

# TOA Paint (Thailand)

## (TOA.BK/TOA TB)

### Neutral Downgraded

Price as of 14 May 2018	39.50
12M target price (Bt/share)	40.50
Unchanged / Revised up (down) (%)	Unchanged
Upside/downside (%)	2.5

#### Key messages

TOA reported 1Q18 earnings of Bt541mn (+16% QoQ, +8.8% YoY). The result was 10% below our forecast and 15.5% below the Bloomberg consensus. Earnings were below our forecast due to lower than expected sales and accounted for 23.0% of our full-year forecast. We believe all of the bright outlook has already been factored into the share price and there is limited upside to our FY18 target price of Bt40.50. Therefore, we downgrade the stock to Neutral, from Outperform.

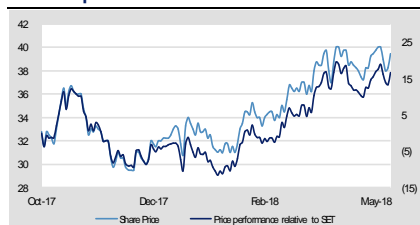
#### Trading data

Mkt cap (Btbn/US\$m)	80.1/2,585
Outstanding shares (mn)	2,029
Foreign ownership (mn)	221.6
3M avg. daily trading (mn)	14.0
52-week trading range (Bt)	29.5–41.0
Performance (%)	3M 6M 12M
Absolute	4.5 18.8 N.A.
Relative	16.2 13.3 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	0.23
2018	0.27	N.A.	N.A.	N.A.

#### Share price chart



Source: SET

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### 1Q18 earnings review: Lower than expected

#### Event

TOA reported 1Q18 earnings of Bt541mn (+16.0% QoQ, +8.8% YoY). The result was 10% below our forecast and 15.5% below the Bloomberg consensus. Earnings were below our forecast due to lower than expected sales and accounted for 23% of our full-year forecast.

#### Impact

##### Revenue

Sales were Bt4.2bn (-1.0% QoQ, +6.7% YoY), which was below our estimate of Bt4.6bn. Revenue was likely flat QoQ due to its domestic operation. TOA was the first player in the market to increase product prices in decorative paint and coatings and its domestic sales were likely hit by substitution effect to some degree as users temporarily shifted their preference to other brands. However, this effect should fade in 2Q18 as competitors announced price rises in April 2018, so product prices would be similar.

##### Gross margin improved as a result of the price increase

TOA's gross margin improved from 33.9% in 4Q17 to 35.3% in 1Q18 mainly due to the increase in product prices (fully effective in February 2018). We expect gross margin to improve further as 2Q18 will be the first full quarter that TOA benefits from the price increase and no significant substitution effect.

##### Capacity expansion continued to enhance profitability growth

The company has regional plants in Indonesia, Myanmar and Cambodia lined up for commercial operations in 3Q18, 4Q18 and 1Q19, respectively. We expect TOA's proportion of regional revenue to increase from 13.2% in 2017 to 18.4% in 2020.

#### Valuation and action

We maintain our earnings forecast and valuations. Despite the lucrative earnings outlook, the upside to our target price is limited, as we believe the brighter outlook has already been priced in. Hence, we downgrade the stock to Neutral, from Outperform, with a 2018 target price of Bt40.50 (PER 35.2x). Key potential upsides for the stock would be better than expected domestic demand and regional markets as manufacturing plants will begin commercial operations this year.

#### Risks

Slower than expected domestic demand, Rise in production costs, intense competition in regional markets.

