

21 May 2020

Industrials | Manufactures Paint Products

## TOA Paint (TOA TB)

**Sell** (Maintained)

### Low Expectations For High Growth; Still SELL

Target Price (Return): THB30.0 (-16.7%)  
 Price: THB36.0  
 Market Cap: USD2,296m  
 Avg Daily Turnover (THB/USD) 98.9m/3.08m

- **Still SELL and DCF-based THB30.00 TP, 17% downside.** TOA Paint is unattractive – given high P/Es and low yields – and is unlikely to achieve strong earnings growth within this tough year. This mismatch still remains, hence, our existing call.
- **Negative signals in 1Q20.** TOA reported a 1Q20 net profit of THB422m (-33% YoY, -17% QoQ). Although the company could have commanded a higher 37.8% GPM (from <36% normally) – due to the lower cost of raw materials (especially ones linked to oil prices) – the disappointment lay in the decline in sales revenue (-5% YoY, -7% QoQ), especially in the decorative paint products segment (-9% YoY, -6% QoQ). The factors: The temporary closure of modern trade stores on 22 Mar (this channel normally accounts for 15-20% of sales revenue) in compliance with the Government's measures to curb COVID-19 and dealer clients hesitating to place orders amid this uncertain period. In addition, there was a large unrealised mark-to-market loss of THB134m from its short-term investments. Excluding this, core profit declined 17% YoY to THB556m.
- **Another weak quarter in 2Q20.** The soft demand situation remains in 2Q20, based on an ongoing closures of modern trade stores. Although there has been a resumption of modern trade outlets nationwide since 17 May, we believe domestic sales for decorative paint products will not improve sharply. This is because of two factors: Thailand is entering the rainy season and local's purchasing power during a pandemic should be the key factor on sales revenue in 2Q20. Therefore, we expect the company to show weak earnings again during this period.
- **Tough year for strong earnings growth.** Based on our expectations of slower 1H20 earnings, TOA should face a tough time generating strong earnings growth within this year after moderate earnings growth of 15% YoY in FY19. Although lower major raw material cost trends – linked to oil prices – and spending on advertising expenses should be positive to 2H20 earnings, we believe the prolonged impact of COVID-19 on decisions to undertake renovations in Thailand and elsewhere in ASEAN will mitigate the impact from these positive factors. Therefore, FY20 earnings growth should be limited to only a single-digit number, in our view.
- **We maintain our call and TP.** The current share price is trading at -0.5SD below its historical P/E average between the IPO period in Oct 2017 and now. Based on TOA's demanding 32.7x P/E and unattractive yields (1-2%), only super-growth stocks should deserve this high P/E level. We believe TOA will lack this characteristic within the next three years. Therefore, we expect a downside risk for its share price.

