

28 January 2021

Basic Materials | Building Materials

Siam Cement (SCC TB)

Buy (Maintained)

On The Upturn; Maintain BUY

- **Maintain BUY and DCF-based THB440.00 TP, 12% upside and >3% yield.** FY20 should be regarded as the start Siam Cement's new growth cycle. FY21 can be another year for the company to secure earnings growth – mainly from its petrochemical and packaging businesses.
- **4Q20 earnings results in line.** SCC posted a 4Q20 net profit of THB8.05bn (+13% YoY, -17% QoQ), which is a slight 2% below our estimate. Its petrochemical and packaging units remained outstanding, while the cement & building material business still underperformed. It booked losses during this period on weak domestic demand – pressured by the heavy flood situation in highly populated regions – and asset impairments recognised from the Myanmar and Indonesia cement operations. Although there was a 38-day turnaround period for the Map Ta Phut olefins cracker, widening major product spreads helped mitigate the production shortfall. For the packaging business under SCC's listed subsidiary, the integrated packaging chain segment still dominated overall earnings performances – the fibrous chain business booked an earnings loss. On a full-year FY20 basis, earnings grew 7% YoY to THB34.1bn, as all businesses contributed stronger performances.
- **Earnings growth momentum still alive.** After SCC commanded an FY20 net profit growth of 7% YoY, we expect this growth to continue this year at +17% YoY. There should be two growth engines to pump up FY21 earnings prospects: i) Petrochemicals and ii) packaging. The former has recovered from its trough cycle since 2Q20 and, in our view, will benefit from solid petrochemical spreads – especially HDPE-naphtha and polypropylene (PP)-naphtha throughout the current upcycle – and also expand SCC's growth prospects via the de-bottlenecking project for the Map Ta Phut olefin cracker, which commences operations in 2Q21. Meanwhile, we believe the packaging unit – during the post-IPO era of SCGP Packaging (SCGP TB, NR) – will execute its M&A and partnership strategies more aggressively, evidenced by the recent successful acquisitions of Bien Hoa Packaging and Go-Pak UK in Dec 2020 and Jan 2021. We think these two acquisitions will expand the portfolio of high value added products and enhance the customer base towards multinational corporations going forward.
- **We believe the cement & building materials unit** will again face difficulties in FY21, as all regional nations have been affected by new rounds of pandemic lockdowns since early FY21. Hence, construction activity recovery should be postponed to 2H21 at the earliest. However, this unit's weak outlook can be partially mitigated, as long as petrochemicals and packaging units work towards pumping up earnings prospects from FY21 onwards. Hence, as cement & building materials accounted for 19% of overall FY20 earnings (equal to packaging's contributions), we expect packaging's net profit to overtake this in FY21.

Target Price (Return): THB440.00 (12.2%)
 Price: THB392.00
 Market Cap: USD15,682m
 Avg Daily Turnover (THB/USD) 1,213m/40.1m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.7	3.2	13.3	2.6	11.0
Relative	0.3	2.4	(10.6)	(9.1)	12.7
52-wk Price low/high (THB)	267 – 398				

