

Berli Jucker

BJC TB / BJC.BK

8 March 2016

Stepping up to be one of the biggest grocers in Southeast Asia

Investment thesis

We now view BJC's story as the sexiest in the sector. The firm is shaping up to be one of the biggest grocery chains in Asean, and its acquisition of BIGC is just the first step. The next acquisition will be Metro Vietnam, while B's Mart (its convenience store chain in Vietnam) should be able to deliver better performance in leveraging BIGC's expertise. We have plugged in BIGC into BJC's model to better see the latter's earnings prospects and valuation since the acquisition. We thus raise its YE16 target price to Bt45 and upgrade our rating to BUY from HOLD.

Finance costs may be lower than our model

Management has yet to disclose the finance options, interest costs and leverage target but hinted at an analyst meeting yesterday that the interest costs including hedging fees for bridging loans would be lower than the consensus estimate of 4-5% and probably lower than our model of 3.5%. This should be an even greater sweetener to the deal and confirm our view that the takeover will lead to an EPS accretion. However, at the moment, we conservatively assume the total finance costs of 3.5% in our model.

Substantial benefits from acquisition of BIGC

The benefits from acquisition of BIGC look likely to be greater than we previously thought. Apart from those we had already mentioned (easier to distribute BJC products in BIGC stores, being a key OEM manufacturer for BIGC's private brands and access to customer information), BJC aims to leverage BIGC's expertise to improve performance at its other retail chains, such as B's mart in Vietnam and M-Point Mart (convenience store chain in Laos). Moreover, BIGC's Pure pharmacies should perfectly integrate BJC's healthcare business downstream.

Acquisition timelines

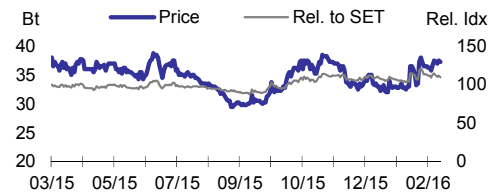
If shareholders approve the takeover deal on 21 March, BJC will buy a 58.55% stake in BIGC from the Casino Group by the end of March and the tender offer will take place in Apr-May. BJC's final percentage holding should be known by the end of May. However, timelines for refinancing bridging loans with long-term debt and a capital increase have yet to be disclosed. We believe that BJC would refinance the bridging loan quickly to lock in the low interest rate for long-term debt and reduce currency risk.

Now plug in BIGC to BJC model

We plug in BIGC to the BJC model based on the following assumptions: 1) the transaction of 58.55% stake in BIGC takes place at end Mar, 2) the tender offer is complete at the end of May, 3) the final stake in BIGC amounts to 80%, 4) the bridging loan rate is 3.5%, including fees and hedging costs, 5) the average interest rate for long-term loans used to refinance the bridging loans at end-Sep is 3.25%, 6) the cash call takes place at end-Sep at Bt30/share and 7) there is net D/E of 2x at YE16.

Sector: Consumer/Retail – OVERWEIGHT
Rating: BUY
Target Price: Bt45.00
Price (7 March 2016): Bt37.25

Price chart

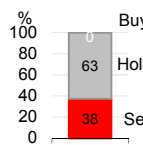


Share price perf. (%)	1M	3M	12M
Relative to SET	7.9	(4.7)	9.8
Absolute	14.6	2.1	(0.7)

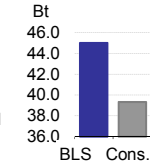
Key statistics

Market cap	Bt59.3bn	USD1.7bn
12-mth price range	Bt28.8/Bt39.5	
12-mth avg daily volume	Bt21m	USD0.6m
# of shares (m)	1,592	
Est. free float (%)	21.1	
Foreign limit (%)	49.0	

