

# Thai Beverage

No money, no spirit



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## SINGAPORE | CONSUMER | 3Q18 RESULTS

- 3Q18 revenue and net profit were below expectations
- Spirits demand hurt by weak rural incomes in Thailand due to soft agriculture prices
- Minimal earnings contribution from Sabeco due to high interest expense
- Downgrade to REDUCE with lower SOTP-derived TP of S\$0.62 (previously S\$1.05). We cut our FY18e earnings by 19%. Our DPS for FY18e also reduced to THB0.41 (previously THB0.52).

### Results at a glance

THB' trn	3Q18	3Q17	YoY (%)	Comments
Spirits	24.6	25.5	-3.3%	Sales volume -11.2% YoY (-2.4% ex-Grand Royal)
Beer	28.3	13.8	105.2%	Sales volume +223%YoY (-8.9% ex-Sabeco)
Non-alcoholic beverages	4.2	4.3	-2.7%	Sales volume was flat.
Food	3.6	1.7	109.7%	Contributions from newly-acquired Spice of Asia and KFC.
<b>Revenue</b>	<b>60.7</b>	<b>45.3</b>	<b>34.1%</b>	
Gross	16.7	14.1	18.5%	Gross Profit Margin -3.6pp to 27.5%
Core EBITDA, ex. FNN/FCL and non-recurring cost	8.8	7.5	16.8%	Higher SG&A expenses Core EBITDA Margin -2.1pp to 14.5%
NPAT	6.6	15.3	-56.5%	
<b>PATMI, adjusted</b>	<b>6.0</b>	<b>6.7</b>	<b>-11.0%</b>	Ex. non-recurring FV gain.

Source: Company, PSR

### The Positives

**+ Sabeco performing better than guided.** Initial guidance was for flat top line growth for Sabeco due to uncertainty over the clearance of inventory. This has been largely resolved. Sabeco revenue rose 12% YoY in 3QFY18 in local currency terms. Thai Beverage will look to extract cost synergies from procurement and implement best practices across the organization. There will be a brand portfolio review plus due diligence of production facilities.

### The Negatives

**- Spirit business hurt by the poor macro.** Spirit business (72% of group net profit) saw sales volume down 11% YoY and net profit fell 17% YoY. Brown spirits experienced the largest weakness, whilst cheaper white spirits demand was stable. Gross profits were relatively unchanged at 33%, but operating expenses surged by 26%. The only explanation for the jump in operating expenses was there was underspend during the mourning period last year. Thai Beverage has a 90% market share in brown spirits.

**- Beer sales in Thailand is similarly weak.** Beer sales volume (excluding Sabeco) is down 8.9%. The recent World Cup had little impact on volumes. The late screening meant most consumption was done in homes. EBITDA margins expanded almost 4% points due to the high margins enjoyed by Sabeco. Net margins was Sabeco was 12-13% compared to Thai Beverage 5.5%. However, net profit contribution to the group from beer fell 23% due to the extra Bt1bn per quarter extra interest expense for the acquisition of Sabeco. We estimate Sabeco net profit contribution to the group income this quarter to be minimal, if any\*.

\*Sabeco net profit contribution to Thai Beverage = THB943b (effective PAT) less interest THB1, 006bn.

17 August 2018

## REDUCE (Downgraded)

LAST CLOSE PRICE	SGD 0.665
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.62
<b>TOTAL RETURN</b>	<b>-4.2%</b>

### COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN) :	25,111
MARKET CAP (USD mn / SGD mn) :	11779 / 1697
52 - WK HI/LO (SGD) :	0.99 / 0.64
3M Average Daily T/O (mn) :	2181

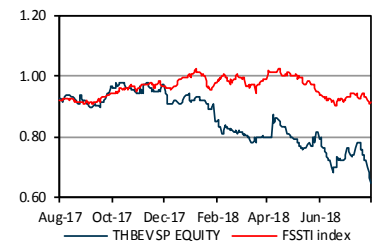
### MAJOR SHAREHOLDERS (%)

SIRIWANA COMPANY LIMITED	45.27%
MAXTOP MANAGEMENT CORP	17.23%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(8.3)	(15.7)	(26.7)
STI RETURN	0.78	(7.48)	1.67

