BUY (Unchanged)

Change in Numbers

TP: Bt 168.00 (From: Bt148.00)

Upside : 17.1%

5 JULY 2021

Carabao Group Pcl (CBG TB)

Back with a vengeance

CBG's export hiccups in 1Q21 have ended and its growth trend has resumed with likely new high earnings in 2Q21F. We raise our earnings estimates by 4% p.a. in 2021-23F and roll over our valuation to a 2022F base year with a new Bt168TP. Reaffirm BUY.

PATTADOL BUNNAK

662 – 483 8298

pattadol.bun@thanachartsec.co.th

Thanachart Securities

Hiccups ending with likely new high earnings

CBG's 1Q21 profit fell 13% y-y because of export hiccups in Cambodia (COVID lockdown) and Myanmar (post-coup protests). These two markets account for 36% of total sales in 2021F while total exports comprise 48% of sales. The hiccups have ended and we expect CBG to resume its growth trend with new high 2Q21F earnings of Bt1bn, up 12% y-y and 47% q-q. Key drivers have been 13% y-y export growth, 100%-plus C-Lock functional drink growth and a 30% increase in spirit distribution income. C-Lock accounts for 4% of sales and spirit distribution 16%. Domestic energy drinks (30% of sales) should remain flat y-y.

Boosting our earnings

Due to the earlier-than-expected end of the export hiccups and stronger-than-expected exports to China, we lift our earnings for CBG by 4% p.a. in 2021-23F. Together with our base-year rollover to 2022F, we raise our DCF-based 12-month TP to Bt168 (from Bt148) and reaffirm BUY on CBG. We like CBG as a growth stock with a lean operation and high profitability. We project EPS growth of 19% this year and 32% in 2022F. Key drivers are growing China exports, continued C-Lock market shares gains and cost-saving measures. We estimate Bt200m in cost savings this year from lower sugar content, lower UK sponsorship expenses and savings from a new packaging factory.

Strong exports to China

CBG sold 35m energy drink cans and bottles to China in 1Q21 and orders jumped to over 80m in 2Q21, on our estimate. We forecast 200m units this year vs. 50-80m p.a. in 2018-20. After three years of business and management team adjustments, exports to China have started to take off. CBG is focusing more on smaller areas in the country first before going big. With this strategy, it can offer better promotional and marketing campaigns. China accounts for 7% of sales but 12% of profit in 2021F.

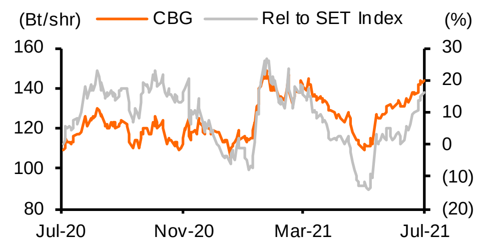
Another leg up for C-Lock

Launched in April 2020, C-Lock now has the second-largest share of 11% in the Bt5bn-plus vitamin beverage market (wholesale value). Also helping are CBG's inhouse nationwide distribution network and the family-owned CJ convenience store chain. CJ has 600+ branches nationwide. CBG has also launched a new SKU, C-Lock collagen, to expand its client base to women. The new SKU has been selling well. It comes in more convenient ready-to-drink format and offers cheaper collagen per unit vs. traditional collagen powder. We estimate 80% growth in C-Lock sales to reach Bt660m this year (4% of sales) and 20% in 2022F. It generates a high margin and we estimate it makes up 6% of profit this year.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	17,231	19,372	22,690	25,003
Net profit	3,525	4,209	5,556	6,603
Consensus NP	—	3,856	4,572	5,120
Diff frm cons (%)	—	*9.1*	*21.5*	*29.0*
Norm profit	3,525	4,209	5,556	6,603
Prev. Norm profit	—	4,062	5,328	6,327
Chg frm prev (%)	—	*3.6*	*4.3*	*4.4*
Norm EPS (Bt)	3.5	4.2	5.6	6.6
Norm EPS grw (%)	40.0	19.4	32.0	18.8
Norm PE (x)	40.7	34.1	25.8	21.7
EV/EBITDA (x)	30.3	25.2	19.5	16.5
P/BV (x)	14.4	12.4	10.4	9.0
Div yield (%)	1.7	2.0	2.6	3.5
ROE (%)	38.1	39.2	43.9	44.4
Net D/E (%)	34.9	15.5	(3.6)	(18.8)

