

26 August 2020

Consumer Cyclical | Retailing

Berli Jucker (BJC TB)

Buy (Maintained)

Momentum Improves; Keep BUY

Target Price (Return): THB45.00 (19.0%)
 Price: THB37.75
 Market Cap: USD4,807m
 Avg Daily Turnover (THB/USD): 409m/13.1m

- **BUY, with new DCF-based FY20F THB45.00 TP from THB49.00, 19% upside and c.1% yield.** We think Berli Jucker's earnings have bottomed in 2Q20, with a recovery mainly driven by its packaging and modern retail businesses. Its recurring income may also recover on fewer discounts given to leasable area tenants at its Big C Supercenters. These factors may help support strong FY21F core profit growth from FY20's 38% decline.
- **Post the COVID-19 lockdown,** we expect improving sales for BJC's modern retail business. This is based on full-quarter operations in 3Q20 for the non-food segment, which typically contributes c.30% of modern retail sales (2Q20: c.22%), and business-to-business (B2B) sales – the latter is likely getting smaller (c.6-7% from 2Q's 10%). These factors should also benefit profit margins. Big C's smaller store format is likely outperforming its hypermarkets, and management is keeping the targeted 2020 openings of Mini Big C stores at 240. This is along with the upcountry Big C Market stores conversions into Big C Depots, which are focused on local business wholesales. Hence, we expect the negative SSSG momentum over 2H20 to lessen to low single digits (2Q20: -17% YoY), with SSSG at -9% YoY in FY20, and turning into a modest +1% in FY21.
- **Average occupancy rates at Big C's leasable areas** (1m sqm) improved to 91% in June from a bottom of 83% in April, with less rental rate discounts given to tenants currently. As the bulk of its malls are located in non-tourist destinations, we expect FY20 occupancy rates of 93% (2019: 95%) – normalising in FY21 – while rental income may be at -10% to THB10bn this year and turn to +13% in 2021.
- **Non-retailing businesses (c.30% of sales) remain in an uptrend.** We expect a better 2H20 outlook for the packaging unit on lowered production costs for glass and a successful extended product category for aluminium cans. Consumer supply chain's rising food material costs impact may be partially offset by the controllable costs of tissue paper production. BJC's consumer goods unit (plus the healthcare supply chain) may also capture growth in new markets, mainly on rising hygiene trends post COVID-19.
- **As for the weak 2Q20 results,** we revise down FY20 and FY21-22 core earnings by 23% and 9%. Over the 3-year period, we cut sales and GPM by 3% and 0.5-0.6ppts. We lower rental income 8% and raise the 2020 effective tax rate assumption to 20% from 15%. FY20F core earnings should fall 38%, mainly on COVID-19's impact on Big C's sales, GPMs, and recurring income, as well as a higher tax rate. We stay optimistic on FY21's outlook, as bottomline may turn to a solid 48% growth on Big C's full-year operations recovery and stronger performances from the packaging, healthcare, and technical supply chains.
- **Keep BUY.** We think 3Q20-4Q20 earnings may improve QoQ, but sluggish YoY. The challenging outlook presents an accumulation opportunity. FY20F and FY21F P/Es of 32x and 22x (implying a range between around mean and -1.5SD of the 5-year historical trades) still looks undemanding.

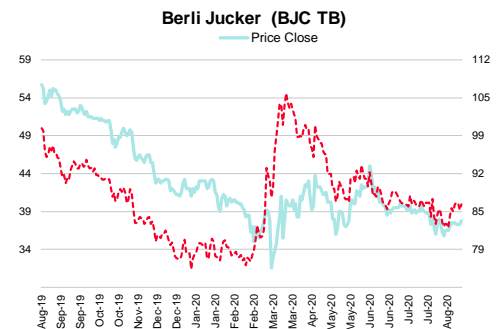
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.1)	(2.6)	(5.6)	2.0	(32.6)
Relative	6.6	(0.7)	(5.2)	10.6	(12.5)
52-wk Price low/high (THB)	31.50 – 55.25				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	156,142	158,009	151,633	157,684	164,067
Recurring net profit (THBm)	6,444	7,497	4,629	6,842	8,140
Recurring net profit growth (%)	25.8	16.3	(38.3)	47.8	19.0
Recurring P/E (x)	23.43	20.17	32.68	22.11	18.59
P/B (x)	1.4	1.3	1.3	1.2	1.2
P/CF (x)	9.21	7.86	12.05	10.78	9.82
Dividend Yield (%)	1.9	2.4	1.2	2.0	2.4
EV/EBITDA (x)	12.84	12.47	14.31	12.40	11.25
Return on average equity (%)	6.1	6.4	3.6	5.8	6.6
Net debt to equity (%)	132.5	126.2	122.7	112.9	102.9

