

COMPANY UPDATE

CH Karnchang (CK TB)

Optimistic About Construction Business And Earnings Outlook In 2025

In 4Q24, construction performance is expected to improve, though earnings may be tempered by lower equity income. In 2025, growth will be driven by ongoing projects, the Orange Line (West) starting in 1H25 and the Double Deck project (expected to be signed in 1Q25), supported by healthy gross margins and equity income growth. CK is trading at an undemanding valuation. Maintain BUY. Target price: Bt27.30.

WHAT'S NEW

- **Analyst meeting on 3Q24 results.** We attended CH Karnchang' (CK) analyst meeting to review its 3Q24 results and get an update on its business outlook.

STOCK IMPACT

- **Expect operations to improve in 4Q24; bottom line will likely decline qoq.** In 4Q24, construction revenue is likely to improve slightly from the prior quarter, driven by progress in ongoing projects. CK's margin is also anticipated to increase qoq due to a favourable product mix following the completion of low-margin projects. However, 4Q24 earnings are expected to decline qoq due to lower equity income from seasonality and the absence of dividend income as well as high interest expenses. Additionally, share of profit from CK Power (CKP) and Luang Prabang Power Company (LPCL) may be impacted by forex gain-loss volatility following a baht depreciation.
- **Promising outlook in 2025.** We remain optimistic about CK's earnings outlook for 2025. Construction revenue is anticipated to be bolstered by progress on key ongoing projects. The Orange Line (West) project, valued at Bt109.2b, is expected to commence construction in 1H25, with an estimated progress of 5-10% by year-end. The project is in the utility preparation phase, which is expected to take 3-4 months. Meanwhile, CK is projected to deliver a healthy gross margin of about 7%. Also, Bangkok Expressway and Metro (BEM) and CKP are expected to demonstrate growth trends, contributing to CK's equity income.
- **The Double Deck project is expected to be signed in 1Q25.** We expect the Double Deck project, valued at Bt35b, to be signed in 1Q25 and commence construction in the same year, boosting CK's backlog. While CK is interested in upcoming public project biddings, we believe the company faces no immediate pressure to secure an additional backlog in 2025. The Double Track Chira Junction-Ubon Ratchathani project is anticipated to be the earliest one up for bidding in 2025.

KEY FINANCIALS

Year to 31 Dec (Btm)	2022	2023	2024F	2025F	2026F
Net turnover	18,097	36,485	38,548	43,931	44,177
EBITDA	447	2,033	2,259	2,348	2,868
Operating profit	(191)	916	1,002	1,086	1,588
Net profit (rep./act.)	1,105	1,501	1,802	2,183	2,690
Net profit (adj.)	927	1,462	1,802	2,183	2,690
EPS (Bt)	0.5	0.9	1.1	1.3	1.6
PE (x)	32.7	20.7	16.8	13.9	11.3
P/B (x)	1.3	1.2	1.1	1.1	1.0
EV/EBITDA (x)	177.8	39.1	35.2	33.9	27.7
Dividend yield (%)	1.4	1.4	2.3	2.5	3.3
Net margin (%)	6.1	4.1	4.7	5.0	6.1
Net debt/(cash) to equity (%)	162.9	187.5	181.0	175.5	161.4
Interest cover (x)	0.5	1.6	1.6	1.7	2.1
Consensus net profit	4.4	6.1	6.9	7.9	9.2
UOBKH/Consensus (x)	-	-	1,765	2,063	2,402

Source: CH Karnchang, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt17.90
Target Price	Bt27.30
Upside	+52.5%
(Previous TP)	Bt26.50

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):	30,320.8
Market cap (US\$m):	875.1
3-mth avg daily t'over (US\$m):	2.4

Price Performance (%)

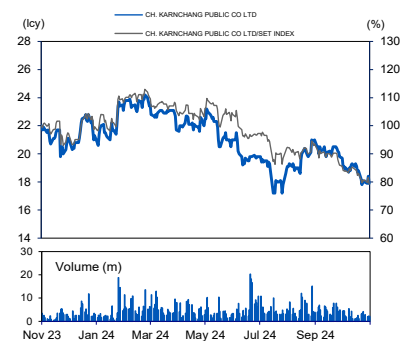
52-week high/low	Bt24.60/Bt16.80			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(9.6)	(5.3)	(18.6)	(17.1)	(13.9)

