



TOA Paint (Thailand)

(TOA.BK/TOA TB)

Neutral Maintained

Price as of 18 May 2018	39.50
12M target price (Bt/share)	40.50
Unchanged / Revised up (down)	Unchanged
(%)	
Upside/downside (%)	2.5

Key messages

The overall tone TOA's analyst meeting of last Friday was neutral. We expect the company's gross margin to improve further in 2Q18. Earnings growth would be driven by i) improved gross margin from increases in product prices, ii) solid demand growth in the regional market and iii) premiumization effect as consumers tend to shift their appetites toward premium products. We maintain a rating of Neutral with a 2018 target price of Bt40.50. Better than expected domestic demand would be the key driver for upside to the stock.

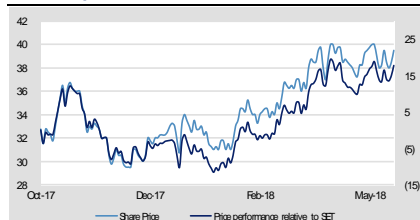
Trading data

Mkt cap (Btbn/US\$mn)	80.1/2,585
Outstanding shares (mn)	2,029
Foreign ownership (mn)	225.4
3M avg. daily trading (mn)	14.0
52-week trading range (Bt)	28.0-41.0
Performance (%)	3M 6M 12M
Absolute	2.6 20.6 N.A.
Relative	5.3 17.5 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	NA	NA	NA

Share price chart



Source: SET

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

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

Growth and margin improvement progressing

Event

The overall tone of last Friday's analyst meeting was neutral.

Impact

1Q18 revenue was lower than expected due to some substitution and seasonal effect

Sales were Bt4.2bn (-1.0% QoQ, +6.7% YoY), which was below our expectation of Bt4.6bn, mainly due to total sales volume decreasing 6% QoQ as domestic sales experienced some higher than expected substitution effect in the middle segment. Sales in the middle segment shrank 3ppts from 4Q17 to 32.4% of total sales but the premium segment increased from 30.2% of total sales in 4Q17 to 31.8% in 1Q18. We expect demand in the premium segment to continue to rise in the domestic market as consumers tend to choose premium products when labor costs are considerable to the total work package. TOA expects sales growth of 9-10% this year while we anticipate growth of 11.2% (domestic sales growth 10% and 21.7% in regional markets).

Gross margin to improve further in 2Q18

In 2Q18, we expect TOA's gross margin to improve from 35.3% in 1Q18 (34.2%/33.9% in 2Q17/4Q17) as the company will realize the first full quarter benefits from price increases. Meanwhile, the price of titanium dioxide (TiO₂), a major raw material used in the production process (~13% of COGS), increased 4% YTD, which is in line with our expectation at 5%. TOA expects the price of TiO₂ to increase further by around 3-4%, which would soften gross margin 0.4-0.5ppts, but we expect this to be partly offset by the appreciation of the Thai baht against the US dollar.

Regional expansion plan is moving forward

Progress on construction of plants in Indonesia and Cambodia is on track and they are expected to COD in 3Q18 and 1Q19. We expect sales from Indonesia to be boosted from Bt200mn in 2017 to Bt300mn in 2018. While the COD of the plant in Myanmar shifted to 1Q19 from 4Q18, this should not have any significant impact on TOA's top line as the new plant is to replace its existing production facility there.

Valuation and action

Overall guidance from TOA has us maintain our earnings forecast and target price. We maintain a rating of Neutral with a 2018 target price of Bt40.50. Better than expected domestic demand would be the key driver for upside to the stock.

