Thai Union Frozen

Earnings Preview BUY

Equity | Thailand | Food Processors
25 October 2012

Solid 3Q12 expected amid challenging time

Bank of America Merrill Lynch

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Phatra Securities

Cost control, lower interest & tax expense to keep 3Q strong

We expect TUF to report record-high 3Q12 net profit of Bt1.6bn, up 3% YoY and 60% QoQ. Although we expect GPM to be weaker at 16% in 3Q12 due to a stronger baht and increasing cost pressure, net margin should be higher due to better cost control and lower interest and tax expenses. TUF's 9M12 net profit should amount to Bt4.07bn, 68% of our full-year estimate and 69% of consensus estimate.

Increasing cost pressure

We expect TUF's sales to post strong growth of 13% YoY in baht terms during 3Q12, driven by strong growth of its tuna and sardine products. GPM is coming under more pressure due to the stronger baht and higher raw material cost. In addition to steadily increasing tuna price, shrimp price jumped 16% to Bt142/kg in 3Q12 from Bt120/kg in 2Q12. While the company can usually pass on cost increase, there is some lag time. However TUF was able to offset its weaker GPM with forex gains, lower SG&A expense and lower interest expense due to early repayment of MWB-related debt in 2Q12.

A challenging year

2012 has been a challenging year for the Thai food export industry with Jan-Aug shrimp exports down by 14% YoY. However, TUF's performance has been holding up well despite the industry-wide downturn, which is proof of management's ability to navigate through difficult times. While GPM for 9M12 will only be ~16.6%, the same as in 9M11 and below our forecast of 17.2% for full-year 2012, net profit margin is still in line due to the company's ability to lower other expenses. We maintain our Buy rating on the stock.

Stock Data

Price	Bt72.25
Price Objective	Bt95.00
Date Established	8-Jul-2012
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Bt48.94-Bt78.00
Mrkt Val / Shares Out (mn)	US$2,563 / 1,089.7
Market Value (mn)	Bt78,728
Average Daily Volume	2,983,467
BofAML Ticker / Exchange	TUFPF / SET
Bloomberg / Reuters	TUF TB / TUF.BK
ROE (2012E)	18.8%
Net Dbt to Eqty (Dec-2011A)	143.6%
Est. 5-Yr EPS / DPS Growth	9.5% / 21.8%
Free Float	53.5%

Estimates (Dec)

(Bt)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	2,194	4,779	5,968	7,512	8,228
EPS	3.02	5.31	5.48	6.50	7.12
EPS Change (YoY)	-20.3%	75.9%	3.2%	18.6%	9.5%
Dividend / Share	1.60	1.56	1.04	3.25	3.56
Free Cash Flow / Share	0.789	2.19	3.08	5.70	5.77

Valuation (Dec)

	2010A	2011A	2012E	2013E	2014E
P/E	23.95x	13.62x	13.19x	11.12x	10.15x
Dividend Yield	2.21%	2.16%	1.44%	4.50%	4.92%
EV / EBITDA*	22.94x	12.10x	9.86x	8.73x	8.01x
Free Cash Flow Yield*	0.900%	2.66%	4.26%	8.37%	8.48%

* For full definitions of *iQmethod* SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11215586

iQprofile℠ Thai Union Frozen

Key Income Statement Data (Dec)

(Bt Millions)	2010A	2011A	2012E	2013E	2014E
Sales	71,507	98,670	111,203	120,399	130,327
Gross Profit	9,531	16,369	19,127	21,070	22,807
Sell General & Admin Expense	(6,107)	(8,882)	(9,682)	(10,262)	(10,981)
Operating Profit	3,914	8,091	10,055	11,423	12,449
Net Interest & Other Income	43	(1,958)	(2,162)	(1,353)	(1,282)
Associates	24	84	85	87	89
Pretax Income	3,980	6,217	7,979	10,158	11,255
Tax (expense) / Benefit	(629)	(192)	(957)	(1,321)	(1,576)
Net Income (Adjusted)	2,194	4,779	5,968	7,512	8,228
Average Fully Diluted Shares Outstanding	952	956	1,090	1,156	1,156

