NOMURA

Thai Beverage TBEV.SI THBEV SP

EQUITY: CONSUMER RELATED

Growing with diversification

Growth driven by growing beer sales, M&A and improving NAB operation

Initiate coverage with Buy rating and TP of SGD1.13

We initiate coverage of Thai Beverage (THBEV) with a Buy rating and SOTP-based TP of SGD1.13, implying ~20% upside potential. We expect earnings growth to recover from -2% y-y in FY17 (12-month ending September) to 12% in FY18F (9% CAGR forecast over the next three years). This should be supported by: 1) a beer sales recovery; and 2) increasing profitability of non-alcohol beverage (NAB) business. From a long-term perspective, we believe THBEV's recent acquisitions – Grand Royal Whisky, Sabeco, and KFC franchise – are good moves to support sustainable growth amid the mature spirits business.

Good M&A investments, despite the pricing

We analyse THBEV's recent M&As and believe that they are good investments, despite the high acquisition prices. Myanmar and Vietnam are more promising markets compared to Thailand for alcohol beverages, in our view. Grand Royal and Sabeco are no.1 players in their markets with well-run operations. Acquiring KFC's 252 stores (largest among 3 franchisees) will give THBEV exposure to the resilient growing chained foodservice industry in Thailand through a well-run and profitable company. We also note a good track record of synergies among THBEV's existing businesses, the acquired ones and the business under the TCC group owned by THBEV's founder.

Near-term beer sales recovery and rising beer profit in the long term

We are upbeat on THBEV's beer business (30% of THBEV revenues), as we believe it should continue to gain market share from no.1 player Boon Rawd Breweries. Growing beer sales should also have an even higher positive impact on profit, with increasing economies of scale. Last, we expect a gradual beer sales recovery in FY18F, driven by the end of the mourning period and festive sentiment during the FIFA World Cup period.

Valuation

THBEV is currently trading at 18x FY18F P/E, in line with its 3-year average, which looks attractive considering an improving earnings growth outlook.

Year-end 30 Sep	FY17		FY18F		FY19F		FY20F
Currency (THB)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	190,032		217,898		224,392		231,214
Reported net profit (mn)	34,510		29,196		31,663		33,525
Normalised net profit (mn)	26,013		29,196		31,663		33,525
FD normalised EPS	1.04		1.16		1.26		1.34
FD norm. EPS growth (%)	37.5		12.2		8.4		5.9
FD normalised P/E (x)	23.5	N/A	19.7	N/A	18.2	N/A	17.2
EV/EBITDA (x)	17.9	N/A	17.8	N/A	16.2	N/A	15.3
Price/book (x)	4.9	N/A	4.0	N/A	3.7	N/A	3.4
Dividend yield (%)	2.5	N/A	2.7	N/A	3.0	N/A	3.4
ROE (%)	27.7		21.5		21.2		20.5
Net debt/equity (%)	23.9		153.6		124.3		110.3

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

23 January 2018

Rating Starts at	**Buy**
Target Price Starts at	SGD 1.13
Closing price 16 January 2018	SGD 0.94
Potential upside	+20.2%

Anchor themes

We have a selective view on ASEAN beverage players. We are positive on beer and energy drink players, i.e., THBEV, SMC and CBG. Long-term growth drivers include rising consumption, new market exposure, market share gains and M&A.

Nomura vs consensus

Our FY18-19F EPS are 2-3% above consensus.

Research analysts

Thailand Food and Beverage

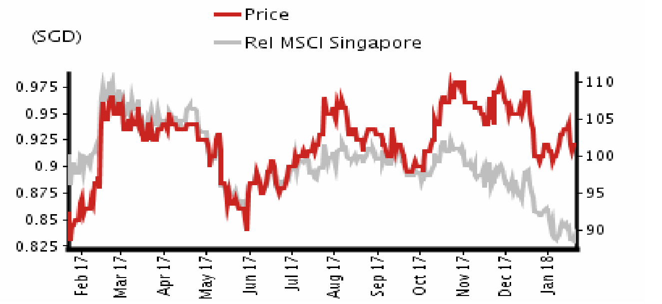
Thanatcha Jurukul - CNS, Thailand
thanatcha.jurukul.1@nomura.com
+662 287 6799

Marcin Spiewak, CFA - CNS, Thailand
marcin.spiewak@nomura.com
+66 2638 5796

Annapurna Chatterjee - NSFSPL
annapurna.chatterjee1@nomura.com
+91 22 672 35459

Key data on Thai Beverage

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:
FY16 income statement is on a 9-month basis due to the change in fiscal year-end.

Performance

(%)	1M	3M	12M		
Absolute (SGD)	-3.1	-2.1	8.0	M cap (USDmn)	17,834.1
Absolute (USD)	-1.3	0.0	16.7	Free float (%)	32.2
Rel to MSCI Singapore	-7.3	-11.8	-13.7	3-mth ADT (USDmn)	11.5

Income statement (THBmn)

Year-end 30 Sep	FY16	FY17	FY18F	FY19F	FY20F
Revenue	139,203	190,032	217,898	224,392	231,214
Cost of goods sold	-97,591	-131,899	-151,278	-154,701	-158,132
Gross profit	41,612	58,134	66,620	69,691	73,083
SG&A	-22,179	-30,574	-33,666	-33,993	-34,706
Employee share expense					
Operating profit	19,433	27,559	32,953	35,698	38,377
EBITDA	22,726	31,867	38,697	41,351	43,948
Depreciation	-3,293	-4,308	-5,744	-5,653	-5,571
Amortisation					
EBIT	19,433	27,559	32,953	35,698	38,377
Net interest expense	-813	-981	-3,700	-3,700	-3,700
Associates & JCEs	3,375	4,073	6,269	6,553	6,181
Other income	685	665	659	688	688
Earnings before tax	22,679	31,316	36,181	39,238	41,545
Income tax	-3,643	-5,132	-6,838	-7,416	-7,852
Net profit after tax	19,036	26,184	29,343	31,822	33,693
Minority interests	-117	-171	-147	-159	-168
Other items					
Preferred dividends					
Normalised NPAT	18,920	26,013	29,196	31,663	33,525
Extraordinary items	0	8,497	0	0	0
Reported NPAT	18,920	34,510	29,196	31,663	33,525
Dividends	-16,573	-15,066	-15,568	-17,577	-19,586
Transfer to reserves	2,347	19,444	13,628	14,086	13,939
Valuations and ratios					
Reported P/E (x)	30.0	17.7	19.7	18.2	17.2
Normalised P/E (x)	30.0	23.5	19.7	18.2	17.2
FD normalised P/E (x)	30.0	23.5	19.7	18.2	17.2
Dividend yield (%)	2.9	2.5	2.7	3.0	3.4
Price/cashflow (x)	32.2	20.7	29.7	13.3	20.5
Price/book (x)	4.9	4.9	4.0	3.7	3.4
EV/EBITDA (x)	23.4	17.9	17.8	16.2	15.3
EV/EBIT (x)	26.8	20.3	20.4	18.4	17.2
Gross margin (%)	29.9	30.6	30.6	31.1	31.6
EBITDA margin (%)	16.3	16.8	17.8	18.4	19.0
EBIT margin (%)	14.0	14.5	15.1	15.9	16.6
Net margin (%)	13.6	18.2	13.4	14.1	14.5
Effective tax rate (%)	16.1	16.4	18.9	18.9	18.9
Dividend payout (%)	87.6	43.7	53.3	55.5	58.4
ROE (%)	16.0	27.7	21.5	21.2	20.5
ROA (pretax %)	12.6	17.2	13.7	11.1	11.7
Growth (%)					
Revenue	-19.2	36.5	14.7	3.0	3.0
EBITDA	-15.0	40.2	21.4	6.9	6.3
Normalised EPS	-0.2	37.5	12.2	8.4	5.9
Normalised FDEPS	-0.2	37.5	12.2	8.4	5.9

Source: Company data, Nomura estimates

Cashflow statement (THBmn)

Year-end 30 Sep	FY16	FY17	FY18F	FY19F	FY20F
EBITDA	22,726	31,867	38,697	41,351	43,948
Change in working capital	3,668	2,247	-9,132	8,169	-9,409
Other operating cashflow	-8,775	-4,623	-10,160	-6,187	-6,513
Cashflow from operations	17,619	29,491	19,405	43,334	28,026
Capital expenditure	-2,890	-6,000	-39,500	-4,100	-4,150
Free cashflow	14,729	23,491	-20,095	39,234	23,876
Reduction in investments	-8	107	-53	27	-13
Net acquisitions					
Dec in other LT assets	-2,706	-310	-155,032	-225	-194
Inc in other LT liabilities	1,255	24	-541	342	376
Adjustments	3,903	3,126	3,181	2,304	1,795
CF after investing acts	17,172	26,438	-172,541	41,681	25,840
Cash dividends	-16,573	-15,066	-15,568	-17,577	-19,586
Equity issue					
Debt issue	1,828	-5,431	180,212	-12,173	-6,739
Convertible debt issue					
Others	-859	-1,071	147	159	168
CF from financial acts	-15,603	-21,568	164,790	-29,591	-26,156
Net cashflow	1,569	4,870	-7,750	12,090	-316
Beginning cash	3,490	5,059	9,929	2,179	14,269
Ending cash	5,059	9,929	2,179	14,269	13,953
Ending net debt	23,525	30,725	218,687	194,424	188,001

Balance sheet (THBmn)

As at 30 Sep	FY16	FY17	FY18F	FY19F	FY20F
Cash & equivalents	5,059	9,929	2,179	14,269	13,953
Marketable securities					
Accounts receivable	3,309	3,248	4,271	3,472	4,507
Inventories	38,145	37,761	47,557	39,691	49,492
Other current assets	3,590	4,983	4,725	4,830	4,979
Total current assets	50,104	55,921	58,732	62,262	72,930
LT investments	275	168	222	195	209
Fixed assets	47,871	48,532	82,328	80,814	79,434
Goodwill	7,025	6,964	9,879	9,698	9,532
Other intangible assets	350	318	539	529	520
Other LT assets	82,028	82,338	237,370	237,595	237,789
Total assets	187,653	194,240	389,070	391,093	400,413
Short-term debt	18,996	30,654	20,866	13,693	16,954
Accounts payable	4,532	4,797	5,903	5,040	6,146
Other current liabilities	9,290	12,219	12,543	13,016	13,485
Total current liabilities	32,819	47,671	39,312	31,748	36,585
Long-term debt	27,089	10,000	200,000	195,000	185,000
Convertible debt					
Other LT liabilities	4,033	4,057	3,515	3,857	4,233
Total liabilities	63,941	61,727	242,827	230,605	225,818
Minority interest	3,642	3,733	3,880	4,039	4,207
Preferred stock					
Common stock	42,326	42,371	42,326	42,326	42,326
Retained earnings	2,900	2,900	2,900	2,900	2,900
Proposed dividends					
Other equity and reserves	74,844	83,509	97,137	111,224	125,163
Total shareholders' equity	120,070	128,780	142,363	156,449	170,388
Total equity & liabilities	187,653	194,240	389,070	391,093	400,413
Liquidity (x)					
Current ratio	1.53	1.17	1.49	1.96	1.99
Interest cover	23.9	28.1	8.9	9.6	10.4
Leverage					
Net debt/EBITDA (x)	1.04	0.96	5.65	4.70	4.28
Net debt/equity (%)	19.6	23.9	153.6	124.3	110.3
Per share					
Reported EPS (THB)	75.35c	1.37	1.16	1.26	1.34
Norm EPS (THB)	75.35c	1.04	1.16	1.26	1.34
FD norm EPS (THB)	75.35c	1.04	1.16	1.26	1.34
BVPS (THB)	4.78	5.13	5.67	6.23	6.79
DPS (THB)	0.66	0.60	0.62	0.70	0.78
Activity (days)					
Days receivable	10.3	6.3	6.3	6.3	6.3
Days inventory	137.5	105.0	102.9	102.9	103.2
Days payable	17.6	12.9	12.9	12.9	12.9
Cash cycle	130.2	98.4	96.3	96.3	96.6

Source: Company data, Nomura estimates

Initiate coverage at Buy

We initiate coverage on THBEV with a Buy rating and an SOTP-based TP of THB1.13. We are positive on the company's long-term growth earnings growth outlook, supported by: 1) business diversification through M&As; 2) improving non-alcohol beverage business (currently loss-making scale lessening); and 3) stronger beer sales growth outlook.

