

Thai Beverage

Accretive acquisitions but domestic beer demand drags



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SINGAPORE | CONSUMER | 2Q18 RESULTS

17 May 2018

- 1H18 Revenue/Core EBITDA met 55%/50% of our full year expectations; Earnings missed on higher than expected finance costs and effective tax rate
- Strong results from recent acquisitions unable to offset the persistent weakness in Thai Beer market
- Introduction of a new excise tax of 2% for Elderly Fund since 26 Jan-18
- Proposed lower interim dividend of 0.15 baht per share (1H17: 0.20 baht)
- Maintained BUY with unchanged SOTP-derived TP of S\$1.05

Results at a glance

THB' trn	2Q18	2Q17	YoY (%)	Comments
Spirits	33.0	28.9	14.3%	Sales volume +17.7% YoY (+0.7% ex-Grand Royal)
Beer	27.1	15.5	74.4%	Sales volume +153.3%YoY (-10.3% ex-Sabeco)
Non-alcoholic beverages	4.1	4.3	-4.8%	Change in product sales mix despite total sales volume +1.7% YoY
Food	3.4	1.6	107.7%	Contributions from newly-acquired Spice of Asia, KFC outlets and Havi Logistics (+2.4% ex-acquisitions)
Revenue	67.6	50.3	34.3%	<i>As above</i>
Gross	19.8	15.6	27.6%	<i>Gross Profit Margin -1.5pp to 29.3%</i>
Core EBITDA, ex. FNN/FCL and non-recurring cost	11.3	8.8	29.0%	Higher SG&A expenses <i>Core EBITDA Margin -0.7pp to 16.8%</i>
NPAT	7.4	6.6	13.0%	Higher F&N/FCL contribution (+38.2%); THB1mn one-off acquisition cost; and Higher finance costs related to Sabeco acquisition NPAT, adj. +11.6% YoY
PATMI, adjusted	6.3	6.6	-3.2%	Ex. non-recurring one-off acquisition cost
DPS (Baht)	1.50	2.00	-25.0%	Higher 1H18 payout ratio at 40.7% vs 35.2% YoY

Source: Company, PSR

The Positives

- + **Recent acquisitions fuelled growth.** Acquired businesses contributed THB20.21bn and THB2.94bn to Group's 1H18 Revenue and Profit, respectively. Pro-forma* contribution to 1H18 Revenue and Profit would have been THB130.98bn and THB12.50bn, respectively. *Assuming acquisitions since 1 Oct-17
 - Spirits:** PATMI +2.8% YoY driven by contribution from Grand Royal, offsetting the lower net profit from its existing Spirits business.
 - Beer:** Sabeco is earnings accretive. It contributed THB1.61bn or 13.7% to the Group's 1H18 Net profit.
 - Food:** SOA, QSA and Havi Logistics contributed THB111.3mn or 34.1% to the Group's 1H18 Net profit.
- + **Improved liquidity, current ratio was up from 0.88x to 1.82x QoQ.** THB50bn from the bridging loans obtained to fund the acquisitions was converted into long-term debts in Mar-18. The management intends to further refinance its short-term debts to long term.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.80
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.05
TOTAL RETURN	34.8%

COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN):	25,111
MARKET CAP (USD mn / SGD mn):	14868 / 19963
52 - WK HI/LO (SGD):	0.99 / 0.78
3M Average Daily T/O (mn):	22.55

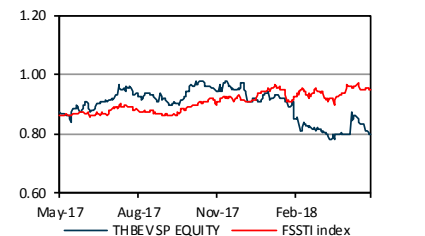
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	-	(5.9)	(6.2)
STIRETURN	2.19	4.10	12.13

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	28.5	28.8
EPS, adj. (THB)	0.75	1.37	1.04	1.15
EPS, adj. (SCents)	2.87	4.13	4.54	4.57
PER, adj. (x)	33.6	22.9	17.5	17.4
P/BV, (x)	5.1	4.5	3.4	3.1
DPS (THB)	2.87	4.13	4.54	4.57
DPS (SCents)	2.36	2.74	2.16	2.37
Div Yield (%)	2.5%	2.9%	2.7%	3.0%
ROE (%)	16.0%	20.9%	21.1%	19.3%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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The Negatives

