

# Thai Beverage

The dominant and expansive giant



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10 July 2017

- 8% p.a. earnings growth from premiumization, growing share in beer and tapping the vast CLMV market
- Commands 90% market share in spirits with S\$1bn cash-flow generated yearly
- Faster growing F&N, Oishi and Sermsuk brands become the beachhead for 2020 target of 50% earnings from non-alcoholic beverage
- Initiate coverage with "Accumulate" rating with a SOTP-derived TP of S\$1.05.

## Company Overview

**Thai Beverage Public Company Limited** ("ThaiBev") is a leading beverage producer in Thailand as well as one of Asia's largest beverage producer. Its business consists of four segments – Spirits, Beer, Non-alcoholic Beverages (NAB), and Food.

Its "Vision 2020" goal is to become the ASEAN region's leading beverage company. It continues to assert its market leading positions in both spirits and ready-to-drink green tea markets in Thailand. Meanwhile, *Chang* beer currently commands c.40% of Thailand's beer market share.

## Investment Thesis

- Gaining market share in Thai beer market.** ThaiBev's ongoing premiumization efforts has paid off: *Chang* beer gained c.10% market share to c.40% within 3-months. We believe that the positive momentum would continue to bring *Chang* beer to become the leading beer in Thailand (with at least 45% of market share) by FY20e.
- Demand recovery for alcoholic beverages:** (i) The impact from mourning period to ebb in 1Q FY18; and (ii) Improving consumer sentiment and broader economic recovery in Thailand.
- Margins expansion** benefiting from (i) Economies of scale, better operating leverage on production facility sharing, and synergies among the companies within its Group; and (ii) Impending excise tax levy in Sep-17. ThaiBev has a track record of raising selling prices more than the extent of increased excise tax costs during the past tax levies.
- Corporate restructuring** of Fraser and Neave, Limited (F&N) and Frasers Centrepoint Limited (FCL) to bring ThaiBev one step towards achieving its Vision 2020: (i) Becoming the leading total beverage producer and distributor in the region; and (ii) Contribution from Non-alcoholic Beverages to increase to over 50% of Group revenue.
- Expanding regional footprints in ASEAN**, particularly in Cambodia, Laos, Myanmar, and Vietnam. Supported by (i) favourable macro backdrop, (ii) available capacity to meet demand; and (iii) strong alliances with F&N. **Potential M&A candidate:** Sabeco (Saigon Beer Alcoholic Beverage Corp.). ThaiBev has a strong balance sheet with plenty of room for borrowings (low gearing level at 0.48x as at 31 Mar-17).
- Diversified revenue stream into NAB and Food** to enter into fast growing market segments, further capitalize on existing logistics, and mitigate the business risks from alcoholic beverage market. Management targets to turnaround NAB EBIT by FY18.

## Key Investment Risks

- Unable to fully pass on additional costs to end-consumer, leading to margin compression.
- Regulatory risks in operating countries.
- Political uncertainties, especially after coronation of new Thai King and elections in Oct-17 could dampen consumer sentiment.
- Prolonged weakness in economy and demand remained slow post mourning period.

## Accumulate (Initiate)

LAST CLOSE PRICE	SGD 0.91
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 1.05
<b>TOTAL RETURN</b>	<b>17.8%</b>

## COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN) :	25,110
MARKET CAP (USD mn / SGD mn) :	16526 / 22850
52 - WK HI/LO (SGD) :	1.06 / 0.83
3M Average Daily T/O (mn) :	22.35

## MAJOR SHAREHOLDERS (%)

SIRIWANA COMPANY LIMITED	45.27%
MAXTOP MANAGEMENT CORP	17.23%
RISEN MARK ENTERPRISE LTD	3.32%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	17	(2.8)	0.3
STIRETURN	(0.29)	2.76	16.82

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Sep	FY15	9M 16	FY17F	FY18F
Revenue (THB bn)	172.0	139.2	188.0	202.8
EBITDA (THB bn)	29.1	23.5	32.2	36.7
NPAT, adj. (THB bn)	26.5	18.9	28.4	29.7
EPS, adj. (THB)	4.15	2.97	4.59	4.80
EPS, adj. (SCents)	3.36	2.87	4.47	4.67
PER, adj. (x)	20.3	33.6	20.3	19.5
P/BV, (x)	3.8	5.1	4.2	3.9
DPS (THB)	3.36	2.87	4.47	4.67
DPS (SCents)	2.40	2.36	2.53	2.88
Div Yield (%)	2.6%	2.6%	2.8%	3.2%
ROE (%)	24.4%	16.0%	22.5%	21.4%

Source: Company Data, PSR est.

## Valuation Method

Sum-of-parts

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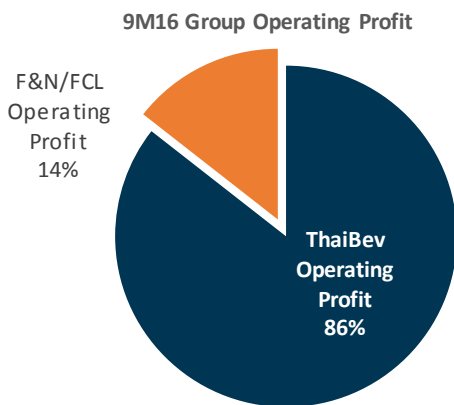
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### Business Overview

As at end 31 Mar 2017, ThaiBev has a portfolio of 132 companies engaging in production, marketing and sales. It operates (a) 3 breweries, (b) 18 local distilleries and 6 overseas distilleries, and (c) 11 manufacturing facilities for non-alcoholic beverages. The Group has an extensive distribution network covering 400,000 points of sales in Thailand, enabling timely and efficient product delivery to the market.

The Group’s operating profit can be segregated into two segments: (a) ThaiBev core business, and (b) the c.28.5% stakes in both Fraser and Neave, Limited (F&N) and Frasers Centrepoint Limited (FCL). Its core business contributed 86% to the Group’s earnings and the remaining was contributed by its Singapore listed associates.

Figure 1: Spirits and Beer generated 86% to the Group’s earnings



Source: Company

ThaiBev’s core product offerings are:

- **Spirits:** Most recognized brands include *Ruang Khao*, *SangSom*, *Mekhong*, *Hong Thong* and *Blend 285* locally. ThaiBev also owns 5 Scotch whiskey production facilities in Scotland and 1 distillery in China. Its Scotch whiskey products are sold in over 90 countries globally, with majority of the sales generated in Europe.
- **Beer:** *Chang*, the Group’s signature beer, is a mainstream beer in Thailand and is exported to over 40 countries around the world, including USA and UK, as well as several countries in Europe and Southeast Asia. It also has another Economy brand, *Archa*, and a premium beer, *Federbräu*.
- **Non-alcoholic Beverages (“NAB”):** Leading brands includes *Oishi* ready-to-drink (“RTD”) green tea and *Jubjai* herbal tea, *est* carbonated soft drinks, and *Crystal* drinking water.
- **Food and Restaurants:** Operates Japanese restaurant and ready-to-cook and ready-to-eat food business through *Oishi* Group. There are 239 *Oishi* restaurants nationwide and 3 abroad in Myanmar.

Figure 2: ThaiBev’s core products



Source: Company

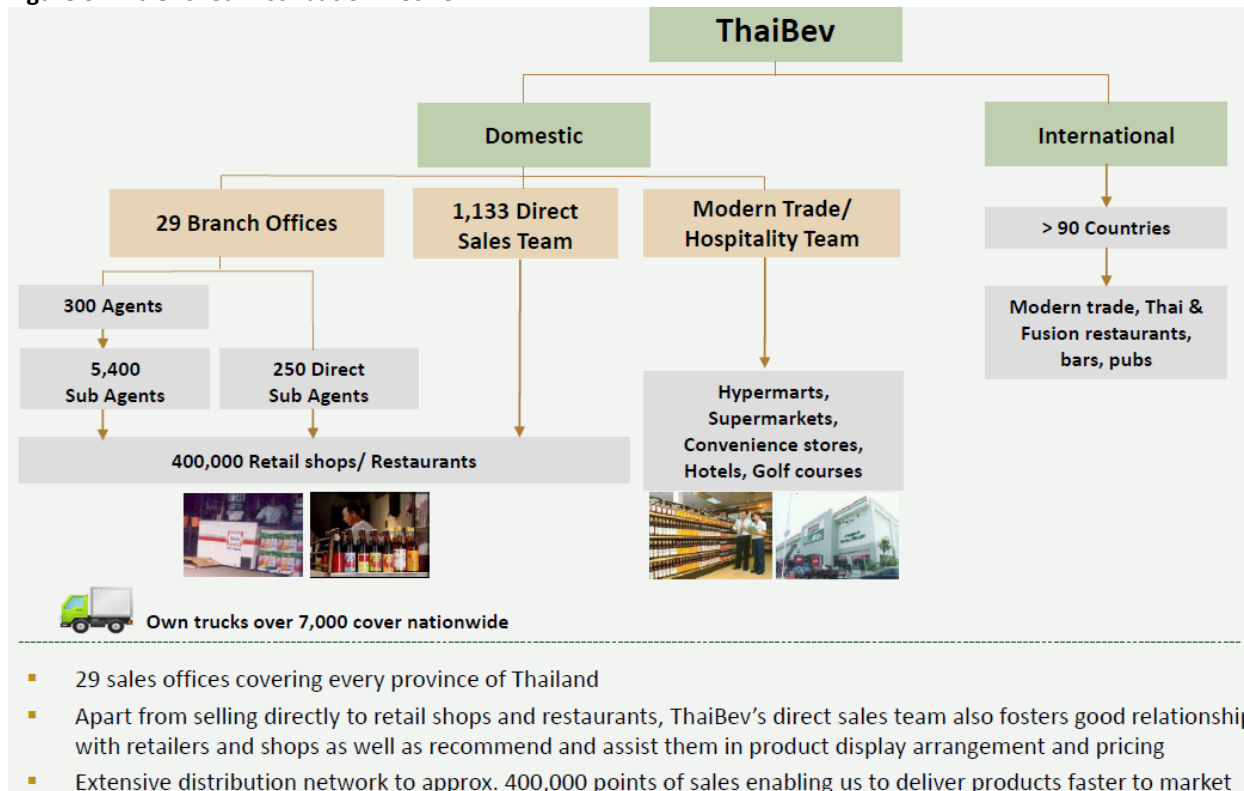
### Robust and extensive distribution network ensure logistics efficiency

Comprehensive and pervasive distribution network is one of its major strength and key factor that elevated ThaiBev to attain its leadership position in Thailand's beverage market.

Management shared that 88% of its sales are generated from traditional trades, and the remaining 12% are from modern trades. While it utilizes the strength of Sermasuk traditional trade channel, ThaiBev has been constantly expanding its route-to-market via these subsidiaries:

- **Modern Trade Management Co., Ltd:** distribution to modern trade operators
- **HORECA Management Co., Ltd:** close gaps in its distribution channels to the upmarket on-premise segment (e.g. luxury hotels and restaurants)
- **Cash Van Management Co., Ltd.:** manage its direct sales teams

Figure 3: Entrenched Distribution Network



Source: Company

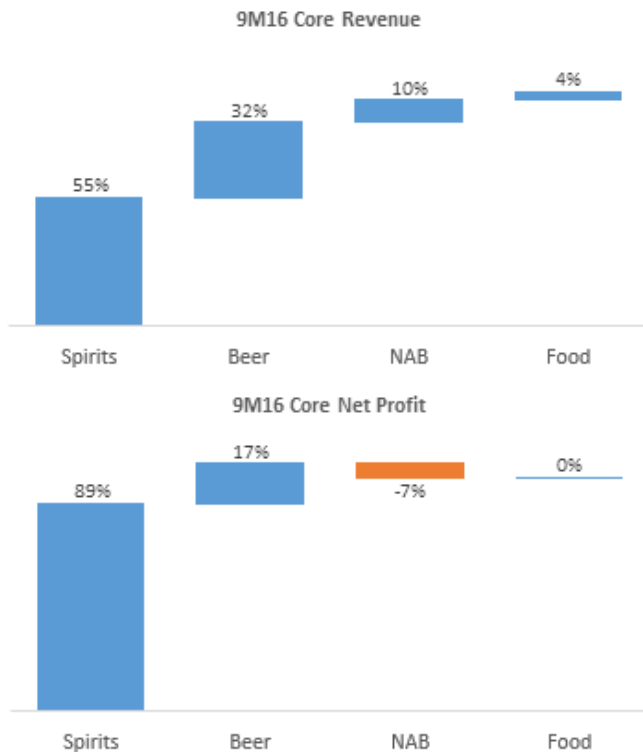
## Investment Thesis

### – Alcoholic beverages to drive profitability

#### 1. Demand for alcoholic beverages to recover in FY18; Expect Spirits and Beer EBITDA to grow 4% and 6% CAGR over the next five years

Alcoholic beverages are the Group's revenue and earnings drivers. Spirits and Beer collectively account for 87% of ThaiBev's top line.

