

How long before Carlsberg recovers from abandoning Russia?



Valuation Master Class

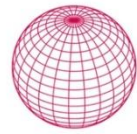


What's interesting
about **Carlsberg** is
that **goodwill**
accounts for a
massive **40% of assets**



Valuation Master Class

Where is Carlsberg heading after exiting from Russia?



VALUATION MASTER CLASS



Sector: Cons. Def.



Denmark's leading brewery with an estimated brand value of over DKK131bn

Our estimate:

DKK824

(Downside 14%)

SELL



3 things to know about this company

- ★ Poor organic growth outlook for European markets
- ★ Acquisition strategy to scale into Asian growth market
- ★ Premiumization to get margin back on track

Key statistics

Analyst consensus (28)

DKK1,026

(Upside 7%)

HOLD

PE ratio

19x

Dividend yield

2.5%



Carlsberg Group to leave Russia 28 March 2022

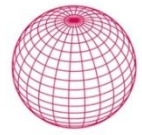
The war in Ukraine, and the escalating humanitarian and refugee crisis, shocks us all. We continue to strongly condemn the Russian invasion, which has led to so much loss of life, devastation and human tragedy.

On 9 March, we announced a strategic review of the Carlsberg Group's presence in Russia. Based on this review, we have taken the difficult and immediate decision to seek a full disposal of our business in Russia, which we believe is the right thing to do in the current environment. Upon completion we will have no presence in Russia.

As a result of this decision, our business in Russia will no longer be included in the Group's revenue and operating profit. From an accounting perspective, the business will be treated as an asset held for sale until completion of the disposal. The business will be reassessed at fair value, which will result in a substantial non-cash impairment charge (see slides 33-34). In 2021, the business in Russia reported revenue and operating profit of DKK 6.5bn and DKK 733m respectively.

We deeply regret the consequences of this decision for our 8,400 employees in Russia. Until the completion of the process, which may take up to 12 months, we will maintain operations to sustain the livelihoods of these employees and their families. Any profits generated during the humanitarian crisis will be donated to relief organisations.

Our thoughts are with the people of Ukraine and we call for peace to be urgently restored.



Are companies leaving Russia
caving to public pressure?

Is it ethical to make 8,400
lower-income workers
unemployed?

