

# Khon Kaen Sugar Industry

(KSL.BK/KSL TB)

## Outperform·Initiate

Price as of 15 Dec 2016	4.78
12M target price (Bt/shr)	5.40
Unchanged / Revised up (down) (%)	N.A.
Upside/downside (%)	13.0

### Key messages

We initiate coverage on KSL with a rating of Outperform and target price of Bt5.40. We like the stock for its visibly strong performance given the rally in the price of sugar, resumption of normal operations at its power plant and higher ethanol production, which could lead to impressive EPS growth of 43.4% CAGR in 2017-18E.

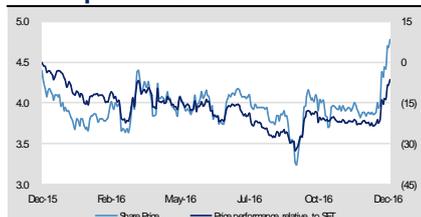
### Trading data

Mkt cap (Btbn/US\$m)	21.1/589		
Outstanding shares (mn)	4,410		
Foreign ownership (mn)	1,529		
3M avg. daily trading (mn)	5		
52-week trading range (Bt)	3.2/4.8		
Performance (%)	3M	6M	12M
Absolute	32.8	24.5	7.7
Relative	29.3	16.5	(7.9)

### Quarterly EPS

Bt	1Q	2Q	3Q	4Q
2013	0.09	0.13	0.14	0.02
2014	0.10	0.14	0.08	0.05
2015	0.09	0.11	0.05	(0.06)
2016	0.08	0.04	0.02	n.a.

### Share price chart



Source: SET

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## Portfolio sweetener

### Event

We initiate coverage on KSL with a rating of Outperform and target price of Bt5.40. We like the stock for its visibly strong performance given the rally in the price of sugar, resumption of normal operations at its power plant and higher ethanol production.

### Impact

#### Visibly strong performance for sugar business

KSL's sugar business should show a strong performance in 2017F, thanks to the recent rally in the price of sugar to US\$18.5/lbs, from US\$13.0/lbs in early 2016. Structurally, sugar companies lock in selling prices about one year ahead to calculate the price of sugarcane raw material for farmers, thus the current strong sugar price would be reflected in KSL's 2017 operation.

#### Turnaround in electricity and ethanol business

Since the drought conditions have passed, we expect its power plant to resume normal operation days of 290 days in 2017, compared to 226 days in 2016. Meanwhile, we see the downside limited for the selling price of electricity as Ft should not be revised down further as the price of oil already bottomed out. The resumption of its power plant should put its ethanol business back on track in 2017, with sales volume growing 4.6% to 90mn liters and the selling price rising 3.7% as competition from cassava (another key raw material for ethanol) eases since the Department of Commerce is set to launch price support for it.

#### Expected to bottom out in 4Q16 and 43.4% CAGR for EPS in 2017-18F

We estimate KSL's 4Q16 net profit to be Bt113mn, turning around YoY and up 30.8% QoQ. The impressive performance would be boosted by i) strong ethanol volume, and ii) better profitability. Meanwhile, we expect KSL's EPS to grow at 43.4% CAGR in 2017-18F. The main drivers would be i) higher sugar price, ii) resumption of normal operations at its power plant, and iii) higher sales volume of ethanol.

### Valuation & Action

KSL's 2017 fair value of Bt5.40 is based on 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. Given its strong performance with EPS growth of 43.4% CAGR in 2017-18, we initiate coverage on KSL with a rating of Outperform.

### Risks

There are quite high speculative positions in the sugar futures market, which might pressure the price of sugar in the short-term.

### Key financials and valuations

	Oct-14A	Oct-15A	Oct-16F	Oct-17F	Oct-18F
Revenue (Bt mn)	19,185	18,866	16,254	18,812	19,721
Gross profit (Bt mn)	4,827	4,029	3,750	4,713	4,922
EBIT (Bt mn)	2,773	2,018	1,532	2,429	2,527
Net profit (Bt mn)	1,626	815	728	1,425	1,533
EPS (Bt)	0.41	0.20	0.17	0.32	0.35
DPS (Bt)	0.08	0.06	0.08	0.16	0.17
EPS growth (%)	(17.5)	(49.9)	(16.9)	91.2	7.6
P/E (x)	11.8	23.5	28.3	14.8	13.8
P/B (x)	1.5	1.4	1.5	1.4	1.4
EV/EBITDA (x)	10.5	12.6	14.8	11.0	10.8
Net Debt to Equity (x)	1.7	1.7	1.5	1.4	1.3
Dividend Yield (%)	1.7	1.2	1.8	3.4	3.6
Return on Avg. Equity (%)	12.7	5.3	4.5	8.4	8.6

\*The Company may be issuer of Derivative Warrants on these securities.

