

17 May 2022

Consumer Non-cyclical | Food & Beverage Products

Thai Beverage (THBEV SP)

Buy (Maintained)

Sustainable Recovery Outlook; Stay BUY

- **Maintain BUY and SGD0.97 TP, 43% upside and c.4% yield.** 1HFY22F (Sep) results beat expectations due to faster-than-expected recovery pace. Going forward, we expect the encouraging momentum to continue in view of the better containment of the pandemic and broader reopening of regional economies. We continue to like Thai Beverage as a proxy to capture the consumption recovery thanks to its strong brand equity and effective marketing initiatives. BeerCo's successful listing should unlock value and catalyse THBEV's share price, in our view.
- **1HFY22 results were above expectations.** Net profit of THB16.3bn (+13%) accounted for 58-59% of our and consensus forecasts as demand recovery was stronger than expected. Post-results, we raise FY22F-24F earnings by 5-6%. Notwithstanding the earnings upgrade, our SOP-derived TP remains at SGD0.97 after we refresh our DCF risk assumptions. Our TP is inclusive of a 4% premium on its ESG score of 3.2.
- **Results review.** YoY, 1HFY22 sales rose 9% to THB143bn with all operating divisions recording encouraging improvement thanks to the broader reopening of regional economies on the back of better containment of the pandemic. Amongst them, beer business chipped in the most with 1HFY22 revenue jumping 15% on a 5.5% increase in volume and hike in selling prices. Unsurprisingly, the food division recorded a sharp sales recovery of 31% as the restaurant business benefited from the return of dine-in crowds. That said, 1HFY22 operating profit only grew 7% to THB21.3bn as higher raw material and distribution costs partially offset the impact of the robust topline growth. Worth highlighting, its spirit business was dragged by an unfavourable product mix, which led to a 3% decline in EBITDA, whereas the beer division was able to deliver a 19% leap in EBITDA with margin expanding by 0.4ppts thanks to the volume recovery and ASP hike.
- **Sustainable recovery outlook.** Looking forward, we foresee the positive recovery momentum to sustain into 2HFY22F. This is taking into account further normalisation of economic activities whilst the gradual pick-up in tourist arrivals should also lift consumption and benefit all of THBEV's business divisions. Meanwhile, we expect the price increase and continuous efficiency gain to mitigate some of the impact of higher raw material costs. On the other hand, distribution costs should remain elevated as the company may look to intensify its brand building marketing initiatives to spur spending and strengthen market share now that most of the restrictions have been lifted.
- **Risks to our recommendation** include a major resurgence in COVID-19 infection rates and a delay in BeerCo's listing plan.

| Forecasts and Valuation | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
|---------------------------------|---------|---------|---------|---------|---------|
| Total turnover (THBm) | 253,481 | 240,543 | 290,961 | 300,143 | 310,994 |
| Recurring net profit (THBm) | 25,629 | 24,645 | 29,769 | 31,484 | 32,930 |
| Recurring net profit growth (%) | 12.3 | (3.8) | 20.8 | 5.8 | 4.6 |
| Recurring P/E (x) | 16.60 | 17.26 | 14.29 | 13.51 | 12.92 |
| P/B (x) | 3.0 | 2.8 | 2.5 | 2.3 | 2.1 |
| P/CF (x) | 12.90 | 11.34 | 13.76 | 11.24 | 7.68 |
| Dividend Yield (%) | 2.7 | 3.0 | 3.6 | 3.8 | 4.0 |
| EV/EBITDA (x) | 9.21 | 8.87 | 7.20 | 6.67 | 6.04 |
| Return on average equity (%) | 17.8 | 16.6 | 18.2 | 17.4 | 16.7 |
| Net debt to equity (%) | 101.6 | 86.1 | 72.4 | 60.7 | 43.9 |

Source: Company data, RHB

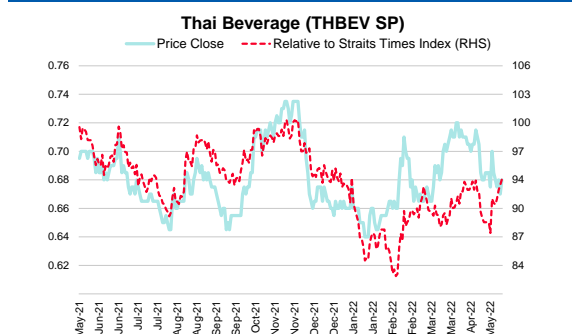
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|------------------------------|----------------------|
| Target Price (Return): | SGD0.97 (+43%) |
| Price (Market Cap): | SGD0.68 (USD12,230m) |
| ESG score: | 3.20 (out of 4) |
| Avg Daily Turnover (SGD/USD) | 17.5m/12.8m |

Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|-----|-------|-------|
| Absolute | 3.0 | (4.2) | 3.0 | (5.6) | (2.2) |
| Relative | 0.8 | 0.3 | 9.9 | (4.4) | (4.4) |
| 52-wk Price low/high (SGD) | 0.64 – 0.74 | | | | |



Source: Bloomberg

Overall ESG Score: 3.20 (out of 4)

E: EXCELLENT

Committed to continuously develop 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 in promoting environmental and social values.

S: EXCELLENT

Dedicated to corporate social responsibility programs across a broad range of activities throughout Thailand, including across many demographics, while focusing on 5 key dimensions – education, public health, sports, arts and culture as well as 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 ThaiBev's competitiveness, and drive business performance.

Financial Exhibits

| | | | | | | |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (THB) | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
| Singapore | Recurring EPS | 1.02 | 0.98 | 1.19 | 1.25 | 1.31 |
| Consumer Non-cyclical | DPS | 0.46 | 0.50 | 0.62 | 0.65 | 0.68 |
| Thai Beverage | BVPS | 5.68 | 6.15 | 6.88 | 7.52 | 8.18 |
| THBEV SP | Return on average equity (%) | 17.8 | 16.6 | 18.2 | 17.4 | 16.7 |
| Buy | | | | | | |
| Valuation basis | Valuation metrics | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
| SOP | Recurring P/E (x) | 16.60 | 17.26 | 14.29 | 13.51 | 12.92 |
| | P/B (x) | 3.0 | 2.8 | 2.5 | 2.3 | 2.1 |
| | FCF Yield (%) | 6.7 | 7.6 | 5.9 | 7.5 | 11.6 |
| | Dividend Yield (%) | 2.7 | 3.0 | 3.6 | 3.8 | 4.0 |
| Key drivers | EV/EBITDA (x) | 9.21 | 8.87 | 7.20 | 6.67 | 6.04 |
| i. Market share gain and margin expansion in beer segment; | EV/EBIT (x) | 16.16 | 16.04 | 13.15 | 12.25 | 11.14 |
| ii. Narrowing losses in non-alcohol beverage segment; | | | | | | |
| iii. Potential M&A. | | | | | | |
| Key risks | Income statement (THBm) | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
| i. Slower-than-expected recovery in consumption; | Total turnover | 253,481 | 240,543 | 290,961 | 300,143 | 310,994 |
| ii. Increased competition. | Gross profit | 74,860 | 71,484 | 88,724 | 91,464 | 94,753 |
| | EBITDA | 60,665 | 61,122 | 73,522 | 77,067 | 80,001 |
| | Depreciation and amortisation | (26,065) | (27,339) | (33,269) | (35,084) | (36,630) |
| | Operating profit | 34,600 | 33,783 | 40,253 | 41,984 | 43,371 |
| | Net interest | (5,894) | (5,404) | (5,334) | (4,960) | (4,512) |
| | Pre-tax profit | 33,147 | 31,973 | 40,084 | 42,270 | 44,133 |
| | Taxation | (6,866) | (4,634) | (6,814) | (7,186) | (7,503) |
| | Reported net profit | 22,969 | 24,645 | 29,769 | 31,484 | 32,930 |
| | Recurring net profit | 25,629 | 24,645 | 29,769 | 31,484 | 32,930 |
| Company Profile | Cash flow (THBm) | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
| 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 | 661 | 5,186 | (5,905) | (907) | 14,872 |
| | Cash flow from operations | 32,969 | 37,514 | 30,908 | 37,849 | 55,368 |
| | Capex | (4,347) | (5,300) | (5,600) | (5,900) | (6,200) |
| | Cash flow from investing activities | (10,158) | (5,297) | (5,600) | (5,900) | (6,200) |
| | Dividends paid | (10,800) | (12,809) | (11,302) | (15,480) | (16,372) |
| | Cash flow from financing activities | (18,021) | (40,113) | (23,502) | (27,680) | (18,570) |
| | Cash at beginning of period | 24,362 | 34,695 | 26,941 | 28,747 | 33,016 |
| | Net change in cash | 4,790 | (7,895) | 1,805 | 4,269 | 30,598 |
| | Ending balance cash | 29,879 | 26,799 | 28,747 | 33,016 | 63,614 |
| | Balance sheet (THBm) | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
| | Total cash and equivalents | 34,695 | 26,941 | 28,747 | 33,016 | 63,614 |
| | Tangible fixed assets | 61,347 | 61,246 | 61,244 | 61,331 | 61,497 |
| | Total investments | 85,605 | 85,882 | 87,948 | 90,093 | 92,268 |
| | Total assets | 433,520 | 421,664 | 434,091 | 442,375 | 477,391 |
| | Short-term debt | 64,834 | 26,945 | 16,945 | 16,945 | 16,945 |
| | Total long-term debt | 152,214 | 165,000 | 165,000 | 155,000 | 155,002 |
| | Total liabilities | 254,115 | 229,929 | 222,589 | 213,469 | 230,426 |
| | Total equity | 179,405 | 191,735 | 211,502 | 228,906 | 246,965 |
| | Total liabilities & equity | 433,520 | 421,664 | 434,091 | 442,375 | 477,391 |
| | Key metrics | Sep-20 | Sep-21 | Sep-22F | Sep-23F | Sep-24F |
| | Revenue growth (%) | (5.2) | (5.1) | 21.0 | 3.2 | 3.6 |
| | Recurrent EPS growth (%) | 12.2 | (3.8) | 20.8 | 5.8 | 4.6 |
| | Gross margin (%) | 29.5 | 29.7 | 30.5 | 30.5 | 30.5 |
| | Operating EBITDA margin (%) | 23.9 | 25.4 | 25.3 | 25.7 | 25.7 |
| | Net profit margin (%) | 9.1 | 10.2 | 10.2 | 10.5 | 10.6 |
| | Dividend payout ratio (%) | 50.3 | 51.0 | 52.0 | 52.0 | 52.0 |
| | Capex/sales (%) | 1.7 | 2.2 | 1.9 | 2.0 | 2.0 |
| | Interest cover (x) | 5.87 | 6.25 | 7.55 | 8.46 | 9.61 |

