

Hong Kong

ADD (no change)

Consensus ratings*: Buy 38 Hold 0 Sell 3

Current price:	HK\$47.95
Target price:	HK\$72.00
Previous target:	HK\$79.00
Up/downside:	50.2%
CGI / Consensus:	-1.9%
Reuters:	0291.HK
Bloomberg:	291 HK
Market cap:	US\$19,882m
	HK\$155,558m
Average daily turnover:	US\$68.18m
	HK\$543.2m
Current shares o/s:	3,244m
Free float:	48.1%
*Source: Bloomberg	

Key changes in this note

- FY22F core EPS cut by 3.9%.
- FY23F core EPS cut by 1.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-20.6	-25.4	-18.3
Relative (%)	-16.4	-19.9	3.1

Major shareholders	% held
CRH BEER	51.7

Analysts

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China Resources Beer

Remaining positive on premium beer growth

- CRB announced that sales grew by 6% yoy to Rmb33.4bn in FY21 with net profit up by 119% yoy to Rmb4.6bn. Excluding a gain from a land transfer, core earnings rose by 35% yoy to Rmb3.6bn, largely in line with our expectation.
- Despite the current omicron wave in China, management maintains a positive view on premiumization and is confident in offsetting raw material cost pressure through a mix upgrade and selling price increase in FY22F.
- Management expects premium and above products to maintain strong growth momentum and to achieve at least 25% yoy volume growth in FY22F.
- Reiterate Add with a new DCF-based TP of HK\$72.

Beer mix upgrade a long-term trend

Sales volume in 2021 dipped slightly by 0.4% yoy to 11.056m kl. Premium and above beer sales grew by 27.8% yoy to 1.866m kl in FY21, but the growth trend decelerated hoh in 2H21 due to Covid-19 volatility in some key markets. The overall ASP rose by 6.6% yoy to Rmb3,020 per kl in FY21, driven mainly by 1) a mix upgrade, and 2) selling price hikes since 2H21. The sales volume contribution from premium and above products improved from 13% in FY20 to 17% in FY21. Super X, Heineken, Draft Beer, and MarrisGreen achieved double-digit yoy volume growth in FY21, but the sales volume of mainstream product Brave the World remained flatish yoy. To mitigate the raw material price increase, the Company gradually raised the ex-factory prices of some key products in 2H21. The overall GPM improved by 0.8% pt to 39.2% in FY21. In FY21, the Company closed five idle plants, and the related factory closure costs declined by 48.3% yoy to Rmb387m. The utilization rate improved to 60.7% in FY21. We expect the Company to close another four idle factories in FY22F. Management expects the beer premiumization trend to continue for the next five to ten years, and the sales volume of premium and above beer to account for 50% of the industry's total volume.

The pandemic situation will not stop the premiumization trend

Management said premium and above products achieved strong growth in Jan-Feb, particularly for Heineken products. The Omicron wave led to a large portion of restaurants closing in cities such as Shanghai, Shenzhen, Shenyang and Dalian, which had a big impact on beer sales in Mar. But management expects the Covid situation to be well controlled by mid-Apr and a large improvement in beer sales in May-Jun. Management holds an optimistic view on the sales growth of premium and above products in 2022, aiming for sales growth of 25% yoy. We expect the company's sales in FY22F to grow by 6.5% yoy and core earnings to rise by 17.4% yoy.

Confident in offsetting raw material price pressure in 2022

Management estimates that the raw material price increase will affect COGS by c.Rmb1.5-1.6bn in FY22F, mainly because of higher raw material prices of barley, packaging boxes and aluminum cans. But management is confident in fully offsetting raw material cost pressure through a mix upgrade and price hikes in FY22F. CRB will further raise the selling prices of certain products in various markets in FY22F. Management said that over two year's market investment in the Heineken brand had considerably improved the brand power of Heineken products, and its sales in the off-trade channel had grown rapidly, in addition to on-trade channels, including night clubs and restaurants. Besides of Heineken classic and silver products with a retail price above Rmb12 per bottle, Amstel, with a retail price of Rmb10 per bottle, will be the focus in FY22F. CRB maintains its target that premium and above products will achieve sales volume of 4m tons in 2025. Management said that apart from the Heineken brand, they will control product marketing investment. We expect the selling and distribution expenses ratio to remain flatish yoy in FY22F.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	31,448	33,387	35,545	37,667	39,914
Operating EBITDA (Rmbm)	4,997	5,442	5,784	6,689	7,562
Net Profit (Rmbm)	2,094	4,608	3,104	3,735	4,342
Normalised EPS (Rmb)	1.19	1.78	1.32	1.51	1.70
Normalised EPS Growth	19.7%	48.7%	(25.9%)	14.8%	12.4%
FD Normalised P/E (x)	32.70	21.99	29.69	25.87	23.02
DPS (Rmb)	0.26	0.57	0.38	0.46	0.54
Dividend Yield	0.66%	1.45%	0.98%	1.18%	1.37%
EV/EBITDA (x)	24.47	22.05	20.13	16.90	14.44
P/FCFE (x)	NA	19.22	29.52	26.52	22.97
Net Gearing	(21.3%)	(22.0%)	(34.7%)	(43.8%)	(52.5%)
P/BV (x)	5.97	5.19	4.92	4.51	4.12
ROE	19.0%	25.2%	17.0%	18.2%	18.7%
% Change In Normalised EPS Estimates			(3.89%)	(1.63%)	
Normalised EPS/consensus EPS (x)			0.95	0.87	0.81

