

## COMPANY UPDATE

### Thai Beverage (THBEV SP)

FY22 Results Preview: Expect Strong Performance With Revival Of Economic Activity

THBEV will announce its FY22 results soon – we expect robust yoy growth from all of its business segments. The spirits segment is poised to benefit from the reopening of nightlife venues as well as higher international arrivals. Despite rising operating costs, SABECO's robust 9M22 performance bodes well for THBEV's beer segment. The non-alcoholic beverages and food segments are expected to outperform on the removal of social distancing measures. Maintain BUY with an unchanged target price of S\$0.87.

#### WHAT'S NEW

- **SABECO's 3Q22 update.** Thai Beverage's (THBEV) 54%-owned beer subsidiary, SABECO, released its 3Q22 update, with net revenue (+102% yoy) and PATMI (+202% yoy) surging as Vietnam recovers from COVID-19 lockdowns. This was driven by higher economic activity and the resumption of international travel. 3Q22 operating profit also grew 190% yoy, in line with revenue as SABECO implemented several cost optimisation measures. 3Q22 operating margin improved by 4.7ppt yoy to 20.0% while 3Q22 PATMI margin expanded 5.2ppt yoy as well.

#### SABECO 3Q22 RESULTS

Year to 30 Sep (VND billion)	3Q22	yoy % chg	qoq % chg	9M22	9M21	yoy % chg
Net Revenue	8,635	102%	(4%)	24,949	17,369	44%
COGS	5,940	(89%)	(0.3%)	16,992	12,253	39%
Gross Profit	2,694	136%	(13%)	7,957	5,116	56%
Gross Margin (%)	31.2	4.7ppts	(3.1ppts)	31.9ppts	29.5ppts	2.4ppts
Operating Profit	1,731	190%	(22%)	5,471	3,056	79%
Operating margin (%)	20.0	6.1ppts	(4.5ppts)	21.9	17.6	4.3ppts
PATMI	1,341	202%	(20%)	4,180	2,363	77%
PATMI margin (%)	15.5	5.2ppts	(3.0ppts)	16.8	13.6	3.1ppts

Source: Sabeco, UOB Kay Hian.

- **Softening margins.** However, on a qoq basis, SABECO underperformed as higher input costs from inflationary pressures ate into 3Q22 profitability. 3Q22 revenue and operating profit fell 4% qoq and 22% qoq respectively, largely driven by higher operating and raw material costs. We reckon this might be due to: a) higher prices of malt, which is an ingredient that SABECO utilises for its beer products, and b) increased inflationary pressures such as utilities and manpower costs. 3Q22 operating margin compressed 4.5ppt qoq while PATMI margin also softened 3.0ppt qoq.
- **Mixed read-through for THBEV.** SABECO's robust post-COVID-19 lockdown recovery is a strong positive for THBEV, given that SABECO historically contributes around 20% and 8% of THBEV's overall revenue and net profit respectively. As Vietnam's economic activity continues to ramp up, higher beer consumption volumes would help support THBEV's beer segment moving forward. However, as SABECO's leftover malt stock starts to deplete, rising raw material costs coupled with increasing operating costs would soften margins further, potentially dragging down THBEV's overall profitability and its expected recovery.

#### KEY FINANCIALS

Year to 30 Sep (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	253,481	240,543	274,877	302,328	333,457
EBITDA	41,215	41,613	47,369	50,678	54,382
Operating profit	34,600	33,782	40,479	43,605	47,119
Net profit (rep./act.)	22,751	24,645	29,510	31,605	33,992
Net profit (adj.)	22,751	24,645	29,510	31,605	33,992
EPS (Bt)	0.9	1.0	1.2	1.3	1.4
PE (x)	17.7	16.3	13.6	12.7	11.8
P/B (x)	2.8	2.4	2.1	2.0	1.8
EV/EBITDA (x)	15.0	14.9	13.1	12.2	11.4
Dividend yield (%)	2.9	3.1	3.7	3.9	4.2
Net margin (%)	9.0	10.2	10.7	10.5	10.2
Net debt/(cash) to equity (%)	128.3	109.7	92.6	78.8	66.3
Interest cover (x)	5.8	6.1	7.1	7.1	7.1
ROE (%)	17.6	15.7	16.5	16.2	15.9
Consensus net profit	-	-	28,290	30,105	32,118
UOBKH/Consensus (x)	-	-	1.04	1.05	1.06

Source: THBEV, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.615
Target Price	S\$0.87
Upside	+39.8%

#### 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):	15,449.3
Market cap (US\$m):	11,245.7
3-mth avg daily t'over (US\$m):	7.2

