

6 MAY 2021

THAILAND / UTILITIES - RENEWABLES

GUNKUL ENGINEERING

GUNKUL TB

BUY

UNCHANGED

TARGET PRICE	THB5.10
CLOSE	THB4.14
UP/DOWNSIDE	+23.2%
PRIOR TP	THB2.90
CHANGE IN TP	+75.9%
TP vs CONSENSUS	+26.7%

Sun shining down on cannabis

เปลี่ยนธุรกิจเพื่อการเติบโตใหม่เป็นครั้งที่ 2

หลังประสบความสำเร็จในการเปลี่ยนจากธุรกิจที่เคยพึ่งพา EPC ซึ่งมีความผันผวนสูงเป็นหลัก มาเป็นบริษัทที่มุ่งเน้นไปในธุรกิจด้านโรงไฟฟ้ามาตั้งแต่ปี 2017 เราเชื่อว่าปัจจุบัน GUNKUL กำลังเข้าสู่การเปลี่ยนแปลงทางธุรกิจเป็นครั้งที่ 2 จากบริษัทที่ถูกผลักดันโดยธุรกิจไฟฟ้าสู่บริษัทที่มุ่งเน้นไปในด้านเกษตรมากยิ่งขึ้น โดยเกาะกระแสการเติบโตของสินค้าอาหารและเครื่องดื่ม รวมถึงสินค้าอุปโภคบริโภคและการแพทย์ผสมกัญชาของประเทศไทยหลังรัฐบาลได้ประกาศให้สินค้าดังกล่าวเป็นของถูกกฎหมายในปี 2021

กำไรสุทธิจากการดำเนินงานจะโตดีในปี 2021

ในปี 2021 เราคาดว่ากำไรสุทธิของ GUNKUL จะโต 118% y-y หลังลดลง 45% y-y ในปี 2020 จาก 1) กำไรสุทธิที่สูงขึ้นของโรงไฟฟ้าพลังลมและแสงอาทิตย์ เนื่องจากเราคาดว่ากระแสลมจะกลับสู่ระดับปกติในปีนี้; 2) การเติบโตของกำไรสุทธิเพิ่มเติมจากโรงไฟฟ้าพลังแสงอาทิตย์ใหม่ ขนาด 100MW ที่เพิ่งซื้อในเวียดนามในเดือน ธ.ค. 20; 3) รายได้ที่สูงขึ้นธุรกิจ EPC เป็น 1.5 พัน ลบ. โดยได้แรงหนุนจากมูลค่างานในมือที่อยู่ในระดับสูงถึง 8-9 พัน ลบ.; และ 4) รายได้จากธุรกิจซื้อขายไปทีตรงตัวอยู่ที่ 1.5 พัน ลบ.

ไร้อัญญา: ปัจจัยหนุนการเติบโตหลักนับตั้งแต่ปี 2022 เป็นต้นไป

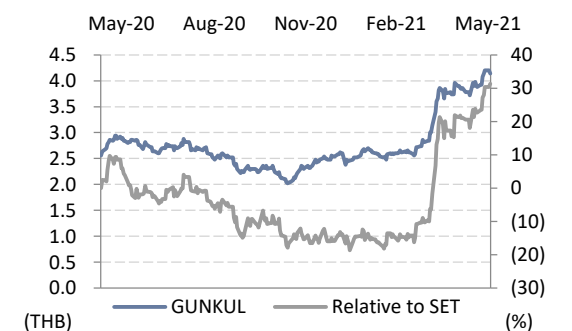
Following the legalisation of cannabis use in Thailand in 2021, GUNKUL หลังประเทศไทยประกาศรับรองให้การใช้กัญชาเป็นเรื่องถูกกฎหมายในปี 2021 GUNKUL ได้ประกาศแผนที่จะเข้าสู่ธุรกิจสวนกัญชา ซึ่งเรามองว่าเป็นการตัดสินใจที่ถูกเวลาและมีเหตุผลในด้านการเงิน ในขณะที่ GUNKUL เป็นหนึ่งในบริษัทไทยจำนวนมากที่ระมัดระวังกระแสกัญชา เรามองว่าบริษัท มีแผนธุรกิจที่เหมาะสมและเป็นรูปธรรม รวมถึงมีปัจจัยที่จะทำให้ประสบความสำเร็จได้ จาก 1) ความร่วมมือของบริษัทฯ กับผู้เชี่ยวชาญในอุตสาหกรรมดังกล่าวในการทำไร่กัญชา; และ 2) จุดแข็งในด้านต้นทุนต่ำ ที่ดินที่มีพร้อม และแหล่งไฟฟ้าที่อยู่ในระดับที่แข่งขันได้ ซึ่งเป็นหนึ่งในต้นทุนหลัก (10-15% ของต้นทุนรวม) ของการทำไร่กัญชา เราคาดว่า GUNKUL จะสามารถสร้างกำไรสุทธิ 0.9 พัน ลบ. จากธุรกิจกัญชาตั้งแต่ปี 2022 เป็นต้นไปจากสมมติฐานระดับการผลิตสารสกัด CBD ที่ 11.9tpa ที่ราคาขาย 0.15 ลบ./กก.

คงคำแนะนำซื้อหลังปรับราคาเป้าหมายเป็น 5.1 บาท

เราปรับเพิ่มราคาเป้าหมายจาก 2.9 เป็น 5.1 บาท (SOTP) เพื่อสะท้อน 1) มูลค่า 1.9 บาทของธุรกิจกัญชา มูลค่าดังกล่าวคิดจาก 15x ของค่า 2021E P/E ซึ่งเราเห็นว่าสมเหตุสมผลจากอัตรากำไรที่อยู่ในระดับสูงและโอกาสในการเติบโตที่เห็นได้ชัด; และ 2) การปรับการประเมินมูลค่าไปในปี 2021 เราปรับเพิ่มประมาณการกำไรต่อหุ้นในปี 2021-23 อีก 8.6-77.6% เพื่อสะท้อน 1) กำไรสุทธิจากธุรกิจกัญชาที่คาดว่าจะอยู่ที่ 0.9 พัน ลบ. ในปี 2022-23; 2) รายได้จากธุรกิจ EPC ที่สูงขึ้นจากโอกาสที่จะได้งานในมือใหม่; และ 3) รายได้จากธุรกิจซื้อขายไปทีลดลง 1.2% เพื่อสะท้อนคาดการณ์ที่ลดลงเล็กน้อยสำหรับรายได้จากการซื้อขายไป

