

COMPANY UPDATE

Thai Beverage (THBEV SP)

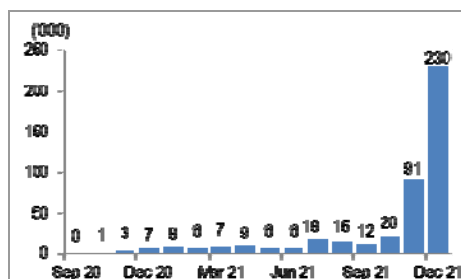
Better Days Ahead In FY22 As International Tourism Returns And Restrictions Ease

Attractively priced with a stable core business in spirits, we view THBEV as an undervalued and overlooked COVID-19 recovery play. Higher consumption volumes driven by international tourism and the easing of social-distancing measures are expected to boost earnings moving forward. Maintain BUY with a lower SOTP-based target price of S\$0.85 (S\$0.92).

WHAT'S NEW

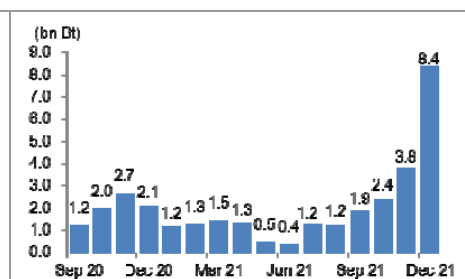
- Restart of international travel.** With COVID-19 cases falling, Thailand has reopened its international borders to fully-vaccinated travellers starting 1 Feb 22, after suspending its initial quarantine-free visa programme in Dec 21 for seven weeks due to an ongoing Omicron variant outbreak. Starting 1 Feb 22, fully-vaccinated international travellers are now able to enter Thailand quarantine-free upon a negative pre-departure/on-arrival PCR swab test and another PCR test on the fifth day of travel. Also, the "Sandbox" programme has now been extended to include the popular beach destinations of Pattaya and Koh Chang.
- Relaxation of alcohol consumption rules.** As of 24 Jan 22, restaurants in Thailand's blue zones are allowed to serve alcohol till 11pm, extended from 9pm previously. Blue zones include popular tourist destinations such as Bangkok and Phuket. Although bars, nightclubs and other entertainment venues are not legally allowed to open, Thailand's authorities have allowed these entertainment venues to temporarily reopen as restaurants, allowing the sale of alcohol but only after meeting strict COVID-19 guidelines.
- Pent-up tourism demand.** Tourism data released from Thailand's Ministry of Tourism and sports showed a sharp surge in tourist arrivals due to the quarantine-free programme. Total number of international arrivals in Dec 21 came in at 230,497, a sharp increase from 91,255 in Nov 21 and 20,272 in Oct 21. Jan 22 international arrivals are expected to soften slightly due to the brief suspension of the quarantine-free programme. However, according to the Thai Hotel Association, 200,000-300,000 international travellers are forecasted to arrive in Thailand in Feb 22 with better numbers expected in Mar 22.

MONTHLY INTERNATIONAL ARRIVALS



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

MONTHLY TOTAL FOREIGNER SPENDING



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

KEY FINANCIALS

Year to 30 Sep (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	253,481	240,543	247,864	257,592	267,806
EBITDA	41,215	41,613	42,743	44,140	45,435
Operating profit	34,600	33,782	35,854	37,067	38,173
Net profit (rep./act.)	26,065	27,339	28,936	29,719	30,406
Net profit (adj.)	22,751	24,645	25,751	26,200	26,524
EPS (Bt)	0.9	1.0	1.0	1.0	1.1
PE (x)	17.8	16.4	15.7	15.4	15.2
P/B (x)	2.8	2.4	2.2	2.1	1.9
EV/EBITDA (x)	15.1	14.9	14.5	14.1	13.7
Dividend yield (%)	2.9	3.1	3.2	3.2	3.3
Net margin (%)	9.0	10.2	10.4	10.2	9.9
Net debt/(cash) to equity (%)	128.3	109.7	95.3	83.1	72.2
Interest cover (x)	5.8	6.1	6.0	5.8	5.6
ROE (%)	17.6	15.7	14.5	13.8	13.0
Consensus net profit	-	-	27,139	28,908	31,056
UOBKH/Consensus (x)	-	-	0.95	0.91	0.85

Source: THBEV, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.655
Target Price	S\$0.85
Upside	+29.8%
(Previous TP:	S\$0.92)

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):	25,118.8
Market cap (S\$m):	16,452.8
Market cap (US\$m):	12,196.3
3-mth avg daily t'over (US\$m):	9.6

Price Performance (%)

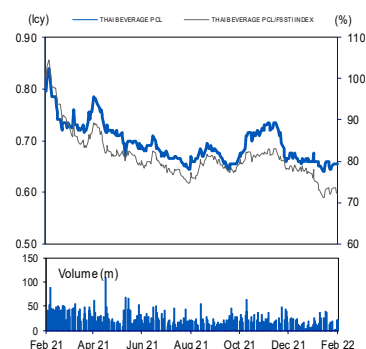
52-week high/low	S\$0.840/S\$0.640
1mth	(0.8)
3mth	(9.0)
6mth	1.6
1yr	(19.6)
YTD	(0.8)

