.6	31.3
CK	335	204	-117	64.6	387.5
ITD	-204	38	-664	-631.5	69.2
Total	435	343	-549	27.0	179.2
Gross margin (%)					
STEC	5.2	3.2	5.7	1.9	-0.5
CK	7.5	8.1	8.4	-0.6	-0.9
ITD	6.0	10.0	4.9	-4.1	1.1
Total	6.0	7.8	5.9	-1.9	0.1
SG&A-to-revenue (%)					
STEC	2.3	2.9	2.4	-0.6	-0.1
CK	12.4	15.6	6.7	-3.2	5.7
ITD	4.8	5.3	4.4	-0.5	0.4
Total	5.1	5.9	4.4	-0.8	0.7

Source: Respective companies, UOB Kay Hian

ACTION

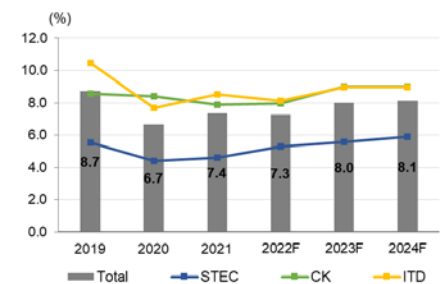
- Maintain MARKET WEIGHT.** We believe the market has priced in the impact on rising material cost to some extent while the sector earnings are expected to show positive growth on both yoy and qoq bases. In addition, the anticipation of upcoming biddings in 4Q22 will be positive for construction services companies. The median value of new projects to be put for bidding will be based on higher material cost assumption which minimises downside risk to profitability. The downside risks are earnings downgrade from consensus after 2Q22 results and delays to the bidding timeline. Nevertheless, we recommend accumulation for the long-term investment horizon from a strengthening backlog outlook.

SECTOR QUARTERLY GROSS MARGINS



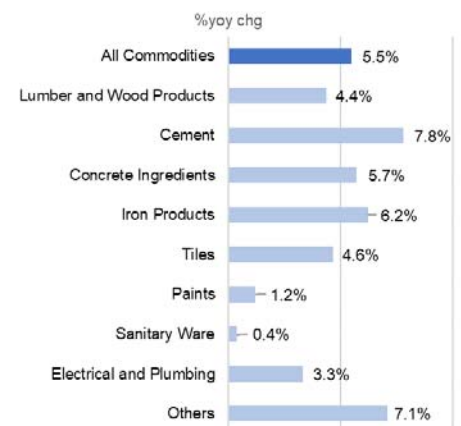
Source: Respective companies, UOB Kay Hian

SECTOR YEARLY GROSS MARGINS



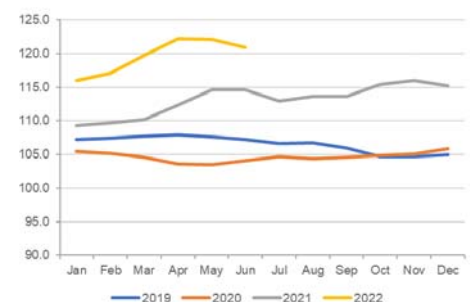
Source: Respective companies, UOB Kay Hian

CMI INDEX - JUN 22



Source: ETID, MOC, UOB Kay Hian

MONTHLY CMI INDEX



Source: ETID, MOC, UOB Kay Hian

- Our top pick is CK for a stronger increase in its backlog, especially from winning the MRT Orange Line. We also favour STEC on its steady earnings growth, secured backlog and its net cash position that results in higher resiliency to the rising interest rate. We maintain HOLD on ITD mainly from its uncertainty in construction progress and biggest impact from higher finance cost (with net Debt/Equity ratio of 2.57x as of 1Q22) despite potential upside risk from the potash mining project in Udon Thani following the permission by the Thai government on 29 Jun 22, but it will require 6-12 months before the operation starts.

SECTOR CATALYSTS

- The upcoming bidding of new projects in 2H22.
- Declining construction material prices and lower inflation rate which will lower material cost and increase gross margins.
- Resolving the labour shortage issue.

ASSUMPTION CHANGES

- None.

