

United Breweries

22 May 2019

Reuters: UBBW.BO; Bloomberg: UBBL IN

Cost Challenges Surpass Expectations

United Breweries' (UBBL) top-line growth in 4QFY19 was 11%, which was largely in line with our expectation. Net sales growth at 11% was driven by a healthy volume growth of 13%. State mix has deteriorated to some extent causing pricing to decline by 2%. Although cost challenges relating to glass and barley have exceeded expectations, we have observed in the past that these tend to be cyclical in nature and we expect them to moderate in the second-half of the year. Marketing expenses also have remained on the higher side following the launch of Radler last quarter. EBITDA and net earnings experienced a decline of 18% and 25% YoY, respectively, because of cost challenges witnessed in 4QFY19 but given that the top-line growth trajectory is intact and that these costs are expected to moderate, we believe the company will remain on track to deliver healthy operating margin and earnings growth in FY20-21. Further, the launch of craft beer in 1QFY20 and scaling up of non-alcohol beverage business will provide enough headroom for the growth of top-line along with aiding premiumisation. We believe these cost-related headwinds will begin subsiding in the second-half of the year and the company remains well positioned to deliver above industry earnings growth. We have retained Buy rating on UBL with a target price of Rs1,640 (from Rs1,620 earlier) based on a P/E multiple of 48x after a slight revision in our earnings estimates.

Delivers above-category growth: UBL posted a top-line growth of 11%, which was largely in line with our expectation supported by underlying volume growth of nearly 13% YoY. Jharkhand and the rest of Maharashtra contributed to improved growth rate whereas demand continued to remain healthy in most other South India markets, Rajasthan, Haryana and Odisha. Although the volume grew at a healthy rate, some deterioration in the state mix was observed in the current quarter.

Cost headwinds surface: Cost challenges relating to barley and glass surpassed expectations and caused operating earnings and net earnings to decline by 18% and 25%, respectively. We expect these costs to normalise in the next few months, given their cyclical nature. Marketing and other expenses are expected to remain on the higher side post launch of craft beer and further promotion of the non-alcoholic portfolio.

Valuation and recommendation: We continue to maintain our Buy rating on UBL considering that alcoholic beverages (essentially beer) will be among the fast-growing segment in the consumption space. After a slight revision to our earnings estimates for FY20 and FY21, we have retained Buy rating on UBL with a target price of Rs1,640 (from Rs1,620 earlier) based on a P/E multiple of 48x, implying an upside of 15% from the current market price.

BUY

Sector: Beverage

CMP: Rs1,426

Target Price: Rs1,640

Upside: 15%

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Key Data

Current Shares O/S (mn)	264.4
Mkt Cap (Rsbn/US\$bn)	377.1/5.4
52 Wk H / L (Rs)	1,494/1,030
Daily Vol. (3M NSE Avg.)	728,589

Price Performance (%)

	1 M	6 M	1 Yr
United Breweries	0.5	9.6	21.5
Nifty Index	1.0	11.2	11.1

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net sales	14,693	14,512	16,294	10.9	12.3	56,170	64,724	15.2
COGS	6,931	6,773	8,064	16.4	19.1	26,412	30,174	14.2
% of sales	47.2	46.7	49.5	2.3	2.8	47.0	46.6	(0.4)
Gross margin %	52.8	53.3	50.5	(2.3)	(2.8)	53.0	53.4	0.4
Employee costs	1,097	1,109	1,235	12.6	11.4	3,946	4,439	12.5
% of sales	7.5	7.6	7.6	0.1	(0.1)	7.0	6.9	(0.2)
Other expenses	4,583	4,152	5,283	15.3	27.2	16,801	18,734	11.5
% of sales	31.2	28.6	32.4	1.2	3.8	29.9	28.9	(1.0)
EBITDA	2,082	2,479	1,712	(17.8)	(30.9)	9,011	11,377	26.3
EBITDA margin %	14.2	17.1	10.5	(370bps)	(660bps)	16.0	17.6	150bps
Depreciation	648	665	639	(1.3)	(4.0)	2,596	2,598	0.1
EBIT	1,435	1,813	1,073	(25.2)	(40.8)	6,415	8,779	36.9
EBIT margin %	9.8	12.5	6.6	(320bps)	(590bps)	11.4	13.6	210bps
Interest expenses	114	62	118	3.3	90.0	477	312	(34.5)
Other income	48	21	106	123.6	405.7	130	317	144.2
Exceptional items	-	-	-					
PBT	1,368	1,772	1,062	(22.4)	(40.1)	6,068	8,784	44.8
Tax	459	681	383	(16.7)	(43.8)	2,128	3,157	48.3
Effective tax rate %	33.6	38.4	36.0	250bps	(240bps)	35.1	35.9	90bps
PAT	909	1,092	679	(25.3)	(37.8)	3,940	5,627	42.8
PAT margin %	6.2	7.5	4.1	(200bps)	(340bps)	7.0	8.7	170bps
EPS	3.4	4.1	2.6	(25.3)	(37.8)	14.9	21.3	42.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	47,359	56,170	64,724	73,670	82,740
YoY growth (%)	(2.1)	18.6	15.2	13.8	12.3
EBITDA	6,412	9,011	11,377	14,328	16,488
EBITDA margin (%)	13.5	16.0	17.6	19.4	19.9
Reported PAT	2,293	3,940	5,627	7,272	9,017
EPS	8.7	14.9	21.3	27.5	34.1
RoCE (%)	12.1	21.2	26.6	30.3	30.1
RoE (%)	10.2	15.7	19.2	20.9	21.9
P/E (x)	88.9	63.6	66.2	51.2	41.3
P/BV (x)	8.7	9.3	11.7	9.9	8.3
EV/EBITDA (x)	32.7	28.3	32.9	26.0	22.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actual performance

