

Berli Jucker

BJC TB / BJC.BK

27 May 2016

Get BIGC and get big!

Investment thesis

We are positive on BJC's acquisition of BIGC and its cash call plan. The acquisition paves the way for BJC to become one of the largest multi-format grocers in the region, while the healthy balance sheet after the cash call will empower BJC to continue expanding. Although we have yet to factor in the benefit of synergies and the potential that BIGC will expand more aggressively next year, BJC's current valuation (FY17 PER of 20x and 28% discount to our DCF value at YE16) is attractive in our view. Note that we overlook FY16 PER as FY16 EPS may not give an accurate picture after midyear restructuring. Our BUY call stands.

Cash call comes a bit sooner than expected

BJC plans to issue 2,400m new shares by allocating 800m shares through a PP at a price no less than Bt35/share, and offering 1,600m shares plus any shares remaining after the PP to existing shareholders at a ratio of 1:1, also at Bt35/share. If the plan is approved at the shareholders' meeting on 29 June, the RO subscription will take place during 13-21 July.

After the cash call of Bt84bn, the remaining bridging loans of Bt120-130bn will be refinanced with bank loans and debentures by YE16, but it is likely that the process could be completed by end-3Q16. The bank loans should carry an interest rate of around 3.5%, while debenture coupons would average 3.0%, based on equal proportions of 3, 5, 7 and 10-year tenures. The proportion of bank loans and debentures has yet to be determined, as it will depend on market conditions, bank offerings, etc. We assume that BJC will initially issue debentures worth Bt60bn (50% of Bt120bn) and then gradually refinance the bank loans with debentures.

Balance sheet to strengthen further

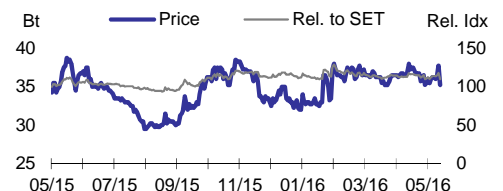
After the cash call, BJC's net gearing should come down to 1.3x from 3.9x at end March. This healthy balance sheet should empower the firm to continue expanding aggressively in the CLMV market. The next sizable acquisition is likely to be MM Mega Market (formerly Metro Vietnam). BJC plans to acquire MM once it turnarounds to profit, so a valuation can be quantified for shareholders' approval. The purchase should push net gearing to 1.5x.

Synergy target of Bt1.7bn

BJC expects the integration with BIGC to contribute a synergy value of Bt1.7bn, which will be added onto recurring EBITDA within three years. The synergies would come in eight areas (see figure 1). The areas where the effects would come the soonest and contribute the largest portion would be logistics and real estate. The firm should expand its profit margins through leveraging of existing warehouses and increasing utilization of assets (e.g. truck backhauling), while BIGC should be able to expand faster and easier given that TCC owns many prime locations in Thailand and neighboring countries.

Sector: Consumer/Retail – OVERWEIGHT
Rating: BUY
Target Price: Bt45.00
Price (26 May 2016): Bt35.25

Price chart

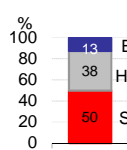


Share price perf. (%)	1M	3M	12M
Relative to SET	(0.7)	(7.8)	4.5
Absolute	(1.4)	(3.4)	(2.1)

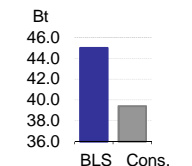
Key statistics

Market cap	Bt56.1bn	USD1.6bn
12-mth price range	Bt28.8/Bt39.5	
12-mth avg daily volume	Bt21m	USD0.6m
# of shares (m)	1,592	
Est. free float (%)	20.7	
Foreign limit (%)	49.0	

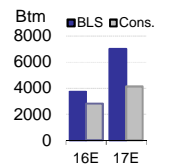
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Revenues (Btm)	42,893	142,359	176,141	184,931
Net profit (Btm)	2,792	3,713	7,016	8,104
EPS (Bt)	1.75	0.93	1.76	2.03
EPS growth (%)	+66.2%	-47.0%	+88.9%	+15.5%
Core profit (Btm)	2,075	3,741	7,016	8,104
Core EPS (Bt)	1.30	0.94	1.76	2.03
Core EPS growth (%)	+14.8%	-28.1%	+87.6%	+15.5%
PER (x)	20.6	37.9	20.1	17.4
PBV (x)	2.8	1.3	1.2	1.2
Dividend (Bt)	0.8	0.5	1.0	1.1
Dividend yield (%)	2.3	1.5	2.7	3.2
ROE (%)	17.4	6.2	6.6	7.4

