

Siam Cement (SCC TB)

Wait for the clouds to pass; prefer SCGP

2H23 remains challenging, expecting a better FY24

Reiterate HOLD as the stock price has reflected a challenging 2H23 outlook, especially the chemicals business with spreads falling below break-even and the Rayong Olefins factory scheduled for a 40-day maintenance shutdown in 4Q23. Hence, we revise down our FY23/24 earnings forecasts by 40%/14%. We expect FY23E core earnings of THB15.965b (-25% YoY) ahead of a rebound in FY24E with profit of THB28.081b (+76% YoY), but still unremarkable. We lower our FY24E SOTP-based target price to THB315 from THB340 due to our lower forecasts. We prefer its subsidiary, SCG Packaging (SCGP TB, CP THB34.75, BUY, TP THB47.0) for its better FY24E outlook.

Expect weak earnings in 3Q23, worse in 4Q23

We expect 3Q23 core earnings (due on 26 Oct) weakened to THB3.3b (-37% QoQ, +35% YoY) due to impacts from three businesses: 1) profit from cement-building materials remains low as operating results in ASEAN are still very weak. 2) chemicals are being pressured by HDPE-Naphtha and PP-Naphtha spreads, which fell below break-even levels of USD400-450/tonne. 3) The packaging business is hurt by maintenance shutdowns. We foresee 4Q23 profit will be even lower at THB2.5-3.0b as the Rayong Olefins (ROC) plant is shut for 40 days for maintenance.

Expect improvement in FY24E

We expect a better FY24E. For the chemicals business, the world's new ethylene production capacity will be reduced by 2.5% vs a 5.0% increase in FY23E. The cement-building materials business will be driven by accelerating budget disbursement after a post-election delay. The packaging operation should pick-up momentum on expansion both domestically and abroad. And we expect to receive more dividends from Toyota and profit share from Kubota. We forecast a profit of THB28.081b for FY24E, a surge of 76% YoY, from a low base of THB15.965b (-25% YoY) in FY23E.

Valuations remain undemanding

SCC is trading at an undemanding 22.5x PER and 0.9x PBV, (-1.5 SD) and offers a 2.3% dividend yield for FY23E. For FY24E, we forecast PER will fall to 12.8x, P/BV will stay at 0.9x but dividend yield should increase to 3.4%. Our FY24 profit forecast is conservative at 13% below consensus. Maintain HOLD, wait for dark clouds to pass.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	530,112	569,609	495,099	584,366	656,961
EBITDA	81,685	48,656	50,039	62,243	70,190
Core net profit	47,174	21,382	15,965	28,081	35,174
Core EPS (THB)	39.31	17.82	13.30	23.40	29.31
Core EPS growth (%)	38.2	(54.7)	(25.3)	75.9	25.3
Net DPS (THB)	18.50	8.00	7.00	10.00	13.00
Core P/E (x)	9.8	19.2	22.3	12.7	10.1
P/BV (x)	1.3	1.1	0.9	0.9	0.8
Net dividend yield (%)	4.8	2.3	2.4	3.4	4.4
ROAE (%)	13.7	5.8	8.0	6.9	8.2
ROAA (%)	5.9	2.4	1.8	3.2	3.9
EV/EBITDA (x)	9.6	15.7	14.0	11.4	10.2
Net gearing (%) (incl perps)	52.3	60.6	57.4	56.4	54.4
Consensus net profit	-	-	31,293	31,224	41,939
MIBG vs. Consensus (%)	-	-	(1.4)	(10.1)	(16.1)

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HOLD

Share Price	THB 297.00
12m Price Target	THB 315.00 (+6%)
Previous Price Target	THB 340.00

Company Description

SCC produces cement, building materials, chemicals and packaging materials.

Statistics

52w high/low (THB)	359.00/297.00
3m avg turnover (USDm)	14.1
Free float (%)	66.2
Issued shares (m)	1,200
Market capitalisation	THB356.4B USD9.8B

Major shareholders:

King Maha Vajiralongkorn B	33.6%
Thai NVDR	9.1%
Social Security office of Thailand	4.3%

Price Performance



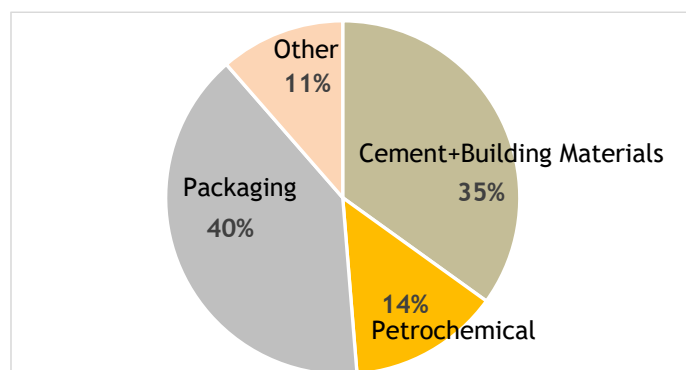
	-1M	-3M	-12M
Absolute (%)	(4)	(9)	(4)
Relative to index (%)	4	(4)	5

Source: FactSet

Value Proposition

- Thailand’s largest materials & industrial conglomerate. It ranks within the top 3 by market share for every industry where it has a presence (cement, petrochemicals and paper).
- SCC creates entry barriers by keeping high capacity that costs THB50-60b/year in capex. Utilization rates of its facilities are at nearly 100%.
- SCC’s earnings are highly concentrated in the petrochemical business. Hence, its operating performance is highly leveraged to changes in global demand/supply dynamics of key polymer products and domestic-oriented businesses like cement and building materials.

