

31 January 2023

Sino-Thai Engineering & Construction (STEC TB)

On a Path To Solidifying Growth; Stay BUY

- **Stay BUY, new THB16.20 TP from THB14.30, 13% upside and >2% yield.** We see Sino-Thai Engineering & Construction as one of the key construction players taking opportunities from the new bids due to the pre-election cycle that lies ahead, which will boost earnings growth while toppling orderbooks on hand.
- **Improving trend to continue.** We expect a 4Q22 net profit of THB324m (-14% YoY, +134% QoQ), which includes an extra THB125m gain from adjusting investment properties' fair values. Excluding this (normally booked in 4Q), 4Q22 core profit should improve from 2Q22 and 3Q22's horrendous situations, as core revenue will grow 18% YoY (+11% QoQ) and, more importantly, GPM will rise gradually to 4.5% vs the lowest level in 2Q22 (4.1%). Note: There will be a balanced mix of construction projects contributing revenue streams within the quarter: i) Three projects under a consortium with another key construction player (including the Orange Line Mass Rapid Transit's (MRT) initial phase, the Purple Line MRT's extension, and new double-track railway route (Den Chai-Chiang Rai-Chiang Khong), ii) three power plant construction projects (Sriracha, Pluak Daeng, and Hin Kong), and iii) the Mo Chit Complex project.
- **For FY22,** we see core revenue reversing the trend from FY21's low levels caused by COVID-19's major obstacles, eg labour supply shortages and government orders to halt construction works amid the serious pandemic cycle. GPMs will improve steadily to 4.7%, as the loss-carrying new Parliament project has contributed less to core revenue. Inevitably, we see FY22 earnings growing a strong 22% YoY to THB867m.
- **New orderbook opportunities.** Among new infrastructure project bids to be rolled out within this year, we expect six contracts to be launched for bidding before the general election, ie three for the Red Line MRT extension and three double-track railway routes – we expect rail transport projects to dominate the Government's new bids throughout 2023. Additionally, we think STEC should be a candidate that can win several road transit infrastructure bids that lie ahead, although management is still not confirming participation in the bidding process (set for April) for the Kathu-Patong Expressway project in Phuket. Based on these project bids being rolled out, we expect another jump in orderbooks on hand for STEC (+35% from current orderbooks). Hence, we expect the improvement trend to continue in FY23, as our expectations of full-year earnings growth (+28% YoY) should be driven by higher orderbooks on hand, which should deliver 15% YoY core revenue growth in our view.
- **Upgrade TP.** Based on our proprietary methodology, we derive an ESG score of 2.3 for STEC. Accordingly, our new FY23F TP of THB16.20 – based on a higher P/E of 27.75x (at its 4-year mean) to reflect the stronger new infrastructure construction bids before the upcoming general election trend – has a 20% ESG discount applied to its intrinsic value.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (THBm)	35,841	27,675	30,053	34,547	37,263
Recurring net profit (THBm)	907	697	760	1,113	1,275
Recurring net profit growth (%)	(37.1)	(23.2)	9.2	46.4	14.6
Recurring P/E (x)	24.05	31.30	28.68	19.59	17.10
P/B (x)	1.8	1.8	1.7	1.6	1.5
P/CF (x)	na	4.24	6.03	14.05	14.57
Dividend Yield (%)	2.1	1.7	2.1	2.4	2.7
EV/EBITDA (x)	0.49	(2.90)	(4.10)	(3.16)	(2.56)
Return on average equity (%)	9.2	5.8	6.8	8.4	9.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Buy (Maintained)

Target Price (Return):	THB16.20 (13.3%)
Price (Market Cap):	THB14.30 (USD666m)
ESG score:	2.30 (out of 4)
Avg Daily Turnover (THB/USD)	107m/3.13m

Analyst

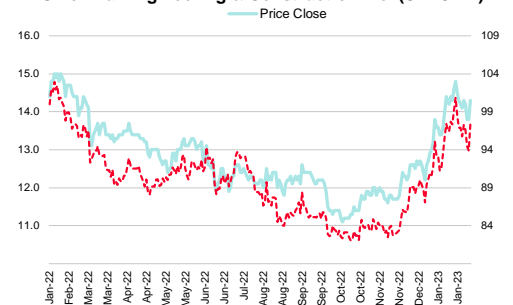
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	5.1	22.2	18.2	0.7
Relative	4.3	4.3	17.5	11.6	(1.8)
52-wk Price low/high (THB)	11.1 – 15.0				

