

14 March 2023

Consumer Non-cyclical | Food & Beverage Products

Thai Union Group (TU TB)

Buy (Maintained)

Strong Pet Food Line, Plant Modernisation; BUY

Target Price (Return): THB22 (48.6%)
 Price (Market Cap): THB14.80 (USD2,050m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (THB/USD) 352m/10.3m

- **Keep BUY and THB22 TP, 49% upside and c.5% FY23F yield.** Thai Union is on its way towards enhancing its pet food business via its I-Tail Corp (ITC TB, NR) subsidiary, and strong modernisation and sanitary conditions of its plants. We are positive on the group's long-term prospects, in view of the recoveries in domestic and global consumption. Tuna raw material costs are also under control. We think FY23F earnings will be supported by the pet care market and frozen seafood segment's recoveries post relaxation of global COVID-19 measures. TU also offers strong yields for investors.

- **Still sticking with Red Lobster.** Management has denied rumours about divesting Red Lobster, given recent news flows about TU's food chain associate. TU said this business was still undergoing a monitoring process. In our view, even if Red Lobster cannot post an operating performance recovery – and is divested – any positives may only occur in the long term. In the short term, there may be one-time extra losses from a divestment. In the long run, we believe TU will gain positives, as it will no longer need to recognise Red Lobster losses of c.TH500-1,000m pa, which contributes c.8-14% of the company's bottomline. We do not think the process will reach this point, as TU still sees Red Lobster gaining benefits from better frozen food demand and food service & hotel industries or HORECA consumption in 2023. We think the frozen seafood business is set to improve following the relaxation of global COVID-19 measures. We also expect gross margins to remain high at c.18%, enhanced by the pet food unit. Transportation costs are likely to improve too on reduced congestion vis-à-vis containers.

- **Pet food plant's modernisation.** We had the opportunity to visit TU's subsidiary's plant at Samut Sakhon Province recently. ITC's facility is able to adopt many automation systems during its modernisation process on top of its strong hygiene standards. This subsidiary also plans to launch three attractive brands in China: Bellotta, Marvo, and ChangeTer. Management guided that ITC can see high market size growth with a CAGR of 25% and c.15% growth in 2023, ie higher than industry average of 7%. ITC is also building a new production plant in Samut Sakhon, which aims to increase total wet pet food and treats capacities by 18.7% with a new automated packing line. Construction is ongoing, with plans to commercialise within 2Q23.

- **ESG, cheap valuation.** Based on our proprietary methodology, we derived an ESG score of 3.4 out of 4.0 for TU. Accordingly, we apply a 2% premium to our DCF-intrinsic value to derive our THB22 TP. The P/E ratio is also reduced to 9x in 2023, ie below the 5-year average of 13x. TU is likely to pay attractive dividends, with a c.5% yield estimated for 2023.

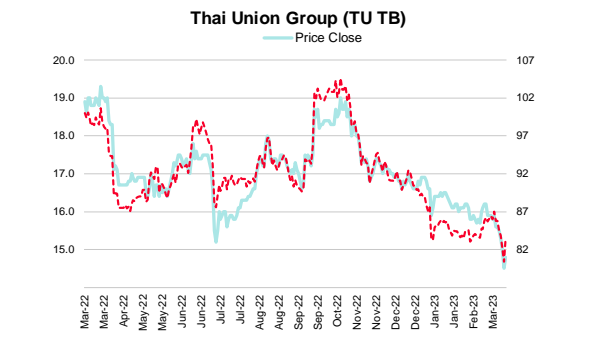
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.4)	(6.9)	(10.9)	(13.5)	(20.0)
Relative	(6.7)	(1.4)	(7.6)	(8.2)	(14.9)
52-wk Price low/high (THB)	14.5 – 19.3				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (THBm)	141,048	155,586	159,169	170,919	181,287
Recurring net profit (THBm)	7,271	7,626	7,956	8,845	9,932
Recurring net profit growth (%)	11.0	4.9	4.3	11.2	12.3
Recurring P/E (x)	9.71	9.26	8.88	7.98	7.11
P/B (x)	1.2	1.2	1.1	1.0	1.0
P/CF (x)	na	23.59	9.52	12.67	9.83
Dividend Yield (%)	5.6	5.7	5.6	6.3	7.0
EV/EBITDA (x)	7.43	8.55	7.55	7.11	6.59
Return on average equity (%)	14.2	12.0	12.6	13.2	13.8
Net debt to equity (%)	97.3	52.7	55.1	54.3	52.2

