

Eastern Polymer Group PCL (EPG)

Share price does not yet reflect growth potential

- ▶ Going forward with innovation.
- ▶ Maintain forecast. Firm earnings growth expected.
- ▶ Undervalued share price. BUY with target price of Bt16.00.

Going forward with innovation

At EPG's analyst meeting on 18 Aug, we learned that the company is marching forward with its business growth strategies for all three core business units, backed by its own outstanding innovation and R&D. For its insulation business, EPG is expanding sales and market in ASEAN, apart from the existing domestic market and America region, while also introducing new featured products that are now increasingly accepted by customers both domestically and overseas. For automotive parts, there was a positive update and improvement on TJM restructuring that would eventually create synergy with Aeroklas, to be one of the key operating performance drivers in the long run. For plastic & packaging, the key catalyst should be improved efficiency on its production line from the impending full run of EPP phase II, a high-technology plant based on its own innovation and has relatively low cost and high efficiency, that is expected to be fully operational from 2Q16/17 (Jul 16 – Sep 16) onward, which would definitely help the company in its aggressive marketing strategies to expand its market in the region, particularly in Japan and South Korea, while maintaining high profitability. These bright outlooks as well as potential M&A deals in the future would be made possible by the company's healthy financial position, with low debt to equity of only 0.19x as of Jun 16.

Maintain forecast with firm earnings growth expected

EPG reported high earnings in 1Q16/17 (Apr 16 – Jun 16) at Bt381mn (+32% YoY, +9% QoQ), which normalized earnings (excluding Fx gain/loss) was a record high Bt392mn bolstered by robust performances from all business units, higher sales revenue and strong profitability thanks to successful business expansion both domestically and overseas along with benefits from low raw material costs under the low crude price conditions. We maintain our forecast and still see a bright outlook for the company. The pace of EPG's business growth should be maintained going forward, firmly secured by existing patents on hand plus additional innovation from increased R&D investment, and continuous business expansion, including possible M&A deals in the future. We estimate normalized earnings growth this year at 21% YoY and next year at 20% YoY.

BUY

TP: Bt16.00

Closing price: 12.20

Upside/downside +31.1%

Sector	Property & Construction
Paid-up shares (shares mn)	2,800
Market capitalization (Bt mn)	34,160
Free float (%)	24.96
12-mth daily avg. turnover (Bt mn)	188.40
12-mth trading range (Bt)	15.80/8.00

Major shareholders (%)

Vitoorapakorn Holding Co.	60.00
Pawat Vitoorapakorn	2.51
Chumnan Vitoorapakorn	1.74

Financial highlights

(Year to March)	2014/15	2015/16	2016/17E	2017/18E
Revenue (Btmn)	6,916	8,769	10,546	12,745
Net profit (Btmn)	629	1,413	1,577	1,889
Norm. profit (Btmn)	671	1,300	1,577	1,889
EPS (Bt)	0.22	0.50	0.56	0.67
Norm. EPS (Bt)	0.24	0.46	0.56	0.67
Norm. EPS growth (%)	-5.7	93.7	21.4	19.8
PER (x)	54.3	24.2	21.7	18.1
PBV (x)	4.2	3.7	3.4	3.0
DPS (Bt)	0.08	0.20	0.23	0.27
Div. Yield (%)	0.7	1.6	1.8	2.2
ROE (%)	10.5	16.2	16.3	17.6

Source: Company data, AWS estimate

Thailand Research Department

Mr. Napat Siworapongpun, CFA, FRM
License, No. 49234
Tel: 02 680 5094

Undervalued share price, recommend BUY with TP of Bt16.00

We maintain a BUY recommendation with a 2016 TP of Bt16.00 (28.4x PER multiple, a historical average). We believe the current share price is well undervalued as it trades at PER this year and the next at around 20x, which is slightly above the construction material sector's multiple of 17x but EPG can generate superior ROE and higher earnings growth secured with patents on hand. In addition, the share trades below its historical average by 2.0 S.D. since it began publicly trading in late 2014 (filtering out the first month in an effort to remove upward bias from speculation). The likely M&A activities in the future are potential upside to include in our projection and target price.

