

ZEN CORPORATION GROUP
THAILAND / FOOD & BEVERAGE

ZEN TB

BUY

UNCHANGED

รายได้ธุรกิจ Delivery ลดลง ต้นทุนสูงขึ้น

- ผู้บริหารกำลังปรับเป้ารายได้ปี 2023 ลงจากรายได้ธุรกิจ Delivery ที่ต่ำกว่าคาดหลังการระบาดของ Covid บรรเทาลง
- ราคาแฮมมอนเฉลี่ย 2QTD ยังคงปรับขึ้นและสูงกว่าคาด
- เราปรับลดประมาณการกำไรสุทธิปี 2023 ลง 20.7% และราคาเป้าหมายลงเหลือ 15.4 บาท

TARGET PRICE	THB15.40
CLOSE	THB13.20
UP/DOWNSIDE	+16.7%
PRIOR TP	THB20.00
CHANGE IN TP	-23.0%
TP vs CONSENSUS	-14.2%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	3,383	3,742	4,064	4,396
Net profit	154	171	201	227
EPS (THB)	0.51	0.57	0.67	0.76
vs Consensus (%)	-	(12.7)	(17.0)	(17.4)
EBITDA	594	674	769	862
Core net profit	154	171	201	227
Core EPS (THB)	0.51	0.57	0.67	0.76
Chg. In EPS est. (%)	nm	(20.7)	(21.6)	nm
EPS growth (%)	nm	10.8	17.8	12.8
Core P/E (x)	25.7	23.2	19.7	17.5
Dividend yield (%)	1.2	1.3	1.5	1.7
EV/EBITDA (x)	7.7	6.3	5.4	4.7
Price/book (x)	3.1	2.8	2.6	2.4
Net debt/Equity (%)	39.5	18.2	7.8	2.6
ROE (%)	12.8	12.7	13.7	14.2

รายได้ Delivery ชะลอตัว

เรามีมุมมองเชิงลบเล็กน้อยจากที่ประชุมนักวิเคราะห์เมื่อวันที่ 25 พ.ค. 2023 ผู้บริหารกำลังปรับเป้ารายได้ปี 2023 ลงจากปัจจุบันที่ 4.5 พัน ลบ. (+30% y-y) จากรายได้ Delivery ที่ต่ำกว่าคาดหลังการระบาดของ Covid บรรเทาลง ผู้บริหารยังคาดว่ารายได้จากการขายปลีกจะโตในอัตราสูงจากลูกค้าที่เพิ่มขึ้นและการขยายธุรกิจไปตลาดต่างประเทศผ่านการจ้างผลิตทั้งสำหรับแบรนด์ของลูกค้าและแบรนด์ของตัวเอง ในส่วนของธุรกิจ Trading (King Marine, not listed) ZEN วางแผนขยายคลังสินค้าให้มีห้องแช่เย็นที่ใหญ่ขึ้นเพื่อสนับสนุนการหากลุ่มลูกค้าใหม่ อาทิเช่น Thai Airways, HoReCa, ฯลฯ

ราคาแฮมมอนที่สูงเกินคาดกดดันอัตรากำไร

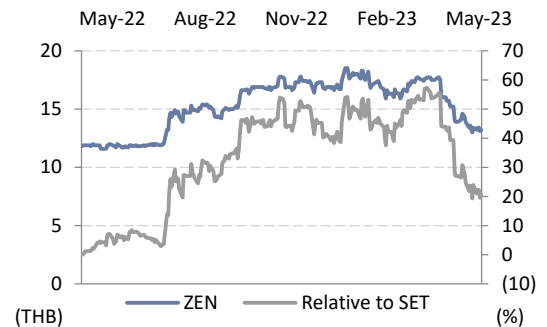
เราเห็นราคาแฮมมอนที่สูงเกินคาดโดยราคาแฮมมอนเฉลี่ยใน 2QTD ได้ปรับขึ้น 4.4% q-q และ 14.5% y-y สำหรับแฮมมอนสดจากนอร์เวย์และ 10.8% q-q และ 12.4% y-y สำหรับแฮมมอนแช่แข็งจากแหล่งเดียวกัน ผู้บริหารเชื่อว่าราคาแฮมมอนที่ปรับขึ้นสอดคล้องกับปัจจัยด้านฤดูกาล ในขณะที่เราคิดว่าไม่เพียงแต่ปัจจัยด้านฤดูกาลเท่านั้นที่เป็นสาเหตุ แต่ยังมีผลกระทบจาก El Nino อีกด้วย อย่างไรก็ตามเราคาดว่าราคาแฮมมอนจะลดลงในช่วง 2H23

