BUY (Unchanged)

Change in Numbers

TP: Bt 39.00 (From : Bt 42.00)

Upside : 21.9%

8 NOVEMBER 2021

Thanachart Securities

TOA Paint (Thailand) (TOA TB)

A good entry price

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TOA's share price has declined to near its historical low and we reaffirm our BUY call. As the current share price implies an oil price of USD120/bbl, we see not only limited downside risk but a catalyst from 16-21% earnings recovery in 2022-23F. With a 49% market share, TOA has been able to keep high gross margins despite volatile oil prices.

Inexpensive, in our view; reaffirm BUY

We reaffirm our BUY call on TOA despite cutting our 2021-23F earnings by 14% p.a. to reflect rising costs (Exhibit 1) and DCF-based 12-month TP (2022F base year) to Bt39 (from Bt42). ***First***, TOA's share price is now near the historical low end of its Bt29.75-45.75 range since listing in October 2017 while current oil price levels of USD83/bbl imply its PEs of 32x in 2022F and 27x in 2023F, which are still below its historical average of 36x. ***Second***, we see limited share price downside risk as its current share price implies an oil price of USD120/bbl, on our estimates. ***Third***, we like its pricing power from a 49% market share allowing it to maintain a gross margin of over 30% through past oil price fluctuations. ***Lastly***, we expect earnings to turn around with 16-21% y-y growth in 2022-23F along with the economic recovery.

Oil price sensitivity

TOA's key raw materials are titanium dioxide at 13% of its total costs and other oil-related materials at 9%. Thus, TOA is a victim of high oil prices. We estimate TOA's oil price sensitivity at a 0.5% earnings drop if the oil price rises by USD1/bbl. Note that we use our house view Brent assumptions of USD65-66/bbl for 2021-23F in our model. However, if we assume the current oil price of USD83/bbl in our model, TOA's EPS growth would be 8-18% in 2022-23F, PE at 32x in 2022F and 27x in 2023F and our TP at Bt37 while TOA's current share price of Bt32 implies an oil price of USD120/bbl (see Exhibit 2 for our EPS, PE and TP scenarios at different oil prices while Exhibits 3-4 show its STD band at our house view oil assumption vs. the current oil price).

Pricing power clearly shown this year

Titanium dioxide prices rose 8% y-y and oil prices by 60% y-y in 9M21. TOA, despite the COVID-19 crisis, hiked its product prices by 4-8% and its gross margin stood at 35% in 1H21 (vs. 37% in 2020 and 35% in 2019). With a further rise in oil prices, TOA is planning to increase its product prices by another 5-10% by end 2021. We project its gross margin at 33.6-34.4% in 2022-23F. We believe TOA's pricing power comes from its dominant 49% market share. In 2014-20 when yearly average oil prices ranged from USD42-99/bbl, TOA's gross margin was between 30-38%.

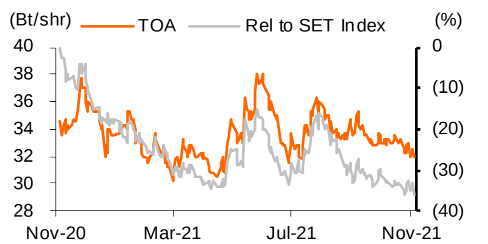
Demand recovery in 4Q21F on the cards

We expect TOA's 3Q21F earnings at Bt298m, down 42% y-y and 45% q-q due to the lockdowns in Thailand (86% of total sales) and Vietnam (7%). Its sales in Thailand have started to recover since the lockdown's easing in September and in Vietnam since October. We estimate 4Q21F earnings of Bt420m, up 41% q-q, though still down 15% y-y. Into 2022F, we project sales growth of 9% y-y driven by 6% y-y volume and 2.5% y-y price growth.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	16,296	17,114	18,638	19,908
Net profit	2,031	1,877	2,266	2,621
Consensus NP	—	2,125	2,314	2,507
Diff frm cons (%)	—	*(11.7)*	*(2.1)*	*4.6*
Norm profit	2,038	1,877	2,266	2,621
Prev. Norm profit	—	2,185	2,633	3,033
Chg frm prev (%)	—	*(14.1)*	*(13.9)*	*(13.6)*
Norm EPS (Bt)	1.0	0.9	1.1	1.3
Norm EPS grw (%)	(8.5)	(7.9)	20.7	15.7
Norm PE (x)	31.9	34.6	28.7	24.8
EV/EBITDA (x)	19.1	20.2	16.8	14.4
P/BV (x)	5.7	5.3	4.8	4.4
Div yield (%)	0.0	1.4	1.7	2.0
ROE (%)	18.4	15.8	17.5	18.5
Net D/E (%)	(56.5)	(60.9)	(63.5)	(66.4)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 8-Nov-21 (Bt)	32.00
Market Cap (US$ m)	1,964.2
Listed Shares (m shares)	2,029.0
Free Float (%)	25.0
Avg Daily Turnover (US$ m)	3.3
12M Price H/L (Bt)	38.00/30.25
Sector	CONMAT
Major Shareholder	TOAGH 30%