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	6,346	6,929	7,518
EBIT (Bt mn)	3,207	2,180	2,892	3,247	3,563
Net profit (Bt mn)	2,526	1,710	2,327	2,617	2,876
EPS (Bt)	2.81	0.84	1.15	1.29	1.42
DPS (Bt)	7.25	0.74	0.46	0.52	0.71
EPS growth (%)	18.5	(70.0)	36.1	12.5	9.9
P/E (x)	n.a.	38.6	34.4	30.6	27.9
P/B (x)	n.a.	7.8	8.5	7.3	6.5
EV/EBITDA (x)	n.a.	25.6	24.4	21.5	19.3
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	24.8	23.9	23.2

Source: Company data, KGI Research

Figure 1: Construction progress

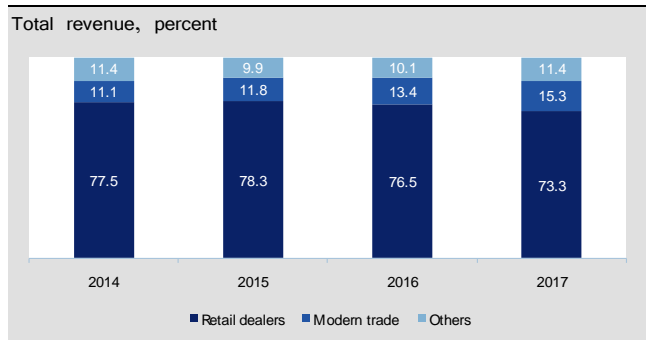


Source: Company data, KGI Research

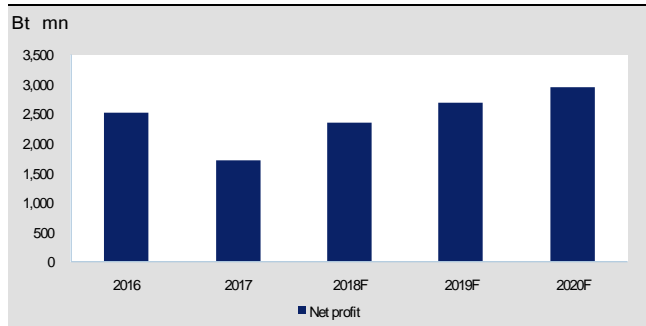
Figure 2: Company profile

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.

