

COMPANY UPDATE

CH Karnchang (CK TB)

Positive Factors From The Progress On The Orange Line (West)

We foresee positive catalysts for CK from the progress on the Orange Line (West) as The Supreme Court is set to announce its verdict in the case involving the Orange Line (West) on 12 Jun 24. CK is expected to be one of the key beneficiaries as a contractor of BEM. The construction revenue from the Orange Line (West) is likely to underpin CK's revenue growth from 2025 onwards. We still like CK for its solid backlog and earnings outlook. Maintain BUY. Target price: Bt26.50.

WHAT'S NEW

- **Keep an eye on the court's decision.** The Supreme Administrative Court is set to announce its verdict on 12 Jun 24, regarding the case between Bangkok Mass Transit System Public Company (BTSC), the plaintiff, and the Selection Committee and the Mass Rapid Transit Authority of Thailand, the defendants. The plaintiff alleges that the defendants unlawfully altered the selection criteria for private sector participation in the Orange Line (West) project. These changes were made in the announcement dated 24 May 22, deviating from the original criteria set in Jul 20.

Regarding court rulings, the primary Administrative Court dismissed the case, ruling that the defendants exercised appropriate discretion in modifying the selection criteria. The primary court's judgment emphasised that the new criteria aimed to enhance the project's success by ensuring the selected private partner possessed the necessary expertise and capability. Thus, we expect the Supreme Administrative Court to uphold the primary court's decision, which would be positive for Bangkok Expressway and Metro (BEM) and CH Karnchang (CK).

- **CK, a contractor of BEM, is expected to be one of the key beneficiaries.** If the Supreme Administrative Court dismisses the case, the Orange Line (West) project is expected to be moved forward for cabinet approval. The signing of a contract between the private sector and the Mass Rapid Transit Authority of Thailand (MRTA) will likely occur in 2024. The Orange Line (West) project is valued at Bt109b with construction projected to be completed within 5-6 years. We expect CK to start recognising construction revenue for the project from 2025 onwards. This should significantly underpin CK's revenue growth.

KEY FINANCIALS

Year to 31 Dec (Btm)	2022	2023	2024F	2025F	2026F
Net turnover	18,096.7	36,485.0	38,548.0	43,931.0	44,177.3
EBITDA	447.1	2,032.7	2,246.5	2,348.5	2,870.0
Operating profit	(190.8)	915.5	1,002.6	1,085.6	1,588.2
Net profit (rep./act.)	1,104.6	1,501.0	1,802.1	2,182.8	2,690.1
Net profit (adj.)	926.7	1,461.9	1,802.1	2,182.8	2,690.1
EPS (Bt)	0.5	0.9	1.1	1.3	1.6
PE (x)	38.6	24.4	19.8	16.4	13.3
P/B (x)	1.5	1.4	1.3	1.2	1.1
EV/EBITDA (x)	187.5	41.2	37.3	35.7	29.2
Dividend yield (%)	1.2	1.2	1.9	2.2	2.8
Net margin (%)	6.1	4.1	4.7	5.0	6.1
Net debt/(cash) to equity (%)	162.9	187.5	170.0	165.4	152.5
Interest cover (x)	0.5	1.6	1.6	1.7	2.1
Consensus net profit	-	-	1,850	2,138	2,319
UOBKH/Consensus (x)	-	-	0.97	1.02	1.16
UOBKH/Consensus (x)	-	-	12.45	2.56	-

Source: CH Karnchang, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt21.10
Target Price	Bt26.50
Upside	+25.6%

COMPANY DESCRIPTION

CK is 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):	35,741.2
Market cap (US\$m):	970.6
3-mth avg daily t'over (US\$m):	3.1

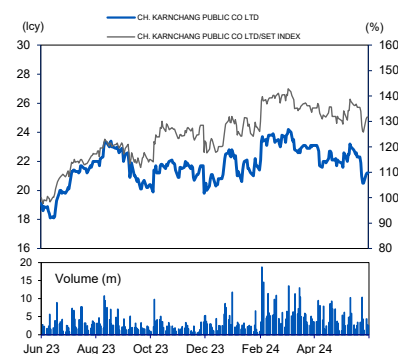
Price Performance (%)

52-week high/low	Bt24.20/Bt18.10			
1mth	3mth	6mth	1yr	YTD
(4.1)	(11.3)	(2.8)	11.1	1.4

Major Shareholders

Mahasiri Siam	14.3
CH.KARNCHANG HOLDING	11.2
Thai NVDR Company Limited	7.8
FY24 NAV/Share (Bt)	16.49
FY24 Net Debt/Share (Bt)	28.03

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Update on the Purple Line (South) project.** Contracts 1 and 2 of the Purple Line (South) project, covering the segments from Tao Poon to the National Library and from the National Library to Phan Fah, are currently underway. Contract 1, which began boring on 26 Apr 24, involves a 5.89-kilometre tunnel and is expected to be completed by Jan 26, with 200 metres already bored. Contract 2 started in Jun 24, spans 3.49 kilometres, and is projected to finish by Jun 26. Both segments use tunnel boring machines that are 9.6 metres long and 6.58 metres in diameter, capable of boring 10-15 metres per day.
- Expect 2Q24 earnings to improve from 1Q24.** We expect CK's earnings to improve qoq in 2Q24. Its construction revenue should be supported by a solid backlog, with the progress of construction as planned. Construction revenue would mainly come from existing projects such as Luang Prabang Hydroelectric Power, MRT Purple Line, and Double Track Denchai - Chiang Rai - Chaing Khong. We also anticipate a higher share profit from associates, mainly driven by BEM. In addition, CK will book dividend income from TTW in the quarter.

