

16 April 2020

Consumer Non-cyclical | Food & Beverage Products

## Thai Beverage (THBEV SP)

**Buy** (Maintained)

### Pouring Water On Songkran; Maintain BUY

Target Price (Return): SGD0.79 (+16%)  
 Price: SGD0.68  
 Market Cap: USD11,977m  
 Avg Daily Turnover (SGD/USD) 17.7m/12.8m

- **Maintain BUY with new SOP-derived TP of SGD0.79**, from SGD0.92, 16% upside and 3% yield. The COVID-19 pandemic has resulted in a partial lockdown in Thailand. In the latest measure to contain the spread of the virus, the Government has postponed the *Songkran* holidays (13-15 Apr) to deter gatherings. All provinces have also banned the sale of alcohol during this period. We lower our TP as we expect Thai Beverage to experience some negative impact from this development.

- **No alcohol during Songkran.** Thailand has banned the sale of alcoholic drinks and closure of venues selling alcohol during the *Songkran* holidays to prevent the viral contagion. The ban periods for provinces differ with some bans only lasting two days, some until 30 Apr, while others are until further notice. In Bangkok, the ban would last from 10-20 Apr. The Government has postponed the festive holiday but new dates have not been set.

- **Some disruption but impact is limited compared to other discretionary players.** We lower our FY20F-22F (Sep) earnings by a modest 3-4% amidst the latest alcohol ban. We think 1HFY20F earnings would stay healthy as the group has already reported a strong 1QFY19 PATMI of THB8.4bn while industry sales have remained decent up to Feb 2020.

For the period of 1 Oct 2019 to 29 Feb 2020, Thailand's domestic beer sales have grown 7.4% YoY (Figure 1). In addition, there were media reports of consumer stocking up on alcoholic beverages ahead of the ban, suggesting that alcohol sales could still be propped up in early April. Since c.60-70% of its products are consumed off-premise, we think the impact to Thaibev would be limited relative to products consumed on-premise.

**YTD correction presents opportunity for longer-term investors.** With the lockdown measures in place, we think the worst may be over for Thailand as the number of new COVID-19 cases has come down from its peak in late March (Figure 2). We expect the lockdown measures in Thailand to ease in stages. However, FY21F sales growth would be dependent on the recovery of the country's economy after the pandemic is contained. Currently, the stock is trading at 16x FY20F P/E. Compared to a historical average of c.20x, we think its valuation is compelling for investors with longer investment horizons.

- **Key risks** include prolonged ban on alcohol, economic slowdown in Thailand, disruption in supply chain, market sell-down amidst worsening COVID-19 outlook.

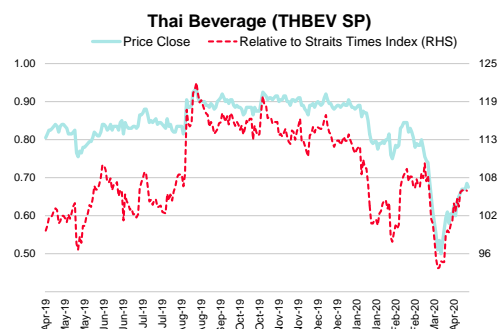
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.2)	3.8	(22.9)	(22.9)	(15.1)
Relative	(5.9)	3.8	(3.8)	(7.4)	5.7
52-wk Price low/high (SGD)				0.50 – 0.94	



Source: Bloomberg

Forecasts and Valuation	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover (THBm)	229,695	267,357	270,360	277,225	288,790
Recurring net profit (THBm)	20,453	23,272	24,452	26,015	28,313
Recurring net profit growth (%)	(21.4)	13.8	5.1	6.4	8.8
Recurring P/E (x)	19.15	16.83	16.02	15.05	13.83
P/B (x)	3.2	3.4	3.1	2.8	2.5
P/CF (x)	18.72	11.25	11.84	12.00	11.29
Dividend Yield (%)	2.5	3.1	3.1	3.3	3.6
EV/EBITDA (x)	11.89	9.38	8.38	7.70	6.95
Return on average equity (%)	14.4	19.6	20.0	19.2	18.9
Net debt to equity (%)	149.0	130.1	108.8	90.7	74.4

