



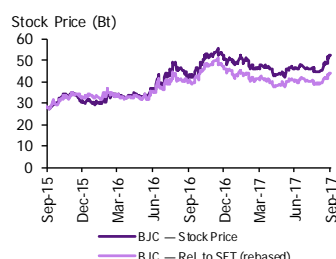
NEUTRAL

Stock data

| | |
|-----------------------------|--------|
| Last close (Sep 15) (Bt) | 50.75 |
| 12-m target price (Bt) | 54.00 |
| Upside (Downside) to TP (%) | 6.40 |
| Mkt cap (Btbn) | 202.64 |
| Mkt cap (US\$mn) | 6,124 |

| | |
|----------------------------|-----------|
| Bloomberg code | BJC TB |
| Reuters code | BJC.BK |
| Risk rating | L |
| Mkt cap (%) SET | 1.23 |
| Sector % SET | 9.71 |
| Shares issued (mn) | 3,993 |
| Par value (Bt) | 1.00 |
| 12-m high / low (Bt) | 56.3 / 40 |
| Avg. daily 6m (US\$mn) | 7.06 |
| Foreign limit / actual (%) | 49 / 15 |
| Free float (%) | 25.1 |
| Dividend policy (%) | ≥ 50 |

Price Performance



Source: SET, SCBS Investment Research

Share performance

| | 1M | 3M | 12M |
|-----------------|------|-----|------|
| Absolute | 14.0 | 9.1 | 17.3 |
| Relative to SET | 7.7 | 3.6 | 4.5 |

Source: SET, SCBS Investment Research

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Initiate as Neutral with revival partly priced in

We expect core EPS growth to improve in 2H17F, backed by the strong revival in SSS growth off last year's low base plus better sentiment and margin. These positives are partly priced in. BJC is now trading at 2017F PE of 39x (+1.5 SD over its 7-year PE of 36x) and its 2018F PEG of 1.9x is above the sector's 1.6x. We initiate coverage as **NEUTRAL** with mid-2018 DCF-TP of 54.

Acquisition of BIGC in 2016-17. BJC acquired 58.55% in BIGC in March 2016, then raised its stake via a tender offer to 97.94% in May 2016, paying a total of Bt204bn. BJC initially funded the acquisition with the short-term loans from financial institutions. These were paid down via a capital increase in 3Q16 that raised Bt84bn; it also refinanced via debentures in 3Q16-1Q17. In July 2017, BJC tendered for the remaining 2.06% in BIGC (extending from July 7 to September 12), at an expected cost of Bt3.8bn. Funding will come from credit facilities from banks. After this deal is done, we expect BIGC's sales (modern supply chain segment, MSC) to supply the bulk of BJC's sales (70% of BJC's sales in 2017F), and BJC's net DE will be 1.3x at end-2017F.

Better 2H17F. In 2H17F, we expect core EPS growth to improve, backed by strong improvement in BIGC's SSS growth off last year's low base of -22% YoY (15-20% YoY of the contraction came from the change in BIGC's strategy to cut low-margin sales in mid-2016) plus improving sentiment and better margin.

Slight improvement in core EPS growth in 2017F. We expect core earnings growth of 66% YoY to Bt5.2bn in 2017F, off the full-year consolidation of BIGC (MSC) with stable operations at other segments, business synergy from the acquisition and lower interest expenses after refinancing with lower-cost debt in 3Q16-1Q17. These offset the higher depreciation expenses of almost Bt1bn/year recorded from 2017F brought by a restatement of the value of assets acquired based on the final appraisal report. Including the higher number of shares from the capital increase in 3Q16, 2017F core EPS is expected to grow 8% YoY.

Better growth in 2018F. We expect core EPS growth of 17% in 2018F, backed by 1) gradual improvement in MSC in tandem with a rise in SSS growth after it completed the switch to low-margin sales strategy in mid-2016 plus continued store expansion, with moderate addition of new stores locally and the opening of a new store overseas; 2) better packaging supply chain (PSC) from the expansion of two new glass packaging furnaces, +11% to capacity in 4Q17 and +15% to capacity in 2Q18; 3) business synergy from the acquisition of BIG. BJC targets this deal to add Bt500-600mn/year to its EBITDA in 2017-19F (3% of its EBITDA).

Valuation partly prices in the positives. Despite the recent rise, BJC's share price has underperformed the SET by 6% in 2017TD. However, it is trading at 2017F PE of 39x (+1.5 SD over its 7-year PE of 36x) and its 2018F PEG of 1.9x is above the sector's 1.6x.

Forecasts and valuation

| Year to 31 Dec | Unit | 2015 | 2016 | 2017F | 2018F | 2019F |
|------------------|--------|--------|---------|---------|---------|---------|
| Revenue | (Btmn) | 42,893 | 125,330 | 147,777 | 154,602 | 161,208 |
| EBITDA | (Btmn) | 6,263 | 15,571 | 18,972 | 20,411 | 21,965 |
| Core profit | (Btmn) | 2,676 | 3,150 | 5,226 | 6,127 | 7,067 |
| Reported profit | (Btmn) | 2,792 | 4,001 | 5,174 | 6,127 | 7,067 |
| Core EPS | (Bt) | 1.68 | 1.21 | 1.31 | 1.53 | 1.77 |
| DPS | (Bt) | 0.84 | 0.50 | 0.52 | 0.61 | 0.71 |
| P/E, core | (x) | 30.20 | 41.77 | 38.76 | 33.06 | 28.67 |
| EPS growth, core | (%) | 60.45 | -27.71 | 7.77 | 17.24 | 15.35 |
| P/BV, core | (x) | 3.89 | 1.18 | 1.82 | 1.81 | 1.80 |
| ROE | (%) | 13.80 | 4.75 | 4.68 | 5.49 | 6.30 |
| Dividend yield | (%) | 1.66 | 0.99 | 1.03 | 1.21 | 1.40 |
| EV/EBITDA | (x) | 15.11 | 18.03 | 18.50 | 17.21 | 15.97 |

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

| FY December 31 | 2015 | 2016 | 2017F | 2018F | 2019F |
|-----------------------|--------------|---------------|---------------|---------------|---------------|
| Total revenue | 42,893 | 125,330 | 147,777 | 154,602 | 161,208 |
| Cost of goods sold | (33,071) | (102,769) | (120,483) | (125,923) | (131,156) |
| Gross profit | 9,822 | 22,561 | 27,294 | 28,679 | 30,052 |
| SG&A | (7,179) | (23,531) | (30,244) | (31,141) | (31,867) |
| Other income | 1,500 | 11,204 | 14,654 | 15,237 | 15,844 |
| Interest expense | (493) | (5,203) | (4,532) | (4,595) | (4,659) |
| Pre-tax profit | 3,650 | 5,031 | 7,172 | 8,180 | 9,369 |
| Corporate tax | (400) | (1,033) | (1,434) | (1,636) | (1,874) |
| Equity a/c profits | 87 | 181 | 74 | 77 | 81 |
| Minority interests | (661) | (1,029) | (585) | (494) | (509) |
| Core profit | 2,676 | 3,150 | 5,226 | 6,127 | 7,067 |
| Extra-ordinary items | 116 | 851 | (52) | - | - |
| Net Profit | 2,792 | 4,001 | 5,174 | 6,127 | 7,067 |
| EBITDA | 6,263 | 15,571 | 18,972 | 20,411 | 21,965 |
| Core EPS (Bt) | 1.68 | 1.21 | 1.31 | 1.53 | 1.77 |
| Net EPS (Bt) | 1.75 | 1.54 | 1.30 | 1.53 | 1.77 |
| DPS (Bt) | 0.84 | 0.50 | 0.52 | 0.61 | 0.71 |