คาดการณ์กำไรสุทธิ 2Q23 จะลดลง y-y

ในระยะสั้นเราคาดว่ากำไรสุทธิ 2Q23 ที่ 39 ลบ. (+14.5% q-q, -11.6% y-y) โตขึ้น q-q ส่วนมากจากฤดูกาลที่ดีในธุรกิจร้านอาหาร แม้เราจะคาดว่ากำไรโตของยอดขายสาขาเดิม (SSSG) ใน 2Q23 จะปรับขึ้น 7-8% y-y ปัจจัยดังกล่าวจะชดเชยกับราคาวัตถุดิบที่สูงขึ้นและค่าจ้างแรงงานที่อยู่ในระดับสูง เราคาดว่าอัตรากำไรขั้นต้น 2Q23 ที่ 44% ลดลงจาก 45.7% ใน 2Q22

ปรับลดประมาณการกำไรและราคาเป้าหมาย

เราปรับลดประมาณการกำไรสุทธิปี 2023 ลง 20.7% เป็น 171 ลบ. (+10.8% y-y) เราปรับลดสมมติฐานรายได้รวมปี 2023 ลง 2.3% ส่วนมากจากรายได้ธุรกิจ Delivery ที่ต่ำกว่าคาดถึง 33.3% มาอยู่ที่ 176 ลบ. ในขณะที่เราคาดว่าอัตรากำไรขั้นต้นปี 2023 ที่ต่ำลงเหลือ 44.8% จากเดิมที่ 47% เพื่อสะท้อนราคาแฮมมอนที่สูงเกินคาด ด้วยเหตุดังกล่าวเราปรับลดราคาเป้าหมายลงเหลือ 15.4 จาก 20 บาท (27x ของค่า 2023E P/E) เนื่องจากราคาเป้าหมายใหม่ของเรายังมี Upside ถึง 17% เราคงแนะนำซื้อ ZEN



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(15.9)	(21.9)	12.8
Relative to country (%)	(15.2)	(16.6)	20.4
Mkt cap (USD m)			114
3m avg. daily turnover (USD m)			0.2
Free float (%)			27
Major shareholder		AGB Sibling Holdings (25%)	
12m high/low (THB)			19.20/11.40
Issued shares (m)			300.00

Sources: Bloomberg consensus; FSSIA estimates



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PREPARED BY FSS INTERNATIONAL INVESTMENT ADVISORY SECURITIES CO LTD (FSSIA). ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT

บทวิเคราะห์ฉบับนี้แปลมาจากต้นฉบับภาษาอังกฤษ ที่ออกรายงานเมื่อวันที่ 29 พฤษภาคม 2023

Investment thesis

We think ZEN is one of the leading Japanese chain restaurants in Thailand. The company offers 13 famous Japanese and Thai brands such as ZEN, AKA, On the Table, Sushi Cyu, Tummour, LaoYuan, Kiang, etc. In 2021, ZEN diversified its core revenue structure to reduce risk by expanding its franchise and retail businesses. It plans to raise its franchise and retail business revenue exposure to 30% in 2024 (vs 18.4% in 2022). We expect 2023-24 net profit growth of 10.7% y-y and 17.8% y-y, respectively, due to the recovery in consumption. Furthermore, its M&A strategy could create potential upside and growth opportunities in the future.

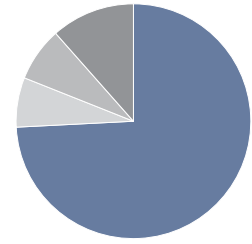
Company profile

Zen Corporation Group operates its business as a holding company with stakes in restaurant industry companies and other related businesses through its subsidiaries. Its three main business groups are as follows: 1) restaurants under the group's brands; 2) franchise businesses under the group's brands; and 3) other related businesses such as catering, delivery, and food retailing.

www.zengroup.co.th

Principal activities (revenue, 2022)

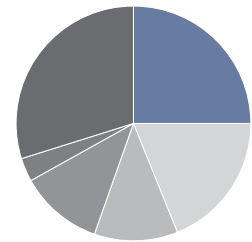
- Restaurant - 74.2 %
- Franchise - 6.8 %
- Delivery & Catering - 7.4 %
- Retail - 11.5 %



Source: Zen Corporation Group

Major shareholders

- AGB Sibling Holdings - 25.0 %
- Morgan Stanley & Co. International - 18.9 %
- Mr. Sakkanon Chirathivat - 11.5 %
- Miss Jomkwan Chirathivat - 11.5 %
- Mrs. Kessara Manasilp - 3.3 %



Source: Zen Corporation Group

Catalysts

Potential catalysts for ZEN's earning growth in 2023 are 1) restaurant revenue growth driven by a traffic recovery; 2) retail revenue growth supported by the tourism recovery; 3) a decline in raw material costs; and 4) its new store expansion plan.

Risks to our call

Downside risks to our P/E-based TP include 1) a slower-than-expected consumption recovery; 2) a potential rise in raw material costs; 3) lower-than-expected new store expansion; and 4) a minimum wage increase and labour shortages.

