

18 May 2020

Consumer Non-cyclical | Food & Beverage Products

Thai Beverage (THBEV SP)

Neutral (from Buy)

Tougher 3Q Ahead; D/G To NEUTRAL

Target Price (Return): SGD0.72 (7.5%)
 Price: SGD0.67
 Market Cap: USD11,803m
 Avg Daily Turnover (SGD/USD) 14.3m/10.1m

- **Downgrade to NEUTRAL with a lower TP of SGD0.72 from SGD0.79, 8% upside and c.3% yield.** 2QFY20 (Sep) result was in line with our expectation. Core PATMI grew 5% YoY to THB6.1bn on the back of an effective cost control, despite a 12% sales decline. 1H20 core PATMI of THB14.5bn met 59% of our previous FY20F estimate. However, we downgrade our recommendation as the outlook is less rosy with the extension of the alcohol ban in April and a downgrade of the economic forecast of Thailand.
- **Achieved a decent set of 2Q results** despite slower sales. However, we note that the sales decline was largely attributed to SABECO which saw a 47% YoY drop in revenue for the quarter. Its domestic business remained fairly resilient. While the spirits business saw a 4% YoY decline in 2Q20 sales, the decrease in SG&A costs helped to prop up margins and lifted the segment's profit by 9%. Its domestic beer grew 1.6% in spite of the challenging operating environment as it gained market share for the last six consecutive months. EBIT for the NAB division also turned positive as consumers stocked up on essential goods during the period, while the Food division turned to losses as a result of social distancing measures.
- **Outlook less rosy.** Following our previous report, [Thai Beverage: Pouring Water On Songkran; Maintain BUY](#), we note that the Thai Government has extended a nationwide ban on alcohol sales. The ban was then lifted on 3 May but on-premise drinking is still not allowed. The extension of the ban would negatively affect Thaibev's sales but this will be partially offset by consumers stocking up in May. Moving into the second half of 2020, the negative impact of COVID-19 on the economy and weaker farm income as a result of the drought could continue to slow alcohol demand in Thailand.
- **Change in forecasts and TP.** We cut our FY20-22F earnings by 8-10%, which lowers our SOP-derived TP to SGD0.72. Overall, we expect Thaibev's earnings to remain fairly stable despite the challenging operating environment. Investors could look to accumulate when share price is closer to SGD0.60, which implies 15x FY20F P/E (-2SD from mean), for a better risk-reward ratio.
- **Key risks** include alcohol ban reinstatement if COVID-19 cases escalate, slower-than-expected economic recovery in Thailand, disruption in supply chain, market sell-down amidst a worsening COVID-19 outlook.

Analyst

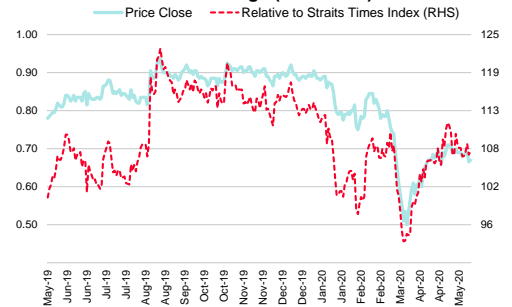
Juliana Cai
 +65 6232 3871
juliana.cai@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.7)	(0.8)	(14.7)	(26.0)	(13.0)
Relative	(3.0)	2.4	6.9	(3.9)	8.6
52-wk Price low/high (SGD)	0.50 – 0.94				

Thai Beverage (THBEV SP)



Source: Bloomberg

Forecasts and Valuation	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover (THBm)	229,695	267,357	247,531	257,021	267,268
Recurring net profit (THBm)	20,453	23,272	22,502	23,609	25,621
Recurring net profit growth (%)	(21.4)	13.8	(3.3)	4.9	8.5
Recurring P/E (x)	18.52	16.28	16.83	16.05	14.79
P/B (x)	3.1	3.3	3.0	2.7	2.5
P/CF (x)	18.11	10.88	11.19	12.65	11.80
Dividend Yield (%)	2.6	3.2	3.0	3.1	3.4
EV/EBITDA (x)	11.61	9.16	8.89	8.27	7.50
Return on average equity (%)	14.4	19.6	18.5	17.7	17.4
Net debt to equity (%)	149.0	130.1	108.0	91.6	76.3

