

# Budweiser Brewing Company APAC

Bloomberg: 1876 HK Equity | Reuters: 1876.HK

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DBS Group Research . Equity

25 Feb 2022

## BUY

Last Traded Price (24 Feb 2022): HK\$23.95 (HSI : 22,902)  
Price Target 12-mth: HK\$32.77 (37% upside) (Prev HK\$31.08)

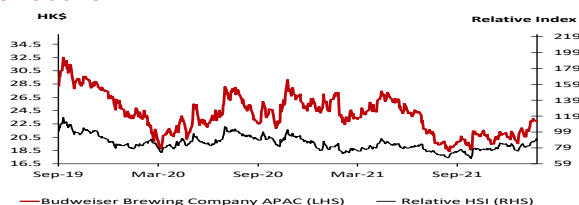
### Analyst

Mavis Hui +852 36684188 mavis\_hui@dbs.com  
Clement Xu clementxu@dbs.com

### What's New

- Premiumization well on track despite COVID headwinds, with ASP set to grow by c.5% in FY22/FY23, powering margin improvements
- Continuing expansion in China along with decent recovery in South Korea to boost revenue growth
- Maintain BUY with TP of HK\$32.77

### Price Relative



### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	5,588	6,788	7,360	7,899
EBITDA	1,584	2,139	2,422	2,635
Pre-tax Profit	908	1,413	1,737	1,956
Net Profit	514	950	1,160	1,305
Net Pft (Pre Ex) (core profit)	557	980	1,200	1,345
Net Profit Gth (Pre-ex) (%)	(45.6)	82.7	21.2	12.1
EPS (US\$)	0.04	0.07	0.09	0.10
EPS (HK\$)	0.30	0.56	0.68	0.77
Core EPS (US\$)	0.04	0.07	0.09	0.10
Core EPS (HK\$)	0.33	0.58	0.71	0.79
EPS Gth (%)	(42.8)	84.7	22.0	12.5
Core EPS Gth (%)	(44.0)	75.9	22.3	12.1
Diluted EPS (HK\$)	0.30	0.56	0.68	0.77
DPS (HK\$)	0.22	0.24	0.24	0.27
DPS (HK cts)	22.15	23.53	23.92	26.91
BV Per Share (HK\$)	6.15	6.49	6.86	7.36
PE (X)	79.0	42.7	35.0	31.2
CorePE (X)	72.9	41.4	33.9	30.2
P/Cash Flow (X)	31.2	23.1	25.7	21.2
P/Free CF (X)	51.2	34.7	41.5	30.8
EV/EBITDA (X)	25.0	18.1	15.8	14.2
Net Div Yield (%)	0.9	1.0	1.0	1.1
P/Book Value (X)	3.9	3.7	3.5	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	5.1	8.9	10.2	10.8
Earnings Rev (%)			6	5
Consensus EPS (US\$)			0.09	0.10
Other Broker Recs:		B:23	S:1	H:0

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

## Positive outlook

### Investment Thesis

**Premiumization well on track.** BUD APAC achieved decent growth in its revenue (up 17% y-o-y) and average selling price (ASP) (up 8% y-o-y) in 4Q21, despite the lingering impacts of COVID outbreaks. Sales volume of premium/super-premium segment grew 20%+ in FY21. Being a leader in premium beer market of China (>45% market share), BUD APAC should sustain its gross margin and EBITDA margin above 54% and 33%, respectively, in FY22-23.

**Decent recovery in South Korea.** South Korea scored a turnaround in 4Q21, seeing a 9% volume increase and 3% ASP growth, thanks to the recovery in both on-premise and in-home channels. Supported by South Korea's determination to further lift the COVID restrictions on restaurants and bars going forward, the region could possibly score a 20%+ rebound in its EBITDA this year.

**Ongoing expansion to show growth opportunities.** Riding on strong growth in selected cities for its premium/super-premium segments in China, BUD APAC further expands its blueprint to cover 70+/45+ cities for its premium/super-premium portfolios, showing large potential for its ongoing premiumization strategies. BUD APAC's growing efforts on its B2B platform BEES should further provide more convenience and help distributors to accelerate their geographic expansion.

### Valuation:

We revised up our FY22/FY23 earnings by 6%/5% in view of ongoing premiumization and better recovery in South Korea. Our latest TP of HK\$32.77 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, in view of its further market expansion in China for the premium/super-premium segments as well as the decent recovery in South Korea.

