

Heineken Malaysia (HEIM MK)

Another round of drinks please

BUY

Share Price MYR 23.44
 12m Price Target MYR 29.60 (+32%)
 Previous Price Target MYR 27.70

Maintain BUY with a higher DCF-TP of MYR29.60

HEIM's results were above expectations on stronger-than-expected sales. We are encouraged that sales and volume momentum remained robust in 3Q22 despite weaker consumer sentiment. Our FY22E-FY24E earnings estimates are raised by 7%-13% p.a.. Maintain BUY with a higher DCF-TP of MYR29.60 (WACC: 7%, LT growth: 3%).

Strong 3Q22 results

HEIM's 3Q22 core net profit of MYR109m (+113% YoY, +26% QoQ) brought 9M22 core net profit to MYR308m (+106% YoY). The latter represents 88%/89% of our/consensus full-year earnings estimates. The beat was largely due to the outperformance in sales. No interim dividend was declared as they are historically announced in 2Q and 4Q.

QoQ growth from price hike & on-trade recovery

3Q22 revenue growth of +12% QoQ resulted from (i) product price hikes of est. 6%-8% for on & off-trade channels, effective 1 Aug 2022, (ii) continued on-trade volume growth, and (iii) better product mix. We suspect that front-loading activities may have also occurred before the price hike took effect in Aug 2022. Consequently, EBIT grew 24% QoQ with margin expansion of 2.1ppts QoQ. On a YoY basis, revenue growth of +85% YoY was mainly due to volume recovery following eased movement restrictions and reopening of international borders. HEIM's cost management initiatives throughout the pandemic also led to higher 3Q22 EBIT growth of +133% YoY.

FY22E-FY24E earnings estimates raised by 7%-13%

Upon adjusting our FY22E/FY23E/FY24E volume growth assumptions to 25%/3%/3% (from 13%/6%/6% previously), our forward earnings estimates are lifted by 13%/10%/7%. HEIM's outlook remains positive and we expect sales to be continuously driven by year-end festivities and larger scale marketing campaigns.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,762	1,979	2,667	2,747	2,829
EBITDA	272	395	647	616	628
Core net profit	175	246	396	408	414
Core EPS (sen)	58.1	81.3	130.9	135.0	137.0
Core EPS growth (%)	(44.0)	40.1	61.0	3.1	1.5
Net DPS (sen)	51.0	81.0	130.9	135.0	137.0
Core P/E (x)	39.6	25.6	17.9	17.4	17.1
P/BV (x)	19.9	15.9	15.0	14.7	14.5
Net dividend yield (%)	2.2	3.9	5.6	5.8	5.8
ROAE (%)	41.5	65.9	91.3	85.5	85.1
ROAA (%)	16.3	23.0	32.7	30.0	29.5
EV/EBITDA (x)	26.0	16.2	11.0	11.6	11.3
Net gearing (%) (incl perps)	33.6	21.1	13.4	11.1	9.4
Consensus net profit	-	-	355	380	387
MKE vs. Consensus (%)	-	-	11.3	7.2	6.9

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Company Description

Heineken Malaysia is engaged in the production, packaging, marketing, and distribution of alcoholic beverages.

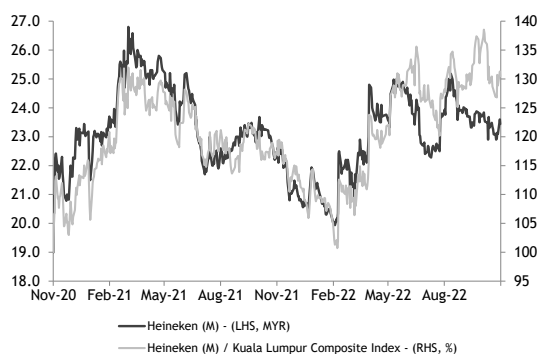
Statistics

52w high/low (MYR)	25.18/19.94
3m avg turnover (USDm)	0.7
Free float (%)	44.5
Issued shares (m)	302
Market capitalisation	MYR7.1B
	USD1.5B