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Revenue	8,649	11,259	11,370	12,103
Net profit	3,412	2,595	3,102	3,361
EPS (THB)	0.38	0.29	0.35	0.38
vs Consensus (%)	-	19.8	37.8	66.7
EBITDA	3,439	4,516	4,905	5,290
Core net profit	1,189	2,595	3,102	3,361
Core EPS (THB)	0.13	0.29	0.35	0.38
Chg. In EPS est. (%)	-	8.6	65.1	77.6
EPS growth (%)	(54.2)	118.3	19.5	8.4
Core P/E (x)	30.9	14.2	11.9	10.9
Dividend yield (%)	4.4	4.3	4.3	4.3
EV/EBITDA (x)	17.2	12.7	11.3	10.0
Price/book (x)	3.0	2.8	2.5	2.2
Net debt/Equity (%)	179.4	151.8	121.6	93.4
ROE (%)	10.3	20.2	22.0	21.4



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	6.2	59.2	59.2
Relative to country (%)	9.4	52.3	33.8
Mkt cap (USD m)	1,169		
3m avg. daily turnover (USD m)	22.0		
Free float (%)	44		
Major shareholder	GUNKUL Group Plc (50%)		
12m high/low (THB)	4.24/2.00		
Issued shares (m)	7,418.62		

Sources: Bloomberg consensus; FSSIA estimates



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บทวิเคราะห์ฉบับนี้แปลมาจากบทวิเคราะห์ของ FSSIA ฉบับวันที่ 6 พฤษภาคม 2021

Investment thesis

Gunkul is well-positioned to capture Thailand's renewable energy (solar and wind power) growth, both as an operator and through engineering, procurement and construction (EPC), in our view. Its core power equipment trading business could further benefit from the LED boom, while its strong ties with the Myanmar government (20-year relationship) could enhance its earnings growth from power plants.

We expect contributions from the low-risk, high margin power business (including solar and wind power projects) to rise from 60% of its total net profit in 2017 to 92% in 2022. Gunkul is poised to register strong earnings growth, in our view, driven by potential net profit growth from its renewable power projects in Vietnam and higher net profits from its engineering, procurement, and construction backlog of THB11b from large-scale bidding for power substations and transmission lines. GUNKUL is likely to also see net profit growth from its new cannabis venture in 2022 onward.

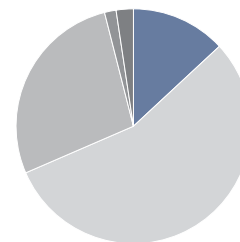
Company profile

GUNKUL is one of the largest renewable plays in Thailand with capacities for solar, wind, and gas engine power plants in Thailand and Myanmar.

www.gunkul.com

Principal activities (revenue, 2020)

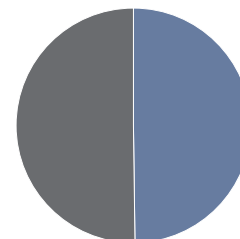
- Manufacturing and selling of equipment for electrical systems - 13.7 %
- Generating and selling electricity - 58.2 %
- Construction service - 28.9 %



Source: Gunkul Engineering

Major shareholders

- GUNKUL Group Plc - 49.8 %
- Others - 50.2 %



Source: Gunkul Engineering

Catalysts

Higher utilisation rates of power plants and rising demand for electricity in Thailand and Japan are key potential growth drivers.

Risks to our call

The downside risks to our SoTP-based TP on GUNKUL include 1) lower-than-expected demand for electricity in Thailand, 2) declining EPC backlogs, and 3) lower-than-expected utilisation rates for solar and wind farms.

Event calendar

Date	Event
May 2021	1Q21 results announcement

Key assumptions

	2021E	2022E	2023E
EPC revenue (THB m)	1,500	1,000	1,200
Trading revenue (THB m)	1,483	1,483	1,483
Cannabis CBD production (kg)	4,752	11,880	11,880

Source: FSSIA estimates

Earnings sensitivity

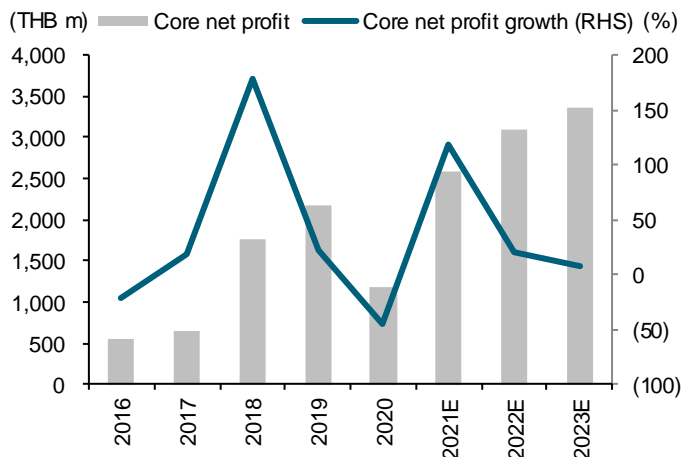
- For every 1% increase in gas price, we estimate 2021 earnings would rise by 1.1%, and vice versa, all else being equal.
- For every 1% increase in interest rate, we estimate 2021 earnings would fall by 1.3%, and vice versa, all else being equal.
- For every 1% increase in power utilisation rate, we estimate 2021 earnings would rise by 1.3%, and vice versa, all else being equal.

Source: FSSIA estimates

Glorious growth from cannabis

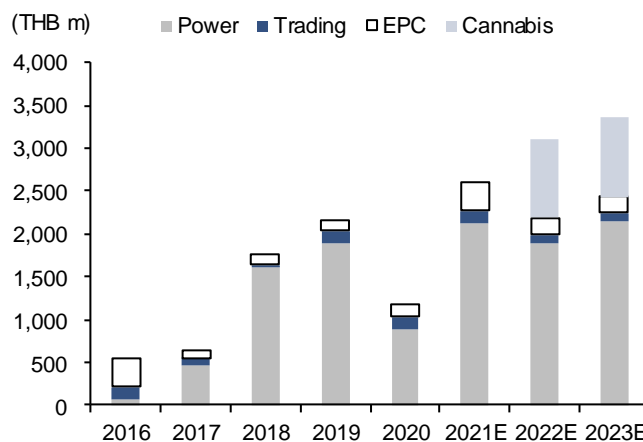
We believe GUNKUL is now entering into a second business transformation, from a power-driven to a more agricultural-focused company, riding Thailand’s recent boom of cannabis-infused F&B and consumer and medical products that have been legalised by the Thai government in 2021.

