

**DISCOUNTED CASH FLOW VALUATION OF S. KHONKAEN
FOODS PUBLIC COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
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entitled
**DISCOUNTED CASH FLOW VALUATION OF S. KHONKAEN
FOODS PUBLIC COMPANY LIMITED**

was submitted to the College of Management, Mahidol University
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DISCOUNTED CASH FLOW VALUATION OF GLOBAL PUBLIC COMPANY LIMITED

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M.M. (FINANCIAL MANAGEMENT)

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ASST. PROF. PIYAPAS THARAVANIJ, Ph.D., VASAN SIRAPRAPASIRI, M.Sc.,**ABSTRACT**

This thematic paper demonstrated how to value the stock price of S.KHONKAEN Foods Public Company (SORKON) which applied the concept of the discounted cash flow valuation model. It reflected the company's fair value based on the projection of future cash flow. I applied discounted cash flow valuation method to express the valuation of the company's stock price. I have estimated sales growth, terminal value, and cost of good sales based on company, industrial and economic conditions. Moreover, I also computed WACC calculation using information from company's cost of capital. The valuation is conducted for the next 5 years dating from 2015 – 2019. As a result the SORKON target price from my assumption is 267.45 THB, comparing to the current price of 81.50 THB, therefore we recommend BUY.

KEY WORDS: SORKON / Valuation / Discounted Cash Flow Valuation / Foods and Beverages

45 pages

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LIST OF ABBREVIATIONS



BV	Book Value
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
COD	Commercial Operation Date
COGS	Cost of Goods Sold
D/E	Debt/Equity
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes and Depreciation
EPS	Earning per share
EV	Enterprise value
NOPAT	Net Operating Profit after Taxes
NOWC	Net Operating Working Capital
PE	Price/Earnings
Rf	Risk free
ROA	Return on Assets
ROE	Return on Equity
SET	Stock Exchange of Thailand
SG&A	Selling, General and Administrative Expense
YOY	Year on Year

CHAPTER I

VALUATION

1.1 Highlights

1.1.1 The Market Leader of Thai Foods Industry

With its experiences since 1974 in food industry and uniqueness of products especially in traditional Thai foods, has unlocked SORKON to become dominant leading player in food sector whom able to provide delicious, fresh, clean foods together with sustainable brand awareness and brand loyalty to the market. Company focused on cost management and loss control. Thanks to the Company vision in expanding its swine farm to reduce the risk of volatility in raw material price, this greatly helps the Company to maintain its overall gross profits and growth as planned.

1.1.2 Product Diversifications with Sustainable Growth

SORKON's business model mitigates the uncertainty and riskiness by product diversifications such as expanding product lines to seafood, snack based, Ready to Eat, Quick Service Restaurants and swine farm business. Therefore, the company encounters in less risk from uncontrollable market and economic environment. Moreover, this also increases target customers into more broaden group such as young generation, working people and foreigners as well.

1.1.3 Strong and Large Distribution Channels

One of the main distribution channel is modern trade including Tops Supermarket, Big C, Tesco Lotus, MAKRO, 7-Eleven and gas stations where accounts for 80% of its revenue. Organic sales growth is around 6-8% a year from modern trade channel. The more these modern trade providers expand their branches, the more products on shelf all over countries.

1.2 Business Description

S.Khonkaen Foods Public Company Limited (SORKON) was established in 1974 under Rujirasopon family by the name of SORKON Food Industry Company began as a manufacturer and distributor of processed products from pork “Traditional Thai Foods type”. The Company operates its own swine farms to minimize the risk in pork meat shortage. It maintains market leadership in Thai foods industry by providing delicious, fresh, and clean foods to consumers. In addition, the Company adheres to obtain sustainability and operate its businesses in accordance with good corporate governance and corporate social responsibilities. The Company aims to be a leader of Thai Food industry in international market and create sustainable brand awareness and brand loyalty to the stakeholders through its excellent management. The Company was transformed to a public company and got listed on The Stock Exchange of Thailand (SET) in 1994. S. Khonkaen has a par value of 10 baht per share with 24,255,000 shares outstanding.

The Company later diversified into processed sea food business in 2003 for the objective of products risk diversification to decrease the uncertainty of income being relied on one single business unit. In 2008, the Company successfully launched the Meat-Base-Snack “Entrée”, then entered Ready-To-Eat (RTE) meals and Ready-To-Heat (RTH) industry in one year later via an acquisition of assets, because the Company envisioned that this industry would have decent growth and high potential as change in lifestyle of the people in the major cities. In 2009, the Company created its operation in EU by contracting a manufacturer (an OEM) in Poland to produce traditional Thai foods products under the brand S.Khonkaen. In 2010, the Company introduced Quick Service Restaurant (QSR) to increase its overall profitability as well as to utilize its outlets as another distributional channel for the Company’s products.

1.2.1 Visions

The company aims to be a leader of Thai Food industry in International Market and establish sustainable brand awareness and brand loyalty to the stakeholder through the excellent management.

1.2.2 Missions

Penetrate AEC market by becoming the “kitchen of AEC” as the largest producer of Thai foods and becomes the market leader in Meat-Base and Seafood snack in the AEC and Muslim market (especially in the Middle East markets). Raise brand awareness for Ready-To-Eat (RTE) follow the standard of traditional foods and fish ball in terms of taste, quality, and cleanliness under the quote of “Think of Deliciousness, Think of S.Khonkaen”. Controls production cost by investing and developing in innovative technology to improve productivity, efficiency and lower the cost to become the leading price setter.

1.2.3 Business Strategies

The Company has the ambition to penetrate AEC market initially by appointing authorized dealer in each country to distribute Company’s products. S. Khonkaen will set up a new meat base snack production facility to operate in accordance with Halal standards and EU standards to become a qualifier exporter of meat base snack to Middle East, European countries, and the US. Moreover, the Firm aims to allocate its investments in productivity and adequate it’s CAPEX for its up to date technology improvement and reduction cost programs. The Company is also to approach more in RTE frozen foods and establish a traditional trade department (TT) to penetrate TT market using reasonable price and quality strategies. Lastly, S. Khonkaen will expand its new selling and distribution channels in restaurants chain, point of sales, investments and franchises.

1.2.4 Nature of Business Products

1.2.4.1 Traditional Thai Foods: Traditional Thai foods are one of the Business’s cores with 43% in sales contribution of 2014. The two main factories are in Bangplee and Nakhon Pathom. SORKON and SKKF are responsible in marketing and distribution in which SORKON are supervised for marketing and distribution among channel such as retail business, convenient stores, upcountry dealer, direct sale agent, and for international dealer: Hong Kong and Macau, and SKKF takes care of marketing and distribution in wet market domestically.

Products under this category: Shredded Pork, Crispy Pork, Chinese Sausages, Thai Sausages, Fermented Sausages, Vietnamese Sausages, Pork Balls, and etc. which

marketed under the Company's own brands, namely S.Khonkaen, Moo Dee, Moo Hoar, Huay Kaew, Baan Phai, 3 Rien Thong, Moo Champ and Settri.

1.2.4.2 Processed Seafood (Fish Balls): With 34% sales contribution in 2014, they are produced by the MFP, the Company's subsidiary. SKKF is supervised in marketing and distribution for domestic we market whilst SORKON is the distributor in other channels like retail chains, convenient stores, upcountry dealers, and international market via authorized dealers in US, EU, UK, Japan, Korea, and Hong Kong. The total domestic sales are 90% and 10% for international sales.

Products under this category: fish balls, shrimp balls, and squid balls, they are manufactured in various qualities to approach high-end and low-end markets. Moreover, the processed seafood products re-house brand and Original Equipment Manufacturer (OEM).

1.2.4.3 Meat-Base-Snacks: SORKON appointed DKSH (Thailand) to distribute meat-base-snack which is consisted of Bar-B-Q crispy pork, roasted pork, roasted chicken, Bar-B-Q crispy fried pork, pork-rind, and star shaped crisp rice. These products are Bangplee manufactured base.

1.2.4.4 Ready-To-Eat (RTE) Meals and Ready-To-Heat (RTH) frozen foods: Most of the products are being produced under manufacturing contracts (or OEM contracts). Frozen foods factory served as the central kitchen for the Company's QSR business, "Zapp Express" and "Yunnan".

1.2.4.5 Quick Service Restaurants (QSR): Zapp Express targets on North-eastern Thai foods by using most of the Company's products as ingredients in menus and later launched "Yunnan" restaurants.

1.2.4.6 Swine Farm: The main objective of backward integrating into its own swine farm is to protect the pork meat, the majority raw material the Company's products, to reduce risk from material shortage.



Figure 1.1 Business Structure

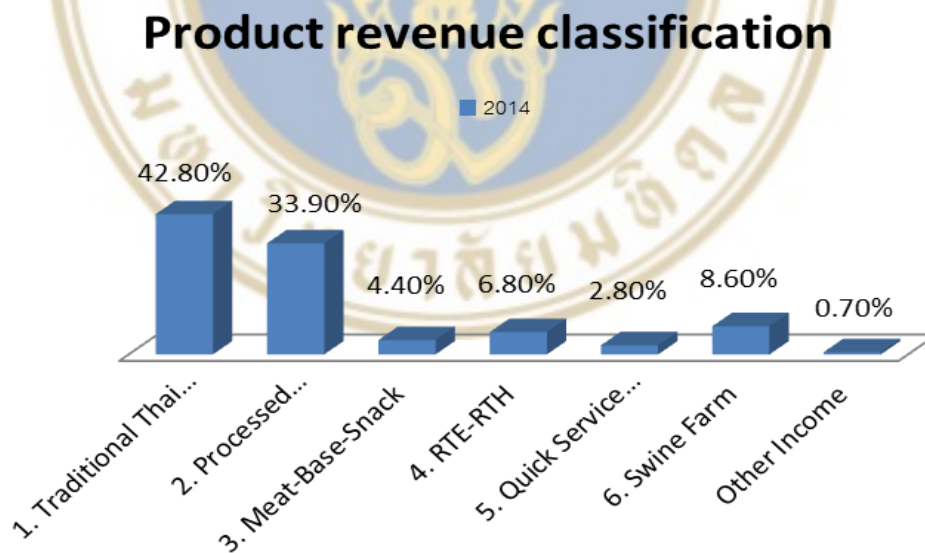


Figure 1.2 Product Revenue Classifications

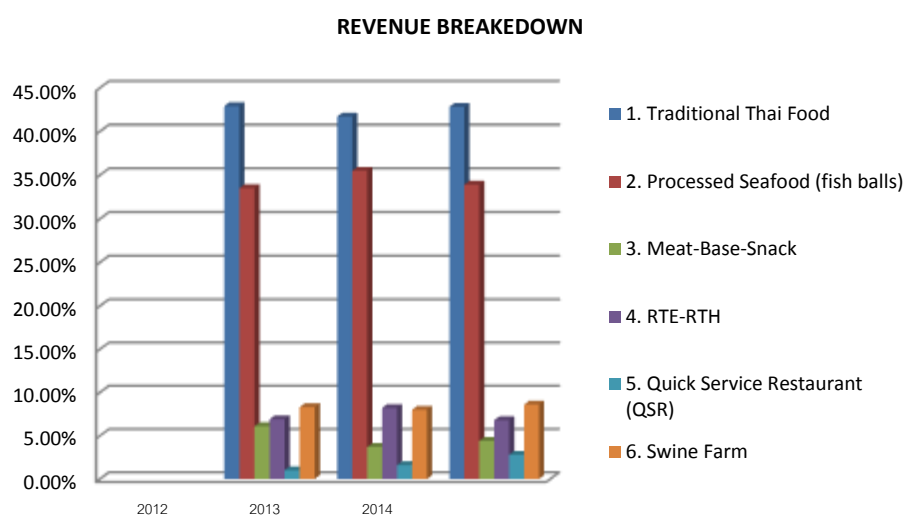


Figure 1.3 Revenue Structures 2013-2014

1.3 Macro-economic Analysis

According to a reliable source trading economics, Thailand's GDP by year 2014 was worth 373.80 billion US dollars. The GDP value of Thailand reflects around 0.60 percent of the world economy. So far, Thailand's averaged GDP is at an approximate of 101 USD billion tracking from 1960 to 2014. In the third quarter of 2015, Thailand GDP grew by 1.0 percent beat the market consensus. As for the upcoming years, we forecasted that Thailand GDP growth is 2.5% as the World Bank adjusted the prediction from 4% (Bangkokpost, 2015). As well as Thai Tradition foods and food industry should grow constantly with forecasted CPI growth rate at 1.53 (food sector) because the trend of food industry and consumers tend to expand which are closely observed by many forecasters (Key Economic Indicator, 2015).

1.3.1 Impact from Asian Economy Community (AEC) markets

The Company aims to penetrate Asian markets and capitalize itself as the kitchen of Traditional Thai Foods by expanding its channels and through OEM serving international markets. AEC in 2016 will allow free movements in 5 areas consisting of product, service, investment, skilled labor and capital. Such that it will generate both benefits and loses to Thai companies and international rivals. However, S.Khonkaen's

quality is at its best and by being unique type of styling in Thai food industry, it will be able to penetrate the open both domestic and international markets in upcoming years. In addition, AEC should provide raw materials if necessary to the Company to mitigate its risk in lacking of raw material, meat pork, too.

1.3.2 Evaluation of Raw Material and Supplies

The Company's most involved ingredients and raw material are meat pork. It is a concern to this type of industry to ensure that there will be enough supply to serve in production in the future. This issue is related to fluctuation in price because it will be the key determination of costs. In 2013, the pork price increased around 20% resulted from the fluctuation of animal feed price. However the trend of pork price tends to sideway up as the demand for pork is rising while the supply side is either stable or less. In term of producer, Thailand is the second largest despite Vietnam. However Vietnam has very high demand where demand and supply are mostly offset out so there is few left for export. Therefore, Thai swine farm still has plenty of opportunity for feeding and being the main player in term of suppliers (producer).



