

# I-TAIL CORPORATION

## THAILAND / FOOD & BEVERAGE

# ITC TB

# BUY

## Pet food manufacturer for the world

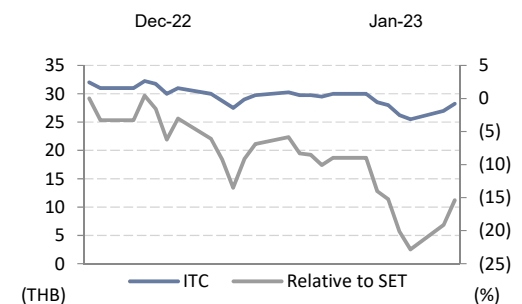
- We forecast a 4Q22 net profit of THB864m, up 47% on solid growth y-y, but down 41.2% q-q due to the low season.
- Our assumption is more conservative than management's revenue growth target in 2023 and assumes an FX rate of THB33/USD.
- Initiate with a BUY call and TP of THB40, based on 25x 2023E P/E.

TARGET PRICE	THB40.00
CLOSE	THB28.25
UP/DOWNSIDE	+41.6%
TP vs CONSENSUS	-1.0%

### KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Revenue	14,529	20,910	23,210	26,152
Net profit	2,721	4,589	4,747	5,385
EPS (THB)	7.56	2.67	1.58	1.79
vs Consensus (%)	-	-	-	-
EBITDA	3,031	4,929	5,807	6,566
Core net profit	2,435	4,063	4,747	5,385
Core EPS (THB)	6.77	2.36	1.58	1.79
EPS growth (%)	(4.3)	(65.1)	(33.0)	13.4

Core P/E (x)	4.2	12.0	17.9	15.7
Dividend yield (%)	14.2	5.9	3.4	3.8
EV/EBITDA (x)	3.9	14.6	12.5	10.9
Price/book (x)	1.5	3.4	3.2	2.9
Net debt/Equity (%)	23.9	(51.1)	(45.2)	(46.5)
ROE (%)	39.3	25.6	18.3	19.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(8.9)	n/a	n/a
Relative to country (%)	(12.5)	n/a	n/a
Mkt cap (USD m)	2,527		
3m avg. daily turnover (USD m)	n/a		
Free float (%)	22		
Major shareholder	Thai Union Group (78%)		
12m high/low (THB)	33.75/25.00		
Issued shares (m)	3,000.00		

Sources: Bloomberg consensus; FSSIA estimates

### ITC: a leading OEM manufacturer of pet food

ITC is a manufacturer and distributor of pet food and treats, mainly for cats and dogs. It offers wet, semi-moist, and dry pet food from its two factories in Samut Sakhon and Songkhla. ITC's revenue comes mainly from original equipment manufacturer (OEM) sales, which accounted for c98.7% of sales revenue in 2021. ITC's export markets include the United States (44.9% of total sales), followed by Europe, Japan, and China.

### Expect 4Q22 net profit to rise y-y, but drop q-q

We forecast a 4Q22 net profit of THB864m (-41.2% q-q, +47% y-y), with the q-q drop in line with the low season. Its y-y revenue growth in USD should be solid at 13% y-y and outperform the 4QTD value of Thai pet food exports which have dropped by 0.8% y-y. We think the revenue improvement will be driven by new products ordered by existing and new customers. In terms of profitability, we project ITC's GPM to decrease to 24.0% (vs 25.4% in 3Q22), due to THB appreciation and the lower utilisation rate. Also, SG&A expense should increase both q-q and y-y due to the higher IPO-related expenses. However, ITC's earnings overall in 4Q22 should be better than our previous expectation.

### Solid volume growth may be offset by THB appreciation in 2023

Management's 2023 revenue growth target is 17% y-y, driven by strong industry growth from a steadily rising pet population, the full-year recognition of revenue from new customers gained last year, and new customers this year. We expect 2023 revenue growth to reach 11% y-y at THB2.3b, based on solid volume growth from new US customers and accelerating demand from China. Our exchange rate assumption is conservative, at THB33/USD, up 5.7% y-y. Based on our analysis, for every THB1/USD increase, we estimate 2023 net profit would fall by 10%. However, the company should see limited impacts as it utilises financial instruments to protect against FX risks.

### Recommend BUY on industry strength and attractive valuation

We project ITC's 2022-23 core profit growth (excluding FX gains) at 65.8% y-y and 16.8% y-y, respectively. We rate ITC as BUY with a TP of THB40, based on 25x 2023E P/E, in line with its OEM peers in China. Currently, ITC's share price is trading below peers at 17.9x 2023E P/E, and processed food companies which trade at 20x-25x P/E.



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## Investment thesis

Thailand's i-Tail Corporation (ITC) is one of the world's leading pet food manufacturers. Its cost and innovation advantages come from its parent company, Thai Union Group (TU), one of the world's largest tuna processors. Given the management team's 20 years of experience on average, ITC can respond to changing demands and maintain its relationships with global pet food brands. Also, its growth has outpaced the rise in the value of the pet food market over the past three years. Despite the Covid-19 pandemic, the pet food market has continued to grow in line with the pet humanisation trend.

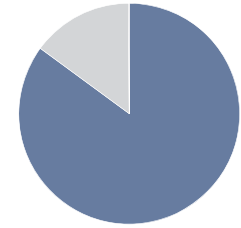
## Company profile

ITC was one of the top 10 global pet food companies by value in 2021 and ranked second in Asia. ITC is the Global PetCare (GPC) unit of Thai Union Manufacturing (TUM), which has operated a pet food business since 1977. Apart from Thailand, ITC has an extensive geographic presence in the US, UK, EU, China, and Japan.

[www.i-tail.com](http://www.i-tail.com)

## Principal activities (revenue, 2021)

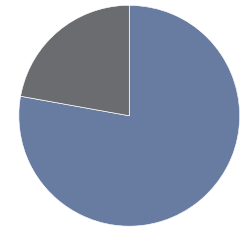
- Pet Food - 85.1 %
- Treats - 14.8 %
- Other - 0.1 %



Source: i-Tail Corporation

## Major shareholders

- Thai Union Group - 77.8 %
- Others - 22.2 %



Source: i-Tail Corporation

## Catalysts

Potential catalysts for ITC's earnings growth in 2023 are 1) revenue growth driven by new customers and industry growth; 2) its capacity expansion plan; and 3) declining raw material costs and an end to the shipping container shortage.

## Risks to our call

Downside risks to our PE-based TP include 1) a stronger-than-expected THB against USD; 2) the high volatility of raw material prices; 3) labor shortages; and 4) changing consumer demand and lifestyles.

## Event calendar

Date	Event
February 2023	4Q22 results announcement
May 2023	1Q23 results announcement

## Key assumptions

	2022E	2023E	2024E
Total capacity (tons/year)	172,786	194,872	206,627
Sales volume (tons/year)	128,097	147,901	166,295
% utilisation rate (%)	74.1	75.9	80.5
FX rate (USD/THB)	35.0	33.0	33.0
Tuna price (USD/ton)	1,663	1,500	1,500
Total sales growth (%)	43.9	11.0	12.7
Gross margin (%)	25.4	25.6	25.8

Source: FSSIA estimates

## Earnings sensitivity

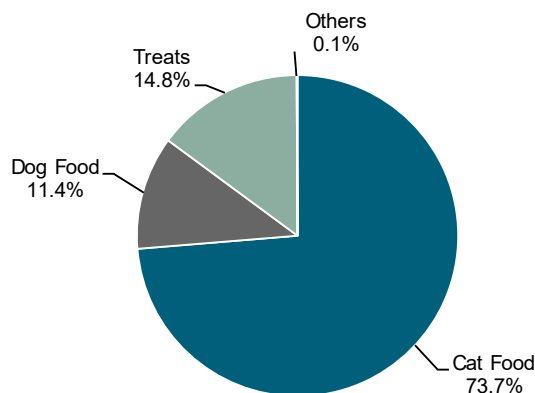
- For every THB1/USD increase, we estimate net profit to fall by 10%, and vice versa, all else being equal.
- For every 10% increase in the tuna price, we estimate net profit to fall by 8.5%, and vice versa, all else being equal.
- For every 10% increase in the aluminum price, we estimate net profit to fall by 2.9%, and vice versa, all else being equal.
- For every 5% increase in the minimum wage, we estimate net profit to fall by 2.4%, and vice versa, all else being equal.

Source: FSSIA estimates

## ITC is Thailand’s leading manufacturer and exporter of pet food

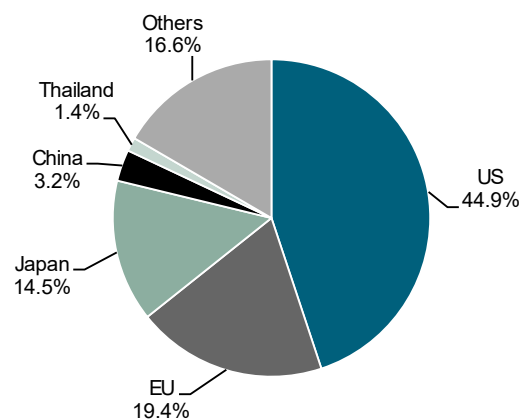
ITC manufactures and distributes pet food and treats for cats and dogs. It offers a wide variety of mainstream-to-premium products, such as tuna or chicken in gravy, broth, or jelly, and tuna or chicken pate (single and multi-layered) that are steamed, in chunks, or in wet, semi-moist, and dry forms. ITC sells mainly wet pet food and most of its revenue comes from cat food, which accounted for 73.7% of its 2021 sales, followed by treats (14.8%). Its products are available in several packaging formats such as cans, pouches, sachets, plastic cups, and aluminum trays. ITC’s customers include 435 world-class leaders in the pet food business, such as Smucker’s, Mars, and Aixia, as well as other brands and global retailers in over 45 countries. OEM production accounted for 98.7% of its 2021 sales revenue. ITC’s revenue comes mainly from exports (98.6%), with domestic sales accounting for 1.3%. It ships most of its products to the US (44.9%), followed by Europe (including the UK) (19.4%), Japan (14.5%), and China (3.2%).