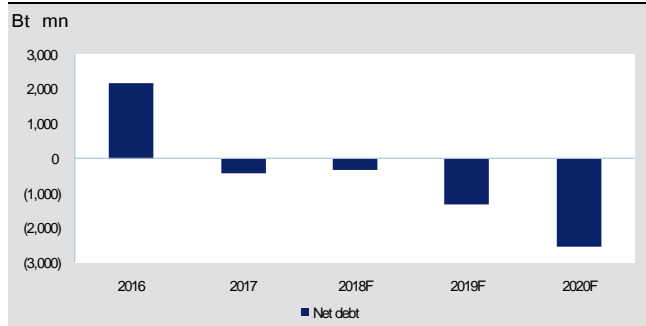
Source: Company data

Figure 4: Revenue breakdown by distribution channels


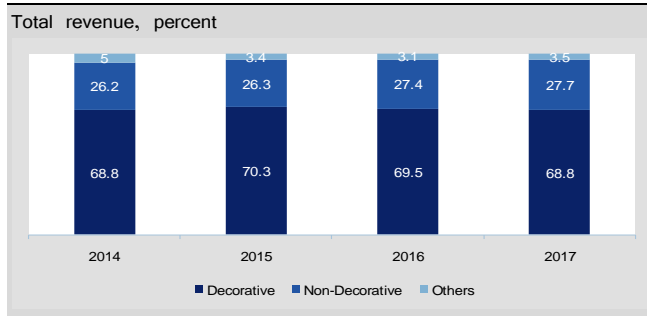
Source: Company data, KGI Research

Figure 6: Net profit


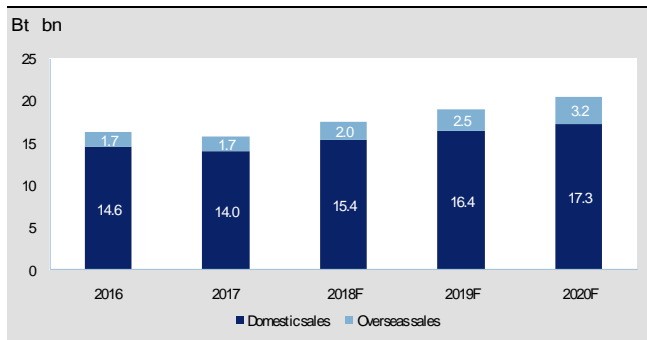
Source: Company data, KGI Research

Figure 8: From net debt to net cash


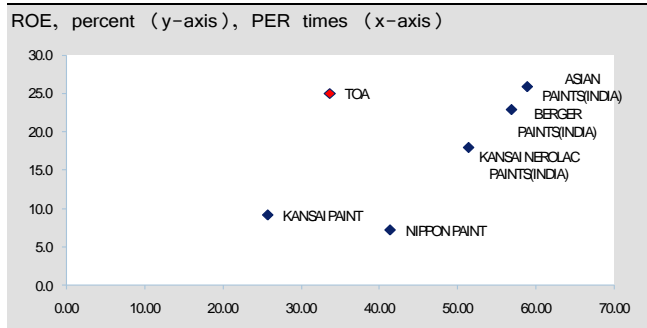
Source: KGI Research

Figure 3: Revenue breakdown by product


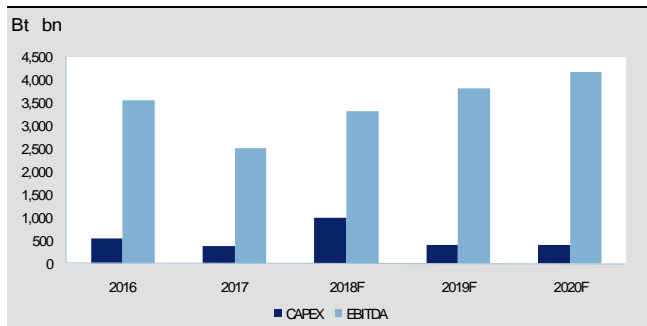
Source: Company data

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
Revenue	4,220	4,120	3,848	4,109	3,951	3,767	3,740	4,260	4,216
Cost of Goods Sold	(2,559)	(2,533)	(2,400)	(2,602)	(2,542)	(2,479)	(2,515)	(2,816)	(2,726)
Gross Profit	1,661	1,587	1,448	1,507	1,410	1,288	1,224	1,445	1,490
Operating Expenses	(778)	(816)	(781)	(852)	(799)	(791)	(801)	(902)	(828)
Other incomes	63	69	71	28	26	20	22	39	33
Operating Profit	946	840	739	682	637	516	445	581	694
Depreciation of fixed assets	94	87	88	87	84	84	85	86	84
Operating EBITDA	1,041	927	827	769	721	600	531	667	778
Non-Operating Income	-	0	-	(0)	-	0	-	(0)	-
Interest Income	-	-	-	-	-	-	-	-	-
Other Non-op Income	-	0	-	0	-	0	-	(0)	-
Non-Operating Expenses	23	25	19	20	21	19	19	16	7
Interest Expense	23	25	19	20	21	19	19	16	7
Other Non-op Expenses	-	-	-	-	-	-	-	-	-
Pre-tax Profit	924	814	720	662	616	497	426	565	687
Current taxation	(166)	(166)	(135)	(145)	(120)	(99)	(84)	(99)	(149)
Minorities	(0)	2	5	12	1	(2)	8	0	3
Extraordinary items	-	-	-	-	-	-	-	-	-
Net Profit	757	651	589	529	497	396	350	466	541
EPS(Bt)	0.84	0.73	0.66	0.58	0.47	0.22	0.20	0.23	0.27
Margins (%)									
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
Growth (%)									
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
Total Assets	9,644	14,095	14,926	16,625	18,194
Current Assets	7,297	11,698	11,921	13,635	15,245
Cash & ST Investments	2,156	6,284	6,237	7,499	8,659
Inventories	2,019	2,232	2,227	2,411	2,593
Accounts Receivable	2,840	2,936	3,161	3,433	3,704
Others	283	246	296	292	289
Non-current Assets	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
Total Liabilities	8,866	5,682	5,537	5,678	5,818
Current Liabilities	8,441	5,422	5,262	5,396	5,527
Accounts Payable	3,602	3,826	3,814	4,128	4,441
ST Borrowings	3,727	1,371	1,000	800	600
Others	1,112	225	449	467	486
Long-term Liabilities	426	260	275	283	291
Long-term Debts	166	0	0	0	0
Others	259	260	275	283	291
Shareholders' Equity	778	8,413	9,389	10,947	12,375
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	1,639	3,201	4,632
Non-controlling interests	(25)	(25)	(40)	(45)	(47)

