

Sappe PCL (SAPPE TB)

4Q22E: Strong recovery YoY

BUY

Share Price	THB 43.50
12m Price Target	THB 60.00 (+38%)
Previous Price Target	THB 60.00

Maintain BUY, TP THB60

We project core 4Q22 profit of THB129m, up 141% YoY but down 37% QoQ, when SAPPE reports results on 1 March 2023. This should be driven by solid sales growth in export markets while the anticipated QoQ drop is seasonal as 4Q is low season. We note that export sales are on track to grow a healthy 34% YoY in 4Q, driven by sales in key markets such as France, the Philippines and Korea. Domestic sales will likely fall 7% YoY, as SAPPE directs resources to more profitable export markets where demand is stronger. We maintain BUY, TP THB60.

We project strong 16% sales growth in FY23E

We believe sales will further recover by a robust 16% YoY (exports 17%, domestic 2%) in FY23E, on strong demand for its *Mogu Mogu* drink in key export markets. We note that our projection is more conservative than management's guidance of 25% as we take into account the soft global economic outlook, especially in Europe. We project core profit to increase 16% YoY in FY23E, reaching THB768m.

New production facilities in FY24E and FY25E

Given nearly full production utilisation in FY22, SAPPE plans to add one production facility in each of FY24E (January) and FY25E to meet strong demand. The new facility in FY24E will likely be in Thailand, and in a key export market in FY25E, possibly in Europe. We are positive on the new capacity, especially in an export market as it could reduce logistical costs and improve EBIT margin.

DCF-based valuation. Rising costs a key risk

We use DCF (base year FY23E) for our valuation with 11% WACC and 3.5% terminal growth. SAPPE is trading at a reasonable 17.3x FY23E P/E. Rising costs, especially for packaging and logistics, is a key risk that could pressure margins and profitability.

FYE Dec (THB m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,268	3,444	4,619	5,372	6,222
EBITDA	706	743	1,051	1,261	1,550
Core net profit	383	417	663	768	894
Core EPS (THB)	1.26	1.36	2.17	2.51	2.92
Core EPS growth (%)	(0.6)	8.2	58.9	15.8	16.5
Net DPS (THB)	1.02	1.10	1.73	2.01	2.34
Core P/E (x)	15.3	19.3	20.1	17.3	14.9
P/BV (x)	2.1	2.8	4.1	3.9	3.6
Net dividend yield (%)	5.3	4.2	4.0	4.6	5.4
ROAE (%)	14.2	14.7	21.7	23.1	24.9
ROAA (%)	10.9	11.1	16.0	16.7	18.0
EV/EBITDA (x)	6.4	8.7	10.8	9.0	7.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	601	678	754
MKE vs. Consensus (%)	-	-	10.3	13.3	18.7

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Company Description

Sappe is a leader in Thailand's functional drinks segment. As it expands, the bulk of its sales are to overseas markets.

Statistics

52w high/low (THB)	47.75/24.10
3m avg turnover (USDm)	1.1
Free float (%)	45.1
Issued shares (m)	304
Market capitalisation	THB13.2B USD381M

Major shareholders:

Ms. Piyajit Ruckariyapong	17.7%
Mr. Atisak Ruckariyapong	17.0%
Mr. Arnupap Ruckariyapong	15.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	9	(1)	67
Relative to index (%)	7	(3)	67

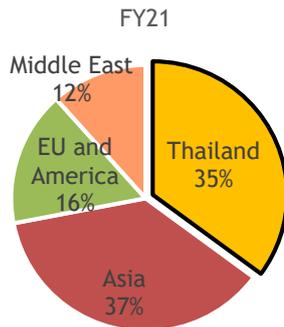
Source: FactSet

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Tear Sheet Insert

Value Proposition

- SAPPE is one of the largest beverage players in Thailand.
- It sells products in 90 countries, with only 35% revenue contribution from Thailand in FY21. With 65% of revenues from exports, it benefits from a weak THB trend.
- The company has many product champions, such as *Mogu Mogu* (jelly drink), *All CoCo* (coconut drink) and *Beauti Drink* (vitamin water).
- SAPPE has four beverage manufacturing lines in Thailand, and grows its own coconuts and aloe vera. The company has a fair trade policy towards its farmers.

