

Food sector

June 7, 2022

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Food sector

Continued product price adjustment in 2Q22TD

Summary

- **Better local livestock prices & healthy margin.** In 2Q22TD, local livestock prices have risen to outstrip higher feed costs, implying healthy local livestock spreads YoY so far.
- **Overseas swine price, down YoY but edging up QoQ.** In 2Q22TD, swine prices in China and Vietnam have edged up to hit this year's high from revived demand and supply adjustment, albeit still down YoY from more supply post ASF.
- **High aquatic costs.** In 2Q22TD, tuna and salmon raw material costs remained high YoY.
- **Top picks:** GFPT (the sector's best 2Q22F and 2022F growth) and CPF (earnings bottomed out in 1Q22).
- **Key risks:** weaker purchasing power caused by inflationary pressure, higher raw material and labor costs.

Valuation summary

	Rating	Price	Target	ETR	P/E (x)		EPS growth (%)	
		(Bt)	(Bt)	(%)	22F	23F	22F	23F
CPF	Outperform	26.00	30.0	17.9	29.7	18.0	9,540	65.4
GFPT	Outperform	16.50	18.5	13.7	13.5	11.9	964.3	13.5
TU	Neutral	17.40	22.0	31.9	12.1	11.8	(6.3)	2.3
Average					18.4	13.9	3,499	27.1

Sector's price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
CPF	10.6	10.2	(3.7)	9.5	8.9	(5.7)
GFPT	18.7	28.9	51.4	17.5	27.4	48.3
TU	6.1	(9.8)	(2.2)	5.0	(10.9)	(4.2)

1Q22 core earnings recap

Core profit (Bt mn)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	% YoY	% QoQ
CPF	6,471	4,852	7,201	6,371	6,826	3,709	(4,959)	(4,904)	752	-89%	-115%
GFPT	276	238	315	309	40	175	(85)	14	405	906%	2796%
TU	1,295	1,524	2,171	1,521	1,786	2,233	1,561	1,887	1,741	-3%	-8%
Total	8,042	6,614	9,687	8,201	8,652	6,117	(3,483)	(3,003)	2,898	-67%	-196%
Growth YoY (%)											
CPF	96%	20%	125%	53%	5%	-24%	-169%	-177%	-89%		
GFPT	21%	-27%	-20%	-1%	-85%	-26%	-127%	-95%	906%		
TU	20%	-3%	59%	26%	38%	47%	-28%	24%	-3%		
Growth YoY	74%	11%	95%	44%	8%	-8%	-136%	-137%	-67%		

Source: SCBS Investment Research

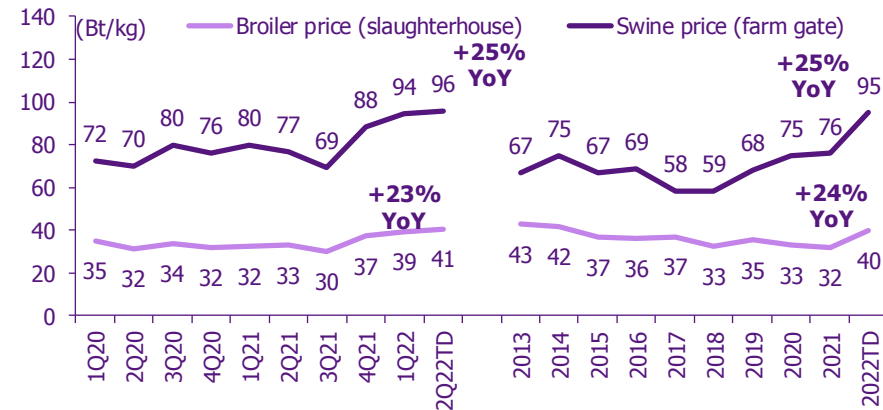
Food sector

Rising local livestock prices

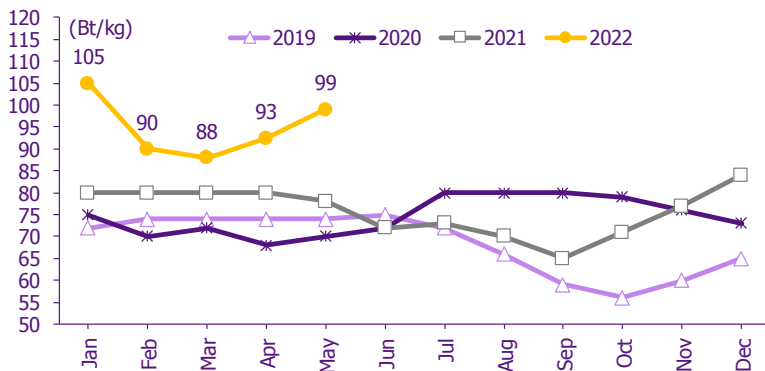
Rising local livestock prices

- **Local swine price** rose to Bt96/kg in 2Q22TD (+25% YoY and +2% QoQ), from tight supply from ASF (African Swine Fever) and revived demand.
- **Local broiler price** rose to Bt41/kg in 2Q22TD (+23% YoY and +3% QoQ), boosted by robust local demand, high local swine price (substitute for broilers) and better export sales (+8% YoY in April and 16% YoY in 4M22).
- **2022F prices** are set to stay high from tighter demand and supply and high feed costs.
- **Production cycle.** The swine production cycle runs from six months to more than two years and broiler production cycle from two months to more than a year.

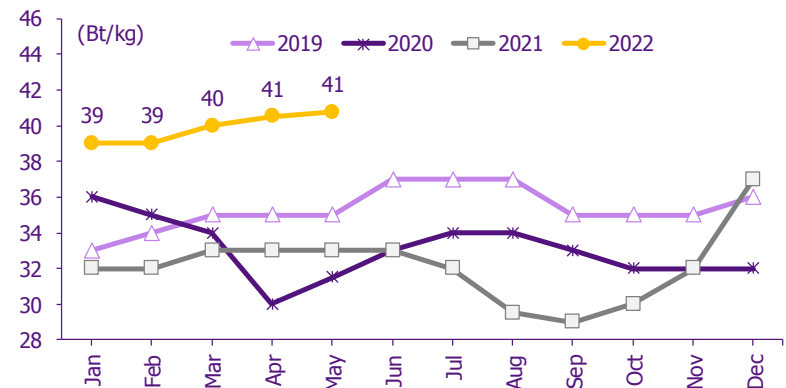
Local swine & broiler prices rose in 2Q22TD



Monthly local swine price



Monthly local broiler price



Source: CPF and SCBS Investment Research

Food sector

Stronger Thai broiler exports

Stronger Thai broiler exports

- **Thai broiler export value** grew 8% YoY in April and 16% YoY in 4M22, up YoY in Thailand's top 3 export destinations: Japan (+11% YoY), UK (+42% YoY) and Netherlands (+56% YoY). Saudi Arabia is a new export market after deciding to allow poultry imports from 11 Thai plants (including GFPT and CPF's plants) in March, making it Thailand's 31st broiler export destination (0.01% market share) in 4M22. Malaysia's chicken exports were halted on June 1 until local prices and supply stabilize. Malaysia and Singapore (Malaysia's key broiler export market) are the 6th and 7th Thai broiler export destinations, accounting for 4% and 3% of Thai broiler exports. This will help support Thailand's broiler export industry further.
- GFPT has not yet sold into Saudi Arabia, focusing on high-priced cooked products in other markets rather than low-priced raw products in Saudi Arabia for now. As export sales volume to Singapore was 1% of GFPT's total exports and 6% of McKey's in 1Q22, Malaysia's temporary halt of chicken exports is slightly positive to GFPT.
- CPF sent its first shipment to Saudi Arabia of 600 tons in late March with targeted 2022F export volume of 6,000 tons or 4% of its broiler exports. It has insignificant broiler exports to Malaysia and Singapore.

