

BELUGA Group

Strong EPS growth drives dividend payout

- BELUGA Group (MOEX: BELU) reports strong financial results for FY2020.** The company's revenue after VAT and excise duties grew 23% YoY to RUB63.3bn in AH2020, driven by 11% YoY volume growth and stronger retail operations. Its sales volumes increased by 10.7% YoY in FY2020 to 17.37mn 9L cases. EBITDA increased to RUB9.2bn, up 42% YoY, and net profit increased 82% YoY to RUB2.8bn. The company sold its non-core poultry division in the Saratov region and reported a loss from discontinued operations of RUB342mn for 2020 as a whole. Net income was hampered by a RUB630mn one-off FX loss for the year. Overall, the BELU's gross margin was 36% in 2020 compared with 38% in 2019 while its operating margin reached 10.8% in 2020 versus 8.7% in 2019. The company cut its general and administrative expenses by 2.1% YoY over the year. Distribution expenses increased 9.8% YoY in 2020 on the back of increased retail volumes. The company reported an 82.5% increase in net profit to RUB2.8bn and EPS of RUB197.47 per share, up from RUB103.71 per share a year ago.
- Beluga Group confirmed its leading position among alcohol producers in Russia.** The group ranked as the number one vodka and LVI producer by production volume in Russia in 2020 with a 13.1% market share and also as the number one flavoured liquor producer with 18.7% market share. BELU also reached 41.9% market share in whiskey production in Russia and 11.7% in the brandy segment. BELUGA Group was the third bestselling vodka brand globally in 2020, the fourth most popular global vodka producer by volume and the ninth most popular spirits company globally. Arkhangelskaya vodka was ranked #1 by volume vodka in Russia in the 2020 Niesen Top growing brands list. The company invests in new brands, including Orthodox, Parka and Tete de Cheval which were successfully launched in 2020. New partner brands such as Fireball, J.P. Chenet, Noy and Mateus were also added to the portfolio.
- Retail chain WineLab provided a strong platform for group growth during the pandemic.** Retail revenue grew 46% YoY in 2020 and EBITDA growth reached 95% YoY. The increasing number of WineLab stores operating profitably and the operating of more stores were key growth drivers last year. Group CEO Alexander Mechetin said that WineLab represents an efficient platform for the quick launch of new brands for the company and has strong synergies with the group's own production facilities. The group operates a portfolio of over 150 brands, offering a wide range of brands for its own retail chain. The group plans to increase its number of stores to 1,000 in 2021 and up to 1,500 over the next three years. We believe the capex associated with this store ramp-up could reach RUB1,700mn for 2021. WineLab plans to open more stores in those regions where it already has a strong presence: Moscow, St Petersburg and the Far East. WineLab generated 32% of BELUGA Group's EBITDA in 2020 with BELU selling 10% of its in-house brands and 39% of its partners' brands via the WineLab platform in the year. WineLab's e-commerce business benefited from the coronavirus lockdown periods with the omnichannel platform registered 17,500 orders a month and fast becoming a highly significant sales platform.
- Beluga Group board recommends RUB90 dividend for 2020, giving full-year 2020 dividend of RUB100.** The payout ratio is a 50.2% of IFRS net profit for 2020. The company's shareholders are expected to approve the dividend at the AGM stated for 22 April 2021 with the record date set for 6 May 2021. We believe that the company could consider increasing its free float by selling some treasury stock, thereby improving its stock liquidity. BELU confirmed the upswing trend in sales in 2021 so far, citing 7%+ delivery growth in January-February. We adjust the valuation range for our 12-month fair value to RUB3,757-4,949 per share. The company achieved 73% stock price growth YTD. BELU stock is trading at an EV/EBITDA of 3.3x-4.6x and a P/E of 5.7x-7.5x based on FY2021-2022 estimates, a 77-85% discount to its global peers and 52-55% discount to Russian consumer peers based on 2021-22 EV/EBITDA.

Report date:	15 March 2021
Ticker	BELU
Main exchange	MOEX
Current Price, RUB	2,423
Number of shares issued	15,800,000
Number of shares outstanding	12,416,947
Current MCap, RUB mn	30,086
Free float, %	17%

BELUGA Group is one of the largest companies in Russia's alcohol market. The Group operates a portfolio of own and imported brands, producing and selling top-quality alcohol in the spirits and wine segments. The Group controls c. 13.1% of vodka and 18.7% of flavoured liquor production in Russia in 2020. The Group's key brands are vodkas Beluga, Myagkov, Belenkaya, Arkhangelskaya, Tsar, Snow Owl and, Copper Horse; sparkling wine Vogue; and brandies Golden Reserve and Bastion. The Group's products are sold in over 90 countries.

