Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2018-05-08
Event Description: Q1 2018 Earnings Call

Market Cap: 14,565.79
Current PX: 24.60
YTD Change($): +.40
YTD Change(%): +1.653

Bloomberg Estimates - EPS
Current Quarter: 0.460
Current Year: 0.920
Bloomberg Estimates - Sales
Current Quarter: 4360.000
Current Year: 14732.467

Q1 2018 Earnings Call

Company Participants

- Asli Demirel, Investor Relations Manager
- John Gavin Hudson, Beer Group President & Chief Executive Officer
- Onur Cevikel, Chief Financial Officer

Other Participants

- Mete Ozbek, Analyst
- Robert Bonte-Friedheim, Analyst
- Cemal Demirtas, Analyst
- Anjali Doshi, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to Anadolu Efes Beer Operation First Quarter 2018 Financial Results Conference Call and Webcast.

I now handover to our Investor Relations Manager, Ms. Asli Demirel. Madam, please go ahead.

Asli Demirel, Investor Relations Manager

Hi, everyone. Welcome to Anadolu Efes Beer Operations 2018 first quarter conference call and webcast. Before we start, I would kindly request you to refer to our notes in our presentation regarding forward-looking statements.

Now, I'm leaving the ground to Mr. Gavin Hudson, Anadolu Efes' CEO. Sir?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Thank you very much; and a good afternoon and welcome to our call today. Whilst quarter one represents the smallest quarter for us, the results are a mixed bag. Our consolidated sales volumes were up 7.9% year-on-year. This strongly underpinned by the robust contribution from our soft drinks, and part of our international beer operations. These results certainly reflecting the highest quarterly growth in the last four years. However, overall beer volumes were under pressure driven by Efes Russia and ongoing challenges we face in our Turkey business.

Our consolidated sales revenues were up 14% driven by volume, pricing and positive currency translation. Our EBITDA was also up by 19.2% with a margin improvement to 12.7%. As mentioned, ongoing challenges in our Turkey operation continued. And as we have discussed previously, we are investing heavily in the turnaround of our core Efes brand in this market. This turnaround strategy has delivered encouraging results with significant stabilization in volume and share loss. And we anticipate an improving trend throughout 2018. We will continue to invest our resources and our time to ensure that the required levels of success for this brand are achieved.

We have also been working hard in expanding our local and our international portfolio for Turkey. This is delivering the anticipated results. And we feel we will offer a more competitive and comprehensive portfolio that meets our consumer needs, whilst delivering on our strategic intent. Our international operations is also a tale of two stories. In our CIS countries, we see continued volume growth and financials in line with our expectations. In fact, Kazakhstan is delivered well ahead of plan and we are anticipating this trend to continue for the year. Efes Russia, as mentioned earlier, was slightly behind expectations. This driven by combination of destocking of our distributors, this in line with our business plans; and then low-to-negative growth in the category due to cycling a high quarter one in 2017.

Our Russian business did however continue to grow share in this quarter. We closed the deal for combining our Russia and our Ukraine business with ABI on the 30th of March, 2018. We see this collaboration as a milestone event for Anadolu Efes. We are now a significant number two player in one of the largest beer markets in the world, offering a competitive portfolio brands, combining the best talent available and delivering significant cost synergies. We see this collaboration offering ongoing potential for growth in this market.

On to our Beer Group strategy, this remains largely unchanged. Although we are and continue focusing heavily on renovating our core brands, an example being the Efes brand in Turkey, we continue expanding our portfolio to meet our growing consumer needs in all consumption occasions and with a huge focus on our premium portfolio. And we're driving quality as non-negotiable into our businesses. And then we've started a drive for enabling our digital strategy (Technical Difficulty) delivering significant results over time. We also have launched a huge focus on our organizational design and the related capabilities that will drive ongoing change into our business.

I'll handover to Onur, our CEO, [ph] to discuss the financials a bit further.

