

BUY (Unchanged)

Change in Numbers

TP: Bt 36.00

Upside : 24.1%

(From : Bt 39.00)

30 MARCH 2022

TOA Paint (Thailand) (TOA TB)

BUY into the bottom

TOA is raising its product prices to offset rising costs as this tactic has been successful every time in the past in turning around its earnings. We suggest BUYing into the bottom of earnings in 1H22F given a strong 2023F EPS turnaround of 18% against -2STD PE of 24x, or a discount to its 36x five-year average.

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Price increases

TOA has been able to raise its selling prices to offset higher costs in the past thanks to its 49% market share. And it is doing so again. TOA's key raw materials are titanium dioxide at 14% of its total costs and other oil-related materials at 12%. Without price hikes, we estimate its earnings to fall 0.7% for each US\$1/bbl oil price rise. Exhibit 5-6 shows TOA's ability, without losing market share, to raise average selling price (ASP) to restore its gross margin. TOA raised ASP by 5% in 2015 after Brent jumped to US\$97/bbl in 2014 while its gross margin rose to 36% in 2015 from 30% in 2014. Its 4% price hike in 2018 vs. the 31% oil price jump pushed up margin to 35% in 2019 from 33% in 2018. In 2022F, we assume a 5% ASP hike vs. a 28% oil price rise and this should drive margin to 34% in 2023F vs. 32% this year.

Growth from non-decorative products

As the paint industry in Thailand is mature with a 3-5% p.a. growth rate, TOA has been focusing more on non-decorative products, e.g., construction chemicals, wood and heavy-duty coating, and hardware. Non-decorative product sales grew 8% p.a. in 2018-21 and made up 34% of TOA's total sales in 2021. TOA has spent Bt800m to acquire a 51% stake in Gypmantech (GMT), a gypsum board producer, which was consolidated from March 2022. GMT made a Bt126m profit on Bt865m in sales in 2020 and a Bt81m profit on Bt490m in sales in 1H21. We project TOA's non-decorative sales growth at 8% p.a. in 2022-24F.

Solid balance sheet

TOA remains a net-cash company with Bt3bn of cash on hand in 2021. We also estimate TOA to generate EBITDA of Bt3bn-4bn a year in 2022-24F with an EBITDA margin of 16-20%. In addition, ROE is high at 16-18% in 2022-24F with ROA at 11-12%.

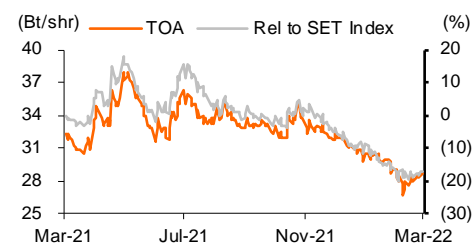
BUY ahead of a turnaround

Despite cutting our earnings for TOA by 10/8/6% in 2022-24F and DCF-based 12-month TP (2022F base year) to Bt36/share (from Bt39) to reflect rising costs (Exhibit 1), we reaffirm our BUY call. We expect its earnings to have reached bottom in 2H21, when the construction sites were locked down and the oil price surge preceded its ASP hike. We expect its 1H22F profit to remain relatively flat with a 5% ASP rise offsetting a further cost spike from the Russian-Ukraine war. When oil prices likely fall in 2H22F after the war ends, we estimate TOA's 2H22F earnings to experience a turnaround with full-year margin swinging back in 2023F. We project its earnings growth at 11/18/14% in 2022-24F. Its PE at 29/24/21x in 2022-24F looks inexpensive to us vs. its five-year average of 36x.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	17,570	19,130	19,415	20,288
Net profit	1,955	2,045	2,420	2,767
Consensus NP	—	1,997	2,349	2,613
Diff frm cons (%)	—	2.4	3.0	5.9
Norm profit	1,835	2,045	2,420	2,767
Prev. Norm profit	—	2,266	2,621	2,947
Chg frm prev (%)	—	(9.8)	(7.7)	(6.1)
Norm EPS (Bt)	0.9	1.0	1.2	1.4
Norm EPS grw (%)	(10.0)	11.4	18.4	14.3
Norm PE (x)	32.1	28.8	24.3	21.3
EV/EBITDA (x)	18.1	16.6	13.9	11.9
P/BV (x)	4.8	4.4	4.1	3.7
Div yield (%)	1.7	1.7	2.1	2.4
ROE (%)	15.5	16.0	17.4	18.2
Net D/E (%)	(58.8)	(60.3)	(63.9)	(67.5)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 30-Mar-22 (Bt)	29.00
Market Cap (US\$ m)	1,764.6
Listed Shares (m shares)	2,029.0
Free Float (%)	25.0
Avg Daily Turnover (US\$ m)	1.5
12M Price H/L (Bt)	38.00/26.75
Sector	CONMAT
Major Shareholder	TOAGH 30%