Event calendar

Date	Event
August 2023	2Q23 results announcement

Key assumptions

	2023E	2024E	2025E
SSSG (%)	5.0	4.0	3.0
New stores - Equity store (no.)	20	20	20
New stores - Franchise store (no.)	20	20	20
Total revenue growth (%)	10.6	8.6	8.2
Gross margin (%)	44.8	45.0	45.2

Source: FSSIA estimates

Earnings sensitivity

- For every 1% increase in SSSG, we estimate 2023 net profit to rise by 0.8%, and vice versa, all else being equal.
- For every 0.2% increase in GPM, we estimate 2023 net profit to rise by 2.8%, and vice versa, all else being equal.
- For every 0.5% increase in SG&A, we estimate 2023 net profit to fall by 6.9%, and vice versa, all else being equal.
- For every 5% increase in labour cost, we estimate 2024 net profit to fall by 8.4%, and vice versa, all else being equal.

Source: FSSIA estimates

1Q23 results pressured by higher costs

ZEN reported a 1Q23 net profit of THB34m (-38% q-q, +8.5x y-y). The y-y growth resulted from the low base last year. 1Q23 same-store sales growth (SSSG) was at 12.5% y-y. The number of stores dropped to 339 stores from 354 in 1Q22. The company has continued to close stores that are not profitable.

The 1Q23 gross margin plunged to 43.8% (vs 45.3% in 4Q22 and 45% in 1Q22); below our forecast. The main reasons were higher staff costs (kitchen area), increasing utility costs (kitchen area), and higher raw material costs. Specifically, the 1Q23 average salmon price rose by 42.5% q-q and 33% y-y.

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	765	686	859	900	938	907	(3.3)	32.1
Cost of sales	399	378	466	480	513	509	(0.8)	34.8
Gross profit	366	309	393	420	425	397	(6.4)	28.7
SG&A	344	295	329	354	351	347	(1.1)	17.7
Operating profit	38	19	69	76	81	57	(30.1)	194.0
Interest expense	9	9	9	8	7	10	44.6	9.1
Tax expense	4	2	11	13	13	8	(35.1)	385.3
Reported net profit	9	4	44	51	55	34	(37.7)	715.9
Core profit	40	4	44	51	55	34	(37.7)	715.9
Key ratios (%)							(ppt)	(ppt)
Gross margin	47.9	45.0	45.7	46.6	45.3	43.8	(1.4)	(1.1)
SG&A to sales	44.9	43.0	38.3	39.3	37.5	38.3	0.9	(4.7)
Operating margin	4.9	2.8	8.1	8.5	8.6	6.2	(2.4)	3.4
Net margin	1.1	0.6	5.1	5.6	5.8	3.8	(2.1)	3.2
Core margin	5.2	0.6	5.1	5.6	5.8	3.8	(2.1)	3.2
Operating statistics								
SSSG (%)	18.5	8.5	52.6	75.2	0.4	12.5		
Total stores (no.)	349	354	356	356	345	339		
Restaurant sales (THB m)	603	502	599	683	728	706	(3.0)	40.6
Franchise sales (THB m)	58	52	61	58	60	52	(13.3)	0.0
Delivery and catering (THB m)	72	68	67	64	52	47	(9.6)	(30.9)
Retail sales (THB m)	32	64	131	96	98	101	3.1	57.8

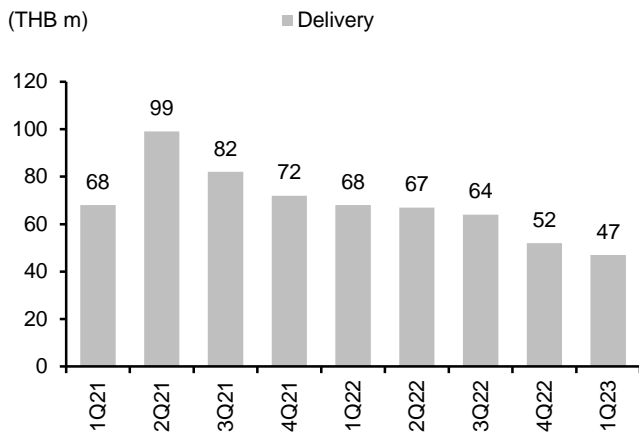
Sources: ZEN; FSSIA's compilation

Slowdown in delivery sales and higher salmon prices

We have a slightly negative view from the analyst meeting on 25 May 2023. Management is revising down its 2023 revenue target from the current target at THB4.5b (+30% y-y), due to lower-than-expected delivery revenue after the easing of Covid. Management still expects high retail business revenue growth from more customers and an overseas market expansion for its products via original equipment manufacturers (OEMs) for customer brands and its own brands. For the trading business, King Marine (not listed), ZEN plans to expand the warehouse with a bigger chilled room to support exploring new customer groups, e.g. Thai Airways, hotels, restaurants, and catering (HoReCa), etc.