### 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)	317,170 / 40,637
Major Shareholders (%)	
AB InBev Brewing Co. Hold. (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	18.66
GICS Industry: Consumer Goods / Beverages	



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## Budweiser Brewing Company APAC

### WHAT'S NEW

**Results highlights.** BUD APAC recorded a 76% y-o-y growth in its FY21 core profit to US\$980m, c.4% above our estimate, thanks to ongoing premiumization strategies and the strong recovery in China. Revenue grew organically by 15% y-o-y, powered by the 8% expansion in volume that outperformed the industry, and a 6% increase in ASP that is derived from an enhanced product-mix. With improved gross profit margin (up 1.9ppts to c.54% in FY21) and the continuing cost efficiency initiatives, BUD APAC was able to post a 27% growth in normalized EBITDA, with an increased margin of 32%. In particular, BUD APAC has achieved 18.0%/28.7% growth in revenue and normalized EBITDA in FY21 for China despite the lingering impacts of COVID outbreaks in various provinces. South Korea has also seen decent recovery in 4Q21 with revenue/EBITDA going up 12%/16% y-o-y in APAC East, contributing to a 2%/6% increase in revenue and EBITDA for FY21, despite contractions in 9M21.

**Premiumization well on track.** In China, BUD APAC has seen 20%+ volume growth in premium/super-premium segments, representing an enhanced product-mix. As such, ASP grew by 10%/8% y-o-y in 4Q21/FY21. Featured super-premium brands of Corona/Hoegaarden/Blue Girl had all seen double-digit volume growth in FY21, supporting the overall 40%+ increase in sales volume of its super-premium segment in China. Budweiser, being the no.1 brand in premium segment in China, contributed half of the group's revenue, while Budweiser Supreme had an extended focus on other drinking occasions like restaurants and had seen good demand. Meanwhile, Core+ portfolio has also seen a high-single digit growth in sales volume with the transition of customers from Core & Value brands. In South Korea, sales volume of its premium brands (e.g., Budweiser and Hoegaarden) also rose by a double-digit rate y-o-y in both 4Q21 and FY21, contributing to low-single digit growth in ASP. India also achieved steady ASP growth in FY21, powered by India's no.1 premium brand Budweiser, which had seen double-digit market share gain in FY21.

**Regional expansion to beef up premiumization strategies.** BUD APAC has further expanded its regional expansion blueprint to capture more market share across the premium/super-premium segments in China, targeting at 70+ cities (with low market share and middle market maturity level) for Budweiser and 45+ cities (majorly coastal cities with higher disposable income) for super-premium brands. Going ahead, we believe BUD APAC should

continue to drive product-mix improvement to attain steady ASP CAGR of c.5% in FY21-FY23.

**Cost pressure under control.** Despite the lingering pressure from increasing raw material prices, BUD APAC was able to limit the impact on cost per unit to 1.2% in FY21, thanks to its 12-month hedging policy and ongoing improvement in operating efficiency. As such, gross profit/EBITDA margin are also expected to stay above 54%/33% in the next two years.

**Better outlook in South Korea.** Despite the headwinds posed by COVID-19, BUD APAC still outperformed its peers and achieved a 1.3ppt expansion in its market share in South Korea, supported by "All New Cass" and HANMAC (3rd largest brand in restaurant channel). The strong recovery in 4Q21 also revealed solid growth potentials in FY22 along with the lifting of social restrictions in South Korea, especially with the channel recovery in restaurants and bars. BUD APAC recorded 9% y-o-y growth in volume in APAC East following the contraction in 9M21. We believe BUD APAC should see 3%/6% growth in volume/revenue in South Korea for FY22, with a 20%+ EBITDA growth on the back of a firm recovery.

