

T.A.C. CONSUMER TACC TB

THAILAND / AGRO & FOOD INDUSTRY

BUY

UNCHANGED

A recovery signal is coming

- TACC's 1Q23 net profit was at THB42m (-4.4% q-q, -30% y-y), with a higher loss contribution from TCI.
- We cut our 2023E net profit by 18% to THB219m (-6.9% y-y) to reflect the poor earnings in 1Q23.
- Retain BUY call with a new TP of THB7.2.

| | |
|-----------------|----------|
| TARGET PRICE | THB7.20 |
| CLOSE | THB5.40 |
| UP/DOWNSIDE | +33.3% |
| PRIOR TP | THB10.00 |
| CHANGE IN TP | -28.0% |
| TP vs CONSENSUS | -8.9% |

KEY STOCK DATA

| YE Dec (THB m) | 2022 | 2023E | 2024E | 2025E |
|----------------------|--------|--------|--------|--------|
| Revenue | 1,523 | 1,702 | 1,857 | 2,007 |
| Net profit | 235 | 219 | 264 | 293 |
| EPS (THB) | 0.39 | 0.36 | 0.43 | 0.48 |
| vs Consensus (%) | - | (14.9) | (5.5) | - |
| EBITDA | 315 | 311 | 372 | 417 |
| Core net profit | 231 | 219 | 264 | 293 |
| Core EPS (THB) | 0.38 | 0.36 | 0.43 | 0.48 |
| Chg. In EPS est. (%) | nm | (18.1) | (10.8) | nm |
| EPS growth (%) | 11.7 | (5.4) | 20.5 | 11.2 |
| Core P/E (x) | 14.2 | 15.0 | 12.4 | 11.2 |
| Dividend yield (%) | 6.7 | 6.0 | 7.2 | 8.0 |
| EV/EBITDA (x) | 8.4 | 8.6 | 7.1 | 6.3 |
| Price/book (x) | 4.3 | 4.2 | 4.0 | 3.9 |
| Net debt/Equity (%) | (83.4) | (79.0) | (78.1) | (78.8) |
| ROE (%) | 30.7 | 28.3 | 33.1 | 35.5 |

Higher loss from TCI caused 1Q23 profit to miss estimate

TACC reported a 1Q23 net profit of THB42m (-4.4% q-q, -30% y-y) due to a higher loss contribution from its associate company (named TCI). However, we are satisfied with its core operational recovery. Total revenue rose by 12.6% y-y in 1Q23, better than 7-Eleven's SSSG. Its gross margin increased to 31.6% from the new low at 30.8% in 4Q22, supported by declining raw material costs. However, TCI's loss contribution was higher than expected at THB2.4m in 1Q23, down from a loss of THB0.4m in 4Q22 and THB0.3m in 1Q22 due to higher amortisation of intangible asset values.

A recovery signal is coming

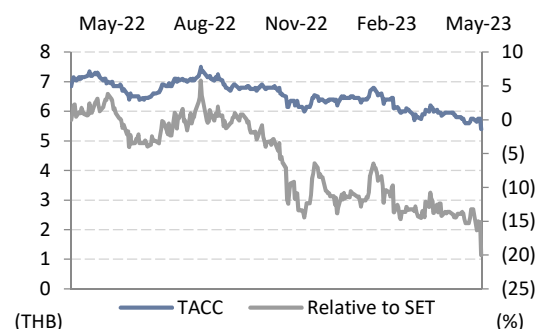
We think 1Q23 results will be the bottom of this year. We anticipate 2Q23 net profit to resume growing q-q, thanks to 1) the high season for the beverage industry; 2) the company has increased the selling price of instant drink powder for 7-Eleven's dispensers since April 2023; and 3) declining milk powder costs by c8% in 2Q23 onward. We expect to see its gross margin recover in 2Q23-2H23. Even though TACC will recognise Bloss Natura revenue in 2Q23 via a joint venture company named Health Inspired Planet (HIP, non-listed), we think it will not have a significant positive impact on TACC's operations.

HIP is in, is TCI out?