Onur Cevikel, Chief Financial Officer

Well, thank you very much, Gavin. Good morning and good afternoon, ladies and gentlemen. Welcome to Anadolu Efes quarter one 2018 financial results conference call. As usual, I will briefly take you through our financial results. But before I start, as announced earlier, we finalized our deal in Russia and Ukraine with ABI by the end of March 2018. Therefore, in our reported balance sheet numbers, you'll be seeing the consolidated business, while the income statement numbers do not include any consolidated figures due to date of completion. For this call, for balance sheet numbers, I will also comment on organic numbers, which are the numbers just before the balance sheet consolidation for simplicity and comparability purposes.

Starting with our consolidated numbers, our volumes on consolidated level grew by 7.9%, reaching to 18.9 million hectoliter in first quarter 2018; mostly thanks to our soft drink segment. Our revenues grew by a strong 14%, reaching up to TRY2,764.1 million in the first quarter 2018. Our EBITDA BNRI reached up to TRY352 million with a strong growth of 19.2%. Our EBITDA BNRI margin was at 12.7% with a 57 basis points scored. Finally, our net income was at minus TRY106.2 million, mostly being negatively impacted by the devaluation on TL.

Coming to our Beer Group results and starting with Turkey, as discussed, our volumes in Turkey were realised as 1 million hectoliters, 12.3% of a decline compared with the prior year; major reasons being destocking and competitive activity, as mentioned by Gavin. Net sales revenue has recorded a growth of 5.1%, reaching to TRY309.9 million, outpacing the volume performance. Main reasons of this is mostly price increases, mix and other optimizations. EBITDA BNRI in Turkey was at TRY44.9 million with a relatively lower margin of 14.5% compared with the same period of previous year. And this performance is mostly attributable to lower volume performance, as well as relatively higher raw material costs.

Talking about international beer operations, our volumes were at 3 million hectoliters in first quarter 2018, down by 3.9%. As mentioned, most of the decline is attributable to our Russian operation where other operations were mostly operating in line. In Russia, as mentioned by Gavin, destocking and a very strong pace of last year were the main reasons for the decline, which was also in line. Our net sales revenue was at TRY582.8 million with a growth of 2.2%, mostly due to price increases, as well as translation impact. Our EBITDA BNRI was recorded as TRY35.4 million, 34.8% lower than prior year with a 6.1% EBITDA BNRI margin. This is mostly attributable to our Russian operation, mainly volume, mix effect, as well as a very strong quarter four 2017 performance. It is also a fact that since we had completed the deal by the end of first quarter, the increased focus on integration had also some impact on the results.

Finally, on our Beer Group results, our volumes were recorded to be at 4.1 million hectoliters, 6.1% down from the previous period, whereas our revenues were recorded to be TRY898.5 million with a 3.3% increase. Our EBITDA BNRI was recorded to be TRY70 million with a 7.8% EBITDA BNRI margin. On the consolidated beer numbers, on the net income line, we had a loss of TRY81.8 million, mostly due to the devaluation impacts.

It is important to mention that as of January 1, 2018 Anadolu Efes designated USD-denominated bond of $500 million as a hedging instrument in order to hedge its foreign currency risk arising from the translation of net asset of its subsidiary located in Netherlands EBI. Therefore, the gains and losses on the hedging instrument arising from change in foreign currency valuation relating to the effective portion of the hedge are and will be accounted under equity in gains or losses on hedge and under other comprehensive income or loss related with the hedges of net investment in foreign operations in other comprehensive income statement.

Talking about Beer Group free cash flow, as you all are well aware, positive free cash flow generation has been a major priority for all our businesses for quite a time period of years. And I believe the value of this is better understood in the turbulent times. As usual, our free cash flow is relatively weak in the first quarters of the year and that free cash flow generation well on the negative total EBITDA minus TRY203.7 million. As you all well remember, we're cycling a very strong 2017 on free cash flow and a very strong fourth quarter on the free cash flow generation. Also EBITDA being under pressure, and CapEx for sales and marketing ahead of the season, one-off integration costs are the main reasons, though we are still targeting a positive free cash flow in our Beer Group operation.

