

Thai Beverage

New additions to reach greater heights



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SINGAPORE | CONSUMER | 1Q18 RESULTS

- 1Q18 Revenue/Adjusted PATMI met 22%/18% of our full year expectations
- Slower-than-expected domestic alcoholic beverage, mitigated by improvement in non-alcoholic beverages and food business
- Earnings weighed by lower associates contributions, THB2.3bn non-recurring acquisition expenses and higher finance costs
- Next to watch in 2Q18: First contribution from Sabeco (as consolidated subsidiary basis)
- Maintained BUY with lower SOTP-derived TP of S\$1.05 (previously S\$1.18)

Results at a glance

THB' tn	1Q18	1Q17	YoY (%)	Comments
Spirits	24.8	26.3	-5.8%	Lower ASP despite sales volume +0.6% YoY, due to newly-acquired Grand Royal Group
Beer	14.4	15.0	-4.0%	Sales volume -6.2% YoY
Non-alcoholic beverages	4.1	3.9	5.8%	Higher sales volume in Drinking Water (+8.7% YoY) and Carbonated Soft Drink (+9.5% YoY)
Food	2.3	1.6	42.3%	Contribution from newly-acquired Spice of Asia and the QSR of Asia restaurants
Revenue	45.6	46.8	-2.6%	<i>As above</i>
Gross	13.9	14.3	-2.9%	<i>Gross Profit Margin unchanged at 30.5%</i>
Core EBITDA, ex. FNN/FCL and non-recurring cost	7.1	8.7	-18.0%	Higher SG&A expenses <i>Core EBITDA Margin -2.9pp to 15.7%</i>
NPAT	3.0	7.7	-61.0%	Lower F&N/FCL contribution (-57.5% YoY); THB2.3bn one-off acquisition costs; and Higher finance costs related to Sabeco acquisition Ex. the above, NPAT, adj. -21.9% YoY
PATMI, adjusted	5.3	7.7	-31.8%	Ex. non-recurring one-off acquisition costs

Source: Company, PSR

The positives

- Higher net profit of Food business (+2,080% YoY) and narrowed net loss of NAB business (-5% YoY).** Food margins improved on inorganic growth. Excluding the contribution from newly acquired Spice of Asia and KFC stores, 1Q18 Food Revenue grew 3.2% YoY. Non-alcoholic beverages (NAB) narrowed net loss on lower advertising and promotion expenses, despite additional cost arising from the introduction of an excise tax for sugar.
- Strong International spirits sales (+249% YoY)** buoyed mainly by the contribution from the newly acquired Grand Royal Group. In addition, strong performances from (i) existing businesses in the US, UK, Germany, (ii) new distribution in Asia, and (iii) pick-up in sales for OEM brands.

The negatives

- Private consumption in the domestic alcoholic beverage recovered at a slower-than-expected pace post- mourning period,** as it coincides with the new Excise Tax Act (in effective since 16 Sep-17). Sales agents' destocking dragged local alcoholic sales in 1Q18. The Group recorded lower sales from Spirits (-12.8% YoY, ex. Grand Royal) and Beer sales (-4.0% YoY). On a brighter note, it **maintained its market share in beer business at c.38%.**

22 February 2018

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.84
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.05
TOTAL RETURN	28.5%

COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN):	25,111
MARKET CAP (USD mn / SGD mn):	¥831/ 20968
52 - WK HI/LO (SGD):	0.99 / 0.83
3M Average Daily T/O (mn):	22.66

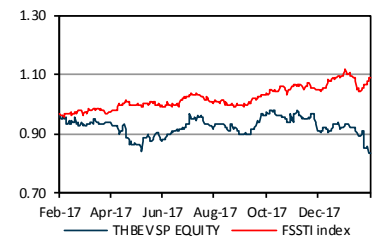
MAJOR SHAREHOLDERS (%)

SIRIWANA COMPANY LIMITED	45.27%
MAXTOP MANAGEMENT CORP	17.23%
THE CAPITAL GROUP COMPANIES INC	5.04%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(7.2)	(9.7)	(10.3)
STIRETURN	(0.80)	3.06	17.28

