

23 March 2022

Company Note

Rating

BUY

(Initiation of Coverage)

Company

Civil Engineering

Bloomberg

SET

Exchange

Sector

CIVIL TB

CIVIL

SET

Construction Services

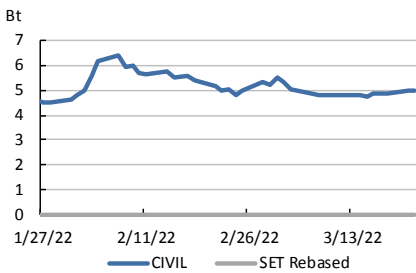
Foundation laid for substantial growth

12mth price target (THB)	7.50
Current price (22/03/2022)	4.98
Upside/Downside	51%
CG rating	n/a
ESG rating	-
Thai CAC	n/a

Share summary

Issued shares :	(m shrs)	700.0
Market capitalization:	(THB bn)	3.9
	(USD bn)	0.1
Avg. Daily Turnover:	(THBm)	253.9
	(USDm)	7.6
Foreign Limit/Actual	(%)	49/3
Free Float:	(%)	30.2
NVDR:	(%)	0.5

Share price / rel. to SET



Source: Bloomberg Finance LP

Performance (%)	1m	3m	12m
CIVIL	(3.30)	-	-
SET	(0.97)	3.14	7.28

Major Shareholders

Shareholder	%
Atsavasirisuk Holding Co	64.29
Naovarat Vatanavoralux	3.57
Gulf International Investment (HK)	2.86
BTS Group Holdings	2.14

Source: SET

Sansanee Srijamjuree

(ID: 018176)

(66) 2633 6475

sansanee@tisco.co.th

Prime beneficiary of the government's focus on infrastructure; initiate with BUY

CIVIL, one of Thailand's leading mid-sized contractors, is positioned as a direct beneficiary of this year's uptrend in public construction projects. The company's backlog is currently near its all-time high and should reach a new record in the near future given that there are plenty of potential projects. The big backlog, plus the cost competitiveness enhanced by its building materials plants, should result in strong earnings growth. These factors, coupled with the stock's undemanding valuation, lead us to initiate coverage with a Buy.

Earnings stream secured by big backlog plus plenty of potential projects

CIVIL's current backlog is at Bt15.74bn, which should help secure earnings over the next 2-3 years. We expect the company's backlog to further grow as there are plenty of potential projects, e.g. high-speed railways, motorways, highways & roads, expressways, airports, double tracks, flood prevention and reservoir projects. The company targets to win Bt10bn in new projects this year, enlarging its backlog to a new record of Bt20bn by year-end. Our assumptions for new projects won, however, are relatively conservative at Bt8bn p.a. for 2022-24F. We also note that BTS and GULF hold 2.14% and 2.86% stakes in CIVIL, further brightening the outlook for potential projects.

Expect strong earnings growth of 39% in 2022F and 2022-24F CAGR of 19.7%

Despite lockdown impact, CIVIL achieved strong earnings growth of 122% in 2021 on the back of all-time high construction revenue and gross margin expansion. Support came from the big backlog and well-managed operations which mitigated impact from rising costs and the lockdowns. Based on its big backlog with plenty of expansion potential, we estimate CIVIL's construction revenue will make another high to Bt6bn this year, pushing earnings growth to 39% (2022-24F earnings CAGR of 19.7%).

Attractive valuation; initiate with BUY rating and TP of Bt7.50

We initiate coverage of CIVIL with a BUY rating and a target price of Bt7.50, based on a 2022F PER of 19.6x (derived from current sector average). We view this as reasonable as it represents a PEG of 1x vs. The market PEG of 1.5x. Key risks are construction delays, fewer-than-expected new projects, cost overruns and COVID-19 outbreaks at construction sites.

Forecasts and ratios

Year ended Dec 31	2020	2021	2022F	2023F	2024F
Sales (THBm)	4,095	5,046	6,287	7,308	8,290
EBITDA (THBm)	339	501	624	714	806
Net profit (THBm)	87	193	268	324	384
EPS (THB)	0.17	0.39	0.38	0.46	0.55
EPS (% YoY)	-38.2	121.7	-0.7	21.1	18.3
<i>EPS vs Cons (%)</i>			0.7	-3.5	-15.7
PER (X)	0.0	12.9	13.0	10.7	9.1
PBV (X)	n.a.	3.2	2.0	1.8	1.6
EV/EBITDA (X)	n.a.	7.2	6.5	6.2	6.0
Yield	n.a.	7.6	3.1	3.7	4.4
ROE	8.4	21.0	21.1	17.3	18.2

Source: Company data, TISCO Research estimates

Investment thesis

Outlook

Civil Engineering (CIVIL) is one of Thailand's leading mid-sized construction companies. The company has over 50 years of experience with an extensive track record of over 1,000 large-scale construction projects. CIVIL's experience and expertise is in railway works, double-track railways and high-speed trains, motorways & highways, expressways, airports, dams and reservoirs, industrial estates and other infrastructure projects. Through its wholly-owned subsidiaries, CIVIL also operates in the construction materials and real estate service businesses. The group has plants to produce precast concrete, ready mix concrete, asphaltic concrete, pre-stressed concrete, and corrugated steel railings (for road-side car barriers) and sewers. The products are mostly used in its construction projects and are sold to subcontractors. The company also has a mining concession for limestone, which is a main raw material for construction materials and cement making. All of these have enabled CIVIL to increase its bargaining power with suppliers and maintain an edge in cost management for construction projects. The company also has rental income from one office building and its machinery & equipment for rent. In 2021, 95.2% of its revenue was from construction services, 4.5% was from sales of construction materials, and 0.3% was from rental income from real estate and machinery.

We like CIVIL for its: 1) extensive experience and proven track record in a wide variety of construction works, mainly infrastructure projects, 2) cost competitiveness enhanced by its building materials plants and employment of technology which has raised efficiency, 3) big backlog with plenty of potential projects, 4) future opportunities from its shareholders, BTS and GULF, and 5) solid financial status that allows the company to capture opportunities in the growing construction business.

CIVIL impressively posted earnings growth of 122% in 2021 as the company's construction revenue reached an all-time high, driven by its big backlog, while gross margin expanded as well-managed operations mitigated impact from rising costs and lockdowns. CIVIL's earnings over the next 2-3 years are secured by its current big backlog of Bt15.74bn, near an all-time high of Bt16.67bn. We believe CIVIL is in a good position to expand its backlog given plenty of potential projects in the pipeline. With both BTS and GULF holding 2.14% and 2.86% stakes in the company, CIVIL has a high chance to participate in the upcoming projects of these two companies. This big backlog plus plenty of potential projects underpin our estimate that CIVIL will win new projects worth Bt8bn p.a. and that the company's construction revenue will make another high of Bt6bn in 2022F before further growing to Bt7bn and Bt8bn in 2023-24F. Of the total projected revenue for 2022-24F, 100%, 83% and 47% is secured by the company's existing backlog. Hence, winning any new major projects beyond our assumptions could provide further upside to our forecasts.

Valuation

We initiate coverage of CIVIL with a BUY rating and a target price of Bt7.50, based on a 2022F PER of 19.6x (derived from current sector average). We believe this is not excessive as it implies a PEG of 1x, relatively low compared with the market PEG of 1.5x.

Risks

Our forecasts assume that construction of the various projects will be completed on schedule. Thus, any delays would result in slower-than-expected revenue recognition and/or cost overruns. Another major risk is cost overruns from rise in material prices. However, the company mitigates this risk by 1) backwards integration via its limestone mining concession and plants to produce ready-mixed concrete, asphaltic cement, segments, etc, 2) subcontracting its projects to pass on risks to subcontractors, 3) locking in prices of building materials such as concrete, rocks, and sands throughout the project, and 4) using its cash on hand to stock up on steel, asphalt, and oil at satisfactory prices. In addition, there is the K factor (escalation clause) that should help offset some of the cost increase.

