

# Berli Jucker

BJC TB / BJC.BK

22 August 2014

## Substantial downside risk

### Investment thesis

We still think it is not a good time to load BJC into portfolios. There is substantial downside risk to our EPS forecast, as we have yet to factor the acquisition of Metro into our model. Assuming that a cash call takes place by March 2015, the dilution and interest expenses on new loans would drag down our FY15-16 EPS forecasts by 66% and 61%, respectively. Our EPS forecasts would be even lower if we were to take Metro's loss into our model. We have a SELL rating on the stock.

### Gradually recovering, but still soft

BJC expects its performance to improve in 2H14. Demand for glass packaging has gradually recovered, while pressure from margin squeeze in the Consumer Supply Chain has eased since the prices of major raw materials declined. The Healthcare Supply Chain should also deliver a stronger HoH performance, thanks to resumed government spending. However, the improvement won't be strong, as domestic consumption remains weak. The company may have to spend on marketing activities to draw demand, as it did in 2Q14.

### Recapitalization plan update

The CEO is confident that a Bt16bn cash call through the offering new shares to existing shareholders at a ratio of 9:2 at a price of Bt45 apiece will be successful, thanks to strong support from TCC (a 73.7% stake in BJC). He said that the timing of the recapitalization is flexible. It may take place shortly after an EGM on Oct 13 or be postponed until the acquisition of Metro is completed. If BJC were to opt to make the cash call right after the EGM, it would use the new capital to repay existing loans and then borrow again after the takeover of Metro was completed.

But if the firm were to increase capital after the deal is done (the most likely scenario, as there may be debt prepayment penalties), a bridging facility would be needed. For the remaining Bt12bn to finance the acquisition, BJC would go with either long-term loans or convertible bonds.

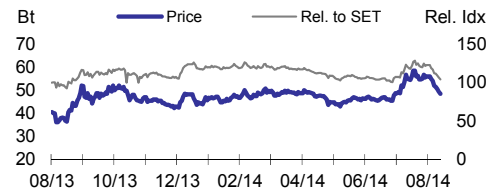
### Metro turnaround in FY17 at the earliest

Management aims to enhance Metro's profitability by negotiating with suppliers for better commercial trade terms and by cutting costs by reducing the number of expatriates and unnecessary management fees. The firm expects Metro Vietnam to turn around into black ink in FY17. However, we expect a longer time-frame, as there is risk that supplier negotiations may not be successful, given Metro's small size, which limits its bargaining power. Although Metro has a 22% market share of modern-trade retail, it has only a 0.9% share of Vietnam's grocery market.

Moreover, cost-cutting may not go as expected, as BJC still needs support from Metro AG to run the wholesale chain under a Transitional Services Agreement (BJC has no experience operating a large store format).

**Sector: Consumer/Retail Neutral**
**Rating: SELL**
**Target Price: Bt40.00**
**Price (21 August 2014); Bt48.50**

### Price chart

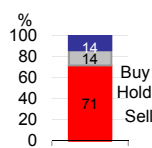


Share price perf. (%)	1M	3M	12M
Relative to SET	(16.5)	(0.4)	(3.9)
Absolute	(14.5)	10.2	10.9

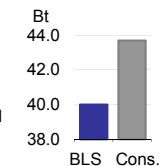
### Key statistics

Market cap	Bt77.2bn	USD2.4bn
12-mth price range	Bt34.0/Bt60.5	
12-mth avg daily volume	Bt132m	USD4.1m
# of shares (m)	1,592	
Est. free float (%)	26.2	
Foreign limit (%)	49.0	

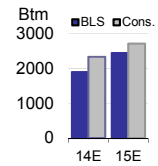
### Consensus rating



### BLS Target price vs. Consensus



### BLS earnings vs. Consensus



### Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	42,226	44,330	48,888	53,437
Net profit (Btm)	2,426	1,901	2,444	2,832
EPS (Bt)	1.53	1.19	1.53	1.77
EPS growth (%)	+0.3%	-21.7%	+28.3%	+15.6%
Core profit (Btm)	2,324	1,892	2,444	2,832
Core EPS (Bt)	1.46	1.19	1.53	1.77
Core EPS growth (%)	-0.3%	-18.7%	+28.9%	+15.6%
PER (x)	31.8	40.6	31.7	27.4
PBV (x)	4.4	4.1	3.8	3.5
Dividend (Bt)	0.8	0.7	0.8	1.0
Dividend yield (%)	1.7	1.4	1.7	2.0
ROE (%)	17.0	12.5	14.9	15.8

