

**METRO VN a long-term boost for BJC**

Rating: **ACCUMULATE**

Downgrade from Buy

**THAILAND | COMM | COMPANY UPDATE**

BLOOMBERG BJC TB | REUTERS BJC.BK

- BJC acquired METRO Vietnam, the only cash & carry and self-service wholesale outlets in Vietnam for Bt28.4bn. Currently METRO VN operates a network of 19 stores across Vietnam.
- In our view, business synergies from the acquisition of METRO VN would pave the way for BJC to become a leader in Vietnam's wholesale market.
- We call BJC shares an 'ACCUMULATE' with a FY15 target price of Bt50.75/share after the completion of METRO VN acquisition and the rights offering.

BJC expects the acquisition of METRO VN to be completed in mid-FY15. The investment cost of up to Bt28.4bn would be funded by both equity and debt financing. Of the total, Bt16bn would come from the proceeds from the rights issue and the remaining Bt12bn from borrowing.

Its FY14 investment plan for existing businesses remains unchanged at Bt5.5bn, of which Bt3.2bn would go towards the improvement and capacity expansion of its packaging supply chain, Bt700mn towards its consumer supply chain, Bt600mn towards its retail business and the rest Bt1bn would be used as working capital.

**How we view this**

In our view, the acquisition of METRO VN would give BJC an integrated and more complete supply chain in Vietnam ranging from upstream activities as a manufacturer, midstream activities as a distributor and downstream activities as both retailer and wholesaler through METRO VN which currently remains in the red. By our estimate, we expect METRO VN to return to profitability in the next 3-4 years after the completion of the acquisition by BJC in mid-FY15.

**Investment Action**

We call BJC shares an 'ACCUMULATE' with a FY15 target price of Bt50.75/share after the completion of METRO VN acquisition and the rights offering.

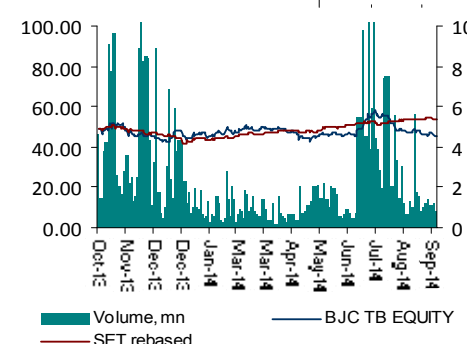
<b>Target Price (Bt)</b>	<b>50.75</b>
Forecast Dividend (Bt)	0.65
Closing Price (Bt)	45.75
<b>Potential Upside</b>	<b>12.3%</b>

**Company Description**

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

**Company Data**

Raw Beta (Past 2yrs weekly data)	1.57
Market Cap. (USDmn / Btmn)	2245 / 72844
Ent. Value (USDmn / Btmn)	2830 / 91835
3MAverage Daily T/O (mn)	2.7
Closing Px in 52 week range	42.25 - 60.50



<b>Major Shareholders as of</b>	<b>3/9/14</b>	<b>(%)</b>
1. T.C.C. Holding Co., Ltd		73.7
2. DBS BANK A/C DBS NOMINEES-PB Clier		5.4
3. Bualuang Long-Term Equity Fund		2.5

**CG Report - 2013**



(Very Good)

**Valuation Method**

SOTP

**Analyst**

**Vichuda Siriployprakray**

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**Key Financial Summary**

<b>FYE Dec</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14F</b>	<b>FY15F</b>
Revenue (Btmn)	31,235	37,429	42,226	44,297	59,904
NPAT (Btmn)	2,140	2,415	2,426	1,922	1,997
NPAT, adj. (Btmn)	2,140	2,415	2,426	1,922	1,997
EPS (Bt)	1.35	1.52	1.53	1.30	1.08
EPS, adj. (Bt)	1.35	1.52	1.53	1.30	1.08
P/E (X),adj.	33.9	30.1	29.9	35.1	42.3
BVPS (Bt)	9.15	10.25	11.13	11.71	18.65
P/B (X)	5.0	4.5	4.1	3.9	2.5
DPS (Bt)	0.73	0.84	0.84	0.78	0.65
Div. Yield (%)	1.6%	1.8%	1.8%	1.7%	1.4%

Source: Bloomberg, PSR est.

