

## Thai Union Feedmill Public Company Limited

### Management Discussion and Analysis for Q2'2022 Results, ended 30 June 2022

**Q2'2022 sales shrank by 7.6% YoY, as the company trimmed lower margin products in fish and livestock feeds. Nevertheless, profitability continued to be depressed by rising raw material costs, resulting in a lower net profit, down 29.9% YoY.**

Thai Union Feedmill Public Company Limited ("Company") reported consolidated sales value of THB 1,276.0 million in Q2'22, down 7.6% YoY while sales volume dropped by 10.1% as certain lower margin fish and livestock feed products were trimmed. Sales value, however, increased by 25.9% QoQ (sales volume up 18.2% QoQ), thanks to the high season of shrimp feed business.

#### Gross profit and gross margin

Q2'22 gross profit was THB 92.3 million, down 5.3% YoY, under the pressure of higher key raw material costs which was in line with the rising trends of commodity prices in the world market. As a result, Q2'22 gross profit margin fell to 7.2% from 9.4% in Q2'21. Compared with the previous quarter, gross profit indeed improved by 30.1%.

#### Net profit

Q2'22 net profit was THB 33.7 million, down 29.9% YoY, largely caused by a depressed gross profit margin as explained above.

In addition, TFM booked a one-off deferred tax asset item worth THB 14.5 million.

#### Dividend Payment

The Company announced an interim dividend of THB 0.05 per shares from its 1H'22 operating result (THB 35.1 million), the payment amount will be THB 25.0 million or 71.3% payout ratio.

#### Stock Information

(SET / Bloomberg)

(TFM / TFM TB)

Share price (29/04/2022)	THB 10.90
Historical closing price (since 01 Jan 2022):	
Highest closing price:	THB 14.80
Lowest closing price:	THB 10.40
No. of shares:	500.0 m
Par value:	THB 2.0
Market Capital:	THB 5,450 m
Avg. value trade/day (YTD)	THB 8.60 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	Q2'2022	Q2'2021	YoY	Q1'2022	QoQ
Sales	1,276.0	1,380.9	-7.6%	1,013.2	25.9%
Cost of sales	(1,183.7)	(1,250.5)	-5.3%	(942.3)	25.6%
<b>Gross profit</b>	<b>92.3</b>	<b>130.3</b>	<b>-29.2%</b>	<b>70.9</b>	30.1%
Other income	19.8	18.8	5.5%	16.4	20.9%
SG&A	(89.6)	(96.9)	-7.6%	(87.2)	2.7%
Reversal/impairment on AR	0.1	(2.1)	-103.1%	(4.6)	-101.4%
Other gain/loss	3.5	2.0	74.2%	0.9	279.4%
<b>EBIT</b>	<b>26.1</b>	<b>52.1</b>	<b>-49.9%</b>	<b>(3.6)</b>	-829.1%
Finance costs	(6.3)	(3.2)	95.7%	(5.3)	18.4%
<b>PBT</b>	<b>19.8</b>	<b>48.9</b>	<b>-59.5%</b>	<b>(8.9)</b>	-322.8%
Income tax	12.4	(2.7)	-566.3%	(0.5)	-2538.2%
<b>Net Profit for period</b>	<b>32.2</b>	<b>46.2</b>	<b>-30.4%</b>	<b>(9.4)</b>	-442.7%
<b>Profit attributed to the Company</b>	<b>33.7</b>	<b>48.2</b>	<b>-29.9%</b>	<b>1.3</b>	2452.2%
<b>Earning per share (THB)</b>	<b>0.07</b>	<b>0.12</b>	<b>-41.7%</b>	<b>0.003</b>	2547.5%
Gross profit margin	7.2%	9.4%		7.0%	
Net profit margin	2.6%	3.4%		0.1%	

### Sales

The company reported Q2'22 revenues from sales at THB 1,276.0 million, down 7.6% YoY, but up 25.9% QoQ with the following details:

#### Revenues from shrimp feed

- In Q2'22, shrimp feed sales were THB 709.1 million, down 1.9% YoY as the average selling price dropped by 8.7%, though sales volume increased by 7.4% thanks to the high season.
- Compared with the previous quarter, shrimp feed sales nevertheless increased by 35.6%, thanks to a higher sales volume (up 31.8% QoQ) and a higher average selling price (up 2.8% QoQ).
- PT-Thai Union Kharisma Lestari ("TUKL") shrimp feed sales also increased by 55.2% QoQ.

