

Carlsberg Brewery Malaysia (CAB MK)

Weathering through

Maintain BUY with an unchanged TP of MYR21.00

CAB's overall volume growth may be hindered by ongoing challenges in consumer sentiment, but given its recent product price increase and more favourable raw material ASPs, the group has more breathing room to defend margins. Hence, we keep our earnings estimates. Maintain BUY with an unchanged DCF-TP of MYR21.00 (WACC: 8%, LT growth: 3%) with decent FY24E yield of 4.7%.

Sales mix update

CAB's 1Q24 revenue growth (+3% YoY) was dominated by mainstream category sales (*Carlsberg Green Label & Carlsberg Smooth Draught*), particularly in off-trade channels where consumers stocked up on canned beer during CNY. 1Q24 premium category sales however eased YoY. CAB remains committed to growing its premium presence in Malaysia and it expects premium volume to improve in the subsequent quarters on higher A&P engagement and better on-trade sales. CAB has a c.80:20 sales mix ratio between mainstream and premium sales, we suspect.

Fitting Sapporo into the market

Following CAB's switch to *Sapporo* beers (1 Jan 2024 onwards, from *Asahi*), Malaysia modern-on trade channels were the quickest to transition to *Sapporo* kegs while aluminium cans for off-trade channels were only rolled out in Feb 2024 given additional branding and packaging needed for promotion. We understand that *Sapporo*'s Malaysia sales volume has since grown to >50% of *Asahi*'s previous volume in Malaysia. However, Singapore volumes will take a longer time to recover as CAB only managed to secure off-trade distribution rights for *Sapporo*, compared to its former *Asahi* distribution contract which included both on & off-trade distribution.

Expecting softer sequential earnings

Sequential earnings are expected to be weaker as volumes normalise post-CNY festivities and post front-loading activities (pre-price hikes) in 1Q24. Potential lift in consumer disposable income (eg. EPF Account 3 withdrawal) may also have a muted impact on the brewers given lower product affordability (due to price hikes, and higher 8% SST). That said, group margins should hold up better on stable raw material ASPs. Our financial model has imputed for industry volume growth of +3% p.a..

| FYE Dec (MYR m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|-------|-------|-------|----------|----------|
| Revenue | 2,412 | 2,261 | 2,298 | 2,416 | 2,539 |
| EBITDA | 471 | 461 | 449 | 470 | 492 |
| Core net profit | 327 | 316 | 322 | 340 | 357 |
| Core EPS (sen) | 106.8 | 103.3 | 105.2 | 111.2 | 116.7 |
| Core EPS growth (%) | 58.3 | (3.2) | 1.8 | 5.7 | 4.9 |
| Net DPS (sen) | 88.0 | 93.0 | 94.7 | 100.1 | 105.0 |
| Core P/E (x) | 21.4 | 18.7 | 18.1 | 17.1 | 16.3 |
| P/BV (x) | 47.4 | 25.7 | 24.0 | 21.0 | 18.6 |
| Net dividend yield (%) | 3.8 | 4.8 | 5.0 | 5.3 | 5.5 |
| ROAE (%) | 176.7 | 173.7 | 136.3 | 130.8 | 121.0 |
| ROAA (%) | 38.9 | 30.4 | 30.8 | 30.7 | 30.1 |
| EV/EBITDA (x) | 14.9 | 12.8 | 13.0 | 12.4 | 11.8 |
| Net gearing (%) (incl perps) | 16.7 | 9.4 | 9.8 | net cash | net cash |
| Consensus net profit | - | - | 337 | 355 | 376 |
| MIBG vs. Consensus (%) | - | - | (4.6) | (4.3) | (5.1) |

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BUY

| | |
|-----------------------|------------------|
| Share Price | MYR 19.04 |
| 12m Price Target | MYR 21.00 (+15%) |
| Previous Price Target | MYR 21.00 |

Company Description

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

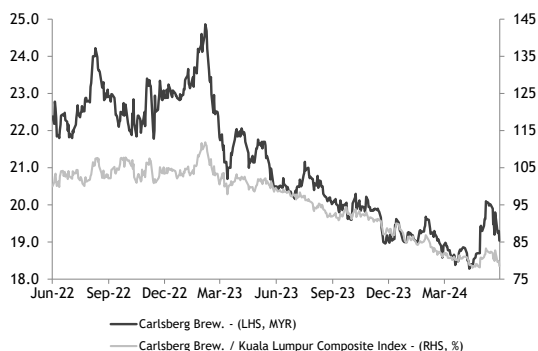
Statistics

| | |
|------------------------|--------------------|
| 52w high/low (MYR) | 21.16/18.28 |
| 3m avg turnover (USDm) | 0.8 |
| Free float (%) | 45.7 |
| Issued shares (m) | 306 |
| Market capitalisation | MYR5.8B USD1.2B |

