

BUY (Unchanged)

TP: Bt 29.00

(From: Bt 28.00)

Change in Numbers

Upside : 45.7%

16 SEPTEMBER 2021

Somboon Advance Tech. (SAT TB)

Negatives look priced in

We believe SAT's recent share price drop has already reflected supply chain issue concerns. The stock is trading at only 7.6x PE with a 7.9% yield in 2022F. While we expect the supply chain issue to ease from 1Q22F with 26/22% EPS growth in 2022-23F, we reaffirm BUY.



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Reaffirming BUY

We reiterate BUY on SAT with a DCF-based TP (2022F base year) of Bt29 (from Bt28). *First*, SAT looks attractive to us at 7.6x PE with 7.9/9.6% yields in 2022-23F. At these valuations, we believe the recent share price fall has priced in soft 3Q21F results caused by the industry's supply chain issue. *Second*, we expect this issue to improve from 1Q22F. *Third*, SAT will start realizing additional revenue from its new parts orders, which leads us to raise our normalized EPS estimates by 3-5% p.a. 2022-23F. Note that we also factor in a one-time tax expense due to SAT's restructuring to become a holding company (no impact on operating profit) in 4Q21F at an estimated Bt70m as an extra item. *Lastly*, SAT remains a strong turnaround stock in our view at 138/26/22% EPS growth in 2021-23F.

Supply chain issue

There are two factors causing the supply chain issue in the global auto industry. The first is COVID infections in Southeast Asia (SEA) and the second is a global semiconductor chip shortage. Auto production output in Thailand, which has a 50% share in SEA, fell 4-8% m-m in June and July. We expect the weak momentum to continue before an improvement in 1Q22F, when the region's vaccination rate should be far higher with a gradual increase in new global chip capacity. Toyota expects its global car production to be affected by the supply chain issue from August onward and it plans to ramp up production to meet the same production target by March next year. We estimate auto production of 1.54m units this year (vs. 1.43m in 2020) with 14-15% p.a. growth in 2022-23F.

Still strong growth outlook

After a strong earnings turnaround 138% this year, we expect a 26/22% EPS growth in 2022-23F. Key drivers are 1) 14-15% p.a. sales growth (3-4% from new model parts); 2) operating margin rising from 5% in 2020 to 11-12% in 2022-23F on positive operating leverage; and 3) equity income from its affiliates increasing from Bt3m in 2020 to Bt117m-124m in 2021-23F on an auto part sales recovery along with the auto industry. The margin hike is despite us factoring in three- to six months' lag time to pass on rising steel costs.

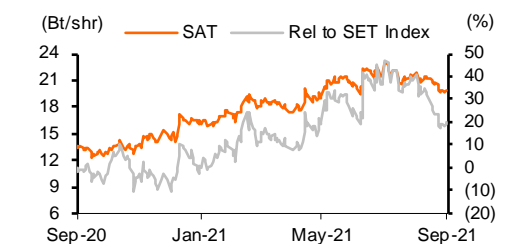
Trades at only 7.6x 2022F PE with 7.9% yield

SAT looks attractive to us at PE of 7.6x in 2022F and 6.3x in 2023F, the year we expect Thai auto production to return to its pre-COVID level of 2.0m units. The stock looks even cheaper on an EV/EBITDA ratio of just 3.3x. SAT remains a net cash company with net cash of Bt5.4/share making up 27% of its share price. SAT is also a high-yield stock. On our 60% payout ratio assumption (vs. 64% in 2019), yield is at 7.9% in 2022F and 9.6% in 2023F. Note that SAT already paid 1H21 DPS of Bt0.4/share.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,883	7,410	8,502	9,662
Net profit	371	812	1,110	1,353
Consensus NP	—	948	1,077	1,199
Diff frm cons (%)	—	(14.3)	3.1	12.9
Norm profit	371	882	1,110	1,353
Prev. Norm profit	—	883	1,077	1,286
Chg frm prev (%)	—	(0.1)	3.1	5.2
Norm EPS (Bt)	0.9	2.1	2.6	3.2
Norm EPS grw (%)	(58.5)	138.0	25.8	21.9
Norm PE (x)	22.8	9.6	7.6	6.3
EV/EBITDA (x)	7.0	4.4	3.3	2.4
P/BV (x)	1.2	1.1	1.1	1.0
Div yield (%)	3.0	5.8	7.9	9.6
ROE (%)	5.2	12.1	14.3	16.3
Net D/E (%)	(31.0)	(34.9)	(40.1)	(45.1)