Exhibit 1: Core net profit and core net profit growth



Sources: GUNKUL; FSSIA estimates

Exhibit 2: Core net profit breakdown by segment



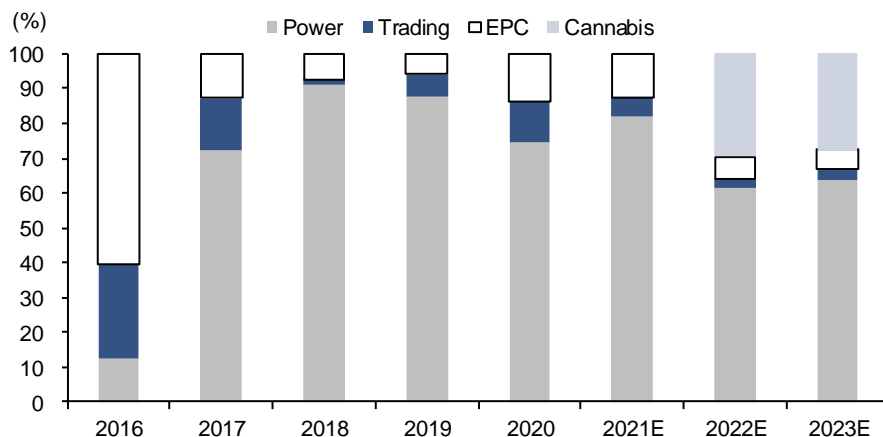
Sources: GUNKUL; FSSIA estimates

Since 2016, GUNKUL first transformed itself from a highly volatile, EPC and trading-focused businesses into a more stable, power-driven company, successfully increasing the earnings from its power business from a mere 12% in 2016 to 75% in 2020, and is projected to account for 82% of its total net profit in 2021, based on our estimate. In 2020, its core net profit shrank y-y due to a sharp drop in revenues from EPC and trading caused by the pandemic and the lower electricity production from wind farms and solar farms due to the seasonally weaker wind and solar light.

In 2021, we project that GUNKUL’s net profit will grow by 118% y-y after a drop of 45% y-y in 2020, driven by 1) higher net profits from its wind farms and solar farms, as we expect the wind speed to return to normality in 2021; 2) additional net profit growth from the new 100MW solar farms acquired in Vietnam in Dec-20; 3) higher revenue from EPC to THB1.5b, backed by a strong backlog of THB8b-9b; and 4) stable trading revenue at THB1.5b.

In 2022 onward, we project GUNKUL’s second transformation from power into a more agricultural, cannabis-driven business portfolio. We expect the net profits generated from cannabis to rise from zero in 2021 to THB0.9b in 2022-23, based on a production level of 11.9 tonnes per annum (tpa) of cannabidiol (CBD).

Exhibit 3: Core net profit breakdown by segment (%)



Sources: GUNKUL; FSSIA estimates

Will its cannabis venture be an investment adventure for GUNKUL?

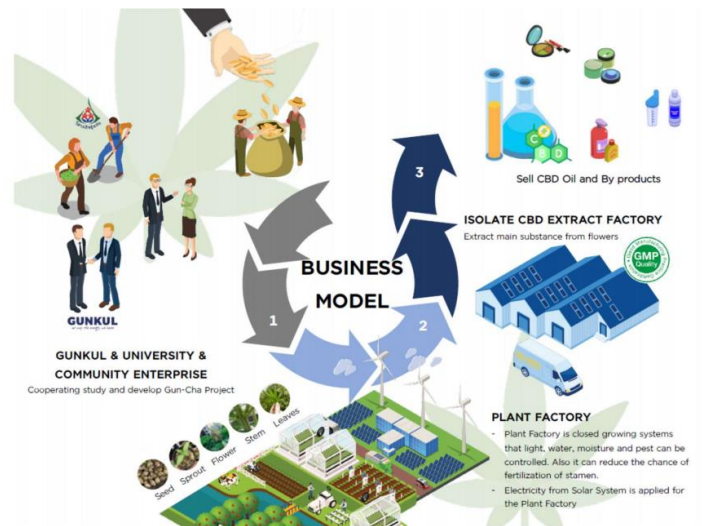
In April 2021, GUNKUL announced its plan to enter the cannabis farming business, which was recently legalised in Thailand. Cannabis-infused products are permitted for use in F&B, medicines, and cosmetics, with the exception of cannabis flowers, which contain excessive CBD and tetrahydrocannabinol (THC) content (>0.2%).

Exhibit 4: Land plot for cannabis farming



Source: GUNKUL

Exhibit 5: Cannabis and hemp-based product development



Source: GUNKUL

Thanks to the available land at its 170MW wind farms, GUNKUL plans to employ a 200 rai or 79-acre (1 acre = 2.53 rais) plot out of its 3,400 rais of land available to grow cannabis under the following key assumptions, based on management’s guidance:

- Each rai will be used to build one greenhouse;
- Each greenhouse on one rai is able to grow up to 1,000 trunks of cannabis;
- Each cannabis trunk could produce 0.5kg of cannabis flowers;
- Each cannabis crop will last 90 days but the farming will be staggeringly executed, allowing GUNKUL to achieve 3.3 crops p.a.;
- Each tonne of flowers could be extracted into 36 kg of CBD isolate (99.8% purity);
- Pricing: we assume a selling price of THB150,000 per kg of isolate CBD;
- Total investment is THB1.73b (THB1.6b for 200 greenhouses and THB130m for one extraction plant).