ESSENTIALS

TRANSPORT INFRASTRUCTURE PROJECTS AWAITING BIDDING

Projects awaiting bidding	Length (km)	Value (Btb)	Status	Bid	Results
Double-Track Railways					
Khon Kaen-Nong Khai	167	30	Awaiting Cabinet Approval	4Q22	1Q23
Pak Nam Pho-Denchai	285	63	Awaiting SRT Approval	1H23	1H23
Chira Junction-Ubon Ratchathani	308	38	Awaiting SRT Approval	1H23	1H23
Hat Yai-Padang Besar	45	7	Awaiting SRT Approval	1H23	1H23
Chumphom-Surat Thani	168	24	Awaiting EIA Approval	1H23	1H23
Surat Thani-Songkhla	321	57	Awaiting EIA Approval	1H23	1H23
Denchai-Chiang Mai	189	57	Awaiting EIA Approval	1H23	1H23
Mass Transit Projects					
Orange West: Bang Khun Non-Thai Land Cultural Centre	13	127	Waiting for bidding submission	3Q22	4Q22
Red: Rangsit-Thammasat	9	7	SRT to release TOR	4Q22	2Q23
Red: Talingchan-Siriraj	6	7	SRT to release TOR	4Q22	2Q23
Red: Talingchan-Salaya	15	10	SRT to release TOR	4Q22	2Q23
Red: Bangsue-Hualumpung (Missing Link)	26	44	Awaiting EIA Revision	2023	2024
Phuket Light Rail Transit	59	20	Under study by MRTA	2023	2023
Motorways and Expressways					
Motorway: Rang Sit - Bang Pa In (M5)	22	28	Awaiting Cabinet Approval	2H22	1H23
Motorway: Outer Ring Road - Bang Bua Thong (M9)	38	56	Awaiting Cabinet Approval	2H22	1H23
Motorway: Nakhon Pathom - Cha Am (M8)	109	79	Awaiting EIA Revision	1H23	2H23
Motorway: Srinakarindra - Suvarnabhumi (M7)	18	30	Awaiting EIA Revision	1H23	2H23
Expressway: Kathu - Patong	4	15	EXAT to release TOR	1H23	2H23
High-speed Railways					
Nakhon Ratchasima - Nong Khai	22	226	Awaiting EIA Revision	2H22	1H23
Airports					
Don Muang Airport Expansion Phase 3		37		2H22	1H23
Suvarnabhumi Airport Northern Extension		41	Awaiting ICAO Study	1H23	2H23
Chiang Mai Airport Expansion		15		2H22	1H23

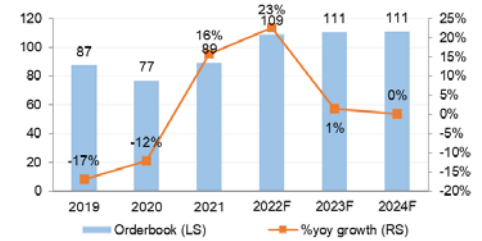
Source: SCB EIC, STEC, CK, NESDA, UOB Kay Hian

Remark: a) Not all projects are shown, b) All projects may subject to delays from the indicative date.

RISKS

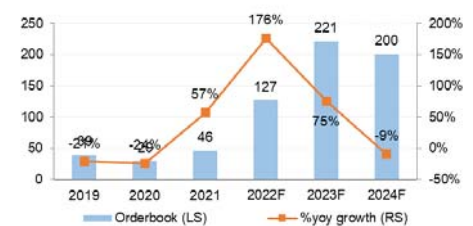
- **Rising material costs.** Increasing material costs will hurt gross margin, especially if diesel, steel and cement prices remain high until early-23 during which STEC and CK will require higher amounts of material for the construction phase of new projects.
- **Bidding delays from government authorities,** either from the unresolved legal conflicts, revision to project feasibility study or reallocation of government budget to other sectors (for example, to solve cost of living issues).

STEC'S ORDERBOOK



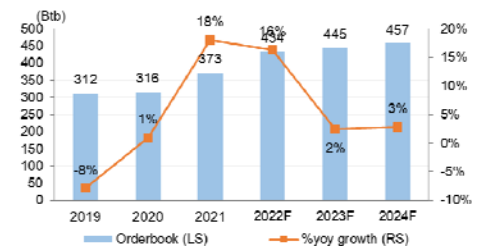
Source: STEC, UOB Kay Hian

CK'S ORDERBOOK



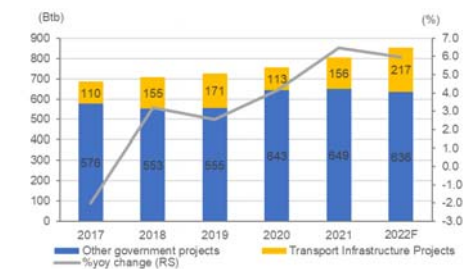
Source: CK, UOB Kay Hian

ITD'S ORDERBOOK



Source: ITD, UOB Kay Hian

PUBLIC CONSTRUCTION INVESTMENT



Source: SCB EIC

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