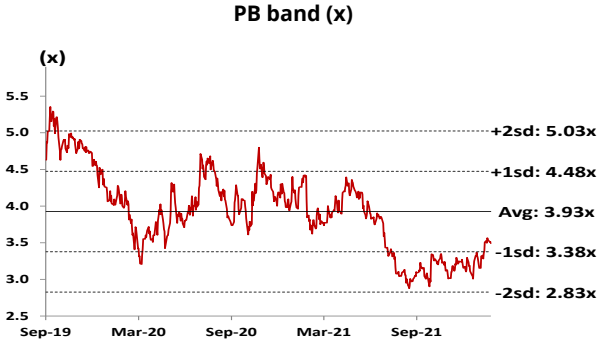
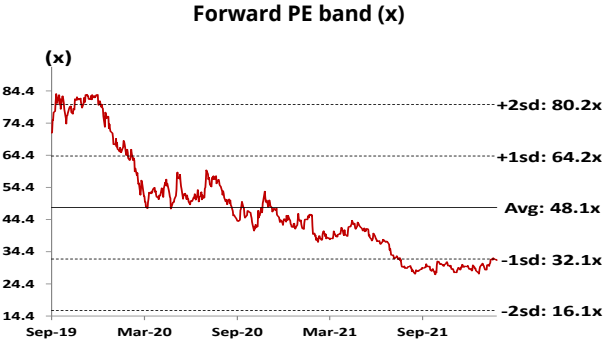
**Digital transformation amongst the key focuses.** By Dec 2021, BUD APAC's B2B platform BEES has covered 500,000+ customers. The transaction functionality of BEES has also been piloted in 2 cities in China covering 10,000 retailers, while BUD APAC has planned to further expand its digitalization footprint to 60 new cities across China. We believe, as a multi-functional platform, BEES should be able to provide greater convenience and efficiency as well as stronger bonding between BUD APAC and its wholesale customers to accelerate regional expansion as well as earnings prospects over the medium-term.

### 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.

### Budweiser Brewing Company APAC

#### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Budweiser Brewing Company APAC

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Organic volume growth of APAC East	(7.2)	(10.5)	(1.1)	3.0	3.0
Organic volume growth of APAC West	(2.3)	(12.4)	9.7	1.5	1.5
Organic ASP growth of APAC East	2.3	1.7	2.6	3.0	4.0
Organic ASP growth of APAC West	6.3	(1.0)	8.0	5.0	4.5
Organic Normalized EBITDA Margin	32.4	28.3	31.5	32.9	33.4

Source: Company, DBS HK

### Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (US\$ m)</b>					
APAC East	1,370	1,162	1,222	1,309	1,417
APAC West	5,176	4,426	5,566	6,051	6,482
<b>Total</b>	<b>6,546</b>	<b>5,588</b>	<b>6,788</b>	<b>7,360</b>	<b>7,899</b>
<b>EBITDA (US\$ m)</b>					
APAC East	446	339	330	411	461
APAC West	1,675	1,245	1,809	2,011	2,175
<b>Total</b>	<b>2,121</b>	<b>1,584</b>	<b>2,139</b>	<b>2,422</b>	<b>2,635</b>
<b>EBITDA Margins (%)</b>					
APAC East	32.6	29.2	27.0	31.4	32.5
APAC West	32.4	28.1	32.5	33.2	33.5
<b>Total</b>	<b>32.4</b>	<b>28.3</b>	<b>31.5</b>	<b>32.9</b>	<b>33.4</b>

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	6,546	5,588	6,788	7,360	7,899
Cost of Goods Sold	(3,058)	(2,681)	(3,131)	(3,384)	(3,604)
<b>Gross Profit</b>	<b>3,488</b>	<b>2,907</b>	<b>3,657</b>	<b>3,976</b>	<b>4,294</b>
Other Opg (Exp)/Inc	(2,022)	(1,970)	(2,230)	(2,219)	(2,332)
<b>Operating Profit</b>	<b>1,466</b>	<b>937</b>	<b>1,427</b>	<b>1,757</b>	<b>1,962</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	23	32	35	39
Net Interest (Exp)/Inc	(24)	(24)	(6)	(15)	(6)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(98)	(28)	(40)	(40)	(40)
<b>Pre-tax Profit</b>	<b>1,367</b>	<b>908</b>	<b>1,413</b>	<b>1,737</b>	<b>1,956</b>
Tax	(459)	(371)	(432)	(547)	(616)
Minority Interest	(10)	(23)	(31)	(30)	(35)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>898</b>	<b>514</b>	<b>950</b>	<b>1,160</b>	<b>1,305</b>
Net Profit before Except.	994	557	980	1,200	1,345
EBITDA	2,121	1,584	2,139	2,422	2,635
<b>Growth</b>					
Revenue Gth (%)	(2.9)	(14.6)	21.5	8.4	7.3
EBITDA Gth (%)	6.4	(25.3)	35.0	13.2	8.8
Opg Profit Gth (%)	12.9	(36.1)	52.3	23.1	11.7
Net Profit Gth (%)	(6.3)	(42.8)	84.8	22.1	12.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	53.3	52.0	53.9	54.0	54.4
Opg Profit Margin (%)	22.4	16.8	21.0	23.9	24.8
Net Profit Margin (%)	13.7	9.2	14.0	15.8	16.5
ROAE (%)	9.0	5.1	8.9	10.2	10.8
ROA (%)	5.8	3.3	5.8	6.9	7.4
ROCE (%)	8.6	4.9	8.4	9.7	10.2
Div Payout Ratio (%)	38.8	73.1	42.0	35.0	35.0
Net Interest Cover (x)	61.1	39.0	237.8	116.3	348.3