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	1.61	1.87	1.16	1.71	2.03
Consumer Cyclical	DPS	0.73	0.91	0.46	0.77	0.91
Berli Jucker	BVPS	27.78	28.84	29.10	30.25	31.47
BJC TB	Return on average equity (%)	6.1	6.4	3.6	5.8	6.6
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	23.43	20.17	32.68	22.11	18.59
DCF	P/B (x)	1.4	1.3	1.3	1.2	1.2
	FCF Yield (%)	3.8	7.7	3.3	5.6	6.6
Key drivers	Dividend Yield (%)	1.9	2.4	1.2	2.0	2.4
i. Overseas business expansion;	EV/EBITDA (x)	12.84	12.47	14.31	12.40	11.25
ii. Production capacity increases;	EV/EBIT (x)	20.06	19.35	24.19	19.70	17.37
iii. Attaining new customers for its packaging business;						
iv. Opening of new Big C stores;						
v. Consumers' stockpiling necessities.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	156,142	158,009	151,633	157,684	164,067
i. Domestic consumption remains weak;	Gross profit	29,968	30,889	28,466	29,896	31,404
ii. Raw material price volatility;	EBITDA	21,000	21,505	18,677	21,118	22,757
iii. Intense competition in the hypermarkets segments, which 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	11,049	13,292	14,740
	Net interest	(4,719)	(4,971)	(4,880)	(4,710)	(4,530)
	Pre-tax profit	8,931	8,664	5,670	8,582	10,210
	Taxation	(1,647)	(890)	(1,234)	(1,287)	(1,531)
	Reported net profit	6,650	7,278	4,130	6,842	8,140
	Recurring net profit	6,444	7,497	4,629	6,842	8,140
Company Profile						
BJC is a Thai consumer conglomerate. It operates four business lines: 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 Cambodia, Laos, Myanmar, and Vietnam or CLMV nations – particularly Vietnam.						
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(1,399)	155	913	(636)	(745)
	Cash flow from operations	16,393	19,245	12,549	14,032	15,413
	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)	(3,483)	(2,225)	(3,254)
	Cash flow from financing activities	(3,896)	(10,496)	(7,975)	(7,719)	(10,545)
	Cash at beginning of period	4,368	5,710	6,062	3,304	3,996
	Net change in cash	1,342	352	(2,758)	691	(760)
	Ending balance cash	5,710	6,062	3,304	3,996	3,236
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	6,278	6,346	3,304	3,996	3,236
	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	319,451	318,805	316,691
	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	198,297	192,974	185,778
	Total equity	115,774	119,736	121,154	125,831	130,913
	Total liabilities & equity	324,060	325,804	319,451	318,805	316,691
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.7	1.2	(4.0)	4.0	4.0
	Recurrent EPS growth (%)	25.6	16.2	(38.3)	47.8	19.0
	Gross margin (%)	19.2	19.5	18.8	19.0	19.1
	Operating EBITDA margin (%)	13.4	13.6	12.3	13.4	13.9
	Net profit margin (%)	4.3	4.6	2.7	4.3	5.0
	Dividend payout ratio (%)	36.1	40.2	0.0	0.0	0.0
	Capex/sales (%)	6.8	4.8	4.9	3.5	3.4
	Interest cover (x)	2.85	2.79	2.26	2.82	3.25

Source: Company data, RHB

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Figure 1: BJC's 2Q20 and 1H20 performance review

