

BUY

Initiation

TP: Bt 86.00

Upside : 27.9%

19 DECEMBER 2024

SAPPE Public Co. Ltd. (SAPPE TB)

A strong export play

We initiate coverage on SAPPE with a BUY. It is a highly successful drinks export company with a strong operation and room for growth. Despite being a net cash company, we estimate a 15% EPS CAGR in 2025-27F with a high 31% 2025F ROE.



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Initiating with a BUY

We initiate coverage on Sappe Pcl (SAPPE) with a BUY rating and a DCF-based 12-month TP (2025F base year) of Bt86.0. **First**, we see SAPPE as a fundamentally strong company both operationally and financially. **Second**, it has been successful in export market expansion, and its exports are yielding higher margins. **Third**, there's still room for double-digit earnings growth of 14/17/16% in 2025-27F. **Fourth**, it is a highly profitable company with a 31% ROE in 2025F despite being a net cash company. **Lastly**, with a sustainable high ROE and double-digit earnings growth outlook, we regard SAPPE, which is trading on 15x 2025F PE with a 4.3% dividend yield, as inexpensive.

Strong fundamentals

SAPPE is a 19-year-old company that is the leader in the Thai functional drinks market. It has a 37% market share with a strong position in the health and beauty segments. Its products have been successful in overseas markets, and exports accounted for 81% of its sales in 9M24 vs. 58% in 2019. SAPPE is a net cash company with high profitability at 31% ROE in 2025F. In 2025F, we project an EBITDA of Bt1.6bn and a 3.5% free cash flow yield. The concern over too few export SKUs subsided years ago after the company proved successful by diversifying its export base to over 20 countries with seven key markets.

Room for growth

Sales are 21% domestic and 79% exports in 2024F, and we expect it to rise to 82% in 2027F. We estimate its domestic sales to grow 8% p.a. in 2025-27F, driven by product line expansion in the health segment. We estimate stronger export growth of 14% p.a. in 2025-27F driven by growth in France, the Philippines, and the US, a recovery from hiccups in the UK, South Korea, and Indonesia, and entering new markets in Europe. As exports have a higher net margin of 22% vs. 17% for domestic sales, we expect its net margin to widen to 20% in 2027F from 18% in 2024F and ROE to 33% in 2027F from 30% in 2024F.

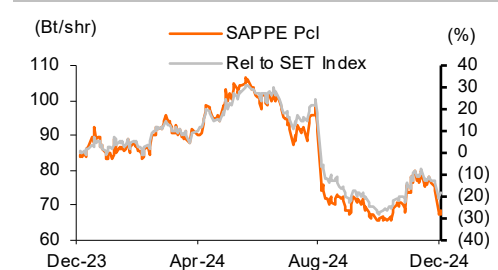
3Q24 hiccups are being solved

SAPPE's 3Q24 earnings fell 11% y-y due to a 13% y-y drop in exports. Domestic sales still grew a healthy 28% y-y. UK sales have been disappearing in 2H24F due to overstocking from unsuccessful modern trade penetration. Destocking is ending, and SAPPE expects its UK sales to resume in early 2025F. Its distribution problem in Indonesia in 3Q24 has been fixed, and normal sales resumed in 4Q24F. Competition in South Korea also eased in 4Q24F. SAPPE expects its overall export growth to resume at a double-digit level in 4Q24.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Sales	6,053	6,682	7,328	8,245
Net profit	1,074	1,222	1,398	1,630
Consensus NP	—	1,269	1,449	1,671
Diff frm cons (%)	—	(3.7)	(3.5)	(2.5)
Norm profit	1,085	1,222	1,398	1,630
Norm EPS (Bt)	3.5	4.0	4.5	5.3
Norm EPS grw (%)	63.0	12.6	14.5	16.6
Norm PE (x)	19.1	17.0	14.8	12.7
EV/EBITDA (x)	13.1	12.4	11.4	9.5
P/BV (x)	5.4	4.8	4.3	3.8
Div yield (%)	3.2	3.8	4.4	5.5
ROE (%)	30.7	30.1	30.5	31.6
Net D/E (%)	(64.7)	(51.9)	(44.7)	(54.2)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 19-Dec-24 (Bt)	67.25
Market Cap (US\$ m)	600.2
Listed Shares (m shares)	308.3
Free Float (%)	26.4
Avg Daily Turnover (US\$ m)	3.0
12M Price H/L (Bt)	106.50/65.25
Sector	FOOD
Major Shareholder	Ruckariyaphong Family 65.5%

Sources: Bloomberg, Company data, Thanachart estimates

Initiating with a BUY

**We value SAPPE at
Bt90/share**

We initiate coverage on shares of SAPPE Pcl (SAPPE) with a BUY rating and a DCF-based 12-month TP, using a 2025F base year, of Bt86/share.

Ex 1: Our Assumptions

	2022	2023	2024F	2025F	2026F	2027F
Total sales (% growth)	33	33	10	10	13	14
- Domestic (% growth)	(13)	10	20	8	9	6
- Exports (% growth)	57	39	8	13	14	15
Key old export markets (%)	16	24	19	16	13	15
Key new export markets (%)	82	107	(4)	7	14	15
Gross margin (%)	40.8	44.8	46.4	45.0	45.1	45.1
SG&A to sales (%)	29.9	24.8	27.3	26.7	26.2	25.5
EBIT margin (%)	10.9	20.0	19.1	18.3	18.9	19.6
Net margin (%)	14.6	17.9	18.4	19.2	19.9	20.2

Sources: Company data, Thanachart estimates

The key reasons for our recommendation are as follows:

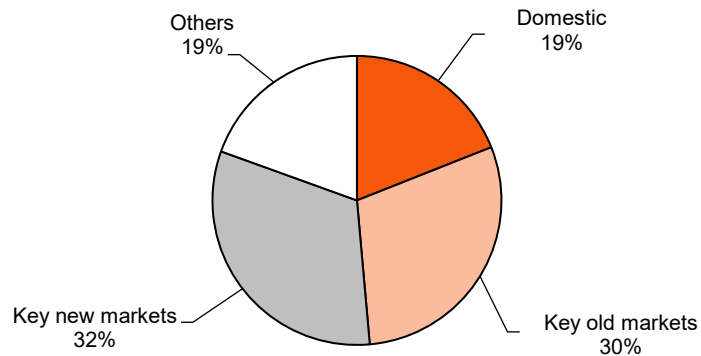
**An operationally and
financially sound company**

First, SAPPE is a fundamentally strong company, both operationally and financially. Operationally, SAPPE holds a strong position in Thailand's functional drinks market, commanding a 37% market share. It has flexibility in its product strategy to adjust to changes in consumer preferences and market direction. Starting from beauty-functional drinks, SAPPE has successfully transitioned its product focus to the health-related segment, which has helped secure its market position. Its normalized domestic sales grew more strongly at 10-15% p.a. in 2023-24F vs. 9% p.a. in 2018-22. We estimate 8% p.a. sales growth p.a. in 2025-27F. SAPPE is also robust financially as it is in a net cash position and running on an estimated negative cash cycle of 63 days in 2024F.

**A highly successful
exporter**

Second, SAPPE is a highly successful exporter, with exposure to more than 20 countries worldwide, and its top seven markets account for about 50% of its total exports. In 9M24, exports comprised 81% of total revenue and domestic sales 19%. SAPPE's core export product is a coconut-based refreshing drink, and the company is highly focused on a few SKUs as its export products. The market's concerns about SAPPE having too few product types for export have eased over the years as the company has successfully expanded into new export markets. We estimate export growth of 14% p.a. in 2025-27F.

Ex 2: Export Countries In 9M24



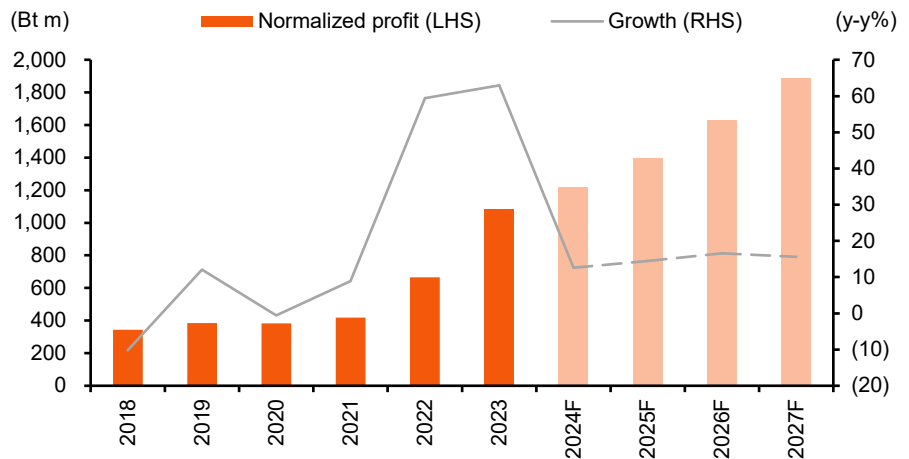
Sources: Company data, Thanachart estimates

Note: Key old markets consist of Philippines, Indonesia and the US. Key new markets consist of France, UK, Korea and other European markets.

