

Berli Jucker

BJC TB / BJC.BK

17 June 2016

The third-largest grocer in ASEAN eyes first place; earnings upgraded

Investment thesis

With the acquisition of BIGC, BJC is now the third-largest grocer in ASEAN and one of only a few retailers in the region that have a multi-format portfolio with integrated e-commerce. But an ambitious plan to expand the retail business in Thailand and the CLMV countries, as well as the potential acquisition of MM Mega Market (formerly Metro Vietnam), may allow the firm to step up to first place. We have raised our YE16 target price to Bt46.5 from Bt45 following an earnings upgrade related to BIGC's expansion plans. Our BUY rating stands.

BIGC gets approval for aggressive expansion plan

As expected, with a green light from BJC, BIGC is set to move more aggressively on expansion. It plans to roll out ten hypermarkets, ten BigC Markets and 200 Mini BigC stores in FY17, up from six hypermarkets, three BigC Markets and 70 Mini BigC this year. The target for Mini BigCs may be too ambitious, so we assume 100 per year from FY17. We assume 10 BigC Markets a year from FY17 onward, while for hypermarkets, we use the target of 10 in FY17 and assume five per year after that. In light of these accelerated expansion plans, our estimates of BJC's FY17-19 earnings have been upgraded by 2%, 4% and 5%, respectively.

Perfect vertical integration

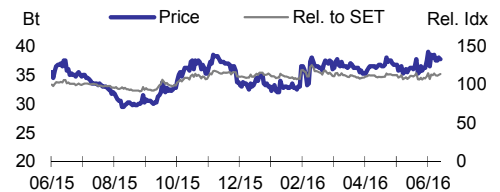
We view BJC's acquisition of BIGC as providing perfect vertical integration between the manufacturer and mid-stream distributor (BJC), and the downstream distributor (BIGC). Targeted synergies of Bt1.7bn, to be added to recurring EBITDA within three years, would come from the leverage BIGC's strong retail platform will provide BJC's products, production capacities and property assets. For example, BJC expects to increase its penetration in BIGC's private label portfolio, and to build sales of its products through all BIGC outlets including Pure drug stores. Cost savings from integrating logistics operations and cross-utilization of IT and back office infrastructure should also be massive. Moreover, we expect BIGC's expertise in retail operations to help to improve the performances of BJC's small retail chains, such as B's Mart in Vietnam and M-Point Mart in Laos.

Upside ahead

These synergies should play a major role in pushing upgrades of BJC's earnings from 2H16 through FY18, as it seems that the street has yet to factor the synergistic benefits into the model. It is still hard to quantify how much of the potential value of synergies will be reaped this year and how fast it will ramp up. The street is mostly likely to prefer waiting for clear signs of the benefits before upgrading the forecasts, but we expect to see upgrading flows in the short to medium term.

Sector: Consumer/Retail – OVERWEIGHT
Rating: BUY
Target Price: Bt46.50
Price (16 June 2016): Bt37.75

Price chart

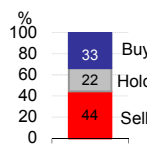


Share price perf. (%)	1M	3M	12M
Relative to SET	0.3	0.5	12.8
Absolute	0.7	2.7	6.3

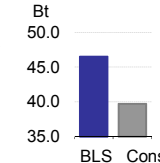
Key statistics

Market cap	Bt60.1bn	USD1.7bn
12-mth price range	Bt28.8/Bt40.0	
12-mth avg daily volume	Bt28m	USD0.8m
# of shares (m)	1,592	
Est. free float (%)	20.7	
Foreign limit (%)	49.0	

