BUY (Unchanged) | **TP: Bt 26.00** (From: Bt 23.00)

Change in Numbers | **Upside : 24.4%** | **21 MAY 2021**

Small Cap Research

Somboon Advance Tech. (SAT TB)

Stronger recovery

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We lift our 2021-23F earnings by 7-11% to reflect a stronger recovery in tractor production and higher equity income from auto associates. SAT's 1Q21 revenue outperformed industry growth and we expect this to continue. We forecast SAT's EPS to double this year to a new base. At 11x PE, we reaffirm our BUY call with a higher TP of Bt26.

Thanachart Securities

Boosting our earnings; reaffirming BUY

We reaffirm our BUY with a new DCF-based 12-month TP (2021F base year) of Bt26 (from Bt23). ***First***, following 1Q21's strong results beat, we raise our earnings by 7-11% in 2021-23F to reflect a stronger-than-expected turnaround of agricultural tractors where SAT also received additional parts orders and higher equity income from its auto associates. **Second,** we expect SAT's revenue growth to be stronger than the industry's and project EPS to double in 2021F and another 26% p.a. in 2022-23F. ***Third***, valuation looks cheap to us at 2021F PE 11x (8x excl. cash) vs. very strong earnings growth and c.6-7% yields in 2021-22F, backed by its net cash position (28% of share price)

Stronger recovery in agricultural parts

In the agricultural machinery market, SAT supplies parts to Kubota (70-80% Thai tractor market share), which is enjoying the mega-trend of smart farming and using Thailand as a production base for exports. Kubota tractor production suffered from drought during 2H19-1H20, causing tractor output to fall to an average of 19k units/quarter (vs. 23k in 1Q19). With the drought easing and higher export demand, 1Q21 tractor production grew by a strong 50% y-y (vs. our earlier 10% estimate) to 27k units, even higher than in 1Q19. We lift our tractor production growth estimate from 10% earlier to 19% in 2021F and expect 10% p.a. growth in 2022-23F. SAT's 1Q21 agricultural parts sales (23% of 1Q21 sales) grew 73% y-y, stronger than the industry due to new parts orders from Kubota. We project a 16% sales CAGR in 2021-23F.

Auto sales likely to outperform industry

SAT should enjoy a stronger auto export sales and production recovery as global economies rebound this year via new orders from direct exports (contributing 5% revenue growth) and SAT's two biggest customers which have high export market exposure. These two customers account for 51% of SAT's revenue. The strengthening global economic rebound led Thailand's 1Q21 production for exports to recover by 7% y-y (+34% q-q), while auto production for the domestic market fell by 1.5% y-y and 27% q-q post pent-up demand. We maintain our 1.6m units auto production estimate to cushion against the risk of a chip shortage.

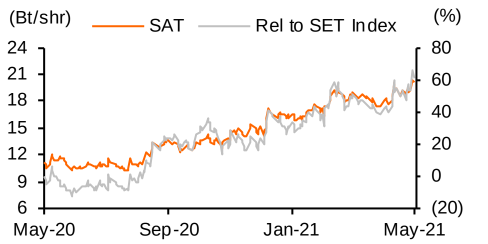
We project 122% EPS growth in 2021F

We expect 122% EPS growth in 2021F and 26% average growth in 2022-23F on 1) 11-23% revenue growth; 2) despite already factoring in three to six months' lag time to pass on rising steel costs, operating margin rising from 5% in 2020 to 9-13% on positive operating leverage. 3) income from associates rising from Bt3m in 2020 to Bt117m-124m in 2021-23F on an auto part sales recovery along with the auto industry and higher production efficiency benefits.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,883	7,262	8,277	9,177
Net profit	371	822	1,089	1,308
Consensus NP	—	817	978	1,123
Diff frm cons (%)	—	*0.6*	*11.4*	*16.5*
Norm profit	371	822	1,089	1,308
Prev. Norm profit	—	741	1,006	1,228
Chg frm prev (%)	—	*10.9*	*8.3*	*6.5*
Norm EPS (Bt)	0.9	1.9	2.6	3.1
Norm EPS grw (%)	(58.5)	121.6	32.5	20.1
Norm PE (x)	24.0	10.8	8.2	6.8
EV/EBITDA (x)	7.5	5.0	3.6	2.8
P/BV (x)	1.3	1.2	1.1	1.0
Div yield (%)	2.9	5.5	7.4	8.8
ROE (%)	5.2	11.3	14.1	15.8
Net D/E (%)	(31.0)	(34.3)	(39.2)	(43.9)

