TOA Paint (Thailand) (TOA TB) - BUY, Price Bt28.75, TP Bt36.00

Results Comment

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Slight 2Q22 earnings beat

- TOA posted 2Q22 normalized earnings of Bt473m, down 13% y-y but up 6% q-q. The results were slightly better than what we had expected. The earnings fall y-y was mainly due to rising raw material costs while its earnings growth q-q was because of its sales growth. TOA's 1H22 earnings make up 45% of our full-year forecast.
- Including a Bt3m forex gain and Bt108m loss from fair value of financial assets, it reported a Bt368m net profit, down 32% y-y.
- We expect TOA to report stronger earnings in 2H22F driven by higher sales volume and average selling price and lower oil-related raw material costs.
- We then maintain our BUY call on TOA. Its valuation also looks cheap at PEs of 29/24x in 2022/23F vs. its pre-COVID average PE of 36x. Its long-term fundamental is solid with its strong brand perception, solid distribution network, and net cash position.
- TOA's total sales increased 16% y-y in 2Q22 due to an increase in decorative and non-decorative product sales from higher sales volume (due to resumption of construction activities) and average selling price (due to TOA passing on rising costs to customers).
- However, the time lag in the selling price adjustment to match with rising titanium dioxide and oil-related raw material costs caused Its gross margin to drop to 30% in 2Q22 from 34% in 2Q21.
- Its SG&A expenses also increased 10% y-y due to higher sales promotion, advertising, and freight expenses.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	4,496	3,980	4,672	4,965	5,201
Gross profit	**1,520**	**1,203**	**1,412**	**1,455**	**1,559**
SG&A	906	873	907	901	999
Operating profit	613	330	505	554	560
EBITDA	**779**	**485**	**663**	**709**	**724**
Other income	41	28	35	32	34
Other expense	0	0	0	0	0
Interest expense	8	8	10	9	10
Profit before tax	**646**	**349**	**531**	**576**	**584**
Income tax	109	102	115	131	113
Equity & invest. income	0	0	0	0	0
Minority interests	7	26	(14)	2	1
Extraordinary items	0	(6)	71	(37)	(105)
Net profit	**544**	**268**	**473**	**410**	**368**
Normalized profit	**544**	**274**	**401**	**447**	**473**
EPS (Bt)	0.27	0.13	0.23	0.20	0.18
Normalized EPS (Bt)	0.27	0.14	0.20	0.22	0.23

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	5	16	53	19,130	19,415
Gross profit	**7**	**3**	**50**	**6,045**	**6,579**
SG&A	11	10	52	3,635	3,689
Operating profit	1	(9)	46	2,410	2,890
EBITDA	**2**	**(7)**	**47**	**3,050**	**3,564**
Other income	6	(17)	47	138	138
Other expense			na		
Interest expense	2	19	61	31	42
Profit before tax	**1**	**(10)**	**46**	**2,517**	**2,986**
Income tax	(14)	3	48	503	597
Equity & invest. income					
Minority interests	(47)	(83)	12	31	32
Extraordinary items	na	na	na	0	0
Net profit	**(10)**	**(32)**	**38**	**2,045**	**2,420**
Normalized profit	**6**	**(13)**	**45**	**2,045**	**2,420**
EPS (Bt)	(10)	(32)	38	1.01	1.19
Normalized EPS (Bt)	6	(13)	45	1.01	1.19

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	7,826	7,291	7,622	6,975	6,860
A/C receivable	3,261	2,968	3,237	3,568	3,631
Inventory	2,460	2,767	2,619	2,907	3,282
Other current assets	257	267	277	275	293
Investment	0	0	0	0	0
Fixed assets	2,706	2,704	2,705	3,053	3,143
Other assets	1,875	2,052	2,037	2,434	2,427
Total assets	**18,384**	**18,050**	**18,497**	**19,211**	**19,637**
S-T debt	255	282	297	100	109
A/C payable	4,023	3,981	3,831	3,912	4,395
Other current liabilities	571	379	460	563	498
L-T debt	0	0	0	0	0
Other liabilities	1,368	1,504	1,458	1,448	1,417
Minority interest	30	4	164	519	516
Shareholders' equity	**12,137**	**11,900**	**12,287**	**12,669**	**12,702**
Working capital	1,698	1,755	2,026	2,563	2,518
Total debt	255	282	297	100	109
Net debt	**(7,571)**	**(7,010)**	**(7,325)**	**(6,875)**	**(6,752)**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	12.2	(1.0)	12.1	12.3	15.7
Operating profit growth	(1.5)	(46.6)	(16.5)	(29.3)	(8.6)
EBITDA growth	2.7	(36.2)	(11.6)	(22.8)	(7.1)
Norm profit growth	3.7	(46.2)	(19.2)	(27.3)	(13.1)
Norm EPS growth	3.7	(46.2)	(19.2)	(27.3)	(13.1)
Gross margin	33.8	30.2	30.2	29.3	30.0
Operating margin	13.6	8.3	10.8	11.2	10.8
EBITDA margin	17.3	12.2	14.2	14.3	13.9
Norm net margin	12.1	6.9	8.6	9.0	9.1
D/E (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)
Interest coverage (x)	96.2	57.6	67.1	75.0	75.3
Interest rate	10.7	12.6	13.7	19.1	36.8
Effective tax rate	16.9	29.1	21.7	22.8	19.3
ROA	11.9	6.0	8.8	9.5	9.7
ROE	17.9	9.1	13.3	14.3	14.9

Sources: Company data, Thanachart estimates

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