BUY (Unchanged) | TP: Bt 220.00 (From: Bt 270.00)

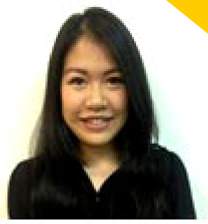
Change in Numbers | Upside : 31.0% | 25 JULY 2022

Small Cap Research

Thai Stanley Electric (STANLY TB)

Deep value

Despite cutting our earnings to reflect the risk of a global economic slowdown, STANLY looks deeply valued to us. Its 0.6x P/BV is below the 2008 global financial crisis level of 0.9x and the 1.2x during Thailand's mega-flood in 2011. We reaffirm BUY with a Bt220 TP.



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Thanachart Securities

At a crisis-like valuation

We reaffirm our BUY call on STANLY despite cutting our earnings by 26/20/9% in FY23-25F (fiscal year ending March) to reflect the risk of a global slowdown that could hit auto exports from Thailand and rising raw material costs. We lower our DCF-based 12-month TP (FY23F base year) to Bt220/share (from Bt270). *First*, we see STANLY as a deep-value stock trading at the bottom of its historical range. Its FY23F P/BV ratio of 0.6x with Bt6.1bn of net cash (31% of its book value) is below the 2008 global financial crisis average level of 0.9x and the 1.2x during Thailand's 2011 mega-flood (see Exhibit 1). *Second*, we expect earnings to turn around by 25/18% in FY24-25F on growing domestic car sales and falling raw material costs.

Global slowdown a risk to exports

Thailand's auto production grew only 3% y-y in 6M21 (calendar year), driven by domestic sales growth of 17% y-y that outweighed a 5% y-y fall in auto exports. About half of total car production is domestic sales and the other half exports. We now factor in a global economic slowdown and estimate export growth of -5/+3/+8% in 2022-24F. We still expect domestic demand to grow 17/8/8% in 2022-24F on the back of an economic turnaround from the low base and a recovery in tourism. Also, we don't expect interest rates in Thailand to rise as sharply as in many other countries due to still substantial excess liquidity. For motorcycles, we project industry production growth of 1/3/5% in 2022-24F. Exhibit 3 shows our new car sales forecasts.

Growth to resume from FY24F

We project FY23F normalized earnings to fall by 2% on relatively flat sales and a gross margin contraction amid higher raw material costs, especially plastic resin, the cost of which we expect to increase by 5-10% in FY23F. STANLY uses more specific plastic types for its lamp production with less volatile prices than the benchmark. Rising costs are unlikely to be passed onto customers. We expect earnings growth to resume in FY24-25F at 25/18%, driven by 9/11% revenue growth with gross margin recovering to 19.3/20.1% in FY24-25F vs. 18.3/17.6% in FY22-23F.

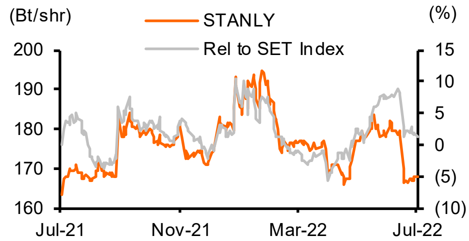
No change to its capex plan

There is no change to STANLY's capex plan that has been investors' key concern. The latest Lamp 8 factory, opening in phases since November 2020, is set to run fully this year with up to Bt2bn to be spent. STANLY remains in a long-term plant-modernization period of adding new technology for its lamp production but with no concrete timeline. The nearest-term plan is to renovate and expand one of its old factories. In our DCF-based TP, we factor in capex for six new plants over the next 10 years.

