

COMPANY RESULTS

Emperador Inc (EMI SP)

1Q23: Robust Performance Led By Scotch Whisky

EMI reported strong 1Q23 PATMI growth of 10.5% yoy, largely driven by the Scotch whisky segment. Despite higher brandy segmental revenue, overall inflationary cost-push continues to pressure brandy margins. EMI's Scotch whisky segment outperformed on higher ASPs and demand. We think that EMI is fairly valued at current rich valuation levels given its premium market positioning and strong growth potential among its peers. Maintain HOLD with the same PE-based target price of S\$0.57.

1Q23 RESULTS

Year to 31 Dec (PHPm)	1Q23	1Q22	yoy % chg	1Q23	4Q22	qoq % chg
Revenue	15,591	12,333	26.4	15,591	20,127	(22.5)
Gross Profit	5,427	4,345	24.9	5,427	6,449	(15.8)
Gross Margin (%)	34.8	35.2	(0.4ppt)	34.8	32.0	2.8ppt
EBITDA	3,416	3,110	9.8	3,416	3,615	(5.5)
EBITDA Margin (%)	21.9	25.2	(3.3ppt)	21.9	18.0	3.9ppt
PATMI	2,318	2,098	10.5	2,318	2,876	(19.4)
PATMI Margin (%)	14.9	17.0	(2.1ppt)	14.9	14.3	0.6ppt

Brandy						
Year to 31 Dec (PHPm)	1Q23	1Q22	yoy % chg	1Q23	4Q22	qoq % chg
Revenue	9,758	7,635	27.8	9,758	13,802	(29.3)
EBITDA	1,730	1,914	(9.6)	1,730	2,539	(31.9)
EBITDA Margin (%)	17.7	25.1	(7.3ppt)	17.7	18.4	(0.7ppt)
PATMI	982	1,205	(18.5)	982	1,735	(43.4)
PATMI Margin (%)	10.1	15.8	(5.7ppt)	10.1	12.6	(2.5ppt)

Scotch Whisky						
Year to 31 Dec (PHPm)	1Q23	1Q22	yoy % chg	1Q23	4Q22	qoq % chg
Revenue	5,833	4,698	24.2	5,833	6,326	(7.8)
EBITDA	1,685	1,196	40.9	1,685	1,076	56.6
EBITDA Margin (%)	28.9	25.5	3.4ppt	28.9	17.0	11.9ppt
PATMI	1,336	893	49.6	1,336	1,141	17.1
PATMI Margin (%)	22.9	19.0	3.9ppt	22.9	18.0	4.9ppt

Source: Emperador Inc, UOB Kay Hian

RESULTS

- Robust results in line.** Emperador Inc (EMI) released strong 1Q23 results for both overall revenue (+26.4% yoy) and PATMI (+10.5% yoy), forming 22.7% and 19.6% of our full-year forecasts respectively. As 1Q is EMI's seasonally weakest quarter, 1Q23 results are still in line with our expectations. Top-line growth was led by both the brandy and Scotch whisky business segments, driven by the global economic recovery, ASP hikes and the relaxation of COVID-19 measures. Similar to revenue, 1Q23 gross profit (+24.9% yoy) and EBITDA (+9.8% yoy) also grew, albeit at a lower growth rate dragged by higher inflationary cost push. Gross (-0.4ppt yoy), EBITDA (-3.3ppt yoy) and PATMI (-2.1ppt yoy) margins fell yoy in 1Q23 but improved qoq as operating costs start to stabilise. We expect margins to continue improving sequentially going into 2Q23, driven by lower domestic inflation in the Philippines and higher contributions from the higher-margin Scotch whisky segment.

