

# I-TAIL CORPORATION

THAILAND / FOOD & BEVERAGE

ITC TB

**BUY**  
 UNCHANGED

## Destocking should end within 1H23

- 1Q23 net profit plunged q-q and y-y, but we think the bottom has been reached as customers should resume restocking in 2Q23.
- We cut our 2023 profit estimate by 35% (-30% y-y) but expect a return to solid 31% growth y-y in 2024.
- Retain BUY with a new TP of THB34, based on 25x 2024E P/E.

### Customers to resume restocking in 2Q23

Regarding the analyst meeting on 28 April 2023, management revised 2023 revenue growth down to 0-1% y-y from 15% y-y, and its gross margin target to 22.5-23.5% from 25% to reflect the poor performance in 1Q23. Management expects customers to resume restocking in 2Q23. We expect 2Q23 revenue to be up q-q but down y-y due to the high base in 2Q22. We think ITC's 1Q23 profit will be the bottom and expect to see a profit recovery in 2Q23 onward.

### Expect US pet food markets to see moderate growth in 2023

After US pet food revenue grew by a solid 9.8% and 13.7% in the Covid-19 years 2021-22, respectively, growth in 2023 is expected to slow down to 3% (source: petfoodindustry.com). However, a recent survey of pet owners found that pet products and services are at the bottom of the list of planned household spending cuts, second only to human medicine and healthcare. Aside from that, we note positive signs from Nestle, which after increasing its pet food selling prices by 12.2% y-y in 1Q23 saw its revenue grow by 15.7% y-y. The US pet food market in 2023-27 is expected to grow at an 8.8% CAGR.

### Revise down our forecast to reflect poor 1Q23 earnings

We cut our 2023 net profit forecast by 35% to THB3b (-30% y-y) due to the temporary dip in revenue in 1Q23 and higher-than-expected raw material costs. To elaborate, we have revised our 2023 total revenue forecast down by 15.7% (-6.5% y-y), and our gross margin assumption down from 25% to 20%, which is more conservative than management's new target. Meanwhile, we forecast 2024 net profit to return to solid growth, up 31% y-y to THB4b.

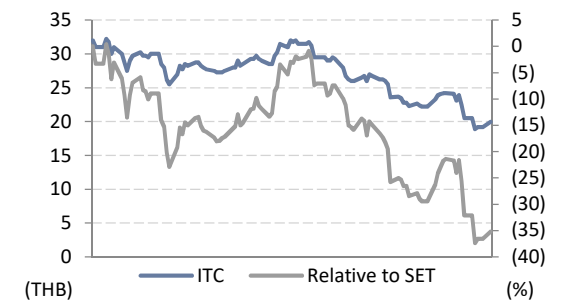
### Retain BUY call with a new TP of THB34

We think ITC's net profit already bottomed out in 1Q23, and the destocking trend should end in 1H23. Meanwhile, we maintain a positive outlook for the global pet food market in the medium to long term. Hence, we roll over our 2024 target price, which reflects our expectation that ITC's situation should return to normal. We retain our BUY call with a new TP of THB34, based on 25x 2024E P/E.

|                 |          |
|-----------------|----------|
| TARGET PRICE    | THB34.00 |
| CLOSE           | THB20.00 |
| UP/DOWNSIDE     | +70.0%   |
| PRIOR TP        | THB40.00 |
| CHANGE IN TP    | -15.0%   |
| TP vs CONSENSUS | +17.4%   |

### KEY STOCK DATA

| YE Dec (THB m)       | 2022   | 2023E  | 2024E  | 2025E  |
|----------------------|--------|--------|--------|--------|
| Revenue              | 21,420 | 20,018 | 22,105 | 24,505 |
| Net profit           | 4,401  | 3,077  | 4,038  | 4,715  |
| EPS (THB)            | 2.56   | 1.03   | 1.35   | 1.57   |
| vs Consensus (%)     | -      | (21.3) | (16.3) | (12.8) |
| EBITDA               | 4,928  | 4,034  | 5,118  | 5,917  |
| Core net profit      | 4,226  | 3,077  | 4,038  | 4,715  |
| Core EPS (THB)       | 2.46   | 1.03   | 1.35   | 1.57   |
| Chg. In EPS est. (%) | -      | (35.1) | (24.8) | (21.2) |
| EPS growth (%)       | (63.7) | (58.3) | 31.2   | 16.8   |
| Core P/E (x)         | 8.1    | 19.5   | 14.9   | 12.7   |
| Dividend yield (%)   | 8.3    | 3.1    | 4.0    | 4.7    |
| EV/EBITDA (x)        | 9.5    | 11.9   | 9.2    | 7.7    |
| Price/book (x)       | 2.4    | 2.3    | 2.2    | 2.0    |
| Net debt/Equity (%)  | (52.8) | (46.9) | (47.5) | (48.3) |
| ROE (%)              | 26.5   | 12.1   | 15.2   | 16.6   |



| Share price performance        | 1 Month                | 3 Month | 12 Month |
|--------------------------------|------------------------|---------|----------|
| Absolute (%)                   | (10.3)                 | (32.8)  | n/a      |
| Relative to country (%)        | (8.5)                  | (27.3)  | n/a      |
| Mkt cap (USD m)                | 1,774                  |         |          |
| 3m avg. daily turnover (USD m) | 6.4                    |         |          |
| Free float (%)                 | 22                     |         |          |
| Major shareholder              | Thai Union Group (78%) |         |          |
| 12m high/low (THB)             | 33.75/18.30            |         |          |
| Issued shares (m)              | 3,000.00               |         |          |

Sources: Bloomberg consensus; FSSIA estimates



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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 TB, BUY), 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.