**Figure 4: Alcoholic beverages are the main positive contributors to the bottom line**



Source: Company

#### a) Ongoing effort to premiumize its product offerings; Moving up the value chain bodes well with the trend of rising affluence

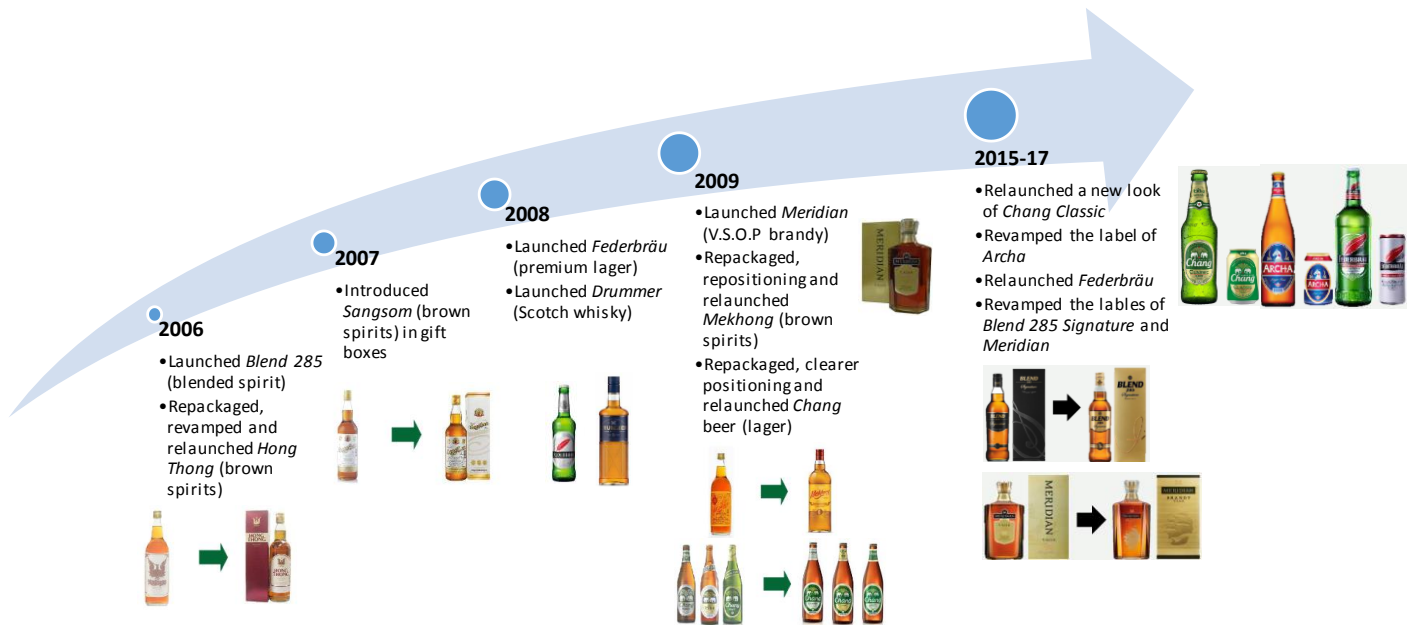
Since its listing on the Singapore Exchange (SGX) in 2006, it has been steadily progressing up-market with premiumized products.

- (i) New product launches allow ThaiBev to penetrate the segment that was traditionally dominated by foreign imports. For example,
  - Non-local Brown Spirits (which is dominated by Diageo and Pernod Ricard): *Drummer* (Scotch Whisky) and *Meridian* (Brandy).
  - Premium lager beer (which is dominated by Heineken and Asahi): *Federbräu*
- (ii) Repackaging and repositioning will level ThaiBev's playing field to compete on the global platform. It focusses on has potential to become "Global Thai Brand", For example, *Chang* beer, which is distributed internationally.

#### Moving up price point and expanding market share

The makeover also provides an opportunity for the Group to prop up pricing and expand margin. Recent premiumization effort for *Chang* beer in Aug-15, not only brought its pricing to be in par with its closest competitor, *Leo* beer (from Boonrawd Brewery Co., Ltd), but also enabled it to eat its competitor's lunch. *Chang* beer's market share increased to c.40% from c.30% within 3 months, despite a c.10% price increment. This is a testament to its effective strategy execution as well as a major step on its goal towards realizing Vision 2020.

Figure 5: Continued product innovation along with the introduction of more modern packaging

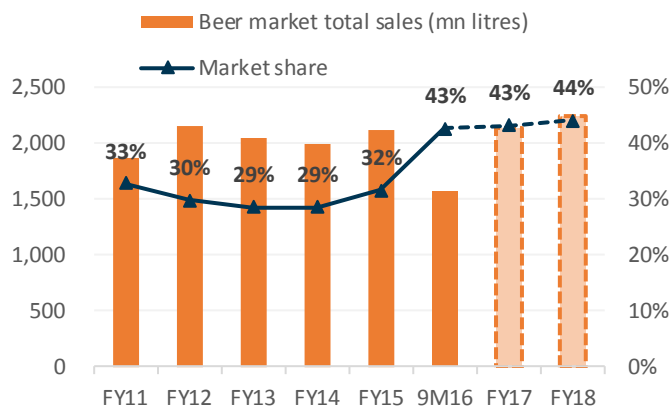


Source: Company

We believe the positive momentum for both market share and revenue growth to continue alongside an improving macro backdrop.

The Group shared that *Chang* beer is ranked No.1 as the top-of-mind beer brand from its recent market survey. The upbeat results are perceived as leading indicator for market share and barometer for improving brand equity. We believe that the Group could snatch up at least 45% of market share by FY2020, and achieve its Vision 2020 goal of becoming the leading beer in Thailand.

Figure 6: ThaiBev gaining market share amid growing beer demand in Thailand



Source: Company

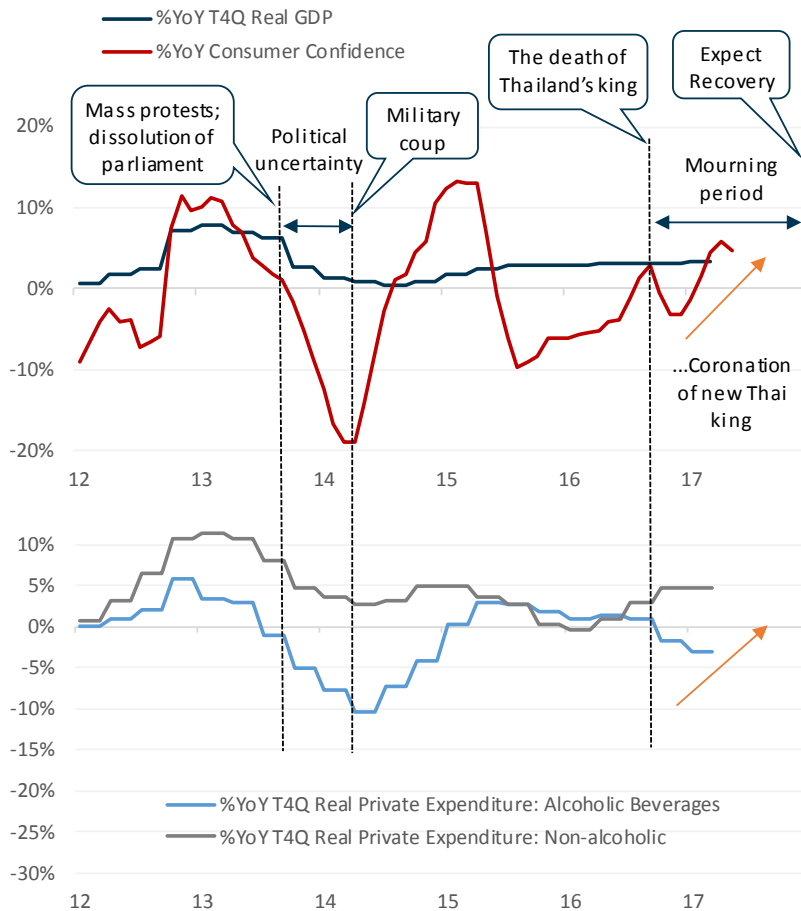
**b) Recovery of consumer confidence**

Domestic sales of beverages, both alcoholic and non-alcoholic, trend in line with the rising consumer confidence. Consumer confidence is driven by (i) economic outlook, and (ii) individual financial health and purchasing power.

Following the passing of King Bhumibol Adulyadej in Oct-16, the government announced a one-year long mourning period and a 30-day moratorium of state events. Entertainment activities for Christmas, New Year and Songkran, as well as product launches during the period were cancelled, postponed or toned down. Alcohol drinking in public was banned during the period too.

We expect the coronation of new Thai King Maha Vajiralongkorn, which is slated to take place at end-2017, to lift the somber mood. The impact from entertainment ban should ebb by 1Q FY18, reviving the country's tourism. Tourist arrivals and tourism-related revenue grew 8.9% and 12.6% respectively in 2016. Thailand's Ministry of Tourism and Sports projects a 68% growth in tourism-related revenue in 2017, hitting THB2.71 trillion.

**Figure 7: Demand for alcoholic beverage to recover in tandem with the uplift in consumer sentiment**



Source: CEIC, PSR

### c) A broader Thai economic recovery

In addition, we also expect a broader Thai economic recovery next year on the back of improving regional trade and farm income.

Thailand's economic growth has been lacklustre at c.3% since the military coup in 2014. Growth has been uneven across sector. Public spending was the mainstay of economic growth, while agriculture sector remained weak.

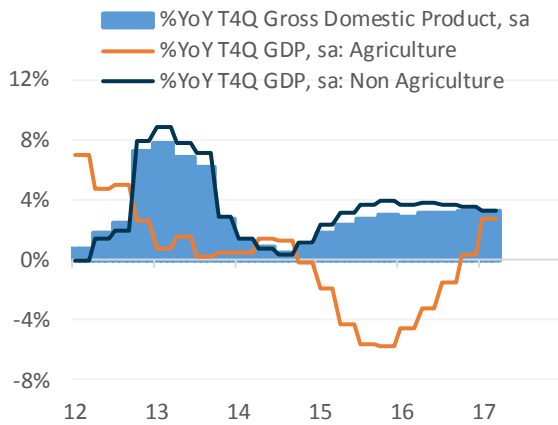
Agricultural sector is the backbone of Thai economy and is a key source of rural income (about one-third of Thais are working in agriculture sector). The improvements in: (i) exports, supported by pick up of regional economies and global commodity prices, (ii) agricultural production and prices, and (iii) tourism sector, point towards a more balanced recovery. The National Economic and Social Development Board forecasts Thai GDP to grow at a range of 3.3% to 3.8% this year, up from 3.2% growth last year.

We are optimistic that this positive momentum could extend into 2018 and heighten consumer sentiment further. This would stem or even reverse the recent consumer trend of trading down to lower price point products.



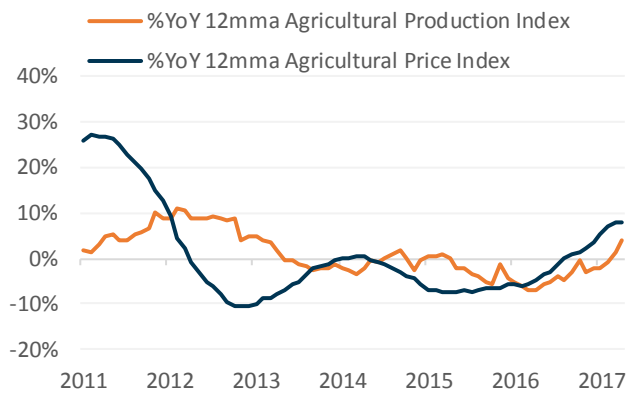
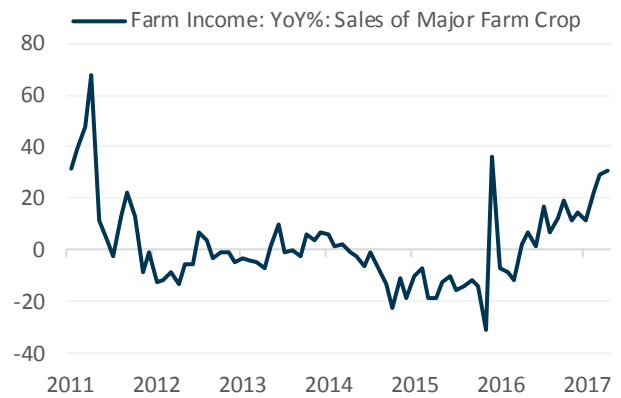
Nonetheless, it is worth noting that, the coronation of new Thai King will also formally kick-start politics and a general election should follow soon after. Political uncertainties may ruffle the green shoots of recovery.

