

1 October 2020

Basic Materials | Building Materials

Siam Cement (SCC TB)

Buy (Maintained)

Reaching a High In 3Q20; Reiterate BUY

Target Price (Return): THB440.00 (+37%)
 Price: THB322.00
 Market Cap: USD12,227m
 Avg Daily Turnover (THB/USD) 810m/25.9m

- Reiterate BUY, unchanged DCF-based TP of THB440.00 implies 37% upside, with 4% FY20F dividend yield.** Siam Cement's numbers are likely to improve from a bottom in FY19, as its petrochemical business – having already started to recover from the doldrums since 2Q20 – is expected to record a robust improvement in 3Q20.
- Petrochemical unit's recovery presents a meaningful boost to 3Q20 prospects.** After charting a robust rebound in earnings in 2Q20, growth for this metric should continue in 3Q20. We expect 3Q20 net profit at THB10.8bn (+75% YoY, +16% QoQ) mainly driven by earnings growth from the petrochemical business. This should be supported by both stronger polyolefins sales volumes and wider petrochemical spreads. Beside the inventory gain, the petrochemical arm should be the group's best performer, as 3Q20 sales volumes remained at a high of 470,000 tonnes, driven by demand stemming from the strong recovery of the auto & auto parts industry, and consistent sales orders from some specific industries benefitting from the pandemic. Also, the HDPE-naphtha spread improved over three straight quarters to an average of USD523.00/tonne as of 3Q20, while the polypropylene-naphtha spread was at a solid USD578.00/tonne, in spite of the 45% QoQ spike in the naphtha price.
- Other core businesses to support 3Q20 prospects.** For its cement and building materials businesses, sales volumes in 3Q20 remain pressured by weak demand from commercial and residential projects (especially high-rise condominiums). However, the cost optimisation strategy consistently implemented by the group should help mitigate these segments' revenue shortfall. Meanwhile, its packaging business may not book earnings that outshine that of other core segments. We believe the demand for packaging paper in 3Q20 will not be as robust as the third quarter of previous years, due to the decrease in stockpiling activities required for this year's year-end festive season.
- 4Q20 earnings to level down.** Despite our expectation of continuing improvements in petrochemical spreads, a scheduled 45-day shutdown of the Map Ta Phut olefin cracker for maintenance purposes in 4Q20 will lead to a shortfall in production volume amounting to 120-130K tonnes. This may imply that 4Q20 earnings will decline from the high in 3Q20. For Siam Cement's other two businesses – cement & construction materials and packaging – we do not expect to see any strong catalyst in 4Q20.
- Management's commitment.** Both the petrochemical and packaging businesses are positioned as long-term growth drivers. This is based on the 70% capacity expansion in petrochemical business within FY23 and packaging business's revenue doubling within FY24 while online platform and solution-based sale will enhance construction material business's profitability.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.9)	(6.1)	(12.5)	3.2	(21.1)
Relative	2.5	(1.1)	(6.4)	(12.4)	2.1
52-wk Price low/high (THB)	267 – 408				

Siam Cement (SCC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	478,438	437,980	440,236	454,365	470,452
Recurring net profit (THBm)	44,748	32,014	37,916	42,428	45,639
Recurring net profit growth (%)	(18.7)	(28.5)	18.4	11.9	7.6
Recurring P/E (x)	8.63	12.07	10.19	9.11	8.47
P/B (x)	1.3	1.2	1.1	1.1	1.0
P/CF (x)	6.26	6.46	8.74	5.83	5.43
Dividend Yield (%)	5.6	4.3	4.0	4.7	5.1
EV/EBITDA (x)	6.23	8.86	8.00	7.32	6.86
Return on average equity (%)	15.3	10.4	11.7	12.1	12.1
Net debt to equity (%)	48.7	55.8	60.3	59.2	57.3

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	37.29	26.68	31.60	35.36	38.03
Basic Materials	DPS	18.00	14.00	13.00	15.00	16.50
Siam Cement	BVPS	252.35	261.56	280.66	302.01	324.04
SCC TB	Return on average equity (%)	15.3	10.4	11.7	12.1	12.1
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	8.63	12.07	10.19	9.11	8.47
DCF	P/B (x)	1.3	1.2	1.1	1.1	1.0
	FCF Yield (%)	7.4	(1.9)	(4.5)	3.2	4.2
Key drivers	Dividend Yield (%)	5.6	4.3	4.0	4.7	5.1
i. Stronger domestic demand for cement with a series of infrastructure construction projects ahead;	EV/EBITDA (x)	6.23	8.86	8.00	7.32	6.86
ii. Chemical spreads widening.	EV/EBIT (x)	9.09	15.07	13.46	11.95	10.92
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	478,438	437,980	440,236	454,365	470,452
i. Rising cost of coal – this is mainly used in cement production;	Gross profit	94,974	82,228	82,784	90,151	93,929
ii. Naphtha costs – which normally rise in tandem with global oil prices – should squeeze petrochemical spreads in the short term.	EBITDA	75,452	58,104	64,983	71,886	76,082
	Depreciation and amortisation	(23,747)	(23,932)	(26,352)	(27,852)	(28,325)
	Operating profit	51,705	34,173	38,631	44,034	47,757
	Net interest	(6,835)	(6,442)	(7,140)	(7,827)	(8,307)
	Pre-tax profit	59,916	39,363	44,615	50,839	55,685
	Taxation	(7,269)	(6,167)	(4,867)	(6,355)	(7,151)
	Reported net profit	44,748	32,014	37,916	42,428	45,639
	Recurring net profit	44,748	32,014	37,916	42,428	45,639
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(9,398)	12,918	(14,516)	(5,233)	283
	Cash flow from operations	61,687	59,817	44,204	66,297	71,116
	Capex	(33,010)	(67,095)	(61,418)	(53,842)	(54,885)
	Cash flow from investing activities	(31,576)	(45,054)	(59,516)	(56,013)	(58,412)
	Dividends paid	(22,800)	(19,799)	(15,000)	(16,800)	(19,200)
	Cash flow from financing activities	(45,259)	(15,924)	3,911	(9,188)	(10,488)
	Cash at beginning of period	43,937	28,789	27,627	16,226	17,322
	Net change in cash	(15,148)	(1,162)	(11,401)	1,096	2,216
	Ending balance cash	28,789	27,627	16,226	17,322	19,538
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	50,381	44,222	33,789	29,347	31,880
	Tangible fixed assets	247,466	305,986	313,349	337,131	349,609
	Total investments	112,089	101,749	128,382	136,142	149,890
	Total assets	589,787	634,733	680,723	714,928	753,001
	Short-term debt	53,860	71,581	78,685	76,975	77,104
	Total long-term debt	151,315	155,361	167,779	177,055	185,619
	Total liabilities	271,918	306,990	327,833	335,415	350,344
	Total equity	317,869	327,743	352,890	379,513	402,656
	Total liabilities & equity	589,787	634,733	680,723	714,928	753,001
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	6.1	(8.5)	0.5	3.2	3.5
	Recurrent EPS growth (%)	(18.7)	(28.5)	18.4	11.9	7.6
	Gross margin (%)	19.9	18.8	18.8	19.8	20.0
	Operating EBITDA margin (%)	15.8	13.3	14.8	15.8	16.2
	Net profit margin (%)	9.4	7.3	8.6	9.3	9.7
	Capex/sales (%)	6.9	15.3	14.0	11.8	11.7
	Interest cover (x)	7.56	5.30	5.41	5.63	5.75

