

13 January 2022

Basic Materials | Building Materials

## Siam Cement (SCC TB)

**Buy** (Maintained)

### Gradual Improvement In 4Q21; Keep BUY

Target Price (Return): THB517.00 (32.6%)  
 Price (Market Cap): THB390.00 (USD14,027m)  
 ESG score: 3.70 (out of 4)  
 Avg Daily Turnover (THB/USD) 1,050m/31.5m

- **BUY and DCF-based TP of THB517.00, 33% upside and >4% yield.** After operating performances from all three major businesses were hard hit by COVID-19 in 3Q21, we expect 4Q21 performances to improve gradually in on stronger demand regionally within a high-season quarter and a boost from pent-up demand, in our view. We believe the gradual improvement momentum in all three businesses will continue in FY22.
- **We expect 4Q21 net profit to grow** to THB8.4bn (+5% YoY, +23% QoQ) from the lowest quarter of this year (3Q21). This is as both its cement & building materials and petrochemicals businesses have simultaneously improved within 4Q21 – especially in terms of stronger demand.
- **Mild improvement in cement & building materials.** Demand went on a stronger trend after construction activities resumed post the government-mandated pause in June and July on rising COVID-19 cases within worker camps during this period. Within a more favourable construction activity situation, SCC can boost local and/or export sales volumes. Such growth should be the major factor in boosting this unit's 3Q21 performance. Meanwhile, the cost-push effect – especially from a coal price surge – was a major pressure on GPM to decline further, and a higher revenue proportion from export volumes will be another factor for lower GPMs, in our view. There should not be any asset impairments set aside for the Myanmar cement plant in 4Q21 after large impairments booked in 3Q21.
- **We also expect 4Q21 earnings** from the petrochemicals wing to spring up from 3Q21's low quarter. Although a naphtha cost surge in tandem with the global oil price trend began in 3Q21 – and continues to threaten the petrochemicals industry in 4Q21 – strong demand for polyolefin products during the festive season helped support product prices and mitigate the naphtha cost impact. Note: SCC's 4Q21 sales volume remained solid at a record high of 500,000 tonnes. Therefore, major product spreads – including HDPE-naphtha (+10.4% QoQ) and polypropylene-naphtha (+2.7% QoQ) – have risen from 3Q21's averages. In addition, we expect the company to record THB700m in inventory gains from this unit in 4Q21.
- **FY22 to weaken YoY.** In spite of a lower performance in 2H21, we expect FY21 net profit to grow a strong 38% YoY based on superb levels of product spreads during 1H21. Contrary to FY21, we expect the gradual improvement to continue in 1H22 before demand for cement & building materials and petrochemical products normalise in 2H22. We maintain our expectation that FY22 earnings will decline 8% YoY.
- **Maintain TP on the highest ESG score.** Based on our in-house proprietary methodology, we assign an ESG score of 3.70 for SCC, as it has consistently committed and invested in ESG practices over the past decade. From this, we derived an initial DCF-based THB470.00 and apply a 10% premium to arrive at our TP of THB517.00.

#### Analyst

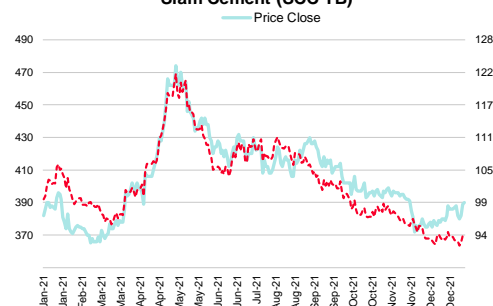
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.0	4.0	(1.8)	(7.2)	2.1
Relative	(0.3)	0.3	(3.9)	(15.5)	(6.9)
52-wk Price low/high (THB)					365 – 474

Siam Cement (SCC TB)



Source: Bloomberg

#### Overall ESG Score: 3.70 (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-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	437,980	399,939	522,214	527,985	548,532
Recurring net profit (THBm)	32,014	34,144	47,275	43,600	46,217
Recurring net profit growth (%)	(28.5)	6.7	38.5	(7.8)	6.0
Recurring P/E (x)	14.62	13.71	9.90	10.73	10.13
P/B (x)	1.5	1.4	1.3	1.2	1.1
P/CF (x)	7.82	6.65	11.89	6.65	18.38
Dividend Yield (%)	3.6	3.6	4.4	4.2	4.4
EV/EBITDA (x)	10.24	8.57	7.52	7.42	7.46
Return on average equity (%)	10.4	10.6	13.6	11.7	11.6
Net debt to equity (%)	55.8	39.9	45.3	46.1	53.0

