

18 May 2020

Consumer Cyclical | Retailing

Berli Jucker (BJC TB)

Buy (Maintained)

A Likely Recovery In 2H20; Keep BUY

- **BUY, new FY20F DCF-based TP of THB49.00 from THB61.00, 32% upside with c.2% FY20F yield.** We expect Berli Jucker's key businesses to rebound quickly post-COVID-19, in 2H20 – with earnings improving HoH. Its challenging 2Q20 outlook may encourage stock accumulation.
- **1Q20 results review.** 1Q20 results are in line with Street forecasts, with earnings at THB1.28bn (-15% YoY, -48% QoQ). This was mainly due to a lower GPM, the decline in recurring income, and a rise in effective tax rates, while sales were flattish. Revenue was driven by the packaging and consumer supply chains, while modern retail stores (Big C Supercenter) booked SSSG of -5.3% YoY (4Q19: -6.3% YoY), as they benefited from consumers stockpiling fresh and dry food.
- **2Q20 is the bottom for the year.** All Big C stores remained open during the lockdown period from end-March to mid-May, but its high-margin non-food sections – which accounts 25% of modern retail sales or 18% of group sales – were closed. We believe Big C will post a steeper negative mid-teen SSSG and YoY GPM shrinkage, which may cause 2Q20 to be its weakest quarter this year.
- **Look forward to a 2H20F recovery.** We expect the easing of lockdowns by end-2Q20 to boost consumption. Berli Jucker's packaging supply chain may see an increase in orders for aluminium cans, apart from replacement orders from new customers. Meanwhile, its consumer supply chain may be able to launch more new products to boost sales. This will also bring back traffic and recurring income to Big C, and its small Big C Market and Mini Big C stores may see stronger sales, based on a possible new normal for consumers, post COVID-19, to buy groceries at stores located close to their homes. As such, we expect earnings to improve throughout 3Q20-4Q20. 2H20F numbers should also be stronger than that of 1H20.
- **We cut earnings by 25% for FY20F and 18% for FY21-22F** to reflect COVID-19's effect on sales and profit margins. We raise the FY20F effective tax rate by 5ppt to 15%, due to having less tax benefits from its new glass furnace operation. Earnings may decline by 17% this year, based on a slight 1% dip in sales, a -6% SSSG from Big C stores, and a 0.8ppt contraction in EBIT margin. All of its operations returning to normal levels should drive earnings growth to 25% in FY21F, from a low base this year.
- **BUY.** We cut our DCF-derived TP by 20% to THB49.00, implying FY20F 32x P/E, close to its 5-year historical trading mean. Nonetheless, we remain upbeat on this staples retailer play. It may enjoy a rebound faster than other discretionary and hybrid retailers. The challenging 2Q20 outlook may present an opportunity to accumulate the stock further. Key downside risks to our call include an extension of lockdown measures, possible after-effects of COVID-19 on the economy, rising raw material costs, and delays in new investments.

Target Price (Return): THB49.00 (+32%)
 Price: THB37.00
 Market Cap: USD4,619m
 Avg Daily Turnover (THB/USD): 393m/12.2m

