

COMPANY RESULTS

Emperador Inc (EMI SP)

2Q24: Weak Results As Demand Falls

EMI reported weak 1H24 results with lower revenue (-7.9% yoy) and PATMI (-19.6% yoy), dragged by both the brandy and Scotch whisky segments as demand remains weak. Increased promotional activities and higher interest costs continue to pressure overall margins. As there are no near-term catalysts and ongoing headwinds, we think that EMI is overvalued at the current valuation levels. We downgrade EMI to SELL with a lower PE-based target price of S\$0.30 (S\$0.48 previously).

2Q24 RESULTS

Year to 31 Dec (PHPm)	2024	2023	yoy % chg	1H24	1H23	yoy % chg
Revenue	15,521	15,518	0.0	28,644	31,109	(7.9)
Gross Profit	5,289	5,937	(10.9)	9,764	11,364	(14.1)
Gross Margin (%)	34.1	38.3	(4.2ppt)	33.5	36.0	(2.5ppt)
EBITDA	3,256	3,606	(9.7)	6,132	7,022	(12.7)
EBITDA Margin (%)	21.0	23.2	(2.3ppt)	21.4	22.6	(1.2ppt)
PATMI	2,068	2,414	(14.3)	3,806	4,732	(19.6)
PATMI Margin (%)	13.3	15.6	(2.3ppt)	13.3	15.2	(1.9ppt)
----- Brandy -----						
Year to 31 Dec (PHPm)	2024	2023	yoy % chg	1H24	1H23	yoy % chg
Revenue	8,836	8,866	(0.3)	16,714	18,624	(10.3)
EBITDA	1,598	1,818	(12.1)	3,178	3,548	(10.4)
EBITDA Margin (%)	18.1	20.5	(2.4ppt)	18.7	18.8	(0.2ppt)
PATMI	916	983	(6.8)	1,739	1,966	(11.5)
PATMI Margin (%)	10.4	11.1	(0.7ppt)	10.2	10.4	(0.2ppt)
----- Scotch Whisky -----						
Year to 31 Dec (PHPm)	2024	2023	yoy % chg	1H24	1H23	yoy % chg
Revenue	6,685	6,652	0.5	11,930	12,485	(4.4)
EBITDA	1,658	1,788	(7.3)	2,954	3,474	(15.0)
EBITDA Margin (%)	24.8	26.9	(2.1ppt)	24.4	27.4	(3.0ppt)
PATMI	1,152	1,431	(19.5)	2,067	2,767	(25.3)
PATMI Margin (%)	17.2	21.5	(4.3ppt)	17.1	21.8	(4.7ppt)

Source: Emperador Inc, UOB Kay Hian

RESULTS

- Weak results, below expectations.** For 1H24, Emperador Inc (EMI) reported lower overall revenue (-7.9% yoy) and PATMI (-19.6% yoy), forming only 39.8% and 32.7% of our full-year forecasts respectively. The soft top- and bottom line results were largely due to lower sales volumes for both the brandy and Scotch whisky segments along with increased operating and brand investment costs. As a result, 1H24 EBITDA and PATMI margins fell by 1.2ppt and 1.9ppt yoy respectively.
- Soft quarter.** 2Q24 overall revenue was stable yoy as demand improved. However, similar to 1H24, 2Q24 PATMI also fell by 14.3% yoy as higher raw material costs from the brandy segment coupled with continued brand investment costs in the Scotch whisky segment continued to weigh on margins. Both 2Q24 EBITDA and PATMI margins dropped by 2.3ppt yoy. Management expects demand to pick up during the seasonally stronger 2H24.