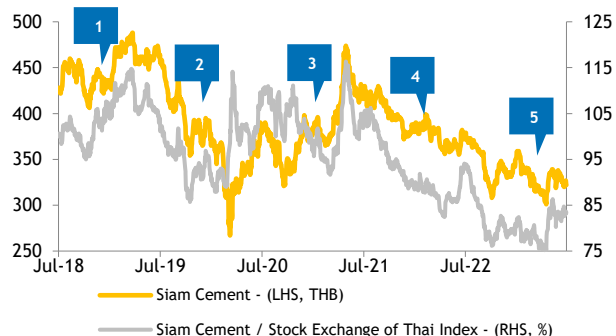
FY22 EBITDA - more evenly distributed across divisions



Source: Company

Price Drivers

Historical share price trend



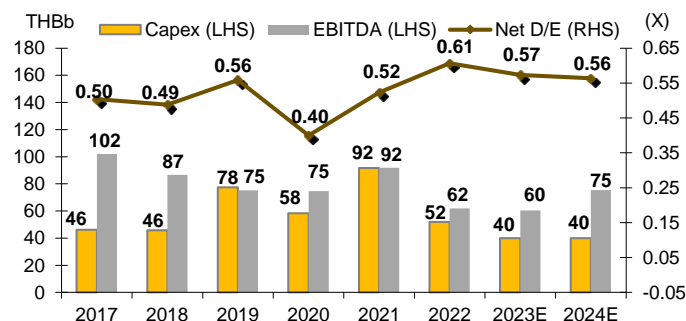
Source: Company, MST

1. Optimism in relation to the planned listing of SCG Packaging
2. Another correction following rising oil prices, which leads to higher feedstock costs for petrochem while high supply leads to a weak pass-on cost mechanism
3. Anticipating recovery in three segments: petrochemicals, CBM and packaging, followed by profit taking in-sync with the SET.
4. Depressed performance due to resurgence of pandemic and heightened risk of a slowdown due to the war.
5. Soft demand from China slowdown, trough chemical cycle.

Financial Metrics

- SCC’s earnings are sensitive to changes in H/L/LLDPE and PP over naphtha spreads. Every USD100/t change in HDPE-naphtha margin, changes EBITDA by 15% from the base-case.
- Investment in JVs with companies like Toyota (10%), Kubota (40%) etc generated healthy dividends and equity income of THB15.2b in 2022.
- High EBITDA of THB60-75b in FY22-FY24E. Our baseline case is 48% dividend payout ratio in FY22-FY24E.

High EBITDA for dividends and further expansion



Source: Company, MST

Swing Factors

Upside

- Lower oil prices could lead to lower naphtha feedstock cost and better chemicals profitability.
- Delays of start-up of new ethylene/PE capacities in China/US would lead to better ethylene and PE spread over naphtha.
- Residential property demand recovery should lead to better domestic cement demand.

Downside

- Baht appreciation normally hurts SCC’s profits as it is a net exporter of cement, paper and petrochemical products.
- Unexpected, deep collapse in petrochemical spreads will affect SCC’s profits and returns, adversely.
- Loss of pricing discipline in Thai construction materials market - mainly cement - will also negatively impact the share price.

Risk Rating & Score ¹	21.1 (Medium risk - 1/122)
Score Momentum ²	+0.1
Last Updated	13 April 2023
Controversy Score ³ (Updated: 13 April 2023)	Category 1 - Low

Business Model & Industry Issues

- SCC has to grapple with a multitude of issues relating to ESG as it operates in extractive industries such as cement, building materials, packaging and petrochemicals with a broad based distribution network and a regional presence.
- SCC's ESG began from its commitment to the +2°C global target in the Paris Accord by 2030 and this commitment cascades into layers of key sustainability goals in the following areas: GHG, Water, Energy, Product Stewardship, Innovation & Technology, Human Rights, Safety and Customer Experience.
- This is a step process; 2025 is the next milestone for most material variables such as Greenhouse Gas Emission (GHGE) down by 20%, Energy Consumption Reduction (ECR) by 13%. Under ECR, R&D embraces Circular Economy Principle (CEP), which has seen 75.68MW of solar power installed to date and a subsequent GHGE reduction of c.48.3K tonnes of CO₂/yr.
- As capacity expansion via green and/or brownfield acquisitions is on the cards, SCC has set its ICP at USD18/tonne CO₂ as the criteria for project approval. CEP/ Internal Carbon Pricing (ICP) will embed sustainability goals into the corporate's DNA.

Material E issues

- CBM is a highly extractive industry and interfaces with local counterparties. In mining limestone a mountain wall is maintained to keep in particles and not deface the sides. Reforestation follows post mining; one quarry already hit its targeted biodiversity index (three more on the way). Long-term target is a natural forest zone of 60%.
- Firing the refractory is coal intensive. To reduce coal usage cement plants now have a waste heat generator to capture excess energy and is augmented with Refuse Derived Fuel (RDF) and biogas.
- End of 2022, CBM used 35% of recycled inputs, packaging 65%, petrochems only 1%, though this division runs on 13.4% recycled water, 19.0% alternative fuel used.
- In 2019, SCC assessed opportunities and risks relating to climate change and its impact with the Task Force on Climate-Related Financial Disclosures by Financial Stability Board (FSB) of United Nations Environment Program (UNEP). This in turn will allow SCC to incorporate the latter's recommendations to foster sustainable business practices.
- SCC is in the Dow Jones Sustainability Index (DJSI) and also reports to Global Reporting Initiative (GRI).

Material S issues

- SCC's human rights practices are in accordance with United Nations & International Labour Organization's Declaration on Fundamental Principles & Rights at Work and its own policy.
- In the previous mining licence renewal, SCC met pressures from NGOs relating to environmental effects of mining. This was resolved. To prevent recurrence, SCC engages local communities. Since 2019, 19 communities are now able to manage their own water resources, and 7,139 monkey cheeks dams were built to augment water supply. The group achieved 82% community satisfaction index.
- The SCG Foundation seeded with THB75b in 1963 is the main corporate social responsibility vehicle; 5-year spending ranges from THB591-748m covering multiple activities.
- Leveraging on its relationship with Oxford University, it brought together AstraZeneca, Oxford and Siam Bioscience to sign a letter of intent to produce the AZD1222 Covid-19 vaccine to supply to Thailand and the region. SCC has been actively donating medical equipment to hospitals help tackle the pandemic.

