



CHINA  
DEVELOPMENT  
FINANCIAL

# Thai Beverage

(THBEV SP/Y92.SI)

## Opportunity to buy on recent weakness due to disappointing results

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- **FY18 results below expectations.** YoY, Thai Beverage revenues grew 21% to 229.7bn THB, in line with our expectations while net profit declined 40% to 20.7bn THB, below our expectations of 23.1bn THB.
- **Finance/SG&A costs dragging performance lower as lacklustre demand in alcohol continues.** YoY, sales volume for its beer (-11.4%) and spirits (-11.5%) dropped as operating and financing costs increased due to business acquisitions in FY18 (Distribution costs +16%, Administrative Expenses +42%, Finance Costs +406%).
- **Market leadership maintained.** During the earnings call, management reiterated that Thai Bev's market leading position in Thailand's spirits market remains unchallenged at ~95% while its beer market share remains ~40% in Vietnam and Thailand.

YE Jun THB (mn)	2016A	2017A	2018A	2019F	2020F
Revenue	191,204.7	190,697.1	232,598.4	237,757.7	244,696.5
Operating Profit/Loss	25,740.9	27,524.5	25,624.4	29,357.3	32,050.4
Net income	25,032.0	34,680.8	20,725.5	22,546.7	24,699.1
EPS	0.99	1.04	0.84	0.97	1.05
EPS growth (%)	-	4.3%	-19.3%	15.8%	8.9%
P/E (x)	21.2	21.6	21.2	18.3	16.8
P/B (x)	4.4	4.4	3.7	3.4	3.2
Dividend Per Share	0.60	0.67	0.39	0.50	0.53
Dividend Yield (%)	2.9	3.0	2.2	2.8	3.0
Dividend Payout Ratio (%)	60.4	64.7	52.9	57.5	55.4
Net Debt/Equity (x)	0.30	0.19	1.45	1.33	1.24
Net Margin (%)	13.17	18.25	9.02	9.60	10.21
ROE (%)	21.2	27.1	16.6	17.9	18.2

Source: Company Data, KGI Research

**Lacklustre demand for alcohol driven by same factors.** We understand from management that the decline in alcohol volumes continues to be driven by effects from the excise tax hike and slow income growth among the lower income consumers.

For FY19, management expects the upcoming elections to drive a rebound in alcohol demand as effects from excise taxes fades.

Figure 1: Results Comparison

FYE Dec (THB bn)	FY18	FY17	yoy % chg	Comments
Revenue	229.7	190.0	20.9%	In line with our estimates
Cost of sales	(162.5)	(131.9)	23.2%	
<b>Gross profit</b>	<b>67.2</b>	<b>58.1</b>	<b>15.7%</b>	Driven by an increase in gross profit from Beer and Food business.
Gross margin (%)	29.3	30.6		
Distribution Costs	26.3	18.6	41.6%	
Administrative Expenses	15.3	12.0	27.4%	
Finance Costs	5.0	1.0	405.9%	
Operating Profits	20.7	26.5	-22.2%	
Net Operating Profit	23.6	27.2	-13.5%	
Profit before Income Tax	25.3	39.8	-36.4%	
Income tax	(4.6)	(5.1)	-10.2%	
<b>Profit for the year</b>	<b>20.7</b>	<b>34.7</b>	<b>-40.2%</b>	Driven by declines in profitability of spirits, beer and non-alcoholic segments, as well as acquisition costs.
EPS (THB)	0.74	1.37	-46.0%	

Source: Company Data, KGI Research

BUY - Maintain			
Price as of 5 Dec 18 (SGD)	0.61	<b>Performance (Absolute)</b>	
12M TP (\$)	0.75	1 Month (%)	-6.2
Previous TP (\$)	0.75	3 Month (%)	-3.8
Upside (%)	24.3	12 Month (%)	-34.7
Trading data		Perf. vs STI INDEX (Red)	
Mkt Cap (\$mn)	15,192		
Issued Shares (mn)	25,111		
Vol - 3M Daily avg (mn)	20.2		
Val - 3M Daily avg (\$mn)	13.2		
Free Float (%)	32.2%		
Major Shareholders		Previous Recommendations	
Sirwana Co Ltd	45.3%	14-Sep-18	BUY \$0.75
Maxtop Management Corp	20.6%	-	-
		-	-

**Wage recovery is key to alcohol demand.** In our view, a recovery in monthly wages will remain key to a rebound in alcohol demand. While wage recovery remains tepid, we believe the situation could turn around as Thai Farmers experiment with growing different types of crops to benefit from government subsidies.

