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Beluga Group: Strategy Day Upbeat medium-term guidance

Beluga held a Strategy Day yesterday (13 May) and presented its medium-term guidance, which appears solid to us, including a doubling of revenue by 2024. We think management's targets are quite ambitious and will require strong execution, but Beluga's results over the past two years have been strong, which reassures us around its upbeat message. We raise our fair value range to RUB3,577-4,468/share (from RUB2,462-3,123) on our higher growth and margin forecasts.

Medium-term guidance: doubling revenue and growing margin

Beluga aims to double its revenue to ~RUB130bn by 2024, while also increasing its EBITDA margin by 2-3 ppts vs 14.5% in 2020, which we view as strong guidance.

- Vodka:** Consumption remains stable in Russia with the market growing in value terms, despite a clear shift towards wine. Beluga has a leading position with ~18% market share in 2020, but plans to further increase this driven by the popularity of its core brands (e.g. Beluga, Belenkaya) and new product launches. In addition, the company continues to expand globally and aims to grow its vodka export sales 2.4x to RUB6.5bn by 2024, which should also help margins.
- Non-vodka:** Beluga plans further diversification into non-vodka products, including brown spirits and wine, via continuous innovation, new import contracts and further development of its own wine brand, Golubitskoe Estate. By 2024, the company aims to grow the share of non-vodka products in its production and distribution segment to 45% of volumes (2020: 34%) and 70% of revenue (2020: 60%).
- Retail:** Beluga's retail business has proved successful so far and the company plans its further expansion, targeting 2.5k Winelab stores by 2024 (2020: 645) with the primary focus on Moscow and St. Petersburg. As a result, management expects Winelab to account for 45% of total revenue in 2024 (2020: 34%), supported by investments in e-commerce, which it forecasts to account for 10-15% of sales in the medium term. Importantly, the company is seeing EBITDA margins of ~15% at mature stores, so assuming this remains the case, the growing share of retail business should not necessarily be margin dilutive.
- Increasing efficiency:** Beluga has materially increased its EBITDA margin over the past two years, yet it targets a further 2-3 ppts improvement by 2024 (albeit with stable margin this year due to accelerating store openings). Profitability should be helped by premiumisation and diversification in the alcohol segment, as well as the scaling and maturity of Winelab over time. Working capital optimisation is another top priority for Beluga, which could drive material value creation, in our view, given the sensitivity of FCF to working capital trends. One of the key risks to profitability is tough price competition in the market, but as promo reached record levels last year, management does not expect additional pressure.

Raising fair value range to RUB3,577-4,468/share

We raise our medium-term revenue and EBITDA forecasts following yesterday's presentation, although we are still more conservative vs the company's guidance, and increase our fair value range to RUB3,577-4,468/share. We think management's targets are quite ambitious and will require strong execution, however Beluga's results over the past two years have been strong, which reassures us around its upbeat guidance. The stock trades on 5.8x EV/EBITDA 2021E, a 69% discount to the international peer average.

Company update

Consumer Goods & Retail
Russia

Report date: 14 May 2021
Valuation range, RUB 3,577-4,468
Current price, RUB 3,582.0

MktCap, RUBmn 45,076
Average daily volume, RUBmn 263.1
Free float, % 15
Bloomberg BELU RX

Summary valuation and financials, RUBmn (unless otherwise stated)

	2020	2021E	2022E	2023E
Revenue	63,292	72,821	81,879	93,595
EBITDA	9,207	10,401	11,490	13,371
Net income	2,801	4,104	4,678	5,597
Net debt	15,569	14,873	14,959	15,573
Net debt (excl. lease liabilities)	12,405	10,924	10,313	10,700
Dividends paid	517	1,615	1,781	2,477
Dividend yield, %	1.1	3.6	4.0	5.5
EV/revenue, x	1.0	0.8	0.7	0.6
EV/EBITDA, x	6.6	5.8	5.3	4.5
P/E, x	16.1	11.0	9.6	8.1

