

TOA: Recovering demand for decorative paint drive 4Q21 earnings



Update

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Analyst meeting came out with a neutral tone. We expect 4Q21 earnings to recover QoQ but flat YoY caused by rising cost.

- We expect 4Q21 earnings to improve QoQ supported by 1) an increase in products selling prices by 4%-5% in 3Q21, 2) a solid demand for decorative paint both Thailand and Vietnam, and 3) benefit from seasonal factor.
- we expect 3Q21 GPM should be bottom quarter supported by 1) an increase in products selling prices and 2) a decrease in raw material price (more than 50% of COGS is related to oil prices) in late 4Q21 base on U.S. Energy Information Administration (EIA) forecasts crude oil prices will decline during 2022.
- We foresee 2022 earnings at Bt2.2bn (+15%YoY) supported by demand in paint and construction materials from hotel, restaurants, and related tourism destination (re-painting demand).

A strong balance sheet and a solid demand for decorative paint. We reiterate our BUY rating with a target price of Bt38.0, based on 35xPE'22E, closed to its five-years average trading range.

Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	32.0	33.6	35.6	31.1	28.0
Recurring net profit growth (%)	15.3	(4.9)	(5.5)	14.5	10.9
Recurring EPS (Bt)	1.06	1.00	0.95	1.09	1.21
Recurring EPS growth (%)	15.3	(4.9)	(5.5)	14.5	10.9
PBV (x)	6.4	6.0	5.5	5.0	4.6
BVPS (Bt)	5.3	5.6	6.1	6.7	7.4
ROE (%)	21.5	18.4	16.1	16.9	17.0
DPS (Bt)	0.50	0.53	0.43	0.49	0.54
Dividend yield (%)	1.5	1.6	1.3	1.4	1.6
Enterprise value (Bt m)	62,201	63,132	61,243	59,754	58,186
EV-to-EBITDA (x)	20.3	19.8	20.0	17.3	15.4

TOA Paint (Thailand) PCL

Recommendation: BUY

Current price*: Bt33.75

Target price : Bt38.00

Up/(downside): 13%

IOD: 5 out of 5

CAC: Certified

Stock data

RIC code	TOA.BK
Index	.SETI
SET Index (18 November 2021)	1,651.02
Market cap (Bt m)	68,479
Shares outstanding (million)	2,029
Par (Bt)	1.00



