

# INOUE RUBBER (THAILAND)

THAILAND / AUTOMOTIVE

## IRC TB

# BUY

FROM HOLD

TARGET PRICE	THB15.00
CLOSE	THB13.50
UP/DOWNSIDE	+11.1%
PRIOR TP	THB14.00
CHANGE IN TP	+7.1%
TP vs CONSENSUS	+2.0%

## Lower cost to drive 4QFY23 profit

- Expect 4QFY23 core profit to grow 43% q-q and 33% y-y.
- We cut our profit forecasts for FY23-FY25 to reflect our more cautious view on its sales outlook and the absence of dividend income from its subsidiary.
- Upgrade to BUY as we roll over our TP to THB15.00 in FY24.

### Domestic vehicle sales to face headwinds throughout 2023

Thailand's motorcycle production in July 2023 came in at 170K units (+11% y-y, -18% m-m), driven by exports which soared 80% y-y while local sales increased 13% y-y. Like motorcycle production, the July car production of 150K units was largely driven by exports as the shortage of chips and auto parts continued to ease. For 7M23, motorcycle sales rose 10% y-y while car sales contracted 6% y-y. The effects of high inflation, rising household debts, and tightened auto bank loans have been felt in several sectors this year, including the car and motorbike industries.

### Expected margin improvement should drive 4QFY23 profit

We expect IRC's 4QFY23 revenue to grow 17% q-q from the low season last quarter, but fall 3% y-y due to the sluggish domestic demand. The increased utilisation rate and lower energy-related costs should drive its gross margin to 9.3% from 8.9% in 3QFY23 and 6.8% in 4QFY22. The company still maintains its debt-free position, we believe. With the improved margin and no-interest bearing debt, we expect IRC to deliver a net profit of THB42m in 4QFY23, +43% q-q and +33% y-y. This should result in an annual net profit of THB149m in FY23 (October 2022-September 2023), a rise of 35% y-y, but 8% lower than previously forecast.

### Earnings cuts on more cautious view of sales outlook

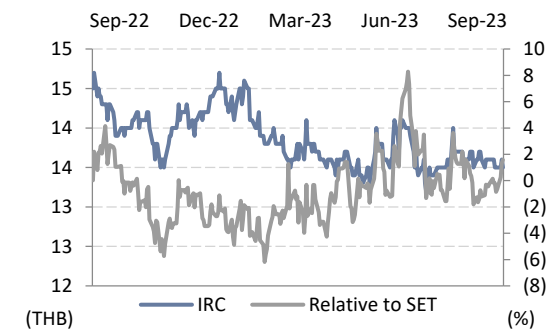
We cut our core profit forecasts for FY23-FY25 by 8%/13%/15% to reflect our more cautious view of its domestic sales outlook. We also remove the dividend income from its subsidiary in Vietnam amounting to THB10m-15m per year for the next four years, as its subsidiary is entering a new investment phase. IRC's core profit should grow at a slower rate of 17% in FY24 and 23% in FY25, down from 23% and 26% in our previous forecast.

### Upgrade to BUY with FY24 TP of THB15.00

Despite the earnings cuts, we raise our TP to THB15.00 from THB14.00 as we roll over to its FY24 operations. Our TP is still based on a P/E of 17x, equal to its five-year historical average. We upgrade our rating to BUY from Hold as the share price upside is larger than 10%.

### KEY STOCK DATA

YE Sep (THB m)	2022	2023E	2024E	2025E
Revenue	5,883	5,638	6,003	6,423
Net profit	110	149	174	214
EPS (THB)	0.55	0.77	0.91	1.12
vs Consensus (%)	-	-	-	-
EBITDA	483	524	554	598
Recurring net profit	110	149	174	214
Core EPS (THB)	0.55	0.77	0.91	1.12
Chg. In EPS est. (%)	-	(4.6)	(9.2)	(11.3)
EPS growth (%)	(67.7)	40.9	16.9	23.2
Core P/E (x)	24.6	17.4	14.9	12.1
Dividend yield (%)	2.2	2.9	3.4	4.1
EV/EBITDA (x)	3.7	3.1	3.0	2.7
Price/book (x)	0.7	0.6	0.6	0.6
Net debt/Equity (%)	(23.4)	(23.8)	(22.9)	(22.6)
ROE (%)	2.8	3.8	4.2	5.1



