

Thai Union Frozen Products - TUF

Shrimp industry is on a recovery mode despite EMS disease issue

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TUF TB | TUF.BK

Phillip Securities Research Pte Ltd
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Report type: Trade Flash

Company Overview

TUF is a leading producer and distributor of tuna and processed seafood products in the world market for well-known brands including Chicken of the Sea, MWB and others

- TUH engages in shrimp breeding and hatchery, while TMK operates shrimp farming. Both are JV projects with Mitsubishi to operate a fully-integrated shrimp investigation operation.
- Operations are still small, accounting to only around 2% of total raw material production. However, this is expected to increase to around 10% within the next 5 years.
- The benefit of our TUF trip is to confirm the progress in solving EMS diseases.
- We upgrade TUF stock to 'ACCUMULATE' with our price target at Bt63/share.

What is the news?

Phillip Securities Research (PSR) has the opportunity to visit TUF's shrimp breeding and hatchery operation under Thai Union Hatchery (TUH). The company operates 3 facilities in 1) Pang-nga, 2) Songkla and 3) Chacheongsao with shrimp nauplius (NP) production of 12,000mn/year and shrimp post larvae (PL) of 2,500mn/year. Another company, TMK Farm (TMK), operates 17 culture ponds with 150 tons capacity. According to management, shrimp production is anticipated to triple this year's level despite still prevailing EMS diseases. However, there have been progresses with the farm's new process leading to higher survival rate.

How do we view this?

The two sites are considered small, accounting for only around 2% of TUF's total raw material production. However, this is expected to increase to around 10% within the next 5 years. The establishment of these sites is aimed at a fully-integrated shrimp investigation operation with its main trading partner, Mitsubishi. What we see positive to the shrimp industry is a serious attempt to solve the EMS disease, which has been adversely impacting shrimp production. To date, some improvements have already been witnessed with shrimp survival rate on the uptrend. Thai shrimp production in CY14 is estimated to increase by around 20% to 300,000 tons, which should help enhance shrimp exporters' performances to stage an ongoing recovery.

Investment Actions?

In our view, TUF's operating performance has reached its trough and is expected to recovery strongly next year in line with the shrimp industry. We thus upgrade our rating to 'ACCUMULATE' with our price target pegged at Bt63/share.

Valuation Method

P/E'14 (16x)

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