BUY (Unchanged)	**TP: Bt 22.00** (From: Bt 17.80)	**8 JUNE 2021**
Transfer Of Coverage	**Upside : 22.9%**	

Thanachart Securities

Thai Union Group Pcl (TU TB)

A new focus

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TU has shifted its focus from M&A to profitability. We expect this to result in a more stable earnings growth pattern with improved earnings visibility from cost-saving measures. After flat earnings this year from a high base, we estimate 16% growth in 2022F. TU looks cheap to us at 13x 2021F PE. Reaffirm BUY.

A period of profitability focus

This report marks a transfer of coverage for TU with our BUY call maintained. *First*, we like what we have heard about TU's new focus of profitability enhancement. This should improve ROE and earnings visibility while earnings fluctuations should diminish. Second, though we expect a soft near-term earnings path with a 7% y-y fall in 2Q-4Q21E (after +36% y-y in 1Q21) from last year's high base, we expect TU to offer decent, high-visibility growth of 16/10% in 2022-23F. *Third*, as a global food company at 13x 2021F PE before falling to 11x in 2022F (vs. 13x, -1SD), we see TU as cheap given 16% 2022F EPS growth. *Fourth*, we lift our 2021-23F earnings by 8/17/22% to reflect more cost savings and value-added product sales. Together with rolling over to 2022F, we lift our DCF-based 12-month TP to Bt22.0 (from Bt17.8).

Margin enhancement from cost savings…

TU's five-year targets are 1) raising net margin to 7.0% in 2025 from 4.7% in 2020; 2) lifting the contribution of its high-margin pet-food business; 3) 10% additional sales from new value-added businesses; and 4) 2-3% organic sales growth from two core businesses of canned and frozen products. That implies an Bt11bn profit in 2025 on our estimate, vs. our forecast of Bt9.4bn, or an 8% five-year CAGR. The targeted Bt3bn-plus cost savings in five years and revenues from new value-added businesses help improve earnings visibility. Key saving factors are European operations' streamlining and a so-called culinary project to combine three old frozen food factories in Samut Sakhon province into a bigger and more advanced factory in mid-2022.

…and high-margin businesses

Aside from cost savings, TU expects its net margin to rise from a growing pet-food business contribution and a more meaningful contribution from its value-added businesses from 2022 onward. Pet food is its existing core business that is still growing strongly with a gross margin of 27% vs. 21% for ambient food and 10% for frozen food. We estimate pet-food sales to rise to 18% in 2023F, vs. 15% in 2020. TU is also expanding its value-added businesses, including tuna oil refining and proteins and food supplement products. It expects the new businesses to add 10% to its 2020 sales base in five years. We expect these businesses' net margin to exceed 10%.

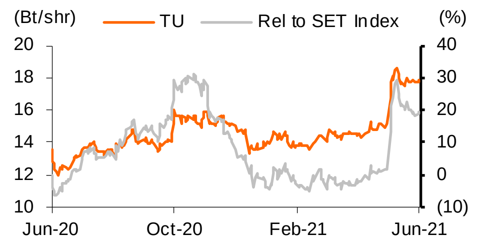
Red Lobster now an upswing factor

Red Lobster was TU's major dragger in 2020 with its negative contribution of US$14m, or Bt419m (net of preferred dividend and tax). As the US is reopening after mass vaccinations, we expect RL to turn to a positive swing factor for TU with a positive contribution of Bt169m (Exhibit 15) this year. We expect RL to break even in 2024F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	132,402	133,009	139,726	146,575
Net profit	6,246	6,535	7,560	8,376
Consensus NP	—	6,463	6,572	7,191
Diff frm cons (%)	—	*1.1*	*15.0*	*16.5*
Norm profit	6,501	6,535	7,560	8,376
Prev. Norm profit	—	6,049	6,486	6,880
Chg frm prev (%)	—	*8.0*	*16.6*	*21.8*
Norm EPS (Bt)	1.4	1.4	1.6	1.8
Norm EPS grw (%)	39.1	0.5	15.7	10.8
Norm PE (x)	13.1	13.1	11.3	10.2
EV/EBITDA (x)	11.4	12.3	11.3	10.7
P/BV (x)	1.8	1.7	1.6	1.5
Div yield (%)	4.0	4.5	5.2	5.9
ROE (%)	12.9	12.2	13.3	13.9
Net D/E (%)	91.4	87.8	79.0	70.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 8-Jun-21 (Bt)	17.90
Market Cap (US$ m)	2,737.8
Listed Shares (m shares)	4,771.8
Free Float (%)	60.6
Avg Daily Turnover (US$ m)	16.2
12M Price H/L (Bt)	18.60/11.90
Sector	FOOD
Major Shareholder	Chansiri family 16.9%

Sources: Bloomberg, Company data, Thanachart estimates

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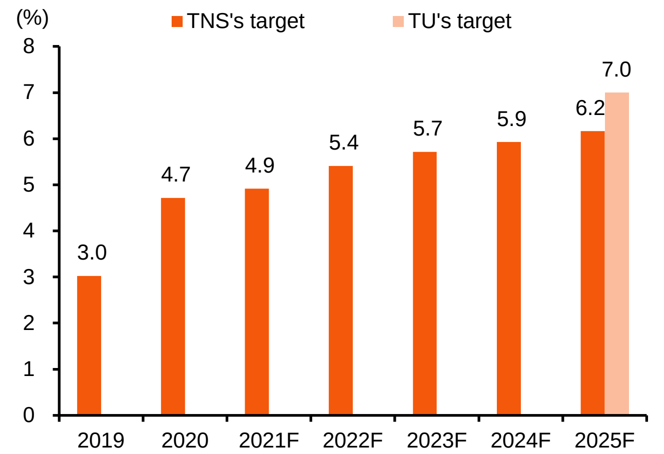
A new focus; BUY

We reaffirm our BUY rating on shares of Thai Union Group Pcl (TU) for the following reasons:

