

Heineken Malaysia (HEIM MK)

Recovery in progress

Maintain BUY with unchanged DCF-TP of MYR27.10

HEIM's overall sales volume should exhibit solid growth in FY22 on the back of on-trade sales recovery and stable off-trade contribution. Relaxed business restrictions during Malaysia's endemic phase will also aid in keeping positive industry volume growth sustainable in FY22 although cost pressures could partially mitigate earnings growth potential. We make no changes to our earnings estimates, BUY call and DCF-TP of MYR27.10 (WACC: 7%, LT growth: 3%).

Positive sales volume growth trajectory

We believe that HEIM's sales volume remained upbeat in Jan and Feb 2022, driven mostly by Chinese New Year (CNY) celebrations but moderated towards end-Feb 2022 as COVID-19 cases resurged. Although off-trade sales remain a larger portion of group revenue as at end-4Q21, on-trade sales have been steadily rising alongside easing movement restrictions. Malaysia has also transitioned into an endemic phase on 1 Apr 2022 which could further accelerate on-trade sales recovery given extended F&B business operating hours and the reopening of international borders.

Managing cost pressures

Broad-based raw material cost increases (malt, wheat, aluminium, freight) remains a key challenge to HEIM. However, its pre-emptive price hike (est. 5%-6%) in 2021 (Off-trade [cans]: Sep 2021, On-trade: Nov 2021) provides some leeway for the group to defend its margins even in the aftermath of the Russia-Ukraine war, we understand. Note that HEIM does not directly source any raw materials from Ukraine or Russia.

No earnings impact from minimum wage

HEIM's sequential earnings are expected to be lower QoQ coming off from a seasonally high base in 4Q21. That said, with the nation gradually emerging from the effects of the pandemic, we anticipate for strong sales growth during CNY. HEIM will also invest more in marketing and promotional activities in order to drive both its core brands and new product launches in FY22. Separately, there is no direct impact from the recently announced minimum wage hike to MYR1,500/mth (from MYR1,200/mth), effective 1 May 2022, as HEIM's employees are all remunerated above the minimum wage threshold.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,762	1,979	2,138	2,266	2,401
EBITDA	272	395	505	543	572
Core net profit	175	246	297	352	371
Core EPS (sen)	58.1	81.3	98.3	116.5	122.8
Core EPS growth (%)	(44.0)	40.1	20.9	18.5	5.4
Net DPS (sen)	51.0	81.0	98.3	116.5	122.8
Core P/E (x)	39.6	25.6	25.2	21.3	20.2
P/BV (x)	19.9	15.9	20.1	17.5	16.8
Net dividend yield (%)	2.2	3.9	4.0	4.7	5.0
ROAE (%)	41.5	65.9	77.3	88.0	84.9
ROAA (%)	16.3	23.0	26.9	30.2	29.7
EV/EBITDA (x)	26.0	16.2	15.1	13.9	13.2
Net gearing (%) (incl perps)	33.6	21.1	36.4	20.4	15.8
Consensus net profit	-	-	286	335	364
MKE vs. Consensus (%)	-	-	3.9	5.0	1.9

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BUY

Share Price	MYR 24.80
12m Price Target	MYR 27.10 (+14%)
Previous Price Target	MYR 27.10

Company Description

Heineken Malaysia is engaged in the production, packaging, marketing, and distribution of alcoholic beverages.

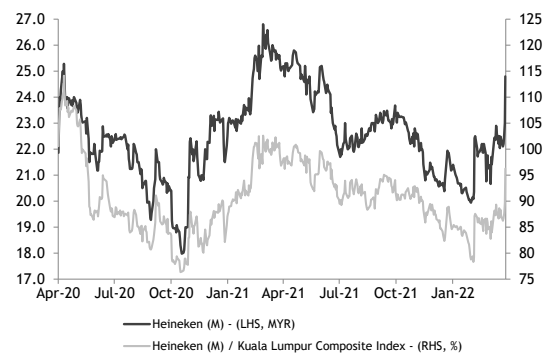
Statistics

52w high/low (MYR)	25.80/19.94
3m avg turnover (USDm)	1.2
Free float (%)	44.5
Issued shares (m)	302
Market capitalisation	MYR7.5B
	USD1.8B

Major shareholders:

Heineken NV	51.0%
Kayne Anderson Rudnick Investment Manage	5.0%
Great Eastern Life Assurance Co. Ltd.	3.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	19	14	(1)
Relative to index (%)	15	10	(2)