- **Existing Alcoholic Beverages segment disappointed – hit by double whammy of protracted weak demand and implementation of a new excise tax.** Effective from 26 January 2018, all alcoholic beverages have been slapped with an additional 2% of excise tax by law to contribute to the Elderly Fund.
 - (a) **Spirits:** 1H18 Sales volume was *down* by 5.1% YoY, coupled with higher input costs and SG&A expenses, 1H18 Net profit margin *decreased* 2.7pp YoY to 16.6%.
 - (b) **Beer:** Persistent weakness in domestic beer demand, increased SG&A expenses and introduction of new excise tax weighed on earnings. 6.0pp was *shaved off* 1H18 Net margin YoY to a mere 1.1%.
1H18 Sales volume for its existing beer business was *down* 8.3% YoY, in tandem with the 6.7% *lower* industry volume turnover. However, we take comfort of its stable beer market share in Thailand at c.38%.

Outlook

Near term pressures but banking on 2018 FIFA world cup boost.

On-trade consumption for alcoholic beverages has yet to turnaround despite starting from a low base. While stronger Thai economy is not yet broad-based, the high household debt has eroded consumers' purchasing power. Soft demand for alcoholic beverages in Thailand could extend for longer period. Nonetheless, we believe that the FIFA World Cup is likely to boost beer sales, not only in Thailand but also in Vietnam.

On the other hand, we do not expect gross margin to deteriorate further compared to 2Q18's. The Group has already adjusted its Spirits prices for the additional excise tax by end Apr-18, but may refrain from increasing its Beer prices in near term, in view of fierce competition. Management also noted that pressure from domestic molasses prices seen in the past 12-months should subside in 2H18.

However, SG&A expenses should remain elevated, as advertising and promotional activities normalised to pre-mourning period level (before Oct-16).

Maintained BUY and SOTP-derived TP of S\$1.05

With better clarity in 2Q18 upon conversion of short-term to long-term loans, we have adjusted for higher finance expenses, thus FY18e Adjusted PATMI to -3.9% vs previous forecast.

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).
- Unlocking value from potential synergies with partnership with Yum Thailand, Grand Royal Group, Sabeco, and Havi Logistics.

Other Update

Acquisition of 75% interest in Havi Logistics to strengthen its distribution business in Thailand

- Havi Logistics (Thailand) Limited operates logistics businesses for food services in Thailand with expertise in cold chain logistics and multi-temperature food distribution technology.
- This would expand the Group's logistics business portfolio, improve operating efficiency via synergy with ThaiBev logistics, and enhance its platform for food business expansion in the future.
- The acquisition was completed on 28 Feb-18. Since then, Havi Logistics has contributed THB16.1mn and THB0.8mn into the Group's Revenue and Net profit, respectively.
- The THB240mn cash consideration implied an acquisition P/E of 11.1x.

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	6,054
EBIT	24,670	20,223	28,367	32,683	36,451
Net Finance Inc/(Exp)	(1,344)	(776)	(939)	(4,474)	(4,253)
Profit Before Tax	30,972	22,679	39,812	37,082	40,834
Taxation	(4,508)	(3,643)	(5,132)	(6,304)	(6,942)
Profit After Tax	26,464	19,036	34,681	30,778	33,893
- Non-controlling interest	0	117	171	4,617	5,084
Net profit, reported	26,463	18,920	34,510	26,161	28,809
Net profit, adj.	26,463	18,920	26,013	28,512	28,809

Per share data (THB)

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	1.05	0.75	1.37	1.04	1.15
EPS, adj.	0.85	0.73	1.01	1.10	1.11
DPS	0.61	0.60	0.67	0.52	0.57
BVPS	4.62	4.78	5.13	5.65	6.22

Per share data (SGD Cents)*

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	4.15	2.97	5.62	4.31	4.74
EPS, adj.	3.36	2.87	4.13	4.54	4.57
DPS	2.40	2.36	2.74	2.16	2.37
BVPS	18.16	18.84	20.96	23.37	25.69

*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	(11,193)	(3,180)
Tax paid	(5,003)	(4,314)	(3,635)	(6,304)	(6,942)
Others	(348)	29	434	6,457	6,054
Cashflow from ops	22,484	18,488	29,573	27,391	38,425
CFI					
CAPEX, net	(3,999)	(2,877)	(5,399)	(6,114)	(6,534)
Others	3,881	2,431	2,346	(144,581)	215
Cashflow from investments	(118)	(446)	(3,053)	(150,695)	(6,319)
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	(5,106)	1,067	(6,407)	147,942	(9,708)
Dividends	(15,378)	(16,670)	(15,162)	(13,081)	(14,404)
Others	0	0	0	0	0
Cashflow from financing	(20,484)	(15,603)	(21,568)	134,861	(24,112)
Net change in cash	1,882	2,439	4,952	11,558	7,993
Effects of exchange rates	(622)	(870)	(82)	0	0
CCE, end	3,490	5,059	9,929	21,487	29,481