A double-digit growth outlook

Third, SAPPE offers a double-digit earnings growth outlook of 14/17/16% in 2025-27F. Key drivers are 12% p.a. sales growth and net margin expansion to 20% in 2027F from 18% in 2024F. Net profits are being driven by its higher-margin export sales mix, rising to 82% in 2027F from 79% in 2024F, and cost savings.

Ex 3: A Double-digit Earnings Growth Outlook

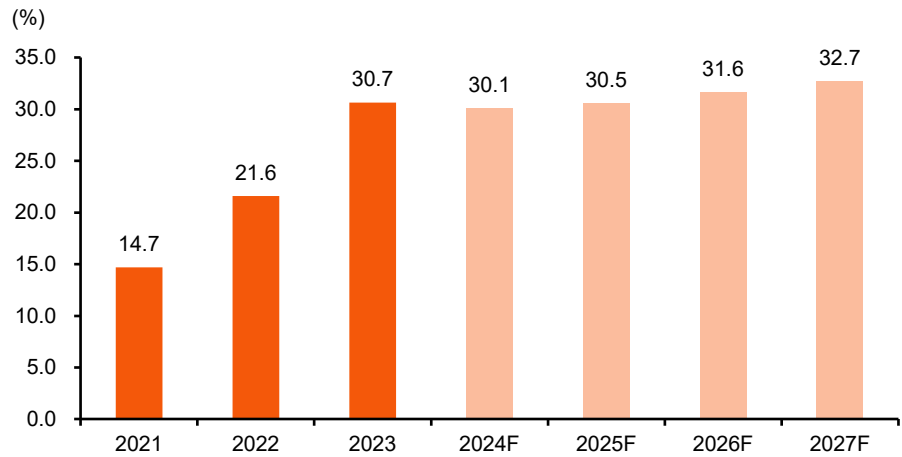


Sources: Company data, Thanachart estimates

A high ROE company

Fourth, SAPPE is a highly profitable company with a 30% ROE in 2024F, rising to 33% in 2027F. This is despite being a net cash company and having new capacity in 2025-26F that should temporarily bring down its average utilization and gross margin.

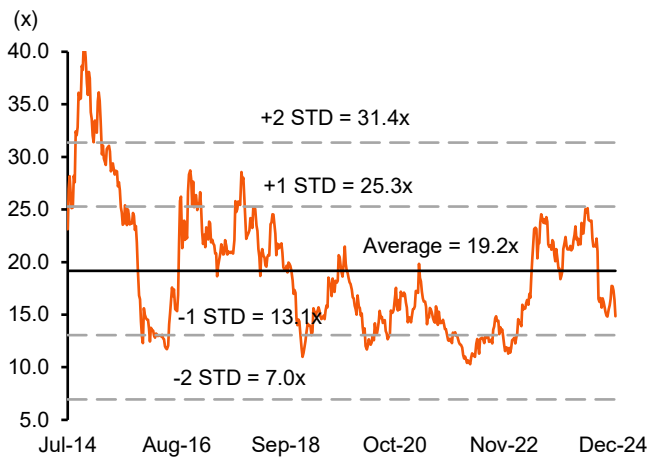
Ex 4: High ROE



Sources: Company data, Thanachart estimates

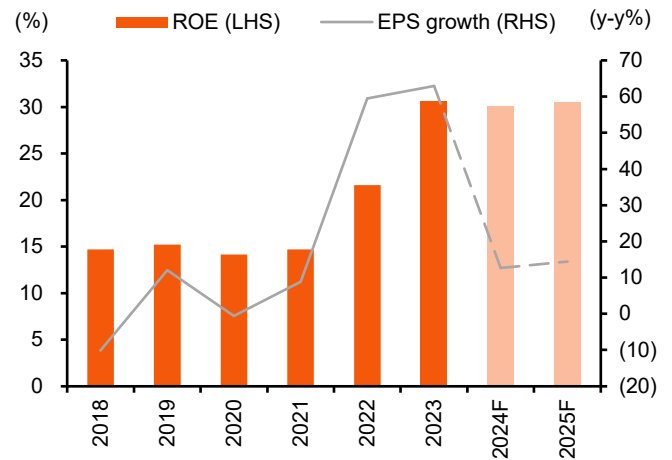
Lastly, as a highly profitable company offering a 30% ROE with a sustainable mid-teens earnings growth outlook for the next three years, SAPPE looks inexpensive to us, trading on a 15x 2025F PE multiple.

Ex 5: PE STD



Sources: Bloomberg, Thanachart estimates

Ex 6: EPS Growth Vs. ROE



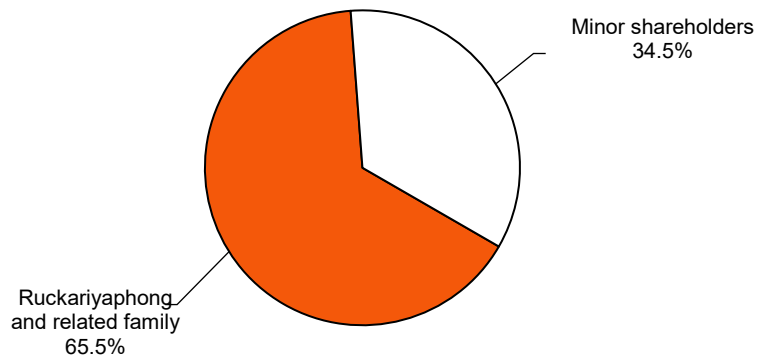
Sources: Company data, Thanachart estimates

Strong domestically, growing exports

Leading functional drinks company

SAPPE, established by the Ruckariyaphong family, began manufacturing and selling functional drink and fruit juices in 2005. SAPPE is Thailand's largest functional drinks producer. The company is being run by the second generation of the founding family. It operates a single production facility in Pathum Thani province in Thailand.

Ex 7: SAPPE's Shareholder Structure

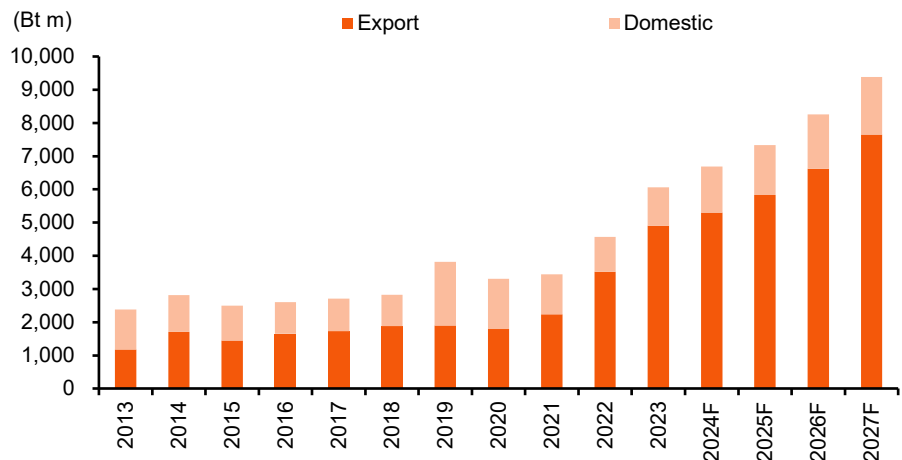


Source: Company data; note as of 9M24

Revenue breakdown is 81% export and 19% domestic sales

SAPPE's revenue breakdown in 9M24 was 19% domestic sales and 81% exports. It has three key product categories: fruit juices, functional beverages, and health-based products, including snacks, powders, and instant beverages. For domestic sales, key products are functional drinks and health-based products. For exports, key products are fruit juices with coconut pieces.

Ex 8: Growing Revenue



Sources: Company data, Thanachart estimates

Commands a large share of the domestic functional drink market

Domestic market:

In the domestic market, SAPPE has the largest market share, 37%, in functional drinks. It was big in beauty-based functional drinks, such as collagen. Later on, as its previous teenage customer base began aging, it focused more on health-related products, such as vitamin drinks. As health is a strong mega-trend, its normalized domestic sales growth increased to 10-15% in 2023-24F from an average of 9% p.a. in 2018-22. We estimate 8% p.a. growth in domestic sales in 2025-27F.