**Figure 8: Agricultural sector gaining momentum**



Source: CEIC, PSR

**Figure 9 & 10: Increase in farm income on the back of agricultural price and production recovery**



Source: CEIC, PSR

**2. Margins expansion via improving operating leverage and excise tax hike**

**Excise Tax** is the highest cost component for alcohol beverages. It chalked up 52.7% of Spirits Revenue and 58.9% of Beer Revenue in 9M16.

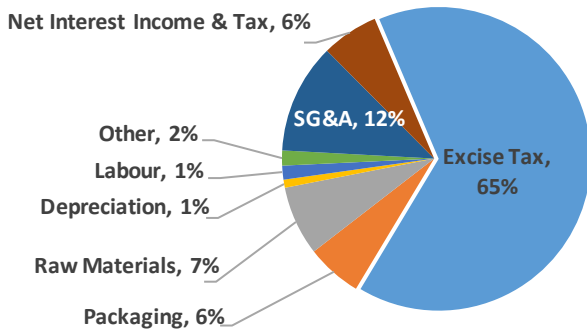
Historically, the Thai government reviews\* and increases alcohol excise tax bi-annually. It has been four years since the last revision in 2013. A new Excise Tax Act was enacted on 18 Mar-17 and is expected to become effective in 17 Sep-17.

*\* Exclude the additional taxes (which are in a percentage of the total excise tax costs), which were levied on 2008 and 2015.*

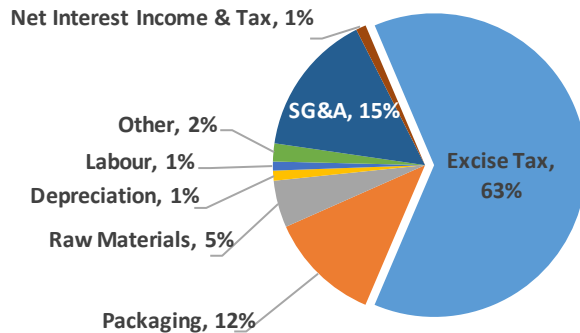
ThaiBev has proven its ability to pass on the entire increased excise tax costs to its consumers. In fact, the Group has been strategically expanded its gross margins by raising its prices for alcohol beverages more than the increase in excise tax costs in each hike. The Group shared that the price adjustment on trade level will only take approximately 14 days.

We expect to see a slight drawback following the tax restructuring in Sep-17, but we also believe the gross margins for its alcohol beverages to at least sustain at current level, if not an uptick in gross margin.

**Figure 11 & 12: 9M16 Costs Breakdown**  
**Cost Structure: Spirits**



**Cost Structure: Beer**



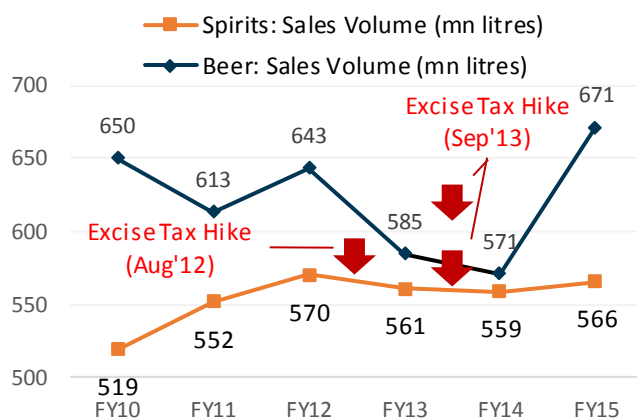
Source: Company

**Figure 13: Excise tax increase since ThaiBev listing on SGX**

Effective Date	Excise Tax Structure	Changes to type of alcohol beverage(s) and impact(s) to ThaiBev excise tax costs
IPO listing on SGX	Specific rate per litre of pure alcohol (THB/litre) or Ad valorem (as % of ex-factory price), whichever rate is higher	
28 Aug-07	Same as above	White Spirits (+57.1% to 70.8%) Compounded Spirits (+16.7%)
14 Jan-08	Same as above	Additional tax for Thai Public Broadcasting Service (+1.5%)
07 May-09	Same as above	White Spirits (+8.4%) Compounded Spirits (+7.1%) Beer (+26.7%)
22 Aug-12	Same as above	White Spirits (+25%) Compounded Spirits (+16.7%) Brandy (+4.2%)
04 Sep-13	Tax based on both value (wholesale price excluding VAT) and alcohol content	
27 Mar-15	Same as above	Additional tax for National Sports Development Fund (+2.0%)
<b>17 Sep-17</b>	<b>Tax based on based on retail price instead of the last wholesale price</b>	

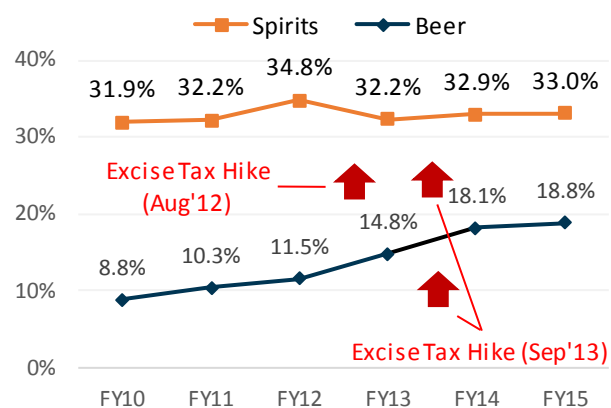
Source: Company

**Figure 14: Price shock on excise tax hike but demand recovers over time**



Source: Company

**Figure 15: Ability to pass on increased cost to consumers; higher gross margin with excise tax hikes**



Source: Company

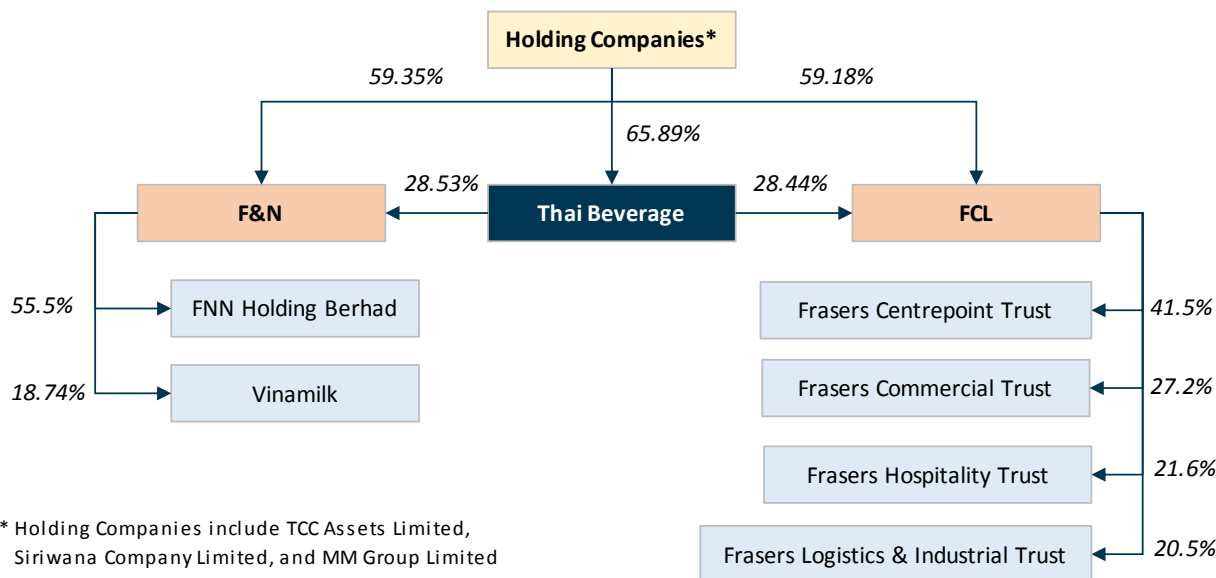


### 3. F&N consolidation

The restructuring at Thai Beverage involves its major stakes in Fraser & Neave, Limited (F&N) and Frasers Centrepoint Limited (FCL) remains as part of its FY17 plan.

Currently, ThaiBev holds a 28.53% stake in F&N and a 28.44% stake in FCL; while TCC Assets Limited (TCC Assets) holds 59.35% of F&N and 59.18% of FCL.

Figure 16: Shareholding structure



\* Holding Companies include TCC Assets Limited, Siriwana Company Limited, and MM Group Limited

Source: Companies 2016 Annual Reports

#### Swapping its FCL stake with holding company TCC Assets for increased stake in the F&N:

- By divesting FCL (a property arm), which is a non-core asset for the firm, in exchange for a bigger stake in F&N.
- Resulting in FCL and F&N to be the subsidiary of TCC Assets and F&N, respectively.
- Gives a cleaner structure and in line with its Vision 2020 to become the leading total beverage producer and distributor in the region.
- A step towards achieving its Vision 2020's target for Non-alcoholic Beverages to contribute over 50% of Group revenue<sup>^</sup>.

<sup>^</sup> Group revenue excludes excise tax from Alcohol Beverages, but include F&N's contribution

Currently, if we include 28.53% of F&N's Revenue from Dairies and Beverages, NAB contributed 27.5% of Group 9M16 Revenue. Post-consolidation, the percentage contribution to NAB to Group Revenue could rise to 43.5% of Group 9M16 Revenue.

- Enable further cooperation with F&N to penetrate new foreign markets.

Current market value for ThaiBev's stake in FCL is at S\$1.55bn, while TCC Assets' stake in F&N is at S\$2.02bn. **Two potential scenarios that could play out:**

- ThaiBev to buy the entire 59.35% stake of F&N from TCC Assets but would have to cough up S\$470mn in cash to make up for the difference in the market value.** ThaiBev has plenty room for borrowings to fund the acquisition of stake in F&N. Its gearing ratio is only 0.48x (as at 31 Mar-17). This would result in an increase in TCC Assets' stake in FCL to 87.62%, and ThaiBev's stake in F&N to 87.88%.
- Use only its FCL share sale proceeds to swap for an equivalent value of stake in F&N.** At current share prices, ThaiBev's 28.4% stake in FCL could be swapped for a 45.7% stake in F&N. Bringing ThaiBev's stakes in F&N to 74.1%. The Group could utilise its capacity for debt for other inorganic growth (via mergers, acquisitions, and joint ventures).

Potential privatization:  
If cross the 90% ownership threshold, the company could exercise its right of compulsory acquisition to acquire all of the shares. ThaiBev would require an additional S\$412mn to acquire the remaining stake of F&N.

#### 4. Rising affluence within the ASEAN region underpins long term growth; Deepening foreign market penetration

While demand for beer in Thailand is expected to grow in medium term, there is a need for ThaiBev to expand abroad as its home market is getting saturated and maturing. Domestic beer sales grew at 2.9% CAGR over the past five years. Consumption potential in Thailand would eventually be limited by Thailand's population growth (population grew at CAGR of 0.3% p.a. over the past 10 years).

The Group is banking on ASEAN countries, especially Cambodia, Laos, Myanmar, and Vietnam (dubbed "CLMV"), in its pursuit of overseas expansion.

##### ThaiBev's 3 key factors to successful market penetration

###### a) Similar socio-demographics trends

The rising affluent consumers with a total population of over 600 million people, urban migration, increasing investment opportunities, and tourism boom in ASEAN economies provide a fertile ground for business growth.

Moreover, consumer behaviour, particularly in CLMV countries, have been strongly influenced by the popularity of Thai media broadcasts, singers, and superstars in these countries, as well as their substantial native labour force working in Thailand. As such, ThaiBev could easily achieve brand resonance in these fast growing markets.

###### b) Plenty of spare capacity to meet growing demand

ThaiBev has a strong presence in Thailand. It has 3 breweries, 18 distilleries, and 11 non-alcoholic beverage production facilities spreading across Thailand to cater for the growing regional demand.

Its average utilization rate of the production facilities for Spirits and Beer are at c.60% and c.50%, respectively. Meanwhile, its Soda & Water operation share the same production facilities for its Ready-to-drink Tea and Carbonated Soft Drinks operations.

The production facilities in North and Northeast Thailand could reduce shipping costs and transit times to neighbouring countries like Vietnam and Myanmar.

**Figure 17: Current capacity and utilization rate**

Production Facilities	Production Capacity (per annum)
<b>Thailand</b>	
<b>Spirits</b>	819mn litres
<b>Beer</b>	1,550mn litres
<b>Non-alcoholic beverages</b>	
Breweries	860mn litres
Thai Drinks	353mn bottles
Oishi	1,110mn bottles
Oishi	396mn UHT boxes
Sermsuk	234mn cases
<b>International</b>	
Spirits (Scotland)	12mn litres
Spirits (China)	5,000 tonnes/year (at 50 degree for base spirits) 6,500 tonnes/year (for finished products)

Source: Company

###### c) Scalable business model and building strong alliances to penetrate new markets

ThaiBev's strategic alliance with F&N:

- **Optimize brand and distribution synergies**

Leveraging on each other's portfolio of brands, as well as distribution and bottling systems, for business expansion in SE Asia. Combined, they are one of the largest and most extensive in SE Asia.