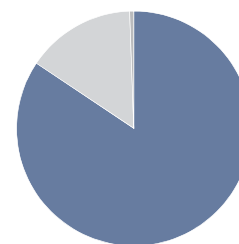
## Company profile

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, 2022)

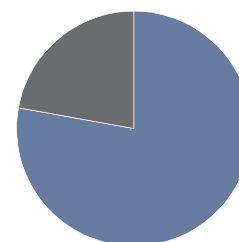
- Pet Food - 84.4 %
- Treats - 15.0 %
- Other - 0.6 %



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                     |
|----------|---------------------------|
| Aug 2023 | 2Q23 results announcement |

## Key assumptions

|                              | 2023E   | 2024E   | 2025E   |
|------------------------------|---------|---------|---------|
| Total capacity (tonnes/year) | 194,872 | 206,627 | 224,103 |
| Sales volume (tonnes/year)   | 134,272 | 148,274 | 162,909 |
| Utilisation rate (%)         | 68.9    | 73.1    | 74.1    |
| FX rate (USD/THB)            | 33.0    | 33.0    | 33.0    |
| Tuna price (USD/tonne)       | 1,700   | 1,600   | 1,500   |
| Total sales growth (%)       | (6.5)   | 10.4    | 10.9    |
| Gross margin (%)             | 20.0    | 23.0    | 24.0    |

Source: FSSIA estimates

## Earnings sensitivity

- For every THB1/USD increase, we estimate 2023 net profit to fall by 10%, and vice versa, all else being equal.
- For every 10% increase in the tuna price, we estimate 2023 net profit to fall by 8.5%, and vice versa, all else being equal.
- For every 10% increase in the aluminum price, we estimate 2023 net profit to fall by 2.9%, and vice versa, all else being equal.
- For every 5% increase in the minimum wage, we estimate 2023 net profit to fall by 2.4%, and vice versa, all else being equal.

Source: FSSIA estimates

## 1Q23 net profit missed our estimate but should be the bottom

ITC reported a 1Q23 net profit of THB425m (-37% q-q, -53% y-y). Excluding an FX gain of THB11m, the company's normalised earnings were equal to THB414m (-56% q-q, -53% y-y), below our estimate by 20%.

Total revenue dropped by 35.8% q-q and 16.7% y-y, in line with Thailand's food exports, as customers have delayed restocking after accumulating sizable inventories in previous quarters. In particular, cat food revenue plunged 40% q-q and 18% y-y, while treat revenue dropped by 31% q-q and 35% y-y.

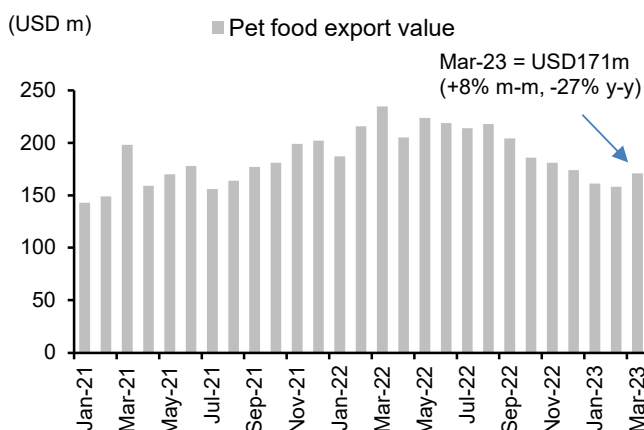
ITC's 1Q23 gross margin also sharply decreased to 17.4% (vs 22.4% in 4Q22 and 23.8% in 1Q22), due to lower sales volumes, changes in the product mix which lowered the average selling prices, and higher raw material costs.

### Exhibit 1: 1Q23 earnings results

|                                     | 1Q22    | 2Q22    | 3Q22    | 4Q22    | 1Q23    | Change       |              |
|-------------------------------------|---------|---------|---------|---------|---------|--------------|--------------|
|                                     | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) | (q-q%)       | (y-y%)       |
| Sales                               | 4,307   | 5,400   | 6,122   | 5,591   | 3,587   | (35.8)       | (16.7)       |
| Cost of sales                       | 3,283   | 3,877   | 4,570   | 4,341   | 2,962   | (31.8)       | (9.8)        |
| Gross profit                        | 1,024   | 1,522   | 1,552   | 1,250   | 625     | (50.0)       | (39.0)       |
| SG&A                                | 265     | 312     | 321     | 341     | 301     | (11.8)       | 13.5         |
| Operating profit                    | 807     | 1,244   | 1,289   | 1,017   | 447     | (56.0)       | (44.6)       |
| Interest expense                    | 8       | 13      | 31      | 30      | 6       | (80.2)       | (29.7)       |
| Tax expense                         | (74)    | 60      | 17      | 45      | 26      | (43.0)       | (134.4)      |
| Other gain (loss)                   | 35      | 179     | 227     | (266)   | 11      | nm           | (67.4)       |
| Reported net profit                 | 908     | 1,349   | 1,468   | 676     | 425     | (37.1)       | (53.2)       |
| Core profit                         | 874     | 1,170   | 1,241   | 941     | 414     | (56.0)       | (52.6)       |
| <b>Key ratios (%)</b>               |         |         |         |         |         | <b>(ppt)</b> | <b>(ppt)</b> |
| Gross margin                        | 23.8    | 28.2    | 25.4    | 22.4    | 17.4    | (4.9)        | (6.4)        |
| SG&A to sales                       | 6.2     | 5.8     | 5.2     | 6.1     | 8.4     | 2.3          | 2.2          |
| Operating margin                    | 18.7    | 23.0    | 21.0    | 18.2    | 12.5    | (5.7)        | (6.3)        |
| Net margin                          | 21.1    | 25.0    | 24.0    | 12.1    | 11.9    | (0.2)        | (9.2)        |
| Core margin                         | 20.3    | 21.7    | 20.3    | 16.8    | 11.5    | (5.3)        | (8.7)        |
| <b>Operating statistics (THB m)</b> |         |         |         |         |         |              |              |
| Cat food sales                      | 3,015   | 3,953   | 4,429   | 4,138   | 2,475   | (40.2)       | (17.9)       |
| Dog food sales                      | 496     | 695     | 676     | 671     | 610     | (9.1)        | 23.0         |
| Treat sales                         | 775     | 728     | 989     | 727     | 502     | (30.9)       | (35.2)       |
| THB/USD                             | 33.1    | 34.4    | 36.4    | 36.3    | 33.9    | (6.6)        | 2.5          |
| Tuna price (USD/tonne)              | 1,717   | 1,608   | 1,667   | 1,660   | 1,820   | 9.6          | 6.0          |