FYE Dec (THBm)	2Q19	1Q20	2Q20	YoY % chg	QoQ % chg	1H19	1H20	YoY % chg	Remarks
Turnover	40,435	38,483	36,119	(10.7)	(6.1)	78,824	74,602	(5.4)	Driven mainly by negative COVID-19 impacts on all its business supply chains, excluding the consumer supply chain.
Gross profit	8,067	7,292	6,650	(17.6)	(8.8)	15,487	13,942	(10.0)	
EBIT	3,459	3,000	2,386	(31.0)	(20.5)	6,587	5,386	(18.2)	Lower rental income due to the effects of COVID-19, which caused a temporary closure of leasable retail mall areas at Big C hypermarkets in April and May, as well as a narrowing GPM.
EBIT margin (%)	8.6	7.8	6.6			8.4	7.2		
EBITDA	5,362	5,181	4,572	(14.7)	(11.8)	10,374	9,753	(6.0)	
EBITDA margin (%)	13.3	13.5	12.7			13.2	13.1		
Interest expense	(1,245)	(1,330)	(1,322)	6.2	(0.6)	(2,442)	(2,652)	8.6	
Pretax profit	2,214	1,669	1,064	(51.9)	(36.3)	4,145	2,733	(34.1)	
Tax	(282)	(314)	(143)	(49.3)	(54.6)	(571)	(457)	(19.9)	Higher effective tax rate of 21% (2Q19: 13%).
Core profit	1,794	1,191	804	(55.1)	(32.4)	3,290	1,995	(39.4)	Lower sales, declining GPM, decrease in rental income, increased finance cost, and a higher effective tax rate.
Net profit	1,528	1,279	306	(80.0)	(76.1)	3,032	1,585	(47.7)	2Q20: One-time expense of THB437m (net after tax) related to employee severance pay due to a corporate restructuring.
Gross margin (%)	19.9	18.9	18.4			19.6	18.7		Sales mix change, lower sales volume of high-GPM non-food products at Big C hypermarkets, and increased low-GPM B2B sales contribution to 10% (2Q19: 6%). The rise in palm and coconut oil prices also effected its consumer supply chain's food business segment.
SG&A/sales (%)	21.2	20.6	18.5			21.3	0.9		Efficient opex controls in most supply chains.
Core profit margin (%)	4.4	3.1	2.2			4.2	2.7		
Net profit margin (%)	3.8	3.3	0.8			3.8	2.1		
Key indicators									
Sales breakdown (%)									
- Packaging supply chain	12	13	12			13	12		The Government's ban on alcoholic beverage sales in April impacted its packaging sales both glass and aluminum cans.
- Consumer supply chain	12	14	14			12	14		Sales growth at the logistics and international business segments, while food sales were impacted by the pandemic, and non-food sales slowed down due to less stockpiling of necessities in April.
- Healthcare & technical supply chain	5	5	5			5	5		
- Modern retail supply chain	71	68	69			70	69		
Number of Big C Stores									
- Big C Supercenter	147	151	151			147	151		
- Big C Market	61	61	61			61	61		
- Mini Big C	835	1,054	1,094			835	1,094		
Big C SSSG (%)	(0.3)	(5.3)	(17.0)			0.4	(11.2)		Closure of non-food retail areas in April and the first half of May, alcoholic beverage sales ban in April, and limited store service hours due to night-time curfew undermined SSSG. Excluding B2B sales, its 2Q20 SSSG should be -21.1% YoY.