Key G metrics and issues

- SCC's 15-member board of directors has eight independents directors and three are females. Total compensation in 2022 was THB76m, or 0.36% of reported net profit. Its auditor (2018-2022) is KPMG Phoomchai, which has been its auditor for many terms.
- In 2020, SCC announced its diversity and inclusion policy and intention to support gender equality and evaluate gender discrimination.
- Female employees are 24.4% of its total and 30.5% of the managerial level.
- For now, the 14-member top management are 13 males and 1 female.
- SCC has an active whistleblowing policy to control and prevent corruption. So far, 29 cases have been investigated involving compliance laws and violation of internal rules on code of conduct. The total damage was THB0.67m, and 17 employees were dismissed.
- SCC has applied GRC (Governance, Risk Management and Compliance) to management under the supervision of the Board of Directors and top executives as part of its efforts to achieve sustainable development goal in accordance with the ESG. In addition, SCC always works to ensure that its data integrity and transparency are conducted in compliance with the ESG international reporting standards to establish stakeholder's trust towards SCC business operation.
- SCC encourages its employees at all levels, both in Thailand and Abroad, to recognize the GRC concept, understand their work goals, and be able to assess and know the risks, work in compliance with rules and regulations, and constantly apply the GRC concept at works in order to promote desirable behaviours at the workplace and in daily life.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2020	2021	2022	Siam City Cement
E	Scope 1 GHG emissions	m tCO2e	31.0	30.3	27.2	11.0
	Scope 2 GHG emissions	m tCO2e	3.3	3.2	2.9	0.7
	Total	m tCO2e	34.2	33.5	30.1	11.7
	Scope 3 GHG emissions	m tCO2e	NA	12.1	9.4	NA
	Total	m tCO2e	NA	45.6	39.5	NA
	Scope 1 emission intensity	kgCO2e/ton	616	623	594	607
	Green energy share of power usage	%	14.3%	14.8%	19.0%	22.0%
	Water recycled as % of usage	%	11.6%	11.9%	13.4%	NA
	% of Hazardous waste management	%	99%	98%	100%	NA
	% of recycled material used	%	10.7%	5.3%	7.0%	7.0%
	% of debt from green instruments	%	NIL	NIL	NIL	NIL
	NOx (excluding N2O)	tons	30,800	34,500	39,920	14,740
	SOx	tons	3,710	3,130	5,710	1,297
SPM/particulate matter (PM10)	tons	1,390	1,530	2,780	792	
S	% of women in workforce	%	23.0%	22.4%	24.4%	14.3%
	% of women in management roles	%	24.9%	24.8%	30.5%	20.4%
	Lost time injury frequency rate	number	0.113	0.389	0.137	0.25
G	MD/CEO salary as % of net profit	%	NA	NA	NA	NA
	Top 12 employees salary as % of profit	%	0.6%	0.6%	1.2%	9.1%
	Independent director tenure <10 years	%	50%	50%	53%	33%
	Women directors on board	%	17%	17%	20%	17%

Qualitative Parameters (Score: 100)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	<i>Yes - SCC's Sustainable Development Committee is tasked with reporting sustainability plan and performance to the board of directors.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes - SCC captures data across most of the 15 Scope 3 categories</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Installed Terminox GS burner technology for reducing NO2 emission. Manage industrial waste according to the 3Rs and Circular Economy principles within SCC. Rehabilitate the ecosystems related to water resources, and support water supply to community and agriculture. SCC pioneered Thailand's first EV Mixer Truck to deliver concrete.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes - Reforestation and rehabilitation of terrestrial forest, mangrove and seagrass as carbon sink is one of the strategies to reach net zero by 2050.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce Scope 1+2 intensity by 2030	20.0%	-12.0%
Revenue from SCG Green Choice	66.7%	42.0%
Alternative fuel use by 2022	50.0%	19.0%
Reduction of dust emission by 2025	8.0%	11.3%
Reduction of water withdrawal by 2025	23.0%	24.1%
Net zero GHG emissions by 2050		
Biodiversity net positive by 2052		
Impact		
Assuming carbon price of USD10/50/100 and threshold scope 1 intensity of 550 kgCO2e for cement, the impact on FY22 EBITDA will be 0.9-8.5% and FY22 net profit will be 2.5-24.9%		
Overall Score: 72		
As per our ESG matrix, Siam Cement (SCC TB) has an overall score of 72.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	100	25
Target	25%	100	25
Total			72

As per our ESG assessment, SCC has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. SCC's overall ESG score is 72, which makes its ESG rating above average in our view (average ESG rating = 50).

1. Expect 3Q23 core profit fell 37% QoQ and an even weaker 4Q23

SCC will announce 3Q23 results on 26 Oct. We expect 3Q23 core profit weakened to THB3.3b, down 37% QoQ but up 35% YoY. The weak profit was likely dragged by three businesses: cement-building materials, chemicals and packaging.

1) Cement-building materials business. 3Q23 profit may have remained low at THB1.101b, down 12% QoQ as cement demand in Thailand likely remained stable. But its businesses in ASEAN likely remained weak, dragging down operating results. However, profit likely grew 39% YoY because in 3Q22 it set aside reserves of THB334m for the impairment of assets.

2) The chemicals business may have seen 3Q23 profit drop to THB277m, (-63% QoQ), vs last year's loss of THB339m. What dragged profits include recording fixed costs of petrochemical plants in Vietnam (LSP) of approximately THB1.05b per quarter and petrochemical spreads dropped below the break-even point of USD400-450/tonne, namely HDPE - Naphtha decreased to USD384/tonne, (-2% YoY, -12% QoQ) and PP - Naphtha fell to USD304/tonne (-15% YoY, -19% QoQ). However, it was supported by PVC with a higher spread of USD400/tonne (+7% YoY, +26% QoQ) and THB650m stock gain. We estimate sales volume was at a low level of 415,000 tonnes (-2% YoY, 0% QoQ) in 3Q23.

3) Packaging business profit likely dropped to THB1.25b (-32% YoY, -16% QoQ), affected by maintenance shutdown in the Fibrous Chain business line, with expenses of THB100m, dissolving pulp prices decreasing and weak Indonesia operating results.