Valuation

Undemanding valuation

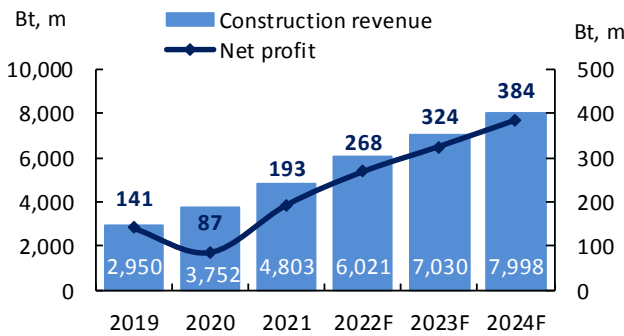
CIVIL is currently trading at an undemanding 2022F PER of only 13x, a deep discount to its peers and the sector average of 19.6x and market PER of 16.4x. As CIVIL's earnings growth of 39% this year is relatively strong compared with the market average, the discount is not warranted, in our view. Also, the healthy earnings growth means CIVIL's 2023-24F PER should be reduced to 10.5x and 8.9x. Based on our 2022-23F estimates, CIVIL's ROE is the highest amongst the contractors under our coverage. The company's ROE ratios stand at 21.1% and 17.3%, respectively, compared with the sector averages of 8.3% and 10.4%. Thus, we believe the current valuation has yet to fully factor in CIVIL's brighter prospects, strong growth prospects and healthy financial position.

We value CIVIL at Bt7.50

We value CIVIL based on a 2022F PER of 19.6x (derived from current sector average), deriving a target price of Bt7.50. We believe this is reasonable as it implies a PEG of 1x, relatively low compared with the market PEG of 1.5x.

If we were to use the market PEG of 1.5x, CIVIL should trade at a 2022F PER of 29.5x and fair value should be as high as Bt11.30. However, if we were to use the target market PER of 16.6x, CIVIL's fair value would be Bt6.35, still offering attractive upside of 27.5% from current share price.

Figure 1. Project 2022-24F earnings CAGR of 19.7%



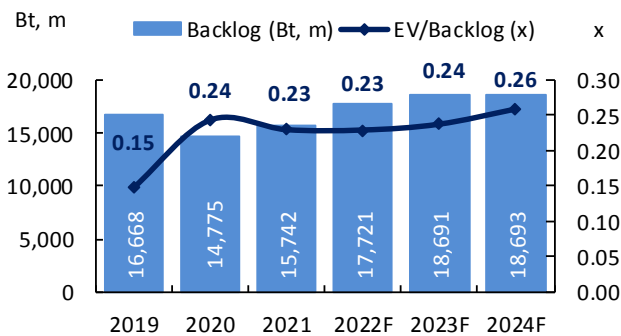
Source: TISCO Research estimates

Figure 2. Price Sensitivity

2022F EPS (Bt)	PER (x)				
	16.4	16.6	19.6	25	29.5
0.34	5.65	5.72	6.75	8.61	10.16
0.36	5.96	6.04	7.13	9.09	10.73
0.38	6.28	6.35	7.50	9.57	11.29
0.40	6.59	6.67	7.88	10.05	11.85
0.42	6.90	6.99	8.25	10.52	12.42

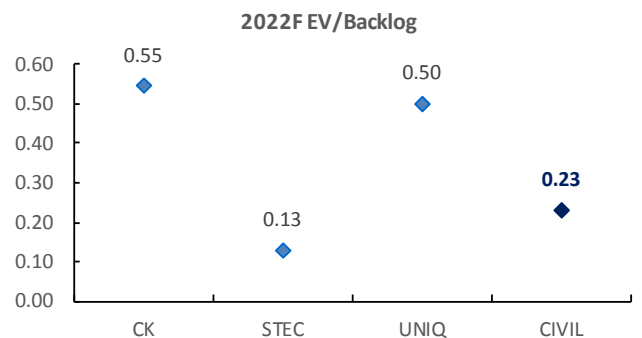
Source: TISCO Research estimates

Figure 3. Undemanding valuation

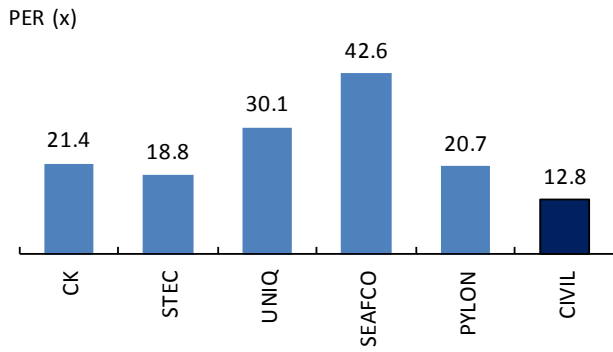


Source: TISCO Research estimates

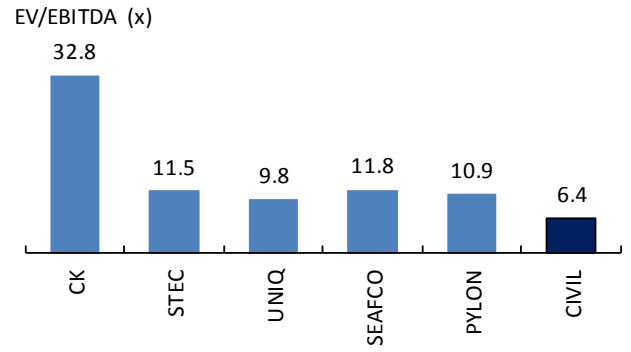
Figure 4. 2022F EV/Backlog of civil contractors



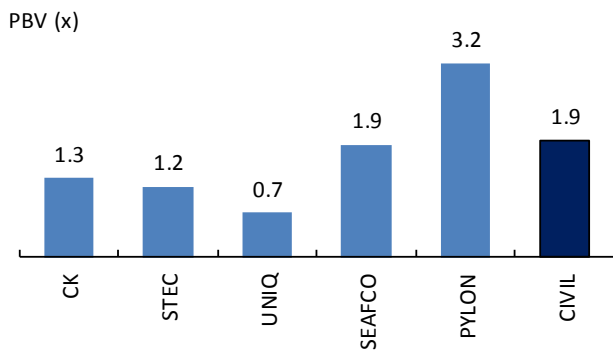
Source: TISCO Research estimates

Figure 5. CIVIL is trading at discount to peers


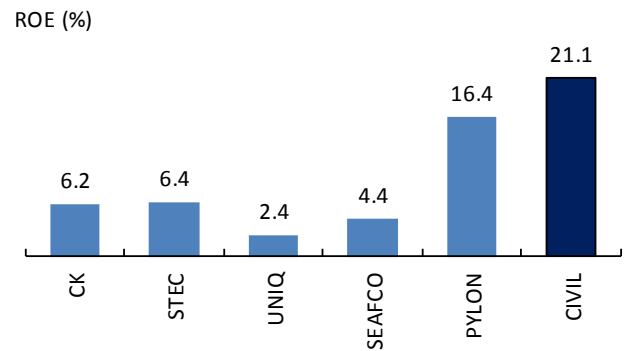
Source: TISCO Research estimates

Figure 6. CIVIL is trading at discount to peers


Source: TISCO Research estimates

Figure 7. PBV is high, in line with ROE


Source: TISCO Research estimates

Figure 8. ROE is the highest in the sector


Source: TISCO Research estimates

Figure 9. Peer comparisons

	Rating	Price	Target	Upside	Market	EPS gwt (%)		PE (X)		PEG 22F	PBV (X)		ROA (%)		ROE (%)		EV/EBITDA		Div. Yield (%)	
		(Bt)	Price	(%)	Cap.	22F	23F	22F	23F	(X)	22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
		22 Mar 22	(Bt)	(m, Local)																
CK	BUY	20.90	25.50	22.0	35,402	188.1	17.0	21.7	18.5	1.1	1.3	1.3	1.9	2.1	6.2	7.0	33.0	30.7	1.9	2.2
STEC	BUY	13.40	18.00	34.3	20,436	60.3	18.5	18.4	15.5	0.8	1.1	1.1	2.3	2.6	6.4	7.2	11.1	9.2	2.3	2.7
UNIQ	SELL	5.45	4.90	(10.1)	5,892	617.6	46.2	29.6	20.2	0.4	0.7	0.7	0.5	0.7	2.4	3.5	9.8	9.3	1.4	2.0
SEAFCO	HOLD	3.98	4.70	18.1	2,944	n.a.	125.6	42.2	18.7	n.a.	1.8	1.7	2.4	5.0	4.4	9.6	11.7	8.0	1.2	2.7
PYLON	BUY	4.76	6.50	36.6	3,569	346.6	44.4	20.9	14.5	0.3	3.2	2.9	13.0	16.3	16.4	21.0	11.0	8.3	2.8	4.0
PREB	BUY	8.60	10.20	18.6	2,655	41.7	9.5	7.8	7.1	0.7	1.1	1.0	5.5	5.8	14.2	14.3	5.8	5.2	6.6	7.2
AVERAGE								21.7	17.2	0.9	1.4	1.4	2.9	3.3	7.5	8.5	24.4	22.2	2.4	2.9
CIVIL	BUY	4.98	7.50	50.6	3,486	(0.7)	21.1	13.0	10.7	0.5	2.0	1.8	3.7	4.0	21.1	17.3	6.5	6.2	3.1	3.7

