BUY (Unchanged)
Change in Numbers

TP: Bt 270.00 (From: Bt 260.00)
Upside : 45.9%

14 FEBRUARY 2022

Thai Stanley Electric (STANLY TB)

Deep value with growth

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STANLY's business turnaround is stronger than we'd expected and we boost our earnings by 10/5/4% in FY22-24F. At 33/16% earnings growth in FY23-24F, we see STANLY as a deep-value stock with growth, trading at 0.7x FY22F P/BV with 29% of its book as cash.

Thanachart Securities

Reaffirming BUY

We reaffirm our BUY rating on STANLY with a rolled-over to FY23F (FY ending March 2023) DCF-based 12-month TP of Bt270/share (from Bt260 previously). ***First***, we raise our earnings estimates by 10/5/4% in FY22-24F on a stronger turnaround of auto lamps and additional revenue from the replacement market. ***Second,*** we project STANLY's earnings to return to the pre-COVID level in FY23F and we estimate earnings growth of 33/16% in FY23-24F. ***Third,*** despite the earnings recovery, the stock still trades near its crisis valuation level of 0.7x FY23F P/BV with Bt5.7bn of net cash (29% of its book).

A deep-value stock

STANLY is trading at the bottom of its historical range. Its 2022F P/BV ratio of 0.7x is below the 2009 global financial crisis average level of 0.9x and 1.2x during Thailand's 2011 mega flood. During those periods, around 30-40% of its earnings were knocked off. STANLY also looks cheap to us trading on a PE multiple of 7x in FY23F (ending March 2023). That is near its 2011 trough PE and below its 20-year historical PE of 10x.

Earnings turnaround

STANLY's earnings turned around sharply by 48% q-q, though still fell 7% y-y in 3QFY22 (October-December 2021), as the chip shortage eased. We expect 4QFY22F (January-March 2022) earnings to continue to grow by 15% q-q, though still drop 19% y-y from the high base. In FY23-24F (ending March 2023-24), we expect earnings growth of 33/16% to be driven by both sales growth of 17/12% and rising gross margin. Sales growth is supported by 1) industry production growth of 6/13% in 2022-23F for autos and 4/4% for motorcycles, and 2) additional income from the replacement market at 13/12% of total revenue in FY23-24F, up from 8% in FY22F. With this additional income, we expect FY23F earnings to return to the pre-COVID level.

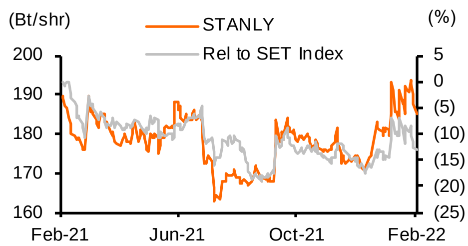
No change to its capex plan

STANLY remains in a long-term plant-modernization period of adding new technology for its lamp production. There is no change to its capex plan that has been investors' key concern. The latest Lamp 8 factory has opened in phases since November 2020 and is due to be fully operational by 2022 with Bt1bn more to be spent on it this year. It is running at 60% utilization of Lamp 8's total capacity and making a profit. Lamp 8 was built to replace some old capacity at old plants which STANLY switched to manufacture for the replacement market. With the additional Bt1bn of capex, we expect Lamp 8 to add 10-15% to the firm's capacity. STANLY also has a plan to upgrade one of its old factories but there is no concrete timeline. In our DCF-based TP, we factor in capex for five new plants over the next 10 years.

COMPANY VALUATION

Y/E Mar (Bt m)	2021A	2022F	2023F	2024F
Sales	11,728	13,505	15,777	17,625
Net profit	1,061	1,484	1,974	2,297
Consensus NP	—	1,545	1,737	1,976
Diff frm cons (%)	—	*(4.0)*	*13.7*	*16.2*
Norm profit	1,037	1,484	1,974	2,297
Prev. Norm profit	—	1,344	1,888	2,213
Chg frm prev (%)	—	*10.4*	*4.6*	*3.8*
Norm EPS (Bt)	13.5	19.4	25.8	30.0
Norm EPS grw (%)	(47.6)	43.0	33.1	16.4
Norm PE (x)	13.7	9.6	7.2	6.2
EV/EBITDA (x)	3.8	2.7	2.2	1.6
P/BV (x)	0.8	0.7	0.7	0.6
Div yield (%)	3.0	3.4	4.5	5.2
ROE (%)	5.8	7.7	9.6	10.5
Net D/E (%)	(26.3)	(29.7)	(29.2)	(34.2)