### CG rating

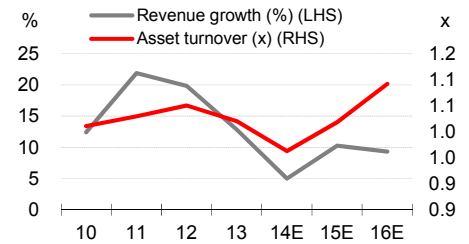


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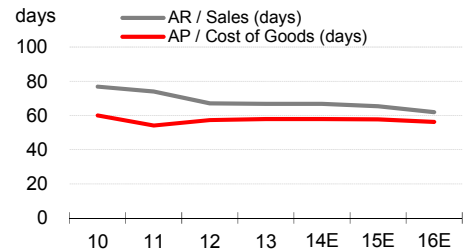
## BJC : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	37,429	42,226	44,330	48,888	53,437
Cost of sales and services	(28,402)	(32,131)	(34,181)	(37,436)	(40,958)
<b>Gross profit</b>	<b>9,027</b>	<b>10,095</b>	<b>10,150</b>	<b>11,452</b>	<b>12,479</b>
SG&A	(6,116)	(7,017)	(7,668)	(8,241)	(8,943)
<b>EBIT</b>	<b>2,911</b>	<b>3,078</b>	<b>2,481</b>	<b>3,211</b>	<b>3,536</b>
Finance costs	(503)	(575)	(623)	(638)	(601)
Other income/exp.	539	511	682	639	760
<b>EBT</b>	<b>2,947</b>	<b>3,015</b>	<b>2,541</b>	<b>3,211</b>	<b>3,696</b>
Corporate tax	(605)	(567)	(525)	(642)	(739)
<b>After-tax net profit (loss)</b>	<b>2,342</b>	<b>2,448</b>	<b>2,016</b>	<b>2,569</b>	<b>2,957</b>
Minority interest	(80)	(189)	(197)	(207)	(217)
Equity earnings from affiliates	66	65	73	82	92
Extra items	87	102	9	0	0
<b>Net profit (loss)</b>	<b>2,415</b>	<b>2,426</b>	<b>1,901</b>	<b>2,444</b>	<b>2,832</b>
Reported EPS	1.52	1.53	1.19	1.53	1.77
<b>Fully diluted EPS</b>	<b>1.49</b>	<b>1.50</b>	<b>1.17</b>	<b>1.51</b>	<b>1.75</b>
<b>Core net profit</b>	<b>2,328</b>	<b>2,324</b>	<b>1,892</b>	<b>2,444</b>	<b>2,832</b>
Core EPS	1.47	1.46	1.19	1.53	1.77
<b>EBITDA</b>	<b>5,201</b>	<b>5,612</b>	<b>5,441</b>	<b>6,304</b>	<b>6,866</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	19.8	12.8	5.0	10.3	9.3
Gross margin (%)	24.1	23.9	22.9	23.4	23.4
EBITDA margin (%)	13.9	13.3	12.3	12.9	12.8
Operating margin (%)	9.2	8.5	7.1	7.9	8.0
Net margin (%)	6.5	5.7	4.3	5.0	5.3
Core profit margin (%)	6.2	5.5	4.3	5.0	5.3
ROA (%)	6.8	5.9	4.1	5.1	5.8
ROCE (%)	8.8	7.6	5.3	6.6	7.5
Asset turnover (x)	1.1	1.0	1.0	1.0	1.1
Current ratio (x)	1.4	1.3	1.4	1.6	1.6
Gearing ratio (x)	0.8	0.9	1.0	0.8	0.7
Interest coverage (x)	5.8	5.4	4.0	5.0	5.9
<b>BALANCE SHEET (Btm)</b>					
Cash & Equivalent	2,015	1,780	1,686	1,601	1,615
Accounts receivable	6,871	7,721	8,111	8,747	9,065
Inventory	6,864	8,443	9,085	9,633	10,593
PP&E-net	16,583	18,607	20,483	20,202	19,825