Exhibit 6: Key assumptions

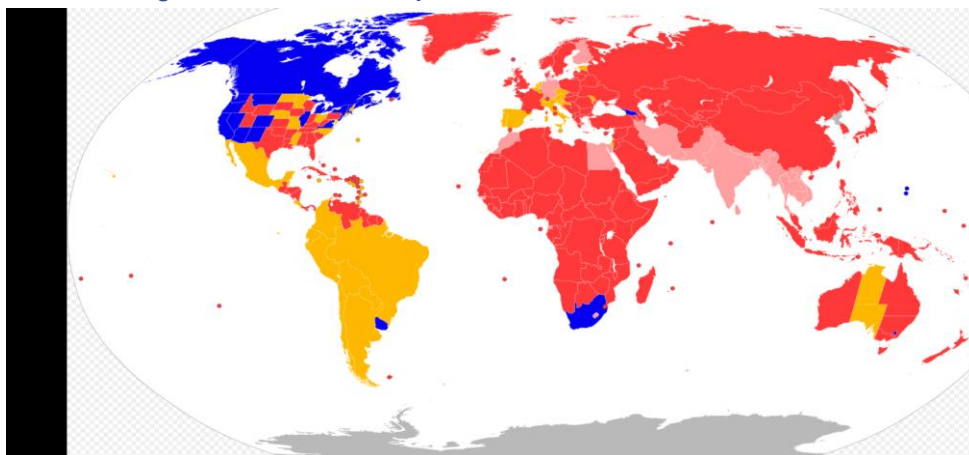
Assumptions		Unit
Greenhouse per rai	1.0	Greenhouse per rai
Cannabis trunks per greenhouse	1,000	Trunk
Flowers per trunk	0.5	kg
Crops per year	3.3	crop
Flower production	132,000	kg per annum
Conversion		
Flower	1,000	kg of flowers
Flower-to-full spectrum liquid	150	kg of full spectrum
Flower-to-CBD	36	kg of CBD (18%)
Dried cannabis flowers	45,000	THB/kg of flower
Isolated distilled CBD (99.8% purity)	150,000	THB/kg of CBD
Investment cost		
Investment	5,000	THB/sqm
Sqm-to-rai ratio	1,600	sqm/rai
Investment per greenhouse	1,600	THB m
Distillation plant	130	THB m
Total investment	1,730	THB m

Sources: GUNKUL; FSSIA estimates

Market opportunity in Thailand. In April 2021, the Thai regulator, The Food and Drug Administration (FDA), approved the use of cannabis and hemp for F&B and other personal care products, effectively opening up the opportunity for new products in food, cosmetics, and medial industries.

While GUNKUL is one of many Thai companies to jump on the cannabis & hemp bandwagon, we think it has a well-crafted, concrete business plan and the resources to be successful in its cannabis & hemp venture, given 1) its coordination with industry experts for cannabis farming; and 2) its advantage in low-cost, available land and competitive electricity sources, which is one of the key cost components (10-15% of total cost) of cannabis farming.

Global CBD legality. CBD produced from cannabis and hemp has been legalised in many countries to be used for F&B, cosmetics, and other applications, including the US, Canada, the Netherlands, and Italy. While Thailand has long used cannabis for medical purposes and hemp with high fibre counts for textile industries, both cannabis and hemp containing CBD and THC were illegal for use outside of these scopes. It was only in 1Q21 when the Thai FDA approved and legalised the use of cannabis and hemp for F&B and other applications.

Exhibit 7: Legal status of cannabis possession for recreational use

Legal status of cannabis possession for recreational use | Legal | Illegal but decriminalized | Illegal but often unenforced | Illegal | Legality unknown

Source: [Wikipedia](#)

Global pricing of CBD. The US is by far one of the world’s largest producers and markets for cannabis and hemp, with over 120,000 acres used for growing cannabis and hemp in 2020, based on the [Hemp Benchmarks](#)’ projection.

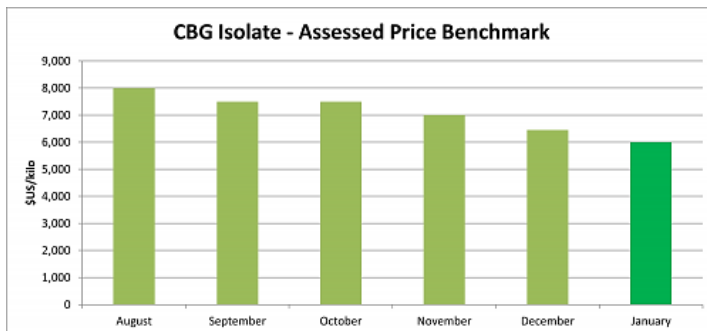
While the US CBD isolate price benchmark, which contains low purity below 98% content, has ranged around USD1,000 per kg, the price of high-purity CBD isolate, or cannabigerol (CBG) isolate, an ultra-pure CBD extract that contains greater than 98% CBD, is high at over USD5,000 per kg. Hence, we estimate that GUNKUL’s selling price of its high-purity CBD of over 98% will be THB150,000 per kg, or USD5,000/kg, in line with the low-end price of CBG isolate.

Exhibit 8: Prices of CBD and CBG

Product	Unit	Average	Low	High
CBD isolate	USD/kg	1,100	900	1,300
CBD distillate	USD/kg	3,000	2,400	4,200
CBG isolate (98% or higher purity CBD)	USD/kg	6,000	5,000	7,000

Sources: [cannymarket](#)

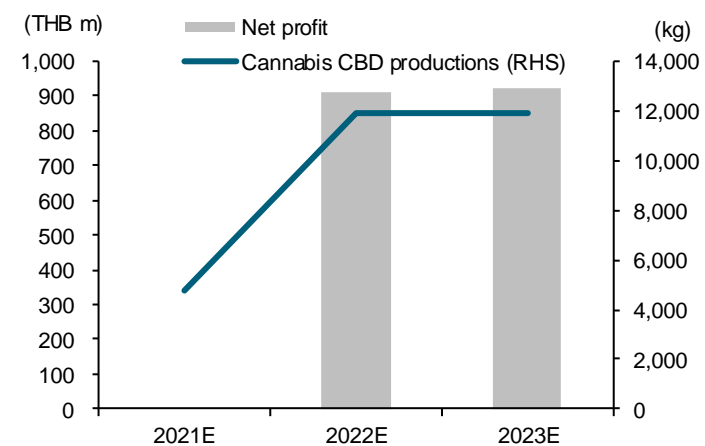
Exhibit 9: CBG isolate price benchmark



Sources: [cannymarket](#)

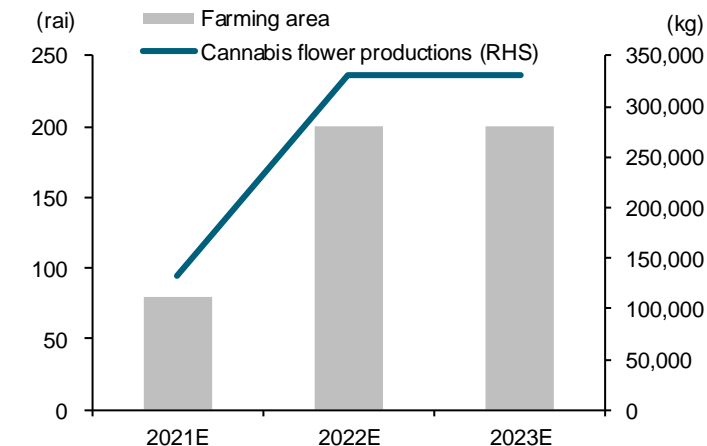
Based on our set of assumptions from management’s guidance and the projected market price of CBD, we estimate that GUNKUL could generate THB0.9b net profit from cannabis in 2022 onward, as we think the small pilot cannabis production of 4,700 kg will not generate any income for GUNKUL in 2021. We expect GUNKUL to produce 11.9tpa of CBD extract with a selling price of THB150,000/kg.

