

BUY (From: HOLD)

TP: Bt 54.00

(From: Bt 49.00)

Change in Recommendation

Upside: 28.6%

11 SEPTEMBER 2023

Mega Lifesciences Pcl (MEGA TB)

Resilient demand

MEGA's 1H23 revenue didn't fall from a high base as we expected earlier due to continued growth in overall drug demand that helped offset the decline in extra demand from COVID-related products. With a 15% YTD share-price contraction to trade at a 15x 2024F PE vs. 12/10% EPS growth in 2024-25F, we upgrade MEGA to BUY.



PATTADOL BUNNAK

662 – 483 8298

pattadol.bun@thanachartsec.co.th

Upgrading to BUY

We upgrade MEGA to BUY from Hold with a new 2024F 12-month DCF TP of Bt54 (from Bt49). **First**, 1H23 earnings didn't fall on the high COVID base last year due to resilient demand growth for the overall drugs market which helped offset a drop in COVID-related products. We upgrade our earnings by 8/19/14 over 2023-25F. **Second**, after flat growth this year from a fall in extra COVID demand, we expect MEGA's double-digit earnings growth trend to continue at 9-12% p.a. over 2024-26F. **Third**, MEGA now sees a stabilization of its business in Myanmar, which has been adversely impacted by financial and currency problems. **Last**, after a 15% YTD share-price fall, MEGA looks inexpensive to us on a 15x 2024F PE vs. its average five-year pre-COVID PE of 22x.

Resilient demand

We forecast only a -3% EPS drop for 2023F from a high earnings base of 16/29/30% growth during the COVID years of 2020-22. The flat growth is despite a drop in extra COVID-related product demand, economic difficulties in its key Myanmar market and inflation pressure globally. We believe this is due to resilient demand for the overall drug market amid the increasingly health-conscious mega trend. We estimate its non-COVID-related drugs revenue to rise by 8% this year while COVID-related immunity product revenue, including Vitamin C and D, is expected to fall by 30%.

Margin improvement

We forecast the EBIT margin to recover to 17.9/18.0% in 2024-25F from 17.1% in 2023F due to falling inflation and raw-material costs. We also expect a better product mix where we expect higher-margin branded drug product unit sales to grow faster than that for the lower-margin distribution business. We forecast branded drug revenue contribution to rise from 53% in 2023F to 54% in 2025F.

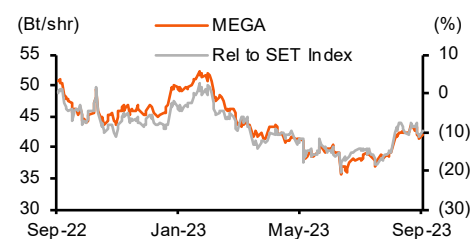
Ramping up in Indonesia

MEGA started its factory in Indonesia for product sampling in 2022. It recorded a US\$1m loss in 2022 and plans to start commercially selling prescription drugs in 2023 with a target to break even in 2025. We have factored MEGA's estimated loss into our model but have not factored in profit beyond 2025F at this stage, leaving it as the upside. To recap, MEGA purchased a factory in Indonesia in 2020. The company has received license from Indonesia's drug administration. MEGA plans to sell drugs in which it has experience manufacturing in Thailand. Indonesia's drug market value is around US\$9bn vs. US\$6bn for Thailand.

COMPANY VALUATION

| Y/E Dec (Bt m) | 2022A | 2023F | 2024F | 2025F |
|-------------------|--------|--------|--------|--------|
| Sales | 15,686 | 14,796 | 15,847 | 17,152 |
| Net profit | 2,242 | 2,189 | 2,453 | 2,688 |
| Consensus NP | — | 2,178 | 2,413 | 2,696 |
| Diff frm cons (%) | — | 0.5 | 1.7 | (0.3) |
| Norm profit | 2,260 | 2,189 | 2,453 | 2,688 |
| Prev. Norm profit | — | 2,034 | 2,058 | 2,353 |
| Chg frm prev (%) | — | 7.6 | 19.2 | 14.2 |
| Norm EPS (Bt) | 2.6 | 2.5 | 2.8 | 3.1 |
| Norm EPS grw (%) | 23.6 | (3.1) | 12.0 | 9.6 |
| Norm PE (x) | 16.2 | 16.7 | 14.9 | 13.6 |
| EV/EBITDA (x) | 12.0 | 11.7 | 10.2 | 9.1 |
| P/BV (x) | 4.2 | 3.8 | 3.4 | 3.1 |
| Div yield (%) | 3.6 | 3.5 | 4.0 | 4.8 |
| ROE (%) | 26.9 | 23.7 | 24.0 | 23.8 |
| Net D/E (%) | (29.2) | (37.1) | (41.8) | (47.3) |

PRICE PERFORMANCE



COMPANY INFORMATION

| | |
|-----------------------------|-------------------|
| Price as of 11-Sep-23 (Bt) | 42.00 |
| Market Cap (US\$ m) | 1,031.3 |
| Listed Shares (m shares) | 871.9 |
| Free Float (%) | 39.07 |
| Avg Daily Turnover (US\$ m) | 2.77 |
| 12M Price H/L (Bt) | 52.25/35.50 |
| Sector | Commerce |
| Major Shareholder | Shah Family 50.1% |

Sources: Bloomberg, Company data, Thanachart estimates



Upgrading to BUY

We upgrade MEGA to BUY from Hold

First, we expect MEGA to resume its growth path from next year

We now upgrade MEGA to BUY from Hold and raise our 2024F 12-month DCF TP to Bt54/share (from Bt49).

