Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2018-03-02
Event Description: Q4 2017 Earnings Call

Market Cap: 15,548.68
Current PX: 26.26
YTD Change($): +2.06
YTD Change(%): +8.512

Bloomberg Estimates - EPS
Current Quarter: -0.040
Current Year: 0.923
Bloomberg Estimates - Sales
Current Quarter: 2759.000
Current Year: 14711.615

Q4 2017 Earnings Call

Company Participants

- Çiçek Usakligil Özgünes
- John Gavin Hudson
- Onur Çevikel

Other Participants

- Robert Bonte-Friedheim
- Tristan van Strien

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to Anadolu Efes Beer Operations 2017 Financial Results Conference Call and Webcast.

I now hand over to you Investor Relations and Treasury Director, Ms. Çiçek Özgünes. Madam, please go ahead.

Çiçek Usakligil Özgünes

Hello, everyone. Welcome to Anadolu Efes' 2017 full-year results conference call and webcast. Today, we have our CEO Gavin Hudson; and our CFO, Onur Çevikel get on the call with us.

Before we start, I would like to kindly request you to refer to our notes in our presentation regarding the forward-looking statements.

I'm leaving the floor to Gavin. Sir?

John Gavin Hudson

Thank you, Çiçek. Good afternoon, all and thank you for joining us. It really is a pleasure sharing our results with you today. And we look forward to your participation, your questions, and your comments. On a consolidated basis, in 2017, we delivered solid volume performance underpinned by Soft Drinks and our international Beer business. The overall volume up 3.8% in quarter four and 4.4% for the full year of 2017. Our efficient revenue management also enabled us to deliver revenue growth well ahead of volume, with quarter four delivering the highest growth at 28% for any quarter in our business since 2012 and a very respectable 24.2% growth for the full year.

Our EBITDA margin extended by 476 basis points in quarter four, with a full-year margin at 17.2%, up from 17% in our prior year. 2017 also saw an all-time high consolidated free cash flow of just over TRY 1.3 billion with a very decent growth of 27.6%. With really good balance sheet management and significant reduction in our net leverage ratio, we are certainly happy that the business performed in line with guidance. And we are pleased to announce a dividend payment of TRY 250 million.

If we get into a bit more detail for our soft drinks business, total soft drinks grew volume by 4.1% for the full-year in 2017, with a softer 1.4% growth in quarter four. Turkey delivered an impressive 3.3% for the full-year 2017, the highest growth in five years, although with quarter four growth at a little bit less at 1.9%. Our international soft drinks volume grew just under 5% to 4.9% underpinned by our strong performances in Kazakhstan, Pakistan, Azerbaijan and Iraq, while our quarter four volume grew at lower 0.8%, driven mainly by Central Asia and Iraq.

And then more specifically on Beer, our overall Beer volume performed well with full-year 2017 growth of 5.6% and a really impressive 11% for quarter four in 2017. This growth is driven by our international operations. Our Turkey volume declined by 3.1% for the full-year 2017, although in quarter four delivering encouraging growth in domestic volumes of 5.6%. This volume in line with our guidance, and we remain optimistic on Turkey volumes.

Our international Beer operations performed exceptionally well, as you would have seen, with a 9.3% of full-year growth and a record 13.7% growth in quarter four. Efes Russia posted double-digit growth and this despite cycling a strong 2016 base and the business grew well ahead of the overall market decline, estimated at low mid-single digits. So, we're really happy with these results but for our Beer and our Soft Drinks business. Our Beer Group strategy remains unchanged, and we will continue to focus on our brands, our execution, our efficiency and our relations.

I'll hand over to Onur. He will update us in a bit more details on finance.

Onur Çevikel

Well, thank you very much, Gavin. Good morning, and good afternoon ladies and gentlemen. I would like to welcome you to our 2017 financial year results announcement of Anadolu Efes. As usual, I would like to start with Anadolu Efes consolidated performance. We recorded a sales volume of 91.3 million hectoliters in the financial year 2017, representing a growth of 4.4% compared with the same period of 2016. Our net sales revenue had a strong growth of 24.2% on a consolidated basis.

Our EBITDA BNRI was recorded to be TRY 2,228 million, with a strong growth of 25.8% compared to the same period of previous year. Our EBITDA BNRI margin was 17.2% with a slight improvement of 21 basis points, which is in line with our guidance. And net income was recorded to be TRY 149.4 million. Let me remind you that we have recorded a net loss of TRY 70.8 million in the financial year 2016.