Major shareholders:

Heineken NV	51.0%
Kayne Anderson Rudnick Investment Manage	5.0%
Great Eastern Life Assurance Co. Ltd.	3.3%

Price Performance



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

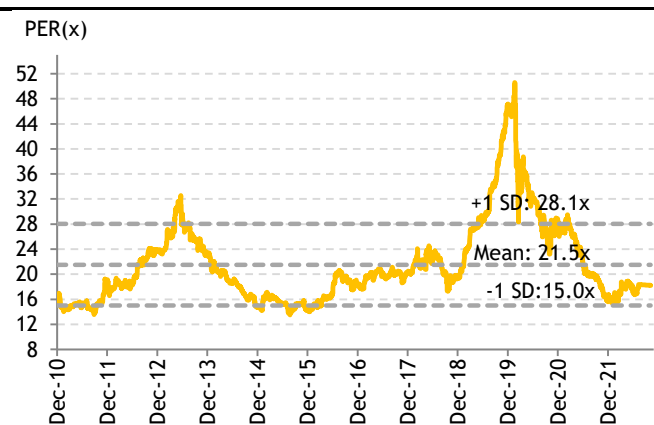
Source: FactSet

Fig 1: Heineken Malaysia: Results summary table

FY Dec (RM m)	Quarterly					Cumulative		
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Turnover	720.5	389.8	84.8	644.6	11.8	2,063.4	1,287.0	60.3
EBITDA	178.4	84.5	>100.0	147.1	21.3	498.0	251.0	98.4
Depreciation & Amort	(20.7)	(16.9)	22.4	(19.4)	6.7	(57.0)	(52.5)	8.5
EBIT	157.7	67.6	>100.0	127.7	23.5	441.1	198.5	>100.0
Net finance cost	(0.2)	(0.4)	(34.0)	0.1	n.m.	(0.8)	(1.5)	(49.1)
Pre-tax profit	157.4	67.2	>100.0	127.8	23.2	440.3	197.0	>100.0
Tax	(48.7)	(16.2)	>100.0	(41.7)	16.8	(132.1)	(47.2)	179.9
Net profit	108.7	51.0	>100.0	86.1	26.3	308.2	149.8	>100.0
Recurring Net profit	108.7	51.0	>100.0	86.1	26.3	308.2	149.8	>100.0
			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
EBITDA margin (%)	24.8	21.7	3.1	22.8	1.9	24.1	19.5	4.6
EBIT margin (%)	21.9	17.3	4.5	19.8	2.1	21.4	15.4	5.9
Tax rate (%)	30.9	24.1	6.8	32.6	(1.7)	30.0	24.0	6.0

