

COMPANY UPDATE

Thai Beverage (THBEV SP)

Returning To The Land Of Smiles

Thailand's robust tourism recovery is expected to continue with its upward momentum in 2023, driven by an influx of Chinese tourists. China's abrupt zero-COVID-19 policy shift provides strong tailwinds for Thailand's tourism sector, benefitting consumer companies such as THBEV. We opine that THBEV remains attractively priced at -0.5SD to its five-year mean PE. Maintain BUY with a higher SOTP-based target price of S\$0.85 (S\$0.73 previously).

WHAT'S NEW

- **No more zero-COVID-19 policy.** China ended most of its nationwide zero-COVID-19 policies in a bid to boost its economy and transition into COVID-19 endemicity. After three years of self-isolation and strict lockdowns, China lifted domestic quarantine restrictions and also relaxed domestic and foreign travel guidelines, whereby inbound travellers are now able to enter the country quarantine-free. With pent-up travel demand, Thailand is set to face a surge of Chinese tourists coming into the kingdom, given that Thailand was China's top travel destination pre-COVID-19 (2019).
- **Welcome back to Thailand.** Thailand initially re-implemented COVID-19 travel restrictions such as requiring proof of vaccination for incoming foreign tourists. This was in response to the upcoming surge in Chinese tourists and the ongoing COVID-19 wave in China. However, Thailand has reversed its decision - incoming foreign travellers, including Chinese tourists, now do not need to show proof of vaccination. The only requirement for foreign tourists would be a US\$10,000 travel health insurance if they were to return to countries that require a negative PCR-test pre-departure, such as China and India. We reckon that this would not deter Chinese tourists from revenge travelling, which benefits top destinations for Chinese tourists such as Thailand.
- **Longer stays but higher fees.** In line with its full reopening, Thailand is offering a longer period of stay for tourists. From 31 Mar 23, international tourists with visa exemptions will be permitted to stay up to 45 days (30 days previously) and those with a visa on arrival can stay for 30 days (15 days previously). Thailand also plans to collect a tourist fee of Bt300 from Jun 23 onwards, which we opine would not dent the kingdom's tourism recovery.
- **Robust tourism recovery.** Continuing on its sharp recovery, Thailand reported approximately 1.75m (+18% mom, 18x yoy) tourist arrivals in Nov 22 alone, quadruple the whole of 2021 combined. This is on the back of Thailand's fully reopened international borders and relaxed global travel restrictions. We now expect 11m-12m tourist arrivals in 2022, higher than our previous expectations of 10m-11m tourists. This is still a fraction of the 40m arrivals before the pandemic. However, with the resumption of Chinese travel, we expect the influx of Chinese tourists to support and boost Thailand's tourism recovery.

KEY FINANCIALS

Year to 30 Sep (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	240,543	272,359	288,487	317,399	352,196
EBITDA	41,613	46,344	44,806	47,867	51,438
Operating profit	33,782	38,583	37,733	40,604	43,980
Net profit (rep./act.)	24,645	30,106	28,077	30,733	33,780
Net profit (adj.)	24,645	30,106	28,077	30,733	33,780
EPS (Bt)	1.0	1.2	1.1	1.2	1.3
PE (x)	18.0	14.7	15.8	14.4	13.1
P/B (x)	2.6	2.2	2.0	1.9	1.8
EV/EBITDA (x)	15.7	14.1	14.6	13.7	12.7
Dividend yield (%)	2.8	3.4	3.2	3.5	3.8
Net margin (%)	10.2	11.1	9.7	9.7	9.6
Net debt/(cash) to equity (%)	109.7	79.2	75.3	64.2	52.4
Interest cover (x)	6.1	7.4	6.0	6.0	6.1
ROE (%)	15.7	16.0	13.3	13.6	13.9
Consensus net profit	-	-	30,226	32,471	33,877
UOBKH/Consensus (x)	-	-	0.93	0.95	1.00

Source: THBEV, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.705
Target Price	S\$0.85
Upside	+20.6%
(Previous TP:	S\$0.73)

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):	17,710.2
Market cap (US\$m):	13,394.5
3-mth avg daily t'over (US\$m):	10.4

Price Performance (%)

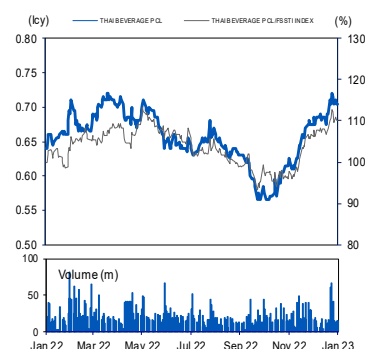
52-week high/low			S\$0.720/S\$0.565	
1mth	3mth	6mth	1yr	YTD
4.4	20.5	7.6	10.2	2.9

