ASIAwealth Securities Company Limited

Initiate Coverage: SCCC

5 Apr 2016

Siam City Cement PCL (SCCC)

Pure cement play

BUY

TP: Bt360.60

Closing price: 325.00

Upside/downside +11.0%

- Growing with infrastructure investment and has growth potential from overseas markets.
- Recovery & growth ahead; healthy balance sheet to support.
- Initiate with BUY recommendation.

Growing with infrastructure investment and has growth potential from overseas markets

SCCC is one of the leading cement producers in Thailand who would directly benefit from the government's impending hefty infrastructure investment, which would propel domestic cement demand in the long run. There is also potential growth opportunities in neighboring CLMV countries where demand is still increasing as their public and private infrastructure still lag behind other ASEAN countries and there is an upcoming construction cycle in their rapidly growing economies. In the past, SCCC only captured these benefits as an exporter, but now it has begun to expand locally in Cambodia for the first time. We believe this is a good start to fully expand its business in the region in the future.

Recovery & growth ahead; healthy balance sheet to support

Although SCCC's operating performance this year would be flat YoY as we believe the delayed government investment spending and cement demands recovery would not be substantial until 2H16, and a full and robust recovery should occur next year with 12% YoY earnings growth driven by successively increasing investment spending. Meanwhile, overseas markets are still SCCC's growth potentials for the long run, starting with a JV investment in Cambodia which should begin to bear fruit in 2018 after the construction is complete. A healthy financial position and strong operating cash flow would support the company's long-term business growth.

Initiate coverage with BUY recommendation

We derive a 2016F fair value for SCCC of Bt360.60 based on PER multiple approach, using its 10-year historical average multiple at 17.9x to broadly capture its business cycle. We initiate coverage with a BUY recommendation given the anticipated up-cycle for the cement industry going forward. Once the recovery in the domestic cement industry becomes clearer, we are likely to adjust up the PER multiple as well as target price. Another reason SCCC is an attractive investment is its reliable dividend payment, which the share is now offer a pleasing dividend yield of 4.6-4.9% p.a.

Sector	**Property & Construction**
Paid-up shares (shares mn)	**230**
Market capitalization (Bt mn)	**74,750**
Free float (%)	**27.57**
12-mth daily avg. turnover (Bt mn)	**49.39**
12-mth trading range (Bt)	**267.00/406.00**

Major shareholders (%)	
Sunrise Equity Company Limited	34.81
JARDINE CYCLE & CARRIAGE	24.90
BBTV	9.43

Financial highlights

(Year to December)	2014	2015	2016E	2017E
Revenue (Btmn)	31,862	31,120	31,756	33,760
Net Profit (Btmn)	5,091	4,579	4,628	5,189
EPS (Bt)	22.13	19.91	20.12	22.56
EPS growth (%)	6.1	-10.0	1.1	12.1
PER (x)	14.7	16.3	16.2	14.4
PBV (x)	3.6	3.4	3.2	3.0
DPS (Bt)	15.0	15.0	15.0	16.0
Div. Yield (%)	4.6	4.6	4.6	4.9
ROE (%)	25.4	21.3	20.4	21.5

Source: Company data, AWS estimate

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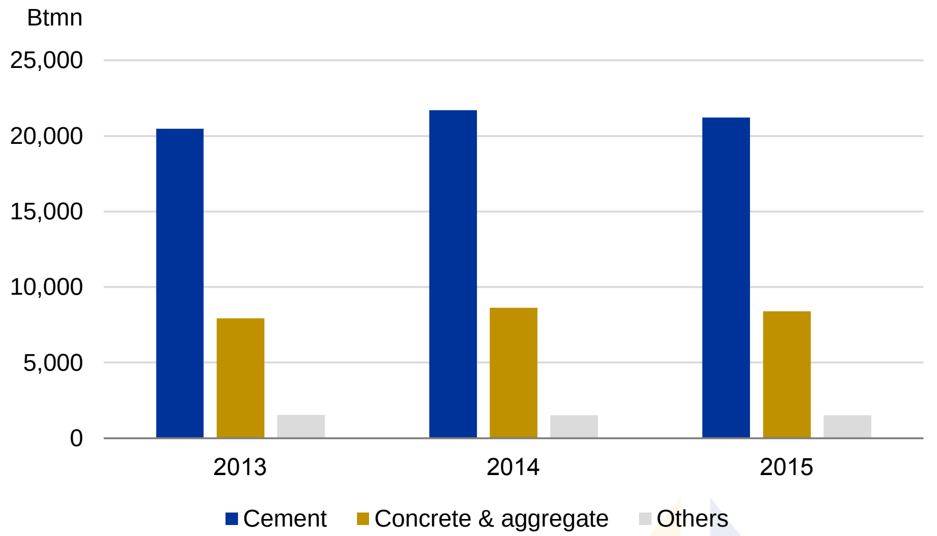
One of the leading cement producers in Thailand

