

**DISCOUNTED CASH FLOW VALUATION OF ASIANS
ALLIANCE INTERNATIONAL (AAI)**

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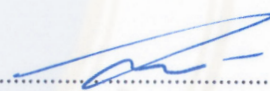
SAKSIT TUNTAHA

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


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Thematic paper
Entitled
**DISCOUNTED CASH FLOW VALUATION OF ASIAN
ALLIANCE INTERNATIONAL PUBLIC COMPANY LIMITED
(AAI)**


was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
May 1, 2023




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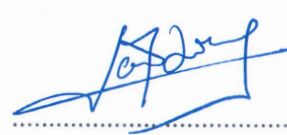
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DISCOUNTED CASH FLOW VALUATION OF ASIANS ALLIANCE INTERNATIONAL (AAI)

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ABSTRACT

This paper presents a discounted cash flow valuation analysis of Asian Alliance International Public Company Limited (AAI), a pet and human food manufacturer listed on the Stock Exchange of Thailand (SET). AAI primarily generates revenue through original equipment manufacturer (OEM) businesses operating under clients' trademarks. However, the company has recently started creating its own cat and dog food products.

Based on fact-finding and expected data, AAI has achieved a compound annual growth rate (CAGR) of 13.82% over the past five years, and revenue is forecasted to grow at 16.07% over the next five years. The perpetual growth rate is estimated to be 6.70%, while the weighted average cost of capital (WACC) is calculated to be 9.44%.

Using the discounted cash flow valuation model, the target price for AAI is calculated to be 7.29%, while the current market price is 6.85%. The upside potential is only 6.4%, leading to a recommendation to hold the stock.

Key words / AAI / DCF / VALUATION / PET FOOD / TREND

Pages 58

CONTENTS

	Page
ACKNOWLEDGEMENTS	III
ABSTRACT	IV
LIST OF TABLES	VII
LIST OF FIGURES	VIII
CHAPTER I INTRODUCTION	1
CHAPTER II BUSINESS DESCRIPTION	4
2.1 Company's structure and operations	7
2.2 Products and Services Characteristics	9
2.3 Revenue Structure	16
2.4 Business and Marketing Strategy	17
2.5 Corporate governance	18
CHAPTER III MACROECONOMIC, INDUSTRY ANALYSIS, COMPETITION ANALYSIS	
3.1 Industry analysis	20
3.2 Competition analysis	23
3.3 Macro-Economic analysis	27
CHAPTER IV VALUATION	
4.1 Financial Analysis	37
4.2 Discounted Cash Flow Valuation & Revenue/Sales forecast	41
4.4 WACC	44
4.5 FCFE projections and recommendation	49
CHAPTER V INVESTMENT RISKS	54
CHAPTER VI CONCLUSIONS	
6.1 Investment recommendation	56
6.2 Triggers for re-assessment	56
6.3 Limitations	57
REFERENCES	59

LIST OF TABLES

Tables	Page
1. Introduction	1
2.1 Company's structure and operations	7
2.2 Products and Services Characteristics	9
2.3 Revenue Structure	16
2.4 Business and Marketing Strategy	17
2.5 Corporate Governance	18
3.1 Industry analysis	20
3.2 Competition analysis	23
3.3 Macro-Economic Analysis	27
4.1 Financial Analysis	37
4.1.1 Growth analysis	37
4.1.2 Dupont analysis (of ROE)	39
4.2 Discounted Cash Flow Valuation	41
4.3 Revenue/Sales forecasts	41
4.4 WACC	44
4.5 FCFF projections	49
5. Investment Risks	54
6. Conclusions	
6.1 Investment Recommendation	56
6.2 Triggers for Re-Assessment	56
6.3 Limitations	57

LIST OF FIGURES

Figure	Page
1.1 Revenue summary YOY	2
2.1 Milestone development	5
2.2 Mission	6
2.3 Core Value	7
2.4 Company group structure	7
2.5 Major Shareholders of the Company	8
2.6 Major Shareholders of Parent Company	9
2.7 Ultimate beneficial owner	9
2.8 Product, Soups	10
2.9 Products, Salads	11
2.10 Products, Fish dishes	11
2.11 Products, Fish dishes	11
2.12 Products, Dry pet food	12
2.13 Products, Human food	13
2.14 Market share of pet food	15
2.15 Market share of human food	15
2.16 Revenue Structure	16
3.1 Thailand pet food market	22
3.2 Market top players	23
3.3 Top world platers	24
3.4 Competitors	25
3.5 Competitors financials	25
3.6 Global real GDP growth	28
3.7 Percentage change for each quarter	29
3.8 USA annual inflation	30
3.9 Federal reserve interest rate	31
3.10 Thailand GDP	32

LIST OF FIGURES (Cont.)

Figure	Page
3.11 Forecast Thailand GDP	33
3.12 Currency fluctuation	34
3.13 Exchange rate USD/THB	36
4.1 & 4.2 Growth analysis	37
4.3 & 4.4 Dupont analysis	39
4.5 Revenue/Sales forecasts	41
4.6 Revenue/Sales forecasts 0.5 model	42
4.7 Estimate EPS from Refinitiv	43
4.8 Estimate EPS from Settrade	44
4.9 Cost of equity	44
4.10 WACC calculation	47
4.11 FCFF projections	49
4.12 FCFF projections 0.5 model	49
4.13 Scale of rating	51
4.14 Sensitivity analysis	51
4.15 Implied WAC	52

CHAPTER I

INTRODUCTION

Business overview

Thailand's leading original equipment producer of pet food and shelf-stable human food is Asian Alliance International Public Company Limited ("AAI") In 2022, the first week of November the company's common shares were listed on the Stock Exchange of Thailand (SET). The majority of sales of pet food and human food are currently generated by original equipment manufacturer (OEM) businesses operating under clients' trademarks. Since 2019, AAI Group has started creating its own cat and dog food products. For the moment, the company offers a wide range of brands that cover all market segments, such as (1) pet food items targeted at the high-end market, particularly "monchou" and "Maria." (2) Pet food brands aimed for the mainstream market, which are "monchou balanced" and "Hajiko," and (3) Pet food brands aimed at the low-end market, "Pro."

Exporting goods to foreign markets is the main source of sales revenue.

Investment highlights

Increasing trend of humanization

A very significant trend in the market under study has been the transition from pet "ownership" to "parenting." The market value of Thailand's pet-related sectors in 2018 was USD 73 billion, with pet food accounting for 50% of that total

Growth forecast for 5 years revenue at 16.07% from increasing in trend and demand of pet foods globally.

The company expected CAPEX investment which the company will increase capacity in production line at 18.32%.

DCF model evaluate the target price at 7.29 THB per share, but the price since Feb 2023 was 6.85 THB per share, it shows 6.4% upward.

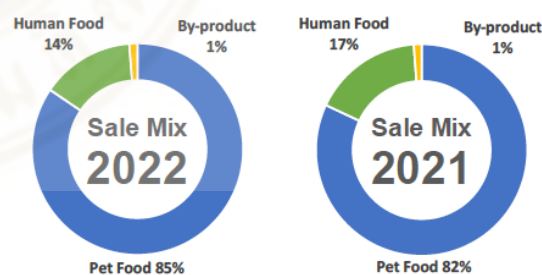
Financial summary 2022

Due to strong demand, particularly in the US market, total sales volume for 2022 climbed 17% YoY to 44,210 tons from 37,777 tons. Pet food volume was the key driver of this growth.

Total revenue for 2022 increased by 42% to THB 7,174 million (including intercompany transactions), mostly due to increasing pet food income due to strong demand. Food for humans was also in more demand as a result of Covid-19's relief and cheaper freight costs. The percentage of pet food sales that were made jumped to 85% from 82% previous year. Revenue from human food climbed to a crucial level.

Figure 1.1

Sales By Business Segment	FY22	FY21	%Growth
Volume (Mt)	44,210	37,777	17%
Pet Food	34,754	28,314	23%
Human Food	6,350	6,342	0%
By-product	3,106	3,120	0%
Revenues (Millions Baht)	7,174	5,057	42%
Pet Food	6,061	4,146	46%
Human Food	1,023	851	20%
By-product	90	60	49%



Source from: management discussion and analysis 2022, company website

Investment recommendation

Based on the discounted cash flow (DCF) analysis, I would recommend a "Hold" recommendation for the stock in question. While the model suggests that the fair value of the stock is 7.29 THB, the current market price of 6.85 THB represents a relatively small upside of 6.4%.



CHAPTER II

BUSINESS DESCRIPTION

Company History

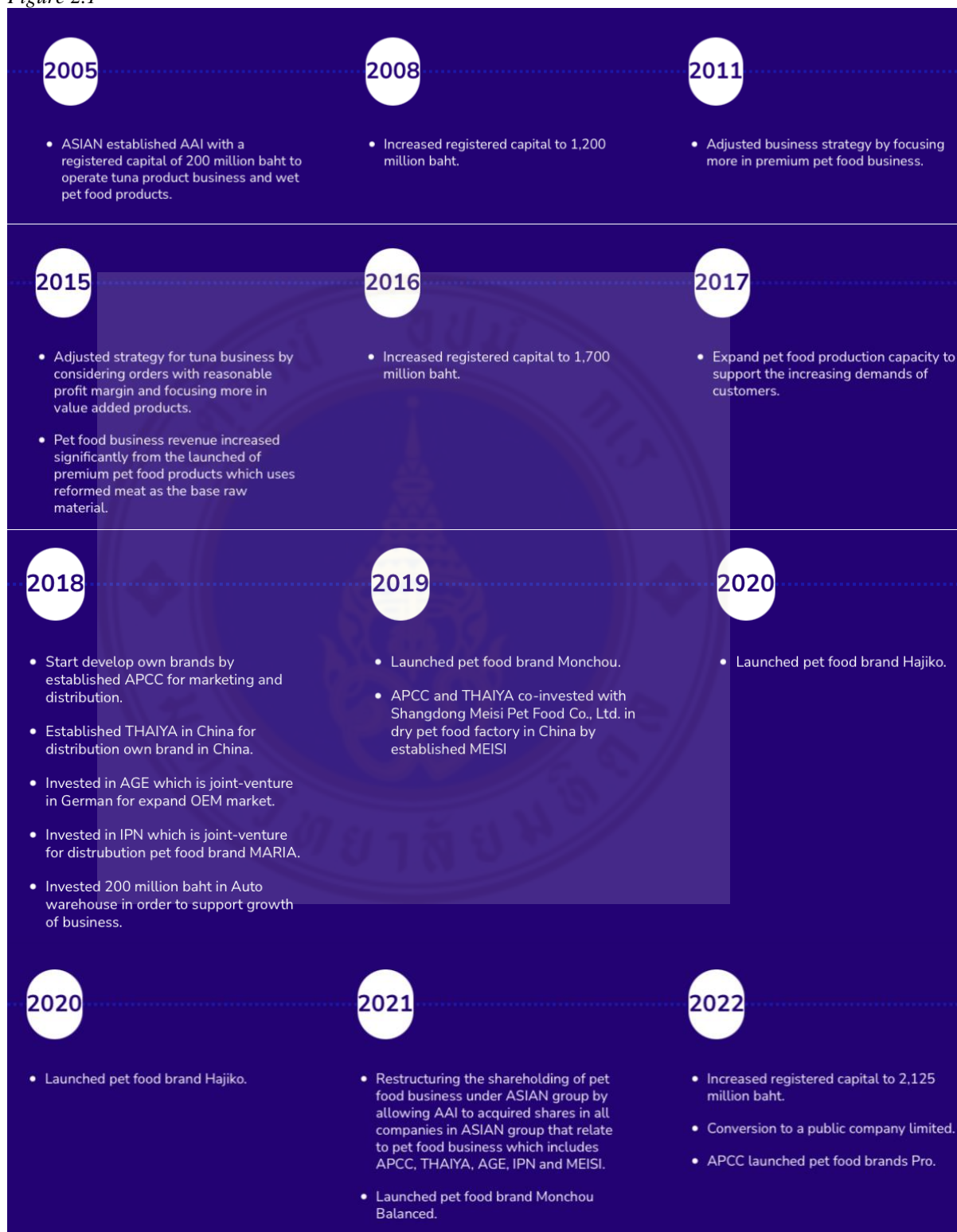
Asian Alliance International Public Company Limited was founded on March 15, 2005, with 200 million baht in paid-up capital. In 2022, the first week of November the company's common shares were listed on the Stock Exchange of Thailand (SET). AAI launched an initial public offering (IPO) with a total paid-up capital of 1.7 billion baht, selling 637.5 million of its 1.7 billion total ordinary shares at a price of 5.55 baht a piece. (Source from SET website) Currently the common share is 2,125 as per the company policy capital increase during the year. The primary focus of the company's early operations was the preparation OEM manufacturer of ready-to-eat meals from tuna, with the remainder—such as the red meat—being used as a raw material for the manufacture of wet pet foods. Due to its high protein content and reasonable pricing compared to other raw materials, tuna is frequently utilized as the primary raw material for wet pet food.