Major Shareholders

Siriwana Co., Ltd.	45.3
Maxtop Management Corp.	20.6

FY22 NAV/Share (Bt)	7.30
FY22 Net Debt/Share (Bt)	6.96

PRICE CHART



Source: Bloomberg

ANALYST(S)

Llalleythan Tan
+65 6590 6624
yirong@uobkayhian.com

STOCK IMPACT

- Spirits: Reliable and consistent segment...** For FY22, we expect Thai Beverage's (THBEV) revenue and EBITDA from the spirits segment to grow 3.0% yoy and 4.7% yoy respectively. This is on the back of relaxed domestic COVID-19 restrictions, higher foreign tourist arrivals and the off-trade consumption nature of the white spirits segment. According to data from Thailand's Office of Industrial Economics (OIE), domestic volume sales of white spirits in Thailand grew by 1.3%, 30.6% yoy and 10.0% yoy in Oct-Dec 21 respectively, in sync with the reopening of Thailand's international borders in Nov 21.
- ...that is poised for a strong quarter.** In 1QFY22, white spirits sales volumes grew by 13.9% yoy while mixed spirits volumes softened by 11.1% yoy. Underperformance by the mixed spirits segment was largely due to a underperforming Oct 21 (-50% yoy) but supported by strong yoy volume growth in Nov 21 (+43.8% yoy) and Dec 21 (+3.31% yoy) respectively. Given that THBEV commands 90-95% of the domestic spirits market share, we estimate that 1QFY22 spirits revenue and EBITDA would grow by 4-5% yoy, forming roughly 30% of our FY22 forecasts. Potential upside may come from white spirits ASP hikes, barring any large increase in material costs.
- Beer: On track for recovery...** Entertainment venues in certain provinces across Thailand are now allowed to reclassify as restaurants and serve alcohol. Vietnam, a key market for THBEV, has also allowed restaurants and bars to reopen in low-risk areas since Nov 21. Due to the on-trade consumption nature of the beer segment, we expect FY22 revenue and EBITDA for the beer segment to grow 3.0% yoy and 7.8% yoy respectively based on better consumption volumes.
- ...but delayed till 2QFY22.** As most of COVID-19 guidelines were relaxed only in Nov 21 and tightened temporarily in late-Dec 21, we reckon that the beer segment's performance would be muted in 1QFY22. Data released from Vietnam's General Statistics Office has shown domestic beer production volumes for Oct 21 dropped 14% yoy before growing in Nov 21 (+3.9% yoy) and Dec 21 (+6.5% yoy), right after social distancing measures were relaxed in Nov 21. Data from Bank of Thailand also showed that beer production decreased 11.3% yoy in Oct 21 before posting positive 2.7% yoy growth in Nov 21 (data for Dec 21 has not been released). Therefore, for 1QFY22, we expect revenue and EBITDA to post minute 0-1% yoy growth. Potential upside would come from better-than-expected volumes from international arrivals.
- Non-alcoholic beverages and food: Easing of social restrictions.** We opine that THBEV's ongoing digital efforts and prudent cost management strategy for its non-alcohol beverages (NAB) segment would continue to pay off with restaurants also starting to reopen. For the food segment, the easing of COVID-19 restrictions and the reopening of restaurants would help boost customer footfall. We expect FY22 EBITDA for NAB and food segments to grow by 4.2% yoy and 14.2% yoy respectively.

EARNINGS REVISION/RISK

- We lower our FY22-24 net profit forecasts slightly by 1-1.5%** on lower consumption volumes caused by an Omicron outbreak and temporary closure of Thailand's international borders in 1QFY22.

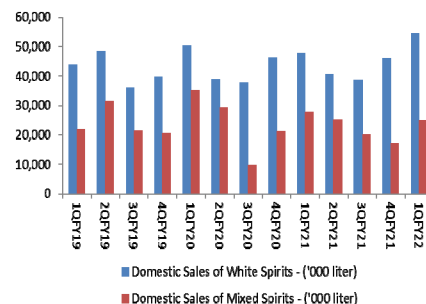
VALUATION/RECOMMENDATION

- Maintain BUY with a lower SOTP-based target price of S\$0.85 (from S\$0.92).** The lower target price is due to a lower 13X EV/EBITDA multiple for the beer segment, in line with global peers. We reckon THBEV remains attractively priced at below -1SD to its mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds. THBEV's potential 3Q/4QFY22 IPO of its beer business may also unlock value for the group. Conservatively, we value the beer business at roughly US\$5b (13X FY22 EBITDA), dwarfed by similar competitors such as Tsingtao Brewery Company (US\$16b), Budweiser Brewing Company APAC (US\$35b) and Asahi Group Holdings (US\$21b).