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	9M 16	FY 17	FY18e	FY19e
Revenue (THB bn)	139.2	190.0	241.6	258.3
EBITDA (THB bn)	23.5	32.7	38.4	42.5
NPAT, adj. (THB bn)	18.9	26.0	30.4	30.4
EPS, adj. (THB)	0.75	1.37	1.12	1.21
EPS, adj. (SCents)	2.87	4.13	4.86	4.83
PER, adj. (x)	33.6	22.9	17.2	17.3
P/BV, (x)	5.1	4.5	3.5	3.2
DPS (THB)	2.87	4.13	4.86	4.83
DPS (SCents)	2.36	2.74	2.31	2.50
Div Yield (%)	2.5%	2.9%	2.8%	3.0%
ROE (%)	16.0%	20.9%	22.4%	20.2%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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- **Absence of contribution from Saigon Beer–Alcohol–Beverage Joint Stock Corporation (Sabeco) to 1Q18 results weighed on earnings.** Results from Sabeco was not included in the Group's 1Q18 results due to the timing of its acquisition (29 Dec-17).
 - (a) **THB2.3bn non-recurring acquisitions cost.** Except Sabeco's, all acquisition costs are matched with respective earnings contribution. 93.9% of the acquisition costs (or THB2.2bn) is from Sabeco acquisition.
 - (b) **Higher finance costs related to Sabeco acquisition**

Outlook

Near term pressures with long-term positive. Management is cautiously optimistic on a better on-trade consumption for alcoholic beverages in 2Q18, owing to sales agents' lower inventory level seen in Jan-18. Nonetheless, the Group shared that Thailand's demand for Beer and Brown Spirits *contracted* by 7% and 9% YoY respectively in Jan-18, based on a third party survey. In 1Q18 (Oct-Dec17), Beer sales *contracted* by 9-10% YoY.

We maintained our view that on-trade consumption should turnaround in FY18 after the effect of mourning period and excise tax hike in Thailand subside. A broader economic recovery in Thailand would help to support consumer sentiment and purchasing power; while the FIFA World Cup is likely to boost beer sales. In addition, Sabeco's results of operations and cash flows will be consolidated at Group's level starting from 2Q18 onwards.

On the other hand, we expect SG&A expenses to remain elevated, as advertising and promotional activities normalised to pre-mourning period level (before Oct-16). Nonetheless, overall cost trends are stable. Earlier, management guided that it plans to review its pricing strategy in FY18 to expand margins.

On a longer period, the four newly acquired businesses should fuel growth in its three core pillars – Spirits, Beer and Food.

To recap:

- (a) Strong brand equity and market positioning of the acquired businesses could potentially lift the Group's margins. Grand Royal and Sabeco have significant, if not dominant, share in respective market.
- (b) Faster access to tapping into high growth Southeast Asian market. This is also consistent with the Group's Vision 2020, i.e. becoming the largest beverage company in Southeast Asia.
- (c) Unlocking value from potential synergies with partnership with Yum Thailand, Grand Royal Group, and Sabeco. The Group could leverage on the pervasive network of these three groups to distribute its core products.

Maintained BUY with lower SOTP-derived TP of S\$1.05 (previously S\$1.18)

After taking into considerations of (a) the potential earnings from its new revenue streams from its newly acquired businesses, (b) the finance costs from the loans to fund its acquisition spree and (c) the non-recurring acquisition costs, we saw a net increase in FY18e Revenue/Core EBITDA/Adjusted PATMI by 17.9%/4.1%/2.6% higher respectively. We have also adjusted our EV/EBITDAs of respective business segments to be in line with their global/local peers (See Figure 2).

Potential re-rating catalysts:

- Higher economic interest of Sabeco
- Margin expansion in conjunction with the excise tax hike
- A faster turnaround in non-alcoholic beverages (the Group targets to breakeven by 2020)

Thai economy grew 3.9% YoY in 2017, accelerating from 3.3% growth in 2016. Meanwhile, tourism-related sector saw a recovery in 4Q17, with 19.5% YoY more foreign tourists visiting Thailand.