KEY FINANCIALS

Year to 31 Dec (PHPm)	2021	2022	2023F	2024F	2025F
Net turnover	55,936	62,767	68,810	76,225	84,806
EBITDA	15,223	13,805	15,935	18,922	22,620
Operating profit	13,678	12,321	14,450	17,437	21,135
Net profit (rep./act.)	9,971	10,061	11,806	14,152	17,260
Net profit (adj.)	9,971	10,061	11,806	14,152	17,260
EPS (PHP)	0.6	0.6	0.8	0.9	1.1
PE (x)	33.7	33.3	28.2	23.5	19.3
P/B (x)	4.3	3.8	3.5	3.2	2.9
EV/EBITDA (x)	22.2	24.5	21.2	17.8	14.9
Dividend yield (%)	0.5	1.4	1.5	1.8	2.1
Net margin (%)	17.8	16.0	17.2	18.6	20.4
Net debt/(cash) to equity (%)	20.0	12.7	2.4	(10.8)	(23.3)
Interest cover (x)	19.4	22.6	21.2	18.0	18.8
ROE (%)	13.8	12.2	13.0	14.2	15.7
Consensus net profit ()	-	-	11,720	13,763	15,738
UOBKH/Consensus (x)	-	-	1.01	1.03	1.10

Source: Emperador Inc, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.51
Target Price	S\$0.57
Upside	+11.8%

COMPANY DESCRIPTION

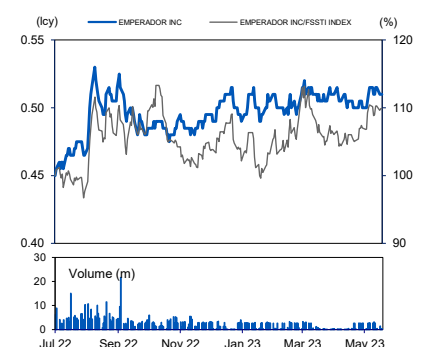
Emperador, Inc. operates in the beverage industry. The company, through its subsidiary, produces and markets brandy.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	EMI SP
Shares issued (m):	15,736.5
Market cap (S\$m):	8,025.6
Market cap (US\$m):	5,929.1
3-mth avg daily t'over (US\$m):	0.5
Price Performance (%)	
52-week high/low	S\$0.530/S\$0.450

1mth	3mth	6mth	1yr	YTD
1.0	3.0	5.2	n.a.	0.0
Major Shareholders				
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
FY23 NAV/Share (PHP)	6.05			
FY23 Net Debt/Share (PHP)	0.15			

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Brandy: Robust revenue growth, driven by ASP hikes and A&P spending.** 1Q23 segmental revenue (+27.8% yoy) and PATMI (-18.5% yoy) formed 23.1% and 17.2% of our full-year forecasts respectively, in line with our expectations. Revenue growth was driven by ASP hikes across EMI's brandy product lines and increased promotional activities, with advertising and promotional (A&P) spending to revenue (%) increasing 0.7ppt yoy to 12.3ppt in 1Q23 as predicted in our previous report. Dragged by higher distillation and utility costs, 1Q23 EBITDA fell 9.6% yoy with EBITDA margins dropping 7.3ppt yoy.
- No change to premiumisation plan; lower costs expected.** Moving forward, management noted that elevated opex such as distillation costs are expected to soften in 2023 and would see significant moderation by 4Q23. Also, given that domestic revenue contributes to 90% of EMI's brandy revenue, the group plans to increase A&P spending in the Philippines, implementing its premiumisation strategy to support falling margins. With domestic inflation starting to taper off in 1Q23 and demand for domestic brandy largely price-elastic, we reckon that this may help support demand for EMI's brandy products and lead to reduced A&P spending in 2H23. However, it is unlikely as inflation still remains double of 1Q22 levels and we expect to see continued A&P spending in 2Q/3Q23, which may keep overall brandy margins depressed till 4Q23.
- Scotch whisky: Outperformance as profitability surges.** 1Q23 Scotch whisky revenue (+24.2% yoy) and PATMI (+49.6% yoy) surged in 1Q23, forming 22.0% and 21.9% of our full-year forecasts respectively and in line with our expectations. The outperformance was largely driven by higher sales of its single malt whiskies across most of its markets, particularly North America and Greater China. Despite higher logistics costs and increased A&P spending in 1Q23, EBITDA surged 40.9% yoy with EBITDA margin also expanding 3.4ppt yoy. We opine this was driven by higher ASPs with ASPs increasing by around 13% across EMI's Scotch whisky product lines, coupled with EMI's flagship Dalmore 15 and Dalmore 18 increasing ASPs by 20-25% and 90-100% respectively. As noted in our previous report, logistics costs have started to soften in 1Q23 with EBITDA (+11.9ppt qoq) and PATMI (+4.9ppt qoq) margins expanding on a sequential basis. We expect this margin expansion to continue in 2023 as global supply chain issues ease.
- Room to increase ASPs and market presence.** Given the price inelasticity of EMI's Scotch whisky products, we expect the implemented ASP hikes to help support revenue growth and expand margins, with the possibility of additional ASP hikes in 2023. Management noted that revenue contribution from high-growth markets such as North America and Greater China has improved, with contribution from the latter doubling every year. We estimate that North America and Greater China contributed 3-4% and 8-9% of EMI's overall 2022 annual revenue respectively. Sales of its Dalmore Scotch whisky in these markets have outperformed, posting double-digit growths in 2022. Moving forward, we expect the Scotch whisky segment to continue its upward momentum, eventually overtaking the brandy segment in terms of overall PATMI contribution by 2023/24.

