

# I-TAIL CORPORATION

## THAILAND / FOOD & BEVERAGE

# ITC TB

# BUY

UNCHANGED

TARGET PRICE	THB30.00
CLOSE	THB17.50
UP/DOWNSIDE	+71.4%
PRIOR TP	THB30.00
CHANGE IN TP	UNCHANGED
TP vs CONSENSUS	+23.6%

## A restocking is coming

- ITC's 2Q23 earnings were in line with our estimate. 1Q23 should be the bottom of this year.
- We have a slightly positive view from the analyst meeting, with restocking and increased selling prices on the way.
- Retain BUY call with the same 2024 TP of THB30.

### 2Q23 earnings in line with our expectation

ITC reported a 2Q23 net profit of THB445m (+5% q-q, -67% y-y), in line with our estimate. Excluding an FX gain of THB12m, the company's normalised earnings were equal to THB433m (+5% q-q, -63% y-y). Total revenue dropped by 9.6% q-q and 40% y-y, in line with Thailand's pet food exports in 2Q23, which sharply dropped by 5.6% q-q and 24% y-y. The main reason was that US and EU customers' destocking had not ended. In particular, 2Q23 cat food revenue decreased by 5.6% q-q and 43% y-y, while treat revenue sharply dropped by 32% q-q and 54% y-y.

### Overall profitability was poor but improved from 1Q23

ITC's 2Q23 gross margin sharply decreased y-y to 18.4%, down from 28.2% in 2Q22 (vs 17.4% in 1Q23), due to 1) a lower sales volume; 2) higher tuna costs; and 3) changes in the product mix – its premium product mix dropped to a 44.1% proportion in 1H23 (vs 49.3% in 2022). To elaborate, the average 2Q23 tuna price was equal to USD2,000 per tonne (+9.9% q-q, +24.4% y-y). Meanwhile, SG&A to sales increased to 9.2%, up from 8.4% in 1Q23 and 5.8% in 2Q22, due to lower revenue.

### Recovery outlook confirmed by management's message

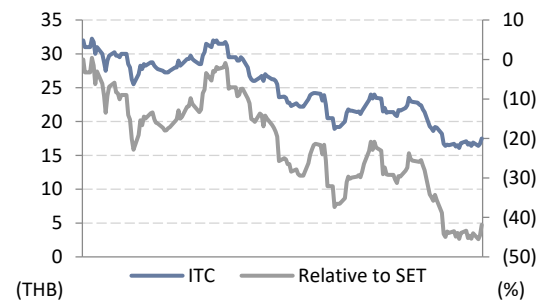
We have a slightly positive view from the analyst meeting on 27 July 2023. Management mentioned that a restocking signal was evident from its major customers in 3Q23, with more than 80% of its targeted orders secured, in line with Thailand's pet food exports in June 2023 which rose by 6.8% m-m – increasing for two months in a row. Aside from that, ITC has negotiated higher selling prices by 3-5% in 3Q23 to reflect the higher tuna costs. However, with the poor 1H23 results, management revised the 2023 revenue growth target down to -26-27% y-y from 0-1% y-y, and its gross margin target to 19-20% from 22.5-23.5%.

### Maintain our forecasts and recommendation

We maintain our 2023-24 net profit forecasts of THB2b (-54% y-y) and THB3.56b (+76% y-y). Our assumptions are more conservative than ITC's new targets. We think ITC's 1Q23 profit will be the bottom and expect to see a profit recovery in 3Q23 onward. We retain our BUY call with the same 2024 target price at THB30, based on 25x 2024E P/E. ITC announced a 1H23 DPS of THB0.25, implying a dividend yield of 1.4%.

### KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	21,420	15,395	19,654	21,772
Net profit	4,401	2,020	3,562	4,160
EPS (THB)	2.56	0.67	1.19	1.39
vs Consensus (%)	-	(13.3)	(2.2)	(7.9)
EBITDA	4,928	2,950	4,577	5,286
Recurring net profit	4,226	2,020	3,562	4,160
Core EPS (THB)	2.46	0.67	1.19	1.39
Chg. In EPS est. (%)	-	-	-	-
EPS growth (%)	(63.7)	(72.6)	76.3	16.8
Core P/E (x)	7.1	26.0	14.7	12.6
Dividend yield (%)	9.5	3.1	4.7	5.5
EV/EBITDA (x)	8.0	13.4	8.7	7.5
Price/book (x)	2.1	2.1	2.0	1.9
Net debt/Equity (%)	(52.8)	(51.4)	(47.9)	(47.9)
ROE (%)	26.5	8.1	14.0	15.6



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(9.3)	(26.8)	n/a
Relative to country (%)	(11.7)	(25.8)	n/a
Mkt cap (USD m)	1,532		
3m avg. daily turnover (USD m)	3.3		
Free float (%)	22		
Major shareholder	Thai Union Group (78%)		
12m high/low (THB)	33.75/15.70		
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.

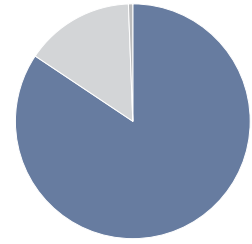
## Company profile

ITC was one of the top 10 global pet food companies by value in 2021 and ranked second in Asia. ITC is the Global Pet Care (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)

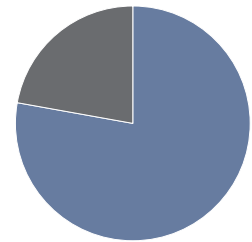
- Pet Food - 84.4 %
- Treats - 15.0 %
- Other - 0.6 %



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 P/E-based TP include 1) a stronger-than-expected THB against USD; 2) the high volatility of raw material prices; 3) labour shortages; and 4) changing consumer demand and lifestyles.

## Event calendar

Date	Event
November 2023	3Q23 results announcement

## Key assumptions

	2023E	2024E	2025E
Total capacity (tonnes/year)	194,872	206,627	224,103
Sales volume (tonnes/year)	103,038	127,895	140,453
Utilisation rate (%)	52.9	61.9	62.7
FX rate (USD/THB)	33.0	33.0	33.0
Tuna price (USD/tonne)	1,700	1,600	1,500
Total sales growth (%)	(28.1)	27.7	10.8
Gross margin (%)	19.0	22.5	23.5

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 aluminium 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

## Exhibit 1: 2Q23 earnings results

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	----- Change -----		1H22	1H23	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(THB m)	(y-y%)
Sales	4,307	5,400	6,122	5,591	3,587	3,243	(9.6)	(39.9)	9,707	6,830	(29.6)
Cost of sales	3,283	3,877	4,570	4,341	2,962	2,645	(10.7)	(31.8)	7,160	5,607	(21.7)
Gross profit	1,024	1,522	1,552	1,250	625	598	(4.3)	(60.7)	2,547	1,223	(52.0)
SG&A	265	312	321	341	301	298	(1.0)	(4.5)	577	599	3.8
Operating profit	807	1,244	1,289	1,017	447	431	(3.7)	(65.4)	2,052	878	(57.2)
Interest expense	8	13	31	30	6	2	(70.3)	(86.9)	22	8	(64.8)
Tax expense	(74)	60	17	45	26	(4)	(116.8)	(107.1)	(14)	21	(253.4)
Other gain (loss)	35	179	227	(266)	11	12	5.9	(93.3)	214	23	(89.2)
Reported net profit	908	1,349	1,468	676	425	445	4.6	(67.0)	2,258	870	(61.5)
Core profit	874	1,170	1,241	941	414	433	4.6	(63.0)	2,044	847	(58.6)
<b>Key ratios (%)</b>							<b>(ppt)</b>	<b>(ppt)</b>			
Gross margin	23.8	28.2	25.4	22.4	17.4	18.4	1.0	(9.8)	26.2	17.9	(8.3)
SG&A to sales	6.2	5.8	5.2	6.1	8.4	9.2	0.8	3.4	5.9	8.8	2.8
Operating margin	18.7	23.0	21.0	18.2	12.5	13.3	0.8	(9.8)	21.1	12.9	(8.3)
Net margin	21.1	25.0	24.0	12.1	11.9	13.7	1.9	(11.3)	23.3	12.7	(10.5)
Core margin	20.3	21.7	20.3	16.8	11.5	13.4	1.8	(8.3)	21.1	12.4	(8.7)
<b>Operating statistics (THB m)</b>											
Cat food sales	3,015	3,953	4,429	4,138	2,399	2,264	(5.6)	(42.7)	6,969	4,663	(33.1)
Dog food sales	496	695	676	671	594	563	(5.2)	(19.0)	1,191	1,157	(2.9)
Treat sales	775	728	989	727	499	338	(32.3)	(53.5)	1,503	837	(44.3)
THB/USD	33.1	34.4	36.4	36.3	33.9	34.4	1.3	(0.1)	33.8	34.2	1.2
Tuna price (USD/tonne)	1,717	1,608	1,667	1,660	1,820	2,000	9.9	24.4	1,663	1,910	14.9

