

Berli Jucker

BJC TB / BJC.BK

21 May 2014

Still not a good time to take positions

Investment thesis

After attending BJC's analyst meeting yesterday, we believe it is still not a good time to load the stock into portfolios. Its poor performance will persist for at least the next two quarters, while its FY14 PER still looks expensive at 31.4x versus a peer average of 28x. Furthermore, we expect a consensus forecast downgrade following management guidance yesterday. Our SELL rating stands with a YE14 target price of Bt34.

All BJC's domestic businesses will continue to soften

The packaging business will be hurt by lower demand among existing customers and from the loss of *Carabao Dang* (an energy drink brand) as a client—it will open its own glass bottle plant in 3Q14. Moreover, new supply from Bangkok Glass and Carabao Dang in tandem with slow domestic demand might create a price war, which could lead to the loss of market share and/or margin slippage. The Consumer Supply Chain should remain weak, due to the consumption slowdown and lower tourist arrivals following the declaration of martial law. Also, government dysfunctionality has affected BJC's healthcare division—tenders for the supply of medical equipment to public hospitals have been postponed indefinitely.

Overseas businesses may not help much in short- to medium-term

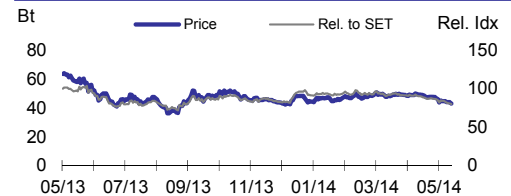
BJC's international sales currently account for 21% of total sales, but they comprise far less of the bottom-line, as half of them are trading business receipts, the operation of which is running only just above break-even point. Moreover, its *B's Mart* convenience store chain in Vietnam is likely to continue bleeding red ink for the next several years. The expansion has been halted indefinitely, as the company needs to fine-tune the operation and business model (see our August 21, 2013 report, *Visit to BJC's CVS in Vietnam*).

Building a retail empire in Vietnam is a risky venture

The CEO said during the analyst meeting that BJC should close a deal to buy a retail chain in Vietnam later this year. We suspect it would be a supermarket operation. Moreover, the company plans to build two pilot wholesale stores in Vietnam, which will also function as distribution centers for B's Mart. The wholesale stores may look like MAKRO stores did 20 years ago (no air conditioning and cheap). But we don't think it is a good idea for BJC—which isn't yet a retail expert—to have so many retail formats in a country in which it has had a presence for only a few years. The company risks losing focus and being beaten easily by competitors.

Sector: Consumer/Retail
Rating: SELL
Target Price: Bt34.00
Price (20 May 2014): Bt43.00

Price chart

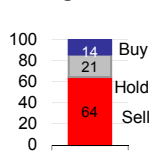


Share price perf. (%)	1M	3M	12M
Relative to SET	(12.7)	(16.9)	(21.9)
Absolute	(14.0)	(9.9)	(37.0)

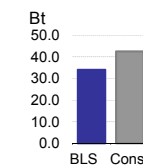
Key statistics

Market cap	Bt68.4bn	USD2.1bn
12-mth price range	Bt34.0/Bt69.0	
12-mth avg daily volume	Bt145m	USD4.5m
# of shares (m)	1,590	
Est. free float (%)	29.9	
Foreign limit (%)	49.0	

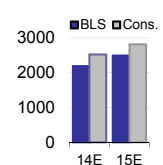
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	42,226	43,932	47,464	51,888
Net profit (Btm)	2,426	2,187	2,496	2,959
EPS (Bt)	1.52	1.37	1.56	1.85
EPS growth (%)	+0.3%	-10.0%	+13.9%	+18.3%
Core profit (Btm)	2,324	2,187	2,496	2,959
Core EPS (Bt)	1.46	1.37	1.56	1.85
Core EPS growth (%)	-0.4%	-6.1%	+13.9%	+18.3%
PER (x)	28.2	31.4	27.5	23.3
PBV (x)	3.9	3.6	3.3	3.1
Dividend (Bt)	0.8	0.8	0.9	1.0
Dividend yield (%)	2.0	1.8	2.0	2.4
ROE (%)	17.0	14.2	15.0	16.2

