

BUY

Initiation

TP: Bt 37.00

Upside: 29.8%

9 AUGUST 2022

Small Cap Research

SiS Distribution (Thailand) (SIS TB)

Bucking the trend

We initiate coverage on SIS with a BUY. We like SIS's fast-growing cybersecurity and cloud distributor and service business that is far outweighing the hit from the slowing mobile industry. We value SIS at Bt37 and see its 11x 2023F PE multiple as inexpensive vs. a 15% three-year EPS growth



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Initiating with a BUY

Note that this report includes our ESG comments. We initiate coverage on SIS, a leading distributor of IT products in Thailand, with a BUY and a DCF-based 12-month TP (2023F base year) of Bt37. *First*, we like SIS's fast-growing cybersecurity and cloud distribution business on strong digital transformation demand by Thai corporates. *Second*, although it's slowing down, we like its top-three market position in the stable IT and mobile distribution business. *Third*, due to it being part of the mega-trend IT industry, we expect stable earnings growth of 15% p.a. in 2022-24F. *Lastly*, we believe its 40% YTD share price fall reflects the slowdown prospects for IT and mobile sales after two high-base sales COVID years. SIS looks cheap to us on 11x 2023F PE.

Riding the digital wave

SIS is one of Thailand's top-three largest distributors of cybersecurity and cloud-related products. Demand for these products is coming from strong corporate digital transformation demand. SIS's revenue from this business grew 22-39% p.a. in 2019-21. SIS continues to see robust orders and expects 20% sales growth into 2024F. The global industry growth is expected at 16% during 2021-25. This business accounted for 17% of sales and 41% of profit in 2021. We estimate its revenue growth at 25/22/20% in 2022-24F and that its contribution to total profit will rise to 55% in 2024F.

Firm position in IT distribution business

SIS is also among the top-three largest distributors of mobile phones, computers and tablets to most retail chain stores in Thailand. Scale matters in this business because of its low-margin nature and we see SIS being in a secure market position. Despite our forecast for a 7% industry demand drop this year from the very high base of 20% growth during the 2021 COVID year, we see it is as a stable long-term business. We estimate organic growth of 3% p.a. in 2023-24F. The business contributed 83% of SIS's sales and 59% of profit in 2021.

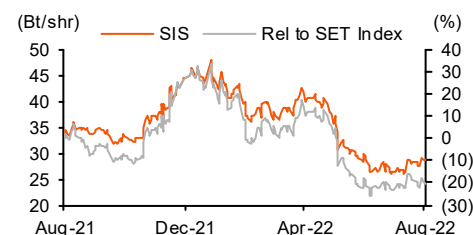
Digital lift to its ROE

As the contribution of its IT security and cloud-related business rises, SIS's net margin is improving along with its ROE. We estimate SIS's ROE to rise from 22% in 2021 to 26% in 2025F. We also expect improving net working capital as this business requires fewer inventory days than the wholesale mobile and IT consumer product business. This should also be reflected in ROA rising from 7% in 2021 to 11% in 2025F. With a higher ROE, we believe SIS deserves a re-rating.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	32,294	32,586	34,878	37,530
Net profit	793	769	887	1,022
Consensus NP	—	791	878	na
Diff frm cons (%)	—	(2.8)	1.1	na
Norm profit	664	769	887	1,022
Prev. Norm profit	—	769	887	1,022
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	1.9	2.2	2.5	2.9
Norm EPS grw (%)	3.2	15.7	15.4	15.2
Norm PE (x)	15.0	13.0	11.2	9.8
EV/EBITDA (x)	14.7	11.1	9.3	7.8
P/BV (x)	3.1	2.8	2.6	2.4
Div yield (%)	4.2	4.6	6.7	8.2
ROE (%)	21.9	22.5	23.7	25.3
Net D/E (%)	124.2	64.0	48.1	35.3

PRICE PERFORMANCE



COMPANY INFORMATION

Price: (Bt) as of 9-Aug-22	28.50
Market Cap (US\$ m)	282.2
Listed Shares (m shares)	350.2
Free Float (%)	32.2
Avg. Daily Turnover (US\$ m)	0.8
12M Price H/L (Bt)	47.75/26.00
Sector	Telecom
Major Shareholder	SiS Technologies (TH) 47.3%

Sources: Bloomberg, Company data, Thanachart estimates

Initiating with a BUY

We initiate coverage on SIS Distribution (Thailand) Pcl (SIS), a leading distributor of IT products in Thailand, with a BUY rating and a DCF-based 12-month TP, using a base year of 2023F, of Bt37/share.

High exposure to digital transformation megatrend

First, we like SIS's fast-growing cybersecurity and cloud distribution business which offers both a robust growth outlook and higher margins. Demand for this business is supported by the long-term megatrend of digital transformation by Thai corporates. The business accounted for only 17% of SIS's sales in 2021 but 41% of profit. We expect the profit proportion to rise to 55% in 2024F.

A firm position in the IT distribution industry

Second, we see SIS as having a firm market position in the IT and mobile distribution business. Scale matters in this low-margin business and we consider SIS's position among the industry's top-three largest wholesale (B2B) distributors to be very strong. SIS has been running this business for over 10 years. Though we foresee a 7% fall in industry demand this year from the high growth base of 15% during the 2021 COVID year, we expect stable 3-4% p.a. long-term growth.

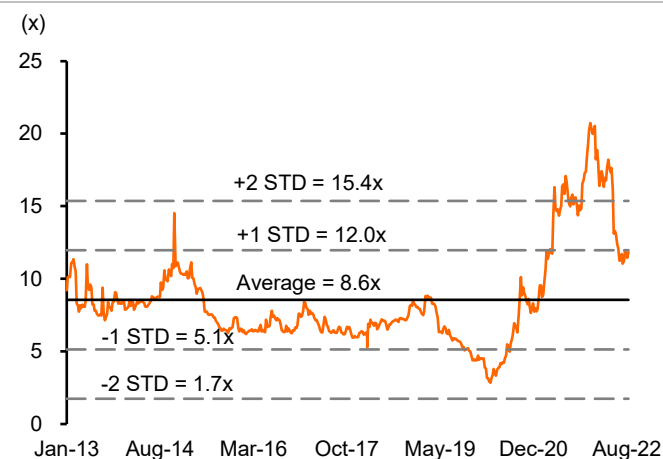
A decent earnings growth outlook of 15% p.a.

Third, we see SIS as having a decent, stable earnings growth outlook of 15% p.a. in 2022-24F. That is against the general market concern about potentially softer IT demand from the high base during the past two COVID years. The driver is the fast-growing IT infrastructure side of the business with higher margin.

Looks cheap to us at 11x 2023F PE on 15% p.a. EPS growth and higher ROE

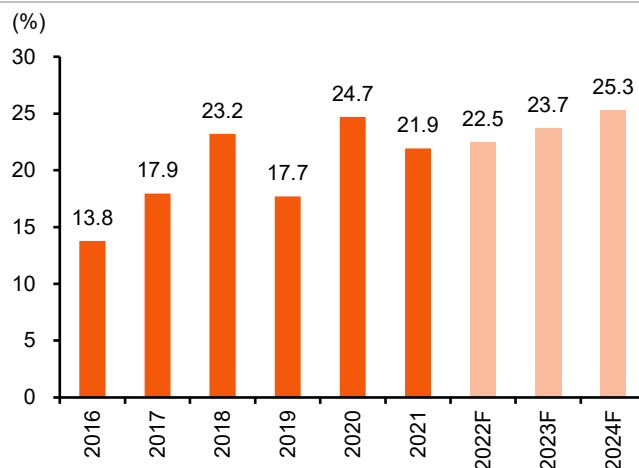
Fourth, SIS's share price has fallen by 40% YTD and 37% from its 2021 peak. We believe this more than reflects the weak sentiment over softer IT demand from the high base during the COVID years. The stock looks cheap to us trading at an 11x 2023F PE multiple, from two angles. The first is in comparison to its 15% p.a. EPS growth outlook and the second is its higher ROE prospects from the rising proportion of its higher-margin cyber security and cloud business. We estimate its ROE to increase from 22% in 2021 to 25% in 2024F.

