

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

5 May 2022

BUY

Last Traded Price (4 May 2022): HK\$19.66 (HSI : 20,870)
Price Target 12-mth: HK\$32.73 (66% upside) (Prev HK\$31.11)

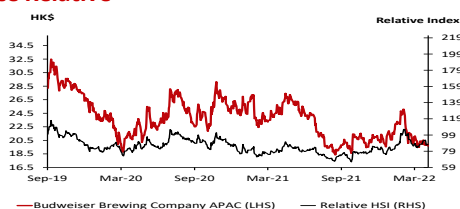
Analyst

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What's New

- 1Q22 normalised EBITDA/profit above expectations
- Strong recovery in South Korea to support double-digit revenue/earnings growth in APAC East
- Premiumisation continues to be key growth driver in China despite near-term COVID disruptions
- Revised up FY22/FY23 EBITDA by 4%/6% in view of further efficiency improvement. Maintain BUY with TP of \$32.73

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	5,588	6,788	7,348	7,974
EBITDA	1,584	2,139	2,419	2,718
Pre-tax Profit	908	1,413	1,739	2,040
Net Profit	514	950	1,189	1,388
Net Pft (Pre-Ex) (core profit)	557	980	1,219	1,420
Net Profit Gth (Pre-ex) (%)	(45.6)	82.7	23.1	16.4
EPS (US\$)	0.04	0.07	0.09	0.10
EPS (HK\$)	0.31	0.56	0.70	0.82
Core EPS (US\$)	0.04	0.07	0.09	0.11
Core EPS (HK\$)	0.33	0.58	0.72	0.84
EPS Gth (%)	(42.8)	84.7	25.1	16.7
Core EPS Gth (%)	(44.0)	75.9	24.3	16.4
Diluted EPS (HK\$)	0.31	0.56	0.70	0.82
DPS (HK\$)	0.22	0.24	0.25	0.29
BV Per Share (HK\$)	6.19	6.53	6.91	7.44
PE (X)	64.5	34.9	27.9	23.9
CorePE (X)	59.5	33.8	27.2	23.4
P/Cash Flow (X)	25.5	17.4	20.7	16.7
P/Free CF (X)	41.8	25.6	33.1	24.0
EV/EBITDA (X)	20.3	14.7	12.7	11.0
Net Div Yield (%)	1.1	1.2	1.3	1.5
P/Book Value (X)	3.2	3.0	2.8	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	5.1	8.9	10.5	11.5
Earnings Rev (%)			6	8
Consensus EPS (US\$)			0.084	0.099
Other Broker Recs:		B: 26	S: 1	H: 1

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

Heading towards strong recovery

Investment Thesis

Strong 1Q22 results above expectations. BUD APAC scored 1Q22 normalised EBITDA/profit of US\$570m/US\$304m, up 7.6%/29% y-o-y, above expectations, thanks to the ongoing premiumisation and strong recovery in South Korea. Revenue grew 1.5% while volume dropped by 2.7%, with a 4.3% increase in ASP during 1Q22. Despite the COVID disruptions in China, BUD APAC scored a 7.6% growth in normalised EBITDA and an EBITDA margin of c.35%, up 2.4ppt y-o-y, as it benefitted from the ongoing cost management initiatives and efficiency improvements.

Strong recovery in South Korea. With South Korea back to normal life, BUD APAC's business there should continue to achieve strong recovery in both in-home and on-premise channels in later quarters this year and in FY23. We believe BUD APAC should score a c.10%/30% growth in revenue/EBITDA for FY22, supported by the strong consumption recovery there.

Premiumising in China despite COVID impacts. Despite near-term COVID headwinds in China, BUD APAC was able to score a 3.7% ASP growth in APAC West, while premium/super-premium products continued to see strong growth in China. With a faster control over the COVID-19 situation in many Chinese cities, we believe BUD APAC should be able to see a sequential improvement in 2H22 and achieve mid-single-digit ASP growth in APAC West, along with its ongoing premiumisation strategies and sound expansion plans in China.

Valuation:

We revised up FY22/FY23F revenue and EBITDA by 2%/4% and 4%/6%, respectively, in view of better recovery and efficiency improvement ahead. Our revised TP of HK\$32.73 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\$31.11)

Where we differ:

We are slightly more positive than the market in terms of FY22/FY23 revenue and earnings as we expect faster sales recovery and efficiency improvements ahead.