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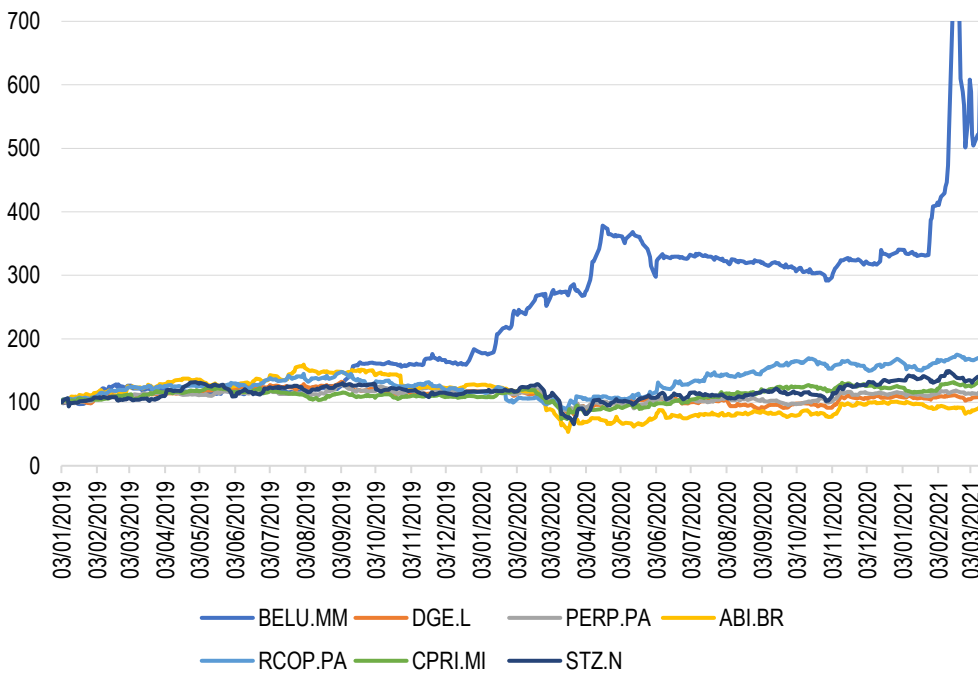
Marina Alekseenkova
Research analyst
+44 (0) 78527 00371
ma@hypothesisresearch.co.uk

Figure 1. BELUGA Group sales volumes growth in FY2020

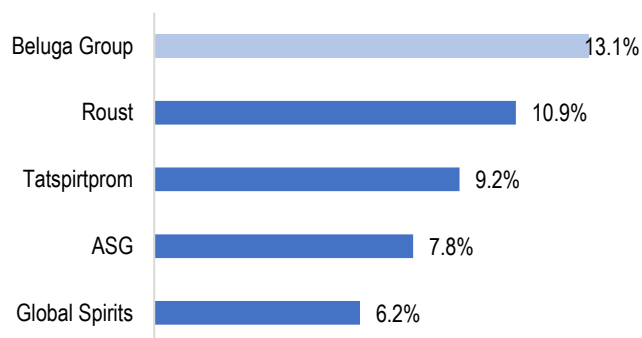


Source: company data

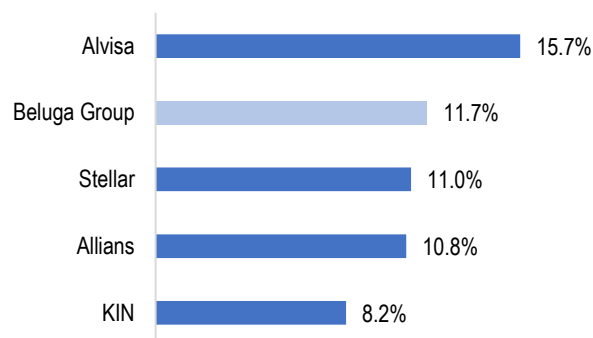
Figure 2. Alcoholic drinks sector relative share price performance (3/1/2019=100)



