

Company Initiation

Thai Beverage Plc

Singapore Weekly Update

SG Strategy (Week 1, July17)

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Company Initiation

Thai Beverage Plc

The dominant and expansive giant



Associate and subsidiaries:



Soh Lin Sin

Phillip Securities Research Pte Ltd

10 July 2017

Key Investment Thesis

1. 8% p.a. earnings growth from premiumization, growing share in beer and tapping the vast CMLV market
2. Margins expansion benefiting from (i) Economies of scale; and (ii) Impending excise tax levy in Sep-17
3. Corporate restructuring of F&N and FCL by FY17: (i) Becoming the leading total beverage producer and distributor in the region; and (ii) Contribution from Non-alcoholic Beverages to increase to over 50% of Group revenue.

Potential Upside Catalyst

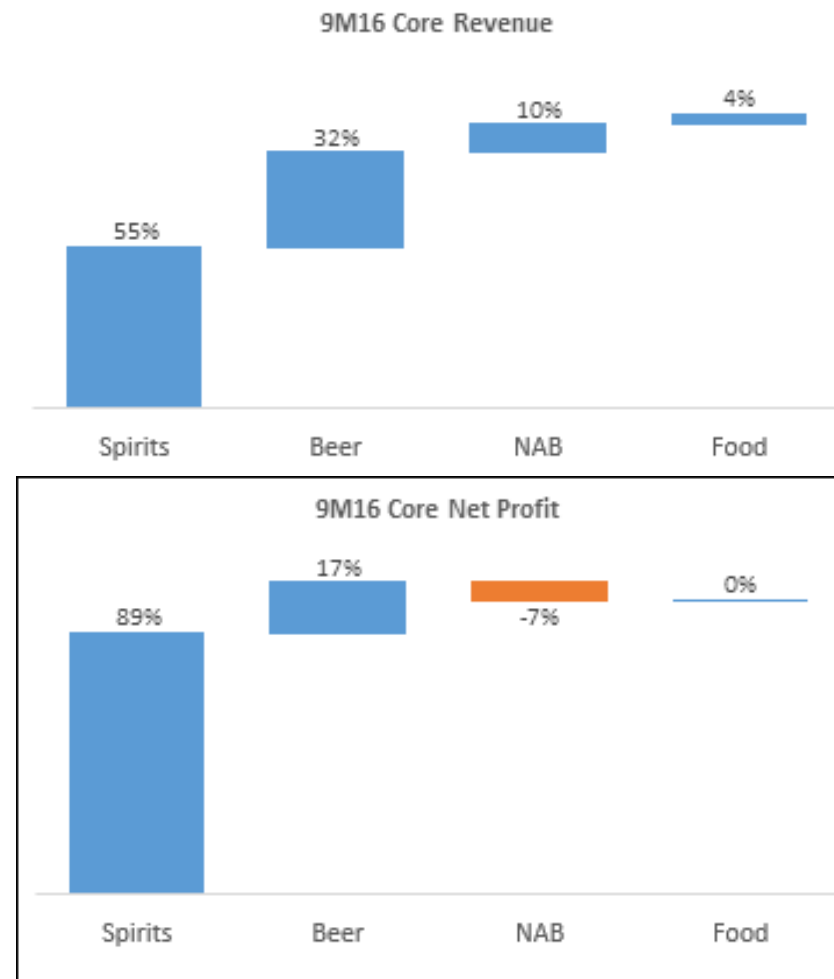
1. Potential M&A candidate: Sabeco (Saigon Beer Alcoholic Beverage Corp.)

Business Overview

- 132 companies (as at end 31 Mar-17), including: (i) 3 breweries, (ii) 18 local distilleries and 6 overseas distilleries, and (iii) 11 manufacturing facilities for non-alcoholic beverages
- Extensive distribution network: 400,000 points of sales in Thailand
- Group's operating profit: (i) ThaiBev core business (c.86%); and (ii) the c.28.5% stakes in both F&N and FCL (c.14%)
- Core product offerings: (i) Spirits; (ii) Beer; (iii) Non-alcoholic Beverages; and (iv) Food and Restaurants