TOA: Expect 3Q21 GPM should be bottom quarter

Story

Sales

P5F

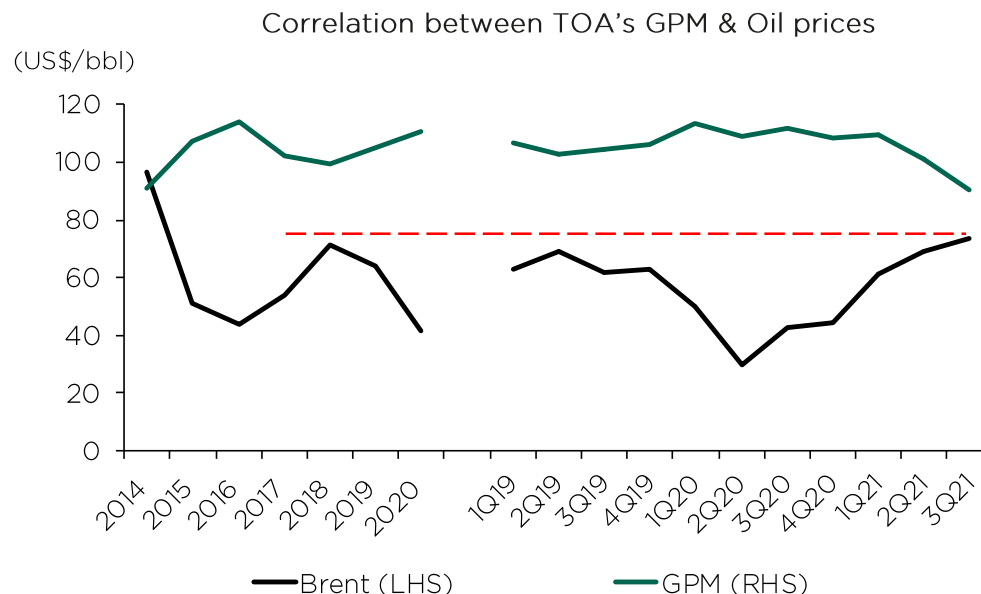
Team

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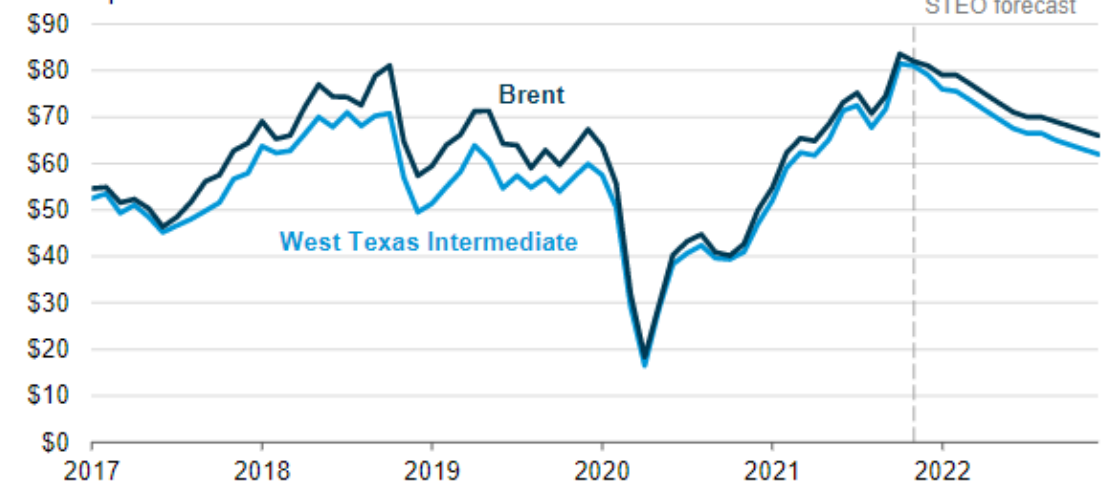
Value

Risks



Monthly crude oil spot prices (Jan 2017–Dec 2022)

dollars per barrel



QoQ increase in GPM supported by an increase in products selling price

- We expect 4Q21 earnings to improve QoQ supported by 1) an increase in products selling prices by 4%-5% in 3Q21, 2) a solid demand for decorative paint both Thailand and Vietnam, and 3) benefit from seasonal factor.
- Titanium dioxide price, one of the key material, increased to US\$3,250/ton (+58%YoY) in 4QTD (China benchmark). Also, we believe the remaining materials (resin, latex, etc.) will also surge proportionately to the oil price, squeezing gross margin YoY in 4Q21. However, we believe rising cost will be partly transferred as the company plans to increase its products price again in November, after revised up some products price, we expect GPM to improved by 200bps to roughly 34% in 1H22.
- Moreover, we expect 3Q21 GPM should be bottom quarter supported by 1) an increase in products selling prices and 2) a decrease in raw material price (more than 50% of COGS is related to oil prices) in late 4Q21 base on U.S. Energy Information Administration (EIA) forecasts crude oil prices will decline during 2022.
- We foresee 2022 earnings at Bt2.2bn (+15%YoY) supported by 1) demand in paint and construction materials from hotel, restaurants, and related tourism destination (re-painting demand), and 2) improving GPM

Story

Sales

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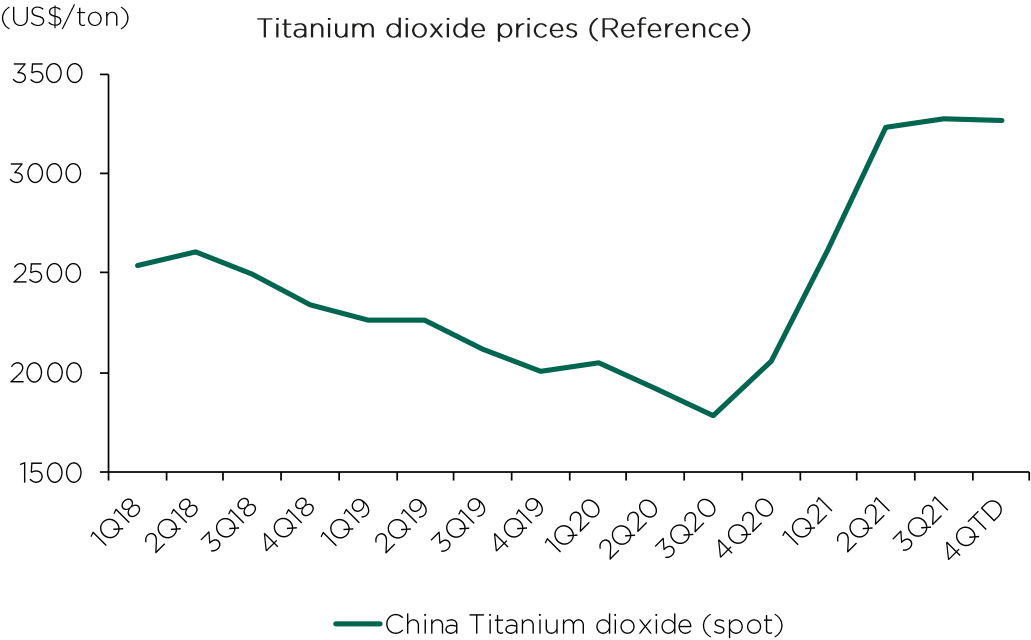
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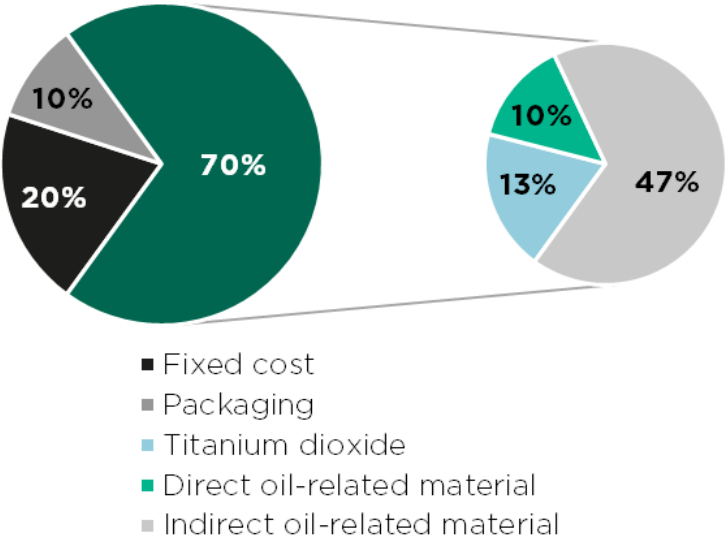
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Value