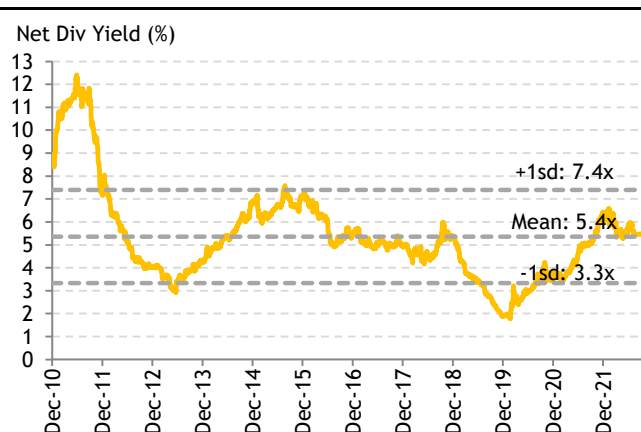
Source: Company

Fig 2: HEIM: One-year forward PER



Source: Company, Maybank IBG Research

Fig 3: HEIM: 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 HEIM. Unfavourable regulatory environment (eg. excise tax shocks) is a risk factor. A spike in raw material prices may also impact earnings of HEIM.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	44.6	28.8	17.9	17.4	17.1
Core P/E (x)	39.6	25.6	17.9	17.4	17.1
P/BV (x)	19.9	15.9	15.0	14.7	14.5
P/NTA (x)	20.9	16.6	15.3	14.7	14.4
Net dividend yield (%)	2.2	3.9	5.6	5.8	5.8
FCF yield (%)	2.4	3.8	4.8	5.7	5.8
EV/EBITDA (x)	26.0	16.2	11.0	11.6	11.3
EV/EBIT (x)	34.7	19.7	12.5	13.3	13.1
INCOME STATEMENT (MYR m)					
Revenue	1,762.4	1,979.3	2,666.7	2,746.7	2,829.1
EBITDA	272.5	394.6	647.0	616.1	628.4
Depreciation	(60.8)	(64.5)	(67.3)	(71.6)	(76.0)
Amortisation	(8.0)	(6.2)	(6.4)	(6.4)	(6.4)
EBIT	203.7	323.9	573.3	538.1	546.0
Net interest income / (exp)	(4.9)	(2.5)	(1.7)	(1.5)	(1.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(21.2)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	198.7	321.4	571.6	536.6	544.7
Income tax	(44.5)	(75.7)	(176.1)	(128.8)	(130.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	154.2	245.7	395.6	407.8	414.0
Core net profit	175.4	245.7	395.6	407.8	414.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	131.9	76.5	97.2	106.7	114.4
Accounts receivable	326.6	415.3	559.5	576.2	593.5
Inventory	188.3	151.2	194.4	200.7	207.2
Property, Plant & Equip (net)	341.9	388.4	438.6	461.0	478.9
Intangible assets	16.5	15.7	9.3	2.9	(3.5)
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	41.5	41.2	35.4	35.4	35.4
Total assets	1,046.7	1,088.2	1,334.4	1,382.9	1,425.9
ST interest bearing debt	249.2	160.1	160.1	160.1	160.1
Accounts payable	386.4	478.1	614.7	634.6	655.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	62.0	54.0	89.0	105.0	121.0
Total Liabilities	697.3	692.5	863.3	899.6	936.5
Shareholders Equity	349.4	395.7	471.0	483.3	489.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	349.4	395.7	471.0	483.3	489.4
Total liabilities and equity	1,046.7	1,088.2	1,334.4	1,382.9	1,425.9
CASH FLOW (MYR m)					
Pretax profit	198.7	321.4	571.6	536.6	544.7
Depreciation & amortisation	68.8	70.7	73.7	78.0	82.4
Adj net interest (income)/exp	4.9	2.5	1.7	1.5	1.3
Change in working capital	(23.8)	(9.2)	(50.8)	(3.2)	(3.3)
Cash taxes paid	(77.6)	(75.6)	(176.1)	(128.8)	(130.7)
Other operating cash flow	64.3	34.1	0.0	0.0	0.0
Cash flow from operations	226.3	339.9	417.6	481.5	491.8
Capex	(57.3)	(98.0)	(77.6)	(77.6)	(77.6)
Free cash flow	169.0	241.9	340.0	403.9	414.2
Dividends paid	(199.4)	(199.4)	(320.2)	(395.6)	(407.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	152.0	(89.2)	0.0	0.0	0.0
Other invest/financing cash flow	0.3	(3.8)	0.9	1.1	1.3
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	121.9	(50.5)	20.7	9.5	7.7