Major shareholders:

| | |
|---------------------------------------|-------|
| Carlsberg A/S | 51.0% |
| Great Eastern Life Assurance Co. Ltd. | 3.2% |
| AIA Bhd. | 2.3% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | (2) | 2 | (7) |
| Relative to index (%) | (3) | (3) | (21) |

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

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| | |
|--|---|
| Risk Rating & Score ¹ | 15.5 (Low) |
| Score Momentum ² | 0.0 |
| Last Updated | 27 Apr 2024 |
| Controversy Score ³ (Updated: 14 Jun 2022) | 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 and Beyond' with six ambitions, including the reduction of its carbon footprint and water waste. Main environmental targets to be achieved by 2022 are outlined below.
- To have Zero carbon emissions at breweries by 2030, and net zero across entire value chain by 2040. In 2023, CAB has reduced emissions by 33% compared to 2015 levels.
- Strive towards more efficient energy usage by using 100% renewable sources to generate power for its breweries by 2030 through solar power, biomass & biogas, doing away with the usage of coal, and implementing 100% low-climate impact cooling.
- To achieve industry-leading water efficiency, reducing water usage to 2.0hl / hl of beverage by 2030. In 2023, CAB has improved water efficiency to 3.3hl, a reduction of 18% vs 2021 (4.0hl).
- Target for 30% of raw materials to be sustainably sourced by 2030, and 100% by 2040.
- To achieve 100% of packaging to be recyclable and renewable by 2030. Also strives for 90% of bottles and cans to be collected and recycled by 2030.

Material S issues

- With fatalities on the rise from drink-driving, CAB publicly advocates for responsible drinking through dedicated marketing campaigns (eg. #CelebrateResponsibly).
- CAB carries the responsible drinking symbol, messaging and age restriction label on 100% of its products.
- CAB targets 100% availability of alcohol-free brews for business-to-business customers by 2030. 3 of CAB's brews are alcohol-free at present as at end-Dec 2023.
- By 2030, CAB aspires to reach zero lost-time accidents at its plant. In 2023, CAB recorded 2 lost-time accidents and 1 recordable work-related injury.

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 2023, 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 2023 was c.MYR5.0m (c.1.2% of group pre-tax profit).
 - CAB has disclosed the top four senior management remuneration 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.1.9% 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).

| Quantitative Parameters (Score: 43) | | | | | | |
|-------------------------------------|---|--------|--------|---------------|---------------|----------------|
| | Particulars | Unit | 2021 | 2022 | 2023 | HEIM MK (2023) |
| E | Scope 1 GHG emissions | tCO2e | NA | 4,824 | 4,346 | 6,375 |
| | Scope 2 GHG emissions | tCO2e | NA | 9,892 | 9,884 | 10,600 |
| | Total | tCO2e | NA | 14,716 | 14,230 | 16,975 |
| | Scope 3 emissions | tCO2e | NA | NA | NA | 1,310 |
| | Total | tCO2e | NA | 14,716 | 14,230 | 18,285 |
| | Water usage efficacy | hl/hl | 4.00 | 3.50 | 3.3 | 3.4 |
| | Share of renewable energy usage | % | NA | 100% | 100% | 100% |
| | Electricity usage | kWh/hl | 10.6 | 10.0 | 11.0 | 9.4 |
| | Total waste generated | Tonne | NA | 25,500 | 25,743 | 32,632 |
| | Water recovered and reused | % | 23,039 | 66,424 | 19,740 | NA |
| S | % of women in workforce | % | 25.7% | NA | NA | 30.0% |
| | % of women in management roles | % | 35.0% | 38.0% | 63.0% | 38.0% |
| | Lost-time incident rate (LTIR) | Rate | 0.0 | 0.0 | 0.4 | 0.4 |
| G | MD/CEO salary as % of reported net profit | % | 1.9% | 1.2% | 1.5% | 1.8% |
| | Board salary as % of reported net profit | % | 2.0% | 1.4% | 1.7% | 2.0% |
| | Independent directors on the Board | % | 43% | 43% | 43% | 43% |
| | Female directors on the Board | % | 29% | 29% | 29% | 43% |