Siam City Cement PCL (SCCC) was founded in 1969. Its core business is cement production, which typically accounts for around 70% of its total sales revenue. The remaining portion of revenue is jointly generated from the sales of related building materials such as high-quality concretes, light-weighted blocks, and decorative building materials. Currently, SCCC has three cement plants with six kilns located in Saraburi Province with total production capacity of 14.5mn tons p.a. SCCC is the second-largest producer in country with a 27% share of the domestic market.

Figure 1: SCCC's revenue structure (2013-15)



Source: Company data

Mega infrastructure investment to drive domestic cement demand in the long run

Despite the current slowdowns in business activities in the residential sector and commercial sector, which account for 70% of overall domestic cement consumption, we believe the government's consumption through its hefty infrastructure investment worth total Bt2.4tn would play the main role in propelling domestic cement demand in the long run. The investment projects include mass transit systems in Bangkok, sizable dual-track railways, upcountry highways & roads, etc. As a result, we expect domestic cement consumption this year to recover from stagnancy in 2015, with a moderate growth rate of 3% YoY based on the assumption that investment spending would be substantial beginning in 2H16, before continuously increasing 5% YoY in 2017.

Figure 2: Thailand's infrastructure investment

Master Plan (+8 yrs)
+2.4 trillion Baht

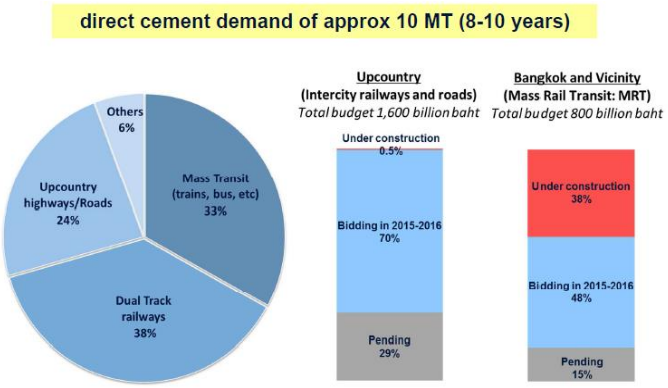
2016 Action Plan (20 projects)
1.78 trillion Baht

1) **Rail = 1,564,400 MB**
   1.4 meter dual track
   Bangkok Subways
   1.0 meter dual track

2) **Motorway = 160,400 MB**
   Pattaya – Map-Ta-Phut
   Ayuttaya – Nakorn Ratchasima
   Nonthaburi - Kanchanaburi

3) **Others = 59,000 MB**

Figure 3: Thailand's infrastructure investment



Source: Company data

Figure 4: Thailand's mass transit (MRT) project

PROJECT	DISTANCE (KM)	BUDGET (Billion Baht)	BIDDING	%Progress*	Complete Project
Under Construction					
Purple Line	23	64	✓	100%	Dec-15
Blue Line**	27	83	✓	72%	2019
Green Line (Baring - Samutprakan)	13	25	✓	77%	2018
Red	26	73	✓	34%	2019
Light Green Line (Mochit - Kukot)	19	59	✓	Beginning	2019
Total		**304**			
Contractor Bidding in 2016					
Orange Line	21	94	Apr-16		2021-2022
Pink Line **	35	57	Jul-16		2021-2022
Yellow Line**	29	55	Jul-16		2021-2022
Light Red + Red	26	44	2016		2021-2022
Purple Line (extension)	24	131	2016-2017		2022
Total		**381**			

*Source: Company data, * % Progress updated in Feb 2016, ** Already passed PPP committee*