Sino Thai Engineering & Construction Plc (STEC TB)



Source: Bloomberg

Overall ESG Score: 2.30 (out of 4)

E: GOOD

The company has set policies, guidelines, and plans for improvements in its environmental policies. It also provides knowledge and training for its employees to perform these processes according to working standards related to safety and environment, including supporting environmental protection in the surrounding area of each project.

S: GOOD

The company determines and analyses stakeholders by gathering data from each department and the Communication Relations division, which is responsible for communicating and building good relationships with the community around its construction project areas, for both primary and secondary stakeholders: Shareholders, clients, staff, partners, creditors, competitors, governmental organisations, community and society.

G: MODERATE

STEC realises the significance of good corporate governance (CG) policies, which will improve the excellence of work and management processes, as well as its performance and reliability among investors and related parties. The company has thus determined the principles of good CG policies in accordance with guidelines of the Thailand Stock Exchange, based mainly on transparency, integrity, accountability, and competitiveness.

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Financial Exhibits

Asia	Financial summary (THB)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Thailand	Recurring EPS	0.59	0.46	0.50	0.73	0.84
Construction & Engineering	DPS	0.30	0.25	0.30	0.35	0.39
Sino-Thai Engineering & Construction	BVPS	7.98	8.14	8.46	8.89	9.38
STEC TB	Return on average equity (%)	9.2	5.8	6.8	8.4	9.2
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	24.05	31.30	28.68	19.59	17.10
P/E	P/B (x)	1.8	1.8	1.7	1.6	1.5
	FCF Yield (%)	2.3	18.3	8.7	(1.7)	(1.0)
Key drivers	Dividend Yield (%)	2.1	1.7	2.1	2.4	2.7
i. Upcoming infrastructure bids in Thailand;	EV/EBITDA (x)	0.49	(2.90)	(4.10)	(3.16)	(2.56)
ii. Opportunity to upgrade its track record to be on par with the two largest players in the market.	EV/EBIT (x)	1.04	(7.46)	(10.91)	(6.62)	(5.08)
	Income statement (THBm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	35,841	27,675	30,053	34,547	37,263
i. An increase in major construction material prices;	Gross profit	1,579	1,274	1,409	1,884	2,141
ii. Shortage of unskilled workers;	EBITDA	1,986	1,848	1,910	2,435	2,679
iii. Delays in the bidding of new projects.	Depreciation and amortisation	(1,050)	(1,129)	(1,192)	(1,273)	(1,326)
	Operating profit	936	719	718	1,162	1,353
Company Profile	Net interest	(3)	10	26	22	55
STEC is one of the leading engineering and contractor firms in the country, with over 50 years of experience in private and public projects. Its competitive advantage lies in its extensive experience in building power and petrochemical plants.	Pre-tax profit	1,339	878	1,033	1,406	1,613
	Taxation	(236)	(158)	(156)	(262)	(303)
	Reported net profit	1,093	711	867	1,113	1,275
	Recurring net profit	907	697	760	1,113	1,275
	Cash flow (THBm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(4,731)	2,844	1,744	(754)	(1,022)
	Cash flow from operations	(2,778)	5,148	3,616	1,552	1,497
	Capex	3,285	(1,164)	(1,722)	(1,928)	(1,711)
	Cash flow from investing activities	554	(2,811)	476	(1,193)	(1,981)
	Dividends paid	(458)	(457)	(381)	(458)	(534)
	Cash flow from financing activities	365	(1,796)	(192)	(344)	(477)
	Cash at beginning of period	5,375	3,516	4,057	7,958	7,973
	Net change in cash	(1,859)	541	3,900	15	(961)
	Ending balance cash	3,516	4,057	7,958	7,973	7,011
	Balance sheet (THBm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	6,496	7,661	10,800	10,238	9,210
	Tangible fixed assets	5,537	5,431	5,961	6,616	7,001
	Total investments	17,084	20,924	20,459	21,029	21,322
	Total assets	44,033	46,622	51,035	54,752	56,229
	Short-term debt	1,720	650	785	810	846
	Total long-term debt	748	480	534	623	644
	Total liabilities	29,321	29,255	32,178	34,672	35,643
	Total equity	14,712	17,367	18,857	20,080	20,587
	Total liabilities & equity	44,033	46,622	51,035	54,752	56,229
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	8.6	(22.8)	8.6	15.0	7.9
	Recurrent EPS growth (%)	(37.1)	(23.2)	9.2	46.4	14.6
	Gross margin (%)	4.4	4.6	4.7	5.5	5.7
	Operating EBITDA margin (%)	5.5	6.7	6.4	7.0	7.2
	Net profit margin (%)	3.0	2.6	2.9	3.2	3.4
	Dividend payout ratio (%)	41.9	53.7	52.8	48.0	46.6
	Capex/sales (%)	(9.2)	4.2	5.7	5.6	4.6
	Interest cover (x)	17.8	21.5	29.1	36.2	36.5