#### Price Performance (%)

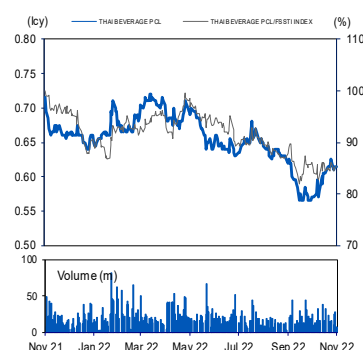
52-week high/low		S\$0.720/S\$0.565		
1mth	3mth	6mth	1yr	YTD
8.8	(5.4)	(11.5)	(13.4)	(6.8)

#### Major Shareholders

	%
Siriwana Co., Ltd.	54.0
Maxtop Management Corp.	20.6

FY22 NAV/Share (Bt)	7.45
FY22 Net Debt/Share (Bt)	6.90

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Spirits: Favourable tailwinds.** For FY22, we expect segmental revenue and EBITDA of the spirits segment to grow by 3.0% yoy and 3.4% yoy respectively, aided by a strong 4QFY22. We expect 4QFY22 revenue (+18.9% yoy, +9.4% qoq) and EBITDA (+33.7% yoy, +10.4% qoq) to improve as Thailand had removed most of its COVID-19 restrictions in late-3QFY22. Since 1 Jun 22, nightlife entertainment venues such as bars and nightclubs have been allowed to reopen at regular pre-COVID-19 hours, while international arrivals continue to ramp up, boosting consumption levels of its higher ASP brown spirits that is usually consumed via on-trade channels. Potential downside may come from higher-than-expected operating and packaging costs. Elevated domestic inflation may also dampen consumption levels for its white spirits segment.
- Margins to stabilise.** Despite higher inflationary pressures, we expect the spirits segment's margins to stabilise or even expand slightly due to a: a) better product mix, b) lower molasses costs, and c) ASP hikes that may have occurred in 4QFY22. As THBEV's brown spirits are priced around 3x higher than its white spirits, improved consumption levels for its brown spirits would help expand margins. Lower molasses costs from the new crop would also be reflected in 4QFY22. To counter the sharp depreciation of the Myanmar Kyat, we reckon that THBEV may have raised its ASP for its spirits business in Myanmar in 4QFY22, which historically contributes around 10% of its overall annual spirits revenue. We expect THBEV to raise ASPs to offset inflationary pressures in FY23, particularly for its white spirits products.
- Beer: Expect a robust recovery.** For FY22, we expect the beer segment's revenue and EBITDA to grow by 23.1% yoy and 39.0% yoy respectively, backed by sturdy recoveries in both Thailand and Vietnam beer businesses. We expect strong contributions from SABECO given that its 9M22 revenue (+43.6% yoy) and PATMI (+76.9% yoy) has surged. Furthermore, with the reopening of Thailand's nightlife venues and higher tourist arrivals in 4QFY22, we expect THBEV's domestic beer business to outperform as well. For 4QFY22, we expect revenue (+55.8% yoy, -3.9% qoq) and EBITDA (+111.3% yoy, -21.5% qoq) to grow on higher consumption volumes along with a low base in FY21. Potential downside may come from higher-than-expected raw material costs as we estimate that THBEV's leftover malt stock has started to deplete, resulting in higher malt prices in 4QFY22.
- Non-alcoholic beverages and food: Proxies to Thailand's economic reopening.** For FY22, we expect the non-alcoholic beverages segment revenue and EBITDA to grow by 16.2% yoy and 18.0% yoy respectively, underpinned by a domestic economic recovery. We also expect the food segmental revenue and EBITDA to grow by 48.0% yoy and 147.9% yoy respectively, as most COVID-19 social restrictions have been removed.
- Overall,** we forecast THBEV's FY22 annual revenue and EBITDA to grow by 14.2% yoy and 13.8% yoy respectively as the group recovers from the COVID-19 pandemic. We expect 4QFY22 revenue and EBITDA to grow by 38.3% yoy and 66.0% yoy respectively.

### EARNINGS REVISION/RISK

- No significant changes** as we fine-tune our FY22-24 PATMI estimates by 0-0.5%. We have also raised our FY22-24 revenue estimates by 0.6-2.0% to account for higher beer volume assumptions.

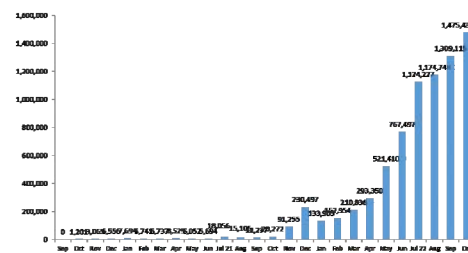
### VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged SOTP-based target price of S\$0.87.** We still reckon THBEV remains attractively priced at below -1.5SD of its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds.