Figure 5: Provincial highway and train projects

	PROJECT	BUDGET (billion baht)	BIDDING
Double Tracks – meter gauge: 129 billion baht	Jira-Khonkean	26	✓
	Chachengsao - KeangKoi	11	✓
	PrachuapKhiriKhan-Chumporn	17	H1-16
	Nakornpathom-Huahin	20	2016
	MapKabao-Jira	30	2016
	Lopburi-Paknam	25	2016
	Total	129	
Double Tracks – standard gauge: 994 billion baht	Bangkok – Nongkhai	393	2016-2017
	Bangkok - Chiangmai	450	N/A
	Bangkok-Huahin	95	N/A
	Bangkok-Rayong	156	N/A
	Total	994	
Motorways: 160 billion baht	Pattaya - MapTaPhut	20	✓
	Bangpain – NakonRatchasima*	85	✓
	Bangyai - Kanjanaburi *	55	✓
	Total	160	
Other Roads: 8 billion baht	International Connection + domestic extension	8	✓
	Total	8	
	Grand Total	*1.219*	

*Source: Company data, * Already passed PPP committee*

Growth potential in neighboring developing countries

Compared with Thailand's relatively mature market, we foresee interesting growth potential for the cement market in neighboring CLMV countries (Cambodia, Laos, Myanmar, and Vietnam), where demand is still increasing as their public and private infrastructure still lag behind other ASEAN countries and there is an upcoming construction cycle in their rapidly growing economies. Along with a lack of local production capacity, cement selling price in these countries is typically higher than in matured countries such as Thailand and Indonesia, offering a higher profit margin for local cement producers.

Figure 6: ASEAN cement markets

	Thailand	Cambodia	Indonesia	Myanmar	Laos	Vietnam
Demand Growth						
FY2015	**0%**	**+9%**	**+1%**	**+11%**	**+5% to +7%**	**+8%**
FY2014	-1%	+10%	+3%	+11%	+6%	+11%
Market price: ex-factory (FY2015)						
US$ / ton	**$50 - $52**	**$58 - $68**	**$50 - $60**	**$53 - $63**	**$75 - $80**	**$50 - $56**
Local currency / ton	1,800 to 1,850	234,958 to 275,468	692,789 to 831,346	68,488 to 81,410	611,245 to 651,995	1,094,500 to 1,225,840
FX rate	36.0	4,051	13,856	1,292	8,150	21,890

Source: Company data

Cambodia has long been a major focus for SCCC as the company's main export market (40-50% of abroad sales revenue). Cement demand in Cambodia is attractively growing by around 10% p.a. (see Figure 6), while current local demand of 4.0mn tons p.a. is now exceeding local supply. However, despite a higher cement price, SCCC's profitability in Cambodia has been lower than in the domestic market mainly due to the costs associated with the long-distance transportation, as SCCC's production base has been entirely located in Thailand.

Therefore, in order to further exploit the benefit in the emerging market, SCCC last year decided to locally expand its cement business in Cambodia for the first time through a Joint Venture partnership with Cambodia-based Chip Mong Group (SCCC owns a 40% stake) to construct and operate a cement plant with production capacity of 1.5mn ton p.a. The company expects the plant to be commercially operational in 2018. We believe this is a good start to fully expand its business in Cambodia, as well as in other neighboring countries in the future.

Figure 7: Details of JV investment in Cambodia

Chip Mong Insee Cement Corporation Limited	
Total investment cost (US$mn)	262
Cement production capacity p.a. (mil.tons)	1.5
Location	Cambodia
SCCC's stake (JV)	40%
SCCC's equity injection (US$mn)	60
COD date	Early 2018

Source: Company data

Domestic cement price to be depressed by new capacity, but profitability should persist

Although TPI Polene (TPIPL)'s new cement plant with a production capacity of 4.0mn tons p.a. (7% addition to Thailand's current domestic capacity) this year might negatively depress the domestic cement selling price and intensify competition in the country, the adverse impact would be limited as we believe TPIPL needs to export most of its new incremental production to neighboring countries due to oversupply in Thailand.

The tight market conditions would be prolonged unless there is a solid pickup in cement demand, particularly from the government's hefty infrastructure investment. Conservatively, we estimate domestic cement selling price this year to decrease from Bt1,860 /ton last year to Bt1,825/ton, before recovering to Bt1,875/ton in 2017 based on the assumption that investment spending would grow substantially from 2H16 onward.