Exhibit 10: GUNKUL’s net profit (THB m) vs CBD production (kg)



Sources: GUNKUL; FSSIA estimates

Exhibit 11: Cannabis farming area (rai) vs cannabis flower production (kg)



Sources: GUNKUL; FSSIA estimates

According to management, GUNKUL plans to not only market its high-purity CBD in Thailand but also to export it to other markets, particularly Japan, where growing cannabis and hemp remains illegal but the use and import of THC-free CBD is growing at a significant rate.

According to “The CBD market in Japan” presentation by [Switzerland Global Enterprise](#), dated 10 July 2020, Japan’s CBD import market is projected to grow from USD1b in 2019 to USD1.74b (CHF1.9b) in 2024, becoming the second largest medical CBD market in Asia.

Exhibit 12: Key CBD markets in Asia



Source: [S-g.com](https://www.s-g.com)

Exhibit 13: CBD-infused coffee stand in Tokyo, Japan



Source: [The Japan Times](https://www.thejapantimes.com)

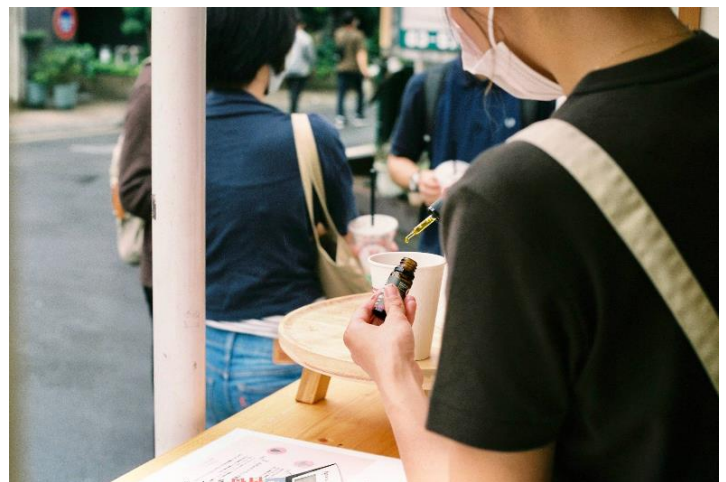
According to the Japan Times article, [“Is Japan ready to embrace CBD?”](https://www.thejapantimes.com), dated 25 October 2020, while CBD demand in Japan – mainly for stress relief in many products, including F&B, cosmetics, and medicines – Japan prohibits cannabis and hemp farming but allows the use and import of CBD. Thus, Japan has to import CBD from the US and other countries for its fast-growing consumption of CBD. We think this could be a great opportunity for GUNKUL if the company can produce its CBD at a competitive cost and high purity content.

Exhibit 14: Even domestic CBD oil brands used in drinks are made with imported Kentucky-grown hemp and cannabis



Sources: [TheJapanTimes](https://www.thejapantimes.com)

Exhibit 15: CBD oil is used in coffee and drinks to de-stress and for detoxification purposes



Sources: [TheJapanTimes](https://www.thejapantimes.com)

EPS and TP revisions

We revise up our EPS forecasts in 2021-23 by 8.6-77.6% to incorporate 1) our projected net profit of THB0.9b from its cannabis business in 2022-23; 2) the higher EPC revenue from its potential new backlog; and 3) lower trading revenue by 1.2% to reflect our slightly lower expectations on trading income.

Exhibit 16: Key changes in assumptions and EPS forecasts

(THB m)	Current			Previous			Change (%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	11,259	11,370	12,103	7,959	6,908	6,932	41.5	64.6	74.6
Gross profit	5,842	6,192	6,686	4,160	3,307	3,396	40.4	87.2	96.9
Operating profit	3,397	3,765	4,131	3,202	2,508	2,594	6.1	50.1	59.2
Net profit	2,595	3,102	3,361	2,388	1,879	1,893	8.6	65.1	77.6
EPS (THB/share)	0.29	0.35	0.38	0.27	0.21	0.21	8.6	65.1	77.6
Key assumptions									
EPC revenue	1,500	1,000	1,200	1,000	1,000	1,000	50.0	0.0	20.0
Trading revenue	1,483	1,483	1,483	1,500	1,500	1,500	(1.2)	(1.2)	(1.2)
Cannabis CBD production (kg)	4,752	11,880	11,880	0	0	0	nm	nm	nm

Sources: GUNKUL; FSSIA estimates

We raise our SOTP-based TP from THB2.9 to THB5.1 to reflect 1) the THB1.9 value of its cannabis business based on 15x 2021E P/E, which we think is reasonable given its high margin and visible growth potential; and 2) our valuation rollover to 2021.

Exhibit 17: SOTP valuation

Cost of equity assumptions		(%)	Cost of debt assumptions		(%)
Risk-free rate		2.3	Pretax cost of debt		3.5
Market risk premium		8.5	Marginal tax rate		20.0
Stock beta		0.80			
Cost of equity, Ke		9.1	Net cost of debt, Kd		2.7
Weight applied		20.0	Weight applied		80.0
WACC (%)		4.0			
Sum-of-part valuation estimate	THB m	THB/share	Comments		
EPC	6,480	0.7	20x FY21E P/E, discount to industry average of 22x		
Trading	2,846	0.3	20x FY21E P/E, discount to industry average of 22x		
Solar power	18,022	2.0	DCF WACC 4%		
Wind power	20,936	2.4	DCF WACC 4%		
Gas engine power	535	0.1	DCF WACC 4%		
Cannabis	16,440	1.9	15x FY21E P/E		
Net cash	(20,579)	(2.3)	Net cash on hand at end 2021E		
Residual ordinary equity	44,682	5.1			

