

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

6 Apr 2022

BUY

Last Traded Price (4 Apr 2022): HK\$20.45 (HSI : 22,502)
Price Target 12-mth: HK\$31.11 (52% upside) (Prev HK\$32.77)

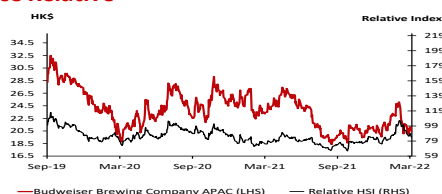
Analyst

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What's New

- Near-term headwinds from COVID outbreaks in China to be partially offset by solid rebound in South Korea
- Cost pressure well managed via potential price hikes and ongoing product mix upgrade as well as efficient cost control
- Cut FY22/FY23F earnings by 3%/2% on near-term COVID disruptions; Maintain BUY with revised TP of HK\$31.11

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	5,588	6,788	7,196	7,674
EBITDA	1,584	2,139	2,321	2,565
Pre-tax Profit	908	1,413	1,641	1,886
Net Profit	514	950	1,121	1,281
Core Profit	557	980	1,151	1,313
Core Profit Gth (%)	(45.6)	82.7	16.2	14.1
EPS (US\$)	0.04	0.07	0.08	0.10
EPS (HK\$)	0.30	0.56	0.66	0.76
Core EPS (US\$)	0.04	0.07	0.09	0.10
Core EPS (HK\$)	0.33	0.58	0.68	0.78
EPS Gth (%)	(42.8)	84.7	17.9	14.3
Core EPS Gth (%)	(44.0)	75.9	17.3	14.1
Diluted EPS (HK\$)	0.30	0.56	0.66	0.76
DPS (HK\$)	0.22	0.24	0.23	0.27
BV Per Share (HK\$)	6.18	6.52	6.88	7.36
PE (X)	67.2	36.4	30.8	27.0
CorePE (X)	62.0	35.2	30.0	26.3
P/Cash Flow (X)	26.5	19.6	22.8	18.6
P/Free CF (X)	43.5	29.5	37.9	27.5
EV/EBITDA (X)	21.1	15.3	13.9	12.3
Net Div Yield (%)	1.1	1.2	1.1	1.3
P/Book Value (X)	3.3	3.1	3.0	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	5.1	8.9	9.9	10.6
Earnings Rev (%)			(3)	(2)
Consensus EPS (US\$)			0.09	0.13
Other Broker Recs:		B:26	S:1	H:0

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

Decent prospects for FY22 despite near-term headwinds

Investment Thesis

Near-term challenges in China may ease gradually. Affected by recent COVID disruptions, BUD APAC's volumes may contract y-o-y by mid- to high-single digit rate in 1Q22 on high base, while we believe average selling price (ASP) should continue to trend up by a low- to mid-single-digit rate, thanks to ongoing premiumisation. We currently also expect a softer impact from the COVID outbreaks during the peak seasons of 2Q-3Q22. Given the expected sequential recovery ahead, BUD APAC's China division should still record flattish volume and a mid-single-digit ASP growth for FY22, in our view.

Recovery in South Korea well on track. Supported by the government's gradual relaxation of COVID restrictions, South Korea operations should continue to recover throughout this year, especially for the restaurant & bar channels. We expect APAC East to post 7%/18% revenue/EBITDA growth for FY22.

Price hikes to cushion cost pressure. Despite near-term cost pressure from raw materials, we expect BUD APAC to maintain comparable GP margin and to post an c.0.8ppt increase in EBITDA margin in FY22 vs. FY21, along with its efficient cost control measures and potential price hikes to mitigate the risks of rising raw material costs.