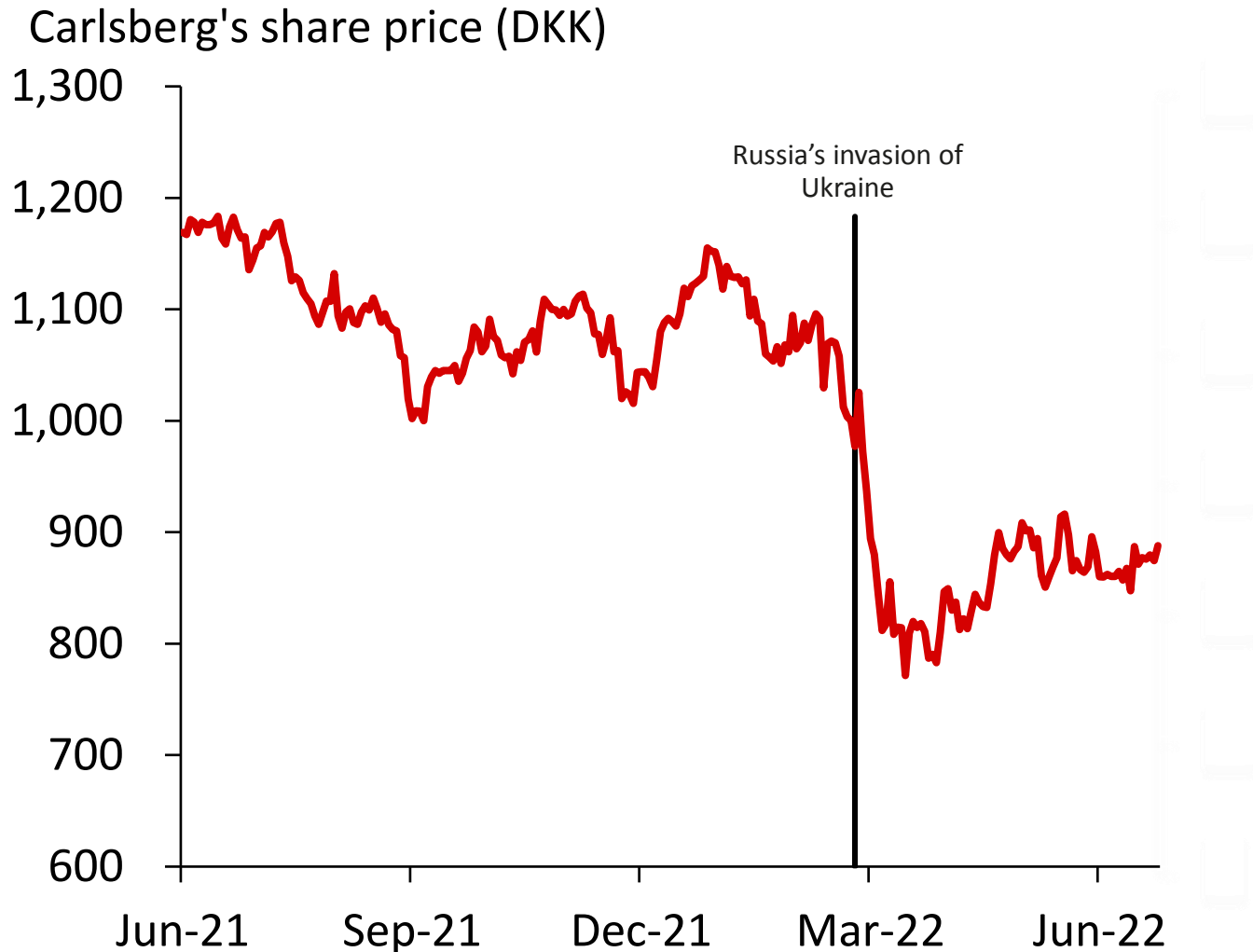
Politics forces you to take sides



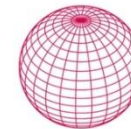
Russia constituted an important market for Carlsberg



VALUATION MASTER CLASS



- ★ The Russian market accounted for 10% of its 2021 revenue
 - **Following its announcement, Carlsberg will exit the Russian market within 12 months**
- ★ The divestment includes the disposal of Carlsberg's brand Baltika which has a market share of 27% in Russia
 - **The share price dropped by almost 25%**



