

The Siam Cement - SCC

Inventory losses to drag 2QCY12 profit lower



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Bloomberg | Reuters
SCC.TB | SCC.BK

Thailand Equities Research

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Report type: Company Preview

Company Overview

SCC is Thailand's biggest industrial conglomerate. It operates through three major areas: cement/building materials business, petrochemical business and paper business. Petrochemical business contributes the biggest portion of the group's EBDIT at 40%, followed by cement/building materials business at 35% and paper business at 10%.

- We expect SCC to post a net profit drop in 2QCY12, dragged down by inventory losses and the negative impact from fire damages at its affiliate BST Elastomers (BSTE).
- We revise downwards our CY12 profit outlook for SCC as inventory losses may cause 2QCY12 earnings to come in lower than previously estimated. However, the prospects are now improving.
- SCC continues to look for opportunity to buy assets overseas as part of its regional expansion in ASEAN.
- With 2HCY12 likely to be better than 1HCY12, we maintain an 'ACCUMULATE' rating on SCC with a downwardly revised target price of Bt360/share.

What is the news?

SCC is expected to post 2QCY12 net profit drop of 33% q-q and 47% y-y due chiefly to inventory losses at petrochemical business.

How do we view this?

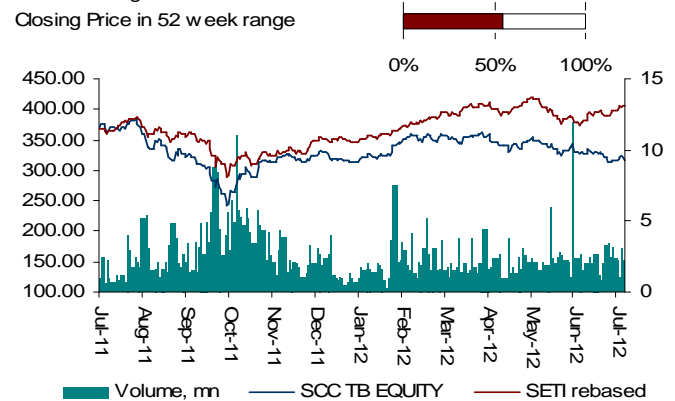
Bigger-than-expected inventory losses prompt us to cut our CY12 profit outlook for SCC by 8%. However, the prospects for 2HCY12 look to be improving.

Investment Actions?

We remain bullish on the long-term outlook for SCC. We maintain an 'ACCUMULATE' rating on SCC with a downwardly revised target price of Bt360/share.

Siam Cement

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (Bt)	360.00	
- Previous Target Price (Bt)	364.00	
Closing Price (Bt)	318.00	
Expected Capital Gains (%)	13.2%	
Expected Dividend Yield (%)	4.2%	
Expected Total Return (%)	17.5%	
Raw Beta (Past 2yrs w weekly data)	1.26	
Market Cap. (USD mm)	12,061	
Enterprise Value (USD mm)	16,797	
Market Cap. (Bt mm)	381,600	
Enterprise Value (Bt mm)	527,535	
3MAverage Daily T/O (mm)	2.3	
52 week range	236 - 387	



Major Shareholders

	(%)
1. Crown Bureau of Property	30.0
2. Thai NVDR	10.7
3. Chase Nominees Limited 42	3.9

CG Report - 2011



(Excellent)

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	307,707	379,473	402,276	421,312
Net Profit (Btmn)	37,382	27,281	26,576	35,199
EPS (Bt)	31.15	22.73	22.15	29.33
Net Profit, adj. (Btmn)	27,374	27,281	26,576	35,199
EPS, adj. (Bt)	22.81	22.73	22.15	29.33
P/E (X),adj.	13.9	14.0	14.4	10.8
BVPS (Bt)	132.98	135.81	129.85	142.79
P/B (X)	2.4	2.3	2.4	2.2
DPS (Bt)	12.50	12.50	13.50	16.20
Div. Yield (%)	3.9	3.9	4.2	5.1

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (WACC 9.90%, terminal g: 5%)

Analyst

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2QCY12 net profit seen down on inventory losses and negative impact from fire damages at affiliate BSTE

We expect SCC to post a 2QCY12 profit of Bt3.9bn, down 47% and 33% from Bt7.3bn and Bt5.9bn in 2QCY11 and 1QCY12 respectively. The profit decline would be due chiefly to a 23% fall in oil prices, which also dragged prices of oil derivative products like naphtha and petrochemical products lower. In petrochemical business, key inventories include ethylene and propylene. The mark-to-market carrying value of its inventories fell by US\$200-US\$210/ton in line with market prices, which would lead SCC to post an inventory loss of around Bt900mn in 2QCY12. However, naphtha feedstock prices fell more sharply than product prices. HDPE-naphtha and PP-naphtha spreads widened to US\$481/ton and US\$539/ton from US\$376/ton and US\$412/ton respectively in 1QCY12. Due to a fire at its affiliate BST Elastomers (BSTE), which buys crude C4 feedstock from ROC and MOC, SCC would lose revenues of around Bt400mn-Bt500mn from its affiliate BSTE in 2QCY12. Overall we see virtually no growth in 2QCY12 petrochemical profits. On the other hand, cement business would continue to perform well in 2QCY12. Domestic cement sales volume is projected to be up 4% y-y but down 8% q-q due to seasonal factors. Selling prices would be flat. Costs would remain effectively controlled following a drop in coal prices. Building materials business should grow along with construction in the housing sector. Paper business should gradually pick up after production lines, which had been suspended during floods, resumed operations.