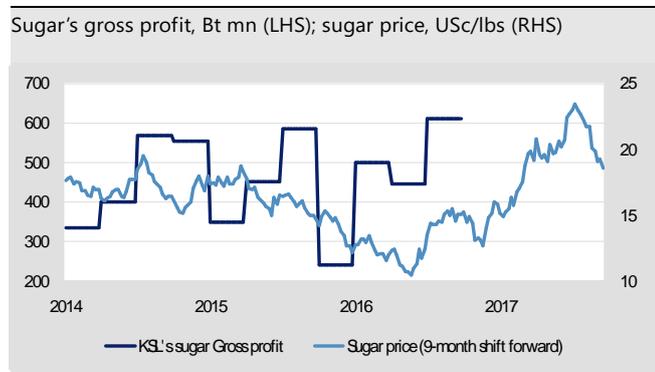
Source: KGI Research

### Investment theme

#### Visibly strong performance for sugar business

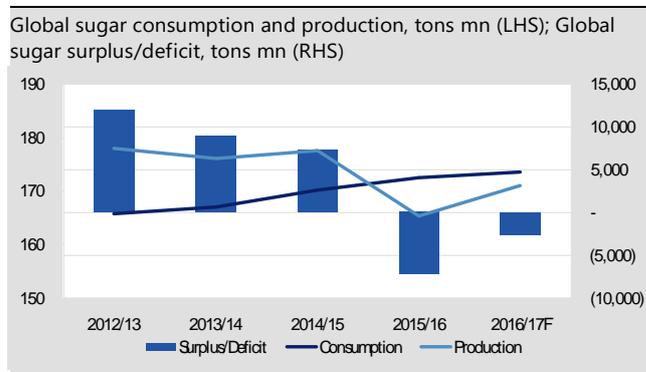
KSL's sugar business should show a strong performance in 2017F, thanks to the recent rally in the price of sugar to US\$18.5/lbs, from US\$13.0/lbs in early 2016. Structurally, sugar companies lock in selling prices about one year ahead to calculate the price of sugarcane raw material for farmers, thus the current strong sugar price would be reflected in KSL's 2017 operation. Figure 1 shows that the gross profit of KSL's sugar business moved in tandem with the 9-month shifted forward sugar price. In addition, the sugar price outlook remains solid, as in 2016/17F season, the sugar balance was expected to be deficit for the second consecutive year at 2.6mn tons. Meanwhile, the global sugar stock-to-use ratio decreased to a 7-year low at 17.7%.

**Figure 1: Bright 2017 sugar performance on rising sugar price**



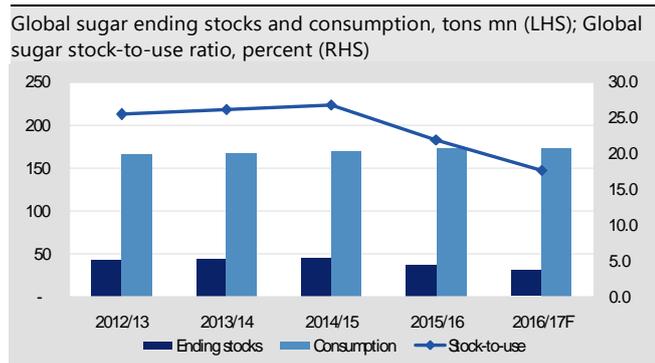
Source: Company data, Bloomberg, KGI Research

**Figure 2: Sugar balance deficit for the second year**



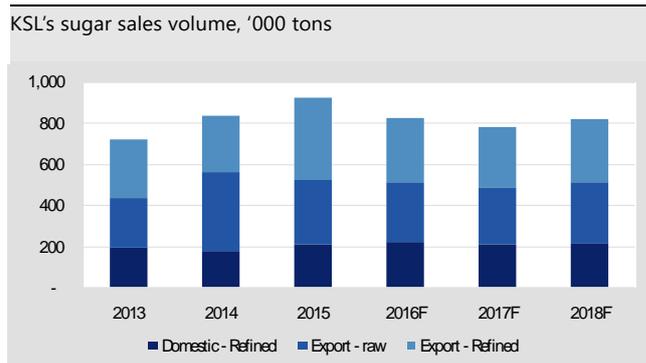
Source: USDA, KGI Research

**Figure 3: Sugar stock-to-use at 7-year low**



Source: USDA, KGI Research

**Figure 4: Expect sugar sales volume to drop slightly in 2017F**



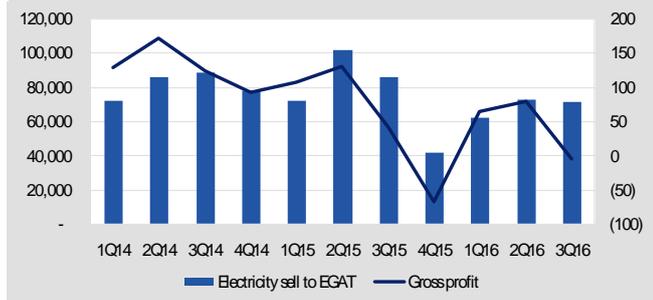
Source: Company data, KGI Research

**Turnaround in electricity business**

The major drag for KSL in 2016 was its electricity business as scarcity of water interrupted the operation of its power plant. Since drought conditions have passed, we expect its power plant operation days to return back to 290 days in 2017, compared to 226 days in 2016. Meanwhile, we see downside limited for the selling price of electricity as Ft should not be revised down further after the price of oil bottomed out.

**Figure 5: Falling electricity volume eroded its profitability**

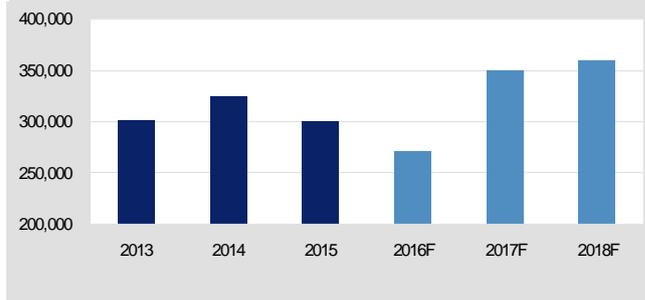
Electricity sales volume, MW-hr (LHS); electricity business's gross profit, Bt mn (RHS)



