

Thai Union Feedmill Public Company Limited

Management Discussion and Analysis for Q2'2023 Results, ended 30 June 2023

Q2'2023 Performance turned with strong profit from the previous quarter (+31.4% YoY) driven by focusing on market expansion as well as internal cost management.

Sales

Thai Union Feedmill Public Company Limited (“Company”) reported sales at THB 1,343.6 million in Q2'23 with 5.3% growth compared to the same period of last year, driven by the revenue from shrimp feed and livestock feed sales increased 14.8% and 6.5% YoY, respectively. While fish feed sales shrank by 9.3% YoY caused by declining of fish feed sales in Pakistan.

Gross profit and gross margin

Q2'23 Gross profit was at THB 122.4 million, increased 32.7% YoY, mainly from portfolio mixed adjustment and internal costs control from inhouse cost saving. As a result, gross profit margin in Q2'23 rose to 9.1% from 7.2% in Q2'22.

Net profit

Q2'23 net profit was at 47.8 THB million, surged 41.6% YoY, driven by the increasing in gross profit margin, recovered as mentioned above. While the SG&A expenses to sales still remained at 7.0%.

In Q2'23, the company booked an extraordinary item arising from write-off of R&D farms at Trang province as an other expense at 20.0 THB million.

Stock Information

(SET / Bloomberg)

(TFM / TFM TB)

Share price (27/07/2023)	THB 7.65
Historical closing price (since 1 January 2023):	
Highest closing price:	THB 11.70
Lowest closing price:	THB 6.70
No. of shares:	500.0 m
Par value:	THB 2.00
Market Cap.:	THB 3,825 m
Avg. trading value/day (YTD)	THB 1.0 m

Major shareholders (30/06/2023)

Thai Union Group PCL.	51.0%
Boonmechote Family	19.6%
Mr. Bunluesak Sorajjakit	3.1%
Mr. Karnphong Piemphongsuk	1.5%
Mr. Suksan Yasasin	1.4%

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

	Q2'2023	Q2'2022	YoY	Q1'2023	QoQ
Sales	1,343.6	1,276.0	5.3%	1,152.2	16.6%
Cost of sales	(1,221.2)	(1,183.7)	3.2%	(1,104.5)	10.6%
Gross profit	122.4	92.3	32.7%	47.7	156.4%
Other income	19.9	19.8	0.6%	16.7	19.4%
SG&A	(94.3)	(89.6)	5.3%	(94.3)	0.0%
Reversal/impairment on AR	2.2	0.1	3414.1%	(3.3)	167.3%
Other gain/loss	(14.7)	3.5	-525.1%	2.3	-746.3%
EBIT	35.6	26.1	36.4%	(31.0)	214.9%
Finance costs	(2.4)	(6.3)	-62.3%	(1.7)	41.8%
PBT	33.2	19.8	67.8%	(32.6)	201.7%
Income tax	9.1	12.4	-26.6%	0.1	16125.0%
Net Profit for period	42.3	32.2	31.4%	(32.6)	229.8%
Profit attributed to the Company	47.8	33.7	41.6%	(27.7)	272.3%
Earning per share (THB)	0.10	0.07	42.9%	(0.06)	266.7%
Gross profit margin	9.1%	7.2%		4.1%	
Net profit margin	5.0%	4.2%		-2.4%	

Sales

The company reported Q2'23 revenue from sales at THB 1,343.6 million, increased 5.3% YoY and 16.6% QoQ with the following details;

Revenue from shrimp feed

- In Q2'23, revenue from shrimp feed sales was THB 813.9 million, up 14.8% YoY, driven by higher average selling price, resulted from sale strategy adjustment. While shrimp feed selling volume remained as previous year (+0.7%).
- Comparing to the previous quarter, revenue from shrimp feed sales increased 27.7% QoQ due to shrimp feed sales volume up 23.9% QoQ during the shrimp farming season.
- The revenue from shrimp feed sales by PT Thai Union Kharisma Lestari ("TUKL") was THB 71.2 million in Q2'23 increased 10.9% QoQ, caused shrimp feed market expansion in Indonesia.

Revenue from fish feed

- In Q2'23, revenue from fish feed sales was at THB 394.0 million declined 9.3% YoY, caused by decreasing of fish feed sales from AMG-Thaiunion Feedmill Private Limited ("AMG-TFM") in Pakistan, as well as domestic fish feed sales slightly dropped (-1.2%) due to fish feed sales strategy adjustment by focus on seabass feed as a result, seabass feed sale volume increased 21.8% YoY.
- Compared to the previous quarter, revenue from fish feed sales up 7.9% QoQ, mainly caused by fish feed sales strategy adjustment results average selling price of the fish feed portfolio increased. While sales volume slightly dropped by 1.7%

Revenue from livestock feed

- Q2'23 revenue from livestock feed sales was at THB 116.4 million, up 6.5% YoY, thanks to increasing of livestock feed sold from AMG-Thaiunion Feedmill Private Limited ("AMG-TFM") in Pakistan. Despite, domestic livestock feed sales slightly dropped at 3.2%, resulted from the sales strategy adjustment.
- Compared to the previous quarter, revenue from livestock feed decreased by 11.9% QoQ mainly caused by selling volume dropped by 9.1% QoQ.

