

04 October 2019

Carlsberg Brewery Malaysia

Leading The Premiumisation Trend

By **Nikki Thang** | nikkithang@kenanga.com.my

We came away from a meeting with management feeling sanguine on the group's outlook, banking on its: (i) on-going premiumisation growth story, yielding 5-year FY20E CAGR of 9% versus HEIM's 5%, (ii) gain in market share over HEIM, coupled with (iii) stable dividend yield of c.4% which could offer some degree of defence amidst the current market uncertainty. Reiterated OP with higher TP of RM28.70 (from RM27.15) post-earnings upgrade.

Premiumisation to spur growth. Post-meeting, we felt reassured on management's positive tone on its growing premium portfolio. The segment sustained double-digit volume growth (+22% versus Core Beer Brand's +5%) in 1H19, which we believe has more potential for greater sales, after having successfully penetrated the market. That said, we believe the group is well-positioned to tap onto the growing trend for premiumisation which will translate into bigger market share and volume growth. Notably, the group prides themselves with its fastest growing premium brand, 1664 Blanc (1H19 volume growth of 55%), thanks to its unique taste and the lack of direct peer in the market, which should continue to serve as a key driver for the premium segment moving forward.

Stabilising regional stakes. Meanwhile, we also take comfort in the group's steady Singapore operation (historically taking up c.30% of the group's total operating profit). This is premised on: (i) a more favourable forex translation, (ii) relatively stable demand, coupled with (iii) the delay of the EU Free Trade Agreement to 1Q20 which should ease foreign competition, at least for this year. On the other hand, its Sri Lanka associate which is the market leader in its region (control c.80% of the local market share) has also seen stabilising numbers post-recovery from its flood incident in FY16. However, we wish to highlight that the aftermath of the terrorist attack earlier in Sri Lanka may still affect domestic spending there, hence possibly dampening the performance for the year.

Setting the scene. Going forward, the group is also poised to benefit from a potentially improved operating environment mainly in East Malaysia (from previous c.30-35% to c.25-30%), as authorities appear more effective in clamping down contraband beer. This will most likely divert demand back to the legal market, thus benefitting the brewers. On top of that, we are also of the view that further excise duty hike in the upcoming Budget 2020 is unlikely, as this would only worsen the illicit trade market situation.

Post meeting, we tweaked our FY19-20E earnings upwards by 1.1-5.6% as we pencilled in slightly better volumes for both its Malaysia and Singapore operations.

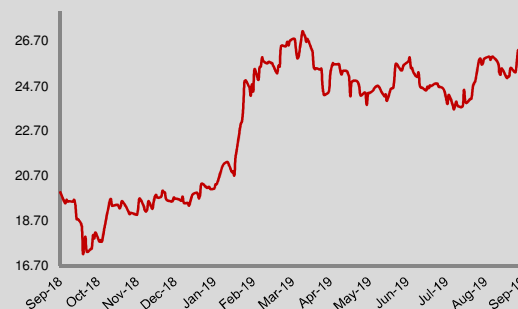
Reiterate OUTPERFORM with a higher TP of RM28.70 (from RM27.15) as we ascribed an unchanged PER of 27x (in-line with +2SD 3-year mean), but on higher earnings lifted by our firmer earnings assumptions. All-in, we continue to like CARLSBG for: (i) its premiumisation growth story which yields a 5-years earnings CAGR of 9% in FY20E against HEIM's 5% of the same, (ii) continual gain in market share not just over HEIM but against the illicit market too, coupled with (iii) consistent dividend yield of c.4% which could offer some degree of defence amidst the current market uncertainty.

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

OUTPERFORM ↔

Price : RM26.10
Target Price : RM28.70 ↑

Share Price Performance



KLCI	1,564.12
YTD KLCI chg	-7.5%
YTD stock price chg	32.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CAB MK Equity
Market Cap (RM m)	8,028.9
Shares Outstanding	307.6
52-week range (H)	27.34
52-week range (L)	17.06
3-mth avg daily vol	124,902
Free Float	47%
Beta	0.7

Major Shareholders

Carlsberg A/S	50.7%
Oversea Chinese Bank	3.7%
Vanguard Group	1.5%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	1,982.3	2,230.2	2,394.6
EBIT	347.0	400.5	439.3
PBT	361.3	407.0	449.7
Net Profit (NP)	286.8	305.7	334.6
Core NP	272.5	294.6	322.5
Consensus (NP)	-	301.0	325.4
Earnings Revision	-	1.1%	5.6%
Core EPS (sen)	89.1	96.3	105.5
Core EPS growth (%)	14.3	8.1	9.5
NDPS (sen)	100.0	100.0	105.0
BVPS (RM)	0.6	0.5	0.5
Core PER (x)	29.3	27.1	24.7
Price/Bv (x)	47.2	50.5	50.1
Net Gearing (x)	(0.1)	(0.5)	(0.9)
Net Div. Yield (%)	3.8	3.8	4.0