Source: Company data, KGI Research

**Figure 6: Expect more electricity to be generated in 2017-18F**

Electricity sales volume, MW-hr



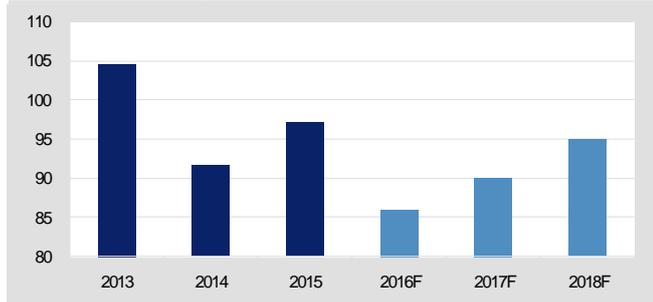
Source: Company data, KGI Research

**Ethanol business back on track**

We expect KSL's ethanol business to get back on track in 2017. The major supports are i) sales volume growth of 4.6% to 90mn liters, which should rebound with the resumed normal operation of its power plant, and, ii) sales price rising 3.7% as we see easing competition from cassava (another key raw material for ethanol), since the Department of Commerce is set to launch price support for it. We also see a catalyst in 1Q-2Q17 from a plan to spin off its ethanol business. Not only would there be a potential pre-emptive right, this should unlock its business potential to grow outside of the group's umbrella.

**Figure 7: There is upside for ethanol sales volume**

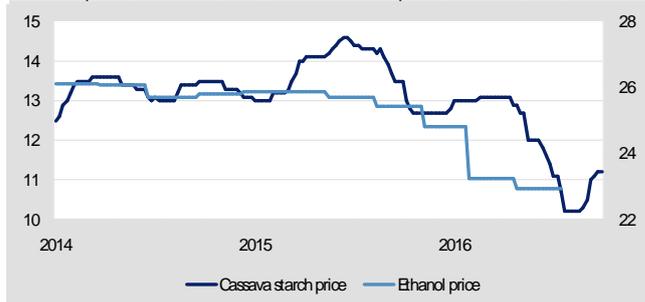
Ethanol sales volume, mn liters



Source: Company data, KGI Research

**Figure 8: Bounce in cassava price**

Ethanol price, Bt/liters (LHS); cassava root price, Bt/ton (RHS)



Source: Company data, Thai Tapioca Development Institute, KGI Research

**Financial highlight**
**Bottoming out in 4Q16 result**

We expect KSL to report a 4Q16 net profit of Bt113mn, turning around YoY and up 30.8% QoQ. The impressive performance would be boosted by i) strong ethanol volume and ii) better profitability. We forecast 4Q16 revenue of Bt4.0bn, dropping 43.4% YoY from high sugar stock clearance in 4Q15, and down 6.0% QoQ, on lower sugar and electricity sales volume. However, gross profit margin (GPM) should widen to 20.8%, from 11.2% in 2Q15 and 18.6% in 3Q16, thanks to a better product mix. SG&A should be manageable, down 13.1% QoQ and up 13.1% QoQ. The upcoming result should be a firm base for KSL before entering an earnings up-cycle in 2017-18F.

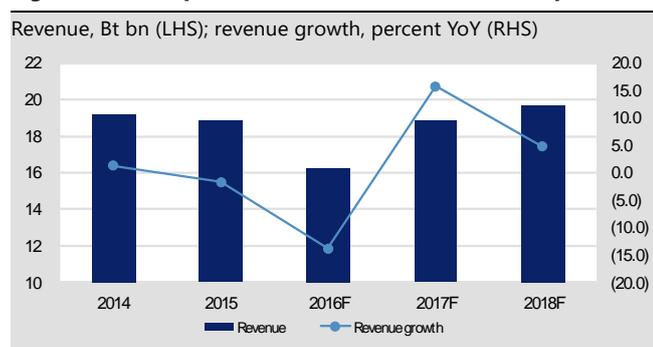
**Figure 9: 3Q16F earnings preview**

Bt mn	4Q16F	4Q15	YoY (%)	3Q16	QoQ (%)
Sales	4,028	7,116	(43.4)	4,494	(10.4)
Costs of Sales	(3,191)	(6,318)	(49.5)	(3,658)	(12.8)
Gross Profit	838	798	5.0	836	0.2
SG&A Expense	(726)	(769)	(5.6)	(642)	13.1
EBIT	350	308	13.8	300	16.8
Pre-tax Profit	147	34	332.0	120	22.5
Corporate Tax	(29)	(8)	287.7	(34)	(13.6)
Pre-exceptional Profit	113	(273)	(141.5)	87	30.8
Minority Interest	-	-	n.a.	-	n.a.
Net Profit	113	(273)	n.a.	87	30.8
Norm. net profit	113	(132)	n.a.	87	30.8
Reported EPS	0.05	(0.06)	n.a.	0.02	156.7
Percent	4Q16F	4Q15	YoY (ppts)	4Q15	QoQ (ppts)
Gross margin	20.8	11.2	9.6	18.6	2.2
EBIT margin	8.7	4.3	4.4	6.7	2.0
SG&A/Sales	18.0	10.8	7.2	14.3	3.7

Source: Company data, KGI Research

**Expect 43.4% CAGR for EPS in 2017-18F**

We expect KSL's EPS to grow at 43.4% CAGR in 2017-18F. The main drivers would be i) higher sugar price at USc/20.5lbs in 2017-18F, which is 32.3% higher than its average selling price of USc15.5/lbs in 2016, ii) resumed usual operation of its power plant, which should generate power of 350-360K MW-hr in 2017-18F, compared to 271K MW-hr in 2016, and iii) higher sales volume of ethanol at 90-95mn liters in 2017-18F, up from 86mn liters in 2016. As a result of economies of scale, we expect gross profit margin to widen to 25.0-25.1% in 2017-18F, from 23.1% in 2016.