On the balance sheet management, as mentioned in our release and previously, we finalized our deal with AB InBev for Russia and Ukraine ahead of our commitment of first-half 2018. And this enabled us to consolidate the balance sheet in our first quarter 2018 results. That's why we reported both reported numbers and organic numbers, but today I'll be concentrating on organic numbers, which are before the deal numbers since EBITDA for first quarter 2018 was not consummated due to the finalization date of the transaction. On organic numbers, our net debt to EBITDA was at strong 1.5 times on consolidated numbers and also 1.5 times for Beer Group despite the weakening TL that we were talking.

When we look at our borrowing mix and liquidity profile, we are looking at a relatively health picture with both Beer Group and Anadolu Efes consolidated average maturities being over three years. And thanks to importance given to free cash flow, as well as effective balance sheet management, the debt is easily manageable under repayment schedule.

On the interest breakdowns, we see most of our debt being on fixed interest rate, which we believe to be on advantage in an environment where interest rates are expected to increase. Both on consolidated level and Beer Group level our debt is mostly on fixed interest rate.

On a consolidated level, free each cash flow -- free cash flow after investing activities on a consolidated level was recorded to be a minus TRY168.2 million. As mentioned before, free cash flow is a major priority for our company and we are targeting another year of positive free cash flow generation on a consolidated basis.

Finally, on our financial priorities, as you will be seeing, we haven't changed our financial priorities much, which are sustaining the consolidated cash flows to this deleveraging, efficiency improvement, managing impact of FX volatility on operations and being committed to investment grade ratings.

So this concludes my presentation. I will be handing over to Gavin.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Thanks, Onur. I think it's worthwhile just to mention at this point in time just to remind the audience, around the rationale for combining our ABI and our Efes businesses in Russia, which is now called AB InBev Efes for Russia and Ukraine. Obviously, I mean, what's important for us was to increase our geographical diversification in line with our strategy; to create a strong number two in Russia, which is the world's sixth largest beer market and an important beer market globally, but certainly for us; and then obviously to unlock the potential growth that exists in the Russia and

Ukraine markets.

We both have a very strong portfolio of brands and opportunity to put these brands together and to continue to grow the market is very important for us. And then, yeah, certainly, synergies on the table, which we are now able to capture once we've combined these businesses. And obviously, with ABI being a key partner of Anadolu Efes, this relationship in Russia, would further enhance our relationship both in Russia and obviously globally.

If you look at our long-term priorities, these remain largely unchanged. In our beer business, we've continued to capitalize on our strong and growing portfolio, driving excellence in execution at all points-of-sale, and we continue enabling that through our digital strategy, focusing on quality market share, and then continuing, as Onur mentioned, generating strong free cash flow. In our soft drinks business, we're focusing on accelerating revenue and margin growth and expansion, and then equally winning at all points-of-sales through enhancing our sales force effectiveness.

Considering the first quarter's contribution to the year is relatively low, we are currently keeping our guidance for 2018 as we presented at the beginning of the year.

Thank you very much. That's all from our side.

Operator

Would you like to effectively [ph] go ahead with the Q&A?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yes, I think, we can continue with Q&A now. Thank you very much.

Questions And Answers

Operator

Okay. (Operator Instructions) Our first question is from Mete Ozbek from UNLU & Co. Please go ahead.

Mete Ozbek, Analyst

Hello. Thank you very much for the presentation. I've got three questions, if I may. First of all, I would like to have more color on the beer pricing environment in Turkey. We've seen that you successfully increased your retail prices like 20% year-over-year, which is a very solid achievement in my view. But I'm more interested about if the other player, the Tuborg, is following you in price increases or they're lagging behind your price increases, what is the situation in Turkey with respect to the prices? This is my first question.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Okay. We can go ahead and answer that question quickly for you, Mete. Thank you very much for your question. Beer pricing is largely driven by excise and obviously our input cost increases that we have during the year. And simple answer is, yes, Tuborg do follow and currently we have similar pricing in the market with respect to our -- the varying portfolio that we have in terms of SKUs.

