

STARFLEX SFLEX TB

THAILAND / PACKAGING

BUY

UNCHANGED

Good acquisition at a good price

- We think its 25% acquisition of SPV, a leading paper-based packaging producer in Vietnam, is a good investment.
- The transaction should be completed in 3Q23.
- Maintain BUY with a TP of THB4.70.

| | |
|-----------------|-----------|
| TARGET PRICE | THB4.70 |
| CLOSE | THB3.30 |
| UP/DOWNSIDE | +42.4% |
| PRIOR TP | THB4.70 |
| CHANGE IN TP | UNCHANGED |
| TP vs CONSENSUS | -3.1% |

KEY STOCK DATA

| YE Dec (THB m) | 2022 | 2023E | 2024E | 2025E |
|----------------------|--------|-------|-------|-------|
| Revenue | 1,669 | 1,802 | 2,001 | 2,143 |
| Net profit | 55 | 160 | 186 | 200 |
| EPS (THB) | 0.07 | 0.20 | 0.23 | 0.24 |
| vs Consensus (%) | - | (2.4) | (2.1) | - |
| EBITDA | 124 | 251 | 289 | 317 |
| Core net profit | 55 | 160 | 186 | 200 |
| Core EPS (THB) | 0.07 | 0.20 | 0.23 | 0.24 |
| Chg. In EPS est. (%) | - | - | - | - |
| EPS growth (%) | (63.1) | 191.1 | 16.3 | 7.5 |
| Core P/E (x) | 49.1 | 16.9 | 14.5 | 13.5 |
| Dividend yield (%) | - | - | - | - |
| EV/EBITDA (x) | 23.2 | 11.3 | 9.5 | 8.6 |
| Price/book (x) | 2.7 | 2.4 | 2.3 | 2.1 |
| Net debt/Equity (%) | 16.3 | 11.2 | 3.3 | 1.4 |
| ROE (%) | 5.7 | 15.2 | 16.1 | 16.1 |

Acquisition of paper-based packaging producer in Vietnam

SFLEX's board of directors approved on 25 April 2023 an investment plan to acquire a 25% stake in Star Print Vietnam JSC (SPV), a folding carton packaging manufacturer in Vietnam. The total investment cost for SFLEX amounts to THB383m (based on the exchange rate as of 22 March 2023). The source of funds for the acquisition will be from bank loans and SFLEX's internal cashflow. The transaction is expected to be completed in 3Q23.

A leading luxury packaging producer with renowned clients

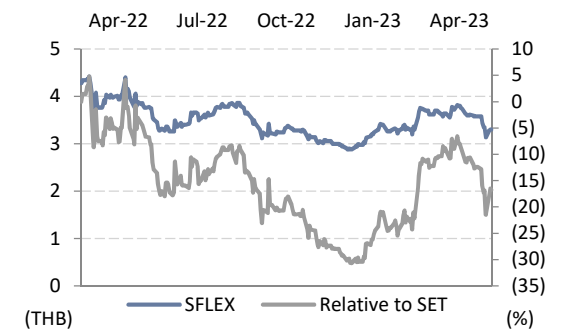
SPV is a leading manufacturer of paper-based commercial packaging in Vietnam. Its main products include folding cartons, rigid and corrugated boxes, carry bags, and other paper packaging. SPV's main customer base covers the entire ASEAN region as well as Australia and New Zealand. During the past three years (2020-2022), SPV grew its sales revenue at a CAGR of 10% to a record THB1.5b in 2022. Its net profit skyrocketed from THB52m in 2020 to THB135m in 2022, implying a net margin of 9.1% in 2022.

Good choice at a good price

We view this transaction as strengthening SFLEX's capability to serve customer needs with a more diversified product range beyond its current soft plastic packaging products. This investment will allow SFLEX to expand to include more overseas business opportunities in the future. We think the acquisition will also boost SFLEX's profit. Based on SPV's 2022 net profit of THB135m, we forecast that SFLEX should benefit from an additional THB25m-30m in annual profit, assuming the 25% acquisition is financed via a 1x D/E ratio.

