

The reports on Inoue Rubber (Thailand) (IRC TB) and Thai Stanley Electric (STANLY TB) are being republished for reference purposes. No changes have been made to the reports from their original dates of publication.

Thailand Automotive

Recovery likely, but challenges lie in longer term

- Domestic car sales fell 6.2% y-y during 8M23 due to weak demand for pickup trucks and stringent auto loan approvals amid rising household debts.
- Thailand's EV fleet is increasing rapidly. It, however, has a limited impact on Thai automakers since EV parts contribute less than 7% of their total revenue.
- Despite longer-term challenges, we have an OVERWEIGHT view due to cheap valuations.

Domestic car sales declined, but exports rose in 8M23

For 8M23, Thailand manufactured 1,221,878 cars, up 3.1% y-y, driven by a 19.5% y-y rise in its production for export to 724,423 units, which was equal to 73% of the 2022 figure. Domestic car sales, on the other hand, declined 6.2% y-y to 524,784 units, due largely to lower demand for pickups (-22.5% y-y).

Car exports face rising global headwinds for the rest of 2023

In the export sector, despite the excellent performance in 8M23, there are several more negative factors affecting Thailand's trading partners for the rest of 2023, notably the global slowdown. Australia, the Middle East, and Asia are Thailand's major automotive export markets, accounting for 75% of its total auto exports. Australia's central bank forecasts economic growth to remain subdued for the rest of 2023 as interest rate hikes weigh on domestic demand, and China's recovery has been weaker than expected. Also, the IMF expects the economic growth of the Middle East to grow at a slower pace in 2023 due to tight policies to restore macroeconomic stability.

Rapid BEV growth comes with challenges

While combustion engine vehicle sales are slipping, EV sales are soaring. In 2022, Thailand had a cumulative number of pure battery EVs (BEV) of 32,081 units (+182% y-y), sharing 10% of the total EV sales. During 8M23, BEV still saw the biggest sales growth at 59,025 units, bringing the cumulative BEV to 91,106 units. Listed automotive manufacturers, all of which are OEMs, see a limited impact from the transition into the EV era as parts related to motors and batteries contribute less than 7% of their total revenue. However, challenges lie ahead if Thailand fails to adapt to the rapid change. AH is a top pick for the sector

FSSIA recommendations

Company	BBG code	share price	Rating		Target Price			
			Current	Previous	Current	Previous	%change	Up/downside
AAPICO Hitech	AH TB	34.50	BUY	-	45.00	-	-	+30.4%
Somboon Advance Technology	SAT TB	18.20	BUY	HOLD	23.00	22.00	+4.55%	+26.4%
Inoue Rubber (Thailand)	IRC TB	13.40	BUY	-	15.00	-	-	+11.9%
Thai Stanley Electric	STANLY TB	178.50	BUY	-	240.00	-	-	+34.5%

Note: Priced at close of business. Share prices and TPs are in listing currency.

Source: FSSIA estimates



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Investment thesis

Thailand's automotive industry, which has been developing for over 50 years, contributed 12% of GDP in 2022 and is a major regional hub in Asia. During the clean energy transition, the previous government pushed the 30@30 policy stipulating that Thailand become ASEAN's EV hub and manufacture EVs at a proportion of 30% of its annual production of 2.5m units by 2023.

Listed automotive parts manufacturers, all of which are OEMs, see a limited impact from the transition into the EV era as parts related to motors and batteries contribute less than 7% of their total revenue.

In the short run, we believe manufacturers in the automotive industry are set to recover from the sluggish economic growth in 2023. In addition, the sector is trading at an average 2024E P/E of only 6.8x. We, therefore, initiate coverage with an OVERWEIGHT recommendation on the sector. However, Thai automakers would face more intense competition from foreign companies if Thailand fails to adapt to the rapid change.

Catalysts

- A recovery in domestic car demand.
- The government implements policies that support investment for car manufacturers or increase demand for automobiles.
- New car model launches.
- Improving EV ecosystem.

Risks to our call

- Higher-than-expected inflation and interest rates.
- Tighter auto loan approvals.
- Supply disruption.
- Labour shortage and drastic wage hikes.

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- SOMBOON ADVANCE TECHNOLOGY (SAT TB, BUY TP THB23.0)	
- INOUE RUBBER (THAILAND) (IRC TB, BUY TP THB15.0)	
- THAI STANLEY ELECTRIC (STANLY TB, BUY TP THB240.0)	

Event Calendar

Date	Event
November 2023	Earnings announcements
Late November 2023	Post-result meetings

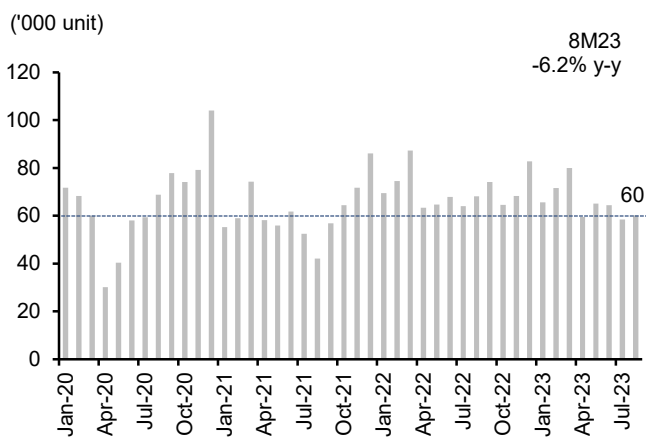
Domestic car sales declined, but exports rose in 8M23

August car production in Thailand was 150,657 units, climbing 0.6% m-m but dipping 12.3% y-y, as the domestic market contracted, according to the Federation of Thai Industries (FTI). Domestic car sales fell 11.7% y-y to 60,234 units, following an 8.8% y-y decline in the previous month. The monthly decrease, which was the third in a row, was attributable to weak demand for pickup trucks, stringent auto loan approvals, and delayed purchases in anticipation of the new government’s policies amid rising household debts. Also, pickup truck sales slumped 36.3% y-y in August.

Car exports jumped 19.4% y-y to 87,555 units, marking the ninth consecutive month of growth as semiconductor and auto parts shortages continued to ease.

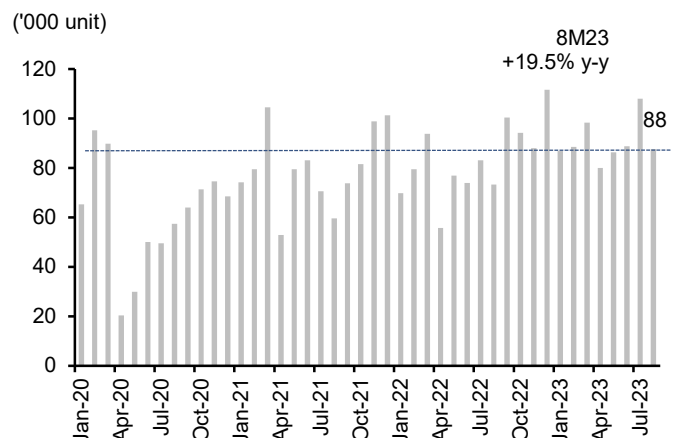
For 8M23, Thailand manufactured 1,221,878 cars, up 3.1% y-y, driven by a 19.5% y-y rise in its production for export to 724,423 units, which was already 73% of the 2022 figure. Domestic car sales, however, declined 6.2% y-y to 524,784 units due mainly to lower demand for pickups (-22.5% y-y).

Exhibit 1: Thailand’s domestic car sales



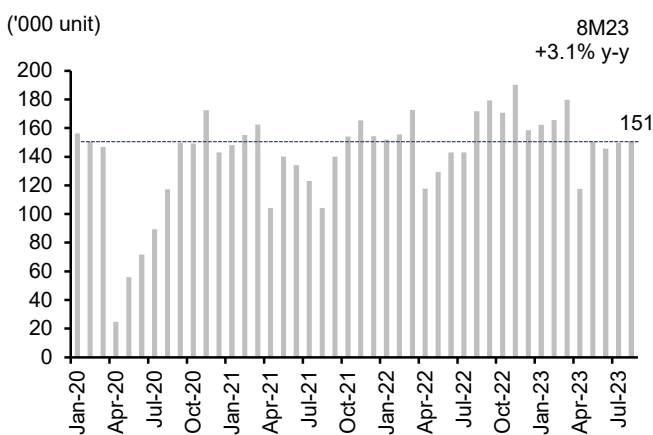
Source: The Federation of Thai Industries (FTI)

Exhibit 2: Thailand’s car exports



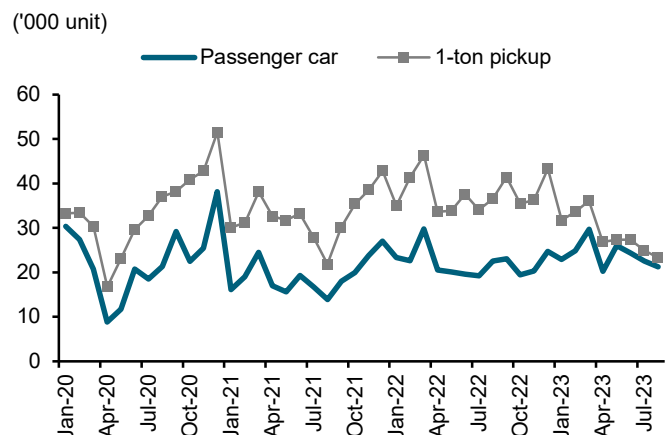
Source: FTI

Exhibit 3: Thailand’s car production



Source: FTI

Exhibit 4: Thailand’s domestic sales: passenger vs commercial cars



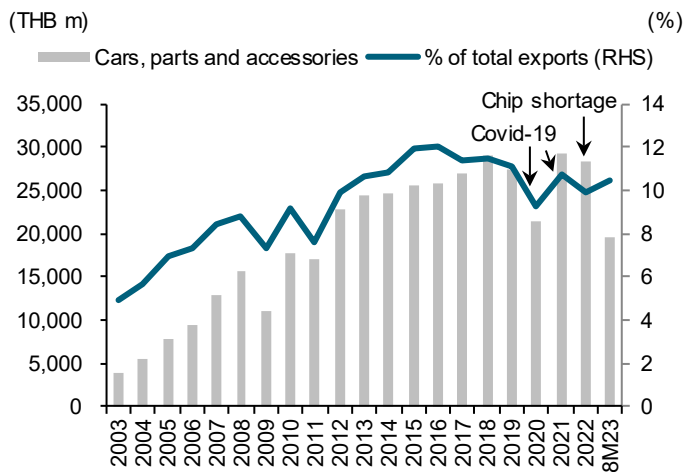
Source: FTI

Car exports face rising global headwinds for the rest of 2023

Australia, the Middle East, and Asia (including Japan) are Thailand’s essential automotive export markets, accounting for 75% of the total vehicle exports. Australia alone represents one-fourth of the vehicle exports from Thailand. In 2022, Australia imported 274,675 cars from Thailand, still 10% below the pre-pandemic level in 2022. Australia’s central bank forecasts economic growth to remain subdued for the rest of 2023 as interest rate hikes weigh on domestic demand, and China’s recovery has been weaker than expected.

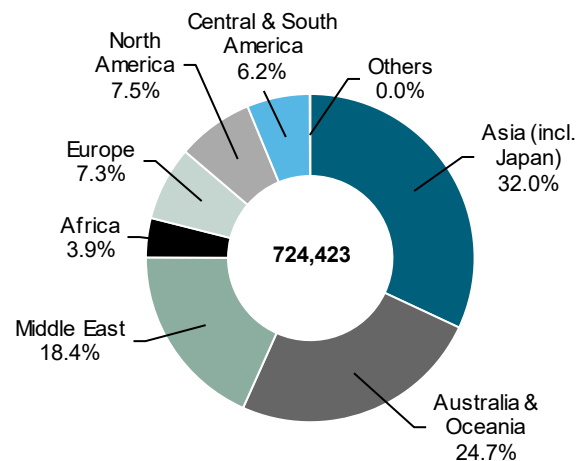
The Middle East, one of Thailand’s major export markets, imported 157,923 vehicles from Thailand in 2022, the highest in seven years. However, the IMF expects its economy to grow more slowly in 2023 due to tight policies to restore macroeconomic stability and agreed OPEC+ production cuts.

Exhibit 5: Auto and parts exports and % of total exports



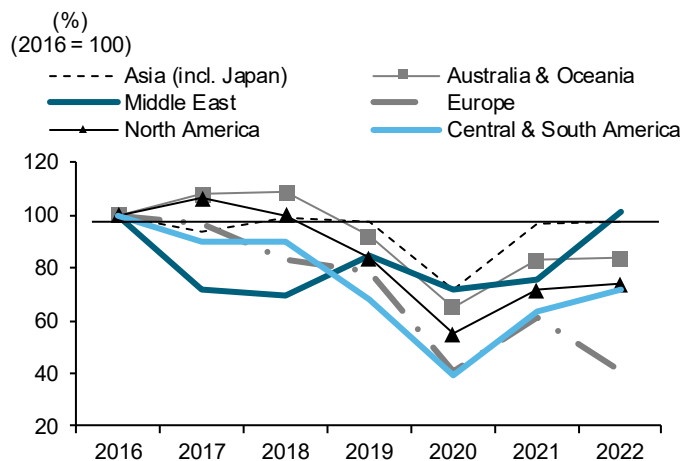
Source: Ministry of Commerce

Exhibit 6: Automotive export market in 8M23



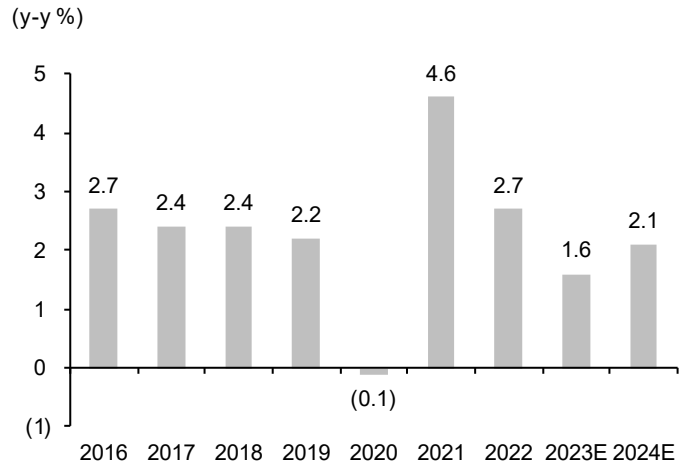
Source: FTI

Exhibit 7: Thailand car exports by destination



Source: FTI

Exhibit 8: Australia’s GDP growth

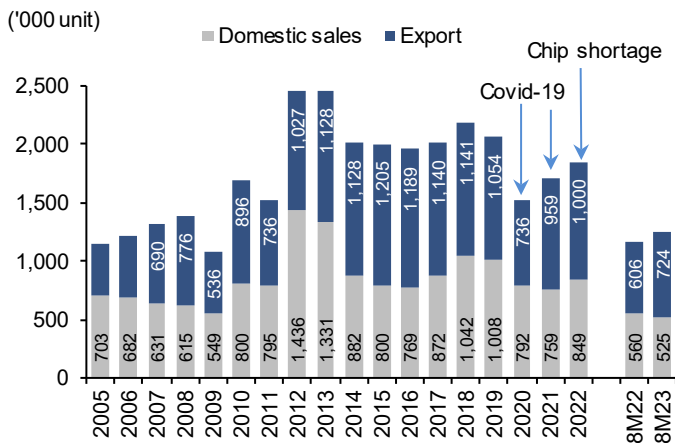


Source: IMF

The 2023 auto sales target likely out of reach

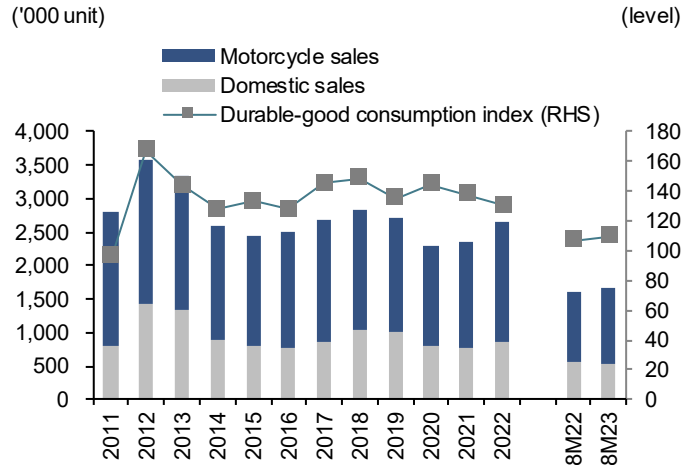
On 25 July 2023, the FTI cut its full-year domestic car sales forecast to 850,000 units from 900,000 units in response to the continued sales decline, tightening monetary policy, declining durable good spending, and the slower demand outlook, while maintaining its projection for exports at 1,050,000 units. It implies that the monthly local car sales during the next four months should average 81K units, which is challenging compared to the average sales of 66K units during the first eight months of 2023. In the export sector, despite the excellent performance in 8M23, there are several more negative factors affecting Thailand's trading partners for the rest of 2023, notably the global slowdown.

