

June 7, 2017

OUTPERFORM

# Interhides

(IHL TB)

Share Price: Bt8.50

Target Price: Bt10.5 (+23.5%)

## You can run, but you can't hide

- Expect profit to grow 29% in FY17F and 37% in FY18F, driven by contribution from leather tanning services
- New plant will double tanning capacity and resolve growth bottleneck; strong demand for tanning services from FY18
- OUTPERFORM, TP Bt10.50; a traditional business makes a grand return

### New purchase orders spur growth in FY17-18

IHL is a leading leather car seat supplier and prime leather tannery which have been awarded the highest quality manufacturer by Leather Working Group (LWG), an association that tracks environmental compliance and performance of leather manufacturers, in 4Q16. As a result, they received a new order for leather tanning services worth Bt700m a year from GLI in April. IHL's tannery facility is now running at almost full capacity and we estimate they can only make Bt240m of GLI's order this year. But this is sufficient to drive 29% earnings growth in FY17F to Bt251m. IHL is expanding tanning capacity, to be completed in 4Q17, which would double capacity. Hence, we forecast IHL would register Bt590m revenue from GLI in FY18F, which would drive 37% earnings growth to Bt343m.

### From average leather supplier to world-class leading leather tannery

Leather car seats remain a stable cash flow generator for IHL. Their market share has increased consistently over the past five years to c.80% of Japanese car brands. We expect flat sales volume for car seats in FY17F and 1% growth from FY18F onwards, in line with our forecast of 1.9m car production volume this year. But with leather seats installed in only 18% of cars made in Thailand, there is ample room for growth. IHL plans to penetrate European car brands which could be another growth driver, but this would entail a lengthy approval process. This year will be a turning point for IHL, which will transform them into a leading global leather tannery and depend less on automotive sector.

### OUTPERFORM, TP Bt10.5; entering strong growth phase

Despite recent strong run-up in share price, robust earnings growth and the change in revenue structure would continue to draw interest in the stock. Our TP of Bt10.50 (fully diluted EPS as IHL-W1 is in the money) is pegged to 18x FY18F PE, or +0.5SD of its 7-year mean multiple to reflect the strong growth phase after relatively stable earnings in the last four years. The leather tanning business would boost IHL's earnings by 26% (3-year CAGR) over FY16-19F, implying only 0.7x PEG valuation.

#### Financial Summary (Btm)

Year to Dec	2015	2016	2017F	2018F	2019F
Sales (Btm)	2,295	1,943	2,194	2,560	2,726
Growth (%)	24	(15)	13	17	7
EBITDA (Btm)	332	411	489	616	672
Growth (%)	(14)	24	19	26	9
Recurring profit (Btm)	120	194	251	343	384
Growth (%)	(37)	62	29	37	12
Net profit (Btm)	202	191	251	343	384
FDEPS (Bt)	0.2	0.3	0.4	0.6	0.6
Growth (%)	(37)	62	29	37	12
PE (x)	42.3	26.1	20.1	14.8	13.2
DPS (Bt)	0.2	0.2	0.3	0.3	0.4
Yield (%)	1.8	1.8	3.0	4.1	4.6
BVPS (Bt)	1.9	2.1	2.6	2.9	3.2
P/BV (x)	4.5	4.0	3.3	2.9	2.7



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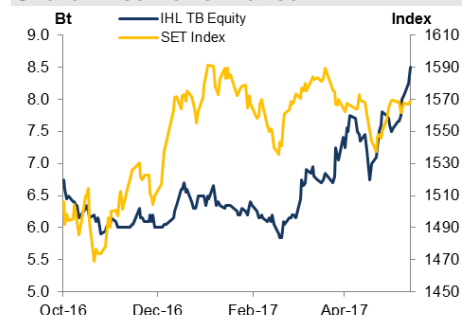
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#### Key Data

12-mth high/low (Bt)	9.17 / 5
Market capital (Btm/US\$m)	4,212.8 / 123.7
3m avg. turnover (Btm/US\$m)	16.7 / 0.5
Free float (%)	28.1
Issued shares (m shares)	496
Major shareholders:	
- THUMRONGSAKUMVONG ON	20.8
- BUSAYAPOKA CHUTIMA	17.4
- DUMRONGSAKULWONG WOR	4.0

#### Share Price Performance



	YTD	1Mth	3Mth	12Mth
Absolute (%)	40.5	15.6	39.3	20.2
Relative to index (%)	38.8	15.7	38.4	11.5

#### Krungsri Securities vs Market

	Positive	Neutral	Negative
Market Recommend	0	0	0
	Krungsri	Market	% +/-
Target Price (Bt)	10.0	N/A	N/A
'17 Net Profit (Btm)	251	N/A	N/A
'18 Net Profit (Btm)	343	N/A	N/A

#### Krungsri's earnings revision

	2017F	2018F
Earnings revision (%)	-	-

Source: Bloomberg, Krungsri Securities

## Strict pollutant discharge standard a headwind for Chinese tanneries

Hides and skins are a co-product of the edible meat industry. They are transformed into high added-value material, leather, by various mechanical and chemical processes. This final material is used in many important consumer sectors, such as footwear, clothing, fashion accessories, furniture, and the automotive industry.

China is the world's largest leather exporter with total value of US\$76bn in 2016. Its top export destinations are Italy and Vietnam. The second and third largest leather exporters in Asia are India and Pakistan. China's major advantages are low labor costs, supply chain infrastructure, and established shipping route, which supported the boom in the tanning industry in the last ten years.

However, the tanning industry is a heavy user of chromium, a toxic metal, and is identified as a major source of pollution in China because of the sheer size of the industry. In line with the government's environmental commitments, they target to reduce the use of chromium and four other toxic metals: lead, mercury, cadmium and arsenic. The latest list of top polluters in China include: i) Non-ferrous metal extraction & processing, ii) Non-ferrous metal smelting, iii) Oil exploration, iv) Petroleum processing, v) Chemicals, vi) Coking, vii) Electroplating, and viii) Tanning. The Ministry of Environmental Protection (MEP) has ordered a clean-up of the industry and published new regulation which calls for a discharge standard of water pollutants in the leather and fur making industry (GB 30486-2013). This is considered the strictest standard so far for the leather industry as chromium discharge is one of the main pollutants in the industry.