Source: Company



1. Earnings to grow 8% p.a. in FY17-21e

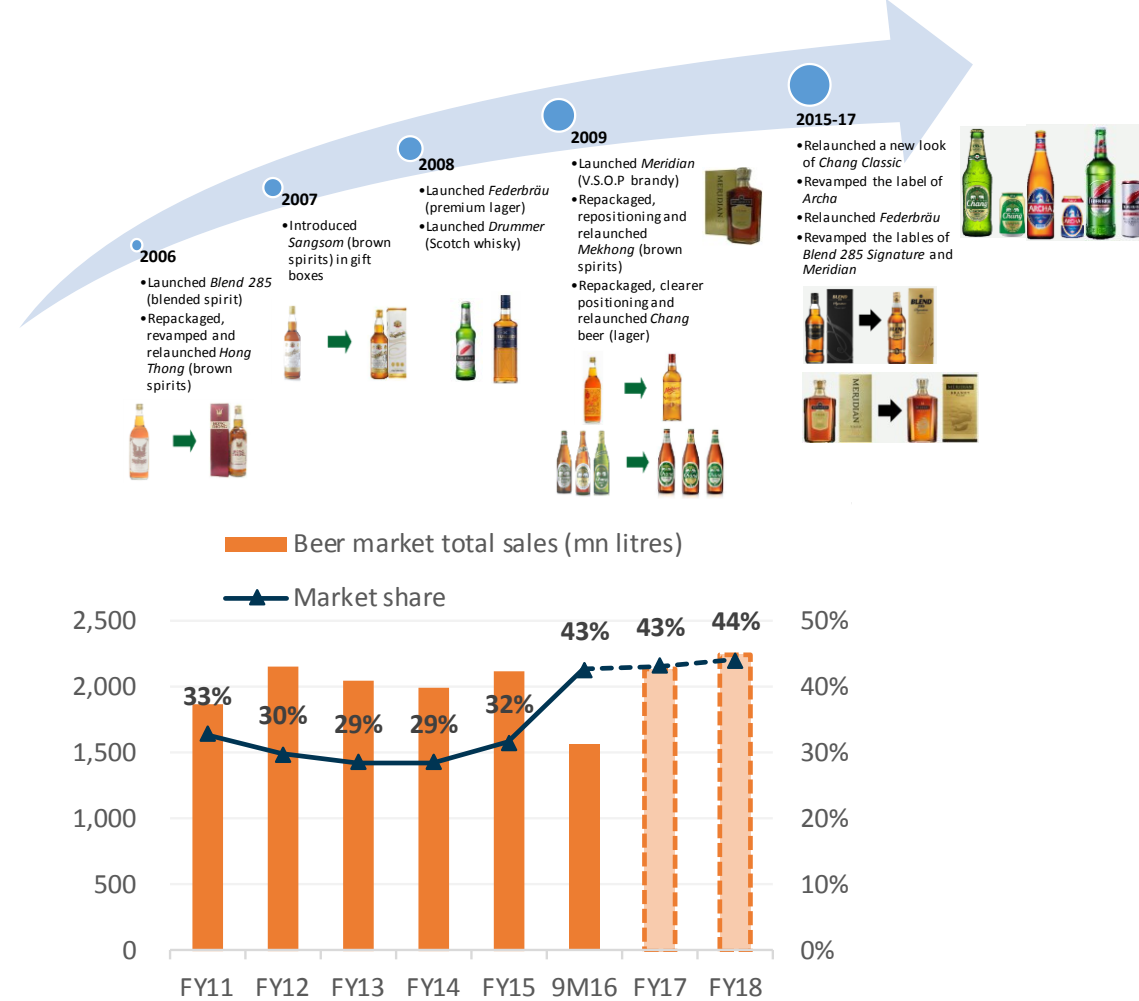
Demand for alcoholic beverages to grow

a. Ongoing effort to premiumize its product offerings

Provides an opportunity to prop up pricing and expand margin, e.g. *Chang* beer makeover in Aug-15

- Brought its pricing to be in par with *Leo* beer
- Increased market share to c.40% from c.30% within 3 months, despite a c.10% price increment
- *Chang* beer is now ranked No.1 as the top-of-mind beer brand from its recent market survey

We believe that the Group could become the leading beer in Thailand by reaching at least 45% of market share by FY2020

