

## COMPANY UPDATE

### Carlsberg Brewery Malaysia (CAB MK)

#### Smooth Outlook Ahead

We remain sanguine over Carlsberg's prospects ahead. Despite a robust 2Q22 performance, pockets of further recovery in the modern on-trade channel and Singapore remain. Meanwhile, cost continues to be well managed, and concerns are diminished now with lower commodities prices. In addition, we do not expect any surprises in relation to the brewery sector during the unveiling of Malaysia Budget 2023. Maintain BUY. Target price: RM27.60.

#### WHAT'S NEW

• We had a conference call with management recently. Here are our key takeaways:

- Modern on-trade outlets still 10% below pre-pandemic levels.** Management indicated that despite the reopening of modern on-trade outlets, it is still about an estimated 10% lower vs pre-pandemic levels. Positively, remainder of the channel (traditional on-trade and off-trade) outlets are back to pre-pandemic levels. However at this juncture, the number of outlets does not seem to have an impact on sales with 2Q22 sales well surpassing pre-pandemic levels (2Q19) by 27%. But with possible reopening of modern on-trade outlets, it could provide some uplift going forward.
- Other revenue observations include:** a) product mix continuing to shift back to core products as sales normalises, b) about two weeks' worth of sales appeared to have been front-loaded to 2Q22 in anticipation of the ASP hike on products sold through the on-trade channel, c) Singapore sales appear to be a laggard behind Malaysia (2Q22 sales is +4% pre-pandemic levels vs Malaysia at 27%) due to ongoing restrictions on entertainment outlets, which have limited Carlsberg's on-trade recovery), and d) expect 3Q22 revenue to dip qoq seeing that the quarter is seasonally soft and sales were front-loaded into 2Q22.
- World Cup: Muted cheer.** In 4Q22, the FIFA World Cup will be held between 20 November and 18 December. It coincides with year-end seasonal holidays and viewing times are relatively conducive for beer consumption, with matches commencing between 6pm to 3am Malaysian time. Meanwhile, Carlsberg is not a sponsor for the World Cup, but it intends to have activation of sales in the lead up to the event. That said, management indicated that football events do not provide significant uplift to beer volume sales.

## KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,773	1,909	2,531	2,589	2,671
EBITDA	230	292	477	481	511
Operating profit	188	249	427	424	454
Net profit (rep./act.)	150	203	313	330	352
Net profit (adj.)	166	203	313	330	352
EPS (sen)	54.0	66.1	101.8	107.3	114.5
PE (x)	41.2	33.7	21.9	20.8	19.4
P/B (x)	40.8	32.4	32.4	32.4	32.4
EV/EBITDA (x)	29.9	23.5	14.4	14.3	13.4
Dividend yield (%)	1.8	2.5	4.6	4.8	5.1
Net margin (%)	8.5	10.6	12.4	12.7	13.2
Net debt/(cash) to equity (%)	(11.3)	(20.8)	16.0	11.0	6.7
Interest cover (x)	43.9	119.2	86.1	56.4	49.5
ROE (%)	94.8	107.3	148.3	156.3	166.8
Consensus net profit	-	-	311	344	370
UOBKH/Consensus (x)	-	-	1.01	0.96	0.95

Source: Carlsberg Brewery Malaysia, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM22.38
Target Price	RM27.60
Upside	+24.0%

## COMPANY DESCRIPTION

Carlsberg manufactures and distributes beer. Its key brands are Carlsberg, Somersby, Connor's and Kronenbourg.