CG rating

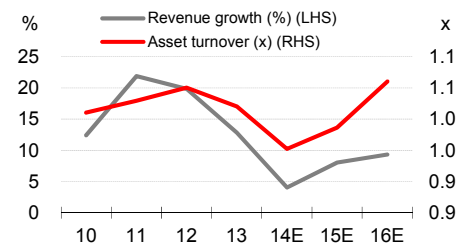


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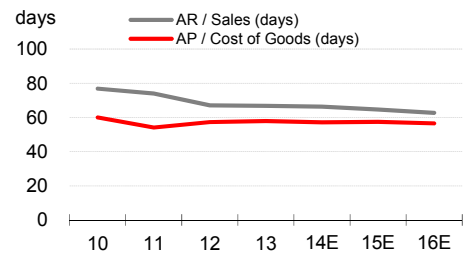
BJC : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	37,429	42,226	43,932	47,464	51,888
Cost of sales and services	(28,402)	(32,131)	(33,707)	(36,218)	(39,621)
Gross profit	9,027	10,095	10,226	11,246	12,268
SG&A	(6,116)	(7,017)	(7,424)	(7,941)	(8,560)
EBIT	2,911	3,078	2,802	3,305	3,708
Finance costs	(503)	(575)	(618)	(663)	(622)
Other income/exp.	539	511	714	641	773
EBT	2,947	3,015	2,898	3,283	3,859
Corporate tax	(605)	(567)	(568)	(644)	(757)
After-tax net profit (loss)	2,342	2,448	2,330	2,639	3,102
Minority interest	(80)	(189)	(216)	(225)	(235)
Equity earnings from affiliates	66	65	73	82	92
Extra items	87	102	0	0	0
Net profit (loss)	2,415	2,426	2,187	2,496	2,959
Reported EPS	1.52	1.52	1.37	1.56	1.85
Fully diluted EPS	1.51	1.51	1.36	1.56	1.85
Core net profit	2,328	2,324	2,187	2,496	2,959
Core EPS	1.47	1.46	1.37	1.56	1.85
EBITDA	5,201	5,612	5,793	6,401	7,051
KEY RATIOS					
Revenue growth (%)	19.8	12.8	4.0	8.0	9.3
Gross margin (%)	24.1	23.9	23.3	23.7	23.6
EBITDA margin (%)	13.9	13.3	13.2	13.5	13.6
Operating margin (%)	9.2	8.5	8.0	8.3	8.6
Net margin (%)	6.5	5.7	5.0	5.3	5.7
Core profit margin (%)	6.2	5.5	5.0	5.3	5.7
ROA (%)	6.8	5.9	4.7	5.2	6.0
ROCE (%)	8.8	7.6	6.1	6.6	7.8
Asset turnover (x)	1.1	1.0	1.0	1.0	1.1
Current ratio (x)	1.4	1.3	1.4	1.6	1.7
Gearing ratio (x)	0.8	0.9	1.0	0.8	0.7
Interest coverage (x)	5.8	5.4	4.5	5.0	6.0
BALANCE SHEET (Btm)					
Cash & Equivalent	2,015	1,780	1,830	1,854	1,548
Accounts receivable	6,871	7,721	7,969	8,398	8,898
Inventory	6,864	8,443	9,297	9,765	10,817
PP&E-net	16,583	18,607	20,483	20,202	19,825
Other assets	5,927	7,951	8,186	8,245	8,302
Total assets	38,260	44,503	47,766	48,465	49,390
Accounts payable	4,460	5,094	5,277	5,698	6,129
ST debts & current portion	4,828	6,155	5,895	3,800	3,800
Long-term debt	8,344	10,521	12,500	13,300	12,000
Other liabilities	4,345	5,034	5,066	5,100	5,135
Total liabilities	21,976	26,804	28,738	27,898	27,065
Paid-up capital	1,588	1,590	1,594	1,597	1,600
Share premium	3,751	3,865	3,995	4,125	4,254
Retained earnings	8,865	9,765	10,680	11,974	13,481
Shareholders equity	13,728	14,760	15,980	17,407	19,048
Minority interests	2,556	2,939	3,047	3,159	3,277
Total Liab.&Shareholders' equity	38,260	44,503	47,766	48,465	49,390
CASH FLOW (Btm)					
Net income	2,415	2,426	2,187	2,496	2,959
Depreciation and amortization	1,751	2,022	2,277	2,455	2,570
Change in working capital	(997)	(958)	(918)	(477)	(1,120)
FX, non-cash adjustment & others	490	597	761	806	765
Cash flows from operating activities:	3,659	4,088	4,307	5,280	5,174
Capex (Invest)/Divest	(3,819)	(3,800)	(4,219)	(2,229)	(2,240)
Others	(73)	(1,247)	0	0	0
Cash flows from investing activities	(3,892)	(5,047)	(4,219)	(2,229)	(2,240)
Debt financing (repayment)	1,563	2,010	1,101	(1,958)	(1,922)
Equity financing	288	349	133	133	133
Dividend payment	(1,345)	(1,707)	(1,272)	(1,202)	(1,452)
Others	(73)	(1,247)	0	0	0
Cash flows from financing activities	505	651	(38)	(3,027)	(3,241)
Net change in cash	272	(307)	50	24	(306)
Free cash flow (Btm)	(160)	288	88	3,051	2,935
FCF per share (Bt)	(0.1)	0.2	0.1	1.9	1.8
Key Assumptions	2012	2013	2014E	2015E	2016E
Packaging sales growth	15.3%	5.2%	2.3%	7.0%	7.0%
Consumer sales growth	19.3%	38.0%	6.5%	10.0%	15.0%
Healthcare/Technical sales growth	13.5%	-1.0%	0.8%	5.0%	5.0%