KEY FINANCIALS

Year to 31 Dec (PHPm)	2022	2023	2024F	2025F	2026F
Net turnover	62,767	65,644	60,948	62,910	66,987
EBITDA	13,805	13,768	12,671	13,581	15,103
Operating profit	12,321	12,314	11,217	12,127	13,649
Net profit (rep./act.)	10,061	8,706	7,834	8,731	10,060
Net profit (adj.)	10,061	8,706	7,834	8,731	10,060
EPS (PHP)	0.6	0.6	0.5	0.6	0.6
PE (x)	29.6	34.1	38.0	34.1	29.6
P/B (x)	3.4	3.2	3.1	2.9	2.8
EV/EBITDA (x)	23.1	23.1	25.1	23.4	21.1
Dividend yield (%)	0.0	1.5	1.3	1.6	1.8
Net margin (%)	16.0	13.3	12.9	13.9	15.0
Net debt/(cash) to equity (%)	12.7	16.5	19.5	18.0	17.6
Interest cover (x)	22.6	10.0	7.5	9.1	10.8
ROE (%)	12.2	9.6	8.2	8.7	9.5
Consensus net profit (PHPm)	-	-	8,163	8,970	10,345
UOBKH/Consensus (x)	-	-	0.96	0.97	0.97

Source: Emperador Inc, Bloomberg, UOB Kay Hian

SELL

(Downgraded)

Share Price	S\$0.435
Target Price	S\$0.300
Upside	-31.0%
(Previous TP)	S\$0.480

COMPANY DESCRIPTION

Emperador, Inc. operates in the beverage industry. The Company, through its subsidiary, produces and markets brandy.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	EMI SP
Shares issued (m):	15,736.5
Market cap (S\$m):	6,845.4
Market cap (US\$m):	5,320.9
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low S\$0.535/S\$0.400

1mth	3mth	6mth	1yr	YTD
1.2	0.0	(3.3)	(16.3)	(17.9)

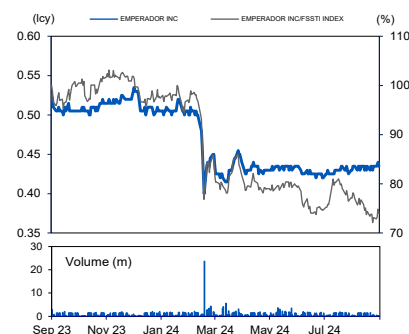
Major Shareholders

Alliance Global Group	79.48
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FY24 NAV/Share (PHP) 6.19

FY24 Net Debt/Share (PHP) 1.21

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Brandy: Underperformance as margins fell.** 1H24 segmental revenue (-10.3% yoy) and PATMI (-11.5% yoy) were below our expectations, forming 41.4% and 33.8% of our full-year forecasts respectively. The underperformance was largely due to weaker demand and sales volumes as inflationary pressures dampened discretionary spending and customers traded down to lower-value alternatives. Furthermore, higher raw material costs compressed margins, with 1H24 gross margins falling 3.3ppt yoy. Although advertising and promotional (A&P) spending fell 28.9% yoy as the group reined in operating expenses, both 1H24 EBITDA and PATMI margins still tumbled 0.2ppt yoy. Similar to 1H24, both 2Q24 quarterly revenue (-0.3% yoy) and PATMI (-6.8% yoy) also declined.
- Expect better sequential performance.** Moving forward, we expect stronger performance in the seasonally stronger 2H24 while management also noted that demand has started to improve in 3Q24, given that inflation has started to taper off which would likely result in consumption volumes recovering. The group is still on track to implement its long-term premiumisation initiatives for its brandy product lines which we reckon would not reap any positive impact in the short to medium term as demand remains weak. The group also announced a partnership with Fuyu (member of the Fosun Group), one of China's largest beverage companies, which would allow EMI to drive sales in China, particularly for its brandy business.
- Scotch whisky: Weak results.** 1H24 segmental revenue (-4.4% yoy) and PATMI (-25.3% yoy) formed 38.7% and 31.9% of our full-year forecasts respectively, below our expectations. The weak performance was dragged by inflationary pressures which impacted discretionary spending and lowered consumption levels in key overseas markets. Increased input costs, A&P spending and interest expense also led to lower margins, with 1H24 EBITDA (-3.0ppt yoy) and PATMI margins falling (-4.7ppt yoy). 2Q24 saw better demand as revenue (+0.5% yoy) and gross profit (+5.2% yoy) grew but PATMI still softened (-19.5% yoy) from higher A&P spending.
- Moving forward, we expect the sales volumes for the Scotch whisky segment to bottom out in 1H24 and improve sequentially in 2H24, specifically from the higher-margin single-malt whisky segment which has seen improvement in demand from key markets such as Latin-America and Asia-Pacific. Also, management noted that an ongoing expansion to the Dalmore distillery is expected to be completed on time by end-24, which would double its production capacity moving forward.