Source: Company data, RHB

Overall ESG Score: 3.40 (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 company 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

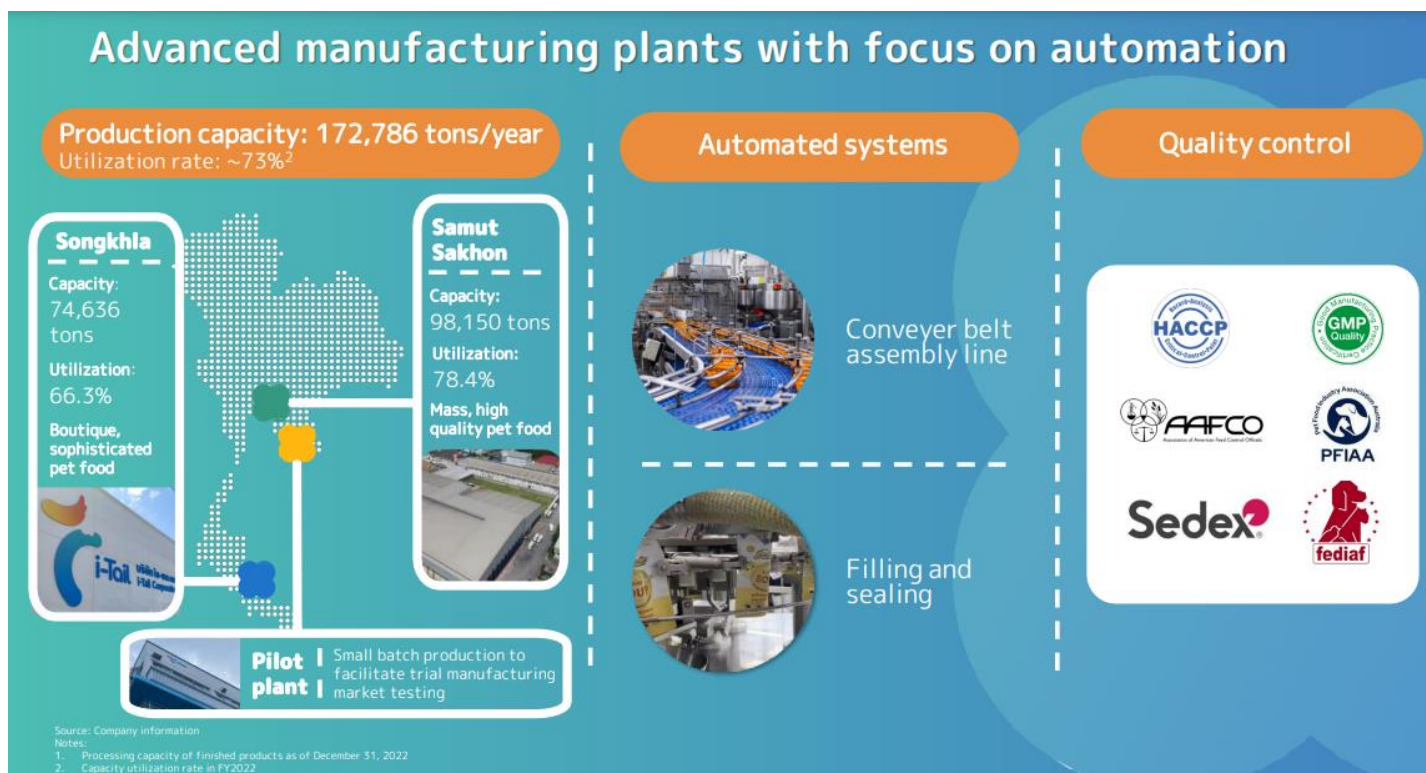
TU follows the guidance of the Thai Institute of Directors. Its disclosure policy is in compliance with regulations set by the SET. As it is a listed company, TU also discloses important information broadly and promptly to stakeholders.