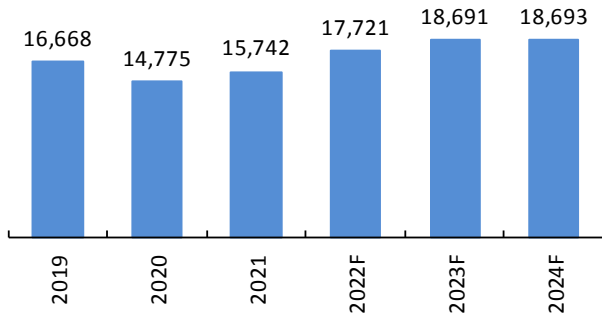
Source: TISCO Research estimates

Earnings outlook

Revenue stream over the next 2-3 years is largely secured by its orders on hand

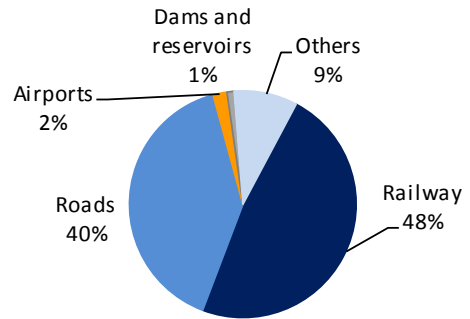
CIVIL’s earnings over the next 2-3 years are secured by its current big backlog of Bt15.74bn, which is near the company’s all-time high of Bt16.67bn from 2019. In addition, we believe CIVIL is in a good position to expand its backlog given plenty of potential projects in the pipeline. Potential projects include the high-speed railway (sections 4-5) Chatuchot-Nakorn Nayok, high-speed rail linking three airports, U-Tapao airport, Motorways, Kathu-Patong Expressway, Chumporn airport, Ranong airport, Khon Kaen flood prevention, Nam Pee-Phayao reservoir, and Wangchan Valley development. We estimate that CIVIL will win new projects worth Bt8bn p.a. and the company’s construction revenue will make another high to Bt6bn in 2022F before further growing to Bt7bn and Bt8bn in 2023-24F. Of the total projected revenue for 2022-24F, 100%, 83% and 47% is secured by the company’s existing backlog. Hence, the winning of any new major projects beyond our assumptions could provide further upside to our forecasts.

Figure 10. Big backlog is about to make a new high



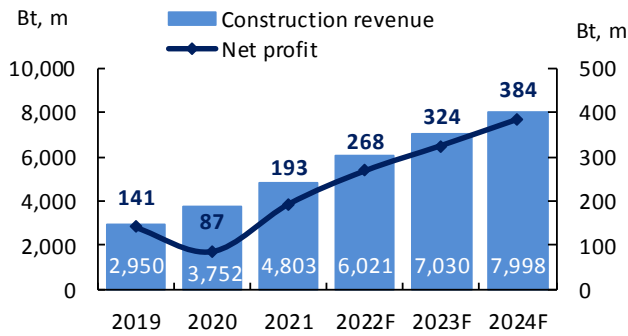
Source: Company data, TISCO Research estimates

Figure 11. 2021 Backlog by type of work



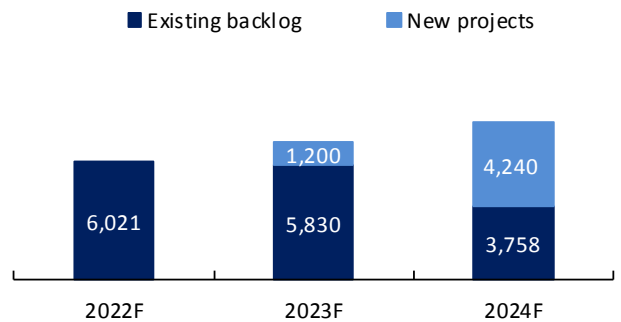
Source: Company data

Figure 12. Projected revenue and profit



Source: TISCO Research estimates

Figure 13. Most of our projected revenue is from existing backlog



Source: TISCO Research estimates

Figure 14. Key current projects

Project	Project Owner	Contract value (Bt,m)	Progress as of Dec-21
High-speed railway Saraburi - Kaengkhoi (Phase 4-7)	SRT	8,000	11%
High-speed railway Sikhio - Kutchik (Phase 2-1)	SRT	2,816	94%
Double track railway Bangsaphannoi - Chumporn	SRT	1,843	84%
Western outer ring road highway No.3901 Section 3	DOH	1,095	95%
Highway No.304	DOH	1,185	22%
Trang airport	DOA	634	97%
Motorway No.3246	DOH	528	94%
Highway No.3701, Chonburi - Pattaya	DOH	525	81%
Project to develop a ditch along Vibhavadi Rangsit Road	DOH	538	66%
Khlong Sang Reservoir	RID	393	63%
Western outer ring road highway No.3901 Section 2	DOH	624	46%
Western outer ring road highway No.3901 Section 1	DOH	632	39%
Ao Nang Special Zone	DPT	134	35%
Lampang Airport	DOA	215	26%
Hua Hin Airport	DOA	224	17%
PTT Skywalk - Green Line	PTT	64	52%

Source: Company data

Figure 15. Awarded projects in 2021

Project	Project Owner	Construction Period	Contract value (Bt,m)
PTT Skywalk - Blue Line	PTT	2022-22	138
Nakorn Si Thammarat Flood relief project - Drainage canals and built	RID	2021-24	982
Trat Special Economic Zone	RID	2021-24	163
Expressway Rama III - Dao Khanong Contract No.1	EXAT	2021-24	2,061
Motorway No.82, Bang Khun Thian - Ban Paew overpass	DOH	2022-25	1,785
Flood protection systems for Ban Lad area Phase 1	DPT	2021-23	120
Other projects			208

Source: Company data

Figure 16. Potential projects

Project	Project Owner	Investment value (Bt, bn)	Distance (km)	Expected timeline
Motorway M9 Western ring road (Bang Khun Tien - Bang Bua Thong)	DOH	56.0	36.0	2022-25
Motorway M5 (Rangsit - Bang Pa In)	DOH	27.8	22.0	2023-26
Network linking M6 (Bang Pa In - Korat) and Highway No.32	DOH	4.7	4.3	2023-25
Motorway M7 (Srinakarin - Suwannabhumi airport)	DOH	29.6	18.0	2024-27
Motorway M8 (Nakorn Pathom - Park Thor)	DOH	51.8	63.0	2024-27
Expressway (Kathu-Patong)	EXAT	14.6	4.0	2022-27
Northern Expressway N1 & N2 Section	EXAT	37.9	18.4	2022-27
Expressway (Chatuchot - 3rd ring road)	EXAT	21.9	17.0	2024-27
Double track (Khon Kaen - Nong Khai)	SRT	26.6	167.0	2022-26
Double track (Jira - Ubonratchathani)	SRT	36.0	308.0	2022-26
Double track (Pak Nam Pho - Denchai)	SRT	62.8	285.0	2023-28
Orange Line (Taling Chan - Thailand Cultural Center)	MRTA	127.0	13.4	2022-27
Red Line Extension	SRT	65.0	79.3	

Source: Company data, Local press

Potential projects from having BTS and GULF as key shareholders

Another key strength of CIVIL is having BTS Group Holdings (BTS) and Gulf Energy Development (GULF) as key shareholders, holding 2.14% and 2.86% stakes. These companies should help provide opportunities for new projects as both are investing in public-private investment projects (PPP), i.e. Bang Pa In – Korat and Bang Yai – Kanjanaburi motorways, U-Tapao airports, with plans to participate in several upcoming PPPs. We believe CIVIL should have an opportunity to participate in the PPP projects or subcontract construction works from the consortium or from Sino-Thai Engineering and Construction (STEC), another partner of the consortium.

