

# Heineken Malaysia (HEIM MK)

## Advantages of being agile

### Maintain BUY with an unchanged DCF-TP of MYR28.20

Inflationary pressures have mired consumption patterns within the brewery industry, but the strong following behind HEIM's core brands and strategic marketing efforts have expanded its product demand at the expense of its competitors. Separately, our ESG score for HEIM is lifted to 65 (out of 100) from 54 in our last review on improved carbon emission disclosures. We keep our earnings estimates, BUY call and DCF-TP of MYR28.20 (WACC: 7%, LTG: 3%) with decent yields of c.6%.

### Adapting to everchanging consumer preferences

HEIM's unwavering market leadership (1H24 revenue market share: 60%, +7 pts YoY) stems from its strong brand portfolio, but more importantly, its ability to be agile in identifying market demand changes of the younger generation of consumers. Launches of new product variants (eg. *Tiger Soju*, *Edelweiss*) have provided a constant refresh to its brands which may have aided beer consumption, and shortened the adverse knee-jerk volume impact from ASP hikes back in Apr 2024. This is also evident in HEIM's 1H24 low single digit volume growth YoY. We estimate that the ratio of on and off-trade volumes are c.55:45 presently as compared to the pre-pandemic average of c.67:33.

### Positives from softer raw material ASPs may be muted

The appreciation in MYR typically translates to cost savings for the group given that majority of its raw materials - barley, malt, aluminium - are purchased in EUR and USD. However, we do not expect significant margin accretion in the near-term as inbound freight rates have also increased. Meaningful growth in group margins will still heavily depend on volume growth and product mix improvements. Note that raw material cost accounts for c.8% of group revenue.

### Increased ESG score to 65 (from 54)

Updating for HEIM's FY23 annual report, we lift the group's ESG score to 65 (out of 100) vs. 54 in our last review, above average. The upgrade mainly pertains to HEIM's improvement in GHG emission disclosures, particularly for Scope 3 emissions, reduction in water and waste generation, and higher share of renewable energy usage on a YoY basis.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,855	2,638	2,754	2,836	2,921
EBITDA	674	596	618	633	652
Core net profit	413	387	403	411	423
Core EPS (sen)	136.7	128.0	133.3	136.0	139.9
Core EPS growth (%)	68.0	(6.3)	4.1	2.0	2.8
Net DPS (sen)	138.0	128.0	133.3	136.0	139.9
Core P/E (x)	18.4	18.9	16.7	16.4	15.9
P/BV (x)	15.6	15.9	14.2	13.9	13.6
Net dividend yield (%)	5.5	5.3	6.0	6.1	6.3
ROAE (%)	93.4	81.7	86.3	85.8	86.5
ROAA (%)	33.1	29.1	33.0	33.9	34.5
EV/EBITDA (x)	11.5	12.4	11.0	10.7	10.5
Net gearing (%) (incl perps)	24.0	20.0	14.2	10.0	17.1
Consensus net profit	-	-	413	429	455
MIBG vs. Consensus (%)	-	-	(2.3)	(4.3)	(7.2)

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# BUY

Share Price MYR 22.28  
12m Price Target MYR 28.20 (+32%)  
Previous Price Target MYR 28.20

### Company Description

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

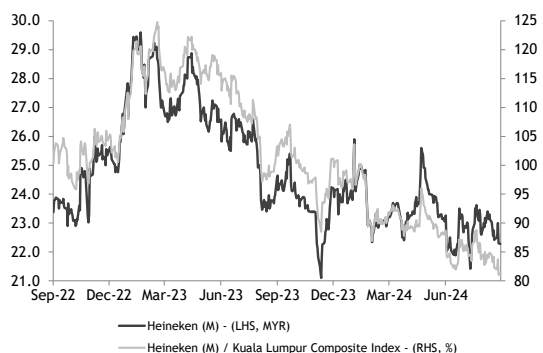
### Statistics

52w high/low (MYR)	25.90/21.10
3m avg turnover (USDm)	1.4
Free float (%)	45.2
Issued shares (m)	302
Market capitalisation	MYR6.7B USD1.6B

### Major shareholders:

Heineken NV	51.0%
Great Eastern Life Assurance Co. Ltd.	3.2%
APG Asset Management NV	2.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(4)	(7)
Relative to index (%)	(3)	(8)	(19)