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	3,638	3,716	3,632	3,722	3,732
Invt in Associates & JVs	418	433	452	400	400
Other LT Assets	9,144	9,462	9,380	9,244	9,148
Cash & ST Invt	992	1,295	2,050	2,664	3,555
Inventory	438	434	473	483	485
Debtors	652	534	560	607	652
Other Current Assets	26	69	78	12	12
<b>Total Assets</b>	<b>15,308</b>	<b>15,943</b>	<b>16,625</b>	<b>17,133</b>	<b>17,984</b>
ST Debt	235	164	123	148	141
Creditors	2,594	2,655	2,764	2,802	2,787
Other Current Liab	1,664	1,818	1,804	1,598	1,598
LT Debt	28	37	53	38	39
Other LT Liabilities	903	772	798	798	798
Shareholder's Equity	9,836	10,439	11,013	11,649	12,486
Minority Interests	48	58	70	100	135
<b>Total Cap. &amp; Liab.</b>	<b>15,308</b>	<b>15,943</b>	<b>16,625</b>	<b>17,133</b>	<b>17,984</b>
Non-Cash Wkg. Capital	(3,142)	(3,436)	(3,457)	(3,297)	(3,236)
Net Cash/(Debt)	729	1,094	1,874	2,478	3,375
Debtors Turn (avg days)	34.3	38.7	29.4	28.9	29.1
Creditors Turn (avg days)	390.4	471.0	408.8	373.6	347.9
Inventory Turn (avg days)	64.9	78.2	68.4	64.2	60.3
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	0.5	0.5	0.7	0.8	1.0
Quick Ratio (x)	0.4	0.4	0.6	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	335.2	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	2021A	2022F	2023F
Pre-Tax Profit	1,367	908	1,413	1,737	1,956
Dep. & Amort.	655	647	712	665	673
Tax Paid	(459)	(371)	(432)	(547)	(616)
Assoc. & JV Inc/(loss)	(23)	(23)	(32)	(32)	(32)
(Pft)/ Loss on disposal of FAs	(105)	(46)	0	0	0
Chg in Wkg.Cap.	(209)	31	99	(243)	(61)
Other Operating CF	153	155	0	0	0
<b>Net Operating CF</b>	<b>1,379</b>	<b>1,301</b>	<b>1,760</b>	<b>1,580</b>	<b>1,919</b>
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
<b>Net Investing CF</b>	<b>(693)</b>	<b>(572)</b>	<b>(540)</b>	<b>(550)</b>	<b>(550)</b>
Div Paid	(976)	(348)	(399)	(406)	(457)
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)
<b>Net Financing CF</b>	<b>(1,399)</b>	<b>(432)</b>	<b>(422)</b>	<b>(428)</b>	<b>(478)</b>
Currency Adjustments	(32)	90	0	0	0
Chg in Cash	(745)	387	798	602	891
Opg CFPS (US\$)	0.12	0.10	0.13	0.14	0.15
Free CFPS (US\$)	0.06	0.06	0.09	0.07	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
4:	18-Jan-22	HK\$19.84	HK\$31.08	Buy
5:	9-Feb-22	HK\$21.70	HK\$31.08	Buy

Source: DBS HK

Analyst: Mavis Hui  
Clement Xu

## Budweiser Brewing Company APAC

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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

Completed Date: 25 Feb 2022 08:29:38 (HKT)

Dissemination Date: 25 Feb 2022 08:59:32 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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**DBS Bank (Hong Kong) Limited**

 13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

## Budweiser Brewing Company APAC

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### DBS Regional Research Offices

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#### HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

#### MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square,

8 Jalan Munshi Abdullah 50100, Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

Co. Regn No. 198401015984 (128540-U)

#### SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

#### INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

#### THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand