

Kerry Express (Thailand) KEX

Kerry Express (Thailand)
Public Company Limited

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3Q23: Improving but still not enough

KEX continued to report losses in 3Q23 although lower than in 2Q23. The improvement is too small, so we cut our 2023F by 12.7% to a loss of Bt3.6bn. We expect its bottom line to turn back up to profit in 2025F. We maintain our UNDERPERFORM, cutting our DCF-based TP (7.8% WACC and 1.5% LTG) to Bt6 (from Bt8). We will wait until we see sustainable improvement in its earnings before revisiting our recommendation.

3Q23 better QoQ, but still in the red. KEX reported a loss of Bt889mn, better than the Bt1bn loss in 2Q23, but worse than the Bt675mn loss in 3Q22. There is no consensus forecast for this quarter, but the smaller losses in 3Q23 should be in line with market expectation. Again, the company did not provide the exact parcel volume in 3Q23, but noted it was down 0.9% QoQ due to a drop in e-commerce platform volume from weak demand, probably from Thailand's reopening. 9M23 losses accounted for 85% of our previous forecast of a loss of Bt3.2bn and we see downside to that. KEX will hold an analyst briefing today.

Better cost per parcel. Based on our analysis, we see small improvement in its operating stats. We believe revenue per parcel was relatively flat QoQ as the QoQ drop in revenue was in line with the drop in parcel volume. We also imply better cost per parcel QoQ since total opex (COGS + SG&A) fell more than the drop in volume on a QoQ basis. Opex was Bt4bn, down 6.1% QoQ and 21.8% YoY, thanks to cost reduction, including route optimization and hub relocation. Pricing competition remains stable QoQ, but still intense.

Borrowed money from KLN. KEX announced it received financial assistance from KLN, which holds 52% in KEX, with a credit facility of Bt1.7bn carrying 1.65% interest rate p.a. In 3Q23, it borrowed its first Bt200mn from KLN for use as working capital. We see this as a sign that the ongoing intense pricing competition has hit its cash flow.

Cut our earnings forecast. Based on the 9M23 results, we cut our 2023F to a loss of Bt3.6bn (from a loss of Bt3.2bn) after we cut our parcel volume growth assumption to -30% from -20% to reflect weak volume recovery in 3Q23. In 4Q23F, we expect stable losses QoQ despite ongoing lower cost per parcel due to more holidays (lower parcel volume).

Risks and concerns. More aggressive pricing strategy will erode earnings. Slower than expected efficiency improvement would lead to a lengthier time before its bottom line turns back into the black. Potential divestment from VGI which hold 15.5% stake at KEX would pressure its share price.

Forecasts and valuation

Year to 31 Dec	Unit	2021	2022	2023F	2024F	2025F
Revenue	(Btmn)	18,818	17,003	11,874	13,660	15,714
EBITDA	(Btmn)	2,456	(1,074)	(3,141)	(1,523)	2,116
Core profit	(Btmn)	45	(2,523)	(3,595)	(2,535)	224
Reported profit	(Btmn)	45	(2,830)	(3,595)	(2,535)	224
Core EPS	(Bt)	0.03	(1.45)	(2.06)	(1.45)	0.13
DPS	(Bt)	0.74	0.00	0.00	0.00	0.04
P/E, core	(x)	221.0	na.	na.	na.	44.4
EPS growth, core	(%)	(96.8)	na.	na.	na.	na.
P/BV, core	(x)	1.1	1.5	3.4	26.9	16.7
ROE	(%)	0.4	na.	na.	na.	46.7
Dividend yield	(%)	13.0	0.0	0.0	0.0	0.7
FCF yield	(%)	na.	na.	na.	na.	7.6
EV/EBIT	(x)	40.9	na.	na.	na.	28.3
EBIT growth, core	(%)	(93.8)	na.	na.	na.	na.
EV/CE	(x)	0.5	1.0	1.8	2.5	2.4
ROCE	(%)	na.	na.	na.	na.	4.0
EV/EBITDA	(x)	1.9	na.	na.	na.	4.8
EBITDA growth	(%)	(41.5)	na.	na.	na.	na.

