

Thai Union Feedmill Public Company Limited

Management Discussion and Analysis for Q1'2023 Results, ended 31 March 2023

Q1'2023: Reported sales growth at 13.7% YoY driven by shrimp feed market expansion. As a result, shrimp feed market shares up to 21%, despite the raw material price still pressured the profitability.

Thai Union Feedmill Public Company Limited (“Company”) reported sales at THB 1,152.2 million in Q1'23 with 13.7% growth compared to the same quarter of last year. From solid growth in revenue from shrimp feed and livestock feed sales increased 21.9% and 24.8% YoY, respectively. While fish feed sales still remained the same as previous year

Gross profit and gross margin

Q1'23 gross profit was at THB 47.7 million, declined 32.7% YoY and 47.1% QoQ, caused by the raw material price continually increased as well as the impact from the low season of the aquaculture. As a result, gross profit margin dropped to 4.1%.

Net profit

Q1'23 net profit was at THB -27.7 million from THB 1.3 million in Q1'22 caused by the decreasing of gross profit which was pressured by the higher raw material price and the low-aquaculture seasonality which shall recover in Q2'23 onward, while the SG&A expenses to sales decline from 8.6% in Q1'22 to 8.2%.

Stock Information

(SET / Bloomberg)

(TFM / TFM TB)

Share price (28/04/2023)	THB 8.50
Historical closing price (since 1 January 2023):	
Highest closing price:	THB 11.70
Lowest closing price:	THB 8.50
No. of shares:	500.0 m
Par value:	THB 2.0
Market Cap.:	THB 4,250 m
Avg. value trade/day (YTD)	THB 1.2 m

Major shareholders (03/03/2023)

Thai Union Group PCL.	51.0%
Boonmechote Family	19.2%
Mr. Bunluesak Sorajjakit	3.1%
Mstr. Karnphong Piemphongsuk	1.5%
Mr. Thiraphong Chansiri	0.7%

Business Overview

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

Dividend Payment

The Company has a policy to pay dividend to shareholders at least twice a year with the total amount of not less than 50% of the net profit according to the consolidated financial statements of the Company after the 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

	Q1'2023	Q1'2022	YoY	Q4'2022	QoQ
Sales	1,152.2	1,013.2	13.7%	1,227.5	-6.1%
Cost of sales	(1,104.5)	(942.3)	17.2%	(1,137.3)	-2.9%
Gross profit	47.7	70.9	-32.7%	90.2	-47.1%
Other income	16.7	16.4	1.8%	18.2	-8.5%
SG&A	(94.3)	(87.2)	8.2%	(75.8)	24.4%
Reversal/impairment on AR	(3.3)	(4.6)	-27.0%	(16.3)	-79.4%
Other gain/loss	2.3	0.9	149.6%	0.9	150.1%
EBIT	(31.0)	(3.6)	766.0%	17.3	-279.2%
Finance costs	(1.7)	(5.3)	-68.5%	(8.8)	-80.9%
PBT	(32.6)	(8.9)	267.5%	8.5	-483.4%
Income tax	0.1	(0.5)	-111.0%	3.4	-98.4%
Net Profit for period	(32.6)	(9.4)	247.0%	11.9	-373.6%
Profit attributed to the Company	(27.7)	1.3	-2232.1%	16.9	-264.4%
Earning per share (THB)	(0.06)	0.003	-2100.0%	0.03	-300.0%
Gross profit margin	4.1%	7.0%		7.4%	
Net profit margin	-2.4%	0.1%		1.4%	

Sales

The company reported Q1'23 revenue from sales at THB 1,152.2 million, increased 13.7% YoY, but declined 6.1% QoQ with the following details;

Revenue from shrimp feed

- In Q1'23, revenue from shrimp feed sales was THB 637.3 million, up 21.9% YoY, thanks to higher selling volume by 7.2% and higher average selling price by 13.7% from focusing on shrimp feed market expansion as a result, shrimp feed market share rose to 21% in Q1'23.
- Comparing to the previous quarter, revenue from shrimp feed sales slightly declined 3.2% QoQ due to the average selling price dropped by 6.5%
- The Company recognized the revenue from shrimp feed sales by PT Thai Union Kharisma Lestari ("TUKL") grew from THB 12.4 million in Q1'22 to THB 64.2 million caused the higher sales volume from 384 tones at the beginning to 1,935 tones in Q1'23.