COMPANY VALUATION

Y/E Mar (Bt m)	2022A	2023F	2024F	2025F
Sales	13,582	13,843	15,053	16,717
Net profit	1,521	1,482	1,830	2,161
Consensus NP	—	1,857	2,066	2,164
Diff frm cons (%)	—	*(20.2)*	*(11.4)*	*(0.1)*
Norm profit	1,501	1,467	1,830	2,161
Prev. Norm profit	—	1,974	2,297	2,369
Chg frm prev (%)	—	*(25.7)*	*(20.3)*	*(8.8)*
Norm EPS (Bt)	19.6	19.2	23.9	28.2
Norm EPS grw (%)	44.7	(2.2)	24.7	18.1
Norm PE (x)	8.6	8.8	7.0	6.0
EV/EBITDA (x)	2.2	2.1	1.7	1.3
P/BV (x)	0.6	0.6	0.6	0.5
Div yield (%)	5.1	3.7	4.5	5.4
ROE (%)	7.7	7.2	8.5	9.4
Net D/E (%)	(30.7)	(30.5)	(30.8)	(31.6)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 25-Jul-22 (Bt)	168.00
Market Cap (US$ m)	351.7
Listed Shares (m shares)	76.6
Free Float (%)	34.3
Avg Daily Turnover (US$ m)	0.3
12M Price H/L (Bt)	194.50/163.50
Sector	Automotive
Major Shareholder	Stanley Electric Holding 29.95%

Sources: Bloomberg, Company data, Thanachart estimates

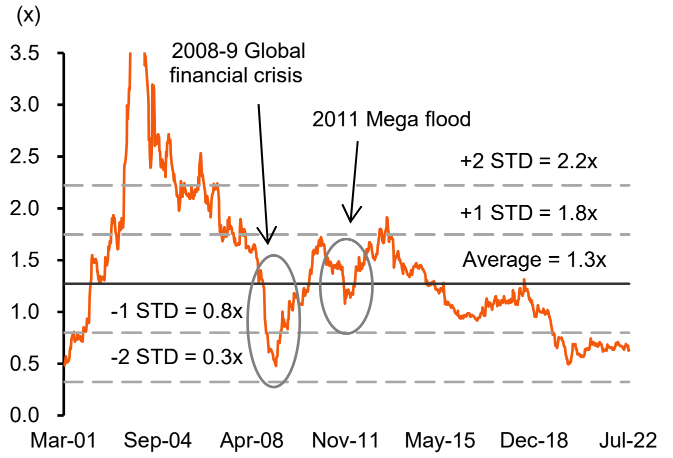
Global slowdown poses a risk to exports

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 (calendar year), our new worry is continued weak global demand because of inflation and higher interest rates.

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

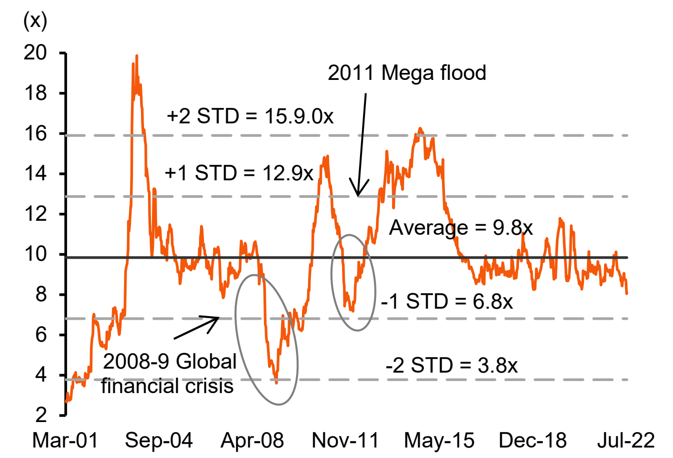
Total car production in 6M22 was up only 3% y-y, driven by domestic sales growth of 17% y-y but dragged by a 5% y-y fall in auto exports. Key market drags for exports were Europe (6% of 5M22 total exports), which fell by 38% y-y in 5M22, followed by Asia (31% of 5M22 total exports) that saw a drop of 9%. We now factor in a global economic 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. For motorcycles, we project industry production growth of 1/3/5% in 2022-24F.

