

COMPANY RESULTS

Emperador Inc (EMI SP)

2Q23: Weak Results As Increased A&Ps And Operating Costs Drag Margins

EMI reported weak 2Q23 results with lower revenue (-1.3% yoy) and PATMI (-22.9% yoy), driven by elevated operating costs and the brandy segment. Increased promotion activities and inflationary cost-push continues to pressure brandy margins. The Scotch whisky segment continues its robust growth on higher ASPs and demand, offset by higher A&P spending. We think that EMI is fairly valued at current rich valuation levels. Maintain HOLD with a lower PE-based target price of S\$0.45 (S\$0.57 previously).

2Q23 RESULTS

Year to 31 Dec (PHPm)	2023	2022	yoy % chg	1H23	1H22	yoy % chg
Revenue	15,518	15,721	(1.3)	31,109	28,054	10.9
Gross Profit	5,937	5,742	3.4	11,364	10,087	12.7
Gross Margin (%)	38.3	36.5	1.7ppt	36.5	36.0	0.6ppt
EBITDA	3,606	4,157	(13.3)	7,022	7,267	(3.4)
EBITDA Margin (%)	23.2	26.4	(3.2ppt)	22.6	25.9	(3.3ppt)
PATMI	2,422	3,140	(22.9)	4,740	5,238	(9.5)
PATMI Margin (%)	15.6	20.0	(4.4ppt)	15.2	18.7	(3.5ppt)

Brandy						
Year to 31 Dec (PHPm)	2023	2022	yoy % chg	1H23	1H22	yoy % chg
Revenue	8,866	10,262	(13.6)	18,624	17,897	4.1
EBITDA	1,818	2,227	(18.4)	3,548	4,141	(14.3)
EBITDA Margin (%)	20.5	21.7	(1.2ppt)	18.8	22.7	(3.9ppt)
PATMI	991	1,729	(42.7)	1,974	2,934	(32.7)
PATMI Margin (%)	11.2	16.8	(5.7ppt)	10.5	16.1	(5.6ppt)

Scotch Whisky						
Year to 31 Dec (PHPm)	2023	2022	yoy % chg	1H23	1H22	yoy % chg
Revenue	6,652	5,459	21.9	12,485	10,157	22.9
EBITDA	1,788	1,930	(7.4)	3,474	3,126	11.1
EBITDA Margin (%)	26.9	35.4	(8.5ppt)	27.4	30.6	(3.2ppt)
PATMI	1,431	1,411	1.4	2,767	2,304	20.1
PATMI Margin (%)	21.5	25.8	(4.3ppt)	21.8	22.6	(0.8ppt)

Source: Emperador, UOB Kay Hian

RESULTS

• **Soft results, below expectations.** For 1H23, Emperador Inc (EMI) reported higher overall revenue (+10.9% yoy) but lower PATMI (-9.5% yoy), forming 45.2% and 40.2% of our full-year forecasts respectively. Driven by higher revenue from both brandy and Scotch whisky segments, 1H23 overall revenue was largely in line with expectations as 1H23 is seasonally weaker. However, 1H23 PATMI was below our expectations as elevated interest expense along with higher advertising and promotional (A&P) spending in 2Q23 dragged margins. 1H23 EBITDA and PATMI margins softened 3.3ppt yoy and 3.5ppt yoy respectively. Both revenue (-1.3% yoy) and PATMI (-22.9% yoy) dropped in 2Q23, dragged by lower brandy revenue and compressed margins. The larger yoy drop in 2Q23 PATMI was due to higher operating expenses (+44.0% yoy) and interest expense (+72.9% yoy). Moving forward, we expect the seasonally stronger 2H23 to be sequentially better, offset by elevated costs.

KEY FINANCIALS

Year to 31 Dec (PHPm)	2021	2022	2023F	2024F	2025F
Net turnover	55,936	62,767	66,369	72,865	81,277
EBITDA	15,223	13,805	13,591	16,860	20,808
Operating profit	13,678	12,321	12,106	15,375	19,323
Net profit (rep./act.)	9,971	10,061	9,111	11,863	15,181
Net profit (adj.)	9,971	10,061	9,111	11,863	15,181
EPS (PHP)	0.6	0.6	0.6	0.8	1.0
PE (x)	33.7	33.2	36.4	28.0	21.9
P/B (x)	4.3	3.8	3.6	3.4	3.1
EV/EBITDA (x)	22.6	25.0	25.3	20.4	16.6
Dividend yield (%)	0.5	1.4	1.5	1.8	2.1
Net margin (%)	17.8	16.0	13.7	16.3	18.7
Net debt/(cash) to equity (%)	20.0	12.7	10.7	6.7	(2.5)
Interest cover (x)	19.4	22.6	8.5	9.9	11.2
ROE (%)	13.8	12.2	10.2	12.4	14.6
Consensus net profit ()	-	-	10,966	12,385	14,480
UOBKH/Consensus (x)	-	-	0.83	0.96	1.05