Business diversification through M&A: We do a deep analysis of the three recent acquisitions, including industry outlook of the acquired businesses, earnings impact on the group, potential synergies, etc.

Improving beer and NAB businesses: We expect THBEV to continue to gain market share in the beer market, due to improving brand image with retained price competitiveness. As a result, the group profitability should increase from higher economies of scale in the beer business. Also, THBEV's non-alcohol beverage business is on an improving trend, despite being loss-making. We note that earnings improvement in the non-alcohol beverage (NAB) business in the past few years was driven by operating cost control and growing sales of bottled water.

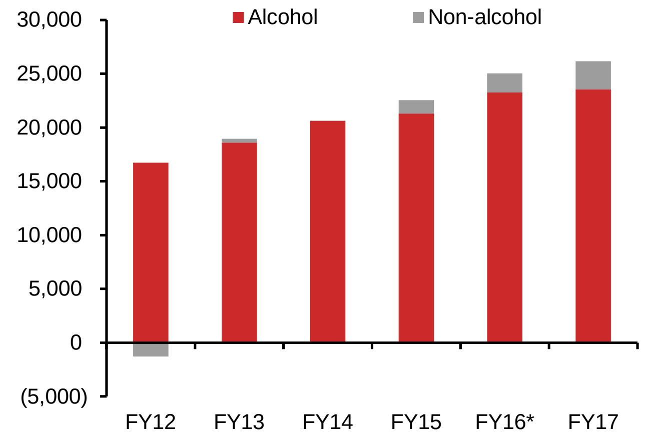
2018F recovery in beer sales: We expect a gradual beer sales recovery in FY18F as a result of the end of the mourning period, the upcoming FIFA World Cup and the end of the car loan term for most car buyers under the first-car scheme.

Growth strengthened by M&A

We note that THBEV's ongoing acquisition activities have supported the company's growth in both revenues and earnings over the past three years. We note that earnings contribution from non-alcohol businesses has been positive since FY13 with increasing contribution to 10% of earnings currently. The contribution was mainly attributable to acquisition of 28% stake in Fraser and Neave (FNN SP, not rated), and the later-spun-off property arm Frasers Centrepoint, in 2012, which altogether contributed 13% of THBEV's earnings in FY17.

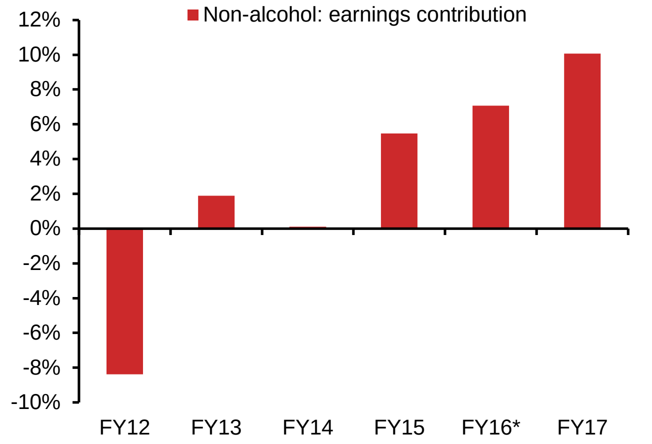
Fig. 90: Earnings strengthened by contribution from acquired businesses

THBEV: Earnings contribution (THBmn)



Source: Company data, Nomura research
* 12-month ending September

Fig. 91: Increasing non-alcohol earnings contribution



Source: Company data, Nomura research
* 12-month ending September

Major acquisitions in 2017

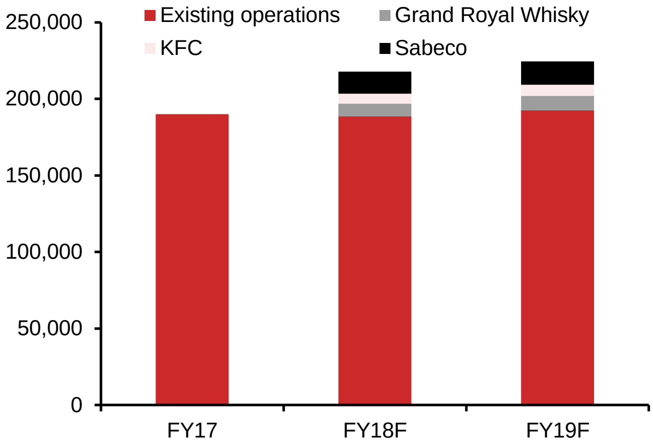
THBEV pursued three sizeable acquisitions in 2017 – 75% stake in Myanmar's top whisky producer Grand Royal Group in October, Yum! Restaurant International's 252 KFC stores in November, and 26% stake in Saigon Alcohol Beer and Beverage Corporation (Sabeco – SAB VN, not rated) in December. Despite the magnitude of acquisition price of THB192bn (THB25bn for GRW, THB11bn for KFC and THB156bn for

Sabeco), we think these acquisitions should benefit THBEV's earnings growth outlook in the long term.

- We expect the acquired business will augment sales value for THBEV significantly. Fig. 92 illustrates our forecast of immediate incremental sales value to THBEV of 15%. Note that we take into account the less-than-100% holding in GRW in this calculation, while in the consolidation method it should result in 100% sales revenue consolidation in the income statement.
  - As well, we currently assume Sabeco to be accounted for as an associated company, from which revenue contribution will not be shown in THBEV's sales revenue, but will rather contribute part of net income in the 'share of income from associates' line.
  - The sizeable transaction should lead to immediate surge in finance costs to finance the acquisitions in FY18F onwards. We expect the acquisitions will result in 5% earnings dilution in FY18F (Fig. 93), due to negative earnings contribution from Sabeco, while Grand Royal and KFC should be earnings accretive in the first year of acquisition. Thanks to upbeat outlook of the alcohol business in Myanmar and Vietnam, as well as the growth of KFC business in Thailand, we expect loss from the acquired business will decline significantly over the next three years.

Fig. 92: Immediate increase in sales value

Expected sales value after the acquisitions



Source: Nomura estimates

Fig. 93: 1-5% earnings dilution from M&A

Expected earnings contribution from each acquired business

	FY18F	FY19F	FY20F
Grand Royal Whisky	521	647	784
KFC	386	552	652
Sabeco	(2,080)	(1,853)	(1,690)
Impact on THBEV's earnings	(1,172)	(654)	(254)
Earnings dilution (vs previous year earnings)	*-5%*	*-2%*	*-1%*

Source: Nomura estimates

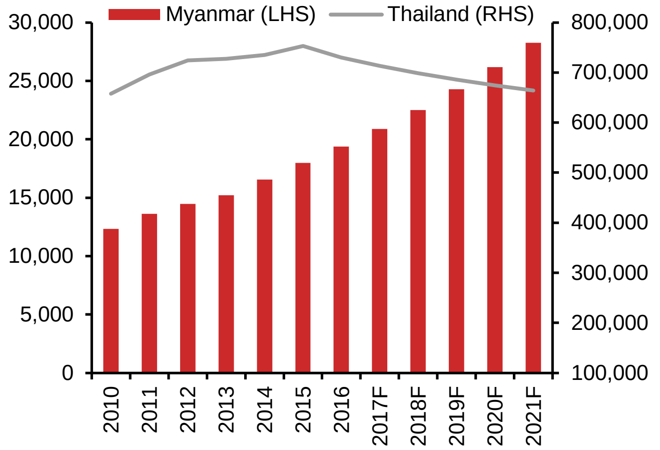
Grand Royal Group

THBEV acquired 75% of Grand Royal Group for THB25bn. Grand Royal Group should support the growth of THBEV's relatively stable spirits business, as its volume sales is around 10% of THBEV, according to management. Investment in GRW should turn out to be a good investment considering the more upbeat outlook of spirits market in Myanmar compared to Thailand.

- Grand Royal is the top whisky player in Myanmar, with 60% market share of approximately 100 million litre Myanmar whisky market. The company was founded in 1995 and currently produced 5 brands of spirits, mainly whisky.
- Myanmar's spirits market has an upbeat growth outlook supported by increasing personal wealth (7% GDP growth), currently low spirits consumptions (0.4 litres per capita versus Thailand's 10 litres per capita), and relatively young population.
- Spirits market size in Myanmar is around 20,000 million litres versus Thailand's 700,000 million litres. Euromonitor expects spirits market size to grow at 8% CAGR over the next five years, versus Thailand's gradual decline of 2% CAGR.

Fig. 94: Attractive spirits market in Myanmar

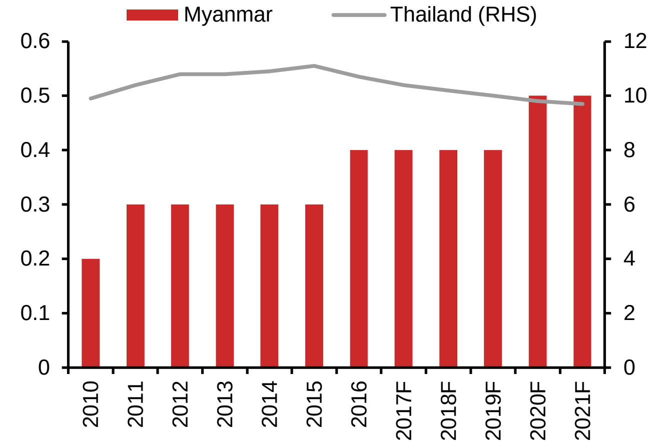
Market size ('000 litres)



Source: Euromonitor, Nomura research

Fig. 95: Still low spirits consumption

Spirits consumption per capita



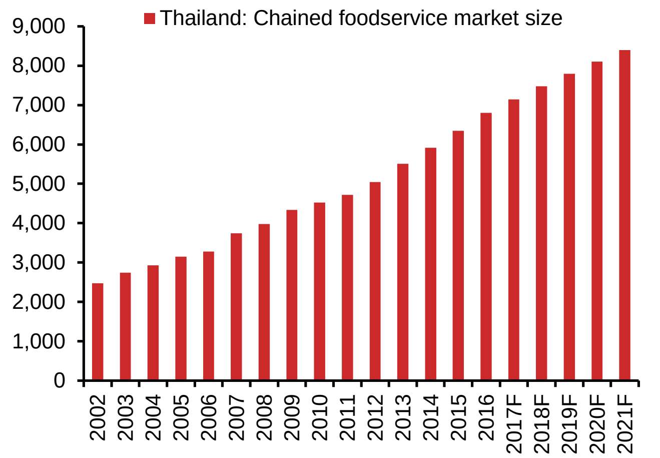
Source: Euromonitor, Nomura research

KFC

- Chained foodservice industry in Thailand has grown at 6% CAGR, and should continue to grow at 4% CAGR in the next five years, according to Euromonitor (Fig. 96-Fig. 97). We think the growth is possible considering gradual growth in personal wealth along with the national economic growth.
- Fig. 99 shows correlation of GDP per capita and spending on chained foodservice per capita. Thai consumer's spending on chained foodservice is still relatively low compared to the higher-income countries in Asia, such as Japan and South Korea.
- KFC has managed to maintain its market share of 7% in chained food service industry along with the continuous growing market size (Fig. 98).
- We expect THBEV to realise THB6.5bn in FY18F from the acquired 252 KFC stores and expects the acquired business to be earnings accretive. We think Yum!'s strategy to increase KFC outlets to 800 outlets (from currently around 600 stores) is possible considering the growing trend of chained foodservice.

