

12 July 2018

Consumer Non-cyclical | Food & Beverage Products

Thai Beverage

Buy (Maintained)

Bright Long Term Prospects

Maintain BUY and a new SGD1.02 TP from SGD1.06, with 40% upside. We remain positive on ThaiBev's medium-term prospects despite near-term softening of demand. With consumer confidence at a 40-month high, we expect premiumisation in alcohol consumption to be realised in 2-3 years. This is in conjunction with efforts to introduce higher-value products like *Ruang Khao Silver*, *Blend 285 Signature* and *Federbrau*. New products like *Kulov Max Seven* and *Star Cooler* are also expected to bring higher margins and reach out to a wider consumer base.

Near-term negatives priced in. YTD, we see the softening of alcohol demand in Thailand from lower consumption in the upcountry. The FIFA World Cup also does not seem to have much of an effect on beer sales in May, based on Thailand's Office of Industrial Economics statistics. We think this has largely been priced in, given Thai Beverage's share price has fallen 20.7% YTD.

Outlook to improve from here on. Consumer confidence is at a 40-month high and GDP is growing at its fastest in five years, boosted by robust exports and tourism. This should eventually have a trickle-down effect to rural income. Price increases for rice and maize as well as a slower contraction of rubber prices should help to raise farm incomes. The general election is also expected to take place in May 2019. We expect more cash and incentives to be circulated in the rural areas, as campaigning kicks off ahead of the elections. These factors should help raise consumption in the upcountry, and benefit ThaiBev.

Premiumisation in the medium term. Over the last 12 months, ThaiBev has launched new products such as *Kulov Max Seven* and *Star Cooler* to target the ready-to-drink segment and female consumers. It also introduced more premium products such as *Ruang Khao Silver*, *Blend 285 Signature* and *Federbrau* to capitalise on the rising affluence of consumers in the medium term. We believe this would help raise margins over the next 2-3 years, as consumers trade up to these premium drinks with rising wages. Widening of portfolio also allows it to generate greater economies of scale.

Maintain BUY. We trim our earnings by 3-4%, which leads to a new SGD1.02 TP due to the lower-than-expected beer sales in May. However, we are positive on medium term prospects on strong economic growth and potential margin expansion from new products.

Near-term, higher rural income driven by campaigns for the upcoming elections would be a positive catalyst for alcohol consumption. Key risks include slower-than-expected recovery in consumption and intensifying competition.

Target Price: SGD1.02
Price: SGD0.73
Market Cap: USD13,416m
Bloomberg Ticker: THBEV SP

Share Data

Avg Daily Turnover (SGD/USD) 13.3m/10.1m
52-wk Price low/high (SGD) 0.68 - 0.98
Free Float (%) 28
Shares outstanding (m) 25,110
Estimated Return 40%

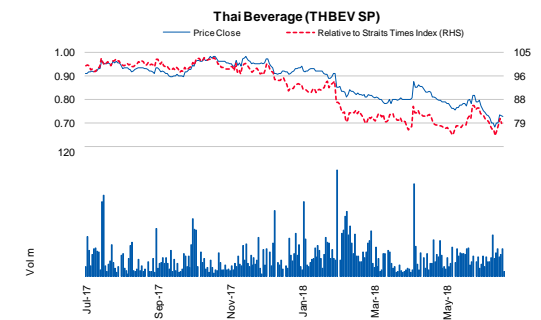
Shareholders (%)

Charoen Sirivadhanabhakdi 65.9
Capital Group 5.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.2)	(8.8)	(9.4)	(22.1)	(20.3)
Relative	(17.4)	(3.9)	(3.5)	(15.3)	(22.0)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total turnover (THBm)	139,153	189,997	229,539	240,653	250,670
Reported net profit (THBm)	18,920	34,510	26,231	28,755	31,964
Recurring net profit (THBm)	18,920	26,013	26,231	28,755	31,964
Recurring net profit growth (%)	(16.3)	37.5	0.8	9.6	11.2
Recurring EPS (THB)	0.75	1.04	1.04	1.15	1.27
DPS (THB)	0.60	0.67	0.52	0.57	0.64
Recurring P/E (x)	23.5	17.1	17.0	15.5	13.9
P/B (x)	3.71	3.46	3.22	2.90	2.60
P/CF (x)	22.3	14.3	14.4	14.0	12.9
Dividend Yield (%)	3.4	3.8	2.9	3.2	3.6
EV/EBITDA (x)	10.7	6.5	9.8	8.7	7.7
Return on average equity (%)	16.0	27.7	19.7	19.7	19.7
Net debt to equity (%)	33.4	23.5	148.8	124.6	103.1
Our vs consensus EPS (adjusted) (%)			2.1	1.5	7.4

