

CHINA  
DEVELOPMENT  
FINANCIAL

# Thai Beverage

(THBEV SP/Y92.SI)

## Unlocking Opportunities in Vietnam and Thailand

Marc Tan / 65 6202 1195 / marc.tan@kgi.com

Nicholas Siew / 65 6202 1193 / nicholas.siew@kgi.com

- We initiate with a **BUY** based on a SOTP-derived TP of S\$0.75.
- Rebound in alcohol consumption in Thailand
- Market share expansion in Thailand and Vietnam
- Shrewd M&As in Vietnam to become future growth drivers

### Financials & Key Operating Statistics

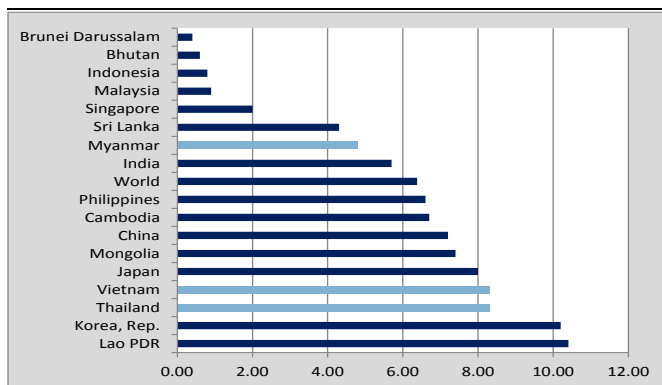
YE Jun THB (mn)	2016A	2017A	2018F	2019F	2020F
Revenue	191,204.7	190,697.1	229,173.7	235,554.1	242,493.0
Operating Profit/Loss	25,740.9	27,524.5	26,955.4	29,357.3	32,050.4
Net income	25,032.0	34,680.8	23,144.8	24,475.1	26,627.5
EPS	0.99	1.04	0.82	1.04	1.12
EPS growth (%)	-	4.3%	-20.5%	26.1%	8.3%
P/E (x)	21.2	21.6	21.5	17.1	15.8
P/B (x)	4.4	4.4	3.4	3.2	3.0
Dividend Per Share	0.60	0.67	0.54	0.67	0.75
Dividend Yield (%)	2.9	3.0	3.0	3.8	4.2
Dividend Payout Ratio (%)	60.4	64.7	65.6	64.5	66.7
Net Debt/Equity (x)	0.30	0.19	1.35	1.22	1.12
Net Margin (%)	13.17	18.25	10.13	10.42	11.01
ROE (%)	21.2	27.1	17.8	17.9	18.3

Source: Company Data, KGI Research

**Beer consumption remains weak but should recover in the coming quarters, alongside a rebound in wages and consumer confidence.** Since 2016, beer consumption in Thailand has been affected by the mourning period and excise tax but we expect beer consumption to rebound soon due to improvements in wage growth and the steep rise in the Thailand's consumer confidence index to a 3 year high in July 2018.

**Market expansion expected to continue in Thailand, alongside strong growth in the Vietnamese beer market.** ThaiBev is well positioned given that its key markets are ranked among the top alcohol consuming countries in Asia. Based on data from the World Bank, Thailand and Vietnam ranks among the top alcohol consumers in Asia, with average alcohol consumption at 8.3 litres per capita, 30% higher than the world average of 6.4 litres per capita.

Figure 1: Asia Alcohol Consumption Per Capita (2016)



Source: World Bank, KGI Research

BUY (Initiation)		Performance (Absolute)	
Price as of 14 Sep 18 (SGD)	0.64	1 Month (%)	-8.6
12M TP (\$)	0.75	3 Month (%)	-20.5
Previous TP (\$)	-	12 Month (%)	-27.9
Upside (%)	17.5		
Trading data		Perf. vs STI INDEX (Red)	
Mkt Cap (\$mn)	16,071		
Issued Shares (mn)	25,111		
Vol - 3M Daily avg (mn)	24.7		
Val - 3M Daily avg (\$mn)	17.3		
Free Float (%)	32.2%		
Major Shareholders		Previous Recommendations	
Sirwana Co Ltd	45.3%	-	-
Maxtop Management Corp	20.6%	-	-

With the acquisition of Sabeco, ThaiBev now commands ~40% of the beer market in both Thailand and Vietnam, as well as 26% of the ASEAN beer market. In our view, the merger will create economies of scale between the 2 companies, which will lead to stronger revenue growth, margins expansion and an increase in its market share in both Thailand and Vietnam. According to our estimates, these trends will lead to a 20.5% CAGR in beer revenues over the next 3 years.

**Shrewd acquisitions to drive next stage of growth.** Looking at ThaiBev's recent acquisitions, we believe the company has made shrewd buys that will help reduce earnings volatility and become growth drivers in the years to come. However, we do not expect these acquisitions to have significant impact on the company's profits in the near term from FY18 to FY20 and we have not included the impact of potential business synergies into our forecasts.

**Forecasts.** Accounting for weak recovery in alcohol consumption till date, we expect a 20.5% decline in earnings for FY18 before a 26.1%/8.3% growth in FY19/FY20, driven by a recovery in domestic alcohol consumption and an expanding market share in Thailand and Vietnam.

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

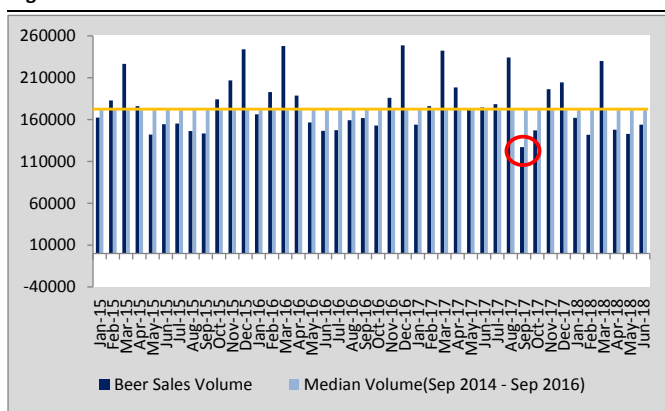
**Risks:** Persistent lacklustre demand in the domestic alcohol market, decline in market share in its key markets (Vietnam & Thailand), surge in raw material prices.

**Investment Thesis**

**Domestic beer consumption remains weak but should recover in the coming quarters, alongside a rebound in wages and consumer confidence.** Investors have been disappointed by the lack of beer consumption in Thailand even after the World Cup and the mourning period. Based on our analysis, we identified 2 factors that might have contributed to the decline in alcohol consumption.

Firstly, the end of the mourning period (Oct-17) coincided with an increase in excise taxes (Sep-17), which led to a delayed recovery in alcohol consumption. After the implementation of excise taxes, beer sales fell below 130 million litres in September 2017, the lowest in 2 years.

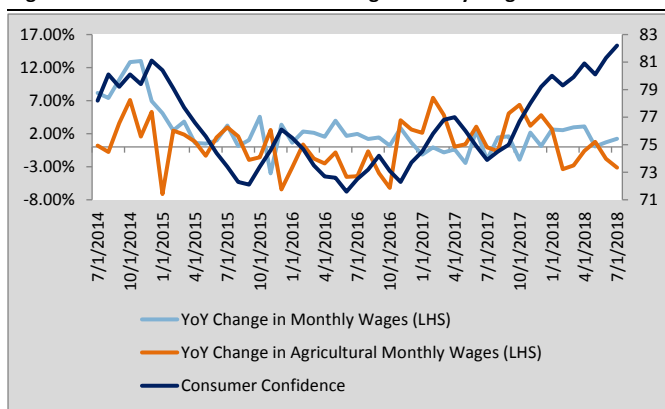
**Figure 2: ThaiBev Beer Sales Volume**



Source: Company Data, KGI Research

Secondly, average monthly wages in Thailand experienced weak growth and declines from 2015 to 2017, with median wage growth at 1.6% as compared to 10.1% in 2014. Agriculture Income in particular, was one of the worst sectors with median wage growth at 0.38% as compared to 4.3% in 2014.