Sales

Story

FVMR

Value

WCB

Risks

Revenue by segment

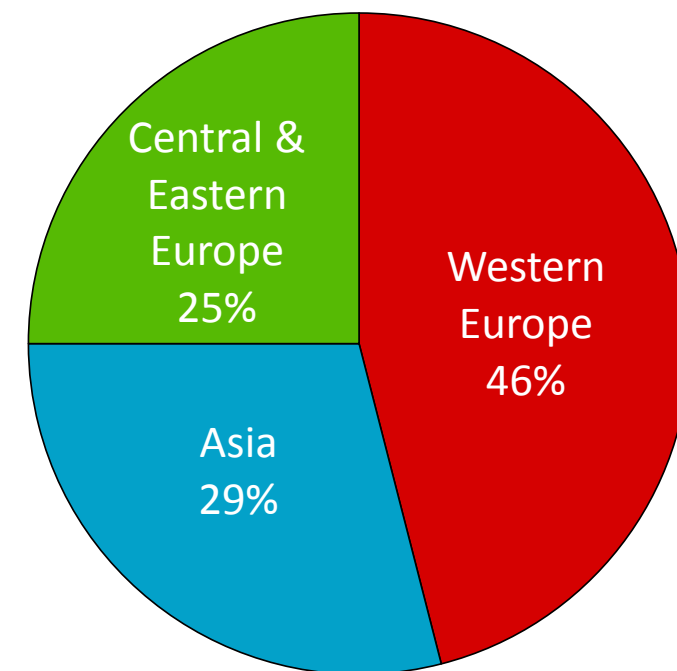


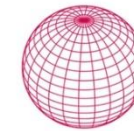
Beer
78%

Other beverages
22%



Revenue breakdown by geographic area





Sales

Story

FVMR

Value

WCB

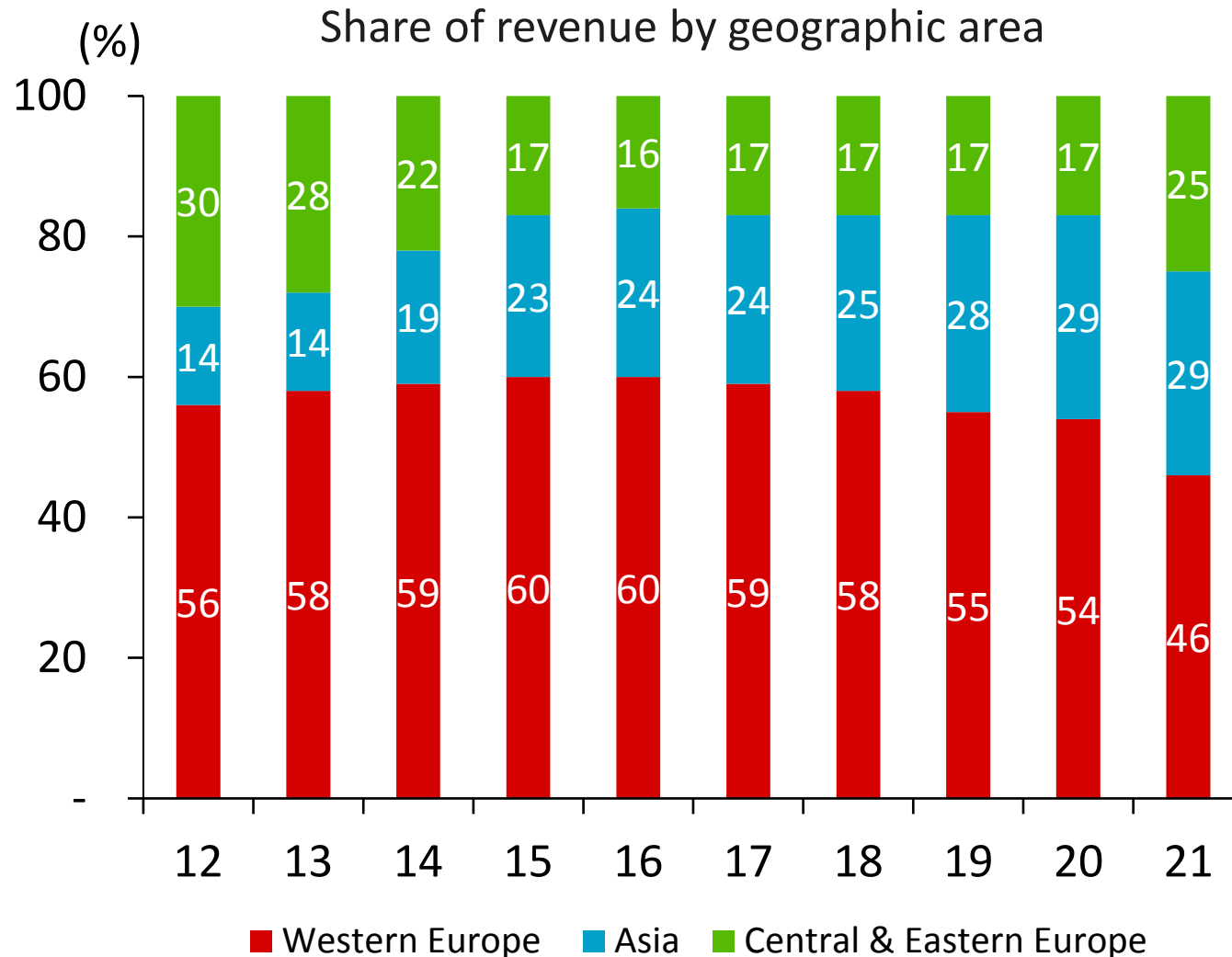
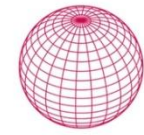
Risks

