

# TOA: Increase in raw material costs pressures 2Q21 profit



## Update

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**Analyst meeting came out with a neutral tone. We expect TOA net profit in 2Q21 to weaken QoQ due to rising cost, but long-term outlook remains solid.**

- We expect TOA net profit in 2Q21 to growth YoY but weaken QoQ, mainly as a result of rising raw material prices.
- Titanium dioxide price, the key material, has sharply increased by 20%QoQ to US\$3,200/ton QTD (China benchmark).
- Also, we expect paint and construction material demand to soften QoQ from new wave of Covid-19 and seasonality.
- We maintain our 2021E earnings forecast at 2,260m (11%YoY) and expect consumption will accelerate in 2H21 following regional vaccination and tourism recovery (repainting).

**We maintain a HOLD rating with a target price at Bt38.0, derived from DCF with WACC 7% and TG at 3% which implies 34xPE'21E.**

### Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	33.7	37.1	33.0	31.6	30.1
Recurring net profit growth (%)	19.5	(9.2)	12.5	4.5	4.8
Recurring EPS (Bt)	1.1	1.0	1.1	1.2	1.2
Recurring EPS growth (%)	19.5	(9.2)	12.5	4.5	4.8
PBV (x)	7.0	6.5	5.9	5.3	4.9
BVPS (Bt)	5.3	5.6	6.2	6.9	7.5
ROE (%)	21.5	18.4	18.8	17.7	16.9
DPS (Bt)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	1.4	1.4	1.4	1.4	1.5
Enterprise value (Bt m)	68,288.0	69,219.5	67,013.9	65,480.2	63,913.1
EV-to-EBITDA (x)	22.3	21.7	19.5	18.1	16.8

## TOA Paint (Thailand) PCL

**Recommendation: HOLD**

**Current price\*: Bt36.75**

**Target price : Bt38.00**

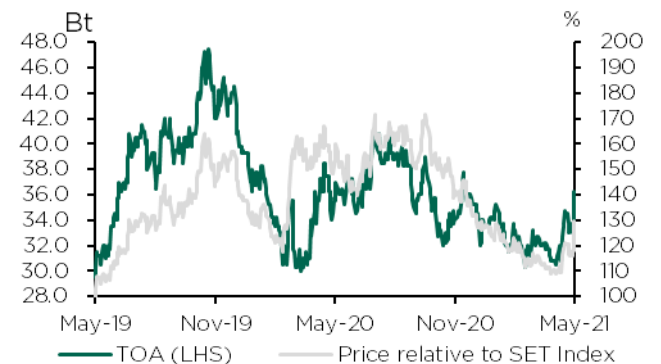
**Up/(downside): 3%**

**IOD: 5 out of 5**

**CAC: Certified**

### Stock data

RIC code	TOA.BK
Index	.SETI
SET Index (14 May 2021)	1,549.48
Market cap (Bt m)	74,566
Shares outstanding (million)	2,029
Par (Bt)	1.00



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Story

Sales

P5F

Team

WCB

ESG

Value

Risks

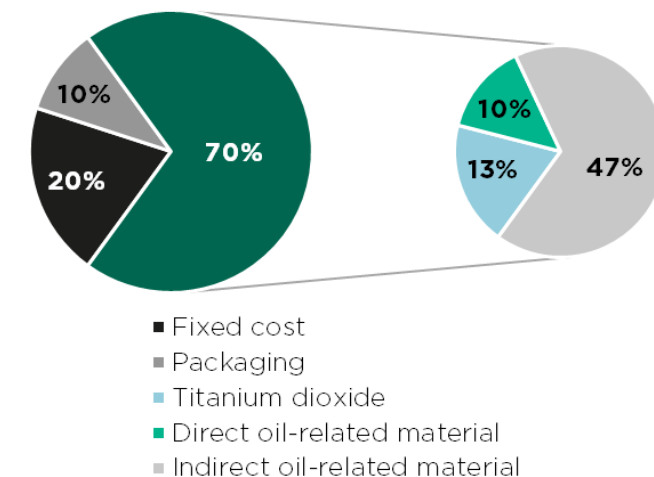
## Short term pressure from rising material costs

- We expect TOA net profit in 2Q21 to growth YoY but weaken QoQ, mainly as a result of rising raw material prices.
- The company cost mainly comprises of titanium dioxide, which its price has sharply increased by 20%QoQ to US\$3,200/ton QTD (China benchmark). Also, we believe the remaining materials (resin, latex, etc.) will also surge proportionately to the oil price, squeezing gross margin in 2Q21. However, we believe rising cost will be partly transferred as the company plans to increase its products price again in June (up to 80% of portfolio), after revised up some products price by 5% earlier in 1Q21 (15% portfolio).
- Apart from weak margin, we expect demand in paint and construction materials to slightly decline QoQ (but still grow YoY from low base) as a consequence of domestic pandemic especially in construction campsite, together with seasonality.