Management set a 2023 revenue target for HIP of THB55m (+22% y-y), accounting for 3% of TACC's total revenue. However, we expect HIP to generate a small operational loss in 2023, as the company is going to restructure its business and expand its channel into modern trade. Aside from that, we think that TACC should reconsider its plan for TCI, because loss contributions have been recognised for two years. Note that TACC has a 30% stake in TCI. TCI primarily researches and develops cannabis products for medical and commercial use.

Cut 2023E earnings and target price

We cut our 2023E net profit by 18% to THB219m (-6.9% y-y) to reflect the poor earnings in 1Q23. We cut our target P/E to 20x from 23x, in line with its historical average. Hence, our new TP is THB7.2, down from THB10. Its share price has an upside of 33%. We maintain our BUY call.



| Share price performance | 1 Month | 3 Month | 12 Month |
|--------------------------------|------------------------------|---------|----------|
| Absolute (%) | (9.2) | (17.6) | (19.4) |
| Relative to country (%) | (7.4) | (13.0) | (18.2) |
| Mkt cap (USD m) | 97 | | |
| 3m avg. daily turnover (USD m) | 0.2 | | |
| Free float (%) | 66 | | |
| Major shareholder | Mr.Chatchawe Vatanasuk (24%) | | |
| 12m high/low (THB) | 7.55/5.40 | | |
| Issued shares (m) | 608.00 | | |

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

TACC procures, manufactures and distributes beverages, mostly dispensed tea and coffee. The company sells mostly B2B, which accounted for 93% of 9M22 revenue. Under this channel, TACC's main alliance is with 7-Eleven as a leader in the convenience store market. This is one of TACC's competitive advantages. Besides this, we like the company's solid profitability and strong financial position. The company has no interest-bearing debt from financial institutions. Although we expect poor earnings in 4Q22-1Q23, we still have a positive view for long-term growth.

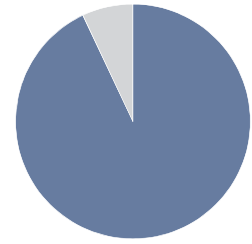
Company profile

TACC has been a key partner of CPALL Plc (CPALL TB) in joint-developing dispenser beverages sold in 7-Eleven convenience stores since 2002. In 2005, TACC started producing its own ready-to-drink brand, Zenya, that it markets both domestically and overseas. TACC outsources most of its production to Original Equipment Manufacturer (OEM) companies.

www.taconsumer.com

Principal activities (revenue, 2022)

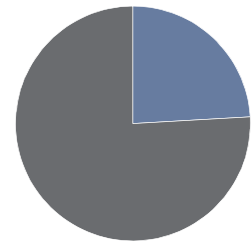
- B2B sales - 93.0 %
- B2C sales - 7.0 %



Source: T.A.C. Consumer

Major shareholders

- Mr.Chatchawe Vatanasuk - 24.1 %
- Others - 75.9 %



Source: T.A.C. Consumer

Catalysts

Potential catalysts for TACC's earnings growth in 2023 are 1) revenue growth driven by new product launches and the tourism recovery; 2) new 7-Eleven branch expansions; and 3) declining raw material costs.

Risks to our call

Downside risks to our P/E-based TP include 1) a slower-than-expected recovery in consumption; 2) the high volatility of raw material prices; 3) rain and cold weather lasting longer than expected; and 4) changing consumer demand and lifestyles.

Event calendar

| Date | Event |
|-------------|---------------------------|
| August 2023 | 2Q23 results announcement |

Key assumptions

| | 2023E | 2024E | 2025E |
|------------------------|-------|-------|-------|
| B2B sales | 1,532 | 1,653 | 1,778 |
| B2C sales | 170 | 204 | 229 |
| Total sales growth (%) | 11.7 | 9.1 | 8.1 |
| Gross margin (%) | 32.5 | 34.0 | 34.5 |
| SG&A to sales (%) | 16.4 | 16.4 | 16.4 |

Source: FSSIA estimates

Earnings sensitivity

- For every 1% increase in revenue, we estimate 2023 net profit to rise by 0.9%, and vice versa, all else being equal.
- For every 0.2% increase in GPM, we estimate 2023 net profit to rise by 1.0%, and vice versa, all else being equal.
- For every 0.5% increase in SG&A to sales, we estimate 2023 net profit to fall by 2.5%, and vice versa, all else being equal.