Sources: ITC, FSSIA estimates

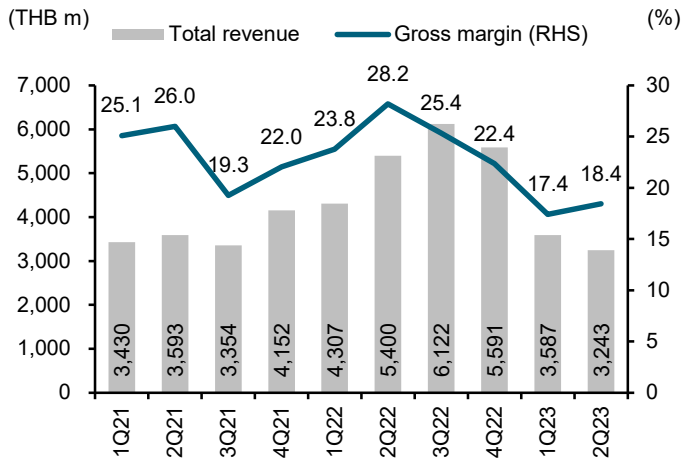
## Exhibit 2: Key assumptions for ITC

Assumptions	Actual	----- Forecast -----			----- Growth -----		
	2022	2023E	2024E	2025E	2023E	2024E	2025E
					(%)	(%)	(%)
Total capacity (tonnes)	172,786	194,872	206,627	224,103	12.8	6.0	8.5
Utilisation rate (%)	79.6	52.9	61.9	62.7	(33.6)	17.1	1.3
Total sales volume (tonnes)	137,572	103,038	127,895	140,453	(25.1)	24.1	9.8
FX rate (THB/USD)	35.0	33.0	33.0	33.0	(5.7)	0.0	0.0
Total sales value (THB m)	21,420	15,395	19,654	21,772	(28.1)	27.7	10.8
Cat food	15,535	10,905	14,040	15,599	(29.8)	28.8	11.1
Dog food	2,538	2,091	2,584	2,837	(17.6)	23.6	9.8
Treats	3,219	2,115	2,723	3,014	(34.3)	28.8	10.7
Gross profit (THB m)	5,349	2,925	4,422	5,117	(45.3)	51.2	15.7
Gross margin (%)	25.0	19.0	22.5	23.5	1.9	(6.0)	3.5
SG&A expenses (THB m)	1,239	1,193	1,278	1,415	26.2	(3.7)	7.1
SG&A to sales (%)	5.8	7.8	6.5	6.5	(1.0)	2.0	(1.3)
Reported net profit (THB m)	4,401	2,020	3,562	4,160	61.8	(54.1)	76.3
Net margin (%)	20.5	13.1	18.1	19.1	1.8	(7.4)	5.0
Core profit (THB m)	4,226	2,020	3,562	4,160	72.4	(52.2)	76.3
Core margin (%)	19.7	13.1	18.1	19.1	2.9	(6.6)	5.0