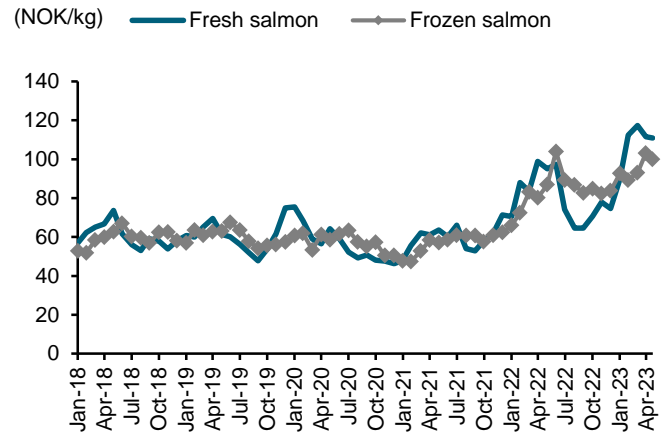
Meanwhile, we are seeing higher-than-expected salmon prices, with the 2QTD average salmon prices increasing by 4.4% q-q and 14.5% y-y for Norway fresh salmon and 10.8% q-q and 12.4% y-y for Norway frozen salmon. Management believes the increasing salmon prices are in line with seasonality, while we think that not only are seasonal factors to blame, but also the impact from the El Nino effect. However, we expect to see declining salmon prices in 2H23.

Exhibit 2: Quarterly delivery revenue



Sources: ZEN; FSSIA's compilation

Exhibit 3: Norway salmon prices



Sources: Bloomberg, FSSIA's compilation

Expect 2Q23 net profit to drop y-y

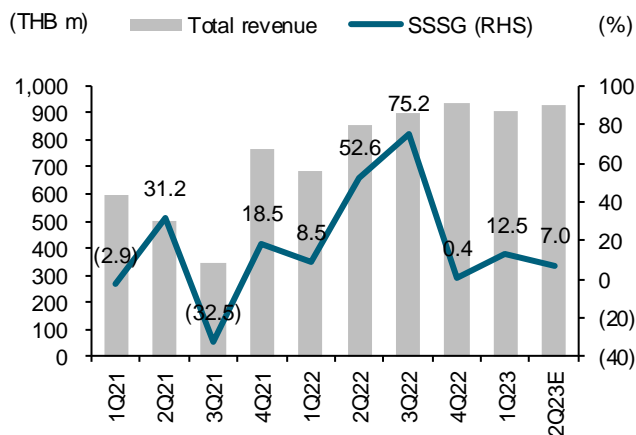
In the short term, we forecast a 2Q23 net profit of THB39m (+14.5% q-q, -11.6% y-y), with the q-q growth mainly coming from the high season for the restaurant business. Even though we expect 2Q23 SSSG to rise by 7-8% y-y, it will likely be offset by higher raw material prices and high labour expenses. We estimate ZEN's 2Q23 gross margin to be at 44%, down from 45.7% in 2Q22.

Exhibit 4: 2Q23 earnings preview

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	---- Change ----		1H22	1H23E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(THB m)	(y-y%)
Sales	765	686	859	900	938	907	928	2.3	8.0	1,545	1,834	18.7
Cost of sales	399	378	466	480	513	509	519	2.0	11.4	844	1,029	21.9
Gross profit	366	309	393	420	425	397	408	2.7	3.9	701	805	14.9
SG&A	344	295	329	354	351	347	352	1.5	7.1	624	700	12.1
Operating profit	38	19	69	76	81	57	62	9.1	(11.2)	89	118	33.4
Interest expense	9	9	9	8	7	10	10	0.1	11.9	18	20	10.5
Tax expense	4	2	11	13	13	8	9	6.7	(19.2)	13	17	35.4
Reported net profit	9	4	44	51	55	34	39	14.5	(11.6)	48	73	51.2
Core profit	40	4	44	51	55	34	39	14.5	(11.6)	48	73	51.2
Key ratios (%)								(ppt)	(ppt)			
Gross margin	47.9	45.0	45.7	46.6	45.3	43.8	44.0	0.2	(1.7)	45.4	43.9	(1.5)
SG&A to sales	44.9	43.0	38.3	39.3	37.5	38.3	38.0	(0.3)	(0.3)	40.4	38.2	(2.3)
Operating margin	4.9	2.8	8.1	8.5	8.6	6.2	6.6	0.4	(1.4)	5.7	6.4	0.7
Net margin	1.1	0.6	5.1	5.6	5.8	3.8	4.2	0.4	(0.9)	3.1	4.0	0.9
Core margin	5.2	0.6	5.1	5.6	5.8	3.8	4.2	0.4	(0.9)	3.1	4.0	0.9

