

COMPANY RESULTS

Carlsberg Brewery Malaysia (CAB MK)

1Q22: Within Expectations As Malaysia Sees A Resurgent Rebound

Carlsberg's sales performance was lifted by a successful CNY campaign coinciding with eased pandemic restrictions. Raised ASPs and economies of scale more than offset commercial spend as margins improved amid concerns of elevated commodities prices. We continue to like Carlsberg for its recovery-led earnings growth, its ability to manoeuvre high commodities prices and attractive valuations. Maintain BUY and target price of RM24.70.

1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22	qoq % chg	yoy % chg	Comments
Revenue	653.9	20.6	22.9	
Malaysia	454.1	15.1	27.4	
Singapore	199.7	35.3	13.8	Yoy growth not as compelling as Malaysia due to high base effect.
Operating profit	113.8	30.5	37.1	
Malaysia	89.5	22.3	46.5	
Singapore	21.0	29.4	0.2	
Share of asso.	6.8	20.8	70.1	
Pre-tax profit	120.3	30.5	39.2	
Core net Profit	92.8	29.9	34.9	Within our and consensus' expectations at 35% of both our full-year earnings estimates.

Margins	%	%	%	
EBIT margin	17.4	1.3	1.8	Raised ASPs and economies of scale lifted margins.
Malaysia	19.7	1.2	2.6	
Singapore	10.5	-0.5	-1.4	
PBT margin	18.4	1.4	2.2	
Eff. tax rate	-22.9	-0.4	0.2	Tax rate should trend higher to reflect prosperity tax rate.
Core net profit	14.2	1.0	1.3	

Source: Carlsberg, UOB Kay Hian

RESULTS

- **1Q22 results within expectations.** Carlsberg Brewery Malaysia (Carlsberg) reported 1Q22 core profit of RM92.8m (+35% yoy, +30% qoq). This accounts for 35% of both our and consensus' earnings estimates. 1Q earnings appear especially robust but we expect sales to normalise over the year coupled with a higher effective tax rate attributed to the prosperity tax for the remainder of the year. An interim dividend of 22 sen/share was declared (1Q21: 0.0 sen). This signals the resumption of Carlsberg's quarterly dividend payout following the suspension over the past two pandemic-laden years.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,773	1,898	2,177	2,470	2,577
EBITDA	230	292	406	448	484
Operating profit	188	249	356	392	428
Net profit (rep./act.)	150	203	262	305	332
Net profit (adj.)	166	203	262	305	332
EPS (sen)	54.0	66.1	85.3	99.2	107.8
PE (x)	40.2	32.8	25.4	21.9	20.1
P/B (x)	39.8	31.6	31.6	31.6	31.6
EV/EBITDA (x)	29.2	23.0	16.5	15.0	13.9
Dividend yield (%)	1.8	2.6	3.9	4.6	5.0
Net margin (%)	8.5	10.7	12.0	12.4	12.9
Net debt/(cash) to equity (%)	(11.3)	(20.8)	29.8	18.3	13.8
Interest cover (x)	43.9	119.2	73.3	52.6	46.9
ROE (%)	94.8	107.3	124.2	144.5	157.1
Consensus net profit	-	-	261	307	339
UOBKH/Consensus (x)	-	-	1.01	0.99	0.98

Source: Carlsberg Brewery Malaysia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM22.10
Target Price	RM24.70
Upside	+11.8%

COMPANY DESCRIPTION

Carlsberg manufactures and distributes beer. Its key brands are Carlsberg Green Label.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	CAB MK
Shares issued (m):	305.7
Market cap (RMm):	6,634.7
Market cap (US\$m):	1,534.0
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