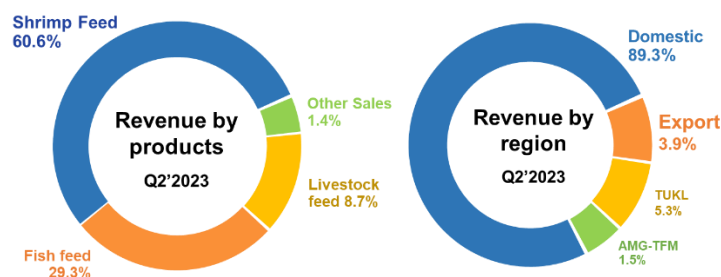
1H'23 the Company sales was at THB 2,495.9 million, up 9.0% yoy, thank to shrimp feed performance showed its growth at 17.8% yoy from increasing of shrimp feed sales in Thailand and TUKL in Indonesia.

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Sales breakdown by product:

	Sales (Unit : THB million)			Qty (Unit : Tones)		
	Q2'2023	Q2'2022	YoY	Q2'2023	Q2'2022	YoY
Shrimp feed	813.9	709.1	14.8%	25,249	25,068	0.7%
Fish feed	394.0	434.4	-9.3%	11,327	15,103	-25.0%
Livestock feed	116.4	109.3	6.5%	7,153	6,611	8.2%
Other sales	19.3	23.2	-16.7%	-	-	0.0%
Total	1,343.6	1,276.0	5.3%	43,729	46,782	-6.5%



Cost of goods sold and Gross profit

- In Q2'23, the Company's cost of goods sold was at THB 1,221.2 million, increased 3.2% YoY, mainly due to the higher raw material cost, although raw material prices decreased from previous quarter but still higher compared to the previous year.
- The Company's cost of goods sold was up 10.6% QoQ, as a result of higher selling volume compared with previous quarter.

Resulted, Q2'23 Gross profit was at THB 122.4 million, up 32.7% YoY from the same period of last year which was at THB 92.3 million, mainly driven by sale strategy adjustment and internal cost control, resulted the gross profit margin increased from 7.2% in Q2'22 to 9.1% in Q2'23

Selling General and Administrative Expenses

In Q2'23, the Company's SG&A expenses were at THB 94.3 million, up 5.3% YoY. Due to higher selling expenses which was in line with the sales growth, resulted the SG&A expenses to sales remained at the same level as the same period of last year at 7.0%.

Extraordinary items

In Q2'23, the company recognized an extraordinary item as an other expenses at THB 20.0 million, resulted from written-off of R&D farms in Trang province due to a maturity of tax benefits from investment (BOI).

Net profit

In Q2'23, the company reported the net profit attributed to shareholders at THB 47.8 million up 41.6% YoY, as a result of higher profitability due to sales strategy adjustment and internal cost control.

As a result, EPS increased from THB 0.07 per share in Q2'22 to THB 0.10 per share in Q2'23.

If excluding one-off expense, the Company net profit for Q2'23 shall be at THB 67.8 million, surged 100.1% from the same period of last year.

For the 1H'23 net profit, the Company net profit was at THB 20.0 million, from the loss performance in Q1'23 and turned around with strong growth in Q2'23, even impacted one-off item at THB 20.0 million, resulted 1H'23 EPS was at THB 0.04 per share.

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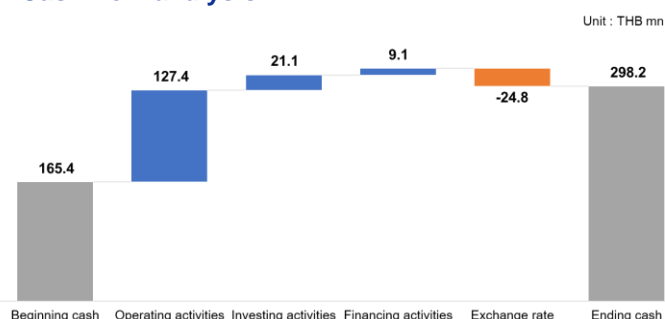
Financial position analysis:

As of June 30, 2023, the Company reported total assets of THB 3,316.1 million, a 3.6% increased from the end of 2022. Mainly due to increase in trade receivables and inventory which was in line with the sales growth as well as the increase in cash from loan withdrawal from financial institutions of subsidiaries in Indonesia.

Total liabilities increased to THB 872.9 million, a 15.2% 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 and trade payables from the sales growth.

Total shareholder's equity was at THB 2,443.3 million, at the same as the end of 2022 due to the profit operation result in 1H'23 (1 January – 30 June 2023) offsetting by an annual dividend payment to the shareholders in May.

Cash flow analysis:



In 1H'23, net cash from operating activities was mainly from EBITDA at THB 192.1 million adjusted by the non-cash items plus THB 19.0 million plus THB 81.5 million from operating assets and liabilities as well as minus income tax paid by THB 11.1 million as a result of net cash receipt from operating activities THB 127.4 million.