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	26.68	28.45	39.40	36.33	38.51
Basic Materials	DPS	14.00	14.00	17.00	16.50	17.00
<b>Siam Cement</b>	BVPS	261.56	277.48	299.87	320.21	341.72
SCC TB	Return on average equity (%)	10.4	10.6	13.6	11.7	11.6
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	14.62	13.71	9.90	10.73	10.13
DCF	P/B (x)	1.5	1.4	1.3	1.2	1.1
	FCF Yield (%)	(1.6)	(11.0)	(14.4)	11.5	(9.9)
	Dividend Yield (%)	3.6	3.6	4.4	4.2	4.4
<b>Key drivers</b>	EV/EBITDA (x)	10.24	8.57	7.52	7.42	7.46
i. Stronger domestic demand for cement with a series of infrastructure construction projects ahead;	EV/EBIT (x)	17.38	14.34	11.55	11.21	11.23
ii. Chemical spreads widening.						
	<b>Income statement (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Total turnover	437,980	399,939	522,214	527,985	548,532
i. Rising cost of coal – this is mainly used in cement production;	Gross profit	82,228	89,992	111,961	111,131	114,678
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	81,266	86,070	89,448
	Depreciation and amortisation	(23,932)	(27,377)	(28,345)	(29,123)	(29,988)
	Operating profit	34,318	40,735	52,921	56,947	59,460
	Net interest	(6,587)	(7,082)	(6,764)	(6,823)	(7,038)
	Pre-tax profit	39,363	43,109	64,298	60,860	64,518
	Taxation	(6,167)	(5,809)	(8,481)	(9,017)	(9,733)
	Reported net profit	32,014	34,144	47,275	43,600	46,217
	Recurring net profit	32,014	34,144	47,275	43,600	46,217
<b>Company Profile</b>						
SCC operates as a holding company that is engaged in the industrial supplies and construction industries. It operates three core businesses: Investments in cement & building materials, chemicals, and paper packaging.						
	<b>Cash flow (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	12,918	18,471	(10,061)	(6,160)	(17,380)
	Cash flow from operations	59,817	70,415	39,366	70,418	25,462
	Capex	(67,095)	(122,022)	(106,542)	(16,384)	(71,991)
	Cash flow from investing activities	(45,054)	(71,185)	(73,167)	(55,184)	(59,620)
	Dividends paid	(19,799)	(14,998)	(20,400)	(19,200)	(20,400)
	Cash flow from financing activities	(15,924)	37,542	25,498	(11,217)	(2,817)
	Cash at beginning of period	28,789	27,627	64,399	56,097	60,114
	Net change in cash	(1,162)	36,772	(8,302)	4,017	(36,974)
	Ending balance cash	27,627	64,399	56,097	60,114	23,140
	<b>Balance sheet (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	44,222	102,981	94,867	93,238	69,873
	Tangible fixed assets	305,986	363,425	410,804	417,671	430,245
	Total investments	101,749	117,009	147,510	133,533	149,330
	Total assets	634,733	749,381	877,933	879,264	905,334
	Short-term debt	71,581	90,418	96,627	103,663	108,068
	Total long-term debt	155,361	170,436	205,444	201,676	210,274
	Total liabilities	306,990	353,255	420,323	419,177	436,771
	Total equity	327,743	396,126	457,609	460,087	468,564
	Total liabilities & equity	634,733	749,381	877,933	879,264	905,334
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	(8.5)	(8.7)	30.6	1.1	3.9
	Recurrent EPS growth (%)	(28.5)	6.7	38.5	(7.8)	6.0
	Gross margin (%)	18.8	22.5	21.4	21.0	20.9
	Operating EBITDA margin (%)	13.3	17.0	15.6	16.3	16.3
	Net profit margin (%)	7.3	8.5	9.1	8.3	8.4
	Dividend payout ratio (%)	52.5	49.2	43.2	45.4	44.1
	Capex/sales (%)	15.3	30.5	20.4	3.1	13.1
	Interest cover (x)	5.21	5.75	7.82	8.35	8.45

Source: Company data, RHB

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Figure 1: 4Q21 earnings to be influenced by gradual improvement in petrochemicals and cement &amp; building materials

FYE Dec (THBm)	4Q20	1Q21	2Q21	3Q21	4Q21F	QoQ (%)	YoY (%)	2020	2021F	YoY (%)
Total turnover	97,250	122,066	133,555	131,825	134,768	2.2	38.6	399,939	522,214	30.6
Gross profit	23,359	30,374	32,243	23,644	25,700	8.7	10.0	89,992	111,961	24.4
Gross profit margin (%)	24.0	24.9	24.1	17.9	19.1			22.5	21.4	
EBITDA	16,342	24,157	26,419	14,670	16,724	14.0	2.3	68,113	81,266	19.3
EBITDA margin (%)	16.8	19.8	19.8	11.1	12.4			17.0	15.6	
EBIT	11,590	15,334	16,527	7,780	9,051	16.3	-21.9	37,177	48,692	31.0
EBIT margin (%)	11.9	12.6	12.4	5.9	6.7			9.3	9.3	
Interest expense	(1,299)	(1,691)	(1,694)	(1,681)	(1,697)	1.0	30.7	(7,082)	(6,764)	-4.5
Equity income	3,465	5,697	5,708	3,890	2,846	-26.8	-17.9	9,456	18,141	91.9
Pre-tax profit	8,154	14,901	17,619	5,537	8,100	46.3	-0.7	33,653	46,156	37.2
Pre-tax profit margin (%)	8.4	12.2	13.2	4.2	6.0			8.4	8.8	
Tax	(2,058)	(2,322)	(2,929)	(1,893)	(1,338)	-29.3	-35.0	(5,809)	(8,481)	46.0
Minority interest	(1,514)	(3,363)	(3,261)	(717)	(1,200)	NM	NM	(3,156)	(8,541)	NM
Net profit	8,047	14,914	17,136	6,817	8,408	23.3	4.5	34,144	47,275	38.5
EPS (THB)	6.7	12.4	14.3	5.7	7.0	23.3	4.5	28.45	39.40	38.5

