

SECTOR UPDATE

Food – Thailand

Reiterate Our Positive View On Upstream Food Names

We are still positive on upstream food names. The volatility in domestic swine prices is in line with our previous expectation. We expect swine prices to improve in 2H24 on the back of a better demand and supply situation. Also, the recovery in tuna prices will be a key catalyst to TU's gross margin improvement. Maintain OVERWEIGHT on the food sector. Our top picks are BTG and TU.

WHAT'S NEW

- Short-term volatility in domestic swine prices.** Domestic swine prices in Jun 24 mtd stand at Bt66/kg, down 2.2% and 8.3% from qtd 2Q24 and May 24 respectively. The volatility in swine prices is in line with our previous expectation as there are still some supply issues persisting in Thailand. However, we expect swine prices to increase by 3.5% qoq in 2Q24. We reiterate our view of better domestic swine prices in 2H24 due to an improvement in demand and supply. Jun 24 mtd chicken prices stand at Bt44/kg, flat from qtd 2Q24 and May 24. Although the government has mentioned that the current chicken prices are higher than normal, we still expect prices to remain at this level due to strong export volume and demand recovery.
- Strong Vietnamese swine prices.** Qtd 2Q24 Vietnamese swine prices stand at VND65,000/kg, up 21.4% qoq and 18% yoy from VND53,400kg and VND55,000/kg in 1Q24 and 2Q23, respectively. The strong Vietnamese swine prices are due to the African Swine Fever (ASF) outbreak. Based on our study, once there is an ASF outbreak, swine prices are likely to be higher than normal for 1-1.5 years, as we have seen in China, Vietnam and Thailand. Hence, we expect Vietnamese swine prices to stay at this level throughout 2024. This should be a positive catalyst for both Charoen Pokphand Group (CPF) and Thaisfoods Group (TFG) as they both have exposure in Vietnam.
- Sharp rebound in Chinese swine prices.** Chinese swine prices increased sharply to Rmb18.8/kg during late-May to Jun 24. We expect Chinese swine prices to come in at around Rmb16.50/kg in 2Q24, up 12% qoq and 14% yoy. Note that the current prices are already higher than the breakeven level. Another catalyst for Chinese swine prices would be China's anti-dumping investigation on EU pork businesses. China's imported pork accounted for 4.5-5.5% of China's total pork production while the EU's pork accounts for 50-60% of China's total imports.
- Recovery of tuna prices on track.** In Apr-May 24, tuna prices increased 7% qoq to US\$1,428/tonne. Overall, we still expect tuna prices to continue recovering as we enter the Fish Aggregating Devices (FAD) ban period during July-Sep 24. This also aligns with our study on past data that tuna prices will continuously improve towards 3Q24, based on the heat maps in the next page.

ACTION

- Reiterate our view on sector earnings improvement.** We maintain OVERWEIGHT on the food sector, especially for upstream names, on the back of an expected strong earnings turnaround in 2024. Our top picks are BTG and TU. We expect the short-term volatility in domestic swine prices to be a good accumulation opportunity for BTG. Also, the recovery in tuna prices should be a key catalyst to TU's earnings improvement from 2Q24 onwards.

PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Market Cap (US\$m)	Core profit			PE			P/B		ROE	
						2023 (Btm)	2024F (Btm)	2025F (Btm)	2023 (x)	2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
Belagro	BTG TB	BUY	21.60	27.00	1,160	-1,398	3,065	3,578	n.a.	13.6	11.7	1.5	1.4	11.5	12.2
Charoen Pokphand	CPF TB	BUY	21.40	25.10	5,115	-18,863	7,865	12,370	n.a.	22.9	14.6	0.8	0.8	3.8	4.6
GFPT	GFPT TB	BUY	11.90	14.40	414	1,377	1,421	1,449	10.8	10.5	10.3	0.8	0.7	7.8	7.4
i-Tail Corporation	ITC TB	BUY	23.00	27.00	1,915	2,281	3,494	3,863	31.1	20.0	18.1	3.0	2.9	14.7	15.3
Thaisfoods	TFG TB	BUY	4.20	4.64	677	-1,172	1,704	2,150	n.a.	14.3	11.4	1.7	1.5	12.1	14.2
Thai Union	TU TB	BUY	15.30	20.00	1,977	4,801	6,545	6,973	14.8	10.9	10.2	1.1	1.1	9.7	10.0
Sector					9,003	-12,974	24,094	30,383	3.7	17.0	12.3	1.0	1.0	6.9	7.6