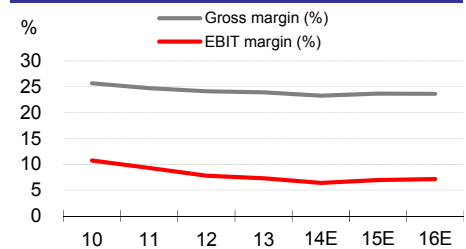
Revenue growth and asset turnover



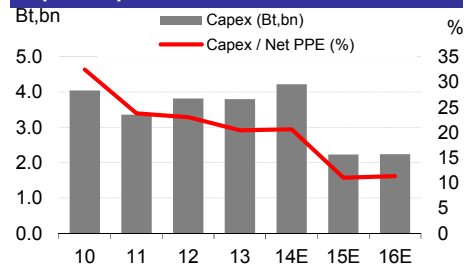
A/C receivable & A/C payable days



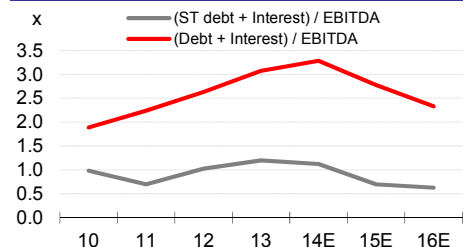
Profit margins



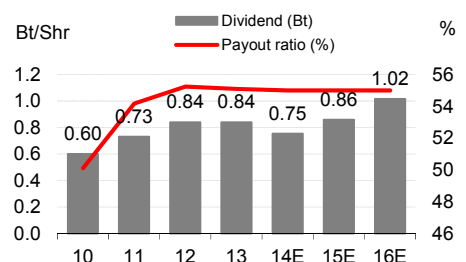
Capital expenditure



Debt serviceability



Dividend payout



BJC : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q13	2Q13	3Q13	4Q13	1Q14
Revenue	10,359	10,477	10,327	11,064	10,696
Cost of sales and services	(7,759)	(7,936)	(7,824)	(8,612)	(8,201)
Gross profit	2,600	2,540	2,503	2,452	2,496
SG&A	(1,708)	(1,709)	(1,761)	(1,838)	(1,842)
EBIT	892	831	742	614	654
Finance costs	(139)	(133)	(153)	(151)	(151)
Other income/exp.	85	101	76	250	231
EBT	838	799	665	713	734
Corporate tax	(153)	(151)	(122)	(141)	(144)
After-tax net profit (loss)	685	649	542	572	590
Minority interest	(33)	(125)	(33)	2	(57)
Equity earnings from affiliates	5	23	20	18	20
Extra items	8	86	5	2	(36)
Net profit (loss)	665	633	535	593	516
Reported EPS	0.42	0.40	0.34	0.37	0.32
Fully diluted EPS	0.42	0.40	0.34	0.37	0.32
Core net profit	657	547	529	592	553
Core EPS	0.41	0.34	0.33	0.37	0.35
EBITDA	1,428	1,425	1,342	1,417	1,436

KEY RATIOS

Gross margin (%)	25.1	24.2	24.2	22.2	23.3
EBITDA margin (%)	13.8	13.6	13.0	12.8	13.4
Operating margin (%)	8.6	7.9	7.2	5.5	6.1
Net margin (%)	6.4	6.0	5.2	5.4	4.8
Core profit margin (%)	6.3	5.2	5.1	5.3	5.2
BV (Bt)	11.0	11.1	11.1	11.1	11.4
ROE (%)	19.0	17.9	15.2	16.5	13.8
ROA (%)	6.8	6.1	5.0	5.4	4.6
Current ratio (x)	1.4	1.3	1.2	1.3	1.3
Gearing ratio (x)	0.8	0.9	0.9	0.9	0.9
Interest coverage (x)	6.4	6.2	4.9	4.1	4.3

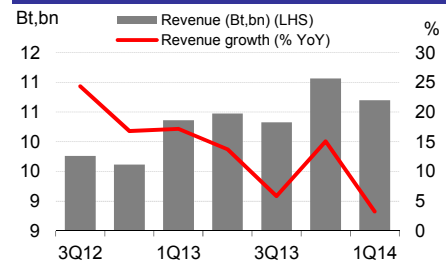
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,548	1,471	1,659	1,780	1,539
Accounts receivable	7,013	7,137	6,837	7,721	7,513
Inventory	7,084	7,391	8,251	8,443	8,187
PP&E-net	17,221	17,940	18,238	18,607	19,002
Other assets	7,657	8,140	8,010	7,951	8,118
Total assets	40,522	42,079	42,996	44,503	44,359
Accounts payable	4,476	4,616	4,718	5,094	4,248
ST debts & current portion	4,856	6,303	6,917	6,155	5,963
Long-term debt	9,009	8,835	9,233	10,521	10,786
Other liabilities	4,658	4,698	4,532	5,034	5,222
Total liabilities	22,999	24,452	25,400	26,804	26,220
Paid-up capital	1,588	1,590	1,590	1,590	1,590
Share premium	3,751	3,854	3,863	3,865	3,866
Retained earnings	9,530	9,337	9,172	9,765	10,251
Shareholders equity	14,215	14,124	14,028	14,760	15,204
Minority interests	3,308	3,504	3,568	2,939	2,936
Total Liab.&Shareholders' equity	40,522	42,079	42,996	44,503	44,359
Key Assumptions	1Q13	2Q13	3Q13	4Q13	1Q14
Packaging sales growth	8.9%	9.8%	-3.5%	5.9%	0.4%
Consumer sales growth	32.7%	38.9%	33.8%	46.4%	14.7%
Healthcare/Technical sales growth	32.6%	-12.7%	-21.8%	12.9%	-6.1%

