

VALUATION OF SAPPE PUBLIC COMPANY LIMITED



**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2015**

COPYRIGHT OF MAHIDOL UNIVERSITY

Thematic paper
entitled
**VALUATION OF SAPPE
PUBLIC COMPANY LIMITED**

was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
December 18, 2015



.....
Miss Chayanut Techathanyanon
Candidate

.....
Piyapas Tharavanij,
Ph.D.
Advisor

.....
Nareerat Taechapiroontong,
Ph.D.
Chairperson

.....
Assoc. Prof. Annop Tanlamai,
Ph.D.
Dean
College of Management
Mahidol University

.....
Vasan Siraprapasiri,
M.Sc.
Committee member

VALUATION OF SAPPE PUBLIC COMPANY LIMITED

CHAYANUT TECHATHANYANON 5549264

M.M.

THEMATIC ADVISORY COMMITTEE: PIYAPAS THARAVANIJ, Ph.D., VASAN SIRAPRAPASIRI, M.Sc., ASST. PROF. NAREERAT TAECHAPIROONTONG, Ph.D.

ABSTRACT

This paper provides a perspective on valuation studies by a Master Degree student. Based on impressions from the Valuation and Investment class, I was inspired by investing in the Stock Exchange of Thailand and some example cases of successful and failure mergers and acquisition in the past to debate how we see, understand, and are inspired by the field of valuation studies. Using the classroom experience, I argue that the domain of valuation studies still relies heavily on influences from the study of economics, with a strong emphasis on processes of quantification and calculation. The discounted cash flow method is used to value the company in order to derive the most appropriate result. Financial and economic reports also used to develop assumptions together with consensus research to evaluate economics trend.

KEY WORDS: Stock/ Valuation / WACC / Discounted Cash Flow / FCFE

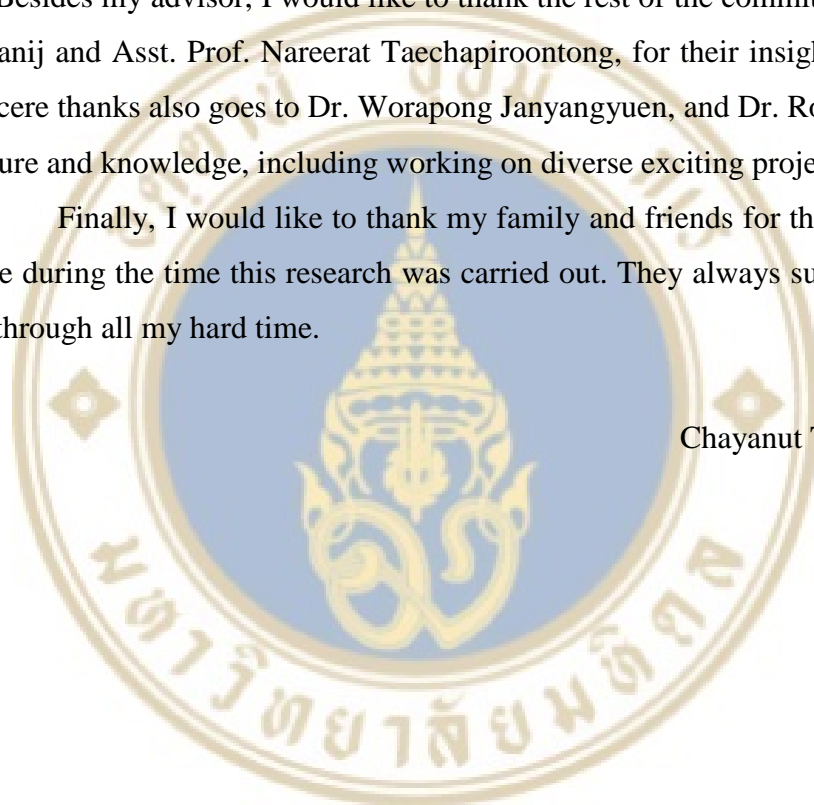
36 pages

ACKNOWLEDGEMENTS

This thematic paper could not be completed without Ajarn Vasana Siraprapasiri, my advisor; therefore, I would like to express my sincere gratitude to him for his continuous support, his motivation, enthusiasm, and encouragement on this paper. Besides my advisor, I would like to thank the rest of the committee: Dr. Piyapas Tharavanij and Asst. Prof. Nareerat Taechapiroontong, for their insightful comments. My sincere thanks also goes to Dr. Worapong Janyangyuen, and Dr. Roy Kouwenberg, for lecture and knowledge, including working on diverse exciting projects.

Finally, I would like to thank my family and friends for their supports and patience during the time this research was carried out. They always support and cheer me up through all my hard time.

Chayanut Techathanyanon



CONTENTS

	Page
ACKNOWLEDGEMENTS	ii
ABSTRACT	iii
LIST OF TABLES	v
LIST OF FIGURES	vi
CHAPTER I VALUATION	1
CHAPTER II DATA	20
REFERENCES	35
BIOGRAPHY	36



LIST OF TABLES

Table	Page
1.1 Quarterly EPS and P/E Ratio	1
1.2 Non-alcohol beverage market	7
1.3 Number and exercising period of ESOP warrants	16
1.4 Sensitivity analysis – scenario 1	18
1.5 Sensitivity analysis – scenario 2	18
1.6 Sensitivity analysis – scenario 3	18
1.7 Sensitivity analysis – scenario 4	18
1.8 Sensitivity analysis – scenario 5	19
1.9 Sensitivity analysis – scenario 6	19
2.1 5-year Income Statement and Forecast	21
2.2 5-year Statement of Financial Position and Forecast	22
2.3 5-year Statement of Cash Flow and Forecast	23
2.4 Breakdown of revenue by product type	24
2.5 Breakdown of revenue by geographical	24
2.6 Key Financial Ratio	25
2.7 YE 2014 Income statement among peers	26
2.8 YE 2014 Statement of Financial Position among peers	27
2.9 Key ratio among peers	28
2.10 Free Cash Flow to Firm Calculation	29
2.11 WACC Calculation	29
2.12 Weight of Corporate Governance Scoring	31
2.13 SAPPE’s Corporate Governance Rating of 2014	31

LIST OF FIGURES

Figure		Page
1.1	Export value of non-alcohol beverage	7
1.2	Risk matrix	17
2.1	SAPPE's subsidiaries as of September 30, 2015	20
2.2	SG&A as percentage to sales & EBIT Margin	32
2.3	Market share of functional drink	32
2.4	Market share of fruit juice market (by market type)	33
2.5	Market share of functional coffee	33
2.6	Revenue from sales of goods	34
2.7	Production Capacity	34



CHAPTER I VALUATION

1.1 Company Highlight

Table 1.1 Quarterly EPS and P/E Ratio

Year	Mar	Jun	Sep	Year	P/E Ratio
2013A	0.11	0.15	0.29	0.64	N/A
2014A	0.64	0.42	0.30	1.35	28.30
2015E	0.27	0.41	0.19	1.00	15.74

Fundamental and valuation are indicative of Buy: With the target price of THB 25.70 in 2016, which has 74.83% upside gain. Currently, SAPPE share's price is reflected high expectation of the market concerning on the company's earning which the company reported significantly lower than expected. However, the company's fundamental remains strong and company performance is expected to grow at 19.0% in year 2016 after the company solve the overseas problem especially in China. Moreover, SAPPE is expected to have higher gross profit margin in 2016 due to efficiency of the new production line.

Fail to achieve operation growth from international market in Quarter 3 2015: Sales in quarter 3 2015 has been dropped lower than expectation, it was mainly due to the restructuring process of SAPPE which have high impact on company's operation in China. Previously, SAPPE used to export to China through its authorized distributor and the contract was cancelled with attempt to establish the subsidiaries in China. However, there was a delay in establishing. As a result SAPPE has lost its market share to its indirect competitors such as imitation products. On the other hand, the global economic slowdown and Rupiah depreciation in Indonesia has created a lower sales than expected for international market which accounted for approximately 60 percent of total sales.

Recovering of SAPPE China will have impact on International market growth: Sales in China will be recovered after SAPPE China is able to operate in the 1st quarter of 2016. Furthermore, the sales will be relied on the new distributor which it is claimed as an expertise and have experiences in Chinese retail market and this distributor will be worked directly with SAPPE China.

Good sign from domestic market: SAPPE has become the first rank in functional drink in domestic market, this was mainly due to the rebranding of SAPPE Beauti drink in the 2nd quarter of 2015. Moreover, company has introduced new product in functional coffee category –tasty sugar free coffee– for consumers who love healthy products. Last but not least, SAPPE Aloe is also another product that able to gain more market share in domestic market in the near future.

Sales will not grow much in the last quarter of 2015, but will be recovered and gain double-digit growth in 2016: Since the company tried to boost domestic sales by launching aggressive promotional activities; therefore, the operating expenses are likely to grow while the sales are not grow as high as the expenses. As a result, earning from the last quarter of 2015 is expected to be in the same line as the 3rd quarter. On the other hand, sales in 2016 are likely to recover and grow more with expected double-digit growth according to the international market growth in China and a low base in 2015.

1.2 Business Description

Sappe Public Company Limited (SAPPE) was originally established as a company under the name Sapanan General Foods Co., Ltd. with the initial registered capital of THB 500,000 in 1988. The company first ventured into the beverage industry by introducing Mogu Mogu, the world's first juice with coconut jelly. In 2004, the company increased its registered capital to THB 5 Million. Once again in 2006, the company introduced a new health beverage which known as "SAPPE Beauti Drink". The innovative drink created a new drink category – a Functional drink – it increased consumer awareness on healthy drinks. In 2011, PT. SAPPE Indonesia (SAPPE Indo)

and SAPPE Europe s.r.o (SAPPE Europe) were established as a joint venture of SAPPE with Indonesian and Slovakian investors, respectively. In 2012, the registered capital was increased to THB 225 Million. Later then the company's name was changed to SAPPE Public Company Limited on September 5, 2013 in order to become an internationally recognized brand. The company was listed in the Stock Exchange of Thailand in on June 25, 2014.

The company was established with an objective to manufacture and distribute healthy beverages products to satisfy health-and-beauty-conscious consumers. Furthermore, the company has the goal to become a leader in healthy beverage industry. In order to achieve the goal, innovative products with styled packaging have to be created, they would not only make the company outstanding but also give customers more options and gain more market share. Therefore, the company focus on producing innovative products and unique packaging to market in order to response customers' lifestyle.

The company has two factories which are Bang Chan and Klong 13 factory. Bang Chan factory has been operated since 2001. It is located in Bang Chan industrial estate. The two products that are produced here are PET bottle beverages and powder category. Klong 13 factory has been established in 2010 and ready to operate in 2012 with two factory buildings and two operation lines for PET bottle beverages and powder category. There is also another warehouse building for raw materials and inventories. Currently, both factories have not reached their maximum production capacity yet, both reach about 70 percent of its maximum capacity according to the company's annual report (2014).

Currently, its products are divided into four (4) main categories, under 13 registered brands marketed both domestically and overseas. The four main product categories consisting of:

1. Functional beverage category.
2. Fruit juice or juice drink category.
3. Functional powder category.
4. Other Ready-To-Drink (RTD) category.