Major Shareholders

	<b>%</b>
Mahasiri Siam	14.3
CH.KARNCHANG HOLDING	11.2
Thai NVDR Company Limited	7.8

FY24 NAV/Share (Bt)	15.83
FY24 Net Debt/Share (Bt)	28.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

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### 3Q24 RESULTS RECAP

Year to 31 Dec (Btm)	3Q23	2Q24	3Q24	yoy %	qoq %	9M23	9M24	yoy %
Sales and services	8,925	9,206	9,381	5.1	1.9	27,570	28,044	1.7
Operating EBIT	218	232	231	6.1	(0.5)	808	754	(6.6)
Equity income	595	342	1,068	79.4	211.9	1,051	1,576	50.0
Core profit	-21	28	-33	(54.8)	(216.0)	93	16	(83.0)
Net profit	641	488	1,008	57.2	106.5	1,345	1,617	20.2
Percent	3Q23	2Q24	3Q24	yoy ppt	qoq ppt	9M23	9M24	yoy %
Gross margin	7.4	7.2	7.0	(0.4)	(0.1)	7.3	7.3	(0.0)
SG&A to sales	6.0	5.9	5.9	(0.0)	0.0	3.3	2.8	(0.5)
EBIT margin	2.4	2.5	2.5	0.0	(0.1)	2.9	2.7	(0.2)
Net margin	7.2	5.3	10.7	3.6	5.4	4.9	5.8	0.9

Source: CH Karnchang, UOB Kay Hian

### RESULTS

- **3Q24 results exceeded expectations.** CK reported a net profit of Bt1,008m for 3Q24 (+57% yoy, +107% qoq). The results were above our and consensus' forecasts of 6% and 23% respectively. The key earnings beat came from higher-than-expected equity income. 9M24 earnings accounted for 89% of our full-year forecasts.
- In 3Q24, construction revenue totalled Bt9.4b (+5% yoy, +2% qoq), underpinned by progress from Luang Prabang Hydroelectric Power Project, and MRT Purple Line (South). Gross margin came in at 7.0%, down 40bp yoy and 10bp qoq, following product mix. SG&A expenses remained flat from the previous quarter. Interest expenses increased 22% yoy and 46% qoq due to bridging loans. The share of profit from investment reached Bt1,068m (+79% yoy, +212% qoq), driven by improved performance in BEM and CKP as well as LPCL following increased forex gains. Additionally, in 3Q24, CK received dividends from TTW PCL amounting to Bt232m.

### EARNINGS REVISION/RISK

- Risks: Delayed construction, higher material costs and minimum wage hikes.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a new target price of Bt27.30**, based on 1.6x 2025F P/B. We roll over our target price to end-25. We are optimistic about CK's earnings outlook which is expected to be driven by its robust backlog. In addition, CK's share price is trading at an undemanding valuation of 1SD below its 10-year historical mean PE.

### 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.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

#### CG Report: 5

#### SET ESG Rating: A

#### • Environmental

- 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

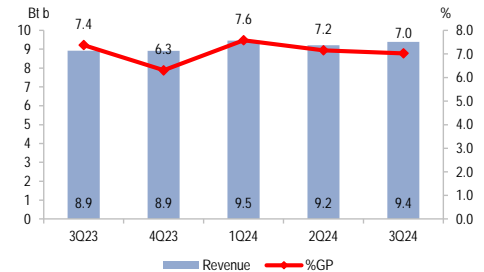
- CK has social policies and practices that focus on economic operations, community engagement, and development. It is committed to social stewardship and showcases the company's efforts towards beneficial CSR activities and employee management.

#### • Governance

- 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.