Sources: Bloomberg, Company data, Thanachart estimates

Cutting our TP to Bt39, reaffirming BUY

We cut our earnings estimates for TOA Paint (Thailand) Pcl by 14% p.a. over 2021-23F to reflect:

We cut earnings by 14% in 2021-23F p.a. given titanium dioxide and oil price hikes

Firstly, our 17-20% higher titanium dioxide price assumptions at USD2,800/tonne in 2021F (vs. USD2,706 in 9M21 and USD2,844 in September 2021) and USD3,000 in 2022-23F given our concerns over power supply limitations in China driving up titanium dioxide prices. Titanium dioxide costs account for 13% of TOA's total costs.

Secondly, our house view Brent oil price hike of 8% to USD65-66/bbl in 2021-23F (vs. USD70 in 9M21 and USD83 at present). Oil-related raw material costs make up 9% of TOA's total costs.

Thirdly, our 3-4pp lower gross margin assumptions of 33-34% in 2021-23F.

Our TP falls to Bt39 but we reaffirm our BUY as…

As a result, our DCF-based 12-month TP (2022F base year) falls to Bt39/share from Bt42 previously and we reaffirm our BUY rating on TOA.

Ex 1: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
Titanium dioxide (USD/tonne)					
New	2,199	2,200	2,800	3,000	3,000
Old			2,400	2,500	2,500
Change (%)			*16.7*	*20.0*	*20.0*
Brent oil price (USD/bbl)					
New	64.1	43.2	65.0	65.0	66.3
Old			60.0	60.0	61.2
Change (pp)			*8.3*	*8.3*	*8.3*
Gross margin (%)					
New	35.1	36.9	33.0	33.6	34.4
Old			35.8	37.0	38.3
Change (pp)			*(2.8)*	*(3.4)*	*(3.9)*

Sources: Company data, Thanachart estimates

However, we still like TOA because:

…1) valuation looks attractive, in our view…

First, its valuation looks attractive to us at PE multiples of 29x in 2022F and 25x in 2023F, compared to its four-year average PE of 36x. TOA's share price has fallen by 30% from its peak in October 2019 due to the COVID-19 crisis and rising titanium dioxide and oil prices. The current share price of Bt32 is close to the low end of its historical share price range of Bt29.75-45.75 since its listing in October 2017. Even if we assume an oil price of USD83 in 2022-23F in our model, its PEs of 32x in 2022F and 27x in 2023F would still be lower than its four-year average PE (please see Exhibit 2).

…2) limited share price downside risk…

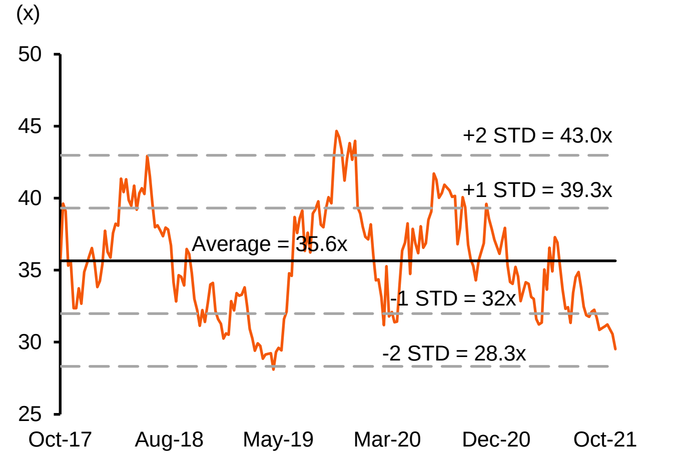
Second, we believe TOA's share price downside risk is limited since, based on our model, its current share price of Bt32 implies an oil price of USD120/bbl.