The outlook for 4Q23 is earnings may weaken further; we forecast a profit of approximately THB2.5-3b as the ROC plant, with a capacity of 1.35m tonnes, will be shut down for 40 days for maintenance, while HDPE and PP spreads are currently still below the break-even point of USD400-450/tonne. On a positive note, dividends from car manufacturers will provide support.

Fig 1: Quarterly earnings

(THBm)	3Q22	2Q23	3Q23E	%YoY	%QoQ	9M22	9M23E	%YoY
Sales	142,392	124,631	123,990	-13%	-1%	447,419	377,369	-16%
COGs	117,313	98,329	99,985	-15%	2%	360,937	300,052	-17%
Depreciation	7,487	7,179	7,250	-3%	1%	21,889	21,550	-2%
Gross profits	17,591	19,122	16,755	-5%	-12%	64,593	55,767	-14%
Other income	2,101	3,695	2,100	0%	-43%	10,094	10,830	7%
SG&A	18,057	16,058	16,002	-11%	0%	53,924	49,089	-9%
EBITDA	9,122	13,938	10,104	11%	-28%	42,652	39,058	-8%
Interest expense	1,899	2,378	2,430	28%	2%	5,261	7,049	34%
Equity income	2,064	2,023	1,936	-6%	-4%	8,832	6,624	-25%
Core profit	2,444	5,216	3,300	35%	-37%	21,225	13,032	-39%
Extra items	-	2,866	-	nm.	nm.	-	14,876	nm.
Net profit	2,444	8,082	3,300	35%	-59%	21,225	27,908	31%
Core EPS (THB)	2.04	4.35	2.75	35%	-37%	17.69	10.86	-39%
EPS (THB)	2.04	6.74	2.75	35%	-59%	17.69	23.26	31%
Ratios								
Gross margin	12.4%	15.3%	13.5%			14.4%	14.8%	
SG&A/Sales	12.7%	12.9%	12.9%			12.1%	13.0%	
EBITDA margin	6.4%	11.2%	8.1%			9.5%	10.4%	
Core profit margin	1.7%	4.2%	2.7%			4.7%	3.5%	
Net profit margin	1.7%	6.5%	2.7%			4.7%	7.4%	

Source: Company, MST

Fig 2: Business breakdown quarterly performance

(THBm)	3Q22	4Q22	1Q23	2Q23	3Q23E	%YoY	%QoQ
Sales	142,391	122,190	128,748	124,631	123,990	-13%	-1%
> Cement + Building Material	51,558	49,265	50,800	46,432	46,500	-10%	0%
> Petrochemicals	57,351	43,285	46,805	48,755	48,140	-16%	-1%
> Packaging	37,943	33,509	33,729	32,216	31,850	-16%	-1%
EBITDA	9,122	6,004	15,016	13,938	10,104	11%	-28%
> Cement + Building Material	3,952	1,963	5,035	4,598	4,303	9%	-6%
> Petrochemicals	(1,060)	(1,242)	2,336	2,669	1,113	nm	-58%
> Packaging	5,483	3,554	4,471	4,681	4,337	-21%	-7%
EBITDA Margin	6.4%	4.9%	11.7%	11.2%	8.1%		
> Cement + Building Material	7.7%	4.0%	9.9%	9.9%	9.3%		
> Petrochemicals	-1.8%	-2.9%	5.0%	5.5%	2.3%		
> Packaging	14.5%	10.6%	13.3%	14.5%	13.6%		
Net profit	2,444	157	16,526	8,082	3,300	35%	-59%
> Cement + Building Material	793	(244)	13,463	1,250	1,101	39%	-12%
> Petrochemicals	(339)	(1,052)	1,356	741	277	nm	-63%
> Packaging	1,837	450	1,220	1,485	1,250	-32%	-16%
Core profit	2,400	806	4,570	5,216	3,300	37%	-37%

Source: Company, MST

Fig 3: Cement + building materials quarterly performance

	3Q22	4Q22	1Q23	2Q23	3Q23E	%YoY	%QoQ
Domestic Demand (M tonne)	7.5	7.5	8.2	7.3	7.4	-1%	1%
> Avg Cement Price (THB/Tonne)	1,975	2,025	2,075	2,125	2,125	8%	0%
Net Sales (THBm)	51,558	49,265	50,800	46,432	46,500	-10%	0%
EBITDA (THBm)	3,952	1,963	5,035	4,598	4,303	9%	-6%
EBITDA margin (%)	7.7%	4.0%	9.9%	9.9%	9.3%		
Net Profit (THBm)	793	(244)	13,463	1,250	1,101	39%	-12%
Core Profit (THBm)	793	316	1,507	1,250	1,101	39%	-12%

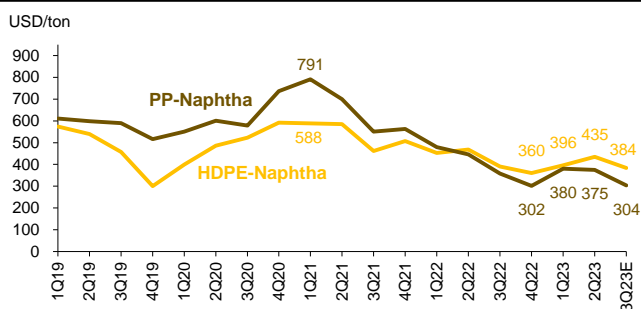
Source: Company, MST

Fig 4: Petrochemical quarterly performance

	3Q22	4Q22	1Q23	2Q23	3Q23E	%YoY	%QoQ
Net Sales (THBm)	57,351	43,285	46,805	48,755	48,140	-16%	-1%
Volume sales (Tonnes)	422,000	331,000	390,000	417,000	415,000	-2%	0%
PE (\$/Tonne)	1,104	1,033	1,085	1,036	1,032	-7%	0%
PP (\$/Tonne)	1,072	975	1,069	976	952	-11%	-2%
Naphtha (\$/Tonne)	714	673	689	601	648	-9%	8%
PE - Naphtha Spread (\$/tonne)	390	360	396	435	384	-2%	-12%
PP - Naphtha Spread (\$/tonne)	358	302	380	375	304	-15%	-19%
PVC - EDC/C2 (\$/tonne)	375	347	449	317	400	7%	26%
Equity income (THBm)	823	1,108	955	858	550	-33%	-36%
EBITDA (THBm)	(1,060)	(1,242)	2,336	2,669	1,113	nm	-58%
EBITDA margin (%)	(1.8%)	(2.9%)	5.0%	5.5%	2.3%		
Net Profit (THBm)	(339)	(1,052)	1,356	741	277	nm	-63%
Core Profit (THBm)	741	127	1,407	2,582	277	-63%	-89%