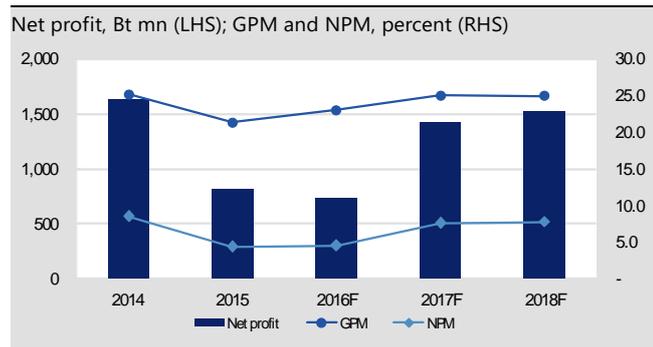
**Figure 10: Hiccup in 2016 due to both volume and price**


Source: Company data, KGI Research

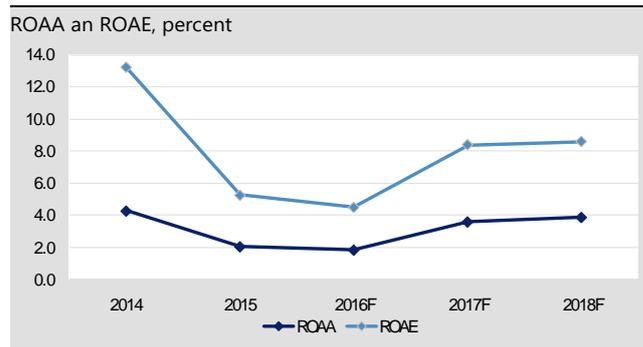
**Figure 11: 2016-18 revenue forecast by products**

Bt mn	2014	2015	2016F	2017F	2018F
<b>Sugar</b>	<b>13,154</b>	<b>13,020</b>	<b>12,319</b>	<b>14,485</b>	<b>15,209</b>
% growth	7.1	(1.0)	(5.4)	17.6	5.0
<b>Ethanol</b>	<b>2,374</b>	<b>2,497</b>	<b>2,032</b>	<b>2,205</b>	<b>2,328</b>
% growth	2.0	5.2	(18.6)	8.5	5.6
<b>Electricity</b>	<b>1,141</b>	<b>1,011</b>	<b>793</b>	<b>980</b>	<b>1,008</b>
% growth	10.9	(11.3)	(21.6)	23.6	2.9
<b>Others</b>	<b>2,516</b>	<b>2,338</b>	<b>1,109</b>	<b>1,142</b>	<b>1,177</b>
% growth	(23.9)	(7.1)	(52.6)	3.0	3.0
<b>Total</b>	<b>19,185</b>	<b>18,866</b>	<b>16,254</b>	<b>18,812</b>	<b>19,721</b>
% growth	1.3	(1.7)	(13.8)	15.7	4.8

Source: Company data, KGI Research

**Figure 12: Profitability turnaround in 2017-18**


Source: Company data, KGI Research

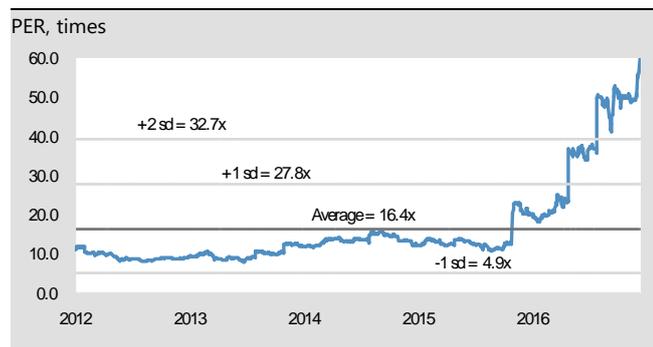
**Figure 13: Increasing ROAE to 8.4-8.6% in 2017-18**


Source: Company data, KGI Research

### Valuation

#### Initiate coverage with a rating of Outperform and target price of Bt5.40

We derived KSL's 2017 fair value of Bt5.40 based on 17.0x PER 2017, which is an average of i) 5-year average trading PER of KSL at 16.4x, and, ii) 5-year average trading PER of the food sector ex. CPF and MINT at 17.6x. Given its visibly strong performance with EPS growth of 43.4% CAGR in 2017-18, we initiate coverage on KSL with a rating of Outperform.

**Figure 14: 5-years average trading PER of KSL at 16.4x**


Source: Company data, KGI Research

**Figure 15: 5-year average PER of food sector ex. CPF and MINT at 17.6x**


Source: Company data, KGI Research

**Key risks**

There are quite high speculative positions in the sugar futures market, which might be a pressure on the price of sugar in the short-term. Though, we believe the sugar price would take some time to digest the net long positions, we are still positive to the long-term outlook for the sugar price, given the demand/supply imbalance situation.