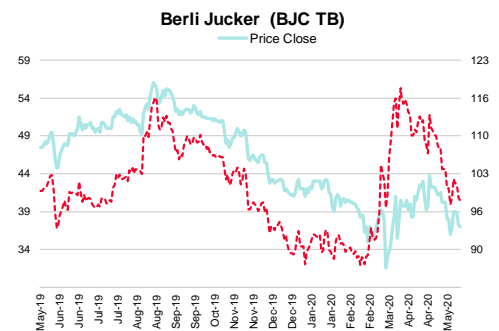
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.9)	(9.2)	(7.5)	(19.1)	(24.1)
Relative	7.0	(12.8)	8.6	1.0	(3.1)
52-wk Price low/high (THB)	31.50 – 56.00				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	156,142	158,009	155,855	162,273	169,441
Recurring net profit (THBm)	6,444	7,497	6,061	7,567	8,936
Recurring net profit growth (%)	25.8	16.3	(19.2)	24.8	18.1
Recurring P/E (x)	22.96	19.77	24.46	19.59	16.59
P/B (x)	1.3	1.3	1.3	1.2	1.2
P/CF (x)	9.03	7.70	10.41	10.06	9.17
Dividend Yield (%)	2.0	2.5	1.8	2.3	2.7
EV/EBITDA (x)	12.70	12.33	13.07	11.69	10.57
Return on average equity (%)	6.1	6.4	5.2	6.3	7.1
Net debt to equity (%)	132.5	126.2	119.9	110.1	99.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	1.61	1.87	1.51	1.89	2.23
Consumer Cyclical	DPS	0.73	0.91	0.68	0.85	1.00
Berli Jucker	BVPS	27.78	28.84	29.52	30.68	32.02
BJC TB	Return on average equity (%)	6.1	6.4	5.2	6.3	7.1
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	22.96	19.77	24.46	19.59	16.59
DCF	P/B (x)	1.3	1.3	1.3	1.2	1.2
	FCF Yield (%)	3.9	7.8	4.5	6.2	7.2
Key drivers	Dividend Yield (%)	2.0	2.5	1.8	2.3	2.7
i. Overseas business expansion;	EV/EBITDA (x)	12.70	12.33	13.07	11.69	10.57
ii. Production capacity increases;	EV/EBIT (x)	19.83	19.13	21.06	18.12	15.96
iii. Attaining new customers for its packaging business;						
iv. Opening of new Big C stores;						
v. Consumers' stockpiling of necessities.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	156,142	158,009	155,855	162,273	169,441
i. Domestic consumption remains weak;	Gross profit	29,968	30,889	30,216	31,697	33,329
ii. Raw material price volatility;	EBITDA	21,000	21,505	20,111	22,027	23,756
iii. Intense competition in hypermarkets that may squeeze profit margins;	Depreciation and amortisation	(7,556)	(7,652)	(7,629)	(7,826)	(8,018)
iv. Uncertainties, ie. natural disasters and political unrest.	Operating profit	13,444	13,853	12,482	14,201	15,739
	Net interest	(4,719)	(4,971)	(4,880)	(4,710)	(4,530)
	Pre-tax profit	8,931	8,664	7,602	9,491	11,209
	Taxation	(1,647)	(890)	(1,140)	(1,424)	(1,681)
	Reported net profit	6,650	7,278	6,061	7,567	8,936
	Recurring net profit	6,444	7,497	6,061	7,567	8,936
Company Profile						
Berli Jucker is a Thai consumer conglomerate. It operates four business lines including packaging products (glass bottles and aluminium cans), consumer products (tissue paper, snacks, and personal products), technical & healthcare products, and modern retailers. The company also has presence in the CLMV nations particularly Vietnam.						
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(1,399)	155	669	(658)	(795)
	Cash flow from operations	16,393	19,245	14,236	14,734	16,159
	Capex	(10,693)	(7,640)	(7,500)	(5,500)	(5,500)
	Cash flow from investing activities	(11,155)	(8,397)	(7,332)	(5,621)	(5,628)
	Dividends paid	(2,399)	(2,923)	(3,743)	(2,931)	(3,590)
	Cash flow from financing activities	(3,896)	(10,496)	(8,236)	(8,355)	(10,877)
	Cash at beginning of period	4,368	5,710	6,062	4,730	5,488
	Net change in cash	1,342	352	(1,332)	758	(345)
	Ending balance cash	5,710	6,062	4,730	5,488	5,143
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	6,278	6,346	4,730	5,488	5,143
	Tangible fixed assets	79,027	80,524	81,857	80,821	79,598
	Total investments	39,389	38,872	37,721	36,528	35,335
	Total assets	324,060	325,804	321,545	321,054	319,509
	Short-term debt	55,777	41,872	32,000	36,000	38,000
	Total long-term debt	103,924	115,603	120,000	110,000	100,000
	Total liabilities	208,286	206,068	198,721	193,465	186,373
	Total equity	115,774	119,736	122,824	127,590	133,136
	Total liabilities & equity	324,060	325,804	321,545	321,054	319,509
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.7	1.2	(1.4)	4.1	4.4
	Recurrent EPS growth (%)	25.6	16.2	(19.2)	24.8	18.1
	Gross margin (%)	19.2	19.5	19.4	19.5	19.7
	Operating EBITDA margin (%)	13.4	13.6	12.9	13.6	14.0
	Net profit margin (%)	4.3	4.6	3.9	4.7	5.3
	Dividend payout ratio (%)	36.1	40.2	0.0	0.0	0.0
	Capex/sales (%)	6.8	4.8	4.8	3.4	3.2
	Interest cover (x)	2.85	2.79	2.56	3.02	3.47

Source: Company data, RHB

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Figure 1: Berli Jucker's 1Q20 results review

