

COMPANY UPDATE

Thai Beverage (THBEV SP)

Expect More Relaxation To Boost Tourism And BeerCo IPO To Unlock Value

Thailand has announced multi-stage plans to revive its tourism sector. The kingdom has relaxed testing guidelines for international arrivals while easing domestic alcohol restrictions. We think that THBEV is an undervalued and overlooked COVID-19 recovery play. Higher consumption volumes driven by international tourism and the easing of social distancing measures are expected to boost earnings moving forward, while the expected IPO of BeerCo provides major upside. Maintain BUY with the same target price of S\$0.90.

WHATS NEW

- **Make tourism great again.** Thailand scrapped the need to show a negative pre-departure PCR test starting 1 Apr 22. Instead, only a negative on-arrival PCR test and a negative ART result on the 5th day of travel are required. The minimum insurance coverage required was also reduced from US\$50,000 to US\$20,000. In Vietnam, the country has fully reopened its international borders since 15 Mar 22, whereby only one negative PCR (72 hours pre-departure) or ART test (24 hours pre-departure/upon arrival) is required before entering the country quarantine-free.
- **Transition to endemic living.** As part of a four-phase plan to transition to endemic living on 1 Jul 22, Thailand's authorities have proposed several guideline changes to further boost the tourism sector. Pending approval from Thailand's Centre of COVID-19 administration (CCSA), the costly on-arrival PCR tests would be replaced by the quicker and cheaper ART tests on 1 May 22. Also, Thailand authorities are planning to revoke the Thailand Pass requirement or cancel the Test and Go Scheme for all international arrivals from 1 Jun 22 onwards, which would help to simplify the travel application process for international tourists.
- **Expect more domestic alcohol rules to be relaxed nationwide.** Starting 1 Apr 22, Thailand's CCSA eased alcohol restrictions in 24 orange provinces to the less stringent yellow or blue zones, implying that alcohol can now be served at eateries to 11pm in these provinces. Chiang Mai and Phetchaburi have also been added to the blue sandbox tourism areas. Bangkok has also eased restrictions for MICE events whereby alcoholic drinks can now be served. Entertainment venues such as bars and clubs remain closed but are able to convert temporarily into restaurants to serve alcohol under strict guidelines. CCSA has announced plans to debate allowing Thailand's nightlife industry to reopen fully and legally which would lead to a revival in the country's bustling nightlife and alcohol consumption volumes.
- **Temporary dip in tourism.** Due the emergence of the Omicron variant and the subsequent suspension of the Test & Go scheme in Dec 21, international arrivals dropped from 230,497 to 133,903 in Jan 22. However, with the resumption of the scheme along with further relaxation of testing guidelines, Feb 22 international arrivals recovered slightly to 152,954. According to Thailand's tourism industry, it is estimated that roughly 5m international tourists will arrive in 2022, a fraction of 40m pre-pandemic.

KEY FINANCIALS

Year to 30 Sep (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	253,481	240,543	250,029	259,900	270,271
EBITDA	41,215	41,613	42,804	44,201	45,495
Operating profit	34,600	33,782	35,915	37,128	38,232
Net profit (rep./act.)	22,751	24,645	26,509	27,210	27,835
Net profit (adj.)	22,751	24,645	26,509	27,210	27,835
EPS (Bt)	0.9	1.0	1.1	1.1	1.1
PE (x)	19.4	17.9	16.6	16.2	15.8
P/B (x)	3.1	2.6	2.4	2.2	2.1
EV/EBITDA (x)	16.0	15.8	15.4	14.9	14.5
Dividend yield (%)	2.6	2.8	3.0	3.1	3.2
Net margin (%)	9.0	10.2	10.6	10.5	10.3
Net debt/(cash) to equity (%)	128.3	109.7	94.4	81.8	70.5
Interest cover (x)	5.8	6.1	6.0	5.8	5.6
ROE (%)	17.6	15.7	14.9	14.2	13.6
Consensus net profit	-	-	27,122	28,799	30,885
UOBKH/Consensus (x)	-	-	0.98	0.94	0.90

Source: THBEV, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.715
Target Price	S\$0.900
Upside	+25.9%

COMPANY DESCRIPTION

Thai Beverage is Thailand's largest beverage producer with the largest market share in spirits. Its products include spirits, beer, non-alcohol beverages and food.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	THBEV SP
Shares issued (m):	25,120.9
Market cap (S\$m):	17,961.4
Market cap (US\$m):	13,265.5
3-mth avg daily t'over (US\$m):	12.5

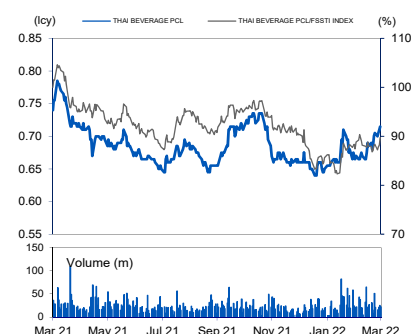
Price Performance (%)

