

BELUGA Group

9M2020 operating results

▸ **BELUGA Group (MOEX: BELU) reports strong operating results for 9M20.**

Sales volumes increased by 11.4% YoY in 9M20 to 11.6mn 9L cases. The company's own brands sales grew by 8.1% YoY to 10.1mn 9L cases and sales of imported brands increased by 41.8% YoY to 1.5mn 9L cases. The company reported significant growth in own vodka brands Arkhangelskaya and Belenkaya of 85% YoY and 20% YoY respectively. Fox & Dogs whiskey sales added 60% YoY in volume terms. Partner brands, including Barcelo rum, Torres brandy, and Grant's whiskey, were other drivers of sales volume growth. Sales of wine, including such brands as Torres, Faustino, Barefoot, Cono Sur, and Masi, demonstrated a positive YoY dynamic. Two newly added to the portfolio brands Noy and Mateus contributed to the company's overall volume growth. Beluga brand came under pressure due to the COVID-19 pandemic in European markets and the global travel retail restrictions; however, it improved its market position in the US, with sales up by 38% YoY, supported by volume growth of 28.7% YoY in California, 65.4% YoY in New York, and 23% YoY in Florida. Beluga vodka sales also increased in Germany, Poland, and Australia. BELUGA Group reported a like-for-like sales increase of 23.5% YoY for the WineLab retail chain, which includes over 620 stores. The average ticket also grew by 10.7% YoY. The omni-channel model, which combines online sales with WineLab store chain, works well in the Russian alcohol market, where there is a legal ban on the online sale of alcohol to customers. The share of e-commerce sales (click & collect) in WineLab's total revenue increased to 2.3% in September 2020 compared to 0.6% in September 2019.

▸ **Company demonstrates strong market position and remains undervalued vs peer group.**

The company's operating performance, supported by retail sales dynamics, demonstrates a sustainable business model. The global environment for spirits is improving in the US and EU. The alcoholic drinks market demonstrates strong performance in the US, according to Diageo, driven by strong off-trade demand and re-opening of on-trade channel in the EU and China. Russian market with a traditionally dominating off-trade channel provides an opportunity in the e-commerce. BELU stock is trading at 2020-2022 EV/EBITDA of 3.8x-4.4x and P/E of 4.2x-7.8x, and a 49-56% discount to its global peers based on EV/EBITDA'20-22. The discount to Russian consumer peers is 69-80% based on EV/EBITDA'20-22 and 78-84% based on P/E'20-22. Our valuation range for the 12-month fair price is RUB1,472-2,074 per share.

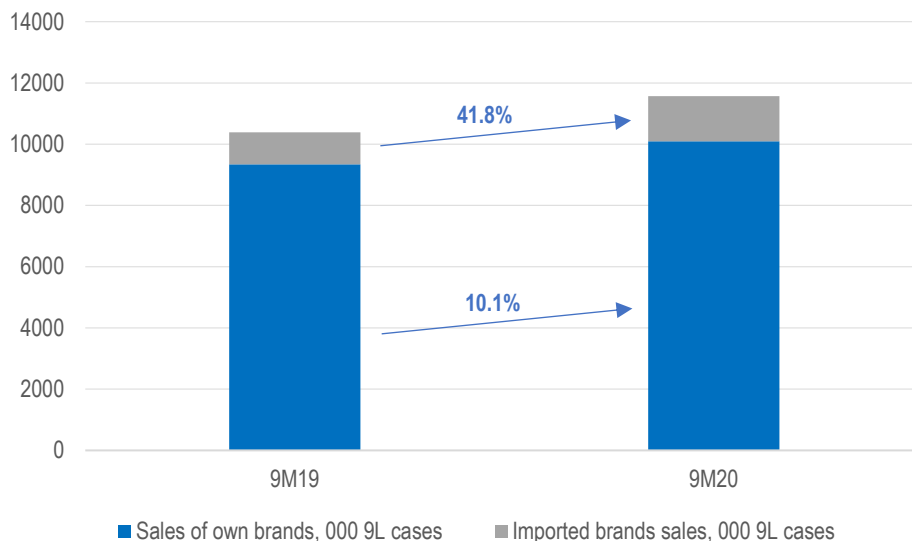
Report date:	9 October 2020
Ticker	BELU
Main exchange	MOEX
Current Price, RUB	1,251
Number of shares issued	15,800,000
Number of shares outstanding	12,610,000
Current MCap, RUB mn	15,775
Free float, %	17%

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. 12.6% of vodka and 16.5% of brandy production in Russia in 1H20 and 16.7% of flavored liquors output. 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.

BELUGA Group is a research client of Hypothesis Research Limited.

