

Hong Kong
ADD (no change)

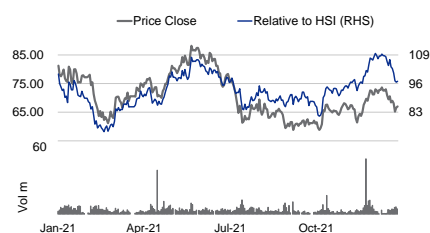
Consensus ratings*: Buy 17 Hold 5 Sell 1

Current price:	HK\$67.00
Target price:	HK\$97.00
Previous target:	HK\$95.00
Up/downside:	44.8%
CGI / Consensus:	14.0%
Reuters:	0168.HK
Bloomberg:	168 HK
Market cap:	US\$15,586m
	HK\$121,411m
Average daily turnover:	US\$36.62m
	HK\$285.4m
Current shares o/s:	1,351m
Free float:	67.2%

*Source: Bloomberg

Key changes in this note

- FY21F EPS increased by 18.2%
- FY22F EPS increased by 1.4%
- FY23F EPS increased by 3.5%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.9	9.5	-16.3
Relative (%)	-4.9	11.6	-2.8

Major shareholders	% held
Tsingtao Brewery Group	32.8
HKSCC Nominees Ltd	45.4

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Tsingtao Brewery

Product mix upgrade will continue in 2022

- Tsingtao issued a positive profit alert for FY21, with net profit rising by 43% yoy to Rmb3.15bn. Excluding a non-recurring gain of Rmb436m due to government acquisition of a land, the core net profit rose by 23.2% yoy to Rmb2.7bn, largely in line. The detailed results will be released on 29 Mar.
- Given the current Omicron threat in China, we believe the beer sales volume will be lackluster in 1Q22F and expect it to rebound in late 2Q22F. But the mix upgrade trend will continue, and we expect the Company's sales to grow by 6.5% yoy in FY22F and its core net profit to rise 11.6% yoy.
- Reiterate Add with a higher DCF-based TP of HK\$97.

Covid affected sales volume in 4Q21

Since Covid 19 volatility affected market demand, we expect Tsingtao's sales volume to drop by c.3% yoy in 4Q21 and overall sales volume in FY21 to achieved positive growth of c.1.5% yoy. In 4Q21, excluding a one-off gain of Rmb436m from land disposal, the core net loss was Rmb897m, bigger than the loss of Rmb777m in 4Q20, due to higher cost pressure. However, the Company successfully upgraded its product mix, and we estimate that Tsingtao's average ASP improved by 5%–6% yoy to Rmb3,747 per ton in FY21, with total revenue growing by 7% yoy in FY21F. In 1Q22F, Tsingtao is the sole beer brand to be an official sponsor of the Beijing 2022 Winter Olympics. We expect this to stimulate Tsingtao's sales and improve its brand image in FY22F. But with the current Omicron threat, management expects sales volume to be under pressure in 1Q22F, but it is confident in achieving its share option target of net profit of at least Rmb2.36bn in FY22F.

Packaging material price pressure expected to persist in 1Q22F

The major raw materials, barley and packaging materials, account for 16% and 37% of the company's COGS, respectively. Management said the packaging material prices started to rise significantly in 2H21 and still remain high. Management said the cost pressure in 1H22F will be higher yoy than that in 1H21. To reduce the cost increase pressure, Tsingtao raised the selling prices for various products in some strong markets in FY21. Tsingtao will continue to review its raw material prices and market feedback, and will continue to raise the selling prices of certain products in FY22F to reduce the effect of the raw material price increases. The Company will also continue to promote product structure upgrades to drive up ASP and margins in FY22F.

New premium products launched in the market

Recently, Tsingtao launched a super-premium beer, Yishi Chuanqi (一世传奇), with a retail price of Rmb1,000 per bottle, through its online Tmall flagship store. The product uses old oak barrels from well-known whisky wineries in North America for storage, and its fresh taste period has been extended to three years, making it more valuable for collection. Management said that to ensure that the Company's prices in online and offline channels remain consistent, they tend to use the online channel to promote new high-end products, such as Amber Lager (琥珀拉格), with retail price of Rmb27 per bottle, and Hongyun Dangtou (鸿运当头), with retail price of Rmb15 per bottle, to strength the brand image.