Other assets	5,927	7,951	8,196	8,263	8,329
<b>Total assets</b>	<b>38,260</b>	<b>44,503</b>	<b>47,561</b>	<b>48,447</b>	<b>49,429</b>
Accounts payable	4,460	5,094	5,423	5,921	6,305
ST debts & current portion	4,828	6,155	5,895	3,800	4,000
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
<b>Total liabilities</b>	<b>21,976</b>	<b>26,804</b>	<b>28,884</b>	<b>28,121</b>	<b>27,441</b>
Paid-up capital	1,588	1,590	1,592	1,596	1,600
Share premium	3,751	3,865	3,942	4,084	4,226
Retained earnings	8,865	9,765	10,394	11,793	13,201
<b>Shareholders equity</b>	<b>13,728</b>	<b>14,760</b>	<b>15,640</b>	<b>17,185</b>	<b>18,739</b>
Minority interests	2,556	2,939	3,038	3,141	3,249
<b>Total Liab.&amp;Shareholders' equity</b>	<b>38,260</b>	<b>44,503</b>	<b>47,561</b>	<b>48,447</b>	<b>49,429</b>
<b>CASH FLOW (Btm)</b>					
Net income	2,415	2,426	1,901	2,444	2,832
Depreciation and amortization	1,751	2,022	2,277	2,455	2,570
Change in working capital	(997)	(958)	(702)	(686)	(895)
FX, non-cash adjustment & others	490	597	747	763	725
<b>Cash flows from operating activities:</b>	<b>3,659</b>	<b>4,088</b>	<b>4,222</b>	<b>4,976</b>	<b>5,233</b>
Capex (Invest)/Divest	(3,819)	(3,800)	(4,219)	(2,229)	(2,240)
Others	(73)	(1,247)	0	0	0
<b>Cash flows from investing activities</b>	<b>(3,892)</b>	<b>(5,047)</b>	<b>(4,219)</b>	<b>(2,229)</b>	<b>(2,240)</b>
Debt financing (repayment)	1,563	2,010	1,096	(1,933)	(1,701)
Equity financing	288	349	79	146	146
Dividend payment	(1,345)	(1,707)	(1,272)	(1,045)	(1,424)
Others	(73)	(1,247)	0	0	0
<b>Cash flows from financing activities</b>	<b>505</b>	<b>651</b>	<b>(98)</b>	<b>(2,832)</b>	<b>(2,979)</b>
Net change in cash	272	(307)	(94)	(85)	14
<b>Free cash flow (Btm)</b>	<b>(160)</b>	<b>288</b>	<b>4</b>	<b>2,747</b>	<b>2,993</b>
<b>FCF per share (Bt)</b>	<b>(0.1)</b>	<b>0.2</b>	<b>0.0</b>	<b>1.7</b>	<b>1.9</b>
<b>Key Assumptions</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Packaging sales growth	15.3%	5.2%	1.4%	7.5%	7.0%
Consumer sales growth	19.3%	40.4%	7.0%	11.0%	15.0%
Healthcare/Technical sales growth	13.5%	-1.0%	8.4%	9.7%	5.0%