Source: Company data, RHB

Analyst

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



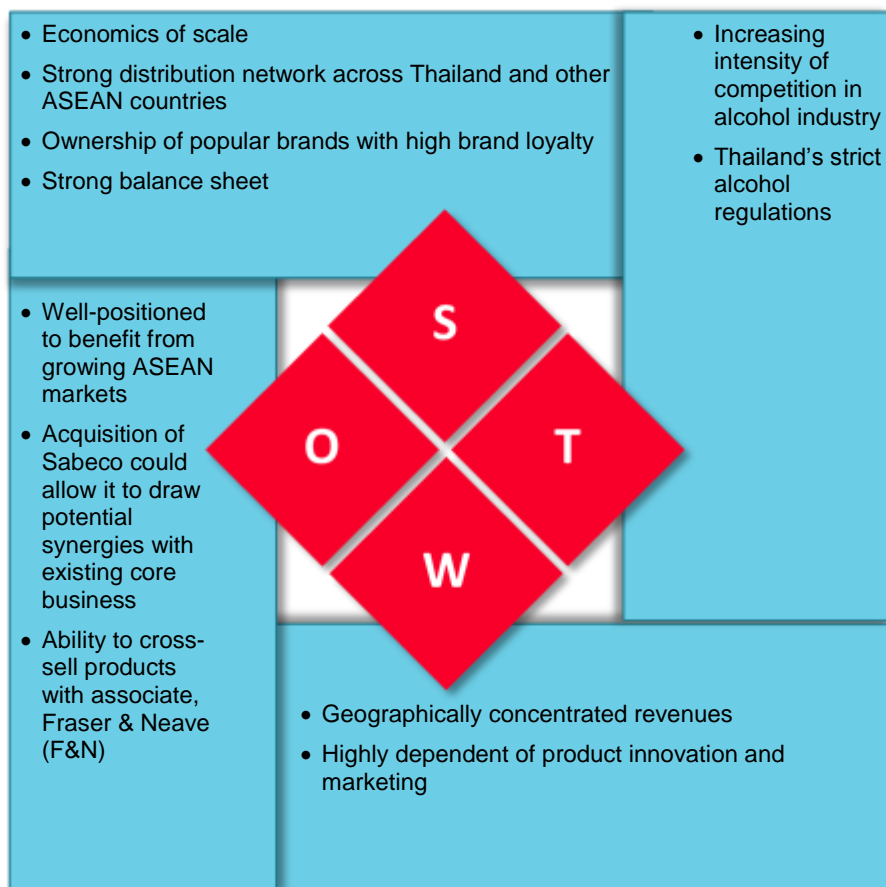
Financial Exhibits

Financial model updated on : 2018-07-11

Asia		Financial summary	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Singapore		Recurring EPS (THB)	0.75	1.04	1.04	1.15	1.27
Consumer Non-cyclical		EPS (THB)	0.75	1.37	1.04	1.15	1.27
Thai Beverage		DPS (THB)	0.60	0.67	0.52	0.57	0.64
Bloomberg	THBEV SP	BVPS (THB)	4.78	5.13	5.50	6.12	6.82
Buy		Weighted avg adjusted shares (m)	25,110	25,110	25,110	25,110	25,110
Valuation basis		Valuation metrics	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
SOP		Recurring P/E (x)	23.5	17.1	17.0	15.5	13.9
		P/E (x)	23.5	12.9	17.0	15.5	13.9
		P/B (x)	3.71	3.46	3.22	2.90	2.60
		FCF Yield (%)	3.8	5.7	5.6	6.0	6.6
		Dividend Yield (%)	3.4	3.8	2.9	3.2	3.6
		EV/EBITDA (x)	10.7	6.5	9.8	8.7	7.7
		EV/EBIT (x)	21.2	14.6	18.0	16.1	14.5
Key drivers							
i. Market share gain and margin expansion in beer segment;							
ii. Narrowing losses in non-alcohol beverage segment;							
iii. Potential M&As.							
Key risks							
i. Slower-than-expected recovery in consumption;							
ii. Increased competition.							
Company Profile							
Thai Beverage, 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.							
Income statement (THBm)		Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F	
Total turnover		139,153	189,997	229,539	240,653	250,670	
Gross profit		41,562	58,099	68,703	72,487	75,706	
EBITDA		38,419	62,205	59,552	65,421	71,049	
Depreciation and amortisation		(19,036)	(34,681)	(27,228)	(30,232)	(33,173)	
Operating profit		19,383	27,524	32,324	35,190	37,876	
Net interest		(771)	(933)	(5,289)	(4,948)	(4,670)	
Income from associates & JVs		3,375	12,569	4,760	5,128	5,666	
Pre-tax profit		22,679	39,812	32,414	35,990	39,492	
Taxation		(3,643)	(5,132)	(5,186)	(5,758)	(6,319)	
Minority interests		(117)	(171)	(997)	(1,476)	(1,209)	
Recurring net profit		18,920	26,013	26,231	28,755	31,964	
Cash flow (THBm)		Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F	
Change in working capital		(1,344)	2,174	(6,625)	(1,360)	(1,313)	
Cash flow from operations		19,937	31,097	30,812	31,820	34,412	
Capex		(2,954)	(5,507)	(5,710)	(5,300)	(4,900)	
Cash flow from investing activities		(2,838)	(5,369)	(8,537)	(5,300)	(4,900)	