As the world's population started to age and popular trends started to treat pets as friends or family members, the company saw an opportunity in 2011 to build its premium wet pet food business (Pet Humanization). As a result, the company modified its approach and is now concentrating on the high-end pet food market.

The business has consistently prioritized the development of products, including raw materials and recipes, until they were well-received by customers. In order to meet the demands of its steadily growing customer base, the company has increased its pet food production capacity. It has also established subsidiaries, associated companies, and joint ventures to carry out the development of its own pet food brands, including Monchou, Monchou Balance, Hajiko and PRO, as well as a joint brand with Petrina called MARIA.

Milestone development

Figure 2.1



Source from: Company website, <https://asianalliance.co.th/en/>

Vision

To be international pet food and shelf-stable human food manufacturer with quality, safety, social responsibility, and environmental sustainability. (Source from: Company website, <https://asianalliance.co.th/en/>)

Mission

Figure 2.2



Source from: Company website, <https://asianalliance.co.th/en/>

Objective

To be a manufacturer of shelf-stable human food and pet food with a reputation for quality, safety, social responsibility, and environmental sustainability includes concentrating on developing the production process by utilizing effective technology and maximizing the use of natural resources, concentrating on employee development to increase employee loyalty, and enhancing the ability to maintain stable and sustainable profits by driving by appropriate business practices.

Source from: Company website, <https://asianalliance.co.th/en/>

Core Value

Figure 2.3

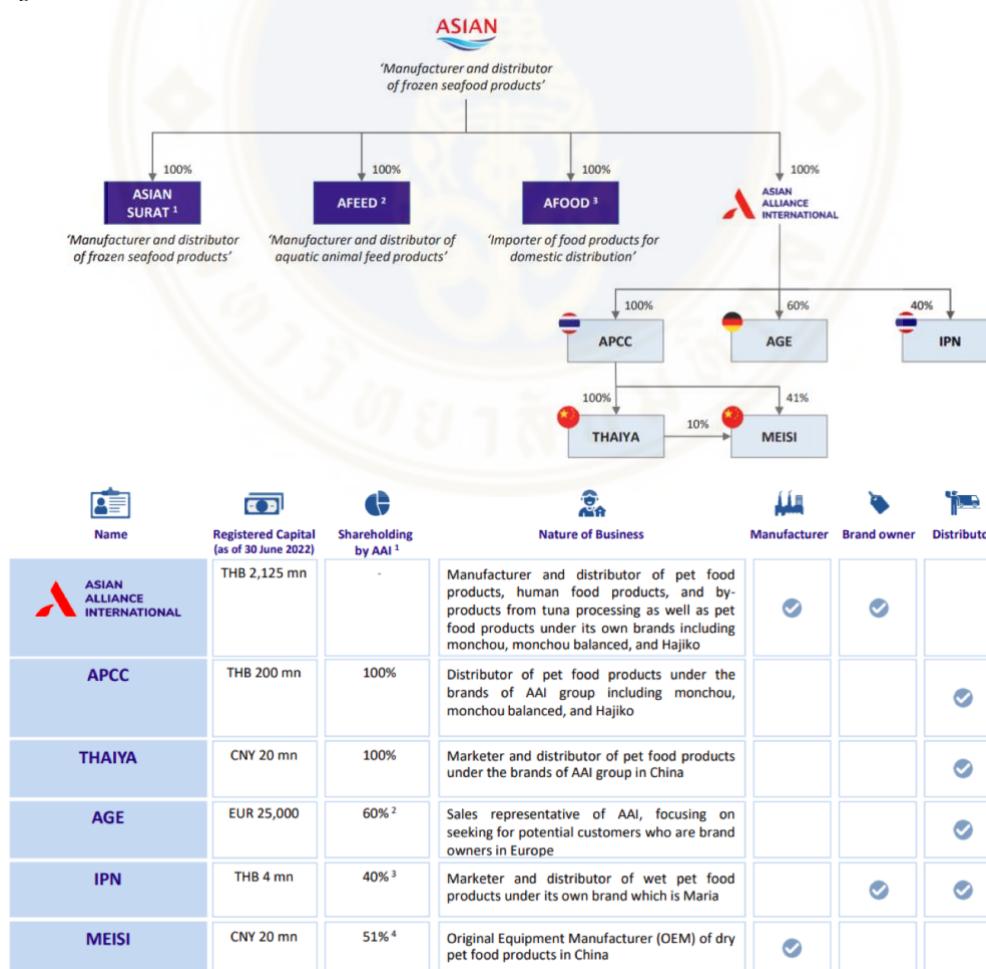


Source from: Company website, <https://asianalliance.co.th/en/>

2.1 Company's structure and operations

2.1.1 Company group structure

Figure 2.4



Source from: Company website, <https://asianalliance.co.th/en/>

2.1.2 Major Shareholders of the Company

Shareholding structure of the Company as of 30 June 2022 after the offering of newly issued shares is as follows:

Figure 2.5

Name of Shareholder	Before the offering		After the offering ^{1/}	
	No. of shares (shares)	Percent	No. of shares (shares)	Percent
1. Asian Sea Corporation Public Company Limited ^{2/,3/}	1,699,993,000	100.00	1,487,493,000	70.00
2. Mr. Somsak Amornrattanachaikul	4,000	0.00	65,224,022	3.07
3. Mr. Somchai Amornrattanachaikul	1,000	0.00	14,744,292	0.69
4. Mr. Somsak Sathitthammarong	1,000	0.00	111,000	0.01
5. Mr. Aekarat Punnasung	1,000	0.00	501,000	0.02
6. Public	-	-	556,926,686	26.21
Total	1,700,000,000	100.00	2,125,000,000	100.00

Source from: Executive Summary, part of registration statement and prospectus

The company offer the free float to the market at 26.21% as of the 30 June 2022.

The biggest shareholder with the portion 70% of the company is Asian Sea Corporation Public Company Limited, a company which produces and exports processed frozen seafood. The company's operations are divided into five segments: distribution, feed, tuna, petfood, and frozen food. In two strategically placed plants in Thailand, its frozen food division produces a variety of cooked, fried, and breaded shrimp, sillago, and seabass products. The company operates a cold storage facility in Klong-Toey, Bangkok, which is adjacent to the port and serves as a foundation for its distribution operation, which imports frozen seafood for delivery to Thai restaurants, modern retail stores, and foodservice customers. Its cannery processes its pet food and tuna goods.

This table is shareholders information of Asian Sea Corporation Public Company Limited.

Figure 2.6

Overview As of 19/09/2022 Rights Type : XB

No.	Major Shareholders	# Shares	% Shares
1.	Mr. Somsak Amornrattanachaikul	412,460,706	50.67
2.	Mr. Somchai Amornrattanachaikul	90,772,500	11.15
3.	Miss Siripat Amornrattanachaikul	21,270,601	2.61
4.	Thai NVDR Company Limited	20,752,500	2.55
5.	Miss Jiranya Amornrattanachaikul	19,091,175	2.35

Source from: Executive Summary, part of registration statement and prospectus

Both companies AAI and ASIAN have the same ultimate beneficial owner which is Mr. Somsak Amornrattanachaikul. He is Director / Chairman of the Executive Committee of the company. A part from Mr. Somsak, other Amornrattanachaikul family members are also holding part of the shares as below table.

Figure 2.7

Name of Shareholder	No. of shares (shares)	Percent
1. Amornrattanachaikul Family ^{1/}		
1.1 Mr. Somsak Amornrattanachaikul	412,460,706	50.67
1.2 Mr. Somchai Amornrattanachaikul	90,772,500	11.15
1.3 Ms. Jiranya Amornrattanachaikul	19,091,175	2.35
Total of Amornrattanachaikul Family	522,324,381	64.16

Source from: Executive Summary, part of registration statement and prospectus

2.2 Products and Services Characteristics

The company operate 2 types of their products and services, which are OEM Original equipment manufacturer and their own brands.

Original equipment manufacturer (OEM) was accounted 90% of the total revenue from the latest year and later their owned brand took only 9% and by product for 1% respectively.

For OEM, AAI collaborate with its clients to develop new product and design also, AAI help its customer to create new brand in new market segment.

For their owned brand, there are two primary categories of products:

- (1) Both **wet** and **dry pet food** items, suitable for both dogs and cats. Both the company's trademark and the trademark of the company's client are used on the products.
- (2) Food for **humans**, the company customer's trademark is used to make ready-to-eat food items that are packaged in sealed containers and come in the shape of seasoned, sauced, and ready-to-eat meals for tuna. The business also markets by-products from the processing of tuna, including fishmeal, fish extract, and fish oil products.

Wet Pet Food

For dogs and cats, the company offers wet pet food items such as complete and balanced pet food, complementary pet food, and snacks packaged as canned goods, pouches, and plastic cups in a range of sizes based on customer needs. Wet pet food items from the company can be kept for a while without refrigeration or freezing because they are shelf stable products.

Figure 2.8

Soups

Pumpkin cream soup Fish cream soup / bisque Clam cream soup with tuna, octopus and seaweed	Chicken consomme Chicken stock with an extensive flavor of chicken	Minced meat soup Italian tomato soup with minced meat and vegetables
Tuna soup Tomato soup with tuna	Milk soup Cream soup with chicken, dried tuna and milk flavour	Italian soup Italian tomato soup with chicken and cheese



Source from: Company website, <https://asianalliance.co.th/en/>

Figure 2.9



Source from: Company website, <https://asianalliance.co.th/en/>

Salads

Tuna salad with Surimi

White tuna meat with surimi, carrots, seaweed and rice, served in clear sauce

Tuna chicken salad

Tuna and chicken with carrots, pumpkin, peas and rice

Chicken ham salad

Chicken and chicken ham with carrots, pumpkin, peas and rice

Chicken with beef liver salad

Chicken and beef liver with carrots, pumpkin, peas and rice

Chicken salad with salmon

Chicken and salmon with carrots, pumpkin, peas and rice

Chicken salad

Chicken with carrots, pumpkin, peas and rice

Figure 2.10

Fish Dishes

Toppings

Salmon, Grouper, Anchovies, Mussels, Octopus, Shrimp, Prawns (Krill), Crab meat, Imitation crab meat, Dried slices of tuna, Chicken, Chicken ham, Egg, Cheese, Rice, Seaweed, etc.

Vegetables

(carrots, corncoobs, pumpkin, asparagus, kale, peas, spinach, tomato, potato, etc.)

Fruits

(papaya, sweet corn, pineapple, cranberry, goji berry, etc.).

