

Thai Vegetable Oil - TVO

Domestic & overseas industry outlooks still conducive to earnings recovery

Bloomberg | Reuters
TVO.TB | TVO.BK

Thailand Equities Research
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Report type: Company Update

Company Overview

TVO is engaged in the manufacture and distribution of soy meal for feed production and soybean oil under the brand 'A-ngoan.'

- Domestic and overseas industry outlooks are still conducive to earnings recovery.
- Earnings recovery is on the horizon. We leave our CY12 earnings outlook for TVO unchanged.
- We maintain a 'BUY' rating on TVO with a target price of Bt25.75/share.

What is the news?

Domestic and overseas industry outlooks are still conducive to earnings recovery.

How do we view this?

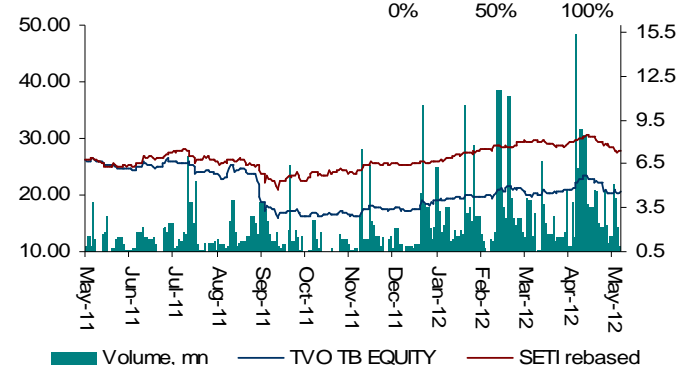
Weakening global economic conditions triggered a flight from risky assets but tight global soybean supplies could set the stage for a rebound in soybean prices.

Investment Actions?

We maintain a 'BUY' rating on TVO with a target price of Bt25.75/share.

Thai Vegetable Oil

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	25.75	
- Previous Target Price (Bt)	25.75	
Closing Price (Bt)	20.60	
Expected Capital Gains (%)	25.00	
Expected Dividend Yield (%)	7.04	
Expected Total Return (%)	32.04	
Raw Beta (Past 2yrs w weekly data)	0.96	
Market Cap. (USD mm)	515	
Enterprise Value (USD mm)	542	
Market Cap. (Bt mm)	16,313	
Enterprise Value (Bt mm)	17,133	
3MAverage Daily T/O (mm)	3.5	
52 week range	15.9 - 26.75	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Miss Sudarat Wittayatanakorn	7.3
2. Mr. Vichai Wittayatanakorn	7.1
3. Mrs. Rattana Chanpitak	5.4

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	20,277	23,097	25,308	27,945
Net Profit, adj. (Btmn)	1,559	693	1,475	1,638
EPS, adj. (Bt)	2.07	0.89	1.90	2.11
P/E (X), adj.	9.9	23.0	10.8	9.7
BVPS (Bt)	8.28	7.45	8.19	8.69
P/B (X)	2.5	2.8	2.5	2.4
DPS (Bt)	1.50	0.90	1.45	1.55
Div. Yield (%)	7.3	4.4	7.0	7.5

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E12 (14x)

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Domestic and overseas industry outlooks still favorable and positive for earnings over the rest of the year

Management has guided that the outlook for global soybean industry remains strong thanks to the following positive factors:

1. Drought damage led USDA to cut its forecast for key producer Argentina's 2012 soybean crop to 42.5mn tons. Brazil's 2012 soy crop is estimated at 65mn tons. End-season stockpiles in both countries are expected to tighten, prompting buyers to turn to the US instead as soy crop in the US will gradually come to the market in the second half of the year.
2. Renewed fears of Europe's debt crisis prompted investors to shed risky assets including soybean futures after earlier heavier than normal buying on poor soybean crop forecasts, a catalyst that would drive up soybean prices.
3. US soybean plantings are expected to reach to 76mn acres, revised upwards from the previous estimate but much of the news is already priced into the market. However, tight supplies in Brazil and Argentina are likely to encourage buyers to turn to the US instead, a move that could cause end-season US stockpiles to tighten, as well.