Table 1: EPG 1Q16/17 (Apr 16-Jun 16) results review

Unit: Btm n	1Q15/16	2Q15/16	3Q15/16	4Q15/16	1Q16/17	%QoQ	%YoY
Total revenue from sales & services	2,075	2,270	2,262	2,162	2,361	9%	14%
Total cost of sales & services	(1,436)	(1,481)	(1,561)	(1,376)	(1,584)	15%	10%
Gross profit	639	790	701	786	776	-1%	22%
SG&A expense	(384)	(400)	(435)	(454)	(409)	-10%	7%
Other income	56	62	36	14	(4)	-125%	-106%
Equity income	46	76	73	55	66	20%	42%
EBIT	357	528	375	400	429	7%	20%
Interest expense	(51)	(78)	(17)	(16)	(15)	-10%	-71%
Tax expense	(19)	(26)	(4)	(36)	(33)	-8%	77%
Attributing to minority interest	0	0	0	0	0		
Net profit	288	424	353	348	381	9%	32%
Norm. profit	240	353	353	353	392	11%	63%
EPS (Bt)	0.10	0.15	0.13	0.12	0.14	9%	32%
Revenue by segment							
1. Insulation business	631	704	648	614	678		
2. Auto part business	784	934	972	915	1,027		
3. Plastic & packaging business	659	632	641	632	654		
Gross profit margin by segment							
1. Insulation business	36%	47%	39%	45%	41%		
2. Auto part business	26%	28%	28%	34%	29%		
3. Plastic & packaging business	31%	31%	28%	32%	31%		
Overall gross profit margin	31%	35%	31%	36%	33%		

Source: SET, AWS estimate

Figure 1: EPG's historical PER



Source: Company data, Bloomberg

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



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








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



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

Source: Thai Institute of Directors (IOD)

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

Corporate Governance Report disclaimer

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

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

Branch	Address	Phone	Fax
Head Office	540 Floor 7,14,17 , Mercury Tower, Ploenchit Road, Lumpini, Pathumwan Bangkok 10330	02-680-5000	02-680-5111
Silom	191 Silom Complex Building,21st Floor Room 2,3-1 Silom Rd., Silom, Bangrak, Bangkok, 10500 Thailand	02-630-3500	02-630-3530-1
Asok	159 Sermmitr Tower, 17th FL. Room No.1703, Sukhumvit 21 Road, Klong Toey Nua, Wattana, Bangkok 10110	02-261-1314-21	02-261-1328
Pinklao	7/3 Central Plaza Pinklao Office Building Tower B, 16th Flr., Room No.1605-1606 Baromrajachonnanee Road, Arunamarin, Bangkoknoi, Bangkok 10700	02-884-7333	02-884-7357, 02-884-7367
Chaengwattana	99/99 Moo 2 Central Plaza Chaengwattana Office Tower, 22nd Flr., Room 2204 Chaengwattana Road, Bang Talad, Pakkred, Nonthaburi 11120	02-119-2300	02-8353014
Chaengwattana 2	9/99 Moo 2 Central Plaza Chaengwattana Office Tower, 22nd Flr., Room 2203 Chaengwattana Road, Bang Talad, Pakkred, Nonthaburi 11120	02-119-2388	02-119-2399
Mega Bangna	39 Moo6 Megabangna, 1st Flr., Room 1632/7 Bangna-Trad Road, Bangkaew Bangplee, Samutprakarn 10540	02-106-7345	02-105-2070
Rayong	356/18 Sukhumvit Road, Nuen-Phra Sub District, Muang District, Rayong Province 21000	038-808200	038-807200
Khonkaen	26/9 Srijanmai Road, Tamboonnaimuang, Khon Khaen 40000	043-334-700	043-334-799
Chonburi	44 Vachiraprakarn Road, Bangplasoi, Muang Chonburi, Chonburi 20000	038-274-533	038-275-168
Chaseongsao	233-233/2 Moo2 1st Flr., Sukprayoon Road, Na Meung Sub- District, Meung District, Chachoengsao 24000	038-981-587	038-981-591

This report has been prepared by Asia Wealth Securities Company Limited (“AWS”). The information herein has been obtained from sources believed to be reliable and accurate, but AWS makes no representation as to the accuracy and completeness of such information. AWS does not accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Before making your own independent decision to invest or enter into transaction, investors should study this report carefully and should review information relating. 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 AWS. Investment in securities has risks. Investors are advised to consider carefully before making decisions.