

# Thai Union Feedmill Public Company Limited

## Management Discussion and Analysis for Q1'2022 Results, ended 31 March 2022

**Q1'22 Sales rose by 5.9% YoY, thanks to the recovery of demand for shrimp feed**

**Quarterly net profits nevertheless dropped significantly (down 97.6% YoY) under the huge pressure of the rising raw material costs (led by the global market trends and Russia-Ukraine war)**

Thai Union Feedmill Public Company Limited ("Company") reported consolidated sales of THB 1,013.2 million in Q1'22, up 5.9% YoY, compared with the same quarter of last year. Shrimp feed sales showed a solid YoY growth rate of 24.4%, but dropped 7.5% QoQ due to a lower sales volume (down 9.6% QoQ) as a result of seasonal factors.

### Gross profit and gross margin

Q1'22 gross profit was THB 70.9 million, down 33.9% YoY and 30.8% QoQ, pressured by the rising raw material prices, which was in line with the rising commodity price trends in the world markets. As a result, Q1'22 gross profit margin fell to 7.0% from 11.2% in Q1'21 and 9.4% in Q4'21.

### Net profit

Q1'22 net profit was THB 1.32 million, down 97.6% YoY and 96.6% QoQ, mainly due to a depressed gross profit margin as explained above and an increase in subsidiaries' SG&A expenses (employee expenses and depreciation of plants and equipment).

### Stock Information

(SET / Bloomberg)

(TFM / TFM TB)

Share price (29/04/2022)	THB 12.10
Historical closing price (since 01 Jan 2022):	
Highest closing price:	THB 14.80
Lowest closing price:	THB 11.00
No. of shares:	500.0 m
Par value:	THB 2.0
Market Capital:	THB 6,050 m
Avg. value trade/day (YTD)	THB 13.3 m

### Major shareholders (04/03/2022)

Thai Union Group PCL.	51.0%
Boonmechote Family	19.4%
Mr. Bunluesak Sorajjakit	3.1%
Mstr. Karnphong Piemphongsuk	1.5%
Mr. Suksan Yasasin	1.4%

### Business Overview

Thai Union Feedmill Public Company Limited (TFM) is the producer and distributor of commercial animal feeds. The main products of TFM are shrimp, fish, and livestock feeds. TFM currently has production bases domestically and internationally.

### Dividend Payment

The Company has a policy to pay dividends to its shareholders at least twice a year with the total amount of not less than 50% of the net profit according to the annual consolidated financial statements of the Company after deduction of all types of reserves required by the Company's Articles of Association and Laws.

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### Financial Statement Analysis

Unit : THB million

	Q1'2022	Q1'2021	YoY	Q4'2021	QoQ
Sales	1,013.2	956.6	5.9%	1,095.0	-7.5%
Cost of sales	(942.3)	(849.3)	11.0%	(992.6)	-5.1%
<b>Gross profit</b>	<b>70.9</b>	<b>107.3</b>	<b>-33.9%</b>	<b>102.4</b>	<b>-30.8%</b>
Other income	16.4	13.9	17.8%	12.7	29.1%
SG&A	(87.2)	(75.8)	15.0%	(84.1)	3.8%
Reversal/impairment on AR	(4.6)	(8.1)	-43.7%	9.6	-148.0%
Other gain/loss	0.9	0.9	3.2%	0.7	35.1%
<b>EBIT</b>	<b>(3.6)</b>	<b>38.2</b>	<b>-109.4%</b>	<b>41.3</b>	<b>-108.7%</b>
Finance costs	(5.3)	(1.1)	374.5%	(1.3)	301.3%
<b>PBT</b>	<b>(8.9)</b>	<b>37.0</b>	<b>-124.0%</b>	<b>40.0</b>	<b>-122.2%</b>
Income tax	(0.5)	17.1	-103.0%	(4.2)	-88.0%
<b>Net Profit for period</b>	<b>(9.4)</b>	<b>54.1</b>	<b>-117.3%</b>	<b>35.7</b>	<b>-126.3%</b>
<b>Profit attributed to the Company</b>	<b>1.3</b>	<b>54.4</b>	<b>-97.6%</b>	<b>39.4</b>	<b>-96.6%</b>
<b>Earning per share (THB)</b>	<b>0.003</b>	<b>0.13</b>	<b>-98.0%</b>	<b>0.08</b>	<b>-96.6%</b>
Gross profit margin	7.0%	11.2%		9.4%	
Net profit margin	0.1%	5.6%		3.6%	

