

# Pylon PCL (PYLON)

**BUY**

## Golden opportunity for bored pile contractor

*In 1H11, PYLON posted outstanding net profit growth of 1,138% yoy and a third consecutive turnaround quarter from the construction recovery of high-rise buildings. We expect this growth to continue onward in 3Q11 with the 10 new elevated train lines about to be constructed with a need for bored piles. The share price has yet to absorb the good news factors and thus now is a very good opportunity to BUY.*

### ◆ Great opportunity for bored pile contractor

The new government has reaffirmed the acceleration of the 10 elevated train lines and we see this as a great opportunity for the foundation construction business over the next couple of years. Recent data on 5 of the routes shows at least Bt2.1bn will be needed for bored pile and foundation work and this is still low compared to the additional bored pile work on high rise buildings located along these lines of over Bt17.4bn. Oil prices are estimated to be stable after the new energy policies were implemented and this is a positive benefit for bored pile contractors. With only 4-5 companies in this field in Thailand, we expect to see a shortage in 2012 with 3 train lines under construction at the same time.

### ◆ Better figures than other contractors

PYLON has passed a difficult time since 2009 and has signalled a recovery for three consecutive quarters since 3Q10. In 1H11, PYLON had a net profit of Bt44mn, up 1,138% yoy, from the recovery of tall building construction and has encouraged management to purchase raw materials ahead of construction to avoid risks from volatile prices. This puts PYLON at the highest financial position among bored pile contractors. In 1H11, PYLON had a gross margin of 20.7% and a net margin of 9.4% with a current P/BV of 1.5x and a D/E of 0.8x and a ROE 23.8%.

### ◆ Cheap valuation with an initial BUY rating

PYLON had a net profit of Bt44mn in 1H11 accounting for 49% of our 2011 estimate of Bt89mn, up 175.5% yoy. We expect this growth to continue through the next 1-2 years. The current share price is trading on a 2011 PER of 7.2x with a construction sector average of 21.0x and a MAI at 19.0x with the SET at 12.5x. We are applying a target PER of 10.0x from 50% of the current sector average and value PYLON at a 2012 target price of Bt4.61 for a 38% upside along with a dividend yield of 5.5%. We are initiating coverage with a BUY rating.

### Earnings summary

Year End Dec 31	2008	2009	2010	2011F	2012F
Total sales (Btmn)	722	594	626	1,074	1,181
EBITDA (Btmn)	103	64	65	165	171
Normalised earnings (Btmn)	58	21	32	89	92
Earnings (Btmn)	58	21	32	89	92
EPS (Bt)	0.39	0.12	0.16	0.44	0.46
PER (x)	8.3	26.8	20.1	7.2	7.0
EV/EBITDA (x)	4.8	9.9	9.9	3.7	3.3
Free Cash flow (Btmn)	80	(18)	65	38	85
BVPS (Bt)	2.14	1.87	1.71	2.08	2.36
P/BV (x)	1.5	1.7	1.9	1.6	1.4
DPS (Bt)	0.04	0.13	0.08	0.18	0.18
Dividend yield (%)	1.2%	3.9%	2.5%	5.5%	5.7%
Net debt/equity (x)	0.0	0.1	Cash	Cash	Cash
ROA (%)	10.6%	4.3%	5.4%	12.4%	11.7%
ROE (%)	18.2%	6.3%	9.4%	21.4%	19.5%
Total sales (Btmn)	722	594	626	1,074	1,181

Source : Company reports and KELIVE Research estimates.

Price (Bt)	3.40
Target (Bt)	4.61
Set Index	1,051.49

### SAA Consensus

Rating	N.A.
Avg. fair value (Bt)	N.A.
High (Bt)	N.A.
Low (Bt)	N.A.

### Historical Chart



### Stock Information

Paid up shares (mn)	200
Par value (Bt)	1.00
Free Float (%)	33.97
Market Capitalisation (Btmn)	668
Foreign Limit (%)	49

### Major Shareholders

Chanet Sangarayakul (%)	3.84
Pornthip Prasongsuthon (%)	1.50
Sanpichet Auevilaijit (%)	1.50

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**Bright future for bored pile contractors**

Currently, most new train lines have seen significant progress. From current data, 7 train lines under construction have a total estimated bored pile work of Bt2.165bn accounting for 0.8% of total project values.