Revenue from fish feed

- In Q1'23, revenue from fish feed sales was at THB 365.1 million, remained at the same as Q1'22 (-0.7%). Although the selling volume dropped 15.5% YoY due to an adjustment on sales strategy, which resulted in higher average selling price by 17.6% YoY.
- Comparing to the previous quarter, revenue from fish feed sales declined 14.7% QoQ, mainly caused by selling volume dropped by 14.9% from the adjustment on sales strategy and declining of fish feed volume sold from AMG-Thaiunion Feedmill Private Limited ("AMG-TFM") in Pakistan.

Revenue from livestock feed

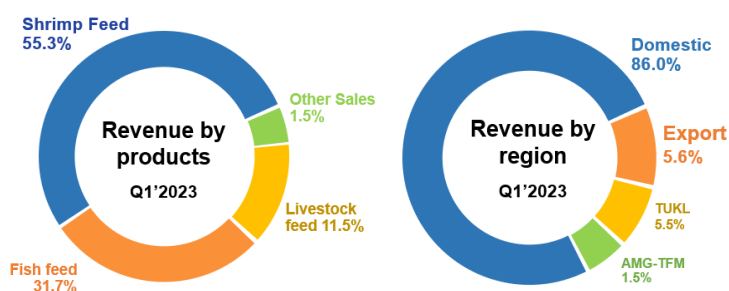
- Q1'23 revenue from livestock feed sales was at THB 132.1 million, grew 24.8% YoY, thanks to the higher livestock feed selling volume by 13.5%, mainly due to an increasing of the contribution from AMG-Thaiunion Feedmill Private Limited ("AMG-TFM") in Pakistan and the average selling price also up, 9.9% YoY.
- Comparing to the previous quarter, revenue from livestock feed increased by 9.6% QoQ due to the sales increased from the starting of livestock feed production in Q4'22 to utilize the capacity during low season of fish farming periods during the winter season. Even, the average selling price up 0.4% QoQ.

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Sales breakdown by product:

	Sales (Unit : THB million)			Qty (Unit : Tones)		
	Q1'2023	Q1'2022	YoY	Q1'2023	Q1'2022	YoY
Shrimp feed	637.3	523.0	21.9%	20,376	19,015	7.2%
Fish feed	365.1	367.7	-0.7%	11,521	13,640	-15.5%
Livestock feed	132.1	105.9	24.8%	7,865	6,928	13.5%
Other sales	17.7	16.7	6.1%	-	-	0.0%
Total	1,152.2	1,013.2	13.7%	39,763	39,583	0.5%



Cost of goods sold and Gross profit

- In Q1'23, the Company's cost of goods sold was at THB 1,104.5 million, increased 17.2% YoY, mainly due to the higher key raw material price in line with the commodity price in the world market.
- In Q1'23, the Company's cost of goods sold was down 2.9% QoQ due to the lower production and sales volume.

Q1'23 gross profit was THB 47.7 million, dropped 32.7% YoY from THB 70.9 million in Q1'22 mainly due to the higher raw material price and cost per unit, affected by the low-aquaculture seasonality resulted the gross profit margin declined from 7.0% in Q1'22 to 4.1% in Q1'23

Selling General and Administrative Expenses

In Q1'22, the company's SG&A expenses were at THB 94.3 million, up 8.2% YoY and 24.4% QoQ. Due to higher selling expenses on sales staff expenses and freight cost which is in line with the sales growth, resulted the SG&A expenses to total revenue was declined from 8.6% to 8.2% compared to Q1'22.

Net profit

In Q1'23, the Company reported the net profit attributed to shareholders at (loss) THB -27.7 million, as a result of higher raw material price and higher cost per unit affected by the low-aquaculture seasonality that pressured on gross profit margin.

