Small Cap Research

BUY (Unchanged) | **TP: Bt 27.00** (Unchanged)

Company Update | **Upside : 43.6%** | **14 APRIL 2022**

Somboon Advance Tech. (SAT TB)

Weak 1Q22F

We estimate SAT's earnings to fall 32% y-y in 1Q22. This is not a surprise to us and we expect earnings to turn around in 2H22. We reaffirm BUY on SAT, which we see as a value play with a 7.7x 2022F PE and 7.8% dividend yield.

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Expect 32% y-y fall in 1Q22 earnings

We estimate SAT's normalized earnings in 1Q22 to drop by 32% y-y and 3% q-q, due to gross-margin contraction amid rising raw material costs. Although its sales should grow by 6% y-y, much of the growth likely comes from low-margin products. Also, there is a high-base effect from 1Q21, when margins were high due to low steel prices. The likely drop in earnings in 1Q22F isn't a surprise to us, as we anticipated higher costs and softer sales growth given supply-chain constraints. Note that we expect SAT's 1Q22 sales to be stronger than the industry's, for which we expect only 1-2% y-y growth, due to its modest exposure to passenger cars (7% of total sales), which are more impacted than commercial cars by the global chip shortage.

Turnaround in 2H22F

We expect SAT's earnings to turn around in 2H22, with growth of 43% y-y and 47% h-h. For full-year 2022, we still forecast that SAT will grow its earnings by 6% y-y. In our view, the key turnaround factors are: 1) stronger auto parts orders in 2H22F, resulting in 2H22F revenue contributing 55% of full-year revenue; 2) new parts orders from a new car model totaling Bt200m, or 2.2% of 2022F revenue; and 3) improving gross margin after price adjustments for rising costs. As for y-y growth, there is also a low earnings base effect in 2H21 due to a jump in steel prices. Note, steel accounts for 40% of SAT's total cost of goods sold.

6% y-y industry growth

The semiconductor shortage remains an issue for some passenger car models but is no longer a big factor for commercial cars. 2M22 auto production in Thailand grew only 1.3% y-y (or at 85% of 2019's level). We maintain our 6% y-y growth forecast for 2022F, expecting stronger growth later in the year as the chip shortage eases and pent-up demand is released. Breaking down 2M22 growth, passenger car production fell 23% y-y while pick-up truck production grew 15% y-y. SAT's 2021 revenue breakdown was 62% pick-ups, 6% trucks, 7% passenger cars, and 25% agricultural tractors (Kubota). In this context, SAT should be the key beneficiary of good pick-up production, in our view.

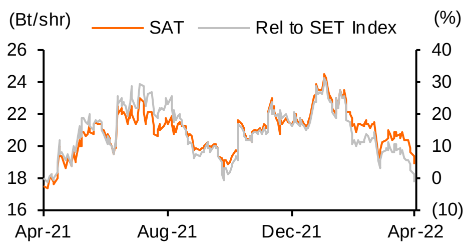
Reaffirm BUY

We reaffirm our BUY call and 2022F DCF-based TP of Bt27 for SAT. ***First,*** we expect improving earnings in 2H22 and 29% y-y growth in 2023F. ***Second,*** *its* valuation looks undemanding to us at 7.7/6.0x PE (5.7/4.4x excluding cash) with attractive 7.8/10.1% dividend yields over 2022-23F. SAT has Bt2bn or Bt4.8/share of net cash. We forecast its EBITDA this year at Bt3.7/share vs. only Bt1.2/share of capex. ***Third,*** we like SAT's new product plans, which we leave as potential upside (details inside).