The products are traded both domestically and internationally with approximate proportion of 40:60. For international market, products are traded through two main channels which are Modern trade such as Convenience store and Supermarket and Traditional trade which the products would be sold through Importer in each country in Asia, Southeast Asia, Middle East, Europe, Africa, North and South America mostly with advance cash payment condition. However, for several countries such as Indonesia, Europe – through SAPPE Europe – and some other countries for the customer that has standby LC, the products are not sold with credit term.

1.2.1 Subsidiaries Business

PT. SAPPE Indonesia (“SAPPE Indo”) was incorporated in the first quarter of 2014 in Indonesia by two managements of SAPPE and Indonesian investors. SAPPE Indo was established with objective to distribute health drinking products. The current percentage of SAPPE ownership in SAPPE Indo is 51.

SAPPE Europe s.r.o (“SAPPE Europe”) was incorporated in the first quarter of 2014 in Slovakia. It was established by two managements of SAPPE and Slovakian investor who is the expertise distributing beverage in Eastern Europe with initial percentage of ownership interest as 60:40. SAPPE Europe was established with an objective to distribute SAPPE beverages. While the products would be outsourced to Slovakian supplier in order to support market growth in Europe in the future.

SAPPE holding (Thailand) Co., Ltd. has been registered on May 8, 2015 with the Ministry of Commerce the shares are held by the SAPPE’s directors. It was established with an objective as a group management service.

SAPPE Trading (Hong Kong) Company Limited as an indirect subsidiary has been registered in Hong Kong on June 23, 2015. It was established with an objective to import, export and distribution of goods.

Moreover, there are another two subsidiaries in process of registration in Hong Kong and China as the Board approved to establish subsidiaries at the Board of Director’s meeting on March 19, 2015.

1.3 Industry Overview and Competitive Analysis

1.3.1 Recession in key economic countries.

Global economic is slow down with weak sign of recovering, also there is a risk of deflation in several areas. Since 2008 the global key industrial countries that drive economic are the States, Europe and Japan which is recently in recession. Whereas the new market such as Chinese is able to help global economic significantly by opening their countries and launching their stimulus package. Though, such package that drive economic also increase debt level of the countries. Consequently, they have to reduce such stimulation policies. Resulting in an economic slowdown in those countries. The only key industrial country that has slowly recovered is the States and that is the reason why Federal Reserve System or Fed pause another round of Quantitative Easing or QE. However, recovering of economic in the States alone could not effectively drive global economic. A weaken purchasing power in a weak recovering economic situation resulting in an excess supply which lower value of products in the market for example crude oil price.

Several countries mitigate the risk of recession by easing their monetary policies to stimulate the economy same as the European Central Bank which firstly focus on buying covered bonds and expanded to asset purchase program with a total QE of more than €1 trillion.

1.3.2 The upcoming AEC will benefit Thailand food and beverage industry.

Regarding the supporting from government, Thai food and beverage industry has high potential, able to drive Thai economy and increase revenue to the country more than 1 trillion Baht. Apart from the States and European market which are the key export market, Asian is another interesting and challenging market to explore. Asian market especially Myanmar, Laos, Cambodia, and Vietnam are likely to be an opportunity for Thai entrepreneur to expand based on the advantage of Thai geographic. However, nowadays Thai has only 10% market share or approximately 200 billion Baht from the total value of import food and beverage into Asian.

- Myanmar: Burmese government plans to increase income per capita from 50,000 Kyat to 80,000 to 100,000 Kyat. As a result, Burmese will have higher spending

ability. Moreover, Myanmar is try to develop and promote its tourism and targets to achieve 7.5 million tourists in 2020. Besides, more than 80% of imported beverage in Myanmar is from Thailand as the taste and quality are pleasing.

- Cambodia: Even tough income per capita in Cambodia is not as much as compare to other markets, it is interesting based on its country development plan. The plan is to improve logistic with Thailand and increase its income to 130 USD per capita per month in 2019. Furthermore, more than 70% of population are under 35 year olds which is a key target and important to expand our export in food and beverage sector. Concerning on current facts, Cambodia imports non-alcohol beverage from Malaysia for 57% which Thai should take advantage of our geographic to obtain more market share.

- Laos: Lao are similar and quite familiar with Thai in many term such as culture; therefore, Lao are more likely to use Thai products. Previously, Laos imported more than 50 million USD non-alcohol beverage from only Thailand.

- Vietnam: The highest potential that Thai entrepreneur could not take for granted with higher income of middle class population in urban area meaning that there is a room for Thai products to enter. However, good business partner is recommended since there is likely to have imitated products in the future.

1.3.3 Industry Analysis: Great market value of beverage industry.

Beverage industry in Thailand has great market value from several supporting factors such as population, purchasing power, tourist including geographic and climate in Thailand. Moreover, there are numerous players in the market, so they have to create and launch promotion to attract customers.

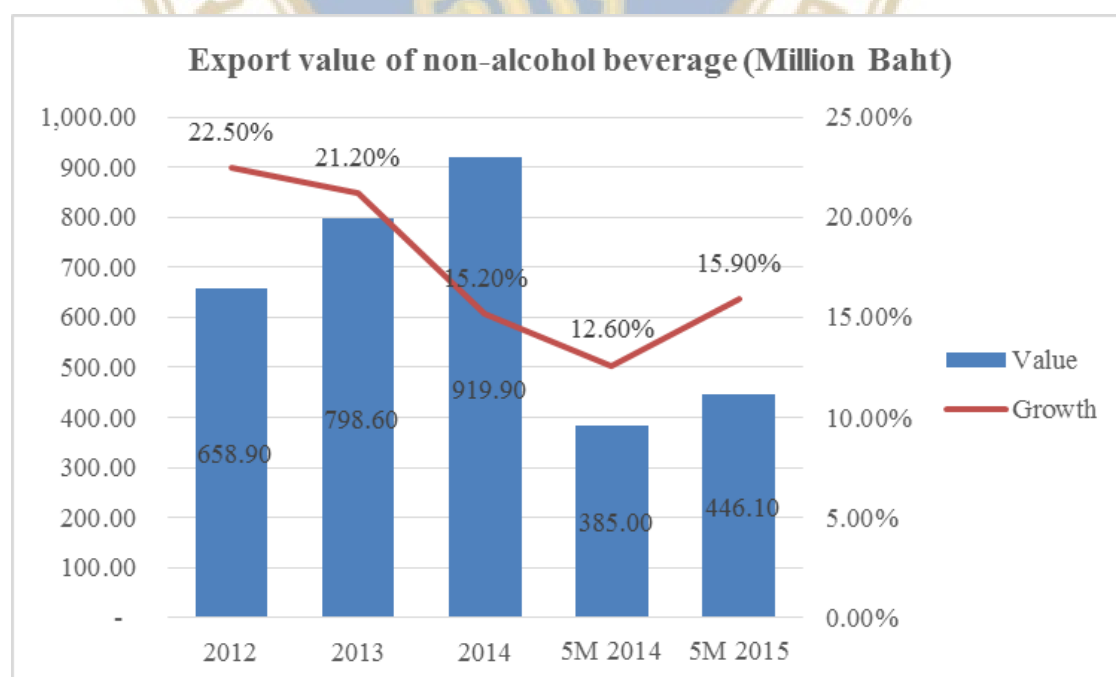
Domestic beverage market is still in growth state, slightly recovered political situation and lower oil price seem to benefit the purchasing power. On the other hand, several factors such as the economic situation is not fully recovered, price of several agriculture products is declined, and drought destroy agriculture products have decreased purchasing power for unnecessary products especially alcohol drink. For non-alcohol products, healthy beverage is continuously growing enhance promotional activities is able to boost sales. Without promotional activities, sales would be affected by the factor mentioned above. In addition, growth of tourists coming to Thailand will

be advantage for beverage market. Normally, tourist spends approximately 20% of total spending on food and beverage products and 10 - 20% from these number is for beverage. Similar to export market, value of export beverage market in 2014 was accounted for USD 1,355.4 million or rose by 8% compared to the same period in the previous year. Consistently with the first 5 months of 2015, export is growing continuously accounted for USD 656.2 million rose by 11.4% compared to the same period in the previous year.

Table 1.2 Non-alcohol beverage market 2014

	Market Value (Million Baht)	Growth (%)
Soft drink	47,000	5-6%
Energy drink	30,000	5-6%
Water	23,000-27,000	10-20%
Tea	15,000	10-15%
Fruit Juice	12,000-13,000	5-10%
Functional drink	5,000-5,3000	13-15%

Source: Kasikorn Research



Source: MOC, KResearch

Figure 1.1 Export value of non-alcohol beverage (unit: million Baht)

1.3.4 Competitive Analysis: High competitive for domestic market

- Functional drink:

There are many players in Functional drink market under varies qualification, so the market has quite high competition. The players have to create new products to serve consumers' needs such as functional drink especially for male since male are likely to be more concern on their health. For the functional casual drink for female market, there are three main players which are SAPPE Beauti drink (33% market share), B-ing (19% market share), and If fruitamin (13% market share). The reasons why SAPPE has higher market share are brand recognition since SAPPE is the first venture into this type of drink, and SAPPE is able to create new formula of drink and attractive packaging.

- Fruit juice or juice drink:

Fruit juice can be categorized into four main categories which are premium market (100% juice), medium market (40%-99% juice), and economy market (20%-39% juice), and super economy market (lower than 20% juice). Market share for each type is 44%, 7%, 32%, and 17%, respectively. There are many competitors in the market such as Malee, Tipco, Doi kam, and many more. However, products of SAPPE are outstanding from the others competitors in the market as SAPPE add value and concept to each product for example Mogu Mogu is a fruit juice with coconut jelly, SAPPE Aloe is a fruit juice with Aloe Vera jelly, SAPPE for one day is product that has enough fiber for one day and etc.

- Functional powder and other RTD as Functional coffee:

There are four mains competitors in the category which are Nature gift, Preaw coffee, Nescafe proslim, and Buddy dean. Market share for each brand is 28%, 21%, 14%, and 8%, respectively. However, Preaw coffee has the highest sales volume in the market also gains highest sales in traditional trade market. As there are many players in the market, Preaw coffee focuses on conducting roadshow to introduce new products and doing integrated market communication. Preaw coffee is outstanding due to its taste and low calories.

For international market there is no direct competitor. The situation in different countries is varied according to economic, culture, consumers' behavior, distribution channel, and competitors. However, SAPPE has high quality, differentiate

and outstanding products which are recognized in the market. There are several main products selling in international market e.g. SAPPE Aloe vela and Mogu Mogu. Still, there is no direct competitors for international market, there is only substitute products such as OKF, Lotte, Tropical, and Minute maid for SAPPE Aloe vela drink and imitated products for Mogu Mogu since there is no competitor able to produce the same quality as Mogu Mogu.

1.4 Investment Summary

1.4.1 Sales revenue continue to be weak in quarter 4 2015. Assuming in line with low sales in quarter 3 2015, 9 months period sales ending September 30, 2015 is equal to 1,881 million Baht or declined by 14.2% compare to the same period in the previous year. Moreover, SAPPE spent greatly on launching aggressive marketing campaign to stimulate sales in quarter 4, yet domestic purchasing power remains weak and operating expenses are likely to grow up from the marketing campaign. As a result, forecasted revenue and net income for 2015 are 2,508 million Baht and 317 million Baht, respectively or declined by 10.1% and 14.4%, correspondingly.

