Khon Kaen Sugar Industry

Sugar price weakness still a drag on share prices

THAILAND | SET | FOOD | TRADE FLASH
BLOOMBERG KSL TB | REUTERS KSL.BK

1QFY15 profit down 7% y-y to Bt395mn as a result of sugar price slump
KSL posted a 7% y-y drop in 1QFY15 net profit to Bt395mn as a result of a slide in sugar prices, which offset strong profit performance from both power and ethanol businesses. In this period, quarterly sales slipped 6% y-y to Bt34,491mn as (i) sugar sales volume and ASPs dropped 7% and 0.51% y-y respectively, (ii) ethanol sales volume jumped 17.8% y-y to 27.3mn liters but ASPs dipped 0.96% y-y and (iii) electricity sales volume and ASPs declined 0.52% and 0.43% y-y respectively. Margins improved on the back of solid margins from power and ethanol businesses. SG&A expenses edged up on higher cess. Interest expenses also inched up on increased debt load.

Sugar price weakness prompts 16% cut in FY15 earnings outlook
Even though 2QFY15 is expected to be better than 1QFY15 on the prospect of higher sugar sales volume, we however revise down our sugar price assumptions for the year given that the Cane and Sugar Corporation (TCSC) has so far locked in only 42% of total contract sales at 18 cents/lb and global sugar prices are currently trading at 12.5-13.0 cents/lb. Due to the drought crisis, Thailand’s sugarcane output is expected to drop to 93mn-100mn tons this year from 104mn tons last year. Sugarcane yield also tends to be narrower than a year ago. Ethanol sales volume as a consequence of lower sugarcane output may also surprise to the downside this year while electricity sales volume projection would remain unchanged. To reflect the above headwinds, we slash our FY15 earnings outlook for KSL by 16%. Under the new estimate, we forecast FY15 sales will drop 6% y-y to Bt17,535mn based on assumptions that (1) sugar sales volume will rise 8% y-y and ASPs will be 15 cents/lb, (2) ethanol sales volume and ASPs will be 100mn liters and Bt26/liter respectively and (3) electricity sales volume and ASPs will be up 7% and 3% y-y respectively. Margin tends to be similar to the year-ago level but interest expenses are set to rise on growing debt load. Losses from overseas operations in Lao PDR and Cambodia are likely to widen in the face of sugar price collapse. Our new forecast puts FY15 net profit at Bt1,497mn, down 8% y-y.

Downgrade to ‘SELL’ with downwardly revised target price of Bt4.85/share
Although F.O. Litch forecasts a 2014/2015 global sugar deficit of 1mn tons, the nearly 30% fall in the Brazilian real as a result of internal has however remained a major downward drag on sugar prices. The price slide may also cause the operating performance of sugar business to suprise to the downside. Notwithstanding that KSL management believes sugar prices may not fall too far from current levels, the softer-than-expected trend in sugar prices gives us an excuse to cut our earnings outlook for KSL and downgrade the stock to ‘SELL’ with a downwardly revised target price of Bt4.85/share.

Sell (Downgraded from Neutral)
Closing Price(Bt) 5.00
Target Price(Bt) 4.85 (-3%)

COMPANY DATA

O/S Shares (mn): 4,009
Market Cap. (Btmn): 20,047
Market Cap. (USDmn): 612
52-WK Hi/Lo (Bt): 6.21/4.79
3M Average Daily T/O (mn): 1.66
Par Value (Bt): 0.50

MAJOR SHAREHOLDERS (%)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Shareholder</th>
<th>%</th>
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<tbody>
<tr>
<td>1</td>
<td>1. KSL Sugar Holding Co., Ltd.</td>
<td>33.2</td>
</tr>
<tr>
<td>2</td>
<td>2. Mr. Chanachai Chutimaworaphan</td>
<td>2.6</td>
</tr>
<tr>
<td>3</td>
<td>3. Thai NVDR</td>
<td>2.4</td>
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PRICE PERFORMANCE (%)