Ex 1: STANLY Looks Cheap In P/BV Ratio Terms



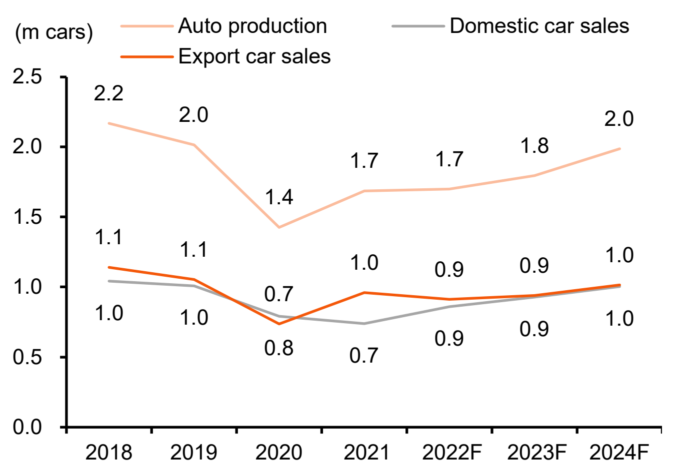
Sources: Bloomberg, Thanachart estimates

Ex 2: PE Ratio Also Trades At Bottom Of Range



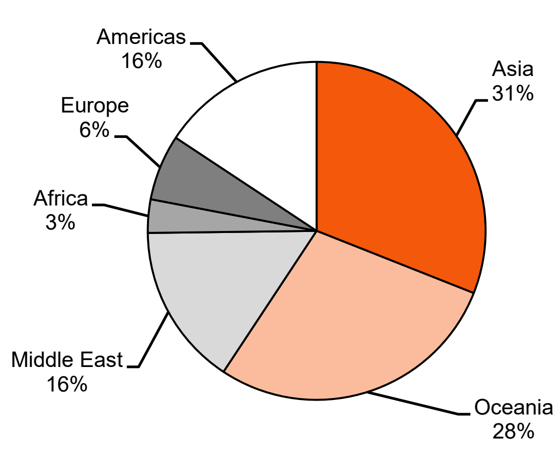
Sources: Bloomberg, Thanachart estimates

Ex 3: Industry Car Production Forecasts



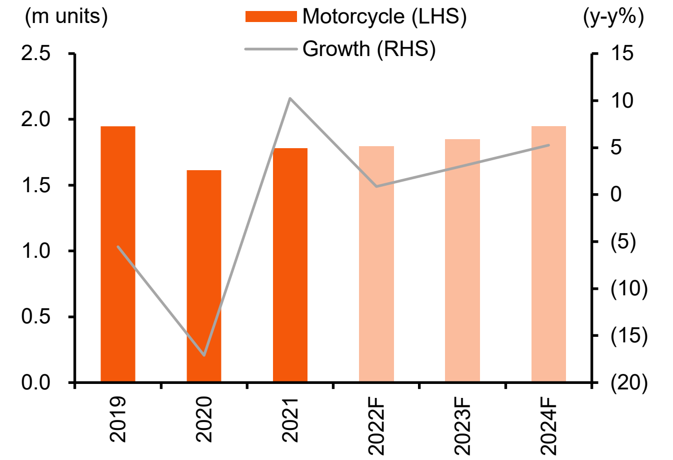
Sources: The Federation Of Thai Industries; Thanachart estimates

Ex 4: 5M22 Industry Car Export Market Breakdown



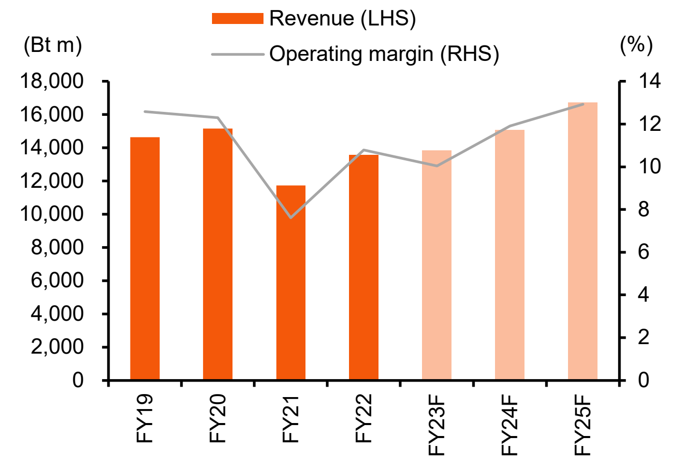
Source: Thailand Automotive Institute

Ex 5: Industry Motorcycle Production Forecasts



Sources: The Federation Of Thai Industries; Thanachart estimates

Ex 6: Revenue And Margin Forecasts



Sources: Company data; Thanachart estimates
Note: STANLY revenue contributes from car 70% and motorcycle 30%