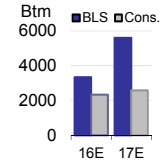
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Revenues (Btm)	42,893	138,545	178,574	180,804
Net profit (Btm)	2,792	3,337	5,613	5,863
EPS (Bt)	1.75	1.17	1.97	2.06
EPS growth (%)	+66.2%	-33.0%	+68.1%	+4.5%
Core profit (Btm)	2,075	3,337	5,613	5,863
Core EPS (Bt)	1.30	1.17	1.97	2.06
Core EPS growth (%)	+14.8%	-9.9%	+68.1%	+4.5%
PER (x)	20.6	31.7	18.9	18.1
PBV (x)	2.0	1.5	1.4	1.3
Dividend (Bt)	0.8	0.6	1.1	1.1
Dividend yield (%)	2.3	1.7	2.9	3.0
ROE (%)	25.7	26.2	36.0	31.1

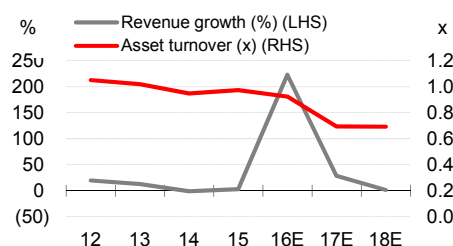
CG/Anti-Corruption


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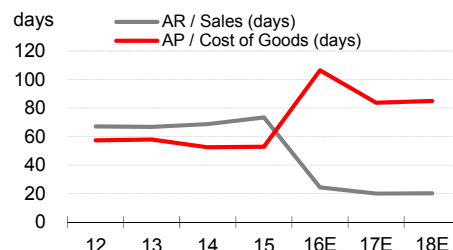
BJC: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Revenue	41,695	42,893	138,545	178,574	180,804
Cost of sales and services	(32,363)	(33,071)	(114,984)	(149,038)	(150,775)
Gross profit	9,333	9,822	23,560	29,536	30,029
SG&A	(6,883)	(7,179)	(24,128)	(31,173)	(31,504)
EBIT	2,449	2,642	(568)	(1,637)	(1,475)
Finance costs	(556)	(493)	(4,574)	(5,100)	(4,773)
Other income/exp.	704	900	11,592	16,298	16,330
EBT	2,598	3,049	6,451	9,561	10,082
Corporate tax	(398)	(400)	(1,290)	(1,912)	(2,016)
After-tax net profit (loss)	2,200	2,649	5,160	7,649	8,066
Minority interest	(367)	(661)	(1,917)	(2,141)	(2,321)
Equity earnings from affiliates	(26)	87	94	105	119
Extra items	(128)	717	0	0	0
Net profit (loss)	1,680	2,792	3,337	5,613	5,863
Reported EPS	1.05	1.75	1.17	1.97	2.06
Fully diluted EPS	1.04	1.72	1.16	1.96	2.05
Core net profit	1,808	2,075	3,337	5,613	5,863
Core EPS	1.14	1.30	1.17	1.97	2.06
EBITDA	5,156	5,683	16,215	21,157	21,656
KEY RATIOS					
Revenue growth (%)	(1.3)	2.9	223.0	28.9	1.2
Gross margin (%)	22.4	22.9	17.0	16.5	16.6
EBITDA margin (%)	12.4	13.2	11.7	11.8	12.0
Operating margin (%)	7.6	8.3	8.0	8.2	8.2
Net margin (%)	4.0	6.5	2.4	3.1	3.2
Core profit margin (%)	4.3	4.8	2.4	3.1	3.2
ROA (%)	3.8	6.3	2.2	2.2	2.2
ROCE (%)	4.9	8.0	2.6	2.6	2.6
Asset turnover (x)	0.9	1.0	0.9	0.7	0.7
Current ratio (x)	1.0	1.2	0.7	0.9	0.8
Gearing ratio (x)	0.9	0.7	2.1	1.9	1.8
