

Berli Jucker - BJC

Risk diversification strategy through overseas expansion

Bloomberg | Reuters
BJC TB | BJC.BK

Thailand Equities Research
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Report type: Company Update

Company Overview

BJC is engaged in marketing and distribution of packaging, consumer, healthcare & technical products, as well as provides services and manufactures packaging and consumer products.

- BJC posted 1HCY13 net profit growth of 8.2% y-y on the back of a 15.4% y-y rise in sales and service revenue.
- In 2QCY13, BJC opened two health & beauty Ogenki shops in Thailand and added more B's Mart stores to its portfolio in Vietnam. The aggressive expansion in retail business would enhance the distribution of products and the efforts to broaden overseas presence would help diversify revenue risk and bode well for the long-term growth prospects.
- We maintain a 'BUY' call on BJC with a new DCF-based target price of Bt55.50/share.

What is the news?

BJC posted 1HCY13 net profit growth of 8.2% y-y to Bt1,298mn as sales and service revenue grew 15.4% y-y. The full-quarter consolidation of Thai An in 2QCY13 pushed the proportion of revenue from CSC higher to 35% of sales and service revenue, while PSC, HSC & TSC and others contributed 45%, 16% and 6% of sales and service revenue respectively. BJC also declared an interim dividend of Bt0.44/share for 1HCY13 operations, translating into a 54% payout ratio. The dividend is scheduled to be paid on Sep 12, 2013.

BJC took analysts to Vietnam during Aug 19-20, 2013 to pay visit to PTG in Hanoi and B's Mart convenience store in Ho Chi Minh City. B's Mart is Vietnam's third biggest convenience store operator in terms of store network though it just entered the fray in 2QCY13. B's Mart still remains in an aggressive expansion mode.

How do we view this?

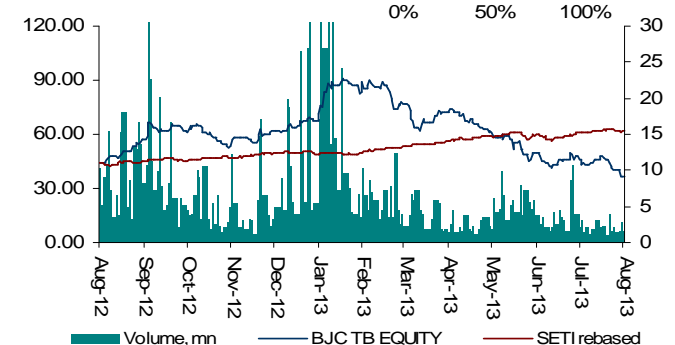
We are bullish about the prospects of its operations in Vietnam as three distribution, retailing and logistics businesses create strong business synergies. Contribution from Vietnam is set to rise gradually going forward. Vietnam may be a model to be used by BJC to enter other AEC countries. The aggressive expansion in retail business would also enhance the distribution of products for PSC, CSC, HSC and TSC, diversify revenue risk and bode well for the long-term growth prospects, in our view.

Investment Actions?

We maintain a 'BUY' call on BJC but we slash our DCF-based price target to Bt55.50/share after we revisit our earnings forecasts and valuation assumptions to reflect concerns about sagging consumption.

BJC

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	55.50	
- Previous Target Price (Bt)	68.00	
Closing Price (Bt)	37.00	
Expected Capital Gains (%)	50.0%	
Expected Dividend Yield (%)	2.4%	
Expected Total Return (%)	52.4%	
Raw Beta (Past 2yrs weekly data)	1.46	
Market Cap. (USD mn)	1,829	
Enterprise Value (USD mn)	2,380	
Market Cap. (Bt mn)	58,843	
Enterprise Value (Bt mn)	76,014	
3M Average Daily T/O (mn)	3.6	
52 week range	34 - 92.75	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. TCC Holding	70.1
2. DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	4.9
3. Thai NVDR	2.1

CG Report - 2012



(Very Good)