Note: Change of items in percentage terms are represented in ppt change

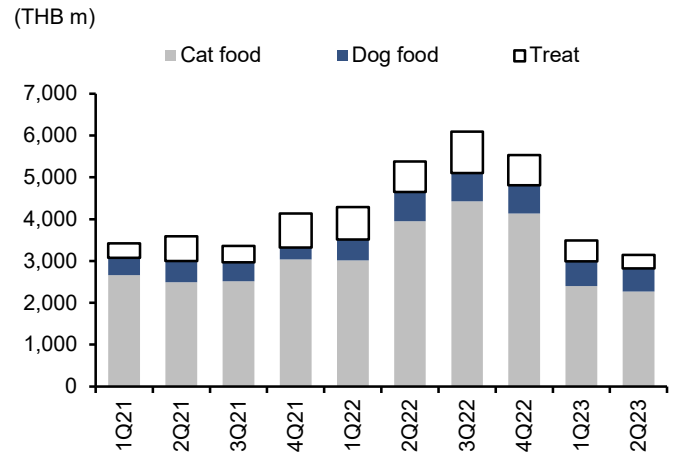
Source: FSSIA estimates

**Exhibit 3: Quarterly total revenue and gross margin**



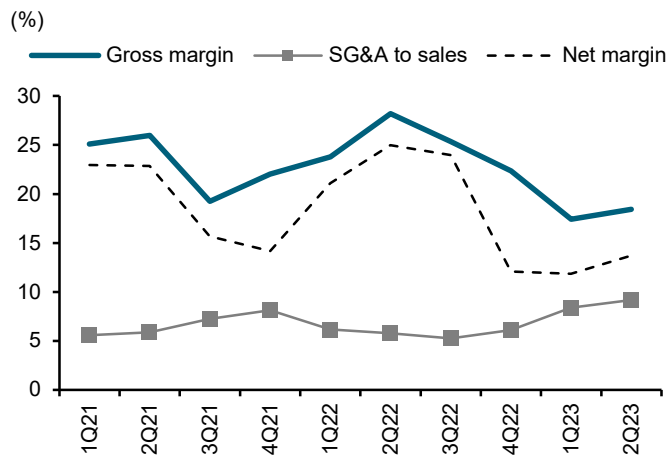
Sources: ITC; FSSIA's compilation

**Exhibit 4: Sales value broken down by product**



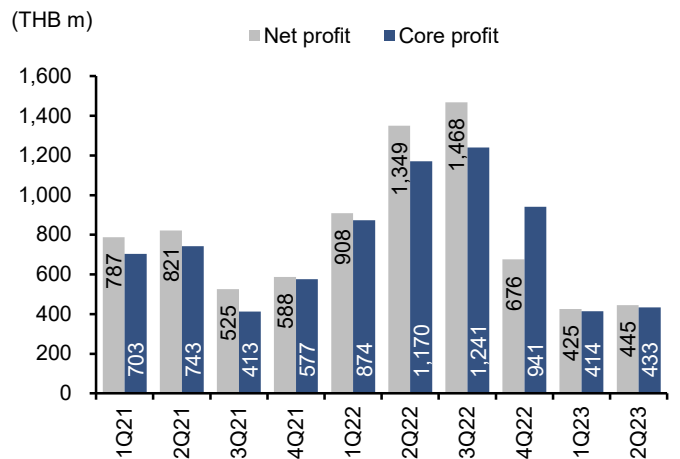
Sources: ITC; FSSIA's compilation

**Exhibit 5: Quarterly profitability**



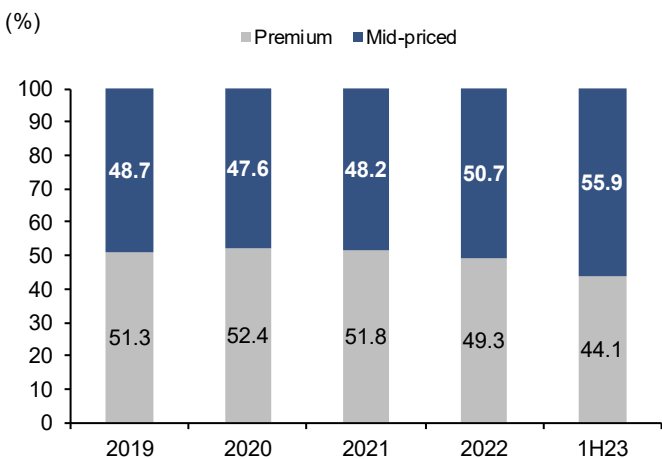
Sources: ITC; FSSIA's compilation

**Exhibit 6: Quarterly net profit and core profit**



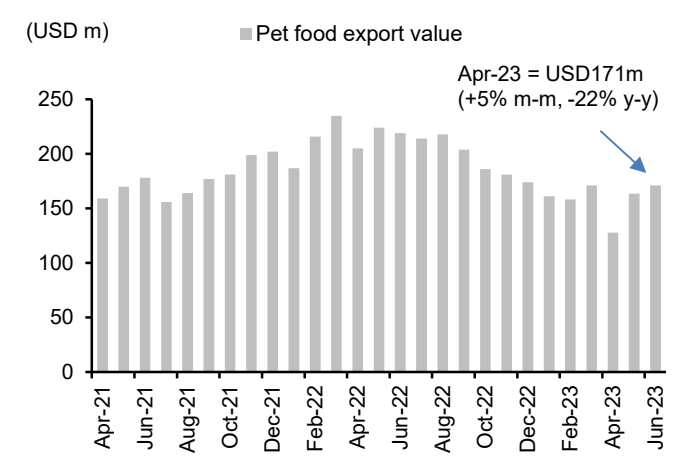
Sources: ITC; FSSIA's compilation

**Exhibit 7: ITC's premium product mix in 1H23**



Source: ITC

**Exhibit 8: Thailand's monthly pet food exports by value**



Source: Tradereport.moc.go.th

## Financial Statements

i-Tail Corporation

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	14,529	21,420	15,395	19,654	21,772
Cost of goods sold	(11,173)	(16,071)	(12,470)	(15,232)	(16,656)
<b>Gross profit</b>	<b>3,356</b>	<b>5,349</b>	<b>2,925</b>	<b>4,422</b>	<b>5,117</b>
Other operating income	121	247	377	491	544
Operating costs	(982)	(1,239)	(1,193)	(1,278)	(1,415)
<b>Operating EBITDA</b>	<b>3,031</b>	<b>4,928</b>	<b>2,950</b>	<b>4,577</b>	<b>5,286</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>2,109</b>	<b>3,636</b>	<b>4,246</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>2,089</b>	<b>3,621</b>	<b>4,230</b>
Tax	(28)	(48)	(63)	(54)	(63)
<b>Profit after tax</b>	<b>2,721</b>	<b>4,401</b>	<b>2,026</b>	<b>3,567</b>	<b>4,167</b>