Source: FactSet

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Risk Rating & Score <sup>1</sup>	21.6 (Medium)
Score Momentum <sup>2</sup>	-0.3
Last Updated	27 Apr 2024
Controversy Score <sup>3</sup> (Updated: 21 Feb 2015)	0 - No reported incidents

## Business Model & Industry Issues

- As water is used in every step of the beer brewing process, water consumption and wastewater disposal are HEIM's main environmental challenges, especially when water scarcity is occurring on a more frequent basis due to climate change and/or pollution amid robust growth in the brewery industry. To alleviate these issues, HEIM has implemented innovative solutions to optimise its production process and have adopted energy saving and water management strategies to lessen its environmental impact.
- Negative publicity stemming from recent drink-driving incidences has put incremental pressure on brewers in general to strengthen their stance on irresponsible consumption of alcohol. Although HEIM has continuously advocated for safe alcohol consumption practices, the increase in alcohol-related fatalities could result in harsher regulations on the industry.
- HEIM's ESG initiatives are comparable to its peers with similar guidelines and targets to reduce its environmental and social impact relating to the usage of natural resources, waste management and safe consumption of its products.

### Material E issues

- HEIM's ESG efforts are guided by its 'Brew a Better World' sustainability strategy, focusing on environmental sustainability, social sustainability, and responsible consumption.
- HEIM strives to reach net zero carbon emissions in production by 2030, and net zero across the entire value chain by 2040, with a 30% absolute reduction by 2030. In 2023, HEIM achieved an absolute CO2 emission reduction of 65% vs. 2018 baseline.
- HEIM has achieved its target of zero waste to landfill since 2017.
- The group also treats 100% of its wastewater, beyond the standards required by the Department of Environment.
- There are targets to reduce average water usage to 2.6 hl/hl in water-stressed areas and 2.9 hl/hl globally. In 2023, HEIM's average water usage was at 3.41 hl/hl.
- HEIM's largest global footprint comes from its packaging materials. Hence, the group utilises returnable packing materials i.e. bottles, kegs crates and cylinders, and works with its trade partners through a deposit system to ensure these reusable materials are returned to the brewery.

### Material S issues

- A total of 527 staff employed as at end-2023. 38% of HEIM's staff are in managerial roles are female.
- HEIM strongly advocates for responsible alcohol consumption by allocating 10% of its marketing budget towards this cause annually.
- HEIM abides by its internal Responsible Marketing Code, where product marketing materials are reviewed according to company principles, including a restriction in brand exposure to minors.
- Through its CSR arm 'SPARK Foundation', HEIM introduced an English Enrichment Training programme to provide creative teaching techniques and support to rural community teachers.

### Key G metrics and issues

- HEIM's Board has 7 directors, comprising 3 independent directors (including the Chairman) and 4 non-independent directors.
- At 43%, independent director representation is below the recommended industry practise (for majority of independent directors on the Board for large companies) but HEIM has no plans to change its Board composition at this juncture.
- In terms of gender balance, HEIM has a 57:43 male to female ratio on its Board of Directors, exceeding the Government's target of having at least 30% women on the Board of PLCs.
- The Chairman of the Board and Managing Director (MD) positions are held by separate individuals.
- The Chairman of the Audit Committee and the Chairman of the Board are also separate individuals.
- HEIM does not disclose detailed remuneration packages of its senior management for confidentiality reasons except for the Group MD (total remuneration package for FY23 was MYR6.9m or 1.4% of pre-tax profit).
- HEIM has been audited by Messrs Deloitte PLT since 2017.
- The group conducted its 57th AGM virtually through live streaming using remote participation and voting facilities to ensure that all shareholders were able to participate and engage the Board and senior management effectively.
- HEIM has related-party relationships with its holding corporations, related corporates, subsidiaries, and key management personnel in regards to royalty payments, purchase of goods and marketing and technical fees. Its royalties paid historically accounted for c.2% of group revenue.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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: 47)						
	Particulars	Unit	2021	2022	2023	CAB MK (2023)
E	Scope 1 GHG emissions	tCO2e	6,609	7,810	6,375	4,346
	Scope 2 GHG emissions	tCO2e	8,931	1,410	-	9,884
	<b>Total</b>	tCO2e	<b>15,540</b>	<b>9,220</b>	<b>6,375</b>	<b>14,230</b>
	Scope 3 GHG emissions	tCO2e	N/A	N/A	1,310	N/A
	<b>Total</b>	tCO2e	<b>15,540</b>	<b>9,220</b>	<b>7,685</b>	<b>14,230</b>
	Water usage	hl/hl	3.65	3.45	3.41	3.30
	Share of renewable energy usage %	%	N/A	87%	100%	100%
	Electricity usage	kWh/hl	10.62	8.97	9.39	11.0
	Total waste generated	MT	24,078	35,423	32,632	25,743
Waste diverted from disposal	%	100%	100%	100%	N/A	
S	% of women in workforce	%	N/A	N/A	N/A	N/A
	% of women in management roles	%	45.0%	42.0%	38.0%	63.0%
	Lost time incident rate (LTIR)	rate	N/A	0.0	0.4	0.4
G	MD/CEO salary as % of reported net profit	%	1.4%	1.5%	1.8%	1.5%
	Board salary as % of reported net profit	%	1.7%	1.6%	2.0%	1.7%
	Independent directors on the Board	%	43%	43%	43%	43%
	Female directors on the Board	%	43%	43%	43%	29%

