

BUY (Unchanged)

TP: Bt 28.00

(From: Bt 26.00)

Change in Numbers

Upside : 41.4%

23 JUNE 2021

Somboon Advance Tech. (SAT TB)

Likely strong 2Q21F

We estimate SAT's 2Q21F earnings to come in better than we had expected earlier due to stronger export growth benefiting SAT's export-heavy portfolio. Despite us factoring in a chip-shortage hit, SAT should still deliver strong earnings growth of 138% this year. At 8x 2022F PE with decent dividend yields, we reaffirm our BUY call.



RATA LIMSUTHIWANPOOM

662 – 483 8297

rata.lim@thanachartsec.co.th

Reaffirming our BUY call

We reaffirm our BUY call on SAT with a higher, rolled-over to 2022F DCF-based 12-month TP of Bt28 (from Bt26). **First**, 2Q21F earnings will likely beat our number on stronger-than-expected auto industry exports, and we raise our 2021F earnings by 8% to reflect this. **Secondly**, despite factoring in the chip shortage lingering into 2H21F, SAT should still post 138% earnings growth this year and 20% on average for 2022-23F, led by a recovery in auto and agricultural parts. **Third**, valuation still looks inexpensive at a 2022F PE of 8x (6x excluding cash) and decent dividend yields of 6-8% in 2021-22F.

2Q21F looks likely to beat

We estimate SAT to report 2Q21F profit of Bt180m, near the level in 2019 in the same period (turning around from making a loss in 2Q20 during the country lockdown amid the COVID outbreak). SAT's revenue should continue to outperform the industry's because 1) SAT has higher exposure to exports, which perform better than domestic sales, at 62% vs. the industry's 58%; 2) additional direct export orders that it received from late 4Q20; and 3) agricultural parts should continue to see strong growth due to the low base with farm income growing by 14% y-y in April 2021.

Stronger export auto sales

4M21 auto production was at 80% of the 2019 base (or up 19% y-y) driven by stronger auto export growth of 15% and milder domestic auto sales of 7%. We trim our full-year auto production assumption by 3-4% in 2021-22F and foresee stronger growth in exports (58% of total production) this year of 13% (from 10% previously) and another 12% growth next year. For domestic sales, due to weaker domestic consumption amid high household debt, we now expect a 3% decline (from +6%) in 2021F before growing 14% in 2022F, driven by pent-up demand. The chip shortage caused a production hiccup with some plants shutting down temporarily or lowering their utilization in May and June 2021. Forgone production is likely to be recovered in 2H21F.

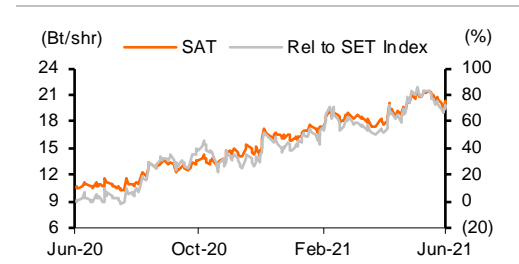
Higher R&D expenses, but not a drag

The trend towards lighter auto parts has prompted SAT to spend on research and development (R&D) to develop a lighter axel shaft. We do not foresee this expense being a drag on earnings in the near term as SAT plans to control total SG&A expenses (including R&D items) to sales at no more than 10% each year. With electric vehicle cars, SAT believes it is much safer to continue using axel shafts to synchronize the movement of the wheels. SAT said that removing the axel shaft from cars would require several decades in order to develop a mechanism for each wheel to move independently and safely.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,883	7,410	8,304	9,349
Net profit	371	883	1,077	1,286
Consensus NP	—	827	991	1,161
Diff frm cons (%)	—	6.7	8.7	10.8
Norm profit	371	883	1,077	1,286
Prev. Norm profit	—	822	1,089	1,308
Chg frm prev (%)	—	7.5	(1.1)	(1.7)
Norm EPS (Bt)	0.9	2.1	2.5	3.0
Norm EPS grw (%)	(58.5)	138.2	21.9	19.4
Norm PE (x)	22.7	9.5	7.8	6.5
EV/EBITDA (x)	6.9	4.3	3.3	2.5
P/BV (x)	1.2	1.1	1.0	1.0
Div yield (%)	3.0	6.3	7.7	9.2
ROE (%)	5.2	12.1	13.8	15.5
Net D/E (%)	(31.0)	(35.3)	(40.3)	(45.2)