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 (HKm/US\$m)	278,103 / 35,434
Major Shareholders (%)	
AB InBev Brewing Co. Holdings (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	31.5
GICS Industry: Consumer Goods / Beverages	



Watchlist the stock on Insights Direct to receive prompt updates



Budweiser Brewing Company APAC**WHAT'S NEW**

1Q22 results above expectations. 1Q22 normalised EBITDA/profit grew 7.6%/29% y-o-y to US\$570m/US\$304m, above expectations, thanks to the strong recovery in South Korea and ongoing premiumisation efforts in both APAC East and APAC West. Despite the 2.7% y-o-y drop in sales volume, mainly due to near-term COVID disruptions in China, revenue was able to grow 1.5% vs. 1Q21, supported by a 4.3% increase in ASP with an enhanced product mix. Although the GP margin dropped by 1.8ppt due to rising raw material prices, BUD APAC was still able to score a 7.6% growth in normalised EBITDA, with an EBITDA margin of nearly 35%, the highest since its IPO, thanks to continued efficiency improvements and better resource allocation. Particularly in APAC East, BUD APAC posted robust performance with revenue/normalised EBITDA up 10%/46% y-o-y in 1Q22, which was mainly powered by the strong recovery in South Korea.

Strong growth to continue in South Korea. With the gradual lifting of COVID restrictions in South Korea, BUD APAC has achieved strong recovery there, with a 6.7%/3.3% y-o-y growth in volume/ASP during 1Q22. At the same time, BUD APAC outperformed the market with market share improvements in both in-home and on-premise channels, supported by All New Cass and HANMAC, despite the high number of COVID-19 cases earlier in March. By mid-April, the South Korean Government had removed all social restrictions for on-premise channels. As 1Q22 revenue and EBITDA for APAC East are still lower than that of the pre-pandemic level (e.g., 1Q19), there is ample room for recovery and growth as the environment normalises. With the pent-up demand and strong consumer sentiment in South Korea, we expect BUD APAC to continue to strongly recover in 2Q-4Q22 and to score a c.10%/30% growth in revenue/EBITDA for FY22.

Ongoing premiumisation in China despite near-term COVID headwinds. The recent COVID disruption has affected the brewery industry to some extent and the industry volume is likely to have contracted by a low single digit during 1Q22. However, BUD APAC was able to maintain a flattish revenue vs. 1Q21, despite the volume contraction, thanks to the ongoing premiumisation and ASP expansion. Premium (Budweiser)/super-premium brands have seen high single-digit/strong double-digit growth in volume compared to pre-pandemic levels, despite the near-term COVID impacts. Particularly in cities that are less affected by the pandemic, Budweiser was able to attain strong double-digit volume growth y-o-y. We

believe BUD APAC should continue to stick to its premium/super-premium product expansion blueprint in China so as to score mid-single-digit ASP growth for FY22/FY23. As the COVID situation gets under control faster in many Chinese cities, BUD APAC may see sequential improvements in 2H22 in terms of sales volume. With a well-established network of c.30 breweries that are close to its wholesalers across China, BUD APAC could also continue to minimise the COVID impacts on its supply chain and safeguard its business continuity ahead.

Cost pressure under control. Despite the double-digit y-o-y growth in raw material prices during 1Q22, BUD APAC managed the impacts on its unit cost to 6% y-o-y, supported by its 12-month hedging policy and parent company AB InBev's strong global sourcing power. We believe BUD APAC should be able to limit unit cost growth to a mid-single digit for FY22 in a backdrop of potentially normalising commodity prices going forward. The price increases implemented by BUD APAC in both China and South Korea during 1Q22 should also start to help mitigate the cost pressure in later quarters. In addition, BUD APAC should also continue to improve its cost efficiency via its ongoing efforts in water/energy savings along with the partnerships with local suppliers (e.g., using domestic barley in China). With the above efforts, BUD APAC could still maintain a GP margin of 54% in FY22, along with a continuing product mix upgrade. Overall, the FY22 EBITDA margin may also surpass the pre-pandemic level, in our view.

