

Thailand Company Guide

Taokaenoi Food & Marketing

Version 17 | Bloomberg: TKN TB | Reuters: TKN.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Apr 2018

BUY

Last Traded Price (17 Apr 2018): Bt16.60 (SET : 1,755.53)

Price Target 12-mth: Bt23.00 (39% upside) (Prev Bt26.00)

Analyst

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What's New

- 1Q18E core profit is expected to come in at Bt167m (-2% y-o-y, +10% q-o-q)
- Postpone the impact of tax savings due to machine installation delay for Phase 2
- Cut our FY18/FY19 earnings forecast by 9%/6% after fine-tuning our revenue and cost assumptions
- Maintain BUY with lower TP of Bt 23, pegged to 34x FY18F PE

Price Relative



Forecasts and Valuation

FY Dec (Btm)	2016A	2017A	2018F	2019F
Revenue	4,705	5,264	6,131	7,069
EBITDA	1,134	1,031	1,250	1,510
Pre-tax Profit	972	792	1,068	1,334
Net Profit	775	609	922	1,199
Net Pft (Pre Ex.)	782	652	922	1,199
Net Pft Gth (Pre-ex) (%)	100.1	(16.6)	41.5	30.0
EPS (Bt)	0.56	0.44	0.67	0.87
EPS Pre Ex. (Bt)	0.57	0.47	0.67	0.87
EPS Gth Pre Ex (%)	52	(17)	41	30
Diluted EPS (Bt)	0.56	0.44	0.67	0.87
Net DPS (Bt)	0.49	0.34	0.47	0.61
BV Per Share (Bt)	1.61	1.58	1.78	2.04
PE (X)	29.6	37.6	24.8	19.1
PE Pre Ex. (X)	29.3	35.1	24.8	19.1
P/Cash Flow (X)	41.2	50.2	18.7	18.1
EV/EBITDA (X)	19.4	22.1	17.7	14.5
Net Div Yield (%)	3.0	2.0	2.8	3.7
P/Book Value (X)	10.3	10.5	9.3	8.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	38.1	27.7	39.8	45.5
Earnings Rev (%):			(9)	(6)
Consensus EPS (Bt):			0.66	0.79
Other Broker Recs:		B: 8	S: 0	H: 1

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P

Taking longer than expected

Maintain BUY with lower TP of Bt23. Taokaenoi (TKN) is well recognised among local and foreign customers, with 72% market share for Thailand's seaweed snacks (as at Dec 2017). Its products are available in >40 overseas markets. Exports sales account for 61% of total sales. To support the strong demand (mainly from China), TKN is now operating a new plant (+100% capacity) with BOI tax privileges, whose output is ramping up from Mar 2017. The new capacity will boost its earnings growth significantly for this year and beyond. Given the expected delay in the machine installation for Phase 2 of the new plant and agreements with new local distributors in China, we cut our FY18/FY19 earnings forecast by 9%/6% after fine-tuning our assumptions related to revenue and taxes. Hence, our TP (pegged to 34x FY18F PE) falls from Bt26 to Bt23. Given the potential upside and its strong growth prospects, we maintain our BUY call.

Where we differ. We have imputed a lower effective tax rate, based on the company's latest guidance that the tax benefit will not be utilised this year. Since the market might not have taken this into account, our profit forecasts are now above consensus.

Potential catalysts. TKN's share price is mainly driven by its strong earnings growth, which can be attributed to i) a sharp rise in sales, supported by high demand and new capacity coming online, and ii) higher operational efficiency, which will act as a key re-rating catalyst. We believe TKN will deliver impressive earnings growth of 41% in FY18.

Valuation:

Our TP of Bt23 is pegged to 34x FY18F PE, at a premium to the peer average of 19.8x, which we believe is justified given its high 3-year CAGR (FY17F-FY20F) of 34%, high ROE and net cash position.

Key Risks to Our View:

Raw material shortages, volatility of raw material prices, customer concentration risk and more intense competition.