Source: InnovestX Research

Tactical: UNDERPERFORM (3-month)

Stock data

Last close (Nov 6) (Bt)	5.70
Target price (Bt)	6.00
Mkt cap (Btmn)	9.93
Mkt cap (US\$mn)	280

Beta	H
Mkt cap (%) SET	0.06
Sector % SET	8.29
Shares issued (mn)	1,743
Par value (Bt)	0.50
12-m high / low (Bt)	20.7 / 4.4
Avg. daily 6m (US\$mn)	0.64
Foreign limit / actual (%)	49 / 7
Free float (%)	24.5
Dividend policy (%)	≥ 30

Share performance

(%)	1M	3M	12M
Absolute	(5.8)	(34.5)	(67.8)
Relative to SET	(4.4)	(29.2)	(63.1)

2022 Sustainability /ESG Score

Sustainability Index (THSI)	Included
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ESG Bloomberg Rank in the sector

ESG Score Rank	4/26
Environmental Score Rank	3/26
Social Score Rank	5/26
Governance Score Rank	5/26

ESG comment

KEX business is a delivery business which uses a lot of fuel. However, we see KEX trying to optimize its routes to reduce emissions and it has clear target.

Source: Bloomberg Finance L.P.

Analyst

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Our view on ESG

Although KEX's business involves the use of a lot of transport fuel, we see that the company has a clear target to reduce its emissions by optimizing its delivery routes. The company has hired employees with disabilities to promote its social responsibility and is 100% carbon neutral for its meeting materials.

ESG Disclosure Score

Bloomberg ESG Score	50.49 (2022)	CG Rating	DJSI	SETESG	SET ESG Rating	
Rank in Sector	4/26	KEX	5	No	Yes	BBB

Source: Thai Institute of Directors (IOD), SET

Environmental Issue (E)

- Integrated route planning and optimization to reduce carbon emissions from its vehicle fleet. It targets 10% carbon emission reduction within 2026 from 2021's emissions.
- Promotion of waste separation management among employees.
- 100% of meeting materials are carbon neutral.

Social Issue (S)

- KEX has 225 employees with disabilities.
- 31% in senior leadership positions are women.

Governance Issue (G)

- 100% of employees passed the compliance training on business ethics, human rights, and anti-corruption.
- The company has zero data leakage.
- In 2021, CG rating was very good.

ESG Disclosure Score

	2021	2022
ESG Disclosure Score	45.84	50.49
Environment	27.57	33.22
Emissions Reduction Initiatives	Yes	Yes
Climate Change Policy	Yes	Yes
GHG Scope 1	22.36	394.05
Energy Efficiency Policy	Yes	Yes
Total Energy Consumption	2,592.45	2,689.61
Social	26.21	34.52
Human Rights Policy	Yes	Yes
Consumer Data Protection Policy	Yes	Yes
Equal Opportunity Policy	Yes	Yes
Business Ethics Policy	Yes	Yes
Anti-Bribery Ethics Policy	Yes	Yes
Governance	83.59	83.59
Size of Audit Committee	3	3
Number of Independent Directors on Audit Committee	3	3
Company Conducts Board Evaluations	1	1
Number of Executives / Company Managers	6	6
Director Share Ownership Guidelines	No	No

Source: Bloomberg Finance L.P.

Disclaimer

Bloomberg ESG Disclosure Scores rate companies on their level of disclosure of ESG data. Bloomberg offers four disclosure scores, for overall ESG, as well as Environmental, Social, and Governance. To review the fully transparent methodology, calculate disclosure scores for any company, and compare a company's scores vs its peers, see ESG Disclosure Score Model in Bloomberg.

Financial statement

Profit and Loss Statement

FY December 31	Unit	2018	2019	2020	2021	2022	2023F	2024F	2025F
Total revenue	(Btmn)	13,565	19,782	18,917	18,818	17,003	11,874	13,660	15,714
Cost of goods sold	(Btmn)	(11,152)	(16,704)	(15,850)	(17,479)	(18,685)	(14,680)	(14,885)	(13,778)
Gross profit	(Btmn)	2,413	3,078	3,067	1,339	(1,682)	(2,806)	(1,225)	1,936
SG&A	(Btmn)	(1,047)	(1,514)	(1,314)	(1,380)	(1,996)	(1,781)	(2,022)	(1,729)
Other income	(Btmn)	102	113	93	154	142	167	153	147
Interest expense	(Btmn)	(1)	(24)	(112)	(97)	(73)	(74)	(75)	(75)
Pre-tax profit	(Btmn)	1,467	1,652	1,734	17	(3,610)	(4,494)	(3,168)	280
Corporate tax	(Btmn)	(282)	(324)	(329)	28	760	899	634	(56)
Equity a/c profits	(Btmn)	0	0	0	0	0	0	0	0
Minority interests	(Btmn)	0	0	0	0	20	0	0	0
Core profit	(Btmn)	1,185	1,329	1,405	45	(2,523)	(3,595)	(2,535)	224
Extra-ordinary items	(Btmn)	0	0	0	0	(307)	0	0	0
Net Profit	(Btmn)	1,185	1,329	1,405	45	(2,830)	(3,595)	(2,535)	224
EBITDA	(Btmn)	1,767	2,354	4,202	2,456	(1,074)	(3,141)	(1,523)	2,116