### Sales

The company reported Q1'22 revenues from sales at THB 1,013.2 million, up 5.9% YoY, but down 7.5% QoQ with the following details:

#### Revenues from shrimp feed

- In Q1'22, shrimp feed sales were THB 523.0 million, up 24.4% YoY, thanks to a higher sales volume (up 26.7% YoY).
- Compared with the previous quarter, shrimp feed sales nevertheless declined 6.6% due to a lower sales volume (down 6.0% QoQ)
- For the first time, the Company recognized the revenues of shrimp feed sales (THB 12.4 million) from PT Thai Union Kharisma Lestari ("TUKL") which officially started its operations in the first quarter this year.

#### Revenues from fish feed

- In Q1'22, fish feed sales were THB 367.7 million, down 8.5% YoY, mainly due to a lower sales volume (down 16.2% YoY) as a result of product portfolio adjustment which also led to an YoY increase in the average selling price per unit by 7.9%.
- Compared with the previous quarter, fish feed sales also declined by 11.4%, due to a lower sales volume (down 17.8% QoQ) as a result of

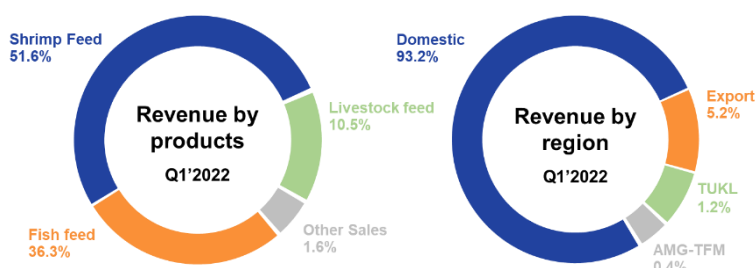
product portfolio adjustment and a lower fish feed volume sold by AMG-Thaiunion Feedmill Private Limited ("AMG-TFM") as a result of seasonally low fish farming activities during the winter of Pakistan (with an expected uptrend starting in March).

#### Revenues from livestock feed

- Q1'22 livestock feed sales were THB 105.9 million, up 3.5% YoY, thanks to a higher average selling price (a result of portfolio adjustment focusing on higher margin products). However, the selling volume dropped by 6.9% YoY as a result.
- Compared with the previous quarter, livestock feed sales stayed almost flat (down 0.7% QoQ), due to portfolio adjustment mentioned above. The average selling price of the products remained at the same level.

#### Sales breakdown by product:

	Sales (Unit : THB million)			Qty (Unit : Tones)		
	Q1'2022	Q1'2021	YoY	Q1'2022	Q1'2021	YoY
Shrimp feed	523.0	420.3	24.4%	19,015	15,004	26.7%
Fish feed	367.7	401.8	-8.5%	13,640	16,287	-16.2%
Livestock feed	105.9	102.3	3.5%	6,928	7,442	-6.9%
Other sales	16.7	32.2	-48.2%	-	-	0.0%
<b>Total</b>	<b>1,013.2</b>	<b>956.6</b>	<b>5.9%</b>	<b>39,583</b>	<b>38,733</b>	<b>2.2%</b>



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#### Cost of goods sold and Gross profit

- In Q1'22, the Company's cost of goods sold was THB 942.3 million, up 11.0% YoY, mainly driven by the higher key raw material prices, in line with the world commodity price trends, resulting in an increase in the average cost of goods sold by 8.6% per unit.
- In Q1'22, the Company's cost of goods sold was down 5.1% QoQ in line with a lower sales volume, compared with the previous quarter.

Q1'22 gross profit was THB 70.9 million, down 33.9% YoY from THB 107.3 million, caused by higher raw material prices and the operating loss at TUKL (which just started operations and did not break even yet). As a result, gross profit margin declined from 11.2% in Q1'21 to 7.0%. If excluding the loss contribution from the subsidiaries, the Company gross profit margin should have been 8.4% instead.

