

SECTOR UPDATE

Food – Thailand

2020 Sector Earnings To Improve yoy

Most food and agricultural companies are expected to post a yoy improvement in 2020 earnings thanks to a low base in 2019 due to: a) company-specific factors, b) sharp appreciation of the baht against foreign currencies, and c) volatility of soft commodity prices. Maintain MARKET WEIGHT; our top picks are CPF, STA and TVO.

WHAT'S NEW

• **3Q19 earnings up 12% yoy and 46% qoq.** 3Q19 sector net profit came in at Bt9,120m, up 12% yoy and 46% qoq. Key drivers were: a) very low 2Q19 earnings base for TU due to one-off provision expenses; b) large 3Q19 investment gains recorded by CPF. Overall 3Q19 results were mixed. Only CPF and TU posted yoy and qoq earnings increases in 3Q19. Note that most firms reported 3Q19 sales declines on a yoy basis, due to the baht's appreciation against the US dollar (7% yoy), euro (11% yoy), GBP (12% yoy) and renminbi (10%yoy). However, only SAPPE posted impressive 3Q19 sales growth of 29% yoy, thanks to a new product launch in Mar 19 (B'lue) and the seasonal high for overseas sales. For 2019's full-year earnings outlook, we expect the sector's total net profit to come in flat yoy on the back of mixed performances throughout the year.

• **Positive outlook for meat prices in 2020.** Key drivers would be widespread outbreak of the African Swine Fever (ASF) in China and Vietnam. Swine supply in China has declined 30-40% since the ASF outbreak and China will need to import more meat - especially chicken - to make up for the shortage in swine supply in the country. In addition, swine prices in Vietnam now is about VND60,000 per kg, jumping from VND48,076 per kg in Jan 19 before the outbreak - impacted by the swine shortage. Note that this deadly disease will continue to affect Vietnam and China over the next 4-5 years with there being no effective cures or preventive treatments available at this point of time. Therefore, we believe both chicken and swine prices in Thailand in 2020 would be on an uptrend. If Thailand were to see an ASF outbreak, swine prices would remain low (at farmers' cost) for 8 months and jump thereafter, like it did in China and Vietnam.

ACTION

- **Maintain MARKET WEIGHT.** Top picks are CPF, STA and TVO.
 - **CPF (BUY/Bt27.50/Target: Bt30.00):** To benefit from positive meat price outlook. 4Q19 earnings should grow yoy. Key drivers would be: a) relatively low earnings base in 4Q18; b) strong business outlook in Vietnam thanks to solid meat prices due to the ASF outbreak in Vietnam. Moreover, we project 2020 core earnings would surge more than 30% yoy, thanks mainly to the promising outlook for meat prices. Maintain BUY with a target price of Bt30.00, pegged to 15x 2020F PE or +0.5SD to its 5-year mean.

MARKET WEIGHT

(Maintained)

STOCK PICKS

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
Charoen Pokphand	CPF TB	BUY	27.50	30.00
SRI Trang Agro-Industry	STA TB	BUY	9.90	13.60
Thai Vegetable Oil	TVO TB	BUY	25.75	29.25

Source: UOB Kay Hian

3Q19 RESULTS SUMMARY

Net profit (Btm)	3Q18	2Q18	3Q19	% yoy	% qoq
CPF	4,912	4,104	6,062	23	48
CFRESH	29	-55	-38	-231	NM
GFPT	437	341	376	-14	10
KSL	-95	416	217	NM	-48
M	676	689	549	-19	-20
MALEE	-124	-63	-35	NM	NM
SAPPE	67	136	102	52	-25
STA	502	270	135	-73	-50
TU	1,310	111	1,374	5	1138
TVO	457	280	377	-18	35
Total	8,170	6,229	9,120	12	46