**Figure 3: Consumer Confidence Vs Average Monthly Wages**

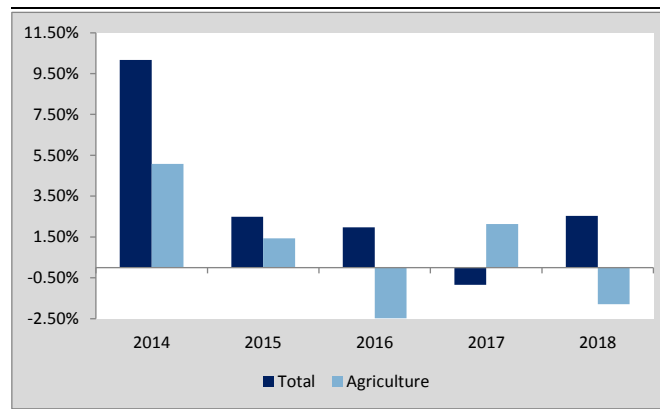


Source: Bloomberg, Bank of Thailand, Thailand Office of Industrial Economics, KGI Research

In our view, we believe that consumers coming on the back of a strong 2014 in wage growth were disappointed by weak wage growth from 2015 to 2017. Weak wages, alongside a 1-year mourning period and an increase in excise taxes dampened consumer spending, which led to a decline in

beer consumption. Consumer confidence however, has been ticking up, with the consumer confidence index reaching 82.2 in July 2018, the highest in 3 years. As of July 2018, median wage growths for 2018 are also stronger as compared to the period from 2015 to 2017. Based on these trends, we believe alcohol consumption in the coming quarters should improve accordingly.

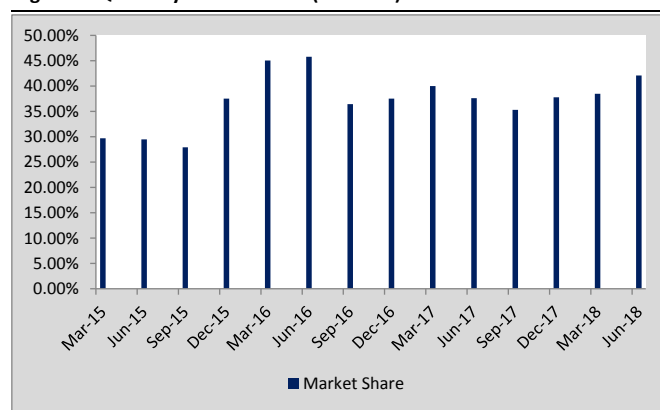
**Figure 4: Median Wage Growth (January – July)**



Source: Bank of Thailand, Thailand Office of Industrial Economics, Company Data, KGI Research

**Market expansion is expected to continue in Thailand and Vietnam, alongside strong growth in the Vietnamese beer market.** Based on our estimates, ThaiBev’s domestic market share has increased despite the decline in domestic sales. Since excise taxes were introduced in September 2017, ThaiBev’s domestic market share by volume has increased steadily from 35% to 42% in the past 4 quarters and the company is targeting to increase their market share from 40% to 46% by 2020. In our view, we believe the recent trends are a good indication that they are well on track to achieve that.

**Figure 5: Quarterly Market Share (Thailand)**



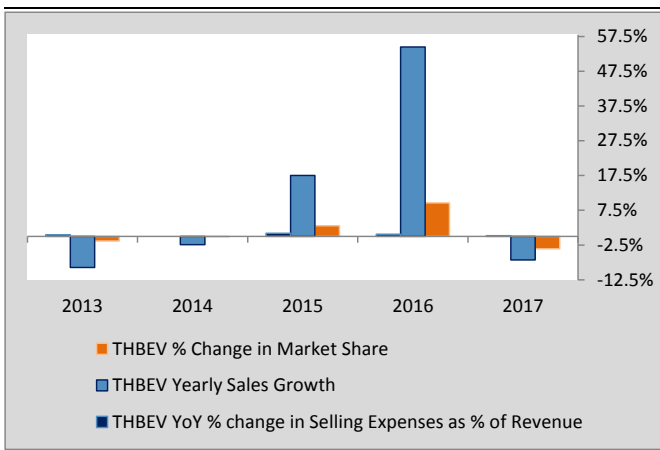
Source: Bank of Thailand, Thailand Office of Industrial Economics, Company Data, KGI Research

Outside of Thailand, we believe the firm’s purchase of Sabeco will drive stronger revenue growth for the beer segment in the years to come due to increased market share and strong beer demand in Vietnam.

After the acquisition of Sabeco, ThaiBev's management announced their intention for Sabeco's market share to grow from 40% to 50%. In view of the firm's effective marketing efforts with Chang Beer, we believe a similar outcome could be expected of Sabeco.

To prepare to the re-launch of Chang Beer, the company's selling expenses as percentage of revenues increased an average of 0.75% per year from 2014 to 2016 but domestic market share grew strongly from 28.5% to 41.2%, an impressive feat considering the fall in consumer confidence and beer consumption in 2015.

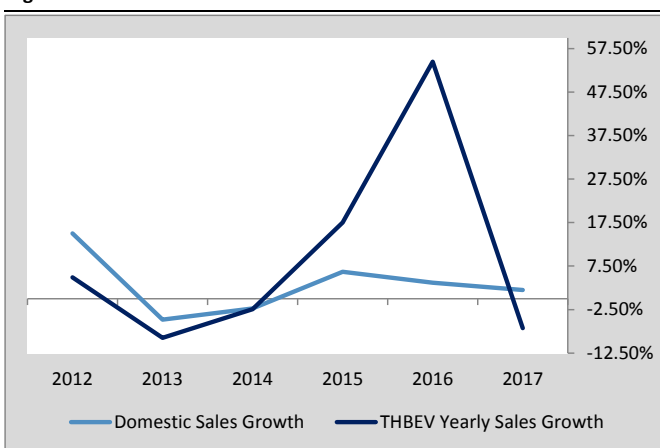
Figure 6: Selling Expenses Vs Change in Revenue & Market Share



Source: Company Data, KGI Research

After the company rebranded "Chang Beer" into "Chang Classic" and repackaged the look of the beer bottle with a different colour and shape, ThaiBev's beer sales volumes rose 17.5% and 54.5% in 2015 and 2016 respectively. The strong growth however, was halted as Thailand went into a 1-year mourning period.

Figure 7: ThaiBev Sales Volume vs Domestic Beer Volume Growth



Source: Bank of Thailand, Thailand Office of Industrial Economics, Company Data, KGI Research

We expect ThaiBev to continue increasing its marketing efforts in Thailand and Vietnam in a bid to shore up its market share in both countries. To account for this in our forecasts, we estimate selling expenses as a % of revenue to rise from 10% to 11% from FY18 to FY20.

In terms of production, Vietnam has been the fastest growing beer producer in the world from 2007 to 2016, with production volumes rising at 9.5% CAGR for the period. We expect beer production to continue at a similar rate given that real GDP growth in Vietnam is expected to remain strong at 6.8% a year from 2018 to 2020, according to consensus estimates.

Figure 8: Top 15 Beer Producing Countries in the World

Ranking	Country	Production										CAGR 2007-2016
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
1	China	39.31	41.03	42.36	44.83	48.99	49.02	50.65	49.67	47.16	46.00	1.8%
2	USA	23.28	23.06	23.10	22.90	22.65	23.01	22.53	22.61	22.41	22.14	-0.6%
3	Brazil	9.60	10.63	10.70	12.87	13.30	13.28	13.47	14.14	13.86	13.33	3.7%
4	Mexico	8.10	8.23	8.23	7.99	8.15	8.25	8.20	7.80	9.71	10.50	2.9%
5	Germany	10.40	10.29	9.81	9.57	9.55	9.46	9.44	9.53	9.56	9.50	-1.0%
6	Russia	11.50	11.40	10.85	10.29	9.81	9.76	8.93	8.22	7.82	7.82	-4.2%
7	Japan	6.38	6.11	5.98	5.81	5.60	5.77	5.72	5.65	5.38	5.52	-1.4%
8	United Kingdom	5.13	4.96	4.51	4.50	4.57	4.30	4.20	4.43	4.41	4.40	-1.7%
9	Vietnam	1.80	1.85	2.30	2.65	2.78	2.98	3.57	3.89	3.67	4.08	9.5%
10	Poland	3.55	3.56	3.22	3.60	3.60	3.93	3.96	3.95	4.09	4.07	1.9%
11	Spain	3.44	3.34	3.38	3.34	3.36	3.30	3.27	3.35	3.48	3.62	0.6%
12	South Africa	2.65	2.59	2.88	2.96	3.09	3.15	3.15	3.15	3.21	3.20	2.1%
13	Nigeria	1.35	1.54	1.60	1.76	1.96	2.40	2.65	2.70	2.70	2.60	7.6%
14	France	1.51	1.44	1.43	1.56	1.91	1.97	1.85	2.05	2.40	2.47	5.6%
15	Netherlands	2.73	2.72	2.54	2.39	2.36	2.43	2.36	2.37	2.40	2.46	-1.2%
15 countries total		130.63	132.76	132.90	137.02	141.68	143.00	143.94	143.51	142.26	141.70	0.9%
World Beer Production		178.71	181.82	181.76	186.35	192.89	196.20	197.21	196.31	196.10	195.75	1.0%

Source: Asahi Group, KGI Research

Based on these trends, we forecast Sabeco's volume growth to increase by 18.3% CAGR from FY18 to FY20 and volume contribution from Sabeco to increase from 65% to 80% of ThaiBev's beer volumes.