Management expects soybean prices to range between US\$13.50 and US\$14.50 per bushel pending the results of new elections in Greece. However, soybean prices are poised to rise in the second half of the year as soybean output will come only from the US. Currently the soybean crop was reported to be 76% planted. TVO has already locked in soybean volume until the end of the year. In terms of prices, TVO will monitor market conditions before making purchases.

In Thailand, supply is expected to remain tight as a result of (i) transportation delays in Brazil and Argentina, which would cause soy imports to come to Thailand in Jul with import prices currently 8% higher than domestic prices and (ii) growing livestock production, especially after the lifting of the European Union's ban on Thai frozen chicken imports effective as from Jul 1, 2012.

The outlook for soybean oil in the household segment may not be as good as last year as spread between palm and soybean oil prices of up to Bt13/liter could lead to weak sales. In addition, selling price increases to reflect rising costs would be difficult due to the government's price controls. For soybean oil in the industrial segment, selling prices could be raised to reflect higher costs.

CY12 estimates unchanged

Better domestic and overseas industry outlooks would keep earnings recovery momentum going for the remaining course of the year. As 1QCY12 results came in line with our forecast, we therefore leave our CY12 earnings outlook for TVO unchanged. The forecast assumes full-year sales of Bt25,308mn, up 10% y-y based on assumptions that (1) selling prices will rise by 15% and sales volume will be flat y-y. Higher selling prices would also drive margins higher than a year ago but the margin figures may not be as high as in the past. Effective tax rate should drop to a mere 15% thanks to the government's corporate income tax cuts and higher capacity utilization at new plant. We estimate TVO will achieve a CY12 net profit of Bt1,487mn, up 105% y-y.

'BUY' rating with Bt25.75/share target price

Shares in TVO fell sharply in line with a sharp sell-off across the global commodities complex due to worsening euro-zone debt crisis. However, the favorable outlook for global and domestic soybean industry would bode well for TVO's earnings. We also believe strong market position could put TVO in a better position than its rivals to effectively manage raw materials. We maintain a 'BUY' rating on TVO with a price target of Bt25.75/share.

Figure 1:

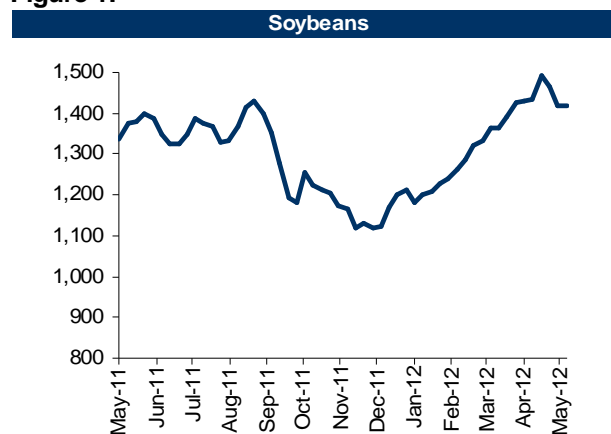
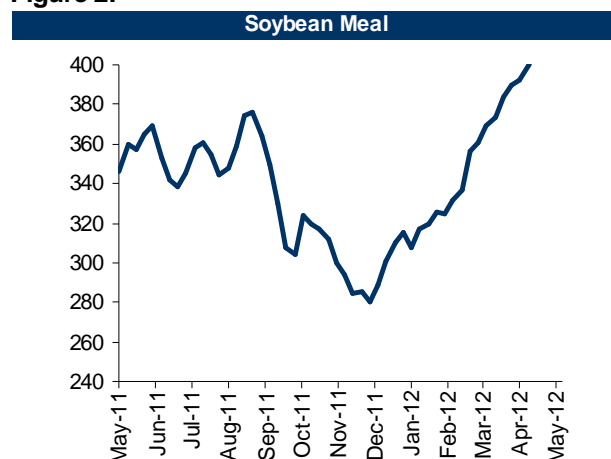