EARNINGS REVISION/RISK

- No changes to our 2023-25 revenue and PATMI estimates.

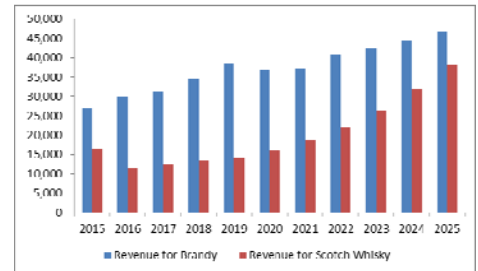
VALUATION/RECOMMENDATION

- Maintain HOLD with the same PE-based target price of S\$0.57**, pegged to the same 31.5x 2023F PE, +2SD to its long-term average PE. Despite trading at expensive valuations (slightly under +2SD of its long-term average PE and EV/EBITDA), we think that EMI is fairly valued at current price levels given its premium market positioning and strong growth potential amongst its peers. A key re-rating catalyst would be the successful penetration of its key premium products into China and new growth markets.

SHARE PRICE CATALYST

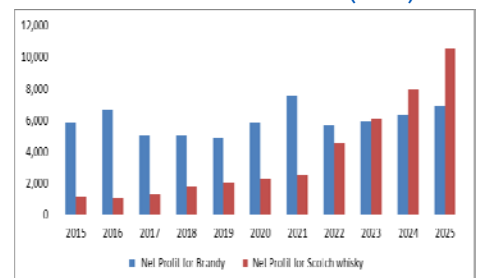
- a) Higher revenue contribution from Greater China and the Middle East.
- b) M&As.

SEGMENTAL REVENUE CONTRIBUTION (PHPM)



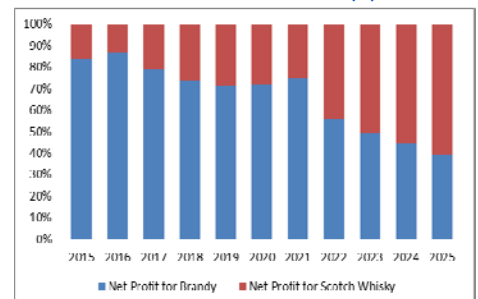
Source: EMI, UOB Kay Hian

SEGMENTAL PATMI CONTRIBUTION (PHPM)



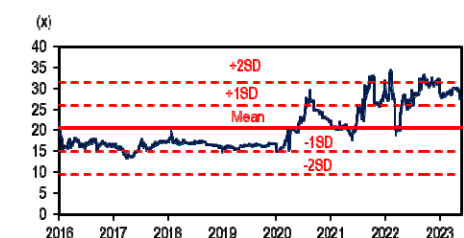
Source: EMI, UOB Kay Hian

SEGMENTAL PATMI CONTRIBUTION (%)



