BUY (Unchanged) | **TP: Bt 24.00** (From: Bt 22.00) | **8 JULY 2021**

Change in Numbers | **Upside : 14.8%**

Thai Union Group Pcl (TU TB)

Very strong 2Q21F

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TU's 2Q21F results are likely to come in far stronger than expected, up 22% y-y and 6% q-q. We expect positive factors from both its top line and margins. We upgrade our earnings by 5% p.a. in 2021-23F. Reaffirm BUY with TP raised to Bt24.

Thanachart Securities

Likely a strong 2Q21F

We expect TU to report 2Q21F earnings of Bt1.8bn, +22% y-y and +6% q-q. This would beat our and the consensus numbers by 16%. We consider these numbers strong given the high earnings base in 2Q20 on extra demand for its canned tuna products during the lockdown. Positive surprises in 2Q21F will likely come from: 1) +13% y-y frozen food sales growth after the US's reopening, 2) a higher-than-expected positive earnings contribution from Red Lobster from the reopening, 3) +18% y-y petfood sales on market-share gains, 4) a less-than-expected rise in tuna raw-material prices of 4% y-y, and 5) a weakening baht.

Earnings upgrades

We upgrade our earnings forecasts by 5-6% p.a. in 2021-23F and our 2022F DCF-based TP to Bt24.0 (from Bt22.0). We reaffirm our BUY on TU as we expect a less volatile earnings pattern from its profitability focus and improving earnings visibility from cost-cutting plans. We forecast earnings growth of 6-16% in 2021-23F with key drivers being cost savings, a higher earnings contribution from the high-margin pet-food business, and expansion of value-added products. TU targets over Bt3bn in cost-savings in five years and value-added products to add 10% to the existing total revenue base. With that, it expects the net margin to rise to 7.0% in 2025 from 5.1% in 2020. That implies a Bt11bn profit in 2025 vs. our estimate of Bt9.7bn, or an 9% 5-year CAGR. TU also looks inexpensive to us at a 12x PE for 2022F (average of 17x since January 2014).

Strong pet food outlook

TU expects its high-margin pet-care business revenue to grow over 10% p.a. in 2021-23F vs. 1-2% for the saturated ambient and frozen business. TU believes it has been gaining market share in the growing market. After 20% y-y pet food sales growth in 1H21F, TU continues to see strong orders for 2H21F, with growth coming from both new SKUs and current products from both existing and new customers. TU also has a cost advantage from scale tuna procurement for its core business. We estimate pet food will account for 25% of profit in 2023F vs 18% in 2020.

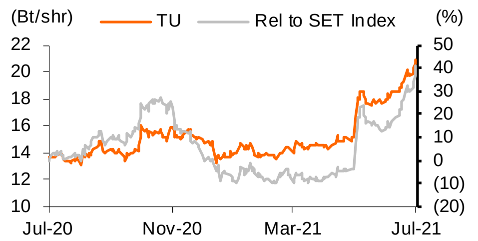
Red Lobster continues to beat expectations

Red Lobster was TU's major earnings drag in 2020 with its net loss contribution of US$15m or Bt456m (including preferred dividend and other expenses). Thanks to the US reopening, we estimate a Bt90m positive contribution from RL in 2Q21F. Though this is below the positive contribution in 1Q21 of Bt271m due to rising wages and other expansion expenses, it would beat our previous expectation of Bt40m in losses. We conservatively expect more normalized demand after the synchronized reopening during the first half of this year and estimate a full-year contribution of Bt192m (Exhibit 8) this year.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	132,402	133,729	140,626	147,549
Net profit	6,246	6,882	7,993	8,832
Consensus NP	—	6,521	6,759	7,191
Diff frm cons (%)	—	*5.5*	*18.2*	*22.8*
Norm profit	6,501	6,882	7,993	8,832
Prev. Norm profit	—	6,535	7,560	8,376
Chg frm prev (%)	—	*5.3*	*5.7*	*5.4*
Norm EPS (Bt)	1.4	1.4	1.7	1.9
Norm EPS grw (%)	39.1	5.9	16.1	10.5
Norm PE (x)	15.3	14.5	12.5	11.3
EV/EBITDA (x)	12.6	13.2	12.1	11.4
P/BV (x)	2.2	2.0	1.9	1.8
Div yield (%)	3.4	4.1	4.7	5.3
ROE (%)	12.9	12.8	14.0	14.5
Net D/E (%)	91.4	87.1	77.8	68.7