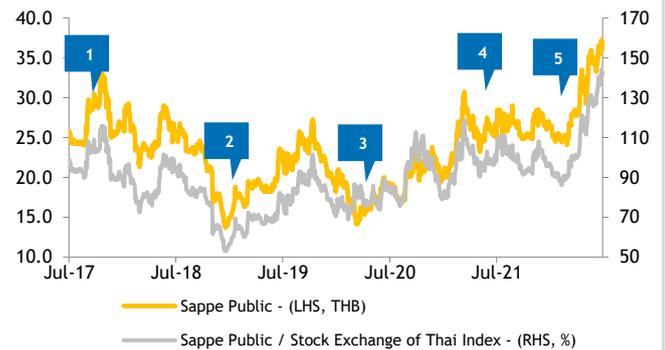
Revenue mix (FY21)



Source: SAPPE

Price Drivers

Historical share price trend



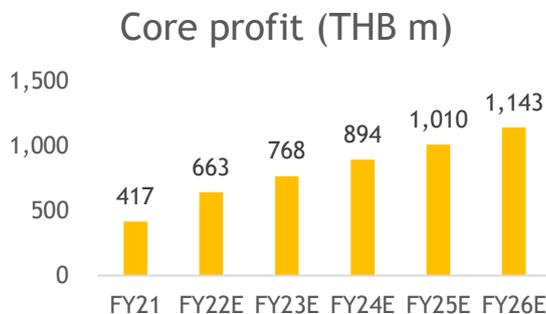
Source: Company, MST

1. Share price rebounded after the government announced a sugar tax with a 2-year grace period.
2. Sales growth accelerated across the board following the success of new products, such as two new flavours of Mogu Mogu.
3. Lockdown in Thailand dimmed sales outlook.
4. Concerns about cost inflation, especially for packaging, which is tied to the price of oil.
5. Weak THB strengthens SAPPE's earnings outlook as most of its sales are exports.

Financial Metrics

- We expect revenue to grow 34% YoY in FY22E (to THB4.6b) and core profit to increase 59% YoY (to THB663m), driven by sales in Thailand and overseas as Covid eases this year.
- Gross margin in FY22E should improve by 1ppt to 40%, as sales in more profitable export markets grow faster than in Thailand (60% vs -4% in FY22E). We estimate demand in the Thai market to remain soft this year as Covid in Thailand eased later than overseas.
- From FY21-FY26E, we expect core profit to post a 22% CAGR to THB1.1b, driven by exports.

Core profit (THB m)



Source: Company, MST

Swing Factors

Upside

- Weaker THB could increase sales as most sales are in foreign currencies.
- Stronger-than-expected demand from export markets.
- Lower packaging costs could increase EBIT margin.

Downside

- Strong THB could hurt sales as most sales are in foreign currencies.
- Export demand could be impacted if there is a recession.
- Higher packaging costs could lower EBIT margin.

Risk Rating & Score ¹	Research Not Available
Score Momentum ²	Research Not Available
Last Updated	-
Controversy Score ³	Research Not Available

Business Model & Industry Issues

- SAPPE has a fair policy towards its employees and stakeholders. It also helps farmers nearby the factory to earn additional income by teaching them to grow aloe vera, which is used for SAPPE's beverage products.
- During Covid, SAPPE donated a significant amount of beverages to medical staff and patients.
- In terms of energy consumption, SAPPE is using more solar energy, which is friendly to the environment and also helps to lower costs.
- The area where we feel SAPPE could do more is reducing the use of plastic for packaging its beverages and snacks, by applying more environment friendly materials, such as glass and paper.

Material E issues

- The company has invested around THB45.3m to install 4,263 solar cell panels on the roof of the factory, which helped save 2,940,869 kWp in power consumption, equivalent to CO2 absorption of 34,408 big trees.
- In 2021, the company recycled waste water to be used in sanitary and utility systems within the building.
- The company emphasises on the 3R practice: reduce, reuse and recycle.

Material S issues

- Since 2019, SAPPE initiated the 'Leader in Me' project in Ruamjit Prasert school in Pathum Thani to train students to embrace the seven habits of leadership.
- In 2021, SAPPE donated THB14m worth of beverages to hospitals, field hospitals and health venues for patients and medical personnel amid the Covid pandemic.
- The company donated about 40 tonnes of paper boxes for recycling and produced 600 paper beds for field hospitals in 2021 at the height of the pandemic.
- SAPPE emphasises equality and fairness in dealing with its business partners.
- Since 2016, SAPPE helped farmers near its factory to grow aloe vera, which in turn is supplied to SAPPE.