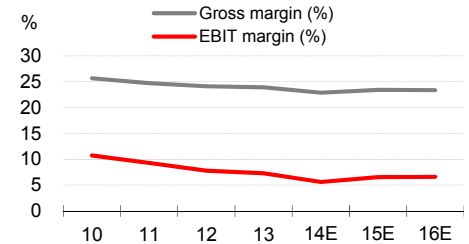
### Revenue growth and asset turnover



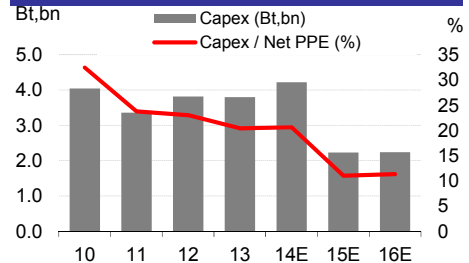
### A/C receivable & A/C payable days



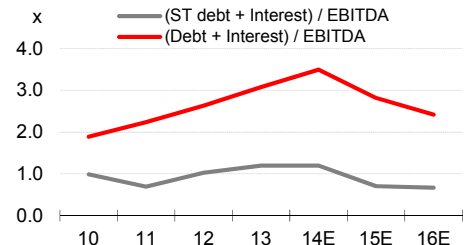
### Profit margins



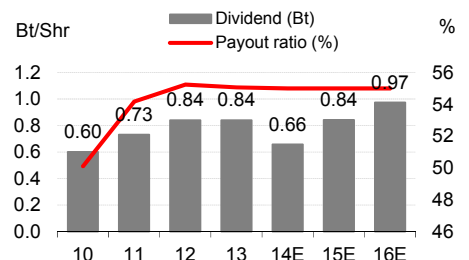
### Capital expenditure



### Debt serviceability



### Dividend payout



## BJC : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	10,477	10,327	11,064	10,696	10,665
Cost of sales and services	(7,936)	(7,824)	(8,612)	(8,201)	(8,299)
Gross profit	2,540	2,503	2,452	2,496	2,367
SG&A	(1,709)	(1,761)	(1,838)	(1,842)	(1,915)
<b>EBIT</b>	<b>831</b>	<b>742</b>	<b>614</b>	<b>654</b>	<b>451</b>
Finance costs	(133)	(153)	(151)	(151)	(150)
Other income/exp.	101	76	250	231	97
<b>EBT</b>	<b>799</b>	<b>665</b>	<b>713</b>	<b>734</b>	<b>398</b>
Corporate tax	(151)	(122)	(141)	(144)	(99)
After-tax net profit (loss)	649	542	572	590	298
Minority interest	(125)	(33)	2	(57)	(36)
Equity earnings from affiliates	23	20	18	20	20
Extra items	86	5	2	(36)	45
<b>Net profit (loss)</b>	<b>633</b>	<b>535</b>	<b>593</b>	<b>516</b>	<b>328</b>
Reported EPS	0.40	0.34	0.37	0.32	0.21
<b>Fully diluted EPS</b>	<b>0.40</b>	<b>0.34</b>	<b>0.37</b>	<b>0.32</b>	<b>0.21</b>
<b>Core net profit</b>	<b>547</b>	<b>529</b>	<b>592</b>	<b>553</b>	<b>282</b>
Core EPS	0.34	0.33	0.37	0.35	0.18
<b>EBITDA</b>	<b>1,425</b>	<b>1,342</b>	<b>1,417</b>	<b>1,436</b>	<b>1,109</b>

### KEY RATIOS

Gross margin (%)	24.2	24.2	22.2	23.3	22.2
EBITDA margin (%)	13.6	13.0	12.8	13.4	10.4
Operating margin (%)	7.9	7.2	5.5	6.1	4.2
Net margin (%)	6.0	5.2	5.4	4.8	3.1
Core profit margin (%)	5.2	5.1	5.3	5.2	2.6
BV (Bt)	11.1	11.1	11.1	11.4	11.3
ROE (%)	17.9	15.2	16.5	13.8	8.7
ROA (%)	6.1	5.0	5.4	4.6	2.9
Current ratio (x)	1.3	1.2	1.3	1.3	1.3
Gearing ratio (x)	0.9	0.9	0.9	0.9	1.0
Interest coverage (x)	6.2	4.9	4.1	4.3	3.0