We like TU's new focus on profitability enhancement

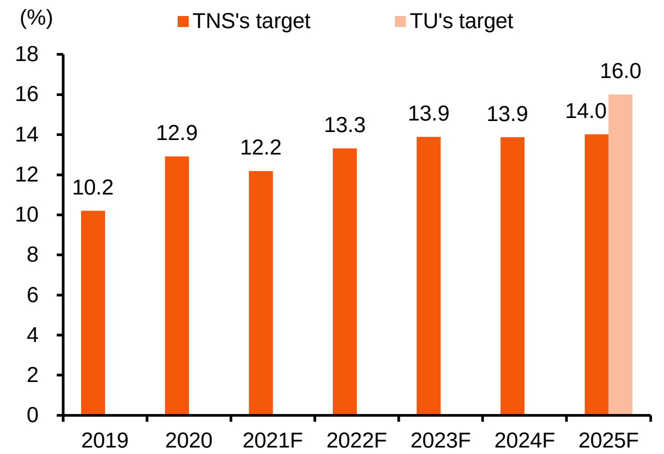
First, TU has shifted its focus from expanding sales from new investments and M&A to profitability enhancement with a net margin target of 7.0% in 2025 from 4.7% in 2020. This implies a Bt11.0bn profits in 2025 or 11% EPS CAGR, on our estimate. Our numbers are more conservative with a 6.2% net margin and a Bt9.4bn profit in 2025F, or an 8% EPS CAGR. As margin expansion is targeted by the company to come from cost-saving measures and increasing its value-added products, the end results should not only be higher profitability but also reduced earnings fluctuations and lower earnings risk given that the cost-saving program has already started and has shown some positive results already.

Ex 1: Net Margin Target



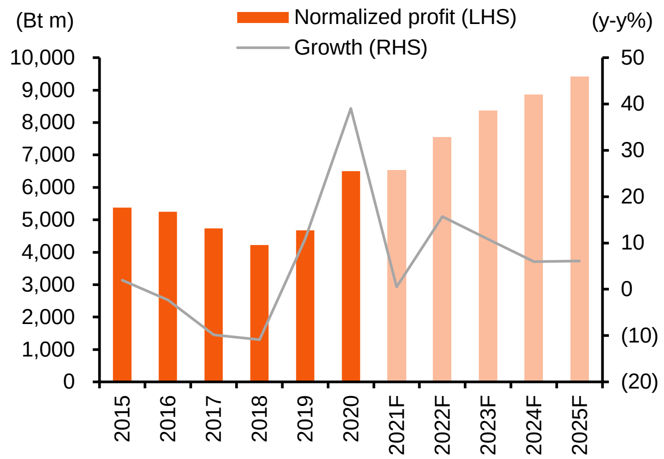
Sources: Company data, Thanachart estimates

Ex 2: Implied ROE At Target



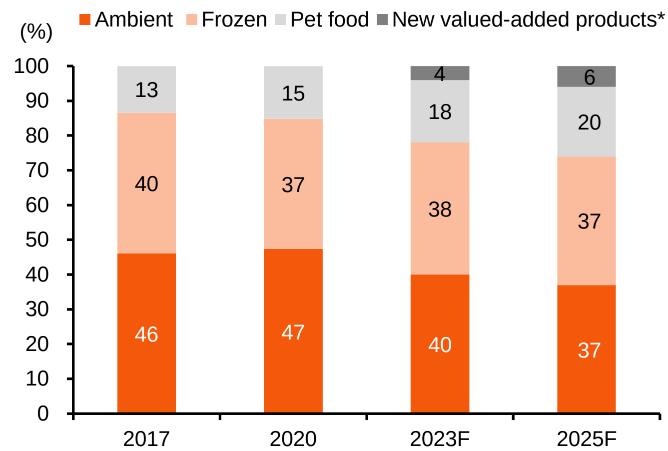
Sources: Company data, Thanachart estimates

Ex 3: We Expect Earnings To Fluctuate Less…



Sources: Company data, Thanachart estimates

Ex 4: …From A Higher Mix Of Less Volatile Products



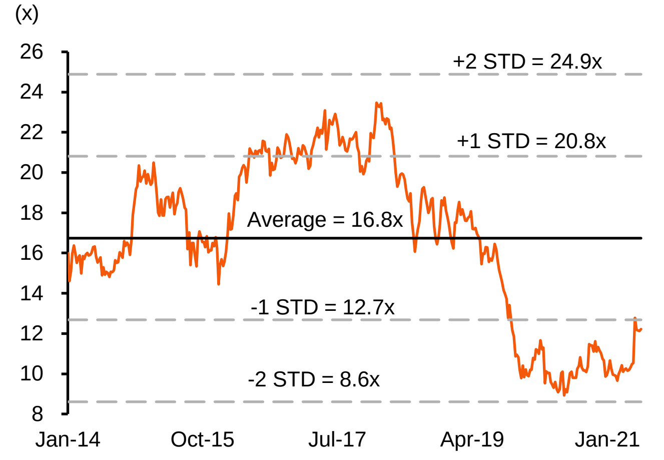
Sources: Company data, Thanachart estimates

Note: *Ingredient-related products

TU looks undervalued, in our view

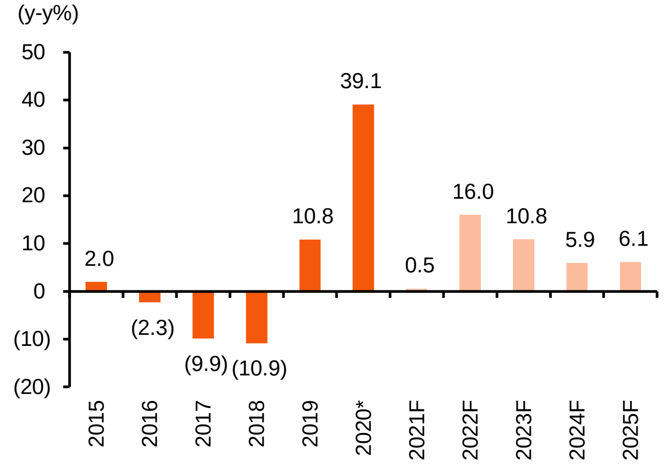
Second, TU's valuation looks cheap to us at trading at a 13x PE multiple in 2021F before falling to 11x in 2022F, still below 13x or 1SD below its historical mean. Our expectation that TU should enjoy a higher net margin and ROE also supports a higher PE level. Given that a key growth driver is from two major cost-saving measures that have already got under way, we foresee higher earnings visibility than in the past. TU is also a global-scale food company that is on the way to having less commodities-based and higher value-added products.