1.4.2 International sales will be recovered in 2016. SAPPE China is expected to be operated in the 1st quarter of 2016 which will able to drive export sales for 2016 to 1.89 billion Baht compare to 1.52 billion Baht in 2015 or growth rate at 24.5%. This is mainly due to the new experienced distributor in China and a low based of sales in 2015. Projected revenue from 2016 to 2019 is calculated based on Management assumption to achieve 5,000 million sales in the next 5 years with 10% CAGR from domestic sales. Sales in the future remain strong since sales in China is about to rebound once SAPPE China is fully operated and imitated products problem is solved.

1.4.3 Higher gross profit margin due to efficiency of new production line. SAPPE has invested in the new production line which is able reduce COGS and gain higher gross profit margin. Gross profit margin rose from 33.0% in 2013 to 39.5%

in 2014. A fully operated production is like to reduce company's COGS and rose gross profit margin to 40% in 2016.

1.5 Valuation

We appraised SAPPE by using Discounted Cash Flow Analysis, we are confident that the most appropriated techniques for SAPPE is the Free Cash Flow to Firm (FCFF) using Discounted Cash Flow Method. Since the dividend payout ratio in the past is not stable and would not sustain in the future. Thus, Dividend Discount Model is not appropriate for the firm. The long term growth or terminal growth prospects based on average growth rate among peers remove the outlier and the actual implied interest rate as cost of debt.

1.5.1 Discounted Cash Flow Model: Free Cash Flow to Firm ("FCFF")

Discount Cash Flow Model (DCF) is able to value firm value and equity value from projected cash flow in the future. DCF reflects intrinsic value of the firm unlike relative method which reflect firm value when compare to the market or peer. The model also accounted for future growth as well as a long-term perspective. The target share price based on this model is equal to THB 25.70.

Three main components of FCFF are Operating Cash flow, Projected Cash Flow, Terminal Value, CAPEX, and WACC.

- **Company Growth rate:** Based on the historical data, the company has high growth rate at 32.15% and 18.26% from 2012 to 2013 and 2013 to 2014, respectively. Though, sales growth was significantly dropped in the 3rd quarter of 2015. Resulting in expected sales decline of 10.94% at the end of 2015. The five-year projected cash flow is calculated based on management assumption to obtain 5,000 million Baht sales in the next five years or gain compounding annual growth rate (CAGR) at approximately 19%.

- **Steady rise in gross margin:** SAPPE has a great performance, higher gross profit margin as the company is able to reduce Cost of Goods Sold (COGS) to

approximately 60% of revenue from sales since 2014. Gross profit margin expanded to 39.5% in 2014 from 33.0% in 2013.

- Higher SG&A: SG&A expense was like to decline from year to year; however, SG&A rose from 21.4% to 25.1% for 9 months period end 30th September 2014 and 2015, respectively. This was mainly due to adjustments of its administrative budget and their promotional activities to boost sales.

- Terminal Value at the end of 2019 is calculated using Gordon Growth Model ($FCFF_{2019} * (1 + \text{terminal growth}) / (WACC - \text{terminal growth})$)

Terminal growth: terminal growth rate of 3% is calculated by using expected long-term inflation rate.

WACC: please referred to Weighted Average Cost of Capital (WACC) below.

- CAPEX: The CAPEX in 2015 is in line with year-to-date CAPEX and it is expected to use for new production line, land acquisition in order to support sales growth in the future. For the other years, we assume that the only CAPEX that company invest is likely to be a maintenance CAPEX; thus, the CAPEX level will be in the same line as before.

- Weighted Average Cost of Capital (WACC): Cost of equity (K_e) was calculated by using CAPM model. Risk free rate is from 10-year government bond at the rate of 2.71% as of December 1, 2015, the expected risk premium of 8.15% from Professor Aswath Damodaran's research paper since risk premium from Professor Aswath Damodaran's research was solid, and the adjusted beta of 1.105 those factors reflect the Weighted Average Cost of Capital (WACC) of 9.42%. The raw beta used to calculate adjusted beta was extracted from Bloomberg.

1.6 Financial Statement Analysis

We selected four others companies which are Malee Sampran Public Company (MALEE), Ichitan Group Public Company Limited (ICHI), Carabao Group Public Company Limited (CBG), and Tipco Foods Public Company Limited (TIPCO)

to conduct a peer group analysis. Please noted that we used the data at the end of year 2014.

1.6.1 Earnings

SAPPE ranks last in term of Sales revenue; however, SAPPE performs well on Cost of Goods Sold (COGS), percentage of COGS to sales for SAPPE is at 60.5% whereas average of peer group is at 65.8%. In addition, the company's Selling, General, and Administrative Expenses (SG&A) is in line with the peer average at 24.1%. Moreover, SAPPE has very low financial cost. As a result, SAPPE ranks the 3rd in term of net income.

1.6.2 Balance Sheet & Financing

From the compared balance sheet (please refer to table 2.8), we found that SAPPE used a financing proportion of equity to debt at 75 to 25 whereas average proportion among peer is equal to 63 to 37. The advantage of equity financing is that equity financing carries no repayment obligation and provides more working capital which can be used to grow in the future. However, equity financing has higher cost than debt financing and majority shareholders often hold board of directors' positions in the company. While debt financing has several dissimilar advantages such as tax benefit and executive positions in the company do not have to be reserved for the debtors.

1.6.3 Financial Ratio

1.6.3.1 Profitability ratio

Gross profit margin: SAPPE's gross profit margin is above average from the efficiency of production line that could reduce COGS of the company. That means the company is able to earn profit of 39.5% of core revenue without any indirect cost.

Operating profit margin: SAPPE still perform well on controlling its indirect costs. From the ratio above SAPPE is able to generate 16.8% profit from Sales after deducting its indirect costs.

Net profit margin: SAPPE still has higher net profit margin at 13.2% compares to the peers at 10.9%. That means SAPPE has high ability to control all operating costs including financial cost and tax expense.

Return on Assets (ROA): SAPPE is able to turn assets into profit at 27.7% which is above the average among peers at 16.2%.

Return on Equity (ROE): ROE comprises of Net profit margin x Assets Turnover x Equity multiplier since the company, it is a rate of return on shareholders' investment. It measures company's ability to make enough profit to compensate risk in investing in the company. From the result above, SAPPE is able to generate 37.8% profit to the shareholders' investment due to a high Net profit margin, and a high Assets Turnover (mentioned below in Efficiency ratio).

SG&A to Sales: it is a percentage of indirect cost to sales. The more stable the more the company able to control the overhead cost. The company has an average percentage of SG&A to Sales.

Based on the profitability ratio calculating from companies' data at the end of fiscal year 2014, we found that SAPPE's performance on generating profit was above average among the peer groups. While only percentage of SG&A to Sales was in the same level with the peers.

1.6.3.2 Solvency and liquidity ratio

Debt ratio, Debt to Equity ratio, Equity multiplier, and Long term debt ratio: they are the ratio that measure the extent to which the company is use debt or equity to fund the operation.

Interest coverage ratio: it measures company's ability to pay financial cost with income from its business. The ratio close to 1 indicates that the company might face difficulty generating enough cash to pay interest. SAPPE has very high interest coverage ratio from very little figure of interest-bearing-debt.

Current ratio: it is an indicator of company's cash flow in the future. As SAPPE has Current ratio equal to 2.5, it means that SAPPE has high liquidity.

Quick ratio: it is quite similar to current ratio except for excluding inventory in order to measure only the most liquid assets. Excluding inventory, SAPPE still has higher liquidity than average of the peers.

Cash ratio: it is the most conservative liquidity ratio since it excludes all other current assets and uses only cash and cash equivalents to calculate. Concerning only cash compare to current liabilities, SAPPE still has enough cash to repay its existing current liabilities.

Concerning about risks, SAPPE perform well in both solvency and liquidity aspect. The company use small amount of debt financing that means company's cash flow is sufficient to meet its liabilities. The lower solvency ratio, the greater profitability that it will default on its debts obligations. Also there is an opportunity for the company to expand its business by debt financing and benefit the tax shield in the future. Moreover, liquidity ratio of the company indicates a good financial health of the company comparing to the peers.

1.6.3.3 Efficiency ratio

Efficiency ratio indicates how well a company uses its assets and liabilities internally. The ratios indicate that SAPPE is able to use its assets to generate returns to the company better than the average among the peers. SAPPE uses 1 unit of Assets to generate 1.6 unit of Sales while the average of the peers could generate 1.3 unit of Sales. Assets Turnover combines with other components from Dupont analysis as a result SAPPE has higher than average of ROE.

1.7 Additional Downside Possibility

1.7.1 Slowdown in purchasing power. Global economic slowdown effecting domestic purchasing power. Moreover, high household debt is another factor that lower domestic spending. The company has to increasingly spend on promotional activities to encourage customers and build brand awareness and brand royalty.

1.7.2 High competitive situation. Even though domestic beverage market has as high market value as 400 billion Baht, it is a high competition market especially when there is only limited demand or purchasing power in the market, each player needs to protect their existing market share. Thus, the company has to spend more on

marketing campaign and/or any other promotional activities to attract both new and current customer while brand royalty is also another important factor that the company should remain the same level.

1.7.3 Counter Party Risk. The export transactions of SAPPE are dealing with the distributor and/or exporter in each country; therefore, SAPPE might face the counter party risk which cause lessen sales similar to the problem that SAPPE currently faces with establishing of SAPPE china.

1.8 Investment Risk

1.8.1 The company is managed by majority shareholders.

Ruckariyapong family is the majority shareholders of the company. They held approximately 75 percent shares of the total outstanding shares with that number of shares the family is able to control votes in the meeting such as election of Board of Director or any other votes that need more than 75 percent of total meeting attendees. Consequently, minority shareholders might not able to draw the votes. Though, in order to make it transparently SAPPE has clearly specified scope of work and power to the Board of Directors and Managements. Also, assign four independent committees, three from the four committees are audit committees.

1.8.2 Possible dilution of share prices in the future.

According to the share holders' meeting on October 28, 2013, majority approved the issuance and allocation of warrants with specific name and non-transferable for company's management and employees total of 4,620,000 units expire in the next four years after issue with exercise price at THB 10.125 per share. Once all the issued warrants have been exercised, there will be the risk of higher cost of share price, lower earnings per share (EPS), and control dilution. However, number of warrants that can be exercised for each exercise period is limited as stated in the table 1.3 below.

Table 1.3 Number and exercising period of ESOP warrants

Exercise period	Percentage of possible exercised warrants
June 2015	20%
December 2015	30%
June 2016	40%
December 2016	55%
June 2017	70%
December 2017	100%

1.9 Operational Risk

1.9.1 The company's factories are not on its own land

Both factories were built on the land of company's majority shareholders. Bang Chan factory including land and factory building, is rent from the first day of operation. Current contract is a three (3) years contracts which will be expired on September 30, 2015. The company has to renew contract every three years. Klong 13 factory is rent under 20 years-contract from October 1, 2013. After 3 years of the beginning of the contract, the company has the right to acquire the land with fair price.