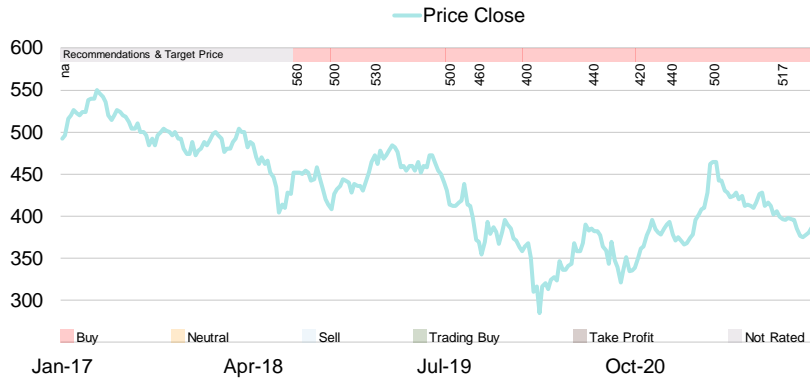
Source: Company data, RHB

Figure 2: DCF valuation

THBm	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Operating EBIT	56,947	59,460	60,877	63,544	67,431	72,315	77,857	82,660	87,112	89,676
Operating EBIT x (1-t)	46,703	48,421	49,714	51,327	55,673	59,054	63,112	67,504	70,624	72,525
D&A	29,123	29,988	30,298	32,872	35,162	40,412	43,852	46,852	48,965	49,873
Δ Net working capital	(6,160)	(17,380)	(6,579)	(3,430)	2,088	4,099	5,028	6,726	7,982	5,987
FCF from operations	69,666	61,028	73,434	80,769	92,923	103,565	111,993	121,083	127,571	128,385
Capex	(16,384)	(71,991)	(55,672)	(52,918)	(50,988)	(50,938)	(51,010)	(53,129)	(53,365)	(50,000)
Net FCFF	53,283	(10,962)	17,761	27,851	41,935	52,627	60,983	67,954	74,206	78,385
<b>Discounted net FCFF</b>	49,020	(9,278)	13,830	19,952	27,638	31,909	34,018	34,873	35,035	34,048
<b>Terminal value</b>										1,253,672
PV of net FCFF	271,045									
PV of terminal value	544,549									
Implicit growth rate	2.30%									
WACC	8.7%									
Firm value	815,595									
Net debt	(288,639)									
Minority interest	(83,695)									
PV of DCF	443,260									
Investment value in associated companies (at cost)	121,214									
Equity value	564,474									
No. of share outstanding (m shares)	1,200									
<b>Intrinsic value (THB)</b>	<b>470</b>									
<b>ESG premium/ (discount)</b>	<b>10%</b>									
<b>TP (THB)</b>	<b>517</b>									
<b>WACC assumption</b>										
Cost of debt	3.3%									
Weight	39%									
Cost of equity	12.1%									
Weight	61%									
Expected market return	12.0%									
Risk-free rate	2.0%									
Beta	1.01									

Source: RHB

## Recommendation Chart

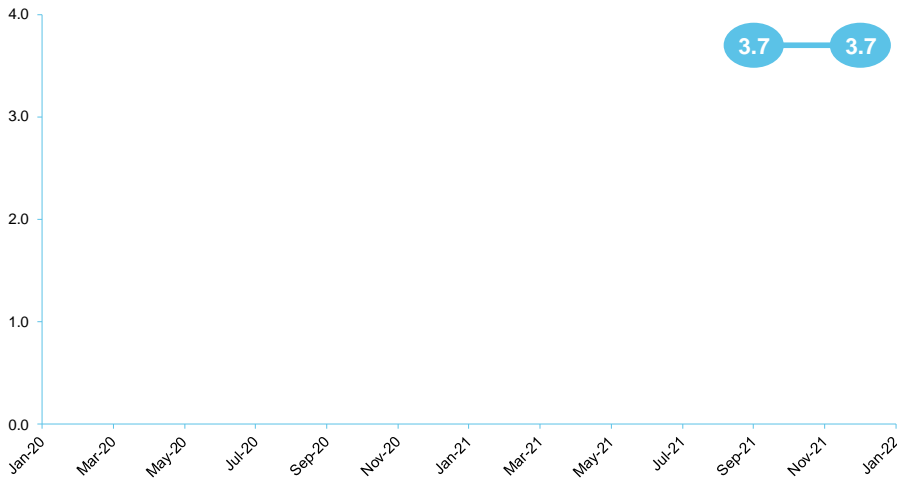


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-11	Buy	517	398
2021-04-29	Buy	500	466
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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