As a result, Q1'23 EPS dropped from THB 0.003 to THB -0.06 per share.

Financial position analysis:

As of March 31, 2023, the Company reported total assets of THB 3,218.6 million, a 0.5% decreased from the end of 2022. The decrease was mainly due to the lower of the trade receivables and inventories caused by the company's monitoring and collection was managed well, as well as inventories management.

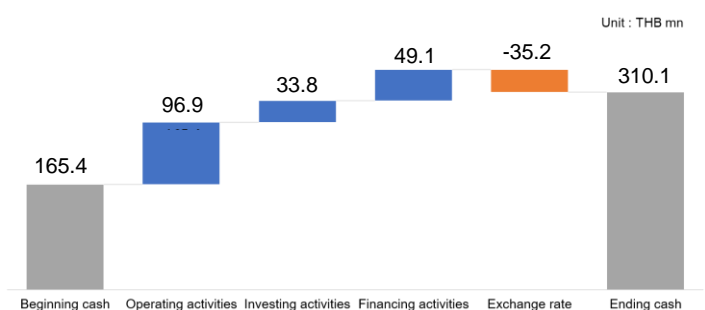
Total liabilities decreased to THB 806.0 million, a 6.3% increased from the end of the previous year. The increase was due to the higher of TUKL's long-term loan at THB 79.8 million.

Total shareholder's equity was at THB 2,412.6 million, a 1.3% decrease from the end of the previous year due to the loss operation result in Q1'23.

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Cash flow analysis:



During Q1'23, net cash from operating activities was mainly from EBITDA at THB 16.1 million adjusted by the non-cash items plus THB 0.4 million plus THB 81.5 million from operating assets and liabilities as well as minus income tax paid by THB 1.1 million as a result of net cash receipt from operating activities THB 96.9 million.

Net cash receive from investing activities were at THB 33.8 million, mainly received from withdrawing a short-term investment at THB 50.0 million and partly receipt from selling and existing PPE at THB 0.02 million, despite of payment for the additional CAPEX in fixed asset at THB 16.3 million

Net cash receipts from financing activities were at THB 49.1 million which inflow mainly from long-term loan which has a lower interest rate, drawn by TUKL at THB 80.5 million offsetting by partly paid for short-term loan from financial institution at THB 28.0 million as well as the payment for the long-term lease and interest expenses totaling THB 3.4 million

Key Financial ratios:

Key Financial Ratio	Q1'2023	Q1'2022	Q4'2022
Current Ratio (x)	2.7	3.1	2.5
Average Collecting Period (Day)	51	48	55
Day Inventory Outstanding (Day)	40	39	43
Return on Capital Employed (%)	2.9%	7.9%	4.0%
Return on Equity (%)	3.7%	8.8%	5.0%
Return on Assets (%)	2.4%	6.0%	3.2%
Net Interest Bearing Debt to Equity (x)	-	-	-
Book Value per Shares (THB)	4.8	4.8	4.9

Remark:

$Current\ ratio = Total\ current\ assets / Total\ current\ liabilities$
 $ROCE = 12\text{-month\ rolling\ EBIT} / Average\ capital\ employed$
 $Capital\ employed = total\ assets - total\ current\ liabilities\ (incl.\ current\ portion\ of\ long\text{-term\ debt})$
 $ROE = 12\text{-month\ rolling\ net\ profit\ attributed\ to\ the\ owner} / average\ equity\ attributed\ to\ owner$
 $ROA = 12\text{-month\ rolling\ EBIT} / average\ total\ assets$
 $ND/E = Interest\text{-bearing\ debt} - cash\ \&\ cash\ equivalents / total\ shareholders'\ equity$
 $BV = total\ shareholders'\ equity / outstanding\ shares$

As of March 31, 2023, the current ratio was at 2.7 times, slightly dropped from 3.1 times at end of 2022, due to increasing of a short-term loan from financial institution to support a working capital.

The profitability ratio in Q1'23 (ROCE at 2.9%, ROE at 3.7% ROA at 2.4%), decreased from the end of previous year due to the profit margins was pressured by higher prices of key raw material which directly affected cost of sales.