## But a windfall for IHL

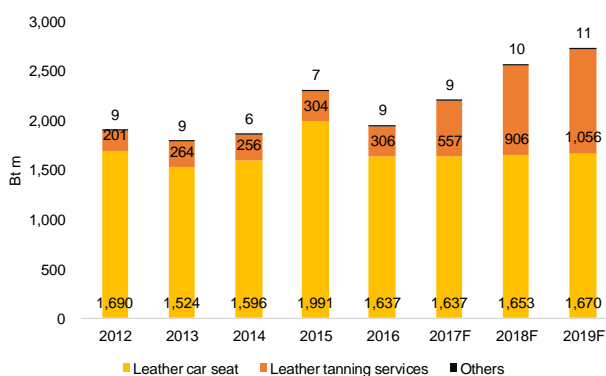
Apart from competitive labor costs and high tannery processing standards, supply chain infrastructure is also an important supporting factor for IHL and other tanneries in Thailand. The raw material for tanneries is raw hide which is mostly imported from the US and shipped to Asia over the Pacific Ocean. Hence, Thai tanneries have an advantage in transportation cost over India and Pakistan. Also, Thailand borders Vietnam and Cambodia which are currently major manufacturing hubs for leather accessories, and there is established supply chain infrastructure.

Moreover, IHL was certified a Gold Rated member (highest standard) in 4Q16 by the Leather Working Group (LWG), an association that tracks environmental compliance and performance of leather manufacturers. And this year, IHL is one of the finalists for *Tannery Of The Year 2018*, which would enhance their reputation on the global stage and help them to secure new customers after the completion of their new plant in 4Q17. We believe these are the major reasons Global Leather Intelligence (GLI) awarded the sizeable c.Bt700m per year order to IHL in April. We expect the order to increase after the completion of the new plant, which would double processing capacity to 2.0m units a year. This is the turning point for IHL to transform into a leading global leather tannery.

## From leather car seat supplier to leading leather tannery

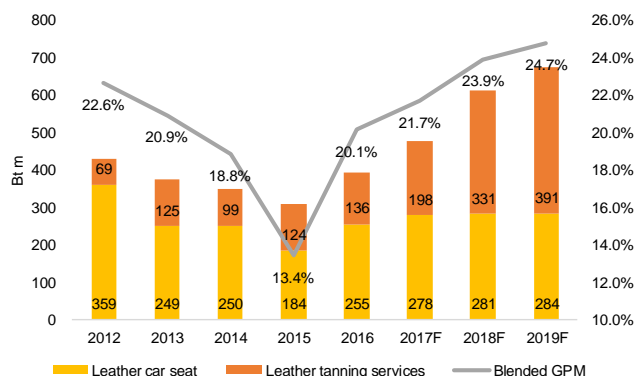
In FY16, IHL had three major sources of revenue housed under three business units: i) leather car seat and other auto-related products (84% of total revenue with 15-20% average GPM), ii) leather tanning services (16% of total revenue with 35-50% average GPM), and iii) others (less than 1% of total revenue). But from here on, we expect IHL to gradually shift away from leather car seats, which revenue is seasonal and GPM is volatile due to swings in prices of raw material, to tanning services which offer more stable revenues and GPM.

**IHL: Revenue structure**



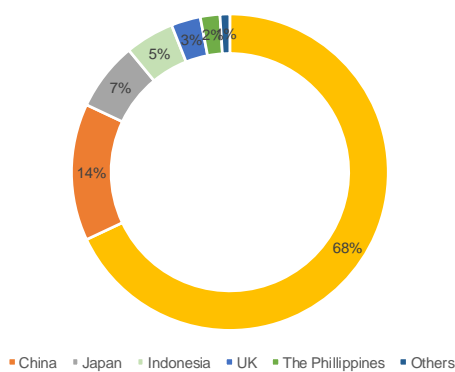
Source: Company data, Krungsri Securities

**IHL: Gross profit structure and blended GPM**



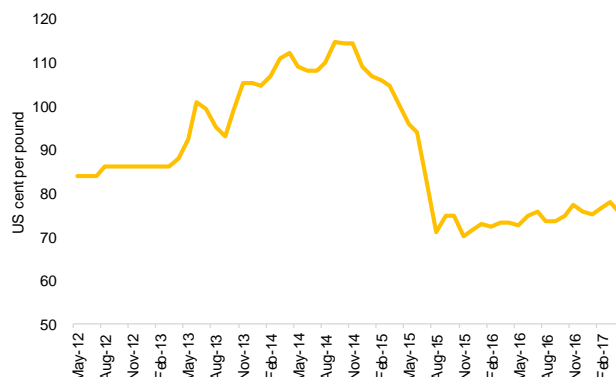
Source: Company data, Krungsri Securities

**IHL: Revenue breakdown by country**



Source: Company data, Krungsri Securities

**Raw hides are c.60% of COGS in leather car seat**



Source: Indexmundi, Krungsri Securities

## Legacy business to generate strong cash flow with dominant 80% market share of leather car seats

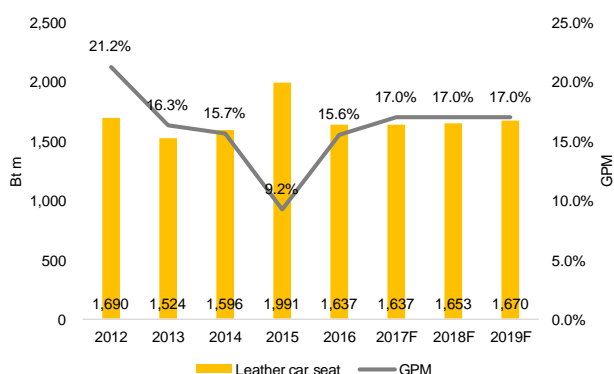
Sales of leather car seats has low correlation with total car production volume as car dealers normally offer leather car seats as a carrot to boost car sales when demand for new cars is weak. This is because leather car seats are worth Bt20-40k more than seats made from cloth or synthetic material.

Total car production in Thailand inched up 1.8% to 1.91m units in 2015 and 1.6% to 1.94m units in 2016. We expect output to stabilize at this level and the country to remain the major production hub for 1-ton pick-up trucks in ASEAN due to a the strong supply chain and location. We conservatively forecast total car production would be flat at 1.95m units in 2017, as weak exports would be offset by improving domestic car sales premised on: i) recovering farm income as drought ends, ii) new public investments, iii) participants of the first-car scheme paying off their loans from September, which would improve their spending power.