PRICE PERFORMANCE

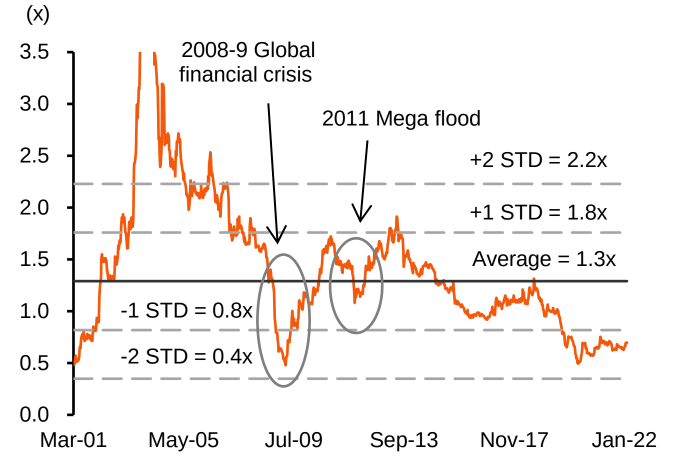


COMPANY INFORMATION

Price *as of* 14-Feb-22 (Bt)	185.00
Market Cap (US$ m)	435.6
Listed Shares (m shares)	76.6
Free Float (%)	34.3
Avg Daily Turnover (US$ m)	0.3
12M Price H/L (Bt)	193.50/163.00
Sector	Automotive
Major Shareholder	Stanley Electric Holding 29.95%

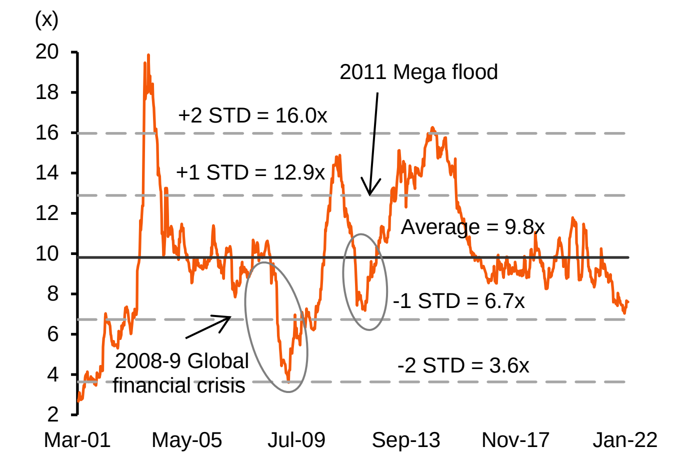
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: STANLY Looks Cheap On P/BV Ratio



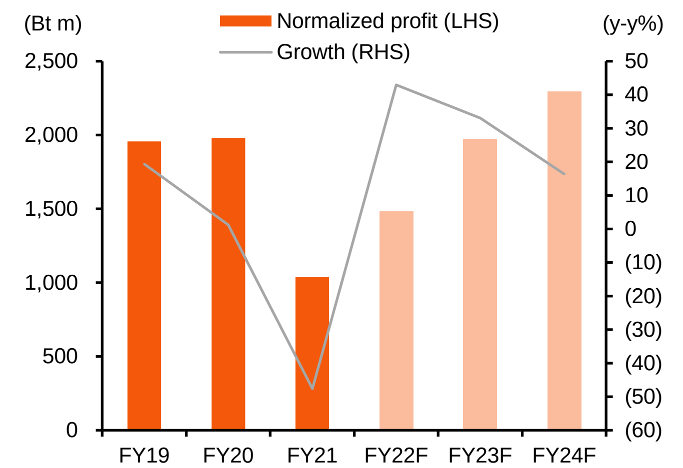
Sources: Bloomberg, Thanachart estimates

