

BUY (Unchanged)

TP: Bt 27.00

(From: Bt 29.00)

Change in Numbers

Upside : 33.0%

15 MARCH 2022

# Somboon Advance Tech. (SAT TB)

## Value with high yield

We cut our 2022F earnings for SAT by 8% mainly to reflect softer agricultural parts sales. Despite the lag time to pass on rising raw material costs, SAT should still able to deliver earnings growth of 6/29% in 2022-23F. Trading at 8.3x 2022F PE with a 7.2% dividend yield, we reaffirm our BUY call with a lower TP of Bt27.



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### Earnings cuts; 8.3x 2022F PE, 7.2% yield

We cut our earnings for SAT by 7.7/3.9/4.6% on new, lower guidance for agricultural tractor sales and a higher tax rate as tax privileges from the Board of Investment are ending. We reaffirm our BUY call on SAT with a new 2022F DCF-based TP of Bt27 (from Bt29). **First**, despite raw material cost pressure, SAT should still deliver some earnings growth of 6% in 2022F (before 29% in 2023F).

**Secondly**, valuation looks undemanding to us at 8.3x 2022F PE (5.4x ex-cash), falling to 6.4x in 2023F with attractive 7.2/9.3% dividend yields over 2022-23F. **Third**, we like SAT's new product plans, which we leave as potential upside.

### Likely softer agricultural parts sales this year

In the agricultural machinery market, SAT supplies parts to Kubota (25% of revenue), which uses Thailand as a production base for domestic sales and exports to ASEAN, India and the US. SAT expects Kubota's production to drop 8% y-y due to the high base effect and a potential drought impact. We believe this is too aggressive given US restocking inventory demand which was at only 3.5 months in 4Q21 vs. 2019's seven months. We therefore cut our Kubota production assumption to flat (from 20% growth) this year before growing by 15% p.a. in 2023-24F. As for auto production, we maintain our growth projections of 6/13/3% in 2022-24F.

### Earnings growth of 6/29% in 2022-23F

We project 6% EPS growth in 2022F and 29% in 2023F on 1) 8/16% revenue growth; 2) EBITDA margin falling from 17.4% in 2021 to 16.7% in 2022F due to two to three quarters' lag time to pass on higher steel and chemical costs, before rising to 17.7/18.3% in 2023-24F on the positive operating leverage effect; and 3) rising income from associates on an auto parts sales recovery. Our revenue growth forecasts for SAT are stronger at 8/16% vs. the auto industry's blended growth rate (75% of revenue) and Kubota's tractors (25%) at 5/14% in 2022-23F on 1) new product orders (intermediate shafts and case sets). We expect revenue contributions of Bt200/490/490m in 2022-24F (contributing 2/5/5% revenue growth); and 2) agricultural spare parts sales from Kubota.

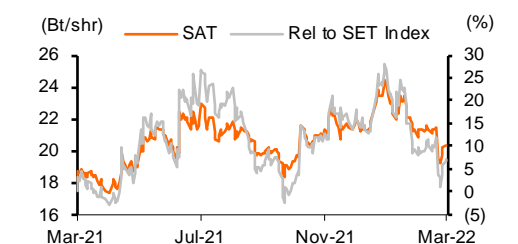
### Potential upside from new products

SAT plans to sell agricultural equipment module sets (a more value-added product vs. its current individual parts), EV buses, as well as robots and automation (automotive industry). We see a bright outlook for all three segments with SAT using its existing expertise. For EV buses, SAT is setting up a 60%-held JV with Tron E, the top Taiwan EV bus maker. Initial capex is only Bt50m since it's just an assembly line within SAT's plants. We leave revenue as potential upside and factor in total capex of Bt500m p.a. in 2022-24F, including the new products, vs. the average of Bt400m in 2017-19.

### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	8,598	9,286	10,767	11,399
Net profit	953	1,042	1,342	1,479
Consensus NP	—	1,051	1,177	1,261
Diff frm cons (%)	—	(0.8)	14.0	17.3
Norm profit	983	1,042	1,342	1,479
Prev. Norm profit	—	1,129	1,396	1,549
Chg frm prev (%)	—	(7.7)	(3.9)	(4.6)
Norm EPS (Bt)	2.3	2.5	3.2	3.5
Norm EPS grw (%)	165.0	6.0	28.8	10.2
Norm PE (x)	8.8	8.3	6.4	5.8
EV/EBITDA (x)	3.8	3.3	2.4	1.8
P/BV (x)	1.1	1.1	1.0	0.9
Div yield (%)	7.4	7.2	9.3	10.3
ROE (%)	13.4	13.3	16.0	16.4
Net D/E (%)	(39.2)	(42.7)	(47.0)	(51.4)

### PRICE PERFORMANCE

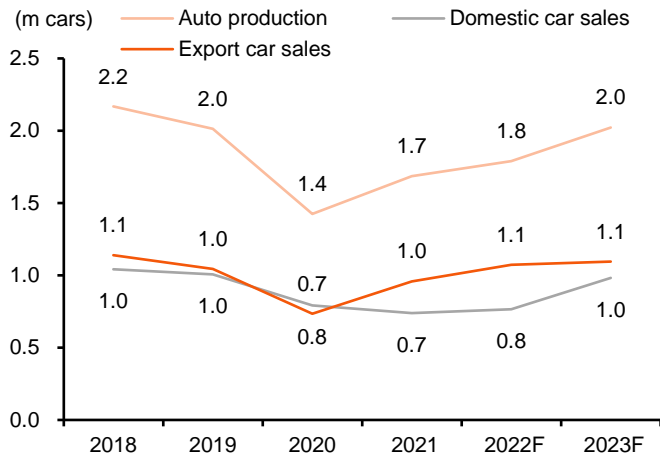


### COMPANY INFORMATION

Price as of 15-Mar-22 (Bt)	20.30
Market Cap (US\$ m)	257.5
Listed Shares (m shares)	425.2
Free Float (%)	64.4
Avg Daily Turnover (US\$ m)	2.0
12M Price H/L (Bt)	24.50/17.40
Sector	AUTO
Major Shareholder	Somboon Holding 29.9%

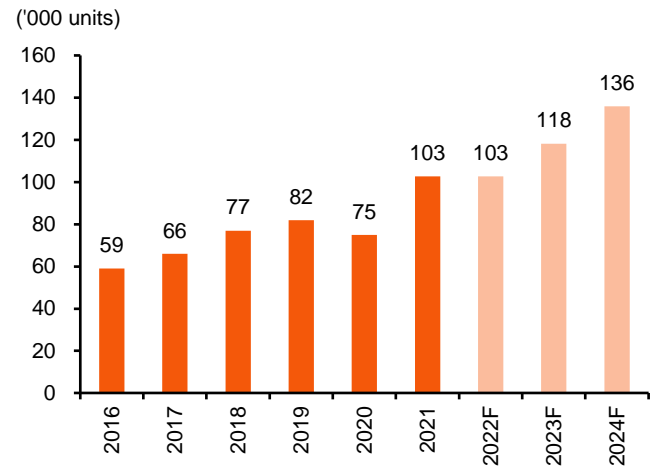
Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: Auto Production**



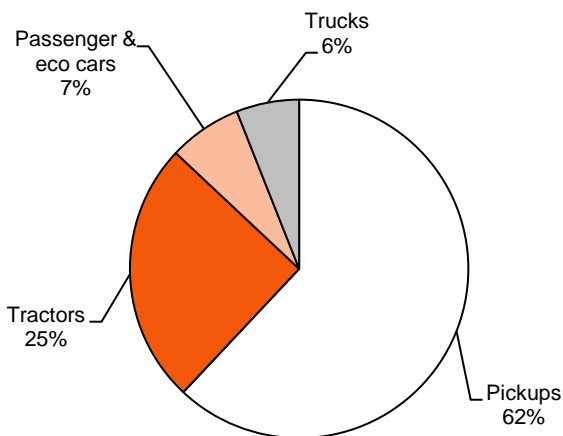
Sources: Thai Automotive Industry Association; Thanachart estimates