Minority interests	0	0	(6)	(5)	(7)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>2,721</b>	<b>4,401</b>	<b>2,020</b>	<b>3,562</b>	<b>4,160</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>2,020</b>	<b>3,562</b>	<b>4,160</b>
<b>Per share (THB)</b>					
Recurring EPS *	6.77	2.46	0.67	1.19	1.39
Reported EPS	7.56	2.56	0.67	1.19	1.39
DPS	4.00	1.66	0.54	0.83	0.97
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	(28.1)	27.7	10.8
Operating EBITDA (%)	(1.9)	62.6	(40.1)	55.2	15.5
Operating EBIT (%)	(4.4)	74.6	(51.6)	72.4	16.8
Recurring EPS (%)	(4.3)	(63.7)	(72.6)	76.3	16.8
Reported EPS (%)	6.8	(66.1)	(73.7)	76.3	16.8
<b>Operating performance</b>					
Gross margin inc. depreciation (%)	23.1	25.0	19.0	22.5	23.5
Gross margin exc. depreciation (%)	26.8	27.6	24.5	27.3	28.3
Operating EBITDA margin (%)	20.9	23.0	19.2	23.3	24.3
Operating EBIT margin (%)	17.2	20.3	13.7	18.5	19.5
Net margin (%)	16.8	19.7	13.1	18.1	19.1
Effective tax rate (%)	1.0	1.1	3.0	1.5	1.5
Dividend payout on recurring profit (%)	59.1	67.6	80.0	70.0	70.0
Interest cover (X)	78.5	52.8	104.4	249.0	273.9
Inventory days	98.3	93.6	123.5	96.9	102.1
Debtor days	54.3	48.8	71.7	53.5	57.1
Creditor days	47.0	46.3	63.7	48.5	51.1
Operating ROIC (%)	24.9	33.7	14.2	23.4	25.4
ROIC (%)	24.2	32.5	13.7	22.5	24.2
ROE (%)	39.3	26.5	8.1	14.0	15.6
ROA (%)	22.1	21.6	7.4	13.0	14.4
* Pre-exceptional, pre-goodwill and fully diluted					
<b>Revenue by Division (THB m)</b>					
Pet Food	12,361	18,073	12,996	16,624	18,436
Treats	2,148	3,219	2,115	2,723	3,014
Other	19	128	284	307	322