Source: Company data, RHB

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Figure 1: 4Q22 net profit to gradually improve from the low levels in 3Q22

FYE Dec (THBm)	4Q21	1Q22	2Q22	3Q22	4Q22F	QoQ (%)	YoY (%)	2021	2022F	YoY (%)
Total turnover	6,982	7,620	6,759	7,437	8,237	10.8	18.0	27,675	30,053	8.6
Gross profit	392	431	276	331	371	12.3	-5.4	1,274	1,409	10.6
<i>Gross profit margin (%)</i>	5.6	5.7	4.1	4.4	4.5			4.6	4.7	
EBITDA	612	560	462	434	618	42.5	1.0	1,984	2,074	4.5
<i>EBITDA margin (%)</i>	8.8	7.4	6.8	5.8	7.5			7.2	6.9	
EBIT	322	283	191	171	236	38.4	-26.7	855	882	3.1
<i>EBIT margin (%)</i>	4.6	3.7	2.8	2.3	2.9			3.1	2.9	
Interest expense	(7)	(7)	(5)	(4)	(8)	92.3	22.2	(33)	(25)	-26.3
Equity income	(1)	12	13	11	14	28.5	-1391.6	40	50	26.7
Pre-tax profit	316	277	186	167	228	37.0	-27.7	821	857	4.3
<i>Pre-tax profit margin (%)</i>	4.5	3.6	2.7	2.2	2.8			3.0	2.9	
Tax	(78)	(55)	(23)	(37)	(41)	11.9	-47.2	(158)	(156)	-0.8
<i>Effective tax rate (%)</i>	24.8	20.0	12.4	22.2	18.1			19.2	18.3	
Minority interest	(2)	(2)	(2)	(2)	(3)	NM	NM	(10)	(9)	NM
Extraordinary items	141	0	0	0	125	NM	-11.1	17	125	640.0
Net profit	375	232	173	138	324	134.0	-13.8	711	867	22.0
EPS (THB)	0.25	0.15	0.11	0.09	0.21	134.0	-13.8	0.47	0.57	22.0