**Exhibit 1: 2021 revenue by product group**



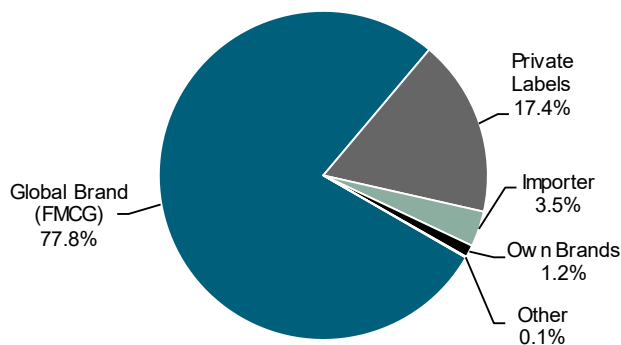
Source: ITC

**Exhibit 2: 2021 revenue by geography**



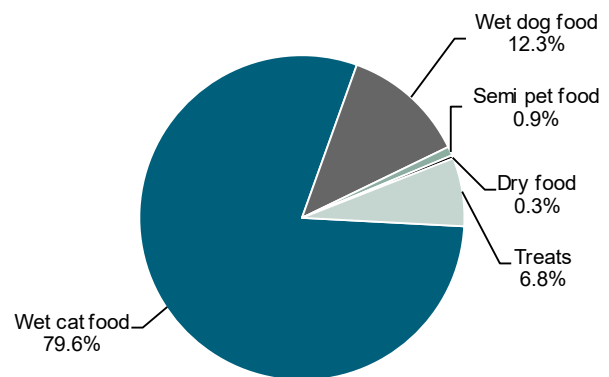
Source: ITC

**Exhibit 3: Revenue breakdown by customers**



Source: ITC

**Exhibit 4: Revenue breakdown by type of product**












Source: ITC

## Revenue comes mainly from OEM

ITC earned 98.7% of its 2021 revenue from OEM. Its customers can be divided into three groups. The largest are the owners of small-to-medium-sized global consumer brands, such as Mars and Smucker's, followed by modern trade customers and specialty stores. Third are brokers or importers, which act as middlemen securing purchase orders and taking care of deliveries for their customers. In 2021, the three groups accounted for 77.8%/17.4%/3.5% of ITC's total revenue, respectively.

The remaining 1.3% was from ITC's own pet food and treat brands, including Bellotta, Marvo, ChangeTer, Calico Bay, and Paramount. ITC sold them mainly through pet shops, veterinary clinics and hospitals, and e-commerce platforms in Thailand. Also, it marketed them via other international retail channels in the US, India, and Myanmar.

Exhibit 5: Examples and product details

Brand	Examples	Grade / Customers	Details
		Premium Cat Food / Available in Thailand, India, Malaysia, and Myanmar	Premium wet and dry cat food and treats
		Premium dog food / Available in Thailand, India, Malaysia, and Myanmar	High-quality wet and dry dog food and treats for puppies and adult dogs
		Kidney-friendly cat food / Available in Thailand	Wet and dry cat food and treats. Available in various formulas.
		Wet cat food / Available in the U.S.	Made of meats, fish, and seafood, such as tuna, shrimp, and salmon. No preservatives and by-products.
		Premium wet dog food / Available in the U.S.	Made of healthy ingredients and digestible protein. Biologically suitable for dogs.

Source: ITC

## Stable, long-term relationships with key accounts

ITC has cultivated long-term business relationships with several customers, all of which are leading fast-moving consumer goods (FCMG) companies with well-known pet food brands such as Smucker's, Mars, and Aixia. Also, it has strong ties to global pet food retailers. ITC has been doing business with its top three and top 10 accounts for an average of 21 and 18 years, respectively. Also, the aggregate revenue from its top three customers amounted to 52.8% and 44.3% of its total sales revenue in 2021 and 1H22, with orders placed for over 850 SKUs. Although the proportion of aggregate revenue from these customers decreased in 1H22, it was due mainly to higher revenue from other or new customers, which recorded a high growth rate of 67.7% y-y. At the same time, the aggregate revenue growth from the top three accounts continued at 13.2% y-y.

ITC aims to be an integral part of its customers' supply chains to help support their growth. It contacts its customers to provide services through its sales and marketing teams. At the end of 1H22, they had 58 personnel, comprising 52 in Thailand and six in the US, who are employed by US Pet Nutrition, LLC (USPN), its US-based subsidiary.

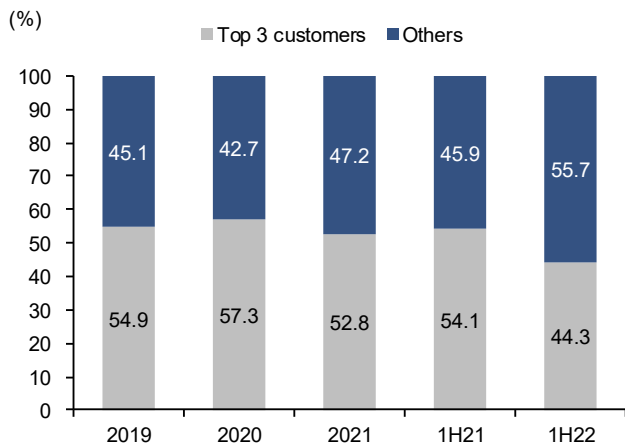
ITC works closely with its customers to design and innovate new products that answer customer needs. Product development takes around 1-2 years, which makes it difficult for customers to switch subcontractors. This creates another competitive advantage as customers usually choose to work with large OEM companies such as ITC. New competitors face a high barrier to entry without deep knowledge and efficient world-class production processes. At the same time, for example, ITC supports brand owners in the US, Europe, Australia, and Taiwan seeking to expand their marketing efforts in China, or brand owners in Malaysia looking to tap the US market. ITC's goal is to grow with its customers. In 2022, ITC received the "Product of the Year" award from Mars for its wet pet food made from chicken and packed in bowls.

Exhibit 6: Sample of ITC's OEM products



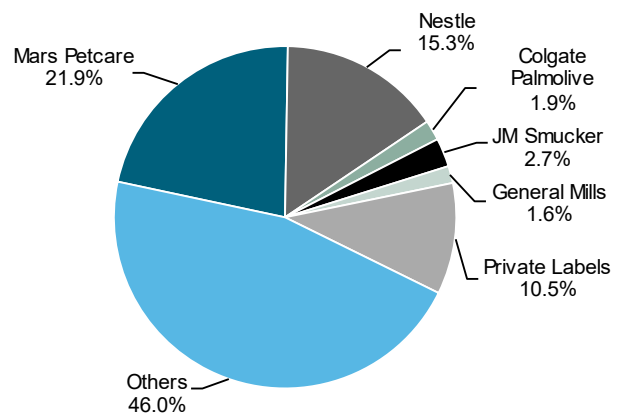
Source: ITC

Exhibit 7: Top three customers as a proportion of sales revenue



Source: ITC

Exhibit 8: Global pet food brand market share in 2021



Source: ITC (Frost & Sullivan)

## Factories and production capacities

ITC has factories in Songkhla (31 production lines) and Samut Sakhon (36 production lines). At the end of 1H22, it had a total capacity of 172,786 tonnes per year (+35.5% y-y) after continued expansions in the past three years from 98,222 tonnes in 2019, implying a 21% CAGR. ITC was able to apply a high utilisation rate and achieve economies of scale right after the expansions, reflecting solid purchase orders with a high average annual utilisation rate of 82%-85%. According to the latest data, it had a utilisation rate of 73.5% at the end of 9M22 when ITC completed its expansion. Hence, it still has idle capacity to accommodate continued growth in 2022-2023.

### Exhibit 7: Production capacity

Production Capacity	2019 (tons)	2020 (tons)	2021 (tons)	9M22 (tons)
<b>Songkhla</b>				
Full Capacity (p.a.)	41,124	50,112	55,200	74,636
Actual Production	29,158	35,540	37,514	36,709
% Utilisation rate (%)	70.9	70.9	68.0	65.9
<b>Samut Sakhon</b>				
Full Capacity (p.a.)	57,099	56,606	72,314	98,150
Actual Production	53,809	56,302	67,064	58,647
% Utilisation rate (%)	94.2	99.5	92.7	79.3
<b>Total</b>				
Full Capacity (p.a.)	98,222	106,718	127,514	172,786
Actual Production	82,967	91,843	104,578	95,356
% Utilisation rate (%)	84.5	86.1	82.0	73.5

Source: ITC

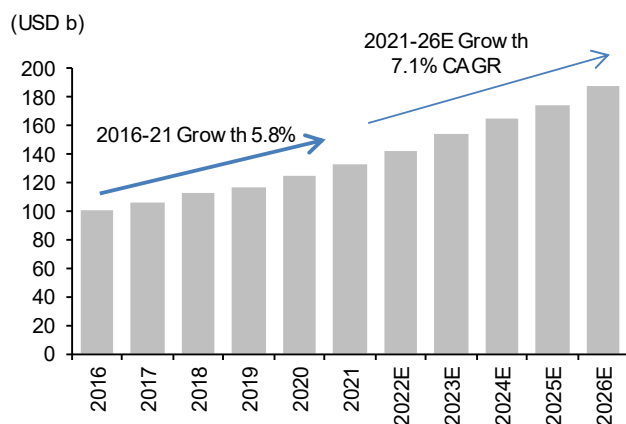
## Pet food market’s value poised for a 7.1% CAGR in the next five years

The global pet food market has remained strong over the last six years (2016-2021), growing at a 5.8% CAGR to US\$133b in 2021. According to Frost & Sullivan, its market value should continue to grow at a 7.1% CAGR to US\$187b by 2026.

Growth drivers include the global trend of pet humanisation, and aging societies, with the elderly increasingly keeping pets as their companion. Second, there is a greater bond between owners and their pets. This means they pay more attention to their pet's health, are more selective and willing to pay more for quality food which has a high nutritional value and is safe for their pet. In this regard, the two crucial behaviors in selecting pet food include the selection of human-grade food and the trend towards finished products that are easy and convenient for busy people to feed their pet.

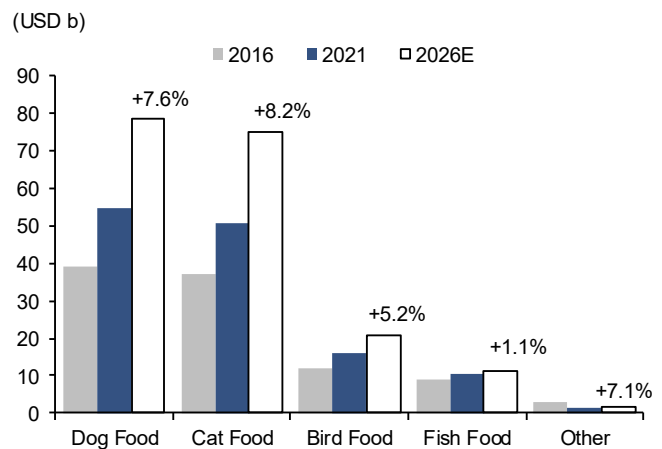
According to Frost & Sullivan, dog food has the highest share at 41% of the global pet food market value in 2021, followed by cat food (38%), and the rest (21%) is for birds, fish, and others. In the next five years, cat food has an estimated 8.2% CAGR, followed by dog food (7.6%). Hence, the picture should remain unchanged, with dogs and cats potentially accounting for 82% of the overall market share in 2026 due to increased ownership and higher spending on premium and healthy pet food.