**Ex 2: Kubota's Tractor Production**



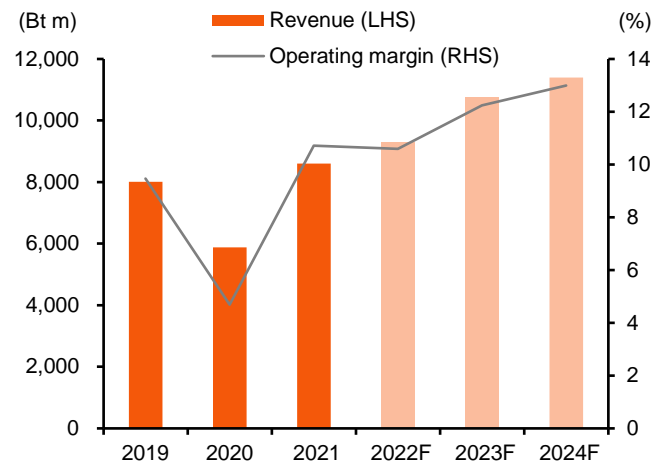
Sources: Company data; Thanachart estimates

**Ex 3: Revenue Breakdown By Vehicle Type In 2021**



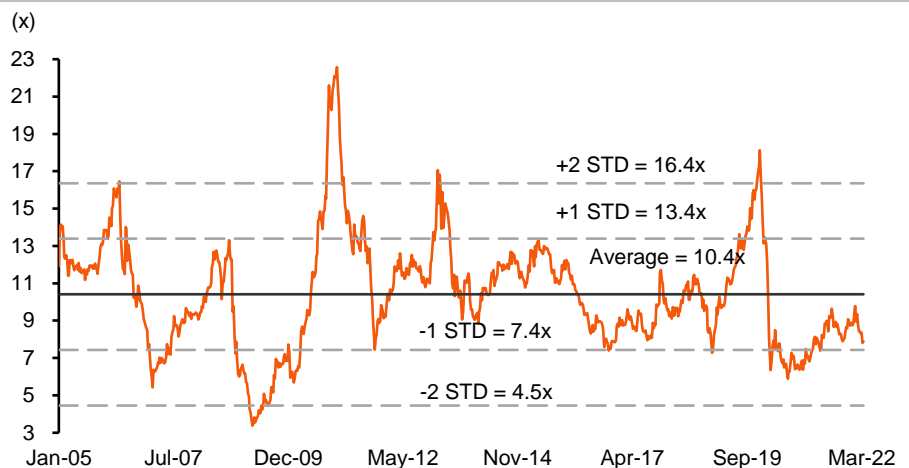
Sources: Company data; Thanachart estimates

**Ex 4: Revenue And Operating Margin Forecasts**



Sources: Company data; Thanachart estimates

**Ex 5: The Stock Now Trades At 1STD Below Its Historical Mean**



Source: Bloomberg; Thanachart estimates

**Ex 6: Key Assumption Change**

	2020	2021	2022F	2023F	2024F
<b>Tractor production (units)</b>					
New	75,000	102,750	102,750	118,163	135,887
Old			121,500	133,650	147,015
Change (%)			(15.4)	(11.6)	(7.6)
<b>Total revenue (Bt m)</b>					
New	5,883	8,598	9,286	10,767	11,399
Old			9,794	11,104	11,621
Change (%)			(5.2)	(3.0)	(1.9)
<b>Tax rate (%)</b>					
New			15.0	16.0	17.0
Old			11.7	12.2	12.7
<b>Normalized earnings (Bt m)</b>					
New	371	983	1,042	1,342	1,479
Old			1,129	1,396	1,549
Change (%)			(7.7)	(3.9)	(4.6)

Sources: Company data, Thanachart estimates

**Ex 7: 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	1,550	1,904	2,084	2,213	2,295	2,368	2,209	2,197	2,275	2,354	2,431	—
Free cash flow	967	1,134	1,394	1,233	1,224	990	898	732	800	804	808	6,861
PV of free cash flow	964	913	1,005	798	710	502	406	296	288	259	232	1,670
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	11.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	8,647											
Net debt (2021)	(2,999)											
Minority interest	0											
Equity value	11,645											
# of shares (m)	425											
<b>Target price/share (Bt)</b>	<b>27.0</b>											

Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 8: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Fangda Special Steel Tech	600507 CH	China	7.1	(7.5)	5.4	5.1	1.4	1.2	na	na	8.4	8.7
Fuyao Glass Industry Group	600660 CH	China	29.3	18.2	18.7	15.9	3.2	2.9	10.5	9.4	3.1	3.7
Weifu High-Technology	000581 CH	China	(2.6)	3.1	7.2	7.0	0.9	0.9	6.7	6.4	6.8	6.3
Bharat Forge	BHFC IN	India	na	31.9	31.2	23.7	4.9	4.2	17.6	14.5	0.7	1.0
Motherson Sumi Systems	MSS IN	India	na	85.8	33.3	17.9	3.6	3.2	13.9	9.6	1.2	1.9
Sundram Fasteners	SF IN	India	40.2	39.1	48.2	na	6.3	5.2	21.0	15.9	0.6	0.8
UMW Holdings	UMWH MK	Malaysia	15.4	10.1	11.6	10.5	0.8	0.7	7.1	7.0	2.1	2.4
Mando Corp	060980 KS	S. Korea	18.3	10.3	3.1	2.8	0.4	0.3	5.2	4.9	5.3	5.3
Hyundai Mobis	012330 KS	S. Korea	21.4	11.4	6.8	6.1	0.5	0.5	3.5	3.1	2.4	2.6
Hu Lane Associate Inc	6279 TT	Taiwan	17.1	17.7	12.2	10.3	2.1	2.0	8.0	6.8	5.5	6.4
Tong Yang Industry	1319 TT	Taiwan	41.9	16.0	13.3	11.4	0.8	0.7	5.1	4.6	4.2	5.0
AAPICO Hitech	AH TB	Thailand	7.7	13.4	7.5	6.7	0.9	0.9	7.4	7.5	4.8	6.1
Somboon Advance Tech*	SAT TB	Thailand	6.0	28.8	8.3	6.4	1.1	1.0	3.3	2.4	7.2	9.3
Thai Stanley Electric **, **	STANLY TB	Thailand	43.0	33.1	9.0	6.8	0.7	0.6	2.5	2.0	3.6	4.7
<b>Average</b>			<b>20.4</b>	<b>22.2</b>	<b>15.4</b>	<b>10.0</b>	<b>2.0</b>	<b>1.7</b>	<b>8.6</b>	<b>7.2</b>	<b>4.0</b>	<b>4.6</b>

Source: Bloomberg, Thanachart estimates

Note: \* Thanachart estimates using normalized EPS growth

\*\* STANLY's fiscal year ends in March

Based on 15 Mar 2022 closing prices

## COMPANY DESCRIPTION

Somboon Advance Technology Pcl (SAT) 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

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

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

### O — Opportunity

- Highly exposed to a turnaround in Thailand's automotive industry.
- Growing smart farming trend.

### W — Weakness

- Car export growth outlook isn't strong in the long-term.
- Still highly focused on Japanese car makers and limited exposure to 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 would be at risk.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	26.78	27.00	1%
<b>Net profit 22F (Bt m)</b>	1,051	1,042	-1%
<b>Net profit 23F (Bt m)</b>	1,177	1,342	14%
<b>Consensus REC</b>	<b>BUY: 9</b>	<b>HOLD: 0</b>	<b>SELL: 1</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2023F net profit is higher than the Bloomberg consensus estimate, likely due to us having a more bullish view on agricultural parts sales.