Risks



More than 50% of COGS is related to oil prices



(Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21	%QoQ	%YoY
Revenue	4,021	4,167	4,422	4,496	3,980	(11.5)	(1.0)
Cost of sales	(2,525)	(2,662)	(2,810)	(2,976)	(2,778)	(6.7)	10.0
Gross profit	1,496	1,504	1,613	1,520	1,203	(20.8)	(19.6)
SG&A	(878)	(899)	(830)	(906)	(873)	(3.7)	(0.6)
Other (exp)/inc	32	33	29	28	25	(10.3)	(21.2)
EBIT	650	638	813	641	355	(44.6)	(45.4)
Finance cost	(9)	(8)	(8)	(8)	(8)	4.0	(11.0)
Other inc/(exp)	7	1	5	12	1	(89.6)	(80.6)
Earnings before taxes	647	630	809	646	348	(46.1)	(46.2)
Income tax	(137)	(141)	(202)	(109)	(102)	(7.0)	(25.8)
Earnings after taxes	511	490	607	537	247	(54.1)	(51.7)
Equity income	-	-	-	-	-	na	na
Minority interest	(0)	7	9	7	26	260	(12,702)
Earnings from cont. operations	510	497	615	544	273	(49.8)	(46.5)
Forex gain/(loss) & unusual items	13	(4)	55	0	(5)	nm	nm
Net profit	524	493	670	544	268	(50.7)	(48.8)
EBITDA	792	783	949	808	510	(36.8)	(35.6)
Recurring EPS (Bt)	0.25	0.24	0.31	0.27	0.13	(50.1)	(47.1)
Reported EPS (Bt)	0.26	0.24	0.33	0.27	0.13	(50.7)	(48.8)
Profits (%)	3Q20	4Q20	1Q21	2Q21	3Q21	chg QoQ	chg YoY
Gross margin	37.2	36.1	36.5	33.8	30.2	(3.6)	(7.0)
Operating margin	19.7	18.8	21.5	18.0	12.8	(5.1)	(6.9)
Net margin	13.0	11.8	15.2	12.1	6.7	(5.4)	(6.3)

Result summary

- TOA's 3Q21 net profit was at Bt268m (-49%YoY, -51%QoQ), the lowest level since listed.
- Revenue softened to Bt4bn (-1%YoY, -12%QoQ) in 3Q21, caused by a decrease in sales volume of decorative paint in Thailand, following impact of COVID-19 led lockdown measures along with flood situation.
- Gross profit margin plunged to 30.2% (-700bps YoY, -360bps QoQ), the lowest level since listed as a result from rising material cost as oil price spiked.
- SG&A to sales was manageable at 21.9% (+10bps YoY, +170bps QoQ).