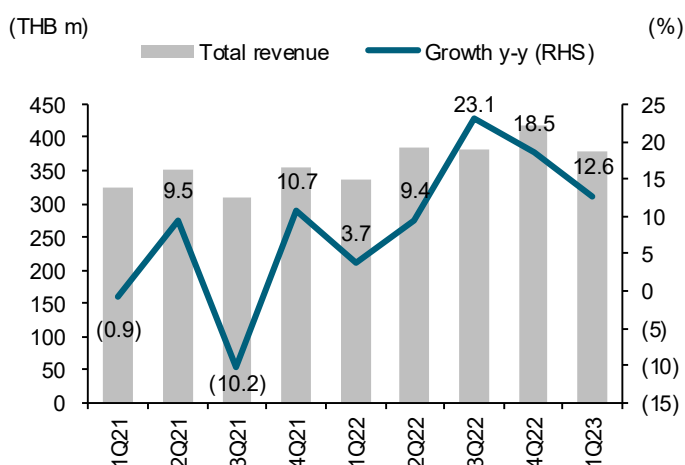
Source: FSSIA estimates

Exhibit 1: 1Q23 earnings results

| | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | Change | |
|------------------------|---------|---------|---------|---------|---------|---------|--------|--------|
| | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) | (q-q%) | (y-y%) |
| Sales | 354 | 337 | 385 | 382 | 420 | 380 | (9.4) | 12.6 |
| Cost of sales | 216 | 206 | 243 | 247 | 290 | 260 | (10.5) | 26.2 |
| Gross profit | 138 | 131 | 142 | 134 | 129 | 120 | (7.0) | (8.6) |
| SG&A | 66 | 57 | 60 | 61 | 75 | 65 | (12.9) | 14.7 |
| Operating profit | 73 | 76 | 82 | 75 | 61 | 57 | (5.6) | (25.3) |
| Profit (-loss) sharing | (0.3) | (0.3) | (0.3) | (0.3) | (0.4) | (2.4) | nm | nm |
| Tax expense | 14 | 15 | 17 | 15 | 12 | 12 | 2.8 | (20.5) |
| Reported net profit | 58 | 61 | 68 | 62 | 44 | 42 | (4.4) | (30.2) |
| Core profit | 59 | 61 | 64 | 59 | 48 | 42 | (12.1) | (30.2) |
| Key Ratios (%) | | | | | | | | |
| Gross margin | 39.0 | 39.0 | 36.8 | 35.1 | 30.8 | 31.6 | 0.8 | (7.3) |
| SG&A / Sales | 18.6 | 16.8 | 15.6 | 16.1 | 17.8 | 17.1 | (0.7) | 0.3 |
| Operating margin | 20.7 | 22.7 | 21.3 | 19.6 | 14.4 | 15.0 | 0.6 | (7.6) |
| Net margin | 16.3 | 18.0 | 17.8 | 16.3 | 10.5 | 11.1 | 0.6 | (6.8) |
| Norm margin | 16.6 | 18.0 | 16.6 | 15.4 | 11.5 | 11.1 | (0.3) | (6.8) |