PRICE PERFORMANCE

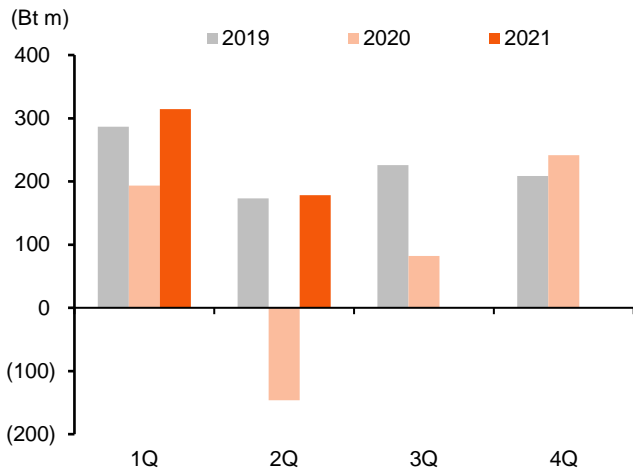


COMPANY INFORMATION

Price as of 23-Jun-21(Bt)	19.80
Market Cap (US\$ m)	264.3
Listed Shares (m shares)	425.2
Free Float (%)	64.4
Avg Daily Turnover (US\$ m)	1.8
12M Price H/L (Bt)	21.50/10.20
Sector	AUTO
Major Shareholder	Somboon Holding 29.9%

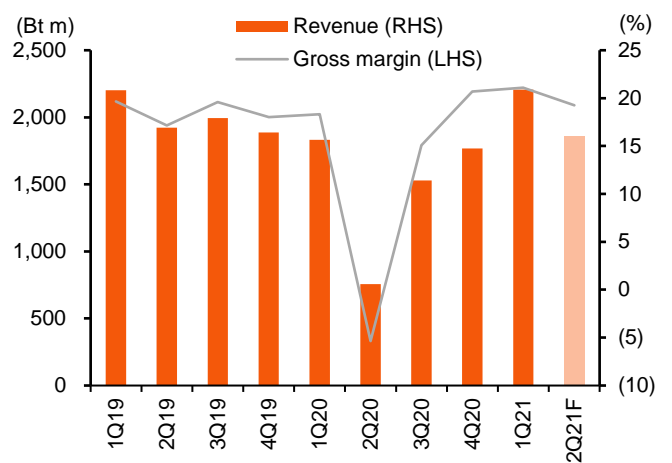
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: 2Q21F Earnings Should Be Higher Than 2019's



Sources: Company data, Thanachart estimates

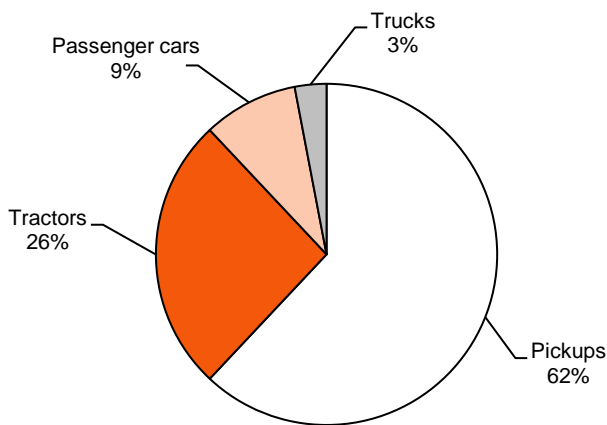
Ex 2: Quarterly Revenue And Gross Margin