FYE Dec (THBm)	1Q19	4Q19	1Q20	YoY % chg	QoQ % chg	Remarks
Turnover	38,389	40,565	38,483	0.2	-5.1	Packaging and consumer supply chains delivered solid growth of 9% YoY and 18% YoY, while total sales for Big C Supercenter were flattish YoY, supported by the opening of new stores – mainly the Mini Big Cs.
Gross profit	7,421	8,003	7,292	-1.7	-8.9	
EBIT	3,129	3,837	3,000	-4.1	-21.8	Lowering rental income due to the effect of COVID-19 to leasable retail mall areas in Big C hypermarkets, and share of losses from its JVs (mainly the glass packaging business in Malaysia due to the pandemic-related restrictions there on various businesses since mid-March).
EBIT margin (%)	8.1	9.5	7.8			
EBITDA	5,012	5,829	5,181	3.4	-11.1	A hike in amortisation expense related to the new accounting standard on financial leases.
EBITDA margin (%)	13.1	14.4	13.5			
Interest expense	(1,197)	(1,272)	(1,330)	11.1	4.5	Additional THB74m interest expense from the adoption of the new accounting standard on financial leases.
Pretax profit	1,931	2,564	1,669	-13.6	-34.9	
Tax	(289)	(2)	(314)	8.7	19,350.0	Higher effective tax rate of 19% (1Q19: 15%) due to having less tax benefits from its new glass furnace operation which were granted by the Board of Investment (BOI)
Core profit	1,496	2,465	1,191	-20.4	-51.7	A decline in recurring income, share of losses from its JVs, and a rise in effective tax rate accelerated the earnings drop vs the flattish sales.
Net profit	1,504	2,473	1,279	-14.9	-48.3	One-time booking of a THB61m (net after tax) expense relating to an acquisition project and THB150m in FX gains mainly from the aluminium can business in 1Q20.
Gross margin (%)	19.3	19.7	18.9			Weak Big C's non-food sales due to government measures to close non-food sales areas since 22 Mar, rising raw material cost for consumer supply chain's food products, and smaller packaging sales abroad.
SG&A/sales (%)	21.4	20.0	20.6			Efficient opex control in most supply chains and reversal of the property tax provision.
Core profit margin (%)	3.9	6.1	3.1			
Net profit margin (%)	3.9	6.1	3.3			
Key indicators						
Sales breakdown (%)						
- Packaging supply chain	13	13	13			Sales were driven by glass packaging (+9% YoY) due to customers' inventory stocking during the COVID-19 outbreak Consumer stockpiling of necessities benefitted sales of daily-use products (ie tissue paper) and international trading business.
- Consumer supply chain	12	12	14			
- Healthcare & technical supply chain	5	6	5			
- Modern retail supply chain	70	69	68			
Number of Big C Stores						
- Big C Supercenter	147	151	151			Dry food and fresh food categories benefitted from stockpiling activities in March, but overall SSSG was negatively affected by weak non-food sales. Excluding B2B sales, its 1Q20 SSSG would be -5.8% YoY.
- Big C Market	61	62	61			
- Mini Big C	797	1,016	1,054			
Big C SSSG (%)	1.0	-6.3	-5.3			