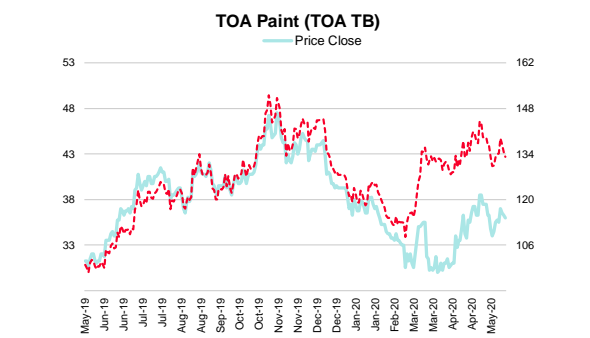
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.3)	1.4	9.1	(18.2)	15.2
Relative	8.0	(3.0)	20.4	(1.0)	33.0
52-wk Price low/high (THB)				30.0 – 47.5	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	16,257	16,978	18,683	19,872	20,913
Recurring net profit (THBm)	1,859	2,143	2,233	2,369	2,501
Recurring net profit growth (%)	8.7	15.3	4.2	6.1	5.6
Recurring P/E (x)	35.69	34.09	32.71	30.84	29.20
P/B (x)	7.2	6.4	5.8	5.2	4.8
P/CF (x)	33.21	30.06	41.66	25.39	27.15
Dividend Yield (%)	1.1	1.4	1.4	1.5	1.5
EV/EBITDA (x)	23.86	22.53	21.64	20.02	18.80
Return on average equity (%)	19.1	20.1	18.5	17.8	17.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	1.01	1.06	1.10	1.17	1.23
Industrials	DPS	0.39	0.50	0.51	0.53	0.55
<b>TOA Paint</b>	BVPS	4.98	5.64	6.24	6.89	7.58
TOA TB	Return on average equity (%)	19.1	20.1	18.5	17.8	17.0
Sell						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	35.69	34.09	32.71	30.84	29.20
DCF	P/B (x)	7.2	6.4	5.8	5.2	4.8
	FCF Yield (%)	2.0	2.2	1.6	3.2	2.7
<b>Key drivers</b>	Dividend Yield (%)	1.1	1.4	1.4	1.5	1.5
i. Production expansion into overseas markets;	EV/EBITDA (x)	23.86	22.53	21.64	20.02	18.80
ii. Lower raw material costs to enhance profit margins.	EV/EBIT (x)	27.51	25.74	25.60	23.67	22.20
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	16,257	16,978	18,683	19,872	20,913
i. Price competition intensifies when domestic construction activities are slow;	Gross profit	5,385	5,952	6,517	6,906	7,260
ii. Inability to gain market share in foreign countries.	EBITDA	2,574	2,959	3,070	3,254	3,416
	Depreciation and amortisation	(342)	(369)	(474)	(501)	(523)
<b>Company Profile</b>	Operating profit	2,232	2,590	2,596	2,752	2,892
TOA Paint manufactures and distributes paint and coating products for end-users and contractors. Its main products are classified into:	Net interest	(26)	(19)	(15)	(8)	0
i. Decorative paint and coating products;	Pre-tax profit	2,270	2,711	2,706	2,851	3,008
ii. Non-decorative paint and coating products, such as wood coating, construction chemicals, heavy duty coating, and hardware.	Taxation	(480)	(570)	(545)	(570)	(602)
	Reported net profit	1,825	2,162	2,233	2,369	2,501
	Recurring net profit	1,859	2,143	2,233	2,369	2,501
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(90)	(40)	(716)	23	(242)
	Cash flow from operations	1,998	2,430	1,753	2,877	2,691
	Capex	(689)	(829)	(548)	(573)	(720)
	Cash flow from investing activities	(829)	(1,393)	(330)	(1,111)	(1,171)
	Dividends paid	(710)	(832)	(1,015)	(1,055)	(1,096)
	Cash flow from financing activities	(1,121)	(1,261)	(1,004)	(1,640)	(1,096)
	Cash at beginning of period	1,816	1,867	1,591	2,011	2,136
	Net change in cash	48	(223)	420	125	424
	Ending balance cash	1,867	1,591	2,011	2,136	2,560
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	6,350	6,853	7,025	7,650	8,482
	Tangible fixed assets	2,295	2,757	2,831	2,902	3,099
	Total investments	20	19	19	19	20
	Total assets	14,936	15,707	17,029	18,175	19,629
	Short-term debt	985	575	585	0	0
	Total liabilities	5,572	5,093	5,269	5,190	5,333
	Total equity	9,364	10,613	11,760	12,985	14,296
	Total liabilities & equity	14,936	15,707	17,029	18,175	19,629
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	3.4	4.4	10.0	6.4	5.2
	Recurrent EPS growth (%)	(24.6)	4.7	4.2	6.1	5.6
	Gross margin (%)	33.1	35.1	34.9	34.8	34.7
	Operating EBITDA margin (%)	15.8	17.4	16.4	16.4	16.3
	Net profit margin (%)	11.2	12.7	12.0	11.9	12.0
	Capex/sales (%)	4.2	4.9	2.9	2.9	3.4
	Interest cover (x)	87.4	139.6	175.8	355.5	

Source: Company data, RHB

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**Figure 1: Lower 1Q20 earnings result hit by a slowdown in sales volume, higher advertising expenses, and unrealised losses from marking short-term investments to the market**

