



# Thai Beverage (THBEV SP)

Thailand's monopoly spirits company at P/E 16x



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# Summary

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1. Thai Beverage (“ThaiBev”) is the dominating spirits producer in Thailand, with a market share close to 90%. It has exposure to both white spirits (rum, made from molasses) as well as brown spirits (whiskey). ThaiBev also sells beer under the brand name “Chang”, which is the second-largest beer brand in Thailand.
2. ThaiBev’s competitive advantages in the local Thai market are great. Its spirits and beer brand names are well known throughout the country and have gained significant consumer mindshare. The barriers to entry in the spirits industry are high, with foreign companies needing to pay extra import duties, foreign ownership limits of distilleries and onerous environmental regulation for new plants. ThaiBev also has a valuable distribution network with access to 400,000 points-of-sale throughout Thailand, down to rural villages where many of its customers are.
3. The Thai spirits and beer markets are slow-growing and the opportunities for high-ROIC reinvestments are limited. So instead of focusing on the local market, ThaiBev has engaged in cross-border M&A with the hope of dominating the alcoholic beverages industry across the ASEAN region. There might be margin potential in the Thai beer segment (only 8% operating margin), however so far the only visible margin improvement has come from a revenue increase after the the 2015 rebranding of Chang beer and operating leverage.
4. Over the past decade, such M&A has included the 35x EBITDA acquisition of Vietnamese beer producer SABECO, the 2012 acquisition of a minority stake in Fraser & Neave and its property arm as well as Burmese spirits producer Grand Royal. ThaiBev’s strategy is to grow the total size of the empire. These acquisitions have caused ROE to fall to the low-teens from previously high levels.
5. ThaiBev trades at a discount to the global peer group at roughly 16x P/E compared to 24x for its peers. It also provides a 3.5% dividend yield. ThaiBev does have a significant amount of net debt at ~5x EBITDA. But even adjusting for the debt in a sum-of-the-parts, the stock trades at a discount to peers.
6. Catalysts for a revaluation might include a recovery in Thai inbound tourism after COVID-19, a separate Singapore listing for its beer business and potential disposals of its associates Fraser & Neaves and Frasers Property Limited.

# Capitalisation



- Share price: SGD 0.705
- Shares outstanding: 25.1 million
- Market cap: US\$13.0 billion
- Net debt: US\$6.7 billion
- Enterprise value: US\$19.7 billion

US\$ billion

25

20

15

10

5

0

13.0

6.7

19.7

Market cap  
(US\$bn)

Net debt

EV

\* SGD = Singapore Dollar. SGD/USD = 1.36

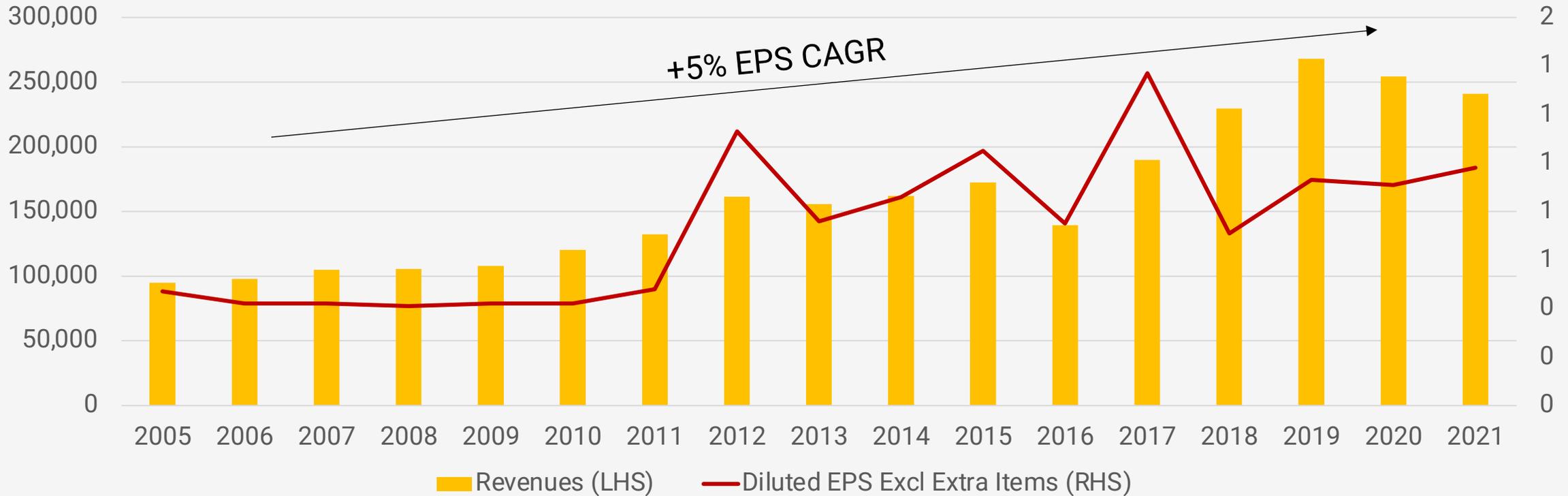
# Business overview



- Thai Beverage (“ThaiBev”) is the largest beverage company in Southeast Asia and the market leader in both Thailand and Vietnam. The company has three main segments
  - **Liquors:** a high-return cash cow business with a strong market position in Thailand with 81% market share but low growth prospects. These liquors include brown spirits (whisky) and white spirits (rum) under the brand names Ruang Khon, SangSom rum, Mekhong, etc.
  - **Beers:** ownership of the Chang beer franchise as well as SABECO-owned brands.
  - **Non-alcoholic beverages:** ready-to-drink teas, carbonated beverages and still water
- Thai Beverage’s spirits are consumed mostly by farmers and blue-collar workers. It therefore has exposure to potentially rising prices for agricultural products.
- It entered Vietnam in 2017 through the 35x EV/EBITDA acquisition of Sabeco. Since then Thai Beverage has had a not insignificant amount of debt on its balance sheet, and investors have questioned the company’s capital allocation.
- It also has a very minor food segment, which includes a KFC franchisee operation, chilled, frozen food and snacks as well as Oishi-branded restaurants
- Thai Beverage’s depositary receipts (“CDPs”) are listed in Singapore under the ticker THBEV SP, which provide direct legal ownership of the Thai company but with no ability to attend the ThaiBev AGM in Bangkok. The reason why ThaiBev is listed in Singapore is because Thailand prohibits the listing of alcohol-related stocks.

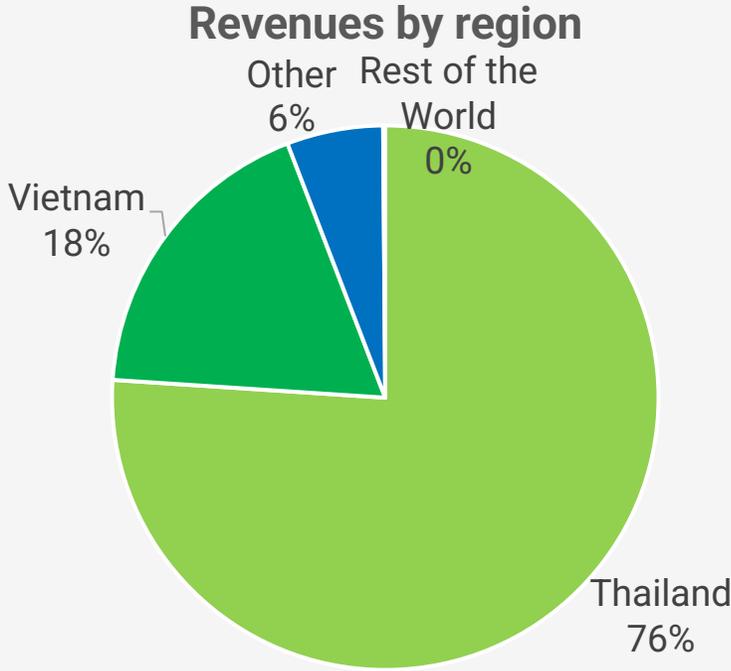
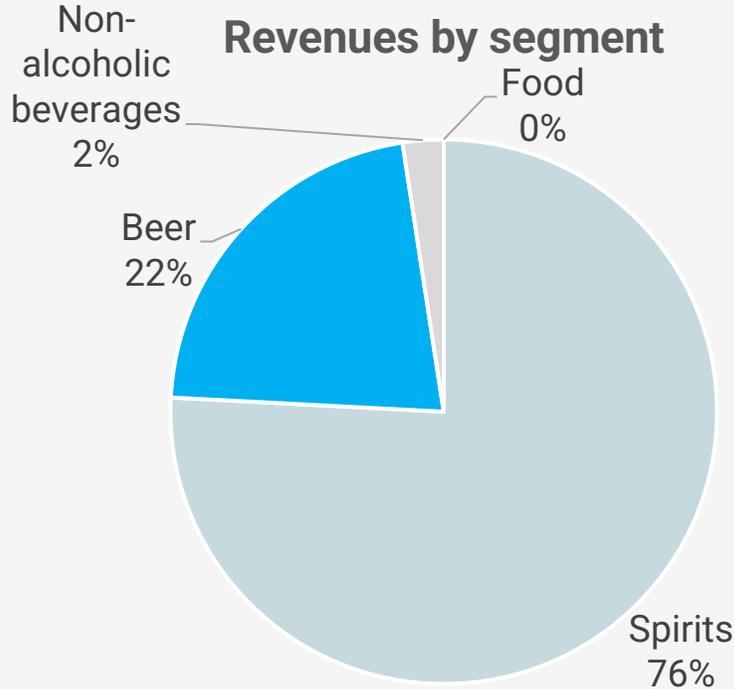


# Top-line revenues have grown 6% per year and EPS 5% over the long-run



Source: TIKR

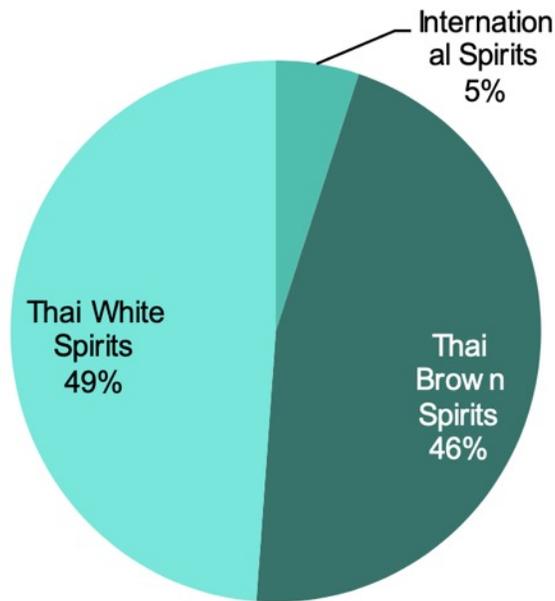
# Thai Beverage gets most of its profits from spirits, and primarily from Thailand



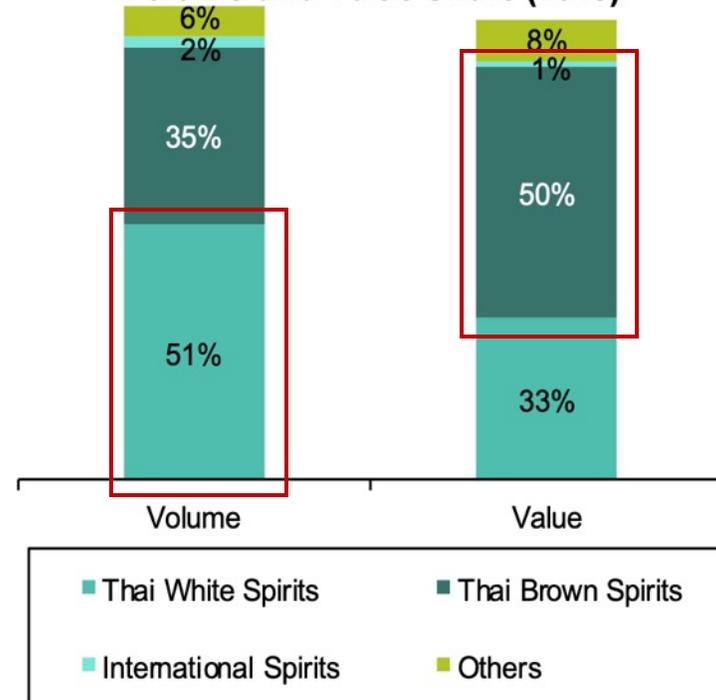
# Volume-wise, white spirits (Thai rum) dominate ThaiBev's portfolio but brown spirits (whiskey) represent most of the value



**Thai Spirits Industry Segmentation (2019)**



**ThaiBev Portfolio Volume and Value Share (2019)**

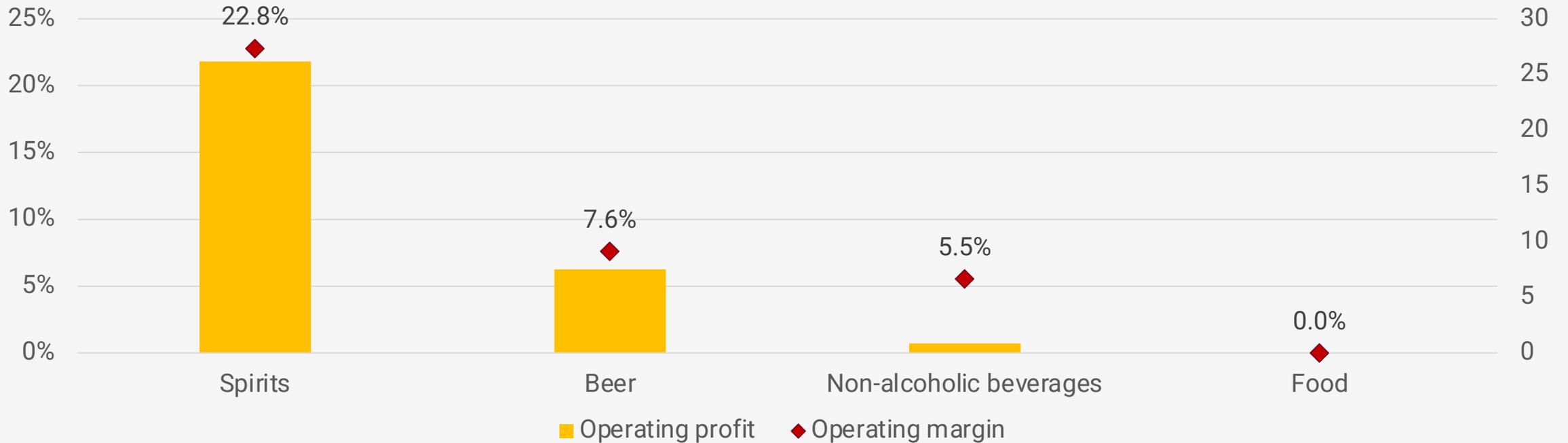


Source: Bernstein

# Incredible spirits margins has caused ThaiBev' overall profitability to weigh heavily towards spirits



Operating margin and profit



# Thai Beverage's product portfolio includes brand names such as Ruang Khao, Hong Thong, Sang Som, Chang and Saigon Export



## Thai spirits

Ruang Khao



Ruang Khao Silver



Hong Thong



Blend 285



Sang Som



## Thailand beers

Chang



Archa



Federbau



Tapper



## Vietnam beers

Saigon Export



333 export



Saigon Lager



Saigon Special



Saigon Gold



## Thailand non-alcoholic beverages

Oishi Green Tea



Crystal Bottled Water



est Cola (Carbonates)



100 Plus (Functional CSD)



# Examples of two of ThaiBev's most popular spirits



**Ruang Khao Silver  
White Spirits**  
**A Higher Level  
of Thai White Spirits**

Ruang Khao Silver takes the pride of Thai white spirits to the next level with the finest, carefully chosen ingredients. Ruang Khao Silver is an update of the brand's original formula with 35% alcohol content. Smooth, aromatic, sweet and refreshing, it can be enjoyed on its own or as a base in a cocktail. Enhance your drinking experience with Ruang Khao Silver, the premium Thai white spirits made for today's lifestyle.

