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KEY HIGHLIGHTS

Update

Thai Union Group (TU TB/BUY/Bt14.50/Target: Bt17.40)

Expect continuous qoq bottom line improvement in 2H23.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,471.43	(10.71)	(0.72)
SET50	899.28	(10.60)	(1.16)
Value (Btm) - SET	70,090		
Top 5 Sector			
BANK	389.49	4.44	1.15
PETRO	707.82	9.55	1.37
PROP	232.41	0.70	0.30
ENERG	21,038.10	183.26	0.88
ICT	161.35	1.87	1.17

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
DELTA	82.75	(20.43)	155,711.0
AOT	69.75	0.72	32,524.3
KBANK	126.00	1.20	17,969.7
PTTEP	171.00	0.29	12,462.7
SCB	102.50	1.49	16,666.0

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
OHPF	7.15	24.35	437.5
JCKH	0.06	20.00	38,867.4
SDC	0.07	16.67	22,822.6
YGG	7.15	15.32	4,908.4
PPPM	0.08	14.29	16,839.6

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
DELTA	82.75	(20.43)	155,711.0
B	0.05	(16.67)	23,610.8
ROCK	10.80	(10.00)	2.4
BTNC	26.25	(8.70)	10.6
EE	0.34	(8.11)	7,983.4

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	92.4	5.2	23.3	13.1
Dubai crude*	92.9	8.3	23.1	18.2
Baltic Dry Index	1,701.0	59.7	55.9	12.3
Gold Spot***	1,848.1	(4.7)	(3.7)	1.3

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
29.3	(615.5)	(4,526.6)	(8,368.1)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 36.70

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 7.10

COMPANY UPDATE

Thai Union Group (TU TB)

Expect Continuous qoq Bottom Line Improvement In 2H23

We expect TU's core profit to rise 3.4% qoq in 3Q23 following sales and gross margin recovery. We foresee continuous qoq earnings improvement, driven by better demand and lower raw material costs. Although we maintain our forecast of 2023 net profit declining 32% yoy, we estimate 2024's net profit growth at 22.5% yoy, driven by higher ASPs and a recovery in the pet food business. Maintain BUY. Target price: Bt17.40.

WHAT'S NEW

3Q23 EARNINGS PREVIEW

Year to 31 Dec (Btm)	3Q22	2023	3Q23F	yoy % chg	qoq % chg
Revenue	40,756	34,057	35,285	-13.4%	3.6%
Gross profit	7,399	5,748	5,990	-19.0%	4.2%
SG&A/Sales	5,064	3,975	4,118	-18.7%	3.6%
EBIT	2,492	1,923	2,001	-19.7%	4.0%
Net profit	2,530	1,029	1,323	-47.7%	28.6%
Core profit	1,792	1,279	1,323	-26.2%	3.4%
Core EPS (Bt)	0.38	0.27	0.28	-26.2%	3.4%

Ratio (%)	3Q22	2023	3Q23F	yoy % chg	qoq % chg
Gross margin	18.2%	16.9%	17.0%	-1.2%	0.1%
SG&A/Sales	12.4%	11.7%	11.7%	-0.8%	0.0%
Net profit margin	6.2%	3.0%	3.7%	-2.5%	0.7%

Source: TU, UOB Kay Hian

- **Core operation likely to improve qoq.** We expect Thai Union (TU) to post a net profit of Bt1,323m in 3Q23, up 28.6% qoq, but down 47.7% yoy from a high-base effect in 3Q22. Excluding one-off items, we expect earnings to improve 3.4% qoq.
- **Positive qoq recovery in top-line and gross margin.** The qoq earnings improvement in 3Q23 will be driven by top-line and profitability. We expect 3Q23 top-line to increase 3.6% qoq following the recovery of its pet food and other businesses on the back of higher ASPs and sales volume recovery. Also, we expect a slight improvement in gross margin due to higher ASPs and lower raw material costs. However, this was partially offset by higher losses incurred by Red Lobster due to seasonality.
- **Lower Red Lobster loss on a yoy basis.** We expect 3Q23 earnings to be pressured on a yoy basis by lower sales following a weakening in demand in the US and EU. Also, gross profit margin will be impacted by higher raw material costs. One positive sign is the continued lowering of losses at Red Lobster on a yoy basis to -Bt250m in 3Q23 vs -Bt339m in 3Q22.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	141,048	155,586	142,144	148,647	155,468
EBITDA	14,129	13,574	11,271	13,535	13,923
Operating profit	10,359	9,654	7,249	9,304	9,724
Net profit (rep./act.)	8,013	7,138	4,844	5,934	6,604
Net profit (adj.)	7,431	6,981	4,619	5,934	6,604
EPS (Bt)	1.6	1.5	1.0	1.2	1.4
PE (x)	9.3	9.9	15.0	11.7	10.5
P/B (x)	1.2	0.9	0.8	0.8	0.8
EV/EBITDA (x)	8.1	8.4	10.1	8.4	8.2
Dividend yield (%)	6.6	5.8	3.9	4.8	5.4
Net margin (%)	5.7	4.6	3.4	4.0	4.2
Net debt/(cash) to equity (%)	102.4	57.9	49.7	47.0	44.8
Interest cover (x)	8.2	6.8	5.4	6.6	7.0
ROE (%)	14.4	10.2	6.0	7.1	7.6
Consensus net profit	-	-	4,997	6,213	6,816
UOBKH/Consensus (x)	-	-	0.92	0.95	0.97

