

INITIATE COVERAGE

Emperor Inc (EMI SP)

Lifting Spirits Since 1990

EMI is the largest liquor producer in the Philippines and the world's top brandy producer by volume, with a strong brand portfolio spanning various price points. After its acquisition of Whyte & Mackay in 2014, it has reaped synergies in procurement and operations while benefitting from the world's booming alcohol market, especially in Asia. EMI has a planned dividend policy of at least 40% payout. Initiate coverage with a HOLD and a target price of S\$0.53, based on 30x 2023F PE.

INITIATE COVERAGE

- **Rich heritage and innovative portfolio across multiple price points.** Emperor Inc's (EMI) diversified brand portfolio includes well-recognised global brands spanning a broad range of price points for both its Scotch whisky and brandy segments. The portfolio encapsulates products that range from accessible to luxury and caters to all sorts of consumer preferences. The group also constantly innovates to address shifting consumer preferences, as evident in the recent launch of Emperor Double Light.
- **Premiumisation of its offerings is a key competitive advantage.** The strategic move was made in response to existing market trends whereby consumers are becoming increasingly well-versed in drinking and appreciating the value of premium liquor. Hence, they are willing to fork out a premium for better quality. This is evident in EMI's premium single malt whiskies being priced 10-15x higher than accessible Scotch whisky brands.
- **Well-positioned to capitalise on growth opportunities in China.** EMI's offerings are well received in Europe and have seen early success in its expansion into the Middle East and China. In China, EMI has seen robust growth as the company grabs more market share. EMI has credited its success to its Asian identity which would allow for better future market penetration in Asia.
- **Internationalisation in high-growth markets delivers better margins.** EMI targets to have 50% of its sales coming from outside of the Philippines by 2025. Currently, the company has a huge following in high-growth markets such as China and the Middle East. Its premiumisation strategy has allowed EMI to enjoy higher margins as compared with most of its peers in the industry. For instance, EMI was able to achieve a net margin of 17.8% in 2021 vs 20.9%, 14.8%, 10.5% and 3.6% for its closest competitors Diageo, Pernod Ricard, Ginebra San Miguel Inc and Cosco Capital Inc respectively.

Click [here](#) for Blue Top dated 10 Oct 22

KEY FINANCIALS

Year to 31 Dec (PHPm)	2020	2021	2022F	2023F	2024F
Net turnover	52,834	55,936	60,110	64,930	70,702
EBITDA	11,550	15,223	14,218	15,672	17,779
Operating profit	9,985	13,678	12,672	14,126	16,234
Net profit (rep./act.)	7,967	9,971	10,294	11,558	13,051
Net profit (adj.)	7,967	9,971	10,294	11,558	13,051
EPS (PHP)	0.5	0.6	0.7	0.7	0.8
PE (x)	38.2	31.0	30.2	26.9	23.8
P/B (x)	4.6	4.0	3.7	3.5	3.2
EV/EBITDA (x)	28.1	21.3	22.8	20.7	18.2
Dividend yield (%)	0.6	1.6	1.7	1.8	2.0
Net margin (%)	15.1	17.8	17.1	17.8	18.5
Net debt/(cash) to equity (%)	34.3	20.0	15.1	7.2	(1.0)
Interest cover (x)	21.0	19.4	22.6	34.8	22.5
ROE (%)	12.2	13.8	12.8	13.4	14.1
Consensus net profit ()	-	-	10,004	11,132	12,502
UOBKH/Consensus (x)	-	-	1.03	1.04	1.04

Source: Emperor Inc, Bloomberg, UOB Kay Hian

HOLD

Share Price	S\$0.48
Target Price	S\$0.53
Upside	+10.4%

COMPANY DESCRIPTION

Emperor, Inc operates in the beverage industry producing and marketing brandy as well as an extensive portfolio of globally-recognised, market-leading whisky brands distributed in over 100 countries.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	EMI SP
Shares issued (m):	15,736.5
Market cap (S\$m):	7,553.5
Market cap (US\$m):	5,256.8
3-mth avg daily t'over (US\$m):	x

Price Performance (%)

