



## INITIATE COVERAGE

Thailand

# TOA Paint (Thailand) (TOA.BK/TOA TB)

### Outperform·Initiate

Price as of 21 Feb 2018	34.00
12M target price (Bt/shr)	40.50
Unchanged / Revised up (down) (%)	N.A.
Upside/downside (%)	19.2

### Key messages

We initiate coverage on TOA with a rating of Outperform and a 2018 target price of Bt40.50 (based on PE of 35.2x). We expect earnings to grow 42% in 2018 due to a recovery in domestic demand, increases in product prices and growth potential in regional markets. Indonesia's market would be one of the key drivers for TOA's revenue growth after successful commercial operation of its production facility in 2Q18. We presume that TOA will gradually gain market share in Indonesia.

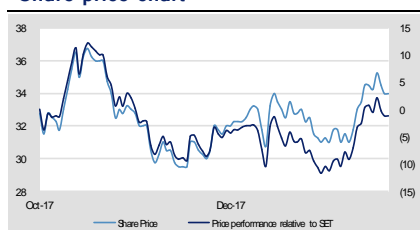
### Trading data

Mkt cap (Btbn/US\$mn)	69,986/1,725
Outstanding shares (mn)	2,029
Foreign ownership (mn)	174.7
3M avg. daily trading (mn)	12.6
52-week trading range (Bt)	28.0–37.5
Performance (%)	3M 6M 12M
Absolute	11.5 N.A. N.A.
Relative	5.7 N.A. N.A.

### Quarterly EPS

Bt	1Q	2Q	3Q	4Q
2016	0.84	0.73	0.66	0.58
2017	0.47	0.22	0.20	N.A.

### Share price chart



Source: SET

## Coloring the future

### Event

Initiate coverage.

### Impact

### Regional paint and coatings manufacturer

TOA has is the domestic dominant player in decorative paints and coatings with a market share of 48.7% and has a market share of 13% in AEC. It currently has paint and coating plants in Cambodia, Laos, Myanmar, Vietnam and Malaysia and it is expanding into Indonesia, Cambodia and Myanmar, which are expected to be completed by 4Q18. In total, annual production capacity is expected to increase 16% to 102.5mn gallons per year. Such increase will drive TOA overseas revenues portion from 12.5% in 2017 to 14.4% in 2019.

### Shiny outlook from 2018 onwards

Domestic demand is expected to bounce back due to the improving economic outlook, mass transit investment and EEC projects. Growths in regional markets are also expected to continue at favorable paces due to greater urbanization, higher income and government policies. Demand should have bottomed out in 2017 with slow domestic demand and Vietnam's government requiring all business operators in the country to register for VAT during 1Q17, causing dealers to slow orders. After a short-term hiccup in 2017, we expect TOA's sales to grow 12.3% YoY in 2018 and 8.9% YoY in 2019.

### Gross profit margin rebound

2017 GPM weaken by uptrend in titanium dioxide and oil-derivatives products however TOA pass through such costs by increasing products price since Jan 2018. We expect GPM to be picked up from 33.9% in 2017 to 36.5%/37.0% in 2018/2019 and Earnings will be bottom out in 2017 and turnaround with growth at 40%/15% in 2018/2019.

### Valuation and action

We initiate coverage on TOA with a rating of Outperform and a 2018 target price of Bt40.50 based on PER multiple. Compared to APAC peers, since there are no comparable peers listed in SET, TOA will be more attractive due to earnings growth (27% CAGR in 2018–2019). We derive a PER multiple of 35.2x based on paint and coatings companies in the APAC by simple average 2018 forward PER multiple with a 15% market discount.

### Risks

Rising raw material prices, intense competition in regional markets.

### Key financials and valuations

Sumek Chantrasuriyarat  
66.2658.888 Ext.8840  
sumekc@kgi.co.th

Wisuwat Yaikawong (Assistant Analyst)  
66.2658.888 Ext.8855  
wisuwat@kgi.co.th

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (Bt mn)	16,753	16,297	15,700	17,637	19,208
Gross profit (Bt mn)	5,979	6,203	5,322	6,438	7,107
EBIT (Bt mn)	2,788	3,207	2,119	2,952	3,381
Net profit (Bt mn)	2,131	2,526	1,673	2,346	2,695
EPS (Bt)	2.37	2.81	0.82	1.16	1.33
DPS (Bt)	0.89	6.53	1.50	0.94	1.08
EPS growth (%)	58.7	18.5	(70.6)	40.2	14.9
P/E (x)	14.6	12.3	41.8	29.8	26.0
P/B (x)	6.7	38.7	8.1	8.7	7.3
EV/EBITDA (x)	10.3	9.3	26.5	26.9	26.3
Net Debt to Equity (x)	0.4	2.7	-0.5	-0.5	-0.5
Dividend Yield (%)	2.6	18.9	4.3	2.7	3.1
Return on Avg. Equity (%)	46.4	324.7	19.5	29.5	28.2

Source: KGI Research

## Strong presence in Thailand and AEC

### Regional paints and coatings manufacturer

TOA has a long history in Thailand and is the dominant player in decorative paints and coatings with a market share of 48.7% and has a market share of 13% in AEC. The company is one of the leading paint manufacturers in Southeast Asia and is the 32nd largest paint and coating company in the world in terms of revenue. It currently has paint and coating manufacturing plants in Cambodia, Laos, Myanmar, Vietnam and Malaysia and it is expanding in Indonesia, Cambodia and Myanmar, which are expected to be completed by 4Q18. After successful commercial operations in overseas, TOA will benefit from higher operating margins compared to export.