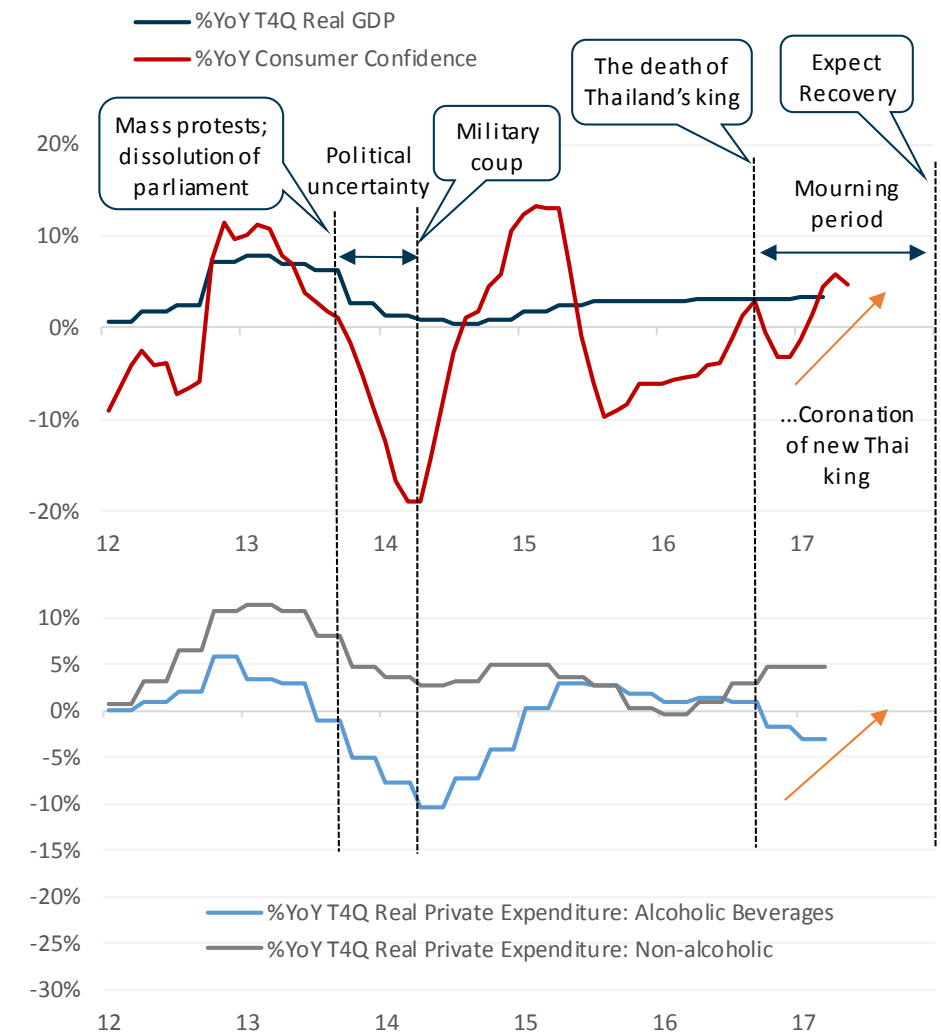


Source: Company

1. Earnings to grow 8% p.a. in FY17-21e

b. Recovery of consumer sentiment with the coronation of new Thai King Maha Vajiralongkorn, which is slated to take place at end-2017

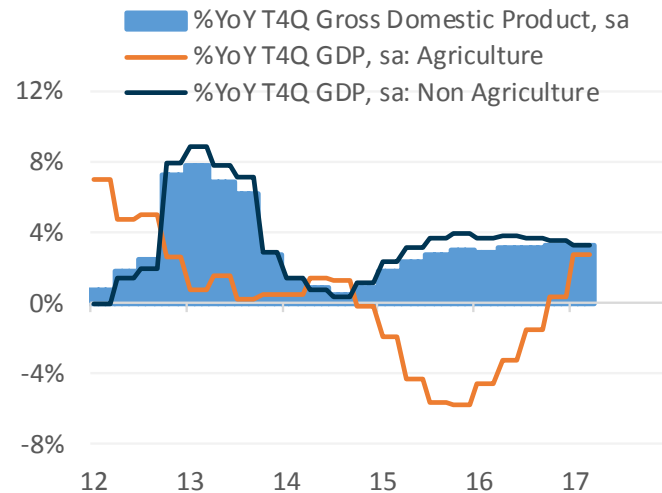
- The impact from entertainment ban should ebb by 1Q FY18, reviving the country's tourism
- Thailand's Ministry of Tourism and Sports projects a 68% growth in tourism-related revenue in 2017, hitting THB2.71tn



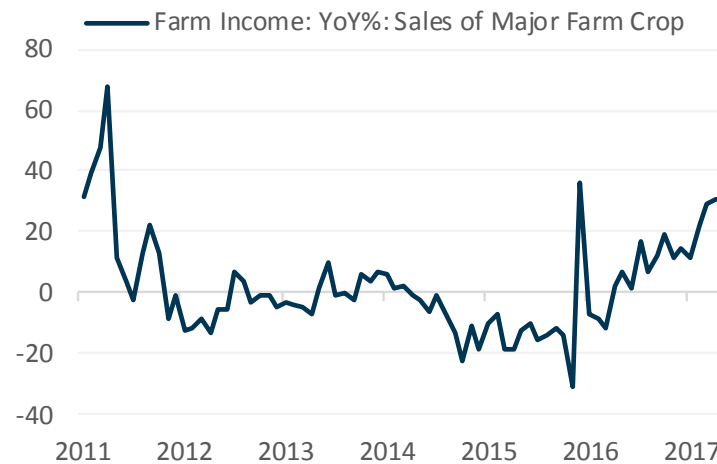
1. Earnings to grow 8% p.a. in FY17-21e

c. Recovery of broader Thai economy on the back of improving regional trade and farm income

- Agricultural sector is the backbone of Thai economy and is a key source of rural income (about one-third of Thais are working in agriculture sector)
- The improvements in: (i) exports, (ii) agricultural production and prices, and (iii) tourism sector, point towards a more balanced recovery
- Official forecast of 2017 Thai GDP growth : 3.3% to 3.8%, up from 2016's 3.2%



Source: CEIC, PSR



Positive momentum for both market share and revenue growth should continue alongside an improving macro backdrop

Expect Spirits and Beer EBITDA to grow 4% and 6% CAGR over the next five years

1. Earnings to grow 8% p.a. in FY17-21e

Rising affluence within the ASEAN region underpins long term growth

3 key factors to ThaiBev's successful market penetration in ASEAN

- Similar socio-demographics trends
- Plenty of spare capacity to meet growing demand
- Scalable business model and building strong alliances to penetrate new markets