Ex 2: PE Ratio Also Trades At Bottom Range



Sources: Bloomberg, Thanachart estimates

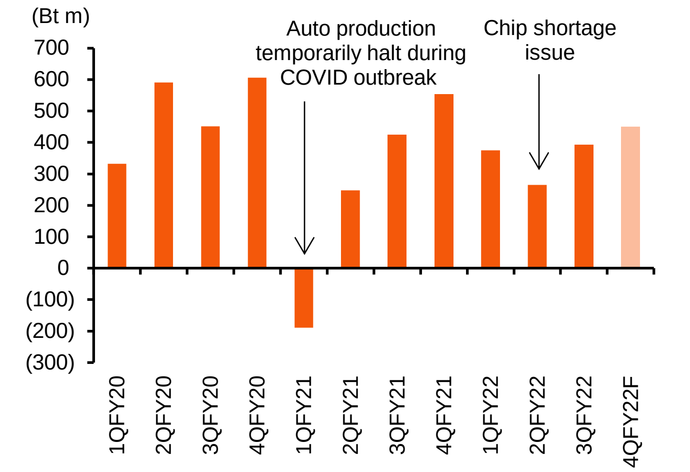
Ex 3: We Project 33/16% Earnings Growth In FY23-24F



Sources: Company data, Thanachart estimates

Note: Fiscal year ending March

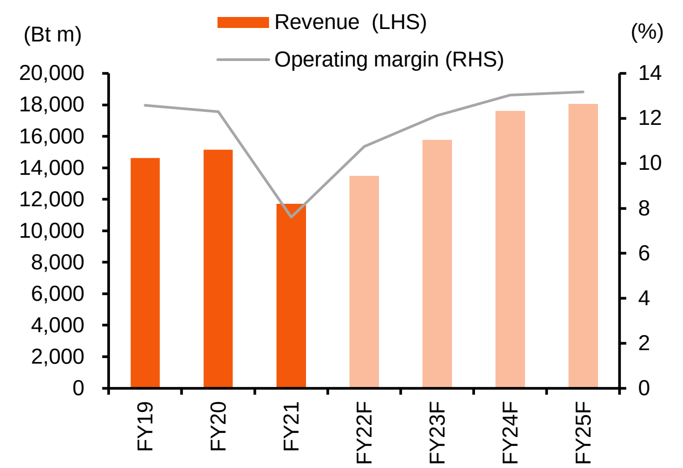
Ex 4: Quarterly Earnings Has Turned Around



Sources: Company data, Thanachart estimates

Note: Fiscal year ending March

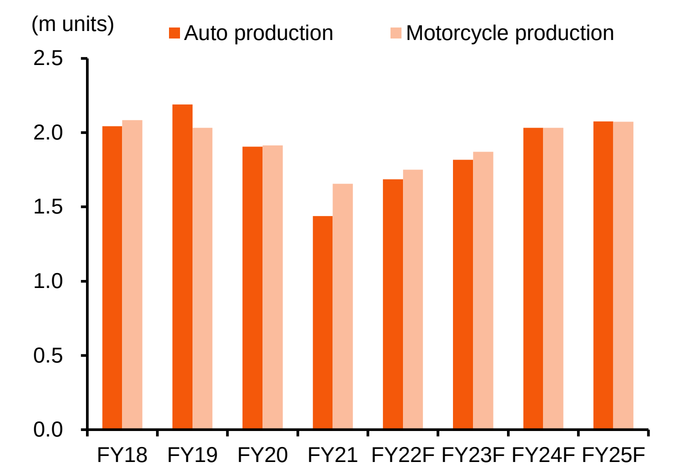
Ex 5: Revenue And Margin Forecasts



Sources: Company data, Thanachart estimates

Note: Fiscal year ending March

Ex 6: Industry Production Forecasts



Sources: Federation Of Thai Industries, Thanachart estimates

Note: Fiscal year ending March

Ex 7: Key Assumption Revisions

	FY20	FY21	FY22F	FY23F	FY24F
Car production ('000 unit)					
New	1,906	1,439	1,686	1,818	2,033
Old			1,537	1,791	2,031
Change (%)			*9.7*	*1.5*	*0.1*
Revenue (Bt m)					
New	15,150	11,728	13,505	15,777	17,625
Old			12,914	14,845	16,672
Change (%)			*4.6*	*6.3*	*5.7*
Gross margin (%)					
New	18.6	15.1	18.5	19.4	20.1
Old			16.3	18.1	18.9
Change (pp)			*2.2*	*1.3*	*1.2*
SG&A/sales (%)					
New	6.3	7.5	7.7	7.3	7.1
Old			6.5	6.2	6.0
Change (pp)			*1.2*	*1.1*	*1.1*
Normalized profit (Bt m)					
New	1,981	1,037	1,484	1,974	2,297
Old			1,344	1,888	2,213
Change (%)			*10.4*	*4.6*	*3.8*

