

### COMPANY UPDATE

## Stecon Group (STECON TB)

Downgrade Earnings To Net Loss In 2024; Near-term Uncertainty Into 1H25

**A net loss in 3Q24 led to a downward revision of earnings to a net loss for 2024. While we are optimistic about core operations in 2025, earnings are expected to be uncertain in 4Q24-1H25 due to additional expenses. New orders in 4Q24 are poised to strengthen the backlog. Maintain HOLD. Target price: Bt8.60.**

### WHAT'S NEW

- **3Q24 results review.** We attended Stecon Group's (STECON) analyst meeting to review its 3Q24 results and obtain an update on its business outlook.

### STOCK IMPACT

- **4Q24 results expected to remain vulnerable.** We expect 4Q24 results to improve from 3Q24, driven by core operations following progress on ongoing projects and new orders such as seven solar power plants. However, STECON is likely to report a negative performance due to additional expenses of approximately Bt60m-70m from the Bueng Nong Bon drainage tunnel and a high share of losses from investments in the Pink and Yellow Lines, despite improving ridership.
- **Promising outlook anticipated for 2025.** The core operation is expected to improve in 2025, with construction revenue driven by progress on key projects, including the Purple Line, Double Track Denchai, and seven solar power plants, alongside new orders expected in 4Q24. Overall gross margin is projected to improve significantly in 2H24, as repair costs for the Bueng Nong Bon tunnel are set to conclude in 1H24, with an insurance claim expected to be finalised by 2025. Additionally, we expect STECON to start recognising recurring income from Mars Water Supply and motorway project M6.
- **New orders expected in 4Q24 to drive backlog above Bt100b.** STECON's backlog stood at Bt87.6b as of Sep 24. In 9M24, the total value of signed contracts was only Bt8.4b. However, we expect the company to secure new orders worth Bt30b-40b in 4Q24, primarily from private sector projects, including buildings, infrastructure, and data centres. This would push its backlog above Bt100b by end-24.
- **Update about Clean Fuel Project (CFP).** UJV has delayed payments for workers in the CFP project. STECON, as a subcontractor for the project valued at Bt5.2b, is committed to carefully aligning with regulations and adhering to conditions set by UJV, the main contractor. The company plans to continue operations with strategic resource allocation to ensure compliance and efficiency.

### KEY FINANCIALS

Year to 31 Dec (Btm)	2022	2023	2024F	2025F	2026F
Net turnover	30,326	29,598	30,325	31,801	33,391
EBITDA	1,897	1,419	1,347	1,891	1,942
Operating profit	859	614	534	1,070	1,112
Net profit (rep./act.)	857	528	(171)	445	576
Net profit (adj.)	828	509	(171)	445	576
EPS (Bt)	0.5	0.3	(0.1)	0.3	0.4
PE (x)	13.9	22.6	n.a.	25.9	20.0
P/B (x)	0.6	0.7	0.7	0.7	0.7
EV/EBITDA (x)	8.2	10.9	11.5	8.2	8.0
Dividend yield (%)	4.0	4.0	4.0	4.0	4.0
Net margin (%)	2.8	1.8	(0.6)	1.4	1.7
Net debt/(cash) to equity (%)	(32.2)	3.7	21.5	20.9	15.9
Interest cover (x)	n.a.	1,308.5	13.5	18.0	17.7
ROE (%)	4.7	2.8	(1.0)	2.6	3.4
Consensus net profit	-	-	300	449	606
UOBKH/Consensus (x)	-	-	0.57	0.64	0.64

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

## HOLD

(Maintained)

Share Price	Bt7.55
Target Price	Bt8.60
Upside	+12.9%
(Previous TP)	Bt9.20)

### COMPANY DESCRIPTION

STECON operates as a holding company with core businesses in construction contracting, utilities and power, and logistics and transportation.

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	STECON TB
Shares issued (m):	1,519.1
Market cap (Btm):	11,469.1
Market cap (US\$m):	332.4
3-mth avg daily t'over (US\$m):	1.1

### Price Performance (%)

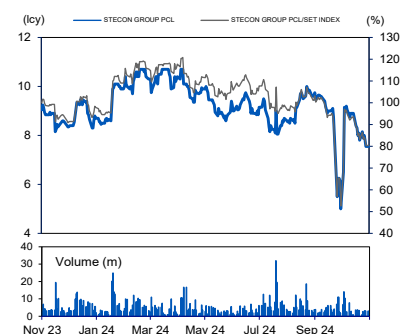
52-week high/low	Bt12.00/Bt8.15				
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
22.8	(13.2)	(22.7)	(17.9)	(10.1)	