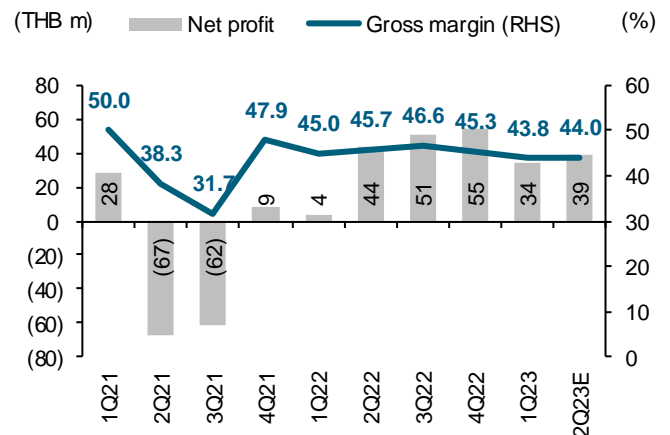
Sources: FSSIA; FSSIA estimates

Exhibit 5: Quarterly SSSG and total revenue



Sources: FSSIA; FSSIA estimates

Exhibit 6: Quarterly net profit and gross margin



Sources: FSSIA; FSSIA estimates

Cut 2023 net profit forecast and target price

In accordance with the earnings plunge in 1Q23 and the higher-than-expected raw material prices, we cut our 2023 net profit forecast by 20.7% to THB171m (+10.8% y-y). We revise down our 2023 total revenue assumption by 2.3%, mainly from lower expected delivery revenue by 33.3% to THB176m. Meanwhile, we expect ZEN's 2023 gross margin to be lower at 44.8% from our previous forecast of 47%, which reflects the higher-than-expected salmon prices. However, we expect to see a higher gross margin in 2H23, when salmon prices may decline.

We maintain our positive view on SSSG for this year due to an expected consumption and tourism recovery in 2H23. In addition, the company is retaining its 2023 new equity store target of 40 stores, but has cut its new franchise store target to 25 from the previous target of 40 stores. However, we maintain our assumptions of 20 new equity stores and 20 franchise stores in 2023.

As a result of our lower forecast, we cut our target price to THB15.4 from THB20, based on 27x 2023E P/E. Its share price has fallen by 27% over the last four months, fully reflecting the poor earnings in 1Q23, in our view. Our new target price has an upside of 17%, hence we maintain our BUY recommendation.

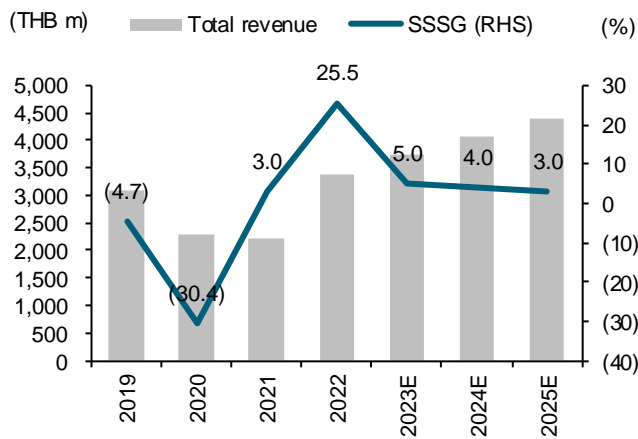
Regarding the potential minimum wage hike, ZEN's total personnel expenses accounted for c29% of total revenue in 2022. Based on our analysis, a 10% personnel expense increase, while other factors remain unchanged, would cause its 2024 net profit to fall by 16.8%. However, if we consider only minimum wage labour, which accounted for c13% of total employees in 2022, our analysis finds that a 10% minimum wage increase would cause 2024 net profit to fall by 3%, all else being equal.

Exhibit 7: Key assumptions for ZEN

	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	3,742	4,064	4,396	3,830	4,157	4,493	(2.3)	(2.2)	(2.2)
Costs	2,066	2,235	2,409	2,030	2,199	2,372	1.8	1.7	1.5
Gross profit	1,676	1,829	1,987	1,800	1,958	2,121	(6.9)	(6.6)	(6.3)
SG&A expense	1,441	1,561	1,688	1,505	1,621	1,752	(4.3)	(3.7)	(3.7)
Interest expense	31	27	23	36	27	29	(12.4)	0.8	(18.7)
Reported net profit	171	201	227	215	254	280	(20.7)	(21.0)	(19.1)
Core profit	171	201	227	215	254	280	(20.7)	(21.0)	(19.1)
Key ratios (%)									
Total revenue growth	10.6	8.6	8.2	13.2	8.5	8.1	(2.6)	0.1	0.1
Net profit growth	10.8	17.8	12.8	39.8	18.2	10.0	(29.0)	(0.5)	2.8
Core profit growth	10.8	17.8	12.8	39.8	18.2	10.0	(29.0)	(0.5)	2.8
Gross margin	44.8	45.0	45.2	47.0	47.1	47.2	(2.2)	(2.1)	(2.0)
SG&A to sales	38.5	38.4	38.4	39.3	39.0	39.0	(0.8)	(0.6)	(0.6)
Net margin	4.6	4.9	5.2	5.6	6.1	6.2	(1.1)	(1.2)	(1.1)
Norm margin	4.6	4.9	5.2	5.6	6.1	6.2	(1.1)	(1.2)	(1.1)
Operating statistics (no.)									
New stores - Equity store	20	20	20	20	20	20			
New stores - Franchise store	20	20	20	20	20	20			
Total stores	413	453	493	413	453	493			
SSSG (%)	5.0	4.0	3.0	5.0	4.0	3.0			
Restaurant sales (THB m)	2,796	3,067	3,319	2,796	3,067	3,319	0.0	0.0	0.0
Franchise sales (THB m)	287	281	298	287	281	298	0.0	0.0	0.0
Delivery & catering (THB m)	176	185	194	265	278	292	(33.3)	(33.3)	(33.3)
Retail sales (THB m)	483	531	584	483	531	584	0.0	0.0	0.0