PRICE PERFORMANCE



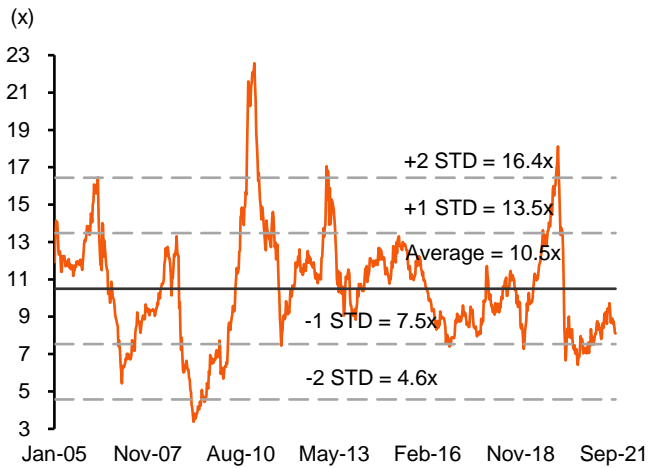
COMPANY INFORMATION

Price as of 16-Sep-21 (Bt)	19.90
Market Cap (US\$ m)	256.0
Listed Shares (m shares)	425.2
Free Float (%)	64.4
Avg Daily Turnover (US\$ m)	1.7
12M Price H/L (Bt)	23.00/12.20
Sector	AUTO
Major Shareholder	Somboon Holding 29.9%

Sources: Bloomberg, Company data, Thanachart estimates

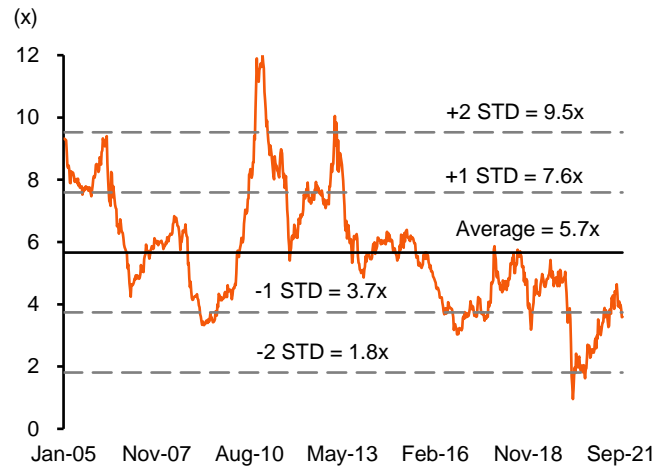


Ex 1: SAT Trades At Only 7.6x 2022F PE



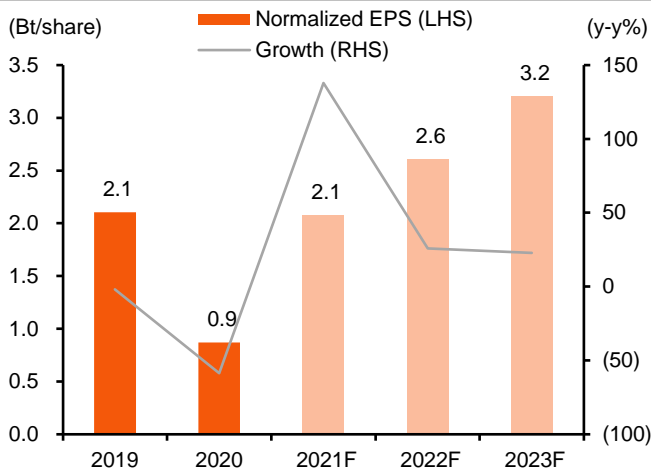
Sources: Bloomberg, Thanachart estimates