This means better production facility sharing, reduction in transportation cost, synergies among each sales channel such as traditional and modern trades, and better order fulfilment via these channels. ThaiBev could also leverage on F&N’s robust production facilities in Malaysia for its expansion into other halal markets in SE Asia, such as Indonesia.

For example, the successful launches of *Oishi* and *est* beverages in Malaysia and Singapore. *Oishi* is ranked No.1 in the Malaysia green tea market and No.4 in the ready-to-drink tea market within its first year since launch. *Oishi* has also successfully penetrated the Myanmar market by collaborating with F&N’s branch offices in the country.

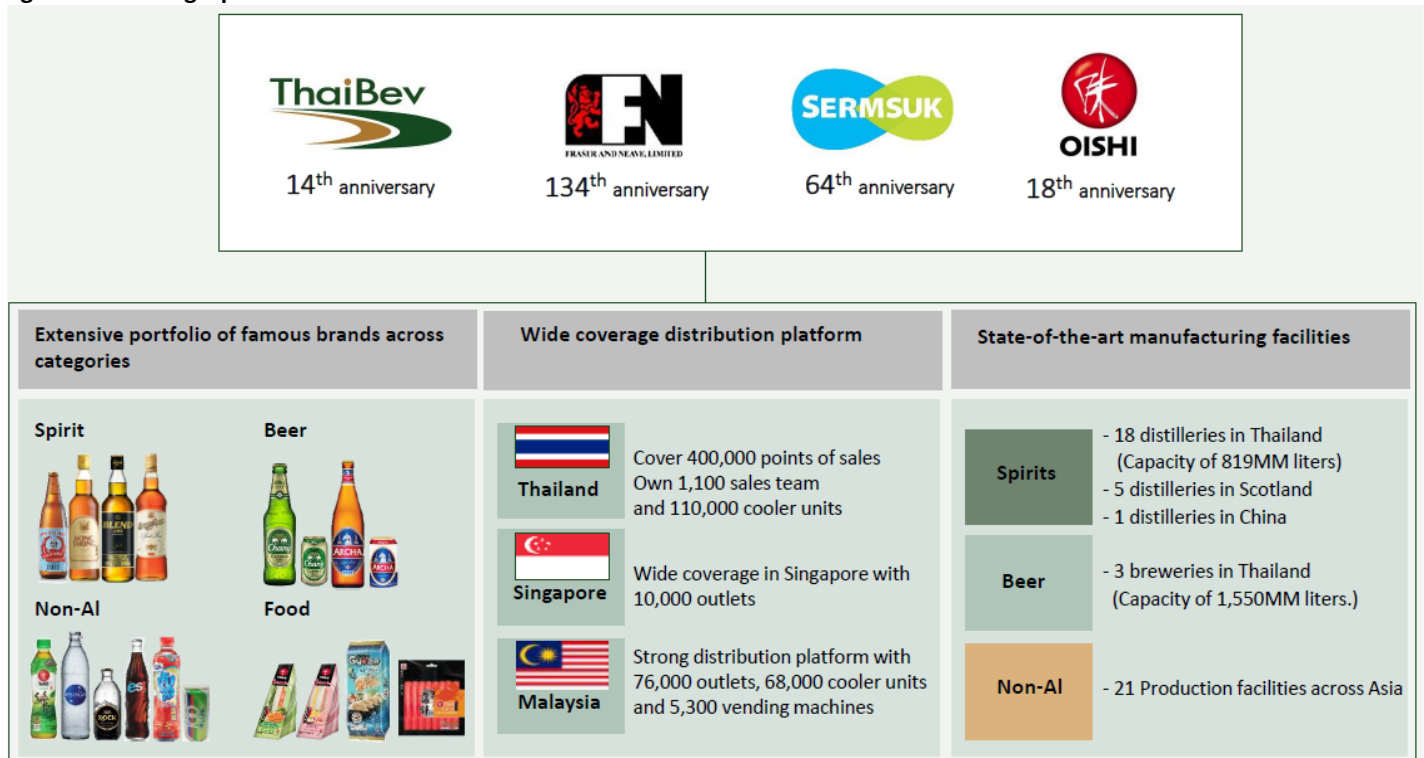
▪ **Opened up opportunities for joint investment in ASEAN**

They could adapt and replicate their successful business model in Singapore, Malaysia and Thailand for other ASEAN countries.

Both F&N and ThaiBev recognize Vietnam and Myanmar as key growth markets. Each of them have incorporated a subsidiary in Vietnam to facilitate distribution in the country – F&N will focus on distributing non-alcoholic beverages and *Chang* beer, while ThaiBev on spirits.

*Chang* beer was successfully launched in Vietnam in Sep-16. It is priced slightly higher than *Tiger* beer, to compensate for the import duty and taxes. This is also in line with its positioning as a premium beer in Vietnam. *Chang* beer is the only beer to take on a refreshing new look with its iconic green bottle. Both market incumbents, i.e. *Saigon* beer (by Sabeco) and *Tiger* beer (by Heineken), are using amber bottles. Having said that, ThaiBev is still waiting for its license approval to distribute spirits in Vietnam.

Figure 18: Strategic partners within ThaiBev



Source: Company

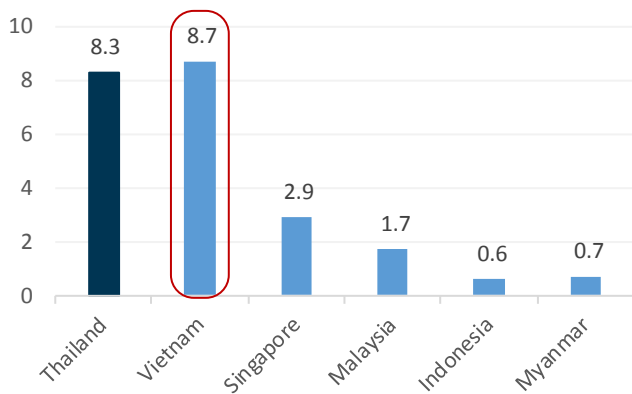
**Vietnam’s ballooning demand for beer; backed by growing population base**

Within the region, Vietnam stands out as the low hanging fruit. It is a significant alcoholic beverage market with the highest alcohol consumption per capita in the region. According to Vietnam Beverage Association (VBA), Vietnam produced an estimated 3.4 billion litres of beer and 300 million litres of liquor in 2015, and 43.8% of the adult population consumes liquor and beer.

It is also the No.1 market in SE Asia for beer consumption. Of the total alcohol consumed in Vietnam, over 90% is beer. On average, each Vietnamese person drank 38 litres of beer in 2015, more than four times higher than the global average.

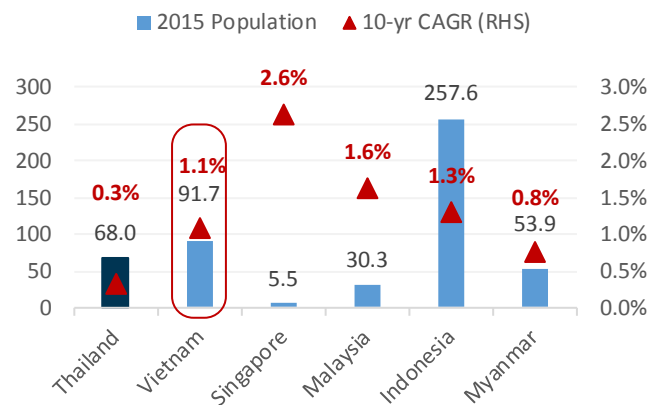
**Successful acquisition of stakes in Sabeco (Saigon Beer Alcoholic Beverage Corp.) would be a long-tail catalyst that could power its earnings higher for years.** Sabeco is the country’s largest brewer by sales with c.40% market shares, followed by Heineken and Habeco with 20% each. Vietnam’s Ministry of Industry and Trade aims to produce 4.1 billion litres of beer in 2020, 4.6 billion litres of beer in 2025, and 5.5 billion litres of beer in 2035.

**Figure 19: 2015 Total Alcohol Consumption per Capita (Litres of Pure Alcohol), Projected Estimates for Aged 15+**



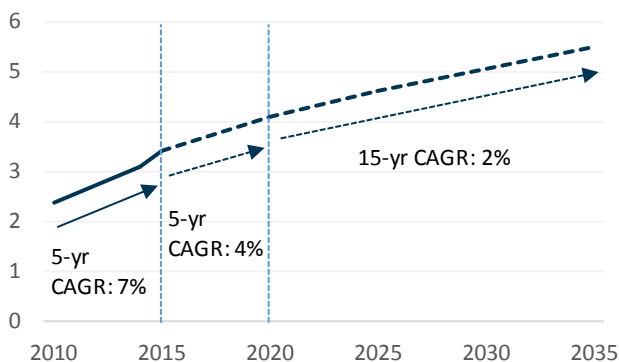
Source: CEIC, PSR

**Figure 20: 2015 Population (million person) and 10-yr CAGR**



Source: CEIC, PSR

**Figure 21: Vietnam’s Expected Beer Production 2015-2035**



Source: Vietnam’s Ministry of Industry and Trade

**5. Diversity in revenue stream; shifting to NAB as the next growth engine**

Its multi-product and pricing model enables the Group to capture the entire value of beverage market and consumer groups from different income, age and cultural background.

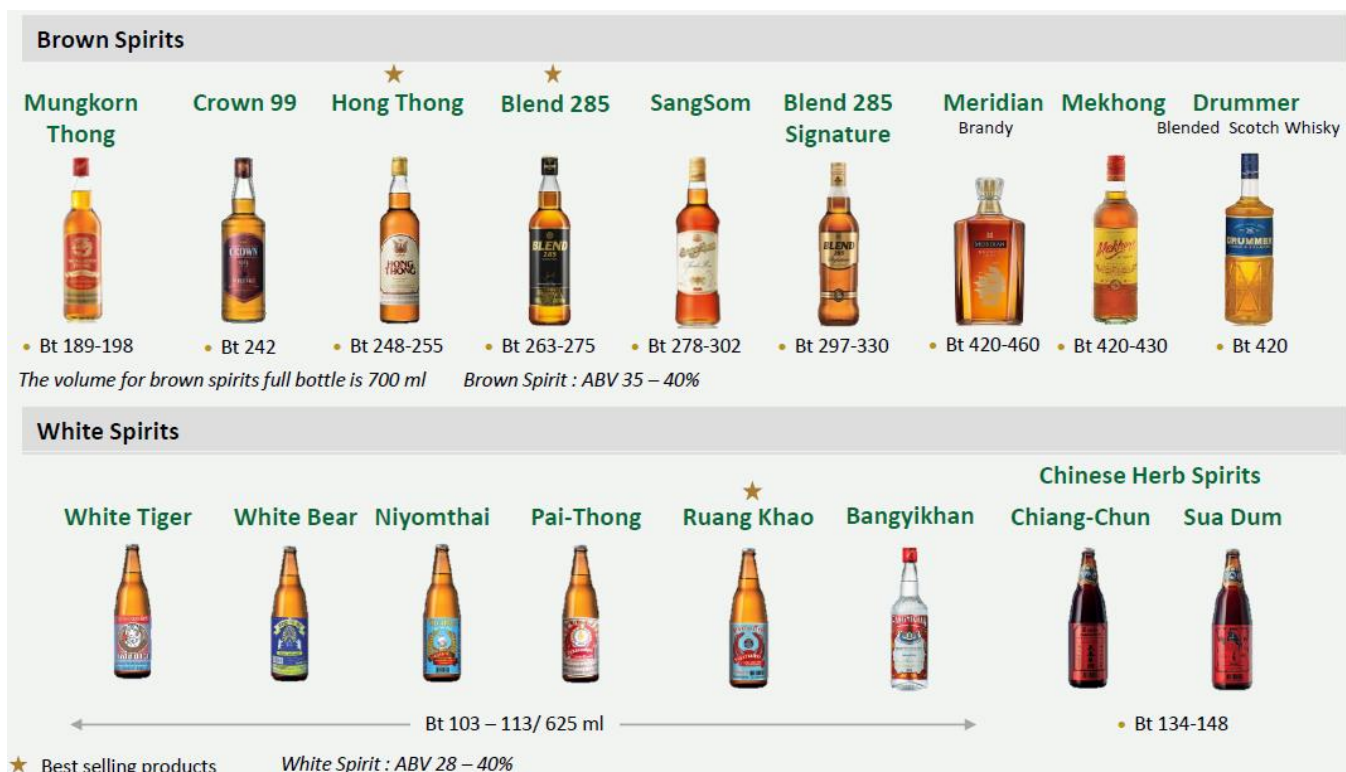
- a) **White Spirits:** An economy drink, almost entirely consumed at home by farmers, agriculturists, and labourers. This consumer group benefits from minimum wage.
- b) **Brown Spirits:** An aspirational drink for consumers with higher purchasing power to trade up. Sold in off-premise (e.g. liquor and convenience stores), on-premise (bars and restaurants), and entertainment complex.
- c) **Beer:** Mainly consumed in restaurants and entertainment complex.