\*\*Multiples and yields are based on latest closing price

**BJC acquires METRO VN for Bt28,370mn**

BJC of late announced a 100% acquisition of METRO Cash & Carry Vietnam Limited (METRO VN) for Bt28,370mn on a cash-free and debt-free basis, meaning that BJC would not shoulder the burden of METRO VN’s existing debts in this acquisition. The acquisition would be funded by both equity and debt financing. Of the total, at least Bt16bn would come from the proceeds from the 9-for-2 rights issue at Bt45/share and the remaining Bt12bn from borrowing. On this basis, we expect its interest-bearing debt to equity ratio to be 0.85x in FY15, below its covenant of no more than 1.75x.

**Figure 1: METRO VN outlets in Ho Chi Minh**



**METRO VN only cash & carry player in Vietnam**

Established in 2002, METRO VN is the only cash & carry player in Vietnam and ranks second in Vietnam’s local grocery market in terms of market share. METRO VN, a wholly owned subsidiary of METRO International Holding currently operates a network of 19 outlets across Vietnam, of which six outlets are in the northern region, seven outlets in the central region and six outlets in the southern region. It also operates two warehouses and two cross-docking stations in (i) Hanoi in the north of Vietnam and (ii) Binh Duong in the south of Vietnam.

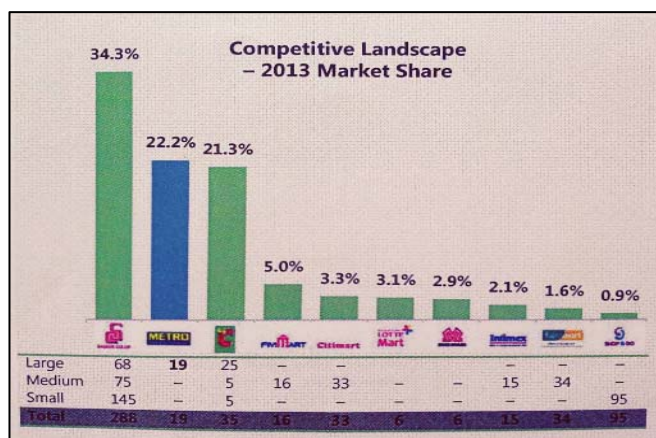
**Figure 2: Locations of METRO VN outlets**



Source: BJC

In FY13, METRO VN had a 22.2% share of Vietnam’s modern grocery market, making it the second-biggest player in Vietnam after Saigon Union of Trading Cooperatives, Vietnam’s state-owned retail chain operator which captured a lion’s share of the market at 34.3%. Saigon Union of Trading Cooperatives is considered a direct competitor of METRO VN as its outlets cover all types of modern grocery channels including hypermarkets, supermarkets, convenience stores and warehouse clubs under various brands including the likes of ‘Co-op,’ and ‘ Co-op Xtra Plus.’ In wholesale and cash & carry market, METRO VN has still been the only player in Vietnam so far.

**Figure 3: Vietnam’s retail and wholesale landscape in terms of market share and outlet numbers**



Source: BJC

**Earnings review of METRO VN**

METRO VN remained mired in red ink over the past years pressured by the following three major headwinds: (i) a deceleration in sales growth due chiefly to a relatively high proportion of wholesale sales to large customers in the past: Currently METRO VN has adjusted its sales strategy and changes the sales mix with a reduction in the proportion of wholesales to large customers and an increase in the proportion of sales to retail customers which command much higher net profit margins, (ii) a dramatic rise in SG&A expenses as a result of overexpansion during FY10-FY12 when it added 3-4 outlets a year to its portfolio and (iii) a huge load of interest expenses due to a substantial rise in both short-term and long-term borrowings used to fund new outlet additions in FY10-FY12.