Source: KGI Research

Key Ratios

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
Forecast Drivers					
Growth (% YoY)					
Sales	(2.7)	(3.6)	11.2	8.6	7.9
OP	15.0	(32.0)	32.7	12.3	9.7
EBITDA	11.7	(29.3)	29.6	12.4	9.4
NP	18.5	(32.3)	36.1	12.5	9.9
EPS	18.5	(70.0)	36.1	12.5	9.9
Profitability (%)					
Gross Margin	38.1	34.1	36.3	36.5	36.7
Operating Margin	19.7	13.9	16.5	17.1	17.4
EBITDA Margin	21.9	16.0	18.7	19.3	19.6
Net Profit Margin	15.5	10.9	13.3	13.8	14.0
ROAA	22.3	14.4	19.2	16.6	16.5
ROAE	324.7	20.3	24.8	23.9	23.2
Stability					
Gross Debt/Equity (%)	1,104.3	67.3	58.7	51.7	46.8
Net Debt/Equity (%)	271.5	(5.3)	(3.4)	(11.8)	(20.1)
Interest Coverage (x)	36.9	28.9	120.5	162.4	237.5
Interest & ST Debt Coverage (x)	0.8	1.6	2.9	4.1	6.0
Cash Flow Interest Coverage (x)	31.9	23.9	99.9	146.1	213.9
Cash Flow/Interest & ST Debt (x)	0.7	1.2	2.3	3.6	5.2
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)	(322)	(1,293)	(2,491)
Per Share Data (Bt)					
EPS	2.8	0.8	1.1	1.3	1.4
CFPS	2.1	0.9	1.3	1.5	1.6
BMPS	0.9	4.2	4.6	5.4	6.1
SPS	18.1	7.7	8.6	9.4	10.1
EBITDA/Share	4.0	1.2	1.6	1.8	2.0
DPS	7.3	0.7	0.5	0.5	0.7
Activity					
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	70.5	70.2	70.4
Days Payable	132.2	131.0	120.7	120.2	120.6
Cash Cycle	5.2	11.0	12.4	13.4	13.4

Source: KGI Research

Profit & Loss

Revenue	16,297	15,718	17,482	18,983	20,485
Cost of Goods Sold	(10,095)	(10,351)	(11,136)	(12,054)	(12,967)
Gross Profit	6,203	5,367	6,346	6,929	7,518
Operating Expenses	(3,227)	(3,294)	(3,549)	(3,778)	(4,056)
Other incomes	231	107	95	96	101
Operating Profit	3,207	2,180	2,892	3,247	3,563
Depreciation of fixed assets	357	340	374	423	451
Operating EBITDA	3,564	2,520	3,266	3,670	4,014
Non-Operating Income	0	0	0	0	0
Interest Income	0	0	0	0	0
Other Non-op Income	0	0	0	0	0
Non-Operating Expenses	(87)	(75)	(24)	(20)	(15)
Interest Expense	(87)	(75)	(24)	(20)	(15)
Other Non-op Expenses	0	0	0	0	0
Equity Income/(Loss)	0	0	0	0	0
Pretax Income	3,120	2,105	2,868	3,227	3,548
Current taxation	(613)	(401)	(559)	(629)	(692)
Minorities	19	6	19	19	20
Extraordinary items	0	0	0	0	0
Net Profit	2,526	1,710	2,327	2,617	2,876
Norm. Profit	2,526	1,710	2,327	2,617	2,876
EPS (Bt)	2.8	0.84	1.15	1.29	1.42