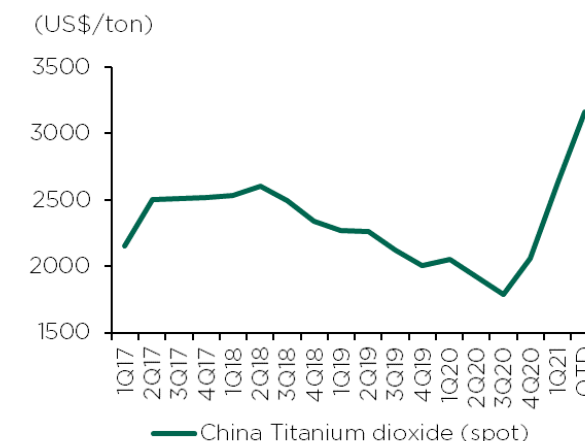
## Potential growth after Covid relief

- We maintain our 2021E earnings forecast at 2,260m (11%YoY). Despite a weakness in 2Q21, we believe paint and construction material consumption will accelerate in 2H21 following regional vaccination and tourism recovery.
- The company also has a potential growth from product diversification and Mega Paint expansion.
- TOA has acquired 52% share in Phacha Enterprise and Phawatri Intertrade, which engage in the businesses of import and selling tiles, with the Bt122m investment. We expect small contribution from this acquisition at Bt400m in sales and roughly 10% net margin. However, we believe a diversification to construction materials will enhance TOA construction chemical sales.
- The company aims to expand more Mega Paint, an own brand and one stop service shop, to 10 stores by 2021 from 1 store in 1Q21, which we expect Bt1-2m/store/month sales contribution.

More than 50% of COGS is related to oil price



Titanium dioxide prices (Reference)



(Bt m)	1Q20	2Q20	3Q20	4Q20	1Q21	YoY (%)	3M21	21E	% of 21E
Revenue	4,101	4,007	4,021	4,167	4,422	7.8	4,422	16,689	26.5
Cost of sales	(2,550)	(2,549)	(2,525)	(2,662)	(2,810)	10.2	(2,810)	(10,681)	26.3
<b>Gross profit</b>	<b>1,551</b>	<b>1,457</b>	<b>1,496</b>	<b>1,504</b>	<b>1,613</b>	<b>4.0</b>	<b>1,613</b>	<b>6,008</b>	<b>26.8</b>
SG&A	(898)	(835)	(878)	(899)	(830)	(7.6)	(830)	(3,338)	24.9
Other (exp)/inc	27	36	32	33	29	10.5	29	113	26.2
<b>EBIT</b>	<b>680</b>	<b>659</b>	<b>650</b>	<b>638</b>	<b>813</b>	<b>19.5</b>	<b>813</b>	<b>2,783</b>	<b>29.2</b>
Finance cost	(9)	(12)	(9)	(8)	(8)	(7.6)	(8)	(32)	25.9
Other inc/(exp)	(130)	74	(28)	64	46	nm	46	47	99.0
<b>Earnings before taxes</b>	<b>540</b>	<b>721</b>	<b>613</b>	<b>693</b>	<b>850</b>	<b>57.3</b>	<b>850</b>	<b>2,797</b>	<b>30.4</b>
Income tax	(170)	(123)	(137)	(141)	(202)	18.8	(202)	(559)	36.1
<b>Earnings after taxes</b>	<b>370</b>	<b>598</b>	<b>476</b>	<b>553</b>	<b>648</b>	<b>75.1</b>	<b>648</b>	<b>2,238</b>	<b>29.0</b>
Equity income	-	-	-	-	-	nm	-	-	na
Minority interest	3	(3)	(0)	7	9	nm	9	22	39.6
<b>Earnings from cont. operations</b>	<b>373</b>	<b>595</b>	<b>476</b>	<b>560</b>	<b>657</b>	<b>76.1</b>	<b>657</b>	<b>2,260</b>	<b>29.1</b>
Forex gain/(loss) & unusual items	48	(2)	48	(67)	13	(72.6)	13	0	nm
<b>Net profit</b>	<b>422</b>	<b>593</b>	<b>524</b>	<b>493</b>	<b>670</b>	<b>59.0</b>	<b>670</b>	<b>2,260</b>	<b>29.7</b>
Recurring profit	387	595	486	545	660	70.5	660	2,260	29.2
EBITDA	813	795	792	783	813	(0.1)	813	3,444	23.6
Recurring EPS (Bt)	0.191	0.293	0.239	0.268	-	nm	-	1.114	-
Reported EPS (Bt)	0.208	0.292	0.258	0.243	0.330	59.0	0.661	1.114	59.3
<b>Profits (%)</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>Diff (%)</b>	<b>3M21</b>	<b>21E</b>	<b>Diff (%)</b>
Gross margin	37.8	36.4	37.2	36.1	36.5	(1.3)	36.5	36.0	(0.5)
Operating margin	16.6	16.4	16.2	15.3	18.4	1.8	18.4	16.7	(1.7)
Net margin	10.3	14.8	13.0	11.8	15.2	4.9	15.2	13.5	(1.6)