Thai government expects the momentum to continue into 2018, with GDP growth forecast between 3.6-4.6%. Thailand's general election is scheduled to take place in Nov-18, which could lead to higher government spending and FDI.

4 acquisitions to fuel growth in its 3 core pillars

Contributions from newly acquired businesses to 1Q18 results:

- **Grand Royal:** 7.4% of 1Q18 Spirits Revenue
Separately,
 - (a) Grand Royal Group's 31 Dec-17 quarterly result reported growth in Volume, Sales and Net profit.
 - (b) 1Q18 is seasonally strong quarter in Myanmar. Based on the results contributed to ThaiBev (see Figure 1), net margin is at high 25%. Management expects full year net margin of c.20% from Grand Royal Group.
- **Sabeco:** Nil; Full consolidation on Sabeco's financial statements starting 2Q18 onwards
 - (a) Currently, only assets and liabilities were included in the consolidated statements of financial position.
 - (b) Reviewing economic interest, which could be higher than the Group's effective interest of 26.26%.
 - (c) Sabeco's FY17 results reported annual sales revenue +12%, volume +8% and earnings +8% YoY.
- **Spice of Asia and KFC:** 27.5% of 1Q18 Food Revenue
 - (a) 1Q18 is seasonally stronger for the newly acquired Food businesses.

75% shareholding interest in Grand Royal Group to operate spirits business in Myanmar

53.59% shareholding interest in Sabeco, a listed company in Ho Chi Minh Stock Exchange (HOSE), to operate mainly in beer business

76% shareholding interest in Spice of Asia Co., Ltd. to operate 10 stores of restaurants serving hotpot and Thai food

252 existing KFC stores in Thailand. ThaiBev is the largest franchisees of KFC in Thailand. It targets to open at least 20 new outlets by end-CY2018.

We took Spirits and Food's 1Q18 results and Sabeco's FY17 results as base case assumptions

- **Grand Royal:** c.8% of FY18/19e Spirits Revenue
- **Sabeco** (Assuming a minimum of 26.26% effective interest): c.37% of FY18e Beer Revenue (only 3 quarters in FY18e), and c.43% of FY19e Beer Revenue
- **Spice of Asia and KFC:** c.27% of FY18/19e Food Revenue

Also, we have factored in the higher distributions to non-controlling interest.

Financing and debt management

- **Debt level jumped on acquisition of Sabeco**
 - (a) Due to the extremely tight timeline of the competitive offering, the Company (ThaiBev and BeerCo) obtained bridging loans from various local and foreign banks to fund the acquisition of Sabeco in the 1Q18
 - Total amount of c.THb163,960mn (61% in THB and 39% in USD)
 - The loans will be repayable within a 24-month period
 - Average interest costs less than 3%; Floating interest rate
 - (b) The Company then extended loans to Vietnam Beverage (its 49%-owned indirect associate) to secure the initial financing to fund the acquisition of Sabeco
 - Interest chargeable on the loans by BeerCo to Vietnam Beverage is higher than cost-of-funds of BeerCo
 - The loans will be repayable within a 12-month period and will be secured by, among other things, Sabeco's shares acquired by Vietnam Beverage
- Loans from financial institutions for acquisitions increased c.THb192,263mn to THb229,526mn in end-1Q18
- ThaiBev was downgraded by the 3 credit rating agencies, i.e. TRIS Rating Co., Ltd., Moody's Investors Service and Fitch Ratings. Its corporate rating remains investment grade.
- The Company plans to take out short term debts and convert into THB-denominated fixed rate long-term loan in appropriate time – 50% within 2018 and the rest by next year. Meanwhile, it will use its free cash flow from its existing operations and dividends received from its acquisitions, if any, to pare down debt.

ThaiBev is entitled to the dividend payout from the Sabeco shares collateral

Thailand's benchmark policy rate is at 1.5% (unchanged since Apr-15)

Our FY18e free cash flow stood at THb20.36bn.

