

China / Hong Kong Industry Focus

China Brewery Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2022

Ample room to premiumise

- Product premiumisation continues to be a major ASP driver in China, on its much lower average beer prices vs. most developed regions globally
- Raw material cost pressure could also stay well contained in 2022, given strong pricing powers of leading brewers and the sequential moderation in key cost items, including barley and aluminium
- The sector should sustain sound returns in multi-years. Our top pick is [BUD APAC \(1876 HK\)](#), in view of its competent premium product portfolio, faster recovery in S. Korea, strong online potential (e.g., BEES), M&A opportunities, and attractive valuation

Premiumisation is the key. Riding on a much lower average selling price (ASP) and per capita spending on beer products vs. developed regions, such as the UK, Japan and S. Korea, we see ample room for major brewers to expand in China along with their strong efforts on product upgrades. In 2022, their ASP could at least rise by c.5% along with robust sales volume growth of featured premium/super-premium products, as sales volume of premium beers merely reaches c.10% of the total now.

More selective regional exposures. Market leaders are expanding/strengthening their operations towards the more affluent cities of China to better promote premium products to the relevant consumers. While COVID-19 resurgences since 2H21 have impacted sales channels in China to some extent, market expectations of >90% population to receive booster shots by end-Mar 2022 could help cushioning impacts from further major COVID-19 outbreaks. We also expect brewers with meaningful overseas exposure (e.g., BUD APAC's S. Korea division) to attain faster recovery this year.

Costs well under control. Successful operators with strong pricing power and effective product-mix upgrades have more than offset rising raw material costs and safeguarded gross margins. Brewers with strong global sourcing and hedging strategies (e.g., BUD APAC) could also have an advantage in sustaining profitability. Looking ahead, the recent easing of commodity prices (e.g., barley, aluminium) could alleviate overall cost burden for further gross margin gains. We prefer BUD APAC that currently trades at attractive 13.5x prospective EV/EBITDA, while CR Beer also offers excellent growth prospects.

HSI: 24,218

ANALYST

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Clement XU clementxu@dbs.com

Recommendation & valuation

Company Name	Cur	Price Local	Target Price Local	Recom	Mkt Cap US\$m	PE 22F x
Budweiser Brewing (1876 HK)	HKD	19.84	31.08	BUY	33,725	30.8
China Resources Beer (291 HK)	HKD	56.45	72.29	BUY	23,505	42.2
Tsingtao Brewery 'H' (168 HK)	HKD	66.60	91.47	BUY	15,565	22.6
Tsingtao Brewery 'A' (600600 CH)	CNY	89.18	98.97	BUY	15,565	37.1

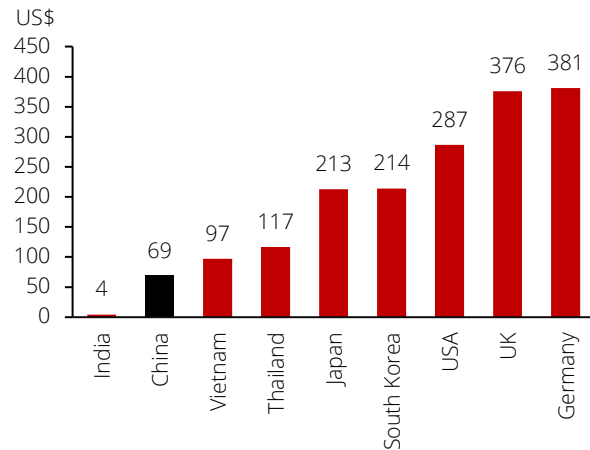
Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")



Premiumisation is the key. In recent years, premiumisation has been the major driver of revenue growth for major brewers in China. Despite the COVID headwinds, their average selling price (ASP) still rose by a mid-single digit rate y-o-y during 9M21. Sales volume of premium/super-premium products also continues to score double-digit growth and enhance overall product-mix. With the ongoing efforts on premiumisation and product upgrades by leading market players, we see ample room for the brewery industry to expand in China, especially considering its much lower ASP of beer and lower penetration of premium products comparing to other countries. Take BUD APAC as an example, its premium and super-premium segments currently account for c.16% of revenue in China, while the share for its S. Korea revenue is c.25%, and for ABInBev in the United States is 40%+.

Looking across various regions globally, China's beer ASP remains far less than half of the developed countries like the UK, Japan and S. Korea. China's per capita spending on beer is also much lower, at an average of less than a third comparing to most developed regions. Riding on huge potential of the premium/super-premium segments in China, we expect major brewers to see their ASP rising by at least c.5% in 2022, and continue to post robust growth in their sales volume of featured premium/super-premium products.

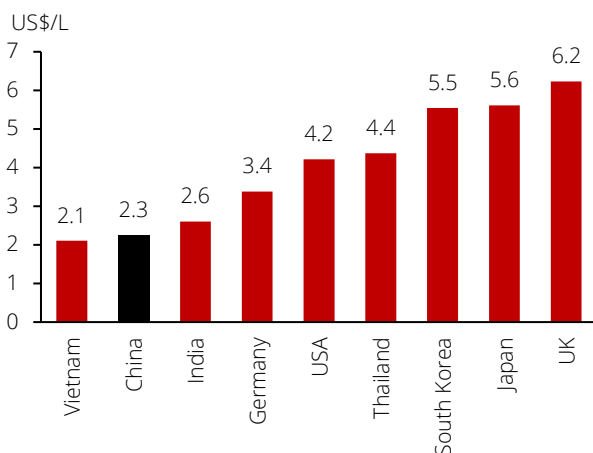
Per capita spending on beer products (2021F)



Source: Euromonitor

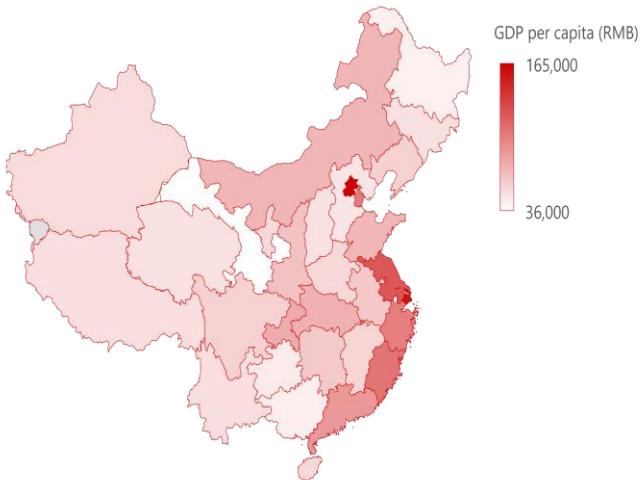
Regional expansion to accelerate "premium growth". While premium segment has become the main battlefield of major brewers in China, there are still a lot of room for each of them to blossom, as these market leaders also aim at expanding their regional coverage for premium/super-premium products going forward. For example, BUD APAC has targeted at 50 cities to more effectively promote "Budweiser" (scoring strong double-digit volume growth in 9M21), as well as 31 cities with higher disposable income to feature its super-premium brands. CR Beer continues to reinforce its prominent presence (e.g., in Eastern and Central China) with the launch of featured products including Marrs Green, Amstel and Löwen White Beer in 2022. Tsingtao Brewery, with its current strong foothold in Shandong and Shaanxi, is also well set to strengthen its footprints in the eastern and southern coastal areas across 20+ provinces under its coverage in China.

Average retail prices of beer (2021F)



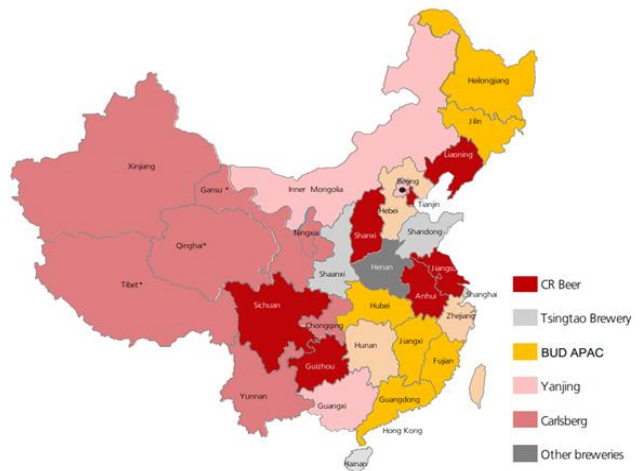
Source: Euromonitor

GDP per capita by province in Mainland China



Source: Statistical reports of each province/The 7th National Population Census of PRC (2020)

Brewers' dominating markets (market share >50%)



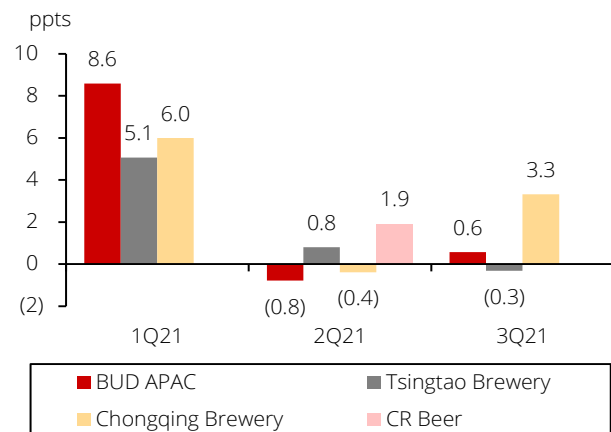
Source: China Beer Association, Zhiyan Consulting (2019), Company, DBS HK (Note: Carlsberg was 50%-owned JV with local beer brand "Huanghe" in Qinghai & Gansu, "Lhasa Beer" in Tibet. Carlsberg was consolidated in Chongqing Brewery after the acquisition in 2020.)