At A Glance

Issued Capital (m shrs)	1,380
Mkt. Cap (Btm/US\$m)	22,908 / 734
Major Shareholders (%)	
Peeradechapan's Family (%)	47.82
Peeradechapan Holding Co., Ltd (%)	26.09
Pracha Damrongsothipong (%)	6.63
Free Float (%)	19.45
3m Avg. Daily Val (US\$m)	3.5

ICB Industry : Consumer Goods / Food Producers

WHAT'S NEW

Softer 1Q18E performance on the cards

Weaker 1Q18E results on y-o-y basis. We expect TKN to deliver a 1Q18E core profit of Bt167m (-2% y-o-y, +10% q-o-q). The slightly weaker y-o-y performance is mainly due to:

- i) A moderate sales growth of 11% that was driven by the China market. According to management, TKN has not finalised any agreements with its new local distributors in China. This might also impact the company's ability to meet our full-year FY18 revenue target.
- ii) A lower gross profit margin of 31.5% vs 34.5% in 1Q17, which can be explained by higher seaweed costs and efficiency loss from the ramp-up of the new plant's operations.

Delay in tax benefit utilisation. We now expect the positive impact of BOI tax benefits to be further delayed, as we understand that the machine installation for Phase 2 production of the new plant has not been completed. Therefore, we have now imputed more conservative effective tax rate assumptions for FY18 and FY19.

Contribution from US business. TKN ultimately plans to launch its products in the mainstream market in the US. However, in the initial phases, TKN had channelled its products through Asian grocery markets. According to management, TKN expects to roll out more concrete activities to boost sales in some pilot cities in late 2Q18. As a result, we expect the US revenue contribution from the new initiatives to filter through in 3Q18. Coupled with the full benefits of lower seaweed prices (in line with the contract entered into in FY18), we hope to see a more prominent recovery in earnings in 2H18E. Nevertheless, we have not baked in US earnings contribution from the new initiatives in our TP.

Reiterate BUY call with lower TP of Bt23, pegged to 33x FY18F PE. In line with what we have discussed earlier, we have reduced our FY18 revenue growth from China from 30% to 25%. As a result, our FY18/FY19 revenue growth rate drops from 18.5%/15.5% to 16.5%/15.3%. We have also increased our FY18/FY19 effective tax rate from 7%/7% to 14%/10% after fine-tuning our tax saving assumptions to reflect our expectations for TKN's 1Q18E performance. As a result, our FY18/FY19 earnings forecast decreases by 9%/6%. At the end of the day, our TP, pegged to 34x FY18F PE, slides from Bt26 to Bt23. Given the potential upside and its strong growth prospects, we maintain our BUY call on TKN.

1Q18E Result Preview

FY Dec (Btm)	1Q17	4Q17	1Q18E	Chg y-o-y	Chg q-o-q
P&L Items					
Sales	1,121	1,526	1,244	11%	-18%
Cost of Goods Sold	(735)	(1,043)	(852)	16%	-18%
Gross Profit	386	483	392	1%	-19%
SGA Expenses	(178)	(261)	(193)	8%	-26%
Operating profit	208	222	199	-4%	-10%
Other					
Income/expense	7	1	5	-32%	248%
EBIT	215	223	204	-5%	-9%
Interest expense	(2)	(5)	(5)	169%	0%
Pretax profit	214	218	199	-7%	-9%
Income Tax	(43)	(67)	(32)	-24%	-52%
Norm. Profit	171	152	167	-2%	10%
Extra items	0	(9)	0	n.m.	-100%
Net Profit	171	142	167	-2%	17%
EPS (Bt)	0.12	0.10	0.00	-100%	-100%
Normalised EPS (Bt)	0.12	0.11	0.00	-100%	-100%
Gross Margin	34.5%	32.2%	31.5%		
SGA/ Sales	15.9%	15.5%	15.5%		
Effective tax rate	19.9%	30.6%	16.2%		

