

22 June 2020

Construction & Engineering | Construction

Sino-Thai Engineering & Construction (STEC TB)

Buy (Maintained)

Time To Level Up The Orderbook; Maintain BUY

- Maintain BUY and TP of THB17.50, 10% upside and c.2% yield.** Sino-Thai Engineering & Construction's orderbook is on the rise supported by U-Tapao airport expansion, thereby enhance revenue visibility. With public infrastructure projects awaiting bidding, any success in winning bids from now on should help improve the company's overall profit margin.
- U-Tapao airport project came just in time.** On 19 Jun, U-Tapao International Aviation Co Ltd – Sino-Thai has a 20% stake – signed a Public-Private-Partnership (PPP) agreement with the Eastern Economic Corridor Office (EECO) to develop and operate U-Tapao Airport and Eastern aviation city for a 50-year period (3-year development period plus 47-year operation). Based on Sino-Thai's 20% stake, investment burden on the company will total THB1.8bn (50% of which has already been invested since the agreement signing date). As Sino-Thai is a cash-rich company, this investment amount will not pose any financial difficulties while it is also expanding into other recurring-income businesses.
- An immediate boost to orderbook level.** Being the construction arm within the JV, Sino-Thai should inevitably be assigned the construction of the airport expansion development – to begin within 18 months after the project design is finalised. For the first phase, construction work is estimated at THB20-30bn and this project value should be added into the company's orderbook by 3Q20. Based on its current orderbook level of THB80bn, it may rise up to the previous high level of above THB100bn. Management is confident of the company's ability to get new job orders of THB40bn for this year and THB50bn for next year.
- A medium-term boost in revenue prospects.** Although its orderbook level should increase immediately, significant revenue contribution from this abovementioned project will begin in late FY21. Therefore, it should not enhance earnings prospects in the short term. In spite of no short-term impact on revenue forecast from this project, revenue is expected to be on a rising trend underpinned by construction works of three MRT projects (Orange-Line, Yellow-Line, and Pink-Line) that are currently active.
- GPM the only dampener.** Its GPM downtrend has been the only major drawback, which began in 2Q19 after high-margin construction work of power plants were completed. We expect the company to endure a low GPM period until FY22 when its new orderbook ought to raise GPM from the current low level of 4.3%. On the Orange-Line MRT extension to be bid out in 4Q20, this project will likely be a major GPM driver should the consortium, with which Sino-Thai is part of, win the bid.

Target Price (Return): THB17.50 (+10%)
 Price: THB15.90
 Market Cap: USD782m
 Avg Daily Turnover (THB/USD) 218m/6.82m

Analyst

Chatree Srismaicharoen
 +66 2088 9743
chatree.sr@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.0	12.0	51.4	11.2	(41.7)
Relative	25.2	7.4	20.1	24.1	(22.0)
52-wk Price low/high (THB)				9.95	– 27.3