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.7)	(1.5)	(6.9)
Relative to country (%)	0.0	0.5	1.2
Mkt cap (USD m)	72		
3m avg. daily turnover (USD m)	0.0		
Free float (%)	24		
Major shareholder	Inoue Rubber Co Ltd (34%)		
12m high/low (THB)	17.00/13.20		
Issued shares (m)	192.21		

Sources: Bloomberg consensus; FSSIA estimates


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## Investment thesis

We upgrade our rating for IRC to BUY from Hold with a TP of THB15.00 as we roll over our TP to its FY24 operations. However, we cut our core profit forecasts for FY23-FY25 by 8%/13%/15% to reflect our more cautious view of its domestic sales outlook. We also remove the dividend income from its subsidiary in Vietnam amounting to THB10m-15m per year for the next four years, as its subsidiary is entering a new investment phase. The overall market for the motorcycle industry in Thailand may see challenges throughout 2023 as household debt is still high and interest rates keep rising.

IRC, however, has a strong base as a leading manufacturer of industrial elastomer products and motorcycle tires and tubes for over 50 years. IRC, as a debt-free company, is also cash rich at THB4.97 per share at end-June 2023, or 37% of its current share price.

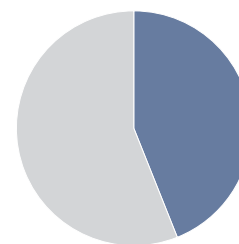
## Company profile

Inoue Rubber (Thailand) (IRC) was established by Inoue Rubber Co Ltd Japan and the Leeissaranukul family in 1969. IRC manufactures elastomer products for automotive and other industries, along with motorcycle tires and tubes. The company has two plants at Rangsit, Pathumtani province, producing tires and tubes, and Ayutthaya province producing automotive and industrial elastomer.

[www.ircthailand.com](http://www.ircthailand.com)

## Principal activities (revenue, 2022)

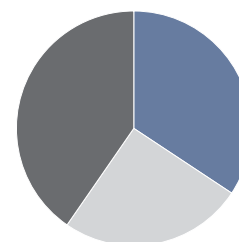
- Motorcycle tires and tubes - 44.0 %
- Industrial elastomer parts - 56.0 %



Source: Inoue Rubber (Thailand)

## Major shareholders

- Inoue Rubber Co Ltd - 34.3 %
- KK International Co Ltd - 25.3 %
- Others - 40.4 %



Source: Inoue Rubber (Thailand)

## Catalysts

Key potential catalysts include 1) stronger demand for cars and motorcycles in the region; 2) China's stimulus measures, which should boost the global economy; and 3) lower costs for raw materials.

## Risks to our call

Downside risks to our P/E-based TP include 1) weaker demand from the automotive industry; 2) a sharp rise in the price of crude oil; and 3) chip supply shortages.

## Event calendar

Date	Event
November 2023	FY23 earnings announcement

## Key assumptions

YE Sep	FY23E (THB m)	FY24E (THB m)	FY25E (THB m)
Industrial elastomer parts	3,157	3,362	3,597
<i>Growth (%)</i>	<i>(4.2)</i>	<i>6.5</i>	<i>7.0</i>
Motorcycle tire & tube	2,481	2,641	2,826
<i>Growth (%)</i>	<i>(4.1)</i>	<i>6.5</i>	<i>7.0</i>
Gross margin (%)	8.8	8.9	9.4
SG&A to sales (%)	6.8	6.5	6.5

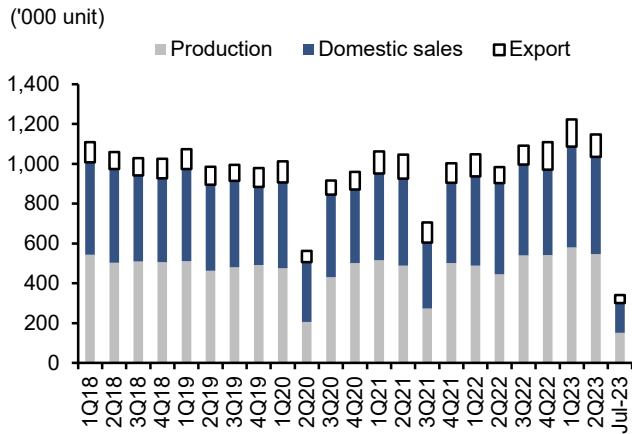
Source: FSSIA estimates

## Earnings sensitivity

- For every 0.5% change in its gross margin, we project IRC's FY24 net profit to change by 13%, all else being equal.
- For every 1% change in its SG&A to sales, we forecast IRC's FY24 net profit to change by 2%, all else being equal.