**Exhibit 9: 2021-26E global pet food market value**



Source: ITC (Frost & Sullivan)

**Exhibit 10: 2021-26E CAGR by product type**



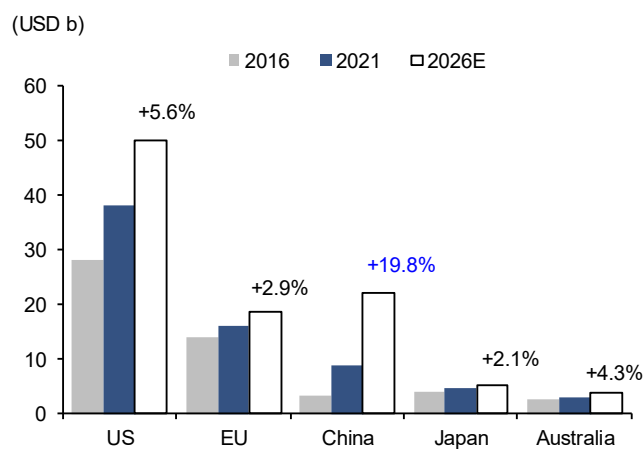
Source: ITC (Frost & Sullivan)



## Pet food sales should grow in all markets, particularly China

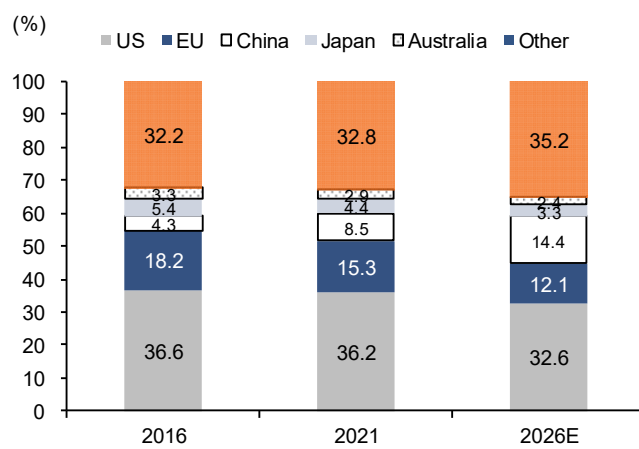
The US has the world's highest dog and cat food market value, with a market share equal to 36.2% of the global market in 2021, followed by the EU (15.3%), China (8.5%), Japan (4.4%), and Australia (2.9%). Together, these countries have a combined market share of 67.2%. According to Frost & Sullivan, China's dog and cat food market should record the highest gains, with a 19.8% CAGR in the next five years, followed by the US (5.6%). As a result, China would rank second with a market share of 14.4% in 2026. Although the US would remain the top market, its share would decrease to 32.6%, while the EU would come third at 12.1%.

**Exhibit 11: Dog & cat food market value growth**



Source: ITC (Frost & Sullivan)

**Exhibit 12: Share of dog & cat food market value by country**



Source: ITC (Frost & Sullivan)

**Exhibit 13: The pet food growth outlook in five notable markets**

Market	2021-26E CAGR	Characteristics	Growth drivers
<b>China</b>	<b>19.8%</b>	In 2021, dog food accounted for 55% of the pet food market by value, higher than cat food (45%). Domestic producers dominate the market with multi-national companies, such as MARS and Nestle holding just a small market share. It has the highest growth potential.	Since China has the world's highest population, the number of pets should increase due to the low base. Other factors include urban dwellers' increased household income and pet owners' changing preference towards packaged pet food. As a result, the market has high future growth potential. Since cat food should grow at a higher rate, its market value should be close to that of dogs at 50% in 2026.
<b>US</b>	<b>5.6%</b>	The US has the highest market share due to Americans' long-standing cultural affinity for pets. The dog food market share is 2.8x times larger than for cat food.	Since households with pets increased to 68% of total, the number of pets has surged. Also, pet owners give more importance to quality and premium pet food.
<b>Australia</b>	<b>4.3%</b>	Dogs are more popular than cats. Given their large houses, Australians have a high demand for human-like pet food since they treat their pets as family members.	Premium pet food has high growth potential. The dog food market value should record a 4.7% CAGR in the next five years, higher than that of cats, which should have a 1.9% CAGR.
<b>Europe</b>	<b>2.9%</b>	The EU is the world's second-largest pet food market by value and the largest for wet pet food. Pet food in Europe has a wide variety. The share of dog and cat food is evenly split at 50%. Also, pet owners give importance to raw materials, environmental impact, and safety.	The UK, Germany, and France are crucial markets in Europe. High household income means they have high purchasing power. Also, they are more likely to buy premium pet food made from natural ingredients.
<b>Japan</b>	<b>2.1%</b>	Japan had 8.5m dogs in 2020, down from 9.3m in 2016. In contrast, cats increased to 9.6m from 9.3m in 2016. As a result, the cat food market's value surpassed that of dogs at 54%:46%. However, growth should decrease.	Although growth is trending lower, it should continue at a 2.1% CAGR. Japan is an attractive market for high-margin premium pet food and nutrition therapy for pets.

Sources: ITC, FSSIA's compilation



## Thailand is the world's third-largest pet food exporter

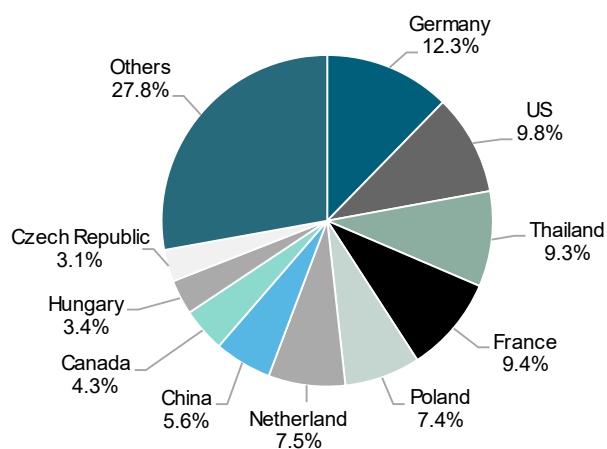
According to the Thai Pet Food Trade Association (TPFA), Thailand is one of the world's leading cat and dog food exporters. In 2021, it surpassed France to rank third in the world with a market share of 9.7%, up from fourth place (9.3%) in 2020, behind Germany (12.6%) and the US (9.8%). The world's top five exporters have a combined market share of 49.2% of global cat and dog food exports in terms of value. Also, only two Asian countries, Thailand (3) and China (7) are among the world's top 10 pet food exporters. More impressively, the value of Thai pet food exports in 2020-21 grew by 18.8% and 24.4%, respectively. This exceeded the growth in global pet food exports of 16.5% and 19.6% over the same period and contributed to the country's higher global market share.

**Exhibit 14: Global cat and dog food exports by value**

Country	Export Value			% Growth		% Share	
	2019 (USD m)	2020 (USD m)	2021 (USD m)	2020 (%)	2021 (%)	2020 (%)	2021 (%)
- Germany	1,819	2,176	2,656	19.6	22.1	12.3	12.6
- US	1,631	1,725	2,072	5.8	20.1	9.8	9.8
- Thailand	1,385	1,646	2,048	18.8	24.4	9.3	9.7
- France	1,535	1,660	1,994	8.1	20.2	9.4	9.5
- Poland	1,017	1,312	1,600	29.0	22.0	7.4	7.6
- Netherland	1,197	1,319	1,476	10.2	11.9	7.5	7.0
- China	855	984	1,221	15.1	24.0	5.6	5.8
- Canada	599	750	839	25.2	11.9	4.3	4.0
- Hungary	556	603	709	8.5	17.6	3.4	3.4
- Czech Republic	412	552	689	34.0	24.8	3.1	3.3
<b>Top 10 Countries</b>	<b>11,007</b>	<b>12,725</b>	<b>15,305</b>	<b>15.6</b>	<b>20.3</b>	<b>72.2</b>	<b>72.6</b>
Others	4,123	4,899	5,773	18.8	17.8	27.8	27.4
<b>Total</b>	<b>15,129</b>	<b>17,624</b>	<b>21,079</b>	<b>16.5</b>	<b>19.6</b>	<b>100.0</b>	<b>100.0</b>

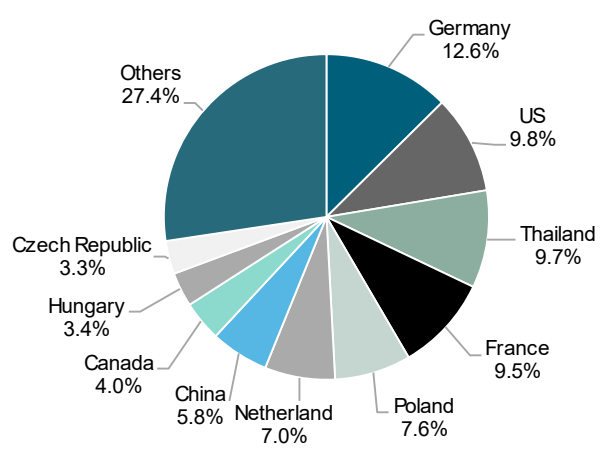
Sources: Thai Pet Food Trade Association, Trademap.org, FSSIA

**Exhibit 15: Cat & dog food market share by export value (2021)**



Sources: Thai Pet Food Trade Association, Trademap.org

**Exhibit 16: Cat & dog food market share by export value (2022)**



Sources: Thai Pet Food Trade Association, Trademap.org

## ITC is Thailand's top pet food manufacturer in terms of revenue and profit

Thailand's pet food industry competes mainly in the international market, with developed countries dominating market share due to their sharply higher tendency towards pet humanisation. Also, Thai pet food subcontractors usually produce mainly for export to international customers. Most started as seafood manufacturers and processors, particularly tuna, and later expanded to produce cat food, which uses tuna and other by-products as raw materials.

The Thai Pet Food Trade Association's current 10 members all started out as tuna manufacturers and processors for export. However, ITC restructured its business to do only pet food, while the remaining nine are OEM companies with revenue structures based on both seafood (tuna) and pet food. However, they are all non-listed companies. Since we cannot access their revenue data, the following financial comparisons are based on estimates. Given the disclosed data available, we think ITC is Thailand's largest pet food manufacturer, with revenue of THB14.5b in 2021. Although it was lower than Unicord's (THB20.9b), Unicord's revenue came mainly from tuna. Also, ITC's profitability is the highest, with a gross margin of 23.1% (vs 13.1% on average) and a net profit margin of 18.7% (vs 6.8% on average). As a result, ITC had a net profit of THB2.72b, the highest among the 10 members.