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Singapore	Recurring EPS	0.81	0.93	0.90	0.94	1.02
Consumer Non-cyclical	DPS	0.39	0.48	0.45	0.47	0.51
Thai Beverage	BVPS	4.82	4.61	5.08	5.57	6.12
THBEV SP	Return on average equity (%)	14.4	19.6	18.5	17.7	17.4
Neutral						
	Valuation metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Valuation basis	Recurring P/E (x)	18.52	16.28	16.83	16.05	14.79
SOP	P/B (x)	3.1	3.3	3.0	2.7	2.5
	FCF Yield (%)	4.0	7.7	7.4	6.3	6.9
Key drivers	Dividend Yield (%)	2.6	3.2	3.0	3.1	3.4
i. Market share gain and margin expansion in beer segment;	EV/EBITDA (x)	11.61	9.16	8.89	8.27	7.50
ii. Turnaround of non-alcohol beverage segment;	EV/EBIT (x)	21.31	16.70	16.02	14.97	13.69
iii. Potential M&As.						
	Income statement (THBm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Key risks	Total turnover	229,695	267,357	247,531	257,021	267,268
i. Slower-than-expected recovery in consumption;	Gross profit	66,802	77,391	71,708	74,815	77,960
ii. Unfavourable regulations	EBITDA	45,530	57,791	57,742	60,746	65,307
	Depreciation and amortisation	(20,726)	(26,083)	(25,702)	(27,209)	(29,521)
	Operating profit	24,805	31,708	32,040	33,537	35,786
	Net interest	(4,238)	(5,991)	(6,210)	(5,852)	(5,297)
	Pre-tax profit	24,103	31,312	30,966	32,782	35,568
	Taxation	(4,494)	(5,229)	(5,264)	(5,573)	(6,046)
	Reported net profit	17,943	23,272	22,502	23,609	25,621
	Recurring net profit	20,453	23,272	22,502	23,609	25,621
Company Profile	Cash flow (THBm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Thai Beverage Public Company Limited, together with its subsidiaries, produces and distributes alcoholic and non-alcoholic beverages in Thailand and internationally. The company operates through four segments: Spirits, Beer, Non-Alcoholic Beverages, and Food.	Change in working capital	(855)	3,856	5,056	(623)	(1,006)
	Cash flow from operations	20,913	34,821	33,859	29,937	32,099
	Capex	(5,719)	(5,643)	(5,800)	(5,900)	(6,000)
	Cash flow from investing activities	(195,424)	(11,932)	(5,770)	(5,900)	(6,000)
	Dividends paid	(15,569)	(9,794)	(10,799)	(11,251)	(11,804)
	Cash flow from financing activities	175,763	(24,034)	(32,570)	(26,351)	(26,904)
	Cash at beginning of period	9,929	22,530	24,362	19,882	17,567
	Net change in cash	1,252	(1,146)	(4,481)	(2,314)	(806)
	Ending balance cash	11,516	20,644	19,882	17,567	16,762
	Balance sheet (THBm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Total cash and equivalents	22,530	24,362	19,882	17,567	16,762
	Tangible fixed assets	57,059	59,737	60,406	60,963	61,407
	Total investments	78,870	79,345	81,381	83,379	85,357
	Total assets	401,409	407,240	401,420	403,402	406,946
	Short-term debt	15,111	21,956	22,260	22,260	12,260
	Total long-term debt	216,804	197,977	176,002	161,002	156,002
	Total liabilities	260,838	256,916	236,292	222,417	208,344
	Total equity	140,570	150,325	165,128	180,986	198,602
	Total liabilities & equity	401,409	407,240	401,420	403,402	406,946
	Key metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Revenue growth (%)	20.9	16.4	(7.4)	3.8	4.0
	Recurrent EPS growth (%)	(21.4)	13.8	(3.3)	4.9	8.5
	Gross margin (%)	29.1	28.9	29.0	29.1	29.2
	Operating EBITDA margin (%)	19.8	21.6	23.3	23.6	24.4
	Net profit margin (%)	7.8	8.7	9.1	9.2	9.6
	Dividend payout ratio (%)	54.6	51.8	50.0	50.0	50.0
	Capex/sales (%)	2.5	2.1	2.3	2.3	2.2
	Interest cover (x)	5.85	5.29	5.16	5.73	6.76

Source: Company data, RHB

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Figure 1: 2QFY20 (Sep) result summary

(THB B)	2Q20	2Q19	YoY (%)	1Q20	QoQ (%)	Comments
Revenue	61.4	70.0	-12.3	75.7	-18.9	Sales from all division except NAB have declined.
Gross profit	18.6	20.4	-8.8	21.6	-13.9	Margin increased on improvement in product mix.
Gross margin (%)	30.3	29.2		28.6		
Selling expenses	-6.7	-7.3	-8.8	-6.9	-2.8	Reduction in A&P and staff costs.
Admin expenses	-4.1	-4.1	-0.7	-4.3	-6.9	
Op. profit	7.9	9.0	-12.5	10.4	-24.2	
Op margin (%)	12.9	12.9		13.8		
Finance Cost	-1.7	-1.8	-5.6	-1.8	-1.5	
Associates	0.9	0.7	27.5			
Pretax profit	7.8	8.3	-5.2	10.6	-26.1	
Recurring PATMI	6.1	5.8	5.0	8.4	-27.8	
Net margin (%)	9.9	8.3		11.1		