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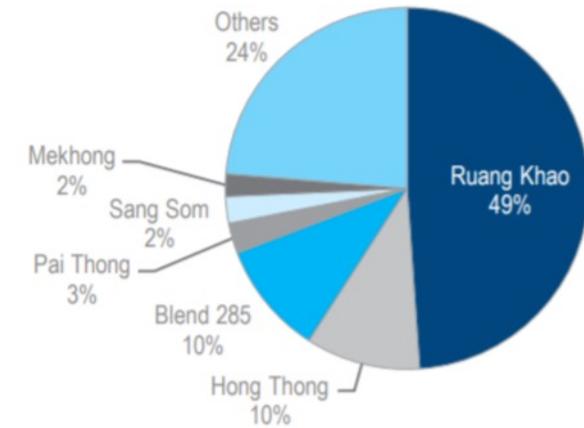


# Thai Beverage's spirits business



- The Thai spirits market can be divided into white spirits (mostly rum) and brown spirits (whisky)
- ThaiBev's white spirits brands include Ruang Khao, Ruang Khao Silver and Pai Thong:
  - ThaiBev's white spirits are made by molasses from sugar cane, and are therefore classified as rum.
  - These are high in alcohol content, with ABVs of 28-40%.
  - ThaiBev has a 92% market share in white spirits.
  - A 700ml bottle of Ruang Khao, which can be likened to a Thai version of Korean soju, costs roughly THB 100 (USD 3). A typical Ruang Khao customer is a rural farmer, who can drink up to a bottle per day.
- Its brown spirits include Blend 285, Hong Thong and Mekhong:
  - ThaiBev has a 94% market share in brown spirits.
  - Brown spirits such as Blend 285, Hong Thong or Mekhong can cost significantly more than Ruang Khao, costing around THB 250/bottle (USD 8) and upwards

Thailand's spirit market share by brand (%) – 2016



Source: Euromonitor

ThaiBev: key spirits portfolio

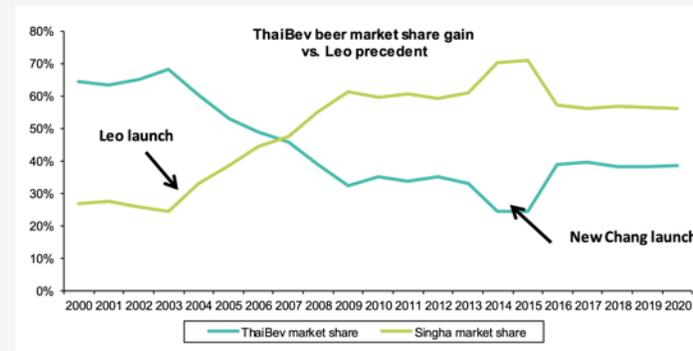
Brand Name	Category	Size (ml)	Price (THB)	Price/litre (THB)
Pai Thong	White Spirit	625	94	150
Ruang Khao	White Spirit	625	103	165
Ruang Khao Silver	Premium White Spirit	700	168	240
Blend 285	Brown Spirit	700	263	376
Hong Thong	Brown Spirit	700	248	354
Mekhong	Brown Spirit	700	420	600

Source: Morgan Stanley



# ThaiBev's Thailand beer business

- ThaiBev's primary beer brand is called "Chang" (the Thai word for "elephant") and is a lager. Its other brands include "Archa" and "Federbräu".
- The Thai beer market can be divided into (% of total beer market):
  - The premium segment: Heineken with 5% and Singha with 5%
  - The economy segment: Leo's 50% and Chang's 40%
- The Thai beer market is dominated by two brands: Boon Rawd Breweries' Leo (40% market share) and ThaiBev's Chang (38% market share). Chang is somewhat cheaper than Leo, at around 52 baht vs 55 baht for Leo.
- Chang regained market share after its 2015 rebranding. But historically, Boon Rawd's Leo has dominated the market.



Source: Bernstein



Source: Goldman Sachs



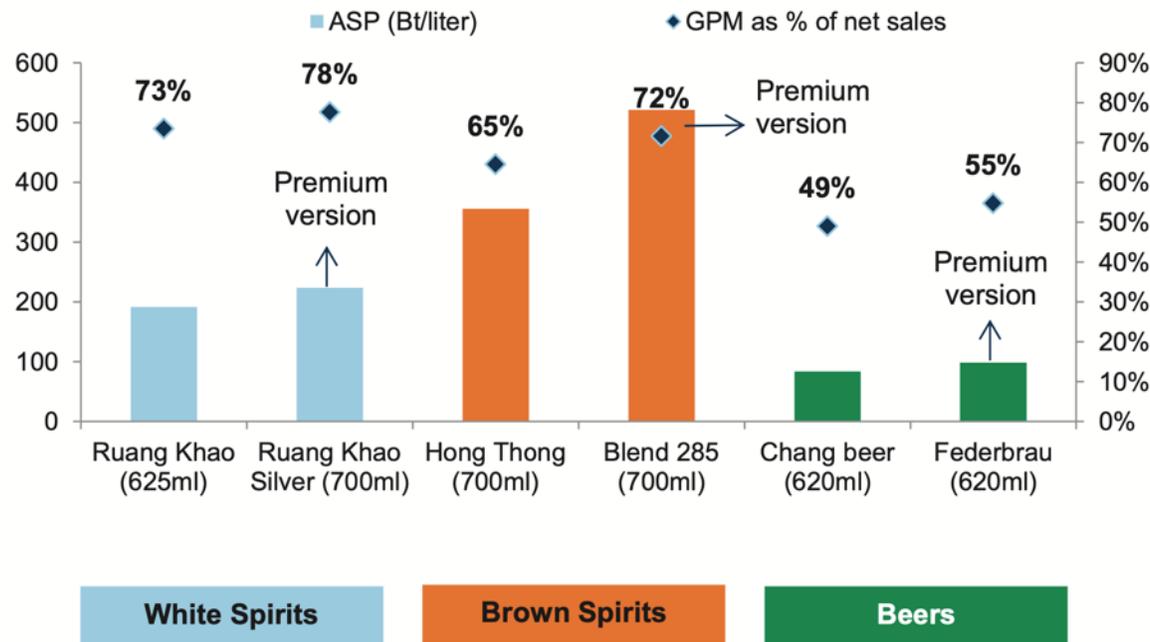
# An advertisement for ThaiBev's Chang beer



ThaiBev's gross margins are about 70% in the spirits segment, and closer to 50% for Chang beer. Boon Rawd is more profitable.

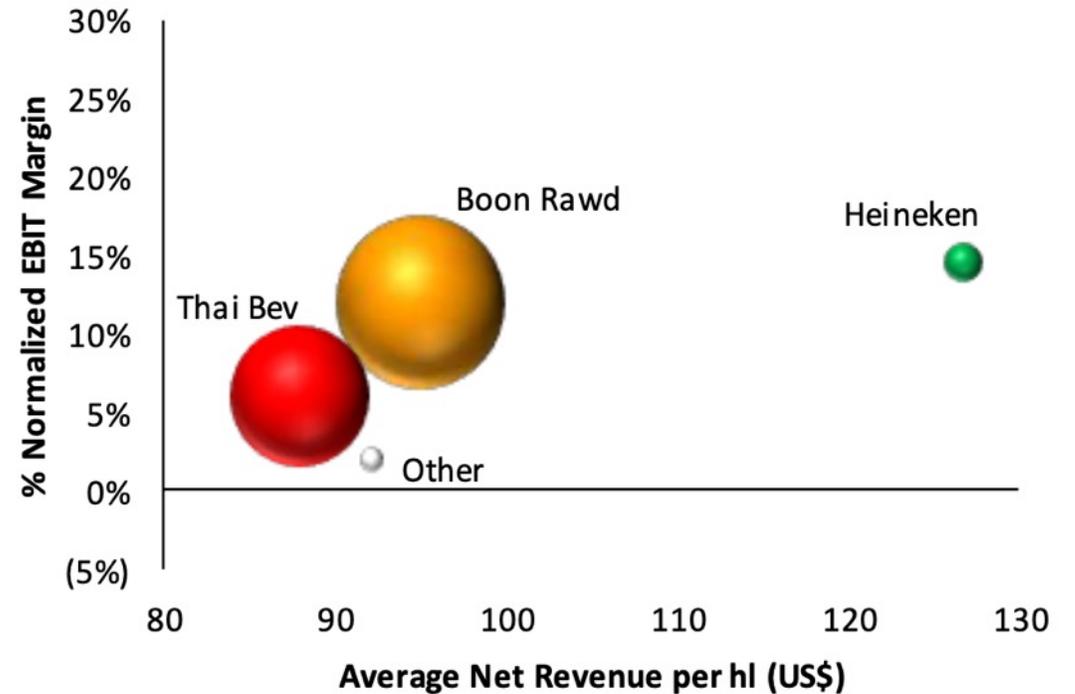


ASP (Bt/litre) of various ThaiBev's alcohol brands vs. their gross margin, as of 2017



Source: Goldman Sachs

Thailand Beer Net Sales per hl vs. EBIT Margin (2019)

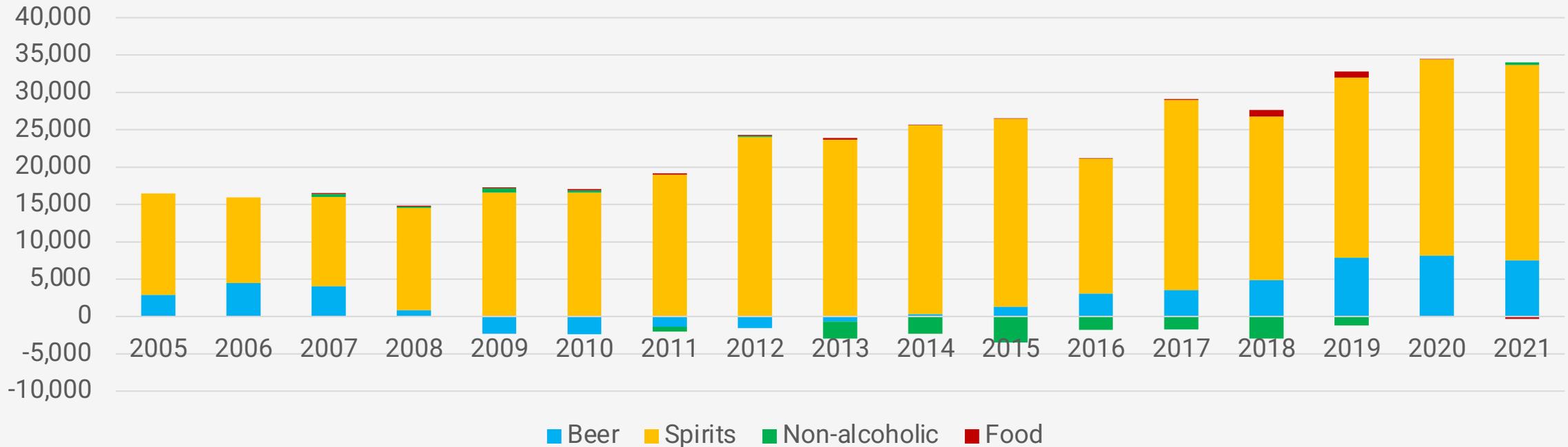


Source: Bernstein

Spirits is the cash cow. The beer segment became loss-making in 2009-2012 due to tightening regulation but profitable after the 2015 rebranding



Thai Beverage operating profit



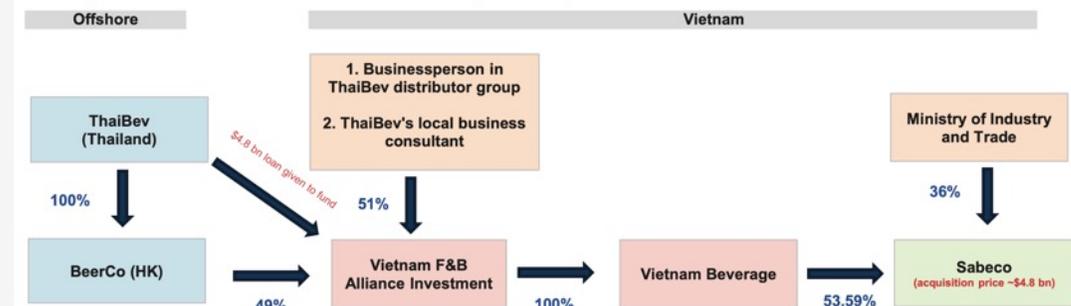
Source: TIKR

# Saigon Beer Alcoholic Beverage (SABECO)

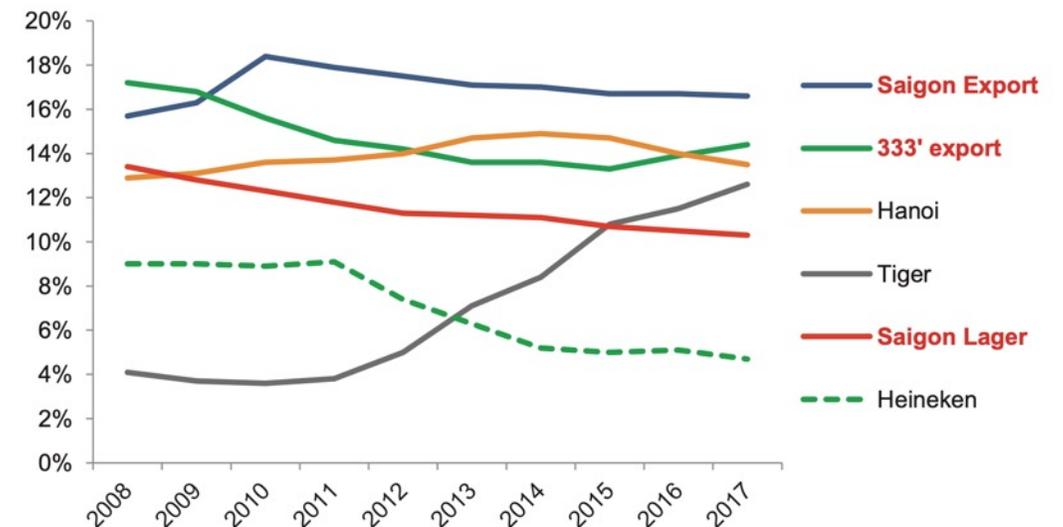


- In 2017, ThaiBev acquired 54% of SABECO, the leader in the Southern Vietnamese beer market for US\$4.8 billion.
- SABECO is the market-leader but is losing share to Asia-Pacific Breweries's (Heineken's) Tiger brand. SABECO has a 41% market share, followed by Heineken's 23%, HABECO's 18%, Carlsberg's 8% and Sapporo's 2%.
- ThaiBev's acquisition was peculiar:
  - The acquisition price was 35x EBITDA and over 40x P/E. While the Vietnamese market is growing, beer consumption volumes are not low. The stock has fallen ~50% since the acquisition.
  - Due to foreign ownership limits of max 49% at the time, ThaiBev's 100% owned subsidiary BeerCo acquired 49% of a Vietnamese subsidiary called "Vietnam F&B" that in turned acquired 54% of SABECO. The other 51% are nominally owned by a businessperson in ThaiBev's distributor group and a ThaiBev local business consultant. Vietnam F&B then received a US\$4.8 billion loan from ThaiBev. This initially raised question due to the unidentified nature of the 51% owner. But in 2019 after foreign ownership restrictions were lifted, ThaiBev acquired their stake and achieved full control of the SABECO stake through 99% ownership of Vietnam F&B.
- Post-acquisition, ThaiBev has been planning to reform the SOE culture of SABECO. It's wanted to lower costs to boost productivity and allow it to make investment decisions faster. But instead the ROE has gone 36% in 2018 to 17% in 2021.
- A "Saigon beer" brand relaunch in 2019 did not go according to plan and Sabeco revenues dropped 26% in 2020 vs flat for Heineken.