Sino Thai Engineering & Construction Plc (STEC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	27,537	32,992	35,025	37,152	40,655
Recurring net profit (THBm)	1,298	1,434	1,170	1,245	1,380
Recurring net profit growth (%)	-	10.5	(18.4)	6.4	10.9
Recurring P/E (x)	18.69	16.91	20.73	19.48	17.57
P/B (x)	2.2	2.1	2.0	1.9	1.8
P/CF (x)	2.50	102.66	13.58	18.49	4.59
Dividend Yield (%)	3.1	2.2	2.2	2.3	2.4
EV/EBITDA (x)	1.65	(0.59)	(0.67)	(0.51)	(1.84)
Return on average equity (%)	13.0	12.8	9.9	10.0	10.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.85	0.94	0.77	0.82	0.90
Construction & Engineering	DPS	0.50	0.35	0.35	0.36	0.38
Sino-Thai Engineering & Construction	BVPS	7.09	7.55	7.96	8.43	8.97
STEC TB	Return on average equity (%)	13.0	12.8	9.9	10.0	10.4
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	18.69	16.91	20.73	19.48	17.57
P/E	P/B (x)	2.2	2.1	2.0	1.9	1.8
	FCF Yield (%)	32.3	(25.3)	2.9	1.1	16.6
Key drivers	Dividend Yield (%)	3.1	2.2	2.2	2.3	2.4
i. Upcoming infrastructure bids in Thailand;	EV/EBITDA (x)	1.65	(0.59)	(0.67)	(0.51)	(1.84)
ii. Opportunity to upgrade its track record to be on par with the two largest players in the market.	EV/EBIT (x)	2.25	(0.92)	(1.14)	(0.84)	(3.02)
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	27,537	32,992	35,025	37,152	40,655
i. An increase in major construction material prices;	Gross profit	2,117	1,824	1,796	1,937	2,160
ii. Shortage of unskilled workers;	EBITDA	2,247	2,154	2,126	2,256	2,484
iii. Delays in the bidding of new projects.	Depreciation and amortisation	(599)	(771)	(868)	(902)	(966)
	Operating profit	1,649	1,383	1,258	1,354	1,518
Company Profile	Net interest	23	97	105	86	50
Sino-Thai Engineering & Construction 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	1,715	1,770	1,475	1,571	1,736
	Taxation	(397)	(326)	(287)	(301)	(328)
	Reported net profit	1,298	1,434	1,170	1,245	1,380
	Recurring net profit	1,298	1,434	1,170	1,245	1,380
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	7,271	1,366	1,020	(609)	3,042
	Cash flow from operations	9,713	236	1,786	1,312	5,285
	Capex	(1,882)	(6,370)	(1,084)	(1,041)	(1,267)
	Cash flow from investing activities	(3,418)	(660)	(3,005)	(1,388)	(2,447)
	Dividends paid	0	(763)	(534)	(534)	(549)
	Cash flow from financing activities	(1,436)	(1,423)	(251)	(195)	(319)
	Cash at beginning of period	2,363	7,222	5,375	3,905	3,634
	Net change in cash	4,859	(1,847)	(1,471)	(271)	2,519
	Ending balance cash	7,222	5,375	3,905	3,634	6,153
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	9,997	7,261	5,993	5,622	8,299
	Tangible fixed assets	4,447	5,556	5,771	5,910	6,211
	Total investments	12,032	20,182	21,902	22,349	23,371
	Total assets	45,575	49,207	52,262	54,485	61,356
	Short-term debt	462	585	714	753	785
	Total long-term debt	774	1,061	1,214	1,514	1,712
	Total liabilities	34,355	34,560	38,330	39,816	45,827
	Total equity	11,221	14,648	13,933	14,669	15,528
	Total liabilities & equity	45,575	49,207	52,262	54,485	61,356
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	37.2	19.8	6.2	6.1	9.4
	Recurrent EPS growth (%)	0.0	10.5	(18.4)	6.4	10.9
	Gross margin (%)	7.7	5.5	5.1	5.2	5.3
	Operating EBITDA margin (%)	8.2	6.5	6.1	6.1	6.1
	Net profit margin (%)	4.7	4.3	3.3	3.4	3.4
	Capex/sales (%)	6.8	19.3	3.1	2.8	3.1
	Interest cover (x)	56.0	27.2	26.9	22.6	21.6

Source: Company data, RHB

Figure 1: Project details of U-Tapao Airport and Eastern Aviation City Development

U-Tapao Airport and Eastern Aviation City Development

Project location	Banchang District and Sattahip District, Rayong
Project size	6,500 rai (1,040-ha)
Type of investment	PPP Net cost
Counterparty	The Eastern Economic Corridor Office of Thailand and U-Tapao International Aviation Co., Ltd
Objective	To become the third international airport in Thailand and business continuity under the Eastern Special Development Zone Act, 2018, to support the expansion of the Eastern Economic Special Economic Zone (EEC) and connect the passenger transportation with Suvarnabhumi Airport and Don Muang Airport, and being an important aviation hub in the region.
Scope of work on private sector	<p>A) The main work of U-Tapao international airport</p> <p>i. Project operation</p> <ul style="list-style-type: none"> • New passenger terminal • Ground transportation center • Taxiway that connects the first runway and the second runway • Apron taxiway for passengers and cargo transportation • Air freight and logistics center • Public utilities prepared by contractual party • Ground services <p>ii. Project development</p> <ul style="list-style-type: none"> • Immigration department office • Customs department office • Office of the relevant government agencies and others that are necessary for the project <p>iii. Other relating to services and maintenance</p> <ul style="list-style-type: none"> • The second runway and the taxiway • Apron taxiway for aircraft maintenance center <p>B) Other supporting work for U-Tapao International Airport</p> <p>i. Free trade area</p> <p>ii. Commercial area</p> <p>C) Other related work as specified in the Agreement</p>
Project duration	<p>50 years divided into several phases:</p> <ul style="list-style-type: none"> • Phase 1 will be divided into two stages as follows: <u>Stage 1:</u> Project development of U-Tapao International Airport will be not over three years. <u>Stage 2:</u> The operation and maintenance of the U-Tapao International Airport will be not over 47 years. • Project implementation in the next phase

Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-03	Buy	17.5	15.5
2020-03-01	Buy	18.0	14.9
2020-01-20	Buy	20.0	15.9
2019-09-12	Buy	23.0	19.7
2019-03-01	Buy	25.5	22.3

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

**RHB Securities Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211