First, MEGA's 1H23 earnings didn't fall despite being faced with the high base of sales during the COVID years, difficulties in its key market in Myanmar, and global inflation pressure.

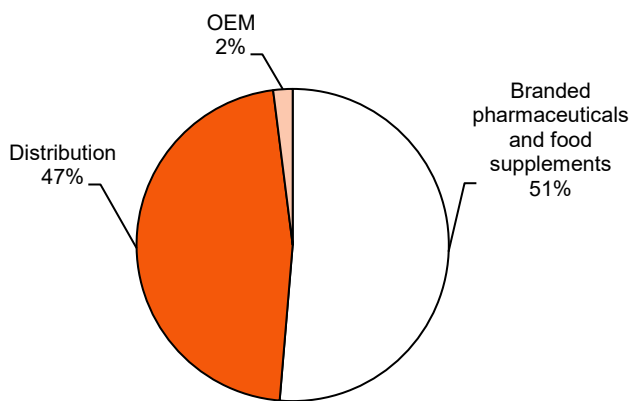
We now expect MEGA's earnings to fall only 3% this year vs. a 14% decline earlier. We expect its earnings to return to a normal growth path of 12/10% over 2024-25F.

Ex 1: Our Assumptions

| (% growth) | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F | 2025F |
|--|----------|-----------|-----------|-----------|------------|----------|----------|
| Total sales | 9 | 13 | 12 | 11 | (6) | 7 | 8 |
| - Branded pharmaceuticals and food supplements | 4 | 7 | 18 | 17% | (2) | 10 | 8 |
| - Distribution | 17 | 20 | 6 | 6% | (10) | 4 | 9 |
| Gross profits (%) | 41.1 | 39.6 | 41.8 | 44.1 | 44.6 | 45.0 | 45.0 |
| SG&A to sales (%) | 30.0 | 28.5 | 26.2 | 26.7 | 27.8 | 27.5 | 27.1 |
| EBIT margin (%) | 12.6 | 13.4 | 15.1 | 16.3 | 17.1 | 17.9 | 18.0 |

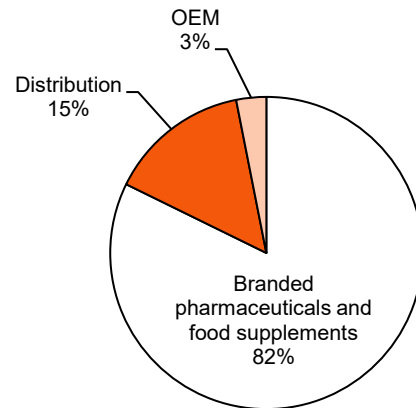
Sources: Company data, Thanachart estimates

Ex 2: Sales Breakdown In 2022



Source: Company data

Ex 3: EBIT Breakdown

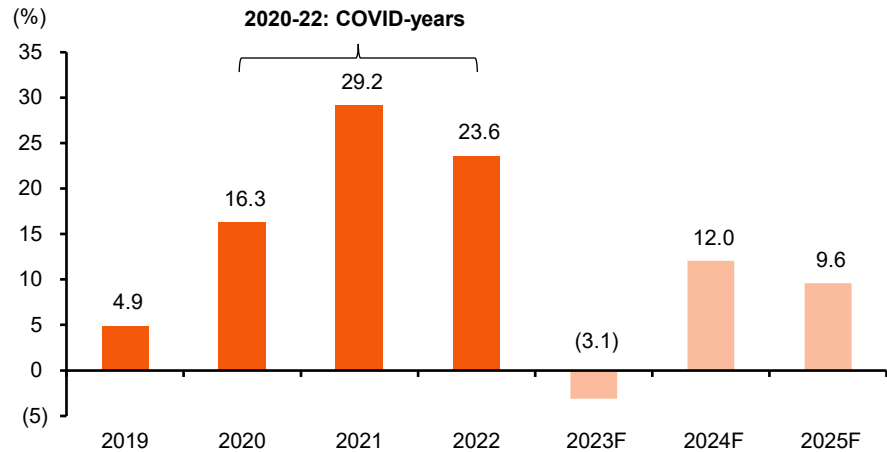


Sources: Company data, Thanachart estimates

The reason for the flat growth this year despite the difficulties mentioned above is due to resilient demand for drugs amid the health-conscious trend. We expect MEGA's non-immunity-based products to still see revenue growth of 8% YoY for 2023. These products, which are mainly drugs for diseases like diabetes and bone-related, make up over 40% of MEGA's total sales.

The reason we forecast MEGA to return to its normal revenue growth level next year is that we expect its immunity-based products, like Vitamin C and D which enjoyed the COVID-led extra demand in 2020-22, to resume their normal mid-single digit growth level in 2024 after a 30% fall this year, on our estimates, from the high base in 2022.

