

Carlsberg Brewery Malaysia (CAB MK)

Positive outlook intact

Maintain BUY with unchanged DCF-TP of MYR27.80

We believe that the outlook for the brewery industry as a whole remains positive in tandem with the reopening of the economy and the relatively high degree of product stickiness that the industry enjoys. Further sales recovery should also arise once international tourism picks up. Hence, we maintain BUY on CAB with an unchanged DCF-TP of MYR27.80 (WACC: 8%, LT growth: 3%).

Consumer spending has slowed in 3Q22

CAB's 3Q22 sales momentum is expected to be softer QoQ in light of price hikes along with weaker consumer disposable income and sentiment. The group raised on and off-trade product prices by an estimated 6%-8% in 3Q22 and it is unlikely that another round of price hikes will occur for the rest of FY22. Meanwhile, CAB's sales volume has not recovered to pre-pandemic levels yet but on-trade sales are recovering strongly YoY along with continued growth in off-trade and e-commerce sales, albeit at a slower pace. We have imputed for volumes to revert to pre-pandemic levels in FY23.

Cost increases are partially mitigated

The group's major raw material components are malt and aluminium cans, of which c.80% of CAB's annual requirement has been hedged through fixed price contracts. Although raw material ASPs have eased in recent months, the cost benefits will only arise from FY23 onwards. Malt purchases are CAB's largest exposure to USD/MYR currency appreciation - however the group's export sales in SGD and USD will act as a natural hedge to any unfavourable foreign exchange moves in the near-term.

New bottling lines are almost complete

Heavy capex commitment of MYR110m in FY22 is earmarked for the replacement of its existing bottling line with two new lines. This exercise is targeted to be completed by 4Q22 and will subsequently increase production efficiencies and cost savings in relation to utilities, water usage and labour. With this, our model has assumed for group depreciation expenses to step up by c.MYR25m p.a. from FY23 onwards. We make no changes to our forecasts.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,785	1,773	2,362	2,530	2,676
EBITDA	243	304	472	523	532
Core net profit	187	206	321	353	364
Core EPS (sen)	61.2	67.5	105.1	115.5	119.1
Core EPS growth (%)	(36.3)	10.2	55.8	9.9	3.1
Net DPS (sen)	40.0	56.0	105.1	115.5	119.1
Core P/E (x)	38.0	29.8	21.3	19.4	18.8
P/BV (x)	42.3	29.1	19.0	20.7	20.7
Net dividend yield (%)	1.7	2.8	4.7	5.2	5.3
ROAE (%)	102.5	106.1	112.4	102.2	110.2
ROAA (%)	28.4	32.8	42.9	40.2	40.5
EV/EBITDA (x)	29.4	20.1	14.3	13.0	12.7
Net gearing (%) (incl perps)	16.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	317	344	371
MKE vs. Consensus (%)	-	-	1.5	2.8	(1.7)

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BUY

Share Price	MYR 22.40
12m Price Target	MYR 27.80 (+29%)
Previous Price Target	MYR 27.80

Company Description

Carlsberg Brewery Malaysia Bhd. is engaged in the manufacturing, marketing and distribution of both alcoholic and non-alcoholic beverages.

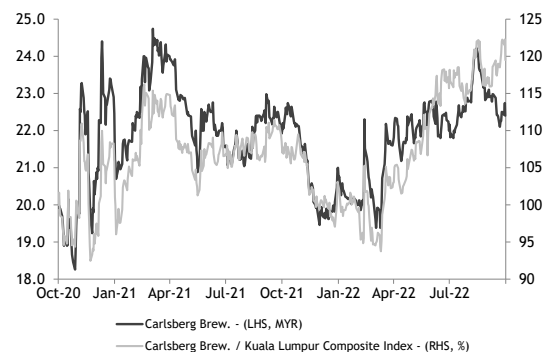
Statistics

52w high/low (MYR)	24.22/19.38
3m avg turnover (USDm)	0.4
Free float (%)	46.1
Issued shares (m)	306
Market capitalisation	MYR6.8B USD1.5B

Major shareholders:

Carlsberg A/S	51.0%
AIA Bhd.	2.9%
Great Eastern Life Assurance Co. Ltd.	2.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	2	2
Relative to index (%)	3	4	11

Source: FactSet

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Risk Rating & Score ¹	18.2 (Low)
Score Momentum ²	-3.9
Last Updated	30 Jul 2021
Controversy Score ³ (Updated: 20 Jun 2020)	2 - Business ethics incidents (acc. & tax)

Business Model & Industry Issues

- CAB’s main ESG concern surrounds its high dependency of water throughout its brewing process, especially when climate change, pollution and growing consumption continue to deplete the world’s natural water resources.
- With this, CAB has committed to lowering its water and carbon footprint through various water management programmes along with optimisation and upgrades to its plant operations for more efficient use of natural resources.
- CAB stands by its core values in advocating for safe consumption of its products. However, rising incidences of irresponsible drinking has resulted in growing pressure for stricter regulations to be imposed on the brewery industry.
- Key ESG issues are currently being addressed by its global sustainability roadmap in order to lessen its environmental impact (carbon footprint & water conservation) and to ensure safe consumption of its products.
- CAB is a constituent member of the FTSE4GOOD Bursa Malaysia Index.

