

Based on the 2024 Annual Report for Carabao Group Public Company Limited (CBG), I have conducted a forensic analysis focusing on accounting risks, earnings quality, and related party complexities.

Executive Summary

Carabao Group posted strong headline growth in 2024 (Revenue +11%, Net Profit +48%)¹. However, the quality of earnings is heavily influenced by a structural shift toward low-margin third-party distribution (alcohol/beer) and extensive related-party transactions that subsidize key operational costs (marketing/sponsorships). A significant red flag exists regarding the valuation of the UK subsidiary, where the parent company has recorded massive impairments while the consolidated entity retains goodwill.

1. Revenue Recognition & Segment Reporting Risks

Red Flag: Margin Dilution via Structural Shift

- **Observation:** While total revenue grew 11%, the composition of revenue is shifting toward lower-quality streams. Revenue from "3rd Party Products for Distribution" (primarily alcohol/beer) grew 18% and now accounts for 36% of total sales²²²².
- **Accounting Risk:** This segment generates a Gross Profit Margin (GPM) of only **9%**, compared to **39%** for Branded Own Products (Energy Drinks)³. This creates a dependency on volume over value. The company is effectively acting as a low-margin logistics provider for related-party alcohol entities rather than a high-margin brand owner in this segment.
- **Kam Audit Focus:** Revenue recognition, specifically regarding rebates, discounts, and sales promotions, was identified as a Key Audit Matter (KAM) due to the complexity of arrangements with traditional and modern trade customers⁴.

2. Related Party Transactions (High Risk Area)

The "Beer Strategy" and vertical integration have created a complex web of transactions with entities controlled by the major shareholders (Sathientham family).

Red Flag: Sponsorship Cost Sharing (Off-Balance Sheet Support)

- **Observation:** CBG extended its EFL (Carabao Cup) sponsorship through 2027⁵. However, CBG signed an agreement with **Sahamit Sugar Co., Ltd.** (a related party) to share these rights.
- **Impact:** Sahamit Sugar pays 50% of the sponsorship fee⁶. In 2024, CBG recognized **THB 137 million** as "Other Income" from this sharing arrangement⁷.
- **Forensic Insight:** This effectively removes significant marketing expenses from CBG's books, inflating operating income. Without this related-party subsidy, SG&A would be higher, and net margins lower.

Red Flag: The "Beer" Ecosystem Circularity

- **Sales to Related Parties:** CBG acts as a distributor for "Tawandang Brewery 1999 Co., Ltd." and other related beer entities. Conversely, CBG's subsidiaries (APG, ACM, APM) sell packaging (glass, cans) back to these beer entities.
 - *Sales of packaging to related beer entities:* **THB 173 million** in 2024 (down from THB 466 million in 2023)⁸.
 - *Purchase of goods from related parties (Sahamit Sugar/Alcohol):* **THB 6.67 billion** in 2024⁹.
- **Risk:** The company is heavily entangled with the major shareholder's private businesses. Profitability is highly sensitive to transfer pricing on both the procurement of alcohol for distribution and the sale of packaging materials.

3. Goodwill & Impairment (The UK Divergence)

Red Flag: Parent vs. Consolidated Valuation Disconnect

- **Separate Financial Statements:** The parent company (CBG) recorded an allowance for impairment of investment in subsidiaries of **THB 2.93 billion** specifically related to **Carabao Holdings (Hong Kong) Limited** (which holds the UK business)¹⁰. This suggests the UK business is failing to meet expected profits.

- **Consolidated Financial Statements:** Despite the parent writing down the investment value significantly, the consolidated balance sheet still carries **THB 520 million** in Goodwill¹¹.
- **Accounting Risk:** Management claims no impairment is needed for consolidated goodwill based on a DCF model with a 2.9% terminal growth rate¹². There is a significant discrepancy between the economic reality reflected in the separate statements (huge write-down) and the optimism in the consolidated statements (goodwill intact).

4. Balance Sheet & Cash Flow Analysis

Inventory Risks

- **Observation:** Finished goods inventory increased to **THB 787 million**¹³.
- **Risk:** The company recorded a loss on write-off of inventories of **THB 17.4 million** in 2024, up from THB 6.9 million in 2023¹⁴. This indicates rising obsolescence or expiry issues, potentially linked to the aggressive push into new product categories.

Loans to Related Parties

- **Observation:** The separate financial statements show short-term loans to related parties (subsidiaries) of **THB 4.44 billion**¹⁵.
- **Risk:** While eliminated in consolidation, this highlights that the parent company acts as the central treasury. If the subsidiaries (particularly the loss-making UK entity or new ventures) cannot repay, the parent's liquidity is compromised.

5. Contingencies & Commitments

- **Sponsorship Commitments:** The extension of the EFL sponsorship to 2027 locks the company into significant future foreign currency outflows (GBP)¹⁶.
- **Capital Commitments:** Significant CAPEX commitment of **THB 17.5 million** for factory

construction¹⁷.

- **Guarantees:** CBG has guaranteed credit facilities for subsidiaries (APM, CBD, ICUK) totaling over **THB 118 million, GBP 4.5 million, and EUR 1 million**¹⁸.

6. Corporate Governance & Stock-Based Comp

- **Stock-Based Compensation:** There is no evidence of stock option plans or share-based payment expenses in the notes¹⁹. Remuneration is cash-based (salary/bonus).
- **Board Independence:** The Audit Committee consists of 3 independent directors²⁰. However, the "Beer Strategy" relies entirely on entities owned by the controlling family, creating a permanent structural conflict of interest that requires constant Audit Committee oversight.

Forensic Conclusion for the User

While Carabao Group shows robust top-line growth, **the "quality" of this growth is lower than in previous years**. The growth is driven by low-margin beer distribution (a related-party arrangement) rather than the core high-margin energy drink business.

Actionable Watchlist:

1. **The "Sahamit" Subsidy:** Monitor the "Compensation from sharing rights"²¹. If this related-party income stops, CBG's marketing costs will spike, and net income will fall.
2. **UK Goodwill:** The massive write-down in the parent books²² suggests the UK business is distressed. Expect potential future impairments on the consolidated goodwill of THB 520 million.
3. **Gross Margin Trend:** Watch the mix between "Branded Own" and "3rd Party Distribution." If the beer distribution grows faster than energy drinks, blended margins will continue to compress toward the 9% distribution margin²³.