The domestic market contributed 88% of TOA's revenue in 9M17 and the rest came from ASEAN with Vietnam as the dominant source of overseas revenues. The company is expanding through construction of paints and coatings plants as many countries in AEC have higher growth potential than the domestic market and TOA targets to be the one to capture this benefit and increase revenue contribution from regional markets.

At present TOA has annual production capacity of 88mn gallons per year (74.1mn domestically and 13.9mn in AEC) and is establishing three more overseas plants in Indonesia, Cambodia and Myanmar, which will be completed in 2018. The commencement of commercial operations at the new plants will boost the company's market share in the paints and coatings markets in overseas countries, especially the Indonesian market. Overseas annual production share will increase from 16% in 2017 to 28% in 2018 and TOA's total annual production capacity will be 102.5mn gallons per year.

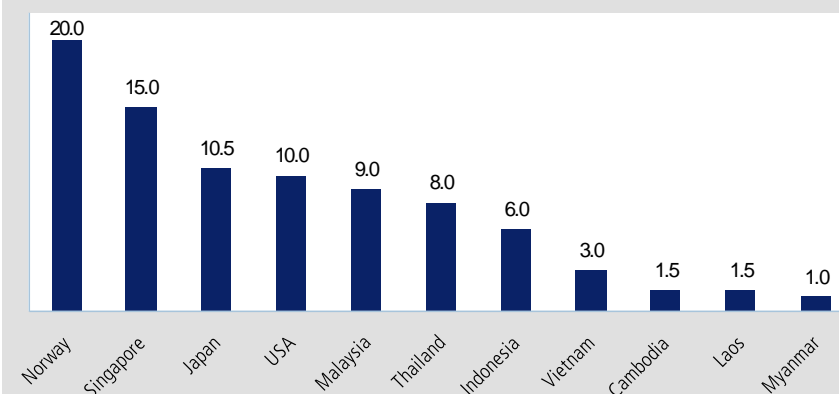
Southeast Asia is one of the most robust growth markets for paints and coatings in the world. The key drivers are:

- Increasing urbanization.
- Increasing construction, infrastructure spending and repainting activities.
- Growing middle class and increasing disposable income, which would imply middle income consumers can purchase better quality home improvement products.
- Lower paint and coating consumption per capita than developed markets, Average consumption per capita in Asia Pacific was only 4.7 liters in 2015, much lower than developed countries, e.g. Singapore 15.0 liters, Japan 10.5 liters, and Malaysia 9.0 liters. This implies there is plenty of room to drive demand.

All of the key drivers should boost the sales of decorative paints and coatings and shift consumer preferences toward premium products.

**Figure 1: Paint and coating consumption per capita**

Per capita paint and coating consumption, liters



Source: Frost &amp; Sullivan, KGI Research

**Thailand** – The Thai decorative paints and coatings market is driven by the residential and commercial sectors. Repainting existing houses and buildings accounted approximately 75% of total market sales, while the rest is new housing construction. We believe that housing demand will grow at a favorable pace given the country’s good economic outlook and public investment on mass transit projects inducing new launches from developers. Housing demand growth will be a key growth factor for Thailand’s decorative paints and coatings market. Another factor to drive demand would be incoming massive investments from the Eastern Economic Corridor (EEC).

**Vietnam** – Vietnam was TOA’s first overseas foothold and currently contributes the highest overseas operational revenue via TOA Paint (Vietnam) Co.,Ltd., which was founded in 1995 and had its factory begin operations in 1998. According to Frost and Sullivan, TOA has the third largest market share in decorative and painting products at 9.8% while a local company,4 Oranges Co.,Ltd. has the highest market at 20.3%. As reported by the Ministry of Construction, Vietnam’s construction sector grew 8.7% in 2017, ranking third in contribution to Vietnam’s GDP. With a great economic outlook, the construction sector is expected to grow at the same pace. We expect market growth to be driven by large housing construction projects in urban areas. This is likely to result in demand for paints and coatings in the future.

**Indonesia** – TOA entered into Indonesia in 2011. The size of the paints and coatings market is estimated at US\$785.3mn. The market is driven by a large population, increasing urbanization and rising disposable income from economic growth. The government is targeting to build four million houses for low income earners until 2019 (one million per year). This policy was implemented in 2015 and will increase demand for decorative paints and coatings. President Jokowi is also pursuing an ambitious five-year billion-dollar plan to upgrade the country’s infrastructure. This will create demand for non-decorative paints and coating. Major players in the market are Nippon Paint, Avian and Akzo Nobel. After completion of construction and commencement of commercial operation of its plant in Millennium Estate (50km from Jakarta) with annual production capacity of 7.7mn gallons, TOA’s sales in medium to high-end products are expected to increase and pricing will be more competitive due to shipping cost savings. The manufacturing facility is expected to be completed in 2Q18.

With a huge estimated market size of US\$875.3mn (approximately Bt27.5bn)

Indonesia has the highest growth potential for TOA's overseas operation, which depends on successful implementation of its marketing strategy to gain market share.

**Myanmar** – TOA entered Myanmar in 2013. The decorative paints and coating market there is still in the early stages with demand initiatives from residential sectors and infrastructure projects such as Hanthawaddy International Airport. The market is dominated by local brand, United Paints Group Co., Ltd.

Its current production line in Yangon will be shutdown and the new manufacturing facility is being constructed and expected to commence commercial operations in 3Q18 with annual production capacity of 4mn gallons.

