

BUY (Unchanged)

Change in Numbers

TP: Bt 25.00

Upside : 35.9%

(From: Bt 27.00)

25 JULY 2022

Small Cap Research

Somboon Advance Tech. (SAT TB)

Cheap with turnaround outlook



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Despite cutting our earnings for SAT to reflect the risk of a global slowdown, we reaffirm our BUY call. SAT still has a cushion from the growing domestic car market and is a play on falling steel prices. At 7.1x 2023F PE with 6.6/8.5% 2022-23F dividend yields, SAT's valuation looks compelling to us.

Reaffirming BUY

We cut our earnings estimates for SAT by 18/18/10% to reflect the higher risk of a global slowdown that could hit auto exports from Thailand. Our DCF-based 12-month TP (2023F base year) falls to Bt25 (from Bt27). **First**, SAT is linked not only to exports but domestic auto demand, which is still growing from a low base and Thailand's country reopening. **Second**, SAT has been suffering from the jump in steel prices last year but steel prices have started to fall sharply and we expect this to be reflected in improving margin from 4Q22F. We then expect a strong earnings turnaround of 29/20% in 2023-24F from a 13% fall this year. **Third**, SAT's valuation looks compelling to us at 7.1x 2023F PE (4.2x excluding net cash) with attractive 6.6/8.5% dividend yields in 2022-23F.

Global slowdown a risk to exports

Total car production in 6M22 was up just 3% y-y, driven by domestic sales growth of 17% y-y but dragged by a 5% y-y fall in exports. Of total car production, about half is for domestic sales and half is for exports. We now factor in a global slowdown and estimate export growth of -5/+3/+8% in 2022-24F. We expect domestic demand to still grow 17/8/8% in 2022-24F on the back of a domestic economic turnaround from a tourism recovery and the low base. Also, we don't expect interest rates in Thailand to rise as sharply as in many other countries given still hefty excess liquidity. Exhibit 1 shows our new car sales forecasts.

A play on falling steel prices

Despite weak auto exports, we still expect SAT's revenue to grow 4% this year from rising domestic car sales and new parts orders. However, we forecast its earnings to fall 13% due to the impact of the steel price jump. The hot rolled coil (HRC) benchmark price surged to US\$1,000/tonne at the end of 2021 vs. US\$855 in March 2021. The price peaked at US\$1,625 in March 2022 and has come down sharply to US\$845 at present. SAT uses more specific steel types and prices are less volatile than the benchmark with a lag time to adjust. We expect SAT's earnings to start seeing benefits from falling steel prices from 4Q22F. So, while we estimate SAT's sales growth of 11.3/10.6%, margin improvement pushes up our earnings growth projections to 29/20% in 2023-24F.