**Table 1 : Electric train progress & estimates**

Line	Route	Length (km.)	Value	Bore Pile work	Progress
Purple	Bang Yai – Bang Sue	23.0	51,800	430	Under Construction since 4Q10
Silom	Taksin – Petkasem	5.3	5,799	99	Signing Contract, Starting Construction in 3Q11
Blue	Hua Lamphong – Bang Kae	27.0	50,437	505	Signing Contract, Starting Construction in 3Q11
	Bang Sue – Tapra				
Red	Bang Sue – Rangsit	36.3	77,000	679	Waiting to sign contract, exp. starting in 2Q12
Green	Baring – Samutprakarn	12.8	28,027	239	Waiting to sign contract, exp. starting in 2Q12
	Morchit – Sapanmai	11.4	36,000	213	Coming soon
			249,063	2,165	

Source : Company reports and KELIVE Research estimates.

In the last 5 quarters (1Q10-1Q11), the Purple line construction has begun along with 1,474 high-rise projects with a total area of 10.3mn sqm expected in the Bangkok area. In just Bangkok alone, there is 8.7mn sqm of high-rise planned with an expected Bt434bn in construction value and an estimated Bt17.39bn for bored pile work (normally 4% of high rise building construction value). PYLON has a success rate of 1/3, and thus we believe PYLON has a bright opportunity to build backlog, especially with the contractor shortage.

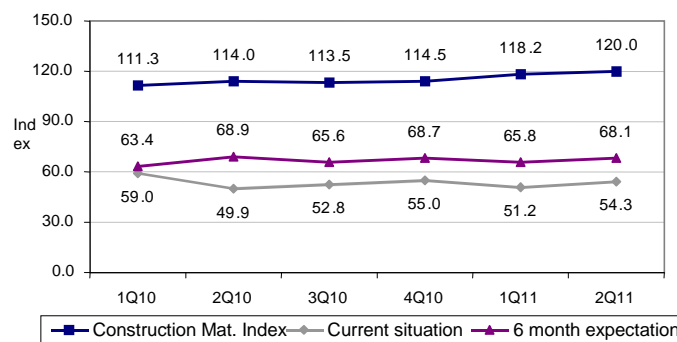
**Table 2 : High rise construction permits in BKK and estimated bored pile work**

	1Q10	2Q10	3Q10	4Q10	1Q11	Total
High-rise (mn sqm)	0.00	0.09	0.11	0.27	0.20	0.67
Condominiums (mn sqm)	1.20	1.01	1.35	1.28	1.22	6.06
Hotels (mn sqm)	0.04	0.27	0.17	1.12	0.38	1.97
Total area (mn sqm)	1.24	1.37	1.62	2.66	1.80	8.70
Project values (Btmn)	61,984	68,736	81,163	133,160	89,758	434,801
<b>Est. Bore pile value (Btmn)</b>	<b>2,479</b>	<b>2,749</b>	<b>3,247</b>	<b>5,326</b>	<b>3,590</b>	<b>17,392</b>

Source : Real Estate Information Center and KELIVE Research estimates.

We believe growth in high-rise building construction will tend to continue into 2012-2014 partially reflected in 2Q11 property developer confidence index reaching 54.3 level vs 49.9 in 2Q10 along with the six-month confidence index level of 68.1. We believe raw material prices have already peaked this year and the trend towards stable from the government oil price controls and the flat steel prices. This environment will be good for the entire contractor sector.

**Chart 1 : Property developer confidence index, Construction material price index**



Source : Real Estate Information Center.

**Small but nice bore pile contractor**

PYLON is a specialist in large bored pile construction with more than 10-year experience on all kinds of projects. The PYLON project portfolio includes the Airport Rail Link, the S1 Expressway and the Government Centers.