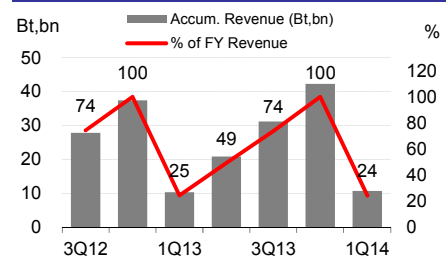
Company profile

Berli Jucker (BJC) is Thailand's leading consumer conglomerate and integrated supply chain operator, ranging from raw material development, manufacturing, R&D, marketing and distribution.

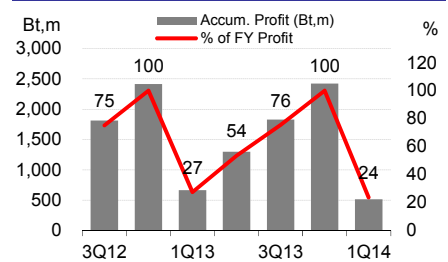
Revenue trend



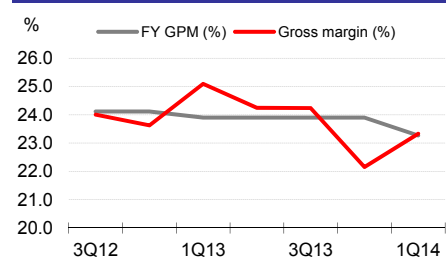
Revenue trend (accumulated)



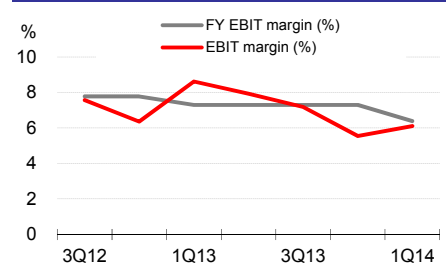
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)	EPS Growth (%)	PBV (x)	ROE (%)	Div Yield (%)					
	Code	(local curr.)	(US\$ equivalent)	2014E	2015E	2014E	2015E	2014E	2015E				
Suning Appliance Co Ltd	002024 CH	CNY6.5	7,728	n.a.	n.a.	-134.0	-52.9	17	16	-2.5	-2.1	0.7	0.8
Wumart Stores Inc	1025 HK	HKD6.2	1,025	117	10.5	34.7	-0.4	15	14	14.7	14.2	4.3	4.8
Parkson Retail Group	3368 HK	HKD2.3	825	14.0	13.7	4.8	2.3	0.9	0.8	6.6	6.4	3.3	3.3
Nitori Hldg Co Ltd	9843 JT	JPY4,915.0	5,554	14.0	13.1	0.2	6.8	17	15	14.2	14.7	11	12
Lawson Inc	2651JT	JPY7,260.0	7,190	18.5	17.0	3.1	8.5	2.6	2.4	15.8	15.4	3.3	3.5
Seven & I Holdings Co Ltd	3382 JT	JPY3,963.0	34,686	18.5	16.8	7.5	10.4	15	14	9.1	8.7	18	2.0
Family Mart	8028 JP	JPY4,225.0	4,075	15.5	15.8	15.3	-2.4	14	13	9.2	9.9	2.5	2.6
President Chain Store Corp	2912 TT	TWD226.0	7,782	24.4	23.2	21.3	4.5	7.7	7.3	34.3	35.0	3.0	3.4
Capitaland Limited	CAPL SP	SGD3.1	1,602	20.0	18.1	14.0	9.2	0.8	0.7	5.0	4.7	2.5	2.6