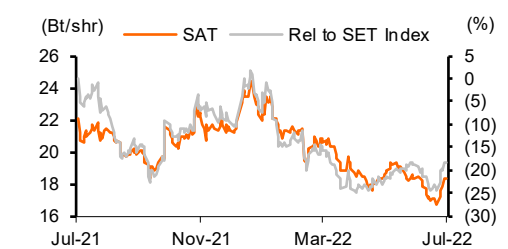
Compelling valuation in our view

SAT's share price has fallen by 20% YTD, reflecting the bad news about the weaker auto export outlook and high steel prices hitting margin. It looks cheap to us now at 7.1x 2023F PE. This is near -1STD PE of its valuation range over the past 17 years. Excluding net cash of Bt7.4/share, PE goes down to 4.2x. Despite our earnings cuts, SAT still offers attractive dividend yields of 6.6/8.5% in 2022-23F on a 60% pay-out ratio.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	8,598	8,946	9,959	11,016
Net profit	953	854	1,105	1,327
Consensus NP	—	1,008	1,144	1,247
Diff frm cons (%)	—	(15.3)	(3.4)	6.4
Norm profit	983	854	1,105	1,327
Prev. Norm profit	—	1,042	1,340	1,476
Chg frm prev (%)	—	(18.0)	(17.5)	(10.1)
Norm EPS (Bt)	2.3	2.0	2.6	3.1
Norm EPS grw (%)	165.0	(13.1)	29.4	20.0
Norm PE (x)	8.0	9.2	7.1	5.9
EV/EBITDA (x)	3.6	3.5	2.6	1.9
P/BV (x)	1.0	1.0	0.9	0.9
Div yield (%)	8.2	6.6	8.5	10.2
ROE (%)	13.4	11.0	13.5	15.2
Net D/E (%)	(32.7)	(35.8)	(39.7)	(43.8)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 25-Jul-22(Bt)	18.40
Market Cap (US\$ m)	213.7
Listed Shares (m shares)	425.2
Free Float (%)	64.4
Avg Daily Turnover (US\$ m)	1.0
12M Price H/L (Bt)	24.50/16.70
Sector	Automotive
Major Shareholder	Somboon Holding 29.9%

Sources: Bloomberg, Company data, Thanachart estimates

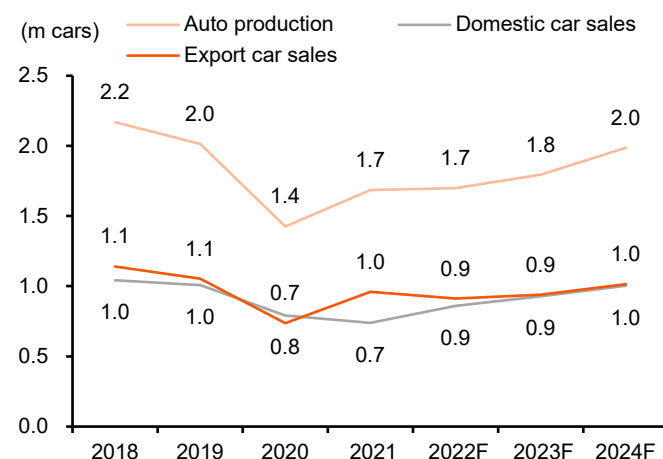
Global slowdown a risk to exports

We estimate industry auto production growth of 1/6/11% in 2022-24F

While our previous concern about a chip supply shortage caused by the Ukraine-Russia war and COVID-19 lockdowns in China looks set to ease in 2H22F, our new worry is weaker global demand because of inflation and higher interest rates.

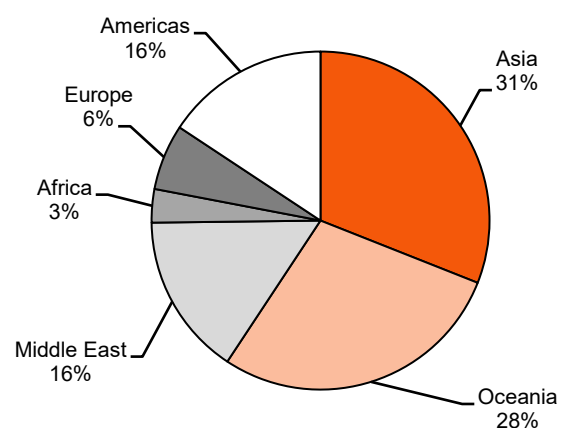
Total car production in 6M22 was up only 3% y-y, driven by domestic sales growth of 17% y-y but dragged by a 5% y-y fall in auto exports. Key market drags for exports were Europe (6% of 5M22 total exports), which was down 38% y-y in 5M22, followed by Asia (31% of total export) that saw a drop of 9%. We now factor in a global slowdown and forecast an export growth contraction of 5% this year. While we expect the global slowdown to drag on, we foresee growth in exports resuming by 3% next year driven by Oceania, which includes Australia, and the Middle East (these markets accounted for a combined 44% of 5M22 export volume), whose economies benefit from rising coal and oil prices. We then expect 8% export growth in 2024F. However, the Thai auto industry still has a cushion from the growing domestic car market, where we expect domestic demand in terms of volume to grow by 17/8/8% in 2022-24F on the back of an economic turnaround from a recovery in tourism and the low base after a contraction in growth of 21/7% in 2020-21. Also, we don't expect interest rates in Thailand to rise as sharply as in many other countries given that excess liquidity is still substantial. As such, on the production side, we expect the industry to deliver growth of 1/6/11% in 2022-24F. Together with falling steel costs, we expect SAT's earnings to grow by 29/20% in 2023-24F on the back of 11.3/10.6% sales growth and a margin improvement.