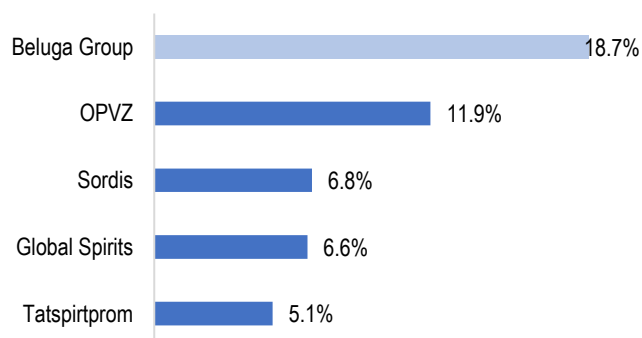
Source: Datastream

Figure 3. Top-5 Russian vodka and LVI producers - market share

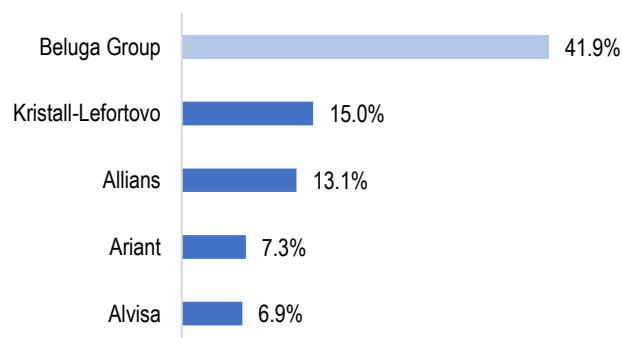
Source: Rosstat 2020

Figure 4. Top-5 Russian brandy producers – market share

Source: Rosstat 2020

Figure 5. Top-5 Russian flavoured liquors producers – market share

Source: Rosstat 2020

Figure 6. Top-5 Russian whiskey producers – market share

Source: Rosstat 2020

Figure 7. BELUGA Group condensed statement of profit and loss, RUB mn

RUB mn	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	37,303	43,411	51,270	63,292	70,078	82,311	95,121	108,942	123,182
Cost of sales	23,628	26,521	31,916	40,614	44,452	51,851	59,734	68,020	76,738
Gross profit	13,675	16,890	19,354	22,678	25,626	30,460	35,387	40,923	46,444
Gross margin	36.7%	38.9%	37.7%	35.8%	36.6%	37.0%	37.2%	37.6%	37.7%
G&A	2,951	3,102	2,910	2,849	3,398	3,963	4,566	5,199	5,866
Distribution expenses	7,719	10,269	11,829	12,985	14,212	16,578	19,098	21,747	24,534
Operating profit	2,848	3,273	4,457	6,842	8,014	9,916	11,720	13,973	16,040
Operating margin	7.6%	7.5%	8.7%	10.8%	11.4%	12.0%	12.3%	12.8%	13.0%
Net finance costs	1,931	2,059	2,392	3,267	2,648	2,902	3,077	3,057	2,953
Profit before tax	917	1,214	2,065	3,575	5,365	7,015	8,643	10,915	13,087
Income tax	262	276	530	774	1,341	1,754	2,161	2,729	3,272
Net income	655	938	1,535	2,801	4,024	5,261	6,482	8,187	9,815
Net margin	1.8%	2.2%	3.0%	4.4%	5.7%	6.4%	6.8%	7.5%	8.0%
EBITDA	3,616	4,251	6,505	9,207	10,149	12,157	14,172	16,609	18,635
EBITDA margin	9.7%	9.8%	12.7%	14.5%	14.5%	14.8%	14.9%	15.2%	15.1%
EPS	35	68	104	197	324	424	523	660	791