Priced intraday as of 13 May 2021

Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks, RUB

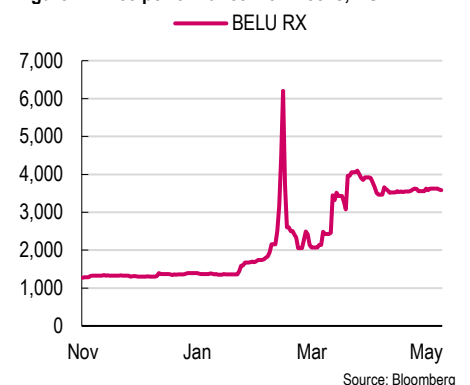


Figure 2: Beluga's total sales volume dynamics

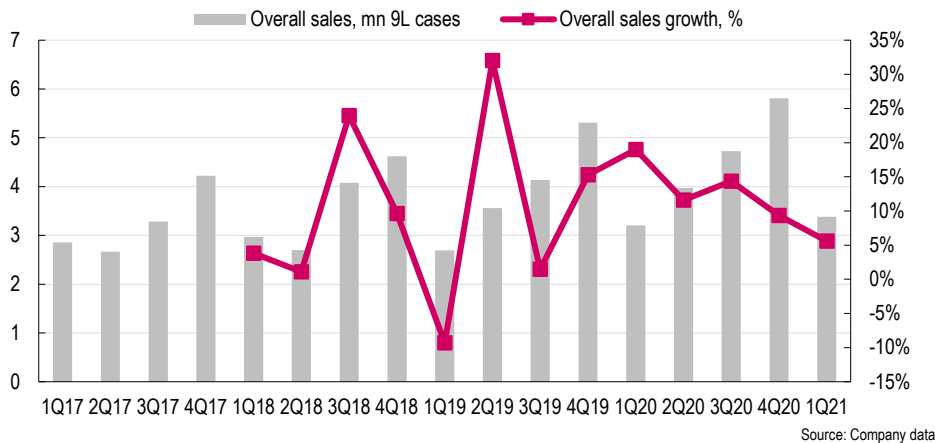


Figure 3: Beluga's own sales volume dynamics

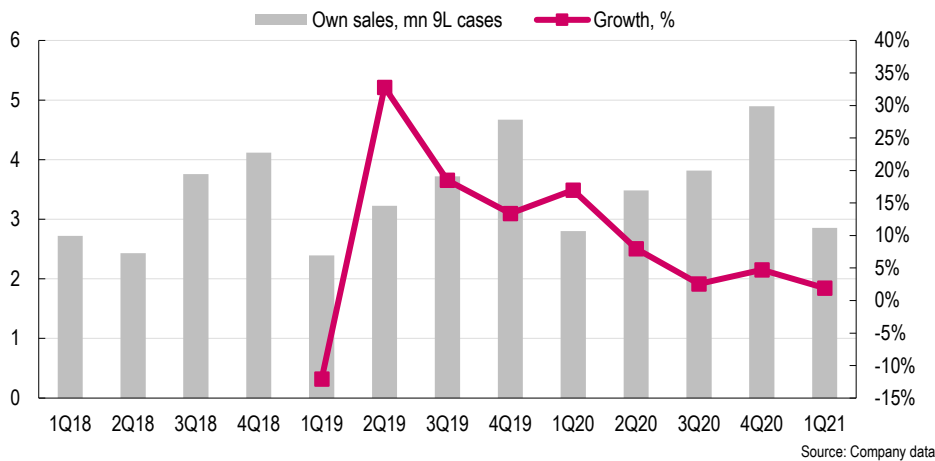


Figure 4: Beluga's imported sales volume dynamics

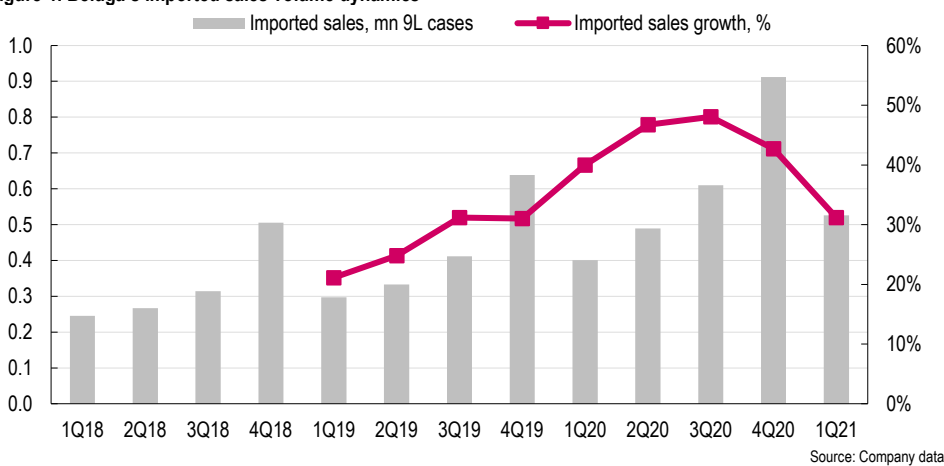


Figure 5: We forecast Beluga's EBITDA margin to be broadly stable over the medium term, which is more conservative vs management's guidance of a 2-3 ppts increase vs 2020