**Figure 16: High net long sugar positions**

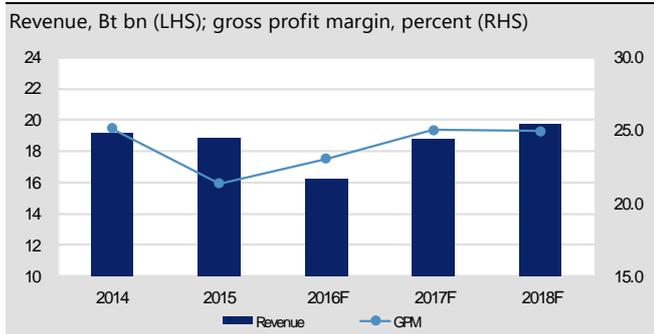


Source: Bloomberg , KGI Research

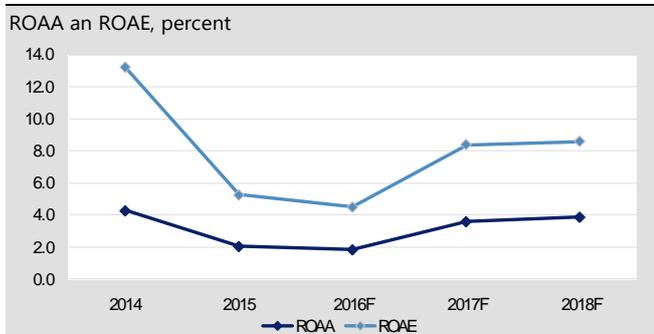
**Figure 17: Company profile**

Khon Kaen Sugar Industry (KSL) and its subsidiaries are Thailand's 4th largest sugar producing group. It produces and distributes sugar and by-pass products (such as electricity, ethanol and fertilizer) under five sugar mills located in Khon Kaen, Loei, Kanchanaburi and Chonburi, with total sugar cane crushing capacity of 110,000 tons cane per day, ethanol production capacity of 350,000 liters per day and power generation capacity for selling to EGAT of 50 MW. It has also been granted sugar cane plantation concession from Laos and Cambodia, which it has total crushing capacity of 9,000 tons of cane per day.