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Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	1,679.5	1,768.2	1,982.3	2,230.2	2,394.6
Operating Profit	294.1	299.0	347.0	400.5	439.3
Depreciation	-33.7	-33.0	-40.8	-39.1	-43.7
Interest Inc/(Exp)	-5.2	-3.9	-6.7	-11.5	-9.7
Associate Earnings	-5.1	-0.2	21.0	18.0	20.0
Profit Before Tax	283.8	294.8	361.3	407.0	449.7
Taxation	-73.2	-62.4	-74.5	-101.3	-115.1
Net Profit	210.7	232.4	286.8	305.7	334.6
Core Net Profit	205.0	238.4	272.5	294.6	322.5

Balance Sheet

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	172.3	177.8	193.0	198.9	200.2
Intangible Assets	4.3	3.4	3.2	3.2	3.2
Other Fixed Assets	76.2	67.0	76.3	76.3	76.3
Inventories	96.3	68.4	96.7	107.7	108.4
Receivables	270.1	248.2	207.6	301.8	303.6
Other Current Assets	6.1	11.6	9.0	9.0	9.0
Cash	36.3	75.0	96.6	161.3	217.2
Total Assets	661.5	651.4	682.5	858.2	918.0
Payables	252.1	276.5	379.2	566.0	624.3
ST Borrowings	33.4	16.8	75.0	75.0	75.0
Other ST Liability	29.0	26.1	31.3	31.3	31.3
LT Borrowings	0.0	0.0	0.0	0.0	0.0
Other LT Liability	16.9	19.6	16.1	16.1	16.1
Net Assets	330.0	312.5	181.0	169.8	171.3
Shareholders' Equity	321.7	299.0	169.1	158.0	159.4
Minority Interests	8.4	13.4	11.9	11.9	11.9
Total Equity	330.0	312.5	181.0	169.8	171.3

Cashflow Statement

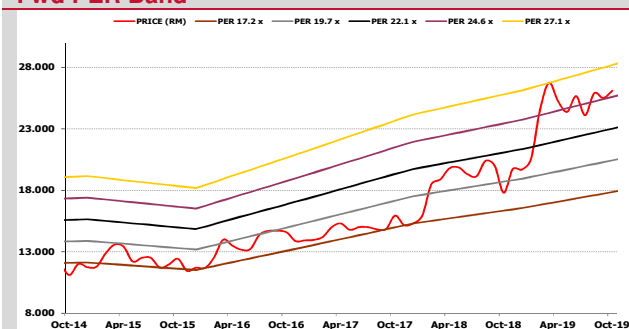
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	263.4	338.1	379.9	408.9	411.6
Investing CF	-39.2	-32.8	-51.9	-27.0	-25.0
Financing CF	-232.6	-265.5	-301.8	-317.2	-330.7
Change In Cash	-8.4	39.8	26.2	64.7	55.9
Free CF	220.7	300.4	323.3	363.9	366.6

Source: Kenanga Research

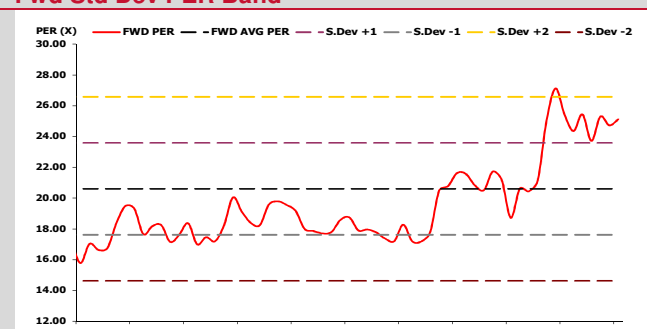
Financial Data & Ratios

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Growth					
Turnover	1.2%	5.3%	12.1%	12.5%	7.4%
EBITDA	7.1%	1.3%	16.8%	13.3%	9.9%
Operating Profit	7.7%	1.7%	16.1%	15.4%	9.7%
PBT	0.1%	3.9%	22.5%	12.7%	10.5%
Core Net Profit	-5.1%	16.3%	14.3%	8.1%	9.5%
Profitability					
Operating Margin	17.5%	16.9%	17.5%	18.0%	18.3%
PBT Margin	16.9%	16.7%	18.2%	18.2%	18.8%
Core Net Margin	12.2%	13.5%	13.7%	13.2%	13.5%
Effective Tax	24.0%	21.1%	26.4%	23.8%	24.5%
ROA	31.0%	33.7%	41.6%	38.2%	36.3%
ROE	62.4%	71.3%	118.4%	180.1%	203.2%
DuPont Analysis					
Net Margin	12.2%	13.5%	13.7%	13.2%	13.5%
Assets Turnover (x)	2.5	2.7	2.9	2.6	2.6
Leverage Factor (x)	2.1	2.2	4.0	5.4	5.8
ROE	62.4%	71.3%	118.4%	180.1%	203.2%
Leverage					
Debt/Asset (x)	0.1	0.0	0.1	0.1	0.1
Debt/Equity (x)	0.1	0.1	0.4	0.5	0.5
Net (Cash)/Debt	(2.8)	(58.2)	(21.6)	(86.3)	(142.2)
Net Debt/Equity (x)	(0.0)	(0.2)	(0.1)	(0.5)	(0.9)
Valuations					
Core EPS (sen)	67.0	78.0	89.1	96.3	105.5
NDPS (sen)	72.0	87.0	100.0	100.0	105.0
BV/sh (RM)	1.1	1.0	0.55	0.5	0.5
PER (x)	38.9	33.5	29.3	27.1	24.7
Div. Yield	2.8%	3.3%	3.8%	3.8%	4.0%
PBV (x)	24.8	26.7	47.2	50.5	50.1
EV/EBITDA (x)	13.0	14.3	15.6	13.9	13.4