Exhibit 9: Thailand's domestic car sales and exports



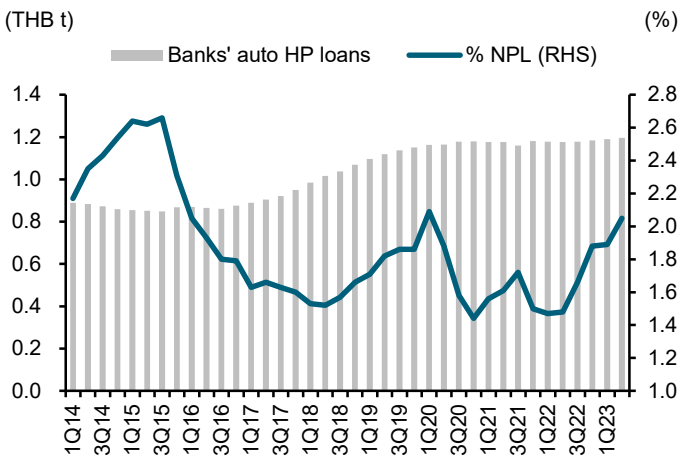
Source: FTI

Exhibit 10: Domestic vehicle sales and durable good consumption index



Sources: FTI; Bank of Thailand (BoT)

Exhibit 11: Bank auto hire purchase loans vs NPLs



Source: BoT

Exhibit 12: Assumption changes for Thailand's car production

	2022	-----2023E-----		
	Actual (units)	Old (units)	New (units)	% change (%)
Domestic sales	849,388	900,000	850,000	-5.6
Exports	1,000,256	1,050,000	1,050,000	0.0
Total production	1,883,515	1,950,000	1,900,000	-2.6

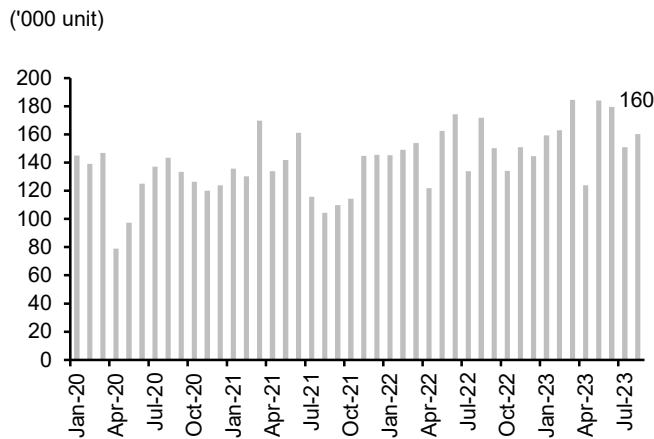
Source: FTI

Domestic motorcycle sales poised to lose momentum

Motorcycle manufacturers rely heavily on the domestic market. It accounted for approximately 80% of the total motorbike production during 2011-22. In 8M23, ICE motorcycles saw domestic sales growth of 7.6% y-y to 1,304,883 units. Also, their exports witnessed a significant growth rate of 30.6% y-y to 321,227 units due to the easing of the global semiconductor shortage.

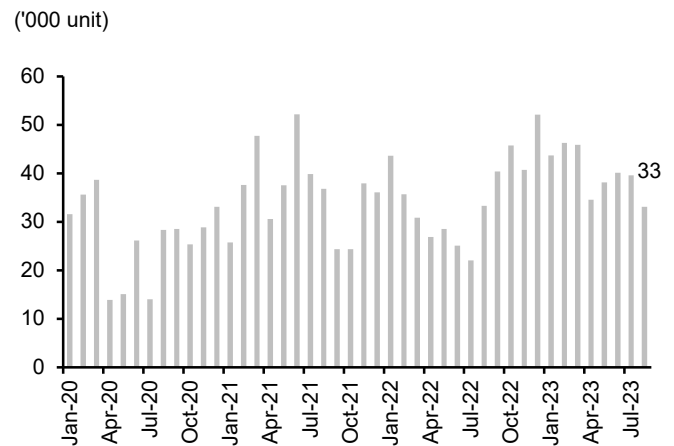
However, their exports started to lose momentum in August, with a 16.4% m-m drop to 33,098 units, marking the lowest number in 12 months. In our view, lower farm income, rising interest rates, and tighter auto loan approvals would put more pressure on domestic motorbike sales for the rest of the year.

Exhibit 13: Thailand's domestic motorcycle sales



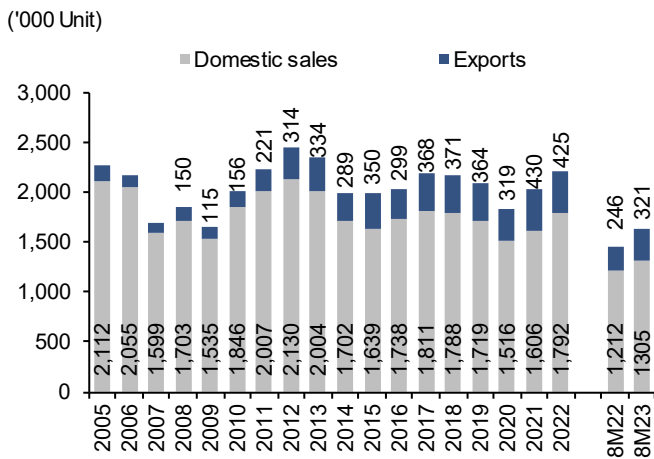
Source: FTI

Exhibit 14: Thailand's motorcycle exports



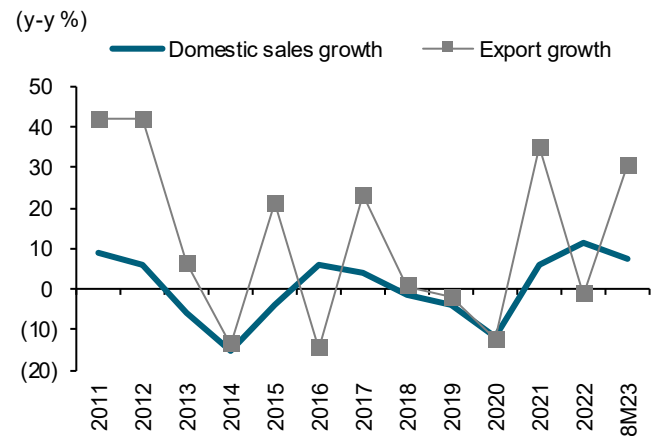
Source: FTI

Exhibit 15: Thailand's domestic motorcycle sales and exports



Source: FTI

Exhibit 16: Growth of domestic motorcycle sales and exports



Source: FTI

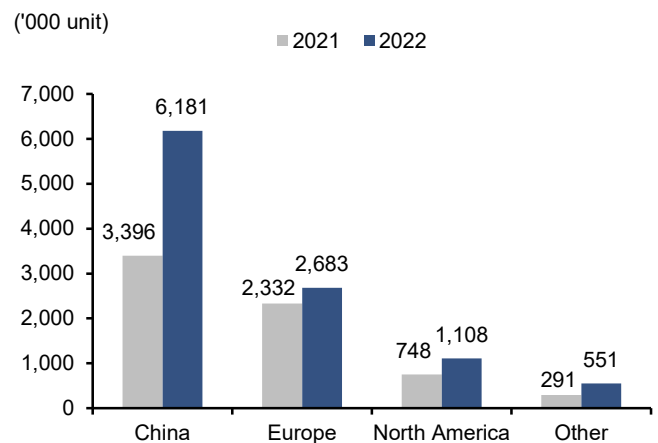
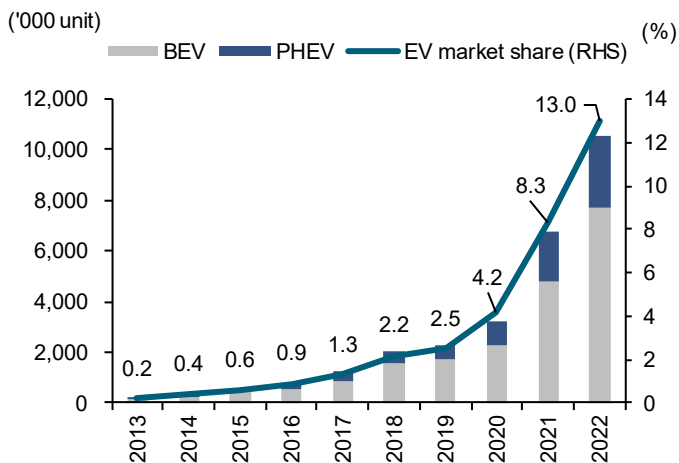
While combustion vehicles are slipping, EV sales are soaring

According to The Electric Vehicle World Sales Database, global EV demand grew strongly, with a 54.8% CAGR in sales during 2013-22. A total of 10.5m units of new BEV and plug-in hybrid EVs (PHEV) were on the road in 2022, an increase of 55.4%, sharing 13.0% of world auto sales (up from 8.3% in 2021). China is the largest EV market, accounting for 59.0% of global EV sales in 2022. In Europe, the second largest EV market, EV sales grew 15.1% in 2022, while EV sales in the US, the third largest market, rose 48.1%.

Global EV sales have remained strong, with around 6.9m new BEV and PHEV cars registered in 7M23, sharing 15.0% of total global vehicle sales. China still dominated the EV market, with BYD, China’s automaker, securing the highest market share at 21.1%, while Tesla, the second spot, settled at a 16% market share.

Exhibit 17: Global BEV and PHEV sales

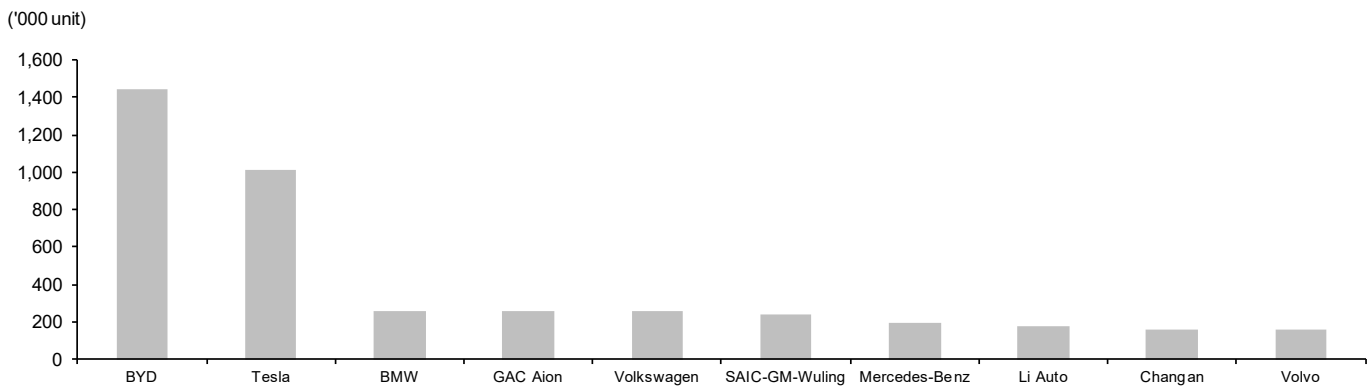
Exhibit 18: BEV and PHEV sales



Source: The Electric Vehicle World Sales Database

Source: The Electric Vehicle World Sales Database

Exhibit 19: World’s top ten plug-in car brands during 7M23



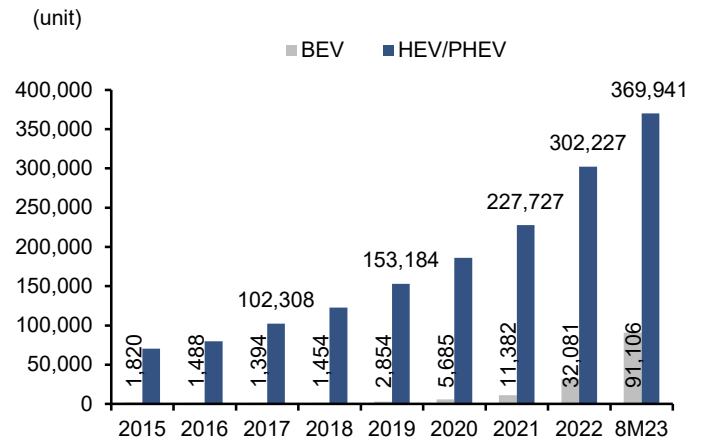
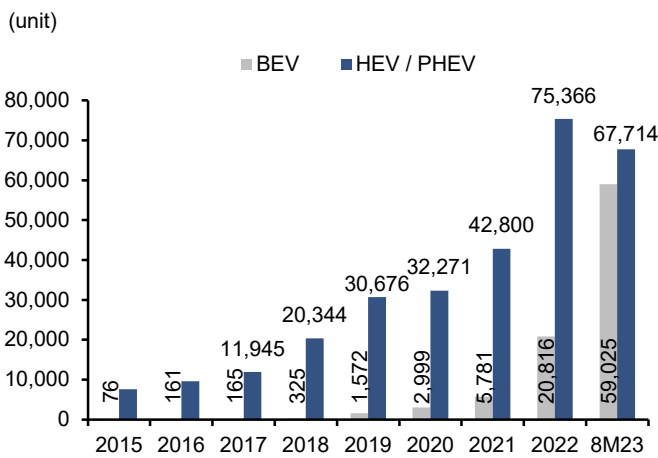
Source: InsideEVs

Thailand's automotive industry, which has been developing for over 50 years, contributed 12% of GDP in 2022 and is a major regional hub in Asia. During the clean energy transition, the previous government pushed the 30@30 policy stipulating that Thailand become ASEAN's EV hub and manufacture EVs at a proportion of 30% of its annual production of 2.5m units by 2023.

EV demand in Thailand is rapidly growing, diverging from ICE (internal combustion engine) car sales direction thanks to the Thai government's EV-promoting policy and ESG trends. In 2022, Thailand's cumulative number of EVs was 334,308 units, a 32.0% CAGR during 2020-22. In terms of EV types, Thai consumers tend to prefer hybrid electric vehicles (HEV) to plug-in hybrid EVs (PHEV) and battery EVs (BEV). Although more than 90% (302,227 units) of all EV sales in Thailand were HEV and PHEV, BEV, which equaled 10% (32,081 units), skyrocketed by 138% CAGR in 2020-22. Also, it recorded the biggest sales growth of 59,025 units during 8M23 (11.2% of new car registrations during the period), bringing the cumulative BEV to 91,106 units (0.8% of total passenger cars on the road), of which 51% were passenger cars, according to the Electric Vehicle Association of Thailand.

Exhibit 20: New number of EV registrations

Exhibit 21: Accumulated number of EV registrations

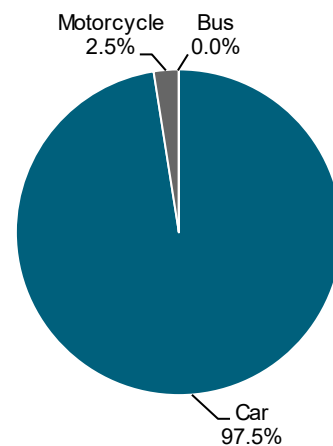
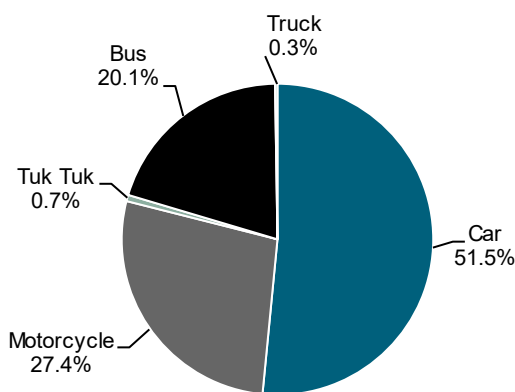


Source: Electric Vehicle Association of Thailand

Source: Electric Vehicle Association of Thailand

Exhibit 22: Accumulated BEV registrations in 8M23

Exhibit 23: Accumulated HEV/PHEV registrations in 8M23



Source: Electric Vehicle Association of Thailand

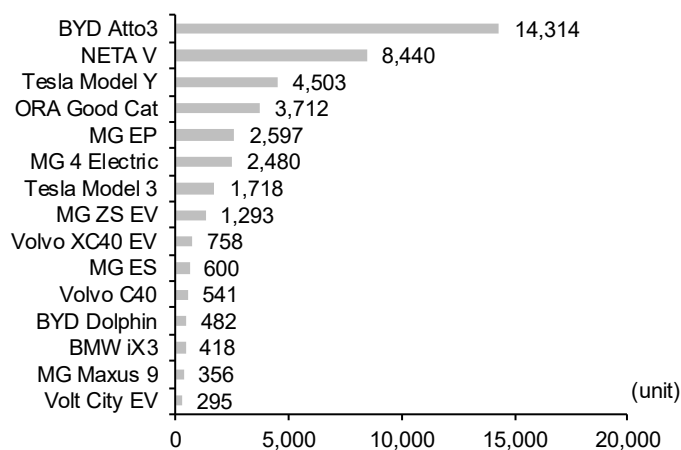
Source: Electric Vehicle Association of Thailand

EV disruption challenges Thai auto manufacturers in the long term

EV sales in Thailand are set to grow due to the efforts to go green to improve air quality, higher availability of EV models, and their cost savings advantages. However, the EV adoption in Thailand still has several challenges, including EV charging infrastructure, price parity between EVs and ICEs without government incentives, and the consumer trend toward public transport in big cities. As of July 2023, Thailand's total number of EV charging stations stood at approximately 1,482 with 4,628 outlets, meaning about 55 BEV per charging station, which was insufficient compared to the global ratio of 10 electric cars per public charger.

