

Somboon Advance Technology

SET / Reuters / Bloomberg
SAT/ SAT.BK / SAT TB

BUY

(unchanged)

Price (20 March 2008)

Bt14.30
Company Update

Capacity expansion plans; forecasts raised

12-month target price

Bt21.30 (+49%)
Favourable long-term outlook, reiterate BUY

SAT intends to increase its parts machining capacity in 3Q08 and metal forging capacity in early 2009 to support higher orders for auto parts. We had expected this decision as the company is currently running at full capacity. With auto production rising in Thailand to support higher demand in domestic and export markets, we see good long-term prospects for SAT. Coupled with its cheap valuation we reiterate our **Buy** rating.

Metal forging and machining capacity to be expanded

SAT will increase its machining line capacity for rear axle shafts from 210,000 pieces/month to 240,000 pieces/month (+14%) in 3Q08 and its metal forging capacity from 180,000 pieces/month to 240,000 pieces (+33%) in early 2009. The company also plans to buy 78 rai of land in Rayong for factory expansion in future. This will require a total investment of Bt920m which is to be financed by loans and from internal cash flow.

Earnings forecasts for 2009-10 revised up

We revised up our 2009F earnings target by 3% to Bt735m and our 2010F target by 9% to Bt834m to reflect the capacity expansion and a bigger order book. With Honda and Ford planning to increase auto production in Thailand next year, we expect SAT to benefit from more parts orders. We assumed sales growth of 15% p.a. for the company in 2009-010F.

TP of Bt21.30 implies an attractive upside of 49%

Our target price of Bt21.30 is based on a target 2008F PER rating of 10x, in line with the average for the Thai auto sector. Currently the stock is trading on a very low PER of 6.7x which implies an upside potential of 49%. The main risk factors are: a sharp rise in raw material costs (particularly for steel) and fewer orders if domestic auto sales are slower than expected.

FINANCIAL SUMMARY

Year	2005	2006	2007	2008F	2009F	2010F
Sales (Bt, m)	3,868	4,252	4,979	5,552	6,381	7,351
EBITDA (Bt, m)	671	741	733	1,062	1,163	1,257
Net profit bef. extra (Bt, m)	433	428	585	635	730	829
Net profit bef. extra growth	32.2	(1.2)	36.6	8.6	15.0	13.5
Net profit (Bt, m)	441	443	591	640	735	834
Net profit growth	(5.4)	0.3	33.6	8.3	14.9	13.4
EPS bef. extra (Bt)	1.44	1.43	1.95	2.12	2.43	2.76
EPS bef. extra growth	(0.4)	(1.2)	36.6	8.6	15.0	13.5
PER (X)	8.9	10.4	6.2	6.7	5.8	5.1
PCF (X)	13.4	11.9	5.0	5.5	4.6	4.1
PBV (X)	2.4	2.4	1.6	1.6	1.3	1.1
EV/EBITDA (X)	8.2	8.5	7.4	5.7	4.9	4.1
Yield (%)	3.4	3.2	4.8	4.4	5.1	5.8
ROE (%)	44.9	25.2	28.5	25.8	24.7	23.5
D/E (X)	1.8	1.5	1.4	1.1	0.9	0.7

Jitima Aungmanee

662 633 6483

jitima@tisco.co.th

SHARE SUMMARY
Price:

52-week high	Bt15.00
52-week low	Bt10.00
52-week average	Bt13.14

Stock data:

Issued shares:	300.0m
Par value:	Bt1.0
Market capitalization:	Bt4.3bn
Market capitalization:	US\$137.0m
Avg. Daily Turnover:	Bt13.6m
Avg. Daily Turnover:	US\$0.4m
Foreign Limit:	49.0%
Foreign Ownership:	14.4%
Free Float:	37.3%
NVDR:	2.71%
Beta (3 years)	0.54X

Latest earnings results (4Q07)

	Bt, m	QoQ%	YoY%
Net profit	168	3.8	30.8
EPS (Bt)	0.56	1.4	30.8

Major Shareholders (06/09/07)

Somboon Holding	26.7%
Kitaphanich Family	24.2%
Thailand Equity Fund	10.0%
Phatra Securities Plc	4.4%
Thai NVDR Co Ltd	4.3%

PRICE / PRICE RELATIVE


Source: Reuters

Performance (%)	-1m	-3m	-12m
SAT	1.42	1.42	37.50
SET	(3.51)	0.81	18.27

INCOME STATEMENT (Bt, m)

