

### Report type: Socter Update

#### Sector Overview

There are eight companies under our coverage in the agro and food industry but only three companies CFRESH, CPF and TUF are involved in the shrimp industry.

- The value of Thailand's exports to Europe in 5MCY12 dropped 11.42% on year to US\$9,142.8mn, accounting for 9.88% of the country's total exports.
- Thai shrimp exports are expected to be one of the hardest hit by the generalized system of preferences (GSP) cut by the European Union but it is unlikely to deal a big blow to listed shrimp exporters.
- We keep a 'NEUTRAL' position in the agro and food space. We rate CPF shares a 'BUY' with a target price of Bt48/share. We recommend 'ACCUMULATE' on shares of CFRESH with a target price of Bt9.60/share. We have a 'NEUTRAL' stance on TUF with a target price of Bt78.25/share.

#### What is the news?

The removal of GSP privileges on 57 products by the EU would take a heavy toll on Thai shrimp exports as higher tariffs would cause Thai shrimp exporters to lose their markets to more competitive countries.

#### How do we view this?

Even though Thai shrimp exports may feel the pinch of the EU's new GSP system, we think large shrimp exporters would have enough time to readjust to the new landscape and seek new markets to stay afloat. By our estimate, TUF is expected to be least hit by the withdrawal of GSP benefits while CFRESH looks to be the biggest loser from the EU's new GSP system.

#### Investment Actions?

We keep a 'NEUTRAL' position in the agro and food space. We rate CPF shares a 'BUY' with a target price of Bt48/share. We recommend 'ACCUMULATE' on shares of CFRESH with a target price of Bt9.60/share. We have a 'NEUTRAL' stance on TUF with a target price of Bt78.25/share.

#### Agro & Food Industry

Company	Rating	Price (Bt)	TP (Bt)	Upside (%)	M.Cap. (Btm n)
CFRESH	Accumulate	8.25	9.60	16.4%	3,678
CPF	Buy	38.00	48.00	26.3%	294,232
TUF	Neutral	74.50	78.25	5.0%	85,496

Source: Bloomberg, PSR

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### Potential impact of EU's new GSP system on Thai exporters

The Ministry of Commerce revealed a change in the European Union's Generalized System of Preferences (GSP), which would be divided into two stages: (1) 57 products will be removed from GSP eligibility in 2012-13 as market shares exceed 17.5% of total imports from GSP countries worldwide, and (2) the EU will cut its GSP on all Thai products as Thailand's GNI per capita of US\$4,210 has exceeded the threshold eligible for GSP benefits for three consecutive years. In 2013, among goods to be removed from GSP eligibility include meat products, orchids, papayas, sugar, processed fishery products, instant foods, canned fruits, animal feeds, flour, rubber, motorcycles, textiles, clothes, electrical equipment, electronics products, auto and auto parts.

**Figure 1: Value of Thailand's exports to Europe in 5MCY12**

	2011				2012				2012			
	2010	2011	Jan-May	Jan-May	2010	2011	Jan-May	Jan-May	2010	2011	Jan-May	Jan-May
	Value (US\$ mn)				Growth rate (%)				Share (%)			
Asia	44,333.60	54,304.70	21,672.80	23,756.30	36.45	22.49	9.61		22.70	23.73	25.68	
Japan	20,411.80	24,070.30	9,860.10	9,410.30	29.81	17.92	-4.56		10.45	10.52	10.17	
USA	20,200.40	21,858.00	8,955.50	9,263.40	21.24	8.21	3.44		10.34	9.55	10.02	
Europe	21,814.60	24,156.70	10,321.10	9,142.80	20.17	10.74	-11.42		11.17	10.56	9.88	
Total	195,306.69	228,825.28	93,874.78	92,493.98	28.13	17.16	-1.47		100.00	100.00	100.00	

Source:MOC

### Thai shrimp exports tipped to be one of the biggest losers from EU's new GSP system

The value of Thailand's exports to EU in 5MCY12 dropped 11.42% on year to US\$9,142.8mn, accounting for 9.88% of the country's total exports. In 5MCY12, Thailand's exports of frozen shrimps to EU fell 16% on year in value terms but shipments of processed shrimps rose 5.65% on year.