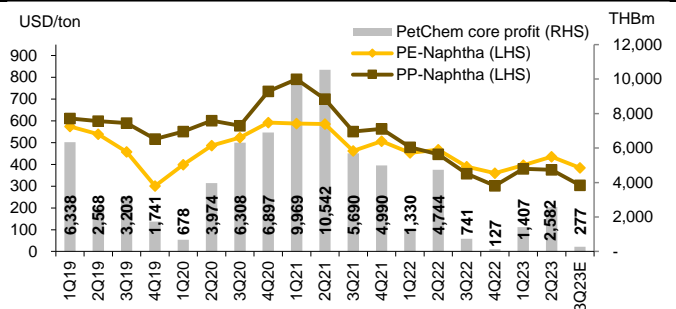
Source: Company, MST

Fig 5: Petrochemical price spread movements



Source: Company, MST

Fig 6: Petrochemical price spread vs core profit



Source: Company, MST

Fig 7: Packaging quarterly performance

	3Q22	4Q22	1Q23	2Q23	3Q23E	%YoY	%QoQ
Net Sales (THBm)	37,943	33,509	33,729	32,216	31,850	-16%	-1%
Integrated Packaging (THBm)	29,221	25,253	25,411	24,109	24,095	-18%	0%
> Volume sales (1,000 Tonnes)	930	870	970	920	900	-3%	-2%
> Sales price (\$/tonne)	480	423	415	400	380	-21%	-5%
Fibrous Chain (THBm)	6,162	6,240	6,191	6,400	5,655	-8%	-12%
EBITDA (THBm)	5,483	3,554	4,471	4,681	4,337	-21%	-7%
EBITDA margin (%)	14.5%	10.6%	13.3%	14.5%	13.6%		
Net Profit (THBm)	1,837	450	1,220	1,485	1,250	-32%	-16%
Core profit (THBm)	1,512	628	1,182	1,439	1,250	-17%	-13%

Source: Company, MST

2. Cut forecasts; FY23E profit deterioration

The situation in 2H23 is still difficult, causing 2H23 profit to deteriorate more than previously estimated. As mentioned, for the petrochemical business, HDPE-Naphtha and PP-Naphtha spreads are still below the break-even point of USD400-450/tonnes, while ROC will be closed for maintenance for 40 days. For the packaging business, we anticipate the recovery to be less prominent and lower than expected, causing us to revise down our core profit forecasts for FY23-24E by 40%/14%.

For FY23, we expect core profit to decrease by 25% YoY to THB15.965b. But when including extra items, ie, the adjustment of the fair value of investments, net profit should be THB30.841b, up 44%.

Fig 8: Revised earnings forecasts

THB m	Revised		Previous		% Chg	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	495,099	584,366	550,719	623,482	-10%	-6%
Gross profit margin (%)	14.50%	15.40%	15.80%	16.60%		
Core profit	15,965	28,081	26,413	32,820	-40%	-14%
Net profit	30,841	28,081	38,423	32,820	-20%	-14%
Core EPS (THB)	13.3	23.4	22.01	27.35	-40%	-14%
EPS (THB)	25.7	23.4	32.02	27.35	-20%	-14%

Source: Company, MST

3. Expect a better FY24E

Outlook for FY24E: we expect earnings to recover better. We forecast core profit of THB28.081b, up 76%YoY from a low base in FY23E.

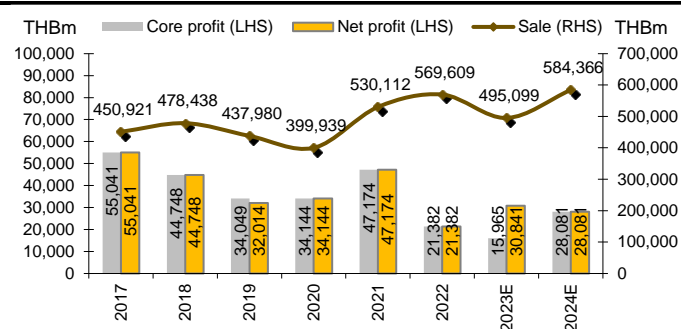
Chemicals business: 1) The world's new production capacity for ethylene products in FY23E will increase by 5% compared to the world economy, which the IMF expects to grow by 3.0%. With supply growing faster than demand, this could cause the HDPE-Naphtha spread in FY23E to be at a low level of USD400/tonne. In FY24E, new production capacity is expected to grow only 2.5% compared to the world economy, which the IMF expects to grow 2.9%. With demand growing faster than supply, this could cause the HDPE-Naphtha spread in FY24E to increase to about USD425/tonne, near the break-even point of USD400-450/tonne. But SCC has about 40% of high-value added products, whose spreads are higher by approximately USD100/tonne. 2) The world's new production capacity of Propylene products in FY23-24E will increase by 7%/7% respectively, higher than the growth of the world economy in 2023-24E that the IMF expects to grow 3.0%/2.9% respectively, causing supply to exceed demand, putting pressure

on the PP-Naphtha spread in both FY23-24E. Therefore, overall, higher HDPE product spreads will make the performance of the chemicals business in FY24E better than in FY23E.

Cement-building materials business. We expect 2024 government expenditure budget (Oct. 2023 - Sep. 2024) to be completed around April 2024, causing disbursement to be accelerated during April - Sep. 2024 and the fiscal year budget 2025 (Oct. 2024 - Sep. 2025) will begin in Oct. 2025. This should help stimulate the economy in 2024, assisting the cement-building materials business to recover in 2024.