**Table 3 : Revenue breakdown (Unit : Btmn)**

	2008	%	2009	%	2010	%
Large Bored Piles	650	90%	384	65%	537	85%
Jet Grouting	69	9%	6	1%	0	0%
Diaphragm Walls	0	0%	4	1%	0	0%
Construction	3	0%	200	34%	92	15%
<b>Total</b>	<b>722</b>		<b>594</b>		<b>629</b>	

Source : Company reports.

**Advantageous business model**

PYLON has good cost management with purchases of raw materials right after winning job bids (1-2 months before starting projects), which reduces volatile material price risks (rebar, concrete, fuel, bentonite and polymers). PYLON regularly buys whole rebar shipments when prices are often volatile.

As pile contractors have a separate contract, this benefits them in that they get paid once the foundation is finished and this helps margins, as well as liquidity with a lower debt load and the ability to pay regular dividends.

**Table 4 : Competitors and contractors**

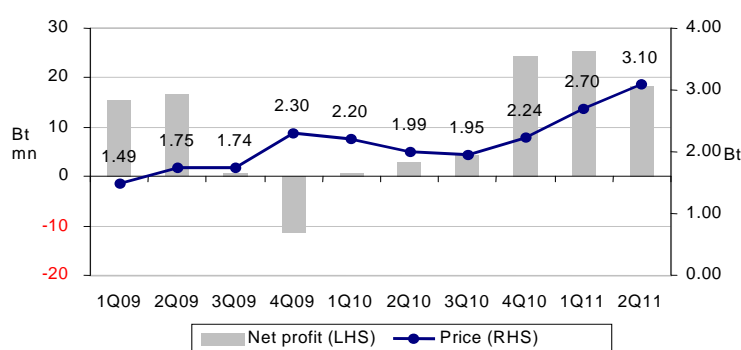
	2009			2010		
	PYLON	SEAFCO	Avg Big 3	PYLON	SEAFCO	Avg Big 3
Current ratio (x)	2.0	1.0	1.2	1.6	0.8	1.3
Cash conversion cycle (days)	62.3	73.6	53.4	60.6	97.3	56.5
D/E (x)	0.5	1.5	3.1	0.8	1.6	3.0
Dividend Yield (%)	3.9%	1.4%	0.8%	2.5%	0.0%	1.5%
GPM (%)	13.1%	8.9%	6.0%	13.2%	4.9%	6.5%

Source : Company reports, Big 3 = ITD-CK-STEC

**Bottomed out and now growing**

In 2009, problems resulted in a 13% decline in high rise building construction as PYLON revenue declined 17.8% yoy and a 63.5% yoy fall in the PYLON net profit to just Bt21mn from the then poor utilisation. The share price was trading in a range of Bt1.49-2.24/share in the 2009-2010 period.

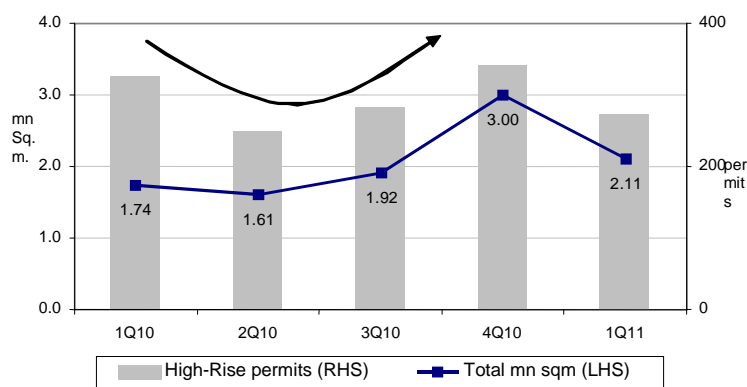
**Chart 2 : Price & historic net profit**



Source : Company reports

In 2010, the situation began to improve with a higher number of construction permits issued then a small slowdown in 1Q11, pressured by the government stability concerns. With the July 2011 election and the new government policies supporting higher public transportation construction and efforts to stimulate the economy, we believe contractors will see a strong return to the building trade once again.

**Chart 3 : High rise construction permits in Bangkok**



Source : Real Estate Information Center.

