

Thai Union Feedmill Public Company Limited

Management Discussion and Analysis for Q3'2022 Results, ended 30 September 2022

Q3'2022 sales grew by 2.3% YoY, as well as the profitability also recovered as a result from the effort on portfolio adjustment in the first half of this year, caused the gross profit margin surged to 11.1%

Thai Union Feedmill Public Company Limited (“Company”) reported consolidated sales value of THB 1,371.6 million in Q3'22, up 2.3% YoY with a higher average selling price from the price adjustment which was in line with the industry as well as the portfolio adjustment in the first half of this year. Moreover, sales also increased 7.5% QoQ, thanks to the higher volume by 8.0% contributed from shrimp and seabass feed.

Gross profit and gross margin

Q3'22 gross profit was at THB 152.9 million, slightly dropped at 1.2% YoY, being under the pressure of higher key raw materials cost, nevertheless Q3'22 gross profit sharply increased at 65.7% QoQ, thanks to portfolio management in the first half of this year. As a result, gross profit margin rose to 11.1% which is similar to the same period of last year (at 11.5%).

Net profit

Q3'22 net profit was THB 57.6 million, down 17.1% YoY, caused by the increase of the selling and administrative expenses up 32.4% YoY, mainly from depreciation expenses and employee benefits as well as the recognition of the subsidiary's loss. However, compared to the previous quarter net profit surged 70.8% QoQ, thanks to the recovery of the gross profit mentioned above.

Stock Information

(SET / Bloomberg)

(TFM / TFM TB)

Share price (31/10/2022)	THB 8.65
Historical closing price (since 01 Jan 2022):	
Highest closing price:	THB 14.80
Lowest closing price:	THB 8.40
No. of shares:	500.0 m
Par value:	THB 2.0
Market Capital:	THB 4,325 m
Avg. value trade/day (YTD)	THB 6.40 m

Major shareholders (17/08/2022)

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

	Q3'2022	Q3'2021	YoY	Q2'2022	QoQ
Sales	1,371.6	1,340.6	2.3%	1,276.0	7.5%
Cost of sales	(1,218.7)	(1,185.8)	2.8%	(1,183.7)	3.0%
Gross profit	152.9	154.8	-1.2%	92.3	65.7%
Other income	16.7	15.5	7.9%	19.8	-15.8%
SG&A	(95.1)	(71.8)	32.4%	(89.6)	6.2%
Reversal/impairment on AR	(10.2)	(12.7)	-20.3%	0.1	-15976.6%
Other gain/loss	1.4	1.3	6.8%	3.5	-58.8%
EBIT	65.8	87.1	-24.4%	26.1	152.4%
Finance costs	(5.9)	(4.6)	29.1%	(6.3)	-5.8%
PBT	59.9	82.5	-27.4%	19.8	202.6%
Income tax	(6.3)	(10.4)	-39.4%	12.4	-150.9%
Net Profit for period	53.6	72.1	-25.7%	32.2	66.5%
Profit attributed to the Company	57.6	69.5	-17.1%	33.7	70.8%
Earning per share (THB)	0.12	0.17	-29.4%	0.07	77.8%
Gross profit margin	11.1%	11.5%		7.2%	
Net profit margin	4.2%	5.1%		2.6%	

Sales

The company reported Q3'22 revenues from sales at THB 1,371.6 million, up 2.3% YoY and 7.5% QoQ with the following details:

Revenues from shrimp feed

- In Q3'22, shrimp feed sales were THB 727.6 million, up 5.1% YoY as the selling volume increased by 17.2% despite the average selling price dropped to 10.3%.
- Compared with the previous quarter, shrimp feed sales also increased by 2.6%, thanks to a higher sales volume (up 4.3% QoQ), but the average selling price slightly dropped by 1.6%.
- PT-Thai Union Kharisma Lestari ("TUKL") shrimp feed sales dropped 9.7% QoQ due to the lower selling volume by 17.7%

Revenues from fish feed

- In Q3'22, fish feed sales were THB 513.0 million, up 3.2% YoY, due to the portfolio and price adjustment as well as the focus on the strategic products especially seabass feed which provides the high average selling price. As a result, the average selling price rose around 28.0% YoY whereas selling volume dropped by 19.4% YoY.

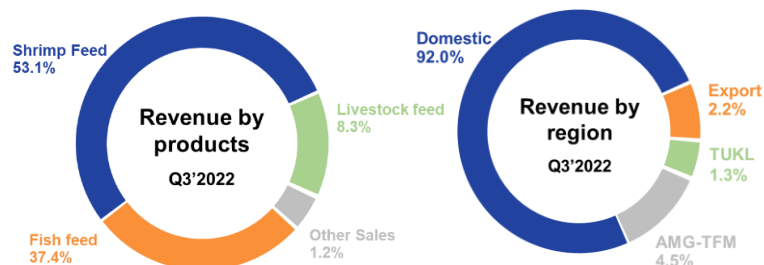
- Compared with the previous quarter, fish feed sales increased by 18.1% with selling volume up 16.9% QoQ and the average selling price also increased by 1.1%.
- AMG-Thaiunion Feedmill Private Limited ("AMG-TFM"), fish feed sales also increased 40.5% QoQ.