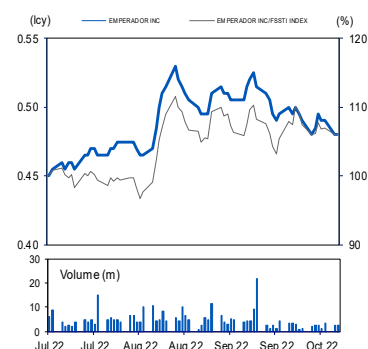
52-week high/low S\$0.530/S\$0.450

1mth	3mth	6mth	1yr	YTD
(5.0)	x	x	x	x

Major Shareholders	%
-	-
-	-
-	-

FY22 NAV/Share (PHP)	5.28
FY22 Net Debt/Share (PHP)	0.79

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Huge potential in Greater China.** Baijiu (white spirits) dominates the market in China, capturing 99.2% of the overall market in 2021, whereby foreign spirits presents a growth opportunity. EMI intends to increase the market share of its brown spirits category in China where Scotch whisky is the most popular type of whisky. According to Frost & Sullivan, Scotch whisky sales volume is estimated to have a CAGR of 7.4% between 2022 and 2026, with sales value estimated to grow at 7.3%. Within the Scotch whisky category, single malt whiskies are relatively more popular and is predicted to have a CAGR of 9.8% by sales volume relative to 5.7% for blended scotch.

EARNINGS REVISION/RISK

- **Robust revenue growth from new market contributions.** Driven by EMI's premiumisation strategy along with increased penetration into new key markets, EMI's 2021-24 overall revenue would grow at a steady CAGR of 5.7%, in our view. We expect gross margins to also improve from 32.8% in 2022 to 35.0% in 2024 with gross profit growing at a CAGR of 7.2% from 2021-24. Similar to gross margin, net margin is expected to increase from 17.9% in 2021 to 18.8% in 2024 and a net profit CAGR growth of 7.0% from 2021-24, driven by greater expected sales of premium alcohol.

VALUATION/RECOMMENDATION

- **Initiate with a HOLD and a target price of S\$0.53.** This is based on 30x 2023F PE, pegged to a 10% premium to industry peers' 2023 average PE. We opine prescribing a higher PE multiple as compared with its peers is justified given the high pricing power EMI's price-inelastic premium alcohol commands. The stock is trading at 26.9x 2023F PE, in line with peers' 2023 average PE. Also, according to Bloomberg, EMI is trading at +2SD to its five-year average PE, five-year average P/B and five-year EV/EBITDA, which is considered expensive based on these valuation metrics. However, we think that EMI is fairly valued at current price levels, and a key re-rating catalyst would be the successful penetration of its key premium products into China and new growing markets.

