

The Siam Cement (SCC)

Thursday, July 26, 2012

EQUITY TALKS

2Q12's profit pulled down by petrochemical business as expected; clear recovery foreseen in 3Q12
BUY

- ▶ **2Q12's norm profit equates B4.28bn, down 43%yoy**
- ▶ **3Q12's profit to recover aggressively, thanks to normalization of petrochemical business**
- ▶ **Cut profit forecast by 15% but recommend "buy" from strong fundamental in long run**

Current price (B) 316.00
Fair Value (B) 394.00
Market cap (B bn) 379.20
CGR ▲▲▲▲▲

- ▶ **2Q12's norm profit equates B4.28bn, down 43%yoy**

SCC posted 2Q12's earnings result with a net profit and norm profit of B4,280m, down 43%yoy and close to our projection. The plunge in earnings has resulted from recognition of inventory loss of B2bn from petrochemical business and the fire accident at BST plant which had an impact on profit sharing to SCC as well as supply chain of petrochemical business of SCC by B600m. Consequently, in 2Q12 the petrochemical business faced a net loss of B1,005m, compared with an average net profit of B3bn/quarter during normal situation. On the other hand, construction related businesses could still generate robust earnings, including cement with a profit growth of 4%yoy and construction material with a profit growth of 28%yoy. The paper business has benefited from increasing regional sales from the operation in Vietnam as well as rising domestic demands for consumption goods. Accordingly, profit from this business has grown by 9%yoy. For investment business, there was recognition of dividend income from Toyota by B1.2bn. Overall, in 1H12 SCC could make a profit of B10.3bn or EPS of B8.54/share. Interim dividend is announced at B4.50/share, going XD on 6 August 2012.

Comparison ASP & SAA consensus

EPS (B)	ASP	Cons	% diff
2012F	20.73	23.30	-11%
2013F	29.60	28.86	3%

Source : ASP & SAA consensus

- ▶ **3Q12's profit to recover aggressively, thanks to normalization of petrochemical business**

We project to see a significant recovery of earnings in 3Q12, especially for petrochemical business which would book a reversal of some of the stock loss after prices of petrochemical products have rebounded following crude oil price. Meanwhile, the effect from the closure of BST plant after the fire accident has decreased because the company had solved the problem by adjusting internal production process and installing a pipeline for direct Mixed C-4 transmit. Although the cement and construction material businesses have decelerated on seasonal effect, it would still grow from 3Q11 due to thriving construction industry and the company's consolidation of financial statements with subsidiaries in Indonesia and the Philippines. Moreover, SCC still has a chance to recognize extraordinary profit from the insurance claims for the flood damage at B500m, which was yet concluded in 2Q12. Consequently, we estimate SCC's profit in 3Q12 at no lower than B6.5bn.

Symbol	Level	Mean
▲▲▲▲▲	90-100	Excellence
▲▲▲▲	80-89	Very good
▲▲▲	70-79	Good
na.	<70	Not Available

- ▶ **Cut profit forecast by 15% but recommend "buy" from strong fundamental in long run**

Due to aggressively falling profit in 2Q12, we revise down our profit forecast by 15% for 2012 and 8% for 2013 because the entering into an uptrend of petrochemical business might take a longer time. Accordingly, new fair value, using DCF, decreases from B415 to B394, but still implies 25% upside from the current share price. The company still has strong fundamental attributes and promising growth potential from its offensive business expansion through other business acquisitions. Reiterate BUY.

Key Data (Bm)					
FY: Close Dec. 31	FY09A	FY10A	FY11A	FY12F	FY13F
Sales	238,664	301,323	368,579	414,512	453,743
Net Profit	24,346	37,382	27,281	24,880	35,523
Norm Profit	24,399	27,374	27,281	24,880	35,523
Norm EPS (B)	20.33	22.81	22.73	20.73	29.6
DPS (B)	8.5	12.5	12.5	10.5	14
Norm PER (X)	15.5	13.85	13.9	15.24	10.67
Dividend Yield (%)	2.7	3.96	3.96	3.32	4.43
BVS (B)	87.1	111	117	127	143
PBV (X)	3.63	2.85	2.7	2.49	2.21

Source : Research ASP
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2Q12 & 1H55 Earning Forecast of SCC