Markets	Consumption characteristics		Our position		Our operations
	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share ¹ (%)	Breweries ²
Denmark	63	14	1	53	1
Sweden	50	14	1	26	1
Norway	50	10	1	50	1
Finland	77	12	1	30	1
France	30	8	2	25	1
Switzerland	55	33	1	37	1
Poland	102	7	3	20	3
UK	68	24	4	12	4
Germany	90	18	3 ³	10 ³	3
Portugal	46	44	1	47	1

¹ Sept. 2021 MAT. ² Breweries with capacity above 100,000 hl. ³ North-eastern Germany.
Source: GlobalData, Carlsberg estimates.

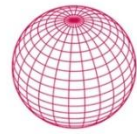
- ★ Carlsberg has a dominant market share in 6 Western European markets
- ★ Though, the average consumption of the Western European market (at 63 liters) is already high
- ★ The beer market of Western Europe seems saturated
 - For the past 5 years, Carlsberg's revenue from Western Europe has grown at an average of 2% only

Eastward expansion to unlock new growth engine



- ★ The importance of the Asian market to Carlsberg has grown significantly over the past decade
- ★ As of 2021, the revenue contribution of Asia amounted to 29%, compared to 14% in 2012
 - Besides the Chinese market, the company also focuses on expanding to India and Vietnam





Sales

Story

FVMR

Value

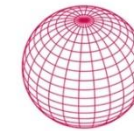
WCB

Risks

Markets	Consumption characteristics		Our position		Our operations
	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share ¹ (%)	Breweries ²
China	33	47	5/1 ³	8/66 ³	26
Laos	44	33	1	94	2
India	2	11	3/2 ⁴	15	7
Vietnam	41	23	4	6	1
Cambodia	53	10	4	6	1
Malaysia	9	38	2	42	1
Nepal	2	65	1	51	1
Myanmar	6	32	3	9	1
Singapore	21	46	2	23	-
Hong Kong SAR	24	36	2	29	-

¹ Sept. 2021 MAT. ² Breweries with capacity above 100,000 hl. ³ Total China/western China. ⁴ In states with own brewery.
Source: GlobalData, Carlsberg estimates.

- ★ Beer consumption in Asia is much lower than in Europe, but has been in a rising trend
- ★ Carlsberg mainly relies on acquisitions of local brands to tap into foreign markets
 - This helps to immediately establish a dominant presence in different countries