Ex 1: Inexpensive PE Giving Growth And ROE



Sources: Bloomberg; Thanachart estimates

Ex 2: Rising ROE



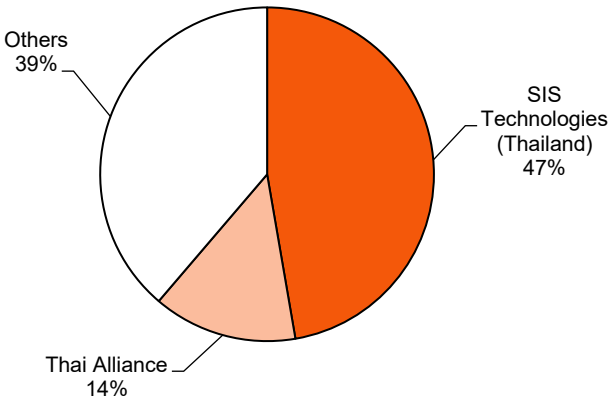
Sources: Company data; Thanachart estimates

SIS distributes both consumer and infrastructure IT products

What SIS does

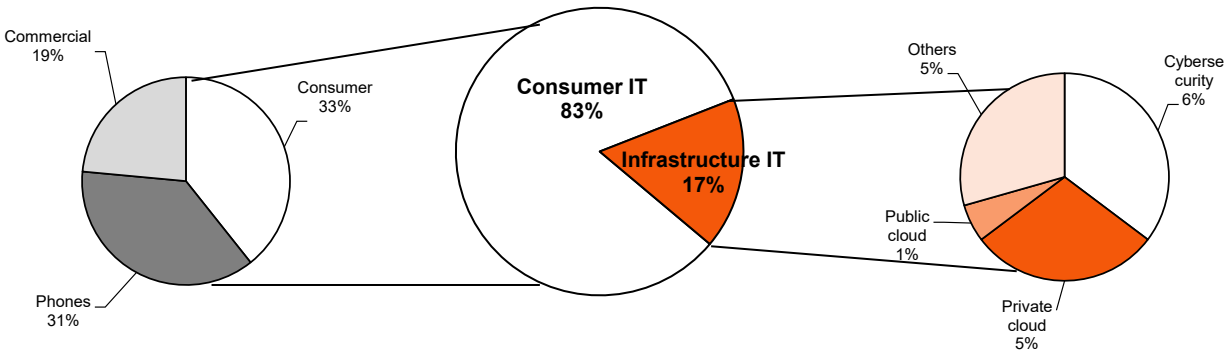
Established in 1998, SIS is now one of the top three-largest distributors in Thailand of IT devices such as smartphones, computers and other IT products. In 2013, SIS started to distribute infrastructure-based IT products and services, including cybersecurity and cloud-based products. Major IT retail and online shop operators are SIS's customers for its IT consumer products and IT network service providers are SIS's customers for its IT infrastructure products.

Ex 3: Shareholding Structure

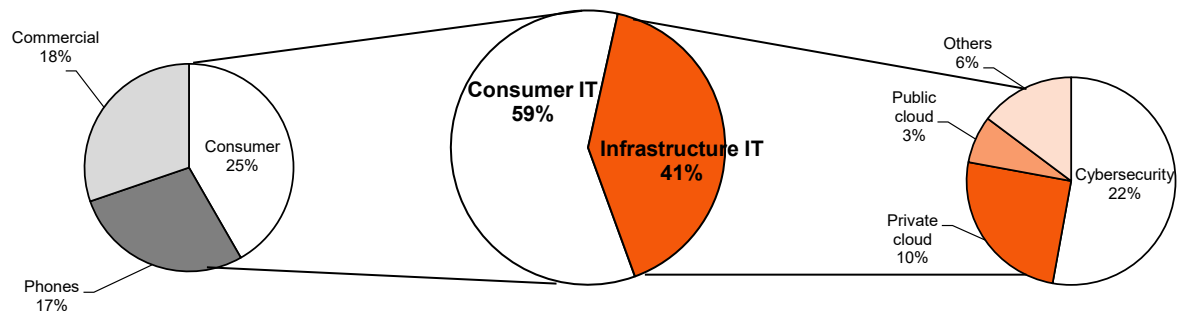


Source: Company data

Ex 4: Sales Breakdown (2021)



Source: Company data

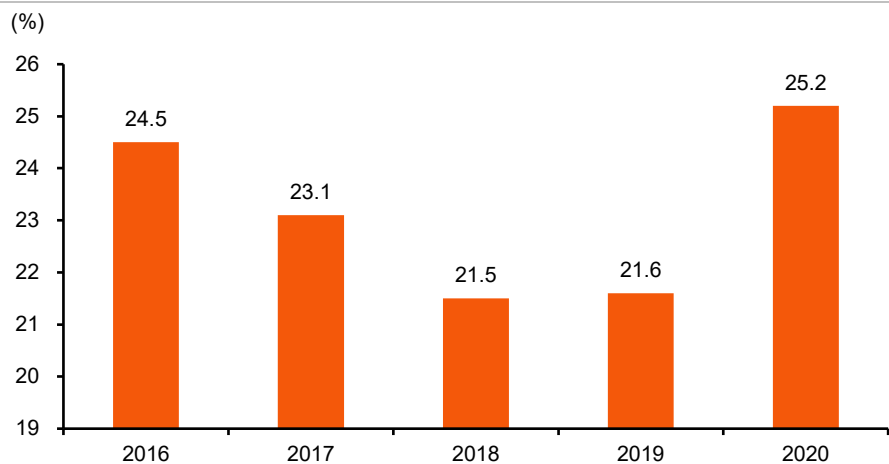
Ex 5: Profit Breakdown (2021)

Source: Company data

Consumer-based IT business

One of the top three-largest consumer IT wholesalers

SIS is one of the top three-largest distributors of consumer IT products in Thailand with a 25% market share, after Synex Pcl (SYNEX, not rated) at 34% and VST ECS Pcl (not listed) at 28%. The industry is well established with the three players having commanded stable market shares for many years. This business accounted for 59% of SIS's profit in 2021, falling from 67% in 2018. SIS expects the proportion to continue to decline going forward as its growth is being outpaced by that of the higher-margin IT security and cloud business. Note that while penetration of smartphones, computers and tablets is more mature, Thai corporates are still quite early on in the cycle of digital transformation, which implies high demand for IT infrastructure products.

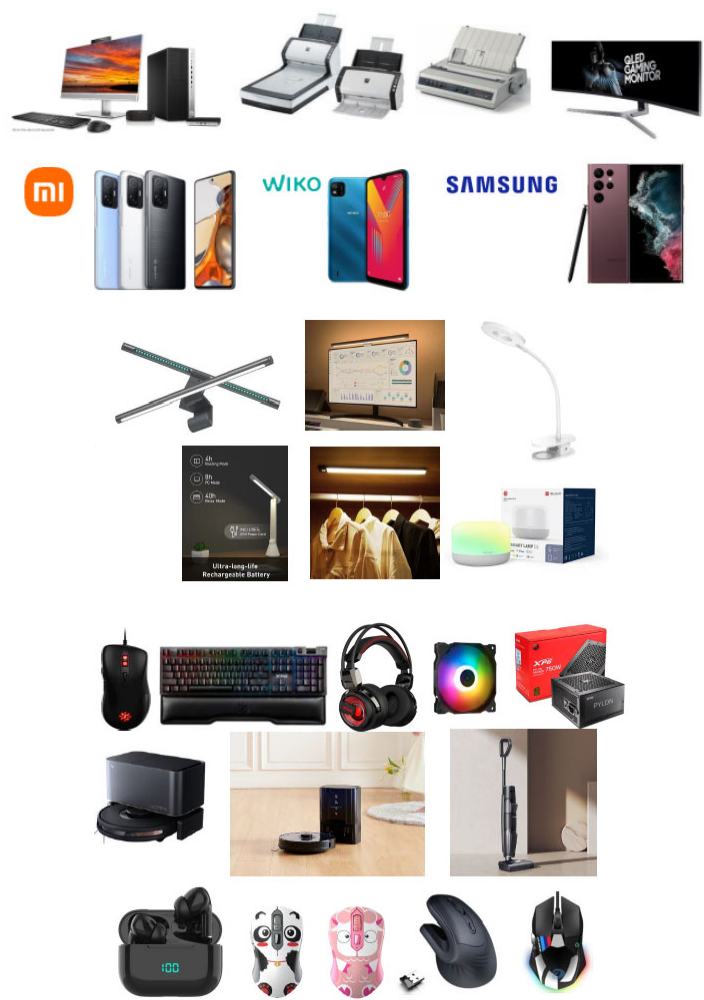
Ex 6: Consumer-based IT Distributors' Market Share

Source: Company data

Distribution business model

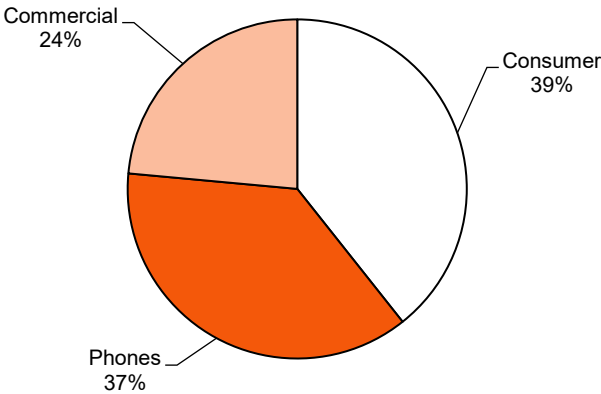
SIS purchases products from brand owners and resells them to its (B2B) customers, which are physical IT product stores and online retailers and corporate clients. SIS's products include smartphones, computers, tablets and other peripheral IT devices such as printing machines. SIS distributes most global leading brands such as Xiaomi, oppo, HP and Lenovo.