CG/Anti-Corruption

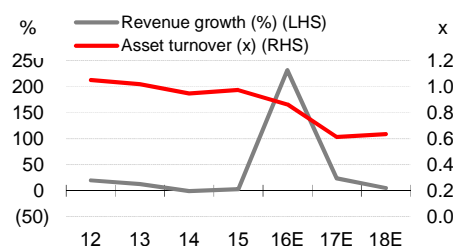


Chaiyatorn Sricharoen, CFA
 Securities Fundamental Investment Analyst
 chaiyatorn@bualuang.co.th
 +66 2 618 1344

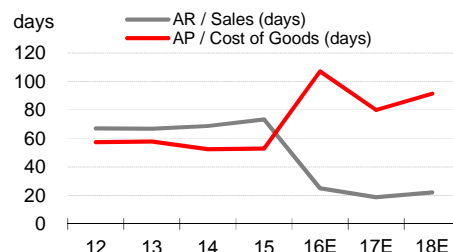
BJC: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Revenue	41,695	42,893	142,359	176,141	184,931
Cost of sales and services	(32,363)	(33,071)	(118,401)	(147,225)	(154,100)
Gross profit	9,333	9,822	23,958	28,916	30,831
SG&A	(6,883)	(7,179)	(24,736)	(30,884)	(32,492)
EBIT	3,154	3,542	11,326	14,246	15,263
Finance costs	(556)	(493)	(4,894)	(4,662)	(4,377)
Other income/exp.	704	900	12,104	16,214	16,923
EBT	2,598	3,049	6,432	9,584	10,885
Corporate tax	(398)	(400)	(1,751)	(2,125)	(2,333)
After-tax net profit (loss)	2,200	2,649	4,681	7,459	8,552
Minority interest	(367)	(661)	(1,093)	(615)	(642)
Equity earnings from affiliates	(26)	87	153	172	193
Extra items	(128)	717	(27)	0	0
Net profit (loss)	1,680	2,792	3,713	7,016	8,104
Reported EPS	1.05	1.75	0.93	1.76	2.03
Fully diluted EPS	1.04	1.72	0.92	1.74	2.01
Core net profit	1,808	2,075	3,741	7,016	8,104
Core EPS	1.14	1.30	0.94	1.76	2.03
EBITDA	5,156	5,683	16,516	20,743	22,063
KEY RATIOS					
Revenue growth (%)	(1.3)	2.9	231.9	23.7	5.0
Gross margin (%)	22.4	22.9	16.8	16.4	16.7
EBITDA margin (%)	12.4	13.2	11.6	11.8	11.9
Operating margin (%)	9.3	10.4	16.5	17.3	17.4
Net margin (%)	4.0	6.5	2.6	4.0	4.4
Core profit margin (%)	4.3	4.8	2.6	4.0	4.4
ROA (%)	3.8	6.3	2.2	2.4	2.8
ROCE (%)	4.9	8.0	2.6	2.8	3.2
Asset turnover (x)	0.9	1.0	0.9	0.6	0.6
Current ratio (x)	1.0	1.2	0.8	0.9	0.9
Gearing ratio (x)	0.9	0.7	1.3	1.2	1.1
Interest coverage (x)	5.7	7.2	2.3	3.1	3.5
BALANCE SHEET (Btm)					
Cash & Equivalent	1,123	1,130	1,284	1,294	1,417
Accounts receivable	7,856	8,627	9,742	8,996	11,215
Inventory	7,410	7,244	21,635	22,313	23,687
PP&E-net	18,042	18,589	48,593	51,411	54,053
Other assets	8,996	9,111	204,182	203,796	203,406
Total assets	43,428	44,701	285,435	287,810	293,778
Accounts payable	4,647	4,788	34,679	32,241	38,610
ST debts & current portion	10,181	7,521	16,100	11,300	7,300
Long-term debt	6,051	7,454	122,030	126,330	125,330
Other liabilities	4,532	4,187	4,217	4,249	4,282
Total liabilities	25,411	23,950	177,027	174,120	175,522
Paid-up capital	1,592	1,592	3,992	3,992	3,992
Share premium	3,952	3,952	85,552	85,552	85,552
Retained earnings	10,229	12,066	14,362	19,335	23,580
Shareholders equity	14,997	17,063	103,105	108,079	112,323
Minority interests	3,020	3,688	5,304	5,611	5,933
Total Liab.&Shareholders' equity	43,428	44,701	285,435	287,810	293,778
CASH FLOW (Btm)					
Net income	1,680	2,792	3,713	7,016	8,104
Depreciation and amortization	2,003	2,141	5,190	6,497	6,801
Change in working capital	(197)	(421)	(2,400)	(2,370)	2,776
FX, non-cash adjustment & others	911	181	5,834	5,105	4,826
Cash flows from operating activities:	4,396	4,693	12,338	16,248	22,506
Capex (Invest)/Divest	(3,240)	(1,852)	(7,846)	(9,033)	(9,147)
Others	(45)	241	(205,181)	0	0
Cash flows from investing activities	(3,284)	(1,611)	(213,027)	(9,033)	(9,147)
Debt financing (repayment)	(94)	(2,072)	118,260	(5,162)	(9,377)
Equity financing	72	63	84,000	0	0
Dividend payment	(1,329)	(1,143)	(1,417)	(2,042)	(3,859)
Others	(45)	241	(205,181)	0	0
Cash flows from financing activities	(1,352)	(3,151)	200,843	(7,204)	(13,236)
Net change in cash	(240)	(69)	154	10	123
Free cash flow (Btm)	1,156	2,841	4,492	7,215	13,359
FCF per share (Bt)	0.7	1.8	1.1	1.8	3.3
Key Assumptions	2014	2015	2016E	2017E	2018E
Packaging sales growth	-7.2%	7.4%	7.3%	5.0%	5.0%
Consumer sales growth	-1.8%	1.2%	5.8%	5.0%	5.0%
Healthcare/Technical sales growth	6.5%	-7.5%	4.7%	5.0%	5.0%