More growth opportunities ahead. In view of the near-term COVID disruptions, BUD APAC continued to place more emphasis on its digitisation strategy, as its B2B platform BEES accelerated its coverage to 28 cities (vs. only two cities when launched) and has been serving 2,000+ distributors by end-March. Low and non-alcoholic beers (NABLABs) could also see increased focus due to BUD APAC's vision to achieve a 20%+ volume contribution from this segment by 2025, which should also further beef up its strong market position in India with the broader NABLAB distribution networks there. At the same time, as a result of successful cooperation in online channels, non-alcoholic beer Cass 0.0 also saw strong demand in South Korea with 8m+ cans sold since the launch. We believe BUD APAC should continue to grow its NABLAB segment to attract a broader customer base going forward.

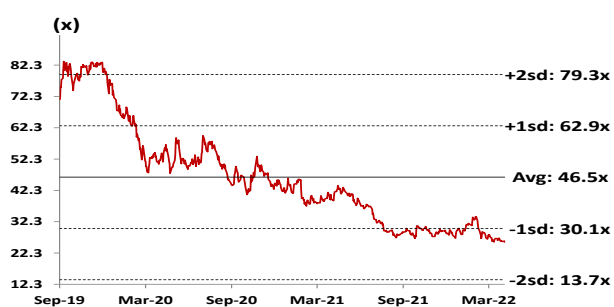
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Company Background

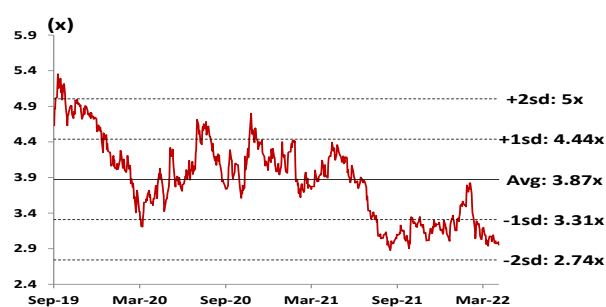
BUD APAC is the largest beer company in Asia Pacific in terms of sales value. In sales volume terms, the company ranked No.2 in India (20%) and No.3 in China (15%) in 2020, according to Euromonitor. Specifically, in the premium and super-premium segments in China, BUD APAC is ranked No.1 in terms of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

Historical PE and PB band

Forward PE band (x)



PB band (x)



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)	6.0	5.0
Organic volume growth of APAC West	(2.3)	(12.4)	9.7	2.0	2.0
Organic ASP growth of APAC East	2.3	1.7	2.6	3.8	3.8
Organic ASP growth of APAC West	6.3	(1.0)	8.0	5.5	5.0
Organic Normalized EBITDA Margin	32.4	28.3	31.5	32.9	34.1

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	1,358	1,495
APAC West	5,176	4,426	5,566	5,990	6,479
Total	6,546	5,588	6,788	7,348	7,974
EBITDA (US\$ m)					
APAC East	446	339	330	429	485
APAC West	1,675	1,245	1,809	1,990	2,233
Total	2,121	1,584	2,139	2,419	2,718
EBITDA Margins (%)					
APAC East	32.6	29.2	27.0	31.6	32.5
APAC West	32.4	28.1	32.5	33.2	34.5
Total	32.4	28.3	31.5	32.9	34.1

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	7,348	7,974
Cost of Goods Sold	(3,058)	(2,681)	(3,131)	(3,377)	(3,586)
Gross Profit	3,488	2,907	3,657	3,971	4,388
Other Opg (Exp)/Inc	(2,022)	(1,970)	(2,230)	(2,217)	(2,343)
Operating Profit	1,466	937	1,427	1,754	2,045
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)	(5)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(98)	(28)	(40)	(30)	(32)
Pre-tax Profit	1,367	908	1,413	1,739	2,040
Tax	(459)	(371)	(432)	(522)	(622)
Minority Interest	(10)	(23)	(31)	(28)	(30)
Preference Dividend	0	0	0	0	0
Net Profit	898	514	950	1,189	1,388
Net Profit before Except.	994	557	980	1,219	1,420
EBITDA	2,121	1,584	2,139	2,419	2,718
Growth					
Revenue Gth (%)	(2.9)	(14.6)	21.5	8.2	8.5
EBITDA Gth (%)	6.4	(25.3)	35.0	13.1	12.4
Opg Profit Gth (%)	12.9	(36.1)	52.3	22.9	16.6
Net Profit Gth (%)	(6.3)	(42.8)	84.8	25.2	16.7
Margins & Ratio					
Gross Margins (%)	53.3	52.0	53.9	54.0	55.0
Opg Profit Margin (%)	22.4	16.8	21.0	23.9	25.6
Net Profit Margin (%)	13.7	9.2	14.0	16.2	17.4
ROAE (%)	9.0	5.1	8.9	10.5	11.5
ROA (%)	5.8	3.3	5.8	7.0	7.9
ROCE (%)	8.6	4.9	8.4	9.9	10.8
Div Payout Ratio (%)	38.8	73.1	42.0	35.0	35.0
Net Interest Cover (x)	61.1	39.0	237.8	116.1	374.6