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<tr>
<th>Period</th>
<th>1MTH</th>
<th>3MTH</th>
<th>1YR ABS</th>
<th>REL TO SET INDEX</th>
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<tr>
<td></td>
<td>-0.9</td>
<td>-5%</td>
<td>1%</td>
<td>1.2%</td>
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PRICE VS SET INDEX

Source: Bloomberg, PSR

KEY FINANCIALS

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<tr>
<th>Period</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15E</th>
<th>FY16E</th>
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<tbody>
<tr>
<td>Sales (Btmn)</td>
<td>18,941</td>
<td>19,185</td>
<td>18,037</td>
<td>20,133</td>
</tr>
<tr>
<td>Net Profit (Btmn)</td>
<td>1,676</td>
<td>1,626</td>
<td>1,497</td>
<td>1,726</td>
</tr>
<tr>
<td>EPS (Bt)</td>
<td>0.50</td>
<td>0.49</td>
<td>0.37</td>
<td>0.43</td>
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<tr>
<td>P/E (X)</td>
<td>9.9</td>
<td>10.3</td>
<td>13.4</td>
<td>11.6</td>
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<tr>
<td>BVPS (Bt)</td>
<td>4.02</td>
<td>4.35</td>
<td>4.85</td>
<td>5.23</td>
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<td>P/B (X)</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
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<tr>
<td>DPS (Bt)</td>
<td>0.18</td>
<td>0.08</td>
<td>0.13</td>
<td>0.15</td>
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<tr>
<td>Dividend Yield (%)</td>
<td>3.5</td>
<td>1.6</td>
<td>2.6</td>
<td>3.0</td>
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<tr>
<td>ROE (%)</td>
<td>15.20</td>
<td>13.23</td>
<td>10.88</td>
<td>11.37</td>
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<tr>
<td>Debt/Equity (X)</td>
<td>3.04</td>
<td>3.09</td>
<td>2.24</td>
<td>2.08</td>
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</tbody>
</table>

Source: Company, PSR Est.

**Multiples and yields are based on latest closing price

VALUATION METHOD

P/E15 (13x)

Naree Apisawatitakan
Securities Investment Analyst #17971
Tel: 66 2 635 1700 # 484
## Industry Group

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<thead>
<tr>
<th>Name</th>
<th>Sector Name</th>
<th>Sector Index</th>
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<td>Agro &amp; Food Industry[AGRO]</td>
<td>Agribusiness</td>
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<td>Food &amp; Beverage</td>
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<td>Consumer Products[CONSUMP]</td>
<td>Fashion</td>
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<td></td>
<td>Home &amp; Office Products</td>
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<td>Personal Products &amp; Pharmaceuticals</td>
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<td>Financials [FINCIAL]</td>
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<td>Industrial Materials &amp; Machinery</td>
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<td>Paper &amp; Printing Materials</td>
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<td>Steel</td>
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<td>Property &amp; Construction[PROPCON]</td>
<td>Construction Materials</td>
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<td></td>
<td>Construction Services</td>
<td>CONS</td>
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<td>Property Development</td>
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<td>Property Fund &amp; REITs</td>
<td>PF&amp;REIT</td>
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<td>Resources [RESOURC]</td>
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<td>Services [SERVICE]</td>
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<td>Media &amp; Publishing</td>
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<td>Health Care Services</td>
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<td>Tourism &amp; Leisure</td>
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<td>Professional Services</td>
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<td>Technology [TECH]</td>
<td>Electronic Components</td>
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<td>Information &amp; Communication Technology</td>
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## PSR Rating System

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<th>Capital Gain</th>
<th>Recommendation</th>
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<tr>
<td>&gt; +10%</td>
<td>Buy</td>
</tr>
<tr>
<td>0% to + 10%</td>
<td>Neutral</td>
</tr>
<tr>
<td>&lt; 0%</td>
<td>Sell</td>
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</table>

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock’s risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
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</tbody>
</table>

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