Ex 7: Key Earnings Revisions

	FY20	FY21	FY22	FY23F	FY24F	FY25F
Industry car production (units)*						
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 car sales (units)*						
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	15,150	11,728	13,582	13,843	15,053	16,717
Old				15,777	17,625	18,059
Change (%)				*(12.3)*	*(14.6)*	*(7.4)*
Gross margin (%)						
New	18.6	15.1	18.3	17.6	19.3	20.1
Old				19.4	20.1	20.3
Change (%)				*(1.9)*	*(0.8)*	*(0.2)*
Normalized earnings (Bt m)						
New	1,981	1,037	1,501	1,467	1,830	2,161
Old				1,974	2,297	2,369
Change (%)				*(25.7)*	*(20.3)*	*(8.8)*

Sources: Company data, Thanachart estimates
*Numbers based on calendar year

Ex 8: 12-month DCF-based TP Calculation, Using A Base Year Of FY23F

(Bt m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	Terminal Value
EBITDA	3,031	3,554	4,011	4,257	4,157	4,124	4,153	4,357	4,568	4,786	4,983	5,191	—
Free cash flow	839	1,100	1,437	1,789	1,872	1,565	1,310	1,149	1,060	979	886	801	8,602
PV of free cash flow	836	901	1,065	1,200	1,136	837	631	499	414	345	281	217	2,328
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	10.5												
Terminal growth (%)	2.0												
Enterprise value - add investments*	10,689												
Net debt (FY22)	(6,139)												
Minority interest	0												
Equity value	16,828												
# of shares (m)	77												
Equity value/share (Bt)	**220**												

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	(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

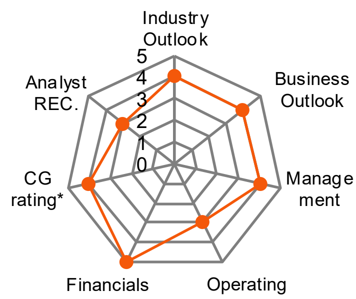
Note: * Thanachart estimates using normalized EPS growth
** STANLY's fiscal year ends in March
Based on 25 Jul 2022 closing prices

COMPANY DESCRIPTION

Thai Stanley Electric (STANLY) is a manufacturer of lighting equipment for vehicles, including auto bulbs, lamps and molds with integrated manufacturing using designs by its research & development center, advanced production equipment and high-performance technology. Products are made in accordance with the standards of clients which are manufacturers of automobiles and motorcycles both for the domestic and export markets.

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

- Commands the largest share of Thailand's automotive lighting equipment market.
- Strong relationships with leading Japanese carmakers.
- Shared technologies and regional footprints among Stanley Group.

W — Weakness

- Limited opportunities for current customers to expand.

O — Opportunity

- More production plants from carmakers moving to Thailand.
- Growth of subsidiaries' businesses in the region.
- Direct product exports to regional car production plants.

T — Threat

- Competition from new regional car production sites.
- Fast-changing car lamp technologies require high capex spending

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	214.00	220.00	3%
Net profit FY23F (Bt m)	1,857	1,482	-20%
Net profit FY24F (Bt m)	2,066	1,830	-11%
Consensus REC	**BUY: 4**	**HOLD: 2**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our FY23-24F earnings are lower than the Bloomberg consensus estimates, likely because we are more bearish on the auto export market.
- Our DCF-based TP is, however, in line with the Street as we assume auto production returns to the pre-COVID level by FY25F.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If the recovery of auto and motorcycle sales comes in slower than we currently anticipate, we see downside risk to our earnings projections.
- Government policy and natural disasters could lead to industry distortions, representing a secondary downside risk to our earnings projections.
- If the defect rate of STANLY's new orders were to be higher than our expectation, this would represent another downside risk to our gross margin assumptions.