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	2,020	3,562	4,160
Depreciation	536	571	841	941	1,041
Associates & minorities	0	16	(1)	4	2
Other non-cash items	-	-	-	-	-
Change in working capital	(608)	(2,972)	2,032	(1,279)	(643)
<b>Cash flow from operations</b>	<b>2,363</b>	<b>1,841</b>	<b>4,892</b>	<b>3,228</b>	<b>4,560</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)	31	(128)	(64)
<b>Cash flow from investing</b>	<b>(1,310)</b>	<b>(1,039)</b>	<b>(3,123)</b>	<b>(1,128)</b>	<b>(1,064)</b>
Dividends paid	(1,257)	(7,471)	(1,616)	(2,493)	(2,912)
Equity finance	0	20,795	0	0	0
Debt finance	(860)	(1,559)	(14)	(5)	(5)
Other financing cash flows	(344)	(16)	(511)	21	11
<b>Cash flow from financing</b>	<b>(2,462)</b>	<b>11,749</b>	<b>(2,141)</b>	<b>(2,477)</b>	<b>(2,906)</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>(373)</b>	<b>(377)</b>	<b>590</b>
Free cash flow to firm (FCFF)	1,084.90	884.37	1,788.70	2,115.12	3,511.94
Free cash flow to equity (FCFE)	(151.76)	(773.10)	1,243.67	2,116.82	<b>3,502.03</b>

#### Per share (THB)

FCFF per share	0.36	0.29	0.60	0.71	1.17
FCFE per share	(0.05)	(0.26)	0.41	0.71	1.17
Recurring cash flow per share	8.25	2.80	0.95	1.50	1.73

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	6,749	7,583	9,548	9,718	9,792
Less: Accumulated depreciation	(2,546)	(2,648)	(2,754)	(2,864)	(2,979)
<b>Tangible fixed assets (net)</b>	<b>4,203</b>	<b>4,935</b>	<b>6,794</b>	<b>6,853</b>	<b>6,813</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	12,881	12,504	13,095
A/C receivable	2,207	3,517	2,531	3,231	3,579
Inventories	3,498	4,454	3,416	4,173	4,563
Other current assets	627	1,526	770	983	1,089
<b>Current assets</b>	<b>7,035</b>	<b>22,750</b>	<b>19,598</b>	<b>20,891</b>	<b>22,325</b>
Other assets	270	493	462	590	653
<b>Total assets</b>	<b>11,508</b>	<b>28,178</b>	<b>26,854</b>	<b>28,334</b>	<b>29,791</b>
Common equity	6,818	25,029	24,979	26,047	27,295
Minorities etc.	0	16	15	20	22
<b>Total shareholders' equity</b>	<b>6,818</b>	<b>25,045</b>	<b>24,994</b>	<b>26,067</b>	<b>27,317</b>
Long term debt	22	29	24	19	14
Other long-term liabilities	604	588	77	98	109
<b>Long-term liabilities</b>	<b>626</b>	<b>617</b>	<b>100</b>	<b>117</b>	<b>122</b>
A/C payable	1,576	2,353	1,708	2,087	2,282
Short term debt	2,310	14	5	5	5
Other current liabilities	179	150	46	59	65
<b>Current liabilities</b>	<b>4,065</b>	<b>2,517</b>	<b>1,759</b>	<b>2,151</b>	<b>2,352</b>
<b>Total liabilities and shareholders' equity</b>	<b>11,508</b>	<b>28,178</b>	<b>26,854</b>	<b>28,334</b>	<b>29,791</b>
Net working capital	4,577	6,994	4,962	6,241	6,884
Invested capital	9,051	12,421	12,218	13,684	14,350