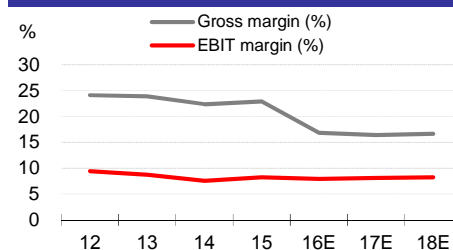
Revenue growth and asset turnover



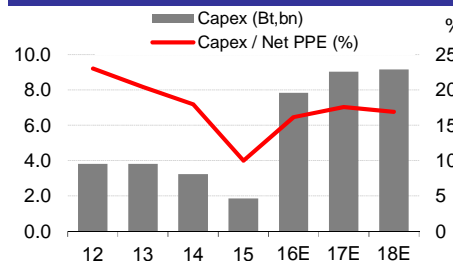
A/C receivable & A/C payable days



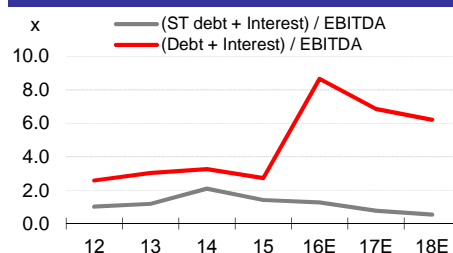
Profit margins



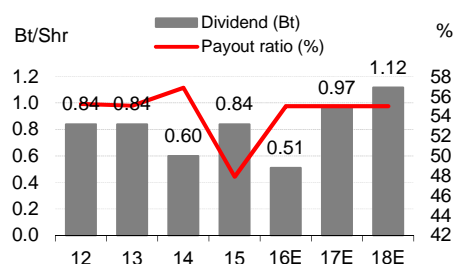
Capital expenditure



Debt serviceability



Dividend payout



BJC: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q15	2Q15	3Q15	4Q15	1Q16
Revenue	10,493	10,241	10,388	11,771	14,717
Cost of sales and services	(7,963)	(7,858)	(8,009)	(9,241)	(11,632)
Gross profit	2,530	2,383	2,379	2,530	3,085
SG&A	(1,827)	(1,811)	(1,867)	(1,674)	(2,467)
EBIT	704	572	511	855	618
Finance costs	(131)	(128)	(111)	(122)	(273)
Other income/exp.	158	164	447	130	525
EBT	730	608	848	864	869
Corporate tax	(108)	(86)	(80)	(125)	(198)
After-tax net profit (loss)	622	521	767	739	671
Minority interest	(102)	(124)	(335)	(100)	(178)
Equity earnings from affiliates	9	4	49	25	59
Extra items	0	343	344	30	(27)
Net profit (loss)	529	744	825	693	525
Reported EPS	0.33	0.47	0.52	0.44	0.33
Fully diluted EPS	0.33	0.47	0.52	0.44	0.33
Core net profit	529	401	481	663	552
Core EPS	0.33	0.25	0.30	0.42	0.35
EBITDA	1,366	1,250	1,521	1,560	1,814

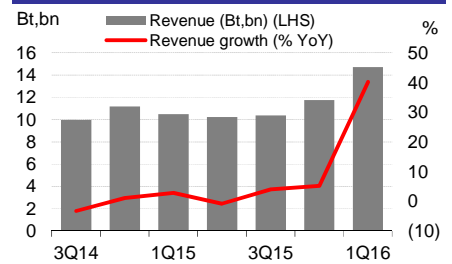
KEY RATIOS

Gross margin (%)	24.1	23.3	22.9	21.5	21.0
EBITDA margin (%)	13.0	12.2	14.6	13.3	12.3
Operating margin (%)	8.2	7.2	9.2	8.4	7.8
Net margin (%)	5.0	7.3	7.9	5.9	3.6
Core profit margin (%)	5.0	3.9	4.6	5.6	3.8
BV (Bt)	11.6	12.0	12.5	13.0	25.3
ROE (%)	13.9	18.8	20.2	16.5	12.4
ROA (%)	4.9	6.8	7.5	6.2	1.5
Current ratio (x)	1.0	0.9	1.1	1.2	0.2
Gearing ratio (x)	0.9	0.8	0.8	0.7	4.0
Interest coverage (x)	6.6	5.7	8.7	8.1	4.2

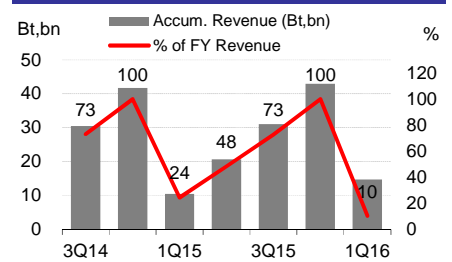
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,176	1,133	1,242	1,130	5,637
Accounts receivable	8,156	7,922	7,605	8,627	8,311
Inventory	7,261	7,321	7,421	7,244	20,162
PP&E-net	17,819	18,411	18,466	18,589	45,807
Other assets	9,070	9,021	9,453	9,111	160,959
Total assets	43,483	43,808	44,187	44,701	240,876
Accounts payable	4,362	4,316	4,442	4,788	23,653
ST debts & current portion	9,843	11,112	8,309	7,521	148,879
Long-term debt	6,081	4,527	7,133	7,454	13,339
Other liabilities	4,686	4,673	4,366	4,187	14,734
Total liabilities	24,971	24,628	24,250	23,950	200,603
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	10,758	11,105	11,373	12,066	12,591
Shareholders equity	15,549	16,100	16,577	17,063	16,927
Minority interests	2,963	3,080	3,360	3,688	23,345
Total Liab.&Shareholders' equity	43,483	43,808	44,187	44,701	240,876
Key Assumptions	1Q15	2Q15	3Q15	4Q15	1Q16
Packaging sales growth	8.2%	1.0%	14.2%	6.8%	9.2%
Consumer sales growth	1.2%	0.6%	-0.5%	3.6%	7.3%
Healthcare/Technical sales growth	-7.7%	-15.4%	-12.4%	4.6%	3.6%