Source: Thai Union Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt14.50
Target Price	Bt17.40
Upside	+20.00%

COMPANY DESCRIPTION

TU manufactures and exports frozen and canned seafood, including canned food, frozen food and snacks. It is also involved in pet food, value added product and animal feed.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	TU TB
Shares issued (m):	4771.8
Market cap (Btm):	69,191.1
Market cap (US\$m):	1,976.9
3-mth avg daily t'over (US\$m):	7.7
Price Performance (%)	

52-week high/low Bt19.00/Bt12.50

1mth	3mth	6mth	1yr	YTD
1.4	13.3	0.0	(21.6)	(14.2)

Major Shareholders

	%
Thai NVDR	6.91
Mr. Thiraphong Chansiri	6.70
Mitsubishi UFJ Morgan Stanley Securities	6.64
FY23 NAV/Share (Bt)	17.20
FY23 Net Debt/Share (Bt)	8.54

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Updates on pet food business.** We expect I-Tail Corporation (ITC, TU's subsidiary) to deliver a qoq earnings recovery in 3Q23 and 4Q23. Based on the latest information, 3Q23 earnings are expected to see a 10% qoq increase with a slightly higher gross margin following the increase in ASPs. Management has also guided for 4Q23 top-line to post a stronger qoq growth of up to 40% qoq based on the company's full-year sales target. However, we still expect top-line to grow by around 20% qoq in 4Q23 as we deem the 40% qoq increase to be too optimistic. Also, management has updated that the new production plant will be commercialised in 1Q24, which will add another 18.7% production capacity to ITC in 2024.
- We foresee continuous qoq earnings recovery.** We expect TU's 4Q23 earnings to see a qoq recovery, as its US and EU customers are restocking inventory, which will benefit TU's top-line. Also, we expect to see a gross margin recovery following higher ASPs and lower raw material costs. Overall, we still maintain our forecast of 2023 net profit declining by 32% yoy, mainly pressured by weak operations in 1H23. For 2024, we estimate a net profit growth of 22.5% yoy, driven by higher ASPs, a decline in costs, and a recovery in the pet food business.
- High raw material costs are easing.** For raw material costs, we expect tuna prices to continue decreasing on a qoq basis following the end of the Fish Aggregating Devices (FADs) ban period which normally takes place during July to September of each year. This should point to a better tuna supply situation in 4Q23. Also, the current low shrimp prices should benefit TU's frozen business due to lower costs.

EARNINGS REVISION/RISK

- None.

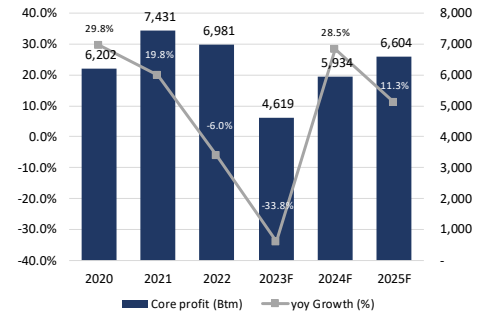
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of Bt17.40.** We peg the forward PE target to TU's five-year mean of its latest PE band, which is equivalent to 14.5x. Our target price is based on 2024's EPS. We expect TU's earnings momentum to improve on a qoq basis in 2H23 and 2024 following lower raw material costs and sales recovery.