**Shrewd acquisitions to drive next stage of growth**

Besides Sabeco, we believe that the purchase the Grand Royal distilleries in Myanmar would help the growth of the spirits segment in the long run while the firm's KFC franchise will help to reduce revenue volatility in its food business given the resilience and track record of the KFC franchise.

**Grand Royal** – We believe that growth for the domestic spirits market has plateaued given that ThaiBev already controls 90% of the spirits market in Thailand. While the acquisition of Grand Royal will allow ThaiBev access to Myanmar's untapped alcohol market, we do not expect stronger growth in the spirits segment from FY18 to FY20 as Myanmar's alcoholic drinks sector remains in the nascent stages of development, with alcohol consumption per capita at 4.8 litres, below the world average of 6.38 litres. In comparison, Thailand and Vietnam's alcohol consumption per capita stands at 8.3 litres, among the highest in Asia.

**KFC** – With the acquisition of KFC, the food segment should see stable growth from FY18 to FY20 as more outlets are opened. KFC has a huge presence in Thailand with ~600 outlets and is highly popular among Thai consumers, with 85% of consumers picking KFC as their top-of-mind quick service restaurant (QSR) in 2016.

We estimate contribution of ThaiBev's food segment to increase to 6% from 3.5% after the acquisition of 252 KFC franchise stores in Thailand. The food segment however, is not part of our investment thesis as we expect the segment to remain as a small contributor to ThaiBev's top and bottom line.

**Valuation**

**Revenues:** Revenues are expected to grow at a CAGR of 2.9% from 2018F – 2020F, mainly driven by rebound in domestic consumption and market share expansion.

**Margins:** We expect margin contraction for FY18 due to continued weakness in the domestic market till date. However, we expect margins recovery in from FY19 onwards as economies of scale between Sabeco and ThaiBev takes place.

Based on our forecasts, we expect gross and operating margins to decline from 30.9% and 14.9% in FY17 to 29.6% and 11.8% respectively. From FY19 onwards, we expect gross and operating margins to recover gradually to 30.5% and 13.3% by FY20. For EBITDA margins, we forecast similar trends with a decline from 17.2% in FY17 to 14.3% in FY18 before recovering to 15.7% by FY20.

**Capex and SG&A:** We expect capital expenditures to remain at similar levels ~3% from FY18 to FY20. Selling and administrative expenses however, are expected to rise from 9.8% and 6.3% in FY17 to 10.6% and 6.8% in FY18 onwards due to marketing efforts required to increase market shares in Vietnam and Thailand.

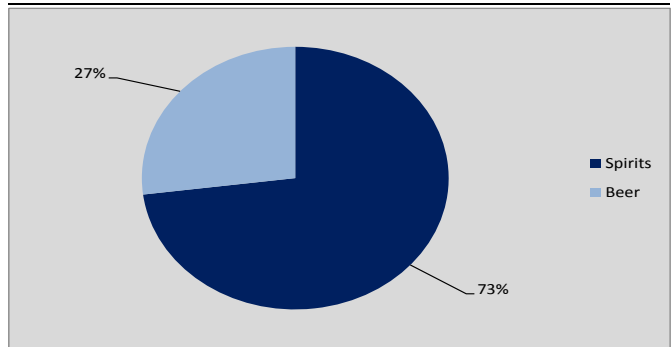
**PATMI:** We expect 2018F PATMI to decline 20.5% YoY, driven by weaker than expected consumption and lower margins. Thereafter, we expect growth to increase again from FY19 onwards at a CAGR of 16.9% for FY19 and FY20.

**SOTP Valuation.** We value Thai Beverage using a sum-of-the-parts (SOTP) method to derive a fair value of SGD 0.75. An EV/EBITDA valuation was applied to the company’s spirits, beer and food business.

We do not include its non-alcoholic business in our valuation as we do not expect the segment to have a significant impact on the company’s EBITDA in the near future. For its associated companies, we derived fair value from their market value.

**Spirits –** Spirits is the preferred alcoholic beverage among Thai Consumers but given that the company already controls 90% of the spirits market in Thailand, we believe that its growth prospects are limited unless there are price increases in the near future.

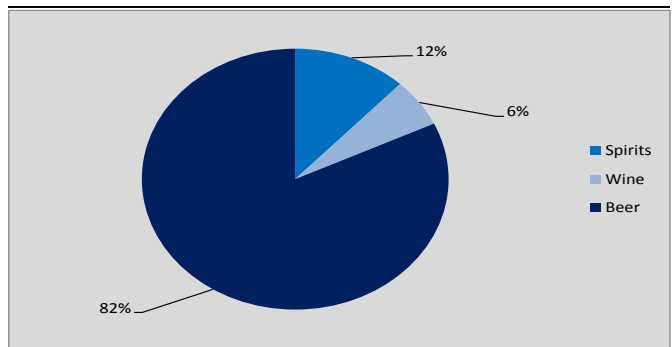
**Figure 9: Thailand Alcohol Consumption by Type**



Source: WHO Global Alcohol Report 2014

We think that the acquisition of Grand Royal in Myanmar can help to mitigate revenue sales volatility in the near term but we do not see Grand Royal becoming a key growth driver in the next 3 years as the alcoholic drinks sector in Myanmar is still in an early stage of development.

**Figure 10: Myanmar Alcohol Consumption by Type**



Source: WHO Global Alcohol Report 2014

Therefore, we believe that this segment is fairly priced and we assign a 13x FY19 EBITDA multiple, 28% discount to its global peer’s average of 18x due to its lower EBITDA growth (+0.4%) as compared to its peer average (2.9%)

**Figure 11: Spirits Peers**

Ticker	Company Name	Currency	Last Price	Currency Adj. Market Cap (USD mil)	P/E (x)	P/S (x)	PEG (x)	EBITDA Growth (%)	EV/EBITDA	EV/EBITDA
					FY17	FY18F	FY17	FY18F	FY17	FY18F
<b>Spirits Peers</b>										
DGE LN	DIAGEO PLC	GBP	2,664.00	85,192	22.0x	21.1x	5.4x	5.2x	2.8x	2.6x
RJ FP	PERNOD RICARD SA	EUR	134.80	41,568	22.5x	21.8x	4.0x	3.8x	2.8x	2.6x
RCO FP	BEVRY CONTINENTAL	EUR	116.00	6,769	38.9x	36.0x	5.1x	4.9x	3.0x	2.6x
CFR IM	DAVIDE CAMPARI MILANO SPA	EUR	7.45	10,054	21.7x	34.7x	4.9x	5.1x	3.1x	-1.49
BFV US	BROWN-FORMAN CORP CLASS B	USD	50.67	24,529	32.4x	29.6x	7.4x	7.2x	2.8x	2.6x
	<b>Average</b>			<b>168,112</b>	<b>29.7x</b>	<b>18.6x</b>	<b>2.7x</b>	<b>2.7x</b>	<b>2.8x</b>	<b>1.9x</b>

Source: Bloomberg, KGI Research

**Beer** – In terms of Beer consumption in Thailand, we believe the worst is over and we expect to see a recovery in Thailand’s beer consumption in the coming quarters. Following the successful rebranding exercise for Chang Beer and marketing efforts to improve the ranking of Federbrau, the company is now well positioned to ride the rebound in domestic beer consumption.