Net cash receive from investing activities were at THB 21.1 million, mainly received from withdrawing a short-term investment at THB 50.0 million and partly receipt from selling and existing PPE at THB 7.3 million, despite of payment for the additional CAPEX in fixed asset at THB 36.2 million

Net cash receipts from financing activities were at THB 9.1 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 24.5 million. In addition, the payment for the long-term lease and interest expenses totaling THB 6.9 million as well as annual dividend payment to shareholders for the second half of 2022 performance totally THB 40 million.

Key Financial ratios:

Key Financial Ratio	Q2'2023	Q2'2022	Q1'2023
Current Ratio (x)	2.7	2.4	2.7
Average Collecting Period (Day)	55	43	51
Day Inventory Outstanding (Day)	44	40	40
Return on Capital Employed (%)	3.2%	6.7%	2.9%
Return on Equity (%)	4.3%	8.2%	3.7%
Return on Assets (%)	2.6%	4.8%	2.4%
Net Interest Bearing Debt to Equity (x)	-	-	-
Book Value per Shares (THB)	4.9	4.7	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, 2023, the current ratio was at 2.7 times at the same as Q1'2023, due to a similar increase in current assets and current liabilities.

The profitability ratio in Q2'23 (ROCE at 3.2%, ROE at 4.3% ROA at 2.6%), decreased from the previous year but increased from the previous quarter, as a result of the company profitability recovering.

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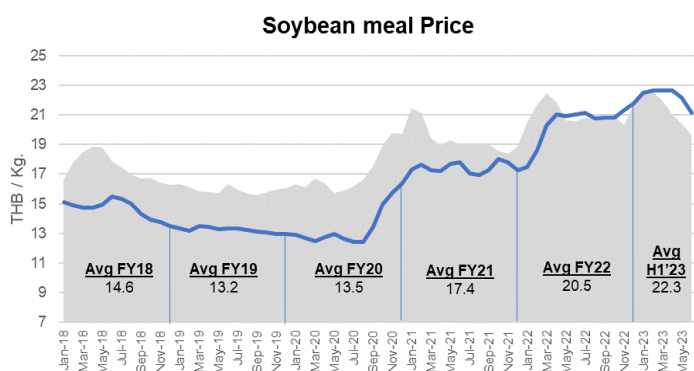
Industry overview

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 Q2'2023, increased from the previous year at 24.8%, while the company's shrimp feed sales volume increased by 0.7% and sales increased by 14.8% compared to the same period last year. As a result, the company's shrimp feed market share was remained at 19% as same as the previous year.

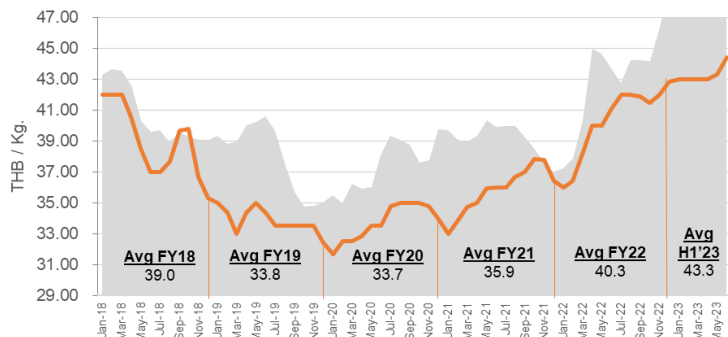
Key raw material price:



Source: Department of Internal Trade

As of June 2023, soybean meal price was at THB 21.15 per kilogram, 6.6% decrease from THB 22.65 per kilogram at the end of March 2023, while Q2'23 average soybean meal price was at THB 21.99 per kilogram increased 4.7% YoY.

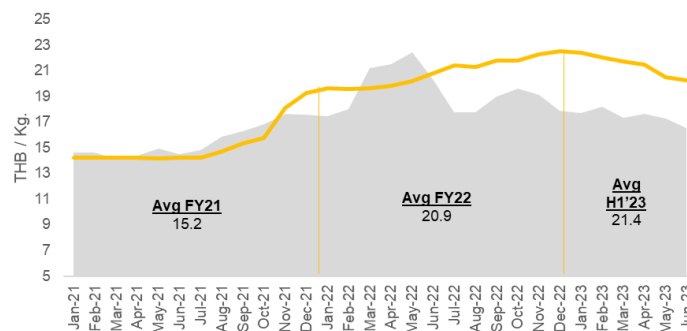
Fish meal Price



Source: Department of Internal Trade

As of June 2023, fish meal price was at THB 44.38 per kilogram, 3.2% increased from THB 43.0 per kilogram at the end of March 2022, while Q2'23 average fish meal price was at THB 43.56 per kilogram increased 7.9% YoY.

Wheat flour Price



Source: Thai Feed Mill Association

As of June 2023, wheat flour price was at THB 20.25 per kilogram, 6.7% decreased from THB 21.71 per kilogram at the end of March 2023, while Q2'23 average wheat flour price was at THB 20.73 per kilogram increased 2.3% YoY.