Focus on the fast growing Cambodia, Laos, Myanmar, and Vietnam (CLMV)



Source: Company

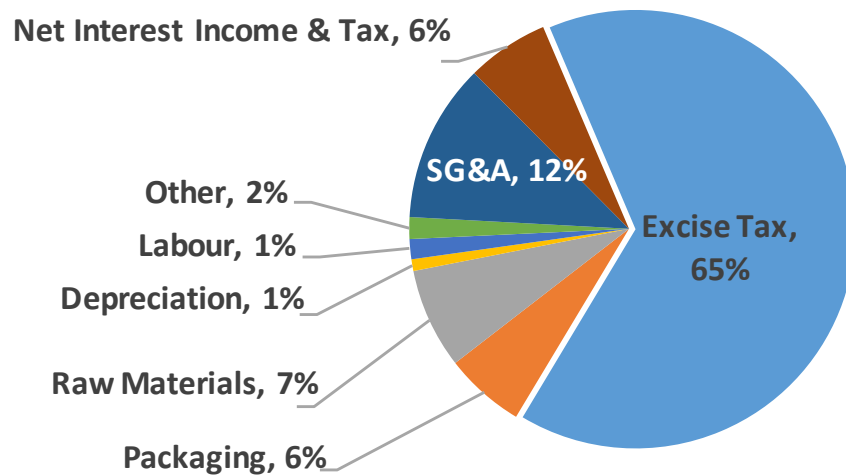
2. Margins expansion

a. Raising selling price upon impending excise tax hike in Sep-17

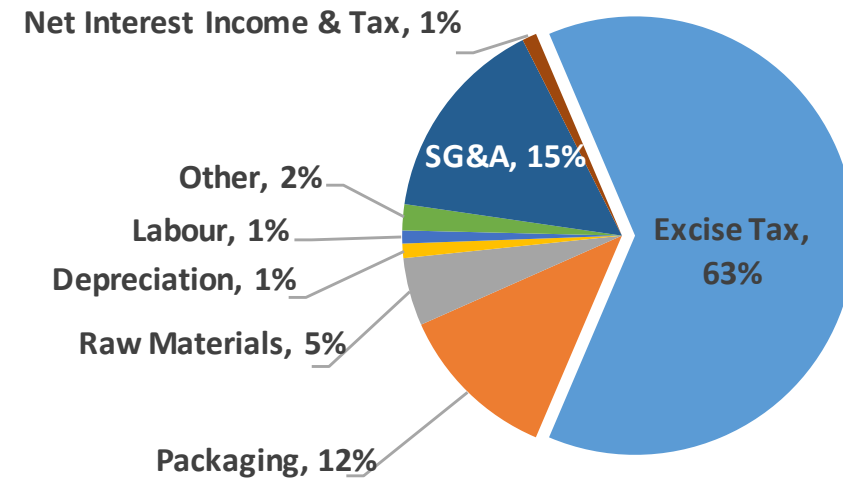
- Excise Tax is the highest cost component for alcohol beverages

→ 52.7% of Spirits Revenue and 58.9% of Beer Revenue in 9M16

Cost Structure: Spirits



Cost Structure: Beer

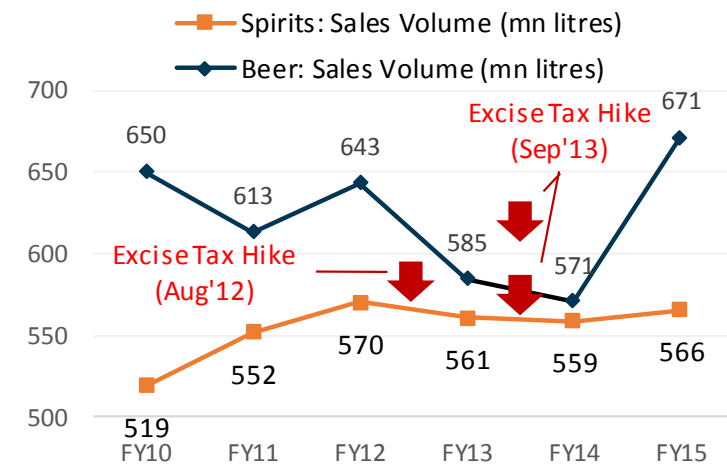


Source: Company

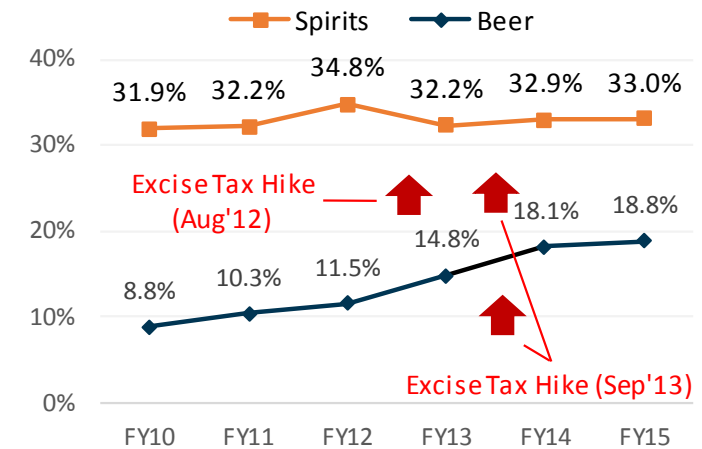
2. Margins expansion

- A new Excise Tax Act w.e.f. 17 Sep-17
 - Tax based on based on retail price instead of the last wholesale price
- Able to pass on additional costs to consumers
- \uparrow prices for alcohol beverages \geq \uparrow excise tax costs