Thai chicken export value grew 8% YoY in April and 16% YoY in 4M22

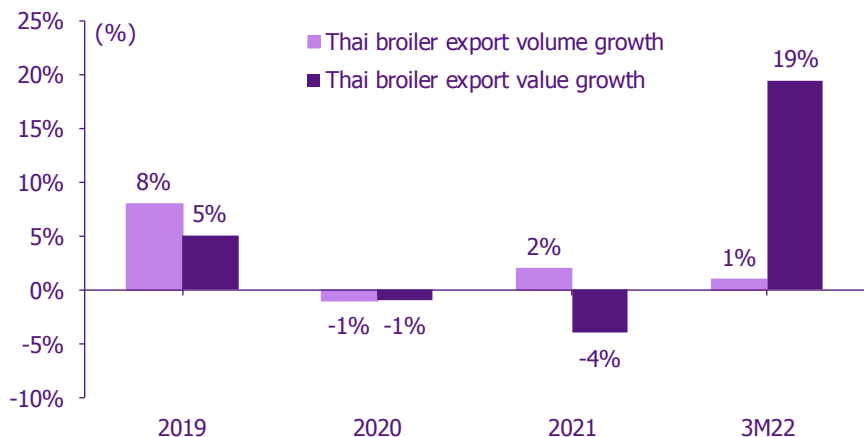
	Export value (Bt mn)					Growth (% YoY)					Share (%)
	Jan-22	Feb-22	Mar-22	Apr-22	4M22	Jan-22	Feb-22	Mar-22	Apr-22	4M22	4M22
1 Japan	5,313	4,996	5,315	4,407	20,031	19.96	19.85	1.09	4.62	10.9	50.2
2 UK	1,666	1,782	2,025	1,772	7,245	53.0	94.8	35.2	11.5	42.3	18.2
3 Netherlands	553	640	640	630	2,463	38.5	129.4	46.7	35.9	56.1	6.2
4 China	311	726	570	660	2,268	-30.8	0.2	-49.9	-29.2	-30.1	5.7
5 S.Korea	386	463	472	537	1,858	15.5	16.8	7.9	28.9	17.3	4.7
6 Malaysia	412	304	475	341	1,533	100.3	78.2	110.4	41.0	81.6	3.8
7 Singapore	317	276	302	320	1,215	17.7	27.0	26.1	42.1	27.7	3.1
8 HK	211	286	213	199	909	3.5	36.4	-25.9	-6.0	-0.4	2.3
9 Ireland	128	67	87	133	415	-8.8	-29.4	-23.9	31.7	26.0	1.3
10 Canada	101	102	135	114	451	64.6	40.0	135.5	101.2	82.1	1.1
31 Saudi Arabia			2		2	-	-	n.a.	-	n.a.	0.01
Total	9,824	9,986	10,611	9,452	39,873	24.7	32.1	5.7	7.5	16.3	100

Source: MOC and SCBS Investment Research

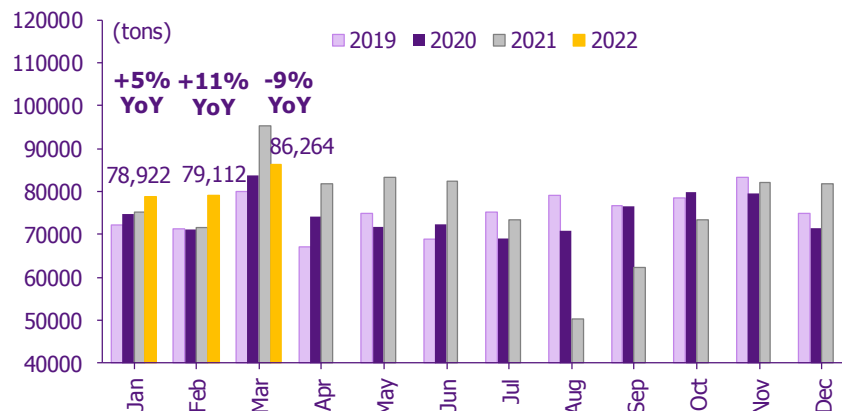
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Stronger Thai broiler exports

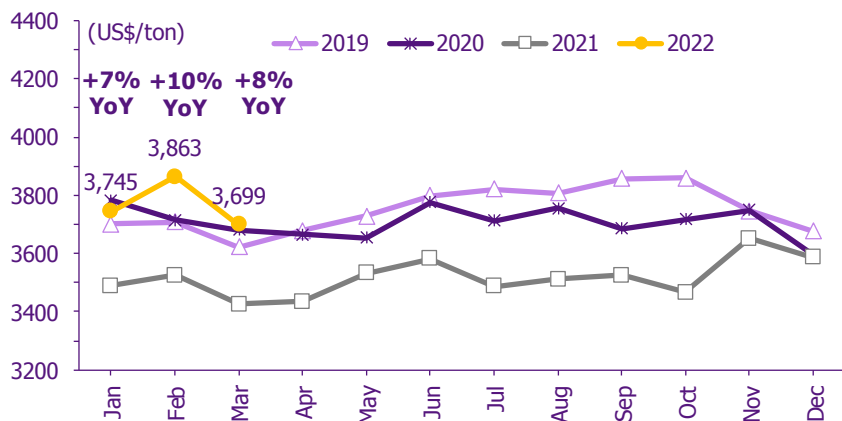
Thai broiler export volume and value growth



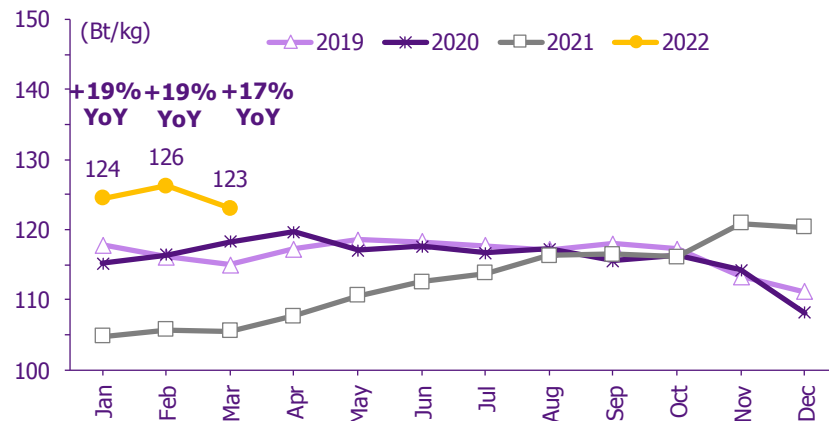
Monthly Thai broiler export volume and growth YoY



Monthly Thai broiler export selling price (US\$ terms)



Monthly Thai broiler export selling price (THB terms)