Revenues from livestock feed

- Q3'22 livestock feed sales were THB 114.0 million, down 4.7% YoY, as the company shifted its focus to higher margin products upon rising raw material costs, caused selling volume dropped by 17.3% YoY.
- Compared with the previous quarter, livestock feed sales, nevertheless, increased by 4.3%, thanks to the higher selling volume and average selling price by 2.1% and 2.2%, respectively.

Sales breakdown by product:

	Sales (Unit : THB million)			Qty (Unit : Tones)		
	Q3'2022	Q3'2021	YoY	Q3'2022	Q3'2021	YoY
Shrimp feed	727.6	692.4	5.1%	26,136	22,302	17.2%
Fish feed	513.0	497.2	3.2%	17,648	21,886	-19.4%
Livestock feed	114.0	119.7	-4.7%	6,749	8,163	-17.3%
Other sales	16.9	31.4	-46.1%	-	-	0.0%
Total	1,371.6	1,340.6	2.3%	50,533	52,351	-3.5%



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Cost of goods sold and Gross profit

- In Q3'22, the Company's cost of goods sold was THB 1,218.7 million, up 2.8% YoY, from the higher raw materials cost remained on an uptrend.
- Compared to the previous quarter, the Company's cost of goods sold, however, went up by 3.0% as sales volume also rose by 8.0%, even some material prices were lower.

Q3'22 gross profit was THB 152.9 million, slightly dropped to 1.2%, which was caused by the higher raw material cost. However, gross profit recovered by 65.7% QoQ, due to the portfolio adjustment and the improvement of operational excellence.

As a result, Q3'22 gross profit margin was at 11.1%, rose from 7.2% in Q2'22.

Selling General and Administrative Expenses

In Q3'22, SG&A expenses were THB 95.1 million, up 32.4% YoY, mainly a result of the increasing the employee benefit expenses and the recognition of the subsidiary's loss. Compared to the previous quarter, SG&A also increased 6.2%, mainly from the higher depreciation expense.

Net profit

In Q3'22, the Company reported net profit (after NCI) of THB 57.6 million, down 17.1% YoY, caused by the significant cost pressure on gross profit margin mentioned above and the higher SG&A expenses. However, net profit significantly recovered by 70.8% QoQ, as a result of the portfolio adjustment and the improvement of operation excellence.

As a result, Q3'22 EPS was at THB 0.12 per share, recovered from the previous quarter which was at THB 0.07 per share.

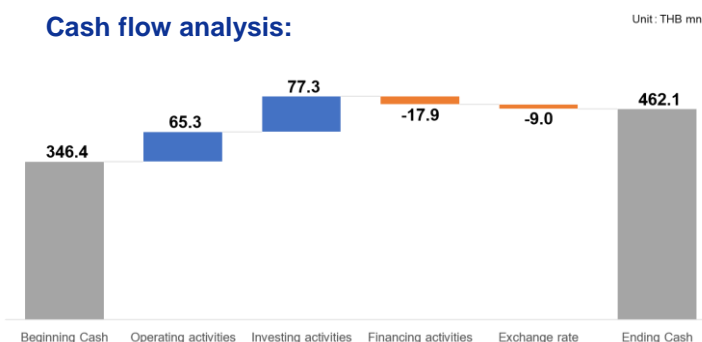
Financial position analysis:

As of September 30, 2022, the Company reported total assets worth THB 3,567.5 million, 6.7% 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 1,155.3 million, up 22.9% (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 2,412.1 million, a 0.4% increase from the end of the previous year due to a dividend distribution in May and interim dividend distribution of THB 100 million in total.

Cash flow analysis:



During 9M'22, the company generated EBITDA at THB 242.8 million. After the adjustments for the non-cash items (+ THB 37.7 million), change in operating assets and liabilities (- THB 210.8 million), interest incomes received (+THB 0.8 million), and income tax payments (- THB 5.2 million), the net cash received from operating activities was THB 65.3 million.

Net cash received for investing activities was THB 77.3 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 offsetting by investing in shrimp feed production line in

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Thailand (Mahachai Factory) and waste water treatment systems in TUKL of THB 129.0 million in total.

Net cash payment from financing activities was THB 17.9 million, mainly from 2021 annual dividend payment in May at THB 75.0 million and interim dividend payment in August at THB 25.0 million, despite the 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 52.3 million, as well as the capital injected from non-controlling interest of subsidiary in the amount of THB 16.2 million

Key Financial ratios:

Key Financial Ratio	Q3'2022	Q3'2021	Q2'2022
Current Ratio (x)	2.5	1.0	2.4
Average Collecting Period (Day)	63	53	58
Day Inventory Outstanding (Day)	46	41	44
Return on Capital Employed (%)	5.9%	17.2%	6.7%
Return on Equity (%)	8.2%	21.4%	8.2%
Return on Assets (%)	4.0%	9.8%	4.8%
Net Interest Bearing Debt to Equity (x)	-	0.8	-
Book Value per Shares (THB)	4.8	2.9	4.7

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 September 30, 2022, the current ratio was 2.5x, up from 1.0x in the same period of last year as a result of increasing of the current assets from the initial public offering (IPO) and a payment of the short-term loan.