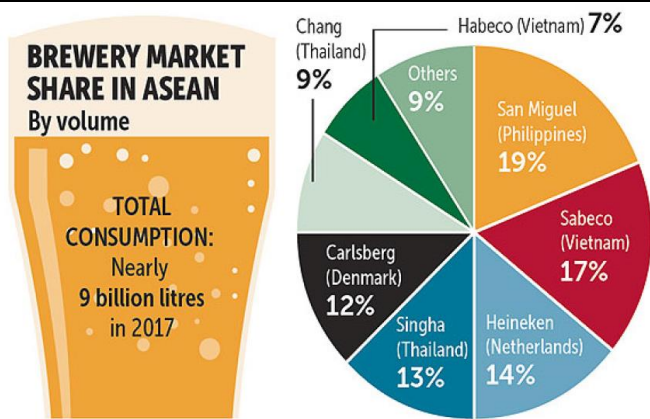
Figure 12: Market Ranking 10 Months After the Launch of Federbrau



Source: Company Presentation

Moreover, the acquisition of Sabeco means ThaiBev is now the leader in ASEAN, controlling 26% of the 9 billion litres market.

Figure 13: ThaiBev Vs ASEAN Beer Market



Source: Euromonitor, Company Reports, Nikkei Asian Review, Bangkok Post

Based on our forecasts, we expect this segment to achieve EBITDA growth of 27% from FY18 to FY19, faster than its global peers average of 5%, which is why we allocate a 20% premium to against its peers valuation of 11x EBITDA.

Figure 14: Beer Peers

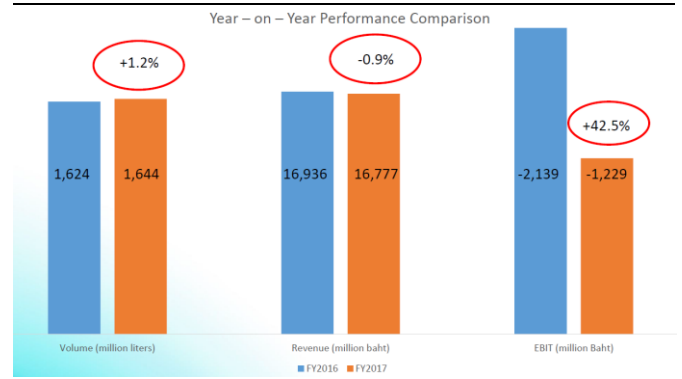
Ticker	Company Name	Currency	Last Price	Currency Adj. Market Cap (US\$ mn)	P/E (x)		P/S (x)		PEG (x)		EBITDA Growth (%)	EV/EBITDA FY18	EV/EBITDA FY19
					FY17	FY18F	FY17	FY18F	FY17	FY18F			
<b>Global Breweries</b>													
ABF.BE	ANHEUSER-BUSCH INBEV SA/NV	EUR	76.11	176,551	21.7x	19.0x	3.1x	3.2x	1.8x	1.6x	3.50	12.9x	12.2x
BEA.NA	HEINEKEN NV	EUR	82.06	54,915	23.2x	20.0x	2.1x	2.1x	2.4x	2.2x	8.22	11.1x	10.5x
STZ.US	CONSTELLATION BRANDS INC.A	USD	215.99	41,342	27.3x	22.7x	5.4x	5.1x	2.0x	1.8x	7.19	16.7x	15.3x
CARL.DC	CARLSBERG AS-B	DKK	760.60	17,964	81.4x	22.0x	1.9x	1.9x	2.9x	2.7x	-0.43	10.1x	9.7x
BEV.US	AMBEV SA ADR	USD	4.46	70,121	36.3x	22.5x	5.9x	5.6x	1.8x	0.9x	11.37	12.8x	11.6x
FAP.US	MOLSON COORS BREWING CO-B	USD	63.08	13,660	13.9x	13.0x	1.3x	1.2x	4.8x	4.6x	-0.26	9.6x	9.5x
2502.JP	ASAHI GROUP HOLDINGS LTD	JPY	4,845.00	21,019	14.0x	15.0x	1.0x	1.1x	1.5x	1.4x	-	10.6x	10.2x
2503.JP	KIRIN HOLDINGS CO LTD	JPY	2,782.50	22,815	19.3x	16.2x	1.3x	1.3x	1.6x	1.6x	-	11.3x	10.8x
<b>Average</b>				<b>400,386</b>	<b>29.7x</b>	<b>18.6x</b>	<b>2.7x</b>	<b>2.7x</b>	<b>2.0x</b>	<b>1.8x</b>	<b>4.93</b>	<b>11.5x</b>	<b>11.2x</b>

Source: Bloomberg, KGI Research

**Non-Alcoholic** – Over the past few years, both management and investors have talked about restructuring F&N and FPL by swapping ThaiBev’s stake with TCC Assets stake in order to divest non-core assets. We believe that these plans will be postponed as the integration of Sabeco with ThaiBev should take priority now.

Pending new developments in the segment, we expect the segment to continue working towards breakeven and will not be a profit driver from FY18 to FY20. Due to its loss-making status, we do not account for this in our valuation of ThaiBev.

Figure 15: Non-Alcoholic Business (FY16 vs FY17)



Source: Company Presentation

**Food** – Our forecasts estimate revenue contribution from the food segment to grow from 3% to 6% by FY2020 and remain as a small contributor to EBITDA and revenue. While we expect EBITDA growth of 5.5% which is similar to its peer average of 5.9%, we value the food segment at 12x 2019 EBITDA as compared to the peer average of 17x due to the much smaller size of the business as compared to its peers.

Figure 16: Food Peers

Ticker	Company Name	Currency	Last Price	Currency Adj. Market Cap (US\$ mn)	P/E (x)		P/S (x)		PEG (x)		EBITDA Growth (%)	EV/EBITDA FY18	EV/EBITDA FY19
					FY17	FY18F	FY17	FY18F	FY17	FY18F			
<b>Global Food</b>													
QSR.US	RESTAURANT BRANDS INTERN	USD	58.78	27,485	23.7x	21.9x	2.8x	5.1x	1.6x	1.5x	3.48	17.4x	16.1x
YUMC.US	YUM CHINA HOLDINGS INC	USD	32.47	32,444	18.5x	21.7x	1.5x	1.5x	1.4x	2.81	8.6x	8.1x	
QSR.US	RESTAURANT BRANDS INTERN	USD	58.78	27,485	23.7x	21.9x	2.8x	5.1x	1.6x	1.5x	3.48	17.4x	16.1x
SHAK.US	SHAKE SHACK INC - CLASS A	USD	57.49	2,129	93.4x	95.7x	3.8x	4.7x	-	-	8.33	33.6x	26.3x
WEN.US	WENDY'S CO/THE	USD	17.72	4,199	39.7x	31.8x	3.0x	2.6x	1.5x	1.2x	4.14	16.0x	14.7x
DPZ.US	DOMINO'S PIZZA INC	USD	285.24	11,944	40.0x	34.2x	4.0x	3.5x	1.8x	1.6x	13.43	23.5x	21.0x
<b>Average</b>				<b>85,056</b>	<b>25.3x</b>	<b>24.5x</b>	<b>3.5x</b>	<b>3.8x</b>	<b>1.7x</b>	<b>1.6x</b>	<b>5.94</b>	<b>19.4x</b>	<b>17.1x</b>

Source: Bloomberg, KGI Research



Figure 17: SOTP Valuation

SUM OF THE PARTS				EBITDA Growth (%)		EV/EBITDA (x)		
	2019F	EV/EBITDA(x)	EV	Comments	Peers	ThaiBev	Peers	ThaiBev
<b>EBITDA</b>								
Spirits	25,066.0	13.0	325,857.5	30% discount to global peers due to weaker EBITDA growth (0.4% vs 2.9%)	2.9	0.4	18.4	13.0
Beer	9,861.0	14.0	138,053.9	25% premium to global peers due to strong EBITDA growth (27% vs 5%)	4.9	27.0	11.2	14.0
Non-Alcoholic Beverages	(1,668.1)	-	-	Loss making segment is excluded from valuation	-	-	-	-
Food	1,671.0	12.0	20,052.3	30% Discount to global peers due to size and slower EBITDA growth (5.5% vs 5.9%)	5.9	5.5	17.1	12.0
<b>Total EBITDA</b>	<b>36,598.0</b>	<b>13.2</b>	<b>483,963.7</b>					
<b>Associates</b>	<b>EV</b>	<b>Stake(%)</b>	<b>Weighted EV</b>					
Fraser and Neave	82,966.6	28.5%	23,628.88					
Fraser's Property Ltd	583,540.3	28.3%	165,141.89					
<b>Total EV</b>			<b>672,734.5</b>					
Less Debt			(230,403.5)					
Less Minority Interest			(18,359.2)					
Plus Cash			<b>25,747.6</b>					
<b>Total Value (THB)</b>			<b>449,719.4</b>					
<b>SGDTHB Exchange Rate</b>			<b>23.8</b>					
Total Value (SGD)			18,887.0					
Number of Shares			25,111.3					
<b>NAV/Share</b>			<b>0.75</b>					
Current Price			0.63					
Upside/Downside			19.4%					