Figure 17. Targeted expressway/motorway projects of BTS

Road	Lengths (km)	Projects Value (Bt,m)			Status	Expected Timeline	Target	
		PPP	Government Investment	Private Investment			BEM	BTS
1 Nakhon Pathom - Cha Am Intercity Motorway (M8)	119	Net Cost	60,715	n.a.	- EIA Approval and PPP bidding in 2023-24	2027	√	√
2 West Second Outer Ring Road Motorway Project (Bang Khun Thian - Bangbuathong) (M9)	25	n/a	31,570	n/a	- EIA Approval and PPP bidding in 2022	RSD 2026	√	
3 Bang Khun Thian - Ban Phaeo Intercity Motorway (M82)	18	Net Cost	28,108	O&M 16,100	- EIA Approval and PPP bidding in 2022 - Civil construction	2024		
4 Utraphimuk Elevated Tollway Rangsit - Bang Pa In (M5)	38	n/a	56,002	n/a	- EIA Approval - PPP bidding in 2023-25	2027		
5 Srinakarindra - Suvarnabhumi Airport Motorway project (M7)	19	n/a	37,054	n/a	- EIA Approval and PPP bidding in 2023-25	2026	√	

Source: Department of Highway, BTS, BEM

Figure 18. Targeted rail projects of BTS

Railway	Authority	Details		PPP	Projects Value (Bt,m)		Expected Timeline	Expected COD	Target	
		Station	Km		Government Investment	Private Investment			BEM	BTS
1 Orange Line : Minburi - Bangkhunnon - East : Thailand Cultural Center - Suwinthawong - West : Bangkhunnon - Thailand Cultural Center	MRTA	28	35.9	Net Cost	Under construction	M&E + RST	Expected Bidding 1H22	2025 2027	√	√
		17	22.5		Civil West 96,000	31,000				
		11	13.4							
2 Purple Line (South) : Tao Poon - Ratburana	MRTA	17	23.6	Gross Cost	Civil 80,900	M&E + RST 27,000	Bidding 2021	2026	√	
3 Red Line - Red Line : Taling Chan - Bang sue - Rang Sit - Red Line Extension : Thammawat - Rangsit - Bang Sue - Sala Ya - Light Red Line (Missing Link) : Bang Sue - Phaya Thai - Hua Mak	SRT	8	26.3	Net Cost				2022		
		27	66.4	Net Cost	Civil 67,000	M&E + RST 32,000		2024		
		10	12.9	Net Cost				2024		
4 Blue Line Extension : Bang Khae - Phutthamonthon Sai 4	MRTA	4	8	Net Cost	Civil 10,800	M&E + RST 64,000		n.a	√	
5 Grey Line Phase 1 : Vacharapol - Thonglor	BMA	15	16.3	Gross Cost		32,000		2024		√
6 Western Green Line Extension : Bang Wa - Taling Chan	BMA	6	7	Gross Cost				2025		√
7 LRT : Bang na - Suvarnabhumi	BMA	14	18.3	Gross Cost	27,892	8.6		2024		√

Source: Mass Rapid Authority of Thailand (MRTA), BTS, BEM

Abundant room for further growth based on existing capacity

While we remain conservative with our project assumptions, the company targets to win new projects worth Bt10bn this year, translating to a targeted year-end backlog of Bt20bn. However, as the company normally subcontracts around 40% of its work to subcontractors, CIVIL can undertake a backlog of up to Bt30-50bn without having to significantly raise its capital expenditure.

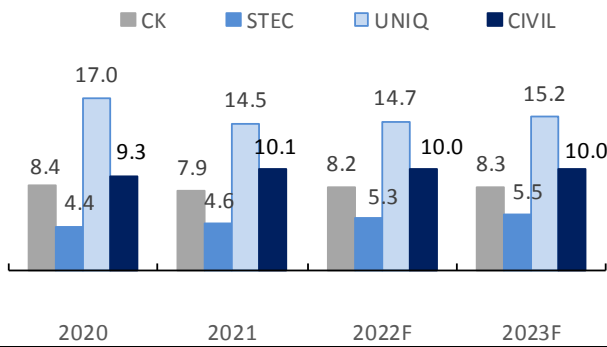
Consistent cost monitoring helps maintain margins at satisfactory level

CIVIL recognizes its revenue based on percentage of completion, while the cost of construction is booked as the projected cost for each project. The company has employed the SAP system to consistently monitor actual cost and % completion compared with the projected cost. The difference between the actual cost and the estimated cost is adjusted each quarter and is reported to management for analysis and solutions. This enables the company to enhance cost efficiency, resulting in satisfactory margin.

Relatively high profit margin vs. civil contractors under our coverage

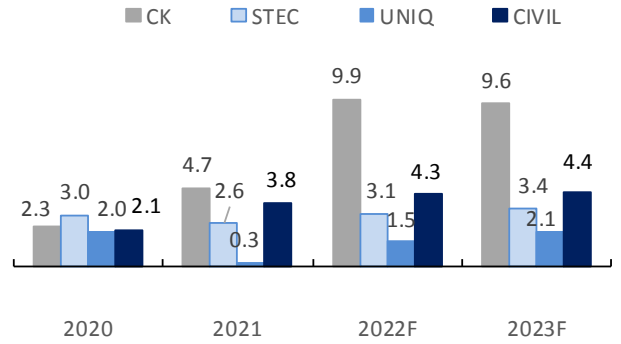
One of CIVIL’s key strengths is in its cost competitiveness enhanced by: 1) employing construction technology which helps to raise efficiency, shorten construction period and lower labor requirements, 2) subcontracting projects to specialized subcontractors to maximize profit, 3) having its own mining concession for limestone and plants to produce building materials and parts, i.e. segments, ready-mixed concrete, asphalt cement, mostly for its projects with the rest sold to subcontractors, 4) locking in prices of building materials such as concrete, rocks, and sand throughout the project, and 5) using cash on hand to stock up on steel, asphalt and oil at satisfactory prices. As a result, CIVIL’s profit margin is relatively high compared with listed civil contractors under our coverage. CIVIL’s gross margin may be below that of UNIQ but its net margin is higher due to the company’s low operating expenses. We note that CK’s higher net margin is brought on by equity income from BEM and CKP and dividend income from TTW.

Figure 19. Gross margin comparison with peers



Source: Company data, TISCO Research estimates

Figure 20. Net margin comparison with peers

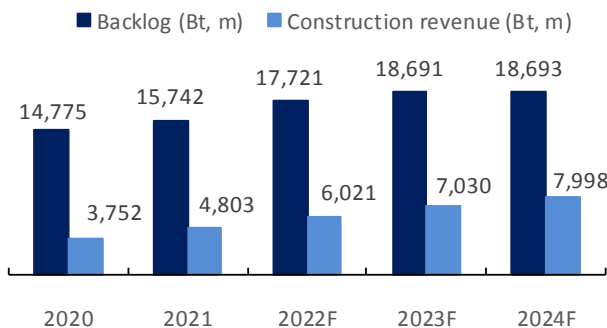


Source: Company data, TISCO Research estimates

Project strong earnings growth of 39% in 2022F and 2022-24F CAGR of 19.7%

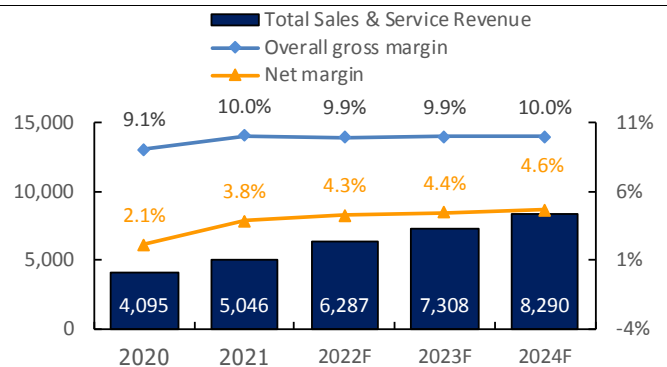
In 2021, CIVIL achieved strong earnings growth of 122%, despite the impact from the pandemic and full lockdowns, thanks to its all-time high in construction revenue and gross margin expansion. Construction revenue grew 28% to Bt4.8bn while construction gross margin widened from 9.3% to 10.1% thanks to its big backlog and well-managed operations, helping mitigate impact from rising costs and lockdowns. We expect CIVIL’s backlog and construction revenue to continue to grow, reaching new highs, while gross margin should be maintained at around 10%. In sum, we estimate CIVIL will post strong earnings growth of 39% this year and project a 2022-24F earnings CAGR of 19.7%.

