

# Thai Vegetable Oil - TVO

Lower global soy prices a drag on share price

Bloomberg | Reuters  
TVO.TB | TVO.BK

Phillip Securities Research Pte Ltd  
4 December 2012

## 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-nagoon.'

- High selling prices should enable TVO to post record earnings for CY12 though 4QCY12 results are expected to be weaker than 3QCY12.
- Looking ahead into CY13, earnings are likely to be softer than CY12 as selling prices may not rise as much as in CY12.
- We maintain a 'BUY' call on TVO with a target price of Bt27.75/share.

### What is the news?

TVO is expected to post record earnings for CY12 on strong selling prices. Looking ahead into CY13, earnings are however likely to be softer than CY12 as selling prices may not rise as much as in CY12.

### How do we view this?

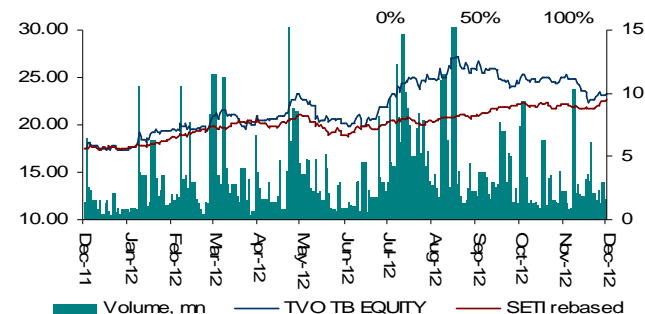
We expect 4QCY12 results to be lower than 3QCY12 as a result of escalating raw material costs and limited increases in selling prices. Lower soybean prices on improved weather conditions also weighed on shares of TVO.

### Investment Actions?

We maintain a 'BUY' call on TVO with a target price of Bt27.75/share.

### Thai Vegetable Oil

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	1.00	Buy
<b>Target Price (Bt)</b>	<b>27.75</b>	
- Previous Target Price (Bt)	30.00	
Closing Price (Bt)	23.30	
Expected Capital Gains (%)	19.10	
Expected Dividend Yield (%)	6.87	
<b>Expected Total Return (%)</b>	<b>25.97</b>	
Raw Beta (Past 2yrs weekly data)	1.11	
Market Cap. (USD mn)	615	
Enterprise Value (USD mn)	701	
Market Cap. (Bt mn)	18,841	
Enterprise Value (Bt mn)	21,505	
3MAverage Daily T/O (mn)	2.8	
52 week range	17.2 - 27.75	
Closing Price in 52 week range		



### Major Shareholders

	(%)
1. Miss Sudarat Wittayatanakorn	7.6
2. Mr. Vichai Wittayatanakorn	7.3
3. Mrs. Rattana Chanpitak	5.6

### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	20,277	23,097	26,273	27,216
Net Profit, adj. (Btmn)	1,559	693	1,860	1,728
Net Profit (Btmn)	1,525	725	1,910	1,728
EPS, adj. (Bt)	2.07	0.89	2.30	2.14
EPS (Bt)	2.03	0.94	2.36	2.14
P/E (X),adj.	11.2	26.1	10.1	10.9
BVPS (Bt)	8.28	7.45	8.42	9.07
P/B (X)	2.8	3.1	2.8	2.6
DPS (Bt)	1.50	0.90	1.75	1.60
Div. Yield (%)	6.4	3.9	7.5	6.9

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

P/E13 (13x)

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### Record earnings expected in CY12 on high selling prices

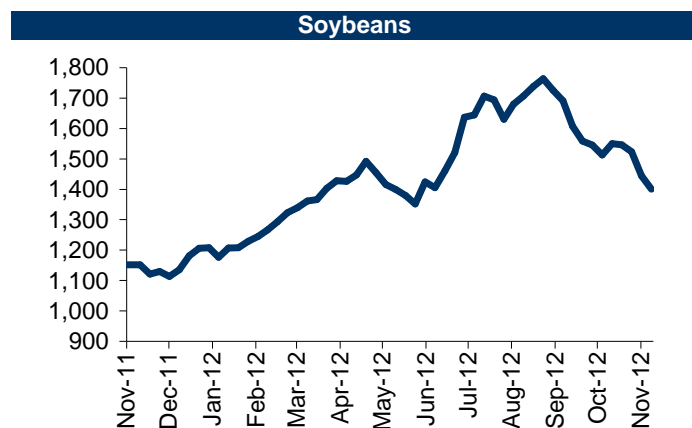
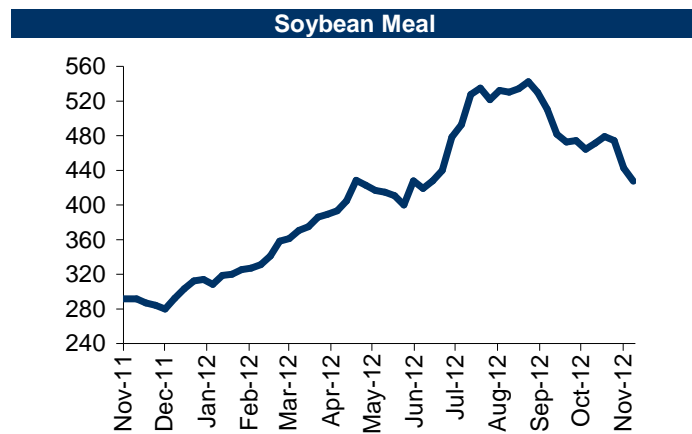
We expect CY12 to be another banner year for TVO, benefiting from the cost-push effect of a substantial rise in raw material prices. YTD average selling prices had jumped by as much as 30% y-y as drought conditions in the US and South America cut into soybean output. We estimate TVO will deliver a CY12 net profit of Bt1,910mn, up as much as 163% y-y. The forecast is based on assumptions that (1) TVO will achieve CY12 sales of Bt26,273mn, up 14% y-y on the back of rising selling prices, (2) higher inventory gains thanks to a sustained rise in selling prices since the start of the year will push margins higher than normal levels, (3) SG&A expenses will rise 22% y-y on extra expenses for new product launch and (4) effective tax rate will be lower on higher capacity utilization at its new BOI-promoted plant.