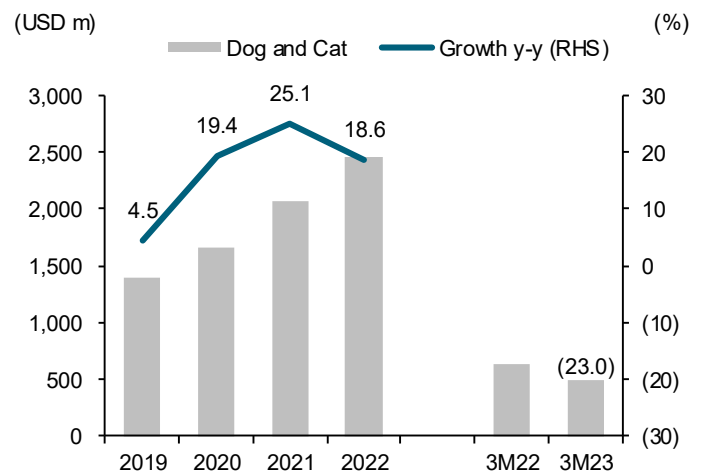
Source: ITC

### Exhibit 2: Thailand's monthly pet food exports by value



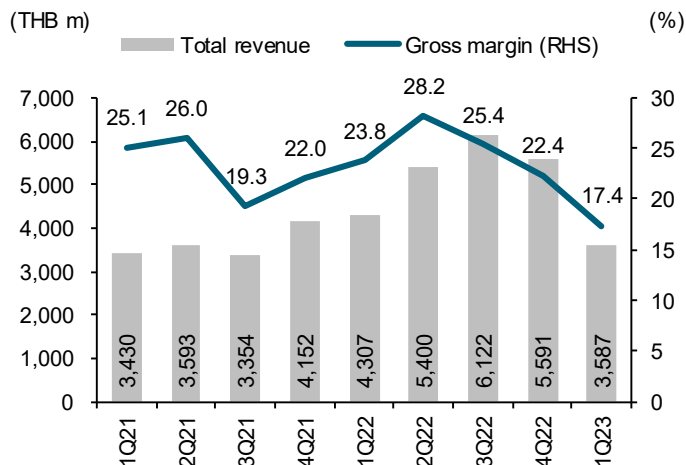
Source: Tradereport.moc.go.th

### Exhibit 3: Thailand's annual pet food exports by value



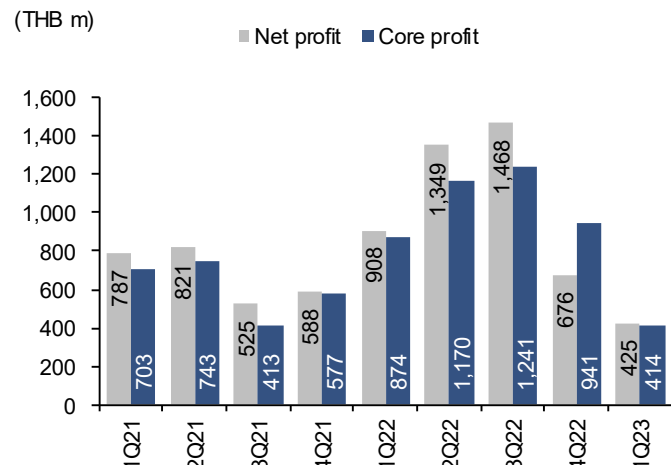
Source: Tradereport.moc.go.th

Exhibit 4: Quarterly total revenue and gross margin



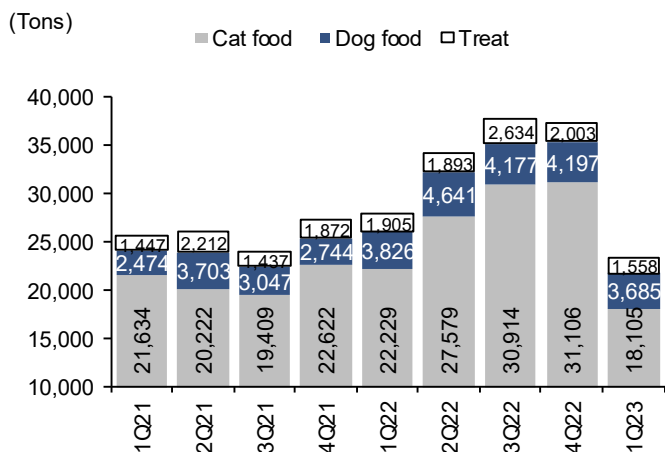
Sources: ITC; FSSIA's compilation

Exhibit 5: Quarterly net profit and core profit



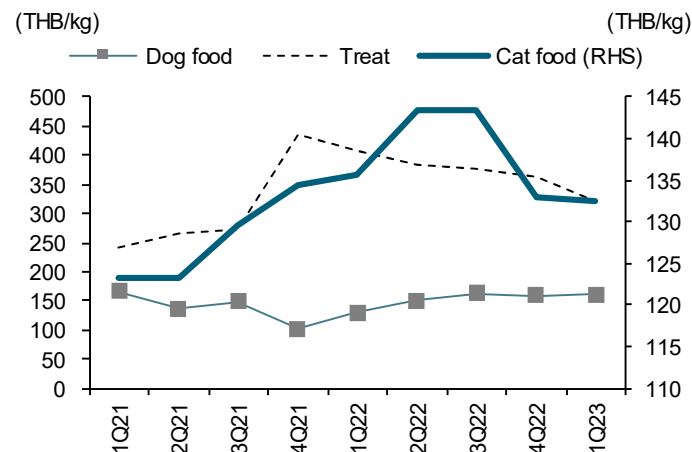
Sources: ITC; FSSIA's compilation

Exhibit 6: Sales volumes broken down by product



Sources: ITC; FSSIA's compilation

Exhibit 7: Selling prices broken down by product



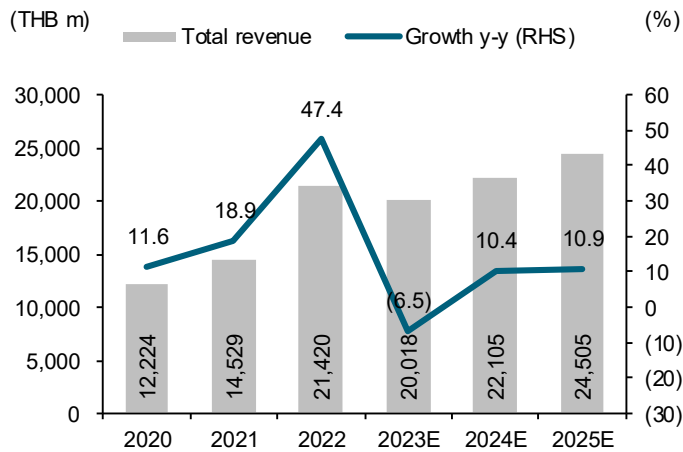
Sources: ITC; FSSIA's compilation

Exhibit 8: Key assumptions for ITC

|                             | Current          |                  |                  | Previous         |                  |                  | Change       |              |              |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|--------------|
|                             | 2023E<br>(THB m) | 2024E<br>(THB m) | 2025E<br>(THB m) | 2023E<br>(THB m) | 2024E<br>(THB m) | 2025E<br>(THB m) | 2023E<br>(%) | 2024E<br>(%) | 2025E<br>(%) |
| Total capacity (tonnes)     | 194,872          | 206,627          | 224,103          | 194,872          | 206,627          | 224,103          | (0.0)        | 0.0          | (0.0)        |
| Utilisation rate (%)        | 68.9             | 73.1             | 74.1             | 75.9             | 80.5             | 81.4             | (9.2)        | (9.2)        | (9.0)        |
| Total sales volume (tonnes) | 134,272          | 148,274          | 162,909          | 159,330          | 179,268          | 196,964          | (15.7)       | (17.3)       | (17.3)       |
| FX rate (THB/USD)           | 33.0             | 33.0             | 33.0             | 33.0             | 33.0             | 33.0             | 0.0          | 0.0          | 0.0          |
| Total revenue (THB m)       | 20,018           | 22,105           | 24,505           | 23,758           | 26,761           | 29,667           | (15.7)       | (17.4)       | (17.4)       |
| Cat food                    | 14,642           | 16,179           | 17,975           | 17,331           | 19,497           | 21,662           | (15.5)       | (17.0)       | (17.0)       |
| Dog food                    | 2,296            | 2,526            | 2,773            | 2,779            | 3,113            | 3,418            | (17.4)       | (18.9)       | (18.9)       |