Ex 2: Sensitivity Analysis Of TOA's Earnings To Changes In The Oil Price

	EPS in 2022F (Bt)	EPS in 2023F (Bt)	PE in 2022F (x)	PE in 2023F (x)	Valuation (Bt)
Our base case					
Assumes USD65-66/bbl oil price	1.1	1.3	28.7	24.8	39.0
Valuation (at current oil price level)					
USD83/bbl oil price	1.0	1.2	32.1	27.3	36.8
Valuation (current share price)					
Implies a USD120/bbl oil price	0.7	0.9	42.9	35.3	32.5

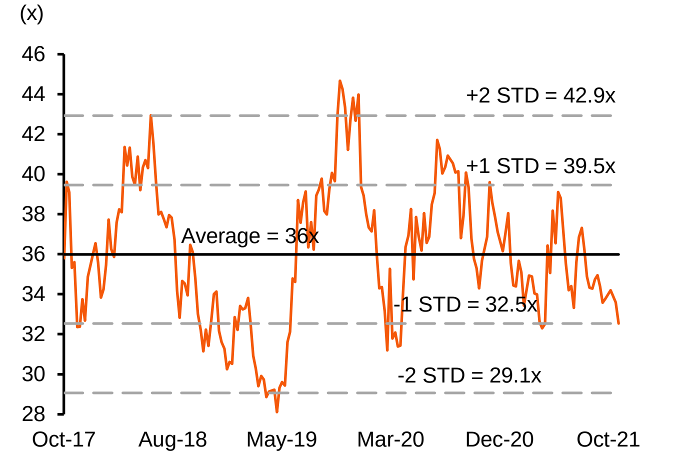
Source: Thanachart estimates

Ex 3: PE STD At USD65-66/bbl Oil Price In 2022-23F



Sources: Bloomberg, Thanachart estimates

Ex 4: PE STD At USD83/bbl Oil Price In 2022-23F

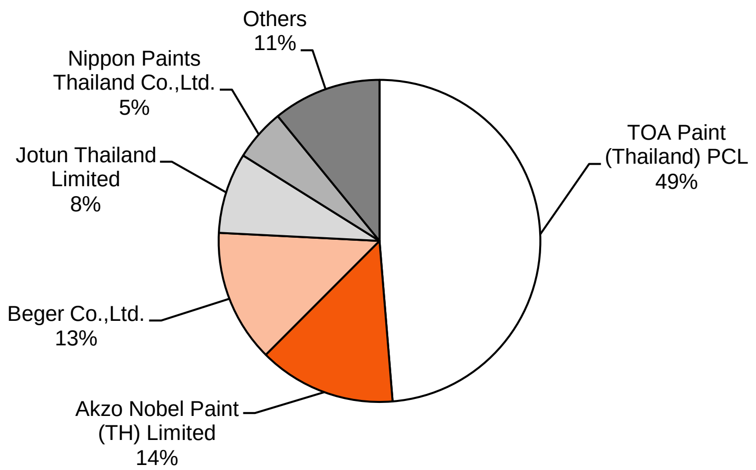


Sources: Bloomberg, Thanachart estimates

…3) its pricing power from its 49% market share…

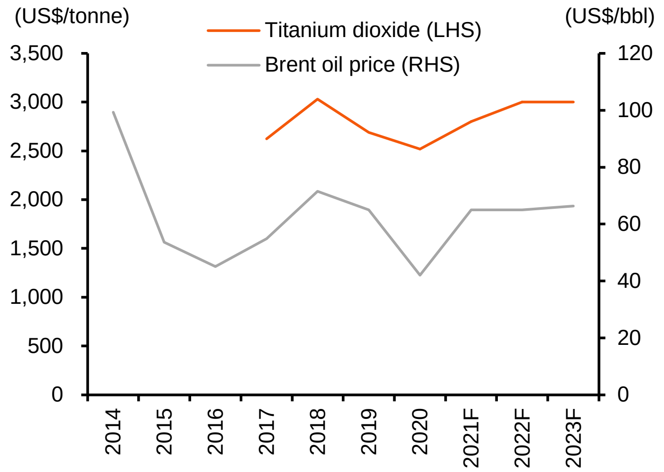
Third, we like TOA's pricing power from its 49% market share, allowing it to pass on some rising costs to customers and maintain its gross margin at over 30%. Even though titanium dioxide and oil prices rose by 8% y-y and 60% y-y, respectively, in 9M21, TOA, despite the COVID-19 crisis, raised its product prices by 4-8% in 1H21 and kept its gross margin at 35%. With a further increase in oil prices, it is planning to raise its product prices again by 5-10% by end 2021. In 2014-20 when the yearly average oil prices ranged between USD42-99/bbl, TOA's gross margin stood at 30-38%.