Sources: GUNKUL; FSSIA estimates

Financial Statements

Gunkul Engineering

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Revenue	7,099	8,649	11,259	11,370	12,103
Cost of goods sold	(2,313)	(4,255)	(5,417)	(5,179)	(5,418)
Gross profit	4,786	4,394	5,842	6,192	6,686
Other operating income	-	-	-	-	-
Operating costs	(840)	(955)	(1,326)	(1,287)	(1,395)
Operating EBITDA	3,945	3,439	4,516	4,905	5,290
Depreciation	(1,137)	(1,353)	(1,119)	(1,139)	(1,159)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	2,808	2,086	3,397	3,765	4,131
Net financing costs	(872)	(915)	(839)	(783)	(776)
Associates	269	73	210	208	97
Recurring non-operating income	347	150	340	403	389
Non-recurring items	(20)	2,224	0	0	0
Profit before tax	2,263	3,545	2,898	3,385	3,744
Tax	(41)	(119)	(198)	(176)	(266)
Profit after tax	2,222	3,425	2,700	3,209	3,478
Minority interests	(75)	(13)	(105)	(107)	(117)
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	2,147	3,412	2,595	3,102	3,361
Non-recurring items & goodwill (net)	20	(2,224)	0	0	0
Recurring net profit	2,167	1,189	2,595	3,102	3,361
Per share (THB)					
Recurring EPS *	0.29	0.13	0.29	0.35	0.38
Reported EPS	0.29	0.38	0.29	0.35	0.38
DPS	0.14	0.18	0.18	0.18	0.18
Diluted shares (used to calculate per share data)	7,420	8,883	8,883	8,883	8,883
Growth					
Revenue (%)	13.9	21.8	30.2	1.0	6.4
Operating EBITDA (%)	28.1	(12.8)	31.3	8.6	7.9
Operating EBIT (%)	21.2	(25.7)	62.9	10.8	9.7
Recurring EPS (%)	22.7	(54.2)	118.3	19.5	8.4
Reported EPS (%)	96.9	32.7	(24.0)	19.5	8.4
Operating performance					
Gross margin inc. depreciation (%)	51.4	35.2	41.9	44.4	45.7
Gross margin of key business (%)	51.4	35.2	41.9	44.4	45.7
Operating EBITDA margin (%)	55.6	39.8	40.1	43.1	43.7
Operating EBIT margin (%)	39.6	24.1	30.2	33.1	34.1
Net margin (%)	30.5	13.7	23.0	27.3	27.8
Effective tax rate (%)	2.1	3.4	7.4	5.5	7.3
Dividend payout on recurring profit (%)	46.6	136.0	61.6	51.5	47.6
Interest cover (X)	3.6	2.4	4.5	5.3	5.8
Inventory days	94.1	55.3	48.8	55.9	53.5
Debtor days	54.8	82.9	92.8	91.9	86.4
Creditor days	155.7	134.3	184.1	211.0	201.7
Operating ROIC (%)	9.7	6.4	(2.3)	(2.7)	(3.0)
ROIC (%)	8.3	5.4	(2.1)	(2.3)	(2.6)
ROE (%)	22.1	10.3	20.2	22.0	21.4
ROA (%)	7.9	4.5	5.6	6.8	7.1
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Manufacturing and selling of equipment for electrical systems	1,468	1,188	1,500	1,000	1,200
Generating and selling electricity	3,715	5,031	6,117	6,158	6,691
Construction service	2,000	2,500	3,000	2,500	2,500
Maintenance service	131	145	145	145	145

Sources: Gunkul Engineering; FSSIA estimates

Financial Statements

Gunkul Engineering

Cash Flow (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Recurring net profit	2,167	1,189	2,595	3,102	3,361
Depreciation	1,137	1,353	1,119	1,139	1,159
Associates & minorities	269	73	210	208	97
Other non-cash items	-	-	-	-	-
Change in working capital	2,463	(4,192)	95	(115)	(10)
Cash flow from operations	6,036	(1,577)	4,019	4,334	4,608
Capex - maintenance	(1,137)	(1,353)	(399)	(424)	(449)
Capex - new investment	(1,549)	(2,376)	(101)	(76)	(51)
Net acquisitions & disposals	78	165	0	0	0
Other investments (net)	(530)	(707)	210	208	97
Cash flow from investing	(3,139)	(4,271)	(290)	(292)	(403)
Dividends paid	0	0	(1,617)	(1,599)	(1,599)
Equity finance	366	0	0	0	0
Debt finance	(1,249)	4,449	(3,638)	(1,353)	1,821
Other financing cash flows	(796)	1,574	(315)	(309)	(76)
Cash flow from financing	(1,680)	6,023	(5,570)	(3,261)	145
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	1,218	174	(1,841)	780	4,350
Free cash flow to firm (FCFF)	3,807.51	(4,936.97)	4,655.52	4,875.61	5,047.21
Free cash flow to equity (FCFE)	851.94	173.91	(224.42)	2,379.23	5,948.66
Per share (THB)					
FCFF per share	0.51	(0.67)	0.63	0.66	0.68
FCFE per share	0.11	0.02	(0.03)	0.32	0.80
Recurring cash flow per share	0.48	0.29	0.44	0.50	0.52
Balance Sheet (THB m) Year Ending Dec					
Tangible fixed assets (gross)	27,103	30,754	31,254	31,754	32,254
Less: Accumulated depreciation	(2,536)	(3,811)	(4,931)	(6,070)	(7,229)
Tangible fixed assets (net)	24,567	26,943	26,323	25,684	25,025
Intangible fixed assets (net)	4,117	3,578	3,578	3,578	3,578
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	1,731	1,566	1,566	1,566	1,566
Cash & equivalents	4,218	4,392	2,551	3,332	7,681
A/C receivable	1,063	2,864	2,864	2,864	2,864
Inventories	653	637	812	776	812
Other current assets	1,351	3,889	5,063	5,113	5,443
Current assets	7,285	11,782	11,289	12,084	16,799
Other assets	1,342	2,163	2,163	2,163	2,163
Total assets	39,042	46,032	44,919	45,075	49,131
Common equity	10,712	12,350	13,328	14,831	16,594
Minorities etc.	621	125	230	337	454
Total shareholders' equity	11,333	12,475	13,559	15,169	17,048
Long term debt	18,991	18,793	15,155	13,802	15,622
Other long-term liabilities	513	1,781	1,781	1,781	1,781
Long-term liabilities	19,504	20,574	16,936	15,583	17,403
A/C payable	726	2,404	3,061	2,926	3,061
Short term debt	3,328	7,975	7,975	7,975	7,975
Other current liabilities	4,151	2,604	3,390	3,423	3,644
Current liabilities	8,205	12,983	14,425	14,324	14,679
Total liabilities and shareholders' equity	39,042	46,032	44,919	45,075	49,131
Net working capital	(1,810)	2,383	2,288	2,403	2,413
Invested capital	29,947	36,632	35,918	35,394	34,745
* Includes convertibles and preferred stock which is being treated as debt					
Per share (THB)					
Book value per share	1.44	1.39	1.50	1.67	1.87
Tangible book value per share	0.89	0.99	1.10	1.27	1.47
Financial strength					
Net debt/equity (%)	159.7	179.4	151.8	121.6	93.4
Net debt/total assets (%)	46.4	48.6	45.8	40.9	32.4
Current ratio (x)	0.9	0.9	0.8	0.8	1.1
CF interest cover (x)	3.8	3.8	0.9	4.1	8.7
Valuation					
Recurring P/E (x) *	14.2	30.9	14.2	11.9	10.9
Recurring P/E @ target price (x) *	17.5	38.1	17.5	14.6	13.5
Reported P/E (x)	14.3	10.8	14.2	11.9	10.9
Dividend yield (%)	3.3	4.4	4.3	4.3	4.3
Price/book (x)	2.9	3.0	2.8	2.5	2.2
Price/tangible book (x)	4.7	4.2	3.8	3.3	2.8
EV/EBITDA (x) **	12.5	17.2	12.7	11.3	10.0
EV/EBITDA @ target price (x) **	14.3	19.7	14.6	13.1	11.7
EV/invested capital (x)	1.7	1.6	1.6	1.6	1.5
* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income					