Figure 1.4 AEC Picture Summary

Table 1.1 Facts about Thailand

Facts about Thailand

Population (2014)	65.12 million
ASEAN Population	625 million
Literacy Rate	96%
Minimum Wage	300 Baht/day
GDP (2014)	US\$404.8 billion
GDP per Capita (2014)	US\$6,041.1
GDP Growth (2014)	0.9%
GDP Growth (2015, projected)	3.0-4.0%
Export Growth (2014)	-0.3%
Export Growth (2015, projected)	0.2%
Trade Balance (2014)	US\$24.6 billion
Current Account Balance (2014)	US\$13.1 billion
International Reserves (2014)	US\$157.1 billion
Capacity Utilization (2014)	60.48%
Manufacturing Production Index (2014)	168.2
Core Inflation (2014)	1.59%
Headline Inflation (2014)	1.89%
Consumer Price Index (June 2015) (2011=100)	106.64
Corporate Income Tax	10-20%
Withholding Tax	0-15%
Value Added Tax	7%

1.4 Industry Analysis

In 1Q15, for food sector took the 5th place for earning growth comparing among other sectors with around 30% earnings growth year on year. In term of competition among producer, according to Thai Production Index, we can see the production level is either stable or slightly decrease at 108.84 while Food Production Index decreases from 110 to 109 (Office of Industrial Economic, 2015). Therefore, the trend of having more competitors for food industry is slightly low as no new players added to supply side.

1.4.1 Traditional Thai Foods

During the past recent years, Traditional Thai foods had decent 5-8 percent growth rate. The Company is prepared for dramatic race in modern trade which is considered to be the direct issue to sales numbers despite the Company has the great advantage in term of cost by owning as the market leader of Traditional Foods in the country and becomes the price setter in this industry.

1.4.2 Processed Seafood (Fish Balls)

The Company owns at an approximate of 80 percent in this market shares in the modern trade, while the about other 20 percent are shared among various leading players. One factor in the current situation is the way of life style is moved toward more of Ready-To-Eat meals and instant noodles. Hence, demand of fish balls is increasing accordingly.

1.4.3 Frozen Foods

Current customers' behavior have shifted more toward convenient food products and reflected in a steadily rising of demand in recent years. In addition, the expansion of retail businesses, wholesale business, and restaurants also encouraged the popularity among RTE and RTH.

In addition, distribution channel for food sector has changed from time to time. As we can see that consumer behavior has changed, people tends to go for convenient stores, departments and supermarkets more. Thailand has become one of the largest global markets for 7-eleven and Tesco. We can see the increased in number of stores that modern trade has opened. Major of the SORKON Company's products are distributed via modern trade and convenient store channel. If its products are to be rejected by this channel then it will have largely negative impacts to sales. However, the Company has established good relationship with the distributors alongside with expanding its own channel through QSR line to gain more revenues and have direct contact to customers.

1.5 Competition Positioning

1.5.1 Competition Analysis

S.Khonkaen's main revenue focuses on domestic market and under our observation through media and market data available, we believe that S.Khonkaen is a very strong brand in the competition and possibly considered as one sole leader in the market. However, its products can be further categorized into six different sectors. We are focused on the Company's large earnings only. In addition, we see S.Khonkaen products as being different from other brands simply because of taste and premium quality that S.Khonkaen has been delivered for many years.

Traditional Thai foods are the strongest sales for the Company and the most competent brand in the market. This group of products makes 42.8% of the Company's total revenues. The products are considered to be targeted to certain group of people with preference in traditional Thai foods. At present, no other big brands in SET that have similar products to the Company. Moreover, S. Khonkaen's customers target groups are different from those of other competitors.

The second group of product is processed seafood (seafood balls), they are considered to be the second largest income making to the Company with an approximate 33.9% of the Company's total income. Under this type of products, there are such competitors like CPF, TU, and SNP whom seems to be offering similar products to the same group of customers. These existing competitors have competency to compete directly to S.Khonkaen under this particular product type.

S.Khonkaen utilizes a multi-brand strategy to cover all range of consumers in all distribution channels. The Company has gained brand awareness, trust, and loyalty from the consumers against its rivals and able to sustain the market leadership both Traditional Thai Foods and Seafood balls market with an approximated number of 80% market shares in the modern trade segment.

According to our study, we believe that with the number of distribution channels and the Company's marketing plan will be able to maintain its existing leading products in the markets as well as other type of products of S.Khonkaen will be able to gain more shares from the existing and expanding markets.

1.5.2 Major Competitors

Within food industry in Thailand, there are many players in the market and under our consideration; we chose TU, Thai Union Group Public Company Limited, and SSF, Surapon Foods Public Company Limited, and CPF, Charoen Pokphand Foods PCL as our competitors. Our logic is that our competitors should have similar way of operating the businesses, similar target group of customers, and similar product types.

We chose to compare S.Konkaen with Surapon foods PCL (SSF) as a direct competitor because both of their main revenues come from similar type of distribution channels, product types, and targeted customers. Especially, both of the companies' revenues come from domestic markets.

1.5.2.1 Surapon Foods PCL (SSF)

We chose to compare S.Konkaen with SSF, Surapon food, because both of their main revenues come from similar type of distribution channels, product types, and targeted customers. Surapon Foods PCL was established in 1977 and it was the first frozen food producer listed on the Stock Exchange of Thailand. At present, the Company produces and distributes various frozen foods including ready-to-cook and ready-to-eat products. Its production processes have been granted quality standards from several international organizations such as GMP, BRC, HACCP and ISO 22000. The Company offers products such as Dimsum, buns, appetizers, raw material, pastry products and etc.

1.5.2.2 Charoen Pokphand Foods PCL (CPF)

CPF is one of the biggest companies in Thailand. It involved in many businesses, mainly in foods, consumer products and agricultural industries. CPF offer high technology and advancement in operating businesses. It expanded its business globally along with its competency. Its main source of revenue came from the International operations consisted more than 50% of its total. In Thailand, the Company can be recognized through all CP products, CP fresh marts, BKP, JerHigh, Chesters Grill, 5 stars chickens, Meji, and etc.

1.5.2.3 Thai Union Group PCL (TU)

It started the business since 1988. The Company had many acquisition and partnership with the international companies which help TU to stride in the international markets in frozen seafood business. In Thailand and many other countries in the globe, it is known as the top player in serving canned tuna industry. TU is known to majored its business via tuna, shrimp and related, pet food, sardine and mackerel, salmon businesses.

1.6 Investment Summary

1.6.1 Efficiency Improvement

In 2014, company invested in machines and equipment for 48 million baht where this investment replaced the old machines in order to improve the working process and operations. This is one of the main cost reduction programs that company has encountered. The cost cutting programs included ice production facility, fish head cutting machine, fully automated scaling and packing line and cold storage where this project can help cost saving by 2%.

1.6.2 Capacity Expansion of MFP

Seafood product is the 2nd largest of company's main revenue. In 2014 SORKON invested in capacity expansion for seafood ball products in which was accounted for 348 million baht. The main funding was from financial institution. The new facilities planned to run its operation in 2nd quarter of 2015 and fully run in the 3rd quarter 2015. The capacity was projected to improve from 9,000 tons to 15,000 tons per year.

1.6.3 QSR Branch Expansions

In 2014, the company had expanded in quick service restaurants for 20 branches took up 31.2 million of investment. For long term strategic route of company, the management plan to expand business both in domestic and oversea market such as Laos.

1.6.4 Launching new Products

In April, 2014, the company launched new product named “Moochi” in which target for young generation segment. Moreover, SORKON was able to put “Entrée” on shelf in 7-eleven in which allowed the company to gain more sales all over country. Interestingly, in 2015, meat-base snacks also plan to launch another 2 new product to the market.

1.6.5 Traditional Trade Penetration

About 80% of revenue comes from modern trade channel; however the company still believes that there is more room to grow in traditional market such as wet market. The product that will be available, this includes seafood products. Penetrate in wet market.

1.6.6 Targeting Chinese Tourists

Traditional Thai food and meat snack base products are quite popular among Chinese tourists; the famous products are mostly from meat snack base such as Entrée pork and chicken. The management plans to target this group of customer especially by expanding the distribution channel around tourist attraction and repackaging with Chinese language on. For example “Royal Gem” where this is the tourists center that Chinese tour group normally visit. As Chinese tourists contribute in large spending amount and the number of Chinese tourists visit Thailand each year is very high and continue with uptrend. Therefore these new targets can also an opportunity for the company.

1.6.7 Invention of OEM policy for RTE and RTH

To handle the risk of raw materials price fluctuation in which affect lower profit margin, the new policy of OEM has emerged. By doing so, the company has shifted its production for Ready to Eat and Ready to Heat unit to Quick Service Restaurant instead named “Zaap Express” where has higher profit margin.

1.6.8 Qualify as an exporter for EU and Middle East markets

One of the strategic plan is to penetrate into new markets which are Middle East and European countries and US by comply with the standard of Halal as prescribed by The Central Islamic Committee of Thailand in which is accordance to standard for being qualified exporters.

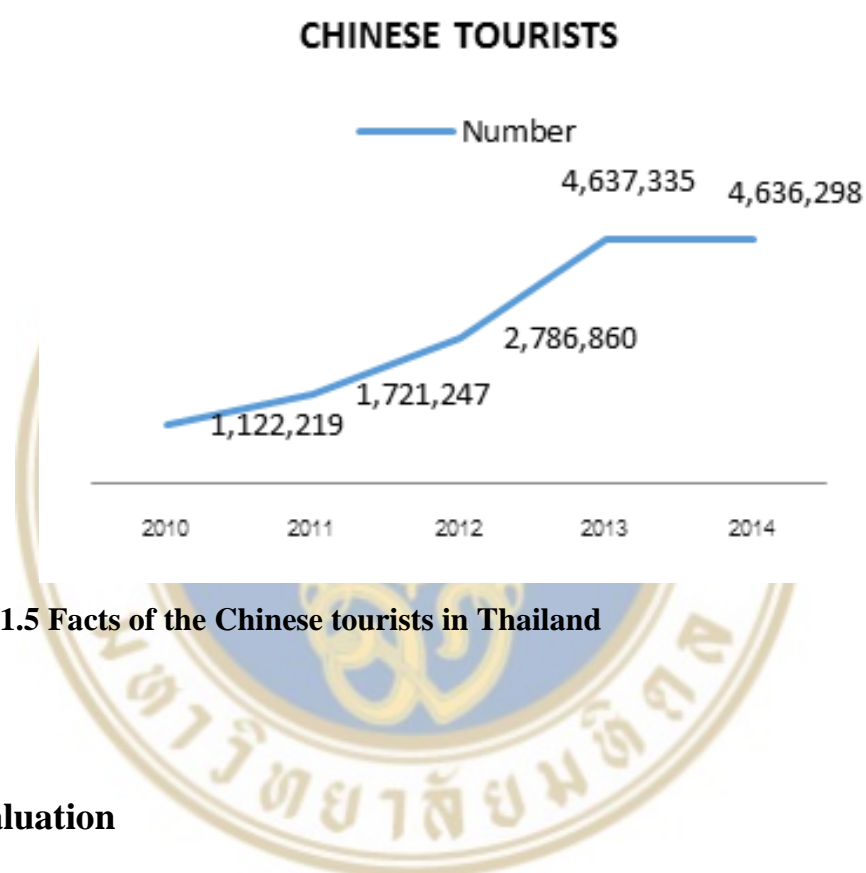


Figure 1.5 Facts of the Chinese tourists in Thailand

1.7 Valuation

1.7.1 Discounted Cash Flow Model

For DCF valuation, we forecasted the financial statement for the next 5 years dating from 2015 – 2019 and we collect these data for projection of cash flow. The assumptions are as followed.

1.7.1.1 Sales Growth - We have estimated the sales growth of 10% over the next 5 years (each year). The company normally has sales growth at the rate of 8% - 9% YoY. From the discussion with management, the company has invested in several projects including capacity expansion, new product development and branch expansion; therefore we estimated the growth as 10% where we break

down the growth into 2 parts which are 6% organic growth together with MT expansion and 4% growth from new product launching.

1.7.1.2 Terminal Value - We base on our GDP growth rate at 2.5%. Thailand GDP was forecasted for 4% growth, however according to the announcement of the World Bank, has decreased Thai GDP down to 2.5%. Moreover, we also take inflation rate into consideration where we use the rate of 2%. Therefore we compute terminal value using the assumption of 4.5% growth rate

1.7.1.3 Cost of Good Sales - The main cost of good sales is the price of raw material in which is pork price where it takes proportion of 72% of sales. There is possibility for raw material price increasing; luckily the company also operates swine farm business in order to help minimize such risk. However, we do take price fluctuation of COGS into consideration by taking the average of cost for the past few years where already included the time of high pork price (2013 – 2013).

1.7.1.4 WACC - For the WACC calculation computed as 11.4% where composed of risk free rate at 2.79% quoted from 10 years government bond, with market risk premium at rate of 8.94% from Settrade, SORKON beta at 0.54. For beta, we use beta at 5 years long because it can reflect more on all market conditions than the shorter timeframe. After all, we computed cost of equity at rate of 16.4%. Cost of debt, we computed from funding in 2014 in which SORKON relied more on short-term debt more than long-term debt with approximate portion of 75% and 25% respectively. Interest rate for bank overdrafts was exposed on annual report at the rate of 6.75% - 8.125%, so as being conservative point of view we choose the highest rate as assumption. For long-term loan, interest cost recorded in annual report as MLR – 1, so we base our assumption on average of commercial bank registered in Thailand MLR at 7.0197 – 1, resulted in long-term interest rate of 6.1%. Therefore, we calculated using proportional of short/ long term debt to get interest bearing debt equal to 7.53% which is cost of debt before tax. At the end we compute weight of capital structure as 48% of debt with remaining funding from equity. As a result SORKON's weighed average cost of capital is 11.4%. According to DCF method with our assumption, we value SORKON's share price at 267.45 baht per share.

