The Siam Cement Pcl (SCC TB) - BUY

Earnings Preview

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A decent profit amid uncertain time

- **A solid delivery despite weak demand**
- **SCC's chemical business to perform relative better**
- **Cement price hike outweigh lower demand**
- **Maintain BUY with DCF-based TP of Bt440**

Following SCC's company update meeting, company confirms our view that 2Q22 profit is unlikely to be as bad as it seems. Please see report: *SCC – Not as bad as it seems*, dated 27 June 2022. If fact, it could come in higher than our initial expectation of Bt8bn for 2Q22F profit. Our revised expectation for 2Q22 profit is at Bt9.3bn due to stronger than expect cement revenue and better dividend incomes. This is 51% of our 22F profit and 46% of Bloomberg consensus. Stripping out stock loss of Bt1bn, we estimate core profit of Bt10.3bn, up by 33% q-q thanks to seasonal dividend income from automotive subsidiaries. In terms of core businesses, chemical profit should be steady q-q as higher margins offset inventory loss while cement business should trend seasonally lower q-q.

- **Weak China demand weigh on chemical sector.** Company is turning more cautious on chemical demand outlook amid China lockdown and high inflation that could lead to weak market sentiment. According to SCC, regional chemical plants are cutting run rate by 10-15% and some extend their turnarounds. On top of this, 2Q is normally a low season with several holidays. Management remains cautious regard demand outlook in 2H22.
- **SCC's chemical business to perform relative better**. Company admits that weak demand in 2Q22 has impacted on SCC's operation but only impact volume in a mid-single digit point. This is due to SCC's lower exposure to China and slightly better price in Southeast Asia relative to Northeast Asia. Note that the company has planned turnaround of downstream units in 2Q22F which will impact polyolefin sale volume by 40,000 tonnes. We estimate that SCC's polyolefin volume to drop by 13% q-q to 433,000 in 2Q22F.
- **Cement price hike outweigh lower demand**. Company guided revenue up both y-y and q-q despite domestic cement is expected to drop by 6-7% y-y and trend softer q-q due to lower season. This means that price has to increase more than demand drop which confirms our view that price continue to increase in 2Q22F. According to the company, they were able to cover 2/3 of target price increase of US$6-7/t in 2Q22FManagement claims that price increase could be much faster if demand is stronger. Demand was weak in 2Q22 weigh by concern on inflation and uncertain economic activities amid Russia-Ukraine war.

We reaffirm our BUY call on SCC for its 35% earnings turnaround in 2023F from most of its business lines. The strongest driver should be its petrochemical business' 47% capacity increase and a spread recovery.

Key Valuations

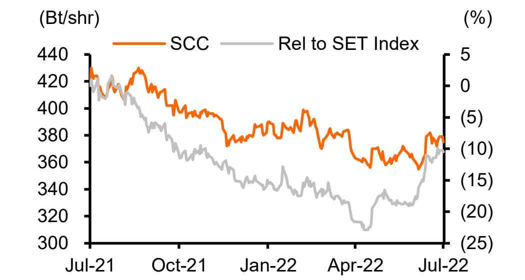
Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Revenue	530,112	529,641	558,767	633,566
Net profit	47,174	35,615	48,090	57,198
Norm net profit	46,967	35,615	48,090	57,198
Norm EPS (Bt)	39.1	29.7	40.1	47.7
Norm EPS gr (%)	24.0	(24.2)	35.0	18.9
Norm PE (x)	9.6	12.6	9.4	7.9
EV/EBITDA (x)	8.9	12.2	8.6	7.3
P/BV (x)	1.2	1.2	1.1	1.0
Div. yield (%)	4.9	4.0	5.3	6.4
ROE (%)	13.7	9.5	12.2	13.5
Net D/E (%)	49.4	55.7	48.1	40.6

Source: Thanachart estimates

Stock Data

Closing price (Bt)	375.00
Target price (Bt)	440.00
Market cap (US$ m)	12,394
Avg daily turnover (US$ m)	35.5
12M H/L price (Bt)	452.00/356.00

Price Performance



Source: Bloomberg

Ex 1: 2Q22F preview

(Bt m)	2Q21	1Q22	2Q22F	(q-q%)	(y-y%)
Net sales	133,555	152,494	165,239	8	24
Cost of Sales	(101,311)	(128,396)	(141,474)	10	40
Gross margin	**32,244**	**24,098**	**23,765**	***(1)***	***(26)***
Net income	**17,136**	**8,844**	**9,346**	***6***	***(45)***
Inventory gain/(loss)	150	1,080	(1,000)		
Core profit	**16,986**	**7,764**	**10,346**	***33***	***(39)***
Profit by business (Bt m)					
CBM	2,468	2,308	1,796	(22)	(27)
Chemical	10,392	3,588	3,530	(2)	(66)
Packaging paper	2,263	1,658	1,812	9	(20)

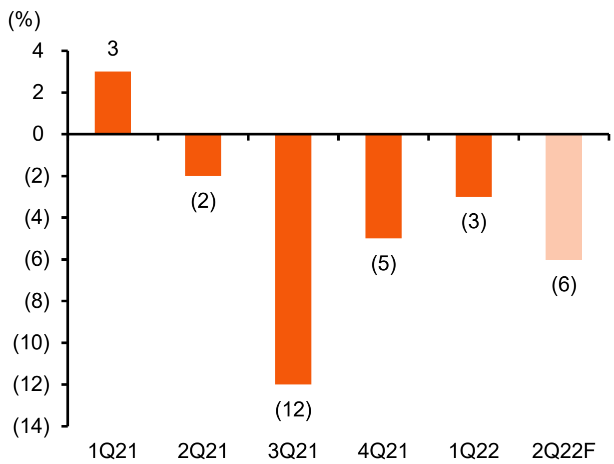
Sources: Company data, Thanachart estimates

Ex 2: Key chemical spreads

(US$/tonne)	2Q21	1Q22	2Q22F	(q-q%)	(y-y%)
HDPE-naphtha	585	453	468	3	(20)
PP-naphtha	700	479	445	(7)	(36)
PVC-EDC/C2	700	377	530	41	(24)
MMA-naphtha	1,442	1,037	1,293	25	(10)
BD-naphtha	452	169	558	230	23

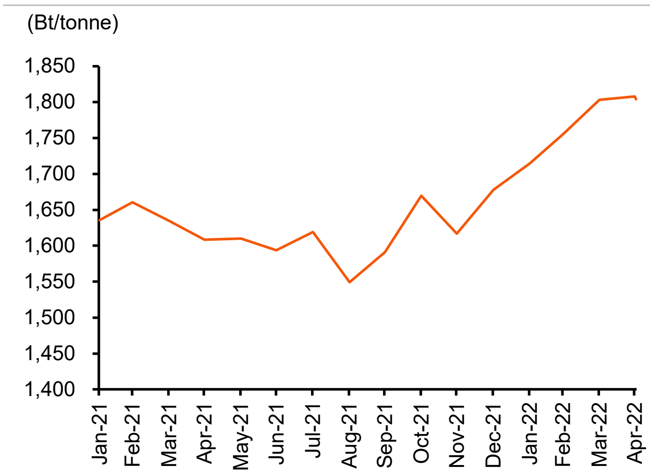
Sources: Bloomberg

Ex 3: Domestic cement demand y-y growth



Source: Company data

Ex 4: Domestic cement price



Source: OIE

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