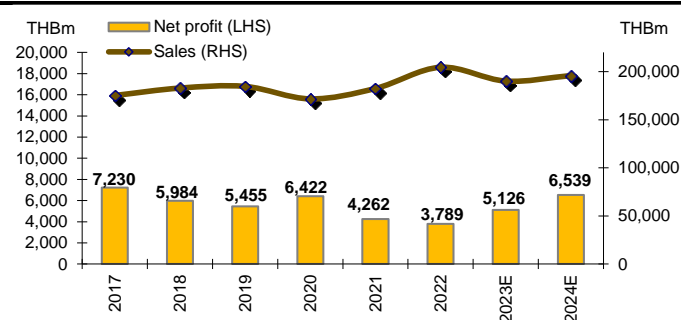
Packaging business. The long-term outlook is for continued growth due to business expansion both domestically and abroad, and SCGP's strategy of complete packaging solutions and integration within the value chain.

Fig 9: SCC : Annual earnings



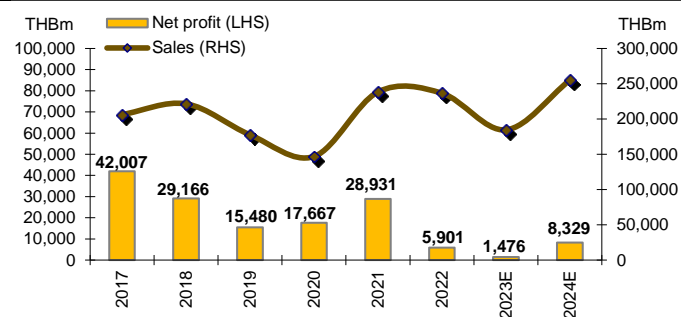
Source: Company, MST

Fig 10: SCC : Cement-building materials' annual earnings



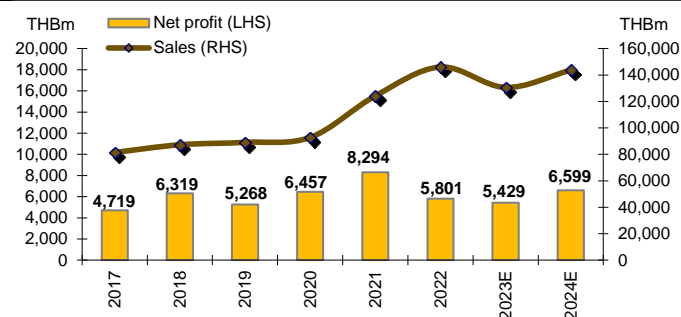
Source: Company, MST

Fig 11: SCC : Chemical's annual earnings



Source: Company, MST

Fig 12: SCC : Packaging's annual earnings



Source: Company, MST

4. Profit share from Toyota and Kubota will help support future performance

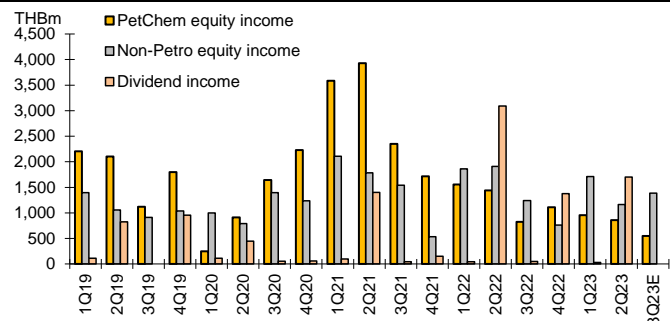
SCC owns 10% of Toyota Motor Thailand Co. Ltd. from which it recognises income in the form of dividends, and a 40% stake in Siam Kubota Corporation Co. Ltd. from which it receives income in the form of profit sharing.

SCC had income from dividends (mostly from Toyota) in FY22 equal to THB4.562b (+168%YoY) and THB1.731b (-45%YoY) in 1H23, while there is income from profit sharing from investments in other companies (mostly from Kubota) in FY22 equal to THB4.038b (-8%YoY) and THB2b (-28%YoY) in 1H23.

Dividend income and profit sharing from such investments accounted for 40%/29% of core profit in FY22/1H23, respectively.

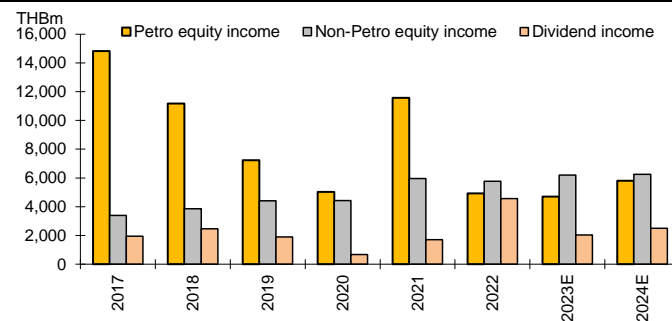
We expect Toyota's dividend in FY24E to grow slightly by 1-3%, in line with the auto industry. As for the share of profits from its Kobuta investment, we expect it to be higher as we expect the drought in 2024 won't be as severe as in 2023.

Fig 13: SCC: quarterly equity & dividend income



Source: Company, MST

Fig 14: SCC: Annual equity & dividend income



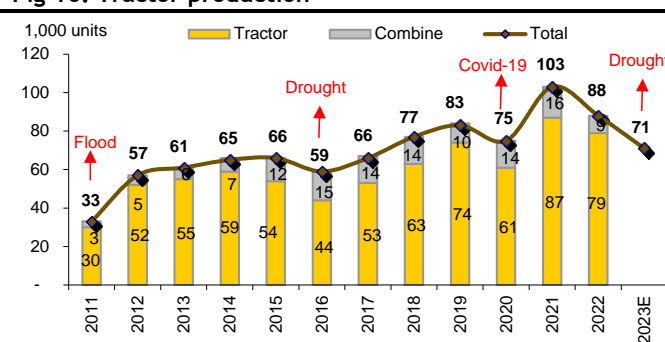
Source: Company, MST

Fig 15: Thai total auto production by brand (units)