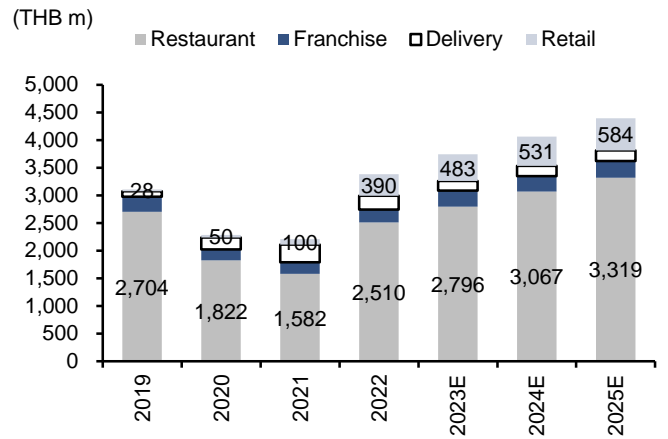
Source: FSSIA estimates

Exhibit 8: Yearly total revenue and SSSG



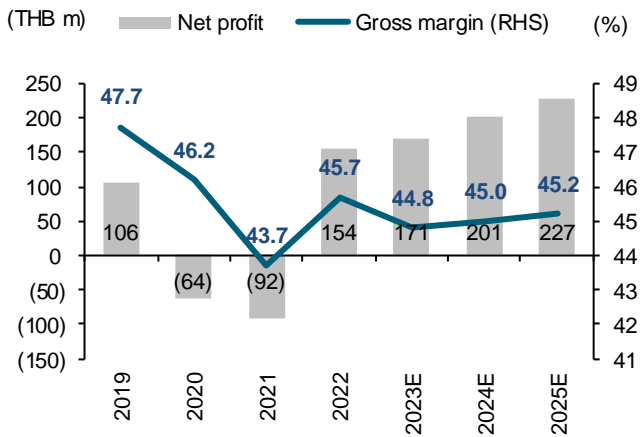
Sources: FSSIA; FSSIA estimates

Exhibit 9: Yearly revenue breakdown by segment



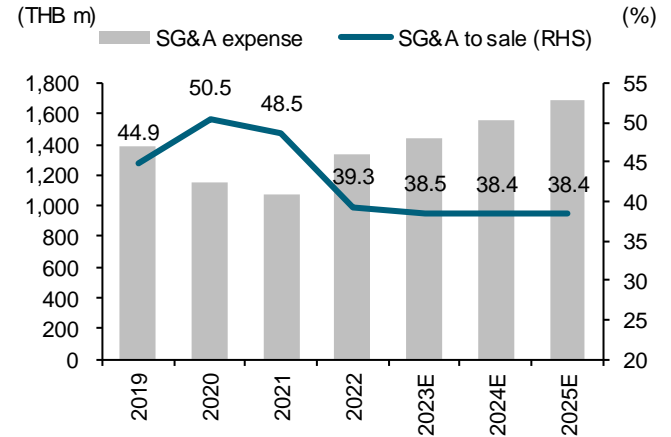
Sources: FSSIA; FSSIA estimates

Exhibit 10: Yearly net profit and gross margin



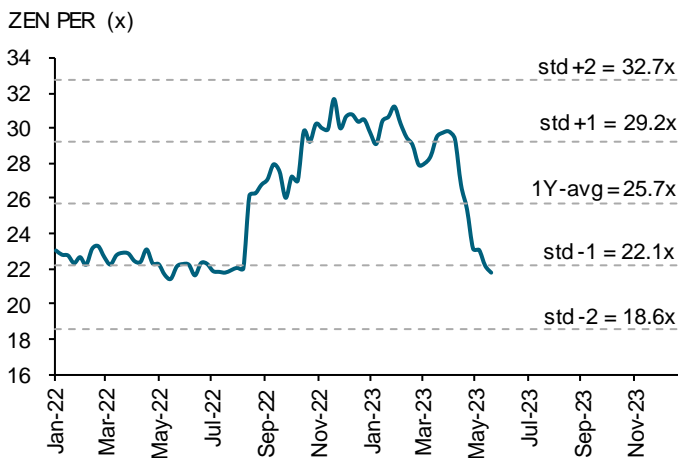
Sources: FSSIA; FSSIA estimates

Exhibit 11: Yearly SG&A



Sources: FSSIA; FSSIA estimates

Exhibit 12: Historical P/E band



Sources: Bloomberg; FSSIA estimates

Exhibit 13: Historical P/BV band



Sources: Bloomberg; FSSIA estimates

Financial Statements

Zen Corporation Group

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	2,209	3,383	3,742	4,064	4,396
Cost of goods sold	(879)	(1,489)	(1,658)	(1,767)	(1,881)
Gross profit	1,329	1,894	2,085	2,297	2,515
Other operating income	47	30	30	33	35
Operating costs	(1,072)	(1,330)	(1,441)	(1,561)	(1,688)
Operating EBITDA	304	594	674	769	862
Depreciation	(363)	(348)	(408)	(468)	(528)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	(59)	246	266	301	334
Net financing costs	(38)	(33)	(31)	(27)	(23)
Associates	(2)	(2)	2	3	0
Recurring non-operating income	(2)	(2)	2	3	0
Non-recurring items	(13)	0	0	0	0
Profit before tax	(112)	211	237	277	311
Tax	23	(39)	(47)	(55)	(62)
Profit after tax	(89)	172	189	221	249
Minority interests	(3)	(18)	(19)	(20)	(22)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	(92)	154	171	201	227
Non-recurring items & goodwill (net)	13	0	0	0	0
Recurring net profit	(78)	154	171	201	227
Per share (THB)					
Recurring EPS *	(0.26)	0.51	0.57	0.67	0.76
Reported EPS	(0.31)	0.51	0.57	0.67	0.76
DPS	0.00	0.16	0.17	0.20	0.23
Diluted shares (used to calculate per share data)	300	300	300	300	300
Growth					
Revenue (%)	(3.3)	53.2	10.6	8.6	8.2
Operating EBITDA (%)	(13.0)	95.4	13.4	14.1	12.1
Operating EBIT (%)	nm	nm	8.0	13.2	11.1
Recurring EPS (%)	nm	nm	10.8	17.8	12.8