IHL's legacy business is a stable cash flow generator. They have increased market share in leather car seats gradually over the past five years to c.80% of total Japanese car brands. But currently, leather car seats are only installed in 18% of total cars manufactured, suggesting strong growth opportunities. However, we conservatively expect flat sale volume for leather car seats in FY17F and 1% growth from FY18F onwards, in line with our forecast for Thailand car output (1.9m units this year). The company plans to penetrate European car brands which could be another growth driver, but the approval process will be lengthy.

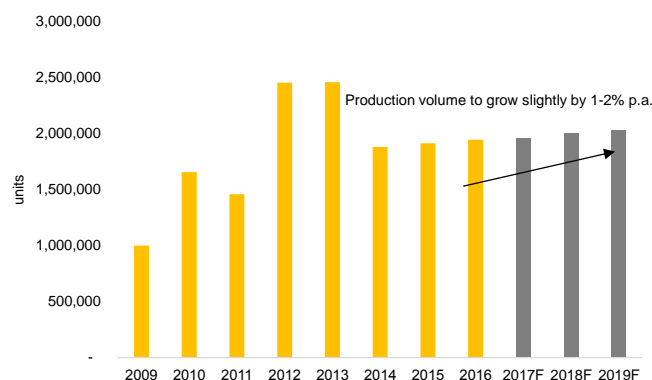
This business offers stable GPM, at 17% average, but this could be affected by several factors including: i) price of raw material (raw hides), ii) currency fluctuations, and iii) production volume. The utilization rate for this business unit is about 70%, which means IHL has sufficient capacity to ramp up sales volume at minimal capex in the near term.

**IHL: forecast leather car seat sales to grow by 1% p.a. in FY18F onwards**



Source: Company data, Krungsri Securities

**Thailand automotive industry to grow by 1-2% p.a.**



Source: Bloomberg, Krungsri Securities

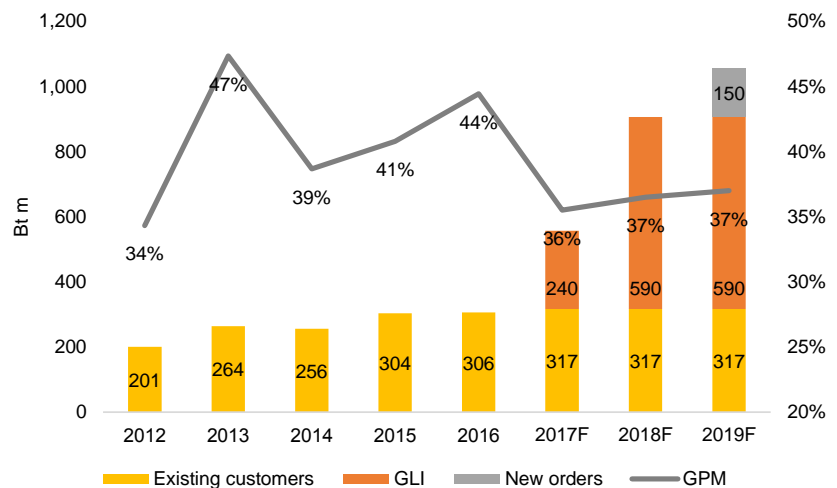
## Old-fashioned business makes a major comeback

Tanning services unit generates c.16% of IHL's total revenue, or c.Bt300m p.a. IHL has two major processing lines, one for cow hides and another pig skin, with total processing capacity of 840,000 and 7.8m units, respectively. IHL is expanding capacity for cow hides at plant #10 that would cost Bt320m capex, which would double capacity to c.2.0m units from FY18.

This unit will be IHL's second growth engine after expansion is completion in 4Q17. There is strong demand for tanning services but IHL is running at almost full capacity currently. Hence, we conservatively forecast they would only be able to meet Bt240m of new orders from GLI in FY17F. After the expansion is completed, we expect GLI to contribute Bt590m revenue from FY18F onwards. This is conservatively lower than the actual contract value of Bt700m per year.

However, the leather tanning business will be a substantial earnings growth driver because GPM is about twice that for leather car seats. We assumed 35.5% GPM for FY17F and 36.5% for FY18F; these are the lowest based on their historical GPM, which means limited downside. Moreover, tanning services business faces minimal risk of volatile raw material prices as IHL only provides a service. Their COGS comprise mainly of chemical, labor, utilities, and depreciation which are controllable.

### IHL: Revenue of leather tanning services to grow by 51% 3-year CAGR



Source: Company report, and Krungsri Securities

### Waste recycling business a future source of revenue

During a recent plant visit, IHL’s management had proudly presented their protein production (waste recycling) business which is expected to increase revenue and reduce costs in the near term. Over the past few years, the government has been focusing on controlling industrial waste disposal. In leather processing, wet blue leather is contaminated with chromium, a dangerous heavy metal. Tanning or leather-making enterprises currently pay c.Bt5 per kilogram to the waste management company to dispose of the waste safely.

After investing in four years of research on how to recycle waste into protein, IHL completed the protein plant in 3Q15 at a cost of Bt150-200m capex. It can process 250 tons of waste per month. IHL claims this plant will reduce waste management costs substantially. They can also derive revenue from other tanneries and leather makers as the plant is effectively a waste management business unit. The derived protein products will be used in the tanning process to improve the quality of the leather, allowing the company to save on chemical costs. They will also sell the protein products to other tanneries. However, we have chosen to ignore this business unit in our profit projection and leave it as an upside risk in the future.

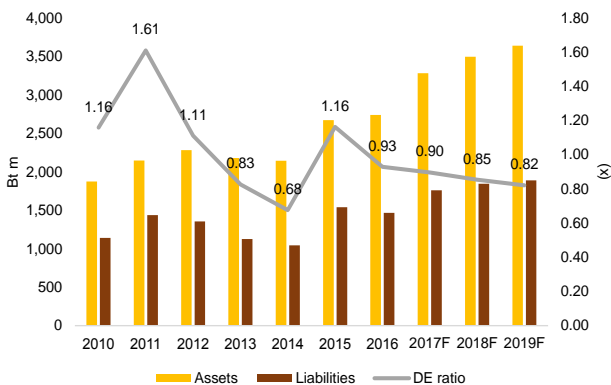
### Capacity expansion will support demand for leather tanning services, while DE ratio is under control

IHL plans to expand tanning services capacity at plant #10 in FY17-18F. They plan to invest Bt550m in FY17F and Bt150m in FY18F. Most of it would be used to improve the general processing line and for plant #10, the new tanning facility for cow hide which will start operation in 1Q18. The total cow hide tanning capacity will increase from 840k units in FY17F to 2.0m units in FY18F.