8% cut in CY12 profit outlook to reflect lower-than-expected 2QCY12 earnings view hurt by inventory losses but prospects now improving

Bigger-than-expected inventory losses prompt us to cut our CY12 profit outlook for SCC by 8%. However, MTD rise of US\$20-US\$30/ton in HDPE-naphtha and PP-naphtha spreads from 2QCY12 reflects strong demand out there. New supply scheduled to come on stream this year would also be lower than two years ago. On this basis, we expect petrochemical profits to pick up in 2HCY12. We leave our forecasts unchanged for cement, building materials and paper businesses. Overall we expect SCC to see a 3% profit drop this year. However we stick to our view that the prospects will improve next year after petrochemical price cycle recovers and growth momentum will likely continue at cement, building materials and paper businesses. We are looking for 32% profit growth from SCC next year due partly to the base effect of the unusually low petrochemical profits in CY12.

The regional expansion plan in ASEAN also remains in place. For recent investments in Indonesian building materials and petrochemical businesses, there is long-term growth potential. More M&A deals as part of ASEAN expansion plan are also likely to be concluded in 2HCY12.

'ACCUMULATE' rating

Despite a lack of short-term positive catalysts, we remain bullish on the long-term outlook for SCC. We maintain an 'ACCUMULATE' rating on SCC but we slightly trim our target price for the stock to Bt360/share from Bt363/share to reflect the above earnings downgrade.

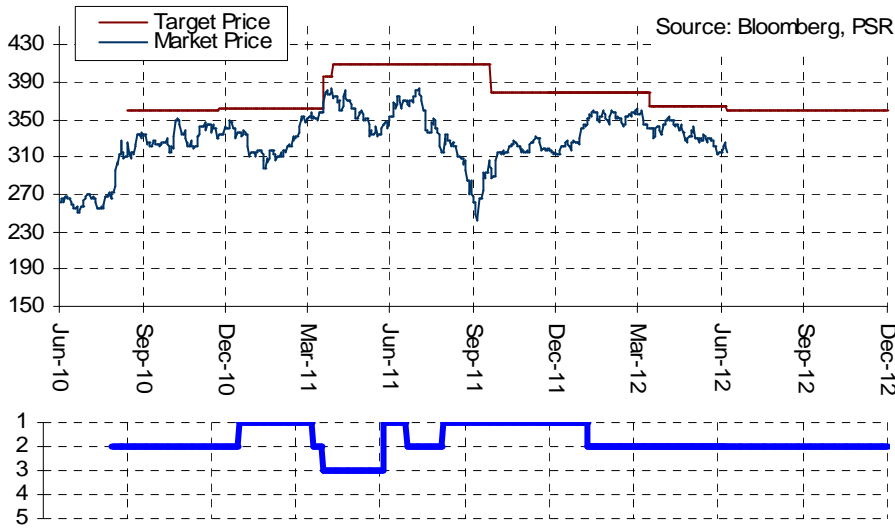
FYDec	CY09	CY10	CY11	CY12F	CY13F
Valuation Ratios					
P/E (X), adj.	15.6	13.9	14.0	14.4	10.8
P/B (X)	2.9	2.4	2.3	2.4	2.2
EV/EBITDA (X), adj.	12.0	12.6	12.1	11.8	10.2
Dividend Yield (%)	2.7	3.9	3.9	4.2	5.1
Per share data (Bt)					
EPS, reported	20.29	31.15	22.73	22.15	29.33
EPS, adj.	20.33	22.81	22.73	22.15	29.33
DPS	8.50	12.50	12.50	13.50	16.20
BVPS	109.52	132.98	135.81	129.85	142.79
Growth & Margins (%)					
Growth					
Revenue	-18.3	26.7	23.3	6.0	4.7
EBITDA	28.8	-4.8	4.3	1.9	15.8
EBIT	44.6	-7.5	3.6	2.9	20.2
Net Income, adj.	48.8	12.2	-0.3	-2.6	32.4
Margins					
EBITDA margin	18.1	13.6	11.5	11.1	12.3
EBIT margin	13.1	9.6	8.0	7.8	9.0
Net Profit Margin	11.6	12.1	6.3	5.9	7.8
Key Ratios					
ROE (%)	25.4	31.5	20.0	18.8	23.4
ROA (%)	8.1	11.1	7.4	7.2	9.7
Net Debt-Cash	121,245	89,425	139,588	144,527	138,735
Net Gearing(X)	0.9	0.6	0.9	0.9	0.8
Income Statement (Bt mn)					
Revenue	242,956	307,707	379,473	402,276	421,312
EBITDA	44,046	41,943	43,732	44,569	51,633
Depreciation & Amortisation	12,208	12,478	13,208	13,148	13,852
EBIT	31,838	29,466	30,524	31,421	37,781
Net Finance (Expense)/Income	(5,649)	(4,670)	(6,048)	(6,386)	(6,703)
Other items	(52)	10,008	0	0	0
Associates & JVs	7,200	8,390	6,774	2,727	6,620
Profit Before Tax	33,337	43,193	31,250	27,761	37,698
Taxation	5,168	5,934	7,504	4,228	4,662
Profit After Tax	28,169	37,259	23,746	23,533	33,036
Non-controlling Interest	3,823	(123)	(3,535)	(3,042)	(2,163)
Net Income, reported	24,346	37,382	27,281	26,576	35,199
Net Income, adj.	24,397	27,374	27,281	26,576	35,199