Interest coverage (x)	4.4	5.4	n.m.	n.m.	n.m.
BALANCE SHEET (Btm)					
Cash & Equivalent	1,123	1,130	2,816	3,666	4,905
Accounts receivable	7,856	8,627	9,250	9,747	10,013
Inventory	7,410	7,244	20,801	21,781	21,922
PP&E-net	18,042	18,589	48,593	51,411	54,053
Other assets	8,996	9,111	173,793	172,577	171,273
Total assets	43,428	44,701	255,252	259,183	262,166
Accounts payable	4,647	4,788	33,540	34,204	35,117
ST debts & current portion	10,181	7,521	12,300	5,400	8,700
Long-term debt	6,051	7,454	133,902	139,102	133,902
Other liabilities	4,532	4,187	4,217	4,249	4,282
Total liabilities	25,411	23,950	183,960	182,955	182,002
Paid-up capital	1,592	1,592	2,842	2,844	2,844
Share premium	3,952	3,952	40,231	40,316	40,316
Retained earnings	10,229	12,066	13,986	17,763	20,540
Shareholders equity	14,997	17,063	56,257	60,121	62,897
Minority interests	3,020	3,688	15,036	16,106	17,267
Total Liab.&Shareholders' equity	43,428	44,701	255,252	259,183	262,166
CASH FLOW (Btm)					
Net income	1,680	2,792	3,337	5,613	5,863
Depreciation and amortization	2,003	2,141	5,190	6,497	6,801
Change in working capital	(197)	(421)	(400)	(813)	507
FX, non-cash adjustment & others	911	181	6,397	7,135	6,976
Cash flows from operating activities:	4,396	4,693	14,525	18,432	20,146
Capex (Invest)/Divest	(3,240)	(1,852)	(7,846)	(9,033)	(9,147)
Others	(45)	241	(167,757)	0	0
Cash flows from investing activities	(3,284)	(1,611)	(175,603)	(9,033)	(9,147)
Debt financing (repayment)	(94)	(2,072)	126,653	(6,800)	(6,673)
Equity financing	72	63	37,528	87	0
Dividend payment	(1,329)	(1,143)	(1,417)	(1,835)	(3,087)
Others	(45)	241	(167,757)	0	0
Cash flows from financing activities	(1,352)	(3,151)	162,764	(8,548)	(9,760)
Net change in cash	(240)	(69)	1,685	851	1,239
Free cash flow (Btm)	1,156	2,841	6,678	9,399	10,999
FCF per share (Bt)	0.7	1.8	2.4	3.3	3.9
Key Assumptions	2014	2015	2016E	2017E	2018E
Packaging sales growth	-7.2%	7.4%	6.8%	5.0%	5.0%
Consumer sales growth	-1.8%	1.2%	3.0%	5.0%	5.0%
Healthcare/Technical sales growth	6.5%	-7.5%	6.9%	5.0%	5.0%