Financial Exhibits

Asia	Financial summary (THB)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Thailand	Recurring EPS	1.52	1.60	1.67	1.85	2.08
Consumer Non-cyclical	DPS	0.83	0.84	0.83	0.93	1.04
Thai Union Group	BVPS	12.17	12.77	13.60	14.53	15.57
TU TB	Return on average equity (%)	14.2	12.0	12.6	13.2	13.8
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	9.71	9.26	8.88	7.98	7.11
DCF, P/E	P/B (x)	1.2	1.2	1.1	1.0	1.0
	FCF Yield (%)	(5.7)	(1.2)	(5.4)	(1.0)	0.9
Key drivers	Dividend Yield (%)	5.6	5.7	5.6	6.3	7.0
i. Tailwinds from THB depreciation;	EV/EBITDA (x)	7.43	8.55	7.55	7.11	6.59
ii. Expanding to huge untapped markets.	EV/EBIT (x)	9.58	11.72	9.92	9.25	8.48
	Income statement (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	141,048	155,586	159,169	170,919	181,287
i. Volatility of raw material costs;	Gross profit	25,727	27,206	29,206	31,576	34,007
ii. Possible animal disease outbreak that could adversely affect demand and supply	EBITDA	14,209	13,141	15,469	16,644	18,046
	Depreciation and amortisation	(3,196)	(3,550)	(3,699)	(3,855)	(4,018)
	Operating profit	11,012	9,591	11,770	12,789	14,028
	Net interest	(1,730)	(1,998)	(2,443)	(2,443)	(2,443)
	Pre-tax profit	9,013	6,564	9,208	10,226	11,465
	Taxation	(742)	840	(1,013)	(1,125)	(1,261)
	Reported net profit	8,013	7,138	7,956	8,845	9,932
	Recurring net profit	7,271	7,626	7,956	8,845	9,932
	Cash flow (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(8,795)	(6,536)	(781)	(3,560)	(3,060)
	Cash flow from operations	(57)	2,993	7,419	5,573	7,186
	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)	(3,978)	(4,422)	(4,966)
	Cash flow from financing activities	12,305	(12,665)	11,335	(3,585)	(4,966)
	Cash at beginning of period	6,286	9,723	13,029	23,235	21,649
	Net change in cash	1,420	(16,425)	7,535	(4,317)	(4,334)
	Ending balance cash	9,723	(4,625)	22,744	21,182	19,661
	Balance sheet (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	9,723	13,029	23,235	21,649	21,019
	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	201,348	207,379	213,707
	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	109,239	110,848	112,209
	Total equity	62,213	88,131	92,109	96,532	101,498
	Total liabilities & equity	166,604	182,569	201,348	207,379	213,707
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	6.5	10.3	2.3	7.4	6.1
	Recurrent EPS growth (%)	11.0	4.9	4.3	11.2	12.3
	Gross margin (%)	18.2	17.5	18.3	18.5	18.8
	Operating EBITDA margin (%)	10.1	8.4	9.7	9.7	10.0
	Net profit margin (%)	5.7	4.6	5.0	5.2	5.5
	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	4.82	5.24	5.74

