

Thai Beverage PLC

Spirits and property gains to the rescue



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SINGAPORE | CONSUMER | 3Q19 RESULTS

22 August 2019

- Revenue was below our forecast. Net profit beat our estimates due to strong associate contribution. Frasers Property (FPL) reported significant property gains this quarter.
- Beer earnings dropped almost 40% as Sabeco volumes were down 2.5% YoY in 3Q19 due to destocking of brand relaunch.
- Higher margin brown spirits demand in Thailand recovered from last year post excise duty.
- Maintain NEUTRAL. We keep our SOTP-derived TP to S\$0.83. Our earnings forecast is unchanged. We lowered revenues and incorporated the severance provisions but raised our associate earnings. Outlook for Thai Beverage earnings in FY20e will be highly dependent on the passing of agriculture support prices by the government. Excluding these measures, our expectations are for lacklustre earnings growth in FY20e.

Results at a glance

THB' trn	3Q19	3Q18	YoY (%)	Comments
PATMI				
Spirits	4.44	3.92	13.1%	Higher brown spirits volume
Beer	0.27	0.44	-39.3%	Sabeco volumes declined 2.5%
Non-alcoholic beverages	-0.19	-0.32	-39.9%	More emphasis on traditional channels
Food	0.16	0.05	218.0%	
F&N/FPL	1.98	1.40	41.1%	Gains on disposal/revaluation gain at FPL
One-off cost	0.00	-0.05	n.m.	
	6.65	5.45	22.1%	

Source: Company, PSR

The Positives

+ Brown spirits demand jumped YoY. Spirits demand in Thailand rose 4.5% YoY. There was double-digit revenue growth in the higher price and margin brown spirits. Comparables were better because a year ago, there was a collapse in volume post excise duty hike in February 2018. Underlying brown spirit industry growth is still around 3%. On the flip side, volumes in Myanmar were down 23% YoY. There were issues in production but it will be resolved in 4QFY19.

+ Better margins. Gross margins at the spirits division also improved 1.6% points to 67.1% due to the lower molasses cost. Material cost is measured on a weighted average basis. Molasses is only purchased in the November to April sugar harvesting period. With the drought conditions in Thailand, molasses cost is expected to rise.

+ Losses at non-alcohol beverages (NAB) continues to narrow. The losses at NAB division continues to fall. The company is moving more volume away from modern to traditional channel. The current momentum in margins and sales could translate to profitability in FY20e. Modern trade channel demands more discounts plus higher promotional funds.

The Negatives

- Beer profits dropped almost 40%. Net profit from beer fell almost 40% YoY. Beer revenues were down 0.5% yoy. There was a 2.5% decline at Sabeco due to destocking before the brand relaunch with new packaging.

- Lumpy wage expense. Effective May 2019, severance pay for employees who worked for 20 years or more will be raised to 400 days of their most recent salary. Thai Beverage took a Bt798mn charge for this change in labour law. The expense will drop in the following quarters.

NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 0.890
FORECAST DIV	SGD 0.022
TARGET PRICE	SGD 0.830
TOTAL RETURN	-4.3%

COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN)	25,114
MARKET CAP (USD mn / SGD mn)	16B2 / 22351
52 - WK HI/LO (SGD)	0.91 / 0.58
3M Average Daily T/O (mn)	16.45

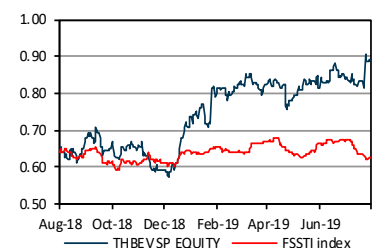
MAJOR SHAREHOLDERS

SIRIWANA COMPANY LIMITED	45.3%
MAXTOP MANAGEMENT CORP	20.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.1	15.0	40.0
STI RETURN	(6.03)	(0.91)	160

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY17	FY18	FY19e	FY20e
Revenue (THB bn)	190.0	229.7	273.5	284.6
EBITDA (THB bn)	32.7	34.8	41.4	45.5
NPAT, adj. (THB bn)	26.0	21.0	26.4	27.4
EPS, adj. (THB)	1.37	0.74	1.05	1.09
EPS, adj. (SCents)	3.98	3.07	4.21	4.42
PER, adj. (x)	22.3	29.0	21.1	20.1
P/BV, (x)	4.4	4.5	4.0	3.7
DPS (THB)	0.67	0.39	0.53	0.55
DPS (SCents)	2.64	1.59	2.17	2.26
Div Yield	2.8%	1.7%	2.4%	2.5%
ROE	20.9%	16.8%	20.6%	19.4%

Source: Company Data, PSR

Valuation Method

Sum-of-parts/PE Ratio

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Outlook

The upcoming 4QFY19e will register impressive YoY headline earnings due to the drag post excise duty in 2018. Despite the earnings boost this quarter by property gains at associate Frasers Property, the outlook for Thai Beverage is dependent on government stimulus. The government of Thailand is looking at subsidies for farm prices such as rubber at Bt60 per kg, rice prices at Bt10,000 to 14,000 per MT and palm oil price at Bt4/kg. Without these subsidies, the outlook for FY20e will be lacklustre.

