



Outthink. Outperform.

Results Note

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 pts 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 (LBCEP) 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.

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

Carlsberg

CAB MK
Sector: Consumer

RM14.80 @ 17 May 2017

HOLD (maintain)

Downside: 2.8%

Price Target: RM14.38

Previous Target: RM14.22



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

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



Outthink. Outperform.

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	
<i>EBITDA margin (%)</i>	<i>20.1</i>	<i>-1.0ppts</i>	<i>+0.1ppts</i>	
Depn and amort	(7.9)	(3.4)	(13.8)	
EBIT	93.4	11.2	13.4	
<i>EBIT margin (%)</i>	<i>18.6</i>	<i>-0.7ppts</i>	<i>+0.5ppts</i>	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	
<i>Tax rate (%)</i>	<i>22.1</i>	<i>-17.9ppts</i>	<i>+4.2ppts</i>	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

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
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