1.9.2 Fluctuation of raw material cost

The two main raw materials are Liquid Sucrose for beverage and PET – Polyethylene Terephthalate for bottles. They are commodity products; therefore, the prices will be fluctuated according to demand and supply of the market. However, the company has concerned on that factor. In order to prevent the shortage of raw material and lowest the cost, they always monitors changes of price, analyze and evaluate raw material needed in the production line.

1.9.3 High competition

There is a risk in losing market share to other competitors since beverage industry has a high competition rate from both current player in the market and new player. In order to prevent losing market share, SAPPE is ready to adapt and invent new

product to serve customers, not only develop new product but also develop new packaging and add value to its products.

From the operational risk and downside possibilities that might happen in the future above, they are able to put in the risk matrix based on the likelihood and consequences as showing in the figure 1.2 below:

		Consequences				
		Insignificant	Minor	Moderate	Extensive	Significant
Likelihood	Certain	The company's factories are not on its own land		High competition market	Fluctuation of raw material cost	Fluctuation of exchange rate
	Likely					
	Possible				Slowdown in purchasing power	
	Unlikely					
	Rare					Counter party risk

Figure 1.2 Risk matrix

As a conclusion, the company should continuously monitor the fluctuation of exchange rate and raw material cost since there are the most important factors as they might decrease performance in term of net income of the company. However, exchange rate and raw material cost have been monitored by the company. Another important risk that should not be neglected is counter risk party, it might not happen frequently, yet its outcome has high impact on the company's revenue. Moreover, the company should continuously monitor and stimulate sales since SAPPE is in high competition market and with current economic situation.

1.10 Sensitivity analysis

Based on the operation risks and downside possibilities that might happen in the future which would have effect on company growth, the sensitivity analysis has been performed using 3 variables namely growth rate during high growth, terminal growth rate and WACC as showing in the table below:

Table 1.4 Scenario 1 – sensitivity analysis between Terminal growth & WACC (high growth based on assumption in this report)

		WACC					
		8.50%	9.00%	9.42%	10.00%	10.50%	11.00%
Terminal growth	2.50%	28.30	25.90	24.10	21.90	20.40	19.00
	3.00%	30.60	27.80	25.70	23.30	21.50	20.00
	3.50%	33.40	30.10	27.70	24.90	22.90	21.20
	4.00%	36.80	32.80	30.00	26.80	24.50	22.50
	4.50%	41.10	36.10	32.80	29.00	26.30	24.00
	5.00%	46.50	40.30	36.20	31.60	28.40	25.80

Table 1.5 Scenario 2 – sensitivity analysis between Terminal growth & WACC (at 5% high growth rate)

		WACC					
		8.50%	9.00%	9.42%	10.00%	10.50%	11.00%
Terminal growth rate	2.50%	26.80	24.50	22.90	20.90	19.40	18.10
	3.00%	29.00	26.30	24.40	22.20	20.50	19.00
	3.50%	31.60	28.40	26.20	23.60	21.80	20.10
	4.00%	34.70	31.00	28.40	25.40	23.20	21.40
	4.50%	38.70	34.10	31.00	27.40	24.90	22.80
	5.00%	43.80	38.00	34.10	29.90	26.90	24.50

Table 1.6 Scenario 3 – sensitivity analysis between Terminal growth & WACC (at 10% high growth rate)

		WACC					
		8.50%	9.00%	9.42%	10.00%	10.50%	11.00%
Terminal growth rate	2.50%	27.50	25.10	23.40	21.40	19.80	18.50
	3.00%	29.70	27.00	25.00	22.70	21.00	19.50
	3.50%	32.40	29.20	26.90	24.20	22.30	20.60
	4.00%	35.70	31.80	29.10	26.00	23.80	21.90
	4.50%	39.80	35.00	31.80	28.10	25.60	23.40
	5.00%	45.00	39.00	35.10	30.70	27.60	25.10

Table 1.7 Scenario 4 – sensitivity analysis between Terminal growth & WACC (at 15% high growth rate)

		WACC					
		8.50%	9.00%	9.42%	10.00%	10.50%	11.00%
Terminal growth rate	2.50%	28.00	25.60	23.90	21.80	20.20	18.80
	3.00%	30.30	27.50	25.50	23.10	21.40	19.80
	3.50%	33.10	29.80	27.40	24.70	22.70	21.00
	4.00%	36.40	32.50	29.70	26.50	24.20	22.30
	4.50%	40.60	35.80	32.40	28.70	26.00	23.80
	5.00%	46.00	39.90	35.80	31.30	28.20	25.60

Table 1.8 Scenario 5 – sensitivity analysis between Terminal growth & WACC (at 25% high growth rate)

		WACC					
Terminal growth rate		8.50%	9.00%	9.42%	10.00%	10.50%	11.00%
	2.50%	28.40	26.00	24.20	22.00	20.40	19.00
	3.00%	30.80	27.90	25.90	23.40	21.60	20.00
	3.50%	33.60	30.20	27.80	25.00	23.00	21.20
	4.00%	37.00	33.00	30.20	26.90	24.60	22.60
	4.50%	41.30	36.40	33.00	29.10	26.40	24.10
	5.00%	46.90	40.60	36.40	31.80	28.60	25.90

Table 1.9 Scenario 6 – sensitivity analysis between High growth & Terminal growth

		High growth rate				
Terminal growth rate		5.00%	10.00%	15.00%	19.00%	25.00%
	2.50%	22.90	23.40	23.90	24.10	24.20
	3.00%	24.40	25.00	25.50	25.70	25.90
	3.50%	26.20	26.90	27.40	27.70	27.80
	4.00%	28.40	29.10	29.70	30.00	30.20
	4.50%	31.00	31.80	32.40	32.80	33.00
	5.00%	34.10	35.10	35.80	36.20	36.40

Scenario 1: Stock price will be varied from the lowest at THB 19 (11% WACC and 2.5% terminal growth) to the highest at THB 46.5 (8.5% WACC and 5% terminal growth).

Scenario 2: Stock price will be varied from the lowest at THB 18.1 (11% WACC and 2.5% terminal growth) to the highest at THB 43.8 (8.5% WACC and 5% terminal growth).

Scenario 3: Stock price will be varied from the lowest at THB 18.5 (11% WACC and 2.5% terminal growth) to the highest at THB 45.0 (8.5% WACC and 5% terminal growth).

Scenario 4: Stock price will be varied from the lowest at THB 18.8 (11% WACC and 2.5% terminal growth) to the highest at THB 46.0 (8.5% WACC and 5% terminal growth).

Scenario 5: Stock price will be varied from the lowest at THB 19 (11% WACC and 2.5% terminal growth) to the highest at THB 46.9 (8.5% WACC and 5% terminal growth).

Scenario 6: Stock price will be varied from the lowest at THB 22.9 (5% high growth rate and 2.5% terminal growth) to the highest at THB 36.4 (25% high growth rate and 5.0% terminal growth).

As a conclusion, the lower Weighted Average Cost of Capital (WACC), the higher stock price while keep other variables constant and the higher growth rate (both high growth and terminal growth), the higher stock price while keep other variables constant.

CHAPTER II

DATA

2.1 Company's Information

2.1.1 Business Structure

Structure of Business Group

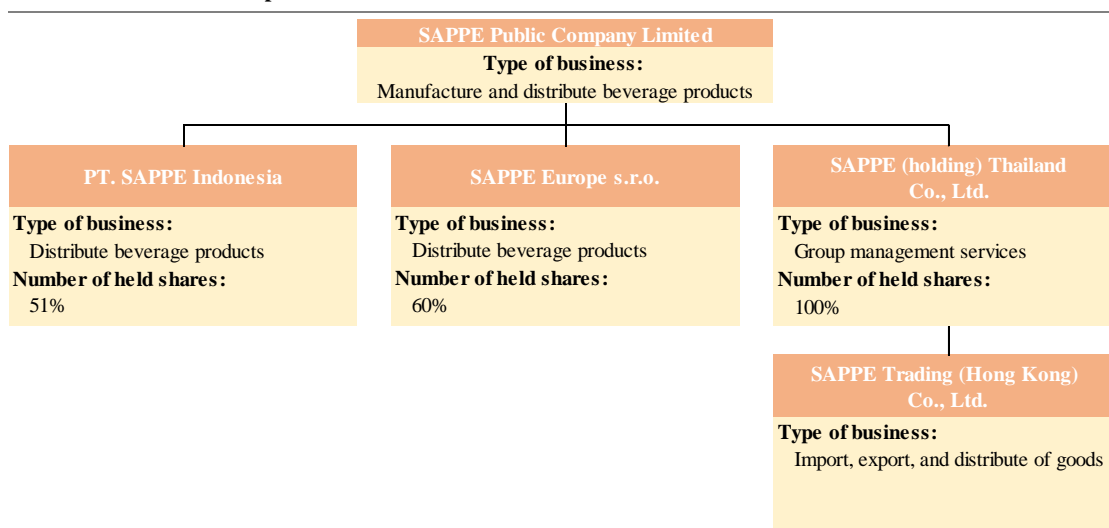


Figure 2.1 SAPPE's subsidiaries as of September 30, 2015

Source: Note to financial Statement at the end of September 2015

2.1.2 Income Statement

Table 2.1 5-year Income Statement and Forecast

	Unit: Baht							
Income Statement	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Revenue from sales of goods	1,802,260,897	2,381,771,048	2,816,756,229	2,508,490,667	2,980,587,448	3,541,532,625	4,208,047,424	5,000,000,000
Other Incomes	24,786,844	28,702,315	40,828,006	43,164,000	47,359,516	52,872,766	59,423,608	67,207,315
Net foreign exchange gain	3,063,533.00	-	-	-	-	-	-	-
Total Income	1,830,111,274	2,410,473,363	2,857,584,235	2,551,654,667	3,027,946,964	3,594,405,391	4,267,471,032	5,067,207,315
Cost of Sales of goods	1,257,050,252	1,596,227,498	1,702,987,834	1,505,094,400	1,788,352,469	2,124,919,575	2,524,828,455	3,000,000,000
Gross Profit	573,061,022	814,245,865	1,154,596,401	1,046,560,267	1,239,594,495	1,469,485,816	1,742,642,578	2,067,207,315
Selling Expense	308,472,752	415,548,353	474,232,724	429,779,082	510,663,306	606,769,904	720,963,719	856,648,756
Administrative Expenses	160,962,642	185,206,663	206,625,457	201,035,986.87	238,870,866.46	283,826,252.87	337,242,222.17	400,711,052.15
Net foreign exchange loss	-	14,404,752.00	163,902.00	-	-	-	-	-
EBIT	103,625,628	199,086,097	473,574,318	415,745,198	490,060,322	578,889,660	684,436,637	809,847,506
Finance cost	12,246,630	18,197,072	6,663,552	146,607	146,607	146,607	146,607	146,607
EBT	91,378,998	180,889,025	466,910,766	415,598,591	489,913,715	578,743,052	684,290,030	809,700,899
Income Tax Expense	23,818,866.00	44,258,815.00	96,368,288.00	98,597,932.47	116,228,689.15	137,302,843.86	162,343,144.72	192,096,018.60
Net Income	67,560,132	136,630,210	370,542,478	317,000,658	373,685,026	441,440,209	521,946,885	617,604,881