**Higher utilisation improves margins**

In 2Q11, PYLON had a net profit of just Bt18mn for a jump of 531.1% yoy from the higher revenue of Bt246mn, up 11.7% qoq and 83.1% yoy from the better economy of scale, even with higher raw material prices.

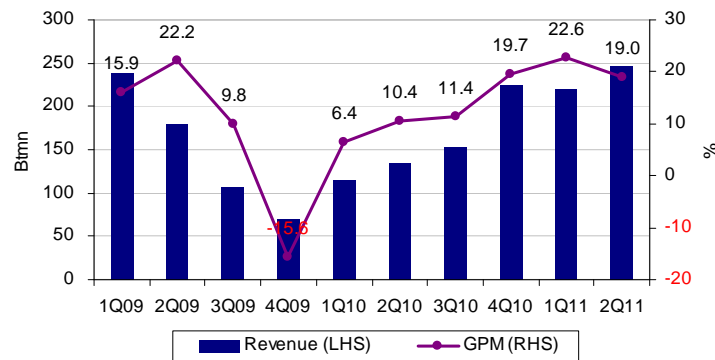
**Quarterly income statement**

(Btmn)	2Q11	1Q11	QoQ	2Q10	YoY	1H11	% YoY
Revenues	246	220	11.7%	135	83.1%	467	87.3%
COGS	200	171	17.0%	121	65.5%	370	62.4%
<b>Gross profits</b>	<b>47</b>	<b>50</b>	<b>(6.4%)</b>	<b>14</b>	<b>234.4%</b>	<b>97</b>	<b>352.7%</b>
Gross margin (%)	19.0%	22.6%	-	10.4%	-	20.7%	-
SG&A	18	14	26.1%	12	45.6%	32	37.0%
Operating profit	29	36	(19.0%)	2	1440.2%	65	N.A.
Operating margin (%)	11.8%	16.3%	-	1.4%	-	13.9%	N.A.
<b>EBITDA</b>	<b>37</b>	<b>44</b>	<b>(14.9%)</b>	<b>9</b>	<b>291.6%</b>	<b>81</b>	<b>495.2%</b>
EBITDA margin (%)	15.0%	19.7%	-	7.0%	-	17.3%	-
Interest expenses	1	1	9.6%	1	1.4%	1	(1.4%)
<b>Normalised earnings</b>	<b>18</b>	<b>25</b>	<b>(27.2%)</b>	<b>3</b>	<b>531.1%</b>	<b>44</b>	<b>1138.5%</b>
<b>Net profit</b>	<b>18</b>	<b>25</b>	<b>(27.2%)</b>	<b>3</b>	<b>531.1%</b>	<b>44</b>	<b>1138.5%</b>
EPS (Bt) before extra item	0.09	0.13	(30.8%)	0.01	800.0%	0.22	1138.5%
<b>EPS (Bt)</b>	<b>0.09</b>	<b>0.13</b>	<b>(30.8%)</b>	<b>0.01</b>	<b>800.0%</b>	<b>0.22</b>	<b>1138.5%</b>

Source : Company reports and KELIVE Research estimates.

The revenue rising above Bt200mn in each of three consecutive quarters has had significant impact with the improved economy of scale and has pushed the gross profit margin above 20.7% for the 1H11 increasing significantly from a poor 8.6% in 1H10 and an average of 13.2% for all of 2010.

**Chart 4 : Historical revenue and gross profit margin**



Source : Company reports

In 3Q11, the net profit is estimated to grow qoq from the low season in 2Q11 with many long holidays, earlier-than-expected rain and a provision loss of -Bt3.6mn pressuring the 2Q11 net profit to decline 27.2% qoq, however, still up 531.1% yoy.

At the end of 2Q11, PYLON had a total backlog of Bt1.137bn with an estimated foundation work of 60.0% (bored piles, jet grouting and diaphragm walls) and civil work jumping to 40% from new civil projects in 1H11. We believe bored pile work will continue significantly to reach 85% of total work in 2012, which will drive the gross profit margin higher.