Balance Sheet

FY December 31	Unit	2018	2019	2020	2021	2022	2023F	2024F	2025F
Total current assets	(Btmn)	2,231	2,818	11,278	7,125	4,408	2,882	2,147	2,202
Total fixed assets	(Btmn)	2,182	2,706	2,259	2,244	2,490	3,164	2,547	1,739
Total assets	(Btmn)	4,768	6,014	19,318	17,046	12,093	11,293	9,993	9,294
Total loans	(Btmn)	200	800	800	0	38	0	1,000	300
Total current liabilities	(Btmn)	3,199	2,861	4,698	5,278	4,417	7,229	8,453	7,518
Total long-term liabilities	(Btmn)	79	920	3,773	2,451	1,178	1,161	1,172	1,184
Total liabilities	(Btmn)	3,278	3,781	8,471	7,729	5,596	8,390	9,626	8,702
Paid-up capital	(Btmn)	120	120	8,981	9,010	9,010	9,010	9,010	9,010
Total equity	(Btmn)	1,490	2,233	10,847	9,317	6,498	2,902	368	592

Cash Flow Statement

FY December 31	Unit	2018	2019	2020	2021	2022	2023F	2024F	2025F
Core Profit	(Btmn)	1,185	1,329	1,405	45	(2,523)	(3,595)	(2,535)	224
Depreciation and amortization	(Btmn)	299	678	3,856	3,842	3,963	2,780	3,070	3,261
Operating cash flow	(Btmn)	1,795	1,641	5,215	3,572	(1,422)	596	(699)	1,805
Investing cash flow	(Btmn)	(1,650)	(1,675)	(4,712)	(5,608)	(1,564)	(2,033)	(1,047)	(1,054)
Financing cash flow	(Btmn)	(513)	375	8,285	(2,389)	45	(38)	1,000	(700)
Net cash flow	(Btmn)	(368)	341	8,787	(4,424)	(2,940)	(1,476)	(746)	51

Key Financial Ratios

FY December 31	Unit	2018	2019	2020	2021	2022	2023F	2024F	2025F
Gross margin	(%)	17.8	15.6	16.2	7.1	(9.9)	(23.6)	(9.0)	12.3
Operating margin	(%)	10.1	7.9	9.3	(0.2)	(21.6)	(38.6)	(23.8)	1.3
EBITDA margin	(%)	13.0	11.9	22.2	13.1	(6.3)	(26.4)	(11.2)	13.5
EBIT margin	(%)	10.8	8.5	9.8	0.6	(20.8)	(37.2)	(22.6)	2.3
Net profit margin	(%)	8.7	6.7	7.4	0.2	(16.6)	(30.3)	(18.6)	1.4
ROE	(%)	79.5	59.5	13.0	0.5	(43.6)	(123.9)	(689.3)	37.8
ROA	(%)	31.7	24.6	11.1	0.2	(19.4)	(30.7)	(23.8)	2.3
Net D/E	(x)	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Interest coverage	(x)	1,747.7	97.9	37.5	25.4	(14.7)	(42.4)	(20.4)	28.0
Debt service coverage	(x)	8.8	97.9	4.6	25.4	(13.0)	(42.4)	(1.4)	5.6
Payout Ratio	(x)	20.9	44.3	27.2	2,881.2	0.0	0.0	0.0	30.0

Main Assumptions

FY December 31	Unit	2018	2019	2020	2021	2022	2023F	2024F	2025F
Parcel volume	(mn)	174	274	294	382	451	316	363	418
Revenue per parcel	(Bt/parcel)	78	72	64	49	38	37	37	37
Cost per parcel	(Bt/parcel)	70	66	58	49	46	52	47	37

