

Carabao Group Pcl (CBG TB) - BUY

Pattadol Bunnak | Email: pattadol.bun@thanachartsec.co.th

Earnings Preview**Earnings preview**

- **4Q22F earnings preview**
- **A bumpy turnaround in 2023F**
- **Intense competition in Thailand**
- **Some hiccups abroad**

We expect CBG's earnings in 4Q22 to fall from last year but improve from the low base in 3Q22. Looking ahead, we expect CBG's earnings to continue turning around but they will likely be bumpy due to intense competition in Thailand and hiccups in its main export markets of Myanmar and Cambodia.

- We estimate CBG's 4Q22F earnings to come in at Bt570m, falling by 8% y-y but improving by 20% from the low base in 3Q22 when it faced a spike in raw material prices, e.g., aluminum and natural gas. The 4Q22F earnings look to be weaker than our earlier expectation.
- Against 4Q21, we expect CBG's sales to fall due to softer export sales given difficulties in exporting into Myanmar (Myanmar has curbed imports to preserve the value of its currency) while the lockdowns in China also pressured sales. Revenues from the distribution business in Thailand, mainly from spirit products, will also likely fall as well due to competition in CBG's product segments which have become popular. The only positive segment is domestic energy drinks where CBG gained market share after the industry leader, Osotspa Pcl (OSP, SELL, Bt28.5), raised the selling price of its M-150 drink in earlier 2022. Margin wise, CBG's gross margin looks set to fall because of the lower mix of the high-margin energy drink export product.
- Next year, CBG expects to see its earnings improve but it remains cautious on whether the turnaround will be pronounced.
- Positive areas:
 - Raw material prices: CBG expects to enjoy the retreat in global commodity prices. Exhibits 2-3 show the prices of CBG's key raw materials, i.e., aluminum and natural gas, that have been falling from their peak this year.
 - China exports: CBG expects improving sales from its China business after the lockdown-led low base in 2022.

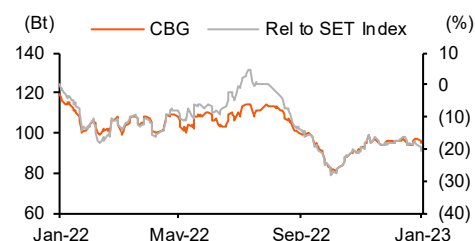
Key Valuations

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Revenue	17,364	23,524	27,506	29,348
Net profit	2,881	4,058	5,275	5,864
Norm net profit	2,816	4,058	5,275	5,864
Norm EPS (Bt)	2.8	4.1	5.3	5.9
Norm EPS gr (%)	(19.8)	44.1	30.0	11.2
Norm PE (x)	33.6	23.3	18.0	16.2
EV/EBITDA (x)	23.7	17.1	13.5	12.2
P/BV (x)	9.3	7.9	6.7	5.9
Div. yield (%)	2.0	2.8	3.7	4.6
ROE (%)	27.9	36.6	40.3	38.7
Net D/E (%)	53.1	34.7	15.7	7.1

Source: Thanachart estimates

Stock Data

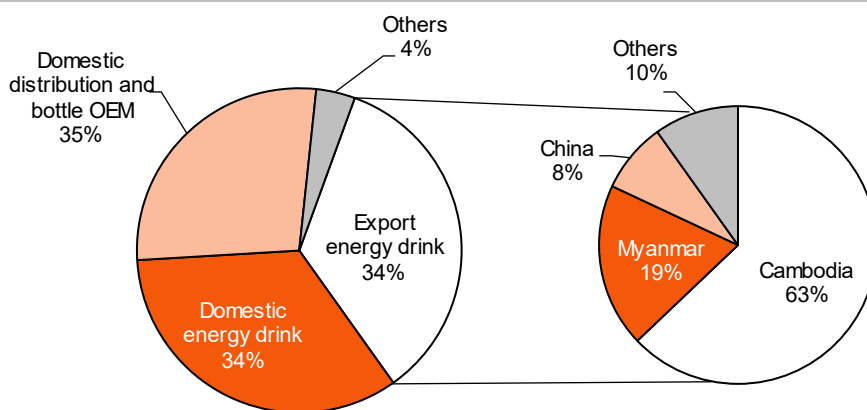
Closing price (Bt)	94.75
Target price (Bt)	138.00
Market cap (US\$ m)	2,783
Avg daily turnover (US\$ m)	18.1
12M H/L price (Bt)	119.00/80.50