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	NBIE estimates	Deviation (%)
Net sales	14,693	14,512	16,294	10.9	12.3	16,631	(2.0)
EBITDA	2,082	2,479	1,712	(17.8)	(30.9)	2,545	(32.7)
EBITDA margin (%)	14.2	17.1	10.5	(370bps)	(660bps)	15.3	(4.8)
PAT	909	1,092	679	(25.3)	(37.8)	1,192	(43.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Old estimates		New estimates		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	74,247.8	82,666.4	73,670.3	82,739.9	(80bps)	10bps
EBITDA	14,411.9	16,439.4	14,328.1	16,488.4	(60bps)	30bps
EBITDA margin (%)	19.4	19.9	19.4	19.9	-	20bps
Adj. PAT	7,521.6	8,881.9	7,272.5	9,017.4	(330bps)	150bps

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	47,359	56,170	64,724	73,670	82,740
% Growth	(2.1)	18.6	15.2	13.8	12.3
COGS	21,960	26,412	30,174	33,849	37,663
Staff costs	3,521	3,946	4,439	4,841	5,375
Other expenses	15,467	16,801	18,734	20,653	23,214
Total expenses	40,947	47,159	53,347	59,342	66,252
EBITDA	6,412	9,011	11,377	14,328	16,488
% growth	(7.3)	40.5	26.3	25.9	15.1
EBITDA margin (%)	13.5	16.0	17.6	19.4	19.9
Other income	516	130	317	54	709
Interest costs	587	477	312	266	231
Depreciation	2,870	2,596	2,598	2,840	3,007
Exceptional items	-	-	-	-	-
Profit before tax (before exceptional items)	3,472	6,068	8,784	11,277	13,959
Tax	1,178	2,128	3,157	4,004	4,942
PAT	2,293	3,940	5,627	7,272	9,017
Adj. PAT	2,293	3,940	5,627	7,272	9,017
Adj. PAT margin (%)	4.8	7.0	8.7	9.9	10.8
% Growth	(23.0)	71.8	42.8	29.2	24.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	264	264	264	264	264
Reserves	23,061	26,620	31,555	37,354	44,590
Net worth	23,325	26,885	31,819	37,619	44,854
Total debt	5,940	4,478	2,714	3,800	3,300
Deferred tax liability	470	183	115	183	183
Total liabilities	44,740	47,191	53,786	57,921	65,764
Gross block	36,490	38,881	41,381	43,381	46,381
Depreciation	19,235	21,831	24,429	27,268	30,275
Net block	17,256	17,051	17,522	16,113	16,106
Capital work-in-progress	1,372	723	1,899	1,500	2,000
Investments	255	255	257	255	255
Inventories	7,501	8,064	10,308	9,723	12,565
Debtors	12,954	14,984	15,100	18,808	18,821
Cash	216	202	451	3,222	5,917
Loans & advances	4513	1715	2339	3000	3800
Other current assets	577	3009	4131	3500	4000
Total current assets	23,616	26,362	29,997	35,753	42,103
Creditors	4,599	5,227	5,899	6,713	7,321
Other current liabilities & provisions	12,309	12,218	15,027	11,300	11,800
Total current liabilities	19,027	17,973	20,986	18,513	19,621
Net current assets	4,589	8,389	9,011	17,240	22,483
Total assets	44,740	47,191	53,786	57,921	65,764