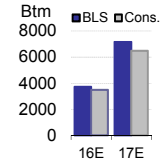
Consensus rating



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	178,320	189,638
Net profit (Btm)	2,792	3,713	7,163	8,428
EPS (Bt)	1.75	0.93	1.79	2.11
EPS growth (%)	+66.2%	-47.0%	+92.9%	+17.7%
Core profit (Btm)	2,075	3,741	7,163	8,428
Core EPS (Bt)	1.30	0.94	1.79	2.11
Core EPS growth (%)	+14.8%	-28.1%	+91.5%	+17.7%
PER (x)	20.6	40.6	21.0	17.9
PBV (x)	2.8	1.4	1.3	1.3
Dividend (Bt)	0.8	0.5	1.0	1.2
Dividend yield (%)	2.3	1.4	2.6	3.1
ROE (%)	17.4	6.2	6.8	7.6

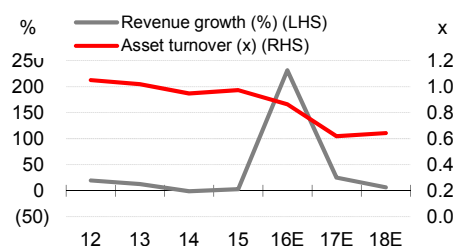
CG/Anti-Corruption


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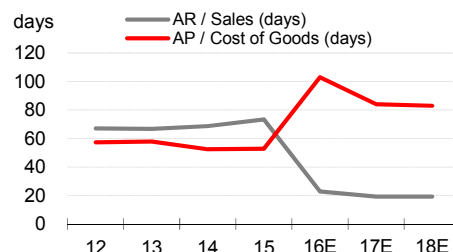
BJC: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Revenue	41,695	42,893	142,359	178,320	189,638
Cost of sales and services	(32,363)	(33,071)	(118,401)	(149,085)	(158,091)
Gross profit	9,333	9,822	23,958	29,234	31,547
SG&A	(6,883)	(7,179)	(24,736)	(31,236)	(33,264)
EBIT	3,154	3,542	11,326	14,459	15,805
Finance costs	(556)	(493)	(4,894)	(4,690)	(4,496)
Other income/exp.	704	900	12,104	16,461	17,522
EBT	2,598	3,049	6,432	9,769	11,309
Corporate tax	(398)	(400)	(1,751)	(2,160)	(2,425)
After-tax net profit (loss)	2,200	2,649	4,681	7,609	8,884
Minority interest	(367)	(661)	(1,093)	(618)	(650)
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	7,163	8,428
Reported EPS	1.05	1.75	0.93	1.79	2.11
Fully diluted EPS	1.04	1.72	0.92	1.78	2.10
Core net profit	1,808	2,075	3,741	7,163	8,428
Core EPS	1.14	1.30	0.94	1.79	2.11
EBITDA	5,156	5,683	16,515	21,037	22,789
KEY RATIOS					
Revenue growth (%)	(1.3)	2.9	231.9	25.3	6.3
Gross margin (%)	22.4	22.9	16.8	16.4	16.6
EBITDA margin (%)	12.4	13.2	11.6	11.8	12.0
Operating margin (%)	9.3	10.4	16.5	17.3	17.6
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	2.3	2.5	2.9
ROCE (%)	4.9	8.0	2.6	2.9	3.3
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	1.2
Interest coverage (x)	5.7	7.2	2.3	3.1	3.5
BALANCE SHEET (Btm)					
Cash & Equivalent	1,123	1,130	1,363	1,279	1,326
Accounts receivable	7,856	8,627	8,895	9,395	9,956
Inventory	7,410	7,244	21,635	22,868	24,323
PP&E-net	18,042	18,589	48,487	55,340	58,859
Other assets	8,996	9,111	203,783	203,395	203,002
Total assets	43,428	44,701	284,162	292,277	297,466
Accounts payable	4,647	4,788	33,406	34,360	35,903
ST debts & current portion	10,181	7,521	16,100	11,500	9,800
Long-term debt	6,051	7,454	122,030	128,330	128,830
Other liabilities	4,532	4,187	4,217	4,249	4,282
Total liabilities	25,411	23,950	175,754	178,439	178,815
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	19,482	23,970
Shareholders equity	14,997	17,063	103,105	108,225	112,713
Minority interests	3,020	3,688	5,304	5,613	5,938
Total Liab.&Shareholders' equity	43,428	44,701	284,162	292,277	297,466
CASH FLOW (Btm)					
Net income	1,680	2,792	3,713	7,163	8,428
Depreciation and amortization	2,003	2,141	5,189	6,578	6,984
Change in working capital	(197)	(421)	(2,400)	(780)	(473)
FX, non-cash adjustment & others	911	181	5,834	5,136	4,953
Cash flows from operating activities:	4,396	4,693	12,336	18,096	19,891
Capex (Invest)/Divest	(3,240)	(1,852)	(7,765)	(13,149)	(10,209)
Others	(45)	241	(205,181)	0	0
Cash flows from investing activities	(3,284)	(1,611)	(212,946)	(13,149)	(10,209)
Debt financing (repayment)	(94)	(2,072)	118,260	(2,990)	(5,696)
Equity financing	72	63	84,000	0	0
Dividend payment	(1,329)	(1,143)	(1,417)	(2,042)	(3,939)
Others	(45)	241	(205,181)	0	0
Cash flows from financing activities	(1,352)	(3,151)	200,843	(5,032)	(9,636)
Net change in cash	(240)	(69)	233	(84)	47
Free cash flow (Btm)	1,156	2,841	4,571	4,947	9,682
FCF per share (Bt)	0.7	1.8	1.1	1.2	2.4
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%

