

13 November 2020

# Carlsberg Brewery Malaysia

## A Recovery Play

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**9MFY20 CNP (-42% YoY) missed expectations on poorer-than-expected margins, while the absence of dividend is in-line with expectations. Despite near-term headwinds, we believe this could be an opportune time to position for a recovery play. This is premised on the recent Covid-19 vaccine developments, which could see a comeback of inelastic beer demand and generous dividend pay-out in FY21. Reiterate OP with higher TP of RM26.50.**

**Missed expectations.** 9MFY20 core net profit (CNP) of RM129.1m (after stripping off post-tax bill of demand of RM4.9m) missed expectations at 61% and 65% of our and consensus' forecasts, respectively. The mismatch is likely due to worse-than-expected margins from the lower economies of scale. Nonetheless, the absence of dividend is within expectation, given the earlier announcement of the suspension of quarterly dividend payments in light of the current pandemic.

**Overall a depressed year...** YoY, 9MFY20 revenue dropped 22% to RM1.31b, predominantly dragged by weaker revenue from both its Malaysia operation (-24%) and Singapore operation (-18%). These are attributable to the greatly disrupted on-trade channels amid the global pandemic given that: (i) certain channels (i.e. pubs and entertainment outlets) are still prohibited from operating, and (ii) those that are operational are still affected by the lower operating capacity. Consequently, CNP plunged 42% to RM129.1m, as poorer economies of scale dampened EBIT margin (-5ppt).

**...but strong sequential improvements noted.** QoQ, 3QFY20 revenue rose 52%, buoyed by robust post-lockdown sales recovery from both Malaysia operation (+39%) and Singapore operation (+85%). Coupled with higher profit from its associate Lion Brewery (RM5.8m versus RM0.5m in 2QFY20), CNP more than doubled to RM40.6m.

**Look beyond the near-term headwinds.** Moving ahead, we expect the near-term weakness in Malaysia operation - plagued by potentially softer beer demand amid the resurgence of local Covid-19 cases to be partially mitigated by a sturdier Singapore operation, due the latter's easing and controlled Covid-19 situation. That said, the prospect of earnings recovery is looking much brighter given recent vaccine developments, which could eventually result in full re-opening of on-trade channels and the uplift of travel restrictions upon successful local deployment.

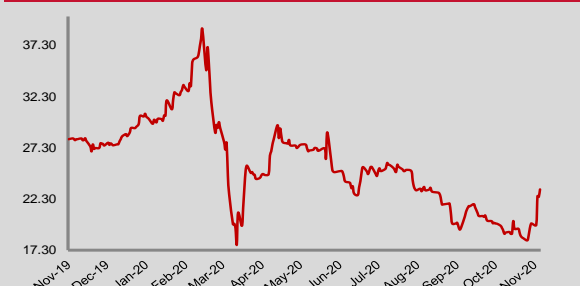
**Post-results,** we cut our FY20E and FY21E earnings by 17.2% and 2.1%, respectively, penciling in more realistic cost assumptions. We also keep our dividend pay-out assumption at 50% for FY20 and 99% for FY21.

**Maintain OUTPERFORM with higher TP of RM26.50 (from RM24.25).** Despite near-term earnings and dividend uncertainties, and in view of recent news on successful vaccine developments, we raised our ascribed FY21E PER to 29.0x (from 26.0x), which is closely in-line with its 3-year mean and to reflect more assured recovery and forward earnings momentum. Given its pre-Covid-19 track record of inelastic beer demand and generous dividend pay-out, the stock could be viewed as a strong candidate for "recovery plays". **Risks to our call include:** (i) lower-than-expected sales volume, and (ii) hike in excise duty

# OUTPERFORM ↔

Price : RM23.24  
Target Price : RM26.50 ↑

### Share Price Performance



KLCI	1,590.78
YTD KLCI chg	0.1%
YTD stock price chg	-20.8%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CAB MK Equity
Market Cap (RM m)	7,105.6
Shares Outstanding	305.7
52-week range (H)	39.17
52-week range (L)	17.34
3-mth avg daily vol	294,181
Free Float	46%
Beta	1.2

