

15 May 2024

Consumer Non-cyclical | Food & Beverage Products

Thai Beverage (THBEV SP)

Buy (Maintained)

Beer Segment Supporting Outlook; Maintain BUY

Target Price (Return): SGD0.71 (40.0%)
 Price (Market Cap): SGD0.51 (USD9,379m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 19.4m/14.3m

- **Maintain BUY, new SGD0.71 TP from SGD0.76, 40% upside with c.4% FY24F (Sep) yield.** We remain positive on Thai Beverage due to its strong market leadership in Thailand and Vietnam, and being a beneficiary of the economic recovery in both countries. We expect consumption to recover in the two nations, delivering earnings growth in the latter part of the year. Its valuation is attractive – the stock is trading at c.12x FY25F P/E, at around -1.5D from the historical forward mean of c.19x.
- **2Q24 net profit in line with expectations.** 2Q24 revenue came in at THB72bn (+6.3% YoY) while EBITDA and net profit registered THB13bn (+7.9% YoY) and THB15bn (-6% YoY) – within expectations. Revenue growth was led largely by the beer and non-alcoholic business segments, which grew +13% and +9% YoY to THB30bn and THB5.3bn on sales volume increases. In addition, the beer business also benefitted from price adjustments made in 2023. The spirits revenue was flat at THB32bn (+0.6% YoY), where volume sales declined 1.1% YoY, offset by price increases – especially in the small bottle brown spirits product range. Food revenue grew 4.5% YoY to THB5bn, led by new stores, and better brand visibility and accessibility. Overall, EBITDA margin increased to 18.3% (+0.3ppts vs 18% in 2Q23), lifted by the spirits and non-alcoholic businesses, which collectively saw lower raw material prices, better productivity and cost efficiencies, as well as lower selling and marketing costs. An unchanged interim DPS of 1.50 THB cents was declared, in line with expectations.
- **Earnings forecasts maintained.** We have left our earnings unchanged, as 2Q24's results were largely in line with our forecasts. Our SOP TP is, nonetheless, reduced from SGD0.76 to SGD0.71 after factoring in higher WACC from a steeper cost of debt on its balance sheet and less favourable exchange rates between SGD and THB. Going forward, we still expect revenue to grow by a CAGR of 3% on the back of improving demand and higher volume consumption in both Vietnam and Thailand. The beer business in Thailand is already seeing firm volume sales and demand in the current quarter – this is as tourist arrivals and events pick up. Vietnam's beer sales in 1Q24 were also buoyed by price increases and volume growth. Continued momentum in consumption should support sales growth going forward. Our forecast factors slight margin expansion as input costs remain favourably hedged going forward. Besides, we expect marketing spend to remain efficient, supporting operating margins. Earnings are hence expected to grow by 3-5% YoY going forward. RHB estimates Thailand and Vietnam's GDP to accelerate from 1.9% and 5.1% YoY last year to 3.5% and 6.4% YoY this year.
- **Downside risks to our earnings** and recommendation include a slower-than expected pick-up in consumption and increased competition. As THBEV's ESG score is 3.2 out of 4 – above our country median – we apply a 2% premium to our SOP TP to arrive at our TP.

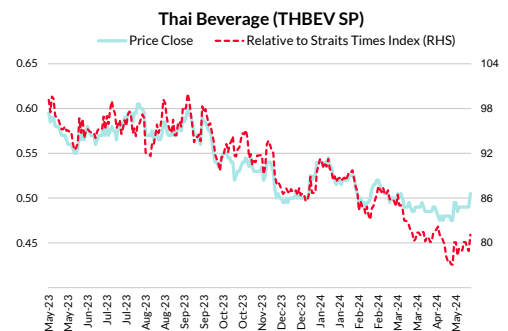
Analyst

Alfie Yeo
 +65 6320 0810
alfie.yeo@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	3.1	2.0	(4.7)	(14.4)
Relative	(6.1)	0.1	(3.6)	(11.4)	(17.7)
52-wk Price low/high (SGD)				0.48	-0.61



Source: Bloomberg

Forecasts and Valuation	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Total turnover (THBm)	272,359	279,085	287,566	296,101	304,910
Recurring net profit (THBm)	30,106	27,435	28,442	29,770	31,198
Recurring net profit growth (%)	22.4	(8.9)	3.7	4.7	4.8
Recurring P/E (x)	11.45	12.57	12.13	11.59	11.06
P/B (x)	1.7	1.7	1.6	1.5	1.4
P/CF (x)	8.28	11.74	9.87	9.36	9.10
Dividend Yield (%)	4.4	4.4	4.3	4.5	4.7
EV/EBITDA (x)	9.31	9.78	9.00	8.40	7.82
Return on average equity (%)	16.0	13.5	13.7	13.4	13.1
Net debt to equity (%)	62.7	64.8	57.1	49.0	41.6

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

Committed to continuously developing sustainability throughout its value chain by applying new technology to improve efficiency, build operational excellence, manage risks in business operations, and collaborate with business partners to promote environmental and social values.