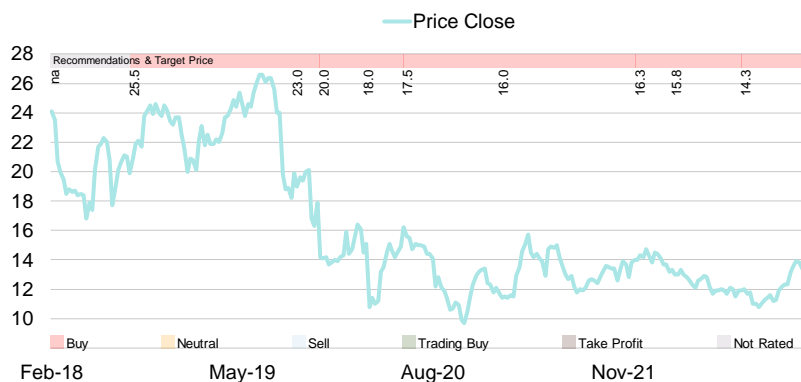
Source: Company data, RHB

Figure 2: Most prioritised projects based on the Ministry of Transport

Project name	Route	Distance (Km)	Project value (THBm)
Thai-Chinese High-Speed Rail Link	Nakhon Ratchasima-Nong Khai	356	320,000
Red Line MRT extension	Rangsit-Thammasat Campus	8.8	6,469
	Missing link	25.9	47,000
	Taling Chan-Salaya	14.8	10,670
Double-track railway	Taling Chan-Siriraj	5.7	4,694
	Khon Kaen-Nong Khai	167	29,748
	Pak Nam Pho-Den Chai	280.5	59,400
Variation order for Motorway No. 6	Jira-Ubon Ratchathani	308	36,683
	Bang Pa In-Nakhon Ratchasima	196	6,000
Southern Land Bridge	Chumphon-Ranong	89.4	NA
			520,664

Source: Ministry of Transport

Recommendation Chart

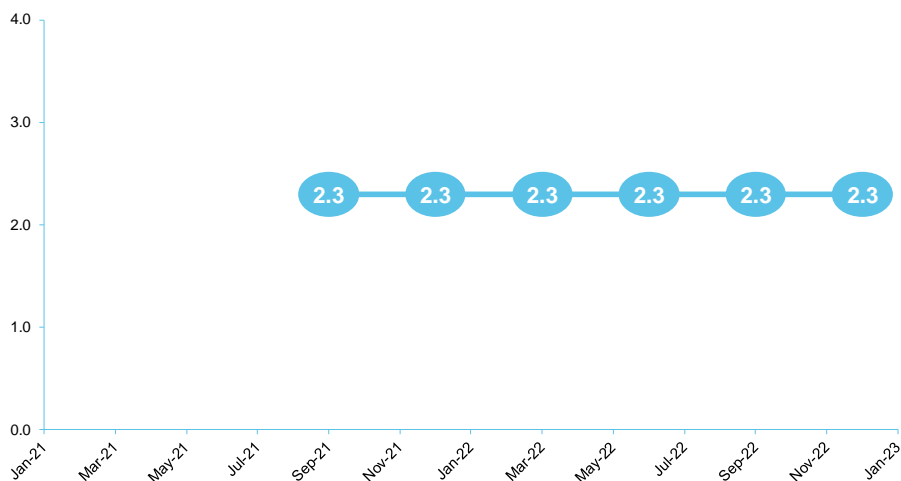


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-30	Buy	14.3	12.2
2022-03-16	Buy	15.8	13.6
2021-12-17	Buy	16.3	14.4
2021-03-02	Buy	16.0	12.6
2021-01-21	Buy	16.0	12.1
2020-06-03	Buy	17.5	15.5
2020-03-01	Buy	18.0	14.9
2020-01-20	Buy	20.0	15.9
2019-11-15	Buy	20.0	14.6
2019-09-12	Buy	23.0	19.7
2019-03-01	Buy	25.5	22.3
2018-08-14	Buy	25.5	21.4

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Analyst	Company
-	-

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Corporate Governance Report Rating 2022 (CG Score) as of 27 Oct 2022