### Exhibit 17: TPFA members

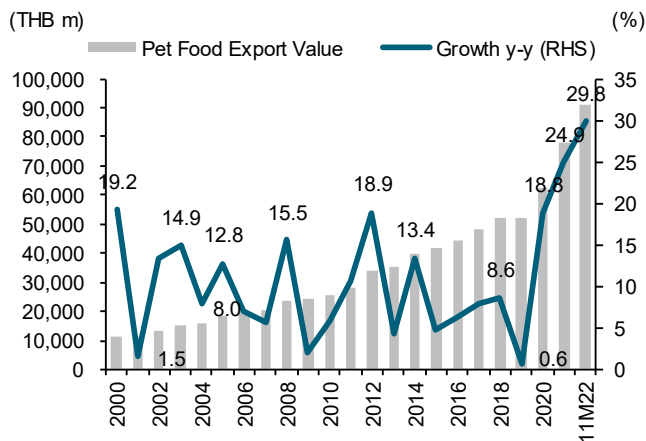
Company	Business	OEM / Brand	Net profit 2021 (THB m)	Sales 2021 (THB m)	Gross margin (%)	SG&A to sale (%)	Net margin (%)	DE Ratio (x)	Current ratio (x)
i-Tail Corporation (ITC)	Pet Food	OEM / Bellotta, Marvo, ChangeTer	2,721	14,529	23.1	6.8	18.7	0.69	1.73
Unicord	Seafood / Pet Food	OEM / Sea Value	1,713	20,948	16.3	6.5	8.2	2.09	1.03
Southeast Asian Packaging and Canning	Seafood / Pet Food	Kingfisher	1,187	9,180	22.5	7.3	12.9	0.20	5.62
Asian Alliance International	Seafood / Pet Food	OEM / Monchou Hajiko	639	4,985	21.5	7.9	12.8	0.52	2.01
I.S.A. Value	Seafood	Unicord / Sea Value	231	5,115	4.8	4.1	4.5	1.75	0.95
Chotiwat Manufacturing	Seafood / Pet food	OEM	201	5,866	10.3	8.1	3.4	1.55	0.90
Tropical Canning	Seafood / Pet Food	OEM / TCB	148	4,299	9.2	6.5	3.4	0.46	2.91
MPP International	Seafood / Pet Food	OEM	124	2,500	9.6	9.2	5.0	2.06	1.28
Pataya Food Industries	Seafood / Pet Food	Nautilus / Regalos	102	6,724	7.6	7.3	1.5	1.01	1.68
Siam International Food	Seafood / Pet Food	OEM	(72)	3,883	6.3	6.6	(1.9)	5.05	1.40
<b>Average</b>					<b>13.1</b>	<b>7.0</b>	<b>6.8</b>	<b>1.54</b>	<b>1.95</b>

Sources: Thai Pet Food Trade Association, Data Warehouse, FSSIA

## Thailand's pet food export growth continues as 11M22 exports sharply accelerate

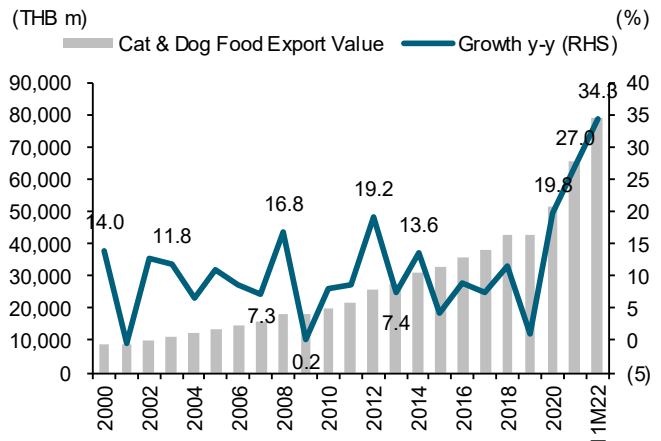
Over the past 10 years (2012-21), the value of Thailand's pet food exports grew continuously at a 9.7% CAGR from THB33.7bn in 2012 to THB77.8bn in 2021. However, the value of cat and dog food exports recorded a higher 11% CAGR over the same period from THB25.6bn in 2012 to THB65.3bn in 2021, representing 84% of the total value of pet food exports. During 2020-2021, amid the Covid-19 pandemic, we saw a trend of people keeping more pets, and pet owners hoarding not only human food but also pet food in large quantities. This caused the y-y value of Thai pet food exports in 2020-21 to jump by 18.8% and 24.9%, respectively. Since the number of households with pets increased, Thailand's pet food export growth continued in 2022, with the 11M22 export value of pet food and cat & dog food accelerating by +29.8% y-y and +34.3% y-y, respectively.

Exhibit 18: Thailand's pet food exports by value



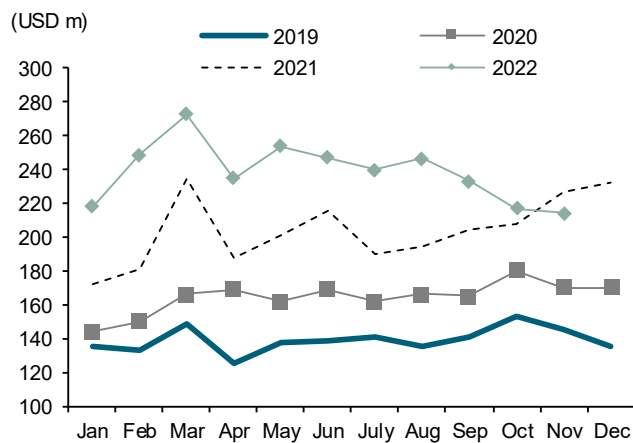
Source: Tradereport.moc.go.th

Exhibit 19: Thailand's cat & dog food exports by value



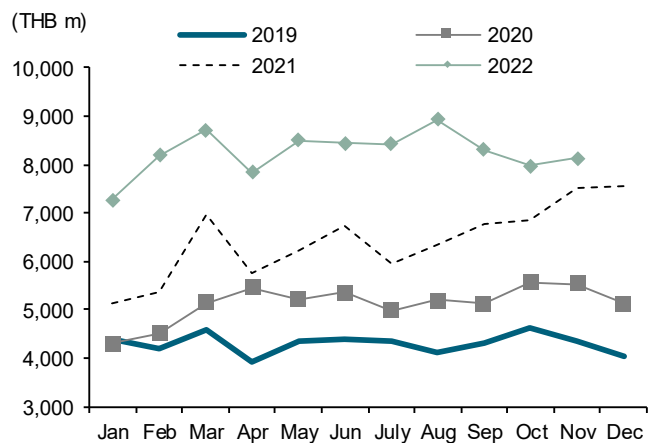
Source: Tradereport.moc.go.th

Exhibit 20: Thailand's monthly pet food exports by value in USD



Source: Ministry of Commerce

Exhibit 21: Thailand's monthly pet food exports by value in THB



Source: Ministry of Commerce

## Expect ITC's 4Q22 revenue to rise faster y-y than Thailand's pet food exports

We forecast a 4Q22 net profit of THB864m (-41.2% q-q, +47% y-y), down q-q in line with the industry's low season. Revenue growth in USD terms should be solid at 13% y-y and exceed the 4QTD value of Thai pet food exports which dropped by 0.8% over the same period. We think the revenue improvement will be driven by new product orders by existing customers and new customers. In terms of profitability, we estimate that ITC's GPM will decrease to 24.0% (vs 25.4% in 3Q22), due to THB appreciation and the lower utilisation rate. Also, SG&A expense should increase both q-q and y-y, due to the higher IPO-related expenses. Overall, ITC's earnings in 4Q22 should be better than our previous expectation.

### Exhibit 19: 4Q22 results preview

	4Q21	1Q22	2Q22	3Q22	4Q22E	Change		2021	2022E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(THB m)	(y-y%)
Sales	4,152	4,307	5,400	6,122	5,081	(17.0)	22.4	14,529	20,910	43.9
Cost of sales	3,237	3,283	3,877	4,570	3,862	(15.5)	19.3	11,173	15,592	39.6
Gross profit	915	1,024	1,522	1,552	1,219	(21.4)	33.3	3,356	5,318	58.5
SG&A	337	265	312	321	406	26.6	20.7	982	1,304	32.9
Operating profit	602	807	1,244	1,289	833	(35.4)	38.4	2,495	4,173	67.3
Interest expense	7	8	13	31	30	(2.0)	339.6	32	83	159.7
Tax expense	18	-74	60	17	24	41.0	30.9	28	27	(1.5)
Other gain (loss)	11	35	179	227	85	(62.6)	668.7	285	526	84.3
Reported net profit	588	908	1,349	1,468	864	(41.2)	47.0	2,721	4,589	68.7
Core profit	577	874	1,170	1,241	779	(37.2)	35.1	2,451	4,063	65.8
<b>Key ratio (%)</b>						<b>(ppt)</b>	<b>(ppt)</b>			
Gross margin	22.0	23.8	28.2	25.4	24.0	(1.4)	2.0	23.1	25.4	2.3
SG&A / sales	8.1	6.2	5.8	5.2	8.0	2.8	(0.1)	6.8	6.2	(0.5)
Operating margin	14.5	18.7	23.0	21.0	16.4	(4.7)	1.9	17.2	20.0	2.8
Net margin	14.2	21.1	25.0	24.0	17.0	(7.0)	2.8	18.7	21.9	3.2
Norm margin	13.9	20.3	21.7	20.3	15.3	(4.9)	1.4	16.9	19.4	2.6
<b>Operating statistics (THB m)</b>										
Cat food sales	3,038	3,015	3,953	4,429	3,693	(16.6)	21.5	83,887	104,501	24.6
Dog food sales	281	496	695	676	351	(48.1)	25.0	11,967	15,465	29.2
Treat sales	814	775	728	989	1,018	2.9	25.0	6,967	7,904	13.4
THB/USD	33	33	34	36	36	(0.2)	8.8	31	35	11.9
Tuna price (USD/ton)	1,283	1,323	1,400	1,617	1,717	6.2	33.8	1,406	1,663	18.3

Sources: ITC, FSSIA Estimates

## Solid volume growth should offset higher THB in 2023

Management set its 2023 revenue growth target at 17% y-y, driven by the industry's strength after many years of pet population growth, full revenue cognition from new customers last year, and new customers this year. We expect 2023 revenue growth to rise 11% y-y to THB2.3b, based on solid order volumes from new US customers and China's accelerating demand. We have a conservative view on FX volatility, and assume an exchange rate of THB33/USD, up 5.7% y-y. We believe solid volume growth combined with declining costs and SG&A expenses should offset the potentially higher THB.