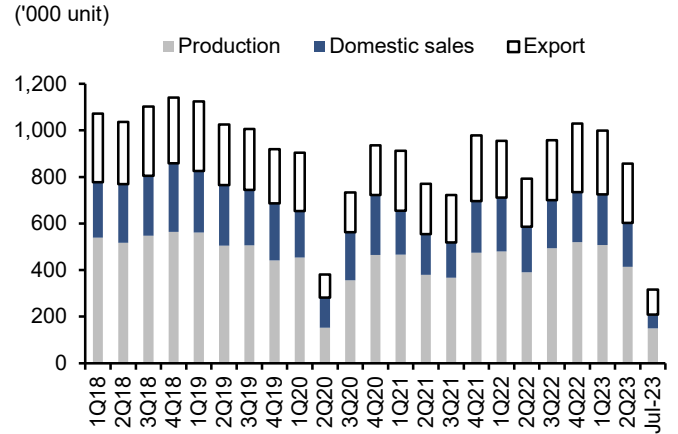
Source: FSSIA estimates

## Exhibit 1: Car production, domestic sales and exports



Source: The Federation of Thai Industries

## Exhibit 2: Motorcycle production, domestic sales and exports



Source: The Federation of Thai Industries

## Exhibit 3: 4QFY23 earnings preview

Year to Sep 30	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23E	Change	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q %)	(y-y %)
Sales	1,525	1,464	1,441	1,258	1,476	17.3	(3.2)
Cost of sales	(1,421)	(1,361)	(1,298)	(1,145)	(1,339)	16.9	(5.8)
Gross profit	104	102	144	112	137	21.7	31.5
Operating costs	(94)	(88)	(97)	(98)	(94)	(4.2)	(0.6)
Operating profit	10	15	47	15	43	193.9	338.5
Operating EBITDA	124	105	146	119	140	17.0	12.7
Other income	17	11	19	12	9	(23.1)	(42.7)
Interest expense	(0)	(0)	(0)	(0)	(0)	119.0	68.3
Profit before tax	33	17	65	31	52	67.2	57.9
Tax	(1)	(1)	(4)	(1)	(10)	588.2	960.2
Associates	0	0	0	0	0	0.0	0.0
Minority interests	0	0	0	0	(0)	0.0	0.0
<b>Reported net profit</b>	<b>32</b>	<b>16</b>	<b>61</b>	<b>30</b>	<b>42</b>	<b>42.8</b>	<b>32.5</b>
<b>Core profit</b>	<b>32</b>	<b>16</b>	<b>61</b>	<b>30</b>	<b>42</b>	<b>42.8</b>	<b>32.5</b>
Reported EPS (THB)	0.16	0.08	0.30	0.15	0.21	41.6	32.5
Core EPS (THB)	0.16	0.08	0.30	0.15	0.21	42.8	32.5
<b>Key Ratios (%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(ppt)</b>	<b>(ppt)</b>
Gross margin	6.8	7.0	10.0	8.9	9.3	0.3	2.4
Operating margin	2.2	1.2	4.5	2.5	3.5	1.1	1.4
EBITDA margin	8.1	7.1	10.1	9.5	9.5	(0.0)	1.3
Recurring net margin	2.1	1.1	4.2	2.4	2.9	0.5	0.8
SG&A / Sales	5.7	6.6	6.8	7.4	6.4	(1.1)	0.6

Sources: IRC, FSSIA estimates

## Earnings cuts but upgrade to BUY rating

We cut our core profit forecasts for FY23-FY25 by 8%/13%/15% to reflect our more cautious view of its domestic sales outlook. We also remove the dividend income from its subsidiary in Vietnam amounting to THB10m-15m per year for the next four years, as its subsidiary is entering a new investment phase. IRC's core profit should grow at a slower rate of 17% in FY24 and 23% in FY25, down from 23% and 26% in our previous forecast.