	8M23	%YoY	%Portion	2022	%YoY	%Portion
Honda	89,998	15%	7%	125,292	-9%	7%
Isuzu	217,178	-10%	18%	371,830	33%	20%
Mitsubishi	179,379	-4%	15%	278,584	-12%	15%
Suzuki	8,796	13%	1%	15,579	-21%	1%
Nissan	70,274	55%	6%	70,035	-42%	4%
Hino	10,848	2%	1%	15,170	9%	1%
Volvo	1,981	-24%	0%	4,545	-22%	0%
Mercedes-Benz	8,799	24%	1%	12,351	1%	1%
Toyota	429,433	3%	35%	665,986	28%	35%
Autoalliance	111,378	12%	9%	178,002	29%	9%
BMW	8,360	-10%	1%	13,399	-51%	1%
GWM	3,964	-37%	0%	7,977	49%	0%
Ford	66,208	35%	5%	89,764	46%	5%
MG	15,282	-32%	1%	35,001	20%	2%
Total	1,221,878	3%	100%	1,883,515	12%	100%

Source: The Federation of Thai Industries, MST

Fig 16: Tractor production



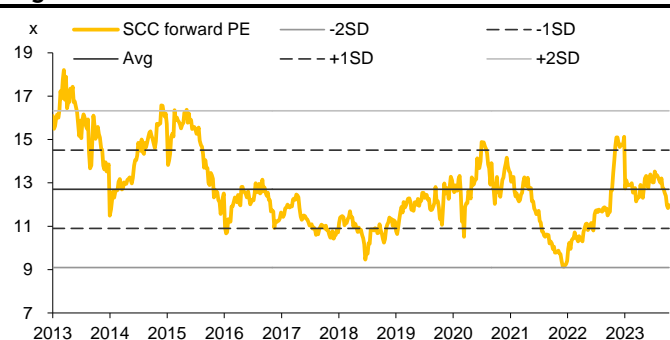
Source: Company, MST

Fig 17: SOTP of SCC

	Value (THBm) FY24E	Determinants	Remarks
Cement+Building Materials	204,471	10x FY23E EV/EBITDA	11x sector average
Petrochemical	128,815	8x FY23E EV/EBITDA	8x regional average
Packaging	163,372	8x FY23 EV/EBITDA	10x regional average
Associates	234,611	1.4x FY23 P/BV	SCC 10-yr avg P/BV=2.2x
Net Debt	-276,980		
Minorities	-76,208		
Equity value	378,080		
No of shares (m)	1,200		
Fair value (THB per share)	315		

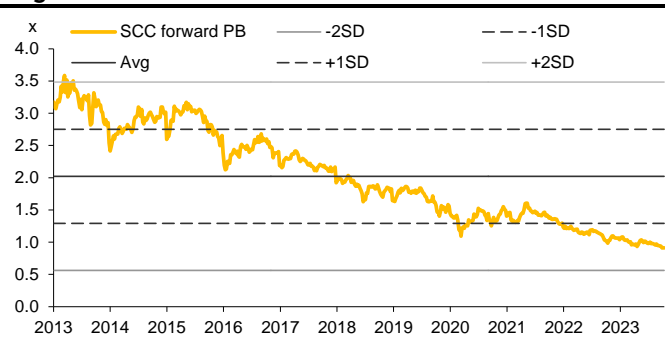
Source: Company, MST

Fig 18: SCC forward PER band



Source: Bloomberg

Fig 19: SCC forward PBV band



Source: Bloomberg

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	10.3	20.2	11.6	12.7	10.1
Core P/E (x)	9.8	19.2	22.3	12.7	10.1
P/BV (x)	1.3	1.1	0.9	0.9	0.8
P/NTA (x)	1.3	1.1	0.9	0.9	0.8
Net dividend yield (%)	4.8	2.3	2.4	3.4	4.4
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	9.6	15.7	14.0	11.4	10.2
EV/EBIT (x)	14.8	39.7	34.7	22.5	18.1

INCOME STATEMENT (THB m)

Revenue	530,111.6	569,608.7	495,099.3	584,366.3	656,960.8
EBITDA	81,685.4	48,656.0	50,038.6	62,243.4	70,190.3
EBIT	52,850.6	19,194.9	20,212.6	31,478.4	39,509.3
Net interest income / (exp)	(6,757.3)	(7,523.1)	(9,479.0)	(9,750.0)	(9,645.0)
Associates & JV	17,542.7	10,703.1	8,529.0	12,480.0	13,165.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	63,635.9	22,374.9	19,262.6	34,208.4	43,029.3
Income tax	(8,900.0)	(4,650.3)	(6,538.9)	(4,847.0)	(6,224.9)
Minorities	(7,561.9)	3,657.8	3,241.0	(1,280.0)	(1,630.0)
Discontinued operations	0.0	0.0	14,876.2	0.0	0.0
Reported net profit	47,174.0	21,382.4	30,840.9	28,081.4	35,174.4
Core net profit	47,174.0	21,382.4	15,964.7	28,081.4	35,174.4

BALANCE SHEET (THB m)

Cash & Short Term Investments	67,610.2	89,858.9	27,000.0	28,000.0	29,000.0
Accounts receivable	78,951.4	74,459.0	75,575.9	76,709.5	77,860.2
Inventory	83,120.8	83,162.1	84,409.5	85,675.6	86,960.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	410,707.6	425,051.5	440,225.5	454,460.5	468,779.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	137,578.8	141,915.3	150,444.3	162,924.3	176,089.3
Other assets	83,132.3	92,043.1	83,132.3	83,132.3	83,132.3
Total assets	861,101.0	906,489.8	860,787.4	890,902.2	921,822.0
ST interest bearing debt	86,390.9	68,400.9	55,737.2	57,271.5	58,207.7
Accounts payable	75,025.5	59,783.0	60,679.8	61,590.0	62,513.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	216,723.4	295,845.1	241,072.5	247,708.5	251,757.9
Other liabilities	32,953.0	30,036.0	32,874.0	32,874.0	32,874.0
Total Liabilities	411,092.7	454,065.4	390,363.1	399,443.5	405,353.1
Shareholders Equity	365,690.7	374,255.0	395,495.9	415,250.2	438,630.4
Minority Interest	84,317.6	78,169.5	74,928.5	76,208.5	77,838.5
Total shareholder equity	450,008.3	452,424.4	470,424.3	491,458.7	516,468.9
Total liabilities and equity	861,101.0	906,489.8	860,787.4	890,902.2	921,822.0