Maintain BUY with a TP of THB4.70

The acquisition cost implies a P/E of 10.8x SPV's 2022 profit, cheaper than SFLEX's 2023E P/E at 16.9x. We maintain our BUY rating on SFLEX with a TP of THB4.70 based on 24x 2023E P/E, within -0.5SD of its four-year average since listing on the SET. Its share price, currently trading at 16.9x 2023E P/E and only 11.3x 2023E EV/EBITDA (within -1.0SD of its four-year P/E and EV/EBITDA averages) is almost at its lowest level since it was listed on the SET.



| Share price performance | 1 Month | 3 Month | 12 Month |
|--------------------------------|-------------------------------------|---------|----------|
| Absolute (%) | (11.3) | 1.2 | (22.5) |
| Relative to country (%) | (8.5) | 10.2 | (16.6) |
| Mkt cap (USD m) | 77 | | |
| 3m avg. daily turnover (USD m) | 0.1 | | |
| Free float (%) | 0 | | |
| Major shareholder | Mr. Printhorn Apithanasriwong (24%) | | |
| 12m high/low (THB) | 4.54/2.76 | | |
| Issued shares (m) | 820.00 | | |

Sources: Bloomberg consensus; FSSIA estimates


Jitra Amornthum

 jitra.a@fssia.com
 +66 2646 9966

Investment thesis

We think that the 25% acquisition in Star Print Vietnam JSC (SPV), a folding carton packaging manufacturer in Vietnam, is a good investment for SFLEX. This transaction should strengthen SFLEX's capability to serve customer needs with a more diversified product range beyond its current soft plastic packaging products. This investment will allow SFLEX to expand its overseas business opportunities and enhance SFLEX's profit. Based on SPV's 2022 net profit of THB135m, we forecast SFLEX to benefit from THB25m-30m in additional annual net profit.

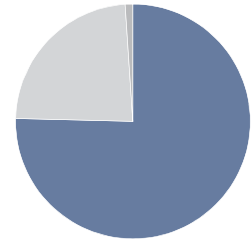
Company profile

Starflex is a leading manufacturer and distributor of flexible packaging in roll form sold mainly to local consumer product suppliers. Its flexible packaging is a multilayer film made from splicing 2-5 layers using glue or resin as a binding material. This results in a rigid film that is resistant to heat and high pressure, lightweight, and capable of having graphic patterns printed on its surface.

www.starflex.co.th

Principal activities (revenue, 2022)

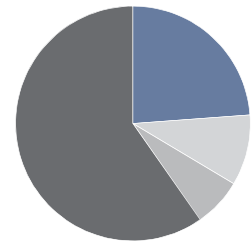
- Non-food packaging - 75.4 %
- Food packaging - 23.5 %
- Others - 1.1 %



Source: Starflex

Major shareholders

- Mr. Printhorn Apithanasriwong - 23.8 %
- Mr. Ek Picharnchitra - 9.8 %
- BTS Group Holdings - 6.7 %
- Others - 59.7 %



Source: Starflex

Catalysts

Key potential catalysts include 1) a broad-based economic recovery; 2) a plunge in oil prices; and 3) baht appreciation.

Risks to our call

Downside risks to our P/E-based TP include 1) a sharp rise in crude oil prices; 2) rising inflation pressuring consumers' purchasing power; and 3) baht depreciation.

Event calendar

| Date | Event |
|----------|---------------------------|
| May 2023 | Annual General Meeting |
| May 2023 | 1Q23 results announcement |

Key assumptions

| | 2023E (THB m) | 2024E (THB m) | 2025E (THB m) |
|--------------------|------------------|------------------|------------------|
| Sales revenue | 1,802 | 2,001 | 2,143 |
| Growth (%) | 8.0 | 11.0 | 7.1 |
| Non-food packaging | 1,359 | 1,501 | 1,607 |
| Growth (%) | 8.0 | 10.5 | 7.1 |
| Food packaging | 436 | 492 | 527 |
| Growth (%) | 11.0 | 12.9 | 7.1 |
| Gross margin (%) | 18.5 | 19.5 | 20.0 |
| SG&A to sales (%) | 9.4 | 9.4 | 9.4 |