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(24.0)	12.3	34.7	3.0	3.0
EBITDA growth	(42.0)	44.8	64.0	(4.8)	2.0
EBIT growth	(50.9)	59.1	77.0	(6.2)	1.5
Pretax growth	(51.8)	61.8	77.8	(6.1)	1.5
Reported net profit growth	(50.7)	59.3	61.0	3.1	1.5
Core net profit growth	(44.0)	40.1	61.0	3.1	1.5
Profitability ratios (%)					
EBITDA margin	15.5	19.9	24.3	22.4	22.2
EBIT margin	11.6	16.4	21.5	19.6	19.3
Pretax profit margin	11.3	16.2	21.4	19.5	19.3
Payout ratio	99.9	99.6	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	8.7	12.4	14.8	14.8	14.6
Revenue/Assets (x)	1.7	1.8	2.0	2.0	2.0
Assets/Equity (x)	3.0	2.8	2.8	2.9	2.9
ROAE (%)	41.5	65.9	91.3	85.5	85.1
ROAA (%)	16.3	23.0	32.7	30.0	29.5
Liquidity & Efficiency					
Cash conversion cycle	2.7	(1.1)	(10.0)	(9.6)	(9.6)
Days receivable outstanding	94.6	67.5	65.8	74.4	74.4
Days inventory outstanding	36.8	44.3	35.1	38.8	38.8
Days payables outstanding	128.7	112.8	110.9	122.8	122.8
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	1.0	1.0	1.0	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.5	1.5	1.5
Net gearing (%) (incl perps)	33.6	21.1	13.4	11.1	9.4
Net gearing (%) (excl. perps)	33.6	21.1	13.4	11.1	9.4
Net interest cover (x)	41.3	129.7	nm	nm	nm
Debt/EBITDA (x)	0.9	0.4	0.2	0.3	0.3
Capex/revenue (%)	3.2	5.0	2.9	2.8	2.7
Net debt/ (net cash)	117.3	83.7	63.0	53.4	45.8

Source: Company; Maybank IBG Research

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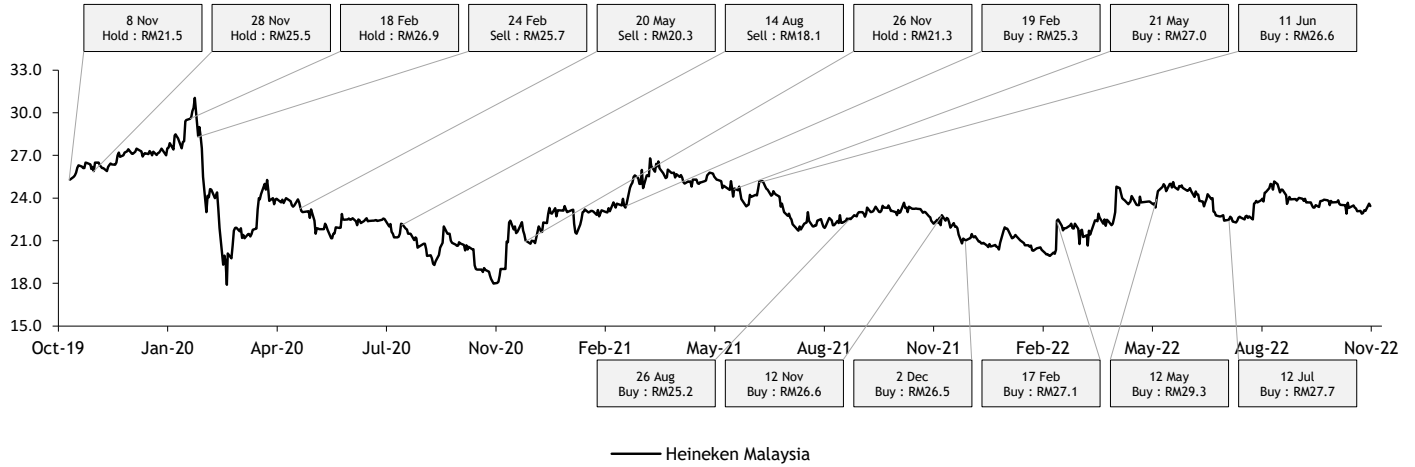
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