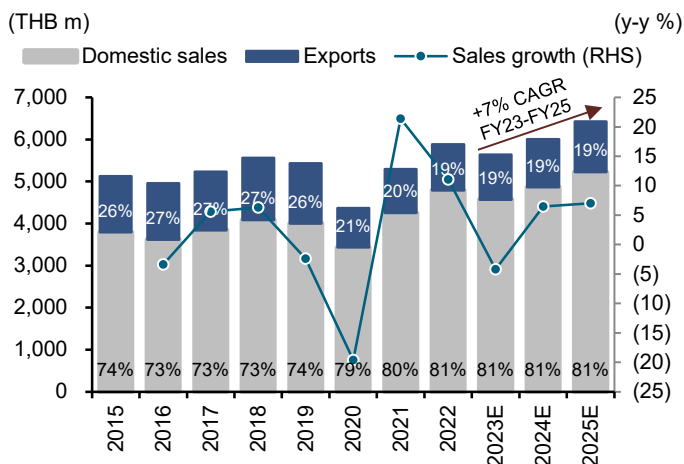
Despite the earnings cuts, we raise our TP to THB15.00 from THB14.00 as we roll over to its FY24 operations. Our TP is still based on a P/E of 17x, equal to its five-year historical average. We upgrade our rating to BUY from Hold as the share price upside is larger than 10%.

### Exhibit 4: Key changes in our assumptions

	Current			Previous			Change		
	FY23E (THB m)	FY24E (THB m)	FY25E (THB m)	FY23E (THB m)	FY24E (THB m)	FY25E (THB m)	FY23E (%)	FY24E (%)	FY25E (%)
Total revenue	5,638	6,003	6,423	6,208	6,653	7,104	(9.2)	(9.8)	(9.6)
Industrial elastomer parts	3,000	3,180	3,403	3,454	3,679	3,922	(13.1)	(13.6)	(13.2)
Motorcycle tire & tube	2,638	2,822	3,020	2,754	2,974	3,183	(4.2)	(5.1)	(5.1)
Cost of goods sold	5,143	5,468	5,816	5,669	6,040	6,402	(9.3)	(9.5)	(9.1)
Gross profit	495	535	607	540	613	702	(8.3)	(12.7)	(13.6)
Dividend income	0	0	0	10	13	15	(100.0)	(100.0)	(100.0)
SG&A	382	388	414	402	430	458	(4.9)	(9.7)	(9.5)
<b>EBITDA</b>	<b>524</b>	<b>554</b>	<b>598</b>	<b>562</b>	<b>606</b>	<b>669</b>	<b>(6.8)</b>	<b>(8.5)</b>	<b>(10.6)</b>
EBIT	165	198	244	203	249	314	(18.5)	(20.6)	(22.4)
<b>Core profit</b>	<b>149</b>	<b>174</b>	<b>214</b>	<b>162</b>	<b>199</b>	<b>252</b>	<b>(8.1)</b>	<b>(12.6)</b>	<b>(14.9)</b>
<b>Margins</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(ppt)</b>	<b>(ppt)</b>	<b>(ppt)</b>
Gross margin	8.8	8.9	9.4	8.7	9.2	9.9	0.1	(0.3)	(0.4)
EBITDA margin	9.3	9.2	9.3	9.1	9.1	9.4	0.2	0.1	(0.1)
EBIT margin	2.9	3.3	3.8	3.3	3.8	4.4	(0.3)	(0.5)	(0.6)
Core profit margin	2.6	2.9	3.3	2.6	3.0	3.5	0.0	(0.1)	(0.2)
<b>Growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(ppt)</b>	<b>(ppt)</b>	<b>(ppt)</b>
Revenue	-4.2	6.5	7.0	5.5	7.2	6.8	(9.7)	(0.7)	0.2
Core profit	35.4	16.9	23.2	47.7	22.8	26.1	(12.3)	(6.0)	(2.9)