“SAPPE Beauti Drink” is SAPPE’s key functional beverage designed to promote beauty and health. It combines fruit juice with active ingredients such as collagen, fiber, vitamins, and carnitine. The product offers benefits such as brighter skin, improved digestion, and enhanced eye health. SAPPE currently markets four core Beauti Drink SKUs. “Blue” is another functional drink type with a vitamin focus.

Ex 9: SAPPE’s Functional Drink Products

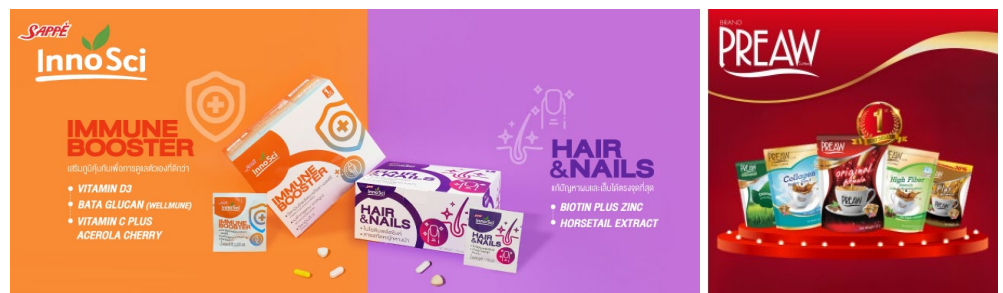


Source: Company data

SAPPE also sells healthy snacks, powders, and other products domestically for health-conscious consumers. Health powder products include collagen and fiber powders for beauty and improved digestion. Health jellies are jelly-based products enriched with vitamins and nutrients. SAPPE also sells healthy instant coffee with low sugar and fat content.

Fruit juice sales in the domestic market include the Gomes Gomu brand, which is a coconut-based fruit juice, and the All Coco brand, which is a niche product line targeting high-income consumers with 100% fresh and bottled coconut water.

Ex 10: SAPPE’s Healthy Products



Source: Company data

Keys to domestic success

SAPPE's success in the domestic market lies in its ability to anticipate trends and adapt quickly. This includes reducing sugar content or using substitutes in response to low-sugar consumption trends, repositioning products from a sole focus on beauty to a combined focus on beauty and health, and swiftly launching powder-based protein products. Additionally, SAPPE has strengthened its team by recruiting talent from global beverage brands to identify new growth opportunities for the company's next phase. SAPPE's ability to price its products higher than peers reflects strong consumer trust and recognition of the brand's credibility in delivering high-quality, effective offerings. As for distribution, SAPPE deals directly with modern-trade channels but uses third-party distributors for traditional trade channels.

Export market:**One-product-fit-all strategy has proven successful**

As for exports, SAPPE sells to over 20 countries worldwide, but key markets include the Philippines, Indonesia, South Korea, France, the UK, the US and Middle East. Most exported products are fruit juices with coconut pieces or jelly. Mogu Mogu is SAPPE's flagship product and the primary driver of export revenue. It is fruit juice containing real coconut-based jelly, which SAPPE claims is the world's largest coconut-chewed-based drink by sales volume. The appeal lies in the familiarity of fruit juice, the added texture of jelly that keeps the drink interesting, and the inclusion of real pieces of Thai coconut, which enhance its premium image. SAPPE developed Mogu Mogu in 2005. SAPPE positions Mogu Mogu as a higher-mid-end product, priced at approximately US\$1 per unit.

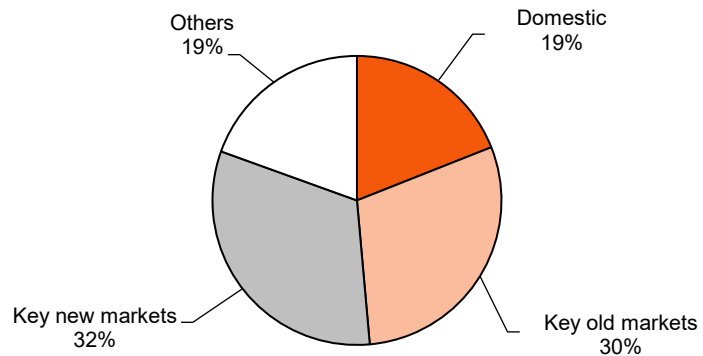
Ex 11: SAPPE's Juice-based Products

Source: Company data

Diversified export base

SAPPE has been very successful in exports, contributing 81% of its sales in 9M24. Export sales are quite diversified.

Ex 12: Export Breakdown In 3Q24

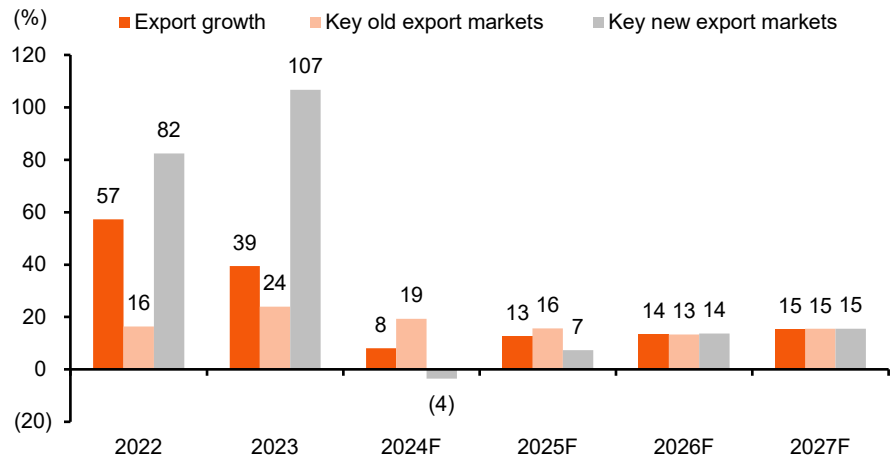


Sources: Company data, Thanachart estimates

We estimate export growth of 14% p.a. over the next three years

Exports grew 20% p.a. during 2020-24F vs. 7% p.a. during 2016-20. The accelerated growth was primarily due to the successful penetration of new markets, including France, the UK, and South Korea. We estimate these three markets accounted for 24% of SAPPE’s export sales in 9M24. Looking forward, we estimate 14% p.a. export sales growth in 2025-27F driven by greater penetration of the new markets above and more modern-trade expansion in its old Asian markets. Over the longer term, SAPPE sees significant opportunities for further expansion in newer European markets, which we consider a potential upside.

Ex 13: Export Growth By Market



Sources: Company data, Thanachart estimates

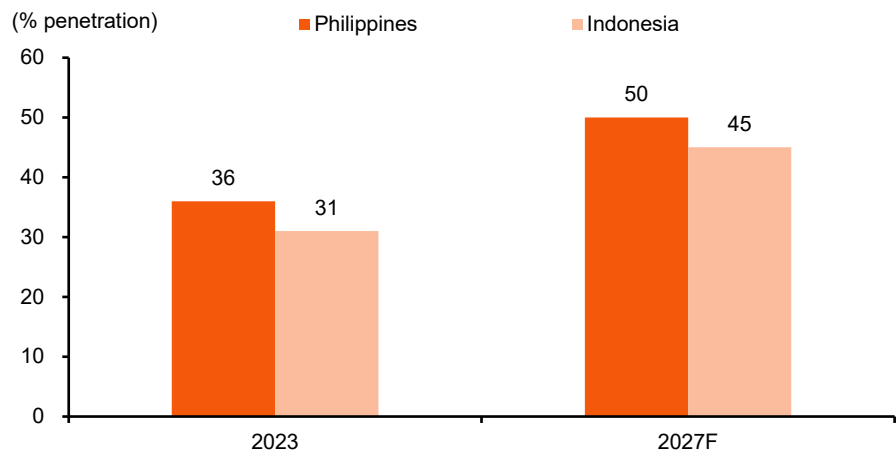
The Philippines and Indonesia still have a good growth outlook

As for the old markets, the Philippines and Indonesia still have strong growth prospects. SAPPE entered these markets in 2005, and its Mogu Mogu drink has become the largest fruit juice product in convenience stores in both countries. Despite the product’s long-standing presence in these markets, SAPPE continues to achieve mid-teens growth, driven by continued same-store sales growth and expansion in both countries. SAPPE’s products focus on younger-generation consumers in the mid-to-high-end segment. With ongoing urbanization and rising living standards, demand has increased for products that resonate with a younger, trend-conscious generation. SAPPE’s key marketing strategy aims to position Mogu Mogu as a modern and trendy product that aligns with consumers’ aspirations for a better lifestyle. Campaigns include collaborations with popular Korean boybands and integrating the product into activities such as gaming contests, enhancing its appeal among younger consumers. As for store expansion, Mogu Mogu, which already has a presence in over 90% of modern-trade stores in both countries, should also benefit from store expansion by modern-trade operators. It is estimated that number of modern trade stores in these two markets to reach about 50 % in 2027F vs. 33% in 2022.