Their leather car seat manufacturing business is currently running at c.70% of capacity, suggesting sufficient capacity to support rising sales volumes in the next two years.

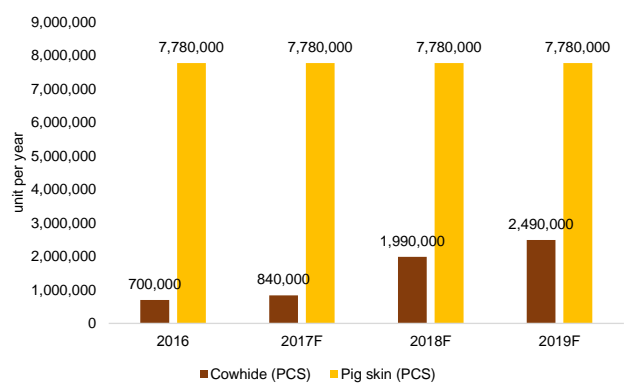
IHL’s DE ratio was 0.9x at end FY16, and is expected to remain at this level in FY17F. They have a tranche of warrants that will expire in Oct 2019 but can be converted every six months; IHL would receive up to Bt368m conversion proceeds. Hence, DE ratio is manageable without the need to raise capital soon.

**IHL: Controllable D/E ratio**



Source: Company data, Krungsri Securities

**IHL: Capacity expansion plan**

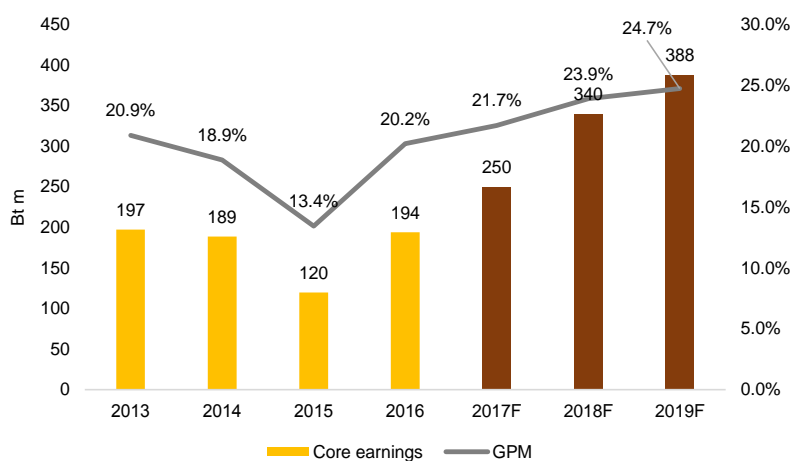


Source: Company data, Krungsri Securities

## Earnings to surge in FY17-18F driven by new orders for tanning services

IHL's next growth phase has started this year, driven by new orders for leather tanning services. They were recently awarded a Bt700m annual order from GLI. We expect IHL to book Bt2.2bn sales revenue in FY17F (+13% yoy), supported by the GLI order which we conservatively forecast at Bt240m for this year. Blended GPM should inch up to 21.7% (+1.5ppt yoy) due to favorable raw hide costs for the car seat business and larger revenue contribution from tanning services, the latter commanding wider GPM of 37%. Overall, we expect IHL's earnings to surge 29% yoy to Bt251m in FY17F and earnings to surge again by 37% yoy in FY18F to Bt343m driven by full contribution from the GLI order (Bt590m) following the completion of new tanning capacity.

### IHL: Earnings to surge from FY17F onwards



Source: Company report, and Krungsri Securities

## Valuation is attractive, supported by strong-growth phase

IHL will enter a strong-growth phase in FY17F driven by new orders for leather tanning services, specifically the sizeable order from GLI worth Bt700m a year. We expect more orders after the completion of their new tanning facility in 4Q17. Moreover, IHL reputation has leaped since receiving the Gold Rated certification in 4Q16 and being a finalist for *Tannery Of The Year 2018*.

We recommend an OUTPERFORM rating with a TP of Bt10.5 (fully-diluted EPS), pegged to 18x FY18F PE or +0.5SD of its 7-year mean, to reflect the strong growth phase. Larger contribution from leather tanning services would boost earnings by 26% (3-year CAGR) over FY16-19F, implying only 0.7x PEG valuation. Stories of robust earnings growth in FY17-19F and the change in IHL's revenue structure for the better, would attract interest in the stock. We used fully-diluted EPS to calculate TP as IHL-W1 warrant is currently in-the-money.

### IHL: Key assumption

Key assumption	2015	2016	2017F	2018F	2019F
Leather car seat sales (Bt m)	1,991	1,637	1,637	1,653	1,670
Leather tanning service revenue (Bt m)	304	306	557	906	1,056
GPM of leather car seat	9.2%	15.6%	17.1%	17.2%	17.0%
GPM of leather tanning	40.8%	44.4%	35.5%	36.5%	37.0%
<b>Capacity of tanning services</b>					
Cowhides (pcs/year)	700,000	700,000	840,000	1,990,000	2,490,000
Pigskin (pcs/year)	7,780,000	7,780,000	7,780,000	7,780,000	7,780,000
<b>Utilization rate</b>					
Cowhides	69.5%	69.5%	99.7%	75.5%	60.4%
Pigskin	57.8%	57.8%	56.1%	56.1%	56.1%

Source: Company report, and Krungsri Securities



## Key risks to our call

### i) Labor shortage and wage hikes

Demographic changes in Thailand is one of the factors behind the labor shortage in the country. The population is ageing and the number of persons over 65 years old will double in less than 10 years. Severe labor shortage and wage hikes could derail IHL's growth prospects.

### ii) High reliance on automobile sector

IHL generates 60% of revenue from the automobile industry. Thus, slower-than-expected growth of global automobile sales could affect IHL's performance. But with their business structure gradually shifting towards tannery services, they will have a strong cushion against volatility in automobile production.