SHARE PRICE CATALYST

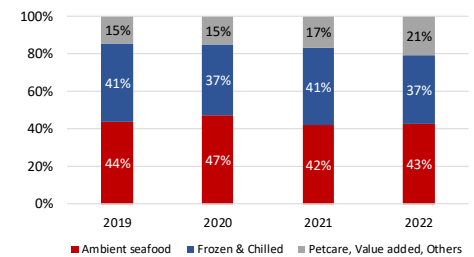
- a) Stronger-than-expected 2H23 earnings recovery momentum, and b) a significant improvement in TU's profitability from lower raw material costs.

NET PROFIT AND GROWTH



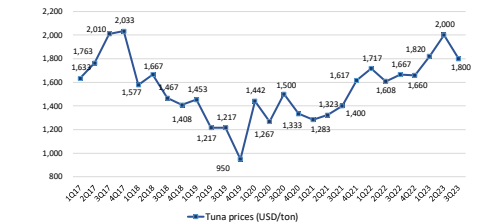
Source: UOB Kay Hian

SALES BREAKDOWN



Source: UOB Kay Hian

TUNA PRICE TREND INDEX



Source: TU

TU HISTORICAL PE MEAN



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	155,586	142,144	148,647	155,468
EBITDA	13,574	11,271	13,535	13,923
Deprec. & amort.	3,920	4,022	4,231	4,198
EBIT	9,654	7,249	9,304	9,724
Total other non-operating income	0	0	0	0
Associate contributions	(1,030)	(358)	(25)	562
Net interest income/(expense)	(1,998)	(2,087)	(2,036)	(1,987)
Pre-tax profit	6,626	4,804	7,242	8,299
Tax	621	480	(543)	(830)
Minorities	(265)	(665)	(765)	(865)
Net profit	7,138	4,844	5,934	6,604
Net profit (adj.)	6,981	4,619	5,934	6,604

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	28,475	29,952	29,721	29,523
Other LT assets	66,470	66,850	67,234	67,621
Cash/ST investment	12,241	16,104	16,156	14,638
Other current assets	75,383	66,622	68,505	71,018
Total assets	182,569	179,528	181,616	182,799
ST debt	11,664	16,663	22,613	18,113
Other current liabilities	25,160	23,282	23,871	24,722
LT debt	47,263	40,213	33,500	36,000
Other LT liabilities	10,351	10,455	10,559	10,665
Shareholders' equity	80,642	82,092	85,014	88,106
Minority interest	7,489	6,824	6,059	5,193
Total liabilities & equity	182,569	179,528	181,616	182,799

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	5,871	15,474	8,592	8,858
Pre-tax profit	6,564	4,844	5,934	6,604
Tax	(960)	0	0	0
Deprec. & amort.	3,920	4,022	4,231	4,198
Associates	0	0	0	0
Working capital changes	(7,551)	6,608	(1,573)	(1,945)
Non-cash items	3,898	0	0	0
Other operating cashflows	0	0	0	0
Investing	(5,415)	(5,500)	(4,000)	(4,000)
Capex (growth)	(5,340)	(5,500)	(4,000)	(4,000)
Capex (maintenance)	0	0	0	0
Investments	(429)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	354	0	0	0
Financing	2,742	(6,112)	(4,539)	(6,377)
Dividend payments	(4,190)	(3,395)	(3,012)	(3,511)
Issue of shares	0	0	0	0
Proceeds from borrowings	(10,605)	(2,052)	(763)	(2,000)
Loan repayment	0	0	0	0
Others/interest paid	17,537	(665)	(765)	(865)
Net cash inflow (outflow)	3,198	3,863	52	(1,519)
Beginning cash & cash equivalent	8,828	12,241	16,104	16,156
Changes due to forex impact	215	0	0	0
Ending cash & cash equivalent	12,241	16,104	16,156	14,638

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.7	7.9	9.1	9.0
Pre-tax margin	4.3	3.4	4.9	5.3
Net margin	4.6	3.4	4.0	4.2
ROA	4.1	2.7	3.3	3.6
ROE	10.2	6.0	7.1	7.6
Growth				
Turnover	10.3	(8.6)	4.6	4.6
EBITDA	(3.9)	(17.0)	20.1	2.9
Pre-tax profit	(21.9)	(27.5)	50.8	14.6
Net profit	(10.9)	(32.1)	22.5	11.3
Net profit (adj.)	(6.0)	(33.8)	28.5	11.3
EPS	(6.0)	(33.8)	28.5	11.3
Leverage				
Debt to total capital	40.1	39.0	38.1	36.7
Debt to equity	73.1	69.3	66.0	61.4
Net debt/(cash) to equity	57.9	49.7	47.0	44.8
Interest cover (x)	6.8	5.4	6.6	7.0

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