Mete Ozbek, Analyst

Okay. Thank you very much. My other -- second question is also about Turkey. Onur told us that the EBITDA contraction in Turkey is partially due to the raw material pressure, but we see that the gross profit growth is in line with the revenue growth, so eventually there is no gross margin pressure. All the pressure is coming from actually the OpEx line where we see a TRY25 million increase in domestic beer operations' OpEx, which corresponds to a 17% year-over-year increase, which happens to be a quite significant increase, which is not likely to be explained by lower volumes in my view. Could you please provide more color on this?

Onur Cevikel, Chief Financial Officer

Well, let me answer this question. First of all, the volume pressure that is in Turkey business is in fact affecting our Turkey business in both on the cost of goods (Technical Difficulty) having a higher lira per hectoliter, higher costs on the cost side, depending on the fixed cost, as well as our OpEx. Even if you maybe keeping your OpEx on the same level, even managing the inflation impact since the volumes are being under pressure, it also plays an important role on the profitability being affected, because if you take into consolidation also the investments and investments that we are doing on our brands, as well as on our coolers, that's one of the reasons why our profitability is suffering on the top of the raw material pressures that we are facing. So (Technical Difficulty) as you are well aware, we are quite keen on optimizing and quite keen on being aggressive on costs and making sure that development costs are not excessive, so -- as well as the expenses. So that's why, in the future, you'll be also seeing us being more cautious given the economic environment as well.

Mete Ozbek, Analyst

I see. Again, about the -- actually it is about the total beer operations. We are seeing a substantial increase in your working capital requirement in the first quarter 2018 versus the first quarter of last year. So was there a structural change that drive this TRY123 million additional working capital requirement that we should consider in making a relatively longer term estimates?

John Gavin Hudson, Beer Group President & Chief Executive Officer

No, there's certainly no change to that. And I think a lot of it is coming through in phasing. In order for us to get our cooler CapEx in line, purchased for our summer season across all our markets, as you know, for June, July and August it's important to have our coolers in the marketplace and working for us.

Onur Cevikel, Chief Financial Officer

And on the top of that, let's also express that our working capital performance throughout the 2017 has been extremely strong. And we are cycling a very strong year-end balance sheet, which enabled us to generate a significant amount of free cash flow, which is also having another phasing impact on the top of what Gavin is mentioning. But needless to say and you have been hearing this in all our calls that we are doing, that working capital, as well as free cash flow remains to be our priority and it's going to be main priority, and the financial discipline is going to be going forward our major priority. We will able to decrease our net working capital as measured as a percentage of net revenue. And we will be targeting reducing it further where applicable, so --

Mete Ozbek, Analyst

Okay. Thank you very much. And finally, a small question about the one-off expense that you recorded in your international beer operations. As far as I understand, there is a TRY37 million of one-off expense which shows between the reported EBITDA and the EBITDA BNRI for the international beer operations. What was this TRY37 million expense related with? I'd like to hear more details, if it is possible.

Onur Cevikel, Chief Financial Officer

Yeah, this is basically mostly related with the integrations costs that we have been incurring in our Russian and Ukrainian operations due to the deal that we were dealing with AB InBev. So this is mostly attributable to the integration costs.

Mete Ozbek, Analyst

Should we expect further integration costs in the coming quarters?

Onur Cevikel, Chief Financial Officer

In the due course we are going to be talking about those as well. I mean, obviously, there will be a cost of -- one-off cost to get the synergies in the coming months. But we are going to be talking about those in the due course. As you can imagine, we have been working very early to make sure that the deal happens before the end of first quarter, so that the integration can go faster. And as the time goes and the operation started dealings just -- it was -- April was their first month of the operation. We are going to be talking more on both the synergies and costs attached to those.

Mete Ozbek, Analyst

Okay. Thank you very much.

Operator

Our next question is from Robert Bonte-Friedheim from BlueCrest Capital. Please go ahead.

Robert Bonte-Friedheim, Analyst

Good afternoon, everyone. Thanks for taking the questions. Just wanted to -- a quick one again wondering on the Russia side. If you can, give us any more refined outlook, one on the World Cup, and two on the synergies. On the World Cup, I noticed today that Bud is making bigger advertisement, what do they call it, they call it celebrate with Russia or something, the big launch of the new brand or watch the World Cup and drink a beer or something. And if you could, just give us color on those two issues.

