

14 August 2020

# Heineken Malaysia Berhad

## A Blip in the Keg

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**1HFY20 core net profit of RM45.3m (-62% YoY) and the absence of dividend missed expectations on worse-than-expected Covid-19 disruptions. However, we believe the group is likely to experience sequential improvements moving ahead, fuelled by the anticipation of a pick-up in beer consumption in 2H. Pending more updates from the briefing later today, we retain our MP call with a higher TP of RM22.95 (from RM20.85), following an earnings revision.**

**1HFY20 disappointed.** 1HFY20 core net profit of RM45.3m (after stripping off one-off provision for inventory write-off) missed expectations at 18% and 16% of our and consensus' forecasts, respectively. We believe the negative deviation is largely owed to worse-than-expected top-line, which was dragged by the suspension of its Brewery operations and its disrupted on-trade channels amidst the Covid-19 outbreak. The absence of dividend YTD versus 1HFY19's 42.0 sen is also below our expectation.

**Unveiling the full impact of Covid-19.** YoY, 1HFY20 revenue slipped by 26% to RM769.6m, hugely diminished by: (i) the 22% decline in beer volume led by the suspension of brewery operations during MCO, as well as (ii) disrupted on-trade channels as restaurants and coffee shops' businesses remained slow since the start of the pandemic while pubs and entertainment outlets are still not allowed to operate. Despite the group's effort to streamline its cost base for FY20 (i.e. more prudent A&P spending and rationalisation of brand promoter headcount), the significant decline in top-line was insufficient to cover the fixed costs, leading to a 62% dive in earnings. For the individual quarter of 2QFY20, revenue and bottom-line YoY changes were due to the aforementioned reasons.

**QoQ,** 2QFY20 revenue fell 51% to RM253.7m, largely dragged by the suspension of the brewery operations for the entire month of April until 3 May. Consequently, the group plunged into a core net loss of RM18.7m (from CNP of RM64.0m in 1QFY20).

**Recovering as we ease into the new norm.** We believe the group should be able to demonstrate QoQ improvements moving ahead, barring a second wave of infections. This is premised on the anticipation of a pick-up in beer consumption in 2H following the gradual reopening of the businesses amidst the enforced Recovery Movement Control Order from June 10. While a portion of the on-trade businesses (i.e. night clubs and entertainment centres) are still prohibited from operating, we observe that the reopening of the rest of the on-trade channels were welcomed with open arms, likely fuelled by the pent-up demand as consumers feel more at ease to dine out now with the local infected cases remaining under control.

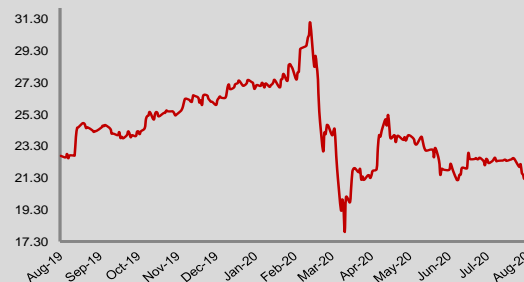
**Post-results,** we slashed our FY20E earnings by 49.3% to account for the worse-than-expected 2Q results while we bumped our FY21E earnings upwards by 10.2% to account for a stronger post-lockdown recovery. Given the current circumstances, we opted for a more conservative stance towards our forecasted dividend pay-out by revising FY20E dividend payment to 20 sen (from 83 sen) and FY21E to 90 sen (from 96 sen).

**Maintain MARKET PERFORM with higher TP of RM22.95** (from RM20.85) following the earnings revision, premised on an unchanged FY21E 22.0x PER (closely in-line with -0.5SD over its 3-year mean). While we still like the name for its market leader position and the expectation for a gradual recovery ahead, we are nonetheless cautious over its near-term outlook being clouded by: (i) lower dividend pay-out for the year, coupled with (ii) uncertainty surrounding the speed for its earnings recovery in the absence of a vaccine. **Risks to our call include:** (i) stronger-than-expected sales volume, and (ii) lower-than-expected operating expenses.

## MARKET PERFORM ↔

Price : RM22.20  
Target Price : RM22.95 ↑

### Share Price Performance



KLCI 1,576.42  
YTD KLCI chg -0.8%  
YTD stock price chg -18.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HEIM MK Equity
Market Cap (RM m)	6,706.6
Shares Outstanding	302.1
52-week range (H)	31.74
52-week range (L)	17.30
3-mth avg daily vol	144,638
Free Float	46%
Beta	0.9

### Major Shareholders

GAPL Pte Ltd	51.0%
Oversea Chinese Bank	3.3%
Virtus Investment	2.1%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	2,320.2	1,189.1	2,582.2
EBIT	414.4	152.4	397.3
PBT	412.1	159.2	415.2
<b>Net Profit</b>	<b>313.0</b>	<b>120.9</b>	<b>315.3</b>
<b>Core Net Profit</b>	<b>313.0</b>	<b>127.4</b>	<b>315.3</b>
Consensus (NP)	-	284.0	317.7
Earnings Revision	-	-49.3%	10.2%
Core EPS (sen)	103.6	42.2	104.4
Core EPS growth (%)	10.8	-59.3	147.5
NDPS (sen)	108.0	20.0	90.0
BVPS (RM)	1.3	1.5	1.6
PER (x)	21.4	52.6	21.3
PBV (x)	17.0	14.8	13.5
Net Gearing (x)	0.2	(0.2)	(0.3)
Net Div. Yield (%)	4.9	0.9	4.1