Exposure in the Middle East and the US

SAPPE is also doing well in the Middle East and the US, where fruit juices are flavored due to consumers’ natural love of sweetness and the need for refreshments in the hot weather. However, revenues in these two markets still make up just 10% of SAPPE’s export revenues.

Ex 14: Modern Trade Penetrations In Key Old Markets



Sources: Company data, Thanachart compilations

New markets still have lots of room for growth

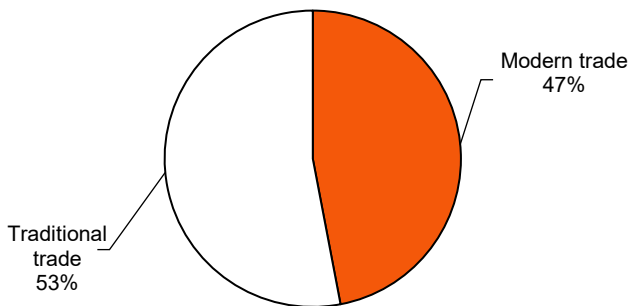
As for new market opportunities, the markets that SAPPE penetrated recently, such as France, the UK, other European countries, South Korea, and the US, still have plenty of room to grow.

The French story

France: SAPPE actually started entering European markets in the early 2010s, but it wasn't much of a success. In 2020, SAPPE adjusted its strategy and focused on penetrating France. In 9M24, France accounted for 14% of total export sales, while other European markets accounted for 7%. That compares to total exports to Europe of only 7% of total export sales in 2018. SAPPE believes its success in France has been due to two key factors. The first is the effective positioning of Mogu Mogu as an innovative fruit juice infused with chilled coconut pieces that evoke the feel of a tropical drink. The second is its ability to identify suitable distributors. SAPPE selects distributors that prioritize its products, with Mogu Mogu accounting for more than 50% of their portfolios, rather than spreading efforts across a wide range of brands. Additionally, SAPPE encourages distributors to operate on cash terms, ensuring they actively push the product onto the market rather than merely holding stock to meet sales quotas.

SAPPE initially introduced its products in traditional trade (TT) stores across various regions, identified top-performing areas and then expanded into modern trade (MT). In France, MT now accounts for 53% of SAPPE's sales and TT 47%. SAPPE's products are available in the top five modern trade store chains in France and rank among the top five fruit juice brands, alongside global leaders such as Tropicana, Minute Maid, and Andros. Despite this progress, SAPPE estimates it has penetrated only 20% of total MT stores in France, leaving significant room for expansion. We estimate exports to France to grow by 15% p.a. in 2025-27F and expect France to be a good model for SAPPE to expand into other European markets.

Ex 15: SAPPE's Sales Exposure In France



Sources: Company data, Thanachart estimates

Ex 16: SAPPE's Store Exposure In France



Source: Company data

UK is difficult but has potential

UK: SAPPE entered the TT market in the UK in 2023, and the UK accounted for 10% of its total exports in 1H24. Like in France, SAPPE successfully penetrated TT. However, the company has not yet secured entry into the MT channel. Despite meeting product quality standards and generating solid demand, SAPPE has been unable to finalize trade agreements with UK MT stores. UK MT stores require brand owners to demonstrate a dual commitment by offering strategies to contribute to the growth of the MT chain by strategically leveraging brand owners' products. To meet these expectations, SAPPE and its distributors are now building a dedicated team to address these requirements and plan to resume negotiations next year.

Due to the failure in MT penetration, SAPPE has been utilizing its unsold MT inventory to sell to TT. With that, SAPPE has temporarily stopped exporting to the UK, waiting for the unsold MT inventory to be depleted, which it expects by the end of this year. This is causing a hiccup in exports to the UK in 2H24, and we estimate UK sales to decline by 50% in 2024F. For 2025F, we project a resumption in UK sales growth of 5-15% p.a. in 2025-27F.

Further penetration of South Korea

South Korea: SAPPE entered South Korea in 2022, and the country accounted for 7% of total sales in 9M24. SAPPE now has a presence in 40% of MT stores, and Mogu Mogu has the largest shelf space among fruit juice products in the convenience store category. SAPPE believes its products are well-received by younger-generation consumers. Mogu Mogu is an easy-to-drink fruit juice with the unique appeal of chilled natural coconut jelly. Locally produced Korean fruit juices are more pure juice or artificially sweetened with sugary jelly.

SAPPE considers the product introduction phase complete. The next step is to increase penetration and its customer base. It is planning to be more aggressive with its marketing strategies. Planned initiatives include partnering with a popular Korean boy band to act as brand ambassadors and integrating the products into youth-oriented events such as gaming tournaments and idol fan meet-and-greets. We estimate South Korean sales to grow by 15% p.a. in 2025-27F.

Other potential markets

Other European and other potential markets: There are many other countries and regions that SAPPE is planning to export more to. These include Italy, Germany, the Netherlands, and 20 other regions. SAPPE has not yet prioritized these markets, and current sales are through unauthorized distributors who like SAPPE's products or have recognized the success of its products in France and the UK. These distributors operate independently, selling SAPPE products without marketing support or financial contributions from the company.

SAPPE plans to be more active in these markets in 2026. We still estimate only 11% p.a. sales growth from these markets in 2025-27F.

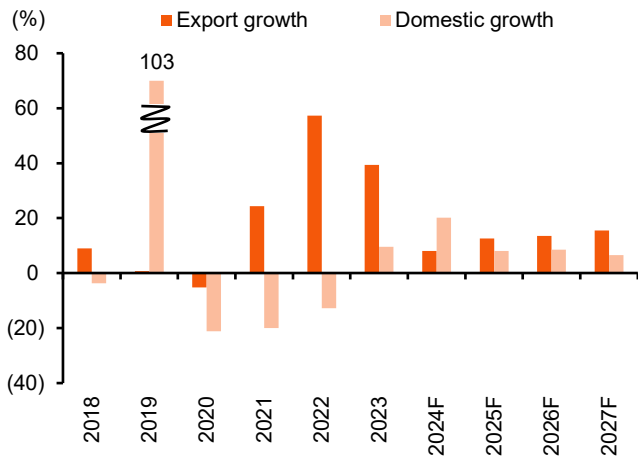
A fundamentally strong company

Operationally and financially strong

SAPPE is a 19-year-old, well-established company. It commands a 37% share of the functional drinks market in Thailand and has a presence in many countries worldwide. It runs its own production facility in one location in Pratum Thani province in Thailand. SAPPE is a highly profitable firm with a 30% ROE in 2024F, which we expect to rise to 33% in 2027F. This is despite it being a net cash company. The high ROE is attributed to a healthy net margin of 18% and asset turnover of 1.1x.

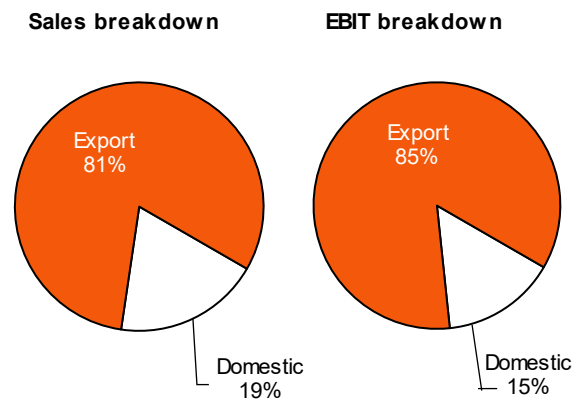
One factor behind its rising ROE is its rising margin trend. SAPPE earns a higher EBIT from exports than from domestic sales, and the export sales mix is rising. We estimate a net margin of 22% for domestic products and 17% for export products. As mentioned earlier, we estimate export growth of 14% p.a. and domestic sales of 8% p.a. in 2025-27F.