52-week high/low		S\$0.785/S\$0.640		
1mth	3mth	6mth	1yr	YTD
7.5	8.3	9.2	(3.4)	8.3

Major Shareholders

	%
Siriwana Co., Ltd.	45.3
Maxtop Management Corp.	20.6
FY22 NAV/Share (Bt)	7.33
FY22 Net Debt/Share (Bt)	6.92

PRICE CHART



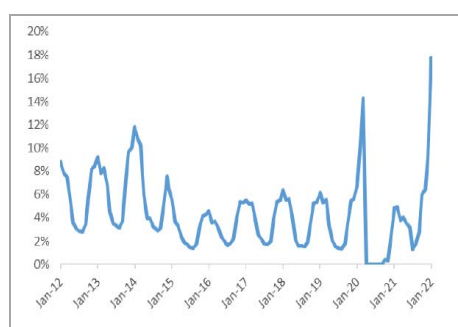
Source: Bloomberg

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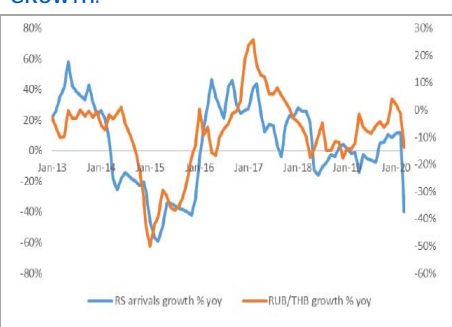
- **Vital Russian tourism to soften.** Thailand has historically been one of Russia's top travel destinations, accounting for 4-6% of total international tourists pre-pandemic. However, as the Ukraine-Russian conflict drags on, the Ruble has fallen sharply in value vs the Baht as Western sanctions against Russia bites. Looking back to a similar case in 2014 during the Crimea Crisis, the Ruble depreciated against the Baht by 43% and 13% in 2014 and 2015 respectively, resulting in the number of Russian tourists shrinking by 15% and 20% during the same period.
- Forming a significant portion of Thailand's early tourism recovery in Jan 22 (17.7% of total tourists) and Feb 22 (11.7% of total tourists), we expect the loss in Russian tourism to hurt 2022's expected total tourism arrival of 5m by 2-3% as Russians start cancelling their holidays. However, as Thailand has been aggressive in relaxing travel restrictions, we reckon that the upcoming influx of non-Russian international arrivals would help mitigate the overall loss in Russian tourists. We make no changes to our earlier expectations that Thai Beverage (THBEV) would experience a recovery in consumption volumes as international arrivals start to recover, backed by the easing of domestic alcohol restrictions.

% OF RUSSIAN TOURISTS TO THAILAND'S TOTAL INTERNATIONAL TOURISTS ARRIVALS



Source: Thailand's Ministry of Tourism and Sports, UOB Kay Hian

COMPARISON BETWEEN RUSSIAN TOURIST ARRIVALS YOY GROWTH TO RUBLE/THB YOY GROWTH.



Source: Thailand's Ministry of Tourism and Sports, UOB Kay Hian

STOCK IMPACT

- **Slower start to the New Year.** According to data from Thailand's Office of Industrial Economics, Thailand's domestic sales volume of white spirits was down -8.5% yoy for Jan 22 but recovered +15.6% yoy in Feb 22. Similarly, mixed spirits fell for both Jan 22 (-13.0% yoy) and Feb 22 (-1.3% yoy). Data for beer has not been released but we expect similar consumption trends to mixed spirits given the on-trade consumption nature of beer. We reckon the slowdown was caused by the emergence of Omicron in Dec 21-Jan 22, leading to partial lockdowns, suspension of the Test & Go Scheme and softening consumption volumes. However, as Thailand transitions to endemic living with the relaxation of travel guidelines and distancing measures from Feb 22 onwards, we expect consumption levels to recover with the return of international arrivals and domestic sales.

EARNINGS REVISION/RISK

- **No changes to our earnings forecasts.**

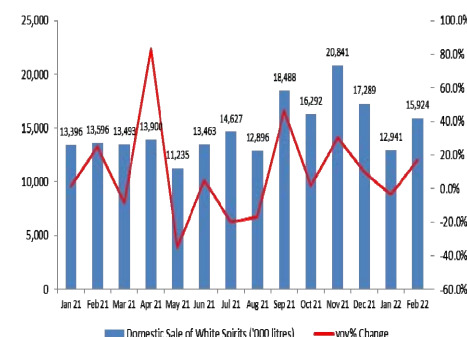
VALUATION/RECOMMENDATION

- **Maintain BUY with the same SOTP-based target price of S\$0.90.** We reckon THBEV remains attractively priced at -1SD to its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds.
- THBEV's potential 3Q/4QFY22 IPO of its beer business may also unlock value for the group. Conservatively, we value the beer business at roughly US\$5b (13x FY22 EBITDA), dwarfed by similar competitors such as Tsingtao Brewery Company (US\$14b), Budweiser Brewing Company APAC (US\$35b) and Asahi Group Holdings (US\$18b).