Better outlook in 2022. The COVID resurgences since 2H21 have impacted sales channels of beer in China to some extent, resulting in about a mid-single digit y-o-y decline in sales volumes for selected brewers in 3Q21, with certain cities even registering a teens decline in their beer volume sales. Looking ahead, we believe the Chinese government could be able to ride on its past experience to effectively minimize impacts from the pandemic during 2022. We also expect 90%+ of the population in China to have received the COVID-19 booster shot by the end of Mar 2022, effectively cushioning potential impacts of the Omicron variant spread. In general, leading players in China are expected to achieve a sound momentum in 2022 as the COVID situation improves gradually. Moreover, we expect brewers with significant overseas exposure to attain faster recovery momentum, such as BUD APAC's business in South Korea could probably achieve at least a single-digit rebound in sales volume for 2022, especially given pent-up demand from the pandemic and the government's determination to open up the economy.

Impacts of rising costs well contained. Raw material prices have been on an uptrend since 2H20, with aluminium climbing by 40%+ and barley by 20%+ in 2021, putting pressure on GP margins. Such pressure could be further stimulated as the channel-mix shifts to cater to more in-home consumption, so that relatively more beer products

are sold in cans rather than glass bottles. However, the impact of higher material costs has been limited so far, as seen from major brewers still managed to achieve decent expansion in GP margins (+1.6ppts y-o-y) during 9M21, thanks to their strong sourcing power and effective premiumisation strategies to more than offset the cost impacts.

GP margin expansion across major brewers (%y-o-y)



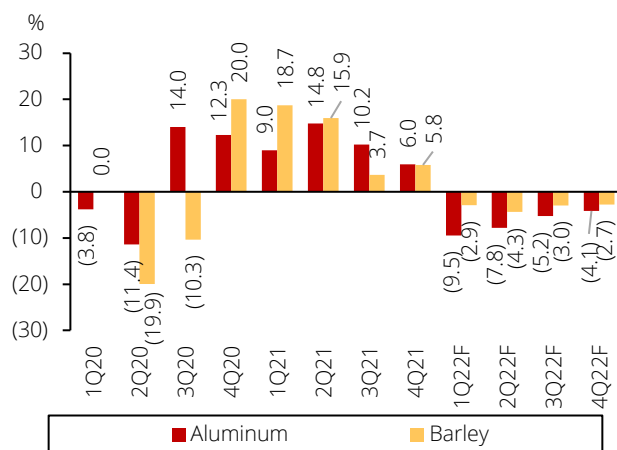
(Note: CR Beer's GP margin represented y-o-y growth in 1H21; BUD APAC's GP margin included the slower performance of S. Korea that could drag margin expansion to some extent)

Source: Companies

Companies with well-established global sourcing networks and healthy hedging practises (e.g., BUD APAC) could have an advantage in sustaining profitability. Moreover, leading players have raised prices in 2021 in response to the cost hikes, while further price adjustments and better sales-mix of premium/super-premium products should more than counter-balance potential impacts of rising costs ahead. Meanwhile, recently easing cost pressure and the anticipated drop of selected commodity prices during 2022 also signal a good room for brewers to improve their margins. With on-going premiumisation and effective cost management by major brewers, we expect their GP margins to post an uptrend over the medium-term.

influence in Baijiu business to unlock synergies of its well-established distribution networks, while BUD APAC could leverage on its successful M&A experience and continues to seek attractive M&A targets across Asian regions (e.g., S.E. Asia) to accelerate longer term growth.

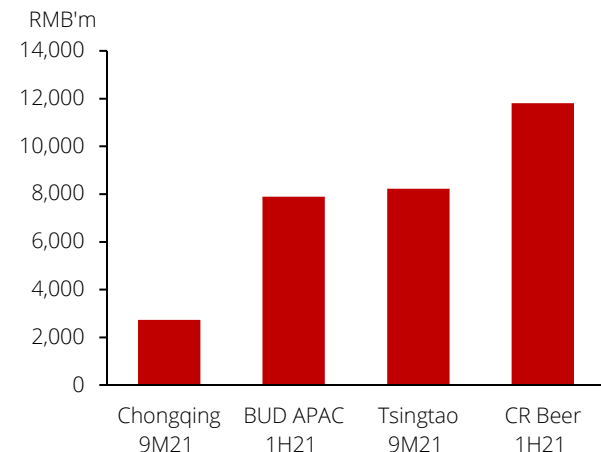
Price trends of major raw materials (q-o-q)



Source: World Bank, Euromonitor

Potential M&As and partnerships. Aside from premiumisation, collaboration for non-beer products (e.g., whiskey) may help enhancing product portfolio and bring additional growth opportunities. For example, BUD APAC has contracted with renowned brands like Red Bull to offer a wider range of beverage options to its distributors and customers in China. Riding on its strong global connections, BUD APAC should be able to introduce more brands to its operations across Asia, especially into China. Meanwhile, mergers & acquisitions (M&As) also beef up growth for major brewers. We have seen successful execution of M&As by leading players such as BUD APAC (acquisition of Blue Girl and Corona), CR Beer (acquisition of Heineken) and Chongqing Brewery (acquisition of Carlsberg). Riding on strong net cash positions, CR Beer may further expand its

Net cash level of selected companies

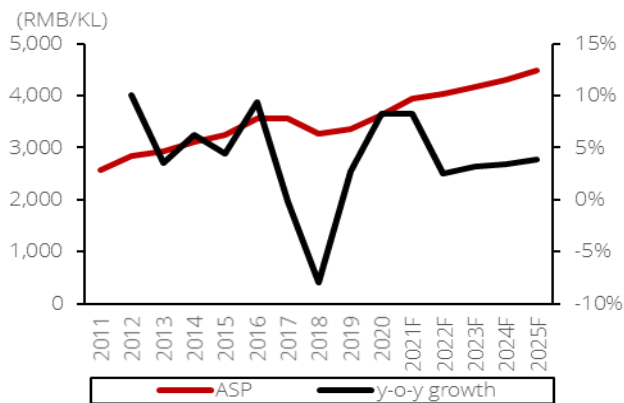


Source: Companies

Capacity optimisation to pay-off. Running with more-than-sufficient production capacity (<70% utilisation), along with enhanced production and supply chain strategies, major brewers in China could continue to undertake capacity optimisation, including the closure or transformation of some remote/outdated breweries in order to further improve operating efficiencies (e.g., CR Beer is set to close a maximum of 4 breweries each year over the medium-term). To support more sustainable growth, BUD APAC, for instance, further beefs up its ESG leadership with continuing efforts in using renewable energy in its production, and has set a "RE100" goal (i.e., 100% renewable energy use) to be achievable by 2025. Such goal could also strengthen BUD APAC's position by far in times of power curbs, if any. We also expect to see on-going improvements in CR Beer's production base, as it continues to enhance water usage with the assistance of Heineken N.V.

Risks and Challenges. Significant resurgence of COVID-19 cases and higher-than-expected raw material costs may dampen the growth of major brewers.

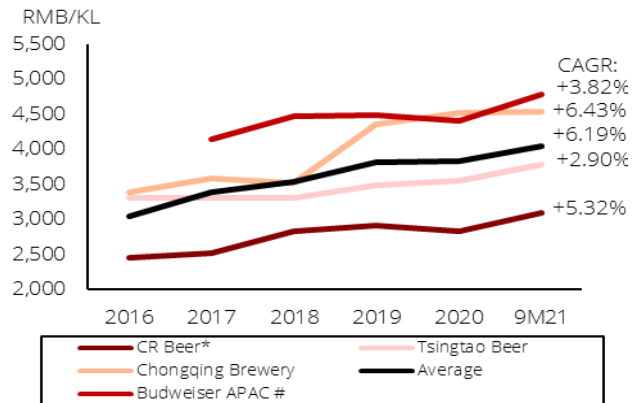
ASP trend of China brewery industry



ASP in the brewery sector has been trending up in the past few years, mainly supported by premiumisation efforts. Going forward, we expect ASP to sustain a single-digit CAGR in 2022-2025F.

Source: Companies

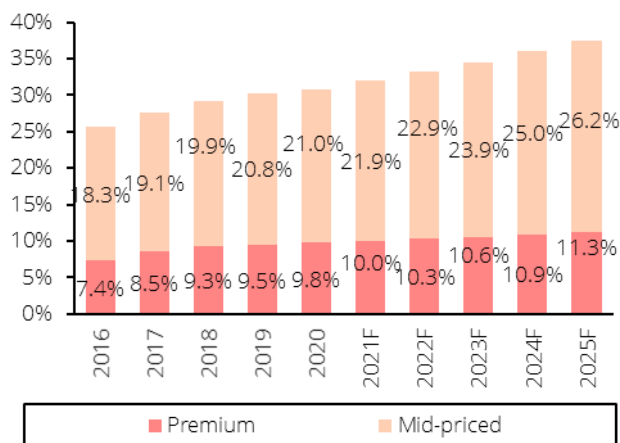
ASP trend of major brewers in China



In particular, ASP growth of major brewers has been steady due to better product-mix, led by on-going diligence in premiumisation. We expect major players to sustain about a mid-single digit growth in ASP over the medium term.

Source: Companies

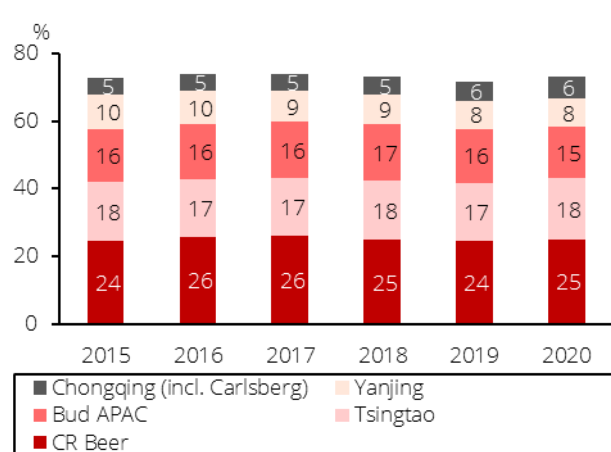
Market share of mid-priced and premium beer in China



The market share of mid- to high-end beer in China have seen steady growth in recent years, and are expected to account for c.38% of the beer market by 2025.