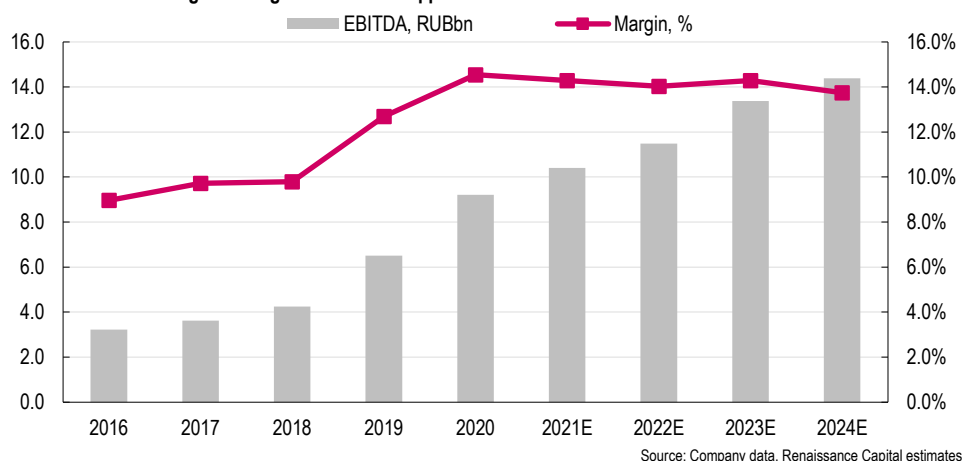


Figure 6: We expect solid earnings growth to continue in the medium term

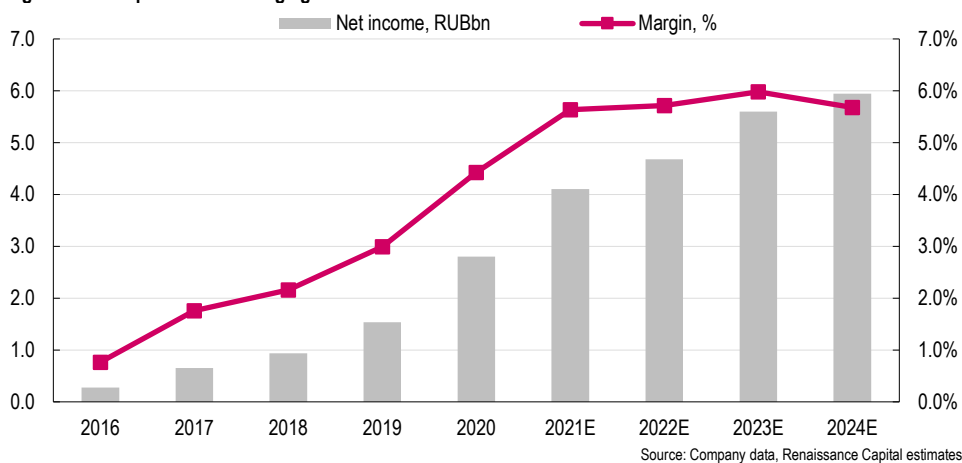


Figure 7: Beluga – income statement, RUBmn (unless otherwise stated)