#### Key financials and valuations

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (Bt mn)	16,297	15,718	17,482	18,983	20,485
Gross profit (Bt mn)	6,203	5,367	6,381	7,024	7,620
EBIT (Bt mn)	3,207	2,180	2,927	3,342	3,665
Net profit (Bt mn)	2,526	1,710	2,356	2,694	2,959
EPS (Bt)	2.81	0.84	1.16	1.33	1.46
DPS (Bt)	7.25	0.74	0.46	0.53	0.73
EPS growth (%)	18.5	(70.0)	37.8	14.4	9.8
P/E (x)	n.a.	38.6	34.0	29.8	27.1
P/B (x)	n.a.	7.8	8.5	7.3	6.4
EV/EBITDA (x)	n.a.	25.6	24.2	20.9	18.8
Net Debt to Equity (x)	2.7	-0.1	0.0	-0.1	-0.2
Dividend Yield (%)	n.a.	2.3	1.2	1.3	1.8
Return on Avg. Equity (%)	324.7	20.3	25.0	24.5	23.7

Source: Company data, KGI Research

Figure 1: TOA's 1Q18 earnings review

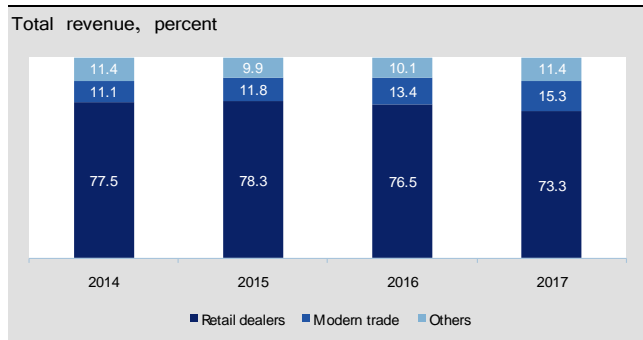
Btmn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)	Comments
<b>Revenue</b>	<b>4,216</b>	<b>3,951</b>	<b>6.7</b>	<b>4,260</b>	<b>(1.0)</b>	Flat QoQ due to substitution effect in domestic market
Cost of goods sold	(2,726)	(2,542)	7.3	(2,816)	(3.2)	
Gross profit	1,490	1,410	5.7	1,445	3.1	
SG&A	(828)	(799)	3.6	(902)	(8.2)	
Other incomes	33	26	25.2	39	(15.8)	
Operating profit	694	637	9.0	581	19.4	
Operating EBITDA	778	721	7.9	667	16.6	
Interest expense	(7)	(21)	(65.6)	(16)	(54.6)	Paidback short-term loans from IPO proceeds
Pre-tax profit	687	616	11.6	565	21.5	
Current Taxation	(149)	(120)	25.0	(99)	50.3	
Minority Interest	3	1	326.7	0	1,087.6	
<b>Net profit</b>	<b>541</b>	<b>497</b>	<b>8.8</b>	<b>466</b>	<b>16.0</b>	
EPS(Bt)	0.27	0.47	(43.3)	0.23	16.0	
Percent	1Q18	1Q17	YoY (ppts)	4Q17	QoQ (%)	
Gross margin	35.3	35.7	(0.3)	33.9	1.4	Gross margin improved as it increased domestic products prices
EBIT margin	16.5	16.1	0.4	13.6	2.8	
SG&A to Sales	19.7	20.2	(0.6)	21.2	(1.5)	

Source: Company data, KGI Research

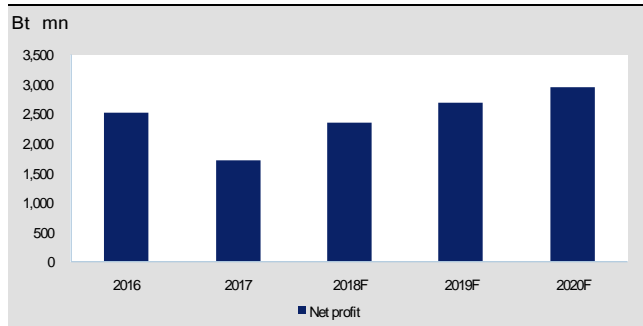
**Figure 2: Company profile**

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, coating products, and non-decorative paint and coating products, such as protective wood lacquers and heavy paints for chemical construction. TOA serves households and industrial markets in Southeast Asia, where it has a 13% market share.