Source: Company data, RHB

Figure 1: 3Q20F earnings preview

FYE Dec (THBm)	3Q19	4Q19	1Q20	2Q20	3Q20F	QoQ (%)	YoY (%)	9M19	9M20F	YoY (%)
Total turnover	110,330	106,177	105,741	96,010	109,853	14.4	-0.4	331,803	311,604	-6.1
Gross profit	21,084	18,982	19,958	21,865	26,112	19.4	23.8	63,246	67,936	7.4
Gross profit margin (%)	19.1	17.9	18.9	22.8	23.8			19.1	21.8	
EBITDA	14,747	13,210	15,251	17,774	21,104	18.7	43.1	44,894	54,129	20.6
EBITDA margin (%)	13.4	12.4	14.4	18.5	19.2			13.5	17.4	
EBIT	7,199	4,390	6,420	8,900	12,455	39.9	73.0	23,474	27,774	18.3
EBIT margin (%)	6.5	4.1	6.1	9.3	11.3			7.1	8.9	
Interest expense	(1,719)	(1,521)	(3,113)	(647)	(1,687)	160.9	-1.8	(4,921)	(5,447)	10.7
Equity income	2,031	2,836	1,245	1,705	2,053	20.4	1.1	8,796	5,004	-43.1
Pre-tax profit	6,982	5,499	5,368	10,299	12,530	21.7	79.5	22,232	28,196	26.8
Pre-tax profit margin (%)	6.3	5.2	5.1	10.7	11.4			6.7	9.0	
Tax	(2,972)	(845)	(611)	(1,338)	(1,854)	38.6	-37.6	(5,322)	(3,803)	-28.5
Minority interest	164	(386)	970	(1,282)	(1,865)	NM	NM	(796)	(2,178)	NM
Net profit	6,204	7,104	6,971	9,384	10,864	15.8	75.1	24,910	27,219	9.3
EPS (THB)	5.2	5.9	5.8	7.8	9.1	15.8	75.1	20.76	22.68	9.3

Source: Company data, RHB

Figure 2: SCC's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Operating EBIT	28,845	34,012	36,745	41,236	47,542	52,574	60,258	66,785	71,253	76,152
Operating EBIT x (1-t)	24,387	28,042	30,084	34,547	40,304	45,132	51,307	57,272	61,901	65,872
D&A	24,625	25,974	27,152	29,325	31,542	34,152	37,563	40,412	43,852	46,852
Δ Net working capital	(21,672)	(5,962)	(876)	3,145	4,175	3,728	4,014	6,421	8,152	8,354
FCF from Operations	27,341	48,054	56,360	67,018	76,021	83,013	92,884	104,105	113,905	121,078
Capex	(32,152)	(49,824)	(39,688)	(42,365)	(48,521)	(48,741)	(47,921)	(46,874)	(48,000)	(50,000)
Net FCFF	(4,811)	(1,770)	16,672	24,652	27,500	34,272	44,963	57,231	65,905	71,078
Discounted net FCFF	(4,623)	(1,570)	13,653	18,638	19,194	22,084	26,748	31,432	33,417	33,272
Terminal value										1,102,903
PV of net FCFF	192,246									
PV of terminal value	516,272									

Implicit growth rate	1.75%
WACC	8.3%

Firm value	708,518
Net debt	(227,413)
Minority interest	(47,528)
PV of DCF	433,577
Investment value in associated companies (at cost)	94,352
Equity value	527,929
No. of share outstanding (m shares)	1,200
Equity value per share (THB)	440

WACC assumption	
Cost of debt	3.3%
Weight	41%
Cost of equity	11.8%
Weight	59%

Expected market return	12.0%
Risk-free rate	2.0%
Beta	0.98

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-10	Buy	440	383
2020-01-30	Buy	400	356
2019-10-08	Buy	460	386
2019-07-30	Buy	500	434
2019-02-01	Buy	530	464
2018-10-25	Buy	500	420

Source: RHB, Bloomberg

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIPP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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