Source: company data, Hypothesis Research

Figure 8. BELUGA Group condensed balance sheet, RUB mn

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Assets									
Non-current assets									
PPE	6,501	9,898	13,885	12,880	13,179	14,428	15,507	15,262	15,159
Goodwill	230	3,511	3,511	3,511	3,644	3,772	3,904	4,021	4,142
Investment in associates	1,095								
Intangible assets	8,612	10,091	10,017	10,071	10,454	10,820	11,198	11,534	11,880
Other long-term assets	409	530	260	289	300	310	321	331	341
Deferred tax assets	1,014	1,401	1,786	1,595	1,656	1,714	1,774	1,827	1,882
Total non-current assets	17,861	25,431	29,459	28,346	29,232	31,044	32,704	32,975	33,404
Current assets									
Inventories	9,745	12,666	16,181	16,486	23,755	27,708	31,921	36,349	41,007
Biological assets	240	165	159	-	217	255	295	338	382
Trade and other receivables	11,806	8,049	9,813	12,520	14,373	16,882	19,509	22,344	25,264
Prepayments	470	595	605	550	827	971	1,122	1,286	1,454
Income tax prepayment	42	133	126	157	175	205	236	269	303
Assets held for sale	12								
Cash and cash equivalents	819	1,083	1,085	4,890	301	527	818	1,708	1,758
Total current assets	23,134	22,691	27,969	34,603	39,648	46,548	53,902	62,292	70,168
Total assets	40,995	48,122	57,428	63,530	68,880	77,592	86,606	95,267	103,572
Total equity attributable to shareholders of PAO Beluga Group	18,683	18,167	18,832	20,051	22,055	24,675	27,903	31,980	36,868
Non-controlling interest	765	1,136	1,201	294	323	362	409	469	541
Total equity and reserves	19,448	19,303	20,033	20,345	22,378	25,037	28,312	32,449	37,409
Non-current liabilities									
Loans and bonds	10,112	12,419	12,628	16,487	18,487	17,487	16,487	16,819	16,686
Long-term accounts payable	-	840	580	-	808	942	1,086	1,236	1,395
Deferred tax liabilities	844	820	1,077	1,298	1,500	1,750	2,016	2,295	2,590
Total non-current liabilities	10,956	14,079	16,611	19,520	22,270	21,432	20,654	21,257	20,671
Current liabilities									
Loans and bonds	900	467	2,388	808	1,808	5,308	8,308	8,476	8,409
Trade and other payables	9,355	13,917	16,800	20,262	20,963	24,452	28,170	32,077	36,189
Income tax payable	336	356	364	707	175	205	236	269	303
Total current liabilities	10,591	14,740	20,784	23,206	24,233	31,122	37,640	41,562	45,493
Total shareholders' equity and liabilities	40,995	48,122	57,428	63,530	68,880	77,592	86,606	95,267	103,572