Source of all data: Company, DBSVTH

CRITICAL DATA POINTS TO WATCH

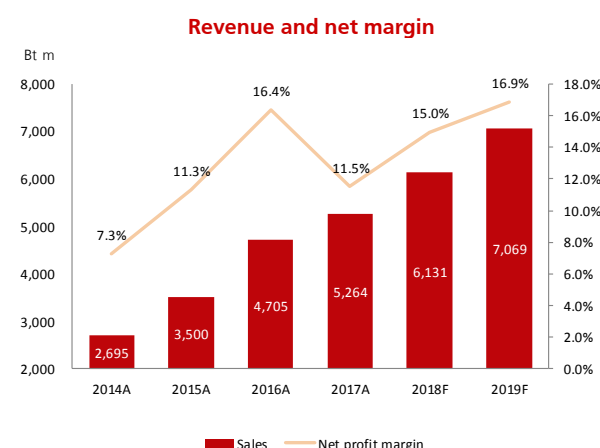
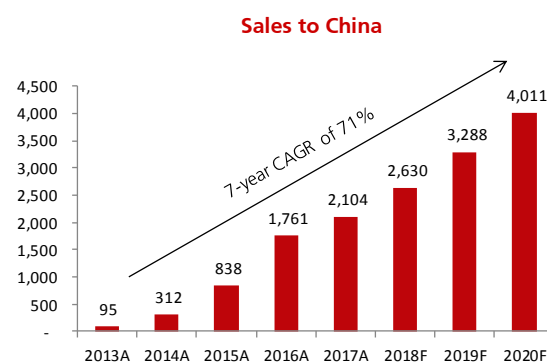
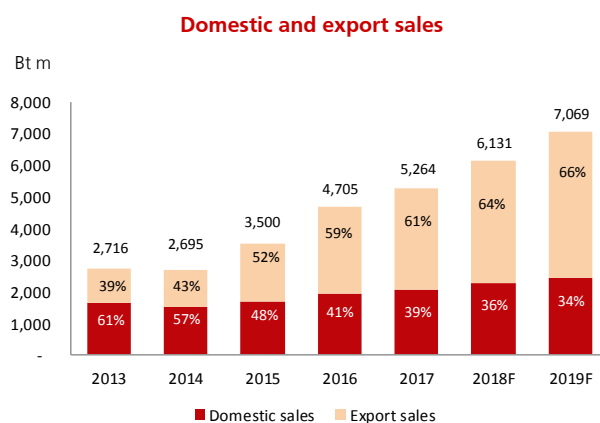
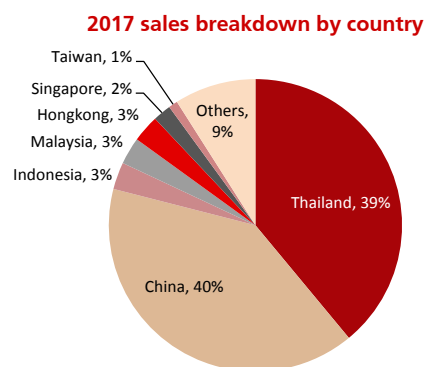
Critical Factors

Domestic sales continue to grow strongly. TKN plans to implement different strategies to increase domestic sales. First, TKN will increase the variety of products to expand the customer base and will more focus on shops that have a lot of tourist visits by offering products to cater to tourists' needs. Second, TKN will expand its traditional trade into more provincial areas where it will offer low- priced products and promote its brand by sponsoring events, including concerts. Third, TKN plans to roll out more own shops (Taokaenoi LAND) in 2018, on top of the current 11 outlets. With these plans, we expect TKN to continue achieving domestic revenue growth.

Strong growth in overseas markets, driven by China. Currently, most of the export sales are made through mainland importers. However, TKN believes that sales through distributors will be better due to the stronger collaboration and visibility, as TKN has to enter into a yearly contract with a distributor. Hence, the company is in the process of appointing qualified distributors to help boost overseas sales. China (accounting for 40% of total sales in 2017) is a key market for TKN, with sales increasing by 107% in 2016 and 20% in 2017. TKN's products are mainly available in China in modern trade channels such as Watson, Lawson, 7-Eleven, Wal-Mart, etc. in Shanghai and Guangzhou. Thus, there is strong potential to expand the footprint of its products to other cities in China. We expect China sales to grow strongly by 25% in 2018 and 25% in 2019 and 22% in 2020

From 'sea to farm' theme. TKN targets to be a global brand by 2024. To achieve its goal, TKN is aiming to increase the variety of products by continuously adding new product lines, including agricultural sources such as corn, potato, etc. It has already launched numbers of such products (popcorn, potato sticks and corn snacks), which accounted for less than 5% of total sales in 2017. It expects to increase the product range under this theme to account for 10-15% of total sales by 2024.