During economic downturn, consumers tend to switch down, i.e. moving from high-priced drinks to lower-priced drinks. For example:

- *Chang* to *Archa* beer, or Brown Spirits to White Spirits. In this scenario, ThaiBev’s overall volume for beer and spirits may be preserved.
- Imported spirits into locally-made Brown Spirits. ThaiBev could be a nominal beneficiary in such cases (ThaiBev commands c.95% of Brown Spirits market share).
- White Spirits to cheaper illegal spirits (or tax-evaded White Spirits).

**Figure 22: ThaiBev’s spirits portfolio**

Management shared that due to the recent trade down, it intends to introduce a premium White Spirits and draw demand back to fill in the price gap between THB103 to THB113. It is expected to be priced similar to the highest priced White Spirits in its current White Spirits portfolio, i.e. at about THB113.



Source: Company

**Figure 23: ThaiBev’s beer portfolio**

The Group relaunched its German-inspired premium single-malt beer, *Federbräu*, in late Feb-17, targeting the niche premium segment (c.5% Thai beer market). It is priced between *Singha* and *Heineken*.



Source: Company

Its strategic diversification of business lines into the non-alcoholic beverage and food sectors helped to diversify its product portfolio, enter into fast growing market segments, further capitalize on existing logistics, and mitigate the business risks from alcoholic beverage market.

**NAB: Targeting for an EBIT-turnaround by FY2018**

The Group branched out into non-alcoholic beverages at the start of 2008.

NAB is divided into three core categories, namely *Oishi* ready-to-drink (“RTD”) green tea, *est* carbonated soft drinks (“CSD”), and *Crystal* drinking water. While *Crystal* drinking water accounted for c.61% of 9M16 NAB volume, it only generated one-third of total NAB sales. The remaining of the sales are contributed equally by *Oishi* RTD tea and *est* CSD.

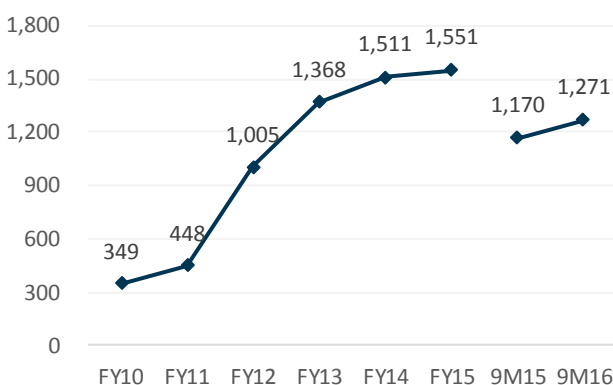
There has been an increasing contribution from NAB segment into Group revenue and overseas sales. The Group shared that 15% of *Oishi*’s sales volume are distributed overseas, to Malaysia, Singapore, Laos and Cambodia via F&N’s robust distribution network.

*Oishi* RTD green tea segment has reached profitability while *Crystal* drinking water is above breakeven point. The only laggard is *est* CSD.

Expansion roadmap into the non-alcoholic beverage market:

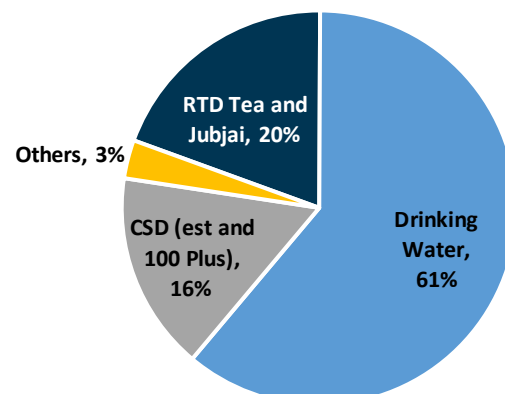
- **2008: Acquired stakes in Oishi Group Public Company Limited** – the No. 1 green tea beverage producer in Thailand
- **2011: Acquired stakes in Sermasuk Public Company Limited** – the beverage producer with the most extensive distribution network in Thailand
- **2012: Acquired stakes in F&N** – a leading Singapore company in the beverage, publishing, and printing industries

**Figure 24: NAB volume (mn litres) continues to grow**



Source: Company

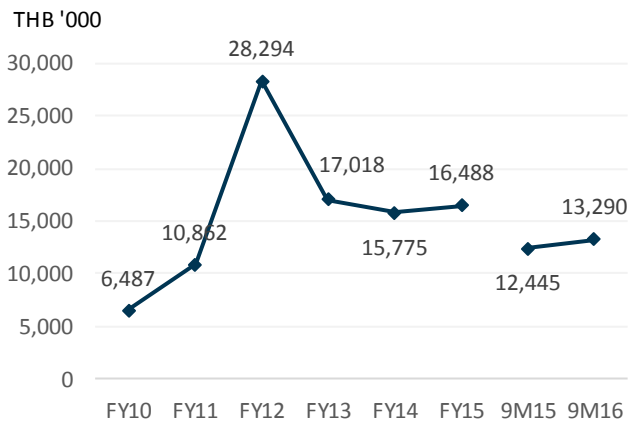
**Figure 25: 9M16 NAB volume breakdown**



Source: Company



**Figure 26: NAB revenue picking up**



Source: Company

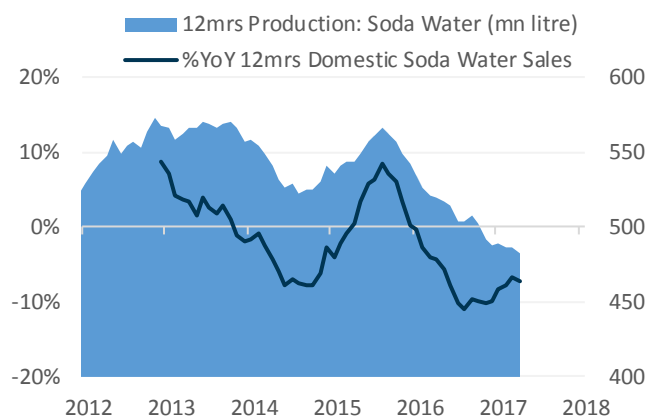
**Demand of soda water to grow together with whiskey consumption.** There is a strong association of whiskey and soda water. In Thailand, whiskey is typically consumed with ice or soda water, and rarely by its own. Recovery in Spirits demand would lift sales volume of its soda water.

**Demand for drinking water to keep flowing.** Thailand is facing water resources problems mainly due to inefficient water resources management. Water-related disasters, such as extreme droughts during dry season and floods which happen nearly every year during monsoon season, cause the scarcity of freshwater resources. On the other hand, increasing population, urbanization, agricultural and industrial expansion are also impacting water quality of various water resources. As such, tap water in Thailand is generally not recommended for consumption.

*Crystal* drinking water commands c.20% market share, together with *Chang* drinking water's market share of c.3-4%, it is ranked No.1 in Thai drinking water market.

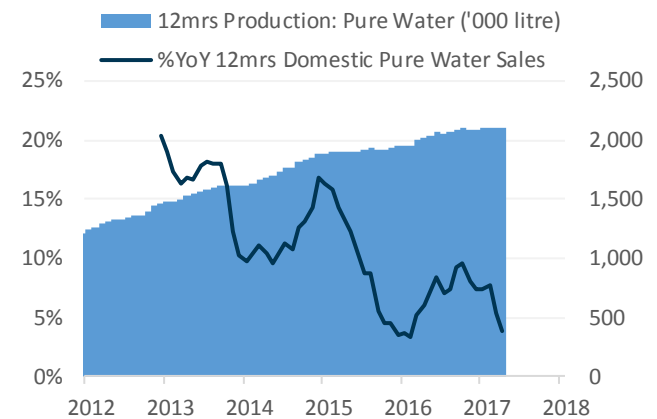
*Singha* drinking water is a close competitor with c.19% market share.

**Figure 27: Demand recovery for Soda Water alongside Spirits'**



Source: CEIC, PSR

**Figure 28: Resilient demand for Drinking Water**



Source: CEIC, PSR

**Oishi RTD green tea to benefit from heightened health awareness and demand for convenience.** RTD green tea offers consumers healthy and convenient hydrating alternatives. Green tea has gained international popularity with its purported health benefits, and the younger generation, seeking for convenience, is driving the RTD industry.

**Est gaining foothold amid competitive CSD market.** *Est* is a 4-year old young brand and has since garnered c.10% market share from the two incumbents, *Coca-Cola* and *PepsiCo*. In near term, the Group plans to:

**a) Improve its route-to market and enhance logistic efficiency**

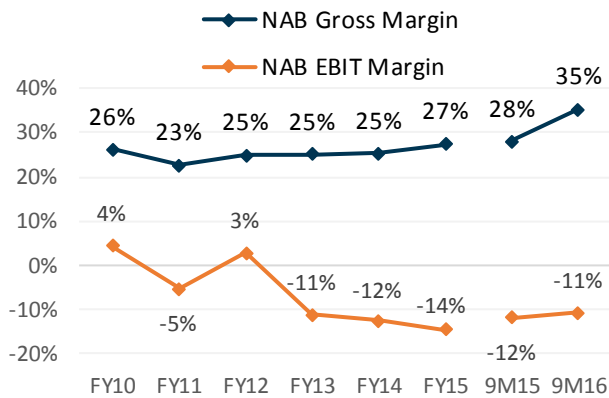
- Equip Sermsuk's sales team with knowledge and skill sets for better integration with ThaiBev and to reap operating synergies.
- Incorporate Sermsuk's into ThaiBev's computerized logistics management.

- A leaner logistics model by combining and reducing the number of truck deliveries to traditional trade operators.

**b) Build loyalty with young consumers as well as a base in export markets**

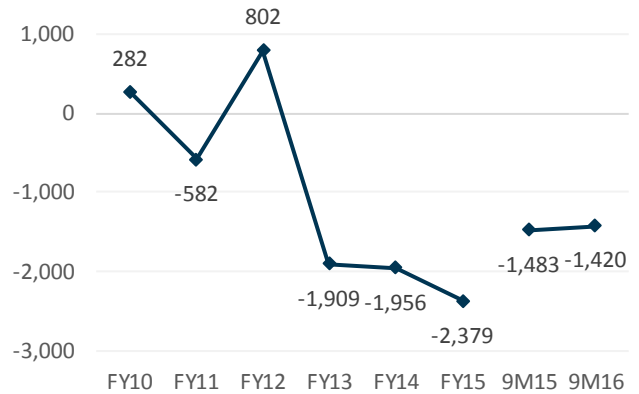
- Leveraging on the current trends and hype. ThaiBev is trying to court the millennials and Generation Z with South Korean pop group, Got7, as brand ambassadors. K-Pop collaboration not only opens up interest from the local teen community but also international market.

**Figure 29: Improving NAB operating efficiency, but reinvested into marketing and advertising**



Source: Company

**Figure 30: Brand building sent EBIT into the red, but Management targets to turnaround in FY18**



Source: Company

**Food: Still at infancy stage**

Food contributed only c.4% to the Group Revenue. Food segment comprises two segments: (i) Japanese restaurants/kiosks; and (ii) chilled and frozen food. Management shared that most of the sales are generated from restaurants.

The Group engaged in an aggressive expansion in the past 4 years with a net opening of c.70 outlets, bringing a total of 242 outlets as of 31 Mar-17. The Group had ventured overseas with a total of three outlets opened in Myanmar, after an outlet in Mandalay closure in Nov-16.

*Net opening of c.60 outlets in 2013-14, but slowed down in the subsequent two years with c.10 additional outlets*

**Taking a breather.** The Group shared that it will slowdown in its expansion plan as the Thais' purchasing power has yet to recover. In near term, it will continue to nurture its existing outlets, in particular the 127 *Shabushi* restaurants. ThaiBev noted that the shabu-shabu concept restaurants draw higher gross margin as compared to its *Oishi* Japanese buffet restaurants. On the other hand, it will adjust the pricing for *Oishi* Japanese buffet restaurants to account for the high raw material costs.

**Focus at domestic market.** The Group has recently invested in a joint venture with Mei-Xin (International) Limited, a company of Maxim's Group, which is the largest restaurant operator in Hong Kong, to operate a bakery business in Thailand before expanding to ASEAN.