PRICE PERFORMANCE

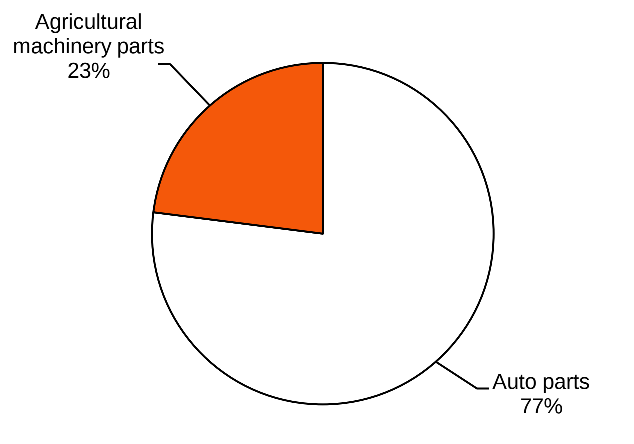


COMPANY INFORMATION

Price *as of* 21-May-21(Bt)	20.90
Market Cap (US$ m)	283.2
Listed Shares (m shares)	425.2
Free Float (%)	64.4
Avg Daily Turnover (US$ m)	2.1
12M Price H/L (Bt)	20.90/10.20
Sector	AUTO
Major Shareholder	Somboon Holding 29.9%

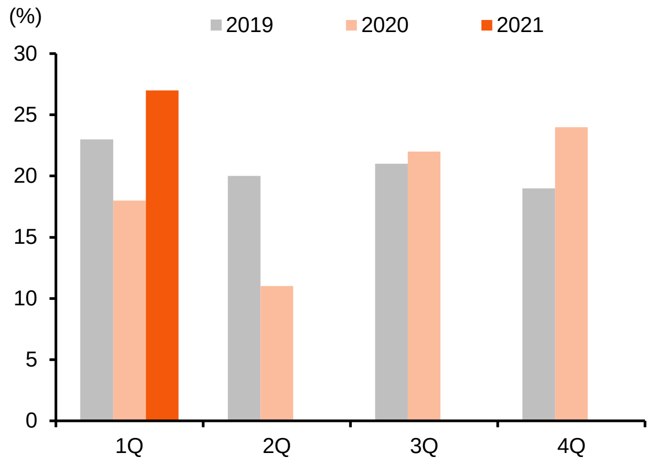
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: 1Q21 Revenue Breakdown By Business



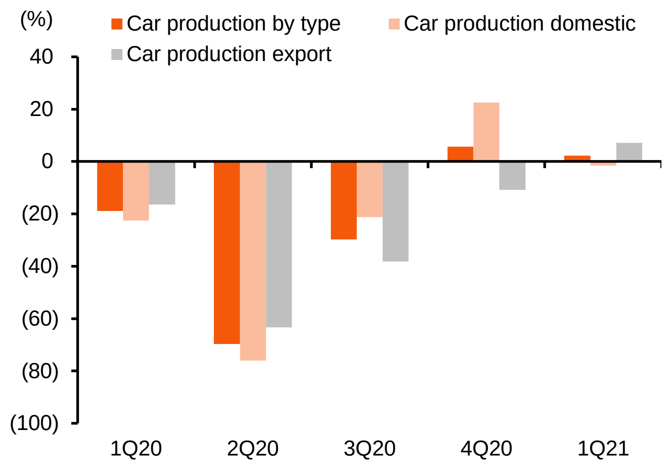
Sources: Company data; Thanachart estimates