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btrm)	31,234	37,429	42,626	50,594
Net Profit (Btrm)	2,141	2,416	2,514	3,221
EPS (Bt)	1.35	1.52	1.58	2.03
P/E (X)	27.4	24.3	23.4	18.2
BVPS (Bt)	8.19	8.94	9.69	10.84
P/B (X)	4.5	4.1	3.8	3.4
DPS (Bt)	0.73	0.84	0.87	1.12
Div. Yield (%)	1.97	2.27	2.35	3.01

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (COE=12% , terminal g=2.5%)

Analyst

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1HCY13 net profit up 8.2% y-y

BJC reported an 8.2% y-y rise in 1HCY13 net profit after minority interest to Bt1,298mn as sales and service revenue grew 15.4% y-y. The full-quarter consolidation of Thai An in 2QCY13 pushed the proportion of revenue from CSC higher to 35% of sales and service revenue, while PSC, HSC & TSC and others contributed 45%, 16% and 6% of sales and service revenue respectively. Gross profit margin expanded by 50 bps to 26.0%. The SG&A expenses to sales ratio rose by 60 bps to 16.7%. Net profit margin accordingly shrank to 14.3% in 1HCY13 from 14.8% in 1HCY12.

Figure 1: Earnings breakdown by business

Business	Sales (Btmn)	Gross profit margin (%)	Net profit margin (%)
PSC	8,916	21.2	9.0
CSC	6,982	24.5	4.9
HSC & TSC	3,610	31.2	8.5

Source: BJC

Packaging Supply Chain (PSC)

Sales leapt 9.3% y-y boosted by growth in glass packaging and aluminum can businesses and sales from TBC-Ball Beverage Can Vietnam Limited (TBC-Ball), which started commercial production in May 2012. Gross and net profit margins widened from 18.9% and 7.3% respectively on the back of higher operating rates and expense controls.

Consumer Supply Chain (CSC)

Sales surged 30.9% y-y driven largely by (i) food group thanks to the consolidation of Danone in Jun 2012 and (ii) non-food group and international trading due to the consolidation of Ichiban and Thai An in Feb and Mar 2013. The consolidation of Thai An, which had low margin pushed overall gross and net profit margins lower from 26.9% and 6.6% to 24.5% and 4.9% respectively.

Healthcare & Technical Supply Chain (HSC & TSC)

Sales edged up 6.8% y-y driven by both HSC and TSC businesses. Gross and net profit margins inched modestly lower from 31.7% and 9.1% respectively as a result of margin contraction in HSC business.

Vietnam biggest contributor to overseas sales

The consolidation of Thai An pushed overseas sales higher to 16.9% of total sales in 1HCY13 from 11.9% in CY12. Total sales came in at Bt3,513mn in 1HCY13, accounting for 79% of CY12 sales of Bt4,452mn. Vietnam was the biggest contributor to overseas sales at 69%, followed by Malaysia at 14%.

Operations in Vietnam are run by Phu Thai Group (PTG), which is engaged in distribution, retailing and logistics businesses. BJC holds 64.6% of PTG. Note that BJC took analysts to Vietnam during Aug 19-20, 2013 to pay visit to PTG in Hanoi and B's Mart convenience store in Ho Chi Minh City.

- (1) In distribution business, PTG aims to become Vietnam's biggest distribution network in CY17 as it plans to enlarge its supply network from 160,000 outlets to 200,000 outlets across Vietnam, accounting for around 40% of the country's total 500,000 outlets.
- (2) In retailing business, the expansion will focus on B's Mart, formerly known as Family Mart. At end-2QCY13, PTG operated a total of 42 B's Mart stores in Ho Chi Minh City, which had an average space of 70-100 sqm per store and had between 2,000-2,5000 SKUs. PTG aims to expand its B's Mart portfolio to 90 stores in CY13, 300 stores in CY15 and 700 stores in CY17. To achieve the target, PTG will shift its expansion focus to other large cities and through franchise licensing.
- (3) In logistics business, PTG aims to increase the number of distribution centers (DC) to 20 in large cities and it will invest in warehouses and logistics to support distribution and retailing businesses.

We are bullish about the prospects of its operations in Vietnam as three businesses create strong business synergies. Contribution from Vietnam is set to rise gradually going forward. Vietnam may be a model to be used by BJC to enter other AEC countries.