Ex 5: TOA's Market Share In 2016



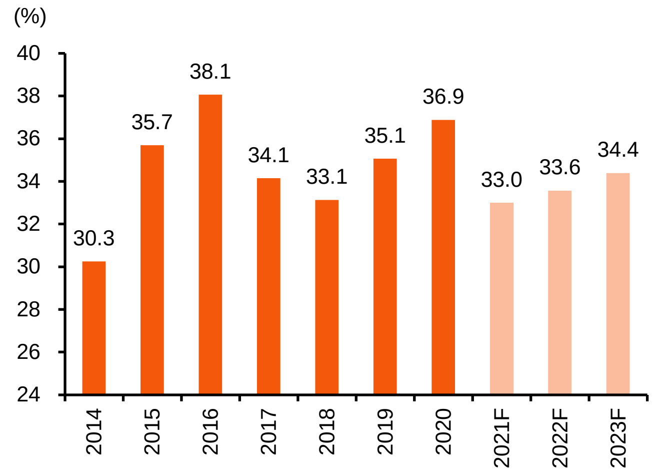
Source: Company data

Ex 6: Titanium Dioxide And Brent Oil Prices



Source: Bloomberg

Ex 7: TOA's Gross Margin

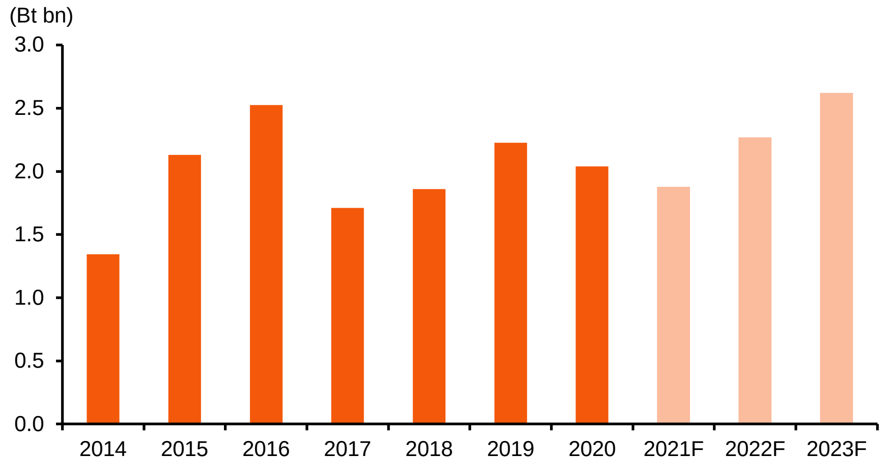


Sources: Company data, Thanachart estimates

…4) its earnings recovery from 4Q21F onward

Finally, TOA has already seen its sales recover in 4Q21. Given the lockdowns in Thailand (86% of total sales) and in Vietnam (7% of total sales), we expect TOA's 3Q21F earnings to check in at Bt298m, down 42% y-y and 45% q-q. However, given the recovery in TOA's Thailand sales since the easing of the COVID-19 restrictions in September and the rebound in its Vietnam sales since October, we project TOA's 4Q21F earnings at Bt Bt420m, up 41% q-q but still down 15% y-y.