Siam Cement (SCC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	437,980	399,939	435,655	470,452	491,655
Recurring net profit (THBm)	32,014	34,144	40,084	44,632	46,217
Recurring net profit growth (%)	(28.5)	6.7	17.4	11.3	3.6
Recurring P/E (x)	14.69	13.78	11.74	10.54	10.18
P/B (x)	1.5	1.4	1.3	1.2	1.2
P/CF (x)	7.86	6.68	10.65	8.37	8.30
Dividend Yield (%)	3.6	3.6	3.7	4.1	4.3
EV/EBITDA (x)	10.28	8.61	7.96	7.35	6.88
Return on average equity (%)	10.4	10.6	11.6	12.1	11.7
Net debt to equity (%)	55.8	39.9	43.7	45.7	43.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	26.68	28.45	33.40	37.19	38.51
Basic Materials	DPS	14.00	14.00	14.50	16.00	17.00
Siam Cement	BVPS	261.56	277.48	296.38	318.07	339.59
SCC TB	Return on average equity (%)	10.4	10.6	11.6	12.1	11.7
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	14.69	13.78	11.74	10.54	10.18
DCF	P/B (x)	1.5	1.4	1.3	1.2	1.2
	FCF Yield (%)	(1.5)	(11.0)	3.1	0.6	(1.1)
	Dividend Yield (%)	3.6	3.6	3.7	4.1	4.3
Key drivers	EV/EBITDA (x)	10.28	8.61	7.96	7.35	6.88
i. Stronger domestic demand for cement with a series of infrastructure construction projects ahead;	EV/EBIT (x)	17.45	14.40	12.60	11.15	10.46
ii. Widening chemical spreads.						
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	437,980	399,939	435,655	470,452	491,655
i. Rising cost of coal – this is mainly used in cement production;	Gross profit	82,228	89,992	96,889	103,665	107,556
ii. Naphtha costs – which normally rise in tandem with global oil prices – should squeeze petrochemical spreads in the short term.	EBITDA	58,249	68,113	75,715	83,230	87,552
	Depreciation and amortisation	(23,932)	(27,377)	(27,852)	(28,325)	(29,988)
	Operating profit	34,318	40,735	47,863	54,905	57,564
	Net interest	(6,587)	(7,082)	(8,405)	(9,966)	(10,766)
	Pre-tax profit	39,363	43,109	50,227	56,264	58,894
	Taxation	(6,167)	(5,809)	(6,926)	(8,084)	(8,689)
	Reported net profit	32,014	34,144	40,084	44,632	46,217
	Recurring net profit	32,014	34,144	40,084	44,632	46,217
	Cash flow (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Company Profile	Change in working capital	12,918	18,471	(11,435)	(6,124)	(10,596)
SCC operates as a holding company engaged in the industrial supplies and construction industries. It operates three core businesses: Investments in cement & building materials, chemicals, and paper packaging.	Cash flow from operations	59,817	70,415	44,158	56,212	56,657
	Capex	(67,095)	(122,022)	(29,368)	(53,595)	(61,751)
	Cash flow from investing activities	(45,054)	(71,185)	(43,038)	(50,665)	(51,740)
	Dividends paid	(19,799)	(14,998)	(17,400)	(18,600)	(20,400)
	Cash flow from financing activities	(15,924)	37,542	6,133	(4,936)	(10,495)
	Cash at beginning of period	28,789	27,627	64,399	71,653	72,264
	Net change in cash	(1,162)	36,772	7,253	611	(5,577)
	Ending balance cash	27,627	64,399	71,653	72,264	66,686
	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	44,222	102,981	110,423	105,388	113,419
	Tangible fixed assets	305,986	363,425	361,115	379,000	381,334
	Total investments	101,749	117,009	120,518	133,533	149,330
	Total assets	634,733	749,381	783,991	825,575	868,492
	Short-term debt	71,581	90,418	107,974	113,056	114,561
	Total long-term debt	155,361	170,436	177,055	185,619	194,019
	Total liabilities	306,990	353,255	384,281	402,477	417,086
	Total equity	327,743	396,126	399,710	423,099	451,405
	Total liabilities & equity	634,733	749,381	783,991	825,575	868,492
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(8.5)	(8.7)	8.9	8.0	4.5
	Recurrent EPS growth (%)	(28.5)	6.7	17.4	11.3	3.6
	Gross margin (%)	18.8	22.5	22.2	22.0	21.9
	Operating EBITDA margin (%)	13.3	17.0	17.4	17.7	17.8
	Net profit margin (%)	7.3	8.5	9.2	9.5	9.4
	Capex/sales (%)	15.3	30.5	6.7	11.4	12.6
	Interest cover (x)	5.21	5.75	5.69	5.51	5.35

Source: Company data, RHB

Cement & building materials unit hit severely hard

For the domestic cement industry, overall demand in 4Q20 declined moderately (-5% YoY). While demand from government infrastructure projects remained unchanged YoY, private sector demand – including those for the residential and commercial segments – declined significantly (-7% YoY) during this period. This was after the surprising combined demand growth rate of +1% YoY in 3Q20. However, the average domestic cement price declined QoQ to THB1,700-1,750 per tonne.

