

Heineken Malaysia (HEIM MK)

Starting FY22 with a bang

BUY

Share Price MYR 23.32
12m Price Target MYR 29.30 (+31%)
Previous Price Target MYR 27.10

Maintain BUY with a higher DCF-TP of MYR29.30

1Q22 results were ahead of expectations on stronger-than-expected sales volume. Although raw material costs continue to rise, we believe earnings prospects for HEIM remains positive on the back of post-pandemic led volume recovery, product price hikes and internal cost efficiencies. Thus, we raise our FY22-FY24 earnings estimates by 12%-26% to derive a higher DCF-TP of MYR29.30 (WACC: 7%, LT growth: 3%).

Above expectations

HEIM's 1Q22 core net profit of MYR113m (+54% YoY, +18% QoQ) beat expectations at 38%/41% of our/consensus full-year earnings estimates. Stronger-than-expected sales volume attributed to the earnings outperformance. No dividend was declared this quarter as they are traditionally declared in 2Q and 4Q.

Robust sales volume recovery

1Q22 revenue increased by 28% YoY given: (i) looser movement restrictions, (ii) higher average product ASPs, and (iii) larger-scaled marketing campaigns during Chinese New Year (CNY). Meanwhile, EBIT also grew 60% YoY due to effective cost management throughout its supply chain (lower sales incentives to on-trade channels, we suspect). Despite flattish revenue growth QoQ (+1% QoQ), EBIT also grew 24% alongside a 4.2 ppts QoQ increase in EBIT margins mainly from the hike in certain product ASPs in 4Q21 and ongoing cost initiatives.

Positive FY22 outlook despite increasing input costs

HEIM's earnings prospects are expected to be positive in FY22. As the nation moved into an endemic phase on 1 Apr 2022, we expect sequential volume growth to be stronger, driven by the reopening of international borders and extension of business hours (past midnight) for on-trade channels. Further, entertainment outlets (eg. clubs) will also be allowed to reopen from May 15 onwards, offering another avenue for volume recovery within the industry. Hence, we lift our FY22/FY23/FY24 earnings estimates by 26%/13%/12%. Rising raw material costs will be a continuous challenge in FY22 but HEIM will aim to lift sales volume through new product innovations and more frequent promotional & marketing campaigns in order to mitigate further cost pressures.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,762	1,979	2,526	2,677	2,837
EBITDA	272	395	617	603	630
Core net profit	175	246	375	397	415
Core EPS (sen)	58.1	81.3	124.0	131.5	137.4
Core EPS growth (%)	(44.0)	40.1	52.5	6.1	4.5
Net DPS (sen)	51.0	81.0	124.0	131.5	137.4
Core P/E (x)	39.6	25.6	18.8	17.7	17.0
P/BV (x)	19.9	15.9	15.7	14.9	14.4
Net dividend yield (%)	2.2	3.9	5.3	5.6	5.9
ROAE (%)	41.5	65.9	88.6	86.1	86.2
ROAA (%)	16.3	23.0	31.6	30.1	29.8
EV/EBITDA (x)	26.0	16.2	11.5	11.8	11.3
Net gearing (%) (incl perps)	33.6	21.1	17.0	12.8	9.2
Consensus net profit	-	-	286	335	364
MKE vs. Consensus (%)	-	-	31.0	18.5	14.0

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Company Description

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

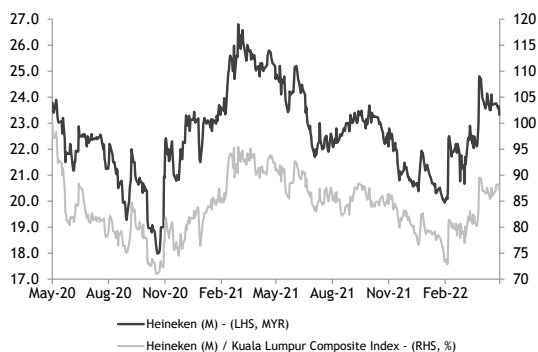
Statistics

52w high/low (MYR)	25.20/19.94
3m avg turnover (USDm)	1.2
Free float (%)	44.5
Issued shares (m)	302
Market capitalisation	MYR7.0B
	USD1.6B

Major shareholders:

Heineken NV	51.0%
Kayne Anderson Rudnick Investment Manage	5.5%
Great Eastern Life Assurance Co. Ltd.	3.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	17	(6)
Relative to index (%)	(3)	19	(4)