SHARE PRICE CATALYST

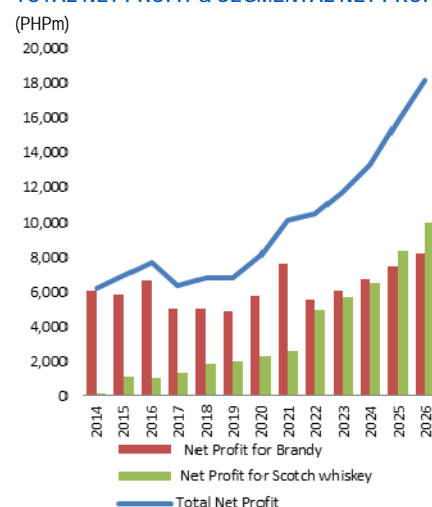
- Higher revenue contribution from Greater China and the Middle East.
- M&As.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 10 Oct 22 (lcy)	Market Cap (US\$m)	PE			EV/EBITDA			Net Margin			Gross Margin		
					2021 (x)	2022 (x)	2023 (x)	2021 (x)	2022 (x)	2023 (x)	2021 (%)	2022 (%)	2023 (%)	2021 (%)	2022 (%)	2023 (%)
Emperador Inc	EMI SP	S\$	0.48	5,256	31.3	29.1	26.5	21.2	21.5	19.1	17.8	16.1	16.5	37.8	35.0	35.6
Emperador Inc	EMI PM	Peso	19.72	5,260	31.3	29.1	26.5	21.2	21.5	19.1	17.8	16.1	16.5	37.8	35.0	35.6
Spirits																
Kweichow Moutai Co Ltd-A	600519 CH	Rmb	1786.0	313,738	42.8	35.7	30.5	29.4	25.0	21.3	47.9	49.0	49.6	91.6	92.2	92.6
Diageo Plc	DGE LN	£	3644.5	91,842	32.0	26.0	20.7	23.4	18.7	16.1	20.9	21.0	23.0	60.4	61.3	61.4
Shanxi Xinghuacun Fen Wine-A	600809 CH	Rmb	283.1	48,301	64.7	45.9	34.9	46.7	32.5	24.9	26.6	29.0	30.3	74.9	77.1	78.2
Pernod Ricard Sa	RI FP	€	177.8	44,487	35.6	23.1	19.0	20.1	16.4	14.1	14.8	18.7	20.0	60.0	60.5	61.1
Jiangsu Yanghe Brewery -A	002304 CH	Rmb	154.4	32,533	30.8	24.5	20.4	22.0	16.7	14.2	29.6	31.6	32.5	75.3	75.8	75.3
Anhui Gujing Distillery Co-A	000596 CH	Rmb	258.5	16,496	58.1	45.8	36.5	33.8	26.2	20.9	17.3	18.6	19.5	75.1	76.4	77.3
Davide Campari-Milano Nv	CPR IM	€	9.0	10,093	35.8	27.4	24.3	23.6	18.3	16.4	13.1	14.5	15.0	59.7	59.4	59.9
Remy Cointreau	RCO FP	€	164.8	8,241	39.1	28.3	24.8	24.6	17.9	15.9	16.2	18.8	19.7	68.6	68.7	69.2
United Spirits Ltd	UNSP IN	Rs	858.0	7,559	73.5	56.6	48.8	38.9	38.3	32.3	8.5	10.4	11.5	n.a.	44.6	45.4
Shede Spirits Co Ltd-A	600702 CH	Rmb	129.3	6,005	34.2	25.7	19.0	23.7	18.4	13.7	25.1	25.5	26.6	77.8	78.0	79.0
Shanghai Bairun Investment-A	002568 CH	Rmb	28.1	4,125	31.6	47.5	35.7	31.1	30.7	23.4	25.7	22.3	24.0	65.4	62.8	64.3
Hebei Hengshui Laobaigan-A	600559 CH	Rmb	22.5	2,882	52.4	29.4	29.8	30.7	20.1	17.6	9.7	14.6	12.9	67.3	68.4	69.4
Beijing Shunxin Agricult-A	000860 CH	Rmb	19.6	2,034	142.2	54.8	29.6	14.5	16.2	11.7	0.7	1.9	3.2	27.9	29.8	30.7
Jinhui Liquor Co Ltd-A	603919 CH	Rmb	23.0	1,631	35.9	27.9	21.1	21.8	18.4	14.5	18.2	17.8	18.8	63.7	63.5	64.6
Xinjiang Yilite Industry-A	600197 CH	Rmb	21.4	1,410	32.1	25.0	19.3	17.7	13.6	10.9	16.1	17.4	18.4	51.4	50.9	52.5
Hite Jinro Co Ltd	000080 KS	Won	25900.0	1,272	25.1	14.6	12.7	7.6	6.3	5.9	3.3	5.0	5.6	42.1	42.8	43.5
Average					47.9	33.6	26.7	25.6	20.9	17.1	18.4	19.7	20.7	64.1	63.2	64.0