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	1,340	1,476
Consensus NP	—	1,037	1,180	1,315
Diff frm cons (%)	—	*0.5*	*13.6*	*12.2*
Norm profit	983	1,042	1,340	1,476
Prev. Norm profit	—	1,042	1,342	1,479
Chg frm prev (%)	—	*(0.0)*	*(0.1)*	*(0.2)*
Norm EPS (Bt)	2.3	2.5	3.2	3.5
Norm EPS grw (%)	165.0	6.0	28.6	10.1
Norm PE (x)	8.1	7.7	6.0	5.4
EV/EBITDA (x)	3.7	3.2	2.3	1.8
P/BV (x)	1.0	1.0	0.9	0.9
Div yield (%)	8.0	7.8	10.1	11.1
ROE (%)	13.4	13.3	16.0	16.4
Net D/E (%)	(32.7)	(36.3)	(40.4)	(45.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 12-Apr-22(Bt)	18.80
Market Cap (US$ m)	238.1
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	Automotive
Major Shareholder	Somboon Holding 29.9%

Sources: Bloomberg, Company data, Thanachart estimates

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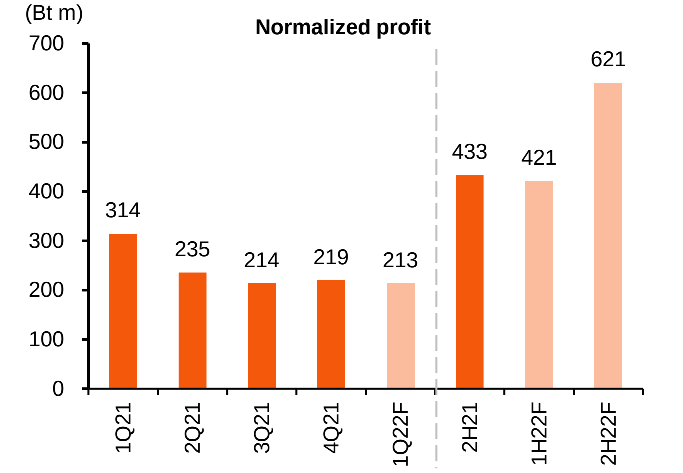
Potential upside from new products

New products

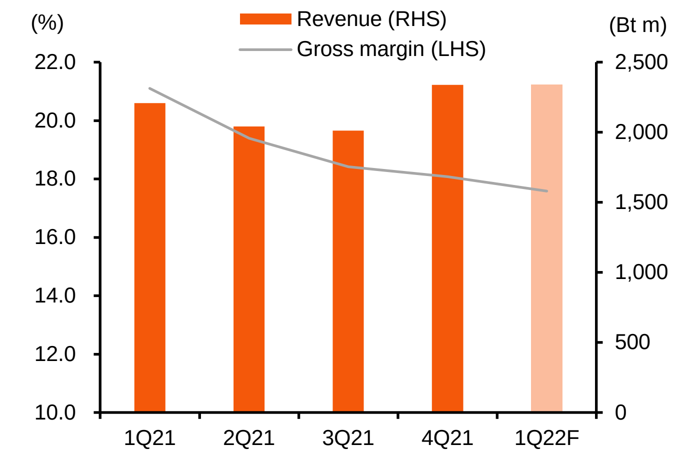
SAT plans to sell agricultural equipment module sets, EV buses, as well as robots and automation (automotive industry). We see a bright outlook for all three segments as SAT leverages its existing expertise. In the agricultural machinery market, SAT's key customer is Kubota (25% of revenue), which uses Thailand as a production base for domestic sales and exports to ASEAN, India and the US. SAT currently supplies individual agricultural parts to Kubota, and it plans to add equipment module sets, a more value-added offering, to its agricultural parts portfolio. For EV buses, SAT is setting up a 60%-held JV with Tron E, Taiwan's top EV bus maker. Initial capex is only Bt50m since this will be an assembly line within SAT's plants; more details should be announced soon. We leave revenue as potential upside and factor in total capex of Bt500m p.a. in 2022-24F, including the new products, vs. an average of Bt400m p.a. in 2017-19.