Source: FSSIA estimates

Earnings sensitivity

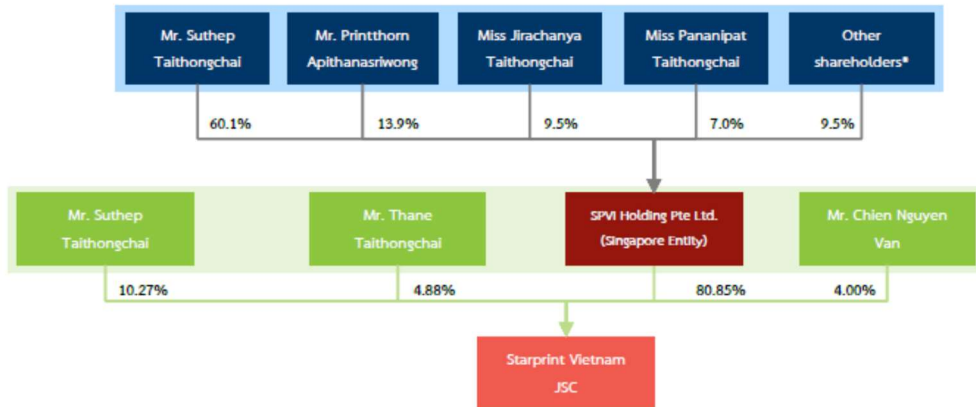
- For every 0.5% change in gross margin, we project SFLEX's 2023 core profit to change by 4.8%, all else being equal.
- For every 0.5% change in SG&A to sales, we project SFLEX's 2023 core profit to change by 4.0%, all else being equal.

Source: FSSIA estimates

Acquisition of a paper-based packaging producer in Vietnam

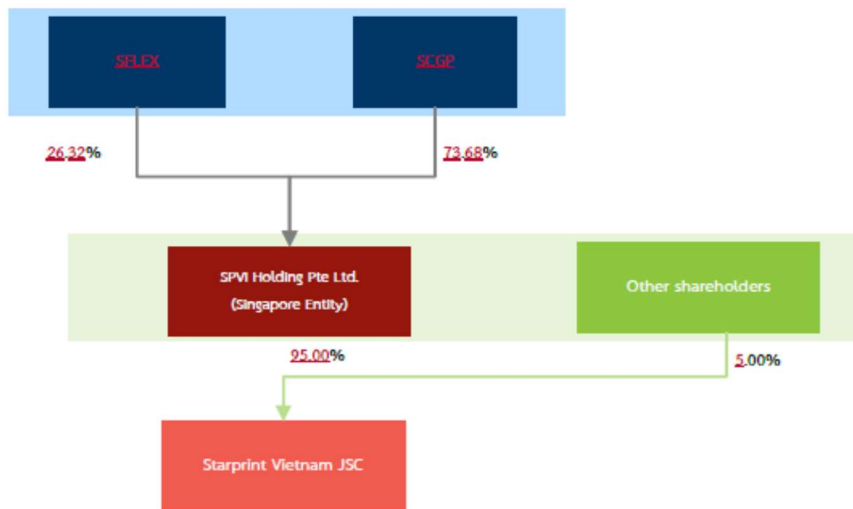
SFLEX’s board of directors approved on 25 April 2023 a joint venture project with SCG Packaging (SCGP TB, not rated) to invest in Star Print Vietnam JSC (SPV), a folding carton packaging manufacturer in Vietnam. SFLEX and SCGP will together acquire a 95% stake in the ordinary shares of SPV from the existing shareholders for a total investment of approximately THB1.46b. Of the 95% stake, SCGP will hold 70% and SFLEX will hold 25% of the total shares of SPV. The transaction is expected to be completed in 3Q23.

Exhibit 1: SPV’s shareholding structure before the transaction



Note: * Other shareholders refer to those who are not related to Mr. Printhorn Apithanasriwong
Source: SFLEX

Exhibit 2: SPV’s shareholding structure after the transaction



Source: SFLEX

Acquisition of leading paper-based packaging company in Vietnam

SPV was founded in 1962 in Thailand and arrived in Vietnam in 2001. The company is a leading manufacturer of paper-based commercial packaging in Vietnam using advanced technologies for printing, coating, and assembly solutions. Its main product portfolio comprises folding cartons, rigid boxes, corrugated boxes, carry bags, and other paper packaging. SPV's main customer base is the high growth and fast-moving consumer product industry covering the entire ASEAN region as well as Australia and New Zealand. Its major clients include Unilever, Colgate, Nestle, P&G, Mondelez, Crayola, Heineken, and Walmart.