Material E issues

- CAB follows a sustainability roadmap ‘Together Towards Zero’ with four ambitions, including the reduction of its carbon footprint and water waste. Main targets to be achieved by 2022 are outlined below.
- To lower its carbon emissions by 50% at its brewery and achieve 15% lower carbon footprint throughout its supply chain (eg. raw materials, brewing, packaging, logistics).
- Strive towards more efficient energy usage by using 100% renewable sources to generate power for its breweries through solar power, biomass & biogas, doing away with the usage of coal, and implementing 100% low-climate impact cooling.
- Lowering its water usage by 25% during the brewing process by 2022 and to halve water usage by 2030.
- CAB’s production water usage has been steadily declining (4.3HL/HL; -18% since 2017) while its total water usage has also lowered to 4.8HL/HL (-3% since 2017).
- CAB is the only brewer that is included in the FTSE4GOOD Bursa Malaysia Index.

Material S issues

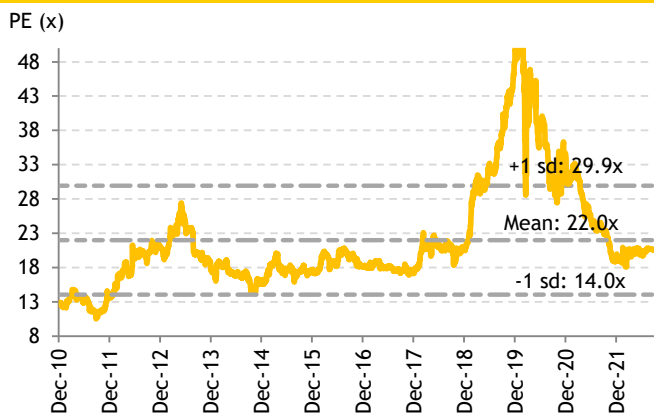
- With fatalities on the rise from drink-driving, CAB publicly advocates for responsible drinking through dedicated marketing campaigns (eg. #CelebrateResponsibly).
- By 2022, CAB aims to carry the responsible drink symbol on 100% of its products.
- Targets to provide quality alcohol-free brews in its portfolio by 2022 to offer a wider set of choices for consumers to enjoy on different drinking occasions.
- By 2030, CAB aspires to reach zero lost-time accidents at its plant. In 2020, CAB recorded 721 consecutive days without lost-time accidents (2019: 770 days).
CAB fully sponsors the ‘Top Ten Charity Campaign’ which is a community project involving charity roadshows to raise funds for the development of Chinese Education and to further promote the local music industry.

Key G metrics and issues

- CAB’s board of directors (BOD) comprises of 7 directors - 3 Independent Directors (including the chairman), 3 Non-Independent Non-Executive Directors and the group Managing Director (MD) who is an Executive Director.
 - CAB only has 43% independent representation on its board which is below the recommended practise for a majority of independent members. CAB has no plans to revise its board composition for now.
 - In 2021, the male:female ratio on the BOD was 71:29. This is slightly below the recommended practise for at least 30% women directors for large companies.
 - Independent directors on CAB’s audit committee consist of 2 out of 3 members (vs. Industry practise of solely independent directors).
 - The chairman and MD positions are held by separate individuals.
 - The current MD’s remuneration package for 2020 was MYR3.1m (c.1.5% of group pre-tax profit).
 - CAB has disclosed the top five senior management remuneration in bands of MYR50,000 but not on a named basis due to confidentiality reasons.
 - Messrs PricewaterhouseCoopers PLT has been the group’s external auditors since 2017.
- Recurring related party transactions occur in relation to royalty payments, purchase of materials and products, and sales of goods and services. Royalty payments typically account for c.2% of group revenue.

