

16 August 2019

# Carlsberg Brewery Malaysia

## Premiumisation to drive growth

By **Nikki Thang** | [nikkithang@kenanga.com.my](mailto:nikkithang@kenanga.com.my)

**1H19 earnings of RM152.9m (+13%) and interim dividend of 16.1 sen are within expectations. Going forward, we believe the group's earnings defensive nature can be further bolstered by its growing premium beer portfolio. In addition to the group's stable growth trajectory, a decent dividend yield of c.4% is also deemed to be attractive in the present market uncertainties. That said, we upgrade our call to OP with higher TP of RM25.95, based on FY20E PER of 26.0x.**

**Within expectations.** CARLSBG recorded 1H19 core net profit of RM152.9m, coming in within our/consensus forecasts at 52%/51%, respectively. Dividend of 16.1 sen per share (YTD: 37.6 sen per share) is also deemed within expectations.

**Better results YoY.** 1H19 core net profit jumped 13%, largely led by: (i) stronger sales in both Malaysia and Singapore, underpinned by robust growth momentum for its premium segment (+22% volume growth), coupled with (ii) more efficient A&P spending in Singapore which kept its margin fairly stable at (1H19's 15.1% versus 1H18's 14.5%). Meanwhile, post-recovery from its flooding incident in 2017, the group's associate Lion Brewery's 1H19 earnings have normalised and registered at RM9.36m (from RM6.26m in 1H18, after stripping of one-off insurance gains of RM4.7m).

For 2Q19, core net profit rose 2.2% YoY to RM65.3m, similarly due to the aforementioned reasons as the group's attractive premium portfolio continued to drive growth on top of the group's stable growing core beer. Sequentially, 2Q19 core net profit dipped 25.5% QoQ with 1Q19 being a seasonally stronger quarter on robust CNY sales.

**"Premiumisation" to add fizz.** Moving forward, we believe that earnings will be largely driven by continuous premiumisation as the group's attractive premium beer portfolio continues to gain footing by tapping into the shifting consumer palate. Plus, the demand for beer remains inelastic, as we note that the previous price hikes from SST and cost-pass through adjustments had little impact towards overall consumer demand. We also find comfort in a potential improvement in operating environment going forward as we deem a further excise duty hike to be unlikely as this could worsen the illicit trade market situation of alcoholic beverages which the government is trying to curb. All-in, the group's defensive earnings nature is further backed by rosy growth trajectory for its premium beer portfolio, added to by its decent yield of c.4%, which could provide some comfort in the midst of current market uncertainties.

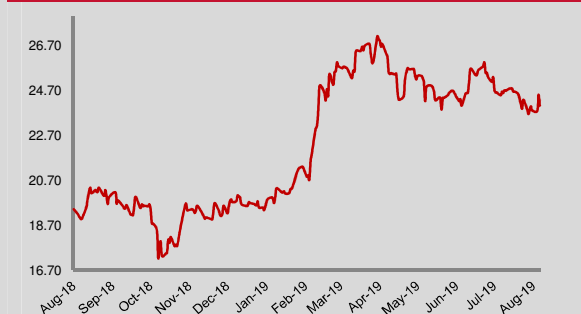
**Upgrade to OUTPERFORM with a higher target price of RM25.95 (from RM23.95)** as we ascribed a higher PER of 26.0x (in-line with +2SD 3-year mean, from 24.0x). *Post-results, we made no changes to our earnings assumption.* At this juncture, we deem our valuations to be fair as we value CARLSBG at a premium against its peer HEIM despite the latter's market leader position in Malaysia. While both operate in a defensive business environment with healthy dividend returns, we note a shift in market share between the brewers. For the past three years, CARLSBG has been gaining market share (from 37% to 41%) at the expense of HEIM's declining market share (from 63% to 59%) based on our back of the envelope calculations.