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Revenue	35,903	37,303	43,411	51,270	63,292	72,821	81,879	93,595	104,665
Growth	16.9%	3.9%	16.4%	18.1%	23.4%	15.1%	12.4%	14.3%	11.8%
Cost of sales	-21,385	-23,628	-26,521	-31,916	-40,614	-46,935	-53,798	-62,329	-70,884
Gross profit	14,518	13,675	16,890	19,354	22,678	25,886	28,081	31,266	33,782
Growth	14.6%	-5.8%	23.5%	14.6%	17.2%	14.1%	8.5%	11.3%	8.0%
Gross margin	40.4%	36.7%	38.9%	37.7%	35.8%	35.5%	34.3%	33.4%	32.3%
General and administrative expenses	-2,478	-2,951	-3,102	-2,910	-2,849	-3,062	-3,213	-3,426	-3,713
Distribution expenses	-9,346	-7,719	-10,269	-11,829	-12,985	-14,573	-16,102	-17,856	-19,618
D&A	-726	-768	-978	-2,103	-2,365	-2,250	-2,823	-3,486	-4,040
Other income/expenses	-208	-157	-246	-158	-2	-100	-100	-100	-100
Operating profit	2,486	2,848	3,273	4,457	6,842	8,151	8,667	9,884	10,351
Growth	17.9%	14.6%	14.9%	36.2%	53.5%	19.1%	6.3%	14.1%	4.7%
Margin	6.9%	7.6%	7.5%	8.7%	10.8%	11.2%	10.6%	10.6%	9.9%
Net financial costs	-2,039	-1,931	-2,059	-2,392	-3,267	-2,679	-2,430	-2,422	-2,426
Profit before tax	453	926	1,214	2,065	3,575	5,472	6,237	7,462	7,925
Income tax	-178	-271	-276	-530	-774	-1,368	-1,559	-1,866	-1,981
As % of PBT	39.3%	29.3%	22.7%	25.7%	21.7%	25.0%	25.0%	25.0%	25.0%
Net income	275	655	938	1,535	2,801	4,104	4,678	5,597	5,944
Growth	14.1%	138.2%	43.2%	63.6%	82.5%	46.5%	14.0%	19.7%	6.2%
Margin	0.8%	1.8%	2.2%	3.0%	4.4%	5.6%	5.7%	6.0%	5.7%
EBITDA	3,218	3,625	4,251	6,505	9,207	10,401	11,490	13,371	14,391
Growth	11.5%	12.6%	17.3%	53.0%	41.5%	13.0%	10.5%	16.4%	7.6%
Margin	9.0%	9.7%	9.8%	12.7%	14.5%	14.3%	14.0%	14.3%	13.7%
Net debt	8,043	10,193	13,939	17,489	15,569	14,873	14,959	15,573	15,678
Net debt/EBITDA	2.5x	2.8x	3.3x	2.7x	1.7x	1.4x	1.3x	1.2x	1.1x

Source: Company data, Renaissance Capital estimates

Figure 8: Beluga – balance sheet, RUBmn

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Non-current assets									
Right of use assets	0	0	0	3,301	2,883	4,402	6,093	7,505	8,735
PP&E	6,579	6,501	9,898	10,584	9,997	11,152	12,369	13,376	14,190
Goodwill	230	230	3,511	3,511	3,511	3,011	3,011	3,011	3,011
Investments in associates	706	1,095	0	0	0	0	0	0	0
Intangible assets	8,653	8,612	10,091	10,017	10,071	10,071	10,071	10,071	10,071
Other long-term assets	115	409	530	260	289	289	289	289	289
Deferred tax assets	610	1,014	1,401	1,786	1,595	1,595	1,595	1,595	1,595
Total non-current assets	16,893	17,861	25,431	29,459	28,346	30,520	33,427	35,847	37,891
Current assets									
Inventories	8,789	9,745	12,666	16,181	16,486	18,517	20,340	23,053	26,217
Biological assets	274	240	165	159	0	0	0	0	0
Trade and other receivables	10,252	11,806	8,049	9,813	12,520	10,973	11,665	12,565	14,051
Prepayments	509	470	595	605	550	898	1,009	1,154	1,290
Income tax prepayment	25	42	133	126	157	157	157	157	157
Assets held for sale	241	12	0	0	0	0	0	0	0
Cash and cash equivalents	1,010	819	1,083	1,085	4,890	5,371	4,982	4,595	4,363
Total current assets	21,100	23,134	22,691	27,969	34,603	35,915	38,154	41,524	46,078
Total assets	37,993	40,995	48,122	57,428	63,530	67,017	72,162	77,952	84,550
Equity and liabilities									
Share capital	2,495	2,495	1,940	1,940	1,580	1,580	1,580	1,580	1,580
Own shares repurchased from shareholders	-770	-862	-545	-669	-347	-347	-347	-347	-347
Share premium	5,532	4,957	3,760	3,339	2,915	2,915	2,915	2,915	2,915
Retained earnings	11,505	12,093	13,012	14,222	15,903	18,392	21,289	24,409	27,503
Total equity attributable to shareholders	18,762	18,683	18,167	18,832	20,051	22,540	25,437	28,557	31,651
Non-controlling interest	691	765	1,136	1,201	294	294	294	294	294
Total equity and reserves	19,453	19,448	19,303	20,033	20,345	22,834	25,731	28,851	31,945
Non-current liabilities									
Loans and bonds	6,123	10,112	12,419	12,628	16,487	15,987	14,987	14,987	14,987
Long term lease liabilities	0	0	0	2,326	1,735	3,949	4,647	4,873	4,745
Deferred tax liabilities	845	844	820	1,077	1,298	1,298	1,298	1,298	1,298
Long-term accounts payable	0	0	840	580	0	0	0	0	0
Total non-current liabilities	6,968	10,956	14,079	16,611	19,520	21,234	20,932	21,158	21,030
Current liabilities									
Loans and bonds	2,930	900	467	2,388	808	308	308	308	308
Lease liabilities	0	0	0	1,232	1,429	0	0	0	0
Trade and other payables	8,423	9,355	13,917	16,800	20,262	21,474	24,025	26,469	30,101
Income tax payable	219	336	356	364	707	707	707	707	707
Total current liabilities	11,572	10,591	14,740	20,784	23,206	22,489	25,040	27,484	31,116
Total shareholders' equity and liabilities	37,993	40,995	48,122	57,428	63,530	67,017	72,162	77,952	84,550

