

27 July 2023

Basic Materials | Building Materials

Siam Cement (SCC TB)

Buy (Maintained)

Seeing a Brighter Future; Maintain BUY

Target Price (Return): THB400 (25.8%)
 Price (Market Cap): THB318 (USD11,132m)
 ESG score: 3.7 (out of 4)
 Avg Daily Turnover (THB/USD) 597m/17.3m

- **Keep BUY and DCF-based THB400 TP, 26% upside and c.5% yield.** After Siam Cement's 2Q23 performance surprised with an extra gain, we expect its core performance to improve in 2H23 – especially from its petrochemicals and packaging businesses.
- **2Q23 earnings.** SCC's THB8.1bn 2Q23 net profit (-19% YoY, -51% QoQ) exceeded our estimates by 32%, as its bottomline included a THB2.87bn gain from a fair value adjustment of its investment in Betterbe Marketplace Co Ltd's online market platform. Excluding extra items, 2Q23 core profit of THB5.22bn declined significantly by 49% YoY in tandem with the plunge in the petrochemicals business. 2Q23 profit, however, rose 14% QoQ on dividend income from its investments in the automotive business. Note that all its three major businesses reported lower YoY earnings in 2Q23.
- **Cement and building materials'** 2Q23 net profit was THB1.25bn (-35% YoY, -91% QoQ), led by the local market with a 1% YoY growth in cement demand in 2Q23, while regional markets weakened in line with slower construction activities. Despite cement prices rising to THB2,100-2,150/ton, 2Q23 core revenue fell 12% YoY to THB46.4bn as SCG Logistics' performance was recognised via profit sharing post merger.
- **Petrochemicals segment's 2Q23 net profit plunged** to THB741m (-80% YoY, -45% QoQ) despite the HDPE-Naphtha spread rising 10% QoQ and polyolefin sales volumes coming in at 417K tons (-2% YoY, +7% QoQ) after the Rayong Olefin Cracker resumed production. Profit sharing from petrochemicals associates fell to THB858m (-40% YoY, -10% QoQ), while inventory loss was high at THB1.84bn, in line with lower naphtha prices.
- **Packaging business in line.** The subsidiary recorded 2Q23 net profit of THB1.48bn (-20% YoY, +22% QoQ), which was up QoQ as expected, despite: i) A minor disappointment from lower QoQ sales volumes for all packaging chains, resulting in lower 2Q23 sales revenue (-15% YoY, -4% QoQ), especially in the packaging paper and fiber packaging segment, and ii) the unsurprising downtrend in packaging prices – a major positive factor was the management of production costs, supported by lower energy costs and normalisation of sea freight rates.
- **1H23 core profit** (excluding 1Q23's extra gains) amounted to THB9.8bn, inevitably declining from 1H22's high base as the petrochemicals and packaging segments saw weaker 1H23 performances. We expect earnings to improve in 2H23 on higher petrochemical product spreads and stronger demand in the packaging business from energy costs declining further. We keep our FY23 net profit forecast of THB38.2bn (+79%YoY).
- **We have a 3.7 ESG score for SCC,** as it has invested in ESG practices over the past decade. We applied an 8% ESG premium to our initial DCF-based THB370 to arrive at our THB400 TP.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.0)	(1.9)	5.6	(4.8)	(14.1)
Relative	1.6	(4.5)	6.9	4.0	(12.2)
52-wk Price low/high (THB)	301 – 373				

Siam Cement (SCC TB)



Source: Bloomberg

Overall ESG Score: 3.7 (out of 4)

E: GOOD

SCC incorporates Circular Economy principles in its entire value chain, from the designing, procurement, manufacturing, sales and transport, and usage up to recycling. This is done by maximising the utilisation of limited energy and resources throughout the value chain, including reducing, reusing, recycling, using alternative energy, and cutting unutilised waste to a minimum.

S: EXCELLENT

SCC is committed to producing products, and providing services and solutions that care for the health and safety of its employees and contractors. The collaboration with all entities – comprising the public and private sectors, and the community – is the key orienting the Circular Economy into real practices.