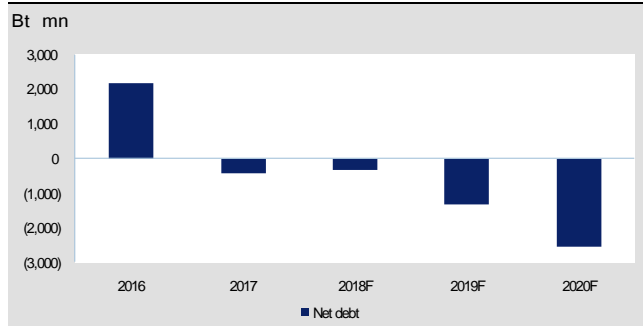
Source: Company data

**Figure 4: Revenue breakdown by distribution channels**


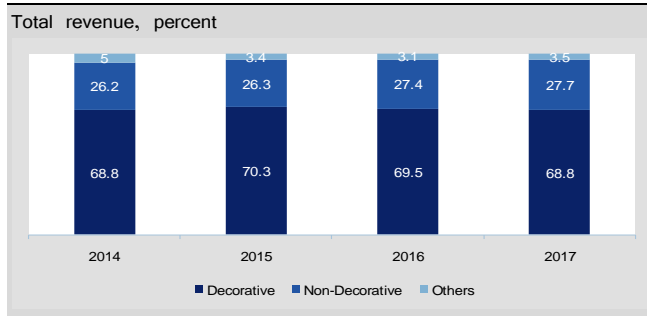
Source: Company data, KGI Research

**Figure 6: Net profit**


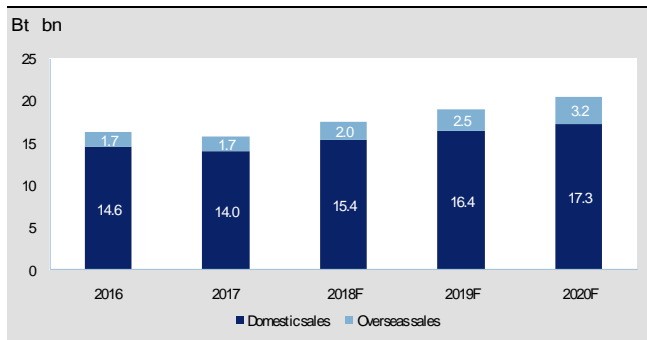
Source: Company data, KGI Research

**Figure 8: From net debt to net cash**


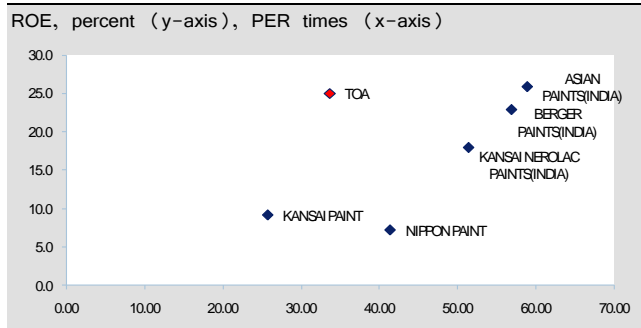
Source: KGI Research

**Figure 3: Revenue breakdown by product**


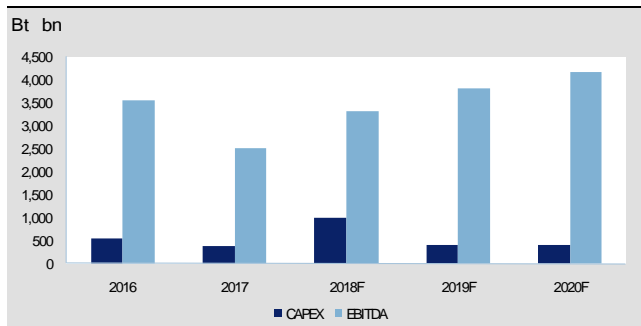
Source: Company data

**Figure 5: Revenue outlook**


Source: Company data, KGI Research

**Figure 7: PER comparable with APAC peers**


Source: Bloomberg, KGI Research

**Figure 9: CAPEX and EBITDA**


Source: KGI Research

## Quarterly Income Statement

(Bt mn)	Mar-16A	Jun-16A	Sep-16A	Dec-16A	Mar-17A	Jun-17A	Sep-17A	Dec-17A	Mar-18A
<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>	<b>4,260</b>	<b>4,216</b>
Cost of Goods Sold	(2,559)	(2,533)	(2,400)	(2,602)	(2,542)	(2,479)	(2,515)	(2,816)	(2,726)
<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>1,445</b>	<b>1,490</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>	<b>(902)</b>	<b>(828)</b>
Other incomes	63	69	71	28	26	20	22	39	33
<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>	<b>581</b>	<b>694</b>
Depreciation of fixed assets	94	87	88	87	84	84	85	86	84
<b>Operating EBITDA</b>	<b>1,041</b>	<b>927</b>	<b>827</b>	<b>769</b>	<b>721</b>	<b>600</b>	<b>531</b>	<b>667</b>	<b>778</b>
<b>Non-Operating Income</b>	<b>-</b>	<b>0</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	-	(0)	-
<b>Non-Operating Expenses</b>	<b>23</b>	<b>25</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>19</b>	<b>19</b>	<b>16</b>	<b>7</b>
Interest Expense	23	25	19	20	21	19	19	16	7
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>426</b>	<b>565</b>	<b>687</b>
Current taxation	(166)	(166)	(135)	(145)	(120)	(99)	(84)	(99)	(149)
Minorities	(0)	2	5	12	1	(2)	8	0	3