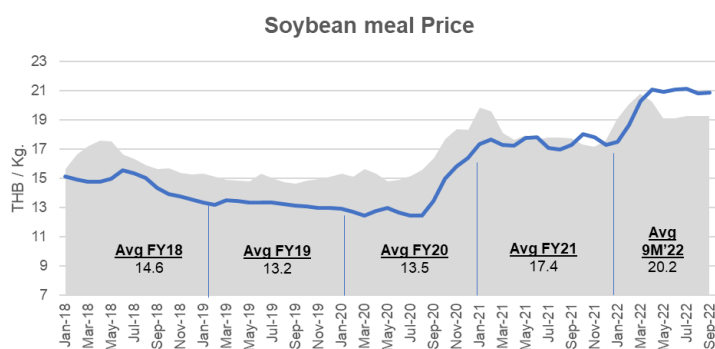
All profitability ratios in Q3'22 (ROCE at 5.9%, ROE at 8.2%, ROA at 4.0%) decreased from the same period last year as profit margins were pressured by higher raw material costs led by global commodity price rise as well as increasing of the assets and shareholders' equity from IPO.

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 to around 40,000 tons (up 8% YoY) and fish feed up to 20,000 tons (up 3.8% YoY).

Key raw material price:



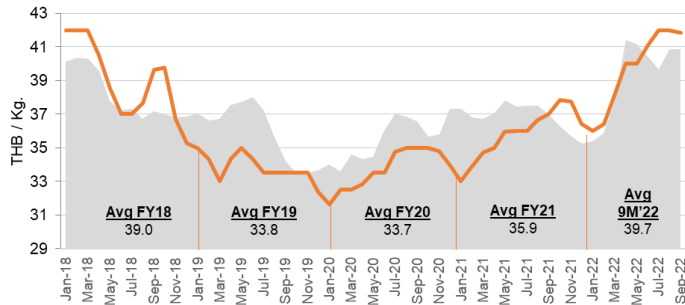
Source: Department of Internal Trade

As of September 2022, the local soybean meal market price was THB 20.84 per kilogram, down 1.0% from THB 21.05 per kilogram at the end of June 2022, while 9M'22 average soybean meal price increased by 16.0% from previous year.

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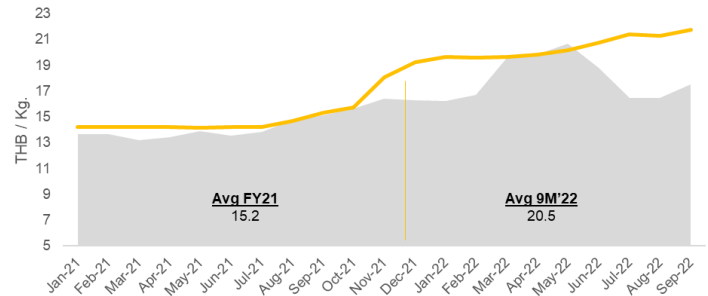
Fish meal Price



Source: Department of Internal Trade

As of September 2022, the local fish meal market price was THB 41.86 per kilogram, up 1.8% from THB 41.10 per kilogram at the end of June 2022, while 9M'22 average fish meal price increased 10.8% from 2021.

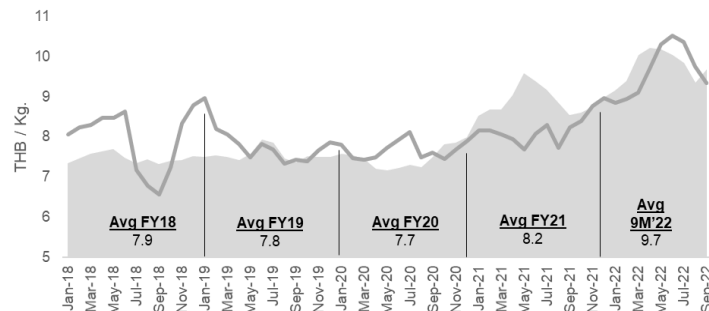
Wheat flour Price



Source: Thai Feed mill association

As of September 2022, the market wheat flour price was THB 21.78 per kilogram, up 4.8% from THB 20.78 at the end of June 2022 while 9M'22 average wheat flour price increased 34.5% from 2021.

Maize Price



Source: Office of Agricultural Economics

As of September 2022, the local maize market price was THB 9.33 per kilogram, down 11.3% from THB 10.52 at the end of June 2022 while 9M'22 average maize price increased 17.7% from 2021.