Figure 1: The acquired businesses registered higher net margins compared to the Group's existing businesses

Summary of Acquisitions in 1Q FY2018										
		Date of Completion	Group's Effective Interest (%)	Cash Consideration (THB mn)	Revenue Contribution to ThaiBev (THB mn)	Net profit Contribution to ThaiBev (THB mn)	Acquisition-related costs (THB mn)	Net profit ex. acquisition costs (THB mn)	Implied PER* (x)	Implied Net Margin (%)
Food	A. Spice of Asia Co., Ltd.	3-Oct-17	76%	114.5	37.6	4.0	0.8	4.8	6.0	12.8%
	B. KFC stores	1-Dec-17	100%	10,704.0	601.8	(28.5)	54.3	25.8	103.7	4.3%
Spirits	C. Grand Royal Group	12-Oct-17	75%	23,255.0	1,822.3	455.4	89.2	544.6	10.7	29.9%
Beer	D. Sabeco	29-Dec-17	26.26%	152,180.0	To be consolidated from 2Q18		2,206.2		41.9	14.2%
TOTAL				186,253.50			2,350.46			
Current Cash and cash equivalents (as at 31 Dec-17)				9,929.21						
1Q18 Net Operating Cash Flow				29,573.01						
Gross Debt (as at 31 Dec-17)				49,503.25						
Net Debt to Equity (x)				1.45						
Net Debt to T12M EBITDA (x)				5.30	*Included acquisition-related costs; whilst in absence of Sabeco's operating results					

* Implied PER is calculated based on annualised quarter earnings ended 31 Dec-17; except for Sabeco
 Sabeco's FY17 Revenue: THB47,830.74mn; FY17 Net Income: THB6,770.798mn (Assume VND/THB: 0.0014)
 Source: Company, Bloomberg, PSR

Figure 2:

Sum-of-parts Valuation				
Equity affiliate	Mkt Cap (THB mn)	EV (THB mn)	Stake (%)	EV to THBEV (THB mn)
Fraser and Neave, Limited	82,090	96,575	28.53	27,553
Frasers Property Limited	140,732	550,610	28.44	156,593
				184,146
Core Businesses	FY18e EBITDA (THB mn)	Pegged Fwd EV/EBITDA (x)	Peer's Fwd EV/EBITDA (x)	EV to THBEV (THB mn)
Spirits	28,335	19	19.2	538,364
Beer	7,849	14	14.3	109,893
Non-alcoholic beverages	958	16	16.8	15,334
Food	1,289	15	15.5	19,337
	38,432			682,928
Total EV (THB mn)	867,075			
Less: Debt	228,642			
Less: Minority Interest	21,173			
Plus: Cash	22,346			
Total Market Value (THB mn)	639,605			
*Exchange rate (THB/SGD)	24.17			
FY18e Market Value (\$\$ mn)*	26,462.76			
Total Sum-of-parts				
No. of shares (mn)	25,110.03			
NAV/Share (TP S\$)	1.05			
Current share price (S\$)	0.835			
% upside/downside	26.2%			
FY18e EPS (THB)	1.12			
FY18e EPS (SCents)*	4.63			
<u>Implied FY18e P/E (x)</u>	<u>22.8</u>			

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
Revenue	172,049	139,153	189,997	241,642	258,268
Gross profit	50,219	41,562	58,099	72,140	76,674
EBITDA	29,070	23,516	32,675	38,432	42,492
Depreciation & Amortisation	(4,400)	(3,293)	(4,308)	(5,749)	(6,041)
Associates & JVs	3,926	3,375	4,073	2,416	2,583
Other items	3,720	(143)	8,311	6,457	6,063
EBIT	24,670	20,223	28,367	32,683	36,451
Net Finance Inc/(Exp)	(1,344)	(776)	(939)	(1,730)	(2,011)
Profit Before Tax	30,972	22,679	39,812	39,826	43,086
Taxation	(4,508)	(3,643)	(5,132)	(6,770)	(7,325)
Profit After Tax	26,464	19,036	34,681	33,055	35,761
- Non-controlling interest	0	117	171	4,958	5,364
Net profit, reported	26,463	18,920	34,510	28,097	30,397
Net profit, adj.	26,463	18,920	26,013	30,447	30,397

