

### COMPANY UPDATE

## Thai Beverage (THBEV SP)

Recovery On Track After COVID-19 Peak

**THBEV held a virtual annual information meeting for shareholders in Singapore, sharing updates on its operations in Thailand and Vietnam. Despite facing stiff competition, the beer business is gaining market share in both core markets. THBEV is exploring possible ASP increases in the following 12 months due to rising operating costs from inflation. Also, rising interest rates and a weakening Thai baht have minimal impact on the group. Maintain BUY with a slightly lower SOTP-based target price of S\$0.87.**

### WHAT'S NEW

- **Recovery underway.** With increased social activity due to the removal of most COVID-19 measures, Thai Beverage (THBEV) expects consumption of both alcoholic and non-alcoholic beverages to improve, in line with our expectations. Nightlife entertainment venues such as bars and nightclubs have reopened while international tourist arrivals have been improving. Resumption of dine-in restaurants has also led a recovery to the group's food business.
- **Fighting to be number one.** THBEV's beer businesses are gaining market share in both Thailand and Vietnam, driven by increased advertising and promotional activities. In Thailand, THBEV has the second largest market share at around 40% (similar to 3QFY22), closing in on the number one spot. It was noted that the market share gap has been closing and is at the narrowest in 13 years. This is largely due to improved quality coverage over the domestic market, backed by a robust and efficient route-to-market strategy. For Vietnam, second-placed Sabeco faces strong competition from its nearest competitor. As Vietnam's economic activities continue to recover, management expects Sabeco to outperform moving into 4QFY22 and beyond, catching up to its closest competitor.
- **Possible additional ASP hikes.** Facing record-high inflation, THBEV has increased ASPs twice for both its beer and white spirits respectively since 1QFY22. To combat rising inflation, management noted that the group is exploring adjusting its ASPs higher for its alcoholic beverages moving forward in the next 12 months and believes that there will not be negative pushback from the group's customers. In our view, ASP hikes for THBEV's white spirits seem more likely than for its beer products, given falling operating margins for its spirits segments in the last two quarters. Assuming a 3-4% increase in spirits ASPs in 1QFY23, this would boost our FY23 annual revenue forecasts by around 2%. To offset higher import costs due to the sharp depreciation of the Myanmar Kyat, the group also plans to lift ASPs for its international spirits business (around 10% of total spirits revenue) in Myanmar as well.

### KEY FINANCIALS

Year to 30 Sep (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	253,481	240,543	269,439	298,611	331,374
EBITDA	41,215	41,613	47,155	50,584	54,402
Operating profit	34,600	33,782	40,266	43,511	47,139
Net profit (rep./act.)	22,751	24,645	29,330	31,526	34,009
Net profit (adj.)	22,751	24,645	29,330	31,526	34,009
EPS (Bt)	0.9	1.0	1.2	1.3	1.4
PE (x)	18.0	16.7	14.0	13.0	12.1
P/B (x)	2.9	2.4	2.2	2.0	1.8
EV/EBITDA (x)	15.2	15.1	13.3	12.4	11.5
Dividend yield (%)	2.8	3.1	3.6	3.8	4.1
Net margin (%)	9.0	10.2	10.9	10.6	10.3
Net debt/(cash) to equity (%)	128.3	109.7	92.5	78.7	66.3
Interest cover (x)	5.8	6.1	7.1	7.1	7.1
ROE (%)	17.6	15.7	16.4	16.1	16.0
Consensus net profit	-	-	28,510	30,139	32,331
UOBKH/Consensus (x)	-	-	1.03	1.05	1.05

Source: Thai Beverage, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.62
Target Price	S\$0.87
Upside	+40.3%
(Previous TP:	S\$0.89)

### 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

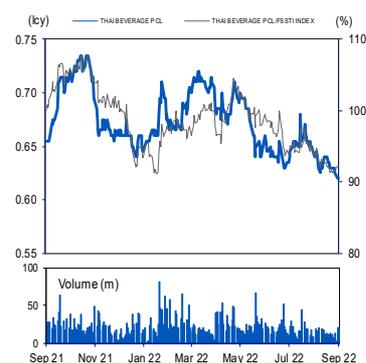
GICS sector	Consumer Staples
Bloomberg ticker:	THBEV SP
Shares issued (m):	25,120.9
Market cap (S\$m):	15,575.0
Market cap (US\$m):	10,866.5
3-mth avg daily t'over (US\$m):	7.2
<b>Price Performance (%)</b>	
52-week high/low	S\$0.735/S\$0.620

1mth	3mth	6mth	1yr	YTD
(3.9)	(3.9)	(12.1)	(5.3)	(6.1)