Ex 2: Also Cheap On EV/EBITDA Ratio At 3.3x



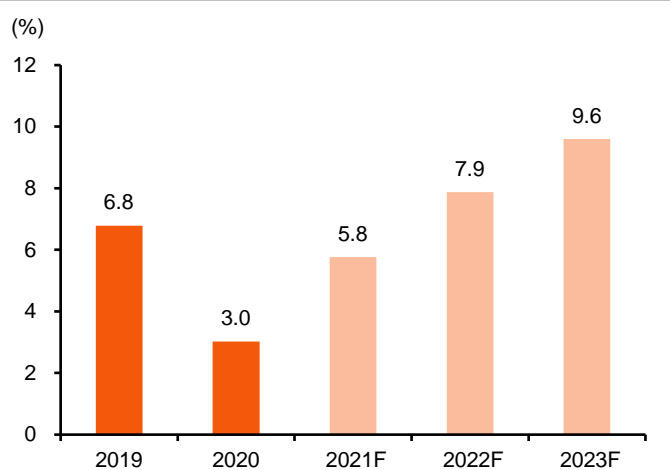
Sources: Bloomberg, Thanachart estimates

Ex 3: Strong Earnings Growth



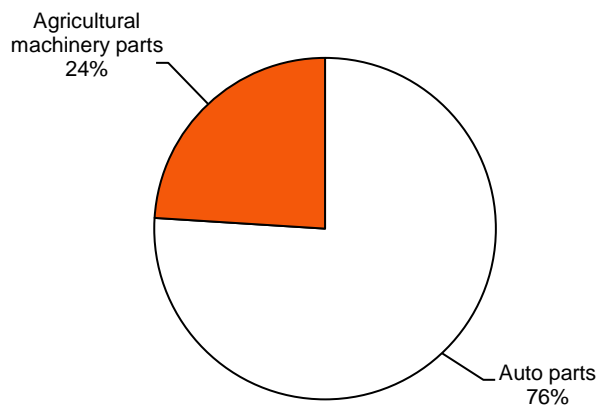
Source: Company data

Ex 4: Decent Dividend Yields



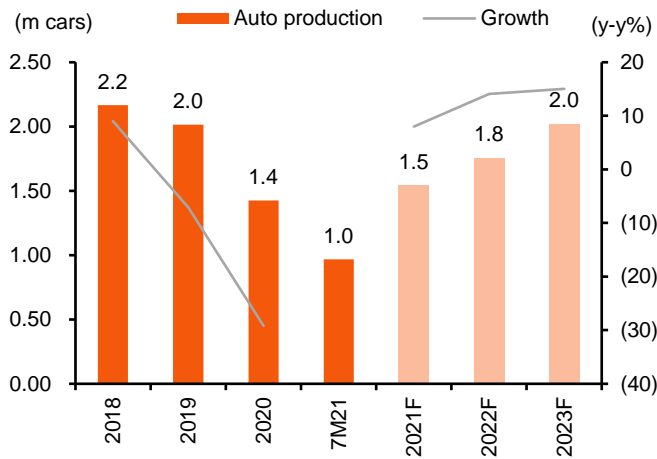
Sources: Company data; Thanachart estimates