Reiterate Add with a higher DCF-based TP of HK\$97

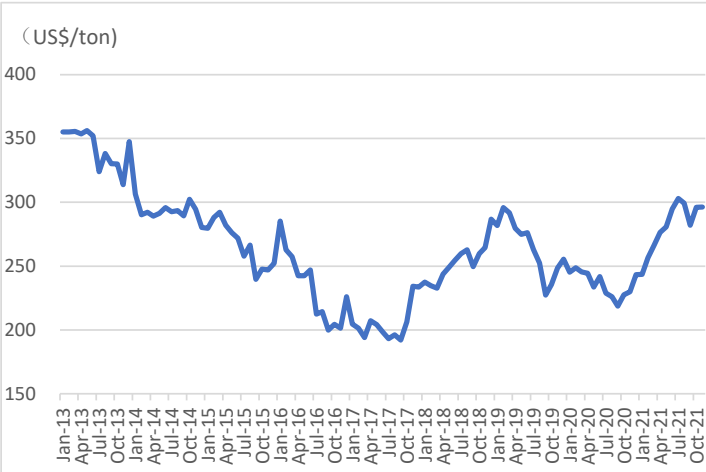
We raised our net profit forecasts for FY21–23F by 18.2%/1.4%/3.5% to reflect a one-off gain from land disposal and better margins. We reiterate Add, since China beer consumption is still on an upgrade trend, particularly in the Rmb8–15 per bottle range. As the leading domestic brand, Tsingtao has a strong product portfolio and brand power. Tsingtao will continue to benefit from the product mix upgrade trend in FY22F. Downside risks are raw material price increases lowering its GPM and intensifying competition.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rmbm)	27,984	27,760	29,743	31,680	33,641
Operating EBITDA (Rmbm)	3,411	4,002	5,451	5,325	5,928
Net Profit (Rmbm)	1,852	2,201	3,148	3,027	3,401
Core EPS (Rmb)	1.54	1.81	2.52	2.42	2.69
Core EPS Growth	26.4%	17.2%	39.2%	(3.9%)	11.1%
FD Core P/E (x)	35.46	30.25	21.73	22.61	20.36
DPS (Rmb)	0.55	0.75	1.08	1.04	1.17
Dividend Yield	1.01%	1.37%	1.98%	1.90%	2.14%
EV/EBITDA (x)	17.48	14.25	10.05	9.88	8.47
P/FCFE (x)	21.87	18.88	19.09	19.55	17.49
Net Gearing	(75.5%)	(82.6%)	(85.7%)	(88.5%)	(91.1%)
P/BV (x)	3.86	3.58	3.29	3.05	2.83
ROE	11.2%	12.3%	15.8%	14.0%	14.4%
% Change In Core EPS Estimates			16.6%	1.3%	3.3%
CGI/consensus EPS (x)			1.13	0.95	0.95

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

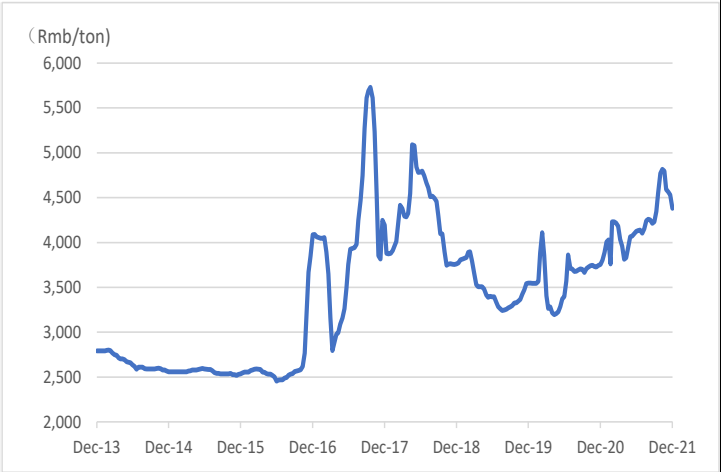
Product mix upgrade will continue in 2022

Figure 1: Import price of international barley (US\$ per ton)