Sales

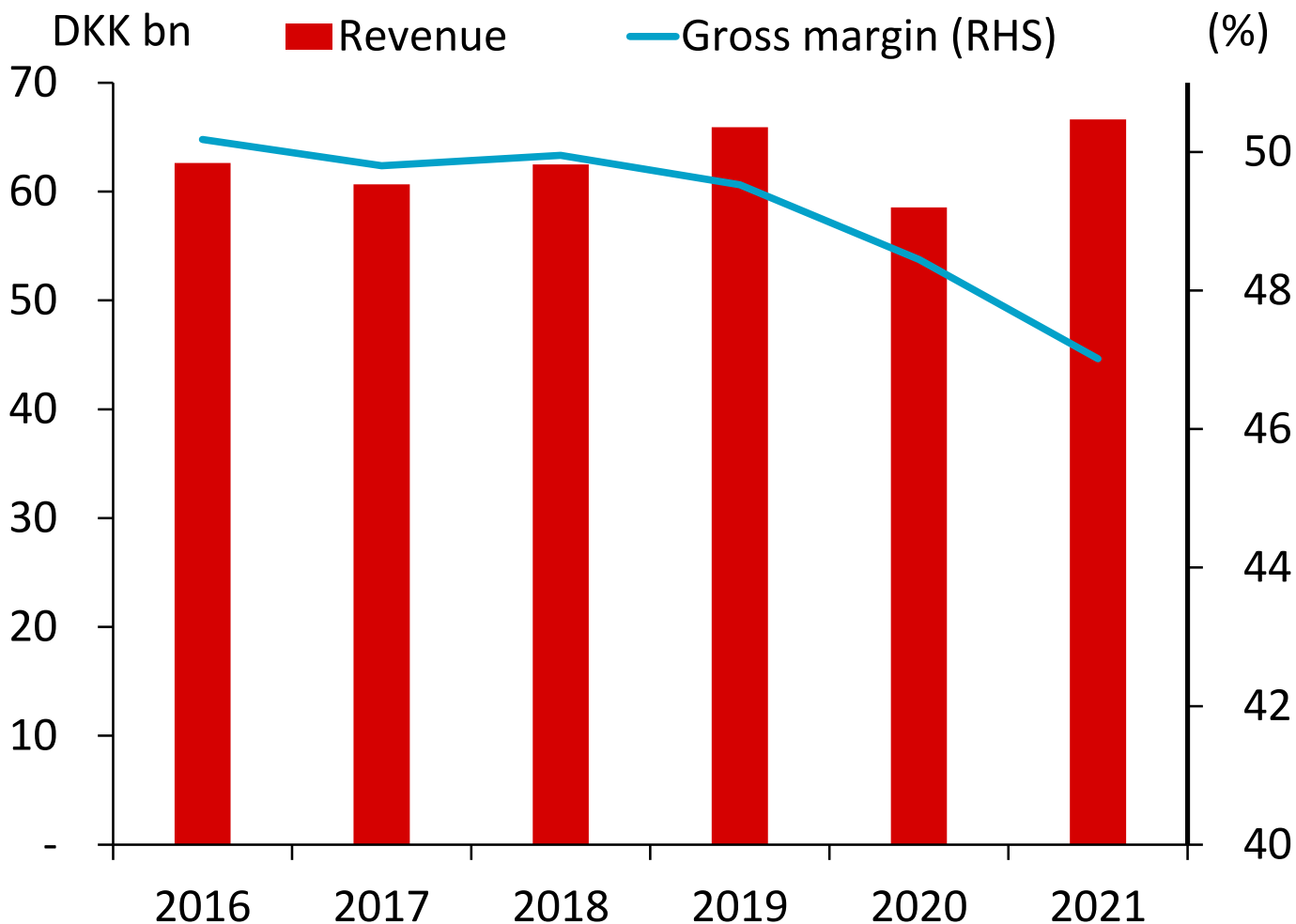
Story

FVMR

Value

WCB

Risks



- ★ In the context of rising local competition, Carlsberg realigned its strategy
 - Instead of entering a price competition, the company decided to focus on premiumization
- ★ Hence, it focuses on its premium brands and has started to discontinue its low margin products
 - This could help to revert the falling gross margin



Sales

Story

FVMR

Value

WCB

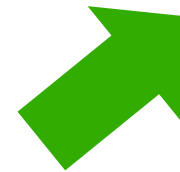
Risks

Analyst consensus valuation

Recommendation	Mar-22	Apr-22	May-22	Current
Strong buy	5	4	4	5
Buy	9	10	11	11
Hold	13	13	12	12
Sell	-	-	-	-
Strong sell	-	-	-	-
Average score	2.3	2.3	2.3	2.3

Price target	Mar-22	Apr-22	May-22	Current
Median	1,000	1,000	1,000	1,000
Mean	1,061	1,031	1,023	1,026

28
analysts



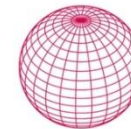
Upside: 17%

Analyst consensus 3-year forecast

(%)	19	20	21	22E	23E	24E
Revenue growth	5.4	(11.2)	13.8	1.1	5.3	5.2
Gross margin	49.5	48.4	47.0	46.5	46.7	47.2
EBIT margin	15.3	16.6	16.3	15.6	15.8	16.2
Net margin	10.0	10.3	10.3	10.0	10.2	10.5