#### Qualitative Parameters (Score: 83)

- a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?  
*Yes, there is a standalone Sustainability Committee that is chaired by the Managing Director. It is responsible for the formulation and implementation of the group's ESG initiatives. The corporate affairs & legal director oversees this committee and makes quarterly reports to the Board on the progress of sustainability initiatives undertaken by the group.*
- b) Is the senior management salary linked to fulfilling ESG targets?  
*HEIM has implemented the Brew a Better World strategy, where annual KPIs are set to achieve 2030 sustainability targets, including climate-related ambitions. The Sustainability Committee, chaired by HEIM's Managing Director, include climate-related KPIs under the environmental sustainability pillar.*
- c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?  
*Yes.*
- e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?  
*Yes. Scope 3 captures employee commute and business travel only.*
- f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?  
*The group commits to practise zero production waste to landfill by engaging licensed waste management partners to recycle and upcycle production waste including spent grains, spent yeast, rejected malt etc. and other materials such as cartons, glass and mixed steel scrap. Additionally, Heineken Malaysia invests in various river rehabilitation projects and installation & maintenance of rainwater harvesting systems in order to lower its internal water usage and promote healthier watersheds.*
- g) Does carbon offset form part of the net zero/carbon neutrality target of the company?  
*No.*

#### Target (Score: 83)

Particulars	Target	Achieved
Net zero carbon emissions in production by 2030 vs 2018 baseline	0.0%	-65%
Net zero emissions across the value chain by 2040	0.0%	N/A
Fully balanced water used in products in water-stressed areas	100%	223%
Treat 100% of wastewater of all breweries	100%	100%
Reduce average water usage to 2.6hl/hl worldwide by 2030	2.6hl/hl	3.41hl/hl
Zero accidents in the workplace	0	0

#### Impact

NA

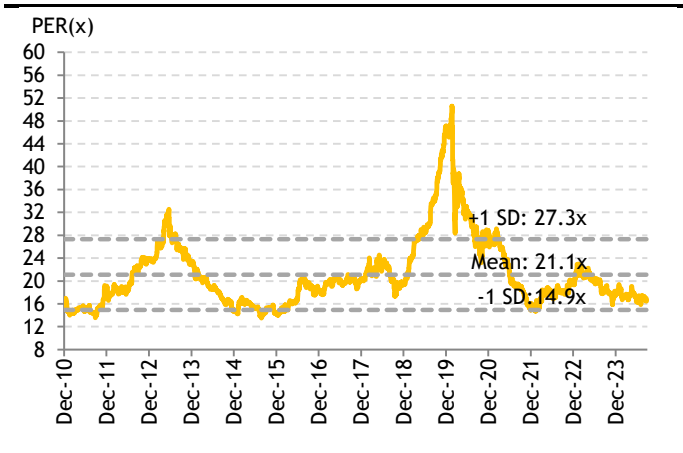
#### Overall Score: 65

As per our ESG matrix, Heineken Malaysia has an overall score of 65.