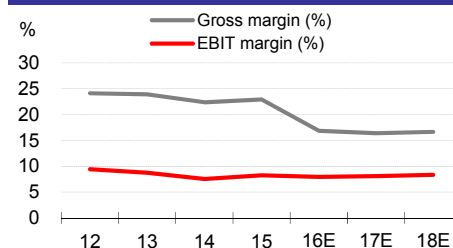
Revenue growth and asset turnover



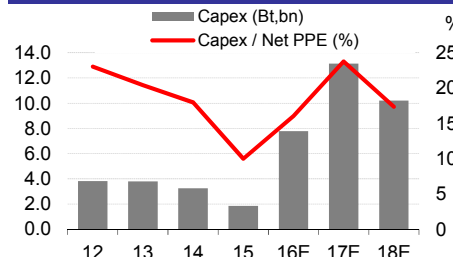
A/C receivable & A/C payable days



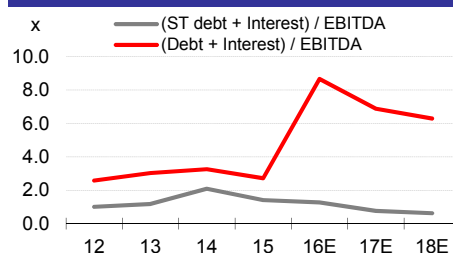
Profit margins



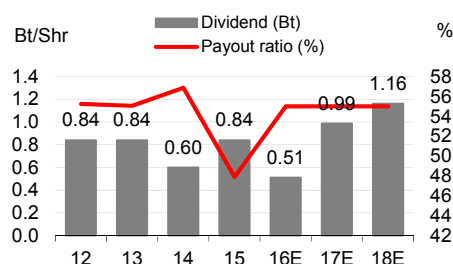
Capital expenditure



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

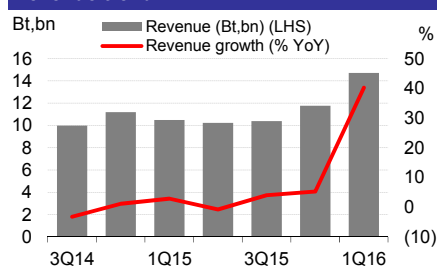
QUARTERLY BALANCE SHEET (Btm)

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%

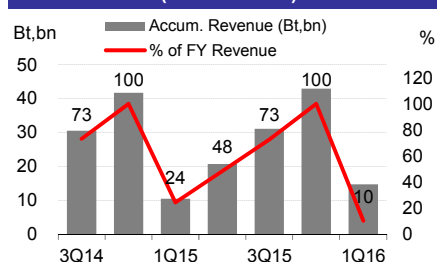
Company profile

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.