- ★ Analyst consensus has a tendency toward a BUY recommendation
- ★ Over the past 4 months, analysts have maintained their target price
 - They believe that Carlsberg can maintain revenue growth despite exiting the Russian market

Profit & loss statement



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, kr m)	2020A	2021A	2022E	2023E
Revenue	58,541	66,634	66,967	68,307
Cost of goods & services	(30,180)	(35,307)	(35,827)	(36,202)
Gross profit	28,361	31,327	31,140	32,104
SG&A	(18,949)	(20,989)	(20,760)	(21,175)
Other operating (exp)/inc	(29)	325	328	332
EBIT	9,383	10,663	10,708	11,261
Interest expense (net)	(414)	(408)	(407)	(390)
Other non-operating inc/(exp)	(31)	(181)	(185)	(188)
Earnings before taxes (EBT)	8,938	10,074	10,116	10,682
Income tax	(2,233)	(2,219)	(2,731)	(2,884)
Earnings after taxes (EAT)	6,705	7,855	7,385	7,798
Equity income/Minority interest	(463)	(827)	(778)	(651)
Earnings from cont. operations	6,242	7,028	6,607	7,147
Forex/Exceptionals before tax	(212)	(182)	(0)	-
Net profit	6,030	6,846	6,607	7,147

- ★ In contrast to the analyst consensus, I expect weaker net profit in 22E as Russia was a significant profit contributor in the past



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, kr m)	2020A	2021A	2022E	2023E
Cash & short-term investments	8,093	8,344	7,869	7,665
Accounts receivable	5,310	8,065	8,185	8,349
Inventories	4,613	5,391	5,474	5,531
Other current assets	980	1,100	1,138	1,161
Total current assets	18,996	22,900	22,666	22,706
Long-term investments	4,188	5,172	5,560	5,977
Net fixed assets	26,299	26,648	27,032	27,428
Intangible assets	15,569	15,991	16,078	16,166
Goodwill	50,492	52,484	54,583	56,767
Other long-term assets	3,272	3,188	3,347	3,515
Total assets	118,816	126,383	129,266	132,558

- ★ Increasing goodwill reflects ongoing acquisition strategy to tap into foreign markets

Balance sheet - liabilities



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, kr m)	2020A	2021A	2022E	2023E
Overdrafts & short-term loans	959	6,167	4,671	4,484
Accounts payable	16,598	20,642	20,402	20,615
Other current liabilities	10,892	16,473	16,742	16,394
Total current liabilities	28,449	43,282	41,814	41,493
Long-term debt	29,291	22,755	22,805	21,893
Other long-term liabilities	17,714	11,590	11,706	11,823
Total liabilities	75,454	77,627	76,325	75,209
Minority interest	4,054	4,815	5,981	7,049
Paid-up capital - Common shares	2,963	2,905	2,865	2,825
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	77,169	78,853	81,912	85,292
Revaluation/Forex/Others	(40,824)	(37,817)	(37,817)	(37,817)
Total equity	39,308	43,941	46,960	50,300
Total liab & shareholders' equity	118,816	126,383	129,266	132,558

- ★ I expect Carlsberg to reduce its long-term debt that it acquired mainly during the pandemic