Reported EPS (%)	nm	nm	10.8	17.8	12.8
Operating performance					
Gross margin inc. depreciation (%)	43.7	45.7	44.8	45.0	45.2
Gross margin of key business (%)	-	-	-	-	-
Operating EBITDA margin (%)	13.8	17.6	18.0	18.9	19.6
Operating EBIT margin (%)	(2.7)	7.3	7.1	7.4	7.6
Net margin (%)	(3.5)	4.5	4.6	4.9	5.2
Effective tax rate (%)	20.8	18.4	20.0	20.0	20.0
Dividend payout on recurring profit (%)	-	31.2	30.0	30.0	30.0
Interest cover (X)	(1.6)	7.5	8.6	11.1	14.3
Inventory days	43.8	46.6	56.3	54.8	55.6
Debtor days	11.0	8.0	8.3	6.7	5.8
Creditor days	118.4	80.3	74.5	73.0	74.1
Operating ROIC (%)	(3.4)	16.9	20.1	22.4	25.0
ROIC (%)	(2.5)	10.0	11.2	13.4	14.5
ROE (%)	(6.7)	12.8	12.7	13.7	14.2
ROA (%)	(1.7)	7.4	7.9	9.1	9.6
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Restaurant	1,582	2,510	2,796	3,067	3,319
Franchise	206	231	287	281	298
Delivery & Catering	321	252	176	185	194
Retail	100	390	483	531	584

Sources: Zen Corporation Group; FSSIA estimates

Financial Statements

Zen Corporation Group

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	(78)	154	171	201	227
Depreciation	363	348	408	468	528
Associates & minorities	2	2	(2)	(3)	0
Other non-cash items	37	29	(23)	3	3
Change in working capital	14	(102)	25	31	11
Cash flow from operations	338	431	578	700	769
Capex - maintenance	-	-	-	-	-
Capex - new investment	(158)	0	(484)	(480)	(598)
Net acquisitions & disposals	(42)	(390)	253	(29)	(33)
Other investments (net)	-	-	-	-	-
Cash flow from investing	(199)	(390)	(231)	(509)	(631)
Dividends paid	-	0	(51)	(60)	(68)
Equity finance	0	0	0	0	0
Debt finance	(141)	6	(294)	(70)	(70)
Other financing cash flows	2	2	(26)	9	10
Cash flow from financing	(139)	8	(371)	(121)	(128)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	11	0	0	0
Net other adjustments	0	11	0	0	0
Movement in cash	(1)	60	(24)	70	9
Free cash flow to firm (FCFF)	175.84	73.98	377.82	218.00	160.86
Free cash flow to equity (FCFE)	(1.01)	60.15	26.79	130.08	77.08

Per share (THB)