Balance Sheet (Btmn)

| FY December 31 | 2015 | 2016 | 2017F | 2018F | 2019F |
|-----------------------------|---------------|----------------|----------------|----------------|----------------|
| Total current assets | 18,380 | 35,993 | 35,027 | 36,118 | 36,823 |
| Total fixed assets | 26,320 | 265,850 | 269,450 | 270,431 | 271,107 |
| Total assets | 44,701 | 301,843 | 304,478 | 306,548 | 307,930 |
| Total loans | 14,975 | 152,691 | 151,898 | 151,898 | 150,698 |
| Total current liabilities | 15,313 | 51,851 | 49,794 | 89,520 | 82,709 |
| Total long-term liabilities | 8,637 | 138,134 | 143,141 | 105,275 | 112,679 |
| Total liabilities | 23,950 | 189,986 | 192,934 | 194,796 | 195,388 |
| Paid-up capital | 1,592 | 3,990 | 4,570 | 4,570 | 4,570 |
| Total equity | 20,750 | 111,857 | 111,543 | 111,753 | 112,542 |
| BVPS (Bt) | 13.03 | 28.04 | 27.94 | 28.00 | 28.19 |

Cash Flow Statement (Btmn)

| FY December 31 | 2015 | 2016 | 2017F | 2018F | 2019F |
|-------------------------------|------------|--------------|-----------|--------------|--------------|
| Core Profit | 2,676 | 3,150 | 5,226 | 6,127 | 7,067 |
| Depreciation and amortization | 2,121 | 5,337 | 7,268 | 7,636 | 7,937 |
| Operating cash flow | 2,198 | 22,447 | 17,187 | 14,192 | 15,415 |
| Investing cash flow | (2,775) | (244,872) | (10,863) | (8,617) | (8,613) |
| Financing cash flow | 736 | 224,780 | (6,240) | (5,917) | (7,478) |
| Net cash flow | 159 | 2,356 | 84 | (342) | (676) |

Key Financial Ratios

| | 2015 | 2016 | 2017F | 2018F | 2019F |
|-----------------------|------|------|-------|-------|-------|
| Gross margin(%) | 22.9 | 18.0 | 18.5 | 18.6 | 18.6 |
| Operating margin(%) | 6.2 | -0.8 | -2.0 | -1.6 | -1.1 |
| EBITDA margin(%) | 14.6 | 12.4 | 12.8 | 13.2 | 13.6 |
| EBIT margin(%) | 9.7 | 8.2 | 7.9 | 8.3 | 8.7 |
| Net profit margin(%) | 6.5 | 3.2 | 3.5 | 4.0 | 4.4 |
| ROE (%) | 13.5 | 3.6 | 4.6 | 5.5 | 6.3 |
| ROA (%) | 6.2 | 1.3 | 1.7 | 2.0 | 2.3 |
| Net D/E (x) | 0.7 | 1.3 | 1.3 | 1.3 | 1.3 |
| Interest coverage (x) | 12.7 | 3.0 | 4.2 | 4.4 | 4.7 |
| Payout Ratio (%) | 47.9 | 32.4 | 40.0 | 40.0 | 40.0 |

Profit and Loss Statement (Btmn)

| FY December 31 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Total revenue | 40,487 | 33,481 | 36,645 | 35,677 | 37,107 |
| Cost of goods sold | (33,825) | (26,868) | (30,446) | (29,075) | (30,328) |
| Gross profit | 6,662 | 6,613 | 6,199 | 6,602 | 6,779 |
| SG&A | (7,084) | (6,974) | (6,976) | (7,358) | (7,497) |
| Other income | 3,746 | 3,300 | 3,633 | 3,555 | 3,651 |
| Interest expense | (2,003) | (1,750) | (1,176) | (1,125) | (1,113) |
| Pre-tax profit | 1,321 | 1,189 | 1,681 | 1,674 | 1,820 |
| Corporate tax | (479) | (355) | (1) | (531) | (595) |
| Equity a/c profits | 58 | 36 | 27 | 24 | (7) |
| Minority interests | (500) | (153) | (199) | (151) | (222) |
| Core profit | 400 | 717 | 1,509 | 1,016 | 997 |
| Extra-ordinary items | (240) | 1,083 | 29 | (51) | (1) |
| Net Profit | 161 | 1,800 | 1,538 | 965 | 996 |
| EBITDA | 5,092 | 4,499 | 4,167 | 4,580 | 4,733 |
| Core EPS (Bt) | 0.25 | 0.23 | 0.38 | 0.25 | 0.25 |
| Net EPS (Bt) | 0.10 | 0.57 | 0.39 | 0.24 | 0.25 |

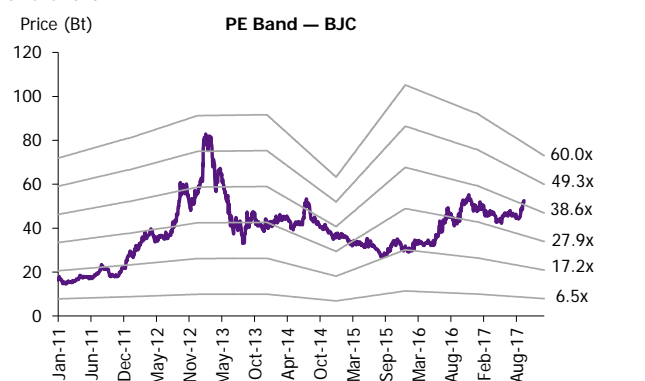
Balance Sheet (Btmn)

| FY December 31 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Total current assets | 36,679 | 34,918 | 35,993 | 35,614 | 33,949 |
| Total fixed assets | 265,136 | 264,998 | 265,850 | 273,095 | 273,817 |
| Total assets | 301,815 | 299,917 | 301,843 | 308,708 | 307,766 |
| Total loans | 237,788 | 155,203 | 152,691 | 153,293 | 152,197 |
| Total current liabilities | 255,041 | 50,898 | 51,851 | 50,397 | 47,881 |
| Total long-term liabilities | 19,407 | 138,810 | 138,134 | 146,343 | 148,169 |
| Total liabilities | 274,448 | 189,708 | 189,986 | 196,740 | 196,050 |
| Paid-up capital | 1,592 | 3,985 | 3,990 | 3,991 | 3,992 |
| Total equity | 27,366 | 110,209 | 111,857 | 111,968 | 111,716 |
| BVPS (Bt) | 17.19 | 34.68 | 28.04 | 28.06 | 27.99 |

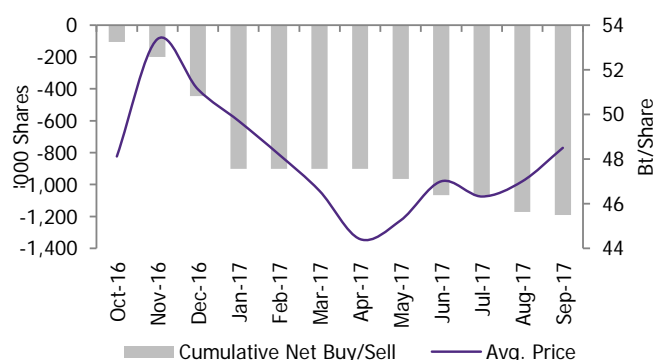
Main Assumptions

| | 2015 | 2016 | 2017F | 2018F | 2019F |
|---------------------------------------|-------|--------|-------|-------|-------|
| SSS growth (%) (MSC) | (3.0) | (12.8) | (6.3) | 2.1 | 1.5 |
| No. new stores - all formats (MSC) | 98 | 63 | 220 | 118 | 118 |
| No. ending stores - all formats (MSC) | 734 | 797 | 1,017 | 1,135 | 1,253 |
| No. new stores -hypermarket (MSC) | 2 | 6 | 9 | 6 | 6 |
| No. ending stores -hypermarket (MSC) | 125 | 131 | 140 | 146 | 152 |
| Gross profit margin (%) (MSC) | 13.7 | 14.7 | 16.0 | 16.1 | 16.2 |