Additionally, future income streams for Thai farmers could be further diversified from recent e-commerce initiatives, such as the collaboration with Alibaba Group to set up a Thai rice flagship store on Tmall.com, where exports have exceeded 100 million baht.

In the coming quarters, we continue to expect a recovery in domestic alcohol consumption due to stronger consumer confidence and rising agriculture prices.

**Valuation & Action:** We maintain a BUY with a SOTP-derived TP of S\$0.75. Our TP is derived with EV/EBITDA valuation for spirits, beer and its food business.

**Risks:** Persistent lacklustre demand in the domestic alcohol market, decline in market share in its key markets (Vietnam & Thailand), surge in raw material prices.

## Financials

INCOME STATEMENT (THB mn)	2016A	2017A	2018A	2019F	2020F
Revenue	191,205	190,697	232,598	237,758	244,696
Cost of revenue	134,371	131,899	162,477	164,727	167,999
<b>Gross profit</b>	<b>56,834</b>	<b>58,798</b>	<b>70,122</b>	<b>70,127</b>	<b>73,794</b>
<b>EBITDA</b>	<b>31,463</b>	<b>32,675</b>	<b>34,789</b>	<b>34,924</b>	<b>37,866</b>
Depreciation and Amortization	4,420	4,308	5,759	5,567	5,816
<b>Operating Profit</b>	<b>25,764</b>	<b>27,243</b>	<b>23,563</b>	<b>25,130</b>	<b>27,698</b>
Financial Income/(Expense)	(1,148.3)	(981.3)	(4,964.8)	(4,227.4)	(4,352.3)
<b>Profit Before Tax</b>	<b>29,867.3</b>	<b>39,812.4</b>	<b>25,335.0</b>	<b>26,901.9</b>	<b>29,470.1</b>
Taxation	(4,835.3)	(5,131.6)	(4,609.4)	(4,355.2)	(4,771.0)
<b>Net income</b>	<b>25,032.0</b>	<b>34,680.8</b>	<b>20,725.5</b>	<b>22,546.7</b>	<b>24,699.1</b>
<b>PATMI</b>	<b>24,949.2</b>	<b>26,013.2</b>	<b>20,987.9</b>	<b>24,309.6</b>	<b>26,462.1</b>
BALANCE SHEET (THB mn)	2016A	2017A	2018A	2019F	2020F
Cash and cash equivalents	5,059.2	9,929.2	22,529.7	29,030.5	32,510.8
Inventories	38,145.3	37,761.2	42,184.8	40,617.6	41,424.4
Account Receivables	2,588.2	2,627.2	4,297.5	4,394.0	4,523.8
<b>Total current assets</b>	<b>50,103.9</b>	<b>55,921.0</b>	<b>75,096.2</b>	<b>76,495.6</b>	<b>80,985.0</b>
Net Property, Plant & Equipment	47,870.8	48,531.8	57,058.8	58,945.0	60,645.2
Intangibles	7,237.3	7,156.7	184,389.5	184,389.5	184,389.5
Total Investments	78,462.8	78,372.6	78,869.9	78,869.9	78,869.9
<b>Total assets</b>	<b>187,653.3</b>	<b>194,240.4</b>	<b>401,408.8</b>	<b>404,694.5</b>	<b>410,884.1</b>
Accounts Payables	4,532.3	4,797.5	7,903.2	8,012.7	8,171.9
Short-Term Loans	3,810.7	6,087.6	5,394.4	5,318.4	5,424.1
<b>Total current liabilities</b>	<b>32,818.7</b>	<b>47,670.7</b>	<b>37,459.4</b>	<b>37,609.1</b>	<b>38,042.9</b>
Debentures	2,000.0	2,000.0	126,909.8	126,909.8	126,909.8