Key G metrics and issues

- The board of directors consists of 10 members with 6 non-executive directors, 5 of whom are independent and 3 are also members of the audit committee. Three of the 10 directors are female.
- During every annual general meeting, at least one third of the directors must retire by rotation. The retired directors can be re-appointed.
- There are 3 members in the audit committee. The audit committee members hold office for a term of 3 years but may be re-appointed.
- For the remuneration of the CEO, the board of directors will review and evaluate his or her performance. The evaluation criteria are based on the key performance indicators, both financial and non-financial indicators.
- In FY21, the company paid THB67.87m to its executives.
- KPMG Phoomchai Audit is the company's auditor.
- The company paid THB3.43m in audit fees for FY21, or 0.82% of net profit.
- In the case of related-party transactions or any transactions that relate to a director or an executive, it must obtain approval from the audit committee and the board of directors.
- The company has a dividend policy of not less than 40% of net profit.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: 4Q22E preview - strong profit recovery YoY but lower QoQ as 3Q22 was a high season

P&L (THBm)	4Q21	3Q22	4Q22E	% chg		FY21	FY22E	% chg
				QoQ	YoY			
Sales	819	1,279	1,085	-15%	32%	3,444	4,619	34%
COGS (Incl depreciation)	(498)	(756)	(716)	-5%	44%	(2,089)	(2,807)	34%
Gross Profit	321	524	369	-30%	15%	1,355	1,813	34%
SG&A	(325)	(352)	(290)	-18%	-11%	(1,078)	(1,372)	27%
Operating Profit	(3)	172	79	-54%	-2406%	277	441	
Net other income	77	77	105	36%	37%	269	403	50%
Interest expense	(1)	(1)	(0)	-22%	-34%	(3)	(2)	-17%
Pretax profit	73	249	184	-26%	152%	543	841	55%
Income Tax	(14)	(45)	(47)	5%	232%	(106)	(168)	59%
Associates	(4)	(0)	(16)	3295%	330%	(20)	(15)	-26%
Minority interest	(2)	(0)	8	-3146%	-598%	1	5	763%
Core profit	54	204	129	-37%	141%	417	663	59%
Extraordinaries, GW & FX	2	(25)	11			(7)	(20)	
Reported net profit	56	178	140	-22%	150%	410	643	57%
Core EPS	0.18	0.67	0.42	-37%	135%	1.34	2.17	61%
EPS	0.18	0.67	0.42	-37%	135%	1.34	2.17	61%
Key ratios				ppt				ppt
Gross margin (%)	39.2%	40.9%	34.0%	-6.9%	-5.2%	39.3%	39.2%	0%
SG&A/Revenue (%)	39.6%	27.5%	26.7%	-0.8%	-12.9%	31.3%	29.7%	-2%
EBITDA margin (%)	15.1%	23.4%	21.6%	-1.8%	6.5%	21.6%	22.8%	1%
Net profit margin (%)	6.8%	13.9%	12.9%	-1.0%	6.1%	11.9%	13.9%	2%

Source: MST

Fig 2: DCF table

Unit:THB m	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	TV
EBITDA	1,261	1,550	1,852	2,212	2,572	2,973	3,425	3,955	4,576	5,305	6,163	
Adjusted tax	-194	-225	-254	-288	-314	-340	-364	-391	-421	-453	-489	
Working capital	42	48	56	64	53	37	21	16	8	-3	-17	
Capex	-600	-720	-864	-1,037	-1,244	-1,493	-1,792	-2,150	-2,580	-3,096	-3,715	
FCF	509	653	790	951	1,067	1,178	1,291	1,429	1,583	1,753	1,942	2,156
WACC	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
FCF PV	509	588	641	695	702	698	689	687	686	684	683	9,076
Sum of PV	16,340											

Source: MST

Fig 3: DCF valuation

DCF valuation at end of FY23E	THB m	THB/share
Core operating assets	16,340	53.40
Cash & liquid assets	2,106	6.90
Investments	89	0.30
Entity valuation	18,535	60.60
Less: Debt	(72)	0.20
Less: Preferred equity	0	0.00
Less: Minorities	(100)	0.30
Residual ordinary equity	18,363	60.00