EARNINGS REVISION/RISK

- We slash our 2024-25 PATMI estimates sharply while adding our 2026 PATMI estimate,** on the back of lower volume assumptions for the brandy and Scotch whisky segments. Our 2024-26 PATMI forecasts are PHP7,834m (PHP11,863m previously), PHP8,731m (PHP15,181m previously) and PHP10,060m respectively.

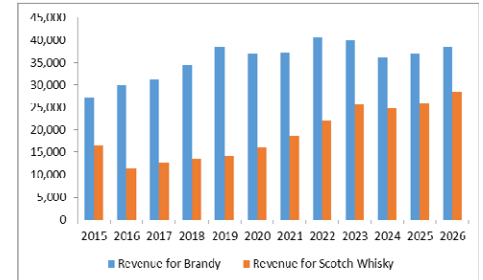
VALUATION/RECOMMENDATION

- Downgrade to SELL with a lower PE-based target price of S\$0.30 (S\$0.48 previously),** pegged to 25x 2024F PE (32x 2023F PE previously), +0.5SD to its long-term average PE (+2SD to its long-term average PE previously). The lower target price is due to our lower 2024 PATMI estimate.
- Although we like EMI for its premium market positioning and strong growth potential in key markets, we reckon that it is trading at expensive valuations (slightly over +2SD to its long-term average PE and EV/EBITDA). Given the lack of near-term catalysts and ongoing headwinds, we opine that there are more downside risks to EMI's share price performance.

SHARE PRICE CATALYST

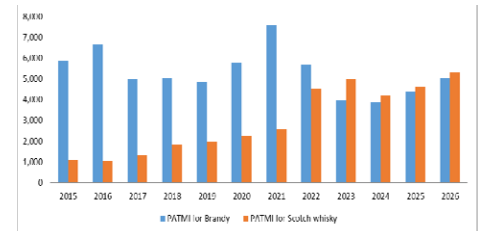
- Higher revenue contribution from key overseas market such as Greater China.
- M&As.

SEGMENTAL REVENUE CONTRIBUTION (PHPM)



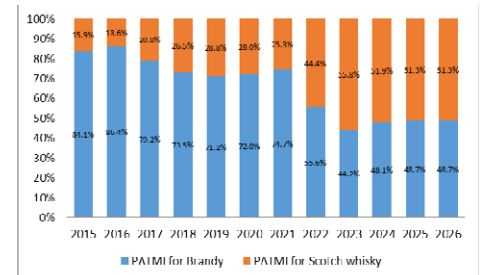
Source: EMI, UOB Kay Hian.

SEGMENTAL PATMI CONTRIBUTION (PHPM)



Source: EMI, UOB Kay Hian.

SEGMENTAL PATMI CONTRIBUTION (%)



Source: EMI, UOB Kay Hian.

HISTORICAL FORWARD PE



Source: UOB Kay Hian, Bloomberg

HISTORICAL FORWARD EV/EBITDA



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (PHPm)	2023	2024F	2025F	2026F
Net turnover	65,643.8	60,948.1	62,910.2	66,987.3
EBITDA	13,767.5	12,671.1	13,581.1	15,102.8
Deprec. & amort.	1,453.9	1,453.9	1,453.9	1,453.9
EBIT	12,313.6	11,217.2	12,127.2	13,648.9
Net interest income/(expense)	(1,372.4)	(1,679.0)	(1,494.7)	(1,397.0)
Pre-tax profit	10,941.3	9,538.2	10,632.4	12,251.9
Tax	(1,997.4)	(1,469.6)	(1,636.4)	(1,885.6)
Minorities	(238.2)	(235.1)	(265.5)	(306.1)
Net profit	8,705.7	7,833.5	8,730.5	10,060.2
Net profit (adj.)	8,705.7	7,833.5	8,730.5	10,060.2

