

14 November 2022

Consumer Non-cyclical | Food & Beverage Products

Carlsberg Brewery (CAB MK)

Neutral (Maintained)

Recovery Prospects Largely In The Price; NEUTRAL

Target Price (Return):	MYR25.70 (+10%)
Price (Market Cap):	MYR23.40 (USD1,548m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	2.08m/0.45m

- NEUTRAL, new TP of MYR25.70 from MYR25.10, 10% upside with c.4% FY22F yield.** Carlsberg Brewery's 9M22 results beat estimates on a stronger-than-expected sales momentum. Looking ahead, we believe earnings will be sustained by ASP adjustments and intensified marketing initiatives. That said, we believe its current valuation is fair, reflecting the recovery prospects, and do not see a compelling reason to stretch our valuation. We prefer Heineken Malaysia (HEIM MK, BUY, TP: MYR30.50) for its cheaper valuation (trading at a c.10% discount to Carlsberg).
- Carlsberg's 9M22 results were above expectations.** Core net profit of MYR261m (+93% YoY) amounted to 85% of our and Street full-year forecasts, on a better-than-expected sales momentum. Post-results, we raise FY22-23F earnings by 5-8%. Correspondingly, DDM-derived TP rises to MYR25.70 (inclusive of a 4% ESG premium). Our TP, implying 22x P/E FY23F, is on par with the implied valuation ascribed to its peer, HEIM. We believe this is justified, taking into account HEIM's market leadership in Malaysia, which is balanced by Carlsberg's diversified earnings base.
- Results review.** YoY, 9M22 sales surged 46% to MYR1.8bn, thanks to the broader reopening of economies, which spurred a strong recovery in the on-trade channels, whilst 9M21 was also a low base as the company was affected by plant closure. Note that the revenue also represents a 7% increase vs 9M19, a pre-pandemic base. Thanks to the robust topline growth, 9M22 operating profit more than doubled to MYR342m, with the margin widening by 6ppt to 19% - on this, we believe price adjustments and an improved product mix have also played a part. QoQ, 3Q22 sales were flat at MYR572m, with the effects of a price increase offset by the lower sales volume. Meanwhile, 3Q22 operating profit fell 18% to MYR102m on higher production costs arising from higher commodity prices. 9M22 DPS totalled at 63 sen (9M21: 10 sen)
- Strong fundamentals to withstand headwinds.** Management expects Carlsberg's outlook to remain challenging – given the global inflationary pressures, supply chain disruptions and further cost pressure. We also believe that a slowdown in global economies will also be a major risk, dampening consumer sentiment and spending. To mitigate the challenges, Carlsberg may ramp up marketing efforts to engage with consumers, to defend its market share. In addition, efficiency gains to optimise costs should also be the top priority to maintain profitability, whilst we also expect innovative product launches to entice consumer spending. As such, we believe the elevated volume will be sustainable and – together with the price adjustments and normalisation in the effective tax rate post-Cukai Makmur – forecast FY23F earnings growth of 6%. Downside risks to our call include unfavourable regulatory changes and major losses in market share. The opposite of these factors would represent upside risks.

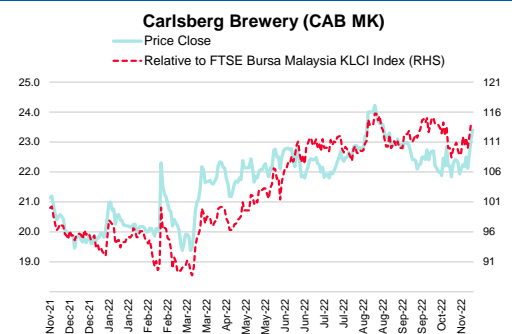
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.5	5.4	0.9	7.3	10.4
Relative	22.8	(0.5)	3.4	12.9	13.7
52-wk Price low/high (MYR)	19.4 – 24.2				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,785	1,773	2,347	2,442	2,553
Recurring net profit (MYRm)	178	206	330	350	373
Recurring net profit growth (%)	(39.3)	15.6	60.1	6.0	6.4
Recurring P/E (x)	39.99	34.60	21.60	20.37	19.15
P/B (x)	42.5	33.8	29.2	28.8	28.4
P/CF (x)	33.71	25.87	17.76	17.45	16.55
Dividend Yield (%)	1.7	2.4	4.2	4.9	5.2
EV/EBITDA (x)	29.49	23.78	14.46	14.11	13.35
Return on average equity (%)	102.5	105.3	145.1	142.4	149.4
Net debt to equity (%)	16.3	net cash	4.5	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.20 (out of 4)

E: EXCELLENT

Carlsberg continues to contribute to environmental sustainability by implementing a few initiatives such as Zero Carbon Footprint and Zero Water Waste, whilst also shifting its reliance to renewable energy. It has a Reduce, Reuse, Recycle & Rethink programme to minimise waste.