Source: Euromonitor (in volume terms)

Market share of top-5 brewers in China

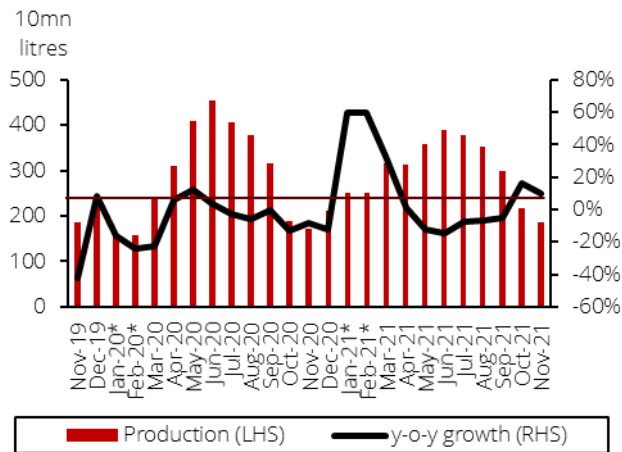


The market is highly consolidated as top-5 players make up 70%+ of the China beer market in terms of sales volume, with each major brewer having a relatively stable share. CR Beer is ranked number one in total sales volume.

Source: Euromonitor

China Brewery Sector

Monthly beer production of brewers above designated size in China (in 10 million litres)

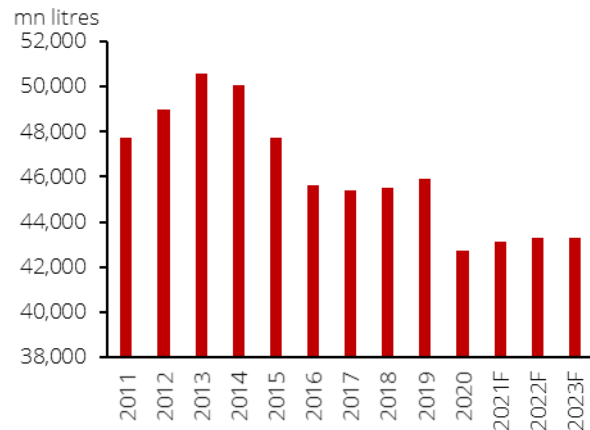


Overall production volume in China has seen a mid- to high-single-digit decline y-o-y in 2Q/3Q21, mainly due to the COVID-19 outbreaks across various provinces. These were followed by 16%/10% increase in Oct/Nov 2021, on easing situation of the pandemic. We expect the market to achieve better recovery in 2022, especially in the peak seasons of 2Q-3Q.

(*Jan-Feb numbers are calculated as an average of the aggregate production in both months) Source: Euromonitor

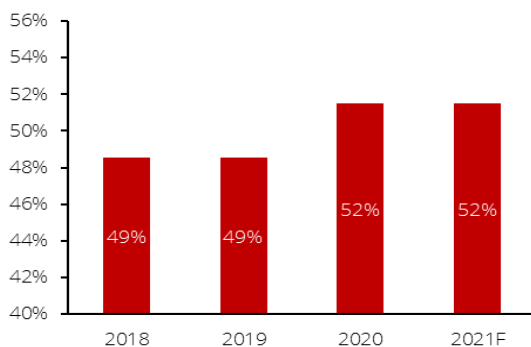
Source: National Bureau of Statistics, DBS HK

Market consumption of beer in China (in million litres)



The market size has peaked in 2013, with a 7% drop in 2020 due to impacts of the COVID-19 pandemic. Industry volume is expected to remain flattish or increase slightly over 2021-2023.

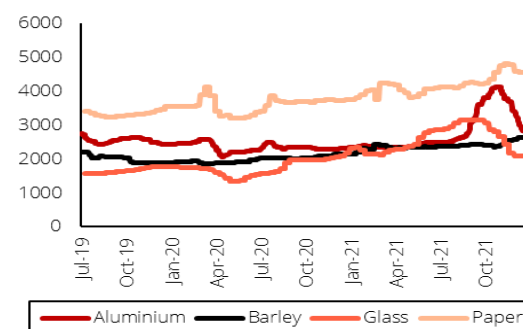
Percentage of off-trade sales in China



As a result of social restrictions and changes in consumption habits during the pandemic, the consumption trend has shifted from on-premise to in-home consumption.

Source: Euromonitor

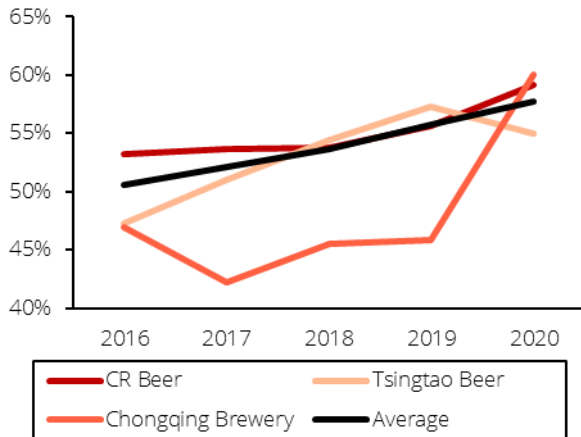
Raw material prices (RMB/tonne)



Raw material prices has been on an upward trend since 2H20, with a substantial increase for most of 2021, and a sequential drop by Dec 2021. Brewers have been facing raw material costs pressure but the impact has been limited.

Source: Shanghai Metal Market, National Bureau of Statistics, Bloomberg Financial L.P., Wind

Capacity utilization rate of selected companies



Major brewers have closed some remote breweries in recent years in order to improve operating efficiency. As major brewers have been operating at more-than-sufficient production capacity, the impact of power curbs in China in recent months should be limited. We believe these companies will continue to target at higher utilisation rates, with on-going efficiency improvement measures that include plant closures.

Source: Companies, DBS HK

Major product brands of leading brewers in China

BUD APAC:

Super Premium			
Premium			
Core+			
Core			
Value			

CR Beer:



Tsingtao Brewery:



Source: Companies

China Brewery Sector

Major product brands of leading brewers in China (con'd)

Chongqing Brewery:



Yanjing Brewery:



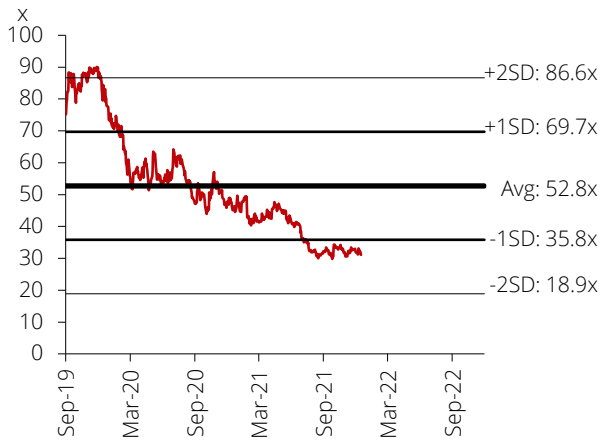
Source: Companies

Peer valuation

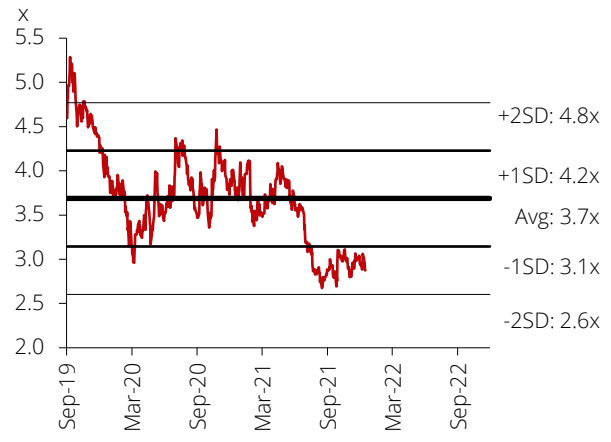
Company Name	Currency Code	Price	Target		Mkt Cap	Fiscal Yr	21F						22F						
			Local\$	Price Recom			US\$m	PE x	P/S x	Yield %	P/Bk x	EV/EBITDA x	ROE %	PE x	P/S x	Yield %	P/Bk x	EV/EBITDA x	ROE %
China Brewery:																			
Budweiser Brewing Co.	1876 HK	HKD	19.84	31.08	BUY	33,725	Dec	37.0	5.0	0.9	3.0	15.7	8.4	30.8	4.6	1.1	2.8	13.5	9.5
China Resources Beer*	291 HK	HKD	56.45	72.29	BUY	23,505	Dec	33.9	4.4	1.2	6.1	16.6	19.2	42.2	4.1	0.9	5.7	19.2	14.0
Tsingtao Brewery 'H'	168 HK	HKD	66.6	91.47	BUY	15,565	Dec	23.5	2.5	1.9	3.2	11.8	14.3	22.6	2.3	2.0	2.8	10.0	13.2
Tsingtao Brewery 'A'	600600 CH	CNY	89.18	98.97	BUY	15,565	Dec	38.6	4.0	1.2	5.2	22.9	14.3	37.1	3.8	1.2	4.6	19.7	13.2
Chongqing Brew.'A'	600132 CH	CNY	128.5	n.a.	NR	9,786	Dec	56.4	4.7	1.1	41.4	30.9	98.9	44.5	4.0	1.5	25.0	22.6	82.4
Beijing Yanjing Brew.'A'	000729 CH	CNY	7.92	n.a.	NR	3,514	Dec	81.6	1.9	0.4	1.7	12.0	2.1	64.4	1.8	0.5	1.6	11.0	2.6
GZ Zhujiang Brew. 'A'	002461 CH	CNY	9.11	n.a.	NR	3,174	Dec	30.3	4.4	1.4	2.1	18.4	7.3	26.1	4.1	1.5	2.0	18.4	8.0
Average								43.0	3.8	1.1	9.0	18.3	23.5	38.2	3.5	1.2	6.4	16.4	20.4
Global Peers:																			
Anheuser-Busch Inbev	BUD US	USD	67.8	n.a.	NR	139,883	Dec	23.6	2.6	1.2	1.9	20.2	8.4	20.8	2.4	1.5	1.8	10.7	9.0
Heineken	HEIA NA	EUR	104.1	n.a.	NR	68,450	Dec	29.9	2.8	1.2	4.0	28.2	14.5	25.5	2.5	1.4	3.7	12.8	15.0
Boston Beer 'A'	SAM US	USD	449.3	n.a.	NR	5,519	Dec	130.0	2.7	0.0	5.6	22.7	3.3	27.3	2.4	0.0	4.6	19.1	20.5
Molson Coors Beverage	TAP US	USD	51.69	n.a.	NR	11,215	Dec	12.3	1.1	1.3	0.8	29.9	7.0	12.6	1.1	3.0	0.8	7.7	6.4
Carlsberg A	CBGA GR	DKK	1235	n.a.	NR	27,512	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asahi Group Holdings	2502 JP	JPY	4686	n.a.	NR	20,806	Dec	15.6	1.1	2.3	1.4	15.4	9.6	14.0	1.0	2.6	1.3	10.9	9.8
Kirin Holdings	2503 JP	JPY	1864	n.a.	NR	14,916	Dec	18.6	0.9	3.5	1.7	9.0	10.9	14.7	0.9	3.6	1.6	7.5	11.8
Average								38.3	1.9	1.6	2.6	20.9	8.9	19.2	1.7	2.0	2.3	11.4	12.1