Talking about the business segment performances, and as usual I will start with our Turkey Beer performance. In year 2017, our total Beer sales volume was recorded to be 5.8 million hectoliters with a 3.2% decline compared with the same period of previous year. [indiscernible] (00:06:21) volumes, we were able to increase our net sales by 10.4% driven by product mix improvement and price increases. Our net sales in the period was TRY 1,588.4 million on a year basis.

Our EBITDA BNRI are recorded to be TRY 401.1 million with a slight decline of 1.8%. EBITDA BNRI margin in Turkey operations was recorded as 25.3%, 313 basis points lower than the prior year. The return is mostly attributable to higher cost impact of the re-launch and relatively lower volumes compared with the prior year.

Going to our international Beer operation, we recorded a strong volume growth of 9.3% in our international Beer operation, reaching up to 15.2 million hectoliters in 2017. Major contributor to this growth was our Russian operations. Our international Beer sales revenue, on the other hand, also recorded a strong growth of 47.5% as a result of continued volume growth, price increases as well as positive currency translation effect to Turkish Lira.

If we were to look at a constant currency basis, our growth in net sales would have been around 9%. EBITDA BNRI was recorded at TRY 487.4 million in the period with a strong 49.8% growth. EBITDA BNRI margin was at TRY 17.4 million with a 27 basis points growth. We're also happy that we recorded a net income of TRY 98.7 million in our international Beer operations.

Finally, on a consolidated Beer growth basis, as mentioned, we managed to grow our volumes with 5.6% [indiscernible] (00:08:43) up to TRY 21.1 million. Our net sales revenue was recorded to be TRY 4,425.9 million with a strong 21.3% of cost. Our EBITDA BNRI was recorded to be TRY 849.7 million with a strong growth of 25.1%. Our EBITDA margin was 19.2% in the year, with a slight decline of 95 basis points. Finally, we recorded a net income of TRY 61.2 million in the year. Let me note that our net income was negatively impacted by the Ukrainian after the impairment, as well as non-cash losses.

Going to our Beer Group free cash flow. As you well know, free cash flow has been a priority for group for a couple of years. And 2017 was another year of strong free cash flow generation for our Beer Group. Free cash flow generation in the Beer segment has being realized as TRY 538.5 million in 2017.

As a result of the free cash flow generation and growth in profits, our 2017 net leverage ratios are within the comfortable zone. Net debt to EBITDA BNRI by the end of 2017 on Anadolu Efes consolidated level is at 1.4 times, with a significant improvement as it was 1.9 times in 2016. Likewise for our Beer Group, net debt to EBITDA BNRI is 1.1 times, which this ratio was 1.7 times by the end of 2016.

On the borrowing mix and liquidity profile, our Beer Group average maturity of debt is around four years, and Anadolu Efes is around 3.5 years. Our borrowing mix and repayment schedule is easily manageable.

On the other hand, 85% of our debt has fixed interest rates on Anadolu Efes consolidated level. And 91% of the debt has fixed interest rates for the Beer Group, which limits the risk of interest rate increases [indiscernible] (00:11:21).

Talking about Anadolu Efes consolidated free cash flow, I'm particularly happy to announce a record high free cash flow generation of TRY 1,314.9 million in the year 2017, following a record [indiscernible] (00:11:40) free cash flow generation of TRY 1,030,000 million in 2016. Both Soft Drink and Beer segments were able to generate strong positive free cash flow in the year. This has added a significant value to Anadolu Efes and enabled both to propose a dividend payment of TRY 250 million to the [indiscernible] (00:12:05).

So, talking a bit about our financial priorities, which has not changed much when you compare it with the previous year, is going to be sustaining a consolidated cash flow to – we're focusing on working capital optimization having a tight balance sheet management, and optimized CapEx policy, deleveraging efficiency improvements, as well as commitment to investment grade and managing the impact of FX volatility on operations is going to be our financial priorities going forward.

So, this concludes my presentation for today. I'll hand over to Gavin for his closing remarks.

John Gavin Hudson

Thanks, Onur. Before I get into the 2018 guidance, just to remind everyone that our priorities remain unchanged. And for Beer, we continue to capitalize on our strong and in fact growing brand portfolio. We continue focusing on our execution at point of sale with a focus on quality market share. And as Onur mentioned, we continue generating strong free cash flow.