Ex 1: Industry Auto Production Forecasts

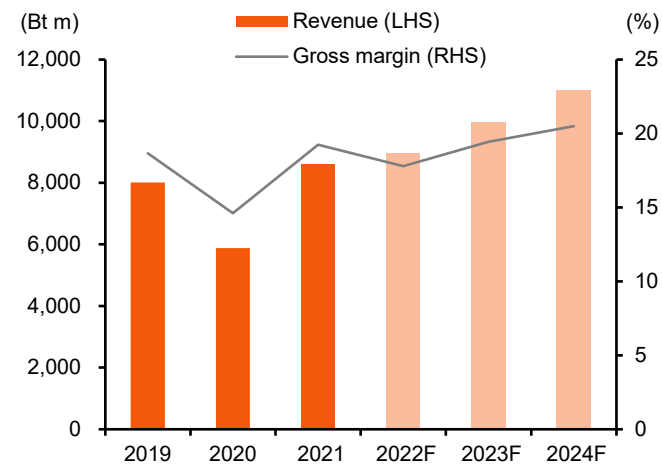


Sources: The Federation Of Thai Industries; Thanachart estimates

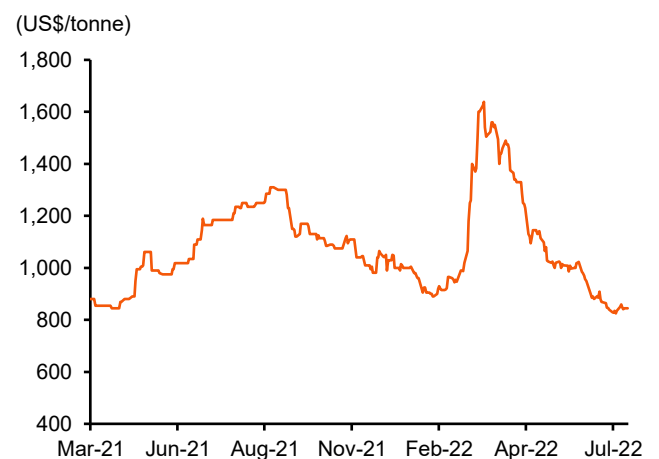
Ex 2: 5M22 Industry Auto Export Market Breakdown



Source: Thailand Automotive Institute

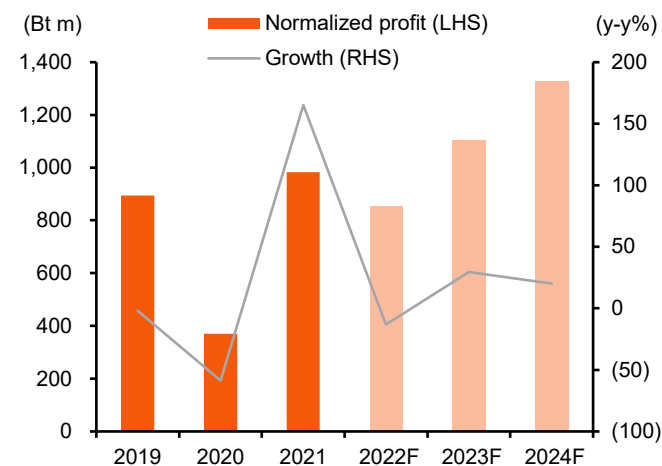
Ex 3: Sales And Gross Margin Improvement In 2023-24F