Valuation:

We cut our FY22/FY23F revenue and EBITDA by 2%/3% and 4%/3%, respectively, to factor in the impact of near-term COVID outbreaks in China. Our revised TP of HK\$31.11 continues to be based on APAC West (mostly China) being valued at 23x EV/EBITDA, and APAC East (mainly South Korea) at 15x EV/EBITDA, on a 12-month rolling basis. (Previous TP: HK\$32.77)

Where we differ:

We are slightly more prudent than the market in terms of FY22/FY23 revenue and earnings as we believe the consensus has not fully factored in the latest COVID impacts.

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\$/US\$m)	270,819 / 34,566
Major Shareholders (%)	
AB InBev Brewing Co. Holdings (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	30.03
GICS Industry: Consumer Goods / Beverages	



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Budweiser Brewing Company APAC

WHAT'S NEW

1Q22 preview. In China, the recent resurgence of COVID cases across various cities has affected the brewery sector to some extent as restaurants and nightlife channels are faced with temporary closures and in-home consumption could also be impacted by stringent lockdown. With Northeastern region (including Jilin) and Guangdong being part of its key focus areas, BUD APAC's sales volume may contract by mid- to high-single-digit y-o-y in China during 1Q22 while still benefiting from the ongoing premiumisation efforts and the 3-10% ASP increase of Core+ products that were launched in late 2021. We expect BUD APAC's revenue/EBITDA from APAC West to drop by 3%/4% y-o-y in 1Q22 considering the near-term COVID disruptions and the high base in 1Q21.

In South Korea, BUD APAC should continue to see better recovery from on-premise channels (e.g., restaurants) as the government has been gradually lifting the COVID measures since Nov 2021. Riding on its No.1 beer brand, HANMAC, in the restaurant channel in South Korea, we believe the sales uptrend in 4Q21 will continue, and enable BUD APAC to deliver c.9% growth in sales volume in 1Q22 in APAC East. While still on the road towards its pre-pandemic performance, BUD APAC should be able to record 10%+/20%+ revenue/EBITDA growth y-o-y during 1Q22 in APAC East, thanks to ongoing product mix upgrade and the price hikes in restaurant channels that started in Jan 2022. Overall, the strong rebound in South Korea may partially offset the impact of COVID outbreaks in China for BUD APAC. We expect the group to see flattish revenue in 1Q22 vs. 1Q21 while EBITDA/earnings may see a slight increase y-o-y.

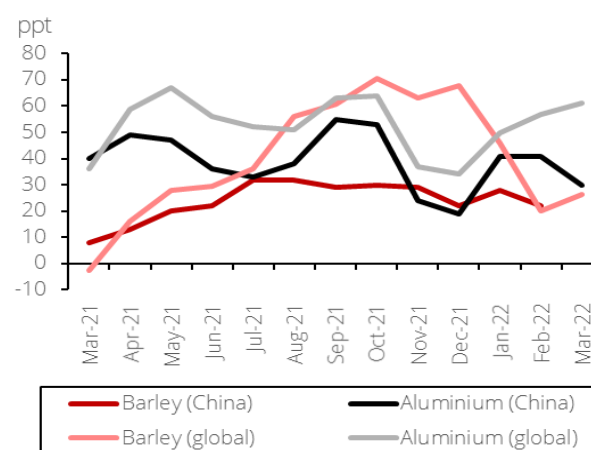
Cautiously optimistic on China business. Despite the near-term sales pressure from the severe COVID measures in certain cities such as Shanghai and Changchun, BUD APAC should be able to achieve sequential improvements by May as it heads into the peak season. The impact from COVID outbreaks should moderate, as we expect to see easing social restrictions with the situation under control. Looking beyond the near-term headwinds, we expect BUD APAC to see a faster recovery in 2H22 and attain a comparable or slightly increased sales volume for FY22 vs. FY21, while ASP should rise by c.5% y-o-y, leveraging on potential price adjustments and ongoing premiumisation strategies, including BUD APAC's sound expansion plan on premium & super-premium segments in different cities in China.

