

21 June 2023

Consumer Non-cyclical | Food & Beverage Products

Thai Union Group (TU TB)

Buy (Maintained)

Long-Term Recovery, Short-Term Obstacles; BUY

Target Price (Return): THB20 (49.3%)
 Price (Market Cap): THB13.40 (USD1,769m)
 ESG score: 3.5 (out of 4)
 Avg Daily Turnover (THB/USD) 420m/12.2m

- **Keep BUY and THB20 TP, 49% upside and c.5% FY23F yield.** Thai Union Group is set to see a better 2H23 post 1Q-2Q's soft performances, which was due to lower volumes on higher inventory and raw material costs. It should see better earnings ahead post clients' destocking activities and a consumption recovery. Thailand is also on Tier 2 in the US' Trafficking in Persons Report, ie better than many of its rivals. We expect TU's earnings to be supported by the recovery of the pet care and frozen seafood segments in 2023. The group is also likely to pay attractive dividend yields.
- **Thailand on US human trafficking report's Tier 2.** The US State Department issued its 2023 Trafficking in Persons Report on 15 Jun. In it, while the Government did not fully meet the minimum standards for the elimination of human trafficking, it is making significant efforts to do so – demonstrating increased efforts overall vis-à-vis the prior reporting period and taking into account COVID-19's impact on the kingdom's anti-trafficking capabilities, ie increasing/initiating the number of investigations, prosecutions, and convictions. Hence, Thailand is now on Tier 2 within this report, which we deem as a positive development for TU's products in the US and EU, as customers now pay higher attention and want to purchase products with elevated rankings in human rights and fair labour practices.
- **2Q23 may be not so attractive, but we expect things to improve in 2H23.** Tuna prices in May remained at USD2,000/ton – flat MoM and up 25% YoY. As fish tend to move to deeper waters during the hot weather seasons, making fishing activities more difficult, we expect TU to post a 2Q23 net profit recovery on a QoQ basis but remain flat YoY – expecting 2Q23 bottomline to be in the range of THB1.3-1.4bn. We believe this will be due to customers' lower inventory levels, which supports higher order volumes. Additionally, we are of the view that TU will likely enter its high season during 3Q23, given increased orders (historically) and favourable weather for outdoor dining in the northern hemisphere. Speaking to analysts recently, management guided for 2H23 to be better due to the demand recovery for the group's products.
- **Risks.** The downside risks to our call: i) Volatility in raw material costs and ii) possible animal disease outbreaks/pandemics that could adversely affect demand and supply.
- **ESG.** Given our increased weightage on the E pillar, TU's ESG score is 3.5 out of 4. This results in a 6% ESG premium being added to its intrinsic value at a 14x P/E target – near its 5-year average – to arrive at our THB20 TP. The stock's valuation is inexpensive, as it is trading at 9.6x P/E, ie below the 5-year average of about 14x. TU also provides attractive FY23F dividend yields of 5%. We maintain our BUY recommendation.

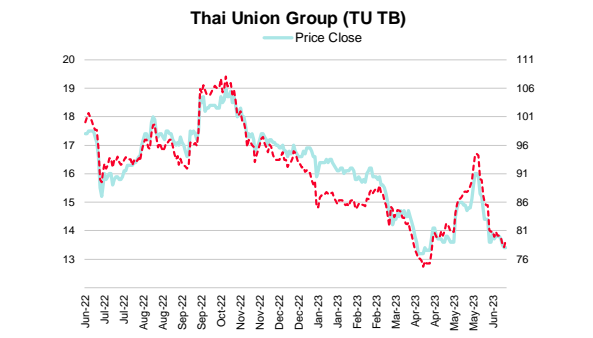
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(20.7)	(9.5)	(7.6)	(20.2)	(23.0)
Relative	(12.8)	(11.0)	(6.4)	(16.0)	(21.6)
52-wk Price low/high (THB)	13.2 – 19.0				



Source: Bloomberg

Overall ESG Score: 3.5 (out of 4)

E: EXCELLENT

TU aims to support environmental products and has a strong policy of supporting environment-friendly suppliers. All its plants comply with environmental and waste treatment standards.

S: GOOD

Being reliant on seafood product and fishermen suppliers, TU has the highest exposure to this ESG pillar. However, it has managed its social and community relationships well. The group has a strong policy of not supporting labour malpractice suppliers. TU also applies international standards – as per those specified by Dow Jones Sustainability Indices and United Nations Sustainable Development Goals. It also conducts its social responsibility activities based on engaging in projects that are suitable for society needs.