However, we believe the above headwinds would substantially ease after BJC completes the acquisition of METRO VN on expectations that BJC may not have a policy to add new outlets in the initial stages of consolidation as it would streamline and overhaul product line and sales system of existing outlets to meet consumers’ needs and deliver maximum synergy benefits to BJC’s other existing businesses in Vietnam. This process may result in a small increase in branch expansion expenses and allows sales to rise on the back of its new sales strategy. Interest expenses would be reduced as BJC would not shoulder the burden of all METRO VN debt repayments under the acquisition terms. With the removal of the above three major headwinds, losses at METRO VN are likely to narrow ahead.

#### **METRO VN poised to return to profitability in next 4-5 years**

We expect METRO VN to remain mired in the red over the next 3-4 years after consolidation though BJC would streamline operational efficiency of METRO VN. Even though SG&A expenses for branch expansion may not rise during the first 1-2 years of consolidation, the bottom-line would however be instead pressured by expenses for existing branch upgrade in the initial stages of operations as well as rising ad expenses to make clients aware of new trademark name as a result of the name change. Note that BJC is allowed to use METRO trademark for no more than 18 months after consolidation. METRO VN is after that expected to add 1-2 new outlets a year in major cities with Ho Chi Minh and Hanoi as first priority to its portfolio. Currently BJC has locations for 9 new outlet openings. Modern grocery market penetration in Vietnam is at present comparatively low at 4% relative to its ASEAN counterparts with an average of 42%. The penetration in Thailand is slightly above average at 44%.

#### **Dramatic rise in cost of sales and total expenses set to drag FY14 earnings lower**

Our forecast suggests BJC will see a big drop of up to 20.76% y-y in FY14 net profit as a result of dwindling profits from three core operating chains.

- (1) Packaging supply chain (PSC): Sagging sales from both operations in Vietnam and Thailand in 1HFY14 hit by sluggish spending and a steady escalation of production costs fueled by a spike in soda ash prices would be the main culprits behind the profit drop in FY14.
- (2) Consumer supply chain (CSC): Burgeoning sales from fast growing business in Vietnam would be offset by a sharp upward blip in costs of raw materials including the likes of potatoes, palm oil and coconut oil in 1HFY14 and higher marketing expenses in a bid to boost sluggish sales. Sharp cost escalation would largely be blamed for a big fall in FY14 profit.
- (3) Healthcare and technical supply chain (HSC & TSC): Higher sales of high-voltage transmission towers at Thai Scandic Steel Co would be eclipsed by a steep plunge in sales of medical equipment and supplies due to the lack of government in 1HFY14 which led to the loss of medical equipment orders from government hospitals.

#### **Return to earnings growth expected in FY15 but growth seen limited by effects of consolidation of METRO VN**

We forecast BJC to return to modest earnings growth in FY15 on expectations that profits from three core operating chains will jump as much as 33.6% y-y, due to an exceptionally low base of comparison in FY14 pressured by domestic political uncertainty. However, growth may be capped by the effects of the consolidation of METRO VN, which is expected to remain in the red and mounting interest expenses on loans used to fund the acquisition of METRO VN. Our forecast suggests BJC will deliver FY15 net profit growth of 3.88% y-y to Bt1,996.96mn.

#### **'ACCUMULATE' call with FY15 target price of Bt50.75/share**

We have a long-term bullish view on the prospects for METRO VN after the acquisition by BJC. The acquisition of self-service, cash & carry wholesale outlets operated by METRO VN would also compliment BJC's business and give it an integrated and more complete supply chain in Vietnam. We also expect a steady small growth rate for BJC's existing businesses in the years ahead as growth at many of its operating chains is about to reach saturation point, leaving limited scope for sales growth while there remains room for profits to keep growing down the road ahead driven largely by cost and operating expense savings. At current trading levels, we call BJC shares an 'ACCUMULATE' with a FY15 target price of Bt50.75/share after the completion of METRO VN acquisition and the rights offering. The target is SOTP-based, comprising DCF valuation for BJC's existing businesses and price-to-sales metrics for METRO VN.