| Treats                      | 2,973            | 3,285            | 3,637            | 3,540            | 4,036            | 4,468            | (16.0)       | (18.6)       | (18.6)       |
| Gross profit (THB m)        | 4,004            | 5,084            | 5,881            | 5,987            | 6,770            | 7,535            | (33.1)       | (24.9)       | (21.9)       |
| SG&A expenses (THB m)       | 1,301            | 1,437            | 1,593            | 1,378            | 1,552            | 1,721            | (5.6)        | (7.4)        | (7.4)        |
| Reported net profit (THB m) | 3,077            | 4,038            | 4,715            | 4,745            | 5,371            | 5,985            | (35.1)       | (24.8)       | (21.2)       |
| Core profit (THB m)         | 3,077            | 4,038            | 4,715            | 4,745            | 5,371            | 5,985            | (35.1)       | (24.8)       | (21.2)       |
| <b>Key ratios (%)</b>       |                  |                  |                  |                  |                  |                  |              |              |              |
| Total revenue growth        | (6.5)            | 10.4             | 10.9             | 10.9             | 12.6             | 10.9             | (17.4)       | (2.2)        | (0.0)        |
| Net profit growth           | (30.1)           | 31.2             | 16.8             | 7.8              | 13.2             | 11.4             | (37.9)       | 18.0         | 5.4          |
| Core profit growth          | (27.2)           | 31.2             | 16.8             | 12.3             | 13.2             | 11.4             | (39.5)       | 18.0         | 5.4          |
| Gross margin                | 20.0             | 23.0             | 24.0             | 25.2             | 25.3             | 25.4             | 5.2          | 2.3          | 1.4          |
| SG&A to sales               | 6.5              | 6.5              | 6.5              | 5.8              | 5.8              | 5.8              | (0.7)        | (0.7)        | (0.7)        |
| Net margin                  | 15.4             | 18.3             | 19.2             | 20.0             | 20.1             | 20.2             | 4.6          | 1.8          | 1.0          |
| Norm margin                 | 15.4             | 18.3             | 19.2             | 20.0             | 20.1             | 20.2             | 4.6          | 1.8          | 1.0          |