### Major Shareholders

Carlsberg A/S	51.0%
Oversea Chinese Bank	3.1%
Vanguard Group	1.8%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	2,256.6	1,618.0	2,184.8
EBIT	374.9	229.9	373.3
PBT	382.2	235.8	387.1
<b>Net Profit</b>	<b>291.0</b>	<b>168.9</b>	<b>279.4</b>
<b>Core Net Profit</b>	<b>291.0</b>	<b>173.8</b>	<b>279.4</b>
Consensus (NP)	-	<b>198.3</b>	<b>264.3</b>
Earnings Revision	-	-17.2%	-2.0%
Core EPS (sen)	95.2	56.8	91.4
Core EPS growth (%)	6.8	-40.3	60.8
NDPS (sen)	100.0	28.0	90.0
BVPS (RM)	0.5	0.8	0.8
PER (x)	24.4	40.9	25.4
PBV (x)	47.9	30.7	30.1
Net Gearing (x)	(0.0)	(0.7)	(1.1)
Net Div. Yield (%)	4.3	1.2	3.9

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### Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Turnover</b>	<b>435.3</b>	<b>287.3</b>	<b>51.5%</b>	<b>542.2</b>	<b>-19.7%</b>	<b>1312.5</b>	<b>1682.7</b>	<b>-22.0%</b>
EBIT	48.4	13.5	258.4%	87.4	-44.7%	153.8	282.0	-45.5%
PBT/(LBT)	52.7	12.9	307.8%	90.2	-41.5%	160.9	289.4	-44.4%
Taxation	-10.9	-2.5	-330.9%	-18.4	40.7%	-34.5	-60.9	43.4%
<b>Net Profit</b>	<b>40.6</b>	<b>10.6</b>	<b>281.7%</b>	<b>69.2</b>	<b>-41.3%</b>	<b>124.2</b>	<b>222.0</b>	<b>-44.0%</b>
<b>Core Net Profit</b>	<b>40.6</b>	<b>15.5</b>	<b>161.4%</b>	<b>69.2</b>	<b>-41.3%</b>	<b>129.1</b>	<b>222.0</b>	<b>-41.8%</b>
EPS (sen)	13.3	5.1	161.4%	22.6	-41.3%	42.2	72.6	-41.8%
DPS (sen)	0.0	0.0		17.0		0.0	54.6	
EBIT margin	11.1%	4.7%		16.1%		11.7%	16.8%	
PBT margin	12.1%	4.5%		16.6%		12.3%	17.2%	
Core NP margin	9.3%	5.4%		12.8%		9.8%	13.2%	
Effective tax rate	20.7%	19.6%		20.4%		21.4%	21.1%	

Note: Core Net Profit is adjusted for bill of demand of RM4.9m in 2QFY20.

Source: Company, Kenanga Research

### Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Revenue (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Malaysia	288.5	208.1	38.7%	390.7	-26.2%	942.0	1233.0	-23.6%
Singapore	146.8	79.2	85.4%	151.5	-3.1%	370.5	449.7	-17.6%
<b>Total</b>	<b>435.3</b>	<b>287.3</b>	<b>51.5%</b>	<b>542.2</b>	<b>-19.7%</b>	<b>1312.5</b>	<b>1682.7</b>	<b>-22.0%</b>
<b>Operating Profit (RM m)</b>								
Malaysia	26.5	12.1	119.1%	62.2	-57.4%	111.3	210.8	-47.2%
Singapore	21.6	1.5	1312.4%	24.8	-13.2%	40.8	69.8	-41.5%
Others	0.3	-0.1	-318.8%	0.4	N.M.	1.8	1.4	28.5%
<b>Total</b>	<b>48.4</b>	<b>13.5</b>	<b>258.4%</b>	<b>87.4</b>	<b>-44.7%</b>	<b>153.8</b>	<b>282.0</b>	<b>-45.5%</b>
<b>Operating Margin</b>								
Malaysia	9.2%	5.8%		15.9%		11.8%	17.1%	
Singapore	14.7%	1.9%		16.4%		11.0%	15.5%	
<b>Total</b>	<b>11.1%</b>	<b>4.7%</b>		<b>16.1%</b>		<b>11.7%</b>	<b>16.8%</b>	

