

Singapore Flash Note

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DBS Group Research . Equity

10 Jun 2019

Thai Beverage Public Company (THBEV SP) : BUY

Mkt. Cap: US\$15,215m | **3m Avg. Daily Val:** US\$10.5m

Last Traded Price (7 Jun 2019): S\$0.825

Price Target 12-mth: S\$0.91 (11% upside)

Analyst

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Dominant regional beverage player in the making

- Affirmed regionalisation strategy during non-deal roadshow to Europe
- Strong cashflow support from Thai domestic spirits; growth from Myanmar and Vietnam
- Still targeting to be #1 beer brand in Thailand; Non-Alcoholic Beverage to achieve EBIT breakeven by Sep 2020
- Maintain BUY and S\$0.91 TP

Forecasts and Valuation

FY Sep (Btmf)	2018A	2019F	2020F	2021F
Revenue	229,695	267,119	283,391	301,647
EBITDA	36,733	44,107	48,638	52,704
Pre-tax Profit	25,332	32,626	37,244	40,620
Net Profit	18,530	23,513	26,652	28,273
Net Pft (Pre Ex.)	20,988	23,513	26,652	28,273
Net Pft Gth (Pre-ex) (%)	(19.3)	12.0	13.4	6.1
EPS (S cts)	3.21	4.08	4.62	4.90
EPS Pre Ex. (S cts)	3.64	4.08	4.62	4.90
EPS Gth Pre Ex (%)	(19)	12	13	6
Diluted EPS (S cts)	3.21	4.08	4.62	4.90
Net DPS (S cts)	1.70	2.18	2.48	2.57
BV Per Share (S cts)	21.0	22.9	25.1	27.4
PE (X)	25.7	20.2	17.8	16.8
PE Pre Ex. (X)	22.7	20.2	17.8	16.8
P/Cash Flow (X)	21.3	19.0	15.9	15.0
EV/EBITDA (X)	19.2	15.9	14.2	13.0
Net Div Yield (%)	2.1	2.6	3.0	3.1
P/Book Value (X)	3.9	3.6	3.3	3.0
Net Debt/Equity (X)	1.5	1.3	1.1	0.9
ROAE (%)	14.8	18.6	19.3	18.7

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

ThaiBev reaffirms regionalisation view. We maintain our view that ThaiBev is evolving into a **leading regional beverage player in South-east Asia**. It continues to leverage on its dominant Thai domestic alcohol operations for strong cashflow support, as it pursues growth in the region, namely Vietnam and Myanmar. Its acquisition of Grand Royal seems to be reaping fruits, while for Sabeco, we believe there is potential for marked improvement in the medium term. While gearing is currently high, we believe deleveraging will occur given its cashflow generation ability.

We retain our forecasts and project earnings growth of 12%/13% for FY19F/20F, on the back of gradual recovery in the Thai domestic market, increased contribution from overseas operations (namely Myanmar, Vietnam), and lower losses from Non-Alcoholic Beverages. Our TP is unchanged at S\$0.91.

We took ThaiBev representatives on a week-long non-deal roadshow to meet European investors. The questions centered around (i) domestic consumption and consumer sentiment, and impact on spirits and beer operations; (ii) growth potential within and outside of Thailand; (iii) gearing and dividend outlook, and other matters.

During the meetings, broadly, the spirits segment (domestic and Myanmar operations) and beer segment (Thailand and Vietnam, via Sabeco) each dominated 40% of the time, while explanations on gearing, deleveraging and food/ non-alcoholic beverages (NAB) took up the balance of time spent.

We summarise the key discussion points in the following table, including our comments.