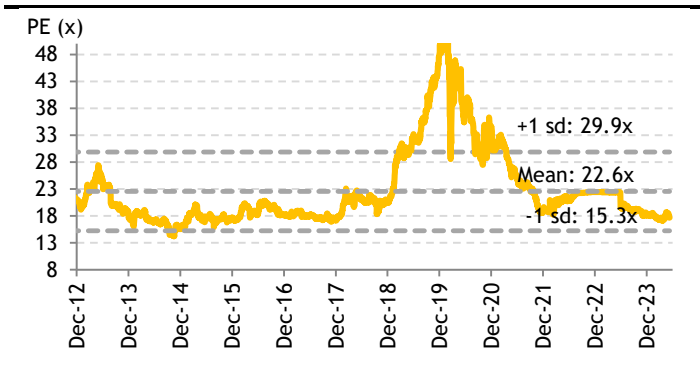
| Qualitative Parameters (Score: 50) | |
|---|--|
| a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? | <i>Yes, it has an established sustainability framework. The management team is responsible for the governance, management, and reporting on the group's sustainability agenda within their respective business functions, led by the managing director and overseen by the board.</i> |
| b) Is the senior management salary linked to fulfilling ESG targets? | <i>No.</i> |
| c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? | <i>Yes.</i> |
| e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? | <i>No.</i> |
| f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? | <i>CAB has made efforts to reduce its emission through various methods, including the purchase of green technologies. The group replaced 18 Liquid Propane Gas forklifts with fully electric ones. It also uses zero coal, using natural gas and biogas for its wastewater treatment plant instead. In terms of water, CAB implemented reverse osmosis technology in its water treatment plant, enabling the recycling of 13% of water loss. CAB contributes zero waste to landfill since November 2022.</i> |
| g) Does carbon offset form part of the net zero/carbon neutrality target of the company? | <i>No.</i> |

| Target (Score: 100) | | |
|---|--------|----------|
| Particulars | Target | Achieved |
| Reduce carbon emissions at breweries to zero by 2030 vs 2015 baseline | 0% | 73% |
| 30% reduction in beer-in-hand carbon footprint by 2030 vs 2015 baseline | 30% | 33% |
| Zero lost-time accidents (LTA) by 2030 (days) | 0 | 0 |
| Water usage efficacy of 2.0 hectolitres per hectolitre of beer produced by 2030 | 2.0 | 3.3 |
| Impact | | |
| NA | | |
| Overall Score: 59 | | |
| As per our ESG matrix, Carlsberg Malaysia has an overall score of 59. | | |

| ESG score | Weights | Scores | Final Score |
|--------------|---------|--------|-------------|
| Quantitative | 50% | 43 | 21 |
| Qualitative | 25% | 50 | 13 |
| Target | 25% | 100 | 25 |
| Total | | | 59 |

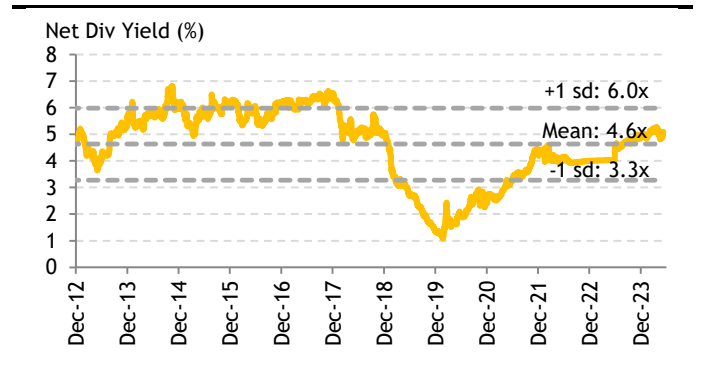
As per our ESG assessment, Carlsberg Malaysia has an established ESG framework with internal policies for net-zero carbon emission targets in the long-term. The group however falls behind in its governance scoring in relation to recommended practises from the Malaysian Code on Corporate Governance (MCCG). Carlsberg Malaysia's overall ESG score is 59, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

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).