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Income Statement (Btmn)</b>					
Revenue	31,235	37,429	42,226	44,297	59,904
EBITDA	5,152	5,288	5,714	5,427	6,716
Depreciation & Amortisation	1,783	1,751	2,022	2,304	2,891
EBIT	3,370	3,537	3,691	3,123	3,825
Net Finance (Expense)/Inc	366	503	575	605	1,107
Other items	0	0	0	0	0
Associates & JVs	46	66	65	81	85
Exceptional items	0	0	0	0	0
<b>Profit Before Tax</b>	<b>3,049</b>	<b>3,100</b>	<b>3,181</b>	<b>2,600</b>	<b>2,804</b>
Taxation	672	605	567	527	657
<b>Profit After Tax</b>	<b>2,377</b>	<b>2,495</b>	<b>2,615</b>	<b>2,072</b>	<b>2,147</b>
Non-controlling Interest	238	80	189	150	150
<b>Net Income, reported</b>	<b>2,140</b>	<b>2,415</b>	<b>2,426</b>	<b>1,922</b>	<b>1,997</b>
<b>Net Income, adj.</b>	<b>2,140</b>	<b>2,415</b>	<b>2,426</b>	<b>1,922</b>	<b>1,997</b>

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Per share data (Bt)</b>					
EPS, reported	1.35	1.52	1.53	1.30	1.08
EPS, adj.	1.35	1.52	1.53	1.30	1.08
DPS	0.73	0.84	0.84	0.78	0.65
BVPS	9.15	10.25	11.13	11.71	18.65

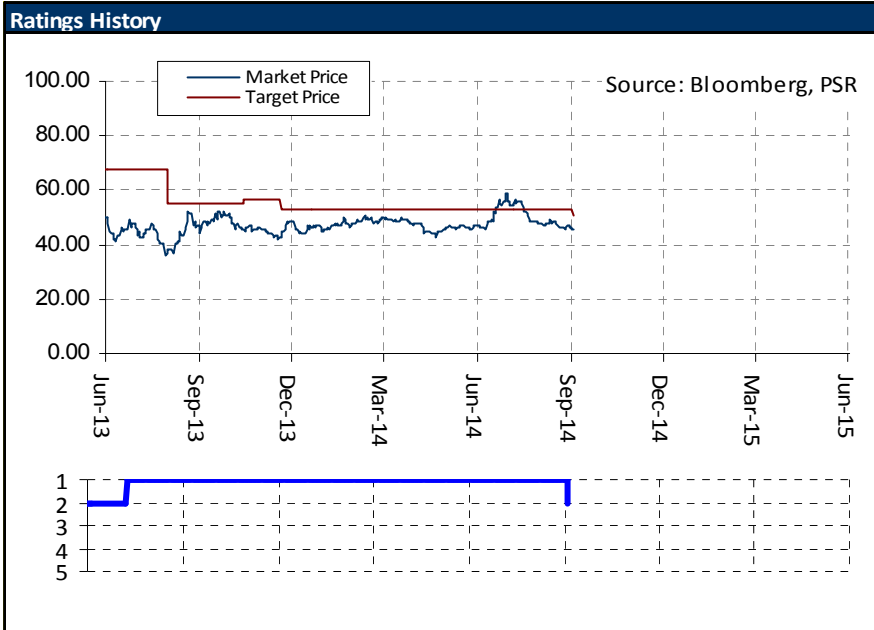
FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Cashflow Statements (Btmn)</b>					
CFO					
PBT	3,049	3,100	3,181	2,600	2,804
Adjustments	2,078	2,278	2,686	3,006	4,091
WC changes	5,127	5,377	5,867	5,605	6,895
Cash generated from ops	(1,141)	(1,059)	(1,087)	(400)	(662)
Others	(775)	(660)	(692)	(527)	(657)
<b>Cashflow from ops</b>	<b>3,211</b>	<b>3,659</b>	<b>4,088</b>	<b>4,678</b>	<b>5,577</b>
CFI					
CAPEX, net	(3,971)	(3,966)	(5,232)	(5,548)	(4,159)
Others	698	74	186	42	(28,342)
<b>Cashflow from investments</b>	<b>(3,272)</b>	<b>(3,892)</b>	<b>(5,047)</b>	<b>(5,506)</b>	<b>(32,501)</b>
CFF					
Share issuance	0	0	0	0	17,660
Loans, net of repayments	2,321	2,080	2,573	1,152	13,618
Dividends	(1,000)	(1,223)	(1,526)	(1,193)	(1,372)
Others	(536)	(352)	(396)	(787)	(1,728)
<b>Cashflow from financing</b>	<b>784</b>	<b>505</b>	<b>651</b>	<b>(828)</b>	<b>28,177</b>
<b>Net change in cash</b>	<b>723</b>	<b>272</b>	<b>(307)</b>	<b>(1,657)</b>	<b>1,253</b>
Effects of exchange rates	(66)	(85)	72	76	83
<b>CCE, end</b>	<b>1,828</b>	<b>2,015</b>	<b>1,780</b>	<b>199</b>	<b>1,535</b>