#### Selling General and Administrative Expenses

In Q1'22, SG&A expenses were THB 87.2 million, up 15.0% YoY and up 3.8% QoQ. The increase in SG&A expenses was a result of an increase in employee benefits and depreciation of PPE at the subsidiaries. The SG&A expenses as a percentage of total sales increased from 7.8% in Q1'21 to 8.5%.

#### Net profit

In Q1'22, the Company reported net profit (after NCI) of THB 1.3 million, down 97.6% YoY, and 96.6% QoQ respectively, due to the significant cost pressure on gross profit margin mentioned above and the first time recognition of loss contribution from TUKL which just started operations in the quarter.

As a result, Q1'22 EPS dropped from THB 0.08 a year ago to THB 0.003 per share.

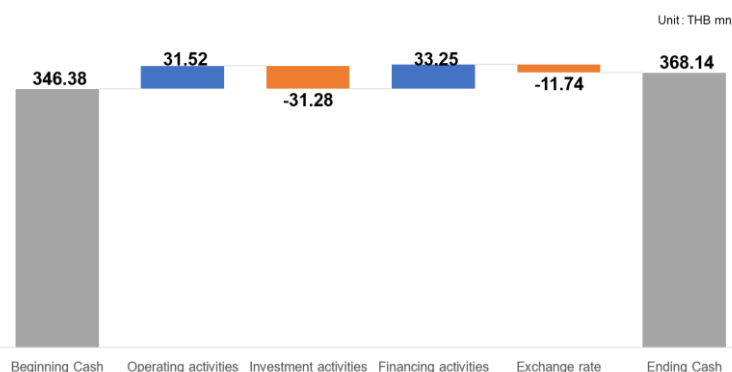
#### Financial position analysis:

As of March 31, 2022, the Company reported total assets worth THB 3,296.0 million, a 1.4% decrease from the end of 2021. The decrease was thanks to a lower level of inventories on hand (THB 52.6 million) and no major PPE investment.

Total liabilities dropped to THB 909.4 million, a 3.3% decrease from the end of the previous year. It was a result of a lower level of account payables (down THB 73.5 million QoQ) despite an increase in long-term loans of THB 34.5 million by TUKL.

Total shareholder's equity was at THB 2,386.6 million, a 0.7% decrease from the end of the previous year due to the loss-making operations at the subsidiaries (shown in a decrease in non-controlling interest by THB 13.5 million).

#### Cash flow analysis:



During Q1'22, net cash from operating activities (a good measure of EBITDA) was THB 33.9 million. If after adjustments for the non-cash items (+ THB 8.3 million), change in operating assets and liabilities (- THB 9.7 million), and income tax payments (- THB 1.0 million), the net cash receipt from operating activities was THB 31.5 million.

Net cash payments for investing activities were THB 31.3 million (which was a result of additional CAPEX in PPE and intangible assets worth THB 39.1

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million, but partly offset by the proceeds from sale of some existing PPE worth THB 5.8 million).

Net cash receipts from financing activities were THB 33.3 million (of which there were a long-term loan of THB 34.5 million drawn by TUKL and short-term loans for working capital of THB 6.6 million, and repayment of the long-term lease and interests of THB 7.8 million).

#### Key Financial ratios:

Key Financial Ratio	Q1'2022	Q1'2021	FY'2021
Current Ratio (x)	3.1	1.3	2.9
Average Collecting Period (Day)	57	57	47
Day Inventory Outstanding (Day)	45	48	43
Return on Capital Employed (%)	7.9%	24.5%	7.5%
Return on Equity (%)	8.8%	28.0%	11.9%
Return on Assets (%)	6.0%	15.5%	7.5%
Net Interest Bearing Debt to Equity (x)	-	0.3	-
Book Value per Shares (THB)	4.8	3.8	4.8

#### Remark:

Current ratio = Total current assets / Total current liabilities

ROCE = 12-month rolling EBIT / Average capital employed

Capital employed = total assets – total current liabilities (incl. current portion of long-term debt)

ROE = 12-month rolling net profit attributed to the owner / average equity attributed to owner

ROA = 12-month rolling EBIT / average total assets

ND/E = Interest-bearing debt – cash & cash equivalents / total shareholders' equity

BV = total shareholders' equity / outstanding shares

As of March 31, 2022, the current ratio was 3.1 times, slightly up from 2.9 times at the end of 2021 upon a lower level of account payables.