SM Prime Holdings Inc.	SMPH PM	PHP 16.9	1,749	23.6	20.5	20.5	14.7	2.3	2.1	11.9	11.3	18	2.1
Home Depot	HD US	USD78.0	106,657	17.7	15.3	16.7	15.5	10.4	11.1	79.6	54.4	2.4	2.8
Costco whole sale corp	COST US	USD115.1	50,643	24.7	22.1	-10	12.4	3.8	3.2	17.7	17.6	11	12
Carrefour	CA FP	EUR26.8	26,557	17.1	14.8	-13.1	15.9	2.0	1.8	13.9	12.9	2.6	3.0
Home Product Center	HMPRO TB	THB8.70	2,932	28.0	24.9	11.3	12.2	6.2	5.4	24.4	23.2	15	2.0
Big C Supercenter	BIGC TB	THB 184.50	4,680	214	18.7	19	14.7	3.6	3.2	18.0	18.1	14	16
Beauty Community	BEAUTY TB	THB20.10	185	24.2	19.5	17.8	24.2	5.7	5.3	48.8	n.m.	3.7	4.6
Karmarts	KAMART TB	THB5.00	101	17.6	15.1	16.6	16.7	4.5	4.4	211.1	n.m.	5.2	6.2
Berli Jucker	BJC TB	THB43.00	2,103	31.5	27.6	-9.9	14.2	3.6	3.3	14.2	15.0	18	2.0
C.P. All	CPALL TB	THB43.50	12,014	30.9	22.4	20.1	38.0	10.4	8.3	40.7	45.9	2.1	2.3
Central Pattana	CPN TB	THB44.00	6,071	27.7	23.6	13.4	17.1	4.7	4.2	18.5	19.2	14	17
Siam Global House	GLOBAL TB	THB 12.30	1,153	40.5	30.7	4.5	31.9	2.5	2.3	7.2	7.7	0.7	1.0
Robinson Department Store	ROBINS TB	THB52.00	1,776	27.3	22.8	6.6	19.5	4.3	3.8	17.8	19.2	18	2.2
Officemate	OFM TB	THB49.25	485	28.5	23.3	35.5	22.0	3.2	2.9	11.7	13.1	14	1.7
Siam Makro	MAKRO TB	THB33.50	4,944	31.6	26.1	18.5	21.1	12.6	11.5	42.8	46.1	2.8	3.4
Simple average				23.0	19.8	5.3	11.5	4.1	3.8	44.0	18.7	2.3	2.6