For our soft drinks, we focus on accelerating revenue and margin growth, equally winning at point of sale, with the large focus on our sales force effectiveness. When we look at 2018 guidance, we need to remember that we generate all ourselves from emerging markets, so political economic and competitive instabilities continue. Geopolitical had potential impact to our combined businesses.

Having said that, our sales outlook, our guidance is mid-single digits growth on a consolidated basis. Our total Beer is flattish to low-single-digit growth. Our Turkish beer market, we see this flat to low-single-digit growth, with Turkey beer in line with the market. For Russia, the Russian beer market, we see as flattish with Russian-owned beer in line with the market. Please bear in mind, this is not assuming a new operating model, and I know we will have discussion on this shortly.

Consolidated soft drinks, our guidance is 4% to 6% growth; for Turkey soft drinks, 2% to 4% growth; and the international soft drinks between 8% and 10% growth. On a revenue basis, our objective is to outperform sales volume across our business, underpinned by our focus on value generation and ongoing premium growth.

Our EBITDA margin, slightly higher on consolidated basis, with margin improvement for Beer Group and with a slight improvement in the EBITDA margin for Soft Drinks. Our CapEx remains as a percentage of net sales at high-single digits on a consolidated basis. And with our focus on free cash flow, we remain committed to positive free cash flow in both Beer and our Soft Drinks businesses.

Okay. Thank you very much. So, we'll probably hand over for Q&A.

Q&A

Operator

Thank you. [Operator Instructions] We have a question from Robert Bonte-Friedheim from BlueCrest Capital. Please go ahead.

<Q - Robert Bonte-Friedheim>: Good afternoon, and thanks for taking the question. I don't think I'd be first in the queue. Quick question, Gavin, just wanted to follow-up I guess, first of all I didn't quite get that, remind me when do you think – first question is, so when do you think the timing is on the merger in Russia with ABI? What are the remaining steps there, one?

And two, I wanted to, if possible, drill down a little bit in your forecast of flattish volumes in Russia. When I look over the quarters of last year, it seems that your 1Q last year was a very high quarter followed by two extremely low quarters. And again, 1Q, I think, you outperformed the market quite significantly, and one could expect you to get some of that back in 1Q this year. But if I look at the much bigger quarters, 2Q and 3Q, I think you told us last year that the 2Q was the coldest 2Q in Russia for over 100 years. And then 3Q, everyone warned, because it was the wettest 3Q in memory.

And I'm just wondering if I'd look at that, those are two biggest quarters. I would get to – I think, you told us last conference call the industry has submitted the 2Q and 3Q combined effect was somewhere [ph] 68% or 69% (00:17:02). And then you add into World Cup effect and somehow, I don't know if – it's hard for indicating how much below 10% really in the Russian volume growth. I'm just wondering if you could explain again why you say flat volumes in Russia. Thank you.

<A - John Gavin Hudson>: All right. Thank you, Robert. Let me start with the first question. As we've mentioned previously, our ambition and commitment is to close with ABI in Russia in quarter one. And we are moving along swiftly, and we're still confident that we will be able to close within quarter one. And again, I'd just like to reiterate our commitment that we will have a call once we close to provide an update to the market as soon as possible. So, that, we're hoping in the next couple of weeks that we'll be able to do that.

To answer your second question. And I know you and I have had this discussion on numerous occasions, as recently as a couple of weeks ago. The market has remained negative for the large part of 2017, negative growth. And we haven't seen any recovery coming through in the overall market as yet. Certainly, we would like to be proved wrong in terms of our assumption of flattish. And certainly, there is potentially upside considering the fact that we have a World Cup and considering the fact that we had an extremely cold snap last year in terms of the weather.

So, I would say, our guidance is flattish, but we would like to be proven wrong in terms of that. And certainly, Nielsen haven't given us any indication that there will be a significant increase at this point in time. So, safe to stay flat, with I think potential upside, which we would love to have.

<Q - Robert Bonte-Friedheim>: Okay. Wonderful. Thanks for those two answers. Cheers.

Operator

Our next question is from [indiscernible] (00:19:09). Please, go ahead.

<Q>: Thank you for the presentation. My question is again related to Russia. What was the reason behind your market share increase, because in a declining market, you had a significant market share. I'd like to understand what you did different to gain market share, that's my first question. Second question is about the domestic markets. How do you see the outlook at least in the first half of the year, because we have hot weather conditions so far, and we see positive indications in the Coca-Cola side? What's the picture on your side in the domestic markets? And another question related to your strong margin in international operations in fourth quarter, does it look sustainable, and what was the reason behind that you know strong numbers thank you?