	Year Ended December 31,				
	2006	2007	2008F	2009F	2010F
Sales	4,252	4,979	5,552	6,381	7,351
Cost of Sales	3,445	3,882	4,392	5,075	5,859
Gross Profit	807	1,097	1,160	1,307	1,492
S&A Expenses	303	364	400	459	566
Other Income	108	89	139	134	154
Interest Expense	94	119	123	106	85
Interest Income	5	3	12	15	16
Net result of Investment	10	15	16	23	24
Net Profit before Tax	532	721	804	913	1,036
Income Tax	104	136	169	183	207
Net Profit before Extra. Items	428	585	635	730	829
FX Gain (Loss)	14	6	5	5	5
Other Gain (Loss)	0	0	0	0	0
Net Profit	443	591	640	735	834
Sales Growth (%)	9.9	17.1	11.5	14.9	15.2
Gross Margin (%)	19.0	22.0	20.9	20.5	20.3
Net Profit Margin (%)	10.4	11.9	11.5	11.5	11.3
Net Profit Growth (%)	0.3	33.6	8.3	14.9	13.4

QUARTERLY RESULTS (Bt, m)

	4Q06	1Q07	2Q07	3Q07	4Q07
Sales and Service Income	1,083	1,177	1,179	1,300	1,323
Cost of Sales and Services	865	935	929	1,008	1,011
Gross Profit	218	242	250	292	312
S&A Expenses	80	76	84	102	102
Interest Expense	23	22	31	33	34
Net result of Investment	5	0	6	6	4
Other Incomes	29	22	20	33	17
Net Profit before Tax	149	166	161	196	198
Income Tax from Operations	24	36	35	35	31
Net Profit before Extra. Items	125	130	126	162	167
FX Gain (Loss)	3	3	2	1	1
Net Profit	129	133	128	162	168
Revenue Growth (YoY %)	2.7	12.2	14.3	19.5	22.1
Gross Margin (%)	20.1	20.6	21.2	22.5	23.6
Net Profit Margin (%)	11.9	11.3	10.8	12.5	12.7
Net Profit Growth (YoY %)	28.2	36.9	33.1	34.1	30.8

KEY FINANCIAL RATIOS

	2006	2007	2008F	2009F	2010F
Other Incomes to Total Revenue (%)	2.5	1.7	2.4	2.1	2.1
S&A Expenses to Sales (%)	7.1	7.3	7.2	7.2	7.7
Current (Times)	1.2	1.1	1.1	1.2	1.3
Quick (Times)	0.9	0.8	0.9	1.0	1.0
A/R Turnover (Days)	64.9	61.6	64.5	64.5	63.5
Inventory Turnover (Days)	42.6	42.7	35.4	35.7	37.4
A/P Turnover (Days)	66.5	65.1	63.4	65.5	65.5
Debt to Equity (Times)	1.5	1.4	1.1	0.9	0.7
Net Debt to Equity (Times)	1.4	1.3	1.1	0.8	0.6
Gearing (Times)	1.0	0.9	0.7	0.5	0.3
Interest Coverage (Times)	6.6	7.0	7.5	9.6	13.2
Return on Avg. Assets (%)	9.6	11.7	11.4	12.5	13.4
Return on Avg. Equity (%)	25.2	28.5	25.8	24.7	23.5

CASHFLOW STATEMENT (Bt, m)

	Year Ended December 31,				
	2006	2007	2008F	2009F	2010F
Cash Flows from Operations (CFO)					
Net Profit	443	591	640	735	834
Adjusting Items Not Affecting Cash					
Depreciation & Amortization	237	0	302	316	331
Unrealized FX Loss (Gain)	0	0	0	0	1
Others	(4)	27	0	0	0
+ (-) in Working Capital	(287)	105	(166)	(118)	(115)
Net CFO	389	723	776	933	1,051
Cash Flows from Investing Activities (CFI)					
- (+) in Short-term Investment	70	0	0	0	0
- (+) in Investment in Affiliates	(20)	(14)	0	0	0
- (+) in Fixed Assets and Other Assets	(373)	(897)	(603)	(300)	(300)
Net CFI	(323)	(911)	(603)	(300)	(300)
Cash Flows from Financing Activities (CFF)					
+ (-) in Debt Financing	61	180	(124)	(377)	(420)
+ (-) in Minority Interest	0	0	0	0	1
+ (-) in Share Capital and Premium	0	0	0	0	0
+ (-) in Warrant	0	0	0	0	1
+ (-) in Equity Adjustment	(45)	(52)	14	0	(3)
- Cash Dividend Paid	(150)	(163)	(183)	(205)	(234)
Net CFF	(134)	(35)	(293)	(582)	(655)
Net Cash Increase (Decrease)	(68)	(223)	(121)	51	95