Cash flow statement



VALUATION MASTER CLASS

Sales

Story

FVMR

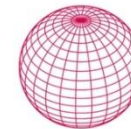
Value

WCB

Risks

(YE Dec, kr m)	2020A	2021A	2022E	2023E
Net income	6,030	6,846	6,607	7,147
Depreciation & amortization	1,682	1,664	2,223	2,285
Calculated chg in net working capital	114	5,972	(212)	(378)
Other non-cash & balancing items	3,102	(1,223)	778	651
Operating cash flow	10,928	13,259	9,395	9,705
Capital expenditures	(4,174)	(3,949)	(4,793)	(4,953)
(Inc)/dec in other investments	(1,697)	(434)	(159)	(167)
Investing cash flow	(5,871)	(4,383)	(4,952)	(5,120)
Increase/(dec) in debt	5,060	(1,611)	(1,446)	(1,099)
Dividend paid	(3,093)	(3,187)	(3,548)	(3,767)
Change in equity	(2,900)	(3,600)	(40)	(40)
Others	(877)	(550)	116	117
Financing cash flow	(1,810)	(8,948)	(4,918)	(4,789)
Net inc/(dec) in cash & cash equi	3,247	(72)	(475)	(204)
Beginning cash	5,222	8,093	8,344	7,869
Adjustment for historic data	(376)	323	0	0
Ending cash	8,093	8,344	7,869	7,665

- ★ Rising dividends following the management's announcement to increase dividend per share



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec)	2020A	2021A	2022E	2023E
General growth (YoY, %)				
Revenue	(11.2)	13.8	0.5	2.0
Assets	(3.5)	6.4	2.3	2.5
Gross profit	(13.1)	10.5	(0.6)	3.1
Operating profit	(7.7)	13.6	0.4	5.2
Attributable profit	(8.2)	13.5	(3.5)	8.2
EPS	(5.9)	15.9	(1.6)	10.0
Recurring EPS	1.3	14.8	(3.6)	10.0
Du Pont analysis (%)				
Net profit margin	10.3	10.3	9.9	10.5
Revenue per kr100 of assets	48.4	54.4	52.4	52.2
Assets/equity (x)	3.0	2.9	2.8	2.7
Return on equity	14.8	16.4	14.5	14.7
Others (%)				
Effective tax rate	25.6	22.4	27.0	27.0
Dividend payout ratio	52.1	49.6	54.0	52.9

- ★ Exiting the Russian market has been a drag on short-term revenue growth that can only be partly compensated by higher growth prospects in Asia



Sales

Story

FVMR

Value

WCB

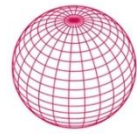
Risks

(YE Dec)	2020A	2021A	2022E	2023E
Internal liquidity (x)				
Current ratio	0.7	0.5	0.5	0.5
Quick, or acid test ratio	0.5	0.4	0.4	0.4
Working cap. mgmt (Days)				
Inventory conversion period	56	51	55	55
Receivables collection period	38	36	44	44
Days from raw mat to coll	94	87	98	98
Payables deferral period	201	190	206	204
Cash conversion cycle	(108)	(103)	(108)	(106)
Profitability ratios (%)				
Gross profit margin	48.4	47.0	46.5	47.0
EBIT margin	16.0	16.0	16.0	16.5
EBIT return on avg assets	7.8	8.7	8.4	8.6
Return on average assets	5.0	5.6	5.2	5.5
Financial risk (x)				
Liabilities-to-assets (%)	63.5	61.4	59.0	56.7
Debt-to-equity	0.8	0.7	0.6	0.5
Net debt-to-equity	0.6	0.5	0.4	0.4
Times-interest-earned	22.4	24.2	25.5	27.9
Effective interest rate (%)	1.8	1.7	1.8	1.8

★ Cash conversion cycle is negative due to long payables deferral period

Stock Picking Checklist

Can this company be a ten bagger?