Ex 17: Domestic Vs. Export Sales Growth



Sources: Company data, Thanachart estimates

Ex 18: Sales Vs. EBIT Breakdown



Sources: Company data, Thanachart estimates

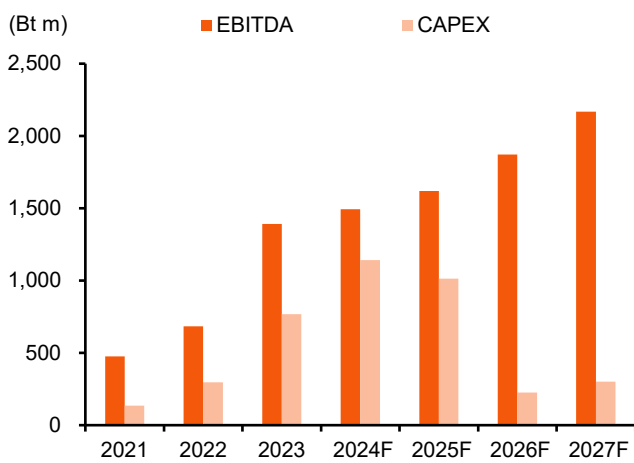
A company with strong cash flows

We estimate SAPPE to generate EBITDA of Bt0.7bn-1.6bn annually during 2024-27F. Maintenance capex is normally around Bt300m a year. However, SAPPE is planning to expand its production capacity by 45% at the same facility with a combined capex amount of Bt2.3bn in 2025-26. The capex is to be financed by internal cash flow. SAPPE is running at 75% utilization in 2024F, and it plans to have the additional capacity up and running by 2026 to take on future demand growth. SAPPE is also running on a negative cash conversion cycle of 55 days.

SAPPE’s factory has a good track record with no unplanned shutdowns or production delays. While beverage manufacturing is not complicated, SAPPE focuses on only three key product lines: flavored-based functional drinks, fruit juices, and health products. Each product line uses separate sets of machines, eliminating any overlap or conflict in production processes.

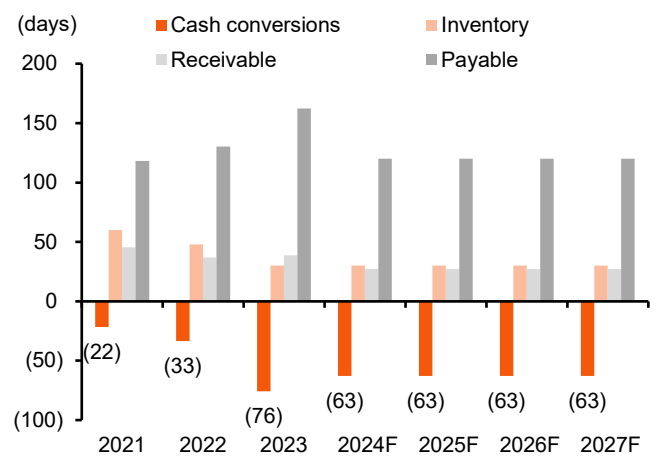
SAPPE focuses on pursuing low switching costs. Despite offering a wide variety of flavors across its SKUs, particularly for juices, which it frequently changes to align with marketing strategies, SAPPE has designed dedicated production lines to add juices to the mixture of water and other ingredients. These lines are separate from the main production pipelines for water and other base ingredients, ensuring that frequent juice changes do not require downtime to clear the lines or cause pipeline disruptions.

Ex 19: EBITDA Vs. Capex



Sources: Company data, Thanachart estimates

Ex 20: Negative Cash Conversion Cycle



Sources: Company data, Thanachart estimates

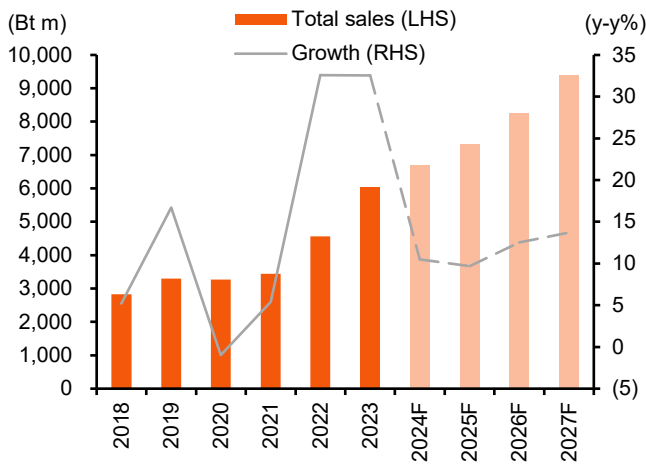
Room for growth

We estimate SAPPE's EPS growth at 16/17/16% 2025-27F, with the drivers from sales growth and margin expansion.

Double-digit sales growth

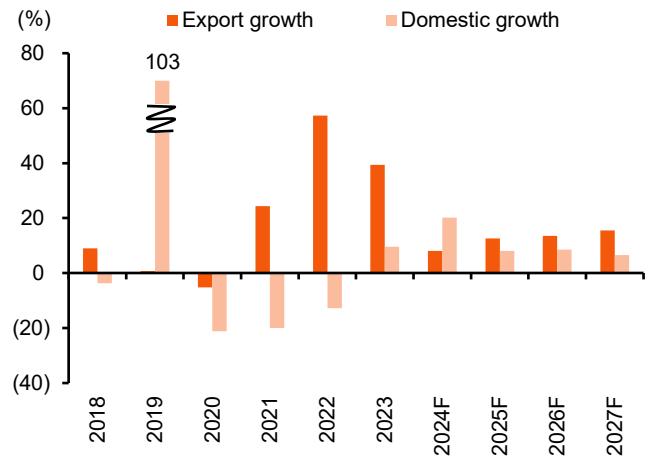
As for sales, we project overall sales growth of 10/13/14% in 2024-26F, contributed to by domestic sales growth of 8/9/6% and export growth of 13/14/15%. Key drivers for domestic sales are organic growth in the functional drinks market, given the trend of health consciousness. The key driver for exports is increasing the penetration of different markets. We discussed each key market in more detail earlier in this report.

Ex 21: Total Sales Growth



Sources: Company data, Thanachart estimates

Ex 22: Domestic Vs. Export Sales Growth



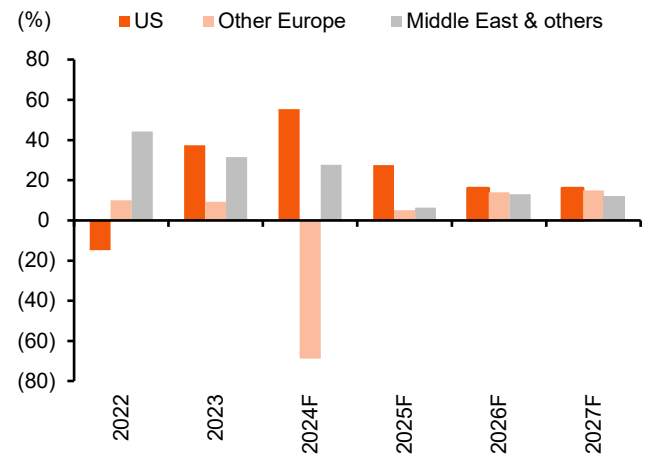
Sources: Company data, Thanachart estimates

Ex 23: Export Growth In Top Markets



Sources: Company data, Thanachart estimates

Ex 24: Export Growth In Other Key Markets



Sources: Company data, Thanachart estimates

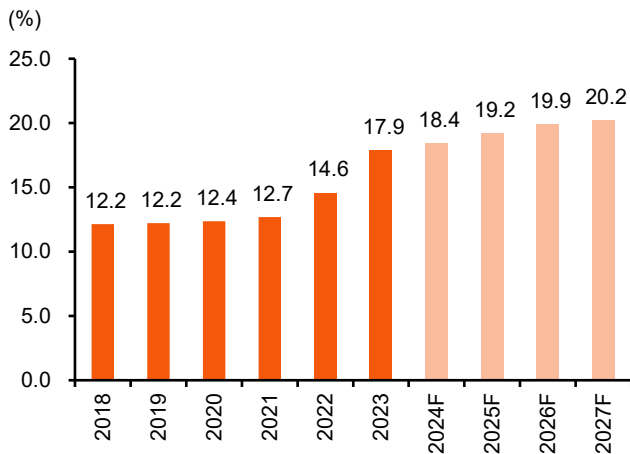
Margin expansion

As for margin, we forecast net margin to expand to 20% in 2027F from 18% in 2024F. Key margin drivers are below.

Key margin drivers are provided below:

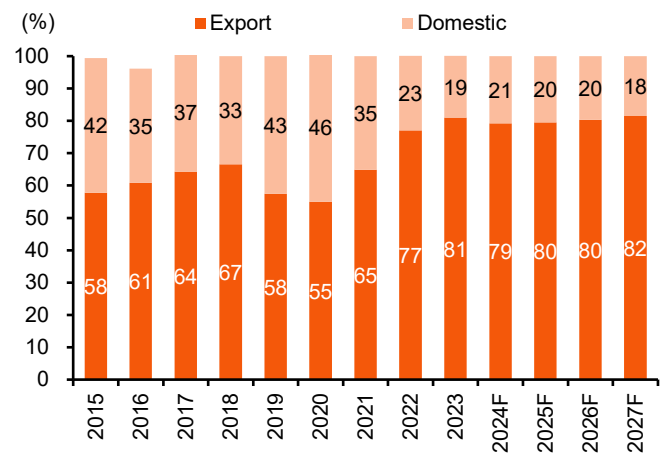
- 1) We project SAPPE’s export sales mix to rise to 82% in 2027F from 79% in 2024F. Exports yield a higher net margin of 22% vs. 17% for domestic sales (9M24).
- 2) SAPPE targets cost savings in 2025-26F from rising automation and lower labor costs. An example in automation is automated juice bottling lines to replace manual filling. Another example is an automated packaging system with integrated quality control to minimize manual inspection and increase production speed.
- 3) SAPPE expects tax savings of at least Bt700m p.a. to begin in 2025 due to more Board of Investment (BOI) incentives. SAPPE has invested in new machinery for Mogu Mogu export production. Note that SAPPE isn’t a multinational firm, and its revenue is below the Bt25bn.m required by OECD to be subject to pay a minimum global tax of 15%.

Ex 25: Rising Net Margin



Sources: Company data, Thanachart estimates

Ex 26: Rising Export Sales Mix



Sources: Company data, Thanachart estimates

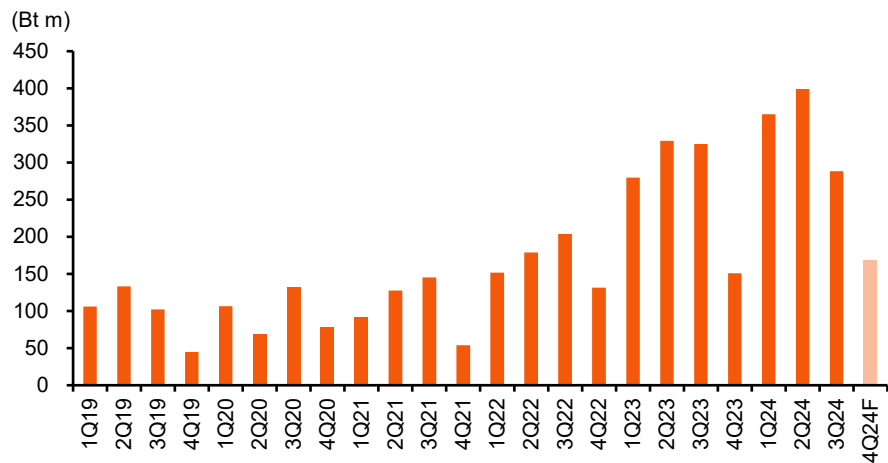
3Q24 hiccups are being resolved

We foresee a recovery as early as 4Q24F

SAPPE's 3Q24 earnings fell by 11% y-y due to a 13% y-y drop in exports. Domestic sales still grew by 15% y-y. UK sales, i.e., sales into stores, disappeared due to unsuccessful modern trade penetration, leaving excess inventory to be depleted first, while South Korean sales declined due to a weak marketing strategy at the time. SAPPE also temporarily halted distribution in Indonesia to review its plan for penetrating the traditional trade market. Excluding these three markets, sales in other export markets grew by 15% y-y.

That said, SAPPE's export business has resumed y-y growth so far in 4Q24F. In Indonesia, SAPPE finalized its strategy and began penetrating the traditional trade channel with smaller, cheaper products that yield margins similar to those in key modern trade areas. Growth in South Korea resumed following the launch of a new marketing strategy. In the UK, SAPPE plans to resume sales after excess inventory is depleted by early 2025.

Ex 27: Quarterly Earnings



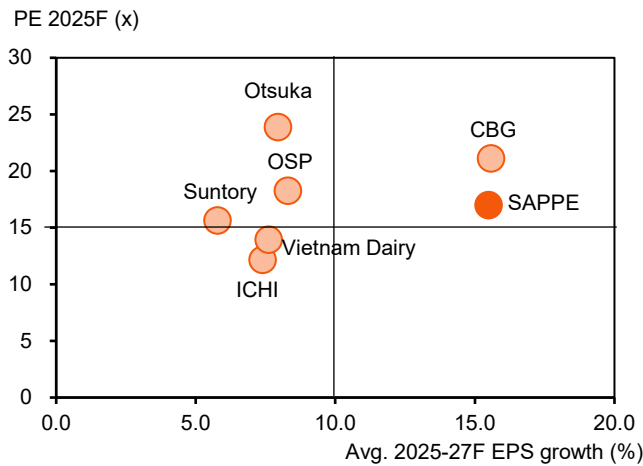
Sources: Company data, Thanachart estimates

Inexpensive valuation, in our view

We value SAPPE at Bt86/share

Our DCF-based 12-month TP (2025F base year) for SAPPE is Bt86.0. Our TP implies a PE multiple of 19x for 2025F. SAPPE is trading on 15x 2025F PE, and we see it as inexpensive given our EPS growth estimates of 14/17/16% in 2025-27F. We believe SAPPE should trade at a PE to growth ratio above 1x, given its high ROE of 30%. It also has a well-established brand and a strong market share position in Thailand. SAPPE also looks inexpensive compared to regional peers, as shown in the exhibits below.

Ex 28: SAPPE's Vs. Peers' PE And PEG Ratios

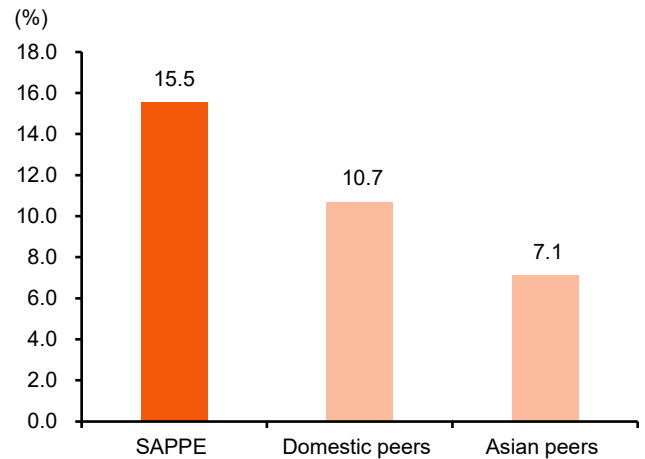


Sources: Company data, Thanachart estimates

Note: Domestic peers include CBG, SOP and ICHI

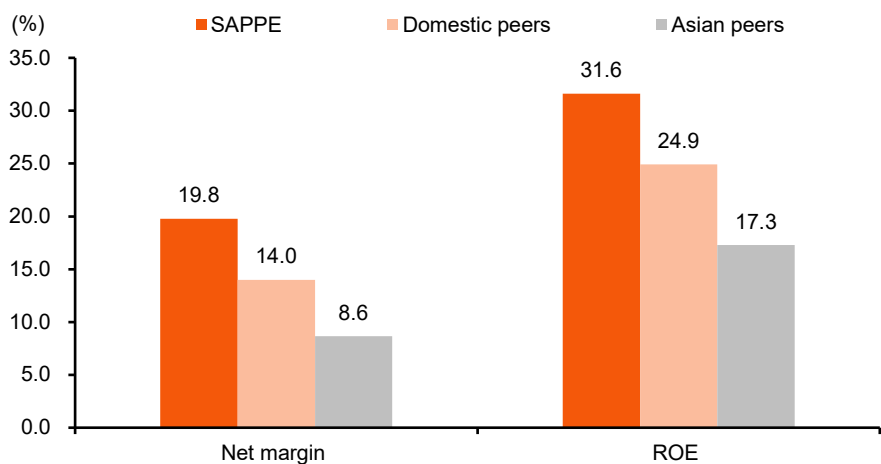
Asian peers include TMM, Suntory, and Otsuka

Ex 29: Average 2025-27F EPS Growth



Sources: Bloomberg, Company data, Thanachart estimates

Ex 30: SAPPE's Higher Net Margin and ROE



Sources: Bloomberg, Company data, Thanachart estimates

Risk factors

We discuss risk factors here

On the production side, we see less risk to supply as Thailand is rich in sugar and coconuts. A higher risk lies with pricing, but the domestic prices of these raw materials are not highly volatile.