Ownership structure of Sabeco as of 28 Dec 2017 (date of acquisition completion)

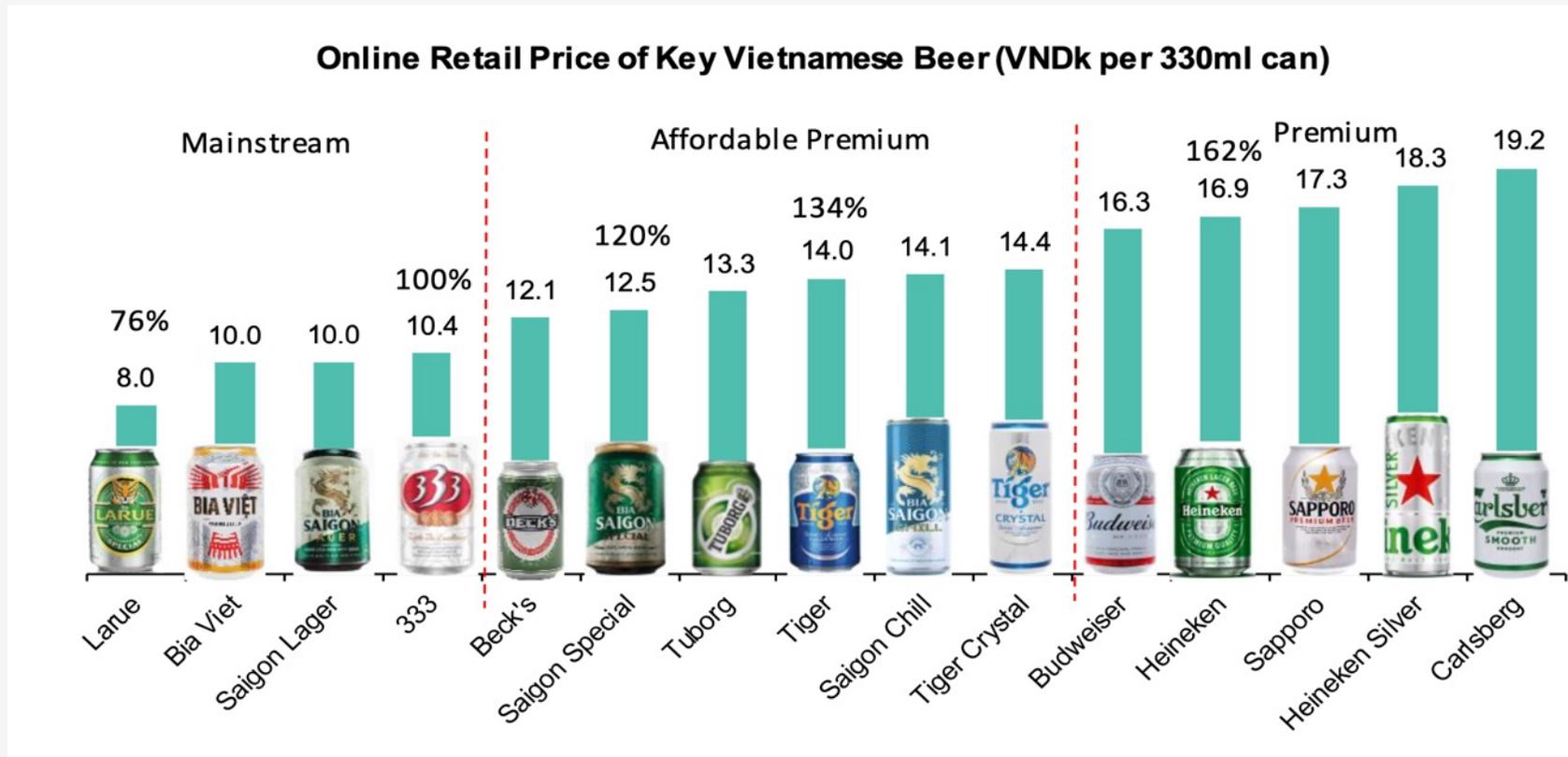


Vietnam beer volume market share



Source: Goldman Sachs

SABECO's beers are mostly in the mainstream/affordable premium segment... whereas foreign companies dominate in premium beers

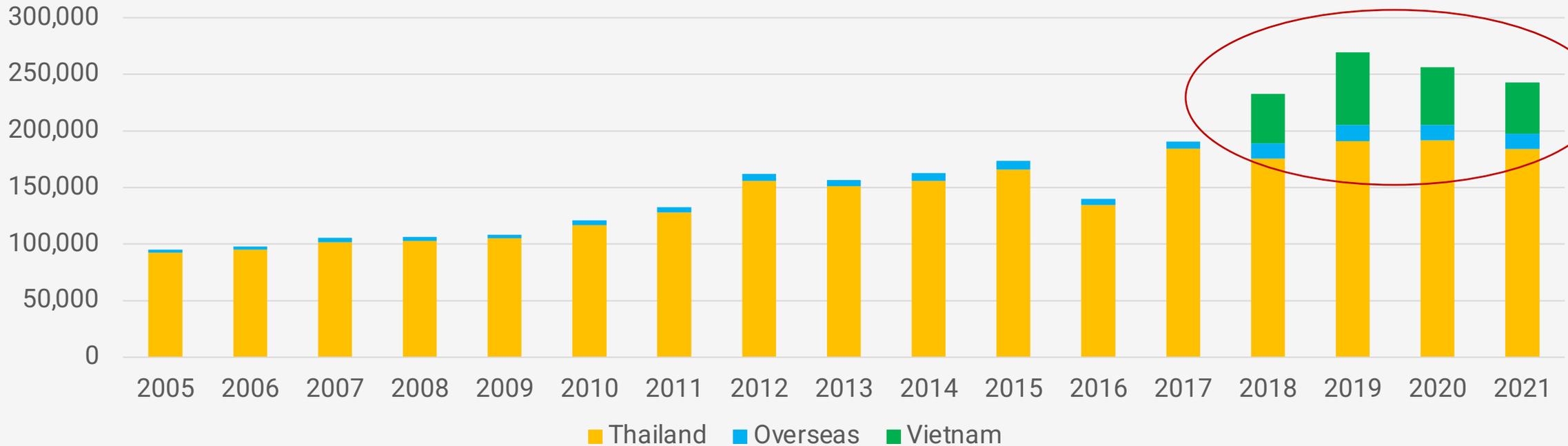


Source: Krungsri

# Top-line growth in recent years has been driven by the acquisition of SABECO



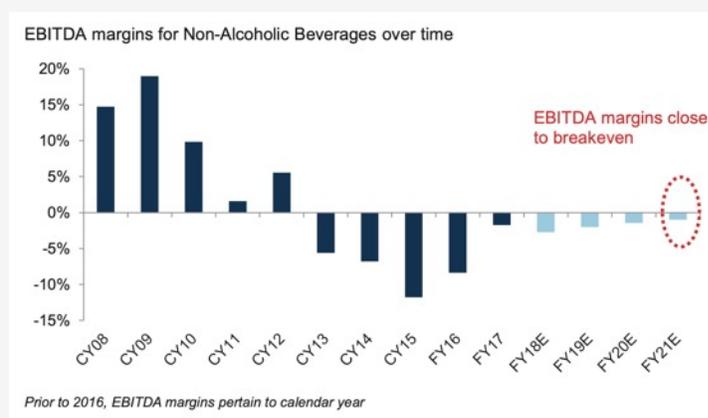
Thai Beverage revenues by segment





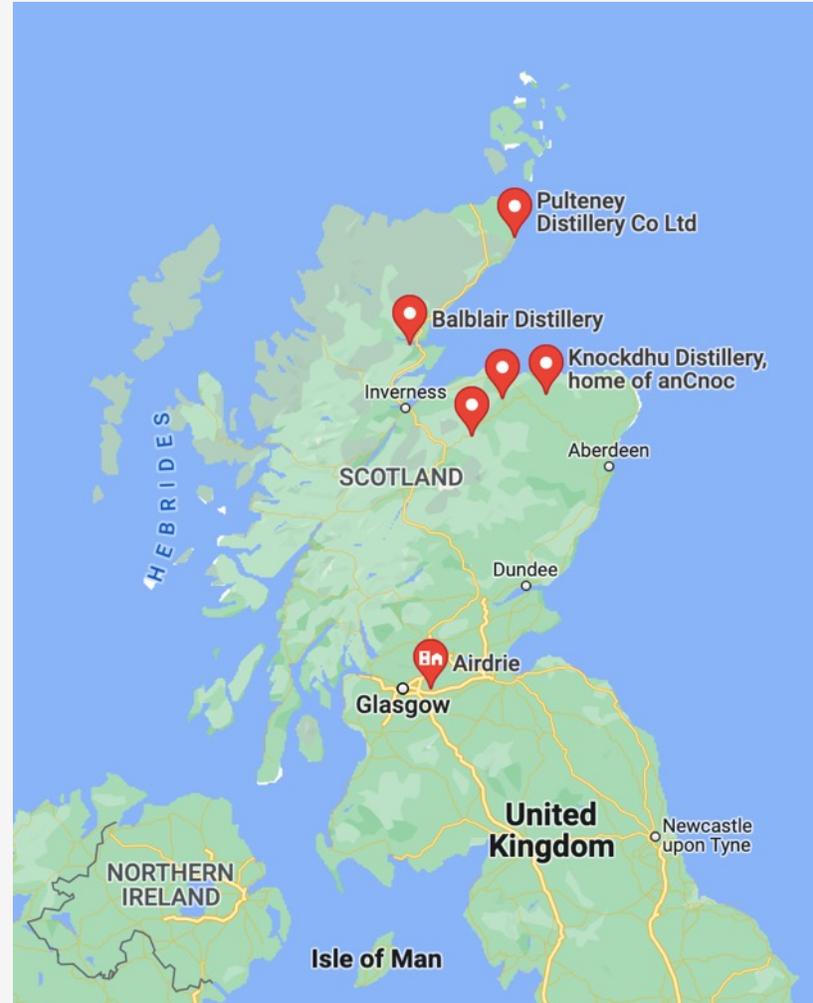
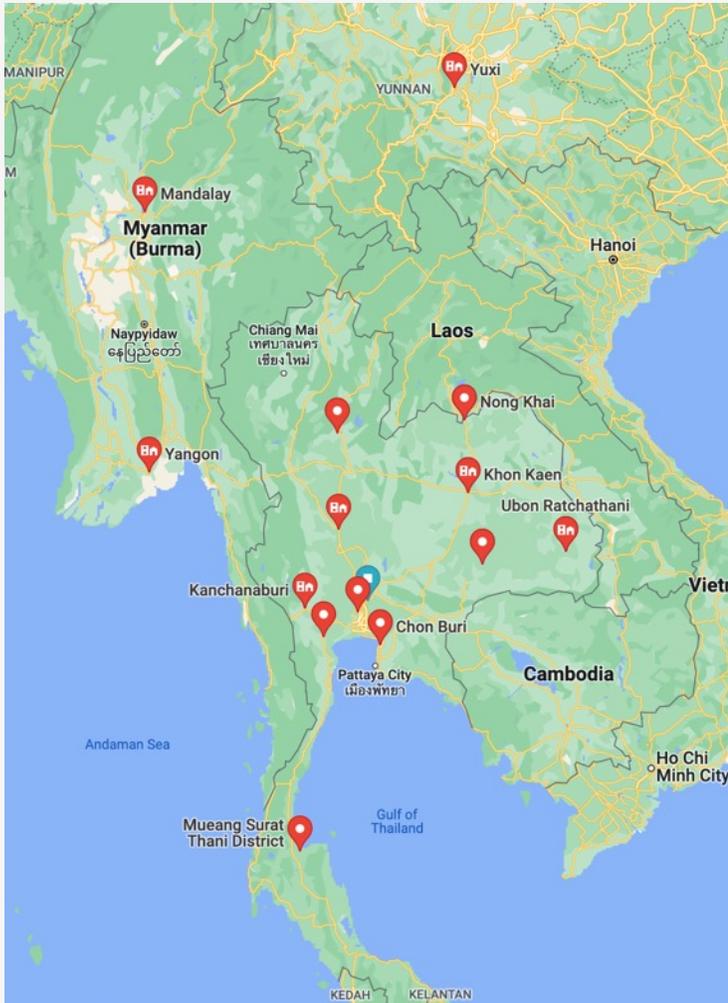
# The non-alcoholic beverages segment

- ThaiBev has a non-alcoholic beverages segment, mainly through its 28.5% owned associate Fraser & Neave, which it acquired in 2012. It also owns the two majority-owned non-alcoholic beverages businesses Oishi and Sermsuk.
- This segment focuses primarily on ready-to-drink tea, carbonated water and soft drinks. Its key brand names include “est cola”, “Oishi” green tea, “PLAY” soft drinks, crystal drinking water, “Power Plus” electrolyte sports drink and the “Rangyer” energy drink.
- The goal in the past has been to reach 50% of revenue from both non-alcoholic beverages and Thailand.
- In terms of market share, ThaiBev has a ~50% market share in ready-to-drink tea and low teens market share for bottled water.
- The non-alcoholic beverages segment was unprofitable for most of the 2010s but profitability seems to be turning around. The main culprit was the carbonated water business, which was introduced in 2012 and remained sub-scale for many years with high A&P spend until around 2020.



Source: Goldman Sachs

# ThaiBev has distilleries across Thailand, China, Myanmar and the United Kingdom



- Beer production capacity of 1,550 million litres, mostly in Kamphaeng Phet, north of Bangkok
- In spirits, 819 million litres of capacity across the country through 19 distilleries
- ThaiBev also has breweries of non-alcoholic beverages of roughly 860 million litres as well as bottling plants
- In Scotland, ThaiBev owns Pulteney Distillery, Balblair Distillery, Speyburn Distillery, Balmenach Distillery and Knockdhu Distillery, many of which have 200 years of history.



# Industry regulation

- Thailand's average beer excise tax is ~58% and its spirits excise tax is ~52%
  - The excise tax tends to increase every two years across all beverages
  - ThaiBev usually tries to increase its prices around the same time as tax hikes are implemented.
  - ThaiBev alone contributes to 3-4% of the Thai government's annual revenue.
- There are very strict regulations around alcohol advertising. Such TV ads can only be shown between 10pm to 5am. It cannot show the product, making it difficult for new companies to gain a foothold.
- Thailand introduced a sugar tax in 2017, causing non-alcoholic beverages to switch away from use of sugar in ready-to-drink teas.