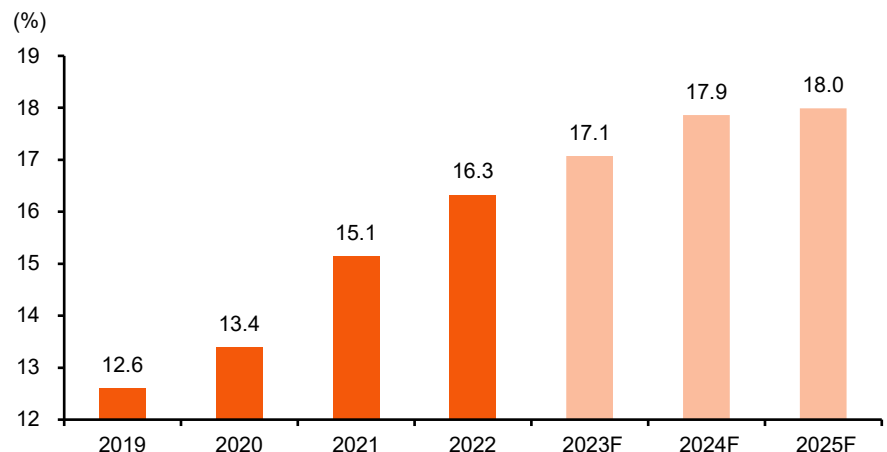
Ex 4: Earnings Growth Path



Sources: Company data, Thanachart estimates

We forecast MEGA's EBIT margin to improve as well to 17.5/17.7% over 2024-25F after 17.1% in 2023. One reason is MEGA is now seeing a fall in its raw-material costs like natural substances. We also forecast the higher-margin branded pharmaceutical and food supplements sales to grow faster than that of the distribution business for 2023. Branded products generate an over-25% EBIT margin vs. below 10% for distribution. We also expect MEGA to enjoy an operating leverage impact as well.

Ex 5: We Expect EBIT Margin To Improve



Sources: Company data, Thanachart estimates

Second, we see the pressure in Myanmar having bottomed out

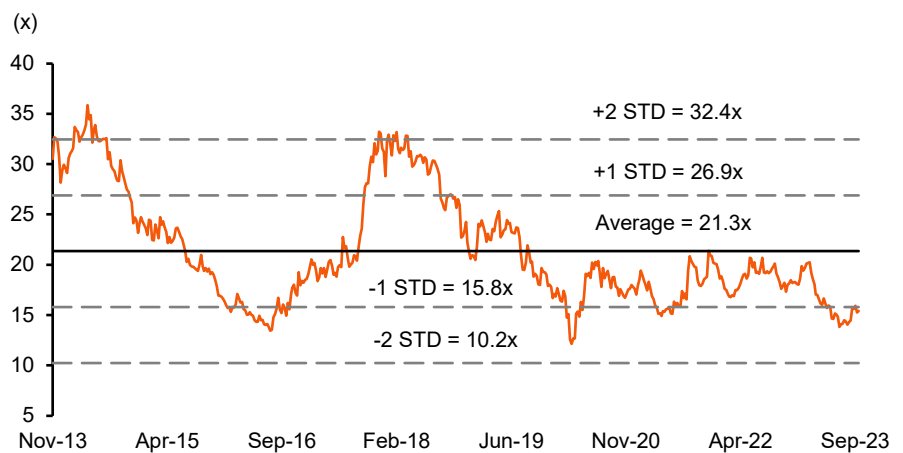
Second, MEGA in 1H23 saw some stabilization in its distribution business in Myanmar (for pharmaceutical and FMCG products) after the social unrest began in 2020, which has lingered amid the very weak economy. We expect the distribution of pharmaceutical and FMCG product unit sales to grow slightly by 4% 2024 after -10% growth this year. While the situation in Myanmar has yet to improve, it is not getting any worse either.

Breaking the business down, MEGA already saw some revenue growth for the distribution of drugs and high-necessity FMCG products like personal products for women in 1H23. We expect weaknesses this year to be in the areas for non-essential products like snacks, while one of MEGA’s clients has exited Myanmar as well.

Last, MEGA’s PE looks inexpensive to us

Last, we consider MEGA as inexpensive now after having fallen by 15%YTD. The stock is trading at a 15x PE in 2024F against its turnaround and its average 5-year pre-COVID PE of 22x.