PRICE PERFORMANCE

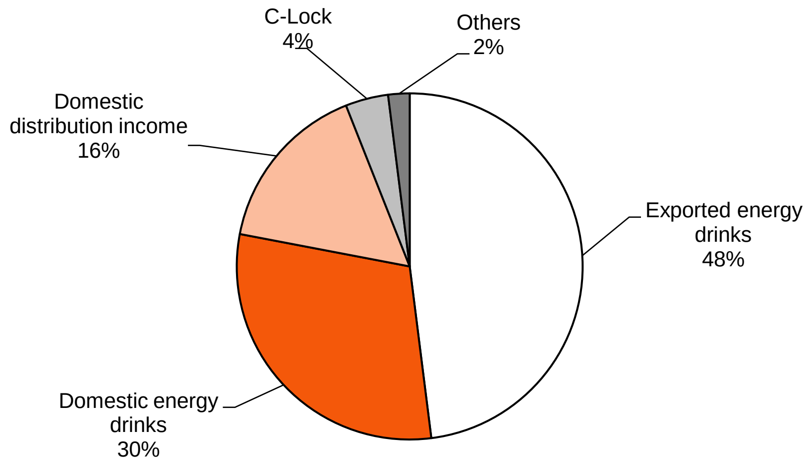


COMPANY INFORMATION

Price *as of* 05-Jul-21 (Bt)	143.50
Market Cap (US$ m)	4,469.0
Listed Shares (m shares)	1,000.0
Free Float (%)	28.9
Avg Daily Turnover (US$ m)	32.6
12M Price H/L (Bt)	149.00/105.00
Sector	FOOD
Major Shareholder	Sathientham Holding 25%

Sources: Bloomberg, Company data, Thanachart estimates

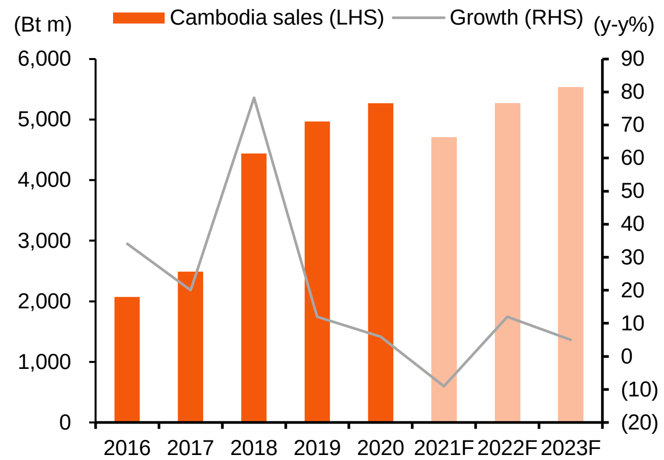
Ex 1: Sales Breakdown In 2021F



Sources: Company data, Thanachart estimates

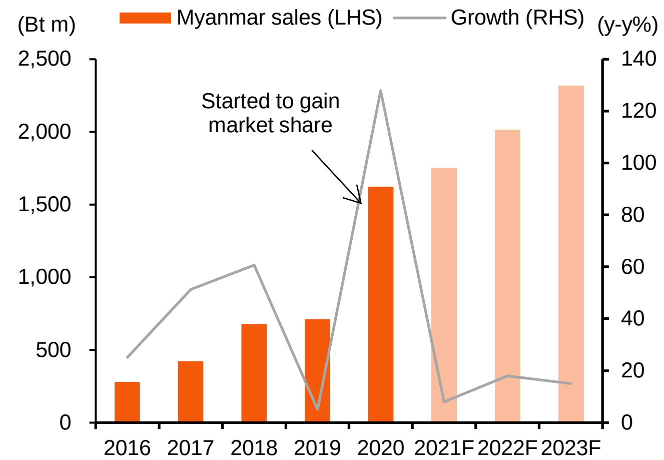
We recap here that CBG faced hiccups from the COVID lockdown in Cambodia (26% of sales in 2021F) and from the impact of the post-coup protests in Myanmar (10%). Both markets saw sales decline of 20%-plus in 1Q21 and this caused CBG's earnings to fall by 13% y-y. That said, Cambodia's COVID lockdown was eased from May and business has gradually improved. As for Myanmar, people have started to adjust their lives to the post-coup situation with stores reopening. CBG saw sales in Myanmar jump by a double-digits y-y from 2Q20 despite it being a strong quarter without the coup impact yet.

