

15 February 2024

Consumer Non-cyclical | Food & Beverage Products

## Thai Beverage (THBEV SP)

**Buy** (Maintained)

### Recovery Still Anticipated; Keep BUY

- **Maintain BUY, new SGD0.76 TP from SGD0.82, 51% 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. Even though 1Q24 earnings missed estimates, we anticipate consumption recovery in Thailand and Vietnam to come through, delivering earnings growth in the latter part of the year. Its valuation is attractive – the stock is trading at c.11x FY24F P/E, at around -2SD from the historical forward mean of c.19x.
- **1Q24 earnings below estimates.** 1Q24 revenue came in at THB76bn (-5.9% YoY) while EBITDA registered THB14bn (+1.9% YoY), below expectations. Revenue was dragged by the beer business (-14% YoY, THB33bn) due to slower-than-expected economic recovery in Vietnam and Thailand. Apart from that, spirits revenue rose 0.5% YoY to THB34bn on better selling prices, while NAB and Food increased 1.6% and 5.9% YoY to THB5bn each on better sales volume and brand visibility, new stores, and promotions. THBEV's overall EBITDA margin, however, increased to 18.1% (-1.4ppt vs 16.7% in 1Q23), helped by the beer (+1.8ppt to 12%) and non-alcoholic beverages (NAB) (+0.7ppts to 10%) businesses, albeit mitigated by better margins in the spirits (+0.2ppts to 27%, higher selling prices) segment. EBITDA margin for the food unit was flat at c.11%. EBITDA margins outperformed, largely due to lower raw material and packaging costs in the beer business, and prudent cost management.
- **We cut FY24-26F earnings by 2-5%.** We factor in the lower-than-expected 1Q24 revenue and earnings, which brings down our FY24-26F net profit forecasts by 2-5%. Both FY24-26F revenue and EBITDA are lowered 2-6%, accounting for weak sales in the beer business offset by better margins due to favourable raw material costs and cost management. We still expect earnings to grow by a more conservative 3-5% YoY going forward. Our SOP-based TP is correspondingly lowered to SGD0.76, from SGD0.82.
- **Our recovery thesis remains intact.** We continue to see better consumption and economic recovery driving volume growth in the latter part of the year. Thailand's consumer confidence index continued to improve to YTD high of 62.9pts in Dec 2023, hence we remain positive on the consumption recovery in Thailand. Based on RHB economists' estimates, GDP growth for Thailand and Vietnam is expected to accelerate from 2.5% and 4.7% YoY this year, to 4% and 6.4% YoY in 2024.
- **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.

Target Price (Return): SGD0.76 (53.2%)  
 Price (Market Cap): SGD0.50 (USD9,213m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (SGD/USD) 11.7m/8.76m

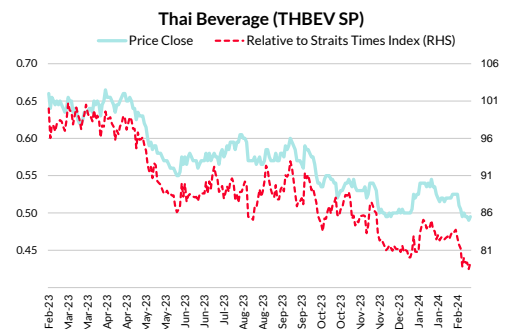
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.7)	(7.5)	(6.6)	(12.4)	(25.0)
Relative	(2.6)	(5.8)	(7.7)	(9.0)	(19.6)
52-wk Price low/high (SGD)				0.49	-0.67



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)	11.07	12.15	11.72	11.20	10.68
P/B (x)	1.6	1.7	1.6	1.5	1.4
P/CF (x)	8.00	11.35	9.54	9.04	8.79
Dividend Yield (%)	4.5	4.5	4.4	4.6	4.9
EV/EBITDA (x)	9.06	9.52	8.75	8.16	7.58
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