Sources: Company data; Thanachart estimates

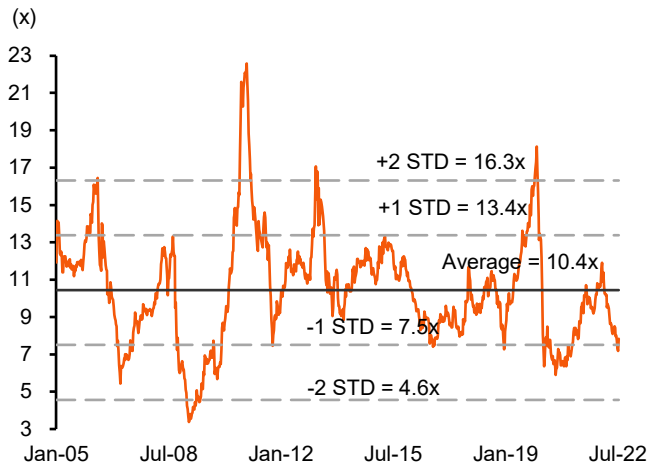
Ex 4: Hot-Rolled Coil Steel Index Started To Fall

Source: Bloomberg,

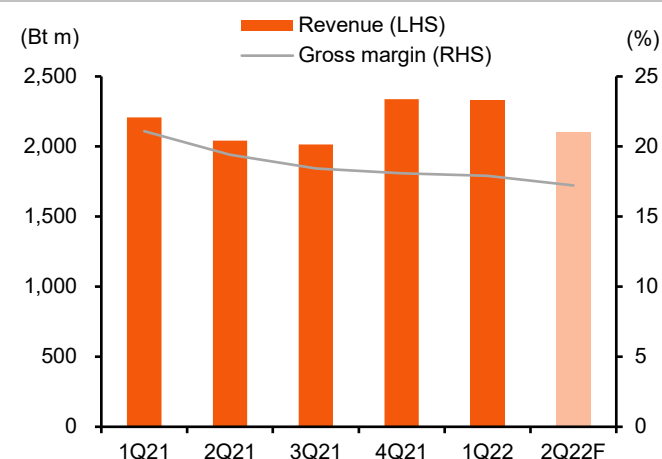
Note: This data is hot-rolled steel index future contract August 2022. SAT uses more specific steel types and prices are less volatile than the benchmark with a lag time to adjust. Steel accounts for up to 40% of SAT's cost of goods sold

Ex 5: Earnings Growth Turnaround Of 29/20% In 2023-24F

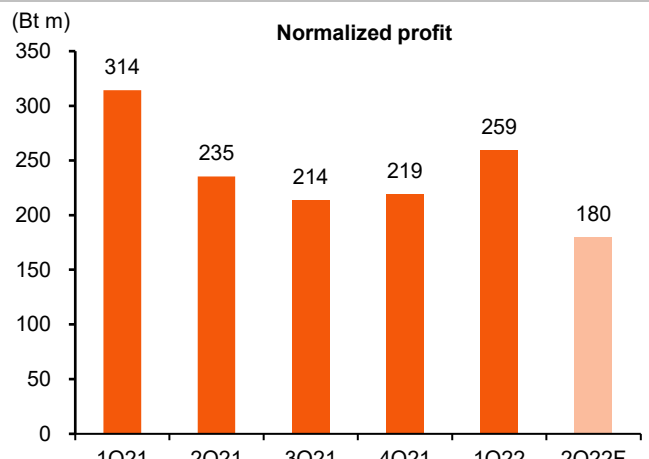
Sources: Company data; Thanachart estimates

Ex 6: SAT Trades At The Bottom Of Historical PE Range

Sources: Bloomberg; Thanachart estimates

Ex 7: 2Q Is A Normal Low Season Quarter...