Ex 5: 6M21 Revenue Breakdown



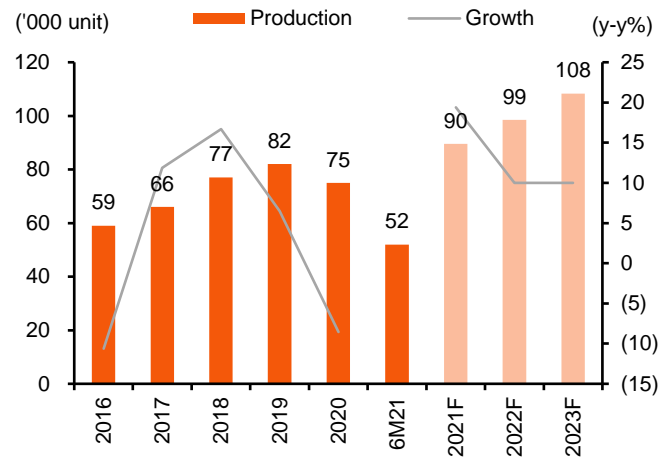
Source: Company data

Ex 6: Auto Production Forecasts



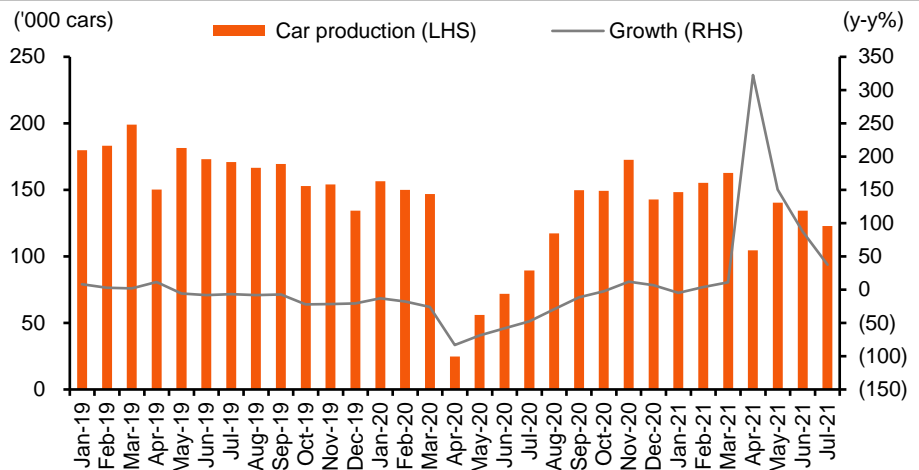
Sources: Thai Automotive Industry Association; Thanachart estimates

Ex 7: Kubota Tractor Production Forecasts



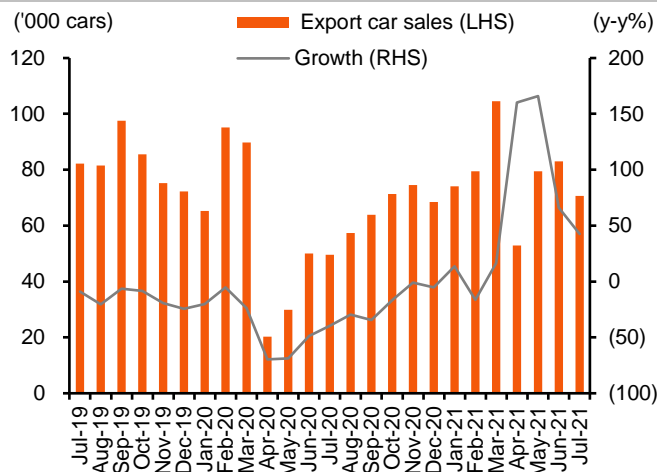
Sources: Company data; Thanachart estimates