FCFF per share	0.59	0.25	1.26	0.73	0.54
FCFE per share	0.00	0.20	0.09	0.43	0.26
Recurring cash flow per share	1.08	1.78	1.85	2.23	2.53

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	2,445	2,124	2,246	2,311	2,388
Less: Accumulated depreciation	(972)	(1,006)	(1,057)	(1,110)	(1,165)
Tangible fixed assets (net)	1,472	1,118	1,190	1,201	1,223
Intangible fixed assets (net)	290	353	353	353	353
Long-term financial assets	4	326	0	0	0
Invest. in associates & subsidiaries	-	-	-	-	-
Cash & equivalents	268	327	303	373	382
A/C receivable	61	88	82	67	72
Inventories	124	256	255	276	297
Other current assets	42	57	45	49	53
Current assets	495	729	685	764	804
Other assets	296	299	374	406	440
Total assets	2,557	2,824	2,602	2,725	2,820
Common equity	1,122	1,281	1,396	1,537	1,647
Minorities etc.	37	66	42	45	48
Total shareholders' equity	1,159	1,346	1,438	1,582	1,695
Long term debt	650	535	465	395	325
Other long-term liabilities	133	135	109	118	127
Long-term liabilities	784	670	574	513	453
A/C payable	319	337	340	367	396
Short term debt	202	324	100	100	100
Other current liabilities	93	147	150	163	176
Current liabilities	614	808	589	630	672
Total liabilities and shareholders' equity	2,557	2,824	2,602	2,725	2,820
Net working capital	(185)	(83)	(108)	(139)	(150)
Invested capital	1,878	2,013	1,809	1,822	1,866

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

Per share (THB)

Book value per share	3.74	4.27	4.65	5.12	5.49
Tangible book value per share	2.77	3.09	3.48	3.94	4.31

Financial strength

Net debt/equity (%)	50.5	39.5	18.2	7.8	2.6
Net debt/total assets (%)	22.9	18.8	10.1	4.5	1.5
Current ratio (x)	0.8	0.9	1.2	1.2	1.2
CF interest cover (x)	5.2	2.8	17.4	23.4	29.9

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	(50.6)	25.7	23.2	19.7	17.5
Recurring P/E @ target price (x) *	(59.0)	30.0	27.1	23.0	20.4
Reported P/E (x)	(43.2)	25.7	23.2	19.7	17.5
Dividend yield (%)	-	1.2	1.3	1.5	1.7
Price/book (x)	3.5	3.1	2.8	2.6	2.4
Price/tangible book (x)	4.8	4.3	3.8	3.3	3.1
EV/EBITDA (x) **	15.1	7.7	6.3	5.4	4.7
EV/EBITDA @ target price (x) **	17.2	8.8	7.3	6.2	5.5
EV/invested capital (x)	2.4	2.3	2.4	2.3	2.2

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

Sources: Zen Corporation Group; 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

Sureeporn Teewasuwet FSS International Investment Advisory Securities Co., Ltd

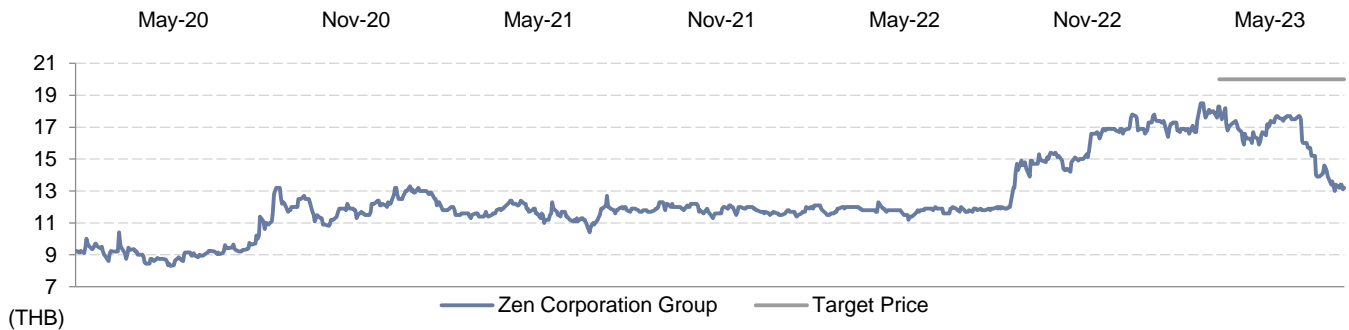
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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History of change in investment rating and/or target price

Zen Corporation Group (ZEN TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
07-Feb-2023	BUY	20.00	-	-	-	-	-	-

Sureeporn Teewasuwet started covering this stock from 07-Feb-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Zen Corporation Group	ZEN TB	THB 13.20	BUY	Downside risks to our P/E-based TP include 1) a slower-than-expected consumption recovery; 2) a potential rise in raw material costs; 3) lower-than-expected new store expansion; and 4) a minimum wage increase and labour shortages.

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 Finasia 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 Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

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