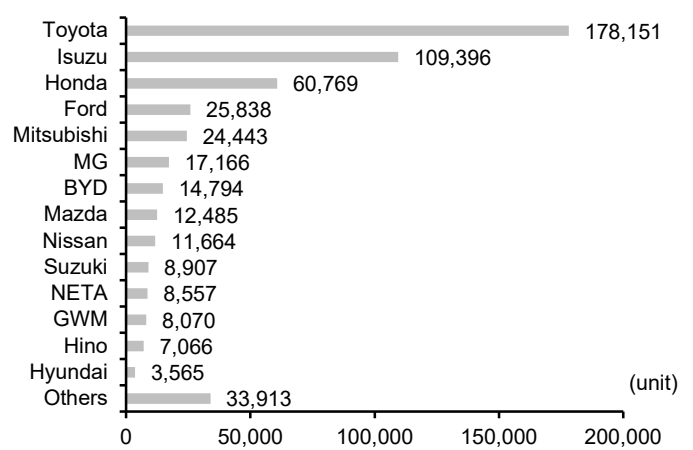
Although Japanese and Thai carmakers have a long history of cooperation in the automotive industry, Japanese automakers are behind the curve in the EV market. Moreover, Chinese EV makers are rapidly developing their presence. They have already dominated the EV market, with BYD as the best-selling EV brand, with a 34% market share. Moreover, an EV has 80-90% fewer components than an ICE car. Since more Chinese automakers plan for EV investment in Thailand, Thai automakers would face more intense competition from foreign companies if they fail to adapt to the rapid change.

Exhibit 24: EV registrations in 8M23 by model



Source: Autolife Thailand

Exhibit 25: Domestic car sales in 8M23



Source: FSSIA's compilation

AAPICO HITECH AH TB

THAILAND / AUTOMOTIVES

BUY

Ready for growth into 2024

- After a record year in 2022, we believe AH will be able to grow its core profit at an 8.2% CAGR in 2023-25.
- Expect 3Q23 core profit to rise 43.4% q-q and be flat at 0.7% y-y.
- Reinitiate coverage with a BUY call on AH with a TP of THB45.

TARGET PRICE	THB45.00
CLOSE	THB34.50
UP/DOWNSIDE	+30.4%
TP vs CONSENSUS	-2.5%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	27,967	30,264	31,893	32,922
Net profit	1,824	1,861	1,934	2,089
EPS (THB)	5.14	5.24	5.45	5.89
vs Consensus (%)	-	1.2	(1.9)	(1.1)
EBITDA	2,625	2,570	2,541	2,618
Recurring net profit	1,708	1,785	1,934	2,089
Core EPS (THB)	4.81	5.03	5.45	5.89
EPS growth (%)	115.6	4.6	8.3	8.0
Core P/E (x)	7.2	6.9	6.3	5.9
Dividend yield (%)	3.0	4.6	4.7	5.1
EV/EBITDA (x)	7.4	7.4	7.2	6.7
Price/book (x)	1.3	1.1	1.0	0.9
Net debt/Equity (%)	68.1	55.9	44.5	35.1
ROE (%)	18.8	17.3	16.5	15.9

Strong presence in automotive industry

AH is one of the largest automotive manufacturers in Thailand with 47 subsidiaries and associates around the globe, of which 33 companies are located in Thailand and 14 are operating overseas. AH's main operations consist of three business pillars: 1) OEM auto parts manufacturing; 2) car dealerships; and 3) Internet of Things connectivity & mobility.

Core profit should continue hitting record highs in 2023-25

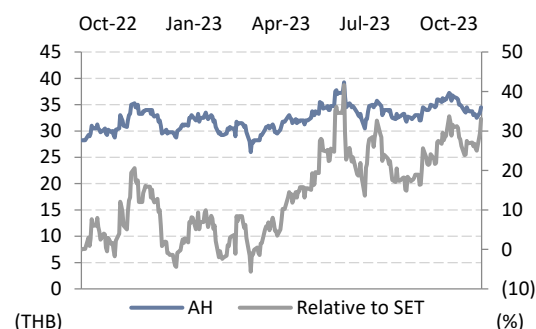
2022 was a record year for AH where its revenue reached THB28.0b, an increase of 36.9% y-y, and its net profit hit THB1.8b, a jump of 78.1% y-y. We project AH's revenue to continue growing by 8.2% and 5.4% to THB30.3b and THB31.9b in 2023-24, respectively. AH will continue to supply EV parts to Vinfast for the next two years. Additional revenue should also come from the new Ford Ranger pickup. We believe AH can maintain its 1H23 gross margin of 11.8% into 2023-24. We expect its core profit to continue its record high at THB1.86b, THB 1.93b, and THB2.09b, a rise of 5%/8%/8% or 8.2% CAGR in 2023-25.

Expect 3Q23 profit to pick up from seasonality

We expect 3Q23 performance to pick up from the low season in 2Q22. AH's 3Q23 revenue should rise 3.9% q-q and 1.8% y-y to THB7.4b with an improved gross margin to 11.8% due to a higher utilization rate. The company should be able to maintain its cost of sales and SG&A expenses efficiently. We expect a 3Q23 core profit at THB429m, a rise of 43.4% q-q and flat at 0.7% y-y. The improved performance in 3Q23 should largely be due to better revenue and effective cost control.

Reinitiate coverage with a BUY call on AH with a TP of THB45

We derive AH's target price at THB45 based on a target P/E of 8.3x, its five-year historical average. AH's operational outlook is the most promising in the automotive sector, in our view, given the fact that the company's revenue stream is well diversified in terms of production location base as well as customer base. The company is also ready for electric vehicle parts manufacturing as it is currently supplying EV parts to Vinfast. AH's share price is presently trading at only 6.3x 2024E P/E, or a PEG of 0.8. We reinitiate coverage with a BUY rating on AH and choose AH as a top pick for the sector.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(4.2)	(1.4)	20.0
Relative to country (%)	3.4	2.9	31.4
Mkt cap (USD m)	333		
3m avg. daily turnover (USD m)	1.2		
Free float (%)	50		
Major shareholder	Thai NVDR (15%)		
12m high/low (THB)	39.25/25.50		
Issued shares (m)	354.84		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

AH is one of the largest automotive manufacturers in Thailand with 47 subsidiaries and associates around the globe, of which 33 companies are located in Thailand and 14 are operating overseas.

AH's operations outlook is the most promising in the automotive sector, in our view, given the fact that the company's revenue stream is well diversified in terms of production location base as well as customer base. The car dealership business is a B2C operation where the company sees consumers' real demand and automotive industry trends. The company is also ready for electric vehicle parts manufacturing as it is currently supplying EV parts to Vinfast. Its share price is currently trading at the cheapest P/E in the auto sector.

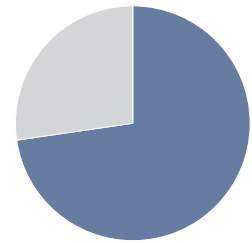
Company profile

Established in 1996, AH's business is to manufacture and distribute automotive parts to automobile manufacturers in Thailand and overseas. The products and services of AH and its subsidiaries include 1) OEM auto parts manufacturing; 2) car dealerships; and 3) Internet of Things (smart factory, smart logistics, smart office).

www.aapico.com

Principal activities (revenue, 2022)

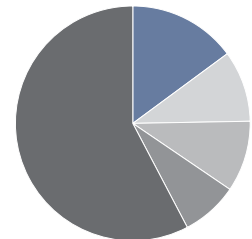
- Manufacture of auto parts - 72.7 %
- Car dealership and others - 27.3 %



Source: AAPICO Hitech

Major shareholders

- Thai NVDR - 14.9 %
- Teo Lee Ngo - 9.8 %
- Yeap Swee Chuan - 9.8 %
- Yeap Xin Rhu - 7.8 %
- Others - 57.7 %



Source: AAPICO Hitech

Catalysts

Key potential catalysts include 1) stronger demand for vehicles domestically; 2) lower steel prices; and 3) lower electricity tariffs.

Risks to our call

Key downside risks to our P/E-derived TP include lower-than-expected car production volumes and lower car sales in both Thailand and Malaysia, higher steel prices, semiconductor shortages, and exchange rate risk.

Event calendar

Date	Event
November 2023	3Q23 earnings announcement

Key assumptions

	2023E	2024E	2025E
Auto parts revenue growth (%)	4.5	4.9	2.7
Car dealership revenue growth (%)	18.4	6.6	4.4
Total revenue growth (%)	8.2	5.4	3.2
Blended gross margin (%)	11.8	11.8	11.8
SG&A to sales (%)	5.6	5.6	5.6
EBITDA margin (%)	8.5	8.0	8.0

Source: FSSIA estimates

Earnings sensitivity

- For every 1% change in sales revenue, we estimate AH's 2024 net profit to change by 1%, all else being equal.
- For every 0.5% change in gross margin, we project AH's 2024 net profit to change by 7%, all else being equal.

Source: FSSIA estimates

The largest auto manufacturer operating in four countries

AH is one of the largest automotive manufacturers in Thailand with 47 subsidiaries and associates around the globe, of which 33 companies are located in Thailand and 14 are operating overseas. In Thailand, the company has factories in Samutprakarn, Chonburi, and Rayong provinces. Globally, AH has expanded its market presence in Malaysia, China, and Portugal. AH’s main operations consist of three business pillars: 1) OEM auto parts manufacturing; 2) car dealerships; and 3) Internet of Things connectivity & mobility.

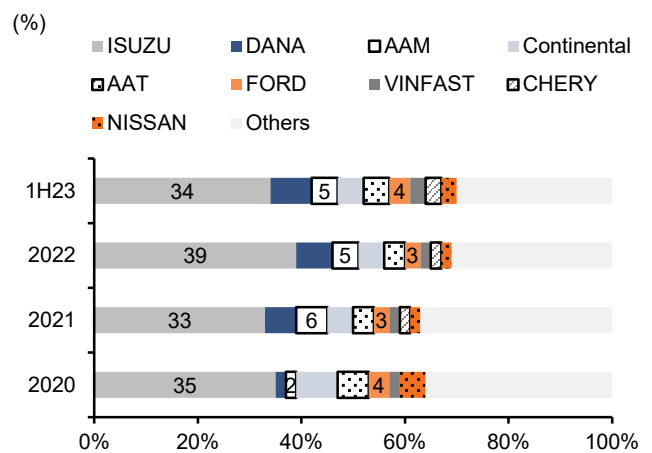
1. The OEM auto parts manufacturing business includes the manufacturing of stamped and welded assemblies, chassis frames, forging and machining, stamping dies and assembly jigs, plastic parts, and brake lines, to name a few. The company has three production bases in Thailand (metal forming, plastic parts, forging and machining, and tooling), China (forging and machining), and Portugal (iron casting and machining). Main customers are Isuzu Motors Co. (Thailand) Ltd., Dana Spicer (Thailand) Ltd., AutoAlliance (Thailand) Co., Ltd., and other leading car manufacturers domestically and globally.

Exhibit 26: OEM auto parts manufacturing business



Sources: AH, FSSIA compilation

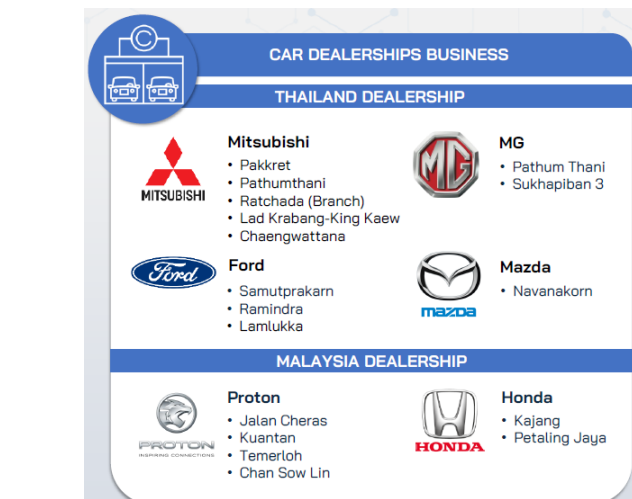
Exhibit 27: OEM customer contributions



Sources: AH, FSSIA compilation

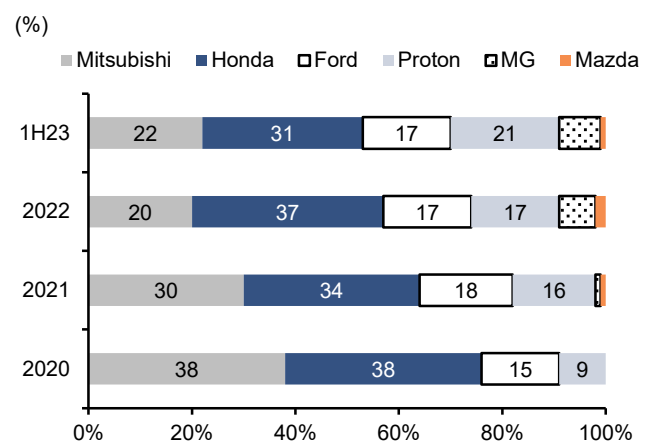
2. Car dealerships. AH operates car dealerships in Thailand and Malaysia. The dealership business is a B2C business where the company sees consumers’ real demand and automotive industry trends.

Exhibit 28: Car dealership business



Sources: AH, FSSIA compilation

Exhibit 29: Dealership contributions



Sources: AH, FSSIA compilation

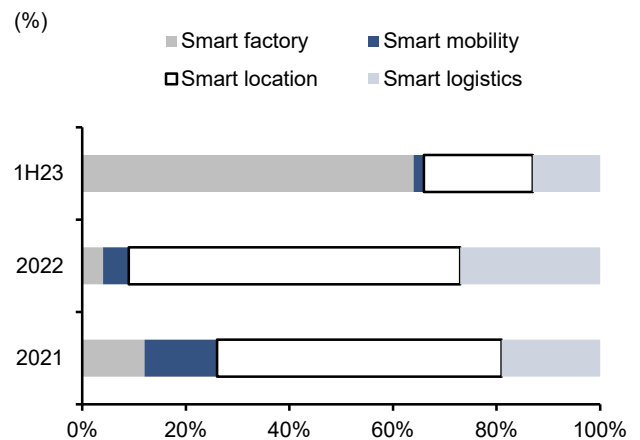
- Internet of Things (IoT) connectivity and mobility business. AH provides map and field data collection services to customers utilizing its expertise in location-based data by partnerships with HERE, TomTom, Grab, and GH Bank. Currently, Mitsubishi, Nissan, MG, and Hyundai use AH's digital maps for their navigation systems in Thailand and Malaysia.

Exhibit 30: IoT connectivity and mobility business



Sources: AH, FSSIA's compilation

Exhibit 31: IoT product contributions



Sources: AH, FSSIA's compilation

Expect AH's core profit to continue hitting record highs in 2023-25

2022 was a record year for AH where its revenue reached THB28.0b, an increase of 36.9% y-y, and its net profit hit THB1.8b, a jump of 78.1% y-y. The growth was attributable to the increased orders received from clients, especially parts for two Vinfast electric vehicles for export to the US since 4Q22 and the newly opened showrooms of Mitsubishi, MG, Mazda, and Ford since 2021.

We project AH's revenue to continue growing by 8.2% and 5.4% to THB30.3b and THB31.9b in 2023-24, respectively. AH will continue to supply EV parts to Vinfast for the next two years. Additional revenue should also come from the new Ford Ranger pickup, for which demand is very strong. This product is expected to continue for the next eight to ten years.

Unfavorable situations like the semiconductor shortages and the rising raw material (steel coil, steel plate, iron rod, etc.) prices have passed. Although challenges remain this year, namely the rising interest rates, higher inflation, and tightened auto credit, we believe AH can maintain its 1H23 gross margin of 11.8% into 2023-24.

Though the company had no share of profit from Hyundai Motor (Thailand) (AH holds 20%) since Hyundai Motor Group started its business operation in Thailand under Hyundai Mobility (Thailand) since April 2023, this should be offset by the share of profit from Purem AAPICO, its JV company (AH hold 49%), in Thailand and Malaysia starting from September and December 2023. We, therefore, expect AH's core profit to continue its record high at THB1.86b, THB 1.93b, and THB2.09b, a rise of 5%/8%/8% in 2023-25.