Figure 21. Backlog and construction revenue about to reach new highs



Source: Company data, TISCO Research estimates

Figure 22. Net margin comparison with peers

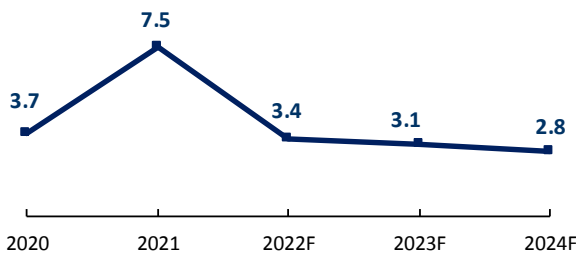


Source: Company data, TISCO Research estimates

Solid financial status post-IPO

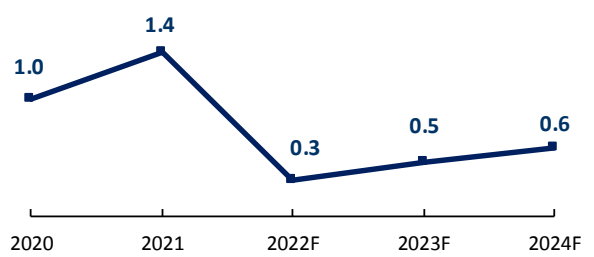
CIVIL made its SET debut on Jan 27th, 2022. During the IPO, the company issued 200m new shares (Par of Bt1) at an IPO price of Bt4.60, based on a trailing PER of 16.8x. Of the total net proceeds of Bt883m, 50-60% will be for investment in machinery & equipment, 20-25% for debt repayment, and the rest for working capital. Given the equity increase, we project the company’s gearing ratio will improve from 2.4x in 2021 to 0.9x while net IBD/E ratio will improve from 1.4x to only 0.3x. We highlight that the surge in the company’s leverage ratio in 2021 was mainly from dividend payment to shareholders pre-IPO. The company’s D/E ratio may look high at 3.4x, but this is mainly due to non-interest bearing debt, such as advances received from project owners.

Figure 23. D/E ratio



Source: Company data, TISCO Research estimates

Figure 24. Net D/E ratio



Source: Company data, TISCO Research estimates

CIVIL is ready for new S curve

The objective of CIVIL’s listing on the SET is to bolster the company’s ability to capture opportunities from Thailand’s growing construction industry, specifically by participating in the government’s large-scale infrastructure projects. Such participation can be in the form of construction contract bidding, participating in PPPs and business partnerships to manage large public projects, and expanding work to infrastructure-related projects of private clients.

Profit fell QoQ in 4Q21 due to gross margin adjustment, but 2021 profit still jumped 122%

CIVIL posted a 4Q21 net profit of Bt22.5m, down 60.8% QoQ but still up 4.9% YoY. The earnings fall QoQ was mainly due to narrowing of construction revenue margin from 10.8% to 7.3% due to gross margin adjustment. Note that when the company adjusts gross margin, the adjustment has to be backdated to all revenue already recognized from such projects; thus, the impact is material. The earnings growth YoY was mainly brought on by strong growth in construction revenue of 23% from the company’s bigger backlog. S&A expenses were kept well under control, falling both YoY and QoQ, from 6.1% and 6.0% to sales, to 5.5%.

Despite the soft 4Q results, net profit in 2021 was strong at Bt192.7m, jumping 121.7% YoY, from both revenue growth and margin expansion. Construction revenue grew 28%, despite lockdown impact, thanks to its big backlog while construction gross margin widened from 9.3% to 10.1% even with the gross margin adjustment in 4Q21. In spite of sales growth and lockdown impact, S&A expenses were kept well under control, declining 2.2%. As a result, S&A expense to sales was reduced from 7.1% to 5.7%.

Figure 25. Profit rose YoY in 4Q21 but still fell QoQ due to gross margin adjustment

	4Q21	4Q20	% YoY	3Q21	% QoQ	12M21	12M20	% YoY
Construction Revenue	1,271.1	1,033.1	23.0	1,266.8	0.3	4,803.3	3,752.3	28.0
Sales of Construction Materials	47.4	91.4	-48.2	49.4	-4.1	226.6	327.7	-30.8
Rental Income	4.1	3.5	15.2	4.1	-1.5	16.0	14.7	8.7
Sales & Services	1,322.6	1,128.1	17.2	1,320.3	0.2	5,045.9	4,094.7	23.2
Cost of Construction	1,178.3	942.7	25.0	1,129.7	4.3	4,318.9	3,404.3	26.9
Cost of Construction Materials Sales	43.9	86.6	-49.3	45.1	-2.6	211.1	309.7	-31.8
Cost of Rental Income	2.7	2.4	11.8	2.7	-0.4	10.6	9.3	14.3
Total Cost of Sales & Services	1,224.8	1,031.7	18.7	1,177.4	4.0	4,540.6	3,723.2	22.0
Gross Profit on Construction Revenue	92.9	90.4	2.7	137.1	-32.3	484.4	348.0	39.2
Gross Profit of Sales of Construction Materials	3.5	4.8	-27.1	4.3	-19.3	15.5	18.0	-13.5
Gross Profit of Rental Income	1.4	1.2	22.1	1.5	-3.5	5.4	5.5	-0.9
Total Gross Profit	97.8	96.3	1.5	142.9	-31.6	505.3	371.5	36.0
S&A Expenses	73.1	68.5	6.6	78.9	-7.3	286.3	292.7	-2.2
Interest Expense	1.4	2.7	-48.7	1.4	2.0	6.4	9.0	-29.2
Other Incomes	4.9	2.7	79.1	5.5	-11.9	18.2	36.7	-50.3
Net Profit before Tax	28.2	27.8	1.2	68.2	-58.7	230.9	106.4	116.9
Income Tax	5.7	6.4	-11.0	10.8	-47.7	38.2	19.6	95.4
Net Profit	22.5	21.4	4.9	57.4	-60.8	192.7	86.9	121.7
EPS (Bt)	0.045	0.043	4.9	0.115	-60.8	0.385	0.174	121.7
EBITDA	98.8	91.0	8.5	137.2	-28.0	501.2	338.6	48.0
			bps YoY		bps QoQ			bps YoY
Gross margin on construction revenue	7.3	8.7	-1.4	10.8	-3.5	10.1	9.3	0.8
Gross margin on sales of construction materials	7.4	5.2	2.1	8.7	-1.4	6.9	5.5	1.4
Gross margin on rental income	34.9	32.9	2.0	35.6	-0.7	33.8	37.1	-3.3
Overall Gross margin	7.4	8.5	-1.1	10.8	-3.4	10.0	9.1	0.9
S&A Expenses (% of Sales)	5.5	6.1	-0.5	6.0	-0.4	5.7	7.1	-1.5
Net Profit Margin (%)	1.7	1.9	-0.2	4.3	-2.6	3.8	2.1	1.7

Source: Company data, TISCO Research

Expect 1Q22F profit to recover strongly QoQ but fall YoY on high base effect

We estimate CIVIL's 1Q22F net profit at Bt53m, a jump of 136.3% QoQ but down 23% from 1Q21's high base. The expected earnings rebound QoQ is mainly due to an estimated recovery in construction margin, from 7.3% to a normal level of 10%, given the absence of gross margin adjustment this quarter. We also estimate construction revenue growth of 6.2% QoQ as construction of its projects on hand gains pace. The anticipated profit decline YoY is mainly due to: 1) expected contraction in construction gross margin from the high base of 13% in 1Q21 when most revenue was from roads and airport projects which normally give relatively higher margins vs. railway projects, and 2) the expected increase of 21.2% in S&A expenses from Bt5m in one-time expenses related to the IPO. Looking beyond 1Q22F, we expect the company's earnings to increase each quarter as construction of projects on hand gains momentum.