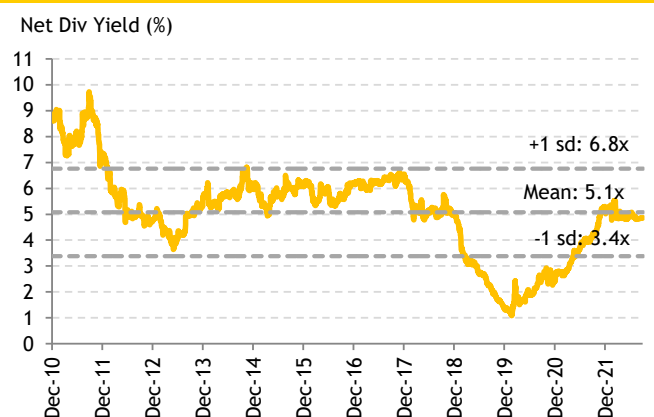
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: One-year forward PER



Source: Company, Maybank IBG Research

Fig 2: One-year forward net dividend yield



Source: Company, Maybank IBG research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for CAB. Unfavourable regulatory environment (eg. excise tax shocks) and a spike in raw material prices may impact CAB's earnings. Additionally, a sharp appreciation of MYR against SGD would also negatively affect its earnings, for about 30-35% of its sales are denominated in SGD (through its Singapore operations).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	47.1	33.5	21.3	19.4	18.8
Core P/E (x)	38.0	29.8	21.3	19.4	18.8
P/BV (x)	42.3	29.1	19.0	20.7	20.7
P/NTA (x)	44.2	29.9	19.1	20.8	20.8
Net dividend yield (%)	1.7	2.8	4.7	5.2	5.3
FCF yield (%)	2.4	3.6	3.4	5.4	5.4
EV/EBITDA (x)	29.4	20.1	14.3	13.0	12.7
EV/EBIT (x)	35.7	24.7	16.3	15.3	14.8
INCOME STATEMENT (MYR m)					
Revenue	1,785.0	1,772.8	2,362.2	2,529.8	2,676.1
EBITDA	243.2	304.1	472.3	522.6	532.1
Depreciation	(39.0)	(52.7)	(53.6)	(78.6)	(74.4)
Amortisation	(4.2)	(4.6)	(3.5)	(1.5)	(0.7)
EBIT	200.1	246.8	415.2	442.6	457.0
Net interest income / (exp)	(5.2)	(2.4)	(0.4)	0.1	0.0
Associates & JV	14.9	15.2	20.0	20.0	20.0
Exceptionals	25.0	5.3	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	209.8	259.6	434.7	462.7	477.0
Income tax	(43.6)	(55.2)	(105.5)	(100.8)	(103.9)
Minorities	(4.0)	(3.4)	(7.9)	(8.7)	(9.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	162.2	201.0	321.4	353.2	364.1
Core net profit	187.2	206.3	321.4	353.2	364.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	94.0	75.6	129.1	121.7	137.6
Accounts receivable	130.8	134.9	179.7	192.5	203.6
Inventory	85.8	79.0	101.8	108.8	115.4
Property, Plant & Equip (net)	208.2	211.1	335.4	317.5	307.4
Intangible assets	7.2	5.5	2.3	1.1	0.7
Investment in Associates & JVs	92.5	94.7	107.2	119.7	132.2
Other assets	18.0	20.7	20.7	20.7	20.7
Total assets	636.5	621.5	876.2	881.9	917.4
ST interest bearing debt	122.5	33.3	38.8	38.8	38.8
Accounts payable	281.1	315.6	407.1	434.7	461.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	58.0	57.0	57.0	57.0	57.0
Total Liabilities	461.9	405.9	502.9	530.5	557.0
Shareholders Equity	167.9	211.1	360.9	330.4	330.4
Minority Interest	6.8	4.5	12.4	21.0	30.0
Total shareholder equity	174.6	215.6	373.3	351.4	360.4
Total liabilities and equity	636.5	621.5	876.2	881.9	917.4
CASH FLOW (MYR m)					
Pretax profit	209.8	259.6	434.7	462.7	477.0
Depreciation & amortisation	43.2	57.2	57.1	80.0	75.1
Adj net interest (income)/exp	5.2	2.4	0.4	(0.1)	(0.0)
Change in working capital	11.8	27.3	23.8	8.0	8.7
Cash taxes paid	(55.5)	(65.1)	(105.5)	(100.8)	(103.9)
Other operating cash flow	(2.7)	(5.6)	(20.0)	(20.0)	(20.0)
Cash flow from operations	211.7	275.9	390.6	429.8	436.9
Capex	(42.7)	(56.8)	(160.1)	(60.7)	(64.2)
Free cash flow	169.0	219.0	230.6	369.1	372.7
Dividends paid	(190.8)	(152.9)	(171.6)	(383.8)	(364.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	46.1	(82.3)	0.0	0.0	0.0
Other invest/financing cash flow	(3.1)	2.5	4.7	5.2	5.2
Effect of exch rate changes	(0.4)	1.0	0.0	0.0	0.0
Net cash flow	20.8	(12.7)	63.7	(9.5)	13.7