Companies with Excellent CG Scoring by alphabetical order

AAV	AWC	BWG	CSS	FSMART	ILINK	LALIN	MST	PDG	Q-CON	SCN	SPRC	THANA	TQM	UV
ADVANC	AYUD	CENTEL	DDD	FVC	ILM	LHFG	MTC	PDJ	QH	SDC	SPVI	THANI	TRC	VCOM
AF	BAFS	CFRESH	DELTA	GC	IND	LIT	MVP	PG	QTC	SEAFCO	SSC	THCOM	TRUE	VGI
AH	BAM	CGH	DEMCO	GEL	INTUCH	LOXLEY	NCL	PHOL	RATCH	SEAOIL	SSSC	THG	TSC	VIIH
AIRA	BANPU	CHEWA	DOHOME	GFPT	IP	LPN	NEP	PLANB	RBF	SE-ED	SST	THIP	TSR	WACOAL
AJ	BAY	CHO	DRT	GGC	IRC	LRH	NER	PLANET	RS	SELIC	STA	THRE	TSTE	WAVE
AKP	BBIK	CIMBT	DTAC	GLAND	IRPC	LST	NKI	PLAT	S	SENA	STEC	THREL	TSTH	WHA
ALLA	BBL	CK	DUSIT	GLOBAL	ITEL	MACO	NOBLE	PORT	S&J	SENAJ	STGT	TIPCO	TTA	WHAUP
ALT	BCP	CKP	EA	GPI	IVL	MAJOR	NSI	PPS	SAAM	SGF	STI	TISCO	TTB	WICE
AMA	BDMS	CM	EASTW	GPSC	JTS	MAKRO	NOBLE	PR9	SABINA	SHR	SUN	TK	TTCL	WINNER
AMARIN	BEM	CNT	ECF	GRAMMY	JWD	MALEE	NSI	PREB	SAMART	SICT	SUSCO	TKN	TTW	XPG
AMATA	BEYOND	COLOR	ECL	GULF	K	MBK	NVD	PRG	SAMTEL	SIRI	SUTHAI	TKS	TU	ZEN
ANAN	BGC	COM7	EE	GUNKUL	KBANK	MC	NYT	PRM	SAT	SIS	SVI	TKT	TVDH	
AOT	BGRIM	COMAN	EGCO	HANA	KCE	MCOT	OISHI	PSH	SC	SITHAI	SYMC	TMILL	TVI	
AP	BIZ	COTTO	EPG	HARN	KEX	METCO	OR	PSL	SCB	SMP	SYNTEC	TMT	TVO	
APURE	BKI	CPALL	ETC	HENG	KGI	MFEC	ORI	PTG	SCC	SNC	TACC	TNDT	TPWC	
ARIP	BOL	CPF	ETE	HMPRO	KKP	MINT	OSP	PTT	SCC	SONIC	TASCO	TNITY	U	
ASP	BPP	CPI	FN	ICC	KSL	MONO	OTO	PTTEP	SCG	SORKON	TCAP	TOA	UAC	
ASW	BRR	CPN	FNS	ICHI	KTB	MOONG	PAP	PTTGC	SCGP	SPALI	TEAMG	TOP	UBIS	
AUCT	BTS	CRC	FPI	III	KTC	MSC	PCSGH	PYLON	SCM	SPI	TFMAMA	TPBI	UPOIC	








Companies with Very Good CG Scoring by alphabetical order

2S	BCH	CV	IMH	MBAX	PICO	SABUY	SRICHA	TPAC	XO
7UP	BE8	CWT	INET	MEGA	PIMO	SAK	SSF	TPCS	YUASA
ABICO	BEC	DCC	INGRS	META	PIN	SALEE	SSP	TPIPL	ZIGA
ABM	SCAP	DHOME	INSET	MFC	PJW	SAMCO	STANLY	TPIPP	
ACE	BH	DITTO	INSURE	MGT	PL	SANKO	STC	TPLAS	
ACG	BIG	DMT	IRCP	MICRO	PLE	SAPPE	STPI	TPS	
ADB	BJC	DOD	IT	MILL	PM	SAWAD	SUC	TQR	
ADD	BJCHI	DPAINT	ITD	MITSIB	PMTA	SCI	SVOA	TRITN	
AEONTS	BLA	DV8	J	MK	PPP	SCP	SVT	TRT	
AGE	BR	EASON	JAS	MODREN	PPPM	SE	SWC	TRU	
AHC	BRI	EFORL	JCK	MTI	PRAPAT	SECURE	SYNEX	TRV	
AIE	BROOK	ERW	JCKH	NBC	PRECHA	SFLEX	TAE	TSE	
AIT	BSM	ESSO	JMT	NCAP	PRIME	SFP	TAKUNI	TVT	
ALUCON	BYD	ESTAR	JR	NCH	PRIN	SFT	TCC	TWP	
AMANAH	CBG	FE	KBS	NDR	PRINC	SGP	TCMC	UBE	
AMR	CEN	FLOYD	KCAR	NETBAY	PROEN	SIAM	TFG	UEC	
APCO	CHARAN	FSS	KIAT	NEX	PROS	SINGER	TFI	UKEM	
APCS	CHAYO	FTE	KISS	NINE	PROUD	SKE	TFM	UMI	
AQUA	CHG	GBX	KK	NATION	PSG	SKN	TGH	UOBKH	
ARIN	CHOTI	GCAP	KOOL	NNCL	PSTC	SKR	TIDLOR	UP	
ARROW	CHOW	GENCO	KTIS	NOVA	PT	SLP	TIGER	UPF	
AS	CI	GJS	KUMWEL	NPK	PTC	SMART	TIPH	UTP	
ASAP	CIG	GTB	KUN	NRF	QLT	SMD	TITLE	VIBHA	
ASIA	CITY	GYT	KWC	NTV	RCL	SMIT	TM	VL	
ASIAN	CIVIL	HEMP	KWM	NUSA	RICHY	SMT	TMC	VPO	
ASIMAR	CMC	HPT	L&E	NWR	RJH	SNNP	TMD	VRANDA	
ASK	CPL	HTC	LDC	OCC	ROJNA	SNP	TMI	WGE	
ASN	CPW	HUMAN	LEO	OGC	RPC	SO	TNL	WIJK	
ATP30	CRANE	HYDRO	LH	ONEE	RT	SPA	TNP	WIN	
B	CRD	IGN	LHK	PACO	RWI	SPC	TNR	WINMED	
BA	CSC	IFS	M	PATO	S11	SPCG	TOG	WORK	
BC	CSP	IIG	MATCH	PB	SA	SR	TPA	WP	