Despite the lower cement selling price, we believe SCCC's gross profit margin would remain high as energy and fuel costs, which account for 70% of the cost of goods sold (COGS), have declined following the plunge in feedstock coal price. We estimate gross profit margin this year to drop slightly to 43.7% before recovering to 44.4% next year thanks to a recovery in the cement selling price pushed up by demand.

Figure 8: Key assumptions for the domestic cement industry

Key assumption	2014	2015	2016E	2017E
Domestic cement market growth	-1%	-1%	3%	5%
Domestic grey cement price (Bt/ton)	1,963	1,863	1,825	1,875
Gross profit margin	44.8%	44.3%	43.7%	44.4%

Source: Company data, AWS estimate

Share acquisition in Cemex (Thailand) and Cemex Cement (Bangladesh)

Last month, SCCC announced the 100% share acquisition of Cemex Group in Cemex (Thailand) Co., Ltd and Cemex Cement (Bangladesh) Limited who own and operate cement production assets in Thailand (production capacity of 0.82mn tons p.a.) and Bangladesh (production capacity of 0.55mn tons p.a.). These deals will increase SCCC's total cement production capacity from 14.5mn to 15.9mn tons p.a. The transaction is expected to be completed in May 2016.

With a total cost of Bt1.9bn for the acquisition, equivalent to Bt1,400 per ton capacity, compared with SCCC's market capitalization per ton capacity of around Bt5,000, the deal value is explicitly cheap. However, we believe these small-scale capacities would not significantly boost earnings, but rather would help SCCC operate with more effective scale. We estimates earnings increment from the two Cemex plants of Bt150-200mn per year.

Figure 9: Details of investment in Cemex Group

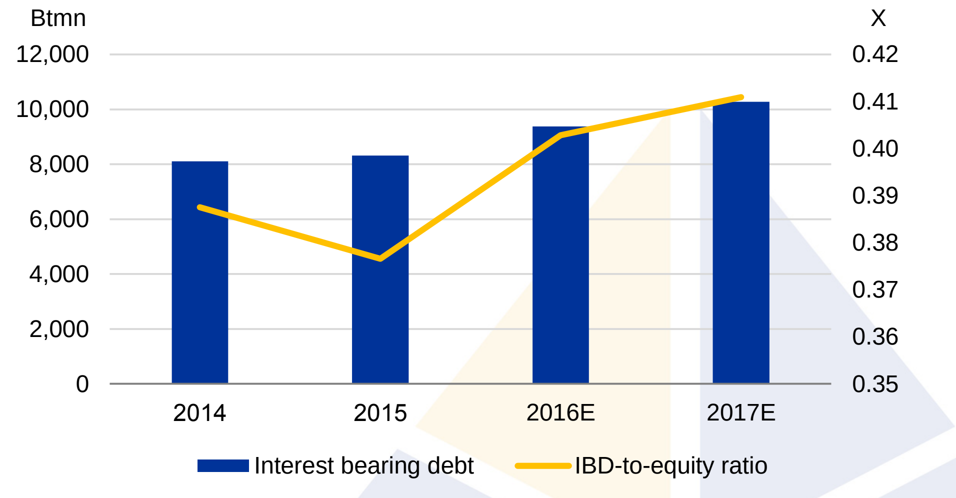
Chip Mong Insee Cement Corporation Limited	
Cement production capacity p.a.	(mil.tons)
1. Cemex (Thailand)	0.82
2. Cemex Cement (Bangladesh)	0.55
Total additional production capacity	1.37
SCCC's stake acquisition	100%
Total share acquisition cost (US$mn)	53
Date to complete share transaction	May 2016

