

COMPANY UPDATE

Berli Jucker (BJC TB)

The Worst Should have Passed

We reduce the company's 2019-21 earnings by 8.3-10.7% to account for a slower-than-expected recovery in PSC and weak SSSG caused by poor economic conditions. However, we believe PSC should have bottomed out in 3Q19, and BJC's strategies to expand its product categories and their retail stores outside Thailand will alleviate some negative impact from the slowing economy. Maintain BUY. Target price: Bt56.00.

WHAT'S NEW

- **Analyst meeting with BJC.** We met with Berli Jucker's (BJC) management for an update on the company's 3Q19 results and its earnings outlook for 4Q19 and 2020.

STOCK IMPACT

- **PSC gross margin plunged in 3Q19.** The company's packaging supply chain (PSC) gross profit margin dropped sharply to 18.0% in 3Q19 (2Q19: 21.2%). According to management, the steep fall in gross profit margin was due to: a) Diseconomies of scale in new aluminum can sizes (slim can size: 180-250ml), b) geographic sales mix change (more of low-margin can sales were made in Vietnam), and c) one of its aluminium can production lines was shut down for maintenance.
- **However, PSC should have bottomed out.** Although PSC has recovered slower than our expectation, we believe it should have bottomed out in 3Q19. BJC will start to benefit from economies of scale as the company will receive more aluminum can orders in 2020 from: a) 200m cans from ready-to-drink coffee (2019: 50m cans), b) 700m cans from beer (2019: 300m cans), and c) expanding manufacturing capacity in Vietnam from 1,400m cans/year to 1,900m cans/year.
- **Weak SSSG dragged by sluggish economy.** The company's modern supply chain (MSC) SSSG in 3Q19 was -4.9% yoy, which is lower than our expectation of -2.0% yoy. The poor 3Q19 SSSG was dragged by a sluggish economy. For 4Q19, management has guided that the SSSG should be slightly better than 3Q19, but will still remain in negative territory. However, the company will try to alleviate this by expanding its product categories (eg selling more small home appliances) to gain more sales, and broaden margin by selling more private brand products. Also, in 2020, BJC plans to aggressively expand its retail stores in Laos and Cambodia to ease some burden from the poor economy in Thailand.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	164,067.2	171,802.3	173,882.1	177,246.8	183,791.3
EBITDA	20,064.2	20,922.1	21,059.5	21,570.2	21,969.5
Operating profit	12,674.8	13,366.3	13,473.5	14,231.9	14,813.6
Net profit (rep./act.)	5,210.8	6,650.0	6,652.8	7,511.6	8,064.7
Net profit (adj.)	5,122.6	6,366.3	6,853.1	7,511.6	8,064.7
EPS (Bt)	1.3	1.6	1.7	1.9	2.0
PE (x)	36.2	29.2	27.2	24.8	23.1
P/B (x)	1.7	1.7	1.6	1.6	1.5
EV/EBITDA (x)	17.1	16.4	16.3	15.9	15.6
Dividend yield (%)	1.1	1.3	1.6	1.8	1.9
Net margin (%)	3.2	3.9	3.8	4.2	4.4
Net debt/(cash) to equity (%)	143.6	139.9	132.9	125.4	118.4
Interest cover (x)	4.4	4.4	4.2	4.6	4.8
Consensus net profit	-	-	7,095	7,861	8,603
UOBKH/Consensus (x)	-	-	0.97	0.96	0.94

Source: Berli Jucker, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt46.50
Target Price	Bt56.00
Upside	+20.4%
(Previous TP)	Bt61.00)

COMPANY DESCRIPTION

Berli Jucker Pcl (BJC) is a conglomerate that operates in 1) Packaging supply chain 2) Consumer supply chain 3) Healthcare and Technical supply chain 4) Modern retail supply chain

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	BJC TB
Shares issued (m):	4,006.8
Market cap (Btm):	186,317.0
Market cap (US\$m):	6,162.3
3-mth avg daily t'over (US\$m):	17.0

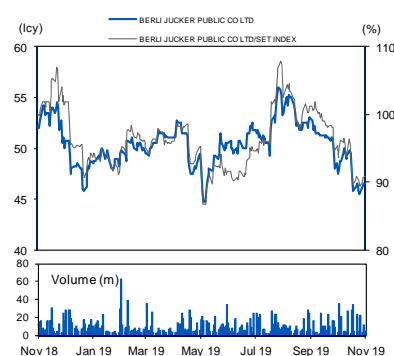
Price Performance (%)

52-week high/low	Bt56.00/Bt44.75				
1mth	3mth	6mth	1yr	YTD	
(3.1)	(15.8)	(5.6)	(10.6)	(8.4)	

Major Shareholders

	%
-	-
FY19 NAV/Share (Bt)	28.44
FY19 Net Debt/Share (Bt)	37.80

PRICE CHART



Source: Bloomberg

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- MSC retail stores expansion update.** On 5 Oct 19, the company held a soft opening for Big C Supercenter in Poipet, Cambodia, with the area of 5,500 sqm (retail area: 2,700 sqm and rental area: 2,800). The response was very good, with many customers queuing to purchase the shop's products. Also, the occupancy rate in rental area is very high at 97%. The official opening will be held in early-Dec 19. Aside from Big C Supercenter in Poipet, BJC has also opened a 900 sqm Big C Foodplace in Samyarn Mitrtown, Bangkok,. Under Foodplace format, the product mix is on organic and healthy food targeting the mid- to high-income market segments.

