

United Breweries

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The best of the season

- United Breweries (UBL) reported a solid performance, with Sales, EBITDA and PAT being ahead of our expectations by 9-25%. Revenue grew by 32%, driven by 24% volume growth.
- UBL reported 9th consecutive quarter of market share gain with growth being ahead of industry growth (industry grew 22%). Volume growth was driven by strong recovery on low comparables and restocking in Maharashtra.
- Margin expansion continues to be healthy – 260bps expansion in FY18, led by operating leverage and cost savings. Volume recovery in high-margin markets and benign competitive environment to support further margin upside.
- Improving volume growth trends, easing competition and benign input cost environment place UBL favorably to gain share and deliver strong earnings growth. Maintain ACCUMULATE with TP of Rs1,350.

- Volume grows by 24%; 9th consecutive quarter of market share gain:** UBL's revenue grew by 32%, 9% ahead of our expectation. The outperformance was driven by strong volume growth of 24%. The recovery in volume was on the back of a low base (decline of 9% in Q4FY17 impacted by highway ban) and was further aided by restocking in Maharashtra (where supply was discontinued in Q3FY18). UBL has gained market share for 9 consecutive quarters and we expect share gains to continue, led by its strong franchise and continuing distribution issues faced by its competitor - SAB Miller.
- Margins expand 260bps in FY18; can see further upside:** Gross margin improved by 150bps due to cost savings and higher capacity utilization. EBITDA grew by 106%, 13% ahead of our expectation. EBITDA margin expanded by 510bps due to lower-than-expected overheads. We believe that margin was also aided by positive state mix. Lower depreciation and interest burden led to APAT of Rs909mn, 25% ahead of our expectation. We expect UBL's margin to expand by 170bps over FY18-20E on the back of higher capacity utilisation.
- ROCE improves to 22%:** Driven by strong margin expansion, ROCE improved from 13.5% in FY17 to 21.9% in FY18. We expect it to improve further to 28% by FY20E on the back of incremental margin improvement. Debt has also reduced, resulting in 29% decline in interest cost.
- Improved volume and earnings outlook; Maintain ACCUMULATE:** Following Q4FY18 results, we have raised our FY19-21 earnings by 5-7%. We forecast UBL to report 10% volume CAGR and revenue/earnings CAGR of 15%/28% over FY19-21. We maintain our ACCUMULATE stance with a Target Price (TP) of Rs1,350, valuing it at 25x June'20E EV/EBITDA.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	47,341	56,174	64,701	74,487	85,770
EBITDA	6,412	9,028	11,082	13,170	15,538
EBITDA Margin (%)	13.5	16.1	17.1	17.7	18.1
APAT	2,293	4,057	5,389	6,739	8,276
EPS (Rs)	8.7	15.3	20.4	25.5	31.3
EPS (% chg)	(23.0)	76.9	32.8	25.0	22.8
ROE (%)	10.2	16.1	18.3	19.2	19.7
P/E (x)	136.8	77.3	58.2	46.5	37.9
EV/EBITDA (x)	49.8	35.0	28.0	23.2	19.3
P/BV (x)	13.4	11.6	9.8	8.2	6.9

Source: Company, Emkay Research

CMP	Target Price
Rs 1,186	Rs 1,350 (■)
as of (May 25, 2018)	12 months
Rating	Upside
ACCUMULATE (■)	13.8 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	7/7
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	ACCUMULATE

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	20.4	25.5
Consensus	17.6	23.5
Mean Consensus TP (12M)	Rs 1,164	

Stock Details

Bloomberg Code	UBBL IN
Face Value (Rs)	1
Shares outstanding (mn)	264
52 Week H/L	1,270 / 770
M Cap (Rs bn/USD bn)	314 / 4.63
Daily Avg Volume (nos.)	373,515
Daily Avg Turnover (US\$ mn)	5.8

Shareholding Pattern Mar '18

Promoters	73.4%
FIIIs	16.8%
DIIIs	3.8%
Public and Others	6.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	10	9	52
Rel. to Nifty	6	9	7	36