Major Shareholders

	%
Siriwana Co., Ltd.	54.0
Maxtop Management Corp.	11.9

FY23 NAV/Share (Bt)	8.66
FY23 Net Debt/Share (Bt)	6.52

PRICE CHART



Source: Bloomberg

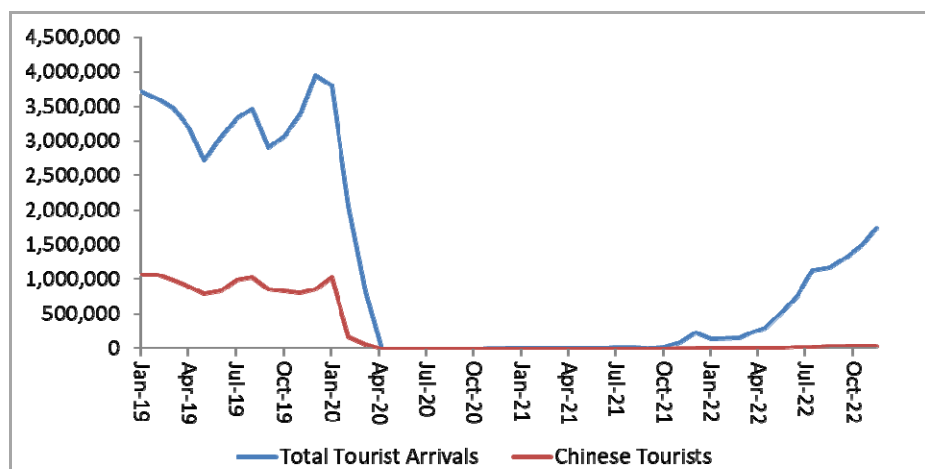
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STOCK IMPACT

- Back to number one.** According to statistics from Thailand's Ministry of Tourism and Sports, Chinese tourists have historically been the largest contributor to Thailand's tourist arrivals at 27-28% before the COVID-19 pandemic, with second-placed Malaysia contributing 8-9%. However, due to China's travel restrictions implemented since Mar 20, Chinese tourist arrivals to Thailand have plunged to about 5%. With the relaxation of international travel guidelines, we expect a gradual recovery in the number of Chinese tourist arrivals to Thailand.
- Turbulent take-off.** Despite pent-up travel demand, tight international flight capacity going in and out of China may prevent an immediate sharp near-term tourism recovery in 1H23, given that it takes time for airlines to ramp up and restore international flight capacity. Additionally, overwhelming travel demand by the Chinese has led to sky-high outbound fares, which may depress demand for cost-conscious travellers. Currently at 10-15% of pre-pandemic scheduling, we estimate that flight capacity would ramp up to near pre-pandemic levels by end-2H23.
- Halfway there.** According to Thailand's tourism bureau, the kingdom is expected to receive 25m visitors (65% of pre-COVID-19 levels) in 2023, largely driven by an estimated 5m Chinese tourists. We expect to see a sharper recovery in 2H23 whereby the unfavourable supply-demand imbalance in China would subside. With higher tourist arrivals in Thailand, consumer companies such as Thai Beverage (THBEV) are expected to benefit from higher alcohol consumption levels.

THAILAND'S MONTHLY INTERNATIONAL AND CHINESE TOURIST ARRIVALS



EARNINGS REVISION/RISK

- We increase our FY23-25 PATMI forecasts by 1-3%,** after: a) accounting for China's abrupt zero-COVID-19 policy shift, and b) increasing our segmental revenue and EBITDA forecasts for all of THBEV's business segments.

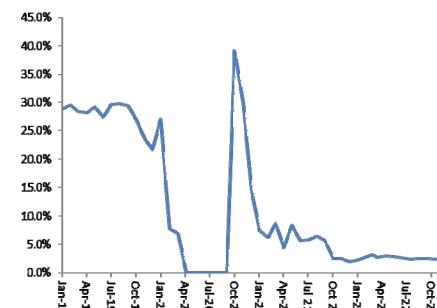
VALUATION/RECOMMENDATION

- Maintain BUY with a higher SOTP-based target price of S\$0.85 (S\$0.73 previously).** The increase in target price is largely due to higher EV/EBITDA peer multiples used for the spirits (17x, 16x previously) and beer segments (13x, 12x previously).
- We still reckon THBEV remains attractively priced at -0.5SD** to its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds.