Per share data (THB)

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	1.05	0.75	1.37	1.12	1.21
EPS, adj.	0.85	0.73	1.01	1.17	1.17
DPS	0.61	0.60	0.67	0.56	0.61
BVPS	4.62	4.78	5.13	5.69	6.29

Per share data (SGD Cents)*

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	4.15	2.97	5.62	4.63	5.00
EPS, adj.	3.36	2.87	4.13	4.86	4.83
DPS	2.40	2.36	2.74	2.31	2.50
BVPS	18.16	18.84	20.96	23.53	25.98

*Exchange rate (THB/SGD) 25.42 25.38 24.47 24.17 24.22

Cash Flow

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
CFO					
EBIT	24,670	20,223	28,367	32,683	36,451
Depreciation & Amortisation	(4,400)	(3,293)	(4,308)	(5,749)	(6,041)
WC changes	(1,236)	(743)	99	(11,644)	(3,097)
Tax paid	(5,003)	(4,314)	(3,635)	(6,770)	(7,325)
Others	(348)	29	434	6,457	6,063
Cashflow from ops	22,484	18,488	29,573	26,474	38,133
CFI					
CAPEX, net	(3,999)	(2,877)	(5,399)	(6,114)	(6,534)
Others	3,881	2,431	2,346	(144,581)	223
Cashflow from investments	(118)	(446)	(3,053)	(150,695)	(6,311)
CFE					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	(5,106)	1,067	(6,407)	150,686	(7,474)
Dividends	(15,378)	(16,670)	(15,162)	(14,049)	(15,198)
Others	0	0	0	0	0
Cashflow from financing	(20,484)	(15,603)	(21,568)	136,637	(22,672)
Net change in cash	1,882	2,439	4,952	12,416	9,150
Effects of exchange rates	(622)	(870)	(82)	0	0
CCE, end	3,490	5,059	9,929	22,346	31,496

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	FY15	9M16	FY17	FY18e	FY19e
ASSETS					
PPE	46,921	47,871	48,532	58,054	58,547
Intangibles	7,228	7,237	7,157	184,346	184,346
Investments in Assoc/JV	75,737	78,463	78,373	80,789	83,372
Others	4,003	3,978	4,258	7,852	7,852
Total non-current assets	133,889	137,549	138,319	331,042	334,117
Accounts receivables	4,501	3,309	3,248	5,358	5,632
Cash	3,490	5,059	9,929	22,346	31,496
Inventories	35,204	38,145	37,761	48,761	52,239
Others	4,933	3,590	4,983	15,585	15,585
Total current assets	48,128	50,104	55,921	92,049	104,951
Total Assets	182,017	187,653	194,240	423,091	439,069
LIABILITIES					
Accounts payables	9,854	9,831	11,265	16,751	17,406
Short term loans	18,678	19,330	31,058	59,913	54,673
Others	4,558	3,658	5,347	9,211	9,211
Total current liabilities	33,090	32,819	47,671	85,874	81,290
Long term loans	25,883	27,089	10,000	169,000	169,000
Others	3,778	4,033	4,056	4,215	4,215
Total non-current liabilities	29,661	31,122	14,057	173,215	173,215
Total Liabilities	62,751	63,941	61,727	259,089	254,504
EQUITY					
Non-controlling interests	3,380	3,642	3,733	21,173	26,537
Shareholder Equity	115,885	120,070	128,780	142,829	158,027