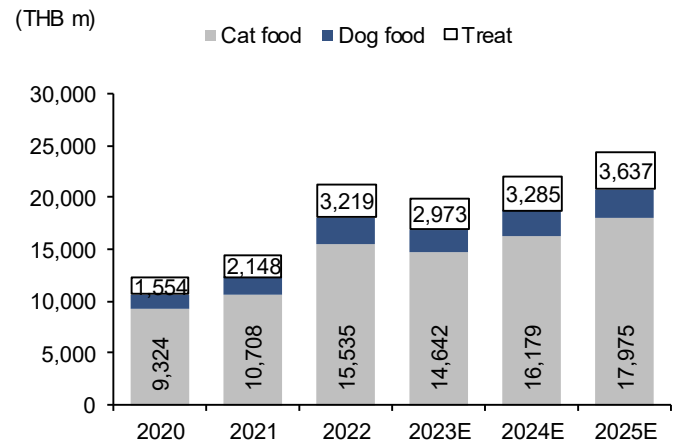
Source: FSSIA estimates

Exhibit 9: Total annual revenue



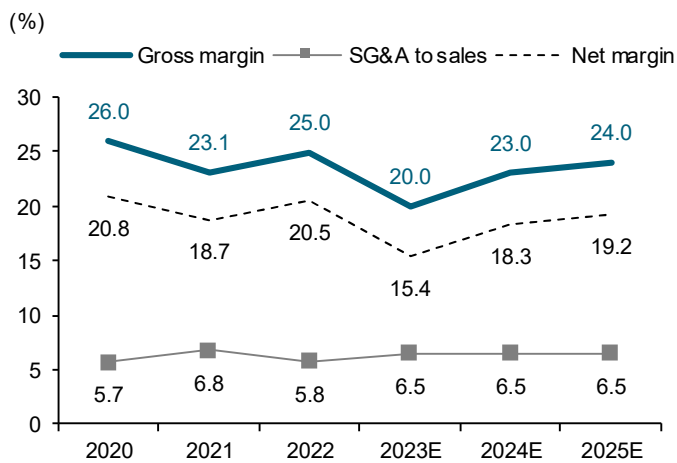
Sources: ITC; FSSIA estimates

Exhibit 10: Total revenue broken down by product



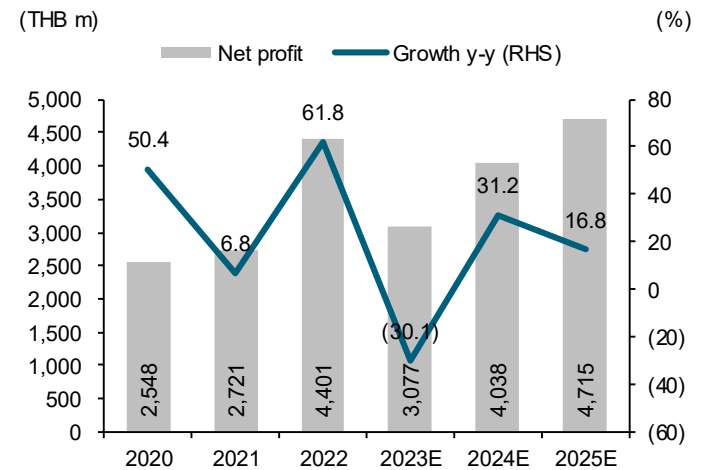
Sources: ITC; FSSIA estimates

Exhibit 11: Yearly profitability



Sources: ITC; FSSIA estimates

Exhibit 12: Yearly net profit and growth



Sources: ITC; FSSIA estimates

## Financial Statements

### i-Tail Corporation

| Profit and Loss (THB m) Year Ending Dec           | 2021         | 2022         | 2023E        | 2024E        | 2025E        |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenue   | 14,529       | 21,420       | 20,018       | 22,105       | 24,505       |
| Cost of goods sold                                | (10,637)     | (15,501)     | (15,174)     | (16,080)     | (17,583)     |
| <b>Gross profit</b>                               | <b>3,892</b> | <b>5,920</b> | <b>4,844</b> | <b>6,025</b> | <b>6,922</b> |
| Other operating income                            | 121          | 247          | 490          | 531          | 588          |
| Operating costs                                   | (982)        | (1,239)      | (1,301)      | (1,437)      | (1,593)      |
| <b>Operating EBITDA</b>                           | <b>3,031</b> | <b>4,928</b> | <b>4,034</b> | <b>5,118</b> | <b>5,917</b> |
| Depreciation                                      | (536)        | (571)        | (841)        | (941)        | (1,041)      |
| Goodwill amortisation                             | 0            | 0            | 0            | 0            | 0            |
| <b>Operating EBIT</b>                             | <b>2,495</b> | <b>4,357</b> | <b>3,193</b> | <b>4,178</b> | <b>4,877</b> |
| Net financing costs                               | (32)         | (83)         | (20)         | (15)         | (16)         |
| Associates  | -            | -            | -            | -            | -            |
| Recurring non-operating income                    | 0            | 0            | 0            | 0            | 0            |
| Non-recurring items                               | 285          | 175          | 0            | 0            | 0            |
| <b>Profit before tax</b>                          | <b>2,749</b> | <b>4,450</b> | <b>3,173</b> | <b>4,163</b> | <b>4,861</b> |
| Tax   | (28)         | (48)         | (95)         | (125)        | (146)        |
| <b>Profit after tax</b>                           | <b>2,721</b> | <b>4,401</b> | <b>3,077</b> | <b>4,038</b> | <b>4,715</b> |
| Minority interests                                | 0            | 0            | 0            | 0            | 0            |
| Preferred dividends                               | -            | -            | -            | -            | -            |
| Other items                                       | -            | -            | -            | -            | -            |
| <b>Reported net profit</b>                        | <b>2,721</b> | <b>4,401</b> | <b>3,077</b> | <b>4,038</b> | <b>4,715</b> |
| <b>Non-recurring items &amp; goodwill (net)</b>   | <b>(285)</b> | <b>(175)</b> | <b>0</b>     | <b>0</b>     | <b>0</b>     |
| <b>Recurring net profit</b>                       | <b>2,435</b> | <b>4,226</b> | <b>3,077</b> | <b>4,038</b> | <b>4,715</b> |
| <b>Per share (THB)</b>                            |              |              |              |              |              |
| Recurring EPS *                                   | 6.77         | 2.46         | 1.03         | 1.35         | 1.57         |