Source: Emperador, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.505
Target Price	S\$0.450
Upside	-10.9%
(Previous TP)	S\$0.570)

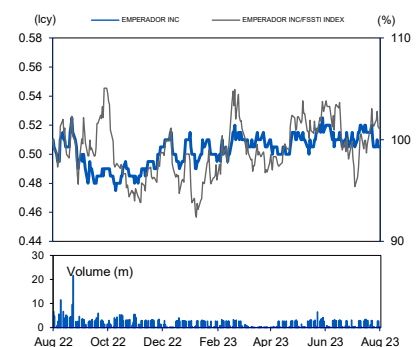
COMPANY DESCRIPTION

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):	7,946.9			
Market cap (US\$m):	5,871.0			
3-mth avg daily t'over (US\$m):	0.7			
Price Performance (%)				
52-week high/low	S\$0.525/S\$0.475			
1mth	3mth	6mth	1yr	YTD
(1.0)	(1.0)	2.0	(1.9)	(1.0)
Major Shareholders	%			
-	-			
-	-			
FY23 NAV/Share (PHP)	5.87			
FY23 Net Debt/Share (PHP)	0.23			

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Brandy: Underperformance from inflationary pressures.** 1H23 segmental revenue (+4.1% yoy) and PATMI (-32.7% yoy) were below expectations, forming 44.0% and 34.5% of our full-year forecasts respectively, dragged by a poor 2Q23 as both revenue (-13.6% yoy) and PATMI (-42.7% yoy) fell sharply. The underperformance in 2H23 was largely due to inflationary pressures depressing consumption levels, higher A&P spending and interest costs. As predicted in our previous update, A&P spending to revenue (%) increased by 4.8ppt yoy as the group invested in supporting their brandy product lines while higher interest rates led to increased interest expense (+334.1% yoy, +PHP492m yoy). Due to ASPs hikes implemented in 1Q23, management did note there was some lingering sequential weakness in demand from customer front-loading and expects better consumption volumes in 2H23 as inflation tapers off.
- 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 continue A&P spending in the Philippines, implementing its premiumisation strategy to support falling margins. However, as inflation still remains double that of 2Q22 levels, we expect to see continued A&P spending in 3Q23, which may keep overall brandy margins depressed till 4Q23 when opex starts to stabilise.
- Scotch whisky: Robust revenue growth dampened by lower margins.** 1H23 segmental revenue (+21.9% yoy) and PATMI (+1.4% yoy) formed 47.1% and 45.5% of our full-year forecasts respectively, in line with expectations. Excluding a one-off gain in 1H22, 1H23 underlying PATMI would have surged 45.9% yoy. Coupled with higher ASPs, the outperformance was largely driven by higher sales of its single malt whiskies across most of its markets, particularly North America and Greater China. Although 2Q23 revenue (+21.8% yoy) and underlying PATMI (+42.7% yoy) grew, supply chain issues and increased A&P spending in 2Q23 led to lower EBITDA margins (-8.5ppt yoy), with EBITDA also falling 7.3% yoy. A&P spending to revenue (%) increased by 5.7ppt yoy as the group invested in supporting newly launched product lines in 2Q23. Moving forward, we do expect margins to stabilise in 2H23 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 continue supporting revenue growth and expand margins, with the possibility of additional ASP hikes in 2H23. 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, now being the second largest single malt brand in China by value sold. We now expect the Scotch whisky to overtake the brandy segment in terms of overall PATMI contribution in 2023, beating our initial 2023/24 expectations.

EARNINGS REVISION/RISK

- We decrease our 2023-25 PATMI estimates on the back of lower margin assumptions.** Our 2023-25 PATMI forecasts are PHP9,111m (PHP11,806m previously), PHP11,863m (PHP14,152m previously) and PHP15,181m (PHP17,260m previously) respectively.

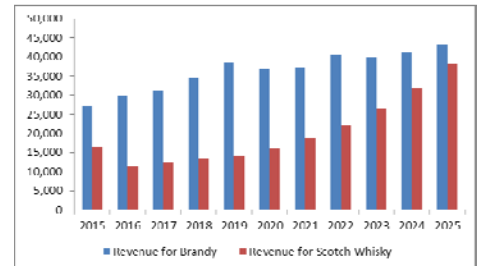
VALUATION/RECOMMENDATION

- Maintain HOLD with a lower PE-based target price of S\$0.45 (S\$0.57 previously),** pegged to 32 x 2023F PE, +2SD to its long-term average PE. 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 despite its premium market positioning and strong growth potential in key markets. With margins expected to compress, we reckon that lower sequential earnings may cap EMI's share price performance.