Ex 2: Strong Tractor Production Rebound In 1Q21



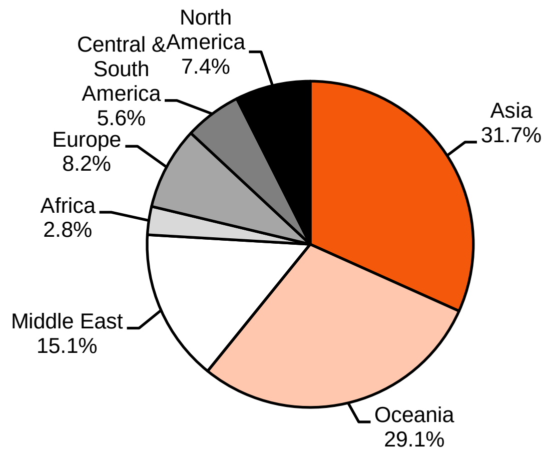
Sources: Company data; Thanachart estimates

Ex 3: Stronger Recovery Auto Production For Export



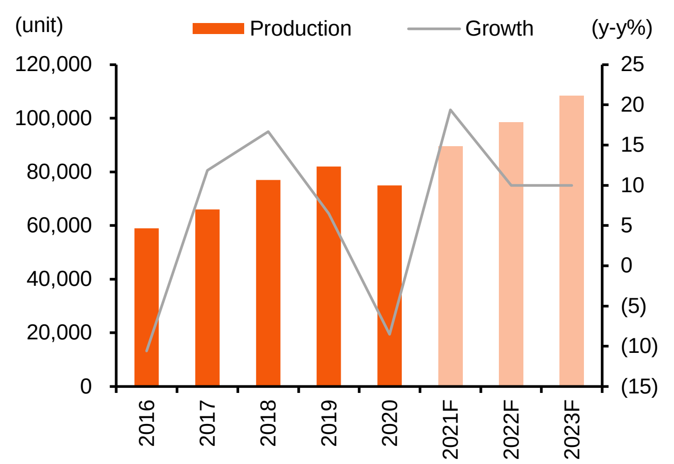
Source: Thailand Automotive Institute

Ex 4: Thailand's Auto Export Breakdown In 2020



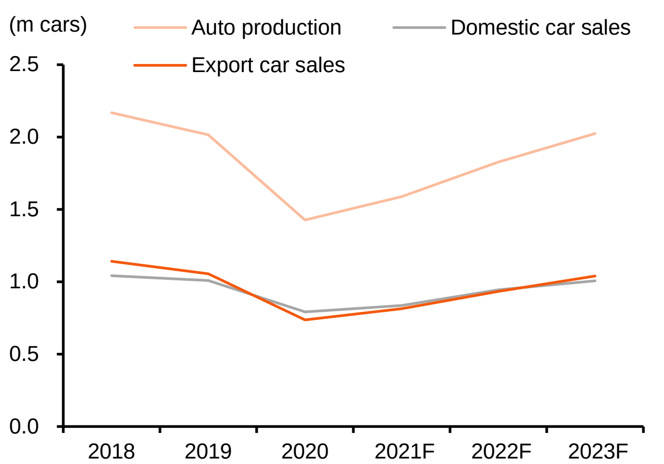
Source: Thailand Automotive Institute

Ex 5: Our Tractor Production Forecasts



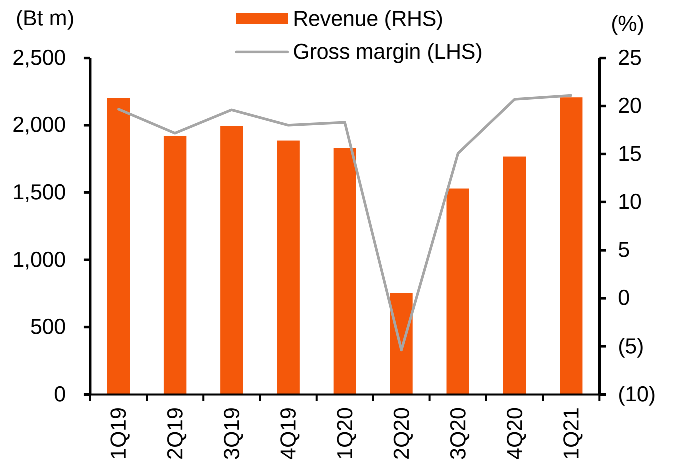
Sources: Company data; Thanachart estimates