## Result summary

- TOA reported an all time high net profit at Bt670m in 1Q21 (+59%YoY, +36%QoQ), driven by sales growth, gain on financial investment, and efficient cost control.
- Core profit (EBIT) increased by 20%YoY and 27%QoQ following sales growth and lower SG&A expense.
- Revenue was Bt4.4bn (+8%YoY, +6%QoQ) in 1Q21, a record high. An impressive growth was a result of sales volume recovery in both decorative paint and construction material, together with a increase in selling prices by 5%. Sales volume also increased in international market
- Gross margin was 36.5% (-1.3%YoY, +0.4%QoQ), dropped YoY due to rising raw material cost (oil related) but improved QoQ from an increase in selling prices.
- SG&A to sales improved to 18.8% (-3.1%YoY, -2.8%QoQ) as a result of lower advertising.

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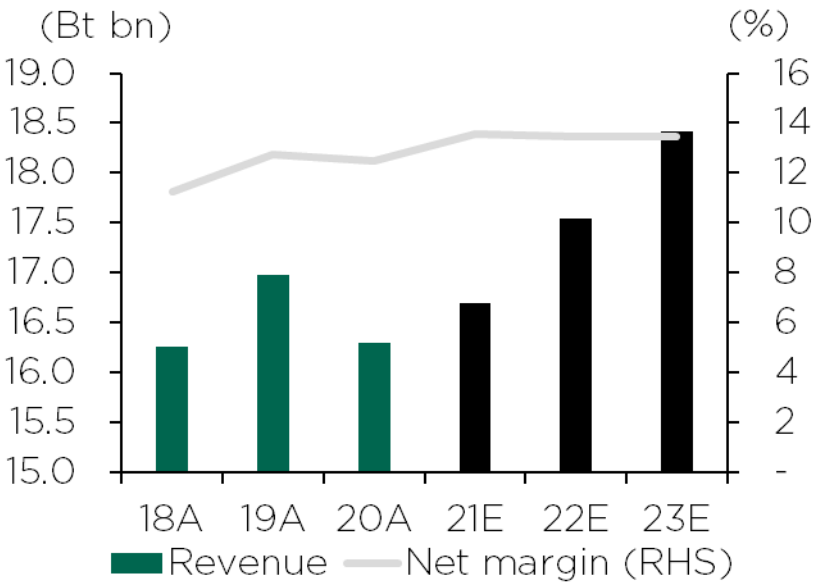
Value

Risks

Decorative paint contributes 66% of total revenue. The company produces decorative paint topcoats sealers, or primers, including high-quality anti-rust primers. There are three main categories of decorative paint: premium grade paints and coatings, medium to economy grade paints and coatings, and other decorative products based on a combination of the character, quality, functionality, and price of the decorative paints and coatings.

Non-decorative paint contributes 32% of total revenue. This segment refers to chemicals that confer certain properties to construction materials, such as improving their workability and performance.

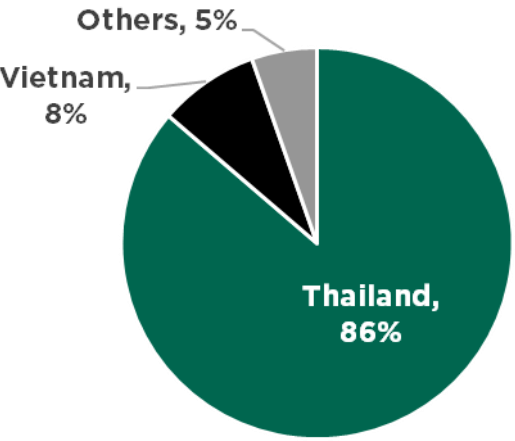
Other non-decorative paints contribute 2% of total revenue. This segment consists of wood paint and coatings, hardware, power tools, special paints, auto tinting machines, and gypsum boards.