### SHARE PRICE CATALYST

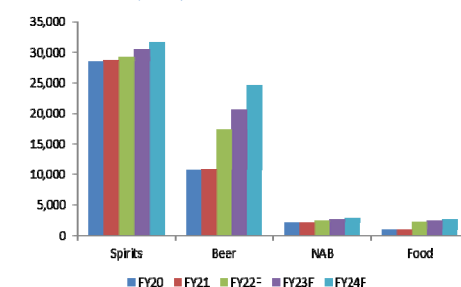
- M&As.
- Better-than-expected consumptions volumes.
- Lower-than-expected operating costs.

### THAILAND'S MONTHLY INTERNATIONAL ARRIVALS



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

### THBEV'S SEGMENTAL HISTORICAL EBITDA AND FORECASTS (BTM)



Source: UOB Kay Hian, Bloomberg, THBEV

### THBEV'S HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

### SOTP VALUATION

	Methodology	(Btm)
Spirits	17x FY22 EV/EBITDA	497,596
Beer	12x FY22 EV/EBITDA	207,915
NAB	15x FY22 EV/EBITDA	36,562
Food	14x FY22 EV/EBITDA	31,552
FPL	Market Value	27,070
FNN	Market Value	13,205
	Total	813,901
	Less: Net debt, Minority Interest	(248,697)
	Value	565,204
	Per share (S\$)	0.87

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Net turnover	240,543	274,877	302,328	333,457
EBITDA	41,613	47,369	50,678	54,382
Deprec. & amort.	7,831	6,889	7,073	7,263
EBIT	33,782	40,479	43,605	47,119
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)	(6,663)	(7,143)	(7,623)
Pre-tax profit	31,973	39,422	42,271	45,503
Tax	(4,634)	(5,717)	(6,137)	(6,619)
Minorities	(2,694)	(4,196)	(4,530)	(4,892)
Net profit	24,645	29,510	31,605	33,992
Net profit (adj.)	24,645	29,510	31,605	33,992

**CASH FLOW**

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Operating	32,067	36,378	36,488	38,366
Pre-tax profit	31,973	39,422	42,271	45,503
Tax	(4,634)	(5,717)	(6,137)	(6,619)
Deprec. & amort.	7,831	6,889	7,073	7,263
Working capital changes	(4,016)	(3,929)	(7,800)	(9,062)
Non-cash items	913	(287)	1,081	1,281
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(11,656)	(9,612)	(9,177)	(9,209)
Capex (growth)	(7,201)	(12,156)	(9,890)	(10,018)
Investments	(16,607)	0.0	0.0	0.0
Others	12,152	2,544	714	809
Financing	(17,006)	(16,226)	1,245	198
Dividend payments	(11,553)	(12,559)	(14,755)	(15,802)
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	10,540	28,557	29,355
Beginning cash & cash equivalent	34,694	38,292	48,832	77,389
Changes due to forex impact	193	0.0	0.0	0.0
Ending cash & cash equivalent	38,292	48,832	77,389	106,745

**BALANCE SHEET**

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Fixed assets	268,391	273,703	276,949	280,136
Other LT assets	108,928	107,515	107,954	108,452
Cash/ST investment	38,293	48,832	77,389	106,745
Other current assets	56,973	62,226	71,289	81,783
Total assets	472,585	492,276	533,581	577,115
ST debt	69,206	73,971	73,971	73,971
Other current liabilities	26,237	27,763	30,535	33,679
LT debt	156,551	148,119	164,119	180,119
Other LT liabilities	10,415	11,545	12,698	14,005
Shareholders' equity	170,963	187,181	204,031	222,220
Minority interest	39,213	43,698	48,228	53,121
Total liabilities & equity	472,585	492,276	533,581	577,115

**KEY METRICS**

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	17.3	17.2	16.8	16.3
Pre-tax margin	13.3	14.3	14.0	13.6
Net margin	10.2	10.7	10.5	10.2
ROA	5.4	6.1	6.2	6.1
ROE	15.7	16.5	16.2	15.9
Growth				
Turnover	(5.1)	14.3	10.0	10.3
EBITDA	1.0	13.8	7.0	7.3
Pre-tax profit	3.9	23.3	7.2	7.6
Net profit	8.3	19.7	7.1	7.6
Net profit (adj.)	8.3	19.7	7.1	7.6
EPS	8.3	19.7	7.1	7.6
Leverage				
Debt to total capital	51.8	49.0	48.6	48.0
Debt to equity	132.1	118.6	116.7	114.3
Net debt/(cash) to equity	109.7	92.6	78.8	66.3
Interest cover (x)	6.1	7.1	7.1	7.1

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