Sources: Company data, Thanachart estimates

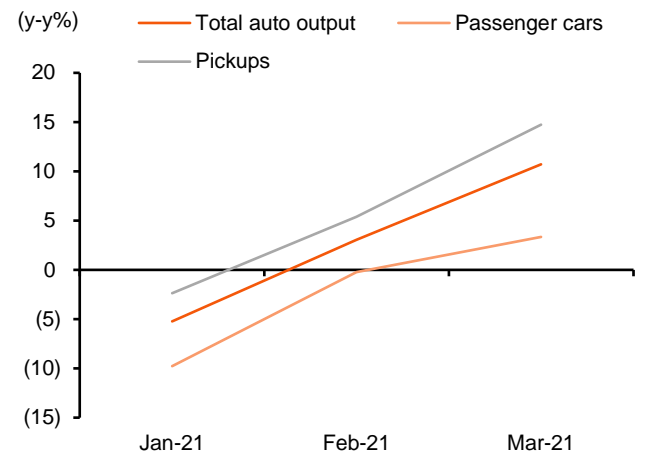
Note: 2Q is the lowest season of the year

Ex 3: 2020 Revenue Breakdown By Vehicle Type



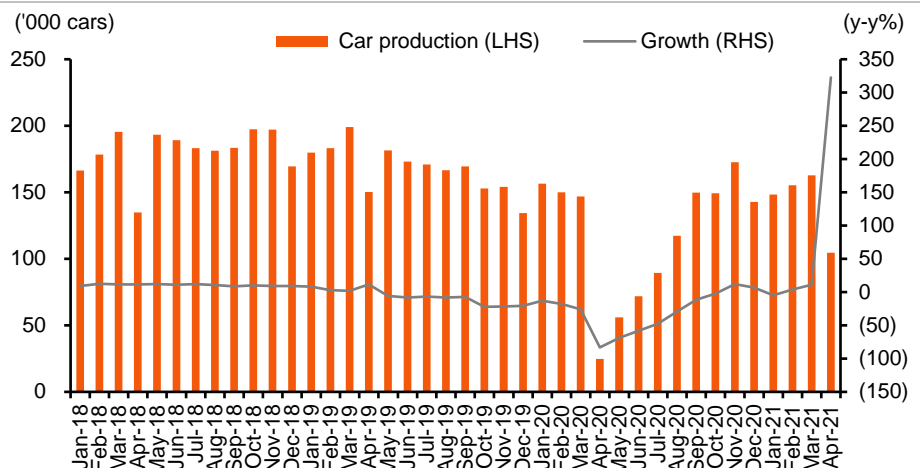
Source: Company data

Ex 4: Pickups Enjoyed The Strongest Growth Recovery



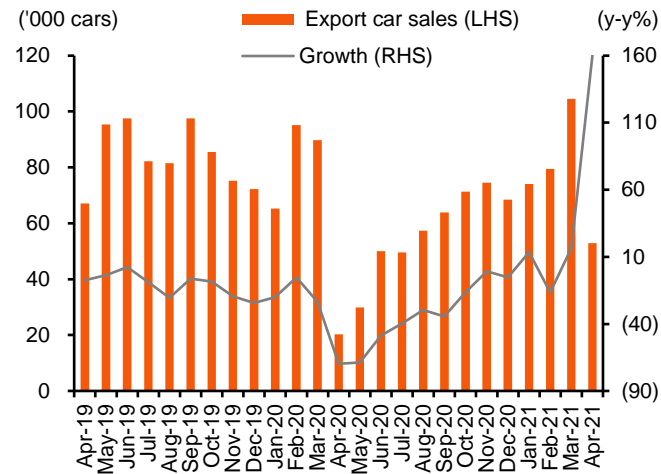
Source: Thai Automotive Industry Association