**Cheap valuation, initiating with a BUY rating**

In 2011, we estimate the PYLON 2011 net profit will grow 175% yoy, however, with the low liquidity, we have decided to trade PYLON at a discount PER from the SET PER of 12.5x.

**Table 5 : Assumption**

	2010	2011F	2012F
Backlog	1,039	1,314	1,618
Add-in (Deliveries)	588	1,350	1,485
Foundations	85.7%	90.0%	85.0%
Construction	14.3%	10.0%	15.0%
<b>Revenue</b>	<b>626</b>	<b>1,075</b>	<b>1,181</b>
% Growth	5.6%	71.6%	9.9%
Gross Margin (%)	13.2%	19.5%	18.6%
SG&A (%)	5.4%	7.0%	7.0%
Net profit	32	89	92

Source : Company reports and KELIVE Research estimates.

PYLON has a target PER for 2012 of 10.0x for a fair value of Bt4.61/share offering a 38% upside and a dividend yield of 5.5% (dividend policy not less than 40% of profit). Moreover the current share price reflects a low 2012 PER 2012 now of just 7.3x compared to the outstanding ability of PYLON, thus we recommend a BUY.

In 2012, we expect the profit to climb just 3.5% yoy from the limited equipment utilisation, which are already at 90%, however PYLON can increase utilisation by 10-15% and easily invest in new machines with the good financial status, the low D/E and high cash of Bt72mn.

**Table 6 : Valuation guide**

	2010	2011F	2012F
Norm EPS (Bt)	0.16	0.44	0.46
PER (x)			
8.0	1.29	3.56	3.68
9.0	1.45	4.00	4.15
<b>10.0</b>	<b>1.61</b>	<b>4.45</b>	<b>4.61</b>
11.0	1.78	4.89	5.07
12.0	1.94	5.34	5.53

Source : Company reports and KELIVE Research estimates.

**Table 7 : Bored pile contractor comparative table**

	PYLON			SEAFCO
	2010	1H11	2011F	2011F
Revenue	626	467	1,074	aprox.1,500
Gross profit	83	97	208	N.A.
Net profit	32	44	89	35
% NP growth	51.3%	1138.5%	175.5%	N.A.
GPM %	13.2%	20.7%	19.4%	N.A.
NP %	5.2%	9.4%	8.3%	N.A.
Current ratio (x)	1.6	1.5	1.8	0.9
Paid up (Btmn)	200	200	200	215
D/E (x)	0.8	0.8	0.7	2.0
ROE	9.4%	23.8%	21.4%	6.1%
Current share price (Bt)	3.22	3.22	3.22	3.54
PER (x)	20.9	9.3	7.5	21.7
PBV (x)	2.0	1.8	1.6	1.3

Source : Company reports, SAA Consensus and KELIVE Research estimates,

**Income statement**

<b>(Btmn)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
Total revenues	722	594	626	1,074	1,181
Cost of goods sold	609	516	544	866	962
SG&A	41	45	48	75	83
<b>EBIT</b>	<b>72</b>	<b>32</b>	<b>35</b>	<b>133</b>	<b>137</b>
Net other income	4	3	4	5	5
Interest expenses	(3)	(2)	(2)	(2)	(1)
<b>EBT</b>	<b>74</b>	<b>34</b>	<b>36</b>	<b>136</b>	<b>141</b>
<b>Normalised profit</b>	<b>59</b>	<b>26</b>	<b>26</b>	<b>95</b>	<b>98</b>
Minority interest	(0)	(4)	6	(6)	(6)
Equity acc. + extraordinary gains	-	-	-	-	-
<b>Net profit</b>	<b>58</b>	<b>21</b>	<b>32</b>	<b>89</b>	<b>92</b>