Ex 7: SIS's Consumer-based IT Products



Source: Company data

Ex 8: SIS's Consumer IT Product Sales Breakdown (2021)



Source: Company data
Note: The breakdown is from 100% of consumer IT sales.

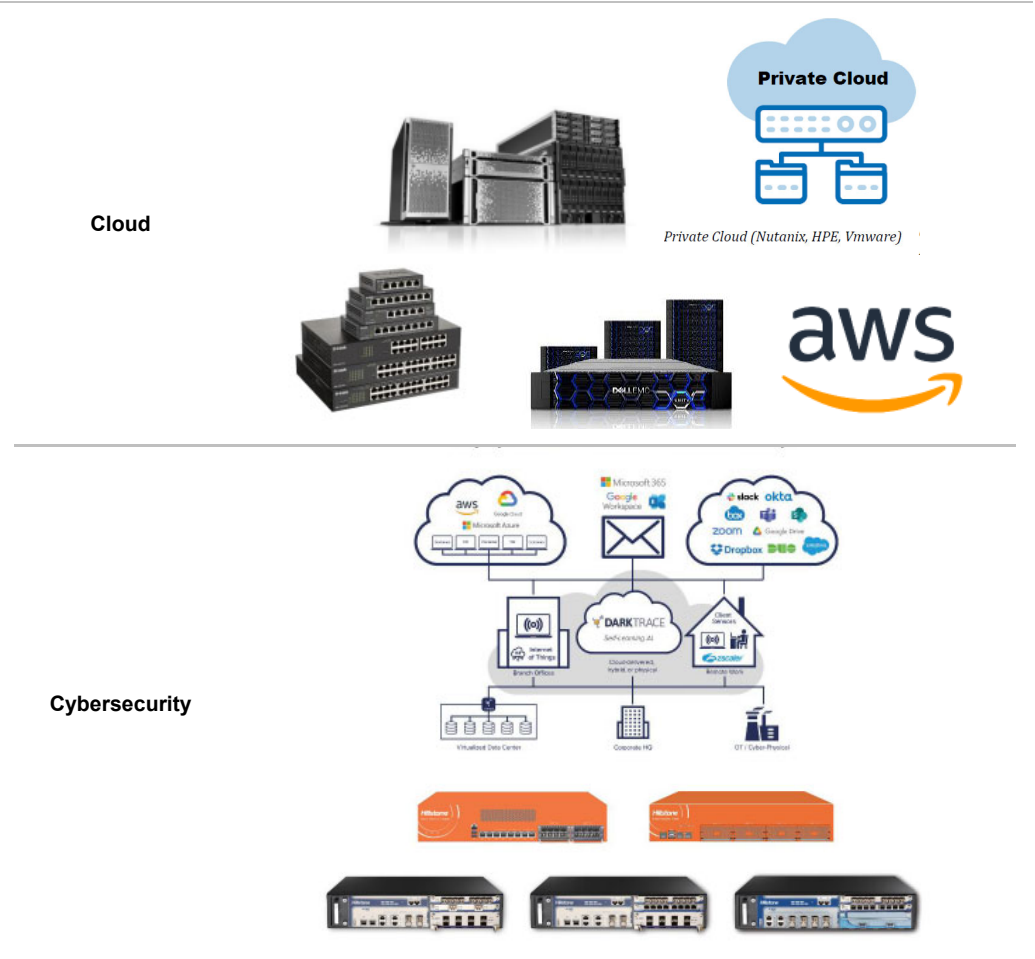
Sunrise IT infrastructure business

Infrastructure-based IT business

SIS expanded into the infrastructure-based IT distribution business in 2013, seeing it as a sunrise business in the digital era where corporates undergo digital transformation. The company was among the top three-largest distributors of these products in 2021. The business model involves SIS buying software and hardware products from brand owners and reselling them to its Thai customers. SIS’s customers are IT infrastructure, network and cloud service companies.

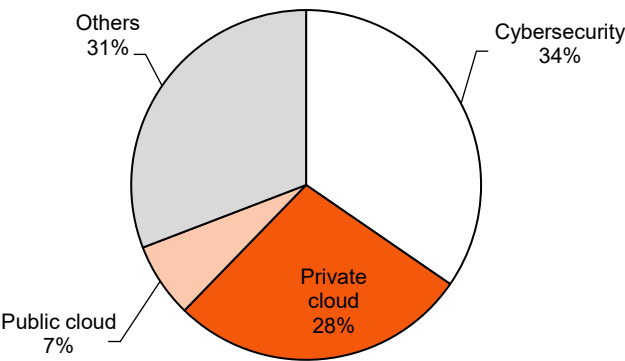
As for the cloud business, most of the business is still coming from private cloud where SIS sells servers and other products to cloud system integrators which in turn serve corporate clients. SIS also provides a public cloud service where it is the operator itself offering cloud services to corporate clients. However, the public cloud service is still very small, at less than 1% in terms of revenue contribution. It is likely seeing the fastest growth and we expect it to account for 3% of sales in 2025F.

Ex 9: SIS’s IT Infrastructure Products



Source: Company data

Ex 10: SIS’s IT Infrastructure Product Sales Breakdown (2021)



Source: Company data
Note: The chart assumes total IT infrastructure sales as 100%.

Cybersecurity products

Cybersecurity: SIS buys the licences for cyber security software from software owners and distributes it to its customers in Thailand which are mainly companies running system integration businesses. These customers then perform integration or IT infrastructure outsourcing services for end-corporate customers. SIS’s licensors include the leading global cybersecurity developers such as Fortinet, Carbon Black and Bitdefender. SIS is one of only three distributors of these developers’ products in Thailand. Note that cybersecurity software protects a company’s servers from malware or cyberattacks. SIS supplies all three levels of cybersecurity protection programs, i.e. firewalls, server protectors and server regulators.

Ex 11: SIS’s Cybersecurity Licensors



Source: Company data

Cloud products

Cloud: SIS is also among the top-three distributors of cloud-related products in Thailand. As with the cybersecurity business, SIS buys the licenses for cloud-related products/programs from brand owners and resells them to its customers, which are local system integrators that provide cloud-related services, e.g., installation and data transformation, to end-corporate clients. SIS’s cloud product brands include all leading global brands such as Dell, HPa and Vmware. SIS’s business covers all types of cloud services, i.e., on-premises cloud, public cloud and outsourced from global leading cloud space providers like Amazon Web Service (AWS) and Microsoft.

Ex 12: SIS’s Cloud Licensors

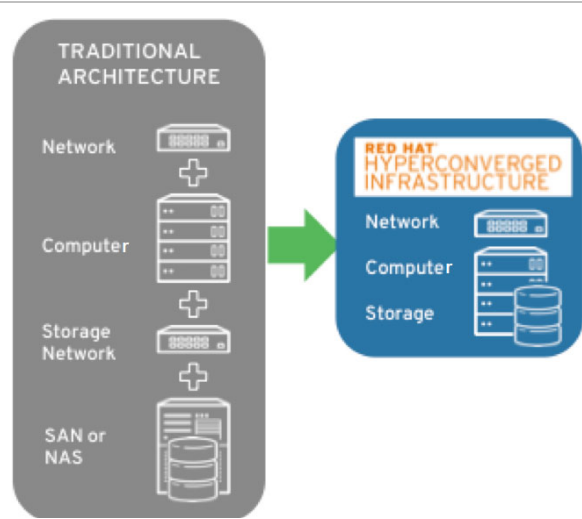
Private cloud	Public cloud
Dell	SIS cloud (branded)
HP	AWS (outsourced)
Lenovo	Microsoft cloud (outsourced)
Vmware	Alibaba cloud (outsourced)
Nutanu	
Arista	
aruba	
Veeam	

Source: Company data

On-premises or private cloud

On-premises cloud or private cloud is a server available for use only by one entity. There are a few private cloud frameworks and SIS focuses on the latest technology called hyperconverged infrastructure. SIS sells hyperconverged-related products which unify computing, storage and networking operations into a single operating device. Prior to hyperconverged, corporates purchased data storage, server and networking equipment separately from different suppliers. The previous non-unified system caused inefficiencies for corporate systems, e.g., downtime during maintenance or when installing new equipment. With hyperconverged, corporates can just add a stack of all-in-one storage-server-networking-devices when they increase capacity.