Source: Bloomberg, UOB Kay Hian

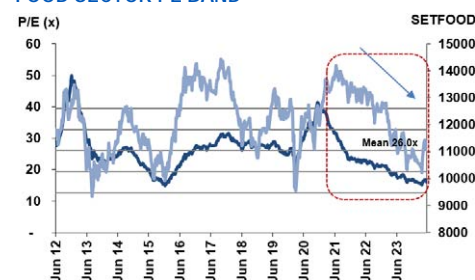
OVERWEIGHT
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
Belagro	BTG TB	BUY	21.60	27.00
Thai Union	TU TB	BUY	15.00	20.00

Source: UOB Kay Hian

FOOD SECTOR PE BAND



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

Kampon Akaravarinchai
+662 659 8031
kampon@uobkayhian.co.th

• **Not much concern over raw material costs.** Despite a rebound in the prices of soft commodities such as corn and soybean meal in May 24, we have already seen a decline in Jun 24. However, we believe the spike in May 24 was still manageable and we expect minimal impact in 3Q24 as companies are able to stock up on raw materials for up to 3-4 months. In 2H24, we expect prices of soft commodities to remain steady following the lack of strong catalysts such as: a) the potential peace talks between Russia and Ukraine; and b) a lack of clarity on the presence of a strong La Nina in 2H24, as a weak La Nina could mean less impact on soybean and corn crops in Brazil, Argentina and the US.

ESSENTIALS

- **Expect strong earnings growth momentum in 2Q24.** We expect i-Tail Corporation (ITC) to report stronger-than-expected earnings in 2Q24. The key catalysts will be from: a) strong top-line growth of 35-40% yoy, and b) a strong gross profit margin of 26% in 2Q24, slightly increasing qoq following an improvement in top-line and the delay of depreciation of the new plant. Looking forward to 2H24, we foresee more challenging factors on the back of: a) lower ASPs due to lower costs, b) additional depreciation from the new plant, and c) the impact from the minimum wage hike in Oct 24. However, we still expect to see a yoy growth in 2H24 and we foresee the upside to consensus earnings of around 10%.
- **Fine-tune 2024 and 2025 earnings.** We have revised up our 2024 and 2025 earnings forecasts by 25.7% and 18.5%, respectively on the back of better-than-expected top-line and gross profit margin assumption.