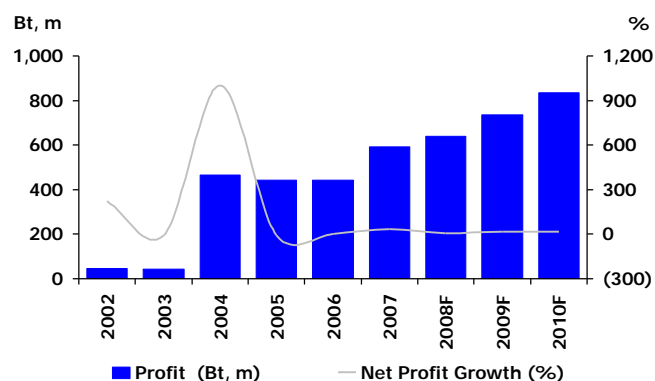
BALANCE SHEET (Bt, m)

	As of December 31,				
	2006	2007	2008F	2009F	2010F
Current Assets	1,474	1,662	1,661	1,964	2,329
Current Liabilities	1,194	1,510	1,466	1,593	1,747
Total Assets	4,661	5,461	5,748	6,035	6,369
Total Liabilities	2,766	3,207	3,036	2,793	2,527
Minority Interest	0	0	0	0	1
Total Equity	1,895	2,254	2,711	3,242	3,842
Paid-up Capital	300	300	300	300	300
Share Premium	85	85	85	85	85
Warrant	0	0	0	0	1
Retained Earnings	708	1,119	1,577	2,107	2,707
Equity Adjustment	802	750	750	750	750
Market Cap (Bt, m)		4,290			
Cash&cash equivalent (Bt, m)		229			
Borrowings (Bt, m)		2,137			
Gearing (X)		0.9			

FORECAST ASSUMPTIONS

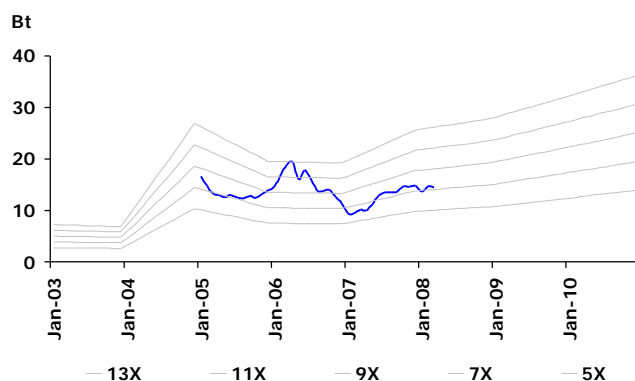
	2006	2007	2008F	2009F	2010F
Production capacity					
Axle Shaft ('000 units)	2,280	2,520	2,880	2,880	2,880
Leaf Spring (tone/year)	180,000	18,000	18,000	18,000	18,000
Disc Brake ('000 units)	1,308	1,308	1,308	1,308	1,308
Drum Brake ('000 units)	1,140	1,140	1,140	1,140	1,140
Stabilizer Bar ('000 units)	1,200	1,200	1,200	1,200	1,200
Utilization rate (%)					
Axle Shaft	97.0	90.0	82.0	94.3	108.4
Leaf Spring (tone/year)	80	80	80	80	80
Disc Brake	73.0	79.0	86.1	93.9	102.3
Drum Brake	62.0	62.0	62.0	67.6	73.7
Stabilizer Bar	50.0	65.0	65.0	70.9	77.2