Meat Dishes

Toppings

Chicken ham, Duck, Turkey, Lamb, Ostrich, Beef liver, Beef lung, Cheese, Chicken offal, Imitation crab meat, Dried slices of tuna, Crab meat, Salmon, Tuna roe, Egg, Rice, Seaweed

Vegetables

(carrots, corncoobs, pumpkin, asparagus, kale, peas, spinach, tomato, potato, etc.)

Fruits

(papaya, sweetcorn, pineapple, cranberry, goji berry, etc.)



Source from: Company website, <https://asianalliance.co.th/en/>

Figure 2.11



Source from: Company website, <https://asianalliance.co.th/en/>

Mousse

Tuna mousse
Chicken mousse
Salmon mousse
Two layers mousse

Pate

Fish pate
Red tuna meat and pate of tuna liver
Tuna pate
Smoked salmon pate
Chicken pate

Dry Pet Food

The company produces comprehensive and balanced dry pet food for dogs and cats using high-quality ingredients. These products also include nutrients that are essential for dogs and cats to ensure that pets receive a complete diet that is

appropriate for their breed and life stage. To meet the needs of our clients, the items are packaged in various serving sizes in zip-top plastic bags.

The company's dry pet food products are made by MEISI, a joint venture in China that also serves as an OEM manufacturer, and are sold in China under private names.

Figure 2.12



Source from: Company website, <https://asianalliance.co.th/en/>

Human Food

Tuna loin is used as the primary raw material in the company's ready-to-eat food products, which are put in sealed containers and prepared and packaged in accordance with each product's style and formula. Additionally, the tuna loin is used to make ready-to-eat meals such fried rice and tuna in Thai curry paste that are sold in cans, pouch bags, and plastic cups. According to consumer needs, these shelf-stable foods are packaged in a variety of serving sizes and can be kept for a long period without refrigeration or freezing. One of the requirements for exporting to nations in the Middle East, which is the company's primary export market, is certification as a HALAL and Kosher authorized processor.

Figure 2.13

Tuna and Ready to Eat

Tuna Basic Menu

Solid Style, Chunk Style, Flake Style,
Shredded Style

Ready to Eat Menu

Main Raw Material

Tuna, Salmon, Tilapia, Sea bass,
Mackerel, Shrimp

Sauce Recipe

Dressing Sauce, Chilli Con Carne,
Italian Sauce with Pasta, Satay Sauce
with Noodle Pasta, Exotic Salad



Source from: Company website, <https://asianalliance.co.th/en/>

Tuna Spread

Spread Classic, Spread with Ham &
Cheese, Mayonnaise with Carrot and
Sweet Corn, Mayonnaise & Water
Chestnut

Tomato Sauce Recipe

Tomato & Basil, Tomato & Onion,
Tomato Sauce

Thai Kitchen

Panang Curry, Yellow Curry, Green
Curry, Mussaman Curry, Nam Prik Pad

Rice Recipe

Fried Rice, Mexican Rice, Panang Curry
with Brown Rice, Green Curry with
Brown Rice

Other

Hot & Spicy, Sweet Chilli, Marinade
with Dill & Lemon, Smoked Oil,
Oregano & Garlic, Lemon & Pepper,
Tomato & Sweet Basil, Garlic & Hot
Pepper

Source from: Company website, <https://asianalliance.co.th/en/>



The company is running 4 brands for different targeted customer sectors which are included.

1. "Monchou" "High end"



Using only the highest quality real meat, "Monchou" pet food recipes guarantee that client's cherished dogs will remain healthy as long as they are fed scrumptious meals that are balanced in terms of nutrition. This is the human graded food, there is no grain, wheat and corn.

2. "Monchou Balanced" "Mainstream market"



"Monchou Balanced" is a product with full nutritional content that complies with technological and international standards as well as the requirements of the US Pet Feed Control Division of AAFCO (Association of American Food Control Officials). You may be sure that the goods with the brand... are really high-quality.

3. "Hajiko" "Mainstream market"



More than 20 vitamins and minerals are included in Hajiko, including Beta-Carotene & Carotenoid, EDA, and DHA, which strengthens the immune system and joints of dogs and promotes healthier skin and fur. Hajiko offers goods that are ideal for dogs of all ages to help them enjoy their daily activities more.

4. "Pro" "Low end"

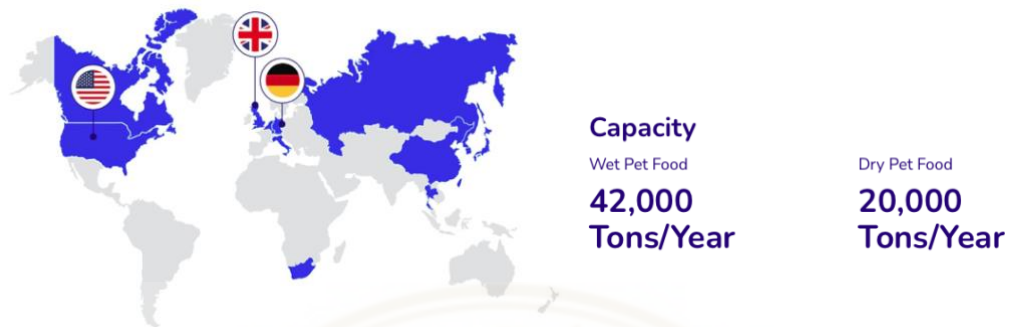


As a result, along with appropriate pricing, food standards are the most crucial issue the company need to pay attention to. The major ingredient of PRO cat and PRO dog food is a protein-rich product that also contains nutrients. This encourages bodily balance while following the nutritional recommendations of the AAFCO (Association of American Feed Control Officials) and taste well, so your cats and dogs may live longer/

Source from: Company website, <https://asianalliance.co.th/en/>

Market share of Wet and Dry Pet Food.

Figure 2.14



Source from: Company website, <https://asianalliance.co.th/en/>

Market target of Human Food

Figure 2.15



Source from: Company website, <https://asianalliance.co.th/en/>

Based on the latest information, the company mainly export to USA, UK, Germany, Japan, Saudi Arabia which was accounted over 90% of total revenue are from export OEM pet food and human food.

2.3 Revenue Structure

Figure 2.16

Items	For the year ended 31 December						For the 6-month period ended 30 June			
	2019		2020		2021		2021		2022	
	THB mn	Percent	THB mn	Percent	THB mn	Percent	THB mn	Percent	THB mn	Percent
Revenue from Sales of Pet Food										
- Export Sales	2,301.58	62.86	3,184.24	68.80	3,842.56	76.30	1,849.81	75.71	2,767.33	79.05
- Domestic Sales	97.37	2.66	148.68	3.21	243.97	4.84	107.13	4.38	182.58	5.22
Total Revenue from Sales of Pet Food	2,398.95	65.52	3,332.92	72.01	4,086.53	81.14	1,956.94	80.10	2,949.92	84.26

Source from: Executive Summary, part of registration statement and prospectus

Revenue from Sales of Human Food										
- Export Sales	935.20	25.54	978.21	21.13	826.36	16.41	423.79	17.35	458.21	13.09
- Domestic Sales	168.04	4.59	122.25	2.64	12.28	0.24	2.26	0.09	11.48	0.33
Total Revenue from Sales of Human Food	1,103.24	30.13	1,100.46	23.78	838.64	16.65	426.05	17.44	469.69	13.42

Source from: Executive Summary, part of registration statement and prospectus

Revenue from Sales of By-Products										
- Domestic Sales	86.16	2.35	78.71	1.70	60.32	1.20	32.40	1.33	44.70	1.28
Total Other Revenue from Sales	86.16	2.35	78.71	1.70	60.32	1.20	32.40	1.33	44.70	1.28
Total Revenue from Sales	3,588.35	98.00	4,512.09	97.49	4,985.49	98.99	2,415.39	98.86	3,464.30	98.95
Other Revenue ^{1/}	73.08	2.00	116.37	2.51	50.94	1.01	27.79	1.14	36.60	1.05
Total Revenue	3,661.43	100.00	4,628.45	100.00	5,036.43	100.00	2,443.18	100.00	3,500.90	100.00

Source from: Executive Summary, part of registration statement and prospectus

For the years 2019, 2020, and 2021, the Company's sales revenue was THB 3,588.35 million, THB 4,512.09 million, and THB 4,985.49 million, respectively. These figures reflect increases of 25.74 percent and 10.49 percent in order. These were mostly brought on by a consistent rise in sales revenue from pet food, since the market for pet food as a whole tends to expand due to the growing acceptance of pet adoption. Additionally, the COVID-19 outbreak has encouraged individuals to stay home more often and work from home, which has fueled a growing trend of pet ownership and spending more time with our four-legged friends.

Pet food purchases surged in 2020 as a result of significant brand-owner clients of the company increasing their reserve stocks due to their worries about potential disruptions in the manufacturing sector and global shipping caused by the COVID-19 outbreak. Sales of human food generated revenue in 2020 that was roughly comparable to that of 2019. Pet food orders from brand-owner clients increased in 2021 as a result of a steady increase in the demand for pet food worldwide. Nevertheless, revenue from the sale of human food fell from 2020 to 2021 mostly because of the increase in the price of tuna, which is the primary expense of sales, and in the cost of freight as a result of the COVID-19 outbreak, causing a drop in purchasing orders for human meals from clients.

Additionally, the COVID-19 outbreak's effects resulted in periods of labor shortages for the Company and the manufacturing industry. In order to deal with the problem, the company prioritized scheduling workers for the pet food production line, which led to a decrease in the amount of human food products produced.

2.4 Business and Marketing Strategy

Level up AAI,

The company's business strategy is being a global manufacturer of shelf-stable human food and pet food with the highest standards of quality, safety, social responsibility, and environmental sustainability. By they set up 3 steps moving forward as 3 components below.

1. Level up AAI organization

The pet food business segment is being reorganized as part of AAI's focus on organizational and managerial restructuring to support growth and business prospects and to match worldwide standards.

2. Level up Co-developer

In addition to being a "Co-developer," AAI set a goal to elevate its status along the business supply chain to that of a "Strategic Partner" by seeking out chances to forge connections with both up-stream and downstream business groups in order to ensure continuity of supply chain management and to be more effective.

3. Level up own brand

In order to increase its competitiveness in the pet food industry and sustain its profit margins over the long term, AAI has a strategy to expand its pet food company into the consumer market. Wet pet food, dry pet food, and pet treats are just a few of the many brands of pet food items that AAI has created to meet the needs of consumers in every market area.

For marketing strategy, AAI places a high priority on more aggressive marketing tactics and expanding distribution channels in order to increase consumer brand recognition and brand perception, especially in local markets. There are now more pet stores, modern-trade stores, and e-commerce platforms.

2.5 Corporate Governance

In order to maximize benefits to shareholders and impacts on society, communities, the environment, the nation, and other stakeholders, including clients, business partners, creditors, employees, and rivals, Asian Alliance International Public Company Limited (the "Company") is aware of its duties and responsibilities. The Company also complies with the corporate governance standards set forth in the Office of the Securities and Exchange Commission's 2017 Principles of Good Corporate Governance of Listed Companies (the SEC). In order to create openness and fairness for stakeholders, the Company's good corporate governance policy has been laid up as a guideline for the activities of the Company and its subsidiaries. The following eight principles comprise the good corporate governance policy:

Principle 1: Establish Clear Leadership Role and Responsibilities of the Board

Principle 2: Define Objectives that Promote Sustainable Value Creation

Principle 3: Strengthen Board Effectiveness

Principle 4: Ensure Effective CEO and People Management

Principle 5: Nurture Innovation and Responsible Business

Principle 6 Strengthen Effective Risk Management and Internal Control

Principle 7: Ensure Disclosure and Financial Integrity

Principle 8: Ensure Engagement and Communication with Shareholders

(Source from: Company website, <https://asianalliance.co.th/en/>)

As the company Asian Alliance International Public Company Limited is recently listed at the end of 2022, the cooperate governance score is not yet published on SET website, however the its parent company ASIAN SEA CORPORATION PUBLIC COMPANY LIMITED was rated 4 stars out of 5.