Table 1.2 WACC Calculations

Calculation of WACC	
Risk free rate	2.79%
Beta of SORKON	0.54
Market risk premium	8.94%
Cost of equity (Ke)	7.6%
Cost of debt before taxes	7.53%
Tax rate	20.0%
Cost of debt after taxes (Kd)	6.0%
Weight of debt (Wd)	57.6%
Weight of equity (We)	42.4%
WACC of the target firm	6.7%
Constant growth (gs)	4.5%

Table 1.3 Debt Structure

Source of funds as of Q3/2014	Amount (MB)	Weight (%)	int rate (%)
S-T debt			
Bank overdrafts	427,922,627	70.5%	8.13%
Current portion of LT loan	28,560,000	4.7%	6.10%
L-T debt			
LT loan	150,088,700	24.7%	6.1%
total IBD	606,571,327	100%	7.53%
total Debt	606,571,327	48%	D/E
Equity	664,674,836	52%	0.91
	1,271,246,163	100%	

Table 1.4 Cost of Debt

Loan Rates of Commercial Banks as of 27 November 2015	
Commercial Banks registered in Thailand	MLR
Bangkok Bank	6.5
Krung Thai Bank	6.525
Kasikornbank	6.5
The Siam Commercial Bank	6.525
Bank of Ayudhya	6.85
TMB Bank	7.025
United Overseas Bank (Thai) Company Ltd.	7.25
CIMB THAI Bank	7.15
Standard Chartered Bank (Thai)	7.85
Thanachart Bank	6.9
TISCO Bank	7
Mega International Commercial Bank	7.25
Kiatnakin Bank	7.25
Land and Houses Bank	7.15
Industrial and Commercial Bank of China (Thai)	7.25
The Thai Credit Retail Bank	8.62
Bank of China (Thai)	6.5
ANZ Bank (Thai) Public Company Limited	8.25
Sumitomo Mitsui Trust Bank (Thai)	6.5
Average of Commercial Banks registered in Thailand	7.0971

Table 1.5 Discounted Cash Flow Model (FCFF)

FCFF estimation (MB)	2015	2016	2017	2018	2019	
Sales	2,217,481,111.00	2,443,342,875.84	2,692,209,813.78	2,966,425,119.09	3,268,570,652.30	3,601,491,249.62
Less : COGS	- 1,520,013,794.00	- 1,756,876,109.92	- 1,935,822,905.37	- 2,132,996,344.93	- 2,350,252,905.30	- 2,589,638,154.80
Less : SGA	- 558,022,084.00	- 541,583,746.67	- 596,333,176.25	- 656,761,813.10	- 723,422,615.36	- 796,931,193.46
EBIT	139,445,233.00	144,883,019.25	160,053,732.16	176,666,961.05	194,895,131.63	214,921,901.36
Less: Taxes on EBIT	27,889,046.60	28,976,603.85	32,010,746.43	35,333,392.21	38,979,026.33	42,984,380.27
NOPAT	111,556,186.40	115,906,415.40	128,042,985.73	141,333,568.84	155,916,105.31	171,937,521.09
Add: Depreciation	50,647,996.00	56,353,395.00	62,142,213.51	70,191,403.31	76,698,959.88	89,632,358.48
Less: Changes in NWC	- 85,665,933.00	20,864,668.17	71,851,900.28	39,517,879.05	72,755,581.45	82,606,525.55
Less: Capital expenditure	145,089,080.00	169,946,085.56	6,543,312.97	7,209,782.78	7,944,135.94	8,753,286.72
FCFF	102,781,035.40	321,341,227.79	111,789,985.99	164,797,310.32	151,915,347.80	170,210,067.30
Terminal Value						8,089,652,013.30
net FCFF		321,341,227.79	111,789,985.99	164,797,310.32	151,915,347.80	8,259,862,080.59
EV	6,625,017,838					
(+) Non-operating assets	12,130,417					
(-) value of debt	150,088,700					
value of equity	6,487,059,555					
no shares	24,255,000.00 million					
Price of stock	267.45					

1.8 Financial Statement Analysis

1.8.1 Summary figures from financial statements (Size analysis)

1.8.1.1 Income Statement - 2014 is another successful year of SORKON where the revenue from sales had reached 2,217 million baht, which is around 9.5x smaller than TU, 12x smaller than CPF while 0.78x bigger than SSF. In term of operating expenses, SORKON had 558 million baht with the same proportion in size when comparing with other competitors. For net income, SORKON accounted for 111 million baht in 2014 while other competitors such as TU accounted for 2,454 million baht, CPF for 7,207 million baht and SSF for 105 million baht. Comparing in term of net income, TU and CPF had larger in size of 22x and 64x respectively with SORKON. While SSF accounted for smaller in proportion of 0.9x.

1.8.1.2 Balance Sheet - SORKON owned the asset of 1,609 million baht in 2014 with 944 million baht in liabilities and 665 million baht in equity. Overall, comparing the size of position, SORKON considered smaller in business operation among TU and CPF by 38x and 96x respectively. While can be seen bigger in size when compared with SSF around 0.9 x. SORKON operated on 50% more in non-current asset and non-current liabilities.

1.8.1.3 Shareholding and dividends - A major shareholder of the company has remained within Rujirasopon accounted for 57% of shares with 38% free float in the market. For dividend payout is not less than 50% of net profit and payout once a year. The company usually pays out dividend at the 2nd quarter of the year as a cash dividend. The latest cash dividend in 2014 and 2015 was Baht 2.43 and Baht 2.75 respectively. Comparing with other competitors in the industry while SORKON had 38% free float, TU had 64% free float, CPF had 53% free float and SSF had 25% free float. For dividend policy, SORKON, TU and CPF had the same level at 50% payout while SSF had 60% dividend payout which is higher than others.

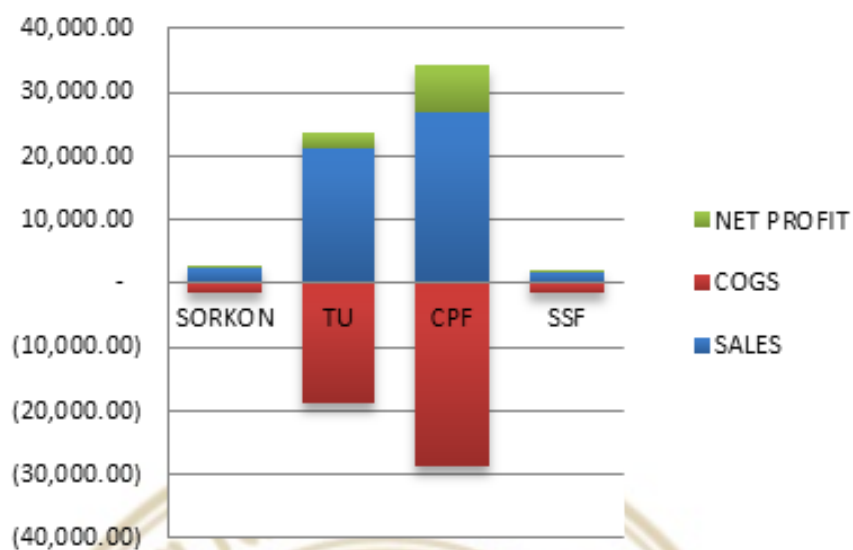


Figure 1.6 Income Statements

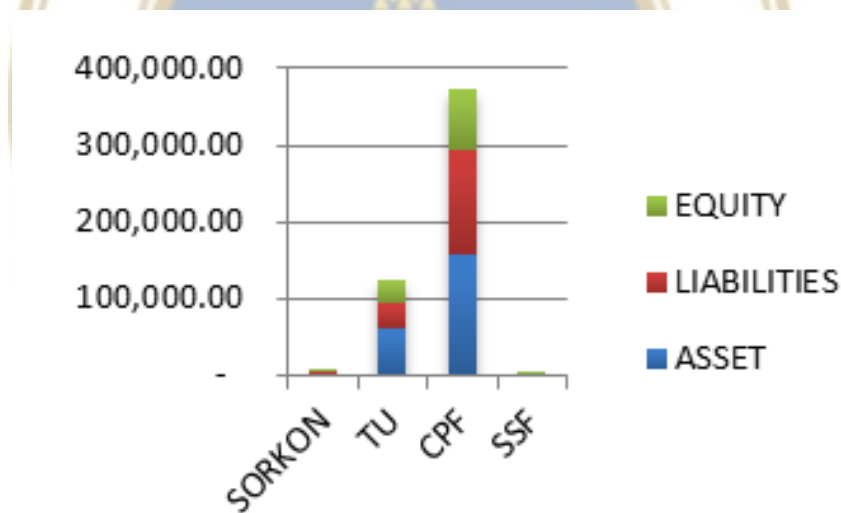


Figure 1.7 Statement of Financial Position

Table 1.6 Assets

	SORKON	TU	CPF	SSF
ASSET	1,608.56	60,778.28	154,910.81	1,439.34

Table 1.7 Shareholders

Major Shareholders	Number of Shares	%
1. Rujirasopon Family	13,809,910	56.94
Mr. Charoen Rujirasopon	7,414,058	30.57
Mrs. Niramon Rujirasopon	4,327,349	17.84
Mr. Jarunpoj Rujirasopon	1,088,967	4.49
Mr. Songkiat Rujirasopon	840,950	3.47
Mr. Jaraspon Rujirasopon	138,586	0.57

1.8.2 Common Size Analysis

As in common size analysis, we chose to compare S.Khonkaen against Surapon Foods PCL (SSF) as our direct competitor because they focus on domestic sales and target similar income earning range, mission and vision, business strategy and goals. Moreover, the sizes and value of SORKON and SSF are very similar but the only difference maybe how they funded their businesses.

1.8.2.1 Statement of Income - In comparison of the cost structures and followed by a full income statement in the following; SORKON has 68% of COGS, 25% of SG&A, 1% of tax and finance cost, and 5% of net income. While SSF has 82% of COGS, 12% of SG&A, 1% of tax and finance cost, and 6% of net income. From these two pie charts show that SORKON has lower COGS and net income, and higher SG&A, tax expense, and finance cost.

As shown in the statement of income comparison, SORKON's net profit in year 2014 was 111.42 million baht or 5% of total revenues; whereas SSF's net profit was 105.29 million baht or 6% of total revenues. As a result SSF has better number in net profit because it is considered to be 5.66% of the company's total revenues. In addition, SORKON bore higher tax expenses and interest expenses than SSF, 16.9 and 27.21 million baht respectively.

1.8.2.2 Statement of Financial Position - The two pie charts below represents SORKON and SSF statement of financial positions. SORKON has approx. 50% of total assets and approx. 29% of liabilities and 21% of total equity;

whereas SSF has approx. 50% of total assets and approx. 8% of total liabilities and 42% of total equity. From this we can notice that SSF has small portion in liabilities and highly encouraged by equity. And so, SORKON's operation relies more portions on liabilities and equity than SSF

In assets allocation we notice that SORKON has 2% of cash, 23% of trade receivables, 11% inventory, 20% of investment, and 40% of PPE. On the other hands, SSF has 5% of cash, 7% of trade receivables, 13% of inventory, 11% of other current assets, 25% of PPE, and 39% of other non-current assets. So we can assume that SORKON's largest portion is in PPE but SSF's largest portion is in other non-current assets. Another point is we noticed that SORKON has significantly higher number in trade receivables in comparison to SSF of 23% to 7%

The data attached below shows the balance statements of SORKON and SSF in detail. We noticed that the sizes and values of both SORKON and SSF are pretty much similar. SORKON has total current assets are 586 million baht, 1,022 million baht in non-current assets, 735 million baht in total current liabilities, 208 million baht in non-current liabilities and 664 million baht in equity. SSF has 689 million baht in current assets, 749 million baht in non-current assets, 165 in current liabilities, 75 in non-current liabilities, and 1198 in equities. We summarized that SORKON is supplied more by liabilities whereas SSF uses source of fund mainly from shareholders equity. SSF rarely touches its liabilities whereas SORKON relies pretty much on bank overdrafts and short term loans. And by so SORKON has to take responsibility in paying more interest.