For export sales, the key risk lies with the choice of distributors. In its big export markets, such as Philippines, Indonesia, France and Korea, SAPPE tends to work with exclusive distributors whose portfolios rely heavily on its products, contributing at least 50% of their sales. SAPPE also encourages purchases in cash terms. In smaller markets, SAPPE does not use exclusive distributors. Nonetheless, its average distributor relationship is over five years and has been quite stable. In Thailand, SAPPE manages all marketing and promotional strategies by itself and distributes through the country's top three distributors.

Also with export sales, a concern used to be competition against SAPPE's products as there are plenty of other fruit juice products. However, as time passed, SAPPE's products continued to be sold, and the company has penetrated even more markets than before. Its products are considered niche with the chillable inclusion of real coconut pieces or jelly.

SAPPE is exposed to currency risk. It sells 50% of its products in US dollars, 32% in baht, and 18% in other currencies. Also, as an export company with a production base in Thailand and no debt, a weak baht is positive for SAPPE. Our sensitivity analysis indicates that each 1% change in the US\$ against the baht would result in a 2% change in our earnings forecasts.

Ex 31: 12-month DCF-based TP Calculation Using A Base Year Of 2025F

(Bt m)	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	Terminal Value
EBITDA	1,620	1,872	2,168	2,416	2,631	2,876	3,076	3,224	3,380	3,544	3,718	—
Free cash flow	790	1,833	2,042	2,041	2,012	2,213	2,375	2,497	2,629	2,767	2,866	33,603
PV of free cash flow	788	1,524	1,547	1,409	1,267	1,236	1,203	1,148	1,096	1,047	937	10,981
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	9.7											
Terminal growth (%)	2.0											
Enterprise value - add investments	24,182											
Net debt (2024F)	(2,283)											
Minority interest	89											
Equity value	26,376											
# of shares (m)	308											
Equity value/share (Bt)	86											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 32: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield—	
			24F (%)	25F (%)	24F (x)	25F (x)	24F (x)	25F (x)	24F (x)	25F (x)	24F (%)	25F (%)
Vietnam Dairy Products	VNM VN	Vietnam	12.3	7.5	15.0	13.9	4.2	4.0	8.8	8.5	6.2	6.2
Suntory Beverage & Food	2587 JP	Japan	10.5	10.8	17.3	15.6	1.4	1.3	6.7	6.2	2.3	2.5
Otsuka Corp	4768 JP	US	6.0	16.2	27.6	23.7	3.8	3.5	14.8	12.8	2.0	2.2
PepsiCo	PEP US	US	7.0	5.7	18.9	17.9	15.2	17.6	14.1	13.3	3.4	3.7
Coca-Cola	KO US	US	6.1	4.3	22.0	21.1	10.9	10.1	19.9	18.7	3.1	3.2
Monster Beverage Corp	MNST US	US	6.9	13.8	31.3	27.5	8.0	6.7	22.6	20.3	0.0	0.0
Ichitan Group PCL	ICHI TB	Thailand	28.7	6.9	13.0	12.1	3.1	3.2	7.6	7.2	7.9	8.3
Carabao Group PCL*	CBG TB	Thailand	51.2	26.2	26.6	21.1	5.9	5.1	18.6	15.0	1.9	2.8
Osotspa PCL*	OSP TB	Thailand	33.0	7.7	19.6	18.2	3.9	3.9	13.5	12.3	5.1	5.5
Sappe PCL*	SAPPE TB	Thailand	12.6	14.5	17.0	14.8	4.8	4.3	12.4	11.4	3.8	4.4
Average			17.4	11.4	20.8	18.6	6.1	6.0	13.9	12.6	3.6	3.9

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS.

Based on 19 December 2024 closing prices

COMPANY DESCRIPTION

Sappe Public Company Limited began manufacturing and distributing health drinks in 2011. The company produces three product lines: functional drinks, fruit juices infused with coconut jelly pieces, and health products. SAPPE sells its products both domestically and internationally, covering Asia, Europe, the Americas, and the Middle East.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong market position in Thailand and exposure to over 20 countries worldwide.
- Strong brand recognition.
- Access to key raw material supplies, including coconut, at home.
- Robust balance sheet.

O — Opportunity

- Room to expand exports into new countries.
- Room to increase penetration in existing exporting countries.
- Room to increase product lines in fruit juice segment.

W — Weakness

- Export sales are driven by a single product SKU: Mogu Mogu fruit juice.
- Single product for exports limit long-term growth potential.
- Heavy reliance on a few distributors for its export business.
- Small functional drink market and highly competitive fruit juice market in Thailand.

T — Threat

- Small functional drink industry with large number of players in Thailand.
- Fierce competition in overall beverage and fruit juice segment in Thailand.
- Fluctuations in raw material prices.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	90.35	86.00	-5%
Net profit 24F (Bt m)	1,269	1,222	-4%
Net profit 25F (Bt m)	1,449	1,398	-4%
Consensus REC	BUY: 8	HOLD: 3	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2024-25F earnings estimates are slightly lower than the Street's, which we attribute to us having a more conservative view on an order recovery in the UK market.
- However, our TP is similar to the consensus, which we attribute to us having a more aggressive view on SAPPE's longer-term growth outlook.

Sources: Bloomberg consensus, Thanachart estimates

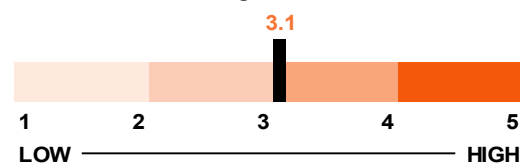
RISKS TO OUR INVESTMENT CASE

- Slower overseas market penetration than currently anticipated would pose a downside risk to our estimates.
- Amid intense competition in the beverage market, the successful launch of competitors' new products could also pressure our projections.
- Additionally, a stronger-than-expected Thai baht would represent another downside risk to our numbers.

Source: Thanachart

SAPPE is Thailand’s leading manufacturer of functional drinks and fruit juices. Its factory does not release greenhouse gases due to the nature of beverage production. SAPPE has set a long-term target to cut emissions and implemented measures to achieve this goal. Our ESG score for SAPPE is 3.14.

Thanachart ESG Rating



	SET ESG Index	SET ESG (BBB-AAA)	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)
SAPPE	YES	A	-	B	-	-	-	-	4.0

Sources: SETTRADE, SET ESG Index, SET ESG Rating, 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**

ENVIRONMENT

- Environmental Policies & Guidelines
- Energy Management
- Carbon Management
- Water Management
- Waste Management

- SAPPE is the leading producer of functional drink and fruit juices in Thailand. It has one factory in Thailand. SAPPE has been implementing measures to reduce pollution. In 2023, SAPPE fully switched from PVC to virgin PET bottles, (bottles are its key raw material associated with greenhouse gases), which are easier to recycle while also releasing lower toxic dioxins, one of the greenhouse gas factors, when burned or degraded. By 2027, it plans to increase the usage of recycled PET bottles from the normal PET currently used to 30%.
- SAPPE is also switching to 100% recyclable bottle caps, although there is no definite timeline.
- SAPPE is focusing on increasing the usage of renewable energy by installing solar rooftops to reduce overall energy consumption.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- SAPPE has set up various welfare schemes for employees. Examples are life insurance and medical treatment expenses for accidents, group health insurance, employee dormitories and cheap food.
- SAPPE provides workshops to increase employee efficiency, e.g., improvements in production seals and garbage sorting.
- SAPPE provides donations for those in need and offers cleaning services for nearby communities.

GOVERNANCE & SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- SAPPE has a nine-member board of directors, which we consider to be reasonable for the size and scope of its business. The board chair is independent, which is good ESG practice. Of the nine members, four are independent directors which is acceptable to us at nearly half of the mix. There are two female directors.
- SAPPE’s product diversification is low, focusing on a few product SKUs of fruit juices and beauty-and-health-focused functional drinks.
- SAPPE has good export market diversification but still focuses too few export product categories.