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Figure 1. BELUGA Group sales volumes dynamics in 9M2020, 000 9L cases



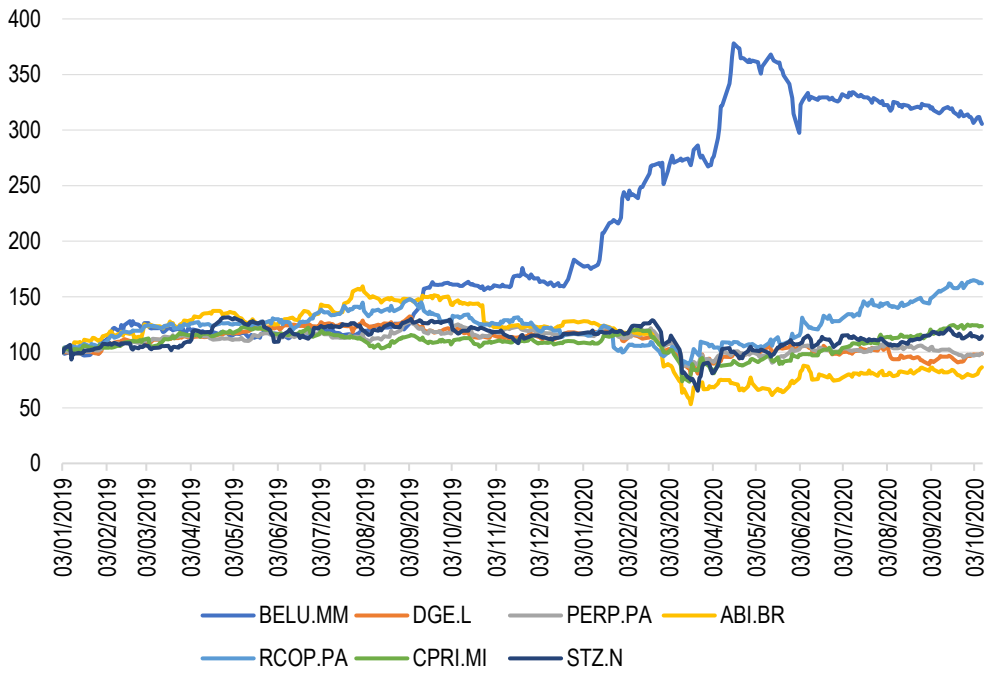
Source: company data

Figure 2. Comments on alcoholic drinks market performance

Market	Comment as of September 2020
US	<ul style="list-style-type: none"> • Strong performance of spirit sector within the total beverage alcohol market • Re-stocking in the off-trade channel due to improving confidence of retailers • Opening of on-trade channel in all states with some capacity restrictions
EU	<ul style="list-style-type: none"> • Robust off-trade demand • Largely re-opened on-trade channel with the easing of lockdown measures in most countries • Risk of additional restrictions (UK, France, Spain and others) • Travel retail severely impacted
China	<ul style="list-style-type: none"> • On-trade channel continues to recover • Large banqueting occasions reopening slow •
Russia	<ul style="list-style-type: none"> • Strong performance of off-trade channel • Restrictions due to CWD-19 could be implemented in some regions • Opportunities due to the at-home occasion and in the e-commerce sector •