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	14,693	13,459	13,281	9.2%	10.6%	Volume growth of 24% led to higher revenue growth
EBITDA	2,082	1,844	1,789	12.9%	16.4%	Margins expand on cost saving and higher capacity utilization
EBITDA Margin (%)	14.2%	13.7%	13.5%	47	70	
APAT	909	728	664	24.8%	36.9%	Lower depreciation and interest charges led to PAT growth

Source: Company, Emkay Research

Exhibit 2: Revision in earnings estimates

Y/E, Mar (Rs. mn)	FY19E			FY20E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	62,833	64,701	3.0	72,332	74,487	3.0
EBITDA	10,834	11,082	2.3	12,834	13,170	2.6
EBITDA Margin (%)	17.2	17.1	-10 bps	17.7	17.7	-10 bps
APAT	5,031	5,389	7.1	6,291	6,739	7.1
EPS	19.0	20.4	7.1	23.8	25.5	7.1

Source: Company, Emkay Research

Exhibit 3: Quarterly Performance (Standalone)

Y/E, Mar (Rs. m)	Q4FY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	Gr (%)
Revenue	11,127	11,971	14,693	32.0	22.7	47,341	56,170	18.6
Expenditure	10,116	10,445	12,611	24.7	20.7	40,930	47,159	15.2
Consumption of RM	5,417	5,699	6,931	27.9	21.6	21,942	26,412	20.4
as % of sales	48.7%	47.6%	47.2%			46.3%	47.0%	
Employee Cost	889	958	1,097	23.4	14.6	3,521	3,946	12.1
as % of sales	8.0%	8.0%	7.5%			7.4%	7.0%	
Other expenditure	3,810	3,789	4,583	20.3	21.0	15,467	16,801	8.6
as % of sales	34.2%	31.6%	31.2%			32.7%	29.9%	
EBITDA	1,011	1,526	2,082	105.9	36.4	6,412	9,011	40.5
Depreciation	833	650	648	-22.3	-0.3	2,870	2,596	-9.5
EBIT	178	877	1,435	705.6	63.6	3,542	6,415	81.1
Other Income	43	8	48	11.8	516.9	516	130	-74.8
Interest	144	93	114	-21.1	22.1	587	477	-18.8
Exceptional items						0	0	
PBT (Post Exceptional items)	76	791	1,368	1695.5	73.0	3,472	6,068	74.8
Total Tax	9	317	459	5061.8	44.8	1,178	2,128	80.6
Reported PAT	67	474	909	1250.4	91.8	2,293	3,940	71.8
Adjusted PAT	67	474	909	1250.4	91.8	2,293	3,940	71.8
Adjusted EPS	0.3	1.8	3.4	1250.4	91.8	8.7	14.9	71.8
Margins (%)				(bps)	(bps)			(bps)
EBIDTA	9.1	12.7	14.2	510	140	13.5	16.0	250
EBIT	1.6	7.3	9.8	820	240	7.5	11.4	390
EBT	0.7	6.6	9.3	860	270	7.3	10.8	350
PAT	0.6	4.0	6.2	560	220	4.8	7.0	220
Effective Tax rate	11.7	40.1	33.6	2,190	-650	33.9	35.1	110

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	47,341	56,174	64,701	74,487	85,770
Expenditure	40,930	47,146	53,619	61,317	70,232
EBITDA	6,412	9,028	11,082	13,170	15,538
Depreciation	2,870	2,612	2,791	2,988	3,203
EBIT	3,542	6,416	8,291	10,182	12,334
Other Income	516	156	207	273	338
Interest expenses	587	425	332	244	134
PBT	3,472	6,147	8,166	10,210	12,539
Tax	1,178	2,090	2,776	3,472	4,263
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	2,293	4,057	5,389	6,739	8,276
Adjusted PAT	2,293	4,057	5,389	6,739	8,276