S: EXCELLENT

It promotes zero irresponsible drinking in its efforts to curb drink-driving and advocate responsible consumption. Carlsberg has put in place policies and frameworks to provide a conducive and safe working environment.

G: GOOD

Carlsberg has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. However, independent directors comprise less than half of the Board, with women making up 30% of it.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.59	0.68	1.08	1.15	1.22
Consumer Non-cyclical	DPS	0.40	0.56	0.97	1.14	1.21
Carlsberg Brewery	BVPS	0.55	0.69	0.80	0.81	0.82
CAB MK	Return on average equity (%)	102.5	105.3	145.1	142.4	149.4
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	39.99	34.60	21.60	20.37	19.15
	P/B (x)	42.5	33.8	29.2	28.8	28.4
	FCF Yield (%)	2.3	3.1	3.5	5.2	5.5
	Dividend Yield (%)	1.7	2.4	4.2	4.9	5.2
	EV/EBITDA (x)	29.49	23.78	14.46	14.11	13.35
	EV/EBIT (x)	35.85	28.78	16.39	16.15	15.24
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	1,785	1,773	2,347	2,442	2,553
	Gross profit	484	524	741	781	824
	EBITDA	243	299	495	507	536
	Depreciation and amortisation	(43)	(52)	(58)	(64)	(66)
	Operating profit	200	247	437	443	469
	Net interest	(5)	(2)	(3)	(4)	(1)
	Pre-tax profit	210	260	457	464	493
	Taxation	(44)	(55)	(116)	(102)	(109)
	Reported net profit	162	200	330	350	373
	Recurring net profit	178	206	330	350	373
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	13	(0)	22	4	4
	Cash flow from operations	212	276	402	409	431
	Capex	(44)	(57)	(150)	(40)	(40)
	Cash flow from investing activities	(39)	(47)	(150)	(40)	(40)
	Cash flow from financing activities	(158)	(243)	(257)	(376)	(420)
	Cash at beginning of period	79	94	76	70	64
	Net change in cash	15	(14)	(5)	(7)	(29)
	Ending balance cash	94	80	70	64	35
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	94	76	70	64	35
	Tangible fixed assets	208	211	303	279	252
	Total assets	640	622	804	809	793
	Short-term debt	123	32	75	50	0
	Total long-term debt	0	7	7	7	7
	Total liabilities	465	406	544	535	503
	Total equity	175	216	260	275	290
	Total liabilities & equity	640	622	804	809	793
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(20.9)	(0.7)	32.4	4.0	4.5
	Recurrent EPS growth (%)	(39.3)	15.6	60.1	6.0	6.4
	Gross margin (%)	27.1	29.6	31.6	32.0	32.3
	Operating EBITDA margin (%)	13.6	16.9	21.1	20.8	21.0
	Net profit margin (%)	9.1	11.3	14.1	14.3	14.6
	Dividend payout ratio (%)	75.2	85.6	90.0	99.0	99.0
	Capex/sales (%)	2.5	3.2	6.4	1.6	1.6
	Interest cover (x)	28.7	41.1	97.0	85.4	195.8