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Market Cap (US\$m)	-----Net profit-----			-----PE-----			-----P/B-----			-----ROE-----		
						2018 (Btm)	2019F (Btm)	2020F (Btm)	2018 (x)	2019F (x)	2020F (x)	2018 (x)	2019F (x)	2020F (x)	2018 (%)	2019F (%)	2020F (%)
Charoen Pokphand	CPF TB	BUY	27.50	30.00	7,752	15,531	16,997	17,363	15.2	13.9	13.6	1.6	1.5	1.4	7.0	7.8	7.8
GFPT	GFPT TB	SELL	12.40	12.60	509	1,038	1,194	1,214	15.0	13.0	12.8	1.2	1.2	1.1	8.4	9.1	8.6
Khon Kaen Sugar	KSL TB	SELL	2.16	2.20	312	848	1,041	808	11.2	9.2	11.8	0.5	0.5	0.5	4.6	5.5	4.1
Mk Restaurant	M TB	HOLD	71.00	75.50	2,140	2,574	2,649	2,781	25.4	24.7	23.5	4.6	4.5	4.4	18.4	18.5	19.1
Malee Group	MALEE TB	SELL	6.65	6.30	61	-273	-201	-169	n.a.	n.a.	n.a.	1.6	2.2	2.6	-19.0	-18.1	-18.8
Sappe	SAPPE TB	BUY	22.30	31.00	222	351	448	497	19.3	15.2	13.7	2.8	2.5	2.3	15.0	17.2	17.1
Sri Trang Agro	STA TB	BUY	9.90	13.60	498	2,064	-122	782	7.4	n.a.	19.4	0.6	0.6	0.6	8.5	-0.5	3.0
Thai Union	TU TB	BUY	13.80	18.00	2,156	3,256	4,155	5,339	20.2	15.8	12.3	1.5	1.3	1.2	6.9	8.2	9.4
Thai Vegetable Oil	TVO TB	BUY	25.75	29.50	682	1,867	1,346	1,697	10.4	14.4	11.4	2.3	2.3	2.2	21.5	15.3	18.8
Sector					14,330	27,258	27,508	30,311	16.0	15.9	14.4	1.3	1.2	1.2	7.8	7.7	8.1

Source: UOB Kay Hian

- **STA (BUY/Bt9.90/Target: Bt13.60): 2020 earnings to turn around yoy.** STA's management is targeting to achieve a 28% yoy rise in 2020 sales volume of natural rubber. This is because STA is expected to gain new customers from the exit of a few big rubber manufacturers in Thailand who went bankrupt in 1H19 and the ceasing of operations at Chongqing General Trading Chemical Co, the largest commodity trading firm in western China. In addition, STA's 2020 gross margin is expected to be better yoy on less volatile natural rubber prices with the largest commodity trading firm in western China having exited the industry. Also, 2020 glove sales volume should jump 33% yoy on capacity expansion. Maintain BUY. STA's target price of Bt13.60 is pegged to 0.8x 2020F P/B or its 5-year mean.
- **TVO (BUY/Bt25.75/Target: Bt29.25): 2020 earnings to jump 20% yoy.** Key drivers would be: a) sales growth target at 5-10% yoy on higher sales volumes of soybean meal and soybean oil as well as slightly higher soybean meal and soybean oil ASPs; and b) wider gross margins yoy from slightly higher ASPs. If Thailand were to be hit by an ASF outbreak, TVO believes that it would actually provide an opportunity to sell more soybean meal. This is because livestock farmers would buy less imported soybean volume (which normally arrives in bulk) and would turn towards buying more domestic soybean meal instead due to the flexibility of being able to buy in small quantities. Maintain BUY. Our target price of Bt29.25 is pegged at 14x 2020F PE or +0.5SD its 5-year mean. We also think 2020's dividend yield at about 6% is attractive.

SECTOR CATALYSTS

- Economic recovery should stimulate meat demand and increase consumption power.

ASSUMPTION CHANGES

- None.