## STOCK DATA

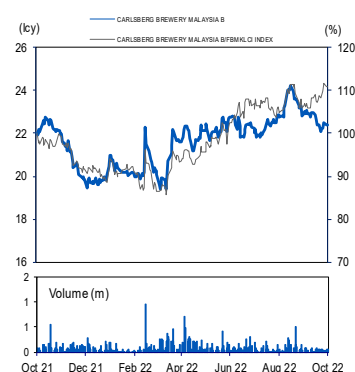
GICS sector	Consumer Staples
Bloomberg ticker:	CAB MK
Shares issued (m):	305.7
Market cap (RMm):	6,806.0
Market cap (US\$m):	1,470.0
3-mth avg daily t'over (US\$m):	0.4
Price Performance (%)	

52-week high/low RM24.22/RM19.38

1mth	3mth	6mth	1yr	YTD
(5.6)	(0.6)	2.9	(1.1)	10.9

Major Shareholders	%
Carlsberg A/S	51.0
AIA	2.9
OCBC	2.7
FY22 NAV/Share (RM)	0.69
FY22 Net Debt/Share (RM)	0.11

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

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- d) **The most recent ASP hike has factored in Carlsberg's higher input cost.** Therefore, we do not expect any significant margin decline for 3Q22, if any, barring significant commercial spending. In terms of current commodities prices for aluminium and hops, we understand that it is either lower or close Carlsberg's hedged cost. Meanwhile, natural gas accounts for a very small component of COGS and therefore a steep tariff hike would be immaterial to Carlsberg.
- e) **We do not expect an excise duty hike in the upcoming Budget 2023.** Alcohol last saw an excise duty hike in 2005, apart from the change in excise duty structure in 2016. That said, the excise duty rate on alcohol in Malaysia is the third highest in the world, only behind Norway and Singapore – countries that possess higher household disposable incomes. Therefore, we do not expect an excise duty hike in the upcoming Malaysia Budget 2023. Management has also indicated that there have been no conversations with authorities on an excise duty hike in the lead up to Budget 2022. Granted it is not conclusively indicative of the absence of an excise hike.
- f) **No significant headwinds with regulation and authorities.** Apart from that, there have been no significant hindrances to alcohol licence renewals in Kuala Lumpur and the limitation of alcohol sales in Kuala Lumpur does not seem to have a tangible effect, with consumers adapting and outlets not operating fully due to labour shortage.
- g) **Resilient Lion Brewery but possible laggard effect from high inflationary environment in Sri Lanka.** Over 2Q22, Lion Brewery, Carlsberg's associate company in Sri Lanka, grew sales and earnings by 102% and 172% yoy in local currency terms respectively (21% and 63% in ringgit terms respectively) after hefty price increases that were in line with inflation and the FMCG industry. Performance was resilient due to competing illicit beer stocking out from a disruption of supply chains while Lion Brewery was fully operational. However, since then, inflation has worsened to 64% yoy in August from 41% yoy in 2Q22. Future contributions could be at risk if the inflationary condition persists. However, at this juncture the risk to Carlsberg appears limited with 4% of 2023 profit before tax earnings being derived from Lion Brewery.

#### EARNINGS REVISION/RISK

- **No changes to our earnings assumptions.** Downside risks are slower-than-expected recovery in on-trade sales channels and increased policy headwinds.

#### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM27.60.** Our target price is DCF-based with a WACC estimate of 7.2% and terminal growth rate of 3.0%. It implies 25.8x 2022F PE and offers dividend yields of 4.2-4.7% for 2022-24, based on a 90-100% payout. Our implied valuation is close to -0.5SD of its five-year PE mean, which appears especially attractive given that Carlsberg is on a recovery with the worst sentiment behind it.

#### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

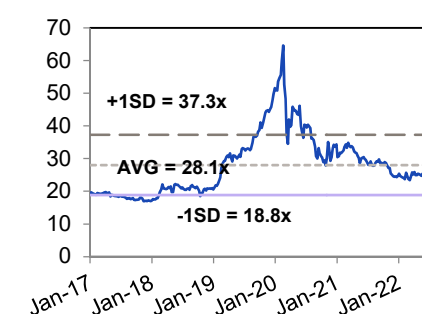
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Water management.</b> 50% reduction in water usage at its breweries by 2030.</li> <li>- <b>Emissions.</b> Zero carbon emissions at its breweries by 2030 and 100% electricity from renewable sources at its breweries by 2022. Zero coal at its breweries.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Product services responsibility.</b> 100% availability of alcohol-free brews. 100% responsible drinking messaging through packaging and brand activations.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Board gender diversity.</b> Board gender composition of 71:29 male-to-female ratio.</li> <li>- <b>Management gender diversity.</b> Carlsberg has a 53% female representation in its management team.</li> </ul> </li> </ul>
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#### KEY ASSUMPTIONS