Ex 6: Our Auto Production Forecasts



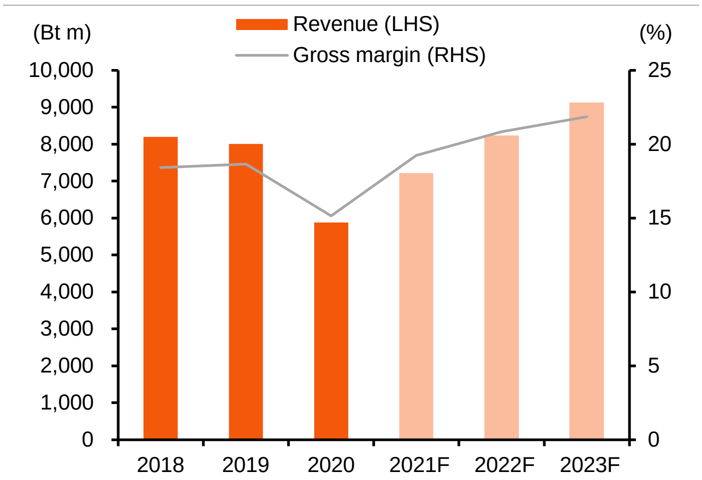
Sources: Thailand Automotive Institute; Thanachart estimates

Ex 7: Record High Gross Margin In 1Q21



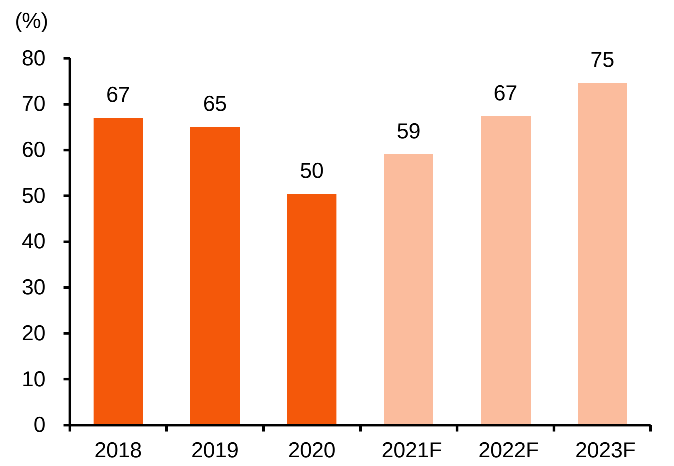
Sources: Company data; Thanachart estimates
Note: Rising steel costs were partially seen in 1Q21 and the company has yet to adjust its selling prices

Ex 8: Our Revenue And Margin Forecasts



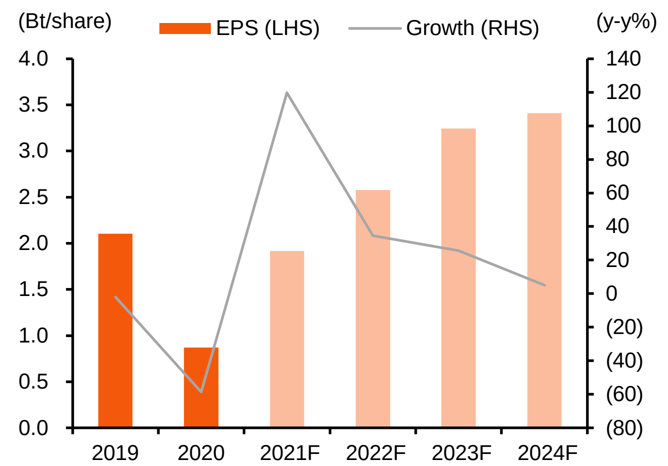
Sources: Company data; Thanachart estimates

