

Khon Kaen Sugar Industry

(KSL.BK/KSL TB)

Outperform·Maintained

Price as of 28 Dec2016	5.50
12Mtarget price (Bt/shr)	5.40
Unchanged / Revised up (down)(%)	Unchanged
Upside/downside (%)	(1.8)

Key messages

KSL reported a 4Q16 normalized loss of Bt93mn, improving from a normalized loss of Bt109mn in 4Q15 but reversing from a normalized profit of Bt87mn in 3Q16. The result missed our forecast of a normalized profit of Bt113mn. Including extra gain of Bt904mn, 4Q16 net profit was Bt811mn, turning from a net loss of Bt226mn in 4Q15 and up 837.1% QoQ. KSL's full-year normalized net profit was Bt518mn, contracting 46.7% YoY. The drag was the drought conditions in Thailand that caused drops in sales volumes of every key business. We expect 2017F normalized profit to be Bt1.4bn, up 173% YoY, driven by i) higher sugar price, ii) resumption of normal operations at its power plant, and iii) higher sales volume for ethanol.

4Q16 earnings review: Core earnings missed forecast

Event

KSL reported a 4Q16 normalized loss of Bt93mn, improving from a normalized loss of Bt109mn in 4Q15 but reversing from a normalized profit of Bt87mn in 3Q16. The result missed our forecast of a normalized profit of Bt113mn. Including extra gain of Bt904mn, mainly from fair value adjustments on investment property Bt911mn, KSL's 4Q16 net profit was Bt811mn, turning from a net loss of Bt226mn in 4Q15 and up 837.1% QoQ.

Impact

Sales were 16.3% higher than expected at Bt4.7bn, decreasing 18.2% YoY but increasing 4.3% QoQ. The drop YoY came from lower sugar export, while the increase QoQ was due to higher raw sugar export and ethanol volume. Gross profit margin (GPM) was 15.4%, improving from 8.1% in 4Q15, thanks to a better sugar price and better profitability for KSL's electricity business, but, shrank from 18.6% in 3Q16, as the ethanol and electricity businesses dragged. SG&A to sales was manageable at 12.9%, compared to 11.7% in 4Q15 and 14.3% in 3Q16.

KSL's full-year normalized profit was Bt518mn, contracting 46.7% YoY. The major drag was the drought conditions in Thailand that caused sugar volume to drop 5.1%, ethanol volume to drop 12.0%, and electricity volume to drop 8.3%.

We expect 2017F Normalized profit to be Bt1.4bn, up 173% YoY, driven by i) higher sugar price, ii) resumption of normal operations at its power plant, and iii) higher sales volume for ethanol.

Valuation & action

We maintain our rating of Outperform on KSL with a target price of Bt5.40, derived from 17.0x PER 2017, which is the average of the 5-year average trading PER of i) KSL at 16.4x, and, ii) food sector ex. Charoen Pokphand Foods (CPF.BK/CPF TB)* and Minor International (MINT.BK/MINT TB)* at 17.6x.

Risks

There are quite high speculative positions in the sugar futures market, which might pressure the price of sugar in the short-term. Further decrease of Ft in Jan-Apr 2017.

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4Q16 normalized earnings missed forecast