Ex 5: Monthly Vehicle Production



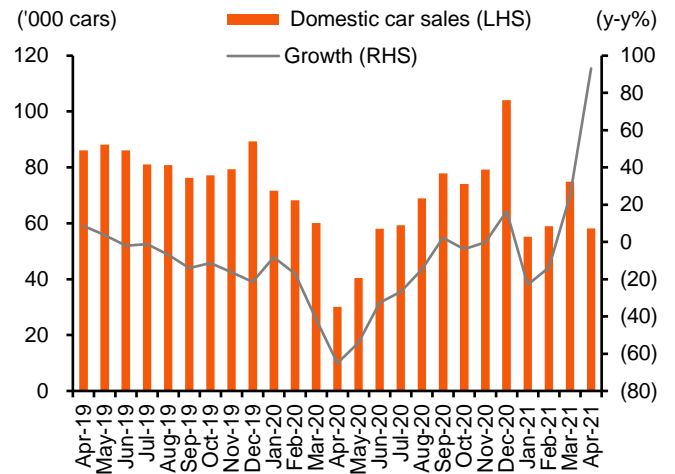
Source: Thai Automotive Industry Association

Ex 6: Export Car Sales



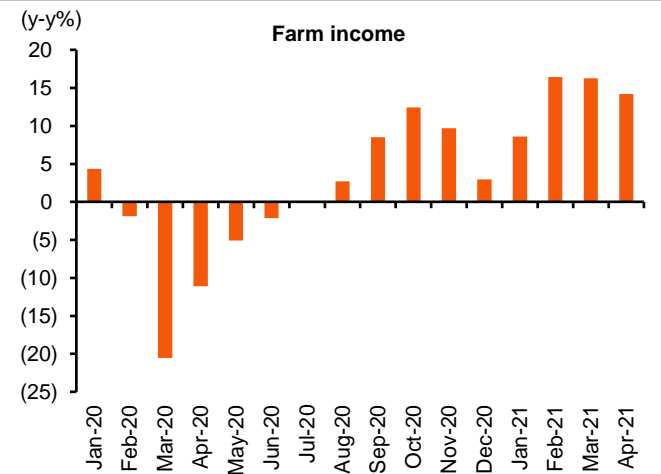
Source: Thai Automotive Industry Association

Ex 7: Domestic Car Sales



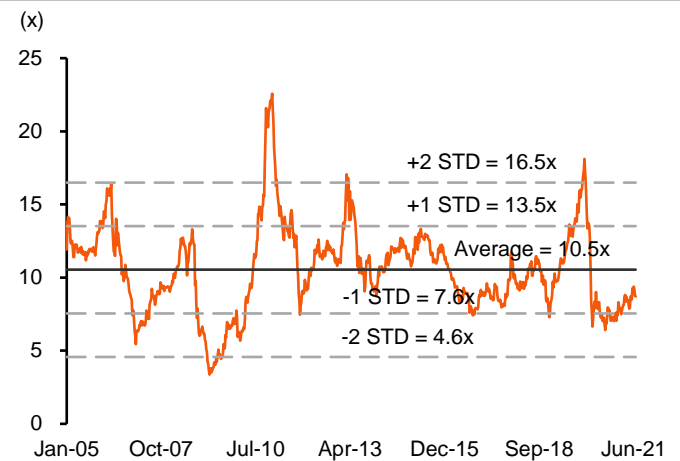
Source: Thai Automotive Industry Association

Ex 8: This Should Support Agricultural Parts Sales



Sources: Office of Agricultural Economics, Ministry of Agriculture and Cooperatives