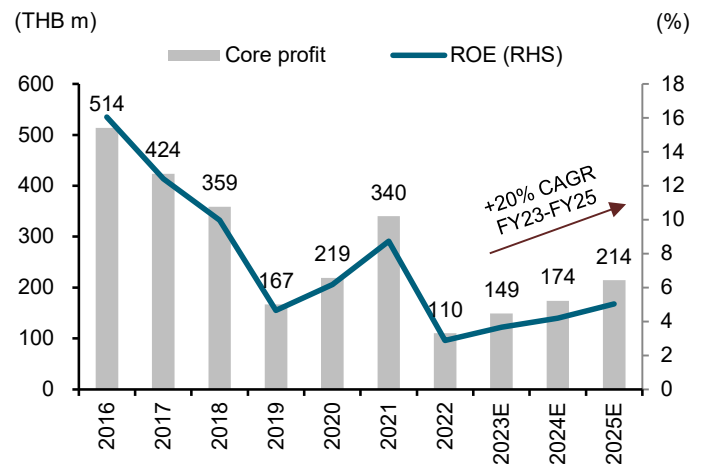
Sources: IRC, FSSIA estimates

### Exhibit 5: IRC's revenue and growth projections



Sources: IRC, FSSIA estimates

### Exhibit 6: IRC's core profit and ROE projections



Sources: IRC, FSSIA estimates

## Financial Statements

Inoue Rubber (Thailand)

Profit and Loss (THB m) Year Ending Sep	2021	2022	2023E	2024E	2025E
Revenue	5,297	5,883	5,638	6,003	6,423
Cost of goods sold	(4,939)	(5,804)	(5,501)	(5,824)	(6,171)
<b>Gross profit</b>	<b>359</b>	<b>80</b>	<b>137</b>	<b>179</b>	<b>252</b>
Other operating income	435	429	411	408	406
Operating costs	(373)	(386)	(382)	(388)	(414)
<b>Operating EBITDA</b>	<b>782</b>	<b>483</b>	<b>524</b>	<b>554</b>	<b>598</b>
Depreciation	(361)	(361)	(359)	(357)	(354)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>421</b>	<b>122</b>	<b>165</b>	<b>198</b>	<b>244</b>
Net financing costs	0	0	0	0	0
Associates	0	0	0	0	0
Recurring non-operating income	0	0	0	0	0
Non-recurring items	0	0	0	0	0
<b>Profit before tax</b>	<b>421</b>	<b>122</b>	<b>165</b>	<b>198</b>	<b>244</b>
Tax	(81)	(12)	(17)	(24)	(29)
<b>Profit after tax</b>	<b>340</b>	<b>110</b>	<b>149</b>	<b>174</b>	<b>214</b>
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>340</b>	<b>110</b>	<b>149</b>	<b>174</b>	<b>214</b>
<b>Non-recurring items &amp; goodwill (net)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Recurring net profit</b>	<b>340</b>	<b>110</b>	<b>149</b>	<b>174</b>	<b>214</b>
<b>Per share (THB)</b>					
Recurring EPS *	1.70	0.55	0.77	0.91	1.12
Reported EPS	1.70	0.55	0.77	0.91	1.12
DPS	0.88	0.29	0.39	0.45	0.56
Diluted shares (used to calculate per share data)	200	200	192	192	192
<b>Growth</b>					
Revenue (%)	21.4	11.1	(4.2)	6.5	7.0
Operating EBITDA (%)	27.1	(38.2)	8.5	5.8	7.9
Operating EBIT (%)	59.3	(70.9)	35.2	19.5	23.2
Recurring EPS (%)	55.2	(67.7)	40.9	16.9	23.2
Reported EPS (%)	55.2	(67.7)	40.9	16.9	23.2
<b>Operating performance</b>					
Gross margin inc. depreciation (%)	6.8	1.4	2.4	3.0	3.9
Gross margin exc. depreciation (%)	13.6	7.5	8.8	8.9	9.4
Operating EBITDA margin (%)	14.8	8.2	9.3	9.2	9.3
Operating EBIT margin (%)	7.9	2.1	2.9	3.3	3.8
Net margin (%)	6.4	1.9	2.6	2.9	3.3
Effective tax rate (%)	19.2	10.1	10.0	12.0	12.0
Dividend payout on recurring profit (%)	52.0	52.9	50.0	50.0	50.0
Interest cover (X)	6,965.7	2,461.9	3,327.6	3,977.8	4,901.1
Inventory days	49.8	54.6	59.2	56.7	55.8
Debtor days	58.6	59.9	67.4	64.5	63.3
Creditor days	68.9	72.9	76.2	67.4	65.0
Operating ROIC (%)	14.3	4.2	5.4	6.2	7.4
ROIC (%)	11.1	3.0	4.0	4.7	5.6
ROE (%)	9.1	2.8	3.8	4.2	5.1
ROA (%)	6.9	2.1	2.8	3.2	3.9
* Pre-exceptional, pre-goodwill and fully diluted					
<b>Revenue by Division (THB m)</b>					
Motorcycle tires and tubes	2,369	2,586	2,638	2,822	3,020
Industrial elastomer parts	2,929	3,297	3,000	3,180	3,403