John Gavin Hudson, Beer Group President & Chief Executive Officer

(inaudible) Hi, Robert. Yeah, thanks for the question. I think, obviously, the World Cup is a huge amount of excitement. At this point in time, ABI are keeping the total campaign for the World Cup under it. So whilst we've seen elements of it, we certainly haven't been exposed to the whole World Cup plan. And I certainly don't want to share that with you and spoil all the fun. But there is a fair amount of activity as you can imagine from the hosts and with their brand Budweiser.

Going to your second --

What's in Russia is your your brand, right, that's you?

Yeah. So I'm just saying, in terms of ABI, in terms of Budweiser as a lead brand, there is a lot of activity behind that brand. And what I'm saying --

Robert Bonte-Friedheim, Analyst

Right. But in Russia, the sales are your sales, right, of Budweiser?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, absolutely our sales, but in combination we do the campaigns together. So that's why I'm saying, I don't really share all the fun and excitement in terms of all the plans that have been put in place for the World Cup going forward. So I think let's see how those unfold. And certainly, as they unfold, we'll be sharing the fun and guidance together on that.

In terms of the synergies, I'll ask Onur just to give you a bit of color, some more color outside of the -- what you've seen in the presentation.

Yeah. So, Robert, thank you very much for the question. As you well know, we have declared that we are going to be targeting around $80 million to $100 million of synergies on a full-year basis, that will be fully captured in a time period. And as you can imagine, in the capturing of synergies, I mean, in being successful in these type of integrations time really matters, that's why we were very keen on making sure that the deal is going to be closed by the end of the first quarter, whereas our commitment had been that we would be doing that by the end of first-half. So I think it was a good enabler to get the synergies on the right track to make sure that we are going to be on the right track with the synergies.

While looking at the buckets of synergies, you can imagine that in these type of deals, there are couple of bucket of synergies where the integration teams has been working on, which are starting from procurement to production, go-to-market, G&A and best practices that are coming in. And you are going to be seeing in the next quarters that these synergies are going to be coming in the due course and are going to be fully captured within a time period of two years to three years (Technical Difficulty) our expectation is to make sure that we benefit them fully. So this is basically what I can talk about the synergies.

Robert Bonte-Friedheim, Analyst

Okay. Thank you very much.

Operator

(Operator Instructions) We have a follow-up question from Robert Bonte-Friedheim from BlueCrest Capital. Please go ahead.

Robert Bonte-Friedheim, Analyst

Sorry, I just want to take my place back in the queue, but if there's no one behind me, let me just continue. Look, thanks for talk about the -- on the synergies side. Can we get a bit more granularity on that overall, in terms of -- do you think those synergy targets are cautious or kind of aggressive or realistic, where we -- how should we think about those? And again, the follow-on question, what issues should we look at to see whether maybe the synergies can be -- have to be a little bit on the higher end or which ones might prevent you from realizing them all and might be a little bit on the lower end?

Onur Cevikel, Chief Financial Officer

Well, Robert, thank you very much for the question again. Well, I think, it is yet early days of the new organization. And obviously, we are announcing to our markets, we are obviously announcing the realistic numbers that we think are achievable, but they are also in a base that it makes sense doing these type of deals.

So I mean, my comment on that is we have worked on quite an extensive plan to make sure that this deal is going to be value-generative, obviously, for Anadolu Efes, as well as our partners. So -- and by then, we are going to be seeing that these synergies coming in. Obviously, as any management, our aim is to make sure that the more we delever, the more value that we can add on both on the cost synergies, as well as on the growth opportunities that we will have in Russia and Ukraine. And our teams in Russia are doing their best to make sure that this is going to be realized. So we are going to be talking about this more when we see the operations running and we are going to be seeing in the next quarters more color on that.