ESSENTIALS

- Other soft commodities are expected to see weak trends.
- **2020 aquaculture prices to remain flattish.** Tuna prices in 10M19 averaged US\$1,256/tonne, down from US\$1,530/tonne in 2018 on the back of large supply. However, prices are expected to rebound to US\$1,400-1,500/tonne in 2020 due to more balanced supply as some fisheries would temporarily cease their operations when tuna prices are at about US\$1,000/tonne (this is because returns from tuna sales will not be enough to compensate for the cost of catching fish). Average shrimp prices (60 pieces-per-kg size) in 11M19 were at Bt146/kg, down slightly from Bt155/kg in 2018 as a result of large supply from neighbouring countries. We believe prices in 2020 would be flat yoy as India and Vietnam continue to raise output.
- **Feed costs and most agricultural prices to remain low in 2020.** Current sugar prices are at 12.82 US cents/lb, down from KSL's FY18 ASP of 14.70 US cents/lb. Key drags were the 8% ytd depreciation of the Brazilian real against the US dollar and large global supply. Global sugar prices in 2020 are estimated at 12-15 US cents/lb and KSL is likely to see a price uptrend 2HFY20.

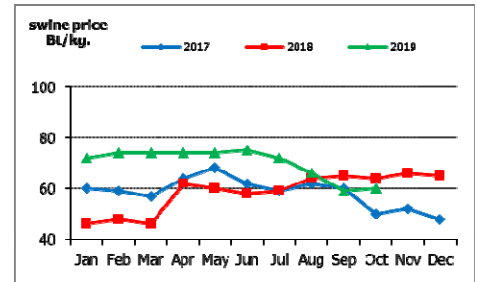
Average domestic soybean meal prices in 11M19 were at Bt14.34/kg, down from Bt16.05/kg in 2018. Prices in 2020 should increase slightly yoy on lower global soybean supply but this might partially be offset by weaker demand from China due to the ASF outbreak. Average domestic corn prices in 11M19 were at Bt9.2/kg, down slightly from Bt9.9/kg in 2018. 2020 domestic corn prices should be flat yoy.

For rubber (SICOM: TSR20), prices are likely to average US\$1.30-1.40 per kg in 2020, unchanged from current prices. However, 2020 should see less price volatility as Chongqing General Trading Chemical Co., the largest commodity trading firm in western China, had exited the industry in late-Sep 19.

RISKS

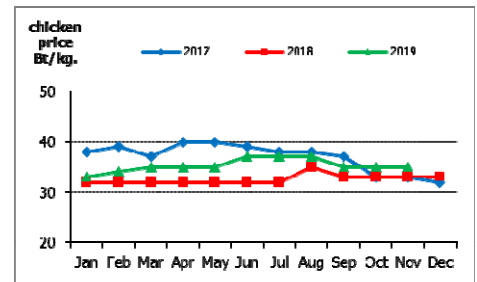
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DOMESTIC SWINE PRICES



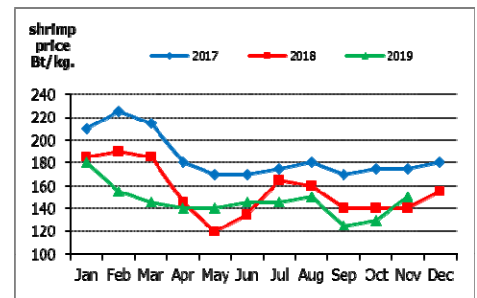
Source: CPF

DOMESTIC CHICKEN PRICES



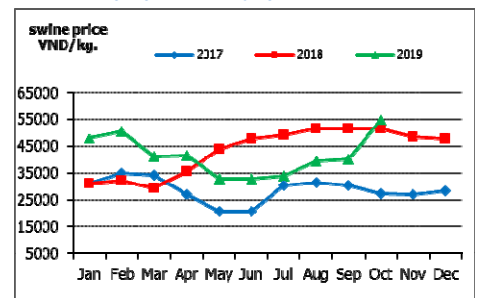
Source: CPF

DOMESTIC SHRIMP PRICES



Source: CPF

VIETNAMESE SWINE PRICES



Source: CPF

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