Source: Bloomberg, UOB Kay Hian

TOTAL NET PROFIT & SEGMENTAL NET PROFIT



Source: EMI, UOB Kay Hian

FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (PHPm)	2021	2022F	2023F	2024F
Net turnover	55,936.3	60,110.4	64,930.2	70,702.0
EBITDA	15,223.4	14,217.9	15,671.6	17,779.4
Deprec. & amort.	1,545.5	1,545.5	1,545.5	1,545.5
EBIT	13,677.9	12,672.4	14,126.1	16,233.9
Net interest income/(expense)	(782.7)	(629.9)	(450.9)	(789.1)
Pre-tax profit	12,895.2	12,042.4	13,675.2	15,444.7
Tax	(2,746.8)	(1,565.5)	(1,911.6)	(2,161.7)
Minorities	(177.3)	(183.0)	(205.5)	(232.1)
Net profit	9,971.1	10,293.9	11,558.1	13,051.0
Net profit (adj.)	9,971.1	10,293.9	11,558.1	13,051.0

BALANCE SHEET

Year to 31 Dec (PHPm)	2021	2022F	2023F	2024F
Fixed assets	27,866.7	28,059.9	28,253.2	28,446.4
Other LT assets	35,704.5	35,704.5	35,704.5	35,704.5
Cash/ST investment	9,333.8	12,334.6	18,412.7	25,775.3
Other current assets	55,611.4	59,750.6	60,890.2	61,853.9
Total assets	128,516.4	135,849.7	143,260.5	151,780.1
ST debt	3,411.1	3,411.1	3,411.1	3,411.1
Other current liabilities	20,112.3	22,145.3	23,437.4	24,871.7
LT debt	21,430.3	21,430.3	21,430.3	21,430.3
Other LT liabilities	4,844.4	4,844.4	4,844.4	4,844.4
Shareholders' equity	77,718.1	83,018.4	89,137.2	96,222.5
Minority interest	1,000.2	1,000.2	1,000.2	1,000.2
Total liabilities & equity	128,516.4	135,849.7	143,260.5	151,780.1

CASH FLOW

Year to 31 Dec (PHPm)	2021	2022F	2023F	2024F
Operating	16,414.4	10,546.1	13,912.5	16,088.2
Pre-tax profit	12,895.2	12,042.4	13,675.2	15,444.7
Tax	(2,746.8)	(1,565.5)	(1,911.6)	(2,161.7)
Deprec. & amort.	1,545.5	1,545.5	1,545.5	1,545.5
Associates	0.0	0.0	0.0	0.0
Working capital changes	2,589.6	(2,106.2)	152.5	470.6
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	2,131.0	629.9	450.9	789.1
Investing	(1,596.3)	(1,738.8)	(1,738.8)	(1,738.8)
Capex (growth)	(1,738.8)	(1,738.8)	(1,738.8)	(1,738.8)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	58.1	0.0	0.0	0.0
Others	84.4	0.0	0.0	0.0
Financing	(13,045.5)	(5,806.5)	(6,095.7)	(6,986.8)
Dividend payments	(5,057.0)	(5,176.6)	(5,644.8)	(6,197.7)
Proceeds from borrowings	1,194.0	1,000.0	1,000.0	1,000.0
Loan repayment	(6,732.9)	(1,000.0)	(1,000.0)	(1,000.0)
Others/interest paid	(2,449.6)	(629.9)	(450.9)	(789.1)
Net cash inflow (outflow)	1,772.6	3,000.8	6,078.1	7,362.6
Beginning cash & cash equivalent	7,561.2	9,333.8	12,334.6	18,412.7
Ending cash & cash equivalent	9,333.8	12,334.6	18,412.7	25,775.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	27.2	23.7	24.1	25.1
Pre-tax margin	23.1	20.0	21.1	21.8
Net margin	17.8	17.1	17.8	18.5
ROA	7.9	7.8	8.3	8.8
ROE	13.8	12.8	13.4	14.1
Growth				
Turnover	5.9	7.5	8.0	8.9
EBITDA	31.8	(6.6)	10.2	13.4
Pre-tax profit	36.7	(6.6)	13.6	12.9
Net profit	25.2	3.2	12.3	12.9
Net profit (adj.)	25.2	3.2	12.3	12.9
EPS	23.3	2.8	12.3	12.9
Leverage				
Debt to total capital	24.0	22.8	21.6	20.4
Debt to equity	32.0	29.9	27.9	25.8
Net debt/(cash) to equity	20.0	15.1	7.2	(1.0)
Interest cover (x)	19.4	22.6	34.8	22.5

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