	2022F	2023F	2024F
<b>Sales (RMm)</b>			
Malaysia	1889	1941	2010
- yoy growth (%)	33.9	2.8	3.5
- volume growth (%)	29.0	1.0	2.0
ASP growth (%)	3.8	1.7	1.5
Singapore	642	648	661
- yoy growth (%)	29.0	1.0	2.0
<b>EBIT</b>			
Core profit (RMm)	313	330	352
- yoy growth (%)	54.0	5.4	6.7
Core profit margin (%)	12.4	12.7	13.2

Source: UOB Kay Hian

#### FIVE-YEAR HISTORICAL FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,909	2,531	2,589	2,671
EBITDA	292	477	481	511
Deprec. & amort.	43	50	57	57
EBIT	249	427	424	454
Associate contributions	15	16	17	18
Net interest income/(expense)	(2)	(6)	(9)	(10)
Pre-tax profit	262	438	433	462
Tax	(55)	(114)	(91)	(97)
Minorities	(3)	(11)	(12)	(12)
Net profit	203	313	330	352
Net profit (adj.)	203	313	330	352

**BALANCE SHEET**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	211	289	286	286
Other LT assets	118	118	118	118
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	76	56	57	106
Other current assets	218	422	442	456
<b>Total assets</b>	<b>622</b>	<b>885</b>	<b>902</b>	<b>966</b>
ST debt	32	90	80	120
Other current liabilities	350	535	551	562
Other LT liabilities	25	33	33	33
Shareholders' equity	211	211	211	211
Minority interest	4	15	27	40
<b>Total liabilities &amp; equity</b>	<b>622</b>	<b>885</b>	<b>902</b>	<b>966</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	233	355	394	418
Pre-tax profit	262	438	433	462
Tax	(65)	(114)	(91)	(97)
Deprec. & amort.	43	50	57	57
Working capital changes	28	(19)	(4)	(3)
Non-cash items	0	0	0	0
Other operating cashflows	(34)	0	0	0
Investing	(45)	(120)	(54)	(57)
Capex (maintenance)	(57)	(120)	(54)	(57)
Proceeds from sale of assets	0	0	0	0
Others	12	0	0	0
Financing	(250)	(255)	(340)	(312)
Dividend payments	(153)	(313)	(330)	(352)
Proceeds from borrowings	(84)	58	(10)	40
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(14)	0	0	0
Net cash inflow (outflow)	(62)	(19)	0	49
Beginning cash & cash equivalent	94	76	56	57
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	33	56	57	106

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	15.3	18.9	18.6	19.1
Pre-tax margin	13.7	17.3	16.7	17.3
Net margin	10.6	12.4	12.7	13.2
ROA	33.5	41.6	36.9	37.7
ROE	107.3	148.3	156.3	166.8
<b>Growth</b>				
Turnover	7.7	32.6	2.3	3.1
EBITDA	27.1	63.6	0.8	6.2
Pre-tax profit	32.5	67.3	(1.2)	6.7
Net profit	35.5	54.0	5.4	6.7
Net profit (adj.)	22.3	54.0	5.4	6.7
EPS	22.3	54.0	5.4	6.7
<b>Leverage</b>				
Debt to total capital	12.8	28.4	25.1	32.4
Debt to equity	15.0	42.6	37.9	56.8
Net debt/(cash) to equity	(20.8)	16.0	11.0	6.7
Interest cover (x)	119.2	86.1	56.4	49.5

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