Sources: Company data, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation, Using A Base Year Of FY23F

(Bt m)		FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal Value
EBITDA		3,053	3,618	4,056	4,142	4,222	4,194	4,379	4,562	4,753	4,952	5,157	5,365	—
Free cash flow		1,487	1,098	2,524	2,773	1,914	1,694	1,523	1,441	1,367	1,301	1,243	1,189	12,762
PV of free cash flow		0	1,095	2,067	2,055	1,284	1,005	814	694	593	509	437	359	3,852
Risk-free rate (%)	2.5													
Market risk premium (%)	8.0													
Beta	1.0													
WACC (%)	10.5													
Terminal growth (%)	2.0													
Enterprise value - add investments*	14,764													
Net debt (FY22F)	(5,871)													
Minority interest	0													
Equity value	20,634													
# of shares (m)	77													
Equity value/share (Bt)	**270**													

Sources: Company data, Thanachart estimates
Note:* Short-term investments, included in net debt as a part of cash on hand, are in liquid financial assets.

Valuation Comparison

Ex 9: 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	37.2	7.1	6.0	5.6	1.9	1.6	na	na	7.2	7.5
Fuyao Glass Industry Group	600660 CH	China	38.0	29.1	32.1	24.9	4.7	4.3	17.1	14.5	1.9	2.3
Weifu High-Technology	000581 CH	China	(3.8)	(2.6)	8.2	8.4	1.1	1.1	5.1	8.1	6.1	5.9
Bharat Forge	BHFC IN	India	na	34.9	33.1	24.6	5.2	4.4	18.9	15.1	0.7	0.9
Motherson Sumi Systems	MSS IN	India	82.3	89.7	38.6	20.3	4.4	3.9	12.1	8.2	1.1	1.6
Sundram Fasteners	SF IN	India	40.4	35.5	34.9	25.8	6.4	5.3	21.4	16.6	0.6	0.8
UMW Holdings	UMWH MK	Malaysia	(13.2)	65.6	19.9	12.0	0.9	0.8	8.9	8.0	1.5	2.1
Hyundai Mobis	012330 KS	S. Korea	21.7	11.4	7.4	6.6	0.6	0.5	4.0	3.6	2.2	2.4
Hu Lane Associate Inc	6279 TT	Taiwan	43.4	19.3	15.9	13.3	2.6	2.4	10.6	8.8	3.8	4.9
Tong Yang Industry	1319 TT	Taiwan	26.1	32.4	18.6	14.1	0.9	0.8	6.5	5.5	3.3	4.0
AAPICO Hitech	AH TB	Thailand	na	26.2	9.0	7.1	1.0	0.9	8.6	7.7	4.3	5.0
Somboon Advance Tech*	SAT TB	Thailand	160.6	16.9	9.2	7.9	1.2	1.1	4.1	3.2	6.1	7.6
Thai Stanley Electric *,**	STANLY TB	Thailand	43.0	33.1	9.6	7.2	0.7	0.7	2.7	2.2	3.4	4.5
Average			**43.2**	**30.7**	**18.7**	**13.7**	**2.4**	**2.1**	**10.0**	**8.5**	**3.2**	**3.8**

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth
** STANLY's fiscal year ends in March.

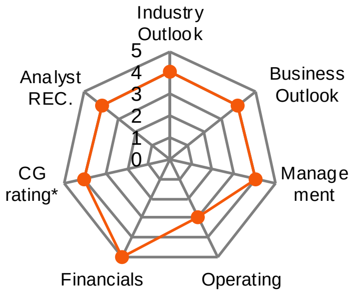
Based on 14-Feb-2022 closing prices

COMPANY DESCRIPTION

Thai Stanley Electric (STANLY) is a manufacturer of lighting equipment for vehicles, including auto bulbs, lamps and molds with integrated manufacturing using designs by its research & development center, advanced production equipment and high-performance technology. Products are made in accordance with the standards of clients which are manufacturers of automobiles and motorcycles both for the domestic and export markets.

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

- Commands the largest share of Thailand's automotive lighting equipment market.
- Strong relationships with leading Japanese carmakers.
- Shared technologies and regional footprints among Stanley Group.

W — Weakness

- Limited opportunities for current customers to expand.