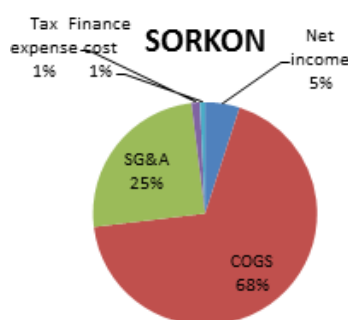


Figure 1.8 SORKON Cost Structure

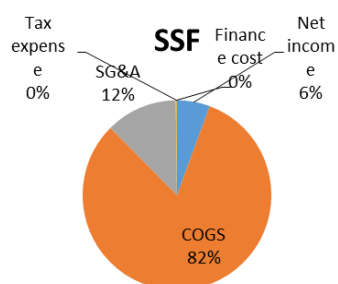


Figure 1.9 SSF Cost Structure

Table 1.8 Statement of Income

Statement of Income	SORKON		SSF	
	2014 ('000,000)	2014 %	2014 ('000,000)	2014 %
SALES	2,217.48	99.31%	1,738.99	93.56%
OTHER INCOME	15.47	0.69%	119.63	6.44%
TOTAL REVENUES	2,233	100.00%	1,858.62	100.00%
EXPENSES				
COST OF SALES	(1,520.01)	68.07%	(1,521.84)	81.88%
SELLING EXPENSES	(279.37)	12.51%	(121.37)	6.53%
ADMINISTRATIVE EXPENSES	(278.65)	12.48%	(106.17)	5.71%
OTHER EXPENSES	-	0.00%	-	0.00%
TOTAL EXPENSES	(2,078.04)	93.06%	(1,749)	94.12%
PROFIT (LOSS) EBIT	154.92	6.94%	109.25	5.88%
FINANCE COSTS	(16.29)	0.73%	(0.82)	0.04%
PROFIT (LOSS) BEFORE INCOME TAX EXPENSES	138.63	6.21%	108.44	5.83%
INCOME TAX EXPENSES	(27.21)	24.42%	(3.15)	2.99%
NET PROFIT (LOSS)	111.42	4.99%	105.29	5.66%

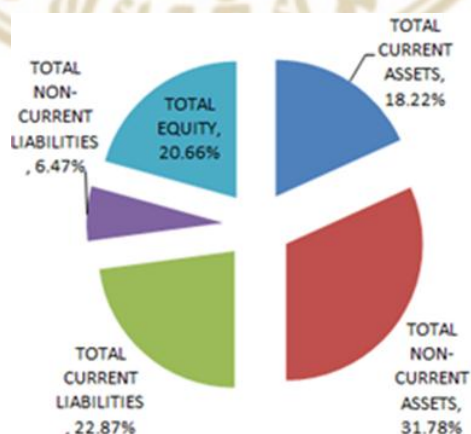


Figure 1.10 SORKON Statement of Financial Position

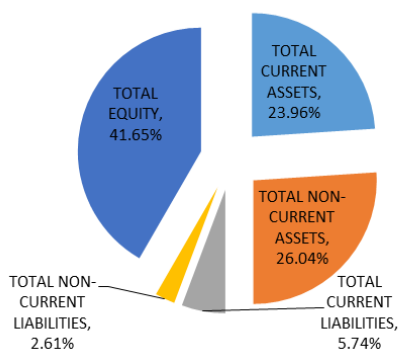


Figure 1.11 SSF Statement of Financial Position

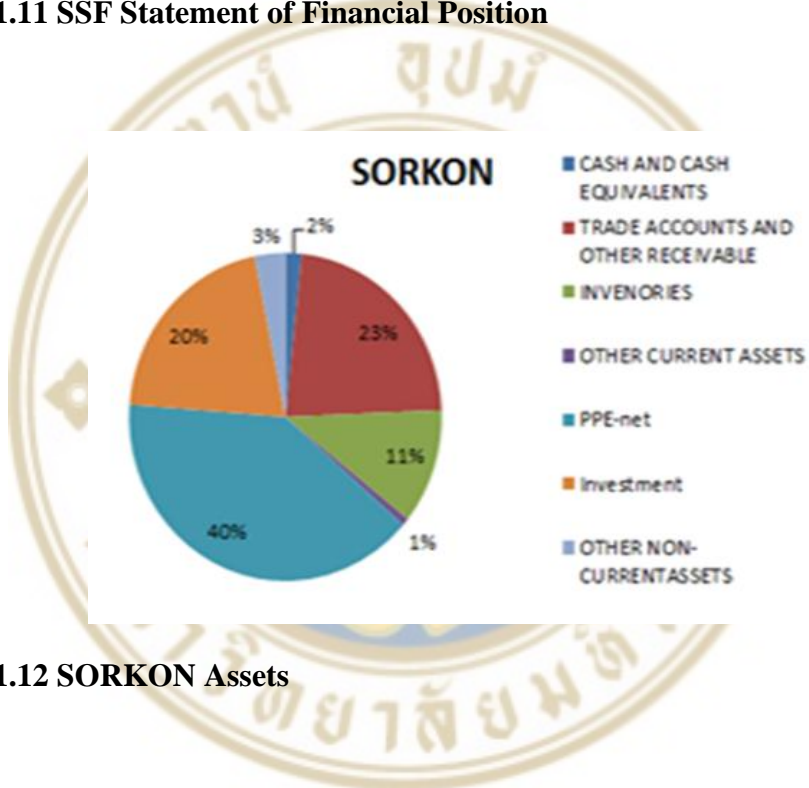


Figure 1.12 SORKON Assets

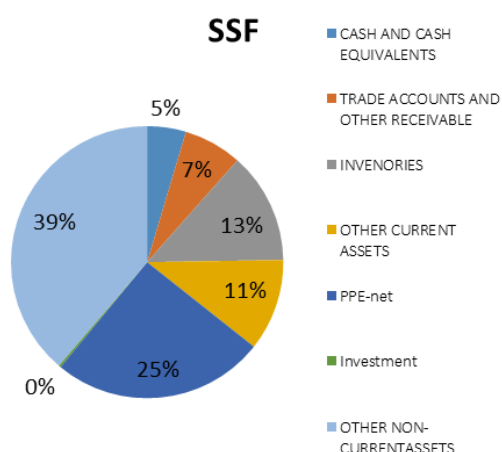


Figure 1.13 SSF Assets

Table 1.9 Balance Sheet of SORKON and SSF

Balance Sheet	SORKON		SSF	
	2014 ('000,000)	2014 %	2014 ('000,000)	2014 %
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	26.94	1.68%	89.08	6.19%
TRADE ACCOUNTS AND OTHER RECEIVABLE	364.39	22.65%	134.00	9.31%
INVENORIES	182.76	11.36%	255.45	17.75%
OTHER CURRENT ASSETS	12.13	0.75%	211.26	14.68%
TOTAL CURRENT ASSETS	586.23	36.44%	689.79	47.92%
NON-CURRENT ASSETS				
PPE-net	639.67	39.77%	490.01	34.04%
Investment	331.84	20.63%	5.00	0.35%
OTHER NON-CURRENT ASSETS	50.82	3.16%	254.55	17.68%
TOTAL NON-CURRENT ASSETS	1,022.34	63.56%	749.55	52.08%
TOTAL ASSETS	1,608.56	100.00%	1,439.34	100.00%
LIABILITIES AND ASHAREHOLDERS' EQUITY				
	2014 ('000,000)	SORKON %	2014 ('000,000)	SSF %
BANK OVERDRAFTS AND SHORT TERM LOANS	427.92	26.60%	-	0.00%
TRADE AND ACCOUNT PAYABLES	248.35	15.44%	78.98	5.49%
CURRENT PORTION OF FINANCIAL LEASE PAYABLES	3.15	0.20%	-	0.00%
CURRENT PORTION OF LONG TERM LOANS	28.56	1.78%	6.76	0.47%
INCOME TAX PAYABLE	12.83	0.80%	-	0.00%
OTHER CURRENT LIABILITIES	14.94	0.93%	79.45	5.52%
TOTAL CURRENT LIABILITIES	735.74	45.7%	165.18	11.48%
FINANCIAL LEASE PAYABLES, NET OF CURRENT PORTION	3.61	0.22%	-	0.00%
LONG TERM LOANS, NET OF CURRENT PORTION	150.09	9.33%	5.62	0.39%
DEFERRED TAX LIABILITES	10.60	0.66%	45.44	3.16%
OTHER NON CURRENT LIABILITIES	6.55	0.41%	-	0.00%
PROVISION FOR LONG TERM EMPLOYEE BENEFITS	37.30	2.32%	24.10	1.67%
TOTAL NON-CURRENT LIABILITIES	208.15	12.9%	75.17	5.22%
TOTAL LIABILITIES	943.89	58.7%	240.35	16.70%
SHARE CAPITAL	242.55	15.08%	270.00	18.76%
SHARE PREMIUM	50.28	3.13%	270.00	18.76%
SHARE PREIUM ON TREASURY STOCK	37.55	2.33%	-	0.00%
SHARES HELD BY ITS SUBSIDIARIES	-	0.00%	-	0.00%
RETAINED EARNINGS	242.33	15.06%	487.50	33.87%
OTHER COMPONENTS OF SHAREHOLDERS' EQUITY	90.50	5.63%	171.49	11.91%
EQUITY ATTRIBUTABLE TO OWNERS	663.21	41.23%	1,198.99	83.30%
NON CONTROLLING INTERESTS OF SUBSIDIARIES	1.46	0.09%	-	0.00%
TOTAL EQUITY	664.67	41.32%	1,198.99	83.30%
TOTAL LIABILITIES ANT TOTAL EQUITY	1,608.56	100.0%	1,439.34	100.0%

1.8.3 Trend Analysis

1.8.3.1 Income Statement - Total revenue has increased by 46% in 2010 to 2014 with yearly increased around 9-10%. In 2012 world faced with global economic crisis accounted recession, and debt crisis in several countries including the United States, five countries of the European Union named Greece, Spain, Italy, Cyprus and Portugal. Also Thailand had just recovered from the flood disaster. Despite of global economic crisis, private consumption in Thailand had increased in year 2012 resulted in achieving highest record in revenue of THB 1,823 million. Moreover, thank to marketing strategy that allowed SORKON to get into new segment customer with new snack named “Muchi” that targeted young generation. In year 2014, the fluctuation of domestic and global situation together with unstable political in Thailand caused decreased in GDP growth. Unfortunately, the price of pork, which is the main raw material dramatically, shifted higher about 20%. Luckily, the company also has another business unit, which is swine farm that allow company to shelter from the fluctuation of pork price. The company also focused on cost cutting project where tried to work more efficiently by investing in tools and technology in which we can see the total expense continued to decrease slightly year by year. In 2014, company had total revenues of Baht 2,215 million or around 10% higher than previous. Overall revenue was generated from the growth of existing products and newly launched product that targeting new segment such as health conscious and protein seeker and young generation customers. After all, company can improve its EBIT around 1% every year. We can see that SORKON has improved in sales and gross margin while able to decrease its cost of sales and other expenses.

Since SORKON compose of several product units about 6 main product lines, we can see that most of the main revenue comes from traditional Thai food, follows by processed seafood, Swine farm, Ready to Eat, meat base snack and Service restaurant. The trend of each product line is quite stable with its organic growth. Comparing with the competitor as SFF, the trend of sales growth had declined dramatically since 2011.

1.8.3.2 Balance Sheet - Company had value of total asset Baht 1,608 million comprised of Baht 586 million of current assets and Baht 1,022 million or in proportion of 36% and 64% respectively. Company maintained the same

proportion for years. Remark for increasing in account receivable in 2014 resulted from increased in sales. Another remarkable in PP&E in 2014, company invested Baht 234 million for the expansion of Seafood Balls capacity, Quick Service Restaurants, and other equipment for technology improvement. The expansion capacity project involved company to engage in total of Baht 230 million for construction's expense and new machines. The project is financially support by long-term debt from finance institute in which the company already acquired Baht 113 million in 2014 resulted in increasing long term loans in 2014. The company had the structure of 78% current liabilities and 22% non-current liabilities. At the end of 2014, SORKON recorded Baht 1,608 million in consolidated balance sheet statement with 23% increase from the previous year.

1.8.3.3 Inventory - SORKON had level of inventory/sales around 13% - 15% dating since 2010 until increasing in 2014. While SSF had more stable ratio around 8% - 10% with slightly declining trend.

1.8.3.4 Debt level - Since SSF has smaller business model than SORKON, this resulted in smaller proportion of long-term debt to fund the business. As mentioned, SORKON had involved in new project where the company use the institutional funding in which raise the level of debt tremendously in 2014. However, after 2014 the company does not plan to invest in any new project in which the trend of debt will be stable after 2014

1.8.3.5 Cash conversion cycle - Comparing between the two, SORKON has shorter CCC at the average of 57 days while 63 days for TU. One of the main components that affects the longer days for SSF is the day company turn inventory to cash which is around 48 while SORKON has shorter days at 45. Moreover SORKON has longer days for payable at 44 while SSF is at 19 days. For the trend of CCC, SORKON seems to have shortened cycle from 69 days in 2011 down to 39 days in 2014 with the improvement in days payable outstanding. On the other hand, SSF has lengthened cycle from 58 days in 2011 up to 78 days in 2014 with the increase in days inventory turnover.