<A - John Gavin Hudson>: All right. Thanks very much for the questions. On Russia market share, I'll answer it. We're obviously very pleased with our share performance up to 15% share coming off a very low sort of 13.7%, 13.5% share. We believe this is attributable to a couple of reasons. The first is we've increased our participation in the modern trade. We were slightly underrepresented in the modern trade, and this is historic for our Efes Russia business. And we believe that having a solid presence in the growing modern trade has enabled us to gain back our relative share. We've had good growth at the mainstream segment, and we relaunched one of our brands Stary Melnik iz Bochonka, and we saw significant growth coming out of that, that enabled our share growth.

And then lastly, I've spoken about this on numerous occasion is that our appropriate participation in what we call [indiscernible] (00:21:15) segment has also enabled us to grow significant volume in Russia. So, I think it's a combination of a couple of reasons as to our share growth. And obviously, you know the team have done exceptionally well in terms of executing a point-of-sale in the traditional trade. We've been able to largely maintain our share of the traditional trade where in many of our competitors have a natural effect on [indiscernible] (00:21:41) in traditional trades, and then obviously grow in the modern trade.

With regard to your second question in terms of the domestic market, we don't give additional guidance in terms of – we hold it out – I will just ask Onur just to talk about the margins.

<A - Onur Çevikel>: Well, thank you very much, and thank you very much for the question. As with regards to your question on the international margins, well international margins are basically – the fourth quarter numbers are basically affected by again the strong volume growth, as well as some of the expense initiations that we have been having coming throughout the year, as well as the base impact that we have been having in our base as well as the favorable FX moves that we have being having in our operations.

But just looking at only one quarter numbers, I say sometimes misleading as there might be some phasing of the expenses, some phasing and timing differences, between the recognition of the expenses. That's why we are more focused on our full year numbers. And as you're seeing, as I said in my presentation, we are able to deliver the 17.4% of the EBITDA margin in our international operations, and we will do our best to do better in the year 2018.

<Q>: Thank you.

Operator

Our next question is from Tristan van Strien from Redburn Partners. Please go ahead.

<Q - Tristan van Strien>: Hi. Good afternoon, gentlemen. Two questions please. One, Gavin, can you maybe give a bit of color both in Turkey and in Russia in terms of the pricing environment, and the competitive environment, and the ability to take pricing in that environment. And are you able to get back to an inflationary pricing level as well? How should we think about that?

And then second I guess the provision for the impairment in the Ukraine, can we assume that was taken or that was tested in terms of a business as is? In other words, when the deal goes through with ABI, we could probably look at a reversal of that provision? Thank you.

<A - John Gavin Hudson>: Hi Tristan, thanks for the question. I mean, let me answer, as far as the first issue on Turkey pricing, what we have seen in the last sort of year, I suppose, is that government seems to have been reducing the impact on pricing through inflation to levels in line with inflation, which is very encouraging for us, because previously, it was well ahead of inflation. We also have a big draw to increase our prices below inflation and obviously trying to make up the difference through efficiency in our operation.

From a competitive perspective, in Turkey, obviously it remains very competitive. Last year, we relaunched, as you know our, Efes brand in the Efes family. And we're comfortable that the launch went very well, and we're seeing positive signs in terms of our brands and the brand health, the brand love score. So, that's important, but obviously, the competitor isn't resting on their laurels, and we see them coming back strongly. And obviously, we have our plans in place to continue competing this year. So, certainly very competitive and we don't want to destroy any value in the market, so we're trying to focus on the consumer and trying to focus on ongoing value-add.

<Q - Tristan van Strien>: Okay. And then in Russia?

<A - John Gavin Hudson>: Yeah. Obviously, in Russia, we're looking at having two plants. We're fortunate that there's no excise increase in Russia in this year. The government has held over the excise increase, which is very positive for us. And we're focusing at the moment on a dual-plan approach. I suppose we have our current plan at Efes Russia. And as many of you will know, we've already been working on our integration plants with ABI, integrating Efes business and the ABI business in Russia. And those are well done and well-developed and are literally ready to go live. So, once we get the overall green light, we will be implementing what we may call [indiscernible] (00:26:35) for want of a better word.