Source: company data, Hypothesis Research

Figure 9. Comparable multiples for the consumer and alcoholic drinks sector

Company name	Market Cap., \$mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Beluga Group	411	638	7.5	5.7	4.6	4.6	3.8	3.3	0.7	0.6	0.5
<i>Discount to Global peers</i>			-75%	-78%	-80%	-85%	-77%	-78%	-86%	-87%	-88%
<i>Discount to Global Spirits peers</i>			-79%	-81%	-83%	-79%	-80%	-82%	-90%	-91%	-91%
<i>Discount to Russian peers</i>			-68%	-75%	-75%	-55%	-52%	-56%	-20%	-23%	-30%
Global Alcoholic Drinks											
Diageo PLC	97643	117120	26.4	23.5	21.7	20.3	18.6	17.3	6.9	6.5	6.2
Pernod Ricard SA	50464	60258	29.1	25.6	22.9	19.6	17.7	16.3	5.9	5.5	5.3
Anheuser Busch Inbev NV	106389	199632	20.5	17.5	15.6	10.6	9.9	9.3	3.9	3.7	3.6
Heineken NV	62594	80590	27.7	22.1	19.5	14.1	12.3	11.3	3.2	2.9	2.8
Remy Cointreau SA	9774	10223	61.9	49.0	43.2	33.5	28.2	25.4	8.4	7.6	7.0
Carlsberg A/S	24806	29020	22.1	19.5	17.5	12.0	11.2	10.6	2.8	2.7	2.6
Davide Campari Milano SpA	13648	14801	43.7	36.6	33.2	26.9	23.7	21.9	6.6	6.2	5.8
Molson Coors Beverage Co	10114	17828	11.9	11.1	10.6	8.3	8.1	8.0	1.7	1.7	1.7
Brown-Forman Corp	33498	35051	42.2	38.5	34.9	30.1	27.5	25.5	10.3	9.6	9.1
LVMH Moët Hennessy Louis Vuitton SE	340800	361625	36.9	32.3	28.7	18.1	16.0	15.1	5.4	5.0	4.6
Constellation Brands Inc	43911	55083	23.8	22.1	18.9	17.4	16.8	15.4	6.5	6.5	6.1
Heineken Holding NV	26958	53161	23.5	17.6	15.6	NaN	NaN	NaN	2.0	1.8	1.8
Boston Beer Company Inc	13321	13162	46.7	37.0	32.1	26.8	20.6	17.5	5.4	4.4	3.9
Royal Unibrew A/S	5298	5640	25.7	24.2	22.8	17.8	17.1	16.3	4.4	4.3	4.1
C&C Group PLC	1301	1745	NaN	24.9	14.9	192.1	13.8	10.8	1.6	1.1	1.0
Stock Spirits	771	798	15.5	14.7	13.8	9.5	9.1	8.6	1.9	1.9	1.8
Average			30.5	26.0	22.9	30.5	16.7	15.3	4.8	4.5	4.2
Global Spirits average			34.9	30.3	27.2	21.9	19.7	18.2	6.5	6.1	5.7
Magnit PAO	7142	14583	12.6	12.3	11.2	6.7	5.9	7.7	0.6	0.6	0.6
X5 Retail Group NV	9152	19389	16.3	13.8	11.7	6.2	5.7	5.2	0.7	0.6	0.6
Lenta Ltd	1708	2971	8.5	8.8	NaN	5.1	5.1	5.4	0.5	0.5	0.4
O'Key Group SA	215	991	22.6	11.2	11.0	5.4	5.1	4.7	0.4	0.4	0.4
Detskiy Mir PAO	1407	2164	10.3	9.1	8.8	7.2	5.7	5.1	1.0	0.9	0.8
Eurocash SA	491	1195	19.1	14.9	12.2	5.5	5.3	4.8	0.2	0.2	0.2
Sok Marketler Ticaret AS	1031	1202	23.5	18.3	NaN	4.0	3.4	NaN	0.4	0.3	NaN
Dino Polska SA	6642	6885	32.0	24.9	21.4	20.3	16.0	13.6	2.0	1.6	1.4
BIM Biresik Magazalar AS	5798	6105	16.9	14.2	NaN	8.3	7.2	NaN	0.7	0.6	NaN
Migros Ticaret AS	969	1437	31.0	15.6	11.3	4.2	3.8	3.3	0.3	0.3	0.2
LPP SA	4109	4521	NaN	44.6	30.6	12.3	11.3	8.5	2.0	1.8	1.6
Ros Agro PLC	1641	2899	5.1	7.1	7.3	6.4	7.5	7.3	1.4	1.3	1.2
CCC SA	1368	2180	NaN	67.3	26.0	36.2	9.6	8.5	1.6	1.2	1.1
Shoprite Holdings Ltd	5724	7262	17.3	16.0	14.5	7.6	7.1	6.7	0.7	0.6	0.6
President Chain Store Corp	10361	12038	26.5	24.7	20.2	13.0	13.5	11.0	1.2	1.2	1.1
GS Retail Co Ltd	2503	5152	14.1	11.8	9.9	7.1	7.0	6.6	0.6	0.6	0.6
Pick N Pay Stores Ltd	1721	2673	20.9	16.9	14.5	7.1	6.4	6.4	0.4	0.4	0.4
BGF Retail Co Ltd	2638	2745	18.1	16.0	15.8	6.6	6.4	5.6	0.5	0.4	0.4
Grupo Comercial Chedraui SAB de CV	1475	2793	11.9	11.0	9.8	5.5	5.2	4.9	0.4	0.4	0.4
Sumber Alfaria Trijaya	2841	2926	36.9	31.5	26.2	10.8	9.6	8.8	0.6	0.5	0.5
Taiwan FamilyMart	2110	2688	27.5	24.1	21.5	7.5	6.8	6.2	0.9	0.8	0.8
Jiajiayue Group	2119	1958	26.6	21.6	18.5	11.7	9.6	9.4	0.7	0.6	0.5
La Comer SAB de CV	1527	1445	28.3	24.4	22.7	9.8	8.1	7.9	1.0	0.9	0.9
7-Eleven Malaysia Holdings	376	644	23.0	19.2	18.1	7.7	8.2	7.9	0.9	0.8	0.8
Russian peers average			12.6	10.4	10.0	6.1	5.8	5.9	0.8	0.7	0.7
Consumer and retail average			23.4	23.2	18.3	10.3	8.0	7.5	0.8	0.7	0.7

Source: Thomson Reuters, Hypothesis Research

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