Source: Company data, RHB

Figure 1: Strong automation of ITC's plants



Source: Company data

Figure 2: Automated warehouse system

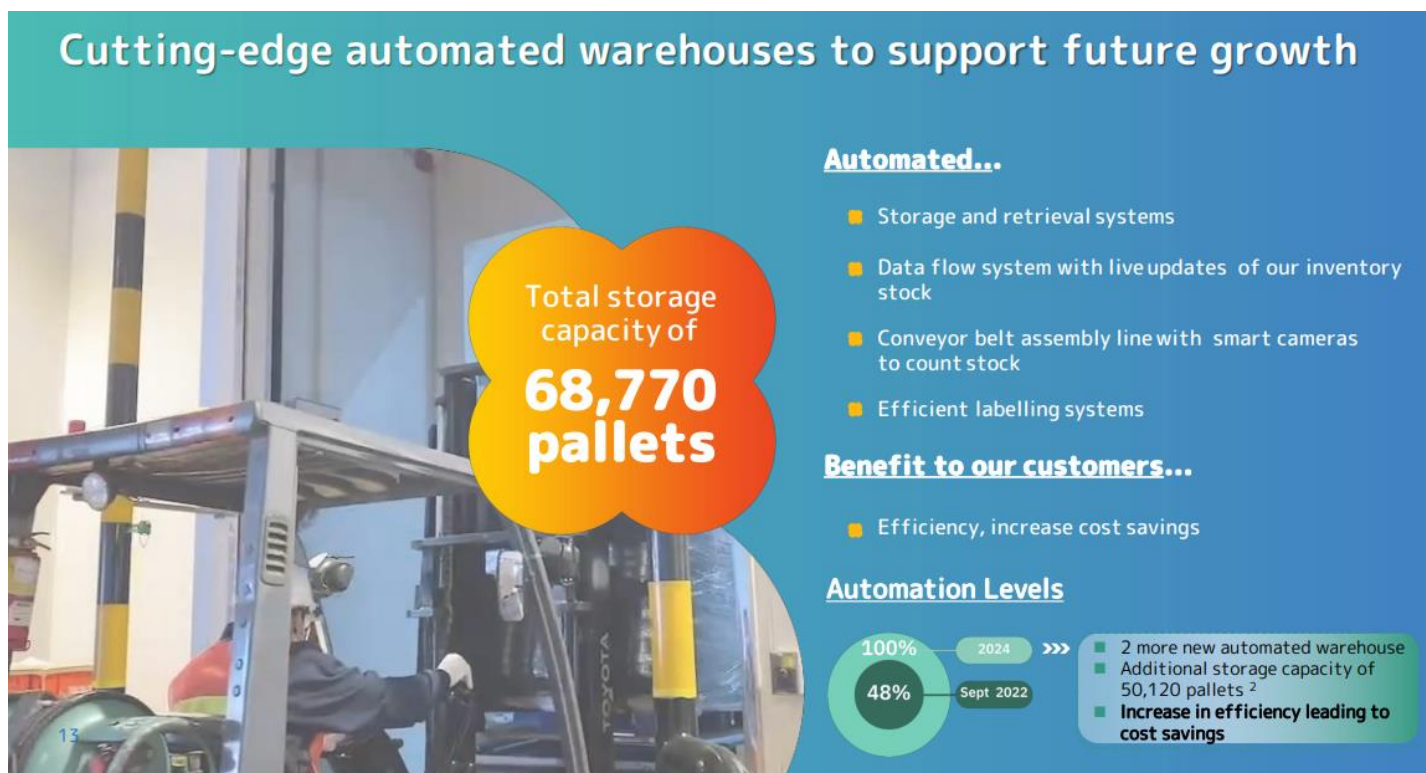
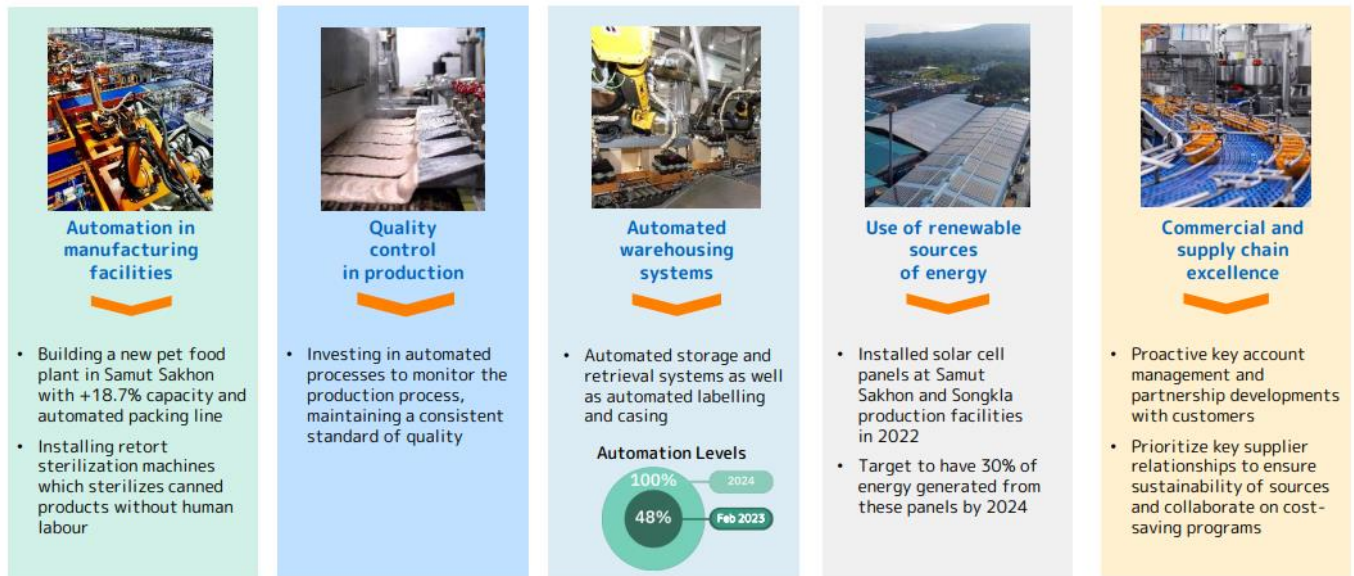