<A - Onur Çevikel>: And Tristan, I will answer your question on the Ukrainian impairment. It's a very nice question actually. It is, in fact, an asset impairment, which is recovering about [indiscernible] (00:26:57) so, that's why I said this is a very nice question. But these 2017 financials are standalone financials, so this has got no relationship with the deal that's going on with ABI, Russian and Ukrainian business. And this recovery will be happening, when the political situation in that region is going to be reaching through a consensus point. Only after that, we will be able to recover this asset impairment that we had in UK. And so, it's not going to be linked with the ABI here, it's going to be more linked with the situation in the region improving.

<Q - Tristan van Strien>: That's very clear. Thanks, Onur. Thank you.

<A - John Gavin Hudson>: Thanks, Tristan.

Operator

We have no further questions at this time. [Operator Instructions] We have a follow-up question from Robert Bonte-Friedheim from BlueCrest Capital. Please go ahead.

<Q - Robert Bonte-Friedheim>: Hi, and thanks for taking the question. I just want to go back in the queue. Gavin, I think the last time that we spoke you gave us sort of a line of sight about you wanted to get towards, in Turkey, sort of 30% EBITDA margin. I think your team, you mentioned at the time was just working in the next room.

And I'm wondering now that we're much closer into the year into 2018, and again, you have presumably full business plan and kind of you're seeing how the year shapes up. Can you give us again – I always cared not about the short term, but more about the medium term. How should we think about your Turkey EBITDA margin sort of maybe over the next couple of years as you kind of right size the cost expenditure to the much lower volume compared to a couple of years back?

<A - John Gavin Hudson>: Yeah. Thanks, Robert. Yeah, I mean it's a fair question. Certainly, I think our ambition remains the same in the medium to long-term. At this early on in the year, as I mentioned to Tristan, the business, it remains competitive, so for me to give you an exact number at this point in time is very difficult. But our plans are still cost, and we believe we should be able to get closer to the 30% over to medium team.

<Q - Robert Bonte-Friedheim>: And does that include sort of the does that include sort of the benefits from the Istanbul brewery and again can you just remind us maybe that one specifically. What are the benefits this year of that one?

<A - John Gavin Hudson>: Obviously, that excludes. I mean obviously the closure of the Istanbul plant is – we get benefits from that in terms of our cost base as the actual plant, the property and what we plan to do with that properties is not included in that discussion at this point in time. But certainly, we are looking at how best to utilize that asset and obviously is a very, very valuable asset. And we will be communicating hopefully during this year further plans on Istanbul property and the plant.

<Q - Robert Bonte-Friedheim>: Got you. And just in specific, to the savings this year, the operating saving, can you give us a range of how much you saved perhaps this year from having one brewery less in Turkey?

<A - Onur Çevikel>: Well actually we haven't disclosed that number, Robert. So, we will keep it as undisclosed at this point in time.

<Q - Robert Bonte-Friedheim>: Okay. Thank for taking the questions. Cheers.

<A - John Gavin Hudson>: Thanks, Robert.

Operator

Ladies and gentlemen, we have no further questions at this time. [Operator Instructions] We have a question from [indiscernible] (00:31:08). Please go ahead.

<Q>: Hi. Thank you for taking the questions. I have a follow-up question on the Turkish market. Your revenue per liter was very strong in the last quarter. That's obviously not only the price increase, but the particular sales mix. Can you please elaborate on that, and whether that sort of mix is probably going to be whether or not attained in the coming quarters or not? Thank you.

<A - John Gavin Hudson>: Yeah. Thank you. Thank you for the question, [indiscernible] (00:31:40). As you might be aware, we relaunched our Turkey brand, and there was a lot of activity in the market going into the second half of the year, as opposed to the first half, we were obviously planning for the relaunch, which took place around the July 3. So, we certainly believe that the energy from the relaunch and activation in the marketplace benefited us. Certainly, our vision is to continue with that performance, but it is a competitive environment. Giving you specific numbers in the short-term and for H1 will certainly be difficult at this point in time. But we stick with our guidance as provided early on.

<Q>: Okay. Thank you.

Operator

[Operator Instructions] We have no further questions. Mr. Gavin Hudson, back to you for the conclusion.

John Gavin Hudson

Well, thank you very much for the questions we have received. Certainly, we're always open to engage with questions and comments, and we look forward to sharing our Russia plans with you in the very near future. And we will be communicating that as soon as possible. Also, thanks to the team for your contribution and support.

Onur Çevikel

Thank you much, everyone.

Operator

Ladies and gentlemen, this concludes our conference call. You may now disconnect.