We project ITC's 2022-23 core profit growth (excluding FX gains) at 65.8% y-y and 16.8% y-y, respectively, based on the following drivers:

- 1) We expect the wet pet food market to record double-digit growth in the next five years. In particular, wet cat and dog food should jump at a 10% and 12.3% CAGR, respectively. Similarly, pet treats should record high growth (cat +10.4% and dog +11.3% CAGR). This would benefit ITC due to its focus on wet pet food and treats.
- 2) With the Covid-19 situation and the container shortage easing, we expect revenue growth in 2022-23 of 43.9% and 11%, respectively, assuming an exchange rate of THB33/USD.
- 3) We expect ITC's gross margin to increase from 23.1% in 2021 to 25.4% in 2022 and return to the near pre-Covid level of 25.6% in 2023 due to the easing of Covid restrictions, declining raw material and packaging costs, and higher premium product sales.
- 4) We project expenses to increase in line with revenue growth. Also, certain one-time items, such as advisory service fees, should continue. However, revenue growth should offset the increases. Furthermore, transport costs should decrease in line with lower freight container charges. ITC's CIF sales (where it was responsible for transport) account for only about 10%-12% of its total sales, while 88%-90% were FOB sales (where customers were responsible for freight fees). Hence, we assume that the SG&A-to-sales ratio should plummet to 6.2% in 2022 from 6.8% in 2021. In 2023, this figure should decrease to 5.8% after the IPO-related expenses disappear.
- 5) We forecast that the interest burden will decrease after ITC uses the proceeds from its IPO to repay some of its loans.
- 6) We expect the tax rate to remain low at 1% from Thailand's Board of Investment (BOI) privileges.

### Exhibit 20: ITC's key assumptions

Assumptions	Forecast			Growth		
	2022E	2023E	2024E	2022E (%)	2023E (%)	2024E (%)
Total capacity (tons)	172,786	194,872	206,627	35.5	12.8	6.0
Utilisation rate (%)	74.1	75.9	80.5	(7.9)	1.8	4.6
Total sale volume (tons)	128,097	147,901	166,295	22.5	15.5	12.4
FX rate (THB/USD)	35.0	33.0	33.0	11.9	(5.7)	0.0
<b>Total Sales Values (THB m)</b>	<b>20,910</b>	<b>23,210</b>	<b>26,152</b>	<b>43.9</b>	<b>11.0</b>	<b>12.7</b>
-Cat food	15,090	16,835	18,939	40.9	11.6	12.5
-Dog food	2,218	2,429	2,721	34.2	9.5	12.0
-Treats	3,510	3,860	4,401	63.4	10.0	14.0
Gross profit (THB m)	5,318	5,942	6,747	58.5	11.7	13.6
<b>Gross margin (%)</b>	<b>25.4</b>	<b>25.6</b>	<b>25.8</b>	<b>2.3</b>	<b>0.2</b>	<b>0.2</b>
SG&A expenses (THB m)	1,304	1,346	1,517	32.9	3.2	12.7
SG&A to sales (%)	6.2	5.8	5.8	(0.5)	(0.4)	0.0
<b>Report net profit (THB m)</b>	<b>4,589</b>	<b>4,747</b>	<b>5,385</b>	<b>68.7</b>	<b>3.4</b>	<b>13.4</b>
Net margin (%)	21.9	20.5	20.6	3.2	(1.5)	0.1
<b>Core profit (THB m)</b>	<b>4,063</b>	<b>4,747</b>	<b>5,385</b>	<b>65.8</b>	<b>16.8</b>	<b>13.4</b>
Norm margin (%)	19.4	20.5	20.6	2.6	1.0	0.1

Source: FSSIA Estimates

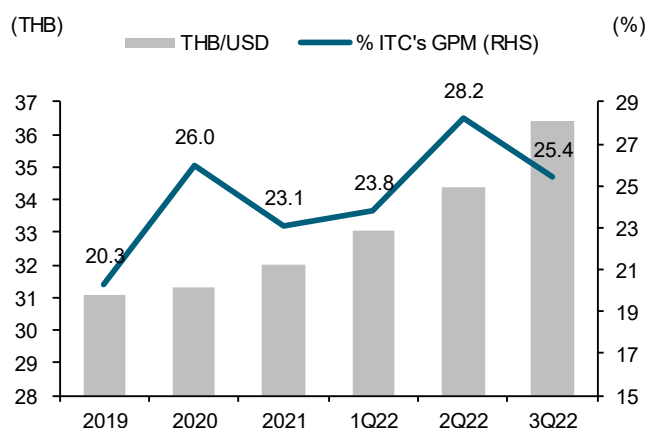
## Sensitivity analysis to estimate the impacts of THB strength and cost increases

### #1: Stronger THB vs USD

ITC earns its revenue mainly from exports. Sales in USD represent c93%-95% of its total revenue. In 2021, c93.6% of sales and c28.2% of its purchases of imported raw materials, ingredients, and packaging were in USD. This means that ITC has a natural hedge against currency fluctuations. Based on our analysis, if the THB increases by THB1/USD, ceteris paribus, we estimate 2023 net profit would fall by 10%.

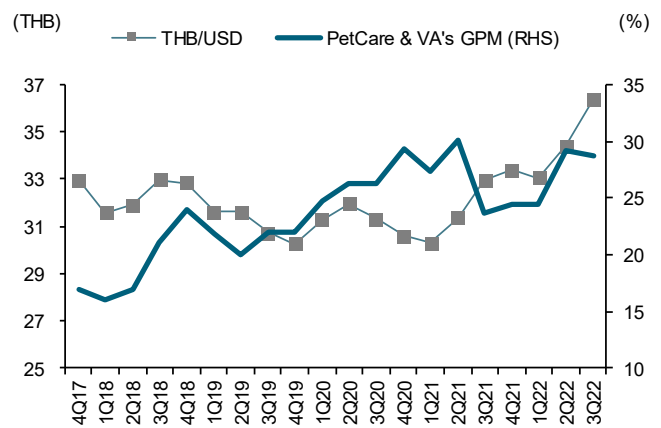
However, ITC should see limited actual impacts since it utilises financial instruments to protect against FX risks. To make a better analysis, we looked at the quarterly gross margin of TU's PetCare & Value Added units and found that when the THB sharply increased in 3Q18-4Q19, they still managed to expand their gross margin. Similarly, the gross margin also diverged and hit a new high during the THB's strength in 2Q20-1Q21.

Exhibit 21: THB/USD vs ITC's GPM



Sources: ITC, Bloomberg

Exhibit 22: THB/USD vs TU's PetCare & Value Added GPM



Sources: TU, Bloomberg

Exhibit 23: FX sensitivity to 2023 earnings and target price

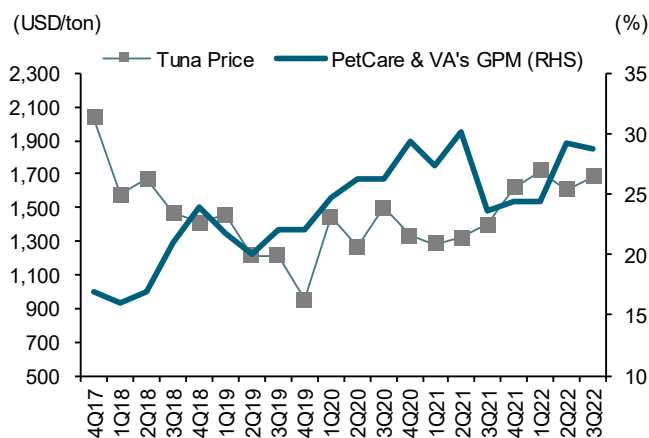
THB/USD	Net Profit (THB m)	EPS (THB)	TP 2023 (THB)
33	4,747	1.58	40
32	4,272	1.42	36
31	3,798	1.27	32
30	3,323	1.11	28

Source: FSSIA estimates

**#2: Higher tuna prices**

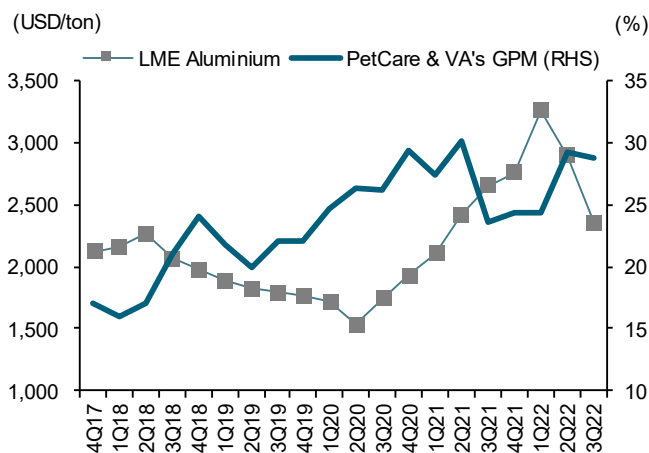
Tuna, as ITC's most important raw material, accounted for 48.7% of the value its total raw materials purchases in 2021. Although ITC has an edge from being a member of the TU group, which gives it a cost advantage compared to its rivals, tuna is a commodity, which means that its price rises and falls in line with supply and demand each year. Also, there is an impact from fishing costs. In 2022, tuna's average price was US\$1,667 per ton. It jumped by 18.6% y-y, in line with inflation and higher oil prices, which drive up trawlers' costs. Based on our sensitivity analysis, every 10% change in tuna prices, while other factors remain unchanged, affects gross margin by 1.8% and net profit by 8.5%. However, ITC implements a cost-plus pricing policy. Also, its pet food is a premium product. If the manufacturing cost significantly changes, we believe ITC could negotiate price increases with its customers. According to management, prices are discussed quarterly, semi-annually, and annually, depending on customer sales agreements.

**Exhibit 24: Tuna price vs TU's PetCare & Value Added's GPM**



Source: TU

**Exhibit 25: Aluminium vs TU's PetCare & Value Added's GPM**



Sources: TU, Bloomberg

**#3: Higher aluminum prices**

ITC has several types of packaging, including aluminum cans. In 1H22, the LME aluminum price sharply increased to an average of US\$3,075/ton (+36.1% y-y) after the Russia-Ukraine war. However, it decreased in 3Q22 to a YTD average of US\$2,357/tons (-11.1% y-y). Based on our sensitivity analysis, every 10% increase in the LME aluminum price, ceteris paribus, will affect the gross margin by 0.6% and net profit by 2.9%. However, ITC manages this cost well, and purchases some aluminum from APC, a member of the TU group that negotiates prices every quarter. Also, ITC's high production efficiency means that although the LME aluminum price surged to a new high in 1H22, ITC still reported a higher gross margin of 26.2%, up from 23% in 2021.



**#4: Minimum wage hikes**

At the end of 2021, ITC had 10,779 employees. Of the total, 9,179 were on the production lines, representing 85% of its workforce. Given that personnel expenses accounted for c19.1% of the cost of goods sold in 2021, based on our analysis, a 5% minimum wage increase, while other factors remain unchanged, would cause net profit to fall by c2.4%. However, ITC usually pays above the minimum wage since it requires skilled labor to butcher fish and remove fish bones on its pet food production lines. Hence, we expect limited impacts from minimum wage hikes. More importantly, ITC plans to utilise more automation to increase production efficiency and reduce labor dependency. For example, it has scheduled the installation of a retort sterilising machine which is currently undergoing tests. Also, ITC plans to install automated storage and retrieval systems (ASRS) in the warehouses at both factories.