SPV has two factories at the Amata Industrial Park, in Bien Hoa, southern Vietnam with a total area of more than 26,000 sq m. The company has a combined capacity of 16,500 tons of offset printing per year and 8 million pieces of rigid boxes per year.

Exhibit 3: Products of SPV



Source: Starprint Vietnam JSC website

During the past three years (2020-2022), SPV grew its sales revenue from THB1.2b in 2020 to THB1.5b in 2022 for a 10% CAGR and an improvement in gross margin from 16.0% in 2020 to 20.9% in 2022. The company's net profit skyrocketed at a CAGR of 61% from THB52m in 2020 to THB135m in 2022, implying net margins of 4.2%/6.4%/9.1% in 2020-2022, respectively. Its financial position is strong with a D/E of only 1.2x at end-2022.

Exhibit 4: Key performances of SPV

| | 2020 | | 2021 | | 2022 | |
|-----------------------------------|------------|------------|------------|------------|------------|------------|
| | (VND m) | (THB m) | (VND m) | (THB m) | (VND m) | (THB m) |
| Profit and Loss Account | | | | | | |
| Sales revenue | 838 | 1,224 | 874 | 1,276 | 1,013 | 1,481 |
| Cost of sales | (704) | (1,028) | (709) | (1,036) | (801) | (1,171) |
| Gross profit | 134 | 196 | 165 | 241 | 212 | 310 |
| SG&A | (73) | (107) | (84) | (122) | (83) | (122) |
| Other income | 3 | 5 | 3 | 4 | 6 | 8 |
| Operating profit | 64 | 94 | 84 | 123 | 135 | 196 |
| Interest expense | (19) | (27) | (16) | (23) | (19) | (27) |
| EBT | 46 | 67 | 68 | 99 | 116 | 169 |
| Tax | (10) | (15) | (12) | (18) | (23) | (34) |
| Net profit | 35 | 52 | 56 | 82 | 92 | 135 |
| Key Ratios (%) | | | | | | |
| Gross margin | 16.0 | 16.0 | 18.9 | 18.9 | 20.9 | 20.9 |
| Operating margin | 7.7 | 7.7 | 9.6 | 9.6 | 13.3 | 13.3 |
| Net margin | 4.2 | 4.2 | 6.4 | 6.4 | 9.1 | 9.1 |
| SG&A / Sales | 8.7 | 8.7 | 9.6 | 9.6 | 8.2 | 8.2 |
| Balance sheet | | | | | | |
| Cash and cash equivalents | 6 | 9 | 9 | 13 | 3 | 5 |
| Trade receivables | 166 | 243 | 134 | 195 | 116 | 170 |
| Inventory | 138 | 201 | 215 | 314 | 208 | 304 |
| Other current assets | 6 | 9 | 11 | 16 | 5 | 8 |
| Fixed assets | 86 | 125 | 51 | 75 | 45 | 66 |
| Other non-current assets | 54 | 79 | 73 | 107 | 63 | 92 |
| Total assets | 456 | 666 | 492 | 719 | 440 | 643 |
| Loans | 18 | 26 | 19 | 28 | 8 | 12 |
| Other liabilities | 325 | 475 | 304 | 445 | 232 | 339 |
| Total liabilities | 343 | 501 | 323 | 472 | 241 | 352 |
| Capital | 61 | 90 | 61 | 90 | 61 | 90 |
| Retained earnings | 52 | 75 | 108 | 157 | 138 | 202 |
| Total shareholders' equity | 113 | 165 | 169 | 247 | 200 | 292 |

Note: * refers to the exchange rate announced by the Bank of Thailand as of 22 March 2023 which was equal to THB0.1461 to VND100

Sources: SFLEX

Good investment at a good price

We view that this transaction should strengthen SFLEX's capability to serve customer needs with a more diversified product range beyond its current soft plastic packaging products. This investment will allow SFLEX to expand its overseas business opportunities via a strong relationship with SCGP, one of the world's leading integrated consumer packaging solutions providers. The acquisition should also boost SFLEX's profit as SPV's 2022 net profit resembled SFLEX's net profit during 2020-2021, before it was hit hard by the increase in oil-linked raw material costs.

Based on SPV's 2022 net profit of THB135m, we forecast SFLEX to gain an additional THB25m-30m in annual net profit, assuming the 25% acquisition is financed via a 1x D/E ratio.