Key Cash Flow Statement Data

Net Income	2,873	5,075	5,968	7,512	8,228
Depreciation & Amortization	1,206	1,616	1,859	2,035	2,212
Change in Working Capital	(5,368)	(5,242)	(3,706)	(2,667)	(2,947)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	4,712	4,013	2,236	2,711	2,184
Cash Flow from Operations	3,423	5,462	6,357	9,591	9,677
Capital Expenditure	(2,715)	(3,365)	(3,000)	(3,000)	(3,000)
(Acquisition) / Disposal of Investments	(28,382)	(37)	0	0	0
Other Cash Inflow / (Outflow)	350	224	40	36	36
Cash Flow from Investing	(30,747)	(3,178)	(2,960)	(2,964)	(2,964)
Shares Issue / (Repurchase)	3,713	0	9,995	0	0
Cost of Dividends Paid	(1,996)	(1,195)	(1,223)	(2,480)	(3,935)
Cash Flow from Financing	26,890	(2,367)	(2,334)	(5,410)	(5,962)
Free Cash Flow	708	2,097	3,357	6,591	6,677
Net Debt	36,434	38,864	26,695	22,548	19,770
Change in Net Debt	25,720	2,734	(12,169)	(4,147)	(2,778)

Key Balance Sheet Data

Property, Plant & Equipment	14,092	15,655	16,750	17,803	18,679
Other Non-Current Assets	26,684	27,644	28,074	28,442	28,631
Trade Receivables	9,218	11,161	12,578	13,619	14,742
Cash & Equivalents	1,037	903	1,965	3,182	3,932
Other Current Assets	23,746	27,867	31,335	33,885	36,712
Total Assets	74,777	83,230	90,702	96,931	102,695
Long-Term Debt	25,392	24,306	12,252	5,025	4,575
Other Non-Current Liabilities	5,209	6,713	8,315	10,193	11,237
Short-Term Debt	12,080	15,461	16,408	20,704	19,127
Other Current Liabilities	8,861	9,681	10,865	11,788	12,791
Total Liabilities	51,541	56,161	47,840	47,711	47,730
Total Equity	23,236	27,069	42,862	49,220	54,965
Total Equity & Liabilities	74,777	83,230	90,702	96,931	102,695

iQmethod℠ - Bus Performance*

Return On Capital Employed	6.8%	10.5%	11.5%	12.1%	12.3%
Return On Equity	11.8%	21.1%	18.8%	18.0%	17.8%
Operating Margin	5.5%	8.2%	9.0%	9.5%	9.6%
EBITDA Margin	7.2%	9.8%	10.7%	11.2%	11.2%

iQmethod℠ - Quality of Earnings*

Cash Realization Ratio	1.6x	1.1x	1.1x	1.3x	1.2x
Asset Replacement Ratio	2.3x	2.1x	1.6x	1.5x	1.4x
Tax Rate (Reported)	15.8%	3.1%	12.0%	13.0%	14.0%
Net Debt-to-Equity Ratio	156.8%	143.6%	62.3%	45.8%	36.0%
Interest Cover	5.1x	3.6x	4.6x	8.3x	9.5x

Key Metrics

* For full definitions of *iQmethod*℠ measures, see page 5.

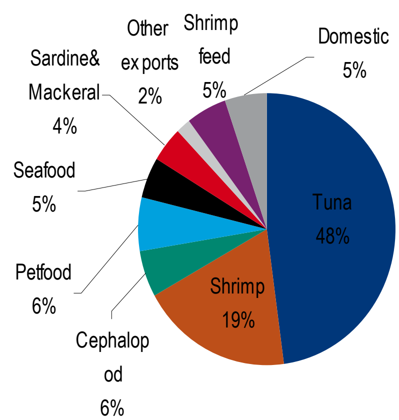
Company Description

TUF is one of the largest seafood companies, and the largest canned tuna producer, in the world. The company revenue base is healthily divided between N. America, Europe, and Asia. TUF has leading seafood brands in all major markets, e.g. US, UK, France, Italy, China, and Thailand. As of 2011, more than half its sales come from own brand products. TUF able management team is constantly adding new product/business both organically and via acquisitions, which help to boost its growth.

Investment Thesis

TUF has successfully transformed itself from an OEM supplier to owning several leading seafood brands throughout the world. We believe the company will continue to increase revenue share from brand products, which will further increase its margins. As a food company, TUF is less affected by any global economic hiccups. Based on past performance, the company has been able to effectively maintain its margin despite high volatility in its raw material prices due to its cost-plus pricing strategy.