S: EXCELLENT

Dedicated to corporate social responsibility programmes across a broad range of activities throughout Thailand, including across many demographics, while focusing on five key dimensions – education, public health, sports, arts, and culture & community and social development.

G: GOOD

Adheres to the Code of Business Conduct with business management systems that are efficient, transparent, and auditable. Aligned with the principles of corporate governance to build shareholders' and stakeholders' confidence, strengthen THBEV's competitiveness, and drive business performance.

Financial Exhibits

Asia	Financial summary (THB)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Singapore	Recurring EPS	1.20	1.09	1.13	1.18	1.24
Consumer Non-cyclical	DPS	0.60	0.60	0.59	0.62	0.65
Thai Beverage	BVPS	8.19	8.01	8.54	9.14	9.77
THBEV SP	Return on average equity (%)	16.0	13.5	13.7	13.4	13.1
Buy						
	Valuation metrics	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Valuation basis	Recurring P/E (x)	11.45	12.57	12.13	11.59	11.06
SOP	P/B (x)	1.7	1.7	1.6	1.5	1.4
	FCF Yield (%)	11.1	7.2	8.3	8.9	9.2
	Dividend Yield (%)	4.4	4.4	4.3	4.5	4.7
Key drivers	EV/EBITDA (x)	9.31	9.78	9.00	8.40	7.82
i. Market share gain and margin expansion in beer segment;	EV/EBIT (x)	11.20	11.90	10.91	10.18	9.47
ii. Potential M&A.						
	Income statement (THBm)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Key risks	Total turnover	272,359	279,085	287,566	296,101	304,910
i. Slower-than-expected recovery in consumption;	Gross profit	80,456	82,801	86,464	89,030	91,681
ii. Increased competition.	EBITDA	46,444	44,071	46,309	47,691	49,116
	Depreciation and amortisation	(7,861)	(7,843)	(8,081)	(8,321)	(8,568)
	Operating profit	38,583	36,229	38,228	39,370	40,548
	Net interest	(4,654)	(4,303)	(4,893)	(4,464)	(3,946)
	Pre-tax profit	39,941	36,410	37,746	39,509	41,404
	Taxation	(5,436)	(5,682)	(5,891)	(6,166)	(6,462)
	Reported net profit	30,106	27,435	28,442	29,770	31,198
	Recurring net profit	30,106	27,435	28,442	29,770	31,198
	Cash flow (THBm)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Change in working capital	4,961	(2,971)	(1,167)	(792)	(1,405)
	Cash flow from operations	41,662	29,362	34,957	36,869	37,903
	Capex	(3,333)	(4,684)	(6,200)	(6,200)	(6,200)
	Cash flow from investing activities	(13,276)	(4,689)	(6,200)	(6,200)	(6,200)
	Dividends paid	(12,560)	(15,075)	(15,075)	(14,790)	(15,481)
	Cash flow from financing activities	(24,515)	(28,975)	(18,015)	(17,730)	(18,420)
	Cash at beginning of period	38,293	51,867	45,672	56,415	69,354
	Net change in cash	3,870	(4,302)	10,742	12,939	13,283
	Ending balance cash	41,113	48,503	56,415	69,354	82,637
	Balance sheet (THBm)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Total cash and equivalents	51,867	45,672	56,415	69,354	82,637
	Tangible fixed assets	59,176	57,528	55,647	53,526	51,158
	Total investments	112,630	110,601	114,413	118,415	122,618
	Total assets	507,789	494,549	508,665	525,235	542,157
	Short-term debt	55,306	61,922	61,922	61,922	61,922
	Total long-term debt	153,011	140,285	140,285	140,285	140,285
	Total liabilities	258,400	253,027	253,303	254,259	254,659
	Total equity	249,389	241,522	255,362	270,976	287,498
	Total liabilities & equity	507,789	494,549	508,665	525,235	542,157
	Key metrics	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Revenue growth (%)	13.2	2.5	3.0	3.0	3.0
	Recurrent EPS growth (%)	22.4	(8.9)	3.7	4.7	4.8
	Gross margin (%)	29.5	29.7	30.1	30.1	30.1
	Operating EBITDA margin (%)	17.1	15.8	16.1	16.1	16.1
	Net profit margin (%)	11.1	9.8	9.9	10.1	10.2
	Dividend payout ratio (%)	50.1	54.9	52.0	52.0	52.0
	Capex/sales (%)	1.2	1.7	2.2	2.1	2.0
	Interest cover (x)	8.29	8.42	7.81	8.82	10.28

