

8 February 2024

Consumer Non-cyclical | Food & Beverage Products

Carlsberg Brewery (CAB MK)

Buy (Maintained)

Soft Landing Indicating Resilient Demand; Stay BUY

Target Price (Return): MYR22.20 (+14%)
 Price (Market Cap): MYR19.40 (USD1,247m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.97m/0.64m

- **Maintain BUY with new MYR22.20 TP from MYR22.70, 14% upside and c.5% yield.** Carlsberg Brewery's FY23 results missed expectations on weaker-than-expected profit margin. That said, we continue to like the brewery sector for the steady demand for beer and continuous operational efficiency gains to mitigate cost inflation. We believe the current valuation at -1.5SD is unwarranted considering the muted regulatory risks, with political stability and the largely contained contrabands market. Generous dividend payout ratio will be supported by robust cash flow generation.
- **FY23 results were below expectations.** Core net profit of MYR319m (-4% YoY) met 95% and 96% of our and Street's estimates. The negative deviation could be attributed to higher-than-expected input costs and/or marketing spending. Post results, we trim FY24F-25F earnings by 3% and introduce FY26F earnings (+8% YoY). Correspondingly, our DDM-derived TP drops to MYR22.20 (inclusive of a 6% ESG premium), which implies 20x FY24F P/E and represents a discount to peer Heineken Malaysia (HEIM MK, BUY, TP: MYR30). This is justified by the latter's market leadership in Malaysia and higher dividend payout ratio.
- **Results review.** YoY, FY23 revenue fell 6% to MYR2.3bn with Malaysia (-7%) and Singapore (-4%) due to normalisation of demand from a high base as well as soft consumer sentiment on the back of inflationary pressures. In addition, the timing of the Lunar New Year (2023: 22 Jan vs 2024: 10 Feb) was unfavourable to the company's FY23, with the 2023 festive sales partially frontloaded in FY22. As a result, FY23 core PBT dipped 8% to MYR419m, with margin eroding by 0.4 ppt to 18.6%, which we believe is a function of higher input costs notwithstanding the full reflection of ASP adjustments. QoQ, 4Q23 revenue jumped 13% to MYR581m on positive year-end seasonality but 4Q23 core net profit fell 6% due to marketing expenses incurred ahead of the Lunar New Year.
- **Outlook.** Whilst the upcoming implementation of subsidy rationalisation and higher consumption taxes should impact consumption, we expect Carlsberg's topline growth to be sustained by the relatively inelastic demand for beer and healthy legal TIV. In addition, the premiumisation strategy will continue to drive favourable ASP and target the higher income groups that are more insulated from the inflationary pressures. Meanwhile, the company announced plans to further upgrade its production facilities to drive operational efficiency. This will be effective in mitigating any input cost inflation arising from unfavourable FX and hike in service tax with management expecting commodity prices to stay stable.
- **Risks to our recommendation** include an unfavorable regulatory change and weaker-than-expected consumer sentiment.

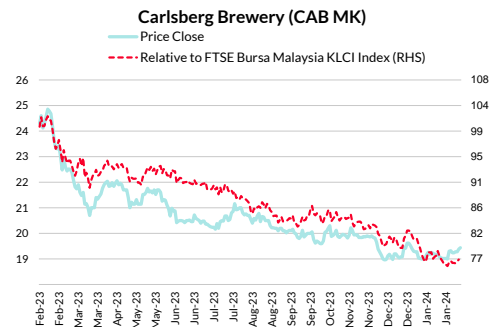
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.8	2.3	(2.5)	(6.1)	(20.0)
Relative	(3.2)	0.6	(5.9)	(10.7)	(22.5)
52-wk Price low/high (MYR)	19.0 - 24.9				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,412	2,261	2,394	2,527	2,668
Recurring net profit (MYRm)	330	322	342	367	396
Recurring net profit growth (%)	60.0	(2.5)	6.3	7.1	8.0
Recurring P/E (x)	17.96	18.42	17.32	16.16	14.96
P/B (x)	40.2	25.2	20.7	20.4	20.2
P/CF (x)	14.30	18.20	14.27	13.31	12.42
Dividend Yield (%)	4.5	4.8	4.9	6.1	6.6
EV/EBITDA (x)	12.42	12.92	11.84	11.02	10.26
Return on average equity (%)	176.7	174.2	131.4	127.3	135.8
Net debt to equity (%)	19.3	10.1	19.8	15.1	9.6

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

Carlsberg continues to contribute to environmental sustainability by implementing a few initiatives such as Zero Carbon Footprint and Zero Water Waste whilst also shifting its reliance to renewable energy. They have Reduce, Reuse, Recycle & Rethink programme to minimise waste.