BIG C SUPERCENTER IN POIPEL



Source: Berli Jucker

BIG C FOODPLACE IN SAMYARN MITRTOWN



Source: Berli Jucker

EARNINGS REVISION/RISK

NET PROFIT FORECAST

(Btm)	2019F	2020F	2021F
Old	7,450	8,301	8,793
New	6,652	7,512	8,065
% chg	-10.7	-9.5	-8.3

Source: Berli Jucker PCL, UOB Kay Hian

- We reduce our 2019-21 net profit forecasts by 8.3-10.7% to account for slower-than-expected recovery in PSC and MSC's weak SSSG caused by poor economic conditions.

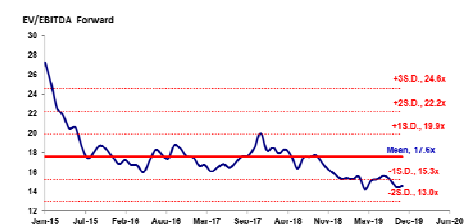
VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price.** We maintain our BUY recommendation but reduce target price to Bt56.00 (previously Bt61.00) to account for the slower-than-expected recovery in PSC as well as MSC's weak SSSG. Our target price is based on SOTP (EV/EBITDA) methodology. Our target price implies 17.1x 2020F EV/EBITDA, which is below its 5-year mean.

SHARE PRICE CATALYST

- Another series of government's new spending stimulus would act as short-term price catalyst.

EV/EBITDA BAND



Source: Berli Jucker PCL, UOB Kay Hian

CORE PE BAND



Source: Berli Jucker PCL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	171,802	173,882	177,247	183,791
EBITDA	20,922	21,060	21,570	21,969
Deprec. & amort.	7,556	7,586	7,338	7,156
EBIT	13,366	13,473	14,232	14,814
Net interest income/(expense)	(4,719)	(4,956)	(4,730)	(4,612)
Pre-tax profit	8,647	8,517	9,502	10,202
Tax	(1,647)	(1,149)	(1,509)	(1,620)
Minorities	(634)	(516)	(482)	(517)
Net profit	6,650	6,653	7,512	8,065
Net profit (adj.)	6,366	6,853	7,512	8,065

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating (BTm)	17,636	18,427	14,708	15,083
Pre-tax profit (BTm)	8,297	7,801	9,020	9,684
Tax (BTm)	(1,647)	(1,149)	(1,509)	(1,620)
Deprec. & amort. (BTm)	7,556	7,586	7,338	7,156
Working capital changes (BTm)	(1,140)	(87)	(142)	(138)
Non-cash items (BTm)	(320)	84	0	0
Other operating cashflows (BTm)	4,890	4,191	0	0
Investing (BTm)	(11,641)	(8,204)	(8,693)	(9,014)
Capex (growth) (BTm)	(8,665)	(6,497)	(8,693)	(9,014)
Investments (BTm)	(3,131)	(1,648)	0	0
Proceeds from sale of assets (BTm)	83	24	0	0
Others (BTm)	73	(83)	0	0
Financing (BTm)	(4,683)	(11,261)	(4,320)	(7,196)
Dividend payments (BTm)	(2,399)	(2,923)	(3,270)	(3,561)
Issue of shares (BTm)	0	0	0	0
Proceeds from borrowings (BTm)	2,969	(4,162)	(1,531)	(4,152)
Others/interest paid (BTm)	(5,253)	(4,177)	482	517
Net cash inflow (outflow) (BTm)	1,312	(1,038)	1,695	(1,127)
Beginning cash & cash equivalent (BTm)	4,368	5,710	4,441	6,136
Changes due to forex impact (BTm)	30	(231)	0	0
Ending cash & cash equivalent (BTm)	5,710	4,441	6,136	5,008

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	66,327	67,086	69,386	71,787
Other LT assets	213,334	212,845	211,900	211,357
Cash/ST investment	5,710	4,441	6,136	5,008
Other current assets	37,651	36,397	37,569	39,094
Total assets	323,021	320,769	324,990	327,246
ST debt	55,798	63,655	66,604	71,009
Other current liabilities	34,488	32,730	33,760	35,147
LT debt	104,521	92,308	87,828	79,271
Other LT liabilities	13,130	13,441	13,441	13,441
Shareholders' equity	110,512	113,993	118,234	122,738
Minority interest	4,572	4,642	5,123	5,641
Total liabilities & equity	323,021	320,769	324,990	327,246

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	12.2	12.1	12.2	12.0
Pre-tax margin	5.0	4.9	5.4	5.6
Net margin	3.9	3.8	4.2	4.4
Growth				
Net profit (adj.)	24.3	7.6	9.6	7.4
EPS	n.a.	n.a.	n.a.	n.a.
Leverage				
Debt to total capital	58.2	56.8	55.6	53.9
Debt to equity	145.1	136.8	130.6	122.4
Net debt/(cash) to equity	139.9	132.9	125.4	118.4
Interest cover (x)	4.4	4.2	4.6	4.8

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