Source: Bloomberg, KGI Research

Figure 18: Peers Comparison

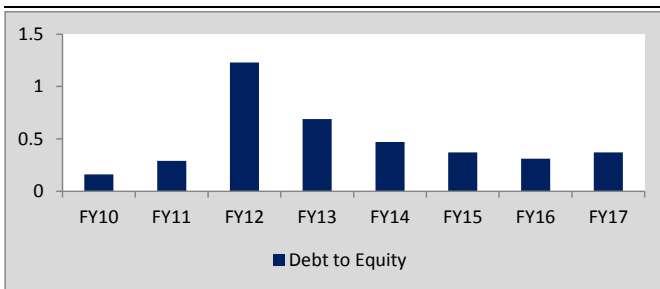
Ticker	Company Name	Currency	Last Price	Market Cap (US\$ mn)	P/E (x)		P/S (x)		PEG (x)		EBITDA Growth	EV/EBITDA FY18	EV/EBITDA FY19
					FY17	FY18F	FY17	FY18F	FY17	FY18F			
DGE LN	DIAGEO PLC	GBP	2,664.00	85,192	22.0x	21.1x	5.4x	5.2x	2.8x	2.6x	0.7%	16.8x	15.8x
RCO FP	REMY COINTREAU	EUR	116.00	6,769	38.9x	36.0x	5.1x	4.9x	3.0x	2.6x	5.3%	22.2x	19.8x
RI FP	PERNOD RICARD SA	EUR	134.80	41,568	22.5x	21.8x	4.0x	3.8x	2.8x	2.6x	7.0%	15.5x	14.4x
CPR IM	DAVIDE CAMPARI-MILANO SPA	EUR	7.45	10,054	21.7x	34.7x	4.9x	5.1x	3.5x	3.1x	-1.5%	22.3x	20.6x
BF/B US	BROWN-FORMAN CORP-CLASS B	USD	50.67	24,529	32.4x	29.6x	7.4x	7.2x	2.8x	2.6x	-	22.6x	21.1x
ABI BB	ANHEUSER-BUSCH INBEV SA/NV	EUR	76.11	178,551	21.7x	19.0x	3.1x	3.2x	1.8x	1.6x	3.5%	12.9x	12.2x
HEIA NA	HEINEKEN NV	EUR	82.06	54,915	23.2x	20.0x	2.1x	2.1x	2.4x	2.2x	8.2%	11.1x	10.5x
STZ US	CONSTELLATION BRANDS INC-A	USD	215.99	41,342	27.3x	22.7x	5.4x	5.1x	2.0x	1.8x	7.2%	16.7x	15.3x
CARLB DC	CARLSBERG AS-B	DKK	760.60	17,964	81.4x	22.0x	1.9x	1.9x	2.9x	2.7x	-0.4%	10.1x	9.7x
ABEV US	AMBEV SA-ADR	USD	4.46	70,121	36.3x	22.5x	5.9x	5.6x	1.0x	0.9x	11.4%	12.8x	11.6x
TAP US	MOLSON COORS BREWING CO -B	USD	63.08	13,660	13.9x	13.0x	1.3x	1.2x	4.8x	4.6x	-0.2%	9.6x	9.5x
2502 JP	ASAHI GROUP HOLDINGS LTD	JPY	4,845.00	21,019	14.0x	15.0x	1.0x	1.1x	1.5x	1.4x	-	10.6x	10.2x
2503 JP	KIRIN HOLDINGS CO LTD	JPY	2,782.50	22,815	19.3x	16.2x	1.3x	1.3x	1.6x	1.6x	-	11.3x	10.8x
600519 CH	KWEICHOW MOUTAI CO LTD-A	CNY	631.98	115,902	25.1x	21.7x	13.0x	10.0x	1.2x	1.0x	29.0%	14.2x	11.7x
000858 CH	WULIANGYE YIBIN CO LTD-A	CNY	59.98	33,990	19.3x	17.9x	7.4x	5.9x	1.0x	0.8x	-	10.9x	8.8x
002304 CH	JIANGSU YANGHE BREWERY -A	CNY	104.40	22,969	20.4x	19.0x	7.9x	6.4x	1.1x	0.9x	-	12.8x	10.6x
000568 CH	LUZHOU LAOJIAO CO LTD-A	CNY	40.31	8,620	19.2x	17.0x	5.8x	4.6x	-	-	25.6%	11.2x	8.9x
600809 CH	SHANXI XINGHUACUN FEN WINE-A	CNY	43.21	5,462	29.2x	24.1x	6.2x	4.2x	-	-	-	15.9x	12.1x
000596 CH	ANHUI GUJING DISTILLERY CO-A	CNY	71.15	4,677	24.1x	23.0x	5.3x	3.8x	-	-	-	12.4x	9.9x
291 HK	CHINA RESOURCES BEER HOLDING	HKD	29.45	12,173	55.7x	42.2x	2.6x	2.5x	1.0x	0.8x	29.0%	16.9x	14.2x
168 HK	TSINGTAO BREWERY CO LTD-H	HKD	33.35	6,035	27.8x	24.9x	1.6x	1.5x	1.9x	1.6x	15.4%	9.8x	8.8x
UNSP IN	UNITED SPIRITS LTD	INR	571.70	5,775	65.5x	56.3x	4.8x	4.4x	-	-	-	32.4x	27.2x
UBBL IN	UNITED BREWERIES LTD	INR	1,315.45	4,835	88.1x	69.6x	6.2x	5.5x	-	-	-	33.5x	28.7x
<b>Average</b>					<b>32.6x</b>	<b>26.5x</b>	<b>4.8x</b>	<b>4.2x</b>	<b>2.2x</b>	<b>2.0x</b>	<b>10.0%</b>	<b>15.8x</b>	<b>14.0x</b>

Source: Bloomberg, KGI Research

### Operational and Financial Review

**Rising debt levels should not be a worry.** Due to the additional debt incurred for acquisitions, we expect the company’s net debt/equity ratio to rise significantly from 0.19x in FY17 to 1.3x in FY18. However, we expect leverage to decline from FY19 due to earnings improvement, strong cash flow generation and a good track record of deleveraging in past acquisitions. During the acquisition of F&N, the company experienced a similar temporary spike in gearing ratios which was eventually mitigated by business synergies and stronger earnings.

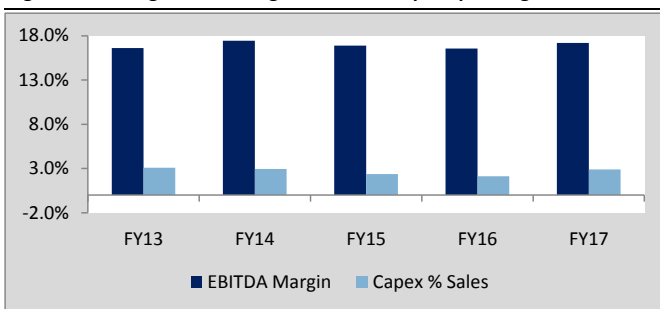
Figure 19: Smooth deleveraging after the acquisition of F&N in FY12



Source: Company Data, KGI Research

**Strong cash flow generation.** The company has a strong track record of generating positive cash flow with EBITDA margins maintaining ~17% from FY13 to FY17, as well as low capital intensity (excluding acquisitions) with capex/sales averaging 2.7% from FY13 to FY17.