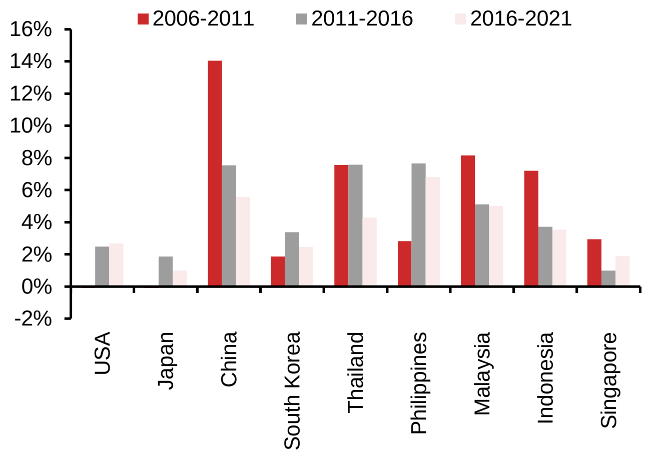
Fig. 96: Growing chained foodservice industry in Thailand

Market size (USDmn)



Source: Euromonitor, Nomura research

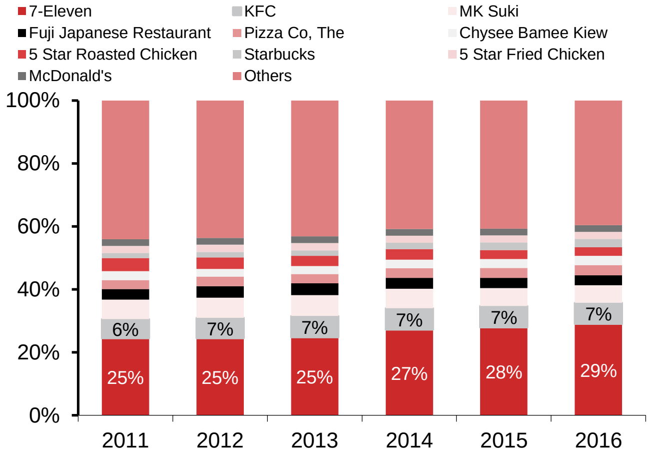
Fig. 97: Chained foodservice growth



Source: Euromonitor, Nomura research

Fig. 98: KCF's stable market share position in chained foodservice

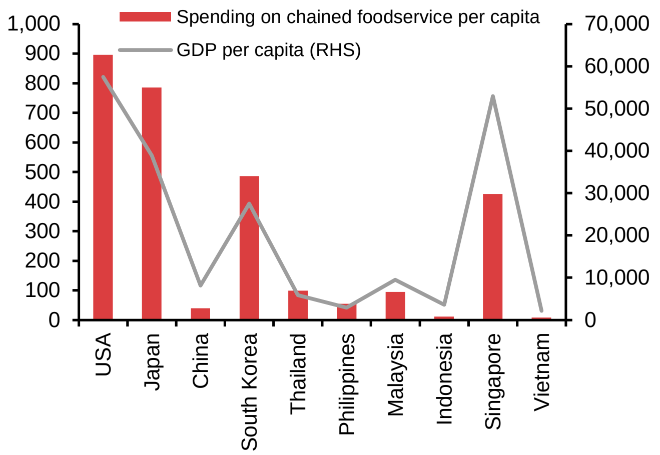
Thailand: Chained foodservice market share



Source: Euromonitor, Nomura research

Fig. 99: Correlation of GDP per capita and spending on chained foodservice per capita

USD



Source: Euromonitor, Nomura research

KFC acquisition, price paid is steep, but justified in our view

We incorporate our experience in covering Central Plaza Hotel (CENTEL TB, Neutral), which currently owns 229 KFC outlets, in our analysis and believe the investment is justifiable.

THBEV set to be Thailand's leading KFC franchisee

THBEV's acquisition of 252 KFC branches in Thailand from YUM! Brands (YUM US, Buy; covered by Mark Kalinowski, Instinet, LLC), first announced in August 2017, immediately made it KFC's largest Thailand franchisee (more on the significance of this later)

- THBEV paid a 'premium' valuation for the KFC branches in our view – with our estimate of a 12x EV/EBITDA valuation paid – an approximate 50% premium to the average 8x EV/EBITDA valuation paid for historical restaurant transactions.
  - At first glance, while the price paid by THBEV seems to be at an expensive valuation, we believe the purchase price is justified by the potential: 1) expansion opportunities; and 2) operational synergies.
- We make an assumption that, prior to the KFC sale to THBEV, YUM was running the restaurants relatively efficiently; therefore, we believe that significant EBITDA expansion from efficiency gains on THBEV's side will be limited over our forecast period. Instead, we look at: 1) operational synergies; and 2) expansion opportunities.
- Regarding synergies, THBEV's management has so far given little guidance on this. In our view, the most significant synergy would be to sell THBEV's 'Est' soft drinks and beverages within its KFC branches.
  - This would in theory be positive for both THBEV, in terms of higher sales, and also KFC, in terms of (presumably) cheaper cost of goods. However, there is no confirmation yet that THBEV will attempt to place its beverages at KFC, and is therefore not included in our current forecasts.
- As we cannot yet accurately forecast potential synergies at this stage, we look to outlet expansion opportunities for THBEV. What THBEV has so far guided is that Thailand should have 800 branches by the year 2020. This is not a new target – YUM has also been guiding this 2020 target since 2013.
- As there are currently around 600 KFC branches between the three operators (THBEV: 252, CENTEL: 229 and Restaurant Development Company Limited [RDCL]: 130), we expect around 65-70 branches per year in total (Fig. 100).
  - Of the 200 KFC branches likely to open by 2020, we expect THBEV will open the most branches at 20 per year, followed by CENTEL at 15 per year.

–For RDCL, we note its restaurant numbers have not increased since it acquired the 130 KFC branches in 2016. We estimate that it will open 10 branches per year until 2020.

Fig. 100: KFC expansion forecasts

	2017F	2017F	2019F	2020F
THBEV	252	272	292	312
CENTEL	233	249	263	277
RDCL	130	140	150	160
Total	**615**	**661**	**705**	**749**

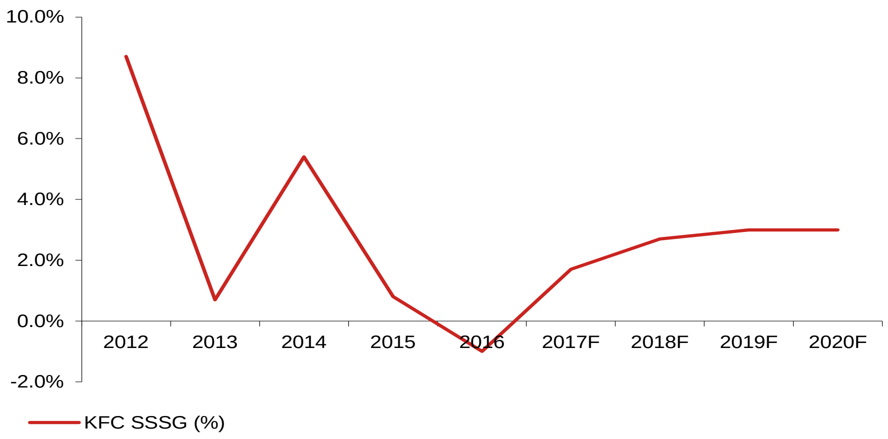
Source: Company data, Nomura estimates

- By 2020, we forecast that YUM and THBEV's 800 branch target is unlikely to be reached, with our 2020F estimate at 737 branches. However, we believe THBEV's 300 branches will give it a clear lead over CENTEL's 277 branches, which will likely give THBEV the most influence over the future performance and strategy of KFC in Thailand.
- We therefore expect that THBEV will be Thailand's #1 KFC franchisee in 2020, as its more aggressive expansion should allow YUM to come closer to achieving its expansion target. We believe that CENTEL doesn't have ambitions to become Thailand's #1 KFC operator, given its relatively slow (in our view) store expansion in the past, and the fact that it didn't win either of the previous two lots of KFC branch sales in Thailand.
- We believe THBEV's acquisition of KFC, coupled with its more aggressive branch expansion and Berli Jucker's (BJC TB, Neutral) acquisition of BIGC hypermarkets in January 2016 could become problematic for CENTEL in later years, via increased competition and less available expansion sites. This factor, coupled with CENTEL's valuation, was a key reason for our downgrade of CENTEL's rating to Neutral in August 2017 (for more details see: Acquisition of KFC restaurants by Thaibev).
  - –Almost half of CENTEL's KFCs are located within BIGC's hypermarkets, which are prime locations for high foot traffic. As BIGC hypermarkets are now part of the TCC group, we think that, in the near term, new KFC branches within BIGCs are more likely to be awarded to THBEV rather than CENTEL.
  - –Over the longer term, as CENTEL's rental and franchisee contracts with the BIGC branches are up for renewal, there will likely be competition from THBEV for those sites, we think.
  - –CENTEL may therefore increasingly struggle to find premium locations for its future KFC outlets, in our view.

SSS and margin outlook

- We generally have a positive growth outlook for the well-established KFC brand in Thailand, given the population's general preference for chicken consumption, relative to pork or beef.
- Apart from store expansion, we estimate around 3% SSS for KFC in FY18-19F, in line with our expectation for CENTEL (Fig. 101).
- As we have seen in previous years, the SSS outlook for restauranteurs in Thailand remains subdued, mainly due to lacklustre economic growth, but more importantly (in our view) intense competition., which we think is likely to persist.
-

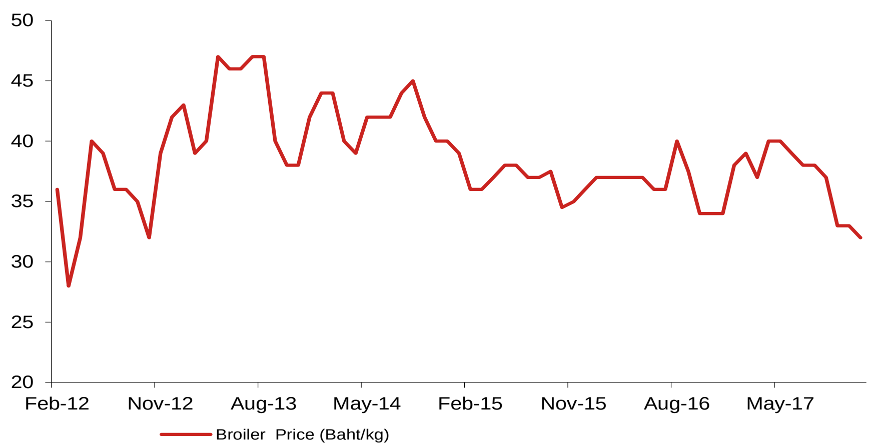
Fig. 101: KFC – SSS estimates (CENTEL)



Source: Company data, Nomura estimates

- We also expect SSS to be capped by structurally low chicken prices (Fig. 102); however, low chicken prices should be a net positive for CENTEL, in terms of higher EBITDA margins, which we expect will expand 100bps in 2019F, followed by a further 100bps in 2020F,
- As chicken prices in December 2017 fell below Charoen Pokphand Foods' (CPF TB, Buy) break-even price, while domestic prices have fallen even further in January 2018, we expect this to be positive for KFC's gross margins in 1H17.

Fig. 102: Domestic chicken prices



Source: Company data, Nomura research

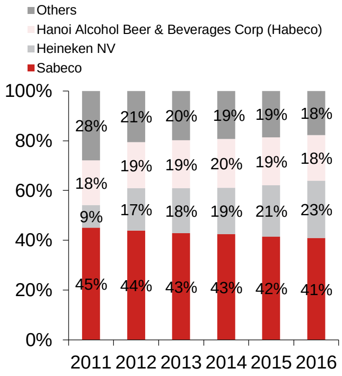
- Beyond 1H17, we expect chicken prices to remain structurally low in Thailand, given the excess production capacity, coupled with their intention of gaining market share in both domestic and export markets.

Sabeco

THBEV's most recent acquisition was the acquisition of 54% stake in Saigon Alcohol Beverage and Beer Corporation (Sabeco: SAB VN). The acquisition was pursued by THBEV's 49%-owned joint venture company 'Vietnamese Beverage'. Although we expect the acquisition will be earnings dilutive in the first few years, we think investment in a high-growth beer market such as Vietnam will benefit THBEV's growth outlook in the long term.