Ex 5: PE STD



Sources: Bloomberg, Thanachart estimates

Ex 6: Normalized EPS Growth



Sources: Company data, Thanachart estimates

Note: *Abnormally strong growth of high-margin ambient business

We boost our earnings estimates

Third, we raise our earnings estimates by 8/17/22% in 2021-23F to reflect stronger-than-expected normalized 1Q21 earnings (+36% y-y and +9% q-q), more cost-saving plans and an increased contribution from high value-added products. As such, together with rolling over our valuation base year to 2022F, we lift our DCF-based 12-month TP to Bt22.0/share (from Bt17.8 previously).

Ex 7: Earnings Revisions

	2019	2020	2021F	2022F	2023F
Sales (Bt m)					
New	126,275	132,402	133,009	139,726	146,575
Old			132,607	135,205	140,853
Change (%)			*0.3*	*3.3*	*4.1*
Product mix (%)					
New					
- Ambient	44	47	42	41	40
- Frozen	42	37	42	40	38
- Pet food	15	15	16	17	18
- New business	0	0	0	2	4
Old					
- Ambient			43	43	42
- Frozen			43	42	42
- Pet food			14	15	16
- New business			0	0	0
Gross margin (%)					
New	15.9	17.7	17.3	17.4	17.6
Old			16.3	16.2	16.1
Change (pp)			*1.0*	*1.3*	*1.5*
SG&A to sales (%)					
New	11.8	11.6	11.5	11.4	11.6
Old			11.8	11.6	11.5
Change (pp)			*(0.3)*	*(0.2)*	*0.1*
Normalized profits (Bt m)					
New	4,675	6,501	6,535	7,560	8,376
Old			6,049	6,486	6,880
Change (%)			*8.0*	*16.6*	*21.8*

Sources: Company data, Thanachart estimates

Ex 8: Our 12-month DCF-based TP, Using a Base Year of 2022F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
EBITDA		11,801	12,222	12,414	12,920	13,170	13,406	13,526	13,701	13,765	14,453	14,767	—
Free cash flow		5,373	6,716	8,133	8,567	8,770	9,051	9,215	9,369	9,423	10,103	10,411	205,320
PV of free cash flow		5,929	5,929	6,744	6,673	6,310	6,097	5,810	5,531	5,208	5,228	4,858	95,800
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.7												
WACC (%)	6.4												
Terminal growth (%)	2.0												
Enterprise value - add investments	159,546												
Net debt (2020)	50,927												
Minority interest	3,551												
Equity value	105,067												
# of shares (m)	4,772												
Target price/share (Bt)	**22.0**												

Sources: Company data, Thanachart estimates

Profitability enhancement

TU plans to lift its net margin to 7.0% in 2025 (vs. our forecast of 6.2%) from 4.7% in 2020 through cost-saving measures and an increase in value-added products.

Cost-saving plans

Two major areas of cost savings

TU targets Bt3bn-plus in cost savings in the five years to 2025 with the majority coming from the operational streamlining of its European operations and a so-called culinary project to combine three old frozen food factories in Samut Sakhon province, Thailand, into a new, more advanced factory. Our more conservative estimate is Bt1.8bn (Bt1.5bn + Bt0.3bn below)

We estimate Bt1.5bn in savings from European operations

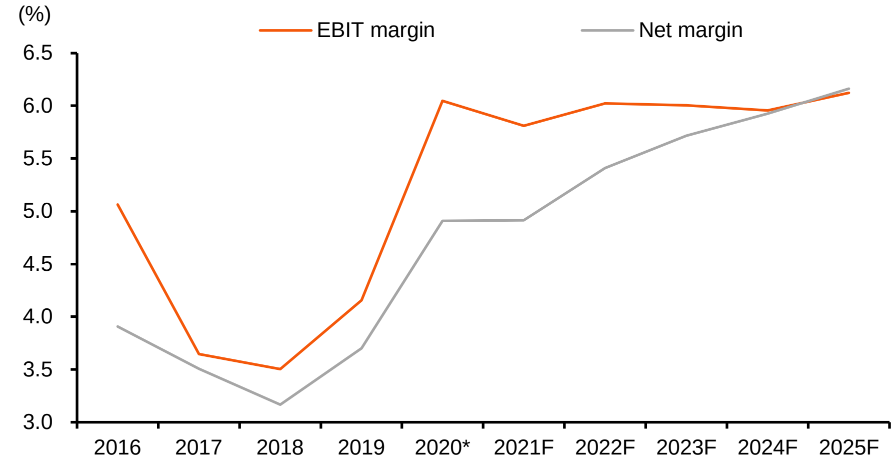
Having focused on expansion and M&A mainly in Europe over the years, TU is now eyeing many areas where it can reduce costs. Europe accounted for 29% of TU's total sales in 2020. The cost-saving process started in 2020 but the company expects clearer results from 2021. The cost-saving strategy is being corroborated by TU's management team and a leading global consultant firm. According to the company, the cost savings so far have been Euro10m, or Bt380m. The main areas of savings were from merging its offices in Europe, helping it to reduce excess staff, and from closing one of its chilled food factories in Germany which was making losses. TU said there are many more areas, big and small, where it could reduce costs further. The company expects further savings to largely come from merging its business units and increasing automation at its European plants which are still labor intensive. TU also plans to terminate business units which are not making profits or are yielding too low returns. As for automation integration, new machinery should help reduce labor costs while also helping to eliminate human error, hence lowering expenses.

The saving strategy is planned to go beyond at TU's factory level to its entire supply chain system. For instance, TU is reviewing its purchasing processes with suppliers, which could result in better raw material procurement terms. Also, TU is studying route optimization programs to help cut the lead times for the raw materials. We estimate combined cost savings of Bt1.5bn during 2020-23F.

And another Bt300m from plant rationalization in Thailand

As for the culinary project, TU plans to combine its three old frozen factories in Thailand into a larger and more modern factory. TU expects the new plant to be highly automated with a 50% reduction in the number of workers (1,500 at its existing three plants). The new plant would also have around 20% extra capacity to serve new customers. TU is targeting some global fast-food chains, for example. We expect around Bt300m in cost savings while we leave revenue from potential new clients as possible upside. The new plant is scheduled to come on stream in 3Q22F and the full-year impact of the saving should be felt in 2023F.