Expect a slight drawback following the tax restructuring, but gross margins for its alcohol beverages to at least sustain at current level, if not an uptick in gross margin



Source: Company



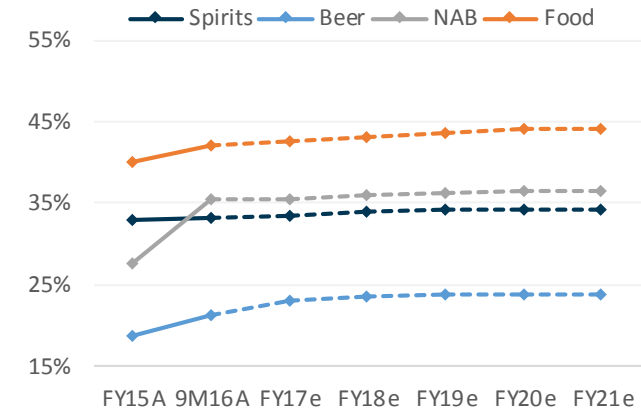
Source: Company

2. Margins expansion

b. Improved economies of scale, better production facility sharing, and synergies among the companies within its Group

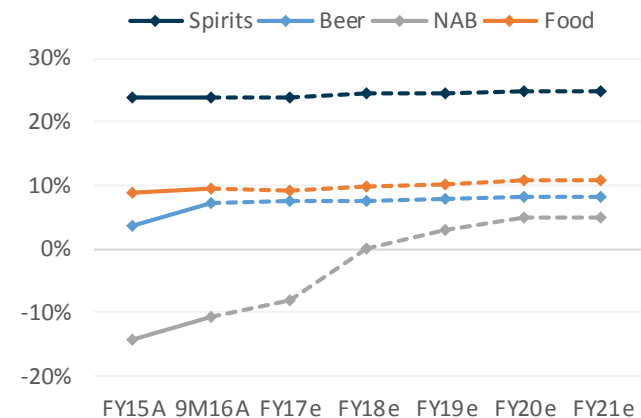
- For example, its strategic alliance with F&N:
 - Leveraging on each other's portfolio of brands, as well as distribution and bottling systems, for business expansion in SE Asia
 - Combined, they are one of the largest and most extensive in SE Asia
- Management targets to turnaround its Non-alcoholic Beverages segment by FY18

Gross Margin



Source: Company

EBIT Margin

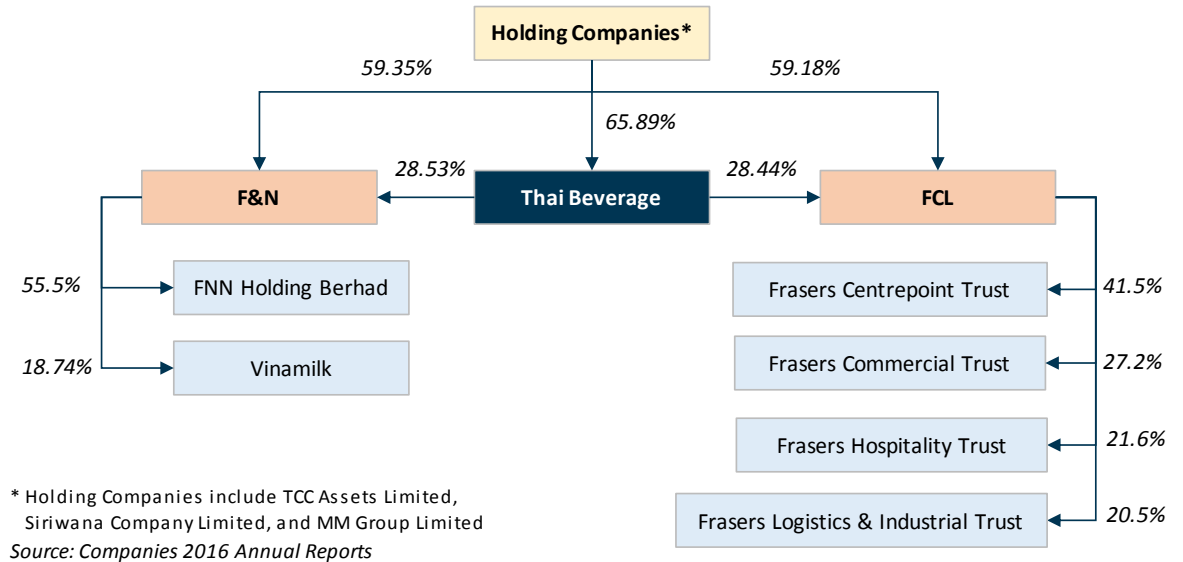


Source: Company

3. F&N consolidation

Swapping its FCL stakes with TCC Assets for the F&N stakes by FY17

- Gives a cleaner structure by divesting its non-core property arm
- Materializing Vision 2020:
 - Become the leading total beverage producer and distributor in the region
 - Non-alcoholic Beverages to contribute over 50% of Group revenue[^]
- Enable further cooperation with F&N to penetrate new foreign markets.