<b>Asia</b>	<b>Financial summary (THB)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
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
<b>Thai Beverage</b>	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						
	<b>Valuation metrics</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	11.07	12.15	11.72	11.20	10.68
SOP	P/B (x)	1.6	1.7	1.6	1.5	1.4
	FCF Yield (%)	11.5	7.4	8.6	9.2	9.5
	Dividend Yield (%)	4.5	4.5	4.4	4.6	4.9
<b>Key drivers</b>	EV/EBITDA (x)	9.06	9.52	8.75	8.16	7.58
i. Market share gain and margin expansion in beer segment;	EV/EBIT (x)	10.90	11.58	10.60	9.88	9.18
ii. Potential M&As.						
	<b>Income statement (THBm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
<b>Key risks</b>	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
<b>Company Profile</b>	Net interest	(4,654)	(4,303)	(4,893)	(4,464)	(3,946)
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.	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
	<b>Cash flow (THBm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	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
	<b>Balance sheet (THBm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	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
	<b>Key metrics</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	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

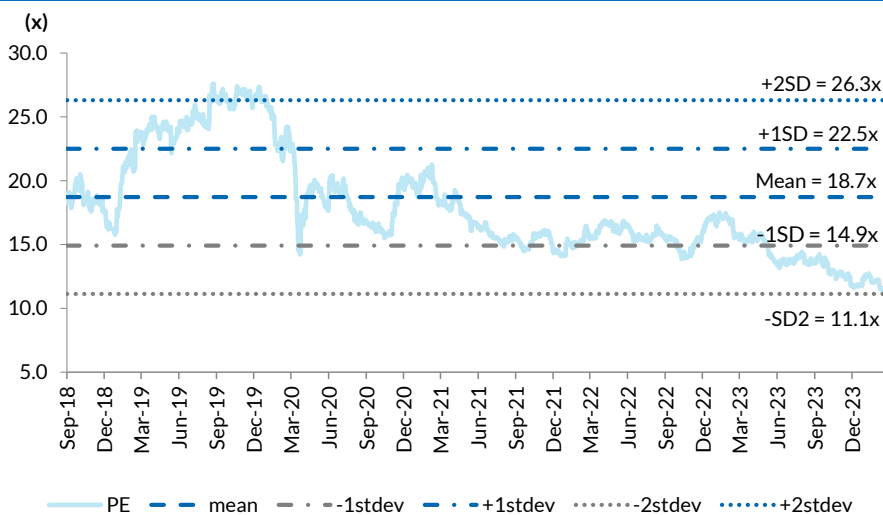
Source: Company data, RHB

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

FYE Sep (THBm)	1Q23	1Q24	YoY (%)	Comments
Spirits	33,718	33,876	0.5%	1.4% decline in sales volume but offset by price increase
Beer	37,932	32,619	-14.0%	15% decline in sales volume offset by price adjustment
NAB	4,609	4,682	1.6%	4.5% increase in sales volume
Food	4,694	4,972	5.9%	New stores, promotion, and brand visibility
Elimination	-53	-42	-20.8%	
<b>Revenue</b>	<b>80,900</b>	<b>76,107</b>	<b>-5.9%</b>	<b>Below expectations</b>
Spirits	8,920	9,042	1.4%	
Beer	3,680	3,756	2.1%	
NAB	409	449	9.8%	
Food	523	541	3.4%	
<b>Reported EBITDA</b>	<b>13,532</b>	<b>13,788</b>	<b>1.9%</b>	
Spirits	26.5%	26.7%	0.2ppt	Price adjustment, better mix of higher-margin brown spirits.
Beer	9.7%	11.5%	1.8ppt	Lower raw material and packaging costs, cost management
NAB	8.9%	9.6%	0.7ppt	Higher production efficiency and lower packaging costs.
Food	11.1%	10.9%	-0.3ppt	New stores, price tiers introduction, new promotion items, and combos
<b>EBITDA margin</b>	<b>16.7%</b>	<b>18.1%</b>	<b>1.4ppt</b>	<b>Above expectations</b>

Source: Company data, RHB

Figure 2: THBEV's historical average P/E



Source: Bloomberg

Figure 3: SOP valuation

	Value (SGD/share)	Basis
Core business	0.59	DCF (WACC:6.8%, TG:2%)
29% of Fraser & Neave Ltd	0.02	Fair value (current share price)
28% of Frasers Property	0.04	Fair value (current share price)
53% of SABECO	0.09	Fair value (current share price)
<b>SOP TP (intrinsic value)</b>	<b>0.74</b>	
ESG premium	2%	
<b>TP with ESG premium</b>	<b>0.76</b>	