**Cambodia** – The country's GDP is expected to grow at 8.5% CAGR between 2016 and 2021. Its urban population is also expected to increase from 20.9% in 2016 to 22.3% by 2021. Cambodia is the first country in ASEAN to sign a sustainable development investment partnership (SDIP) to sustain long-term economic growth. According to the annual report from Ministry of Land Management, Urban Planning and Construction, the approved construction value was US\$6.42bn, up from US\$5.25bn in 2016. Demand for housing in Cambodia is likely to require an extra 800,000 units by 2030 which will accelerate demand growth for paints and coatings.

After completion of its manufacturing plant with annual production capacity of 3.4mn gallons, 18km from Phnom Penh, TOA will have a competitive advantage over other players, United Paints Group, Akzo Nobel and Jotun, which import product from nearby locations.

**Laos** – GDP growth was a record high 11.3% CAGR between 2011–2016, but the IMF forecasts a decline to 7.6% during 2016–2021. Increasing urbanization and higher disposable income in major cities are expected to support ongoing economic activities. TOA is the only international brand to have a production plant in Laos while Urai paints, a local player, dominates the market.

**Malaysia** – The paint and coating market is relatively mature compared to Indonesia. The urban population as percentage of total population is expected to increase marginally from approximately 75.4% in 2016 to 78.3% by 2021. The government implemented a program to provide people with the opportunity to own their own homes. In 2018, Malaysia's government budgeted RM2.2bn for the housing industry. The government also plans to develop the country's infrastructure under 11<sup>th</sup> Malaysia Plan 2016–2020. New investments in the public and private sectors are likely to drive the construction industry. The decorative paint and coatings market is led by Nippon Paints. The top three players are Nippon Paints, Akzo Nobels, and Jotun, which account for 70–80% of the total market. Malaysia is the second country for TOA's overseas strategy. The company entered Malaysia in 2003 with an existing paint and coating production plant.

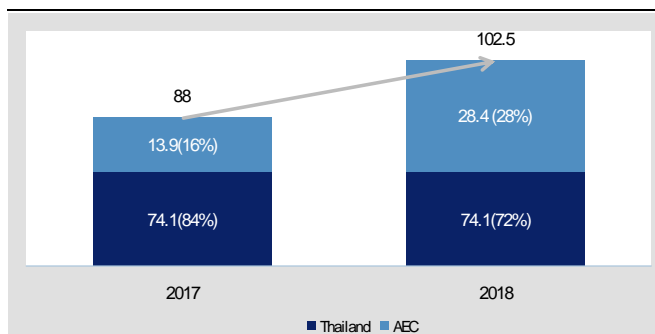
Figure 2: TOA's breakdown annual production capacity

Countries	Annual production capacity (mn gallons)	
	2017	2018
<b>Thailand</b>	<b>74.1</b>	<b>74.1</b>
<b>AEC</b>	<b>13.9</b>	<b>28.4</b>
Cambodia	0	3.4
Myanmar*	0.56	4
Laos	1	1
Malaysia	1	1
Vietnam	11.3	11.3
Indonesia	0	7.7
<b>Total</b>	<b>88.0</b>	<b>102.5</b>

Source: Company data, KGI Research

\* Current plant in Yangon will be shutdown in 2018.

Figure 3: TOA's annual production capacity (mn gallon)



Source: Company data, KGI Research

## Why TOA's brand is strong?

### Wide range of products in every market segment

As of June 2017, TOA has 9,168 SKUs under 114 brands for decorative and painting products that cover economy to premium markets. The company also has 2,775 SKUs under 89 brands for non-decorative and painting products.

TOA's strategy is to increase the proportion of revenue from premium products (premiumisation).

As consumers tend to shift their appetite to premium products, as the labor cost for painting is considerable amount in the total painting work package.

Figure 4: TOA products



Source: Company data

## R&D

Research and development is one of the key success factors for TOA. Its R&D team specialize in developing products for the tropical climate to serve consumer needs, which cover all market segments, and cost optimization (reducing raw material usage, e.g. titanium dioxide to reduce overall production cost). In addition, to meet market trends, TOA is concerned about environmental issues, e.g. volatile organic compounds (VOCs) and toxic heavy metals. In 2016, all of TOA's products are free of toxic heavy metals and have low level of VOCs (near zero).

## Distribution channel

TOA has a very strong distribution network. Traditional trade contributes more than 70% of sales while the rest is via modern trade and other channels (direct sales to developers/contractors). In Thailand, there are 6,367 traditional trade stores nationwide, 4,191 installed auto tinting machines. Approximately every three traditional trade stores will have two stores that provide TOA Color World Solution Services. The auto tinting machine is the turning point for the industry since it will reduce inventory stocks and storage area. We expect small to medium scale traditional traders to stick to only one auto-tinting machine because of limited space and working capital for other competing brands. Stores in Thailand not only provide color solution services, there are 1,775 machines installed in AEC countries. Auto tinting machines would be one of the key elements to secure TOA's market dominance in Thailand.

TOA also promotes its brands via many traditional trade stores by providing billboards and signboard tax. Consumers will indirectly recognize TOA's brand. Therefore, the company will increase its brand awareness to end-users.

Figure 5: TOA auto tinting machine



Source: Company data

Figure 6: TOA Billboard at traditional trade



Source: Internet

## Cost structure

Raw materials make up 66–68% of TOA's cost of goods sold. The major raw materials are Titanium dioxide (approximately 19% of raw material cost) and solvents and binders, the prices for which are related to oil price (15–20% of raw material cost).