Figure 26. Expect 1Q22F profit to rebound QoQ thanks to gross margin recovery

(Bt, m)	1Q22F	1Q21	%YoY	4Q21	%QoQ	3M22F	3M21	%YoY
Construction Revenue	1,350	1,111	21.5	1,271	6.2	1,350	1,111	21.5
Sales of Construction Materials	55	67	(18.4)	47	16.1	55	67	(18.4)
Rental Income	4	4	5.2	4	(2.0)	4	4	5.2
Sales & Services	1,409	1,182	19.2	1,323	6.5	1,409	1,182	19.2
Cost of Construction	1,215	966	25.7	1,178	3.1	1,215	966	25.7
Cost of Construction Materials Sales	51	64	(20.2)	44	16.1	51	64	(20.2)
Cost of Rental Income	3	3	0.6	3	(2.0)	3	3	0.6
Total Cost of Sales & Services	1,269	1,033	22.8	1,225	3.6	1,269	1,033	22.8
Gross Profit on Construction Revenue	135	145	(6.6)	93	45.4	135	145	(6.6)
Gross Profit of Sales of Construction Materials	4	4	13.5	3	16.1	4	4	13.5
Gross Profit of Rental Income	1	1	15.0	1	(2.0)	1	1	15.0
Total Gross Profit	140	149	(6.0)	98	43.7	140	149	(6.0)
S&A expenses	78	64	21.2	73	6.7	78	64	21.2
Interest expenses	1	2	(44.3)	1	(27.9)	1	2	(44.3)
Other income	5	5	4.3	5	2.6	5	5	4.3
Corporate income tax	13	19	(29.6)	6	134.7	13	19	(29.6)
Net Profit	53	69	(23.1)	22	136.3	53	69	(23.1)
EPS (Bt)	0.08	0.14	(45.1)	0.04	68.8	0.08	0.14	(45.1)
EBITDA	137	151	(9.1)	99	39.1	137	151	(9.1)
Assumptions			bps YoY		bps QoQ			bps YoY
Gross margin on construction revenue	10.0	13.0	(3.0)	7.3	2.7	10.0	13.0	(3.0)
Gross margin on sales of construction material	7.4	5.3	2.1	7.4	-	7.4	5.3	2.1
Gross margin on rental income	34.9	31.9	3.0	34.9	-	34.9	31.9	3.0
Overall Gross margin	10.0	12.6	(2.7)	7.4	2.6	10.0	12.6	(2.7)
S&A expenses/Sales (%)	5.5	5.4	0.1	5.5	0.0	5.5	5.4	0.1
Net margin	3.8	5.8	(2.1)	1.7	2.1	3.8	5.8	(2.1)

Source: Company data, TISCO Research estimates

Risks

Winning fewer-than-expected new projects and/or bidding delays

Major risks for CIVIL include winning fewer-than-expected new contracts and change in government policy or economic downturn that affects new projects opening for bidding. However, we believe this risk should be largely offset by CIVIL’s large backlog on hand of Bt15.7bn, sufficient to secure revenue for the next 2-3 years. In addition, as 100%, 83% and 47% of our 2022-24F estimated construction revenue is from existing backlog, we see the risks as limited. We also believe that CIVIL should be able to garner additional contracts to drive its earnings given the large number of potential projects, the company’s cost competitiveness, and the new investment plans by its repeat customers and shareholders.

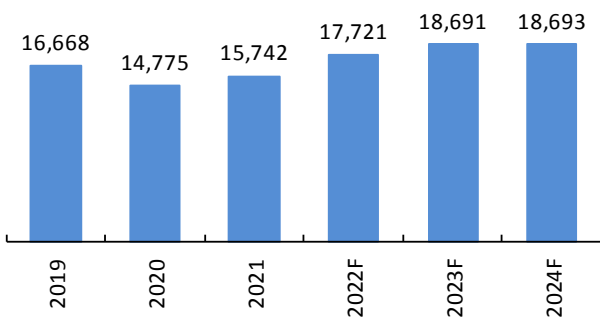
Construction delays for projects

A key risk to our forecasts is unexpected delays in construction that could delay revenue recognition and/or lower gross margin, e.g. delays in land transfer, unexpected technical problems, and/or another round of construction site lockdowns due to the pandemic. Of the company’s total backlog, the Klong Sang reservoir project saw completion delayed from Sept 2021 to June 2022. However, the gross margin adjustment should have been completed in 4Q21 and the penalty from late completion should not be incurred if the delay is not caused by the contractor.

Cost overruns from rising material costs

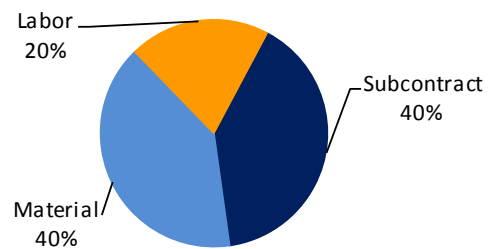
As most of the company’s backlog are public projects, risk is mitigated by an escalation factor (K factor) that allows adjustment to the project value if raw material prices change. However, the company normally subcontracts around 40-50% of its work to specialized subcontractors, e.g. bored piling work and M&E work, to reduce risk of cost overruns and maximize profit (see figure 28). In addition, the company usually asks suppliers to submit prices for the materials, e.g. concrete, rocks, sand, etc, before it submits its own bid to the project owners. This enables CIVIL to lock in material costs throughout the construction period, in accordance with the bidding price for the project. While commodities such as steel, asphalt, and oil are more challenging to lock in, the company can use its working capital to secure these materials if market conditions allow. Furthermore, oil accounts for only 1% of construction cost, so rising oil price should have limited impact.

Figure 27. Revenue secured by big backlog



Source: Company data

Figure 28. Construction cost breakdown



Source: Company data

Risks from pandemic impact

The prolonged COVID-19 pandemic could materially affect the company's operations and earnings, similar to what happened in July 2021 when the government announced a construction site lockdown for 30 days. Another round of lockdowns this year (if any) could result in delay in new project bidding, construction delays, lengthened collection period, delayed shipment of imported materials, and increased operating costs for contractors. However, we do not expect the government to announce a full lockdown this year as vaccines have already been widely rolled out while the symptoms of the Omicron variant are generally mild. Should there be a new round of lockdowns, the impact on the company should be minimal, in our view, as seen in 2021 when the company still managed to generate an all-time high revenue.

Labor shortage should be resolved soon

Labor shortage due to migrant workers being unable to return to work in Thailand due to pandemic restrictions, is another key challenge for construction contractors. However, the company has not been affected much, and we expect this issue to be resolved soon as the government is gradually relaxing restrictions. In addition, CIVIL has employed construction technology which helps to raise efficiency, shorten the construction period, and lower the labor requirement, mitigating this risk. We also believe rises in minimum wage will have limited impact on CIVIL as the company is currently paying above the minimum wage. Though rising inflation may put pressure on the company to raise labor wages, the K factor should help to mitigate related impact.