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Remaining positive on premium beer growth

Aims to build a solid market position in the premium beer market

Management said the China beer consumption upgrade trend is still continuing and expects that it will last for five to ten years. Management expects the overall size of the beer market in China to be 45m–50m tons in the next five years, and for sales volume of products with a retail price of Rmb8–10 per bottle, Rmb10 per bottle, Rmb 6–8 per bottle and below Rmb6 per bottle to account for about 30%, 20%, 30% and 20%, respectively, of sales volume. The Company aims to achieve sales volume of 4m tons for its premium and above products in FY25F (40%+ of the Company's annual sales volume) and expects Heineken products to contribute 15%–20% of total sales volume. To meet this target, the Company will continue to improve its premium product portfolio and plans to launch Snow Draft Malt Beer with pure malt brewing and pure taste, alcohol-free Heineken Zero, and Low en Fruit Beer with natural fruit aroma this year. The Company will also continue to build the key account customer platform in 2022 and make more detailed agreements with big customers, including sales targets and marketing investment. The Company will also gradually promote CRB experience bars in key markets, together with its distributors, to improve the Company's high-end brand image.

Reiterate Add with a new DCF-based TP of HK\$72

We cut our core earnings forecast for FY22F–23F by 3.9% and 1.7%, respectively, to reflect our concern that the current Omicron situation will negatively impact sales in on-trade channels, including catering and night clubs. We still like CRB because as the largest brewery in China, it will benefit from the beer consumption upgrade trend, and its product structure and margins have huge upside to improve. The key risk is higher-than-expected raw material prices.

Figure 1: CRB interim results summary

(Rmb m)	1H20	2H20	1H21	2H21	YoY	FY20	FY21	YoY
Turnover	17,408	14,040	19,634	13,753	-2%	31,448	33,387	6%
yoy growth	-8%	-2%	13%	-2%		-5%	6%	
Gross profit	7,030	5,045	8,305	4,769	-5%	12,075	13,074	8%
Other income	554	1,133	2,643	900	-21%	1,687	3,543	110%
Selling and distribution expenses	-2,927	-3,196	-3,291	-3,452	8%	-6,123	-6,743	10%
General and administrative expenses	-1,823	-2,596	-1,637	-1,982	-24%	-4,419	-3,619	-18%
Operating profit	2,834	386	6,020	235	-39%	3,220	6,255	94%
Net profit	2,079	15	4,291	296	1873%	2,094	4,587	119%
Core earnings						2,654	3,580	35%
Margin					ppt chg			ppt chg
Gross profit margin	40.4%	35.9%	42.3%	34.7%	-1.3%	38.4%	39.2%	0.8%
S&D expense ratio	16.8%	22.8%	16.8%	25.1%	2.3%	19.5%	20.2%	0.7%
G&A expense ratio	10.5%	18.5%	8.3%	14.4%	-4.1%	14.1%	10.8%	-3.2%
Operating profit margin	16.3%	2.7%	30.7%	1.7%	-1.0%	10.2%	18.7%	8.5%
Net profit margin	11.9%	0.1%	21.9%	2.2%	2.0%	6.7%	13.7%	7.1%