Source: Thomson Reuters, *DBS HK

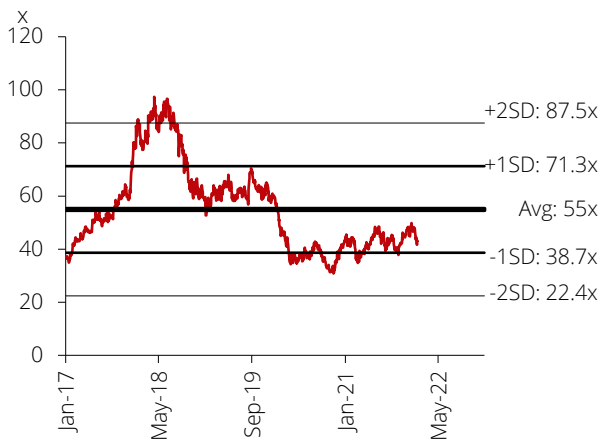
Budweiser APAC - PE chart



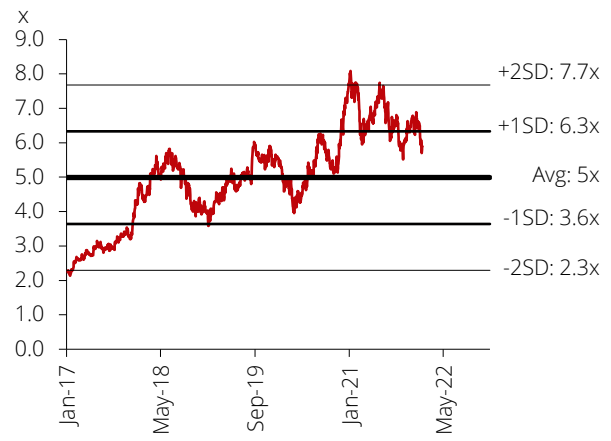
Budweiser APAC- PB chart



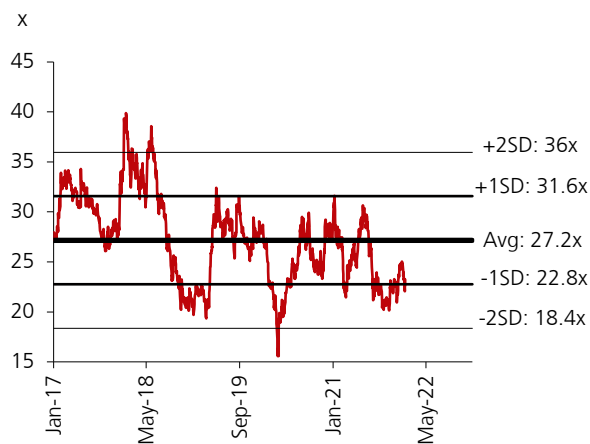
CR Beer - PE chart



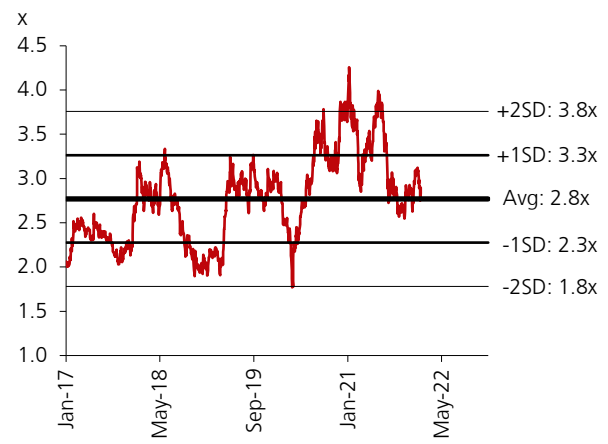
CR Beer - PB chart



Tsingtao Brewery H - PE chart

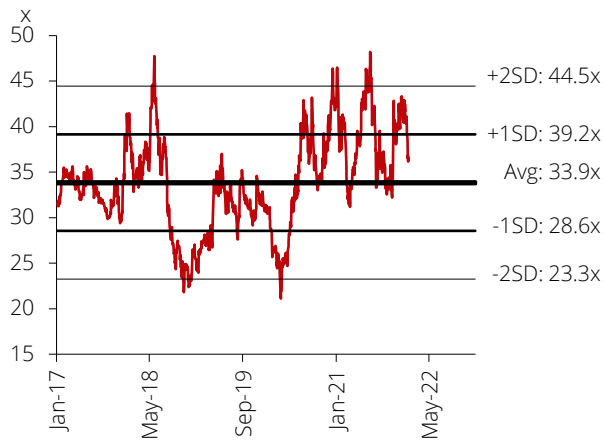


Tsingtao Brewery H - PB chart

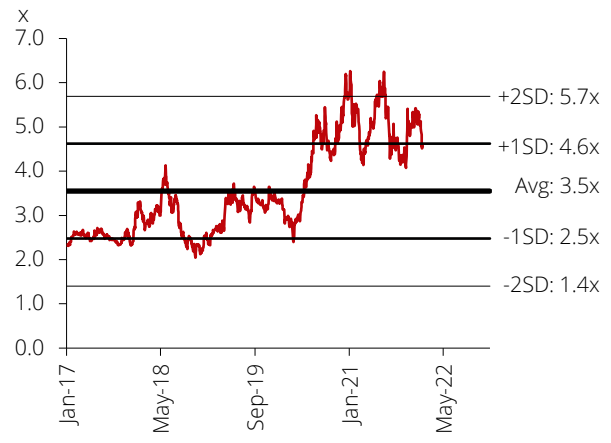


Source: Thomson Reuters, DBS HK

Tsingtao Brewery A - PE chart



Tsingtao Brewery A - PB chart



Source: Thomson Reuters, DBS HK

Budweiser Brewing Company APAC

Bloomberg: 1876 HK Equity | Reuters: 1876.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2022

BUY

Last Traded Price (17 Jan 2022): HK\$19.84 (HSI : 24,218)

Price Target 12-mth: HK\$31.08 (57% upside)

Analyst

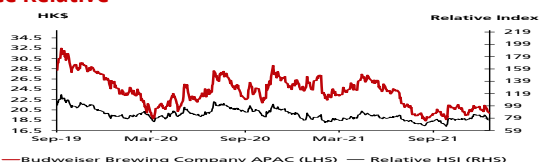
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What's New

- Strong execution of premiumisation strategies to support margin expansion ahead, given >9x higher gross margin of its super premium products vs. core & value brands
- Solid EBITDA rebound expected from S. Korea by 2022
- Ample opportunities from product line extension & innovation, e-commerce and M&As in medium term
- TP remains unchanged at HK\$31.08. Our top pick in the brewery sector for its excellent premiumisation outlook. Performance rebound in S. Korea will also be favourable.

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	5.588	6.693	7.256	7.787
EBITDA	1.584	2.061	2.335	2.542
Pre-tax Profit	908	1.340	1.642	1.867
Net Profit	514	912	1,095	1,244
Net Pft (Pre Ex) (core profit)	542	940	1,123	1,272
Net Profit Gth (Pre-ex) (%)	(45.6)	73.5	19.4	13.3
EPS (US\$)	0.04	0.07	0.08	0.09
EPS (HK\$)	0.30	0.54	0.64	0.73
Core EPS (US\$)	0.04	0.07	0.08	0.10
Core EPS (HK\$)	0.32	0.55	0.66	0.75
EPS Gth (%)	(42.8)	77.3	20.0	13.6
Core EPS Gth (%)	(45.6)	73.3	19.4	13.3
Diluted EPS (HK\$)	0.30	0.54	0.64	0.73
DPS (HK\$)	0.22	0.19	0.23	0.26
DPS (HK cts)	22.09	18.77	22.53	25.60
BV Per Share (HK\$)	6.28	6.56	6.98	7.46
PE (X)	65.6	37.0	30.8	27.1
CorePE (X)	62.2	35.9	30.1	26.5
P/Cash Flow (X)	25.9	24.8	19.3	18.1
P/Free CF (X)	42.5	43.7	29.3	26.7
EV/EBITDA (X)	20.6	15.7	13.5	12.1
Net Div Yield (%)	1.1	0.9	1.1	1.3
P/Book Value (X)	3.2	3.0	2.8	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	5.0	8.4	9.5	10.1
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (US\$)		0.07	0.08	0.10
Other Broker Recs:		B:25	S:1	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Premiumising its way up

Investment Thesis

Premiumisation in progress despite COVID headwinds. BUD APAC achieved decent growth in revenue and the average selling price (ASP) albeit the drop in 3Q21 volume that was triggered by COVID-19 resurgence. As a leader in premium beer (e.g., over a 45% market share in China's premium beer segment), we expect both the GP margin and EBITDA margin to increase by 2ppt+ for FY21, with more room to expand further ahead.