### Major Shareholders

	<b>%</b>
C.T.Venture Company Limited	17.21
UBS AG SINGAPORE BRANCH	10.6
P.P. GLOBAL WEALTH	3.71

FY24 NAV/Share (Bt)	11.19
FY24 Net Cash/Share (Bt)	2.41

### 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 %
Revenue	7,876	8,457	7,349	(6.7)	(13.1)	21,545	22,290	3.5
Operating EBIT	220	197	33	(84.9)	(83.1)	496	413	(16.8)
Equity income	-54	-166	-142	na	na	-19	-454	na
Core profit	173	158	-34	na	na	469	253	(46.0)
Net profit	130	25	-147	na	na	454	-110	na
Percent	3Q23	2Q24	3Q24	yoy ppt	qoq ppt	9M23	9M24	yoy %
Gross margin	4.5	2.8	3.6	(0.9)	0.9	4.1	4.0	(0.2)
SG&A to sales	1.7	2.9	3.2	1.5	0.3	0.4	0.5	0.1
EBIT margin	2.8	2.3	0.5	(2.3)	(1.9)	2.3	1.9	(0.4)
Net margin	1.6	0.3	-2.0	(3.7)	(2.3)	2.1	-0.5	(2.6)

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

- **Reported a net loss in 3Q24.** STECON posted a net loss of Bt147m in 3Q24, reversing profits of Bt130m in 3Q23 and Bt25m in 2Q24. The decline stemmed from reduced construction revenue as several projects neared completion, a Bt70m expense on the Bueng Nong Bon tunnel, and a Bt142m loss from the Yellow and Pink Line train projects. SG&A expense remained high due to foreign exchange hedging of Bt20m.

### EARNINGS REVISION

Year to 31 Dec (Btm)	2024F			2025F		
	New	Old	Chg.	New	Old	Chg.
Sales and services	30,325	30,997	-2.2%	31,801	31,557	0.8%
Gross profit	1,240	1,616	-23.2%	1,821	1,646	10.6%
Operating profit	534	951	-43.8%	1,070	965	10.8%
Equity Income	-590	-590	na	-400	-450	na
Net profit	-171	217	-178.7%	445	336	32.6%

Source: UOB Kay Hian

### EARNINGS REVISION/RISK

- We have revised down our 2024 profit forecast to a loss to reflect the disappointing 3Q24 performance. However, we are increasingly optimistic about the earnings outlook for 2025.
- Risks: Lower-than-expected margin, construction delays, and prolonged share of losses.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of Bt8.60.** Our target price is based on about 0.8x 2025F P/B or 1SD below its five-year historical mean. While we are optimistic about the core operations for 2025, the earnings outlook remains uncertain for 4Q24-1H25 due to additional expenses. We maintain HOLD on STECON as we expect new orders in 4Q24.

### SHARE PRICE CATALYST

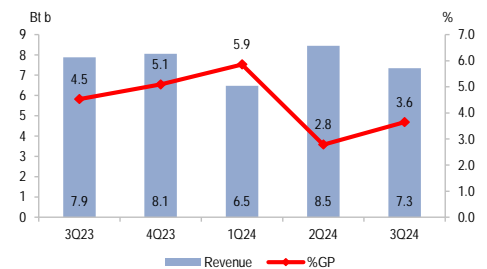
- Additional backlog from winning new projects.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<b>CG Report: 5</b>
<b>SET ESG Rating: A</b>
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- STEC follows environmental laws and regulations. The company prioritises reducing greenhouse gas emissions and using sustainable environmental technology. STEC also trains its employees to participate in environmental operations and conservation.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- STEC is committed to social responsibility. The company supports education, disaster relief, community engagement, and environmental conservation.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- STEC focuses on enterprise risk management to integrate risk management into strategic planning. STEC follows Thai and international standards for risk management in governance, strategy, performance, review, and information communication.</li> </ul> </li> </ul>