Expect 3Q23 to pick up from seasonality

We expect 3Q23 performance to pick up from the auto industry's low season in 2Q22. AH's 3Q23 revenue should rise 3.9% q-q and 1.8% y-y to THB7.4b with an improved gross margin to 11.8% due to increased orders, and thus a higher utilization rate. The company should be able to efficiently maintain its cost of sales and services and SG&A expenses. We expect a 3Q23 core profit at THB429m, a rise of 43.4% q-q and flat at 0.7% y-y. The improved performance in 3Q23 should largely be due to better revenue and effective cost control.

Exhibit 32: 3Q23 earnings preview

	3Q22	4Q22	1Q23	2Q23	3Q23E	----- Change -----		9M22	9M23E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(THB m)	(y-y%)
Auto parts	5,211	5,449	5,966	5,166	5,403	4.6	3.7	14,867	16,535	11.2
Car dealership and others	2,089	2,342	2,160	1,987	2,027	2.0	(3.0)	5,308	6,174	16.3
Revenue	7,300	7,792	8,126	7,153	7,429	3.9	1.8	20,175	22,708	12.6
Operating costs	(6,486)	(6,782)	(7,100)	(6,380)	(6,553)	2.7	1.0	(17,994)	(20,033)	11.3
Gross profit	813	1,010	1,026	772	877	13.5	7.8	2,181	2,675	22.7
SG&A expenses	(455)	(512)	(458)	(429)	(417)	(2.7)	(8.5)	(1,260)	(1,303)	3.4
EBIT	358	498	568	344	460	33.8	28.5	921	1,372	49.0
Depreciation & amortization	276	309	311	310	312	0.8	13.2	845	933	10.4
EBITDA	634	807	879	653	772	18.1	21.8	1,766	2,305	30.5
Interest expense	(86)	(98)	(91)	(111)	(91)	(17.9)	5.9	(244)	(293)	20.0
Other income	78	86	74	95	87	(7.8)	11.9	238	256	7.6
Associates	152	95	123	32	40	26.0	(73.7)	357	195	(45.4)
Gain/Loss from exchange	175	(237)	(35)	111	0	<i>nm</i>	<i>nm</i>	300	76	(74.8)
Pretax profit	677	397	638	471	496	5.5	(26.7)	1,572	1,605	2.1
Tax	(68)	(38)	(74)	(63)	(66)	5.6	(2.9)	(139)	(203)	45.9
Net profit	601	355	562	410	429	4.6	(28.6)	1,413	1,366	(3.3)
Core net profit	426	539	597	299	429	43.4	0.7	1,113	1,246	12.0
EPS (THB)	1.69	1.00	1.58	1.16	1.21	4.2	(28.6)	3.98	3.85	(3.3)
Core EPS (THB)	1.20	1.52	1.68	0.84	1.21	43.4	0.7	3.14	3.51	12.0
Margins	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(%)	(%)	(ppt)
Gross margin	11.1	13.0	12.6	10.8	11.8	1.0	0.7	10.8	11.8	1.0
SG&A to sales	6.2	6.6	5.6	6.0	5.6	(0.4)	(0.6)	6.2	5.7	(0.5)
Operating margin	4.9	6.4	7.0	4.8	6.2	1.4	1.3	4.6	6.0	1.5
EBITDA margin	8.7	10.4	10.8	9.1	10.4	1.3	1.7	8.8	10.1	1.4
Core profit margin	5.8	6.9	7.3	4.2	5.8	1.6	(0.1)	5.5	5.5	(0.0)

Sources: AH, FSSIA estimates

Reinitiate coverage with a BUY call on AH with a TP of THB45

We derive AH's target price at THB45 based on a target P/E of 8.3x, its five-year historical average. AH's operational outlook is the most promising in the automotive sector, in our view, given the fact that the company's revenue stream is well diversified in terms of production location base as well as customer base. The company is also ready for electric vehicle parts manufacturing as it is currently supplying EV parts to Vinfast. AH's share price is presently trading at only 6.3x 2024E P/E, or a PEG of 0.8. We reinitiate coverage with a BUY rating on AH and choose AH as a top pick for the sector.

Financial Statements

AAPICO Hitech

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	20,433	27,967	30,264	31,893	32,922
Cost of goods sold	(18,225)	(24,777)	(26,698)	(28,130)	(29,037)
Gross profit	2,208	3,191	3,565	3,763	3,885
Other operating income	-	-	-	-	-
Operating costs	(1,540)	(1,719)	(1,707)	(1,796)	(1,827)
Operating EBITDA	1,699	2,625	2,570	2,541	2,618
Depreciation	(1,031)	(1,154)	(712)	(574)	(560)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	668	1,471	1,858	1,968	2,058
Net financing costs	(343)	(333)	(356)	(347)	(307)
Associates	281	452	244	285	333
Recurring non-operating income	593	769	553	598	655
Non-recurring items	232	116	76	0	0
Profit before tax	1,151	2,024	2,130	2,220	2,405
Tax	(113)	(177)	(266)	(282)	(313)
Profit after tax	1,037	1,847	1,864	1,938	2,092
Minority interests	(13)	(23)	(3)	(3)	(4)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	1,024	1,824	1,861	1,934	2,089
Non-recurring items & goodwill (net)	(232)	(116)	(76)	0	0
Recurring net profit	792	1,708	1,785	1,934	2,089
Per share (THB)					
Recurring EPS *	2.23	4.81	5.03	5.45	5.89
Reported EPS	2.89	5.14	5.24	5.45	5.89
DPS	0.61	1.05	1.57	1.64	1.77
Diluted shares (used to calculate per share data)	355	355	355	355	355
Growth					
Revenue (%)	19.0	36.9	8.2	5.4	3.2
Operating EBITDA (%)	117.0	54.5	(2.1)	(1.1)	3.0
Operating EBIT (%)	nm	120.1	26.3	5.9	4.6
Recurring EPS (%)	393.4	115.6	4.6	8.3	8.0
Reported EPS (%)	530.0	78.1	2.0	3.9	8.0
Operating performance					
Gross margin inc. depreciation (%)	10.8	11.4	11.8	11.8	11.8
Gross margin exc. depreciation (%)	15.9	15.5	14.1	13.6	13.5
Operating EBITDA margin (%)	8.3	9.4	8.5	8.0	8.0
Operating EBIT margin (%)	3.3	5.3	6.1	6.2	6.2
Net margin (%)	3.9	6.1	5.9	6.1	6.3
Effective tax rate (%)	(9.9)	(8.7)	(12.5)	(12.7)	(13.0)
Dividend payout on recurring profit (%)	27.2	21.8	31.3	30.0	30.0
Interest cover (X)	3.7	6.7	6.8	7.4	8.8
Inventory days	59.7	52.6	52.8	50.7	51.2
Debtor days	45.4	42.9	49.6	47.3	49.2
Creditor days	95.6	91.9	90.3	79.1	76.7
Operating ROIC (%)	7.7	17.2	20.1	19.8	19.5
ROIC (%)	7.5	13.3	13.6	13.8	14.0
ROE (%)	9.9	18.8	17.3	16.5	15.9
ROA (%)	5.1	8.6	8.5	8.8	9.0
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Manufacture of auto parts	15,201	20,333	21,327	22,362	22,967
Car dealership and others	5,232	7,634	8,937	9,531	9,955

Sources: AAPICO Hitech; FSSIA estimates

Financial Statements

AAPICO Hitech

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	792	1,708	1,785	1,934	2,089
Depreciation	1,031	1,154	712	574	560
Associates & minorities	13	23	3	3	4
Other non-cash items	375	101	(99)	4	(148)
Change in working capital	1,059	(939)	(669)	(448)	(558)
Cash flow from operations	3,271	2,047	1,734	2,068	1,947
Capex - maintenance	(910)	(671)	(609)	(539)	(399)
Capex - new investment	(390)	(287)	(261)	(231)	(171)
Net acquisitions & disposals	73	58	0	0	1
Other investments (net)	463	128	6	6	(41)
Cash flow from investing	(763)	(773)	(864)	(764)	(610)
Dividends paid	(215)	(372)	(558)	(580)	(627)
Equity finance	0	0	0	0	0
Debt finance	(1,631)	(278)	(662)	(247)	(600)
Other financing cash flows	(431)	(493)	16	5	4
Cash flow from financing	(2,277)	(1,143)	(1,205)	(822)	(1,223)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	14	0	0	0	0
Net other adjustments	(178)	(106)	70	(37)	(38)
Movement in cash	52	25	(265)	445	76
Free cash flow to firm (FCFF)	2,853.67	1,616.44	1,238.76	1,659.74	1,653.99
Free cash flow to equity (FCFE)	267.66	397.59	293.30	1,024.98	702.18

Per share (THB)

FCFF per share	8.04	4.56	3.49	4.68	4.66
FCFE per share	0.75	1.12	0.83	2.89	1.98
Recurring cash flow per share	6.23	8.42	6.77	7.09	7.06

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	20,209	20,524	21,124	21,724	22,124
Less: Accumulated depreciation	(11,987)	(12,612)	(13,141)	(13,533)	(13,910)
Tangible fixed assets (net)	8,222	7,913	7,983	8,191	8,214
Intangible fixed assets (net)	3,317	3,347	3,477	3,466	3,453
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	4,150	4,199	4,199	4,199	4,229
Cash & equivalents	742	767	502	947	1,023
A/C receivable	2,237	4,330	3,897	4,369	4,510
Inventories	3,031	3,784	3,730	3,930	4,057
Other current assets	277	302	317	349	384
Current assets	6,286	9,184	8,447	9,596	9,974
Other assets	746	826	1,024	1,067	1,207
Total assets	22,722	25,469	25,130	26,518	27,077
Common equity	8,513	9,611	11,066	12,424	13,889
Minorities etc.	302	318	322	325	329
Total shareholders' equity	8,815	9,929	11,388	12,749	14,218
Long term debt	4,238	3,759	2,100	2,550	2,432
Other long-term liabilities	512	543	536	553	497
Long-term liabilities	4,750	4,302	2,636	3,103	2,929
A/C payable	4,884	7,010	5,852	6,088	5,887
Short term debt	3,687	3,771	4,768	4,070	3,588
Other current liabilities	587	456	487	508	455
Current liabilities	9,158	11,237	11,106	10,667	9,930
Total liabilities and shareholders' equity	22,722	25,469	25,130	26,518	27,077
Net working capital	73	950	1,607	2,052	2,610
Invested capital	16,509	17,235	18,290	18,975	19,713

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)

Book value per share	23.99	27.09	31.19	35.01	39.14
Tangible book value per share	14.64	17.65	21.39	25.25	29.41

Financial strength

Net debt/equity (%)	81.5	68.1	55.9	44.5	35.1
Net debt/total assets (%)	31.6	26.6	25.3	21.4	18.5
Current ratio (x)	0.7	0.8	0.8	0.9	1.0
CF interest cover (x)	2.9	3.1	2.6	4.6	3.8

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	15.5	7.2	6.9	6.3	5.9
Recurring P/E @ target price (x) *	20.2	9.4	8.9	8.3	7.6
Reported P/E (x)	12.0	6.7	6.6	6.3	5.9
Dividend yield (%)	1.8	3.0	4.6	4.7	5.1
Price/book (x)	1.4	1.3	1.1	1.0	0.9
Price/tangible book (x)	2.4	2.0	1.6	1.4	1.2
EV/EBITDA (x) **	11.6	7.4	7.4	7.2	6.7
EV/EBITDA @ target price (x) **	13.8	8.8	8.8	8.6	8.1
EV/invested capital (x)	1.2	1.1	1.0	1.0	0.9

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: AAPICO Hitech; FSSIA estimates

SOMBOON ADVANCE TECHNOLOGY

THAILAND / AUTOMOTIVES

SAT TB

BUY

FROM HOLD

TARGET PRICE	THB23.00
CLOSE	THB18.20
UP/DOWNSIDE	+26.4%
PRIOR TP	THB22.00
CHANGE IN TP	+4.5%
TP vs CONSENSUS	+5.8%

3Q23 to recover from low season

- Expect 3Q23 core profit to rise 16.6% q-q due to low season in 2Q23, and remain flat y-y.
- Risk of drought likely to affect 2023 tractor sales, but the improved overall economic conditions should drive SAT's future growth.
- Upgrade to BUY with 2024 TP of THB23.

Expect 3Q23 profit to rise q-q due to low season in 2Q23

Thailand's car production during the first two months of 3Q23 recovered to 73% of 2Q23. We expect SAT's revenue to rise 7.6% q-q and 0.8% y-y to THB2.3b in 3Q23, mainly from the production volume recovery of the automotive industry and the revenue realisation from Somboon Tron Energy (STRON, not listed; 60% held by SAT) starting from September. Its gross margin should gradually improve q-q to 18.9% due to higher utilisation as well as efficient cost control. Therefore, we estimate core profit to rise 16.6% q-q and 0.3% y-y to THB253m in 3Q23.

Trim 2023E earnings as drought risk likely to affect tractor sales

We trim our profit forecast in 2023 by 1% to THB997m from THB1.0b by cutting the Kubota tractor production volume (18% of total revenue) due to drought concerns caused by El Nino. We now expect 2023 revenue of THB9.6b, an increase of 7.7% y-y. The additional sales in 2023 should be attributable to new orders worth around THB400m-500m for case sets, output shafts, and some EV parts. We believe its gross margin and administrative expenses will improve following the stabilised steel prices and the reduced electricity prices. Following the earnings revision, 2023 core profit should grow 5.2% y-y, after a 0.7% profit fall in 2022.

Growth to continue into 2024-25 as economy improves

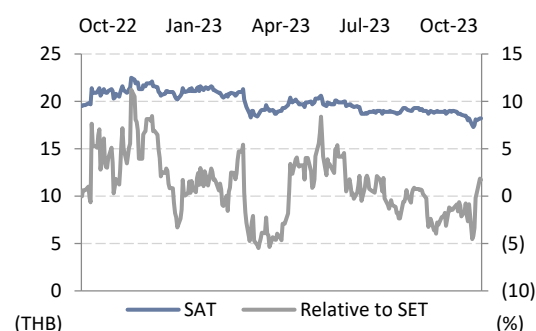
We maintain our 2024-25 earnings estimates, assuming that the overall economy will gradually expand, the tractor sales volume will recover, inflation will abate further, and there will be no fluctuation in the raw material costs. Based on these assumptions, we should see revenue growth of 5.6% and 2.6% and a core profit increase of 6.9% and 4.1% in 2024-25, respectively. Despite a record high in sales and profits in 2024-25E, the company's core profit margins are expected to lag behind the pre-pandemic level in 2019 by 11.2%, mainly due to the estimated lower performance of associates during some of their early stages of operation.

Upgrade to BUY with 2024 TP of THB23

We upgrade our recommendation to BUY from Hold as we roll over our TP to 2024 at THB23, based on the same P/E target of 9.3x, its five-year historical average. SAT is currently trading at 7.3x 2024E P/E with an 8.9% 2024E dividend yield.

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	8,931	9,621	10,164	10,425
Net profit	940	997	1,066	1,110
EPS (THB)	2.21	2.35	2.51	2.61
vs Consensus (%)	-	0.6	(1.9)	(4.0)
EBITDA	1,399	1,591	1,688	1,747
Recurring net profit	948	997	1,066	1,110
Core EPS (THB)	2.23	2.35	2.51	2.61
Chg. In EPS est. (%)	0.8	(0.9)	(2.3)	(3.8)
EPS growth (%)	(0.7)	5.2	6.9	4.1
Core P/E (x)	8.2	7.8	7.3	7.0
Dividend yield (%)	8.2	8.3	8.9	9.3
EV/EBITDA (x)	4.1	3.4	3.0	2.6
Price/book (x)	1.0	0.9	0.9	0.8
Net debt/Equity (%)	(25.1)	(28.1)	(31.2)	(34.2)
ROE (%)	12.2	12.3	12.5	12.4



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(2.7)	(4.2)	(8.5)
Relative to country (%)	5.0	0.0	0.1
Mkt cap (USD m)	211		
3m avg. daily turnover (USD m)	0.4		
Free float (%)	64		
Major shareholder	Kitapanich Family (44%)		
12m high/low (THB)	22.50/17.10		
Issued shares (m)	425.19		

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

SAT is Thailand’s largest manufacturer of axle shafts with an 86% market share in 2022. The company also produces other vehicle parts, namely disc brakes, drum brakes, leaf springs, stabiliser bars, and hot coil springs, which are used for pickup trucks, passenger cars, and agricultural machinery. Only 3-5% of all parts may be affected by the EV boom.

Thailand’s automotive industry is one of the largest drivers of the nation’s economy and one of the industries the government focuses on and supports. Headwinds during 2021-22 such as chip shortages, fluctuations in raw material costs and the power tariff hike should slowly fade in 2023 onward. SAT’s operations passed the disappointing earnings period in 2022 with a strong financial position.