Ex 1: Earnings Turnaround In 2H22F



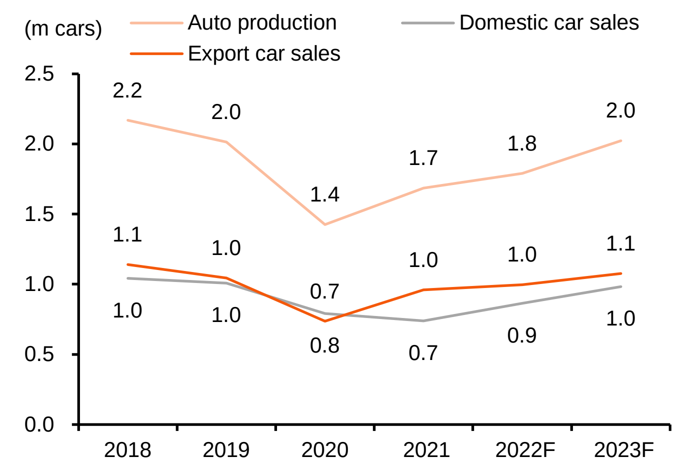
Sources: Company data; Thanachart estimates

Ex 2: Revenue And Gross Margin Quarterly



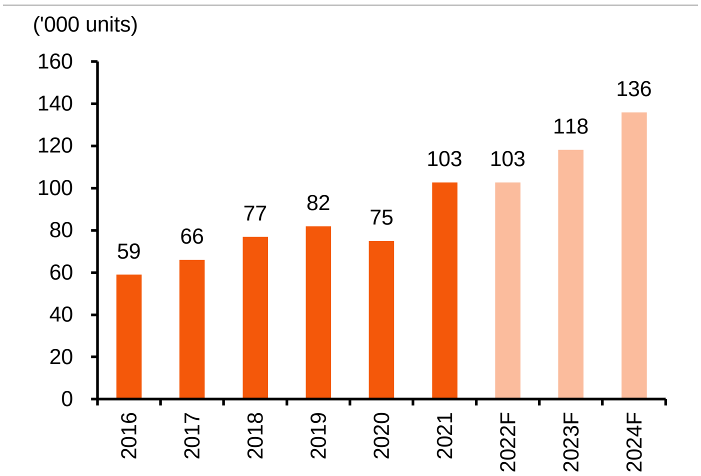
Sources: Company data; Thanachart estimates

Ex 3: Auto Production



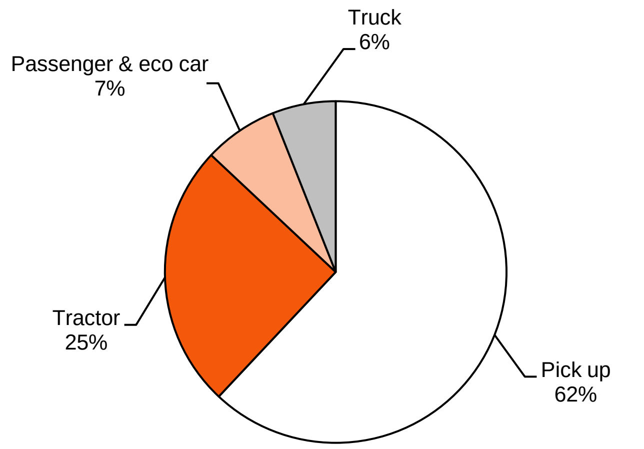
Sources: Thai Automotive Industry Association; Thanachart estimates

Ex 4: Kubota's Tractor Production



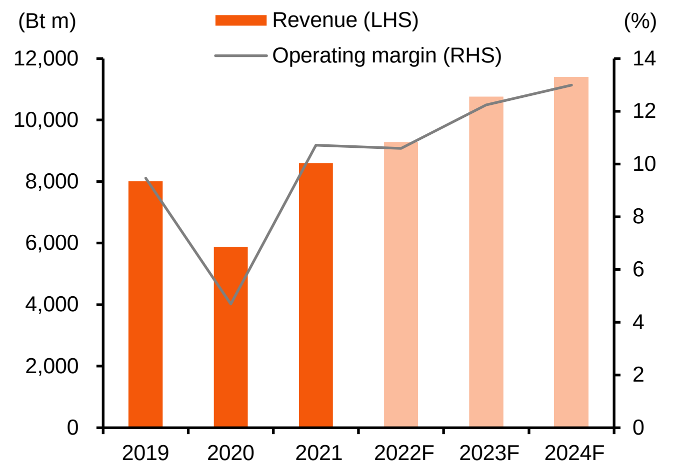
Sources: Company data; Thanachart estimates