Impending recovery in South Korea. With South Korea's goal for a "gradual return to normal life", lifting COVID restrictions on operating hours for restaurants in Nov 2021, with potential plans to gradually lift other distancing policies sometime in 2022, the region could possibly score >20% rebound in its EBITDA by 2022.

Sound expansion blueprint and growth opportunities. We believe BUD APAC should continue to see strong growth prospects via geographical expansion, partnerships with complementary renowned brands as well as potential M&As. Its successful B2B e-platform BEES, innovative product lines including "beyond beer" beverages, and access to >600 brands of parent group should also open up extensive growth opportunities.

Valuation:

Our latest TP remains unchanged at HK\$31.08, which is based on APAC West (mostly China) being valued at 23x FY22F EV/EBITDA, and APAC East (mainly South Korea) at 15x FY22F EV/EBITDA.

Where we differ:

We are slightly more positive than the market in terms of revenue and EBITDA. We expect BUD APAC to outperform peers in 4Q21, as COVID-19 outbreaks in China during 4Q21 mainly affect areas where BUD APAC has relatively small exposures. South Korea could also stage a better recovery into 2022, given less limitations on the on-premise channel as compared to the early months of 2021.

Key Risks to Our View:

Resurgence of COVID-19 cases; market share loss; and high volatility of raw material prices.

At A Glance

Issued Capital (m shrs)	13,243
Mkt Cap (HK\$m/US\$m)	262,741 / 33,725
Major Shareholders (%)	
AB InBev Brewing Company Holdings (APAC)	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	16.97
GICS Industry: Consumer Goods / Beverages	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

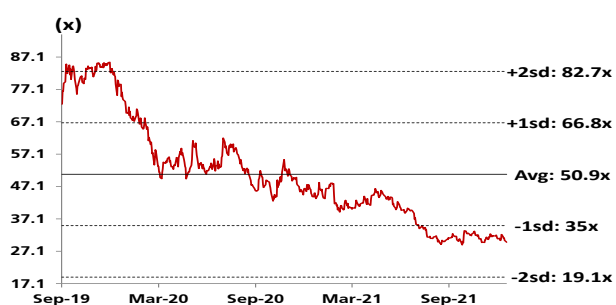
Budweiser Brewing Company APAC

Company Background

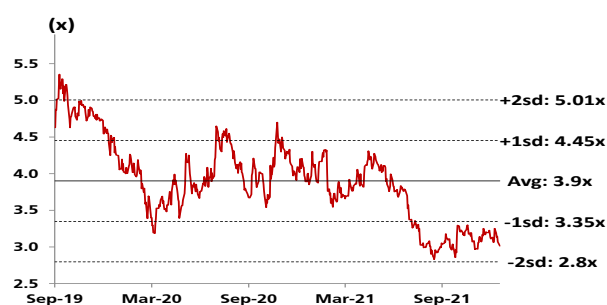
BUD APAC is the largest beer company in Asia Pacific in terms of sales value. In sales volume terms, the company ranked No.2 in India (20%) and No.3 in China (15%) in 2020, according to Euromonitor. Specifically, in the premium and super premium segments in China, BUD APAC is ranked No.1 in terms of sales volume.

Historical PE and PB

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

EV/EBITDA band

EV/EBITDA band (x)



Source: Thomson Reuters, DBS HK

Budweiser Brewing Company APAC

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Organic volume growth of APAC East	(7.2)	(10.5)	(1.0)	3.0	3.0
Organic volume growth of APAC West	(2.3)	(12.4)	7.8	1.5	1.5
Organic ASP growth of APAC East	2.3	1.7	2.0	3.0	4.0
Organic ASP growth of APAC West	6.3	(1.0)	7.0	5.0	4.5
Organic Normalized EBITDA Margin	32.4	28.3	30.8	32.2	32.6

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (US\$ m)					
APAC East	1,370	1,162	1,256	1,345	1,456
APAC West	5,176	4,426	5,437	5,910	6,332
Total	6,546	5,588	6,693	7,256	7,787
EBITDA (US\$ m)					
APAC East	446	339	332	413	464
APAC West	1,675	1,245	1,729	1,922	2,078
Total	2,121	1,584	2,061	2,335	2,542
EBITDA Margins (%)					
APAC East	32.6	29.2	26.5	30.7	31.9
APAC West	32.4	28.1	31.8	32.5	32.8
Total	32.4	28.3	30.8	32.2	32.6

Source: Company, DBS HK

Budweiser Brewing Company APAC

Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	6,546	5,588	6,693	7,256	7,787
Cost of Goods Sold	(3,058)	(2,681)	(3,033)	(3,278)	(3,491)
Gross Profit	3,488	2,907	3,660	3,978	4,296
Other Opg (Exp)/Inc	(2,022)	(1,970)	(2,291)	(2,316)	(2,424)
Operating Profit	1,466	937	1,369	1,662	1,872
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	23	25	28	31
Net Interest (Exp)/Inc	(24)	(24)	(26)	(19)	(7)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(98)	(28)	(28)	(28)	(28)
Pre-tax Profit	1,367	908	1,340	1,642	1,867
Tax	(459)	(371)	(415)	(517)	(588)
Minority Interest	(10)	(23)	(12)	(30)	(35)
Preference Dividend	0	0	0	0	0
Net Profit	898	514	912	1,095	1,244
Net Profit before Except.	996	542	940	1,123	1,272
EBITDA	2,121	1,584	2,061	2,335	2,542
Growth					
Revenue Gth (%)	(2.9)	(14.6)	19.8	8.4	7.3
EBITDA Gth (%)	6.4	(25.3)	30.1	13.3	8.8
Opg Profit Gth (%)	12.9	(36.1)	46.1	21.4	12.7
Net Profit Gth (%)	(6.3)	(42.8)	77.5	20.0	13.6
Margins & Ratio					
Gross Margins (%)	53.3	52.0	54.7	54.8	55.2
Opg Profit Margin (%)	22.4	16.8	20.5	22.9	24.0
Net Profit Margin (%)	13.7	9.2	13.6	15.1	16.0
ROAE (%)	9.0	5.0	8.4	9.5	10.1
ROA (%)	5.8	3.3	5.6	6.5	7.0
ROCE (%)	8.6	4.9	7.9	9.1	9.6
Div Payout Ratio (%)	38.8	73.1	35.0	35.0	35.0
Net Interest Cover (x)	61.1	39.0	51.7	87.1	258.8

Source: Company, DBS HK

Budweiser Brewing Company APAC

Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	3,638	3,716	3,698	3,712	3,723
Invt in Associates & JVs	418	433	400	400	400
Other LT Assets	9,144	9,708	9,567	9,467	9,372
Cash & ST Invt	992	1,295	1,744	2,541	3,396
Inventory	438	434	449	459	460
Debtors	652	534	640	693	744
Other Current Assets	26	69	12	12	12
Total Assets	15,308	16,189	16,511	17,284	18,108
ST Debt	235	164	156	148	141
Creditors	2,594	2,655	2,713	2,752	2,740
Other Current Liab	1,664	1,818	1,598	1,598	1,598
LT Debt	28	37	38	38	39
Other LT Liabilities	903	772	772	772	772
Shareholder's Equity	9,836	10,685	11,165	11,875	12,683
Minority Interests	48	58	70	100	135
Total Cap. & Liab.	15,308	16,189	16,511	17,284	18,108
Non-Cash Wkg. Capital	(3,142)	(3,436)	(3,210)	(3,186)	(3,122)
Net Cash/(Debt)	729	1,094	1,551	2,355	3,216
Debtors Turn (avg days)	34.3	38.7	32.0	33.5	33.7
Creditors Turn (avg days)	390.4	471.0	418.5	383.0	355.2
Inventory Turn (avg days)	64.9	78.2	68.9	63.7	59.4
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	0.5	0.5	0.6	0.8	1.0
Quick Ratio (x)	0.4	0.4	0.5	0.7	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	232.3	252.7	304.8	321.7	333.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,367	908	1,340	1,642	1,867
Dep. & Amort.	655	647	692	674	670
Tax Paid	(459)	(371)	(415)	(517)	(588)
Assoc. & JV Inc/(loss)	(23)	(23)	(23)	(23)	(23)
(Pft)/ Loss on disposal of FAs	(105)	(46)	0	0	0
Chg in Wkg.Cap.	(209)	31	(231)	(24)	(64)
Other Operating CF	153	155	0	0	0
Net Operating CF	1,379	1,301	1,362	1,752	1,862
Capital Exp.(net)	(611)	(508)	(590)	(600)	(600)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(185)	(129)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	103	65	50	50	50
Net Investing CF	(693)	(572)	(540)	(550)	(550)
Div Paid	(976)	(348)	(319)	(383)	(435)
Chg in Gross Debt	68	(49)	(7)	(7)	(7)
Capital Issues	5,695	0	0	0	0
Other Financing CF	(6,186)	(35)	(15)	(15)	(15)
Net Financing CF	(1,399)	(432)	(342)	(405)	(457)
Currency Adjustments	(32)	90	0	0	0
Chg in Cash	(745)	387	480	797	855
Opg CFPS (US\$)	0.12	0.10	0.12	0.13	0.15
Free CFPS (US\$)	0.06	0.06	0.06	0.09	0.10

Source: Company, DBS HK

Budweiser Brewing Company APAC

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Mar-21	HK\$23.55	HK\$28.00	Buy
2:	5-Oct-21	HK\$19.82	HK\$27.28	Buy
3:	13-Dec-21	HK\$20.15	HK\$31.08	Buy