Dividends paid		(16,573)	(15,066)	(16,879)	(13,116)	(14,378)	
Cash flow from financing activities		(14,661)	(20,777)	160,367	(29,216)	(27,478)	
Cash at beginning of period		3,490	5,059	9,929	6,009	3,314	
Net change in cash		2,439	4,952	182,642	(2,695)	2,034	
Ending balance cash		5,059	9,929	192,572	3,314	5,348	
Balance sheet (THBm)		Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F	
Total cash and equivalents		5,059	9,929	6,009	3,314	5,348	
Tangible fixed assets		47,871	48,532	54,857	54,584	53,771	
Intangible assets		7,237	7,157	180,720	180,720	180,720	
Total investments		78,463	78,373	80,632	83,260	86,426	
Total other assets		3,978	4,258	7,081	7,077	7,073	
Total assets		187,653	194,240	394,912	396,480	403,037	
Short-term debt		19,311	31,043	17,389	16,389	15,389	
Total long-term debt		27,089	10,000	201,000	186,000	174,000	
Other liabilities		4,033	4,056	4,137	4,137	4,137	
Total liabilities		63,941	61,727	252,150	236,702	224,563	
Shareholders' equity		120,070	128,780	138,132	153,772	171,358	
Minority interests		3,642	3,733	4,630	6,006	7,116	
Total equity		123,712	132,513	142,762	159,778	178,474	
Net debt		41,342	31,114	212,380	199,075	184,041	
Total liabilities & equity		187,653	194,240	394,912	396,480	403,037	
Key metrics		Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F	
Revenue growth (%)		(19.1)	36.5	20.8	4.8	4.2	
Recurrent EPS growth (%)		(16.3)	37.5	0.8	9.6	11.2	
Gross margin (%)		29.9	30.6	29.9	30.1	30.2	
Operating EBITDA margin (%)		27.6	32.7	25.9	27.2	28.3	
Net profit margin (%)		13.6	18.2	11.4	11.9	12.8	
Dividend payout ratio (%)		79.6	48.9	50.0	50.0	50.0	
Capex/sales (%)		2.1	2.9	2.5	2.2	2.0	
Interest cover (x)		25.2	29.5	6.1	7.1	8.1	

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-17	Buy	1.06	0.80
2018-05-10	Buy	1.06	0.81
2017-08-13	Buy	1.10	0.93
2017-04-09	Buy	1.10	0.94
2013-08-19	Not Rated	na	0.54

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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Kuala Lumpur	Hong Kong	Singapore
<p>RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216</p>	<p>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</p>	<p>RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Bangkok
<p>PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777</p>	<p>RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799</p>