Ex 2: Business Outlook In Cambodia…



Sources: Company data, Thanachart estimates

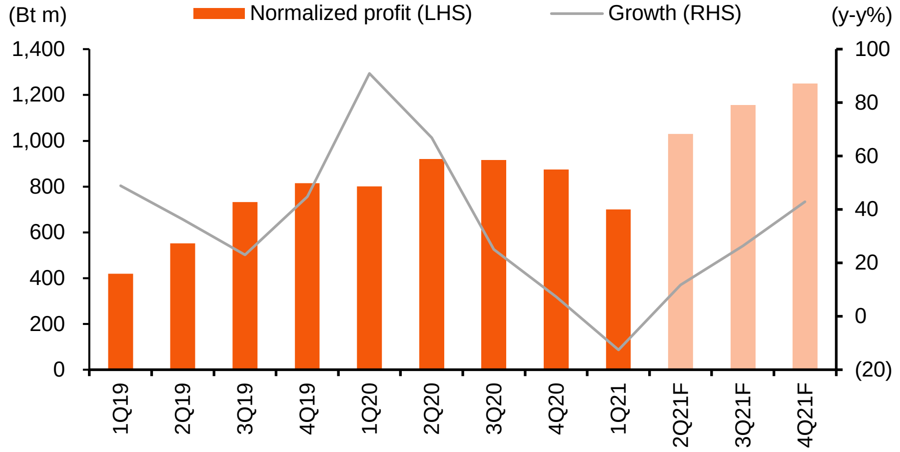
Ex 3: … And In Myanmar



Sources: Company data, Thanachart estimates

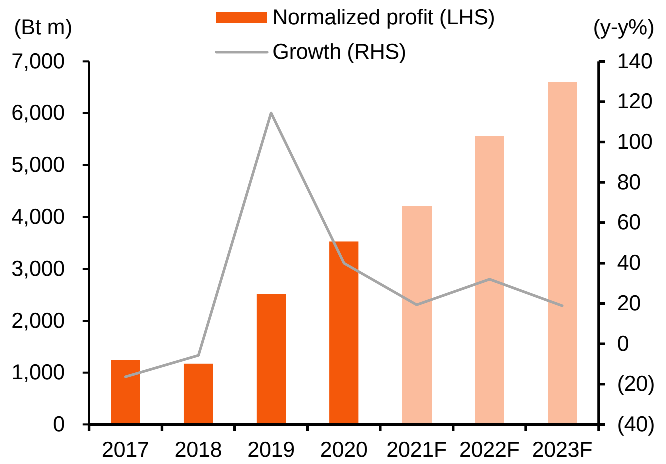
The hiccups have ended and together with the new growth drivers of China, C-Lock and cost savings from the sugar tax reformulation, lower football sponsorship expenses and savings from its new packaging factory, we estimate CBG to deliver 19% EPS growth this year before 32% in 2022F. Valuation wise, CBG's PE is not out of its historical range, trading at 26x PE in 2022F, while offering 32% EPS growth.

Ex 4: Quarterly Earnings Momentum



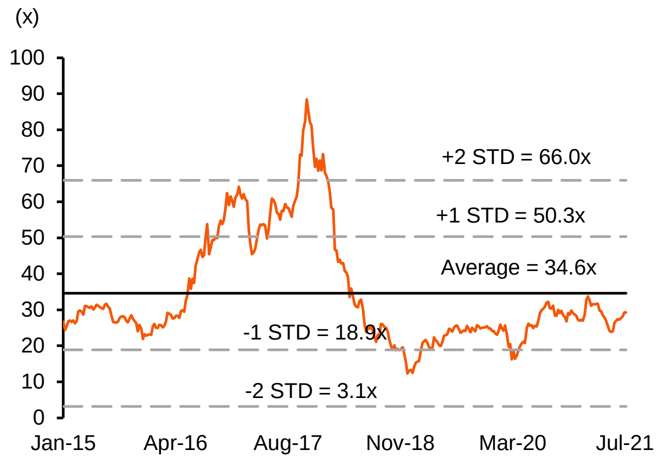
Sources: Company data, Thanachart estimates