[^] Group revenue excludes excise tax from Alcohol Beverages, but include F&N's contribution

NAB's (including F&N) contribution to Group 9M16 Revenue to increase from 27.5% to 43.5% of post-consolidation

3. F&N consolidation

Current market value for ThaiBev's stake in FCL:
S\$1.55bn

vs

Current market value for TCC Assets' stake in F&N:
S\$2.02bn

Two potential scenarios that could play out:

- Buy entire 59.35% stake of F&N from TCC Assets with additional S\$470mn in cash
 - Room for borrowings: Gearing ratio at 0.48x (as at 31 Mar-17)
 - Increase in TCC Assets' stake in FCL to 87.62%, and ThaiBev's stake in F&N to 87.88%
- Use only its FCL share sale proceeds to swap for an equivalent value of stake in F&N
 - At current share prices, ThaiBev's 28.4% stake in FCL could be swapped for a 45.7% stake in F&N
 - ThaiBev's stakes in F&N increase to 74.1%
 - The Group could utilize its capacity for debt for other inorganic growth

Potential privatization:

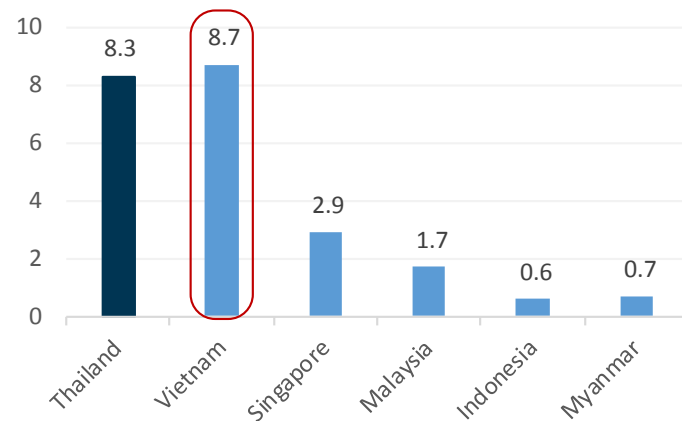
If reached the 90% ownership threshold, the company could exercise its right of compulsory acquisition to acquire all of the shares.

ThaiBev would require an additional S\$412mn to acquire the remaining stake of F&N.

Successful acquisition of stakes in Sabeco would be a long-tail catalyst that could power its earnings higher for years

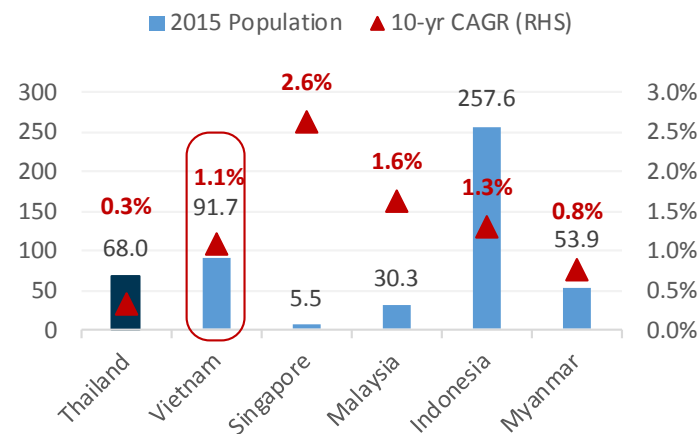
- Tapping into Vietnam's ballooning demand for beer, backed by growing population base
- Sabeco is the country's largest brewer by sales with c.40% market shares, followed by Heineken and Habeco with 20% each