## 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 a secondary downside risk to our earnings projections.
- Worse-than-expected COVID-19 and chip shortage situations would pose downside risk to our numbers.
- Severe drought could negatively impact demand for tractors.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	5,883	8,598	9,286	10,767	11,399
Cost of sales	5,023	6,943	7,526	8,616	9,057
<b>Gross profit</b>	<b>859</b>	<b>1,655</b>	<b>1,761</b>	<b>2,150</b>	<b>2,342</b>
% gross margin	14.6%	19.2%	19.0%	20.0%	20.5%
Selling & administration expenses	584	734	778	832	861
<b>Operating profit</b>	<b>276</b>	<b>921</b>	<b>983</b>	<b>1,318</b>	<b>1,481</b>
% operating margin	4.7%	10.7%	10.6%	12.2%	13.0%
Depreciation & amortization	620	572	567	586	603
<b>EBITDA</b>	<b>896</b>	<b>1,493</b>	<b>1,550</b>	<b>1,904</b>	<b>2,084</b>
% EBITDA margin	15.2%	17.4%	16.7%	17.7%	18.3%
Non-operating income	144	120	129	140	148
Non-operating expenses	0	0	0	0	0
Interest expense	(8)	(6)	(1)	(0)	(0)
<b>Pre-tax profit</b>	<b>412</b>	<b>1,035</b>	<b>1,112</b>	<b>1,458</b>	<b>1,629</b>
Income tax	40	134	167	233	277
<b>After-tax profit</b>	<b>372</b>	<b>901</b>	<b>945</b>	<b>1,225</b>	<b>1,352</b>
% net margin	6.3%	10.5%	10.2%	11.4%	11.9%
Shares in affiliates' Earnings	3	84	100	120	130
Minority interests	(4)	(3)	(3)	(3)	(3)
Extraordinary items	0	(30)	0	0	0
<b>NET PROFIT</b>	<b>371</b>	<b>953</b>	<b>1,042</b>	<b>1,342</b>	<b>1,479</b>
<b>Normalized profit</b>	<b>371</b>	<b>983</b>	<b>1,042</b>	<b>1,342</b>	<b>1,479</b>
EPS (Bt)	0.9	2.2	2.5	3.2	3.5
Normalized EPS (Bt)	0.9	2.3	2.5	3.2	3.5

We estimate 2022-23F  
EPS growth of 6/29%

## BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<b>ASSETS:</b>					
Current assets:	4,407	5,543	6,161	7,196	8,068
Cash & cash equivalent	2,331	2,999	3,439	4,082	4,788
Account receivables	1,311	1,751	1,883	2,183	2,311
Inventories	565	594	639	732	769
Others	200	200	200	200	200
Investments & loans	894	1,031	1,031	1,031	1,031
Net fixed assets	3,403	3,069	3,002	2,916	2,813
Other assets	252	187	202	234	247
<b>Total assets</b>	<b>8,955</b>	<b>9,830</b>	<b>10,396</b>	<b>11,378</b>	<b>12,160</b>
<b>LIABILITIES:</b>					
Current liabilities:	1,501	1,892	2,040	2,349	2,474
Account payables	974	1,228	1,340	1,534	1,613
Bank overdraft & ST loans	12	0	0	0	0
Current LT debt	59	0	0	0	0
Others current liabilities	455	664	700	814	861
<b>Total LT debt</b>	<b>59</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Others LT liabilities	305	296	299	347	367
<b>Total liabilities</b>	<b>1,865</b>	<b>2,188</b>	<b>2,340</b>	<b>2,696</b>	<b>2,842</b>
Minority interest	48	0	3	3	6
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
<b>Retained earnings</b>	<b>5,901</b>	<b>6,501</b>	<b>6,911</b>	<b>7,538</b>	<b>8,171</b>
Shareholders' equity	7,042	7,642	8,053	8,680	9,312
<b>Liabilities &amp; equity</b>	<b>8,955</b>	<b>9,830</b>	<b>10,396</b>	<b>11,378</b>	<b>12,160</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Earnings before tax	412	1,035	1,112	1,458	1,629
Tax paid	(64)	(74)	(187)	(208)	(280)
Depreciation & amortization	620	572	567	586	603
Chg In working capital	231	(215)	(65)	(199)	(87)
Chg In other CA & CL / minorities	(70)	186	156	205	180
<b>Cash flow from operations</b>	<b>1,128</b>	<b>1,503</b>	<b>1,583</b>	<b>1,843</b>	<b>2,045</b>
Capex	(427)	(238)	(500)	(500)	(500)
Right of use	0	0	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(5)	(138)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(55)	13	(11)	16	7
<b>Cash flow from investments</b>	<b>(486)</b>	<b>(363)</b>	<b>(511)</b>	<b>(484)</b>	<b>(493)</b>
Debt financing	(187)	(120)	0	(0)	0
Capital increase	0	0	0	0	0
Dividends paid	(476)	(374)	(632)	(715)	(846)
Warrants & other surplus	(11)	22	0	0	0
<b>Cash flow from financing</b>	<b>(674)</b>	<b>(473)</b>	<b>(631)</b>	<b>(715)</b>	<b>(846)</b>
<b>Free cash flow</b>	<b>701</b>	<b>1,265</b>	<b>1,083</b>	<b>1,343</b>	<b>1,545</b>