PE Band Chart

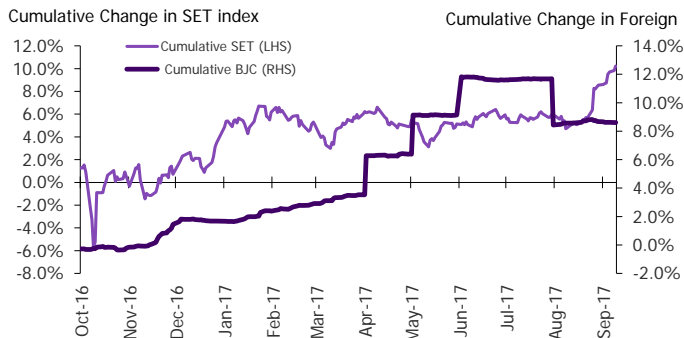


12-Month Cumulative directors trade



Source: SEC

12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Recap: Acquisition of BIGC stake

First step into BIGC in 2016. BJC acquired 58.55% in BIGC in March 2016, after which it made a tender offer that bumped up its stake to 97.94% in May, with the acquisition costing Bt204bn, initially funded via short-term loans from financial institutions. In May 2016, BJC's board approved a capital increase of 2,400mn shares, raising number of shares to 4,053.96mn. In August 2016, BJC banked Bt84bn from the cash call, which it used to pay down the short-term loans. In 3Q16-1Q17, BJC refinanced the remaining loans by issuing Bt122bn in debentures, with cost of funds at 3.04% p.a. and tenor of 5 years on average.

Final move – final tender in 3Q17. In May 2017, BJC's board of directors approved to make a tender offer for the remaining 2.06% stake in BIGC in order to delist BIGC from the SET. This was done, with the tender for the remaining 2.06% of BIGC running from July 7 to September 12. The funding for this will come from credit facilities from banks worth Bt4bn. After the tender offer and SET approval, it expects to complete the delisting of BIGC in 4Q17.

Figure 1: Timeline for the acquisition of BIGC

| Date | Details |
|-----------|---|
| 12-Feb-16 | BJC's board announced the purchase of 483.08mn BIGC shares (58.55% stake) for Bt252.88/share, for a total of Bt122.16bn, and 2.7mn shares of C-Distribution Asia (60% stake), worth Bt856mn. The board also approved short term loans from financial institution not exceeding Bt220bn to fund the acquisition. |
| 21-Mar-16 | BJC's shareholders approved the acquisition and tender offer for the remaining BIGC shares, as well as the securing of short term loans. BJC reported that it had completed payment for and transfer of 58.55% shares of BIGC. |
| 22-Mar-16 | BJC announced its intention to make a tender offer for 341.92mn BIGC shares (41.45% stake) |
| 16-May-16 | BJC announced the results of the tender offer held March 29-May 11, 2016, in which it acquired 324.91mn BIGC shares (39.38% stake). This gave it a total stake of 807.99mn shares (97.94% stake). |
| 25-May-16 | BJC board approved a capital increase of 2,400mn shares to bring total shares to 4,053.96mn, allocated via PP (800mn shares) and RO (1,600mn shares and any remaining shares from PP at Bt35/share). It also approved proposing to shareholders the securing of short-term loans (no longer than 24 months) and the issuance of debentures worth no more than Bt130bn to repay existing debt, to use as revolving capital and business expansion. |
| 29-Jun-16 | BJC shareholders approved the capital increase (subscription period July 13-21), the short-term loans and the issuance of debentures. |
| 7-Jul-16 | BJC board approved a change in the capital increase via allocation of 800mn new shares from the PP for a second RO (Bt35/share, subscription period July 29-Aug 4). |
| 25-Jul-16 | BJC reported that it received Bt55.7bn in cash for the first RO (1,592.22mn shares). |
| 5-Aug-16 | BJC reported that it received Bt27.9bn for the second RO (796.64mn shares). |
| 12-May-17 | BJC board approved a tender offer for the remaining 17.01mn shares of BIGC (2.06% stake) for Bt225/share to delist BIGC from the SET. |
| 16-Jun-17 | BIGC shareholders approved delisting BIGC from the SET. |
| 6-Jul-17 | BJC submitted a tender offer extending from July 7 to Sep 12 for Bt225/share for the remaining 17.01mn shares of BIGC (2.06% stake). The funding will come from credit facilities from banks worth Bt4bn. |

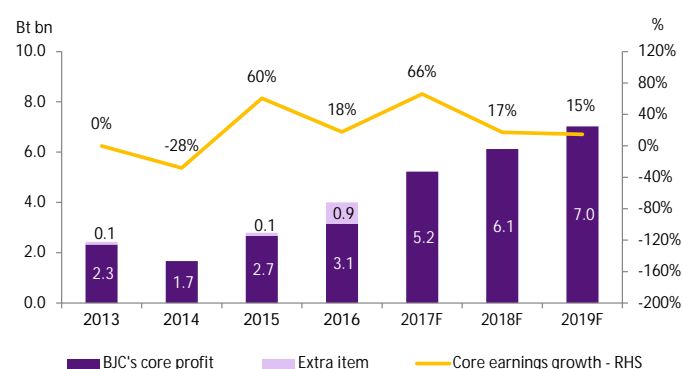
Source: Company data and SCBS Investment Research

Earnings outlook

Slight EPS growth in 2017F, with better growth in 2018F. BJC's core earnings are expected to grow 66% YoY to Bt5.2bn in 2017F, mainly thanks to the full year of contribution from BIGC as well as lower interest expenses after completing low-cost debt refinancing for the funds used for acquisition in 3Q16-1Q17. However, including the shares from the capital increase in 3Q16 means small 2017F core EPS growth of 8%.

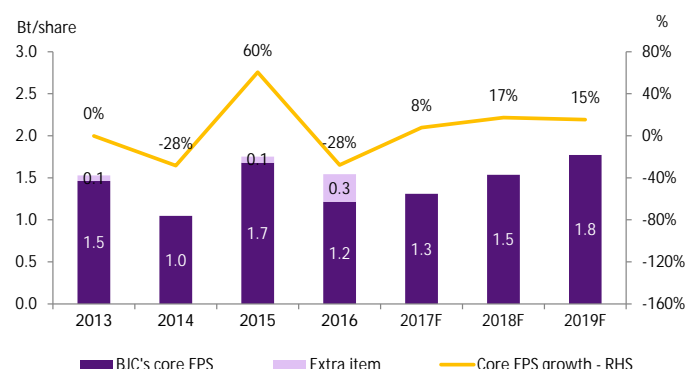
We expect core earnings to grow 17% to Bt6.1bn in 2018F, backed by improvement in the modern supply chain (better sentiment and store expansion) and packaging supply chain (capacity expansion), plus business synergies from the acquisition. With the same number of shares, we expect 2018F core EPS growth of 17% YoY, in tandem with core earnings.

Figure 2: BJC's consolidated earnings outlook



Source: SCBS Investment Research

Figure 3: BJC's consolidated EPS outlook



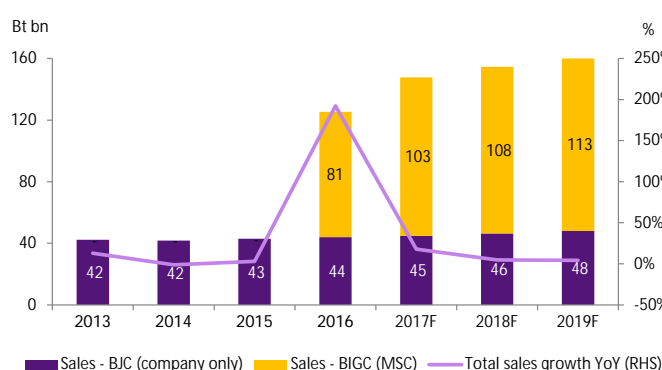
Source: SCBS Investment Research

Sales outlook

BJC's consolidated sales. We expect BJC's consolidated sales to grow 18% in 2017F upon the full-year sales contribution from BIGC after acquisition in March 2016. We estimate a 5% rise in sales in 2018F from better sales contribution from BIGC and BJC (company only).