### iii) Global economic performance

Leather is one of the most widely-traded commodities in the world with demand rallying in tandem with the global economy. An unexpected and severe slowdown of the global economy would have a negative impact on global leather demand. However, the current supply hitches in China and the booming leather accessories industry in Vietnam and Cambodia (because of cheaper labor) would be a windfall for IHL and other standard tanneries in Thailand because of cheaper logistics costs and a robust supply chain infrastructure.

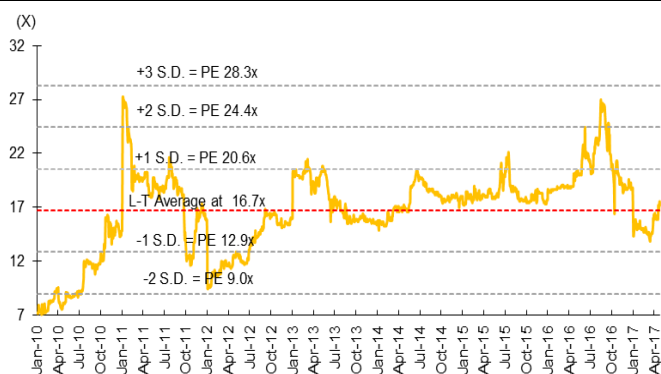
### iv) Technology shift

IHL may be exposed to changing consumer behavior if there are new innovations in synthetic leather.

### v) Natural disasters

Natural disasters such as floods and fires could severely interrupt production. However, IHL has insurance coverage for all plants to reduce the impact on earnings.

**P/E Band**



Source: Bloomberg, Krungsri Securities

**P/BV Band**



Source: Bloomberg, Krungsri Securities

<b>INCOME STATEMENT (Btm)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Turnover	2,295	1,943	2,194	2,560	2,726
Cost of sales (COGS)	(1,839)	(1,402)	(1,554)	(1,764)	(1,864)
Depreciation & amortization	(148)	(148)	(163)	(180)	(188)
Gross profit	308	393	478	615	675
S&A expenses	(131)	(139)	(160)	(189)	(202)
<b>Operating profit</b>	<b>178</b>	<b>254</b>	<b>317</b>	<b>426</b>	<b>473</b>
Other operating income	7	9	9	10	11
<b>EBIT</b>	<b>184</b>	<b>263</b>	<b>326</b>	<b>436</b>	<b>484</b>
Interest expense	(39)	(36)	(41)	(47)	(43)
Interest income	0	0	0	0	0
Other income	82	(3)	0	0	0
Goodwill amortization	0	0	0	0	0
<b>Pre-tax profit</b>	<b>228</b>	<b>224</b>	<b>285</b>	<b>390</b>	<b>441</b>
Income tax on company & subsidiaries	(26)	(33)	(34)	(47)	(57)
<b>Profit after tax</b>	<b>202</b>	<b>191</b>	<b>251</b>	<b>343</b>	<b>384</b>
Minority interests	0	0	0	0	0
Share of associate net income	0	0	0	0	0
Preferred dividends	0	0	0	0	0
<b>Recurring attributable net profit</b>	<b>120</b>	<b>194</b>	<b>251</b>	<b>343</b>	<b>384</b>
Extraordinary items	82	(3)	0	0	0
<b>Reported net profit</b>	<b>202</b>	<b>191</b>	<b>251</b>	<b>343</b>	<b>384</b>
Shares in issue (Y/E, m)	595	595	595	595	595
Shares in issue (weighted avg., m)	595	595	595	595	595
EPS (before extraordinary items, Bt)	0.2	0.3	0.4	0.6	0.6
DPS (Bt)	0.2	0.15	0.25	0.35	0.39
DPS/EPS (%)	44	47	60	60	60

<b>CASH FLOW (Btm)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Operating profit	178	254	317	426	473
Other operating income	7	9	9	10	11
EBIT	184	263	326	436	484
Depreciation & amortization	148	148	163	180	188
<b>EBITDA</b>	<b>332</b>	<b>411</b>	<b>489</b>	<b>616</b>	<b>672</b>
Notional cash taxes on ungeared operations	(34)	(40)	(42)	(56)	(66)
Net change in working capital	(30)	182	(158)	(195)	(168)
CAPEX	(618)	(315)	(554)	(154)	(154)
<b>Operating free cashflow (OpFCF)</b>	<b>(350)</b>	<b>238</b>	<b>(265)</b>	<b>211</b>	<b>284</b>
Net interest income adjusted for tax impact	(31)	(29)	(33)	(37)	(34)
<b>Net free cashflow (NetFCF)</b>	<b>(381)</b>	<b>209</b>	<b>(298)</b>	<b>174</b>	<b>249</b>
Non-operating income (net of tax)	82	(3)	0	0	0
Equity income from associates	0	0	0	0	0
Investments	(0)	0	0	0	0
Net change in other assets/liabilities	(83)	(0)	(19)	(0)	(0)
Other items	(79)	(41)	0	0	0
<b>Residual cashflow (RCF)</b>	<b>(460)</b>	<b>166</b>	<b>(317)</b>	<b>173</b>	<b>249</b>
Dividends	(89)	(89)	0	(151)	(206)
Equity capital raised	0	70	0	0	0
Other items	82	7	0	0	0
<b>Cashflow from financing</b>	<b>(7)</b>	<b>(12)</b>	<b>0</b>	<b>(151)</b>	<b>(206)</b>
<b>Net change in cash</b>	<b>(467)</b>	<b>154</b>	<b>(317)</b>	<b>23</b>	<b>43</b>
Net cash/(debt) at YS	(713)	(1,180)	(1,026)	(1,344)	(1,321)
<b>Ending net cash/(debt)</b>	<b>(1,180)</b>	<b>(1,026)</b>	<b>(1,344)</b>	<b>(1,321)</b>	<b>(1,277)</b>
Increase/(decrease) in cash & equivalents	24	24	(36)	68	69
(Increase)/decrease in debt	(574)	132	(181)	(46)	(25)
NOPLAT (net op profit less adjusted tax)	150	223	284	380	418
Normalised OpFCF (est. maintenance CAPEX)	172	408	123	181	246
FCFE (free cashflow to equity)	0	0	(0)	0	0