Source: Company, RHB

Figure 2: Segmental breakdown

	2Q20	2Q19	YoY (%)	1Q20	QoQ (%)	Comments
Spirits						
Revenue (M Baht)	29,841	31,050	-3.9	34,420	-13.3	Weaker sales volume amidst muted Songkran due to COVID-19 outbreak.
Volume (m Liters)	170.0	181.0	-6.1	189.0	-10.1	
ASP (Baht)	175.5	171.5	2.3	182.1	-3.6	ASP improved due to higher proportion of brown spirit sales.
EBITDA	6,971	6,956	0.2	8,782	-20.6	
EBTDA margin (%)	23.4	22.4		25.5		Stronger margin due to better cost control.
Beer						
Revenue (M Baht)	23,653	30,928	-23.5	33,222	-28.8	Mainly attributed to 47% decline in SABECO sales.
Volume (m Liters)	477.0	662.7	-28.0	731.0	-34.7	Thailand domestic volumes grew 1.5% YoY while Vietnam saw 42% decline in sales volumes.
ASP (Baht)	49.6	46.7	6.3	45.4	9.1	
EBITDA	2,529	3,395	-25.5	3,255	-22.3	
EBTDA margin (%)	10.7	11.0		9.8		
Non Alcoholic Beverage						
Revenue (M Baht)	4,476	4,259	5.1	4,214	6.2	Higher sales in drinking water offset decline in green tea, CSD and others.
Volume (m Liters)	432.0	406.0	6.4	399.0	8.3	
ASP (Baht)	10.4	10.5	-1.2	10.6	-1.9	
EBITDA	770	308	150.0	447	72.3	Increase in GPM and better cost containment measures.
EBTDA margin (%)	17.2	7.2		10.6		
Food						
Revenue (M Baht)	3,477	3,780	-8.0	3,874	-10.2	Decline in Oishi food sales amid social distancing measures.
Gross Profit	1514.0	1644.0	-7.9	1713.0	-11.6	
Gross Margin	43.5%	43.5%	0.1	44.2%	-1.5	
EBITDA	230	451	-49.0	462	-50.2	
EBITDA Margin (%)	6.6	11.9		11.9		

Source: Company, RHB

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Figure 3: SOP Valuation

FCFF (ThaiBev core)			
THB m	FY20F	FY21F	FY22F
EBIT (1-T)	21,543	21,758	23,040
+Depreciation	5,138	5,348	5,563
-Capex	-5,800	-5,900	-6,000
-Working Capital	5,056	-623	-1,006
FCFF	25,936	20,583	21,597
Terminal value			497,044
PV	25,936	19,349	458,299
Total discounted FCFF	503,583		
Value of Equity	305,323		
Value/share (THB)	12.16		
Value/share (SGD)	0.53	(A)	
WACC			
Cost of debt	6.4%		
% debt x (1-tax)	3.6%		
Cost of equity	22.8%		
% equity	7.7%		
Cost of equity	72.6%		
Risk free rate	7.7%		
Beta	2.0%		
Market return	0.7		
Terminal growth	9.5%		
	2.0%		
Market cap (SGD m)	22,853		
Market value of equity (THB m)	525,619		
Total debt (THB m)	198,260		
Total value (THB m)	723,879		
F&N share price (SGD)			
Number of shares (m)	1.46		
Market cap (SGD m)	1,447		
ThaiBev's stake	2,507		
Value in F&N stake (SGD m)	28.5%		
Value per share in F&N stake (SGD)	714		
	0.03	(B)	
FPL share price (SGD)			
Number of shares (m)	1.15		
Market cap (SGD m)	2,920		
ThaiBev's stake	3,358		
Value in FCL stake (SGD m)	28.3%		
Value per share in FCL (SGD)	951		
	0.04	(C)	
SAB share price (VND)			
Number of shares (m)	160,000		
Market cap (VND b)	641.3		
SGDVND	102,605		
Implied market cap (SGD m)	17.01		
ThaiBev's stake	6,032		
Value in SAB stake (SGD m)	53.0%		
Value per share in SAB stake	3,197		
	0.13	(D)	
Total value = A+B+C+D (SGD)	0.72		

Source: RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-15	Buy	0.79	0.68
2020-02-17	Buy	0.92	0.83
2020-02-16	Buy	0.92	0.79
2019-11-25	Neutral	0.95	0.89
2019-08-16	Take Profit	0.92	0.89
2019-06-13	Buy	0.92	0.84
2019-05-13	Buy	0.92	0.77
2019-02-18	Buy	0.92	0.82
2019-01-18	Buy	0.85	0.71

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

**RHB Securities Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211