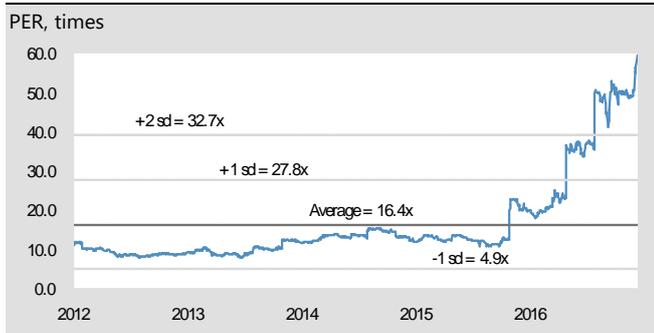
Source: Company data, KGI Research

**Figure 19: Revenue and gross profit margin**


Source: Company data, KGI Research

**Figure 21: Company ROAA and ROAE**


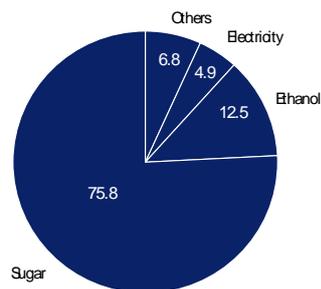
Source: Company data, KGI Research

**Figure 23: 2012-16 trailing PER**


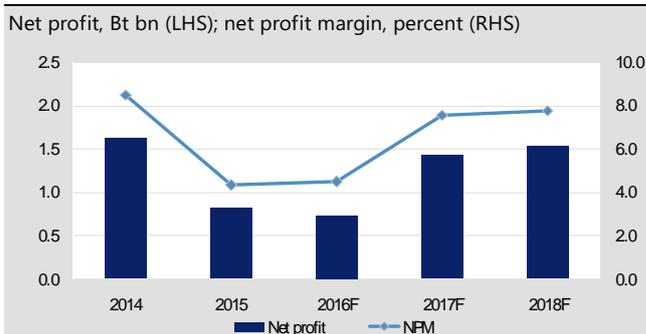
Source: Bloomberg, KGI Research

**Figure 18: 2016F revenue contribution by products**

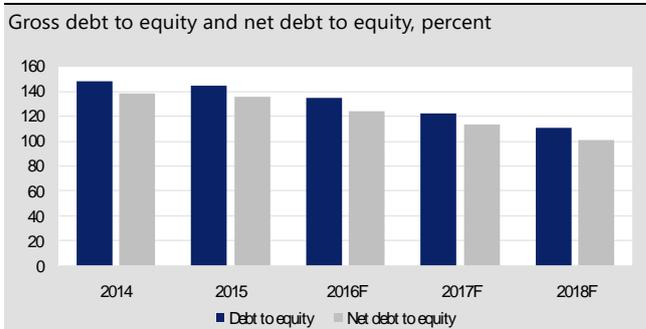
Contribution, percent



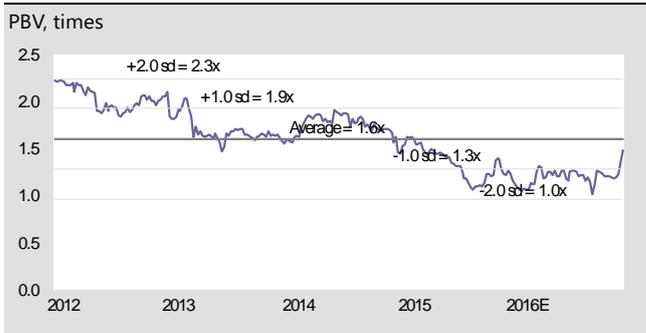
Source: Company data, KGI Research

**Figure 20: Net profit back on track in 2017F**


Source: Company data, KGI Research

**Figure 22: Well-leveraged balance sheet**


Source: Company data, KGI Research

**Figure 24: Trading at 1.5x PBV 2016F**


Source: Bloomberg, 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
<b>Revenue</b>	<b>3,638</b>	<b>3,790</b>	<b>4,771</b>	<b>6,985</b>	<b>3,154</b>	<b>4,087</b>	<b>4,509</b>	<b>7,116</b>	<b>3,792</b>	<b>3,939</b>	<b>4,494</b>
Cost of Goods Sold	(2,489)	(2,448)	(3,550)	(5,953)	(2,042)	(2,974)	(3,502)	(6,318)	(2,671)	(2,983)	(3,658)
<b>Gross Profit</b>	<b>1,149</b>	<b>1,342</b>	<b>1,221</b>	<b>1,032</b>	<b>1,112</b>	<b>1,112</b>	<b>1,007</b>	<b>798</b>	<b>1,121</b>	<b>956</b>	<b>836</b>
<b>Operating Expenses</b>	<b>(596)</b>	<b>(553)</b>	<b>(547)</b>	<b>(756)</b>	<b>(632)</b>	<b>(626)</b>	<b>(645)</b>	<b>(769)</b>	<b>(648)</b>	<b>(696)</b>	<b>(642)</b>
Other incomes	-	-	-	-	107	194	82	279	65	84	106
<b>Operating Profit</b>	<b>554</b>	<b>789</b>	<b>674</b>	<b>276</b>	<b>587</b>	<b>680</b>	<b>443</b>	<b>308</b>	<b>538</b>	<b>343</b>	<b>300</b>
Depreciation of fixed assets	387	361	149	141	352	394	258	248	417	392	194
<b>Operating EBITDA</b>	<b>940</b>	<b>1,150</b>	<b>823</b>	<b>417</b>	<b>939</b>	<b>1,074</b>	<b>701</b>	<b>556</b>	<b>956</b>	<b>735</b>	<b>494</b>
<b>Non-Operating Income</b>	<b>77</b>	<b>106</b>	<b>33</b>	<b>220</b>	<b>13</b>	<b>25</b>	<b>12</b>	<b>(35)</b>	<b>5</b>	<b>9</b>	<b>4</b>
Interest Income	-	-	-	-	-	-	-	-	-	-	-
Other Non-op Income	77	106	33	220	13	25	12	(35)	5	9	4
<b>Non-Operating Expenses</b>	<b>(181)</b>	<b>(211)</b>	<b>(226)</b>	<b>(216)</b>	<b>(197)</b>	<b>(209)</b>	<b>(205)</b>	<b>(238)</b>	<b>(180)</b>	<b>(181)</b>	<b>(185)</b>
Interest Expense	(181)	(211)	(226)	(216)	(197)	(209)	(205)	(238)	(180)	(181)	(185)
Other Non-op Expenses	-	-	-	-	-	-	-	-	-	-	-
Net Investment Income/(Loss)	-	-	-	-	-	-	-	-	-	-	-
<b>Pre-tax Profit</b>	<b>450</b>	<b>685</b>	<b>481</b>	<b>280</b>	<b>403</b>	<b>495</b>	<b>250</b>	<b>34</b>	<b>363</b>	<b>172</b>	<b>120</b>
Current taxation	(8)	(17)	(60)	(25)	(14)	(54)	(17)	(8)	(18)	(6)	(34)
Minorities	(15)	(41)	(62)	(42)	6	23	(5)	(158)	4	13	1
Extraordinary items	-	-	-	-	-	-	-	(141)	-	-	-
<b>Net Profit</b>	<b>427</b>	<b>627</b>	<b>358</b>	<b>213</b>	<b>396</b>	<b>464</b>	<b>228</b>	<b>(273)</b>	<b>349</b>	<b>179</b>	<b>87</b>
EPS(Bt)	0.10	0.14	0.08	0.05	0.09	0.11	0.05	(0.06)	0.08	0.04	0.02
<b>Margins (%)</b>											
Gross profit margin	31.6	35.4	25.6	14.8	35.3	27.2	22.3	11.2	29.6	24.3	18.6
Operating margin	15.2	20.8	14.1	3.9	18.6	16.6	9.8	4.3	14.2	8.7	6.7
Operating EBITDA margin	25.8	30.3	17.3	6.0	29.8	26.3	15.5	7.8	25.2	18.7	11.0
Net profit margin	11.7	16.5	7.5	3.1	12.6	11.4	5.1	(3.8)	9.2	4.5	1.9
<b>Growth (%)</b>											
Revenue growth	(17.6)	(20.7)	(22.4)	94.2	(13.3)	7.8	(5.5)	1.9	20.2	(3.6)	(0.3)
Operating growth	68.5	91.7	(7.6)	26.8	6.1	(13.9)	(34.2)	11.6	(8.3)	(49.5)	(32.3)
Operating EBITDA growth	38.2	61.3	(1.8)	40.6	(0.1)	(6.7)	(14.8)	33.4	1.8	(31.6)	(29.6)
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)

Source: Company data, KGI Research

**Peer comparison – Key valuation stats**

	Rating	Target price (Bt)	Current price (Bt)	Upside (%)	15 EPS (Bt)	16F EPS (Bt)	17F EPS (Bt)	16 EPS growth (%)	17F EPS growth (%)	16F PER (x)	17F PER (x)	16F PBV (X)	17F PBV (X)	16F Div Yield (%)	16F ROAE (%)
KSL	CP	5.40	4.78	13.0	0.20	0.17	0.32	(15.0)	88.2	28.1	14.9	1.5	1.4	1.7	4.5
CFP*	CP	42.00	27.50	52.7	1.50	2.05	1.82	37.0	(11.2)	13.4	15.1	1.6	1.6	3.6	12.6
TVO*	N	31.50	39.50	(20.3)	2.35	3.15	2.28	33.8	(27.6)	12.5	17.3	4.0	3.9	6.4	30.3
GFPT	N	15.20	14.10	7.8	0.95	1.18	1.19	23.6	0.7	12.0	11.9	1.7	1.6	2.5	14.1
TU**	NR	25.17	20.20	24.6	1.11	1.21	1.43	9.0	18.2	16.7	14.1	1.9	1.8	3.1	13.0
<b>Average</b>					<b>1.22</b>	<b>1.55</b>	<b>1.41</b>	<b>26.9</b>	<b>(9.3)</b>	<b>16.5</b>	<b>14.7</b>	<b>2.2</b>	<b>2.0</b>	<b>3.5</b>	<b>14.9</b>