Financial statement

Profit and Loss Statement

FY December 31	Unit	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Total revenue	(Btmn)	4,699	4,416	4,283	4,219	4,085	3,131	2,923	2,897
Cost of goods sold	(Btmn)	(5,117)	(4,630)	(4,783)	(4,666)	(4,606)	(3,724)	(3,815)	(3,572)
Gross profit	(Btmn)	(418)	(214)	(500)	(447)	(520)	(594)	(891)	(675)
SG&A	(Btmn)	(375)	(430)	(459)	(452)	(655)	(388)	(449)	(432)
Other income	(Btmn)	45	39	40	60	2	15	25	5
Interest expense	(Btmn)	(22)	(20)	(18)	(18)	(17)	(15)	(15)	(16)
Pre-tax profit	(Btmn)	(769)	(625)	(937)	(858)	(1,191)	(981)	(1,331)	(1,118)
Corporate tax	(Btmn)	166	131	199	178	252	188	277	224
Equity a/c profits	(Btmn)	0	0	0	0	1	0	(0)	(1)
Minority interests	(Btmn)	0	3	6	5	6	6	6	5
Core profit	(Btmn)	(603)	(491)	(732)	(675)	(932)	(787)	(1,048)	(890)
Extra-ordinary items	(Btmn)	0	0	0	0	(307)	0	0	0
Net Profit	(Btmn)	(603)	(491)	(732)	(675)	(1,239)	(787)	(1,048)	(890)
EBITDA	(Btmn)	(107)	39	(300)	(229)	(584)	(396)	(759)	(664)

Balance Sheet

FY December 31	Unit	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Total current assets	(Btmn)	7,125	5,738	4,689	4,018	4,408	3,345	2,380	2,004
Total fixed assets	(Btmn)	2,244	2,161	2,220	2,521	2,490	2,370	2,157	2,066
Total assets	(Btmn)	17,046	15,291	14,042	13,249	12,093	10,386	8,965	8,594
Total loans	(Btmn)	0	0	0	18	38	49	46	443
Total current liabilities	(Btmn)	2,776	2,063	1,970	2,398	2,605	1,976	1,884	2,454
Total long-term liabilities	(Btmn)	4,953	4,410	4,026	3,488	2,990	2,690	2,411	2,365
Total liabilities	(Btmn)	7,729	6,473	5,996	5,886	5,596	4,666	4,295	4,819
Paid-up capital	(Btmn)	9,010	9,010	9,010	9,010	9,010	9,010	9,010	9,010
Total equity	(Btmn)	9,317	8,817	8,046	7,363	6,498	5,720	4,670	3,775

Cash Flow Statement

FY December 31	Unit	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Core Profit	(Btmn)	(603)	(491)	(732)	(675)	(932)	(787)	(1,048)	(890)
Depreciation and amortization	(Btmn)	640	645	619	610	589	571	557	438
Operating cash flow	(Btmn)	428	(620)	(456)	589	(179)	(576)	(457)	(106)
Investing cash flow	(Btmn)	(1,518)	(538)	(519)	(743)	778	57	(91)	195
Financing cash flow	(Btmn)	(196)	(301)	(329)	(299)	(249)	(280)	(293)	(296)
Net cash flow	(Btmn)	(1,286)	(1,459)	(1,305)	(453)	350	(799)	(840)	(207)

Key Financial Ratios

FY December 31	Unit	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Gross margin	(%)	(8.9)	(4.9)	(11.7)	(10.6)	(12.7)	(19.0)	(30.5)	(23.3)
Operating margin	(%)	(16.9)	(14.6)	(22.4)	(21.3)	(28.8)	(31.3)	(45.8)	(38.2)
EBITDA margin	(%)	(2.3)	0.9	(7.0)	(5.4)	(14.3)	(12.6)	(26.0)	(22.9)
EBIT margin	(%)	(15.9)	(13.7)	(21.5)	(19.9)	(28.7)	(30.9)	(45.0)	(38.0)
Net profit margin	(%)	(12.8)	(11.1)	(17.1)	(16.0)	(22.8)	(25.2)	(35.8)	(30.7)
ROE	(%)	(23.9)	(19.7)	(30.6)	(31.4)	(31.6)	(43.3)	(65.9)	(63.9)
ROA	(%)	(13.3)	(11.8)	(18.5)	(17.7)	(17.2)	(24.5)	(36.4)	(32.6)
Net D/E	(x)	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Interest coverage	(x)	(4.9)	2.0	(16.7)	(12.6)	(34.1)	(26.7)	(50.6)	(40.8)
Debt service coverage	(x)	(4.9)	2.0	(16.7)	(12.6)	(30.0)	(23.4)	(42.7)	(5.6)