- Sabeco is the No.1 beer player in Vietnam with 41% market share in the 3.5 trillion litre beer market size (75% larger than Thailand). We note that the beer market is promising in Vietnam, due to the expanding middle-class population and youthful population. Euromonitor expects the beer market size to grow at 5.5% CAGR for the next five years versus Thailand's 3% CAGR (Fig. 105).
- Sabeco's revenue trend has been strong with 10% CAGR in the past three years, although the market share has gradually declined from 43% to 41% due to increasing popularity of the international brand Heineken. Notwithstanding slower market share trend, we expect Sabeco's growing revenue trend to continue thanks to the supportive demographic and economic factors.
- Sabeco is a well-run company with decent profitability trend. It has the same EBITDA margin as THBEV at 16% in FY17 (12 month ending September), which has improved from 14% three years ago.

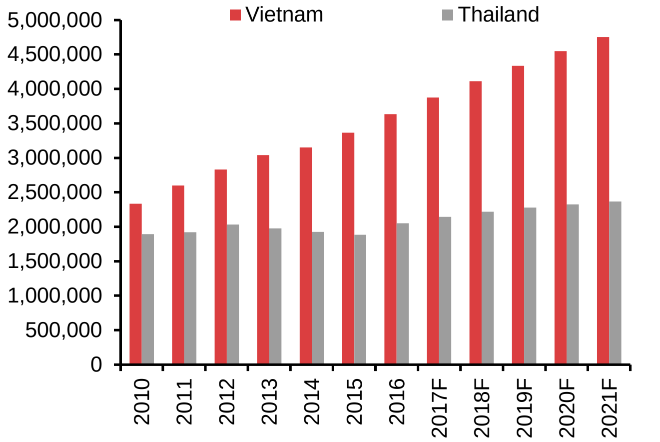
Fig. 103: Sabeco is no.1 beer player



Source: Euromonitor, Nomura research

Fig. 104: More upbeat beer market in Vietnam

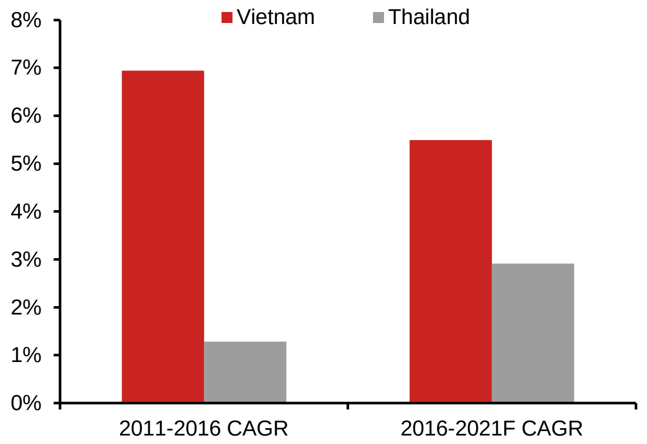
Beer market size ('000 litres)



Source: Euromonitor, Nomura research

Fig. 105: More upbeat beer market in Vietnam

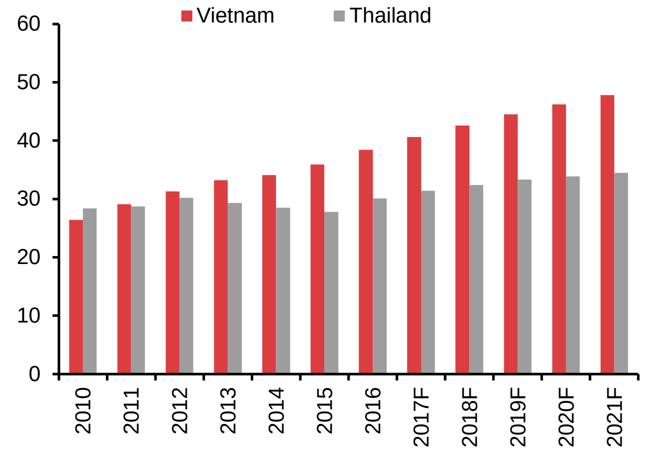
Beer market growth



Source: Euromonitor, Nomura research

Fig. 106: Vietnam's beer consumption is growing

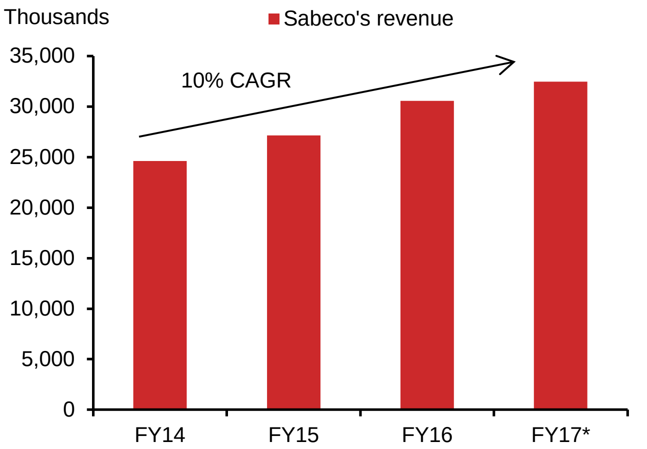
Beer consumption per capita (litre)



Source: Euromonitor, Nomura research

Fig. 107: Sabeco's revenue

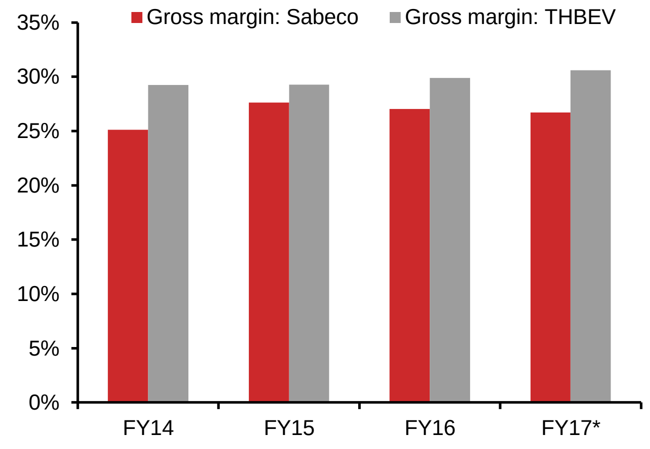
VNDmn



Source: Euromonitor, Nomura research. * 12 months ending September.

Fig. 108: Sabeco's decent profitability

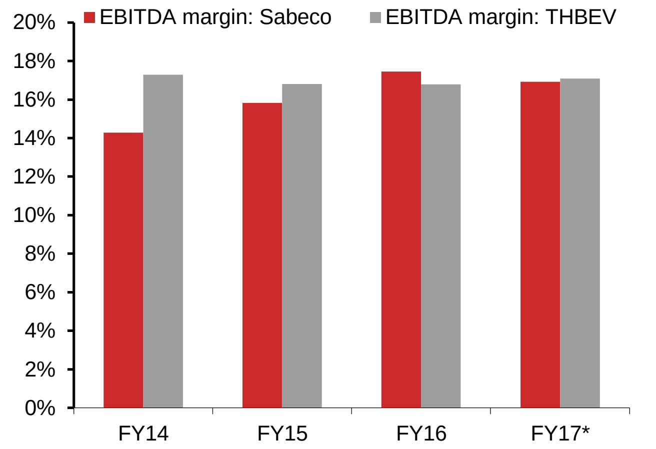
Gross margin



Source: Bloomberg, company data, Nomura research. *12 months ending September.

Fig. 109: Sabeco's decent profitability

EBITDA margin



Source: Bloomberg, company data, Nomura research. *12 months ending September.

Advantage of being part of TCC Group

Marcin Spiewak, our Thai consumer analyst who covers Big C Supercenter (BIGC TB), which is part of TCC Group, observes that being part of the group is advantageous for THBEV.

In addition to THBEV's relatively aggressive expansion of its food and beverage business across ASEAN (mostly via M&A) we note that THBEV's parent company, and its subsidiaries (Fig. 110) have also been making frequent acquisitions in the consumer space, particularly in the downstream segments in recent years.

Fig. 110: TCC group structure

Source: Company data, Nomura research

Recent notable transactions for TCC group companies that may have a direct effect on THBEV's operations include:

- **TCC's acquisition of F&N (2013)** has resulted in increased distribution for THBEV's products, while F&N's management consulting efforts were part of the reason for Chang Beer's significant market share gains for THBEV during 2016. At the same time, F&N increased its purchasing of aluminium cans from BJC, while importing more Oishi drink products.
- **TCC's acquisition of Metro Vietnam (2015) –** could offer additional sales channels for THBEV's products in Vietnam.

- **Fraser Property Holdings acquisition of a 40% stake in TICON (2016)** could facilitate warehousing and logistics operations for THBEV, making it more cost-effective.
- **BJC's acquisition of BIGC hypermarkets (2016)** – BJC plans to expand BIGC hypermarkets more aggressively than the previous shareholder, which will provide additional sales channels for THBEV's products. Furthermore, in-store promotions are increasingly focused on THBEV (and other TCC group) products.

In the longer term, we expect more M&A announcements from THBEV and the TCC group, and believe this expanding group structure will be beneficial for THBEV in terms of: 1) additional sales potential; and 2) less risk of being over-charged by third parties for upstream services. Although an increased amount of inter-company transactions gives rise to concerns of non-arms-length pricing, we think this risk is largely manageable.

Improving profitability of beer and NAB

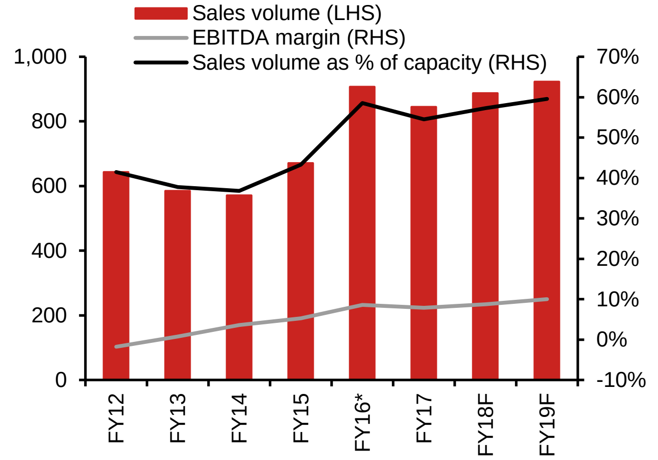
Improving profitability of existing businesses should be another earnings growth driver, in addition to acquisition of new business. While the spirits business is THBEV's strongest profitability unit and has little room for further improvement, there is room for margin improvement for beer and non-alcohol beverage (NAB) units. Beer business profitability should continue to improve with rising market share amid soft beer market growth. NAB business has seen lower level of net loss due to soft revenue growth and operating cost control attributable to synergy with the alcohol facility, which we still see room for further improvement.

Beer

- THBEV's market share gain should continue, which should lead to stronger profitability of the beer business. We believe rising economies of scale on production facility (Fig. 111) has contributed to strong EBITDA growth in the past three years (Fig. 112).
- After THBEV's overhaul in its beer product offering, i.e. change into the green bottle and product line restructuring in 2015, market share continued to grow in 2016.
- We note that, amid the stable and manageable raw material prices, beer gross margin has continued to improve with lower costs in production, such as packaging and labour costs per litre. Such unit costs rose slightly in FY17 due to the decline in volume sales, but should be back on the improving trend with improving sales volume in FY18F onwards (Fig. 114).
- Packaging cost per litre of beer sales can be lowered with higher return rate of beer bottles as sales volume grows. We note that packaging costs came down significantly in FY16 after the launch of the green bottle in FY15.