Sources: Gunkul Engineering; FSSIA estimates

Corporate Governance report of Thai listed companies 2020

EXCELLENT LEVEL										
AAV	ADVANC	AF	AIRA	AKP	AKR	ALT	AMA	AMATA	AMATAV	ANAN
AOT	AP	ARIP	ARROW	ASP	BAFS	BANPU	BAY	BCP	BCPG	BDMS
BEC	BEM	BGRIM	BIZ	BKI	BLA	BOL	BPP	BRR	BTS	BWG
CENTEL	CFRESH	CHEWA	CHO	CIMBT	CK	CKP	CM	CNT	COL	COMAN
COTTO	CPALL	CPF	CPI	CPN	CSS	DELTA	DEMCO	DRT	DTAC	DTC
DV8	EA	EASTW	ECF	ECL	EGCO	EPG	ETE	FNS	FPI	FPT
FSMART	GBX	GC	GCAP	GEL	GFPT	GGC	GPSC	GRAMMY	GUNKUL	HANA
HARN	HMPRO	ICC	ICI	III	ILINK	INTUCH	IRPC	IVL	JKN	JSP
JWD	K	KBANK	KCE	KKP	KSL	KTB	KTC	LANNA	LH	LHFG
LIT	LPN	MAKRO	MALEE	MBK	MBKET	MC	MCOT	METCO	MFEC	MINT
MONO	MOONG	MSC	MTC	NCH	NCL	NEP	NKI	NOBLE	NSI	NVD
NYT	OISHI	ORI	OTO	PAP	PCSGH	PDJ	PG	PHOL	PLANB	PLANET
PLAT	PORT	PPS	PR9	PREB	PRG	PRM	PSH	PSL	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QTC	RATCH	RS	S	S & J	SAAM
SABINA	SAMART	SAMTEL	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SDC
SEAFCO	SEOIL	SE-ED	SELIC	SENA	SIRI	SIS	SITHAI	SMK	SMPC	SNC
SONIC	SORKON	SPALI	SPI	SPRC	SPVI	SSSC	SST	STA	SUSCO	SUTHA
SVI	SYMC	SYNTEC	TACC	TASCO	TCAP	TFMAMA	THANA	THANI	THCOM	THG
THIP	THRE	THREL	TIP	TIPCO	TISCO	TK	TKT	TMB	TMILL	TNDT
TNL	TOA	TOP	TPBI	TQM	TRC	TSC	TSR	TSTE	TSTH	TTA
TTCL	TTW	TU	TVD	TVI	TVO	TWPC	U	UAC	UBIS	UV
VGI	VIH	WACOAL	WAVE	WHA	WHAUP	WICE	WINNER	TRUE		

VERY GOOD LEVEL										
2S	ABM	ACE	ACG	ADB	AEC	AEONTS	AGE	AH	AHC	AIT
ALLA	AMANAHA	AMARIN	APCO	APCS	APURE	AQUA	ASAP	ASEFA	ASIA	ASIAN
ASIMAR	ASK	ASN	ATP30	AUCT	AWC	AYUD	B	BA	BAM	BBL
BFIT	BGC	BJC	BJCHI	BROOK	BTW	CBG	CEN	CGH	CHARAN	CHAYO
CHG	CHOTI	CHOW	CI	CIG	CMC	COLOR	COM7	CPL	CRC	CRD
CSC	CSP	CWT	DCC	DCON	DDD	DOD	DOHOME	EASON	EE	ERW
ESTAR	FE	FLOYD	FN	FORTH	FSS	FTE	FVC	GENCO	GJS	GL
GLAND	GLOBAL	GLOCON	GPI	GULF	GYT	HPT	HTC	ICN	IFS	ILM
IMH	INET	INSURE	IRC	IRCP	IT	ITD	ITEL	J	JAS	JCK
JCKH	JMART	JMT	KBS	KCAR	KGI	KIAT	KOOL	KTIS	KWC	KWM
L&E	LALIN	LDC	LHK	LOXLEY	LPH	LRH	LST	M	MACO	MAJOR
MBAX	MEGA	META	MFC	MGT	MILL	MITSIB	MK	MODERN	MTI	MVP
NETBAY	NEX	NINE	NTV	NWR	OCC	OGC	OSP	PATO	PB	PDG
PDI	PICO	PIMO	PJW	PL	PM	PPP	PRIN	PRINC	PSTC	PT
QLT	RCL	RICHY	RML	RPC	RWI	S11	SALEE	SAMCO	SANKO	SAPPE
SAWAD	SCI	SCP	SE	SEG	SFP	SGF	SHR	SIAM	SINGER	SKE
SKR	SKY	SMIT	SMT	SNP	SPA	SPC	SPCG	SR	SRICHA	SSC
SSF	STANLY	STI	STPI	SUC	SUN	SYNEX	T	TAE	TAKUNI	TBSP
TCC	TCMC	TEAM	TEAMG	TFG	TIGER	TITLE	TKN	TKS	TM	TMC
TMD	TMI	TMT	TNITY	TNP	TNR	TOG	TPA	TPAC	TPCORP	TPOLY
TPS	TRITN	TRT	TRU	TSE	TVT	TWP	UEC	UMI	UOBKH	UP
UPF	UPOIC	UT	UTP	UWC	VL	VNT	VPO	WIJK	WP	XO
YUASA	ZEN	ZIGA	ZMICO							