Ex 6: MEGA’s PE



Sources: Bloomberg, Thanachart estimates

Ex 7: Assumption Revisions

| | 2021 | 2022 | 2023F | 2024F | 2025F |
|---------------------------------|--------|--------|--------|--------|--------|
| Sales (Bt m) | | | | | |
| New | 15,686 | 14,899 | 14,796 | 15,847 | 17,152 |
| Old | | | 15,574 | 16,435 | 17,994 |
| Change (%) | | | (5.0) | (3.6) | (4.7) |
| Gross margin (%) | | | | | |
| New | 44.1 | 44.8 | 44.6 | 45.0 | 45.0 |
| Old | | | 41.3 | 40.9 | 42.5 |
| Change (ppt) | | | 3.3 | 4.0 | 2.4 |
| SG&A to sales (%) | | | | | |
| New | 27.8 | 27.6 | 27.5 | 27.1 | 27.0 |
| Old | | | 26.5 | 26.9 | 27.8 |
| Change (ppt) | | | 1.0 | 0.2 | (0.9) |
| Normalized profit (Bt m) | | | | | |
| New | 2,260 | 2,243 | 2,189 | 2,453 | 2,688 |
| Old | | | 2,034 | 2,058 | 2,353 |
| Change (%) | | | 7.6 | 19.2 | 14.2 |

Sources: Company data, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation Using A Base Year Of 2024F

| (Bt m) | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F | 2032F | 2033F | 2034F | Terminal Value |
|------------------------------------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------|
| EBITDA | 3,143 | 3,412 | 3,722 | 4,138 | 4,499 | 4,844 | 5,179 | 5,435 | 5,805 | 6,199 | 6,501 | — |
| Free cash flow | 2,323 | 2,716 | 3,043 | 3,563 | 3,894 | 4,167 | 4,371 | 4,611 | 4,944 | 5,265 | 5,423 | 61,561 |
| PV of free cash flow | 2,323 | 2,244 | 2,286 | 2,433 | 2,364 | 2,289 | 2,173 | 2,075 | 2,013 | 1,940 | 1,722 | 19,548 |
| Risk-free rate (%) | 3.5 | | | | | | | | | | | |
| Market risk premium (%) | 8.0 | | | | | | | | | | | |
| Beta | 1.0 | | | | | | | | | | | |
| WACC (%) | 11.4 | | | | | | | | | | | |
| Terminal growth (%) | 2.0 | | | | | | | | | | | |
| Enterprise value - add investments | 43,410 | | | | | | | | | | | |
| Net debt (2023F) | (3,584) | | | | | | | | | | | |
| Minority interest | (5) | | | | | | | | | | | |
| Equity value | 46,999 | | | | | | | | | | | |
| # of shares (m) | 872 | | | | | | | | | | | |
| Equity value/share (Bt) | 54 | | | | | | | | | | | |

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Peers

| Name | BBG code | Country | EPS growth | | — PE — | | — P/BV — | | EV/EBITDA | | — Div yield— | |
|------------------------|----------|-------------|------------|-------------|-------------|-------------|------------|------------|-------------|-------------|--------------|------------|
| | | | 23F (%) | 24F (%) | 23F (x) | 24F (x) | 23F (x) | 24F (x) | 23F (x) | 24F (x) | 23F (%) | 24F (%) |
| Bristol-Myers Squibb | BMY US | US | (3.4) | 5.6 | 8.2 | 7.7 | 3.7 | 3.2 | 7.7 | 7.4 | 3.8 | 3.9 |
| Eli Lilly & Co | LLY US | US | 23.9 | 28.6 | 59.6 | 46.4 | 36.7 | 26.0 | 49.0 | 38.1 | 0.8 | 0.9 |
| Johnson & Johnson | JNJ US | US | 1.4 | 6.6 | 15.6 | 14.6 | 5.1 | 4.0 | 12.0 | 11.5 | 2.9 | 3.1 |
| Merck & Co Inc | MRK US | US | (59.6) | 176.5 | 36.1 | 13.1 | 6.4 | 5.4 | 20.9 | 11.1 | 2.6 | 2.7 |
| Pfizer Inc | PFE US | US | (49.6) | 1.6 | 10.3 | 10.2 | 2.0 | 1.9 | 9.2 | 9.1 | 4.8 | 5.0 |
| Abbott Laboratories | ABT US | US | (17.8) | 5.1 | 23.0 | 21.8 | 4.6 | 4.2 | 18.1 | 16.9 | 2.0 | 2.1 |
| Astellas Pharma Inc | 4503 JP | Japan | 106.3 | 29.1 | 19.5 | 15.5 | 2.5 | 2.3 | 11.1 | 9.1 | 3.2 | 3.4 |
| Chugai Pharmaceutical | 4519 JP | Japan | (16.2) | 2.9 | 23.5 | 22.5 | 4.5 | 4.0 | 15.5 | 14.9 | 1.9 | 2.0 |
| Daiichi Sankyo Co Ltd | 4568 JP | Japan | 25.9 | 37.9 | 56.9 | 40.2 | 5.2 | 4.9 | 32.7 | 23.9 | 0.8 | 1.0 |
| Eisai Co Ltd | 4523 JP | Japan | (26.3) | 61.8 | 63.1 | 39.0 | 3.2 | 3.2 | 26.8 | 20.3 | 1.8 | 1.8 |
| Otsuka Holdings Co Ltd | 4578 JP | Japan | 43.4 | 9.5 | 15.1 | 13.7 | 1.2 | 1.2 | 7.7 | 7.1 | 1.9 | 2.1 |
| Taisho Pharmaceutical | 4581 JP | Japan | (28.6) | 15.7 | 37.4 | 32.3 | na | na | 6.5 | 6.5 | 1.6 | 1.6 |
| AstraZeneca | AZN LN | UK | 10.4 | 14.1 | 18.3 | 16.1 | 5.4 | 4.9 | 14.1 | 12.3 | 2.3 | 2.4 |
| GlaxoSmithKline | GSK LN | UK | 5.6 | 3.6 | 10.0 | 9.6 | 4.8 | 3.7 | 7.7 | 7.4 | 3.9 | 4.1 |
| Novartis AG | NOVN SW | Switzerland | 12.8 | 8.0 | 14.4 | 13.3 | 3.6 | 3.6 | 12.9 | 11.7 | 3.6 | 3.8 |
| Roche Holding AG | ROG SW | Switzerland | (8.5) | 9.3 | 13.9 | 12.7 | 6.0 | 5.0 | 10.2 | 9.5 | 3.7 | 3.9 |
| Novo Nordisk A/S | NOVOB DC | Denmark | 45.2 | 18.3 | 38.8 | 32.8 | 29.4 | 23.5 | 29.6 | 24.7 | 1.2 | 1.4 |
| Sanofi | SAN FP | France | (0.4) | 7.0 | 12.4 | 11.5 | 1.7 | 1.6 | 9.7 | 9.2 | 3.6 | 3.8 |
| Apex Healthcare | APEX MK | Malaysia | (10.8) | 5.3 | 19.5 | 18.6 | 2.4 | 2.2 | 13.1 | 12.5 | 2.3 | 2.4 |
| Kalbe Farma | KLBF IJ | Indonesia | 0.7 | 12.6 | 25.3 | 22.5 | 3.9 | 3.5 | 16.8 | 15.2 | 2.0 | 2.0 |
| Mega Lifesciences | MEGA TB* | Thailand | (3.1) | 12.0 | 16.7 | 14.9 | 3.8 | 3.4 | 11.7 | 10.2 | 3.5 | 4.0 |
| Average | | | 2.4 | 22.4 | 25.6 | 20.4 | 6.8 | 5.6 | 16.3 | 13.7 | 2.6 | 2.7 |

