

9 December 2024

Construction

Win-Win Collaboration; Still O/W

- **Still O/W; Top Pick: CH Karnchang (CK).** While there are no new projects to be opened for bidding by the Government for the remainder of this year, the two construction firms under our coverage have collaborated on the Orange Line Mass Rapid Transit (MRT) project, as expected. Prospects are positive, as CK can diversify its business risks, and Stecon can gain new orderbooks beyond its FY24 target. We do not rule out the possibility of CK diversifying its risks further by working with another large player.
- **The JV.** CK, as the Orange Line MRT concessionaire's construction arm, will not undertake all of the construction work on its own, as expected. The construction contract is for the 13.4km underground route extension to the West side of Bangkok, worth THB82bn. CK recently mitigated its risks by entering into an agreement with Stecon via the CKST-OR JV (CK: 51%, Stecon: 49%) to proceed with civil construction works for part of the route extension (THB58.95bn) for 64 months.
- **CK should benefit the most from the JV.** In addition to diversifying its project risks, the company can focus on the construction of its existing mega projects, especially the Luang Prabang Hydropower project in Laos (current progress: 37%), which should be completed in FY30. Despite having given up its monopoly on the Orange Line MRT project, CK will remain in control of the overall construction activities, while its orderbooks on hand will stay at the record level of >THB200bn, enhancing its revenue momentum for at least five years. Project GPM can be maintained at >7% as the collaboration will not pressure overall GPM, in our view. Construction progress should also go as scheduled, as we expect it to reach 10% by end-FY25 before moving forward quickly from FY26 onwards.
- **Stecon also set to gain from collaboration.** The company's FY24 business target of securing THB40-50bn worth of new projects is achievable, as it was recently awarded with new projects including: i) Buildings (THB5.8bn), ii) solar power plants (THB6.6bn), and iii) the Orange Line MRT extension (THB29bn), bringing its orderbooks to >THB100bn, despite the company securing very few new projects throughout 9M24. As we expect the latest MRT project to provide solid GPM for Stecon, it should help mitigate the company's GPM fluctuation in the coming quarters.
- **We still prefer CK** due to its long-term revenue recognition. The double-track railway project is scheduled to complete construction in FY27, and the Orange Line MRT construction, which will commence in FY25, should contribute more significant revenue from FY26 onwards. The Luang Prabang hydropower project should help cushion any revenue shortfalls until FY30. In addition to its own construction business, we expect its associate company's Blue Line MRT business to increase its ridership numbers, in the absence of any short-term challenges.

Company Name	Rating	Target (THB)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
CH Karnchang	Buy	25.00	28.2	17.7	1.3	7.4	2.3
Stecon Group	Buy	11.00	25.0	17.5	1.0	5.7	3.1

Source: Company data, RHB

Construction & Engineering | Construction

Overweight (Maintained)

Stocks Covered 2
 Rating (Buy/Neutral/Sell): 2/0/0
 Last 12m Earnings Revision Trend: Negative

Top Picks

CH Karnchang (CK TB) – BUY

Target Price

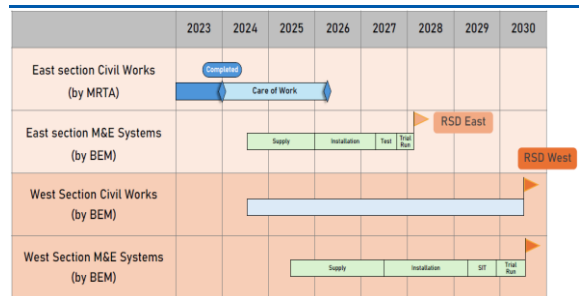
THB25

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Plans for the overall Orange Line MRT network



Source: Bangkok Expressway and Metro

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