<b>BALANCE SHEET (Btm)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Cash & equivalents	32	56	20	89	158
A/C receivable	336	207	317	445	581
Inventory	671	667	739	839	886
Others	32	43	49	57	60
<b>Total Current Assets</b>	<b>1,070</b>	<b>973</b>	<b>1,125</b>	<b>1,430</b>	<b>1,686</b>
Property and equipment	1,587	1,754	2,145	2,118	2,085
Investments & associates	0	0	0	0	0
Other assets	13	13	13	13	13
Goodwill	0	0	0	0	0
<b>Total Assets</b>	<b>2,671</b>	<b>2,740</b>	<b>3,282</b>	<b>3,561</b>	<b>3,784</b>
Short-term debt	1,083	831	914	960	1,008
A/C payable	192	229	253	287	304
Other current liabilities	11	35	141	147	150
<b>Total Current Liabilities</b>	<b>1,287</b>	<b>1,095</b>	<b>1,308</b>	<b>1,394</b>	<b>1,462</b>
Long-term debt	232	352	450	450	428
Other liabilities	20	19	0	0	0
<b>Total Liabilities</b>	<b>1,539</b>	<b>1,466</b>	<b>1,758</b>	<b>1,844</b>	<b>1,889</b>
Share capital	420	490	490	490	490
Share premium	212	212	212	212	212
Revaluation/Warrants/Treasury	44	54	54	54	54
Translation adjustment	0	0	0	0	0
Retained earnings	457	518	769	961	1,139
<b>Total ordinary equity</b>	<b>1,132</b>	<b>1,274</b>	<b>1,525</b>	<b>1,717</b>	<b>1,895</b>
Preferred equity	0	0	0	0	0
Minorities	0	0	0	0	0
<b>Total equity &amp; minorities</b>	<b>1,132</b>	<b>1,274</b>	<b>1,525</b>	<b>1,717</b>	<b>1,895</b>
Accumulated depreciation	(1,147)	(1,291)	(1,453)	(1,633)	(1,821)
BV per ordinary share (Y/E, Bt)	1.90	2.14	2.56	2.89	3.18
Adjusted book value ps (Y/E, Bt)	1.90	2.14	2.56	2.89	3.18
<b>RATIOS (%)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
<b>Growth</b>					
Turnover	23.9	(15.3)	12.9	16.7	6.5
EBITDA	(14.1)	23.7	19.0	26.0	9.0
EBIT	(21.8)	42.6	24.2	33.6	11.0
Net profit	4.2	(5.2)	31.3	36.5	11.9
EPS pre-extraordinary items	(36.6)	62.1	29.5	36.5	11.9
EPS (diluted)	(36.6)	62.1	29.5	36.5	11.9
DPS	(25.0)	0.0	68.8	36.5	11.9
<b>Accounting ratios</b>					
Cash profit margin	19.9	27.8	29.2	31.1	31.6
Gross profit margin	13.4	20.2	21.8	24.0	24.7
Operating profit margin	7.7	13.1	14.5	16.6	17.3
Net profit margin	8.8	9.8	11.4	13.4	14.1
Turnover/Avg. total assets (x)	1.0	0.7	0.7	0.7	0.7
ROA	5.0	7.2	8.3	10.0	10.4
ROE	17.8	15.0	16.5	20.0	20.2
S&A/turnover	5.7	7.1	7.3	7.4	7.4
Effective tax rate	11.4	14.6	12.0	12.0	13.0
<b>Operating performance</b>					
EBITDA margin	14.5	21.1	22.3	24.1	24.6
EBIT margin	8.0	13.5	14.9	17.0	17.7
NOPLAT margin (NOPLAT/Turnover)	6.6	11.5	12.9	14.8	15.3
Asset turnover (Turnover/Avg. Op assets)	1.1	0.8	0.8	0.9	0.9
<b>ROCE (NOPLAT/avg Op assets)</b>	<b>7.0</b>	<b>9.2</b>	<b>10.7</b>	<b>12.8</b>	<b>13.3</b>
ROCE incl. Capitalised Goodwill	7.0	9.2	10.7	12.8	13.3

<b>EQUITY VALUATIONS (Bt)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
EPS	0.2	0.3	0.4	0.6	0.6
FDEPS	0.2	0.3	0.4	0.6	0.6
FDEPS growth (%)	(36.6)	62.1	29.5	36.5	11.9
DPS	0.2	0.2	0.3	0.3	0.4
BVPS	1.9	2.1	2.6	2.9	3.2
Adjusted BVPS	1.9	2.1	2.6	2.9	3.2
Free cashflow to equity (FCFE) per share	0.2	0.1	(0.2)	0.4	0.5
<b>Share price (Bt)</b>					
PE (x)					
PE (fully diluted, x)	42.3	26.1	20.1	14.8	13.2
PE/FDEPS growth (x)	42.3	26.1	20.1	14.8	13.2
Yield (%)	(1.2)	0.4	0.7	0.4	1.1
P/BV (x)	1.8	1.8	3.0	4.1	4.6
P/ABV (x)	4.5	4.0	3.3	2.9	2.7
P/FCFE (x)	4.5	4.0	3.3	2.9	2.7
<b>ENTERPRISE VALUATIONS (Btm)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Ordinary shares (m)	595	595	595	595	595
Share price (Bt)	38.50	38.50	38.50	38.50	38.50
Ordinary equity MV	22,907	22,907	22,907	22,907	22,907
MI & deferred taxes	0	0	0	0	0
<b>Equity MV (adjusted ord)</b>	<b>22,907</b>	<b>22,907</b>	<b>22,907</b>	<b>22,907</b>	<b>22,907</b>
Preferred equity	0	0	0	0	0
Debt	1,315	1,183	1,364	1,410	1,435
<b>Enterprise value</b>	<b>24,223</b>	<b>24,090</b>	<b>24,271</b>	<b>24,317</b>	<b>24,343</b>
Net non-core assets	9	37	(2)	63	130
<b>Core enterprise value (EV)</b>	<b>24,214</b>	<b>24,054</b>	<b>24,273</b>	<b>24,254</b>	<b>24,212</b>
Turnover	2,295	1,943	2,194	2,560	2,726
EBITDA	332	411	489	616	672
EBIT	184	263	326	436	484
NOPLAT	150	223	284	380	418
OpFCF	(350)	238	(265)	211	284
OpFCF (normalized)	172	408	123	181	246
Op (core) capital employed (CE)	2,439	2,420	2,890	3,063	3,199
Avg core capital employed	2,145	2,429	2,655	2,977	3,131
<b>Core EV multiples</b>					
EV/Turnover (x)	10.6	12.4	11.1	9.5	8.9
EV/EBITDA (x)	72.9	58.6	49.6	39.4	36.1
EV/EBIT (x)	131.5	91.6	74.4	55.6	50.0
EV/NOPLAT (x)	160.9	108.0	85.5	63.8	57.9
EV/OpFCF (x)	(69.2)	101.1	(91.5)	115.0	85.3
EV/OpFCF normalised (x)	140.9	58.9	198.0	134.1	98.4
EV/capital employed (YE, x)	9.9	9.9	8.4	7.9	7.6
EV/Avg. capital employed (x)	11.3	9.9	9.1	8.1	7.7