Figure 3: ITC's improving production lines

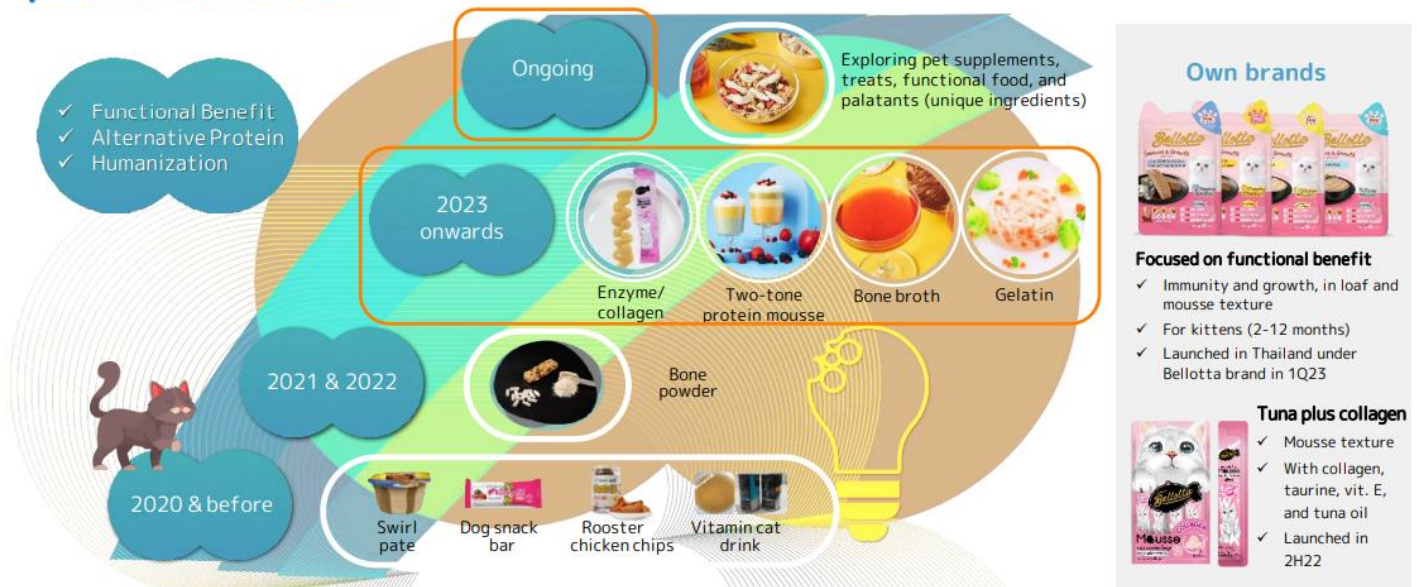
Continuous productivity improvement across the production line



Source: Company data

Figure 4: ITC's innovative products

New, innovative products with focus on functional benefits & pet humanization



Source: Company data

Figure 5: ITC's cat innovation testing centre

Leveraging our R&D and innovation capabilities



- Cattery pet food palatability testing center, in collaboration with a leading Thai university
- To provide insights for product R&D
- Over 1,200 sqm at a leading University in Thailand
- Started training and plan to house 48 cats of various breeds
- 95% completed with plans to launch within March 2023
- Total investment of THB 36mn