Sources: Bloomberg, Company data, Thanachart estimates

BUY into the bottom

Despite cutting our TP to Bt36, we reaffirm our call on TOA as...

We cut our earnings estimates for TOA Paint (Thailand) Plc (TOA) by 10/8/6% in 2022-24F and our DCF-based 12-month TP (2022F base year) to Bt36/share from Bt39 given the changes in our key assumptions shown in Exhibit 1 below.

Ex 1: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
Average selling price (Bt/gallon)**					
New	242.2	244.3	256.5	246.2	247.4
Old			245.8	247.1	248.3
Change (%)			4.4	(0.4)	(0.4)
Sales volume (m gallons)*					
New	44.5	45.4	47.4	48.4	49.5
Old			45.8	48.1	50.4
Change (%)			3.5	0.6	(1.8)
Titanium dioxide price (US\$/tonne)					
New	2,519	2,917	3,600	2,988	2,900
Old			3,000	3,000	3,000
Change (%)			20.0	(0.4)	(3.3)
Brent oil price (US\$/bbl)					
New	42	69	88	73	71
Old			80	73	73
Change (pp)			10.0	-	(2.7)
Gross margin (%)					
New	36.9	32.7	31.6	33.9	34.9
Old			32.7	33.4	33.8
Change (pp)			(1.1)	0.5	1.1

Sources: Company data, Thanachart estimates

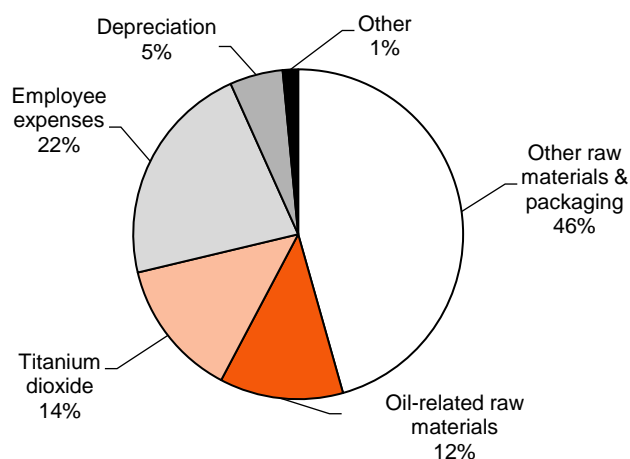
* Based on TOA's utilization rate, ** Calculated by decorative sales divided by sales volume

However, we reaffirm our BUY recommendation on shares of TOA as:

...1) bad news looks baked into the share price...