Ex 8: TOA's Normalized Earnings



Sources: Company data, Thanachart estimates

Ex 9: 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	3,322	3,796	4,233	4,704	5,213	5,761	6,353	6,989	7,696	8,457	8,944	—
Free cash flow	2,079	2,490	2,842	3,215	3,617	4,050	4,516	5,017	5,578	6,182	6,590	98,775
PV of free cash flow	2,073	2,143	2,267	2,336	2,426	2,508	2,582	2,648	2,719	2,658	2,603	39,022

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.7
WACC (%)	7.8
Terminal growth (%)	2.0
Enterprise value - add investments	71,186
Net debt (2021F)	(7,515)
Minority interest	(15)
Equity value	78,716
# of shares	2,029
Target price/share (Bt)	**39.0**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 10: Peer Comparison

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 (%)
Ferro Corp	FOE US	US	62.4	10.7	16.3	14.7	3.3	2.7	9.1	8.6	na	na
OMNOVA Solutions	OMN US	US	81.8	16.7	na	na	na	na	na	na	na	na
RPM International	RPM US	US	(9.4)	18.7	23.8	20.1	6.1	5.4	15.9	13.7	1.8	1.9
Axalta Coating Systems	AXTA US	US	33.5	21.7	18.2	15.0	4.8	4.1	12.0	10.6	0.0	0.0
Sherwin-Williams	SHW US	US	3.7	19.8	37.6	31.3	31.0	26.9	26.8	22.9	0.7	0.8
Chugoku Marine Paints	4617 JP	Japan	(22.0)	5.5	18.5	17.5	0.8	0.7	10.1	10.1	4.2	4.2
Kansai Paint	4613 JP	Japan	17.4	24.2	28.7	23.1	2.3	2.1	14.0	12.2	1.2	1.3
Kansai Nerolac Paints	KNPL IN	India	5.0	34.3	58.1	43.3	7.4	6.7	35.4	27.2	0.7	0.9
Asian Paints	APNT IN	India	(0.1)	36.2	95.9	70.4	21.4	18.9	63.2	47.7	0.6	0.8
Berger Paints India	BRGR IN	India	25.4	24.5	81.3	65.3	18.8	16.1	51.4	420	0.5	0.6
Akzo Nobel NV	AKZA NA	Netherlands	8.0	26.1	24.2	19.2	3.6	3.5	14.6	12.4	2.0	2.2
TOA Paint (Thailand)	TOA TB	Thailand	(7.9)	20.7	34.6	28.7	5.3	4.8	20.2	16.8	1.4	1.7
Average			**16.5**	**21.6**	**39.7**	**31.7**	**9.5**	**8.4**	**24.8**	**54.7**	**1.3**	**1.4**

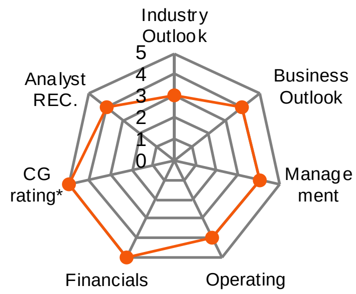
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 8-Nov-21 closing prices

COMPANY DESCRIPTION

Established in 1964 by the Tangkaravakoon family, TOA Paint (Thailand) Pcl is the leading paints and coatings manufacturer in Thailand. It dominates the paints and coatings market with the highest shares of the retail decorative paints and coating segments. It also has the second-highest market share of the non-decorative (e.g. wood coating, water proofing and protective coating) segments. It has expanded the business into many ASEAN Economic Community (AEC) countries with production plants in Vietnam, Malaysia, Laos, Myanmar and Cambodia.

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

- Solid brand perception and awareness.
- Strong R&D to offer product quality, variety and innovation.
- Nationwide distribution with distinctive solution services.
- Robust financial status.

W — Weakness

- High dependence on the decorative segment where competition is fierce.
- Heavily dependent on retail dealers' sales as they also sell competitors' products.

O — Opportunity

- Growing markets in AEC countries.
- Product diversification, especially in the non-decorative segment.
- Business diversification.

T — Threat

- Competitors can quickly catch up with product innovations.
- Fluctuations in raw material prices.
- Laws and regulations both domestically and abroad.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	40.40	39.00	-3%
Net profit 21F (Bt m)	2,125	1,877	-12%
Net profit 22F (Bt m)	2,314	2,266	-2%
Consensus REC	**BUY: 8**	**HOLD: 0**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2021-22F are 2-12% below the Bloomberg consensus numbers, likely due to us being more conservative on its sales recovery and gross margin.
- Our TP is also lower than the Street's following our lower earnings projection.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A slow economic and consumption recovery in Thailand could lead to downside risk to our domestic sales volume growth assumptions.
- A delay in the operation of new plants could also represent a downside risk to our sales volume growth assumptions from abroad.
- If the company can't increase its average selling prices to offset rising costs, this would hit our gross margin assumptions and therefore our net profit forecasts.
- Raw material costs account for 60-65% of TOA's total costs. Therefore, fluctuations in prices present a major risk to our earnings forecasts.