Source: Company data

Healthy financial position and strong operating cash flow to support growth

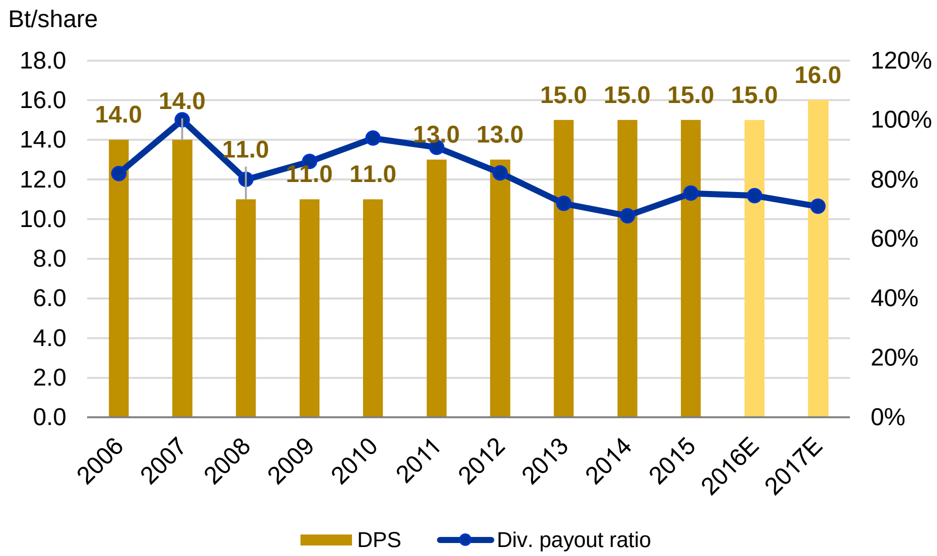
With the Bt4.0bn needed to invest in Cemex and JV partnership in Cambodia over the next two years, along with annual maintenance CAPEX of around Bt3.0bn, we estimate SCCC's operating cash flow of more than Bt6.0bn p.a. coupled with cash on hand of Bt2.0bn and adequate room to fund additional financial loans with low 0.4x debt-to-equity ratio would be sufficient. The dividend payment would also be covered.

Figure 10: SCCC's interest bearing debt and D/E ratio



Source: Company data, AWS estimate

Figure 11: 10-year historical dividend payment & projection



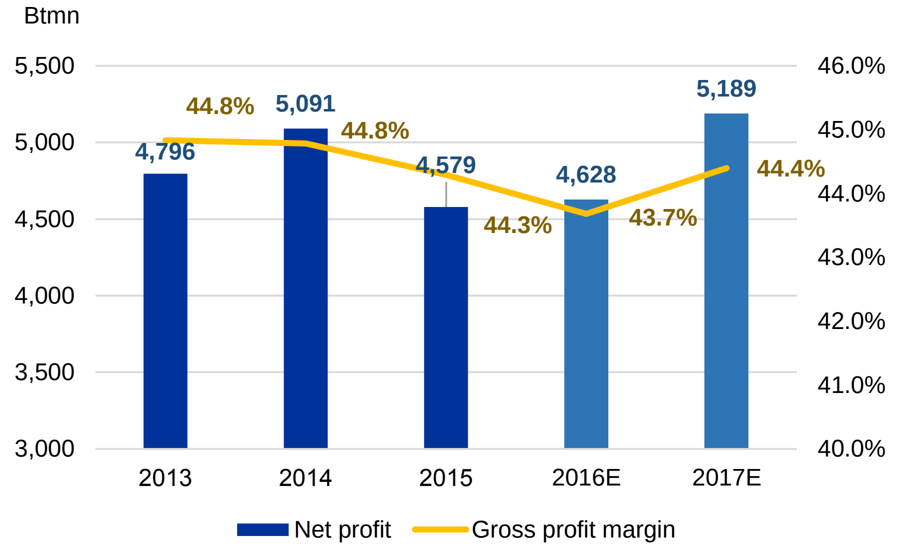
Source: Company data, AWS estimate

Earnings recovery and growth ahead

Conservatively, we estimate SCCC's operating performance this year to be flat YoY as the delayed government investment spending, which wouldn't take place until 2H16, to push up domestic cement consumption would be counterbalanced by downward pressure from TPIPL's new cement plant. However, the export market should continue to grow normally. The gross profit margin should decline slightly YoY but still remain at a high level.

A full and robust recovery should occur next year with 12% YoY earnings growth driven by successively increasing investment spending. Meanwhile, the overseas markets still offer potential growth in the long run, starting with the JV investment in Cambodia which would begin to bear fruit in 2018 after the construction is completed. SCCC's healthy financial position and strong operating cash flow would support its business growth.

