# Construction Materials



SCB Securities

## Positive on volume but still negative on margin

**Sirima Dissara, CFA**
(66-2) 949-1004
sirima.dissara@scb.co.th

- **Demand side positive on strong private and public investment**
- **Margin still a concern from weak product selling prices amid high fuel costs**
- **Top pick SCC: 1) strongest 4Q12F earnings (only SCC to report better earnings YoY and QoQ in the sector); 2) impressive 2-year earnings growth at 27%**

**3Q12A recap.** Most construction materials players reported weak 3Q12A earnings. Earnings improvement was seen only at SCC (+2%), mainly from inventory gains at its chemical unit. There was earnings deterioration at pure players, DRT (-4%), DCC (-8%), SCCC (-5%), notably due to margin erosion from a rise in fuel costs and weak product selling prices offsetting the rise in sales volume. TPIPL was the worst performer (-77%), dragged down by low chemical spreads (LDPE-ethylene).

**Private and public investment to support sales volume.** We estimate cement sales volume at 10% in 2012F (vs 8.4% in 2012TD) and 7.5% in 2013F and ceramic tiles sales volume at 4% in 2012F (vs 4% in 2012TD) and 8% in 2013F. SCB EIC estimates private investment growth at 12.7% in 2012F (repairs and new investment after floods) and 5.0% in 2013F (back to normal growth), and public investment will grow 5.2% in 2012F (gradual disbursement for LT projects) and 16.1% in 2013F (accelerating disbursement for LT projects). On the private side (residential property, industrial estate and commercial), after flood repairs in 1H12 new construction activity is expected to dominate via launches of residential property projects, primarily low-rise, plus continued Japanese relocation and expansion in industrial estates. On the public side, the main portion of the disbursement of Bt350bn for water management projects will be injected into the system in 2013-14. Beyond that, government infrastructure plans worth Bt2.2trn will support investment in 2012-19. A key risk is actual implementation, particularly in view of the lengthy past history of long delays in mega projects.

**Cautious on margin.** We are still cautious on sector margin in the near term, given: 1) continued weak product selling price (cement price: -2.2% YoY in October 2012 and -1.6% YoY in 10M12; ceramic tile price: flat YoY in October 2012 and +2.2%YoY in 10M12, based on REIC); 2) high fuel costs. Coal cost accounts for 35% of cement production cost, with natural gas cost accounting for 30% of ceramic floor tile production costs and 3% of roof tile production costs. A recent drop in fuel cost (-11% YoY for coal price and -4% YoY for oil price in the past three months) will not be passed through to production costs immediately, as cement producers typically lock in coal price by up to six to twelve months in advance and natural gas price lags oil price by six months on average. If this continues, the alleviation of cost pressure will be clearly seen in the middle of next year.

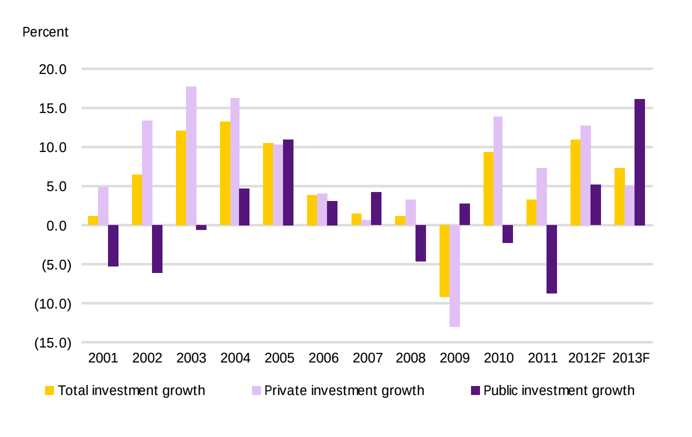
**SCC is top pick and upgrade DCC to BUY.** We like SCC the most for: 1) strongest earnings momentum in 4Q12F, up QoQ from full reopening of BST/Phoenix plus the seasonal high dividend income and up YoY from last year's low base on floods (in the sector only SCC will report better earnings YoY and QoQ); 2) two-year earnings growth of 29% in 2012-14F (above sector average of 21%). We upgraded our rating for DCC to "BUY" from "SELL" after the dip in share price (-32% since we downgraded to SELL on April 25). At this price, we like DCC for its compelling dividend yield at 7.0% in 2012F and 7.9% in 2013F (vs. its 10-year average at 6.2%).