Sources: Company data; Thanachart estimates

Ex 8: ...And Still Hit By Rising Steel Costs

Sources: Company data; Thanachart estimates

Ex 9: Key Earnings Revisions

	2019	2020	2021	2022F	2023F	2024F
Industry auto production (cars)						
New	2,013,710	1,426,072	1,685,705	1,698,964	1,795,080	1,986,446
Old				1,789,598	2,005,727	2,078,354
Change (%)				(5.1)	(10.5)	(4.4)
Industry auto sales (cars)						
New						
Domestic sales	1,007,552	792,110	738,113	859,730	928,508	1,002,789
Export sales	1,054,103	735,842	959,194	911,234	938,571	1,013,657
Old						
Domestic sales				864,036	982,360	1,031,322
Export sales				997,562	1,077,367	1,116,915
Total revenue (Bt m)						
New	8,006	5,883	8,598	8,946	9,959	11,016
Old				9,286	10,767	11,399
Change (%)				(3.7)	(7.5)	(3.4)
Average gross margin (%)						
New	18.7	14.6	19.2	17.8	19.4	20.5
Old				19.0	20.0	20.5
Change (%)				(1.2)	(0.5)	(0.0)
Normalized earnings (Bt m)						
New	894	371	983	854	1,105	1,327
Old				1,042	1,342	1,476
Change (%)				(18.0)	(17.6)	(10.1)

Sources: Company data, Thanachart estimates

Ex 10: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA	1,721	1,990	2,078	2,134	2,205	2,037	2,025	2,106	2,188	2,274	2,369	—
Free cash flow	1,030	1,256	1,125	1,089	851	754	609	630	660	692	732	7,121
PV of free cash flow	1,027	1,011	812	705	483	382	276	255	238	223	201	1,950
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	11.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	7,991											
Net debt (2022F)	(2,833)											
Minority interest	0											
Equity value	10,824											
# of shares (m)	425											
Target price/share (Bt)	25.0											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 11: 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	(0.6)	2.4	5.3	5.1	1.3	1.1	na	na	12.5	12.7
Fuyao Glass Industry Group	600660 CH	China	29.6	24.7	25.8	20.7	3.8	3.5	14.4	12.1	2.4	2.8
Weifu High-Technology	000581 CH	China	(5.5)	9.3	7.9	7.2	0.9	0.9	8.4	7.4	6.1	6.2
Bharat Forge	BHFC IN	India	26.9	27.6	32.4	27.5	5.3	4.4	18.9	15.9	0.6	0.9
Sundram Fasteners	SF IN	India	40.9	32.8	26.7	20.1	5.5	4.5	17.4	13.5	0.8	0.9
UMW Holdings	UMWH MK	Malaysia	25.5	5.8	10.3	9.7	0.8	0.7	6.6	6.7	2.1	2.4
Mando Corp	060980 KS	S. Korea	(16.5)	15.8	4.3	3.7	0.4	0.3	6.6	6.2	5.2	5.4
Hyundai Mobis	012330 KS	S. Korea	10.7	15.0	8.2	7.2	0.6	0.5	4.7	3.8	1.9	2.2
Hu Lane Associate Inc	6279 TT	Taiwan	12.1	23.9	17.0	13.7	2.8	2.6	10.9	8.5	3.9	4.8
Tong Yang Industry	1319 TT	Taiwan	162.1	7.1	16.1	15.0	1.2	1.2	6.8	6.3	3.2	3.6
AAPICO Hitech	AH TB	Thailand	8.8	15.7	6.7	5.8	0.8	0.8	7.0	6.6	5.1	6.1
Somboon Advance Tech*	SAT TB	Thailand	(13.1)	29.4	9.2	7.1	1.0	0.9	3.5	2.6	6.6	8.5
Thai Stanley Electric *,**	STANLY TB	Thailand	(2.2)	24.7	8.8	7.0	0.6	0.6	2.1	1.7	3.7	4.5
Average			21.4	18.0	13.7	11.5	1.9	1.7	8.9	7.6	4.2	4.7