Ex 9: Our Utilization Forecasts



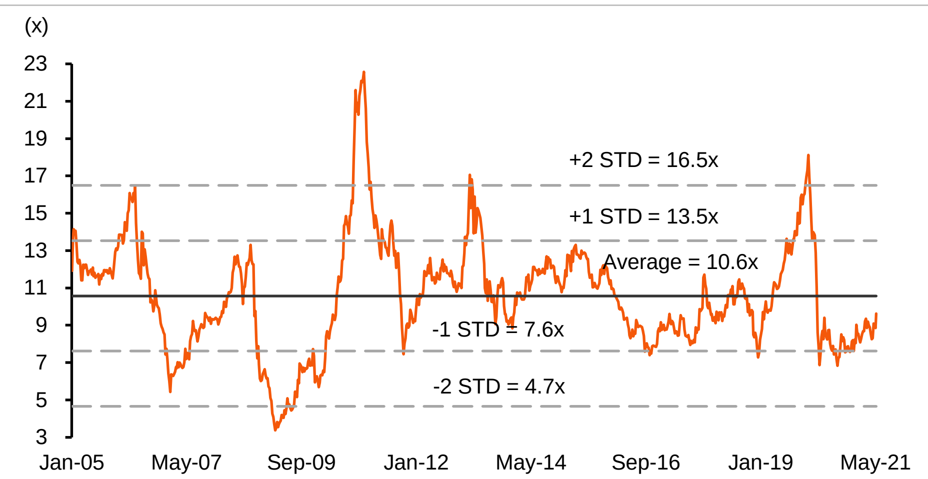
Sources: Company data; Thanachart estimates

Ex 10: We Estimate 120% EPS Growth This Year



Sources: Company data; Thanachart estimates

Ex 11: Inexpensive At 2021F PE 11x (8x Excluding Cash)



Sources: Bloomberg, Thanachart estimates

Ex 12: Earnings Revisions

	2020	2021F	2022F	2023F
Total revenue (Bt m)				
New	5,883	7,262	8,277	9,177
Old		6,880	7,873	8,746
Change (%)		*5.6*	*5.1*	*4.9*
Gross margin (%)				
New	15.1	19.4	20.7	21.4
Old		18.3	20.1	21.2
Change (pp)		*1.1*	*0.6*	*0.2*
Equity income (Bt m)				
New	3	117	121	124
Old		67	80	84
Change (%)		*50*	*41*	*40*
Normalized earnings (Bt m)				
New	370.8	822	1,089	1,308
Old		741	1,006	1,228
Change (%)		*10.9*	*8.3*	*6.5*