BALANCE SHEET

Year to 31 Dec (PHPm)	2023	2024F	2025F	2026F
Fixed assets	34,211.8	37,542.8	40,873.8	44,204.8
Other LT assets	35,038.7	35,038.7	35,038.7	35,038.7
Cash/ST investment	10,513.1	8,285.6	10,169.8	10,927.8
Other current assets	68,945.6	74,005.1	75,853.2	79,865.2
Total assets	148,709.2	154,872.2	161,935.5	170,036.5
ST debt	6,781.7	8,124.8	9,467.9	10,811.0
Other current liabilities	22,450.0	23,764.8	24,265.8	25,378.4
LT debt	19,185.6	19,185.6	19,185.6	19,185.6
Other LT liabilities	4,884.0	4,884.0	4,884.0	4,884.0
Shareholders' equity	93,924.9	97,429.9	102,649.2	108,294.6
Minority interest	1,483.0	1,483.0	1,483.0	1,483.0
Total liabilities & equity	148,709.2	154,872.2	161,935.5	170,036.5

CASH FLOW

Year to 31 Dec (PHPm)	2023	2024F	2025F	2026F
Operating	7,150.0	7,456.8	10,597.6	10,317.7
Pre-tax profit	10,941.3	9,538.2	10,632.4	12,251.9
Tax	(1,997.4)	(1,469.6)	(1,636.4)	(1,885.6)
Deprec. & amort.	1,453.9	1,453.9	1,453.9	1,453.9
Associates	0.0	0.0	0.0	0.0
Working capital changes	(5,065.4)	(3,744.7)	(1,347.1)	(2,899.5)
Non-cash items	(7.3)	0.0	0.0	0.0
Other operating cashflows	1,824.9	1,679.0	1,494.7	1,397.0
Investing	(4,373.5)	(4,784.9)	(4,784.9)	(4,784.9)
Capex (growth)	(4,784.9)	(4,784.9)	(4,784.9)	(4,784.9)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	17.1	0.0	0.0	0.0
Others	394.4	0.0	0.0	0.0
Financing	(5,001.5)	(4,899.4)	(3,928.4)	(4,774.8)
Dividend payments	(4,701.3)	(4,563.6)	(3,776.8)	(4,720.9)
Proceeds from borrowings	24,454.5	24,454.5	24,454.5	24,454.5
Loan repayment	(23,111.4)	(23,111.4)	(23,111.4)	(23,111.4)
Others/interest paid	(1,643.3)	(1,679.0)	(1,494.7)	(1,397.0)
Net cash inflow (outflow)	(2,225.0)	(2,227.6)	1,884.2	758.0
Beginning cash & cash equivalent	12,738.1	10,513.1	8,285.6	10,169.8
Ending cash & cash equivalent	10,513.1	8,285.6	10,169.8	10,927.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.0	20.8	21.6	22.5
Pre-tax margin	16.7	15.6	16.9	18.3
Net margin	13.3	12.9	13.9	15.0
ROA	6.0	5.2	5.5	6.1
ROE	9.6	8.2	8.7	9.5
Growth				
Turnover	4.6	(7.2)	3.2	6.5
EBITDA	(0.3)	(8.0)	7.2	11.2
Pre-tax profit	(6.6)	(12.8)	11.5	15.2
Net profit	(13.5)	(10.0)	11.5	15.2
Net profit (adj.)	(13.5)	(10.0)	11.5	15.2
EPS	(13.2)	(10.2)	11.5	15.2
Leverage				
Debt to total capital	21.4	21.6	21.6	21.5
Debt to equity	27.6	28.0	27.9	27.7
Net debt/(cash) to equity	16.5	19.5	18.0	17.6
Interest cover (x)	10.0	7.5	9.1	10.8

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