### Valuation summary

| | Rating | Price | Target | ETR | P/E (x) | | | EPS growth (%) | | | P/BV (x) | | | ROE (%) | | | Div. Yield (%) | | | EV/EBITDA (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (Bt/Sh) | (Bt/Sh) | (%) | 12F | 13F | 14F | 12F | 13F | 14F | 12F | 13F | 14F | 12F | 13F | 14F | 12F | 13F | 14F | 12F | 13F | 14F |
| DCC | Buy | 43.00 | 50.00 | 24.2 | 14.3 | 12.6 | 11.0 | (1.5) | 13.4 | 15.0 | 6.73 | 6.70 | 6.48 | 46.4 | 53.1 | 59.9 | 7.0 | 7.9 | 9.1 | 10.0 | 9.3 | 8.1 |
| DRT | Neutral | 6.85 | 7.80 | 20.3 | 14.3 | 12.5 | 11.1 | 5.1 | 14.6 | 13.1 | 3.30 | 3.13 | 2.92 | 23.5 | 25.7 | 27.3 | 6.1 | 6.4 | 7.2 | 8.7 | 7.9 | 7.1 |
| SCC | Buy | 390.00 | 430.00 | 13.6 | 19.9 | 14.9 | 11.9 | (11.9) | 33.8 | 25.0 | 2.71 | 2.46 | 2.21 | 14.0 | 17.4 | 19.6 | 2.6 | 3.4 | 4.2 | 14.0 | 10.3 | 8.5 |
| SCCC | Sell | 434.00 | 400.00 | (4.0) | 27.1 | 23.5 | 21.1 | 3.8 | 15.3 | 11.2 | 5.71 | 5.36 | 5.12 | 21.3 | 23.5 | 24.8 | 3.1 | 3.8 | 4.3 | 18.4 | 16.4 | 15.2 |
| TPIPL | Neutral | 14.90 | 15.00 | 1.2 | 105.2 | 26.3 | 22.3 | (88.7) | 299.3 | 18.0 | 0.49 | 0.48 | 0.47 | 0.5 | 1.8 | 2.1 | 0.2 | 0.6 | 0.7 | 14.3 | 9.8 | 9.0 |
| **Average** | | | | | **36.2** | **18.0** | **15.5** | **(18.6)** | **75.3** | **16.5** | **3.79** | **3.63** | **3.44** | **21.2** | **24.3** | **26.7** | **3.8** | **4.4** | **5.1** | **13.1** | **10.7** | **9.6** |