Fwd PER Band



Fwd Std Dev PER Band



Source: Bloomberg, Kenanga Research

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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.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.44	1,686.9	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.6	30.5	28.9	24.0	23.2	77.5%	2.8%	1.35	MP
AEON CO (M) BHD	1.51	2,120.0	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.0	20.8	19.0	1.0	1.0	5.0%	2.6%	1.70	OP
AMWAY MALAYSIA HOLDINGS BHD	5.78	950.1	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.4	16.5	15.6	4.0	3.8	23.8%	4.8%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	58.30	3,731.2	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	30.1	36.4	33.1	35.4	34.8	97.9%	2.7%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	34.00	12,470.5	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.4	28.7	27.9	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.25	653.2	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.8	13.8	13.5	2.0	2.1	15.1%	5.8%	1.95	UP
MYNEWS HOLDINGS BHD	1.35	920.9	N	10/2019	27.3%	14.2%	21.0%	20.7%	34.7	28.7	23.8	3.0	2.9	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	144.50	33,885.3	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.2	50.4	47.1	51.8	51.0	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.76	2,473.7	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	15.8	13.0	11.5	3.8	3.2	26.8%	3.1%	4.35	OP
PARKSON HOLDINGS BHD	0.22	229.4	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	27.6	23.8	0.1	0.1	0.3%	0.0%	0.27	OP
POWER ROOT BHD	2.10	838.0	Y	03/2020	12.3%	9.7%	26.6%	16.0%	25.1	20.5	18.2	3.8	3.5	18.1%	4.3%	2.30	OP
QL RESOURCES BHD	7.10	11,519.3	Y	03/2020	10.9%	4.5%	13.0%	4.2%	53.1	47.0	45.1	5.7	5.3	12.1%	0.8%	6.30	UP
SPRITZER BHD	2.19	459.8	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.0	16.6	14.7	1.2	1.1	7.0%	1.8%	2.40	MP
Simple Average					6.9%	4.3%	64.9%	9.7%	28.7	27.0	24.8	10.9	10.6	32.0%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	18.30	5,225.2	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	11.2	12.6	12.4	12.4	11.9	84.5%	6.6%	23.10	OP
CARLSBERG BREWERY MALAYSIA BHD	26.10	8,028.9	N	12/2019	12.5%	7.4%	8.1%	9.5%	29.3	27.4	26.1	44.4	47.3	174.3%	3.8%	28.70	OP
HEINEKEN MALAYSIA BHD	23.86	7,208.1	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.5	24.8	23.6	19.4	19.2	77.9%	4.0%	24.25	MP
Simple Average																	
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.44	516.4	N	06/2019	9.8%	8.4%	14.3%	9.3%	19.6	17.2	15.7	1.4	1.4	7.5%	3.2%	1.94	BUY
BONIA CORPORATION BHD	0.25	197.4	Y	06/2020	2.4%	2.0%	-4.0%	4.0%	10.9	11.4	11.0	0.5	0.5	3.7%	3.2%	0.28	NEUTRAL
COCOALAND BHD	1.89	432.4	Y	12/2019	4.8%	6.6%	6.2%	9.8%	14.0	13.2	12.0	1.7	1.7	13.4%	4.1%	2.36	NEUTRAL
KAWAN FOOD BHD	1.24	445.8	Y	12/2019	10.5%	14.5%	-47.4%	75.0%	19.5	37.2	21.2	1.4	1.3	3.6%	2.0%	1.42	SELL
MAGNI-TECH INDUSTRIES BHD	6.74	1,096.3	Y	04/2020	18.8%	4.5%	13.0%	5.2%	10.7	9.5	9.0	2.0	N.A.	20.3%	N.A.	6.60	BUY

Source: Bloomberg, Kenanga Research

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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.**

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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 E-mail: research@kenanga.com.my