GOOD LEVEL										
7UP	A	ABICO	AJ	ALL	ALUCON	AMC	APP	ARIN	AS	AU
B52	BC	BCH	BEAUTY	BGT	BH	BIG	BKD	BLAND	BM	BR
BROCK	BSBM	BSM	BTNC	CAZ	CCP	CGD	CITY	CMAN	CMO	CMR
CPT	CPW	CRANE	CSR	D	EKH	EP	ESSO	FMT	GIFT	GREEN
GSC	GTB	HTECH	HUMAN	IHL	INOX	INSET	IP	JTS	JUBILE	KASET
KCM	KKC	KUMWEL	KUN	KWG	KYE	LEE	MATCH	MATI	M-CHAI	MCS
MDX	MJD	MM	MORE	NC	NDR	NER	NFC	NNCL	NPK	NUSA
OCEAN	PAF	PF	PK	PLE	PMTA	POST	PPM	PRAKIT	PRECHA	PRIME
PROUD	PTL	RBF	RCI	RJH	ROJNA	RP	RPH	RSP	SF	SFLEX
SGP	SISB	SKN	SLP	SMART	SOLAR	SPG	SQ	SSP	STARK	STC
SUPER	SVOA	TC	TCCC	THMUI	TIW	TNH	TOPP	TPCH	TIPIP	TPLAS
TTI	TYCN	UKEM	UMS	VCOM	VRANDA	WIN	WORK	WPH		

Description

Score Range

Excellent

90-100

Very Good

80-89

Good

70-79

Disclaimer:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.

* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive; ** delisted

Source: Thai Institute of Directors Association (IOD); FSSIA's compilation

Anti-corruption Progress Indicator 2020

CERTIFIED										
2S	ADVANC	AI	AIE	AIRA	AKP	AMA	AMANAHA	AP	AQUA	ARROW
ASK	ASP	AYUD	B	BAFS	BANPU	BAY	BBL	BCH	BCP	BCPG
BGC	BGRIM	BJCHI	BKI	BLA	BPP	BROOK	BRR	BSBM	BTS	BWG
CEN	CENTEL	CFRESH	CGH	CHEWA	CHOTI	CHOW	CIG	CIMBT	CM	CMC
COL	COM7	CPALL	CPF	CPI	CPN	CSC	DCC	DELTA	DEMCO	DIMET
DRT	DTAC	DTC	EASTW	ECL	EGCO	FE	FNS	FPI	FPT	FSS
FTE	GBX	GC	GCAP	GEL	GFPT	GGC	GJS	GPSC	GSTEEL	GUNKUL
HANA	HARN	HMPRO	HTC	ICC	ICHI	IFS	INET	INSURE	INTUCH	IRPC
ITEL	IVL	K	KASET	KBANK	KBS	KCAR	KCE	KGI	KKP	KSL
KTB	KTC	KWC	L&E	LANNA	LHFG	LHK	LPN	LRH	M	MAKRO
MALEE	MBAX	MBK	MBKET	MC	MCOT	MFC	MFEC	MINT	MONO	MOONG
MPG	MSC	MTC	MTI	NBC	NEP	NINE	NKI	NMG	NNCL	NSI
NWR	OCC	OCEAN	OGC	ORI	PAP	PATO	PB	PCSGH	PDG	PDI
PDJ	PE	PG	PHOL	PL	PLANB	PLANET	PLAT	PM	PPP	PPPM
PPS	PREB	PRG	PRINC	PRM	PSH	PSL	PSTC	PT	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QLT	QTC	RATCH	RML	RWI	S & J
SABINA	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SEAOIL	SE-ED	SELIC
SENA	SGP	SIRI	SITHAI	SMIT	SMK	SMPC	SNC	SNP	SORKON	SPACK
SPC	SPI	SPRC	SRICHA	SSF	SSSC	SST	STA	SUSCO	SVI	SYNTEC
TAE	TAKUNI	TASCO	TBSP	TCAP	TCMC	TFG	TFI	TFMAMA	THANI	THCOM
THIP	THRE	THREL	TIP	TIPCO	TISCO	TKT	TMB	TMD	TMILL	TMT
TNITY	TNL	TNP	TNR	TOG	TOP	TPA	TPCORP	TPP	TRU	TSC
TSTH	TTCL	TU	TVD	TVI	TVO	TWPC	U	UBIS	UEC	UKEM
UOBKH	UWC	VGI	VIH	VNT	WACOAL	WHA	WHAUP	WICE	WIJK	XO
ZEN	TRUE									

DECLARED										
7UP	ABICO	AF	ALT	AMARIN	AMATA	AMATAV	ANAN	APURE	B52	BKD
BM	BROCK	BUI	CHO	CI	COTTO	DDD	EA	EFORL	EP	ERW
ESTAR	ETE	EVER	FSMART	GPI	ILINK	IRC	J	JKN	JMART	JMT
JSP	JTS	KWG	LDC	MAJOR	META	NCL	NOBLE	NOK	PK	PLE
ROJNA	SAAM	SAPPE	SCI	SE	SHANG	SINGER	SKR	SPALI	SSP	STANLY
SUPER	SYNEX	THAI	TKS	TOPP	TRITN	TTA	UPF	UV	WIN	ZIGA

Level	
Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

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The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, FSS International Investment Advisory Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment results.

Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Source: The Securities and Exchange Commission, Thailand; * FSSIA's compilation

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Suwat Sinsadok FSS International Investment Advisory Securities Co., Ltd

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History of change in investment rating and/or target price

Gunkul Engineering (GUNKUL TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
15-Nov-2018	BUY	3.92	14-May-2020	BUY	3.80	05-Jan-2021	BUY	2.90
27-Feb-2020	BUY	3.80	22-Sep-2020	BUY	3.20			

Suwat Sinsadok started covering this stock from 15-Nov-2018

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Gunkul Engineering	GUNKUL TB	THB 4.14	BUY	The downside risks to our SoTP-based TP on GUNKUL include 1) lower-than-expected demand for electricity in Thailand, 2) declining EPC backlogs, and 3) lower-than-expected utilisation rates for solar and wind farms

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

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All share prices are as at market close on 05-May-2021 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.