Ex 9: EBIT And Net Margin

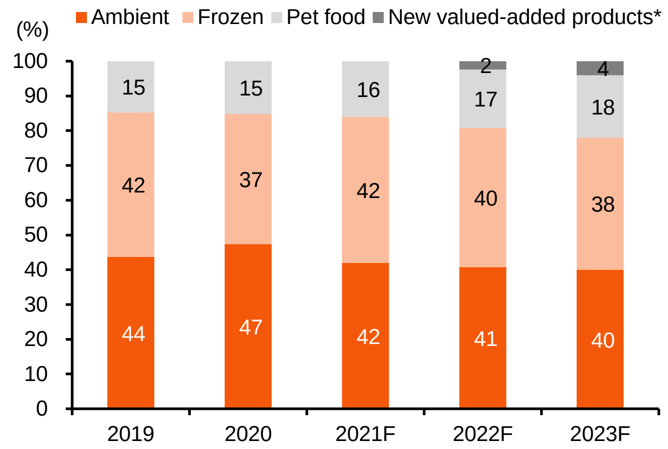


Sources: Company data, Thanachart estimates

Growing proportion of high-margin, value-added products

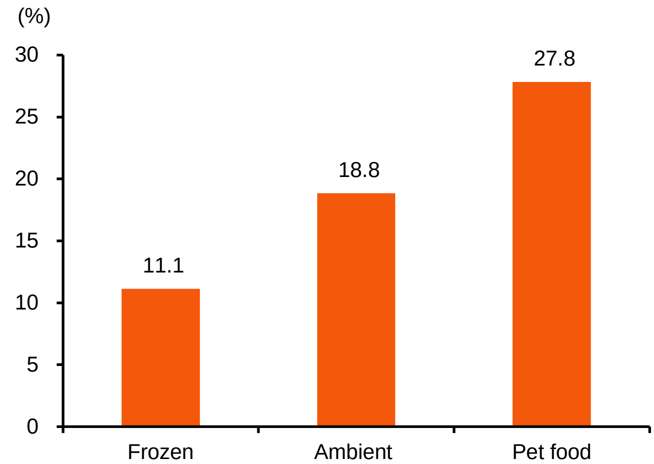
We expect a shift in the product mix of TU as shown in Exhibit 10 while Exhibit 11 provides our estimates of the margin of each product line.

Ex 10: Revenue Breakdown



Sources: Company data, Thanachart estimates

Ex 11: Estimated Gross Margin in 2021F



Source: Thanachart estimates

Still growing quickly with a high margin

Pet food: This business is the only one of TU's three existing core businesses that still has a strong growth outlook. We estimate 7-10% p.a. sales growth in 2021-23F vs. flat growth for the ambient and frozen seafood businesses. Pet food accounted for 15% of TU's sales in 2020, up from 13% in 2017, and we project this to rise to 18% of sales in 2023F. Its gross margin fattened to 27% from 19% during the same period.

A competitive producer with global customers

TU over the past few years has changed its pet-food business strategy from a branded focus to be an OEM producer for global pet-food providers. From having to compete with larger players, this allows TU to enjoy the growth rate that the industry leaders have. Many global pet-food brands, eg, Nestle and Mars, are now its customers. TU's key success factor lies with its cost advantages, which also allow the company to do more R&D which helps enhance product innovation. R&D helps TU to go beyond being an ordinary OEM producer as it can co-develop product formulas with its customers. This improves client stickiness. TU is the largest canned tuna producer in the world and this offers the key cost advantage for its pet-food business which uses tuna as a major raw material.

Adding a higher-margin pet care line

TU still foresees a decent sales growth outlook for this business from securing new customers and adding more product SKUs to existing customers. TU plans to expand its product line from pet-food-related products to pet-care products which include a wider range of items, ie, food supplements for pets such as those related to health and beauty, eg, smooth hair and strong bones. TU expects pet-care products to offer a higher margin than normal pet-food products.

Ex 12: Pet Food Vs. Ambient And Frozen Seafood Sales Growth

(% growth)	2017	2018	2019	2020	2021F	2022F	2023F
Pet food	3	1	2	8	10	7	7
Ambient	2	0	(11)	14*	(11)	2	2
Frozen food	(2)	(3)	(1)	(5)	11	2	2

Sources: Company data, Thanachart estimates

Note: *People consumed canned food at an abnormally high rate during the COVID-19 crisis

Ex 13: Higher Gross Margin

(%)	2017	2018	2019	2020	2021F	2022F	2023F
Pet food	19	20	24	27	28	28	29
Ambient	15	17	19	21	19	19	19
Frozen food	9	9	10	10	11	11	11
TU avg. gross margin	**14**	**14**	**16**	**18***	**17**	**17**	**18**

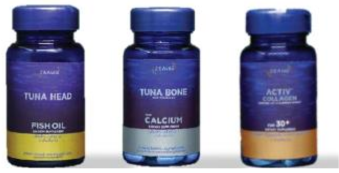
Sources: Company data, Thanachart estimates

Note: *High margin due to the abnormally high volume of canned fold sold

Targets Bt13bn in sales from new value-added products

New value-added products: TU targets sales of new value-added products of around Bt13bn (10% of 2020 sales base) by 2025. It also aims for the net margin of these products to be as high as 10% vs. the current 4%-plus of its existing businesses. TU expects a meaningful contribution to start in 2022F.

Ex 14: TU's New Products

Tuna oil refineries	
Food supplement	
Alternative protein	

Source: Company data

New products will be in the ingredients-based, food supplements and alternative protein areas. TU is the most bullish on ingredient-based products and expects them to account for half of the targeted revenue from this new business group. Raw materials for these products are leftover fish parts from the ambient business.

Already secured some customers

Ingredient-based products are refined tuna oil, protein hydrolysate and collagen peptide products. Refined tuna oil is used as an ingredient in baby milk powder products. The refined tuna oil provides DHA, which is the Omega-3 fatty acid, the main ingredient in infant powder, which plays a central role in infant brain and nervous system development. Currently, DHA in infant power is mainly sourced from laboratory-grown algae. However, there are still questions regarding the safety of oils extracted from laboratory-grown algae as they need to be extracted using the toxic chemical hexane. According to TU, while its refined tuna oil contains very low levels of contaminants because the process involves only extracting oil from fresh tuna heads at mild temperatures without using chemical substances, refined tuna oil is also one of the richest sources of DHA. There are no details available on the market size of DHA for infant powder, but the general DHA ingredient market size is worth around USD1.4bn. The market grew by 9% in 2019 and the trend is for consumers to shift toward natural-based DHA-based ingredients for their children. Tuna oil is considered to be a natural-based source of DHA. TU's tuna oil refinery factory started operating in April this year but we expect a more meaningful contribution in 2022F.