SHARE PRICE CATALYST

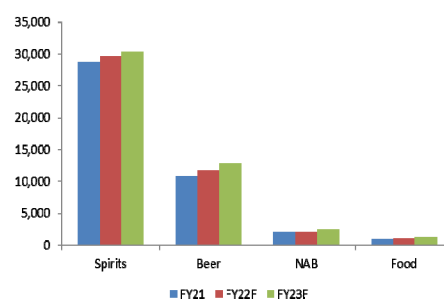
- Potential spinoff listing, full reopening of bars in Vietnam and Thailand.

THAILAND'S QUARTERLY DOMESTIC SALES VOLUME FOR WHITE AND MIXED SPIRITS



Source: UOB Kay Hian, Office of Industrial Economics

THBEV'S ANNUAL SEGMENTAL EBITDA FORECASTS (Btmn)



Source: UOB Kay Hian, THBEV

THBEV 5Y HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

	Previous Methodology	New Methodology	(Btmn)
Spirits	17x FY21 EV/EBITDA	18x FY22 EV/EBITDA	533,345
Beer	16x FY21 EV/EBITDA	13x FY22 EV/EBITDA	152,555
NAB	2.5x FY21 EV/Sales	15x FY22 EV/EBITDA	32,283
Food	14x FY21 EV/EBITDA	14x FY22 EV/EBITDA	15,566
FPL	Market Value	Market Value	30,831
FNN	Market Value	Market Value	14,027
		Total	778,609
		Less: Net debt, Minority Interest	(247,269)
		Value	531,340
		Per share (S\$)	0.85

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Net turnover	240,543	247,864	257,592	267,806
EBITDA	41,613	42,743	44,140	45,435
Deprec. & amort.	7,831	6,889	7,073	7,263
EBIT	33,782	35,854	37,067	38,173
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)	(7,107)	(7,619)	(8,131)
Pre-tax profit	31,973	34,352	35,258	36,048
Tax	(4,634)	(5,416)	(5,539)	(5,643)
Minorities	(2,694)	(3,185)	(3,519)	(3,882)
Net profit	27,339	28,936	29,719	30,406
Net profit (adj.)	24,645	25,751	26,200	26,524

CASH FLOW

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Operating	32,067	35,569	33,704	34,726
Pre-tax profit	31,973	34,352	35,258	36,048
Tax	(4,634)	(5,416)	(5,539)	(5,643)
Deprec. & amort.	7,831	6,889	7,073	7,263
Working capital changes	(4,016)	771	(4,268)	(4,557)
Non-cash items	913	(1,028)	1,180	1,615
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(11,656)	(10,314)	(9,638)	(9,753)
Capex (growth)	(7,201)	(12,156)	(9,890)	(10,018)
Investments	(16,607)	0.0	0.0	0.0
Others	12,152	1,841	253	266
Financing	(17,006)	(16,226)	3,124	2,900
Dividend payments	(11,553)	(12,559)	(12,876)	(13,100)
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	9,028	27,190	27,874
Beginning cash & cash equivalent	34,694	38,292	47,321	74,511
Changes due to forex impact	193	0.0	0.0	0.0
Ending cash & cash equivalent	38,292	47,321	74,511	102,385

BALANCE SHEET

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Fixed assets	268,391	272,958	275,130	276,832
Other LT assets	108,928	107,083	107,238	107,402
Cash/ST investment	38,293	47,321	74,511	102,385
Other current assets	56,973	56,284	61,000	66,027
Total assets	472,585	483,645	517,879	552,645
ST debt	69,206	73,971	73,971	73,971
Other current liabilities	26,237	25,034	26,017	27,048
LT debt	156,551	148,119	164,119	180,119
Other LT liabilities	10,415	10,410	10,819	11,248
Shareholders' equity	170,963	183,423	196,747	210,170
Minority interest	39,213	42,687	46,207	50,089
Total liabilities & equity	472,585	483,645	517,879	552,645

KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	17.3	17.2	17.1	17.0
Pre-tax margin	13.3	13.9	13.7	13.5
Net margin	10.2	10.4	10.2	9.9
ROA	5.4	5.4	5.2	5.0
ROE	15.7	14.5	13.8	13.0
Growth				
Turnover	(5.1)	3.0	3.9	4.0
EBITDA	1.0	2.7	3.3	2.9
Pre-tax profit	3.9	7.4	2.6	2.2
Net profit	8.3	4.5	1.7	1.2
Net profit (adj.)	8.3	4.5	1.7	1.2
EPS	8.3	4.5	1.7	1.2
Leverage				
Debt to total capital	51.8	49.6	49.5	49.4
Debt to equity	132.1	121.1	121.0	120.9
Net debt/(cash) to equity	109.7	95.3	83.1	72.2
Interest cover (x)	6.1	6.0	5.8	5.6

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