Ex 13: Hyperconverged



Source: Thanachart compilation

Public cloud

Public cloud servers, storage and networks are shared or rented out to many entities. Companies can also rent public cloud space from cloud service providers. This model saves on investment costs and improves flexibility in the level of services. However, there are higher data-security concerns for public cloud than for private cloud.

The growth outlook of public cloud is stronger than for private cloud. SIS currently doesn't make much income from public cloud but it is expanding in this area. It has two public cloud services.

- SIS's own-brand service. Here it rents data center space from Interlink Pcl (ITEL TB, not rated) and sub-rents to its corporate clients. The system offers basic cloud applications such as storing and basic data processing.
- Outsourced public cloud service. Here SIS acts as an intermediary for public cloud server owners such as Amazon and Microsoft cloud services. SIS doesn't rent cloud space but instead receives a fee from Amazon and Microsoft. SIS also earns additional income from providing one-stop services, including data transformation and administrative services to its customers. Most customers under this outsourced model require more complex applications which are not offered by SIS's branded cloud. Examples are high-level data learning and processing which require artificial intelligence systems. This service is more expensive than SIS's branded cloud.

Other products

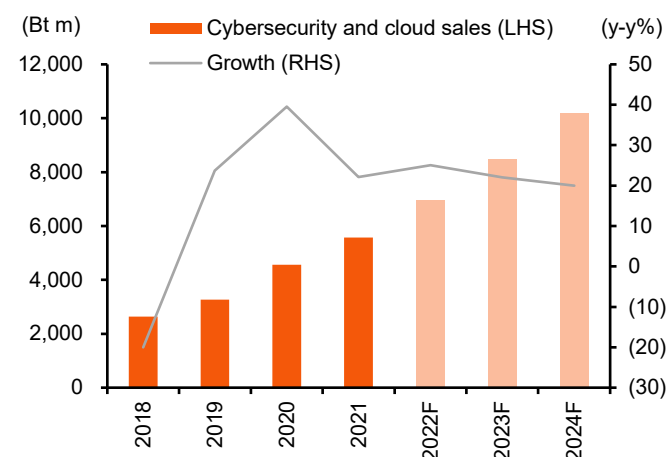
Other IT infrastructure products: SIS also distributes complex security cameras and programs, audiovisual and renewable-related products.

Riding the digital wave**A sunrise cybersecurity and cloud industry**

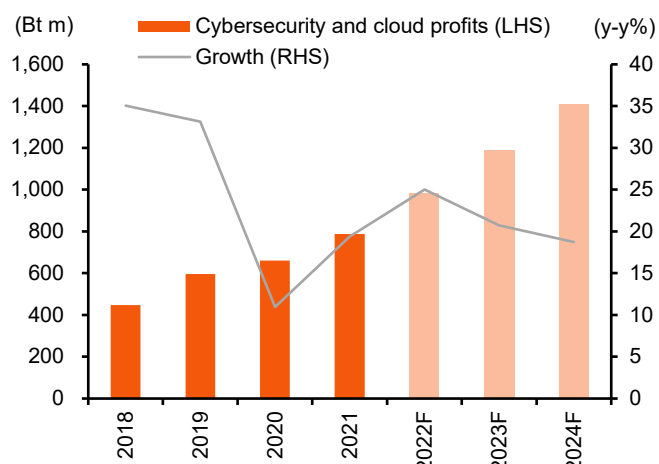
SIS's cybersecurity and cloud distribution business is a sunrise business enjoying mid-cycle growth in Thailand where corporates are going through a period of digital transformation. Digital transformation demand is being driven by many factors, including operational efficiency, big data usage, artificial intelligence (AI), and digital connectivity. Thailand has also just adopted the Personal Data Protection Act (PDPA) this year. The growing use of public cloud is also a driver of cloud demand in itself along with cybersecurity protection. These factors should all result in greater demand for servers, cloud and cybersecurity products. And as data and its value continue to grow, we consider this industry as being in a long-term, megatrend demand cycle. Demand growth in this area averaged 14% p.a. during 2019-21 with future demand growth projected at 18% p.a. during 2022-25, according to Mordor Intelligence, IDC and other IT research houses.

We estimate 25/22/20% IT infrastructure sales growth in 2022-24F

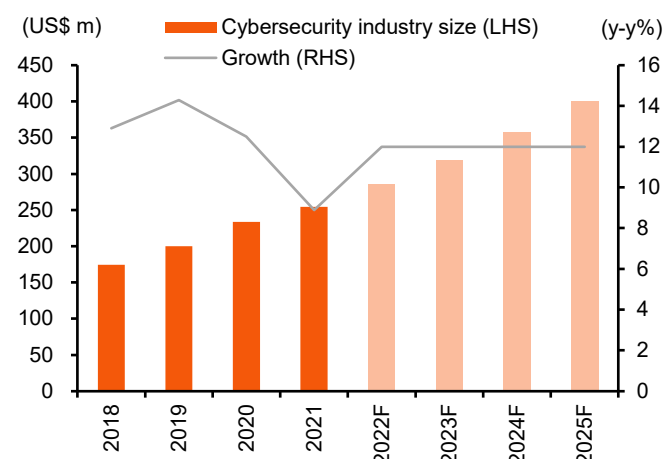
We estimate SIS's cybersecurity and cloud distribution business sales growth at 25/22/20% in 2022-24F after an average 28% p.a. in 2019-21. Note that SIS grew faster than the industry, which grew by 14% p.a. during 2019-21. We believe that was due to its key licensors, which accounted for over 30% of SIS's total IT infrastructure revenue, having gained market share due to their more reliable and more advanced products.

Ex 14: SIS's Cybersecurity And Cloud Sales Growth

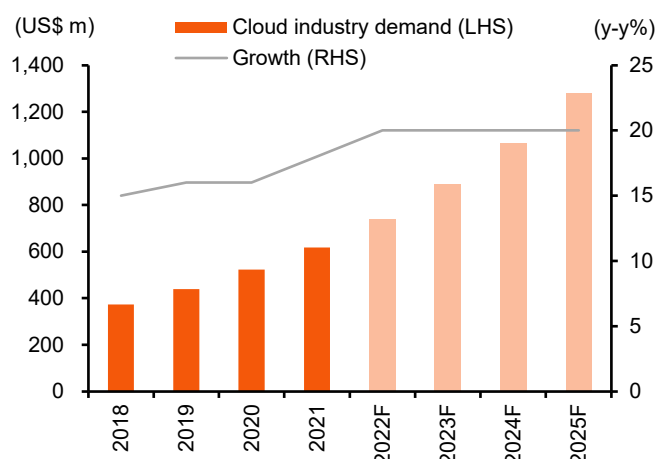
Sources: Company data; Thanachart estimates

Ex 15: SIS's Cybersecurity And Cloud Gross Profit Growth

Sources: Company data; Thanachart estimates

Ex 16: Cybersecurity Industry Demand Growth

Sources: TechResearch, Mordor Intelligence

Ex 17: Cloud Industry Demand Growth

Sources: IDC, Thanachart compilation, Company data

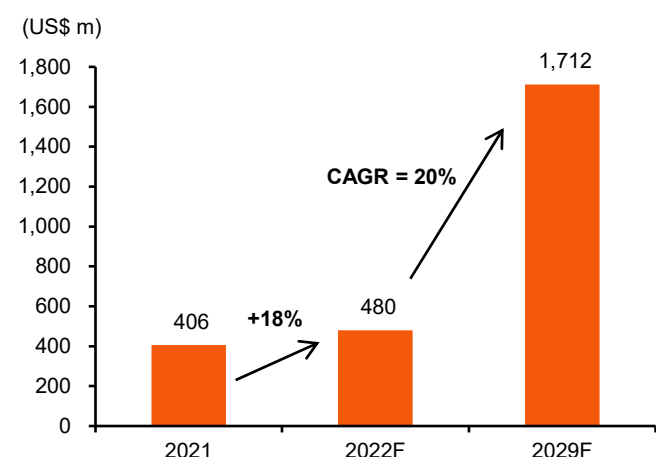
Cybersecurity penetration is still low in Thailand

SIS believes the penetration rate of Thai corporates with a three-layer cyber security program is only 20% vs. nearly 40%, on our estimate, in the US. Note that SIS supplies all three levels of cybersecurity protection programs, i.e., firewalls, server protectors and server regulators. A firewall acts as the front-gate security guard for corporate servers. Firewalls have existed for over a decade and most corporates have them. But corporates need firewall upgrades every year to combat new types of viruses and malware. A server protector acts as a second-layer protector in the event malware breaks through the firewall to infect servers and helps eliminate malware. A server regulator is software that helps identify other threatening activities, such as data theft and destruction by internal users, and records the activities of server users and studies patterns.