Ex 5: Annual Earnings Momentum



Sources: Company data, Thanachart estimates

Ex 6: Historical PE

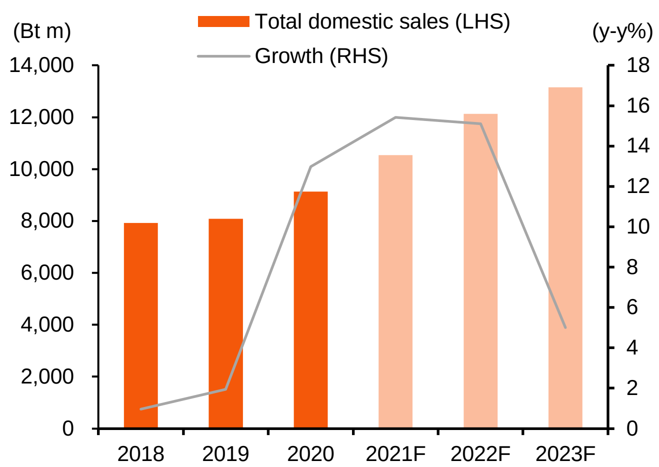


Sources: Bloomberg, Thanachart estimates

Ex 7: China Sales Taking Off

Sources: Company data, Thanachart estimates

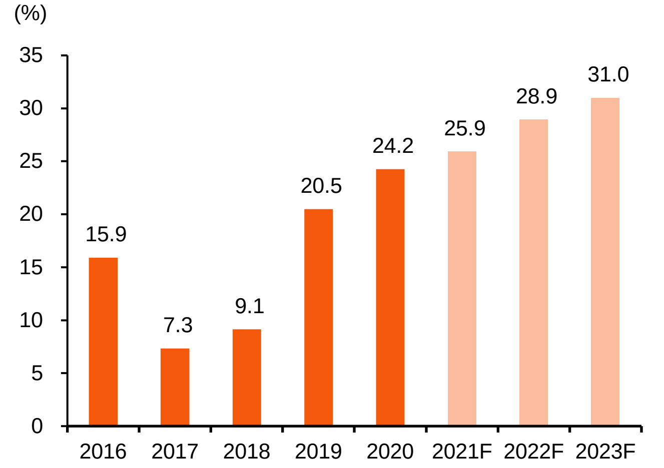
Ex 8: Domestic Sales Trend



Sources: Company data, Thancachart estimates

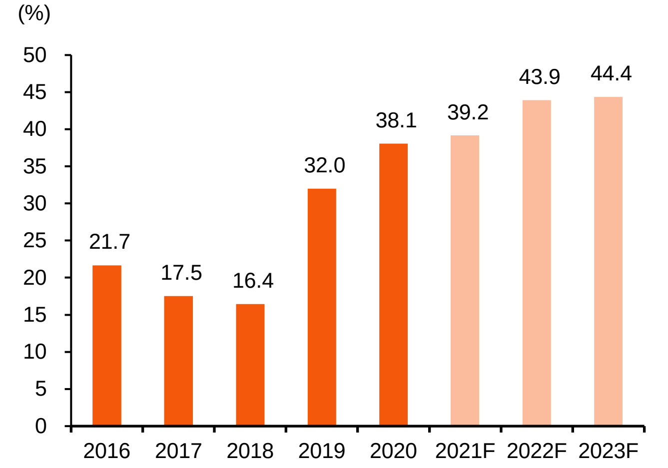
Note: Including energy drinks, C-Lock and distribution incomes