Maintain BUY with TP of THB4.70

We consider this to be a good move for SFLEX that should help it to explore more opportunities overseas. SPV's products are mostly different from SFLEX's, therefore, this acquisition should enhance the company's income performance once the transaction is completed. The acquisition cost implies a P/E of 10.8x SPV's 2022 profit, cheaper than SFLEX's 2023E P/E at 16.9x. We maintain our BUY rating on SFLEX with a TP of THB4.70 based on 24x 2023E P/E, within -0.5SD of its four-year average since listing on the SET. Its share price, currently trading at 16.9x 2023E P/E and only 11.3x 2023E EV/EBITDA (within -1.0SD of its four-year P/E and EV/EBITDA averages) is almost at its lowest level since it was listed on the SET.

Financial Statements

Starflex

| Profit and Loss (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|------------|------------|------------|------------|------------|
| Revenue | 1,677 | 1,669 | 1,802 | 2,001 | 2,143 |
| Cost of goods sold | (1,352) | (1,401) | (1,410) | (1,550) | (1,651) |
| Gross profit | 325 | 267 | 393 | 451 | 492 |
| Other operating income | 50 | 27 | 27 | 26 | 28 |
| Operating costs | (152) | (170) | (169) | (188) | (202) |
| Operating EBITDA | 223 | 124 | 251 | 289 | 317 |
| Depreciation | (62) | (57) | (59) | (61) | (63) |
| Goodwill amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 161 | 67 | 192 | 228 | 254 |
| Net financing costs | (4) | (3) | (3) | (4) | (4) |
| Associates | - | - | - | 0 | 0 |
| Recurring non-operating income | 0 | 0 | 0 | 0 | 0 |
| Non-recurring items | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | 157 | 65 | 189 | 225 | 250 |
| Tax | (7) | (10) | (28) | (38) | (50) |
| Profit after tax | 149 | 55 | 160 | 186 | 200 |
| Minority interests | - | - | - | - | - |
| Preferred dividends | 0 | 0 | 0 | 0 | 0 |
| Other items | - | - | - | - | - |
| Reported net profit | 149 | 55 | 160 | 186 | 200 |
| Non-recurring items & goodwill (net) | 0 | 0 | 0 | 0 | 0 |
| Recurring net profit | 149 | 55 | 160 | 186 | 200 |
| Per share (THB) | | | | | |
| Recurring EPS * | 0.18 | 0.07 | 0.20 | 0.23 | 0.24 |
| Reported EPS | 0.18 | 0.07 | 0.20 | 0.23 | 0.24 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Diluted shares (used to calculate per share data) | 820 | 820 | 820 | 820 | 820 |
| Growth | | | | | |
| Revenue (%) | 20.0 | (0.5) | 8.0 | 11.0 | 7.1 |
| Operating EBITDA (%) | (4.2) | (44.4) | 102.8 | 15.2 | 9.6 |
| Operating EBIT (%) | (7.4) | (58.2) | 185.0 | 19.0 | 11.4 |
| Recurring EPS (%) | 4.6 | (63.1) | 191.1 | 16.3 | 7.5 |
| Reported EPS (%) | 4.6 | (63.1) | 191.1 | 16.3 | 7.5 |
| Operating performance | | | | | |
| Gross margin inc. depreciation (%) | 15.7 | 12.6 | 18.5 | 19.5 | 20.0 |
| Gross margin of key business (%) | 15.7 | 12.6 | 18.5 | 19.5 | 20.0 |
| Operating EBITDA margin (%) | 13.3 | 7.4 | 13.9 | 14.5 | 14.8 |
| Operating EBIT margin (%) | 9.6 | 4.0 | 10.6 | 11.4 | 11.9 |
| Net margin (%) | 8.9 | 3.3 | 8.9 | 9.3 | 9.4 |
| Effective tax rate (%) | 4.8 | 14.9 | 15.0 | 17.0 | 20.0 |
| Dividend payout on recurring profit (%) | - | - | - | - | - |
| Interest cover (X) | 40.7 | 26.0 | 60.1 | 62.7 | 69.5 |
| Inventory days | 75.9 | 86.9 | 87.5 | 79.8 | 77.4 |
| Debtor days | 66.1 | 66.6 | 61.8 | 65.4 | 66.0 |
| Creditor days | 78.2 | 74.3 | 73.8 | 72.5 | 71.4 |
| Operating ROIC (%) | 18.1 | 5.4 | 14.1 | 15.7 | (4.0) |
| ROIC (%) | 15.7 | 4.8 | 12.8 | 14.3 | (3.6) |
| ROE (%) | 16.2 | 5.7 | 15.2 | 16.1 | 16.1 |
| ROA (%) | 11.0 | 3.7 | 9.8 | 10.5 | 10.5 |
| * Pre-exceptional, pre-goodwill and fully diluted | | | | | |
| Revenue by Division (THB m) | | | | | |
| Non-food packaging | 1,309 | 1,258 | 1,359 | 1,501 | 1,607 |
| Food packaging | 365 | 393 | 436 | 492 | 527 |
| Others | 3 | 18 | 7 | 8 | 9 |