Bt mn	4Q16	4Q15	YoY (%)	3Q16	QoQ (%)	Comments
Sales	4,686	5,725	(18.2)	4,494	4.3	Higher-than-expected
Costs of Sales	(3,966)	(5,264)	(24.7)	(3,658)	8.4	
Gross Profit	720	461	56.1	836	(13.9)	
SG&A Expense	(605)	(671)	(9.9)	(642)	(5.8)	
EBIT	161	48	235.2	300	(46.3)	
Pre-tax Profit	35	(153)	(122.9)	120	(70.8)	
Corporate Tax	(96)	46	(307.8)	(34)	182.0	
Extraordinary Items	904	(118)	n.a.	-	n.a.	Mainly from fair value adjustments of investment property
Minority Interest	(32)	(2)	n.a.	1	n.a.	
Net Profit	811	(226)	n.a.	87	837.1	
Norm. net profit	(93)	(109)	n.a.	87	n.a.	Missed forecast of Bt113mn normalized profit
Reported EPS	0.18	(0.06)	n.a.	0.02	819.8	
Percent	4Q16	4Q15	YoY (ppts)	4Q15	QoQ (ppts)	
Gross margin	15.4	8.1	7.3	18.6	(3.2)	5.4 ppts lower-than-expected
EBIT margin	3.4	0.8	2.6	6.7	(3.2)	
SG&A/Sales	12.9	11.7	1.2	14.3	(1.4)	

Source: KGI Research

Quarterly Income Statement

(Bt mn)	Jan-14A	Apr-14A	Jul-14A	Oct-14A	Jan-15A	Apr-15A	Jul-15A	Oct-15A	Jan-16A	Apr-16A	Jul-16A	Oct-16A
Revenue	3,638	3,790	4,771	6,985	3,154	4,087	4,509	5,725	3,792	3,939	4,494	4,686
Cost of Goods Sold	(2,489)	(2,448)	(3,550)	(5,953)	(2,042)	(2,974)	(3,502)	(5,264)	(2,671)	(2,983)	(3,658)	(3,966)
Gross Profit	1,149	1,342	1,221	1,032	1,112	1,112	1,007	461	1,121	956	836	720
Operating Expenses	(596)	(553)	(547)	(756)	(632)	(626)	(645)	(671)	(648)	(696)	(642)	(605)
Other incomes	-	-	-	-	107	194	82	258	65	84	106	46
Operating Profit	554	789	674	276	587	680	443	48	538	343	300	161
Depreciation of fixed assets	387	361	149	141	352	394	258	136	417	392	194	116
Operating EBITDA	940	1,150	823	417	939	1,074	701	184	956	735	494	277
Non-Operating Income	77	106	33	220	13	25	12	6	5	9	4	38
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-
Other Non-op Income	77	106	33	220	13	25	12	6	5	9	4	38
Non-Operating Expenses	(181)	(211)	(226)	(216)	(197)	(209)	(205)	(207)	(180)	(181)	(185)	(164)
Interest Expense	(181)	(211)	(226)	(216)	(197)	(209)	(205)	(207)	(180)	(181)	(185)	(164)
Other Non-op Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Net Investment Income/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax Profit	450	685	481	280	403	495	250	(153)	363	172	120	35
Current taxation	(8)	(17)	(60)	(25)	(14)	(54)	(17)	46	(18)	(6)	(34)	(96)
Minorities	(15)	(41)	(62)	(42)	6	23	(5)	(2)	4	13	1	(32)
Extraordinary items	-	-	-	-	-	-	-	(118)	-	-	-	904
Net Profit	427	627	358	213	396	464	228	(226)	349	179	87	811
EPS (Bt)	0.10	0.14	0.08	0.05	0.09	0.11	0.05	(0.06)	0.08	0.04	0.02	0.18
Margins (%)												
Gross profit margin	31.6	35.4	25.6	14.8	35.3	27.2	22.3	8.1	29.6	24.3	18.6	15.4
Operating margin	15.2	20.8	14.1	3.9	18.6	16.6	9.8	0.8	14.2	8.7	6.7	3.4
Operating EBITDA margin	25.8	30.3	17.3	6.0	29.8	26.3	15.5	3.2	25.2	18.7	11.0	5.9
Net profit margin	11.7	16.5	7.5	3.1	12.6	11.4	5.1	(4.0)	9.2	4.5	1.9	17.3
Growth (%)												
Revenue growth	(17.6)	(20.7)	(22.4)	94.2	(13.3)	7.8	(5.5)	(18.0)	20.2	(3.6)	(0.3)	(18.2)
Operating growth	68.5	91.7	(7.6)	26.8	6.1	(13.9)	(34.2)	(82.6)	(8.3)	(49.5)	(32.3)	235.2
Operating EBITDA growth	38.2	61.3	(1.8)	40.6	(0.1)	(6.7)	(14.8)	(55.9)	1.8	(31.6)	(29.6)	50.6
Net profit growth	9.6	7.3	(41.5)	140.2	(7.4)	(26.0)	(36.4)	n.a.	(11.8)	(61.5)	(62.0)	n.a.