CHAPTER III

MACROECONOMICS, INDUSTRY, AND COMPETITION ANALYSIS

3.1 Industry analysis

Thailand pet Food market analysis.

During the forecast period, the Thai pet food market is anticipated to develop at a CAGR of 5.2%. (2022-2027). Despite a minor sales rate slowdown compared to the pre-pandemic period as consumers were more frugal with their spending, Thailand's pet food industry maintained strong growth in 2020 and 2021 during the pandemic. However, during the early stages of the COVID-19 outbreak and in response to the government's lockdown order, individuals panicked bought and stocked up on supplies, including pet food. Because dry pet food has a longer shelf life and is easier to store, it has become increasingly popular with consumers during this period of ambiguity.

It has continued to contribute to stronger sales than before the outbreak. The pet food industry in Thailand is being driven by the country's evolving lifestyle. Another significant factor driving the expansion of the Thai pet food business is the shift in consumer perceptions regarding pet health. Additionally, as there are more nuclear families, consumers are treating their pets like family and are more worried about their food habits, lifestyles, and health problems. Pet owners are choosing specialist and niche pet feeds because of growing worry about pet obesity. Pet owners will occasionally treat their animals with luxury pet food.

Consumers are becoming more informed about labeling and the substances used in such food products, and their top concerns are safety and the nutritional

requirements of dogs. Costs associated with these factors are higher. However, people are more prepared to spend money on their dogs than they were previously due to an increase in middle-class households in the nation and more disposable income, particularly for higher-quality pet foods.

Additionally, this tendency coincides with the consistent expansion of a number of pet food categories, including premium alternatives, specialty pet diets, and healthy treats. In order to guarantee the quality of its main component, meat, Betagro, a Thai pet food manufacturer that was given the Thailand Trust Mark by the MoC. It invested THB 1.2 billion in a pet food production facility in 2017. Dogs make up the largest market category for pet food, both in terms of income and volume held, according to the Thai Pet Products Association. During the projected period, this share is anticipated to expand by an average yearly percentage.

Over the projection period, it is anticipated that demand for high-end dog treats would fuel market expansion. This fact would be eventually benefit to AAI as well. Consumers are giving their pets wet dog food as a snack and have tried even more varied treats, regardless of price, as part of the pet humanization movement. The pet food market is anticipated to expand over the course of the forecast period as a result of the cultural trend toward greater pet humanization and the value placed on pet health.

Increasing trend of humanization

A very significant trend in the market under study has been the transition from pet "ownership" to "parenting." Studies show that more than one third of households in the nation have pets. However, customers are gradually becoming aware that homemade food and pet food have different nutritional components and that pets need to be fed a variety of foods as part of a balanced diet. The market value of Thailand's pet-related sectors in 2018 was USD 73 billion, with pet food accounting for 50% of that total, according to the Thai Pet Product Industries Association. While sales of

human food have only increased by 5%, the pet food sector has been expanding significantly.

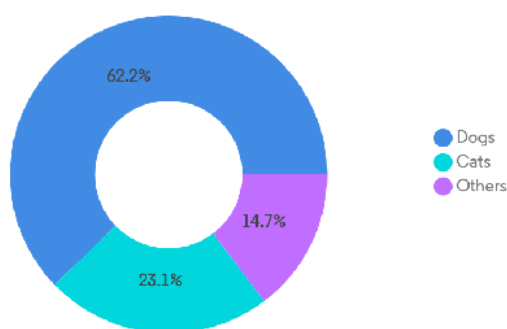
As a result, the demand for premium pet food is growing, which is being fueled by an increase in pet ownership. Additionally, "Pet Business" reached USD 107 billion in 2019, with the animal food segment accounting for the largest share with 45% of the estimated USD 48 billion, followed by the pet health care segment with 32% of the estimated USD 34 billion, and other segments (clothes, accessories, and toys) with 23% of the estimated USD 24.5 billion. In 2020, there were around 14.5 million pets in Thailand: 8.9 million dogs (62%), 3.3 million cats (23%), and other pets (15%), according to the Thai Pet Product Association.

Pet humanization has caused the industry to rise at an average rate of 10% per year since 2017. Only 6% of the market in Thailand is made up of imports of pet food, worth US\$54 million. People in Thailand are rearing animals as friends as the number of senior individuals, single people, and people without children rises every year.

Consequently, the premiumization of pet foods has been fueled by the consumer trend toward pet adoption, and over the course of the forecast period, it is predicted that the pet food market would grow as a result.

Figure 3.1

Thailand Pet Food Market: Pet Population in million, Animal Type, 2020



Source: Thai Pet Product Association

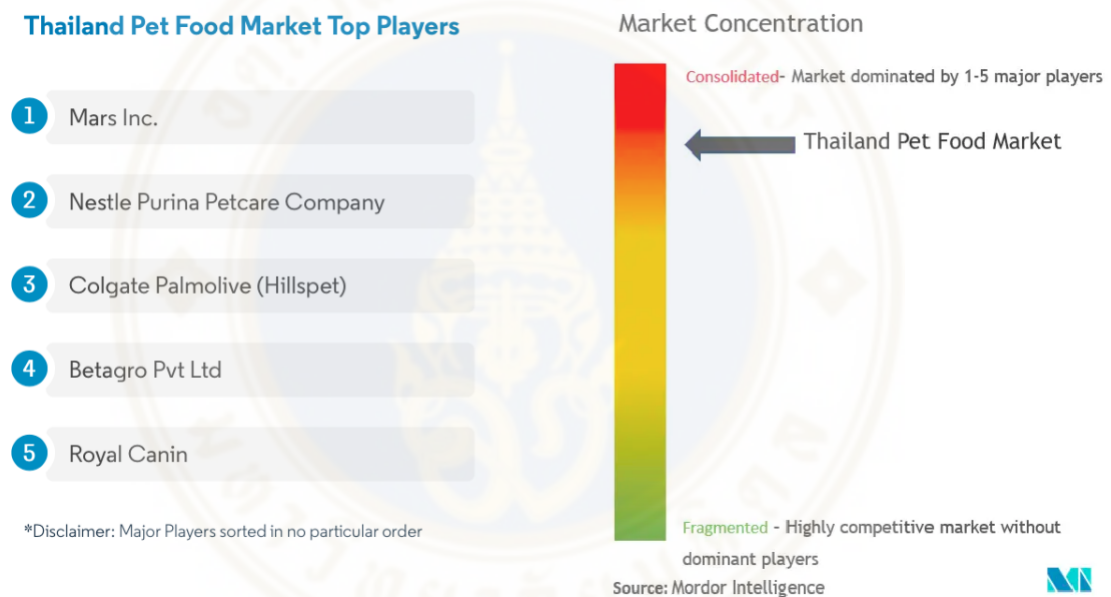


Source from : <https://www.mordorintelligence.com/industry-reports/thailand-pet-food-market>

3.2 Competition analysis

The largest international companies control a sizable portion of the consolidated Thai pet food market. Mars Inc., Nestle Purina Petcare, Hillspet, Betagro, and Royal Canin are some of the key players. For business expansion, these key firms are investing in new products, product innovation, expansions, and acquisitions. The emphasis on R&D to introduce new items at cheaper prices represents another significant area of expenditure.

Figure 3.2



Source from : <https://www.mordorintelligence.com/industry-reports/thailand-pet-food-market>

Recent development in segment.

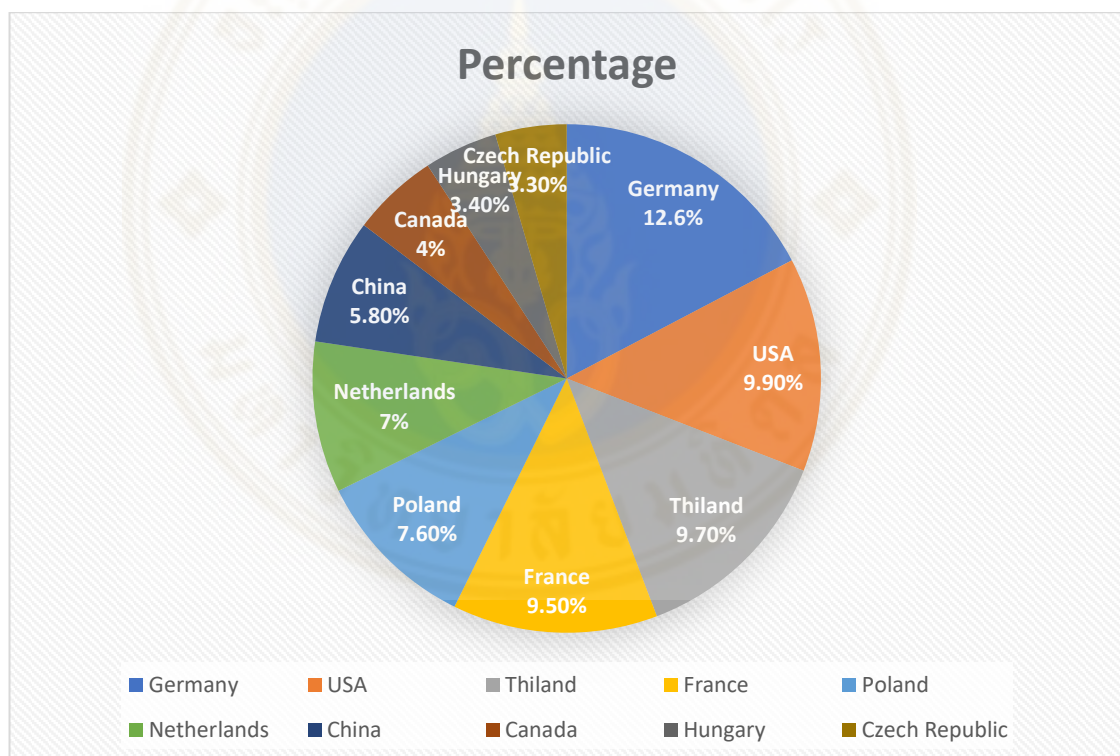
The plant-first recipes for the Karma brand were introduced by Mars Incorporated in June 2021 across all of its markets, including Thailand. Real chicken or white fish is added to Karma meals in addition to plant-based superfoods like flaxseed, chickpeas, dry coconut, chia seeds, dried pumpkin, and others.

Thai Union introduced ChangeTer, a brand of kidney-friendly cat treats that are incredibly nourishing and excellent for cats' health, in December 2020. V-Planet, a multinational company with headquarters in San Francisco, California, began selling its vegan dog snacks in Thailand in May 2020.

Top worldwide exporters

Exports of dog or cat food, broken down by nation, reached US\$21 billion in 2021. Comparing that amount in dollars to \$13.04 billion in 2017, there has been a 61.2% growth.

Figure 3.3: 10 from the list



Source from : <https://www.worldstopexports.com/dog-cat-food-exports-country/>

Germany, the United States of America, Thailand, France, and Poland are the top 5 exporters of pet food for dogs and felines. Together, such pet food vendors earned nearly half (49.3%) of the total amount of dog or cat food exported in 2021.

Based on above information, Thailand is the country that has trade surplus from net export up to 24.2% since 2020.

In the part of peer's analysis, I would like to present the 4 companies which are direct competitors in the Thai market currently.

Figure 3.4



Source from : <https://brandage.com/article/32523>

They are the subsidiaries of well-known players in the food and beverage market. I decided to bring those 4 subsidiaries to compare with AAI as peers for the basic information and financial details as below table.