Sources: Company data, Thanachart estimates

Ex 13: 12-month DCF-based TP Calculation, Using A Base Year Of 2021F

(Bt m)		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal Value
EBITDA		1,260	1,575	1,815	1,942	2,015	2,064	2,114	2,057	2,084	2,106	2,122	—
Free cash flow		606	969	1,210	1,106	1,085	1,038	980	976	942	962	975	9,396
PV of free cash flow		604	779	873	716	630	526	443	394	340	310	280	2,287
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.2												
WACC (%)	11.5												
Terminal growth (%)	2.0												
Enterprise value - add investments	8,848												
Net debt (2020)	(2,201)												
Minority interest	52												
Equity value	10,998												
# of shares (m)	425												
Target price/share (Bt)	**26**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 14: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Fangda Special Steel Tech	600507 CH	China	33.3	11.1	6.7	6.0	na	na	na	na	na	na
Fuyao Glass Industry Group	600660 CH	China	49.8	23.4	32.0	25.9	5.1	4.6	18.6	16.1	1.9	2.2
Weifu High-Technology	000581 CH	China	(4.5)	7.0	8.9	8.3	1.2	1.1	9.0	8.4	4.6	4.9
Bharat Forge	BHFC IN	India	(57.7)	299.5	165.6	41.5	5.7	5.2	42.5	21.5	0.2	0.6
Motherson Sumi Systems	MSS IN	India	(13.7)	157.8	76.8	29.8	6.6	5.7	18.8	11.4	0.5	0.9
Sundram Fasteners	SF IN	India	44.3	29.0	29.5	22.8	5.5	4.5	3.5	2.9	0.8	0.9
UMW Holdings	UMWH MK	Malaysia	52.2	10.2	11.7	10.6	0.9	0.8	7.3	7.1	2.0	2.2
Mando Corp	060980 KS	S. Korea	79.9	22.8	5.8	4.7	0.5	0.4	6.8	6.0	4.6	4.6
Hyundai Mobis	012330 KS	S. Korea	77.0	15.6	9.6	8.3	0.7	0.7	5.4	4.7	1.5	1.6
Hu Lane Associate Inc	6279 TT	Taiwan	27.0	22.0	14.0	11.5	2.0	1.9	8.5	7.3	4.7	5.4
Tong Yang Industry	1319 TT	Taiwan	76.5	27.8	13.1	10.2	0.8	0.8	5.6	5.1	4.4	5.7
AAPICO Hitech	AH TB	Thailand	463.2	27.5	10.5	8.3	1.1	1.0	9.5	10.0	3.1	4.0
Somboon Advance Tech*	SAT TB	Thailand	121.6	32.5	10.8	8.2	1.2	1.1	5.0	3.6	5.5	7.4
Thai Stanley Electric *,**	STANLY TB	Thailand	52.0	32.1	9.2	7.0	0.7	0.6	3.0	2.2	3.2	4.4
Average			**71.5**	**51.3**	**28.9**	**14.5**	**2.5**	**2.2**	**11.0**	**8.2**	**2.8**	**3.4**

Source: Bloomberg, Thanachart estimates

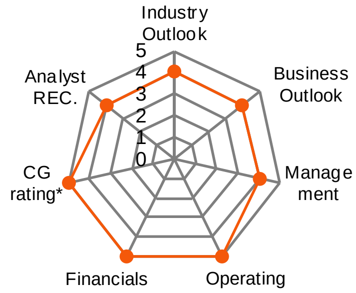
Note: * Thanachart estimates using normalized EPS growth
** STANLY’s fiscal year ends in March
Based on 21 May 2021 closing prices

COMPANY DESCRIPTION

Somboon Advance Technology Pcl (SAT TB) is one of the leading manufacturers and distributors of motor vehicles and it listed on the Stock Exchange of Thailand (SET) in 2005. SAT's main products are under-car parts related, i.e. axel shafts, disc and drum brakes, serving a variety of vehicles, mainly one-tonne pickups and passenger cars. Most of its customers are Japanese car makers which have factories in Thailand, namely Mitsubishi, Toyota, Honda, Isuzu, Nissan, etc. In 2013, SAT signed a long-term contract to provide agricultural machinery parts for the leading agricultural tractor producer, Kubota.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	**5**
Good	**4**
Fair	**3**
Weak	**2**
Very Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Leader in under-car parts manufacturing.
- Customer diversification.
- Product diversification
- Limited EV threat on its products.

W — Weakness

- Not strong car export growth outlook in the long-term.
- Still highly focused on Japanese car makers and limited exposure in non-Japanese car markets.

O — Opportunity

- Highly exposed to a turnaround in Thailand's automotive industry.
- Partnership with Mubea, the world's leading spring producer, gives SAT's 50% JV more expertise and potential new car parts production.

T — Threat

- Competition from new regional car production sites.
- Long-term EV trend should make SAT adjust production process of some of its products, e.g. to be lighter weight.
- If separate motors are used for each wheel in EV cars, SAT's axle shaft products will be at risk.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	23.71	26.00	10%
Net profit 21F (Bt m)	817	822	1%
Net profit 22F (Bt m)	978	1,089	11%
Consensus REC	**BUY: 8**	**HOLD: 2**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F net profits are higher than the Bloomberg consensus estimate, likely as we factor in the operating leverage impact. Our DCF-based TP is therefore also higher.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Weaker-than-expected auto demand from both domestic and export markets is the primary downside risk to our earnings forecasts.
- Natural disasters could lead to industry distortion, representing another downside risk to our earnings projections.
- Worse-than-expected COVID-19 would pose downside risk to our numbers.