52-week high/low RM22.98/RM19.38

1mth	3mth	6mth	1yr	YTD
2.8	7.6	(3.9)	(4.8)	8.1

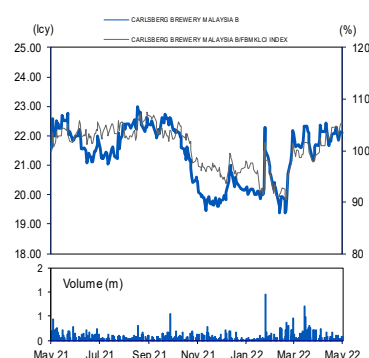
Major Shareholders

	%
Carlsberg A/S	51.0
OCBC	3.7
Prulink	1.3

FY22 NAV/Share (RM) 0.69

FY22 Net Debt/Share (RM) 0.20

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Malaysia: Off with a blast.** 1Q22 sales grew encouragingly both on a qoq and yoy basis at 15% and 27% respectively. A successful Chinese New Year (CNY) campaign coinciding with easing of restrictions lifted sales. In terms of market share, Carlsberg improved by 3.1ppt to 39.4% on a qoq basis. Coupled with its raised ASPs and marketing spend in the subsequent quarter, operating margins improved by 2.6ppt yoy to 26.7%. Going forward, we expect margins to normalise alongside uptick in opex and marketing spend.
- Singapore: Opex took the shine out of top-line performance.** Singapore experienced a compelling quarter as well, with 1Q22 sales growing 13.8% yoy (35% qoq). Yoy growth is not as compelling as Malaysia's due to trade re-loading in 1Q21 for Singapore, forming a high base. Meanwhile, 4Q21 was weighed by restrictions on dining-in capacity. We expect margins for Singapore to improve following the easing of commercial spending. Lastly, Sri Lanka continued to enjoy a rebound following easing of the pandemic as earnings grew 21% qoq.

STOCK IMPACT

- Costs well managed.** Despite rising commodities prices, there was minimal impact on ASPs. This is because raw materials and packaging account for around 15% of revenue by our estimates. The primary cost component is excise duties, which accounts for 45% of revenue (or 60% of COGS) according to our estimates. Given these economics, a 10-20% higher input cost translates into a very palatable ASP hike of 1.5-3.0%, which is in line with the yearly ASP hike. That said, Carlsberg had already raised ASPs in 4Q21 in anticipation of higher locked-in input costs for 2022. Hence, concern over high commodities costs is well-allayed.

EARNINGS REVISION/RISK

- No changes to earnings. Downside risks are slower-than-expected recovery in on-trade sales channels and increased policy headwinds.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM24.70.** Our target price is DCF-based with a WACC estimate of 7.2% and terminal growth rate of 3.0%. It implies 29.0x 2022F PE and offers dividend yields of 3.8-4.9% for 2022-24, based on a 90-100% payout. Our implied valuation above its five-year PE mean appears attractive given that Carlsberg is on a recovery with the worst sentiment behind it.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

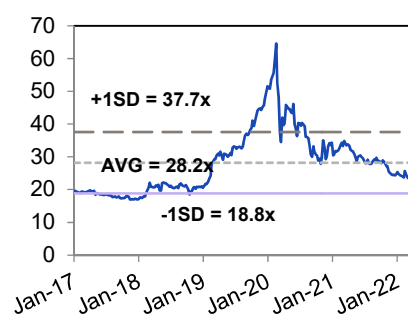
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Water management. 50% reduction in water usage at its breweries by 2030. - Emissions. Zero carbon emissions at its breweries by 2030 and 100% electricity from renewable sources at its breweries by 2022. Zero coal at its breweries. Social <ul style="list-style-type: none"> - Product services responsibility. 100% availability of alcohol-free brews. 100% responsible drinking messaging through packaging and brand activations. Governance <ul style="list-style-type: none"> - Board gender diversity. Board gender composition of 71:29 male-to-female ratio. - Management gender diversity. Carlsberg has a 53% female representation in its management team.
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KEY ASSUMPTIONS