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	21,487	29,481
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	91,191	102,936
Total Assets	182,017	187,653	194,240	422,232	437,053
LIABILITIES					
Accounts payables	9,854	9,831	11,265	17,202	17,774
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	86,326	81,658
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	259,540	254,873
EQUITY					
Non-controlling interests	3,380	3,642	3,733	20,831	25,915
Shareholder Equity	115,885	120,070	128,780	141,861	156,265

Valuation Ratios

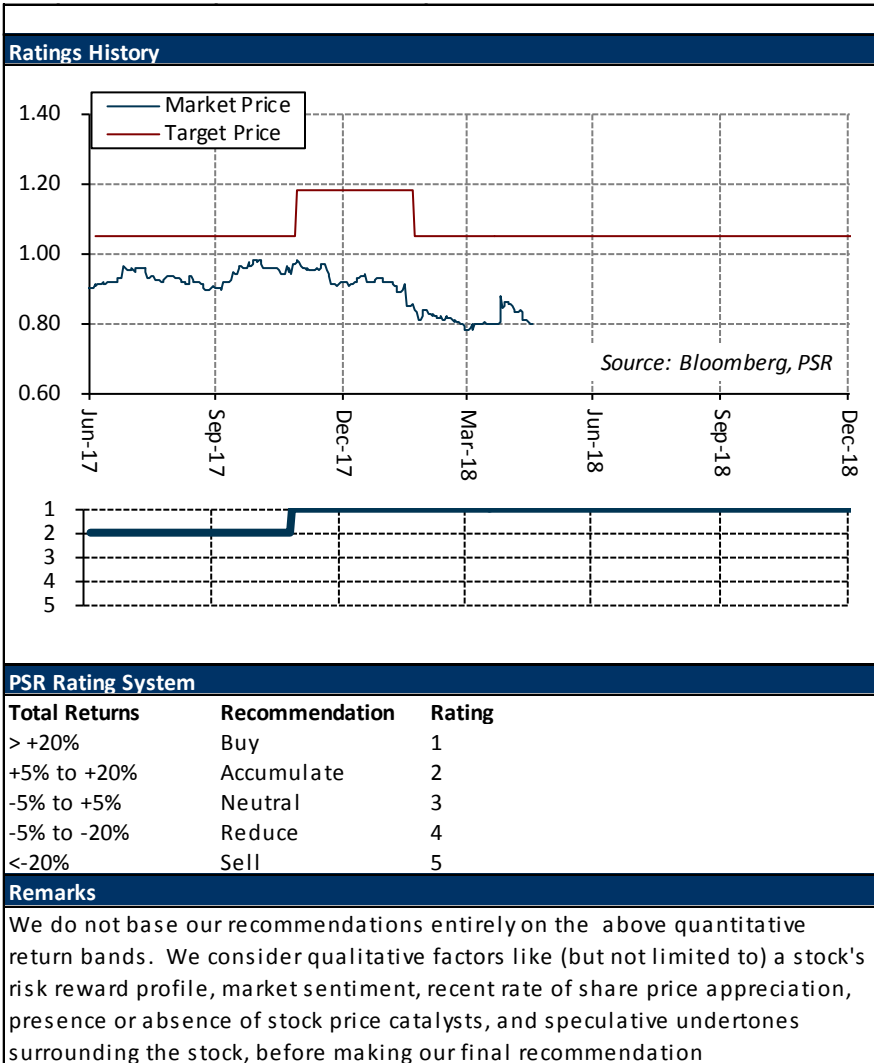
Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
P/E (X), adj.	20.3	33.6	22.9	17.5	17.4
P/B (X)	3.8	5.1	4.5	3.4	3.1
EV/EBITDA (X), adj.	16.5	28.1	18.8	18.5	16.6
Dividend Yield (%)	2.5%	2.5%	2.9%	2.7%	3.0%

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%	9.6%	1.0%
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%	11.8%	11.2%

Key Ratios

ROE (%)	24.4%	16.0%	20.9%	21.1%	19.3%
ROA (%)	15.0%	10.2%	13.6%	9.2%	6.7%
Net Debt/(Cash)	41,071	41,361	31,129	207,426	194,193
Net Gearing (X)	34.4%	33.4%	23.5%	127.5%	106.6%



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