S: EXCELLENT

Promotes Zero Irresponsible Drinking in its efforts to curb drink-driving and advocate responsible drinking. Carlsberg has put in place policies and frameworks to provide a conducive and safe working environment.

G: GOOD

Carlsberg has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. However, independent directors comprise less than half of the board with women making up 30% of it.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	1.08	1.06	1.12	1.20	1.30
Consumer Non-cyclical	DPS	0.88	0.93	0.95	1.19	1.29
Carlsberg Brewery	BVPS	0.48	0.77	0.94	0.95	0.96
CAB MK	Return on average equity (%)	176.7	174.2	131.4	127.3	135.8
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	17.96	18.42	17.32	16.16	14.96
Dividend Discount Model	P/B (x)	40.2	25.2	20.7	20.4	20.2
	FCF Yield (%)	4.5	4.6	4.5	6.5	7.0
Key drivers	Dividend Yield (%)	4.5	4.8	4.9	6.1	6.6
i. Buoyant consumer sentiment;	EV/EBITDA (x)	12.42	12.92	11.84	11.02	10.26
ii. Market share gain.	EV/EBIT (x)	14.03	14.94	13.80	12.88	11.94
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Excise duty hike;	Total turnover	2,412	2,261	2,394	2,527	2,668
ii. High contraband instances.	Gross profit	796	781	834	887	947
	EBITDA	480	461	507	545	585
	Depreciation and amortisation	(55)	(62)	(72)	(79)	(82)
	Operating profit	425	399	435	466	503
	Net interest	(2)	(5)	(10)	(10)	(9)
	Pre-tax profit	444	420	453	486	525
	Taxation	(120)	(80)	(100)	(107)	(115)
	Reported net profit	317	333	342	367	396
	Recurring net profit	330	322	342	367	396
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	48	(27)	8	7	8
	Cash flow from operations	415	326	416	445	477
	Capex	(148)	(54)	(150)	(60)	(60)
	Cash flow from investing activities	(139)	(38)	(150)	(60)	(60)
	Cash flow from financing activities	(265)	(289)	(218)	(424)	(402)
	Cash at beginning of period	76	91	95	142	104
	Net change in cash	10	(1)	47	(38)	16
	Ending balance cash	86	90	142	104	120
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	91	95	142	104	120
	Tangible fixed assets	212	322	400	381	359
	Total assets	814	1,020	1,052	1,045	1,090
	Short-term debt	117	117	200	150	150
	Total long-term debt	4	2	2	2	2
	Total liabilities	660	779	749	726	755
	Total equity	154	240	303	318	335
	Total liabilities & equity	814	1,020	1,052	1,045	1,090
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	36.1	(6.3)	5.9	5.6	5.6
	Recurrent EPS growth (%)	60.0	(2.5)	6.3	7.1	8.0
	Gross margin (%)	33.0	34.5	34.8	35.1	35.5
	Operating EBITDA margin (%)	19.9	20.4	21.2	21.6	21.9
	Net profit margin (%)	13.1	14.7	14.3	14.5	14.9
	Dividend payout ratio (%)	84.7	85.1	85.0	99.0	99.0
	Capex/sales (%)	6.1	2.4	6.3	2.4	2.2
	Interest cover (x)	141	69	36	35	44