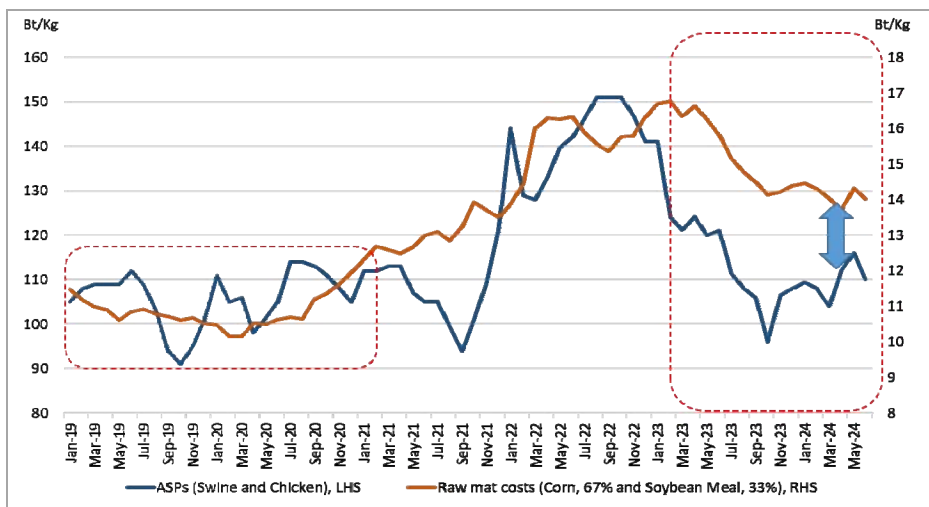
EARNINGS REVISION TABLE

(Btm)	FY24F			FY25F		
	Old	New	% chg	Old	New	% chg
Sales	17,534.8	17,868.7	1.9%	19,288.3	19,208.9	-0.4%
Net profit	2,779.4	3,493.7	25.7%	3,261.4	3,863.4	18.5%
Core profit	2,779.4	3,493.7	25.7%	3,261.4	3,863.4	18.5%

Source: ITC, UOB Kay Hian

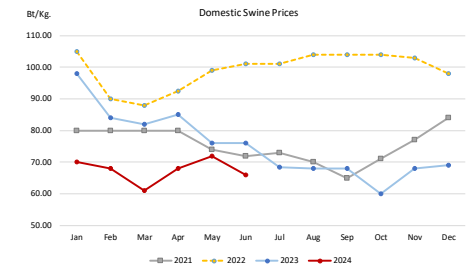
- **Upgrade ITC to BUY with a target price of Bt27.00.** We peg ITC's target price to 23x 2024F PE, based on the average PE of some of ITC's OEM pet food producer peers in China. We expect a short-term share price catalyst from the stronger-than-expected 2Q24 earnings momentum.

THE TREND OF ASP AND RAW MATERIAL COST GAP



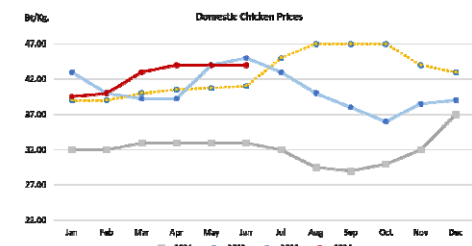
Source: CPF, OAE, UOB Kay Hian

DOMESTIC SWINE PRICES



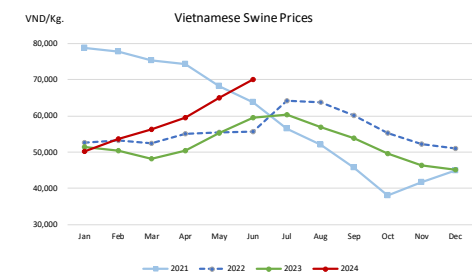
Source: CPF, OAE

DOMESTIC CHICKEN PRICES



Source: CPF, OAE

VIETNAMESE SWINE PRICES



Source: CPF, Vietnamoi

CHINESE SWINE PRICES



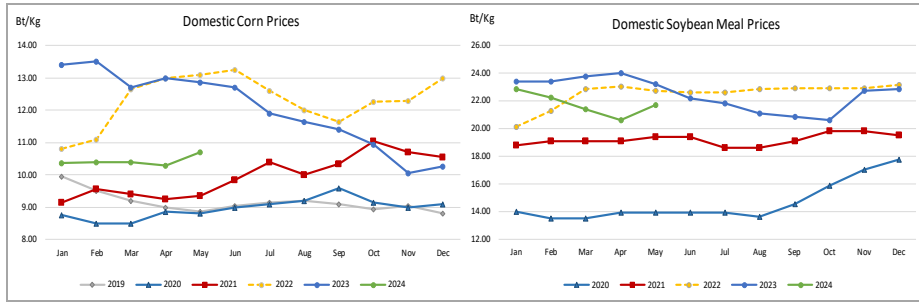
Source: zhujia.zhuwang.cc

ITC PET FOOD PEERS

Valuation	PER		EPS Growth	
	2024F	2025F	2024F	2025F
Pet Food OEM				
Asian Alliance International	16.5	14.2	100.0%	16.7%
Petpal Pet Nutrition Technology	24.1	18.6	80.6%	30.4%
Yantai China Pet Foods	22.6	18.5	23.1%	21.9%
AVG Pet Food OEM	21.0	17.1	67.9%	23.0%
i-Tail Corporation	20.1	18.1	53.1%	10.6%