Ex 5: Revenue Breakdown By Vehicle Type In 2021



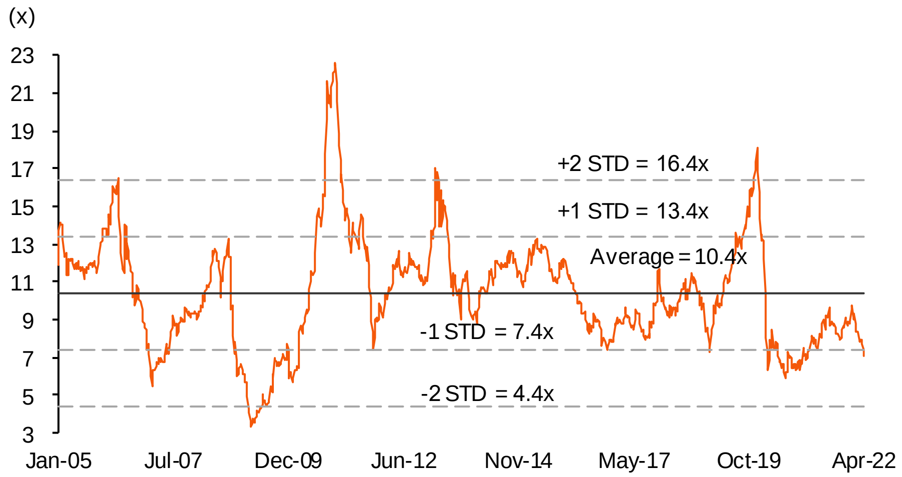
Source: Company data

Ex 6: Revenue And Operating Margin Forecasts



Sources: Company data; Thanachart estimates

Ex 7: The Stock Now Trades At 1STD Below Its Historical Mean



Source: Bloomberg; Thanachart estimates

Ex 8: 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	1,576	1,930	2,112	2,242	2,326	2,401	2,245	2,236	2,317	2,399	2,479	—
Free cash flow	992	1,161	1,421	1,262	1,255	1,023	934	771	841	849	856	7,811
PV of free cash flow	990	934	1,025	817	728	518	423	311	303	273	246	1,901

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.2
WACC (%)	11.5
Terminal growth (%)	2.0
Enterprise value - add investments	9,097
Net debt (2021)	(2,498)
Minority interest	0
Equity value	11,595
# of shares (m)	425
Target price/share (Bt)	**27.0**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
Fangda Special Steel Tech	600507 CH	China	8.2	(3.5)	6.3	6.5	1.7	1.5	4.0	4.1	13.0	13.0
Fuyao Glass Industry Group	600660 CH	China	33.6	21.1	18.8	15.5	2.9	2.6	10.1	8.7	3.2	3.9
Weifu High-Technology	000581 CH	China	(3.8)	(2.6)	7.2	7.4	0.9	0.9	7.0	6.7	6.6	6.1
Bharat Forge	BHFC IN	India	447.2	28.4	34.5	26.8	5.4	4.7	19.3	16.0	0.6	0.9
Motherson Sumi Systems	MSS IN	India	na	87.0	38.6	20.6	3.9	3.4	14.8	10.3	1.1	1.8
Sundram Fasteners	SF IN	India	38.3	34.8	35.8	26.5	6.5	5.3	21.6	16.8	0.6	0.8
UMW Holdings	UMWH MK	Malaysia	17.0	9.5	12.3	11.2	0.9	0.8	7.5	7.3	1.9	2.1
Mando Corp	060980 KS	S. Korea	18.3	10.3	3.2	2.9	0.4	0.3	5.8	5.4	5.2	5.2
Hyundai Mobis	012330 KS	S. Korea	16.6	11.2	7.1	6.4	0.5	0.5	3.8	3.3	2.3	2.5
Hu Lane Associate Inc	6279 TT	Taiwan	14.7	17.5	12.8	10.9	2.2	2.0	8.6	7.2	5.1	6.1
Tong Yang Industry	1319 TT	Taiwan	98.1	16.0	13.9	12.0	0.8	0.8	5.2	4.7	4.0	4.8
AAPICO Hitech	AH TB	Thailand	8.0	14.2	7.4	6.5	0.9	0.8	7.3	7.4	4.9	6.3
Somboon Advance Tech*	SAT TB	Thailand	6.0	28.6	7.7	6.0	1.0	0.9	3.2	2.3	7.8	10.1
Thai Stanley Electric *,**	STANLY TB	Thailand	43.0	33.1	9.0	6.8	0.7	0.6	2.5	2.0	3.5	4.7
Average			**57.3**	**21.8**	**15.3**	**11.9**	**2.1**	**1.8**	**8.6**	**7.3**	**4.3**	**4.9**