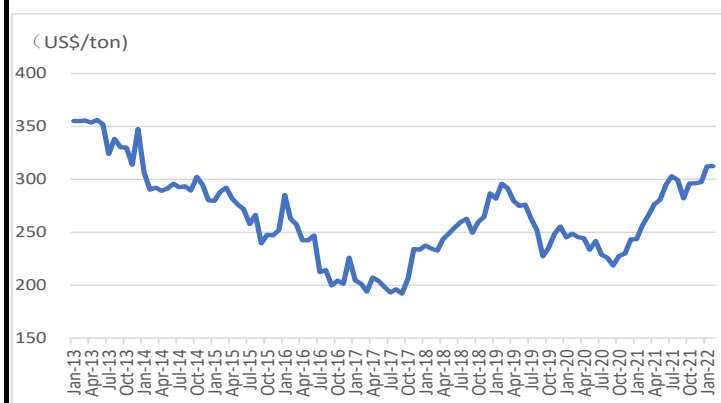
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: Earnings revision

(Rmb m)	FY22F			FY23F			FY24F
	Old	New	Change	Old	New	Change	New
Sales	35,497	35,545	0.1%	37,627	37,667	0.1%	39,914
Sales growth	6.5%	6.5%	-0.1%	6.0%	6.0%	0.0%	6.0%
GPM	40.5%	39.6%	-0.9%	41.1%	40.4%	-0.7%	41.2%
OPM	14.8%	11.9%	-2.9%	16.0%	13.5%	-2.5%	14.8%
Core Earnings	4,377	4,204	-3.9%	4,916	4,835	-1.7%	5,441
Reported earnings	3,643	3,104	-14.8%	4,183	3,735	-10.7%	4,341
Earning growth	-21.0%	-32.3%	-11.4%	14.8%	20.3%	5.5%	16.2%

Note: the core earning excluding factory closure related costs impact and gain from land disposal impact

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: Imported barley price (US\$/ton)


SOURCES: CGIS RESEARCH, CHINA CUSTOM

Figure 4: Market price of high-strength corrugated paper for packaging


SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

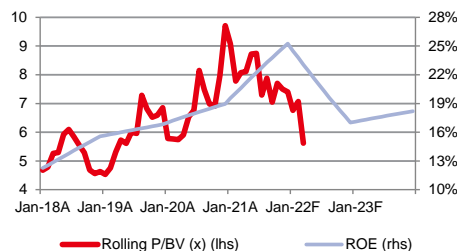
Figure 5: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
EBIT	3,961	4,639	5,297	9,166	11,812	13,258	14,790	16,401	18,080	19,813
Taxes	-1,036	-1,213	-1,385	-2,397	-3,088	-3,467	-3,867	-4,288	-4,727	-5,180
EBIT, tax-affected	2,925	3,426	3,912	6,770	8,724	9,792	10,923	12,113	13,352	14,633
Add: Depreciation & amortisation	2,660	2,710	2,761	2,550	2,298	1,977	1,582	1,576	1,554	1,484
Add Changes in Working capital	727	530	611	617	622	622	814	870	927	982
Less Capital Expenditure	-1,800	-1,800	-1,800	-1,560	-1,515	-1,461	-1,107	-1,100	-1,082	-1,122
Free Cash Flow to firm	4,512	4,867	5,484	8,376	10,130	10,929	12,211	13,459	14,751	15,976
NPV of FY22-26 Cash flow	24,865						Key assumptions			
NPV of FY27-31 Cash Flow	35,356						Industry average beta 0.8			
NPV of Terminal Value	134,167						Risk free rate 3.4%			
Enterprise Value	194,389						Risk premium 6.3%			
Less Net debt	5,376						Cost of equity 8.5%			
Less Minority	-57						Cost of Debt 4.8%			
Equity value of firm	199,708						Debt % 0.5%			
Share outstanding (m)	3,244						Tax rate 26.1%			
Target price (Rmb)	62						WACC 8.5%			
Exchange rate	1.16						Terminal growth rate 3.0%			
Target price (HK\$)	72.0									

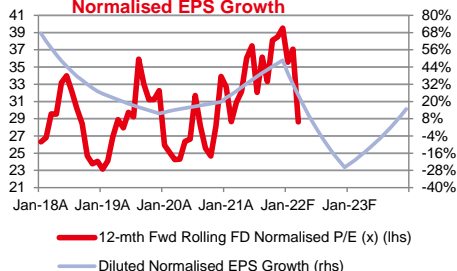
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