Domestic demand for ceramic tiles also declined in 4Q20 (-2% YoY), while demand for other building materials – eg those used in roofing, ceiling, and walls – performed worse, posting an 8% YoY decline. Total sales volumes of ceramic tiles in Thailand and other ASEAN markets dropped 12% YoY to 39m sq m in 4Q20 due to the weak demand. This was due to COVID-19's negative impact on the region, as well as the heavy flooding situation in Thailand, Vietnam, and Cambodia during this period.

4Q20 revenue declined 11% YoY (-6% QoQ), mainly due to concerns over the pandemic's resurgence in the region and the aforementioned heavy flooding situation, especially here. Worse performing of all of SCC's business units, the cement & building materials business posted a net loss of THB194m. This was attributed to the THB1.32bn asset impairment set aside for its cement operations in Myanmar and Indonesia. Excluding this extra item, the unit's 4Q20 core profit of THB1.12bn was the lowest quarter of FY20.

Petrochemical unit underpinned by widening spreads and inventory gains

For the chemicals business, naphtha costs in 4Q20 increased moderately by 3% QoQ to USD408.00 per tonne – this was in tandem with the rising Brent crude oil prices. Oil prices during this period were influenced by the optimism in the market over COVID-19 vaccine roll outs and the US' stimulus packages.

Likewise, prices of both HDPE and PP increased 9% and 17% QoQ in 4Q20. Both averages stood above USD1,000 per tonne due to supply & demand imbalances and higher freight costs, driven by the container ships shortage situation. Based on a sharp rise in product prices, HDPE-naphtha spreads widened further 13% QoQ to USD592.00 per tonne while PP-naphtha spreads increased more significantly (+28% QoQ) to USD736.00 per tonne.

For SCC's polyolefin sales volumes, volumes stood at 384,000 tonnes, or 13% QoQ lower, due to the planned turnaround of the Map Ta Phut olefins cracker. Note: This production shortfall was anticipated, though, and should not be treated as a negative surprise.

4Q20 revenue decreased 5% QoQ and 13% YoY, mainly due to the lower sales volume. However, this drawback was offset by the higher spreads of its major products, higher equity income from petrochemical associates, and THB1.06bn in inventory gain. Therefore, net profit during this period grew strongly (+6% QoQ, +108% YoY) to THB5.8bn.

Packaging earnings dominated by the integrated packaging chain

For the integrated packaging chain, 4Q20 sales revenue increased 1% QoQ (+6% YoY) based on stronger demand from clients in the consumer products segment before the festive New Year holidays. Among SCC's three core products under its packaging chain, revenue from fibre-based packaging increased 4% QoQ (+2% YoY) due to the festive season in Thailand and Vietnam, while revenue from both performance and polymer packaging & packaging paper increased YoY. Lower export sales volumes were the major rationale behind QoQ's flattened revenues for these two core products.

For the fibrous chain, 4Q20 sales revenue increased 3% QoQ due to the demand recovery of pulp used in the production of tissue paper and textiles. It also decreased 12% YoY due to slower demand for printing and writing paper – items hit hard by the pandemic controls put in place to combat COVID-19.

In total, 4Q20 revenue from the two major chains stood at THB23.6bn, representing a slight 1% increase both YoY and QoQ. The net profit of THB1.49bn (+24% YoY, +11% QoQ) was dominated by the integrated packaging chain's performance (+11% YoY, +17% QoQ), while the fibrous chain segment commanded a net loss of THB319m.