Revenue by group of segment, 2020



Revenue by group of geography, 2020



# TOA: Summary financials

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Profit & loss (Bt m)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Revenue	16,978	16,296	16,689	17,538	18,415	4,101	4,007	4,021	4,167	4,422
Cost of goods sold	(11,026)	(10,287)	(10,681)	(11,329)	(11,896)	(2,550)	(2,549)	(2,525)	(2,662)	(2,810)
Gross profit	5,952	6,009	6,008	6,208	6,519	1,551	1,457	1,496	1,504	1,613
SG&A	(3,362)	(3,510)	(3,338)	(3,420)	(3,591)	(898)	(835)	(878)	(899)	(830)
Other (exp)/inc	102	127	113	118	124	27	36	32	33	29
Operating profit	2,692	2,627	2,783	2,907	3,052	680	659	650	638	813
Finance cost	(19)	(39)	(32)	(27)	(27)	(9)	(12)	(9)	(8)	(8)
Other inc/(exp)	102	(21)	47	43	38	(130)	74	(28)	64	46
Earnings before taxes	2,776	2,567	2,797	2,922	3,063	540	721	613	693	850
Income tax	(570)	(571)	(559)	(584)	(613)	(170)	(123)	(137)	(141)	(202)
After-tax profit	2,206	1,997	2,238	2,338	2,450	370	598	476	553	648
Equity income	-	-	-	-	-	-	-	-	-	-
Minorities	21	6	22	23	25	3	(3)	(0)	7	9
Earnings from cont. operations	2,227	2,003	2,260	2,361	2,475	373	595	476	560	657
Forex gain/(loss) & unusual items	(65)	28	0	0	0	48	(2)	48	(67)	13
Net income	2,162	2,031	2,260	2,361	2,475	422	593	524	493	670
Recurring EPS (Bt)	1.09	0.99	1.11	1.16	1.22	0.19	0.29	0.24	0.27	-
Weighted average shares (m)	2,029	2,029	2,029	2,029	2,029	2,029	2,029	2,029	2,029	-
Balance sheet (Bt m)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Assets	15,707	16,486	18,453	20,079	21,809	17,131	16,891	16,365	16,486	18,308
Liabilities	5,093	5,081	5,827	6,178	6,571	6,631	5,879	5,329	5,081	6,094
Equity	10,689	11,414	12,657	13,956	15,317	10,519	11,027	11,038	11,414	12,180
Invested capital	4,316	6,041	5,056	4,797	4,567	4,986	5,844	5,958	6,041	5,687
Growth (YoY, %)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Revenue	4.4	(4.0)	2.4	5.1	5.0	(5.4)	(3.8)	(1.0)	(5.7)	7.8
Operating income	15.9	(2.4)	6.0	4.4	5.0	(13.9)	10.4	(1.3)	(1.4)	19.5
Recurring EPS	19.5	(9.2)	12.5	4.5	4.8	(39.8)	14.1	(10.4)	7.0	(100.0)
Assets	5.2	5.0	11.9	8.8	8.6	10.6	9.5	7.8	5.0	6.9
Liabilities	(8.6)	(0.2)	14.7	6.0	6.4	20.4	9.4	5.4	(0.2)	(8.1)
Equity	13.5	6.8	10.9	10.3	9.8	4.8	9.0	8.4	6.8	15.8
Profits (%)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Gross margin	35.1	36.9	36.0	35.4	35.4	37.8	36.4	37.2	36.1	36.5
Operating margin	15.9	16.1	16.7	16.6	16.6	16.6	16.4	16.2	15.3	18.4
Net margin	12.7	12.5	13.5	13.5	13.4	10.3	14.8	13.0	11.8	15.2
ROE	21.5	18.4	18.8	17.7	16.9	15.9	22.0	19.0	17.6	22.7
ROIC	51.6	39.4	40.1	47.2	52.1	40.1	40.4	34.2	33.9	42.3



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<b>HOLD:</b>	Expected return excluding dividends between -10% and 10% within the next 12 months.
<b>SELL:</b>	Expected return excluding dividends of less than -10% within the next 12 months.
<b>NR:</b>	Not Rated- Stock is not in our research coverage.

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