Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Results Note

# Carlsberg

CAB MK
Sector: Consumer

**RM14.80 @ 17 May 2017**

**HOLD (maintain)**
Downside: 2.8%

**Price Target: RM14.38**
Previous Target: RM14.22


## On solid footing

**Carlsberg (CAB)'s 1Q17 core earnings of RM65.5m (+1% yoy) came in line with our and street expectations. The Malaysia and Singapore operations saw topline growth due to volume increases while the bottom line was higher due to effective cost management despite larger associate losses. Dividend yields of 5.3-5.9% for FY17-19E are still attractive. Maintain HOLD with higher TP of RM14.38.**

### 1Q17 core earnings in line with expectations

CAB reported a 1Q17 revenue increase of 10.3% yoy to RM502.6m due to higher volumes in both Malaysia and Singapore over the Chinese New Year festive period, with the former also benefiting from the price increase in 2016. Hence, revenues for the Malaysia and Singapore operations increased by 6.7% yoy to RM341.1m and 18.7% yoy to RM161.5m respectively. Operating profit, on the other hand, grew more strongly by 13.5% yoy to RM68.9m and 31.3% yoy to RM26.3m, respectively, due to the higher revenue but also to more effective cost management. As such, the EBIT margin expanded by 0.5 ppts yoy to 18.6%. The core net profit increased by 1% yoy to RM65.5m, in line with our and street expectations, accounting for 27% and 28% of full-year estimates respectively. Note that Singapore's contribution to CAB's 1Q17 operating profit was at 28% vs 25% in 1Q16.

### Larger associate losses in 1Q17 but should recover in FY17

CAB's earnings have been adversely affected by the flooding at the factory of its associate company Lion Brewery (Ceylon) PLC (LBCP) in Sri Lanka starting from 3Q16, bringing the FY16 associate loss to RM5m (vs FY15 profit of RM16m). Production has resumed but 1Q17 recorded larger associate losses at RM5.9m vs the 1Q16 loss of RM1.9m as it takes time for production to ramp up, and given that an impairment loss on one of its brands was recognised.

### Maintain HOLD with slightly higher TP of RM14.38

We fine-tune our FY18-19 EPS forecasts upon the release of CAB's final 2016 accounts and maintain a HOLD with a slightly higher DCF-based 12-month TP of RM14.38 (from RM14.22). We continue to like the Group's strategy of focusing on beer as its core business and its continual push to promote premium beers since introducing it into the brand portfolio in 2010 (premium brands are estimated to contribute to approximately 20% of Group revenue and saw a strong volume growth of 18.7% in Malaysia and Singapore in FY16). Estimated dividend yields are still attractive at 5.3-5.9% for FY17-19E.

### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | -1.3% | +2.8% | +15.3% |
| Rel to KLCI | -3.7% | -1.2% | +6.0% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 307.6 |
| Mkt cap (RMm)/(US$m) | 4552.8/1053 |
| Avg daily vol - 6mth (m) | 0.1 |
| 52-wk range (RM) | 12.84-15.3 |
| Est free float | 46.2% |
| BV per share (RM) | 1.05 |
| P/BV (x) | 14.07 |
| Net cash/ (debt) (RMm) (1Q17) | 170.8 |
| ROE (2017E) | 72.4% |
| Derivatives | No |
| Shariah Compliant | No |

### Key Shareholders

| | |
|---|---|
| Carlsberg A/S | 50.7% |
| Oversea Chinese Bank | 4.3% |
| JP Morgan Chase & Co | 1.2% |