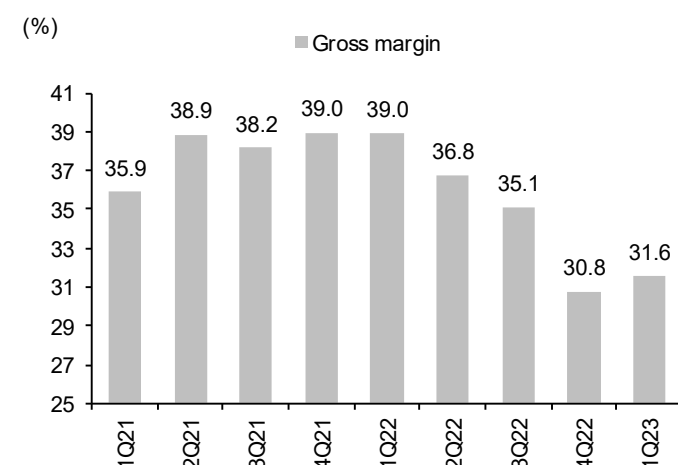
Source: TACC

Exhibit 2: Quarterly total revenue and growth



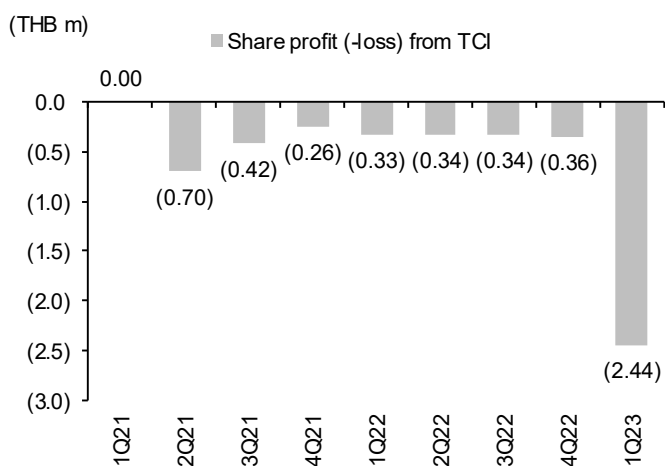
Source: TACC

Exhibit 3: Quarterly gross margin



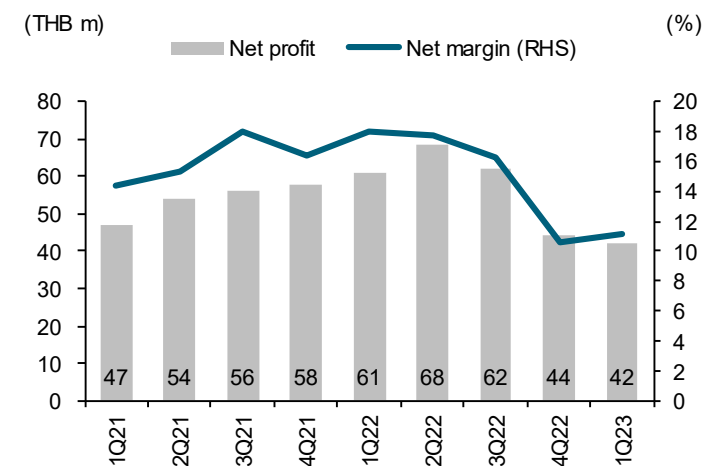
Source: TACC

Exhibit 4: Share of loss from TCI



Source: TACC

Exhibit 5: Quarterly net profit and net margin



Source: TACC

Exhibit 6: Key assumptions for TACC

| | Current | | | Previous | | | Change | | |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|--------------|
| | 2023E (THB m) | 2024E (THB m) | 2025E (THB m) | 2023E (THB m) | 2024E (THB m) | 2025E (THB m) | 2023E (%) | 2024E (%) | 2025E (%) |
| Total sales value | 1,702 | 1,857 | 2,007 | 1,647 | 1,777 | 1,912 | 3.3 | 4.5 | 5.0 |
| Costs | 1,149 | 1,225 | 1,314 | 1,046 | 1,119 | 1,195 | 9.9 | 9.5 | 10.0 |
| Gross profit | 553 | 631 | 692 | 601 | 657 | 717 | (8.0) | (4.0) | (3.4) |
| SG&A expenses | 279 | 304 | 328 | 270 | 291 | 313 | 3.3 | 4.5 | 5.0 |
| Interest expense | 1.2 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 9.0 | 13.8 | 19.5 |
| Profit sharing | (4.4) | (1.3) | (1.3) | (0.8) | 0.0 | 0.0 | <i>nm</i> | <i>nm</i> | <i>nm</i> |
| Reported net profit | 219 | 264 | 293 | 267 | 296 | 326 | (18.1) | (10.8) | (10.0) |
| Core profit | 219 | 264 | 293 | 267 | 296 | 326 | (18.1) | (10.8) | (10.0) |
| Key ratios (%) | | | | | | | | | |
| Total revenue growth | 11.7 | 9.1 | 8.1 | 8.1 | 7.9 | 7.6 | 3.6 | 1.2 | 0.5 |
| Net profit growth | (6.9) | 20.5 | 11.2 | 13.6 | 10.7 | 10.2 | (20.5) | 9.8 | 1.0 |
| Core profit growth | (5.4) | 20.5 | 11.2 | 15.5 | 10.7 | 10.2 | (20.9) | 9.8 | 1.0 |
| Gross margin | 32.5 | 34.0 | 34.5 | 36.5 | 37.0 | 37.5 | (4.0) | (3.0) | (3.0) |
| SG&A to sales | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 0.0 | 0.0 | 0.0 |
| Net margin | 12.9 | 14.2 | 14.6 | 16.2 | 16.6 | 17.0 | (3.4) | (2.4) | (2.4) |
| Core margin | 12.9 | 14.2 | 14.6 | 16.2 | 16.6 | 17.0 | (3.4) | (2.4) | (2.4) |
| Operating statistics (THB m) | | | | | | | | | |
| B2B sales | 1,532 | 1,653 | 1,778 | 1,532 | 1,653 | 1,778 | 0.0 | 0.0 | (0.0) |
| B2C sales | 170 | 204 | 229 | 115 | 124 | 134 | 47.2 | 63.7 | 70.8 |
| Beverage sales | 1,647 | 1,777 | 1,912 | 1,647 | 1,777 | 1,912 | 0.0 | 0.0 | 0.0 |
| Health & wellness sales | 55 | 80 | 95 | 0 | 0 | 0 | | | |