Cloud spending is projected to grow 20% in 2022-25

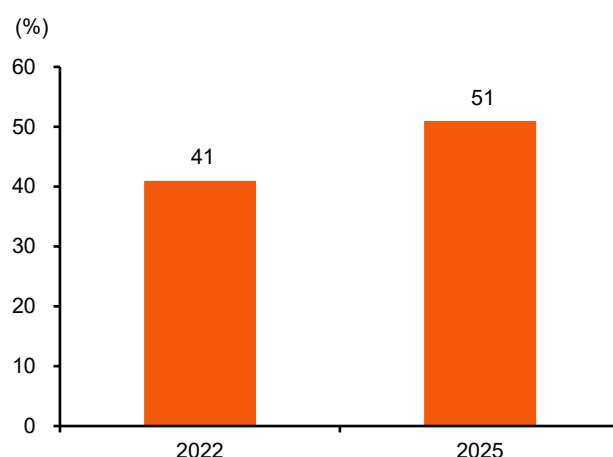
As for cloud, SIS expects this part of its business to grow 15-20% over the next two to four years. According to IDC and SIS, cloud spending in Thailand is projected to grow by 20% p.a. in 2022-25 after an average 16% p.a. during 2017-21. Globally, despite more than 80% of enterprises already having access to cloud computing, cloud spending is still projected by Fortune Business Insights to grow at a 20% CAGR from 2022-29 as companies need to upgrade their cloud systems continually while transferring more data from offline to the cloud. According to industry sources, corporates' cloud spending as a proportion of IT spending is expected to increase to 51% in 2025 vs. 41% this year. In Thailand, around only 20% of IT spending in Thailand is for cloud computing, implying a better growth outlook.

Ex 18: Global Cloud Spending Growth



Source: Fortune Business Insights

Ex 19: Cloud Spending As A Proportion Of IT Spending



Source: Industry sources – compiled by Thanachart

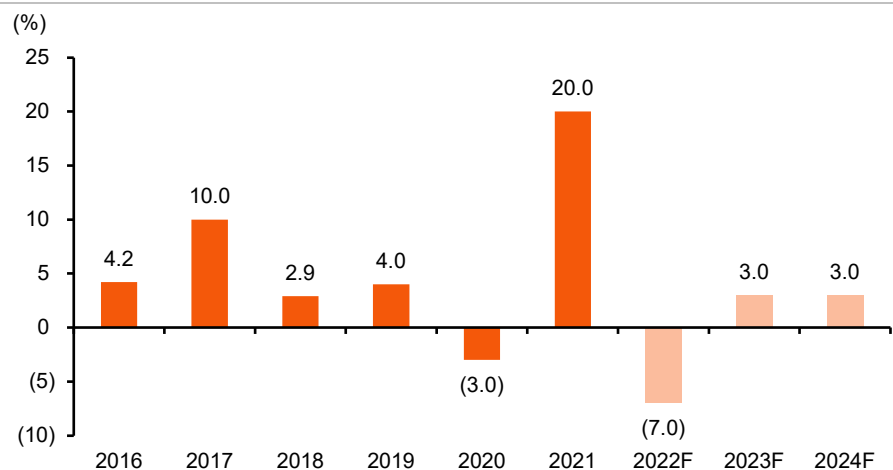
Firm consumer IT market position

IT consumer market at a more mature growth stage

We believe the consumer IT market in Thailand has already passed its high-growth phase and is entering a mature demand stage. The past two COVID years have also sped up smartphone penetration to nearly 90% in 2021 from nearly 80% in 2019, driven by work-from-home behavior and the government's stimulus handouts via mobile applications. Other consumer IT products, such as laptops, tablets and gadgets, also enjoyed extra demand during from-home activities over the past two years. There is no official demand data but we estimate consumer IT demand (Exhibit 20) grew by around 20% in 2021. Then, from a high base, we expect it to fall 7% in 2022F before growing organically by 3-4% p.a. after that.

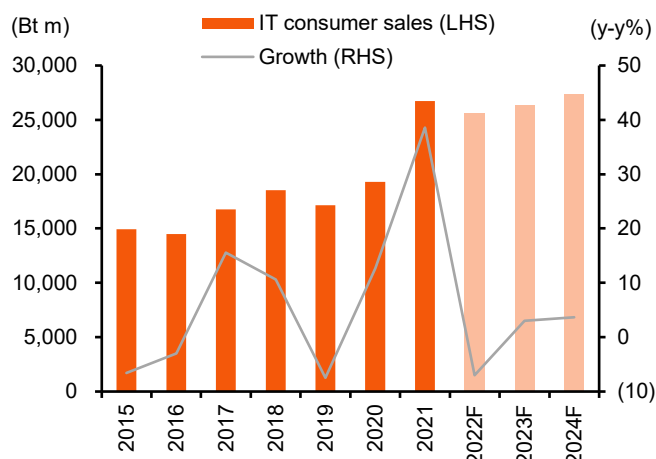
Demand likely to fall this year due to extra demand over the past two years

A lot of extra purchases were made over the past year. Some families needed more than one laptop or one tablet at home as kids studied online while parents also worked from home. Many of the government's COVID-led stimulus packages required online registration, online wallets and the use of mobile applications. This drove low-income people to replace their old mobile phones with smart mobile phones.

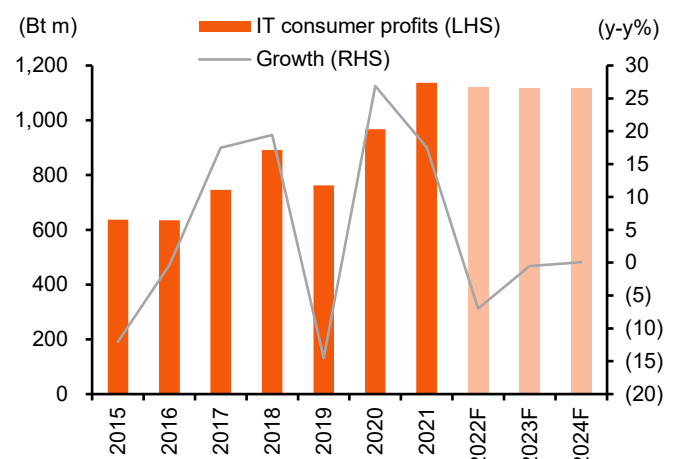
Ex 20: Consumer IT Demand Growth

Sources: Company data, Thanachart estimates

As a key distributor, we expect SIS's consumer IT sales growth pattern to move in line with the market's.

Ex 21: SIS's Consumer IT Sales Growth

Sources: Company data; Thanachart estimates

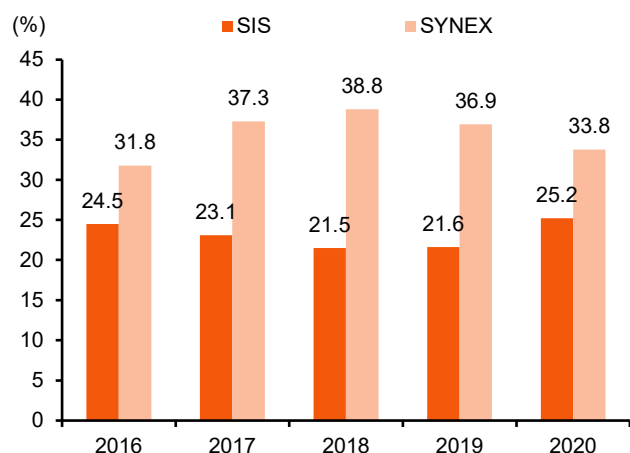
Ex 22: SIS's Consumer IT Gross Profit Growth

Sources: Company data; Thanachart estimates

Low threat from newcomers

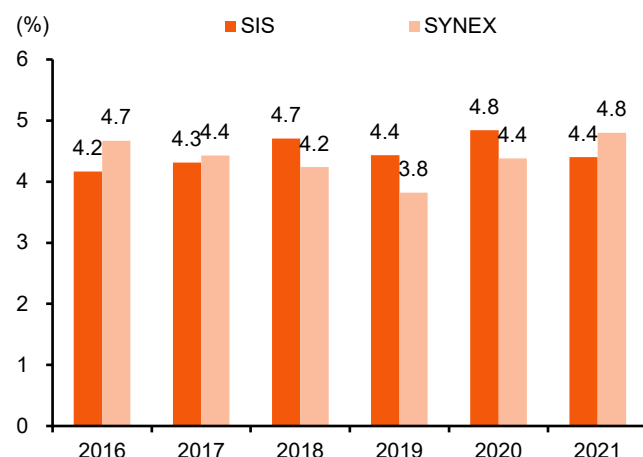
We expect the consumer IT business to be a stable business for SIS. Despite entering a more mature growth phase, consumer IT products have become necessity products in the digital era. The replacement market will likely remain large with a short turnover period as technology keeps on developing. We also foresee a low threat from newcomers to the main players in the industry like SIS from the barriers to entry of business scale (because of the low-margin nature of consumer IT products) and the already mature market discouraging new players. Exhibit 23 shows the market share of SIS and the largest competitor Synex Pcl (SYNEX, not rated) while Exhibit 24 shows their gross margin trend.