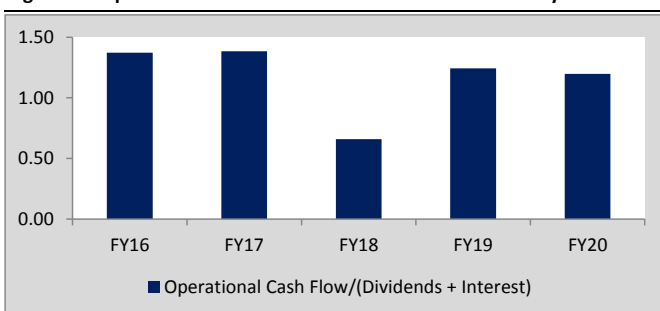
Figure 20: Strong EBITDA margins with low Capex spending



Source: Company Data, KGI Research

While we expect FY18’s operating cash flows to drop significantly, we believe the company will continue generating enough operating cash flows to fund its debt repayments, interest expenses and dividends.

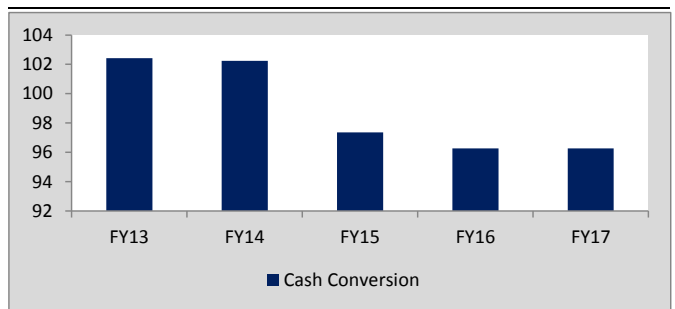
Figure 21: Operational Cash Flow Vs Dividend and Interest Payments



Source: Company Data, KGI Research

**Cash conversion cycle.** ThaiBev’s cash conversion cycle has declined from 102 days in FY13 to 97 days in FY18 due to improvements in inventory and receivable turnover. Based on our forecasts, we expect CCC days to continue improving from 97 days in FY18 to 82 days by FY20 due to higher inventory turnover as domestic demand for alcohol rebounds.

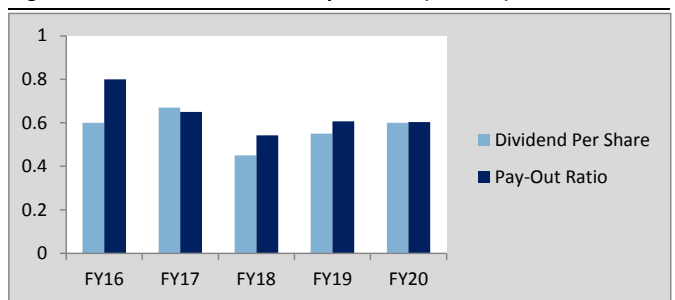
Figure 22: Strong EBITDA Margins throughout cycles and acquisitions



Source: Company Data, KGI Research

**Sustainable dividend pay-outs.** We forecast lower dividends for FY18 but expect pay-out ratios to remain above 60% and dividends per share to increase from 0.54 in FY18 to 0.75 in FY20, driven by stronger earnings.

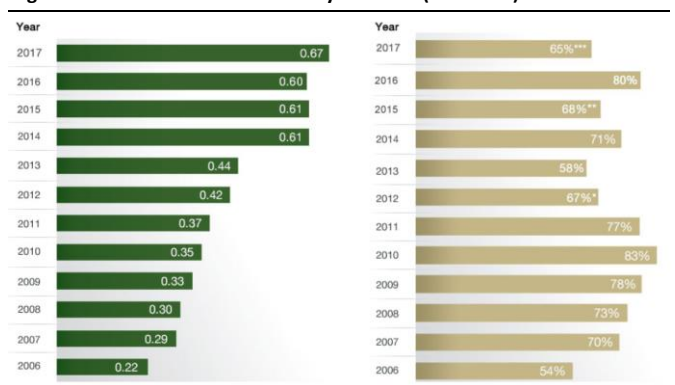
Figure 23: Dividend Per Share Vs Payout Ratio (Forecast)



Source: Company Data, KGI Research

Besides dividend growth, we believe that the stability in the dividends paid over the years, should also be a positive factor for investors looking for stable returns.

Figure 24: Dividend Per Share Vs Payout Ratio (Historical)



Source: Company Data, KGI Research

### Key Risks

**Persistent lacklustre demand in the domestic market.** The slow rebound in demand for alcohol has persisted after the end of the mourning period coincided with an increase in excise tax. The company’s business is susceptible to further increases in excise tax or unforeseen events such as social unrests or coups.

**Decline in beer market share in its key markets (Vietnam & Thailand).** Besides foreign beers such as Heineken, Carlsberg or Tiger Beer, its main competitors in Thailand and Vietnam are similar in terms of size and scale. For example, Chang Beer has been in competition with Singha Beer for a long time and a similar situation exists in Vietnam with Habeco and Sabeco. Profitability could be affected if a price war breaks out between the domestic brewers or if consumers start showing a preference for foreign beers.

**Surge in raw material prices.** Thaibev is exposed to prices in raw materials such as molasses, rice and malt. While the company has mitigated raw materials risk well in the past years, tail risks in commodity prices cannot be perfectly hedged.

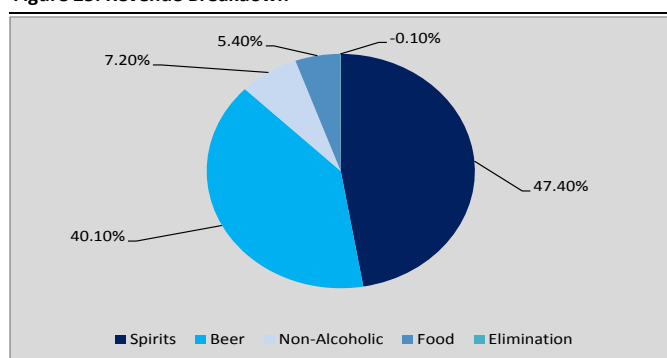
### Company Overview

ThaiBev is ASEAN’s largest brewery and controls 26% of the 9 billion litres beer market. To reduce revenue volatility, management has outlined a strategic plan “Vision 2020” to diversify the firm’s revenue mix and geographical mix by 2020. Vision “2020” is outlined as follows:

- Increase revenue contribution from non-alcoholic beverages to over 50%
- Increase revenue contribution from outside of Thailand to over 50%
- Streamline businesses into three product groups supported by common infrastructure
- Push core brands and key markets for each product group

As of 9M18, alcoholic beverages remain as the main contributor to revenue with 87.5% contribution but geographical diversification has improved after the latest acquisitions in Myanmar and Vietnam.

Figure 25: Revenue Breakdown

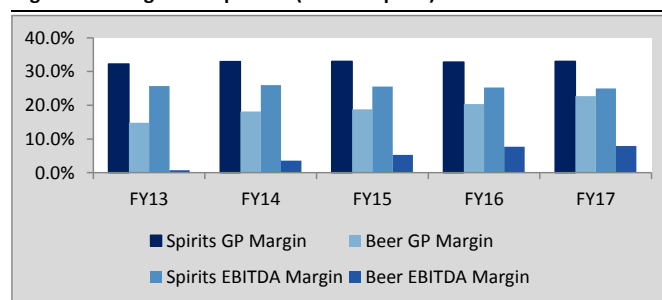


Source: Company Data, KGI Research

Between alcoholic beverages, the spirits segment has managed to maintain its strong profit margins since FY16 while Beer margins have been growing consistently even as sales volumes declined.

Since packaging costs can be lowered with larger volumes, the improvement in beer margins should continue as domestic consumption rebounds, alongside demand growth in Vietnam.

Figure 26: Margins Comparison (Beer Vs Spirits)



Source: Company Data, KGI Research

**Strong distribution network.** The company has 18 distilleries in Thailand supporting the spirits business and an extensive distribution network spanning 400,000 points of sale in Thailand which allows them to maintain their market share and cross-sell their product efficiently.

Figure 27: Thaibev Production Facilities

Production/Distribution Network	Thailand	Scotland	China	Myanmar
Distilleries/Production Facility	18	5	1	2
Breweries	3			
Non-Alcoholic Beverage	11			

Source: Company Data, KGI Research

**Spirits.** The segment is very popular in Thailand, commanding a 90% market share of the Thai market. Key products for spirits include Ruang Khao, Ruang Khao Silver, Hong Thong, Blend 285 and Sang Som. After the acquisition of Grand Royal in 2017, the segment also includes spirits such as Grand Royal Whiskey, Eagle, Royal gin, Special Reserve and Double Gold.