**Exhibit 26: Impacts on profit from increased costs and THB strength (ceteris paribus)**

Raw Materials and Packaging	% Raw materials and packaging purchased 2021 (%)	% COGS increase (%)	Impact on GPM (%)	% Effect on NP (%)
A tuna price increase of 10%	69.7	2.4	1.8	8.5
A chicken price increase of 10%		0.7	0.5	2.4
An aluminum price increase of 10%		0.8	0.6	2.9
Wages	% Labor as COGS 2021	% COGS increase	Impact on GPM	% Effect on NP
A minimum wage hike of 5%	19.1	0.7	0.5	2.4
FX	% USD Sales to total Sales 2021	% USD Cost to total purchased	Change in THB/USD	% Effect on NP
Baht appreciation (THB/USD)	93.6	28.2	1.0	10.0

Source: FSSIA Estimates

## Valuations

Our 2023 TP for ITC at THB40 assumes 25x P/E, based on the average P/E of its two closest global OEM competitors, Yantai China Pet and Petpal Pet Nutrition, which are listed on China's stock exchanges. Yantai and Petpal currently trade at a 2023 P/E of 30.8x and 20.5x, respectively. However, ITC's profitability outlook is better, and we expect a gross margin and net profit margin of 25.6% and 20.5% in 2023, higher than the Bloomberg consensus estimate for Yantai and Petpal of 24.5% and 7.8%, respectively. Although the BBG consensus forecasts their 2023-2024 average net profit growth at 37.7% y-y and 31.7% y-y, which is higher than our profit growth estimate for ITC, this is due mainly to our conservative projections. At the same time, it reflects the pet food growth outlook in China (since about 20%-30% of their revenue is from that country) and the rest of the world.

### Exhibit 27: OEM pet food peer comparisons as of 10 Jan-23

Company	BBG	Rec	Share price			Market Cap	PE		ROE		PBV		EV/ EBITDA	
			Current (LCY)	Target (LCY)	Upside (%)		22E (x)	23E (x)	22E (%)	23E (%)	22E (x)	23E (x)	22E (x)	23E (x)
<b>Thailand</b>														
i-Tail Corporation	ITC TB	BUY	28.25	40.00	42	2,527	12.3	17.7	23.4	17.1	3.1	2.9	14.6	12.0
Asian Sea	ASIAN TB	BUY	14.20	24.70	74	345	10.1	9.4	26.5	25.0	2.5	2.2	8.6	7.8
Thai Union group	TU TB	n/a	16.40	n/a	n/a	2,340	10.4	10.1	12.5	12.1	1.2	1.2	11.2	10.3
Asian Alliance International	AAI TB	n/a	6.75	n/a	n/a	428	17.1	15.4	21.5	17.5	2.9	2.7	14.4	12.4
<b>Thailand average</b>						<b>5,640</b>	<b>12.5</b>	<b>13.2</b>	<b>21.0</b>	<b>17.9</b>	<b>2.4</b>	<b>2.2</b>	<b>12.2</b>	<b>10.6</b>
<b>Regional</b>														
Yantai China Pet Foods	002891 CH	n/a	22.97	n/a	n/a	996	42.9	30.8	7.8	9.8	3.4	2.9	23.9	17.7
Petpal Pet Nutrition	300673 CH	n/a	18.02	n/a	n/a	673	24.1	20.5	10.1	10.6	2.4	2.1	17.2	13.7
Wenzhou Wen Toys	001222 CH	n/a	25.12	n/a	n/a	505	17.2	14.4	18.4	16.5	2.9	2.3	14.6	11.0
Nestle	NESN SW	n/a	111.62	n/a	n/a	330,227	23.2	21.7	25.2	29.3	6.4	6.4	18.0	17.1
JM Smucker	SJM US	n/a	160.33	n/a	n/a	17,097	18.8	18.6	11.0	10.5	2.0	2.0	13.4	13.7
General Mills	GIS US	n/a	84.68	n/a	n/a	49,928	22.1	20.4	23.5	23.3	5.2	4.8	16.5	15.6
Petco Health and Wellness	WOOF US	n/a	10.12	n/a	n/a	2,691	11.6	13.3	10.8	8.8	1.2	1.1	7.2	7.2
Spectrum Brands Holdings	SPB US	n/a	64.88	n/a	n/a	2,646	62.6	39.4	3.4	4.5	2.2	2.0	19.4	17.9
Swedencare	SECARE SS	n/a	31.13	n/a	n/a	469	28.1	25.5	3.6	2.7	0.7	0.7	15.7	11.5
Pets at Home	PETS LN	n/a	311.00	n/a	n/a	1,837	14.0	14.9	10.1	9.6	1.5	1.5	7.1	7.4
<b>Regional average</b>						<b>407,071</b>	<b>26.5</b>	<b>22.0</b>	<b>12.4</b>	<b>12.6</b>	<b>2.8</b>	<b>2.6</b>	<b>15.3</b>	<b>13.3</b>
<b>Overall average</b>						<b>412,711</b>	<b>22.5</b>	<b>19.5</b>	<b>14.8</b>	<b>14.1</b>	<b>2.7</b>	<b>2.5</b>	<b>14.4</b>	<b>12.5</b>

Sources: Bloomberg, FSSIA Estimates

## Corporate Governance – ITC

### Board structure

Independent Directors (ID)	4 of 11 board members, 1 ID female
Percentage of IDs on the board	36.4%
ID attendance at board meetings	100% in 2021 and 93.4% in 9M22
ID in audit/remuneration committee	3/3 in audit committee (no remuneration committee)
ID terms	Nine years consecutively, but can be re-elected by the Board's justification

Additional information: Board comprises at least five directors, maximum of twelve and at least three must be ID. If the chairman of the board is not ID, ITC must appoint one of the ID to be involved in determining meeting agenda to ensure a balance of power between the board and the management team. Currently, the chairman is not ID and four of 11 board members are executives of Thai Union Group (TU TB), the parent company.

Source: [ITC filing](#)

### Compensation and remuneration

Directors' remuneration vs earnings/ROE/share performance	None in 2021, and THB3.4m in 9M22
Changes/stability in senior management	None
Incidents of termination of senior management	None
Track record on insider sales	None

Additional information: [CG one report on filing](#)

### ESG and sustainability management

i-Tail adopted Thai Union Group's global sustainability strategy – SeaChange®, an integrated plan of initiatives organised into four main pillars to achieve long-term sustainability through safe & legal labor, responsible sourcing, responsible operations, and people & communities. ITC's ESG policies are defined by nine principles including corporate governance, anti-corruption, respect for human rights, fair treatment of labor, responsibility to customers and consumers, environmental responsibility, contribution to community and the development of society, applying innovations derived from operations to benefit the environment and stakeholders, and social responsibility reporting. Since the company has just listed on the SET, activities and practices shall be detailed in the 2022 report. Below are partial key material issues with explicit actions to counter.

Materiality issues	Activities and practice
Competitive advantage	Based on <a href="#">Frost &amp; Sullivan</a> , ITC is one of the top 10 pet food manufacturers in the world, and one of the few players globally with expertise in fish-based wet pet food. ITC is the OEM partner of choice for many leading global pet brand owners and retailers in more than forty-five countries. As a one-stop OEM service for clients, ITC co-creates tailor-made solutions alongside its customers. The process is supported by its robust innovation ecosystem, which creates nutritious and appetising new products, as well as ITC proprietary manufacturing know-how and raw material procurement capabilities. Another advantage is having extensive geographic presences in the US, EU & UK, Japan, China, and Thailand. In 2021, sales in the first three markets accounted for 44.9%, 19.4%, and 14.5% of total revenue.
Product quality and food safety	ITC employs relevant industry standards, both locally and internationally accepted to control product quality throughout the manufacturing process such as Good Manufacturing Practice (GMP), Hazard Analysis Critical Control Point (HACCP), BRC Global Standard for Food Safety by the British Retail Consortium, The Association of American Feed Control Officials (AAFCO), The European Pet Food Industry Federation (FEDIAF), and The Pet Food Industry Association of Australia (PFIAA).
Labor shortage	ITC operates a labor-intensive business. At end of 3Q22, there were 10,598 employees on its production line, 57.9% of which were foreign workers and skilled labor required for the preparation of raw materials. Approximately 16.7%-18.5% of its costs are wages and there is no labor union. Since operations began, there has not been any issue regarding labor that has caused operations to be suspended but the company is aware of the potential adverse impact should there be one.
Over-reliance on few customers	During 2019-2021, three customers contributed approximately 54%-57% of ITC's revenues. The market expansion in China, in our view, is expected to help relieve this issue. China's growing cat and dog food market is the nearest opportunity to extend its revenue base. In a Stock Exchange of Thailand announcement, the company said capital from the proceeds of ITC's recent THB21.12b (USD608.3m) IPO will be used to establish new businesses in Shanghai, China, and Utrecht in the Netherlands. The operations will not manufacture pet-food but import, sell and distribute products made in Thailand.
Innovation	Innovations will help sustain the business, as the pet food business is heavily subject to dynamic consumer preference. In the past three years and 9M22, ITC spent THB57.4m, 74.3m, 62.2m, and 50.5m, respectively in R&D and will certainly continue to enhance customer satisfaction.

Additional information: [ITC filing](#)

### Audit Practices

Auditor	PricewaterhouseCoopers ABAS Ltd.
Length of service	Since 2019*
Reporting incidents	None
Fee track record	n/a
Policy on change of audit firm	To review every seven years

Additional information: \*Based on data available in the filing.