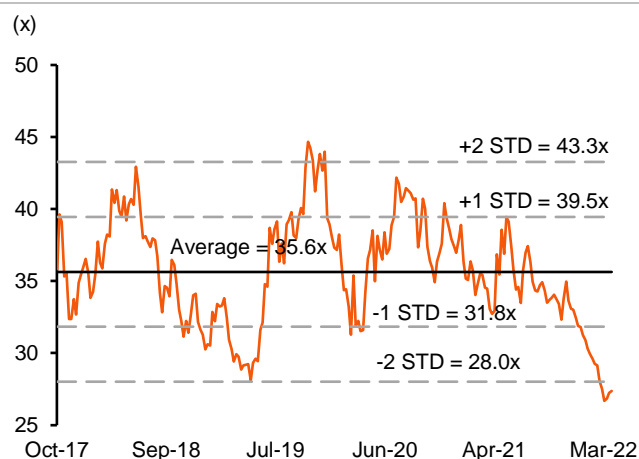
First, the fall in TOA's share price by 24% from its peak last year to a record low looks to have priced in the market's concerns about rising raw material costs. TOA's key raw materials are titanium dioxide at 14% of its total production costs in 2021 and other oil-related materials at 12%. The shares now trade at 29/24/21x PE multiples in 2022-24F vs. its five-year average of 36x in 2017-21.

Ex 2: TOA's Cost Breakdown



Source: Company data, Thanachart estimates

Ex 3: TOA's PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

We also perform a sensitivity analysis on TOA's earnings to changes in the titanium dioxide price. Without an increase in selling prices, we estimate a 0.7% earnings drop if titanium dioxide prices rise by 1% as shown in Exhibit 4. However, TOA has already increased its selling prices to offset rising costs (see the next paragraph).

Ex 4: Sensitivity Analysis Of DCC's Earnings To Changes In The Titanium Dioxide Price

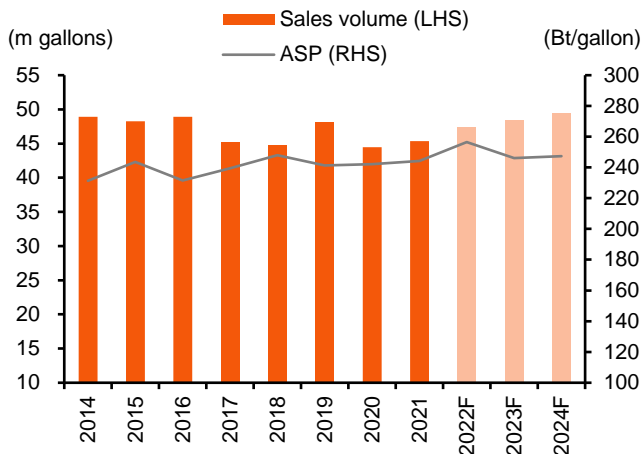
	EPS in 2022F (Bt)	EPS in 2023F (Bt)	PE in 2022F (x)	PE in 2023F (x)	Target price (Bt)
Our base case					
US\$3,600 and 2,988/tonne TiO2 price	1.01	1.19	28.8	24.3	36.0
5% higher titanium dioxide price					
US\$3,780 and 3,137/tonne TiO2 price	0.97	1.16	29.9	25.0	35.5
10% higher titanium dioxide price					
US\$3,960 and 3,287/tonne TiO2 price	0.93	1.13	31.2	25.7	35.0
5% lower titanium dioxide price					
US\$3,420 and 2,839/tonne TiO2 price	1.05	1.23	27.7	23.7	36.5
10% lower titanium dioxide price					
US\$3,240 and 2,689/tonne TiO2 price	1.08	1.26	26.7	23.0	37.0

Source: Thanachart estimates

...2) TOA is able to pass on rising costs...