Sources: Thanachart, Company data

INCOME STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Sales	4,566	6,053	6,682	7,328	8,245
Cost of sales	2,703	3,341	3,583	4,030	4,528
Gross profit	1,863	2,711	3,099	3,298	3,717
% gross margin	40.8%	44.8%	46.4%	45.0%	45.1%
Selling & administration expenses	1,366	1,499	1,823	1,956	2,160
Operating profit	497	1,213	1,277	1,342	1,557
% operating margin	10.9%	20.0%	19.1%	18.3%	18.9%
Depreciation & amortization	187	178	216	279	315
EBITDA	685	1,391	1,492	1,620	1,872
% EBITDA margin	15.0%	23.0%	22.3%	22.1%	22.7%
Non-operating income	333	146	270	270	270
Non-operating expenses	0	0	0	0	0
Interest expense	(2)	(3)	(4)	(3)	(4)
Pre-tax profit	828	1,356	1,543	1,609	1,823
Income tax	162	275	310	199	182
After-tax profit	666	1,081	1,233	1,409	1,641
% net margin	14.6%	17.9%	18.4%	19.2%	19.9%
Shares in affiliates' Earnings	0	(20)	0	0	0
Minority interests	(1)	24	(11)	(11)	(11)
Extraordinary items	(12)	(10)	0	0	0
NET PROFIT	653	1,074	1,222	1,398	1,630
Normalized profit	666	1,085	1,222	1,398	1,630
EPS (Bt)	2.1	3.5	4.0	4.5	5.3
Normalized EPS (Bt)	2.2	3.5	4.0	4.5	5.3

Robust sales growth from strong exports

Also decent profit growth from good growth of high-margin export products

BALANCE SHEET

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Current assets:	3,079	3,656	3,138	3,228	4,143
Cash & cash equivalent	2,129	2,532	2,300	2,300	3,100
Account receivables	459	642	494	542	610
Inventories	444	438	294	331	372
Others	47	45	50	54	61
Investments & loans	119	99	79	59	39
Net fixed assets	1,068	1,665	2,590	3,325	3,235
Other assets	295	260	61	50	39
Total assets	4,561	5,680	5,869	6,662	7,456
LIABILITIES:					
Current liabilities:	1,071	1,647	1,343	1,578	1,752
Account payables	964	1,485	1,178	1,325	1,489
Bank overdraft & ST loans	10	9	17	85	82
Current LT debt	0	0	0	0	0
Others current liabilities	97	153	148	168	182
Total LT debt	0	0	0	0	0
Others LT liabilities	130	137	130	131	135
Total liabilities	1,201	1,784	1,473	1,709	1,887
Minority interest	102	78	89	100	111
Preferreds shares	0	0	0	0	0
Paid-up capital	308	308	308	308	308
Share premium	1,082	1,082	1,082	1,082	1,082
Warrants	0	0	0	0	0
Surplus	(3)	(9)	(9)	(9)	(9)
Retained earnings	1,870	2,436	2,924	3,471	4,076
Shareholders' equity	3,258	3,818	4,306	4,853	5,458
Liabilities & equity	4,561	5,680	5,869	6,662	7,456

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Earnings before tax	828	1,356	1,543	1,609	1,823
Tax paid	(124)	(230)	(306)	(181)	(166)
Depreciation & amortization	187	178	216	279	315
Chg In working capital	105	346	(17)	63	55
Chg In other CA & CL / minorities	6	(4)	(13)	(3)	(10)
Cash flow from operations	1,002	1,645	1,422	1,766	2,018
Capex	(296)	(767)	(1,141)	(1,014)	(225)
Right of use	(9)	11	11	11	11
ST loans & investments	0	0	0	0	0
LT loans & investments	(30)	20	20	20	20
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	19	(0)	181	0	4
Cash flow from investments	(317)	(736)	(928)	(982)	(189)
Debt financing	(9)	8	8	68	(3)
Capital increase	63	0	0	0	0
Dividends paid	(338)	(509)	(733)	(851)	(1,025)
Warrants & other surplus	(26)	(6)	0	0	0
Cash flow from financing	(310)	(506)	(726)	(783)	(1,028)
Free cash flow	706	878	281	752	1,793

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	31.2	19.1	17.0	14.8	12.7
Normalized PE - at target price (x)	39.8	24.4	21.7	19.0	16.3
PE (x)	31.7	19.3	17.0	14.8	12.7
PE - at target price (x)	40.6	24.7	21.7	19.0	16.3
EV/EBITDA (x)	27.2	13.1	12.4	11.4	9.5
EV/EBITDA - at target price (x)	35.6	17.3	16.2	15.0	12.6
P/BV (x)	6.4	5.4	4.8	4.3	3.8
P/BV - at target price (x)	8.1	6.9	6.2	5.5	4.9
P/CFO (x)	20.7	12.6	14.6	11.7	10.3
Price/sales (x)	4.5	3.4	3.1	2.8	2.5
Dividend yield (%)	2.5	3.2	3.8	4.4	5.5
FCF Yield (%)	3.4	4.2	1.4	3.6	8.6
(Bt)					
Normalized EPS	2.2	3.5	4.0	4.5	5.3
EPS	2.1	3.5	4.0	4.5	5.3
DPS	1.7	2.2	2.6	2.9	3.7
BV/share	10.6	12.4	14.0	15.7	17.7
CFO/share	3.3	5.3	4.6	5.7	6.5
FCF/share	2.3	2.8	0.9	2.4	5.8

Sources: Company data, Thanachart estimates

Attractive valuation, in our view, against its growth and quality

FINANCIAL RATIOS

	FY ending Dec	2022A	2023A	2024F	2025F	2026F
<i>Net margin to expand from rising exports and efficiency improvements</i>	Growth Rate					
	Sales (%)	32.6	32.5	10.4	9.7	12.5
	Net profit (%)	59.0	64.5	13.7	14.5	16.6
	EPS (%)	59.0	64.5	13.7	14.5	16.6
	Normalized profit (%)	59.5	63.0	12.6	14.5	16.6
	Normalized EPS (%)	59.5	63.0	12.6	14.5	16.6
	Dividend payout ratio (%)	77.9	62.6	65.0	65.0	70.0
	Operating performance					
	Gross margin (%)	40.8	44.8	46.4	45.0	45.1
	Operating margin (%)	10.9	20.0	19.1	18.3	18.9
	EBITDA margin (%)	15.0	23.0	22.3	22.1	22.7
	Net margin (%)	14.6	17.9	18.4	19.2	19.9
	D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
	Net D/E (incl. minor) (x)	(0.6)	(0.6)	(0.5)	(0.4)	(0.5)
	Interest coverage - EBIT (x)	217.6	475.0	325.4	455.1	425.0
	Interest coverage - EBITDA (x)	299.6	na	380.5	na	na
	ROA - using norm profit (%)	15.8	21.2	21.2	22.3	23.1
	ROE - using norm profit (%)	21.6	30.7	30.1	30.5	31.6
	DuPont					
<i>High ROE despite being a net-cash company</i>	ROE - using after tax profit (%)	21.6	30.6	30.3	30.8	31.8
	- asset turnover (x)	1.1	1.2	1.2	1.2	1.2
	- operating margin (%)	18.2	22.4	23.1	22.0	22.2
	- leverage (x)	1.4	1.4	1.4	1.4	1.4
	- interest burden (%)	99.7	99.8	99.7	99.8	99.8
	- tax burden (%)	80.5	79.7	79.9	87.6	90.0
	WACC (%)	9.7	9.7	9.7	9.7	9.7
	ROIC (%)	34.4	84.8	78.7	58.1	53.1
	NOPAT (Bt m)	400	967	1,020	1,175	1,401
	invested capital (Bt m)	1,140	1,295	2,023	2,638	2,440

Sources: Company data, Thanachart estimates

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Currently, long-term investment guidelines abroad are beginning to focus on investing in companies that have sustainable business practices. which considers environmental, social and governance factors (Environmental, Social and Governance or ESG) of the company in making investment decisions along with analyzing the company's financial data.

Stock Exchange Has prepared the results of evaluating sustainable stocks which are stocks of listed companies (SETESG Rating) as an alternative for investors who want to invest in stocks of listed companies that are outstanding in ESG, including to support listed companies with operations. sustainable business Taking into account all stakeholders in both social and environmental aspects. There is a management process to create sustainability for the organization, such as risk management. Supply chain management and innovation development. Therefore, the SETESG index was created to be an index that reflects the price movement of a group of securities. of companies with sustainable business operations that meet the required size and liquidity criteria

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Score range	Description
CCC - B	LAGGARD: A company lagging its industry based on its high exposure and failure to manage significant ESG risks
BB - BBB - A	AVERAGE : A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	LEADER: A company leading its industry in managing the most significant ESG risks and opportunities

The Dow Jones Sustainability Indices (DJSI)

The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

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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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