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

#### Per share (THB)

Book value per share	18.94	8.34	8.33	8.68	9.10
Tangible book value per share	18.94	8.34	8.33	8.68	9.10

#### Financial strength

Net debt/equity (%)	23.9	(52.8)	(51.4)	(47.9)	(47.9)
Net debt/total assets (%)	14.2	(46.9)	(47.9)	(44.0)	(43.9)
Current ratio (x)	1.7	9.0	11.1	9.7	9.5
CF interest cover (x)	(3.8)	(8.4)	62.6	146.0	226.9

Valuation	2021	2022	2023E	2024E	2025E
<b>Recurring P/E (x) *</b>	<b>2.6</b>	<b>7.1</b>	<b>26.0</b>	<b>14.7</b>	<b>12.6</b>
<b>Recurring P/E @ target price (x) *</b>	<b>4.4</b>	<b>12.2</b>	<b>44.5</b>	<b>25.3</b>	<b>21.6</b>
Reported P/E (x)	2.3	6.8	26.0	14.7	12.6
Dividend yield (%)	22.9	9.5	3.1	4.7	5.5
Price/book (x)	0.9	2.1	2.1	2.0	1.9
Price/tangible book (x)	0.9	2.1	2.1	2.0	1.9
EV/EBITDA (x) **	2.6	8.0	13.4	8.7	7.5
EV/EBITDA @ target price (x) **	4.1	15.6	26.2	16.9	14.6
EV/invested capital (x)	0.9	3.2	3.2	2.9	2.7

\* 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).

### Corporate Governance Report Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. KS does not confirm nor certify the accuracy of such survey result.

### 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 **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 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

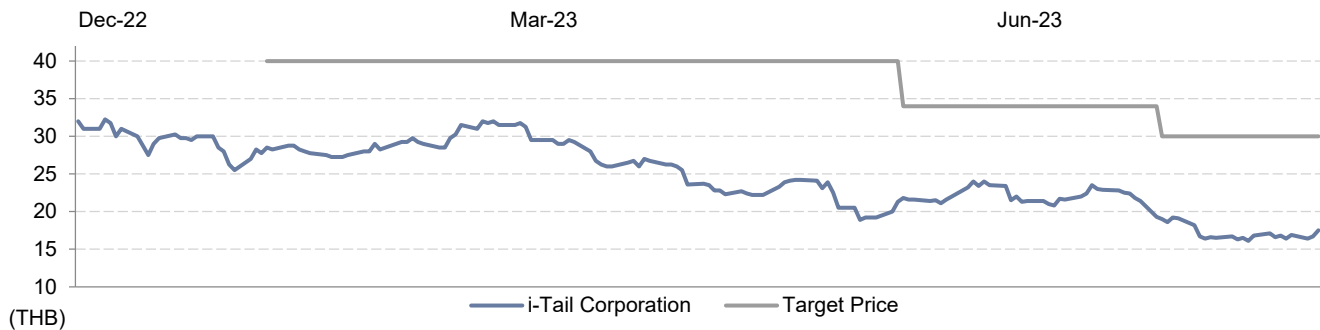
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#### History of change in investment rating and/or target price

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



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
11-Jan-2023	BUY	40.00	09-May-2023	BUY	34.00	26-Jun-2023	BUY	30.00

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	09-May-2023	BUY	20.00	10-Jul-2023	BUY	18.00

Sureeporn Teewasuwet 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 17.50	BUY	Downside risks to our P/E-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 12.90	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 26-Jul-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.