

Construction Sector – Overweight

News update

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Bt20bn Chatuchot-Lam Luk Ka Expressway bid

- **Today is the bid submission with...**
 - **...the lowest bidder to be announced at the end of the day.**
 - **The potential winner is one of the big four contractors.**
 - **CK is our top sector pick. STEC is also a BUY.**
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- Today is the bid submission for the Bt20bn Chatuchot-Lam Luk Ka extension on the Chalong Rat expressway. Given the e-bidding process, the lowest bidder will be known at the end of the day.
 - As this is an elevated expressway in Bangkok with a high value, the contractors' qualification is high and we believe the potential winner is one of the big four contractors, Italian Thai Development (ITD TB, Bt0.58, Unrated), Ch. Karnchang (CK TB, Bt21.6, BUY), Sino Thai Engineering (STEC TB, Bt9.95, BUY), and Unique Engineering (UNIQ TB, Bt3.2, Unrated).
 - The next infrastructure project bid is the Bt29bn Khonkaen - Nong Khai double-track railway which is scheduled to announce the TOR and open for bidding in May-July 2024.
 - The re-implementation of the government's infrastructure projects after they were halted during the COVID-19 period in 2020-22 is good news for the construction sector. We expect the government to restart the implementation of Bt536bn of infrastructure projects in 2024-26F (see our construction sector report, *Improving earnings outlook*, on 9 February 2024). We maintain our Overweight rating on the construction sector
 - CK is our top sector pick with a TP of Bt26/share given its secured earnings growth in at least the next four years due to **1)** its record-high Bt130bn backlog value at end-2023, **2)** high potential new work from the Bt109bn West Orange Line project, **3)** strong earnings turnaround from its associates and **4)** attractive valuation with the share trading at a 35% discount on its investment portfolio's market value and the construction business for free.
 - We also have a BUY on STEC to a TP of Bt12/share as we believe its earnings have already bottomed out while its share price already fell by 27% from its peak last year. We forecast its earnings growth of 10/15% y-y in 2024-25F, driven by 1) higher revenue recognition from its Bt69bn backlog at end-2023, 2) high potential new work from the Bt27bn U-tapao Airport expansion project, and 3) margin recovery from completion of its low-margin Pink and Yellow Line projects.

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