Fig. 111: Upbeat beer sales growth increases profitability

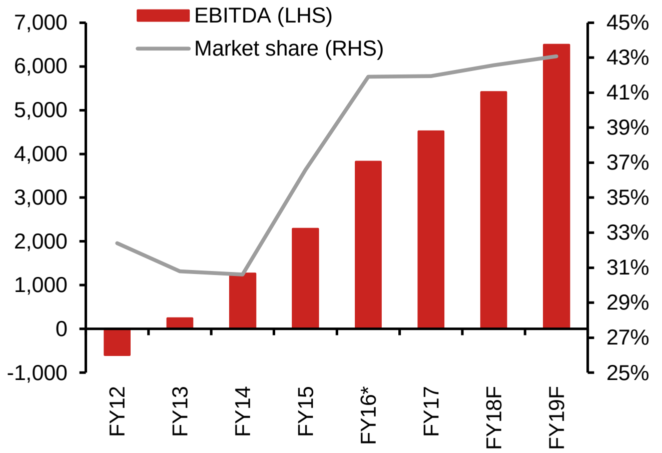
Sales volume (mn litres)



Source: Company data, Nomura estimates

Fig. 112: Upbeat beer sales growth increases profitability

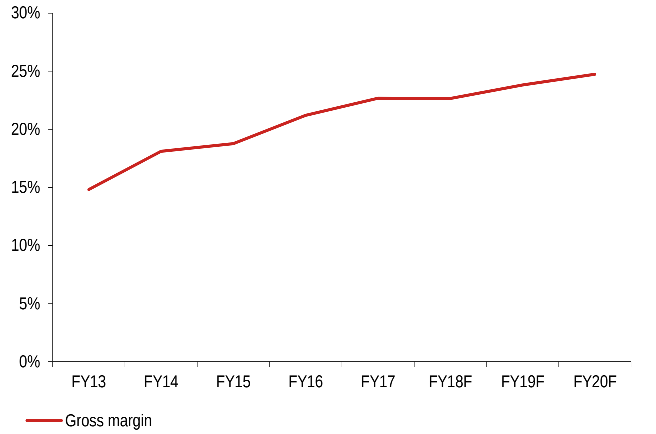
EBITDA (THB mn)



Source: Company data, Euromonitor, Nomura estimates

Fig. 113: Beer gross margin to increase with economies of scale

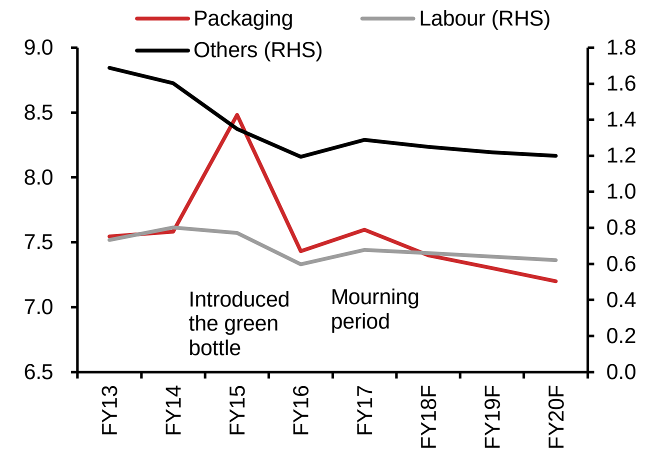
Beer gross margin



Source: Company data, Nomura estimates

Fig. 114: Driven by lower packaging cost per unit

Cost per litres (THB)



Source: Company data, Nomura estimates

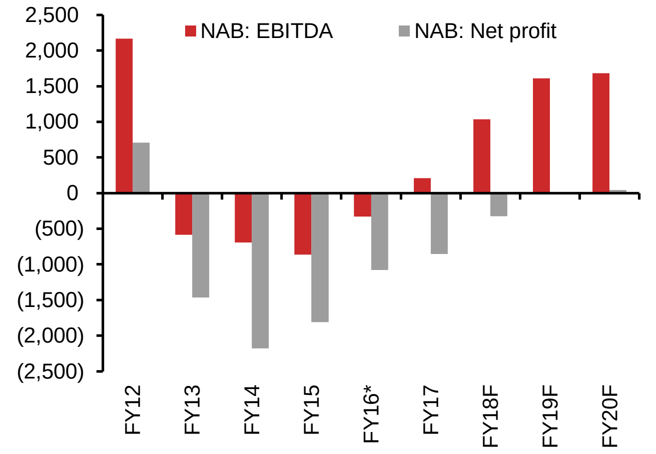
Non-alcohol beverage

THBEV's non-alcohol beverage business is on an improving trend, despite being loss-making (Fig. 115-Fig. 116). We note that earnings improvement in NAB in the past few years was driven by operating cost control and growing sales of bottled water under the brand 'Crystal', which THBEV obtained from acquisition of Sermsuk in 2011. We expect the improving trend in EBITDA margin to continue for the following reasons:

- Management plans to increase the bottled water production in the unused beer production facilities that are closer to THBEV's merchandisers. This should lower transportation cost in transporting the products to the customers, which should lead to lower SG&A per litre of NAB products.
- NAB's SG&A per litre has also declined as competition in the green tea market has subsided, in our view. We note that the RTD tea market has become more consolidated as market share of the top 2 players, Oishi and Ichitan, increased from 68% in 2011 to 85% in 2016. Competition between Oishi and Ichitan has also eased recently, given Ichitan's less intensity in marketing activity, together with Oishi's stronger brand perception, in our view. Note that Oishi market share has increased impressively since 2015, while SG&A per litre in THBEV's NAB unit has declined (Fig. 119).

Fig. 115: Improving NAB profitability

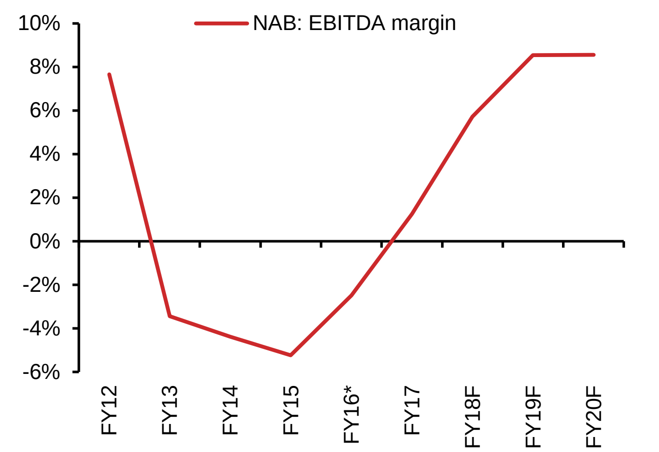
THBEV: NAB business



Source: Company data, Nomura estimates

Fig. 116: Improving NAB profitability

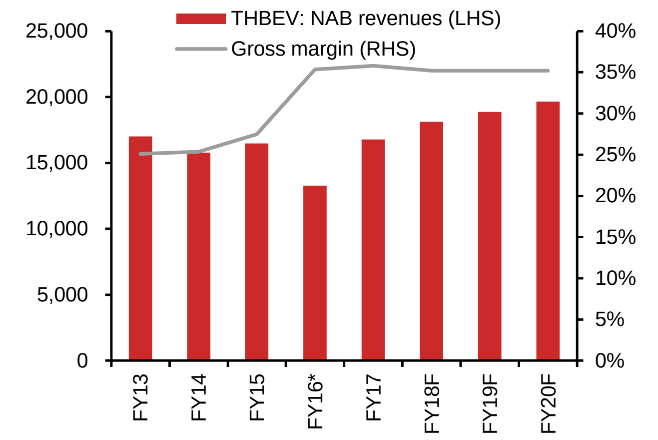
NAB: EBITDA margin



Source: Company data, Nomura estimates

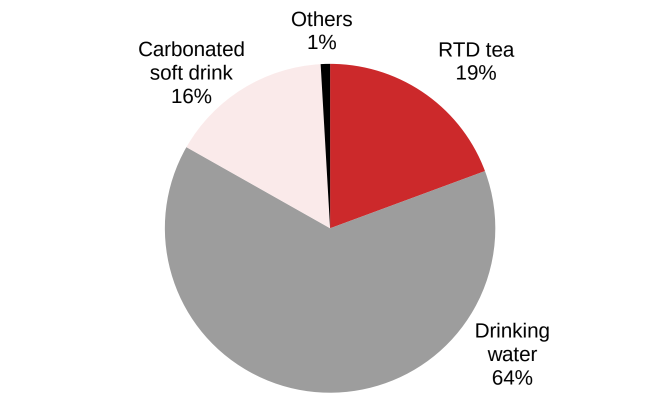
Fig. 117: NAB business

THB mn



Source: Company data, Nomura estimates. * 9 months ending Sep 2016

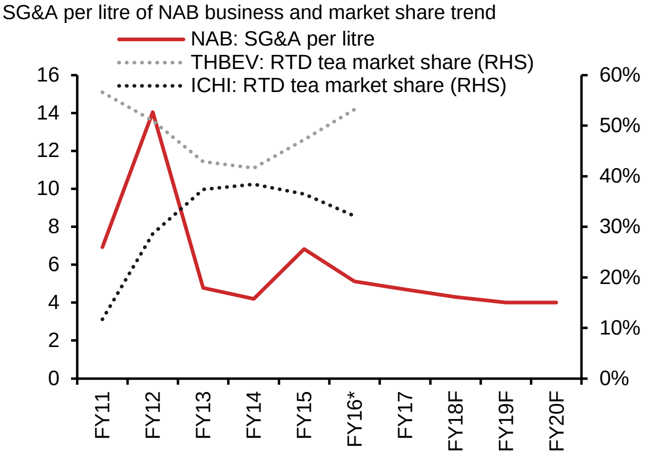
Fig. 118: NAB volume sales breakdown



Source: Company data, Nomura estimates

Fig. 119: SG&A should decrease as competition has eased

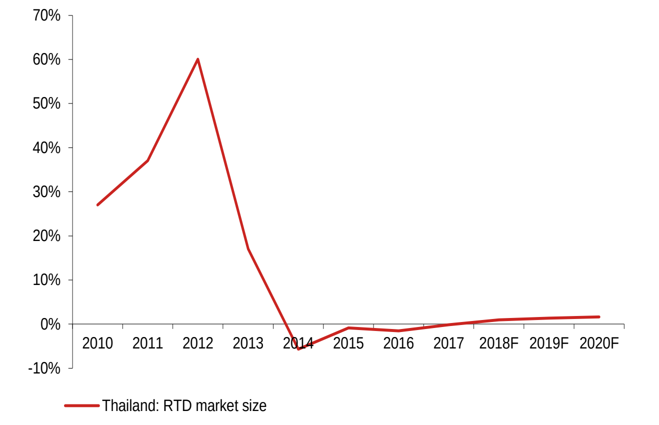
SG&A per litre of NAB business and market share trend



Source: Company data, , Euromonitor, Nomura estimates. * 9 months ending Sep 2016

Fig. 120: Despite stagnant RTD tea growth

RTD tea market growth



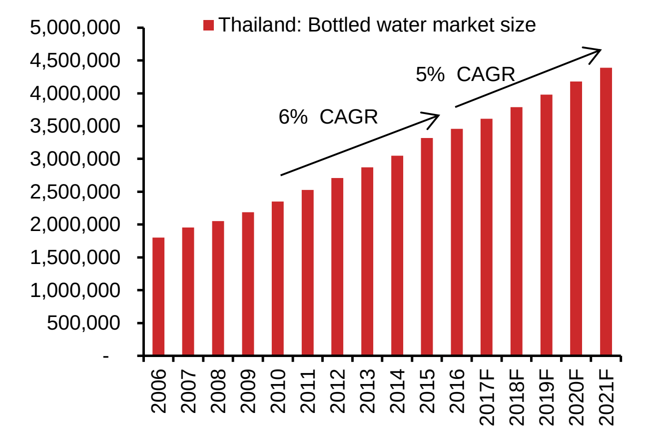
Source: Euromonitor, Nomura research

Bottled water

Bottled water market in Thailand looks relatively promising compared to other beverages, which should support the growth of THBEV's NAB revenues, despite the less upbeat outlook in RTD tea and carbonates markets. Euromonitor expects bottled water market size to grow at 5% CAGR in the next five years (Fig. 121). Also, we note that THBEV has managed to maintain its no.1 market share in the industry at 19%.