Source: Company data, RHB

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Results At a Glance

Figure 1: THBEV's results review

| FYE Sep (THBbn) | 1H21 | 1H22 | YoY (%) | Comments |
|-------------------------|--------------|--------------|---------|--|
| Revenue | 131.3 | 142.9 | 8.9 | Healthy growth seen across all business pillars. |
| Gross profit | 39.2 | 41.6 | 5.9 | |
| <i>Gross margin (%)</i> | 29.9 | 29.1 | | On higher raw material costs and unfavourable product mix in the spirit segment. |
| Selling expenses | -11.8 | -12.7 | 7.7 | More activities to drive sales with previous year restricted by the pandemic. |
| Admin expenses | -7.5 | -7.6 | 0.7 | |
| Op. profit | 20.0 | 21.3 | 6.9 | |
| <i>Op margin (%)</i> | 15.2 | 14.9 | | |
| Finance Cost | -3.5 | -3.3 | -6.7 | |
| Associates | 1.2 | 1.8 | 54.6 | |
| Pre-tax profit | 18.9 | 21.1 | 11.9 | |
| Recurring PATMI | 14.4 | 16.3 | 13.3 | Above expectations. |
| <i>Net margin (%)</i> | 11.0 | 11.4 | | |

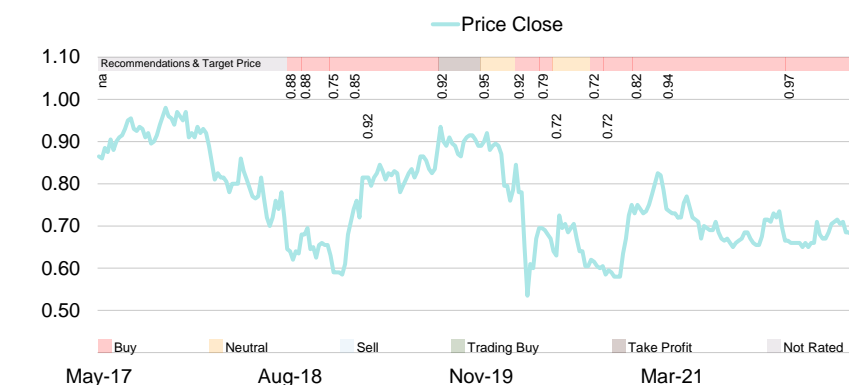
Source: Company data, RHB

Figure 2: THBEV's segmental breakdown

| FYE Sep | 1H21 | 1H22 | YoY (%) | Comments |
|-------------------------------|---------------|---------------|-------------|--|
| Spirits | | | | |
| Revenue (THBm) | 63,876 | 65,186 | 2.1 | |
| <i>Volume (m litres)</i> | 355.0 | 378.0 | 6.5 | |
| EBITDA (THBm) | 16,545 | 16,116 | -2.6 | On unfavorable product mix and higher raw material costs |
| EBTDA margin (%) | 25.9 | 24.7 | | |
| Beer | | | | |