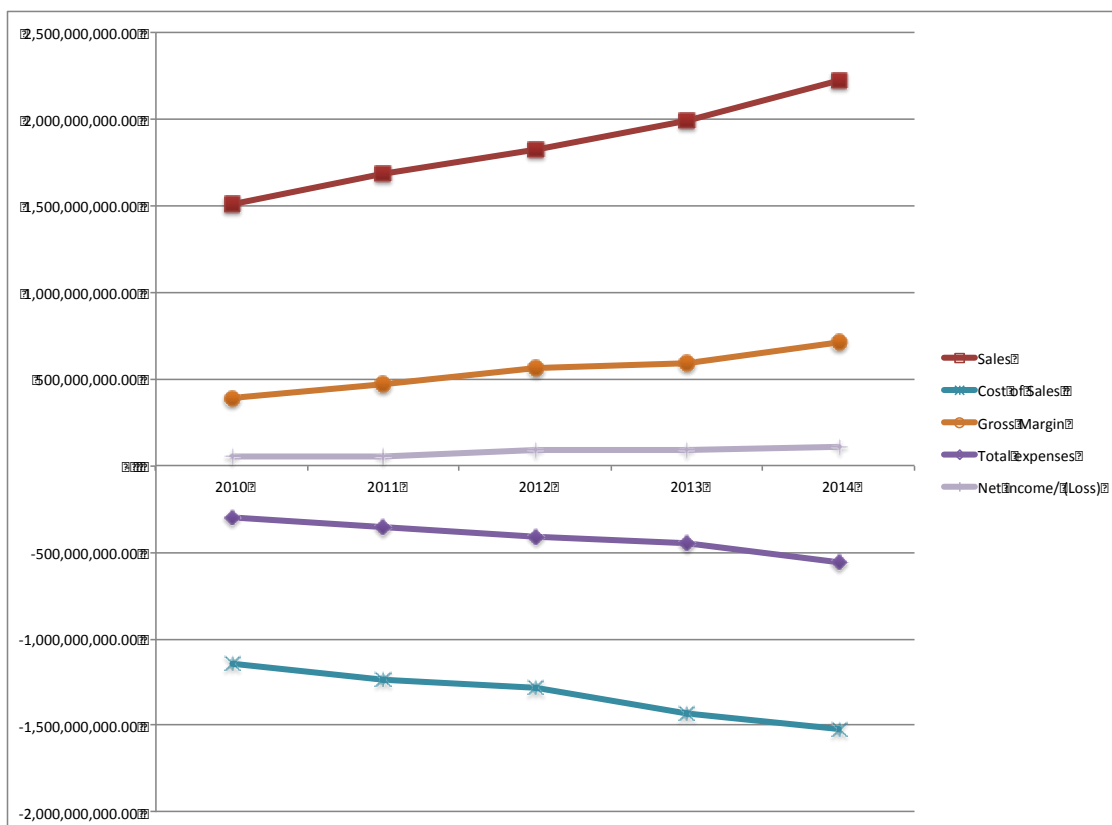


Figure 1.14 SORKON Profit and Loss Overview

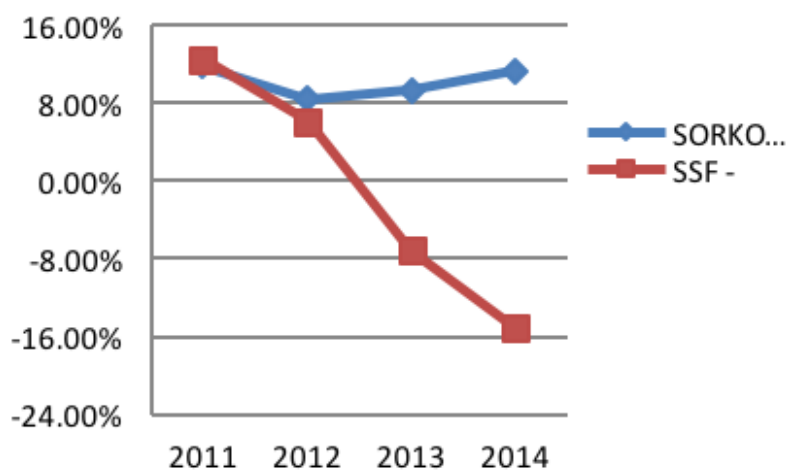


Figure 1.15 SORKON and SSF Sales Growth

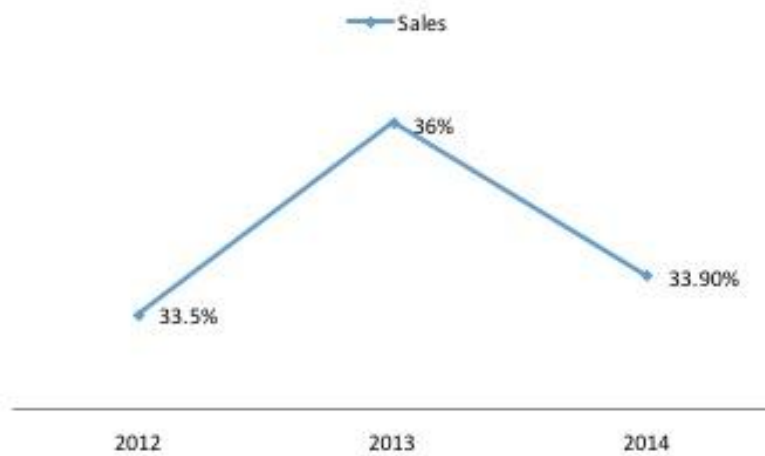


Figure 1.16 SORKON Seafood Sales



Figure 1.17 SORKON and SSF Inventory

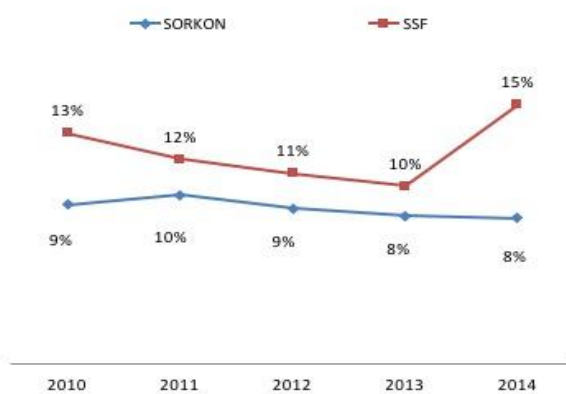


Figure 1.18 Inventory/ Sales

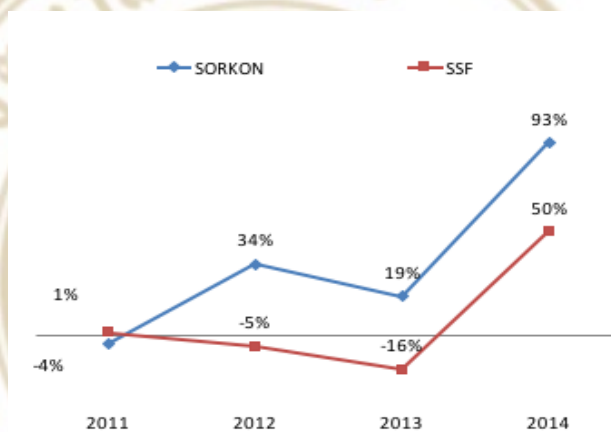


Figure 1.19 SORKON and SSF Debt



Figure 1.20 SORKON and SSF Cash Conversion Cycle

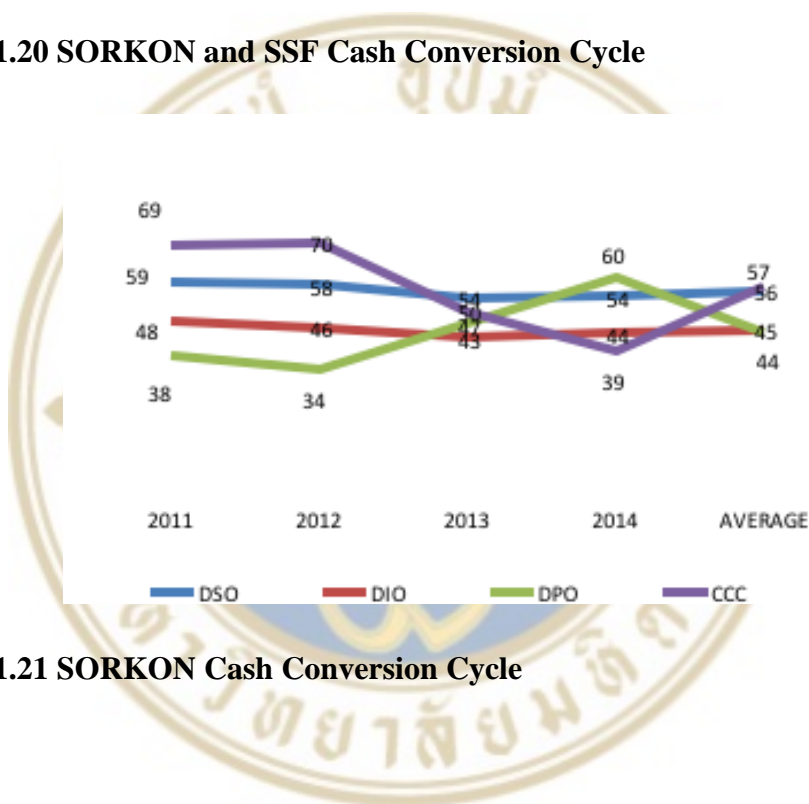


Figure 1.21 SORKON Cash Conversion Cycle

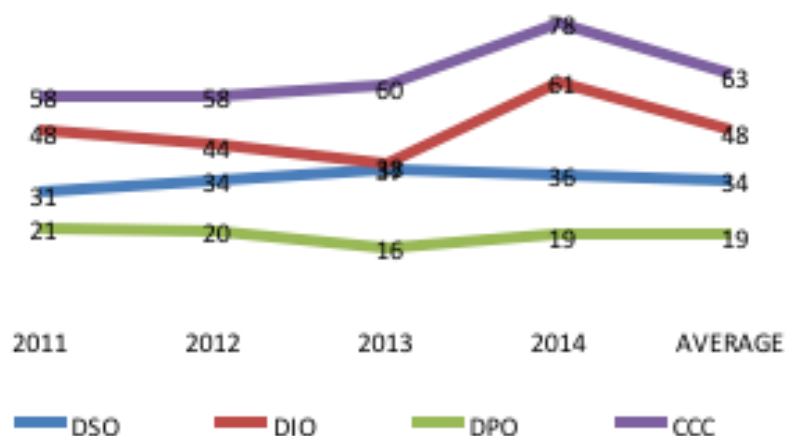


Figure 1.22 SSF Cash Conversion Cycle

1.8.4 Financial Ratios: Return

1.8.4.1 Operating Margin - As shown in the line chart we noticed that through year 2010 to 2014 SORKON was more stable by remaining itself in between 6-8% of operating margin whereas SSF's operating margin was not stable since there were ups and downs due to economic factors that effected to its sales. So as in term of operating margin we believe that SSF has a better averaged number of operating margin.

1.8.4.2 Profit Margin - From year 2010 – 2014, SORKON's line trend is slightly increasing, however it remains a stable line in between 3-5%. On the other hands, SSF's profit margins have ups and downs along the line with the maximum number of 12% profit margin in year 2011. As in comparison, SSF has better profit margin than SORKON.

1.8.4.3 Return On Assets (ROA) - The table shows that SORKON had improved their numbers from year 2010 and 2011 with 5% - 4% of ROA to constant 7% of ROA throughout year 2012 to 2014. On other hands, SSF's ROA jumped up from 7% in year 2010 to 18% in year 2011. This was because it was a good selling year. As in comparison of ROA, SSF was better because it gained max usage out of its total assets.

1.8.4.4 Return On Equity (ROE) - As shown in the chart, SSF beat SORKON in year 2011 but elsewhere SORKON was the favorable. SORKON

trend line remains in between of 17-21% until the most recent year. On the other hands, SSF ROE trend line looks like it's sloping downwards this is maybe because the sales were not as well as in year 2011

1.8.4.5 Days Sales Outstanding (DSO) - The table shows that SORKON has a better set of numbers throughout the year 2011 – 2014 according to the historical data of the average range of number 54 – 59 days.

1.8.4.6 Days Inventories outstanding (DIO) - According to the past historical data, SORKON has a very stable trend line of DIO indicates that has good inventory turns to sales and better than the numbers of TU which takes longer days to turn over its inventory to sales.

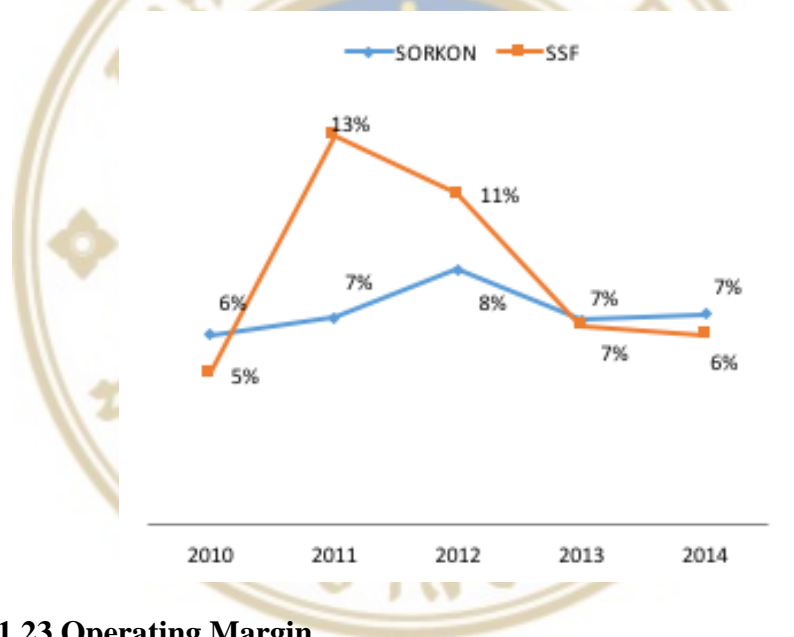


Figure 1.23 Operating Margin



Figure 1.24 Profit Margin



Figure 1.25 Return on Assets ROA

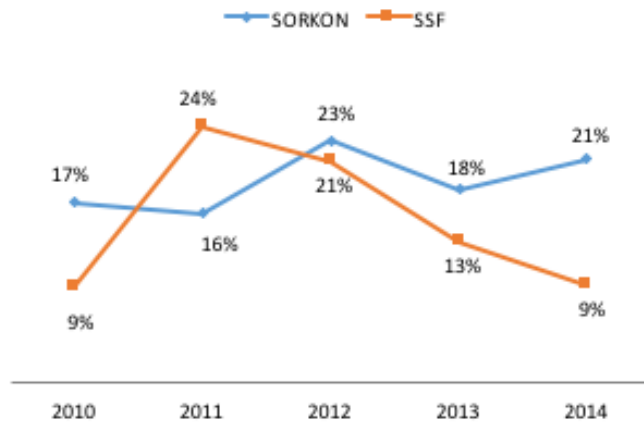


Figure 1.26 Return on Equity ROE



Figure 1.27 Days Sales Outstanding

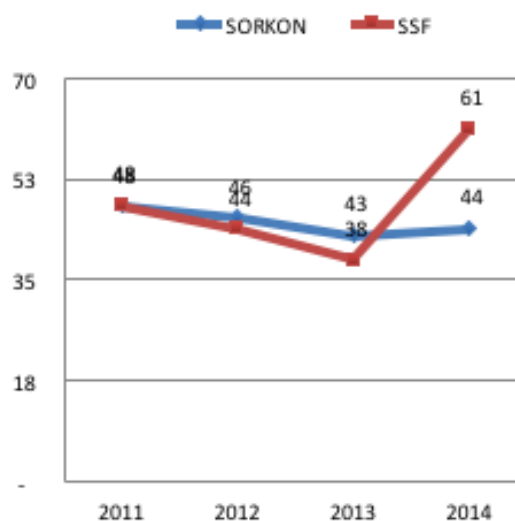


Figure 1.28 Days Inventories Outstanding

1.8.5 Financial Ratios: Risk

1.8.5.1 Short Term Risk - We use Quick ratio and Current ratio to represent the overview of efficiency of the firm's management to meet the Company's requirements for liquidity. Quick ratio is also known as acid test ratio. It compares the total amount plus marketable securities plus accounts receivable to the amount of current liabilities. SORKON has a low range of 0.57 – 0.80 times of current ratio which is considered to be more stable in comparison to 0.59 – 1.61 times current ratio of SSF. Moreover, SORKON has lower range of quick ratio 0.38 – 0.55 times; however, both of current ratio and quick ratio of SORKON is looking like a moving up trend. So we can expect better performance in the future although SSF is performing better at present. SSF both current ratio and quick ratio have uptrend shape from 1.46 – 4.18 for current ratio and 0.63 – 2.63 for quick ratio.