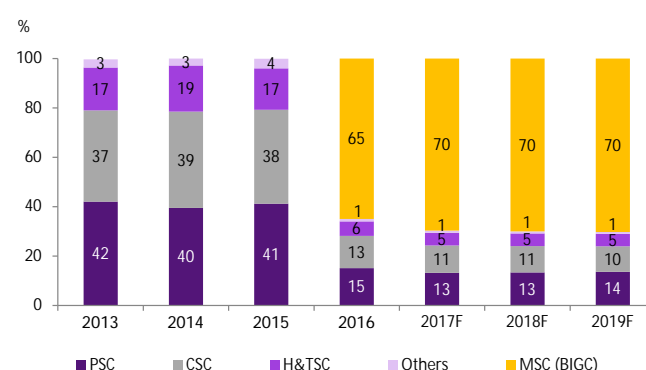
Of BJC's consolidated sales in 2017F, 70% will come from BIGC (i.e. modern supply chain, MSC), 15% from the packaging supply chain (PSC), 13% from the consumer supply chain (CSC), 6% from the healthcare and technical supply chain (H&TSC), and 1% from other segments.

Figure 4: BJC's consolidated sales



Source: SCBS Investment Research

Figure 5: BJC's consolidated sales breakdown



Source: SCBS Investment Research

Sales from MSC (BIGC): Better SSS and more expansion. We expect BIGC's sales to drop 4% in 2017F (vs. -14% YoY in 1H17) with the drop in SSS growth outpacing expansion. BIGC's sales are expected to turn the corner to growth of 5% in 2018F, backed by the return of SSS growth and continued store expansion.

SSS growth. Since mid-2016, BIGC's focus shifted to sales quality rather than quantity. In the process, it cut low-margin sales i.e. tobacco and alcohol beverages that had accounted for 15-20% of its sales. With this and the challenging sales environment for retailers, its SSS growth contracted by 20% YoY on average in 3Q16-2Q17. However, after the passage of one year that eliminated the comparative effect, SSS growth is turning back up in 3Q17TD.

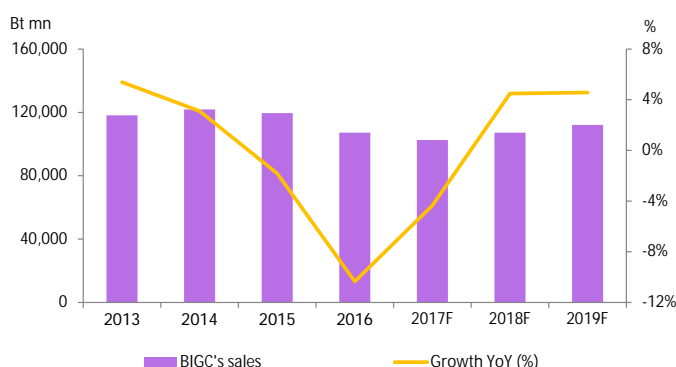
We expect SSS growth of -6.3% YoY in 2017F (vs. -17.6% YoY in 1H17), aided by the better 2H17F, with SSS growth of 2% YoY in 2018F off the normal base.

Store expansion. In 2017F, BIGC plans to open 9 hypermarkets, 1 Big C Market, and 200 Mini Big Cs. It opened a new hypermarket, a new Big C Market store, and 46 Mini Big Cs in 1H17, leaving the rest to be opened in 2H17F. For our 2017 forecast, we use a store expansion similar to BIGC's target.

It has not yet released guidance for store expansion beyond 2017F. Based on news reports, it plans to start expansion overseas, hoping to open a new hypermarket in Cambodia next year. It plans to add five stores each in Cambodia and Laos over the next three years.

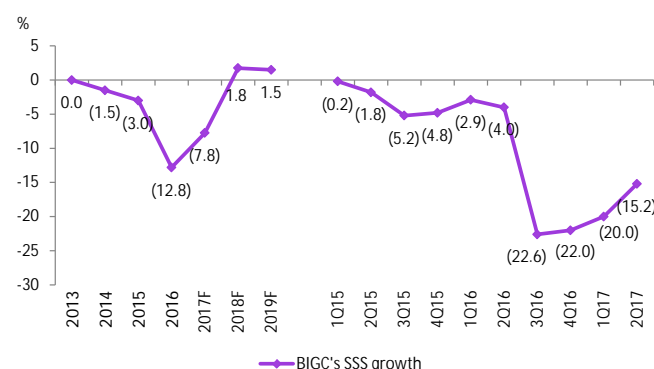
In 2018-19F, we assume it opens six hypermarkets (factoring in the opening of a new overseas store per year), two Big C Markets, and 100 Mini Big Cs each year. We are more conservative with regards to overseas expansion than its target. While we see long-term opportunity, with few competitors and potentially high demand growth, we observe slow execution of expansion overseas in early stages by other Thai retailers who are hampered by local regulations or laws, problems securing locations, and then the fine-tuning of operations in the first few stores.

Figure 6: MSC's sales outlook (Sales from BIGC)



Source: SCBS Investment Research

Figure 7: BIGC's SSS growth



Source: SCBS Investment Research

Figure 8: BIGC's store expansion

| | 2013 | 2014 | 2015 | 2016 | 2017F | 2018F | 2019F | 1H16A | 1H17A |
|---|------------|------------|------------|------------|--------------|--------------|--------------|------------|------------|
| No. of stores, ending | | | | | | | | | |
| Hypermarket | 119 | 123 | 125 | 131 | 140 | 146 | 152 | 126 | 132 |
| Big C Market | 30 | 37 | 55 | 59 | 63 | 67 | 71 | 57 | 60 |
| Mini Big C | 278 | 324 | 391 | 465 | 665 | 765 | 865 | 408 | 511 |
| Pure drugstore | 132 | 152 | 163 | 142 | 152 | 162 | 172 | 149 | 142 |
| Total stores, ending | 559 | 636 | 734 | 797 | 1,020 | 1,140 | 1,260 | 740 | 845 |
| No. of new stores, net deletions | | | | | | | | | |
| Hypermarket | | 4 | 2 | 6 | 9 | 6 | 6 | 1 | 1 |
| Big C Market | | 7 | 18 | 4 | 1 | 2 | 2 | 2 | 1 |
| Mini Big C | | 46 | 67 | 74 | 200 | 100 | 100 | 17 | 46 |
| Pure drugstore | | 20 | 11 | (21) | 10 | 10 | 10 | (14) | 0 |
| Total new stores | | 77 | 98 | 63 | 220 | 118 | 118 | 6 | 48 |

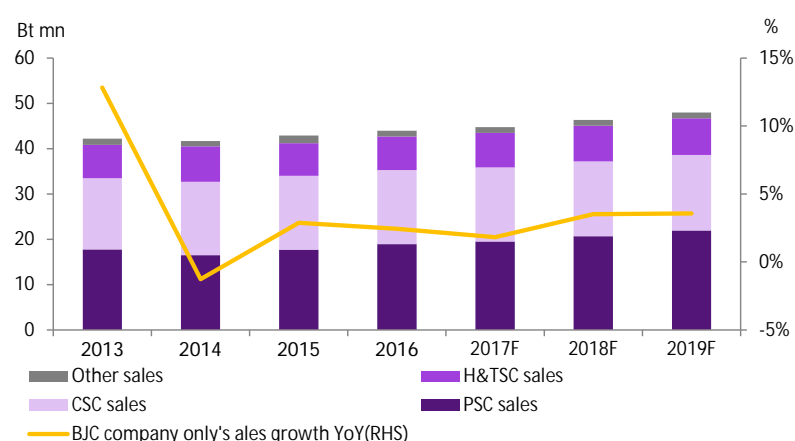
Source: SCBS Investment Research (Note* BIGC acquired 2 MM Mega Market stores from BJC in 4Q17)

Sales from other units: Led by PSC capacity expansion in 2018F. We expect sales to grow only 2% in 2017F from a small rise in sales in PSC and H&TSC with stable sales from CSC because of the challenging consumer sales environment.