Price Performance

Source: Bloomberg

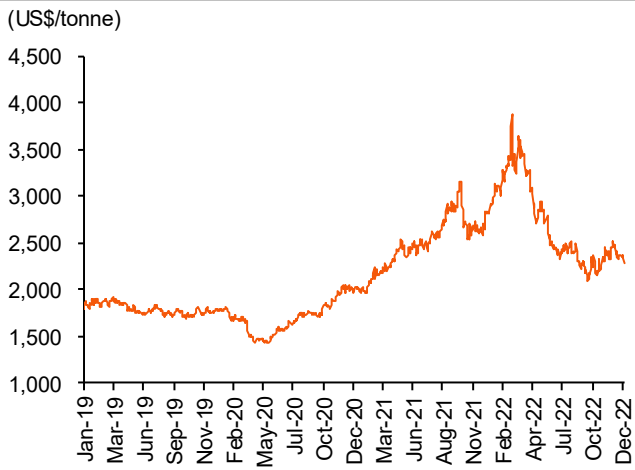
- Cautious areas:
 - Intense domestic energy drink competition: CBG believes it may need to raise marketing spending meaningfully after the third-largest player, Red Bull Thailand, became highly aggressive in its marketing campaigns this year. We note that CBG has yet to lose market share thanks to OSP's market share loss given that it has the highest selling price in the market. That said, CBG is now concerned over its market position.
 - Myanmar hiccup: CBG plans to set up an energy drink factory in Myanmar to counter the import curb measures. It is in the process of acquiring a small beverage factory in Myanmar and plans to send over machinery from Thailand. If operations go well, CBG may build a larger factory later.
 - Slower consumption in Cambodia: Cambodia makes up 25% of CBG's revenues. While global inflation has pressured all consumption, CBG's sales of energy drinks in Cambodia felt more of a hit as they are regarded as a highly priced beverage (US\$1/unit vs. US\$0.3 in Thailand).
- Overall, we maintain our BUY call on CBG though we see downside risk to our earnings estimates amid a likely weaker-than-expected outlook for 2H22F and next year. We continue to like CBG's structural growth opportunity in the growing Myanmar market, its resilient, highly profitable business in Cambodia, and CBG's high efficiency, commanding the industry's highest ROE at over 20% despite the hiccup year in 2022F.

Ex 1: Sales Margin Breakdown



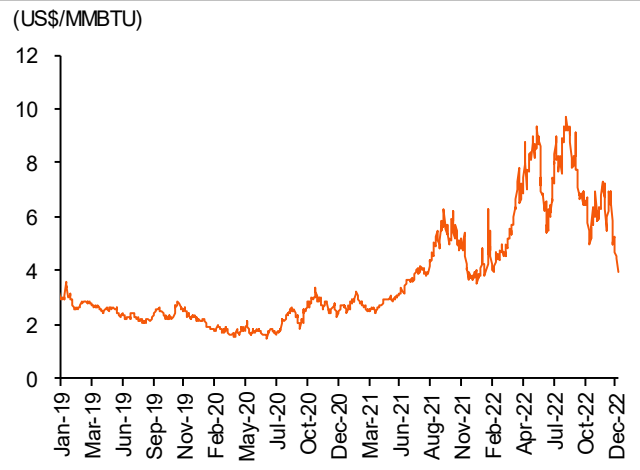
Sources: Company data, Thanachart estimates

Ex 2: Aluminum Price



Source: Bloomberg

Ex 3: Natural Gas Price



Source: Bloomberg

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