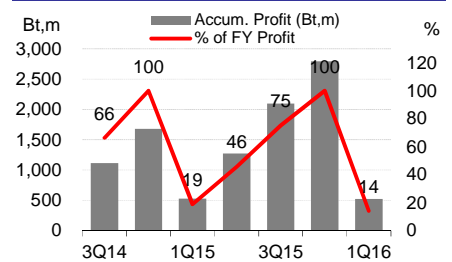
Revenue trend



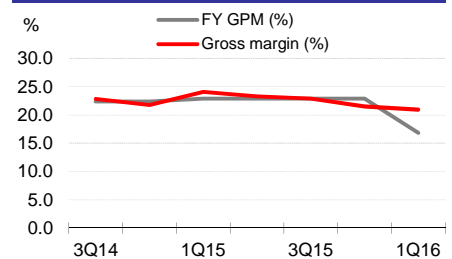
Revenue trend (accumulated)



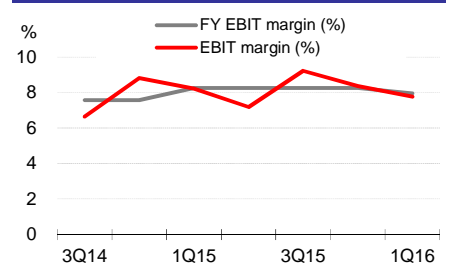
Net profit trend (accumulated)



Gross profit margin



EBIT margin



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.

Figure 1 : Eight key areas of synergies from integration

Private labels	<ul style="list-style-type: none">- BJC to produce private labels for BIGC- New product development
Logistics	<ul style="list-style-type: none">- Leverage existing warehouses across the group and increase utilization of facilities- Utilize existing transport assets within the group (e.g. truck backhauling)
Promote group products	<ul style="list-style-type: none">- Promote BJC/TCC group products at BIGC stores- Exclusive BJC products at BIGC stores
Finance & Accounting	<ul style="list-style-type: none">- Insurance premium savings- Combine financial and cash management services for economies of scale
IT	<ul style="list-style-type: none">- IT procurement- Leverage BIGC IT knowledge in BJC's other retail business units
Special projects	<ul style="list-style-type: none">- Jointly develop new business opportunities, e.g. AsiaBooks, pop-up stores, coffee corner- Create a new platform for BJC ventures within BIGC stores
Real estate	<ul style="list-style-type: none">- Large land bank for BIGC expansion
Retail operations	<ul style="list-style-type: none">- Align trade terms among group retail businesses- Leverage operations synergies across retail formats