We expect sales to rise 4% in 2018F, backed by stronger PSC sales after expanding glass packaging capacity with a small rise in H&TSC and CSC in tandem with the gradually improving Thai economy.

In the PSC segment, 60% of its sales comes from glass packaging, to which BJC is adding capacity, and the rest from can packaging. Its new glass furnaces will add 300 tons/day (+11% to capacity) after completion in 4Q17 and another 400 tons/day (+15% to capacity) will complete in mid-2018. Its existing capacity is fully utilized, and its new capacity is designed to replace a portion of glass packaging that is imported (about 10% of its glass packaging sales).

Figure 9: Sales contribution from other segments



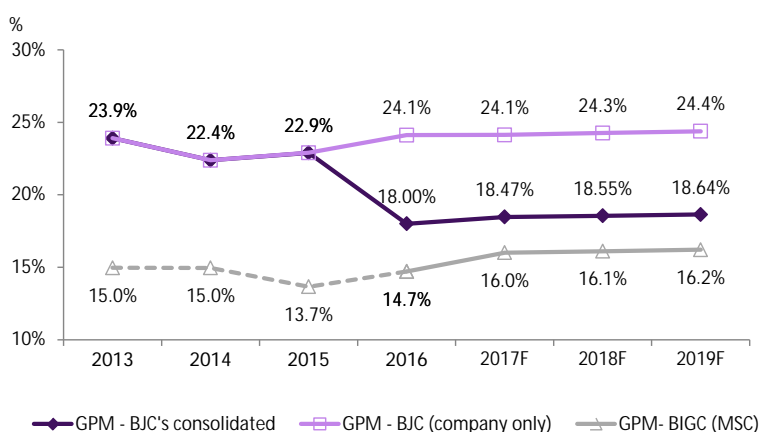
Source: SCBS Investment Research

Margin outlook

Gross margin to rise in 2017-18F. In 2017F, we expect BJC's consolidated gross margin to improve to 18.5% (+50bps YoY), thanks to MSC gross margin improvement (16.0%, +130bps YoY) a year after the change in strategy to focus on sales quality with stable margin at other segments (24.1%, flat YoY).

In 2018F, we expect consolidated gross margin to improve slightly to 18.6% (+10bps YoY), from better gross margin contribution from MSC as well as other units. We look for a rise in MSC gross margin to 16.1% (+10bps YoY), based on its ongoing strategy to improve margin, particularly on fresh food and non-food product categories. We also expect a better gross margin at other units of 24.3% (+20bps YoY), thanks to better production efficiency from more PSC sales volume.

Figure 10: BJC's consolidated GPM, from BJC (company only) and BIGC (MSC)



Source: SCBS Investment Research

EBIT margin to drop in 2017F, but rise in 2018F. We expect EBIT margin to drop to 7.9% in 2017F (-25bps YoY). The widening in EBIT margin at MSC to 8.2% (+35bps YoY) as a better gross margin outpaces higher SG&A/sales from expansion and more staff training expenses to improve service, will be offset by higher depreciation expenses of almost Bt1bn per year from the restatement of its fixed asset value after the acquisition of BIGC from 2017F.

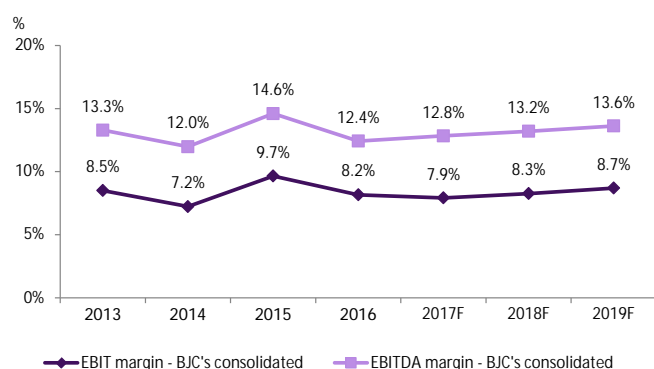
We expect EBIT margin to rise to 8.3% in 2018F (+30bps YoY), from a better gross margin and business synergy from the acquisition.

- **Recap: Business synergy in 2016.** After BJC acquired BIGC, it reported synergy at the EBITDA level of Bt357mn (2% of BJC's EBITDA) in 2016. Of this, Bt220mn came from savings from discontinuing management fee payments to BIGC's former major shareholder, Bt121mn from savings from switching insurance company, Bt10mn from the integration of logistics operations between BJC and BIGC, and Bt6mn from other initiatives.

- **Targeted business synergy in 2017-19F.** In 2017-19F, BJC targets additional synergy at the EBITDA level of Bt1.7bn (50% from MSC and the rest from other segments). Of this, Bt600mn will be seen in 2017F (+3% of BJC's EBITDA), Bt600mn in 2018F (+3%), and Bt500mn in 2019F (+2%).

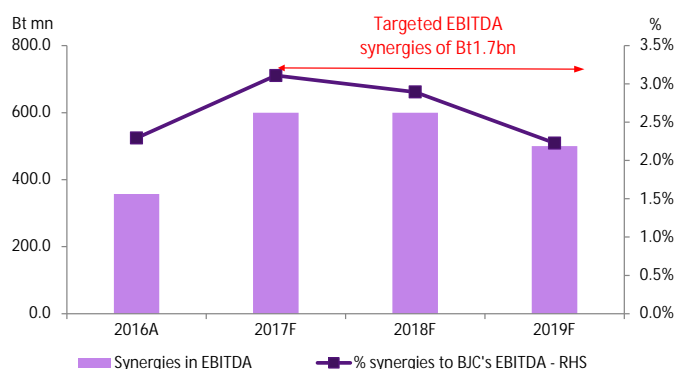
Synergy is expected to come from several areas. First, it plans to improve economies of scale via cross-selling of BJC products through BIGC's network and raise the penetration of the portion of BIGC's private label sales with BJC products from 7% in 2016 to 15% in 2021F. Second, it plans to fully integrate logistics operations across the entire value chain. Third, it aims to optimize retail operations via integrating BJC's retail businesses with BIGC's shopping mall; one of these is the opening of a store-in-store in BIGC of Asia Books and utilizing BIGC's expertise in retail to improve performance of BJC's smaller retail outlets, which includes having BIGC manage BJC's two MM Mega Market stores since late 2016. Fourth, it plans to complete the cross-utilization of IT and back office systems to optimize costs in 4Q17.