## CG Rating 2015 Companies with CG Rating



ADVANC	BAFS	BCP	BIGC	BTS	CK	CPN	DRT	DTAC	DTC	EASTW	EGCO	GRAMMY	HANA
HMPRO	INTUCH	IRPC	IVL	KBANK	KCE	KKP	KTB	LHBANK	LPN	MCOT	MINT	MONO	NKI
PHOL	PPS	PS	PSL	PTT	PTTEP	PTTGC	QTC	RATCH	ROBINS	SAMART	SAMTEL	SAT	SC
SCB	SCC	SE-ED	SIM	SNC	SPALI	THCOM	TISCO	TKT	TMB	TOP	VGI	WACOAL	



AAV	ACAP	AGE	AHC	AKP	AMATA	ANAN	AOT	APCS	ARIP	ASIMAR	ASK	ASP	BANPU
BAY	BBL	BDMS	BKI	BLA	BOL	BROOK	BWG	CENTEL	CFRESH	CHO	CIMBT	CM	CNT
COL	CPF	CPI	CSL	DCC	DELTA	DEMCO	ECF	EE	ERW	GBX	GC	GFPT	GLOBAL
GUNKUL	HOTPOT	HYDRO	ICC	ICHI	INET	IRC	KSL	KTC	LANNA	LH	LOXLEY	LRH	MACO
MBK	MC	MEGA	MFEC	NBC	NCH	NINE	NSI	NTV	OCC	OGC	OISHI	OTO	PAP
PDI	PE	PG	PJW	PM	PPP	PR	PRANDA	PREB	PT	PTG	Q-CON	QH	RS
S & J	SABINA	SAMCO	SCG	SEAFCO	SFP	SIAM	SINGER	SIS	SITHAI	SMK	SMPC	SMT	SNP
SPI	SSF	SSI	SSSC	SST	STA	STEC	SVI	SWC	SYMC	SYNTEC	TASCO	TBSP	TCAP
TF	TGCI	THAI	THANA	THANI	THIP	THRE	THREL	TICON	TIP	TIPCO	TK	TKS	TMI
TMILL	TMT	TNDT	TNITY	TNL	TOG	TPC	TPCORP	TRC	TRU	TRUE	TSC	TSTE	TSTH
TTA	TTCL	TTW	TU	TVD	TVO	UAC	UT	UV	VNT	WAVE	WINNER	YUASA	ZMICO



2S	AEC	AEONTS	AF	AH	AIRA	AIT	AJ	AKR	AMANAHA	AMARIN	AP	APCO	AQUA
AS	ASIA	AUCT	AYUD	BA	BEAUTY	BEC	BFIT	BH	BIG	BJC	BJCHI	BKD	BTNC
CBG	CGD	CHG	CHOW	CI	CITY	CKP	CNS	CPALL	CPL	CSC	CSP	CSS	CTW
DNA	EARTH	EASON	ECL	EFORL	ESSO	FE	FIRE	FOCUS	FORTH	FPI	FSMART	FSS	FVC
GCAP	GENCO	GL	GLAND	GLOW	GOLD	GYT	HTC	HTECH	IEC	IFEC	IFS	IHL	IRCP
ITD	JSP	JTS	JUBILE	KASET	KBS	KCAR	KGI	KKC	KTIS	KWC	KYE	L&E	LALIN
LHK	LIT	LST	M	MAJOR	MAKRO	MATCH	MATI	MBKET	M-CHAI	MFC	MILL	MJD	MK
MODERN	MOONG	MPG	MSC	MTI	MTLS	NC	NOK	NUSA	NWR	NYT	OCEAN	PACE	PATO
PB	PCA	PCSGH	PDG	PF	PICO	PL	PLANB	PLAT	PPM	PRG	PRIN	PSTC	PTL
PYLON	QLT	RCI	RCL	RICHY	RML	RPC	S	SALEE	SAPPE	SAWAD	SCCC	SCN	SCP
SEAOIL	SIRI	SKR	SMG	SOLAR	SORKON	SPA	SPC	SPCG	SPPT	SPVI	SRICHA	SSC	STANLY
STPI	SUC	SUSCO	SUTHA	SYNEX	TAE	TAKUNI	TCC	TCCC	TCJ	TEAM	TFD	TFI	TIC
TIW	TLUXE	TMC	TMD	TOPP	TPCH	TIPL	TRT	TSE	TSR	TT	UMI	UP	UPF
UPOIC	UREKA	UWC	VIBHA	VIH	VPO	WHA	WIN	XO					

## Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an assessment of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date or when there is any change to the relevant information. Nevertheless, Krungsri Securities Public Company Limited does not confirm, verify, or certify the accuracy and completeness of such survey result.