Minimal risks from bad debts

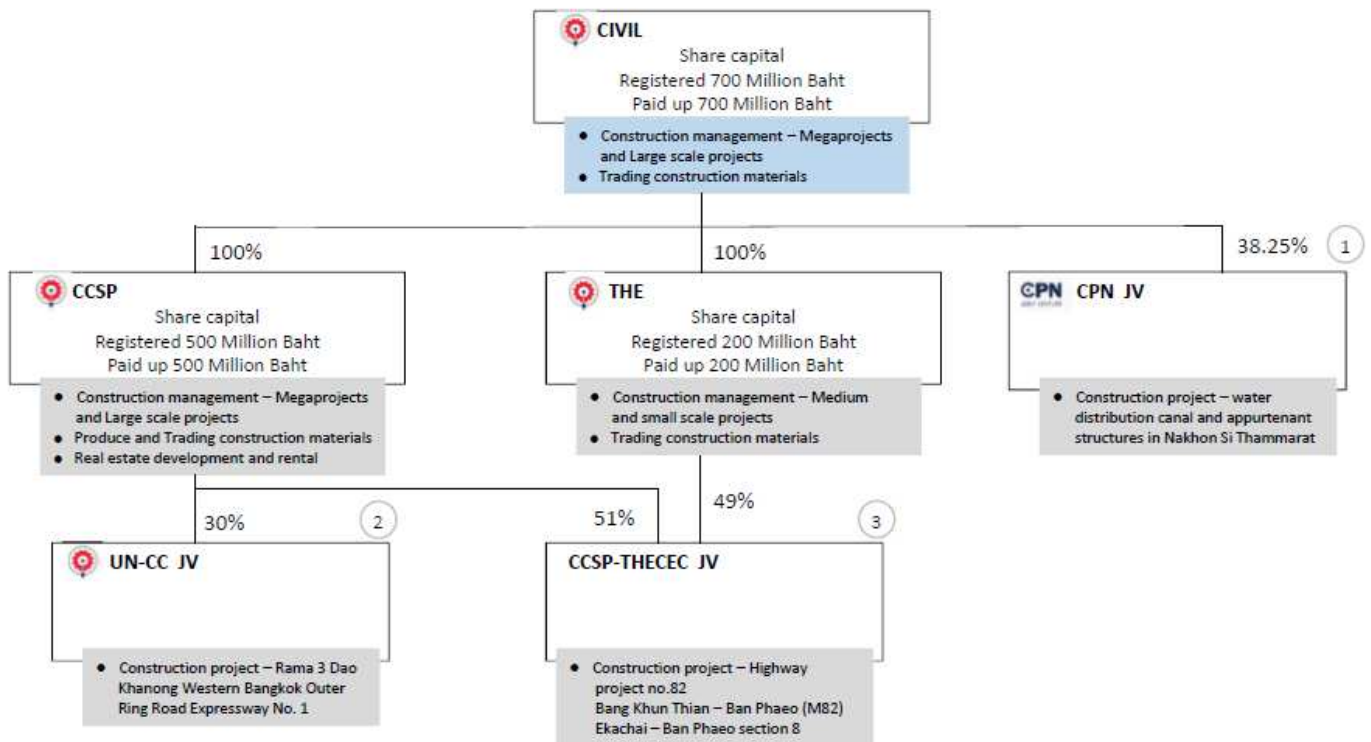
As most of CIVIL's backlog consists of public projects, bad debt problems are highly unlikely. The private sector projects, meanwhile, are from companies with sound financial status and are related to infrastructure, e.g. subcontracted works from large contractors, PTT skywalks at the Blue and Green MRT lines, etc. Regarding risk from subcontractors, the company asks for bank guarantees worth 5-10% of construction value and a retention guarantee of 10% of the construction work is collected each period. Overall, we view risks from bad debts and subcontractors as minimal.

Company background

CIVIL operates three businesses

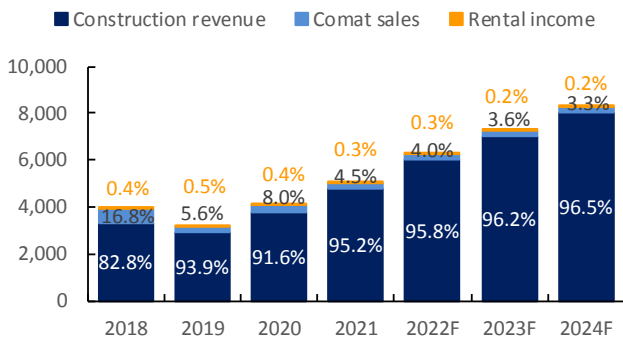
Civil Engineering Plc (CIVIL) was founded in 1966 and started with the construction of road projects. The group, which includes CIVIL and its two wholly-owned subsidiaries, CCSP and THE, mainly operate in the construction service business. The construction projects of the group include roads, highways, motorways, expressways, rail works, airports, dams, and reservoirs, with project sizes ranging from Bt14m-Bt8bn. CIVIL secured these projects through bidding participation or subcontracting from large contractors. The group later expanded into the construction materials and real estate businesses.

Figure 29. Group structure



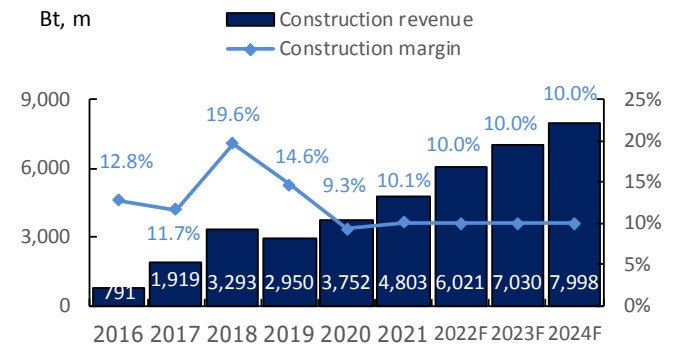
Source: Company data

Figure 30. Sales & Service revenue breakdown



Source: Company data, TISCO Research estimates

Figure 31. Construction revenue and gross margin



Source: Company data, TISCO Research estimates

The construction material business is involved with the production and distribution of construction materials including precast concrete, ready mix concrete, asphaltic concrete, pre-stressed concrete and corrugated steel railings (for road-side car barriers) and sewers. The products are mostly used in its construction projects and sold to subcontractors. The company also has the mining concession of limestone, which is the main raw material for construction material and cement making. All of these has enabled CIVIL to increase its bargaining power to suppliers and maintain good cost management and advantages in construction projects. The sales of construction material are inclined to grow in tandem with construction revenue.

Figure 32. Building material plants

Construction Material Plants	Location	Annual capacity	% Utilization
Ready mix concrete	Saraburi	72,000 cu.m.	10.48
Asphaltic concrete	Saraburi	162,000 tons	0
Pre-stressed concrete & corrugated steel railings (road-side barriers)	Saraburi	15,000 pcs	0
Precast concrete parts	Saraburi	3,600 pcs	16.72
Concrete guard rail	Saraburi	14,400 pcs	21.38
Asphaltic concrete	Trang	162,000 tons	26.32
Asphaltic concrete	Ayudhaya	162,000 tons	7.22

Source: Company data

Figure 33. Segments



Source: Company data

Figure 34. Other building material produced by the company



Source: Company data

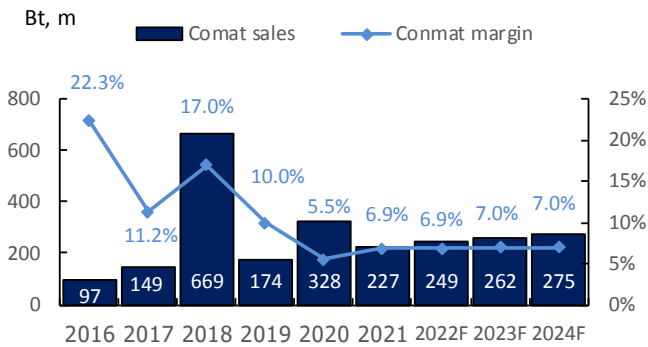
Figure 35. Other building material produced by the company



Source: Company data

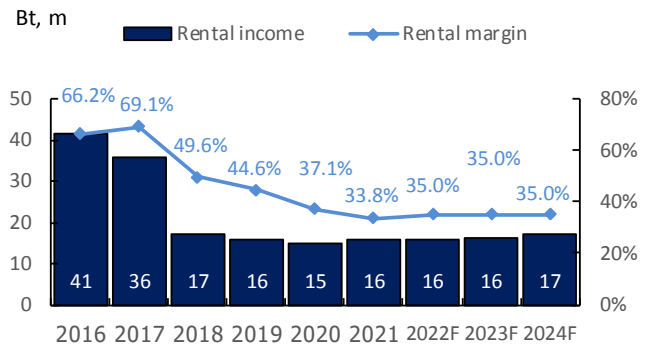
The real estate business generates rental income from: 1) the CEC office building on Vibhavadee Rangsit road, near the Wat Samian Nari station of the MRT Red Line, and 2) the company's unused machinery & equipment, thereby optimizing the usage of its assets, enhancing cost efficiency. As the occupancy rate of the CEC building in 2021 was already high at 96.74%, we expect flat rental income over the next three years.