Source: Company's Annual Report and Team's Forecast



2.1.3 Statement of Financial Position

Table 2.2 5-year Statement of Financial Position and Forecast

	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Unit: Baht								
Balance Sheet								
Asset								
Cash and Cash Equivalents	68,561,766	88,268,548	322,450,024	289,908,540	293,591,871	325,883,199	372,389,402	432,309,162
Current Investments	526,213	71,346	245,595,446	245,595,446	245,595,446	245,595,446	245,595,446	245,595,446
Trade account Receivable	265,450,938	283,795,746	298,203,205	311,309,790	369,898,149	439,512,809	522,228,916	620,512,156
Other Receivables	43,040,408	71,536,373	172,856,774	96,395,471	114,537,053	136,092,874	161,705,490	192,138,388
Short-Term loans to related party	-	-	-	-	-	-	-	-
Inventories	172,523,703	204,826,984	223,065,422	218,168,109	259,227,246	308,013,694	365,981,729	434,859,320
Other Current Assets	7,262,486	6,491,012	16,907,042	10,667,065	12,674,601	15,059,955	17,894,232	21,261,918
Total Current Assets	557,365,514	654,990,009	1,279,077,913	1,172,044,421	1,295,524,367	1,470,157,977	1,685,795,214	1,946,676,390
Fixed Deposit	3,426,000	-	-	-	-	-	-	-
Investment in Subsidiaries	-	-	-	-	-	-	-	-
Property Plant and Equipment	586,801,408	663,661,017	763,431,458	1,088,540,336	1,140,336,063	1,175,124,058	1,192,904,321	1,193,676,851
Intangible Assets	15,178,552	14,837,502	23,598,095	49,785,410	53,456,046	56,076,446	57,646,613	58,166,545
Deferred Tax Assets	4,319,070	3,685,256	5,057,078	5,057,078	118,420,158	298,177,894	512,493,819	778,411,473
Other Non-Current Assets	983,600	3,947,149	9,983,254	4,805,609	5,710,023	6,784,646	8,061,514	9,576,687
Total Non Current Assets	610,708,630	686,130,924	802,069,885	1,148,188,433	1,317,922,289	1,536,163,045	1,771,106,266	2,039,833,555
Total Assets	1,168,074,144	1,341,120,933	2,081,147,798	2,320,232,854	2,613,446,656	3,006,321,022	3,456,901,480	3,986,509,945
Liabilities and Shareholder Equities								
Short-term Loans From Financial Institution	275,000,000	350,000,000	-	-	-	-	-	-
Trade Account Payable	187,025,597	181,794,857	216,812,555	214,953,915	255,408,142	303,475,836	360,589,848	428,452,690
Other Payables	191,278,605	216,942,280	252,852,456	239,964,969	285,126,264	338,786,895	402,546,432	478,305,484
Current portion of long-term loans from Financial Institution	50,400,000	83,760,000	-	-	-	-	-	-
Short-term Loans From Related parties	-	4,727,307	4,284,036	4,284,036	4,284,036	4,284,036	4,284,036	4,284,036
Current portion of Financial lease liability	631,034	360,632	371,651	371,651	371,651	371,651	371,651	371,651
Income Tax Payable	11,865,385	31,161,096	34,014,054	51,112,347	60,251,984	71,176,650	84,157,334	99,580,976
Total Current Liabilities	716,200,621	868,746,172	508,334,752	510,686,917	605,442,078	718,095,069	851,949,301	1,010,994,837
Long-term Loans From Financial Institution	61,800,000	55,800,000	-	-	-	-	-	-
Finance Lease Liability	1,311,161	950,529	578,878	-	-	-	-	-
Employee Benefit Obligations	7,240,869	9,005,591	10,995,180	10,995,180	10,995,180	10,995,180	10,995,180	10,995,180
Other Non-Current Liabilities	-	4,430,325	4,368,822	41,834,023	4,368,822	4,368,822	4,368,822	4,368,822
Total Non-Current Liabilities	70,352,030	70,186,445	15,942,880	52,829,203	15,364,002	15,364,002	15,364,002	15,364,002
Total Liabilities	786,552,651	938,932,617	524,277,632	563,516,120	620,806,080	733,459,071	867,313,303	1,026,358,839
Shareholder Equities								
Authorised Share Capital	225,000,000	304,620,000	304,620,000	304,620,000	304,620,000	304,620,000	304,620,000	304,620,000
Issued and Paid-up Share Capital	225,000,000	225,000,000	300,000,000	300,821,943	301,848,000	303,234,000	304,471,000	304,471,000
Premium on Ordinary Shares	-	-	913,681,651	921,181,881	930,544,651	943,191,901	954,479,526	954,479,526
Warrants	-	-	4,994,530	6,318,530	7,642,530	8,966,530	-	-
Retained Earnings								
Legal Reserve	-	8,405,261	30,462,000	30,462,000	30,462,000	30,462,000	30,462,000	30,462,000
Unappropriated	155,530,046	177,628,045	240,498,819	430,699,214	654,910,229	919,774,355	1,232,942,486	1,603,505,414
Difference from common control transactions	(414,176)	(4,779,518)	(4,779,518)	(4,779,518)	(4,779,518)	(4,779,518)	(4,779,518)	(4,779,518)
Currency translation differences	-	(1,213,637)	(1,190,339)	(1,190,339)	(1,190,339)	(1,190,339)	(1,190,339)	(1,190,339)
Equity attributable to owners of the company	380,115,870	405,040,151	1,483,667,143	1,683,513,711	1,919,437,553	2,199,658,929	2,516,385,155	2,886,948,083
Non-Controlling interests	1,405,623	(2,851,835)	73,203,023	73,203,023	73,203,023	73,203,023	73,203,023	73,203,023
Total Shareholder Equities	381,521,493	402,188,316	1,556,870,166	1,756,716,734	1,992,640,576	2,272,861,952	2,589,588,178	2,960,151,106
Total Liabilities and Shareholder Equities	1,168,074,144	1,341,120,933	2,081,147,798	2,320,232,854	2,613,446,656	3,006,321,022	3,456,901,480	3,986,509,945

Source: Company's Annual Report and Team's Forecast

2.1.4 Statement of Cash Flow

Table 2.3 5-year Statement of Cash Flow and Forecast

	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	Unit: Baht
Cash Flow									
Cash Flow from Operating									
Net Income	67,560,132	136,630,210	370,542,478	317,000,658	373,685,026	441,440,209	521,946,885	617,604,881	
Adjustment for Non Cash Expense									
Depreciation	50,506,933	77,501,241	90,492,646	129,363,206	146,370,939	163,378,672	180,386,404	197,394,137	
Amortisation of Intangible Assets	1,956,956	2,139,880	2,394,022	6,343,130	7,393,365	8,443,599	9,493,834	10,544,068	
Loss from Write-off Intangible Asset	1,873	-	-	-	-	-	-	-	
Interest Income	(1,122,130)	(329,550)	(3,468,061)	(2,006,871)	(2,006,871)	(2,006,871)	(2,006,871)	(2,006,871)	
Finance Costs	12,246,630	18,197,072	6,663,552	146,607	146,607	146,607	146,607	146,607	
Doubtful debts expense (Reversal)	66,763	8,711,760	(714,442)	2,962,940	3,520,564	4,183,133	4,970,396	5,905,823	
Provision for decline in value of inventories (Reversal)	6,463,035	(9,110,945)	1,621,282	18,088.84	21,493.15	25,538.15	30,344.42	36,055.23	
Unrealised loss (Gain) on Exchange rates	(804,775)	(5,051,836)	8,110,321	-	-	-	-	-	
Unrealised loss (Gain) from current Investment revaluation	-	287,931	(704,083)	-	-	-	-	-	
Loss on Sales PPE	(354,367)	232,557	(939,255)	-	-	-	-	-	
Employee benefits Obligations	534,298	1,764,722	2,636,665	2,636,665	2,636,665	2,636,665	2,636,665	2,636,665	
Share-Based Payment Transactions	-	-	4,994,530	6,318,530	7,642,530	8,966,530	-	-	
Income tax expense	23,818,866	44,258,815	96,368,288	98,597,932	116,228,689	137,302,844	162,343,145	192,096,019	
NI after Adjusted Non Cash Expense	160,874,214	275,231,857	577,997,943	561,380,887	655,639,007	764,516,925	879,947,410	1,024,357,383	
Changes in Operating Assets and Liabilities									
Trade Account Receivable	(56,121,456)	(21,516,767)	(18,411,619)	(13,106,585)	(58,588,358)	(69,614,660)	(82,716,107)	(98,283,240)	
Other Receivables	(13,253,514)	(28,426,255)	(88,021,143)	76,461,303	(18,141,583)	(21,555,820)	(25,612,616)	(30,432,898)	
Inventories	(48,033,827)	(23,192,336)	(19,859,721)	4,897,313	(41,059,137)	(48,786,448)	(57,968,035)	(68,877,592)	
Other Current Assets	(5,981,625)	771,474	(10,416,030)	6,239,977	(2,007,537)	(2,385,354)	(2,834,277)	(3,367,686)	
Other Non-Current Assets	1,523,106	(2,963,549)	(6,036,105)	5,177,645	(904,413)	(1,074,624)	(1,276,867)	(1,517,173)	
Trade Account Payable	20,648,190	(5,230,740)	35,017,698	1,858,640	(40,454,227)	(48,067,694)	(57,114,012)	(67,862,842)	
Other Payables	116,284,276	13,611,046	18,325,592	12,887,487	(45,161,296)	(53,660,631)	(63,759,537)	(75,759,052)	
Other Non-Current Liabilities	-	-	(61,503)	-	-	-	-	-	
Cash Generated from Operating Activities	175,939,364	208,284,730	488,535,112	655,796,668	449,322,456	519,371,694	588,665,960	678,256,900	
Employee Benefits Obligations Paid	-	-	(210,000)	-	-	-	-	-	
Income Tax Paid	(24,431,227)	(24,329,290)	(94,887,152)	(84,138,365)	(99,183,539)	(117,167,130)	(138,535,225)	(163,924,785)	
Net Cash From Operating Activities	151,508,137	183,955,440	393,437,960	571,658,303	350,138,917	402,204,565	450,130,735	514,332,115	
Cash Flow from Investing									
Interest Received	1,122,130	329,550	2,386,417	2,006,871	2,006,871	2,006,871	2,006,871	2,006,871	
Purchase of Current Investment	(200,927)	(103,533,064)	(1,233,291,703)	-	-	-	-	-	
Sale of Current Investment	-	103,700,000	988,471,686	-	-	-	-	-	
Restricted Fixed Deposit	7,312,778	3,426,000	-	-	-	-	-	-	
Short Term loan to related Parties	-	-	-	-	-	-	-	-	
Purchase of PPE	(271,209,862)	(143,364,374)	(179,868,799)	(454,472,542)	(198,166,667)	(198,166,667)	(198,166,667)	(198,166,667)	
Sales of PPE	1,404,960	-	1,846,319	-	-	-	-	-	
Purchase of Intangible Assets	(2,325,861)	(1,377,150)	(8,809,566)	(32,530,540)	(11,064,000)	(11,064,000)	(11,064,000)	(11,064,000)	
Net Cash Outflow on Acquisition and Investment in Subsidiary	-	-	-	-	-	-	-	-	
Difference arising from Common control transactions	-	(1,707,147)	-	-	-	-	-	-	
Foreign Currency Translation differences for Foreign Operations	-	(2,393,294)	469,578	-	-	-	-	-	
Net Cash used in Investing Activities	(263,896,782)	(144,919,479)	(428,796,068)	(484,996,211)	(207,223,796)	(207,223,796)	(207,223,796)	(207,223,796)	
Cash Flow from Financing Activities									
Interest Paid	(12,812,864)	(18,029,205)	(7,143,569)	(146,607)	(146,607)	(146,607)	(146,607)	(146,607)	
Dividend Paid	-	(112,500,000)	(275,625,000)	(126,800,263)	(149,474,010)	(176,576,083)	(208,778,754)	(247,041,952)	
Finance Leas Payment	(1,006,233)	(631,034)	(360,632)	(578,878)	-	-	-	-	
Proceeds from Short-term loans	174,913,084	4,228,727,307	1,335,000,000	-	-	-	-	-	
Proceeds from Long-term loans	64,000,000	100,000,000	-	-	-	-	-	-	
Repayment of Short-term loans	(256,000,000)	(4,149,000,000)	(1,685,000,000)	-	-	-	-	-	
Repayment of Long term loans	(37,800,000)	(72,640,000)	(139,560,000)	-	-	-	-	-	
Proceed from issue of ordinary Shares	220,000,000	-	1,012,500,000	8,322,173	10,388,827	14,033,250	12,524,625	-	
Transaction costs from issue of Shares	-	-	(23,818,349)	-	-	-	-	-	
Sales of Interest in Subsidiary to Non-Controlling Interests	-	4,696,813	53,588,408	-	-	-	-	-	
Net Cash from Financing Activities	151,293,987	(19,376,119)	269,580,858	(119,203,576)	(139,231,790)	(162,689,441)	(196,400,736)	(247,188,559)	
Change During the Year				(32,541,484)	3,683,331	32,291,328	46,506,203	59,919,759	
Beginning Cash	-	-	-	322,450,024	289,908,540	293,591,871	325,883,199	372,389,402	
Ending Cash				289,908,540	293,591,871	325,883,199	372,389,402	432,309,162	