Titanium dioxide ( $\text{TiO}_2$ ) is the key ingredient to enhance the brightness and

opacity of paint and coatings products. China is one of the biggest producers. Currently, titanium dioxide price remains high because of tight global supply. Enforcement of environmental policies in China, rising coating demand and a fire at Huntsman's plant in Finland have kept the market tight, but the price increase may slow in 2H18 as coating producers begin winding down inventories and slowing purchases of TiO<sub>2</sub> from 3Q18 and coating consumption declines during the winter months in the northern hemisphere during 3Q18 and 4Q18. TOA procures titanium dioxide from two global suppliers (Chemours, Tronox)

However, despite the rising trend in titanium dioxide and crude oil prices, TOA's gross profit margin should not be hurt as the costs will be passed through to customers. The company announced a 5-8% increase in product prices in December 2017, effective in January 2018. Economy and medium level segments were increased from January 1, 2018, while premium product prices were raised February 1, 2018.

Figure 7: Sequential change in reported TiO<sub>2</sub> prices(QoQ)

Company	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Chemours	<1%	5%	3%	3%	2%	5%	5%
Tronox	-4%	5%	6%	2%	4%	6%	7%
<b>Average</b>	<b>-2.5%</b>	<b>5%</b>	<b>5%</b>	<b>3%</b>	<b>3%</b>	<b>6%</b>	<b>6%</b>

Source: Bloomberg, KGI Research

## Investment Theme

### Expect top line growth of 12.3%/8.9%

Domestic growth and increased product prices should support 2018 top line growth. Domestic revenue will remain the major part of the top line with robust growth support from regional assets which will fully commence commercial operations in 2019. On top of that, its revenue mix (domestic/foreign) is expected to shift slightly to 86/14 in 2019 and regional revenue portion should continue to increase.

### Gross profit margin recovered

We assume TOA's gross profit margin will improve to 33.9%/36.5%/37.0% in 2017/2018/2019 due to the recent domestic price hike and increased proportion of sales of premium products as consumers' appetite shift.

### Earnings to bottom out in 2017 and show hefty growth in 2018/2019

We forecast a 2017 net profit of Bt1.7bn, down 34% YoY due to slower than expected domestic demand growth and a decrease in sales revenue in Vietnam as a result of Vietnam's government requiring all business operators there to register for valued added tax during the first quarter of 2017, which caused dealers to slow their orders until the VAT registration process was completed in 2Q17. After the Royal Cremation ceremony and longer than expected rainy seasons, domestic demand has bounced back to normal.

We expect TOA's 4Q17 revenue to be Bt4.2 bn (+13.4 %QoQ, -3.3%YoY) due to a slight recovery in domestic demand after the Royal Cremation ceremony and seasonal effect (end of rainy season). Gross profit margin would continue to weigh by high raw material costs (titanium dioxide and oil derivative products), 2017 gross profit margin would depressed to 33.9% from 38.1% in 2016. However in 2018, TOA products price increases will lift up gross profit margin from 33.9% to a satisfactory level at 36.5%/37.0% in 2018/2019.

Earnings momentum should continue at 41.2% and 14.4% in 2018 and 2019,



respectively, from top-line growth, better gross profit margin from premiumization effect.

Figure 8: 4Q17 earnings preview

Btmn	4Q17F	4Q16	YoY (%)	3Q17	QoQ (%)	9M17	9M16	YoY (%)
<b>Revenue</b>	<b>4,242</b>	<b>4,109</b>	<b>3.3</b>	<b>3,740</b>	<b>13.4</b>	<b>11,458</b>	<b>12,189</b>	<b>(6.0)</b>
Gross Profit	1,400	1,507	(7.1)	1,224	14.4	3,922	4,696	(16.5)
SG&A	906	852	6.3	801	13.1	2,391	2,375	0.7
Operating Profit	495	655	(24.4)	424	16.7	1,531	2,321	(34.1)
EBITDA	686	742	(7.5)	509	34.7	1,784	2,591	(31.1)
<b>Net profit</b>	<b>430</b>	<b>529</b>	<b>(18.8)</b>	<b>350</b>	<b>22.6</b>	<b>1,243</b>	<b>1,997</b>	<b>(37.7)</b>
Percent	4Q17F	4Q16	YoY (ppts)	3Q17	YoY (ppts)	9M17	9M16	YoY (ppts)
Gross margin	33.0	36.7	(3.7)	32.7	0.3	34.2	38.5	(4.3)
EBIT margin	11.7	15.9	(4.3)	11.3	0.3	13.4	19.0	(5.7)
Net profit margin	10.1	12.9	(2.7)	9.4	0.8	10.9	16.4	(5.5)

Source: Company data, KGI Research estimates

Figure 9 : Key assumptions

	2015	2016	2017F	2018F	2019F
Revenue	16,753	16,297	15,700	17,637	19,208
<b>Revenues mix(by value)</b>					
Thailand	14,960	14,554	13,738	15,435	16,439
Oversea	1,947	1,743	1,963	2,202	2,770
<b>Revenues mix(by percent)</b>					
Thailand	88.3%	87.0%	87.5%	87.5%	85.6%
Oversea	11.7%	13.0%	12.5%	12.5%	14.4%
GPM	35.7	38.1	33.9	36.5	37.0
EBIT margin	16.6	19.7	13.5	16.7	17.6
EBITDA margin	19.0	21.8	15.7	18.9	19.8
Net margin	12.7	15.5	10.7	13.3	14.0
ROA (%)	16.6%	22.3%	13.2%	15.3%	17.0%
ROE (%)	46.4%	324.7%	19.5%	29.5%	28.2%