Excise tax and gross profit by brand for ThaiBev, as of end 2017

	Size (ml)	ABV (%)	Retail ASP (Bt)	Excise						Gross Profit								
				Based on Value (Bt)	Based on Volume (Bt)	Total Excise (Bt)	17.5% on top of excise tax (Bt)	Total Alcohol Tax (Bt)	As % Retail Price	Ex-factory price (Bt)	As% of Ex-factory Price	other COGS	Total COGS	GPM as % of gross sales	Net Ex-factory Price (Bt)	GPM as % of net sales	GP (Bt)	
<b>Spirits</b>																		
Ruang Khao	White	625	40.0%	120	2	39	41	7	48	40%	109	44%	15%	59%	41%	61	73%	45
Ruang Khao Silver	White	750	35.0%	168	3	41	44	8	52	31%	153	34%	15%	49%	51%	101	78%	78
Hong Thong	Brown	700	35.0%	249	50	62	112	20	132	53%	226	58%	15%	73%	27%	94	65%	61
Blend 285	Brown	700	35.0%	365	73	62	135	24	159	44%	332	48%	15%	63%	37%	173	72%	124
<b>Beers</b>																		
Chang beer		320	5.0%	32	7	7	14	2	16	51%	29	56%	20%	76%	24%	13	55%	7
Chang beer		490	5.0%	49	11	11	21	4	25	51%	45	56%	20%	76%	24%	20	55%	11
Chang beer		620	5.0%	52	11	13	25	4	29	56%	47	62%	20%	81%	19%	18	49%	9
Federbrau		320	5.0%	36	8	7	15	3	17	48%	33	53%	20%	73%	27%	15	58%	9
Federbrau		620	5.0%	61	13	13	27	5	31	52%	55	57%	20%	76%	24%	24	55%	13

Source: Goldman Sachs

# ThaiBev became a spirits monopoly through the help of government support



- Founder Charoen Sirivadhanabhakdi was born to a Thai-Chinese family in 1944 who originated from Shantou (Teochew origin). He started working at age 9 and got into the business of selling raw materials to state-owned distilleries producing Thai whiskey. Through contacts, he acquired a license to produce his own alcoholic drinks as the first private individual to have the opportunity to do so. He managed to reach a market share of 15%.
- In 1985, the remaining 85% state licenses were sold to the private sectors. Charoen was able to borrow US\$200 from banks and won 100% of the concessions, making his company a privately owned monopoly. It nearly went bankrupt under the debt burden but was saved by the government through a special, lower excise tax and restructured contracts to ease Charoen's company's burden – all orchestrated by then-prime minister Prem Tinsulanonda.
- In 1991, Charoen teamed up with Carlsberg to set up a JV beer company. Three years later, the beer brand “Chang” was launched. Using the same distribution network, he later achieved a 60% market share nation-wide. Carlsberg eventually withdrew from the joint venture and even successfully sued Carlsberg for breaching the terms of the contract.
- During the 1990s, he launched a campaign against the liberalisation of the whiskey market. By bailing out regulator Chalermchai Vaseenont, who owned Bangkok's Pantip Plaza shopping mall, he gained the necessary clout. He has also championed strict environmental regulation for construction of new distilleries – but Charoen's plants are exempted.
- Thai Beverage was founded in its current form in 2003 through the consolidation of 58 beer and spirit businesses. The consolidation was orchestrated by Charoen Sirivadhanabhakdi.
- In 2005, significant protests broke out in Thailand after ThaiBev announced its intention to list on the SET following legalization of alcohol-related listings. Buddhist organisations and others gathered more than 10,000 protesters to halt the listing. SET's CEO resigned as a result of the controversy and in 2006, ThaiBev decided to only list in Singapore instead of a Bangkok-Singapore dual-listing.
- More recently, ThaiBev has developed through the acquisitions of F&N, SABECO, KFC franchisees, Grand Royal



Charoen Sirivadhanabhakdi



Thailand's King visiting a distillery in 1986

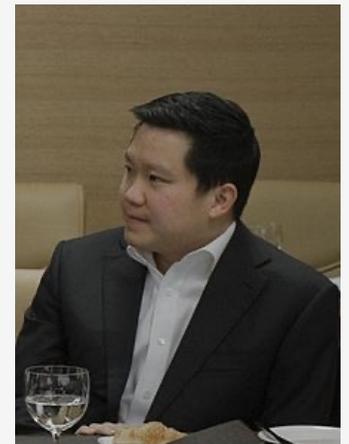
# ThaiBev very much remains a family company in the hands of second-generation operator Thapana Sirivadhanabhakdi



- Charoen Sirivadhanabhakdi (77 years old) remains the Chairman while his son Thapana (44 years old) acts as the President and CEO.
- Charoen is also the Chairman of controlling shareholder TCC Group, which is Thailand's largest property developer, owns 50 hotels around the world, retailer Big C and trading house Berli Jucker. Charoen also the Chairman of food & beverage company Fraser & Neave in Singapore. He has strong ties to the Thai establishment is a staunch royalist. His net worth is about US\$11 billion.
- Thapana Sirivadhanabhakdi is the third of five children of Charoen. He received bachelor's and master's degrees in finance from Boston University. Thapana has been the CEO of ThaiBev since 2008 and is largely responsible for running ThaiBev. He only holds 107 million shares of ThaiBev, according to a 2020 filing.
- Charoen's second daughter runs property developer TCC Land and certain development projects such as the One Bangkok complex is overseen by Charoen's younger son Panote. Charoen's oldest daughter runs TCC's financial arm Southeast Insurance and Finance Group.



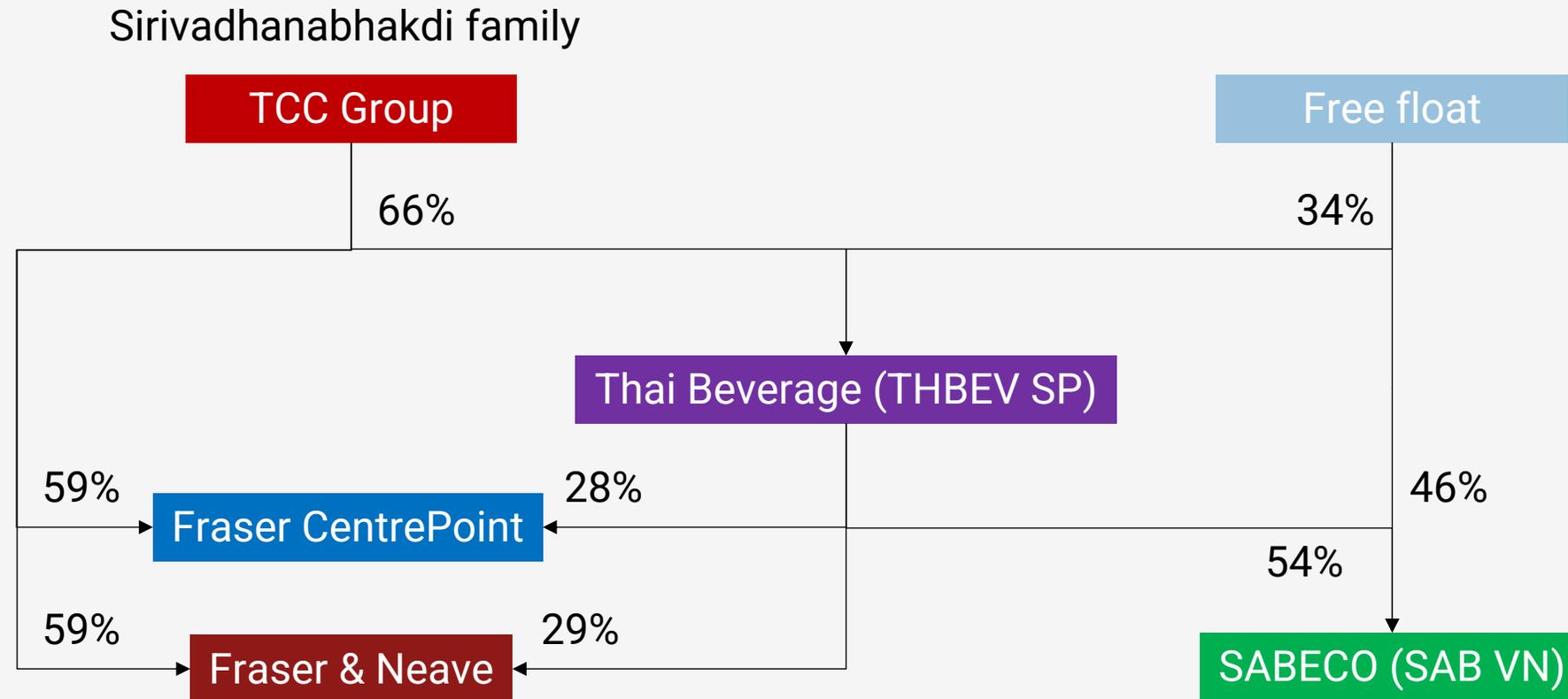
*Charoen Sirivadhanabhakdi*



*Thapana Sirivadhanabhakdi*



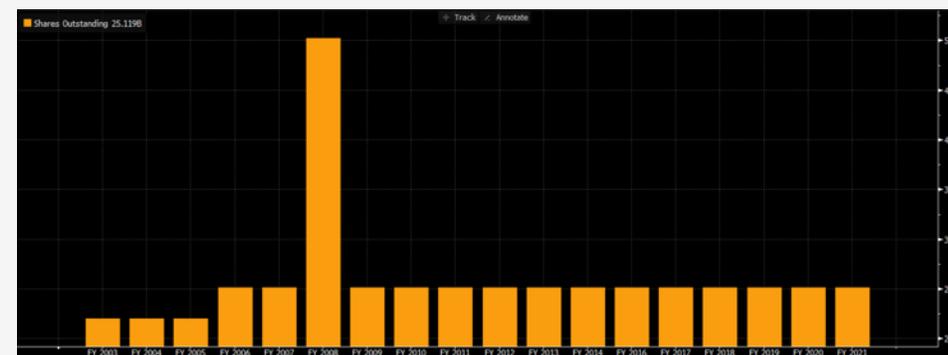
# A somewhat complicated corporate structure





# Capital allocation and corporate governance

- M&A in the past has been questioned by some investors:
  - SABECO in Vietnam in 2017 at 35x EBITDA. However, the acquisition took place through a 49% owned local JV, ostensibly to get around Vietnam's foreign ownership restrictions.
  - Fraser & Neave in 2012 at 31x EBITDA (first 22% at 12x EBITDA)
  - Non-alcoholic beverage producer Sermsuk at 16x EBITDA
- ThaiBev has in much of its investor communication emphasized its goal to become a pan-ASEAN alcoholic beverages leader. In other words, the focus is on increasing the size of the empire *"its 2020 goal [is] to expand the group's overseas operations to 50% of its total revenue"*.
- On the other hand, after the beer business was restructured in 2019, Thapana said that *"My responsibility for the beer business is to ensure that it will be able to generate organic growth and a good return on investment for the company"* – implying that he does care about ROE
- The share count has been flattish for many years as ThaiBev always uses cash and debt to finance acquisitions – not equity
- Overall, it does seem like acquisitions do not necessarily add value and that ThaiBev's capital allocation is average.



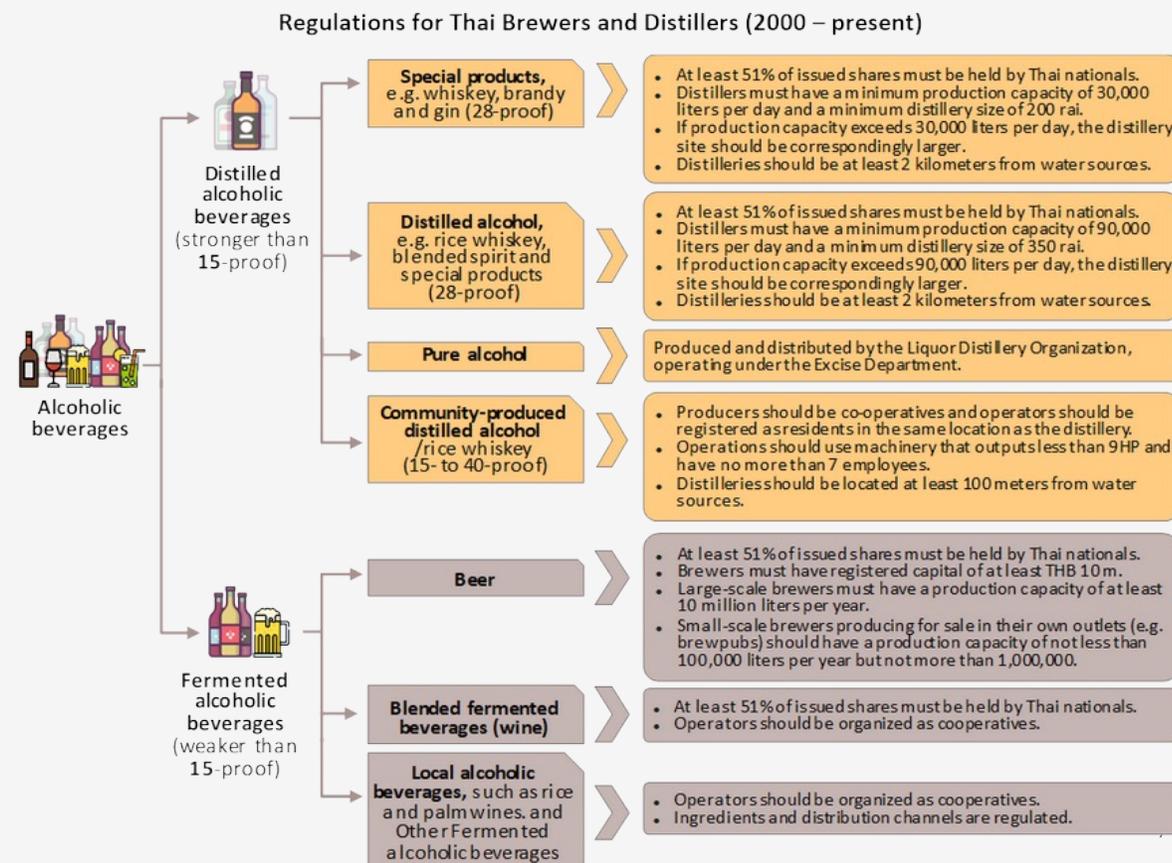
Effective	Action Type	Ticker / ID	Summary
06/01/21	Acquisition	Multiple	Target: Flash Express Co Ltd
05/14/21	Joint Venture	THBEV SP	Forming: Food & Beverage United Co Ltd, Country: THAILAND
03/31/20	Acquisition	THBEV SP	Target: Sub Permpoon 8 Co Ltd, Sought: 100.00%
02/13/20	Acquisition	THBEV SP	Target: International Beverages Trading Co Ltd, Sought: 35.00%
04/07/19	Joint Venture	THBEV SP	Forming: Japanese Dining Concepts Co Ltd/Thailand, Country: THAILAND
02/01/19	Acquisition	THBEV SP	Target: Vietnam F&B Alliance Investment JSC, Sought: 50.00%
09/11/18	Joint Venture	THBEV SP	Forming: Asiaeuro International Beverage Guangdong Co Ltd, Country: CHINA
02/28/18	Acquisition	THBEV SP	Target: HAVI Logistics Thailand Co Ltd, Sought: 75.00%
12/01/17	Acquisition	THBEV SP	Target: 240 KFC stores/Thailand, Sought: 100.00%
10/12/17	Acquisition	THBEV SP	Target: Multiple, Sought: 100.00%
10/12/17	Acquisition	THBEV SP	Target: Multiple, Sought: 5.00%
04/06/17	Acquisition	THBEV SP	WITHDRAWN - Target: Frasers Property Thailand PCL, Sought: 100.00%
05/26/15	Acquisition	THBEV SP	Target: Multiple, Sought: 100.00%
02/18/13	Acquisition	THBEV SP	Target: Fraser and Neave Ltd, Sought: 59.96%
08/14/12	Acquisition	THBEV SP	Target: Fraser and Neave Ltd, Sought: 22.00%
09/09/11	Acquisition	THBEV SP	Target: Sermsuk PCL, Sought: 100.00%
02/03/09	Acquisition	THBEV SP	Target: Chang Beer International Co Ltd, Sought: 100.00%
02/03/09	Acquisition	THBEV SP	Target: Maekhong Distillery Ltd, Sought: 100.00%
11/14/08	Acquisition	THBEV SP	Target: Oishi Group PCL, Sought: 46.02%
10/30/08	Divestiture	THBEV SP	Unit: Thai Alcohol PCL, Seller: Thai Beverage PCL
08/30/08	Acquisition	THBEV SP	Target: Oishi Group PCL, Sought: 43.90%
01/30/08	Acquisition	THBEV SP	Target: Wrangyer Beverage 2008 Co Ltd, Sought: 100.00%
10/31/06	Acquisition	THBEV SP	Target: Best Spirits Co Ltd, Sought: 100.00%
10/31/06	Acquisition	THBEV SP	Target: Pacific Spirits Ltd/UK, Sought: 100.00%
10/16/06	Acquisition	THBEV SP	Target: Sin Surang Karn Sura Co, Sought: 100.00%

Source: Bloomberg



# Competitive advantages

- **Consumer mindshare:** The combination of an addictive product with Pavlovian conditioning makes demand sticky. Long-time consumers have made emotional connections with the brands and are unlikely to switch.
- **Significant barriers to entry:** Foreign companies such as Diageo need to pay import duties on top of the already-high spirits tax of ~51%. There are also foreign ownership limits and environmental regulations making it difficult to set up new distilleries. The beer segment, however, is more competitive with Heineken being aggressive in Thailand and AB InBev considering an entry into Vietnam.
- **Distribution network:** ThaiBev has an incredible distribution network and is able to reach down to the smallest of villages throughout Thailand.