VALUATION MASTER CLASS

Sales

Story

FVMR

WCB

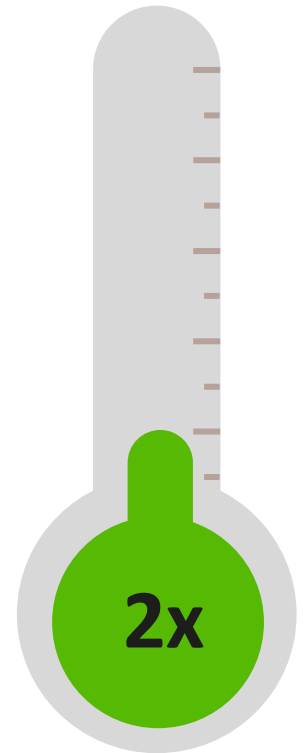
Ratios

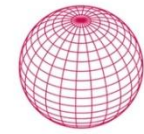
Value

Risks

Checklist	Potential	Comment
1. Management is committed to growth	Good	It aims to dominate markets by acquiring strong local brands
2. Growth can hit double-digits	Moderate	Asian market to provide growth, but Europe faces saturation (CAGR 3-5% possible)
3. Gross Margin can remain high	Moderate	Premiumization aims to increase gross margin
4. Earnings are predictable	Weak	Sudden divestment or disposal of assets make earnings very volatile
5. Efficient at deploying assets	Weak	Asset turnover is 54%, which is low
6. Cash Conversion cycle is low	Good	Cash conversion cycle is negative
7. Cash Flow is consistently positive	Good	It delivered strong operating CF over time
8. Capital is readily available	Moderate	The company has moderate low leverage
9. Valuation is reasonable	Moderate	Trades higher on PE and but in line on PB compared to its peers.

10x Bagger Potential





Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, kr m)	2020A	2021A	2022E	2023E
EBIT	9,383	10,663	10,708	11,261
<i>Est tax rate (%)</i>	26	22	27	27
NOPAT	6,982	8,271	7,817	8,220
Add: Depre & amort	1,682	1,664	2,223	2,285
Less: CAPEX	(4,174)	(3,949)	(1,975)	(2,034)
Chg in A/R	1,690	(2,755)	(120)	(164)
Chg in inventory	138	(778)	(83)	(57)
Chg in oth curr assets	(5)	(120)	(38)	(23)
Chg in A/P	(551)	4,044	(240)	214
Chg in oth curr liabs	(1,158)	5,581	269	(348)
Less: Chg in working cap	114	5,972	(212)	(378)
Less: Chg in invest cap				
Free cash flow to firm	4,604	11,958	7,852	8,093

- ★ In the past, free cash flow has been very volatile due to abrupt changes in working capital



Sales

Story

FVMR

Value

WCB

Risks

Forecast assumptions		
3-year average	Consensus	My assumptions
Revenue growth (CAGR)	3.9	2.5
Gross margin	46.8	47.0
EBIT margin	15.9	16.5
Net margin	10.2	10.3

My valuation method	
Market: Denmark	
Market risk-free rate	1.0
Market equity risk premium	10.0
Market return	11.0
Company beta (x)	0.8
COE	8.5
WACC	7.2
Terminal growth rate	2.0

Valuation Method:
FCFF

- ★ I expect weaker revenue growth than consensus, but similar margin
- ★ To value the company, I use FCFF and a terminal growth rate of 2%



Sales

Story

FVMR

WCB

Ratios

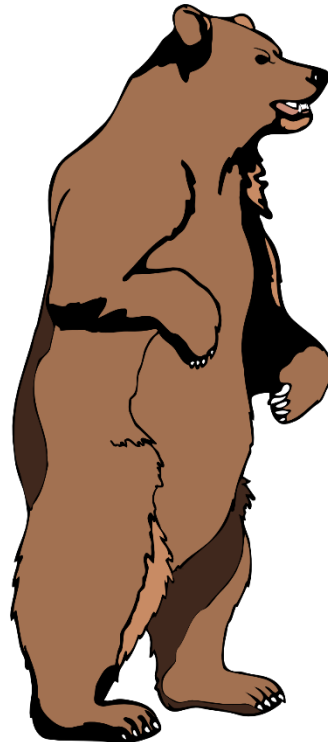
Value

Risks

Bear

DKK720

(Downside 25%)



Base

DKK824

(Downside 14%)



Bull

DKK928

(Downside 3%)





Sales

Story

FVMR

Value

WCB

Risks

- ★ Exposure to challenging legal environments especially in Asian markets
- ★ Lower than expected return from acquisitions
- ★ Failure to keep up with consumer trends

CONCLUSION

- European beer consumption is already high, leading to low growth expectations
- Growth engine Asia might take time to fully compensate for lost Russian revenue
- Focus on premium products to enhance margin