**Figure 2: Thailand's exports of frozen shrimp in 5MCY12**

	2011				2012				2012			
	2010	2011	Jan-May	Jan-May	2010	2011	Jan-May	Jan-May	2010	2011	Jan-May	Jan-May
	Value (US\$ mn)				Growth rate (%)				Share (%)			
Asia	41.50	55.40	9.30	45.90	8.44	33.71	390.95		2.47	3.21	8.30	
Japan	328.60	376.50	121.90	132.20	21.69	14.60	8.50		19.56	21.79	23.91	
USA	761.40	723.40	249.50	195.20	25.09	-5.00	-21.75		45.32	41.86	35.31	
Europe	240.80	260.00	93.80	78.80	34.10	7.98	-16.00		14.33	15.05	14.25	
Total	1,680.00	1,727.90	565.50	552.90	24.10	2.85	-2.23		100.00	100.00	100.00	

Source:MOC

**Figure 3: Thailand's exports of processed shrimp in 5MCY12**

	2011				2012				2012			
	2010	2011	Jan-May	Jan-May	2010	2011	Jan-May	Jan-May	2010	2011	Jan-May	Jan-May
	Value (US\$ mn)				Growth rate (%)				Share (%)			
Asia	2.80	3.00	0.80	1.00	7.81	8.36	31.55		0.20	0.17	0.20	
Japan	300.00	414.60	148.70	153.60	14.06	38.19	3.27		21.73	22.89	29.73	
USA	690.80	922.10	268.00	194.90	5.45	33.48	-27.27		50.03	50.90	37.72	
Europe	222.40	259.80	88.50	93.50	30.50	16.84	5.65		16.11	14.34	37.72	
Total	1,380.70	1,811.40	580.10	516.70	11.91	31.20	-10.92		100.00	100.00	100.00	

Source:MOC

Currently frozen shrimp imports from Thailand are subject to a 4.2% import tariff while 7% is applied for processed shrimps. The removal of GSP privileges would deal a big blow to Thai shrimp exports as import tariff on Thai frozen and processed shrimps would rise to 12% and 20% respectively, making Thailand less competitive than its rivals like Malaysia, Indonesia, Vietnam, China and India. Higher import tariffs would hurt

exports of processed shrimps in 2013 and frozen shrimps in 2014.

### Potential impact seen limited on listed shrimp exporters

Three listed shrimp exporters that we cover include CPF, TUF and CFRESH. Shrimp sales made up 7% of total sales at CPF last year. Shipments to Europe represented 40% of total shrimp sales, accounting for a mere 2.4% of total sales. For TUF, shrimp sales constituted 19% of its total sales and shipments to Europe made up 10% of total shrimp sales, accounting for 1.7% of total sales. Shrimp sales accounted for 100% of total sales at CFRESH. Exports to Europe represented 40% of its total sales. Based on the above data, we expect CFRESH to be the biggest loser among three listed shrimp exporters from the withdrawal of GSP benefits.

**Figure 4: Proportion of shrimp exports**

	Japan	EU	USA	Other
CPF	35%	40%	15%	10%
TUF	20%	10%	70%	0%
CFRESH	30%	40%	30%	0%

Source:PSR

Our check with management of listed shrimp exporters reveals that the removal of GSP privileges is unlikely to take a significant toll on operating performance.

CPF: Even though the proportion of shrimp exports to Europe is high, management believes the EU's new GSP system is unlikely to deal a significant blow to CPF as it would use its subsidiaries in Malaysia and Vietnam to increase shrimp exports to EU instead as import tariffs from both countries are much lower than those of Thailand.

TUF: The impact appears limited compared to its peers as the proportion of shrimp exports to EU is less than its counterparts. Meanwhile tuna sales to EU is also unlikely to be affected as current import tariff is already quite high and the proportion of tuna sales to EU is similar to that of shrimp. TUF would mainly use MWB as a production base and sales platform to the EU market.

CFRESH: By our estimate, CFRESH is likely to be the biggest loser from the EU's new GSP system compared to CPF and TUF as Europe is its major export market. Note that CFRESH sells about 30%-50% of its shrimp output to Blue Earth. To alleviate the impact, Blue Earth may need to look for new raw materials sources instead of imports from Thailand.

### 'NEUTRAL' position in agro and food space

Even if the removal of GSP privileges would hurt Thai shrimp exports, its potential impact on operating performance of listed shrimp exporters however appears limited. We also believe shrimp exporters would have enough time to readjust to the new landscape and seek new markets to stay afloat. What remains to be seen is when the FTA negotiations between

Thailand and EU will begin as it may help Thailand win back its competitive edge. We keep a 'NEUTRAL' position in the agro and food space. We rate CPF shares a 'BUY' with a target price of Bt48/share. We recommend 'ACCUMULATE' on shares of CFRESH with a target price of Bt9.60/share. We have a 'NEUTRAL' stance on TUF with a target price of Bt78.25/share.

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