As for the protein and collagen peptide products, they will be used mainly in whey protein products but can be used in other products too, eg, pet foods, medicines and dairy products. The factory for these products is scheduled to be up and running in 2022. TU has already secured customers that are baby milk and whey protein powder producers, and it estimates potential revenue of Bt6bn by 2025F.

Red Lobster now an upswing factor

Red Lobster's losses are falling

TU invested USD575m in Red Lobster (RL) in late 2016. Of that amount, USD230m was for a 25% common equity stake with the remaining USD345m for convertible preferred shares with an 8% dividend yield. TU's contribution from RL was a loss of over USD14m or Bt419m in 2020 (Exhibit15).

Having said that, we expect RL to become an upswing factor for TU from this year onward due to the US's reopening and a major cost rationalization program at RL at over the past years. RL made a normalized profit of Bt81m in 1Q21. As 1Q is normally the strongest quarter, TU expects RL to still make around a Bt600m normalized loss this year, vs. a Bt1.2bn loss in 2020. We expect RL itself to break even in 2024F. However, thanks to TU's preferred dividend income from RL, we expect for TU's total normalized positive contribution from RL of Bt169m this year (Exhibit15).

Efforts to restructure RL

RL has undergone many restructuring efforts with cost reduction being key among them. The company has also changed its food menu to a lower average billing ticket size to attract younger generations of consumers. Having younger-generation clients should also help RL shift its business more toward online delivery. This would help improve margin as the online channel requires lower operating costs (low rental expenses). Online now accounts for 25% of RL's sales vs. only 5% in 2019. If the online business works well, RL plans to reduce its restaurant sizes in the future to lower costs.

Ex 15: Red Lobster Looks Set To The Upswing Factor

(Bt m)	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Equity Income	(196)	(128)	(142)	(1,188)	(600)	(400)	(100)	50
Preferred Dividend	1,015	1,008	992	991	991	991	991	991
Income tax	(469)	(106)	(132)	(222)	(222)	(222)	(222)	(230)
Total Profits (loss)	**350**	**774**	**718**	**(419)**	**169**	**369**	**669**	**811**

Sources: Company data, Thanachart estimates

Limited concerns about tuna prices

We expect a stable growth trajectory for TU's raw material prices

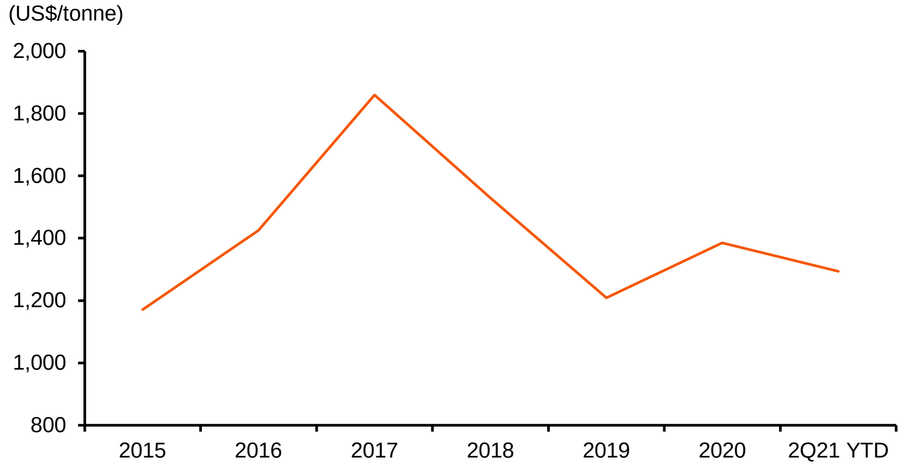
Skipjack tuna is the main raw material for TU's canned tuna products. The price stood at USD1,385/tonne in 2020 and it is at USD1,294 YTD. TU, the largest manufacturer of canned tuna, doesn't expect a pronounced increase in tuna prices this year from last year.

Looking ahead, our concerns are only limited regarding a meaningful upswing in tuna prices on the back of subdued growth in tuna-based canned food demand (main end-product of tuna catches) while we are not worried about supply.

We recap that the last upcycle for tuna prices was in 2017 when they jumped by 30% to over USD1,800/tonne due mainly to a shortage of fishing workers in Thailand because of a crackdown on illegal labor. Thailand-based fishing fleets were accused of being involved in forced labor, though these were not TU's tuna suppliers. Nevertheless, the negative impact was felt across all Thailand-based fishing fleets, including TU's suppliers. The rating for all Thailand-based fishing fleets was downgraded by the US and the European Union (EU), resulting in all Thai-flagged fishing fleets facing bans or stricter fishing rules in the US and Europe. This caused lower tuna catches and rising prices. That said, the labor issue has subsided with Thailand's fishing fleets' rating now lifted back a higher level than before the downgrade in 2017. The tuna price has therefore fallen accordingly (see Exhibit 16).

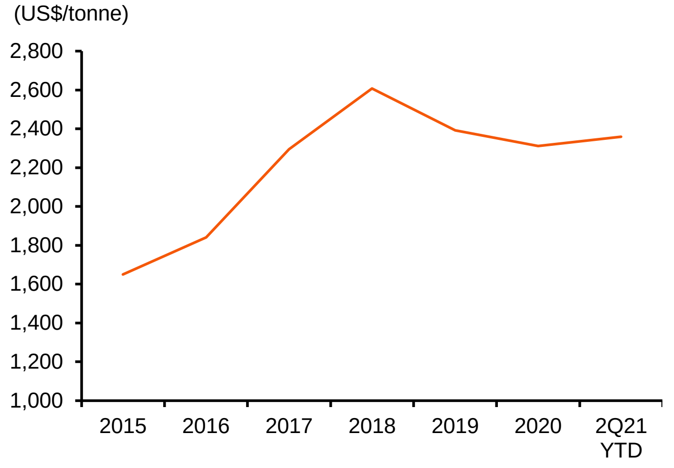
We also don't expect a meaningful upswing for prices of TU's other tuna species and white shrimps which are used for TU's other products, e.g. frozen tuna and shrimps.

