Heineken Malaysia (HEIM MK)

1H26: Below Expectations; Inventory Adjustment Continues

BUY (Maintained)

Share Price	RM19.10
Target Price	RM21.80
Upside	+14.1%
Previous TP	RM24.70

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Highlights

- **1H26 results missed expectations** on weaker-than-expected sales volume.
- **Revenue declined 19.5% yoy** as persistently soft sentiment and low sales resulted in bottlenecks at the distributor level
- **We trim our 2026/27/28 forecasts by 23%/8%/7% respectively** as we impute the continued impact of the inventory adjustment. Maintain BUY with a lower target price of RM21.80 (from RM24.70 previously).

1H26 Results

Year to 31 Dec (RMm)	1Q26 (RMm)	qoq % chg	yoy % chg	1H26 (RMm)	Yoy % chg
Revenue	434.7	(34.5)	(19.5)	1,099.0	(15.7)
EBITDA	91.0	(44.8)	(31.8)	255.8	(21.1)
EBIT	68.1	(51.8)	(38.5)	209.5	(23.8)
PBT	66.6	(51.6)	(39.1)	204.2	(24.5)
Core net profit	51.8	(50.7)	(38.0)	156.7	(24.1)
Margins (%)	(%)	+/- ppt	+/- ppt		
EBIT Margin (%)	15.7	(5.6)	(4.9)	19.1	(2.0)
PBT Margin (%)	15.3	(5.4)	(4.9)	18.6	(2.2)
Eff. Tax rate (%)	(24.1)	(0.1)	(0.0)	(24.1)	0.0
Core Net Margin (%)	11.9	(3.9)	(3.6)	14.3	(1.6)

Source: Heineken, UOB Kay Hian

Analysis

- **Below expectations.** Heineken Malaysia (Heineken) reported a core net profit of RM156.7m (-24.1% yoy) on revenue of RM1.1b (-15.7% yoy). We arrive at this number after stripping out RM1.7m in provisions for inventory write-offs. This missed expectations, making up only 35% of both our and consensus full-year forecasts. The negative deviation stemmed largely from a larger-than-expected decline in sales volume. An interim dividend of 40 sen was announced, unchanged yoy.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2,797	2,798	2,307	2,816	2,880
EBITDA	510	502	468	597	601
Operating profit	418	406	381	511	515
Net profit (rep./act.)	467	459	347	433	447
Net profit (adj.)	448	463	347	433	447
EPS (sen)	148.3	153.2	114.8	143.2	148.0
PE (x)	12.9	12.5	16.6	13.3	12.9
P/B (x)	10.7	10.9	10.9	10.9	10.9
EV/EBITDA (x)	11.0	11.9	12.5	9.8	9.8
Dividend yield (%)	8.1	8.0	6.0	7.5	7.8
Net margin (%)	16.7	16.4	15.0	15.4	15.5
Net debt/(cash) to equity (%)	8.8	25.4	16.2	16.8	17.8
Interest cover (x)	46.3	47.7	31.5	41.1	737.7
ROE (%)	102.5	101.9	76.9	95.9	99.2
Consensus net profit	-	-	453	479	458
UOBKH/Consensus (x)	-	-	0.77	0.90	0.98

Source: Heineken, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	HEIM MK
Shares issued (m):	302.1
Market cap (RMm):	5,550.1
Market cap (US$m):	1,409.4
3-mth avg daily t'over (US$m):	1.0

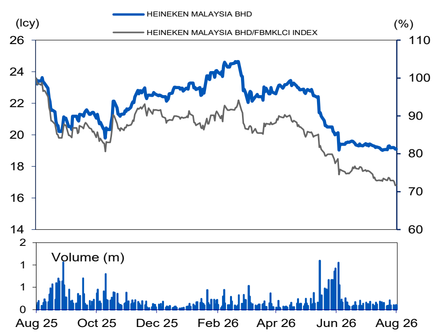
Price Performance (%)

52-week high/low RM24.64/RM19.80

1mth	3mth	6mth	1yr	YTD
(1.0)	(15.9)	(20.7)	(18.7)	(16.8)

Major Shareholders	%
GAPL Pte Ltd	51.0
Virtus Investment Partners	2.1
AIA	1.3

Price Chart



Source: Bloomberg

Company Description

Market leader in the malt liquor market, led by key driving brands, lager beer Tiger and Heineken, and stout Guinness Anchor.

- **Sales adjustment dragged 2Q26.** Heineken's 2Q26 core net profit of RM51.8m (-50.7% qoq, -38.0% yoy) saw a sharp contraction as the group felt the continued impact of the sales volume adjustment started in 1Q26. We understand this is largely due to a mismatch of demand at the distributor level as soft consumption and high distributor stockpiles have resulted in significantly slower inventory churn. Looking forward, we believe this softness may persist into 2H26 as consumer sentiment has remained largely muted.
- **Further details on Singapore transition.** While Heineken remained tight-lipped on the volume split between Malaysia and Vietnam, the group did provide further details regarding the Singapore export operations. Namely, the phased rollout is still expected to begin soon as Singapore's Asia Pacific Breweries (APB) winds down its production. Heineken also shared that the Malaysia facilities are expected to brew and export APB's entire portfolio of brands. The brewery is also currently undergoing upgrades including an additional bottling line. While it did not provide exact guidance, the group did comment that the new line is a relatively significant investment, although gains are largely on the efficiency side instead of production capacity. Nonetheless, we view the expansion as positive for Heineken given the product range is already established within Singapore. However, earnings impact in the near-term will likely be muted given the rollout is expected to take until 3Q26.
- **2026 fizzling out?** Conversely, near-term headwinds signal that the remainder of 2026 may be challenging for Heineken. Barring a significant uptick in beer consumption, we believe inventory levels may require an additional 3-6 months to normalise. The previously anticipated tourism-driven consumption boost also appears to be minimal as travel was disrupted by the Iran War. Despite the visibility from Visit Malaysia Year 2026, year-to-May tourist arrivals have only grown 1% yoy. Overall, we believe Heineken's earnings may require additional time to recover from the sales adjustment.