### Shareholders' rights

Practice	Activity
Communication - shareholder participation in AGMs/EGMs	AGM once annually, EGM when appropriate and in accordance with SEC guidelines
Related party transactions	In accordance with SEC guidelines
Voting issues - policies, incidents of rejected proposals	None

Additional information: None

## Financial Statements

i-Tail Corporation

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Revenue	12,224	14,529	20,910	23,210	26,152
Cost of goods sold	(8,569)	(10,637)	(14,836)	(16,242)	(18,279)
<b>Gross profit</b>	<b>3,656</b>	<b>3,892</b>	<b>6,074</b>	<b>6,968</b>	<b>7,873</b>
Other operating income	132	121	160	186	209
Operating costs	(699)	(982)	(1,305)	(1,346)	(1,517)
<b>Operating EBITDA</b>	<b>3,089</b>	<b>3,031</b>	<b>4,929</b>	<b>5,807</b>	<b>6,566</b>
Depreciation	(480)	(536)	(756)	(1,026)	(1,126)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>2,609</b>	<b>2,495</b>	<b>4,173</b>	<b>4,781</b>	<b>5,440</b>
Net financing costs	(37)	(32)	(83)	(1)	(1)
Associates	-	-	-	-	-
Recurring non-operating income	0	0	0	0	0
Non-recurring items	3	285	526	0	0
<b>Profit before tax</b>	<b>2,576</b>	<b>2,749</b>	<b>4,617</b>	<b>4,780</b>	<b>5,439</b>
Tax	(27)	(28)	(27)	(33)	(54)
<b>Profit after tax</b>	<b>2,548</b>	<b>2,721</b>	<b>4,589</b>	<b>4,747</b>	<b>5,385</b>
Minority interests	0	0	0	0	0
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>2,548</b>	<b>2,721</b>	<b>4,589</b>	<b>4,747</b>	<b>5,385</b>
<b>Non-recurring items &amp; goodwill (net)</b>	<b>(3)</b>	<b>(285)</b>	<b>(526)</b>	<b>0</b>	<b>0</b>
<b>Recurring net profit</b>	<b>2,545</b>	<b>2,435</b>	<b>4,063</b>	<b>4,747</b>	<b>5,385</b>
<b>Per share (THB)</b>					
Recurring EPS *	7.07	6.77	2.36	1.58	1.79
Reported EPS	7.08	7.56	2.67	1.58	1.79
DPS	1.50	4.00	1.66	0.95	1.08
Diluted shares (used to calculate per share data)	360	360	1,720	3,000	3,000
<b>Growth</b>					
Revenue (%)	-	18.9	43.9	11.0	12.7
Operating EBITDA (%)	-	(1.9)	62.6	17.8	13.1
Operating EBIT (%)	-	(4.4)	67.3	14.6	13.8
Recurring EPS (%)	-	(4.3)	(65.1)	(33.0)	13.4
Reported EPS (%)	-	6.8	(64.7)	(40.7)	13.4
<b>Operating performance</b>					
Gross margin inc. depreciation (%)	26.0	23.1	25.4	25.6	25.8
Gross margin of key business (%)	26.0	23.1	26.0	26.2	26.4
Operating EBITDA margin (%)	25.3	20.9	23.6	25.0	25.1
Operating EBIT margin (%)	21.3	17.2	20.0	20.6	20.8
Net margin (%)	20.8	16.8	19.4	20.5	20.6
Effective tax rate (%)	1.1	1.0	0.6	0.7	1.0
Dividend payout on recurring profit (%)	21.2	59.1	70.3	60.0	60.0
Interest cover (X)	71.1	78.5	50.6	4,974.3	7,927.3
Inventory days	47.5	98.3	95.6	101.2	100.3
Debtor days	31.6	54.3	49.3	57.0	56.6
Creditor days	24.8	47.0	43.0	45.5	45.1
Operating ROIC (%)	57.7	24.9	32.5	29.5	30.0
ROIC (%)	56.1	24.2	31.3	28.2	28.6
ROE (%)	91.2	39.3	25.6	18.3	19.3
ROA (%)	47.9	22.1	21.4	16.9	17.7
* Pre-exceptional, pre-goodwill and fully diluted					
<b>Revenue by Division (THB m)</b>					
Pet Food	10,649	12,361	17,308	19,264	21,659
Treats	1,554	2,148	3,510	3,860	4,401
Other	21	19	92	86	92

Sources: i-Tail Corporation; FSSIA estimates

## Financial Statements

### i-Tail Corporation

Cash Flow (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Recurring net profit	2,545	2,435	4,063	4,747	5,385
Depreciation	480	536	756	1,026	1,126
Associates & minorities	-	0	0	0	0
Other non-cash items	-	-	-	-	-
Change in working capital	-	(608)	(2,121)	(670)	(856)
<b>Cash flow from operations</b>	-	<b>2,363</b>	<b>2,699</b>	<b>5,103</b>	<b>5,655</b>
Capex - maintenance	-	(1,238)	(2,168)	(2,700)	(1,000)
Capex - new investment	-	0	0	0	0
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	-	(72)	(252)	(174)	(88)
<b>Cash flow from investing</b>	-	<b>(1,310)</b>	<b>(2,421)</b>	<b>(2,874)</b>	<b>(1,088)</b>
Dividends paid	-	(1,257)	(7,476)	(2,848)	(3,231)
Equity finance	-	0	21,000	0	0
Debt finance	-	(860)	(1,228)	(5)	(5)
Other financing cash flows	-	(344)	(499)	11	15
<b>Cash flow from financing</b>	-	<b>(2,462)</b>	<b>11,797</b>	<b>(2,842)</b>	<b>(3,221)</b>
Non-recurring cash flows	-	-	-	-	-
Other adjustments	-	0	0	0	0
<b>Net other adjustments</b>	-	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Movement in cash</b>	-	<b>(1,409)</b>	<b>12,075</b>	<b>(612)</b>	<b>1,346</b>
Free cash flow to firm (FCFF)	-	1,084.90	360.63	2,230.50	4,567.25
Free cash flow to equity (FCFE)	-	(151.76)	(1,449.25)	2,236.04	4,576.28

#### Per share (THB)

FCFF per share	-	0.36	0.12	0.74	1.52
FCFE per share	-	(0.05)	(0.48)	0.75	1.53
Recurring cash flow per share	8.40	8.25	2.80	1.92	2.17

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Tangible fixed assets (gross)	9,321	6,749	8,295	10,075	10,059
Less: Accumulated depreciation	(5,341)	(2,546)	(2,648)	(2,754)	(2,864)
<b>Tangible fixed assets (net)</b>	<b>3,980</b>	<b>4,203</b>	<b>5,647</b>	<b>7,321</b>	<b>7,195</b>
<b>Intangible fixed assets (net)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	-	-	-	-	-
Cash & equivalents	2,112	703	12,777	12,165	13,511
A/C receivable	2,117	2,207	3,437	3,815	4,299
Inventories	2,231	3,498	4,272	4,731	5,316
Other current assets	115	627	418	464	523
<b>Current assets</b>	<b>6,575</b>	<b>7,035</b>	<b>20,905</b>	<b>21,176</b>	<b>23,649</b>
Other assets	198	270	523	696	785
<b>Total assets</b>	<b>10,753</b>	<b>11,508</b>	<b>27,075</b>	<b>29,193</b>	<b>31,629</b>
Common equity	5,583	6,818	24,962	26,861	29,015
Minorities etc.	0	0	0	0	0
<b>Total shareholders' equity</b>	<b>5,583</b>	<b>6,818</b>	<b>24,962</b>	<b>26,861</b>	<b>29,015</b>
Long term debt	2,310	22	17	12	7
Other long-term liabilities	489	604	105	116	131
<b>Long-term liabilities</b>	<b>2,799</b>	<b>626</b>	<b>122</b>	<b>129</b>	<b>138</b>
A/C payable	1,166	1,576	1,922	2,129	2,392
Short term debt	1,168	2,310	5	5	5
Other current liabilities	37	179	63	70	78
<b>Current liabilities</b>	<b>2,371</b>	<b>4,065</b>	<b>1,990</b>	<b>2,204</b>	<b>2,476</b>
<b>Total liabilities and shareholders' equity</b>	<b>10,753</b>	<b>11,508</b>	<b>27,075</b>	<b>29,193</b>	<b>31,629</b>
Net working capital	3,260	4,577	6,142	6,812	7,668
Invested capital	7,438	9,051	12,312	14,829	15,647

\* Includes convertibles and preferred stock which is being treated as debt

#### Per share (THB)

Book value per share	15.51	18.94	8.32	8.95	9.67
Tangible book value per share	15.51	18.94	8.32	8.95	9.67

#### Financial strength

Net debt/equity (%)	24.5	23.9	(51.1)	(45.2)	(46.5)
Net debt/total assets (%)	12.7	14.2	(47.1)	(41.6)	(42.7)
Current ratio (x)	2.8	1.7	10.5	9.6	9.6
CF interest cover (x)	1.0	(3.8)	(16.6)	2,327.4	6,670.2

Valuation	2020	2021	2022E	2023E	2024E
<b>Recurring P/E (x) *</b>	<b>4.0</b>	<b>4.2</b>	<b>12.0</b>	<b>17.9</b>	<b>15.7</b>
<b>Recurring P/E @ target price (x) *</b>	<b>5.7</b>	<b>5.9</b>	<b>16.9</b>	<b>25.3</b>	<b>22.3</b>
Reported P/E (x)	4.0	3.7	10.6	17.9	15.7
Dividend yield (%)	5.3	14.2	5.9	3.4	3.8
Price/book (x)	1.8	1.5	3.4	3.2	2.9
Price/tangible book (x)	1.8	1.5	3.4	3.2	2.9
EV/EBITDA (x) **	3.7	3.9	14.6	12.5	10.9
EV/EBITDA @ target price (x) **	5.1	5.3	21.8	18.6	16.2
EV/invested capital (x)	1.6	1.3	5.8	4.9	4.6

\* Pre-exceptional, pre-goodwill and fully diluted \*\* EBITDA includes associate income and recurring non-operating income