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Key questions raised/ discussion	ThaiBev rep's response/ DBS comments (if any)
Thailand Spirits volume growth potential, reason for 2Q19 decline in volume and outlook for rest of year and on longer term basis.	<p>ThaiBev: Consumption has been weak since the mourning period, and due to weak farm income. Since late 2018, consumption recovery has been slow, and continues to be the case. The decline in 2Q19's volume was due to trade loading in the previous year before the price increase was effective. Reference was made to volume growth in 1H19. In April, spirits' volume recovered by 1% y-o-y. In the near term, consumption would also depend on the political situation, formation of government as well as investment flow.</p> <p>Over the longer term, Thai domestic spirits volume is likely to grow in the low single digit given the relatively high per capita domestic consumption (c.10 litres/ capita) and ThaiBev's high market share of >90%.</p> <p><i>DBS: The long-term trend of low growth is not unexpected, and we have already penciled that in our forecasts. This is the main motivation for management's intention to achieve growth outside of Thailand. In our view, investors are looking at quarterly volume performance as a signal of a structural change in consumption.</i></p>
Myanmar: How is Grand Royal performing and what is the trend?	<p>ThaiBev: Grand Royal is performing well and target is to achieve 10% growth. Since the acquisition, there has been synergies in costs. Market share is estimated at ~70%, up from c.65%. It also imports bulk whisky from its Scottish distilleries and introduced a premium brand (MacArthur's) in Myanmar. Contribution of Grand Royal is still relatively small (at 10% of spirits volume) compared to the huge Thai market, though growth will be higher.</p>
Beer (Thai domestic): 2Q19 volume is up, and what are expectations for longer term growth?	<p>ThaiBev: Market share has increased from c.28% prior to the relaunch of Chang Beer brand in Aug 2015, to about 40% currently. The goal to be market leader (market share of C.45%) by Sep 2020 still remains, and management is cognizant that time is ticking. Re-branding in the first phase has helped though the focus now is to ensure that this translates into sales through localised activities, distributors management and on-the-ground activities. That said, company is not foregoing profitability to gain market share.</p> <p><i>DBS: After the successful rebranding since Aug 2015 and strong gain in market share, we believe the focus on sell-through and on-the-ground activities is the right track. However, the goal of achieving an additional 5 ppts in market share seems challenging in light of the nearing timeline. Achieving this goal, without sacrificing margins and profitability, should be a catalyst for the counter.</i></p>
Sabeco: What has happened since the acquisition, updates and what is the potential?	<p>ThaiBev: Sabeco Board and management in place since Aug 2018. Sabeco's management has divided its transformation into 7 pillars - sales, marketing, supply chain, production, human resources, cost, and the Board. It is focusing on transforming Saigon Special to be the key brand, and "Pride of Vietnam". Management and Sabeco's Board have targeted 8% and 7% growth in revenue and net profit for FY19 respectively. There are margin improvement opportunities, though these are internal targets and not disclosed publicly.</p> <p><i>DBS: Despite its dominant volume position in Vietnam, Sabeco's current margins pale in comparison with other regional brewers, which we estimate to be in the region of 30%. As such, we believe there are opportunities for improvement, along with volume increases, which should help drive growth for the group in the medium term.</i></p>
Gearing: What is the target for deleveraging and is management concerned on the current position? How should investors view the timeline for deleveraging?	<p>ThaiBev: ThaiBev's management has refinanced and converted acquisition loans into long term debentures, amounting to a total of Bt180bn. The most recent was in Mar 2019. The debentures have varying maturities but the average maturity works out to be 5.2 years, with average interest rate of 3.2%. Net debt/ EBITDA is currently high at >5x, and prior to acquisition, the target was 2.5x (but was silent on whether it is now the current target). Deleveraging will take time and should progress with its strong cashflow.</p>

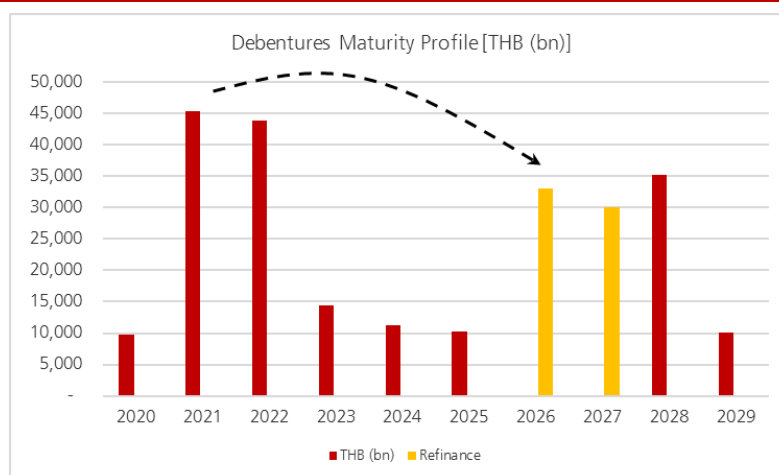
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What is the dividend policy, and any changes?

Dividend policy is to pay out not less than 50% of net profit, subject to cashflow needs. It paid 53% of net profit in FY18. Previously, the group had a higher payout ratio and is cognisant of its current gearing.

DBS: We estimate ThaiBev to generate about Bt10-12bn in net cash each year over the next few years, after capex and dividends. Interest cover remains relatively healthy at >5x. There are two major maturities of debentures amounting to ~Bt45bn each in 2021 and 2022. We believe the company is likely to refinance part of it (c.Bt30bn each), and pare down a portion with cash generated from its domestic operations.

ThaiBev debentures – expect part of it to be refinanced when due



Source: Company, DBS estimates

Non-Alcoholic Beverages.

ThaiBev: Still targeting for EBIT breakeven for the segment by Sep 2020. 2Q19 saw positive EBITDA given the focus on better margin channels and product rationalisation.

DBS: We have already factored in a modest positive operating profit for NAB in our projections.

Food: Reason for focus on food (KFC), and investment in Starbucks Thailand.

ThaiBev: Food is still a relatively small part of operations, though management believes it is complementary and aids in overall growth as the alcoholic market in Thailand is not growing strongly. For Starbucks, ThaiBev's effective stake is 9.2%, while FNN's stake is 26%, along with Maxim which holds the majority. Maxim is already a partner in ThaiBev's other food business. FNN is taking a higher stake given the potential for partnership in other markets.

Source: DBS Bank

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Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Andy SIM, CFA

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**Share price appreciation + dividends*

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