## Anti-corruption Progress Indicator 2015

### Level 5: Extended

BCP	CPN	GYT	PE	PM	PPP	PT	PTT	PTTGC	SAT	SCC	THANI	TOP
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### Level 4: Certified

ADVANC	AMANAH	ASP	AYUD	BAFS	BANPU	BAY	BBL	BKI	BLA	BTS	CFRESH	CIMBT	CNS
CSL	DCC	DRT	DTC	EASTW	ECL	EGCO	ERW	FSS	GCAP	HANA	HTC	IFEC	INTUCH
IRPC	IVL	KBANK	KCE	KGI	KKP	KTB	LANNA	LHBANK	MBKET	MFC	MINT	MTI	NKI
PPS	PSL	PTG	PTTEP	SABINA	SCB	SINGER	SIS	SNC	SNP	SSF	SSI	SSSC	SVI
TCAP	THCOM	THRE	THREL	TISCO	TMB	TMD	TNITY	TOG	TSTH				

### Level 3B: Established by Commitment and Policy

AAV	AHC	AIT	AKR	ARROW	ASK	BA	BDMS	BEC	BJCHI	CGH	CHG	CHOW	CIG
CITY	CK	CKP	COLOR	CWT	EARTH	EASON	EPG	F&D	FANCY	FIRE	FMT	FORTH	GENCO
GL	GOLD	GPSC	GRAMMY	HYDRO	IRCP	IT	JCT	KCM	KWC	LH	LIT	LOXLEY	MACO
MANRIN	MATI	MODERN	MSC	NOBLE	NOK	NPK	NUSA	OISHI	OTO	PAF	PAP	PATO	PF
PJW	PLANB	PLE	POLAR	PRG	PTL	Q-CON	QTC	RCI	S11	SALEE	SAM	SAMART	SAMTEL
SAPPE	SC	SCP	SFP	SIM	SLP	SMT	SPA	SPORT	SSC	SST	STEC	STPI	SUC
SUTHA	T	TAE	TBSP	TCC	TFD	TGCI	TGPRO	THANA	THIP	TIW	TK	TMW	TNDT
TOPP	TPC	TPCH	TPIPL	TSR	TT	TYCN	UAC	UBIS	UEC	UMI	UP	UPF	UT
UV	VPO	WAVE	WINNER	YUASA									

### Level 3A: Established by declaration of intent

ABC	ACAP	AGE	AH	ANAN	AP	APCS	APURE	AS	ASIA	ASIAN	ASIMAR	BIGC	BROOK
BWG	CEN	CENTEL	CHARAN	CHO	CHOTI	CM	CNT	COL	CPF	CPI	CPL	DELTA	DEMCO
DIMET	DNA	DTAC	EA	ECF	EE	EVER	FPI	GBX	GC	GFPT	GLOW	HMPRO	HOTPO
ICC	ICHI	INOX	INSURE	IRC	JAS	JTS	JUBILE	KC	KTC	KYE	LHK	LPN	LRH
MAKRO	MC	MCOT	MFC	MJD	MONO	MOONG	NBC	NDR	NINE	NMG	NSI	NTV	OGC
PACE	PCSGH	PDI	PG	PHOL	PLAT	PR	PRANDA	PREB	PS	QLT	RATCH	RML	ROBINS
ROJNA	RWI	SAMCO	SCCC	SCG	SEAOIL	SE-ED	SENA	SITHAI	SMK	SMPC	SPALI	SPC	SPCG
SPI	SRICHA	STANLY	SUPER	SYMC	SYNEX	SYNTEC	TASCO	TCMC	TFI	THAI	TICON	TKT	TLUXE
TMILL	TMT	TNL	TPCORP	TSTE	TTCL	TU	TVI	UOBKH	UREKA	VGI	VNT	WACOAL	WHA
ZMICO													

### Level 2: Declared

2S	ABICO	AF	AIRA	AKP	ALUCON	AMARIN	AMATA	AOT	APCO	BEAUTY	BFIT	BH	BKD
BLAND	BROCK	BRR	BSBM	BTNC	CCP	CI	CSC	CSR	CSS	EFORL	EPCO	ESTAR	FE
FER	FNS	FVC	GEL	GLOBAL	GUNKUL	IEC	IFS	ILINK	INET	J	JMT	JUTHA	K
KASET	KBS	KCAR	KKC	KSL	KTECH	L&E	LALIN	LTX	M	MALEE	MBAX	MBK	MEGA
MILL	MK	MPG	MTLS	NCH	NCL	NNCL	NPP	OCC	OCEAN	PB	PCA	PDG	PRINC
PSTC	PYLON	QH	ROCK	ROH	RP	RPC	S & J	SGP	SIAM	SKR	SMG	SMIT	SORKON
SPACK	SPPT	SR	SUSCO	TAKUNI	TEAM	TF	TIC	TIP	TIPCO	TMC	TMI	TPA	TPP
TRU	TRU	TRUE	TSC	TSI	TTW	TVD	TVO	TVT	U	UKEM	UNIQ	UWC	VIBHA
VNG	WIIK	WIN	XO										

### Level 1: Committed

AEONTS	AFC	AJ	AMC	AQUA	ARIP	AUCT	BAT-3K	BIG	BJC	BOL	CBG	CCET	CCN
CGD	CMR	CPH	CSP	CTW	DCON	DRACO	DSGT	DTCI	E	EMC	ESSO	FOCUS	FSMART
GIFT	GLAND	GRAND	GREEN	HFT	HTECH	IHL	ITD	JSP	KDH	KTIS	KTP	LEE	LST
MAJOR	MATCH	MAX	M-CHAI	MDX	MIDA	ML	MPIC	NC	NEP	NWR	OHTL	PICO	PK
PL	PPM	PRAKIT	PRECHA	PRIN	RAM	RICH	RS	SANKO	SAUCE	SAWAD	SAWANG	SCN	SEAFCO
SF	SHANG	SIRI	SMART	SMM	SOLAR	SPG	SPVI	STA	STAR	SVH	SVOA	SWC	TAPAC
TC	TCCC	TCJ	TCOAT	TH	TKS	TNH	TNPC	TPAC	TPOLY	TRC	TRUBB	TSE	TTA
TTI	TTL	TTTM	TWP	TWZ	UMS	UPA	UPOIC	UTP	UVAN	VARO	VI	VIH	VTE
WG													

## Disclaimer

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by ThaiPat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. ThaiPat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of ThaiPat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, Krungsri Securities Public Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment result."

## Reference

**Level 5:** Extended – Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases

**Level 4:** Certified – Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)

**Level 3:** Established – Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes

**Level 3A:** Established by declaration of intent, **Level 3B:** Established by Commitment and Policy

**Level 2:** Declared – Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives

**Level 1:** Committed – Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws



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## Definition of Ratings

- OUTPERFORM** - Stocks with an expected capital gain above 10% in the next 12 months for small-caps, above 5% for big-caps
- NEUTRAL** - Stocks with an expected capital gain between -10% and +10% in the next 12 months for small-caps, -5% to +5% for big-caps
- UNDERPERFORM** - Stocks with an expected capital gain below 10% in the next 12 months for small-caps, below 5% for big-caps