Robert Bonte-Friedheim, Analyst

Got you. And in terms of, just for own modeling purposes, I think we understood that early on that in the merger there would probably be just some overlapping brands, so there may be a tale of small brands and volume that we should take out of our numbers, are you able to quantify the range what we should look for, ballpark?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, I think it is early. We've done a whole bunch of modeling, Robert. And as mentioned previously, we have a significant portfolio. And whilst we think there are some overlaps, when you look at the overall Russia, the detailed work that's going in (Technical Difficulty) to look at by geography and granular geography where each of the portfolio plays and what opportunities that portfolio has right across the four corners of Russia. We're having a follow-up evaluation of the business plan in the next couple of weeks with the integration team. And I think we will certainly get a lot more color in terms of what the opportunities are, I think the upside, and certainly where we need to look at optimizing both in portfolio and in our route-to-market, et cetera.

Robert Bonte-Friedheim, Analyst

Would you share those with us as a -- maybe a devoted conference call devoted to that or --

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, I think, we've always committed that we would share as frequently as much as we think is relevant. So I'll ask Cicek to look at a follow-up call once we have a bit more detail on the business plans and then obviously share with you what we think is relevant and necessary.

Robert Bonte-Friedheim, Analyst

Okay. Cool. That will be a huge help. Can I ask another question or is there someone else in the queue?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, go ahead while you are on the line, why not, no problem.

Robert Bonte-Friedheim, Analyst

Okay. The other question is that can we just kind of continue back on Russia, the slowdown, can you give us a bit of color? Again, my first question I would always ask is, what do you estimate as the weather impact or how does the industry look at the weather in the first two months of the year in Russia? What estimated impact that was? And then, again, a bit if it wasn't because other people came into the refillable PET segment or what do you think drove the year-on-year decline specifically?

John Gavin Hudson, Beer Group President & Chief Executive Officer

I think if you look at -- I mean, I think everyone's mentioning that we are cycling a bit quarter one from 2017. But outside of that, I think there is a bit of noise in the numbers. We are getting different growth numbers. If we look at Nielsen, we get one number. If we look at our shipment pool, which is the tax numbers coming from the big five producers, we're getting a different growth number for Russia. And that's really because the financial year ends of companies happen in December and there's often a push at the end of December, which fills the pipeline. And in some instances there has been, as we mentioned, a relook at the stockholding of the dealers and the route-to-market partners that we have.

So I think quarter one is very difficult, Robert. And I wouldn't spend too much time on quarter one, because, I mean, the numbers are vastly different depending which angle you look at it. Essentially, if we look at the weather now, it is looking promising. And I know you are very keen on looking the comparative to last year. We do see better weather versus last year. We certainly believe that the World Cup will bring some upside to consumption in Russia. To what extent this will drive the overall growth of the category is still difficult to us evaluate. And at this point in time, from our perspective, we're focusing on putting those businesses together and our ambition is to ride out the market trend certainly in the short-term, and then we will look at what happens overall.

Robert Bonte-Friedheim, Analyst

And in terms of anyone else coming into the refillable PET segment at all, was that just -- or did your market share stay stable?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, I think the refillable PET, there are people -- as I've mentioned before, there are probably 900 to 1,000 what we call small brewers, they are not craft brewers, they are micro brewers. And generally, all of those are operating in this PET segment of the market. So when you say any other players coming in or out, this is a revolving door. Other big players, considering doing anything significant, not to our knowledge, no. I don't see any significant moves in terms of the big five players at this point in time. But certainly there's an ongoing movement within the smaller players.

Robert Bonte-Friedheim, Analyst

Okay. I have one last question, if I may, sorry, but only if no one else is on the line.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, we've got two others on the line. So if it's quick, Robert, I'm sure we can accomodate you.

Robert Bonte-Friedheim, Analyst

Okay. Very quickly. Just on Turkey again, the brand relaunch, again, it's early phase, it is the slow quarter of the year, but are you concerned about the brand relaunch or how should -- how do you think about this versus your expectations on a share basis and adjusting for weather or tourists or what have you? Are you happy with the brand relaunch?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah. Certainly, we are happy with the brand relaunch. And I think we had some very reputable consultants working with us before the brand relaunch. And effectively, we put the brand relaunch into three phases, which was renovate the family, the Efes, the family of brands. The second phase, which included the pack design and change. The second phase is around the storytelling about the Efes Pilsen and the relaunch of that brand. And then the third phase, which obviously is a more difficult phase, is building an emotional bond into the future with a consumer. We've been working on that and we continue working on that.