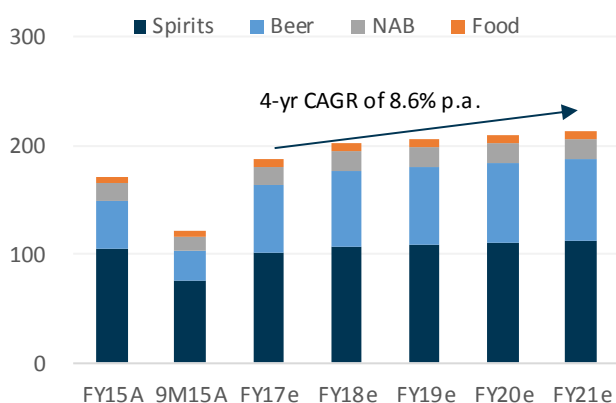
## Forecast Assumptions

### 1. Demand recovery post-mourning period in FY18; Supportive macro backdrop to underpin sales to grow at 8.6% CAGR over the next 5 years

- Spirits:** ThaiBev to maintain its monopoly position. We expect a slight contraction of c.3% YoY in FY17e sales volume due to impact from mourning period. However, demand should neutralise in 1Q FY18. Nonetheless, we expect a low single digit growth in both sales volume and value.
- Beer:** ThaiBev to extend its positive momentum in gaining market share to c.45% in FY21e. Sales from beer to grow at c.5% p.a. between FY17-21e, owing to gain in market share and increase in sales price.
- NAB:** A turnaround at EBIT level by FY18e on improved operating leverage in tandem with higher sales volume.
- Food:** Sales to improve on the back of broader economy growth, which in turn leads to an uplift in consumer sentiment and purchasing power. Maintain profitable if not slight improvement in with better cost management.

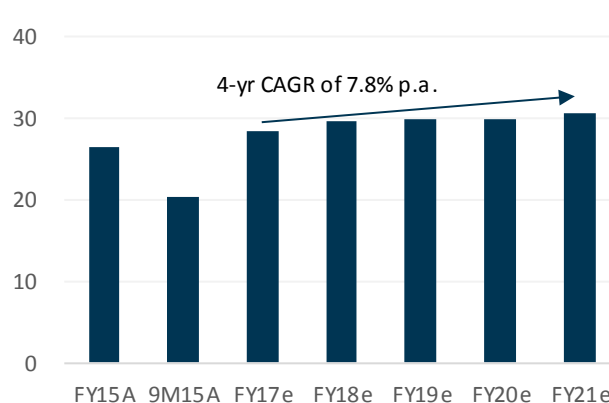
**Note:** Retailers may stock up alcoholic beverages in 4Q FY17 before the excise tax hike in Sep-17.

Figure 31: Group revenue to grow c.9% p.a. in FY17-21e



Source: Company

Figure 32: Group earnings to grow c.8% p.a. in FY17-21e

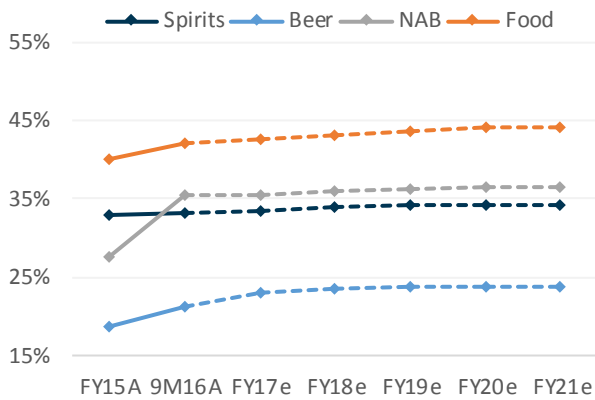


Source: Company

### 2. Steady margins expansion

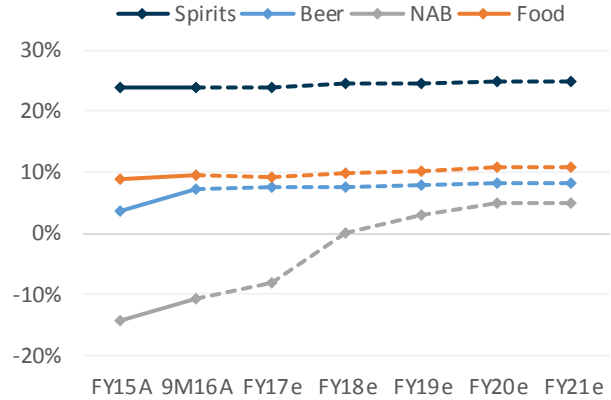
- Increase in selling prices for Spirits and Beer following excise tax hike in Sep-17.
- The prices of main raw materials, such as molasses (sourced domestically), malt and hops (sourced overseas from US, Europe and Australia) are relatively stable in near term.
- Lower packaging costs for Beer. After its repackaging initiative in Aug-15, c.60% of the bottles used are recycled bottles. Management shared that the percentage of recycling beer bottles could reach up to 80%.
- Improved economies of scale, better production facility sharing, and synergies among the companies within its Group.

Figure 33: Gross Margin



Source: Company

Figure 34: EBIT Margin



Source: Company

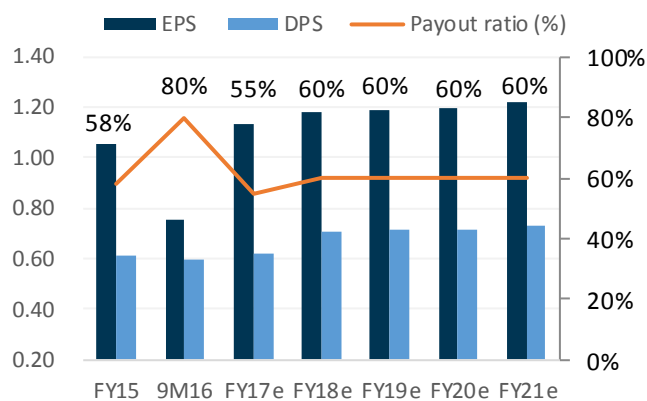
### 3. Strong free cash flow and sustainable dividend payout

The Group’s free cash flow stood at THB15.58bn in 2016 and should improve over years with rising earnings and we do not expect any significant capital expenditure (CAPEX) for production facilities in near term. The Group has earmarked about THB4-5bn budget for:

- (i) Maintenance CAPEX for Spirits and Beer. No need for additional capacity, current utilisation rate for alcohol beverages is at 50-60%;
- (ii) Replacement of production lines which would cost approximately THB1bn. This is to replace the old lines with the new high-tech aseptic cold-filling PET bottle lines, hence we do not expect any increase in production capacity. The Group shared that this would entitle ThaiBev for Board of Investment (BOI) tax incentives and extend its current tax benefit (which is expiring this year) for another 8 years; and
- (iii) Expansion and innovation for Food business. We believe that the fund will mainly be for its JV with Mei-Xin (International) Limited.

The Group has a dividend policy of not less than 50% payout ratio. Dividend payout ratio ranged between 58-70% in the past 5 years. We expect the Group to utilize its cash for F&N restructuring or M&A deals.

Figure 35: Sustainable dividend payout backed by strong cash flow



Source: Company

## Valuation

**Sum-of-the-parts (SOTP) target price of S\$1.05.** We value the respective core businesses at respective peers' average; while its affiliated companies, F&N and FCL, are valued based on their latest market value.

**Figure 36: A S\$1.05 target price**

Sum-of-parts Valuation				
Equity affiliate	Mkt Cap (THB mn)	EV (THB mn)	Stake (%)	EV to THBEV (THB mn)
Fraser and Neave, Limited	84,018	94,195	28.53	26,874
Fraser's Centrepoint Limited	133,349	485,849	28.44	138,176
				165,049

Core Businesses	FY17F EBITDA (THB mn)	Peer's Fwd EV/EBITDA (x)	EV to THBEV (THB mn)
Spirits	25,891	17	440,146
Beer	5,605	14	78,468
Non-alcoholic beverages	106	16	1,700
Food	637	12	7,638
	<b>32,238.57</b>		527,952

Total EV (THB mn)	693,002
Less: Debt	49,110
Less: Minority Interest	3,785
Plus: Cash	7,269
Total Market Value (THB mn)	647,376

\*Exchange rate (THB/SGD) 24.64

**FY17F Market Value (S\$ mn)\* 26,273.36**

Total Sum-of-parts	
No. of shares (mn)	25,110.03
NAV/Share (TP S\$)	<b>1.05</b>
Current share price (S\$)	0.91
% upside/downside	15.0%

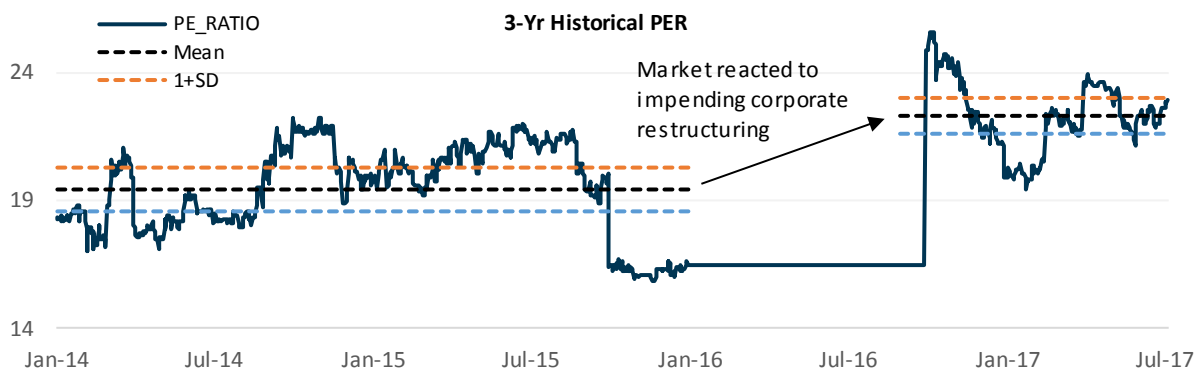
FY17F EPS (THB)	1.13
FY17F EPS (SCents)*	4.59
<u>Implied FY17F P/E (x)</u>	<u>22.8</u>

Slight premium vs global peers on c.90% market dominance  
 In line with global peers  
 In line with global peers  
 In line with local peers

Source: Bloomberg, PSR

ThaiBev is currently trading at trailing PER of 22.9x, which is about one standard deviation higher from its 1-year average. It is trading at a discount to its peers' average of 26.7x for distillers, 95.9x for breweries and 26.3x for non-alcoholic beverages. Our SOTP TP of S\$1.05 implied 23.5x/22.5x FY17/18e PER.

**Figure 37: PER range**



Source: Bloomberg, PSR

Figure 38: ThaiBev PER below industry peers

## Comparables

Bloomberg Ticker	Company	FYE	Mkt Cap (USD mn)	EV (USD mn)	EV/EBITDA TTM	EV/EBITDA FY1	P/E TTM	P/B	Div Yield (%)	Net D/E (%)
THBEV SP Equity	Thai Beverage PCL	09/2016	16,526	17,757	20.8	18.3	22.9	4.6	2.7	33.2
<b>Distillers</b>										
600519 CH Equity	Kweichow Moutai Co Ltd	12/2016	82,391	73,874	N/A	16.5	31.2	7.1	1.5	Net Cash
DGE LN Equity	Diageo PLC	06/2016	73,118	86,256	17.4	16.5	23.4	6.0	2.7	87.3
RI FP Equity	Pernod Ricard SA	06/2016	34,876	44,511	15.1	14.9	24.1	2.2	1.7	65.0
000858 CH Equity	Wuliangye Yibin Co Ltd	12/2016	28,918	23,862	N/A	14.6	26.3	3.9	1.7	Net Cash
002304 CH Equity	Jiangsu Yanghe Brewery Joint-Stock Co Ltd	12/2016	18,759	18,633	N/A	13.7	20.9	4.4	2.5	Net Cash
BF/B US Equity	Brown-Forman Corp	04/2017	18,669	20,636	19.2	18.5	28.4	13.6	1.5	143.6
000568 CH Equity	Luzhou Laojiao Co Ltd	12/2016	9,950	9,314	N/A	19.4	31.7	5.7	2.0	Net Cash
<b>Market Cap Weighted Average (Distillers)</b>					<b>8.1</b>	<b>16.1</b>	<b>26.7</b>	<b>6.0</b>	<b>2.0</b>	<b>42.5</b>
<b>Brewers</b>										
ABI BB Equity	Anheuser-Busch InBev SA/NV	12/2016	223,999	342,566	20.4	15.7	164.0	3.1	3.7	133.2
HEIA NA Equity	Heineken NV	12/2016	55,641	68,790	11.6	11.2	31.3	3.6	1.6	76.4
SAB LN Equity	Molson Coors Brewing Co	12/2016	18,658	30,761	8.3	12.9	24.7	1.6	1.9	99.1
ABEV3 BZ Equity	Ambev SA	12/2016	84,715	84,593	14.5	13.4	23.4	6.0	4.2	Net Cash
2502 JP Equity	Asahi Group Holdings Ltd	12/2016	18,505	31,509	N/A	13.8	23.7	2.4	1.3	64.3
2503 JP Equity	Kirin Holdings Co Ltd	12/2016	18,685	26,469	11.0	11.7	16.8	2.9	1.7	69.0
CARLB DC Equity	Carlsberg A/S	12/2016	15,557	19,747	9.5	9.7	22.7	2.0	1.5	49.8
<b>Market Cap Weighted Average (Brewers)</b>					<b>15.0</b>	<b>14.0</b>	<b>96.6</b>	<b>2.9</b>	<b>2.8</b>	<b>105.0</b>
<b>NAB</b>										
KO US Equity	Coca-Cola Co/The	12/2016	189,702	212,137	20.1	18.6	23.4	8.3	3.2	101.2
NESN VX Equity	Nestle SA	12/2016	265,601	280,648	14.8	15.5	29.7	3.9	2.8	21.1
PEP US Equity	PepsiCo Inc	12/2016	164,463	187,287	14.7	14.2	23.5	14.3	2.7	185.9
2587 JP Equity	Suntory Beverage & Food Ltd	12/2016	14,155	16,869	9.5	10.1	34.4	3.0	1.5	40.9
<b>Market Cap Weighted Average (NAB)</b>					<b>16.3</b>	<b>16.0</b>	<b>26.4</b>	<b>7.9</b>	<b>2.9</b>	<b>88.3</b>
<b>Food</b>										
MTB Equity	MK Restaurants Group PCL	12/2016	1,631	1,340	14.3	12.9	25.1	4.0	3.5	Net Cash
SNP TB Equity	S&P Syndicate PCL	12/2016	340	321	13.0	N/A	26.6	4.8	3.4	Net Cash
OISHI TB Equity	Oishi Group PCL	09/2016	759	818	8.3	13.6	20.2	5.1	2.6	42.1
<b>Market Cap Weighted Average (Food)</b>					<b>12.5</b>	<b>11.5</b>	<b>23.9</b>	<b>4.4</b>	<b>3.2</b>	<b>11.7</b>