Source: Company data

Figure 6: ITC's innovative and attractive products to be launched in China



Source: Company data

Recommendation Chart

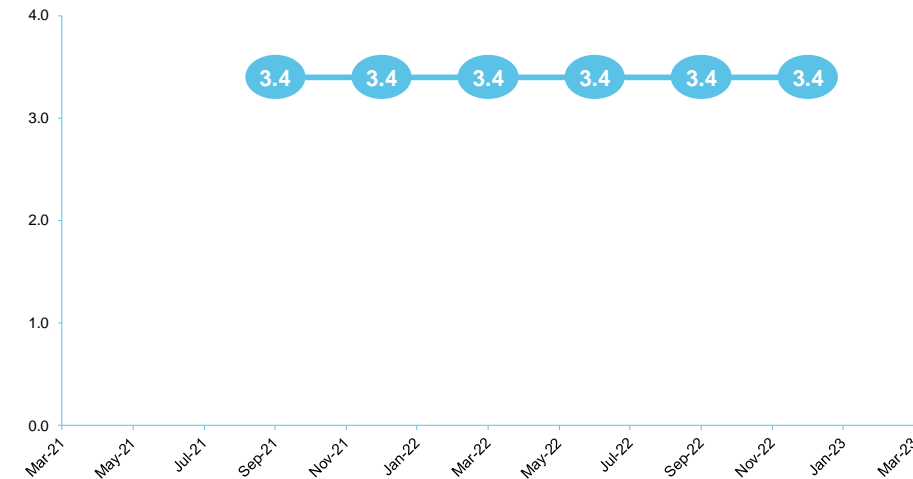


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-04-20	Buy	24.0	16.8
2022-03-23	Buy	26.0	19.0
2022-02-25	Buy	27.0	20.3

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Analyst	Company
-	-

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Corporate Governance Report Rating 2022 (CG Score) as of 27 Oct 2022



Companies with Excellent CG Scoring by alphabetical order

AAV	AWC	BWG	CSS	FSMART	ILINK	LALIN	MST	PDG	Q-CON	SCN	SPRC	THANA	TQM	UV
ADVANC	AYUD	CENTEL	DDD	FVC	ILM	LHFG	MTC	PDJ	QH	SDC	SPVI	THANI	TRC	VCOM
AF	BAFS	CFRESH	DELTA	GC	IND	LIT	MVP	PG	QTC	SEAFCO	SSC	THCOM	TRUE	VGI
AH	BAM	CGH	DEMCO	GEL	INTUCH	LOXLEY	NCL	PHOL	RATCH	SEAOIL	SSSC	THG	TSC	VIIH
AIRA	BANPU	CHEWA	DOHOME	GFPT	IP	LPN	NEP	PLANB	RBF	SE-ED	SST	THIP	TSR	WACOAL
AJ	BAY	CHO	DRT	GGC	IRC	LRH	NER	PLANET	RS	SELIC	STA	THRE	TSTE	WAVE
AKP	BBIK	CIMBT	DTAC	GLAND	IRPC	LST	NKI	PLAT	S	SENA	STEC	THREL	TSTH	WHA
ALLA	BBL	CK	DUSIT	GLOBAL	ITEL	MACO	NOBLE	PORT	S&J	SENAJ	STGT	TIPCO	TTA	WHAUP
ALT	BCP	CKP	EA	GPI	IVL	MAJOR	NSI	PPS	SAAM	SGF	STI	TISCO	TTB	WICE
AMA	BDMS	CM	EASTW	GPSC	JTS	MAKRO	NOBLE	PR9	SABINA	SHR	SUN	TK	TTCL	WINNER
AMARIN	BEM	CNT	ECF	GRAMMY	JWD	MALEE	NSI	PREB	SAMART	SICT	SUSCO	TKN	TTW	XPG
AMATA	BEYOND	COLOR	ECL	GULF	K	MBK	NVD	PRG	SAMTEL	SIRI	SUTHAI	TKS	TU	ZEN
ANAN	BGC	COM7	EE	GUNKUL	KBANK	MC	NYT	PRM	SAT	SIS	SVI	TKT	TVDH	
AOT	BGRIM	COMAN	EGCO	HANA	KCE	MCOT	OISHI	PSH	SC	SITHAI	SYMC	TMILL	TVI	
AP	BIZ	COTTO	EPG	HARN	KEX	METCO	OR	PSL	SCB	SMP	SYNTEC	TMT	TVO	
APURE	BKI	CPALL	ETC	HENG	KGI	MFEC	ORI	PTG	SCC	SNC	TACC	TNDT	TPWC	
ARIP	BOL	CPF	ETE	HMPRO	KKP	MINT	OSP	PTT	SCC	SONIC	TASCO	TNITY	U	
ASP	BPP	CPI	FN	ICC	KSL	MONO	OTO	PTTEP	SCG	SORKON	TCAP	TOA	UAC	
ASW	BRR	CPN	FNS	ICHI	KTB	MOONG	PAP	PTTGC	SCGP	SPALI	TEAMG	TOP	UBIS	
AUCT	BTS	CRC	FPI	III	KTC	MSC	PCSGH	PYLON	SCM	SPI	TFMAMA	TPBI	UPOIC	