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Sep	9M 16	FY 17	FY18e	FY19e
Revenue (THB bn)	139.2	190.0	240.7	257.3
EBITDA (THB bn)	23.5	32.7	36.4	39.2
NPAT, adj. (THB bn)	18.9	26.0	23.0	25.2
EPS, adj. (THB)	0.75	1.37	0.82	1.00
EPS, adj. (SCents)	2.87	4.13	3.63	3.97
PER, adj. (x)	33.6	22.9	18.3	16.7
P/BV, (x)	5.1	4.5	2.9	2.7
DPS (THB)	2.87	4.13	3.63	3.97
DPS (SCents)	2.36	2.74	1.70	2.07
Div Yield (%)	2.5%	2.9%	2.6%	3.1%
ROE (%)	16.0%	20.9%	17.2%	17.3%

Source: Company Data, PSR est.

### Valuation Method

Sum-of-parts

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## Outlook

Hurting the consumption of spirits has been the weak agriculture prices and fishery industry in Thailand. Any recovery for this rural or farming community will come from improvement in commodity prices such as rubber or tapioca. We have yet to see a meaningful improvement. The lack of disposable income is not only confined to the rural sector but also the urban areas. High household leverage plus short work times in manufacturing sector (i.e. less overtime) has translated to lower disposable income. As a result, we see trading down by consumers into lower price point, which are the white spirits. Thai Beverage has not lost market share but is suffering from the sliding macro environment.

A near-term stimulus to demand will be national elections, possibly February or April next year, as this might boost some economic activity. Seasonally, sales also improves in the October to December months.

### **Downgrade to REDUCE and SOTP-derived TP of S\$0.62 (previously S\$1.05)**

Downgrade to REDUCE with lower SOTP-derived TP of S\$0.62. We cut our FY18e earnings by 19%. We peg our SOTP valuations to the lower EV/EBITDA band of global peers. Our DPS for FY18e also reduced to THB0.41 (previously THB0.52).

## Financials

### Income Statement

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
<b>Revenue</b>	<b>172,049</b>	<b>139,153</b>	<b>189,997</b>	<b>240,654</b>	<b>257,308</b>
Gross profit	50,219	41,562	58,099	69,425	73,751
<b>EBITDA</b>	<b>29,070</b>	<b>23,516</b>	<b>32,675</b>	<b>36,446</b>	<b>39,182</b>
Depreciation & Amortisation	(4,400)	(3,293)	(4,308)	(6,403)	(6,223)
<b>EBIT</b>	<b>24,670</b>	<b>20,223</b>	<b>28,367</b>	<b>30,043</b>	<b>32,959</b>
Associates & JVs	3,926	3,375	4,073	4,813	5,146
Other items	3,720	(143)	8,311	(2,677)	652
Net Finance Inc/(Exp)	(1,344)	(776)	(939)	(4,275)	(4,306)
<b>Profit Before Tax</b>	<b>30,972</b>	<b>22,679</b>	<b>39,812</b>	<b>27,904</b>	<b>34,451</b>
Taxation	(4,508)	(3,643)	(5,132)	(4,465)	(5,512)
<b>Profit After Tax</b>	<b>26,464</b>	<b>19,036</b>	<b>34,681</b>	<b>23,439</b>	<b>28,939</b>
- Non-controlling interest	0	117	171	2,813	3,762
<b>Net profit, reported</b>	<b>26,463</b>	<b>18,920</b>	<b>34,510</b>	<b>20,626</b>	<b>25,177</b>
<b>Net profit, adj.</b>	<b>26,463</b>	<b>18,920</b>	<b>26,013</b>	<b>22,978</b>	<b>25,177</b>

### Per share data (THB)

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	1.05	0.75	1.37	0.82	1.00
EPS, adj.	0.85	0.73	1.01	0.88	0.96
DPS	0.61	0.60	0.67	0.41	0.50
BVPS	4.62	4.78	5.13	5.54	6.04

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

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	4.15	2.97	5.62	3.40	4.14
EPS, adj.	3.36	2.87	4.13	3.63	3.97
DPS	2.40	2.36	2.74	1.70	2.07
BVPS	18.16	18.84	20.96	22.92	24.94

\*Exchange rate (THB/SGD)