| Revenue (THBm) | 53,978 | 61,939 | 14.7 | |
| <i>Volume (m litres)</i> | 1144.7 | 1208.0 | 5.5 | |
| EBITDA (THBm) | 7,168 | 8,501 | 18.6 | Thanks to volume recovery and ASP hike |
| EBTDA margin (%) | 13.3 | 13.7 | | |
| Non Alcoholic Beverage | | | | |
| Revenue (THBm) | 7,592 | 8,204 | 8.1 | In line with the normalisation of economic activities |
| <i>Volume (m litres)</i> | 709.8 | 763.0 | 7.5 | |
| EBITDA (THBm) | 1,044 | 1,128 | 8.0 | |
| EBTDA margin (%) | 13.8 | 13.7 | | |
| Food | | | | |
| Revenue (THBm) | 5,885 | 7,688 | 30.6 | Benefited from the return of dine-in crowds |
| EBITDA (THBm) | 610 | 999 | 63.8 | |
| EBITDA Margin (%) | 10.4 | 13.0 | | |

Source: Company data, RHB

Recommendation Chart

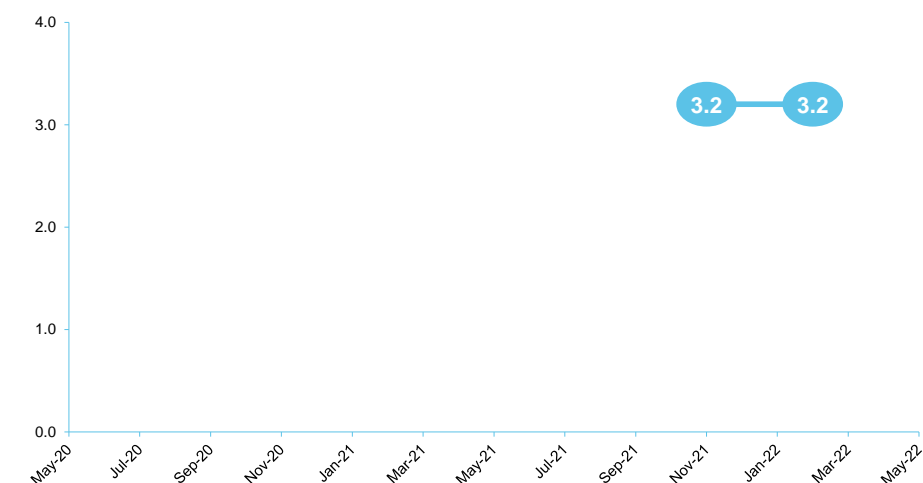


Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2021-11-29 | Buy | 0.97 | 0.69 |
| 2021-02-11 | Buy | 0.94 | 0.79 |
| 2020-11-27 | Buy | 0.82 | 0.75 |
| 2020-08-16 | Buy | 0.72 | 0.61 |
| 2020-05-17 | Neutral | 0.72 | 0.67 |
| 2020-04-15 | Buy | 0.79 | 0.68 |
| 2020-02-16 | Buy | 0.92 | 0.79 |
| 2019-11-25 | Neutral | 0.95 | 0.89 |
| 2019-08-16 | Take Profit | 0.92 | 0.89 |
| 2019-02-18 | Buy | 0.92 | 0.82 |
| 2019-01-18 | Buy | 0.85 | 0.71 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| 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 |
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| Not Rated: | Stock is not within regular research coverage |

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