Ex 23: SIS's Vs. SYNEX's Market Share



Source: Company data

Ex 24: SIS's Vs. SYNEX's Gross Margin



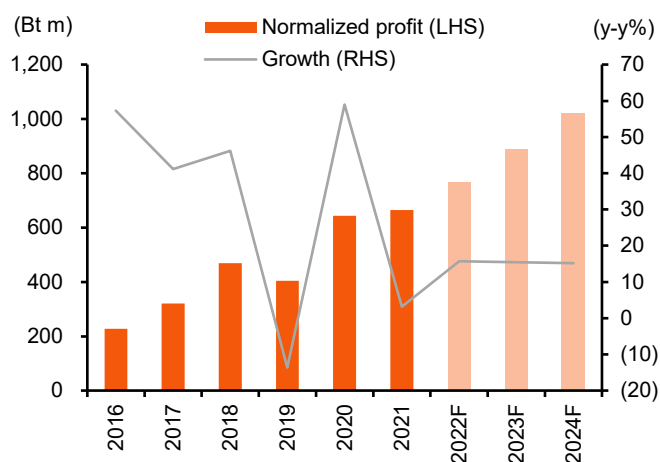
Source: Company data

Decent growth with better ROE

We expect stable 15% earnings growth

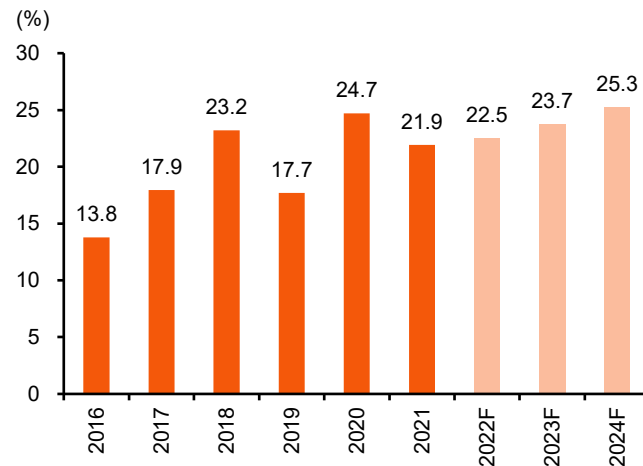
We estimate SIS's EPS growth at 15% in 2022-24F with ROE improving from 22% in 2021 to 25% in 2024F. Key drivers will likely be largely cyber security and cloud, or IT infrastructure, business, with less of a contribution from the IT consumer business.

Ex 25: Decent Earnings Growth Outlook



Sources: Company data; Thanachart estimates

Ex 26: ROE Trending Up



Sources: Company data; Thanachart estimates

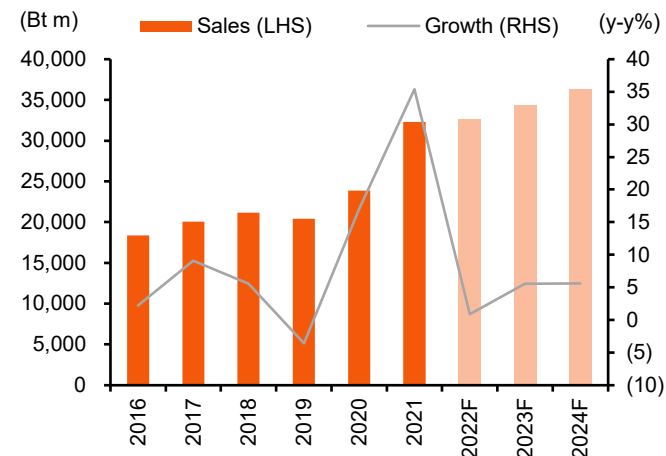
We estimate 1 / 7 / 8% sales growth in 2022-24F

Sales: We estimate sales growth of 1/7/8% in 2022-24F with IT infrastructure growing faster than the IT consumer business. The demand growth is coming from the corporate sector's digital transition.

Margin on the rise from product mix change

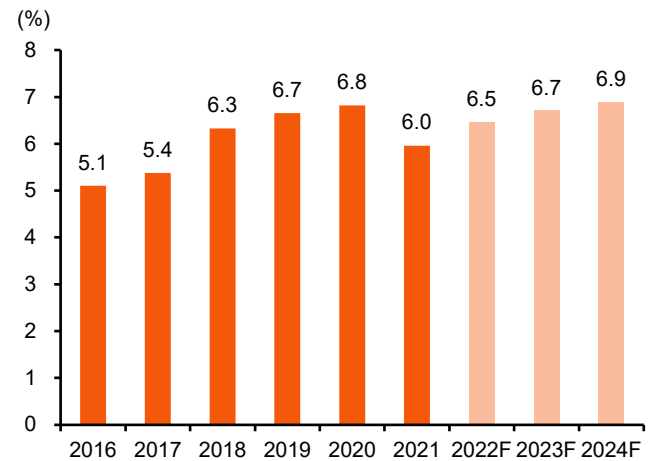
Margin: We project EBIT margin to trend upward from 3.0% in 2021 to 3.5% in 2024F. This is on the back of scale benefits and a change of product mix toward the higher-margin IT infrastructure business which we estimate at 27% of sales in 2024F vs. 21% in 2021. Gross margin of IT infrastructure products is around 16% vs. only 4% for IT consumer products.

Ex 27: Sales Growth Outlook



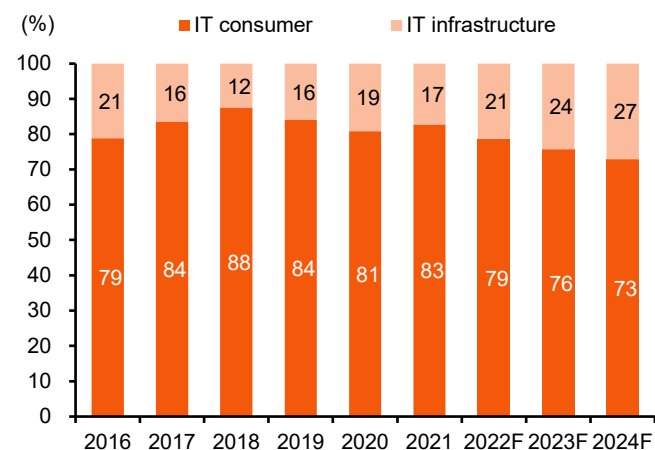
Sources: Company data; Thanachart estimates

Ex 28: Rising Gross Margin



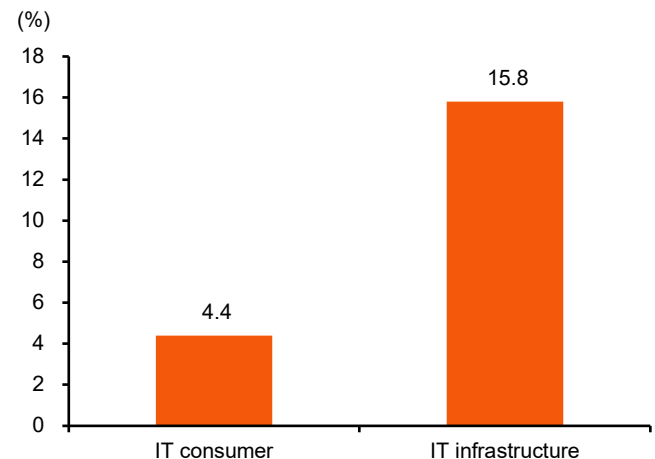
Sources: Company data; Thanachart estimates