Source: RHB

Figure 4: Segment forecast

FYE Sep (THBm)	2023	2024F	2025F	2026F
Spirits	119,799	123,393	127,095	130,908
Beer	120,825	124,450	128,183	132,029
NAB	19,602	19,700	19,799	19,898
Food	19,070	20,024	21,025	22,076
Elimination	-211	-	-	-
<b>Revenue</b>	<b>279,085</b>	<b>287,566</b>	<b>296,101</b>	<b>304,910</b>
Spirits	26,636	28,102	28,945	29,814
Beer	8,400	9,095	9,367	9,648
NAB	611	551	553	556
Food	354	481	505	530
Elimination	228	0	0	0
<b>Operating profit</b>	<b>36,229</b>	<b>38,228</b>	<b>39,370</b>	<b>40,548</b>

Source: Company data, RHB

Figure 5: Thailand's tourist arrivals

Thailand	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
International tourists (m)	32.5	35.6	38.2	39.8	6.7	0.4	11.2	28.2	35.0	39.0
Domestic tourists (m trips)	145	153	166	166	90	53	189	240	245	250
Chinese tourists	8.8	9.8	10.5	11.0	1.2	0.0	0.3	3.5	6.0	9.0
% Chinese tourist contribution	26.9%	27.6%	27.6%	27.6%	18.6%	3.0%	2.0%	12.4%	17.1%	23.1%

Source: Ministry of Tourism and Sports, World Bank, RHB

## Emissions And ESG

### Trend analysis

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

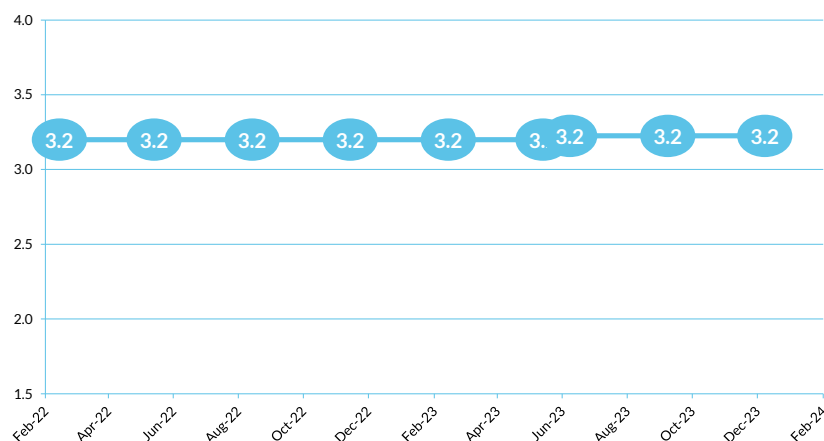
Emissions (tCO2e)	Sep-21	Sep-22	Sep-23
Scope 1	1,218,876	1,194,495	1,248,375
Scope 2	174,889	194,733	140,318
Scope 3	-	-	1,956,471
Total emissions	1,393,765	1,389,228	3,345,164

Source: Company data, RHB

## Latest ESG-Related Developments

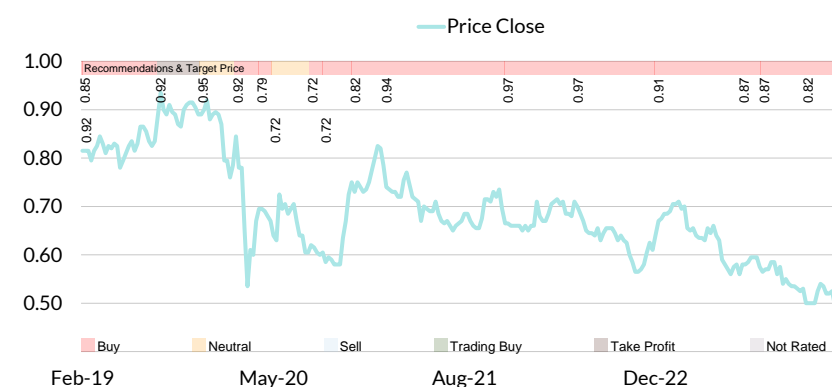
- THBEV targets to use 50% renewable energy by 2030, from 37% (excluding Vietnam) in 2023.
- In 2023, its proportion of re-used and recycled packaging based on the number of glass bottles sold in Thailand stood at 97%, and 73% of its non-alcoholic beverages in Thailand were certified as "Healthier Choice".

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-11-25	Neutral	0.95	0.89

Source: RHB, Bloomberg

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<b>Not Rated:</b>	Stock is not within regular research coverage

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