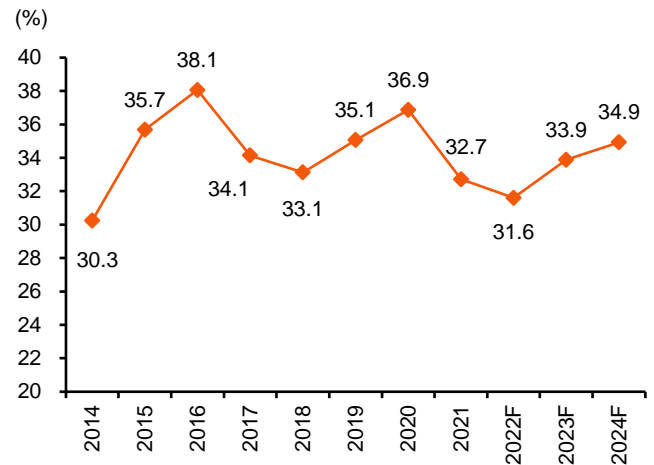
Second, given its 49% market share in Thailand, TOA has been able to pass on rising costs without losing market share. TOA raised its ASP by 5% in 2015 after Brent jumped to US\$97/bbl in 2014 and its gross margin widened to 36% in 2015 from 30% in 2014. Its 4% price hike in 2018 vs. the 31% oil price jump pushed up margin to 35% in 2019 from 33% in 2018. Given the continued rise in titanium dioxide and oil prices, TOA plans to increase its average selling price further by around 5-8% this year. We assume a 5% ASP hike vs. a 28% rise in oil price this year and we project TOA's gross margin to fatten to 34% in 2023F vs. 32% this year.

Ex 5: Decorative Products' ASP & Sales Volume



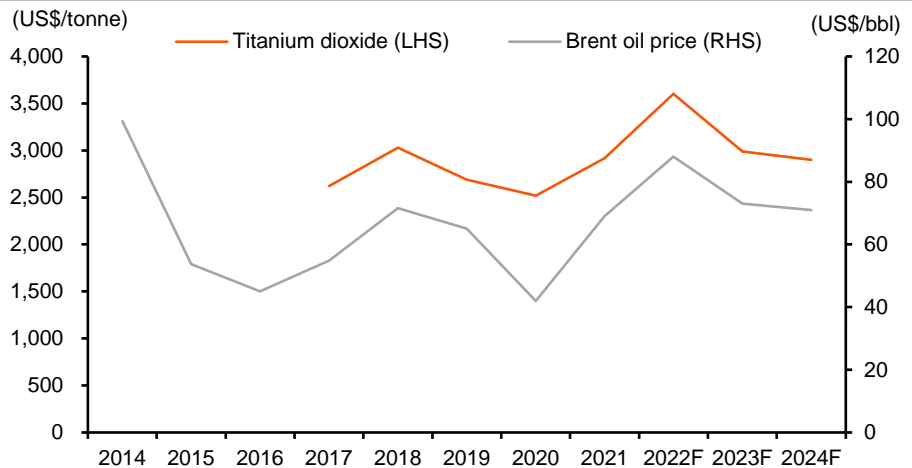
Source: Company data, Thanachart estimates

Ex 6: TOA's Gross Margin



Source: Company data, Bloomberg

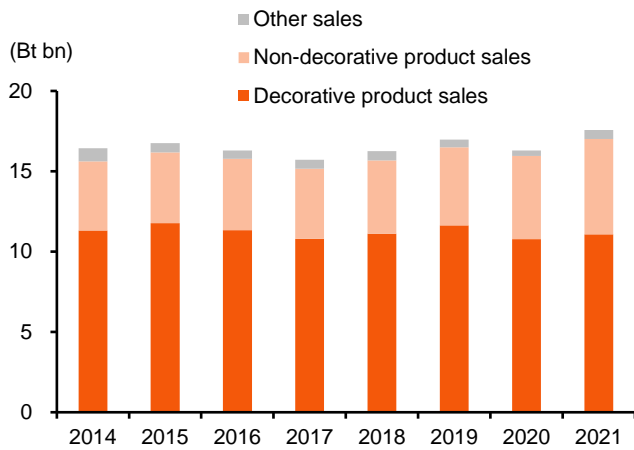
Ex 7: Brent Oil Price Vs. Titanium Dioxide Price