Source: KGI Research

\*\*Bloomberg consensus

**Balance Sheet**

As of 31 Oct (Bt mn)	Oct-14A	Oct-15A	Oct-16F	Oct-17F	Oct-18F
<b>Total Assets</b>	<b>40,134</b>	<b>40,176</b>	<b>39,713</b>	<b>39,628</b>	<b>39,570</b>
<b>Current Assets</b>	8,238	8,103	7,505	7,997	8,631
Cash & ST Investments	1,490	1,391	1,789	1,516	1,839
Inventories	4,348	4,109	3,426	3,863	4,055
Accounts Receivable	2,182	2,366	2,048	2,371	2,485
Others	217	237	242	247	252
<b>Non-current Assets</b>	31,896	32,073	32,208	31,631	30,939
LT Investments	4,285	4,439	4,661	4,801	4,945
Net fixed Assets	27,088	26,976	26,876	26,145	25,296
Others	523	658	671	685	699
<b>Total Liabilities</b>	<b>25,301</b>	<b>24,687</b>	<b>23,577</b>	<b>22,692</b>	<b>21,779</b>
<b>Current Liabilities</b>	14,322	9,156	12,508	10,611	10,684
Accounts Payable	2,380	1,473	1,233	1,391	1,460
ST Borrowings	11,751	7,483	11,195	9,130	9,130
Others	191	200	80	90	95
<b>Long-term Liabilities</b>	10,979	15,532	11,069	12,081	11,094
Long-term Debts	10,270	14,936	10,649	11,649	10,649
Others	709	596	420	433	446
<b>Shareholders' Equity</b>	<b>14,833</b>	<b>15,488</b>	<b>16,137</b>	<b>16,935</b>	<b>17,792</b>
Common Stock	1,705	2,005	2,205	2,205	2,205
Capital Surplus	2,946	2,946	2,946	2,946	2,946
Retained Earnings	8,161	7,351	7,735	8,447	9,213
Non-controlling interests	2,021	2,079	2,162	2,249	2,339

Source: Company date; KGI Research

**Key ratio**

Year to 31 Oct (Bt mn)	Oct-14A	Oct-15A	Oct-16F	Oct-17F	Oct-18F
<b>Forecast Drivers</b>					
<b>Growth (% YoY)</b>					
Sales	1.3	(1.7)	(13.8)	15.7	4.8
OP	12.6	(27.2)	(24.1)	58.5	4.0
EBITDA	15.4	(16.3)	(13.4)	32.7	3.1
NP	(3.0)	(49.9)	(10.7)	95.7	7.6
EPS	(17.5)	(49.9)	(16.9)	91.2	7.6
<b>Profitability (%)</b>					
Gross Margin	25.2	21.4	23.1	25.1	25.0
Operating Margin	14.5	10.7	9.4	12.9	12.8
EBITDA Margin	20.4	17.3	17.4	20.0	19.7
Net Profit Margin	8.5	4.3	4.5	7.6	7.8
ROAA	4.3	2.0	1.8	3.6	3.9
ROAE	12.7	5.3	4.5	8.4	8.6
<b>Stability</b>					
Gross Debt/Equity (%)	197.5	184.1	168.7	154.5	140.9
Net Debt/Equity (%)	169.9	165.0	152.8	138.6	125.8
Interest Coverage (x)	3.3	2.4	2.1	3.5	3.8
Interest & ST Debt Coverage (x)	0.1	0.1	0.0	0.1	0.1
Cash Flow Interest Coverage (x)	1.9	1.7	3.6	3.1	4.0
Cash Flow/Interest & ST Debt (x)	0.1	0.2	0.2	0.2	0.3
Current Ratio (x)	0.6	0.9	0.6	0.8	0.8
Quick Ratio (x)	0.3	0.4	0.3	0.4	0.4
Net Debt (Bt mn)	21,765	22,131	21,358	20,363	19,440
<b>Per Share Data (Bt)</b>					
EPS	0.4	0.2	0.2	0.3	0.3
CFPS	1.0	0.8	0.5	0.6	0.7
BVPS	3.2	3.3	3.2	3.3	3.5
SPS	4.8	4.7	3.8	4.3	4.5
EBITDA/Share	1.0	0.8	0.7	0.9	0.9
DFS	0.1	0.1	0.1	0.2	0.2
<b>Activity</b>					
Asset Turnover (x)	0.5	0.5	0.4	0.5	0.5
Days Receivables	29.1	44.0	49.6	42.9	44.9
Days Inventory	101.6	104.0	110.0	94.3	97.6
Days Payable	59.3	47.4	39.5	34.0	35.1
Cash Cycle	71.5	100.6	120.0	103.2	107.4