Source: Company's Annual Report and Team's Forecast

2.1.5 Breakdown of revenue

Table 2.4 Breakdown of revenue by product group

Unit: Baht					
Category of Products	2013A	2014A	2013 CommonSize	2014 CommonSize	2014 Trend
REVENUES FROM SALE OF GOODS AND RENDERING OF SERVICES	2,381,771,048	2,816,756,229	100%	100%	18%
<i>Functional Beverage Category</i>	<i>622,000,000</i>	<i>485,900,000</i>	<i>26%</i>	<i>17%</i>	<i>-22%</i>
<i>Fruit Juice and Juice Drink Category</i>	<i>1,283,400,000</i>	<i>1,847,700,000</i>	<i>54%</i>	<i>66%</i>	<i>44%</i>
<i>Functional Powder Category</i>	<i>397,200,000</i>	<i>446,300,000</i>	<i>17%</i>	<i>16%</i>	<i>12%</i>
<i>Other Ready to Drink Category</i>	<i>79,100,000</i>	<i>36,900,000</i>	<i>3%</i>	<i>1%</i>	<i>-53%</i>

Unit: Baht					
Category of Products	2015F	2016F	2017F	2018F	2019F
REVENUES FROM SALE OF GOODS AND RENDERING OF SERVICES	2,508,490,667	2,980,587,448	3,541,532,625	4,208,047,424	5,000,000,000
<i>Functional Beverage Category</i>	<i>426,443,413</i>	<i>506,699,866</i>	<i>602,060,546</i>	<i>715,368,062</i>	<i>850,000,000</i>
<i>Fruit Juice and Juice Drink Category</i>	<i>1,655,603,840</i>	<i>1,967,187,716</i>	<i>2,337,411,532</i>	<i>2,777,311,300</i>	<i>3,300,000,000</i>
<i>Functional Powder Category</i>	<i>401,358,507</i>	<i>476,893,992</i>	<i>566,645,220</i>	<i>673,287,588</i>	<i>800,000,000</i>
<i>Other Ready to Drink Category</i>	<i>25,084,907</i>	<i>29,805,874</i>	<i>35,415,326</i>	<i>42,080,474</i>	<i>50,000,000</i>

Source: Company's Opportunity day presentation and Team's Forecast

Table 2.5 Breakdown of revenue by Geographical

Unit: Baht							
Geographical	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Total	2,381,700,000	2,816,800,000	2,508,490,667	2,980,587,448	3,541,532,625	4,208,047,424	5,000,000,000
<i>Domestic</i>	<i>1,197,100,000</i>	<i>1,109,100,000</i>	<i>987,704,842</i>	<i>1,086,475,326</i>	<i>1,195,122,859</i>	<i>1,314,635,144</i>	<i>1,446,098,659</i>
<i>Foreign</i>	<i>1,184,600,000</i>	<i>1,707,700,000</i>	<i>1,520,785,825</i>	<i>1,894,112,122</i>	<i>2,346,409,766</i>	<i>2,893,412,280</i>	<i>3,553,901,341</i>
<i>- Asia</i>		<i>1,301,361,600</i>	<i>1,041,089,280</i>	<i>1,296,658,473</i>	<i>1,606,289,337</i>	<i>1,980,752,620</i>	<i>2,432,905,757</i>
<i>- EU & America</i>		<i>245,061,600</i>	<i>267,117,144</i>	<i>332,689,727</i>	<i>412,133,165</i>	<i>508,210,960</i>	<i>624,222,005</i>
<i>- Middle East and Other</i>		<i>161,276,800</i>	<i>212,579,401</i>	<i>264,763,922</i>	<i>327,987,264</i>	<i>404,448,699</i>	<i>496,773,579</i>

Source: Company's Opportunity day presentation and Team's Forecast

2.1.6 Key Financial Ratio

Table 2.6 Key Financial Ratio

Key Financial Ratio	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Liquidity Ratio							
Current Ratio (x)	0.75	2.52	2.30	2.14	2.05	1.98	1.93
Quick Ratio (x)	0.51	1.56	1.37	1.29	1.26	1.24	1.23
Cash Ratio (x)	0.10	0.63	0.57	0.48	0.45	0.44	0.43
Efficiency Ratio							
Total Asset Turnover (x)	1.90	1.65	1.14	1.21	1.26	1.30	1.34
Fixed Asset Turnover (x)	3.67	3.79	2.57	2.42	2.48	2.54	2.62
Acc Receivable Turnover (x)	8.67	9.68	8.23	8.75	8.75	8.75	8.75
Collection Period (days)	42	38	44	42	42	42	42
Inventory Turnover (x)	8.46	7.96	6.82	7.49	7.49	7.49	7.49
Days in Inventory (days)	43	46	54	49	49	49	49
Payables Turnover (x)	8.83	8.64	6.95	7.78	7.78	7.78	7.78
Payables Period (days)	41	42	53	47	47	47	47
Cash Conversion Cycle (days)	44	41	45	44	44	44	44
Profitability Ratio							
Gross Profit Margin (%)	33.0%	39.5%	40.0%	40.0%	40.0%	40.0%	40.0%
Operating Profit Margin (%)	8.4%	16.8%	16.6%	16.4%	16.3%	16.3%	16.2%
EBITDA Margin (%)	11.6%	19.8%	21.6%	21.3%	20.9%	20.5%	20.1%
Net Profit Margin (%)	5.7%	13.2%	12.6%	12.5%	12.5%	12.4%	12.4%
ROA (%)	15.9%	27.7%	18.9%	19.9%	20.6%	21.2%	21.8%
ROE (%)	34.9%	37.8%	19.1%	19.9%	20.7%	21.5%	22.3%
SG&A/Sale	25.2%	24.2%	25.1%	25.1%	25.1%	25.1%	25.1%
Solvency Ratio							
Debt Ratio (%)	70.0%	25.2%	24.3%	23.8%	24.4%	25.1%	25.7%
Debt to Equity Ratio (x)	2.33	0.34	0.32	0.31	0.32	0.33	0.35
Equity Multiply (x)	3.20	1.75	1.33	1.32	1.32	1.33	1.34
Long Term Debt Ratio (%)	5.2%	0.8%	2.3%	0.6%	0.5%	0.4%	0.4%
Interest Coverage Ratio (x)	10.94	71.07	2,835.78	3,342.68	3,948.58	4,668.51	5,523.93

Source: Company's Annual Report and Team's Forecast

2.1.7 Financial Statement Analysis (Income Statement)

Table 2.7 YE 2014 Income Statement among peers

<i>Income Statement</i>	Unit: Thousand Baht										
	SAPPE		MALEE		ICHI		CBG		TIPCO		AVERAGE
Sales	2,816,756	98.57%	4,767,350	98.25%	6,179,080	99.52%	7,448,434	98.33%	5,507,795	94.19%	
Other Incomes	40,828		84,739		29,785		126,209		339,998		
Total Revenue	2,857,584		4,852,088		6,208,865		7,574,643		5,847,794		
COGS	1,702,988	60.46%	3,182,679	66.76%	4,065,204	65.79%	4,938,649	66.30%	3,825,353	69.45%	65.73%
Gross profit	1,154,596		1,669,409		2,143,661		2,635,994		2,022,441		
SG&A	680,858	24.17%	1,248,722	26.19%	1,024,598	16.58%	1,274,589	17.11%	2,008,253	36.46%	24.10%
EBIT	473,738		420,687		1,119,063		1,361,405		68,365		
Finance Cost	6,664		36,550		99,415		111,622		83,415		
EBT	466,911		381,057		1,019,674		1,249,783		15,050		
Income Tax Expense	96,368		74,589		59,087		23,813		68,778		
Net Income	370,542		306,468		1,078,761		1,225,970		53,728		