Long-Term Loans	25,089.4	8,000.0	89,893.8	89,893.8	89,893.8
<b>Total liabilities</b>	<b>63,941.1</b>	<b>61,727.4</b>	<b>260,838.3</b>	<b>260,988.1</b>	<b>261,421.8</b>
Shareholder's Equity	120,069.8	128,780.0	121,145.6	124,281.6	130,037.4
<b>Total liabilities and equity</b>	<b>187,653.3</b>	<b>194,240.4</b>	<b>401,408.8</b>	<b>404,694.5</b>	<b>410,884.1</b>
CASH FLOW STATEMENT (THB mn)	2016A	2017A	2018A	2019F	2020F
<b>Net Income</b>	<b>25,032.0</b>	<b>34,680.8</b>	<b>20,725.5</b>	<b>24,318.7</b>	<b>26,471.2</b>
Depreciation & Amortisation	4,421.0	4,307.7	5,759.8	5,394.2	5,553.6
Other non-cash adjustments	2,196.8	(5,879.8)	4,578.5	4,764.2	5,180.0
Changes in working capital	2,928.3	99.2	(1,818.3)	1,257.4	(934.1)
<b>Cash flows from operating activities</b>	<b>29,987.0</b>	<b>29,573.0</b>	<b>22,280.2</b>	<b>26,153.1</b>	<b>25,774.5</b>
Capital expenditure	(4,033.9)	(5,507.4)	(5,718.8)	(7,280.5)	(7,253.8)
Other investing cashflow	2,511.0	2,454.1	(186,378.8)	2,680.3	2,774.1
<b>Cash flows from investing activities</b>	<b>(1,522.8)</b>	<b>(3,053.3)</b>	<b>(192,097.6)</b>	<b>(4,600.2)</b>	<b>(4,479.7)</b>
Proceeds from debentures	0.0	0.0	127,000.0	0.0	0.0
Proceeds from Long-Term Loans	12,000.0	8,000.0	163,866.4	0.0	0.0
Other financing cash flow	(35,712.1)	(29,568.1)	(119,796.8)	(15,052.2)	(17,814.4)
<b>Cash flows from financing activities</b>	<b>(23,712.1)</b>	<b>(21,568.1)</b>	<b>171,069.6</b>	<b>(15,052.2)</b>	<b>(17,814.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,740.0</b>	<b>4,951.6</b>	<b>1,586.9</b>	<b>6,500.8</b>	<b>3,480.3</b>
<b>Beginning Cash</b>	<b>1,497.9</b>	<b>5,059.2</b>	<b>9,929.2</b>	<b>22,529.7</b>	<b>29,030.5</b>
<b>Ending Cash</b>	<b>5,059.2</b>	<b>9,929.2</b>	<b>22,529.7</b>	<b>29,030.5</b>	<b>32,510.8</b>
KEY RATIOS	2016A	2017A	2018A	2019F	2020F
Core EPS	0.99	1.04	0.84	0.97	1.05
P/E (x)	21.2	21.6	21.2	18.3	16.8
P/B (x)	4.4	4.4	3.7	3.6	3.4
Dividend Per Share	0.60	0.67	0.39	0.50	0.53
EBITDA/Interest (x)	27.4	33.3	7.0	8.3	8.7
Net Debt/Equity (x)	0.3	0.2	1.5	1.4	1.3
<b>Growth (%)</b>					
Revenue growth	0.0	(0.0)	20.9	2.2	3.0
Operating Profit growth	0.0	6.9	(6.9)	14.6	9.2
Net Income growth	0.0	38.5	(40.2)	8.8	9.5
<b>Profitability (%)</b>					
Gross margin	29.9	30.9	30.5	29.9	30.5
Operating margin	13.5	14.5	11.2	12.5	13.3
Net Margin	13.2	18.3	9.0	9.6	10.2
ROE	21.2	27.1	16.6	18.4	19.4
ROA	18.16	13.64	6.96	5.59	6.06

Source: Company Data, KGI Research

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<b>SELL</b>	<-10% total return over the next 12 months

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