**Risks to our call include:** (i) Lower-than-expected legal market volume, and (ii) weaker demand for premium products

# OUTPERFORM

**Price :** RM24.04  
**Target Price :** RM25.95 

### Share Price Performance



KLCI	1,600.29
YTD KLCI chg	-5.3%
YTD stock price chg	22.3%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CAB MK Equity
Market Cap (RM m)	7,395.2
Shares Outstanding	307.6
52-week range (H)	27.34
52-week range (L)	17.06
3-mth avg daily vol	114,948
Free Float	44%
Beta	0.7

### Major Shareholders

Carlsberg A/S	50.7%
Oversea Chinese Bank	3.7%
JP Morgan Chase & Co	1.5%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	1,982.3	2,209.1	2,311.8
EBIT	347.0	394.7	419.1
PBT	361.3	403.2	429.0
<b>Net Profit</b>	<b>286.8</b>	<b>291.3</b>	<b>305.3</b>
<b>Core Net Profit</b>	<b>272.5</b>	<b>291.3</b>	<b>305.3</b>
Consensus (NP)	-	300.3	323.5
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	89.1	95.3	99.8
Core EPS growth (%)	14.3%	6.9%	4.8%
NDPS (sen)	100.0	100.0	105.0
BVPS (RM)	0.6	0.5	0.5
PER (x)	27.0	25.2	24.1
PBV (x)	43.5	47.5	52.9
Net Gearing (x)	(0.1)	(0.5)	(0.8)
Net Div. Yield (%)	4.2%	4.2%	4.4%

16 August 2019

### Results Highlights

	2Q FY19	1Q FY19	QoQ Chg	2Q FY18	YoY Chg	6M FY19	6M FY18	YoY Chg
<b>FYE Dec (RM'm)</b>	<b>480.5</b>	<b>659.9</b>	<b>-27.2%</b>	<b>415.5</b>	<b>15.7%</b>	<b>1140.4</b>	<b>963.9</b>	<b>18.3%</b>
Turnover	83.0	111.6	-25.6%	79.6	4.3%	194.6	179.9	8.2%
EBIT	85.4	113.8	-25.0%	83.8	1.9%	199.2	188.3	5.8%
PBT/(LBT)	-18.0	-24.6	26.8%	-17.5	-3.0%	-42.5	-39.4	-8.0%
Net Profit	65.3	87.6	-25.5%	63.9	2.2%	152.9	140.0	9.2%
<b>Core Net Profit</b>	<b>65.3</b>	<b>87.6</b>	<b>-25.5%</b>	<b>63.9</b>	<b>2.2%</b>	<b>152.9</b>	<b>135.3</b>	<b>13.0%</b>
EPS (sen)	21.4	28.7	-25.5%	20.9	2.2%	21.4	45.8	-53.4%
DPS (sen)	16.1	21.5		15.7		37.6	35.7	
EBIT margin	17.3%	16.9%		19.2%		17.1%	18.7%	
PBT margin	17.8%	17.2%		20.2%		17.5%	19.5%	
Core NP margin	13.6%	13.3%		15.4%		13.4%	14.0%	
Effective tax rate	21.1%	21.6%		20.8%		21.4%	20.9%	

Note:

\* Core earnings were adjusted for a RM4.7m insurance compensation received in 1Q18

Source: Company, Kenanga Research

### Segmental Breakdown

	2Q FY19	1Q FY19	QoQ Chg	2Q FY18	YoY Chg	6M FY19	6M FY18	YoY Chg
<b>Revenue (RM'm)</b>	<b>480.6</b>	<b>659.9</b>	<b>-27.2%</b>	<b>415.5</b>	<b>15.7%</b>	<b>1140.4</b>	<b>963.9</b>	<b>18.3%</b>
Malaysia	340.4	501.9	-32.2%	278.8	22.1%	842.2	684.6	23.0%
Singapore	140.2	158.1	-11.3%	136.6	2.6%	298.2	279.4	6.8%
<b>Total</b>	<b>480.6</b>	<b>659.9</b>	<b>-27.2%</b>	<b>415.5</b>	<b>15.7%</b>	<b>1140.4</b>	<b>963.9</b>	<b>18.3%</b>
<b>Operating Profit (RM'm)</b>	<b>83.0</b>	<b>111.6</b>	<b>-25.6%</b>	<b>79.6</b>	<b>4.3%</b>	<b>194.6</b>	<b>179.9</b>	<b>8.2%</b>
Malaysia	58.4	90.3	-35.3%	57.0	2.4%	148.6	138.8	7.1%
Singapore	24.3	20.7	17.2%	22.6	7.5%	45.0	40.4	11.4%
Others	0.4	0.6	-38.9%	0.0	N.M.	1.0	0.7	41.6%
<b>Total</b>	<b>83.0</b>	<b>111.6</b>	<b>-25.6%</b>	<b>79.6</b>	<b>4.3%</b>	<b>194.6</b>	<b>179.9</b>	<b>8.2%</b>
<b>Operating Margin</b>	<b>17.3%</b>	<b>16.9%</b>		<b>19.2%</b>		<b>17.1%</b>	<b>18.7%</b>	
Malaysia	17.1%	18.0%		20.4%		17.6%	20.3%	
Singapore	17.3%	13.1%		16.5%		15.1%	14.5%	
<b>Total</b>	<b>17.3%</b>	<b>16.9%</b>		<b>19.2%</b>		<b>17.1%</b>	<b>18.7%</b>	