Companies with Very Good CG Scoring by alphabetical order

2S	BCH	CV	IMH	MBAX	PICO	SABUY	SRICHA	TPAC	XO
7UP	BE8	CWT	INET	MEGA	PIMO	SAK	SSF	TPCS	YUASA
ABICO	BEC	DCC	INGRS	META	PIN	SALEE	SSP	TPIPL	ZIGA
ABM	SCAP	DHOME	INSET	MFC	PJW	SAMCO	STANLY	TIPIP	
ACE	BH	DITTO	INSURE	MGT	PL	SANKO	STC	TPLAS	
ACG	BIG	DMT	IRCP	MICRO	PLE	SAPPE	STPI	TPS	
ADB	BJC	DOD	IT	MILL	PM	SAWAD	SUC	TQR	
ADD	BJCHI	DPAIN	ITD	MITSIB	PMTA	SCI	SVOA	TRITN	
AEONTS	BLA	DV8	J	MK	PPP	SCP	SVT	TRT	
AGE	BR	EASON	JAS	MODREN	PPPM	SE	SWC	TRU	
AHC	BRI	EFORL	JCK	MTI	PRAPAT	SECURE	SYNEX	TRV	
AIE	BROOK	ERW	JCKH	NBC	PRECHA	SFLEX	TAE	TSE	
AIT	BSM	ESSO	JMT	NCAP	PRIME	SFP	TAKUNI	TVT	
ALUCON	BYD	ESTAR	JR	NCH	PRIN	SFT	TCC	TWP	
AMANAH	CBG	FE	KBS	NDR	PRINC	SGP	TCMC	UBE	
AMR	CEN	FLOYD	KCAR	NETBAY	PROEN	SIAM	TFG	UEC	
APCO	CHARAN	FSS	KIAT	NEX	PROS	SINGER	TFI	UKEM	
APCS	CHAYO	FTE	KISS	NINE	PROUD	SKE	TFM	UMI	
AQUA	CHG	GBX	KK	NATION	PSG	SKN	TGH	UOBKH	
ARIN	CHOTI	GCAP	KOOL	NNCL	PSTC	SKR	TIDLOR	UP	
ARROW	CHOW	GENCO	KTIS	NOVA	PT	SLP	TIGER	UPF	
AS	CI	GJS	KUMWEL	NPK	PTC	SMART	TIPH	UTP	
ASAP	CIG	GTB	KUN	NRF	QLT	SMD	TITLE	VIBHA	
ASIA	CITY	GYT	KWC	NTV	RCL	SMIT	TM	VL	
ASIAN	CIVIL	HEMP	KWM	NUSA	RICHY	SMT	TMC	VPO	
ASIMAR	CMC	HPT	L&E	NWR	RJH	SNNP	TMD	VRANDA	
ASK	CPL	HTC	LDC	OCC	ROJNA	SNP	TMI	WGE	
ASN	CPW	HUMAN	LEO	OGC	RPC	SO	TNL	WIJK	
ATP30	CRANE	HYDRO	LH	ONEE	RT	SPA	TNP	WIN	
B	CRD	IGN	LHK	PACO	RWI	SPC	TNR	WINMED	
BA	CSC	IFS	M	PATO	S11	SPCG	TOG	WORK	
BC	CSP	IIG	MATCH	PB	SA	SR	TPA	WP	