Sources: Bloomberg, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

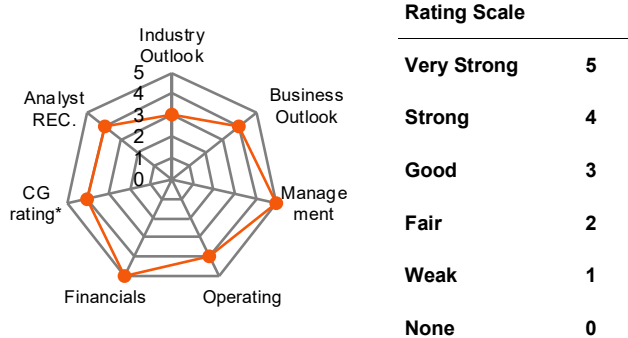
Based on 11-Sep-23 closing price

COMPANY DESCRIPTION

Mega Lifesciences PCL manufactures, markets and distributes nutritional and herbal supplement, OTC and ethical drugs. The company produces products that range from treating internal issues to overall general health. MEGA's operates in 33 countries globally.

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Products have strong brand recognition.
- Has its own distribution networks.
- Strong market knowledge and business connections.

O — Opportunity

- Growing business along with decent GDP growth in its main markets.
- Penetrating untapped developing and less developed markets.
- New customers for its distribution services.

W — Weakness

- No exposure to large-value pharmaceutical markets in developed countries.
- Not keen on big-molecules medicines which are popular and offer high margins.

T — Threat

- Global pharmaceutical players entering MEGA's markets.
- Distribution customers can terminate contracts.
- Strong baht trend against other currencies, especially the US dollar.

CONSENSUS COMPARISON

| | Consensus | Thanachart | Diff |
|-----------------------|-----------|------------|---------|
| Target price (Bt) | 52.46 | 54.00 | 3% |
| Net profit 23F (Bt m) | 2,178 | 2,189 | 1% |
| Net profit 24F (Bt m) | 2,413 | 2,453 | 2% |
| Consensus REC | BUY: 8 | HOLD: 1 | SELL: 1 |

HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profit estimate for 2023-24F is largely similar to the Bloomberg consensus number, which we attribute to us expecting a normalization of demand for MEGA's drug-related products.

Sources: Bloomberg consensus, Thanachart estimates

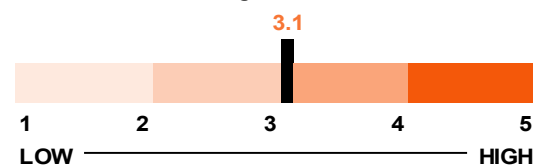
RISKS TO OUR INVESTMENT CASE

- Failure to receive drug-license approval for new pharmaceutical, nutraceutical and over-the-counter products would be the key downside risk to our call.
- Distribution clients terminating contracts represents a secondary downside risk.
- A stronger baht than our current expectation is another secondary downside risk to our call.

Source: Thanachart

MEGA is Southeast Asia’s leading manufacturer and distributor of food supplements and drugs. Its factories and distribution-related vehicles release some greenhouse gases and it implements measures to reduce emissions. We assign an ESG score of 3.1. MEGA has clear emission reduction goals but has yet to provide concrete plans to achieve its objectives.