Source: OAE and SCBS Investment Research

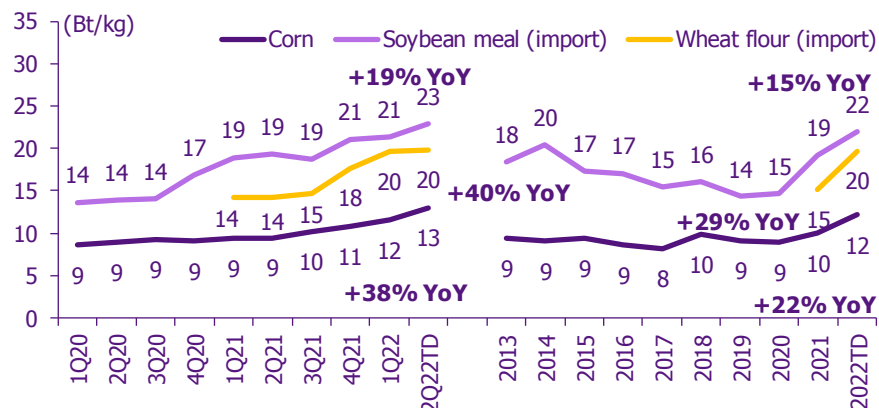
Food sector

Healthy local livestock margin YTD

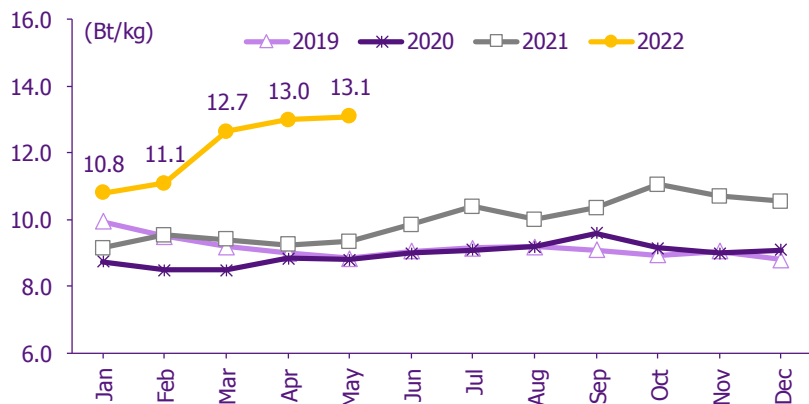
Healthy local livestock margin YTD

- Feed costs up.** In 1Q22, local corn, imported soybean meal & wheat flour prices were Bt12/kg (+23% YoY and +7% QoQ), Bt21/kg (+13% YoY and +1% QoQ), and Bt20/kg (+38% YoY and +11% QoQ). With supply tightened by the Russia-Ukraine conflict and unfavorable crop conditions, in 2Q22TD, local corn, imported soybean meal & wheat flour prices increased to Bt13/kg (+38% YoY and +13% QoQ), Bt23/kg (+19% YoY and +7% QoQ), and Bt20/kg (+40% YoY and +1% QoQ).
- Of total feed costs, about 50% comes from corn, 20-30% from imported soybean meal, and the rest from others i.e., imported wheat flour, accounting for 5% of livestock feed and 15-20% of aquatic feed. The companies keep their feed inventory level at 2-3 months.

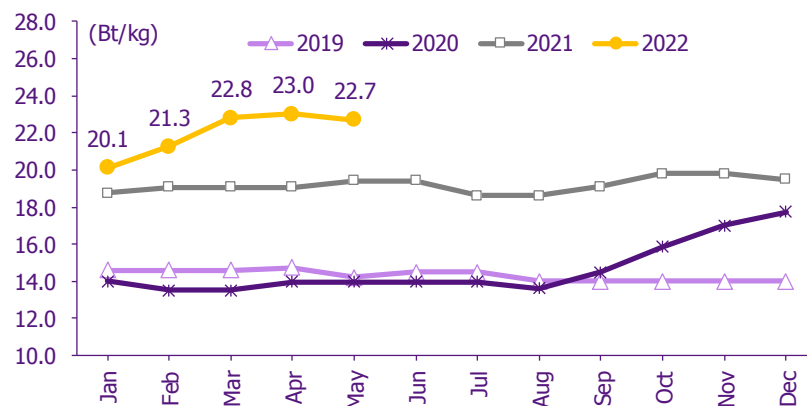
Feedstock prices rose further in 2Q22TD



Monthly local corn price



Monthly imported soybean meal price



Source: CPF, IHMA and SCBS Investment Research

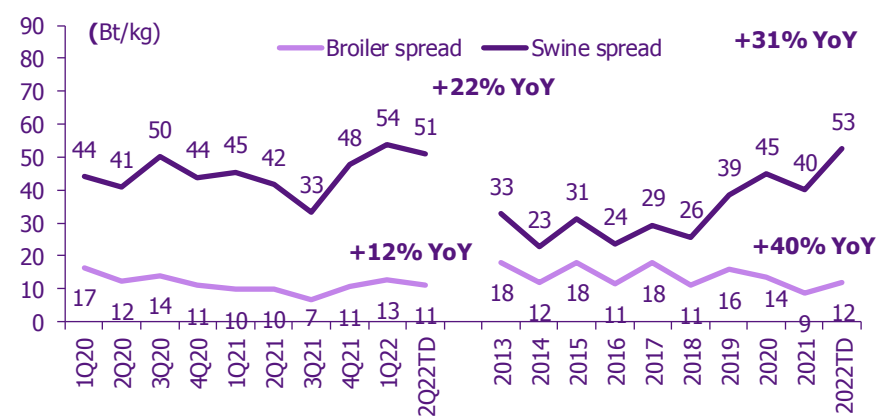
Food sector

Healthy local livestock margin YTD

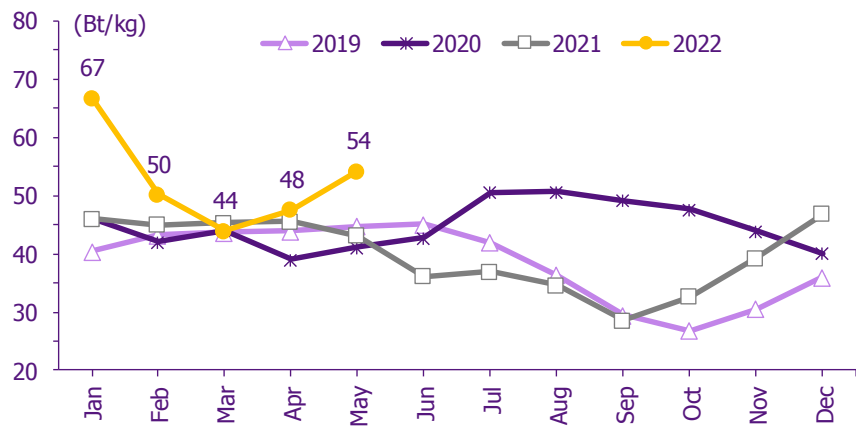
Healthy local livestock margin YTD

• **..but limited impact on local livestock margin YTD.** In 2022TD, local livestock prices (+25% YoY and +24% YoY for local swine & broiler prices) have risen faster than feed costs (+22% YoY and +15% YoY for local corn and imported soybean meal prices) and we expect improved livestock profitability YoY.

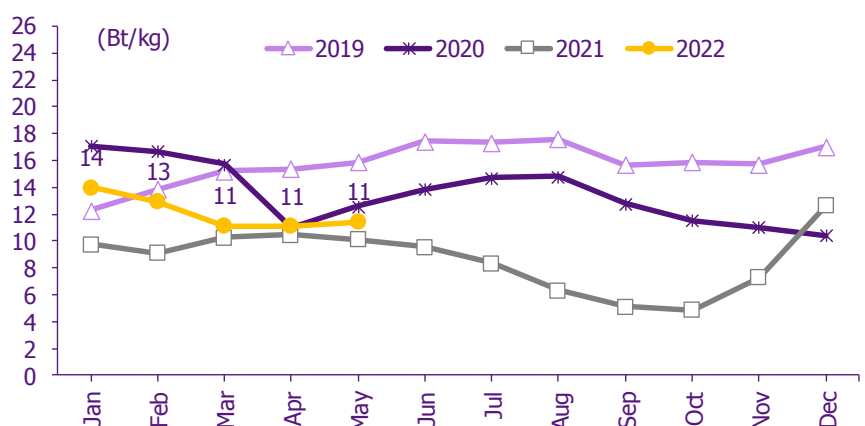
Local swine and broiler spreads (price minus blended feed costs) widened YoY in 2Q22TD