Source: FactSet

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Risk Rating & Score ¹	23.8 (Medium)
Score Momentum ²	-0.9
Last Updated	14 Apr 2021
Controversy Score ³ (Updated: 21 Feb 2015)	0 - No reported incidents

Business Model & Industry Issues

- As water is used in every step of the beer brewing process, water consumption and wastewater disposal are HEIM's main environmental challenges, especially when water scarcity is occurring on a more frequent basis due to climate change and/or pollution in the midst of robust growth in the brewery industry. To alleviate these issues, HEIM has implemented innovative solutions to optimise its production process and have adopted energy saving and water management strategies to lessen its environmental impact.
- Negative publicity stemming from recent drink-driving incidences has put incremental pressure on brewers in general to strengthen their stance on irresponsible consumption of alcohol. Although HEIM has continuously advocated for safe alcohol consumption practices, the increase in alcohol-related fatalities could result in harsher regulations on the industry.
- HEIM's ESG initiatives are comparable to its peers with similar guidelines and targets to reduce its environmental and social impact relating to the usage of natural resources, waste management and safe consumption of its products.

Material E issues

- With the United Nations Sustainable Development Goals in mind, HEIM launched its '2030 Every Drop' strategy in 2019 to address three issues: (i) water efficiency; (ii) water circularity; and (iii) water stewardship. Main targets to be achieved by 2030 are outlined below.
- In 2020, for every 1 litre of beer, 3.65 litres (2019: 3.67 litres) of water was used in the brewing process, falling short of its 2020 global commitment of reducing specific water consumption to 3.5 litres per litre of beer.
- HEIM also plans to treat 100% of its wastewater from all breweries and maximise the reuse and recycling of water for non-potable purposes.
- 100% of waste generated in 2020 was recycled and the group will continue to manage waste responsibly by investing in recycling waste management vendors.
- HEIM's largest global footprint comes from its packaging materials. Hence, the group utilises returnable packing materials i.e. bottles, kegs crates and cylinders and works with its trade partners through a deposit system to ensure these reusable materials are returned to the brewery.

Material S issues

- A total of 596 staff employed as at end-2020 with a well-balanced male:female ratio of 50:50 within middle to senior management roles.
- HEIM strongly advocates for responsible alcohol consumption by allocating 10% of its marketing budget towards this cause annually.
- HEIM abides by its internal Responsible Marketing Code, where product marketing materials are reviewed according to company principles, including a restriction in brand exposure to minors. Through its CSR arm 'SPARK Foundation', HEIM introduced an English Enrichment Training programme to provide creative teaching techniques and support to rural community teachers.

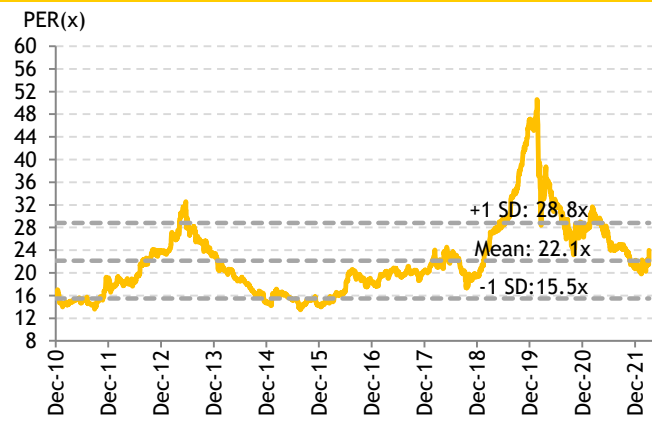
Key G metrics and issues

- The board has 7 directors; 3 independent directors (including the chairman) and 4 non-independent directors.
- At 43%, independent director representation is below recommended industry practise (majority of Independent directors on the board for large companies) but HEIM has no plans to change its board composition at this juncture.
- In terms of gender balance, HEIM has a 57:43 male to female ratio on its board of directors.
- The chairman of the board and managing director (MD) positions are held by separate individuals.
- The chairman of the audit committee and the chairman of the board are also separate individuals.
- HEIM does not disclose remuneration packages of its senior management for confidentiality reasons with the exception of the group MD (total remuneration package for FY20 was MYR3.9m or 2.2% of core net profit).
- HEIM has been audited by Messrs Deloitte PLT since 2017.
- The group conducted its 56th AGM virtually through live streaming using remote participation and voting facilities to ensure that all shareholders were able to participate and engage the board and senior management effectively.