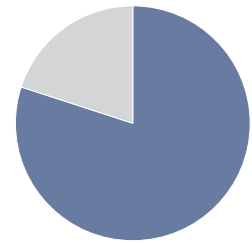
Company profile

SAT manufactures parts for the motor vehicle industry. These parts are for: passenger cars, pickup trucks, and the agricultural industry. Its major customers are original equipment manufacturers (OEMs) on long-term purchase contracts, as well as the replacement equipment manufacturer (REM) segment.

www.satpcl.co.th

Principal activities (revenue, 2022)

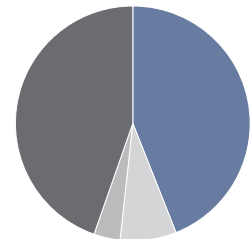
■ Auto - 80.0 % ■ Non-auto - 20.0 %



Source: Somboon Advance Technology

Major shareholders

■ Kitapanich Family - 44.0 %
 ■ Thai NVDR - 7.7 %
 ■ NORTRUST NOMINEES - 3.6 %
 ■ Others - 44.6 %



Source: Somboon Advance Technology

Catalysts

Key potential catalysts include 1) stronger demand for vehicles domestically; 2) higher farm income; 3) lower steel prices; and 4) lower electricity tariffs.

Risks to our call

The key downside risks to our P/E-based TP are the domestic car manufacturing industry recovering slower than expected, a faster-than-expected adoption rate for electric vehicles in Thailand, higher raw material prices, and worse global demand for pickup trucks.

Event calendar

Date	Event
November 2023	3Q23 earnings announcement

Key assumptions

	2023E	2024E	2025E
Car production growth (%)	1.4	2.1	1.0
Car production (unit)	1,910,000	1,950,000	1,970,000
Kubota tractor growth (%)	(11.0)	11.5	3.5
Gross margin (%)	18.3	18.7	19.1
SG&A to sales (%)	7.7	7.8	8.0
EBITDA margin (%)	16.5	16.6	16.8

Source: FSSIA estimates

Earnings sensitivity

- For every 1% change in auto parts revenue, we estimate SAT’s 2023 net profit to change by 0.5%, all else being equal.
- For every 0.5% change in gross margin, we project SAT’s 2023 net profit to change by 4%, all else being equal.

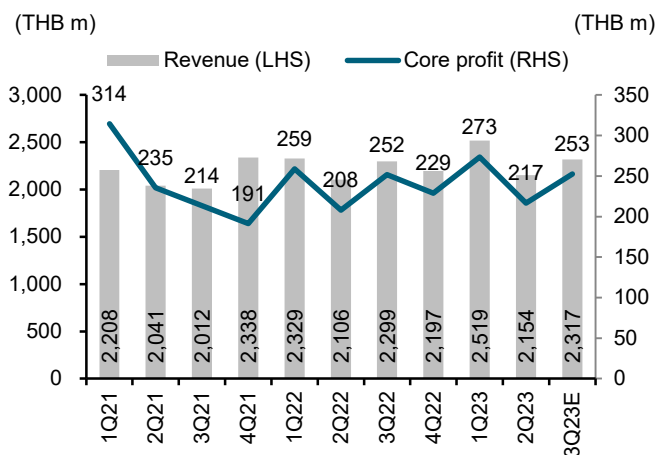
Source: FSSIA estimates

Exhibit 33: 3Q23 earnings preview

	3Q22	4Q22	1Q23	2Q23	3Q23E	Change		9M22	9M23E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(THB m)	(y-y%)
Revenue	2,299	2,197	2,519	2,154	2,317	7.6	0.8	6,735	6,990	3.8
Operating costs	(1,878)	(1,831)	(2,086)	(1,766)	(1,879)	6.4	0.1	(5,485)	(5,731)	4.5
Gross profit	421	366	433	388	438	12.9	3.9	1,249	1,259	0.8
SG&A expenses	(184)	(197)	(159)	(168)	(173)	3.4	(5.6)	(534)	(500)	(6.4)
EBIT	238	169	275	220	265	20.1	11.3	715	759	6.2
Depreciation & amortisation	129	130	125	125	125	0.1	(3.0)	385	374	(2.7)
EBITDA	366	299	399	345	389	12.9	6.3	1,100	1,134	3.1
Interest expense	(1)	(0)	(0)	(0)	(0)	(0.2)	(27.4)	(2)	(1)	(33.8)
Other income	19	65	19	34	30	(12.1)	56.4	97	84	(13.1)
Associates	(4)	30	18	1	1	19.3	nm	8	(2)	nm
Pretax profit	299	248	313	261	295	13.0	(1.4)	828	869	5.0
Tax	(42)	(39)	(41)	(41)	(46)	10.8	9.6	(101)	(128)	26.7
Net profit	259	211	274	223	253	13.2	(2.5)	728	750	3.0
Core net profit	252	229	273	217	253	16.6	0.3	719	743	3.3
EPS (THB)	0.61	0.50	0.65	0.52	0.59	14.3	(2.6)	1.71	1.76	3.2
Core EPS (THB)	0.59	0.54	0.64	0.51	0.59	16.6	0.3	1.69	1.75	3.3
Margins	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(%)	(%)	(ppt)
Gross margin	20.1	16.7	17.2	18.0	18.9	0.9	(1.2)	18.6	18.0	(0.5)
SG&A to sales	8.0	9.0	6.3	7.8	7.5	(0.3)	(0.5)	7.9	7.1	(0.8)
Operating margin	12.1	7.7	10.9	10.2	11.4	1.2	(0.7)	10.6	10.9	0.2
EBITDA margin	17.7	13.6	15.9	16.0	16.8	0.8	(0.9)	16.3	16.2	(0.1)
Core profit margin	11.0	10.4	10.9	10.1	10.9	0.8	(0.1)	10.7	10.6	(0.0)

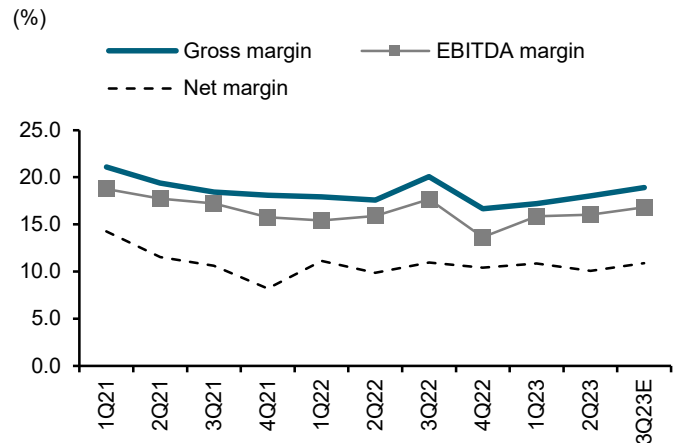
Sources: SAT, FSSIA estimates

Exhibit 34: Revenue and core profit



Sources: SAT, FSSIA estimates

Exhibit 35: Margins



Sources: SAT, FSSIA estimates

Financial Statements

Somboon Advance Technology

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	8,598	8,931	9,621	10,164	10,425
Cost of goods sold	(6,943)	(7,316)	(7,864)	(8,263)	(8,434)
Gross profit	1,655	1,616	1,758	1,901	1,991
Other operating income	-	-	-	-	-
Operating costs	(737)	(731)	(736)	(793)	(834)
Operating EBITDA	1,490	1,399	1,591	1,688	1,747
Depreciation	(572)	(515)	(570)	(580)	(590)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	918	885	1,022	1,108	1,157
Net financing costs	(6)	(2)	(2)	0	0
Associates	84	38	38	39	40
Recurring non-operating income	204	200	139	140	144
Non-recurring items	(2)	(8)	0	0	0
Profit before tax	1,114	1,075	1,159	1,248	1,301
Tax	(159)	(140)	(174)	(187)	(195)
Profit after tax	955	936	985	1,061	1,106
Minority interests	(3)	4	12	5	4
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	953	940	997	1,066	1,110
Non-recurring items & goodwill (net)	2	8	0	0	0
Recurring net profit	955	948	997	1,066	1,110
Per share (THB)					
Recurring EPS *	2.25	2.23	2.35	2.51	2.61
Reported EPS	2.24	2.21	2.35	2.51	2.61
DPS	1.50	1.50	1.51	1.62	1.69
Diluted shares (used to calculate per share data)	425	425	425	425	425
Growth					
Revenue (%)	46.2	3.9	7.7	5.6	2.6
Operating EBITDA (%)	63.7	(6.1)	13.7	6.1	3.5
Operating EBIT (%)	216.1	(3.6)	15.5	8.4	4.4
Recurring EPS (%)	147.7	(0.7)	5.2	6.9	4.1
Reported EPS (%)	156.9	(1.3)	6.1	6.9	4.1
Operating performance					
Gross margin inc. depreciation (%)	19.2	18.1	18.3	18.7	19.1
Gross margin exc. depreciation (%)	25.9	23.9	24.2	24.4	24.8
Operating EBITDA margin (%)	17.3	15.7	16.5	16.6	16.8
Operating EBIT margin (%)	10.7	9.9	10.6	10.9	11.1
Net margin (%)	11.1	10.6	10.4	10.5	10.6
Effective tax rate (%)	(14.3)	(13.0)	(15.0)	(15.0)	(15.0)
Dividend payout on recurring profit (%)	66.8	67.3	64.2	64.7	64.8
Interest cover (X)	193.8	548.4	580.6	-	-
Inventory days	33.2	36.7	35.6	31.5	31.9
Debtor days	65.0	74.0	68.4	64.2	65.2
Creditor days	86.8	98.1	92.2	84.0	85.2
Operating ROIC (%)	19.3	17.5	20.5	22.3	23.4
ROIC (%)	18.9	17.2	18.4	19.7	20.4
ROE (%)	13.0	12.2	12.3	12.5	12.4
ROA (%)	10.3	9.4	9.5	9.9	9.9
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Auto	6,449	7,145	7,907	8,276	8,471
Non-auto	2,150	1,786	1,715	1,888	1,954

Sources: Somboon Advance Technology; FSSIA estimates

Financial Statements

Somboon Advance Technology

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	955	948	997	1,066	1,110
Depreciation	572	515	570	580	590
Associates & minorities	3	(4)	(12)	(5)	(4)
Other non-cash items	(10)	(40)	(21)	(5)	(4)
Change in working capital	(157)	(200)	5	(65)	(43)
Cash flow from operations	1,363	1,218	1,539	1,571	1,649
Capex - maintenance	(192)	(452)	(357)	(357)	(357)
Capex - new investment	(82)	(194)	(153)	(153)	(153)
Net acquisitions & disposals	8	0	0	0	0
Other investments (net)	(1,002)	471	(38)	(39)	(40)
Cash flow from investing	(1,268)	(174)	(548)	(549)	(550)
Dividends paid	(374)	(629)	(608)	(640)	(690)
Equity finance	0	0	0	0	0
Debt finance	(94)	0	(13)	0	0
Other financing cash flows	(22)	(18)	(23)	0	0
Cash flow from financing	(490)	(648)	(645)	(640)	(690)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	16	0	0	0	0
Movement in cash	(379)	396	345	382	410
Free cash flow to firm (FCFF)	100.92	1,046.06	992.30	1,022.39	1,099.49
Free cash flow to equity (FCFE)	(4.93)	1,025.68	953.57	1,022.39	1,099.49
Per share (THB)					
FCFF per share	0.24	2.46	2.33	2.40	2.59
FCFE per share	(0.01)	2.41	2.24	2.40	2.59
Recurring cash flow per share	3.57	3.34	3.61	3.85	3.98
Balance Sheet (THB m) Year Ending Dec					
Tangible fixed assets (gross)	11,370	11,867	12,367	12,867	13,367
Less: Accumulated depreciation	(8,301)	(8,654)	(9,211)	(9,780)	(10,359)
Tangible fixed assets (net)	3,069	3,213	3,155	3,087	3,008
Intangible fixed assets (net)	39	44	51	49	48
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	1,031	1,114	1,152	1,191	1,231
Cash & equivalents	1,602	1,998	2,343	2,725	3,135
A/C receivable	1,751	1,869	1,740	1,838	1,885
Inventories	594	776	646	679	693
Other current assets	1,597	1,188	1,224	1,260	1,298
Current assets	5,543	5,830	5,953	6,503	7,011
Other assets	148	149	149	155	158
Total assets	9,830	10,351	10,461	10,984	11,455
Common equity	7,642	7,951	8,328	8,748	9,164
Minorities etc.	0	16	4	(1)	(6)
Total shareholders' equity	7,642	7,966	8,331	8,747	9,159
Long term debt	0	0	0	0	0
Other long-term liabilities	296	330	322	338	355
Long-term liabilities	296	330	322	338	355
A/C payable	1,694	1,961	1,724	1,811	1,848
Short term debt	0	0	0	0	0
Other current liabilities	199	93	84	88	93
Current liabilities	1,892	2,054	1,808	1,899	1,941
Total liabilities and shareholders' equity	9,830	10,351	10,461	10,984	11,455
Net working capital	2,049	1,778	1,802	1,878	1,935
Invested capital	6,336	6,299	6,310	6,360	6,379
* Includes convertibles and preferred stock which is being treated as debt					
Per share (THB)					
Book value per share	17.97	18.70	19.59	20.57	21.55
Tangible book value per share	17.88	18.60	19.47	20.46	21.44
Financial strength					
Net debt/equity (%)	(21.0)	(25.1)	(28.1)	(31.2)	(34.2)
Net debt/total assets (%)	(16.3)	(19.3)	(22.4)	(24.8)	(27.4)
Current ratio (x)	2.9	2.8	3.3	3.4	3.6
CF interest cover (x)	14.3	617.2	554.3	-	-
Valuation					
Recurring P/E (x) *	8.1	8.2	7.8	7.3	7.0
Recurring P/E @ target price (x) *	10.2	10.3	9.8	9.2	8.8
Reported P/E (x)	8.1	8.2	7.8	7.3	7.0
Dividend yield (%)	8.2	8.2	8.3	8.9	9.3
Price/book (x)	1.0	1.0	0.9	0.9	0.8
Price/tangible book (x)	1.0	1.0	0.9	0.9	0.8
EV/EBITDA (x) **	4.1	4.1	3.4	3.0	2.6
EV/EBITDA @ target price (x) **	5.5	5.6	4.7	4.2	3.8
EV/invested capital (x)	1.0	0.9	0.9	0.8	0.7
* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income					

Sources: Somboon Advance Technology; FSSIA estimates

INOUE RUBBER (THAILAND)

THAILAND / AUTOMOTIVE

IRC TB

BUY

FROM HOLD

TARGET PRICE	THB15.00
CLOSE	THB13.50
UP/DOWNSIDE	+11.1%
PRIOR TP	THB14.00
CHANGE IN TP	+7.1%
TP vs CONSENSUS	+2.0%

Lower cost to drive 4QFY23 profit

- Expect 4QFY23 core profit to grow 43% q-q and 33% y-y.
- We cut our profit forecasts for FY23-FY25 to reflect our more cautious view on its sales outlook and the absence of dividend income from its subsidiary.
- Upgrade to BUY as we roll over our TP to THB15.00 in FY24.

Domestic vehicle sales to face headwinds throughout 2023

Thailand's motorcycle production in July 2023 came in at 170K units (+11% y-y, -18% m-m), driven by exports which soared 80% y-y while local sales increased 13% y-y. Like motorcycle production, the July car production of 150K units was largely driven by exports as the shortage of chips and auto parts continued to ease. For 7M23, motorcycle sales rose 10% y-y while car sales contracted 6% y-y. The effects of high inflation, rising household debts, and tightened auto bank loans have been felt in several sectors this year, including the car and motorbike industries.

Expected margin improvement should drive 4QFY23 profit

We expect IRC's 4QFY23 revenue to grow 17% q-q from the low season last quarter, but fall 3% y-y due to the sluggish domestic demand. The increased utilisation rate and lower energy-related costs should drive its gross margin to 9.3% from 8.9% in 3QFY23 and 6.8% in 4QFY22. The company still maintains its debt-free position, we believe. With the improved margin and no-interest bearing debt, we expect IRC to deliver a net profit of THB42m in 4QFY23, +43% q-q and +33% y-y. This should result in an annual net profit of THB149m in FY23 (October 2022-September 2023), a rise of 35% y-y, but 8% lower than previously forecast.

Earnings cuts on more cautious view of sales outlook

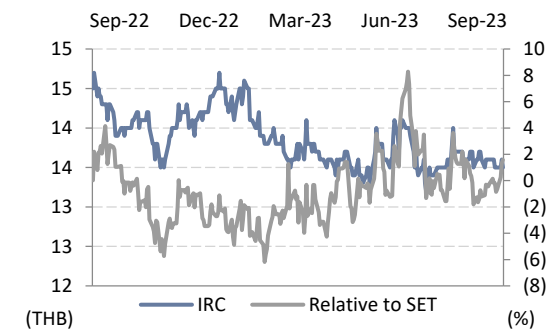
We cut our core profit forecasts for FY23-FY25 by 8%/13%/15% to reflect our more cautious view of its domestic sales outlook. We also remove the dividend income from its subsidiary in Vietnam amounting to THB10m-15m per year for the next four years, as its subsidiary is entering a new investment phase. IRC's core profit should grow at a slower rate of 17% in FY24 and 23% in FY25, down from 23% and 26% in our previous forecast.