Sources: Bloomberg, Thanachart estimates

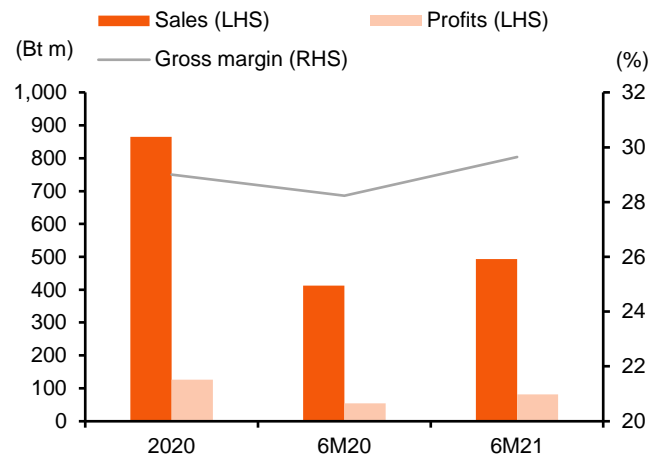
Third, as the paint market in Thailand is mature with an organic growth rate of 3-5% a year, to achieve more than organic growth, TOA has been focusing more on non-decorative products, e.g., construction chemicals, wood and heavy-duty coating, and hardware. While its decorative product sales grew by 3% y-y in 2021, its non-decorative product sales, which account for around 34% of its total sales, rose by 15% y-y. TOA has also spent Bt800m to acquire a 51% stake in Gypmantech (GMT), a gypsum board producer, which was consolidated from March this year. GMT made a Bt126m profit on sales of Bt865m in 2020 and a Bt81m profit on sales of Bt490m in 1H21. We estimate TOA's non-decorative sales growth at 8% p.a. in 2022-24F.

Ex 8: TOA's Sales Breakdown



Source: Company data

Ex 9: GMT's Sales, Gross Margin & Profits

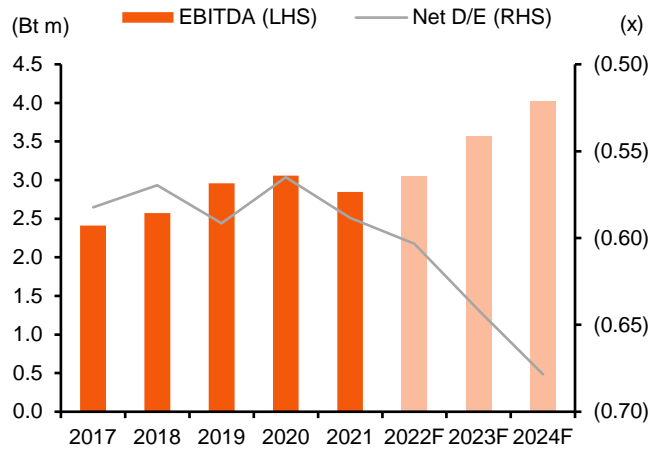


Source: Company data

...3) its profitability is high despite the tough period...

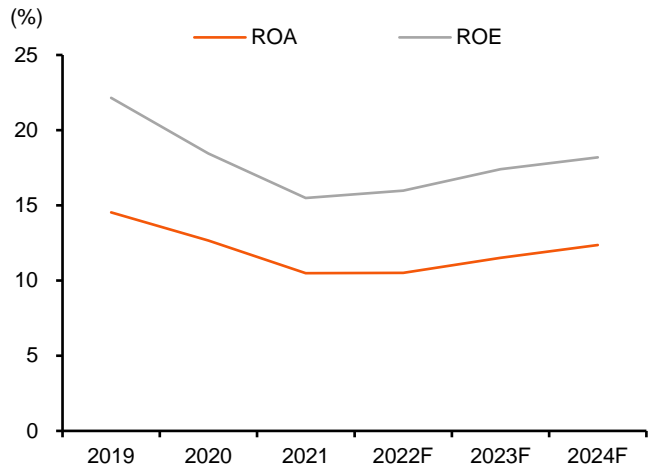
Fourth, despite the tough period, TOA's business still generates a decent return. Even with the impact from the COVID-19 crisis and rising costs, we estimate its ROE at 16-18% in 2022-24F and ROA at 11-12%. Despite its net cash position, we estimate TOA to generate EBITDA of Bt3bn-4bn a year in 2022-24F with an EBITDA margin of 16-20%.