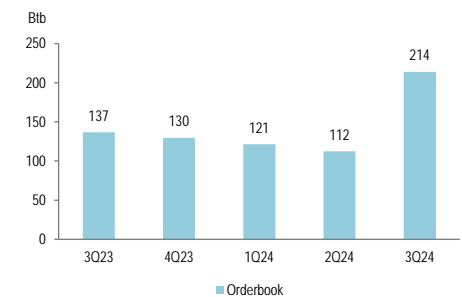
Source: CK, UOB Kay Hian

### REVENUE AND GROSS PROFIT MARGIN



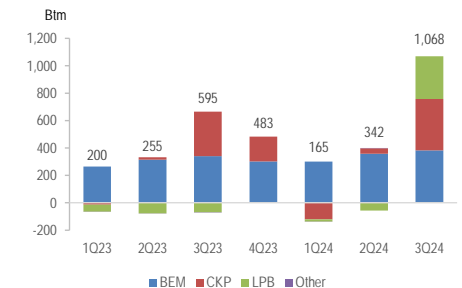
Source: CK, UOB Kay Hian

### BACKLOG



Source: CK, UOB Kay Hian

### SHARE OF PROFIT FROM INVESTMENTS



Source: CK, UOB Kay Hian

### P/B BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>36,485</b>	<b>38,548</b>	<b>43,931</b>	<b>44,177</b>
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)
<b>Pre-tax profit</b>	<b>1,678</b>	<b>1,898</b>	<b>2,303</b>	<b>2,916</b>
Tax	(83)	(11)	(35)	(140)
Minorities	(93)	(85)	(85)	(86)
<b>Net profit</b>	<b>1,501</b>	<b>1,802</b>	<b>2,183</b>	<b>2,690</b>
Net profit (adj.)	1,462	1,802	2,183	2,690

### CASH FLOW

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>(5,516)</b>	<b>3,124</b>	<b>1,792</b>	<b>3,976</b>
Pre-tax profit	1,678	1,898	2,303	2,916
Tax	(83)	(11)	(35)	(140)
Deprec. & amort.	1,117	1,256	1,262	1,280
Working capital changes	(7,381)	(564)	(2,856)	(131)
Non-cash items	(897)	545	1,118	51
Other operating cashflows	1,570	1,842	2,128	2,216
<b>Investing</b>	<b>(3,045)</b>	<b>(3,404)</b>	<b>(2,131)</b>	<b>(2,014)</b>
Capex (growth)	(1,224)	(1,603)	(600)	(1,600)
Investments	(3,527)	(354)	(357)	(361)
Others	1,706	(1,448)	(1,174)	(54)
<b>Financing</b>	<b>9,314</b>	<b>(552)</b>	<b>(729)</b>	<b>(890)</b>
Dividend payments	(421)	(555)	(729)	(890)
Issue of shares	782	0	0	0
Proceeds from borrowings	9,416	(81)	0	0
Others/interest paid	319	84	0	0
<b>Net cash inflow (outflow)</b>	<b>753</b>	<b>(832)</b>	<b>(1,068)</b>	<b>1,072</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>7,061</b>	<b>7,814</b>	<b>6,982</b>	<b>5,914</b>
<b>Ending cash &amp; cash equivalent</b>	<b>7,814</b>	<b>6,982</b>	<b>5,914</b>	<b>6,986</b>

### BALANCE SHEET

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Fixed assets	11,934	12,280	11,618	11,938
Other LT assets	52,145	54,101	56,032	56,465
Cash/ST investment	7,814	6,982	5,914	6,986
Other current assets	24,852	26,289	29,960	30,128
<b>Total assets</b>	<b>96,745</b>	<b>99,653</b>	<b>103,524</b>	<b>105,517</b>
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	26,814	28,268	30,068
Minority interest	526	611	696	782
<b>Total liabilities &amp; equity</b>	<b>96,745</b>	<b>99,653</b>	<b>103,524</b>	<b>105,517</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	5.6	5.9	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
ROA	1.7	1.8	2.1	2.6
ROE	6.1	6.9	7.9	9.2
<b>Growth</b>				
Turnover	101.6	5.7	14.0	0.6
EBITDA	354.7	11.1	3.9	22.1
Pre-tax profit	47.0	13.2	21.3	26.6
Net profit	35.9	20.1	21.1	23.2
Net profit (adj.)	57.8	23.3	21.1	23.2
EPS	57.8	23.3	21.1	23.2
<b>Leverage</b>				
Debt to total capital	68.1	66.9	65.7	64.3
Debt to equity	218.2	207.1	196.4	184.7
Net debt/(cash) to equity	187.5	181.0	175.5	161.4
Interest cover (x)	1.6	1.6	1.7	2.1

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