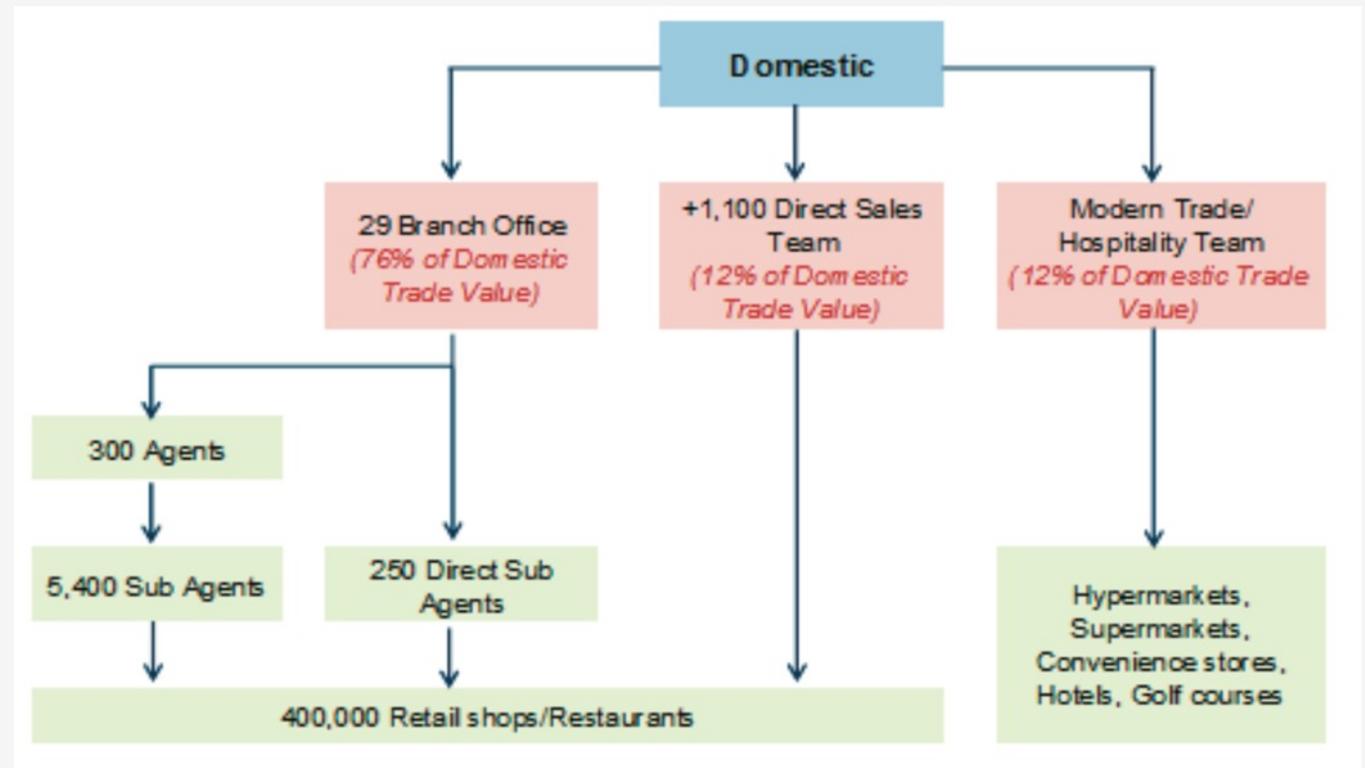
Source: The Excise Department

Source: Krungsri, Thailand Excise Department



# ThaiBev's distribution network

- The company has a distribution network of 300 agents. Most of these agents are exclusive to ThaiBev. In turn, these have roughly 5,400 sub-agents.
- The company receives cash before delivery, making the cash conversion cycle positive.
- These ultimately reach roughly 400,000 retail shops and restaurants throughout Thailand
- ThaiBev uses the same distribution network for its beers as for its spirits
- Recently, ThaiBev has initiated direct factory => store distribution, cutting out middle-men
- Mom & pop stores remain very important as many consumers of white spirits are rural farmers.

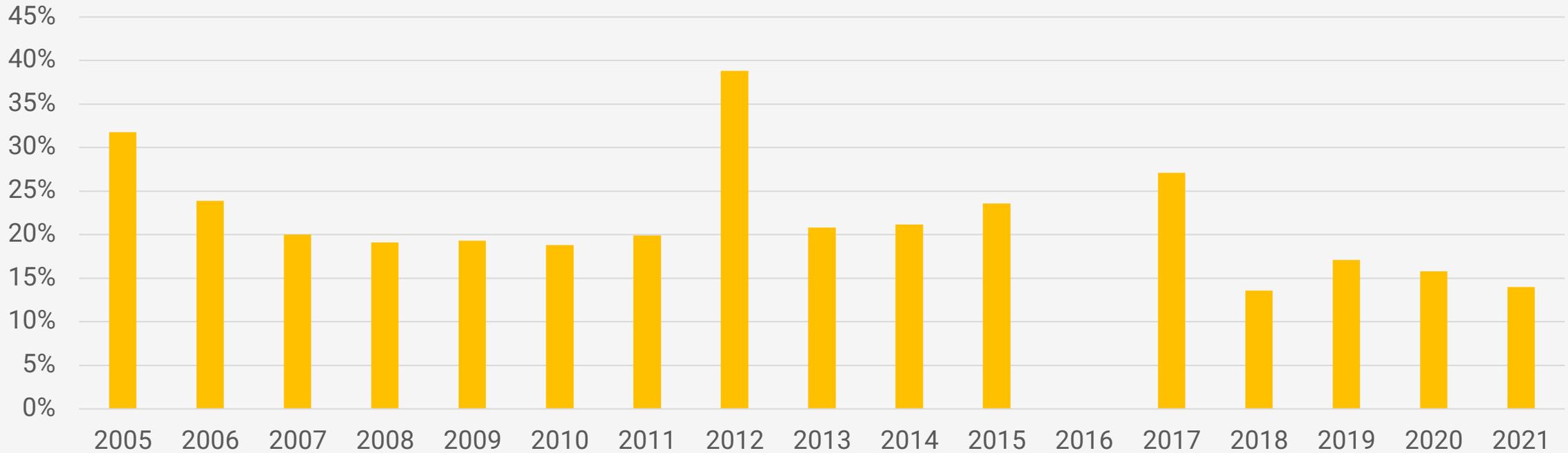


Source: Morgan Stanley

ThaiBev is fundamentally a profitable business with high ROE.  
But poor capital allocation (SABECO) has caused ROE to drop.



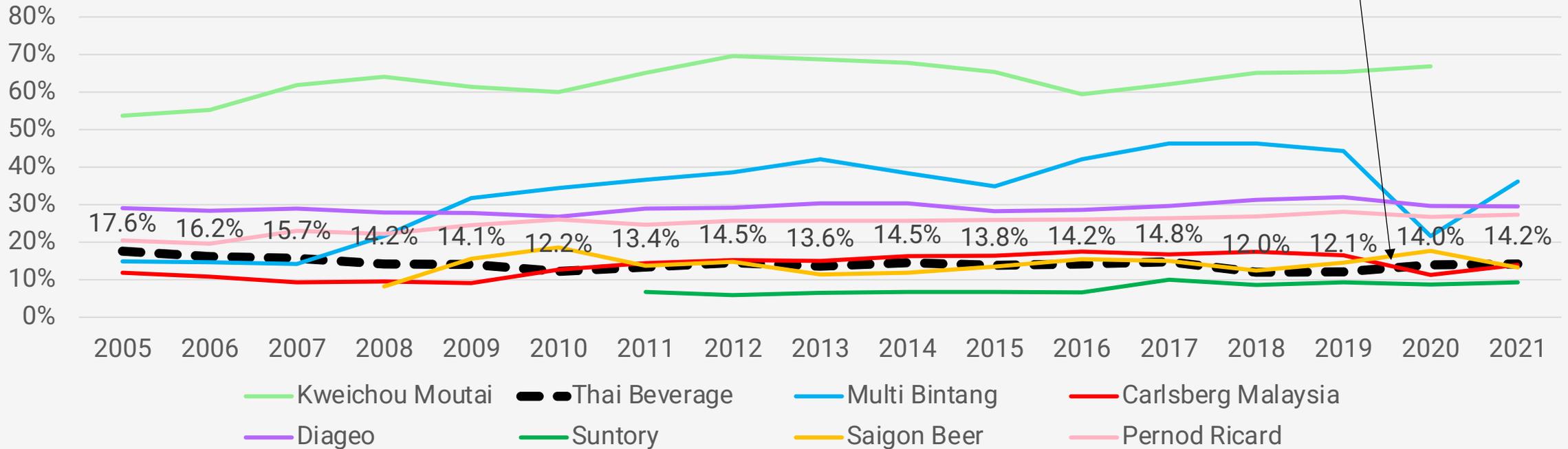
ThaiBev return on equity



# Thai Beverage's margins are not market-leading by any stretch of the imagination



Operating margins



Source: TIKR

# Thai Beverage has been a slow, steady-grower



## Comment on recent events



- Thailand has, like many other countries, suffered from COVID-19 which hurt the beer business through the closure of pubs and bars. Off-trade sales continued through the second and third wave of the pandemic, however, meaning that total revenues has held up fairly well.
- In March 2020, ThaiBev's beer business restructured by transferring shareholdings of its 15 beer companies to Chang Beer, in order to consolidate the business into one subsidiary. 74% of the Thai beer businesses have been consolidated so far, and it's possible that this entity will later IPO through a separate listing in Singapore.





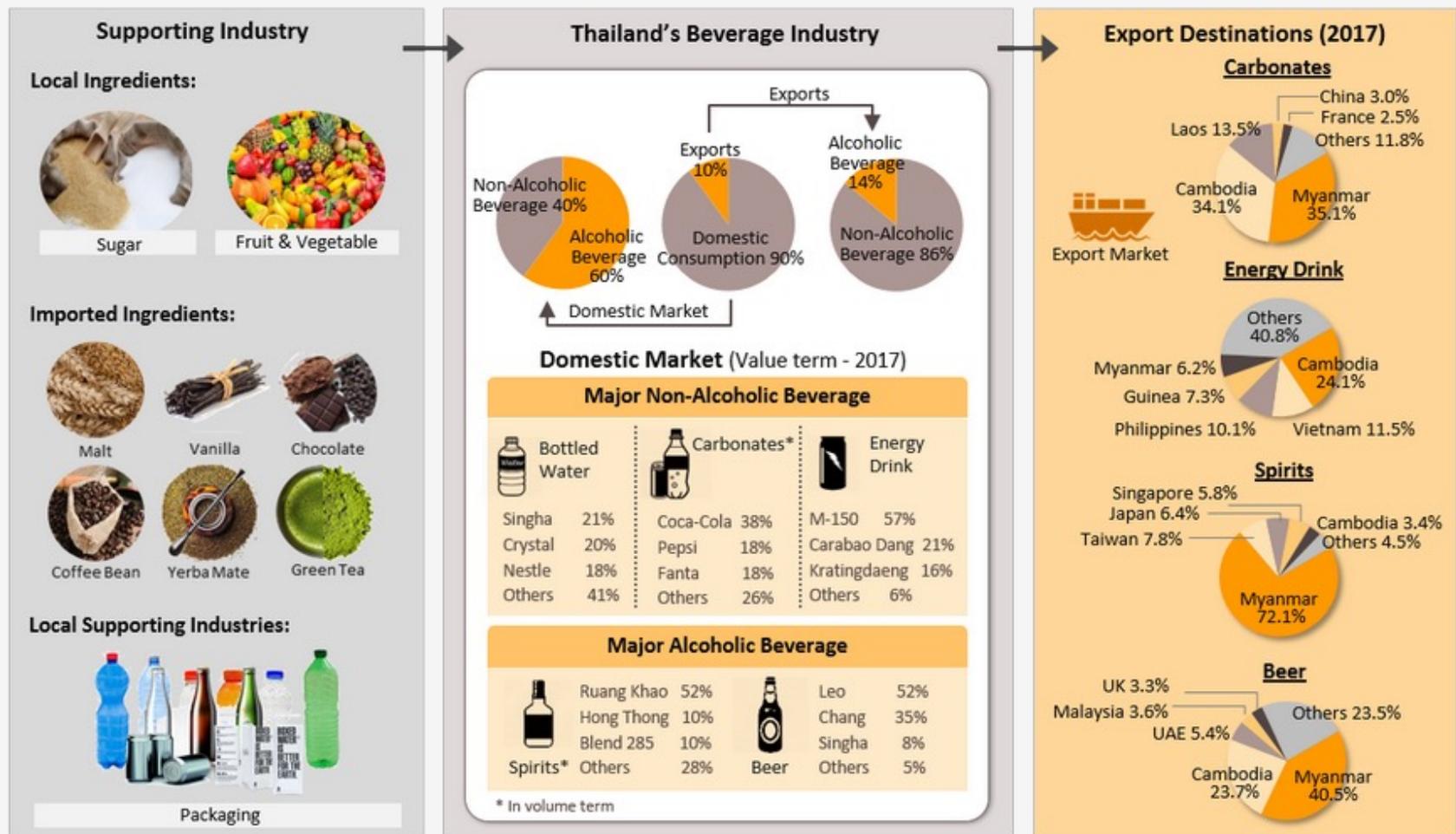
# Long-term industry trends

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- 1. Mature market, slow-growing market:** Thailand has the largest alcohol market in the ASEAN region, but it's more mature than those of Vietnam, the Philippines and Indonesia. Thailand's alcohol consumption is close to the global average. Vietnam's beer consumption is already 40 litres per capita – more than in Thailand.
- 2. Rising excise taxes:** In Thailand, the excise burden for is the highest for beer at 60%, followed by brown spirits and finally white spirits. That could be an explanation behind the high consumption of white spirits among the general Thai population. In Vietnam, the beer tax is only 37%.
- 3. Ultra premium spirits outperform:** In recent years, ultra premium spirits have outperformed in China and in developed markets. That could be related to an increased concentration of wealth and speculation, but also a shift in consumer behaviour towards high quality, lower quantity consumption.

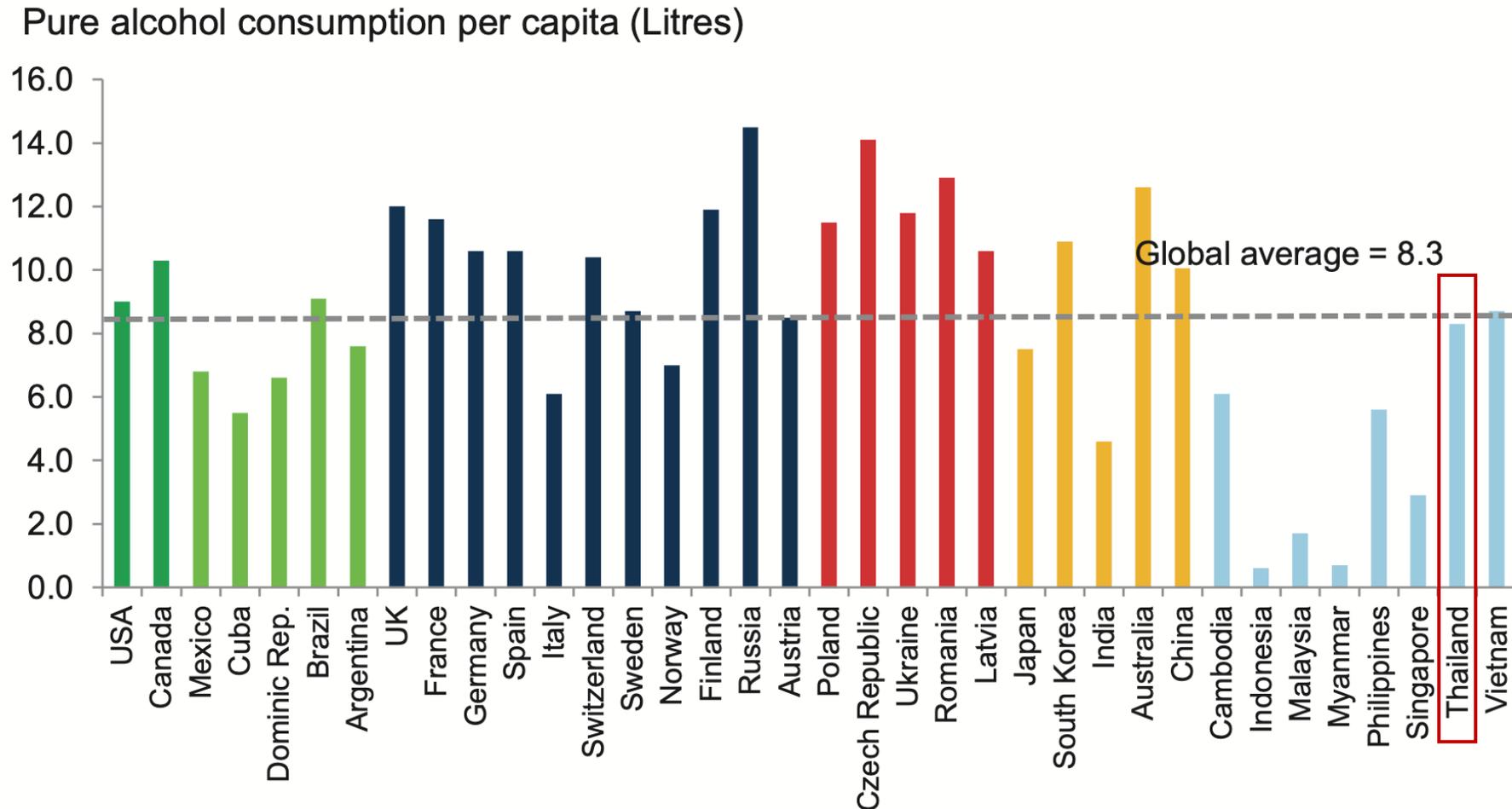
# Thailand's beverage industry in one picture