Story

Sales

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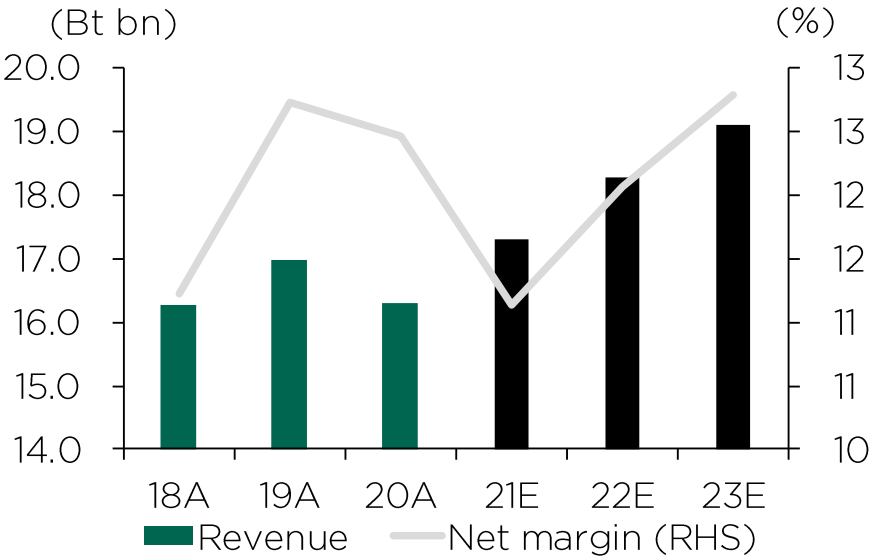
Value

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.



TOA: Summary financials

Story

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Value

Risks

Profit & loss (Bt m)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Revenue	16,978	16,296	17,300	18,285	19,114	4,021	4,167	4,422	4,496	3,980
Cost of goods sold	(11,026)	(10,287)	(11,505)	(12,032)	(12,501)	(2,525)	(2,662)	(2,810)	(2,976)	(2,778)
Gross profit	5,952	6,009	5,796	6,254	6,613	1,496	1,504	1,613	1,520	1,203
SG&A	(3,362)	(3,510)	(3,512)	(3,639)	(3,708)	(878)	(899)	(830)	(906)	(873)
Other (exp)/inc	102	127	112	122	128	32	33	29	28	25
Operating profit	2,692	2,627	2,396	2,737	3,034	650	638	813	641	355
Finance cost	(19)	(39)	(32)	(27)	(27)	(9)	(8)	(8)	(8)	(8)
Other inc/(exp)	12	15	20	20	20	7	1	5	12	1
Earnings before taxes	2,686	2,603	2,383	2,729	3,026	647	630	809	646	348
Income tax	(570)	(571)	(477)	(546)	(605)	(137)	(141)	(202)	(109)	(102)
After-tax profit	2,116	2,032	1,907	2,184	2,421	511	490	607	537	247
Equity income	-	-	-	-	-	-	-	-	-	-
Minorities	21	6	19	22	24	(0)	7	9	7	26
Earnings from cont. operations	2,137	2,038	1,926	2,205	2,445	510	497	615	544	273
Forex gain/(loss) & unusual items	25	(7)	-	-	-	13	(4)	55	0	(5)
Net income	2,162	2,031	1,926	2,205	2,445	524	493	670	544	268
EBITDA	3,061	3,184	3,057	3,444	3,790	792	783	949	808	510
Recurring EPS (Bt)	1.06	1.00	0.95	1.09	1.21	0.25	0.24	0.31	0.27	0.13
Weighted average shares (m)	2,029	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	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Assets	15,707	16,486	18,425	20,001	21,703	16,365	16,486	18,308	18,384	18,050
Liabilities	5,093	5,081	5,979	6,365	6,746	5,329	5,081	6,094	6,217	6,145
Equity	10,689	11,414	12,473	13,686	15,031	11,038	11,414	12,180	12,137	11,900
Invested capital	4,316	6,041	5,191	4,893	4,646	5,958	6,041	5,698	5,645	6,071
Growth (YoY, %)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Revenue	4.4	(4.0)	6.2	5.7	4.5	(1.0)	(5.7)	7.8	12.2	(1.0)
Recurring EPS	15.3	(4.9)	(5.5)	14.5	10.9	(2.7)	(2.2)	30.3	1.4	(47.1)
Assets	5.2	5.0	11.8	8.6	8.5	7.8	5.0	6.9	8.8	10.3
Liabilities	(8.6)	(0.2)	17.7	6.4	6.0	5.4	(0.2)	(8.1)	5.8	15.3
Equity	13.5	6.8	9.3	9.7	9.8	8.4	6.8	15.8	10.1	7.8
Profits (%)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Gross margin	35.1	36.9	33.5	34.2	34.6	37.2	36.1	36.5	33.8	30.2
EBITDA margin	18.0	19.5	17.7	18.8	19.8	19.7	18.8	21.5	18.0	12.8
Net margin	12.7	12.5	11.1	12.1	12.8	13.0	11.8	15.2	12.1	6.7
ROE	21.5	18.4	16.1	16.9	17.0	19.0	17.6	22.7	17.9	8.9

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

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