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
PAT	2,293	3,940	5,627	7,272	9,017
Depreciation	2,870	2,596	2,598	2,840	3,007
Other income	(516)	(130)	(317)	(54)	(709)
(Inc./dec.) in working capital	(2,219)	(2,055)	1,121	(6,037)	(1,747)
Cash flow from operations	2,428	4,351	9,029	4,021	9,568
Capital expenditure (-)	(2,915)	(1,742)	(4,246)	(1,032)	(3,500)
Net cash after capex	(487)	2,609	4,783	2,990	6,068
Dividends paid (-)	(304)	(304)	(540)	(873)	(1,082)
Inc./(dec.) in total borrowings	(2,122)	(1,462)	(1,764)	1,086	(500)
Inc./(dec.) in investments and other assets	1,934	(596)	(2,019)	3	(1,091)
Cash from investing and financial activities	(3,579)	(4,370)	(8,626)	(751)	(6,173)
Others	1,252	5	(500)	(500)	(700)
Opening cash balance	115	216	202	451	3,222
Closing cash balance	216	202	451	3,222	5,917
Change in cash balance	101	(14)	250	2,771	2,695

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

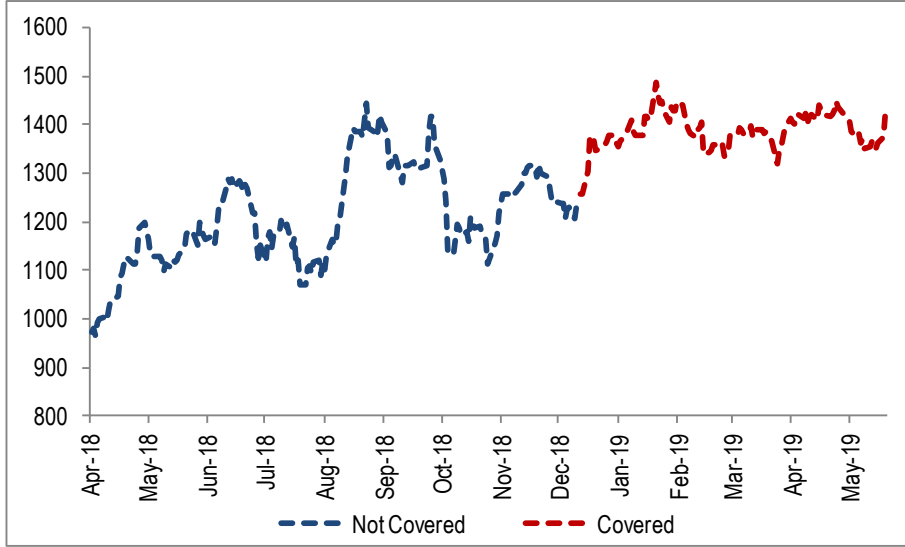
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	8.7	14.9	21.3	27.5	34.1
Book value	88.2	101.7	120.3	142.3	169.6
Valuation (x)					
P/Sales	4.3	4.5	5.8	5.1	4.5
EV/sales	4.4	4.5	5.8	5.1	4.5
EV/EBITDA	32.7	28.3	32.9	26.0	22.4
P/E	88.9	63.6	66.2	51.2	41.3
P/BV	8.7	9.3	11.7	9.9	8.3
Return ratios (%)					
RoCE	12.1	21.2	26.6	30.3	30.1
RoE	10.2	15.7	19.2	20.9	21.9
Profitability ratios (%)					
Gross margin	53.6	53.0	53.4	54.1	54.5
EBITDA margin	13.5	16.0	17.6	19.4	19.9
Adj PAT margin	4.8	7.0	8.7	9.9	10.8
Liquidity ratios (%)					
Current ratio	1.2	1.5	1.4	1.9	2.1
Quick ratio	0.8	1.0	0.9	1.4	1.5
Solvency ratio (%)					
Debt-to-equity ratio	0.3	0.2	0.1	0.1	0.1
Turnover ratios					
Total asset turnover (x)	1.1	1.2	1.2	1.3	1.3
Fixed asset turnover (x)	2.7	3.3	3.7	4.6	5.1
Debtor days	93.0	90.8	85.0	84.0	83.0
Inventory days	119.5	107.6	108.0	108.0	108.0
Creditor days	73	68	70	68	68

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 December 2018	Buy	1,237	1,525
18 February 2019	Buy	1,338	1,590
9 April 2019	Buy	1,409	1,620
22 May 2019	Buy	1,426	1,640

Rating chart



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5 to 15%

SELL < -5%

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