ESG score	Weights	Scores	Final Score
Quantitative	50%	47	23
Qualitative	25%	83	21
Target	25%	83	21
<b>Total</b>			<b>65</b>

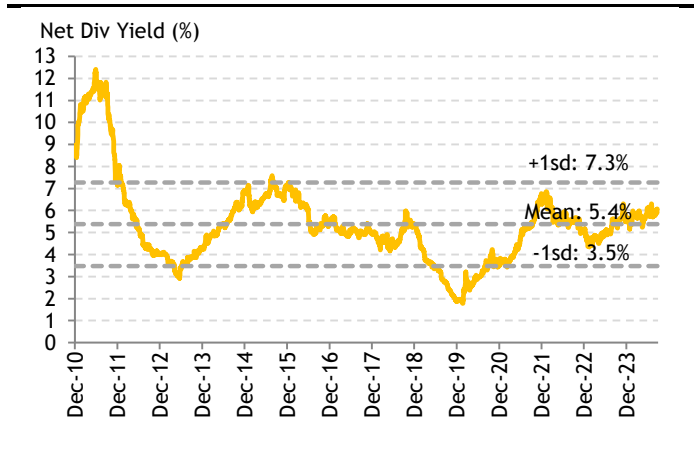
As per our ESG assessment, Heineken Malaysia has an established framework, internal policies, and tangible mid/long-term targets but needs to provide more details pertaining to its GHG emissions. Heineken Malaysia's overall ESG score is 65, which makes its ESG rating above average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

**Fig 1: HEIM: One-year forward PER**



Source: Company, Maybank IBG Research

**Fig 2: 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.

### 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
<b>Key Metrics</b>					
P/E (reported) (x)	17.1	20.2	16.7	16.4	15.9
Core P/E (x)	18.4	18.9	16.7	16.4	15.9
P/BV (x)	15.6	15.9	14.2	13.9	13.6
P/NTA (x)	16.3	16.6	14.6	14.2	13.6
Net dividend yield (%)	5.5	5.3	6.0	6.1	6.3
FCF yield (%)	3.9	6.2	6.1	6.2	5.5
EV/EBITDA (x)	11.5	12.4	11.0	10.7	10.5
EV/EBIT (x)	13.0	14.2	12.7	12.4	12.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,855.1	2,637.7	2,753.7	2,836.3	2,921.4
EBITDA	674.0	596.3	618.3	632.7	652.0
Depreciation	(69.9)	(65.3)	(76.0)	(80.3)	(84.7)
Amortisation	(7.9)	(12.6)	(6.4)	(6.4)	(6.4)
EBIT	596.2	518.3	535.9	546.0	560.9
Net interest income / (exp)	(1.7)	(7.4)	(5.9)	(5.3)	(4.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	594.5	510.9	530.0	540.6	556.0
Income tax	(181.7)	(124.1)	(127.2)	(129.8)	(133.4)
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	412.8	386.8	402.8	410.9	422.6
Core net profit	412.8	386.8	402.8	410.9	422.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	52.6	43.3	67.6	86.6	50.5
Accounts receivable	602.0	433.6	452.6	466.2	480.2
Inventory	190.7	120.6	126.1	129.9	133.8
Property, Plant & Equip (net)	505.3	576.5	478.9	492.5	501.8
Intangible assets	20.5	20.4	14.0	7.6	1.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	37.1	53.2	51.4	51.4	51.4
<b>Total assets</b>	<b>1,408.2</b>	<b>1,247.4</b>	<b>1,190.6</b>	<b>1,234.2</b>	<b>1,218.9</b>
ST interest bearing debt	170.0	135.0	135.0	135.0	135.0
Accounts payable	693.4	610.3	638.2	657.3	677.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	56.0	43.0	(57.0)	(41.0)	(88.0)
<b>Total Liabilities</b>	<b>919.8</b>	<b>788.8</b>	<b>715.8</b>	<b>751.3</b>	<b>724.3</b>
Shareholders Equity	488.5	458.7	474.8	482.9	494.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>488.5</b>	<b>458.7</b>	<b>474.8</b>	<b>482.9</b>	<b>494.6</b>
<b>Total liabilities and equity</b>	<b>1,408.2</b>	<b>1,247.4</b>	<b>1,190.6</b>	<b>1,234.2</b>	<b>1,218.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	594.5	510.9	530.0	540.6	556.0
Depreciation & amortisation	77.8	78.0	82.4	86.7	91.0
Adj net interest (income)/exp	1.7	7.4	5.9	5.3	4.9
Change in working capital	(34.8)	135.1	3.4	1.8	(61.3)
Cash taxes paid	(173.1)	(151.2)	(127.2)	(129.8)	(133.4)
Other operating cash flow	5.9	12.5	0.0	0.0	0.0
Cash flow from operations	469.1	584.1	487.6	497.9	450.4
Capex	(170.4)	(133.3)	(77.6)	(77.6)	(77.6)
Free cash flow	298.7	450.8	410.0	420.3	372.9
Dividends paid	(320.2)	(416.9)	(386.7)	(402.8)	(410.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	9.9	(35.0)	0.0	0.0	0.0
Other invest/financing cash flow	(8.4)	(4.4)	1.0	1.5	1.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(20.0)	(5.5)	24.3	19.0	(36.1)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	44.2	(7.6)	4.4	3.0	3.0
EBITDA growth	61.7	(11.5)	3.7	2.3	3.1
EBIT growth	84.1	(13.1)	3.4	1.9	2.7
Pretax growth	85.0	(14.1)	3.7	2.0	2.8
Reported net profit growth	68.0	(6.3)	4.1	2.0	2.8
Core net profit growth	68.0	(6.3)	4.1	2.0	2.8
<b>Profitability ratios (%)</b>					
EBITDA margin	23.6	22.6	22.5	22.3	22.3
EBIT margin	20.9	19.6	19.5	19.2	19.2
Pretax profit margin	20.8	19.4	19.2	19.1	19.0
Payout ratio	101.0	100.0	100.0	100.0	100.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.5	14.7	14.6	14.5	14.5
Revenue/Assets (x)	2.0	2.1	2.3	2.3	2.4
Assets/Equity (x)	2.9	2.7	2.5	2.6	2.5
ROAE (%)	93.4	81.7	86.3	85.8	86.5
ROAA (%)	33.1	29.1	33.0	33.9	34.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(14.9)	(30.9)	(40.1)	(40.5)	(40.5)
Days receivable outstanding	64.1	70.7	57.9	58.3	58.3
Days inventory outstanding	32.6	31.9	24.1	24.3	24.3
Days payables outstanding	111.6	133.4	122.2	123.1	123.1
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	1.0	0.8	1.0	1.0	1.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.6	1.7	1.6	1.7
Net gearing (%) (incl perps)	24.0	20.0	14.2	10.0	17.1
Net gearing (%) (excl. perps)	24.0	20.0	14.2	10.0	17.1
Net interest cover (x)	nm	69.7	91.4	102.4	114.1
Debt/EBITDA (x)	0.3	0.2	0.2	0.2	0.2
Capex/revenue (%)	6.0	5.1	2.8	2.7	2.7
Net debt/ (net cash)	117.4	91.7	67.4	48.4	84.5