2015 Total Alcohol Consumption per Capita (Litres of Pure Alcohol), Projected Estimates for Aged 15+



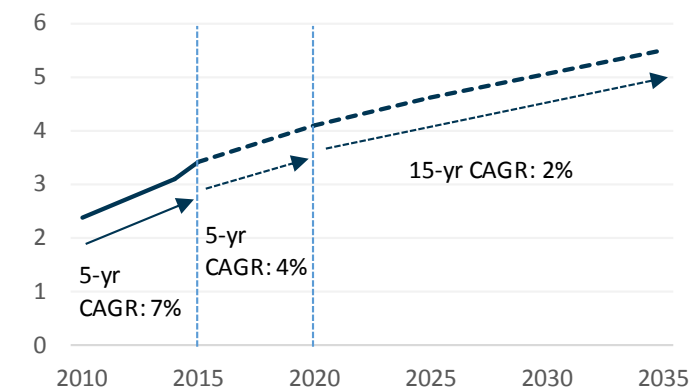
Source: CEIC, PSR

2015 Population (million person) and 10-yr CAGR



Source: CEIC, PSR

Vietnam's Expected Beer Production 2015-2035



Source: Vietnam's Ministry of Industry and Trade

Valuation

Sum-of-parts Valuation

Equity affiliate	Mkt Cap (THB mn)	EV (THB mn)	Stake (%)	EV to THBEV (THB mn)
Fraser and Neave, Limited	84,018	94,195	28.53	26,874
Frasers Centrepoint Limited	133,349	485,849	28.44	138,176
				165,049

Core Businesses	FY17F EBITDA (THB mn)	Peer's Fwd EV/EBITDA (x)	EV to THBEV (THB mn)
Spirits	25,891	17	440,146
Beer	5,605	14	78,468
Non-alcoholic beverages	106	16	1,700
Food	637	12	7,638
	32,238.57		527,952

Slight premium vs global peers on c.90% market dominance

In line with global peers

In line with global peers

In line with local peers

Total EV (THB mn)	693,002
Less: Debt	49,110
Less: Minority Interest	3,785
Plus: Cash	7,269
Total Market Value (THB mn)	647,376

*Exchange rate (THB/SGD) 24.64

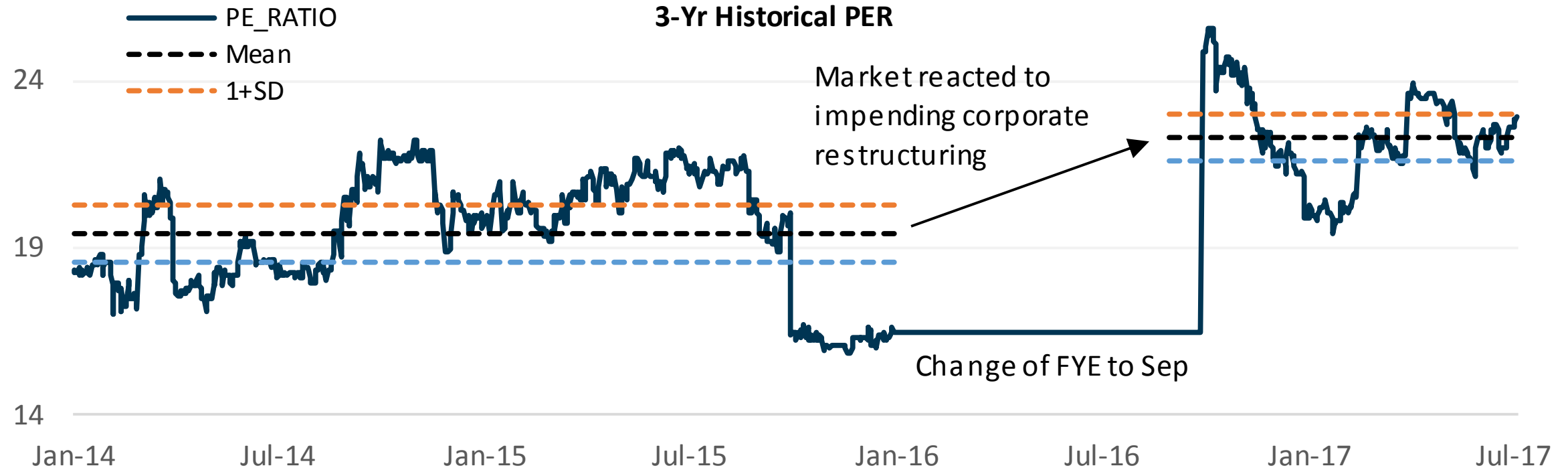
FY17F Market Value (S\$ mn)* 26,273.36

Total Sum-of-parts

No. of shares (mn)	25,110.03
NAV/Share (TP S\$)	1.05
Current share price (S\$)	0.91
% upside/downside	15.0%
FY17F EPS (THB)	1.13
FY17F EPS (SCents)*	4.59
<u>Implied FY17F P/E (x)</u>	<u>22.8</u>

