

SYNTEC CONSTRUCTION PCL (SYNTEC)

May 17, 2006

Recommendation

BUY

Price Target Bt 1 (+49%)

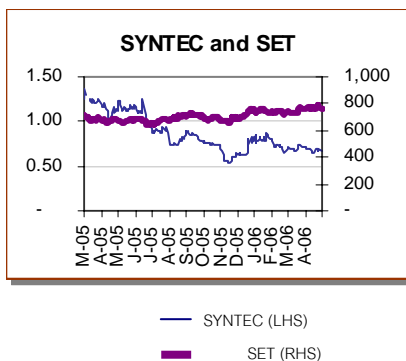
Property Development

Stock information

Price	Bt 0.67
12 Month Range	Bt 1.25/0.54
Market Capitalization	Bt 1,072 m
Share in issue (Par1)	1,600 m
Book Value/share (1Q06)	Bt 0.90
Free Float (16/03/06)	58.35%
Foreign Limit/Available	40%/35.32%
NVDR in hand (% of shares)	2.54%
Average Volume ('000)	11,848.56

Major Shareholder (7-Apr-2006)

Richy Venture Holding	26.82%
Finansa Life Insurance	4.98%



Stock Price Performance

	Absolute	Relative	BETA
1 m	-6.9%	-7.7%	0.59
3 m	-17.3%	-20.2%	1.43
6 m	-4.3%	-15.2%	2.24
9 m	-27.2%	-37.3%	2.03
1 yr	-40.2%	-47.3%	1.76
YTD	-16.9%	-19.3%	2.17

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SYNTEC'S 1Q06 results update

- Construction revenue dropped 6.7% YoY and the company has achieved 18% of our full year estimate
- Gross margin, however, improved significantly to 9.4% as compared to 1-1.5% in the last 2 quarters.
- We expect SYNTEC to continue to report improving performance over the next 3 quarters.
- Maintain BUY on SYNTEC with a target price of Bt 1/share.

SYNTEC reported its 1Q06 results showing a drop in revenue of Bt 618 mn while its net profit jumped to Bt 39 as compared to Bt 42 mn in 1Q05 but an improvement as compared to the last 3 quarters which showed net losses. Although the construction revenue is still below our expectation but overall net profit rose above our expectation boost by much improved margin.

SYNTEC's gross margin improved to 9.4% as compared to 1.3% in 4Q05 but still below last years' level of 11.5% while we have earlier assumed 7.3% for FY06 operation. However, we do not expect this will sustain as the recent rise in steel prices and wage hike is expected to dent SYNTEC's gross margin but we expect this will still be in the range of our expectation.

Earlier we have initiated our coverage on SYNTEC with the expectation that the company would be able to make a profit of Bt 167 mn for FY06 operation (including gain from sale of its 367.8 mn shares stakes in BMCL which is about to hold its IPO in 2Q06). From 1Q06 operation we believe that SYNTEC is expected to surpass our forecast. However, we caution investors to keep close watch on the recent steel price movements.

Although the sector sentiment is vulnerable to the delay in the upcoming Mega Projects due to the recent political turmoil, but given the huge backlog order which SYNTEC has already secured enough projects on hand for the next 3.5 years we believe SYNTEC would be able to adjust its operation. We, therefore, continue to recommend investors to BUY SYNTEC as the company is expected to pose a turnaround after several years of bad results. Initially we have assigned a target price of Bt 1/share as we would prefer to see the company's performance in 1H06 before we revise any changes. At our target price the company would trade at 10x its FY06 prospective PER multiples and 1x its P/BV.