Fig. 121: Relatively strong growth in bottled water market

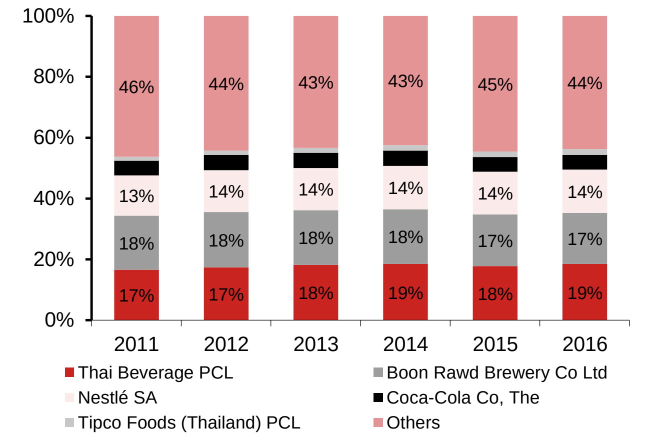
Litres



Source: Euromonitor, Nomura research

Fig. 122: No.1 in bottled water market

Market share



Source: Euromonitor, Nomura research

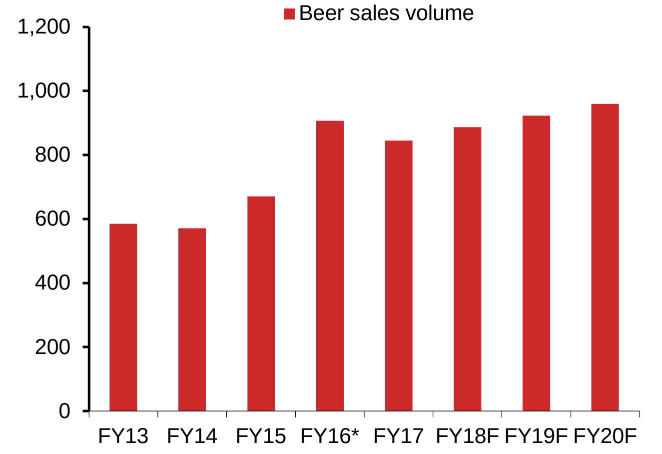
Upbeat on beer outlook

We expect to see recovery in beer sales after the end of the one-year national mourning period in Thailand (October 2016 to October 2017). THBEV's beer sales volume slipped 7% y-y in FY17. The negative effect on the volume sales was stronger on beer than spirits (+3% y-y), as beer was consumed on on-premise channels, such as in restaurants and bars, while spirits is mainly home consumption product for THBEV.

Another driver for improving beer sales is FIFA World Cup competition in June-July 2018. We note that major football events can boost beer consumptions as Thai football fans have a culture of drinking beer while watching the football matches. The major football events like FIFA World Cup and UEFA European Championship (EURO) have track record of driving the industry's and THBEV's beer sales (Fig. 125 - Fig. 126). We think this year's World Cup is more likely to be viewed by Thai football enthusiasts, given less time difference between Thailand and Russia (Moscow), the event host country.

Fig. 123: Upbeat beer sales recovery

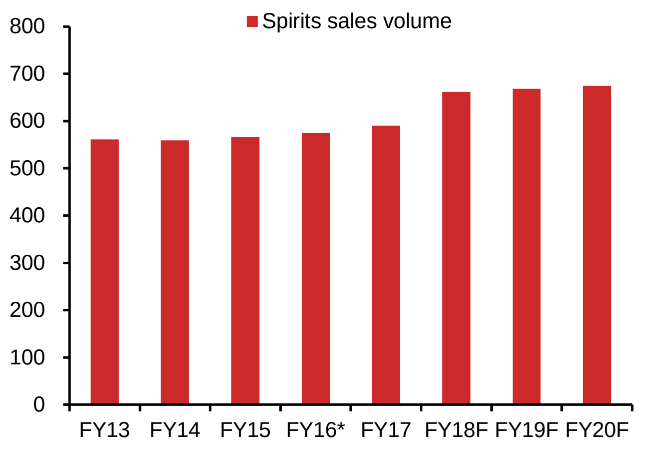
THBEV: Beer sales volume



Source: Company data, Nomura estimates
* 12 months ending September 2016

Fig. 124: Relatively stable spirits sales

THBEV: Spirits sales volume



Source: Company data, Nomura estimates

Fig. 125: THBEV should benefit from World Cup 2018

UEFA European Championship

Time	Host Country	Time difference with Thailand	Beer sales growth for the year Industry	THBEV
June –July 2008	Austria & Switzerland	6 hours	-7%	-19%
June –July 2012	Poland & Ukraine	6 hours	6%	5%
June –July 2016	France	6 hours	9%	54%

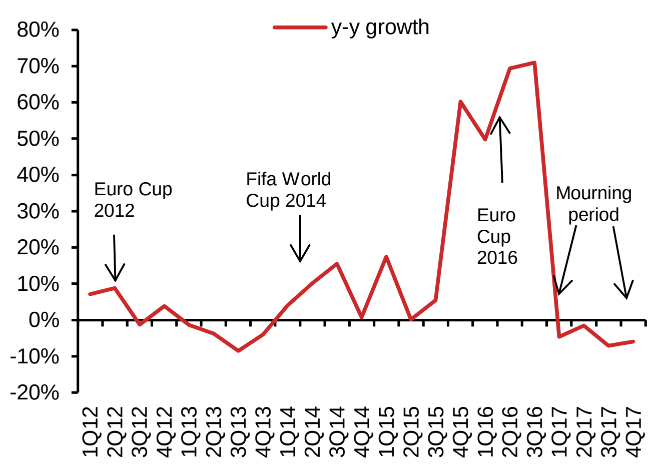
FIFA WORLD CUP

Time	Host Country	Time difference with Thailand	Beer sales growth for the year Industry	THBEV
June –July 2006	Berlin, Germany	6 hours	12%	12%
June –July 2010	Johannesburg, South Africa	5 hours	3%	4%
June –July 2014	Rio de Janeiro, Brazil	9 hours	-2%	-2%
June –July 2018	Moscow, Russia	4 hours	Upbeat growth outlook	

Source: Company data, Nomura research

Fig. 126: High correlation of beer sales and major football events

THBEV's beer sales growth



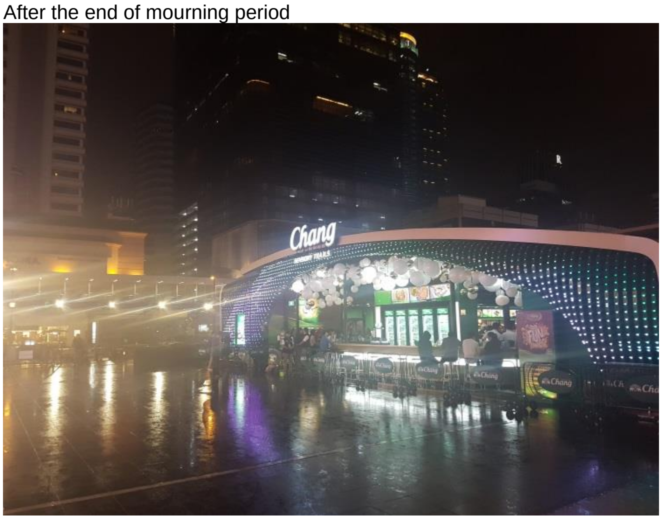
Source: Company data, Nomura research

Fig. 127: Long queues at beer gardens

Source: Nomura research

Fig. 128: Return of beer gardens

After the end of mourning period



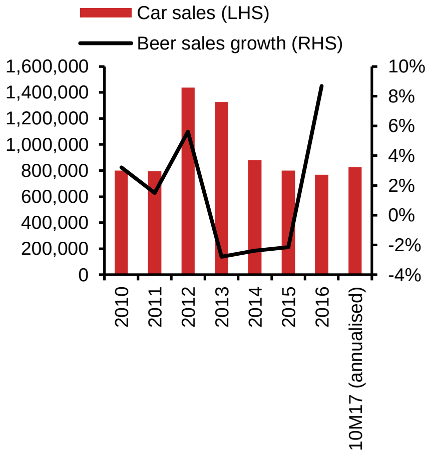
Source: Nomura research

End of financial burden from first-car scheme boosting beer consumption

We expect the ending of the first-car scheme, mainly in 2017-18, should boost beer consumption. The first-car scheme was a populist policy that commenced in late 2011, offering an excise tax rebate to each buyer of a car priced less than THB1.5mn. The scheme resulted in a spike in car sales in 2012-13. An immediate increase in the monthly financial burden from car loans pressured consumer spending. Beer sales volume was also sluggish from 2013 to 2015 before rebounding in 2016 (prior to the mourning period), which was the year we believe most car buyers became free of car-loan debt (car loan terms in Thailand are mostly for 4-5 years). A survey by Siam Commercial Bank (SCB TB) shows that 40% of car buyers would spend on short-term gratification, i.e., traveling and daily consumption, which we think should have positive implications for beer consumption.

Fig. 129: First-car scheme pressured beer sales

Number of car sales vs beer sales growth



Source: FTI, Euromonitor, Nomura research

Fig. 130: Most first-car loans should end in 2017-18

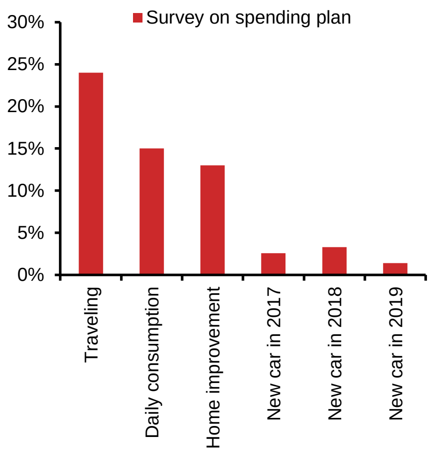
Detail of first-car scheme

Year of car purchase	Year of end of car loan payment*	No. of cars	% of total
2011	2015-2016	66,356	6%
2012	2016-2017	727,989	68%
2013	2017-2018	278,742	26%
2014	2018-2019	910	0%
2015	2019-2020	24	0%
		1,074,021	100%

Source: Excise department, Nomura research

Fig. 131: Former car loaners likely to spend on short-term gratification

What would you spend on after your car loan ended?



Source: SCB, Nomura research

Earnings outlook

We expect THBEV to post 12% earnings growth in FY18F, mainly driven by recovery of beer sales post the mourning period and improving profitability of non-alcohol business.

Spirits: We expect 14% growth in EBITDA from the spirits business. We forecast spirits volume sales growth of 12%, mainly driven by incremental sales from the recently acquired Grand Royal Group. EBITDA margin should remain high at 25%, in our view.

Beer: We expect 20% EBITDA growth in FY18F from the beer business. Besides recovering beer sales volume along with improving sentiment and the festive season, THBEV is doing well in gaining more market share, which should result high better economies of scale in the beer operation.

NAB: We expect strong growth in NAB's EBITDA from THB209mn to more than THB1bn. The major driver is the company's attempt to reduce operating costs by optimising the use of its production facilities. We also expect growing sales of bottled water to largely offset the downbeat outlook for the green tea business.

Food: We expect strong growth of 99% in sales due to the acquisition of 252 KFC stores in FY18F, and 14% growth in EBITDA. We expect 20 incremental KFC stores over FY19-20F, along with Yum! International (Thailand)'s store expansion policy, and 3% SSSG per year.

The Group: We expect 12% earnings growth for THBEV in FY18F, driven by strong growth in revenues and equity income. We expect a surge in interest expenses to THB3.7bn for debt financing of the three major acquisitions in the beginning of FY18F.