Source: Company data, Renaissance Capital estimates

Figure 9: Beluga – cash-flow statement, RUBmn

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Cash flows from operating activities									
Profit before income tax and finance costs	2,486	2,848	3,273	4,457	6,842	8,151	8,667	9,884	10,351
Adjustments:									
Depreciation and amortisation	726	768	978	2,103	2,365	2,250	2,823	3,486	4,040
(Gain)/loss on disposal of property, plant and equipment	8	-265	-55	22	-74	0	0	0	0
Share based benefits	132	246	0	0	0	0	0	0	0
Goodwill impairment	5	0	0	0	0	0	0	0	0
Loss on change in fair value of biological assets	15	34	-22	0	0	0	0	0	0
Other non-cash transactions	23	185	105	207	95	0	0	0	0
Changes in working capital:									
(Increase)/decrease in inventories and biological assets	-1,643	-1,035	-1,576	-3,716	-475	-2,378	-1,935	-2,858	-3,300
(Increase)/decrease in accounts receivable	775	-1,743	566	-1,674	-3,033	1,547	-692	-900	-1,486
Increase/(decrease) in accounts payable	-363	918	1,476	3,172	3,211	1,212	2,551	2,444	3,633
Cash flows from operating activities	2,164	1,956	4,745	4,506	8,616	10,781	11,413	12,057	13,237
Interest paid	-2,004	-1,849	-1,927	-2,063	-2,377	-2,679	-2,430	-2,422	-2,426
Income tax paid	-63	-578	-636	-595	-125	-1,368	-1,559	-1,866	-1,981
Net cash flow from operating activities	97	-471	2,182	1,848	6,114	6,734	7,424	7,769	8,830
Cash flows from investing activities									
Acquisition of subsidiaries and associates	16	-380	-463	-551	-1,483	500	0	0	0
Acquisition of property, plant and equipment and intangible assets	-579	-918	-1,756	-1,660	-1,056	-2,381	-2,476	-2,331	-2,190
Disposal of property, plant and equipment and intangible assets	79	569	36	17	10	0	0	0	0
Net cash flow from investing activities	-484	-729	-2,183	-2,194	-2,529	-1,881	-2,476	-2,331	-2,190
Cash flows from financing activities									
Issue of shares	0	0	0	0	0	0	0	0	0
Repurchase of own shares	-179	-913	-1,281	-545	-462	0	0	0	0
Dividends paid to non-controlling interest	0	0	0	0	-517	-1,615	-1,781	-2,477	-2,850
Loans received and bonds issued	37,532	40,885	38,804	54,502	43,494	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Loans and bonds repaid	-37,117	-38,963	-37,258	-52,412	-40,878	-1,000	-1,000	0	0
Payment of lease liabilities	0	0	0	-1,197	-1,417	-1,757	-2,556	-3,349	-4,022
Net cash flow from financing activities	236	1,009	265	348	220	-4,372	-5,336	-5,826	-6,872
Net increase/(decrease) in cash and cash equivalents	-151	-191	264	2	3,805	481	-388	-387	-232
Cash and cash equivalents at beginning of the year	1,161	1,010	819	1,083	1,085	4,890	5,371	4,982	4,595
Cash and cash equivalents at end of the year	1,010	819	1,083	1,085	4,890	5,371	4,982	4,595	4,363