Source: DBS HK

Analyst: Mavis HUI
Clement XU

China / Hong Kong Company Update

China Resources Beer

Bloomberg: 291 HK EQUITY | Reuters: 0291.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2022

BUY

Last Traded Price (17 Jan 2022): HK\$56.45 (HSI : 24,218)

Price Target 12-mth: HK\$72.29 (28% upside)

Analyst

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Clement XU clementxu@dbs.com

What's New

- On-going premiumisation to support margin expansion
- Better earnings momentum could also be expected by FY22 as COVID-19 impacts could further subside ahead
- Maintain BUY with TP unchanged at HK\$72.29

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	31,448	34,025	36,792	39,252
EBITDA*	4,966	8,464	7,132	8,652
Pre-tax Profit*	3,009	6,834	5,488	7,137
Net Profit*	2,094	4,405	3,537	4,600
Core Profit	3,063	3,597	4,511	5,542
Core Profit Gth (%)	29.6	17.4	25.4	22.9
EPS (RMB)*	0.65	1.36	1.09	1.42
EPS (HK\$)*	0.79	1.66	1.34	1.74
Core EPS (RMB)	0.94	1.11	1.39	1.71
Core EPS (HK\$)	1.16	1.36	1.70	2.09
EPS Gth (%)*	59.6	110.4	(19.7)	30.1
Core EPS Gth (%)	29.6	17.4	25.4	22.9
Diluted EPS (HK\$)*	0.79	1.66	1.34	1.74
DPS (HK\$)	0.32	0.67	0.54	0.70
DPS (HK cts)	31.74	66.77	53.61	69.73
BV Per Share (HK\$)	8.01	9.31	9.82	10.80
PE (X)*	71.4	33.9	42.2	32.5
Core PE (X)	48.8	41.6	33.1	27.0
P/Cash Flow (X)	33.4	24.4	26.6	24.3
P/Free CF (X)	43.5	29.1	32.4	29.0
EV/EBITDA (X)*	29.2	16.6	19.2	15.4
Net Div Yield (%)	0.6	1.2	0.9	1.2
P/Book Value (X)	7.0	6.1	5.7	5.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	10.2	19.2	14.0	16.9
Earnings Rev (%):		Nil	Nil	Nil
Consensus EPS (RMB)		1.31	1.41	1.75
Other Broker Recs:		B:37	S:3	H:1

(* CR Beer booked RMB1.8bn gains on land disposal in 1H21.)

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Ample room for margin expansion

Investment Thesis

Ongoing efforts in premiumisation. China Resources Beer ("CR Beer") should achieve c.30% y-o-y volume increase in its "sub-premium and above" segment in FY21 on a low base, and we anticipate a further 20-25% growth in the segment for FY22. Seeing large potential to premiumise ahead, we expect the average selling price (ASP) to sustain a c.5% CAGR in 2021-2025 and support medium-term growth.

Firm recovery amid near-term headwinds. While the resurgence of COVID-19 in 2H21 resulted in flattish sales volume for FY21, full-year revenue and core earnings momentum have staged a better recovery. Further easing of the pandemic situation ahead, especially into 2H22 should improve overall consumer sentiment as well as the ability for a faster expansion.

Ample room for profitability growth. With an ongoing product-mix upgrade and capacity optimisation, CR Beer could potentially target at a GP margin of 50%+ by 2025 (FY21: c.41.5%), bringing EBITDA margin to c.30% by then.

Valuation:

Our TP remains unchanged at HK\$72.29, which is benchmarked to a 22x adjusted EV/EBITDA for FY22, equivalent to 1 S.D. above its four-year average.

Where we differ:

We are already slightly more conservative on FY21/22 revenue growth assumptions vs. market consensus as we merely factor in a mid-single-digit ASP growth for both FY21 and FY22.

Key Risks to Our View:

Significant sales volume decline due to COVID-19 resurgence; rising competition; higher-than-expected raw material costs.

At A Glance

Issued Capital (m shrs)	3,244
Mkt Cap (HK\$m/US\$m)	183,124 / 23,505
Major Shareholders (%)	
China Resources Co Ltd	51.9
Free Float (%)	48.1
3m Avg. Daily Val. (US\$m)	59.97
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



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China Resources Beer

Company Background

China Resources Beer (CR Beer) is the largest brewer in China, with sales volume of 11.1m KL in 2020, accounting for a 26.1% market share in China according to Euromonitor. As at end-2020, CR Beer owned 70 breweries across 25 provinces, municipalities, and autonomous regions in China, running on a production capacity of c.19m kl per year.

Historical PE and PB band

Forward PE band (x)



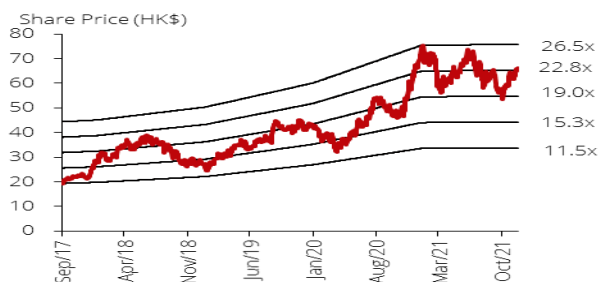
PB band (x)



Source: Thomson Reuters, DBS HK

Adjusted EV/EBITDA

Adjusted EV/EBITDA (x)



Adjusted EV/EBITDA band (x)



Source: Thomson Reuters, DBS HK

China Resources Beer

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Mid-to-high-end beer revenue share (%)	56.3	57.6	59.1	60.3	61.4
Average selling price growth (%)	2.8	(2.4)	7.0	5.7	5.5
Sales volume growth (%)	1.3	(2.9)	1.1	2.3	1.1
Adjusted EBITDA margin (%)	15.2	18.9	22.5	22.0	24.4
Core net margin (%)	7.1	9.7	10.6	12.3	14.1

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Eastern region	16,927	15,785	16,974	18,620	19,935
Central region	8,073	7,497	8,182	8,720	9,294
Southern region	8,190	8,166	8,869	9,452	10,024
Total	33,190	31,448	34,025	36,792	39,252
EBIT (RMB m)					
Eastern region	1,007	1,134	3,649	2,793	3,588
Central region	598	757	1,391	1,046	1,394
Southern region	714	1,312	1,596	1,607	2,005
Total	2,319	3,203	6,637	5,446	6,987
EBIT Margins (%)					
Eastern region	5.9	7.2	21.5	15.0	18.0
Central region	7.4	10.1	17.0	12.0	15.0
Southern region	8.7	16.1	18.0	17.0	20.0
Total	7.0	10.2	19.5	14.8	17.8

Source: Company, DBS HK

China Resources Beer

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	33,190	31,448	34,025	36,792	39,252
Cost of Goods Sold	(20,964)	(19,373)	(19,892)	(20,641)	(21,148)
Gross Profit	12,226	12,075	14,133	16,151	18,104
Other Opg (Exp)/Inc	(9,954)	(8,855)	(7,263)	(10,637)	(10,941)
Operating Profit	2,272	3,220	6,870	5,514	7,163
Other Non Opg (Exp)/Inc	943	828	(1,082)	417	190
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	39	(70)	238	530	726
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(1,052)	(969)	809	(973)	(942)
Pre-tax Profit	2,202	3,009	6,834	5,488	7,137
Tax	(892)	(915)	(2,429)	(1,950)	(2,537)
Minority Interest	2	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	1,312	2,094	4,405	3,537	4,600
Net Profit before Except.	2,364	3,063	3,597	4,511	5,542
EBITDA	3,996	4,966	8,464	7,132	8,652
Growth					
Revenue Gth (%)	4.2	(5.2)	8.2	8.1	6.7
EBITDA Gth (%)	23.6	24.3	70.4	(15.7)	21.3
Opg Profit Gth (%)	43.8	41.7	113.4	(19.7)	29.9
Net Profit Gth (%)	34.3	59.6	110.4	(19.7)	30.1
Margins & Ratio					
Gross Margins (%)	36.8	38.4	41.5	43.9	46.1
Opg Profit Margin (%)	6.8	10.2	20.2	15.0	18.2
Net Profit Margin (%)	4.0	6.7	12.9	9.6	11.7
ROAE (%)	6.8	10.2	19.2	14.0	16.9
ROA (%)	3.2	4.9	9.7	7.3	9.0
ROCE (%)	6.2	9.6	17.1	12.6	15.3
Div Payout Ratio (%)	40.8	40.1	40.1	40.1	40.1
Net Interest Cover (x)	NM	46.0	NM	NM	NM

Source: Company, DBS HK

China Resources Beer

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	19,413	17,781	18,165	16,761	15,515
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	12,460	12,617	12,564	12,519	12,482
Cash & ST Invts	2,340	4,538	9,232	12,472	16,607
Inventory	6,018	6,014	6,127	6,358	6,514
Debtors	943	2,378	932	1,008	1,075
Other Current Assets	417	447	447	447	447
Total Assets	41,591	43,775	47,467	49,566	52,640
ST Debt	601	83	83	83	83
Creditors	19,061	19,327	19,708	20,451	20,953
Other Current Liab	194	162	162	162	162
LT Debt	124	117	117	117	117
Other LT Liabilities	1,884	2,812	2,688	2,688	2,688
Shareholder's Equity	19,670	21,217	24,652	26,008	28,581
Minority Interests	57	57	57	57	57
Total Cap. & Liab.	41,591	43,775	47,467	49,566	52,640
Non-Cash Wkg. Capital	(11,877)	(10,650)	(12,364)	(12,800)	(13,079)
Net Cash/(Debt)	1,615	4,338	9,032	12,272	16,407
Debtors Turn (avg days)	10.2	19.3	17.8	9.6	9.7
Creditors Turn (avg days)	348.1	397.4	389.3	385.3	384.4
Inventory Turn (avg days)	108.1	124.6	121.1	119.8	119.5
Asset Turnover (x)	0.8	0.7	0.7	0.8	0.8
Current Ratio (x)	0.5	0.7	0.8	1.0	1.2
Quick Ratio (x)	0.2	0.4	0.5	0.7	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	205.5	523.5	500.0	500.0	500.0
Z-Score (X)	5.0	4.8	4.9	5.1	5.1