#### Revenues from fish feed

- In Q2'22, fish feed sales were THB 434.4 million, down 9.8% YoY (sales volume also down 26.0% YoY), as the company trimmed lower margin products, leading to a 21.9% YoY increase in the average unit selling price.
- Compared with the previous quarter, fish feed sales increased by 18.2% as sales volume were up 10.7% QoQ as a result of higher fish feed

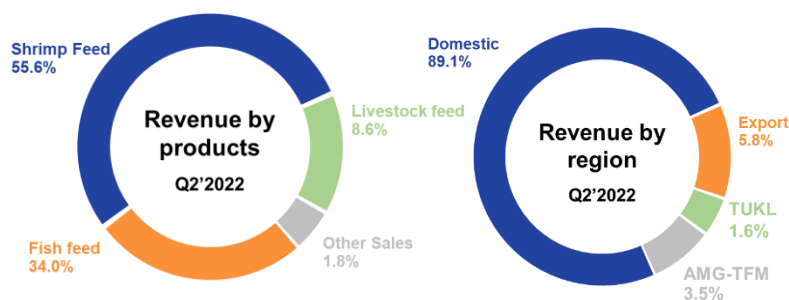
sales volume contributed by AMG-Thaiunion Feedmill Private Limited ("AMG-TFM"), thanks to the beginning of the high season for fish farming after the winter in Pakistan.

#### Revenues from livestock feed

- Q2'22 livestock feed sales were THB 109.3 million, down 6.9% YoY, as the company shifted its focus to higher margin products upon rising raw material costs.
- Compared with the previous quarter, livestock feed sales, nevertheless, increased by 3.2% due to a higher average selling price (up 8.1% QoQ).

#### Sales breakdown by product:

	Sales (Unit : THB million)			Qty (Unit : Tones)		
	Q2'2022	Q2'2021	YoY	Q2'2022	Q2'2021	YoY
Shrimp feed	709.1	722.9	-1.9%	25,068	23,333	7.4%
Fish feed	434.4	481.8	-9.8%	15,103	20,415	-26.0%
Livestock feed	109.3	117.4	-6.9%	6,611	8,293	-20.3%
Other sales	23.2	58.8	-60.5%	-	-	0.0%
<b>Total</b>	<b>1,276.0</b>	<b>1,380.9</b>	<b>-7.6%</b>	<b>46,782</b>	<b>52,040</b>	<b>-10.1%</b>



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#### Cost of goods sold and Gross profit

- In Q2'22, the Company's cost of goods sold was THB 1,183.7 million, down 5.3% YoY, thanks to improved production efficiency and a lower sale volume (down 10.1% YoY).
- Compared the previous quarter, the Company's cost of goods sold however went up by 25.6% as sales volume also rose by 18.2%, plus raw material costs remained on an uptrend.

Q2'22 gross profit was THB 92.3 million, down 29.2% YoY from THB 130.3 million, mainly caused by higher raw material costs. As a result, gross profit margin declined from 9.4% in Q2'21 to 7.2%. If excluding the loss contribution from the subsidiaries, the Company gross profit margin should have been 7.8% instead.

#### Selling General and Administrative Expenses

In Q2'22, SG&A expenses were THB 89.6 million, down 7.6% YoY, mainly a result of recognition of expenses related to the Initial Public Offering (IPO) in Q2'21. Compared with the previous quarter, SG&A increased 2.7%, caused by the higher freight expenses in line with the gasoline price trend.

#### Net profit

In Q2'22, the Company reported net profit (after NCI) of THB 33.7 million, down 29.9% YoY, caused by the significant cost pressure on gross profit margin explained earlier.

In addition, Q2'22 net profit was boosted by recognition of a one-off deferred tax asset item from the subsidiaries worth THB 14.5 million

As a result, Q2'22 EPS dropped from THB 0.12 a year ago to THB 0.07 per share.