1.8.5.2 Long Term Risk - Debt to equity ratio and interest coverage ratio are used to estimate long term risk coverage. They can guide us of how much debt to equity in proportional and earnings before interest and tax to interest expenses. We calculated by dividing the companies' total liabilities by shareholders' equity. D/E ratio shows how much debt a company is using to finance its assets relative to the amount of value represented in the equity. These two tables below show

that SORKON has higher number in debt to equity ratio from 2.54 in 2010 2.50, 1.14, 1.14, and 1.42 by 2014. On other hands, SSF has more stable trend of D/E ratio in between 0.20 – 0.37 times in the past years. Interest coverage ratio: SORKON in few recent years improved its number up to 9.51 times while SSF has up to 134.01 times for interest coverage ratio in the most current year. This is because SSF financed heavily on equity not debt. This ratio is used to determine how a company can pay interest expenses on outstanding debt.

In conclusion, SSF is better in current ratio, quick ratio, debt to equity and interest coverage ratio, mainly because SSF's performance is really good and financed heavily by shareholders' equities.

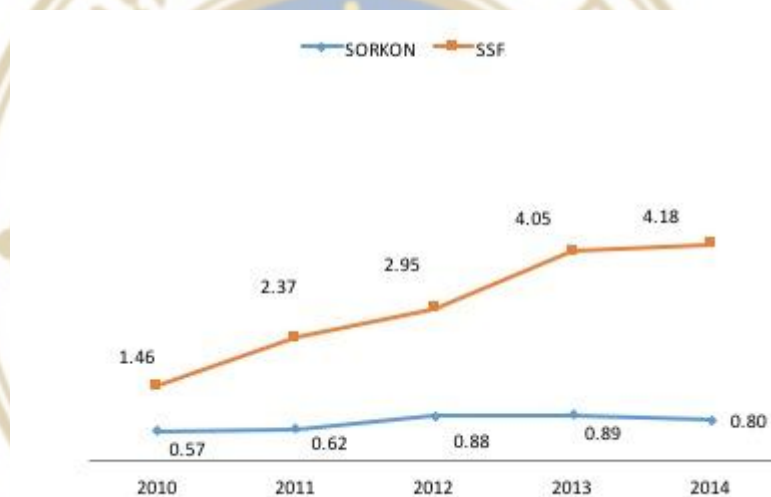


Figure 1.29 Current Ratio

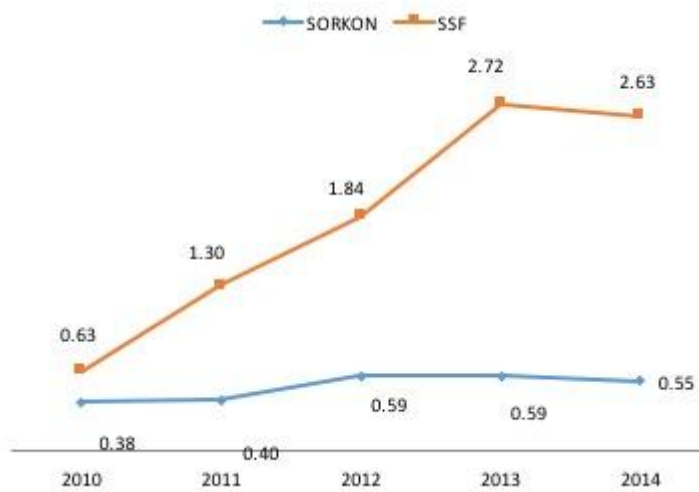


Figure 1.30 Quick Ratio



Figure 1.31 Debt to Equity



Figure 1.32 Interest Coverage Ratio

1.9 Investment Risks and Downside Possibilities

1.9.1 Risk from Economic Condition

Food industry usually gets direct effects from economic condition, as when people become wealthier, they tend to consume more and vice versa. For instance, in 2013 a household spent less while the revenue especially in snack unit dropped dramatically. Despite to snack products, since food is a necessary good where people still have to consume therefore other products are not directly affected. The company realized such risk so diversification of product is one of the strategies that SORKON has adopted.

1.9.2 Risk from Fluctuation of Raw Material

The main raw material for business is pork in which cost associated around 70% of the sales. Therefore, the volatility of pork price can tremendously affect gross profit margin of many product lines. In 2013, pork price dramatically increased. In order to migrate this risk, company closely monitor pork price. In the situation of upward trend where pork price is expected to increase, company would stock up pork 3-6 months in advance. Moreover, company operates own swine farms in which can help limit the risk from pork price fluctuation. Since company is the market leader in

traditional Thai food especially pork processed, this allows company to become price setter where can some extent increase the selling price.

1.9.3 Risk from Distribution Channel

Main channel for company is through modern trade such as Big C, MAKRO, Lotus, 7-Eleven and etc where take up to 80% of its sales. There is possibility that modern trade operators will raise the price such as shelf price and commission on sales. Moreover, in term of cash conversion cycle, normally doing business with modern trade, company have to bear for long-term cash receivable from the operators. However, company tries to mitigate the risk by penetrate more in other channels such as traditional trade or wet market. However, the short life of product where most of the product requires being in refrigerator can be one of the obstacles for wet market strategy.

1.9.4 Risk from Interest and Currency

As debt is one of the major funding for operating business, interest, therefore, it is one of concerns that can affect financial status. However, in 2012 company increased its capital in order to use for working capital and repaid back loan in which result in appropriated amount of debt floating in company. In term of currency risk, since only 10% of sales comes from export unit, while 90% of its products is quoted in Baht currency, therefore company only expose to exchange risk in some extent. However, to eliminate the currency risk, company engaged in forward contract in order to hedge the risk.

Table 1.10 Downside Possibilities

Risk & Possibility	1	2	3	4	5
Economic condition	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fluctuation of raw material	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Distribution channel	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interest and currency	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Table 1.11 Best Case Scenario

FCF estimation (MB)	2015	2016	2017	2018	2019	
Sales	2,217,481,111.00	2,443,342,875.84	2,692,209,813.78	2,966,425,119.09	3,268,570,652.30	3,601,491,249.62
Less : COGS	- 1,520,813,794.00	- 1,756,876,109.92	- 1,935,822,905.37	- 2,132,996,344.93	- 2,350,252,905.30	- 2,589,638,154.80
Less : SGA	- 558,022,084.00	- 541,583,746.67	- 596,333,176.25	- 656,761,813.10	- 723,422,615.36	- 796,931,193.46
EBIT	139,445,233.00	144,883,019.25	160,053,732.16	176,666,961.05	194,895,131.63	214,921,901.36
Less: Taxes on EBIT	27,889,046.60	28,976,603.85	32,010,746.43	35,333,392.21	38,979,026.33	42,984,380.27
NOPAT	111,556,186.40	115,906,415.40	128,042,985.73	141,333,568.84	155,916,105.31	171,937,521.09
Add: Depreciation	50,647,996.00	56,353,395.00	62,142,213.51	70,191,403.31	76,698,959.88	89,632,358.48
Less: Changes in NWC	- 85,665,933.00	- 20,864,668.17	- 71,851,900.28	- 39,517,879.05	- 72,755,581.45	- 82,606,525.55
Less: Capital expenditure	145,089,080.00	169,946,085.56	6,543,312.97	7,209,782.78	7,944,135.94	8,753,286.72
FCFF	102,781,035.40	321,341,227.79	111,789,985.99	164,797,310.32	151,915,347.80	170,210,067.30
Terminal Value net FCFF		321,341,227.79	111,789,985.99	164,797,310.32	151,915,347.80	39,420,049,175.81
EV	29,280,310,188					
(+)Non-operating assets	12,130,417					
(-)value of debt	150,088,700					
value of equity	29,142,351,905					
no shares	24,255,000.00	million				
Price of stock	1,201.50					

Table 1.12 Worst Case Scenario

FCF estimation (MB)	2015	2016	2017	2018	2019	
Sales	2,217,481,111.00	2,443,342,875.84	2,692,209,813.78	2,966,425,119.09	3,268,570,652.30	3,601,491,249.62
Less : COGS	- 1,520,813,794.00	- 1,756,876,109.92	- 1,935,822,905.37	- 2,132,996,344.93	- 2,350,252,905.30	- 2,589,638,154.80
Less : SGA	- 558,022,084.00	- 541,583,746.67	- 596,333,176.25	- 656,761,813.10	- 723,422,615.36	- 796,931,193.46
EBIT	139,445,233.00	144,883,019.25	160,053,732.16	176,666,961.05	194,895,131.63	214,921,901.36
Less: Taxes on EBIT	27,889,046.60	28,976,603.85	32,010,746.43	35,333,392.21	38,979,026.33	42,984,380.27
NOPAT	111,556,186.40	115,906,415.40	128,042,985.73	141,333,568.84	155,916,105.31	171,937,521.09
Add: Depreciation	50,647,996.00	56,353,395.00	62,142,213.51	70,191,403.31	76,698,959.88	89,632,358.48
Less: Changes in NWC	- 85,665,933.00	- 20,864,668.17	- 71,851,900.28	- 39,517,879.05	- 72,755,581.45	- 82,606,525.55
Less: Capital expenditure	145,089,080.00	169,946,085.56	6,543,312.97	7,209,782.78	7,944,135.94	8,753,286.72
FCFF	102,781,035.40	321,341,227.79	111,789,985.99	164,797,310.32	151,915,347.80	170,210,067.30
Terminal Value net FCFF		321,341,227.79	111,789,985.99	164,797,310.32	151,915,347.80	5,690,643,901.99
EV	4,890,273,467					
(+)Non-operating assets	12,130,417					
(-)value of debt	150,088,700					
value of equity	4,752,315,184					
no shares	24,255,000.00	million				
Price of stock	195.93					