Source: Bloomberg

## Investment Risks

- Unable to fully pass on additional costs to consumers, thus compress margins. Additional costs could arise from:
  - Supply chain disruption which could increase and logistic costs;
  - Increase in raw material and labour costs.
- Regulatory risk in operating countries, particularly those governing alcoholic beverage businesses and consumption of alcoholic beverages. There is also a possibility of sin tax levied on beverages with unhealthy sugar level.
- Political uncertainties, especially after coronation of new Thai King and elections, could dampen consumer sentiment.
- Prolonged weakness in economy and demand remained slow post mourning period.



## APPENDIX

### Industry Overview

#### Thailand, a whiskey-drinking country

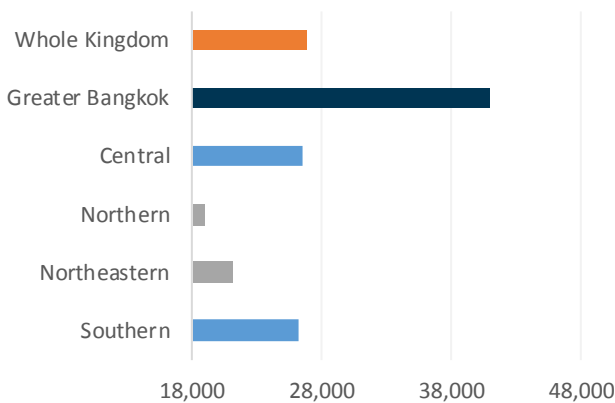
The socio-demographic and the alcohol excise tax have shaped Thai consumer's preference for whiskey.

- (a) Alcohol excise tax is levied based on alcohol product (or essentially their alcohol content). Within the high alcohol content product space (i.e. products with more than 10% alcohol by volume), wine is more expensive than domestically produced whiskey. White spirits, on the other hand, is cheaper than brown spirits. Nonetheless, beer remains the lowest priced alcohol product in the market due to its low alcohol content.
- (b) About one-third of Thais are working in agriculture sector, with majority as farmers in the North and Northeast of Thailand. Hence, the cheap and strong white spirits are especially popular within these regions. On the other hand, Central and Greater Bangkok regions command higher purchasing power, prefer brown spirits and beers.

Thai's alcohol consumption in 2013 were broken down to 73% of whiskey, 27% of beer, and <1% of wine. Spirits consumption is 3x higher than beer's.

**Urban migration and rising consumer affluence will drive demand for brown spirits and beer.** We expect the prevalence alcohol consumption will shift upwards in the value chain as average income and educational level increases.

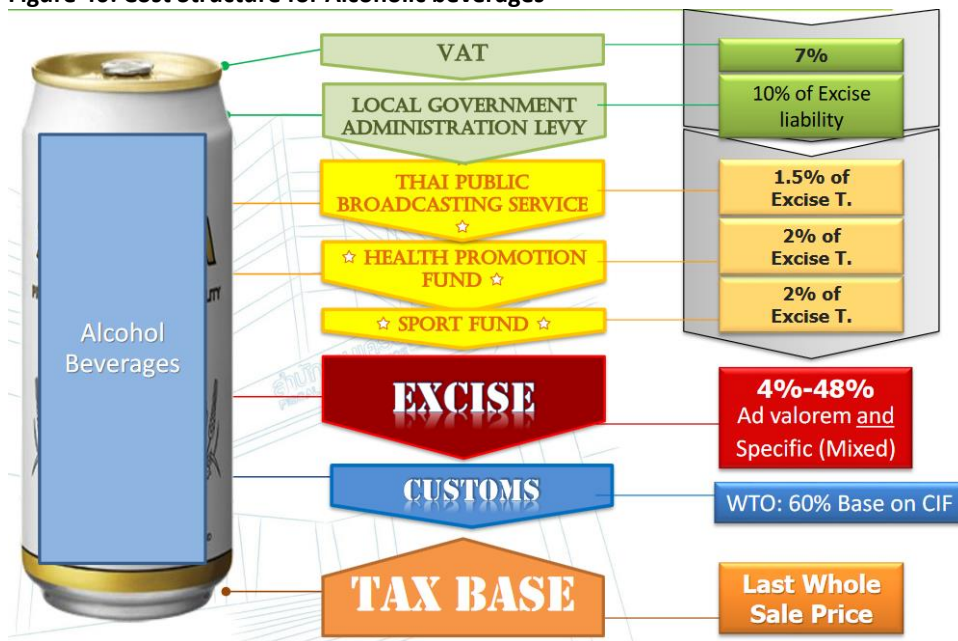
**Figure 39: 2015 Average Monthly Household Income (By Region)**



Source: CEIC, PSR

*Currently, Northern and Northeastern regions which consist mainly farmers, are earning half of Bangkok residents'.*

**Figure 40: Cost Structure for Alcoholic beverages**



Source: Ministry of Finance (Thailand) Presentation Slides for The Seventh IMF-Japan High-Level Tax Conference For Asian Countries in Tokyo, April 2016

**Figure 41: Excise Tax Structure for Alcoholic beverages**

Item	Conditions	Ad Valorem		Specific		Excess Degree of alcohol Conditions	
		Last Wholesale Price (ex VAT)	THB/litre/100 degree	THB/litre	if excess	THB/litre	
<b>A. Fermented Liquor</b>							
1. Beer	Ceiling Rate	60%	300	30	>7 degree	3.00	
	Effective Tax Rate	48%	155	8			
2. Wine and Sparkling Wine from Grape	Ceiling Rate	60%	2,000	300	>15 degree	3.00	
	Last Wholesale Price ≤600THB	0%	1,000	225			
	Last Wholesale Price >600THB	36%					
3. Others	Ceiling Rate	25%	150	30	>15 degree	3.00	
	Effective Tax Rate	5%	70	10			
<b>B. Distilled Liquor</b>							
1. White Spirit	Ceiling Rate	50%	400	60	>40 degree	3.00	
	Effective Tax Rate	4%	145	40			
2. Others	Ceiling Rate	50%	400	60	>45 degree	3.00	
	Effective Tax Rate	25%	250	50			

Source: Ministry of Finance (Thailand) Presentation Slides for The Seventh IMF-Japan High-Level Tax Conference For Asian Countries in Tokyo, April 2016

**Seasonality**

Generally, Oct-Dec and Jan-March are best performing quarters of the year, thanks to the festive celebrative mood during New Year (Dec-Jan) and Songkran (Apr).

Meanwhile, Jul-Sep is the slowest quarter of the year, owing to the Buddhist Festive Season.

**Figure 42: Dry time during Buddhist Festive Season**

Calendar Year	Financial Year	Buddhist Festive Season
1Q	2Q	Magha Puja Day (Feb/Mar)
2Q	3Q	Vesak Day (May)
3Q	4Q	Asalha Puja Day (Jul) Buddhist Lent Day (Jul) National No Alcohol Day (15 Jul)
4Q	1Q	End Buddhist Lent Day (Oct)

### Highly regulated industry under the Alcoholic Beverage Control Act

Thai government is stepping up its effort in cracking down drinking problems, via:

- Excise tax to increase the cost of drinking
- Sales ban (in terms of time and sites where alcohol may be sold and consumed)
- Marketing restrictions

- Alcoholic beverages may not be advertised in a manner which directly or indirectly claims benefits or promotes its consumption, and may not show the product or its packaging.
- Any advertisements or public relations may be conducted only for the purpose of giving information or creative knowledge, where there should be no displaying of pictures of the products or packages, except for the display of the symbol relating to the alcoholic beverage or the symbol of the manufacturer.
- Alcoholic advertising on television can only be done between 10pm and 5am, and the logos can only be shown at the end of the advertisement.

While Thai government policies are strict on alcohol marketing activities and selling hours, it is lenient on setting up distribution channel.

### Competition: High barrier to entry and strong market presence in Thai alcoholic beverages market

The Group almost monopolizes the Thai spirits market with more than 90% market share. Meanwhile, its signature beer, *Chang* beer, commands c.40% market share, second after *Leo* beer from Boonrawd Brewery Co., Ltd, who claimed c.50% market share.

The large scale and nationwide spread of distilleries provide ThaiBev economies of scale, as well as a competitive advantage. Management shared that the consumer preference for White Spirits differs from northern and southern Thailand. White Spirits produced with local resources (molasses and water) are deemed unique to the local taste buds in respective regions, and are mainly distributed locally. Currently, there are no player other than ThaiBev which could dominate the White Spirits market nationwide.

As abovementioned, Thai regulators had built high barrier to entry for new alcoholic beverage players. The government is now considering a total ban on alcoholic beverages advertising and marketing. It would be difficult for new players to gain market traction.

- Spirit:** ThaiBev has some pricing power on the local spirits market due to its leadership position.

Within Brown Spirits market, ThaiBev controlled c.95%, particularly in the local brown spirits. The remaining 5% was dominated by Diageo and Pernod Ricard under the premium segment.

On the other hand, its c.90% share in White Spirits market has been stable over the years, competing with other fragmented local producers.

Figure 43: Thai Spirits Market

Imported products			
Premium imported spirits		Scotch whisky	
Brands	Producer	Brands	Producer
Johnnie Walker Black Label	Diageo	100 Pipers	Pernod Ricard
Chivas Regal	Pernod Ricard	Johnnie Walker Red Label	Diageo
Local products			
Local brown spirits, admixes		Local white spirits	
Brands	Producer	Brands	Producer
Hong Thong	ThaiBev	Ruang Khao	ThaiBev
Blend 285	ThaiBev	Pai Thong	ThaiBev
SangSom	ThaiBev	Chinese Herbal	ThaiBev
Mungskorn Thong	ThaiBev	Community Spirits	Other producers
Mekhong	ThaiBev		

Source: Company

- b. **Beer:** ThaiBev took up c.40% of domestic beer sales volume. Chang beer contributed most of its sales volume; Archa beer only forms c.5% of the total sales volume. The leading brand, Leo beer from Boonrawd Brewery, which is also the mainstream beer in Thailand, seized c.50% of the market share.