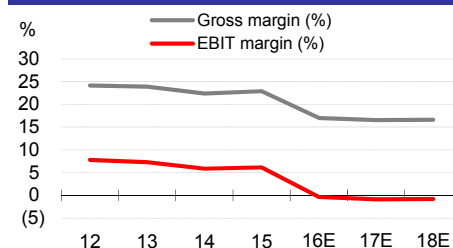
Revenue growth and asset turnover



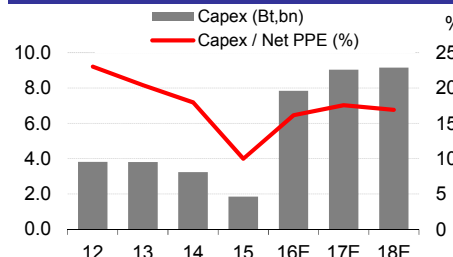
A/C receivable & A/C payable days



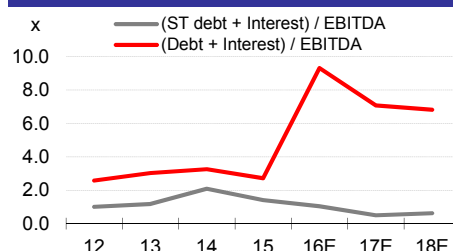
Profit margins



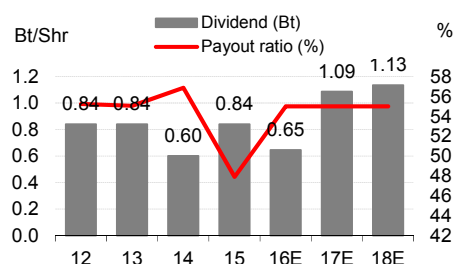
Capital expenditure



Debt serviceability



Dividend payout



BJC: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q14	1Q15	2Q15	3Q15	4Q15
Revenue	11,187	10,493	10,241	10,388	11,771
Cost of sales and services	(8,750)	(7,963)	(7,858)	(8,009)	(9,241)
Gross profit	2,437	2,530	2,383	2,379	2,530
SG&A	(1,701)	(1,827)	(1,811)	(1,867)	(1,674)
EBIT	736	704	572	511	855
Finance costs	(156)	(131)	(128)	(111)	(122)
Other income/exp.	249	158	164	447	130
EBT	830	730	608	848	864
Corporate tax	(114)	(108)	(86)	(80)	(125)
After-tax net profit (loss)	715	622	521	767	739
Minority interest	(132)	(102)	(124)	(335)	(100)
Equity earnings from affiliates	(19)	9	4	49	25
Extra items	0	0	343	344	30
Net profit (loss)	564	529	744	825	693
Reported EPS	0.35	0.33	0.47	0.52	0.44
Fully diluted EPS	0.35	0.33	0.47	0.52	0.44
Core net profit	564	529	401	481	663
Core EPS	0.35	0.33	0.25	0.30	0.42
EBITDA	1,280	1,366	1,250	1,521	1,560

KEY RATIOS

Gross margin (%)	21.8	24.1	23.3	22.9	21.5
EBITDA margin (%)	11.4	13.0	12.2	14.6	13.3
Operating margin (%)	6.6	6.7	5.6	4.9	7.3
Net margin (%)	5.0	5.0	7.3	7.9	5.9
Core profit margin (%)	5.0	5.0	3.9	4.6	5.6
BV (Bt)	11.2	11.6	12.0	12.5	13.0
ROE (%)	15.3	13.9	18.8	20.2	16.5
ROA (%)	5.1	4.9	6.8	7.5	6.2
Current ratio (x)	1.0	1.0	0.9	1.1	1.2
Gearing ratio (x)	0.9	0.9	0.8	0.8	0.7
Interest coverage (x)	4.7	5.4	4.5	4.6	7.0

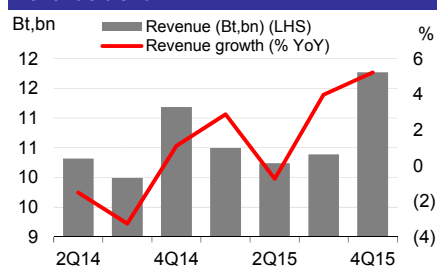
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,123	1,176	1,133	1,242	1,130
Accounts receivable	7,856	8,156	7,922	7,605	8,627
Inventory	7,410	7,261	7,321	7,421	7,244
PP&E-net	18,042	17,819	18,411	18,466	18,589
Other assets	8,996	9,070	9,021	9,453	9,111
Total assets	43,428	43,483	43,808	44,187	44,701
Accounts payable	4,647	4,362	4,316	4,442	4,788
ST debts & current portion	10,181	9,843	11,112	8,309	7,521
Long-term debt	6,051	6,081	4,527	7,133	7,454
Other liabilities	4,532	4,686	4,673	4,366	4,187
Total liabilities	25,411	24,971	24,628	24,250	23,950
Paid-up capital	1,592	1,592	1,592	1,592	1,592
Share premium	3,952	3,952	3,952	3,952	3,952
Retained earnings	10,229	10,758	11,105	11,373	12,066
Shareholders equity	14,820	15,549	16,100	16,577	17,063
Minority interests	3,020	2,963	3,080	3,360	3,688
Total Liab.&Shareholders' equity	43,251	43,483	43,808	44,187	44,701
Key Assumptions	4Q14	1Q15	2Q15	3Q15	4Q15
Packaging sales growth	-5.2%	8.2%	1.0%	14.2%	6.8%
Consumer sales growth	-6.1%	1.2%	0.6%	-0.5%	3.6%
Healthcare/Technical sales growth	12.5%	-7.7%	-15.4%	-12.4%	4.6%