Monthly local swine spread



Monthly local broiler spread



Source: SCBS Investment Research



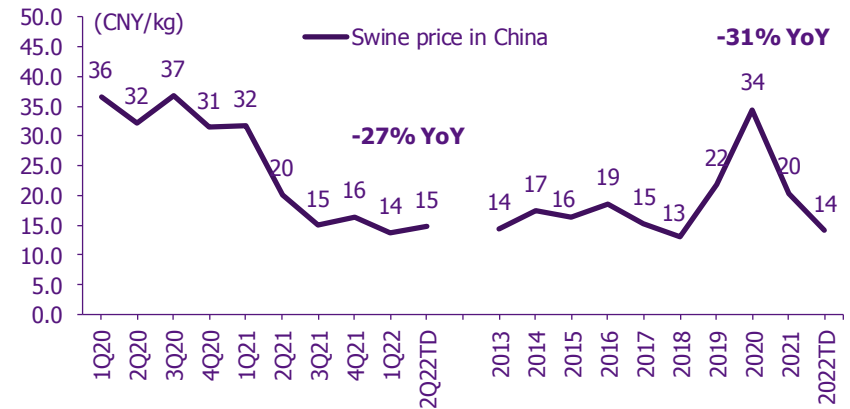
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Overseas swine price, down YoY but edging up QoQ

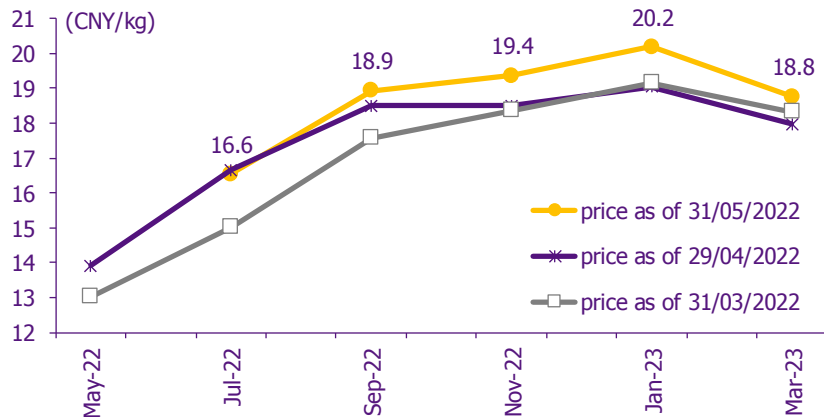
Swine price in China

- **Swine price in China** rose QoQ to CNY15/kg in 2Q22TD (-27% YoY but +7% QoQ), down YoY from more pig supply after ASF began to be resolved but up QoQ as prices were below breakeven, notably for small players. 2022F prices are set to improve, as seen in a rise in China live hog futures price (as of May 31) to CNY17-19/kg in 2H22.

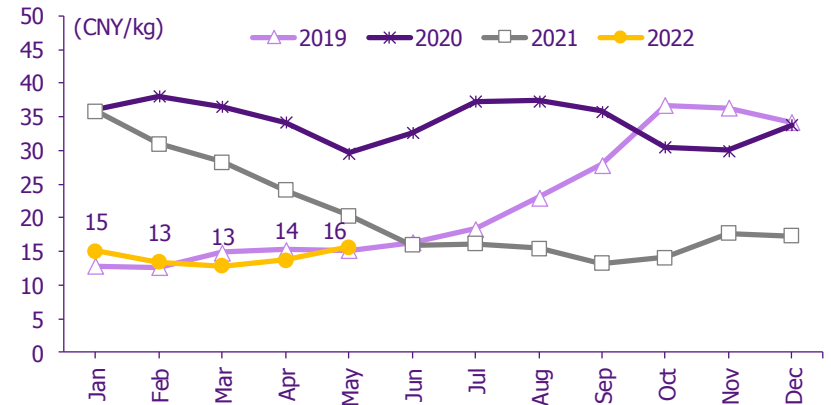
Swine price in China still down YoY but rose to 2022's high in 2Q22TD



China live hog futures price



Monthly swine price in China



Source: Bloomberg and SCBS Investment Research

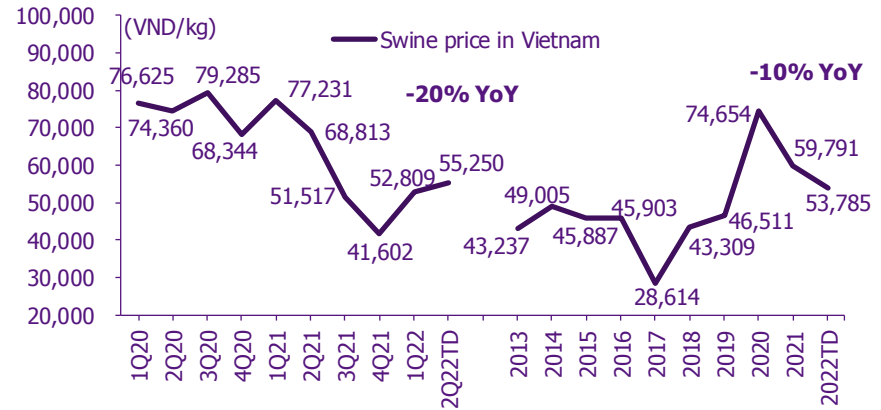
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Overseas swine price, down YoY but edging up QoQ

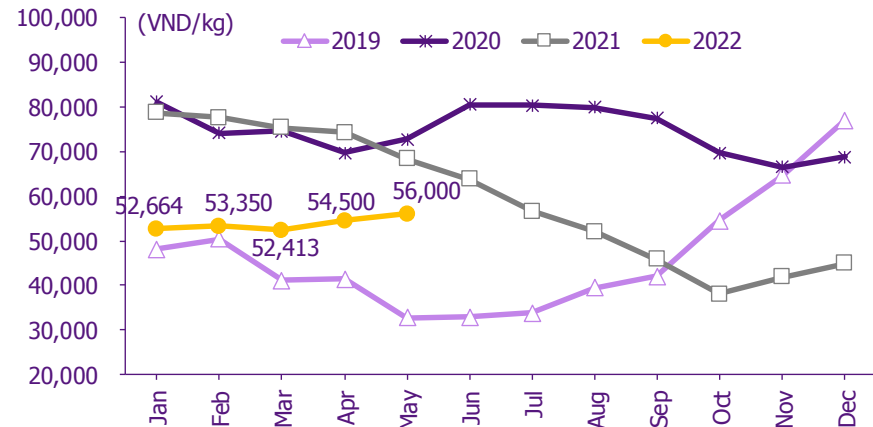
Swine price in Vietnam

- **Swine price in Vietnam** rose QoQ to VND55,250/kg in 2Q22TD (-20% YoY but +5% QoQ). 2022F price is expected to stabilize at close to this level or improve as revived demand will take up the higher pig supply encouraged by alleviation of ASF.