Figure 3.5

Company name	Revenue	Net profit	NI margin	Market cap
Perfect Companion Group	13,138	441	3.35%	15,008
Pet focus	1,534	98	6.38%	1,156
I-tails	7,108	1,598.7	22.49%	94,500
Nestle'	9,336	469	5.02%	22,077
Asian Alliance International PCL	4,985	653	13.10%	11,687

Year 2021, Million THB

Increasing in trend of humanization, above companies also be participants and portion to the market share. The brief details of each companies will be described as following.

1. Perfect Companion Group: this is the subsidiary of Because The primary raw material used in the company's manufacturing process is tuna and the company mainly rely on imported Tuna. That has a market capitalization of THB 15 billion. The revenue they made in 2021 was THB 13 billion and Net income was THB 440 million which is 3.35% of total revenue.
2. Pet focus: a subsidiary of Betagro. The firm is launching the brand under product names, DOG n joy, CAT n joy, Perfecta Because The primary raw material used in the company's manufacturing process is tuna and the company mainly relies on imported Tuna. That BINGO STAR. They were reported the market capital of THB 1.56 billion. The revenue they generated were THB 1.5 billion which considered higher than market cap. Net income was THB 98 million and its 6.35% from total revenue on 2021.
3. I-tail: The firm is a subsidiary of Thai Union, one of the biggest canned tuna ready to eat firm of Thailand. I-tail currently offer the products to the market as following, Bellotta, Marvo, ChangeTer, Calico Bay and Paramount. In 2021, the firm was reported market capital of THB 87 billion which is the biggest peer in this comparison. Moreover, the form made 43% Net income over revenue in portion, considered to be highest turnover as well.
4. Nestle' Thailand: the company which we normally familiar by many food and beverage products. In this segment, the firm sells pet food products under these names, Purina One, Pro Plan, Felix, Alpo, Friskies, Super Coat and Fancy Feast. In 2021, revenue they performed was THB 9.3 billion and Net income was THB 469 million.

5. AAI: in this comparison, I only bring up the revenue and net income of pet food sector to be fair and reasonable in comparison. In 2021, the revenue from pet food was THB billion and net income was THB 529 million, which accounted for 12.97%.

3.3 Macro-Economic Analysis

The global economy has started 2023 with some encouraging indicators as inflation and oil costs begin to decline from their peak levels. The end of China's zero-COVID policy also stimulates some growth, though its full effects have not yet been felt. The global macroeconomic situation will still be difficult for consumers, businesses, and economies in the coming year.

The world economy is expected to grow by 2.3% in 2023, which is expected to be lower than the 3.3% recorded in 2022, making it one of the weakest global economic outlooks in decades. Despite being predicted to decline from 9.1% in 2022 to 6.8% in 2023, global inflation is still at all-time highs. The forecast for global economy would be undermined by continuing geopolitical unrest, rising interest rates, and high living expenses that would hurt private consumption and investment around the globe.

In 2023, advanced economies are on the verge of recession.

As the GDP prognosis for advanced economies deteriorated throughout the course of 2022, recession worries grew. Advanced economies are predicted to experience flat growth in 2023, despite exceeding forecasts in the last quarter of last year. That's because steadily growing prices and rising borrowing costs will have an effect on businesses and consumers. This will further reduce their purchasing power and investment opportunities, significantly limiting economic growth.

Figure 3.6



Source from: Euromonitor

Brief economic situation of USA

Comparatively to 2021, when it rose by 10.7% percent, or \$2.25 trillion, current-dollar GDP expanded by 9.2%, or \$2.15 trillion, to a figure of \$25.46 trillion in 2022.

Compared to 2021, when it rose by 4.2 percent, the price index for gross domestic purchases climbed by 6.8 percent in 2022. (table 4). As opposed to a rise of 4.0 percent, the PCE price index rose by 6.2 percent. The PCE price index rose 5.0 percent instead of 3.5 percent when food and energy costs were excluded.

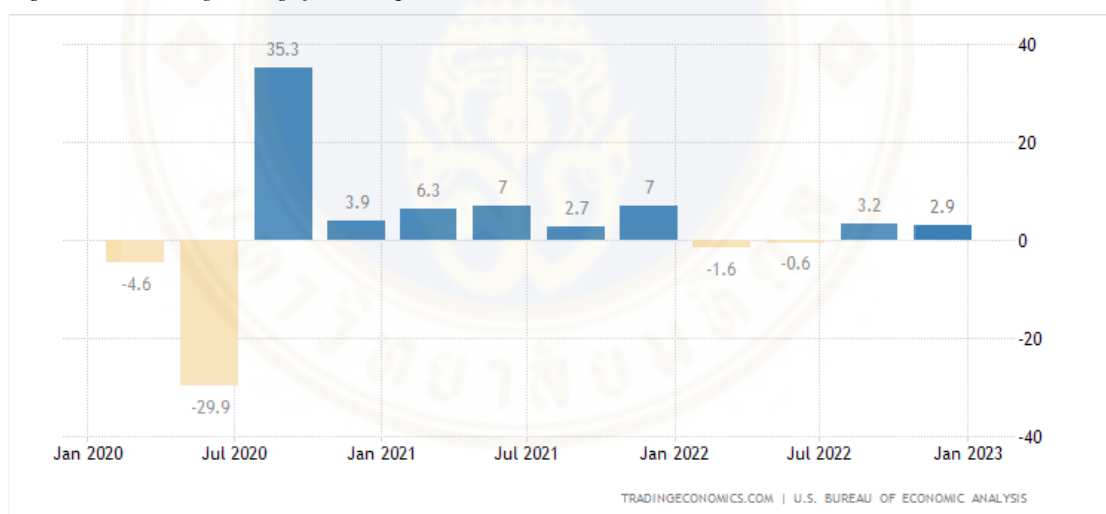
Real GDP rose by 1.0 percent between the fourth quarters of 2021 and 2022 when measured over this time period, as opposed to 5.7 percent between the fourth quarters of 2020 and 2021.

In comparison to the growth of 5.8 percent from the fourth quarter of 2020 to the fourth quarter of 2021, the price index for gross domestic purchases climbed by 6.1 percent between the fourth quarters of 2021 and 2022. The PCE price index rose

by 5.5 percent as opposed to 5.7 percent as expected. The PCE price index grew 4.7 percent, the same as from the fourth quarter of 2020 to the fourth quarter of 2021, when food and energy were excluded.

Following figure 3.7, a 3.2% increase in Q3, the US economy grew an annualized 2.9% on quarter in Q4 2022, exceeding expectations of 2.6%. Consumer spending increased by 2.1%, below the expected 2.5% growth and the Q3 increase of 2.3%. Spending on commodities increased 1.1%, driven by increases in motor vehicle and parts, while spending on services decreased (2.6% vs. 3.7%), driven by increases in health care, housing and utilities, and personal care services. Following a decline in the previous two quarters, private inventories, driven by petroleum, coal products, chemicals, and utilities, contributed 1.46 percentage points to growth.

Figure 3.7 Percentage change for each quarter



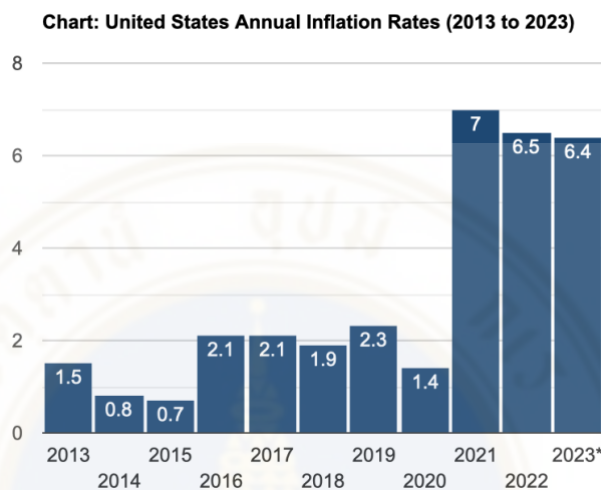
Source from: <https://tradingeconomics.com/united-states/gdp-growth>

US inflation rate

The US annual inflation rate decreased from 6.5% in December to 6.4% in January 2023, which was less than market expectations of 6.2%. The reading is still the lowest since October 2021. Food prices had a pause (10.1% vs. 10.4%), but the price of secondhand vehicles and trucks kept falling (-11.6% vs. -8.8%). In contrast,

the price of housing climbed more quickly than the cost of energy (8.7% vs. 7.3%), while gasoline prices jumped by 1.5%, reversing a 1.5% fall from December. On the other hand, prices for both fuel oil (27.7% vs. 41.5%) and electricity (11.9% vs. 14.3%) decreased.

Figure 3.8



Source from: <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

US interest rate

As of February 2, 2023, the federal funds rate, an interest rate set by the Federal Reserve, ranges from 4.50% to 4.75%. The Federal Reserve began raising interest rates last March, and the most recent increase—0.25%—took place on February 2. After raising rates by 50 basis points last month, the Fed chose to reduce the increase to 25 basis points. The Fed accelerated the rate-hike cycle in 2022 by raising rates by 75 basis points four times in a row.

Below figure shows the historical federal reserve interest rate since on the second half year of 2022.

Figure 3.9

DATE	FEDERAL RESERVE INTEREST RATE
Feb. 2, 2023	4.50%-4.75%
Dec 14, 2022	4.25%-4.50%
Nov. 2, 2022	3.75%-4.00%
Sept. 22, 2022	3.00-3.25%
July 28, 2022	2.25%-2.50%
June 16, 2022	1.50%-1.75%

Source from: <https://www.fool.com/the-ascent/federal-reserve-interest-rates/>

Thailand GDP growth rate

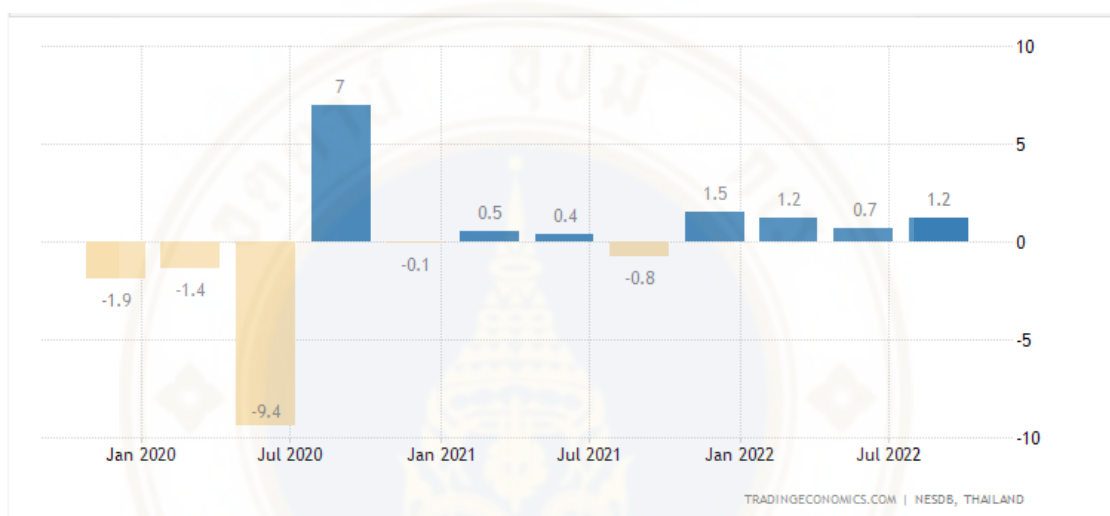
Thailand's economy is anticipated to return to its pre-pandemic level in 2022, but due to external challenges, growth will be slower than anticipated in 2023. In 2022 and 2023, respectively, the GDP is expected to grow by 3.4 and 3.6 percent. Due to a quicker-than-anticipated fall in global demand, growth expectations for 2023 have been reduced by 0.7 percentage points. Recovery in the tourism industry and private consumption will continue to be the key drivers of growth.