Figure 6: Thailand's Beverage Industry



Source: Krungsri

# Thailand consumes around 8 litres of pure alcohol per capita / year

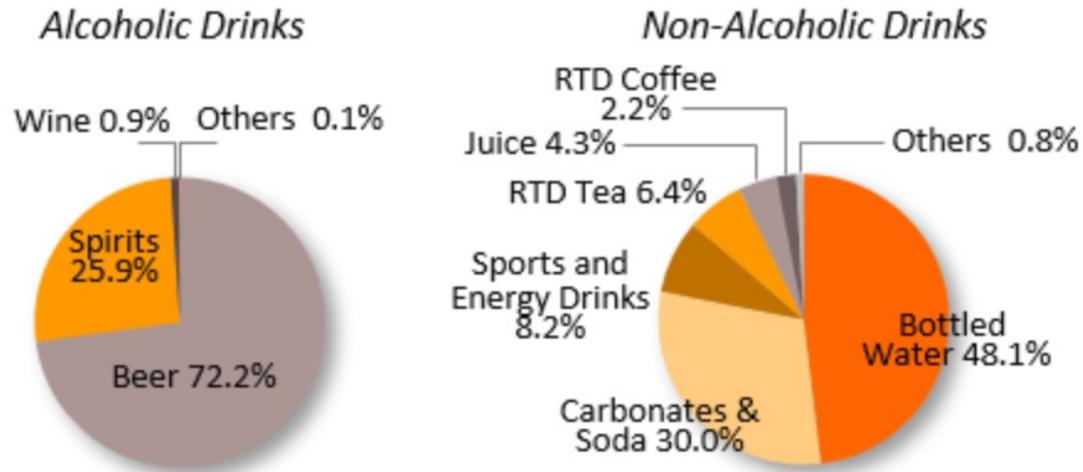


Source: Goldman Sachs

Beer is the most popular alcoholic beverage in volume terms... but in value terms, the market is 50/50 split between spirits and beer

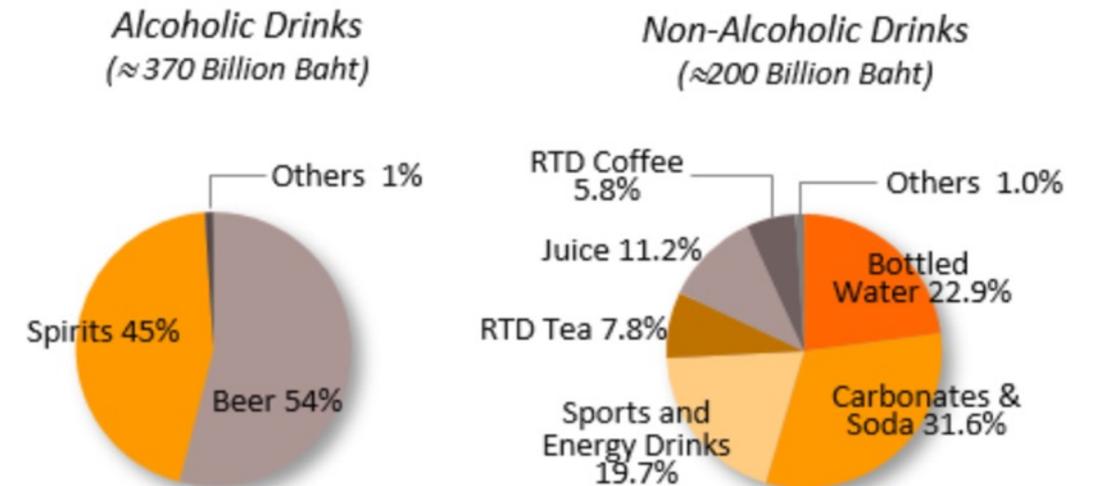


**Figure 4: Market Share of Thai Beverage by Volume (2017)**



Source: NFI, Euromonitor, Local Press

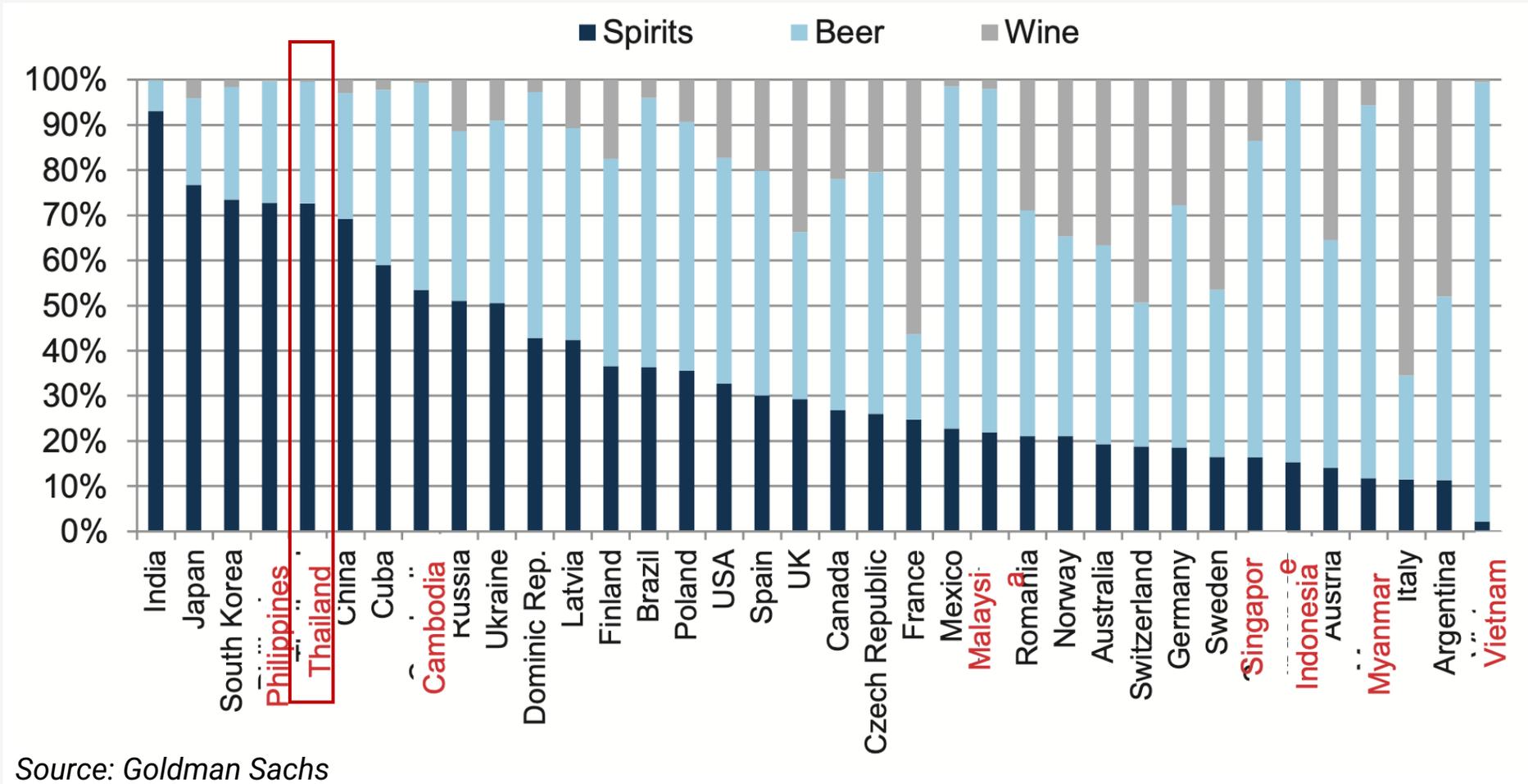
**Figure 5: Market Share of Thai Beverage by Value (2017)**



Source: NFI, Positioning, Local Press

Source: Krungsri

# Thailand's spirits consumption is higher than the global average

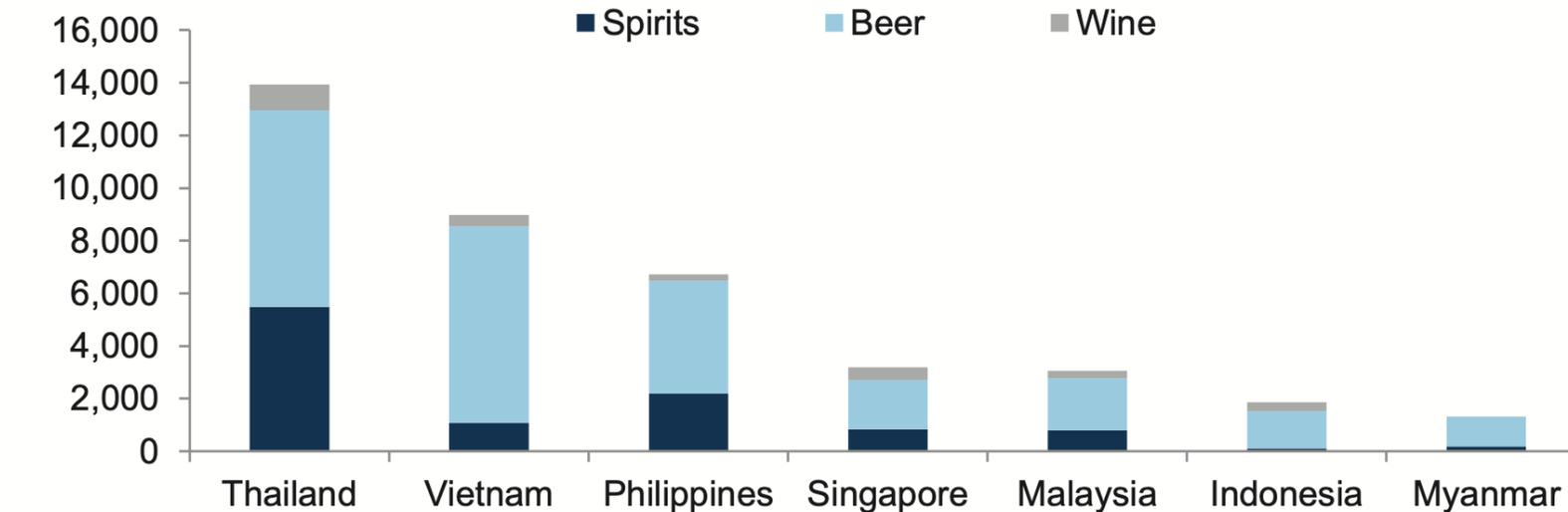


Source: Goldman Sachs

# Thailand has the largest alcohol market in the ASEAN region



Alcohol market size of ASEAN countries by total value (USDmn, 2017)



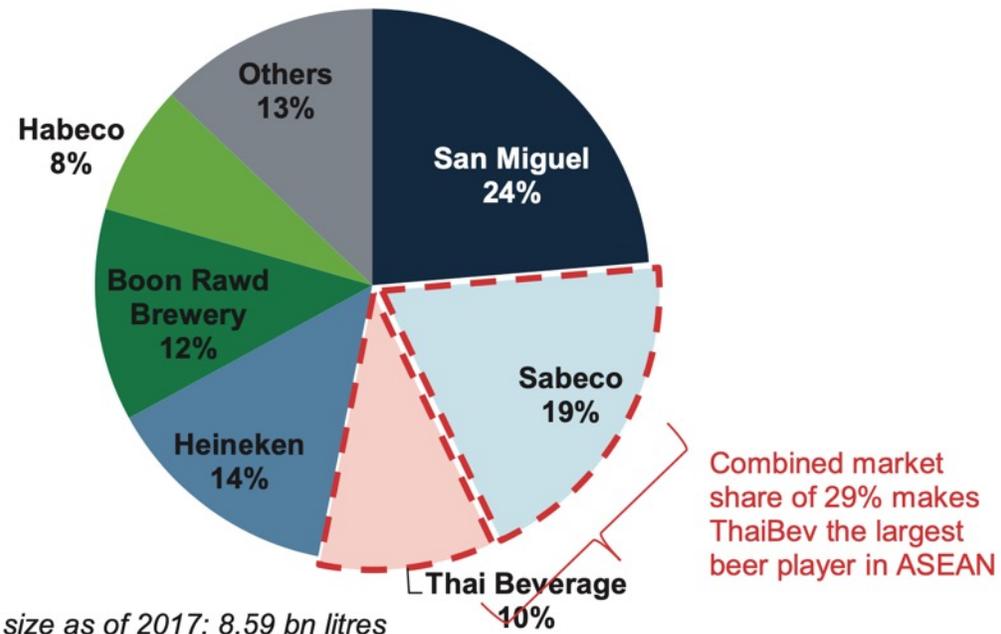
		5 yr Value CAGR						
		Thailand	Vietnam	Philippines	Singapore	Malaysia	Indonesia	Myanmar
Beer	<b>Value</b>	6%	10%	10%	5%	9%	13%	49%
	Volume	0%	7%	7%	3%	2%	3%	32%
	ASP	6%	3%	2%	2%	7%	10%	12%
Spirits	<b>Value</b>	3%	9%	3%	2%	5%	11%	25%
	Volume	1%	9%	-4%	-1%	-6%	-3%	8%
	ASP	2%	0%	8%	3%	12%	14%	16%