Source: Thanachart

We expect FY25F earnings to surpass pre-COVID level

Balance sheet remains strong despite high capex for its new factory

INCOME STATEMENT

FY ending Mar (Bt m)	2021A	2022A	2023F	2024F	2025F
Sales	11,728	13,582	13,843	15,053	16,717
Cost of sales	9,952	11,093	11,412	12,149	13,352
Gross profit	**1,776**	**2,490**	**2,431**	**2,905**	**3,365**
% gross margin	15.1%	18.3%	17.6%	19.3%	20.1%
Selling & administration expenses	883	1,024	1,040	1,111	1,205
Operating profit	**892**	**1,465**	**1,391**	**1,794**	**2,160**
% operating margin	7.6%	10.8%	10.0%	11.9%	12.9%
Depreciation & amortization	1,556	1,574	1,640	1,760	1,851
EBITDA	**2,448**	**3,039**	**3,031**	**3,554**	**4,011**
% EBITDA margin	20.9%	22.4%	21.9%	23.6%	24.0%
Non-operating income	138	123	125	180	200
Non-operating expenses	0	0	0	0	0
Interest expense	0	0	0	0	0
Pre-tax profit	**1,030**	**1,588**	**1,516**	**1,974**	**2,360**
Income tax	235	369	333	434	519
After-tax profit	**795**	**1,219**	**1,182**	**1,540**	**1,841**
% net margin	6.8%	9.0%	8.5%	10.2%	11.0%
Shares in affiliates' Earnings	242	282	285	290	320
Minority interests	0	0	0	0	0
Extraordinary items	24	20	15	0	0
NET PROFIT	**1,061**	**1,521**	**1,482**	**1,830**	**2,161**
Normalized profit	**1,037**	**1,501**	**1,467**	**1,830**	**2,161**
EPS (Bt)	13.9	19.9	19.3	23.9	28.2
Normalized EPS (Bt)	13.5	19.6	19.2	23.9	28.2

BALANCE SHEET

FY ending Mar (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Current assets:	8,000	9,539	9,871	10,612	11,667
Cash & cash equivalent	4,921	6,139	6,398	6,857	7,512
Account receivables	2,550	2,618	2,655	2,887	3,206
Inventories	477	718	750	799	878
Others	52	65	68	69	71
Investments & loans	1,733	1,909	1,909	1,909	1,909
Net fixed assets	9,403	9,077	9,721	10,258	10,720
Other assets	2,406	2,532	2,580	2,806	3,116
Total assets	**21,543**	**23,057**	**24,081**	**25,585**	**27,411**
LIABILITIES:					
Current liabilities:	1,967	2,065	2,159	2,314	2,549
Account payables	1,467	1,476	1,563	1,664	1,829
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	0	0	0	0	0
Others current liabilities	500	589	595	650	720
Total LT debt	**0**	**0**	**1**	**0**	**1**
Others LT liabilities	857	965	975	1,025	1,093
Total liabilities	**2,825**	**3,030**	**3,135**	**3,339**	**3,643**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	383	383	383	383	383
Share premium	504	504	504	504	504
Warrants	0	0	0	0	0
Surplus	767	977	977	977	977
Retained earnings	**17,063**	**18,163**	**19,082**	**20,382**	**21,904**
Shareholders' equity	18,718	20,027	20,946	22,246	23,768
Liabilities & equity	**21,543**	**23,057**	**24,081**	**25,585**	**27,411**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Mar (Bt m)	2021A	2022A	2023F	2024F	2025F
Earnings before tax	1,030	1,588	1,516	1,974	2,360
Tax paid	(235)	(369)	(333)	(434)	(519)
Depreciation & amortization	1,556	1,574	1,640	1,760	1,851
Chg In w orking capital	136	(299)	17	(180)	(233)
Chg In other CA & CL / minorities	184	368	288	344	389
Cash flow from operations	**2,671**	**2,861**	**3,127**	**3,464**	**3,848**
Capex	(1,159)	(970)	(2,000)	(2,000)	(2,000)
Right of use	0	0	(0)	(0)	(0)
ST loans & investments	(13)	(11)	0	0	0
LT loans & investments	13	(176)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(1,293)	(296)	(322)	(474)	(555)
Cash flow from investments	**(2,452)**	**(1,452)**	**(2,322)**	**(2,474)**	**(2,555)**
Debt financing	24	20	16	(1)	0
Capital increase	0	0	(0)	0	0
Dividends paid	(632)	(421)	(563)	(530)	(638)
Warrants & other surplus	967	210	0	0	0
Cash flow from financing	**359**	**(192)**	**(547)**	**(531)**	**(638)**
Free cash flow	**1,512**	**1,892**	**1,127**	**1,464**	**1,848**