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>350</b>	<b>466</b>	<b>541</b>
EPS(Bt)	0.84	0.73	0.66	0.58	0.47	0.22	0.20	0.23	0.27
<b>Margins (%)</b>									
Gross profit margin	39.4	38.5	37.6	36.7	35.7	34.2	32.7	33.9	35.3
Operating margin	22.4	20.4	19.2	16.6	16.1	13.7	11.9	13.6	16.5
Operating EBITDA margin	24.7	22.5	21.5	18.7	18.3	15.9	14.2	15.7	18.5
Net profit margin	17.9	15.8	15.3	12.9	12.6	10.5	9.4	10.9	12.8
<b>Growth (%)</b>									
Revenue growth		(2.4)	(6.6)	6.8	(3.8)	(4.7)	(0.7)	13.9	(1.0)
Operating growth		(11.3)	(12.0)	(7.6)	(6.7)	(18.9)	(13.7)	30.6	19.4
Operating EBITDA growth		(10.9)	(10.8)	(7.0)	(6.3)	(16.8)	(11.6)	25.7	16.6
Net profit growth		(14.0)	(9.4)	(10.3)	(6.0)	(20.3)	(11.5)	33.1	16.0

Source: KGI Research

## Balance Sheet

As of 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
<b>Total Assets</b>	<b>9,644</b>	<b>14,095</b>	<b>14,931</b>	<b>16,655</b>	<b>18,262</b>
<b>Current Assets</b>	7,297	11,698	11,926	13,664	15,313
Cash & ST Investments	2,156	6,284	6,248	7,547	8,748
Inventories	2,019	2,232	2,220	2,392	2,573
Accounts Receivable	2,840	2,936	3,161	3,433	3,704
Others	283	246	296	292	289
<b>Non-current Assets</b>	2,347	2,397	3,005	2,990	2,948
LT Investments	0	0	0	0	0
Net fixed Assets	1,935	1,945	2,572	2,549	2,498
Others	412	452	433	442	450
<b>Total Liabilities</b>	<b>8,866</b>	<b>5,682</b>	<b>5,525</b>	<b>5,645</b>	<b>5,782</b>
<b>Current Liabilities</b>	8,441	5,422	5,250	5,362	5,491
Accounts Payable	3,602	3,826	3,802	4,096	4,406
ST Borrowings	3,727	1,371	1,000	800	600
Others	1,112	225	448	466	485
<b>Long-term Liabilities</b>	426	260	275	283	291
Long-term Debts	166	0	0	0	0
Others	259	260	275	283	291
<b>Shareholders' Equity</b>	<b>778</b>	<b>8,413</b>	<b>9,406</b>	<b>11,010</b>	<b>12,479</b>
Common Stock	900	2,029	2,029	2,029	2,029
Capital Surplus	0	5,762	5,762	5,762	5,762
Retained Earnings	-97	647	1,655	3,264	4,735
Non-controlling interests	(25)	(25)	(40)	(45)	(47)