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



Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	31,448	33,387	35,545	37,667	39,914
Gross Profit	12,075	13,074	14,061	15,202	16,428
Operating EBITDA	4,997	5,442	5,784	6,689	7,562
Depreciation And Amortisation	-3,464	-2,730	-2,660	-2,710	-2,761
Operating EBIT	1,533	2,712	3,124	3,979	4,801
Financial Income/(Expense)	-211	-19	-19	-19	-19
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	1,687	3,543	1,100	1,100	1,100
Profit Before Tax (pre-EI)	4,791	7,390	5,370	6,225	7,047
Exceptional Items					
Pre-tax Profit	3,009	6,236	4,205	5,060	5,882
Taxation	-915	-1,625	-1,100	-1,323	-1,538
Exceptional Income - post-tax	0	0	0	0	1
Profit After Tax	2,094	4,611	3,106	3,737	4,345
Minority Interests	0	-3	-2	-2	-3
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	0	0	0	0	0
Preference Dividends (Australia)					
Net Profit	2,094	4,608	3,104	3,735	4,342
Normalised Net Profit	3,876	5,765	4,270	4,901	5,509
Fully Diluted Normalised Profit	3,876	5,762	4,268	4,899	5,506

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	4,997	5,442	5,784	6,689	7,562
Cash Flow from Invt. & Assoc.					
Change In Working Capital	185	1,888	727	530	611
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	657	2,578	700	700	700
Net Interest (Paid)/Received	-211	-19	-19	-19	-19
Tax Paid	-1,148	-1,625	-1,100	-1,323	-1,538
Cashflow From Operations	4,480	8,263	6,092	6,578	7,316
Capex	-1,047	-1,671	-1,800	-1,800	-1,800
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-3,343	0	0	0	0
Cash Flow From Investing	-4,390	-1,671	-1,800	-1,800	-1,800
Debt Raised/(repaid)	-526	0	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-561	-1,281	-1,850	-1,419	-1,665
Preferred Dividends					
Other Financing Cashflow	-110	0	0	0	0
Cash Flow From Financing	-1,197	-1,281	-1,850	-1,419	-1,665
Total Cash Generated	-1,107	5,311	2,443	3,358	3,851
Free Cashflow To Equity	-436	6,592	4,292	4,778	5,516
Free Cashflow To Firm	301	6,611	4,311	4,797	5,535

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	4,538	5,376	8,972	12,330	16,182
Total Debtors	2,378	3,436	1,909	2,023	2,144
Inventories	6,014	6,458	5,827	6,155	6,435
Total Other Current Assets	447	627	627	627	627
Total Current Assets	13,377	15,897	17,335	21,135	25,387
Fixed Assets	14,414	13,717	13,957	13,511	13,015
Total Investments	7	1,381	1,381	1,381	1,381
Intangible Assets	9,646	9,505	9,441	9,377	9,313
Total Other Non-Current Assets	6,331	10,553	10,553	10,553	10,553
Total Non-current Assets	30,398	35,156	35,333	34,822	34,262
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	19,327	21,007	21,286	22,257	23,269
Other Current Liabilities	245	163	163	163	163
Total Current Liabilities	19,572	21,170	21,449	22,420	23,432
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,929	5,394	5,394	5,394	5,394
Total Non-current Liabilities	2,929	5,394	5,394	5,394	5,394
Total Provisions	0	0	0	0	0
Total Liabilities	22,501	26,564	26,843	27,814	28,826
Shareholders' Equity	21,217	24,432	25,766	28,082	30,758
Minority Interests	57	57	59	61	64
Total Equity	21,274	24,489	25,825	28,143	30,823

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(5.25%)	6.17%	6.47%	5.97%	5.97%
Operating EBITDA Growth	2.9%	8.9%	6.3%	15.7%	13.0%
Operating EBITDA Margin	15.9%	16.3%	16.3%	17.8%	18.9%
Net Cash Per Share (Rmb)	1.40	1.66	2.77	3.80	4.99
BVPS (Rmb)	6.54	7.53	7.94	8.66	9.48
Gross Interest Cover	15.7	203.5	225.7	270.7	314.0
Effective Tax Rate	30.4%	26.1%	26.1%	26.1%	26.1%
Net Dividend Payout Ratio	21.7%	31.9%	29.1%	30.5%	31.6%
Accounts Receivables Days	19.66	31.78	27.44	19.05	19.10
Inventory Days	113.7	112.1	104.4	97.3	98.1
Accounts Payables Days	362.6	362.4	359.3	353.7	354.7
ROIC (%)	16.7%	19.7%	18.5%	24.7%	30.1%
ROCE (%)	16.0%	16.9%	17.0%	19.1%	20.2%
Return On Average Assets	9.6%	12.2%	8.3%	9.1%	9.6%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Volumn growth (%)	-2.9%	-0.4%	-0.5%	-0.5%	-0.5%
ASP growth (%)	-2.4%	6.6%	7.0%	6.5%	6.5%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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619 companies under coverage for quarter ended on 31 Dec 2021		
	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)**China Resources Beer (291 HK)**

RECOMMENDATION FRAMEWORK

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