As I've mentioned before, relaunches of a FMCG brand are never a quick fix. These are impressions that have been left over many years. So we think we're moving in -- well, we are moving in the right direction. The speed at which we do that is really what we are busy working on at the moment.

We are fortunate that we have a significant portfolio of brands in Turkey. And we are working extremely hard with that portfolio to mitigate some of the losses that we have experienced with the Efes brand. And we see that coming into zone in 2018 and in actual set [ph] picking up some of that slick. And I think in the future, our business in Turkey will be a -- will have a far more balanced portfolio, which will appeal to all the sort of needs of various consumers in the different consumption occasions that we have.

Robert Bonte-Friedheim, Analyst

Got you. Okay. Listen, thank you. Thank you very much for taking all my questions. Cheers.

John Gavin Hudson, Beer Group President & Chief Executive Officer

That's fine, Robert.

Operator

Our next question is from Cemal Demirtas from Ata Invest. Please go ahead.

Cemal Demirtas, Analyst

Thank you for the presentation. My question is related to the outlook in second quarter. After a very [ph] quarter involves Turkey and international markets, how do you see the outlook so far in April and for the rest of the quarter? And do you think if you continue to lose maybe market share or volume, will you think that you have some structural problems? Thank you.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, thank you for the question. Yeah, I think, well, as I mentioned previously, the guidance remains unchanged at this point in time. The quarter one is a relatively a low impact quarter for us in the year and there have been various reasons as we've mentioned on the call, which are substantiating, I think, the performance in quarter one.

No, we don't see significant challenges going ahead in the Turkey business. And as I mentioned on the previous question, we're working extremely hard around the Efes core brand and mitigating any potential impact with the portfolio of brands that we have. We do have some additional launches planned for the year, going into summer in Turkey. And we believe that these launches will continue exciting the consumer and driving volume and opportunity into the market.

Cemal Demirtas, Analyst

How about international side, on the international side?

John Gavin Hudson, Beer Group President & Chief Executive Officer

No, I think the international business, well, our guidance remains, as I mentioned previously, unchanged. As I mentioned, the CIS countries have performed relatively well in quarter one. And I think we've spoken about Russia in a bit more detail. The only additional item is our export business, which is relatively small, but certainly is growing at significant rate. So we're very happy with that.

Cemal Demirtas, Analyst

Thank you.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Pleasure.

Operator

(Operator Instructions) We have a question from Anjali Doshi from TIAA. Please go ahead.

Anjali Doshi, Analyst

Gavin, Onur, thank you so much for the call today. Just had a question on FX hedging activities. I think, I may have misheard this, but I just want to confirm, Onur, are you now hedging the debt that you've taken out as well on FX side, can you confirm that? And maybe just, sort of, just maybe -- just recap like what your FX hedging activities are with regard to OpEx and CapEx as well. Thank you.

Onur Cevikel, Chief Financial Officer

Thank you very much. Well, let's divide [ph] hedges into two, one of which is the operational side and the other side is the balance sheet side. So on the operational side, as you know, in Turkey, we have been hedging around 60% to 70% of our total operational hedges throughout the last two years or three years, which is in still place. So yeah, still on the operational side, hedge, they are on 70% on our hard currency stuff.

On the balance sheet hedges, we haven't entered into any hedge deals with the banks. All we have done is you have been seeing in our balance sheet a debt of $500 million, which is now linked to our international businesses as a net investment hedge. So you are going to be seeing the FX fluctuations and its FX losses or incomes affecting our balance sheet on the equity side rather than seeing it on the income statement side, because we basically say that this becomes a non-investment hedge. I'm again saying that this is not a transaction that we have been going through the banks, but this is a transaction that we have changed our accounting policy and used this $500 million as a hedge instrument to our Efes Breweries International net assets.