G: EXCELLENT

TU follows the guidance of the Thai Institute of Directors. Its disclosure policy is in compliance with regulations set by the SET. As it is a listed company, the group also discloses important information broadly and promptly to stakeholders.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (THBm)	141,048	155,586	159,739	171,525	181,936
Recurring net profit (THBm)	7,271	7,626	6,638	7,031	8,067
Recurring net profit growth (%)	11.0	4.9	(12.9)	5.9	14.7
Recurring P/E (x)	8.79	8.39	9.63	9.09	7.93
P/B (x)	1.1	1.0	1.0	0.9	0.9
P/CF (x)	na	21.36	11.17	16.66	11.58
Dividend Yield (%)	6.2	6.3	5.2	5.5	6.3
EV/EBITDA (x)	6.96	8.04	7.95	7.80	7.24
Return on average equity (%)	14.2	12.0	10.6	10.7	11.6
Net debt to equity (%)	97.3	52.7	56.8	57.5	56.8

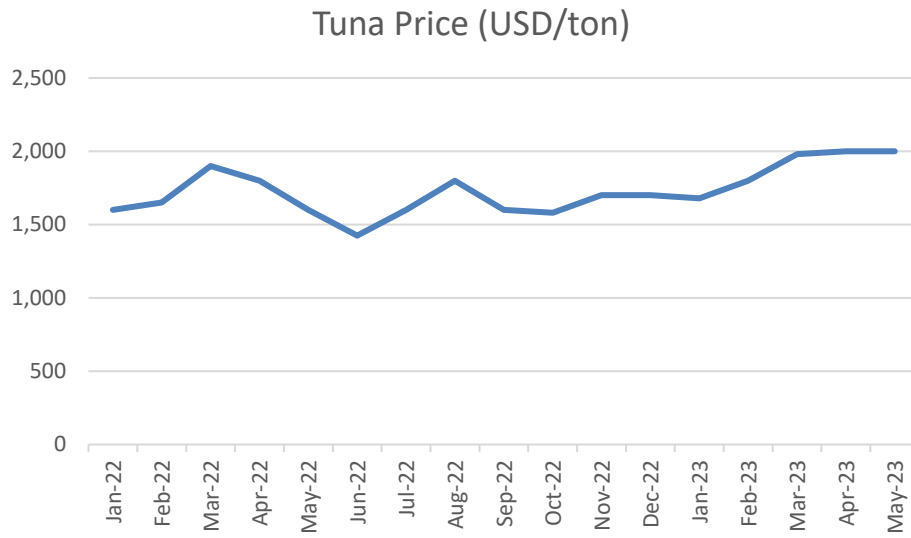
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Thailand	Recurring EPS	1.52	1.60	1.39	1.47	1.69
Consumer Non-cyclical	DPS	0.83	0.84	0.70	0.74	0.85
Thai Union Group	BVPS	12.17	12.77	13.46	14.20	15.05
TU TB	Return on average equity (%)	14.2	12.0	10.6	10.7	11.6
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	8.79	8.39	9.63	9.09	7.93
DCF and P/E	P/B (x)	1.1	1.0	1.0	0.9	0.9
	FCF Yield (%)	(6.3)	(1.4)	(8.6)	(3.9)	(1.6)
Key drivers	Dividend Yield (%)	6.2	6.3	5.2	5.5	6.3
i. Tailwinds from the THB's depreciation;	EV/EBITDA (x)	6.96	8.04	7.95	7.80	7.24
ii. Expanding into huge untapped markets.	EV/EBIT (x)	8.97	11.02	10.81	10.59	9.68
	Income statement (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	141,048	155,586	159,739	171,525	181,936
i. Volatility of raw material costs;	Gross profit	25,727	27,206	27,792	29,608	31,987
ii. Possible animal disease outbreaks/pandemics that could adversely affect demand and supply.	EBITDA	14,209	13,141	13,990	14,607	15,951
	Depreciation and amortisation	(3,196)	(3,550)	(3,699)	(3,855)	(4,018)
Company Profile	Operating profit	11,012	9,591	10,291	10,752	11,933
Thai Union is one of the world's largest seafood players. The group owns a leading brands portfolio in key markets and global sourcing, production, and distributing networks. TU's key products are canned tuna and frozen shrimp, which it also produces for external customers through its private label business.	Net interest	(1,730)	(1,998)	(2,443)	(2,443)	(2,443)
	Pre-tax profit	9,013	6,564	7,728	8,189	9,370
	Taxation	(742)	840	(850)	(901)	(1,031)
	Reported net profit	8,013	7,138	6,638	7,031	8,067
	Recurring net profit	7,271	7,626	6,638	7,031	8,067
	Cash flow (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(8,795)	(6,536)	(1,318)	(3,704)	(3,087)
	Cash flow from operations	(57)	2,993	5,726	3,839	5,524
	Capex	(3,973)	(3,870)	(11,219)	(6,304)	(6,554)
	Cash flow from investing activities	(10,828)	(6,753)	(11,219)	(6,304)	(6,554)
	Dividends paid	(3,947)	(3,569)	(3,319)	(3,516)	(4,033)
	Cash flow from financing activities	12,305	(12,665)	11,994	(2,679)	(4,033)
	Cash at beginning of period	6,286	9,723	13,029	22,039	19,401
	Net change in cash	1,420	(16,425)	6,501	(5,144)	(5,064)
	Ending balance cash	9,723	(4,625)	21,710	19,159	16,683
	Balance sheet (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	9,723	13,029	22,039	19,401	17,811
	Tangible fixed assets	27,027	28,475	32,187	33,510	34,937
	Total investments	28,523	12,183	12,183	12,183	12,183
	Total assets	166,604	182,569	201,030	206,255	211,666
	Short-term debt	24,610	12,232	28,402	28,402	28,402
	Total long-term debt	45,622	47,263	45,622	45,622	45,622
	Total liabilities	104,391	94,438	109,579	111,289	112,667
	Total equity	62,213	88,131	91,451	94,966	98,999
	Total liabilities & equity	166,604	182,569	201,030	206,255	211,666
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	6.5	10.3	2.7	7.4	6.1
	Recurrent EPS growth (%)	11.0	4.9	(12.9)	5.9	14.7
	Gross margin (%)	18.2	17.5	17.4	17.3	17.6
	Operating EBITDA margin (%)	10.1	8.4	8.8	8.5	8.8
	Net profit margin (%)	5.7	4.6	4.2	4.1	4.4
	Dividend payout ratio (%)	49.3	56.2	50.0	50.0	50.0
	Capex/sales (%)	2.8	2.5	7.0	3.7	3.6
	Interest cover (x)	6.37	4.80	4.21	4.40	4.88