Source: Company data, KGI Research

#### Valuation and recommendation

We initiate coverage on TOA with a rating of Outperform and a 2018 target price of Bt40.50 based on PER multiple. Since there are no other paint and coatings companies listed in SET, we compare the company to Asia Pacific peers. TOA is regional paints and coating manufacturer in Southeast Asia. Earnings are expected to grow at 27% CAGR from Bt1.7bn in 2017 to Bt2.7bn in 2019. With good earnings momentum, we derive a PER multiple based on paint and coatings companies in the Asia Pacific markets by simple average 2018 forward PER multiple with a 15% discount. This provides a premium PER multiple of 35.2x (implying PEG at 0.88x).

Figure 10: Regional peer comparison



Stock	Country	Market Cap	Current price	Target price	EPS Growth		EV/EBITDA		P/E (times)		Dividend Yield	
		(Lcy)	(Lcy)	(Lcy)	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
APAC Peers												
NIIPPON PAINT HOLDINGS CO.LTD	Japan	1,197,481	3,680	3,540	-0.8%	13.1%	11.5	10.9	32.0	28.3	1.2	1.3
KANSAI PAINT CO.LTD	Japan	723,270	2,653	2,891	8.5%	16.4%	15.1	13.2	26.3	22.6	1.0	1.1
Emerging market peers												
ASIAN PAINTS.LTD	India	1,074,397	1,120	1,237	8.4%	17.5%	32.6	27.8	51.0	43.4	0.9	1.1
BERGER PAINTS.INDIA LTD	India	237,077	244	264	6.7%	20.7%	30.0	25.4	50.2	41.6	0.7	0.9
KANSAI NEROLAC PAINTS.LTD	India	264,475	491	567	8.8%	19.7%	31.0	25.7	47.8	39.9	0.7	0.8
Average							24.0	20.6	41.4	35.2	0.9	1.0

Source: KGI Research, Bloomberg Consensus (As of February 19, 2017)

#### Risk

- Rising raw material prices (titanium dioxide and oil derivative products) could depress gross profit margin, but TOA recently announced price hikes to pass through these costs to end users.
- Intense competition with dominate local players in regional markets. TOA would implement marketing strategies to gain market share as a new entrant to markets. Nevertheless, TOA targets to gain market share in middle to premium products, which draw more margins.

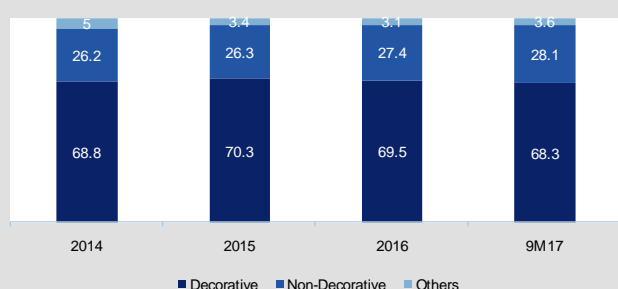
**Figure 11: Company profile**

TOA Paint (Thailand) (TOA) is the largest paint and coating producer in Thailand with a market share of 48.7%. Its main products are decorative paint and coatings products and non-decorative paint and coatings products such as wood protective and heavy paints chemical construction etc. TOA serves households and industrial markets in Southeast Asia with a 13% market share.