Ex 8: Monthly Vehicle Production



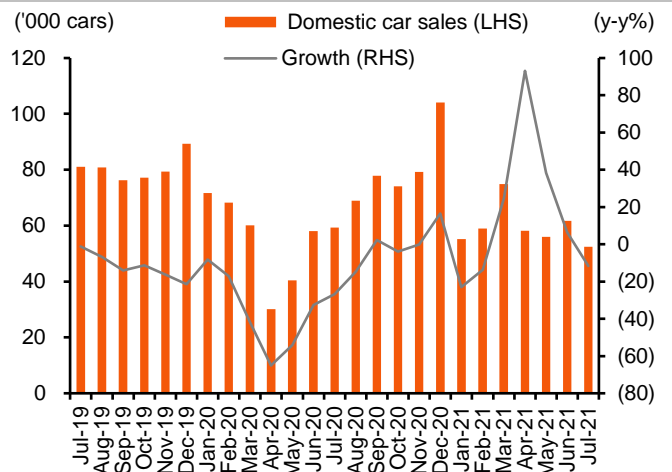
Source: Thai Automotive Industry Association

Ex 9: Export Car Sales



Source: Thai Automotive Industry Association

Ex 10: Domestic Car Sales



Source: Thai Automotive Industry Association

Ex 11: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
Total revenue (Bt m)					
New	8,006	5,883	7,410	8,502	9,662
Old			7,410	8,304	9,349
Change (%)			-	2.4	3.3
One-time expense – tax* (Bt m)					
		0	0	70	0
Normalized earnings (Bt m)					
New	894	371	882	1,110	1,353
Old			883	1,077	1,286
Change (%)			(0.1)	3.1	5.2
Net profit (Bt m)					
New	895	371	812	1,110	1,353
Old			883	1,077	1,286
Change (%)			(8.0)	3.1	5.2

Sources: Company data, Thanachart estimates

Note: *One-time tax expense is a result of company restructuring its business in 4Q21. No impact to core operating profit

Ex 12: 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	1,582	1,855	1,961	2,058	2,127	2,200	2,175	2,255	2,336	2,421	2,506	—
Free cash flow	991	1,240	1,167	1,172	1,147	1,114	1,042	1,063	1,044	1,028	1,014	9,863
PV of free cash flow	988	998	842	758	651	565	471	429	377	331	278	2,700
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	11.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	9,819											
Net debt (2021F)	(2,630)											
Minority interest	52											
Equity value	12,397											
# of shares (m)	425											
Target price/share (Bt)	29.0											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 13: 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	35.2	7.4	6.8	6.4	2.0	1.6	na	na	6.9	7.2
Fuyao Glass Industry Group	600660 CH	China	50.5	25.2	28.7	22.9	4.6	4.1	15.8	13.4	2.2	2.6
Weifu High-Technology	000581 CH	China	(4.1)	6.9	8.1	7.6	1.1	1.1	7.9	7.2	6.3	6.2
Bharat Forge	BHFC IN	India	na	46.0	40.4	27.6	6.0	5.1	21.7	16.5	0.5	0.7
Motherson Sumi Systems	MSS IN	India	187.7	49.3	32.7	21.9	5.2	4.4	11.3	8.7	1.0	1.4
Sundram Fasteners	SF IN	India	48.3	29.9	36.6	28.2	7.0	5.8	22.5	18.1	0.6	0.7
UMW Holdings	UMWH MK	Malaysia	11.7	38.6	17.0	12.2	1.0	0.9	9.1	8.1	1.4	2.0
Mando Corp	060980 KS	S. Korea	160.9	10.7	5.0	4.5	0.6	0.5	6.2	5.5	3.7	3.7
Hyundai Mobis	012330 KS	S. Korea	75.0	17.1	9.4	8.1	0.7	0.7	5.4	4.6	1.6	1.8
Hu Lane Associate Inc	6279 TT	Taiwan	45.0	17.2	14.1	12.0	2.3	2.2	8.8	7.7	5.0	5.8
Tong Yang Industry	1319 TT	Taiwan	35.2	7.4	6.8	6.4	2.0	1.6	na	na	6.9	7.2
AAPICO Hitech	AH TB	Thailand	na	23.8	7.5	6.1	0.9	0.8	8.5	7.8	4.4	5.3
Somboon Advance Tech*	SAT TB	Thailand	138.0	25.8	9.6	7.6	1.1	1.1	4.4	3.3	5.8	7.9
Thai Stanley Electric **, **	STANLY TB	Thailand	29.6	40.5	9.6	6.9	0.7	0.6	2.6	1.8	3.3	4.7
Average			67.8	24.7	16.6	12.7	2.5	2.2	10.4	8.6	3.5	4.1