| Reported EPS                                      | 7.56         | 2.56         | 1.03         | 1.35         | 1.57         |
| DPS   | 4.00         | 1.66         | 0.62         | 0.81         | 0.94         |
| Diluted shares (used to calculate per share data) | 360          | 1,720        | 3,000        | 3,000        | 3,000        |
| <b>Growth</b>                                     |              |              |              |              |              |
| Revenue (%)                                       | 18.9         | 47.4         | (6.5)        | 10.4         | 10.9         |
| Operating EBITDA (%)                              | (1.9)        | 62.6         | (18.1)       | 26.9         | 15.6         |
| Operating EBIT (%)                                | (4.4)        | 74.6         | (26.7)       | 30.8         | 16.7         |
| Recurring EPS (%)                                 | (4.3)        | (63.7)       | (58.3)       | 31.2         | 16.8         |
| Reported EPS (%)                                  | 6.8          | (66.1)       | (59.9)       | 31.2         | 16.8         |
| <b>Operating performance</b>                      |              |              |              |              |              |
| Gross margin inc. depreciation (%)                | 23.1         | 25.0         | 20.0         | 23.0         | 24.0         |
| Gross margin of key business (%)                  | 23.9         | 26.8         | 11.4         | 11.9         | 11.9         |
| Operating EBITDA margin (%)                       | 20.9         | 23.0         | 20.1         | 23.2         | 24.1         |
| Operating EBIT margin (%)                         | 17.2         | 20.3         | 15.9         | 18.9         | 19.9         |
| Net margin (%)                                    | 16.8         | 19.7         | 15.4         | 18.3         | 19.2         |
| Effective tax rate (%)                            | 1.0          | 1.1          | 3.0          | 3.0          | 3.0          |
| Dividend payout on recurring profit (%)           | 59.1         | 67.6         | 60.0         | 60.0         | 60.0         |
| Interest cover (X)                                | 78.5         | 52.8         | 158.1        | 286.2        | 314.6        |
| Inventory days                                    | 98.3         | 93.6         | 106.3        | 102.7        | 101.4        |
| Debtor days                                       | 54.3         | 48.8         | 62.1         | 57.2         | 57.1         |
| Creditor days                                     | 47.0         | 46.3         | 54.7         | 51.4         | 50.7         |
| Operating ROIC (%)                                | 24.9         | 33.7         | 20.3         | 24.7         | 36.1         |
| ROIC (%)  | 24.2         | 32.5         | 19.5         | 23.6         | 33.9         |
| ROE (%)   | 39.3         | 26.5         | 12.1         | 15.2         | 16.6         |
| ROA (%)   | 22.1         | 21.6         | 11.0         | 13.9         | 17.1         |
| * Pre-exceptional, pre-goodwill and fully diluted |              |              |              |              |              |
| <b>Revenue by Division (THB m)</b>                |              |              |              |              |              |
| Pet Food  | 12,361       | 18,073       | 16,938       | 18,705       | 20,748       |
| Treats  | 2,148        | 3,219        | 2,973        | 3,285        | 3,637        |
| Other   | 19           | 128          | 107          | 115          | 120          |