*SAT offers dividend yields of 7.2-9.3% in 2022-23F*

**VALUATION**

<b>FY ending Dec</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Normalized PE (x)	23.3	8.8	8.3	6.4	5.8
Normalized PE - at target price (x)	31.0	11.7	11.0	8.6	7.8
PE (x)	23.3	9.1	8.3	6.4	5.8
PE - at target price (x)	30.9	12.1	11.0	8.6	7.8
EV/EBITDA (x)	7.2	3.8	3.3	2.4	1.8
EV/EBITDA - at target price (x)	10.4	5.7	5.2	3.9	3.2
P/BV (x)	1.2	1.1	1.1	1.0	0.9
P/BV - at target price (x)	1.6	1.5	1.4	1.3	1.2
P/CFO (x)	7.7	5.7	5.5	4.7	4.2
Price/sales (x)	1.5	1.0	0.9	0.8	0.8
Dividend yield (%)	3.0	7.4	7.2	9.3	10.3
FCF Yield (%)	8.1	14.7	12.5	15.6	17.9
<b>(Bt)</b>					
Normalized EPS	0.9	2.3	2.5	3.2	3.5
EPS	0.9	2.2	2.5	3.2	3.5
DPS	0.6	1.5	1.5	1.9	2.1
BV/share	16.6	18.0	18.9	20.4	21.9
CFO/share	2.7	3.5	3.7	4.3	4.8
FCF/share	1.6	3.0	2.5	3.2	3.6

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

*SAT has a strong balance sheet with a net-cash position*

FY ending Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth Rate</b>					
Sales (%)	(26.5)	46.2	8.0	15.9	5.9
Net profit (%)	(58.5)	156.6	9.4	28.8	10.2
EPS (%)	(58.5)	156.6	9.4	28.8	10.2
Normalized profit (%)	(58.5)	165.0	6.0	28.8	10.2
Normalized EPS (%)	(58.5)	165.0	6.0	28.8	10.2
Dividend payout ratio (%)	68.7	66.9	60.0	60.0	60.0
<b>Operating performance</b>					
Gross margin (%)	14.6	19.2	19.0	20.0	20.5
Operating margin (%)	4.7	10.7	10.6	12.2	13.0
EBITDA margin (%)	15.2	17.4	16.7	17.7	18.3
Net margin (%)	6.3	10.5	10.2	11.4	11.9
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Interest coverage - EBIT (x)	35.6	159.1	na	na	na
Interest coverage - EBITDA (x)	115.5	257.9	na	na	na
ROA - using norm profit (%)	4.1	10.5	10.3	12.3	12.6
ROE - using norm profit (%)	5.2	13.4	13.3	16.0	16.4
<b>DuPont</b>					
ROE - using after tax profit (%)	5.2	12.3	12.0	14.6	15.0
- asset turnover (x)	0.6	0.9	0.9	1.0	1.0
- operating margin (%)	7.1	12.1	12.0	13.5	14.3
- leverage (x)	1.3	1.3	1.3	1.3	1.3
- interest burden (%)	98.2	99.4	99.9	100.0	100.0
- tax burden (%)	90.2	87.1	85.0	84.0	83.0
WACC (%)	11.5	11.5	11.5	11.5	11.5
ROIC (%)	4.9	16.6	18.0	24.0	26.7
NOPAT (Bt m)	249	802	836	1,107	1,229
invested capital (Bt m)	4,841	4,644	4,614	4,598	4,525

Sources: Company data, Thanachart estimates

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