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(20.9)	(0.7)	33.2	7.1	5.8
EBITDA growth	(41.7)	25.0	55.3	10.7	1.8
EBIT growth	(46.6)	23.4	68.2	6.6	3.2
Pretax growth	(45.1)	23.7	67.5	6.4	3.1
Reported net profit growth	(44.3)	23.9	59.9	9.9	3.1
Core net profit growth	(36.3)	10.2	55.8	9.9	3.1
Profitability ratios (%)					
EBITDA margin	13.6	17.2	20.0	20.7	19.9
EBIT margin	11.2	13.9	17.6	17.5	17.1
Pretax profit margin	11.8	14.6	18.4	18.3	17.8
Payout ratio	75.4	85.2	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	9.1	11.3	13.6	14.0	13.6
Revenue/Assets (x)	2.8	2.9	2.7	2.9	2.9
Assets/Equity (x)	3.8	2.9	2.4	2.7	2.8
ROAE (%)	102.5	106.1	112.4	102.2	110.2
ROAA (%)	28.4	32.8	42.9	40.2	40.5
Liquidity & Efficiency					
Cash conversion cycle	(35.2)	(35.3)	(36.6)	(39.6)	(39.6)
Days receivable outstanding	35.1	27.0	24.0	26.5	26.6
Days inventory outstanding	21.1	23.7	20.2	22.0	22.1
Days payables outstanding	91.4	86.0	80.8	88.1	88.4
Dividend cover (x)	1.3	1.2	1.0	1.0	1.0
Current ratio (x)	0.7	0.8	0.9	0.8	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.7	1.7	1.6
Net gearing (%) (incl perps)	16.3	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	16.3	net cash	net cash	net cash	net cash
Net interest cover (x)	38.3	100.8	nm	na	na
Debt/EBITDA (x)	0.5	0.1	0.1	0.1	0.1
Capex/revenue (%)	2.4	3.2	6.8	2.4	2.4
Net debt/ (net cash)	28.5	(42.3)	(90.3)	(82.9)	(98.8)

Source: Company; Maybank IBG Research

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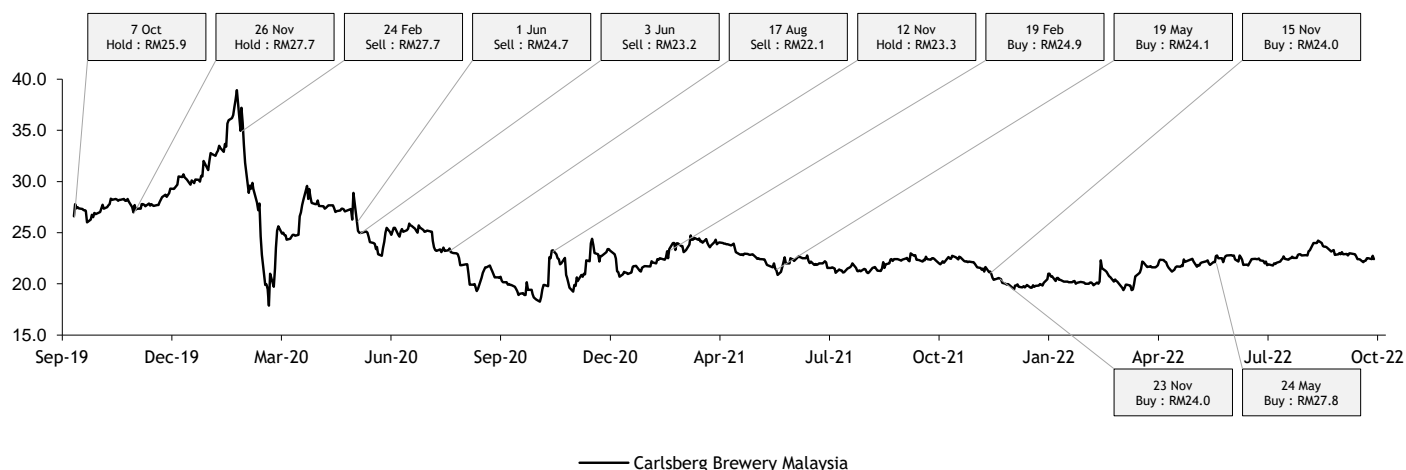
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Historical recommendations and target price: Carlsberg Brewery Malaysia (CAB MK)



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