HEIM has related-party relationships with its holding corporations, related corporates, subsidiaries and key management personnel in regards to royalty payments, purchase of goods and marketing and technical fees. Its royalties paid historically accounted for c.2% of group revenue.

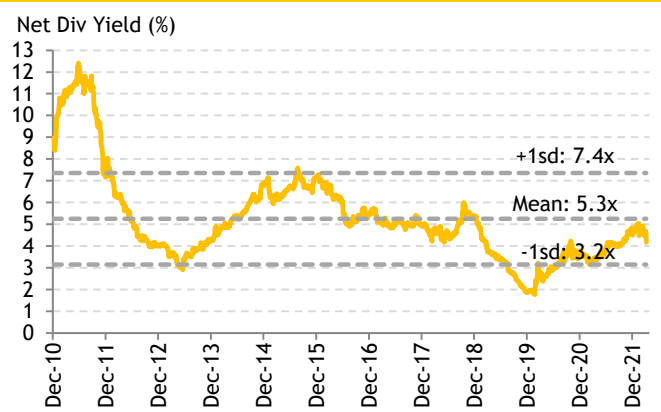
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: HEIM: One-year forward PER



Source: Company, Maybank IBG Research

Fig 2: HEIM: One-year forward net dividend yield



Source: Company, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for HEIM. Unfavourable regulatory environment (eg. excise tax shocks) is a risk factor. A spike in raw material prices may also impact earnings of HEIM.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	44.6	28.8	25.2	21.3	20.2
Core P/E (x)	39.6	25.6	25.2	21.3	20.2
P/BV (x)	19.9	15.9	20.1	17.5	16.8
P/NTA (x)	20.9	16.6	20.6	17.6	16.7
Net dividend yield (%)	2.2	3.9	4.0	4.7	5.0
FCF yield (%)	2.4	3.8	3.6	4.6	4.9
EV/EBITDA (x)	26.0	16.2	15.1	13.9	13.2
EV/EBIT (x)	34.7	19.7	17.7	16.3	15.4
INCOME STATEMENT (MYR m)					
Revenue	1,762.4	1,979.3	2,138.1	2,265.7	2,400.9
EBITDA	272.5	394.6	504.7	543.4	572.1
Depreciation	(60.8)	(64.5)	(67.3)	(71.6)	(76.0)
Amortisation	(8.0)	(6.2)	(6.4)	(6.4)	(6.4)
EBIT	203.7	323.9	431.0	465.4	489.8
Net interest income / (exp)	(4.9)	(2.5)	(1.7)	(2.3)	(1.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(21.2)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	198.7	321.4	429.3	463.1	488.0
Income tax	(44.5)	(75.7)	(132.2)	(111.1)	(117.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	154.2	245.7	297.1	351.9	370.9
Core net profit	175.4	245.7	297.1	351.9	370.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	131.9	76.3	24.5	72.7	89.5
Accounts receivable	326.6	418.7	452.3	479.3	507.9
Inventory	188.3	151.0	155.0	164.0	173.7
Property, Plant & Equip (net)	341.9	388.4	438.6	461.0	478.9
Intangible assets	16.5	15.7	9.3	2.9	(3.5)
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	41.5	41.2	35.4	35.4	35.4
Total assets	1,046.7	1,091.3	1,115.1	1,215.2	1,282.0
ST interest bearing debt	249.2	160.0	160.0	160.0	160.0
Accounts payable	386.4	485.0	497.7	526.6	558.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	62.0	51.0	85.0	101.0	118.0
Total Liabilities	697.3	695.7	742.5	787.8	835.6
Shareholders Equity	349.4	395.7	372.5	427.4	446.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	349.4	395.7	372.5	427.4	446.4
Total liabilities and equity	1,046.7	1,091.3	1,115.1	1,215.2	1,282.0
CASH FLOW (MYR m)					
Pretax profit	198.7	321.4	429.3	463.1	488.0
Depreciation & amortisation	68.8	70.7	73.7	78.0	82.4
Adj net interest (income)/exp	4.9	2.5	1.7	2.3	1.7
Change in working capital	(23.8)	4.5	(24.8)	(7.1)	(7.0)
Cash taxes paid	(77.6)	(75.6)	(132.2)	(111.1)	(117.1)
Other operating cash flow	64.3	28.9	0.0	0.0	0.0
Cash flow from operations	226.3	348.4	345.0	422.6	445.5
Capex	(57.3)	(106.7)	(77.6)	(77.6)	(77.6)
Free cash flow	169.0	241.7	267.5	345.0	367.9
Dividends paid	(199.4)	(199.4)	(320.2)	(297.1)	(351.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	152.0	(89.2)	0.0	0.0	0.0
Other invest/financing cash flow	0.3	(3.8)	0.9	0.3	0.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	121.9	(50.6)	(51.9)	48.2	16.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(24.0)	12.3	8.0	6.0	6.0
EBITDA growth	(42.0)	44.8	27.9	7.7	5.3
EBIT growth	(50.9)	59.1	33.1	8.0	5.2
Pretax growth	(51.8)	61.8	33.6	7.9	5.4
Reported net profit growth	(50.7)	59.3	20.9	18.5	5.4
Core net profit growth	(44.0)	40.1	20.9	18.5	5.4
Profitability ratios (%)					
EBITDA margin	15.5	19.9	23.6	24.0	23.8
EBIT margin	11.6	16.4	20.2	20.5	20.4
Pretax profit margin	11.3	16.2	20.1	20.4	20.3
Payout ratio	99.9	99.6	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	8.7	12.4	13.9	15.5	15.4
Revenue/Assets (x)	1.7	1.8	1.9	1.9	1.9
Assets/Equity (x)	3.0	2.8	3.0	2.8	2.9
ROAE (%)	41.5	65.9	77.3	88.0	84.9
ROAA (%)	16.3	23.0	26.9	30.2	29.7
Liquidity & Efficiency					
Cash conversion cycle	2.7	(1.3)	(12.3)	(10.4)	(10.3)
Days receivable outstanding	94.6	67.8	73.3	74.0	74.0
Days inventory outstanding	36.8	44.1	38.7	38.2	38.1
Days payables outstanding	128.7	113.2	124.4	122.6	122.5
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	1.0	1.0	0.9	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.5	1.5	1.5
Net gearing (%) (incl perps)	33.6	21.1	36.4	20.4	15.8
Net gearing (%) (excl. perps)	33.6	21.1	36.4	20.4	15.8
Net interest cover (x)	41.3	129.7	nm	nm	nm
Debt/EBITDA (x)	0.9	0.4	0.3	0.3	0.3
Capex/revenue (%)	3.2	5.4	3.6	3.4	3.2
Net debt/ (net cash)	117.3	83.7	135.5	87.3	70.5