Fig. 132: Key assumptions

THBmn

	FY15	FY16*	FY17	FY18F	FY19F	FY20F
Spirits						
Volume sales	566	417	591	661	668	675
y-y	*1%*	*-26%*	*42%*	*12%*	*1%*	*1%*
Revenues	105,911	76,806	109,237	124,330	126,236	128,773
y-y	*1%*	*-27%*	*42%*	*14%*	*2%*	*2%*
Gross profit	34,898	25,212	36,028	39,876	40,893	42,487
margin	*33.0%*	*32.8%*	*33.0%*	*32.1%*	*32.4%*	*33.0%*
EBITDA	26,973	19,300	27,241	31,028	31,831	33,219
margin	*25.5%*	*25.1%*	*24.9%*	*25.0%*	*25.2%*	*25.8%*
Beer						
Volume sales	671	669	845	887	923	960
y-y	*18%*	*0%*	*26%*	*5%*	*4%*	*4%*
Revenues	43,112	44,389	57,316	61,987	65,111	68,393
y-y	*23%*	*3%*	*29%*	*8%*	*5%*	*5%*
Gross profit	8,088	9,417	13,000	14,046	15,508	16,929
margin	*18.8%*	*21.2%*	*22.7%*	*22.7%*	*23.8%*	*24.8%*
EBITDA	2,289	3,819	4,512	5,412	6,497	7,525
margin	*5.3%*	*8.6%*	*7.9%*	*8.7%*	*10.0%*	*11.0%*
NAB						
Volume sales	1,170	1,271	1,644	1,690	1,743	1,798
y-y	*-23%*	*9%*	*29%*	*3%*	*3%*	*3%*
Revenues	16,488	13,290	16,777	18,117	18,864	19,655
y-y	*5%*	*-19%*	*26%*	*8%*	*4%*	*4%*
Gross profit	4,529	4,700	6,008	6,377	6,640	6,919
margin	*27.5%*	*35.4%*	*35.8%*	*35.2%*	*35.2%*	*35.2%*
EBITDA	(863)	(330)	209	1,037	1,612	1,683
margin	*-5.2%*	*-2.5%*	*1.2%*	*5.7%*	*8.5%*	*8.6%*
Food						
Revenues	6,578	4,993	6,742	13,429	14,145	14,358
y-y	*0%*	*-24%*	*35%*	*99%*	*5%*	*2%*
Gross profit	2,632	2,098	3,037	6,186	6,515	6,613
margin	*40.0%*	*42.0%*	*45.0%*	*46.1%*	*46.1%*	*46.1%*
EBITDA	591	472	643	1,884	2,075	2,185
margin	*9.0%*	*9.5%*	*9.5%*	*14.0%*	*14.7%*	*15.2%*
Group						
Revenues	172,049	139,153	189,997	217,863	224,357	231,179
y-y	*6%*	*-19%*	*37%*	*15%*	*3%*	*3%*
EBITDA	28,940	23,368	32,484	39,311	41,883	44,480
margin	*16.8%*	*16.8%*	*17.1%*	*18.0%*	*18.7%*	*19.2%*
Interest expenses	1,363	813	981	3,700	3,700	3,700
y-y	*-12%*	*-40%*	*21%*	*277%*	*0%*	*0%*
Net profit	22,615	18,920	26,013	29,196	31,663	33,525
y-y	*4%*	*-16%*	*37%*	*12%*	*8%*	*6%*

Source: Company data, Nomura estimates

* 9 months ending September 2016.

Valuation

We use sum-of-the-parts (SOTP) method to value THBEV and derive a fair value of SGD1.13. We apply EV/EBITDA valuation for spirits, beer and food business, while using EV/sales for NAB. We apply 20-25% premium for average EV/EBITDA for spirits and beer due to the relatively strong position in the market. As for the associated companies, we derive the fair value by using 6-month average market value.

For Sabeco, we currently assume Sabeco to be accounted for as an associated company, as THBEV holds 49% of Vietnam Beverage that bought 54% stake in Sabeco.

- We think the spirits business deserve 25% premium on regional average EV/EBITDA, due to THBEV's strong leadership position in the spirits market in Thailand (>70% market share), the well-run business with high profitability, and the growth in the business recently brought about by acquisition of the No.1 whisky player in Myanmar.
- We believe 20% premium for the beer business is justifiable, given the rising trend of market share along with the decent growth in overall beer consumption in Thailand. There is still substantial room for THBEV to further improve the beer production economies of scale.

Fig. 133: SOTP valuation

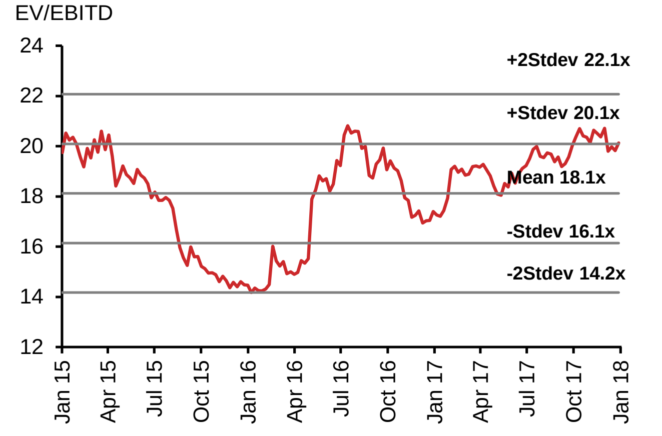
Core business	Methodology	Avg multiple	Premium/discount	Derived multiple	1x	Fair value
Spirits	EV/EBITDA	15.1	25%	18.9	31,028	585,654
Beer	EV/EBITDA	13.1	20%	15.7	5,412	85,073
Non-alcohol	EV/Sales	3.6	0%	3.6	1,037	3,732
Food	EV/EBITDA	15.2	0%	15.2	1,884	28,636
						703,095
Associated companies		**Market value**	**Stake**			
FCL	6-month average	88,456	28%			24,768
FNN	6-month average	143,078	28%			40,062
SAB	6-month average	247,900	54%			133,866
Total entertprise value						901,790
Net debt						(218,687)
Minority						(3,880)
Equity value						679,223
No. of shares						25,110
Fair value (THB)						27.0
Fair value (SGD)						**1.13**
Current price						0.94
Upside						20%
Implied P/E						23.3

Source: Nomura estimates

Fig. 134: THBEV: 3-year forward P/E band

Source: Bloomberg, Nomura estimates

Fig. 135: THBEV: 3-year forward EV/EBITDA band



Source: Bloomberg, Nomura estimates

Downside risks

Downside risks to our forecasts include:

- **Regulation risk:** Alcoholic beverages tend to be subject to stricter regulation than other products. Regulatory changes that could affect THBEV's earnings include additional tax levy and any limitation put on end-consumer purchase.
- **Social unrest in Thailand:** Any social unrest that could put pressure on Thai people's sentiment or lead to disruption of festive events and operation of on-premise channels, such as restaurants, pubs, bars etc., should put pressure on alcohol consumption, especially beer.
- **Surge in raw material prices:** Major raw materials for THBEV's beverage production are domestic and overseas agricultural products, namely, rice, malt, hops, and molasses. We note that the company has preventive measures to tackle this risk, including advance purchase price fix, diversified supplier pool and close communication as well as coordination with suppliers.

Balance sheet analysis

THBEV's financial position should look weaker, in our view, due to a surge in debt for major acquisitions in the beginning of FY18F. We expect net D/E to be slightly above 1.5x, as we estimate THBEV needs to raise debt amounting to THB221bn, increasing by THB180bn from THB41bn at the end of FY17. Although this looks higher than the company's target net D/E of 1.5x, management has explained that the target could be exceeded if it believes gearing could be brought down significantly within the next two years.

We believe the leverage level will slow down significantly from FY19F onwards, due to the well-run acquired companies with promising sales growth outlooks. We expect THBEV to see a THB12bn reduction in total debt while still managing to deliver a desirable dividend payment in FY19F. We expect net gearing to decline from 1.5x in FY18F to 1.1x in FY20F.

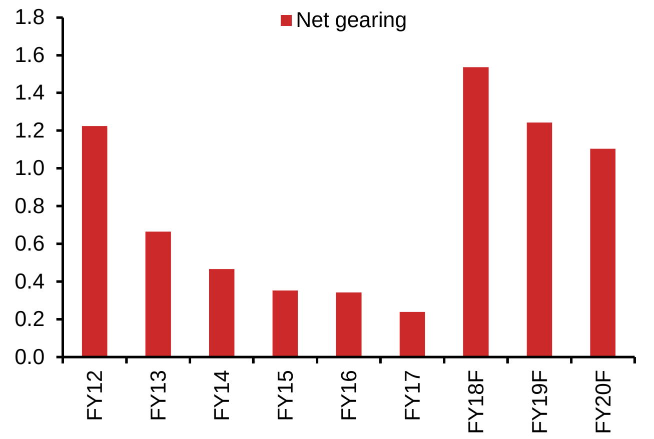
We note a good track record of leverage deceleration in its past major acquisitions. The company's leverage level also surged in FY12 due to the sizeable acquisition of F&N. Due to F&N's strong business and synergies with THBEV's existing business, earnings were impressive after the acquisition and net gearing continued to decline over the following five years.

Cash flow analysis

THBEV's cash flows have been resilient, with strong cash flow from operation exceeding capex in the past five years. We think FY18F should be the only year in which capex is greater than operation cash flow, due to the sizeable acquisitions to fulfil the company's 'Vision 2020' roadmap.

Fig. 136: Debt level should decline significantly in FY19-20F

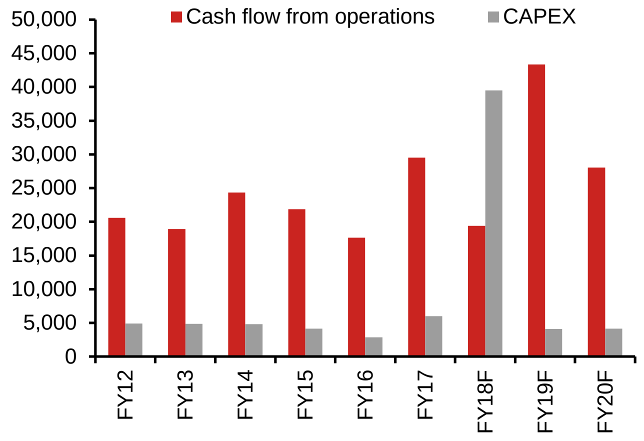
THBEV: Net gearing



Source: Company data, Nomura estimates

Fig. 137: Strong cash flow track record

THBEV: Operational cash flow versus capex



Source: Company data, Nomura estimates

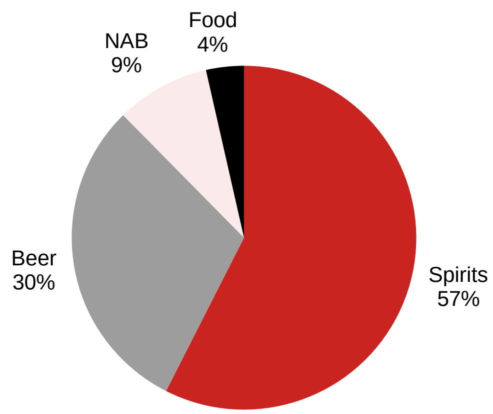
Company overview

Thai Beverage (THBEV) has four business units – spirits, beer, non-alcohol beverage and food. Spirits is the most profitable business for THBEV as it has the highest revenue contribution and the highest margin contribution in 2017. Beer is the second biggest revenue contributor with a net margin of 5.5% in 2017. Non-alcoholic beverages (NAB) has the next biggest contribution in terms of revenue but has the lowest margin of -5.1%. Lastly, food has the lowest revenue contribution but has a better margin than NAB.

NAB has the lowest margin owing to the high COGS and SG&A expenses; however, both have decreased in 2017 as compared to 2016, indicating that the margins will improve in the years to come. The growing investments on improving operational efficiency should help decrease the SG&A expenses further and improve the overall sales margin in the future.

