

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

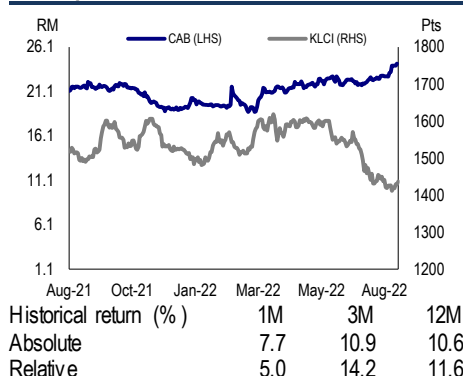
Target Price: **RM30.77**
Previously: **RM28.88**
Current Price: **RM23.40**

Capital upside	31.4%
Dividend yield	4.8%
Expected total return	36.2%

Sector coverage: Consumer

Company description: Carlsberg Brewery

Malaysia manufactures beer, stout, shandy, and non-alcoholic beverages for distribution in Malaysia and export.

Share price

Stock information

Bloomberg ticker	CAB MK
Bursa code	2836
Issued shares (m)	306
Market capitalisation (RM m)	7,405
3-mth average volume ('000)	96
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★ ★ ★

Major shareholders

Carlsberg A/S	51.0
AIA	2.9
OCBC	2.7

Earnings summary

	FY21	FY22f	FY23f
FYE (Dec)			
PATMI - core (RM m)	201.0	341.0	344.7
EPS - core (sen)	65.7	105.9	112.7
P/E (x)	36.8	21.0	20.8

Carlsberg Brewery Malaysia

More booze in 4Q22

Carlsberg reported a 9M22 core net profit of RM259.9m (+88.4% YoY), which came in above our/consensus projections at 82%/85%. The positive result surprise was due to a stronger-than-expected beer demand coupled with better margin amid the premiumization push. We raise our earnings forecasts for FY22-24f by 6-8% as we pencil in a higher sales volume assumptions and ASP. Subsequently, our TP is raised to RM30.77 (from RM28.88), implying a PE multiple of 27.8x on its FY23f EPS of 103.9sen. Reiterate BUY rating on Carlsberg.

Exceeded expectations. Carlsberg's 3Q22 core net profit of RM78.7m (-11.0% QoQ, +150.7% YoY) brought 1H22's sum to RM259.9m (+88.4% YoY). The results were above our/consensus expectations at 82%/85% of the full-year forecast. The positive surprise was due to higher-than-expected beer demand coupled with better margin amid the premiumization push. 9M22 core net profit was arrived after adjusting for EIs (i.e. gain on PPE disposal and forex loss) amounting to RM1.44m.

Dividend. Declared third interim DPS of 19sen (3Q21: None), which goes ex on 25 Nov 2022. 9M22 DPS amounted to 63sen vs 9M21's 10sen.

QoQ. Lower sales volume was seen in both Malaysia and Singapore markets as sales was front-loaded in 2Q22 before the July price hike. Despite that, the group top line was flattish at -0.5%, as the higher revenue from Singapore market (+3.3%) due to the exchange rate effect and the price hike have offset the lower sales from Malaysia market (-1.7%). Meanwhile, the share of profits in LBCP surged 371.9% to RM6.8m. All in, with the EBIT margin contracted by 4.1ppts amid elevated raw material prices, core PATAMI eased by 12.0%.

YoY. Revenue chalked a 63% growth due to low base effect –brewery's operations were suspended during that period (2 June 2021 till 15 August 2021) amidst the lockdown. Geographically, Malaysia and Singapore markets registered a robust 94.4% and 13.3% growth, while the share of profits in LBCP surged by 131.9%. In turn, core PATAMI rose by 147.8%.

YTD. Topline rose by 46.3% as a result of more robust sales performance during the 1Q festive period and pent-up demand for out-of-home drinking following the lifting of restrictions. On top of that, better EBIT margin due to better operating leverage and favourable product mix had lifted core PATAMI to grow at a stronger pace to 87.8%.

Outlook. Carlsberg is anticipated to post a commendable 4Q22 result, premised by (i) price hike; (ii) seasonally strong foreign tourist arrivals; (iii) the 2022 FIFA world cup and (iv) Singapore Grand Prix. We believe the depreciating ringgit will continue to lift Carlsberg's export sales (accounted c.30% of the group sales) and act as a natural hedge to the higher raw material costs. We are also not overly concerned about the potential demand erosion following Carlsberg raising its beer prices on 1 July, considering that beer remains the cheapest alcoholic drink in the market, thus relatively inelastic demand. Separately, we applaud the government initiatives on curbing alcohol smuggling in Budget 2023, which is a boon to brewers whose sales have been cannibalized by the illicit.

Forecast. We revise our FY22/23/24f forecasts upwards by 8/8/6% as we pencil in a higher sales volume assumption and ASP.