Ex 9: EBIT Margin Trend



Sources: Company data, Thanachart estimates

Ex 10: A High ROE Company



Sources: Company data, Thanachart estimates

Ex 11: Earnings Revision

	2020	2021F	2022F	2023F
Sales (Bt m)				
New	17,231	19,372	22,690	25,003
Old		18,692	21,909	24,229
Change (%)		*3.6*	*3.6*	*3.2*
Gross margin (%)				
New	41.0	42.3	43.2	43.7
Old		42.2	42.9	43.2
Change (pp)		*0.1*	*0.3*	*0.5*
SG&A to sales (%)				
New	16.7	16.4	14.2	12.7
Old		16.3	14.1	12.5
Change (pp)		*0.1*	*0.1*	*0.2*
Normalized profits (Bt m)				
New	3,525	4,209	5,556	6,603
Old		4,062	5,328	6,327
Change (%)		*3.6*	*4.3*	*4.4*

Sources: Company data, Thanachart estimates

Ex 12: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA		7,296	8,497	9,249	10,217	11,238	12,763	13,622	14,604	15,549	16,376	17,256	—
Free cash flow		5,828	7,046	6,690	8,782	9,684	11,023	11,830	12,694	13,538	14,280	15,060	241,873
PV of free cash flow		5,812	6,025	5,288	6,418	6,583	6,936	6,890	6,843	6,756	6,597	6,230	100,054
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	8.2												
Terminal growth (%)	2.0												
Enterprise value - add investments	170,433												
Net debt (2021F)	1,826												
Minority interest	235												
Equity value	168,371												
# of shares (m)	1,000												
Equity value/share (Bt)	**168.00**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 13: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Yakult Honsha	2267 JP	Japan	2.9	5.3	25.2	23.9	2.3	2.2	14.0	13.4	1.0	1.0
Coca-Cola	KO US	US	11.6	8.2	24.9	23.0	12.3	11.7	21.7	19.9	3.1	3.2
PepsiCo	PEP US	US	10.4	8.1	24.4	22.6	12.4	11.5	17.0	15.8	2.9	3.0
Monster Beverage	MNST US	US	10.8	14.4	34.6	30.3	8.7	6.1	24.4	21.7	0.0	0.0
Sappe PCL	SAPPE TB	Thailand	17.3	14.0	17.5	15.3	2.7	2.5	8.6	7.9	3.6	4.1
Carabao Group PCL*	CBG TB	Thailand	19.4	32.0	34.1	25.8	12.4	10.4	25.2	19.5	2.0	2.6
Osotspa PCL*	OSP TB	Thailand	8.2	8.5	30.3	27.9	6.2	6.1	23.1	21.4	3.3	3.6
Average			**11.5**	**12.9**	**27.3**	**24.1**	**8.1**	**7.2**	**19.1**	**17.1**	**2.3**	**2.5**

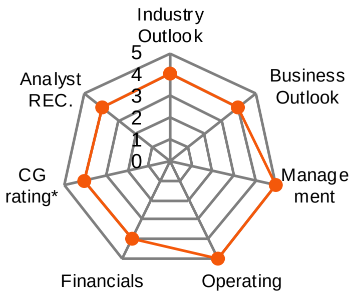
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS.
Based on 5-Jul-21 closing prices

COMPANY DESCRIPTION

Carabao Group Pcl (CBG) is Thailand's second-largest energy drinks producer with a 22% market share. The company holds 100% stake in three subsidiaries: CBD (energy drinks manufacturing company), APG (glass bottle production and procurement company), and DCM (distribution company). CBG started producing energy drinks in 2002 and now sells its products both domestically and abroad.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *No CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong presence in the domestic beverage market.
- Robust balance sheet and net-cash company.
- Proactive management team.

W — Weakness

- Only organic growth in a mature beverage market.
- Lack of pricing power.
- Heavily reliant on brand ambassador.

O — Opportunity

- Expansions abroad.
- Mergers and acquisitions.

T — Threat

- Domestic consumption and economic conditions.
- New competition in the beverage segment.
- Natural disasters.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	136.50	168.00	23%
Net profit 21F (Bt m)	3,856	4,209	9%
Net profit 22F (Bt m)	4,572	5,556	22%
Consensus REC	**BUY: 9**	**HOLD: 6**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings and TP are ahead of the Bloomberg consensus numbers, which we attribute to us having a more aggressive view on its growth in China and a decent recovery in the Cambodia and Myanmar markets.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Lower-than-expected growth in domestic sales and exports would represent the key downside risks to our earnings forecasts and TP.
- Lower-than-expected sales growth in the Myanmar and Vietnam markets would pose a secondary downside risk to our earnings forecasts.