Source: Company, Kenanga Research

16 August 2019

### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.49	1,745.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.8	31.5	29.9	24.8	24.0	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.60	2,246.4	Y	12/2019	3.1%	3.0%	9.2%	3.6%	18.1	16.5	16.0	1.1	1.1	6.6%	2.5%	2.10	OP
AMWAY MALAYSIA HOLDINGS BHD	6.00	986.3	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.1	17.2	16.1	4.2	4.0	23.8%	4.6%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	64.00	4,096.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	33.0	33.8	31.6	38.8	38.9	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	34.48	12,646.5	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.9	29.1	28.3	5.5	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.16	627.2	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.2	13.2	13.0	2.0	2.0	15.1%	6.0%	1.95	UP
MYNEWS HOLDINGS BHD	1.46	995.9	N	10/2019	27.3%	14.2%	21.0%	20.7%	37.6	31.1	25.7	3.2	3.1	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	147.70	34,635.7	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.3	47.3	45.3	52.9	53.0	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.41	2,243.5	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	12.6	14.5	11.9	3.4	3.1	22.3%	3.4%	3.75	MP
PARKSON HOLDINGS BHD	0.20	213.4	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	25.8	0.1	0.1	-1.7%	0.0%	0.24	UP
POWER ROOT BHD	1.84	728.8	Y	03/2020	12.3%	9.7%	26.6%	16.0%	22.0	17.9	16.0	3.3	3.1	18.1%	4.9%	2.30	OP
QL RESOURCES BHD	6.87	11,146.2	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.4	45.5	43.7	5.5	5.1	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.27	476.6	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.7	17.2	15.2	1.2	1.2	7.0%	1.8%	2.40	MP
<b>Simple Average</b>					<b>6.7%</b>	<b>4.4%</b>	<b>4.6%</b>	<b>63.5%</b>	<b>28.9</b>	<b>26.2</b>	<b>24.5</b>	<b>11.2</b>	<b>11.1</b>	<b>33.8%</b>	<b>2.6%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	22.64	6,464.4	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	13.8	15.6	15.3	15.3	14.7	84.5%	5.3%	24.40	UP
CARLSBERG BREWERY MALAYSIA BHD	24.04	7,395.2	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.0	25.2	24.1	43.5	47.5	186.7%	4.2%	25.95	OP
HEINEKEN MALAYSIA BHD	22.54	6,809.3	N	12/2019	6.1%	5.0%	2.8%	5.1%	24.1	23.4	22.3	18.3	18.2	77.9%	4.2%	23.25	MP
<b>Simple Average</b>					<b>1.6%</b>	<b>3.4%</b>	<b>-4.2%</b>	<b>3.5%</b>	<b>21.6</b>	<b>21.4</b>	<b>20.6</b>	<b>25.7</b>	<b>26.8</b>	<b>116.4%</b>	<b>4.6%</b>		
<b>CONSENSUS ESTIMATES</b>																	
BERJAYA FOOD BHD	1.60	573.8	N	06/2019	10.1%	8.8%	22.4%	11.1%	21.8	17.8	16.0	1.5	1.5	7.8%	3.3%	2.06	BUY
BONIA CORPORATION BHD	0.28	217.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	11.0	15.6	13.2	0.6	0.6	3.2%	2.5%	0.30	SELL
COCOALAND BHD	1.93	441.6	Y	12/2019	5.7%	7.1%	2.9%	7.0%	14.3	13.9	13.0	1.8	1.8	13.1%	4.0%	2.29	NEUTRAL
KAWAN FOOD BHD	1.30	467.4	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	20.5	34.7	21.5	1.5	1.4	4.1%	1.9%	1.14	SELL
MAGNI-TECH INDUSTRIES BHD	5.10	829.5	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.1	7.2	6.8	1.6	N.A.	20.3%	N.A.	6.60	BUY

Source: Bloomberg, Kenanga Research

16 August 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