G: EXCELLENT

SCC firmly upholds and complies with the principles of corporate governance both locally and internationally. Examples include the Principle of Good Corporate Governance for Listed Companies of the SEC and SET, the Corporate Governance Report of Thai Listed Companies of Thai Institute of Directors, ASEAN Corporate Governance Scorecard, and the DJSI Sustainability Assessment.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (THBm)	530,112	569,609	578,496	593,856	615,852
Recurring net profit (THBm)	47,174	21,382	38,243	44,032	48,237
Recurring net profit growth (%)	38.2	(54.7)	78.9	15.1	9.6
Recurring P/E (x)	8.09	17.85	9.98	8.67	7.91
P/B (x)	1.1	1.0	1.0	0.9	0.9
P/CF (x)	37.59	9.91	6.00	6.15	5.00
Dividend Yield (%)	5.8	2.5	4.7	5.5	6.0
EV/EBITDA (x)	6.87	12.11	8.14	6.89	6.16
Return on average equity (%)	13.6	5.9	10.1	10.9	11.2
Net debt to equity (%)	52.3	60.6	62.1	58.1	51.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Thailand	Recurring EPS	39.31	17.82	31.87	36.69	40.20
Basic Materials	DPS	18.50	8.00	15.00	17.50	19.00
Siam Cement	BVPS	300.36	303.91	326.78	347.48	369.67
SCC TB	Return on average equity (%)	13.6	5.9	10.1	10.9	11.2
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	8.09	17.85	9.98	8.67	7.91
DCF	P/B (x)	1.1	1.0	1.0	0.9	0.9
	FCF Yield (%)	(21.5)	(2.8)	1.6	(0.6)	5.0
	Dividend Yield (%)	5.8	2.5	4.7	5.5	6.0
Key drivers	EV/EBITDA (x)	6.87	12.11	8.14	6.89	6.16
i. Stronger domestic demand for cement with a series of infrastructure construction projects ahead;	EV/EBIT (x)	10.62	30.71	13.74	10.71	9.40
ii. Chemical spreads widening.						
	Income statement (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	530,112	569,609	578,496	593,856	615,852
i. Rising cost of coal – this is mainly used in cement production;	Gross profit	109,112	78,269	102,527	115,873	124,329
ii. Naphtha costs – which normally rise in tandem with global oil prices – should squeeze petrochemical spreads in the short term.	EBITDA	81,685	48,656	73,667	87,760	97,325
	Depreciation and amortisation	(28,835)	(29,461)	(29,988)	(31,290)	(33,521)
	Operating profit	52,851	19,195	43,679	56,469	63,804
	Net interest	(6,757)	(7,523)	(6,946)	(7,559)	(8,145)
	Pre-tax profit	63,636	22,375	49,995	65,636	72,910
	Taxation	(8,900)	(4,650)	(6,820)	(9,702)	(11,132)
	Reported net profit	47,174	21,382	38,243	44,032	48,237
	Recurring net profit	47,174	21,382	38,243	44,032	48,237
	Cash flow (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(41,884)	(12,245)	20,710	(6,578)	(3,530)
	Cash flow from operations	10,151	38,506	63,550	62,001	76,248
	Capex	(92,042)	(49,021)	(57,482)	(64,172)	(57,045)
	Cash flow from investing activities	(65,399)	(52,694)	(55,317)	(64,641)	(59,246)
	Dividends paid	(20,398)	(19,199)	(10,800)	(19,200)	(21,600)
	Cash flow from financing activities	26,842	35,725	(51,873)	5,833	255
	Cash at beginning of period	64,399	35,993	57,530	13,890	17,083
	Net change in cash	(28,406)	21,537	(43,640)	3,193	17,257
	Ending balance cash	35,993	57,530	13,890	17,083	34,340
	Balance sheet (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	67,610	89,859	33,267	47,281	67,195
	Tangible fixed assets	410,708	425,052	460,405	476,150	490,000
	Total investments	139,808	144,352	149,330	155,623	162,638
	Total assets	861,101	906,490	907,104	951,237	1,001,807
	Short-term debt	86,067	68,018	94,297	104,321	108,648
	Total long-term debt	216,723	295,845	223,561	226,668	230,654
	Total liabilities	411,093	454,065	448,748	462,747	476,271
	Total equity	450,008	452,424	458,355	488,491	525,536
	Total liabilities & equity	861,101	906,490	907,104	951,237	1,001,807
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	32.5	7.5	1.6	2.7	3.7
	Recurrent EPS growth (%)	38.2	(54.7)	78.9	15.1	9.6
	Gross margin (%)	20.6	13.7	17.7	19.5	20.2
	Operating EBITDA margin (%)	15.4	8.5	12.7	14.8	15.8
	Net profit margin (%)	8.9	3.8	6.6	7.4	7.8
	Dividend payout ratio (%)	47.1	44.9	47.1	47.7	47.3
	Capex/sales (%)	17.4	8.6	9.9	10.8	9.3
	Interest cover (x)	7.82	2.55	6.29	7.47	7.83

Source: Company data, RHB

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Figure 1: 2Q23 net profit exceeded our forecasts due to extra gains of THB2.9bn from fair value adjustments on investments