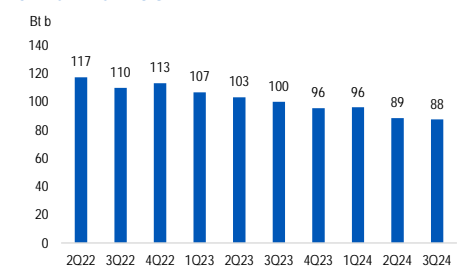
Source: STEC, UOB Kay Hian

### REVENUE AND GROSS PROFIT MARGIN



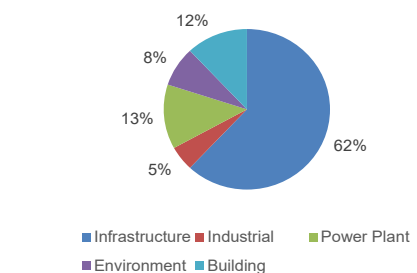
Source: STECON, UOB Kay Hian

### STEC BACKLOG



Source: STECON, UOB Kay Hian

### BACKLOG BY TYPE OF WORK



Source: STECON, UOB Kay Hian

### P/B BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Net turnover	29,598	30,325	31,801	33,391
EBITDA	1,419	1,347	1,891	1,942
Deprec. & amort.	805	813	821	830
EBIT	614	534	1,070	1,112
Total other non-operating income	94	110	110	110
Associate contributions	(70)	(590)	(400)	(300)
Net interest income/(expense)	(1)	(100)	(105)	(110)
<b>Pre-tax profit</b>	<b>637</b>	<b>(46)</b>	<b>675</b>	<b>812</b>
Tax	(102)	(109)	(215)	(222)
Minorities	(8)	(16)	(15)	(14)
<b>Net profit</b>	<b>528</b>	<b>(171)</b>	<b>445</b>	<b>576</b>
Net profit (adj.)	509	(171)	445	576

### BALANCE SHEET

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Fixed assets	9,675	11,061	11,215	11,373
Other LT assets	17,138	19,006	19,183	19,410
Cash/ST investment	4,249	2,505	2,612	3,450
Other current assets	16,387	16,647	17,458	17,708
<b>Total assets</b>	<b>47,449</b>	<b>49,220</b>	<b>50,467</b>	<b>51,941</b>
ST debt	4,637	5,916	5,916	5,916
Other current liabilities	22,061	22,526	23,623	24,804
LT debt	265	265	265	265
Other LT liabilities	2,415	3,052	3,201	3,361
Shareholders' equity	17,701	17,073	17,061	17,179
Minority interest	371	387	402	416
<b>Total liabilities &amp; equity</b>	<b>47,449</b>	<b>49,220</b>	<b>50,467</b>	<b>51,941</b>

### CASH FLOW

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Operating	(4,899)	864	1,568	2,350
Pre-tax profit	637	(46)	675	812
Tax	(102)	(109)	(215)	(222)
Deprec. & amort.	805	813	821	830
Working capital changes	(553)	(186)	(249)	354
Non-cash items	(5,775)	392	535	577
Other operating cashflows	20	(590)	(400)	(300)
<b>Investing</b>	<b>373</b>	<b>(3,429)</b>	<b>(1,004)</b>	<b>(1,055)</b>
Capex (growth)	(597)	(2,199)	(975)	(988)
Investments	2,052	(2,312)	(162)	(210)
Others	(1,081)	1,081	133	143
<b>Financing</b>	<b>1,759</b>	<b>822</b>	<b>(458)</b>	<b>(458)</b>
Dividend payments	(457)	(458)	(458)	(458)
Issue of shares	4,201	1,280	0	0
Proceeds from borrowings	(1,985)	0	0	0
Others/interest paid	(2,766)	(1,743)	106	838
<b>Net cash inflow (outflow)</b>	<b>7,015</b>	<b>4,249</b>	<b>2,505</b>	<b>2,612</b>
Beginning cash & cash equivalent	4,249	2,505	2,612	3,450
Ending cash & cash equivalent	(4,899)	864	1,568	2,350

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	4.8	4.4	5.9	5.8
Pre-tax margin	2.2	(0.2)	2.1	2.4
Net margin	1.8	(0.6)	1.4	1.7
ROA	1.1	(0.4)	0.9	1.1
ROE	2.8	(1.0)	2.6	3.4
<b>Growth</b>				
Turnover	(2.4)	2.5	4.9	5.0
EBITDA	(25.2)	(5.1)	40.4	2.6
Pre-tax profit	(39.5)	n.a.	n.a.	20.3
Net profit	(38.5)	n.a.	n.a.	29.3
Net profit (adj.)	(38.5)	n.a.	n.a.	29.3
EPS	(38.5)	n.a.	n.a.	29.3
<b>Leverage</b>				
Debt to total capital	21.3	26.1	26.1	26.0
Debt to equity	27.7	36.2	36.2	36.0
Net debt/(cash) to equity	3.7	21.5	20.9	15.9
Interest cover (x)	1,308.5	13.5	18.0	17.7

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