Source: Company data, RHB

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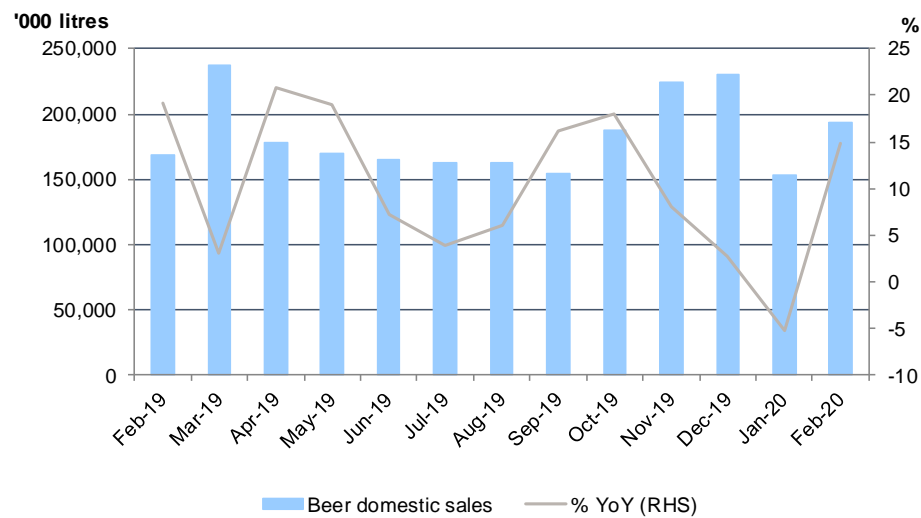
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# Financial Exhibits

<b>Asia</b>	<b>Financial summary (THB)</b>	<b>Sep-18</b>	<b>Sep-19</b>	<b>Sep-20F</b>	<b>Sep-21F</b>	<b>Sep-22F</b>
Singapore	Recurring EPS	0.81	0.93	0.97	1.04	1.13
Consumer Non-cyclical	DPS	0.39	0.48	0.49	0.52	0.56
<b>Thai Beverage</b>	BVPS	4.82	4.61	5.11	5.66	6.27
THBEV SP	Return on average equity (%)	14.4	19.6	20.0	19.2	18.9
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Sep-18</b>	<b>Sep-19</b>	<b>Sep-20F</b>	<b>Sep-21F</b>	<b>Sep-22F</b>
SOP	Recurring P/E (x)	19.15	16.83	16.02	15.05	13.83
	P/B (x)	3.2	3.4	3.1	2.8	2.5
	FCF Yield (%)	3.9	7.5	7.0	6.8	7.3
	Dividend Yield (%)	2.5	3.1	3.1	3.3	3.6
<b>Key drivers</b>	EV/EBITDA (x)	11.89	9.38	8.38	7.70	6.95
i. Market share gain and margin expansion in beer segment;	EV/EBIT (x)	21.83	17.10	14.93	13.81	12.55
ii. Narrowing losses in non-alcohol beverage segment;						
iii. Potential M&As.						
<b>Key risks</b>	<b>Income statement (THBm)</b>	<b>Sep-18</b>	<b>Sep-19</b>	<b>Sep-20F</b>	<b>Sep-21F</b>	<b>Sep-22F</b>
i. Slower-than-expected recovery in consumption;	Total turnover	229,695	267,357	270,360	277,225	288,790
ii. Increased competition.	Gross profit	66,802	77,391	80,781	83,747	87,803
	EBITDA	45,530	57,791	63,037	66,925	72,178
	Depreciation and amortisation	(20,726)	(26,083)	(27,652)	(29,615)	(32,213)
	Operating profit	24,805	31,708	35,385	37,310	39,965
	Net interest	(4,238)	(5,991)	(7,205)	(6,727)	(6,233)
	Pre-tax profit	24,103	31,312	33,316	35,681	38,811
	Taxation	(4,494)	(5,229)	(5,664)	(6,066)	(6,598)
	Reported net profit	17,943	23,272	24,452	26,015	28,313
	Recurring net profit	20,453	23,272	24,452	26,015	28,313
<b>Company Profile</b>	<b>Cash flow (THBm)</b>	<b>Sep-18</b>	<b>Sep-19</b>	<b>Sep-20F</b>	<b>Sep-21F</b>	<b>Sep-22F</b>
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.	Change in working capital	(855)	3,856	2,321	(328)	(1,106)
	Cash flow from operations	20,913	34,821	33,075	32,638	34,691
	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)	(12,054)	(12,226)	(13,008)
	Cash flow from financing activities	175,763	(24,034)	(33,825)	(27,326)	(28,108)
	Cash at beginning of period	9,929	22,530	24,362	17,842	17,254
	Net change in cash	1,252	(1,146)	(6,521)	(588)	583
	Ending balance cash	11,516	20,644	17,842	17,254	17,837
	<b>Balance sheet (THBm)</b>	<b>Sep-18</b>	<b>Sep-19</b>	<b>Sep-20F</b>	<b>Sep-21F</b>	<b>Sep-22F</b>
	Total cash and equivalents	22,530	24,362	17,842	17,254	17,837
	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	402,895	406,013	411,076
	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	237,073	222,901	208,860
	Total equity	140,570	150,325	165,822	183,111	202,217
	Total liabilities & equity	401,409	407,240	402,895	406,013	411,076
	<b>Key metrics</b>	<b>Sep-18</b>	<b>Sep-19</b>	<b>Sep-20F</b>	<b>Sep-21F</b>	<b>Sep-22F</b>
	Revenue growth (%)	20.9	16.4	1.1	2.5	4.2
	Recurrent EPS growth (%)	(21.4)	13.8	5.1	6.4	8.8
	Gross margin (%)	29.1	28.9	29.9	30.2	30.4
	Operating EBITDA margin (%)	19.8	21.6	23.3	24.1	25.0
	Net profit margin (%)	7.8	8.7	9.0	9.4	9.8
	Dividend payout ratio (%)	54.6	51.8	50.0	50.0	50.0
	Capex/sales (%)	2.5	2.1	2.1	2.1	2.1
	Interest cover (x)	5.85	5.29	4.91	5.55	6.41