Net profit



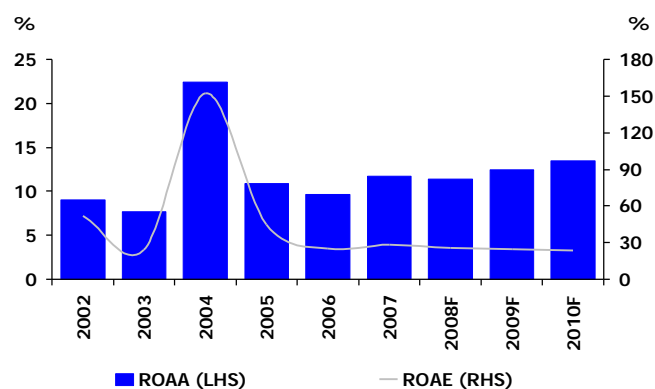
Sources : Company data, TISCO Research

PE Band



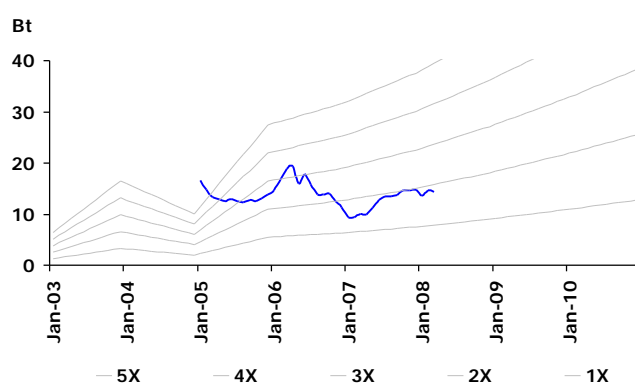
Sources : Company data, TISCO Research

ROAA, ROAE



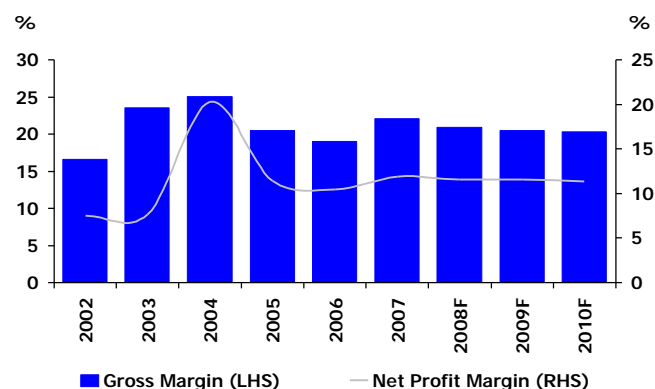
Sources : Company data, TISCO Research

PBV Band



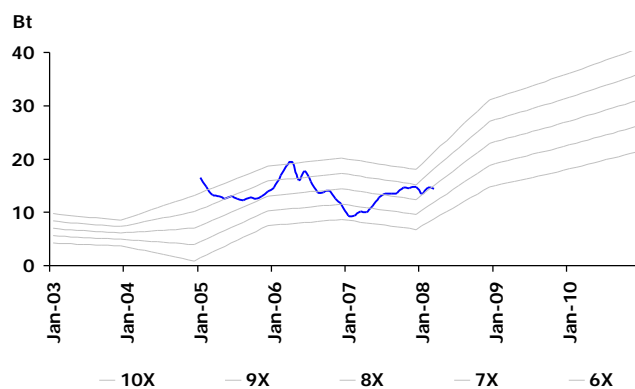
Sources : Company data, TISCO Research

Profit margin



Sources : Company data, TISCO Research

EV/EBITDA Band



Sources : Company data, TISCO Research

TISCO Securities Company Limited

www.tiscosec.com

Bangkok

48/8 TISCO Tower 4th Floor, North Sathorn Road, Bangkok 10500, Thailand
Tel : 662 633 6999 Fax : 662 633 6490, 662 633 6660

Esplanade Branch

99 Esplanade Shopping Center, Room 202-2, 2nd Floor, Ratchadapisek Road, Din Daeng, Bangkok 10400
Tel : 662 641 3251, 662 641 3252 Fax : 662 641 3253

Chiang Mai

50/118-129 4th Floor, Hillside Plaza & Condotel 4, Huaykaew Road, Muang District, Chiang Mai 50300
Tel: 0 5322 4720 Fax: 0 5322 4711

Nakhon Pathom

386, 388 Petchkasem Road, Prapatone, Muang District, Nakhon Pathom 73000
Tel: 0 3421 1812 Fax: 0 3425 1676

Nakhon Ratchasima

40/8-11 Kudun Road, Muang District, Nakhon Ratchasima 30000
Tel: 0 4425 7752 Fax: 0 4425 3752

Udon Thani

227/21 2nd Floor, Udondussadee Road, Muang District, Udon Thani 41000
Tel: 0 4224 6888 Fax: 0 4224 5793

TISCO Securities Hong Kong Limited

(A wholly-owned subsidiary of TISCO Bank)

Room 1107, 11/F Tower One, LIPPO Center, 89 Queensway, Hong Kong
Tel: 852 2868 9023 Fax: 852 2868 9221 Telex: 79960 TISHK HX

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