Ex 10: TOA's EBITDA Vs. Net D/E



Sources: Company data, Thanachart estimates

Ex 11: TOA's ROA & ROE



Sources: Company data, Thanachart estimates

Ex 12: 12-month DCF-based TP Calculation Using A Base Year of 2023F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	3,050	3,563	4,028	4,427	4,853	5,310	5,800	6,325	6,890	7,496	7,973	—
Free cash flow	1,500	2,404	2,751	3,079	3,418	3,779	4,166	4,581	5,026	5,504	5,899	94,376
PV of free cash flow	1,496	2,069	2,195	2,279	2,293	2,341	2,382	2,418	2,450	2,477	2,330	34,267
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.7											
WACC (%)	7.8											
Terminal growth (%)	2.0											
Enterprise value - add investments	66,589											
Net debt (2021)	(7,325)											
Minority interest	164											
Equity value	73,749											
# of shares	2,029											
Target price/share (Bt)	36.0											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 13: Peer Comparison

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 (%)
Ferro Corp	FOE US	US	5.5	7.4	16.2	15.1	2.9	2.6	9.2	8.7	na	na
RPM International	RPM US	US	(13.1)	25.2	23.2	18.5	5.6	4.9	15.5	13.0	1.9	2.0
Axalta Coating Systems	AXTA US	US	8.5	28.4	14.1	11.0	3.6	3.2	9.7	8.5	0.0	0.0
Sherwin-Williams	SHW US	US	na	18.5	27.6	23.3	21.9	19.7	20.3	17.8	0.9	1.0
Chugoku Marine Paints	4617 JP	Japan	(87.0)	31.6	120.0	91.2	0.9	0.9	23.2	21.5	3.8	3.8
Kansai Paint	4613 JP	Japan	11.4	(3.5)	23.1	23.9	1.7	1.7	11.6	11.4	1.5	1.6
Kansai Nerolac Paints	KNPL IN	India	(11.9)	47.4	52.0	35.3	5.7	5.2	30.6	21.8	0.9	1.1
Asian Paints	APNT IN	India	na	37.5	91.4	66.5	20.8	18.2	60.1	44.7	0.6	0.8
Berger Paints India	BRGR IN	India	20.8	28.2	76.9	60.0	17.3	14.8	48.9	38.7	0.5	0.7
Akzo Nobel NV	AKZA NA	Netherlands	23.2	19.5	15.7	13.2	2.6	2.4	10.3	9.1	2.6	2.8
TOA Paint (Thailand)	TOA TB	Thailand	11.4	18.4	28.8	24.3	4.4	4.1	16.6	13.9	1.7	2.1
Average			(3.5)	23.5	44.5	34.8	7.9	7.1	23.3	19.0	1.4	1.6

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

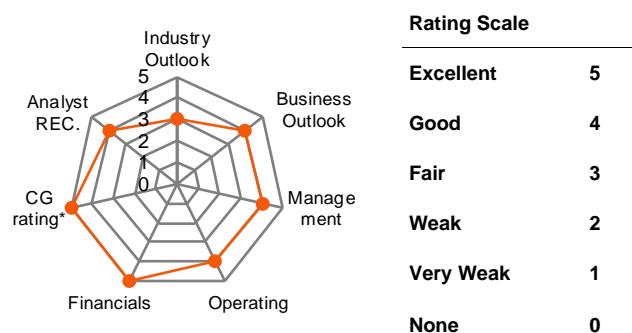
Based on 30-Mar-22 closing prices

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



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.