PRICE PERFORMANCE

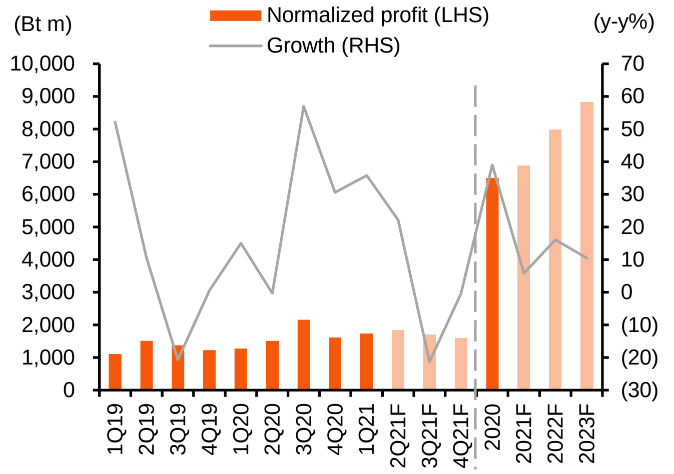


COMPANY INFORMATION

Price *as of* 8-Jul-21 (Bt)	20.90
Market Cap (US$ m)	3,070.3
Listed Shares (m shares)	4,771.8
Free Float (%)	60.6
Avg Daily Turnover (US$ m)	18.7
12M Price H/L (Bt)	20.90/13.10
Sector	FOOD
Major Shareholder	Chansiri family 16.9%

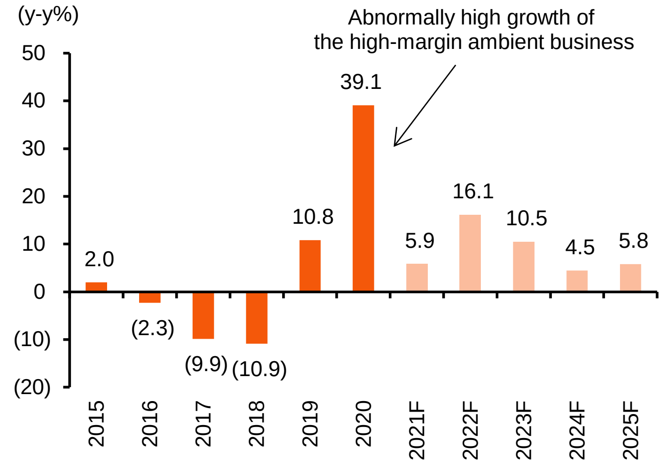
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Quarterly Earnings Momentum



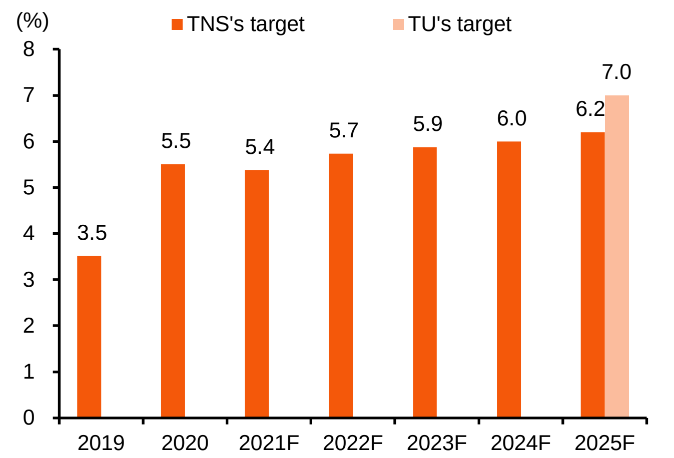
Sources: Company data, Thanachart estimates