Ex 9: SAT's PE STD



Sources: Bloomberg, Thanachart estimates

Ex 10: Key Assumption Changes

	2020	2021F	2022F	2023F
Industry auto production (cars)				
New	1,426,072	1,539,848	1,757,196	2,021,025
Old	1,426,072	1,588,838	1,826,160	2,022,824
<i>Change (%)</i>	0	(3.1)	(3.8)	(0.1)
Industry auto sales (cars)				
New				
Domestic sales	792,110	768,347	875,915	1,007,303
Export sales	735,842	831,501	931,281	1,033,722
Total	1,527,952	1,599,848	1,807,196	2,041,025
Old				
Domestic sales	792,110	836,468	944,373	1,004,812
Export sales	735,842	812,370	931,788	1,038,012
Total	1,527,952	1,648,838	1,876,160	2,042,824
Total revenue (Bt m)				
New	5,883	7,410	8,304	9,349
Old	5,883	7,262	8,277	9,177
<i>Change (%)</i>	0.0	2.0	0.3	1.9
Gross margin (%)				
New	15.1	19.8	20.8	21.7
Old	15.1	19.4	20.7	21.4
<i>Change (pp)</i>	0.0	0.4	0.1	0.3
SG&A-to-sales ratio (%)				
New	10.5	10.3	9.9	9.7
Old	10.5	10.4	9.3	8.5
<i>Change (pp)</i>	0.0	(0.1)	0.6	1.2
Normalized earnings (Bt m)				
New	370.8	883.2	1,076.5	1,285.9
Old	370.8	821.8	1,088.9	1,307.9
<i>Change (%)</i>	0.0	7.5	(1.1)	(1.7)

Sources: Company data, Thanachart estimates

Ex 11: 12-month DCF-based TP Calculation, Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	1,547	1,785	1,890	1,986	2,054	2,126	2,098	2,176	2,256	2,339	2,423	—
Free cash flow	987	1,191	1,099	1,103	1,078	1,044	970	990	969	953	937	9,108
PV of free cash flow	984	958	793	714	612	529	439	400	350	307	256	2,494
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	11.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	9,266											
Net debt (2021F)	(2,680)											
Minority interest	52											
Equity value	11,894											
# of shares (m)	425											
Target price/share (Bt)	28.0											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 12: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Fangda Special Steel Tech	600507 CH	China	28.3	12.8	5.4	4.8	2.9	2.8	na	na	16.0	15.5
Fuyao Glass Industry Group	600660 CH	China	49.8	23.5	38.5	31.2	6.1	5.5	22.5	19.4	1.6	1.9
Weifu High-Technology	000581 CH	China	(2.5)	6.9	7.8	7.3	1.1	1.0	8.7	8.0	5.5	6.4
Bharat Forge	BHFC IN	India	na	56.4	43.5	27.8	5.8	5.0	22.4	16.4	0.5	0.8
Motherson Sumi Systems	MSS IN	India	154.5	27.7	28.5	22.3	5.4	4.6	1.7	8.9	1.0	1.3
Sundram Fasteners	SF IN	India	44.3	29.0	31.9	24.7	5.9	4.9	19.6	15.8	0.7	0.9
UMW Holdings	UMWH MK	Malaysia	47.8	12.4	12.2	10.9	0.9	0.9	7.8	7.4	1.8	2.1
Mando Corp	060980 KS	S. Korea	79.9	22.8	5.7	4.7	0.5	0.4	6.8	6.0	4.6	4.6
Hyundai Mobis	012330 KS	S. Korea	78.0	15.7	10.0	8.6	0.8	0.7	5.7	5.0	1.5	1.6
Hu Lane Associate Inc	6279 TT	Taiwan	37.5	20.1	16.6	13.8	2.6	2.4	9.9	9.0	3.9	4.3
Tong Yang Industry	1319 TT	Taiwan	56.7	38.5	15.9	11.5	0.9	0.9	6.1	5.5	3.3	4.6
AAPICO Hitech	AH TB	Thailand	463.2	27.5	9.2	7.2	1.0	0.9	8.9	9.4	3.6	4.6
Somboon Advance Tech*	SAT TB	Thailand	138.2	21.9	9.5	7.8	1.1	1.0	4.3	3.3	6.3	7.7
Thai Stanley Electric **, **	STANLY TB	Thailand	29.6	40.5	10.5	7.4	0.7	0.7	3.0	2.1	3.1	4.3
Average			92.7	25.4	17.5	13.6	2.6	2.3	9.8	8.9	3.8	4.3

Source: Bloomberg, Thanachart estimates

Note: * Thanachart estimates using normalized EPS growth

** STANLY's fiscal year ends in March

Based on 23 Jun 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.