O — Opportunity

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

W — Weakness

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

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)	36.13	36.00	0%
Net profit 22F (Bt m)	1,997	2,045	2%
Net profit 23F (Bt m)	2,349	2,420	3%
Consensus REC	BUY: 8	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2022-23F are 2-3% higher than the Bloomberg consensus numbers, likely due to us being slightly more aggressive on its sales recovery and gross margin.
- Our TP is in line the Street's as we may be slightly more conservative with our long-term earnings forecast.

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

INCOME STATEMENT

*We expect TOA's earnings to turn around strongly next year...
...driven by a recovery in its sales and lower oil and TiO2 prices*

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	16,296	17,570	19,130	19,415	20,288
Cost of sales	10,287	11,823	13,085	12,836	13,202
Gross profit	6,009	5,747	6,045	6,579	7,086
% gross margin	36.9%	32.7%	31.6%	33.9%	34.9%
Selling & administration expenses	3,510	3,516	3,635	3,689	3,753
Operating profit	2,499	2,232	2,410	2,890	3,333
% operating margin	15.3%	12.7%	12.6%	14.9%	16.4%
Depreciation & amortization	557	615	640	674	696
EBITDA	3,057	2,847	3,050	3,563	4,028
% EBITDA margin	18.8%	16.2%	15.9%	18.4%	19.9%
Non-operating income	142	138	138	138	138
Non-operating expenses	0	0	0	0	0
Interest expense	(39)	(35)	(31)	(42)	(53)
Pre-tax profit	2,603	2,334	2,517	2,985	3,417
Income tax	571	528	503	597	683
After-tax profit	2,032	1,806	2,013	2,388	2,734
% net margin	12.5%	10.3%	10.5%	12.3%	13.5%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	6	29	31	32	33
Extraordinary items	(7)	120	0	0	0
NET PROFIT	2,031	1,955	2,045	2,420	2,767
Normalized profit	2,038	1,835	2,045	2,420	2,767
EPS (Bt)	1.0	1.0	1.0	1.2	1.4
Normalized EPS (Bt)	1.0	0.9	1.0	1.2	1.4

BALANCE SHEET

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

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	11,987	13,755	14,881	16,126	17,815
Cash & cash equivalent	6,644	7,622	8,305	9,550	10,990
Account receivables	2,913	3,237	3,407	3,457	3,613
Inventories	2,163	2,619	2,868	2,813	2,894
Others	267	277	301	305	319
Investments & loans	6	0	0	0	0
Net fixed assets	2,691	2,705	3,365	3,191	2,995
Other assets	1,803	2,037	2,184	2,280	2,400
Total assets	16,486	18,497	20,429	21,597	23,211
LIABILITIES:					
Current liabilities:	3,690	4,588	5,249	5,157	5,323
Account payables	2,975	3,831	4,481	4,396	4,521
Bank overdraft & ST loans	200	297	201	201	202
Current LT debt	0	0	0	0	0
Others current liabilities	515	460	567	561	600
Total LT debt	0	0	0	0	0
Others LT liabilities	1,391	1,458	1,738	1,820	1,917
Total liabilities	5,081	6,046	6,987	6,977	7,240
Minority interest	(9)	164	133	101	68
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	(891)	(817)	(817)	(817)	(817)
Retained earnings	4,514	5,313	6,335	7,545	8,929
Shareholders' equity	11,414	12,287	13,309	14,519	15,903
Liabilities & equity	16,486	18,497	20,429	21,597	23,211

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

TOA generates sizeable and stable cash flows

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	2,603	2,334	2,517	2,985	3,417
Tax paid	(585)	(595)	(437)	(617)	(659)
Depreciation & amortization	557	615	640	674	696
Chg In working capital	(603)	75	232	(81)	(110)
Chg In other CA & CL / minorities	244	238	16	10	2
Cash flow from operations	2,216	2,667	2,969	2,970	3,345
Capex	(492)	(629)	(1,300)	(500)	(500)
Right of use	(1,258)	(86)	(86)	(86)	(86)
ST loans & investments	0	(10)	0	0	0
LT loans & investments	0	6	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	979	(35)	218	71	63
Cash flow from investments	(772)	(754)	(1,167)	(515)	(523)
Debt financing	(347)	148	(96)	(0)	1
Capital increase	0	0	0	0	0
Dividends paid	(1,096)	(1,161)	(1,022)	(1,210)	(1,384)
Warrants & other surplus	(210)	79	0	0	0
Cash flow from financing	(1,653)	(935)	(1,118)	(1,210)	(1,382)
Free cash flow	1,724	2,038	1,669	2,470	2,845