FYE Dec (THBm)	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Total turnover	4,334	4,167	4,061	4,416	4,101	(7.1)	(5.4)
Gross profit	1,543	1,429	1,416	1,563	1,551	(0.8)	0.5
Gross profit margin (%)	35.6	34.3	34.9	35.4	37.8		
EBITDA	898	699	754	722	817	13.2	(9.1)
EBITDA margin (%)	20.7	16.8	18.6	16.3	19.9		
EBIT	813	601	662	628	683	8.8	(15.9)
EBIT margin (%)	18.8	14.4	16.3	14.2	16.7		
Interest expense	(6)	(5)	(4)	(3)	(9)	186.9	65.1
Equity income	0	0	0	0	0	0.0	0.0
Pre-tax profit	807	596	658	625	674	7.9	(16.5)
Pre-tax profit margin (%)	18.6	14.3	16.2	14.1	16.4		
Tax	(177)	(103)	(145)	(145)	(170)	17.6	(3.9)
Minority interest	3	3	10	5	3	NM	NM
Extra items	0	(17)	19	23	(85)	NM	NM
Net profit	634	478	542	508	422	(17.0)	(33.5)

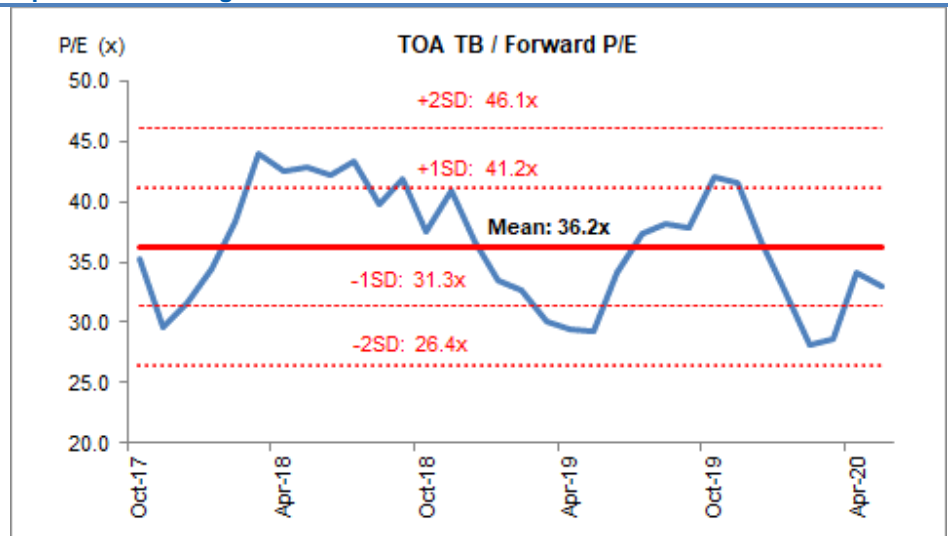
Source: Company data, RHB

**Figure 2: DCF valuation**

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Operating EBIT	2,596	2,752	2,985	3,187	3,422	3,708	4,022	4,355	4,691
Operating EBIT x (1-t)	2,073	2,202	2,388	2,550	2,738	2,967	3,217	3,484	3,753
D&A	474	501	510	517	520	525	531	535	545
Δ Net working capital	-892	64	201	224	250	301	385	484	598
FCF from operations	1,655	2,767	3,100	3,291	3,508	3,793	4,134	4,504	4,896
Capex	-548	-573	-505	-503	-501	-499	-500	-511	-550
Net FCFF	1,107	2,194	2,594	2,788	3,007	3,294	3,634	3,993	4,346
<b>Discounted net FCFF</b>	<b>1,022</b>	<b>1,870</b>	<b>2,041</b>	<b>2,024</b>	<b>2,016</b>	<b>2,038</b>	<b>2,076</b>	<b>2,106</b>	<b>2,116</b>
<b>Terminal value</b>									<b>76,448</b>
PV of net FCFF	17,308								
PV of terminal value	37,216								
Implicit growth rate	2.5%								
WACC	8.3%								
Firm value	54,524								
Net cash	6,278								
Minority interest	75								
Equity value	60,877								
No. of shares outstanding (m shares)	2,029								
<b>Equity value per share (THB)</b>	<b>30.00</b>								

Source: RHB

Figure 3: In spite of P/E currently staying below the mean average – having been calculated since its IPO in Oct 2017 – there may be a risk of P/E falling further in response to the tough situations in FY20



Source: RHB

### Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-11	Sell	30.0	35.5
2020-01-16	Sell	30.0	37.8
2019-08-23	Sell	27.0	40.5
2019-05-31	Sell	27.0	31.3
2019-03-13	Sell	27.0	32.8
2018-12-13	Sell	27.0	34.0

Source: RHB, Bloomberg

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80 - 89		ดีมาก	Very Good
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60 - 69		ดีพอใช้	Satisfactory
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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

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

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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