Source: Thanachart

We expect TOA's earnings to turn around strongly next year…

…driven by a recovery in its sales and sustained high gross margin

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	16,978	16,296	17,114	18,638	19,908
Cost of sales	11,026	10,287	11,468	12,381	13,062
Gross profit	**5,952**	**6,009**	**5,646**	**6,257**	**6,847**
% gross margin	35.1%	36.9%	33.0%	33.6%	34.4%
Selling & administration expenses	3,362	3,510	3,423	3,541	3,683
Operating profit	**2,590**	**2,499**	**2,223**	**2,715**	**3,164**
% operating margin	15.3%	15.3%	13.0%	14.6%	15.9%
Depreciation & amortization	369	557	617	645	671
EBITDA	**2,959**	**3,057**	**2,840**	**3,360**	**3,835**
% EBITDA margin	17.4%	18.8%	16.6%	18.0%	19.3%
Non-operating income	114	142	142	142	142
Non-operating expenses	0	0	0	0	0
Interest expense	(19)	(39)	(27)	(34)	(40)
Pre-tax profit	**2,686**	**2,603**	**2,338**	**2,823**	**3,266**
Income tax	570	571	468	565	653
After-tax profit	**2,116**	**2,032**	**1,871**	**2,258**	**2,613**
% net margin	12.5%	12.5%	10.9%	12.1%	13.1%
Shares in affiliates' Earnings	90	0	0	0	0
Minority interests	21	6	7	7	8
Extraordinary items	(65)	(7)	0	0	0
NET PROFIT	**2,162**	**2,031**	**1,877**	**2,266**	**2,621**
Normalized profit	**2,227**	**2,038**	**1,877**	**2,266**	**2,621**
EPS (Bt)	1.1	1.0	0.9	1.1	1.3
Normalized EPS (Bt)	1.1	1.0	0.9	1.1	1.3

TOA's balance sheet is strong and it is in a net cash position

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	12,334	11,987	13,451	14,945	16,586
Cash & cash equivalent	6,853	6,644	7,700	8,705	9,955
Account receivables	3,037	2,913	3,059	3,331	3,558
Inventories	2,212	2,163	2,411	2,603	2,746
Others	232	267	281	306	326
Investments & loans	6	6	6	6	6
Net fixed assets	2,757	2,691	2,612	2,505	2,373
Other assets	610	1,803	1,798	1,816	1,825
Total assets	**15,707**	**16,486**	**17,866**	**19,272**	**20,789**
LIABILITIES:					
Current liabilities:	4,674	3,690	3,990	4,261	4,473
Account payables	3,752	2,975	3,317	3,581	3,778
Bank overdraft & ST loans	575	200	185	154	150
Current LT debt	0	0	0	0	0
Others current liabilities	347	515	488	526	545
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	419	1,391	1,539	1,548	1,551
Total liabilities	**5,093**	**5,081**	**5,529**	**5,809**	**6,024**
Minority interest	(75)	(9)	(15)	(23)	(31)
Preferreds shares	0	0	0	0	0
Paid-up capital	2,029	2,029	2,029	2,029	2,029
Share premium	5,762	5,762	5,762	5,762	5,762
Warrants	0	0	0	0	0
Surplus	(749)	(891)	(891)	(891)	(891)
Retained earnings	**3,647**	**4,514**	**5,453**	**6,586**	**7,896**
Shareholders' equity	10,689	11,414	12,353	13,486	14,796
Liabilities & equity	**15,707**	**16,486**	**17,866**	**19,272**	**20,789**