Source: Company; Maybank IBG Research

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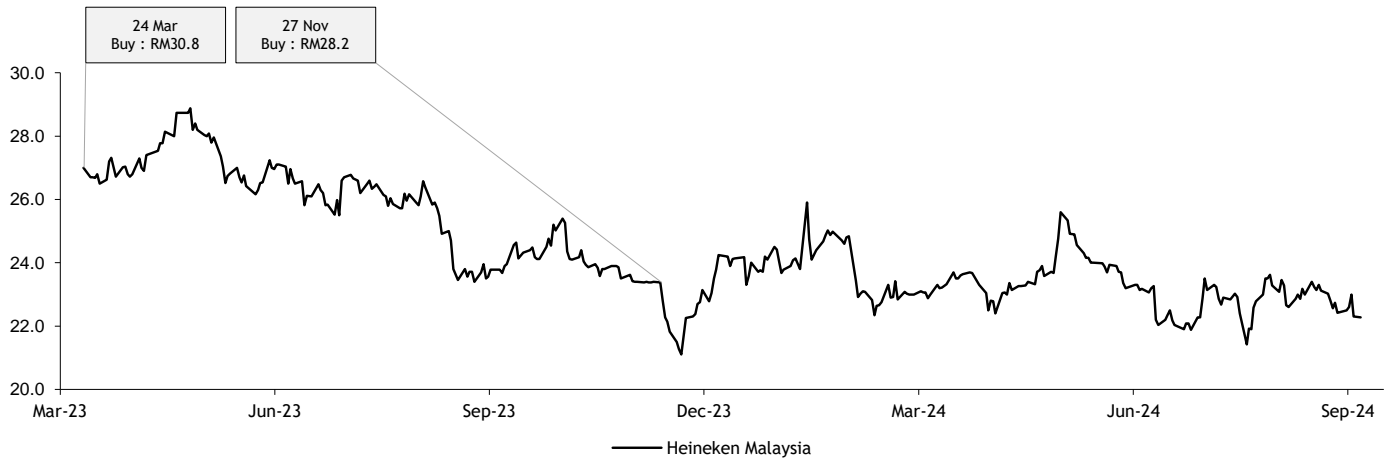
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