Recently, Thailand's export growth significantly slowed, mirroring that of its ASEAN counterparts and the effects of the global economic downturn. After a projected increase of 8.1 percent in 2022, goods exports are predicted to drop by 2.1 percent in 2023. This reduction in estimate is due to weaker demand from the main trading partners, such as China, the US, and the EU.

Thailand's economy grew 1.2% quarter on quarter in Q3 2022, exceeding the 0.9% rise predicted by the market and coming off a 0.7% rise in Q2. The most recent figure 3.10 showed a quarterly growth for the fourth consecutive quarter, supported by strong fixed investment and steady private consumption. Despite rising cost pressures, household consumption increased for the fourth consecutive quarter (1.3% vs. 1.7% in Q2), and fixed investment experienced a robust recovery (2.9% vs. -1.9%).

Following a 0.7% increase in Q2, Thailand's GDP expanded by 1.2% quarter over quarter in Q3 2022, above the market's prediction of 0.9% growth. The most recent data demonstrated quarterly increase for the fourth straight quarter, which was backed by robust fixed investment and sustained private consumption. Household spending increased for the fourth consecutive quarter despite rising cost constraints (1.3% vs. 1.7% in Q2), while fixed investment recovered strongly (2.9% vs. -1.9%).

Figure 3.10



Source from: <https://tradingeconomics.com/thailand/gdp-growth>

Thailand inflation

After skyrocketing to a 24-year high last year, primarily due to increased energy prices, Thailand's inflation rate is predicted to decrease to 2-3% this year.

According to data released by the Commerce Ministry on Thursday, consumer price index (CPI)-measured headline inflation increased by 6.08% from a year earlier in 2022, roughly in line with the forecast (between 5.5% and 6.5%, with an average of 6%).

The main causes were the Russia-Ukraine war and rising energy prices as a result of constrained production that was under the control of oil-producing nations. It

ultimately resulted in high domestic costs for fuel, electricity, and liquefied petroleum gas due to a limited supply of energy.

Thailand's annual inflation rate decreased to 5.02% in January 2023 from 5.89% the previous month and was lower than the 5.12% market prediction. Since April 2022, prices for food and non-alcoholic beverages have increased at a slower rate (7.70% vs. 8.87% in December 2022), primarily for meat products (2.72% vs. 12.20%), and for non-food items (3.18% vs. 3.87%), primarily for transportation (4.26% vs. 5.65%) and fuel (9.77% vs. 13.78%). BOT expected headline inflation at 3% in 2023.

Figure 3.11

Forecast summary as of 30 November 2022				
%	2021*	2022	2023	2024
GDP Growth	1.5	3.2 (3.3)	3.7 (3.8)	3.9
Headline Inflation	1.2	6.3 (6.3)	3.0 (2.6)	2.1
Core Inflation	0.2	2.6 (2.6)	2.5 (2.4)	2.0

Source from: BOT website.

High inflation could cause a problem to the company in many aspects as following.

1. **Cost increases:** When AAI works to maintain operations, high inflation frequently drives up the cost of labor, raw materials, and other inputs. This can have a negative impact on AAI's bottom line.
2. **Decreased purchasing power:** Consumers with lower purchasing power may be less likely to purchase AAI's goods and services, which would result in a decline in income.
3. **Higher interest rates:** To fight inflation, central banks may raise interest rates. As a result, AAI may incur increased borrowing costs, which could limit its capacity to finance operations or grow the company.

4. **Currency fluctuations:** Currency fluctuations can result from inflation and impact AAI's ability to conduct trade and business internationally. Because the primary raw material used in the company's manufacturing process is tuna and the company mainly relies on imported Tuna. That make the company handle harder for cost and budget allocation.

Figure 3.12



Source from: <https://tradingeconomics.com/thailand/gdp-growth>

Thailand interest rate

For the third time in a row of 2022, the Bank of Thailand increased its benchmark interest rate by a quarter point to 1.25% on Wednesday. This brought the rate to its highest level since February 2020.

That was in line with market predictions and the results of a Reuters poll in which 19 out of 21 analysts predicted that the Thai central bank will increase the interest rate by 0.25 percentage point at its policy meeting on Wednesday. In both August and September, the bank increased interest rates by 25 basis points.

Piti Disyatat, secretary of the monetary policy committee, said at a Wednesday media briefing that the committee "deems that a gradual policy normalization remains an

appropriate course for monetary policy, given the growth and inflation outlook, and thus votes to raise the policy rate by 0.25 percentage point at this meeting."

The quarter-point increase was approved by the committee with a unanimous vote, and it became effective right away.

Thai inflation dropped from 6.41% in September to 5.98% in October, following a 14-year high of 7.86% in August. However, prices are still rising very swiftly, partly as a result of the escalating price of oil, prompting the central bank to closely monitor inflation and keep tightening monetary policy.

AAI may be impacted by higher interest rates set by the Bank of Thailand in a number of ways:

Cost of borrowing: If AAI depends on borrowing money from banks or other financial institutions to fund its operations, a higher interest rate imposed by the Bank of Thailand would result in a rise in the cost of borrowing for the business.

Effect on investment: A higher interest rate may result in less spending and investment from consumers and businesses, which may result in a decline in the demand for AAI's goods and services.

Exchange rate USD/THB

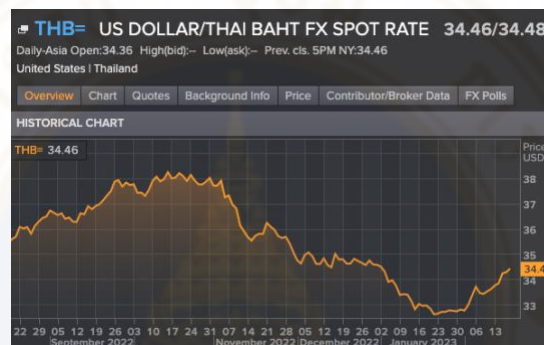
The foreign exchange rate between the US dollar (USD) and the Thai baht (THB) represents the value of one currency in terms of the other. A higher USD/THB exchange rate means that one US dollar can buy more Thai baht which mean THB is depreciated. Depreciated in domestic currency provide the benefit of export to the company because the price is lower in the same amount of goods and services.

While a lower rate means that it can buy fewer baht in which stand the opposite site whereas THB is stronger/appreciated. The company will get benefit from import as the money they pay will be lower at the same quantity of goods and services.

The company benefits from depreciation of the THB currency, as AAI mainly exports to the US, over 70% of its revenue.

The USD/THB exchange rate can be affected by a variety of factors such as interest rate differentials, economic growth, political stability, and global market conditions. Investors and businesses trading between the two countries will monitor the exchange rate closely to make decisions on currency exchanges, hedging strategies, and trade activities. Currently the exchange rate as of 18 Feb 2023 is 34.46

Figure 3.13



Source from: Refinitive

CHAPTER IV

DCF Valuation

4.1 Financial Analysis

4.1.1 Growth analysis

Growth comparison side by side with peers.

In this part, I decided to compare to one competitor which is ITC, I-tail corporation PLC for growth and DuPont analysis.

Figure 4.1

AAI:	2019	2020	2021	2022
Growth				
Revenue	-14%	26%	10%	45%
gross profit	-42%	122%	37%	40%
EBIT	-48%	154%	39%	24%
Net income	-51%	181%	9%	14%

Figure 4.2

ITC:	2019	2020	2021	2022
Growth				
Revenue	0.3%	-40%	2%	217%
gross profit	28%	-4%	-33%	409%
EBIT	40%	-12%	-35%	544%
Net income	40%	66%	-10%	180%

When comparing AAI and ITC, we can see that both companies have had their ups and downs in terms of financial performance. In 2019, AAI's revenue and profits saw a decline, whereas ITC's revenue and profits experienced a moderate growth. However, in 2020 and 2021, ITC's revenue and profits saw a significant decline,

whereas AAI saw growth in these years. In 2022, both companies had a remarkable growth in revenue and profits.

Regarding gross profit margin, AAI had a larger decline in 2019, but its profit margins improved significantly from 2020, with steady growth until 2022. ITC, on the other hand, had a stable gross profit margin in 2019, but it experienced a decline in 2020 and 2021, followed by a massive increase in 2022.

When it comes to EBIT, AAI had a larger decline in 2019, but then it had a strong rebound in 2020, followed by moderate growth in 2021 and 2022. In contrast, ITC had a growth in EBIT in 2019, but experienced a decline in 2020 and 2021, followed by an extraordinary growth in 2022.

Regarding net income, AAI saw a massive decline in 2019, but it had a substantial growth in 2020 and moderate growth in 2021 and 2022. ITC experienced growth in net income in 2019 and 2020, but then it saw a decline in 2021, followed by significant growth in 2022.

In summary, both companies have had their challenges and successes in recent years, but in 2022, they both experienced exceptional growth in revenue, gross profit, EBIT, and net income. However, it is important to consider additional factors such as the nature of their business, their market positioning, and external factors such as industry trends and economic conditions.

4.1.2 Dupont analysis (of ROE)

Figure 4.3

AAI:	2018	2019	2020	2021	2022
Gross margin	14.77%	9.84%	17.37%	21.46%	19.90%
Operating margin	9.51%	4.70%	10.40%	13.50%	13.30%
Net profit margin	10.58%	5.96%	13.29%	13.10%	10.20%
Asset turnover	1.57	1.30	1.42	1.39	1.48
ROA	16.62%	7.74%	18.81%	18.21%	17.74%
ROE	28.74%	11.52%	25.97%	25.95%	23.19%
Debt to equity	0.33	0.24	0.18	0.26	0.09

Figure 4.4

ITC:	2018	2019	2020	2021	2022
Gross margin	11.03%	14.08%	22.69%	14.69%	24.08%
Operating margin	7.62%	10.60%	15.71%	10.00%	20.32%
Net profit margin	6.59%	9.19%	15.50%	9.70%	19.60%
Asset turnover	1.33	1.31	0.72	0.56	1.11
ROA	8.80%	12.05%	11.00%	5.40%	21.70%
ROE	22.63%	30.69%	25.10%	16.40%	32.90%
Debt to equity	1.02	1.07	0.89	0.19	0.18

In terms of Gross Margin, AAI has shown an increasing trend over the years while ITC has shown fluctuations in its Gross Margin. However, ITC has had a higher Gross Margin in the latest year compared to AAI.

When it comes to Operating Margin, both companies have shown a positive trend over the years, with ITC having a higher Operating Margin than AAI in most years. However, in 2022, ITC has shown a significant jump in its Operating Margin compared to the previous year, while AAI has shown a slight decrease.

In terms of Net Profit Margin, ITC has consistently had a higher Net Profit Margin than AAI in the last few years. While AAI's Net Profit Margin has shown fluctuations, ITC has maintained a positive and increasing trend.

In Asset Turnover, both companies have shown fluctuations over the years, with AAI having a higher Asset Turnover than ITC in most years. However, in 2020 and 2021, ITC's Asset Turnover was lower than 1, which indicates that the company's assets were not efficiently utilized.

Looking at Return on Assets (ROA), AAI has had a higher ROA than ITC in most years, indicating that AAI has been more efficient in generating profits with its assets. However, in 2022, ITC has shown a significant increase in its ROA.

In terms of Return on Equity (ROE), ITC has consistently had a higher ROE than AAI on average number of 25.54% compared to AAI of 23.07%. Both companies perform the good number on ROE for years. In 2019, ROE of AAI decreases almost 3 time from 28.74% (2018) to 11.52% (2019)

There is one main reason that why ROE of ITC has higher on mostly year.