Figure 1: 3Q23 results review

Unit: Btmn	3Q22	2Q23	3Q23	QoQ	YoY
Sales and services income	4,219	2,923	2,897	-0.9%	-31.3%
Cost of sales and services	(4,666)	(3,815)	(3,572)	-6.4%	-23.5%
Gross profit	(447)	(891)	(675)	-24.3%	50.9%
SG&A	(452)	(449)	(432)	-3.8%	-4.5%
Operating profit	(899)	(1,340)	(1,107)	-17.4%	23.1%
Other income/ (expense)	60	25	5	-80.3%	-91.9%
EBIT	(840)	(1,316)	(1,102)	-16.2%	31.3%
Interest expense	(18)	(15)	(16)	8.6%	-10.4%
EBT	(858)	(1,331)	(1,118)	-16.0%	30.4%
Income tax	178	277	224	-19.1%	26.1%
Minority interests	5	6	5	-18.7%	-4.8%
Core profit	(675)	(1,047)	(889)	na.	na.
Extra items	0	0	0	na.	na.
Net income	(675)	(1,047)	(889)	na.	na.

Ratio analysis

SG&A to sales (%)	10.7	15.4	14.9
Operating profit margin (%)	(21.3)	(45.8)	(38.2)
Net profit margin (%)	(16.0)	(35.8)	(30.7)

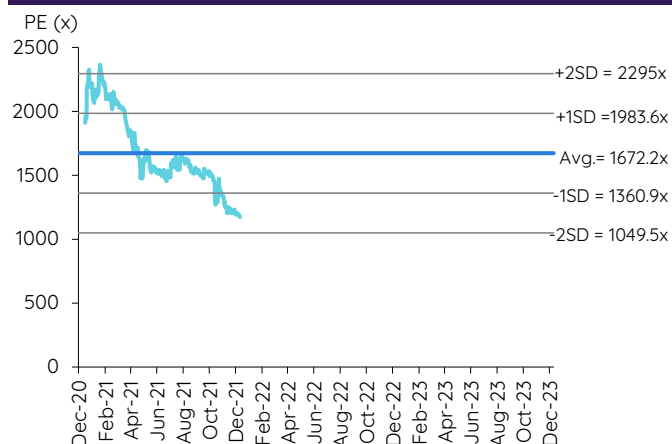
Source: Company data and InnovestX Research

Figure 2: Peer comparison

Company name	Country	Mkt. Cap. (US\$m)	PE (x)		EPS Growth (%)		PBV (x)		Div. Yield (%)		ROE (%)		EV/EBITDA (x)	
			23F	24F	23F	24F	23F	24F	23F	24F	23F	24F	23F	24F
China Express Delivery														
ZTO Express Cayman Inc	China	19,905	16.2	13.6	30.2	18.8	2.4	2.1	1.9	2.3	15.7	16.5	9.8	8.3
Yunda Holding Co Ltd	China	3,741	14.1	10.5	30.4	34.1	1.5	1.3	0.7	0.9	10.7	12.6	6.1	5.5
STO Express Co Ltd	China	2,005	26.1	15.2	92.1	72.1	1.7	1.5	0.2	0.4	5.9	9.7	8.8	6.8
Regional Express Delivery														
Yamato Holdings Co Ltd	Japan	6,415	17.3	16.1	15.7	7.2	1.5	1.4	1.8	1.9	8.2	8.7	7.7	6.7
SG Holdings Co Ltd	Japan	9,066	19.4	16.2	(45.1)	19.4	2.3	2.1	2.5	2.5	12.2	13.5	9.9	8.5
CJ Logistics Corp	South Korea	1,378	8.1	7.1	17.9	13.8	0.4	0.4	0.8	0.7	5.8	6.3	5.7	5.2
Thailand Express Delivery														
Kerry Express Thailand PCL	Thailand	280	n.m	n.m	(30.1)	29.0	2.3	2.9	n.a	0.1	(54.4)	(42.3)	n.a.	18.3
Average			16.9	13.1	15.9	27.8	1.7	1.7	1.3	1.3	0.6	8.0	3.6	8.5

Source: Company data, InnovestX Research and Bloomberg Finance L.P.

Figure 3: KEX PE band



Source: SET and InnovestX Research

Figure 4: KEX PBV band



Source: SET and InnovestX Research

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