Source: Company's Financial Statement



2.1.8 Financial Statement Analysis (Statement of Financial Position)

Table 2.8 YE 2014 Statement of Financial position among peers

	SAPPE	MALEE	ICHI	CBG	TIPCO	Unit: Thousand Baht					
						AVERAGE					
Balance Sheet											
<i>Current Assets</i>											
Cash and cash equivalent	322,450	50,472	151,787	528,084	41,657						
Current investment	245,595	-	-	900,100	3,737						
AR & other receivables	471,060	22.63%	836,551	27.96%	987,352	10.96%	308,444	4.37%	485,733	8.80%	14.94%
Inventories	223,065	10.72%	799,765	26.73%	675,903	7.50%	317,990	4.50%	935,937	16.95%	13.28%
Other current assets	16,907		53,011		100,636		65,282		13,178		
Current Assets	1,279,078		1,739,799		1,915,678		2,119,900		1,480,243		
<i>Non-current Assets</i>											
Fixed Deposit	-	14,001	-	7,567	1,451,225						
Property Plant and Equipment	763,431	1,132,726	6,795,181	4,753,772	2,418,613						
Intangible Assets	23,598	54,595	86,573	17,343	39,320						
Deferred Tax Assets	5,057	25,499	59,487	25,409	115,572						
Other Non-Current Assets	9,983	25,450	151,314	139,520	16,491						
Total Non Current Assets	802,070	1,252,272	7,092,555	4,943,611	4,041,221						
Total Assets	2,081,148	2,992,071	9,008,234	7,063,511	5,521,464						
Liabilities and Shareholder's equity											
<i>Current liabilities</i>											
Short-term Loans From Financial I	-	1,023,466	28,224	-	1,467,109						
AP & Other Payables	469,665	89.58%	647,337	32.76%	544,048	19.34%	797,133	77.03%	494,382	17.87%	47.31%
Short-term Loans From Related pa	4,284		-		-						
Current portion of long-term loans	-	10,307	153,841		182,352						
Current portion of Financial lease li	372	16,642	101,358								
Income Tax Payable	34,014	30,391	-	105,294	8,251						
Other Current Liabilities	-	48,664	194,432	68,734	17,856						
Total Current Liabilities	508,335	1,776,807	1,021,902	971,162	2,169,950						
Long-term Loans	579	18,711	1,780,437		551,932						
Finance Lease Liability	10,995	64,322	-	-							
Employee Benefit Obligations	4,369	62,714	10,960	52,914	39,779						
Other Non-Current Liabilities	-	53,663	-	10,814	4,826						
Total Non-Current Liabilities	15,943	199,410	1,791,398	63,728	596,537						
Total Liabilities	524,278	1,976,217	2,813,300	1,034,891	2,766,487						
<i>Shareholder equities</i>											
<i>Share Capital</i>											
Authorised Share Capital	304,620	140,000	1,300,000	1,000,000	5,000						
Issued and Paid-up Share Capital	300,000	140,000	1,300,000	1,000,000	482,580						
Equity attributable to owners of the	1,483,667	1,011,734	6,194,934	6,028,621	2,330,086						
Non-Controlling interests	73,203	4,121	-	-	424,891						
Total Equity	1,556,870	74.81%	1,015,854	33.95%	6,194,934	68.77%	6,028,621	85.35%	2,754,978	49.90%	62.55%
Total Liabilities and Shareholder	2,081,148	2,992,071	9,008,234	7,063,511	5,521,464						

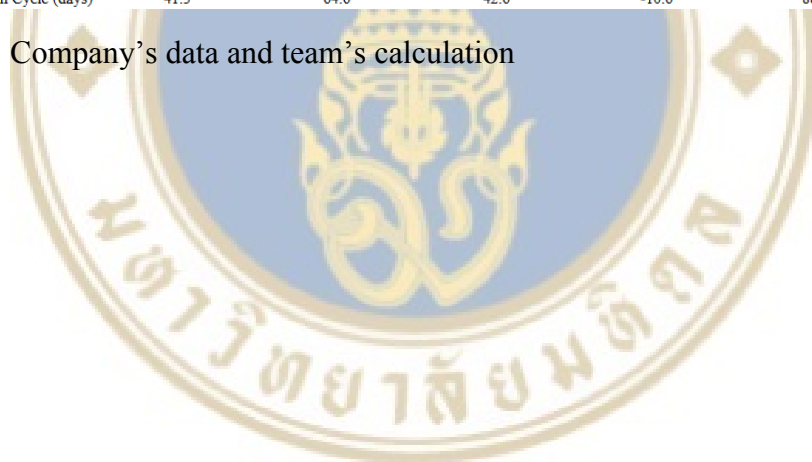
Source: Company's Financial Statement

2.1.9 Financial Statement Analysis (Key ratio)

Table 2.9 Key ratio among peers

	SAPPE	MALEE	ICHI	CBG	TIPCO	AVERAGE
Liquidity Ratio						
Current Ratio (x)	2.5	1.0	1.9	2.2	0.7	1.6
Quick Ratio (x)	2.0	0.5	1.1	1.8	0.2	1.1
Cash Ratio (x)	1.1	0.0	0.1	1.5	0.0	0.6
Profitability Ratio						
Gross Profit Margin (%)	39.5%	33.2%	34.2%	33.7%	30.5%	34.2%
Operating profit Margin (%)	16.8%	8.8%	18.1%	18.3%	1.2%	12.7%
Net Profit Margin (%)	13.2%	6.4%	17.5%	16.5%	1.0%	10.9%
ROA (%)	27.7%	15.6%	14.4%	22.0%	1.2%	16.2%
ROE (%)	37.8%	33.2%	26.4%	34.2%	1.9%	26.7%
SG&A/Sale	24.2%	26.2%	16.6%	17.1%	36.5%	24.1%
Solvency Ratio						
Debt Ratio (%)	25.2%	66.0%	31.2%	14.7%	50.1%	37.4%
Debt to Equity Ratio (x)	0.3	1.9	0.5	0.2	1.0	0.8
Equity Multiply (x)	1.7	2.9	1.9	1.7	2.1	2.1
Long Term Debt Ratio (%)	0.8%	6.7%	19.9%	0.9%	10.8%	7.8%
Interest Coverage Ratio (x)	71.1	11.5	11.3	12.2	0.8	21.4
Efficiency Ratio						
Total Assets Turnover	1.6	1.8	0.8	1.2	0.9	1.3
Fixed Assets Turnover	3.8	4.3	1.0	1.7	1.4	2.4
Acc Receivable Turnover (x)	9.7	7.0	7.2	29.1	13.9	13.4
Collection Period (days)	37.7	52.1	50.7	12.5	26.3	35.9
Inventory Turnover (x)	8.0	4.2	13.0	18.9	4.1	9.6
Days in Inventory (days)	45.9	86.9	28.1	19.3	89.0	53.8
Payables Turnover (x)	8.6	4.9	10.1	8.6	13.8	9.2
Payables Period (days)	42.3	74.5	36.1	42.4	26.4	44.4
Cash Conversion Cycle (days)	41.3	64.6	42.6	-10.6	88.8	45.3

Source: Company's data and team's calculation



2.1.10 Free Cash Flow to Firm Model and Assumption

Weight Average Cost of Capital: the WACC component is extracted from Bloomberg data, with only the country risk premium, estimated according to the researches of Professor Aswath Damadoran¹.

Table 2.10 Free Cash Flow to Firm Calculation

Unit: Baht					
Free Cash Flow to Firm	2015F	2016F	2017F	2018F	2019F
EBIT	415,745,198	490,060,322	578,889,660	684,436,637	809,847,506
Tax on EBIT	98,632,714	116,263,471	137,337,625	162,377,926	192,130,800
NOPAT (Net Operating Profit After Tax)	317,112,484	373,796,852	441,552,034	522,058,711	617,716,706
Add	381,301,782	399,359,750	417,417,717	435,475,684	453,533,651
<i>Non-operating assets</i>	<i>245,595,446</i>	<i>245,595,446</i>	<i>245,595,446</i>	<i>245,595,446</i>	<i>245,595,446</i>
<i>Depreciation</i>	<i>129,363,206</i>	<i>146,370,939</i>	<i>163,378,672</i>	<i>180,386,404</i>	<i>197,394,137</i>
<i>Amortization</i>	<i>6,343,130</i>	<i>7,393,365</i>	<i>8,443,599</i>	<i>9,493,834</i>	<i>10,544,068</i>
+/- Change in net working capital	(6,350,633)	(140,101,723)	(166,468,802)	(197,798,153)	(235,023,674)
+/- Investment in gross fixed asset	(454,472,542)	(198,166,667)	(198,166,667)	(198,166,667)	(198,166,667)
Free cash flow to firm	237,591,092	434,888,212	494,334,282	561,569,574	638,060,016
Terminal Value					10,233,721,716
Total Free Cash Flow to Firm	237,591,092	434,888,212	494,334,282	561,569,574	10,871,781,732
Total Firm Value	8,280,130,074				
Value of Debt	524,277,632				
Value of Equity	7,755,852,442				
No of Outstanding Share	300,821,943				
Share Price	25.70				
Implied Tax Rate	24% Please see assumption used in Tax expense table - Forecast Development sheet				
Discount Rate	9.42% Please see assumption used in WACC table				
Terminal Growth Rate	3.00% Based on estimate long term inflation rate				

Table 2.11 WACC Calculation

Weight Average Cost of Capital	
Cost of Equity (Ke) from CAPM	
Risk-free rate (Rf)	2.71% 10-year Government Bond (Source: Thai BMA)
Raw Beta from Bloomberg (SAPPE.TB)	1.157
Adjusted Beta by Blume (1971) (b)	1.105
Risk premium (Rm - Rf)	8.15% Based on Moody's rating and adjusted by the relative equity market volatility (Source: Damodaran)
Cost of Equity (Ke)	11.72%
Cost of Debt (Kd)	
From Implied Interest Rate of Interest Bearing	3.42% Please see assumption used in Financial cost table - Forecast Development sheet
Implied Tax Rate	24% Please see assumption used in Tax expense table - Forecast Development sheet
Cost of Debt after Tax (Kd * (1-T))	2.61%
Value of Debt	524,277,632 As of December 31, 2014
Value of Equity	1,556,870,166 As of December 31, 2014
Total Value of Debt and Equity as of 31 Dec 2	2,081,147,798
Weight of Debt (Wd)	25%
Weight of Equity (We)	75%
WACC	9.42%

¹ Aswath Damodaran is a Professor of Finance at the Stern School of Business at New York University. He is best known as author of several widely used academic and practitioner texts on Valuation, Corporate Finance, and Investment Management.

2.1.11 Risk Matrix

Likelihood of Occurrence

The likelihood of the occurrence of a risk can be classified under one of the five categories:

Certain: A risk that is almost certain to show-up with more than 80% likely to cause problems.

Likely: Risks that have 60-80% chances of occurrence can be grouped as likely.

Possible: Risks which have a near 50/50 probability of occurrence.

Unlikely: Risks that have a low probability of occurrence but still cannot be ruled out completely.

Rare: Exceptional risks which have a less than 10% chance of occurrence.

Consequences

The consequences of risks can be ranked and classified into five categories, based on how severe the damage can be.

Insignificant: Risks that will cause a near negligible amount of damage to the overall revenue.

Minor: If a risk will result in some damage, but the extent of damage is not too significant and is not likely to make much of a difference to the overall revenue.

Moderate: Risks which do not impose a great threat, but yet a sizable damage.

Extensive: Risks with significantly large consequences which can lead to a great amount of loss.

Significant: These are the risks which can make the company completely interrupted, and must be a top priority during risk management.

2.1.12 Corporate Governance and Corporate Responsibility

Corporate governance of the Company was classified as “Good” by Thai Institute of Directors (IOD) in 2014.