Sources: Inoue Rubber (Thailand); FSSIA estimates

## Financial Statements

Inoue Rubber (Thailand)

Cash Flow (THB m) Year Ending Sep	2021	2022	2023E	2024E	2025E
Recurring net profit	340	110	149	174	214
Depreciation	361	361	359	357	354
Associates & minorities	0	0	0	0	0
Other non-cash items	(1)	12	0	0	0
Change in working capital	(90)	(142)	(143)	(258)	(270)
<b>Cash flow from operations</b>	<b>610</b>	<b>340</b>	<b>364</b>	<b>272</b>	<b>299</b>
Capex - maintenance	-	-	-	-	-
Capex - new investment	(225)	(292)	(240)	(235)	(218)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	(177)	16	0	0	0
<b>Cash flow from investing</b>	<b>(402)</b>	<b>(276)</b>	<b>(240)</b>	<b>(235)</b>	<b>(218)</b>
Dividends paid	(110)	(170)	(74)	(87)	(107)
Equity finance	0	0	(8)	0	0
Debt finance	0	0	0	0	0
Other financing cash flows	-	-	-	-	-
<b>Cash flow from financing</b>	<b>(110)</b>	<b>(170)</b>	<b>(82)</b>	<b>(87)</b>	<b>(107)</b>
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	29	34	38
<b>Net other adjustments</b>	<b>(125)</b>	<b>0</b>	<b>29</b>	<b>34</b>	<b>38</b>
<b>Movement in cash</b>	<b>(27)</b>	<b>(106)</b>	<b>71</b>	<b>(15)</b>	<b>11</b>
Free cash flow to firm (FCFF)	208.02	64.17	124.12	37.58	80.91
Free cash flow to equity (FCFE)	82.96	64.12	153.14	71.52	118.55

### Per share (THB)

FCFF per share	1.08	0.33	0.65	0.20	0.42
FCFE per share	0.43	0.33	0.80	0.37	0.62
Recurring cash flow per share	3.50	2.41	2.64	2.76	2.96

Balance Sheet (THB m) Year Ending Sep	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	6,707	6,928	6,565	6,226	5,890
Less: Accumulated depreciation	(5,014)	(5,294)	(4,935)	(4,579)	(4,225)
<b>Tangible fixed assets (net)</b>	<b>1,693</b>	<b>1,634</b>	<b>1,629</b>	<b>1,647</b>	<b>1,665</b>
<b>Intangible fixed assets (net)</b>	<b>45</b>	<b>49</b>	<b>49</b>	<b>52</b>	<b>52</b>
Long-term financial assets	217	444	444	444	444
Invest. in associates & subsidiaries	550	235	235	235	235
Cash & equivalents	1,003	897	968	953	964
A/C receivable	884	1,047	1,035	1,085	1,144
Inventories	790	838	831	869	908
Other current assets	12	8	11	12	13
<b>Current assets</b>	<b>2,689</b>	<b>2,791</b>	<b>2,846</b>	<b>2,919</b>	<b>3,029</b>
Other assets	102	119	117	121	125
<b>Total assets</b>	<b>5,295</b>	<b>5,272</b>	<b>5,320</b>	<b>5,418</b>	<b>5,550</b>
Common equity	3,894	3,832	4,066	4,153	4,260
Minorities etc.	0	0	0	0	0
<b>Total shareholders' equity</b>	<b>3,894</b>	<b>3,832</b>	<b>4,066</b>	<b>4,153</b>	<b>4,260</b>
Long term debt	1	1	1	1	1
Other long-term liabilities	350	287	254	246	238
<b>Long-term liabilities</b>	<b>351</b>	<b>287</b>	<b>254</b>	<b>247</b>	<b>238</b>
A/C payable	1,026	1,147	1,000	1,019	1,052
Short term debt	0	0	0	0	0
Other current liabilities	24	6	7	7	8
<b>Current liabilities</b>	<b>1,050</b>	<b>1,153</b>	<b>1,008</b>	<b>1,026</b>	<b>1,060</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,295</b>	<b>5,272</b>	<b>5,328</b>	<b>5,426</b>	<b>5,558</b>
Net working capital	636	741	870	940	1,005
Invested capital	3,242	3,222	3,344	3,439	3,526

