

Somboon Advance Technology - SAT

SAT's sales target on bullish at 48% y-y growth

Report type: Trade Flash

Company Overview

SAT is mainly engaged in the manufacture and distribution of automobile parts. Its key products are axle shafts. Its customers include both local and international OEMs.

- SAT's management adjusted its 2012 sales target up to Bt9,500mn, representing growth of 48% y-y versus earlier 35% y-y.
- We cut our CY12 net profit forecast down by 4% to Bt880.34mn as gross margin is expected to lower than estimate.
- We recommend an 'ACCUMULATE' rating on SAT shares with a CY12 target price of Bt31/share, based on P/E of 12x.

What is the news?

SAT's management expected sales to grow 17%-18% h-h in 2HCY12, potentially raising full-year sales by 48% y-y to Bt9,500mn. Gross margin would widen to the range of 18%-20%, versus 14%-15% in 1HCY12, on the back of increasing workload, a downturn of scrap price, and rising capacity utilization of ICP2 plant. For investment in Indonesia and India, conclusive decision about investment portion is expected to meet by end-CY12.

How do we view this?

SAT's sales target appears to be more bullish than our earlier estimated growth of 27% y-y, as catalyst to support expected strong growth is forecast that the country's auto output would jump 46% y-y to 2.3mn units. SAT's key clients include Mitsubishi, Toyota and Isuzu, including a production line of agriculture-related equipment for Kubota. Farm tractors expect to be produced 41,000 and 53,000 units in 2012-2013 from 29,000 units in 2011. Gross margin, nonetheless, may not be as high as expected as ICP2 is yet to run at full utilization rate—capacity utilization is expected to be 60%-70% in 2HCY12, compare% in 50% in 2QCY12; however utilization rate would reach 80% in 2QCY13 which, would reap benefits from de-bottlenecking with outsourcing service. Moreover, higher workload at Samutprakarn plant in 2HCY12 will likely result SAT to pay tax expense at higher level than 1HCY12 due to an absence of tax shield, unlike a plant at Rayong province. Note that revenue proportion from Rayong plant was 55%, based on its 60% utilization rate. For these reasons, we cut our CY12 net profit forecast down by 4% from earlier Bt915.45mn to Bt880.34mn.

Investment Actions?

Even though earnings performance may not be as high as earlier expected, its new production line and overseas investment would help boost growth in the long run. We recommend an 'ACCUMULATE' rating on SAT shares with a target price of Bt31/share, based on P/E of 12x.

Valuation Method

P/E'12 (12x)

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