Source: Company data, RHB

Results At a Glance

Figure 1 : Carlsberg's quarterly results review

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	349.3	574.2	571.6	(0.5)	63.7	1,230.5	1,799.7	46.3	Due to the broader reopening of the economy
EBIT	28.8	124.1	101.8	(17.9)	253.8	159.7	341.6	114.0	Due to topline growth and price adjustments
<i>EBIT Margin (%)</i>	8.2	21.6	17.8			13.0	19.0		
Interest expense	(1.5)	(0.7)	(0.9)			(4.5)	(2.1)		
Interest income	1.0	0.3	0.2			2.7	0.8		
Other operating income	1.7	1.4	0.6			2.3	2.3		
Shr of associate profits	2.9	1.4	6.8			9.6	15.0		
EI	(5.3)	(3.7)	0.0			(5.3)	(3.7)		
Pretax profit	32.9	126.5	108.5	(14.3)	230.1	167.3	355.3	112.3	
<i>Pretax Margin (%)</i>	9.4	22.0	19.0	(3.1)	9.6	13.6	19.7	6.1	
Tax	(6.4)	(35.5)	(29.8)	(16.0)	362.7	(35.7)	(92.9)	159.8	
<i>Effective tax rate (%)</i>	19.6	28.0	27.5	(0.6)	7.9	21.4	26.1	4.8	
Minority Interest	(0.4)	(2.1)	(2.2)			(2.0)	(5.5)		
Net Profit	26.0	88.9	76.4	(14.1)	194.1	129.6	256.9	98.3	
Core Profit	31.3	92.6	76.4	(17.5)	144.2	134.9	260.6	93.2	At 85% of full-year forecasts
<i>Net Margin (%)</i>	9.0	16.1	13.4	(2.8)	4.4	11.0	14.5	3.5	9M22 DPS amounted to 63 sen (9M21: 10sen)
Breakdown by region									
Revenue									
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	
Total	349.3	574.2	571.6	(0.5)	63.7	1,230.5	1,799.7	46.3	
Operating profit									
Malaysia	17.5	99.1	83.6	(15.6)	377.7	116.6	272.3	133.5	
Singapore	12.6	25.4	18.7	(26.4)	47.9	41.7	65.1	56.2	
Total	30.2	124.5	102.3	(17.8)	239.4	158.3	337.4	113.2	
Operating margin (%)									
Malaysia	8.1	23.1	19.8	(3.3)	11.8	14.3	20.9	6.6	
Singapore	9.6	17.5	12.5	(5.0)	2.9	10.1	13.2	3.1	
Total	8.6	21.7	17.9	(3.8)	9.3	12.9	18.7	5.9	

Source: Company data, RHB

Recommendation Chart

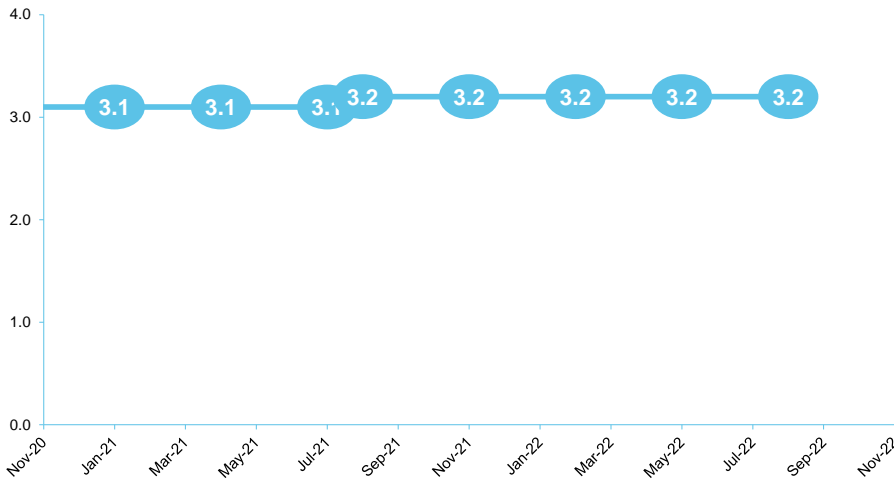


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-22	Neutral	25.1	24.0
2022-05-24	Neutral	23.8	22.1
2022-02-17	Neutral	23.8	22.3
2021-11-14	Buy	24.6	21.6
2021-10-13	Neutral	23.1	22.5
2021-08-22	Neutral	22.2	21.9
2021-02-19	Neutral	22.2	23.4
2020-11-13	Neutral	22.5	23.3
2020-08-17	Neutral	22.5	23.3
2020-05-31	Sell	23.0	28.9
2020-04-09	Neutral	23.5	24.8
2020-02-17	Sell	28.5	36.2
2019-11-27	Neutral	25.0	27.7
2019-08-16	Neutral	25.0	23.9
2019-05-17	Take Profit	25.0	24.9

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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