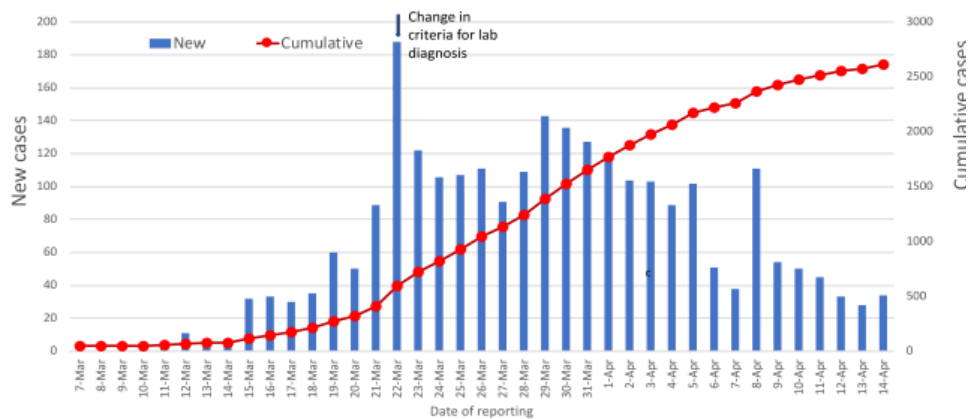
Source: Company data, RHB

Figure 1: Thailand's domestic beer sales



Source: Thailand OIE

Figure 2: New COVID-19 cases in Thailand have declined since partial lockdown



Source: World Health Organisation (WHO)

Figure 3: TP derivation

FCFF (ThaiBev core)			
<b>THB m</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
EBIT (1-T)	22,883	23,958	25,487
+Depreciation	5,138	5,348	5,563
-Capex	-5,800	-5,900	-6,000
-Working Capital	2,321	-328	-1,106
FCFF	24,542	23,078	23,944
Terminal value			544,340
PV	24,542	21,683	501,650
Total discounted FCFF	547,875		
Value of Equity	349,614		
Value/share (THB)	13.92		
Value/share (SGD)	0.61	(A)	
WACC			
	6.4%		
Cost of debt	3.8%		
% debt x (1-tax)	22.8%		
Cost of equity	7.7%		
% equity	72.6%		
Cost of equity			
	7.7%		
Risk free rate	2.0%		
Beta	0.7		
Market return	9.5%		
Terminal growth	2.0%		
Market cap (SGDm)			
	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)			
	1.49		
Number of shares (m)	1,447		
Market cap (SGD m)	2,507		
ThaiBev's stake	28.5%		
Value in F&N stake (SGD m)	714		
Value per share in F&N stake (SGD)	0.03	(B)	
FPL share price (SGD)			
	1.2		
Number of shares (m)	2,920		
Market cap (SGD m)	3,504		
ThaiBev's stake	28.3%		
Value in FCL stake (SGD m)	993		
Value per share in FCL (SGD)	0.04	(C)	
SAB share price (VND)			
	143,400		
Number of shares (m)	641.3		
Market cap (VND b)	91,960		
SGDVND	17.01		
Implied market cap (SGD m)	5,406		
ThaiBev's stake	53.0%		
Value in SAB stake (SGD m)	2,865		
Value per share in SAB stake	0.11	(D)	
<b>Total value = A+B+C+D (SGD)</b>	<b>0.79</b>		

Source: RHB

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-11-28	Buy	0.75	0.64

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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