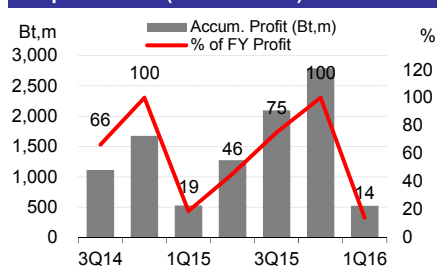
Revenue trend



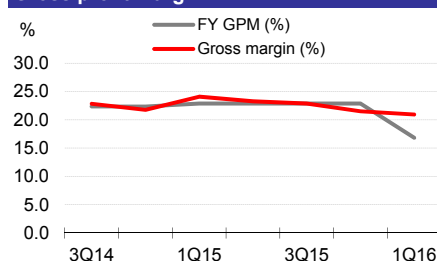
Revenue trend (accumulated)



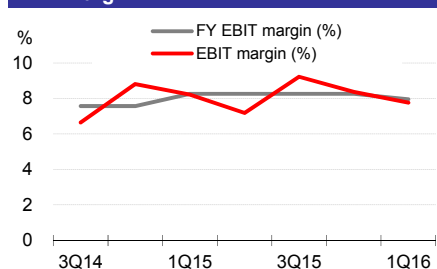
Net profit trend (accumulated)



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	CNY10.9	15,434	254.0	125.5	-64.2	102.3	2.2	2.0	0.9	1.3	0.2	0.1
Parkson Retail Group	3368 HK	HKD0.7	236	83.7	18.3	n.a.	450.0	0.3	0.3	0.3	1.9	6.0	5.5
Nitori Hldg Co Ltd	9843 JT	JPY11,130.0	12,203	23.6	21.6	10.9	9.4	3.2	2.9	14.7	14.2	0.6	0.7
Lawson Inc	2651 JT	JPY8,360.0	8,033	21.6	19.8	21.7	9.5	3.0	2.8	14.6	15.3	3.0	3.1
Seven & I Holdings Co Ltd	3382 JT	JPY4,295.0	36,475	19.5	17.2	19.9	13.2	1.5	1.4	8.5	8.9	2.1	2.3
Family Mart	8028 JP	JPY5,630.0	5,269	22.5	19.8	12.9	13.3	1.8	1.7	8.3	8.7	2.0	2.1
President Chain Store Corp	2912 TT	TWD240.0	7,699	27.0	24.8	12.0	9.0	8.5	7.9	32.4	32.6	3.1	3.2
Capitaland Limited	CAPL SP	SGD3.0	9,299	19.3	12.9	8.0	14.8	0.7	0.7	4.5	4.9	3.1	3.2
SM Prime Holdings Inc.	SMPH PM	PHP25.4	15,794	29.4	26.1	-12.6	13.3	3.3	3.0	11.4	11.8	1.1	1.1
Home Depot	HD US	USD127.4	158,437	20.2	17.8	14.9	13.4	28.3	43.2	138.9	236.3	2.2	2.5
Costco whole sale corp	COST US	USD156.4	68,522	29.5	26.1	-1.9	12.9	5.8	5.0	20.4	20.2	1.1	1.2
Carrefour	CA FP	EUR22.1	18,337	13.3	11.8	23.0	11.7	1.5	1.4	11.7	12.3	3.4	3.8
Home Product Center	HMPRO TB	THB9.10	3,388	27.4	22.8	17.2	20.2	6.8	6.3	23.7	26.9	3.0	3.6
Big C Supercenter	BIGC TB	THB209.00	4,881	23.4	20.3	6.8	15.3	3.3	3.0	15.0	15.4	1.3	2.0
Beauty Community	BEAUTY TB	THB7.20	611	35.1	27.1	52.8	29.7	15.8	13.9	49.0	54.7	2.8	3.7
Berli Jucker	BJC TB	THB37.75	3,412	40.9	21.2	-46.4	92.9	1.4	1.3	6.2	6.8	1.4	2.6
C.P. All	CPALL TB	THB48.00	12,207	25.7	21.8	22.7	17.7	8.6	7.0	40.3	38.1	1.9	2.2
Central Pattana	CPN TB	THB56.00	7,115	26.5	22.3	20.5	18.4	4.7	4.1	19.3	20.1	1.5	1.8
DSG International (Thailand)	DSGT TB	THB3.36	120	9.7	9.0	8.7	8.1	1.4	1.3	15.4	15.4	5.2	5.6
Siam Global House	GLOBAL TB	THB12.70	1,315	33.9	29.2	55.7	16.2	2.9	2.7	8.9	9.7	1.2	1.4
The Platinum Group	PLAT TB	THB6.50	515	25.7	23.9	12.5	7.4	2.1	2.1	8.5	8.8	2.7	2.9
Robinson Department Store	ROBINS TB	THB63.00	1,981	26.9	22.9	21.0	17.3	4.3	3.9	18.3	19.3	1.9	2.2
Siam Future Development	SF TB	THB5.85	294	11.3	10.4	-34.9	8.6	1.1	1.1	11.1	11.4	2.6	2.6
COL	COL TB	THB35.00	317	25.5	20.9	11.9	22.1	2.1	2.0	8.5	9.8	1.6	2.4
Siam Makro	MAKRO TB	THB33.00	4,484	30.3	25.0	-2.8	21.1	10.6	9.9	36.0	41.1	3.0	3.6
Simple average				36.2	24.7	7.9	38.7	5.0	5.2	21.1	25.8	2.3	2.6