Figure 36. Conmat sales & margin



Source: Company data, TISCO Research estimates

Figure 37. Rental income & margin



Source: Company data, TISCO Research estimates

Civil Engineering (CIVIL)

Rating : BUY
Bloomberg: CIVIL TB
Target price (THB)
Current Price (THB)
52-week Range
7.50
4.98
4.5 - 6.4
Market Capitalization
THBm **3,890**
USDm **117**

Fiscal year end 31-Dec	2020	2021	2022F	2023F	2024F
Income Statement (THBm)					
Sales & Services	4,095	5,046	6,287	7,308	8,290
Cost of Sales & Services	3,723	4,541	5,662	6,581	7,465
Gross Profit	371	505	625	727	825
S&A Expenses	293	286	301	331	354
Interest Expense	9	6	8	11	13
Net Result of Inv. In Asso.	0	0	0	0	0
Other Incomes	37	18	19	20	21
Income Tax from Operations	20	38	67	81	96
Net (Profit) Loss of M.I.	0	0	0	0	0
Net Profit before Extra. Items	87	193	268	324	384
Extra gain/ (loss)	0	0	0	0	0
Net Profit	87	193	268	324	384
Cash Flow (THBm)					
Net Profit	87	193	268	324	384
Depreciation and Amortization	223	264	281	297	314
Change in working capital	-1,001	252	-217	-390	-467
Cash flow from operations (CFO)	-705	715	332	232	231
Investment	-26	-119	0	0	0
Capex	-182	-57	-500	-500	-500
Cash Flows from Investing (CFI)	-207	-176	-500	-500	-500
Debt financing	636	365	-246	-200	-200
Dividend paid	-40	-480	-194	-107	-130
Share capital and premium	0	0	920	0	0
Cash Flows from Financing (CFF)	596	-115	480	-307	-330
Net cash increase/Decrease	-316	424	312	-575	-599
Balance Sheet (THBm)					
Current Assets	3,343	4,863	5,906	6,077	6,194
Current Liabilities	3,691	5,558	5,861	6,046	6,122
Total Assets	4,945	6,526	7,823	8,225	8,555
Total Liabilities	3,885	5,754	6,057	6,242	6,318
Minority Interest	0	0	0	0	0
Total Equity	1,059	772	1,766	1,983	2,237
Paid-up Capital	500	500	700	700	700
Share Premium	-78	-78	642	642	642
Warrant	0	0	0	0	0
Retained Earnings	637	350	424	641	895
Equity Adjustment	0	0	0	0	0
Key Company Metrics					
Sales growth (%)	-15.2	-2.2	5.0	10.0	7.0
Net Profit growth (%)	-38.2	121.7	39.0	21.1	18.3
Gross Margin (%)	9.1	10.0	9.9	9.9	10.0
SG&A to sale (%)	7.1	5.7	4.8	4.5	4.3
EBITDA Margin (%)	8.3	9.9	9.9	9.8	9.7
Net Margin (%)	2.1	3.8	4.3	4.4	4.6
ROE (%)	8.4	21.0	21.1	17.3	18.2
ROA (%)	2.0	3.4	3.7	4.0	4.6
Net debt/equity (x)	1.0	1.4	0.3	0.5	0.6
Interest coverage (x)	12.9	37.3	40.6	37.8	38.8
Key Assumptions					
Beginning Order Backlog (Bt, bn)	16.7	14.8	15.7	17.7	18.7
Performed (Bt, bn)	3.8	4.8	6.0	7.0	8.0
New Project (Bt, bn)	1.9	5.8	8.0	8.0	8.0
Ending Order Backlog (Bt, bn)	14.8	15.7	17.7	18.7	18.7
Gross Margin (%)	9.1	10.0	9.9	9.9	10.0
Quarterly Results (THBm)					
Sales & Services	1,128	1,182	1,221	1,320	1,323
Total Cost of Sales & Services	1,032	1,033	1,106	1,177	1,225
Total Gross Profit	96	149	115	143	98
S&A Expenses	69	64	70	79	73
Interest Expense	3	2	2	1	1
Net Result of Inv. in Asso.	0	0	0	0	0
Other Incomes	3	5	3	6	5
Income Tax	6	19	3	11	6
Net (Profit) Loss of M.I.	0	0	0	0	0
Normalised profit	21	69	44	57	22
Other Gain (Loss)	0	0	0	0	0
Net Profit	21	69	44	57	22

Source: Company data, TISCO Research estimates

Company profile

CIVIL is construction contractor with extensive expertise in wide variety of construction works including railway works, double-track railways and high-speed trains, motorways & highways, expressways, airports, dams and reservoirs and other infrastructure projects. The company also has its own mining concession of limestone and plants to produce building materials and parts which are mostly used in its construction projects and sold to its subcontractors. In addition, the company has rental income from one office building in Bangkok and machinery & equipments.

Valuation

We value CIVIL at Bt7.50 based on a 19.6x 2022F PER (derived from current sector average).

Risk

Key risks are construction delays, fewer-than-expected new public projects and cost overruns from construction delays and rise in materials, wage costs, and oil prices.

Sansanee Srijamiuree
 +66 (2) 633 6475
sansanee@tisco.co.th

TISCO Securities Company Limited

www.tiscosec.com

Bangkok

48/8 TISCO Tower 4th Floor, North Sathorn Road,
Bangkok 10500, Thailand
Tel : (66) 2633 6000 Ext.5 Fax : (66) 2633 6490, (66) 2633 6660

Nakhon Pathom

386, 388 Petchkasem Road, Prapatone, Muang District,
Nakhon Pathom 73000
Tel: 0 3414 2000 Fax: 0 3425 1676

Udon Thani


227/1 Soi Udondussadee 3, Udondussadee Road,
Muang District, Udon Thani 41000
Tel: 0 4224 6888 Fax: 0 4224 5793

Chiang Mai

275/4, 2nd Floor, Chang Phuak Road, Chang Phuak,
Muang District, Chiang Mai 50300
Tel. 0 5322 4722 Fax. 0 5322 4711

Nakhon Ratchasima

1936/3 Zone A, Mittraphap Road, Naimuang,
Muang District, Nakhon Ratchasima 30000
Tel: 0 4425 7752 Fax: 0 4425 3752

	Score Range	Level	Description
 Corporate Governance Report of Thai Listed Companies 2021	90 - 100	5	Excellent
	80 - 89	4	Very Good
	70 - 79	3	Good
	60 - 69	2	Satisfactory
	50 - 59	1	Pass
	< 50	n.a.	n.a.
		N/R	Does not appear in the CGR report

Anti-Corruption Progress Indicator :

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 26, 2021) are categorised into :

Certified :	Companies certified by CAC.
Declared :	Companies that have declared their intention to join CAC.
Ensure its compliance by parent company	Ensure its compliance by parent company The company declares that its parent company is under the Bribery Act or other similar laws that required parent company to be responsible for bribery act of its overseas subsidiaries. Such responsibilities shall include the establishment of policy, practices and investigation and ensure that its subsidiaries regularly comply with the policy and practices.
n.a.	Not intention to join CAC. / no policy

Disclaimer

The disclosure of the Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 26, 2021)

Since this survey or assessment result is only the survey or assessment result as of the date appearing in the survey or assessment result only, it may be changed after that date or when there is any change to the relevant information. Nevertheless, TISCO Securities Company Limited does not confirm, verify, or certify the accuracy and completeness of the survey or assessment result.

ESG Rating

The Thaipat ESG Index is designed to represent the performance of the selected Thai listed companies that are constituents of the ESG100 Universe, the 100 outstanding performers in terms of Environmental, Social and Governance (ESG) listed in Thai stock market (Both SET and mai), assessed by ESG Rating company, a whole subsidiary of Thaipat Institute.

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. TISCO and other companies in the TISCO Group and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. No person is authorized to give any information or to make any representation not contained in this document and any information or representation not contained in this document must not be relied upon as having been authorized by or on behalf of TISCO. This document is for private circulation only and is not for publication in the press or elsewhere. TISCO accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.