Source: Company; Maybank IBG Research

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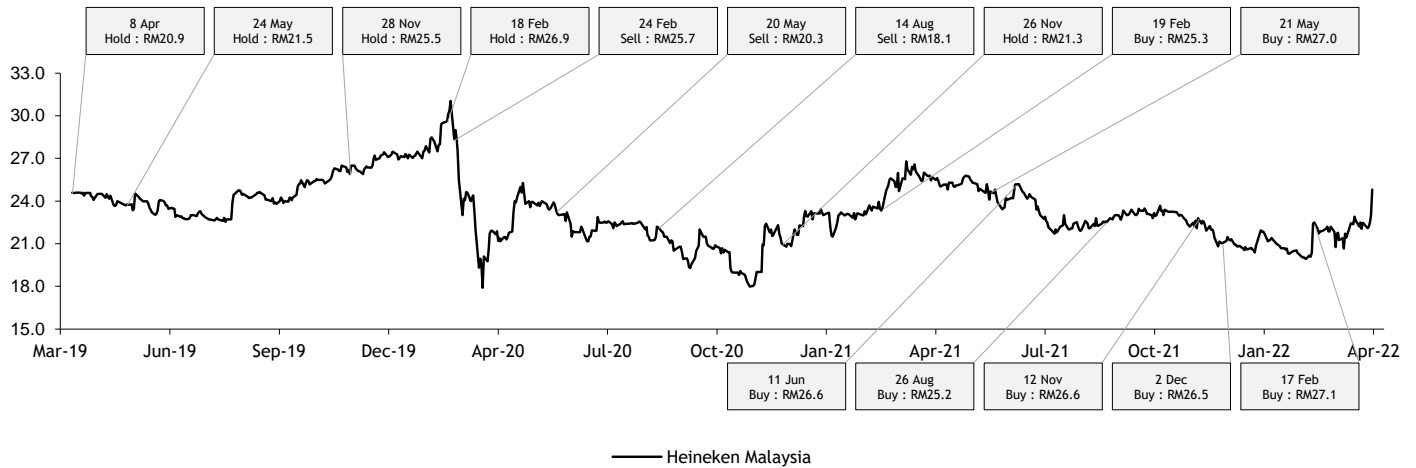
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