Source: KGI Research

## Key Ratios

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
<b>Forecast Drivers</b>					
<b>Growth (% YoY)</b>					
Sales	(2.7)	(3.6)	11.2	8.6	7.9
OP	15.0	(32.0)	34.3	14.2	9.7
EBITDA	11.7	(29.3)	31.0	14.1	9.3
NP	18.5	(32.3)	37.8	14.4	9.8
EPS	18.5	(70.0)	37.8	14.4	9.8
<b>Profitability (%)</b>					
Gross Margin	38.1	34.1	36.5	37.0	37.2
Operating Margin	19.7	13.9	16.7	17.6	17.9
EBITDA Margin	21.9	16.0	18.9	19.8	20.1
Net Profit Margin	15.5	10.9	13.5	14.2	14.4
ROAA	22.3	14.4	19.5	17.1	16.9
ROAE	324.7	20.3	25.0	24.5	23.7
<b>Stability</b>					
Gross Debt/Equity (%)	1,104.3	67.3	58.5	51.1	46.2
Net Debt/Equity (%)	271.5	(5.3)	(3.5)	(12.1)	(20.6)
Interest Coverage (x)	36.9	28.9	122.0	167.1	244.3
Interest & ST Debt Coverage (x)	0.8	1.6	2.9	4.2	6.2
Cash Flow Interest Coverage (x)	31.9	23.9	100.8	149.5	219.3
Cash Flow/Interest & ST Debt (x)	0.7	1.2	2.4	3.6	5.3
Current Ratio (x)	0.9	2.2	2.3	2.5	2.8
Quick Ratio (x)	0.6	1.7	1.8	2.1	2.3
Net Debt (Bt mn)	2,180	(445)	(334)	(1,341)	(2,579)
<b>Per Share Data (Bt)</b>					
EPS	2.8	0.8	1.2	1.3	1.5
CFPS	2.1	0.9	1.3	1.5	1.7
BVPS	0.9	4.2	4.7	5.4	6.2
SPS	18.1	7.7	8.6	9.4	10.1
EBITDA/Share	4.0	1.2	1.6	1.9	2.0
DPS	7.3	0.7	0.5	0.5	0.7
<b>Activity</b>					
Asset Turnover (x)	1.4	1.3	1.2	1.2	1.2
Days Receivables	65.1	67.1	62.6	63.4	63.6
Days Inventory	72.4	74.9	70.6	70.4	70.4
Days Payable	132.2	131.0	120.9	120.5	120.6
Cash Cycle	5.2	11.0	12.3	13.3	13.4

Source: KGI Research

## Profit & Loss

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
<b>Revenue</b>	<b>16,297</b>	<b>15,718</b>	<b>17,482</b>	<b>18,983</b>	<b>20,485</b>
Cost of Goods Sold	(10,095)	(10,351)	(11,101)	(11,959)	(12,864)
<b>Gross Profit</b>	<b>6,203</b>	<b>5,367</b>	<b>6,381</b>	<b>7,024</b>	<b>7,620</b>
Operating Expenses	(3,227)	(3,294)	(3,549)	(3,778)	(4,056)
Other incomes	231	107	95	96	101
<b>Operating Profit</b>	<b>3,207</b>	<b>2,180</b>	<b>2,927</b>	<b>3,342</b>	<b>3,665</b>
Depreciation of fixed assets	357	340	374	423	451
<b>Operating EBITDA</b>	<b>3,564</b>	<b>2,520</b>	<b>3,301</b>	<b>3,765</b>	<b>4,116</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>(87)</b>	<b>(75)</b>	<b>(24)</b>	<b>(20)</b>	<b>(15)</b>
Interest Expense	(87)	(75)	(24)	(20)	(15)
Other Non-op Expenses	0	0	0	0	0
Equity Income/(Loss)	0	0	0	0	0
<b>Pretax Income</b>	<b>3,120</b>	<b>2,105</b>	<b>2,903</b>	<b>3,322</b>	<b>3,650</b>
Current taxation	(613)	(401)	(566)	(648)	(712)
Minorities	19	6	19	19	20
Extraordinary items	0	0	0	0	0
<b>Net Profit</b>	<b>2,526</b>	<b>1,710</b>	<b>2,356</b>	<b>2,694</b>	<b>2,959</b>
Norm. Profit	2,526	1,710	2,356	2,694	2,959
EPS (Bt)	2.8	0.84	1.16	1.33	1.46