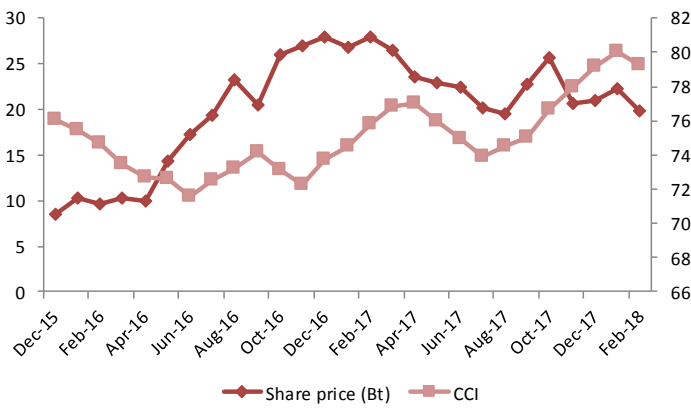
Widen gross margins to 40% in the long term. TKN is reviewing its production processes as well as back-office operations to improve efficiency. TKN's gross margin normally hovers above 30% and is improving, thanks to cost-reduction initiatives and more process automation. The company is planning to implement more automated machines and improve the efficiency of its existing machines. We expect its margin to stay high at 33.6% in 2018 and 34.5% in 2019.



Source: Company, DBSVTH

Appendix 1: TKN's price correlation with critical factors

TKN's share price vs Consumer Confidence Index

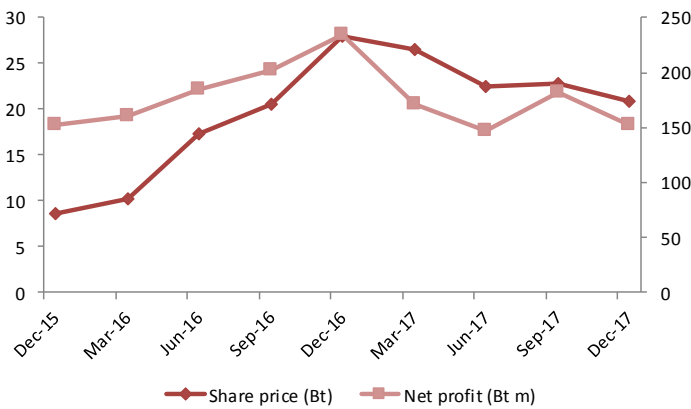


Source: Company, Bloomberg Finance L.P., DBSVTH

Remarks

As TKN's IPO took place in late-2015, its stock price history is quite limited. However, TKN's share price tends to have some correlation with Thailand's CCI as its TKN's domestic sales performance is closely tied to the strength of overall domestic consumption in Thailand.

TKN's share price vs net profit



Source: Company, Bloomberg Finance L.P., DBSVTH

Remarks

TKN's share price tends to move in tandem with its net profit. A sustained rise in net profit going forward should serve as a positive catalyst for the share price.

Balance Sheet:

TKN has a strong balance sheet with a net gearing of 0.2x. The healthy balance sheet is due to cash flow from operations and cash received from IPO in 2015. TKN expects to maintain its current level of financial leverage, as its internal cash flow is sufficient for meeting capex requirements of new machinery and new store openings in 2017 and beyond. TKN paid a DPS of Bt0.34 in 2017 (or 77% dividend payout ratio).

Share Price Drivers:

Surge in demand from China. The high demand from China will be a key driver to boost TKN's sales this year and beyond. Appointing new distributors in China to expand its distribution channel to other cities in China is considered a catalyst.