Figure 28: Ruang Khao & Grand Royal Whiskey

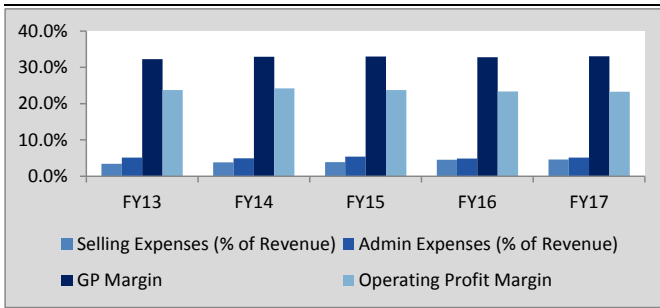


Source: Company Data, KGI Research



Due to the huge variety of products and prices in the spirits segment, the company is able to maintain its 90% market share by catering to different segments of income groups. As a result, this segment has been a cash cow and main revenue driver for ThaiBev, with operating and EBITDA margins at 23% and 25% respectively.

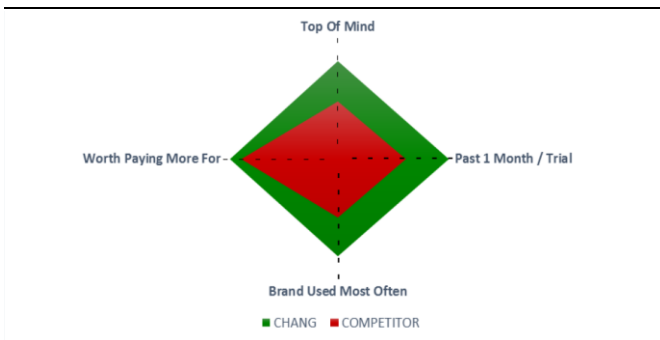
Figure 29: Spirits Profitability



Source: Company Data, KGI Research

**Beer.** ThaiBev's investment into Chang beer has paid off handsomely as volumes grew after the rebranding exercise. According to the latest sentiment surveys, this trend looks likely to continue.

Figure 30: Q4 2017 Sentiment



Source: Company Data, KGI Research

The company wants to make Chang Beer the most popular beer in Thailand by 2020 and will continue to dedicate marketing efforts. Key products of the beer segment includes Chang Beer, Archa, Federbau and Tapper. After the acquisition of Sabeco, the segment also includes beers such as Saigon Beer and 333 Beer.

Figure 31: Saigon Beer and Chang Beer



Source: Company Data, KGI Research

**Non-alcoholic business.** This segment is the only loss making segment for ThaiBev but company has targeted strong growth from this segment and there could be potential business synergies created with its past acquisitions, such as offering its key products to its food restaurants.

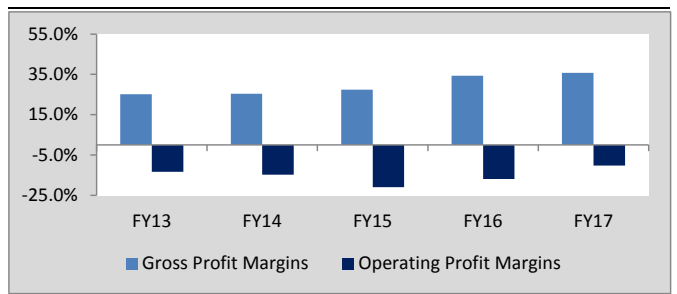
Figure 32: Est Cola & 100 plus



Source: Company Data, KGI Research

Key products include Oishi Green Tea, est Cola, 100 Plus and Crystal Drinking Water. Like the beer segment, margins for the non-alcoholic business have been increasing consistently since FY13. Gross profit margins rose from 25.1% in FY13 to 35.8% as bottled water sales improved. However, breakeven continues to be a work in progress with negative operating margins.

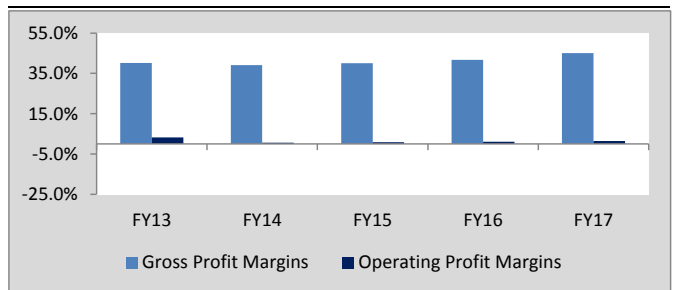
Figure 33: Strong margins but breakeven remains a work in progress



Source: Company Data, KGI Research

**Food.** The food segment caters to consumers with various offerings which includes Japanese Restaurants, Chinese Hotpot/Restaurants and KFC. With gross margins ~40% since FY13, food is the most profitable segment for ThaiBev but its operating costs are high and the company continues to focus on operational efficiency to improve operating profits.