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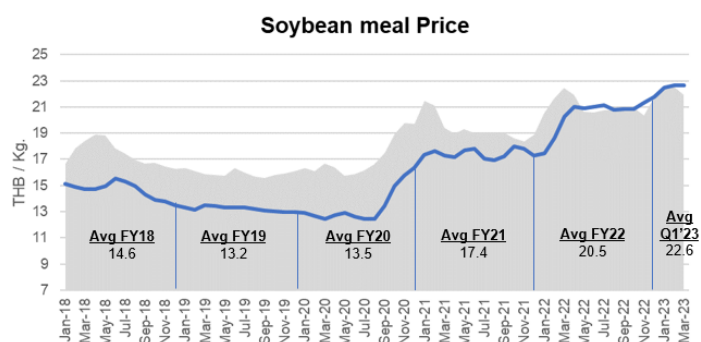
Industry overview

According to the Thai Feed Mill Association (TFMA), the demand of animal feed in 2023 is forecasted to increase to 19.99 million tons, from 19.08 million tons in the previous year, mainly due to increasing of the demand on swine feed and broiler feed.

While the demand of aquaculture feed was expected to grow from shrimp feed around 10,000 tons or 20% and fish feed still remained the same as previous year.

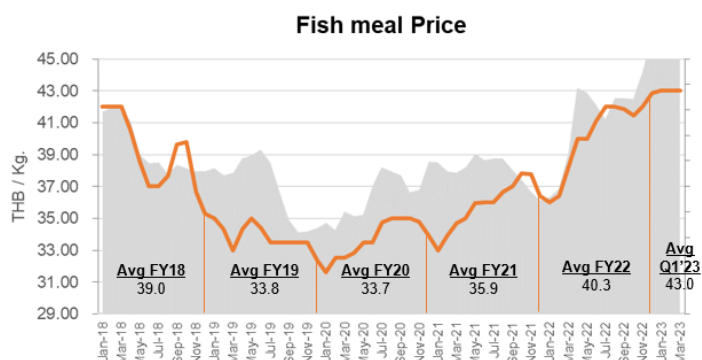
Shrimp farming situation in Q1'2023, slightly shrank from the previous year at 2.1% while the Company's selling volume dropped only 1.0%.

Key raw material price:



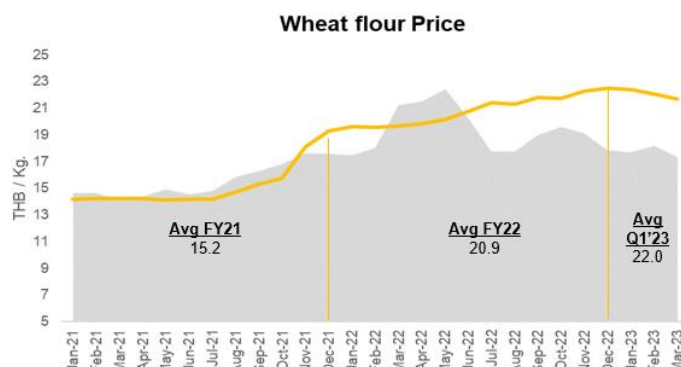
Source: Department of Internal Trade

As of March 2023, soybean meal price was at THB 22.65 per kilogram, 4.0% increase from THB 21.78 per kilogram at the end of December 2022, while Q1'23 average soybean meal price was at THB 22.60 per kilogram increased 27.7% YoY.



Source: Department of Internal Trade

As of March 2023, fish meal price was at THB 43.0 per kilogram, 0.4% increased from THB 42.84 per kilogram at the end of December 2022, while Q1'23 average fish meal price was at THB 43.0 per kilogram increased 15.2% YoY.



Source: Thai Feed Mill Association

As of March 2023, wheat flour price was at THB 21.71 per kilogram, 3.6% decreased from THB 22.53 per kilogram at the end of December 2022, while Q1'23 average wheat flour price was at THB 22.04 per kilogram increased 24.5% YoY.