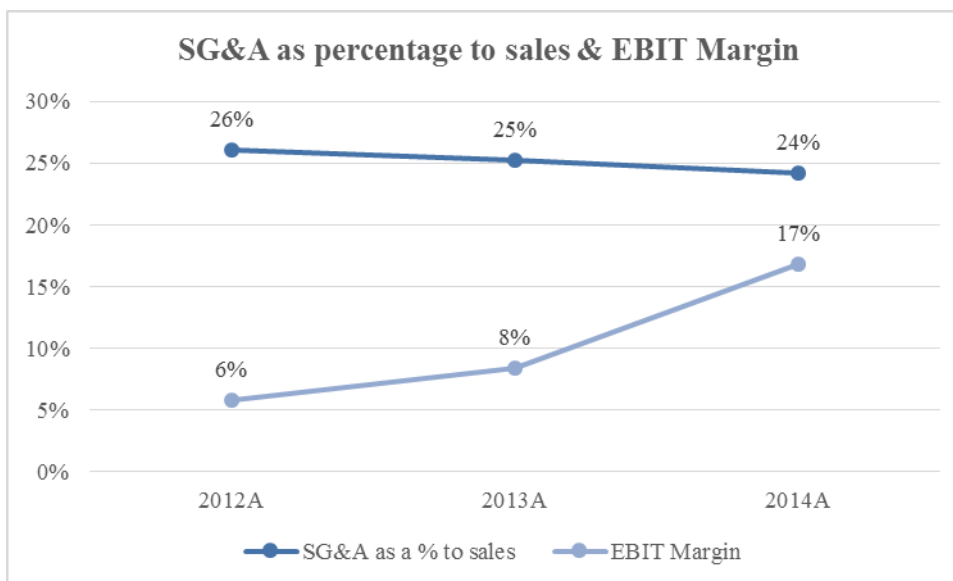
Table 2.12 Weight of Corporate Governance Scoring

Criteria
Shareholders' rights (20%)
Equitable treatment of shareholders (15%)
Role of shareholders (20%)
Disclosure and transparency (20%)
Board responsibilities (25%)
Total weight 100%

Table 2.13 SAPPE's Corporate Governance Rating of 2014

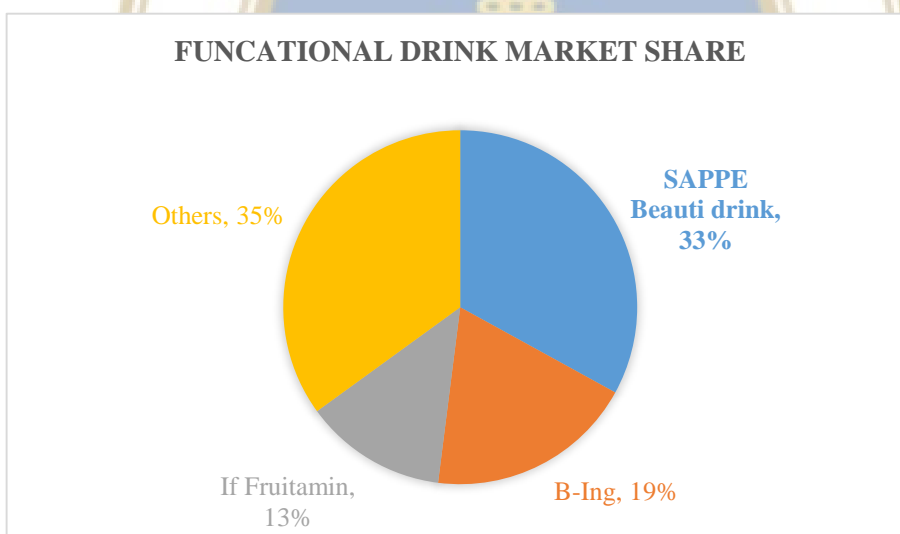
Score Range	Description
Less than 50	N/A
50 - 59	Pass
60 - 69	Satisfactory
<u>70 - 79</u>	<u>Good</u>
80 - 89	Very Good
90 - 100	Excellent

Source: Thai Institute of Directors



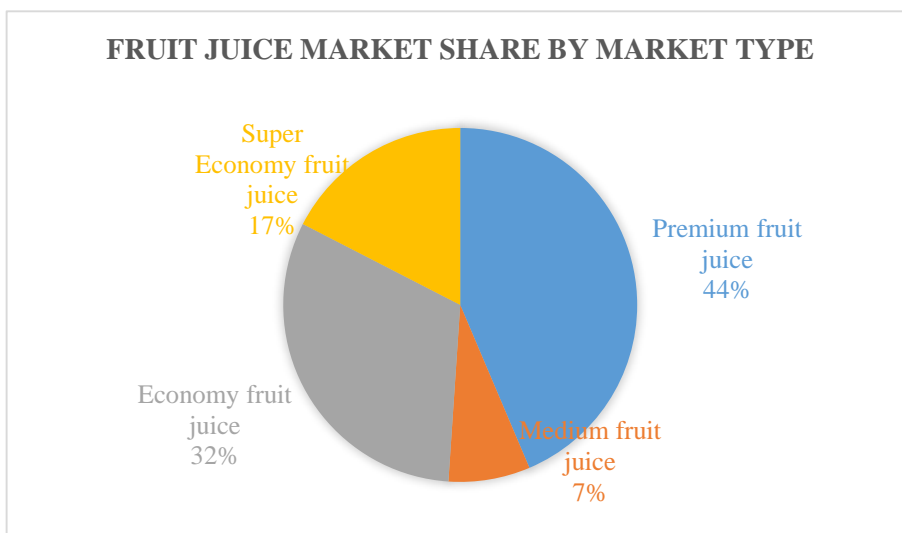
Source: Company data

Figure 2.2 SG&A as percentage to sales & EBIT Margin



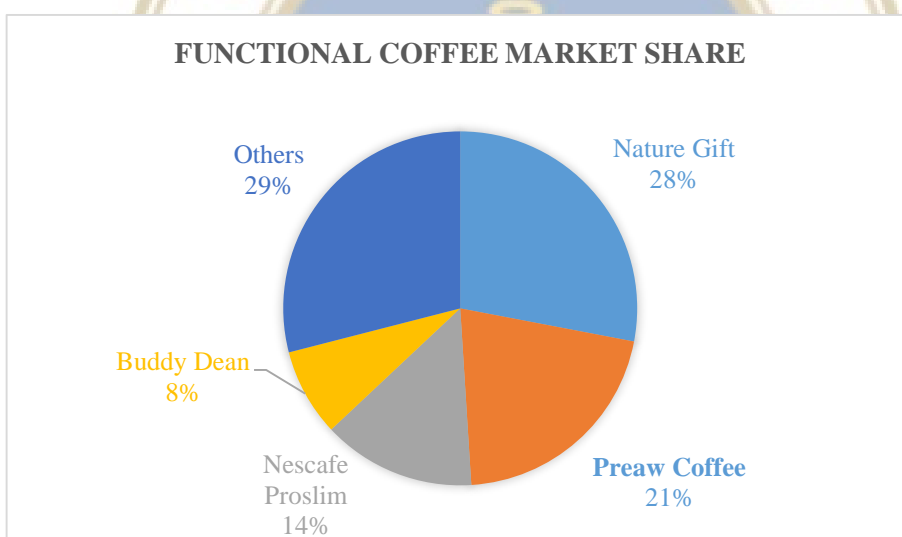
Source: Company's annual report 2014

Figure 2.3 Market share of functional drink



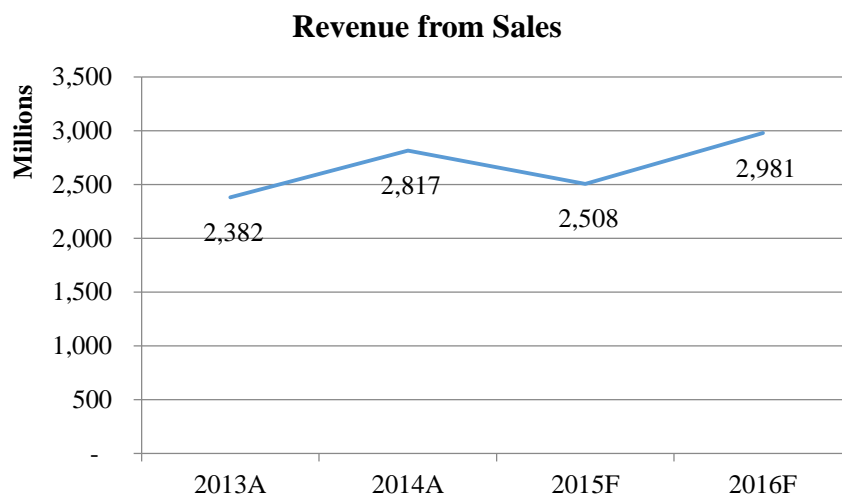
Source: Malee

Figure 2.4 Market share of fruit juice market (by market type)



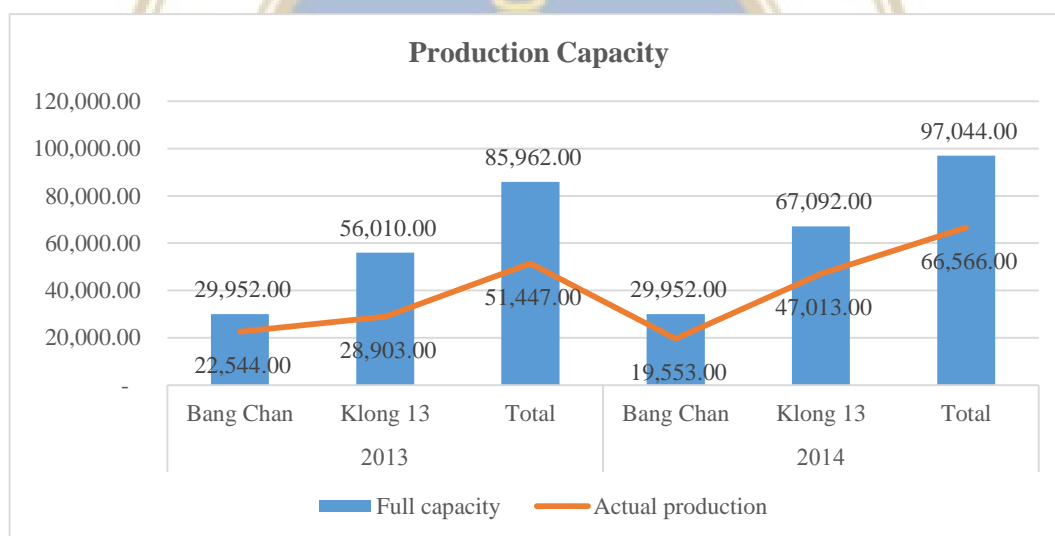
Source: Company's annual report 2014

Figure 2.5 Market share of functional coffee



Source: Company data and team forecast

Figure 2.6 Revenue from sales of goods



Source: Company's annual report 2014

Figure 2.7 Production Capacity (Unit: ton)

REFERENCES

- Eugene F. Brigham & Michael C. Ehrhardt. (2005). *Financial Management: Theory and Practices*. (11th ed.). Singapore: South Western Cengage Learning.
- Marcia M. Cornett, Troy A. Adair & John Nofsinger. (2009). *Finance: Applications & Theory*. (1st ed.). United States: McGraw-Hill.
- SAPPE Public Company Limited. (2015). *Opportunity day presentation*. Retrieved October 27, 2015, from <http://www.set.or.th>
- SAPPE Public Company Limited. (2015). *Annual Report*. Retrieved October 29, 2015, from <http://www.sappe.com>
- Zvi Bodie, Alex Kane, Alan J. Marcus. (2011). *Investment and Portfolio Management* (9th ed.). Singapore: McGraw-Hill.