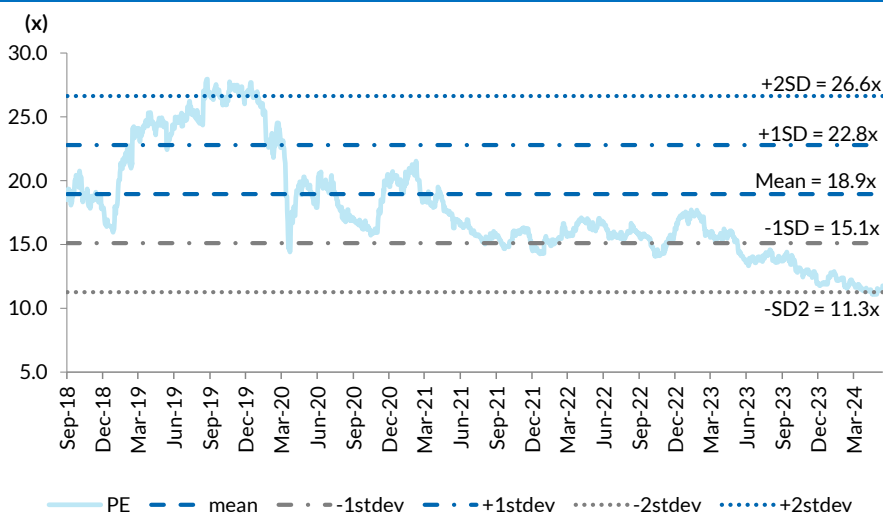
Source: Company data, RHB

Figure 1: 1Q24 dragged by beer segment's brand investment

FYE Sep (THBm)	2QFY23	2QFY24	YoY (%)	Comments
Spirits	31,443	31,621	0.6%	1.1% decline in sales volume but offset by price increase and portfolio mix.
Beer	26,502	29,904	12.8%	7.1% increase in sales volume and price adjustment from 2023.
NAB	4,830	5,246	8.6%	7.9% increase in sales volume led by carbonated soft drinks and drinking water.
Food	4,672	4,884	4.5%	New stores, brand visibility, and accessibility.
Elimination	-51	-21	-58.8%	
Revenue	67,396	71,634	6.3%	In line with expectations.
Spirits	7,734	8,174	5.7%	
Beer	3,350	3,782	12.9%	
NAB	644	738	14.6%	
Food	430	427	-0.7%	
Reported EBITDA	12,158	13,121	7.9%	
Spirits	24.6%	25.8%	1.2ppts	Better cost management, and decline in selling and marketing costs.
Beer	12.6%	12.6%	0.0ppts	Lower raw material, packaging and production efficiency offset by higher marketing costs.
NAB	13.4%	14.1%	0.7ppts	Decline in packaging costs and better production efficiency.
Food	9.2%	8.7%	-0.5ppts	Higher material, and pre-opening costs from expansion of new outlets.
EBITDA margin	18.0%	18.3%	0.3ppts	In line with expectations.

Source: Company data, RHB

Figure 2: THBEV's historical average P/E



Source: Bloomberg

Figure 3: SOP valuation

	Value (SGD/share)	Basis
Core business	0.55	DCF (WACC: 7%, TG: 2%).
29% of Fraser & Neave	0.02	Fair value (current share price).
28% of Frasers Property	0.04	Fair value (current share price).
53% of SABECO	0.08	Fair value (current share price).
SOP TP (intrinsic value)	0.69	
ESG premium	2%	
TP with ESG premium	0.71	

Source: RHB

Figure 4: DCF valuation of core business

THBm	FY24F	FY25F	FY26F	FY27F	Terminal
EBIT (1-T)	26,484	27,275	28,090	28,371	
+Depreciation	7,168	7,381	7,600	7,676	
-Capex	-6,200	-6,200	-6,200	-6,262	
-Working capital	-1,167	-792	-1,405	-1,419	
FCFF	26,285	27,663	28,086	28,366	568,343
PV of FCFF	24,557	24,144	22,900	21,608	
PV of terminal value	432,930				
Total discounted FCFF	526,139				
Net cash (THBm)	-156,534				
Value of equity	369,605				
Value/share (THB)	14.71				
Value/share (SGD)	0.55				

Source: Company data, RHB

Emissions And ESG

Trend analysis

In 2023, THBEV has reduced its Scope 1 and Scope 2 greenhouse gas (GHG) emissions by 8.7% compared to 2019 (excluding Vietnam) and is targeting net-zero GHG emissions for Scopes 1 & 2 by 2040 and net-zero GHG emissions for scope 3 by 2050.