Source: MST

Fig 4: Valuation assumptions (%)

Risk free rate	3.00
Market risk premium	7.40
Cost of equity	11.16
Cost of debt	3.20
WACC	11.02
Terminal growth	3.50

Source: MST

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	15.0	18.8	20.1	17.3	14.9
Core P/E (x)	15.3	19.3	20.1	17.3	14.9
P/BV (x)	2.1	2.8	4.1	3.9	3.6
P/NTA (x)	2.1	2.8	4.1	3.9	3.6
Net dividend yield (%)	5.3	4.2	4.0	4.6	5.4
FCF yield (%)	7.1	7.1	5.5	3.8	4.9
EV/EBITDA (x)	6.4	8.7	10.8	9.0	7.3
EV/EBIT (x)	9.0	11.8	13.5	11.8	10.1
INCOME STATEMENT (THB m)					
Revenue	3,268.1	3,444.2	4,619.2	5,372.1	6,221.9
EBITDA	706.0	743.4	1,051.4	1,261.1	1,550.5
Depreciation	(202.2)	(197.9)	(207.8)	(292.8)	(424.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	503.9	545.5	843.6	968.3	1,125.6
Net interest income / (exp)	(3.2)	(2.5)	(2.1)	(2.1)	(1.3)
Associates & JV	(15.6)	(20.2)	(15.0)	(5.0)	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	485.1	522.8	826.5	961.3	1,124.3
Income tax	(96.0)	(106.0)	(168.3)	(193.3)	(224.9)
Minorities	(5.8)	0.6	5.0	0.0	(5.0)
Reported net profit	383.4	417.3	663.2	768.0	894.5
Core net profit	383.4	417.3	663.2	768.0	894.5
BALANCE SHEET (THB m)					
Cash & Short Term Investments	1,565.5	1,753.7	2,132.6	2,106.4	2,089.8
Accounts receivable	435.6	340.6	340.6	340.6	340.6
Inventory	290.7	221.1	303.8	341.3	383.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,006.2	951.3	993.4	1,300.6	1,595.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	14.2	89.0	89.0	89.0	89.0
Other assets	335.0	492.8	563.9	609.4	660.8
Total assets	3,647.2	3,848.4	4,423.2	4,787.3	5,159.8
ST interest bearing debt	36.2	21.4	20.0	20.0	20.0
Accounts payable	577.9	675.9	928.8	1,043.5	1,173.5
LT interest bearing debt	65.9	51.9	51.9	51.9	0.0
Other liabilities	94.0	93.0	110.0	122.0	136.0
Total Liabilities	774.1	841.9	1,111.1	1,237.7	1,329.1
Shareholders Equity	2,771.6	2,905.7	3,212.2	3,449.6	3,729.7
Minority Interest	101.5	100.8	99.9	99.9	100.9
Total shareholder equity	2,873.1	3,006.5	3,312.1	3,549.5	3,830.6
Total liabilities and equity	3,647.2	3,848.4	4,423.2	4,787.3	5,159.8
CASH FLOW (THB m)					
Pretax profit	485.1	522.8	826.5	961.3	1,124.3
Depreciation & amortisation	202.2	197.9	207.8	292.8	424.8
Adj net interest (income)/exp	(3.2)	(2.5)	(2.1)	(2.1)	(1.3)
Change in working capital	(116.6)	115.6	115.5	42.2	48.0
Cash taxes paid	(96.9)	(106.7)	(168.9)	(193.9)	(225.3)
Other operating cash flow	4.1	(33.2)	(13.7)	(3.6)	1.4
Cash flow from operations	493.5	716.5	982.3	1,103.7	1,373.3
Capex	(74.5)	(142.9)	(250.0)	(600.0)	(720.0)
Free cash flow	418.9	573.6	732.3	503.7	653.3
Dividends paid	(252.6)	(310.5)	(336.7)	(530.6)	(614.4)
Equity raised / (purchased)	0.0	47.5	0.0	0.0	0.0
Change in Debt	72.0	(28.8)	(1.4)	0.0	(51.9)
Other invest/financing cash flow	13.3	(93.5)	(15.3)	0.6	(3.6)
Net cash flow	251.7	188.2	378.9	(26.2)	(16.6)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.0)	5.4	34.1	16.3	15.8
EBITDA growth	1.4	5.3	41.4	19.9	22.9
EBIT growth	(0.2)	8.3	54.6	14.8	16.2
Pretax growth	(0.0)	7.8	58.1	16.3	17.0
Reported net profit growth	(0.6)	8.9	58.9	15.8	16.5
Core net profit growth	(0.6)	8.9	58.9	15.8	16.5
Profitability ratios (%)					
EBITDA margin	21.6	21.6	22.8	23.5	24.9
EBIT margin	15.4	15.8	18.3	18.0	18.1
Pretax profit margin	14.8	15.2	17.9	17.9	18.1
Payout ratio	81.0	80.7	80.0	80.0	80.0
DuPont analysis					
Net profit margin (%)	11.7	12.1	14.4	14.3	14.4
Revenue/Assets (x)	0.9	0.9	1.0	1.1	1.2
Assets/Equity (x)	1.3	1.3	1.4	1.4	1.4
ROAE (%)	14.2	14.7	21.7	23.1	24.9
ROAA (%)	10.9	11.1	16.0	16.7	18.0
Liquidity & Efficiency					
Cash conversion cycle	(10.4)	(23.4)	(42.7)	(51.5)	(52.7)
Days receivable outstanding	43.4	40.6	26.5	22.8	19.7
Days inventory outstanding	44.2	44.1	33.7	36.1	35.2
Days payables outstanding	98.1	108.0	102.9	110.5	107.6
Dividend cover (x)	1.2	1.2	1.3	1.2	1.3
Current ratio (x)	3.5	3.4	3.0	2.7	2.5
Leverage & Expense Analysis					
Asset/Liability (x)	4.7	4.6	4.0	3.9	3.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.1	0.1	0.1	0.1	0.0
Capex/revenue (%)	2.3	4.1	5.4	11.2	11.6
Net debt/ (net cash)	(1,463.4)	(1,680.4)	(2,060.7)	(2,034.5)	(2,069.8)