VALUATION

FY23F P/BV is near crisis valuation level

FY ending Mar	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	12.4	8.6	8.8	7.0	6.0
Normalized PE - at target price (x)	16.2	11.2	11.5	9.2	7.8
PE (x)	12.1	8.5	8.7	7.0	6.0
PE - at target price (x)	15.9	11.1	11.4	9.2	7.8
EV/EBITDA (x)	3.2	2.2	2.1	1.7	1.3
EV/EBITDA - at target price (x)	4.9	3.5	3.4	2.8	2.3
P/BV (x)	0.7	0.6	0.6	0.6	0.5
P/BV - at target price (x)	0.9	0.8	0.8	0.8	0.7
P/CFO (x)	4.8	4.5	4.1	3.7	3.3
Price/sales (x)	1.1	0.9	0.9	0.9	0.8
Dividend yield (%)	3.3	5.1	3.7	4.5	5.4
FCF Yield (%)	11.7	14.7	8.8	11.4	14.4
(Bt)					
Normalized EPS	13.5	19.6	19.2	23.9	28.2
EPS	13.9	19.9	19.3	23.9	28.2
DPS	5.5	8.5	6.2	7.6	9.0
BV/share	244.4	261.4	273.4	290.4	310.3
CFO/share	34.9	37.4	40.8	45.2	50.2
FCF/share	19.7	24.7	14.7	19.1	24.1

Sources: Company data, Thanachart estimates

Low dividend payout due to continued capex and need to maintain high cash base

FINANCIAL RATIOS

FY ending Mar	2021A	2022A	2023F	2024F	2025F
Growth Rate					
Sales (%)	(22.6)	15.8	1.9	8.7	11.0
Net profit (%)	(46.9)	43.3	(2.5)	23.4	18.1
EPS (%)	(46.9)	43.3	(2.5)	23.4	18.1
Normalized profit (%)	(47.6)	44.7	(2.2)	24.7	18.1
Normalized EPS (%)	(47.6)	44.7	(2.2)	24.7	18.1
Dividend payout ratio (%)	39.7	42.8	32.0	32.0	32.0
Operating performance					
Gross margin (%)	15.1	18.3	17.6	19.3	20.1
Operating margin (%)	7.6	10.8	10.0	11.9	12.9
EBITDA margin (%)	20.9	22.4	21.9	23.6	24.0
Net margin (%)	6.8	9.0	8.5	10.2	11.0
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)	(0.3)	(0.3)	(0.3)
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	4.9	6.7	6.2	7.4	8.2
ROE - using norm profit (%)	5.8	7.7	7.2	8.5	9.4
DuPont					
ROE - using after tax profit (%)	4.4	6.3	5.8	7.1	8.0
- asset turnover (x)	0.6	0.6	0.6	0.6	0.6
- operating margin (%)	8.8	11.7	10.9	13.1	14.1
- leverage (x)	1.2	1.2	1.2	1.1	1.2
- interest burden (%)	100.0	100.0	100.0	100.0	100.0
- tax burden (%)	77.2	76.7	78.0	78.0	78.0
WACC (%)	10.5	#N/A	10.5	10.5	10.5
ROIC (%)	5.3	8.2	7.8	9.6	10.9
NOPAT (Bt m)	688.9	1,124.6	1,084.7	1,398.9	1,684.6
invested capital (Bt m)	13,796.5	13,887.8	14,549.3	15,389.3	16,257.2

Sources: Company data, Thanachart estimates

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