CASH FLOW (THB m)

Pretax profit	63,635.9	22,374.9	19,262.6	34,208.4	43,029.3
Depreciation & amortisation	28,834.8	29,461.1	29,826.0	30,765.0	30,681.0
Adj net interest (income)/exp	6,757.3	7,523.1	9,479.0	9,750.0	9,645.0
Change in working capital	(42,867.4)	(12,864.6)	605.7	(1,489.6)	(1,511.9)
Cash taxes paid	(8,900.0)	(4,650.3)	(6,538.9)	(4,847.0)	(6,224.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(26,529.4)	42,001.4	(34,470.5)	36,126.8	42,533.5
Capex	(98,785.5)	(53,479.9)	(35,325.1)	(45,000.0)	(45,000.0)
Free cash flow	(125,314.9)	(11,478.5)	(69,795.7)	(8,873.2)	(2,466.5)
Dividends paid	(20,398.0)	(19,199.2)	(9,600.0)	(8,327.0)	(11,794.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	41,750.5	61,131.7	(67,436.3)	8,170.3	4,985.7
Other invest/financing cash flow	68,591.7	(8,205.3)	83,973.1	10,030.0	10,275.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(35,370.7)	22,248.7	(62,858.9)	1,000.0	1,000.0

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	32.5	7.5	(13.1)	18.0	12.4
EBITDA growth	19.9	(40.4)	2.8	24.4	12.8
EBIT growth	29.7	(63.7)	5.3	55.7	25.5
Pretax growth	47.6	(64.8)	(13.9)	77.6	25.8
Reported net profit growth	38.2	(54.7)	44.2	(8.9)	25.3
Core net profit growth	38.2	(54.7)	(25.3)	75.9	25.3
Profitability ratios (%)					
EBITDA margin	15.4	8.5	10.1	10.7	10.7
EBIT margin	10.0	3.4	4.1	5.4	6.0
Pretax profit margin	12.0	3.9	3.9	5.9	6.5
Payout ratio	47.1	44.9	27.2	42.7	44.4
DuPont analysis					
Net profit margin (%)	8.9	3.8	6.2	4.8	5.4
Revenue/Assets (x)	0.6	0.6	0.6	0.7	0.7
Assets/Equity (x)	2.4	2.4	2.2	2.1	2.1
ROAE (%)	13.7	5.8	8.0	6.9	8.2
ROAA (%)	5.9	2.4	1.8	3.2	3.9
Liquidity & Efficiency					
Cash conversion cycle	44.4	60.0	74.6	64.3	58.2
Days receivable outstanding	45.4	48.5	54.5	46.9	42.4
Days inventory outstanding	58.9	60.9	71.2	62.0	56.2
Days payables outstanding	60.0	49.4	51.2	44.5	40.4
Dividend cover (x)	2.1	2.2	3.7	2.3	2.3
Current ratio (x)	1.4	1.9	1.5	1.5	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.0	2.2	2.2	2.3
Net gearing (%) (incl perps)	52.3	60.6	57.4	56.4	54.4
Net gearing (%) (excl. perps)	52.3	60.6	57.4	56.4	54.4
Net interest cover (x)	7.8	2.6	2.1	3.2	4.1
Debt/EBITDA (x)	3.7	7.5	5.9	4.9	4.4
Capex/revenue (%)	18.6	9.4	7.1	7.7	6.8
Net debt/ (net cash)	235,504.1	274,387.2	269,809.7	276,980.0	280,965.7

Source: Company; Maybank IBG Research

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• Retail Research

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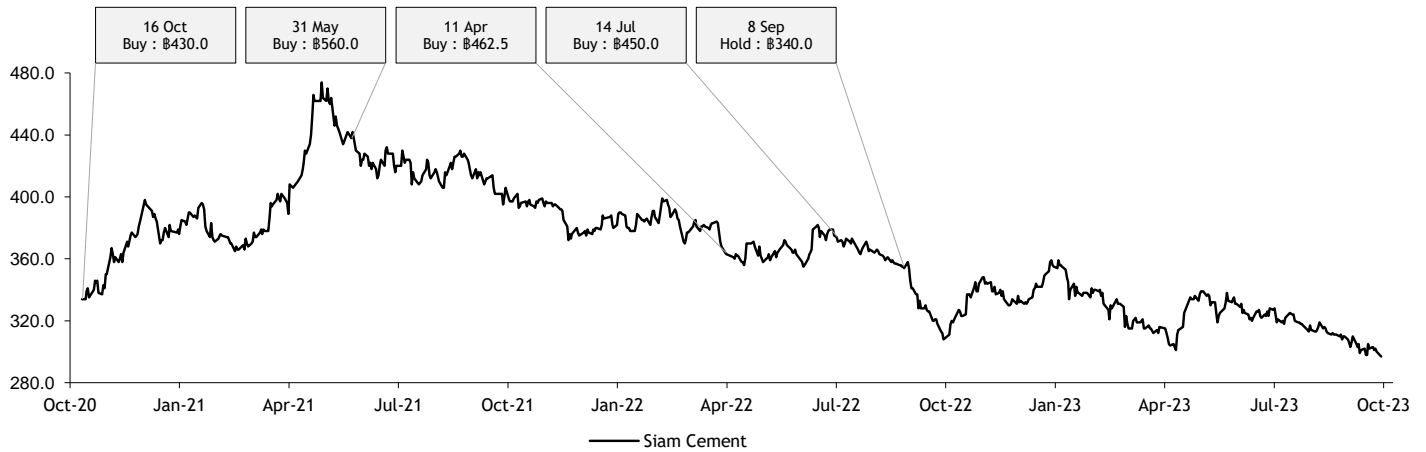
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Historical recommendations and target price: Siam Cement (SCC TB)



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