SHARE PRICE CATALYST

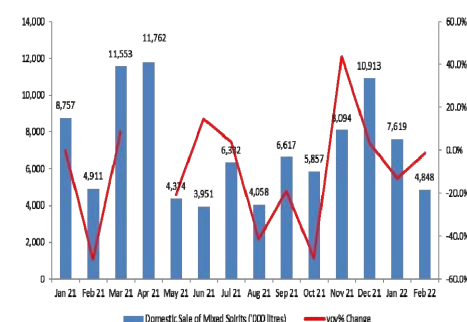
- Potential spinoff listing, full reopening of bars in Vietnam and Thailand.

THAILAND'S MONTHLY DOMESTIC WHITE SPIRITS SALES VOLUME



Source: UOB Kay Hian, Office of Industrial Economics

THAILAND'S MONTHLY DOMESTIC MIXED SPIRITS SALES VOLUME



Source: UOB Kay Hian, Office of Industrial Economics

*Removed Apr 21 yoy change of 1655% as its not meaningful

THBEV FIVE-YEAR HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

Methodology	(Btm)
Spirits	18x FY22 EV/EBITDA 533,345
Beer	13x FY22 EV/EBITDA 178,225
NAB	15x FY22 EV/EBITDA 32,283
Food	15x FY22 EV/EBITDA 19,035
FPL	Market Value 30,643
FNN	Market Value 13,555
Total	807,087
Less: Net debt, Minority Interest	(246,753)
Value	560,334
Per share (S\$)	0.90

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Net turnover	240,543	250,029	259,900	270,271
EBITDA	41,613	42,804	44,201	45,495
Deprec. & amort.	7,831	6,889	7,073	7,263
EBIT	33,782	35,915	37,128	38,232
Total other non-operating income	2,239	2,202	2,202	2,202
Associate contributions	2,777	3,403	3,607	3,804
Net interest income/(expense)	(6,825)	(7,107)	(7,619)	(8,131)
Pre-tax profit	31,973	34,414	35,319	36,108
Tax	(4,634)	(4,922)	(5,033)	(5,127)
Minorities	(2,694)	(2,983)	(3,075)	(3,146)
Net profit	24,645	26,509	27,210	27,835
Net profit (adj.)	24,645	26,509	27,210	27,835

BALANCE SHEET

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Fixed assets	268,391	272,464	274,130	275,317
Other LT assets	108,928	107,117	107,275	107,441
Cash/ST investment	38,293	48,169	76,016	104,434
Other current assets	56,973	56,760	61,531	66,618
Total assets	472,585	484,509	518,952	553,810
ST debt	69,206	73,971	73,971	73,971
Other current liabilities	26,237	25,253	26,250	27,297
LT debt	156,551	148,119	164,119	180,119
Other LT liabilities	10,415	10,501	10,916	11,351
Shareholders' equity	170,963	184,180	198,136	212,365
Minority interest	39,213	42,485	45,560	48,706
Total liabilities & equity	472,585	484,509	518,952	553,810

CASH FLOW

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Operating	32,067	36,360	34,735	35,772
Pre-tax profit	31,973	34,414	35,319	36,108
Tax	(4,634)	(4,922)	(5,033)	(5,127)
Deprec. & amort.	7,831	6,889	7,073	7,263
Working capital changes	(4,016)	394	(4,317)	(4,611)
Non-cash items	913	(415)	1,694	2,139
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(11,656)	(10,258)	(9,634)	(9,749)
Capex (growth)	(7,201)	(12,156)	(9,890)	(10,018)
Investments	(16,607)	0.0	0.0	0.0
Others	12,152	1,897	257	270
Financing	(17,006)	(16,226)	2,746	2,395
Dividend payments	(11,553)	(12,559)	(13,254)	(13,605)
Issue of shares	56	0.0	0.0	0.0
Proceeds from borrowings	8,096	(3,667)	16,000	16,000
Others/interest paid	(13,605)	0.0	0.0	0.0
Net cash inflow (outflow)	3,405	9,876	27,847	28,418
Beginning cash & cash equivalent	34,694	38,292	48,169	76,016
Changes due to forex impact	193	0.0	0.0	0.0
Ending cash & cash equivalent	38,292	48,169	76,016	104,434

KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	17.3	17.1	17.0	16.8
Pre-tax margin	13.3	13.8	13.6	13.4
Net margin	10.2	10.6	10.5	10.3
ROA	5.4	5.5	5.4	5.2
ROE	15.7	14.9	14.2	13.6
Growth				
Turnover	(5.1)	3.9	3.9	4.0
EBITDA	1.0	2.9	3.3	2.9
Pre-tax profit	3.9	7.6	2.6	2.2
Net profit	8.3	7.6	2.6	2.3
Net profit (adj.)	8.3	7.6	2.6	2.3
EPS	8.3	7.6	2.6	2.3
Leverage				
Debt to total capital	51.8	49.5	49.4	49.3
Debt to equity	132.1	120.6	120.2	119.6
Net debt/(cash) to equity	109.7	94.4	81.8	70.5
Interest cover (x)	6.1	6.0	5.8	5.6

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