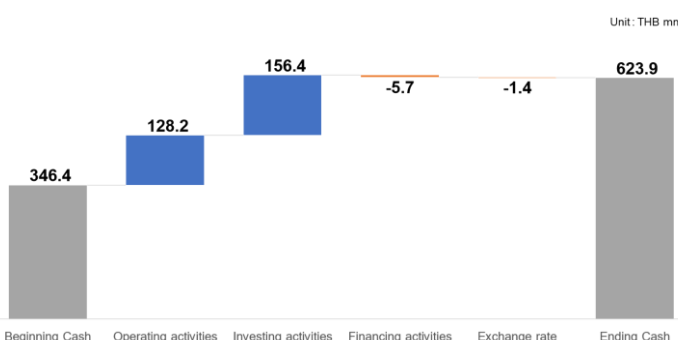
#### Financial position analysis:

As of June 30, 2022, the Company reported total assets worth THB 3,505.7 million, 4.9% increase from the end of 2021. Higher sales volume led to a higher working capital with higher account receivables and inventories.

Total liabilities increased to THB 1,151.1 million, up 22.4% (from the end of 2021) mainly from a higher level of current liabilities (account payable and short-term loans), which was also in line with the higher sales volume. Moreover, there was an increase in long-term loan drawn by TUKL worth THB 34.5 million in Q1'22.

Total shareholder's equity was THB 2,354.6 million, a 2.0% decrease from the end of the previous year due to a dividend distribution in May of an amount of THB 75 million.

#### Cash flow analysis:



During 1H'22, net cash from operating activities (a good measure of EBITDA) was THB 111.8 million. If after adjustments for the non-cash items (+ THB 5.8 million), change in operating assets and liabilities (- THB 2.3 million), interest incomes received (+THB 0.6 million), and income tax payments (- THB 1.0 million), the net cash receipt from operating activities was THB 128.2 million.

Net cash received for investing activities were THB 156.4 million, mainly from withdrawing short-term investment of THB 200.0 million and proceeds from sale of some PPE worth THB 8.2 million, but partially offset by purchase of PPE in subsidiaries worth THB 50.8.

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Net cash payment from financing activities were THB 5.7 million, mainly from 2021 annual dividend payment in May at THB 75.0 million, despite being offset by drawing a long-term loan of THB 34.5 million by TUKL in Q1'22 and short-term working capital loans of THB 45.0 million.

### Key Financial ratios:

Key Financial Ratio	Q2'2022	Q2'2021	Q1'2022
Current Ratio (x)	2.4	1.2	3.1
Average Collecting Period (Day)	43	43	57
Day Inventory Outstanding (Day)	40	38	45
Return on Capital Employed (%)	6.7%	19.6%	7.9%
Return on Equity (%)	8.2%	23.4%	8.8%
Return on Assets (%)	4.8%	12.3%	6.0%
Net Interest Bearing Debt to Equity (x)	-	0.4	-
Book Value per Shares (THB)	4.7	3.6	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 June 30, 2022, the current ratio was 2.4x, down from 3.1x in the previous quarter as current liabilities increased at a faster rate than that of current assets.

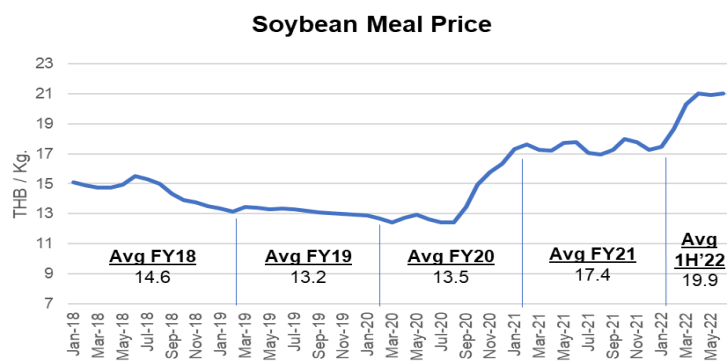
All profitability ratios in Q2'22 (ROCE at 6.7%, ROE at 8.2%, ROA at 4.8%) decreased from the same period last year as profit margins were pressured by higher raw material costs, led by global commodity price hikes.