Sources: Starflex; FSSIA estimates

Financial Statements

Starflex

| Cash Flow (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|-----------------------------------|--------------|--------------|-------------|-------------|-------------|
| Recurring net profit | 149 | 55 | 160 | 186 | 200 |
| Depreciation | 62 | 57 | 59 | 61 | 63 |
| Associates & minorities | 0 | 0 | 0 | 0 | 0 |
| Other non-cash items | - | - | - | - | - |
| Change in working capital | (134) | 50 | (191) | (9) | (126) |
| Cash flow from operations | 78 | 162 | 29 | 239 | 137 |
| Capex - maintenance | - | - | - | - | - |
| Capex - new investment | (196) | (144) | (15) | (45) | (56) |
| Net acquisitions & disposals | - | - | - | - | - |
| Other investments (net) | - | - | - | - | - |
| Cash flow from investing | (196) | (144) | (15) | (45) | (56) |
| Dividends paid | (70) | (37) | (48) | (56) | (60) |
| Equity finance | 0 | 0 | 0 | 0 | 0 |
| Debt finance | 128 | 66 | 0 | 1 | 3 |
| Other financing cash flows | - | - | - | - | - |
| Cash flow from financing | 58 | 29 | (48) | (54) | (57) |
| Non-recurring cash flows | - | - | - | - | - |
| Other adjustments | 0 | 7 | 45 | 0 | 0 |
| Net other adjustments | (34) | 7 | 45 | (54) | (1) |
| Movement in cash | (94) | 54 | 11 | 85 | 23 |
| Free cash flow to firm (FCFF) | (114.34) | 20.98 | 16.97 | 197.27 | 85.55 |
| Free cash flow to equity (FCFE) | (23.95) | 91.15 | 58.90 | 141.28 | 83.32 |

Per share (THB)

| | | | | | |
|-------------------------------|--------|------|------|------|------|
| FCFF per share | (0.14) | 0.03 | 0.02 | 0.24 | 0.10 |
| FCFE per share | (0.03) | 0.11 | 0.07 | 0.17 | 0.10 |
| Recurring cash flow per share | 0.26 | 0.14 | 0.27 | 0.30 | 0.32 |

| Balance Sheet (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|--------------|--------------|--------------|--------------|--------------|
| Tangible fixed assets (gross) | 859 | 1,046 | 1,136 | 1,206 | 1,276 |
| Less: Accumulated depreciation | (428) | (307) | (366) | (427) | (490) |
| Tangible fixed assets (net) | 431 | 739 | 770 | 779 | 786 |
| Intangible fixed assets (net) | 47 | 54 | 55 | 56 | 57 |
| Long-term financial assets | - | - | - | - | - |
| Invest. in associates & subsidiaries | 0 | 32 | 32 | 32 | 32 |
| Cash & equivalents | 75 | 129 | 140 | 226 | 249 |
| A/C receivable | 346 | 263 | 347 | 371 | 404 |
| Inventories | 334 | 333 | 342 | 336 | 365 |
| Other current assets | 185 | 22 | 23 | 24 | 25 |
| Current assets | 939 | 747 | 852 | 956 | 1,043 |
| Other assets | 89 | 29 | 30 | 31 | 32 |
| Total assets | 1,507 | 1,602 | 1,739 | 1,853 | 1,950 |
| Common equity | 960 | 985 | 1,121 | 1,200 | 1,284 |
| Minorities etc. | 0 | 0 | 0 | 0 | 0 |
| Total shareholders' equity | 960 | 985 | 1,121 | 1,200 | 1,284 |
| Long term debt | 84 | 175 | 176 | 177 | 180 |
| Other long-term liabilities | 43 | 43 | 49 | 56 | 65 |
| Long-term liabilities | 127 | 218 | 225 | 233 | 244 |
| A/C payable | 295 | 276 | 294 | 322 | 323 |
| Short term debt | 121 | 114 | 90 | 89 | 88 |
| Other current liabilities | 4 | 8 | 9 | 9 | 10 |
| Current liabilities | 419 | 398 | 393 | 420 | 421 |
| Total liabilities and shareholders' equity | 1,507 | 1,602 | 1,739 | 1,853 | 1,950 |
| Net working capital | 566 | 334 | 409 | 398 | 461 |
| Invested capital | 1,133 | 1,188 | 1,296 | 1,296 | 1,367 |