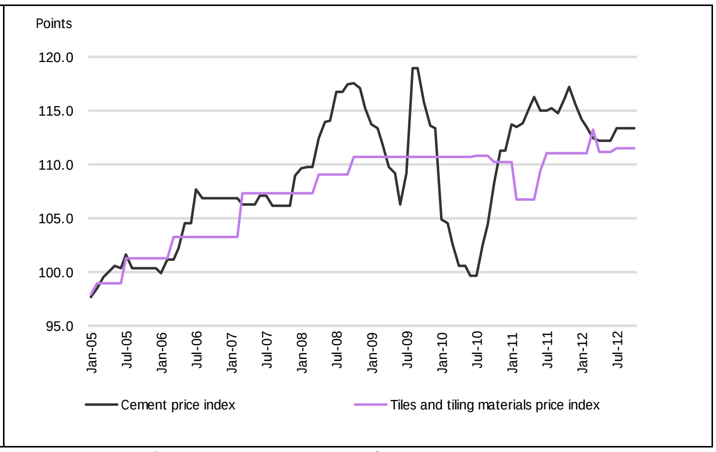
Source: SCBS Investment Research

**Figure 1: Private and public investment to rise in 2013**



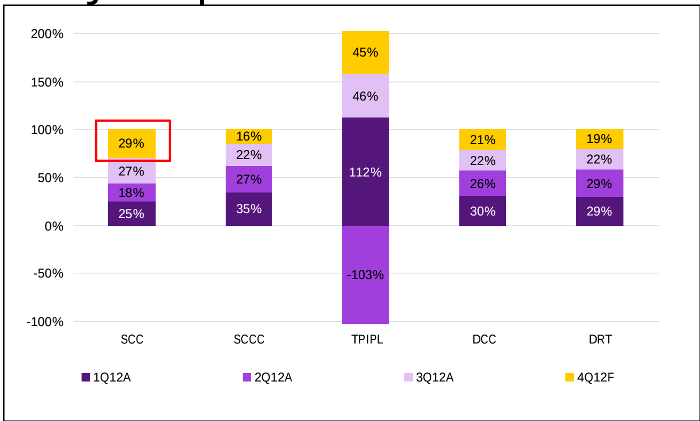

Source: SCB EIC and SCBS Investment Research

**Figure 2: Wholesale price in 10M12: -2% YoY for cement and +2% YoY for ceramic tile**



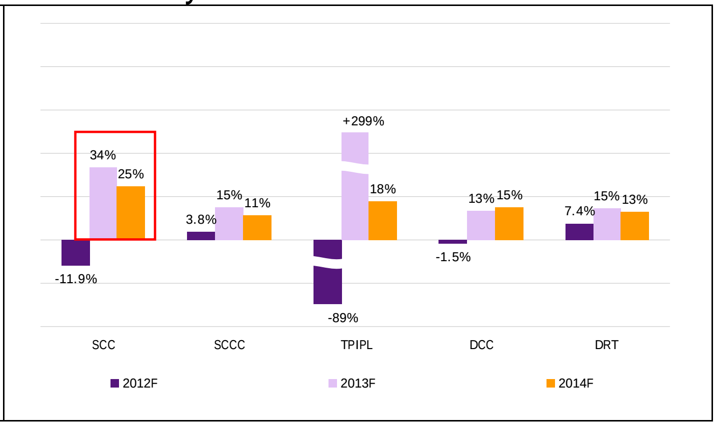

Source: REIC and SCBS Investment Research

**Figure 3: In 4Q12F, SCC earnings momentum to be stronger than peers**



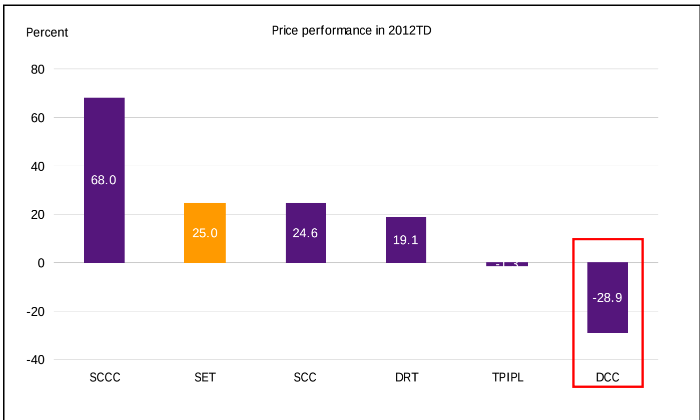

Source: SCBS Investment Research

**Figure 4: SCC earnings growth to beat the sector over the next two years**



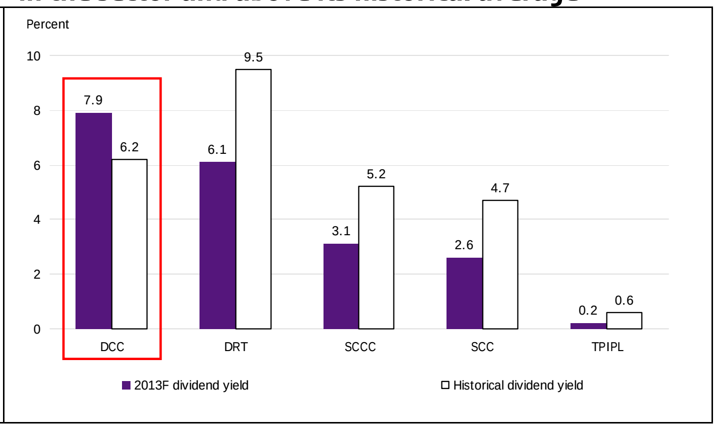

Source: SCBS Investment Research

**Figure 5: DCC is the most laggard play**




Source: SCBS Investment Research

**Figure 6: DCC's 2013F dividend yield to be the highest in the sector and above its historical average**




Source: SCBS Investment Research