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

### Per share (THB)

Book value per share	19.47	19.16	21.15	21.61	22.16
Tangible book value per share	19.25	18.91	20.90	21.34	21.89

### Financial strength

Net debt/equity (%)	(25.7)	(23.4)	(23.8)	(22.9)	(22.6)
Net debt/total assets (%)	(18.9)	(17.0)	(18.2)	(17.6)	(17.4)
Current ratio (x)	2.6	2.4	2.8	2.8	2.9
CF interest cover (x)	5,096.1	7,163.6	7,909.3	6,160.6	6,771.5

Valuation	2021	2022	2023E	2024E	2025E
<b>Recurring P/E (x) *</b>	<b>7.9</b>	<b>24.6</b>	<b>17.4</b>	<b>14.9</b>	<b>12.1</b>
<b>Recurring P/E @ target price (x) *</b>	<b>8.8</b>	<b>27.3</b>	<b>19.4</b>	<b>16.6</b>	<b>13.5</b>
Reported P/E (x)	7.9	24.6	17.4	14.9	12.1
Dividend yield (%)	6.6	2.2	2.9	3.4	4.1
Price/book (x)	0.7	0.7	0.6	0.6	0.6
Price/tangible book (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x) **	2.2	3.7	3.1	3.0	2.7
EV/EBITDA @ target price (x) **	2.6	4.4	3.7	3.5	3.2
EV/invested capital (x)	0.5	0.6	0.5	0.5	0.5

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

Sources: Inoue Rubber (Thailand); 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. FSSIA 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 **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

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

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices<sup>5</sup> (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

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

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

#### Disclaimer:

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

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

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

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

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

## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

Jitra Amornthum FSS International Investment Advisory Securities Co., Ltd

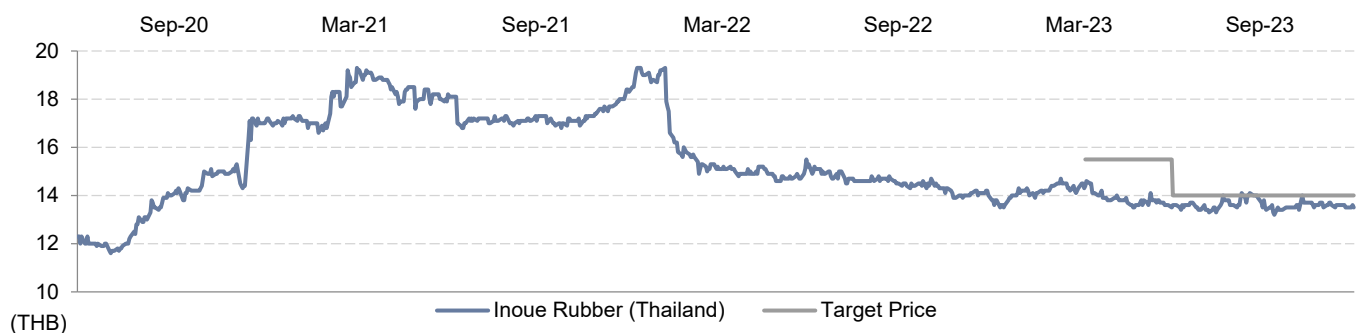
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### History of change in investment rating and/or target price

#### Inoue Rubber (Thailand) (IRC TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
01-Feb-2023	HOLD	15.50	17-Apr-2023	HOLD	14.00	-	-	-

Jitra Amornthum started covering this stock from 01-Feb-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Inoue Rubber (Thailand)	IRC TB	THB 13.50	BUY	Downside risks to our P/E-based TP include 1) weaker demand from the automotive industry; 2) a sharp rise in the price of crude oil; and 3) chip supply 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 20-Sep-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.