Source: Company, Kenanga Research

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### 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 (%) 1-Yr. Fwd.	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.					
<b>F&amp;B AND RETAIL</b>																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.33	1,504.4	N	12/2020	4.6%	3.4%	3.7%	7.0%	30.3	29.2	27.3	16.1	17.0	56.5%	3.8%	1.30	MP		
AEON CO (M) BHD	0.780	1,095.1	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	10.0	17.6	13.7	0.6	0.6	3.7%	5.1%	1.00	OP		
AMWAY MALAYSIA HOLDINGS BHD	5.11	840.0	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	16.4	18.8	16.1	3.8	3.8	20.1%	4.4%	5.10	MP		
DUTCH LADY MILK INDUSTRIES BHD	36.40	2,329.6	Y	12/2020	-3.0%	5.0%	-14.2%	13.2%	22.6	26.4	23.3	16.1	12.8	54.2%	2.2%	37.55	MP		
FRASER & NEAVE HOLDINGS BHD	32.20	11,810.3	Y	09/2021	5.1%	2.2%	9.6%	2.1%	29.2	26.7	26.1	4.3	4.0	15.7%	2.0%	33.80	OP		
MYNEWS HOLDINGS BHD	0.570	388.8	N	10/2020	-14.7%	15.8%	-135.4%	91.6%	14.5	N.A.	21.4	1.3	1.3	-3.2%	0.0%	0.480	UP		
NESTLE (MALAYSIA) BHD	140.00	32,830.0	Y	12/2020	-3.4%	3.9%	-18.1%	23.4%	50.4	61.5	49.8	49.0	48.5	79.3%	1.6%	129.30	UP		
PADINI HOLDINGS BHD	2.37	1,559.2	Y	06/2021	4.8%	5.0%	58.1%	16.9%	20.7	13.1	11.2	2.1	1.9	15.2%	4.9%	2.90	OP		
POWER ROOT BHD	2.15	903.8	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	16.4	17.4	15.6	3.5	3.2	19.2%	5.3%	2.75	OP		
QL RESOURCES BHD	6.36	15,478.1	Y	03/2021	13.2%	7.4%	13.6%	9.1%	64.7	56.9	52.2	7.4	6.9	12.6%	0.9%	6.60	MP		
<b>Simple Average</b>					<b>-0.2%</b>	<b>5.8%</b>	<b>-14.4%</b>	<b>22.0%</b>	<b>27.5</b>	<b>29.7</b>	<b>25.7</b>	<b>10.4</b>	<b>10.0</b>	<b>27.3%</b>	<b>3.0%</b>				
<b>SIN</b>																			
BRITISH AMERICAN TOBACCO (M) BHD	11.02	3,146.5	N	12/2020	-17.7%	0.1%	-32.7%	2.3%	8.7	13.0	12.7	7.3	7.1	55.5%	7.3%	11.05	OP		
CARLSBERG BREWERY MALAYSIA BHD	23.24	7,105.6	N	12/2020	-28.3%	35.0%	-40.3%	60.8%	24.6	41.2	25.6	45.7	29.8	87.9%	1.2%	26.50	OP		
HEINEKEN MALAYSIA BHD	22.28	6,730.7	N	12/2020	-33.4%	65.4%	-42.9%	76.3%	21.5	37.6	21.4	17.1	14.1	39.6%	1.3%	22.95	OP		
<b>Simple Average</b>					<b>-26.5%</b>	<b>33.5%</b>	<b>-38.6%</b>	<b>46.4%</b>	<b>18.3</b>	<b>30.6</b>	<b>19.9</b>	<b>23.4</b>	<b>17.0</b>	<b>61.0%</b>	<b>3.3%</b>				

Source: Bloomberg, Kenanga Research

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**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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