Source: Company data, Renaissance Capital estimates

Figure 10: Beluga – peers' valuations

Company	Currency	Share price	YtD, %	MktCap, \$mn	EV/EBITDA, x			P/E, x			EV/sales, x		
					2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Beluga	RUB	3,582.0	156.8	613	5.8	5.3	4.5	11.0	9.6	8.1	0.8	0.7	0.6
Russian retailers													
Magnit	USD	14.2	-19.1	7,251	5.5	5.2	5.1	13.8	11.9	11.0	0.6	0.6	0.6
Magnit Local	RUB	5,105.0	-9.9	6,996	5.3	4.9	4.6	13.5	12.7	11.7	0.6	0.6	0.5
Okey	USD	0.8	-12.0	202	5.1	3.3	4.1	13.2	13.7	9.7	0.4	0.3	0.3
X5	USD	31.7	-12.3	8,600	5.5	5.2	5.0	24.6	17.5	14.9	0.7	0.6	0.6
Lenta	USD	3.1	-9.0	1,520	4.1	4.0	3.9	7.0	6.8	6.6	0.3	0.3	0.3
Detsky Mir	RUB	150.5	11.1	1,496	7.1	6.5	6.0	9.9	9.2	8.5	0.8	0.7	0.7
M.Video	RUB	710.0	710.0	1,716	5.2	5.1	4.8	9.3	8.8	7.9	0.4	0.3	0.3
Average					5.4	4.9	4.8	13.0	11.5	10.0	0.6	0.5	0.5
Global alcohol producers													
Diageo PLC	GBp	3,298.5	14.6	108,475	21.1	19.1	17.9	27.7	24.5	23.3	7.2	6.7	6.5
Pernod Ricard SA	EUR	172.9	10.3	54,773	18.8	16.8	15.1	28.5	24.3	22.6	5.7	5.4	5.0
Anheuser Busch Inbev NV	ZAc	104,768.0	0.8	150,235	12.1	10.9	9.8	24.6	20.9	18.3	4.4	4.1	3.8
Heineken NV	CHF	104.8	0.0	66,464	14.6	12.7	11.4	30.8	24.2	20.8	3.2	2.9	2.7
Remy Cointreau SA	EUR	165.6	8.7	10,117	28.0	25.0	22.5	47.7	41.7	37.4	7.8	7.1	6.8
Carlsberg A/S	DKK	1,121.0	15.0	28,240	13.0	11.9	11.2	26.0	23.4	21.5	3.1	2.9	2.7
Davide Campari Milano SpA	EUR	10.2	8.8	14,277	26.8	23.2	20.9	44.1	37.3	33.7	6.6	6.1	5.7
Molson Coors Beverage Co	USD	57.4	27.0	12,428	9.0	8.3	7.8	14.8	13.6	13.0	1.9	1.7	1.7
Brown-Forman Corp	USD	76.2	-4.1	35,576	30.0	26.7	23.3	41.6	36.7	31.7	10.3	9.6	8.9
LVMH Moet Hennessy Louis Vuitton SE	USD	735.8	17.5	372,622	18.5	16.1	14.2	36.1	31.3	28.0	5.4	4.9	4.4
Constellation Brands Inc	USD	229.8	4.9	44,849	17.5	16.5	18.0	23.2	20.5	23.9	6.4	6.0	5.7
Heineken Holding NV	EUR	98.6	8.0	68,676	15.0	13.0	11.7	31.8	25.0	21.5	3.3	3.0	2.8
Boston Beer Company Inc	USD	1,054.2	6.0	12,953	24.7	17.6	13.7	41.6	30.8	24.1	5.0	3.9	3.1
Royal Unibrew A/S	DKK	780.6	10.5	6,267	20.4	19.4	18.4	30.0	28.4	26.9	5.2	5.0	4.8
C&C Group PLC	GBp	291.6	28.2	1,277	18.8	11.7	9.2	32.7	15.6	na	1.3	1.0	0.8
Stock Spirits	GBp	268.0	0.0	753	8.9	8.0	7.3	14.5	13.3	12.7	1.9	1.7	1.6
Average					18.6	16.1	14.5	31.0	25.7	24.0	4.9	4.5	4.2

Note: Multiples for Detsky Mir and M.Video are based on IAS 17.

Source: Bloomberg, Renaissance Capital estimates

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Beluga Group

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