Upgrade to BUY with FY24 TP of THB15.00

Despite the earnings cuts, we raise our TP to THB15.00 from THB14.00 as we roll over to its FY24 operations. Our TP is still based on a P/E of 17x, equal to its five-year historical average. We upgrade our rating to BUY from Hold as the share price upside is larger than 10%.

KEY STOCK DATA

YE Sep (THB m)	2022	2023E	2024E	2025E
Revenue	5,883	5,638	6,003	6,423
Net profit	110	149	174	214
EPS (THB)	0.55	0.77	0.91	1.12
vs Consensus (%)	-	-	-	-
EBITDA	483	524	554	598
Recurring net profit	110	149	174	214
Core EPS (THB)	0.55	0.77	0.91	1.12
Chg. In EPS est. (%)	-	(4.6)	(9.2)	(11.3)
EPS growth (%)	(67.7)	40.9	16.9	23.2
Core P/E (x)	24.6	17.4	14.9	12.1
Dividend yield (%)	2.2	2.9	3.4	4.1
EV/EBITDA (x)	3.7	3.1	3.0	2.7
Price/book (x)	0.7	0.6	0.6	0.6
Net debt/Equity (%)	(23.4)	(23.8)	(22.9)	(22.6)
ROE (%)	2.8	3.8	4.2	5.1



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.7)	(1.5)	(6.9)
Relative to country (%)	0.0	0.5	1.2
Mkt cap (USD m)	72		
3m avg. daily turnover (USD m)	0.0		
Free float (%)	24		
Major shareholder	Inoue Rubber Co Ltd (34%)		
12m high/low (THB)	17.00/13.20		
Issued shares (m)	192.21		

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

We upgrade our rating for IRC to BUY from Hold with a TP of THB15.00 as we roll over our TP to its FY24 operations. However, we cut our core profit forecasts for FY23-FY25 by 8%/13%/15% to reflect our more cautious view of its domestic sales outlook. We also remove the dividend income from its subsidiary in Vietnam amounting to THB10m-15m per year for the next four years, as its subsidiary is entering a new investment phase. The overall market for the motorcycle industry in Thailand may see challenges throughout 2023 as household debt is still high and interest rates keep rising.

IRC, however, has a strong base as a leading manufacturer of industrial elastomer products and motorcycle tires and tubes for over 50 years. IRC, as a debt-free company, is also cash rich at THB4.97 per share at end-June 2023, or 37% of its current share price.

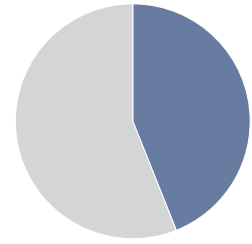
Company profile

Inoue Rubber (Thailand) (IRC) was established by Inoue Rubber Co Ltd Japan and the Leeissaranukul family in 1969. IRC manufactures elastomer products for automotive and other industries, along with motorcycle tires and tubes. The company has two plants at Rangsit, Pathumtani province, producing tires and tubes, and Ayutthaya province producing automotive and industrial elastomer.

www.ircthailand.com

Principal activities (revenue, 2022)

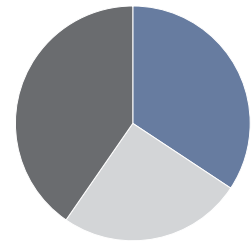
- Motorcycle tires and tubes - 44.0 %
- Industrial elastomer parts - 56.0 %



Source: Inoue Rubber (Thailand)

Major shareholders

- Inoue Rubber Co Ltd - 34.3 %
- KK International Co Ltd - 25.3 %
- Others - 40.4 %



Source: Inoue Rubber (Thailand)

Catalysts

Key potential catalysts include 1) stronger demand for cars and motorcycles in the region; 2) China's stimulus measures, which should boost the global economy; and 3) lower costs for raw materials.

Risks to our call

Downside risks to our P/E-based TP include 1) weaker demand from the automotive industry; 2) a sharp rise in the price of crude oil; and 3) chip supply shortages.

Event calendar

Date	Event
November 2023	FY23 earnings announcement

Key assumptions

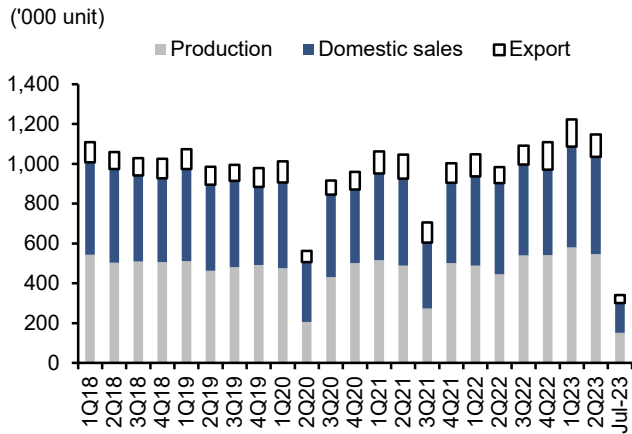
YE Sep	FY23E (THB m)	FY24E (THB m)	FY25E (THB m)
Industrial elastomer parts	3,157	3,362	3,597
<i>Growth (%)</i>	(4.2)	6.5	7.0
Motorcycle tire & tube	2,481	2,641	2,826
<i>Growth (%)</i>	(4.1)	6.5	7.0
Gross margin (%)	8.8	8.9	9.4
SG&A to sales (%)	6.8	6.5	6.5

Source: FSSIA estimates

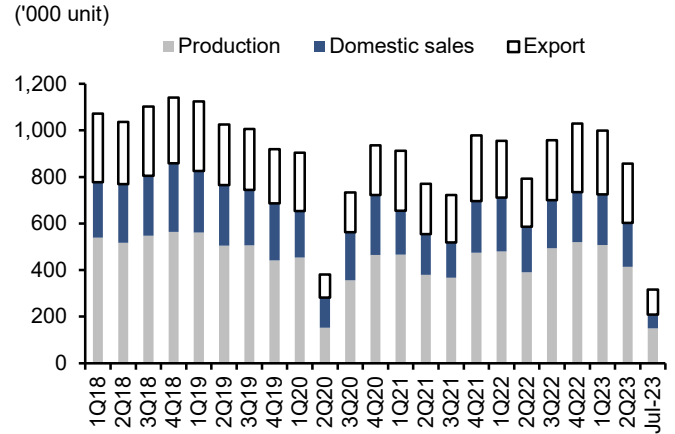
Earnings sensitivity

- For every 0.5% change in its gross margin, we project IRC's FY24 net profit to change by 13%, all else being equal.
- For every 1% change in its SG&A to sales, we forecast IRC's FY24 net profit to change by 2%, all else being equal.

Source: FSSIA estimates

Exhibit 36: Car production, domestic sales and exports

Source: The Federation of Thai Industries

Exhibit 37: Motorcycle production, domestic sales and exports

Source: The Federation of Thai Industries

Exhibit 38: 4QFY23 earnings preview

Year to Sep 30	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23E	Change	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q %)	(y-y %)
Sales	1,525	1,464	1,441	1,258	1,476	17.3	(3.2)
Cost of sales	(1,421)	(1,361)	(1,298)	(1,145)	(1,339)	16.9	(5.8)
Gross profit	104	102	144	112	137	21.7	31.5
Operating costs	(94)	(88)	(97)	(98)	(94)	(4.2)	(0.6)
Operating profit	10	15	47	15	43	193.9	338.5
Operating EBITDA	124	105	146	119	140	17.0	12.7
Other income	17	11	19	12	9	(23.1)	(42.7)
Interest expense	(0)	(0)	(0)	(0)	(0)	119.0	68.3
Profit before tax	33	17	65	31	52	67.2	57.9
Tax	(1)	(1)	(4)	(1)	(10)	588.2	960.2
Associates	0	0	0	0	0	0.0	0.0
Minority interests	0	0	0	0	(0)	0.0	0.0
Reported net profit	32	16	61	30	42	42.8	32.5
Core profit	32	16	61	30	42	42.8	32.5
Reported EPS (THB)	0.16	0.08	0.30	0.15	0.21	41.6	32.5
Core EPS (THB)	0.16	0.08	0.30	0.15	0.21	42.8	32.5
Key Ratios (%)	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)
Gross margin	6.8	7.0	10.0	8.9	9.3	0.3	2.4
Operating margin	2.2	1.2	4.5	2.5	3.5	1.1	1.4
EBITDA margin	8.1	7.1	10.1	9.5	9.5	(0.0)	1.3
Recurring net margin	2.1	1.1	4.2	2.4	2.9	0.5	0.8
SG&A / Sales	5.7	6.6	6.8	7.4	6.4	(1.1)	0.6

Sources: IRC, FSSIA estimates

Earnings cuts but upgrade to BUY rating

We cut our core profit forecasts for FY23-FY25 by 8%/13%/15% to reflect our more cautious view of its domestic sales outlook. We also remove the dividend income from its subsidiary in Vietnam amounting to THB10m-15m per year for the next four years, as its subsidiary is entering a new investment phase. IRC's core profit should grow at a slower rate of 17% in FY24 and 23% in FY25, down from 23% and 26% in our previous forecast.

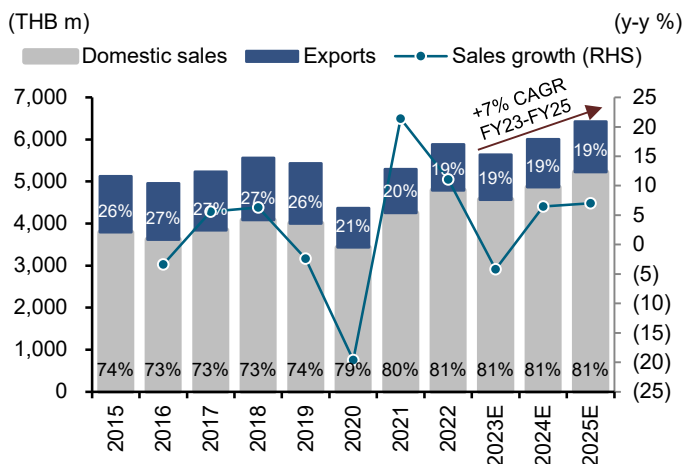
Despite the earnings cuts, we raise our TP to THB15.00 from THB14.00 as we roll over to its FY24 operations. Our TP is still based on a P/E of 17x, equal to its five-year historical average. We upgrade our rating to BUY from Hold as the share price upside is larger than 10%.

Exhibit 39: Key changes in our assumptions

	Current			Previous			Change		
	FY23E (THB m)	FY24E (THB m)	FY25E (THB m)	FY23E (THB m)	FY24E (THB m)	FY25E (THB m)	FY23E (%)	FY24E (%)	FY25E (%)
Total revenue	5,638	6,003	6,423	6,208	6,653	7,104	(9.2)	(9.8)	(9.6)
Industrial elastomer parts	3,000	3,180	3,403	3,454	3,679	3,922	(13.1)	(13.6)	(13.2)
Motorcycle tire & tube	2,638	2,822	3,020	2,754	2,974	3,183	(4.2)	(5.1)	(5.1)
Cost of goods sold	5,143	5,468	5,816	5,669	6,040	6,402	(9.3)	(9.5)	(9.1)
Gross profit	495	535	607	540	613	702	(8.3)	(12.7)	(13.6)
Dividend income	0	0	0	10	13	15	(100.0)	(100.0)	(100.0)
SG&A	382	388	414	402	430	458	(4.9)	(9.7)	(9.5)
EBITDA	524	554	598	562	606	669	(6.8)	(8.5)	(10.6)
EBIT	165	198	244	203	249	314	(18.5)	(20.6)	(22.4)
Core profit	149	174	214	162	199	252	(8.1)	(12.6)	(14.9)
Margins	(%)	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(ppt)
Gross margin	8.8	8.9	9.4	8.7	9.2	9.9	0.1	(0.3)	(0.4)
EBITDA margin	9.3	9.2	9.3	9.1	9.1	9.4	0.2	0.1	(0.1)
EBIT margin	2.9	3.3	3.8	3.3	3.8	4.4	(0.3)	(0.5)	(0.6)
Core profit margin	2.6	2.9	3.3	2.6	3.0	3.5	0.0	(0.1)	(0.2)
Growth	(%)	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(ppt)
Revenue	-4.2	6.5	7.0	5.5	7.2	6.8	(9.7)	(0.7)	0.2
Core profit	35.4	16.9	23.2	47.7	22.8	26.1	(12.3)	(6.0)	(2.9)

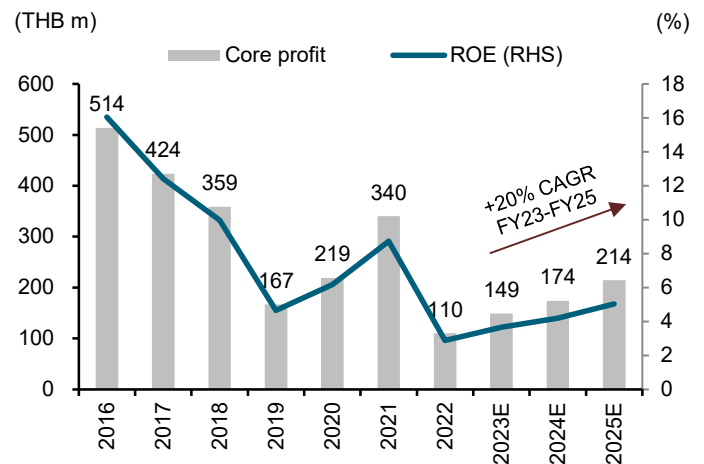
Sources: IRC, FSSIA estimates

Exhibit 40: IRC's revenue and growth projections



Sources: IRC, FSSIA estimates

Exhibit 41: IRC's core profit and ROE projections



Sources: IRC, FSSIA estimates

Financial Statements

Inoue Rubber (Thailand)

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	5,297	5,883	5,638	6,003	6,423
Cost of goods sold	(4,939)	(5,804)	(5,501)	(5,824)	(6,171)
Gross profit	359	80	137	179	252
Other operating income	435	429	411	408	406
Operating costs	(373)	(386)	(382)	(388)	(414)
Operating EBITDA	782	483	524	554	598
Depreciation	(361)	(361)	(359)	(357)	(354)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	421	122	165	198	244
Net financing costs	0	0	0	0	0
Associates	0	0	0	0	0
Recurring non-operating income	0	0	0	0	0
Non-recurring items	0	0	0	0	0
Profit before tax	421	122	165	198	244
Tax	(81)	(12)	(17)	(24)	(29)
Profit after tax	340	110	149	174	214
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	340	110	149	174	214
Non-recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	340	110	149	174	214
Per share (THB)					
Recurring EPS *	1.70	0.55	0.77	0.91	1.12
Reported EPS	1.70	0.55	0.77	0.91	1.12
DPS	0.88	0.29	0.39	0.45	0.56
Diluted shares (used to calculate per share data)	200	200	192	192	192
Growth					
Revenue (%)	21.4	11.1	(4.2)	6.5	7.0
Operating EBITDA (%)	27.1	(38.2)	8.5	5.8	7.9
Operating EBIT (%)	59.3	(70.9)	35.2	19.5	23.2
Recurring EPS (%)	55.2	(67.7)	40.9	16.9	23.2
Reported EPS (%)	55.2	(67.7)	40.9	16.9	23.2
Operating performance					
Gross margin inc. depreciation (%)	6.8	1.4	2.4	3.0	3.9
Gross margin exc. depreciation (%)	13.6	7.5	8.8	8.9	9.4
Operating EBITDA margin (%)	14.8	8.2	9.3	9.2	9.3
Operating EBIT margin (%)	7.9	2.1	2.9	3.3	3.8
Net margin (%)	6.4	1.9	2.6	2.9	3.3
Effective tax rate (%)	19.2	10.1	10.0	12.0	12.0
Dividend payout on recurring profit (%)	52.0	52.9	50.0	50.0	50.0
Interest cover (X)	6,965.7	2,461.9	3,327.6	3,977.8	4,901.1
Inventory days	49.8	54.6	59.2	56.7	55.8
Debtor days	58.6	59.9	67.4	64.5	63.3
Creditor days	68.9	72.9	76.2	67.4	65.0
Operating ROIC (%)	14.3	4.2	5.4	6.2	7.4
ROIC (%)	11.1	3.0	4.0	4.7	5.6
ROE (%)	9.1	2.8	3.8	4.2	5.1
ROA (%)	6.9	2.1	2.8	3.2	3.9
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Motorcycle tires and tubes	2,369	2,586	2,638	2,822	3,020
Industrial elastomer parts	2,929	3,297	3,000	3,180	3,403

Sources: Inoue Rubber (Thailand); FSSIA estimates

Financial Statements

Inoue Rubber (Thailand)