Source: Bloomberg, Thanachart estimates

Note: * Thanachart estimates using normalized EPS growth

** STANLY's fiscal year ends in March

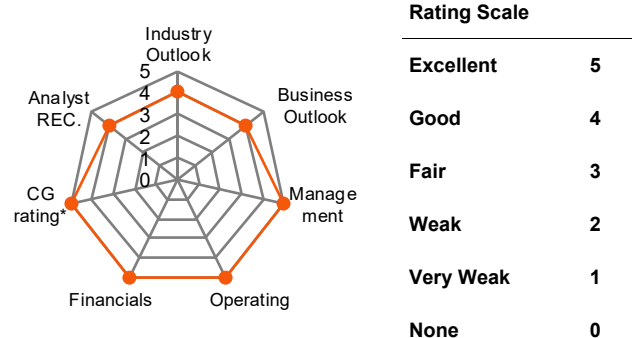
Based on 25 Jul 2022 closing prices

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



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
Target price (Bt)	23.80	25.00	5%
Net profit 22F (Bt m)	1,008	854	-15%
Net profit 23F (Bt m)	1,144	1,105	-3%
Consensus REC	BUY: 8	HOLD: 1	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F net profit is lower than the Bloomberg consensus estimate, likely due to us factoring in rising steel costs and having a more bearish view on industry auto exports. Our 2023F net profit and TP are in line with the Street.

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	8,946	9,959	11,016
Cost of sales	5,023	6,943	7,355	8,024	8,757
Gross profit	859	1,655	1,591	1,934	2,258
% gross margin	14.6%	19.2%	17.8%	19.4%	20.5%
Selling & administration expenses	584	734	770	825	899
Operating profit	276	921	821	1,109	1,359
% operating margin	4.7%	10.7%	9.2%	11.1%	12.3%
Depreciation & amortization	620	572	593	612	631
EBITDA	896	1,493	1,414	1,721	1,990
% EBITDA margin	15.2%	17.4%	15.8%	17.3%	18.1%
Non-operating income	144	120	125	129	143
Non-operating expenses	0	0	0	0	0
Interest expense	(8)	(6)	(1)	(0)	(0)
Pre-tax profit	412	1,035	946	1,239	1,502
Income tax	40	134	142	198	255
After-tax profit	372	901	804	1,040	1,247
% net margin	6.3%	10.5%	9.0%	10.4%	11.3%
Shares in affiliates' Earnings	3	84	50	65	80
Minority interests	(4)	(3)	0	0	0
Extraordinary items	0	(30)	0	0	0
NET PROFIT	371	953	854	1,105	1,327
Normalized profit	371	983	854	1,105	1,327
EPS (Bt)	0.9	2.2	2.0	2.6	3.1
Normalized EPS (Bt)	0.9	2.3	2.0	2.6	3.1

We estimate 2023-24F
EPS growth of 29/20%

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	4,407	5,543	5,992	6,831	7,779
Cash & cash equivalent	2,331	2,498	2,833	3,350	3,960
Account receivables	1,311	1,751	1,814	2,019	2,233
Inventories	565	594	625	682	744
Others	200	701	721	780	841
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	194	216	239
Total assets	8,955	9,830	10,194	10,943	11,783
LIABILITIES:					
Current liabilities:	1,501	1,892	1,984	2,182	2,391
Account payables	974	1,228	1,310	1,429	1,560
Bank overdraft & ST loans	12	0	0	0	0
Current LT debt	59	0	0	0	0
Others current liabilities	455	664	674	753	832
Total LT debt	59	0	0	0	0
Others LT liabilities	305	296	288	321	355
Total liabilities	1,865	2,188	2,273	2,504	2,747
Minority interest	48	0	0	0	0
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	6,780	7,297	7,895
Shareholders' equity	7,042	7,642	7,921	8,439	9,036
Liabilities & equity	8,955	9,830	10,194	10,943	11,783