Source: Company, DBS HK

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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	2,678	3,603
Inventory	438	434	473	482	483
Debtors	652	534	560	606	658
Other Current Assets	26	69	78	12	12
Total Assets	15,308	15,943	16,625	17,144	18,036
ST Debt	235	164	123	148	141
Creditors	2,594	2,655	2,764	2,796	2,773
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	11,668	12,559
Minority Interests	48	58	70	98	128
Total Cap. & Liab.	15,308	15,943	16,625	17,144	18,036
Non-Cash Wkg. Capital	(3,142)	(3,436)	(3,457)	(3,294)	(3,218)
Net Cash/(Debt)	729	1,094	1,874	2,491	3,424
Debtors Turn (avg days)	34.3	38.7	29.4	29.0	28.9
Creditors Turn (avg days)	390.4	471.0	408.8	374.2	348.9
Inventory Turn (avg days)	64.9	78.2	68.4	64.3	60.5
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.5
Current Ratio (x)	0.5	0.5	0.7	0.8	1.1
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	344.3	321.7	333.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

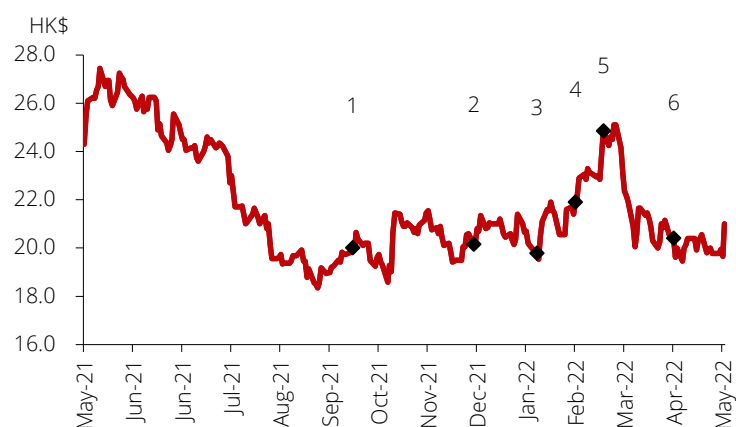
Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,367	908	1,413	1,739	2,040
Dep. & Amort.	655	647	712	665	673
Tax Paid	(459)	(371)	(432)	(522)	(622)
Assoc. & JV Inc/(loss)	(23)	(23)	(32)	(32)	(32)
(Pft)/Loss on disposal of FAs	(105)	(46)	(34)	0	0
Chg in Wkg. Cap.	(209)	31	141	(246)	(75)
Other Operating CF	153	155	135	0	0
Net Operating CF	1,379	1,301	1,903	1,604	1,983
Capital Exp. (net)	(611)	(508)	(606)	(600)	(600)
Other Invt. (net)	0	0	0	0	0
Invt in Assoc. & JV	(185)	(129)	(131)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	103	65	6	50	50
Net Investing CF	(693)	(572)	(731)	(550)	(550)
Div Paid	(976)	(348)	(374)	(416)	(486)
Chg in Gross Debt	68	(49)	(63)	11	(7)
Capital Issues	5,695	0	0	0	0
Other Financing CF	(6,186)	(35)	(27)	(33)	(15)
Net Financing CF	(1,399)	(432)	(464)	(438)	(507)
Currency Adjustments	(32)	90	35	55	0
Chg in Cash	(745)	387	743	671	926
Opg CFPS (US\$)	0.12	0.10	0.13	0.14	0.16
Free CFPS (US\$)	0.06	0.06	0.10	0.08	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:	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
6:	6-Apr-22	HK\$20.45	HK\$31.11	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

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

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