Source: KGI Research

## Cash Flow

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
<b>Operating Cash Flow</b>	<b>2,775</b>	<b>1,804</b>	<b>2,420</b>	<b>2,990</b>	<b>3,290</b>
Net Profit	2,526	1,710	2,356	2,694	2,959
Depreciation & Amortization	357	340	374	423	451
Change in Working Capital	(52)	(197)	(412)	(139)	(132)
Others	(56)	(49)	103	11	12
<b>Investment Cash Flow</b>	<b>2,920</b>	<b>(4,374)</b>	<b>(1,475)</b>	<b>(900)</b>	<b>(571)</b>
Net CAPEX	(542)	(382)	(1,000)	(400)	(400)
Change in LT Investment	0	0	0	0	0
Change in Other Assets	3,462	(3,992)	(474)	(500)	(171)
<b>Free Cash Flow</b>	<b>5,695</b>	<b>(2,570)</b>	<b>945</b>	<b>2,089</b>	<b>2,719</b>
<b>Financing Cash Flow</b>	<b>(6,697)</b>	<b>2,777</b>	<b>(1,325)</b>	<b>(1,282)</b>	<b>(1,681)</b>
Change in Share Capital	0	6,870	0	0	0
Net Change in Debt	(183)	(2,599)	(368)	(199)	(199)
Change in Other LT Liab.	(6,514)	(1,495)	(957)	(1,083)	(1,481)
<b>Net Cash Flow</b>	<b>(952)</b>	<b>103</b>	<b>(380)</b>	<b>807</b>	<b>1,038</b>

Source: KGI Research

## Rates of Return on Invested Capital

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= $\frac{\text{Operating Margin}}{\text{Revenue}}$
2016	59.7%	2.2%	19.8%	18.3%
2017	63.7%	2.2%	21.0%	13.2%
2018F	61.4%	2.1%	20.3%	16.2%
2019F	60.8%	2.2%	19.9%	17.1%
2020F	60.6%	2.2%	19.8%	17.4%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= $\frac{\text{Capital Turnover}}{\text{Revenue}}$
2016	7.7%	0.12	0.03	4.52
2017	8.5%	0.12	0.03	4.20
2018F	9.0%	0.15	0.02	3.81
2019F	9.1%	0.13	0.02	4.02
2020F	9.1%	0.12	0.02	4.25
Year	$\frac{\text{Operating Margin}}{\text{Revenue}}$	x $\frac{\text{Capital Turnover}}{\text{Revenue}}$	x $\frac{\text{Cash Tax Rate}}{\text{Revenue}}$	= $\frac{\text{After-tax Return on Inv. Capital}}{\text{Revenue}}$
2016	18.3%	4.5	80.36	66.36
2017	13.2%	4.2	80.93	44.87
2018F	16.2%	3.8	80.50	49.73
2019F	17.1%	4.0	80.50	55.37
2020F	17.4%	4.3	80.50	59.53

Source: KGI Research

## TOA Paint (Thailand) - Recommendation &amp; target price history



Source: KGI Research

## KGI Locations

China	Shanghai	Room 1507, Park Place, 1601 Nanjing West Road, Jingan District, Shanghai, PRC 200040
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## KGI's Ratings

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)
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.
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.  <i>Excess return = 12M target price/current price-</i>
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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