Source: FSSIA estimates

Financial Statements

T.A.C. Consumer

| Profit and Loss (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|------------|------------|------------|------------|------------|
| Revenue | 1,341 | 1,523 | 1,702 | 1,857 | 2,007 |
| Cost of goods sold | (807) | (965) | (1,119) | (1,188) | (1,269) |
| Gross profit | 534 | 558 | 583 | 669 | 738 |
| Other operating income | 5 | 10 | 7 | 6 | 7 |
| Operating costs | (252) | (253) | (279) | (304) | (328) |
| Operating EBITDA | 287 | 315 | 311 | 372 | 417 |
| Depreciation | (24) | (22) | (30) | (38) | (46) |
| Goodwill amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 263 | 293 | 281 | 334 | 371 |
| Net financing costs | (1) | (1) | (1) | (1) | (1) |
| Associates | (1) | (1) | (4) | (1) | (1) |
| Recurring non-operating income | (1) | (1) | (4) | (1) | (1) |
| Non-recurring items | 7 | 4 | 0 | 0 | 0 |
| Profit before tax | 267 | 295 | 275 | 332 | 369 |
| Tax | (53) | (59) | (56) | (68) | (75) |
| Profit after tax | 214 | 235 | 219 | 264 | 293 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Preferred dividends | - | - | - | - | - |
| Other items | - | - | - | - | - |
| Reported net profit | 214 | 235 | 219 | 264 | 293 |
| Non-recurring items & goodwill (net) | (7) | (4) | 0 | 0 | 0 |
| Recurring net profit | 207 | 231 | 219 | 264 | 293 |
| Per share (THB) | | | | | |
| Recurring EPS * | 0.34 | 0.38 | 0.36 | 0.43 | 0.48 |
| Reported EPS | 0.35 | 0.39 | 0.36 | 0.43 | 0.48 |
| DPS | 0.33 | 0.36 | 0.32 | 0.39 | 0.43 |
| Diluted shares (used to calculate per share data) | 608 | 608 | 608 | 608 | 608 |
| Growth | | | | | |
| Revenue (%) | 2.0 | 13.6 | 11.7 | 9.1 | 8.1 |
| Operating EBITDA (%) | 12.6 | 9.9 | (1.4) | 19.7 | 12.1 |
| Operating EBIT (%) | 11.4 | 11.6 | (4.3) | 19.0 | 11.1 |
| Recurring EPS (%) | 9.9 | 11.7 | (5.4) | 20.5 | 11.2 |
| Reported EPS (%) | 13.7 | 9.8 | (6.9) | 20.5 | 11.2 |
| Operating performance | | | | | |
| Gross margin inc. depreciation (%) | 38.0 | 35.2 | 32.5 | 34.0 | 34.5 |
| Gross margin of key business (%) | 38.0 | 35.2 | 32.5 | 34.0 | 34.5 |
| Operating EBITDA margin (%) | 21.4 | 20.7 | 18.2 | 20.0 | 20.8 |
| Operating EBIT margin (%) | 19.6 | 19.3 | 16.5 | 18.0 | 18.5 |
| Net margin (%) | 15.5 | 15.2 | 12.9 | 14.2 | 14.6 |
| Effective tax rate (%) | 19.9 | 20.2 | 20.4 | 20.4 | 20.4 |
| Dividend payout on recurring profit (%) | 96.8 | 94.6 | 90.0 | 90.0 | 90.0 |
| Interest cover (X) | 243.0 | 253.4 | 227.6 | 281.2 | 321.0 |
| Inventory days | 20.8 | 20.3 | 18.5 | 20.0 | 20.0 |
| Debtor days | 68.5 | 68.5 | 70.8 | 71.9 | 72.2 |
| Creditor days | 101.9 | 101.3 | 100.2 | 99.9 | 100.1 |
| Operating ROIC (%) | 138.7 | 178.8 | 173.0 | 168.7 | 178.5 |
| ROIC (%) | 115.2 | 131.8 | 126.8 | 130.9 | 139.0 |
| ROE (%) | 28.3 | 30.7 | 28.3 | 33.1 | 35.5 |
| ROA (%) | 20.0 | 20.7 | 18.3 | 21.2 | 22.5 |
| * Pre-exceptional, pre-goodwill and fully diluted | | | | | |
| Revenue by Division (THB m) | | | | | |
| B2B sales | 1,301 | 1,417 | 1,532 | 1,653 | 1,778 |
| B2C sales | 40 | 107 | 170 | 204 | 229 |