25.42 25.38 24.47 24.2 24.2

### Cash Flow

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
<b>CFO</b>					
<b>EBIT</b>	<b>24,670</b>	<b>20,223</b>	<b>28,367</b>	<b>30,043</b>	<b>32,959</b>
Depreciation & Amortisation	(4,400)	(3,293)	(4,308)	(6,403)	(6,223)
WC changes	(1,236)	(743)	99	(10,185)	(3,755)
Tax paid	(5,003)	(4,314)	(3,635)	(4,465)	(5,512)
Others	(348)	29	434	(2,677)	652
<b>Cashflow from ops</b>	<b>22,484</b>	<b>18,488</b>	<b>29,573</b>	<b>19,119</b>	<b>30,567</b>
<b>CFI</b>					
CAPEX, net	(3,999)	(2,877)	(5,399)	(6,089)	(6,510)
Others	3,881	2,431	2,346	(144,383)	162
<b>Cashflow from investments</b>	<b>(118)</b>	<b>(446)</b>	<b>(3,053)</b>	<b>(150,471)</b>	<b>(6,348)</b>
<b>CFF</b>					
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)	(10,313)	(12,589)
Others	0	0	0	0	0
<b>Cashflow from financing</b>	<b>(20,484)</b>	<b>(15,603)</b>	<b>(21,568)</b>	<b>137,629</b>	<b>(22,296)</b>
<b>Net change in cash</b>	<b>1,882</b>	<b>2,439</b>	<b>4,952</b>	<b>6,276</b>	<b>1,923</b>
Effects of exchange rates	(622)	(870)	(82)	0	0
<b>CCE, end</b>	<b>3,490</b>	<b>5,059</b>	<b>9,929</b>	<b>16,205</b>	<b>18,128</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	FY15	9M16	FY17	FY18e	FY19e
<b>ASSETS</b>					
PPE	<b>46,921</b>	<b>47,871</b>	<b>48,532</b>	<b>57,376</b>	<b>57,662</b>
Intangibles	7,228	7,237	7,157	184,346	184,346
Investments in Assoc/JV	75,737	78,463	78,373	83,186	88,332
Others	4,003	3,978	4,258	7,852	7,852
<b>Total non-current assets</b>	<b>133,889</b>	<b>137,549</b>	<b>138,319</b>	<b>332,760</b>	<b>338,193</b>
Accounts receivables	4,501	3,309	3,248	5,342	5,616
Cash	3,490	5,059	9,929	16,205	18,128
Inventories	35,204	38,145	37,761	49,258	52,804
Others	4,933	3,590	4,983	15,585	15,585
<b>Total current assets</b>	<b>48,128</b>	<b>50,104</b>	<b>55,921</b>	<b>86,390</b>	<b>92,133</b>
<b>Total Assets</b>	<b>182,017</b>	<b>187,653</b>	<b>194,240</b>	<b>419,149</b>	<b>430,325</b>
<b>LIABILITIES</b>					
Accounts payables	9,854	9,831	11,265	18,690	18,755
Short term loans	18,678	19,330	31,058	59,913	54,673
Others	4,558	3,658	5,347	9,211	9,211
<b>Total current liabilities</b>	<b>33,090</b>	<b>32,819</b>	<b>47,671</b>	<b>87,814</b>	<b>82,639</b>
Long term loans	25,883	27,089	10,000	169,000	169,000
Others	3,778	4,033	4,056	4,215	4,215
<b>Total non-current liabilities</b>	<b>29,661</b>	<b>31,122</b>	<b>14,057</b>	<b>173,215</b>	<b>173,215</b>
<b>Total Liabilities</b>	<b>62,751</b>	<b>63,941</b>	<b>61,727</b>	<b>261,029</b>	<b>255,854</b>
<b>EQUITY</b>					
Non-controlling interests	3,380	3,642	3,733	19,027	22,789
<b>Shareholder Equity</b>	<b>115,885</b>	<b>120,070</b>	<b>128,780</b>	<b>139,093</b>	<b>151,682</b>