**Balance Sheet**

<b>(Btmn)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
<b>ASSETS</b>					
Cash & deposits	116	69	97	97	143
Accounts receivable	97	100	93	160	176
Inventory	67	59	119	173	192
Other current assets	62	60	77	81	85
Total current assets	342	288	385	511	596
Investments	-	-	-	-	-
Property, plant and equipment	195	180	181	169	154
Other assets	14	29	34	36	38
<b>Total Assets</b>	<b>551</b>	<b>497</b>	<b>600</b>	<b>715</b>	<b>788</b>
<b>LIABILITIES</b>					
OD + current portion of L-T debt	49	47	28	5	5
Account payable + trust receipt	109	58	109	173	192
Other current liabilities	52	40	102	103	104
Total current liabilities	210	144	239	281	302
Long term debts	19	11	19	19	14
Debentures + CDs	-	-	-	-	-
Other liabilities	-	0	0	0	0
<b>Total liabilities</b>	<b>230</b>	<b>156</b>	<b>258</b>	<b>300</b>	<b>315</b>
Minority interest	15	19	13	13	14
<b>SHAREHOLDERS' EQUITY</b>					
Shares + warrants	150	200	200	200	200
Premium on shares	59	59	59	59	59
Retained earnings + revaluation	97	63	70	143	200
<b>Total shareholders' equity</b>	<b>321</b>	<b>341</b>	<b>342</b>	<b>415</b>	<b>473</b>
<b>Total liabilities and equity</b>	<b>551</b>	<b>497</b>	<b>600</b>	<b>715</b>	<b>788</b>

**Statement of Cash Flow**

<b>(Btmn)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>
Net profit	58	21	32	89	92
+ Depreciation & Amortisation	31	32	30	32	34
- Sales of fixed assets	-	-	-	-	-
+ Decrease in working capital	-	(47)	(1)	(58)	(16)
+ Others	2	(12)	28	(5)	(5)
<b>Operating cash flows</b>	<b>91</b>	<b>(6)</b>	<b>89</b>	<b>58</b>	<b>105</b>
Purchase of fixed assets	(11)	(13)	(24)	(20)	(20)
Investment in affiliated	-	-	-	-	-
Other investing activities	(51)	(9)	17	(2)	(2)
<b>Investing cash flows</b>	<b>(63)</b>	<b>(22)</b>	<b>(7)</b>	<b>(22)</b>	<b>(22)</b>
Payment of dividend	(9)	(6)	(25)	(16)	(36)
Equity Increase	-	-	-	-	-
Other debt financing	15	-	7	1	1
<b>Internal financing cash flows</b>	<b>6</b>	<b>(6)</b>	<b>(18)</b>	<b>(15)</b>	<b>(35)</b>

Source : Company reports and KeLive Research estimates.

**Definition of ratings**

<b>BUY</b>	Share price expected to outperform the market, while earnings momentum should beat market and peers in the next 12 months.
<b>BUY ON WEAKNESS</b>	Share price expected to underperform the market, but earnings momentum may beat market and peers in the next 12 months.
<b>SELL</b>	The share price expected to underperform the market, while earnings should be below market and peers in the next 12 months.
<b>HOLD</b>	The share price and earnings momentum are expected to perform on par with the market and peers in the next 12 months.
<b>FULLY VALUED</b>	The share price will equal or underperform the market, while earnings momentum in the next 12 months may equal or be below the market and peers.
<b>SPECULATIVE BUY</b>	The share price is expected to be volatile on news flows that may affect the fundamentals and investors should be cautious and aware of risk in this investment.



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AMATA	CPF	IFEC	NKI	SAMART	SITHAI	80-89			
AOT	CPN	IRPC	NMG	SAMTEL	SNC	70-79			
ASIMAR	CSL	KBANK	NOBLE	SAT	SSI	60-69			
BAFS	DRT	KEST	PSL	SC	SVI	50-59			
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BAY	ERAWAN	KSL	PTTAR	SCC	THCOM	No logo given			
BOP	FORTH	KTB	PTTCH	SCIB	TIP				
BECL	GBX	L&E	PTTEP	SCSMG	TIPCO				
BKI	GC	LPN	RATCH	SE-ED	TISCO				
BLS	HEMRAJ	MCOT	ROBINS	SIM	TMB	TTA			
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ACAP	BROOK	DTC	KDH	NSI	PYLON	SKR	TEAM	TSC	
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