SYNTEC's Earnings Table

Year End: Dec	Sales (Btm)	EBITDA (Btm)	EV/ EBITDA	Net Profit (Btm)	ROE %	EPS (Bt)	PER (x)	DPS (Bt)	Div. Yield (%)
2004	3,487	(82)	-19.39	(135)	-7%	-0.08	n.m.	-	-
2005	2,812	(7)	-228.29	(49)	-3%	-0.03	n.m.	-	-
2006F	3,450	152	10.04	167	12%	0.10	6.42	-	-
2007F	3,765	199	7.71	151	10%	0.09	7.08	-	-
2008F	3,866	176	5.57	125	7%	0.08	8.58	-	-

SYNTEC's Quarterly Results

Income Statement	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06	Cash Flow Statement	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06
Total sales	662	701	705	745	618	Net Cash Flow from Operation	-35	25	64	267	-2
Cost of sales	586	715	697	735	560	Net Cash Flow from Investment	-15	-29	-4	-203	-73
Gross profit	76	-14	8	10	58	Net Cash Flow from Financing	62	9	-55	-92	109
SG&A expenses	36	35	23	22	32	Total Net Cash Flow	12	5	6	-27	34
Operating profit	40	-49	-15	-12	26	Accumulated Cash	66	71	77	49	83
Non-operating income	9	13	15	9	18						
Non-operating expenses	5	6	5	29	6	Key Financial Ratios	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06
Interest expenses	5	6	5	5	6	Sales Growth	8.70%	-33.90%	-29.90%	-8.20%	-6.70%
Others				24		EBITDA Growth	271.40%	-227.20%	45.70%	96.80%	-26.80%
Forex Gain (Loss)						Net Profit Growth	262.90%	-222.30%	73.80%	74.40%	-8.30%
Tax						Gross Margin	11.50%	-1.90%	1.10%	1.30%	9.40%
Shr in affiliate earnings	-2	-11	-3	-1	1	Operating Margin	6.00%	-7.00%	-2.10%	-1.60%	4.20%
Minority interests						Net Margin	6.40%	-7.50%	-1.00%	-4.30%	6.30%
Net Profit	42	-53	-7	-32	39	EBITDA Margin	7.10%	-6.10%	-1.00%	-0.50%	5.60%
EPS adjusted (Bt)	0.03	-0.03	0	-0.02	0.02	Net Debt/Equity	0.33	0.35	0.32	0.29	0.34
Depreciation & Amortization	7	6	7	8	9	S.T. Debt/Total Debt	0.3	0.41	0.41	0.35	0.49
EBITDA	47	-43	-7	-4	34	Interest Coverage Ratio	8.4	n.m.	n.m.	n.m.	4.48
Total revenues	671	714	720	754	636	Inventory (Days)	6.2	6.3	7.5	5.9	5.2
Total expenses	627	756	725	785	598	Credit Given (Days)	128.3	127.2	124.1	98.9	76
Avg Adj Shares (Mn)	1,600	1,600	1,600	1,600	1,600	Credit Taken (Days)	39.6	50.2	50.9	39.5	40
						ROE	11.90%	-15.20%	-2.00%	-9.00%	11.00%
						ROA	5.30%	-6.50%	-0.90%	-4.50%	5.80%
Balance Sheet	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06						
Cash & Cash Equivalents	97	96	77	49	83	Du Pont Analysis	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06
A/C receivable	1,244	1,108	979	762	576	Asset turnover	82.00%	87.10%	91.60%	105.20%	91.80%
Inventories	59	55	59	44	38	Profit margin	6.40%	-7.50%	-1.00%	-4.30%	6.30%
Other Current Assets	937	980	899	524	456	Interest burden	100.00%	100.00%	100.00%	100.00%	100.00%
Fixed Assets	137	148	149	161	171	Leverage	226.20%	233.10%	220.70%	199.80%	189.60%
Other Assets	49	57	88	142	377	Tax burden	100.00%	100.00%	100.00%	100.00%	100.00%
Total Assets	3,264	3,173	2,978	2,683	2,704	ROE	11.90%	-15.20%	-2.00%	-9.00%	11.00%
S/T debts	167	239	220	161	279						
A/C payable	377	438	404	296	297						
Other curr liabilities	833	720	605	528	393						
L/T Liabilities	396	337	317	298	296						
Other Liabilities	85	85									
Shareholders' Equity	1,407	1,355	1,433	1,401	1,440						
Total Debt	563	576	537	459	574						
Working Capital	926	725	634	511	318						