Ex 2: We Expect Less Earnings Fluctuation



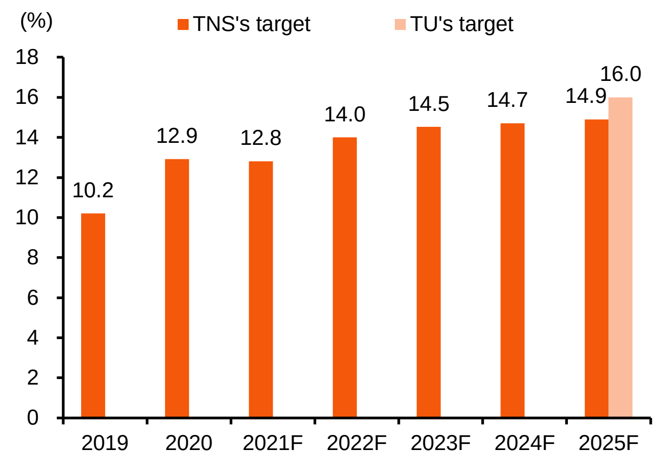
Sources: Company data, Thanachart estimates

Ex 3: Net Margin Trend



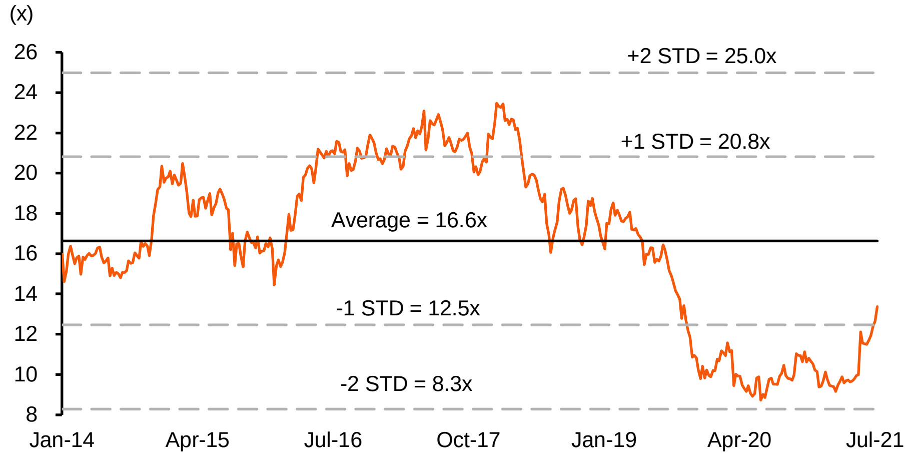
Sources: Company data, Thanachart estimates

Ex 4: Implied ROE



Sources: Company data, Thanachart estimates

Ex 5: Average PE



Sources: Bloomberg, Thanachart estimates

Ex 6: Pet-Food A Main Driver…

(%)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Pet food	3	1	2	8	15	9	7	6	6
Ambient	2	0	(11)	14*	(12)	2	2	2	2
Frozen food	(2)	(3)	(1)	(5)	11	2	2	2	2

Sources: Company data, Thanachart estimates

Note: *People abnormally consumed canned food amid the Covid-19 period

Ex 7: ..And Offer Higher Margin

(%)	2017	2018	2019	2020	2021F	2022F	2023F
Pet food	19	20	24	27	28	29	30
Ambient	15	17	19	21*	19	19	19
Frozen food	9	9	10	10	10	11	11
TU average gross margin	14.3	14.2	15.9	17.7*	17.7	17.9	18.0

Sources: Company data, Thanachart estimates

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

Ex 8: Red Lobster An Upswing Factor

(Bt m)	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Equity income	(196)	(128)	(142)	(1,188)	(799)	(350)	(100)	50
Preferred dividend	1,015	1,008	992	991	1,167	1,050	1,000	1,000
Other expenses	(59)	(426)	(431)	(259)	(176)	(176)	(176)	(176)
Total profits (loss)	**760**	**454**	**419**	**(456)**	**192**	**524**	**724**	**874**