CHAPTER II

DATA

2.1 SORKON Business Structure



Figure 2.1 Business Structure

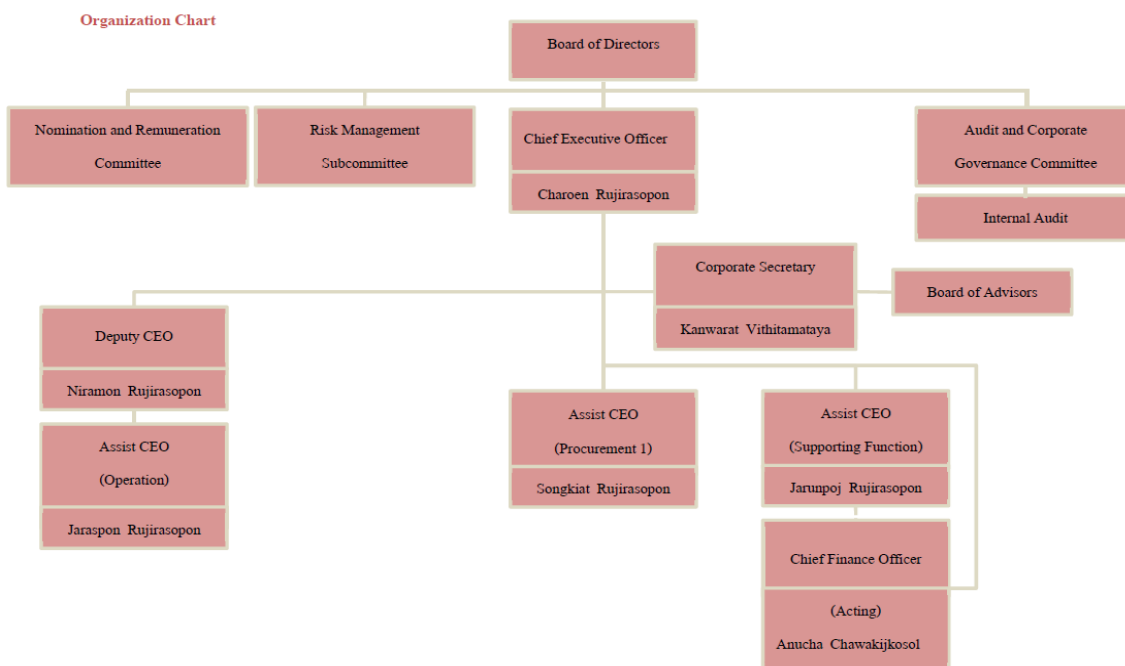


Figure 2.2 Management Organization Chart

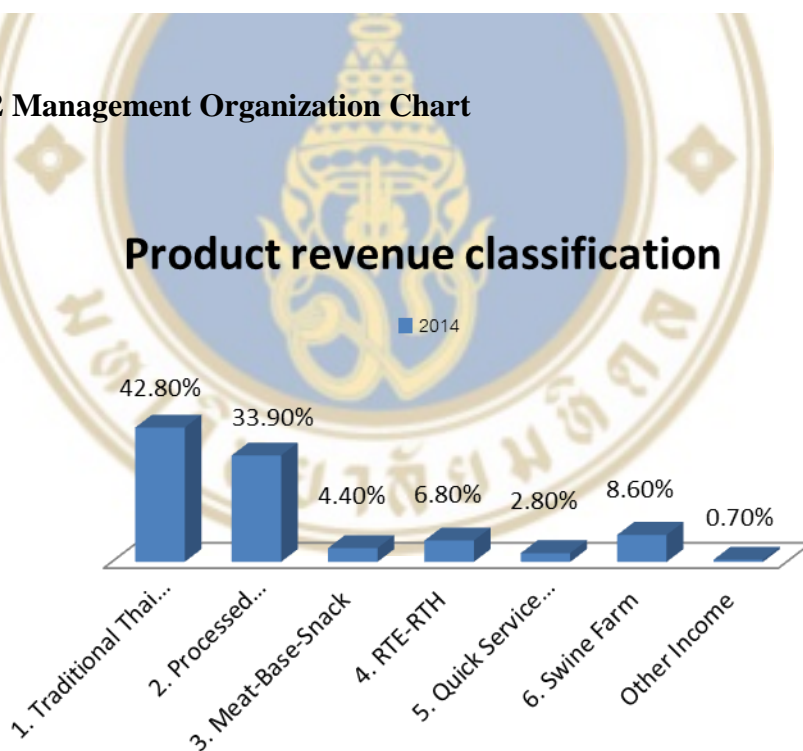


Figure 2.3 Revenue Structure

Table 2.1 Major Shareholders**S. KHONKAEN FOODS PUBLIC COMPANY LIMITED**

Name	Position	Start Date
Mr. SOMCHAI SAKULSURARAT	CHAIRMAN OF THE BOARD OF DIRECTORS	26/03/2004
Mr. CHAROEN RUJJIRASOPON	CHIEF OF THE BOARD OF MANAGEMENT	12/11/2012
Mr. CHAROEN RUJJIRASOPON	CHIEF EXECUTIVE OFFICER	26/03/2004
Mrs. NIRAMOL RUJJIRASOPON	DIRECTOR	04/05/2005
Mr. JARASPON RUJJIRASOPON	DIRECTOR	14/08/2008
Miss PANCHAMA VIPAMAS	DIRECTOR	22/04/2009
Mr. CHAROEN RUJJIRASOPON	DIRECTOR	12/11/2012
Mr. THANAKRIT RUJJIRASOPON	DIRECTOR	29/04/2013
Mr. JARUNPOJ RUJJIRASOPON	DIRECTOR	27/04/2015
Mr. CHAROENPHAN PHANTHUMONGKOL	INDEPENDENT DIRECTOR	27/12/1999
Mr. PRASARN MARUKPITAK	INDEPENDENT DIRECTOR	25/05/1994
Mr. SOMCHAI SAKULSURARAT	INDEPENDENT DIRECTOR	28/02/2010
Mr. CHUSAK VIJAKKHANA	INDEPENDENT DIRECTOR	28/02/2010
Mr. WORAPON LOPANSRI	INDEPENDENT DIRECTOR	24/04/2014
Mr. WORAPON LOPANSRI	CHIEF OF AUDIT COMMITTEE	12/05/2014
Mr. PRASARN MARUKPITAK	AUDIT COMMITTEE	27/12/1999
Mr. CHUSAK VIJAKKHANA	AUDIT COMMITTEE	13/11/2004

Table 2.2 Free-float**Free Float As of 13/03/2015**

Minor Shareholders (Free float)	601
% Shares in Minor Shareholders (% Free float)	38.27

2.2 SWOT Analysis

Table 2.3 SORKON SWOT Analysis

<p>Strengths:</p> <ul style="list-style-type: none"> • SORKON is the leader of the Traditional Thai food industry and fish balls market share result in being able to construct the price • The Company also has its own source of raw material and reliable with quality supply in which result in lower costs of production • Also the Company's products are well recognized and diversified. • Moreover, the Company has great distribution coverage • Have certain qualified certificates to enter international market 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • The Company is obligated by debts conditions which increase in expense payments. • The Company currently has little experience in the QSR market • The products of the Company are not the first choice in the international's tastes • No marketing presenter or lack of products and the Company's advertisements
<p>Opportunities:</p> <ul style="list-style-type: none"> • SORKON has many markets to enter and yet to penetrate like ASEAN markets, AEC and other international markets such as EU, US, and Middle East countries • The snack and QSR markets are huge and have high growth potential. Meat snacks in Muslim market are yet to be penetrating by any other big brands • People's trend is moving toward quick service products and processed frozen foods 	<p>Threats:</p> <ul style="list-style-type: none"> • Competition from new entry competitors to the market • The Thai food traditional market is for certain group of people based on certain personal preferences • Shortage of labor and raw material, bears higher costs • Diseases affection to pigs, sows and boars • Distributor dependence

2.3 Five-force Analysis

Table 2.4 SORKON Five-force Analysis

<p>Threat of new entrants: <i>Low</i></p> <p>We believe that SORKON main products are differentiated from other existing products in the market, with high quality that the Company provides. Moreover, most of the market shares belong to SORKON so it is quite difficult for any other new entrant to strive into the market without being noticed and protected by the Company. Even though AEC will soon open for competitors from other nations but it is Thailand's traditional foods which makes it hard for any other to replicate.</p>
<p>Bargaining power of consumers: <i>Medium</i></p> <p>Most of the Company's products dominated major market shares in the industry which made S. SORKON the leader in this segment. There are a few alternative brands available in the market despite the event of AEC and being differentiated products. Moreover, wholesalers like 7 eleven, one of the top distribution channels of SORKON are considerate in taking a brand on to their shelves which lesser customers choices.</p>
<p>Bargaining power of suppliers: <i>Low</i></p> <p>The Company has its own source of raw material which makes it easier for the Company to negotiate for good deals with other suppliers. Moreover, the raw material required is common in Thailand and AEC countries so the Company will have high bargaining power of suppliers, besides SORKON is a very big Company in Thailand with trustable credit.</p>
<p>Threat of substitute products: <i>High</i></p> <p>There are many other substitute products available in the market such as other kind of food and frozen processed foods. AEC will open in 2016 which will allow more foreign competitors and products to enter Thailand with various alternative choices to consumers.</p>
<p>Competitive rivalry among existing firms: <i>Low</i></p> <p>SORKON is known to be the industry's nominator for quite some time and can still gain more shares in the existing markets. In this industry, we believe that it is quite difficult to steal market shares from SORKON because they cannot cope with price and well operational functioned of SORKON. Moreover, the Company has the know how</p>

2.4 Income Statement

Table 2.5 Income Statement including projections

Consolidated Statement of Income	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues										
Sales	1,504,872,050.00	1,682,012,624.00	1,822,929,605.00	1,992,963,052.00	2,217,481,111.00	2,443,342,875.84	2,692,209,813.78	2,966,425,119.09	3,268,570,652.30	3,601,491,249.62
Other income	23,943,855.00	18,119,630.00	23,238,437.00	26,367,889.00	15,472,860.00	11,631,241.86	8,745,424.75	6,572,997.95	4,940,746.94	3,714,657.58
Total revenues	1,528,815,905.00	1,700,132,254.00	1,846,168,042.00	2,019,330,941.00	2,232,953,971.00	2,454,974,117.70	2,700,955,238.54	2,973,097,717.04	3,273,511,399.24	3,605,205,907.20
Cost of Sales	(1,138,631,530.00)	(1,231,770,912.00)	(1,280,818,318.00)	(1,431,339,282.00)	(1,520,013,794.00)	(1,756,876,109.9)	(1,935,822,905.4)	(2,132,996,344.9)	(2,350,252,905.3)	(2,589,638,154.8)
Gross Margin	390,183,875.0	468,361,542.0	565,339,724.0	587,991,159.0	712,940,177.0	698,098,007.8	765,130,333.2	840,001,372.1	923,258,493.3	1,015,567,147.4
Selling expenses	(133,632,730.00)	(156,929,094.00)	(185,139,894.00)	(195,697,422.00)	(279,372,444.00)	(249,347,202.7)	(274,330,849.2)	(301,361,906.2)	(332,494,527.8)	(366,174,067.0)
Administrative expenses	(159,520,541.00)	(191,507,617.00)	(225,333,662.00)	(256,759,823.00)	(278,649,940.00)	(292,236,544.00)	(322,002,327.00)	(354,799,906.9)	(390,938,087.6)	(430,757,126.4)
Other expenses	(2,247,288.00)	(4,130,602.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total expenses	(295,510,559.00)	(352,567,313.00)	(410,472,956.00)	(452,457,245.00)	(558,022,084.00)	(541,583,746.7)	(596,333,176.3)	(656,761,813.1)	(723,422,615.4)	(796,931,193.5)
Profit before share of income from investments in associates, finance costs and corporate income tax										
	7,060.00									
EBIT	94,673,316.00	115,794,229.00	154,866,768.00	135,453,914.00	154,918,093.00	156,514,261.11	168,797,156.91	183,239,559.00	199,835,877.97	218,635,953.94
Interest/ Finance cost	(31,203,655.00)	(34,993,807.00)	(25,324,812.00)	(19,264,634.00)	(16,287,454.00)	(22,663,242.9)	(21,883,331.7)	(18,764,599.1)	(18,383,664.4)	(16,728,122.1)
EBT	63,469,661.0	80,800,422.0	129,541,956.0	116,189,280.0	138,630,639.0	133,851,018.2	146,913,825.2	163,474,959.9	181,452,213.6	201,907,831.8
Tax	(12,043,965.00)	(29,501,209.00)	(36,030,957.00)	(24,396,707.00)	(27,212,333.00)	(26,770,203.6)	(29,382,765.00)	(32,694,962.00)	(36,290,442.7)	(40,381,566.4)
Net income/ (Loss)	51,425,696.00	51,299,213.00	93,510,999.00	91,792,573.00	111,418,306.00	160,821,221.82	176,296,590.20	196,169,957.86	217,742,656.30	242,289,398.16

2.5 Balance Sheet

Table 2.6 Balance Sheet including projections

Summary of Statement of Financial Position Consolidated	2012	2013	2014	2015	2016	2017	2018	2019
Assets								
Current assets								
Cash and cash equivalents	30,201,238.00	27,140,648.00	26,944,603.00	20,485,278.14	38,661,082.41	22,502,651.72	31,870,072.90	38,626,157.54
Trade and other receivables	293,301,433.00	297,266,011.00	364,391,222.00	397,692,140.05	438,199,113.56	482,831,928.99	532,010,824.39	586,198,041.19
Inventories	160,552,843.00	167,516,423.00	182,762,039.00	215,381,259.78	237,318,939.97	261,491,084.82	288,125,285.94	317,472,316.34
Other current assets	12,287,030.00	10,880,998.00	12,130,417.00	15,338,095.49	16,900,358.77	18,621,746.54	20,518,466.44	22,608,376.93
Total current assets	496,342,544.00	502,804,080.00	586,228,281.00	648,896,773.47	731,079,494.72	785,447,412.07	872,524,649.67	964,905,692.01
Non-current assets								
Breeding stocks	7,991,128.00	7,649,079.00	14,762,023.00	12,679,226.96	13,970,670.92	15,393,655.03	16,961,577.33	18,689,200.52
Property, plant and equipment	388,636,539.00	431,623,680.00	639,671,999.00	613,669,999.00	587,667,999.00	561,665,999.00	535,663,999.00	509,661,999.00
Investment properties	332,089,099.00	332,089,099.00	331,844,299.00	331,844,299.00	331,844,299.00	331,844,299.00	331,844,299.00	331,844,299.00
Intangible assets	18,026,702.00	18,820,809.00	18,490,606.00	16,085,606.00	17,804,464.41	33,837,535.20	31,432,535.20	77,630,262.00
Other non-current assets	9,495,097.00	7,760,365.00	12,277,715.00	11,369,154.72	14,651,019.54	17,241,187.21	19,163,097.65	65,360,878.80
Total non-current assets	756,399,915.00	805,281,592.00	1,022,335,835.00	983,939,531.68	969,239,698.86	973,273,921.44	988,358,754.18	1,006,477,853.34
Total assets	1,252,742,459.00	1,308,085,672.00	1,608,564,116.00	1,632,836,305.15	1,700,309,194.58	1,758,721,334.51	1,860,883,404.85	1,971,383,545.35
Liabilities and shareholders' equity								
Current liabilities								
Bank overdrafts and short-term loans	316,388,308.00	325,326,351.00	427,922,627.00	464,235,146.41	479,213,346.85	474,628,019.05	457,599,891.32	432,178,949.95
Trade and other payables	117,951,195.00	182,723,422.00	246,345,179.00	210,488,980.00	231,928,356.53	255,551,442.96	281,580,661.25	310,261,088.24
Current portion of financial lease payables	3,744,971.00	4,060,158.00	3,147,018.00	4,221,616.80	4,382,976.93	4,550,504.62	4,724,435.62	4,905,014.67
Current portion of long-term loans	29,772,000.00	30,155,700.00	28,550,000.00	24,828,548.80	24,828,548.80	24,828,548.80	24,828,548.80	24,828,548.80
Income tax payable	23,079,064.00	11,475,278.00	12,825,403.00	26,770,203.64	29,382,765.00	32,694,991.98	36,290,442.72	40,381,566.36
Other current liabilities	75,750,346.00	12,911,301.00	14,942,117.00	47,001,672.65	18,140,995.13	10,473,520.16	12,024,704.01	14,268,032.48
Total current liabilities	566,685,884.00	566,652,210.00	735,742,344.00	777,546,168.30	787,876,989.28	802,727,027.56	817,048,683.72	826,823,200.50
Non-current liabilities								
Long-term loans, net of current portion	62,979,400.00	77,648,700.00	150,088,700.00	148,587,813.00	111,440,859.75	55,720,429.88	33,432,257.93	11,701,290.27
Other non-current liabilities	-	2,698,959.00	6,546,679.00	4,622,819.00	4,622,819.00	4,622,819.00	4,622,819.00	4,622,819.00
Provision for long-term employee benefits	32,899,254.00	36,065,205.00	37,299,962.00	39,576,993.12	39,897,745.69	41,263,716.60	42,676,453.97	44,137,558.94
Total non-current liabilities	101,107,169.00	129,212,552.00	208,146,936.00	205,806,863.94	169,800,636.30	115,277,762.00	94,244,848.04	73,827,805.67
Total liabilities	667,793,053.00	695,864,762.00	943,889,280.00	983,353,032.24	957,677,625.57	918,004,789.57	911,293,531.76	900,651,006.17
Shareholders' equity								
Share capital	242,550,000.00	242,550,000.00	242,550,000.00	242,550,000.00	242,550,000.00	242,550,000.00	242,550,000.00	242,550,000.00
Share premium	50,281,000.00	50,281,000.00	50,281,000.00	50,281,000.00	50,281,000.00	50,281,000.00	50,281,000.00	50,281,000.00
Share premium on treasury stock	37,552,153.00	37,552,153.00	37,552,153.00	37,552,153.00	37,552,153.00	37,552,153.00	37,552,153.00	37,552,153.00
Retained earnings	24,255,000.00	24,255,000.00	24,255,000.00	24,255,000.00	24,255,000.00	24,255,000.00	24,255,000.00	24,255,000.00
Appropriated - statutory reserve	133,218,911.00	165,877,486.00	168,073,938.00	288,384,548.91	386,532,844.01	484,617,819.94	593,489,148.09	714,633,947.17
Unappropriated	583,591,914.00	610,954,953.00	663,214,265.00	653,022,701.91	741,170,997.01	839,255,972.94	948,127,301.09	1,069,272,000.17
Attributable to owners of the Company	1,357,492.00	1,357,492.00	1,460,571.00	1,460,571.00	1,460,571.00	1,460,571.00	1,460,571.00	1,460,571.00
Non-controlling interests of the subsidiaries	-	-	-	-	-	-	-	-
Total shareholders' equity	584,949,406.00	612,217,946.00	664,674,836.00	654,483,272.91	742,631,568.01	840,716,543.94	949,587,872.09	1,070,732,571.17
Total liabilities and shareholders' equity	1,252,742,459.00	1,308,085,618.00	1,608,564,116.00	1,632,836,305.15	1,700,309,194.58	1,758,721,334.51	1,860,883,404.85	1,971,383,545.35