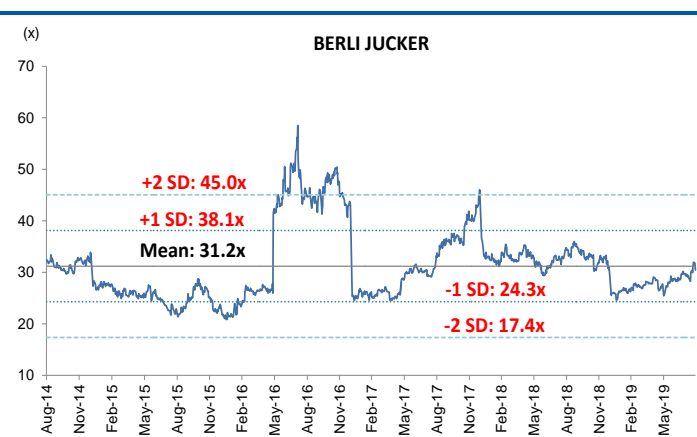
Source: Company data, RHB

Figure 2: Berli Jucker's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	12,482	14,201	15,739	17,037	18,139	19,291	20,482	21,743	23,078	24,462
EBIT (1-t)	11,234	12,071	13,378	13,629	14,511	15,433	16,386	17,395	18,462	19,570
Depreciation & amortisation	7,629	7,826	8,018	8,266	8,460	8,699	8,960	9,249	9,564	9,916
Change in net working capital	803	(1,425)	(137)	316	(727)	309	43	(128)	(34)	120
Capex	(7,500)	(5,500)	(5,500)	(5,500)	(4,300)	(5,300)	(5,800)	(6,400)	(7,000)	(7,500)
Net free cash flow to firm	12,165	12,972	15,759	16,711	17,943	19,140	19,589	20,115	20,993	22,105
Terminal value										455,963
PV	11,371	11,333	12,868	12,755	12,801	12,763	12,209	11,719	11,431	243,322
Terminal growth										2.0%
WACC										7.0%
Total discounted firm value										352,573
Less: Net debt										151,414
Less: Minority interest										4,690
Equity value										196,469
Number of shares (m)										4,005
Equity value per share (THB)										49

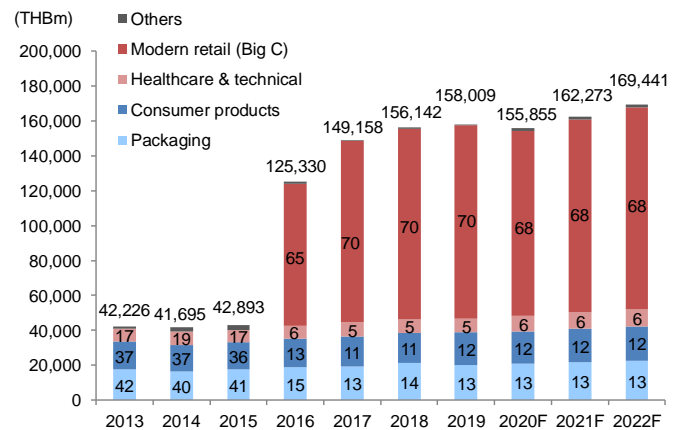
Source: RHB

Figure 3: Berli Jucker's P/E and SD levels



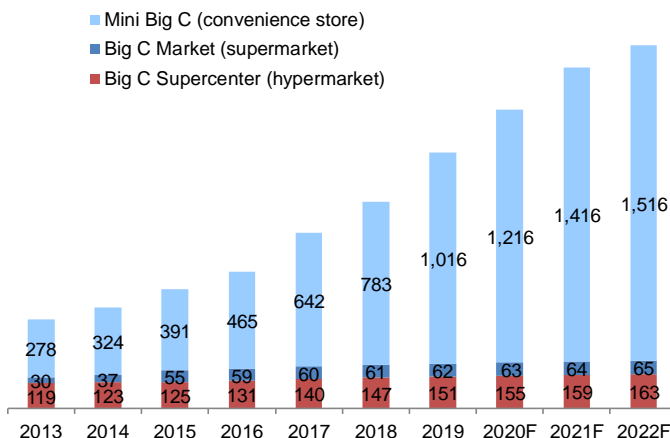
Source: Bloomberg, RHB

Figure 4: Berli Jucker's total sales revenue breakdown by supply chain



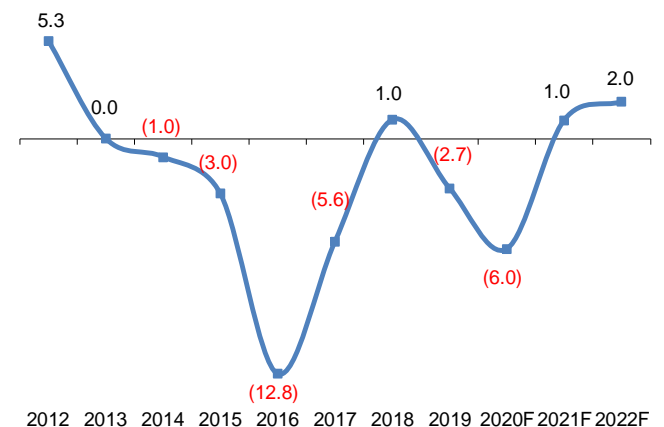
Source: Company data, RHB

Figure 5: Number of Big C stores by format



Source: Company data, RHB

Figure 6: Big C – annualised SSSG



Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-08-30	Buy	61.0	54.3
2019-02-20	Buy	65.0	48.0
2018-09-28	Buy	73.0	59.5

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Analyst	Company
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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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