14 August 2020

## Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	253.7	515.9	-50.8%	512.6	-50.5%	769.6	1037.7	-25.8%
EBIT / (LBIT)	-22.6	75.7	-129.8%	85.3	-126.5%	53.1	156.7	-66.1%
PBT/(LBT)	-24.0	74.9	-132.1%	85.5	-128.1%	50.8	155.9	-67.4%
Taxation	5.8	(17.9)	132.5%	(19.8)	-129.4%	(12.1)	(37.4)	67.7%
Net Profit/ (Net Loss)	-18.2	57.0	-131.9%	65.7	-127.7%	38.8	118.5	-67.3%
Core Net Profit / (Core Net Loss)	-18.7	64.0	-129.2%	65.7	-128.5%	45.3	118.5	-61.8%
CEPS (sen) / (CLPS )	-6.2	21.2	-129.2%	21.7	-128.5%	15.0	39.2	-61.8%
DPS (sen)	0.0	0.0		42.0		0.0	42.0	
EBIT margin	-8.9%	14.7%		16.6%		6.9%	15.1%	
PBT margin	-9.5%	14.5%		16.7%		6.6%	15.0%	
NP margin	-7.2%	11.0%		12.8%		5.0%	11.4%	
CNP margin	-7.4%	12.4%		12.8%		5.9%	11.4%	
Effective tax rate	24.2%	23.9%		23.1%		23.8%	24.0%	

Source: Company, Kenanga Research

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14 August 2020

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.36	1,554.3	N	12/2020	4.6%	3.4%	3.7%	7.0%	31.0	29.9	27.9	16.4	17.4	56.5%	3.7%	1.30	MP	
AEON CO (M) BHD	0.800	1,123.2	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	10.3	18.1	14.1	0.7	0.7	3.7%	5.0%	1.00	MP	
AMWAY MALAYSIA HOLDINGS BHD	4.84	795.6	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	15.5	17.8	15.2	3.6	3.6	20.1%	5.7%	5.10	MP	
DUTCH LADY MILK INDUSTRIES BHD	39.08	2,501.1	Y	12/2020	-3.0%	5.0%	-14.2%	13.2%	24.3	28.3	25.0	17.3	13.8	54.2%	2.0%	37.55	UP	
FRASER & NEAVE HOLDINGS BHD	32.42	11,891.0	Y	09/2020	0.6%	2.2%	-3.4%	9.1%	28.3	29.3	26.9	4.7	4.4	15.5%	1.9%	36.20	OP	
HAI-O ENTERPRISE BHD	1.79	519.4	N	04/2021	2.3%	2.3%	9.9%	6.5%	16.1	14.7	13.8	1.7	1.6	11.3%	4.5%	1.20	UP	
MYNEWS HOLDINGS BHD	0.615	419.5	N	10/2020	-14.7%	11.2%	-81.0%	256.9%	15.7	82.3	23.1	1.4	1.4	1.7%	1.6%	0.480	UP	
NESTLE (MALAYSIA) BHD	143.40	33,627.3	Y	12/2020	-2.2%	1.9%	-4.4%	5.8%	51.6	54.0	51.0	50.1	49.2	92.0%	1.8%	122.30	UP	
PADINI HOLDINGS BHD	2.14	1,407.9	Y	06/2020	-6.6%	4.7%	-15.8%	10.3%	9.0	10.7	9.7	1.9	1.8	17.2%	3.3%	2.65	MP	
POWER ROOT BHD	2.11	883.9	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	16.1	17.1	15.3	3.4	3.1	19.2%	5.5%	2.45	OP	
QL RESOURCES BHD	9.66	15,672.8	Y	03/2021	13.2%	7.4%	13.6%	9.1%	65.5	57.7	52.9	7.5	6.9	12.4%	0.6%	9.05	UP	
SPRITZER BHD	1.96	411.5	Y	12/2020	-2.4%	5.0%	-11.2%	16.6%	13.2	14.9	12.7	1.0	1.0	6.6%	2.0%	2.10	MP	
Simple Average					-1.4%	4.9%	-13.7%	32.6%	24.7	31.2	24.0	9.1	8.7	25.9%	3.1%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	10.30	2,941.0	N	12/2020	-24.6%	-1.9%	-38.8%	-0.1%	8.1	13.3	13.3	6.8	6.7	51.0%	7.3%	10.05	MP	
CARLSBERG BREWERY MALAYSIA BHD	23.54	7,197.3	N	12/2020	-28.3%	35.0%	-29.5%	36.0%	24.9	35.4	26.0	43.6	27.1	98.1%	1.4%	21.00	UP	
HEINEKEN MALAYSIA BHD	22.20	6,706.6	N	12/2020	-48.8%	117.2%	-59.3%	147.5%	21.4	52.6	21.3	17.0	14.8	28.5%	0.9%	22.95	MP	
Simple Average					-33.9%	50.1%	-42.5%	61.1%	18.2	33.8	20.2	22.5	16.2	59.2%	3.2%			

Source: Bloomberg, Kenanga Research

14 August 2020

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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