Source: KGI Research

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Rating	Definition
Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
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Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
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Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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Corporate Governance Report of Thai Listed Companies



Companies with Excellent CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
EGCO	ELECTRICITY GENERATING	KTB	KRUNG THAI BANK	TISCO	TISCO FINANCIAL GROUP
KBANK	KASIKORN BANK	RATCH	RATCHABURI ELECTRICITY GENERATING HOLDING		
KKP	KIATNAKIN BANK	SCB	THE SIAM COMMERCIAL BANK		



Companies with Very Good CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
ADVANC	ADVANCED INFO SERVICE	ERW	THE ERAWAN GROUP	SCC	THE SIAM CEMENT
AOT	AIRPORTS OF THAILAND	GFPT	GFPT	SPALI	SUPALAI
AP	ASIAN PROPERTY DEVELOPMENT	IFEC	INTER FAR EAST ENGINEERING	STEC	SINO-THAI ENGINEERING AND CONSTRUCTION
BBL	BANGKOK BANK	LPN	L.P.N. DEVELOPMENT	SVI	SVI
BH	BUMRUNGRAD HOSPITAL	MINT	MINOR INTERNATIONAL	TASCO	TIPCO ASPHALT
BIGC	BIG C SUPERCENTER	PS	PRUKSA REAL ESTATE	TCAP	THANACHART CAPITAL
CK	CH. KARNCHANG	QH	QUALITY HOUSES	TMB	TMB BANK
CPALL	CP ALL	ROBINS	ROBINSON DEPARTMENT STORE	TRUE	TRUE CORPORATION
CPN	CENTRAL PATTANA	RS	RS		
DRT	DIAMOND ROOFING TILES	SAMART	SAMART CORPORATION		



Companies with Good CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
CENTEL	CENTRAL PLAZA HOTEL	HMPRO	HOME PRODUCT CENTER	MAKRO	SIAM MAKRO
DCC	DYNASTY CERAMIC	ILINK	INTERLINK COMMUNICATION	MODERN	MODERNFORM GROUP
GL	GROUP LEASE	KTC	KRUNGTHAI CARD	TRT	TIRATHAI
GLOW	GLOW ENERGY	MAJOR	MAJOR CINEPLEX GROUP	TVO	THAI VEGETABLE OIL

Companies classified Not in the three highest score groups

Stock	Company name	Stock	Company name	Stock	Company name
AAV	ASIA AVIATION	CHG	CHULARAT HOSPITAL	NOK	NOK AIRLINES
ANAN	ANANDA DEVELOPMENT	CKP	CK POWER	PACE	PACE DEVELOPMENT CORPORATION
BA	BANGKOK AIRWAYS	DTAC	TOTAL ACCESS COMMUNICATION	SAWAD	SRI SAWAD POWER 1979
BCH	BANGKOK CHAIN HOSPITAL	GLOBAL	SIAM GLOBAL HOUSE	TMT	THAI METAL TRADE
BDMS	BANGKOK DUSIT MEDICAL SERVICES	GPSC	GLOBAL POWER SYNERGY	TPCH	TPC POWER HOLDING
BEM	BANGKOK EXPRESSWAY AND METRO	GUNKUL	GUNKUL ENGINEERING	WHA	WHA CORPORATION
BJCHI	BJC HEAVY INDUSTRIES	LPH	LADPRAO GENERAL HOSPITAL	WORK	WORKPOINT ENTERTAINMENT
CBG	CARABAO GROUP	MTLS	MUANGTHAI LEASING		