Figure 11: BJC's consolidated EBIT and EBITDA margin



Source: Company data and SCBS Investment Research

Figure 12: BJC targets 3-year EBITDA synergy of Bt1.7bn (+2-3% of its EBITDA in 2017-19F)



Source: Company data and SCBS Investment Research

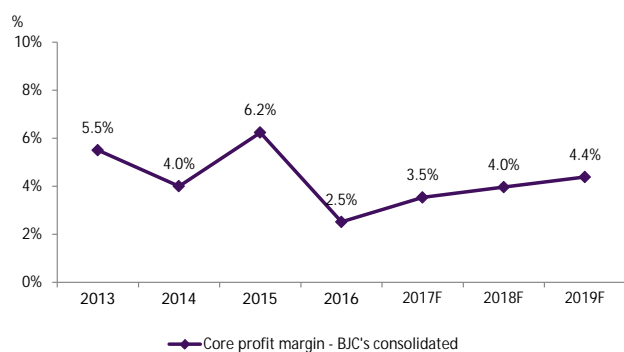
Figure 13: Breakdown of BJC's target EBITDA synergy of Bt1.7bn in 2017-19F

| BJC's targeted synergy | Details |
|---|---|
| 1 Economies of scale through leveraging manufacturing capability for private brands | Potential to increase penetration of private label with BJC products Cross-selling of BJC products through Big C network i.e. pharmaceutical products through Pure Pharmacy, snacks and dairy products through grocery retail outlets |
| 2 Fully integrate logistics operations across the entire value chain | Leveraging BJC's leadership in consumer supply chain and logistics, improving Big C's current backend infrastructure, and jointly renegotiating pallet leasing terms Optimization of Big C's new distribution centers by integrating with BJC |
| 3 Combine purchasing power and optimize retail operations | Integrating BJC's retail businesses with Big C's shopping mall footprint i.e. in process of opening Asia Books store-in-store at Big C Utilizing Big C's expertise in retail to improve performance of BJC's smaller retail banners i.e. Big C managing MM Mega Market in 2017 |
| 4 Cross-utilize IT and back office infrastructure | Leveraging resources across finance and accounting functions i.e. integration of Finance / Controlling team looking after MM Mega Market within Big C Sharing of IT systems between BJC and Big C to optimize costs i.e. migrating all emails to BJC email system |

Source: Company data and SCBS Investment Research

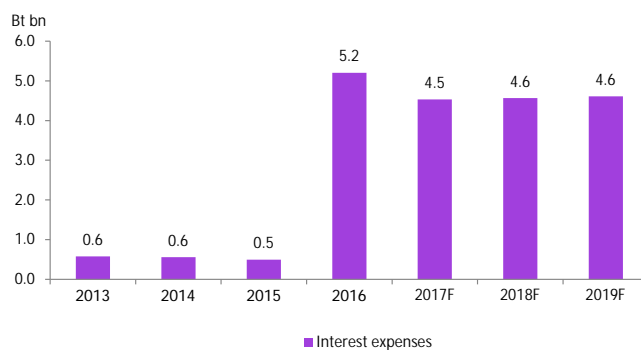
Core profit margin. We expect core margin to rise to 3.5% (+100bps YoY) in 2017F, mainly attributable to lower interest expenses from debt repayment using funds from the cash call in 3Q16 and the completion of low-cost debt refinancing related to the acquisition in 3Q16-1Q17. In 2018, we expect core margin to improve to 4.0% (+20bps YoY), mainly backed by the wider EBIT margin.

Figure 14: BJC's consolidated core profit margin



Source: Company data and SCBS Investment Research

Figure 15: Lower interest expenses in 2017F after debt repayment and lower cost of funds

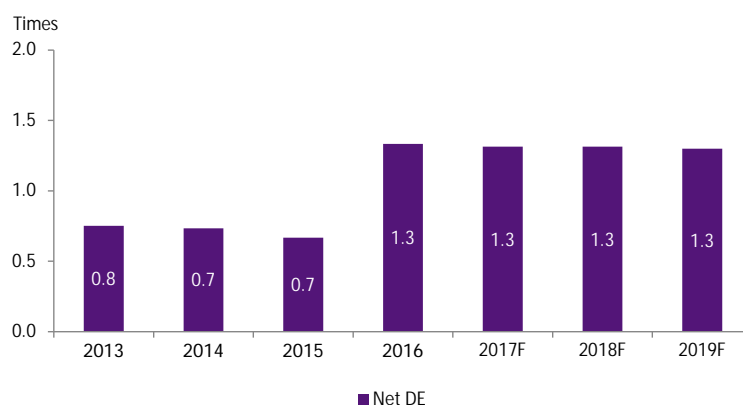


Source: Company data and SCBS Investment Research

Financial structure

Net DE still below debt covenant criteria. After the capital increase to help fund the acquisition of BIGC, we expect net DE ratio to be 1.3x in 2017-19F, well below its ceiling net DE of 2.0x under the debt covenant for its debentures.

Figure 16: BJC's net debt to equity ratio

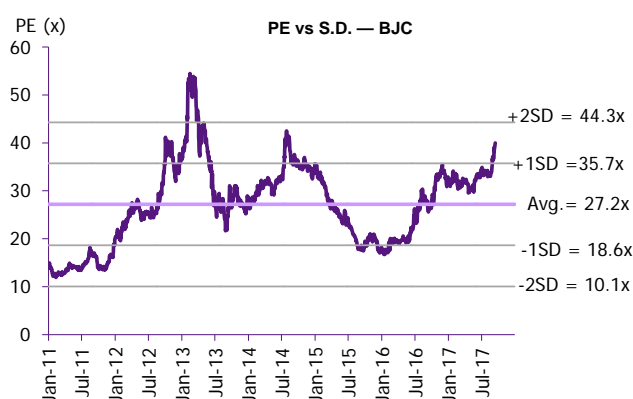


Source: SCBS Investment Research

Valuation and peers comparison

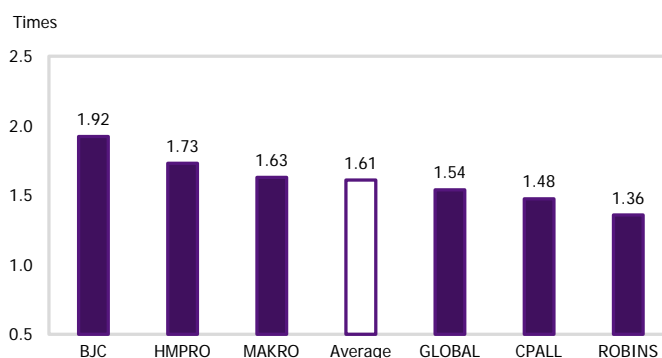
BJC: Initiate as NEUTRAL with mid-2018 DCF-TP of 54. We expect core EPS growth to improve in 2H17F, backed by a strong revival in SSS growth off last year's low and improving sentiment, together with a better margin. SSS contracted 22% YoY in 2H16; of this, 15-20% YoY came from the strategy change in mid-2016 to cut low-margin sales. Net EPS growth may drop YoY in 3Q17F without the FX gains of Bt1.1bn recorded in 3Q16, but will jump YoY in 4Q17F due to corporate tax adjustment – it expects an effective tax rate in 2017F of 20% (vs. 32% in 1H17F). In 2017TD, BJC's share price has underperformed the SET by 6% YoY. Valuation-wise, BJC is now trading at 2017F PE of 39x (+1.5 SD over its 7-year PE of 36x) and its 2018F PEG of 1.9x is above the sector's 1.6x. This implies that the positives are partly priced in.