Figure 44: Thai Spirits Market

Premium brands		Economy brands	
Brands	Producer	Brands	Producer
Heineken	Thai Asia Pacific	Leo	Boonrawd
Asahi	Boonrawd	Chang Classic	ThaiBev
Federbräu	ThaiBev	Archa	ThaiBev
		Cheers	Thai Asia Pacific
Standard brands			
Brands	Producer		
Singha	Boonrawd		
Tiger	Thai Asia Pacific		

Source: Company

## Company Milestones

Year	Milestone
1977	Acquisition of Sangsom Co.,Ltd. to produce Sangsom rum
1983	Successfully bid for concessions offered by the Government to build and operate 12 distilleries in Thailand
1986	Spirits business was merged with Sura Maharasadorn Group
1988	Acquisition of Red Bull Distillery (1988) Co.,Ltd.
1994	Bang Ban brewery commenced operations
1995	Joint Venture between Carlsberg A/S and Chang Beer was launched in Thailand
1998	Acquisition of United Winery and Distillery Co.,Ltd Chang Beer became a market leader with approximately 54% market share of beer produced in Thailand
1999	Acquisition of Bang Ban brewery from joint venture with Carlsberg A/S
2000	Acquisition of 12 distilleries from the Government
2001	Kampaengphet brewery commenced operations
2002	Acquisition of Thai Alcohol Public Company Limited
2003	Thai Beverage was established as a holding company for all the subsidiaries
2004	Expansion of Kamphaengphet brewery commenced
2006	Thai Beverage successfully listed in the SGX-ST Acquisition of distillery assets from Sin Surang Karn Sura Co.,Ltd. Acquisition of PSUK, acquisition of BSHK
2007	Acquisition of United Products Company Limited and SPM Foods and Beverages Company Limited
2008	Acquisition of energy drink and ready-to-drink coffee assets from Wrangyer Beverage Company Limited Acquisition of 43.9% of Oishi in Sept; 89.9% following a tender offer in Nov, for a total cost of THB6.24bn
2009	Acquisition of Yunnan Yulinquan Liquor in China
2011	Acquisition of 64.66% of equity interest of Sermasuk Public Company Limited
2012	Acquisition of 28.6% of Fraser and Neave, Limited shares
2013	ThaiBev was bestowed a royal warrant by King Bhumibol Adulyadej
2014	ThaiBev unveiled "Vision 2020", a six-year strategic roadmap for the Group's companies
2015	Chang Beer's 20th Anniversary introduced a new look of "Chang Classic Beer" in emerald green bottle
2016	Entered into a 70-30 joint venture with Mei-Xin (International) Limited to incorporate Max Asia Co., Ltd, which engages in the bakery business in Thailand Joined the Pracharath Project, which is a collaboration between the Thai government, the Thai Chamber of Commerce, the Federation of Thai Industries, and the Thai Bankers' Association, to drive the economy on both national and provincial levels ThaiBev was included in the Dow Jones Sustainability Indices (DJSI) family, becoming a component of the DJSI Emerging Markets Index

Source: Company

## Financials

### Income Statement

Y/E Sep, THB mn	FY14	FY15	9M16	FY17e	FY18e
<b>Revenue</b>	<b>162,040</b>	<b>172,049</b>	<b>139,153</b>	<b>188,047</b>	<b>202,843</b>
Gross profit	47,330	50,219	41,562	57,446	62,620
<b>EBITDA</b>	<b>28,275</b>	<b>29,070</b>	<b>23,516</b>	<b>32,239</b>	<b>36,717</b>
Depreciation & Amortisation	(3,986)	(4,400)	(3,293)	(4,512)	(4,782)
Associates & JVs	3,249	3,926	3,375	4,325	4,665
Other items	(106)	3,720	(143)	3,547	445
<b>EBIT</b>	<b>24,289</b>	<b>24,670</b>	<b>20,223</b>	<b>27,727</b>	<b>31,936</b>
Net Finance Inc/(Exp)	(1,447)	(1,344)	(776)	(1,177)	(1,074)
<b>Profit Before Tax</b>	<b>25,984</b>	<b>30,972</b>	<b>22,679</b>	<b>34,422</b>	<b>35,972</b>
Taxation	(4,552)	(4,508)	(3,643)	(5,852)	(6,115)
<b>Profit After Tax</b>	<b>21,433</b>	<b>26,464</b>	<b>19,036</b>	<b>28,570</b>	<b>29,857</b>
- Non-controlling interest	(261)	0	117	143	149
<b>Net profit, reported</b>	<b>21,694</b>	<b>26,463</b>	<b>18,920</b>	<b>28,427</b>	<b>29,707</b>
<b>Net profit, adj.</b>	<b>21,694</b>	<b>26,463</b>	<b>18,920</b>	<b>28,427</b>	<b>29,707</b>

### Per share data (THB)

Y/E Sep	FY14	FY15	9M16	FY17e	FY18e
EPS, reported	0.86	1.05	0.75	1.13	1.18
EPS, adj.	0.84	0.85	0.73	1.10	1.15
DPS	0.61	0.61	0.60	0.62	0.71
BVPS	4.03	4.62	4.78	5.29	5.76

### Per share data (SGD Cents)\*

Y/E Sep	FY14	FY15	9M16	FY17e	FY18e
EPS, reported	3.48	4.15	2.97	4.59	4.80
EPS, adj.	3.38	3.36	2.87	4.47	4.67
DPS	2.46	2.40	2.36	2.53	2.88
BVPS	16.23	18.16	18.84	21.47	23.39

\*Exchange rate (THB/SGD) 24.85 25.42 25.38 24.64 24.64

### Cash Flow

Y/E Sep, THB mn	FY14	FY15	9M16	FY17e	FY18e
<b>CFO</b>					
<b>EBIT</b>	<b>24,289</b>	<b>24,670</b>	<b>20,223</b>	<b>27,727</b>	<b>31,936</b>
Depreciation & Amortisation	(3,986)	(4,400)	(3,293)	(4,512)	(4,782)
WC changes	1,135	(1,236)	(743)	(1,881)	(2,448)
Tax paid	(4,884)	(5,003)	(4,314)	(5,852)	(6,115)
Others	(119)	(348)	29	3,547	445
<b>Cashflow from ops</b>	<b>24,407</b>	<b>22,484</b>	<b>18,488</b>	<b>28,054</b>	<b>28,599</b>
CFI					
CAPEX, net	(4,601)	(3,999)	(2,877)	(4,381)	(4,726)
Others	(119)	(348)	29	3,547	445
<b>Cashflow from investments</b>	<b>2,607</b>	<b>(118)</b>	<b>(446)</b>	<b>(4,331)</b>	<b>(4,654)</b>
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	(18,461)	(5,106)	1,067	(5,878)	(4,401)
Dividends	(11,359)	(15,378)	(16,670)	(15,635)	(17,824)
Others	(119)	(348)	29	3,547	445
<b>Cashflow from financing</b>	<b>(29,820)</b>	<b>(20,484)</b>	<b>(15,603)</b>	<b>(21,513)</b>	<b>(22,226)</b>
<b>Net change in cash</b>	<b>(2,806)</b>	<b>1,882</b>	<b>2,439</b>	<b>2,210</b>	<b>1,719</b>
Effects of exchange rates	(65)	(622)	(870)	0	0
<b>CCE, end</b>	<b>2,230</b>	<b>3,490</b>	<b>5,059</b>	<b>7,269</b>	<b>8,988</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Sep, THB mn	FY14	FY15	9M16	FY17e	FY18e
<b>ASSETS</b>					
PPE	<b>47,251</b>	<b>46,921</b>	<b>47,871</b>	<b>47,953</b>	<b>47,897</b>
Intangibles	7,194	7,228	7,237	7,025	7,025
Investments in Assoc/JV	67,614	75,737	78,463	82,788	87,453
Others	(119)	(348)	29	3,547	445
<b>Total non-current assets</b>	<b>125,919</b>	<b>133,889</b>	<b>137,549</b>	<b>141,744</b>	<b>146,354</b>
Accounts receivables	4,291	4,501	3,309	4,843	5,167
Cash	2,230	3,490	5,059	7,269	8,988
Inventories	34,084	35,204	38,145	39,359	42,259
Others	(119)	(348)	29	3,547	445
<b>Total current assets</b>	<b>46,068</b>	<b>48,128</b>	<b>50,104</b>	<b>55,061</b>	<b>60,004</b>
<b>Total Assets</b>	<b>171,987</b>	<b>182,017</b>	<b>187,653</b>	<b>196,805</b>	<b>206,358</b>

### LIABILITIES

Accounts payables	9,181	9,854	9,831	10,697	11,473
Short term loans	22,252	18,678	19,330	14,680	11,425
Others	(119)	(348)	29	3,547	445
<b>Total current liabilities</b>	<b>36,036</b>	<b>33,090</b>	<b>32,819</b>	<b>29,035</b>	<b>26,556</b>
Long term loans	27,555	25,883	27,089	27,089	27,089
Others	(119)	(348)	29	3,547	445
<b>Total non-current liabilities</b>	<b>31,275</b>	<b>29,661</b>	<b>31,122</b>	<b>31,122</b>	<b>31,122</b>
<b>Total Liabilities</b>	<b>67,311</b>	<b>62,751</b>	<b>63,941</b>	<b>60,158</b>	<b>57,678</b>

### EQUITY

Non-controlling interests	3,414	3,380	3,642	3,785	3,935
<b>Shareholder Equity</b>	<b>101,263</b>	<b>115,885</b>	<b>120,070</b>	<b>132,862</b>	<b>144,745</b>

### Valuation Ratios

Y/E Sep	FY14	FY15	9M16	FY17e	FY18e
P/E (X), adj.	21.1	20.3	33.6	20.3	19.5
P/B (X)	4.4	3.8	5.1	4.2	3.9
EV/EBITDA (X), adj.	17.6	16.5	28.1	18.7	16.2
Dividend Yield (%)	2.7%	2.6%	2.6%	2.8%	3.2%

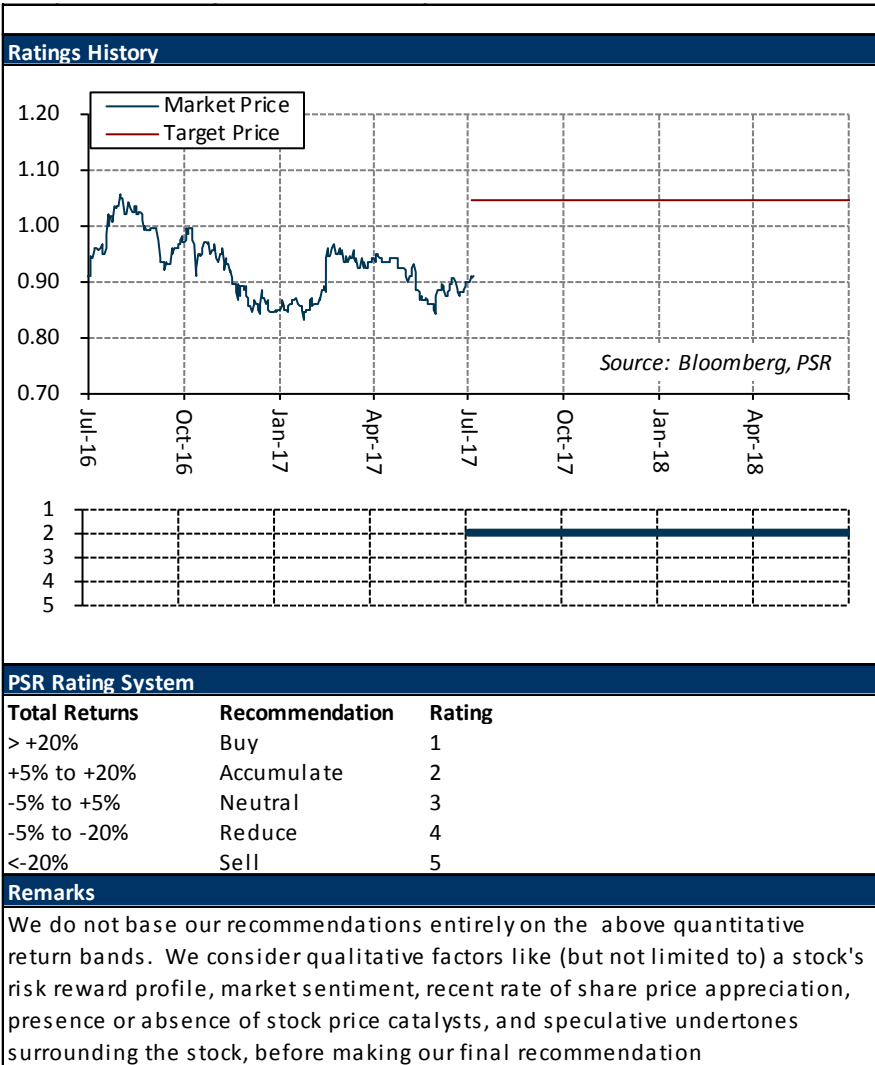
### Growth & Margins (%)

<b>Growth</b>					
Revenue	4.0%	6.2%	-19.1%	35.1%	7.9%
EBITDA	9.3%	2.8%	-19.1%	37.1%	13.9%
EBIT	10.7%	1.6%	-18.0%	37.1%	15.2%
Net profit, adj.	13.4%	22.0%	-28.5%	50.3%	4.5%
<b>Margins</b>					
Gross margin	29.2%	29.2%	29.9%	30.5%	30.9%
EBITDA margin	17.4%	16.9%	16.9%	17.1%	18.1%
EBIT margin	15.0%	14.3%	14.5%	14.7%	15.7%
Net profit margin	13.4%	15.4%	13.6%	15.1%	14.6%

### Key Ratios

ROE (%)	22.2%	24.4%	16.0%	22.5%	21.4%
ROA (%)	12.2%	15.0%	10.2%	14.8%	14.7%
Net Debt/(Cash)	47,577	41,071	41,361	34,501	29,526
Net Gearing (X)	45.5%	34.4%	33.4%	25.2%	19.9%





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