Thanachart ESG Rating



| | SETTHSI Index | THSI Index | DJSI Index | MSCI (CCC-AAA) | ESG Book (0-100) | Refinitiv (0-100) | S&P Global (0-100) | Moody's (0-100) | CG Rating (0-5) |
|------|---------------|------------|------------|----------------|------------------|-------------------|--------------------|-----------------|-----------------|
| MEGA | YES | YES | - | - | 66.73 | 58.82 | 24.00 | - | 4.0 |

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)

Note: Please see third party on "terms of use" toward the back of this report.

| Factors | Our Comments |
|---|--|
| <p>ENVIRONMENT</p> <ul style="list-style-type: none"> Environmental Policies & Guidelines Energy Management Carbon Management Water Management Waste Management | <ul style="list-style-type: none"> MEGA is Southeast Asia’s leading manufacturer and distributor of food supplements and drugs with one factory in Thailand and one in Australia. Its factories release certain amounts of greenhouse gases (GHG) and other pollutants. MEGA has set out clear goals to reduce emissions but has yet to provide concrete plans to achieve this. MEGA’s plans are to improve in the following areas: 1) water neutrality (10% in 2023 to 50% in 2030), 2) renewable energy (8% to 40%), 3) waster circularity (25% to 50%), and 4) carbon neutrality (10% to 50%). MEGA has been using solar panels and a circulating water system in its factories. MEGA is also changing office-related products, e.g., LED tubes, to be more environmentally friendly. |
| <p>SOCIAL</p> <ul style="list-style-type: none"> Human Rights Staff Management Health & Safety Product Safety & Quality Social Responsibility | <ul style="list-style-type: none"> MEGA provides employee training systems. It has set up an in-house academy called Mega We Share. Top management normally offers knowhow to employees while it occasionally brings in external experts to provide knowledge in related fields. MEGA also believes it provides appropriate remuneration and benefits, e.g., allowances, bonuses, incentives, awards based on years of service, diet planning and healthy living advice, and accident insurance. MEGA normally provides onsite trading courses related to the health of the community. It also provides free-of-charge online health educational videos. |
| <p>GOVERNANCE & SUSTAINABILITY</p> <ul style="list-style-type: none"> Board Ethics & Transparency Business Sustainability Risk Management Innovation | <ul style="list-style-type: none"> MEGA has a ten-member board of directors (BOD) which we consider an appropriate size for the size and variety of products of its business. Of the ten members, four are independent directors. There is one female board member. MEGA has highly diversified drugs, food supplements, while it distributes drugs and consumer products. MEGA sells its products and provides services in various markets. MEGA has been active in developing automation to improve its operational efficiency. |

Sources: Company data, Thanachart

INCOME STATEMENT

| FY ending Dec (Bt m) | 2021A | 2022A | 2023F | 2024F | 2025F |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 14,136 | 15,686 | 14,796 | 15,847 | 17,152 |
| Cost of sales | 8,225 | 8,767 | 8,194 | 8,719 | 9,440 |
| Gross profit | 5,911 | 6,920 | 6,602 | 7,127 | 7,712 |
| % gross margin | 41.8% | 44.1% | 44.6% | 45.0% | 45.0% |
| Selling & administration expenses | 3,769 | 4,359 | 4,075 | 4,297 | 4,626 |
| Operating profit | 2,141 | 2,561 | 2,527 | 2,831 | 3,086 |
| % operating margin | 15.1% | 16.3% | 17.1% | 17.9% | 18.0% |
| Depreciation & amortization | 274 | 272 | 289 | 313 | 326 |
| EBITDA | 2,416 | 2,833 | 2,815 | 3,143 | 3,412 |
| % EBITDA margin | 17.1% | 18.1% | 19.0% | 19.8% | 19.9% |
| Non-operating income | 37 | 41 | 34 | 36 | 39 |
| Non-operating expenses | 0 | 0 | 0 | 0 | 0 |
| Interest expense | (28) | (29) | (39) | (44) | (39) |
| Pre-tax profit | 2,150 | 2,573 | 2,521 | 2,824 | 3,086 |
| Income tax | 336 | 355 | 348 | 389 | 425 |
| After-tax profit | 1,814 | 2,218 | 2,174 | 2,434 | 2,661 |
| % net margin | 12.8% | 14.1% | 14.7% | 15.4% | 15.5% |
| Shares in affiliates' Earnings | 9 | 40 | 10 | 13 | 22 |
| Minority interests | 6 | 1 | 5 | 5 | 5 |
| Extraordinary items | 119 | (18) | 0 | 0 | 0 |
| NET PROFIT | 1,947 | 2,242 | 2,189 | 2,453 | 2,688 |
| Normalized profit | 1,828 | 2,260 | 2,189 | 2,453 | 2,688 |
| EPS (Bt) | 2.2 | 2.6 | 2.5 | 2.8 | 3.1 |
| Normalized EPS (Bt) | 2.1 | 2.6 | 2.5 | 2.8 | 3.1 |