### Major Shareholders

	%
Siriwana Co., Ltd.	45.3
Maxtop Management Corp.	20.6
-	-
FY22 NAV/Share (Bt)	7.44
FY22 Net Debt/Share (Bt)	6.88

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- Unaffected by rising interest rates and exchange rates.** As interest rates rise, management noted that most of THBEV's interest-bearing debts have fixed rates, long tenures and are denominated in Thai baht. As such, any movements in interest rates and a weakening baht against the Singapore dollar would have minimal impact to the group. THBEV plans to continue deleveraging, with net gearing dropping from 0.86x in 4QFY21 to 0.71x in 3QFY22.
- Deferred BeerCo IPO.** THBEV decided to defer the IPO of its beer business due to prolonged challenging market conditions, just three months after reviving plans for the listing. The group maintained its position that it would continue to monitor market conditions and review the proposed listing again in the future. As a recap, THBEV was seeking to sell as much as 20% of the beer business, raising between US\$800m-1b which values the beer business at around US\$4b-5b (9x-11x FY22F EV/EBITDA), a reasonable valuation in our view given that peers' average is 13.8x FY22F EV/EBITDA. Given the uncertain global macroeconomic conditions, we reckon that the IPO was shelved due to liquidity concerns and expect THBEV to revive the IPO plans once market conditions improve.
- Divestment of non-core assets.** Management noted that there are currently no plans to expand or dispose of its stake in Frasers Property (FPL) and Fraser and Neave (FNN).

### STOCK IMPACT

- Gradual recovery in tourist arrivals.** Thailand's international tourist arrivals continued to grow in Aug 22, reaching a pandemic high of 1,174,743, up 4.5% mom. This was driven by the removal of most COVID-19 restrictions in Jul 22 and the return of international travel. We now expect around 8m-9m tourist arrivals in 2022, up from our previous expectations of 6m-7m tourist arrivals. However, this is still a fraction of the 40m arrivals pre-pandemic.
- Double-edged sword.** Thailand's Director-General of the Excise Department noted that the kingdom is considering increasing taxes on six products in 2023, including non-alcoholic beer and liquor to combat rising alcoholism. This is in line with the department's ESG strategy on increasing taxes on products that are deemed harmful to the environment and personal health. A decision would be decided in 2023 but may be implemented at a later time. If implemented, this would lead to higher prices for non-alcoholic beer and liquor which we reckon may lead to a shift in demand back to alcoholic beverages. Although beneficial to THBEV, this may also lead to future possible excise taxes on alcoholic beverages, given the department's original aim to combat alcoholism.

### EARNINGS REVISION/RISK

- No change to earnings.**
- Potential downside may come from higher-than-expected raw material costs.

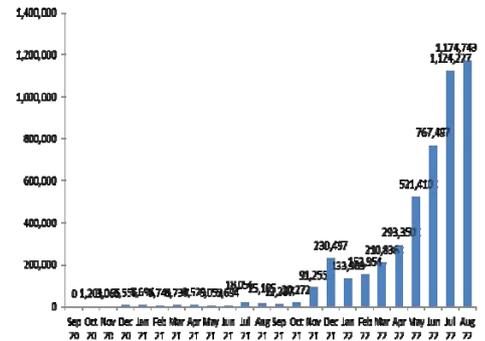
### VALUATION/RECOMMENDATION

- Maintain BUY with a lower SOTP-based target price of S\$0.87 (S\$0.89 previously).** The lower target price is largely due to lower market valuation for THBEV's stake in FPL. We still reckon THBEV remains attractively priced at below -1SD of its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds.

### SHARE PRICE CATALYST

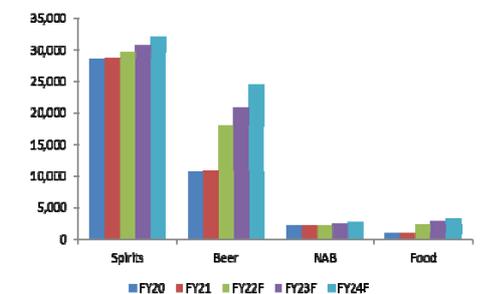
- M&As.
- Better-than-expected consumptions volumes.

