Thailand Cement Sector

Research Analysts
Paworamon (Poom) Suvarnatemee, CFA
66 2 614 6210
paworamon.suvarnatemee@credit-suisse.com

SECTOR REVIEW

Quick Take: Surprisingly strong cement demand in 1Q16

- **5% growth in 1Q16.** Siam Cement (SCC)'s former CEO, Khun Kan Trakulhoon, was quoted in the *Post Today* newspaper saying that cement demand in 1Q16 grew 5% driven by 19% growth for government spending sector, -2% for residential sector and +1% for commercial sector. This is considered a surprise compared to flat growth in 2015 which is driven by a smaller growth of 11% from government sector, a -5% from residential, and -2% from commercial sector. The data here are coinciding with positive messages that came from Deputy Prime Minister Dr. Somkid Jatusripitak two weeks ago.
- **A positive surprise.** In our forecast, we assume 5% growth in 2016 but we expected the growth to start at lower level in 1H16 and recovered more aggressively in 2H16 with ongoing government infrastructure projects. However, growth of 5% at the start of the year is a positive surprise. Key issue is the sustainability for the remaining quarters.
- **Expect a more cautious message from SCC's analyst meeting at month end.** SCC is due to announce its 1Q16 earnings on 27 April. During CS's Asian Investment Conference last week, Khun Roongrote Rangsiyopash, the President and CEO of SCC has given us a more cautious view. According to Khun Roongrote, the recent recovery in demand comes from government's short-term spending. The issue is when private demand would recover. Normally, the time lag between follow-through private investments is six months, but likely will be longer in this round. The property market is holding high inventory and private sectors are lacking incentives to rush for investments. *(SCC -- Notes from the AIC: Petrochemicals to support earnings in the medium term).*
- **Expect share prices to react positively.** We expect share prices of cement stocks to react positively to the news. A sustained period of strong demand should also stop cement prices from falling. We maintain an OUTPERFORM on both SCC and SCCC.

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Companies Mentioned *(Price as of 08-Apr-2016)*

Siam Cement (SCC.BK, Bt454.0, OUTPERFORM, TP Bt500.0)
Siam City Cement (SCCC.BK, Bt317.0, OUTPERFORM, TP Bt335.0)

Disclosure Appendix

Important Global Disclosures

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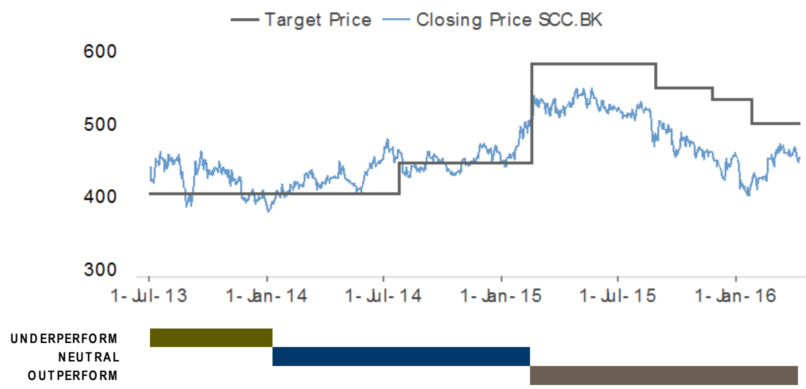
3-Year Price and Rating History for Siam Cement (SCC.BK)

SCC.BK Date	Closing Price (Bt)	Target Price (Bt)	Rating
03-Jul-13	440.00	404.00	U
10-Jan-14	391.00	404.00	N
25-Jul-14	464.00	446.00	
16-Feb-15	510.00	582.00	O
28-Aug-15	486.00	550.00	
25-Nov-15	460.00	534.00	
25-Jan-16	420.00	500.00	

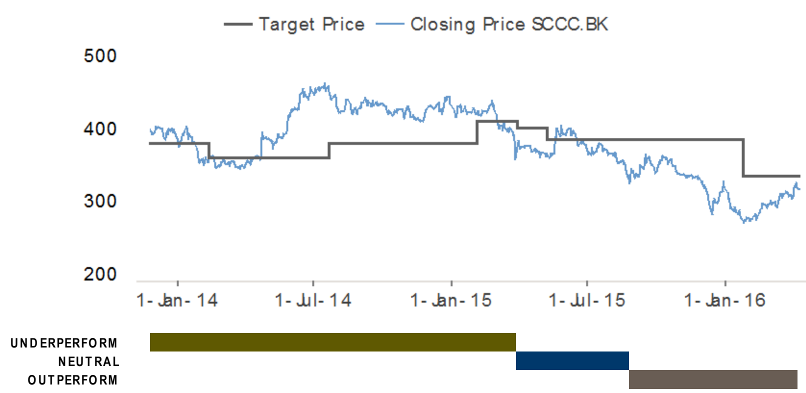
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Siam City Cement (SCCC.BK)

SCCC.BK Date	Closing Price (Bt)	Target Price (Bt)	Rating
26-Nov-13	398.00	380.00	U
12-Feb-14	359.00	360.00	
22-Jul-14	448.00	380.00	
04-Feb-15	420.00	410.00	
30-Mar-15	377.00	400.00	N
08-May-15	365.00	385.00	
28-Aug-15	344.00	385.00	O
25-Jan-16	271.00	335.00	

** Asterisk signifies initiation or assumption of coverage.*



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Underperform/Sell*	11%	(45% banking clients)
Restricted	1%	

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Siam Cement (SCC.BK)

Method: Our target price of Bt500 on Siam Cement (SCC.BK) is based on Sum-Of-The-Part (SOTP). For SOTP, we use EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortisation) of peers in different businesses in FY16E. We have an OUTPERFORM rating on SCC as we see an opportunity for long-term investors to enter SCC with a yield of 4% and improving with cement demand recovery to be catalyst for the stock in 2H16.

Risk: Risks to our 12-month target price of Bt500 and OUTPERFORM rating for Siam Cement include: 1) Domestic cement prices and 2) global petrochemical prices, 3) rising energy costs, 4) fluctuations in Baht exchange rates against US$. Risks to our OUTPERFORM rating are fluctuation in petrochemical prices and government's failure to implement infrastructure projects.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Siam City Cement (SCCC.BK)

Method: Our 12-month target price of Bt335 for SCCC (Siam City Cement) is based on FY16E 10x EV/EBITDA, 10% discount to its historical average. We have an OUTPERFORM rating on SCCC due to its exposure to the construction sector, which is the only bright spot of the Thai economy.

Risk: Risks to our 12-month target price of Bt335 and OUTPERFORM rating for Siam City Cement include: 1) Cement price competition in Thailand; 2) delay in infrastructure spending due to political uncertainties and 3) macroeconomic risk. Risk to our OUTPERFORM rating is government's failure to implement infrastructure projects.

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