Chart 1: TUF's revenue breakdown - 2011



Source: Company

Stock Data

Price to Book Value	2.0x

Table 1: Skipjack Tuna price (US$ per ton)

Jan	500	720	620	870	730	780	1,030	1,560	1,025	1,075	1,515	2,030
Feb	600	730	580	780	800	1,040	970	1,460	1,220	960	1,590	1,930
Mar	750	700	550	680	985	880	990	1,520	1,140	1,085	1,475	2,090
Apr	850	740	480	750	990	840	1,070	1,650	940	1,365	1,680	2,195
May	900	700	600	920	925	925	1,230	1,800	1,190	1,530	1,840	2,198
Jun	850	700	710	950	900	960	1,300	1,945	1,450	1,705	1,905	2,200
Jul	750	750	795	1,040	970	840	1,420	1,930	1,450	1,560	1,620	2,240
Aug	720	790	800	1,150	995	930	1,550	1,840	1,380	1,326	1,845	2,280
Sep	800	780	865	1,170	880	945	1,390	1,800	1,150	1,215	1,975	2,350
Oct	780	760	820	800	820	885	1,475	1,500	865	1,080	1,830	
Nov	750	700	735	780	750	880	1,410	1,170	850	1,232	1,910	
Dec	720	700	800	700	710	1,020	1,500	850	1,030	1,305	2,005	
Avg	*748*	*731*	*696*	*883*	*871*	*910*	*1,278*	*1,585*	*1,141*	*1,287*	*1,766*	

Source: Company

Table 2: Thai agri prices update

(Bt/kg)	2008	2009	2010	2011	1Q12	2Q12	3Q12	Jul-12	Aug-12	Sep-12	Current
Raw material											
Corn	8.86	7.09	9.08	9.64	10.27	10.47	11.40	10.80	11.80	11.60	10.38
Soybean meal	17.07	16.41	14.07	13.51	14.87	16.08	20.82	19.70	21.15	21.60	21.50
Fishmeal	29.08	30.83	28.25	27.78	29.27	29.73	33.23	33.40	33.40	32.90	26.90
Meat											
Chicken	38.00	37.54	40.73	45.08	34.67	37.00	35.67	36.00	36.00	35.00	31.00
Pork	54.38	57.25	58.67	65.88	53.00	61.33	56.83	56.00	58.50	56.00	47.50
Shrimp (60 piece/kg)	112.33	112.70	119.58	142.08	148.33	121.67	141.67	130.00	145.00	150.00	150.00
Calculated spread											
Chicken	72.5%	75.6%	76.3%	78.2%	69.4%	70.0%	63.3%	65.6%	62.7%	61.6%	59.1%
Pork	85.7%	87.7%	88.2%	89.5%	85.8%	87.0%	83.0%	83.7%	83.1%	82.2%	79.9%

Source: Ministry of Commerce

Price objective basis & risk

Thai Union Frozen (TUFPF)

We calculate TUF's price objective by taking an average of a target PER price and a target EV/EBITDA price. We use a target PER of 12.7x and target EV/EBITDA of 11x, which are the high ends of TUF's historical trading band, and apply them to the company's 2013E numbers to arrive at our PO of Bt95. Downside risks are stronger baht, further capital increases, an inability to find future synergistic acquisitions, sooner-than-expected depletion of global tuna supply, and trade barriers by key export markets.

Link to Definitions

Consumer & Retail

Click here for definitions of commonly used terms.

Analyst Certification

I, Charti Phrawphraikul, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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ASEAN - Consumer Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Astra International	PTAIF	ASII IJ	Swati Chopra
	BEC World	XBJHF	BEC TB	Thitithep Nophaket
	Bumitama Agri	XTIYF	BAL SP	Jeffrey Ng
	Central Plaza Hotel	XWTDF	CENTEL TB	Charti Phrawphraikul
	Charoen Pokphand Foods	CHPFF	CPF TB	Charti Phrawphraikul
	First Resources	XUOEF	FR SP	Jeffrey Ng
	Genting Bhd	GEBHF	GENT MK	Melvyn Boey, CFA
	Genting Malaysia	GMALF	GENM MK	Melvyn Boey, CFA
	Golden Agri	GARPF	GGR SP	Jeffrey Ng
	Holcim Indonesia	PTHIF	SMCB IJ	Swati Chopra
	IHH Healthcare Berhad	XFAAF	IHH MK	Swati Chopra
	IHH Healthcare Bhd	XFAHF	IHH SP	Swati Chopra
	Indocement	PITPF	INTP IJ	Swati Chopra
	Indofood	PIFMF	INDF IJ	Swati Chopra
	Indofood Agri Resources Limited	INDFF	IFAR SP	Jeffrey Ng
	Indofood CBP sukses makmur Tbk	XDINF	ICBP IJ	Swati Chopra
	Jardine Cycle & Carriage	JCYCF	JCNC SP	Swati Chopra
	Kalbe	PTKFF	KLBF IJ	Swati Chopra
	London Sumatra	PPLFF	LSIP IJ	Jeffrey Ng