Sources: Company data, Bualuang Research

Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Suning Appliance Co Ltd	002024 CH	CNY10.5	11,867	257.1	122.6	-65.8	109.8	2.2	2.0	0.9	1.2	0.2	0.1
Parkson Retail Group	3368 HK	HKD0.7	249	88.1	19.3	n.a.	450.0	0.3	0.3	0.3	1.9	5.7	5.2
Nitori Hldg Co Ltd	9843 JT	JPY11,160.0	11,645	23.7	21.9	10.5	8.6	3.2	2.9	14.7	14.2	0.6	0.7
Lawson Inc	2651 JT	JPY8,580.0	7,846	22.1	20.2	22.9	9.5	3.1	2.9	14.7	15.4	3.0	3.1
Seven & I Holdings Co Ltd	3382 JT	JPY4,700.0	37,986	21.3	18.8	21.2	13.1	1.7	1.6	8.5	9.0	1.9	2.1
Family Mart	8028 JP	JPY5,760.0	5,130	22.9	20.3	13.4	13.0	1.8	1.7	8.3	8.7	1.9	2.1
President Chain Store Corp	2912 TT	TWD239.5	7,672	26.9	24.7	12.3	9.1	8.5	7.8	32.3	32.5	3.1	3.3
Capitaland Limited	CAPL SP	SGD2.9	9,112	14.9	12.3	6.0	17.0	0.7	0.7	4.7	5.2	3.1	3.2
SM Prime Holdings Inc.	SMPH PM	PHP24.4	15,064	28.1	25.0	-12.3	12.5	3.1	2.9	11.4	11.7	1.1	1.2
Home Depot	HD US	USD134.1	166,759	21.3	18.8	14.9	13.3	29.4	44.5	131.4	230.2	1.9	2.2
Costco whole sale corp	COST US	USD149.7	65,728	28.1	24.9	-1.5	13.0	5.6	4.8	20.8	20.8	1.1	1.2
Carrefour	CA FP	EUR24.5	20,224	14.7	13.2	22.6	11.2	1.7	1.6	11.8	12.4	3.1	3.4
Home Product Center	HMPRO TB	THB8.65	3,197	26.4	22.0	15.7	19.8	6.5	6.0	23.5	26.6	3.1	3.7
Big C Supercenter	BIGC TB	THB210.00	4,869	23.5	20.4	6.8	15.3	3.3	3.0	15.0	15.4	1.3	2.0