Maintain NEUTRAL with SOTP-derived TP of S\$0.83

Maintain NEUTRAL. We keep our SOTP-derived TP to S\$0.83. Our earnings forecast is unchanged. We lowered revenues and incorporated the severance provisions but raised our associate earnings. Outlook for Thai Beverage earnings in FY20e will be highly dependent on the passing of agriculture support prices by the government. Excluding these measures, our expectations are for lacklustre earnings growth in FY20e.

Figure 1: Further details of the results

THB' trn	3Q19	3Q18	YoY (%)	Comments
Spirits	26.3	24.6	6.9%	Sales volume +2.1% YoY
Beer	28.1	28.3	-0.5%	Sales volume -1%
Non-alcoholic beverages	4.2	4.2	0.0%	Sales volume +10.6%
Food	4.1	3.6	12.0%	
Total Revenue	62.7	60.7	3.3%	
Gross profit	18.9	17.2	9.9%	Higher brown spirits & lower material cost
Core EBITDA, ex. FNN/FPL and non-recurring cost	10.2	8.8	15.5%	
Net interest expense	-1.5	-1.3	10.7%	
Associates	2.2	1.6	38.8%	
NPAT	7.7	6.0	27.1%	
PATMI, adjusted	6.7	5.4	22.1%	

Source: Company, PSR

Financials

Income Statement

Y/E Sep, THB mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	190,033	189,997	229,695	273,458	284,619
Gross profit	55,662	58,099	67,218	79,498	82,647
EBITDA	31,463	32,675	34,789	41,376	45,507
Depreciation & Amortisation	-4,420	-4,308	-5,759	-6,703	-6,932
EBIT	27,043	28,367	29,030	34,673	38,575
Associates & JVs	4,103	4,073	4,230	5,469	4,269
Other items	-176	8,311	-3,664	72	-612
Net Finance Inc/(Exp)	-1,103	-939	-4,261	-5,719	-5,087
Profit Before Tax	29,867	39,812	25,335	34,495	37,145
Taxation	-4,835	-5,132	-4,609	-5,519	-6,315
Profit After Tax	25,032	34,681	20,726	28,976	30,830
- Non-controlling interest	83	171	2,196	2,608	3,391
Net profit, reported	24,949	34,510	18,530	26,368	27,439
Net profit, adj.	24,949	26,013	20,988	26,368	27,439

Per share data (THB)

Y/E Sep	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.99	1.37	0.74	1.05	1.09
EPS, adj.	0.96	1.01	0.75	1.02	1.07
DPS	0.00	0.67	0.39	0.53	0.55
BVPS	4.78	5.13	4.82	5.35	5.90

Per share data (SGD Cents)*

Y/E Sep	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	3.91	5.41	3.02	4.34	4.51
EPS, adj.	3.77	3.98	3.07	4.21	4.42
DPS	0.00	2.64	1.59	2.17	2.26
BVPS	18.81	20.20	19.72	22.13	24.34

Cash Flow

Y/E Sep, THB mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
EBIT	27,043	28,367	29,030	34,673	38,575
Depreciation & Amortisation	-4,420	-4,308	-5,759	-6,703	-6,932
WC changes	2,928	99	-1,711	-13,096	-2,735
Tax paid	-4,591	-3,635	-6,965	-5,519	-6,315
Others	174	434	-3,833	72	-612
Cashflow from ops	29,975	29,573	22,280	22,833	35,844
CFI					
CAPEX, net	-3,950	-5,399	-6,907	-6,918	-6,632
Others	2,427	2,346	-185,190	1,126	576
Cashflow from investments	-1,523	-3,053	-192,098	-5,792	-6,056
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	-7,042	-6,407	187,204	-9,250	-7,346
Dividends	-16,670	-15,162	-16,134	-13,184	-13,719
Others	0	0	0	0	0
Cashflow from financing	-23,712	-21,568	171,070	-22,434	-21,065
Net change in cash	4,740	4,952	1,252	-5,394	8,723
Effects of exchange rates	-1,179	-82	0	0	0
CCE, end	5,059	9,929	11,181	5,788	14,511