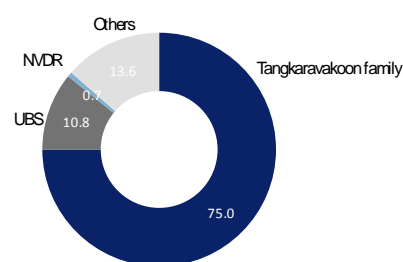
Source: Company data

**Figure 13: Revenue breakdown by products**

Total revenue, percent



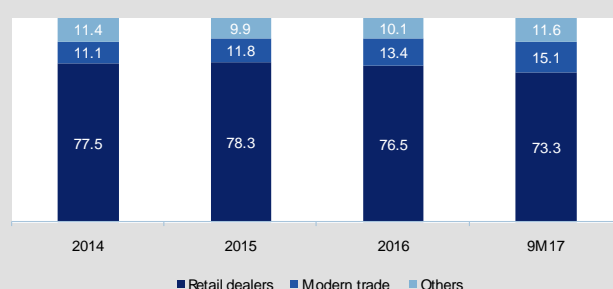
Source: Company data, KGI Research

**Figure 12: Major shareholders**


Source: Company data

**Figure 14: Revenue breakdown by distribution channels**

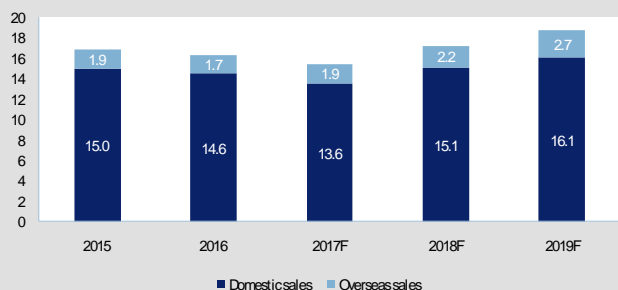
Total revenue, percent



Source: Company data, KGI Research

**Figure 15: Revenue outlook**

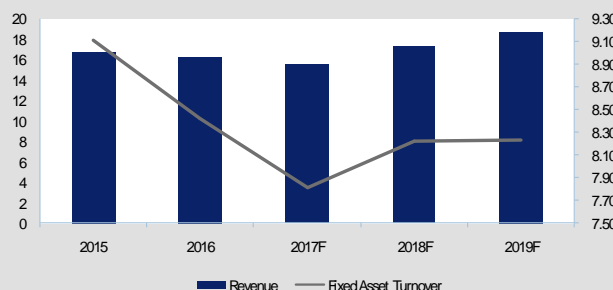
Bt bn



Source: Company data, KGI Research

**Figure 16: Sales and fixed asset turnover**

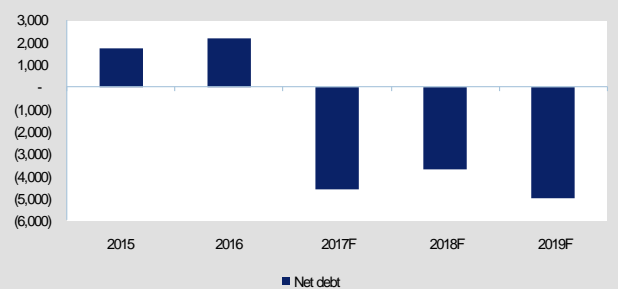
Sales, Bt bn (LHS); fixed asset turnover, times (RHS)



Source: Company data, KGI Research

**Figure 17: Net Debt**

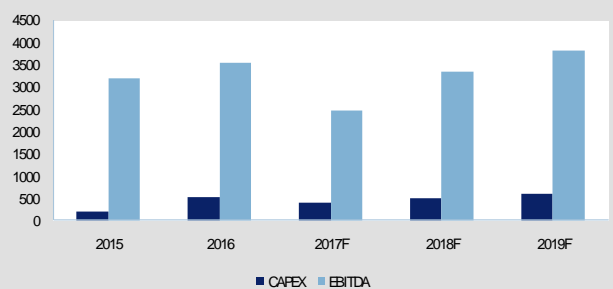
Bt mn



Source: KGI Research

**Figure 18: CAPEX and EBITDA**

Bt bn



Source: KGI Research

## Quarterly Income Statement

(Bt mn)	Mar-16A	Jun-16A	Sep-16A	Dec-16A	Mar-17A	Jun-17A	Sep-17A
<b>Revenue</b>	<b>4,220</b>	<b>4,120</b>	<b>3,848</b>	<b>4,109</b>	<b>3,951</b>	<b>3,767</b>	<b>3,740</b>
Cost of Goods Sold	(2,559)	(2,533)	(2,400)	(2,602)	(2,542)	(2,479)	(2,515)
<b>Gross Profit</b>	<b>1,661</b>	<b>1,587</b>	<b>1,448</b>	<b>1,507</b>	<b>1,410</b>	<b>1,288</b>	<b>1,224</b>
<b>Operating Expenses</b>	<b>(778)</b>	<b>(816)</b>	<b>(781)</b>	<b>(852)</b>	<b>(799)</b>	<b>(791)</b>	<b>(801)</b>
Other incomes	63	69	71	28	26	20	22
<b>Operating Profit</b>	<b>946</b>	<b>840</b>	<b>739</b>	<b>682</b>	<b>637</b>	<b>516</b>	<b>445</b>
Depreciation of fixed assets	94	87	88	87	84	84	85
<b>Operating EBITDA</b>	<b>1,041</b>	<b>927</b>	<b>827</b>	<b>764</b>	<b>721</b>	<b>600</b>	<b>531</b>
<b>Non-Operating Income</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>0</b>	<b>-</b>
Interest Income	-	-	-	-	-	-	-
Other Non-op Income	-	0	-	0	-	0	-
<b>Non-Operating Expenses</b>	<b>23</b>	<b>25</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>19</b>	
Interest Expense	23	25	19	20	21	19	19
Other Non-op Expenses	-	-	-	-	-	-	-
<b>Pre-tax Profit</b>	<b>924</b>	<b>814</b>	<b>720</b>	<b>662</b>	<b>616</b>	<b>497</b>	<b>445</b>
Current taxation	(166)	(166)	(135)	(145)	(120)	(99)	(84)
Minorities	(0)	2	5	12	1	(2)	8
Extraordinary items	-	-	-	-	-	-	-
<b>Net Profit</b>	<b>757</b>	<b>651</b>	<b>589</b>	<b>529</b>	<b>497</b>	<b>396</b>	<b>369</b>
EPS(Bt)	0.84	0.73	0.66	0.58	0.47	0.22	0.20
<b>Margins (%)</b>							
Gross profit margin	39.4	38.5	37.6	36.7	35.7	34.2	32.7
Operating margin	22.4	20.4	19.2	16.6	16.1	13.7	11.9
Operating EBITDA margin	24.7	22.5	21.5	18.6	18.3	15.9	14.2
Net profit margin	17.9	15.8	15.3	12.9	12.6	10.5	9.9
<b>Growth (%)</b>							
Revenue growth		(2.4)	(6.6)	6.8	(3.8)	(4.7)	(0.7)
Operating growth		(11.3)	(12.0)	(7.6)	(6.7)	(18.9)	(13.7)
Operating EBITDA growth		(10.9)	(10.8)	(7.6)	(5.6)	(16.8)	(11.6)
Net profit growth		(14.0)	(9.4)	(10.3)	(6.0)	(20.3)	(6.7)