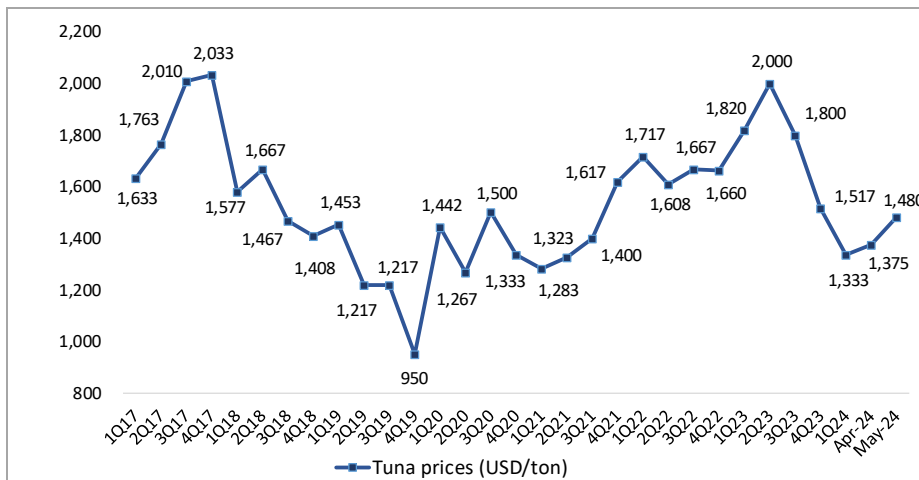
Source: Bloomberg

CORN AND SOYBEAN MEAL PRICE TREND



Source: CPF, UOB Kay Hian

TUNA PRICE TREND



Source: TU, UOB Kay Hian

TUNA PRICE TREND

Month	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	AVG-30 Years
Jan	1,075	1,515	2,030	2,075	1,275	1,150	1,000	1,700	1,550	1,280	1,350	1,200	1,600	1,680	1,400	1,151
Feb	960	1,690	1,930	2,195	1,225	1,150	1,170	1,700	1,480	1,480	1,475	1,300	1,650	1,800	1,300	1,182
Mar	1,085	1,475	2,090	2,325	1,175	1,010	1,600	1,500	1,700	1,600	1,500	1,350	1,900	1,980	1,300	1,224
Apr	1,365	1,680	2,195	2,320	1,225	1,035	1,610	1,690	1,800	1,450	1,400	1,340	1,800	2,000	1,375	1,242
May	1,530	1,840	2,198	2,195	1,485	1,070	1,500	1,700	1,600	1,200	1,200	1,280	1,600	2,000	1,480	1,245
Jun	1,705	1,905	2,200	2,020	1,710	1,200	1,400	1,900	1,600	1,000	1,200	1,350	1,425	2,000		1,261
Jul	1,560	1,620	2,240	1,850	1,800	1,400	1,400	1,950	1,300	1,200	1,550	1,500	1,600	1,900		1,284
Aug	1,526	1,845	2,280	1,880	1,600	1,500	1,450	1,980	1,450	1,350	1,625	1,400	1,800	1,800		1,316
Sep	1,215	1,975	2,350	1,875	1,280	1,380	1,450	2,100	1,650	1,100	1,325	1,300	1,600	1,700		1,275
Oct	1,080	1,630	2,210	1,770	1,200	1,140	1,400	2,300	1,525	900	1,300	1,500	1,580	1,600		1,203
Nov	1,232	1,910	1,900	1,570	1,180	1,000	1,500	2,000	1,400	900	1,400	1,600	1,700	1,500		1,154
Dec	1,305	2,905	1,900	1,400	1,180	1,000	1,625	1,800	1,300	1,050	1,300	1,750	1,700	1,450		1,147
Avg	1,287	1,766	2,127	1,956	1,361	1,170	1,425	1,860	1,530	1,209	1,385	1,406	1,663	1,784	1,371	1,224

Source: TU, UOB Kay Hian

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