Source: Company, DBS HK

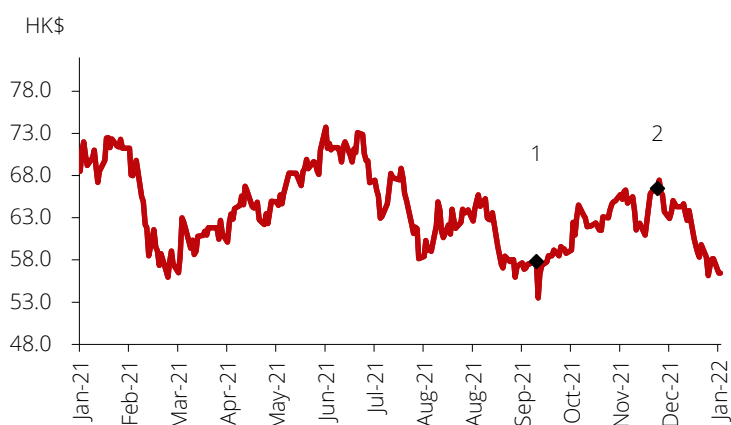
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,202	3,009	6,834	5,488	7,137
Dep. & Amort.	1,724	1,746	1,594	1,618	1,489
Tax Paid	(706)	(1,148)	(2,429)	(1,950)	(2,537)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	885	958	(820)	962	931
Chg in Wkg.Cap.	75	185	1,177	7	(160)
Other Operating CF	(82)	(270)	(225)	(507)	(703)
Net Operating CF	4,098	4,480	6,132	5,618	6,157
Capital Exp.(net)	(1,490)	(1,047)	(1,000)	(1,000)	(1,000)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(2,216)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	938	(23)	400	400	400
Net Investing CF	(2,768)	(1,070)	(600)	(600)	(600)
Div Paid	(487)	(561)	(840)	(1,768)	(1,419)
Chg in Gross Debt	(241)	(526)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(150)	(110)	(6)	(6)	(6)
Net Financing CF	(878)	(1,197)	(846)	(1,773)	(1,425)
Currency Adjustments	30	(15)	8	(4)	2
Chg in Cash	482	2,198	4,694	3,241	4,134
Opg CFPS (RMB)	1.24	1.32	1.53	1.73	1.95
Free CFPS (RMB)	0.80	1.06	1.58	1.42	1.59

Source: Company, DBS HK

China Resources Beer

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-Oct-21	HK\$57.90	HK\$65.65	Buy
2:	13-Dec-21	HK\$66.45	HK\$72.29	Buy

Source: DBS HK

Analyst: *Mavis HUI*
Clement XU

Tsingtao Brewery

Bloomberg: 168 HK EQUITY | 600600 CH Equity | Reuters: 0168.HK | 600600.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2022

H: BUY (Upgrade from HOLD)

Last Traded Price (17 Jan 2022):HK\$66.60(HSI : 24,218)

Price Target 12-mth: HK\$91.47 (37.3% upside) (Prev HK\$69.71)

A: BUY (Upgrade from FULLY VALUED)

Last Traded Price (17 Jan 2022):RMB89.18(CSI300 Index : 4,767)

Price Target 12-mth: RMB98.97 (11.0% upside) (Prev RMB63.37)

Analyst

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Clement XU clementxu@dbs.com

What's New

- Premiumisation is making progress along with continuing product-mix upgrade and ASP growth.
- Potential price hikes could further mitigate raw material cost pressure and support margin expansion.
- We raise FY22 net profit by 5%. Upgrade to BUY for both H/A share given better earnings outlook.

Encouraging prospects

Investment Thesis

On-going premiumisation counterbalances the COVID headwinds.

Despite 3Q21's sales volume decline along with the COVID outbreaks in China, Tsingtao still achieved 6% y-o-y growth in average selling price (ASP), thanks to continuing product-mix enhancement. With increasing contribution (i.e., 50%+) from its main brand "Tsingtao", We believe Tsingtao should continue to post an ASP uptrend, at c.5% each year in FY22/FY23 (FY21F: c.7%).

Cost pressure to ease with future price hikes. Alongside efficient cost management and on-going premiumisation efforts, Tsingtao Brewery was able to achieve 1.7ppt y-o-y GP margin expansion during 9M21 despite lingering raw material cost pressure. With the support of potential price hikes on certain product lines of "Tsingtao" ahead, we believe the company should be able to further expand its GP margin by c.1ppt each year in FY22/FY23 to 43%/44%.

Effective brand promotion to secure more market share. Tsingtao continues to promote its brand image by focusing a bit more on sports (e.g., 2022 Beijing Winter Olympics) and cultural events (e.g., International Beer Festival). Equipped with the initiatives of Tsingtao 1903 Bar, good R&D powers (e.g., non-alcoholic beers), and the expansion into more coastal regions, Tsingtao should further reinforce its influence on younger/higher-income consumer groups to grab more market share in the premium segments.

Valuation:

Our new TP of RMB98.97 for its A-share is benchmarked to 22x FY22 EV/EBITDA (previously 16x FY21 EV/EBITDA), equivalent to 1SD above its 3-year average to reflect its newer prospects. This also translates into our new TP of HK\$91.47 for its H-share, based on 3-year average discount of c.30% of its H-share vs. A-share.

Where we differ:

We are slightly more prudent than the market on FY22 revenue and earnings, taking into account potential lingering impacts of COVID-19 outbreaks in China.

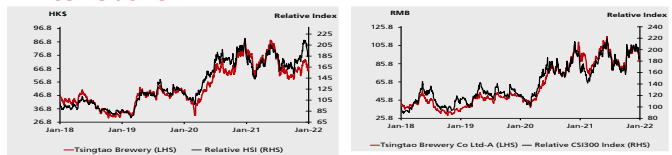
Key Risks to Our View:

Unexpected resurgence of COVID-19 cases; lower-than-expected ASP hikes; significant sales volume decline due to weather or market share changes; higher-than-expected raw material costs.

At A Glance

Issued Capital - H shares (m shs)	655
- Non H shrs (m shs)	709
H shs as a % of Total	48
Total Mkt Cap (HK\$m/US\$m)	121,262 / 15,565
Major Shareholders (%)	
Tsingtao Brewery Group Company Limited	57.1
Major H Shareholders (As % of H shares)	
Fosun International Ltd	10.5
Tsingtao Brewery Group Company Limited	5.9
Baillie Gifford & Co.	5.3
H Shares-Free Float (%)	78.4
3m Avg. Daily Val. (US\$m)	38.28
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	27,760	30,206	32,395	34,354
EBITDA*	3,510	4,325	4,925	5,579
Pre-tax Profit*	3,240	4,500	4,790	5,609
Net Profit*	2,201	3,150	3,277	3,882
Core Profit	1,816	2,194	2,913	3,518
Core Profit Gth (%)	34.8	20.8	32.8	20.8
EPS (RMB)*	1.61	2.31	2.40	2.85
EPS (HK\$)*	1.98	2.83	2.94	3.49
Core EPS (RMB)	1.33	1.61	2.13	2.58
Core EPS (HK\$)	1.63	1.97	2.62	3.16
EPS Gth (%)*	17.7	43.1	4.0	18.5
Core EPS Gth (%)	33.5	20.8	32.8	20.8
Diluted EPS (HK\$)*	1.99	2.83	2.94	3.49
DPS (HK\$)	0.92	1.27	1.32	1.57
BV Per Share (HK\$)	18.52	20.97	23.62	26.89
PE (X)*	33.7	23.5	22.6	19.1
CorePE (X)	40.8	33.8	25.5	21.1
P/Cash Flow (X)	14.9	13.2	18.4	10.4
P/Free CF (X)	20.2	14.2	20.6	11.1
EV/EBITDA (X)	15.6	11.8	10.0	7.9
Net Div Yield (%)	1.4	1.9	2.0	2.4
P/Book Value (X)	3.6	3.2	2.8	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	11.1	14.3	13.2	13.8
Earnings Rev (%)*:		42	5	New
Consensus EPS (RMB)		2.17	2.45	2.89
Other Broker Recs:		B:19	S:1	H:4

(*FY21F net profit included RMB436m gains of land resumption.)

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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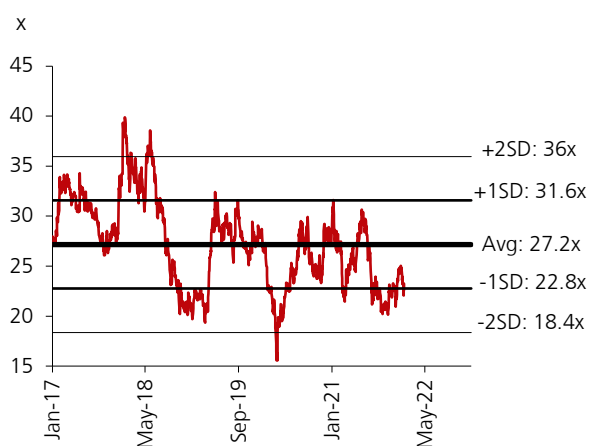
Tsingtao Brewery

Company Background

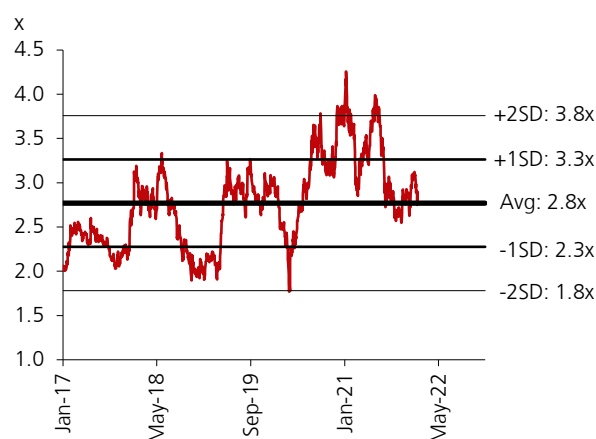
Tsingtao Brewery is the second largest brewer (in terms of sales volume) in China, with sales volume of 7.82m kl in 2020, accounting for around 18% of market share in the country. In 2020, the company's production capacity was 13.49m kl with 60 breweries across 20 provinces/municipalities.