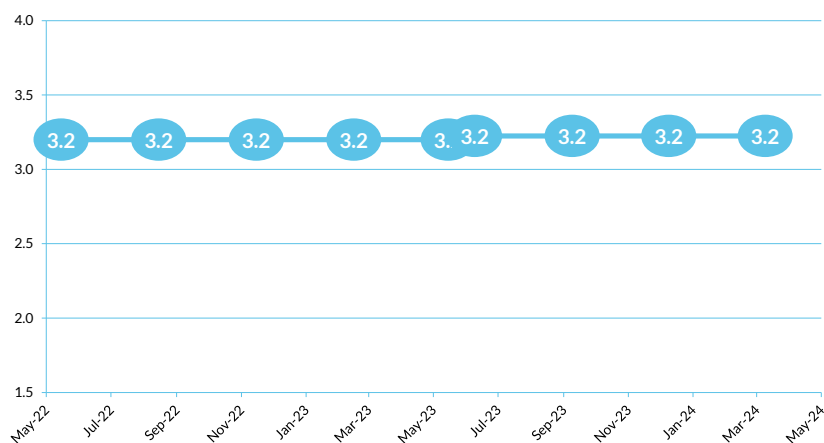
Emissions (tCO2e)	Sep-21	Sep-22	Sep-23
Scope 1	1,218,876	1,194,495	1,248,375
Scope 2	174,889	194,733	140,318
Scope 3	-	-	1,956,471
Total emissions	1,393,765	1,389,228	3,345,164

Source: Company data, RHB

Latest ESG-Related Developments

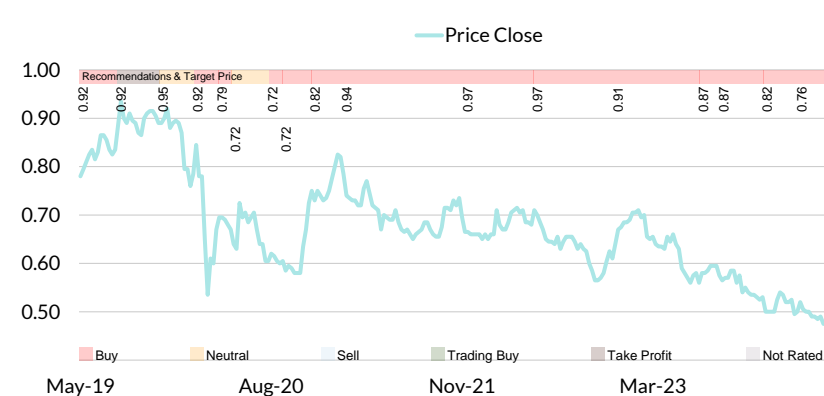
- THBEV targets to use 50% renewable energy by 2030 from 37% (excluding Vietnam) in 2023.
- In 2023, its proportion of reused and recycled packaging based on the number of glass bottles sold in Thailand stood at 97%, and 73% of its Non-alcoholic beverages in Thailand were certified as "Healthier Choice".

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-15	Buy	0.76	0.50
2023-11-23	Buy	0.82	0.54
2023-08-10	Buy	0.87	0.57
2023-06-21	Buy	0.87	0.57
2022-11-27	Buy	0.91	0.61
2022-05-17	Buy	0.97	0.69
2021-11-29	Buy	0.97	0.69
2021-02-11	Buy	0.94	0.79
2020-11-27	Buy	0.82	0.75
2020-09-17	Buy	0.72	0.61
2020-08-16	Buy	0.72	0.61
2020-05-17	Neutral	0.72	0.67
2020-04-15	Buy	0.79	0.68
2020-02-17	Buy	0.92	0.83
2020-02-16	Buy	0.92	0.79

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
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Not Rated:	Stock is not within regular research coverage

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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 2302 8100
Fax : +603 2302 8134

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

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 Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470