Sources: T.A.C. Consumer; FSSIA estimates

Financial Statements

T.A.C. Consumer

| Cash Flow (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Recurring net profit | 207 | 231 | 219 | 264 | 293 |
| Depreciation | 24 | 22 | 30 | 38 | 46 |
| Associates & minorities | 1 | 1 | 4 | 1 | 1 |
| Other non-cash items | 0 | 4 | 0 | 0 | 0 |
| Change in working capital | (11) | 16 | (33) | (11) | (8) |
| Cash flow from operations | 221 | 274 | 220 | 291 | 332 |
| Capex - maintenance | (53) | (21) | (44) | (43) | (43) |
| Capex - new investment | - | - | - | - | - |
| Net acquisitions & disposals | - | - | - | - | - |
| Other investments (net) | - | - | - | - | - |
| Cash flow from investing | (53) | (21) | (44) | (43) | (43) |
| Dividends paid | (195) | (215) | (197) | (237) | (264) |
| Equity finance | 0 | 0 | 0 | 0 | 0 |
| Debt finance | 7 | (2) | 0 | (1) | (1) |
| Other financing cash flows | 3 | 35 | 4 | 3 | 3 |
| Cash flow from financing | (185) | (182) | (193) | (236) | (263) |
| Non-recurring cash flows | - | - | - | - | - |
| Other adjustments | 0 | 0 | 0 | 0 | 0 |
| Net other adjustments | 0 | 0 | 0 | 0 | 0 |
| Movement in cash | (17) | 72 | (17) | 13 | 27 |
| Free cash flow to firm (FCFF) | 168.99 | 254.52 | 177.37 | 249.77 | 290.84 |
| Free cash flow to equity (FCFE) | 177.60 | 286.52 | 180.25 | 250.15 | 291.13 |

Per share (THB)

| | | | | | |
|-------------------------------|------|------|------|------|------|
| FCFF per share | 0.28 | 0.42 | 0.29 | 0.41 | 0.48 |
| FCFE per share | 0.29 | 0.47 | 0.30 | 0.41 | 0.48 |
| Recurring cash flow per share | 0.38 | 0.42 | 0.42 | 0.50 | 0.56 |