B's Mart convenience store

Currently there are four players, which have 3-8 year presence in Vietnam's convenience store market, namely Shop & Go, Circle K, B's Mart and MiniStop. B's Mart is Vietnam's third biggest convenience store operator in terms of store network though it just entered the fray in 2QCY13. B's Mart will pursue an aggressive expansion plan as it foresees good opportunities to increase market share to become a leading player in Vietnam's convenience store market.

The acquisition of competitors may also be on the cards in a bid to speed up its expansion. However, we reckon that B's Mart will likely remain in the red for at least the next 1-2 years due largely to investments in IT system, locations and human resources. By our estimate, a network of between 250-300 stores would enable B's Mart to break even.

Figure 2: B's Mart convenience store in Ho Chi Minh City



Source: BJC

Figure 3: B's Mart convenience store in Ho Chi Minh City



Source: BJC

BJC to continue aggressive expansion in retail business

BJC has expanded its presence in retail business both at home and abroad. In Thailand, BJC opened two health & beauty Ogenki shops at Asoke Tower and Future Park Rangsit in 2QCY13. In Vietnam, BJC also added more B's Mart stores to its portfolio in 2QCY13 and it plans to open B's Mart stores in other neighboring countries i.e. Laos, Myanmar and Cambodia.

In our view, the aggressive expansion in retail business would enhance the distribution of products for PSC, CSC, HSC and TSC, diversify revenue risk and bode well for the long-term growth prospects.

CY13 earnings growth outlook of 4% y-y

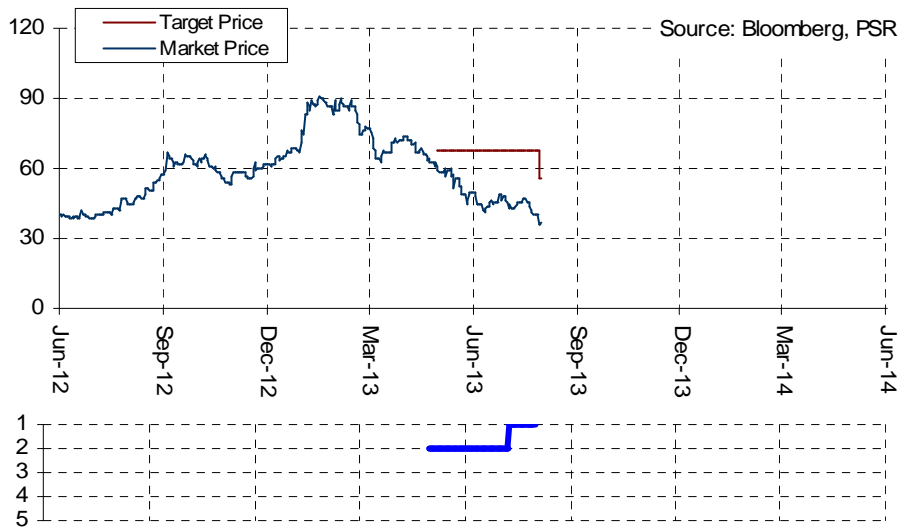
PSC and CSC are likely to feel the pinch of weakening purchasing power in the face of slowing economic conditions in Thailand in 3QCY13. Thai An is however anticipated to return to the black as debenture refinancing would reduce finance costs. HSC is expected to see strong profit performance on back of government budget disbursements.

We also fine-tune our CY13 revenue and net profit forecasts for BJC to Bt42,626mn and Bt2,514mn respectively. Slowing domestic economic conditions are a cause for concern. Hopes are however pinned on new stimulus measures from the government to revive consumption in 4QCY13. Looking ahead into CY14, we stick to our forecast that its net profit will grow 28.1% y-y based on assumptions that revenue will be up 18.7% y-y.

CY13 target price of Bt55.50/share

We adjust our COE and long-term growth assumptions in DCF valuation methodology to 12% and 2.5% respectively to reflect economic risks. Based on new assumptions, we derive a new target price of Bt55.50/share for BJC. We maintain a 'BUY' call on BJC.

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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60 - 69	
70 - 79	
80 - 89	
90 - 100	

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