Beauty Community	BEAUTY TB	THB6.00	506	30.3	23.4	47.6	29.2	13.4	11.8	47.7	53.6	3.3	4.2
Berli Jucker	BJC TB	THB35.25	1,577	38.2	20.2	-46.4	88.9	1.3	1.2	6.2	6.6	1.5	2.7
C.P. All	CPALL TB	THB47.75	12,056	26.5	22.7	18.5	16.6	8.6	7.1	39.2	37.2	1.9	2.2
Central Pattana	CPN TB	THB54.50	6,875	25.9	22.1	19.7	17.2	4.6	4.0	19.2	19.8	1.5	1.8
DSG International (Thailand)	DSGT TB	THB3.48	123	10.0	9.3	8.7	8.1	1.5	1.4	15.4	15.4	5.0	5.4
Siam Global House	GLOBAL TB	THB12.10	1,244	34.1	29.3	47.3	16.6	2.8	2.6	8.4	9.2	1.2	1.4
The Platinum Group	PLAT TB	THB6.50	512	25.6	24.5	12.8	4.8	2.1	2.1	8.5	8.7	2.7	2.9
Robinson Department Store	ROBINS TB	THB57.00	1,779	24.8	21.3	18.4	16.7	3.9	3.5	18.0	18.9	2.0	2.4
Siam Future Development	SF TB	THB6.00	300	11.6	10.7	-34.9	8.6	1.1	1.1	11.1	11.4	2.5	2.5
COL	COL TB	THB33.50	301	24.4	20.0	11.9	22.1	2.0	1.9	8.5	9.8	1.6	2.5
Siam Makro	MAKRO TB	THB32.75	4,418	27.8	23.5	5.3	18.3	10.3	9.4	38.4	41.8	3.1	3.7
Simple average				35.9	24.4	7.3	38.5	4.9	5.1	20.8	25.5	2.3	2.6

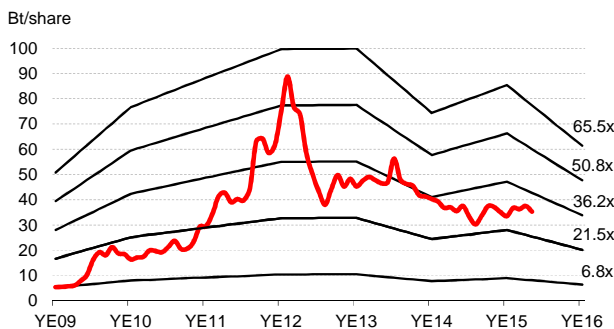
PER band versus SD (next 12 months)



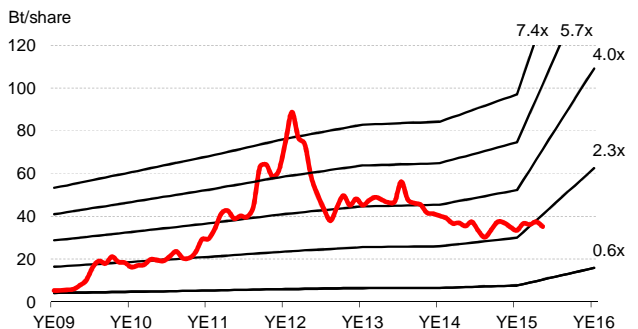
PBV band versus SD (next 12 months)



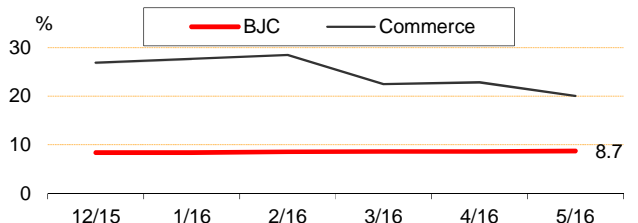
PER band and share price



PBV band and share price



Foreign holdings



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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.