We expect profits to resume a growth path from 2024F

BALANCE SHEET

| FY ending Dec (Bt m) | 2021A | 2022A | 2023F | 2024F | 2025F |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| ASSETS: | | | | | |
| Current assets: | 9,301 | 10,590 | 10,983 | 12,400 | 13,854 |
| Cash & cash equivalent | 2,536 | 2,793 | 3,800 | 4,800 | 5,700 |
| Account receivables | 2,808 | 3,382 | 3,190 | 3,373 | 3,604 |
| Inventories | 3,823 | 4,109 | 3,704 | 3,918 | 4,216 |
| Others | 134 | 306 | 288 | 309 | 334 |
| Investments & loans | 215 | 223 | 231 | 239 | 247 |
| Net fixed assets | 1,837 | 1,901 | 2,012 | 2,000 | 1,774 |
| Other assets | 1,919 | 1,932 | 2,000 | 2,072 | 2,149 |
| Total assets | 13,272 | 14,646 | 15,226 | 16,711 | 18,024 |
| LIABILITIES: | | | | | |
| Current liabilities: | 4,853 | 5,538 | 5,216 | 5,617 | 5,846 |
| Account payables | 3,533 | 3,972 | 3,712 | 3,950 | 4,276 |
| Bank overdraft & ST loans | 168 | 229 | 216 | 303 | 108 |
| Current LT debt | 0 | 0 | 0 | 0 | 0 |
| Others current liabilities | 1,152 | 1,337 | 1,288 | 1,363 | 1,462 |
| Total LT debt | 0 | 0 | 0 | 0 | 0 |
| Others LT liabilities | 393 | 332 | 343 | 348 | 358 |
| Total liabilities | 5,247 | 5,870 | 5,558 | 5,965 | 6,204 |
| Minority interest | 22 | 0 | (5) | (5) | (10) |
| Preferreds shares | 0 | 0 | 0 | 0 | 0 |
| Paid-up capital | 436 | 436 | 436 | 436 | 436 |
| Share premium | 2,305 | 2,305 | 2,305 | 2,305 | 2,305 |
| Warrants | 2 | 2 | 2 | 2 | 2 |
| Surplus | (506) | (621) | (621) | (621) | (621) |
| Retained earnings | 5,766 | 6,655 | 7,552 | 8,630 | 9,708 |
| Shareholders' equity | 8,003 | 8,777 | 9,673 | 10,751 | 11,830 |
| Liabilities & equity | 13,272 | 14,646 | 15,226 | 16,711 | 18,024 |

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

| FY ending Dec (Bt m) | 2021A | 2022A | 2023F | 2024F | 2025F |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Earnings before tax | 2,150 | 2,573 | 2,521 | 2,824 | 3,086 |
| Tax paid | (311) | (336) | (358) | (376) | (408) |
| Depreciation & amortization | 274 | 272 | 289 | 313 | 326 |
| Chg In working capital | 281 | (421) | 337 | (159) | (202) |
| Chg In other CA & CL / minorities | 275 | 28 | (12) | 60 | 78 |
| Cash flow from operations | 2,670 | 2,116 | 2,778 | 2,661 | 2,880 |
| Capex | (161) | (336) | (400) | (300) | (100) |
| Right of use | (3) | 16 | 16 | 16 | 16 |
| ST loans & investments | 0 | 0 | 0 | 0 | 0 |
| LT loans & investments | (20) | (8) | (8) | (8) | (8) |
| Adj for asset revaluation | 0 | 0 | 0 | 0 | 0 |
| Chg In other assets & liabilities | (57) | (105) | (73) | (83) | (83) |
| Cash flow from investments | (241) | (433) | (465) | (375) | (175) |
| Debt financing | (213) | 43 | (13) | 88 | (195) |
| Capital increase | 0 | 0 | (0) | 0 | 0 |
| Dividends paid | (923) | (1,406) | (1,292) | (1,374) | (1,609) |
| Warrants & other surplus | 21 | (62) | 0 | 0 | 0 |
| Cash flow from financing | (1,114) | (1,425) | (1,306) | (1,287) | (1,804) |
| Free cash flow | 2,509 | 1,780 | 2,378 | 2,361 | 2,780 |

Strong cash flows, based on our estimates

VALUATION

| FY ending Dec | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Normalized PE (x) | 20.0 | 16.2 | 16.7 | 14.9 | 13.6 |
| Normalized PE - at target price (x) | 25.8 | 20.8 | 21.5 | 19.2 | 17.5 |
| PE (x) | 18.8 | 16.3 | 16.7 | 14.9 | 13.6 |
| PE - at target price (x) | 24.2 | 21.0 | 21.5 | 19.2 | 17.5 |
| EV/EBITDA (x) | 14.2 | 12.0 | 11.7 | 10.2 | 9.1 |
| EV/EBITDA - at target price (x) | 18.5 | 15.7 | 15.4 | 13.5 | 12.2 |
| P/BV (x) | 4.6 | 4.2 | 3.8 | 3.4 | 3.1 |
| P/BV - at target price (x) | 5.9 | 5.4 | 4.9 | 4.4 | 4.0 |
| P/CFO (x) | 13.7 | 17.3 | 13.2 | 13.8 | 12.7 |
| Price/sales (x) | 2.6 | 2.3 | 2.5 | 2.3 | 2.1 |
| Dividend yield (%) | 3.3 | 3.6 | 3.5 | 4.0 | 4.8 |
| FCF Yield (%) | 6.9 | 4.9 | 6.5 | 6.4 | 7.6 |
| (Bt) | | | | | |
| Normalized EPS | 2.1 | 2.6 | 2.5 | 2.8 | 3.1 |
| EPS | 2.2 | 2.6 | 2.5 | 2.8 | 3.1 |
| DPS | 1.4 | 1.5 | 1.5 | 1.7 | 2.0 |
| BV/share | 9.2 | 10.1 | 11.1 | 12.3 | 13.6 |
| CFO/share | 3.1 | 2.4 | 3.2 | 3.1 | 3.3 |
| FCF/share | 2.9 | 2.0 | 2.7 | 2.7 | 3.2 |