Ex 16: Skipjack Tuna Price



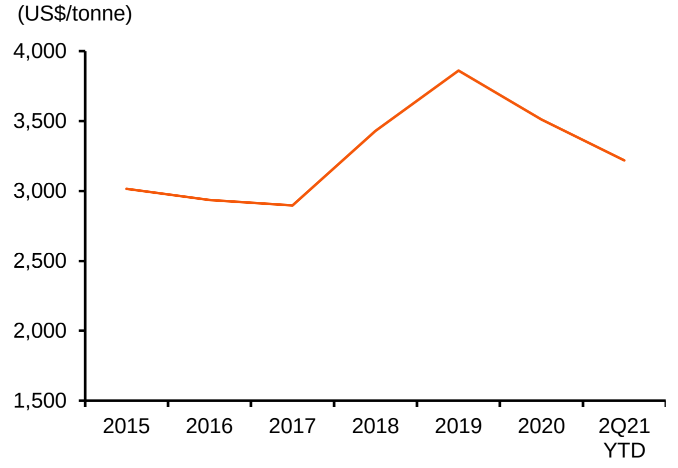
Source: Company data

Ex 17: Yellowfin Tuna Price



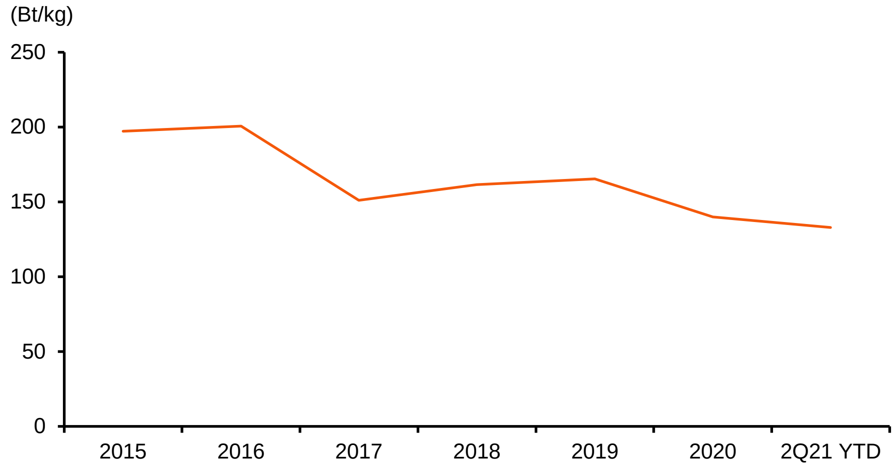
Source: Company data

Ex 18: Albacore Tuna Price



Source: Company data

Ex 19: White Shrimp price



Source: Company data

Quarterly earnings momentum

We project soft quarterly earnings prospects

On a quarterly basis, we estimate TU's 1Q21 normalized earnings of Bt1.7bn (+36% y-y) to be its strongest quarter this year. We therefore expect softer quarterly momentum with an average of -7% y-y during 2Q-4Q21F (see Exhibit 20) and we project flat EPS growth this year. The main reasons are:

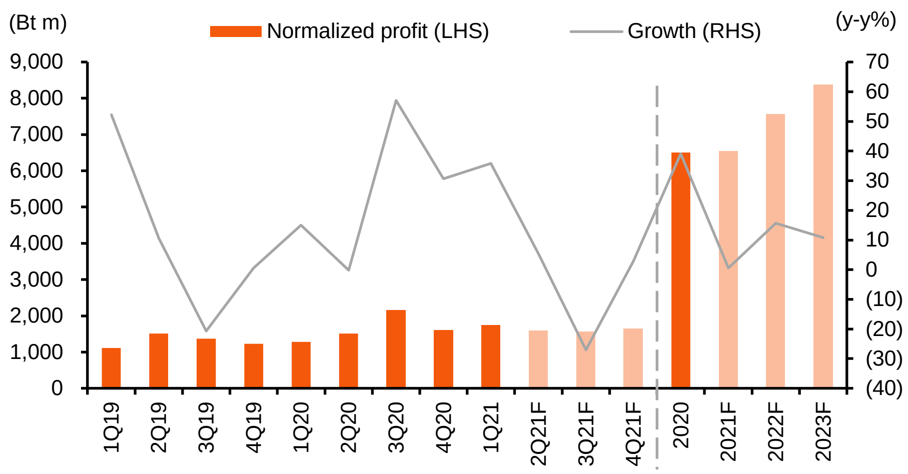
1) A likely fall in sales of TU's main ambient seafood where we forecast an 11% decline this year after the high base in 2020 when sales grew by 14% y-y as people were eating abnormally high amounts of canned tuna because of the COVID-19 outbreak from 2Q20. Ambient food sales normally grow by around 1-2% p.a.

2) We expect weaker Red Lobster profits in the remaining quarters as 1Q is normally the strongest quarter for the business and we still forecast RL to make a normalized loss of Bt600m this year.

That being said, we regard our assumptions as conservative. TU said RL's business momentum remained strong in April after the US started to reopen in 1Q21. Potential upside could also come from tuna prices, which fell from USD1,385/tonne in 2020 to USD1,280 in May this year. We factor in a USD1,400/tonne tuna price.

Looking ahead, we expect TU to post 16% EPS growth in 2022F and another 11% in 2023F. The main growth drivers look set to be 1) TU's cost savings, 2) a rising contribution from its high-margin pet-food business, and 3) a meaningful profit contribution from its new, high-margin businesses. Please refer to the earlier section where we discussed them.

Ex 20: Earnings Momentum



Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 21: Valuation Comparison With Regional Peers