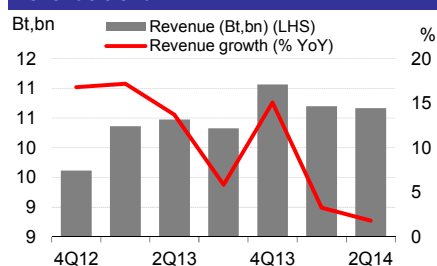
### QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,471	1,659	1,780	1,539	1,899
Accounts receivable	7,137	6,837	7,721	7,513	7,726
Inventory	7,391	8,251	8,443	8,187	7,662
PP&E-net	17,940	18,238	18,607	19,002	19,495
Other assets	8,140	8,010	7,951	8,118	8,137
<b>Total assets</b>	<b>42,079</b>	<b>42,996</b>	<b>44,503</b>	<b>44,359</b>	<b>44,919</b>
Accounts payable	4,616	4,718	5,094	4,248	3,864
ST debts & current portion	6,303	6,917	6,155	5,963	7,289
Long-term debt	8,835	9,233	10,521	10,786	10,629
Other liabilities	4,698	4,532	5,034	5,222	5,222
<b>Total liabilities</b>	<b>24,452</b>	<b>25,400</b>	<b>26,804</b>	<b>26,220</b>	<b>27,004</b>
Paid-up capital	1,590	1,590	1,590	1,590	1,591
Share premium	3,854	3,863	3,865	3,866	3,872
Retained earnings	9,337	9,172	9,765	10,251	9,951
<b>Shareholders equity</b>	<b>14,124</b>	<b>14,028</b>	<b>14,760</b>	<b>15,204</b>	<b>14,942</b>
Minority interests	3,504	3,568	2,939	2,936	2,973
<b>Total Liab.&amp;Shareholders' equity</b>	<b>42,079</b>	<b>42,996</b>	<b>44,503</b>	<b>44,359</b>	<b>44,919</b>
<b>Key Assumptions</b>	<b>2Q13</b>	<b>3Q13</b>	<b>4Q13</b>	<b>1Q14</b>	<b>2Q14</b>
Packaging sales growth	9.8%	-3.5%	5.9%	0.4%	-0.8%
Consumer sales growth	48.8%	33.8%	46.4%	14.7%	1.8%
Healthcare/Technical sales growth	-12.7%	-21.8%	12.9%	-6.1%	16.1%

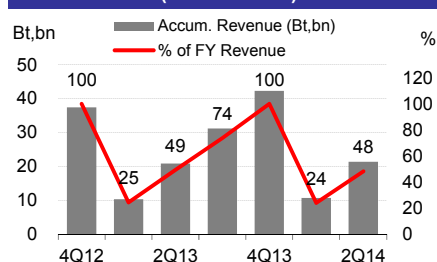
### Company profile

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.

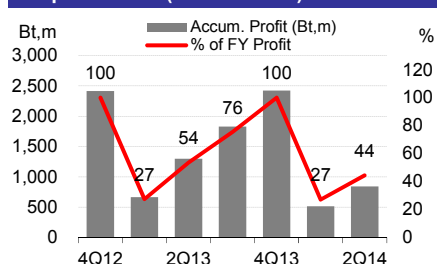
### Revenue trend



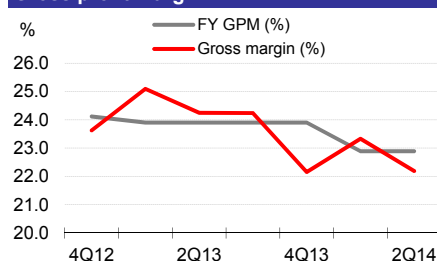
### Revenue trend (accumulated)



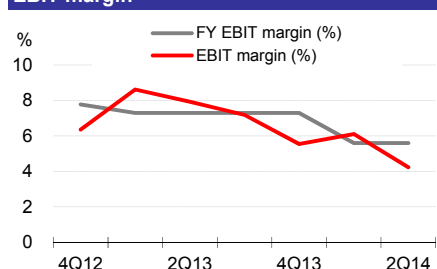
### Net profit trend (accumulated)

