

14 November 2022

Carlsberg Brewery Malaysia

Rising Costs Begin to Bite

By Jack Lai Yuan Khai | jacklai@kenanga.com.my

CARLSBG's 9MFY22 results came in within our, but above consensus, expectation. Its earnings continued to benefit from the reopening of the economy as sales volume continued to increase. However, margins deteriorated in 3QFY22, dented by rising costs and inflationary pressure. Post results, we fine tune our FY22 earnings forecast upwards by 2% but maintain our FY23 earnings. Maintain MARKET PERFORM with an unchanged TP of RM23.05.

Beat market forecasts. 9MFY22 core net profit (CNP) broadly met our expectation but beat consensus forecasts, accounting for 77%/80% of full-year earnings, respectively, after adjusting for unrealised forex losses. The declared interim dividend of 19.0 sen brings the total up to 63.0 sen, in line with our full-year estimate of 106.0 sen as we expect the group to continue to pay interim dividends.

YoY, 9MFY22 revenue grew 46.3% as sales volume continued to benefit from the reopening of the economy. In terms of segmental performance, Malaysia lead the growth as revenue grew 59.7% YoY in the region following the recovery of on-trade sales. Singapore revenue also grew 19.6% YoY as COVID restrictions continued to ease. Contributions from its Sri Lankan associate, Lion Brewery (Ceylon) PLC, also grew 56.7% (after accounting for the one-time surcharge tax) as the region saw a similar recovery in consumption despite the ongoing economic crisis. Additionally, revenue also benefitted from the price increase on 1 June 2022.

Overall, its earnings grew 88.6% following the sharp increase in sales volume. While *Cukai Makmur* did bite into its earnings, the group continued to benefit from better economies of scale as it saw improved sales volume across its major operating segments.

QoQ, 3QFY22 revenue remained flat (-0.5%), as a decline in sales volume was cushioned by the price hike. Its EBITDA fell 17.4% due to rising input costs. Overall, its core net profit fell 5.2% as margins contracted across the board due to elevated commodity prices and inflationary pressures.

Outlook. While 9MFY22 performance was encouraging, the group saw the first signs of weakness in 3QFY22 as margins were eroded by elevated commodity prices and inflationary pressures. While raw material prices have come off slightly since the peak during the March-April period, they remain elevated. As such, we expect margin pressures to continue in 4QFY22.

Looking forward to FY23, the growth outlook for the sector seems muted given wider macro-economic factors. The pent-up demand for on-trade channels is expected to ease going into FY23 as the post-pandemic rebound tapers off. On a broader scale, global economic growth is expected to slow as rising interest rates and sustained inflationary pressures eat into consumer spending power.

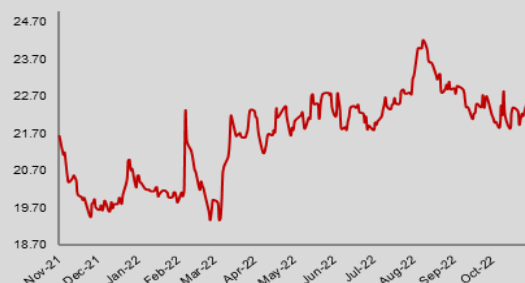
Forecasts. We fine tune our FY22 forecast upwards by 2% but maintain our FY23 earnings forecasts.

We continue to like CARLSBG for: (i) its relatively resilient products demand amidst rising inflation and dampening consumer sentiment, and (ii) its generous dividend policy and expected dividend yields of c.4.5%. However, we remain wary of margin compression following the rising cost pressure as well as generally slower growth in FY23.

MARKET PERFORM ↔

Price : RM23.40
Target Price : RM23.05 ↔

Share Price Performance



KLCI	1,468.21
YTD KLCI chg	-6.3%
YTD stock price chg	16.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CAB MK Equity
Market Cap (RM m)	7,154.5
Shares Outstanding	305.7
52-week range (H)	24.30
52-week range (L)	19.32
3-mth avg daily vol	96,246
Free Float	47%
Beta	0.7

Major Shareholders

Carlsberg A/S	51.0%
AiaBhd	2.9%
Oversea Chinese Banking Corporation	2.7%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Revenue	1,772.8	2,349.0	2,497.8
EBIT	246.8	456.8	458.5
PBT	259.6	474.5	480.8
Net Profit	207.7	324.1	353.1
Core Net Profit	207.7	324.1	353.1
Consensus (NP)	-	305.3	338.8
Earnings Revision	-	+2%	0%
Core EPS (sen)	67.9	106.0	115.5
Core EPS growth	17.4%	56.0%	8.9%
NDPS (sen)	56.0	106.0	115.5
BVPS (RM)	0.7	0.7	0.7
PER (x)	34.4	22.1	20.3
PBV (x)	33.9	33.9	33.9
Net Gearing (x)	(0.2)	(1.1)	(1.2)
Net Div. Yield (%)	2.4	4.5	4.9

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Maintain MARKET PERFORM. We maintain our TP of RM23.05 based on 21x FY23F PER, consistent with the industry's historical average 1-year forward PER. We also impute a 5% discount based on a 2-star ESG rating as appraised by us (see Page 4). The group has begun to feel the pinch from rising cost pressure on its margins while the outlook remains cloudy. The expected dividend yield of 4.5% is also less enticing in the current rising interest rate environment.

Risks to our call include: (i) more restrictions on the sales of alcoholic products, (ii) higher taxes on alcoholic products, (iii) illicit trade eating into the legal market, and (iv) rising input costs.