### CY13 earnings seen lower than CY12 on weakening soybean price outlook

Higher selling prices would be a key driver of earnings growth for TVO in CY12 but the weakening global soybean price outlook would drag CY13 earnings lower than CY12. Key factors to watch include (1) weather conditions in South America and (2) soy production outlook, seen as the potential catalysts for price increases. For domestic sales, growth momentum is likely to continue on the back of an increase in livestock production. We forecast TVO will achieve CY13 sales of Bt27,216mn, up 4% y-y based on assumptions that (1) sales volume will grow 1% y-y and selling prices will rise 3% y-y. Margin is however likely to be lower than a year ago on expectations that selling prices will not rise as much as in CY12. On this basis, we expect TVO to deliver a CY13 net profit of Bt1,728mn, down 10% y-y.

### 'BUY' call with Bt27.75/share target price

The fall in global soybean prices weighed on shares of TVO on concerns about narrower margins which would put pressure on earnings but we believe its management efficiency should help limit the downside in overall earnings performance. At the end of the day, we maintain a 'BUY' call on TVO with a target price of Bt27.75/share based on a P/E multiple of 13x on par with other commodity-linked companies.



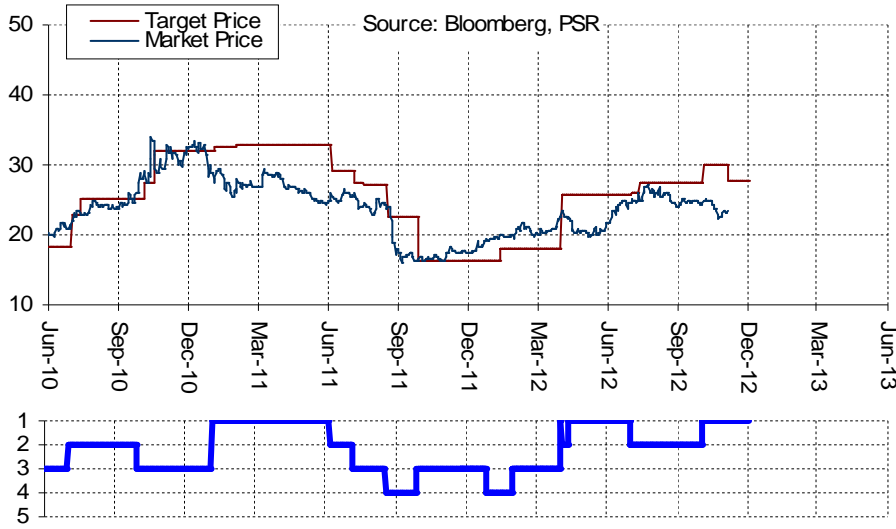
FYE Dec	CY09	CY10	CY11	CY12F	CY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	17.6	11.2	26.1	10.1	10.9
P/B (X)	3.1	2.8	3.1	2.8	2.6
EV/EBITDA (X), adj.	14.7	11.0	26.2	11.1	11.8
Dividend Yield (%)	7.5	6.4	3.9	7.5	6.9
<b>Per share data (Bt)</b>					
EPS, reported	2.35	2.03	0.94	2.36	2.14
EPS, adj.	1.32	2.07	0.89	2.30	2.14
DPS	1.75	1.50	0.90	1.75	1.60
BVPS	7.46	8.28	7.45	8.42	9.07
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-4.6	-9.8	13.9	13.8	3.6
EBITDA	-27.6	34.3	-58.2	136.0	-5.5
EBIT	-30.0	43.9	-52.2	128.0	-4.5
Net Income, adj.	-31.0	70.2	-55.5	168.4	-7.1
<b>Margins</b>					
EBITDA margin	6.5	9.7	3.6	7.4	6.7
EBIT margin	6.4	10.2	4.3	8.6	7.9
Net Profit Margin	4.3	7.7	3.1	7.3	6.5
<b>Key Ratios</b>					
ROE (%)	30.0	26.2	11.6	27.1	24.0
ROA (%)	16.6	14.7	6.9	17.6	15.8
Net Debt-Cash	1,933	1,998	2,642	1,665	1,483
Net Gearing(X)	0.4	0.3	0.5	0.2	0.2
<b>Income Statement (Bt mn)</b>					
Revenue	22,487	20,277	23,097	26,273	27,216
EBITDA	1,460	1,961	820	1,936	1,829
Depreciation & Amortisation	227	306	323	326	332
EBIT	1,443	2,077	992	2,262	2,160
Net Finance (Expense)/Income	(82)	(19)	(43)	(36)	(40)
Other items	306	422	494	651	663
Profit Before Tax	1,361	2,057	949	2,226	2,120
Taxation	390	497	222	312	339
Profit After Tax	971	1,561	727	1,914	1,781
Non-controlling Interest	(55)	(2)	(34)	(54)	(53)
Net Income, reported	1,625	1,525	725	1,910	1,728
Net Income, adj.	916	1,559	693	1,860	1,728