Continuing recovery in South Korea. BUD APAC has seen a strong rebound in APAC East's performance since 4Q21 with the lifting of stringent social restrictions imposed by

South Korean government. The government has further loosened certain COVID limitations since 4 Apr, easing the gathering limit to 10 people and the operation hours of restaurants to midnight. With the government's reaffirmed determination to end all social restrictions should the pandemic be more under control in two weeks, we believe BUD APAC may continue to see decent recovery in FY22 with a high-single-digit revenue growth and reach above pre-pandemic performance in FY23. Supported by ongoing sales recovery and product mix upgrade, APAC East should see c.18% y-o-y growth in FY22 EBITDA.

Cost pressure to be well managed. The rising costs of raw materials, such as aluminum (up 30%+ y-o-y YTD in China) and barley (up c.30% y-o-y YTD), has put pressure on the brewery industry. With its 12-month hedging policy and parent company AB InBev's strong global sourcing power, BUD APAC could manage the cost impact to low- to mid-single-digit level, while taking advantage of potential price adjustments in certain products (e.g., for Core & Value range before the peak season) to buffer the impact of higher raw material prices. We believe FY22 GP margin should stay close to FY21 level despite the near-term cost pressure, along with continuing product mix enhancement. BUD APAC should also continue to improve its cost efficiency (e.g., via reallocation of resources and reduction of commercial investments) to safeguard overall profitability.

Commodity price changes (% y-o-y)



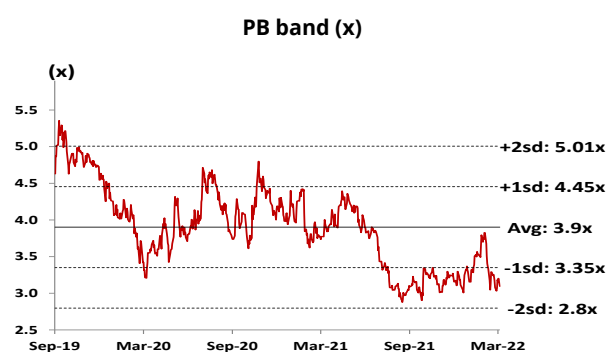
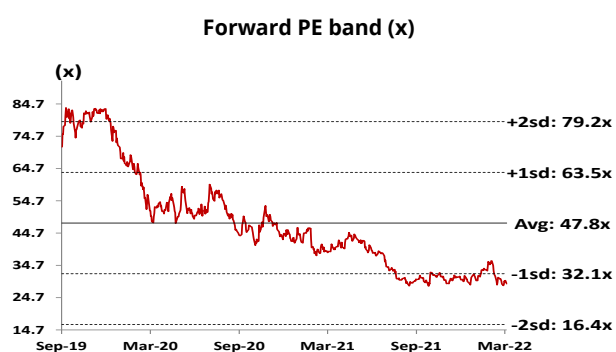
Source: LME, SFE, China Customs, CEIC, WIND, Bloomberg Financial L.P., DBS HK

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 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)	4.0	4.0
Organic volume growth of APAC West	(2.3)	(12.4)	9.7	0.5	0.5
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	32.3	33.4

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$ m)					
APAC East	1,370	1,162	1,222	1,322	1,444
APAC West	5,176	4,426	5,566	5,874	6,230
Total	6,546	5,588	6,788	7,196	7,674
EBITDA (US\$ m)					
APAC East	446	339	330	389	437
APAC West	1,675	1,245	1,809	1,932	2,128
Total	2,121	1,584	2,139	2,321	2,565
EBITDA Margins (%)					
APAC East	32.6	29.2	27.0	29.5	30.3
APAC West	32.4	28.1	32.5	32.9	34.2
Total	32.4	28.3	31.5	32.3	33.4