Figure 34: Strong margins but operating costs dilutes bottom line



Source: Company Data, KGI Research

## Financials

Figure 35: Summary

<b>INCOME STATEMENT (THB mn)</b>					
	2016A	2017A	2018F	2019F	2020F
Revenue	191,205	190,697	229,174	235,554	242,493
Cost of revenue	134,371	131,899	161,643	164,727	167,999
<b>Gross profit</b>	<b>56,834</b>	<b>58,798</b>	<b>67,531</b>	<b>70,127</b>	<b>73,794</b>
<b>EBITDA</b>	<b>31,463</b>	<b>32,675</b>	<b>32,644</b>	<b>34,930</b>	<b>37,869</b>
Depreciation and Amortization	4,420	4,308	5,688	5,573	5,819
<b>Operating Profit</b>	<b>25,764</b>	<b>27,243</b>	<b>23,543</b>	<b>25,130</b>	<b>27,698</b>
Financial Income/(Expense)	(1,148.3)	(981.3)	(4,112.5)	(4,227.4)	(4,352.3)
<b>Profit Before Tax</b>	<b>29,867.3</b>	<b>39,812.4</b>	<b>27,615.6</b>	<b>29,202.8</b>	<b>31,771.0</b>
Taxation	(4,835.3)	(5,131.6)	(4,470.8)	(4,727.7)	(5,143.5)
<b>Net income</b>	<b>25,032.0</b>	<b>34,680.8</b>	<b>23,144.8</b>	<b>24,475.1</b>	<b>26,627.5</b>
<b>PATMI</b>	<b>24,949.2</b>	<b>26,013.2</b>	<b>20,677.5</b>	<b>26,080.7</b>	<b>28,233.1</b>
<b>BALANCE SHEET (THB mn)</b>					
	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalents	5,059.2	9,929.2	17,544.1	25,747.6	31,822.2
Inventories	38,145.3	37,761.2	39,857.2	40,617.6	41,424.4
Account Receivables	2,588.2	2,627.2	3,198.6	3,288.0	3,385.1
<b>Total current assets</b>	<b>50,103.9</b>	<b>55,921.0</b>	<b>75,328.1</b>	<b>80,913.1</b>	<b>87,926.3</b>
Net Property, Plant & Equipment	47,870.8	48,531.8	56,612.5	58,498.7	60,198.9
Intangibles	7,237.3	7,156.7	184,883.8	184,883.8	184,883.8
Total Investments	78,462.8	78,372.6	80,001.5	80,001.5	80,001.5
<b>Total assets</b>	<b>187,653.3</b>	<b>194,240.4</b>	<b>409,797.5</b>	<b>420,149.1</b>	<b>429,953.1</b>
Accounts Payables	4,532.3	4,797.5	5,819.1	5,930.2	6,048.0
Short-Term Loans	3,810.7	6,087.6	5,360.3	6,190.6	6,313.5
<b>Total current liabilities</b>	<b>32,818.7</b>	<b>47,670.7</b>	<b>33,818.3</b>	<b>34,913.8</b>	<b>35,318.2</b>
Debentures	2,000.0	2,000.0	50,962.6	50,962.6	50,962.6
Long-Term Loans	25,089.4	8,000.0	170,425.3	170,425.3	170,425.3
<b>Total liabilities</b>	<b>63,941.1</b>	<b>61,727.4</b>	<b>259,502.7</b>	<b>260,598.3</b>	<b>261,002.6</b>
Shareholder's Equity	120,069.8	128,780.0	131,935.6	141,191.7	150,591.3
<b>Total liabilities and equity</b>	<b>187,653.3</b>	<b>194,240.4</b>	<b>409,797.5</b>	<b>420,149.1</b>	<b>429,953.1</b>
<b>CASH FLOW STATEMENT (THB mn)</b>					
	2016A	2017A	2018F	2019F	2020F
<b>Net Income</b>	<b>25,032.0</b>	<b>34,680.8</b>	<b>23,144.8</b>	<b>28,548.0</b>	<b>30,700.4</b>
Depreciation & Amortisation	4,421.0	4,307.7	5,247.7	5,394.2	5,553.6
Other non-cash adjustments	2,196.8	(5,879.8)	3,233.6	3,703.9	4,119.7
Changes in working capital	2,928.3	99.2	744.8	(124.1)	(879.0)
<b>Cash flows from operating activities</b>	<b>29,987.0</b>	<b>29,573.0</b>	<b>22,535.2</b>	<b>27,121.0</b>	<b>28,179.0</b>
Capital expenditure	(4,033.9)	(5,507.4)	(6,854.2)	(7,280.5)	(7,253.8)
Other investing cashflow	2,511.0	2,454.1	(185,692.9)	2,343.3	2,324.8
<b>Cash flows from investing activities</b>	<b>(1,522.8)</b>	<b>(3,053.3)</b>	<b>(192,547.1)</b>	<b>(4,937.2)</b>	<b>(4,929.0)</b>
Proceeds from debentures	0.0	0.0	50,000.0	0.0	0.0
Proceeds from Long-Term Loans	12,000.0	8,000.0	163,843.4	0.0	0.0
Other financing cash flow	(35,712.1)	(29,568.1)	(36,216.6)	(13,980.3)	(17,175.4)
<b>Cash flows from financing activities</b>	<b>(23,712.1)</b>	<b>(21,568.1)</b>	<b>177,626.8</b>	<b>(13,980.3)</b>	<b>(17,175.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,740.0</b>	<b>4,951.6</b>	<b>7,614.9</b>	<b>8,203.6</b>	<b>6,074.6</b>
<b>Beginning Cash</b>	<b>1,497.9</b>	<b>5,059.2</b>	<b>9,929.2</b>	<b>17,544.1</b>	<b>25,747.6</b>
<b>Ending Cash</b>	<b>5,059.2</b>	<b>9,929.2</b>	<b>17,544.1</b>	<b>25,747.6</b>	<b>31,822.2</b>
<b>KEY RATIOS</b>					
	2016A	2017A	2018F	2019F	2020F
Core EPS	0.99	1.04	0.82	1.04	1.12
P/E (x)	21.2	21.6	21.5	17.1	15.8
P/B (x)	4.4	4.4	3.4	3.2	3.0
Dividend Per Share	0.60	0.67	0.54	0.67	0.75
EBITDA/Interest (x)	27.4	33.3	7.9	8.3	8.7
Net Debt/Equity (x)	0.3	0.2	1.3	1.2	1.1
<b>Growth (%)</b>					
Revenue growth	0.0	(0.0)	20.3	2.8	3.0
Operating Profit growth	0.0	6.9	(2.1)	8.9	9.2
Net Income growth	0.0	38.5	(33.3)	5.7	8.8
<b>Profitability (%)</b>					
Gross margin	29.9	30.9	29.6	29.9	30.5
Operating margin	13.5	14.5	11.8	12.5	13.3
Net Margin	13.2	18.3	10.1	10.4	11.0
ROE	21.2	27.1	17.8	17.9	18.3
ROA	18.16	13.64	7.66	5.90	6.26

Source: Company Data, KGI Research

## Management

<p><b>Charoen Sirivadhanabhakdi</b> Executive Chairman</p>	<ul style="list-style-type: none"> <li>Mr. Charoen Sirivadhanabhakdi was appointed Chairman of the Board of Directors of Thai Beverage Public Company Limited in 2003. He has been the Chairman of Beer Thai (1991) Public Company Limited since 2001, the Chairman of the Red Bull Distillery Group of Companies since 2004, the Chairman of TCC Land Co., Ltd. since 2002, the Chairman of Berli Jucker Public Company Limited since 2001 and the Chairman of Southeast Group Co., Ltd. since 1997. In addition, he has been the Chairman of TCC Holding Co., Ltd. since 1987. He was appointed Chairman of the Board of Directors of Fraser and Neave, Limited in February 2013, and as Chairman of the Board of Directors of Frasers Centrepoint Limited in October 2013.</li> <li>Mr. Charoen has received following Royal decorations, the Knight Grand Cordon (Special Class) of the Most Exalted Order of the White Elephant, the Knight Grand Cordon (Special Class) of the Most Noble Order of the Crown of Thailand, the Knight Grand Cross (First Class) of the Most Admirable Order of the Direkgunabhorn and the Knight Commander (Second Class, lower grade) of the Most Illustrious Order of Chula Chom Klao. He was also awarded “Diamond Commerce” Award from Ministry of Commerce.</li> </ul>
<p><b>Khunying Wanna Sirivadhanabhakdi</b> 1<sup>st</sup> Executive Vice Chairman</p>	<ul style="list-style-type: none"> <li>Khunying Wanna Sirivadhanabhakdi was appointed Vice Chairman of the Board of Directors in 2003. She has been the Chairman of Beer Thip Brewery (1991) Co., Ltd. and the Sangsom Group of Companies since 2004, the Vice Chairman of Berli Jucker Public Company Limited since 2001, and the Vice Chairman of the Executive Board of TCC Holding Co., Ltd. since 1972. She was appointed Vice Chairman of the Board of Directors of Fraser and Neave, Limited in February 2013, and as Vice Chairman of the Board of Directors of Frasers Centrepoint Limited in January 2014.</li> </ul>
<p><b>Narong Srisa-an</b> 2<sup>nd</sup> Executive Vice Chairman</p>	<ul style="list-style-type: none"> <li>Mr. Narong Srisa-an was appointed Vice Chairman of the Board of Directors in 2003. He has 44 years’ experience in the banking industry, having served in Thai Farmers Bank Public Company Limited now called KBank from 1954 to 1998 as its Executive Vice Chairman, was an Independent Director of True Corporation Public Company Limited from 1998 to 2011 and was Chairman of Oishi Group Public Company Limited from 2006 to 2014. He also holds directorships in several public companies in Thailand, including Chairman of Double A (1991) Public Company Limited (Previously, Advance Agro Public Company Limited).</li> <li>He holds an Honorary Master of Economics from Thammasat University</li> </ul>
<p><b>Puchchong Chandhanakij</b> 3<sup>rd</sup> Executive Vice Chairman</p>	<ul style="list-style-type: none"> <li>Mr. Puchchong Chandhanakij was appointed a Director and Executive Vice Chairman in 2003. Before joining Thai Beverage Public Company Limited, he was Managing Director of LSPV Co., Ltd. from 1988 to 2003. He was Executive Director (Finance) of the T.C.C. Group of Companies from 1983 to 1988, Director of Robina Credit Ltd. from 1980 to 1982 and Vice President of Asia Credit Ltd. from 1975 to 1979.</li> <li>He holds a Bachelor of Business Administration and a Master of Science in Accounting from California State University, Long Beach, USA.</li> </ul>
<p><b>Narong Srisa-an</b> 4<sup>th</sup> Executive Vice Chairman</p>	<ul style="list-style-type: none"> <li>Ms. Kanoknart Rangsihienchai was appointed as an Executive Vice Chairman of the Company in May 2010. Prior to this appointment, she was the Director and Executive Vice President since 2003. She has extensive experience in finance and accounting. Before joining the Company, she had been the Executive Vice President of the Sangsom Group of Companies from 2000 to 2003, and the Vice President of the Office of Controller, Surathip Group of Companies from 1983 to 1999. From 1975 to 1982, she served as the Accounting Manager of the T.C.C. Group of Companies and as an accountant at J&amp;JHO Co., Ltd., from 1970 to 1975.</li> <li>She holds a Bachelor of Accounting from Thammasat University and has completed the Director Accreditation Program with the Thai Institute of Directors.</li> </ul>

Source: Company Data, KGI Research

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

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