Source: PSR est.

FYDec	CY09	CY10	CY11	CY12F	CY13F
<b>Balance Sheet (Bt mn)</b>					
Cash	209	303	169	242	207
Accounts Receivables	1,146	1,376	1,510	1,584	1,640
Inventories	4,742	5,630	5,719	6,092	6,209
Others	68	28	10	13	18
<b>Total current assets</b>	<b>6,165</b>	<b>7,337</b>	<b>7,409</b>	<b>7,931</b>	<b>8,074</b>
PPE	2,930	2,982	2,736	2,708	2,661
Others	3	4	85	76	93
<b>Total non-current assets</b>	<b>3,015</b>	<b>3,069</b>	<b>2,888</b>	<b>2,855</b>	<b>2,829</b>
<b>Total Assets</b>	<b>9,180</b>	<b>10,406</b>	<b>10,297</b>	<b>10,786</b>	<b>10,903</b>
Short term loans	2,120	2,222	2,731	1,865	1,660
Accounts Payables	1,126	1,469	1,407	1,638	1,706
Others	695	344	171	137	110
<b>Total current liabilities</b>	<b>3,963</b>	<b>4,072</b>	<b>4,362</b>	<b>3,645</b>	<b>3,476</b>
Long term loans	21	80	81	42	30
Others	30	30	65	78	85
<b>Total liabilities</b>	<b>4,015</b>	<b>4,182</b>	<b>4,509</b>	<b>3,765</b>	<b>3,591</b>
Non-controlling interest	307	256	134	120	108
<b>Shareholder Equity</b>	<b>4,857</b>	<b>5,968</b>	<b>5,654</b>	<b>6,900</b>	<b>7,204</b>
<b>Cashflow Statements (Bt mn)</b>					
CFO					
PBT	2,070	2,143	987	2,276	2,120
Adjustments	227	306	323	326	332
Cash from ops before WC changes	1,700	2,430	1,252	2,641	2,477
WC changes	730	(1,038)	918	16	11
Cash generated from ops	2,430	1,391	926	2,658	2,488
Taxes paid, net	(202)	(519)	(477)	(512)	(539)
Interest paid	(82)	(18)	(38)	(36)	(40)
<b>Cashflow from ops</b>	<b>2,145</b>	<b>855</b>	<b>411</b>	<b>2,110</b>	<b>1,909</b>
CFI					
CAPEX, net	(942)	(509)	(240)	(300)	(300)
<b>Cashflow from investments</b>	<b>(931)</b>	<b>(492)</b>	<b>(73)</b>	<b>(285)</b>	<b>(288)</b>
CFF					
Share issuance	1,022	608	177	76	0
Loans, net of repayments	(1,776)	176	525	(904)	(217)
Dividends to minority interests	(9)	(40)	(24)	(25)	(27)
Dividends to shareholders & capital reduction	(593)	(1,001)	(1,154)	(889)	(1,415)
Others					
<b>Cashflow from financing</b>	<b>(1,355)</b>	<b>(257)</b>	<b>(475)</b>	<b>(1,744)</b>	<b>(1,659)</b>
<b>Net change in cash</b>	<b>(149)</b>	<b>94</b>	<b>(134)</b>	<b>73</b>	<b>(35)</b>
Effects of exchange rates	(8)	(11)	4	(9)	3
<b>CCE, end</b>	<b>209</b>	<b>303</b>	<b>169</b>	<b>242</b>	<b>207</b>

Source: PSR est.

**Ratings History**



**Phillip Group Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

**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

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