SHARE PRICE CATALYST

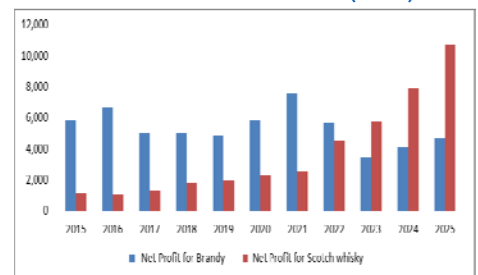
- a) Higher revenue contribution from Greater China and the Middle East, and b) M&As.

SEGMENTAL REVENUE CONTRIBUTION (PHPM)



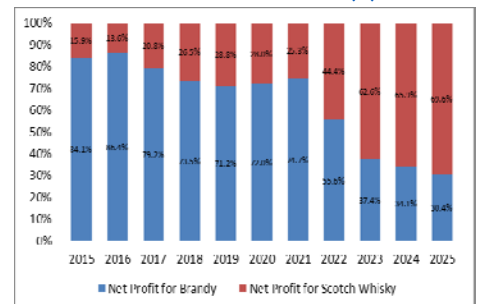
Source: EMI, UOB Kay Hian.

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	66,369.3	72,864.7	81,277.2
EBITDA	13,805.2	13,590.7	16,859.6	20,808.0
Deprec. & amort.	1,484.6	1,484.6	1,484.6	1,484.6
EBIT	12,320.6	12,106.1	15,375.0	19,323.4
Net interest income/(expense)	(610.4)	(1,593.6)	(1,709.0)	(1,866.0)
Pre-tax profit	11,710.2	10,512.5	13,666.0	17,457.4
Tax	(1,498.5)	(1,309.9)	(1,694.4)	(2,152.7)
Minorities	(150.8)	(91.7)	(108.6)	(123.9)
Net profit	10,060.9	9,110.9	11,863.0	15,180.8
Net profit (adj.)	10,060.9	9,110.9	11,863.0	15,180.8

### CASH FLOW

Year to 31 Dec (PHPm)	2022	2023F	2024F	2025F
Operating	8,141.9	9,323.1	11,912.2	19,203.2
Pre-tax profit	11,710.2	10,512.5	13,666.0	17,457.4
Tax	(1,498.5)	(1,309.9)	(1,694.4)	(2,152.7)
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)	(2,957.8)	(3,253.0)	547.9
Non-cash items	(1.1)	0.0	0.0	0.0
Other operating cashflows	876.2	1,593.6	1,709.0	1,866.0
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)	(7,158.2)	(7,743.7)	(8,841.0)
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)	(1,593.6)	(1,709.0)	(1,866.0)
Net cash inflow (outflow)	3,404.3	174.2	2,177.9	8,371.6
Beginning cash & cash equivalent	9,333.8	12,738.1	12,912.3	15,090.2
Ending cash & cash equivalent	12,738.1	12,912.3	15,090.2	23,461.8

### 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	12,912.3	15,090.2	23,461.8
Other current assets	64,655.7	65,385.9	69,808.2	70,791.5
<b>Total assets</b>	<b>141,211.1</b>	<b>142,621.6</b>	<b>149,727.8</b>	<b>159,588.7</b>
ST debt	3,851.1	2,831.1	1,811.1	791.2
Other current liabilities	24,498.9	22,271.3	23,440.7	24,971.8
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	92,050.0	99,006.9	108,356.6
Minority interest	1,197.5	1,197.5	1,197.5	1,197.5
<b>Total liabilities &amp; equity</b>	<b>141,211.1</b>	<b>142,621.6</b>	<b>149,727.8</b>	<b>159,588.7</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	22.0	20.5	23.1	25.6
Pre-tax margin	18.7	15.8	18.8	21.5
Net margin	16.0	13.7	16.3	18.7
ROA	7.5	6.4	8.1	9.8
ROE	12.2	10.2	12.4	14.6
<b>Growth</b>				
Turnover	12.2	5.7	9.8	11.5
EBITDA	(9.3)	(1.6)	24.1	23.4
Pre-tax profit	(9.2)	(10.2)	30.0	27.7
Net profit	0.9	(9.4)	30.2	28.0
Net profit (adj.)	0.9	(9.4)	30.2	28.0
EPS	1.5	(9.0)	30.2	28.0
<b>Leverage</b>				
Debt to total capital	21.2	19.6	17.8	15.9
Debt to equity	27.2	24.7	22.0	19.1
Net debt/(cash) to equity	12.7	10.7	6.7	(2.5)
Interest cover (x)	22.6	8.5	9.9	11.2

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