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - ‘0’ for data not available, ‘+1’ for improving trajectory, positive change, ‘Yes’, better than peers or a positive number if historical is not available and ‘-1’ for declining trajectory, negative change, ‘No’, lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 21.2 | 19.6 | 18.1 | 17.1 | 16.3 |
| Core P/E (x) | 21.4 | 18.7 | 18.1 | 17.1 | 16.3 |
| P/BV (x) | 47.4 | 25.7 | 24.0 | 21.0 | 18.6 |
| P/NTA (x) | 48.9 | 26.3 | 23.9 | 21.1 | 18.6 |
| Net dividend yield (%) | 3.8 | 4.8 | 5.0 | 5.3 | 5.5 |
| FCF yield (%) | 3.8 | 4.6 | 5.2 | 5.8 | 6.1 |
| EV/EBITDA (x) | 14.9 | 12.8 | 13.0 | 12.4 | 11.8 |
| EV/EBIT (x) | 16.5 | 14.9 | 15.2 | 14.2 | 13.4 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 2,412.5 | 2,260.9 | 2,298.1 | 2,415.7 | 2,539.3 |
| EBITDA | 471.5 | 461.3 | 449.2 | 469.7 | 491.9 |
| Depreciation | (41.7) | (56.7) | (56.3) | (61.5) | (60.7) |
| Amortisation | (4.7) | (5.8) | (6.6) | 1.4 | (0.7) |
| EBIT | 425.1 | 398.8 | 386.4 | 409.5 | 430.5 |
| Net interest income / (exp) | (2.2) | (5.2) | (5.1) | (5.0) | (4.8) |
| Associates & JV | 21.5 | 23.5 | 25.0 | 25.0 | 25.0 |
| Exceptionals | 9.5 | (11.3) | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 444.4 | 417.1 | 406.3 | 429.5 | 450.7 |
| Income tax | (119.5) | (82.2) | (77.2) | (81.6) | (85.6) |
| Minorities | (7.8) | (7.6) | (7.5) | (7.9) | (8.3) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 317.0 | 327.3 | 321.6 | 340.0 | 356.8 |
| Core net profit | 326.5 | 316.0 | 321.6 | 340.0 | 356.8 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 91.3 | 95.0 | 93.0 | 135.8 | 179.3 |
| Accounts receivable | 447.0 | 384.8 | 391.1 | 411.1 | 432.2 |
| Inventory | 124.4 | 97.5 | 102.7 | 108.0 | 113.5 |
| Property, Plant & Equip (net) | 306.7 | 322.2 | 363.8 | 358.8 | 357.6 |
| Intangible assets | 4.6 | 5.2 | (1.1) | 0.5 | 0.1 |
| Investment in Associates & JVs | 66.9 | 88.6 | 98.5 | 108.3 | 118.1 |
| Other assets | 17.3 | 23.9 | 23.9 | 23.9 | 23.9 |
| Total assets | 1,058.2 | 1,017.3 | 1,071.9 | 1,146.4 | 1,224.7 |
| ST interest bearing debt | 116.9 | 117.1 | 118.2 | 118.2 | 118.2 |
| Accounts payable | 721.4 | 605.6 | 637.8 | 670.4 | 704.7 |
| LT interest bearing debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 66.0 | 60.0 | 60.0 | 60.0 | 60.0 |
| Total Liabilities | 904.1 | 782.7 | 816.0 | 848.6 | 882.9 |
| Shareholders Equity | 147.7 | 229.1 | 242.9 | 276.9 | 312.6 |
| Minority Interest | 6.5 | 5.5 | 13.0 | 20.9 | 29.2 |
| Total shareholder equity | 154.1 | 234.6 | 255.9 | 297.8 | 341.8 |
| Total liabilities and equity | 1,058.2 | 1,017.3 | 1,071.9 | 1,146.4 | 1,224.7 |
| CASH FLOW (MYR m) | | | | | |
| Pretax profit | 444.4 | 417.1 | 406.3 | 429.5 | 450.7 |
| Depreciation & amortisation | 46.4 | 62.4 | 62.9 | 60.2 | 61.4 |
| Adj net interest (income)/exp | 2.2 | 5.2 | 5.1 | 5.0 | 4.8 |
| Change in working capital | 28.8 | (45.7) | 20.6 | 7.4 | 7.7 |
| Cash taxes paid | (104.9) | (96.1) | (77.2) | (81.6) | (85.6) |
| Other operating cash flow | (2.4) | (17.0) | (25.0) | (25.0) | (25.0) |
| Cash flow from operations | 414.5 | 325.9 | 392.7 | 395.4 | 414.0 |
| Capex | (147.8) | (54.4) | (87.3) | (56.6) | (59.5) |
| Free cash flow | 266.8 | 271.5 | 305.4 | 338.9 | 354.5 |
| Dividends paid | (333.3) | (266.0) | (307.8) | (306.0) | (321.1) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 82.1 | (2.7) | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | 4.4 | 5.5 | 5.4 | 5.5 | 5.7 |
| Effect of exch rate changes | 1.6 | 4.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | 21.5 | 12.4 | 3.0 | 38.4 | 39.1 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|--------|--------|--------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 36.1 | (6.3) | 1.6 | 5.1 | 5.1 |
| EBITDA growth | 55.0 | (2.2) | (2.6) | 4.5 | 4.7 |
| EBIT growth | 72.2 | (6.2) | (3.1) | 6.0 | 5.1 |
| Pretax growth | 71.2 | (6.2) | (2.6) | 5.7 | 4.9 |
| Reported net profit growth | 57.7 | 3.2 | (1.7) | 5.7 | 4.9 |
| Core net profit growth | 58.3 | (3.2) | 1.8 | 5.7 | 4.9 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 19.5 | 20.4 | 19.5 | 19.4 | 19.4 |
| EBIT margin | 17.6 | 17.6 | 16.8 | 17.0 | 17.0 |
| Pretax profit margin | 18.4 | 18.4 | 17.7 | 17.8 | 17.7 |
| Payout ratio | 84.9 | 86.9 | 90.0 | 90.0 | 90.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 13.1 | 14.5 | 14.0 | 14.1 | 14.0 |
| Revenue/Assets (x) | 2.3 | 2.2 | 2.1 | 2.1 | 2.1 |
| Assets/Equity (x) | 7.2 | 4.4 | 4.4 | 4.1 | 3.9 |
| ROAE (%) | 176.7 | 173.7 | 136.3 | 130.8 | 121.0 |
| ROAA (%) | 38.9 | 30.4 | 30.8 | 30.7 | 30.1 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | (49.4) | (67.8) | (59.4) | (60.5) | (60.5) |
| Days receivable outstanding | 43.4 | 66.2 | 60.8 | 59.8 | 59.8 |
| Days inventory outstanding | 22.6 | 26.9 | 23.1 | 23.1 | 23.1 |
| Days payables outstanding | 115.5 | 161.0 | 143.2 | 143.3 | 143.3 |
| Dividend cover (x) | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 |
| Current ratio (x) | 0.7 | 0.8 | 0.7 | 0.8 | 0.8 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.2 | 1.3 | 1.3 | 1.4 | 1.4 |
| Net gearing (%) (incl perps) | 16.7 | 9.4 | 9.8 | net cash | net cash |
| Net gearing (%) (excl. perps) | 16.7 | 9.4 | 9.8 | net cash | net cash |
| Net interest cover (x) | nm | 76.6 | 76.4 | 81.3 | 89.6 |
| Debt/EBITDA (x) | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 |
| Capex/revenue (%) | 6.1 | 2.4 | 3.8 | 2.3 | 2.3 |
| Net debt/ (net cash) | 25.7 | 22.0 | 25.1 | (17.6) | (61.2) |