Source: Company; Maybank IBG Research

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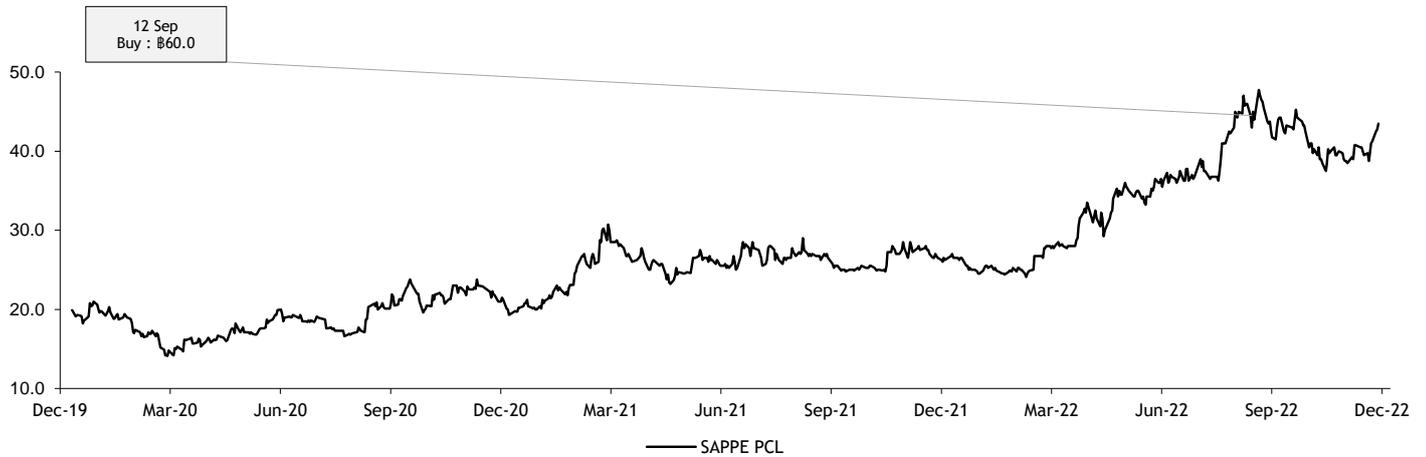
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