Results At a Glance

Figure 1: SCC's 4Q20 earnings resulted as expected

FYE Dec (THBm)	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ (%)	YoY (%)	2019	2020	YoY (%)
Total turnover	106,177	105,741	96,010	100,938	97,250	-3.7	-8.4	437,980	399,939	-8.7
Gross profit	18,982	19,958	21,865	24,810	23,359	-5.8	23.1	82,228	89,992	9.4
Gross profit margin (%)	17.9	18.9	22.8	24.6	24.0			18.8	22.5	
EBITDA	13,210	15,251	17,774	18,745	16,342	-12.8	22.4	58,104	68,113	16.9
EBITDA margin (%)	12.4	14.4	18.5	18.6	16.8			13.3	17.0	
EBIT	4,390	6,420	8,900	10,268	11,590	12.9	66.0	27,864	37,177	22.1
EBIT margin (%)	4.1	6.1	9.3	10.2	11.9			6.4	9.3	
Interest expense	(1,521)	(3,113)	(647)	(2,024)	(1,299)	-35.9	-22.0	(6,442)	(7,082)	7.5
Equity income	2,836	1,245	1,705	3,041	3,465	13.9	22.2	11,632	9,456	-18.7
Pre-tax profit	5,499	5,368	10,299	9,833	8,154	-17.1	48.3	27,731	33,653	21.4
Pre-tax profit margin (%)	5.2	5.1	10.7	9.7	8.4			6.3	8.4	
Tax	(845)	(611)	(1,338)	(1,802)	(2,058)	14.2	143.7	(6,167)	(5,809)	-5.8
Minority interest	(386)	970	(1,282)	(1,330)	(1,514)	NM	NM	(1,182)	(3,156)	NM
Net profit	7,104	6,971	9,384	9,741	8,047	-17.4	13.3	32,014	34,144	6.7
EPS (THB)	5.9	5.8	7.8	8.1	6.7	-17.4	13.3	26.7	28.5	6.7

Source: Company data, RHB

Figure 2: DCF valuation

THBm	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Operating EBIT	47,863	54,905	57,564	60,877	63,544	67,431	72,315	77,857	82,660	87,112
Operating EBIT x (1-t)	39,462	45,028	46,876	51,002	53,869	57,886	61,572	66,767	71,810	75,352
D&A	27,852	28,325	29,988	31,542	34,152	37,563	40,412	43,852	46,852	48,965
Δ Net working capital	(11,435)	(6,124)	(10,596)	4,175	3,728	4,014	6,421	8,152	8,354	8,550
FCF from operations	55,879	67,230	66,268	86,719	91,750	99,463	108,406	118,771	127,017	132,867
Capex	(29,368)	(53,595)	(61,751)	(50,981)	(49,087)	(50,988)	(49,766)	(51,010)	(53,129)	(53,500)
Net FCFF	26,511	13,635	4,517	35,738	42,662	48,476	58,640	67,761	73,888	79,367
Discounted net FCFF	24,372	11,524	3,510	25,527	28,015	29,264	32,544	34,572	34,656	34,223
Terminal value										1,151,163
PV of net FCFF	258,205									
PV of terminal value	496,379									

Implicit growth rate	1.76%
WACC	8.8%

Firm value	754,384
Net debt	(249,155)
Minority interest	(75,154)
PV of DCF	430,275
Investment value in associated companies (at cost)	97,375
Equity value	527,650
No. of share outstanding (m shares)	1,200
Equity value per share (THB)	440

WACC assumption	
Cost of debt	3.3%
Weight	39%
Cost of equity	12.2%
Weight	61%

Expected market return	12.0%
Risk-free rate	2.0%
Beta	1.02

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-01-15	Buy	440	390
2020-10-30	Buy	420	338
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
2018-11-12	Buy	500	426

Source: RHB, Bloomberg

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Analyst	Company
-	-

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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

ประกาศเจตนารมณ์ 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	TIPIP	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

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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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