Source: Goldman Sachs

# Thai Beverage is now the largest alcohol maker in ASEAN, ahead of Philippines' San Miguel and Heineken (Multi Bintang)

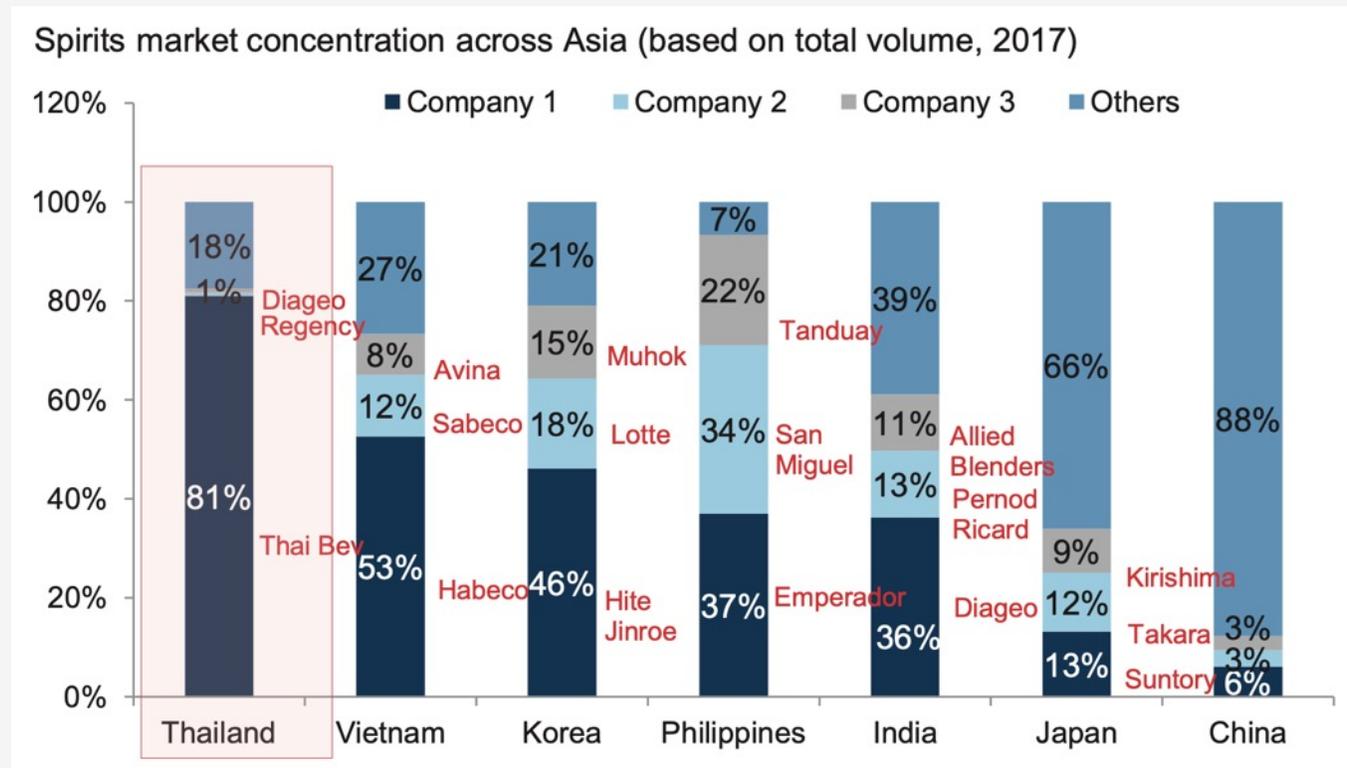


ASEAN beer market breakdown by top players, based on total volume as of 2017



Source: Goldman Sachs

# Thai Beverage completely dominates the Thai spirits market



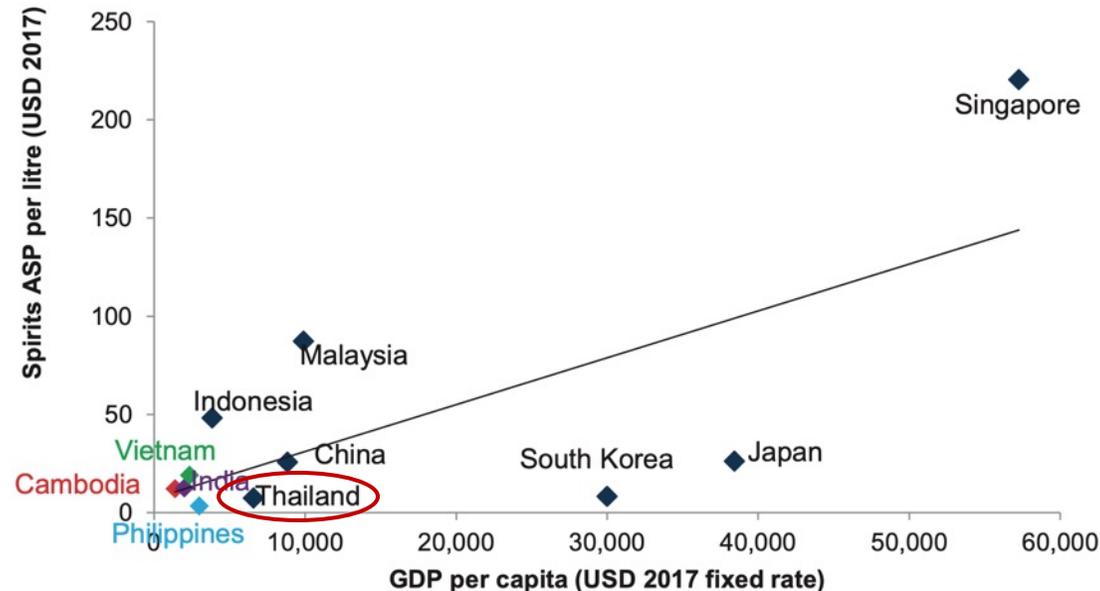
Source: Goldman Sachs

# Thailand's spirits ASP is low, providing significant upside... though bear in mind that consumers are mostly blue-collar workers



## Exhibit 14: Thailand's spirits are very affordable, which presents a lot of room for pricing growth and premiumization

Spirits ASP per litre vs GDP per capita of various countries



Source: Goldman Sachs

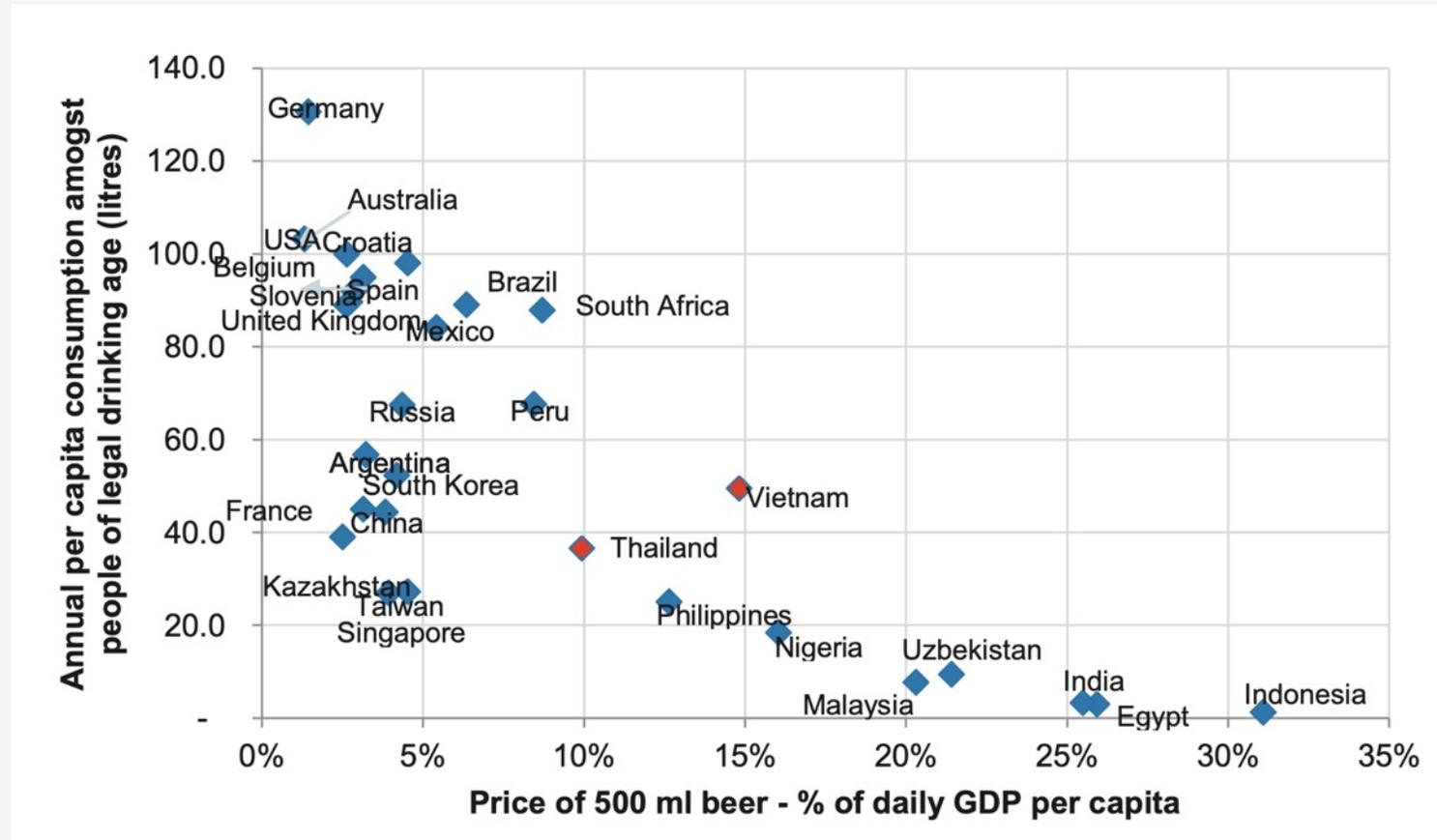


# Thailand's liquor market is growing steadily



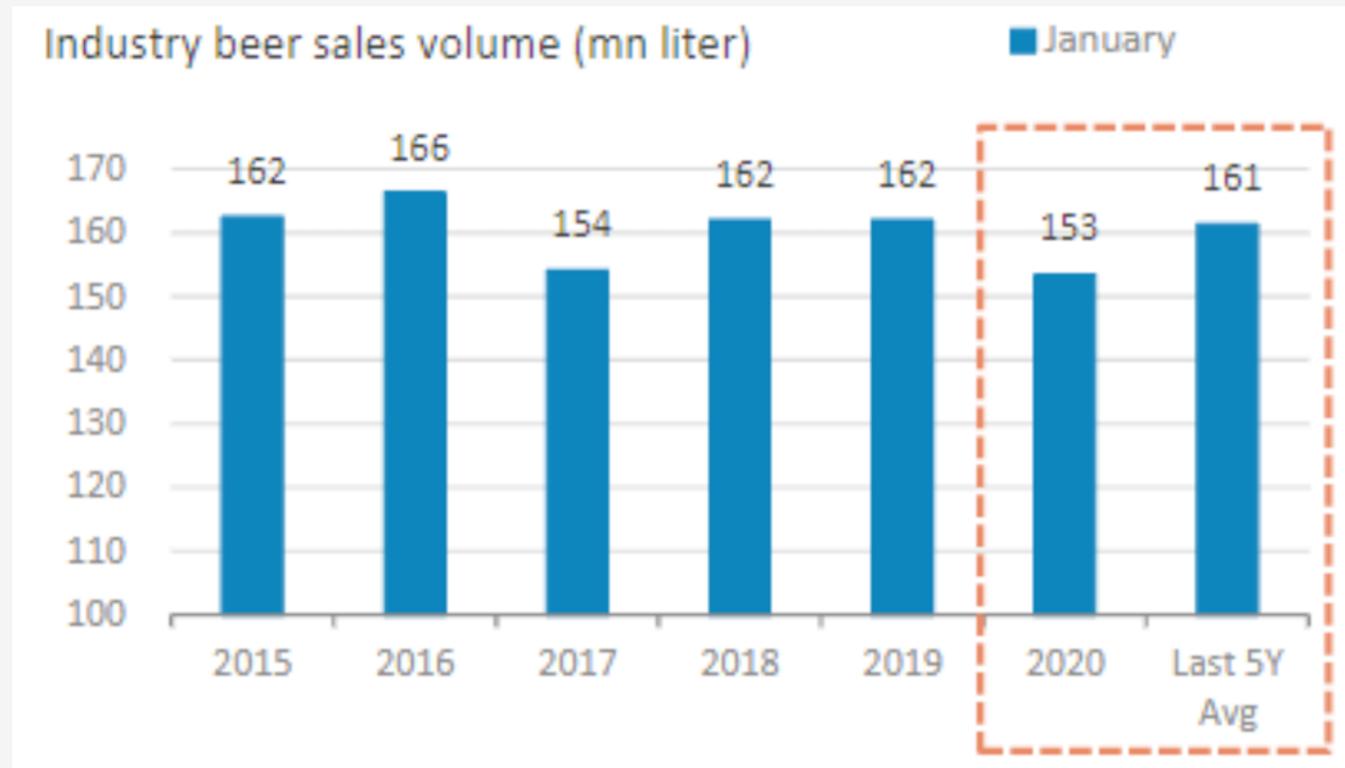
Source: Morgan Stanley

Thailand's beer consumption is also relatively high for the region. It's hard to see much upside given already-high beer prices.



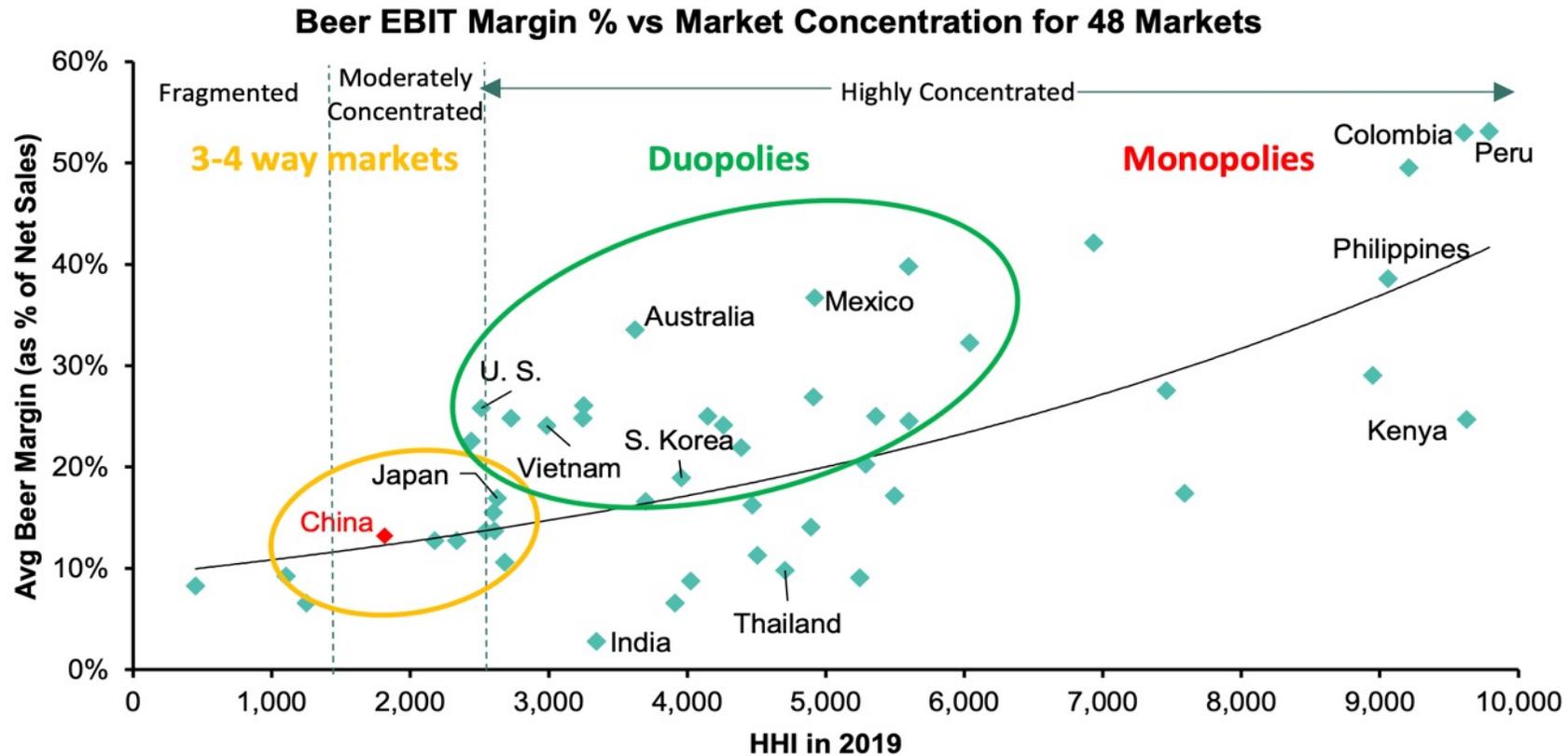
Source: Goldman Sachs

Thai beer consumption is not growing anymore and has recently been hurt by COVID-19 due to a lack of tourism and closure of nightlife venues



Source: Morgan Stanley

Thailand's beer market is a duopoly, which in theory should garner margins closer to 20-30% instead of the current 10%