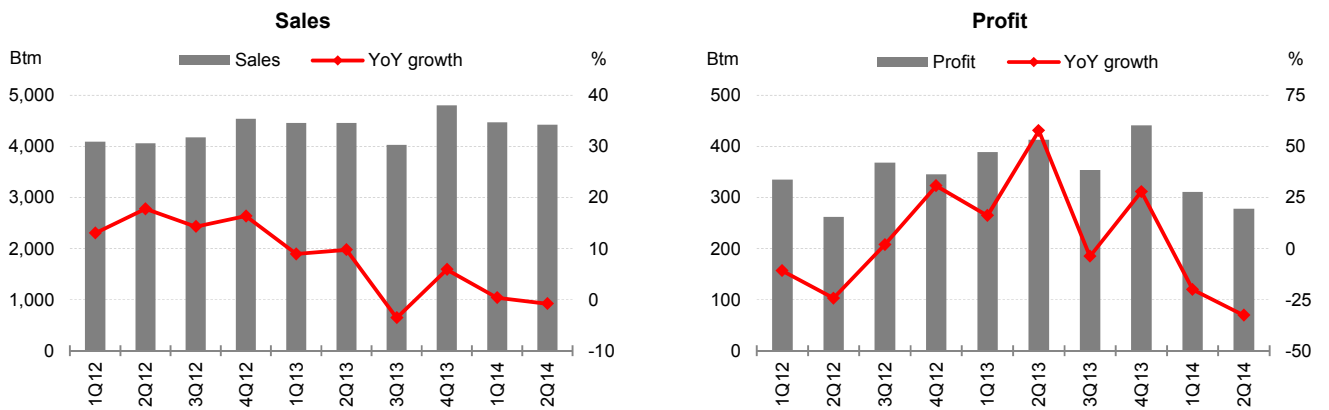


### Gross profit margin

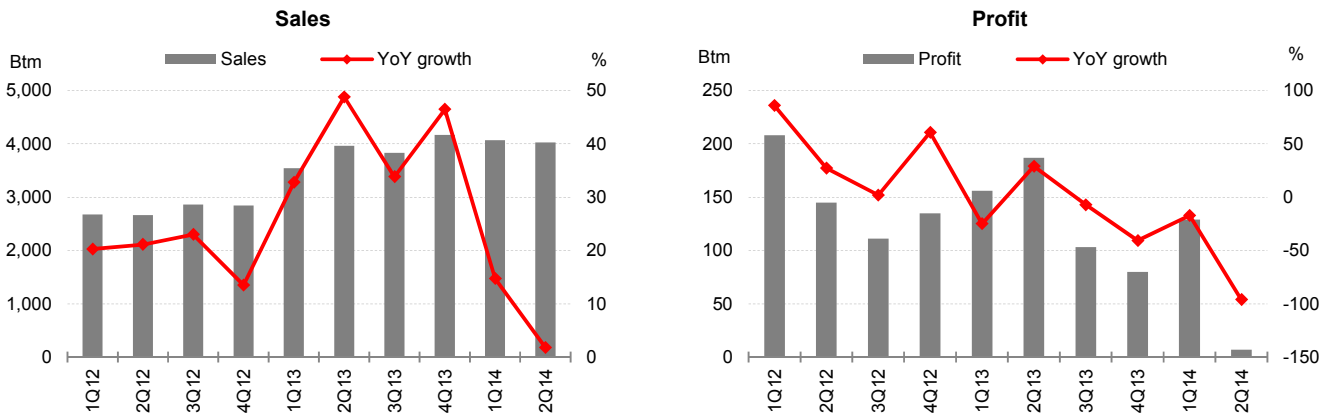


### EBIT margin

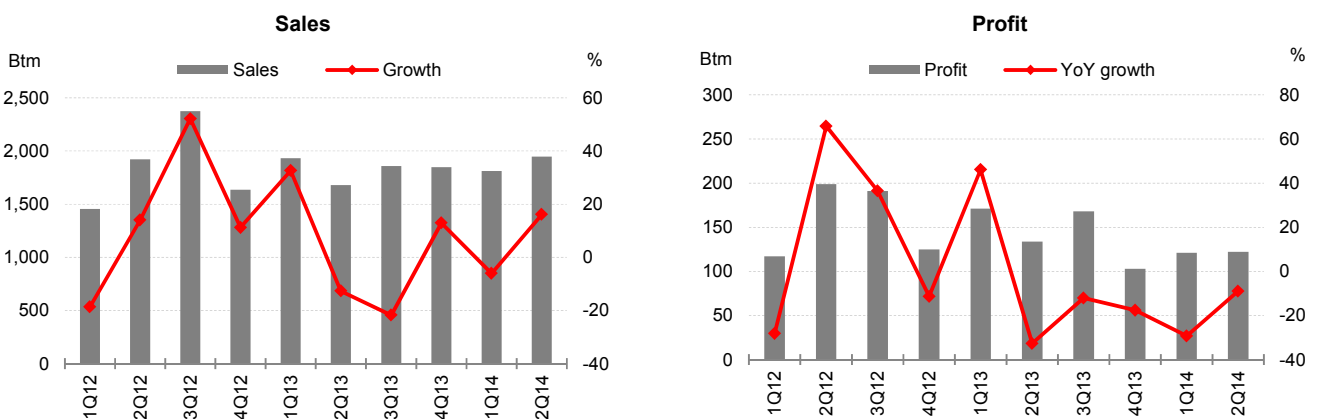


**Figure 1 : Packaging Supply Chain**


Sources: Company data, Bualuang Research

**Figure 2 : Consumer Supply Chain**


Sources: Company data, Bualuang Research

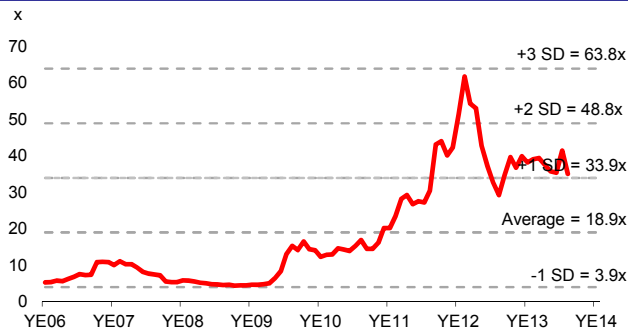
**Figure 3 : Healthcare & Technical Supply Chain**