Fig. 138: Revenue contribution

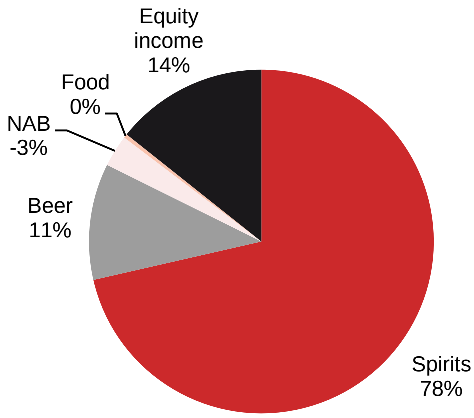
FY17



Source: Company data, Nomura research

Fig. 139: Earnings contribution

FY17



Source: Company data, Nomura research

Spirits: Cash cow business

Highest market share in Thailand

THBEV has experienced a strong gain in total volume share within spirits, establishing itself as a market leader, reaching a total of 79.4% in 2016. It focused on expanding its high-end brands to high-end restaurants and hotels in 2016. Rising willingness to consume premium spirits from middle- to high-income consumers caused the company to shift focus and increase revenue through this opportunity. Meanwhile, the cheap brands led by Ruangkhao white spirits remains the major revenue contributor in Thailand.

High consumption per capita

Thailand is one of the highest alcohol consuming countries within ASEAN. According to the latest alcohol consumption data collected by WHO, Thailand is ranked 1st among ASEAN countries in alcohol consumption followed by Philippines and Laos. According to data, Thailand's consumption per capita has had almost linear growth over the past 30 years. The Current Situation and Effect of Alcohol Consumption in Thailand 2013 report conducted by the Center for Alcohol Studies (CAS) has shown that 31.5% of Thai people aged 15 years and over, or about 17 million drinkers, consume alcohol regularly. In 2016, alcoholic drinks recorded a positive growth owing to increase in disposable incomes and higher education causing an increase in demand of premium alcohol. Demand for premium brand is perceived to increase an individual's status and level of sophistication, thereby driving the unit price of premium brands higher. According to Euromonitor, continued urbanisation and increase in consumer confidence will result in higher disposable incomes being allocated to higher quality alcohol.

Exposure to all price segment enables the company to maintain No.1 market share
The pricing model of the group allows it to capture consumers of diverse backgrounds. For example, its white spirits are marketed as an economic drink and consumed predominantly by farmers, labourers and others who have low income. Its brown spirits are aimed at consumers who have higher disposable incomes to spare on high quality spirits which are distributed through liquor stores, bars, restaurants and other areas of entertainment. This allows the company to establish itself as a market leader within spirits.

The brand with the biggest market share within the spirit segment is Ruang Khao with a market share of 48.9% in 2016. The following other brands include Hong Thong and Blend 285 with a market share of 10.2% and 1a.1% respectively in 2016. Other popular brands include Pai Thong (2.7%), Sang Som (2.4%), Mekhong (2%), Mungkorn Thong (1.3%), Siang Chun (1.2%), Crown 99 and Singha. It also owns one distillery in China and five Scotch facilities in Scotland.

Fig. 140: Spirits portfolio that captures all segments
THBEV: Spirits portfolio

Category	Brand name	Outlet type	Pack Size	Pack Price (THB)	Retail Price (THB)	Retail Price (USD)	Retail Price per litre (THB)
Mixed Spirits	Blend 285	Hypermarket	700	263	376	10.65	0.54
Mixed Spirits	Blend 285 Signature Blended Spirit	Hypermarket	700	298	426	12.06	0.61
Mixed Spirits	Hong Thong	Hypermarket	350	130	371	10.52	1.06
Mixed Spirits	Hong Thong	Hypermarket	350	137	391	11.09	1.12
Mixed Spirits	Hong Thong	Hypermarket	700	240	343	9.71	0.49
Mixed Spirits	Hong Thong	Hypermarket	700	248	354	10.04	0.51
Mixed Spirits	Mekhong	Hypermarket	350	208	594	16.84	1.70
Mixed Spirits	Mekhong	Hypermarket	700	420	600	17.00	0.86
Mixed Spirits	Blend 285	Convenience store	700	265	379	10.73	0.54
Mixed Spirits	Blend 285 Signature Blended Spirit	Convenience store	700	298	426	12.06	0.61
White spirits	Bangyikhan 40 Degree	Hypermarket	640	156	244	6.91	0.38
White spirits	Niyom Thai 30 Degree	Hypermarket	625	80	1280	3.63	2.05
White spirits	Niyom Thai 40 Degree	Hypermarket	625	89	142	4.03	0.23
White spirits	Pai Thong 30 Degree	Hypermarket	625	94	150	4.26	0.24
White spirits	Pai Thong 35 Degree	Hypermarket	625	98	157	4.44	0.25
White spirits	Ruang Khao 28 Degree	Hypermarket	330	49	148	4.21	0.45
White spirits	Ruang Khao 30 Degree	Hypermarket	330	51	155	4.38	0.47
White spirits	Ruang Khao 40 Degree	Hypermarket	625	103	165	4.67	0.26
White spirits	Ruang Khao 40 Degree	Hypermarket	625	104	166	4.71	0.27
White spirits	Ruang Khao 40 Degree	Independent small grocers	625	130	208	5.89	0.33

Source: Nomura research

Beer: Rising star

Success in changing brand perception
Chang Beer has undergone significant shift in brand image, by repositioning itself in the market by creating awareness about rebranding. The company also increased its efforts on expanding distribution, especially through the trade on-trade channel. As a result, THBEV’s beer volumes shot up to 61% in FY16 and revenue increased by 70%. Furthermore, EBT increased further at 330% from higher operating leverage.

The group decided to rebrand Chang Beer to better cater to the younger generation. It did this by increasing the price of the beer to remove the image of it being a low-income beer and justified it by investing in packaging and marketing of the beer. The group also improved on the sales distribution that it had, to improve the freshness of the beer. The previous version had a brown bottle packaging and represented a heavier taste and alcohol content. The rebranding wasn’t only focussed on changing the taste and the packaging but also marketing around the idea of ‘being together in moments as friends’ and it launched a bigger magnum sized bottle for sharing. In order to get a global perspective on the brand, there are teams in Sydney, Bangkok and Singapore working together.

Fig. 141: THBEV: Old vs new bottles

Source: Nomura research

Market share improvement

In 2016, Boon Rawd Brewery Co's total volume of beer decreased, although it continued to maintain its position as the market leader. Its key brands include Leo and Singha which contribute to its position as a leader. However, the heavy investment from THBEV in Chang Beer negatively impacted Boon Rawd Co's performance in 2016. After the rebranding exercise, Chang's market share rose from 30% to 40% in 2016. Its competitor, Leo, responded by decreasing prices but that made an insignificant difference to its market share. The change in preference due to brand perception enhancement of Chang Beer would allow THBEV to expand its market share further in 2018, in our view.

Non-alcohol beverage

Non-alcoholic brands include Oishi RTD green tea; Est cola carbonates; Chang and soda; Crystal bottled water; Wranger energy drinks; Amino OK Plus functional bottled water; Jubjai Asian speciality drinks, etc. The NAB business is improving with growing bottled water sales and increase in efficiency in operation, increasing margin contribution.

Acquisition of Sermsuk

Sermsuk was established in 1953 and has been a part of Thailand's soft drink market for six decades. Its milestones include having introduced its own international brand and establishing itself as a leader in the Thai market. In October 2011, THBEV acquired 41.5% of Serm Suk's stock from PepsiCo and made it one of its main businesses. THBEV did this to expand its non-alcoholic brand production lines further. Following the share purchase, PepsiCo and Serm Suk ended their contract and Serm Suk released its own soda called 'Est' while PepsiCo set up its own bottling factory. Serm Suk invested a significant sum of THB1.5bn and adopted similar colour schemes and marketing strategy as Pepsi by using celebrities to endorse the brands.

Serm Suk also produces bottled water under the brand name 'Crystal' which was named the Most Selected Brand 2017, making it the no. 1 brand with a market share of 21.5% as of June 2017.

Acquisition of Oishi

In September 2008, THBEV acquired Oishi Group Public Company Limited including Oishi's subsidiaries i.e. Oishi Ramen Company Limited and Oishi Trading Company Limited which are considered THBEV's direct and indirect subsidiaries respectively. The purchase represented 43.9% of the issued shares of Oishi for THB37 per share.

Food: Area for domestic diversification

THBEV has aimed to triple its revenues from its food operations by 2020, according to Mr. Buranasetkul, CEO of the company's food business in Thailand. The growth will be driven by internal growth via expansion of stores, business platforms, innovation and M&A. The core focus would be on improving operational efficiency internally to improve the bottom line.

Major acquisitions

- In 2008, THBEV acquired Oishi Group which was a leading Japanese restaurant chain in Thailand.
- In 2017, it established a new subsidiary called "Food of Asia" which was created to diversify into non-Japanese cuisine. The group is expanding its portfolio to include brands such as So Asean, Oishi Eaterium, Oishi Grand, Hyde & Seek and Man Fuyuan Kitchen. These brands cater to multiple food channels from street food to fine dining, Restaurant brandsincluding bakeries and casual dining spaces.
- In August 2017, THBEV announced the acquisition of 252 KFC stores in Thailand. This allowed it to enter the quick service restaurant segment to capture the fast-paced lifestyle of certain segment of consumers.

Management

Mr. Charoen Sirivadhanabhakdi (Chairman)

Mr. Charoen started his career by supplying Thai Whiskey at a time when it was a state-run affair. He managed to get rights for 15% of the market while the remaining 85% of state licenses were up for bidding in 1985. He took out a USD200 million loan using his stocks of alcohol and ended up earning 100% of concessions. With the rights, Charoen created a monopoly and returned USD550 million in royalties to the excise department of Thailand in 1987, which was 5% of the national budget in that time. The Thai tycoon branched out into the beer, property, sport and retail businesses soon after and has been the chairman of the board of directors since 2003. Currently, he is also the chairman of the following companies: Beer Thai Public company (2001-present), Red Bull Distillery Group of companies (2004-present), TCC Land Co., Ltd. (2002-present), Berli Jucker Public Company (2001-present), Southeast Group Co. (1997-present), TCC Holdings Co. Ltd.(1987-present), Fraser and Neave Limited (2013-present), Fraser Centrepoint Limited (2013-present).

Mr. Thapana Sirivadhanabhakdi (President and CEO)

Mr. Thapana has been the president and CEO of THBEV since 2008. He is the third of five children of the billionaire Charoen Sirivadhanabhakdi. He earned both his undergraduate and master's degree in financial economics from Boston University. After having served as a director for five years, he was appointed as the CEO of the company in January 2008. Thapana also has management roles in Berli Jucker, Beer Thai, Red Bull Distillery Group, Oishi Group, Oishi Group Plc, Univentures Plc, Siam Food Products Plc and the Southeast Group of companies.

Major shareholders

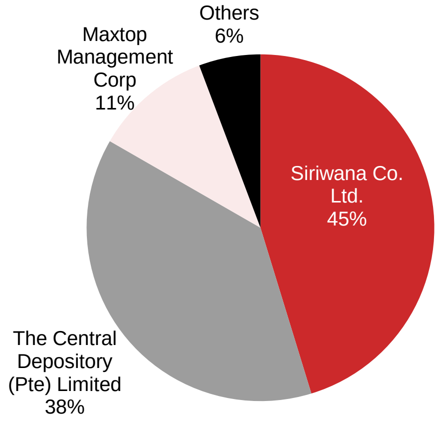
The largest shareholder of THBEV is Siriwana Company Limited, a holding company owned by Mr. Charoen which has a 45% stake in THBEV. The second largest shareholder is Central Depository (Pte) Limited.

THBEV has 32.24% free float. The restricted shares are still huge and indicate that the lower liquidity is traded off with more control over the company and its decisions and reaffirming the management's faith in the company's profitability in the future.

Dividend policy

Fig. 143 shows the change in payout ratio over the years. While the dividend amount has remained the same over the last three years, payout ratio changes over the years. While higher payout ratio indicates more allocation of net profits to compensate shareholders, the stability in the dividend per share amount is a positive measure for those looking for stable returns. Furthermore, this would mean that THBEV is expecting stability in the future in terms of earnings which creates confidence in the operations of the company.

Fig. 142: Shareholding mix



Source: Company data, Nomura research

Fig. 143: Dividend record

Source: Company data