Sources: Company data, Thanachart estimates

Ex 9: Assumption Revision

	2019	2020	2021F	2022F	2023F
Sales (Bt m)					
New	126,275	132,402	133,729	140,626	147,549
Old			133,009	139,726	146,575
Change (%)			*0.5*	*0.6*	*0.7*
Gross margin (%)					
New	15.9	17.7	17.7	17.9	18.0
Old			17.3	17.4	17.6
Change (pp)			*0.4*	*0.5*	*0.4*
SG&A to sales (%)					
New	11.8	11.6	11.7	11.6	11.7
Old			11.5	11.4	11.6
Change (pp)			*0.3*	*0.2*	*0.1*
Normalized profits (Bt m)					
New	4,675	6,501	6,882	7,993	8,832
Old			6,535	7,560	8,376
Change (%)			*5.3*	*5.7*	*5.4*

Sources: Company data, Thanachart estimates

Ex 10: 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		12,225	12,721	12,905	13,404	13,682	13,946	14,095	14,217	14,313	15,034	15,384	—
Free cash flow		5,722	7,154	8,569	8,995	9,244	9,554	9,747	9,855	9,938	10,649	10,990	216,739
PV of free cash flow		6,315	6,315	7,105	7,007	6,651	6,435	6,146	5,818	5,493	5,511	5,128	101,128
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.7												
WACC (%)	6.4												
Terminal growth (%)	2.0												
Enterprise value - add investments	168,443												
Net debt (2021F)	51,494												
Minority interest	3,817												
Equity value	113,132												
# of shares (m)	4,772												
Target price/share (Bt)	**24**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 11: Valuation Comparison With Regional Peers

Name	BBG code	Country	—EPS growth—		—— PE ——		— P/BV —		EV/EBITDA		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Austevoll Seafood	AUSS NO	Norway	277.6	25.5	11.8	9.4	1.7	1.3	7.2	6.1	3.4	4.1
Leroy Seafood Group	LSG NO	Norway	198.0	35.2	19.7	14.6	2.5	2.3	11.6	9.4	3.0	3.8
Mowi	MOWI NO	Norway	286.5	38.1	25.3	18.3	3.6	3.4	13.6	11.2	2.0	3.8
ConAgra Foods	CAG US	USA	53.0	0.2	13.7	13.7	2.1	1.9	11.1	11.5	2.8	3.0
Danone	DANOY US	USA	na	8.9	21.9	20.1	2.8	2.6	12.3	11.7	2.8	2.9
Nestle	NSRGY US	USA	na	7.5	28.3	26.4	7.9	8.1	19.0	18.1	2.3	2.4
Tyson Foods	TSN US	USA	1.6	7.8	12.2	11.4	1.6	1.5	8.1	7.8	2.5	2.7
Average			**163.4**	**17.6**	**19.0**	**16.3**	**3.2**	**3.0**	**11.8**	**10.8**	**2.7**	**3.2**
Feed Mills												
Japfa Comfeed	JPFA IJ	Indonesia	130.3	8.1	9.1	8.4	1.5	1.4	5.8	5.4	1.8	4.5
Charoen Pok Indo	CPIN IJ	Indonesia	17.3	11.3	23.3	21.0	4.0	3.6	14.7	13.7	1.5	1.9
Universal Robina	URC PM	Philippines	15.2	9.5	25.3	23.2	3.1	2.9	14.2	13.2	2.2	2.4
Average			**54.3**	**9.6**	**19.3**	**17.5**	**2.9**	**2.6**	**11.6**	**10.8**	**1.8**	**2.9**
Thailand												
CP Food*	CPF TB	Thailand	12.0	13.6	9.4	8.3	1.1	1.0	8.0	7.6	3.7	4.2
GFPT Pcl*	GFPT TB	Thailand	5.5	0.7	11.6	11.5	0.9	0.8	6.5	6.1	1.7	2.6
Thai Union Group*	TU TB	Thailand	5.9	16.1	14.5	12.5	2.0	1.9	13.2	12.1	4.1	4.7
Average			**7.8**	**10.1**	**11.8**	**10.8**	**1.3**	**1.2**	**9.2**	**8.6**	**3.2**	**3.8**
Average – All			**91.2**	**14.0**	**17.4**	**15.3**	**2.7**	**2.5**	**11.2**	**10.3**	**2.6**	**3.3**