Source: EMI, UOB Kay Hian

HISTORICAL FORWARD PE



Source: UOB Kay Hian, Bloomberg

HISTORICAL FORWARD EV/EBITDA



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (PHPm)	2022	2023F	2024F	2025F
Net turnover	62,767.1	68,810.5	76,225.4	84,806.0
EBITDA	13,805.2	15,935.1	18,921.6	22,620.0
Deprec. & amort.	1,484.6	1,484.6	1,484.6	1,484.6
EBIT	12,320.6	14,450.5	17,437.0	21,135.4
Net interest income/(expense)	(610.4)	(752.4)	(1,053.0)	(1,201.1)
Pre-tax profit	11,710.2	13,698.1	16,383.9	19,934.3
Tax	(1,498.5)	(1,736.2)	(2,062.5)	(2,491.2)
Minorities	(150.8)	(156.3)	(169.3)	(183.1)
Net profit	10,060.9	11,805.6	14,152.2	17,260.0
Net profit (adj.)	10,060.9	11,805.6	14,152.2	17,260.0

BALANCE SHEET

Year to 31 Dec (PHPm)	2022	2023F	2024F	2025F
Fixed assets	29,256.0	29,762.1	30,268.1	30,774.2
Other LT assets	34,561.3	34,561.3	34,561.3	34,561.3
Cash/ST investment	12,738.1	20,469.8	33,044.9	47,621.2
Other current assets	64,655.7	61,406.4	58,082.0	55,046.6
Total assets	141,211.1	146,199.5	155,956.2	168,003.3
ST debt	3,851.1	2,831.1	1,811.1	791.2
Other current liabilities	24,498.9	23,090.0	24,559.9	26,138.8
LT debt	19,950.1	19,950.1	19,950.1	19,950.1
Other LT liabilities	4,321.6	4,321.6	4,321.6	4,321.6
Shareholders' equity	87,391.9	94,809.3	104,116.1	115,604.2
Minority interest	1,197.5	1,197.5	1,197.5	1,197.5
Total liabilities & equity	141,211.1	146,199.5	155,956.2	168,003.3

CASH FLOW

Year to 31 Dec (PHPm)	2022	2023F	2024F	2025F
Operating	8,141.9	16,039.2	21,653.5	24,743.1
Pre-tax profit	11,710.2	13,698.1	16,383.9	19,934.3
Tax	(1,498.5)	(1,736.2)	(2,062.5)	(2,491.2)
Deprec. & amort.	1,484.6	1,484.6	1,484.6	1,484.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	(4,429.4)	1,840.3	4,794.3	4,614.3
Non-cash items	(1.1)	0.0	0.0	0.0
Other operating cashflows	876.2	752.4	1,053.0	1,201.1
Investing	(3,132.2)	(1,990.6)	(1,990.6)	(1,990.6)
Capex (growth)	(4,003.1)	(1,990.6)	(1,990.6)	(1,990.6)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	448.0	0.0	0.0	0.0
Others	422.9	0.0	0.0	0.0
Financing	(1,605.4)	(6,316.9)	(7,087.7)	(8,176.0)
Dividend payments	0.0	(4,544.6)	(5,014.7)	(5,955.0)
Proceeds from borrowings	1,846.9	1,846.9	1,846.9	1,846.9
Loan repayment	(2,866.9)	(2,866.9)	(2,866.9)	(2,866.9)
Others/interest paid	(585.4)	(752.4)	(1,053.0)	(1,201.1)
Net cash inflow (outflow)	3,404.3	7,731.7	12,575.1	14,576.4
Beginning cash & cash equivalent	9,333.8	12,738.1	20,469.8	33,044.9
Ending cash & cash equivalent	12,738.1	20,469.8	33,044.9	47,621.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	22.0	23.2	24.8	26.7
Pre-tax margin	18.7	19.9	21.5	23.5
Net margin	16.0	17.2	18.6	20.4
ROA	7.5	8.2	9.4	10.7
ROE	12.2	13.0	14.2	15.7
Growth				
Turnover	12.2	9.6	10.8	11.3
EBITDA	(9.3)	15.4	18.7	19.5
Pre-tax profit	(9.2)	17.0	19.6	21.7
Net profit	0.9	17.3	19.9	22.0
Net profit (adj.)	0.9	17.3	19.9	22.0
EPS	1.5	18.0	19.9	22.0
Leverage				
Debt to total capital	21.2	19.2	17.1	15.1
Debt to equity	27.2	24.0	20.9	17.9
Net debt/(cash) to equity	12.7	2.4	(10.8)	(23.3)
Interest cover (x)	22.6	21.2	18.0	18.8

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