VALUATION

We see TOA's valuation as attractive at PEs of 29/24/21x over 2022-24F vs. its five-year average PE of 36x

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	28.9	32.1	28.8	24.3	21.3
Normalized PE - at target price (x)	35.8	39.8	35.7	30.2	26.4
PE (x)	29.0	30.1	28.8	24.3	21.3
PE - at target price (x)	36.0	37.4	35.7	30.2	26.4
EV/EBITDA (x)	17.1	18.1	16.6	13.9	11.9
EV/EBITDA - at target price (x)	21.8	23.1	21.3	17.9	15.5
P/BV (x)	5.2	4.8	4.4	4.1	3.7
P/BV - at target price (x)	6.4	5.9	5.5	5.0	4.6
P/CFO (x)	26.6	22.1	19.8	19.8	17.6
Price/sales (x)	3.6	3.3	3.1	3.0	2.9
Dividend yield (%)	1.8	1.7	1.7	2.1	2.4
FCF Yield (%)	2.9	3.5	2.8	4.2	4.8
(Bt)					
Normalized EPS	1.0	0.9	1.0	1.2	1.4
EPS	1.0	1.0	1.0	1.2	1.4
DPS	0.5	0.5	0.5	0.6	0.7
BV/share	5.6	6.1	6.6	7.2	7.8
CFO/share	1.1	1.3	1.5	1.5	1.6
FCF/share	0.8	1.0	0.8	1.2	1.4

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(4.0)	7.8	8.9	1.5	4.5
Net profit (%)	(6.1)	(3.7)	4.6	18.4	14.3
EPS (%)	(6.1)	(3.7)	4.6	18.4	14.3
Normalized profit (%)	(8.5)	(10.0)	11.4	18.4	14.3
Normalized EPS (%)	(8.5)	(10.0)	11.4	18.4	14.3
Dividend payout ratio (%)	52.9	51.9	50.0	50.0	50.0
Operating performance					
Gross margin (%)	36.9	32.7	31.6	33.9	34.9
Operating margin (%)	15.3	12.7	12.6	14.9	16.4
EBITDA margin (%)	18.8	16.2	15.9	18.4	19.9
Net margin (%)	12.5	10.3	10.5	12.3	13.5
D/E (incl. minor) (x)	0.0	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)	64.5	64.1	77.6	69.1	63.2
Interest coverage - EBITDA (x)	78.9	81.8	98.3	85.2	76.3
ROA - using norm profit (%)	12.7	10.5	10.5	11.5	12.4
ROE - using norm profit (%)	18.4	15.5	16.0	17.4	18.2
DuPont					
ROE - using after tax profit (%)	18.4	15.2	15.7	17.2	18.0
- asset turnover (x)	1.0	1.0	1.0	0.9	0.9
- operating margin (%)	16.2	13.5	13.3	15.6	17.1
- leverage (x)	1.5	1.5	1.5	1.5	1.5
- interest burden (%)	98.5	98.5	98.8	98.6	98.5
- tax burden (%)	78.1	77.4	80.0	80.0	80.0
WACC (%)	7.8	7.8	7.8	7.8	7.8
ROIC (%)	44.2	34.7	38.9	44.4	51.6
NOPAT (Bt m)	1,951	1,727	1,928	2,312	2,666
invested capital (Bt m)	4,970	4,962	5,205	5,170	5,115

Sources: Company data, Thanachart estimates

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