Ex 29: Improving Product Mix



Sources: Company data; Thanachart estimates

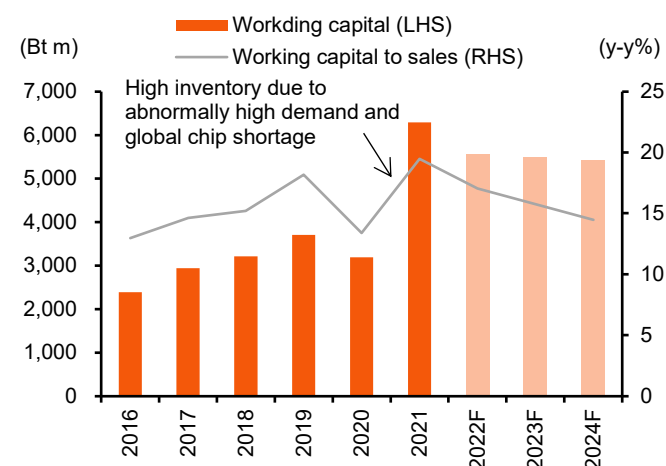
Ex 30: Gross Margin Difference



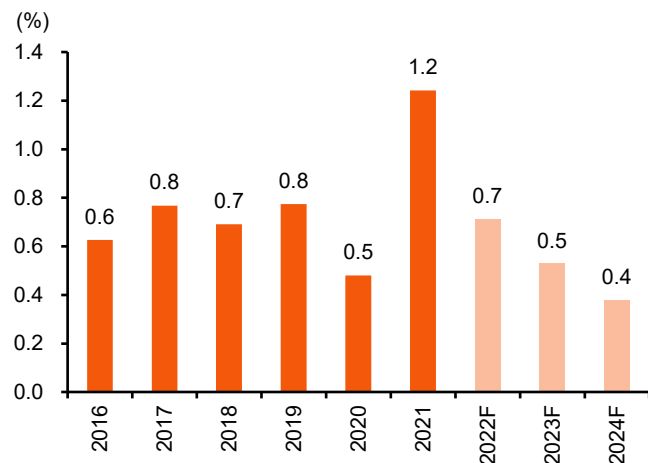
Source: Company data

Easing of the chip shortage to improve asset turnover

Asset turnover: We expect working capital needs to fall from the peak last year, when the company built up inventory to deal with the chip shortage. The drop in working capital should improve its asset turnover ratio and reduce short-term financing, both of which would in turn push up ROE.

Ex 31: Working Capital Needs Peak

Sources: Company data; Thanachart estimates

Ex 32: Net D/E To Fall Back

Sources: Company data; Thanachart estimates

Ex 33: Key Earnings Forecast Assumptions

	2018	2019	2020	2021	2022F	2023F	2024F
Total sales growth (%)	6	(4)	17	35	1	7	8
- IT infrastructure and others	(20)	24	39	22	25	22	20
- IT consumer	11	(7)	13	39	(4)	3	4
Products mix (% profits)							
- IT infrastructure and others	33	44	41	41	47	52	56
- IT consumer	67	56	59	59	53	48	44
Gross margin (%)	6.3	6.7	6.8	6.0	6.5	6.6	6.7
SG&A to sales (%)	3.9	4.3	3.9	3.3	3.5	3.4	3.3
Inventory days (days)	43	54	37	64	50	45	40
Account receivable days (days)	53	59	59	55	50	50	50
Account payable days (days)	40	47	48	48	40	40	40
Interest expense (Bt m)	46	48	31	34	28	26	22

Sources: Company data, Thanachart estimates

Quarterly earnings momentum

Decent 2Q22F earnings despite weak consumer IT demand

We expect SIS's normalized earnings to come in at Bt173m in 2Q22F. Excluding a one-off financial impairment and an abnormally high inventory write-down (given a sharp fall in demand for consumer-based IT products), we estimate its operating profit at Bt200m, up 15% y-y and 9% q-q. We see the results as strong amid the sharp fall in demand for consumer IT products and since 2Q is normally weaker than 1Q. The key drivers are more than 20% y-y growth in its cybersecurity and cloud businesses. The growth is organic thanks to strong demand. Infrastructure-based IT products generate higher gross margins as we discussed earlier. This, together with SIS's meaningful operating leverage impact, leads SIS's rising EBIT margin.

Expecting a stronger 2H22F

Looking to 3Q22F, SIS expects improving earnings momentum. It still foresees weaker consumer IT sales but expects stronger infrastructure IT revenue to offset this. Note that SIS depleted most of its very low-demand consumer IT products in 2Q22. Therefore, it doesn't expect further meaningful inventory write-downs. We estimate SIS's 2H22F normalized earnings to grow by 22% y-y and 18% h-h.

Ex 34: 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	1,279	1,473	1,604	1,716	1,795	1,847	1,866	1,867	1,849	1,829	1,781	—
Free cash flow	1,024	1,187	881	1,005	1,151	1,220	1,272	1,293	1,302	1,289	1,255	20,104
PV of free cash flow	887	957	661	701	729	716	691	652	608	558	478	7,660
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	7.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	17,094											
Net debt (2022F)	4,038											
Minority interest	0											
Equity value	13,056											
# of shares (m)	350											
Target price/share (Bt)	37											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 35: 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 (%)	23F (%)	22F (%)	23F (%)
NEC Capital Solutions	8793 JP	Japan	3.7	4.2	6.4	6.1	na	na	na	na	3.5	3.8
Senshu Electric	9824 JP	Japan	34.1	2.1	10.1	9.9	1.0	0.9	na	na	2.3	2.3
Solutions 30	S30 FP	Luxembourg	na	69.1	24.2	14.3	na	2.0	6.0	4.2	na	na
Synnex Thailand	SYNEX TB	Thailand	(2.7)	15.1	19.9	17.3	4.0	3.7	21.0	18.1	3.8	4.4
SiS Distribution Thailand	SIS TB*	Thailand	15.7	15.4	13.0	11.2	2.8	2.6	11.1	9.3	4.6	6.7
Average			12.7	21.2	14.7	11.8	2.6	2.3	12.7	10.5	3.6	4.3

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

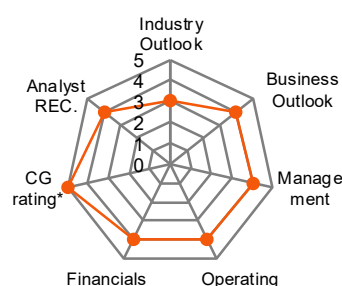
Based on 9-Aug-2022 closing prices

COMPANY DESCRIPTION

SiS Distribution (Thailand) Public Company Ltd. distributes computers and peripherals. The company distributes the products to resellers, retailers, system integrators, software houses, value added resellers, and original equipment manufacturers. SIS also offers infrastructure-based IT products, e.g., cybersecurity and private and public cloud products and services.

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

- Strong distribution channel
- One of the lowest-cost operators
- Leverages costs across different businesses
- One of the three largest operators

O — Opportunity

- Rising demand for infrastructure-based IT products
- A partner with strong, fast-growing brands

W — Weakness

- Low-margin distribution business
- Large inventory requirements

T — Threat

- Slowing consumer-based IT industry

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	33.00	37.00	12%
Net profit 22F (Bt m)	791	769	-3%
Net profit 23F (Bt m)	878	887	1%
Consensus REC	BUY: 1	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is higher than the Bloomberg consensus, which we attribute to us having a more bullish view on the demand for SIS's products.

Sources: Bloomberg consensus, Thanachart estimates

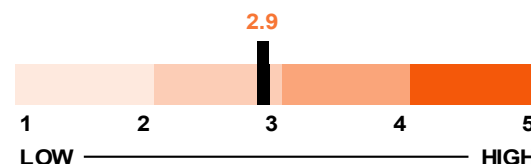
RISKS TO OUR INVESTMENT CASE

- Sluggish consumption and therefore weak demand for consumer-based IT products presents a downside risk to our numbers
- The weak Thai baht trend poses a downside risk to our numbers as well.

Source: Thanachart

SIS is Thailand's third-largest distributor of consumer and infrastructure IT products. Given the nature of its business, SIS doesn't generate much greenhouse gas or waste. However, our ESG score for SIS is 2.92 which is moderate reflecting low emissions but still unclear targets for overall ESG issues.

Thanachart ESG Rating



				Arabesque			S&P		
	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	S-Ray (0-100)	Refinitiv (0-100)	Global (0-100)	Moody's (0-100)	CG Rating (0-5)
SIS	-	-	-	-	-	-	-	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, Arabesque S-Ray®, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)
Note: Please see third party on "terms of use" toward the back of this report.