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	340	110	149	174	214
Depreciation	361	361	359	357	354
Associates & minorities	0	0	0	0	0
Other non-cash items	(1)	12	0	0	0
Change in working capital	(90)	(142)	(143)	(258)	(270)
Cash flow from operations	610	340	364	272	299
Capex - maintenance	-	-	-	-	-
Capex - new investment	(225)	(292)	(240)	(235)	(218)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	(177)	16	0	0	0
Cash flow from investing	(402)	(276)	(240)	(235)	(218)
Dividends paid	(110)	(170)	(74)	(87)	(107)
Equity finance	0	0	(8)	0	0
Debt finance	0	0	0	0	0
Other financing cash flows	-	-	-	-	-
Cash flow from financing	(110)	(170)	(82)	(87)	(107)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	29	34	38
Net other adjustments	(125)	0	29	34	38
Movement in cash	(27)	(106)	71	(15)	11
Free cash flow to firm (FCFF)	208.02	64.17	124.12	37.58	80.91
Free cash flow to equity (FCFE)	82.96	64.12	153.14	71.52	118.55

Per share (THB)

FCFF per share	1.08	0.33	0.65	0.20	0.42
FCFE per share	0.43	0.33	0.80	0.37	0.62
Recurring cash flow per share	3.50	2.41	2.64	2.76	2.96

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	6,707	6,928	6,565	6,226	5,890
Less: Accumulated depreciation	(5,014)	(5,294)	(4,935)	(4,579)	(4,225)
Tangible fixed assets (net)	1,693	1,634	1,629	1,647	1,665
Intangible fixed assets (net)	45	49	49	52	52
Long-term financial assets	217	444	444	444	444
Invest. in associates & subsidiaries	550	235	235	235	235
Cash & equivalents	1,003	897	968	953	964
A/C receivable	884	1,047	1,035	1,085	1,144
Inventories	790	838	831	869	908
Other current assets	12	8	11	12	13
Current assets	2,689	2,791	2,846	2,919	3,029
Other assets	102	119	117	121	125
Total assets	5,295	5,272	5,320	5,418	5,550
Common equity	3,894	3,832	4,066	4,153	4,260
Minorities etc.	0	0	0	0	0
Total shareholders' equity	3,894	3,832	4,066	4,153	4,260
Long term debt	1	1	1	1	1
Other long-term liabilities	350	287	254	246	238
Long-term liabilities	351	287	254	247	238
A/C payable	1,026	1,147	1,000	1,019	1,052
Short term debt	0	0	0	0	0
Other current liabilities	24	6	7	7	8
Current liabilities	1,050	1,153	1,008	1,026	1,060
Total liabilities and shareholders' equity	5,295	5,272	5,328	5,426	5,558
Net working capital	636	741	870	940	1,005
Invested capital	3,242	3,222	3,344	3,439	3,526

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)

Book value per share	19.47	19.16	21.15	21.61	22.16
Tangible book value per share	19.25	18.91	20.90	21.34	21.89

Financial strength

Net debt/equity (%)	(25.7)	(23.4)	(23.8)	(22.9)	(22.6)
Net debt/total assets (%)	(18.9)	(17.0)	(18.2)	(17.6)	(17.4)
Current ratio (x)	2.6	2.4	2.8	2.8	2.9
CF interest cover (x)	5,096.1	7,163.6	7,909.3	6,160.6	6,771.5

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	7.9	24.6	17.4	14.9	12.1
Recurring P/E @ target price (x) *	8.8	27.3	19.4	16.6	13.5
Reported P/E (x)	7.9	24.6	17.4	14.9	12.1
Dividend yield (%)	6.6	2.2	2.9	3.4	4.1
Price/book (x)	0.7	0.7	0.6	0.6	0.6
Price/tangible book (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x) **	2.2	3.7	3.1	3.0	2.7
EV/EBITDA @ target price (x) **	2.6	4.4	3.7	3.5	3.2
EV/invested capital (x)	0.5	0.6	0.5	0.5	0.5

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: Inoue Rubber (Thailand); FSSIA estimates

THAI STANLEY ELECTRIC

STANLY TB

THAILAND / AUTOMOTIVE

This report is being republished for reference purposes. No changes have been made to the report from its original date of publication

BUY

UNCHANGED

TARGET PRICE	THB240.00
CLOSE	THB186.00
UP/DOWNSIDE	+29.0%
PRIOR TP	THB240.00
CHANGE IN TP	UNCHANGED
TP vs CONSENSUS	+1.3%

Expect 2QFY24 profit to improve q-q

- Expect 2QFY24 core profit to rise 39.0% q-q due to seasonal factors and dividend income.
- Our projected core profit forecast in 1HFY24 represents only 37% of our full-year forecast.
- Maintain BUY call with TP of THB240.

Domestic vehicle sales in 2H23 to face headwinds

Thailand's car production in July 2023 came in at 150K units (+4.7% y-y, +2.9% m-m), driven by exports which soared 30.0% y-y and 21.6% m-m to 108K units, as the shortage of chips and auto parts continued to ease. Local sales, nevertheless, contracted further by 8.8% y-y and 9.3% m-m to only 58K units in July, the lowest level in 22 months as banks tightened auto loans due to rising household debt levels. On 25 July 2023, the Federation of Thai Industries (FTI) cut its forecast on domestic car sales in 2023 to 850K units, down from 900K units in its previous projection. Overall, the FTI has dropped its total car production forecast from 1.95m units to 1.90m units in 2023.

Expect profit to pick up q-q due to seasonality & dividend income

We expect STANLY's sales revenue to inch up by 1.1% y-y to THB3.6b in 2QFY24. We expect sales growth of 8.6% q-q in 2QFY24, mainly because of the seasonal effect. April is typically the least productive month of the year for the automotive industry owing to the long Songkran holiday period. Its gross margin should pick up from 15.3% in 1QFY24 to 17.0% in 2QFY24, equal to the same period last year. Therefore, we expect its 2QFY24 core profit to rise 39.0% q-q but fall 11.7% y-y to THB421.6m.

Our 1HFY24 projected profit represents 37% of full-year forecast

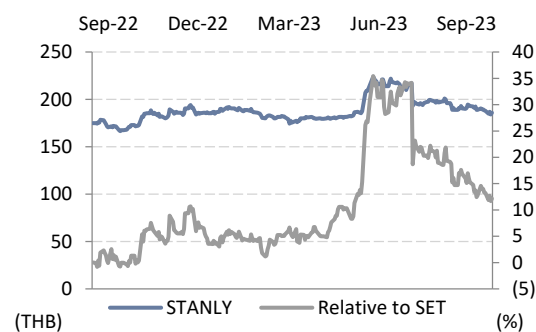
The dividend income from its JVs is one of the key contributors to the rise and fall in STANLY's bottom line projected in 2QFY24. The large dividend income usually occurs in 2Q, and last year was a good time for the automotive sector in Vietnam and Indonesia where STANLY's JVs are located. Based on our projection, STANLY's core profit in 1HFY24 would be THB724.9m, growing 7.3% y-y and representing 37% of our full-year core profit forecast of THB2.0b (+12.3% y-y).

Maintain BUY call with TP of THB240

Despite the headwinds, STANLY is still a debt-free company. Its D/E ratio was as low as 0.2x in 1QFY24. We maintain our TP of THB240, which is based on 9.4x FY24E P/E, close to its five-year historical average. We maintain our BUY rating on STANLY.

KEY STOCK DATA

YE Mar (THB m)	2023	2024E	2025E	2026E
Revenue	14,448	15,804	17,385	18,779
Net profit	1,746	1,955	2,216	2,401
EPS (THB)	22.78	25.52	28.92	31.34
vs Consensus (%)	-	19.5	17.7	18.3
EBITDA	3,311	3,495	3,815	4,027
Recurring net profit	1,742	1,955	2,216	2,401
Core EPS (THB)	22.73	25.52	28.92	31.34
Chg. In EPS est. (%)	-	-	-	-
EPS growth (%)	16.4	12.3	13.3	8.4
Core P/E (x)	8.2	7.3	6.4	5.9
Dividend yield (%)	10.8	6.2	7.0	7.6
EV/EBITDA (x)	3.7	3.5	3.1	2.9
Price/book (x)	0.7	0.7	0.6	0.6
Net debt/Equity (%)	(9.8)	(8.7)	(10.0)	(10.9)
ROE (%)	8.4	9.2	10.2	10.5



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(1.6)	(12.0)	11.7
Relative to country (%)	(2.2)	(11.1)	19.7
Mkt cap (USD m)	398		
3m avg. daily turnover (USD m)	0.3		
Free float (%)	34		
Major shareholder	Stanley Electric Holding Asia-Pacific Pte., Ltd. (36%)		
12m high/low (THB)	215.08/157.51		
Issued shares (m)	76.63		

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

We maintain our BUY call on STANLY, though the local sales situation looks challenging.

We like STANLY as it is in a low-competition industry with only a few players in the market. The company has a competitive advantage as a partner with a Japanese JV and as a listed company on the Stock Exchange of Thailand, which allows the company to seek lower-cost funding sources. Moreover, we think STANLY’s share price is undemanding at only 7.3x FY24E P/E and 0.7x FY24E P/BV.

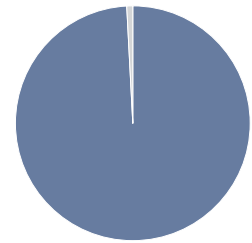
Company profile

STANLY is a manufacturer and distributor of automotive lighting equipment, namely lamps, lighting sets, and metal molds to domestic and international automotive manufacturers. STANLY was founded by a Thai-Japanese joint venture between The Sittipol 1919 Co., Ltd. and Stanley Electric Co., Ltd. of Japan. The company has three plants in Thailand manufacturing auto bulbs, dies and molds, and auto lamps. The company has two joint ventures in Vietnam and Laos.

www.thaistanley.com

Principal activities (revenue, 2023)

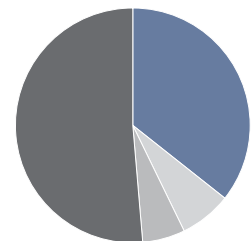
- Auto bulbs & automotive lighting equipment - 99.2 %
- Molds & dies and product designs - 0.8 %



Source: Thai Stanley Electric

Major shareholders

- Stanley Electric Holding Asia-Pacific Pte., Ltd. - 35.7 %
- Mr. Apichart Lee-issaranukul - 7.1 %
- Mrs. Porndee Lee-issaranukul - 5.9 %
- Others - 51.4 %



Source: Thai Stanley Electric

Catalysts

Key potential catalysts include 1) stronger demand for cars and motorcycles in the region; 2) new orders; and 3) lower costs for raw materials and electricity.

Risks to our call

Downside risks to our P/E-based TP include 1) weak global automotive demand; 2) higher raw material prices and utility costs; 3) global semiconductor shortages; and 4) fluctuations in the THB.

Event calendar

Date	Event
November 2023	2QFY24 earnings announcement

Key assumptions

	FY24E (THB m)	FY25E (THB m)	FY26E (THB m)
Auto bulbs & lighting	15,676	17,243	18,623
<i>Growth (%)</i>	9.4	10.0	8.0
Dies & molds	129	141	156
<i>Growth (%)</i>	8.0	10.0	10.3
Total revenue	15,804	17,385	18,779
<i>Growth (%)</i>	9.4	10.0	8.0
Gross margin (%)	18.1	18.5	18.5
Core profit margin	12.4	12.7	12.8

Source: FSSIA estimates

Earnings sensitivity

- For every 0.5% change in its gross margin, we project STANLY’s FY24 net profit to change by 3%, all else being equal.
- For every 10% change in utility costs, we project STANLY’s FY24 net profit to change by 2%, all else being equal.
- For every 1% change in its SG&A to sales, we forecast STANLY’s FY24 net profit to change by 6%, all else being equal.

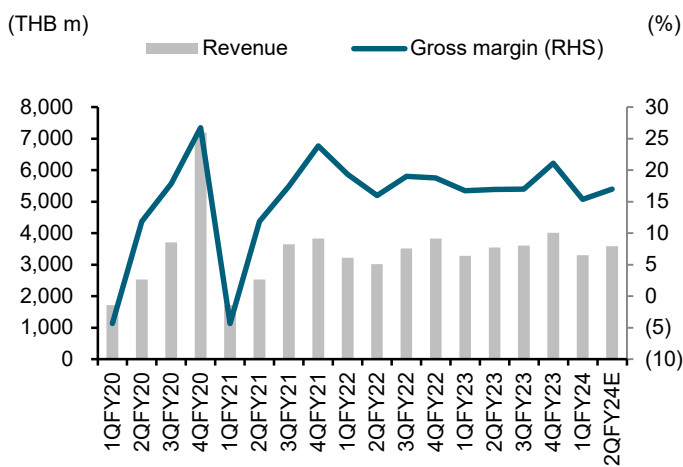
Source: FSSIA estimates

Exhibit 42: 2QFY24E earnings preview

Year to Mar 31	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24E	Change		1HFY23	1HFY24E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q %)	(y-y %)	(THB m)	(THB m)	(y-y %)
Sales	3,551	3,602	4,012	3,306	3,590	8.6	1.1	6,834	6,896	0.9
Cost of sales	(2,949)	(2,991)	(3,165)	(2,799)	(2,980)	6.5	1.0	(5,683)	(5,778)	1.7
Gross profit	602	611	846	507	610	20.3	1.4	1,151	1,118	(2.9)
Operating costs	(278)	(274)	(271)	(268)	(273)	1.9	(1.9)	(548)	(541)	(1.4)
Operating profit	324	337	575	239	337	40.9	4.2	1,699	1,658	(2.4)
Operating EBITDA	848	772	996	685	838	22.4	(1.1)	1,543	1,523	(1.3)
Other income	135	44	40	46	102	119.8	(24.5)	163	148	(8.8)
Interest expense	0	0	0	0	0	0.0	0.0	0	0	0.0
Profit before tax	459	382	616	286	439	53.7	(4.3)	765	725	(5.2)
Tax	(103)	(94)	(133)	(78)	(88)	12.0	(14.3)	(182)	(166)	(8.4)
Associates	121	105	84	96	70	(27.0)	(42.2)	198	166	(16.2)
Reported net profit	487	376	565	315	422	33.9	(13.4)	804	737	(8.4)
Core profit	478	392	568	303	422	39.0	(11.7)	782	725	(7.3)
Reported EPS (THB)	6.35	4.91	7.38	4.11	5.50	33.9	(13.4)	10.49	9.61	(8.4)
Core EPS (THB)	6.23	5.12	7.41	3.96	5.50	39.0	(11.7)	10.20	9.46	(7.3)
Key Ratios (%)	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(%)	(%)	(ppt)
Gross margin	17.0	17.0	21.1	15.3	17.0	1.7	0.0	16.8	16.2	(0.6)
Operating margin	12.9	10.6	15.3	8.6	12.2	3.6	(0.7)	11.2	10.5	(0.7)
EBITDA margin	23.9	21.4	24.8	20.7	23.4	2.6	(0.5)	22.6	22.1	(0.5)
Core profit margin	13.5	10.9	14.1	9.2	11.7	2.6	(1.7)	11.4	10.5	(0.9)
SG&A / Sales	7.8	7.6	6.8	8.1	7.6	(0.5)	(0.2)	8.0	7.8	(0.2)