ICT depends on liability higher than AAI which it has lower capital injection on equity side at 39% which I took the number by using equity over total asset. If the equity portion has lower, this indicator is one of the key drivers to boost ROE higher in this case. If one company can do better of higher net income, this factor will also be one of the key drivers to boost ROE higher as well, but in this case, net income from 2 companies are nearly the same weight.

Finally, looking at Debt to Equity ratio, ITC has had a higher Debt to Equity ratio than AAI in most years, which indicates that ITC has relied more on debt financing than AAI. But on the year 2022, both companies decrease their interest-bearing debt at really low number. This move can interpret that both companies can rely on healthy cash on hand for their future of needs.

Overall, both companies have their strengths and weaknesses in different aspects of the DuPont analysis, and a deeper analysis of their financial statements and industry trends would be necessary to make a comprehensive comparison.

4.2 Discounted Cash Flow Valuation

Discounted Cash Flow (DCF) valuation is a method used to determine the intrinsic value of an investment based on the expected future cash flows it will generate. The approach involves estimating the future cash flows of an investment, then discounting them back to their present value using an appropriate discount rate, such as the cost of capital. The sum of these discounted cash flows represents the estimated intrinsic value of the investment. Let's see the components for DCF calculation below in more detail.

4.3 Revenue/Sales forecasts

A pro forma statement is a financial statement that presents an estimate of how a company's financial performance will look in the future, usually based on projections and assumptions about future events. In this case, the pro forma statement is forecasting the financial performance of AAI for the next five years.

Figure 4.5

	2023	2024	2025	2026	2027
TOTAL REVENUE	8,268.43	9,597.36	11,139.88	12,930.32	15,008.52
COST OF SALES	6,697.43	7,773.86	9,023.30	10,473.56	12,156.90
	81%	81%	81%	81%	81%
GROSS PROFIT	1,571	1,823	2,117	2,457	2,852
SELLING AND ADMIN. EXPENSES	516	599	695	807	937
	33%	33%	33%	33%	33%
- Selling	511	593	688	799	927
- Admin	5	6	7	8	9
other operating income	53.37	53.37	53.37	53.37	53.37
EBIT	1,108	1,278	1,475	1,703	1,968
FINANCE INCOME	36	36	36	36	36
FINANCE COSTS	30	30	30	30	30
Total	6	6	6	6	6
TAX	222.91	256.82	296.19	341.88	394.91
	20%	20%	20%	20%	20%
PROFIT	892	1,027	1,185	1,368	1,580
NUMBER OF SHARES (MN)	2,125	2,125	2,125	2,125	2,125
EARNINGS PER SHARE (BT)	0.42	0.48	0.56	0.64	0.74

Lower assumption model 0.5

Figure 4.6

	2023	2024	2025	2026	2027
TOTAL REVENUE	7,693.39	8,929.90	10,365.15	12,031.07	13,964.74
COST OF SALES	6,231.65	7,233.22	8,395.77	9,745.16	11,311.44
	81%	81%	81%	81%	81%
GROSS PROFIT	1,462	1,697	1,969	2,286	2,653
SELLING AND ADMIN. EXPENSES	480	557	647	751	872
	33%	33%	33%	33%	33%
- Selling	475	552	640	743	863
- Admin	5	6	6	8	9
other operating income	53.37	53.37	53.37	53.37	53.37
EBIT	1,035	1,193	1,376	1,588	1,835
FINANCE INCOME	36	36	36	36	36
FINANCE COSTS	30	30	30	30	30
Total	6	6	6	6	6
TAX	208.24	239.79	276.42	318.93	368.27
	20%	20%	20%	20%	20%
PROFIT	833	959	1,106	1,276	1,473
NUMBER OF SHARES (MN)	2,125	2,125	2,125	2,125	2,125
EARNINGS PER SHARE (BT)	0.39	0.45	0.52	0.60	0.69

The pro forma statement includes a projection of the company's total sales, which I expected that the company will grow 16% constantly for both domestic and oversea. The number 16% came from CAGR of the past 5 years of 14% and expected CAPEX investment that the company will increase capacity in production line at 18.32%. I use the average number of these two variables and came up at 16% forecast growth. There is also another model which lower the assumption 0.5 for comparison. The breakdown by product shows that 90% of sales are from OEM products, and 10% are from the company's owned brand. The breakdown by geography shows that the majority of sales are expected to come from overseas markets, particularly the US (55% of overseas sales), the UK and Germany (10% each), and Saudi Arabia and Japan (5% each).

The pro forma statement also includes projections for cost of sales which the cost will constantly at the average number from the past 5 years at 82% from total revenue. Selling and administrative expenses will project constant number from average past 5 years number at 33% of gross profit. Other operating income, is the income from by product which are tuna powder and oil accounted 53 Mil THB on average over past 5 years. Finance income and finance costs are also based on the average number from the past 5 years.

The gross profit is calculated by subtracting the cost of sales from the total revenue, while the EBIT is calculated by subtracting the selling and administrative expenses from the gross profit. The finance costs and income are both expected to be constant number at 36 and 30, resulting in a pre-tax profit that is equal to the EBIT plus the surplus interest income 6 Mil THB. The tax rate is assumed to be 20% for all five years.

Finally, the pro forma statement includes projections for the earnings per share (EPS) and the number of shares outstanding. The EPS is calculated by dividing the net profit by the number of shares outstanding, which is assumed to be 2,125 million for each of the next five years. I can compare the expected EPS number from the model to Refinitiv and Settrade as below figures 4.7 & 4.8. We can see that the numbers from the model are nearly the same with Refinitiv estimation and it is also within the range for Settrade forecast as well. For 2023 the model got 0.42 which closely match with average range at 0.43 and 2024, the model got 0.48 in which the closely to low range 0.50 in Settrade.

Figure 4.7

EPS	Rev	NPROFIT	EBITDA	DPS	Mean Estimate
	<	2022		2023	2024 >
Dec		0.15		--	--
FY Dec		0.48		0.45	0.53

Source from: Refinitiv

Figure 4.8

โบรกเกอร์	นักวิเคราะห์	2566F	2567F
	Average	0.43	0.53
	Median	0.45	0.53
	High	0.48	0.56
	Low	0.36	0.50

Source from: Settrade.com, <https://www.settrade.com/th/equities/quote/AAI/analyst-consensus>

4.4 WACC

Cost of capital

Cost of equity, is the minimum return that a company must generate on its equity investments to satisfy its shareholders. The cost of equity is the required rate of return demanded by investors to compensate them for the risk of investing in the company. It can be calculated using the following equation:

$$K_e = R_f + (\beta \times ERP)$$

Figure 4.9

WACC	
RISK FREE	2.55%
EQUITY RISK PREMIUM	5.30%
BETA	1.3
RQD. RETURN ON EQUITY	9.44%

Where:

Ke = cost of equity

Rf = risk-free rate of return

β = beta of the company's stock, a measure of the volatility of the stock relative to the overall market

ERP = equity risk premium

The risk-free rate 10 years government bond yield represents the return that investors could earn without taking any risk. I obtain the number from ThaiBMA website. The Equity risk premium is the additional return that investors demand to compensate them for the risk of investing in the Thai stock market. I obtained an estimate from Refinitiv, at 5.3%. The beta measures the sensitivity of the company's stock price to changes in the overall market. SET and Refinitiv present the number at 1.3, giving a cost of equity at 9.44 % after the calculation

WACC

WACC stands for Weighted Average Cost of Capital. It is a financial metric that represents the average cost a company faces in order to finance its operations through a combination of equity and debt.

The WACC equation is as follows:

$$WACC = (E/V \times Re) + (D/V \times Rd \times (1 - Tc))$$

where:

E = market value of the company's equity

D = market value of the company's debt

V = total value of the company (E + D)

Re = cost of equity

Rd = cost of debt

Tc = corporate tax rate

The WACC's elements are:

Cost of Equity (Re): The cost of equity is the amount of money investors expect to receive in return for their stakes in the company. The capital asset pricing model (CAPM), which considers the risk-free rate, the market risk premium, and the company's beta, is used to compute it.

Cost of Debt (Rd): The interest rate a business pays on its debt is represented by the cost of debt (Rd). It is estimated by factoring in the current market interest rates, the company's credit rating, and any additional elements that can influence the risk connected with the debt.

Weight of Equity (E/V): The weight of equity is a measure of how much of the company's market value is financed by equity. The market value of the company's equity is divided by the overall market value of the business to arrive at this figure.

Weight of Debt (D/V): The amount of debt a firm has in relation to its market value is referred to as its weight of debt. The market value of the company's debt is divided by the whole market value of the business to arrive at this number.

Tax Rate on Corporations (Tc): The rate at which the business taxes its income is known as the corporation tax rate. The after-tax cost of debt is determined using this method.

The equation essentially calculates the average cost of financing the company's assets based on the proportion of equity and debt used to finance them, as well as the cost of each type of financing. The cost of equity (Re) is the return expected by investors for investing in the company's equity, while the cost of debt (Rd) is the interest rate paid by the company on its debt.

The WACC is used as a discount rate in financial models such as the discounted cash flow (DCF) analysis to evaluate the present value of future cash flows generated by the company. This allows investors and analysts to determine the intrinsic value of the company and whether its stock is overvalued or undervalued.

WACC calculation

Figure 4.10

WACC				
RISK FREE	2.55%		Share price	6.9
EQUITY RISK PREMIUM	5.30%		# shares (Mn)	2,125
BETA	1.3		Equity Value (BtMn)	14,556
RQD. RETURN ON EQUITY	9.44%		Net Debt (BtMn)	(1,173)
			NET DEBT / (EQUITY + NET DEBT)	0.00%
COST OF DEBT	6.6%		Equity / (E+D)	100.00%
Tax	20%			
AFTER TAX COST OF DEBT	5.3%			
WACC	9.44%			

From above equation, now I will combine details and plug in the number as following.

Plugging in the given values:

$$E = 100\%$$

$$D = 0$$

$$V = 100\%$$

$$K_e = 2.55\% + (5.30\% \times 1.3) = 9.44\%$$

$$K_d = 6.6\% \text{ from effective interest rate (average)}$$

$$T_c = 20\%$$

$$\text{After Tax } R_d = 5.3\%$$

$$\text{WACC} = (R_e * E/V) + (\text{After Tax } R_d * D/V)$$

= 9.44%

The company does not have positive net debt, so the debt weight is set to 0% and the equity weight is set 100%. Therefore, the WACC for this company is 9.44%.

Terminal growth rate

In this scenario, I decided to use the expected real country growth rate at 3%, the number is from the forecast real growth rate 3.7% in year 2023 by BOT and inflation 3.0% from core inflation BOT website. Hence in this calculation, the terminal growth rate is 6.7%.

Terminal value.

Terminal value refers to the present value of all future cash flows of a business beyond the explicit forecast period. It represents the value of a company at the end of the forecast period, assuming it will continue to grow at a steady rate indefinitely. The terminal value calculation is an important part of the discounted cash flow (DCF) analysis of a business.

There are two commonly used methods for calculating the terminal value: perpetuity growth method and exit multiple method. In this case, I use perpetuity growth method for the calculation.