New plant opening from Mar 2017. After the new plant (+100% capacity) at Ayutthaya starts operation in 1Q17, we believe its sales will rise in view of the currently unmet demand. This will be a medium-term catalyst to bolster TKN's share price.

Rising margins. TKN's margins will continue improving, thanks to i) higher efficiency of production and back-office operations, and ii) better SGA expense control. As a result, TKN's earnings will improve and hence, the profit uptrend will contribute to the potential re-rating of the share price.

Key Risks:

Seaweed supplies. There is heavy reliance (68%) on one major supplier. Hence, there is the risk of potential business disruption if the supplier fails to deliver orders. TKN is attempting to reduce the risk by diversifying its suppliers.

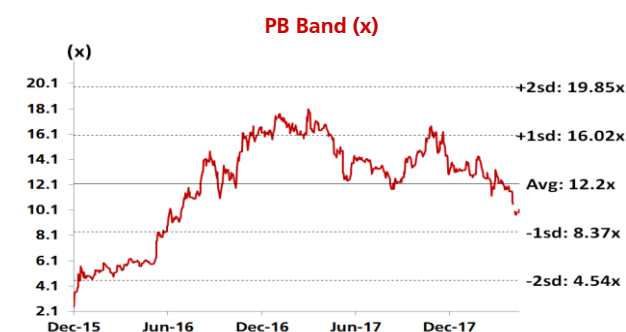
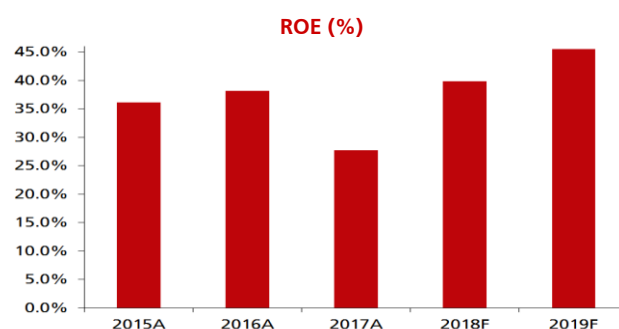
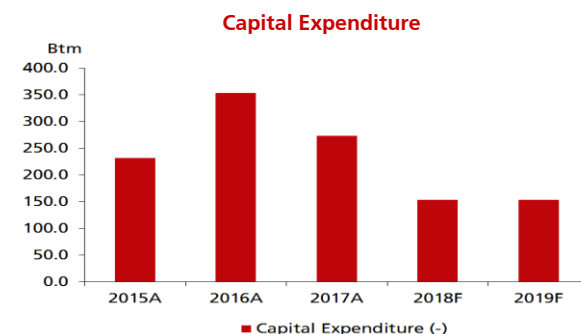
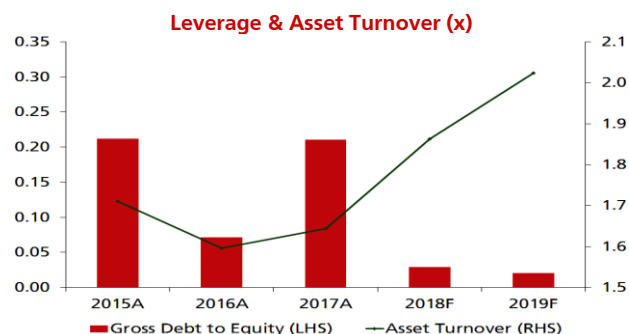
Customer concentration. Its largest distributor accounts for c.34% of domestic sales. Hence, TKN's sales could plunge if it loses this customer. However, this is unlikely to happen as the customer has been TKN's trading partner since its inception.

Low barriers to entry. As this business is not capital intensive, the entry of new players could erode TKN's market share.

Exchange rates. Despite its high portion of export sales, only c.25% of its sales are transacted in USD as export sales to China are in Thai baht. Also, as TKN imports some of its raw materials in USD (c.23% of total sales), there is a natural hedge.