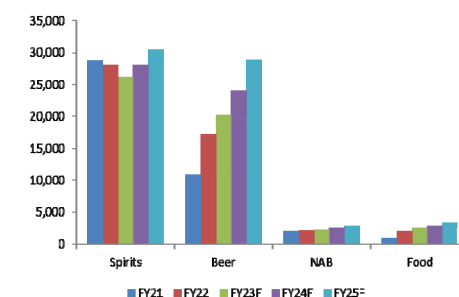
SHARE PRICE CATALYST

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

% OF THAILAND'S CHINESE TOURISTS TO TOTAL TOURIST ARRIVALS



SEGMENTAL HISTORICAL EBITDA AND FORECASTS (BTM)



HISTORICAL FORWARD PE



SOTP VALUATION

	Methodology	Previous Methodology	(Btm)
Spirits	17x FY23 EV/EBITDA	16x FY23 EV/EBITDA	430,939
Beer	13x FY23 EV/EBITDA	12x FY23 EV/EBITDA	262,118
NAB	16x FY23 EV/EBITDA	18x FY23 EV/EBITDA	36,059
Food	14x FY23 EV/EBITDA	13x FY23 EV/EBITDA	34,923
FPL	Market Value		25,410
FNN	Market Value		13,020
Total			802,469
			Less: Net debt, Minority Interest (267,020)
			Value 535,449
			Per share (S\$) 0.85

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (Btm)	2022	2023F	2024F	2025F
Net turnover	272,359	288,487	317,399	352,196
EBITDA	46,344	44,806	47,867	51,438
Deprec. & amort.	7,761	7,073	7,263	7,459
EBIT	38,583	37,733	40,604	43,980
Total other non-operating income	2,541	2,356	2,356	2,356
Associate contributions	5,044	5,044	6,044	7,044
Net interest income/(expense)	(6,227)	(7,441)	(7,921)	(8,401)
Pre-tax profit	39,941	37,693	41,084	44,979
Tax	(5,436)	(5,086)	(5,458)	(5,909)
Minorities	(4,399)	(4,530)	(4,892)	(5,291)
Net profit	30,106	28,077	30,733	33,780
Net profit (adj.)	30,106	28,077	30,733	33,780

BALANCE SHEET

Year to 30 Sep (Btm)	2022	2023F	2024F	2025F
Fixed assets	277,769	284,826	286,680	288,440
Other LT assets	119,327	117,833	118,296	118,853
Cash/ST investment	51,867	84,140	113,721	147,733
Other current assets	58,826	68,513	78,337	86,688
Total assets	507,789	555,312	597,034	641,714
ST debt	57,122	83,892	83,892	83,892
Other current liabilities	32,008	29,137	32,057	35,572
LT debt	157,795	164,146	180,146	196,146
Other LT liabilities	11,476	12,116	13,331	14,792
Shareholders' equity	205,748	217,590	234,285	252,697
Minority interest	43,640	48,431	53,324	58,614
Total liabilities & equity	507,789	555,312	597,034	641,714

CASH FLOW

Year to 30 Sep (Btm)	2022	2023F	2024F	2025F
Operating	45,013	27,916	36,886	42,623
Pre-tax profit	39,941	37,693	41,084	44,979
Tax	(5,436)	(5,086)	(5,458)	(5,909)
Deprec. & amort.	7,761	7,073	7,263	7,459
Working capital changes	3,502	(11,198)	(8,494)	(6,751)
Non-cash items	(755)	(566)	2,492	2,844
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(10,472)	(13,692)	(9,267)	(9,244)
Capex (growth)	(6,219)	(15,827)	(10,018)	(10,149)
Investments	(10,101)	0.0	0.0	0.0
Others	5,848	2,135	752	905
Financing	(19,917)	18,049	1,961	633
Dividend payments	(12,559)	(15,073)	(14,039)	(15,367)
Issue of shares	38	0.0	0.0	0.0
Proceeds from borrowings	(10,840)	33,121	16,000	16,000
Others/interest paid	3,444	0.0	0.0	0.0
Net cash inflow (outflow)	14,624	32,273	29,581	34,012
Beginning cash & cash equivalent	38,292	51,867	84,140	113,721
Changes due to forex impact	(1,049)	0.0	0.0	0.0
Ending cash & cash equivalent	51,867	84,140	113,721	147,733

KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.0	15.5	15.1	14.6
Pre-tax margin	14.7	13.1	12.9	12.8
Net margin	11.1	9.7	9.7	9.6
ROA	6.1	5.3	5.3	5.5
ROE	16.0	13.3	13.6	13.9
Growth				
Turnover	13.2	5.9	10.0	11.0
EBITDA	11.4	(3.3)	6.8	7.5
Pre-tax profit	24.9	(5.6)	9.0	9.5
Net profit	22.2	(6.7)	9.5	9.9
Net profit (adj.)	22.2	(6.7)	9.5	9.9
EPS	22.2	(6.7)	9.5	9.9
Leverage				
Debt to total capital	46.3	48.3	47.9	47.4
Debt to equity	104.5	114.0	112.7	110.8
Net debt/(cash) to equity	79.2	75.3	64.2	52.4
Interest cover (x)	7.4	6.0	6.0	6.1

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