Figure 17: BJC's 7-year PE band



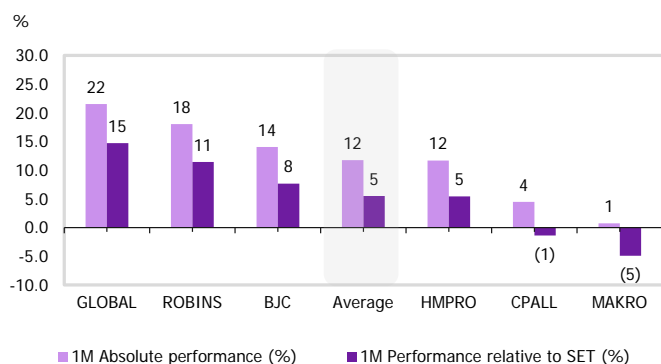
Source: SCBS Investment Research

Figure 18: 1-year 2018PEG



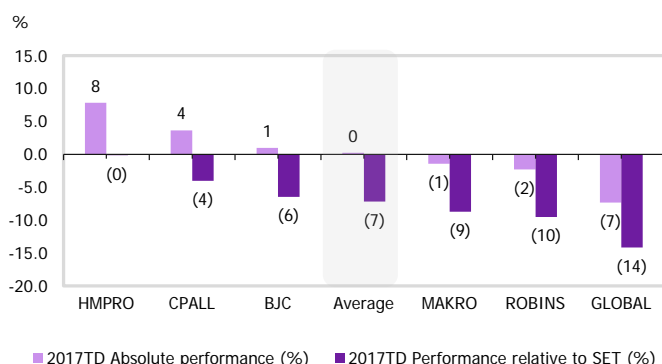
Source: SCBS Investment Research

Figure 19: Share price performance over past month



Source: SCBS Investment Research

Figure 20: Share price performance in 2017TD



Source: SCBS Investment Research

Berli Jucker PLC

Company background

The company was established in 1882 as Jucker & Sigg & Co to act as a trading agent for French, British and Italian shipping firms. It was one of the first seven companies listed on the SET in 1975. It changed its name to be Berli Junker PCL in 1993.

It currently is engaged in five main businesses: 1) packaging supply chain (15% of 2016 sales) i.e. glass and aluminum can packaging; 2) consumer supply chain (13% of sales) i.e. food, personal care items and logistics management; 3) healthcare and technical supply chain (6% of sales); 4) modern retail supply chain (65% of sales), via its stake in BIGC; 5) other businesses (1% of sales) i.e. Asia Books (71 bookstores in Thailand at end-2016), M-Point Mart (44 franchised convenience stores in Laos at end-2016), B's Mart (169 franchised convenience stores in Vietnam at end-2016) and MM Mega Market (management fee for 19 cash and carry stores in Vietnam at end-2016).

Shareholding structure: In 2001, Thai Charoen Corporation Group (TCC Holdings) acquired BJC shares and became the major shareholder. TCC group is the one of the region's largest diversified conglomerates, with business covering food and beverages (Thai Beverage PLC, listed on SGX), property and real estate (TCC land Co. Ltd), insurance and leasing and agro-industrial businesses.

In 2016, BJC acquired a retail business in Thailand with the acquisition of 97.94% in BIGC worth around Bt204bn via the acquisition of 58.55% in March and another 39.39% through a tender offer in May. In July 2017, BJC submitted a tender offer for the remaining 2.06% stake in BIGC worth up to Bt3.8bn, with the tender offer running from July 7 to September 12, after which it will delist BIGC from the SET.

Investment thesis

We expect core EPS growth to improve in 2H17F, backed by strong improvement in BIGC's SSS growth in 2H17F off last year's low base of -22% YoY (15-20% of the YoY drop came from the change in BIGC's strategy to cut low-margin sales in mid-2016) and improving sentiment, together with a wider margin. Valuation wise, it is now trading at 2017F PE of 39x (+1.5 SD over its 7-year PE of 36x), and its 2018F PEG of 1.9x is higher than the sector's 1.6x.

Valuation

Our mid-2018 TP is Bt54, based on discounted cash flow (DCF) methodology (7.8% WACC and 3% growth).

Risks

Risks include: 1) changes in SSS growth from consumption slowdown or recovery; 2) execution of store expansion; 3) changes in staff costs, utilities expenses, fuel and raw material costs; 4) negotiations with suppliers over rebates; 5) competition.

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★★★★

2S, AAV, ACAP, ADVANC, AGE, AH, AHC, AKP, ALUCON, AMANAH, ANAN, AP, APCO, APCS, ARIP, ASIA, ASIMAR, ASK, ASP, AUCT, AYUD, BANPU, BBL, BDMS, BEM, BFIT, BLA, BOL, BROOK, CEN, CENTEL, CFRESH, CGH, CHG, CHO, CHOW, CI, CIMBT, CKP, CM, CNS, CNT, COL, CPI, DCC, EA, ECF, EE, ERW, FORTH, FPI, GBX, GC, GCAP, GL, GLOBAL, GLOW, GUNKUL, HOTPOT, HYDRO, ICC, ICHI, IFEC, INET, IRC, JSP, K, KSL, KTIS, L&E, LANNA, LH, LHK, LIT, LOXLEY, LRH, LST, M, MACO, MALEE, MBKET, MC, MEGA, MFC, MOONG, MSC, MTI, MTLS, NCH, NOBLE, NSI, NTV, OCC, OGC, OISHI, ORI, PACE, PAP, PB, PCSGH, PDI, PE, PG, PJW, PLANB, PM, PPP, PR, PRANDA, PREB, PRG, PRINC, PT, PTG, PYLON, Q-CON, RICHY, ROBINS, RS, RWI, S, S & J, SABINA, SALEE, SAMCO, SCG, SEAFCO, SFP, SIAM, SINGER, SIS, SMK, SMPC, SMT, SNP, SPI, SPPT, SPRC, SR, SSF, SST, STA, SUSCO, SUTHA, SWC, SYMC, SYNEX, SYNTEC, TAE, TAKUNI, TASCO, TBSP, TCC, TF, TFI, TGC, THAI, THANA, THANI, THIP, THRE, THREL, TICON, TIPCO, TK, TKS, TMC, TMI, TMILL, TMT, TNITY, TNL, TOG, TPC, TPCORP, TRC, TRU, TRUE, TSE, TSR, TSTE, TSTH, TTA, TTW, TVD, TVO, TWPC, UAC, UP, UPF, VIH, VNT, WINNER, YUASA, ZMICO

★★★

AEC, AEONTS, AF, AIRA, AIT, AJ, AKR, AMARIN, AMATAV, AMC, APURE, AQUA, ARROW, AS, BA, BEAUTY, BEC, BH, BIG, BJC, BJCHI, BKD, BR, BROCK, BRR, BTNC, CBG, CGD, CHARAN, CITY, CMR, COLOR, COM7, CPL, CSC, CSP, CSR, CSS, CTW, DCON, DIMET, DNA, EARTH, EASON, ECL, EFORL, EPCO, EPG, ESSO, FE, FER, FOCUS, FSMART, FSS, FVC, GEL, GIFT, GLAND, GOLD, GSTEL, GYT, HPT, HTC, HTECH, IFS, IHL, ILINK, INSURE, IRCP, IT, ITD, J, JMART, JMT, JUBILE, JWD, KASET, KBS, KCAR, KGI, KKC, KOOL, KWC, KYE, LALIN, LPH, MAJOR, MAKRO, MATCH, MATI, M-CHAI, MDX, MFEC, MJD, MK, MODERN, MPG, NC, NCL, NDR, NEP, NOK, NUSA, PATO, PCA, PDG, PF, PICO, PIMO, PL, PLAT, PLE, PMTA, PPM, PRIN, PSTC, QLT, RCI, RCL, RICH, RML, RPC, SANKO, SAPPE, SAWAD, SCI, SCN, SCP, SEAOIL, SENA, SIRI, SKR, SLP, SMG, SMIT, SORKON, SPA, SPC, SPCG, SPVI, SSC, STANLY, STPI, SUC, TACC, TCCC, TCMC, TEAM, TFD, TFG, TIC, TIW, TKN, TLUXE, TMD, TNP, TOPP, TPA, TPAC, TPCH, TPIPL, TPOLY, TRITN, TRT, TTI, TVI, TWP, U, UBIS, UMI, UPOIC, UT, UWC, VIBHA, VPO, VTE, WICE, WIJK, WIN, XO

Corporate Governance Report

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not conform nor certify the accuracy of such survey result.