Sources: Company data, Bualuang Research

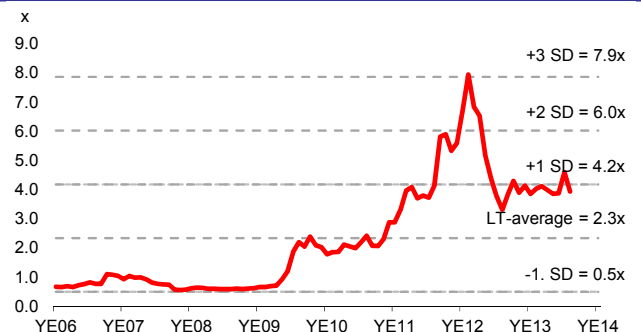
## Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Suning Appliance Co Ltd	002024 CH	CNY8.1	9,734	n.a.	n.a.	-268.0	-33.3	2.1	2.0	-3.1	-3.1	0.5	0.6
Wumart Stores Inc	1025 HK	HKD7.3	1212	14.4	12.8	14.7	13.1	18	17	12.6	12.1	3.4	3.8
Parkson Retail Group	3368 HK	HKD2.7	965	16.7	16.4	16	16	10	10	6.2	6.2	2.7	2.8
Nitori Hldg Co Ltd	9843 JT	JPY5,820.0	6,413	16.1	15.1	3.2	6.8	2.0	19	14.3	15.0	0.9	10
Lawson Inc	2651JT	JPY7,860.0	7,591	19.6	18.2	5.9	7.6	2.8	2.6	16.0	15.6	3.1	3.3
Seven & I Holdings Co Ltd	3382 JT	JPY4,394.5	37,507	20.5	18.7	7.4	9.8	16	15	9.0	8.7	16	18
Family Mart	8028 JP	JPY4,550.0	4,279	17.5	17.5	8.8	10	15	14	9.0	9.3	2.3	2.4
President Chain Store Corp	2912 TT	TWD222.5	7,713	24.0	22.8	20.4	4.5	7.8	7.2	34.9	35.5	3.1	3.5
Capitaland Limited	CAPL SP	SGD3.3	11,349	20.8	18.7	26.5	3.2	0.8	0.8	4.9	4.9	2.4	2.5
SM Prime Holdings Inc.	SMPH PM	PHP16.4	10,412	24.4	21.2	12.6	13.8	2.4	2.2	11.4	10.9	1.4	1.6
Home Depot	HD US	USD91.2	124,658	20.3	17.6	18.9	14.9	13.1	12.4	86.0	55.2	2.1	2.4
Costco whole sale corp	COST US	USD121.6	53,306	26.5	23.7	-18	12.2	4.0	3.4	17.5	17.4	11	12
Carrefour	CA FP	EUR26.7	26,009	17.3	14.7	-10.4	12.1	2.0	1.8	13.8	13.0	2.6	3.0
Home Product Center	HMPRO TB	THB10.50	3,599	34.5	30.0	9.0	14.7	7.5	6.5	23.9	23.3	12	16
Big C Supercenter	BIGC TB	THB235.00	6,063	26.7	23.5	4.0	13.7	4.6	4.0	18.3	18.2	11	13
Beauty Community	BEAUTY TB	THB26.50	249	31.4	24.5	19.6	28.2	7.5	6.9	24.5	29.2	2.9	3.7
Karmarts	KAMART TB	THB5.85	121	21.2	18.9	13.1	12.1	5.3	5.2	27.1	28.1	4.4	4.8
Berli Jucker	BJC TB	THB48.50	2,415	41.4	32.2	-21.6	28.6	4.1	3.8	12.5	14.9	1.4	1.7
C.P. All	CPALL TB	THB45.75	12,852	33.7	25.3	15.7	33.3	11.1	9.1	39.6	44.0	2.0	2.2
Central Pattana	CPN TB	THB46.25	6,491	28.1	23.9	17.6	17.2	5.0	4.3	19.1	19.7	1.4	1.6
Siam Global House	GLOBAL TB	THB13.20	1,258	51.4	37.4	-11.5	37.3	2.7	2.5	6.2	6.9	0.6	0.8
Robinson Department Store	ROBINS TB	THB57.75	2,006	31.0	22.1	4.2	40.1	4.8	4.2	17.4	21.7	1.6	2.3
Siam Future Development	SF TB	THB6.75	313	13.5	11.9	28.9	12.9	1.5	1.3	12.1	12.6	0.2	0.2
Officemate	OFM TB	THB49.50	495	32.9	25.7	17.7	28.1	3.3	3.0	10.2	12.2	1.2	1.6
Siam Makro	MAKRO TB	THB41.00	6,154	38.0	28.8	20.5	31.7	15.3	13.3	43.4	49.5	2.3	2.7
<b>Simple average</b>				<b>25.9</b>	<b>21.7</b>	<b>-1.7</b>	<b>14.6</b>	<b>4.6</b>	<b>4.2</b>	<b>19.5</b>	<b>19.2</b>	<b>1.9</b>	<b>2.2</b>

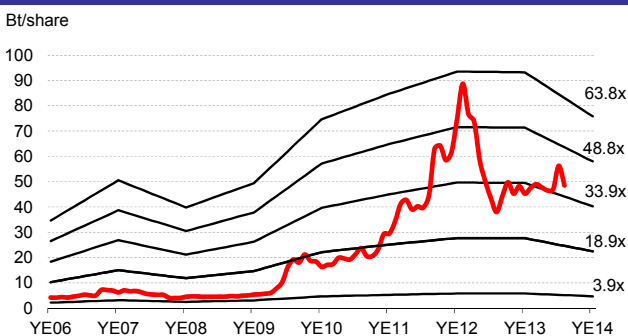
### PER band versus SD



### PBV band versus SD



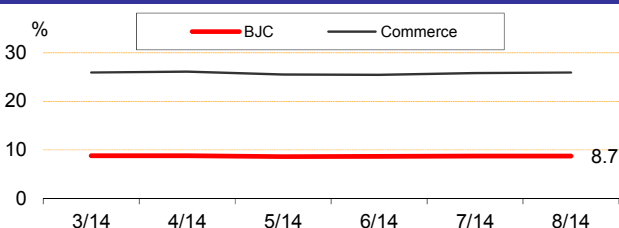
### PER band and share price



### PBV band and share price



### Foreign holding








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

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.