Name	BBG code	Country	—EPS growth—		—— PE ——		— P/BV —		EV/EBITDA		— Div yield —	
			21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
			(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Austevoll Seafood	AUSS NO	Norway	46.6	24.8	13.2	10.6	1.8	1.5	7.7	6.5	3.1	3.7
Leroy Seafood Group	LSG NO	Norway	44.4	36.6	20.4	14.9	2.6	2.4	12.1	9.6	2.9	3.6
Mowi	MOWI NO	Norway	107.9	36.9	26.0	19.0	3.8	3.6	14.5	12.0	2.1	3.9
ConAgra Foods	CAG US	USA	15.4	0.3	14.7	14.7	2.2	2.0	11.7	12.0	2.6	2.8
Danone	DANOY US	USA	na	10.0	18.2	16.5	2.3	2.2	12.1	11.4	3.3	3.6
Nestle	NSRGY US	USA	na	7.2	25.3	23.7	7.1	7.3	19.0	18.2	2.5	2.6
Tyson Foods	TSN US	USA	6.4	7.5	13.1	12.1	1.7	1.6	8.5	8.2	2.3	2.5
Average			**44.1**	**17.6**	**18.7**	**15.9**	**3.1**	**2.9**	**12.2**	**11.1**	**2.7**	**3.2**
Feed Mills												
Japfa Comfeed	JPFA IJ	Indonesia	118.2	9.0	12.0	11.0	1.9	1.7	6.4	5.9	1.5	3.4
Charoen Pok Indo	CPIN IJ	Indonesia	4.4	17.6	29.4	25.0	4.6	4.0	18.4	16.1	1.2	1.6
Universal Robina	URC PM	Philippines	na	10.7	25.0	22.6	3.1	2.9	14.1	13.1	2.3	2.6
Average			**61.3**	**12.4**	**22.1**	**19.5**	**3.2**	**2.9**	**13.0**	**11.7**	**1.7**	**2.5**
Thailand												
CP Food*	CPF TB	Thailand	40.2	10.9	7.9	7.1	1.1	1.0	8.1	7.4	4.5	4.9
GFPT Pcl*	GFPT TB	Thailand	5.5	0.7	11.7	11.6	0.9	0.8	6.6	6.1	1.7	2.6
Thai Union Group*	TU TB	Thailand	0.5	15.7	13.1	11.3	1.7	1.6	12.3	11.3	4.5	5.2
Average			**15.4**	**9.1**	**10.9**	**10.0**	**1.2**	**1.1**	**9.0**	**8.3**	**3.6**	**4.2**
Average – All			**39.9**	**15.5**	**18.4**	**16.0**	**2.8**	**2.7**	**12.2**	**11.0**	**2.7**	**3.3**

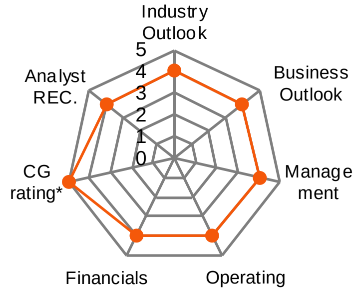
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 8-Jun-2021 closing prices

COMPANY DESCRIPTION

Thai Union Group Pcl (TU) was founded in 1988. TU is the world's leading seafood processor and exporter, with a global workforce of around 26,000, and it recently entered the food services business. Its major products are canned tuna, frozen tuna loin, frozen shrimp, lobster, frozen and canned seafood, frozen cephalopods, pet food, fish snacks and shrimp feed. TU has a 25% stake in Red Lobster.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	**5**
Strong	**4**
Good	**3**
Fair	**2**
Weak	**1**
None	**0**

Source: Thanachart; *CG rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Fully integrated business
- Economies of scale
- Diversified markets
- Strong management execution

W — Weakness

- Foreign exchange risk exposure
- Fluctuations in raw material prices
- Labor-intensive business

O — Opportunity

- Overseas expansion and acquisitions
- Expanding product lines
- Penetrating the food-services segment

T — Threat

- Strengthening Thai baht
- A sharp rise in oil and tuna prices
- Changes in regulations
- Severe disease outbreaks

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	18.94	22.00	16%
Net profit 21F (Bt m)	6,463	6,535	1%
Net profit 22F (Bt m)	6,572	7,560	15%
Consensus REC	**BUY: 16**	**HOLD: 6**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021F earnings are 1% higher than the Bloomberg consensus number, likely due to us factoring in an improvement in its frozen seafood business.
- Our DCF-based TP is 16% above the consensus which we attribute to us having a more bullish long-term view due to TU's cost saving and new, high margin businesses.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Adverse weather conditions that could have negative impacts on raw material sourcing and raw material prices represent the key downside risk to our call.
- If the Thai baht were to strengthen to a level much higher than we presently assume, this would represent a secondary downside risk to our projections and TP.

Source: Thanachart

Contributions from less-fluctuating businesses stabilize TU's growth

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	126,275	132,402	133,009	139,726	146,575
Cost of sales	106,165	108,985	110,024	115,355	120,847
Gross profit	**20,110**	**23,418**	**22,985**	**24,371**	**25,728**
% gross margin	15.9%	17.7%	17.3%	17.4%	17.6%
Selling & administration expenses	14,864	15,413	15,259	15,957	16,930
Operating profit	**5,247**	**8,004**	**7,727**	**8,414**	**8,798**
% operating margin	4.2%	6.0%	5.8%	6.0%	6.0%
Depreciation & amortization	3,691	3,955	3,416	3,490	3,529
EBITDA	**8,937**	**11,960**	**11,142**	**11,904**	**12,327**
% EBITDA margin	7.1%	9.0%	8.4%	8.5%	8.4%
Non-operating income	1,777	1,766	1,744	1,788	1,875
Non-operating expenses	(374)	(46)	(46)	(46)	(46)
Interest expense	(2,056)	(1,724)	(1,764)	(1,688)	(1,581)
Pre-tax profit	**4,593**	**7,999**	**7,660**	**8,468**	**9,046**
Income tax	158	708	728	804	859
After-tax profit	**4,435**	**7,292**	**6,932**	**7,664**	**8,187**
% net margin	3.5%	5.5%	5.2%	5.5%	5.6%
Shares in affiliates' Earnings	591	(527)	(133)	174	481
Minority interests	(352)	(263)	(264)	(277)	(291)
Extraordinary items	(859)	(255)	0	0	0
NET PROFIT	**3,816**	**6,246**	**6,535**	**7,560**	**8,376**
Normalized profit	**4,675**	**6,501**	**6,535**	**7,560**	**8,376**
EPS (Bt)	0.8	1.3	1.4	1.6	1.8
Normalized EPS (Bt)	1.0	1.4	1.4	1.6	1.8