2024F PE of 15x looks inexpensive, in our view

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

| FY ending Dec | 2021A | 2022A | 2023F | 2024F | 2025F |
|----------------------------------|-------|-------|-------|-------|-------|
| Growth Rate | | | | | |
| Sales (%) | 12.3 | 11.0 | (5.7) | 7.1 | 8.2 |
| Net profit (%) | 39.8 | 15.1 | (2.4) | 12.0 | 9.6 |
| EPS (%) | 39.8 | 15.1 | (2.4) | 12.0 | 9.6 |
| Normalized profit (%) | 29.2 | 23.6 | (3.1) | 12.0 | 9.6 |
| Normalized EPS (%) | 29.2 | 23.6 | (3.1) | 12.0 | 9.6 |
| Dividend payout ratio (%) | 61.8 | 58.3 | 58.3 | 60.0 | 65.0 |
| Operating performance | | | | | |
| Gross margin (%) | 41.8 | 44.1 | 44.6 | 45.0 | 45.0 |
| Operating margin (%) | 15.1 | 16.3 | 17.1 | 17.9 | 18.0 |
| EBITDA margin (%) | 17.1 | 18.1 | 19.0 | 19.8 | 19.9 |
| Net margin (%) | 12.8 | 14.1 | 14.7 | 15.4 | 15.5 |
| D/E (incl. minor) (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net D/E (incl. minor) (x) | (0.3) | (0.3) | (0.4) | (0.4) | (0.5) |
| Interest coverage - EBIT (x) | 75.7 | 89.1 | 64.6 | 64.9 | 79.2 |
| Interest coverage - EBITDA (x) | 85.4 | 98.6 | 71.9 | 72.1 | 87.5 |
| ROA - using norm profit (%) | 14.7 | 16.2 | 14.7 | 15.4 | 15.5 |
| ROE - using norm profit (%) | 24.4 | 26.9 | 23.7 | 24.0 | 23.8 |
| DuPont | | | | | |
| ROE - using after tax profit (%) | 24.2 | 26.4 | 23.6 | 23.8 | 23.6 |
| - asset turnover (x) | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| - operating margin (%) | 15.4 | 16.6 | 17.3 | 18.1 | 18.2 |
| - leverage (x) | 1.7 | 1.7 | 1.6 | 1.6 | 1.5 |
| - interest burden (%) | 98.7 | 98.9 | 98.5 | 98.5 | 98.8 |
| - tax burden (%) | 84.4 | 86.2 | 86.2 | 86.2 | 86.2 |
| WACC (%) | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| ROIC (%) | 29.0 | 39.2 | 35.1 | 40.1 | 42.5 |
| NOPAT (Bt m) | 1,807 | 2,208 | 2,178 | 2,441 | 2,660 |
| invested capital (Bt m) | 5,635 | 6,212 | 6,089 | 6,255 | 6,238 |

Sources: Company data, Thanachart estimates

**We expect ROIC to
surpass WACC**

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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| | | |
|--------|-------|--------------|
| 90-100 | ▲▲▲▲▲ | Excellent |
| 80-89 | ▲▲▲▲ | Very Good |
| 70-79 | ▲▲▲ | Good |
| 60-69 | ▲▲ | Satisfactory |
| 50-59 | ▲ | Pass |
| Below | | N/A |

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Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 24.33% of the shareholding in TMBThanachart Bank Pcl.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMITED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

Note: Thanachart Securities Public Company Limited (TNS) acts as an underwriter of “Debentures of True Corporation Pcl (TRUE) No. 1/2023 (B.E. 2566) (No. 1-4) which its maturity at 2025, 2026, 2028, 2033 (B.E. 2568, 2569, 2571, 2576)”, therefore investors need to be aware that there could be conflicts of interest in this research.

Disclosure of Interest of Thanachart Securities

Investment Banking Relationship

Within the preceding 12 months, Thanachart Securities has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Moshi Moshi Retail Corporation Pcl. (MOSHI TB)

Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

Thanachart Securities Pcl.

Research Team

18 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research, Strategy
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanoom

Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert

Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th

Nariporn Klangpremchitt

Analyst, Retail Market
Tel: 662-779-9107
nariporn.kla@thanachartsec.co.th