*Source: Affin Hwang, Bloomberg*

### Earnings & Valuation Summary

| FYE 31 Dec | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenue (RMm) | 1,659.9 | 1,679.5 | 1,819.1 | 1,898.2 | 1,953.3 |
| EBITDA (RMm) | 306.0 | 327.0 | 351.9 | 373.1 | 379.7 |
| Pretax profit (RMm) | 283.6 | 283.8 | 323.0 | 350.6 | 357.1 |
| Net profit (RMm) | 215.9 | 205.0 | 241.4 | 263.5 | 268.5 |
| EPS (sen) | 70.2 | 66.6 | 78.5 | 85.7 | 87.3 |
| PER (x) | 21.1 | 22.2 | 18.9 | 17.3 | 17.0 |
| Core net profit (RMm) | 239.3 | 204.2 | 241.4 | 263.5 | 268.5 |
| Core EPS (sen) | 77.8 | 66.4 | 78.5 | 85.7 | 87.3 |
| Core EPS growth (%) | 13.1 | (14.7) | 18.3 | 9.1 | 1.9 |
| Core PER (x) | 19.0 | 22.2 | 18.9 | 17.3 | 17.0 |
| Net DPS (sen) | 72.0 | 72.0 | 78.5 | 85.7 | 87.3 |
| Dividend Yield (%) | 4.9 | 4.9 | 5.3 | 5.8 | 5.9 |
| EV/EBITDA (x) | 14.8 | 13.9 | 12.9 | 12.1 | 11.9 |
| | | | | | |
| Chg in EPS (%) | | | - | +0.3 | +0.6 |
| Affin/Consensus (x) | | | 1.0 | 1.0 | 1.0 |

*Source: Company, Affin Hwang estimates*

Yap Po Leen
(603) 2146 7547
poleen.yap@affinhwang.com

Risks include: i) lower or higher-than-expected sales volume on stronger/weaker consumer spending; ii) regulatory risks which could dampen sales volumes such as the change in duty free status in Langkawi and Labuan; iii) the possible implementation of security ink which will increase costs for brewers; and iv) lower or higher-than-expected operating expenses.

**Fig 1: Results Comparison**

| FYE Dec (RMm) | 1Q17 | QoQ % chg | YoY % chg | Comments |
|---|---|---|---|---|
| Revenue | 502.6 | 15.6 | 10.3 | 1Q17 revenue increase due to higher sales in both Malaysia (+6.7% yoy) and Singapore (18.7% yoy). This was due to higher sales volumes as well as the price increase in Malaysia in response to the duty increase in March 2016 and also partly due to the Chinese New Year festivities |
| Op costs | (401.4) | 17.2 | 10.2 | |
| EBITDA | 101.2 | 9.9 | 10.7 | |
| *EBITDA margin (%)* | *20.1* | *-1.0ppts* | *+0.1ppts* | |
| Depn and amort | (7.9) | (3.4) | (13.8) | |
| EBIT | 93.4 | 11.2 | 13.4 | |
| *EBIT margin (%)* | *18.6* | *-0.7ppts* | *+0.5ppts* | YoY margin expansion due to effective cost management at both the Malaysia and Singapore operations |
| Int expense | (1.8) | (20.5) | 32.5 | |
| Int and other inc | 0.5 | (55.7) | >100 | |
| Associates | (5.9) | 86.7 | >100 | Associate loss due to disruption of factory production due to floods and impairment losses |
| EI | 1.9 | 17.9 | n.m. | |
| **Pretax profit** | **88.0** | **8.3** | **12.7** | |
| Tax | (19.5) | (40.1) | 39.0 | |
| *Tax rate (%)* | *22.1* | *-17.9ppts* | *+4.2ppts* | Higher tax rate yoy because of higher deferred tax expenses and one-off tax adjustments |
| MI | (1.1) | (29.9) | 3.1 | |
| **Net profit** | **67.4** | **43.2** | **7.1** | |
| EPS (sen) | 21.9 | 43.2 | 7.1 | |
| **Core net profit** | **65.5** | **44.1** | **1.0** | In line with expectations |

*Source: Affin Hwang, Company data*

**Equity Rating Structure and Definitions**

| | |
|---|---|
| **BUY** | Total return is expected to exceed +10% over a 12-month period |
| **HOLD** | Total return is expected to be between -5% and +10% over a 12-month period |
| **SELL** | Total return is expected to be below -5% over a 12-month period |
| **NOT RATED** | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

| | |
|---|---|
| **OVERWEIGHT** | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| **NEUTRAL** | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| **UNDERWEIGHT** | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |



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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com