### Valuation Ratios

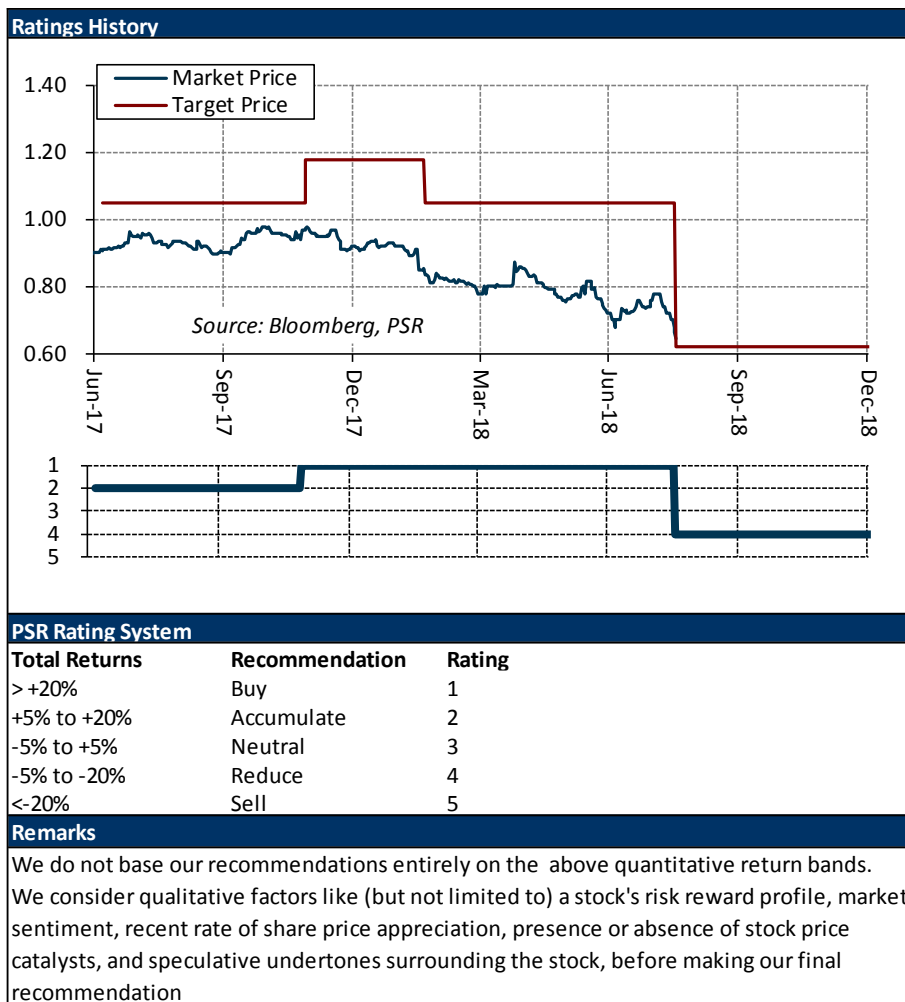
Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
P/E (X), adj.	20.3	33.6	22.9	18.3	16.7
P/B (X)	3.8	5.1	4.5	2.9	2.7
EV/EBITDA (X), adj.	16.5	28.1	18.8	17.4	16.1
Dividend Yield (%)	2.5%	2.5%	2.9%	2.6%	3.1%

### Growth & Margins (%)

	FY15	9M16	FY17	FY18e	FY19e
<b>Growth</b>					
Revenue	6.2%	-19.1%	36.5%	26.7%	6.9%
EBITDA	2.8%	-19.1%	38.9%	11.5%	7.5%
EBIT	1.6%	-18.0%	40.3%	5.9%	9.7%
Net profit, adj.	22.0%	-28.5%	37.5%	-11.7%	9.6%
<b>Margins</b>					
Gross margin	29.2%	29.9%	30.6%	28.8%	28.7%
EBITDA margin	16.9%	16.9%	17.2%	15.1%	15.2%
EBIT margin	14.3%	14.5%	14.9%	12.5%	12.8%
Net profit margin	15.4%	13.6%	13.7%	9.5%	9.8%

### Key Ratios

	FY15	9M16	FY17	FY18e	FY19e
ROE (%)	24.4%	16.0%	20.9%	17.2%	17.3%
ROA (%)	15.0%	10.2%	13.6%	7.5%	5.9%
Net Debt/(Cash)	41,071	41,361	31,129	212,708	205,545
Net Gearing (X)	34.4%	33.4%	23.5%	134.5%	117.8%



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