### THAILAND'S MONTHLY INTERNATIONAL ARRIVALS



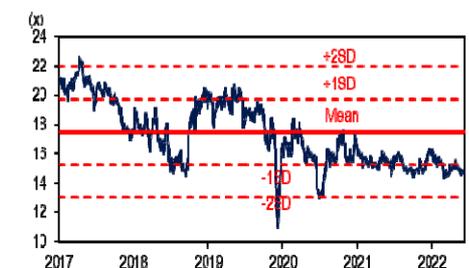
Source: Thailand's Ministry of Tourism and Sports, UOB Kay Hian

### THBEV'S SEGMENTAL HISTORICAL EBITDA AND FORECASTS (BTM)



Source: UOB Kay Hian, Bloomberg, THBEV

### THBEV'S HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

### SOTP VALUATION

Methodology	(Btm)	
Spirits	17x FY22 EV/EBITDA	503,728
Beer	12x FY22 EV/EBITDA	215,073
NAB	15x FY22 EV/EBITDA	32,694
Food	14x FY22 EV/EBITDA	33,163
FPL	Market Value	28,985
FNN	Market Value	13,497
<b>Total</b>		<b>827,139</b>
Less: Net debt, Minority Interest		(248,571)
<b>Value</b>		<b>578,568</b>
<b>Per share (S\$)</b>		<b>0.87</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Net turnover	240,543	269,439	298,611	331,374
EBITDA	41,613	47,155	50,584	54,402
Deprec. & amort.	7,831	6,889	7,073	7,263
EBIT	33,782	40,266	43,511	47,139
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)	(6,663)	(7,143)	(7,623)
<b>Pre-tax profit</b>	<b>31,973</b>	<b>39,208</b>	<b>42,178</b>	<b>45,523</b>
Tax	(4,634)	(5,683)	(6,122)	(6,622)
Minorities	(2,694)	(4,196)	(4,530)	(4,892)
<b>Net profit</b>	<b>24,645</b>	<b>29,330</b>	<b>31,526</b>	<b>34,009</b>
Net profit (adj.)	24,645	29,330	31,526	34,009

### BALANCE SHEET

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
Fixed assets	268,391	273,669	276,900	280,090
Other LT assets	108,928	107,428	107,895	108,419
Cash/ST investment	38,293	49,192	77,652	106,913
Other current assets	56,973	61,030	70,434	81,283
<b>Total assets</b>	<b>472,585</b>	<b>491,319</b>	<b>532,881</b>	<b>576,704</b>
ST debt	69,206	73,971	73,971	73,971
Other current liabilities	26,237	27,213	30,160	33,469
LT debt	156,551	148,119	164,119	180,119
Other LT liabilities	10,415	11,316	12,542	13,918
Shareholders' equity	170,963	187,001	203,862	222,107
Minority interest	39,213	43,698	48,228	53,121
<b>Total liabilities &amp; equity</b>	<b>472,585</b>	<b>491,319</b>	<b>532,881</b>	<b>576,704</b>

### CASH FLOW

Year to 30 Sep (Btm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>32,067</b>	<b>36,879</b>	<b>36,257</b>	<b>38,190</b>
Pre-tax profit	31,973	39,208	42,178	45,523
Tax	(4,634)	(5,683)	(6,122)	(6,622)
Deprec. & amort.	7,831	6,889	7,073	7,263
Working capital changes	(4,016)	(2,983)	(8,062)	(9,342)
Non-cash items	913	(552)	1,190	1,368
Other operating cashflows	0.0	0.0	0.0	0.0
<b>Investing</b>	<b>(11,656)</b>	<b>(9,753)</b>	<b>(9,132)</b>	<b>(9,166)</b>
Capex (growth)	(7,201)	(12,156)	(9,890)	(10,018)
Investments	(16,607)	0.0	0.0	0.0
Others	12,152	2,402	758	852
<b>Financing</b>	<b>(17,006)</b>	<b>(16,226)</b>	<b>1,335</b>	<b>237</b>
Dividend payments	(11,553)	(12,559)	(14,665)	(15,763)
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
<b>Net cash inflow (outflow)</b>	<b>3,405</b>	<b>10,900</b>	<b>28,460</b>	<b>29,260</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>34,694</b>	<b>38,292</b>	<b>49,192</b>	<b>77,652</b>
Changes due to forex impact	193	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>38,292</b>	<b>49,192</b>	<b>77,652</b>	<b>106,913</b>

### KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	17.3	17.5	16.9	16.4
Pre-tax margin	13.3	14.6	14.1	13.7
Net margin	10.2	10.9	10.6	10.3
ROA	5.4	6.1	6.2	6.1
ROE	15.7	16.4	16.1	16.0
<b>Growth</b>				
Turnover	(5.1)	12.0	10.8	11.0
EBITDA	1.0	13.3	7.3	7.5
Pre-tax profit	3.9	22.6	7.6	7.9
Net profit	8.3	19.0	7.5	7.9
Net profit (adj.)	8.3	19.0	7.5	7.9
EPS	8.3	19.0	7.5	7.9
<b>Leverage</b>				
Debt to total capital	51.8	49.0	48.6	48.0
Debt to equity	132.1	118.8	116.8	114.4
Net debt/(cash) to equity	109.7	92.5	78.7	66.3
Interest cover (x)	6.1	7.1	7.1	7.1

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