Source: Company Data, PSR est

\*\*Based on latest closing price

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Balance Sheet (Btmn)</b>					
Cash	1,828	2,015	1,780	199	1,535
Investments	0	0	0	0	0
Accounts Receivables	7,126	7,998	9,000	9,347	11,380
Inventories	5,124	6,864	8,443	7,924	11,617
Others	232	95	92	96	426
<b>Total current assets</b>	<b>14,310</b>	<b>16,972</b>	<b>19,315</b>	<b>17,566</b>	<b>24,958</b>
PPE	14,143	16,583	18,607	21,846	28,820
Intangibles	1,193	1,187	1,399	1,336	1,384
Associates & JVs	416	432	467	477	18,553
Investments	1	1	28	1	1
Others	2,937	3,085	4,687	4,755	6,016
<b>Total non-current assets</b>	<b>18,689</b>	<b>21,288</b>	<b>25,188</b>	<b>28,415</b>	<b>54,773</b>
<b>Total Assets</b>	<b>32,999</b>	<b>38,260</b>	<b>44,503</b>	<b>45,981</b>	<b>79,731</b>
Short term loans	3,198	4,828	6,155	7,529	9,429
Accounts Payables	5,615	7,052	8,406	7,838	9,586
Others	338	347	274	251	232
<b>Total current liabilities</b>	<b>9,151</b>	<b>12,227</b>	<b>14,835</b>	<b>15,619</b>	<b>19,247</b>
Long term loans	7,912	8,344	10,521	10,298	22,016
Others	1,406	1,406	1,448	1,437	1,478
<b>Total non-current liabilities</b>	<b>9,318</b>	<b>9,750</b>	<b>11,969</b>	<b>11,735</b>	<b>23,494</b>
Non-controlling interest	1,987	2,556	2,939	2,939	2,939
<b>Shareholder Equity</b>	<b>14,530</b>	<b>16,284</b>	<b>17,699</b>	<b>18,626</b>	<b>36,990</b>

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.**	33.9	30.1	29.9	35.1	42.3
P/B (X), adj.**	5.0	4.5	4.1	3.9	2.5
EV/EBITDA (X), adj.	10.8	20.7	16.0	16.7	18.0
Dividend Yield (%)	1.6%	1.8%	1.8%	1.7%	1.4%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	21.9%	19.8%	12.8%	4.9%	35.2%
EBITDA	16.0%	2.6%	8.1%	-5.0%	23.8%
EBIT	11.3%	5.0%	4.4%	-15.4%	22.5%
Net Income, adj.	12.5%	12.8%	0.5%	-20.8%	3.9%
<b>Margins</b>					
EBITDA margin	16.5%	14.1%	13.5%	12.3%	11.2%
EBIT margin	10.8%	9.4%	8.7%	7.1%	6.4%
Net Profit Margin	7.6%	6.7%	6.2%	4.7%	3.6%
<b>Key Ratios</b>					
ROE (%)	15.6%	15.7%	14.3%	10.6%	7.2%
ROA (%)	7.1%	6.8%	5.9%	4.2%	3.2%
Net Debt/(Cash)	9,282	11,156	14,896	17,628	29,910
Net Gearing (X)	0.50	0.52	0.56	0.59	0.52