Companies with Good CG Scoring by alphabetical order

A	BM	CTW	GSC	LEE	NFC	RPH	PTECH	TRUBB
A5	BROOK	D	HL	LPH	NSL	RSP	TC	TTI
AI	BSBM	DCON	HTECH	MATI	NV	SIMAT	TCCC	TYCN
ALL	BTNC	EKH	IHL	M-CHAI	PAF	SISB	TCJ	UMS
ALPHAX	CAZ	EMC	INOX	MCS	PEACE	SK	TEAM	UNIQ
AMC	CCP	EP	JAK	MDX	PF	SOLAR	THE	UPA
APP	CGD	EVER	JMART	MENA	PK	SPACK	THMUI	UREKA
AQ	CMAN	F&D	JSP	MJD	PPM	SPG	TKC	VARO
AU	CMO	FMT	JUBILE	MORE	PRAKIT	SQ	TNH	W
B52	CMR	GIFT	KASET	MPIC	PTL	STARK	TNPC	WFX
BEAUTY	CPANEL	GLOCON	KCM	MUD	RAM	STECH	TOPP	WPH
BGT	CPT	GLORY	KWI	NC	ROCK	SUPER	TPCH	YGG
BLAND	CSR	GREEN	KYE	NEWS	RP	SVH	TPOLY	

Score Range	Number of Logo	Description	IOD (IOD Disclaimer)
90-100		Excellent	Disclaimer: The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an assessment of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date or when there is any change to the relevant information. Nevertheless, RHB Securities (Thailand) Public Company Limited does not confirm, verify, or certify the accuracy and completeness of such survey result.
80-89		Very Good	
70-79		Good	การเปิดเผยผลการสำรวจของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (IOD) ในเรื่องการกำกับดูแลกิจการ (Corporate Governance) นี้เป็นการดำเนินการตามนโยบายของสำนักงานคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ โดยการสำรวจของ IOD เป็นการสำรวจและประเมินจากข้อมูลของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยและตลาดหลักทรัพย์เอ็มเอไอ ที่มีการเปิดเผยต่อสาธารณะและเป็นข้อมูลที่ผู้ลงทุนทั่วไปสามารถเข้าถึงได้ ดังนั้นผลสำรวจดังกล่าวจึงเป็นการนำเสนอในมุมมองของบุคคลภายนอกโดยไม่ได้เป็นการประเมินการปฏิบัติและมีได้มีการใช้ข้อมูลภายในในการประเมิน
60-69		Satisfactory	อนึ่ง ผลการสำรวจดังกล่าว เป็นการสำรวจ ณ วันที่ปรากฏในรายงานการกำกับดูแลกิจการบริษัทจดทะเบียนไทยเท่านั้น ดังนั้นผลการสำรวจจึงอาจเปลี่ยนแปลงได้ภายหลังจากวันดังกล่าว ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความถูกต้องของผลการสำรวจดังกล่าวแต่อย่างใด
50-59		Pass	

Source : <http://www.thai-iod.com/th/projects-2.asp>

Anti-Corruption Progress Indicator

Level 5: Extended

ADVANC	GLOBAL	QH
ANAN	GPSC	RATCH
BBL	HMPRO	ROBINS
BCH	IRPC	SCC
BDMS	KBANK	SIRI
BIGC	KCE	SPALI
CK	KKP	STEC
DCC	KTB	TCAP
DELTA	LPH	TISCO
DRT	PACE	TMT
EGCO	PTT	TOP
GFPT	PTTGC	

Level 4: Certified

AAV	ERW	SAPPE	CPN
AP	GLOW	SAWAD	DTAC
BA	GUNKUL	SCB	PTTEP
BANPU	ILINK	SCN	PYLON
BCP	KTC	SEAFCO	
BH	LH	SVI	
BJCHI	LPN	TASCO	
CBG	MAKRO	TKN	
CENTEL	MALEE	TMB	
CHG	MINT	TRT	
CKP	MODERN	TRUE	
CPF	NOK	TVO	

Level 3: Established

BEM	MTLS	SPRC
CPALL	SCI	

No progress

AOT	BPP	FN
BCPG	BTS	TPCH

Source : www.cgthailand.org

Disclaimer: The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by the relevant institution as disclosed by the Office of the Securities and Exchange Commission, is made in order to comply with the policy and sustainable development plan for the listed companies. The relevant institution made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, RHB Securities (Thailand) Public Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment result.

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