Sources: Company data, Thanachart estimates

TOA generates sizeable and stable cash flows

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	2,686	2,603	2,338	2,823	3,266
Tax paid	(489)	(585)	(453)	(540)	(632)
Depreciation & amortization	369	557	617	645	671
Chg In w orking capital	(20)	(603)	(53)	(200)	(173)
Chg In other CA & CL / minorities	58	242	(55)	(12)	(23)
Cash flow from operations	**2,604**	**2,214**	**2,394**	**2,716**	**3,109**
Capex	(830)	(492)	(500)	(500)	(500)
Right of use	0	(1,258)	(5)	(5)	(5)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	97	980	121	(42)	(40)
Cash flow from investments	**(733)**	**(770)**	**(384)**	**(547)**	**(545)**
Debt financing	(475)	(347)	(15)	(31)	(4)
Capital increase	0	0	0	0	0
Dividends paid	(832)	0	(939)	(1,133)	(1,310)
Warrants & other surplus	(61)	(1,306)	0	0	0
Cash flow from financing	**(1,368)**	**(1,653)**	**(953)**	**(1,164)**	**(1,314)**
Free cash flow	**1,774**	**1,722**	**1,894**	**2,216**	**2,609**

We see TOA's valuation as attractive at PEs of 25-29x over 2022-23F…

…vs. its four-year average PE of 36x

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	29.2	31.9	34.6	28.7	24.8
Normalized PE - at target price (x)	35.5	38.8	42.2	34.9	30.2
PE (x)	30.0	32.0	34.6	28.7	24.8
PE - at target price (x)	36.6	39.0	42.2	34.9	30.2
EV/EBITDA (x)	19.8	19.1	20.2	16.8	14.4
EV/EBITDA - at target price (x)	24.6	23.8	25.2	21.0	18.1
P/BV (x)	6.1	5.7	5.3	4.8	4.4
P/BV - at target price (x)	7.4	6.9	6.4	5.9	5.3
P/CFO (x)	24.9	29.3	27.1	23.9	20.9
Price/sales (x)	3.8	4.0	3.8	3.5	3.3
Dividend yield (%)	1.6	0.0	1.4	1.7	2.0
FCF Yield (%)	2.7	2.7	2.9	3.4	4.0
(Bt)					
Normalized EPS	1.1	1.0	0.9	1.1	1.3
EPS	1.1	1.0	0.9	1.1	1.3
DPS	0.5	0.0	0.5	0.6	0.6
BV/share	5.3	5.6	6.1	6.6	7.3
CFO/share	1.3	1.1	1.2	1.3	1.5
FCF/share	0.9	0.8	0.9	1.1	1.3

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	4.4	(4.0)	5.0	8.9	6.8
Net profit (%)	18.5	(6.1)	(7.6)	20.7	15.7
EPS (%)	18.5	(6.1)	(7.6)	20.7	15.7
Normalized profit (%)	19.7	(8.5)	(7.9)	20.7	15.7
Normalized EPS (%)	19.7	(8.5)	(7.9)	20.7	15.7
Dividend payout ratio (%)	46.9	0.0	50.0	50.0	50.0
Operating performance					
Gross margin (%)	35.1	36.9	33.0	33.6	34.4
Operating margin (%)	15.3	15.3	13.0	14.6	15.9
EBITDA margin (%)	17.4	18.8	16.6	18.0	19.3
Net margin (%)	12.5	12.5	10.9	12.1	13.1
D/E (incl. minor) (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)
Interest coverage - EBIT (x)	139.6	64.5	82.1	78.8	79.4
Interest coverage - EBITDA (x)	159.5	78.9	104.9	97.5	96.3
ROA - using norm profit (%)	14.5	12.7	10.9	12.2	13.1
ROE - using norm profit (%)	22.2	18.4	15.8	17.5	18.5
DuPont					
ROE - using after tax profit (%)	21.0	18.4	15.7	17.5	18.5
- asset turnover (x)	1.1	1.0	1.0	1.0	1.0
- operating margin (%)	15.9	16.2	13.8	15.3	16.6
- leverage (x)	1.5	1.5	1.4	1.4	1.4
- interest burden (%)	99.3	98.5	98.9	98.8	98.8
- tax burden (%)	78.8	78.1	80.0	80.0	80.0
WACC (%)	7.8	7.8	7.8	7.8	7.8
ROIC (%)	50.3	44.2	35.8	44.9	51.3
NOPAT (Bt m)	2,041	1,951	1,778	2,172	2,531
invested capital (Bt m)	4,411	4,970	4,838	4,935	4,991

Sources: Company data, Thanachart estimates

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