Factors

Our Comments

ENVIRONMENT

- Environmental Policies & Guidelines
- Energy Management
- Carbon Management
- Water Management
- Waste Management

- SIS is among the top-three distributors of IT products in Thailand. The nature of its business doesn't create much in the way of greenhouse gas (GSG) emissions or waste from its production process. SIS doesn't yet report on GSG emission amounts and has yet to set big-picture targets for overall environmental issues.
- SIS uses a logistics management software called Sky Frog to calculate the most fuel-efficient routes for transportation to reduce air pollution.
- SIS is replacing traditional fluorescent bulbs with LED bulbs. LED bulbs have a longer service life of 60,000-100,000 hours vs. 10,000 for traditional bulbs. This reduces electricity usage and also waste.
- SIS has a remote meeting policy in which employees can participate in meetings from elsewhere.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- SIS has a well-balanced workforce with 54% being female and 46% male.
- SIS provides annual health check-ups for all employees, with some level of extra subsidization, e.g., COVID vaccine expenses. It also provides personal accident insurance to employees.
- SIS has developed a database called Accident to record all accidents to track problems and find solutions to prevent them from happening again.

GOVERNANCE & SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- SIS has an eight-member board of directors (BOD) which we consider appropriate for the company's size and the scope of its business. Of the eight members, three are independent directors. Five members, including the chairman, hold direct/indirect stakes in SIS. There are two female board members.
- SIS has diversified its business from consumer IT to include cyber security and cloud given the already mature consumer IT market.
- SIS is exposed to currency risks as it imports products in US dollars and sells to Thai customers in baht. SIS fully hedges the import amounts to avoid currency fluctuation risks.

Source: Thanachart

Improving sales, gross margin with falling SG&A to sales

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	23,851	32,294	32,586	34,878	37,530
Cost of sales	22,225	30,371	30,481	32,575	35,005
Gross profit	1,626	1,924	2,106	2,303	2,525
% gross margin	6.8%	6.0%	6.5%	6.6%	6.7%
Selling & administration expenses	937	1,074	1,125	1,171	1,223
Operating profit	689	849	981	1,132	1,303
% operating margin	2.9%	2.6%	3.0%	3.2%	3.5%
Depreciation & amortization	98	101	123	147	170
EBITDA	787	950	1,104	1,279	1,473
% EBITDA margin	3.3%	2.9%	3.4%	3.7%	3.9%
Non-operating income	125	42	43	43	43
Non-operating expenses	0	0	0	0	0
Interest expense	(31)	(34)	(28)	(26)	(22)
Pre-tax profit	783	858	996	1,150	1,324
Income tax	143	196	227	263	302
After-tax profit	640	662	769	887	1,022
% net margin	2.7%	2.0%	2.4%	2.5%	2.7%
Shares in affiliates' Earnings	4	3	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	(46)	128	0	0	0
NET PROFIT	597	793	769	887	1,022
Normalized profit	644	664	769	887	1,022
EPS (Bt)	1.7	2.3	2.2	2.5	2.9
Normalized EPS (Bt)	1.8	1.9	2.2	2.5	2.9

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	6,910	11,245	9,642	9,837	10,068
Cash & cash equivalent	263	420	420	420	420
Account receivables	3,867	4,897	4,464	4,778	5,141
Inventories	2,245	5,347	4,175	4,016	3,836
Others	534	581	582	623	671
Investments & loans	72	29	29	29	29
Net fixed assets	153	154	133	89	21
Other assets	531	551	97	97	97
Total assets	7,666	11,979	9,901	10,052	10,215
LIABILITIES:					
Current liabilities:	4,652	8,549	6,178	5,999	5,874
Account payables	2,922	3,953	3,340	3,570	3,836
Bank overdraft & ST loans	1,612	4,458	2,712	2,299	1,899
Current LT debt	0	0	0	0	0
Others current liabilities	118	138	125	130	139
Total LT debt	0	0	0	0	0
Others LT liabilities	204	178	143	150	157
Total liabilities	4,857	8,728	6,321	6,149	6,031
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	350	350	350	350	350
Share premium	435	435	435	435	435
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	2,023	2,466	2,794	3,118	3,398
Shareholders' equity	2,809	3,251	3,579	3,903	4,184
Liabilities & equity	7,666	11,979	9,901	10,052	10,215

Sources: Company data, Thanachart estimates

Lighter inventories amid changes in business toward infra-based IT

Falling debt

Lower need for working capital

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	783	858	996	1,150	1,324
Tax paid	(117)	(175)	(227)	(257)	(296)
Depreciation & amortization	98	101	123	147	170
Chg In working capital	511	(3,100)	992	75	83
Chg In other CA & CL / minorities	(273)	(22)	(18)	(42)	(45)
Cash flow from operations	1,002	(2,338)	1,866	1,072	1,237
Capex	(127)	(102)	(102)	(102)	(102)
Right of use	(169)	39	53	0	0
ST loans & investments	(13)	9	4	0	0
LT loans & investments	15	43	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(61)	(86)	365	6	7
Cash flow from investments	(355)	(97)	320	(96)	(95)
Debt financing	(503)	2,943	(1,746)	(413)	(400)
Capital increase	0	0	(0)	0	0
Dividends paid	(193)	(350)	(441)	(563)	(742)
Warrants & other surplus	3	0	0	0	0
Cash flow from financing	(693)	2,593	(2,187)	(977)	(1,142)
Free cash flow	875	(2,440)	1,764	970	1,134

Doesn't require heavy capex despite decent growth

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	15.5	15.0	13.0	11.2	9.8
Normalized PE - at target price (x)	20.1	19.5	16.9	14.6	12.7
PE (x)	16.7	12.6	13.0	11.2	9.8
PE - at target price (x)	21.7	16.3	16.9	14.6	12.7
EV/EBITDA (x)	14.4	14.7	11.1	9.3	7.8
EV/EBITDA - at target price (x)	18.2	17.9	13.8	11.6	9.8
P/BV (x)	3.6	3.1	2.8	2.6	2.4
P/BV - at target price (x)	4.6	4.0	3.6	3.3	3.1
P/CFO (x)	10.0	(4.3)	5.3	9.3	8.1
Price/sales (x)	0.4	0.3	0.3	0.3	0.3
Dividend yield (%)	3.5	4.2	4.6	6.7	8.2
FCF Yield (%)	8.8	(24.5)	17.7	9.7	11.4
(Bt)					
Normalized EPS	1.8	1.9	2.2	2.5	2.9
EPS	1.7	2.3	2.2	2.5	2.9
DPS	1.0	1.2	1.3	1.9	2.3
BV/share	8.0	9.3	10.2	11.1	11.9
CFO/share	2.9	(6.7)	5.3	3.1	3.5
FCF/share	2.5	(7.0)	5.0	2.8	3.2

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Improving ROE trend

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	17.0	35.4	0.9	7.0	7.6
Net profit (%)	41.1	32.7	(3.0)	15.4	15.2
EPS (%)	41.1	32.7	(3.0)	15.4	15.2
Normalized profit (%)	59.0	3.2	15.7	15.4	15.2
Normalized EPS (%)	59.0	3.2	15.7	15.4	15.2
Dividend payout ratio (%)	58.6	53.0	60.0	75.0	80.0
Operating performance					
Gross margin (%)	6.8	6.0	6.5	6.6	6.7
Operating margin (%)	2.9	2.6	3.0	3.2	3.5
EBITDA margin (%)	3.3	2.9	3.4	3.7	3.9
Net margin (%)	2.7	2.0	2.4	2.5	2.7
D/E (incl. minor) (x)	0.6	1.4	0.8	0.6	0.5
Net D/E (incl. minor) (x)	0.5	1.2	0.6	0.5	0.4
Interest coverage - EBIT (x)	22.3	25.2	34.5	43.8	59.9
Interest coverage - EBITDA (x)	25.5	28.3	38.8	49.5	67.7
ROA - using norm profit (%)	8.7	6.8	7.0	8.9	10.1
ROE - using norm profit (%)	24.7	21.9	22.5	23.7	25.3
DuPont					
ROE - using after tax profit (%)	24.6	21.8	22.5	23.7	25.3
- asset turnover (x)	3.2	3.3	3.0	3.5	3.7
- operating margin (%)	3.4	2.8	3.1	3.4	3.6
- leverage (x)	2.8	3.2	3.2	2.7	2.5
- interest burden (%)	96.2	96.2	97.2	97.8	98.4
- tax burden (%)	81.7	77.2	77.2	77.2	77.2
WACC (%)	7.5	7.5	7.5	7.5	7.5
ROIC (%)	13.2	15.8	10.4	14.9	17.4
NOPAT (Bt m)	563	655	757	874	1,005
invested capital (Bt m)	4,159	7,289	5,872	5,782	5,663

Sources: Company data, Thanachart estimates

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SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects

As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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