SOURCES: CGIS RESEARCH, CHINA CUSTOM

Figure 2: Market price of high-strength corrugated paper



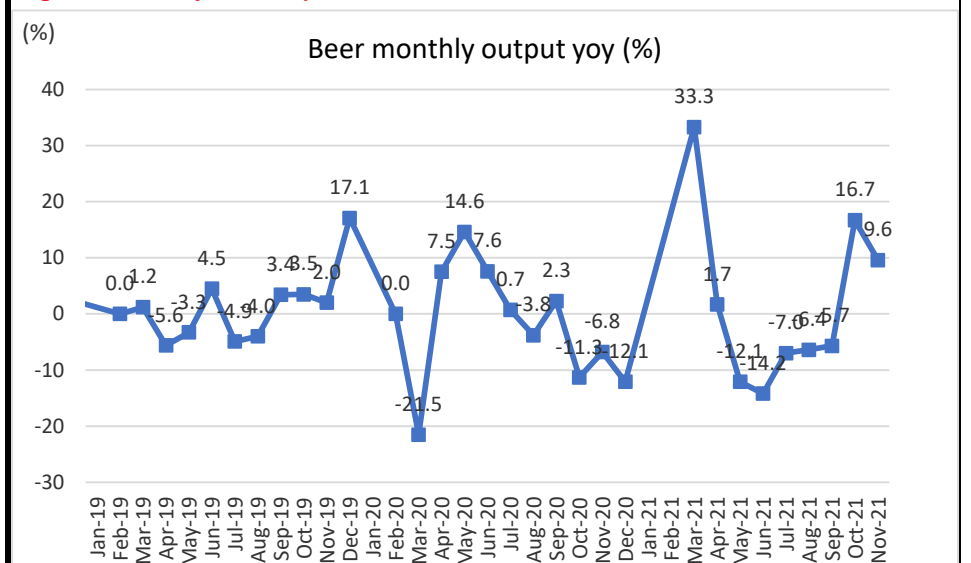
SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 3: Earning revision

	FY21F			FY22F			FY23F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (Rmb m)	29,743	29,743	0.0%	31,680	31,680	0.0%	33,641	33,641	0.0%
Gross margin	34.2%	34.2%	0.0%	34.6%	34.6%	0.0%	34.8%	35.0%	0.2%
SG&A/sales ratio	24.0%	24.0%	0.0%	23.6%	23.4%	-0.2%	23.3%	23.0%	-0.3%
Operating margin	11.6%	14.0%	2.4%	12.4%	12.6%	0.2%	13.0%	13.5%	0.5%
Net profit (Rmb m)	2,664	3,148	18.2%	2,984	3,027	1.4%	3,286	3,401	3.5%

SOURCES: CGIS RESEARCH

Figure 4: Monthly beer output



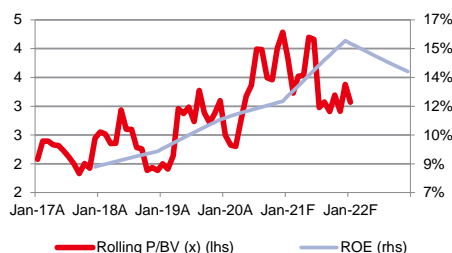
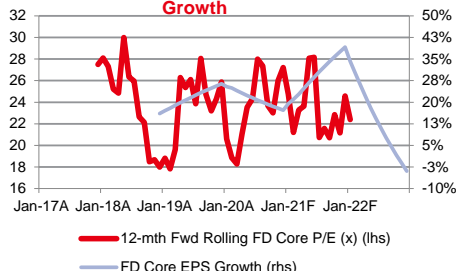
SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 5: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
EBIT	3,992	4,542	6,382	7,820	8,620	9,476	10,388	11,356	12,379	13,458
Taxes	-1,255	-1,410	-1,798	-2,203	-2,428	-2,669	-2,926	-3,199	-3,487	-3,791
EBIT, tax-affected	2,737	3,132	4,584	5,617	6,192	6,806	7,461	8,157	8,892	9,667
Add: Depreciation & amortisation	1,198	1,251	1,473	1,508	1,496	1,375	1,209	1,183	1,167	1,162
Add Changes in Working capital	573	580	629	692	759	830	905	985	1,068	1,155
Less Capital Expenditure	-1,500	-1,500	-1,444	-1,387	-1,301	-1,183	-1,028	-947	-934	-930
Free Cash Flow to firm	3,008	3,464	5,242	6,429	7,145	7,829	8,548	9,378	10,194	11,054
Key assumptions										
NPV of FY22-26 Cash flow	18,068	Company average beta		1.1						
NPV of FY27-31 Cash Flow	21,100	Risk free rate		3.4%						
NPV of Terminal Value	56,378	Risk premium		6.3%						
Enterprise Value	95,546	Cost of equity		10.5%						
Add Net cash/(Net Debt)	17,648	Cost of Debt		4.8%						
Less Minority	-746	Debt %		0.3%						
Equity value of firm	112,448	Tax rate		29.3%						
Share outstanding (m)	1,351	WACC		10.5%						
Target price (Rmb)	83	Terminal growth rate		3.0%						
Exchange rate	1.16									
Target price (HK\$)	97.0									