Source: Thanachart

We estimate a 2020-22F EPS CAGR of 71%

SAT turned net cash after the sale of its spring business

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	8,006	5,883	7,220	8,229	9,123
Cost of sales	6,512	4,991	5,831	6,515	7,129
Gross profit	**1,494**	**891**	**1,389**	**1,714**	**1,995**
% gross margin	18.7%	15.1%	19.2%	20.8%	21.9%
Selling & administration expenses	736	615	755	767	736
Operating profit	**757**	**276**	**634**	**947**	**1,259**
% operating margin	9.5%	4.7%	8.8%	11.5%	13.8%
Depreciation & amortization	643	620	608	638	639
EBITDA	**1,401**	**896**	**1,242**	**1,585**	**1,898**
% EBITDA margin	17.5%	15.2%	17.2%	19.3%	20.8%
Non-operating income	193	144	188	206	228
Non-operating expenses	0	0	0	0	0
Interest expense	(11)	(8)	(6)	(7)	(7)
Pre-tax profit	**939**	**412**	**816**	**1,146**	**1,480**
Income tax	100	40	114	166	222
After-tax profit	**840**	**372**	**701**	**980**	**1,258**
% net margin	10.5%	6.3%	9.7%	11.9%	13.8%
Shares in affiliates' Earnings	59	3	117	121	124
Minority interests	(4)	(4)	(3)	(3)	(3)
Extraordinary items	0	0	0	0	0
NET PROFIT	**895**	**371**	**815**	**1,097**	**1,379**
Normalized profit	**894**	**371**	**815**	**1,097**	**1,379**
EPS (Bt)	2.1	0.9	1.9	2.6	3.2
Normalized EPS (Bt)	2.1	0.9	1.9	2.6	3.2

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	4,581	4,407	5,169	6,071	7,040
Cash & cash equivalent	2,363	2,331	2,700	3,300	4,000
Account receivables	1,448	1,311	1,609	1,834	2,033
Inventories	570	565	660	737	807
Others	200	200	200	200	200
Investments & loans	889	894	894	894	894
Net fixed assets	3,596	3,403	3,299	3,168	3,039
Other assets	245	252	343	383	417
Total assets	**9,311**	**8,955**	**9,705**	**10,517**	**11,390**
LIABILITIES:					
Current liabilities:	1,636	1,501	1,736	1,966	2,151
Account payables	885	974	1,138	1,272	1,392
Bank overdraft & ST loans	109	12	11	13	14
Current LT debt	90	59	53	63	70
Others current liabilities	551	455	534	618	675
Total LT debt	**118**	**59**	**52**	**63**	**69**
Others LT liabilities	355	305	379	428	470
Total liabilities	**2,108**	**1,865**	**2,167**	**2,456**	**2,690**
Minority interest	45	48	52	52	55
Preferreds shares	0	0	0	0	0
Paid-up capital	425	425	425	425	425
Share premium	716	716	716	716	716
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	**6,016**	**5,901**	**6,344**	**6,867**	**7,503**
Shareholders' equity	7,158	7,042	7,485	8,009	8,645
Liabilities & equity	**9,311**	**8,955**	**9,705**	**10,517**	**11,390**

Sources: Company data, Thanachart estimates

SAT offers dividend yields of 5-7% in 2021-22F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	939	412	816	1,146	1,480
Tax paid	(97)	(64)	(102)	(165)	(216)
Depreciation & amortization	643	620	608	638	639
Chg In working capital	(323)	231	(229)	(169)	(149)
Chg In other CA & CL / minorities	184	(71)	183	200	174
Cash flow from operations	**1,346**	**1,127**	**1,276**	**1,650**	**1,928**
Capex	(436)	(427)	(500)	(500)	(500)
Right of use	0	0	(38)	(5)	(5)
ST loans & investments	0	0	0	0	0
LT loans & investments	(31)	(5)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	30	(54)	17	6	5
Cash flow from investments	**(436)**	**(486)**	**(521)**	**(499)**	**(500)**
Debt financing	8	(187)	(14)	23	15
Capital increase	0	0	0	0	0
Dividends paid	(574)	(476)	(372)	(574)	(743)
Warrants & other surplus	(49)	(11)	0	0	0
Cash flow from financing	**(616)**	**(674)**	**(386)**	**(551)**	**(728)**
Free cash flow	**911**	**700**	**776**	**1,150**	**1,428**

