

21 September 2018

Consumer Non-cyclical | Food & Beverage Products

## Thai Beverage

**Cannot Be More Sober; Maintain BUY**

**Buy (Maintained)**

Target Price: SGD0.88  
Price: SGD0.67  
Market Cap: USD11,929m  
Bloomberg Ticker: THBEV SP

**Maintain BUY with SGD0.88 TP, 31% upside. YTD share price has underperformed on weaker-than-expected alcohol consumption in Thailand and unfavourable deal-structure of the SABECO acquisition. Still, we think most of the downside risks have been priced in at current price levels. We believe improving farm income and Thailand's upcoming election would boost overall consumption growth and alcohol demand.**

**Limited downside from here on.** We believe high net gearing and balance sheet risks posed by the unfavourable deal structure of the SABECO acquisition have largely been priced in since 1Q18. The bulk of the share price decline post-2Q18 results was mainly on weaker-than-expected alcohol demand in Thailand, which management alluded to poor rural income.

We expect alcohol consumption to bottom out soon, as Thailand GDP growth remains robust. Although some agricultural subsectors like rubber, fruits, livestock and fishery are still seeing low prices, overall farm income improving in recent months. The upcoming election could also boost overall consumer sentiment.

**Improving farm income should be beneficial for domestic alcohol consumption.** Farm income has shown positive growth since Mar 2018, and YTD farm income has also caught up with last year's level. While some of the agricultural sub-sectors are still underperforming, we note that the Thai Government is putting in measures to support the prices.

Rubber is one of the major crops dragging down the farm price index. Although we expect demand to continue to soften on US-China trade war, the Thai Government is now paying natural rubber growers to cut trees to support prices. As such, we believe MoM prices should not deteriorate significantly from here on. The Government has also set minimum price mechanism for shrimps farmers, link pineapple producers to modern trades and export chickens to China to help the other affected sub-sectors.

**Positive on upcoming election.** Thailand's general election is currently set to be held on 24 Feb 2019. Last week, we saw a strong return on the SET Index, which we liken to the election play. We believe the pre-election campaigns could help to boost sentiment and domestic consumption. Given that most political parties recognised the wealth gap in Thailand, we believe whichever party elected would likely focus on raising the disposable income of the upcountry region.

**Maintain BUY with unchanged TP of SGD0.88.** We expect 4Q18 alcohol volumes to still be on a decline due to the high base effect in 4Q17, as trade agents were stocking up prior to the excise tax hike. But moving into FY19, we think improving rural income, coupled with positive vibes from the general election would offer more upside potential than downside risks to the stock.

### Share Data

Avg Daily Turnover (SGD/USD) 15.9m/11.6m  
52-wk Price low/high (SGD) 0.99 - 0.61  
Free Float (%) 32.2  
Shares outstanding (m) 25,111  
Estimated Return 31%

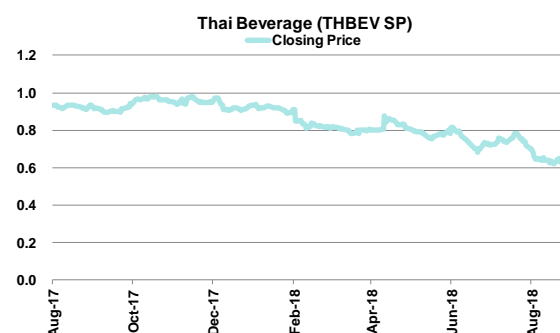
### Shareholders (%)

Charoen Sirivadhanabhakdi 65.9  
Capital Group 5.0

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.2)	3.1	(15.7)	(17.3)	(26.4)
Relative	(20.6)	3.8	(11.6)	(7.8)	(25.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total turnover (THBm)	139,153	189,997	219,215	228,367	239,486
Reported net profit (THBm)	18,920	34,510	22,329	24,817	27,461
Recurring net profit (THBm)	18,920	26,013	22,329	24,817	27,461
Recurring net profit growth (%)	(16.3)	37.5	(14.2)	11.1	10.7
Recurring EPS (THB)	0.75	1.04	0.89	0.99	1.09
DPS (THB)	0.60	0.67	0.44	0.49	0.55
Recurring P/E (x)	21.8	15.9	18.5	16.6	15.0
P/B (x)	3.44	3.20	3.04	2.79	2.53
P/CF (x)	20.7	13.3	14.7	14.8	14.0
Dividend Yield (%)	3.7	4.1	2.7	3.0	3.3
EV/EBITDA (x)	9.9	5.9	10.8	9.5	8.5
Return on average equity (%)	16.0	27.7	16.9	17.5	17.7
Net debt to equity (%)	33.4	23.5	147.8	128.5	109.2
Our vs consensus EPS (adjusted) (%)			(2.6)	(2.1)	(0.0)

Source: Company data, RHB

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