Source: Company data, RHB

Results At a Glance

Figure 1: Carlsberg's quarterly results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	612.8	513.4	580.5	13.1	(5.3)	2,412.5	2,260.9	(6.3)	Demand normalised from a high base and consumer sentiment was soft
EBIT	83.8	89.8	89.1	(0.8)	6.3	425.1	398.8	(6.2)	
<i>EBIT Margin (%)</i>	13.7	17.5	15.3	(2.1)	1.7	17.6	17.6	0.0	
Interest expense	(0.9)	(1.5)	(1.6)			(3.0)	(5.8)		
Interest income	0.0	0.1	0.1			0.8	0.6		
Other operating income	(0.3)	0.4	0.4			2.0	2.1		
Share of associate profits	6.5	9.0	7.8			21.5	26.8		
EI	(9.4)	0.0	11.3			(13.1)	13.7		4Q23 aided by deferred tax assets
Pretax profit	89.1	97.9	95.8	(2.1)	7.5	444.4	419.4	(5.6)	
<i>Pretax Margin (%)</i>	14.5	19.1	16.5	(2.6)	2.0	18.4	18.6	0.1	
Tax	(26.7)	(19.5)	(11.0)	(43.9)	(58.9)	(119.5)	(79.5)	(33.5)	
<i>Effective tax rate (%)</i>	29.9	20.0	11.4	(8.5)	(18.5)	26.9	19.0	(7.9)	
Minority Interest	(2.3)	(2.4)	(1.7)			(7.8)	(7.6)		
Net Profit	60.1	75.9	83.1	9.4	38.2	317.0	332.3	4.8	
Core Profit	69.5	75.9	71.8	(5.5)	3.3	330.1	318.6	(3.5)	Below expectations at 95-96% of forecasts FY23 DPS totalled MYR0.93 (FY22:MYR0.88). Payout ratio consistent at c.85%
<i>Net Margin (%)</i>	11.3	14.8	12.4	(2.4)	1.0	13.7	14.1	0.4	
Breakdown by region									
Revenue									
Malaysia	427.7	362.0	407.0	12.4	(4.8)	1,732.6	1,610.0	(7.1)	
Singapore	185.1	151.4	173.5	14.6	(6.2)	679.9	650.9	(4.3)	
Total	612.8	513.4	580.5	13.1	(5.3)	2,412.5	2,260.9	(6.3)	
Operating profit									
Malaysia	60.2	73.8	66.9	(9.2)	11.2	332.5	311.7	(6.3)	
Singapore	23.8	16.3	24.0	47.4	1.0	89.9	87.1	(3.1)	
Total	84.0	90.1	91.0	1.0	8.3	422.3	398.8	(5.6)	
Operating margin (%)									
Malaysia	14.1	20.4	16.4	(3.9)	2.4	19.2	19.4	0.2	
Singapore	12.8	10.8	13.8	3.1	1.0	13.2	13.4	0.2	
Total	13.7	17.5	15.7	(1.9)	2.0	17.5	17.6	0.1	

Source: Company data, RHB

Emissions And ESG

Trend analysis

On a per hectolitre (hl) basis, Carlsberg has managed to reduce the total carbon emissions by 7.7% YoY in 2022.

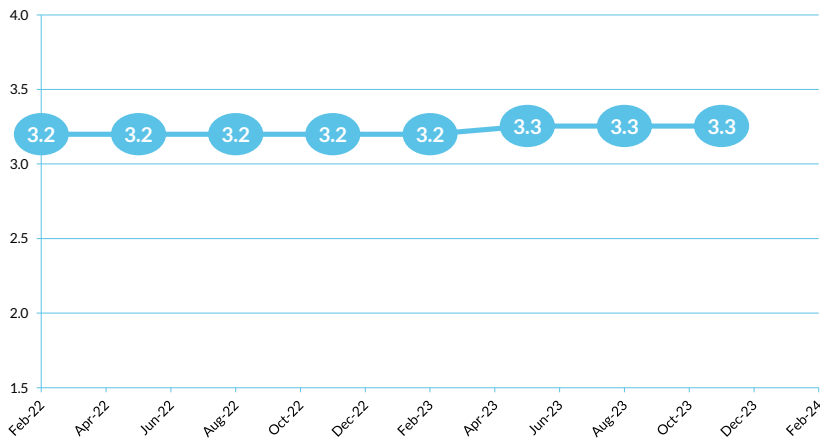
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Zero use of coal, as Carlsberg uses natural gas and biogas from its wastewater treatment plant.
- 100% use of renewable electricity with the purchase of I-REC.
- 100% of the cans, corrugated boards, and shrink and stretch wraps disposed in its brewery are recycled.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-01	Buy	22.7	19.8
2023-05-10	Neutral	22.7	21.6
2023-02-24	Neutral	25.0	23.0
2022-11-13	Neutral	25.7	23.4
2022-08-22	Neutral	25.1	24.0
2022-05-24	Neutral	23.8	22.1
2022-02-17	Neutral	23.8	22.3
2021-11-14	Buy	24.6	21.6
2021-10-13	Neutral	23.1	22.5
2021-08-22	Neutral	22.2	21.9
2021-02-19	Neutral	22.2	23.4
2020-11-13	Neutral	22.5	23.3
2020-08-17	Neutral	22.5	23.3
2020-05-31	Sell	23.0	28.9
2020-04-09	Neutral	23.5	24.8

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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