**PSR Rating System**

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

Industry Group Name	Sector Name	Sector Index
Agro & Food Industry [AGRO]	Agribusiness	AGRI
	Food & Beverage	FOOD
Consumer Products [CONSUMP]	Fashion	FASHION
	Home & Office Products	HOME
	Personal Products & Pharmaceuticals	PERSON
Financials [FINCIAL]	Banking	BANK
	Finance & Securities	FIN
	Insurance	INSUR
Industrials [INDUS]	Automotive	AUTO
	Industrial Materials & Machinery	IMM
	Packaging	PKG
	Paper & Printing Materials	PAPER
	Petrochemicals & Chemicals	PETRO
	Steel	STEEL
Property & Construction [PROPCON]	Construction Materials	CONMAT
	Construction Services	CONS
	Property Development	PROP
	Property Fund & REITs	FP&REIT
Resources [RESOURC]	Energy & Utilities	ENERG
	Mining	MINE
Services [SERVICE]	Commerce	COMM
	Media & Publishing	MEDIA
	Health Care Services	HEALTH
	Tourism & Leisure	TOURISM
	Professional Services	PROF
	Transportation & Logistics	TRANS
Technology [TECH]	Electronic Components	ETRON
	Information & Communication Technology	ICT

**Fundamental:**

<b>Name</b>	<b>Analyst Reg No.</b>	<b>Tel</b>	<b>Sector</b>
Sasikorn Charoensuwan, CFA, CAIA	Capital Market Investment Analyst#9744	662 635 1700#480	Consumer, Commerce
Rutsada Tweesaengsakulthai	Securities Investment Analyst#17972	662 635 1700#482	ICT, Energy, Health Care
Danai Tunyaphisitchai, CFA	Capital Market Investment Analyst #2375	662 635 1700#481	Construction Materials, Property Development
Naree Apisawaittakan	Securities Investment Analyst #17971	662 635 1700#484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment Analyst #17970	662 635 1700#483	Transportation, Media & Publishing, Tourism
Ornmongkol Tantitanatorn	Capital Market Investment Analyst #34100	662 635 1700#491	Automotive, Energy, Packaging
Adisorn Muangparnchon	Securities Investment Analyst #18577	662 635 1700#497	Banking, Securities & Finance, Insurance
Chantaramanee Tavivorakiat	Capital Market Investment Analyst #46866	662 635 1700#488	
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Suthanuch Chaisumrej	Assistant Analyst		
Chitphan Kwanchit	Assistant Analyst		

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Werajak Jungkiatkajorn	Capital Market Investment Analyst #28087	662 635 1700#495
Rittiporn Songsermsawad	Assistant Analyst	
Phoobate Wiriyayuttama	Assistant Analyst	

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**Translation:**

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**Results Presentation**

<b>Score Range</b>	<b>Number of Logo</b>
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

The disclosure of the survey result of the Thai Institute of Directors Association (IOD) regarding corporate governance is made pursuant to the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative disclosure to the public and able to be accessed by a general public investor. The results, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that data. Phillip Securities (Thailand) of securities company does not confirm nor certify the accuracy of such survey result.



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Yaowarat	19th Fl., Kanchanadhat Bldg. Tel : 0 2622 7833
Bangkapi 1	8th Fl., The Mall Office Tower-Bangkapi Tel : 0 2363 3263
Bangkapi 2	9th Fl., The Mall Office Tower-Bangkapi Tel : 0 2363 3269
Hua Lumphong	4th Fl., Tang Hua Pak Bldg., 320 Rama 4 Rd. Tel : 0 2639 1200
Rangsit	G Fl., Room#PLZ.G.SHP065A Future Park Rangsit Tel : 0 2958 5040
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Khon Kaen - Rim Bueng	3rd Fl., Arokaya Bldg., Tel : 0 4322 6026
Phisanulok	2nd Fl., Thai Sivarat Bldg., Tel : 0 5524 3646
Had Yai	4th Fl., Southland Rubber Bldg., Tel : 0 7423 4095-99110
Had Yai - Petkasem	3rd Fl., Unit 3D, Redar Group Bldg., Tel : 0 7422 3044
Suratthan	62/9 Donnok Rd., Tel : 077 206 131
Chumporn Investor Center	25/45 Krom Luang Chumporn Rd., Tel : 0 7757 0652-3

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UNITED KINGDOM	King & Shaxson Capital Limited 6th Flr, Candlewick House, Tel (44-20) 7426 5950 www.kingandshaxson.com
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