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

Per share (THB)

| | | | | | |
|-------------------------------|------|------|------|------|------|
| Book value per share | 1.17 | 1.20 | 1.37 | 1.46 | 1.57 |
| Tangible book value per share | 1.11 | 1.14 | 1.30 | 1.39 | 1.50 |

Financial strength

| | | | | | |
|---------------------------|------|------|------|------|------|
| Net debt/equity (%) | 13.5 | 16.3 | 11.2 | 3.3 | 1.4 |
| Net debt/total assets (%) | 8.6 | 10.0 | 7.2 | 2.2 | 0.9 |
| Current ratio (x) | 2.2 | 1.9 | 2.2 | 2.3 | 2.5 |
| CF interest cover (x) | 44.5 | 91.9 | 24.2 | 52.1 | 39.0 |

| Valuation | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|-------------|-------------|-------------|-------------|-------------|
| Recurring P/E (x) * | 18.1 | 49.1 | 16.9 | 14.5 | 13.5 |
| Recurring P/E @ target price (x) * | 25.8 | 70.0 | 24.0 | 20.7 | 19.2 |
| Reported P/E (x) | 18.1 | 49.1 | 16.9 | 14.5 | 13.5 |
| Dividend yield (%) | - | - | - | - | - |
| Price/book (x) | 2.8 | 2.7 | 2.4 | 2.3 | 2.1 |
| Price/tangible book (x) | 3.0 | 2.9 | 2.5 | 2.4 | 2.2 |
| EV/EBITDA (x) ** | 12.7 | 23.2 | 11.3 | 9.5 | 8.6 |
| EV/EBITDA @ target price (x) ** | 17.9 | 32.4 | 15.8 | 13.5 | 12.2 |
| EV/invested capital (x) | 2.5 | 2.4 | 2.2 | 2.1 | 2.0 |

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

Sources: Starflex; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

[Rating](#) regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) **Sustainability Investment List (THSI)** by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The [CG Score](#) indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The [five underlying categories and weighting](#) used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

AGM Checklist by the Thai Investors Association (TIA)²

The "[AGM Checklist](#)" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The [Checklist](#) contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A [CAC certified member](#) is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member [start with](#) by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the [CAC Council](#) for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment ([THSI](#)) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the [THSI list](#), the SET further developed a sustainability [SETTHSI Index](#) in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Jitra Amornthum FSS International Investment Advisory Securities Co., Ltd

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History of change in investment rating and/or target price

Starflex (SFLEX TB)



| Date | Rating | Target price | Date | Rating | Target price | Date | Rating | Target price |
|-------------|--------|--------------|------|--------|--------------|------|--------|--------------|
| 10-Mar-2023 | BUY | 4.70 | - | - | - | - | - | - |

Jitra Amornthum started covering this stock from 10-Mar-2023

Price and TP are in local currency

Source: FSSIA estimates

| Company | Ticker | Price | Rating | Valuation & Risks |
|----------|----------|----------|--------|---|
| Starflex | SFLEX TB | THB 3.30 | BUY | Downside risks to our P/E-based TP include 1) a sharp rise in crude oil prices; 2) rising inflation pressuring consumers' purchasing power; and 3) baht depreciation. |

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

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All share prices are as at market close on 26-Apr-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.