FYE Dec (THBm)	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
Total turnover	152,534	142,392	122,189	128,748	124,631	-3.2	-18.3	305,028	253,379	-16.9
Gross profit	22,904	17,591	13,677	19,890	19,122	-3.9	-16.5	47,002	39,012	-17.0
Gross profit margin (%)	15.0	12.4	11.2	15.4	15.3			15.4	15.4	
EBITDA	17,158	9,122	6,004	27,026	16,804	-37.8	-2.1	33,530	43,831	30.7
EBITDA margin (%)	11.2	6.4	4.9	21.0	13.5			11.0	17.3	
EBIT	5,175	(388)	(2,901)	3,079	3,217	4.5	-37.8	11,786	6,296	-46.6
EBIT margin (%)	3.4	(0.3)	(2.4)	2.4	2.6			3.9	2.5	
Interest expense	(1,715)	(1,899)	(2,262)	(2,241)	(2,378)	6.1	38.7	(3,362)	(4,619)	37.4
Equity income	3,349	2,064	1,871	2,665	2,023	-24.1	-39.6	6,768	4,688	-30.7
Pre-tax profit	8,171	(264)	(3,830)	17,664	7,248	-59.0	-11.3	15,766	24,912	58.0
Pre-tax profit margin (%)	5.4	(0.2)	(3.1)	13.7	5.8			5.2	9.8	
Tax	(1,946)	(1,154)	75	(4,320)	(1,068)	-75.3	-45.1	(3,571)	(5,388)	50.9
Minority interest	364	1,798	2,042	517	(121)	NM	NM	(181)	396	NM
Net profit	9,938	2,444	157	16,526	8,082	-51.1	-18.7	18,781	24,608	31.0
EPS (THB)	8.3	2.0	0.1	13.8	6.7	-51.1	-18.7	15.65	20.51	31.0

Source: Company data, RHB

Figure 2: DCF valuation

THBm	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Operating EBIT	43,679	56,469	58,321	60,152	63,852	65,142	68,532	70,256	73,152	75,987
Operating EBIT x (1-t)	35,569	45,268	47,108	49,663	52,143	52,805	55,967	56,959	59,162	61,355
D&A	29,988	31,290	32,872	35,162	38,052	40,256	43,155	45,982	47,253	48,974
Δ Net working capital	(4,651)	(6,578)	(2,949)	(1,938)	(596)	(1,029)	(1,282)	(1,920)	(1,200)	(1,235)
FCF from operations	60,906	69,980	77,032	82,887	89,600	92,032	97,840	101,021	105,215	109,094
Capex	(45,989)	(64,172)	(52,918)	(50,988)	(50,938)	(51,010)	(53,129)	(53,365)	(52,152)	(50,000)
Net FCFF	14,917	5,808	24,114	31,899	38,662	41,022	44,711	47,655	53,062	59,094
Discounted net FCFF	13,884	5,032	19,443	23,939	27,005	26,669	27,054	26,839	27,814	28,831
Terminal value										1,009,680
PV of net FCFF	197,679									
PV of terminal value	492,606									
Implicit growth rate	1.50%									
WACC	7.4%									
Firm value	690,285									
Net debt	(288,059)									
Minority interest	(80,773)									
PV of DCF	321,453									
Investment value in associated companies (at cost)	122,990									
Equity value	444,443									
No. of share outstanding (m shares)	1,200									
Intrinsic value (THB)	370									
ESG premium/ (discount)	8%									
TP (THB)	400									
WACC assumptions										
Cost of debt	3.5%									
Weight	39%									
Cost of equity	10.0%									
Weight	61%									
Expected market return	11.3%									
Risk-free rate	2.5%									
Beta	0.85									

Source: RHB

Recommendation Chart

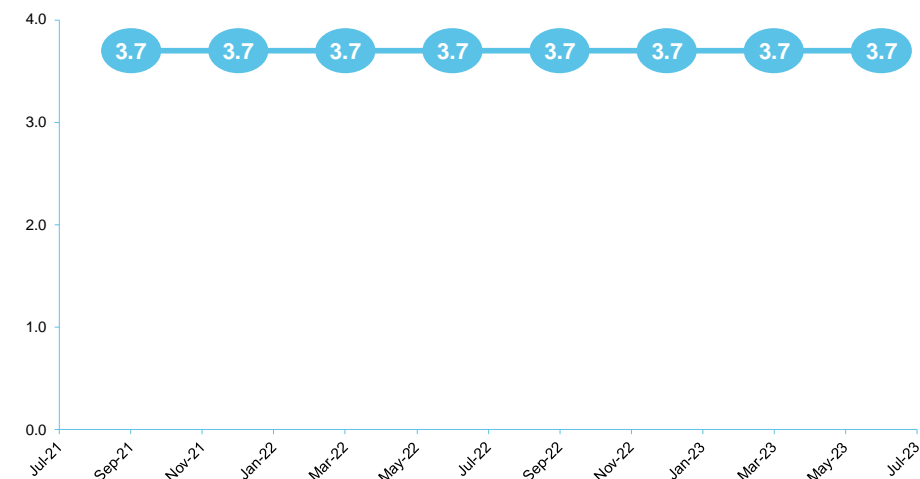


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-01-26	Buy	400	334
2023-01-11	Buy	400	359
2022-10-07	Buy	380	318
2022-06-20	Buy	430	360
2022-04-10	Buy	460	368
2022-03-22	Buy	508	381
2022-01-28	Buy	517	388
2022-01-13	Buy	517	390
2021-10-11	Buy	517	398
2021-07-30	Buy	500	414
2021-04-29	Buy	500	466
2021-01-28	Buy	440	381
2021-01-15	Buy	440	390
2020-10-30	Buy	420	338
2020-07-29	Buy	440	383

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
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