| Balance Sheet (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|--------------|--------------|--------------|--------------|--------------|
| Tangible fixed assets (gross) | 192 | 207 | 224 | 242 | 261 |
| Less: Accumulated depreciation | (79) | (95) | (101) | (117) | (142) |
| Tangible fixed assets (net) | 113 | 113 | 123 | 125 | 119 |
| Intangible fixed assets (net) | 1 | 0 | 0 | 0 | 0 |
| Long-term financial assets | - | - | - | - | - |
| Invest. in associates & subsidiaries | 29 | 27 | 27 | 27 | 27 |
| Cash & equivalents | 583 | 655 | 638 | 651 | 678 |
| A/C receivable | 262 | 310 | 350 | 382 | 412 |
| Inventories | 57 | 50 | 63 | 67 | 72 |
| Other current assets | 2 | 6 | 7 | 7 | 8 |
| Current assets | 905 | 1,021 | 1,058 | 1,107 | 1,170 |
| Other assets | 17 | 17 | 17 | 19 | 20 |
| Total assets | 1,065 | 1,179 | 1,225 | 1,278 | 1,337 |
| Common equity | 742 | 763 | 785 | 811 | 840 |
| Minorities etc. | 0 | 0 | 0 | 0 | 0 |
| Total shareholders' equity | 742 | 763 | 785 | 811 | 840 |
| Long term debt | 15 | 12 | 14 | 12 | 11 |
| Other long-term liabilities | 21 | 27 | 31 | 33 | 36 |
| Long-term liabilities | 36 | 39 | 44 | 46 | 47 |
| A/C payable | 236 | 300 | 315 | 336 | 360 |
| Short term debt | 6 | 6 | 5 | 5 | 5 |
| Other current liabilities | 44 | 71 | 76 | 80 | 84 |
| Current liabilities | 286 | 377 | 396 | 421 | 449 |
| Total liabilities and shareholders' equity | 1,065 | 1,179 | 1,225 | 1,278 | 1,337 |
| Net working capital | 41 | (4) | 29 | 40 | 48 |
| Invested capital | 201 | 153 | 196 | 211 | 215 |

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

Per share (THB)

| | | | | | |
|-------------------------------|------|------|------|------|------|
| Book value per share | 1.22 | 1.25 | 1.29 | 1.33 | 1.38 |
| Tangible book value per share | 1.22 | 1.25 | 1.29 | 1.33 | 1.38 |

Financial strength

| | | | | | |
|---------------------------|--------|--------|--------|--------|--------|
| Net debt/equity (%) | (75.8) | (83.4) | (79.0) | (78.1) | (78.8) |
| Net debt/total assets (%) | (52.8) | (54.0) | (50.6) | (49.6) | (49.5) |
| Current ratio (x) | 3.2 | 2.7 | 2.7 | 2.6 | 2.6 |
| CF interest cover (x) | 166.1 | 249.7 | 149.5 | 212.4 | 253.8 |

| Valuation | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|-------------|-------------|-------------|-------------|-------------|
| Recurring P/E (x) * | 15.8 | 14.2 | 15.0 | 12.4 | 11.2 |
| Recurring P/E @ target price (x) * | 21.1 | 18.9 | 20.0 | 16.6 | 14.9 |
| Reported P/E (x) | 15.3 | 14.0 | 15.0 | 12.4 | 11.2 |
| Dividend yield (%) | 6.1 | 6.7 | 6.0 | 7.2 | 8.0 |
| Price/book (x) | 4.4 | 4.3 | 4.2 | 4.0 | 3.9 |
| Price/tangible book (x) | 4.4 | 4.3 | 4.2 | 4.0 | 3.9 |
| EV/EBITDA (x) ** | 9.5 | 8.4 | 8.6 | 7.1 | 6.3 |
| EV/EBITDA @ target price (x) ** | 13.3 | 11.9 | 12.1 | 10.1 | 8.9 |
| EV/invested capital (x) | 13.5 | 17.3 | 13.6 | 12.6 | 12.2 |

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

Sources: T.A.C. Consumer; 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 **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 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

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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

T.A.C. Consumer (TACC TB)



| Date | Rating | Target price | Date | Rating | Target price | Date | Rating | Target price |
|-------------|--------|--------------|------|--------|--------------|------|--------|--------------|
| 18-Jan-2023 | BUY | 10.00 | - | - | - | - | - | - |

Sureeporn Teewasuwet started covering this stock from 18-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

| Company | Ticker | Price | Rating | Valuation & Risks |
|-----------------|---------|----------|--------|---|
| T.A.C. Consumer | TACC TB | THB 5.40 | BUY | Downside risks to our P/E-based TP include 1) a slower-than-expected recovery in consumption; 2) the high volatility of raw material prices; 3) rain and cold weather lasting longer than expected; and 4) changing consumer demand and lifestyles. |

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 12-May-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.