Sources: i-Tail Corporation; FSSIA estimates

## Financial Statements

### i-Tail Corporation

| Cash Flow (THB m) Year Ending Dec | 2021           | 2022           | 2023E          | 2024E          | 2025E          |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Recurring net profit              | 2,435          | 4,226          | 3,077          | 4,038          | 4,715          |
| Depreciation                      | 536            | 571            | 841            | 941            | 1,041          |
| Associates & minorities           | 0              | 16             | 4              | 2              | 2              |
| Other non-cash items              | -              | -              | -              | -              | -              |
| Change in working capital         | (608)          | (2,972)        | 569            | (579)          | (727)          |
| <b>Cash flow from operations</b>  | <b>2,363</b>   | <b>1,841</b>   | <b>4,491</b>   | <b>4,402</b>   | <b>5,031</b>   |
| Capex - maintenance               | (1,238)        | (817)          | (3,154)        | (1,000)        | (1,000)        |
| Capex - new investment            | 0              | 0              | 0              | 0              | 0              |
| Net acquisitions & disposals      | -              | -              | -              | -              | -              |
| Other investments (net)           | (72)           | (222)          | (108)          | (63)           | (72)           |
| <b>Cash flow from investing</b>   | <b>(1,310)</b> | <b>(1,039)</b> | <b>(3,262)</b> | <b>(1,063)</b> | <b>(1,072)</b> |
| Dividends paid                    | (1,257)        | (7,471)        | (1,846)        | (2,423)        | (2,829)        |
| Equity finance                    | 0              | 20,795         | 0              | 0              | 0              |
| Debt finance                      | (860)          | (1,559)        | (14)           | (5)            | (5)            |
| Other financing cash flows        | (344)          | (16)           | (488)          | 10             | 12             |
| <b>Cash flow from financing</b>   | <b>(2,462)</b> | <b>11,749</b>  | <b>(2,348)</b> | <b>(2,418)</b> | <b>(2,822)</b> |
| Non-recurring cash flows          | -              | -              | -              | -              | -              |
| Other adjustments                 | 0              | 0              | 0              | 0              | 0              |
| <b>Net other adjustments</b>      | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| <b>Movement in cash</b>           | <b>(1,409)</b> | <b>12,551</b>  | <b>(1,119)</b> | <b>922</b>     | <b>1,137</b>   |
| Free cash flow to firm (FCFF)     | 1,084.90       | 884.37         | 1,249.09       | 3,354.12       | 3,974.72       |
| Free cash flow to equity (FCFE)   | (151.76)       | (773.10)       | 727.18         | 3,344.95       | 3,966.22       |

#### Per share (THB)

|                               |        |        |      |      |      |
|-------------------------------|--------|--------|------|------|------|
| FCFF per share                | 0.36   | 0.29   | 0.42 | 1.12 | 1.32 |
| FCFE per share                | (0.05) | (0.26) | 0.24 | 1.11 | 1.32 |
| Recurring cash flow per share | 8.25   | 2.80   | 1.31 | 1.66 | 1.92 |

| Balance Sheet (THB m) Year Ending Dec             | 2021          | 2022          | 2023E         | 2024E         | 2025E         |
|---|---------------|---------------|---------------|---------------|---------------|
| Tangible fixed assets (gross)                     | 6,749         | 7,583         | 9,548         | 9,718         | 0             |
| Less: Accumulated depreciation                    | (2,546)       | (2,648)       | (2,754)       | (2,864)       | 0             |
| <b>Tangible fixed assets (net)</b>                | <b>4,203</b>  | <b>4,935</b>  | <b>6,794</b>  | <b>6,853</b>  | <b>0</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                                | 703           | 13,254        | 12,134        | 13,056        | 14,193        |
| A/C receivable                                    | 2,207         | 3,517         | 3,291         | 3,634         | 4,028         |
| Inventories                                       | 3,498         | 4,454         | 4,388         | 4,663         | 5,102         |
| Other current assets                              | 627           | 1,526         | 1,001         | 1,105         | 1,225         |
| <b>Current assets</b>                             | <b>7,035</b>  | <b>22,750</b> | <b>20,813</b> | <b>22,458</b> | <b>24,549</b> |
| Other assets                                      | 270           | 493           | 601           | 663           | 735           |
| <b>Total assets</b>                               | <b>11,508</b> | <b>28,178</b> | <b>28,208</b> | <b>29,975</b> | <b>25,285</b> |
| Common equity                                     | 6,818         | 25,029        | 25,806        | 27,421        | 29,307        |
| Minorities etc.                                   | 0             | 16            | 20            | 22            | 25            |
| <b>Total shareholders' equity</b>                 | <b>6,818</b>  | <b>25,045</b> | <b>25,826</b> | <b>27,443</b> | <b>29,332</b> |
| Long term debt                                    | 22            | 29            | 24            | 19            | 14            |
| Other long-term liabilities                       | 604           | 588           | 100           | 111           | 123           |
| <b>Long-term liabilities</b>                      | <b>626</b>    | <b>617</b>    | <b>124</b>    | <b>129</b>    | <b>136</b>    |
| A/C payable                                       | 1,576         | 2,353         | 2,194         | 2,332         | 2,551         |
| Short term debt                                   | 2,310         | 14            | 5             | 5             | 5             |
| Other current liabilities                         | 179           | 150           | 60            | 66            | 74            |
| <b>Current liabilities</b>                        | <b>4,065</b>  | <b>2,517</b>  | <b>2,259</b>  | <b>2,403</b>  | <b>2,630</b>  |
| <b>Total liabilities and shareholders' equity</b> | <b>11,508</b> | <b>28,178</b> | <b>28,208</b> | <b>29,975</b> | <b>32,097</b> |
| Net working capital                               | 4,577         | 6,994         | 6,425         | 7,004         | 7,731         |
| Invested capital                                  | 9,051         | 12,421        | 13,820        | 14,521        | 8,466         |