Anjali Doshi, Analyst

Okay. Thank you. And then, just a question on CapEx. Can you just sort of review what drove the strong sort of year-over-year increase in first quarter? Is that more due to sort of additional spend this year or more like sort of a low base last year? And I see that you've kept a same guidance in terms of high-single digits CapEx as a percentage of sales. Maybe if you can, kind of talk about what will be sort of the key focus areas for the CapEx; is it just maintenance or is there anything else that we should be expecting for this year?

Onur Cevikel, Chief Financial Officer

Well, on the CapEx side, I mean, we have been talking about the CapEx that we are, in the recent years, taking into the fluctuations in the marketplace and taking into consideration the needs of the businesses. We have been cautious with our capital expenditures, as well as on another balance sheet item. And we will keep on being cautious on the CapEx, making sure that we evaluate our CapEx very heavily and make sure that we get the right returns. Most of our CapEx, especially, on the beer side, goes to the sales and marketing issues and investments, which we think is the most important CapEx that we should be doing and it partially goes into the maintenance as well, as you well said.

So, certainly we are keeping our guidance on our CapEx and we're going to be cautious in making CapEx going further as well. And as said during the call, we are going to be also -- if there are going to be any changes both on the CapEx as well as on another -- on other issues on the guidance, including the newly deal that we have in Russia, we are are going to be sharing it in the next quarter. But our CapEx approach remains unchanged.

Anjali Doshi, Analyst

Okay. Great. And then just one last question in the Turkish business, given the upcoming elections and the recent announcement of new sort of fiscal outlay, do you expect any changes on excise taxes or any other sort of taxation? And I guess, how is that figured into your pricing strategy for the rest of the year?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Well, we generally have two excise increases a year; in the beginning of the year, January, and in June-July. But at this point in time, we don't expect significant changes. Obviously the election is coming up in June. We can't foresee any impact due to the election. So at this point in time, no. I think the answer is, we don't foresee any major impact.

Anjali Doshi, Analyst

Okay. Great. Thank you very much.

Operator

Our next question is from Robert Bonte-Friedheim from BlueCrest Capital. Please go ahead.

Robert Bonte-Friedheim, Analyst

Sorry, guys. I hope you won't hate me at the end of the call here. Very quickly just on the -- the last question from me in terms of you told us in the presentation that Kazakhstan and Georgio is very strong. Can you give us the sense, I mean, Kazakhstan used to be a very big market. Is it now -- are we up 20% and more? And on the -- can you help us how the non -- can you tell us specifically what the growth rate was in Russia in the quarter?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah. I think a couple of questions there. I'm not sure I understand the question on Kazakhstan. I mean, certainly, Kazakhstan, as I mentioned, their performance continues to be good. In our guidance strategy -- we keep our guidance as I've mentioned a few times, but our growth is high-teens in Kazakhstan.

Robert Bonte-Friedheim, Analyst

Okay. Cool Thank you.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Is that answers your question, Robert?

Robert Bonte-Friedheim, Analyst

Yes, that answers the Kazakhstan question. Thank you. And in Russia, what was the year-on-year growth in Russia, specifically?

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, at this point in time we're not divulging the specifics in Russia, just because we've just concluded the deal. So at this point in time, we won't divulge specifics in Russia.

Robert Bonte-Friedheim, Analyst

Got you. Okay. Good. Thank you very much. Cheers.

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah. Good. Thanks.

Operator

We have a follow-up question from Cemal Demirtas from Ata Invest. Please go ahead.

Cemal Demirtas, Analyst

My question is already answered. Thank you.

Operator

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

John Gavin Hudson, Beer Group President & Chief Executive Officer

Yeah, thank you. I'd like to thank everyone for the participation today and the questions. And as mentioned, we will be discussing in more detail around the AB InBev Efes combination in Russia in due course and once we have more information. Thank you. Enjoy the rest of the week.

Onur Cevikel, Chief Financial Officer

Thank you very much.

Operator

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