Source: Diageo, Hypothesis Research

Figure 3. Alcoholic drinks sector share price performance



Source: Thomson Reuters

Figure 4. 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	203	418	7.8	5.3	4.2	4.4	4.1	3.8	0.5	0.5	0.5
<i>Discount to Global peers</i>			-78%	-80%	-82%	-78%	-75%	-75%	-89%	-89%	-90%
<i>Discount to Global Spirits peers</i>			-79%	-82%	-84%	-80%	-79%	-79%	-92%	-92%	-92%
<i>Discount to Russian Consumer and Retail</i>			-69%	-80%	-77%	-56%	-49%	-49%	-33%	-29%	-28%
Global Alcoholic Drinks											
Diageo PLC	81767	101848	24.5	21.4	20.2	19.7	17.9	16.6	6.7	6.3	6.1
Pernod Ricard	42161	52410	25.8	22.2	20.4	17.7	15.8	14.7	5.4	5.1	4.8
Anheuser Busch Inbev	100220	196053	28.8	18.3	16.5	11.8	10.5	9.9	4.3	4.0	3.9
Heineken NV	55166	75963	39.1	23.9	20.3	16.4	13.2	12.1	3.2	3.0	2.9
Remy Cointreau	9123	9616	66.3	50.7	43.6	34.2	28.3	25.5	8.3	7.5	7.0
Carlsberg	21066	25071	23.3	20.2	17.9	11.5	10.6	10.0	2.7	2.5	2.4
Davide Campari Milano	12691	13735	50.9	39.2	34.4	30.1	24.8	22.6	6.8	6.2	5.9
Molson Coors Beverage	7877	16048	10.1	9.4	9.2	7.7	7.5	7.3	1.7	1.6	1.6
Brown-Forman Corp	35992	37789	40.2	40.8	37.7	31.5	29.1	27.3	11.1	10.5	10.0
LVMH	241712	269149	52.3	30.5	26.2	21.0	15.8	14.2	5.1	4.3	4.2
Constellation Brands	35732	47444	20.1	18.4	15.8	15.6	14.8	13.6	5.8	5.7	5.4
Boston Beer Company	11233	11152	72.6	53.1	40.8	38.9	27.7	20.6	6.6	5.0	4.0
Royal Unibrew	5059	5394	28.6	25.7	24.1	18.8	17.4	16.6	4.5	4.3	4.2
C&C Group	777	1161	NaN	10.9	8.5	22.2	8.6	7.6	1.0	0.7	0.7
Stock Spirits	566	631	11.5	10.9	10.9	7.6	8.1	7.9	1.6	1.6	1.6
Average			35.3	26.4	23.1	20.3	16.7	15.1	5.0	4.6	4.3
Global Spirits average			36.5	29.3	26.2	22.2	19.3	17.8	6.3	5.9	5.6
Magnit PAO	6232	13232	16.6	13.5	12.0	5.8	5.3	4.8	0.7	0.6	0.6
X5 Retail Group NV	9907	19569	18.9	15.9	14.6	7.3	6.5	5.9	0.8	0.7	0.6
Lenta Ltd	1383	2808	11.9	10.5	8.7	5.4	5.5	5.6	0.5	0.5	0.5
O'Key Group SA	242	977	29.6	16.8	15.2	5.1	5.2	5.0	0.4	0.4	0.4
Detskiy Mir PAO	1142	1916	12.8	9.7	8.6	8.3	7.3	6.6	1.0	0.9	0.8
Eurocash SA	517	1223	22.6	19.2	14.8	5.9	5.5	5.6	0.2	0.2	0.2
Sok Marketler Ticaret	948	1101	50.5	21.4	18.4	5.1	4.2	3.5	0.4	0.4	0.3
Dino Polska SA	5596	5869	37.8	29.2	23.5	23.4	18.1	14.8	2.2	1.8	1.4
BIM Birlesik Magazalar	5336	5499	20.1	19.1	15.8	10.5	9.1	7.9	0.8	0.7	0.6
Migros Ticaret	947	1484	NaN	14.1	12.2	5.1	4.4	4.0	0.4	0.4	0.3
LPP	3234	3953	NaN	100.0	22.8	11.3	9.4	7.3	1.8	1.6	1.3
Ros Agro	1280	2159	7.0	6.9	6.2	6.9	6.7	6.1	1.2	1.1	1.0
CCC	674	1479	NaN	58.2	21.1	23.7	6.4	5.7	1.0	0.9	0.8
Shoptite Holdings	4924	6321	16.9	15.3	13.7	7.3	6.8	6.4	0.6	0.6	0.6
President Chain Store	9974	11068	28.6	25.5	23.8	13.1	12.8	12.1	1.2	1.1	1.1
GS Retail Co Ltd	2192	4839	14.5	11.6	10.4	6.5	6.6	6.4	0.6	0.6	0.6
Pick N Pay Stores Ltd	1514	2536	19.8	16.1	15.1	7.2	6.6	6.3	0.5	0.4	0.4
BGF Retail Co Ltd	1844	1500	16.5	13.2	12.0	3.9	3.7	3.5	0.3	0.3	0.3
Grupo Comercial Chedraui	1077	2789	10.9	9.7	9.5	6.2	6.2	5.6	0.4	0.4	0.4
Sumber Alfaria Trijaya PT	1909	2175	25.7	22.1	18.5	9.2	8.6	8.0	0.4	0.4	0.4
Taiwan FamilyMart Co	2056	2552	28.4	24.7	22.9	8.0	7.5	9.3	0.9	0.8	0.7
Jiajiyue Group Co	3212	3042	39.6	32.5	27.0	20.0	16.8	14.8	1.1	0.9	0.8
La Comer SAB de	759	671	27.7	26.2	23.0	5.5	4.9	4.2	0.6	0.5	0.5
7-Eleven Malaysia Holdings	395	657	24.2	18.9	20.1	9.1	8.6	8.1	0.9	0.9	0.8
Russian peers average			16.1	12.2	10.9	6.5	6.1	5.7	0.8	0.7	0.7
Consumer and retail average			25.6	26.5	18.0	10.1	8.1	7.4	0.8	0.7	0.6

Source: Thomson Reuters, Hypothesis Research

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