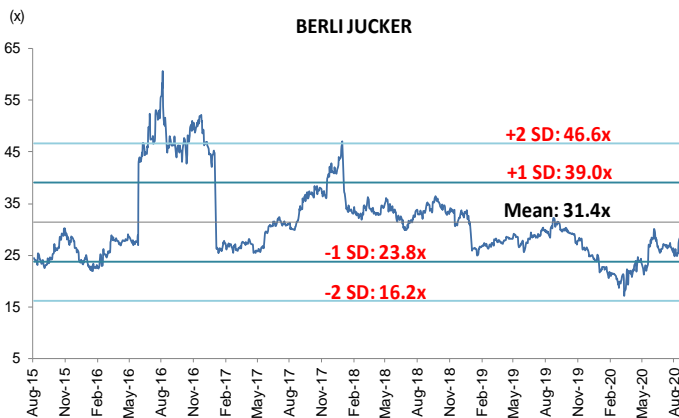
Source: Company data, RHB

Figure 2: BJC's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	11,049	13,292	14,740	15,978	17,021	18,112	19,241	20,437	21,703	23,015
EBIT (1-t)	9,944	11,298	12,529	12,782	13,617	14,489	15,393	16,349	17,362	18,412
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	1,046	(1,647)	(109)	273	(621)	263	(39)	(87)	90	(37)
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	11,119	11,977	14,938	15,822	17,156	18,151	18,514	19,111	20,016	20,791
Terminal value										434,676
PV	10,398	10,475	12,217	12,101	12,271	12,141	11,581	11,180	10,951	233,033
Terminal growth										2.0%
WACC										6.9%
Total discounted firm value										336,350
Less: Net debt										151,414
Less: Minority interest										4,690
Equity value										180,246
Number of shares (m)										4,008
Equity value per share (THB)										45.00

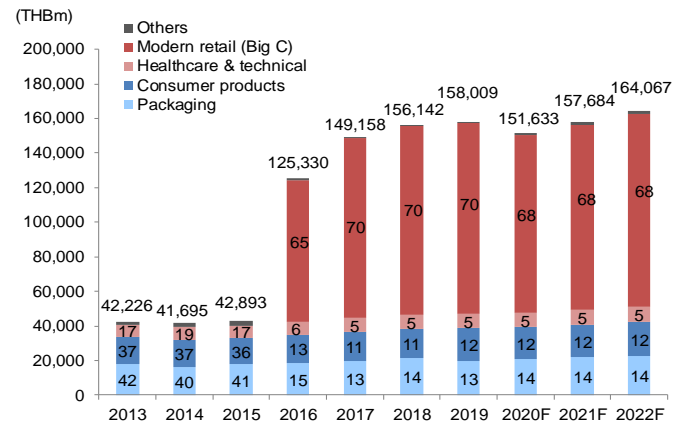
Source: RHB

Figure 3: BJC's P/E and SD levels



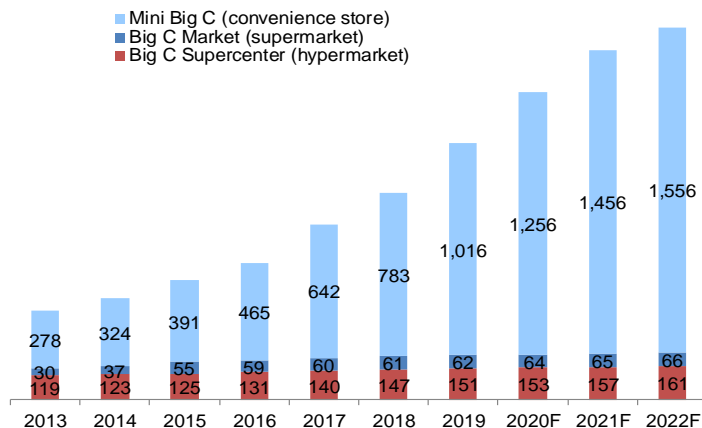
Source: Bloomberg, RHB

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



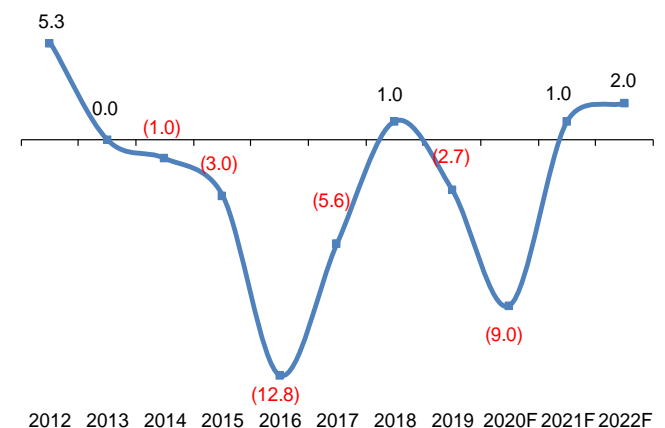
Source: Company data, RHB

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
2020-05-17	Buy	49.0	37.0
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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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	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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