Valuation Ratios

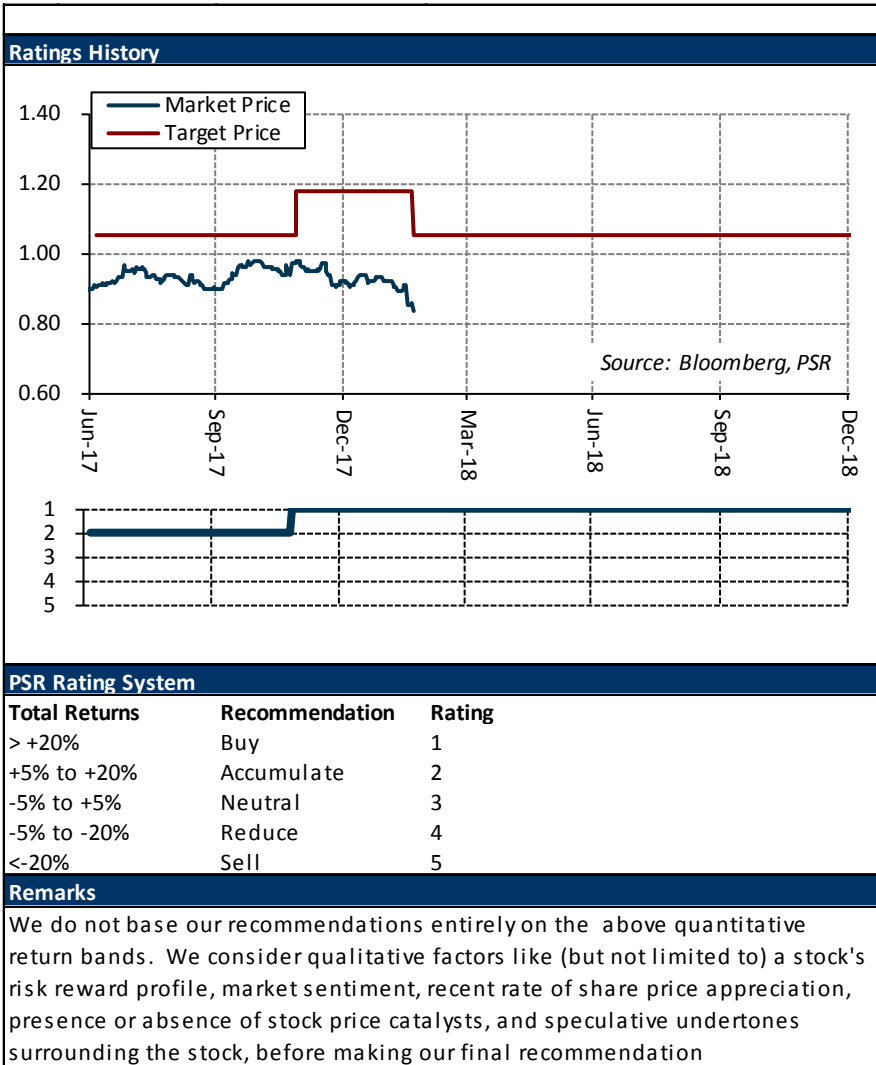
Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
P/E (X), adj.	20.3	33.6	22.9	17.2	17.3
P/B (X)	3.8	5.1	4.5	3.5	3.2
EV/EBITDA (X), adj.	16.5	28.1	18.8	19.1	17.1
Dividend Yield (%)	2.5%	2.5%	2.9%	2.8%	3.0%

Growth & Margins (%)

Growth					
Revenue	6.2%	-19.1%	36.5%	27.2%	6.9%
EBITDA	2.8%	-19.1%	38.9%	17.6%	10.6%
EBIT	1.6%	-18.0%	40.3%	15.2%	11.5%
Net profit, adj.	22.0%	-28.5%	37.5%	17.0%	-0.2%
Margins					
Gross margin	29.2%	29.9%	30.6%	29.9%	29.7%
EBITDA margin	16.9%	16.9%	17.2%	15.9%	16.5%
EBIT margin	14.3%	14.5%	14.9%	13.5%	14.1%
Net profit margin	15.4%	13.6%	13.7%	12.6%	11.8%

Key Ratios

ROE (%)	24.4%	16.0%	20.9%	22.4%	20.2%
ROA (%)	15.0%	10.2%	13.6%	9.9%	7.1%
Net Debt/(Cash)	41,071	41,361	31,129	206,568	192,178
Net Gearing (X)	34.4%	33.4%	23.5%	126.0%	104.1%



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