SAT doesn't look expensive to us…

…trading at 11x PE vs. its strong EPS growth outlook

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	9.9	24.0	10.9	8.1	6.4
Normalized PE - at target price (x)	12.4	29.8	13.6	10.1	8.0
PE (x)	9.9	23.9	10.9	8.1	6.4
PE - at target price (x)	12.4	29.8	13.6	10.1	8.0
EV/EBITDA (x)	4.9	7.5	5.1	3.6	2.7
EV/EBITDA - at target price (x)	6.4	9.9	6.8	5.0	3.8
P/BV (x)	1.2	1.3	1.2	1.1	1.0
P/BV - at target price (x)	1.5	1.6	1.5	1.4	1.3
P/CFO (x)	6.6	7.9	7.0	5.4	4.6
Price/sales (x)	1.1	1.5	1.2	1.1	1.0
Dividend yield (%)	6.5	2.9	5.5	7.4	9.3
FCF Yield (%)	10.3	7.9	8.7	12.9	16.1
(Bt)					
Normalized EPS	2.1	0.9	1.9	2.6	3.2
EPS	2.1	0.9	1.9	2.6	3.2
DPS	1.4	0.6	1.2	1.5	1.9
BV/share	16.8	16.6	17.6	18.8	20.3
CFO/share	3.2	2.7	3.0	3.9	4.5
FCF/share	2.1	1.6	1.8	2.7	3.4

Sources: Company data, Thanachart estimates

We project SAT's 2021F revenue growth to outpace the industry's...

…due mainly to additional parts orders

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(2.3)	(26.5)	22.7	14.0	10.9
Net profit (%)	(2.3)	(58.5)	119.6	34.6	25.7
EPS (%)	(2.3)	(58.5)	119.6	34.6	25.7
Normalized profit (%)	(1.9)	(58.5)	119.8	34.6	25.7
Normalized EPS (%)	(1.9)	(58.5)	119.8	34.6	25.7
Dividend payout ratio (%)	64.2	68.7	60.0	60.0	60.0
Operating performance					
Gross margin (%)	18.7	15.1	19.2	20.8	21.9
Operating margin (%)	9.5	4.7	8.8	11.5	13.8
EBITDA margin (%)	17.5	15.2	17.2	19.3	20.8
Net margin (%)	10.5	6.3	9.7	11.9	13.8
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Interest coverage - EBIT (x)	71.0	35.6	101.8	145.2	172.2
Interest coverage - EBITDA (x)	131.3	115.5	199.4	243.0	259.6
ROA - using norm profit (%)	9.7	4.1	8.7	10.8	12.6
ROE - using norm profit (%)	12.7	5.2	11.2	14.2	16.6
DuPont					
ROE - using after tax profit (%)	12.0	5.2	9.7	12.6	15.1
- asset turnover (x)	0.9	0.6	0.8	0.8	0.8
- operating margin (%)	11.9	7.1	11.4	14.0	16.3
- leverage (x)	1.3	1.3	1.3	1.3	1.3
- interest burden (%)	98.9	98.2	99.2	99.4	99.5
- tax burden (%)	89.4	90.2	86.0	85.5	85.0
WACC (%)	11.5	11.5	11.5	11.5	11.5
ROIC (%)	13.2	4.9	11.3	16.5	22.1
NOPAT (Bt m)	677	249	545	809	1,070
invested capital (Bt m)	5,112	4,841	4,901	4,847	4,798

Sources: Company data, Thanachart estimates

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For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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