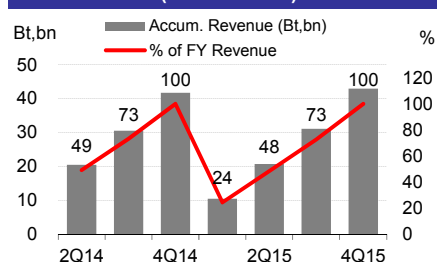
Company profile

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

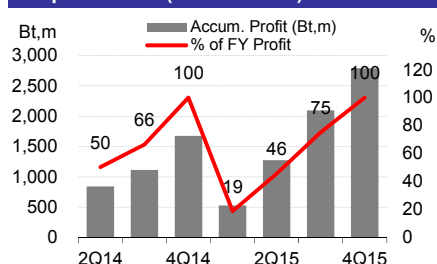
Revenue trend



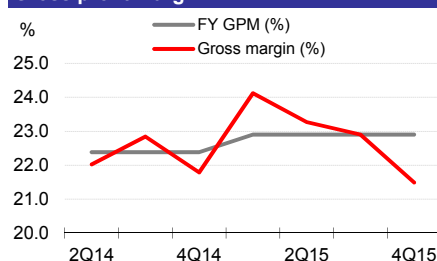
Revenue trend (accumulated)



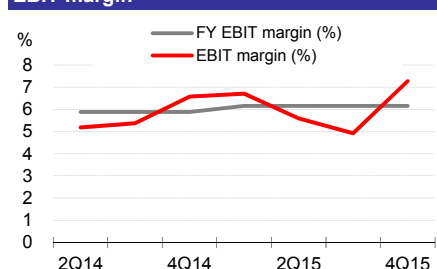
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Suning Appliance Co Ltd	002024 CH	CNY10.8	12,257	220.6	263.7	-59.2	-16.3	2.9	2.2	1.4	0.8	0.0	0.0
Parkson Retail Group	3368 HK	HKD1.0	332	13.9	11.7	n.a.	40.8	0.4	0.4	1.8	2.2	4.0	6.5
Nitori Hldg Co Ltd	9843 JT	JPY9,130.0	9,201	21.8	19.9	11.4	9.5	2.9	2.6	14.0	13.9	0.7	0.8
Lawson Inc	2651 JT	JPY8,870.0	7,834	24.0	21.5	11.9	12.2	3.3	3.1	14.2	15.4	2.8	2.9
Seven & I Holdings Co Ltd	3382 JT	JPY4,486.0	35,017	21.5	18.8	6.7	14.2	1.6	1.6	8.2	8.9	1.8	1.9
Family Mart	8028 JP	JPY5,460.0	4,697	23.4	21.3	-13.6	9.7	1.8	1.7	8.4	8.5	2.0	2.0
President Chain Store Corp	2912 TT	TWD228.5	7,293	28.1	26.3	-7.0	6.8	8.4	8.1	30.7	30.5	3.0	3.1
Capitaland Limited	CAPL SP	SGD3.1	9,669	20.2	15.7	-3.2	-2.5	0.7	0.7	4.7	5.2	2.9	3.0
SM Prime Holdings Inc.	SMPH PM	PHP21.1	13,008	24.2	21.7	-11.5	11.9	2.7	2.4	11.3	11.6	1.4	1.5
Home Depot	HD US	USD126.2	159,969	20.4	17.9	12.7	13.6	29.4	40.8	140.7	267.1	2.0	2.2
Costco whole sale corp	COST US	USD148.2	65,162	27.5	24.4	-0.4	12.8	5.4	4.7	21.0	20.8	1.1	1.2
Carrefour	CA FP	EUR26.0	21,152	16.0	14.9	-9.0	8.7	1.8	1.7	12.0	12.2	2.8	3.1
Home Product Center	HMPRO TB	THB7.55	2,804	23.7	19.8	12.7	19.3	5.7	5.3	22.9	25.9	3.4	4.1
Big C Supercenter	BIGC TB	THB250.00	5,825	27.7	24.3	7.8	14.4	4.0	3.5	15.1	15.4	1.1	1.6
Beauty Community	BEAUTY TB	THB5.05	428	29.8	23.5	26.1	27.0	12.1	10.8	42.2	48.5	3.3	4.2
Karmarts	KAMART TB	THB7.10	132	24.2	21.5	12.6	12.4	6.9	7.0	28.5	32.6	4.5	5.1
Berli Jucker	BJC TB	THB37.25	1,675	32.0	19.0	-32.4	68.2	1.5	1.4	26.2	36.0	1.7	2.9
C.P. All	CPALL TB	THB47.00	11,924	26.2	22.3	17.9	17.2	8.5	7.0	39.0	37.2	1.9	2.2
Central Pattana	CPN TB	THB49.00	6,211	23.7	20.8	17.5	14.3	4.1	3.7	18.9	19.1	1.7	1.9
DSG International (Thailand)	DSGT TB	THB3.98	142	11.5	10.6	8.7	8.1	1.7	1.6	15.4	15.4	4.4	4.7
Siam Global House	GLOBAL TB	THB9.15	900	28.9	22.9	25.1	26.3	2.1	2.0	7.3	8.8	1.7	2.2
Robinson Department Store	ROBINS TB	THB41.50	1,302	19.5	16.9	9.8	15.7	2.9	2.6	16.8	17.7	2.6	3.0
Siam Future Development	SF TB	THB6.00	301	11.6	10.7	-34.9	8.6	1.1	1.1	11.1	11.4	2.5	2.5
COL	COL TB	THB35.25	319	25.7	21.0	11.9	22.1	2.1	2.0	8.5	9.8	1.6	2.4
Siam Makro	MAKRO TB	THB35.00	4,745	27.2	22.7	14.7	19.8	10.8	9.8	41.4	45.1	3.1	3.7
Simple average				30.9	29.3	1.5	15.8	5.0	5.1	22.5	28.8	2.3	2.7