Source: Company data, RHB

Figure 1: Tuna prices



Source: Company data

Figure 2: Anti-trafficking patrols



Source: Royal Thai Embassy

Recommendation Chart

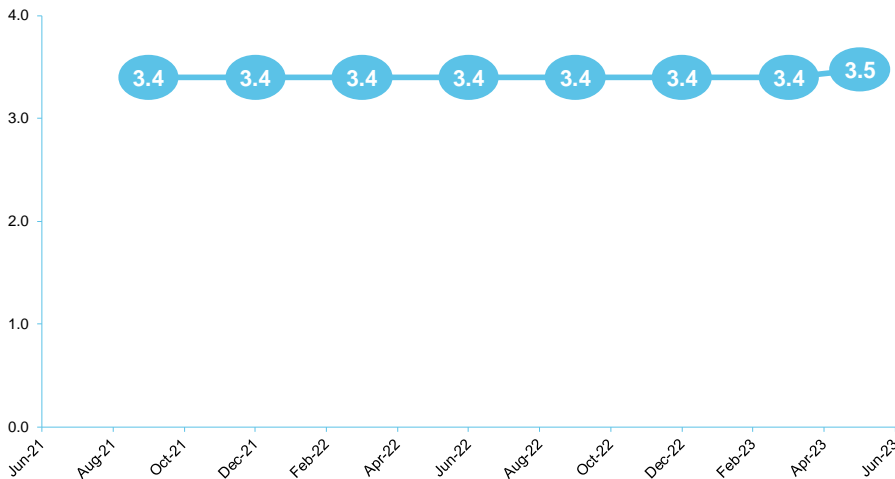


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-06-07	Buy	20.0	13.6
2023-05-08	Buy	20.0	14.5
2023-03-14	Buy	22.0	14.2
2023-02-22	Buy	22.0	16.2
2023-01-05	Buy	22.0	16.6
2022-12-15	Buy	24.0	16.7
2022-11-21	Buy	24.0	17.4
2022-11-04	Buy	24.0	18.0
2022-10-21	Buy	24.0	18.7
2022-09-23	Buy	24.0	17.4
2022-08-11	Buy	24.0	17.4
2022-07-08	Buy	24.0	15.8
2022-06-24	Buy	24.0	17.5
2022-06-10	Buy	24.0	17.1
2022-05-11	Buy	24.0	16.8

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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