Swine price in Vietnam still down YoY but rose to 2022's high in 2Q22TD



Monthly swine price in Vietnam



Source: CPF and SCBS Investment Research

Food sector

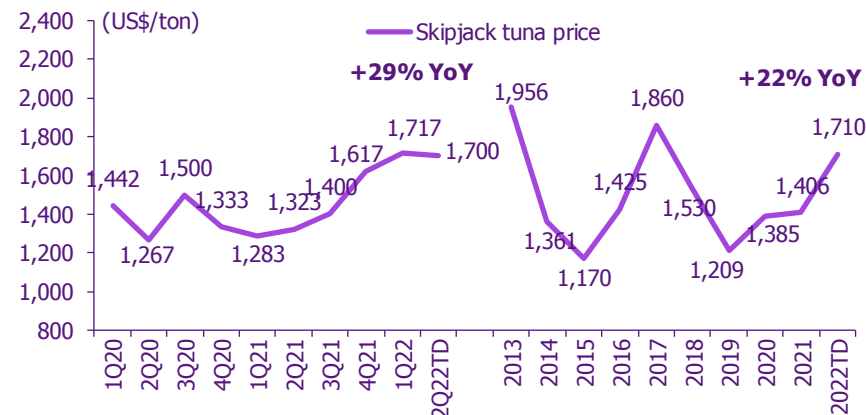
High aquatic costs

High aquatic costs

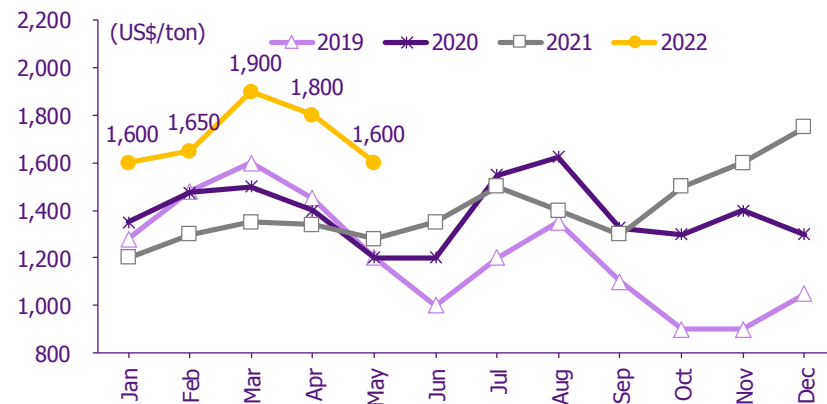
- **Skipjack tuna price.** In 2Q22TD, spot skipjack tuna price was US\$1,700/ton (+29% YoY but flat QoQ), up YoY higher fuel costs for fishing vessels
- **Salmon price.** In 2Q22TD, salmon price rose to all-time high at NOK110/kg (+73% YoY and +38% QoQ), due to tight supply in Chile and Norway amid revived global demand.
- **Local shrimp price.** In 2Q22TD, local shrimp price fell to Bt141/kg (-2% YoY and -19% QoQ) on seasonally greater supply.
- TU keeps an inventory level of 3-6 months and plans to raise branded product prices 5-7% YoY in 2022F. These are locked into sales contracts for a quarter to a year. It may raise prices more, but will do so with an eye to not damaging sales volume. If the high raw material prices are prolonged margin will be adversely affected in the next few quarters.

Source: TU and SCBS Investment Research

Spot skipjack tuna price rose YoY in 2Q22TD



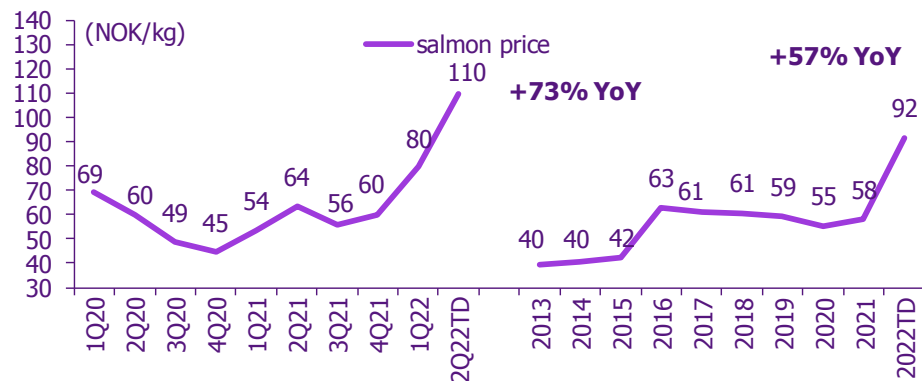
Monthly skipjack tuna price



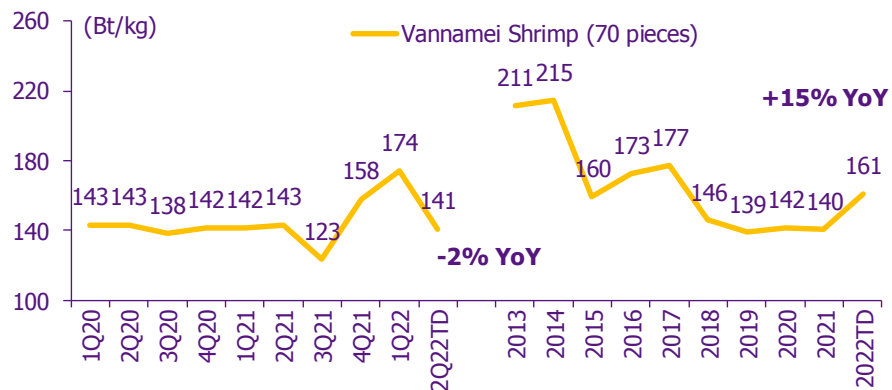
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High aquatic costs

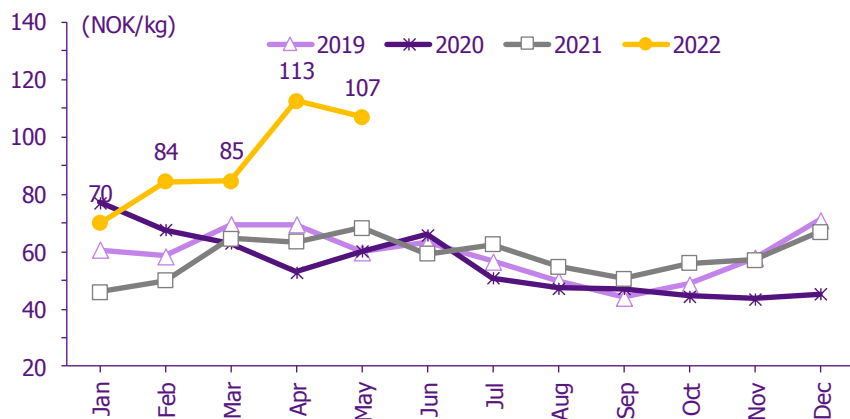
Salmon price jumped to an all time high in 2Q22TD



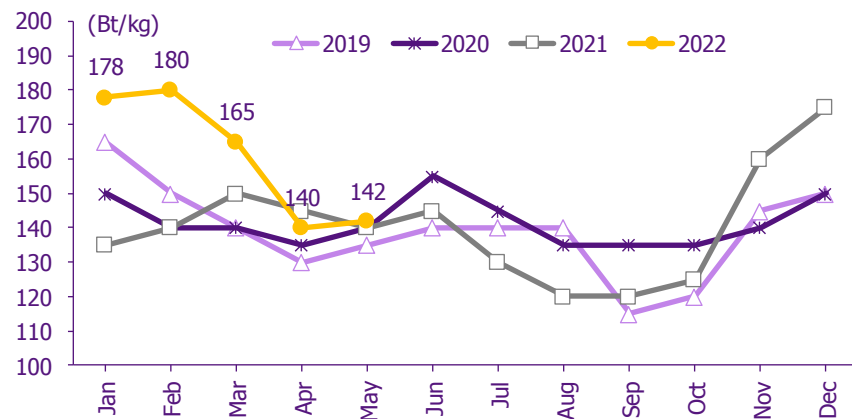
Local shrimp price fell in 2Q22TD



Monthly salmon price



Monthly local shrimp price



Source: CPF, Fishpool and SCBS Investment Research

Food sector

Top picks are GFPT and CPF

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- **Top picks.**

- We like GFPT as it will turn in the sector's best growth YoY in 2Q22F and 2022F off better sales and margin in tandem with the Thai broiler industry and its new capacity.
- We also like CPF, as its core earnings have bottomed out and it is looking at a better 2Q22F QoQ on higher livestock prices in Thailand, Vietnam and China (but still down YoY from last year's high base in China and Vietnam) and a stronger 2H22F from more profit from associates (CTI, CPALL and MAKRO).