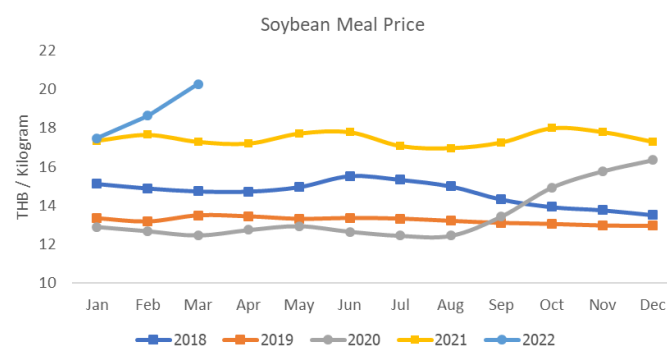
All profitability ratios in Q1'22 (ROCE at 7.9%, ROE at 8.8%, ROA at 6.0%) decreased from the end of the previous year as profit margins were pressured by higher prices of key raw materials, directly affecting the cost of sales.

#### Industry overview

According to the Thai Feed Mill Association (TFMA), the demand for animal feeds in 2022 is forecasted to decline to 19.08 million tons from 20.22 million tons in the previous year, mainly due to the prevailing swine fever outbreaks which reduced the level of pig farming, and chicken feed.

While the demand for aquaculture feeds was expected to grow with shrimp feeds up around 40,000 tons or 8% YoY and fish feed up 20,000 tones or 3.8% YoY.

#### Key raw material price:

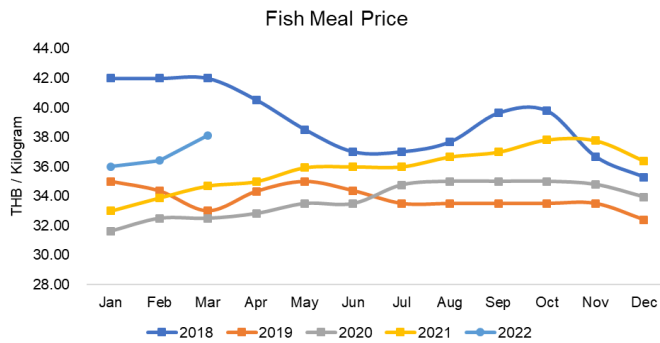


Source: Department of Internal Trade

As of March 2022, the market soybean meal price was THB 20.28 per kilogram, up 17.4% from THB 17.28 per kilogram at the end of December 2021, while Q1'22 average soybean meal price increased 7.7% from 2021 with the highest price in March 2022.

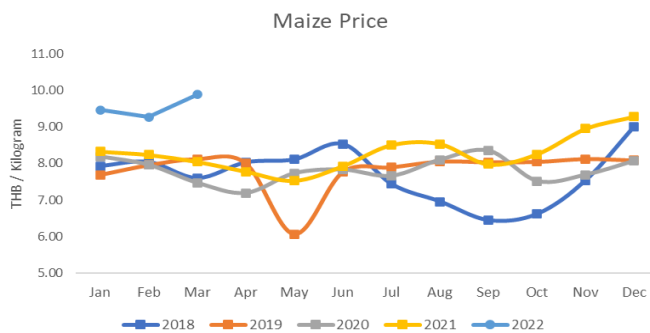
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Source: Department of Internal Trade

As of March 2022, the market fish meal price was THB 38.13 per kilogram, up 4.8% from THB 36.40 per kilogram at the end of December 2021 while Q1'22 average fish meal price increased 2.8% from 2021.



Source: Bank of Thailand

As of March 2022, the market maize price was THB 9.89 per kilogram, up 6.5% from THB 9.29 at the end of December 2021 while Q1'22 average maize price increased 15.3% from 2021.