### 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.

Demand for aqua feeds is however expected to grow, with shrimp feeds up around 40,000 tons (up 8% YoY) and fish feed up 20,000 tones (up 3.8% YoY).

### Key raw material price:

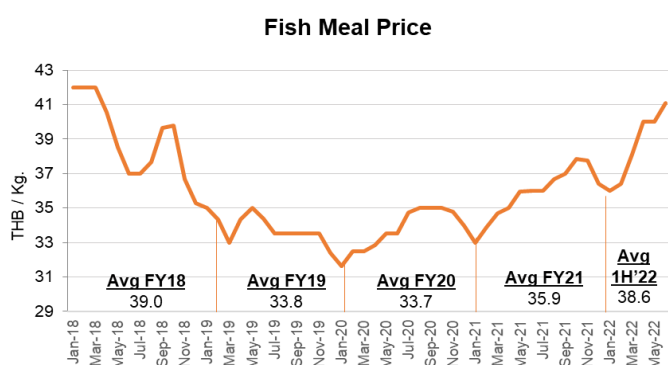


Source: Department of Internal Trade

As of June 2022, the local soybean meal market price was THB 21.05 per kilogram, up 3.8% from THB 20.28 per kilogram at the end of March 2022, while 1H'22 average soybean meal price increased by 14.1% from 2021.

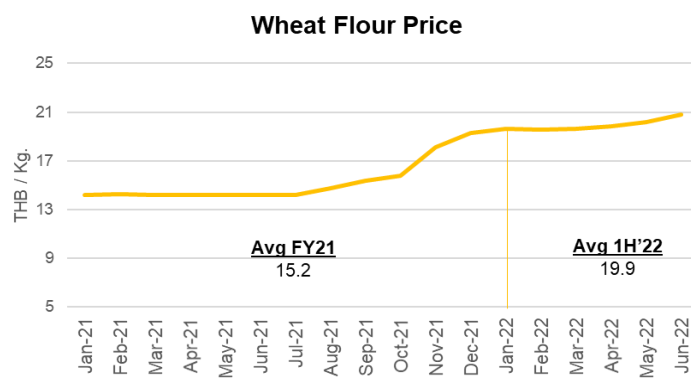
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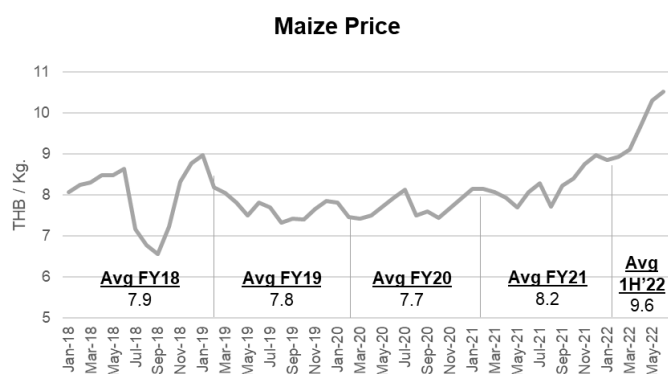
Source: Department of Internal Trade

As of June 2022, the local fish meal market price was THB 41.10 per kilogram, up 7.8% from THB 38.13 per kilogram at the end of March 2022, while 1H'22 average fish meal price increased 7.7% from 2021.



Source: Thai Feed mill association

As of June 2022, the market wheat flour price was THB 20.78 per kilogram, up 5.8% from THB 19.65 at the end of March 2022 while 1H'22 average wheat flour price increased 31.1% from 2021.



Source: Office of Agricultural Economics

As of June 2022, the local maize market price was THB 10.52 per kilogram, up 15.6% from THB 9.10 at the end of March 2022 while 1H'22 average maize price increased 16.6% from 2021.

### Key Financial Targets

<b>Sales</b>	5 – 8% YoY growth
<b>Gross Profit Margin</b>	~7.0 – 9.0%
<b>SG&amp;A to Sales</b>	~6.0 – 8.0%
<b>CAPEX</b>	~ THB 330 million
<b>Dividend Policy</b>	At least 50% dividend payout ratio

The Company has set the financial targets based on the latest forecast, which may be subject to change due to significant changes to key factors driving the company performance.