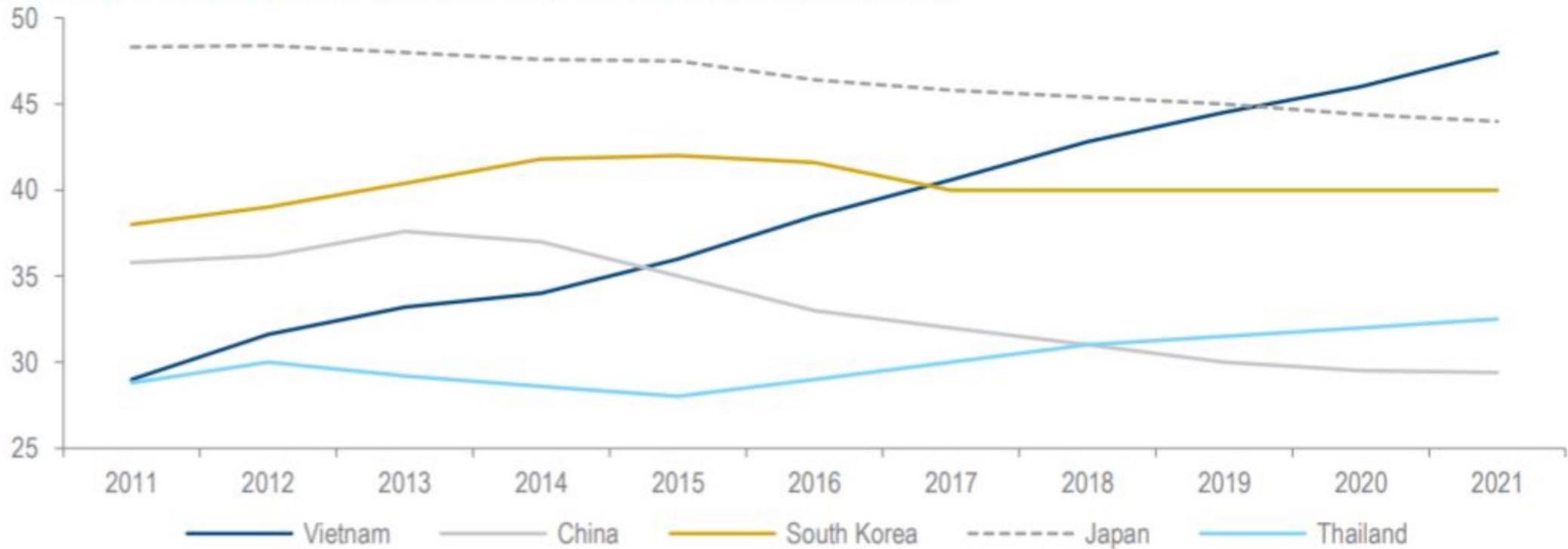


Source: Goldman Sachs

# However, in Vietnam, beer consumption is still growing



Per capita beer consumption in major markets in Asia (litre)



Source: Goldman Sachs

# What will change for Thai Beverage in the future?



1. In 2020, ThaiBev unveiled its long-term business plan called “Passion 2025”, which is a roadmap for the company in the ensuing five years. In its investor communication, it emphasizes the importance of becoming a “stable and sustainable ASEAN leader”, meaning its focus is on scale. Its key target markets include Thailand, Vietnam, Myanmar, Singapore and Malaysia. The Passion 2025 plan has three parts:
  1. Building new capabilities: new business opportunities
  2. Strengthen the core business: which I presume refers to making sure that ThaiBev stays #1 in the Thai spirits market
  3. Unlock potential of the group: creating value for shareholders
2. ThaiBev is considering listing its beer subsidiary in Singapore and selling 20% as a way to raise funds for further expansion. CEO Thapana Sirivadhanabhakdi said in September 2021 that “*The IPO will certainly happen*”. The beer subsidiary originally had plans to list its beer business in 2019 but it was delayed. A 2020 restructuring has paved way for its eventual listing. Funds raised will be used for acquisitions.
3. Potential disposals of the property business (Fraser & Neave Centrepont) or dairy business (Fraser & Neave)
4. Potential acquisition of the Vietnamese government’s remaining 36% stake in SABECO



# The Thai Baht is probably somewhat undervalued given the temporary drop in tourism due to COVID-19



# The peer group trades at around 24x P/E for liquor stocks and somewhat below that for beer stocks



2023e	Ticker	Country	Mkt cap (US\$m)	EV/S	EV/EBIT	P/E	Div yield
Thai Beverage	THBEV SP	Thailand	13,014	2.41x	16.7x	15.0x	3.5%
Kweichou Moutai	600519 CH	China	330,548	14.40x	20.7x	29.1x	1.8%
Wuliangye	000858 CH	China	91,775	5.83x	11.5x	17.8x	2.9%
Multi Bintang	MLBI IJ	Indonesia	1,221	7.01x	19.5x	26.3x	n.a.
China Resources Beer	291 HK	China	19,602	3.06x	17.6x	23.8x	8.1%
Tsingtao Brewery	600600 CH	China	13,484	1.85x	14.2x	27.4x	1.6%
Budweiser APAC	1876 HK	Hong Kong	34,003	4.06x	16.8x	25.8x	1.4%
Asahi Group Holdings	2502 JP	Japan	18,275	1.58x	15.5x	12.8x	2.9%
Kirin Holdings	2503 JP	Japan	13,746	1.20x	12.9x	12.2x	3.8%
Hanoi Beer	BHN VN	Vietnam	597	1.63x	40.0x	n.a.	n.a.
Saigon Beer	SAB VN	Vietnam	4,402	2.28x	14.9x	19.4x	2.5%
Average ex-Thai Beverage			52,765	4.29x	18.3x	21.6x	3.1%
Median ex-Thai Beverage			16,011	2.67x	16.1x	23.8x	2.7%

ThaiBev's P/E multiple has historically been around 16x, in line with the current current-year forward multiple



Source: Bloomberg

The beer segment will recover with tourism to Thailand. I foresee SG\$1.35 in EPS, giving the stock a 2025e P/E of 12.9x



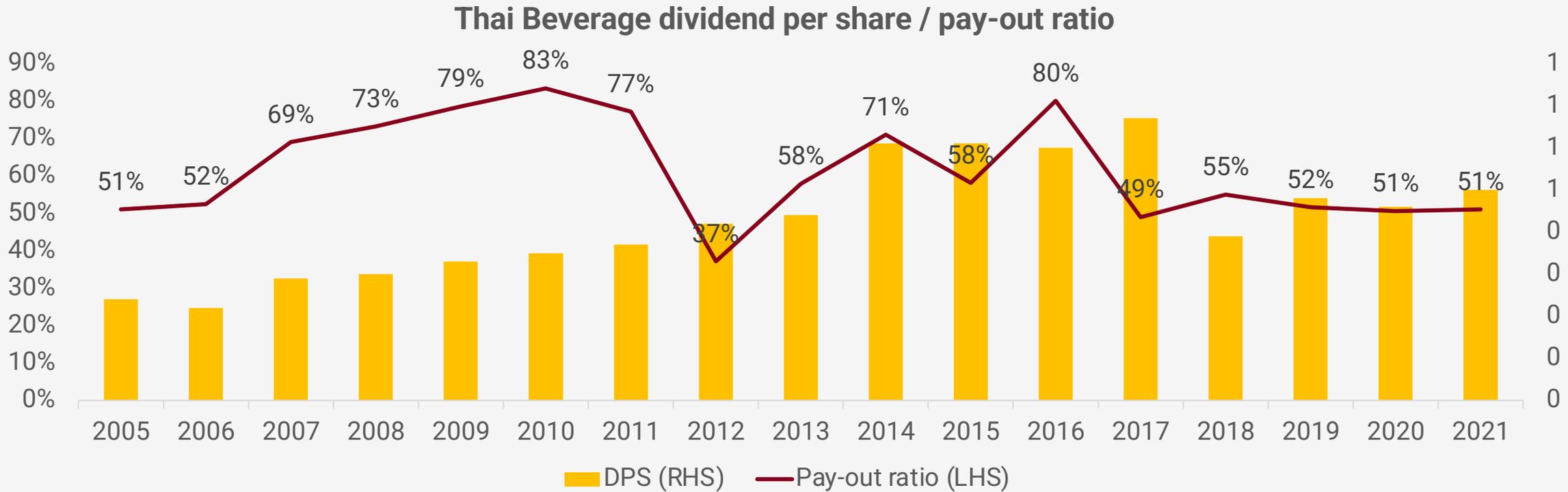
Thai Beverage (THBEV SP)	2018	2019	2020	2021	2022	2023	2024	2025
Revenues	229.7	267.4	253.5	240.5	245.4	255.7	272.2	282.5
COGS	-162.9	-190.0	-178.6	-169.1	-173.0	-180.5	-192.2	-199.5
<u>Gross profit</u>	<u>66.8</u>	<u>77.4</u>	<u>74.9</u>	<u>71.5</u>	<u>72.4</u>	<u>75.2</u>	<u>80.0</u>	<u>83.1</u>
Disitribution	-26.5	-28.7	-24.6	-23.3	-23.8	-24.8	-26.4	-27.4
Administrative expenses	-15.5	-16.2	-15.6	-14.4	-14.7	-15.3	-16.3	-17.0
<u>Operating profit</u>	<u>24.8</u>	<u>32.5</u>	<u>34.6</u>	<u>33.8</u>	<u>33.9</u>	<u>35.0</u>	<u>37.3</u>	<u>38.7</u>
Dividend income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income	0.7	1.1	1.4	1.4	1.4	1.5	1.6	1.6
Finance costs	-5.0	-7.2	-7.0	-6.8	-7.2	-7.7	-7.9	-8.1
Other income	2.1	0.7	1.2	0.7	0.8	0.8	0.8	0.9
FX gains	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Associate income	3.8	4.8	3.3	2.8	3.2	3.8	4.4	5.2
<u>Pretax profit</u>	<u>26.6</u>	<u>32.1</u>	<u>33.5</u>	<u>32.0</u>	<u>32.2</u>	<u>33.7</u>	<u>36.4</u>	<u>38.4</u>
Income tax	-4.5	-5.2	-6.9	-4.6	-4.6	-4.6	-4.6	-4.6
<u>Net profit</u>	<u>22.1</u>	<u>26.9</u>	<u>26.6</u>	<u>27.3</u>	<u>27.6</u>	<u>29.0</u>	<u>31.8</u>	<u>33.8</u>
EPS (THB)	0.88	1.07	1.06	1.09	1.10	1.16	1.27	1.35
<u>P/E</u>	<u>19.7x</u>	<u>16.2x</u>	<u>16.4x</u>	<u>15.9x</u>	<u>15.8x</u>	<u>15.0x</u>	<u>13.7x</u>	<u>12.9x</u>
<u>EV/EBIT</u>	<u>26.6x</u>	<u>20.3x</u>	<u>19.0x</u>	<u>19.5x</u>	<u>19.5x</u>	<u>18.8x</u>	<u>17.7x</u>	<u>17.0x</u>
<u>Div yield</u>	<u>2.2%</u>	<u>2.8%</u>	<u>2.7%</u>	<u>2.9%</u>	<u>3.2%</u>	<u>3.3%</u>	<u>3.6%</u>	<u>3.9%</u>
GPM	29.1%	28.9%	29.5%	29.7%	29.5%	29.4%	29.4%	29.4%
OPM	10.8%	12.2%	13.6%	14.0%	13.8%	13.7%	13.7%	13.7%

A sum-of-the-parts with peer group multiples valuation suggests an intrinsic value of around SG\$1.0/share, -43% higher vs today



<b>Thai Beverage (THBEV SP) (THB)</b>	<b>Method</b>	<b>Metric</b>	<b>Stake</b>	<b>Value to THBEV</b>
Beer segment	18x EBIT	EBIT = 10.2	100.0%	184.3
Spirits segment	19x EBIT	EBIT = 27	100.0%	522.4
Food	10x EBIT	EBIT = 0.0	100.0%	0.0
Oishi (non-alcoholic)	Analyst est	n.a.	79.7%	11.8
Sermsuk (non-alcoholic)	Analyst est	n.a.	64.7%	5.5
SABECO (SAB VN)	Market	Mkt cap = 147.7	53.6%	79.2
Fraser & Neave	Market	Mkt cap = 48.4	28.4%	13.7
Frasers Property Limited	Market	Mkt cap = 108.4	28.9%	31.3
<u>Gross asset value</u>				<u>848</u>
Consolidated net debt				-223
<u>Net asset value</u>				<u>625</u>
Shares outstanding				25
<u>Intrinsic value/share (THB)</u>				<u>24.9</u>
THB/SGD exchange rate				24.6
<u>Intrinsic value/share (SGD)</u>				<u>1.01</u>
Current share price				0.71
<u>Upside</u>				<u>+42.3%</u>

Thai Beverage has historically been generous with dividends... guidance of “not less than 50% of net profit” – but it may prioritise investments



Source: TIKR

# Some February/March 2020 insider buying by Chief Operating Officer Tantha-Obhas Ueychai (720,000 shares)



Source: Bloomberg



# Potential downside risks

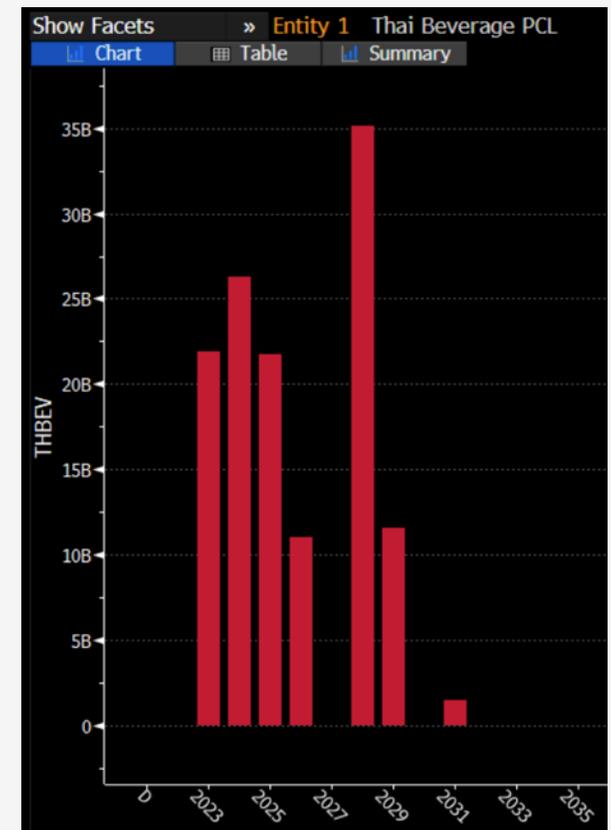
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- **Key man risk:** Charoen Sirivadhanabhakdi has been instrumental to the success of ThaiBev. In particular his contacts among Thai politicians seem to have protected the business from competition. If he passes away, ThaiBev could plausibly lose one of its competitive advantages.
- **Average capital allocation:** Some past M&A deals can probably be questioned, including SABECO at 35x EBITDA. On the other hand, there hasn't been any dilution either.
- **Debt:** ThaiBev does have a significant amount of net debt of roughly 5x EBITDA, though with low borrowing costs. Its borrowing is mostly in Baht except for some Yen exposure. But given that SABECO earns its income in Vietnamese Dong, it's plausible that a depreciation of the Vietnamese Dong against the Thai Baht would increase overall debt levels. Higher interest rates would also be a threat.
- **Regulation:**
  - In 2020, alcoholic beverage sales was restricted for three weeks to combat COVID-19. That could happen again. Excise taxes may at some point move higher as well. The industry is a major contributor to government revenue, however, so the government does not want to break the status quo.
  - Parliament has discussed lowering import duties on alcoholic beverages. However, it looks like this proposal has been shelved indefinitely due to significant opposition among politicians.



# The debt burden is not insignificant... but manageable

- ThaiBev has roughly THB 206 billion of interest-bearing debt outstanding or THB 161 billion of net debt. That net debt burden is equivalent to 5.3x net debt/EBITDA.
- Most of current outstanding bonds of THB 129 billion will mature from 2023 to 2029. They are not fully covered by cash flows and will need to be refinanced.
- The majority of interest-bearing debt is fixed rate. That poses a risk if interest rates rise, and offers opportunity if they drop further.
- Coupons on outstanding bonds range from 1.2% to 4.2%. Thailand's repo rate is currently 0.5%, from from 1.5% prior to the pandemic. So if anything, bonds issued in 2018-19 should reprice at lower coupons when those bonds are refinanced.
- Moody's has a ThaiBev Baa3 rating (barely investment grade) with outlook stable. It thinks ThaiBev has a leading market position in spirits which supports its cash flow generation. But leverage is high at close to 5x EBITDA and political tension could be a potential risk.



# Catalysts



- Recovery in Thai inbound tourism after COVID-19, helping on-trade beer sales recover
- A separate Singapore listing for the majority of the company's Thai beer business
- Potential disposals of associates Fraser & Neaves and Frasers Property Limited



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