Historical PE and PB band [H share]

Forward PE band (x)



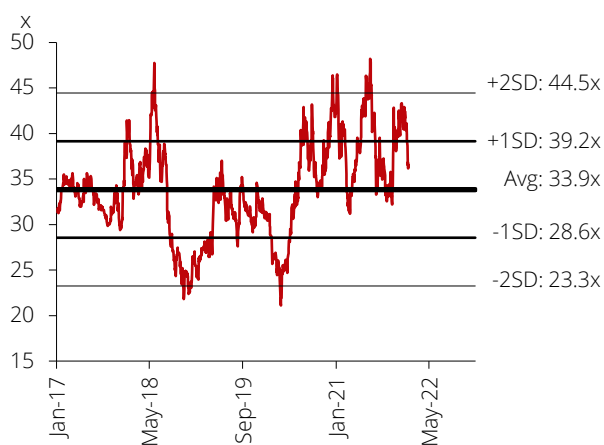
PB band (x)



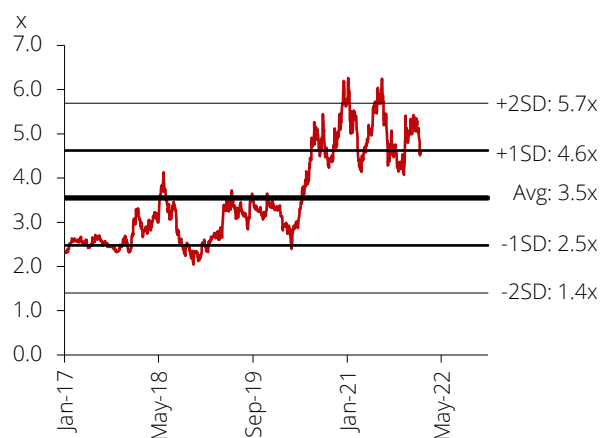
Source: Thomson Reuters, DBS HK

Historical PE and PB band [A share]

Forward PE band (x)



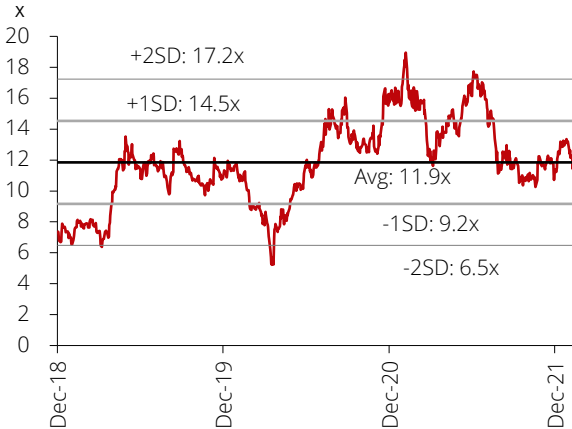
PB band (x)



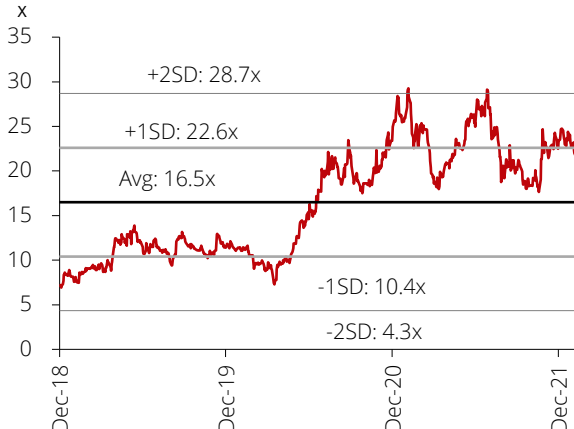
Source: Thomson Reuters, DBS HK

Tsingtao Brewery

Tsingtao Brewery (168 HK) -EV/EBITDA band



Tsingtao Brewery (600600 CH) -EV/EBITDA band



Source: Thomson Reuters, DBS HK

Tsingtao Brewery

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales volume growth (%)	0.2	(2.9)	1.8	1.9	1.0
ASP growth (%)	5.0	1.9	7.1	5.3	5.0
COGS per unit (RMB/Liter)	2.1	2.1	2.2	2.3	2.3
Distribution & Selling cost as % of Sales	18.2	18.0	18.8	18.2	18.2
Admin cost as % of Sales	6.7	6.0	5.9	5.9	5.9

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Shandong	18,299	18,026	19,469	20,637	21,875
China (other than Shandong)	9,012	9,172	10,067	11,055	11,740
Overseas	672	562	670	704	739
Total	27,984	27,760	30,206	32,395	34,354

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	27,984	27,760	30,206	32,395	34,354
Cost of Goods Sold	(17,080)	(16,541)	(17,519)	(18,491)	(19,239)
Gross Profit	10,903	11,219	12,687	13,904	15,115
Other Opng (Exp)/Inc	(9,187)	(8,854)	(9,440)	(10,113)	(10,741)
Operating Profit	1,717	2,365	3,247	3,791	4,374
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	21	18	24	30	30
Net Interest (Exp)/Inc	484	471	273	605	841
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	505	386	956	364	364
Pre-tax Profit	2,727	3,240	4,500	4,790	5,609
Tax	(798)	(913)	(1,260)	(1,413)	(1,627)
Minority Interest	(77)	(126)	(90)	(100)	(100)
Preference Dividend	0	0	0	0	0
Net Profit	1,852	2,201	3,150	3,277	3,882
Net Profit before Except.	1,347	1,816	2,194	2,913	3,518
EBITDA	2,841	3,510	4,325	4,925	5,579
Growth					
Revenue Gth (%)	5.3	(0.8)	8.8	7.2	6.0
EBITDA Gth (%)	7.2	23.5	23.2	13.9	13.3
Opg Profit Gth (%)	14.6	37.8	37.3	16.7	15.4
Net Profit Gth (%)	30.2	18.9	43.1	4.0	18.5
Margins & Ratio					
Gross Margins (%)	39.0	40.4	42.0	42.9	44.0
Opg Profit Margin (%)	6.1	8.5	10.7	11.7	12.7
Net Profit Margin (%)	6.6	7.9	10.4	10.1	11.3
ROAE (%)	10.0	11.1	14.3	13.2	13.8
ROA (%)	5.2	5.6	7.2	6.9	7.5
ROCE (%)	5.2	6.7	8.3	8.5	8.9
Div Payout Ratio (%)	40.1	46.5	45.0	45.0	45.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Tsingtao Brewery

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	10,401	10,642	10,578	10,929	11,418
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	5,910	6,244	6,186	6,178	6,163
Cash & ST Invts	16,826	20,356	25,145	27,332	32,539
Inventory	3,182	3,281	2,479	3,601	2,724
Debtors	151	120	147	158	167
Other Current Assets	843	872	886	886	886
Total Assets	37,312	41,514	45,421	49,085	53,898
ST Debt	271	703	1,303	1,303	1,303
Creditors	2,388	2,372	2,807	2,747	3,143
Other Current Liab	10,695	12,435	12,754	13,425	14,102
LT Debt	0	0	0	0	0
Other LT Liabilities	4,045	4,636	4,368	4,368	4,368
Shareholder's Equity	19,172	20,622	23,352	26,305	29,945
Minority Interests	742	746	836	936	1,036
Total Cap. & Liab.	37,312	41,514	45,421	49,085	53,898
Non-Cash Wkg. Capital	(8,907)	(10,534)	(12,050)	(11,528)	(13,468)
Net Cash/(Debt)	16,555	19,652	23,842	26,029	31,235
Debtors Turn (avg days)	1.7	1.8	1.8	1.8	1.8
Creditors Turn (avg days)	32.3	31.3	31.3	31.3	31.3
Inventory Turn (avg days)	62.3	71.3	60.0	60.0	60.0
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.7
Current Ratio (x)	1.6	1.6	1.7	1.8	2.0
Quick Ratio (x)	1.3	1.3	1.5	1.6	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	426.1	184.2	29.8	32.9	32.9
Z-Score (X)	4.5	4.6	4.6	4.5	4.5

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,727	3,240	4,500	4,790	5,609
Dep. & Amort.	1,102	1,103	1,079	1,135	1,205
Tax Paid	(819)	(798)	(913)	(1,260)	(1,413)
Assoc. & JV Inc/(loss)	(21)	(18)	(24)	(30)	(30)
(Pft)/ Loss on disposal of FAs	248	20	0	0	0
Chg in Wkg.Cap.	878	1,691	1,168	(675)	1,726
Other Operating CF	(99)	(284)	(199)	73	13
Net Operating CF	4,017	4,953	5,611	4,033	7,109
Capital Exp.(net)	(1,155)	(1,295)	(389)	(428)	(428)
Other Invts.(net)	807	(193)	(7,111)	3,500	2,500
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(348)	(1,488)	(7,500)	3,072	2,072
Div Paid	(711)	(793)	(1,023)	(1,418)	(1,475)
Chg in Gross Debt	0	0	600	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(58)	437	0	0	0
Net Financing CF	(769)	(356)	(423)	(1,418)	(1,475)
Currency Adjustments	4	(24)	(10)	0	0
Chg in Cash	2,904	3,086	(2,322)	5,687	7,706
Opg CFPS (RMB)	2.32	2.40	3.26	3.45	3.95
Free CFPS (RMB)	2.12	2.69	3.83	2.64	4.90

Source: Company, DBS HK

China Brewery Sector

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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