Figure 2:



Source: Bloomberg

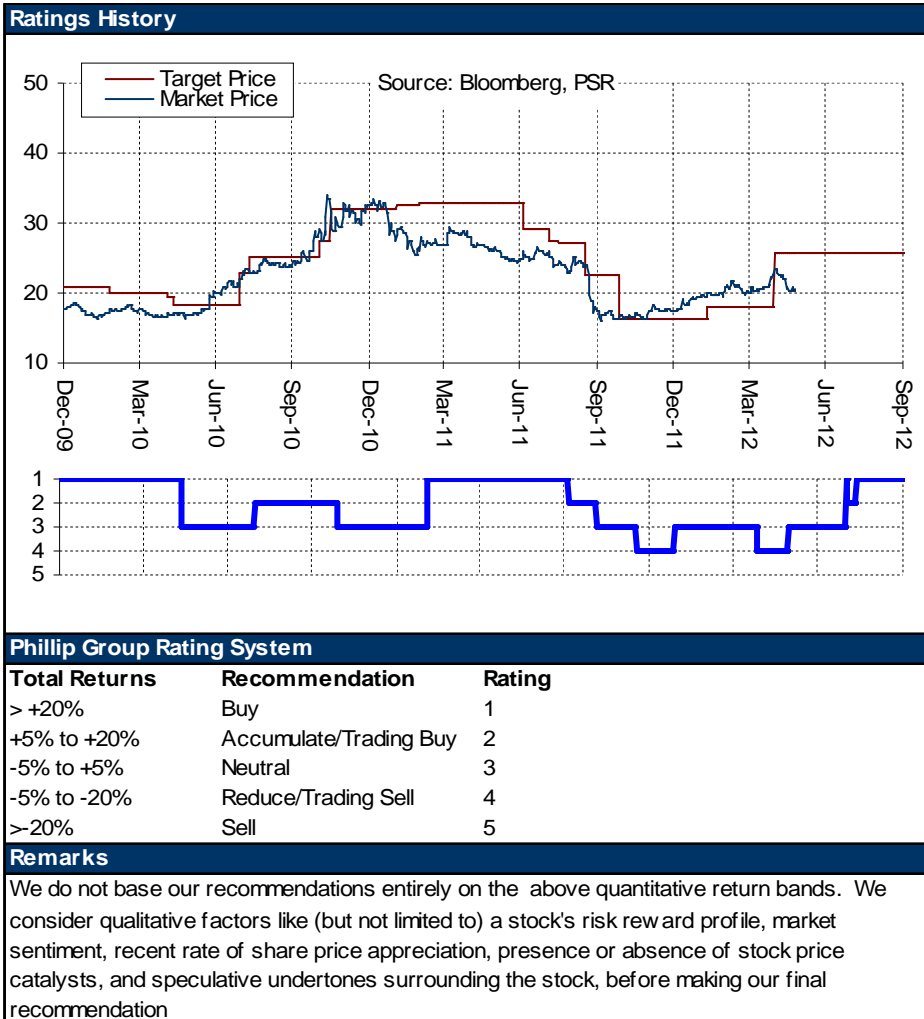
FYDec	CY09	CY10	CY11	CY12F	CY13F
Valuation Ratios					
P/E (X), adj.	15.6	9.9	23.0	10.8	9.7
P/B (X)	2.8	2.5	2.8	2.5	2.4
EV/EBITDA (X), adj.	11.7	8.7	20.9	10.5	9.6
Dividend Yield (%)	8.5	7.3	4.4	7.0	7.5
Per share data (Bt)					
EPS, reported	2.35	2.03	0.94	1.92	2.11
EPS, adj.	1.32	2.07	0.89	1.90	2.11
DPS	1.75	1.50	0.90	1.45	1.55
BVPS	7.46	8.28	7.45	8.19	8.69
Growth & Margins (%)					
Growth					
Revenue	-4.6	-9.8	13.9	9.6	10.4
EBITDA	-27.6	34.3	-58.2	97.9	9.3
EBIT	-30.0	43.9	-52.2	83.5	11.0
Net Income, adj.	-31.0	70.2	-55.5	112.8	11.1
Margins					
EBITDA margin	6.5	9.7	3.6	6.4	6.4
EBIT margin	6.4	10.2	4.3	7.2	7.2
Net Profit Margin	4.3	7.7	3.1	6.0	6.0
Key Ratios					
ROE (%)	30.0	26.2	12.1	22.9	24.4
ROA (%)	16.6	14.7	6.9	13.4	14.4
Net Debt-Cash	1,933	1,998	2,642	2,253	2,309
Net Gearing(X)	0.4	0.3	0.5	0.4	0.3
Income Statement (Bt mn)					
Revenue	22,487	20,277	23,097	25,308	27,945
EBITDA	1,460	1,961	820	1,624	1,776
Depreciation & Amortisation	227	306	323	326	342
EBIT	1,443	2,077	992	1,820	2,020
Net Finance (Expense)/Income	(82)	(19)	(43)	(44)	(50)
Other items	306	422	494	521	587
Profit Before Tax	1,361	2,057	949	1,776	1,970
Taxation	390	497	222	266	296
Profit After Tax	971	1,561	727	1,509	1,675
Non-controlling Interest	(55)	(2)	(34)	(35)	(37)
Net Income, reported	1,625	1,525	725	1,487	1,638
Net Income, adj.	916	1,559	693	1,475	1,638