	2022F	2023F	2024F
Sales (RMm)			
Malaysia	1620	1846	1934
- yoy growth (%)	15.6	13.9	4.8
- volume growth (%)	12.0	12.0	3.0
ASP growth (%)	3.3	1.7	1.8
Singapore	557	641	654
- yoy growth (%)	12.0	15.0	2.0
EBIT			
Core profit (RMm)	262	305	332
- yoy growth (%)	29.0	16.3	8.7
Core profit margin (%)	12.0	12.4	12.9

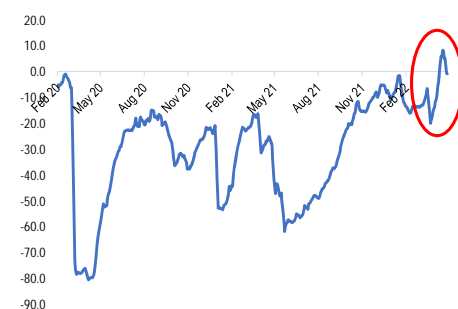
Source: UOB Kay Hian

12-MONTH FORWARD PE



Source: Bloomberg, UOB Kay Hian

MOBILITY TO PLACES OF RETAIL (MALAYSIA)



Source: Google

Retail: restaurants, cafes, shopping centres, theme parks, museums, libraries & movie theatres

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,898	2,177	2,470	2,577
EBITDA	292	406	448	484
Deprec. & amort.	43	50	57	57
EBIT	249	356	392	428
Associate contributions	15	16	17	18
Net interest income/(expense)	(2)	(6)	(9)	(10)
Pre-tax profit	262	367	400	435
Tax	(55)	(95)	(84)	(92)
Minorities	(3)	(9)	(11)	(12)
Net profit	203	262	305	332
Net profit (adj.)	203	262	305	332

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	211	289	286	286
Other LT assets	118	118	118	118
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	76	27	41	91
Other current assets	218	374	425	443
Total assets	622	807	870	938
ST debt	32	90	80	120
Other current liabilities	350	469	531	547
Other LT liabilities	25	24	24	24
Shareholders' equity	211	211	211	211
Minority interest	4	14	24	36
Total liabilities & equity	622	807	870	938

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	233	285	383	398
Pre-tax profit	262	367	400	435
Tax	(65)	(95)	(84)	(92)
Deprec. & amort.	43	50	57	57
Working capital changes	28	(37)	11	(2)
Non-cash items	0	0	0	0
Other operating cashflows	(34)	0	0	0
Investing	(45)	(120)	(54)	(57)
Capex (maintenance)	(57)	(120)	(54)	(57)
Proceeds from sale of assets	0	0	0	0
Others	12	0	0	0
Financing	(250)	(204)	(315)	(292)
Dividend payments	(153)	(262)	(305)	(332)
Proceeds from borrowings	(84)	58	(10)	40
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(14)	0	0	0
Net cash inflow (outflow)	(62)	(39)	14	50
Beginning cash & cash equivalent	94	76	36	51
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	33	36	51	100

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	15.4	18.7	18.2	18.8
Pre-tax margin	13.8	16.9	16.2	16.9
Net margin	10.7	12.0	12.4	12.9
ROA	33.5	36.7	36.4	36.7
ROE	107.3	124.2	144.5	157.1
Growth				
Turnover	7.1	14.7	13.4	4.3
EBITDA	27.1	39.3	10.3	8.0
Pre-tax profit	32.5	40.1	9.0	8.7
Net profit	35.5	29.0	16.3	8.7
Net profit (adj.)	22.3	29.0	16.3	8.7
EPS	22.3	29.0	16.3	8.7
Leverage				
Debt to total capital	12.8	28.6	25.4	32.7
Debt to equity	15.0	42.6	37.9	56.8
Net debt/(cash) to equity	(20.8)	29.8	18.3	13.8
Interest cover (x)	119.2	73.3	52.6	46.9

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