Source: KGI Research

## Balance Sheet

As of 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
<b>Total Assets</b>	<b>12,986</b>	<b>9,644</b>	<b>15,663</b>	<b>15,080</b>	<b>16,720</b>
<b>Current Assets</b>	10,839	7,297	13,254	12,546	14,000
Cash & ST Investments	2,836	2,156	8,040	6,811	7,794
Inventories	1,984	2,019	2,076	2,240	2,420
Accounts Receivable	2,974	2,840	2,839	3,189	3,473
Others	3,045	283	300	306	312
<b>Non-current Assets</b>	2,147	2,347	2,409	2,534	2,720
LT Investments	0	0	0	0	0
Net fixed Assets	1,838	1,935	1,984	2,101	2,278
Others	309	412	424	433	442
<b>Total Liabilities</b>	<b>8,180</b>	<b>8,624</b>	<b>6,822</b>	<b>6,868</b>	<b>6,896</b>
<b>Current Liabilities</b>	7,962	8,441	6,639	6,685	6,712
Accounts Payable	3,712	3,602	3,554	3,836	4,144
ST Borrowings	3,794	3,727	2,700	2,400	2,100
Others	457	1,112	385	449	468
<b>Long-term Liabilities</b>	218	183	183	184	184
Long-term Debts	198	166	166	166	166
Others	19	17	17	18	18
<b>Shareholders' Equity</b>	<b>4,589</b>	<b>778</b>	<b>8,592</b>	<b>7,962</b>	<b>9,574</b>
Common Stock	900	900	2,029	2	2
Capital Surplus	(369)	0	5,842	5,842	5,842
Retained Earnings	4,075	(97)	751	2,158	3,775
Non-controlling interests	(16)	(25)	(30)	(40)	(45)

Source: KGI Research

## Key Ratios

Year to 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
<b>Forecast Drivers</b>					
<b>Growth (% YoY)</b>					
Sales	1.8	(2.7)	(3.7)	12.3	8.9
OP	49.9	15.0	(33.9)	39.3	14.5
EBITDA	44.0	11.6	(30.6)	35.0	14.0
NP	58.7	18.5	(33.8)	40.2	14.9
EPS	58.7	18.5	(70.6)	40.2	14.9
<b>Profitability (%)</b>					
Gross Margin	35.7	38.1	33.9	36.5	37.0
Operating Margin	16.6	19.7	13.5	16.7	17.6
EBITDA Margin	19.0	21.8	15.7	18.9	19.8
Net Profit Margin	12.7	15.5	10.7	13.3	14.0
ROAA	16.6	22.3	13.2	15.3	17.0
ROAE	46.4	324.7	19.5	29.5	28.2
<b>Stability</b>					
Gross Debt/Equity (%)	182.3	1,104.3	82.0	89.0	74.3
Net Debt/Equity (%)	38.0	271.5	(53.6)	(45.6)	(51.2)
Interest Coverage (x)	25.5	36.9	33.1	47.9	59.7
Interest & ST Debt Coverage (x)	0.7	0.8	0.8	1.2	1.6
Cash Flow Interest Coverage (x)	28.4	31.6	29.1	41.5	52.5
Cash Flow/Interest & ST Debt (x)	0.8	0.7	0.7	1.0	1.4
Current Ratio (x)	1.4	0.9	2.0	1.9	2.1
Quick Ratio (x)	1.1	0.6	1.7	1.5	1.7
Net Debt (Bt mn)	1,751	2,180	(4,624)	(3,645)	(4,928)
<b>Per Share Data (Bt)</b>					
EPS	2.4	2.8	0.8	1.2	1.3
OPPS	1.9	2.1	1.0	1.3	1.5
BMPS	5.1	0.9	4.2	3.9	4.7
SPS	18.6	18.1	7.7	8.7	9.5
EBITDA/Share	3.5	4.0	1.2	1.6	1.9
DPS	0.9	6.5	1.5	0.9	1.1
<b>Activity</b>					
Asset Turnover (x)	1.3	1.4	1.2	1.1	1.2
Days Receivables	65.9	65.1	66.0	62.4	63.3
Days Inventory	71.8	72.4	72.0	70.3	70.3
Days Payable	126.4	132.2	125.8	120.4	120.3
Cash Cycle	11.3	5.2	12.2	12.3	13.2

Source: KGI Research

## Profit & Loss

Year to 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
<b>Revenue</b>	<b>16,753</b>	<b>16,297</b>	<b>15,700</b>	<b>17,637</b>	<b>19,208</b>
Cost of Goods Sold	(10,774)	(10,095)	(10,378)	(11,200)	(12,101)
<b>Gross Profit</b>	<b>5,979</b>	<b>6,203</b>	<b>5,322</b>	<b>6,438</b>	<b>7,107</b>
Operating Expenses	(3,473)	(3,227)	(3,297)	(3,580)	(3,822)
Other Incomes	283	231	94	95	96
<b>Operating Profit</b>	<b>2,788</b>	<b>3,207</b>	<b>2,119</b>	<b>2,952</b>	<b>3,381</b>
Depreciation of fixed assets	402	352	351	384	422
<b>Operating EBITDA</b>	<b>3,190</b>	<b>3,559</b>	<b>2,470</b>	<b>3,336</b>	<b>3,803</b>
<b>Non-Operating Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest Income	0	0	0	0	0
Other Non-op Income	0	0	0	0	0
<b>Non-Operating Expenses</b>	<b>(109)</b>	<b>(87)</b>	<b>(64)</b>	<b>(62)</b>	<b>(57)</b>
Interest Expense	(109)	(87)	(64)	(62)	(57)
Other Non-op Expenses	0	0	0	0	0
Equity Income/(Loss)	0	0	0	0	0
<b>Pretax Income</b>	<b>2,679</b>	<b>3,120</b>	<b>2,055</b>	<b>2,891</b>	<b>3,324</b>
Current taxation	(562)	(613)	(401)	(564)	(648)
Minorities	15	19	19	19	19
Extraordinary items	0	0	0	0	0
<b>Net Profit</b>	<b>2,131</b>	<b>2,526</b>	<b>1,673</b>	<b>2,346</b>	<b>2,695</b>
Norm. Profit	2,131	2,526	1,673	2,346	2,695
EPS(Bt)	2.4	2.8	0.8	1.2	1.3