Results Highlight

Y/E : Dec (RM m)	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M23	9M21	YoY Chg
Turnover	571.6	574.2	-0.5%	349.3	63.7%	1,799.7	1,230.5	46.3%
Operating Expenses	(459.2)	(438.8)	4.6%	(308.1)	49.1%	(1,427.1)	(1,039.0)	37.3%
EBITDA	113.1	136.8	-17.4%	42.9	163.5%	375.0	193.8	93.5%
EBIT	102.4	125.5	-18.4%	30.4	236.3%	341.6	159.6	114.0%
Interest Expense	(0.9)	(0.7)	33.2%	(1.5)	-37.2%	(2.1)	(4.5)	-52.8%
PBT	108.5	126.5	-14.3%	32.9	230.1%	355.3	167.4	112.3%
Tax Expense	(29.8)	(35.5)	-16.0%	(6.4)	362.7%	(92.9)	(35.8)	159.7%
Core Net Profit	72.7	76.6	-5.2%	27.0	169.5%	243.8	129.3	88.6%
Core EPS (sen)	23.8	25.1	-5.2%	8.8	169.5%	79.7	42.3	88.6%
DPS (sen)	19.0	22.0	-13.6%	0.0		63.0	10.0	530.0%
EBITDA Margin	19.8%	23.8%		12.3%		20.8%	15.8%	
EBIT Margin	17.9%	21.9%		8.7%		19.0%	13.0%	
PBT Margin	19.0%	22.0%		9.4%		19.7%	13.6%	
Core Net Profit Margin	12.7%	13.3%		7.7%		13.5%	10.5%	
ETR	27.5%	28.0%		19.6%		26.1%	21.4%	
Segmental Breakdown								
Revenue (RM m)								
Malaysia	421.7	429.0	-1.7%	216.9	94.4%	1,304.9	817.1	59.7%
Singapore	149.9	145.2	3.3%	132.4	13.3%	494.9	413.6	19.6%
Total	571.6	574.2	-0.5%	349.3	63.7%	1,799.7	1,230.7	46.2%
Operating Profit (RM m)								
Malaysia	83.6	99.1	-15.6%	17.5	377.7%	272.3	116.6	133.5%
Singapore	18.7	26.4	-29.2%	12.6	47.9%	66.1	41.7	58.4%
Others	0.0	(0.1)	-147.5%	0.3	-90.4%	3.3	1.3	154.4%
Total	102.4	125.5	-18.4%	30.4	236.3%	341.6	159.6	114.0%
Operating Margin %								
Malaysia	19.8%	23.1%		8.1%		20.9%	14.3%	
Singapore	12.5%	18.2%		9.6%		13.4%	10.1%	
Total	17.9%	21.9%		8.7%		19.0%	13.0%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	OP	1.38	1.95	41.30%	1,937.5	Y	12/2022	10.0	10.2	64.4%	2.5%	13.8	13.5	1.1	8.1%	4.1	3.0%
AMWAY (MALAYSIA) HOLDINGS BHD	MP	4.93	5.20	5.48%	810.4	Y	12/2022	36.5	34.7	62.6%	-4.8%	13.5	14.2	3.4	26.1%	27.0	5.5%
DUTCH LADY MILK INDUSTRIES BHD	MP	30.90	28.20	-8.74%	1,977.6	Y	12/2022	103.3	128.1	-73.3%	24.1%	29.9	24.1	4.7	16.5%	50.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	21.44	26.11	21.78%	7,863.7	Y	09/2023	118.6	129.1	13.5%	8.8%	18.1	16.6	2.5	14.1%	62.5	2.9%
MR D.I.Y.	MP	2.04	2.00	-1.96%	19,234.1	Y	12/2022	4.9	7.1	6.8%	44.6%	41.7	28.9	13.9	36.4%	2.6	1.3%
MYNEWS HOLDINGS BHD	OP	0.525	0.700	33.33%	358.1	N	10/2022	(3.1)	3.2	-50.6%	-202.3%	N.A.	16.4	1.6	-9.0%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	131.60	115.65	-12.12%	30,860.2	Y	12/2022	270.1	295.2	11.1%	9.3%	48.7	44.6	57.6	113.2%	290.0	2.2%
PADINI HOLDINGS BHD	OP	3.23	4.10	26.93%	2,125.0	Y	06/2023	22.6	28.6	-3.4%	26.4%	14.3	11.3	2.2	16.0%	10.0	3.1%
POWER ROOT BHD	OP	2.30	2.35	2.17%	961.2	Y	03/2023	6.7	6.3	7.3%	-6.8%	34.3	36.8	3.1	17.0%	10.0	4.3%
QL RESOURCES BHD	OP	5.32	6.00	12.78%	12,947.1	Y	03/2023	12.6	16.1	41.6%	27.1%	42.1	33.1	4.2	10.8%	6.0	1.1%
Simple Average								58.2	65.9	8.0%	-7.1%	28.5	23.9	9.4	24.9%		2.5%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.18	11.40	11.98%	2,906.7	N	12/2022	94.9	97.5	-4.9%	2.8%	10.7	10.4	7.3	69.5%	90.0	8.8%
CARLSBERG BREWERY MALAYSIA BHD	MP	23.40	23.05	-1.50%	7,154.5	N	12/2022	105.2	114.6	56.0%	8.9%	22.2	20.4	33.4	147.9%	106.0	4.5%
HEINEKEN MALAYSIA BHD	MP	24.90	25.80	3.61%	7,522.2	N	12/2022	129.7	129.3	59.5%	-0.3%	19.2	19.3	19.0	99.2%	129.7	5.2%
Simple Average								109.9	113.8	36.9%	3.8%	17.4	16.7	19.9	105.5%		6.2%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	☆		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Product Safety to Users	★				
	Product Safety to the Public	★				
	Substitutes to Unsafe Products	★	★			
	Supply Chain Auditing	★	★			
	Work Site Safety	★	★	★		
	Waste/Water Management	★	★	☆		
OVERALL		★	★			

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