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, THB mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	47,871	48,532	57,059	58,083	57,782
Intangibles	7,237	7,281	184,390	171,232	171,232
Investments in Assoc/JV	78,463	78,373	78,870	84,339	88,608
Others	3,978	4,134	5,994	5,994	5,994
Total non-current assets	137,549	138,319	326,313	319,648	323,617
Accounts receivables	3,309	3,248	5,944	6,141	6,325
Cash	5,059	9,929	22,530	28,785	37,508
Inventories	38,145	37,761	42,185	55,797	58,101
Others	3,590	4,983	4,438	4,438	4,438
Total current assets	50,104	55,921	75,096	95,161	106,372
Total Assets	187,653	194,240	401,409	414,809	429,989
LIABILITIES					
Accounts payables	9,831	11,265	16,294	17,008	16,761
Short term loans	19,330	31,058	15,136	12,030	10,347
Others	3,658	5,347	6,029	6,029	6,029
Total current liabilities	32,819	47,671	37,459	35,067	33,137
Long term loans	27,089	10,000	216,804	216,804	216,804
Others	4,033	4,056	6,575	6,575	6,575
Total non-current liabilities	31,122	14,057	223,379	223,379	223,379
Total Liabilities	63,941	61,727	260,838	258,446	256,516
EQUITY					
Non-controlling interests	3,642	3,733	19,425	22,033	25,424
Shareholder Equity	120,070	128,780	121,146	134,330	148,049

Valuation Ratios

Y/E Sep	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	23.6	22.3	29.0	21.1	20.1
P/B (X)	4.7	4.4	4.5	4.0	3.7
EV/EBITDA (X), adj.	15.3	19.9	23.3	18.4	16.6
Dividend Yield (%)	0.0%	2.8%	1.7%	2.4%	2.5%

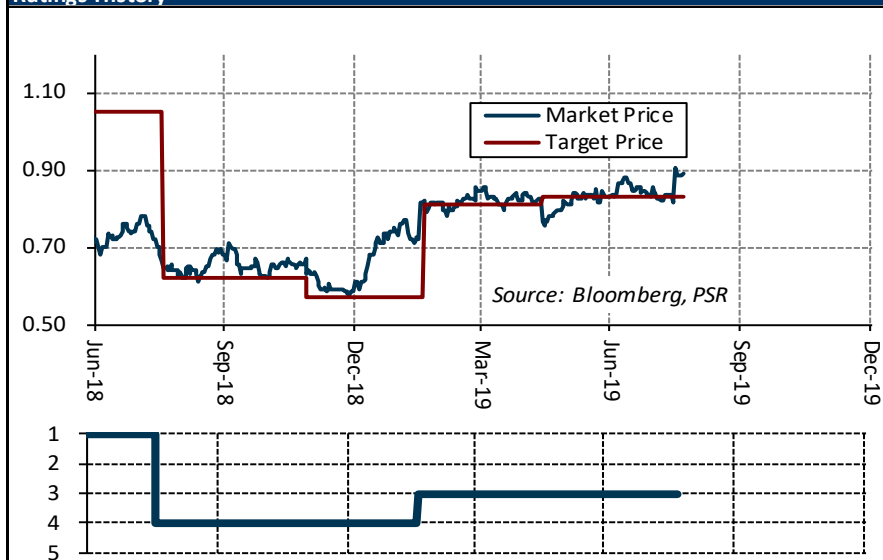
Growth & Margins

Growth					
Revenue	17.3%	0.0%	20.9%	19.1%	4.1%
EBITDA	11.3%	3.9%	6.5%	18.9%	10.0%
EBIT	11.3%	4.9%	2.3%	19.4%	11.3%
Net profit, adj.	15.0%	4.3%	-19.3%	25.6%	4.1%
Margins					
Gross margin	29.3%	30.6%	29.3%	29.1%	29.0%
EBITDA margin	16.6%	17.2%	15.1%	15.1%	16.0%
EBIT margin	14.2%	14.9%	12.6%	12.7%	13.6%
Net profit margin	13.1%	13.7%	9.1%	9.6%	9.6%

Key Ratios

ROE	22.5%	20.9%	16.8%	20.6%	19.4%
ROA	13.9%	13.6%	7.0%	6.5%	6.5%
Net Debt/(Cash)	41,361	31,129	209,411	200,050	189,644
Net Gearing	33.4%	23.5%	149.0%	127.9%	109.3%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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