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.

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.

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)	25.02	28.00	12%
Net profit 21F (Bt m)	827	883	7%
Net profit 22F (Bt m)	991	1,077	9%
Consensus REC	BUY: 8	HOLD: 2	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F net profits are 7-9% higher than the Bloomberg consensus estimate, likely as we factor in the operating leverage impact. Our DCF-based TP is therefore also higher.

RISKS TO OUR INVESTMENT CASE

- Weaker-than-expected auto demand from both the 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.
- A worse-than-expected COVID-19 situation would pose downside risk to our numbers.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	8,006	5,883	7,410	8,304	9,349
Cost of sales	6,512	4,991	5,943	6,580	7,317
Gross profit	1,494	891	1,467	1,723	2,032
% gross margin	18.7%	15.1%	19.8%	20.8%	21.7%
Selling & administration expenses	736	615	764	819	910
Operating profit	757	276	703	904	1,121
% operating margin	9.5%	4.7%	9.5%	10.9%	12.0%
Depreciation & amortization	643	620	627	652	672
EBITDA	1,401	896	1,330	1,555	1,794
% EBITDA margin	17.5%	15.2%	18.0%	18.7%	19.2%
Non-operating income	193	144	178	199	224
Non-operating expenses	0	0	0	0	0
Interest expense	(11)	(8)	(7)	(7)	(7)
Pre-tax profit	939	412	874	1,096	1,339
Income tax	100	40	105	137	174
After-tax profit	840	372	770	959	1,165
% net margin	10.5%	6.3%	10.4%	11.6%	12.5%
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	883	1,077	1,286
Normalized profit	894	371	883	1,077	1,286
EPS (Bt)	2.1	0.9	2.1	2.5	3.0
Normalized EPS (Bt)	2.1	0.9	2.1	2.5	3.0

We estimate a 2020-23F

EPS CAGR of 50%

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	4,581	4,407	5,334	6,181	7,152
Cash & cash equivalent	2,363	2,331	2,810	3,385	4,040
Account receivables	1,448	1,311	1,652	1,851	2,084
Inventories	570	565	673	745	828
Others	200	200	200	200	200
Investments & loans	889	894	894	894	894
Net fixed assets	3,596	3,403	3,280	3,136	2,973
Other assets	245	252	304	333	367
Total assets	9,311	8,955	9,811	10,544	11,386
LIABILITIES:					
Current liabilities:	1,636	1,501	1,779	1,980	2,191
Account payables	885	974	1,160	1,285	1,428
Bank overdraft & ST loans	109	12	12	12	12
Current LT debt	90	59	59	59	59
Others current liabilities	551	455	548	624	691
Total LT debt	118	59	59	59	59
Others LT liabilities	355	305	388	431	481
Total liabilities	2,108	1,865	2,227	2,470	2,732
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	6,391	6,880	7,457
Shareholders' equity	7,158	7,042	7,533	8,022	8,599
Liabilities & equity	9,311	8,955	9,811	10,544	11,386

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	939	412	874	1,096	1,339
Tax paid	(97)	(64)	(92)	(137)	(167)
Depreciation & amortization	643	620	627	652	672
Chg In working capital	(323)	231	(262)	(147)	(172)
Chg In other CA & CL / minorities	184	(71)	196	193	184
Cash flow from operations	1,346	1,127	1,343	1,657	1,856
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)	66	11	12
Cash flow from investments	(436)	(486)	(472)	(494)	(493)
Debt financing	8	(187)	0	0	0
Capital increase	0	0	0	0	0
Dividends paid	(574)	(476)	(393)	(588)	(709)
Warrants & other surplus	(49)	(11)	0	0	0
Cash flow from financing	(616)	(674)	(392)	(588)	(708)
Free cash flow	911	700	843	1,157	1,356