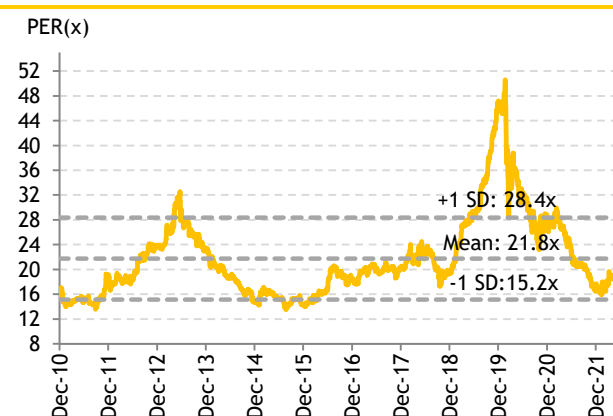
Source: FactSet

Fig 1: Heineken Malaysia: Results summary table

FY Dec (RM m)	1Q22	1Q21	Quarterly		
			% YoY	4Q21	% QoQ
Turnover	698.3	547.7	27.5	692.3	0.9
EBITDA	172.5	115.3	49.6	143.6	20.1
Depreciation & Amortisation	(16.8)	(17.8)	(5.3)	(18.2)	(7.6)
EBIT	155.7	97.6	59.6	125.4	24.2
Net finance cost	(0.6)	(0.9)	(30.5)	(1.0)	(35.7)
Pre-tax profit	155.1	96.7	60.4	124.4	24.7
Tax	(41.7)	(23.1)	80.3	(28.6)	46.0
Net profit	113.4	73.5	54.2	95.8	18.3
Core net profit	113.4	73.5	54.2	95.8	18.3
			+/- p.ptsYoY		+/- p.ptsQoQ
EBITDA margin (%)	24.7	21.1	3.6	20.7	4.0
EBIT margin (%)	22.3	17.8	4.5	18.1	4.2
Tax rate (%)	26.9	23.9	3.0	23.0	3.9

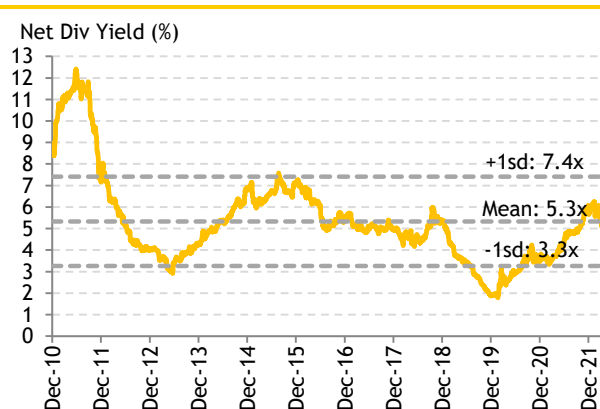
Source: Company

Fig 2: HEIM: One-year forward PER



Source: Company, Maybank IBG Research

Fig 3: 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	18.8	17.7	17.0
Core P/E (x)	39.6	25.6	18.8	17.7	17.0
P/BV (x)	19.9	15.9	15.7	14.9	14.4
P/NTA (x)	20.9	16.6	16.0	15.0	14.3
Net dividend yield (%)	2.2	3.9	5.3	5.6	5.9
FCF yield (%)	2.4	3.8	4.6	5.5	5.8
EV/EBITDA (x)	26.0	16.2	11.5	11.8	11.3
EV/EBIT (x)	34.7	19.7	13.1	13.5	12.9

INCOME STATEMENT (MYR m)

Revenue	1,762.4	1,979.3	2,526.4	2,677.3	2,837.2
EBITDA	272.5	394.6	616.9	602.5	629.9
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	543.2	524.5	547.6
Net interest income / (exp)	(4.9)	(2.5)	(1.7)	(1.6)	(1.4)
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	541.5	522.9	546.2
Income tax	(44.5)	(75.7)	(166.8)	(125.5)	(131.1)
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	374.7	397.4	415.1
Core net profit	175.4	245.7	374.7	397.4	415.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	131.9	76.5	83.6	99.8	115.1
Accounts receivable	326.6	415.3	530.0	561.7	595.2
Inventory	188.3	151.2	184.2	195.6	207.7
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	1,088.2	1,281.1	1,356.4	1,428.8
ST interest bearing debt	249.2	160.1	160.1	160.1	160.1
Accounts payable	386.4	478.1	582.3	618.5	656.9
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	62.0	54.0	89.0	105.0	121.0
Total Liabilities	697.3	692.5	831.0	883.5	938.3
Shareholders Equity	349.4	395.7	450.2	472.8	490.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	349.4	395.7	450.2	472.8	490.5
Total liabilities and equity	1,046.7	1,088.2	1,281.1	1,356.4	1,428.8

CASH FLOW (MYR m)