Strong balance sheet, based on our estimates

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	59,547	60,465	55,617	58,295	61,046
Cash & cash equivalent	4,689	6,286	1,000	1,000	1,000
Account receivables	14,869	13,320	13,381	14,056	14,745
Inventories	36,873	38,546	38,914	40,799	42,742
Others	3,115	2,312	2,323	2,440	2,559
Investments & loans	21,785	21,747	21,747	21,747	21,747
Net fixed assets	25,910	26,691	29,471	30,184	29,860
Other assets	34,667	35,672	35,776	35,724	35,669
Total assets	**141,909**	**144,575**	**142,611**	**145,950**	**148,321**
LIABILITIES:					
Current liabilities:	35,808	44,013	41,089	41,853	41,656
Account payables	19,323	19,068	19,249	20,182	21,143
Bank overdraft & ST loans	11,277	13,465	12,403	11,862	11,222
Current LT debt	3,616	7,674	7,068	6,760	6,396
Others current liabilities	1,591	3,806	2,369	3,049	2,895
Total LT debt	**43,662**	**36,075**	**33,228**	**31,779**	**30,065**
Others LT liabilities	10,644	8,751	9,414	9,767	10,125
Total liabilities	**90,114**	**88,838**	**83,731**	**83,400**	**81,847**
Minority interest	3,372	3,551	3,816	4,093	4,384
Preferreds shares	5,950	5,950	5,950	5,950	5,950
Paid-up capital	1,193	1,193	1,193	1,193	1,193
Share premium	19,948	19,948	19,948	19,948	19,948
Warrants	0	0	0	0	0
Surplus	(10,175)	(8,290)	(8,290)	(8,290)	(8,290)
Retained earnings	**31,507**	**33,384**	**36,264**	**39,656**	**43,290**
Shareholders' equity	48,423	52,185	55,065	58,457	62,090
Liabilities & equity	**141,909**	**144,575**	**142,611**	**145,950**	**148,321**

Sources: Company data, Thanachart estimates

Annual capex for maintenance purposes

Valuation not excessive at 13x in 2021F for a global-scale food firm, in our view

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	4,593	7,999	7,660	8,468	9,046
Tax paid	(48)	(863)	(635)	(828)	(812)
Depreciation & amortization	3,691	3,955	3,416	3,490	3,529
Chg In w orking capital	2,244	(379)	(247)	(1,629)	(1,670)
Chg In other CA & CL / minorities	749	2,475	(1,674)	761	160
Cash flow from operations	**11,229**	**13,187**	**8,521**	**10,263**	**10,253**
Capex	(2,374)	(3,874)	(6,000)	(4,000)	(3,000)
Right of use	(1,969)	(295)	(200)	(50)	(50)
ST loans & investments	38	124	0	0	0
LT loans & investments	(10,652)	39	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	10,858	(3,848)	563	253	258
Cash flow from investments	**(4,098)**	**(7,855)**	**(5,637)**	**(3,797)**	**(2,792)**
Debt financing	(5,401)	(1,251)	(4,515)	(2,297)	(2,718)
Capital increase	5,950	0	(0)	0	0
Dividends paid	(1,909)	(2,539)	(3,656)	(4,168)	(4,743)
Warrants & other surplus	(2,667)	55	0	0	0
Cash flow from financing	**(4,027)**	**(3,735)**	**(8,171)**	**(6,465)**	**(7,461)**
Free cash flow	**8,855**	**9,314**	**2,521**	**6,263**	**7,253**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	18.3	13.1	13.1	11.3	10.2
Normalized PE - at target price (x)	22.5	16.1	16.1	13.9	12.5
PE (x)	22.4	13.7	13.1	11.3	10.2
PE - at target price (x)	27.5	16.8	16.1	13.9	12.5
EV/EBITDA (x)	15.6	11.4	12.3	11.3	10.7
EV/EBITDA - at target price (x)	17.8	13.0	14.1	13.0	12.3
P/BV (x)	2.0	1.8	1.7	1.6	1.5
P/BV - at target price (x)	2.5	2.3	2.1	2.0	1.9
P/CFO (x)	7.6	6.5	10.0	8.3	8.3
Price/sales (x)	0.7	0.6	0.6	0.6	0.6
Dividend yield (%)	2.6	4.0	4.5	5.2	5.9
FCF Yield (%)	10.4	10.9	3.0	7.3	8.5
(Bt)					
Normalized EPS	1.0	1.4	1.4	1.6	1.8
EPS	0.8	1.3	1.4	1.6	1.8
DPS	0.5	0.7	0.8	0.9	1.1
BV/share	8.9	9.7	10.3	11.0	11.8
CFO/share	2.4	2.8	1.8	2.2	2.1
FCF/share	1.9	2.0	0.5	1.3	1.5

Sources: Company data, Thanachart estimates

Stable dividend policy

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(5.3)	4.9	0.5	5.1	4.9
Net profit (%)	17.2	63.7	4.6	15.7	10.8
EPS (%)	17.2	63.7	4.6	15.7	10.8
Normalized profit (%)	10.8	39.1	0.5	15.7	10.8
Normalized EPS (%)	10.8	39.1	0.5	15.7	10.8
Dividend payout ratio (%)	58.8	55.0	59.3	59.0	60.0
Operating performance					
Gross margin (%)	15.9	17.7	17.3	17.4	17.6
Operating margin (%)	4.2	6.0	5.8	6.0	6.0
EBITDA margin (%)	7.1	9.0	8.4	8.5	8.4
Net margin (%)	3.5	5.5	5.2	5.5	5.6
D/E (incl. minor) (x)	1.1	1.0	0.9	0.8	0.7
Net D/E (incl. minor) (x)	1.0	0.9	0.9	0.8	0.7
Interest coverage - EBIT (x)	2.6	4.6	4.4	5.0	5.6
Interest coverage - EBITDA (x)	4.3	6.9	6.3	7.1	7.8
ROA - using norm profit (%)	3.3	4.5	4.6	5.2	5.7
ROE - using norm profit (%)	10.2	12.9	12.2	13.3	13.9
DuPont					
ROE - using after tax profit (%)	9.7	14.5	12.9	13.5	13.6
- asset turnover (x)	0.9	0.9	0.9	1.0	1.0
- operating margin (%)	5.3	7.3	7.1	7.3	7.3
- leverage (x)	3.1	2.8	2.7	2.5	2.4
- interest burden (%)	69.1	82.3	81.3	83.4	85.1
- tax burden (%)	96.6	91.2	90.5	90.5	90.5
WACC (%)	6.4	6.4	6.4	6.4	6.4
ROIC (%)	4.8	7.1	6.8	7.1	7.4
NOPAT (Bt m)	5,066	7,296	6,993	7,614	7,962
invested capital (Bt m)	102,289	103,113	106,764	107,859	108,774

Sources: Company data, Thanachart estimates

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