Source: www.thai-iod.com

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Anti-corruption Progress Indicator

Level 5: Extended

Stock	Company name	Stock	Company name	Stock	Company name
CPN	CENTRAL PATTANA	SCC	THE SIAM CEMENT		

Level 4: Certified

Stock	Company name	Stock	Company name	Stock	Company name
ADVANC	ADVANCED INFO SERVICE	IFEC	INTER FAR EAST ENGINEERING	SVI	SVI
BBL	BANGKOK BANK	KBANK	KASIKORN BANK	TCAP	THANACHART CAPITAL
DCC	DYNASTY CERAMIC	KKP	KIATNAKIN BANK	TISCO	TISCO FINANCIAL GROUP
DRT	DIAMOND ROOFING TILES	KTB	KRUNG THAI BANK	TMB	TMB BANK
EGCO	ELECTRICITY GENERATING	MINT	MINOR INTERNATIONAL		
ERW	THE ERAWAN GROUP	SCB	THE SIAM COMMERCIAL BANK		

Level 3: Established

Stock	Company name	Stock	Company name	Stock	Company name
AAV	ASIA AVIATION	DTAC	TOTAL ACCESS COMMUNICATION	PACE	PACE DEVELOPMENT CORPORATION
ANAN	ANANDA DEVELOPMENT	GFPT	GFPT	PS	PRUKSA REAL ESTATE
AP	ASIAN PROPERTY DEVELOPMENT	GL	GROUP LEASE	RATCH	RATCHABURI ELECTRICITY GENERATING HOLDING
BA	BANGKOK AIRWAYS	GLOW	GLOW ENERGY	ROBINS	ROBINSON DEPARTMENT STORE
BDMS	BANGKOK DUSIT MEDICAL SERVICES	GPSC	GLOBAL POWER SYNERGY	SAMART	SAMART CORPORATION
BIGC	BIG C SUPERCENTER	HMPRO	HOME PRODUCT CENTER	SPALI	SUPALAI
BJCHI	BJC HEAVY INDUSTRIES	KTC	KRUNGTHAI CARD	STEC	SINO-THAI ENGINEERING AND CONSTRUCTION
CENTEL	CENTRAL PLAZA HOTEL	LPN	L.P.N. DEVELOPMENT	TASCO	TIPCO ASPHALT
CHG	CHULARAT HOSPITAL	MAKRO	SIAM MAKRO	TMT	THAI METAL TRADE
CK	CH. KARNCHANG	MODERN	MODERNFORM GROUP	TPCH	TPC POWER HOLDING
CKP	CK POWER	NOK	NOK AIRLINES	WHA	NOK AIRLINES

Level 2: Declared

Stock	Company name	Stock	Company name	Stock	Company name
AOT	AIRPORTS OF THAILAND	GUNKUL	GUNKUL ENGINEERING	QH	QUALITY HOUSES
BH	BUMRUNGRAD HOSPITAL	ILINK	INTERLINK COMMUNICATION	TRT	TIRATHAI
GLOBAL	SIAM GLOBAL HOUSE	MTLS	MUANGTHAI LEASING	TVO	THAI VEGETABLE OIL

Level 1: Committed

Stock	Company name	Stock	Company name	Stock	Company name
CBG	CARABAO GROUP	RS	RS	SAWAD	SRI SAWAD POWER 1979
MAJOR	MAJOR CINEPLEX GROUP				

No progress

Stock	Company name	Stock	Company name	Stock	Company name
BCH	BANGKOK CHAIN HOSPITAL	CPALL	CP ALL	WORK	WORKPOINT ENTERTAINMENT
BEM	BANGKOK EXPRESSWAY AND METRO	LPH	LADPRAO GENERAL HOSPITAL		

Source: www.cgthailand.org

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