Key Data (Million Baht)	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	%QoQ	%YoY	1H12	1H11	%YoY
Sales	76,253	92,478	93,876	94,281	87,944	102,884	100,541	-2%	7%	203,425	186,354	9.2%
Gross Profit	11,657	15,859	13,349	12,850	10,710	13,180	12,842	-3%	-4%	26,022	29,208	-10.9%
Sales Expenses	-7,915	-8,107	-8,296	-8,166	-8,569	-8,958	-9,439	5%	14%	-18,397	-16,403	12.2%
Interest Expenses	-1,345	-1,558	-1,412	-1,376	-1,702	-1,242	-2,204	77%	56%	-3,446	-2,970	16.0%
Operation Profit	6,710	9,207	7,497	7,377	3,201	5,972	4,280	-28%	-43%	10,252	16,704	-38.6%
Net Profit	16,672	9,207	7,497	7,377	3,201	5,972	4,280	-28%	-43%	10,252	16,704	-38.6%
Extraordinary Items	9,962	0	0	0	0	0	0	N/A	N/A	0	0	N/A
EPS (B)	13.89	7.67	6.25	6.15	2.67	4.98	3.57	-28%	-43%	8.54	13.92	-38.6%
Gross Margin	15.3%	17.1%	14.2%	13.6%	12.2%	12.8%	12.8%			12.8%	15.7%	
SG&A/Sales	10.4%	8.8%	8.8%	8.7%	9.7%	8.7%	9.4%			9.0%	8.8%	
Net Gearing	0.63	0.74	0.66	0.77	0.95	0.99	1.01			1.01	0.66	
Book Value	110.93	108.59	114.90	113.10	116.83	110.42	113.55			113.55	114.90	

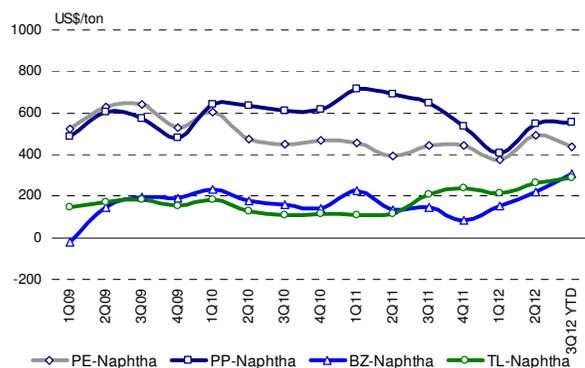
Source : Financial Statement / ASP Research

Earnings By Business

Net Profit (Million Baht)	2Q11	3Q11	4Q11	2011	1Q12	2Q12	%QoQ	%YoY
Cement	1,990	1,848	1,209	7,288	2,520	2,071	-18%	4%
Petrochem	2,499	3,230	673	11,190	1,240	(1,005)	N/A	N/A
Paper	1,007	918	352	3,331	1,010	1,101	9%	9%
Building Product	527	507	(82)	1,476	893	678	-24%	29%
Cementhai Trading	248	381	9	1,075	363	169	-53%	-32%
Cementhai Hldg.	1,591	697	2,124	5,037	405	1,827	351%	15%
Total	7,862	7,581	4,283	29,397	6,431	4,841	-25%	-38%
Intercompany Transactions	366	204	1,084	2,116	459	561	22%	53%
% Intercom transactions	4.7%	2.7%	25.3%	7.2%	7.1%	11.6%	62%	149%
Report Net profit	7,497	7,377	3,201	27,281	5,972	4,280	-28%	-43%

Source : ASP

Spread Product Price



Source : ASP

Estimate

	New		Old	
	2012F	2013F	2012F	2013F
Net Profit (Million Baht)	24,880	35,523	29,238	38,512
Operation Profit	24,880	35,523	29,238	38,512
Normal EPS (B)	20.73	29.60	24.36	32.09
Fair value (B)	394		415	
Forecast				
Sales (Million Baht)	414,512	453,743	407,721	442,273
Gross margin	13.9%	15.4%	14.9%	16.3%
Total Polyolefin Sale (ตัน)	1,771,350	2,072,480	1,995,884	2,195,472
Avera Price Polyolefin (Baht/ton)	93,308	92,453	92,239	93,233

Source : ASP

Technical Graph



Source : ASP