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	412	1,035	946	1,239	1,502
Tax paid	(64)	(74)	(164)	(177)	(255)
Depreciation & amortization	620	572	593	612	631
Chg In working capital	231	(215)	(12)	(143)	(146)
Chg In other CA & CL / minorities	(70)	(315)	62	63	97
Cash flow from operations	1,128	1,003	1,424	1,594	1,829
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	(15)	11	11
Cash flow from investments	(486)	(363)	(515)	(489)	(489)
Debt financing	(187)	(120)	0	1	(1)
Capital increase	0	0	0	0	0
Dividends paid	(476)	(374)	(575)	(588)	(730)
Warrants & other surplus	(11)	22	0	0	0
Cash flow from financing	(674)	(473)	(575)	(587)	(730)
Free cash flow	701	765	924	1,094	1,329

SAT offers dividend
yields of 6.6/8.5% in 2022-
23F

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	21.1	8.0	9.2	7.1	5.9
Normalized PE - at target price (x)	28.7	10.8	12.4	9.6	8.0
PE (x)	21.1	8.2	9.2	7.1	5.9
PE - at target price (x)	28.6	11.2	12.4	9.6	8.0
EV/EBITDA (x)	6.3	3.6	3.5	2.6	1.9
EV/EBITDA - at target price (x)	9.4	5.4	5.5	4.2	3.4
P/BV (x)	1.1	1.0	1.0	0.9	0.9
P/BV - at target price (x)	1.5	1.4	1.3	1.3	1.2
P/CFO (x)	6.9	7.8	5.5	4.9	4.3
Price/sales (x)	1.3	0.9	0.9	0.8	0.7
Dividend yield (%)	3.3	8.2	6.6	8.5	10.2
FCF Yield (%)	9.0	9.8	11.8	14.0	17.0
(Bt)					
Normalized EPS	0.9	2.3	2.0	2.6	3.1
EPS	0.9	2.2	2.0	2.6	3.1
DPS	0.6	1.5	1.2	1.6	1.9
BV/share	16.6	18.0	18.6	19.8	21.3
CFO/share	2.7	2.4	3.4	3.7	4.3
FCF/share	1.6	1.8	2.2	2.6	3.1

Sources: Company data, Thanachart estimates

Inexpensive, in our view,
trading at 7.1x PE

FINANCIAL RATIOS

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

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(26.5)	46.2	4.1	11.3	10.6
Net profit (%)	(58.5)	156.6	(10.3)	29.4	20.0
EPS (%)	(58.5)	156.6	(10.3)	29.4	20.0
Normalized profit (%)	(58.5)	165.0	(13.1)	29.4	20.0
Normalized EPS (%)	(58.5)	165.0	(13.1)	29.4	20.0
Dividend payout ratio (%)	68.7	66.9	60.0	60.0	60.0
Operating performance					
Gross margin (%)	14.6	19.2	17.8	19.4	20.5
Operating margin (%)	4.7	10.7	9.2	11.1	12.3
EBITDA margin (%)	15.2	17.4	15.8	17.3	18.1
Net margin (%)	6.3	10.5	9.0	10.4	11.3
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)	(0.4)
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	8.5	10.5	11.7
ROE - using norm profit (%)	5.2	13.4	11.0	13.5	15.2
DuPont					
ROE - using after tax profit (%)	5.2	12.3	10.3	12.7	14.3
- asset turnover (x)	0.6	0.9	0.9	0.9	1.0
- operating margin (%)	7.1	12.1	10.6	12.4	13.6
- 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	13.6	18.3	22.2
NOPAT (Bt m)	249	802	698	932	1,128
invested capital (Bt m)	4,841	5,145	5,089	5,090	5,076

Sources: Company data, Thanachart estimates

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