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	27,984	27,760	29,743	31,680	33,641
Gross Profit	8,590	9,000	10,178	10,968	11,782
Operating EBITDA	3,411	4,002	5,451	5,325	5,928
Depreciation And Amortisation	-1,222	-1,248	-1,297	-1,348	-1,401
Operating EBIT	2,189	2,754	4,154	3,977	4,527
Financial Income/(Expense)	484	471	464	463	463
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	54	15	15	15	15
Profit Before Tax (pre-EI)	3,055	3,577	4,985	4,791	5,325
Exceptional Items					
Pre-tax Profit	2,727	3,240	4,633	4,455	5,004
Taxation	-798	-913	-1,305	-1,255	-1,410
Exceptional Income - post-tax					
Profit After Tax	1,929	2,327	3,328	3,200	3,595
Minority Interests	-77	-126	-180	-173	-194
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,852	2,201	3,148	3,027	3,401
Recurring Net Profit	2,084	2,444	3,401	3,269	3,631
Fully Diluted Recurring Net Profit	2,084	2,444	3,401	3,269	3,631

Cash Flow

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	3,411	4,002	5,451	5,325	5,928
Cash Flow from Invt. & Assoc.					
Change In Working Capital	817	1,227	586	573	580
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-198	-262	-644	-594	-759
Net Interest (Paid)/Received	-14	-14	-21	-22	-22
Tax Paid					
Cashflow From Operations	4,017	4,953	5,372	5,282	5,727
Capex	-907	-1,275	-1,500	-1,500	-1,500
Disposals Of FAs/subsidiaries	559	-213	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	-348	-1,488	-1,500	-1,500	-1,500
Debt Raised/(repaid)	-290	450	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-711	-793	-1,463	-1,407	-1,581
Preferred Dividends					
Other Financing Cashflow	150	90	-21	-22	-22
Cash Flow From Financing	-851	-253	-1,484	-1,428	-1,603
Total Cash Generated	2,818	3,213	2,388	2,353	2,625
Free Cashflow To Equity	3,379	3,915	3,872	3,782	4,227
Free Cashflow To Firm	3,682	3,479	3,893	3,803	4,249

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	15,302	18,467	20,855	23,209	25,833
Total Debtors	151	125	148	158	167
Inventories	3,182	3,281	3,358	3,552	3,745
Total Other Current Assets	2,367	2,755	2,952	3,144	3,339
Total Current Assets	21,002	24,628	27,313	30,062	33,084
Fixed Assets	10,222	10,302	10,707	11,045	11,314
Total Investments	377	374	374	374	374
Intangible Assets	3,866	3,811	3,609	3,423	3,252
Total Other Non-Current Assets	1,846	2,398	2,398	2,398	2,398
Total Non-current Assets	16,311	16,885	17,088	17,240	17,339
Short-term Debt	271	703	703	703	703
Current Portion of Long-Term Debt					
Total Creditors	2,388	2,372	2,406	2,544	2,683
Other Current Liabilities	10,695	12,435	13,284	14,113	14,953
Total Current Liabilities	13,354	15,510	16,393	17,361	18,339
Total Long-term Debt	0	116	116	116	116
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,045	4,520	4,520	4,520	4,520
Total Non-current Liabilities	4,045	4,636	4,636	4,636	4,636
Total Provisions	0	0	0	0	0
Total Liabilities	17,399	20,146	21,029	21,997	22,976
Shareholders' Equity	19,172	20,622	22,446	24,206	26,155
Minority Interests	742	746	926	1,099	1,293
Total Equity	19,913	21,368	23,372	25,304	27,447

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	5.30%	(0.80%)	7.14%	6.51%	6.19%
Operating EBITDA Growth	9.7%	17.3%	36.2%	(2.3%)	11.3%
Operating EBITDA Margin	12.2%	14.4%	18.3%	16.8%	17.6%
Net Cash Per Share (Rmb)	11.13	13.06	14.83	16.57	18.52
BVPS (Rmb)	14.19	15.26	16.61	17.92	19.36
Gross Interest Cover	184.8	226.3	214.4	200.5	220.3
Effective Tax Rate	29.3%	28.2%	28.2%	28.2%	28.2%
Net Dividend Payout Ratio	34.1%	40.3%	41.8%	41.8%	42.5%
Accounts Receivables Days	1.71	1.82	1.68	1.76	1.76
Inventory Days	54.89	63.04	61.93	60.88	60.92
Accounts Payables Days	46.68	46.43	44.57	43.62	43.64
ROIC (%)	26.8%	36.2%	57.3%	57.6%	68.7%
ROCE (%)	15.5%	17.0%	21.6%	19.2%	19.7%
Return On Average Assets	4.97%	5.57%	7.49%	6.70%	7.07%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Volume growth (%)	0.2%	-2.8%	0.4%	0.3%	0.1%
ASP growth (%)	5.0%	2.1%	6.6%	6.2%	6.1%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Tsingtao Brewery (168 HK)

RECOMMENDATION FRAMEWORK

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