EARNINGS REVISION/RISK

- Risks:** a) Higher-than-expected construction costs and wage hikes, and b) slower-than-expected constructions.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of Bt26.50**, based on 1.6x 2024F P/B. CK is our top pick. It has a solid backlog, and earnings are expected to improve from 2Q24 onwards. We foresee positive catalysts from the progress on the Orange Line (West) project and double deck project, including public project biddings in 2H24.

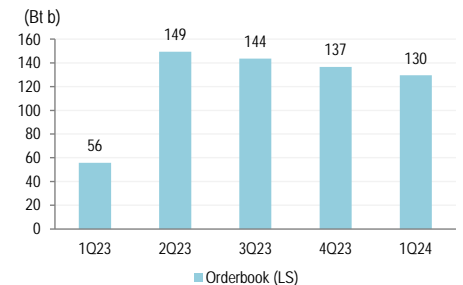
SHARE PRICE CATALYST

- Higher-than-expected gross margin due to an increasing proportion of high-margin works and effective management of construction materials.
- Additional backlog from winning new projects bidding.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

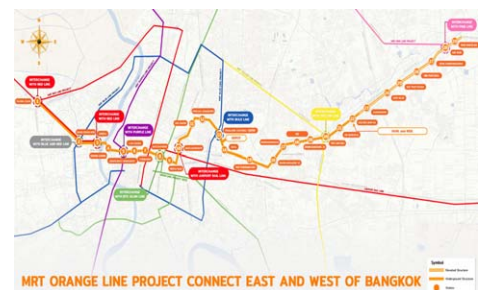
CG Report: 5
SET ESG Rating: A
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - CK is committed to being environmentally responsible and complying with laws while continuously improving its environmental management systems. CK prioritises the use of environmentally friendly materials and disposes of unused materials properly. Social <ul style="list-style-type: none"> - CK has social policies and practices that focus on economic operations, community engagement, and development. It is committed to social stewardship and showcases the company's efforts towards beneficial CSR activities and employee management. Governance <ul style="list-style-type: none"> - CK prioritises clear leadership roles, sustainable value creation, and responsible ESG practices. The company recently revamped its risk management based on consulting firm recommendations to strengthen its foundation for meeting operational goals.

BACKLOG



Source: CK, UOB Kay Hian

THE MRT ORANGE LINE PROJECT



Source: Mass Rapid Transit Authority of Thailand

PROFIT & LOSS

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Net turnover	36,485	38,548	43,931	44,177
EBITDA	2,033	2,246	2,348	2,870
Deprec. & amort.	1,117	1,244	1,263	1,282
EBIT	916	1,003	1,086	1,588
Total other non-operating income	465	465	465	465
Associate contributions	1,520	1,842	2,128	2,216
Net interest income/(expense)	(1,271)	(1,411)	(1,376)	(1,353)
Pre-tax profit	1,678	1,898	2,303	2,916
Tax	(83)	(11)	(35)	(140)
Minorities	(93)	(85)	(85)	(86)
Net profit	1,501	1,802	2,183	2,690
Net profit (adj.)	1,462	1,802	2,183	2,690

CASH FLOW

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Operating	(5,516)	3,112	1,792	3,978
Pre-tax profit	1,678	1,898	2,303	2,916
Tax	(83)	(11)	(35)	(140)
Deprec. & amort.	1,117	1,244	1,263	1,282
Working capital changes	(7,381)	(564)	(2,856)	(131)
Non-cash items	(897)	545	1,118	51
Other operating cashflows	50	0	0	0
Investing	(3,045)	(3,442)	(2,181)	(2,064)
Capex (growth)	(1,224)	(1,641)	(650)	(1,650)
Investments	(3,527)	(354)	(357)	(361)
Others	1,706	(1,448)	(1,174)	(54)
Financing	9,314	567	(729)	(890)
Dividend payments	(421)	(551)	(729)	(890)
Issue of shares	782	0	0	0
Proceeds from borrowings	9,416	(81)	0	0
Others/interest paid	(463)	1,200	0	0
Net cash inflow (outflow)	753	236	(1,118)	1,024
Beginning cash & cash equivalent	7,061	7,814	8,050	6,933
Ending cash & cash equivalent	7,814	8,050	6,933	7,957

BALANCE SHEET

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Fixed assets	11,934	12,331	11,719	12,087
Other LT assets	52,145	54,101	56,032	56,465
Cash/ST investment	7,814	8,050	6,933	7,957
Other current assets	24,852	26,289	29,960	30,128
Total assets	96,745	100,772	104,643	106,636
ST debt	14,835	14,801	14,801	14,801
Other current liabilities	12,423	13,840	15,773	15,861
LT debt	40,771	40,724	40,724	40,724
Other LT liabilities	2,708	2,863	3,263	3,281
Shareholders' equity	25,482	27,933	29,387	31,187
Minority interest	526	611	696	782
Total liabilities & equity	96,745	100,772	104,643	106,636

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	5.6	5.8	5.3	6.5
Pre-tax margin	4.6	4.9	5.2	6.6
Net margin	4.1	4.7	5.0	6.1
Net profit (adj.)	57.8	23.3	21.1	23.2
Leverage				
Debt to total capital	68.1	66.0	64.9	63.5
Debt to equity	218.2	198.8	188.9	178.0
Net debt/(cash) to equity	187.5	170.0	165.4	152.5
Interest cover (x)	1.6	1.6	1.7	2.1

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