SMG was voluntarily delisted from the Stock Exchange of Thailand effectively on June 2, 2016

Anti-corruption Progress Indicator**Certified (ได้รับการรับรอง)**

ADVANC, AKP, AMANAH, AP, ASP, AYUD, BAFS, BANPU, BAY, BBL, BCP, BKI, BLA, BROOK, BTS, BWG, CENTEL, CFRESH, CIMBT, CM, CNS, CPI, CPN, CSL, DCC, DEMCO, DIMET, DRT, DTAC, DTC, EASTW, ECL, EGCO, FE, FNS, FSS, GBX, GCAP, GLOW, HANA, HMPRO, HTC, ICC, IFEC, INTUCH, IRPC, IVL, K, KBANK, KCE, KGI, KKP, KSL, KTB, KTC, LANNA, LHBANK, LHK, LPN, MBK, MBKET, MCOT, MFC, MINT, MONO, MOONG, MSC, MTI, NKI, NSI, OCC, OCEAN, PB, PDI, PE, PG, PHOL, PLAT, PM, PPP, PPS, PR, PRANDA, PREB, PRG, PSH, PSL, PT, PTG, PTT, PTTEP, PTTGC, Q-CON, QH, QLT, RATCH, RML, ROBINS, S & J, SABINA, SAT, SCB, SCC, SCG, SGP, SINGER, SIS, SITHAI, SMIT, SMPC, SNC, SNP, SORKON, SPC, SPI, SSF, SSI, SSSC, SVI, SYNTEC, TAE, TCAP, TCMC, TF, TFG, TGC, THANI, THCOM, THRE, THREL, TIPCO, TISCO, TKT, TMB, TMD, TNITY, TNL, TOG, TOP, TPCORP, TRU, TSC, TSTH, TTCL, TVI, UOBKH, WACOAL

Declared (ประกาศเจตนารมณ์)

A, AI, AIE, AIRA, AJ, ALUCON, AMATAV, AOT, APCO, AQUA, ARROW, ASIA, ASK, AU, BCH, BJC, BJCHI, BLAND, BR, BROCK, BRR, CEN, CGH, CHEWA, CHG, CHOTI, CHOW, CIG, COL, COM7, CPALL, CPF, CPR, CSC, EKH, EPCO, FC, FER, FPI, FSMART, GEL, GFPT, GGC, GIFT, GJS, GLOBAL, GOLD, GPSC, GREEN, GSTEL, GUNKUL, HARN, IFS, ILINK, INET, IRC, J, JMART, JMT, JUBILE, JUTHA, KASET, KBS, KCAR, KTECH, KWC, KYE, L&E, LEE, LIT, LVT, MAKRO, MATCH, MATI, MBAX, MC, MFEC, MIDA, MILL, ML, MTLS, NBC, NCL, NEP, NINE, NMG, NNCL, NTV, NUSA, NWR, OGC, PACE, PAF, PAP, PATO, PCSGH, PIMO, PK, PL, PLANB, POST, PRINC, PRO, PSTC, PYLON, QTC, ROH, ROJNA, RWI, SANKO, SAUCE, SC, SCCC, SCN, SEAOIL, SE-ED, SENA, SIRI, SMART, SPACK, SPPT, SPRC, SR, SRICHA, SST, STA, SUPER, SUSCO, SWC, SYMC, TAKUNI, TBSP, TFI, THE, TICON, TIP, TKN, TLUXE, TMILL, TMT, TNP, TPA, TRUE, TSE, TTI, TV, TVD, TVO, TWT, TWPC, U, UPA, UREKA, UWC, VGI, VIBHA, VIH, VNT, WAVE, WHA, WICE, WIJK

N/A

2S, AAV, ABICO, ACAP, ACC, ADAM, AEC, AEONTS, AF, AFC, AGE, AH, AHC, AIT, AJA, AKR, ALLA, ALT, AMA, AMARIN, AMATA, AMC, ANAN, APCS, APURE, APX, AQ, ARIP, AS, ASAP, ASEFA, ASIAN, ASIMAR, ASN, ATP30, AUCT, BA, BAT-3K, BCPG, BDMS, BEAUTY, BEC, BEM, BFIT, BGRIM, BGT, BH, BIG, BIGC, BIZ, BKD, BLISS, BM, BOL, BPP, BRC, BSBM, BSM, BTC, BTNC, BTW, BUI, CBG, CCET, CCP, CGD, CHARAN, CHO, CHUO, CI, CITY, CK, CKP, CMO, CMR, CNT, COLOR, COMAN, CPH, CPL, CRANE, CSP, CSR, CSS, CTW, CWT, D, DCON, DCONP, DELTA, DIGI, DNA, DTCI, EA, EARTH, EASON, ECF, EE, EFORL, EIC, EMC, EPG, ERW, ESSO, ESTAR, ETE, EVER, F&D, FANCY, FMT, FN, FOCUS, FORTH, FTE, FVC, GC, GENCO, GL, GLAND, GRAMMY, GRAND, GTB, GYT, HFT, HOTPOT, HPT, HTECH, HYDRO, ICHI, ICN, IEC, IHL, III, INGRS, INOX, INSURE, IRCP, IT, ITD, ITEL, JAS, JCT, JSP, JTS, JWD, KAMART, KC, KCM, KDH, KIAT, KKC, KOOL, KTIS, KWG, LALIN, LDC, LH, LOXLEY, LPH, LRH, LST, LTX, M, MACO, MAJOR, MALEE, MANRIN, MAX, M-CHAI, MCS, MDX, MEGA, METCO, MGT, MJD, MK, MM, MODERN, MPG, MPIC, NC, NCH, NDR, NETBAY, NEW, NEWS, NFC, NOBLE, NOK, NPK, NPP, NVD, NYT, OHTL, OISHI, ORI, OTO, PAE, PLANET, PDG, PERM, PF, PICO, PJW, PL, PMTA, POLAR, POMPU, PPM, PRAKIT, PRECHA, PRIN, PRM, PTL, RAM, RCI, RCL, RICH, RICHY, RJH, ROCK, RP, RPC, RPH, RS, S, S11, SAFARI, SALEE, SAM, SAMART, SAMCO, SAMTEL, SAPPE, SAWAD, SAWANG, SCT, SCP, SE, SEAFCO, SELIC, SF, SFP, SGF, SHANG, SIAM, SIM, SIMAT, SKR, SKY, SLP, SMK, SMM, SMT, SOLAR, SPA, SPALI, SPCG, SPG, SPORT, SPVI, SQ, SSC, STANLY, STAR, STEC, STHAI, STPI, SUC, SUTHA, SVH, SVOA, SYNEX, T, TACC, TAPAC, TASCO, TC, TCB, TCC, TCCC, TCJ, TCOAT, TEAM, TFD, TGPRO, TH, THAI, THANA, THIP, THL, TIC, TIW, TK, TKS, TM, TMC, TMI, TMW, TNDT, TNH, TNPC, TNR, TOPP, TPAC, TPBI, TPCH, TPIPL, TPCC, TPOLY, TPP, TR, TRC, TRITN, TRT, TRUBB, TSF, TSI, TSR, TSTE, TTA, TTL, TTMT, TTW, TUCC, TWP, TWZ, TYCN, UAC, UBIS, UEC, UKEM, UMI, UMS, UNIQ, UP, UPF, UPOIC, UT, UTP, UV, UVAN, VARO, VI, VNG, VPO, VTE, WG, WHAUP, WIN, WINNER, WORK, WORLD, WP, WR, XO, YCI, YNP, YUASA, ZIGA, ZMICO

Explanations

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of July 31, 2017) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.