Company Background

TKN is engaged in the manufacturing of seaweed snacks in Thailand. The company also offers popcorn, potato sticks, corn chips, dried fruits, etc. TKN's products are available through various distribution channels, including modern trade, traditional trade and its own stores.



Source: Company, DBSVTH

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Sales (Bt m)	3,500	4,705	5,264	6,131	7,069
Sales growth (%)	29.9	34.4	11.9	16.5	15.3
Gross margin (%)	35.4	35.8	32.2	33.6	34.5
SGA/Sales (%)	21.3	15.4	16.4	16.5	16.2
Effective tax rate	20%	20%	23%	14%	10%

Income Statement (Btm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	3,500	4,705	5,264	6,131	7,069
Cost of Goods Sold	(2,260)	(3,019)	(3,571)	(4,073)	(4,627)
Gross Profit	1,240	1,687	1,693	2,058	2,441
Other Opng (Exp)/Inc	(744)	(725)	(862)	(1,012)	(1,145)
Operating Profit	496	962	832	1,046	1,296
Other Non Opg (Exp)/Inc	9.25	24.1	19.5	24.3	39.3
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(16.7)	(6.5)	(15.9)	(2.3)	(1.9)
Exceptional Gain/(Loss)	6.27	(6.8)	(43.0)	0.0	0.0
Pre-tax Profit	495	972	792	1,068	1,334
Tax	(98.3)	(197)	(183)	(146)	(135)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	397	775	609	922	1,199
Net Profit before Except.	391	782	652	922	1,199
EBITDA	636	1,134	1,031	1,250	1,510
Growth					
Revenue Gth (%)	29.9	34.4	11.9	16.5	15.3
EBITDA Gth (%)	66.8	78.4	(9.1)	21.3	20.7
Opg Profit Gth (%)	104.3	93.7	(13.5)	25.8	23.9
Net Profit Gth (Pre-ex) (%)	106.1	100.1	(16.6)	41.5	30.0
Margins & Ratio					
Gross Margins (%)	35.4	35.8	32.2	33.6	34.5
Opg Profit Margin (%)	14.2	20.4	15.8	17.1	18.3
Net Profit Margin (%)	11.3	16.5	11.6	15.0	17.0
ROAE (%)	36.1	38.1	27.7	39.8	45.5
ROA (%)	19.4	26.3	19.0	28.0	34.3
ROCE (%)	26.9	33.1	25.4	34.8	43.0
Div Payout Ratio (%)	78.4	87.3	77.1	70.0	70.0
Net Interest Cover (x)	29.7	147.0	52.2	457.2	694.5

Source: Company, DBSVTH

Quarterly / Interim Income Statement (Btm)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	1,307	1,121	1,212	1,405	1,526
Cost of Goods Sold	(836)	(735)	(827)	(966)	(1,043)
Gross Profit	471	386	385	439	483
Other Oper. (Exp)/Inc	(184)	(178)	(207)	(216)	(261)
Operating Profit	287	208	178	224	222
Other Non Opg (Exp)/Inc	6.20	7.34	7.33	3.42	1.43
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(1.9)	(4.3)	(4.7)	(5.0)
Exceptional Gain/(Loss)	0.0	0.0	(11.3)	(22.3)	(9.4)
Pre-tax Profit	292	214	169	200	209
Tax	(57.5)	(42.6)	(34.1)	(40.1)	(66.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	234	171	135	160	143
Net profit bef Except.	234	171	147	182	152
EBITDA	311	234	207	252	251

Growth

Revenue Gth (%)	3.6	(14.2)	8.1	16.0	8.6
EBITDA Gth (%)	12.7	(24.9)	(11.5)	21.9	(0.5)
Opg Profit Gth (%)	11.9	(27.5)	(14.6)	25.9	(0.7)
Net Profit Gth (Pre-ex) (%)	16.0	(27.1)	(14.2)	24.4	(16.6)

Margins

Gross Margins (%)	36.1	34.5	31.7	31.3	31.6
Opg Profit Margins (%)	21.9	18.6	14.7	15.9	14.6
Net Profit Margins (%)	17.9	15.2	11.2	11.4	9.3