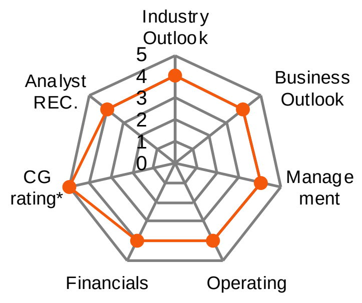
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 8-Jul-2021 closing prices

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)	19.47	24.00	23%
Net profit 21F (Bt m)	6,521	6,882	6%
Net profit 22F (Bt m)	6,759	7,993	18%
Consensus REC	**BUY: 16**	**HOLD: 6**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021F earnings are 6% higher than the Bloomberg consensus number, likely due to us factoring in an improvement in its frozen seafood business.
- Our DCF-based TP is 23% 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	133,729	140,626	147,549
Cost of sales	106,165	108,985	110,036	115,463	120,989
Gross profit	**20,110**	**23,418**	**23,693**	**25,163**	**26,559**
% gross margin	15.9%	17.7%	17.7%	17.9%	18.0%
Selling & administration expenses	14,864	15,413	15,686	16,326	17,262
Operating profit	**5,247**	**8,004**	**8,007**	**8,838**	**9,297**
% operating margin	4.2%	6.0%	6.0%	6.3%	6.3%
Depreciation & amortization	3,691	3,955	3,416	3,490	3,529
EBITDA	**8,937**	**11,960**	**11,423**	**12,327**	**12,826**
% EBITDA margin	7.1%	9.0%	8.5%	8.8%	8.7%
Non-operating income	1,777	1,766	1,753	1,800	1,888
Non-operating expenses	(374)	(46)	(46)	(46)	(46)
Interest expense	(2,056)	(1,724)	(1,761)	(1,678)	(1,566)
Pre-tax profit	**4,593**	**7,999**	**7,953**	**8,913**	**9,573**
Income tax	158	708	756	847	909
After-tax profit	**4,435**	**7,292**	**7,197**	**8,066**	**8,663**
% net margin	3.5%	5.5%	5.4%	5.7%	5.9%
Shares in affiliates' Earnings	591	(527)	(50)	206	461
Minority interests	(352)	(263)	(266)	(279)	(293)
Extraordinary items	(859)	(255)	0	0	0
NET PROFIT	**3,816**	**6,246**	**6,882**	**7,993**	**8,832**
Normalized profit	**4,675**	**6,501**	**6,882**	**7,993**	**8,832**
EPS (Bt)	0.8	1.3	1.4	1.7	1.9
Normalized EPS (Bt)	1.0	1.4	1.4	1.7	1.9

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	55,706	58,440	61,211
Cash & cash equivalent	4,689	6,286	1,000	1,000	1,000
Account receivables	14,869	13,320	13,453	14,147	14,843
Inventories	36,873	38,546	38,918	40,837	42,792
Others	3,115	2,312	2,335	2,455	2,576
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**	**142,701**	**146,094**	**148,487**
LIABILITIES:					
Current liabilities:	35,808	44,013	41,018	41,736	41,478
Account payables	19,323	19,068	19,251	20,201	21,168
Bank overdraft & ST loans	11,277	13,465	12,354	11,772	11,089
Current LT debt	3,616	7,674	7,041	6,709	6,320
Others current liabilities	1,591	3,806	2,371	3,055	2,902
Total LT debt	**43,662**	**36,075**	**33,099**	**31,537**	**29,708**
Others LT liabilities	10,644	8,751	9,458	9,821	10,184
Total liabilities	**90,114**	**88,838**	**83,575**	**83,095**	**81,370**
Minority interest	3,372	3,551	3,817	4,096	4,389
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**	**36,508**	**40,103**	**43,927**
Shareholders' equity	48,423	52,185	55,309	58,903	62,728
Liabilities & equity	**141,909**	**144,575**	**142,701**	**146,094**	**148,487**