Figure 12: Earnings forecast



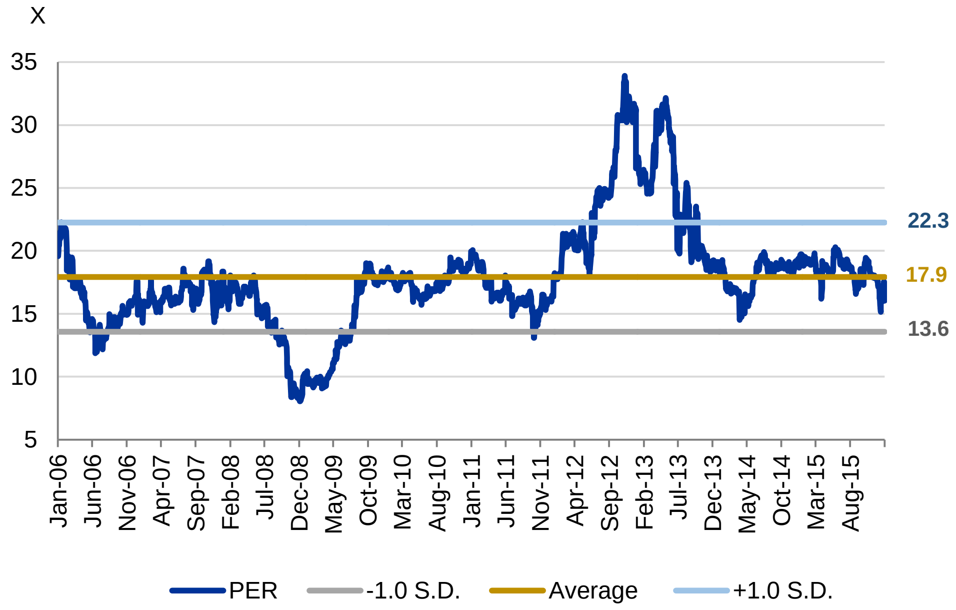
Source: Company data, AWS estimate

Share price is still interesting; initiate coverage with a BUY recommendation

We derive a 2016F fair value for SCCC of Bt360.60 based on the PER multiple approach, using its 10-year historical average multiple at 17.9x to capture the cement business cycle. We initiate coverage on the counter with a BUY recommendation with an expectation for an up-cycle in the cement industry going forward. Once the recovery in the domestic cement industry becomes clearer, we are likely to adjust up the PER multiple as well as target price, but for now we conservatively take a view of base case.

Another reason SCCC is an attractive investment is its reliable dividend payment, which the share is now offer a pleasing dividend yield of 4.6-4.9% p.a

Figure 13: SCCC's historical PER



Source: Company data, Bloomberg

Income Statement

Unit: Btmn	2014	2015	2016E	2017E
Sales revenue	31,862	31,120	31,756	33,760
Cost of sales	17,593	17,336	17,885	18,771
Gross profit	14,270	13,784	13,871	14,989
SG&A expense	7,952	7,995	7,939	8,440
EBIT	6,694	6,134	6,197	6,919
Interest expense	373	453	450	483
Tax expense	1,230	1,101	1,119	1,247
Minority interest	-	-	-	-
Net profit	5,091	4,579	4,628	5,189
EPS (Bt/share)	22.13	19.91	20.12	22.56

Balance Sheet

Unit: Btmn	2014	2015	2016E	2017E
Cash & cash equivalent	2,757	2,329	423	661
Receivables	3,925	3,967	3,869	4,031
Inventories	2,040	2,323	2,129	2,216
Investment in associate & JV	1,958	2,429	3,257	4,135
PP&E and intangible asset	23,051	24,718	28,132	29,565
Total asset	**35,517**	**37,508**	**39,562**	**42,360**
Total interest bearing debt	8,101	8,320	9,373	10,276
Total liabilities	**14,614**	**15,416**	**16,292**	**17,352**
Issued and paid up share capital	2,300	2,300	2,300	2,300
Premium on share capital	10,106	10,106	10,106	10,106
Retained earnings	8,523	9,652	10,830	12,569
Total owners of the company	20,896	22,092	23,270	25,009
Non-controlling interests	6	0	0	0
Total shareholders' equity	**20,903**	**22,092**	**23,270**	**25,009**
Total Liabilities and Equity	**35,517**	**37,508**	**39,562**	**42,360**

ASIAwealth Securities Company Limited

CG Report

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.