Sources: i-Tail Corporation; FSSIA estimates

## Corporate Governance report of Thai listed companies 2021

EXCELLENT LEVEL – Score range 90-100										
AAV	BPCG	CPALL	GCAP	K	MSC	PLANET	SAMART	SPI	THRE	TVD
ADVANC	BDMS	CPF	GFPT	KBANK	MST	PLAT	SAMTEL	SPRC	THREL	TVI
AF	BEM	CPI	GGC	KCE	MTC	PORT	SAT	SPVI	TIPCO	TVO
AH	BGC	CPN	GLAND	KKP	MVP	PPS	SC	SSSC	TISCO	TWPC
AIRA	BGRIM	CRC	GLOBAL	KSL	NCL	PR9	SCB	SST	TK	U
AKP	BIZ	CSS	GPI	KTB	NEP	PREB	SCC	STA	TKT	UAC
AKR	BKI	DDD	GPSC	KTC	NER	PRG	SCCC	STEC	TMT	UBIS
ALT	BOL	DELTA	GRAMMY	LALIN	NKI	PRM	SCG	STI	TNDT	UV
AMA	BPP	DEMCO	GULF	LANNA	NOBLE	PROUD	SCGP	SUN	TNITY	VGI
AMATA	BRR	DRT	GUNKUL	LH	NSI	PSH	SCM	SUSCO	TOA	VIH
AMATAV	BTS	DTAC	HANA	LHFG	NVD	PSL	SDC	SUTHA	TOP	WACOAL
ANAN	BTW	DUSIT	HARN	LIT	NWR	PTG	SEAFECO	SVI	TPBI	WAVE
AOT	BWG	EA	HMPRO	LPN	NYT	PTT	SEAOIL	SYMC	TQM	WHA
AP	CENTEL	EASTW	ICC	MACO	OISHI	PTTEP	SE-ED	SYNTEC	TRC	WHAUP
ARIP	CFRESH	ECF	ICHI	MAJOR	OR	PTTGC	SELIC	TACC	TRU	WICE
ARROW	CHEWA	ECL	III	MAKRO	ORI	PYLON	SENA	TASCO	TRUE	WINNER
ASP	CHO	EE	ILINK	MALEE	OSP	Q-CON	SHR	TCAP	TSC	ZEN
AUCT	CIMBT	EGCO	ILM	MBK	OTO	QH	SIRI	TEAMG	TSR	
AWC	CK	EPG	INTUCH	MC	PAP	QTC	SIS	TFMAMA	TSTE	
AYUD	CKP	ETC	IP	MCOT	PCSGH	RATCH	SITHAI	TGH	TSTH	
BAFS	CM	FPI	IRPC	METCO	PDG	RS	SMK	THANA	TTA	
BANPU	CNT	FPT	ITEL	MFEC	PDJ	S	SMPC	THANI	TTB	
BAY	COM7	FSMART	IVL	MINT	PG	S & J	SNC	THCOM	TTCL	
BBL	COMAN	GBX	JSP	MONO	PHOL	SAAM	SONIC	THG	TTW	
BCP	COTTO	GC	JWD	MOONG	PLANB	SABINA	SPALI	THIP	TU	
VERY GOOD LEVEL – Score range 80-89										
2S	ASIMAR	CHOW	FLOYD	IT	LOXLEY	OCC	RPC	SKY	TCC	TVT
7UP	ASK	CI	FN	ITD	LRH	OGC	RT	SLP	TCMC	TWP
ABICO	ASN	CIG	FNS	J	LST	PATO	RWI	SMIT	TEAM	UEC
ABM	ATP30	CMC	FORTH	JAS	M	PB	S11	SMT	TFG	UMI
ACE	B	COLOR	FSS	JCK	MATCH	PICO	SA	SNP	TFI	UOBKH
ACG	BA	CPL	FTE	JCKH	MBAX	PIMO	SAK	SO	TIGER	UP
ADB	BAM	CPW	FVC	JMART	MEGA	PJW	SALEE	SORKON	TITLE	UPF
AEONTS	BC	CRD	GEL	JMT	META	PL	SAMCO	SPA	TKN	UPOIC
AGE	BCH	CSC	GENCO	KBS	MFC	PM	SANKO	SPC	TKS	UTP
AHC	BEC	CSP	GJS	KCAR	MGT	PMTA	SAPPE	SPCG	TM	VCOM
AIT	BEYOND	CWT	GYT	KEX	MICRO	PPP	SAWAD	SR	TMC	VL
ALL	BFIT	DCC	HEMP	KGI	MILL	PPPM	SCI	SRICHA	TMD	VPO
ALLA	BJC	DCON	HPT	KIAT	MITSIB	PRIME	SCN	SSC	TMI	VRANDA
ALUCON	BJCHI	DHOUSE	HTC	KISS	MK	PRIN	SCP	SSF	TMILL	WGE
AMANAH	BLA	DOD	HYDRO	KOOL	MODERN	PRINC	SE	STANLY	TNL	WIJK
AMARIN	BR	DOHOME	ICN	KTIS	MTI	PSG	SFLEX	STGT	TNP	WP
APCO	BROOK	DV8	IFS	KUMWEL	NBC	PSTC	SFP	STOWER	TOG	XO
APCS	CBG	EASON	IMH	KUN	NCAP	PT	SFT	STPI	TPA	XPG
APURE	CEN	EFORL	IND	KWC	NCH	QLT	SGF	SUC	TPAC	YUASA
AQUA	CGH	ERW	INET	KWM	NETBAY	RBF	SIAM	SWC	TPCS	
ASAP	CHARAN	ESSO	INSET	L&E	NEX	RCL	SINGER	SYNEX	TPS	
ASEFA	CHAYO	ESTAR	INSURE	LDC	NINE	RICHY	SKE	TAE	TRITN	
ASIA	CHG	ETE	IRC	LEO	NRF	RML	SKN	TAKUNI	TRT	
ASIAN	CHOTI	FE	IRCP	LHK	NTV	ROJNA	SKR	TBSP	TSE	
GOOD LEVEL – Score range 70-79										
A	BGT	CITY	GIFT	JTS	MDX	PK	SGP	SUPER	TQR	YGG
AI	BH	CMAN	GLOCON	JUBILE	MJD	PLE	SICT	SVOA	TTI	ZIGA
AIE	BIG	CMO	GREEN	KASET	MORE	PPM	SIMAT	TC	TYCN	
AJ	BLAND	CMR	GSC	KCM	MUD	PRAKIT	SISB	TCCC	UKEM	
ALPHAX	BM	CPT	GTB	KK	NC	PRAPAT	SK	THMUI	UMS	
AMC	BROCK	CRANE	HTECH	KKC	NDR	PRECHA	SMART	TNH	UNIQ	
APP	BSBM	CSR	HUMAN	KWI	NFC	PTL	SOLAR	TNR	UPA	
AQ	BSM	D	IHL	KYE	NNCL	RJH	SPACK	TOPP	UREKA	
ARIN	BTNC	EKH	IIG	LEE	NOVA	RP	SPG	TPCH	VIBHA	
AS	BYD	EMC	INGRS	LPH	NPK	RPH	SQ	TPIPL	W	
AU	CAZ	EP	INOX	MATI	NUSA	RSP	SSP	TPIPP	WIN	
B52	CCP	F&D	JAK	M-CHAI	PAF	SABUY	STARK	TPLAS	WORK	
BEAUTY	CGD	FMT	JR	MCS	PF	SF	STC	TPOLY	WPH	

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\* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive

Sources: Thai Institute of Directors Association (IOD); FSSIA's compilation; data as of 26 October 2021

## Anti-corruption Progress Indicator

CERTIFIED										
2S	BCH	CPALL	GC	K	MFC	PE	QLT	SNP	THCOM	TU
7UP	BCP	CPF	GCAP	KASET	MFEC	PG	QTC	SORKON	THIP	TVD
ADVANC	BCPG	CPI	GEL	KBANK	MILL	PHOL	RATCH	SPACK	THRE	TVI
AF	BE8	CPN	GFPT	KBS	MINT	PK	RML	SPALI	THREL	TVO
AI	BEYOND	CSC	GGC	KCAR	MONO	PL	RWI	SPC	TIDLOR	TWPC
AIE	BGC	DCC	GJS	KCE	MOONG	PLANB	S & J	SPI	TIPCO	U
AIRA	BGRIM	DELTA	GPI	KGI	MSC	PLANET	SAAM	SPRC	TISCO	UBE
AKP	BJCHI	DEMCO	GPSC	KKP	MST	PLAT	SABINA	SRICHA	TKS	UBIS
ALPHAX	BKI	DIMET	GSTEEL	KSL	MTC	PM	SAPPE	SSF	TKT	UEC
AMA	BLA	DRT	GUNKUL	KTB	MTI	PPP	SAT	SSP	TMD	UKEM
AMANAHA	BPP	DTAC	HANA	KTC	NBC	PPPM	SC	SSSC	TMILL	UOBKH
AMATA	BROOK	DUSIT	HARN	KWC	NEP	PPS	SCB	SST	TMT	UPF
AMATAV	BRR	EA	HEMP	KWI	NINE	PR9	SCC	STA	TNITY	UV
AP	BSBM	EASTW	HENG	L&E	NKI	PREB	SCCC	STOWER	TNL	VGI
APCS	BTS	ECL	HMPRO	LANNA	NMG	PRG	SCG	SUSCO	TNP	VIH
AQUA	BWG	EGCO	HTC	LH	NNCL	PRINC	SCN	SVI	TNR	WACOAL
ARROW	CEN	EP	ICC	LHFG	NOBLE	PRM	SEAOIL	SYMC	TOG	WHA
AS	CENTEL	EPG	ICHI	LHK	NOK	PROS	SE-ED	SYNTEC	TOP	WHAUP
ASIAN	CFRESH	ERW	IFEC	LPN	NSI	PSH	SELIC	TAE	TOPP	WICE
ASK	CGH	ESTAR	IFS	LRH	NWR	PSL	SENA	TAKUNI	TPA	WIIK
ASP	CHEWA	ETE	ILINK	M	OCC	PSTC	SGP	TASCO	TPP	XO
AWC	CHOTI	FE	INET	MAKRO	OGC	PT	SINGER	TBSP	TRU	ZEN
AYUD	CHOW	FNS	INSURE	MALEE	ORI	PTG	SIRI	TCAP	TRUE	
B	CIG	FPI	INTUCH	MATCH	PAP	PTT	SITHAI	TCMC	TSC	
BAFS	CIMBT	FPT	IRC	MBAX	PATO	PTTEP	SKR	TFG	TSTE	
BAM	CM	FSMART	IRPC	MBK	PB	PTTGC	SMIT	TFI	TSTH	
BANPU	CMC	FSS	ITEL	MC	PCSGH	PYLON	SMK	TFMAMA	TTA	
BAY	COM7	FTE	IVL	MCOT	PDG	Q-CON	SMPC	TGH	TTB	
BBL	COTTO	GBX	JKN	META	PDJ	QH	SNC	THANI	TTCL	
DECLARED										
AJ	CHG	DDD	ETC	JR	MAJOR	NUSA	RS	SSS	TQM	YUASA
ALT	CPL	DHOUSE	FLOYD	JTS	NCAP	NYT	SAK	STECH	TSI	ZIGA
APCO	CPR	DOHOME	GULF	KEX	NCL	OR	SCGP	STGT	VARO	
B52	CPW	ECF	III	KUMWEL	NOVA	PIMO	SCM	TKN	VCOM	
BEC	CRC	EKH	INOX	LDC	NRF	PLE	SIS	TMI	VIBHA	

### Level

Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

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Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of 26 October 2021) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Sources: The Securities and Exchange Commission, Thailand; \* FSSIA's compilation



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#### Sureeporn Teewasuwet FSS International Investment Advisory Securities Co., Ltd

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#### History of change in investment rating and/or target price

##### Asian Sea Corporation (ASIAN TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
26-Apr-2021	BUY	18.70	11-Aug-2021	HOLD	21.80	21-Dec-2021	BUY	24.70
12-May-2021	BUY	21.80	20-Sep-2021	BUY	24.10			

Suwat Sinsadok, CFA, FRM, ERP started covering this stock from 26-Apr-2021

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
i-Tail Corporation	ITC TB	THB 28.25	BUY	Downside risks to our PE-based TP include 1) a stronger-than-expected THB against USD; and 2) the high volatility of raw material prices; 3) labor shortages; and 4) changes in consumer demand and lifestyles.
Asian Sea Corporation	ASIAN TB	THB 14.20	BUY	Downside risks to our P/E-based TP would be 1) a stronger-than-expected THB against USD; and 2) the high volatility of raw material prices, such as tuna and squid prices, which could hurt its GPM.

Source: FSSIA estimates

#### Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 10-Jan-2023 unless otherwise stated.

## RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

**BUY (B).** The upside is 10% or more.

**HOLD (H).** The upside or downside is less than 10%.

**REDUCE (R).** The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

**Overweight.** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Neutral.** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Underweight.** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.