- **Key risks** are weaker purchasing power caused by inflationary pressure, higher raw material and labor costs.

Valuation summary

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					21A	22F	23F	21A	22F	23F	21A	22F	23F	21A	22F	23F	21A	22F	23F	21A	22F	23F
CPF	Outperform	26.00	30.0	17.9	n.m.	29.7	18.0	(100)	9,540	65	0.7	0.7	0.7	0	3	4	2.5	2.5	2.5	13.0	11.4	11.0
GFPT	Outperform	16.50	18.5	13.7	143.8	13.5	11.9	(87)	964	14	1.4	1.3	1.2	1	10	10	0.6	1.5	1.7	19.6	10.5	9.6
TU	Neutral	17.40	22.0	31.9	11.3	12.1	11.8	17	(6)	2	1.3	1.2	1.2	13	11	11	5.5	5.5	5.5	9.8	10.0	9.8
Average					77.5	18.4	13.9	(57)	3,499	27	1.1	1.1	1.0	5	8	8	2.9	3.2	3.2	14.1	10.6	10.2

Source: SCBS Investment Research

Food sector

GFPT PCL (GFPT)

Outperform: TP Bt18.5

Earnings outlook

- **Sector's best 2022F growth.** Better broiler price and margin in tandem with the industry, coupled with the ramp-up of its new production capacity will lead GFPT to the sector's best core earnings growth in 2022F.
- **Solid 2Q22F earnings.** We expect a YoY rise in 2Q22F core earnings from better sales and margin with more high-margin export sales from new machines and a wider product price and cost gap and up QoQ from seasonality.
- **Takeaway from meeting.** GFPT. Aided by the ramp-up of new machines at the further plant (commissioned in Sep 2021) and talks with existing and new customers in Japan and Europe, GFPT targets total direct export sales volume (cooked and raw products) of ~33,000 tons in 2022 (+40% YoY). In 1Q22, total direct export sales volume rose to 7,700 tons (+40% YoY and +3% QoQ), implying 80% utilization rate for all further production lines, reaching cooked export sales volume before the fire in 4Q19. GFPT expects total direct export sales volume to rise to 8,000-9,000 tons/quarter in 2Q22-4Q22, implying 85-90% utilization rate for all further production lines without adding more workers.
- **Associates.** McKey will raise its further production capacity to 90,000 tons/year (+50%) in 3Q22, targeting production ramp-up into 2023. GFN will keep its further production capacity at 30,000 tons/year, but will raise utilization rate after the return of workers post COVID and better export demand.

Forecasts and valuation

Year to 31 Dec	Unit	2020	2021	2022F	2023F	2024F
Revenue	(Btmn)	14,495	13,781	16,201	17,067	17,692
EBITDA	(Btmn)	2,379	1,244	2,342	2,473	2,592
Core profit	(Btmn)	1,137	144	1,531	1,739	1,926
Reported profit	(Btmn)	1,352	209	1,582	1,739	1,926
Core EPS	(Bt)	0.91	0.11	1.22	1.39	1.54
DPS	(Bt)	0.20	0.10	0.25	0.28	0.31
P/E, core	(x)	18.2	143.8	13.5	11.9	10.7
EPS growth, core	(%)	(9.5)	(87.3)	964.3	13.5	10.8
P/BV, core	(x)	1.4	1.4	1.3	1.2	1.1
ROE	(%)	8.0	1.0	9.9	10.3	10.5
Dividend yield	(%)	1.2	0.6	1.5	1.7	1.9
FCF yield	(x)	2.3	(3.9)	(0.0)	5.0	6.6
EV/EBIT	(x)	22.1	2,380.4	22.7	20.2	18.0
EBIT growth, core	(%)	(21.7)	(99.0)	10,426.1	9.3	7.4
EV/CE	(x)	2.0	1.9	1.9	1.8	1.7
ROCE	(%)	5.6	(2.9)	5.0	5.4	5.7
EV/EBITDA	(x)	9.8	19.6	10.5	9.6	8.8
EBITDA growth	(%)	(10.7)	(47.7)	88.3	5.6	4.8

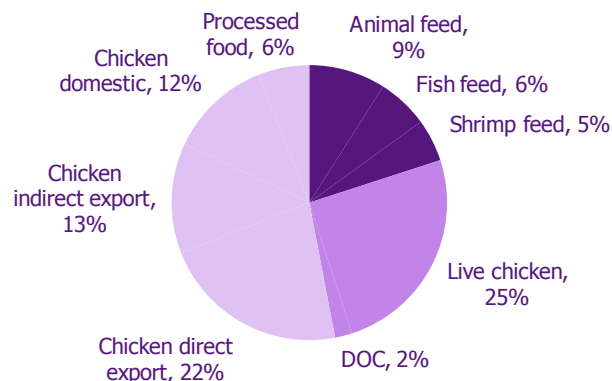
Source: SCBS Investment Research

Food sector

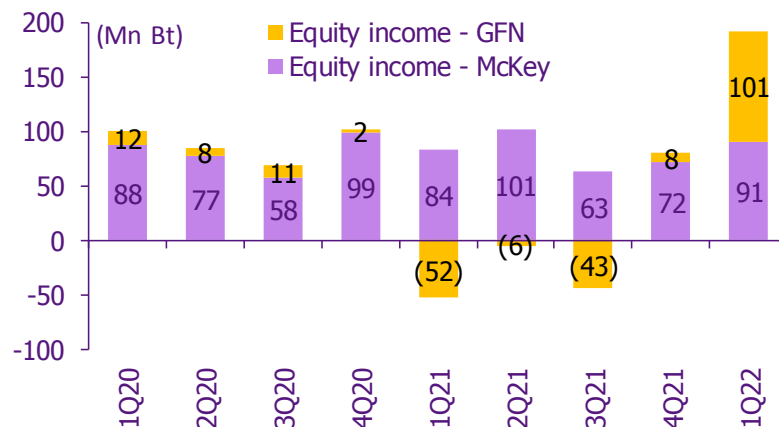
GFPT PCL (GFPT)

Outperform: TP Bt18.5

Revenue breakdown by business in 2021



GFPT's equity income breakdown by company



Source: Company data and SCBS Investment Research

1Q22 earnings recap

P & L (Btmn)	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Total revenue	3,304	3,706	3,264	3,506	4,009	21.3	14.3
Gross profit	321	379	176	197	569	77.4	189.1
SG&A expense	(343)	(330)	(353)	(311)	(385)	12.2	23.8
Interest expense	(19)	(17)	(17)	(17)	(21)	11.3	19.6
Pre-tax profit	31	97	(122)	(66)	244	694.5	(471.4)
Corporate tax	(21)	(17)	16	(0)	(31)	50.0	6,635.1
Equity a/c profits	32	95	20	80	192	503.2	140.4
EBITDA	368	419	202	254	586	59.4	130.6
Core profit	40	175	(85)	14	405	906.2	2,795.8
Extra. Gain (Loss)	20	7	(2)	40	51	150.8	27.3
Net Profit	61	182	(87)	54	456	651.8	741.0
EPS	0.05	0.14	(0.07)	0.04	0.36	651.8	741.0
B/S (Btmn)	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Total assets	20,809	20,741	20,984	21,224	21,924	5.4	3.3
Total liabilities	6,037	6,040	6,371	6,539	6,782	12.3	3.7
Total equity	14,771	14,701	14,613	14,685	15,141	2.5	3.1
BVPS (Bt)	11.78	11.72	11.65	11.71	12.07	2.5	3.1
Financial ratio (%)	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Gross margin	9.7	10.2	5.4	5.6	14.2	4.5	8.6
EBITDA margin	11.1	11.3	6.2	7.3	14.6	3.5	7.4
Net profit margin	1.8	4.9	(2.7)	1.5	11.4	9.5	9.8
SG&A expense/Rever	10.4	8.9	10.8	8.9	9.6	(0.8)	0.7