Source: Bloomberg, Thanachart estimates

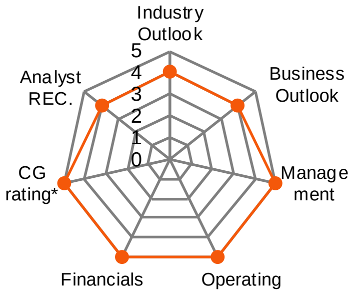
Note: * Thanachart estimates using normalized EPS growth
** STANLY's fiscal year ends in March
Based on 12 Apr 2022 closing prices

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 to its products.

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.

O — Opportunity

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

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
Target price (Bt)	25.69	27.00	5%
Net profit 22F (Bt m)	1,037	1,042	1%
Net profit 23F (Bt m)	1,180	1,340	14%
Consensus REC	**BUY: 8**	**HOLD: 1**	**SELL: 1**

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.

Sources: Bloomberg consensus, Thanachart estimates

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.

Source: Thanachart

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

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

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
Gross profit	**859**	**1,655**	**1,761**	**2,150**	**2,342**
% gross margin	14.6%	19.2%	19.0%	20.0%	20.5%
Selling & administration expenses	584	734	778	832	861
Operating profit	**276**	**921**	**983**	**1,318**	**1,481**
% operating margin	4.7%	10.7%	10.6%	12.2%	13.0%
Depreciation & amortization	620	572	593	612	631
EBITDA	**896**	**1,493**	**1,576**	**1,930**	**2,112**
% EBITDA margin	15.2%	17.4%	17.0%	17.9%	18.5%
Non-operating income	144	120	129	140	148
Non-operating expenses	0	0	0	0	0
Interest expense	(8)	(6)	(1)	(2)	(3)
Pre-tax profit	**412**	**1,035**	**1,111**	**1,456**	**1,626**
Income tax	40	134	167	233	276
After-tax profit	**372**	**901**	**945**	**1,223**	**1,350**
% net margin	6.3%	10.5%	10.2%	11.4%	11.8%
Shares in affiliates' Earnings	3	84	100	120	130
Minority interests	(4)	(3)	(3)	(3)	(3)
Extraordinary items	0	(30)	0	0	0
NET PROFIT	**371**	**953**	**1,042**	**1,340**	**1,476**
Normalized profit	**371**	**983**	**1,042**	**1,340**	**1,476**
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

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	4,407	5,543	6,201	7,323	8,231
Cash & cash equivalent	2,331	2,498	2,938	3,581	4,287
Account receivables	1,311	1,751	1,883	2,183	2,311
Inventories	565	594	639	732	769
Others	200	701	741	827	864
Investments & loans	894	1,031	1,031	1,031	1,031
Net fixed assets	3,403	3,069	2,976	2,864	2,733
Other assets	252	187	202	234	247
Total assets	**8,955**	**9,830**	**10,410**	**11,452**	**12,243**
LIABILITIES:					
Current liabilities:	1,501	1,892	2,048	2,386	2,517
Account payables	974	1,228	1,340	1,534	1,613
Bank overdraft & ST loans	12	0	8	38	43
Current LT debt	59	0	0	0	0
Others current liabilities	455	664	700	814	861
Total LT debt	**59**	**0**	**8**	**38**	**43**
Others LT liabilities	305	296	299	347	367
Total liabilities	**1,865**	**2,188**	**2,355**	**2,771**	**2,928**
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
Retained earnings	**5,901**	**6,501**	**6,911**	**7,537**	**8,168**
Shareholders' equity	7,042	7,642	8,053	8,678	9,310
Liabilities & equity	**8,955**	**9,830**	**10,410**	**11,452**	**12,243**