Source: Thanachart

We project gross margin to rise over 2021-23F

Despite the ongoing COVID crisis, we expect 18-32% EPS growth in 2021-22F

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	14,933	17,231	19,372	22,690	25,003
Cost of sales	9,123	10,173	11,170	12,897	14,080
Gross profit	**5,810**	**7,058**	**8,202**	**9,792**	**10,923**
% gross margin	38.9%	41.0%	42.3%	43.2%	43.7%
Selling & administration expenses	2,753	2,880	3,183	3,230	3,177
Operating profit	**3,058**	**4,178**	**5,018**	**6,563**	**7,746**
% operating margin	20.5%	24.2%	25.9%	28.9%	31.0%
Depreciation & amortization	534	668	743	771	790
EBITDA	**3,592**	**4,846**	**5,761**	**7,334**	**8,537**
% EBITDA margin	24.1%	28.1%	29.7%	32.3%	34.1%
Non-operating income	119	156	170	199	220
Non-operating expenses	0	0	0	0	0
Interest expense	(133)	(107)	(144)	(115)	(74)
Pre-tax profit	**3,044**	**4,227**	**5,045**	**6,647**	**7,892**
Income tax	564	667	802	1,057	1,255
After-tax profit	**2,480**	**3,559**	**4,243**	**5,590**	**6,637**
% net margin	16.6%	20.7%	21.9%	24.6%	26.5%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	38	(34)	(34)	(34)	(34)
Extraordinary items	(12)	0	0	0	0
NET PROFIT	**2,506**	**3,525**	**4,209**	**5,556**	**6,603**
Normalized profit	**2,518**	**3,525**	**4,209**	**5,556**	**6,603**
EPS (Bt)	2.5	3.5	4.2	5.6	6.6
Normalized EPS (Bt)	2.5	3.5	4.2	5.6	6.6

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	3,197	3,992	4,385	6,102	7,643
Cash & cash equivalent	962	947	1,000	2,200	3,400
Account receivables	1,140	1,420	1,597	1,870	2,061
Inventories	992	1,489	1,635	1,853	1,984
Others	104	136	153	179	197
Investments & loans	103	107	107	107	107
Net fixed assets	10,872	12,032	11,717	11,384	10,933
Other assets	607	956	1,338	1,476	1,574
Total assets	**14,780**	**17,087**	**17,548**	**19,069**	**20,257**
LIABILITIES:					
Current liabilities:	3,777	5,655	4,446	3,885	3,040
Account payables	1,447	1,573	1,727	1,994	2,177
Bank overdraft & ST loans	298	2,504	1,577	943	191
Current LT debt	1,699	1,090	686	410	83
Others current liabilities	333	488	455	537	588
Total LT debt	**2,131**	**894**	**563**	**337**	**68**
Others LT liabilities	153	380	772	814	846
Total liabilities	**6,062**	**6,929**	**5,780**	**5,036**	**3,953**
Minority interest	153	201	235	270	304
Preferreds shares	0	0	0	0	0
Paid-up capital	1,000	1,000	1,000	1,000	1,000
Share premium	0	0	0	0	0
Warrants	0	0	0	0	0
Surplus	3,929	3,905	3,905	3,905	3,905
Retained earnings	**3,637**	**5,051**	**6,627**	**8,859**	**11,094**
Shareholders' equity	8,566	9,956	11,532	13,764	15,999
Liabilities & equity	**14,780**	**17,087**	**17,548**	**19,069**	**20,257**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,044	4,227	5,045	6,647	7,892
Tax paid	(509)	(592)	(767)	(975)	(1,207)
Depreciation & amortization	534	668	743	771	790
Chg In working capital	(701)	(652)	(168)	(224)	(139)
Chg In other CA & CL / minorities	451	40	(85)	(26)	(15)
Cash flow from operations	**2,818**	**3,691**	**4,767**	**6,194**	**7,321**
Capex	(316)	(1,828)	(400)	(400)	(300)
Right of use	0	(304)	(330)	(50)	(50)
ST loans & investments	0	0	0	0	0
LT loans & investments	(3)	(4)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	67	205	310	(83)	(56)
Cash flow from investments	**(252)**	**(1,930)**	**(420)**	**(533)**	**(406)**
Debt financing	(624)	359	(1,661)	(1,137)	(1,347)
Capital increase	0	0	0	0	0
Dividends paid	(1,100)	(2,100)	(2,633)	(3,324)	(4,368)
Warrants & other surplus	(17)	(35)	0	0	0
Cash flow from financing	**(1,741)**	**(1,776)**	**(4,294)**	**(4,461)**	**(5,714)**
Free cash flow	**2,502**	**1,863**	**4,367**	**5,794**	**7,021**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	57.0	40.7	34.1	25.8	21.7
Normalized PE - at target price (x)	66.7	47.7	39.9	30.2	25.4
PE (x)	57.3	40.7	34.1	25.8	21.7
PE - at target price (x)	67.0	47.7	39.9	30.2	25.4
EV/EBITDA (x)	40.8	30.3	25.2	19.5	16.5
EV/EBITDA - at target price (x)	47.7	35.4	29.5	22.8	19.3
P/BV (x)	16.8	14.4	12.4	10.4	9.0
P/BV - at target price (x)	19.6	16.9	14.6	12.2	10.5
P/CFO (x)	50.9	38.9	30.1	23.2	19.6
Price/sales (x)	9.6	8.3	7.4	6.3	5.7
Dividend yield (%)	1.2	1.7	2.0	2.6	3.5
FCF Yield (%)	1.7	1.3	3.0	4.0	4.9
(Bt)					
Normalized EPS	2.5	3.5	4.2	5.6	6.6
EPS	2.5	3.5	4.2	5.6	6.6
DPS	1.7	2.4	2.9	3.8	5.0
BV/share	8.6	10.0	11.5	13.8	16.0
CFO/share	2.8	3.7	4.8	6.2	7.3
FCF/share	2.5	1.9	4.4	5.8	7.0