Balance Sheet (Btm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	550	882	1,094	818	796
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	103	55.3	117	112	126
Cash & ST Invts	1,476	1,063	563	796	1,054
Inventory	197	445	730	670	761
Debtors	418	491	634	655	755
Other Current Assets	71.2	147	185	209	235
Total Assets	2,815	3,084	3,322	3,260	3,728
ST Debt	279	158	440	14.1	14.1
Creditor	476	559	562	584	686
Other Current Liab	97.3	137	115	138	157
LT Debt	112	0.0	17.3	57.2	43.2
Other LT Liabilities	7.29	8.68	11.2	11.8	12.4
Shareholder's Equity	1,844	2,222	2,176	2,455	2,815
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	2,815	3,084	3,322	3,260	3,728
Non-Cash Wkg. Capital	113	387	871	812	908
Net Cash/(Debt)	1,085	906	105	725	997
Debtors Turn (avg days)	46.2	35.2	39.0	38.4	36.4
Creditors Turn (avg days)	79.4	65.8	60.3	53.7	52.0
Inventory Turn (avg days)	36.5	40.9	63.2	65.6	58.7
Asset Turnover (x)	1.7	1.6	1.6	1.9	2.0
Current Ratio (x)	2.5	2.5	1.9	3.2	3.3
Quick Ratio (x)	2.2	1.8	1.1	2.0	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	59.4	223.9	59.7	214.6	267.3
Z-Score (X)	15.6	22.6	17.6	17.6	24.3

Source: Company, DBSVTH

Cash Flow Statement (Btm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	495	972	792	1,068	1,334
Dep. & Amort.	72.2	70.3	93.1	180	174
Tax Paid	(98.3)	(197)	(183)	(146)	(135)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	63.2	(289)	(245)	124	(105)
Other Operating CF	42.5	0.0	0.0	0.0	0.0
Net Operating CF	575	556	456	1,226	1,268
Capital Exp.(net)	(232)	(353)	(273)	(153)	(153)
Other Invt.(net)	0.0	(756)	494	261	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.99	(43.6)	(14.5)	16.8	(3.8)
Net Investing CF	(231)	(1,152)	207	125	(157)
Div Paid	(311)	(676)	(469)	(645)	(839)
Chg in Gross Debt	37.4	(254)	344	(396)	(14.1)
Capital Issues	1,397	0.0	0.0	0.0	0.0
Other Financing CF	(65.9)	31.3	(45.3)	14.1	0.0
Net Financing CF	1,057	(899)	(171)	(1,028)	(853)
Currency Adjustments	6.27	0.0	0.0	0.0	0.0
Chg in Cash	1,408	(1,496)	493	324	258
Opg CFPS (Bt)	0.49	0.61	0.51	0.80	0.99
Free CFPS (Bt)	0.33	0.15	0.13	0.78	0.81

Source: Company, DBSVTH

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Apr 17	23.50	32.00	BUY
2:	09 May 17	20.80	32.00	BUY
3:	12 May 17	20.40	27.00	BUY
4:	19 May 17	19.90	27.00	BUY
5:	26 Jul 17	21.20	27.00	BUY
6:	16 Aug 17	18.70	27.00	BUY
7:	21 Aug 17	19.50	24.00	BUY
8:	02 Nov 17	25.25	28.00	BUY
9:	15 Nov 17	24.30	28.00	BUY
10:	12 Feb 18	20.10	28.00	BUY
11:	02 Mar 18	21.40	26.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVTH

Analyst: Nantika WIANGPHOEM

Thailand Research Team

THAI-CAC

Corporate Governance CG Rating (as of Oct 2017)

Declared



THAI-CAC is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of Feb 2018) are categorised into:

Score	Description
Declared	Companies that have declared their intention to join CAC
Certified	Companies certified by CAC.

Corporate Governance CG Rating is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 18 Apr 2018 08:56:18 (THA)

Dissemination Date: 18 Apr 2018 09:02:17 (THA)

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