Sources: Company data, Thanachart estimates

SAT offers dividend yields of 7.8-10.1% in 2022-23F

Inexpensive, in our view, trading at 7.7x PE

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	412	1,035	1,111	1,456	1,626
Tax paid	(64)	(74)	(187)	(208)	(280)
Depreciation & amortization	620	572	593	612	631
Chg In w orking capital	231	(215)	(65)	(199)	(87)
Chg In other CA & CL / minorities	(70)	(315)	116	119	143
Cash flow from operations	**1,128**	**1,003**	**1,568**	**1,781**	**2,033**
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
Cash flow from investments	**(486)**	**(363)**	**(511)**	**(484)**	**(493)**
Debt financing	(187)	(120)	15	61	11
Capital increase	0	0	0	0	0
Dividends paid	(476)	(374)	(631)	(715)	(845)
Warrants & other surplus	(11)	22	0	0	0
Cash flow from financing	**(674)**	**(473)**	**(616)**	**(654)**	**(834)**
Free cash flow	**701**	**765**	**1,068**	**1,281**	**1,533**

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	21.6	8.1	7.7	6.0	5.4
Normalized PE - at target price (x)	31.0	11.7	11.0	8.6	7.8
PE (x)	21.5	8.4	7.7	6.0	5.4
PE - at target price (x)	30.9	12.1	11.0	8.6	7.8
EV/EBITDA (x)	6.5	3.7	3.2	2.3	1.8
EV/EBITDA - at target price (x)	10.4	6.0	5.4	4.1	3.4
P/BV (x)	1.1	1.0	1.0	0.9	0.9
P/BV - at target price (x)	1.6	1.5	1.4	1.3	1.2
P/CFO (x)	7.1	8.0	5.1	4.5	3.9
Price/sales (x)	1.4	0.9	0.9	0.7	0.7
Dividend yield (%)	3.2	8.0	7.8	10.1	11.1
FCF Yield (%)	8.8	9.6	13.4	16.0	19.2
(Bt)					
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	2.4	3.7	4.2	4.8
FCF/share	1.6	1.8	2.5	3.0	3.6

Sources: Company data, Thanachart estimates

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

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(26.5)	46.2	8.0	15.9	5.9
Net profit (%)	(58.5)	156.6	9.4	28.6	10.1
EPS (%)	(58.5)	156.6	9.4	28.6	10.1
Normalized profit (%)	(58.5)	165.0	6.0	28.6	10.1
Normalized EPS (%)	(58.5)	165.0	6.0	28.6	10.1
Dividend payout ratio (%)	68.7	66.9	60.0	60.0	60.0
Operating performance					
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	17.0	17.9	18.5
Net margin (%)	6.3	10.5	10.2	11.4	11.8
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)	(0.4)	(0.4)	(0.5)
Interest coverage - EBIT (x)	35.6	159.1	na	na	460.3
Interest coverage - EBITDA (x)	115.5	257.9	na	na	na
ROA - using norm profit (%)	4.1	10.5	10.3	12.3	12.5
ROE - using norm profit (%)	5.2	13.4	13.3	16.0	16.4
DuPont					
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	99.9	99.8
- 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	16.2	21.6	23.8
NOPAT (Bt m)	249	802	836	1,107	1,229
invested capital (Bt m)	4,841	5,145	5,130	5,173	5,109

Sources: Company data, Thanachart estimates

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