Companies with Good CG Scoring by alphabetical order

A	BM	CTW	GSC	LEE	NFC	RPH	PTECH	TRUBB
A5	BROOK	D	HL	LPH	NSL	RSP	TC	TTI
AI	BSBM	DCON	HTECH	MATI	NV	SIMAT	TCCC	TYCN
ALL	BTNC	EKH	IHL	M-CHAI	PAF	SISB	TCJ	UMS
ALPHAX	CAZ	EMC	INOX	MCS	PEACE	SK	TEAM	UNIQ
AMC	CCP	EP	JAK	MDX	PF	SOLAR	THE	UPA
APP	CGD	EVER	JMART	MENA	PK	SPACK	THMUI	UREKA
AQ	CMAN	F&D	JSP	MJD	PPM	SPG	TKC	VARO
AU	CMO	FMT	JUBILE	MORE	PRAKIT	SQ	TNH	W
B52	CMR	GIFT	KASET	MPIC	PTL	STARK	TNPC	WFX
BEAUTY	CPANEL	GLOCON	KCM	MUD	RAM	STECH	TOPP	WPH
BGT	CPT	GLORY	KWI	NC	ROCK	SUPER	TPCH	YGG
BLAND	CSR	GREEN	KYE	NEWS	RP	SVH	TPOLY	

Score Range	Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass

IOD (IOD Disclaimer)

การเปิดเผยผลการสำรวจของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (IOD) ในเรื่องการกำกับดูแลกิจการ (Corporate Governance) นี้เป็นการดำเนินการตามนโยบายของสำนักงานคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ โดยการสำรวจของ IOD เป็นการสำรวจและประเมินจากข้อมูลของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยและตลาดหลักทรัพย์เอ็มเอไอ ที่มีการเปิดเผยต่อสาธารณะและเป็นข้อมูลที่ผู้ลงทุนทั่วไปสามารถเข้าถึงได้ ดังนั้นผลสำรวจดังกล่าวจึงเป็นการนำเสนอในมุมมองของบุคคลภายนอกโดยไม่ได้เป็นการประเมินการปฏิบัติและมีได้มีการใช้ข้อมูลภายในในการประเมิน

อนึ่ง ผลการสำรวจดังกล่าว เป็นผลการสำรวจ ณ วันที่ปรากฏในรายงานการกำกับดูแลและกิจการบริษัทจดทะเบียนไทยเท่านั้น ดังนั้นผลการสำรวจจึงอาจเปลี่ยนแปลงได้ภายหลังจากวันดังกล่าว ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความถูกต้องของผลการสำรวจดังกล่าวแต่อย่างใด

Source : <http://www.thai-iod.com/th/projects-2.asp>