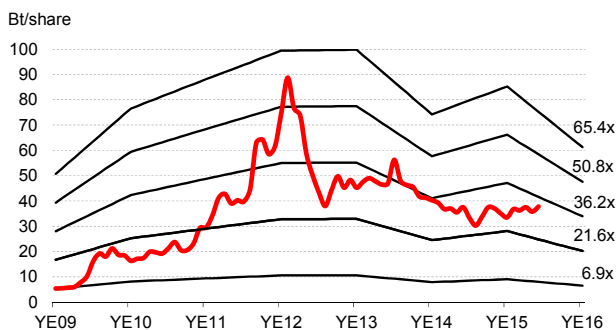
PER band versus SD (next 12 months)



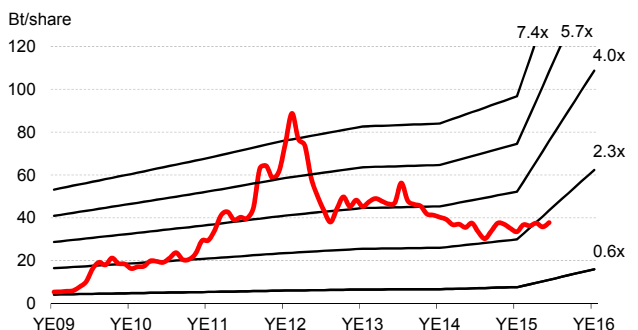
PBV band versus SD (next 12 months)



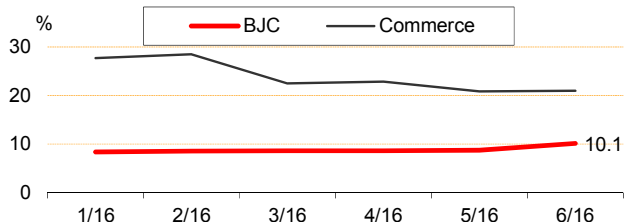
PER band and share price



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.