Source: Bloomberg, PSR

Historical PER



Source: Company

ThaiBev is currently trading at trailing PER of 22.9x

Peers' Comparison

Comparables

Bloomberg Ticker	Company	FYE	Mkt Cap (USD mn)	EV (USD mn)	EV/EBITDA TTM	EV/EBITDA FY1	P/E TTM	P/B	Div Yield (%)	Net D/E (%)
THBEV SP Equity	Thai Beverage PCL	09/2016	16,526	17,757	20.8	18.3	22.9	4.6	2.7	33.2
Distillers										
600519 CH Equity	Kweichow Moutai Co Ltd	12/2016	82,391	73,874	N/A	16.5	31.2	7.1	1.5	Net Cash
DGE LN Equity	Diageo PLC	06/2016	73,118	86,256	17.4	16.5	23.4	6.0	2.7	87.3
RI FP Equity	Pernod Ricard SA	06/2016	34,876	44,511	15.1	14.9	24.1	2.2	1.7	65.0
000858 CH Equity	Wuliangye Yibin Co Ltd	12/2016	28,918	23,862	N/A	14.6	26.3	3.9	1.7	Net Cash
002304 CH Equity	Jiangsu Yanghe Brewery Joint-Stock Co Ltd	12/2016	18,759	18,633	N/A	13.7	20.9	4.4	2.5	Net Cash
BF/B US Equity	Brown-Forman Corp	04/2017	18,669	20,636	19.2	18.5	28.4	13.6	1.5	143.6
000568 CH Equity	Luzhou Laojiao Co Ltd	12/2016	9,950	9,314	N/A	19.4	31.7	5.7	2.0	Net Cash
Market Cap Weighted Average (Distillers)					8.1	16.1	26.7	6.0	2.0	42.5
Brewers										
ABI BB Equity	Anheuser-Busch InBev SA/NV	12/2016	223,999	342,566	20.4	15.7	164.0	3.1	3.7	133.2
HEIA NA Equity	Heineken NV	12/2016	55,641	68,790	11.6	11.2	31.3	3.6	1.6	76.4
SAB LN Equity	Molson Coors Brewing Co	12/2016	18,658	30,761	8.3	12.9	24.7	1.6	1.9	99.1
ABEV3 BZ Equity	Ambev SA	12/2016	84,715	84,593	14.5	13.4	23.4	6.0	4.2	Net Cash
2502 JP Equity	Asahi Group Holdings Ltd	12/2016	18,505	31,509	N/A	13.8	23.7	2.4	1.3	64.3
2503 JP Equity	Kirin Holdings Co Ltd	12/2016	18,685	26,469	11.0	11.7	16.8	2.9	1.7	69.0
CARLB DC Equity	Carlsberg A/S	12/2016	15,557	19,747	9.5	9.7	22.7	2.0	1.5	49.8
Market Cap Weighted Average (Brewers)					15.0	14.0	96.6	2.9	2.8	105.0
NAB										
KO US Equity	Coca-Cola Co/The	12/2016	189,702	212,137	20.1	18.6	23.4	8.3	3.2	101.2
NESN VX Equity	Nestle SA	12/2016	265,601	280,648	14.8	15.5	29.7	3.9	2.8	21.1
PEP US Equity	PepsiCo Inc	12/2016	164,463	187,287	14.7	14.2	23.5	14.3	2.7	185.9
2587 JP Equity	Suntory Beverage & Food Ltd	12/2016	14,155	16,869	9.5	10.1	34.4	3.0	1.5	40.9
Market Cap Weighted Average (NAB)					16.3	16.0	26.4	7.9	2.9	88.3
Food										
MTB Equity	MK Restaurants Group PCL	12/2016	1,631	1,340	14.3	12.9	25.1	4.0	3.5	Net Cash
SNP TB Equity	S&P Syndicate PCL	12/2016	340	321	13.0	N/A	26.6	4.8	3.4	Net Cash
OISHI TB Equity	Oishi Group PCL	09/2016	759	818	8.3	13.6	20.2	5.1	2.6	42.1
Market Cap Weighted Average (Food)					12.5	11.5	23.9	4.4	3.2	11.7

Source: Bloomberg

ThaiBev is trading at 22.9x PER, which is a discount to its peers' average of

- 26.7x for distillers;
- 95.9x for breweries;
- 26.3x for non-alcoholic beverages

Our SOTP TP of S\$1.05 implied 23.5x/22.5x FY17/18e PER

Key Investment Risks

1. Unable to fully pass on additional costs to end-consumer, leading to margin compression
2. Regulatory risks in operating countries
3. Political uncertainties, especially after coronation of new Thai King and elections in Oct-17 could dampen consumer sentiment
4. Prolonged weakness in economy and demand remained slow post mourning period

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Potential Upside Catalyst

1. Potential M&A candidate: Sabeco (Saigon Beer Alcoholic Beverage Corp.)

10 Jul 17, 8.15am/11.15am Morning Call/Webinar

Singapore Weekly Update

SG Strategy (Week 1, July17)

Paul Chew

Phillip Securities Research Pte Ltd

10 July 2017

- **Maintain Neutral** : STI Target 3270

- **Macro backdrop**
 - Thrust of our strategy for 2H17: lower rates and weak inflation; UW Finance / OW REIT
 - Significant rebound in UST yields: speculative net long near 10 year highs
 - No inflation in sight: velocity, TIPs, core CPI, PCE deflator

- **BUY sustainable yield** : Asian PayTV and Mapletree Industrial

- **Overweight property sector** : supply at 10 year lows while demand is up 50% YTD
- **Top picks** : CapitaLand, Chip Eng Seng, Sinarmas Land, Wheelock Properties

- **Company updates**
 - **SembCorp Industries**: de-facto power tariff hike in China and possible year end coal pass-through; deferral of West Rigel (~US\$600m)

Source: CEIC, PSR

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