Source: KGI Research

Cash Flow

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
Operating Cash Flow	2,775	1,804	2,397	2,922	3,209
Net Profit	2,526	1,710	2,327	2,617	2,876
Depreciation & Amortization	357	340	374	423	451
Change in Working Capital	(52)	(197)	(407)	(130)	(131)
Others	(56)	(49)	103	12	12
Investment Cash Flow	2,920	(4,374)	(1,475)	(900)	(571)
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)
Free Cash Flow	5,695	(2,570)	922	2,022	2,638
Financing Cash Flow	(6,697)	2,777	(1,314)	(1,251)	(1,639)
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)	(946)	(1,052)	(1,440)
Net Cash Flow	(952)	103	(391)	771	998

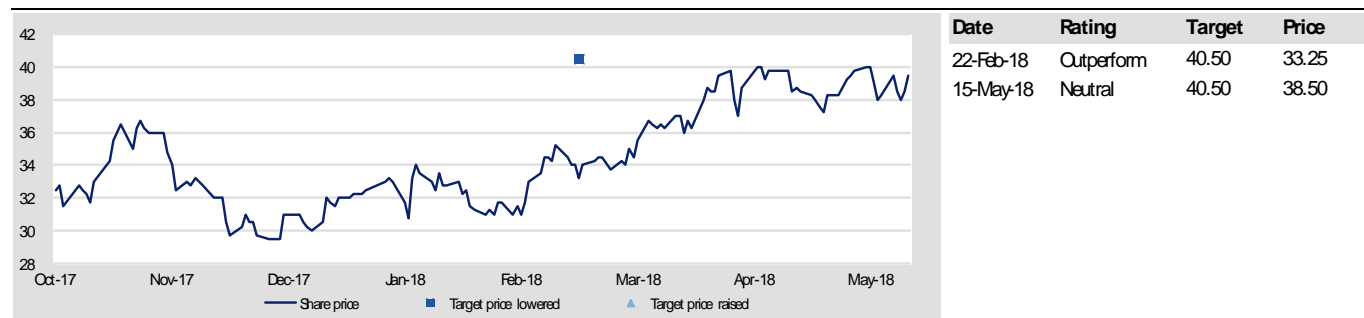
Source: KGI Research

Rates of Return on Invested Capital

Year	1- COGS Revenue	+ Depreciation Revenue	+ Operating Exp. Revenue	= Operating Margin
2016	59.7%	2.2%	19.8%	18.3%
2017	63.7%	2.2%	21.0%	13.2%
2018F	61.6%	2.1%	20.3%	16.0%
2019F	61.3%	2.2%	19.9%	16.6%
2020F	61.1%	2.2%	19.8%	16.9%
Year	1/ Working Capital Revenue	+ Net PPE Revenue	+ Other Assets Revenue	= Capital Turnover
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	3.82
2019F	9.0%	0.13	0.02	4.03
2020F	9.1%	0.12	0.02	4.26
Year	Operating Margin	x Capital Turnover	x Cash Tax Rate	= After-tax Return on Inv. Capital
2016	18.3%	4.5	80.36	66.36
2017	13.2%	4.2	80.93	44.87
2018F	16.0%	3.8	80.50	49.17
2019F	16.6%	4.0	80.50	53.91
2020F	16.9%	4.3	80.50	58.00

Source: KGI Research

TOA Paint (Thailand) - Recommendation & target price history



Source: KGI Research

KGI Locations

China	Shanghai	Room 1507, Park Place, 1601 Nanjing West Road, Jingan District, Shanghai, PRC 200040
	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
Singapore		4 Shenton Way #13-01 SGX Centre 2 Singapore 068807 Telephone 65.6202.1188 Facsimile 65.6534.4826

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.

Disclaimer

KGI Securities (Thailand) Plc. ("The Company") disclaims all warranties with regards to all information contained herein. In no event shall the Company be liable for any direct, indirect or any damages whatsoever resulting from loss of income or profits, arising by utilization and reliance on the information herein. All information hereunder does not constitute a solicitation to buy or sell any securities but constitutes our sole judgment as of this date and are subject to change without notice.