O — Opportunity

- More production plants from carmakers moving to Thailand.
- Growth of subsidiaries' businesses in the region.
- Direct product exports to regional car production plants.

T — Threat

- Competition from new regional car production sites.
- Fast-changing car lamp technologies require high capex spending

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	229.00	270.00	18%
Net profit FY22F (Bt m)	1,545	1,484	-4%
Net profit FY23F (Bt m)	1,737	1,974	14%
Consensus REC	**BUY: 5**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our FY22F earnings are in line with the Bloomberg consensus but we are higher in FY23F, likely because we assume additional revenue from the replacement market
- Our DCF-based TP is thus higher than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If the recovery of auto and motorcycle sales comes in slower than we currently anticipate, we see downside risk to our earnings projections.
- Government policy and natural disasters could lead to industry distortions, representing a secondary downside risk to our earnings projections.
- If the defect rate of STANLY's new orders were to be higher than our expectation, this would represent another downside risk to our gross margin assumptions.

Source: Thanachart

We expect FY23F earnings to return to pre-COVID level

Balance sheet remains strong despite high capex for its new factory

INCOME STATEMENT

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	15,150	11,728	13,505	15,777	17,625
Cost of sales	12,339	9,952	11,010	12,713	14,076
Gross profit	**2,811**	**1,776**	**2,495**	**3,064**	**3,548**
% gross margin	18.6%	15.1%	18.5%	19.4%	20.1%
Selling & administration expenses	948	883	1,044	1,151	1,251
Operating profit	**1,863**	**892**	**1,451**	**1,913**	**2,298**
% operating margin	12.3%	7.6%	10.7%	12.1%	13.0%
Depreciation & amortization	1,445	1,556	1,602	1,704	1,758
EBITDA	**3,309**	**2,448**	**3,053**	**3,618**	**4,056**
% EBITDA margin	21.8%	20.9%	22.6%	22.9%	23.0%
Non-operating income	247	138	119	202	225
Non-operating expenses	0	0	0	0	0
Interest expense	0	0	0	0	0
Pre-tax profit	**2,110**	**1,030**	**1,570**	**2,115**	**2,523**
Income tax	448	235	339	457	545
After-tax profit	**1,662**	**795**	**1,231**	**1,658**	**1,978**
% net margin	11.0%	6.8%	9.1%	10.5%	11.2%
Shares in affiliates' Earnings	319	242	253	316	319
Minority interests	0	0	0	0	0
Extraordinary items	17	24	0	0	0
NET PROFIT	**1,997**	**1,061**	**1,484**	**1,974**	**2,297**
Normalized profit	**1,981**	**1,037**	**1,484**	**1,974**	**2,297**
EPS (Bt)	26.1	13.9	19.4	25.8	30.0
Normalized EPS (Bt)	25.9	13.5	19.4	25.8	30.0

BALANCE SHEET

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	7,990	8,000	9,043	9,863	11,895
Cash & cash equivalent	4,343	4,921	5,872	6,177	7,791
Account receivables	2,633	2,550	2,331	2,723	3,042
Inventories	942	477	784	906	1,003
Others	71	52	56	58	59
Investments & loans	1,746	1,733	1,733	1,733	1,733
Net fixed assets	9,517	9,403	9,389	9,988	9,547
Other assets	1,116	2,406	2,577	3,010	3,363
Total assets	**20,370**	**21,543**	**22,742**	**24,595**	**26,539**
LIABILITIES:					
Current liabilities:	2,470	1,967	2,059	2,400	2,656
Account payables	1,880	1,467	1,508	1,742	1,928
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	0	0	0	0	0
Others current liabilities	590	500	551	658	727
Total LT debt	**0**	**0**	**1**	**0**	**0**
Others LT liabilities	578	857	929	1,020	1,095
Total liabilities	**3,048**	**2,825**	**2,989**	**3,421**	**3,751**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	383	383	383	383	383
Share premium	504	504	504	504	504
Warrants	0	0	0	0	0
Surplus	(200)	767	767	767	767
Retained earnings	**16,634**	**17,063**	**18,099**	**19,520**	**21,133**
Shareholders' equity	17,322	18,718	19,753	21,174	22,788
Liabilities & equity	**20,370**	**21,543**	**22,742**	**24,595**	**26,539**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	2,110	1,030	1,570	2,115	2,523
Tax paid	(448)	(235)	(339)	(457)	(545)
Depreciation & amortization	1,445	1,556	1,602	1,704	1,758
Chg In working capital	(372)	136	(47)	(280)	(229)
Chg In other CA & CL / minorities	357	184	300	422	387
Cash flow from operations	**3,093**	**2,671**	**3,085**	**3,504**	**3,893**
Capex	(3,014)	(1,159)	(1,300)	(2,000)	(1,000)
Right of use	0	0	(0)	(0)	(0)
ST loans & investments	10	(13)	0	0	0
LT loans & investments	(254)	13	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(163)	(1,293)	(387)	(645)	(596)
Cash flow from investments	**(3,421)**	**(2,452)**	**(1,687)**	**(2,645)**	**(1,596)**
Debt financing	17	24	1	(1)	(0)
Capital increase	0	0	(0)	0	0
Dividends paid	(632)	(632)	(448)	(553)	(683)
Warrants & other surplus	(11)	967	0	0	0
Cash flow from financing	**(626)**	**359**	**(447)**	**(554)**	**(684)**
Free cash flow	**79**	**1,512**	**1,785**	**1,504**	**2,893**