Valuation/Recommendation

- **Maintain BUY with a lower DCF-based target price of RM21.80 (from RM24.70).** We use a WACC estimate of 7.8% and terminal growth rate of 2.7% to arrive at our fair value estimates. Our DCF-derived target price implies 15.2x 2027F PE, around -0.5SD to its five-year mean.
- We maintain our recommendation largely on valuation grounds. While Heineken trades at near -1.0SD based on 2027F PE, a significant rerating will likely be further out. While the 5-7% yields may tide over some investors in the meantime, we remain conservative on Heineken given the limited near-term catalysts.

Earnings Revision/Risk

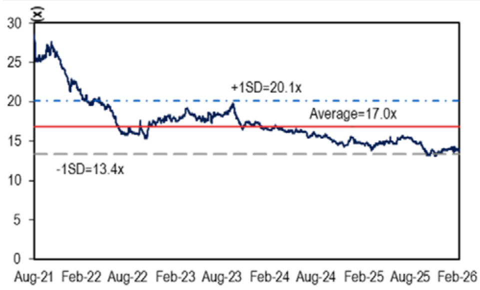
- We cut our 2026/27/28 earnings forecasts by 23%/8%/7% respectively, imputing significantly lower sales volumes for 2026F followed by a gradual normalisation going into 2027F.

KEY Assumptions

Year	2026F	2027F	2028F
Revenue (RMm)	2977	3059	3097
yoy growth (%)	-20.2	22.1	2.3
Volume yoy (%)	-25.0	20.0	2.0
ASPs yoy (%)	6.4	1.7	0.2
Core profit (RMm)	335	418	433
yoy growth (%)	-27.6	24.8	3.5

Source: Heineken, UOB Kay Hian

12-Month Forward PE Band



Source: Bloomberg,, UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental

- Water management. Water efficiency has gradually improved over the years. It is now 16% more efficient relative to 2014.
- Emissions. Zero waste to landfill. Aims to reduce CO2 emissions by 40% in production compared with 2008.

Social

- Product services responsibility. More than 10% of Heineken's media budget is committed to advocating responsible consumption.

Governance

- Board gender diversity. Women are well-represented on the board, with a 57:43 male to-female ratio.
- Management gender diversity. Among employees, Heineken has a 50:50 male-to female ratio in middle to senior management positions.

Source: Heineken, Bursa Malaysia, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	2,798	2,307	2,816	2,880
EBITDA	502	468	597	601
Deprec. & amort.	96	87	87	87
EBIT	406	381	511	515
Total other non-operating income	216	92	76	78
Net interest income/(expense)	(10)	(15)	(15)	(1)
Pre-tax profit	608	459	572	592
Tax	(148)	(112)	(140)	(144)
Net profit	459	347	433	447
Net profit (adj.)	459	347	433	447

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Other LT assets	588	549	546	544
Cash/ST investment	15	64	61	56
Other current assets	739	624	738	753
Total assets	1,342	1,238	1,345	1,353
ST debt	150	150	150	150
Other current liabilities	637	533	641	648
LT debt	0	0	0	0
Other LT liabilities	24	24	24	24
Shareholders' equity	531	531	531	531
Total liabilities & equity	1,342	1,238	1,345	1,353

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	485	478	513	513
Pre-tax profit	608	459	572	592
Tax	(145)	(112)	(140)	(144)
Deprec. & amort.	96	87	87	87
Working capital changes	(73)	45	(5)	(6)
Non-cash items	0	0	0	0
Other operating cashflows	(1)	(1)	(1)	(15)
Investing	(107)	(82)	(83)	(71)
Capex (growth)	(95)	(83)	(85)	(86)
Others	(12)	1	1	15
Financing	(404)	(347)	(433)	(447)
Dividend payments	(468)	(347)	(433)	(447)
Loan repayment	70	0	0	0
Net cash inflow (outflow)	(26)	49	(3)	(5)
Beginning cash & cash equivalent	32	15	64	61
Ending cash & cash equivalent	7	64	61	56

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.8	20.3	21.2	20.9
Pre-tax margin	21.7	19.9	20.3	20.5
Net margin	16.4	15.0	15.4	15.5
ROA	40.3	31.8	37.9	39.0
ROE	101.9	76.9	95.9	99.2
Growth				
Turnover	0.1	(17.6)	22.1	2.3
EBITDA	(1.6)	(6.7)	27.6	0.6
Pre-tax profit	4.0	(24.5)	24.8	3.4
Net profit	(1.6)	(24.5)	24.8	3.4
Net profit (adj.)	3.3	(25.1)	24.8	3.4
EPS	3.3	(25.1)	24.8	3.4
Leverage				
Debt to total capital	28.3	28.3	28.3	28.3
Debt to equity	28.3	28.3	28.3	28.3
Net debt/(cash) to equity	25.4	16.2	16.8	17.8
Interest cover (x)	47.7	31.5	41.1	737.7