Source: Company; Maybank IBG Research

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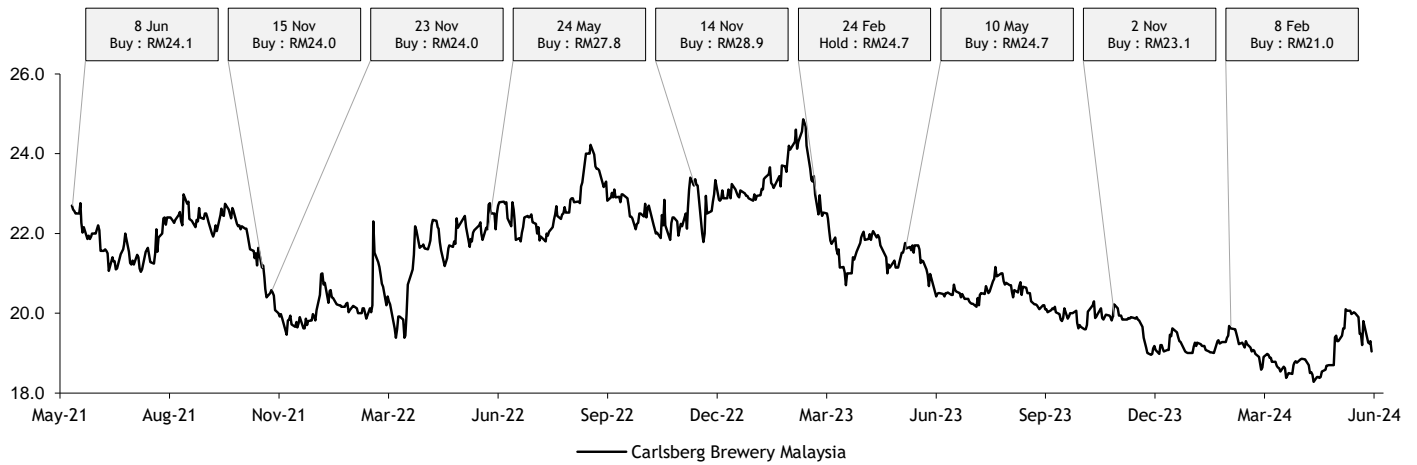
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