SAT offers dividend yields of 6-8% in 2021-22F

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	9.4	22.7	9.5	7.8	6.5
Normalized PE - at target price (x)	13.3	32.1	13.5	11.1	9.3
PE (x)	9.4	22.7	9.5	7.8	6.5
PE - at target price (x)	13.3	32.1	13.5	11.1	9.3
EV/EBITDA (x)	4.5	6.9	4.3	3.3	2.5
EV/EBITDA - at target price (x)	7.0	10.8	6.9	5.6	4.5
P/BV (x)	1.2	1.2	1.1	1.0	1.0
P/BV - at target price (x)	1.7	1.7	1.6	1.5	1.4
P/CFO (x)	6.3	7.5	6.3	5.1	4.5
Price/sales (x)	1.1	1.4	1.1	1.0	0.9
Dividend yield (%)	6.8	3.0	6.3	7.7	9.2
FCF Yield (%)	10.8	8.3	10.0	13.7	16.1
(Bt)					
Normalized EPS	2.1	0.9	2.1	2.5	3.0
EPS	2.1	0.9	2.1	2.5	3.0
DPS	1.4	0.6	1.2	1.5	1.8
BV/share	16.8	16.6	17.7	18.9	20.2
CFO/share	3.2	2.7	3.2	3.9	4.4
FCF/share	2.1	1.6	2.0	2.7	3.2

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

*We project SAT's 2021F
revenue growth to
outpace the industry's...
...due mainly to
additional parts orders*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(2.3)	(26.5)	26.0	12.1	12.6
Net profit (%)	(2.3)	(58.5)	137.9	21.9	19.4
EPS (%)	(2.3)	(58.5)	137.9	21.9	19.4
Normalized profit (%)	(1.9)	(58.5)	138.2	21.9	19.4
Normalized EPS (%)	(1.9)	(58.5)	138.2	21.9	19.4
Dividend payout ratio (%)	64.2	68.7	60.0	60.0	60.0
Operating performance					
Gross margin (%)	18.7	15.1	19.8	20.8	21.7
Operating margin (%)	9.5	4.7	9.5	10.9	12.0
EBITDA margin (%)	17.5	15.2	18.0	18.7	19.2
Net margin (%)	10.5	6.3	10.4	11.6	12.5
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)	(0.4)	(0.4)	(0.5)
Interest coverage - EBIT (x)	71.0	35.6	107.9	136.1	168.3
Interest coverage - EBITDA (x)	131.3	115.5	204.1	234.1	269.1
ROA - using norm profit (%)	9.7	4.1	9.4	10.6	11.7
ROE - using norm profit (%)	12.7	5.2	12.1	13.8	15.5
DuPont					
ROE - using after tax profit (%)	12.0	5.2	10.6	12.3	14.0
- asset turnover (x)	0.9	0.6	0.8	0.8	0.9
- operating margin (%)	11.9	7.1	11.9	13.3	14.4
- leverage (x)	1.3	1.3	1.3	1.3	1.3
- interest burden (%)	98.9	98.2	99.3	99.4	99.5
- tax burden (%)	89.4	90.2	88.0	87.5	87.0
WACC (%)	11.5	11.5	11.5	11.5	11.5
ROIC (%)	13.2	4.9	12.8	16.3	20.5
NOPAT (Bt m)	677	249	619	791	976
invested capital (Bt m)	5,112	4,841	4,853	4,767	4,689

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research

Tel: 662-779-9199

pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

Tel: 662-779-9105

pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

Tel: 662-779-9109

phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance, Insurance

Tel: 662-779-9106

sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

Tel: 662-483-8303

sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

Tel: 662-779-9120

adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities

Tel: 662-483-8296

nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanoom

Auto, Industrial Estate, Media, Prop. Fund

Tel: 662-483-8297

rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel

Tel: 662-779-9113

siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

Tel: 662-483-8304

thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical, Paper

Tel: 662-779-9104

chak.reu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping

Tel: 662-483-8298

pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation

Tel: 662-779-9112

saksid.pha@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

Tel: 662-779-9123

witchanan.tam@thanachartsec.co.th