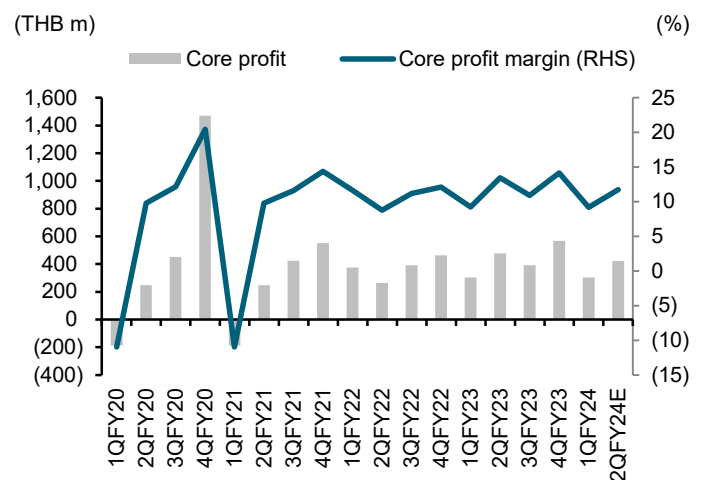
Sources: STANLY, FSSIA estimates

Exhibit 43: Revenue and gross margin



Sources: STANLY, FSSIA estimates

Exhibit 44: Core profit and core profit margin



Sources: STANLY, FSSIA estimates

Financial Statements

Thai Stanley Electric

Profit and Loss (THB m) Year Ending Dec	2022	2023	2024E	2025E	2026E
Revenue	13,582	14,448	15,804	17,385	18,779
Cost of goods sold	(12,666)	(13,387)	(14,517)	(15,767)	(16,928)
Gross profit	916	1,061	1,287	1,618	1,851
Other operating income	1,693	1,795	1,779	1,816	1,849
Operating costs	(1,024)	(1,093)	(1,144)	(1,217)	(1,296)
Operating EBITDA	3,158	3,311	3,495	3,815	4,027
Depreciation	(1,574)	(1,548)	(1,573)	(1,598)	(1,623)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	1,584	1,763	1,922	2,217	2,404
Net financing costs	0	0	0	0	0
Associates	282	387	418	443	478
Recurring non-operating income	282	387	418	443	478
Non-recurring items	24	4	0	0	0
Profit before tax	1,890	2,154	2,340	2,660	2,882
Tax	(369)	(408)	(384)	(443)	(481)
Profit after tax	1,521	1,746	1,955	2,216	2,401
Minority interests	0	0	0	0	0
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	1,521	1,746	1,955	2,216	2,401
Non-recurring items & goodwill (net)	(24)	(4)	0	0	0
Recurring net profit	1,496	1,742	1,955	2,216	2,401
Per share (THB)					
Recurring EPS *	19.53	22.73	25.52	28.92	31.34
Reported EPS	19.85	22.78	25.52	28.92	31.34
DPS	8.50	20.00	11.48	13.02	14.10
Diluted shares (used to calculate per share data)	77	77	77	77	77
Growth					
Revenue (%)	15.8	6.4	9.4	10.0	8.0
Operating EBITDA (%)	22.3	4.8	5.6	9.1	5.6
Operating EBIT (%)	54.3	11.3	9.0	15.3	8.4
Recurring EPS (%)	44.7	16.4	12.3	13.3	8.4
Reported EPS (%)	43.3	14.8	12.0	13.3	8.4
Operating performance					
Gross margin inc. depreciation (%)	6.7	7.3	8.1	9.3	9.9
Gross margin exc. depreciation (%)	18.3	18.1	18.1	18.5	18.5
Operating EBITDA margin (%)	23.3	22.9	22.1	21.9	21.4
Operating EBIT margin (%)	11.7	12.2	12.2	12.8	12.8
Net margin (%)	11.0	12.1	12.4	12.7	12.8
Effective tax rate (%)	19.5	18.9	16.4	16.7	16.7
Dividend payout on recurring profit (%)	43.5	88.0	45.0	45.0	45.0
Interest cover (X)	-	-	-	-	-
Inventory days	19.7	20.2	17.8	18.2	18.3
Debtor days	69.4	65.4	60.5	56.7	53.9
Creditor days	34.4	31.7	29.6	28.2	25.5
Operating ROIC (%)	9.5	9.6	9.9	11.3	(3.0)
ROIC (%)	8.5	8.9	9.2	10.3	(2.7)
ROE (%)	7.7	8.4	9.2	10.2	10.5
ROA (%)	6.7	7.4	8.0	8.9	9.3
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Auto bulbs & automotive lighting equipment	13,490	14,329	15,676	17,243	18,623
Molds & dies and product designs	92	119	129	141	156

Sources: Thai Stanley Electric; FSSIA estimates

Financial Statements

Thai Stanley Electric

Cash Flow (THB m) Year Ending Dec	2022	2023	2024E	2025E	2026E
Recurring net profit	1,496	1,742	1,955	2,216	2,401
Depreciation	1,574	1,548	1,573	1,598	1,623
Associates & minorities	(282)	(387)	(418)	(443)	(478)
Other non-cash items	405	(504)	0	0	0
Change in working capital	(621)	(202)	22	(67)	(423)
Cash flow from operations	2,573	2,197	3,133	3,305	3,124
Capex - maintenance	0	0	0	0	0
Capex - new investment	(927)	(677)	(872)	(930)	(918)
Net acquisitions & disposals	0	-	-	-	-
Other investments (net)	(1,234)	(2,235)	(1,281)	(796)	(1,000)
Cash flow from investing	(2,161)	(2,911)	(2,153)	(1,726)	(1,918)
Dividends paid	(421)	(651)	(880)	(997)	(1,081)
Equity finance	0	0	0	0	0
Debt finance	0	0	0	0	0
Other financing cash flows	0	-	-	-	-
Cash flow from financing	(421)	(651)	(880)	(997)	(1,081)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	2	794	0	0	209
Net other adjustments	2	794	(329)	(201)	209
Movement in cash	(7)	(572)	(228)	381	334
Free cash flow to firm (FCFF)	411.62	(714.86)	980.46	1,579.17	1,205.55
Free cash flow to equity (FCFE)	414.05	79.54	651.66	1,378.07	1,414.45

Per share (THB)

FCFF per share	5.37	(9.33)	12.80	20.61	15.73
FCFE per share	5.40	1.04	8.50	17.98	18.46
Recurring cash flow per share	41.68	31.31	40.60	44.00	46.28

Balance Sheet (THB m) Year Ending Dec	2022	2023	2024E	2025E	2026E
Tangible fixed assets (gross)	24,589	24,700	23,099	21,530	19,925
Less: Accumulated depreciation	(15,512)	(16,231)	(14,657)	(13,059)	(11,436)
Tangible fixed assets (net)	9,077	8,469	8,441	8,471	8,489
Intangible fixed assets (net)	989	940	987	1,187	1,387
Long-term financial assets	1,485	1,702	1,702	1,702	1,702
Invest. in associates & subsidiaries	1,909	2,023	2,023	2,173	2,323
Cash & equivalents	2,656	2,084	1,856	2,237	2,571
A/C receivable	2,618	2,557	2,685	2,715	2,830
Inventories	718	591	674	738	797
Other current assets	3,548	5,933	5,934	5,935	5,936
Current assets	9,539	11,165	11,148	11,624	12,133
Other assets	58	25	79	122	150
Total assets	23,057	24,325	24,381	25,279	26,184
Common equity	20,027	21,287	21,241	22,340	23,541
Minorities etc.	0	0	0	0	0
Total shareholders' equity	20,027	21,287	21,241	22,340	23,541
Long term debt	-	-	-	-	-
Other long-term liabilities	965	1,046	1,027	956	789
Long-term liabilities	965	1,046	1,027	956	789
A/C payable	1,054	1,001	1,099	1,087	1,048
Short term debt	0	-	-	-	-
Other current liabilities	1,011	991	1,013	896	807
Current liabilities	2,065	1,992	2,112	1,983	1,855
Total liabilities and shareholders' equity	23,057	24,325	24,381	25,279	26,184
Net working capital	4,818	7,089	7,180	7,404	7,707
Invested capital	18,335	20,249	20,412	21,059	21,759

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)

Book value per share	261.36	277.80	277.21	291.55	307.22
Tangible book value per share	248.46	265.53	264.32	276.05	289.11

Financial strength

Net debt/equity (%)	(13.3)	(9.8)	(8.7)	(10.0)	(10.9)
Net debt/total assets (%)	(11.5)	(8.6)	(7.6)	(8.8)	(9.8)
Current ratio (x)	4.6	5.6	5.3	5.9	6.5
CF interest cover (x)	-	-	-	-	-

Valuation	2022	2023	2024E	2025E	2026E
Recurring P/E (x) *	9.5	8.2	7.3	6.4	5.9
Recurring P/E @ target price (x) *	12.3	10.6	9.4	8.3	7.7
Reported P/E (x)	9.4	8.2	7.3	6.4	5.9
Dividend yield (%)	4.6	10.8	6.2	7.0	7.6
Price/book (x)	0.7	0.7	0.7	0.6	0.6
Price/tangible book (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x) **	3.7	3.7	3.5	3.1	2.9
EV/EBITDA @ target price (x) **	5.0	4.9	4.7	4.2	3.9
EV/invested capital (x)	0.6	0.6	0.6	0.6	0.5

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: Thai Stanley Electric; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

[Rating](#) regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) "**Sustainability Investment List (THSI)**" by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD) ¹

The [CG Score](#) indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The [five underlying categories and weighting](#) used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

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 companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). 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 data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. FSSIA does not confirm nor certify the accuracy of such survey result.

AGM Checklist by the Thai Investors Association (TIA) ²

The "[AGM Checklist](#)" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The [Checklist](#) contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC) ³

A [CAC certified member](#) is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member [start with](#) by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the [CAC Council](#) for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI) ⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment ([THSI](#)) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the [THSI list](#), the SET further developed a sustainability [SETTHSI Index](#) in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Jitra Amornthum FSS International Investment Advisory Securities Co., Ltd

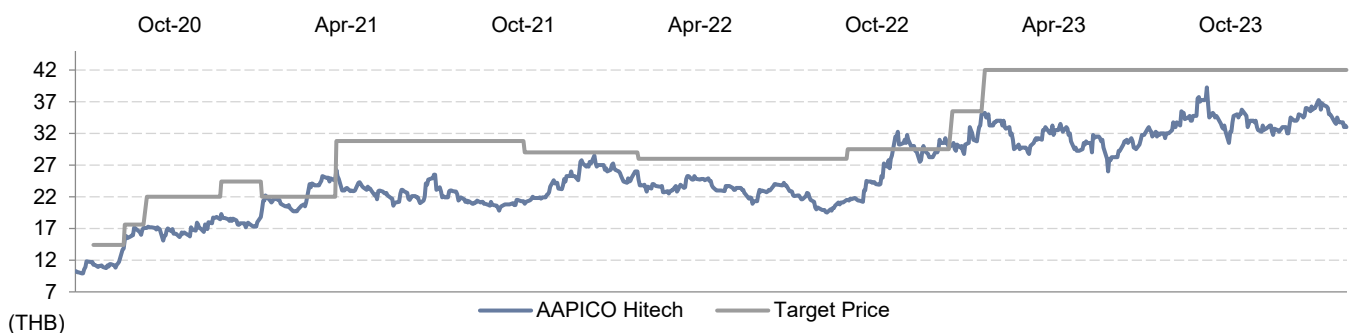
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

This report has been prepared by FSS International Investment Advisory Securities Company Limited (FSSIA). The information herein has been obtained from sources believed to be reliable and accurate; however FSSIA makes no representation as to the accuracy and completeness of such information. Information and opinions expressed herein are subject to change without notice. FSSIA has no intention to solicit investors to buy or sell any security in this report. In addition, FSSIA does not guarantee returns nor price of the securities described in the report nor accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Investors should study this report carefully in making investment decisions. All rights are reserved.

This report may not be reproduced, distributed or published by any person in any manner for any purpose without permission of FSSIA. Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

History of change in investment rating and/or target price

AAPICO Hitech (AH TB)



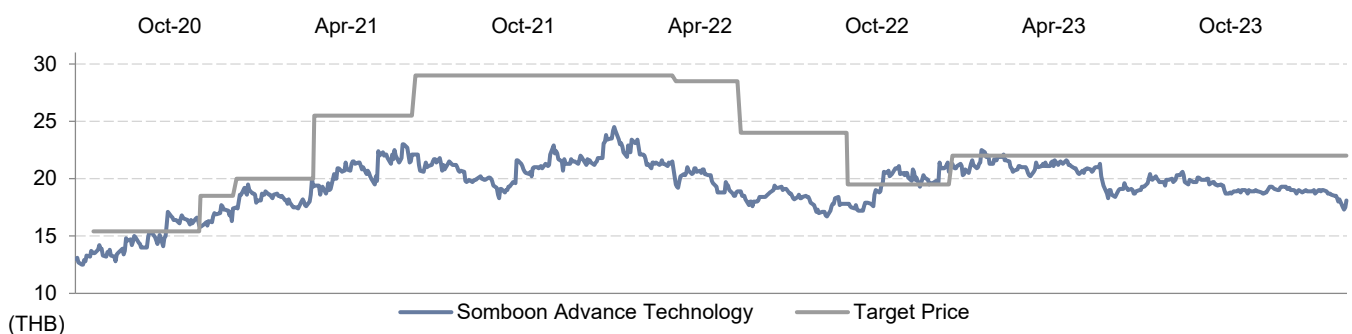
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
21-Oct-2020	BUY	14.40	15-Mar-2021	BUY	22.00	16-Mar-2022	BUY	28.00
17-Nov-2020	BUY	17.60	18-May-2021	BUY	30.80	01-Aug-2022	BUY	29.50
04-Dec-2020	BUY	22.00	27-Oct-2021	BUY	29.00	28-Oct-2022	BUY	35.50
08-Feb-2021	BUY	24.40	02-Feb-2022	HOLD	28.00	25-Nov-2022	BUY	42.00

Jitra Amornthum started covering this stock from 11-Oct-2023

Price and TP are in local currency

Source: FSSIA estimates

Somboon Advance Technology (SAT TB)



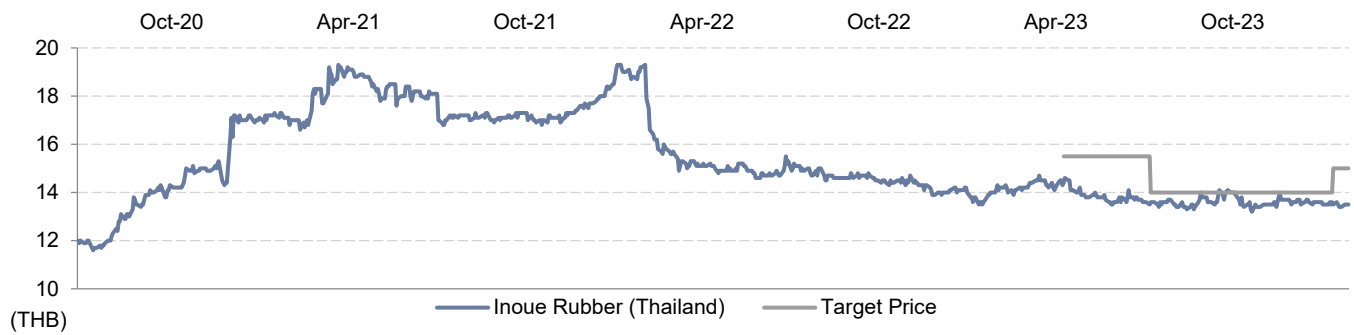
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
21-Oct-2020	BUY	15.40	29-Apr-2021	BUY	25.50	29-Apr-2022	BUY	24.00
21-Jan-2021	BUY	18.50	23-Jul-2021	BUY	29.00	01-Aug-2022	HOLD	19.50
19-Feb-2021	BUY	20.00	04-Mar-2022	BUY	28.50	28-Oct-2022	HOLD	22.00

Jitra Amornthum started covering this stock from 19-Apr-2023

Price and TP are in local currency

Source: FSSIA estimates

Inoue Rubber (Thailand) (IRC TB)



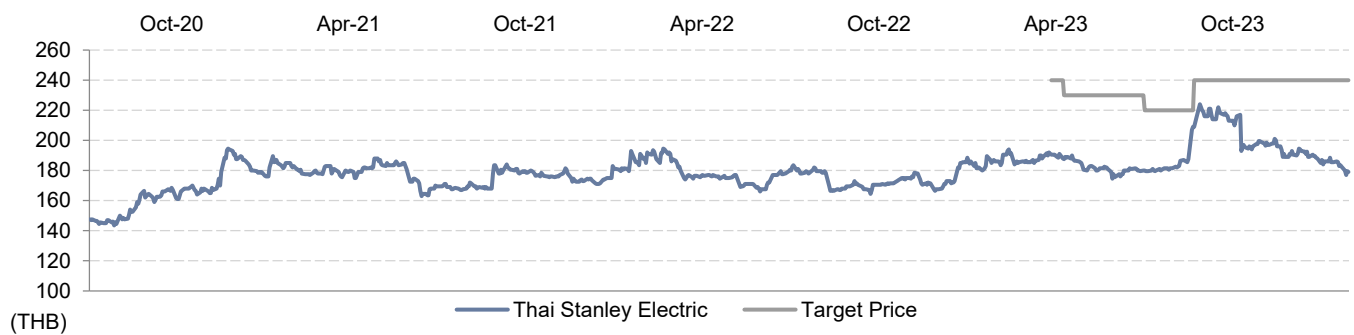
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
01-Feb-2023	HOLD	15.50	17-Apr-2023	HOLD	14.00	21-Sep-2023	BUY	15.00

Jitra Amornthum started covering this stock from 01-Feb-2023

Price and TP are in local currency

Source: FSSIA estimates

Thai Stanley Electric (STANLY TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
19-Jan-2023	BUY	240.00	10-Apr-2023	BUY	220.00	-	-	-
30-Jan-2023	BUY	230.00	23-May-2023	BUY	240.00	-	-	-

Jitra Amornthum started covering this stock from 19-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
AAPICO Hitech	AH TB	THB 34.50	BUY	Key downside risks to our P/E-derived TP include lower-than-expected car production volumes and lower car sales in both Thailand and Malaysia, higher steel prices, semiconductor shortages, and exchange rate risk.
Somboon Advance Technology	SAT TB	THB 18.20	BUY	The key downside risks to our P/E-based TP are the domestic car manufacturing industry recovering slower than expected, a faster-than-expected adoption rate for electric vehicles in Thailand, higher raw material prices, and worse global demand for pickup trucks.
Inoue Rubber (Thailand)	IRC TB	THB 13.40	BUY	Downside risks to our P/E-based TP include 1) weaker demand from the automotive industry; 2) a sharp rise in the price of crude oil; and 3) chip supply shortages.
Thai Stanley Electric	STANLY TB	THB 178.50	BUY	Downside risks to our P/E-based TP include 1) weak global automotive demand; 2) higher raw material prices and utility costs; 3) global semiconductor shortages; and 4) fluctuations in the THB.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited.

All share prices are as at market close on 10-Oct-2023 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.