Source: PSR est.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Balance Sheet (Bt mn)					
Cash	209	303	169	446	376
Accounts Receivables	1,146	1,376	1,510	1,595	1,761
Inventories	4,742	5,630	5,719	5,996	6,410
Others	68	28	10	13	18
Total current assets	6,165	7,337	7,409	8,051	8,564
PPE	2,930	2,982	2,736	2,680	2,657
Others	3	4	85	76	93
Total non-current assets	3,015	3,069	2,888	2,827	2,824
Total Assets	9,180	10,406	10,297	10,878	11,388
Short term loans	2,120	2,222	2,731	2,657	2,655
Accounts Payables	1,126	1,469	1,407	1,531	1,690
Others	695	344	171	137	110
Total current liabilities	3,963	4,072	4,362	4,330	4,455
Long term loans	21	80	81	42	30
Others	30	30	65	78	85
Total liabilities	4,015	4,182	4,509	4,450	4,570
Non-controlling interest	307	256	134	120	108
Shareholder Equity	4,857	5,968	5,654	6,307	6,710

Cashflow Statements (Bt mn)					
CFO					
PBT	2,070	2,143	987	1,789	1,970
Adjustments	227	306	323	326	342
Cash from ops before WC changes	1,700	2,430	1,252	2,163	2,349
WC changes	730	(1,038)	918	(278)	(321)
Cash generated from ops	2,430	1,391	926	1,885	2,028
Taxes paid, net	(202)	(519)	(477)	(466)	(496)
Interest paid	(82)	(18)	(38)	(44)	(50)
Cashflow from ops	2,145	855	411	1,375	1,483
CFI					
CAPEX, net	(942)	(509)	(240)	(250)	(300)
Cashflow from investments	(931)	(492)	(73)	(235)	(288)
CFF					
Share issuance	1,022	608	177	76	0
Loans, net of repayments	(1,776)	176	525	(113)	(14)
Dividends to minority interests	(9)	(40)	(24)	(25)	(27)
Dividends to shareholders & capital reduction	(593)	(1,001)	(1,154)	(792)	(1,227)
Others					
Cashflow from financing	(1,355)	(257)	(475)	(854)	(1,268)
Net change in cash	(149)	94	(134)	277	(70)
Effects of exchange rates	(8)	(11)	4	(9)	3
CCE, end	209	303	169	446	376

Source: PSR est.



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