Maintain BUY. TP: RM30.77. Post-earnings adjustment, Our TP is subsequently raised to RM30.77 (from RM28.88 previously), implying a PE valuation of 27.8x (at its 5-year mean) on its FY23f EPS of 112.7 sen. Maintain BUY rating on Carlsberg.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	94.0	75.6	28.3	52.0	86.6
Receivables	130.8	134.9	166.8	170.0	175.2
Inventories	85.8	79.0	106.1	106.6	109.7
PPE	208.2	211.1	306.7	287.3	263.9
Others	117.7	120.9	120.0	119.4	118.9
Assets	636.5	621.5	727.8	735.3	754.2
Payables	281.1	315.6	397.9	398.4	410.0
ST Debt	122.5	33.3	33.3	33.3	33.3
LT Debt	-	5.5	5.5	5.5	5.5
Others	58.3	51.5	51.5	51.5	51.5
Liabilities	461.9	405.9	488.2	488.7	500.3
Share capital	149.4	149.4	149.4	149.4	149.4
Reserves	18.5	61.8	78.8	78.8	78.8
Minority interest	6.8	4.5	11.4	18.4	25.7
Equity	174.6	215.6	239.6	246.6	253.9

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	209.8	259.6	443.2	448.0	463.4
D&A	41.2	55.2	56.4	71.0	74.9
Working capital	(31.2)	(34.7)	23.3	(3.3)	3.3
Taxation	(55.5)	(65.1)	(95.3)	(96.3)	(99.6)
Others	47.5	60.9	-	-	-
CFO	211.7	275.9	427.6	419.4	442.0
Capex	(42.7)	(56.8)	(151.0)	(51.0)	(51.0)
Others	4.3	9.0	-	-	-
CFI	(38.5)	(47.8)	(151.0)	(51.0)	(51.0)
Dividends	(190.8)	(152.9)	(323.9)	(344.7)	(356.5)
Others	33.3	(94.6)	-	-	-
CFF	(157.5)	(247.4)	(323.9)	(344.7)	(356.5)
Net cash flow	15.8	(19.4)	(47.3)	23.8	34.5
Forex	(0.4)	1.0	-	-	-
Others	(0.0)	(0.0)	-	-	-
Beginning cash	78.6	94.0	75.6	28.3	52.0
Ending cash	94.0	75.6	28.3	52.0	86.6

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	1,785.0	1,772.8	2,454.6	2,503.0	2,578.6
EBITDA	241.2	302.1	482.7	498.8	515.8
EBIT	200.1	246.8	426.4	427.8	440.9
Finance cost	(7.0)	(3.2)	(2.2)	(2.2)	(2.2)
Associates & JV	14.9	15.2	18.0	22.0	24.0
Profit before tax	209.8	259.6	443.2	448.0	463.4
Tax	(43.6)	(55.2)	(95.3)	(96.3)	(99.6)
Net profit	166.2	204.4	347.9	351.7	363.8
Minority interest	4.0	3.4	7.0	7.0	7.3
Reported PATAMI	162.2	201.0	341.0	344.7	356.5
Exceptionals	-	-	-	-	-
Core PATAMI	162.2	201.0	341.0	344.7	356.5
Core EPS (sen)	53.0	65.7	111.5	112.7	116.6
Consensus			305.3	338.7	363.6
HLIB/Consensus			111.7%	101.8%	98.0%

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	53.0	65.7	111.5	112.7	116.6
P/E (x)	44.1	35.6	21.0	20.8	20.1
EV/EBITDA (x)	28.3	22.6	14.1	13.7	13.2
DPS (sen)	40.0	56.0	105.9	112.7	116.6
Dividend yield	1.7%	2.4%	4.5%	4.8%	5.0%
BVPS (RM)	0.6	0.7	0.8	0.8	0.8
P/B (x)	41.0	33.2	29.9	29.0	28.2
EBITDA margin	13.5%	17.0%	19.7%	19.9%	20.0%
EBIT margin	11.2%	13.9%	17.4%	17.1%	17.1%
PBT margin	11.8%	14.6%	18.1%	17.9%	18.0%
Core PATAMI margin	9.1%	11.3%	13.9%	13.8%	13.8%
ROE	92.9%	93.2%	142.3%	139.8%	140.4%
ROA	25.5%	32.3%	46.9%	46.9%	47.3%
Net gearing	16.3%	CASH	5.5%	CASH	CASH

Figure #1 Quarterly results comparison

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	349.3	574.2	571.6	(0.5)	63.7	1,230.5	1,799.7	46.3
Malaysia	216.9	429.0	421.7	(1.7)	94.4	817.1	1,304.9	59.7
Singapore	132.4	145.2	149.9	3.3	13.3	413.4	494.9	19.7
EBITDA	42.9	136.8	113.1	(17.4)	163.5	193.9	375.0	93.5
EBIT	30.4	125.5	102.4	(18.4)	236.3	159.6	341.6	114.0
Malaysia	17.5	99.1	83.6	(15.6)	377.7	116.6	272.3	133.4
Singapore	12.6	26.4	18.7	(29.2)	47.9	41.7	66.1	58.4
Finance cost	(1.5)	(0.7)	(0.9)	33.2	(37.2)	(4.5)	(2.1)	(52.8)
JV & Associates	2.9	1.4	6.8	371.9	131.9	9.6	15.0	56.7
PBT	32.9	126.5	108.5	(14.3)	230.1	167.4	355.3	112.3
PAT	26.4	91.0	78.6	(13.6)	197.7	131.6	262.4	99.4
PATAMI	26.0	88.9	76.4	(14.1)	194.1	129.6	256.9	98.3
Core PATAMI	31.4	88.5	78.7	(11.0)	150.7	137.9	259.9	88.4
EPS (sen)	8.5	29.1	25.0	(14.1)	193.9	42.4	84.0	98.3
Core EPS (sen)	10.3	28.9	25.8	(11.0)	150.7	45.1	85.0	88.4
				<u>ppt</u>	<u>ppt</u>			<u>ppt</u>
EBITDA Margin	12.3	23.8	19.8	-4.1	7.5	15.8	20.8	5.1
EBIT margin	8.7	21.9	17.9	-3.9	9.2	13.0	19.0	6.0
PBT margin	9.4	22.0	19.0	-3.1	9.6	13.6	19.7	6.1
Core PATAMI Margin	9.0	15.4	13.8	-1.6	4.8	11.2	14.4	3.2

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
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