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

#### Per share (THB)

|                               |       |      |      |      |      |
|-------------------------------|-------|------|------|------|------|
| Book value per share          | 18.94 | 8.34 | 8.60 | 9.14 | 9.77 |
| Tangible book value per share | 18.94 | 8.34 | 8.60 | 9.14 | 9.77 |

#### Financial strength

|                           |       |        |        |        |        |
|---------------------------|-------|--------|--------|--------|--------|
| Net debt/equity (%)       | 23.9  | (52.8) | (46.9) | (47.5) | (48.3) |
| Net debt/total assets (%) | 14.2  | (46.9) | (42.9) | (43.5) | (56.1) |
| Current ratio (x)         | 1.7   | 9.0    | 9.2    | 9.3    | 9.3    |
| CF interest cover (x)     | (3.8) | (8.4)  | 37.0   | 230.1  | 256.9  |

| Valuation                                 | 2021       | 2022        | 2023E       | 2024E       | 2025E       |
|---|------------|-------------|-------------|-------------|-------------|
| <b>Recurring P/E (x) *</b>                | <b>3.0</b> | <b>8.1</b>  | <b>19.5</b> | <b>14.9</b> | <b>12.7</b> |
| <b>Recurring P/E @ target price (x) *</b> | <b>5.0</b> | <b>13.8</b> | <b>33.1</b> | <b>25.3</b> | <b>21.6</b> |
| Reported P/E (x)                          | 2.6        | 7.8         | 19.5        | 14.9        | 12.7        |
| Dividend yield (%)                        | 20.0       | 8.3         | 3.1         | 4.0         | 4.7         |
| Price/book (x)                            | 1.1        | 2.4         | 2.3         | 2.2         | 2.0         |
| Price/tangible book (x)                   | 1.1        | 2.4         | 2.3         | 2.2         | 2.0         |
| EV/EBITDA (x) **                          | 2.9        | 9.5         | 11.9        | 9.2         | 7.7         |
| EV/EBITDA @ target price (x) **           | 4.6        | 18.0        | 22.3        | 17.4        | 14.8        |
| EV/invested capital (x)                   | 1.0        | 3.8         | 3.5         | 3.2         | 5.4         |

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

Sources: i-Tail Corporation; 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)<sup>1</sup>

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)<sup>2</sup>

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)<sup>3</sup>

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)<sup>4</sup> by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. 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: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (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 Indices<sup>5</sup> (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:

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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

<sup>5</sup> 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

Sureeporn Teewasuwet FSS International Investment Advisory Securities Co., Ltd

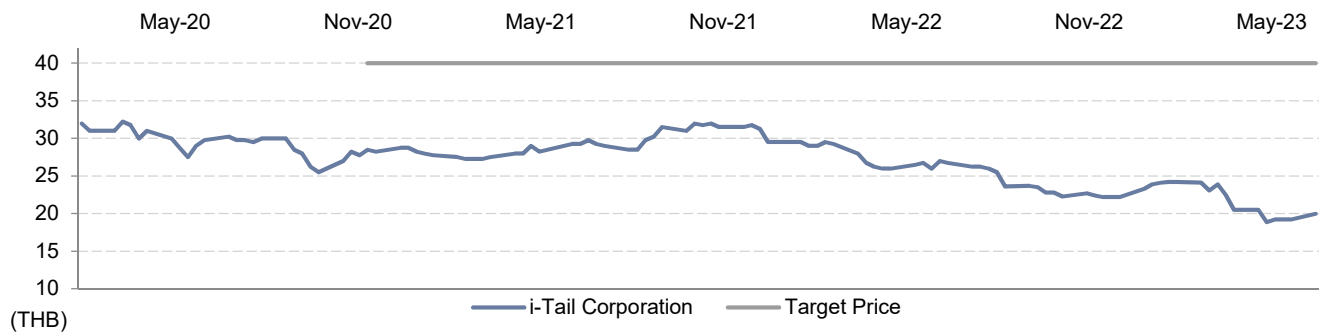
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### History of change in investment rating and/or target price

#### i-Tail Corporation (ITC TB)



| Date        | Rating | Target price | Date | Rating | Target price | Date | Rating | Target price |
|-------------|--------|--------------|------|--------|--------------|------|--------|--------------|
| 11-Jan-2023 | BUY    | 40.00        | -    | -      | -            | -    | -      | -            |

Sureeporn Teewasuwet started covering this stock from 11-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

#### Thai Union Group (TU TB)



| Date        | Rating | Target price | Date | Rating | Target price | Date | Rating | Target price |
|-------------|--------|--------------|------|--------|--------------|------|--------|--------------|
| 23-Jan-2023 | BUY    | 24.00        | -    | -      | -            | -    | -      | -            |

Sureeporn Teewasuwet started covering this stock from 23-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

| Company            | Ticker | Price     | Rating | Valuation & Risks  |
|--------------------|--------|-----------|--------|--|
| i-Tail Corporation | ITC TB | THB 20.00 | BUY    | 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.                      |
| Thai Union Group   | TU TB  | THB 14.50 | BUY    | Downside risks to our SoTP-based TP include 1) a stronger-than-expected THB against the USD; 2) the high volatility of raw material prices; 3) labour shortages; and 4) tariff and non-tariff barriers in international trade. |

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 08-May-2023 unless otherwise stated.

## RECOMMENDATION STRUCTURE

### Stock ratings

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