Sources: Company data, Thanachart estimates

ROE looks attractive to us at 39% in 2021F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	3.5	15.4	12.4	17.1	10.2
Net profit (%)	116.3	40.6	19.4	32.0	18.8
EPS (%)	116.3	40.6	19.4	32.0	18.8
Normalized profit (%)	114.4	40.0	19.4	32.0	18.8
Normalized EPS (%)	114.4	40.0	19.4	32.0	18.8
Dividend payout ratio (%)	67.8	68.1	68.1	68.1	75.0
Operating performance					
Gross margin (%)	38.9	41.0	42.3	43.2	43.7
Operating margin (%)	20.5	24.2	25.9	28.9	31.0
EBITDA margin (%)	24.1	28.1	29.7	32.3	34.1
Net margin (%)	16.6	20.7	21.9	24.6	26.5
D/E (incl. minor) (x)	0.5	0.4	0.2	0.1	0.0
Net D/E (incl. minor) (x)	0.4	0.3	0.2	(0.0)	(0.2)
Interest coverage - EBIT (x)	23.0	39.1	34.9	57.2	105.0
Interest coverage - EBITDA (x)	27.1	45.4	40.0	63.9	115.7
ROA - using norm profit (%)	17.3	22.1	24.3	30.3	33.6
ROE - using norm profit (%)	32.0	38.1	39.2	43.9	44.4
DuPont					
ROE - using after tax profit (%)	31.5	38.4	39.5	44.2	44.6
- asset turnover (x)	1.0	1.1	1.1	1.2	1.3
- operating margin (%)	21.3	25.1	26.8	29.8	31.9
- leverage (x)	1.8	1.7	1.6	1.4	1.3
- interest burden (%)	95.8	97.5	97.2	98.3	99.1
- tax burden (%)	81.5	84.2	84.1	84.1	84.1
WACC (%)	8.2	8.2	8.2	8.2	8.2
ROIC (%)	21.1	30.0	31.3	41.3	49.2
NOPAT (Bt m)	2,491	3,518	4,221	5,519	6,514
invested capital (Bt m)	11,732	13,497	13,358	13,253	12,942

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance, Insurance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya
Energy, Petrochemical, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th