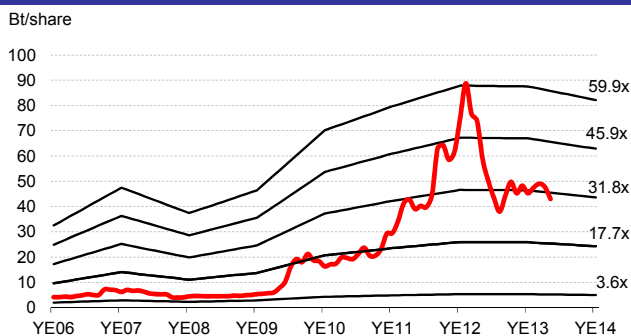
PER band versus SD (next 12 months)



PBV band versus SD (next 12 months)



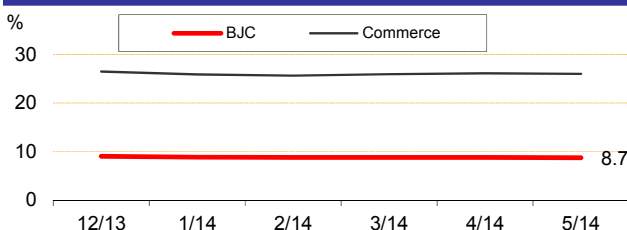
PER band and share price



PBV band and share price



Foreign holding








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Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY:** Expected positive total returns of 15% or more over the next 12 months.
- HOLD:** Expected total returns of between -15% and +15% over the next 12 months.
- SELL:** Expected negative total returns of 15% or more over the next 12 months.
- TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
- NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
- UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.