GFPT's production capacity for further machines

Production capacity	Tons/mth	Tons/Q	Ton/Y		
Machines before fire (5 lines)	2,000	6,000	24,000		
Machines after fire (2 lines)	1,000	3,000	12,000		
New machines (5 lines)	2,500	7,500	30,000	150%	25%
				Up from 2020-9M21	Up from 2019

Food sector

Charoen Pokphand Foods PLC (CPF) Outperform: TP Bt30

Earnings outlook

- **Bottomed out.** 2Q22F core earnings tend to improve QoQ on seasonality, better livestock prices in 2Q22TD (Thailand, Vietnam & China) and the return of labor in local broiler plants, but fall YoY from last year's high base in China and Vietnam. Its 2H22F core earnings will be aided by better profit from associates (CTI, CPALL and MAKRO).
- **Takeaway from meeting.** Local livestock unit. CPF expects local swine price to stay high in 2H22 and 2023 on tight supply from ASF. This, plus high broiler exports, will solidify local broiler price. After a COVID-19-led fall since 3Q21, staff numbers in broiler plants are expected to return to normal in mid-2Q22F, reducing broiler operating costs.
- Swine unit in Vietnam & China. CPF expects swine price in Vietnam and China to rise to close to VND60,000/kg in 2H22 from a revived economy and to CNY19/kg in late 2022 (based on future contract prices). After submitting an application to list CTI (an integrated swine business in China, 26% held by CPF) on the Shanghai Stock Exchange, CPF is processing an application for C.P. Vietnam (an integrated agro-industrial and food business in Vietnam, 82% held by CPF) for listing on the Ho Chi Minh Stock Exchange.
- Other overseas. At its US operations (Bellesio & Hylife), it plans to raise product prices further to offset inflationary pressure and use more immigrant workers to solve labor shortages.

Forecasts and valuation

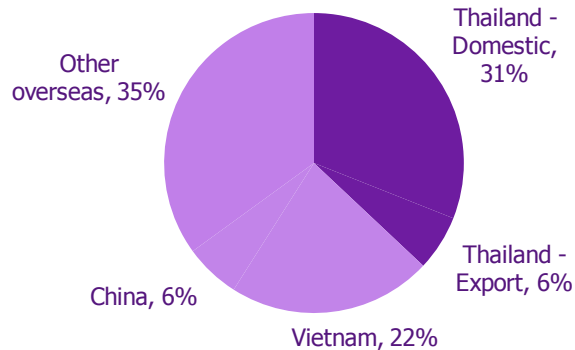
Year to 31 Dec	Unit	2020	2021	2022F	2023F	2024F
Revenue	(Btmn)	589,713	512,704	555,760	565,706	575,906
EBITDA	(Btmn)	82,211	48,820	52,358	53,618	55,040
Core profit	(Btmn)	24,894	672	7,567	12,124	14,656
Reported profit	(Btmn)	26,022	13,028	9,657	12,124	14,656
Core EPS	(Bt)	3.00	0.01	0.87	1.45	1.76
DPS	(Bt)	1.00	0.65	0.65	0.65	0.65
P/E, core	(x)	8.7	n.a.	29.7	18.0	14.7
EPS growth, core	(%)	73.8	(99.7)	9,539.9	65.4	22.0
P/BV, core	(x)	0.8	0.7	0.7	0.7	0.7
ROE	(%)	10.3	0.2	2.6	4.1	4.8
Dividend yield	(%)	3.8	2.5	2.5	2.5	2.5
FCF yield	(x)	(2.3)	(7.9)	5.9	5.5	7.1
EV/EBIT	(x)	10.6	31.9	26.2	25.3	24.1
EBIT growth, core	(%)	95.9	(63.1)	14.6	2.6	3.2
EV/CE	(x)	3.3	2.8	3.0	2.9	2.9
ROCE	(%)	20.5	2.2	5.7	5.9	6.0
EV/EBITDA	(x)	6.9	13.0	11.4	11.0	10.6
EBITDA growth	(%)	62.7	(40.6)	7.2	2.4	2.7

Source: SCBS Investment Research

Food sector

Charoen Pokphand Foods PLC (CPF) Outperform: TP Bt30

Revenue breakdown by operations in 2021



Recent business restructuring

- **MAKRO & Lotus's.** In 4Q21, after the completion of the entire business transfer (EBT) of Lotus's to MAKRO and MAKRO's public offering (PO), CPF held 8.85% in MAKRO (vs 20% in Lotus's pre-transaction).
- **CPP HK & CTI.** On January 18, 2022, CPP HK was delisted from the Stock Exchange of Hong Kong and CPF raised its stake in CPP HK to 75% from 52% for a total of Bt31bn. This raises CPF's stake in CTI (swine farm unit and feed unit in China) to 26% from 18% and swine unit in Vietnam to 82% from 65%, via its holding in CPP HK.

Source: Company data and SCBS Investment Research

1Q22 earnings recap

P & L (Btmn)	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Total revenue	119,346	129,638	125,940	137,781	138,887	16.4	0.8
Gross profit	23,791	21,236	11,101	9,761	17,791	(25.2)	82.3
SG&A expense	(11,684)	(12,297)	(13,127)	(13,772)	(12,124)	3.8	(12.0)
Interest expense	(4,098)	(3,971)	(4,155)	(4,372)	(4,469)	9.0	2.2
Pre-tax profit	8,750	5,795	(4,218)	(7,034)	1,883	(78.5)	(127)
Corporate tax	(2,117)	(1,641)	1,561	21	(839)	(60.4)	(4,047.6)
Equity a/c profits	2,043	753	(1,266)	747	(336)	(116.5)	(145.0)
Minority interests	(1,850)	(1,197)	(1,037)	1,362	44	(102.4)	(96.8)
EBITDA	19,616	17,044	7,178	4,981	13,825	(29.5)	177.6
Core profit	6,826	3,709	(4,959)	(4,904)	752	(89.0)	n.a.
Extra. Gain (Loss)	119	1,028	(415)	11,624	2,090	1,652	(82)
Net Profit	6,945	4,737	(5,374)	6,719	2,842	(59.1)	(57.7)
EPS	0.85	0.57	(0.69)	0.83	0.34	(60.1)	(58.9)
Financial ratio (%)							
Gross margin	19.9	16.4	8.8	7.1	12.8	(7.1)	5.7
EBITDA margin	16.4	13.1	5.7	3.6	10.0	(6.5)	6.3
Net profit margin	5.8	3.7	(4.3)	4.9	2.0	(3.8)	(2.8)
SG&A expense/Revenue	9.8	9.5	10.4	10.0	8.7	(1.1)	(1.3)
Key statistics							
	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Sales (Bt mn)							
Thai-Livestock	39,385	40,253	37,871	41,986	44,586	13.2	6.2
Thai-Aqua	6,156	8,299	8,199	7,042	7,034	14.3	(0.1)
Overseas-Livestock	64,767	66,492	67,343	77,214	74,430	14.9	(3.6)
Overseas-Aqua	9,038	14,594	12,526	11,539	12,837	42.0	11.2
Total sales (Bt mn)	119,346	129,638	125,939	137,781	138,887	16.4	0.8
Gross margin (%)							
Thai-Livestock	17.1	14.7	4.7	7.6	15.4	(1.7)	7.8
Thai-Aqua	13.0	15.9	5.2	3.3	11.8	(1.2)	8.5
Overseas-Livestock	23.6	18.6	11.4	7.1	11.6	(12.0)	4.5
Overseas-Aqua	10.6	11.1	9.4	7.0	11.1	0.5	4.1
Total gross margin (%)	19.9	16.4	8.8	7.1	12.8	(7.1)	5.7

Food sector

Thai Union Group (TU)

NEUTRAL: TP Bt22

Earnings outlook

- **2Q22F to soften YoY.** We expect 2Q22F core earnings to slip YoY on weaker margin and lower Red Lobster contribution in the high-cost environment and be relatively stable QoQ.
- **Takeaway from meeting.** In 2022, TU revised up its sales growth target to 7-8% YoY (vs 4-5% YoY earlier) to factor in THB depreciation and hikes in product prices to cope with higher costs but revised down its gross margin target to 17.5-18% (vs 18-18.5% earlier) as costs are higher than anticipated. In the high-cost environment, TU plans to streamline for better efficiency and remove products with expensive ingredients. It may reduce marketing expenses and talk with clients about raising prices (expects more price adjustment to cover costs for new OEM contracts, with at least 5-7% YoY rise in 2022F price for new quarterly and yearly branded contracts, but will not push in order to keep sales volume). It targets SG&A/sales at 12-12.5% (vs 12-13% earlier) off higher sales and lower freight costs in 2H22.
- In 2022F, TU expects recurring equity income (excluding lease expenses of ~-Bt400mn/year) from Red Lobster to fall to -Bt600-700mn (vs Bt350-450mn earlier and -Bt261mn in 2021) from the impact on guest count by omicron and higher raw material and labor costs. Red Lobster's CEO announced her resignation effective April 15, and Red Lobster is in the process of searching for a successor.

Forecasts and valuation

Year to 31 Dec	Unit	2020	2021	2022F	2023F	2024F
Revenue	(Btmn)	132,402	141,048	150,924	155,482	160,178
EBITDA	(Btmn)	13,705	14,579	14,303	14,484	14,664
Core profit	(Btmn)	6,511	7,467	7,016	7,171	7,244
Reported profit	(Btmn)	6,246	8,013	7,020	7,171	7,244
Core EPS	(Bt)	1.32	1.54	1.44	1.48	1.49
DPS	(Bt)	0.72	0.95	0.95	0.95	0.95
P/E, core	(x)	13.2	11.3	12.1	11.8	11.7
EPS growth, core	(%)	20.3	16.9	(6.3)	2.3	1.1
P/BV, core	(x)	1.5	1.3	1.2	1.2	1.2
ROE	(%)	12.1	12.7	11.0	10.8	10.5
Dividend yield	(%)	4.1	5.5	5.5	5.5	5.5
FCF yield	(x)	6.6	(10.3)	5.6	6.6	6.8
EV/EBIT	(x)	13.8	13.7	14.3	14.1	14.0
EBIT growth, core	(%)	26.3	6.6	(3.9)	0.5	0.5
EV/CE	(x)	1.8	1.8	1.7	1.7	1.6
ROCE	(%)	9.4	9.9	9.1	8.8	8.5
EV/EBITDA	(x)	9.8	9.8	10.0	9.8	9.6
EBITDA growth	(%)	20.1	6.4	(1.9)	1.3	1.2

Source: SCBS Investment Research

Food sector

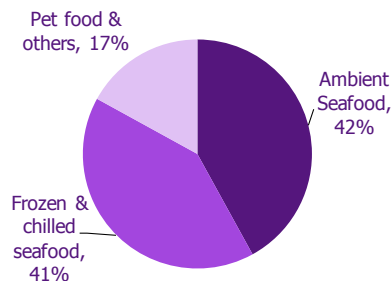
Thai Union Group (TU)

NEUTRAL: TP Bt22

1Q22 earnings recap

P & L (Btmn)	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Total revenue	31,125	35,883	35,539	38,501	36,272	16.5	(5.8)
Total cost of goods sold	(25,617)	(29,078)	(29,148)	(31,324)	(29,917)	16.8	(4.5)
Gross profit	5,507	6,805	6,391	7,177	6,355	15.4	(11.5)
SG&A expense	(3,637)	(4,176)	(4,506)	(5,047)	(4,688)	28.9	(7.1)
Net other income/expense	424	436	452	568	524	23.6	(7.9)
Interest expense	(397)	(434)	(444)	(455)	(445)	12.2	(2.2)
Pre-tax profit	1,898	2,631	1,893	2,244	1,746	(8.0)	(22.2)
Corporate tax	(252)	(231)	(251)	(61)	188	n.a.	n.a.
Equity a/c profits	175	(74)	(3)	(244)	(177)	n.a.	n.a.
Minority interests	(36)	(93)	(78)	(51)	(15)	(58.0)	(70.8)
EBITDA	3,286	4,099	3,406	3,787	3,212	(2.3)	(15.2)
Core profit	1,786	2,233	1,561	1,887	1,741	(2.5)	(7.7)
Extra. Gain (Loss)	17	110	376	43	4	(74)	(89.7)
Net Profit	1,803	2,343	1,937	1,930	1,746	(3.2)	(9.6)
EPS	0.37	0.49	0.40	0.40	0.36	(3.3)	(9.9)
Financial ratio (%)							
Gross margin	17.7	19.0	18.0	18.6	17.5	(0.2)	(1.1)
EBITDA margin	10.6	11.4	9.6	9.8	8.9	(1.7)	(1.0)
Net profit margin	5.8	6.5	5.4	5.0	4.8	(1.0)	(0.2)
SG&A expense/Revenue	11.7	11.6	12.7	13.1	12.9	1.2	(0.2)

TU's sales breakdown by business in 2021



1Q22 key statistics

Key statistics	1Q21	2Q21	3Q21	4Q21	1Q22	% Chg YoY	% Chg QoQ
Sales value (Bt mn)							
Ambient Seafood	13,580	15,272	14,954	15,149	15,527	14.3	2.5
Frozen & chilled seafood & rela	12,076	14,869	14,843	16,628	13,790	14.2	(17.1)
Pet food, value-added and othe	5,469	5,741	5,742	6,724	6,955	27.2	3.4
Total sales value	31,125	35,883	35,539	38,501	36,272	16.5	(5.8)
Sales volume (tons)							
Ambient Seafood	86,197	88,959	85,865	88,595	91,967	6.7	3.8
Frozen & chilled seafood & rela	63,081	78,791	77,100	72,637	64,146	1.7	(11.7)
Pet food, value-added and othe	72,957	74,603	67,542	74,880	78,814	8.0	5.3
Total sales volume	222,235	242,354	230,506	236,111	234,927	5.7	(0.5)
GPM (%)							
Ambient Seafood	20.2	22.0	20.7	22.7	21.7	1.5	(1.0)
Frozen & chilled seafood & rela	10.5	11.5	13.1	11.7	9.3	(1.2)	(2.4)
Pet food, value-added and othe	27.4	30.1	23.6	24.4	24.4	(3.0)	-
Total GPM (%)* (before one	17.7	19.0	18.0	18.2	17.5	(0.2)	(0.7)
Reb lobster's contribution to TU (Bt mn)							
Share of profit (loss) from oper	81	(49)	(63)	(230)	(243)	n.a.	n.a.
Share of profit (loss) from lease	(100)	(113)	(108)	(109)	(92)	n.a.	n.a.
Other income	304	298	295	319	318	4.6	(0.3)
Finance costs	(104)	(105)	(106)	(105)	(114)	n.a.	n.a.
Income tax	37	136	57	45	206	n.a.	n.a.
Net income, recurring	218	167	75	(80)	75	(65.6)	n.a.
One-off items	(154)	-	-	83	-	n.a.	n.a.
Net income	64	167	75	3	75	17.2	2,400.0

Source: Company data and SCBS Investment Research

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