Perpetuity growth method:

$$\text{Terminal Value} = (FCFF * (1 + g)) / (WACC - g)$$

Where:

FCFF = free cash flow in the final year of the explicit forecast period

g = perpetual growth rate assumed beyond the forecast period

WACC = weighted average cost of capital

4.5 FCFF projections

Figure 4.11

PERIOD	0	1	2	3	4	Terminal Value
	2023F	2024F	2025F	2026F	2027F	
EBIT	1,108	1,278	1,475	1,703	1,968	
TAX	222	256	295	341	394	
EBIT AFTER TAX	887	1,022	1,180	1,363	1,575	
DEPRECIATION	232	270	313	363	422	
WORKING CAPITAL CHANGE	(361)	(419)	(486)	(564)	(655)	
CAPEX	(519)	(614)	(727)	(860)	(860)	
CASHFLOW TO THE FIRM	239	259	280	302	482	18,729
DISCOUNTED CASHFLOW	239	237	234	230	336	13,053
PV OF FIRM VALUE	14,329					
NET DEBT	(1,173)					
PV OF EQUITY VALUE	15,502					
# OF SHARES (MN)	2,125					
EST. SHARE VALUE	7.29					

Lower assumption 0.5

Figure 4.12

PERIOD	0	1	2	3	4	Terminal Value
	2023F	2024F	2025F	2026F	2027F	
EBIT	1,035	1,193	1,376	1,588	1,835	
TAX	207	239	275	318	367	
EBIT AFTER TAX	828	954	1,101	1,271	1,468	
DEPRECIATION	232	270	313	363	422	
WORKING CAPITAL CHANGE	(361)	(419)	(486)	(564)	(655)	
CAPEX	(519)	(614)	(727)	(860)	(860)	
CASHFLOW TO THE FIRM	180	191	201	210	375	14,587
DISCOUNTED CASHFLOW	180	175	168	160	262	10,167
PV OF FIRM VALUE	11,111					
NET DEBT	(1,173)					
PV OF EQUITY VALUE	12,284					
# OF SHARES (MN)	2,125					
EST. SHARE VALUE	5.78					

To calculate FCFF, I use the following details to generate the number.

Calculate the Free Cash Flow to the Firm (FCFF)

FCFF = EBIT * (1 - Tax Rate) + Depreciation - Change in Working Capital -
Capital Expenditures

Depreciation is the number that obtain from average past 5 years of depreciation / total fix asset.

Working capital number are from average working capital / total revenue average from the past 5 years.

CAPEX number came from the expectation that the company will increase capacity for the production by 18.32% annually. There is also another model that lower assumption 0.5 for comparison.

Hence, the terminal value has been calculated as \$18,729 and 14,587 in this example. We then discount the terminal value to its present value using the WACC and add it to the present value of the cash flows to arrive at the total firm value.

In this case, the PV of the firm value is 14,329 and 11,111. The net debt is -\$1,173, giving a PV of the equity value of \$15,502 and \$12,284. Since there are 2,125 million shares outstanding, the estimated share value is \$7.29 which is higher than the current share price of the company at 6.85. but the lower assumption model has only \$5.78 which is lower than current price

The scale for rating

Figure 4.13

Buy	Up side 10% or greater
Hold	Up side and Down side among 10%
Sell	Downside 10% or lower

From my DCF calculation, the estimate share value I get is 7.29 THB which higher than the current price 6.85 THB. It results in an expected 6.4% upside side for the share price which leads to a “Hold” scaling

Sensitivity analysis

Figure 4.14

	Cost of debt		Cost of equity		WACC		Terminal growth	
Deviation		7.29		7.29		7.29		7.29
50%	10%	7.29	14%	3.01	14%	3.01	10%	NA
40%	9%	7.29	13%	3.37	13%	3.37	9%	267.48
30%	9%	7.29	12%	3.85	12%	3.85	9%	24.53
20%	8%	7.29	11%	4.53	11%	4.53	8%	13.30
10%	7%	7.29	10%	5.56	10%	5.56	7%	9.33
5%	7%	7.29	10%	6.30	10%	6.30	7%	8.17
0%	7%	7.29	9%	7.29	9%	7.29	7%	7.29
-5%	6%	7.29	9%	8.71	9%	8.71	6%	6.61
-10%	6%	7.29	9%	10.86	8%	14.06	6%	5.65
-20%	5%	7.29	8%	22.30	6%	NA	5%	4.55
-30%	5%	7.29	7%	NA	5%	NA	3%	3.77
-40%	4%	7.29	6%	NA	3%	NA	2%	3.29
-50%	3%	7.29	5%	NA	1%	NA	1%	3.03

Sensitivity analysis is a technique used to determine how different values of an independent variable affect a particular dependent variable under a given set of assumptions. In this case, the independent variables are the deviation, cost of debt, cost of equity, WACC, and terminal growth, while the dependent variable is the price in baht.

The table shows the results of sensitivity analysis for different values of these independent variables. The results suggest that changes in each of these variables can have a significant impact on the price of the asset being analyzed.

For instance, the table shows that as the cost of debt increases from 3.3% to 10%, the price of the asset will remain the same because weight of debt is zero in this case. As the cost of equity increases from 4.7% to 14.2%, the price of the asset decreases as shown in the table.

If WACC increase, it also lower the price of stock but WACC lower than 8.08% is not feasible as $(WACC - g)$ has to remain positive in the terminal value formula.

Furthermore, the table shows that changes in the terminal growth rate can also have a significant impact on the price of the asset. As the terminal growth rate increases from 0.9% to 10.1%, the price of the asset increases from 3 baht to 267 baht.

Overall, the results of this sensitivity analysis suggest that it is important to consider the impact of changes in various key parameters on the valuation when making investment decisions or conducting financial analysis.

Implied WACC

Figure 4.15

Stock Price	Perpetual growth	Implied WACC	Implied cost of equity
6.85	6.70%	9.60%	9.44%
6.85	0%	3.51%	3.50%

For the first set of details where the stock price is THB 6.85 and the perpetual growth rate is 6.7%, the implied WACC is 9.60% and the implied cost of equity is 9.44%.

For the second set of details where the stock price is also \$6.85 but the perpetual growth rate is 0%, the implied WACC is 3.51% and the implied cost of equity is 3.50%.

These values can be used in a DCF valuation to estimate the fair value of the company's stock. However, it's important to note that these values are based on certain assumptions and may not accurately reflect the true value of the company's stock.

Valuation recommendation

Based on my DCF model, the estimated share value from the DCF model is lower than the current share price of 6.85. This suggests that the stock may be undervalued according to the DCF model.

However, it's important to note that DCF models rely on a number of assumptions and inputs that may not perfectly reflect the future performance of the company. Therefore, the current market price of 6.85 may reflect a more accurate assessment of the company's value.

Given this information, my recommendation on this stock is “Hold” because the estimated share value from the DCF model is higher than the current share price only 6.4% upside. Which is fall among 10% upside and downside. The 6.4% upside is not enough to make “Buy” recommendation in this case.

Chapter V

Investment Risks

5.1 Risk involving the supply of raw materials for tuna

5.1.1 Risk from tuna shortage

Due to overfishing and climate change, the world's tuna populations are in danger of decreasing and being depleted. Because of this, the Company faces the risk that it won't be able to obtain the necessary amount and quality of tuna if global tuna catches drop or if supply chain disruptions have an impact on the procurement of tuna.

5.1.2 Risks from dependency on a major tuna supplier

From 2019 through the six-month period ending 30 June 2022, the Company will acquire tuna from a large supplier, accounting for 45 to 75 percent of the total amount spent on tuna purchases and 12 to 24 percent of the entire amount spent on raw materials and packaging. The company hasn't signed a long-term purchase deal with the main tuna supplier because tuna is often bought on a basis of purchase orders in the industry. Hence, if such supplier is unable to supply and deliver tuna to the Company as required, the Company is at risk.

5.1.3 Volatility in tuna prices poses risks.

Since tuna is a naturally occurring raw resource, its price varies depending on market supply and demand as well as changes in exchange rates. Hence, if the company is unable to change the selling prices of the items to reflect the rising costs, the company is vulnerable to the risk of the volatility in tuna prices.

5.2. Risk posed by dependence on a key client.

From 2019 through the six-month period ending 30 June 2022, the Company will generate revenue from the sale of pet food products to a significant client in the range of 23 to 35 percent of total revenue from sales. As a result, the firm runs the risk of being too dependent on a single large customer.

5.3 Risk from being an original equipment manufacturer (OEM)

During 2019 through the six-month period ending 30 June 2022, original equipment manufacturer (OEM) business will account for about 97 percent of the Company's total income from sales. The Company often does not sign long-term sales and purchase agreements with clients.

5.4 Currency risk affecting revenue and cost of sales

While most of the company's cost of sales is incurred in Thai baht, the majority of the company's revenue is paid in U.S. dollars. From 2019 through the six-month period ending 30 June 2022, the cost of sales in U.S. dollars represents 20 to 33 percent of the revenue in U.S. dollars. As a result, if the exchange rate drastically swings, the Company is at danger of having revenue and cost of sales that are not in the same currency. It is exposed to the risk of Thai baht depreciation.

Moreover, the majority total revenue is from USA accounted 40-60%. The change in political policy, inflation, natural disaster, restriction of export-import and other quarrels will directly affect to the company in currency exchange.

5.5 Management risk

There are risks associated with significant shareholders having influence over management strategy, and risk associated with relying on employees that have specialized knowledge across numerous departments



Chapter VI

Conclusions

6.1 Investment Recommendation

Based on my analysis using the Discounted Cash Flow (DCF) model, I recommend an investment in the company. The DCF model forecasts a revenue growth rate of 16.07%, a cost of equity of 9.44%, and a cost of debt of 6.64%, resulting in a Weighted Average Cost of Capital (WACC) of 9.44%. The terminal growth rate is estimated to be 6.70%. Using these inputs, I have calculated the present value of equity to be 15,502 THB and a price estimate of 7.29 THB, which represents a potential upside of around 6% compared to the current market price of 6.85 THB.

I believe that the company's growth prospects and financial position make it an attractive investment opportunity. The company has a strong track record of revenue growth and has the potential to maintain this growth rate in the future. Moreover, the company's financial position appears to be robust, which provides a margin of safety for investors. Given these factors, we recommend an investment in the company.

6.2 Triggers for Re-Assessment

While my DCF model provides a fair valuation for the company based on our assumptions, there are certain scenarios that could lead to a re-assessment of the valuation target price. Some relevant scenarios that could lead to a significant change in the valuation target price include:

A significant change in the company's growth rate: If the company's revenue growth rate changes significantly, it could affect the future cash flows, leading to a change in the valuation target price.

A change in the cost of capital: If there is a significant change in the cost of equity or debt, it could result in a change in the WACC and ultimately affect the valuation target price.

Changes in macroeconomic conditions: The company's performance could be affected by changes in the overall economy, such as interest rate fluctuations, changes in consumer behavior, or political instability. These factors could lead to a significant change in the valuation target price.

Major industry developments: Changes in the industry, such as the introduction of new technologies, increased competition, or regulatory changes, could significantly affect the company's revenue growth and ultimately lead to a change in the valuation target price.

6.3 Limitations

It is important to note that the DCF model has limitations and that our analysis is based on several assumptions. Some of the limitations of our analysis include:

High sensitivity to growth and WACC parameters: The DCF model is highly sensitive to changes in the growth rate and WACC parameters, and any changes in these inputs could significantly affect the valuation target price.

Dependence on accurate financial forecasting: The accuracy of the DCF model depends on the accuracy of the financial forecasts, which are based on assumptions and estimates. Any inaccuracies in these forecasts could result in an incorrect valuation.

Uncertainty in terminal growth rate: The terminal growth rate is an estimate of the company's long-term growth rate beyond the forecast period, and it is subject to

significant uncertainty. Changes in this rate could have a significant impact on the valuation target price.

Other factors not included in the model: There may be other factors that could affect the company's valuation that are not included in our analysis, such as changes in management, Thai Baht exchange rate depreciation, or other unforeseen events.

In conclusion, while our DCF model provides a fair valuation for the company, it is important to consider the limitations of our analysis and the potential triggers for a re-assessment of the valuation target price. Investors should regularly monitor the company's performance, the exchange rate, and industry trends to make informed investment decisions.



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