Pretax profit	198.7	321.4	541.5	522.9	546.2
Depreciation & amortisation	68.8	70.7	73.7	78.0	82.4
Adj net interest (income)/exp	4.9	2.5	1.7	1.6	1.4
Change in working capital	(23.8)	(9.2)	(43.5)	(6.9)	(7.3)
Cash taxes paid	(77.6)	(75.6)	(166.8)	(125.5)	(131.1)
Other operating cash flow	64.3	34.1	0.0	0.0	0.0
Cash flow from operations	226.3	339.9	404.0	467.5	489.0
Capex	(57.3)	(98.0)	(77.6)	(77.6)	(77.6)
Free cash flow	169.0	241.9	326.5	389.9	411.4
Dividends paid	(199.4)	(199.4)	(320.2)	(374.7)	(397.4)
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	1.0	1.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	121.9	(50.5)	7.1	16.2	15.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(24.0)	12.3	27.6	6.0	6.0
EBITDA growth	(42.0)	44.8	56.3	(2.3)	4.6
EBIT growth	(50.9)	59.1	67.7	(3.4)	4.4
Pretax growth	(51.8)	61.8	68.5	(3.4)	4.5
Reported net profit growth	(50.7)	59.3	52.5	6.1	4.5
Core net profit growth	(44.0)	40.1	52.5	6.1	4.5
Profitability ratios (%)					
EBITDA margin	15.5	19.9	24.4	22.5	22.2
EBIT margin	11.6	16.4	21.5	19.6	19.3
Pretax profit margin	11.3	16.2	21.4	19.5	19.2
Payout ratio	99.9	99.6	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	8.7	12.4	14.8	14.8	14.6
Revenue/Assets (x)	1.7	1.8	2.0	2.0	2.0
Assets/Equity (x)	3.0	2.8	2.8	2.9	2.9
ROAE (%)	41.5	65.9	88.6	86.1	86.2
ROAA (%)	16.3	23.0	31.6	30.1	29.8
Liquidity & Efficiency					
Cash conversion cycle	2.7	(1.1)	(10.3)	(9.4)	(9.4)
Days receivable outstanding	94.6	67.5	67.3	73.4	73.4
Days inventory outstanding	36.8	44.3	35.9	38.3	38.3
Days payables outstanding	128.7	112.8	113.6	121.1	121.1
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	1.0	1.0	1.0	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	17.0	12.8	9.2
Net gearing (%) (excl. perps)	33.6	21.1	17.0	12.8	9.2
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	5.0	3.1	2.9	2.7
Net debt/ (net cash)	117.3	83.7	76.5	60.3	45.1

Source: Company; Maybank IBG Research

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Malaysia

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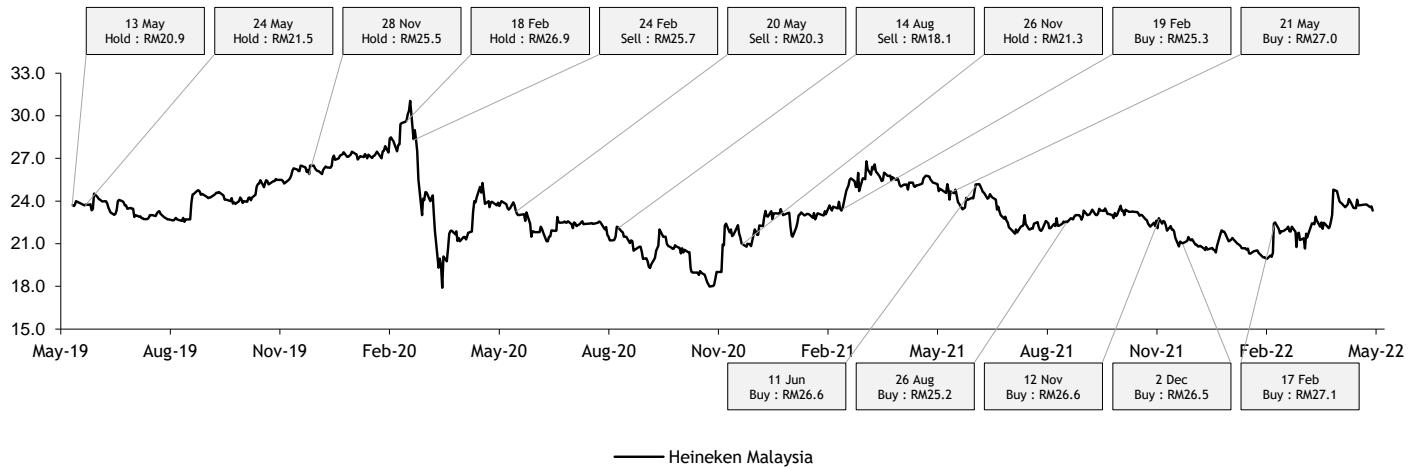
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