ASEAN - Consumer Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Major Cineplex	MCGRF	MAJOR TB	Thitithep Nophaket
	MCOT PCL	XPSQF	MCOT TB	Thitithep Nophaket
	Media Nusantara Citra	PTMEF	MNCN IJ	Swati Chopra
	Minor International	XMNRF	MINT TB	Charti Phrawphraikul
	PT Astra Agro Lestari Tbk	PTABF	AALI IJ	Jeffrey Ng
	Puregold Price Club, Inc.	XZWOF	PGOLD PM	Joe-an Alitagtag
	Semen Gresik	PSGTF	SMGR IJ	Swati Chopra
	Siam Makro	SMKOF	MAKRO TB	Sirichai Chalokepunrat
	Sime Darby	SMEBF	SIME MK	Jeffrey Ng
	Thai Beverage	TBVPF	THBEV SP	Thitithep Nophaket
	Thai Union Frozen	TUFPF	TUF TB	Charti Phrawphraikul
	Top Glove Corporation Berhad	TPGVF	TOPG MK	Melvyn Boey, CFA
NEUTRAL				
	Genting Singapore PLC	GIGNF	GENS SP	Melvyn Boey, CFA
	Gudang Garam International	GGNPF	GGRM IJ	Swati Chopra
	IOI Corp	IOIOF	IOI MK	Jeffrey Ng
	Kuala Lumpur Kep	KLKBF	KLK MK	Jeffrey Ng
	Salim Ivomas Pratama	XLMFF	SIMP IJ	Jeffrey Ng
UNDERPERFORM				
	Berjaya Sports Toto	BJSAF	BST MK	Melvyn Boey, CFA
	CP All	XSFBF	CPALL TB	Sirichai Chalokepunrat
	Felda Global Venture Holdings	XFGVF	FGV MK	Jeffrey Ng
	Olam Intl	OLMIF	OLAM SP	Jeffrey Ng
	The Erawan Group	XCZVF	ERW TB	Charti Phrawphraikul
	Unilever Indonesia Tbk PT	UNLRF	UNVR IJ	Swati Chopra
	Wilmar Internat	WLMIF	WIL SP	Jeffrey Ng
RSTR				
	Noble Group Ltd	NOBGF	NOBL SP	Jeffrey Ng

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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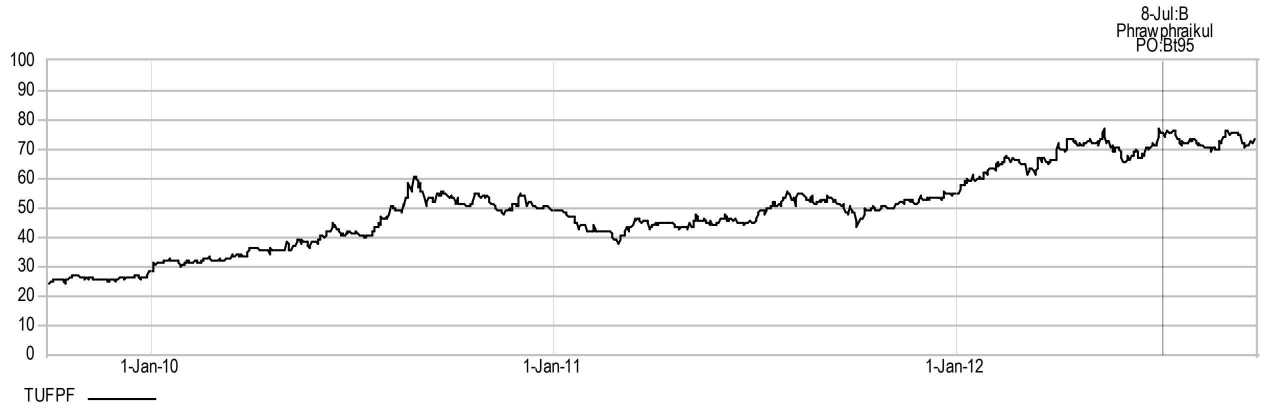
Important Disclosures

TUFPF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of September 30, 2012 or such later date as indicated.

Investment Rating Distribution: Food Group (as of 01 Oct 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	29	39.19%	Buy	21	77.78%
Neutral	21	28.38%	Neutral	15	78.95%
Sell	24	32.43%	Sell	13	61.90%

Investment Rating Distribution: Global Group (as of 01 Oct 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1908	48.96%	Buy	1289	73.20%
Neutral	1025	26.30%	Neutral	653	70.98%
Sell	964	24.74%	Sell	533	59.35%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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