BAFS	EGCO	IRPC	KTB	PTTEP	SAT	SIM	TOP
BCP	GRAMMY	IVL	MINT	PTTGC	SC	SPALI	
BTS	HANA	KBANK	PSL	SAMART	SCB	TISCO	
CPN	INTUCH	KKP	PTT	SAMTEL	SE-ED	TMB	

AAV	BIGC	DELTA	HMPRO	NBC	PJW	SAMCO	SVI	TOG
ACAP	BKI	DRT	ICC	NCH	PM	SCC	TCAP	TRC
ADVANC	BLA	DTAC	KCE	NINE	PPS	SINGER	TF	TRUE
ANAN	BMCL	DTC	KSL	NKI	PR	SIS	THAI	TSTE
AOT	BROOK	EASTW	LANNA	NMG	PRANDA	SITHAI	THANI	TSTH
ASIMAR	CENTEL	EE	LH	NSI	PS	SNC	THCOM	TTA
ASK	CFRESH	ERW	LHBANK	OCC	PT	SNP	TIP	TTW
ASP	CIMBT	GBX	LOXLEY	OFM	QH	SPI	TIPCO	TVO
BANPU	CK	GC	LPN	PAP	RATCH	SSF	TK	UAC
BAY	CNT	GFPT	MACO	PE	ROBINS	SSI	TKT	VGI
BBL	CPF	GUNKUL	MC	PG	RS	SSSC	TNITY	VNT
BECL	CSL	HEMRAJ	MCOT	PHOL	S&J	STA	TNL	WACOAL

2S	BEAUTY	CSS	IHL	MFEC	PPM	SKR	TBSP	TSC	ZMICO
AF	BEC	DCC	INET	MJD	PPP	SMG	TEAM	TSC	
AH	BFIT	DEMCO	IRC	MODERN	PREB	SMK	TFD	TTCL	
AHC	BH	DNA	IRCP	MONO	PRG	SMPC	TFI	TUF	
AIT	BJC	EA	ITD	MOONG	PRIN	SMT	THANA	TVD	
AJ	BJCHI	ESSO	KBS	MPG	PTG	SOLAR	THIP	TWFP	
AKP	BOL	FE	KGI	MTI	QLT	SPC	THREL	UMI	
AKR	BTNC	FORTH	KKC	NC	QTC	SPCG	TIC	UP	
AMANAH	BWG	FPI	KTC	NTV	RCL	SPPT	TICON	UPF	
AMARIN	CCET	GENCO	L&E	NUSA	SABINA	SST	TIW	UPOIC	
AMATA	CGD	GL	LRH	NWR	SALEE	STANLY	TKS	UT	
AP	CGS	GLOBAL	LST	NYT	SCBLIF	STEC	TLUXE	UV	
APCO	CHOW	GLOW	MAJOR	OGC	SCCC	STPI	TMI	UWC	
APCS	CI	GOLD	MAKRO	OISHI	SCG	SUC	TMT	VIH	
AQUA	CKP	HOTPOT	MATCH	PACE	SEAFCO	SWC	TNDT	WAVE	
ARIP	CM	HTC	MBK	PATO	SEAOIL	SYMC	TPC	WHA	
AS	CMR	HTECH	MBKET	PB	SFP	SYNEX	TPCORP	WIN	
ASIA	CSC	HYDRO	MEGA	PDI	SIAM	SYNTEC	TRT	WINNER	
AYUD	CSP	IFS	MFC	PICO	SIRI	TASCO	TRU	YUASA	

Source: Thai Institute of Directors (IOD)

Score	Range Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date, Asia wealth Securities Company Limited does not conform nor certify the accuracy of such survey result.

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Chaengwattana	99/99 Moo 2 Central Plaza Chaengwattana Office Tower, 22nd Flr., Room 2204 Chaengwattana Road, Bang Talad, Pakkred, Nonthaburi 11120	02-119-2300	02-8353014
Chaengwattana 2	9/99 Moo 2 Central Plaza Chaengwattana Office Tower, 22nd Flr., Room 2203 Chaengwattana Road, Bang Talad, Pakkred, Nonthaburi 11120	02-119-2388	02-119-2399
Mega Bangna	39 Moo6 Megabangna, 1st Flr., Room 1632/7 Bangna-Trad Road, Bangkaew Bangplee, Samutprakarn 10540	02-106-7345	02-105-2070
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