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	264	264	264	264	264
Reserves & surplus	23,061	26,737	31,649	37,847	45,486
Net worth	23,325	27,002	31,914	38,111	45,751
Minority Interest	0	0	0	0	0
Loan Funds	5,940	4,697	3,597	2,497	847
Net deferred tax liability	470	183	183	183	183
Total Liabilities	29,736	31,881	35,693	40,791	46,780
Net block	17,256	17,144	17,052	17,064	17,069
Investment	255	255	255	255	255
Current Assets	25,857	31,779	37,141	44,857	53,855
Cash & bank balance	216	2,022	6,702	10,354	15,161
Other Current Assets	102	56	66	77	77
Current liabilities & Provision	15,004	18,019	19,478	22,108	25,121
Net current assets	10,854	13,760	17,663	22,749	28,734
Misc. exp	0	0	0	0	0
Total Assets	29,736	31,881	35,693	40,791	46,780

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	2,956	5,991	7,959	9,938	12,201
Other Non-Cash items	0	0	0	0	0
Chg in working cap	399	(1,387)	777	(1,435)	(1,177)
Operating Cashflow	6,169	5,143	9,213	8,432	10,267
Capital expenditure	(2,915)	(1,851)	(2,700)	(3,000)	(3,208)
Free Cash Flow	3,254	3,292	6,513	5,432	7,060
Investments	0	0	0	0	0
Other Investing Cash Flow	(537)	(72)	(194)	(232)	(266)
Investing Cashflow	(2,936)	(1,767)	(2,688)	(2,959)	(3,135)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(2,122)	(1,243)	(1,100)	(1,100)	(1,650)
Dividend paid (incl tax)	(366)	0	(414)	(477)	(541)
Other Financing Cash Flow	(58)	99	0	0	0
Financing Cashflow	(3,133)	(1,570)	(1,845)	(1,821)	(2,325)
Net chg in cash	101	1,807	4,680	3,651	4,807
Opening cash position	115	216	2,022	6,702	10,354
Closing cash position	216	2,022	6,702	10,354	15,161

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	13.5	16.1	17.1	17.7	18.1
EBIT Margin	7.5	11.4	12.8	13.7	14.4
Effective Tax Rate	33.9	34.0	34.0	34.0	34.0
Net Margin	4.8	7.2	8.3	9.0	9.6
ROCE	13.6	21.3	25.1	27.3	28.9
ROE	10.2	16.1	18.3	19.2	19.7
RoIC	12.4	22.6	29.1	35.4	41.0

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	8.7	15.3	20.4	25.5	31.3
CEPS	19.5	25.2	30.9	36.8	43.4
BVPS	88.2	102.1	120.7	144.1	173.0
DPS	1.2	1.3	1.5	1.7	2.0

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	136.8	77.3	58.2	46.5	37.9
P/CEPS	60.7	47.0	38.3	32.2	27.3
P/BV	13.4	11.6	9.8	8.2	6.9
EV / Sales	6.7	5.6	4.8	4.1	3.5
EV / EBITDA	49.8	35.0	28.0	23.2	19.3
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	0.2	0.1	(0.1)	(0.2)	(0.3)
Net Debt/EBIDTA	0.9	0.3	(0.3)	(0.6)	(0.9)
Working Cap Cycle (days)	82.0	76.3	61.8	60.7	57.8

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	(2.2)	18.7	15.2	15.1	15.1
EBITDA	(7.3)	40.8	22.7	18.8	18.0
EBIT	(21.0)	81.1	29.2	22.8	21.1
PAT	(23.0)	76.9	32.8	25.0	22.8

Quarterly (Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenue	11,127	16,742	12,764	11,971	14,693
EBITDA	1,011	3,184	2,219	1,526	2,082
EBITDA Margin (%)	9.1	19.0	17.4	12.7	14.2
PAT	67	1,619	938	474	909
EPS (Rs)	0.3	6.1	3.5	1.8	3.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoters	73.9	73.9	73.4	73.4	73.4
FIIIs	15.8	16.4	16.7	16.9	16.8
DIIIs	4.6	4.3	4.0	3.7	3.8
Public and Others	5.8	5.4	5.9	6.0	6.1

Source: Capitaline

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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