VALUATION

FY22F P/BV is near crisis valuation level

FY ending Mar	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	7.2	13.7	9.6	7.2	6.2
Normalized PE - at target price (x)	10.4	19.9	13.9	10.5	9.0
PE (x)	7.1	13.4	9.6	7.2	6.2
PE - at target price (x)	10.4	19.5	13.9	10.5	9.0
EV/EBITDA (x)	3.0	3.8	2.7	2.2	1.6
EV/EBITDA - at target price (x)	4.9	6.4	4.9	4.0	3.2
P/BV (x)	0.8	0.8	0.7	0.7	0.6
P/BV - at target price (x)	1.2	1.1	1.0	1.0	0.9
P/CFO (x)	4.6	5.3	4.6	4.0	3.6
Price/sales (x)	0.9	1.2	1.0	0.9	0.8
Dividend yield (%)	4.5	3.0	3.4	4.5	5.2
FCF Yield (%)	0.6	10.7	12.6	10.6	20.4
(Bt)					
Normalized EPS	25.9	13.5	19.4	25.8	30.0
EPS	26.1	13.9	19.4	25.8	30.0
DPS	8.3	5.5	6.2	8.2	9.6
BV/share	226.1	244.4	257.9	276.4	297.5
CFO/share	40.4	34.9	40.3	45.7	50.8
FCF/share	1.0	19.7	23.3	19.6	37.8

Sources: Company data, Thanachart estimates

Low dividend payout due to continued capex and need to maintain high cash base

FINANCIAL RATIOS

FY ending Mar	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	3.5	(22.6)	15.2	16.8	11.7
Net profit (%)	1.0	(46.9)	39.8	33.1	16.4
EPS (%)	1.0	(46.9)	39.8	33.1	16.4
Normalized profit (%)	1.2	(47.6)	43.0	33.1	16.4
Normalized EPS (%)	1.2	(47.6)	43.0	33.1	16.4
Dividend payout ratio (%)	31.6	39.7	32.0	32.0	32.0
Operating performance					
Gross margin (%)	18.6	15.1	18.5	19.4	20.1
Operating margin (%)	12.3	7.6	10.7	12.1	13.0
EBITDA margin (%)	21.8	20.9	22.6	22.9	23.0
Net margin (%)	11.0	6.8	9.1	10.5	11.2
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)	(0.3)	(0.3)
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	10.0	4.9	6.7	8.3	9.0
ROE - using norm profit (%)	11.9	5.8	7.7	9.6	10.5
DuPont					
ROE - using after tax profit (%)	10.0	4.4	6.4	8.1	9.0
- asset turnover (x)	0.8	0.6	0.6	0.7	0.7
- operating margin (%)	13.9	8.8	11.6	13.4	14.3
- leverage (x)	1.2	1.2	1.2	1.2	1.2
- interest burden (%)	100.0	100.0	100.0	100.0	100.0
- tax burden (%)	78.8	77.2	78.4	78.4	78.4
WACC (%)	10.5	10.5	10.5	10.5	10.5
ROIC (%)	13.8	5.3	8.2	10.8	12.0
NOPAT (Bt m)	1,467.4	688.9	1,137.6	1,500.0	1,801.4
invested capital (Bt m)	12,978.4	13,796.5	13,882.3	14,997.5	14,997.0

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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