Source: PSR est.

FYEDec	CY09	CY10	CY11	CY12F	CY13F
Balance Sheet (Bt mn)					
Cash	28,937	63,827	22,680	4,092	3,445
ST Investments	0	6,000	7,205	7,735	7,735
Accounts Receivables	23,058	25,408	33,625	36,134	38,052
Inventories	30,986	36,917	41,838	42,814	44,994
Others	7,007	9,243	11,416	11,466	11,466
Total current assets	89,988	141,395	116,764	102,241	105,692
PPE	151,804	151,399	156,683	164,101	170,250
Intangibles	0	0	1,595	1,574	1,574
Associates & JVs	57,618	39,751	54,773	56,800	58,124
Investments	3,228	13,735	28,867	15,398	15,398
Others	13,354	12,939	16,056	18,776	18,776
Total non-current assets	226,004	217,823	257,974	256,649	264,121
Total Assets	315,992	359,219	374,738	358,890	369,813
Short term loans	19,737	40,755	64,273	69,162	54,323
Accounts Payables	17,189	22,969	25,403	26,251	27,488
Others	15,317	19,358	16,775	20,134	20,134
Total current liabilities	52,243	83,082	106,452	115,547	101,945
Long term loans	130,445	112,497	97,995	79,457	87,857
Others	1,882	4,069	7,323	8,069	8,669
Total liabilities	184,570	199,649	211,770	203,072	198,471
Non-controlling interest	26,911	26,449	22,770	13,989	11,826
Shareholder Equity	104,510	133,121	140,199	141,829	159,516
Cashflow Statements (Bt mn)					
CFO					
PBT	28,169	37,259	23,746	27,921	39,861
Adjustments	14,850	2,244	12,825	16,207	12,371
Cash from ops before WC changes	43,019	39,502	36,570	44,128	52,233
WC changes	4,127	(6,043)	(8,059)	(11,166)	(2,860)
Cash generated from ops	47,146	33,459	28,511	32,962	49,372
Taxes paid, net	(4,180)	(5,420)	(5,952)	(3,392)	(4,662)
Interest paid	(7,199)	(7,083)	(6,976)	(7,004)	(6,703)
Cashflow from ops	35,767	20,956	15,583	22,566	38,008
CFI					
CAPEX, net	(28,553)	(13,277)	(13,178)	(17,928)	(20,000)
Dividends from associates & JVs	4,232	6,508	7,058	3,608	5,296
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	148	32,229	(15,508)	(1,136)	0
Investments in subs & associates	(5,584)	(3,772)	(25,473)	10,495	0
Others	(160)	298	1,383	482	0
Cashflow from investments	(29,918)	21,985	(45,718)	(4,478)	(14,704)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	3,811	3,867	5,085	(13,834)	(6,439)
Dividends to minority interests	(932)	(815)	(1,880)	(11,565)	0
Dividends to shareholders & capital reduction	(6,585)	(11,375)	(16,188)	(11,276)	(17,512)
Others	79	272	1,970	0	0
Cashflow from financing	(3,627)	(8,051)	(11,013)	(36,675)	(23,951)
Net change in cash	2,223	34,890	(41,147)	(18,588)	(647)
Effects of exchange rates	0	0	0	0	0
CCE, end	28,937	63,827	22,680	4,092	3,445

Source: PSR est.

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Research Department

Fundamental:

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Rutsada Tweesaengsakulthai	17972	66 2 635 1700 #482	ICT, Energy, Health Care Services
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Naree Apisawaittakan	17971	66 2 635 1700 #484	Agro & Food, Electronics
Siam Tiyanont	17970	66 2 635 170 0#483	Transportation, Media & Publishing
Preeyanun Tripetchchuporn	17973	66 2 635 1700 #488	Petrochemicals, Commerce, Tourism
Ornmongkol Tantitanatorn	34100	66 2 635 1700 #491	Securities, Automotive, Energy, Packaging
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Results Presentation

Score Range	Number of Logo
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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