Source: KGI Research

## Cash Flow

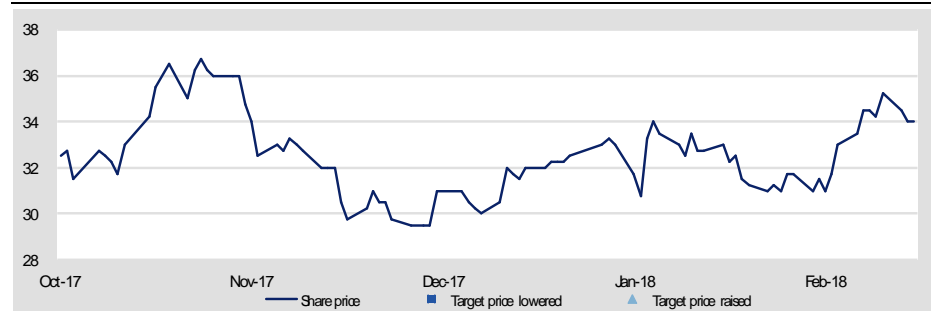
Year to 31 Dec (Bt mn)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Operating Cash Flow</b>	3,101	2,747	1,864	2,605	2,990
Net Profit	2,131	2,526	1,673	2,346	2,704
Depreciation & Amortization	236	352	351	384	422
Change in Working Capital	253	(47)	(95)	(190)	(138)
Others	481	(83)	(65)	49	2
<b>Investment Cash Flow</b>	17	2,531	(508)	(558)	(609)
Net CAPEX	(204)	(629)	(400)	(500)	(600)
Change in LT Investment	0	0	0	0	0
Change in Other Assets	221	3,060	(108)	(58)	(9)
<b>Free Cash Flow</b>	3,118	5,278	1,356	2,047	2,381
<b>Financing Cash Flow</b>	(2,392)	(6,700)	4,420	(3,282)	(1,386)
Change in Share Capital	0	0	6,950	(2,027)	0
Net Change in Debt	(880)	(185)	(1,027)	(299)	(299)
Change in Other LT Liab.	(1,512)	(6,514)	(1,503)	(955)	(1,087)
<b>Net Cash Flow</b>	726	(1,422)	5,776	(1,235)	995

Source: KGI Research

## Rates of Return on Invested Capital

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= $\frac{\text{Operating Margin}}{\text{Revenue}}$
Dec-15A	61.9%	2.4%	20.7%	15.0%
Dec-16A	59.8%	2.2%	19.8%	18.3%
Dec-17F	63.9%	2.2%	21.0%	12.9%
Dec-18F	61.3%	2.2%	20.3%	16.2%
Dec-19F	60.8%	2.2%	19.9%	17.1%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= $\frac{\text{Capital Turnover}}{\text{Revenue}}$
Dec-15A	7.4%	0.11	0.02	4.94
Dec-16A	7.7%	0.12	0.03	4.52
Dec-17F	8.7%	0.13	0.03	4.17
Dec-18F	9.0%	0.12	0.02	4.27
Dec-19F	9.1%	0.12	0.02	4.30
Year	$\frac{\text{Operating Margin}}{\text{Revenue}}$	x $\frac{\text{Capital Turnover}}{\text{Revenue}}$	x $\frac{\text{Cash Tax Rate}}{\text{Revenue}}$	= $\frac{\text{After-tax Return on Inv. Capital}}{\text{Revenue}}$
Dec-15A	15.0%	4.9	79.01	58.35
Dec-16A	18.3%	4.5	80.36	66.36
Dec-17F	12.9%	4.2	80.50	43.25
Dec-18F	16.2%	4.3	80.50	55.73
Dec-19F	17.1%	4.3	80.50	59.16

Source: KGI Research

**TOA Paint (Thailand) - Recommendation & target price history**


Source: KGI Research

**KGI Locations**

China	Shanghai	Room 1907-1909 , Tower A, No. 100 Zunyi Road, Shanghai, PRC 200051
	Shenzhen	Room 24D1, 24/F, A Unit, Zhen Ye Building, 2014 Bao'annan Road, Shenzhen, PRC 518008
Taiwan	Taipei	700 Mingshui Road, Taipei, Taiwan Telephone 886.2.2181.8888 · Facsimile 886.2.8501.1691
Hong Kong		41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800
Thailand	Bangkok	8th - 11th floors, Asia Centre Building 173 South Sathorn Road, Bangkok 10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

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Rating	Definition
Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

*Excess return = 12M target price/current price -*

Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.
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