Source: Company, DBS HK

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Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	6,546	5,588	6,788	7,196	7,674
Cost of Goods Sold	(3,058)	(2,681)	(3,131)	(3,326)	(3,482)
Gross Profit	3,488	2,907	3,657	3,870	4,193
Other Opg (Exp)/Inc	(2,022)	(1,970)	(2,230)	(2,214)	(2,300)
Operating Profit	1,466	937	1,427	1,656	1,892
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	23	32	30	32
Net Interest (Exp)/Inc	(24)	(24)	(6)	(15)	(6)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(98)	(28)	(40)	(30)	(32)
Pre-tax Profit	1,367	908	1,413	1,641	1,886
Tax	(459)	(371)	(432)	(492)	(575)
Minority Interest	(10)	(23)	(31)	(28)	(30)
Preference Dividend	0	0	0	0	0
Net Profit	898	514	950	1,121	1,281
Net Profit before Except.	994	557	980	1,151	1,313
EBITDA	2,121	1,584	2,139	2,321	2,565
Growth					
Revenue Gth (%)	(2.9)	(14.6)	21.5	6.0	6.7
EBITDA Gth (%)	6.4	(25.3)	35.0	8.5	10.5
Opg Profit Gth (%)	12.9	(36.1)	52.3	16.1	14.2
Net Profit Gth (%)	(6.3)	(42.8)	84.8	18.0	14.3
Margins & Ratio					
Gross Margins (%)	53.3	52.0	53.9	53.8	54.6
Opg Profit Margin (%)	22.4	16.8	21.0	23.0	24.7
Net Profit Margin (%)	13.7	9.2	14.0	15.6	16.7
ROAE (%)	9.0	5.1	8.9	9.9	10.6
ROA (%)	5.8	3.3	5.8	6.7	7.3
ROCE (%)	8.6	4.9	8.4	9.4	10.0
Div Payout Ratio (%)	38.8	73.1	42.0	35.0	35.0
Net Interest Cover (x)	61.1	39.0	237.8	109.7	298.9

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	2,611	3,448
Inventory	438	434	473	475	469
Debtors	652	534	560	594	633
Other Current Assets	26	69	78	12	12
Total Assets	15,308	15,943	16,625	17,057	17,842
ST Debt	235	164	123	148	141
Creditors	2,594	2,655	2,764	2,754	2,692
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	11,623	12,446
Minority Interests	48	58	70	98	128
Total Cap. & Liab.	15,308	15,943	16,625	17,057	17,842
Non-Cash Wkg. Capital	(3,142)	(3,436)	(3,457)	(3,271)	(3,176)
Net Cash/(Debt)	729	1,094	1,874	2,424	3,268
Debtors Turn (avg days)	34.3	38.7	29.4	29.3	29.2
Creditors Turn (avg days)	390.4	471.0	408.8	378.5	353.8
Inventory Turn (avg days)	64.9	78.2	68.4	65.0	61.3
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	1,641	1,886
Dep. & Amort.	655	647	712	665	673
Tax Paid	(459)	(371)	(432)	(492)	(575)
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	(269)	(95)
Other Operating CF	153	155	0	0	0
Net Operating CF	1,379	1,301	1,760	1,513	1,857
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)	(399)	(392)	(448)
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)	(422)	(414)	(470)
Currency Adjustments	(32)	90	0	0	0
Chg in Cash	(745)	387	798	548	837
Opg CFPS (US\$)	0.12	0.10	0.13	0.13	0.15
Free CFPS (US\$)	0.06	0.06	0.09	0.07	0.09

Source: Company, DBS HK

Budweiser Brewing Company APAC

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-Oct-21	HK\$19.82	HK\$27.28	Buy
2:	13-Dec-21	HK\$20.15	HK\$31.08	Buy
3:	18-Jan-22	HK\$19.84	HK\$31.08	Buy
4:	9-Feb-22	HK\$21.70	HK\$31.08	Buy
5:	25-Feb-22	HK\$23.95	HK\$32.77	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: 6 Apr 2022 18:29:38 (HKT)

Dissemination Date: 6 Apr 2022 19:03:39 (HKT)

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