Source: Bloomberg, Thanachart estimates

Note: * Thanachart estimates using normalized EPS growth

** STANLY's fiscal year ends in March

Based on 16-Sep-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 light 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)	26.56	29.00	9%
Net profit 21F (Bt m)	948	812	-14%
Net profit 22F (Bt m)	1,077	1,110	3%
Consensus REC	BUY: 8	HOLD: 2	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021 net profits are lower than the street as we factor in auto chip shortage risk to Thailand's auto output. 2022 net profit are in line. But our DCF-based TP is higher as we factor in the operating leverage impact.

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.
- A worse-than-expected COVID-19 situation would pose downside risk to our numbers.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

*We estimate a 2020-23F
EPS CAGR of 54%*

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	8,006	5,883	7,410	8,502	9,662
Cost of sales	6,512	4,991	5,943	6,738	7,551
Gross profit	1,494	891	1,467	1,764	2,110
% gross margin	18.7%	15.1%	19.8%	20.7%	21.8%
Selling & administration expenses	736	615	764	825	919
Operating profit	757	276	703	939	1,191
% operating margin	9.5%	4.7%	9.5%	11.0%	12.3%
Depreciation & amortization	643	620	627	652	672
EBITDA	1,401	896	1,330	1,590	1,864
% EBITDA margin	17.5%	15.2%	18.0%	18.7%	19.3%
Non-operating income	193	144	178	204	232
Non-operating expenses	0	0	0	0	0
Interest expense	(11)	(8)	(8)	(8)	(7)
Pre-tax profit	939	412	873	1,135	1,416
Income tax	100	40	105	142	184
After-tax profit	840	372	769	993	1,232
% net margin	10.5%	6.3%	10.4%	11.7%	12.8%
Shares in affiliates' Earnings	59	3	117	121	124
Minority interests	(4)	(4)	(3)	(3)	(3)
Extraordinary items	0	0	(70)	0	0
NET PROFIT	895	371	812	1,110	1,353
Normalized profit	894	371	882	1,110	1,353
EPS (Bt)	2.1	0.9	1.9	2.6	3.2
Normalized EPS (Bt)	2.1	0.9	2.1	2.6	3.2

BALANCE SHEET

*SAT turned net cash after
the sale of its spring
business*

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	4,581	4,407	5,334	6,243	7,248
Cash & cash equivalent	2,363	2,331	2,810	3,385	4,040
Account receivables	1,448	1,311	1,652	1,895	2,153
Inventories	570	565	673	763	855
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	340	378
Total assets	9,311	8,955	9,811	10,613	11,493
LIABILITIES:					
Current liabilities:	1,636	1,501	1,807	2,036	2,255
Account payables	885	974	1,160	1,316	1,474
Bank overdraft & ST loans	109	12	17	14	12
Current LT debt	90	59	82	68	55
Others current liabilities	551	455	548	638	714
Total LT debt	118	59	81	68	55
Others LT liabilities	355	305	388	441	497
Total liabilities	2,108	1,865	2,276	2,544	2,808
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	6,342	6,875	7,489
Shareholders' equity	7,158	7,042	7,483	8,017	8,631
Liabilities & equity	9,311	8,955	9,811	10,613	11,493

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

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

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	939	412	873	1,135	1,416
Tax paid	(97)	(64)	(92)	(141)	(177)
Depreciation & amortization	643	620	627	652	672
Chg In working capital	(323)	231	(262)	(178)	(192)
Chg In other CA & CL / minorities	184	(71)	196	206	192
Cash flow from operations	1,346	1,127	1,343	1,673	1,912
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)	(4)	14	14
Cash flow from investments	(436)	(486)	(542)	(491)	(491)
Debt financing	8	(187)	50	(30)	(27)
Capital increase	0	0	0	0	0
Dividends paid	(574)	(476)	(371)	(577)	(739)
Warrants & other surplus	(49)	(11)	0	0	0
Cash flow from financing	(616)	(674)	(321)	(607)	(766)
Free cash flow	911	700	843	1,173	1,412

VALUATION

*SAT doesn't look expensive to us...
...trading at 7.6x PE vs. its strong EPS growth outlook*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	9.5	22.8	9.6	7.6	6.3
Normalized PE - at target price (x)	13.8	33.3	14.0	11.1	9.1
PE (x)	9.5	22.8	10.4	7.6	6.3
PE - at target price (x)	13.8	33.2	15.2	11.1	9.1
EV/EBITDA (x)	4.6	7.0	4.4	3.3	2.4
EV/EBITDA - at target price (x)	7.3	11.3	7.3	5.7	4.5
P/BV (x)	1.2	1.2	1.1	1.1	1.0
P/BV - at target price (x)	1.7	1.8	1.6	1.5	1.4
P/CFO (x)	6.3	7.5	6.3	5.1	4.4
Price/sales (x)	1.1	1.4	1.1	1.0	0.9
Dividend yield (%)	6.8	3.0	5.8	7.9	9.6
FCF Yield (%)	10.8	8.3	10.0	13.9	16.7
(Bt)					
Normalized EPS	2.1	0.9	2.1	2.6	3.2
EPS	2.1	0.9	1.9	2.6	3.2
DPS	1.4	0.6	1.1	1.6	1.9
BV/share	16.8	16.6	17.6	18.9	20.3
CFO/share	3.2	2.7	3.2	3.9	4.5
FCF/share	2.1	1.6	2.0	2.8	3.3

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(2.3)	(26.5)	26.0	14.7	13.6
Net profit (%)	(2.3)	(58.5)	118.8	36.6	21.9
EPS (%)	(2.3)	(58.5)	118.8	36.6	21.9
Normalized profit (%)	(1.9)	(58.5)	138.0	25.8	21.9
Normalized EPS (%)	(1.9)	(58.5)	138.0	25.8	21.9
Dividend payout ratio (%)	64.2	68.7	60.0	60.0	60.0
Operating performance					
Gross margin (%)	18.7	15.1	19.8	20.7	21.8
Operating margin (%)	9.5	4.7	9.5	11.0	12.3
EBITDA margin (%)	17.5	15.2	18.0	18.7	19.3
Net margin (%)	10.5	6.3	10.4	11.7	12.8
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)	(0.5)
Interest coverage - EBIT (x)	71.0	35.6	93.4	116.7	173.1
Interest coverage - EBITDA (x)	131.3	115.5	176.6	197.7	270.7
ROA - using norm profit (%)	9.7	4.1	9.4	10.9	12.2
ROE - using norm profit (%)	12.7	5.2	12.1	14.3	16.3
DuPont					
ROE - using after tax profit (%)	12.0	5.2	10.6	12.8	14.8
- asset turnover (x)	0.9	0.6	0.8	0.8	0.9
- operating margin (%)	11.9	7.1	11.9	13.4	14.7
- leverage (x)	1.3	1.3	1.3	1.3	1.3
- interest burden (%)	98.9	98.2	99.1	99.3	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	16.9	21.7
NOPAT (Bt m)	677	249	619	821	1,037
invested capital (Bt m)	5,112	4,841	4,853	4,781	4,713

Sources: Company data, Thanachart estimates

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