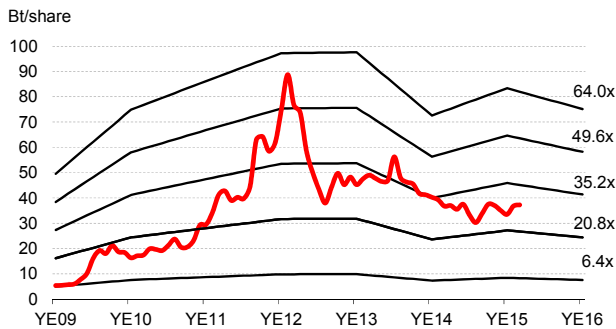
PER band versus SD (next 12 months)



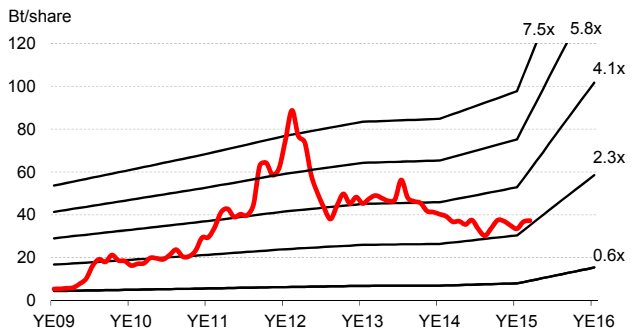
PBV band versus SD (next 12 months)



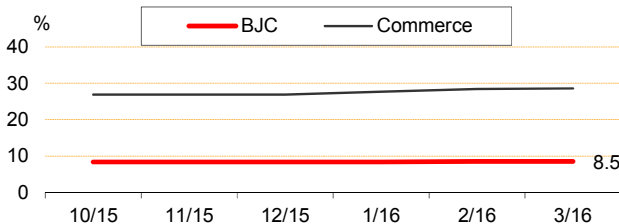
PER band and share price



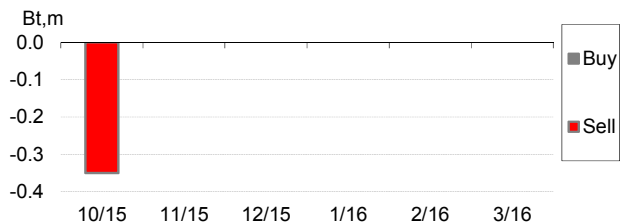
PBV band and share price



Foreign holdings



Management trading activities during past six months



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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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.