2.6 Statement of Cash Flow

Table 2.7 Statement of Cash Flow including projections

Cash flow statement	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cash flows from operating activities										
EBT	53,469,661.00	80,800,422.00	128,541,956.00	116,189,280.00	138,630,639.00	133,851,018.18	146,913,825.16	163,474,959.88	181,452,213.58	201,907,831.80
Adjustments to reconcile profit before income tax expenses to net cash provided by (paid from) operating activities:										
Depreciation - plant and equipment	36,980,121.00	41,371,039.00	44,211,121.00	40,020,828.00	42,838,677.00	47,237,794.15	52,088,658.01	57,437,656.61	63,335,949.75	69,839,938.25
Depreciation - breeding stocks	6,672,328.00	5,449,287.00	4,670,360.00	4,359,260.00	4,314,355.00	7,219,455.18	7,954,793.53	8,765,029.83	9,657,792.84	10,641,488.31
Amortisation of intangible assets	278,059.00	555,096.00	559,245.00	1,834,948.00	2,405,420.00	1,896,145.67	2,098,761.97	3,988,714.87	3,705,217.30	9,150,931.91
Provision for long-term employee benefits	0.00	4,621,399.00	3,746,300.00	4,736,461.00	3,672,107.24	3,707,440.22	3,834,371.09	3,965,647.66	4,101,418.72	4,241,838.15
Interest expenses	31,203,655.00	34,993,807.00	25,324,812.00	19,264,634.00	16,287,454.00	22,663,242.92	21,883,331.75	19,764,599.12	18,383,664.39	16,728,122.14
Profit from operating activities before changes in operating assets and liabilities	129,774,620.00	169,722,206.00	198,800,711.00	190,249,990.00	197,284,617.00	216,575,096.32	234,773,741.51	257,396,609.97	280,636,256.58	312,510,150.57
Operating assets (increase) decrease:										
Trade and other receivables	-24,785,465.00	-28,223,404.00	-8,012,218.00	-1,236,947.00	-69,106,047.00	-33,300,918.05	-40,506,973.51	-44,632,815.43	-49,178,895.40	-54,188,016.81
Inventories	-40,811,189.00	-27,613,439.00	-829,889.00	-18,473,319.00	-19,354,255.00	-32,619,220.78	-21,937,680.19	-24,712,144.85	-26,634,201.13	-29,347,030.40
Other current assets	-356,965.00	-1,315,202.00	-1,619,180.00	-929,610.00	-1,246,419.00	-3,207,678.49	-1,562,263.28	-1,721,387.77	-1,896,719.89	-2,089,910.49
Other non-current assets	36,981.00	-2,600,608.00	-1,271,071.00	1,734,732.00	-1,917,249.00	908,560.28	-3,281,864.81	-12,590,167.68	-41,921,910.44	3,802,218.86
Operating liabilities increase (decrease):										
Trade and other payables	11,127,365.00	-1,606,457.00	-864,797.00	809,230.00	50,838,402.00	-37,886,199.00	21,439,376.54	23,623,086.42	26,029,218.30	28,680,426.99
Cash paid for long-term employee benefits	0.00	-997,888.00	-733,500.00	-1,570,510.00	-2,437,350.00	1,277,031.12	1,320,753.57	1,365,970.91	1,412,737.37	1,461,194.97
Other current liabilities	1,064,984.00	19,476,987.00	1,189,204.00	1,637,015.00	2,020,616.00	23,059,555.65	-28,860,677.53	-7,667,474.97	1,551,183.85	2,243,328.47
Other non-current liabilities	0.00	0.00	-218,922.00	2,237,269.00	3,601,219.00	-1,923,860.00	0.00	0.00	0.00	0.00
Other reconciliation						-30,537,624.80	32,175,369.32	18,169,875.93	38,341,200.37	-13,760,113.14
Cash flows from operating activities	76,050,331.00	126,842,195.00	196,441,338.00	174,467,850.00	159,790,634.00	111,374,742.25	183,559,780.62	209,771,552.55	228,338,869.61	249,321,159.02
Cash paid for corporate income tax	-9,651,599.00	-16,012,048.00	-44,941,159.00	-35,255,361.00	-23,188,322.00	-17,625,603.00	-26,770,203.64	-29,387,252.03	-31,694,691.98	-36,292,442.72
Net cash flows from operating activities	66,398,732.00	110,830,147.00	141,500,179.00	139,212,489.00	136,592,312.00	124,200,145.25	220,329,862.25	239,154,311.58	261,033,861.59	285,622,601.73
Cash flows from investing activities										
Acquisition of property, plant and equipment	-33,918,349.00	-60,274,563.00	-80,877,333.00	-86,249,552.00	-228,193,988.00	-60,820,761.59	-67,015,666.47	-73,841,554.02	-81,362,693.04	-89,649,898.44
Acquisition of sows and loans	-3,286,592.00	-4,842,392.00	-110,591.00	-219,885.00	-3,616,000.00	-3,420,624.84	-3,769,022.94	-4,152,928.17	-4,573,925.09	-5,042,006.41
Cash received from interest income	512,740.00	1,348,080.00	740,550.00	284,377.00	484,451.00	669,538.55	669,538.55	669,538.55	669,538.55	669,538.55
Net cash flows from (used in) investing activities	-36,692,101.00	-63,768,875.00	-80,947,374.00	-86,285,060.00	-228,325,537.00	-63,571,847.49	-70,115,160.46	-77,324,943.24	-85,269,079.18	-94,022,365.90
Cash flows from financing activities										
Increase (decrease) in bank overdrafts and short-term loans from financial institutions	45,110,081.00	23,420,659.00	-208,115,877.00	8,938,043.00	102,596,276.00	36,312,519.41	14,978,200.44	-4,585,327.80	-17,038,127.73	-25,400,941.37
Cash received/paid from long-term loans	0.00	0.00	62,102,400.00	82,500,000.00	101,000,000.00	-1,500,887.00	-37,146,953.25	-55,720,428.88	-22,288,171.95	-21,730,967.65
Decrease in financial lease payable	-6,795,045.00	-6,339,634.00	-3,968,683.00	-4,169,785.00	-4,604,445.00	1,074,598.80	161,360.13	167,527.69	173,931.00	180,578.05
Cash paid for interest expenses	-31,224,731.00	-34,946,943.00	-25,334,189.00	-20,469,270.00	-21,461,347.00	-22,663,242.92	-21,863,311.75	-19,764,599.12	-18,383,664.39	-16,728,122.14
Dividend paid	-7,295,125.00	-9,690,000.00	-89,848,300.00	-58,939,650.00	-58,939,650.00	-80,310,610.91	-88,148,205.10	-88,094,975.93	-168,871,538.15	-121,144,690.68
Net cash flows from (used in) financing activities	-46,732,987.00	-36,851,262.00	-108,012,649.00	-59,901,621.00	88,350,508.00	-67,087,622.62	-132,039,019.52	-177,987,805.03	-166,397,361.23	-184,844,151.19
Net increase (decrease) in cash and cash equivalents	4,002,301.00	4,018,554.00	19,996,605.00	-3,023,255.00	-258,941.00	-4,499,324.86	18,175,804.27	-16,158,430.69	9,367,421.18	6,756,094.64
Translation adjustment	0.00	0.00	0.00	0.00	-37,299.00	62,860.00	0.00	0.00	0.00	0.00
Cash and cash equivalents at beginning of year	2,183,778.00	6,186,079.00	10,204,633.00	30,201,238.00	27,140,684.00	26,944,603.00	20,485,278.14	38,661,082.41	22,502,651.72	31,870,072.90
Cash and cash equivalents at end of year	6,186,079.00	10,204,633.00	30,201,238.00	27,140,684.00	26,944,603.00	20,485,278.14	38,661,082.41	22,502,651.72	31,870,072.90	38,626,157.54

2.7 Financial Ratios

Table 2.8 Summary of key financial ratios

SORKON Financial ratio	2015	2016	2017	2018	2019
Liquidity ration					
Current ratio (times)	0.83	0.93	0.98	1.07	1.17
Quick ratio (times)	0.56	0.63	0.65	0.72	0.78
Cash flow ratio (times)	0.16	0.28	0.30	0.32	0.35
Profitability ratio					
Gross profit margin (%)	28.44%	28.33%	28.25%	28.20%	28.17%
Operating profit margin (%)	6.38%	6.25%	6.16%	6.10%	6.06%
Net profit margin (%)	6.54%	6.53%	6.60%	6.65%	6.72%
Return to equity (ROE) (%)	24.54%	23.74%	23.33%	22.93%	22.63%
Efficiency ratio					
Return on assets (ROA) (%)	9.81%	10.37%	11.15%	11.70%	12.29%
Return on fixed assets (%)	26.17%	30.00%	34.93%	40.65%	47.54%
Total asset turnover (times)	1.50	1.59	1.69	1.76	1.83
Financial policy ratio					
Debt to equity ratio (times)	1.50	1.29	1.09	0.96	0.84
Interest coverage ratio (times)	6.91	7.71	9.27	10.87	13.07
Dividend payout ratio (%)	50.00%	50.00%	50.00%	50.00%	50.00%

2.8 Assumptions

2.8.1 Revenue Growth Assumptions

We have estimated the sales growth of 10% over the next 5 years (each year). The company normally has sales growth at the rate of 8% - 9% YoY. From the discussion with management, the company has invested in several projects including capacity expansion, new product development and branch expansion; therefore we estimated the growth as 10% where we break down the growth into 2 parts which are 6% organic growth together with MT expansion and 4% growth from new product launching.

2.8.2 Terminal Growth Rate Assumptions

We base on our GDP growth rate at 2.5%. Thailand GDP was forecasted for 4% growth, however according to the announcement of the World Bank, has decreased Thai GDP down to 2.5%. Moreover, we also take inflation rate into consideration where we use the rate of 2%. Therefore we compute terminal value using the assumption of 4.5% growth rate.

2.9 Weighted Average Cost of Capital

2.9.1 Cost of Goods Sold

The main cost of good sales is the price of raw material in which is pork price where it takes proportion of 72% of sales. There is possibility for raw material price increasing; luckily the company also operates swine farm business in order to help minimize such risk. However, we do take price fluctuation of COGS into consideration by taking the average of cost for the past few years where already included the time of high pork price (2013 – 2013).

2.9.2 WACC

For the WACC calculation computed as 11.4% where composed of risk free rate at 2.79% quoted from 10 years government bond, with market risk premium at rate of 8.94% from Settrade, SORKON beta at 0.54. For beta, we use beta at 5 years long because it can reflect more on all market conditions than the shorter timeframe. After all, we computed cost of equity at rate of 16.4%. Cost of debt, we computed from funding in 2014 in which SORKON relied more on short-term debt more than long-term debt with approximate portion of 75% and 25% respectively. Interest rate for bank overdrafts was exposed on annual report at the rate of 6.75% - 8.125%, so as being conservative point of view we choose the highest rate as assumption. For long-term loan, interest cost recorded in annual report as MLR – 1, so we base our assumption on average of commercial bank registered in Thailand MLR at 7.0197 – 1, resulted in long-term interest rate of 6.1%. Therefore, we calculated using proportional of short/ long term debt to get interest bearing debt equal to 7.53% which is cost of debt before tax. At the end we compute weight of capital structure as 48% of debt with remaining funding from equity. As a result SORKON's weighed average cost of capital is 11.4%.

Table 2.9 Calculation of WACC

Calculation of WACC	
Risk free rate	2.79%
Beta of SORKON	0.54
Market risk premium	8.94%
Cost of equity (Ke)	7.6%
Cost of debt before taxes	7.53%
Tax rate	20.0%
Cost of debt after taxes (Kd)	6.0%
Weight of debt (Wd)	57.6%
Weight of equity (We)	42.4%
WACC of the target firm	6.7%
Constant growth (gs)	4.5%

Table 2.10 Source of funds

Source of funds as of Q3/2014	Amount (MB)	Weight (%)	int rate (%)
S-T debt			
Bank overdrafts	427,922,627	70.5%	8.13%
Current portion of LT loan	28,560,000	4.7%	6.10%
L-T debt			
LT loan	150,088,700	24.7%	6.1%
total IBD	606,571,327	100%	7.53%
			D/E
total Debt	606,571,327	48%	
Equity	664,674,836	52%	0.91
	1,271,246,163	100%	

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