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	7,953	8,913	9,573
Tax paid	(48)	(863)	(660)	(870)	(861)
Depreciation & amortization	3,691	3,955	3,416	3,490	3,529
Chg In working capital	2,244	(379)	(321)	(1,664)	(1,684)
Chg In other CA & CL / minorities	749	2,475	(1,603)	792	140
Cash flow from operations	**11,229**	**13,187**	**8,785**	**10,661**	**10,696**
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)	607	264	263
Cash flow from investments	**(4,098)**	**(7,855)**	**(5,593)**	**(3,786)**	**(2,787)**
Debt financing	(5,401)	(1,251)	(4,720)	(2,476)	(2,901)
Capital increase	5,950	0	(0)	0	0
Dividends paid	(1,909)	(2,539)	(3,758)	(4,398)	(5,007)
Warrants & other surplus	(2,667)	55	0	0	0
Cash flow from financing	**(4,027)**	**(3,735)**	**(8,478)**	**(6,875)**	**(7,909)**
Free cash flow	**8,855**	**9,314**	**2,785**	**6,661**	**7,696**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	21.3	15.3	14.5	12.5	11.3
Normalized PE - at target price (x)	24.5	17.6	16.6	14.3	13.0
PE (x)	26.1	16.0	14.5	12.5	11.3
PE - at target price (x)	30.0	18.3	16.6	14.3	13.0
EV/EBITDA (x)	17.2	12.6	13.2	12.1	11.4
EV/EBITDA - at target price (x)	18.8	13.8	14.5	13.3	12.5
P/BV (x)	2.3	2.2	2.0	1.9	1.8
P/BV - at target price (x)	2.7	2.5	2.3	2.2	2.0
P/CFO (x)	8.9	7.6	11.4	9.4	9.3
Price/sales (x)	0.8	0.8	0.7	0.7	0.7
Dividend yield (%)	2.2	3.4	4.1	4.7	5.3
FCF Yield (%)	8.9	9.3	2.8	6.7	7.7
(Bt)					
Normalized EPS	1.0	1.4	1.4	1.7	1.9
EPS	0.8	1.3	1.4	1.7	1.9
DPS	0.5	0.7	0.9	1.0	1.1
BV/share	8.9	9.7	10.3	11.1	11.9
CFO/share	2.4	2.8	1.8	2.2	2.2
FCF/share	1.9	2.0	0.6	1.4	1.6

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	1.0	5.2	4.9
Net profit (%)	17.2	63.7	10.2	16.1	10.5
EPS (%)	17.2	63.7	10.2	16.1	10.5
Normalized profit (%)	10.8	39.1	5.9	16.1	10.5
Normalized EPS (%)	10.8	39.1	5.9	16.1	10.5
Dividend payout ratio (%)	58.8	55.0	59.3	59.0	60.0
Operating performance					
Gross margin (%)	15.9	17.7	17.7	17.9	18.0
Operating margin (%)	4.2	6.0	6.0	6.3	6.3
EBITDA margin (%)	7.1	9.0	8.5	8.8	8.7
Net margin (%)	3.5	5.5	5.4	5.7	5.9
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	4.5	5.3	5.9
Interest coverage - EBITDA (x)	4.3	6.9	6.5	7.3	8.2
ROA - using norm profit (%)	3.3	4.5	4.8	5.5	6.0
ROE - using norm profit (%)	10.2	12.9	12.8	14.0	14.5
DuPont					
ROE - using after tax profit (%)	9.7	14.5	13.4	14.1	14.2
- asset turnover (x)	0.9	0.9	0.9	1.0	1.0
- operating margin (%)	5.3	7.3	7.3	7.5	7.5
- leverage (x)	3.1	2.8	2.7	2.5	2.4
- interest burden (%)	69.1	82.3	81.9	84.2	85.9
- 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	7.0	7.5	7.8
NOPAT (Bt m)	5,066	7,296	7,246	7,998	8,414
invested capital (Bt m)	102,289	103,113	106,803	107,921	108,844

Sources: Company data, Thanachart estimates

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