Source: Company date; KGI Research

**Profit & loss**

Year to 31 Oct (Bt mn)	Oct-14A	Oct-15A	Oct-16F	Oct-17F	Oct-18F
<b>Revenue</b>	<b>19,185</b>	<b>18,866</b>	<b>16,254</b>	<b>18,812</b>	<b>19,721</b>
Cost of Goods Sold	(14,358)	(14,837)	(12,503)	(14,099)	(14,799)
<b>Gross Profit</b>	<b>4,827</b>	<b>4,029</b>	<b>3,750</b>	<b>4,713</b>	<b>4,922</b>
Operating Expenses	(2,500)	(2,672)	(2,712)	(2,802)	(2,939)
Other incomes	447	661	494	518	544
<b>Operating Profit</b>	<b>2,773</b>	<b>2,018</b>	<b>1,532</b>	<b>2,429</b>	<b>2,527</b>
Depreciation of fixed assets	1,131	1,252	1,300	1,331	1,349
<b>Operating EBITDA</b>	<b>3,905</b>	<b>3,270</b>	<b>2,832</b>	<b>3,759</b>	<b>3,876</b>
<b>Non-Operating Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest Income	0	0	0	0	0
Other Non-op Income	0	0	0	0	0
<b>Non-Operating Expenses</b>	<b>(834)</b>	<b>(849)</b>	<b>(731)</b>	<b>(695)</b>	<b>(662)</b>
Interest Expense	(834)	(849)	(731)	(695)	(662)
Other Non-op Expenses	0	0	0	0	0
Equity Income/(Loss)	(11)	14	0	0	0
<b>Pretax Income</b>	<b>1,928</b>	<b>1,183</b>	<b>801</b>	<b>1,734</b>	<b>1,865</b>
Current taxation	(109)	(93)	(87)	(173)	(187)
Minorities	(159)	(134)	14	(136)	(146)
Extraordinary items	(34)	(141)	0	0	0
<b>Net Profit</b>	<b>1,626</b>	<b>815</b>	<b>728</b>	<b>1,425</b>	<b>1,533</b>
Norm. Profit	1,660	956	728	1,425	1,533
EPS(Bt)	1.0	0.2	0.2	0.3	0.3

Source: Company date; KGI Research

**Cash flow**

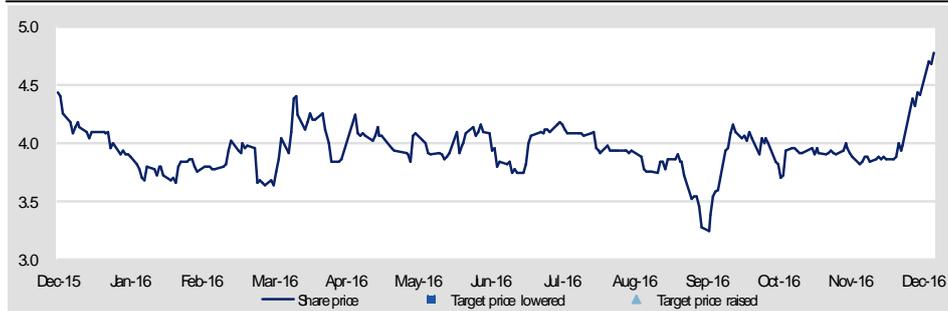
Year to 31 Oct (Bt mn)	Oct-14A	Oct-15A	Oct-16F	Oct-17F	Oct-18F
<b>Operating Cash Flow</b>	1,598	1,409	2,664	2,158	2,644
Net Profit	1,626	815	728	1,425	1,533
Depreciation & Amortization	1,131	1,252	1,300	1,331	1,349
Change in Working Capital	(2,278)	(1,743)	761	(602)	(237)
Others	1,118	1,085	(125)	5	(0)
<b>Investment Cash Flow</b>	<b>(3,195)</b>	<b>(931)</b>	<b>(1,635)</b>	<b>(550)</b>	<b>(1,058)</b>
Net CAPEX	(2,650)	(965)	(1,200)	(600)	(500)
Change in LT Investment	0	0	(222)	(140)	(144)
Change in Other Assets	(545)	34	(213)	190	(414)
<b>Free Cash Flow</b>	<b>(1,597)</b>	<b>478</b>	<b>1,029</b>	<b>1,609</b>	<b>1,586</b>
<b>Financing Cash Flow</b>	<b>1,655</b>	<b>(446)</b>	<b>(831)</b>	<b>(1,678)</b>	<b>(1,663)</b>
Change in Share Capital	0	0	200	0	0
Net Change in Debt	2,364	33	(750)	(1,052)	(987)
Change in Other LT Liab.	(709)	(479)	(281)	(626)	(676)
<b>Net Cash Flow</b>	<b>57</b>	<b>32</b>	<b>198</b>	<b>(70)</b>	<b>(77)</b>

Source: Company date; KGI Research

**Rates of Return on Invested Capital**

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= <b>Operating Margin</b>
Oct-14A	68.9%	5.9%	13.0%	12.1%
Oct-15A	72.0%	6.6%	14.2%	7.2%
Oct-16F	68.9%	8.0%	16.7%	6.4%
Oct-17F	67.9%	7.1%	14.9%	10.2%
Oct-18F	68.2%	6.8%	14.9%	10.1%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= <b>Capital Turnover</b>
Oct-14A	21.6%	1.41	0.03	0.60
Oct-15A	26.5%	1.43	0.03	0.58
Oct-16F	26.1%	1.65	0.04	0.51
Oct-17F	25.7%	1.39	0.04	0.59
Oct-18F	25.8%	1.28	0.04	0.63
Year	<b>Operating Margin</b>	x <b>Capital Turnover</b>	x <b>Cash Tax Rate</b>	= <b>After-tax Return on Inv. Capital</b>
Oct-14A	12.1%	0.6	94.34	6.91
Oct-15A	7.2%	0.6	92.17	3.83
Oct-16F	6.4%	0.5	89.10	2.91
Oct-17F	10.2%	0.6	90.00	5.43
Oct-18F	10.1%	0.6	90.00	5.74

Source: Company date; KGI Research

**Khon Kaen Sugar Industry – Recommendation & target price history**


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).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
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.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.  <i>Excess return = 12M target price/current price-</i>
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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