



Thai Beverage (THBEV SP/Y92.SI)

Downgrade to Hold

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- 1Q19 results above expectations.** YoY, Thai Beverage revenues grew 60% to 72.7bn THB, higher than our expectations of 65.8bn THB, driven by growth across its business segments (Spirits +28.6%, Beer +128.6%, Beverages +1.1%, Food +63.9%). Net profits rose 144.2% YoY to 7.4bn THB, accounting for 31% of our FY19 net profit target.
- Consumption demand rebounds at last.** YoY, the group's sales volumes increased across business segments (Spirits +25.7%, Beer +253.9%, Beverages +3.6%). Notably, the rebound in the key spirits segment will provide much relief to investors after last year's decline. EBITDA for the spirits segment grew 36.7% YoY and contributed to 57% of the increase in EBITDA.

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

Wage recovery remains lacklustre even as alcohol consumption rebounded. Looking at monthly data from the Bank of Thailand, we observe that nominal farm income, which does not account for government subsidies and transfers, continues to experience weak growth. In our view, the recent rebound in alcohol demand was driven by other factors such as tourism arrivals and pre-election handouts.

Figure 1: Nominal Farm Income

(%YoY)	2017	2018	2018					
			H1	H2	Q3	Q4	Nov	Dec
Nominal farm income ^p	4.0	-0.4	2.2	-1.7	-1.7	-1.2	-6.0	1.4
Agricultural production ^p	7.0	5.5	12.2	0.4	1.3	-0.1	-4.2	3.1
Agricultural price	-2.8	-5.7	-8.9	-2.1	-3.0	-1.2	-1.8	-1.6

Source: Bank of Thailand, KGI Research

In December 2018, the government handed out grants of 500 THB/pax to Thai citizens who make 100K THB or less annually. Total recipients of the program is estimated at 14.5million Thais, which makes up one-fifth of the population.

Downgrade - Hold			
Price as of 18 Feb 19 (SGD)	0.81	Performance (Absolute)	
12M TP (\$)	0.75	1 Month (%)	15.7
Previous TP (\$)	0.75	3 Month (%)	25.2
Upside (%)	(7.1)	12 Month (%)	-2.6
Trading data		Perf. vs STI INDEX (Red)	
Mkt Cap (\$mn)	20,342		
Issued Shares (mn)	25,114		
Vol - 3M Daily avg (mn)	25.1		
Val - 3M Daily avg (\$mn)	16.9		
Free Float (%)	32.2%		
Major Shareholders		Previous Recommendations	
Sirwana Co Ltd	45.3%	18-Feb-18	HOLD \$0.75
Maxtop Management Corp	20.6%	14-Sep-18	BUY \$0.75

Secondly, the tourism sector, which makes up ~20% of Thailand's economy, experienced recovery in December (+2.8% YoY) as Chinese tourists returned to Thailand after a slowdown which was driven by safety concerns surrounding a tour boat tragedy.

Figure 2: Chinese Visitors to Thailand



Source: Thaiwebsites.com, KGI Research

Valuation & Action: Management expects the private consumption to continue recovering due to various events such as the Thai Elections, Songkran and the coronation of the King. While we expect these events to help normalize growth in alcohol consumption, we do not expect another surge in alcohol demand unless there are new government hand-outs. In our view, market share expansion and cost synergies will take a longer time to develop as compared to the rebound in alcohol demand. As a result, we downgrade Thai Beverage to a hold based on our TP of S\$0.75.

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

Figure 3: Quarterly Results

SGD (S\$'000)	1Q18	1Q19	YoY (%)	Comments
Revenue	45,476	72,627	59.7	Consolidation of Sabeco and rebound in spirits/beer volumes
Gross Profit	13,777	20,344		
Gross Margin (%)	30	28	-2.3	Lower margins due a change in product mix
Distribution Costs	(4,812)	(7,618)		
Administrative Expenses	(3,338)	(4,475)		
Finance Costs	(318)	(1,772)		Higher finance costs due to Sabeco's acquisition
Operating Profit	5,310	6,479	22.0	
Operating Margin(%)	12	9		
PATMI	5,416	7,417	36.9	
Net Profit	3,064	7,481	144.1	

Source: Company data, KGI Research

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
Gross profit	56,834	58,798	70,122	70,127	73,794
EBITDA	31,463	32,675	34,789	34,924	37,866
Depreciation and Amortization	4,420	4,308	5,759	5,567	5,816
Operating Profit	25,764	27,243	23,563	25,130	27,698
Financial Income/(Expense)	(1,148.3)	(981.3)	(4,964.8)	(4,227.4)	(4,352.3)
Profit Before Tax	29,867.3	39,812.4	25,335.0	26,901.9	29,470.1
Taxation	(4,835.3)	(5,131.6)	(4,609.4)	(4,355.2)	(4,771.0)
Net income	25,032.0	34,680.8	20,725.5	22,546.7	24,699.1
PATMI	24,949.2	26,013.2	20,987.9	24,309.6	26,462.1
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
Total current assets	50,103.9	55,921.0	75,096.2	76,495.6	80,985.0
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
Total assets	187,653.3	194,240.4	401,408.8	404,694.5	410,884.1
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
Total current liabilities	32,818.7	47,670.7	37,459.4	37,609.1	38,042.9
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
Total liabilities	63,941.1	61,727.4	260,838.3	260,988.1	261,421.8
Shareholder's Equity	120,069.8	128,780.0	121,145.6	124,281.6	130,037.4
Total liabilities and equity	187,653.3	194,240.4	401,408.8	404,694.5	410,884.1
CASH FLOW STATEMENT (THB mn)	2016A	2017A	2018A	2019F	2020F
Net Income	25,032.0	34,680.8	20,725.5	24,318.7	26,471.2
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)
Cash flows from operating activities	29,987.0	29,573.0	22,280.2	26,153.1	25,774.5
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
Cash flows from investing activities	(1,522.8)	(3,053.3)	(192,097.6)	(4,600.2)	(4,479.7)
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)
Cash flows from financing activities	(23,712.1)	(21,568.1)	171,069.6	(15,052.2)	(17,814.4)
Net increase/(decrease) in cash and cash equivalents	4,740.0	4,951.6	1,586.9	6,500.8	3,480.3
Beginning Cash	1,497.9	5,059.2	9,929.2	22,529.7	29,030.5
Ending Cash	5,059.2	9,929.2	22,529.7	29,030.5	32,510.8
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
Growth (%)					
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
Profitability (%)					
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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Rating	Definition
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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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