

## COMPANY RESULTS

### Budweiser APAC (1876 HK)

1Q22: Solid Bottom Line Growth; Price Hikes Will Soon Be Reflected

Bud APAC reported mild revenue growth (+0.4% yoy) with solid attributable net profit growth (+28.3% yoy) in 1Q22. Dragged by COVID-19-related restrictions in China, overall sales volume declined 2.7% yoy. It conducted like-for-like price hikes on partial product categories in China and South Korea across Mar 22 and Apr 22. The economic reopening of South Korea and India should lend support to the company amid the tough operating environment in China. Maintain BUY and lift target price to HK\$28.80.

#### 1Q22 RESULTS

| Year to 31 Dec (US\$m)             | 1Q20  | 1Q21  | 1Q22  | yoy %   | Organic yoy % |
|------------------------------------|-------|-------|-------|---------|---------------|
| Total revenue                      | 956   | 1,626 | 1,632 | 0.4     | 1.5           |
| Gross profit                       | 423   | 859   | 833   | (3.0)   | 0.0           |
| Gross margin                       | 44.2% | 52.8% | 51.0% | -1.8ppt | -7.7ppt       |
| Normalized EBITDA                  | 171   | 528   | 570   | 8.0     | 7.6           |
| Normalized EBITDA margin           | 17.9% | 32.5% | 34.9% | 2.5ppt  | 2.0ppt        |
| Normalized EBIT                    | 14    | 342   | 394   | 15.2    | 15.3          |
| Normalized EBIT margin             | 1.5%  | 21.0% | 24.1% | 3.1ppt  | 2.9ppt        |
| Attributable net profit            | (39)  | 240   | 308   | 28.3    | -             |
| Normalized attributable net profit | (41)  | 233   | 302   | 29.6    | -             |

Source: Bud APAC, UOB Kay Hian

#### RESULTS

- Solid bottom line growth.** On a reported basis, Budweiser APAC's (Bud APAC) revenue grew marginally by 0.4% yoy (1.5% yoy organic growth) in 1Q22. Attributable net profit increased 28.3% yoy to US\$308m, representing 27% of our full-year estimates. Gross profit margin shrank 1.8ppt on higher cost of sales (+3.1% yoy) while normalised EBITDA/EBIT margin expanded by 2.5ppt/3.1ppt on the back of a: a) 7.9% yoy decline in selling, general and administrative costs (SG&A), and b) 42.9% yoy increase in other operating income driven by brewery asset divestments.
- Slight loss of market share (by volume) in China.** Total sales volume fell 2.7% yoy in 1Q22 due to the tightened COVID-19 restrictions in China since mid-Mar 22, partially offset by the mid-single-digit volume growth in South Korea. Specifically in China, the drop in total sales volume (-4.3% yoy) was larger than the industry's decline (low-single-digit). In 1Q22, the higher unit COGS (+7% yoy) was partially offset by the overall ASP hike (+3.1% yoy).

#### KEY FINANCIALS

| Year to 31 Dec (US\$m)        | 2020  | 2021   | 2022F  | 2023F  | 2024F  |
|-------------------------------|-------|--------|--------|--------|--------|
| Net turnover                  | 5,588 | 6,788  | 7,479  | 7,970  | 8,494  |
| EBITDA                        | 1,538 | 2,105  | 2,399  | 2,664  | 2,949  |
| Operating profit              | 891   | 1,393  | 1,651  | 1,867  | 2,100  |
| Net profit (rep./act.)        | 514   | 950    | 1,145  | 1,297  | 1,469  |
| Net profit (adj.)             | 514   | 950    | 1,145  | 1,297  | 1,469  |
| EPS (sen)                     | 3.9   | 7.2    | 8.7    | 9.8    | 11.1   |
| PE (x)                        | 68.8  | 37.2   | 30.9   | 27.3   | 24.1   |
| P/B (x)                       | 3.3   | 3.2    | 3.0    | 2.8    | 2.6    |
| EV/EBITDA (x)                 | 21.0  | 15.3   | 13.4   | 12.1   | 10.9   |
| Dividend yield (%)            | 1.1   | 1.1    | 1.4    | 1.5    | 1.7    |
| Net margin (%)                | 9.2   | 14.0   | 15.3   | 16.3   | 17.3   |
| Net debt/(cash) to equity (%) | (9.9) | (16.4) | (28.2) | (34.7) | (40.6) |
| Interest cover (x)            | 64.1  | 350.8  | n.a.   | n.a.   | n.a.   |
| ROE (%)                       | 5.0   | 8.8    | 10.1   | 10.7   | 11.3   |
| Consensus net profit          | -     | -      | 1,119  | 1,301  | 1,478  |
| UOBKH/Consensus (x)           | -     | -      | 1.02   | 1.00   | 0.99   |

Source: Bud APAC, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

|               |            |
|---------------|------------|
| Share Price   | HK\$21.00  |
| Target Price  | HK\$28.80  |
| Upside        | +37.1%     |
| (Previous TP: | HK\$28.10) |

#### COMPANY DESCRIPTION

Budweiser APAC accounted for around 50% of high-end beer sales in China. It has another three key markets in APAC, which are South Korea, India, and Vietnam.

#### STOCK DATA

|                                 |                  |
|---------------------------------|------------------|
| GICS sector                     | Consumer Staples |
| Bloomberg ticker:               | 1876 HK          |
| Shares issued (m):              | 13,243.4         |
| Market cap (Rmbm):              | 278,111.3        |
| Market cap (US\$m):             | 35,433.6         |
| 3-mth avg daily t'over (US\$m): | 30.6             |

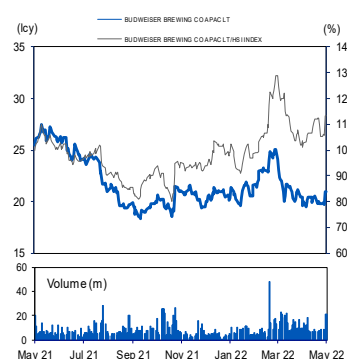
#### Price Performance (%)

|                  |       |                     |        |     |
|------------------|-------|---------------------|--------|-----|
| 52-week high/low |       | HK\$27.45/HK\$18.34 |        |     |
| 1mth             | 3mth  | 6mth                | 1yr    | YTD |
| 2.7              | (2.8) | (0.2)               | (13.6) | 2.7 |

#### Major Shareholders

|                                     |      |
|-------------------------------------|------|
| Anheuser-Busch InBev S.A. (Belgium) | 87.2 |
| FY22 NAV/Share (US\$)               | 0.89 |
| FY22 Net Cash/Share (US\$)          | 0.25 |

#### PRICE CHART



Source: Bloomberg

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### KEY OPERATIONAL DATA

|                                 | 1Q20  | 1Q21  | 1Q22  | yoy % | Organic yoy % |
|---------------------------------|-------|-------|-------|-------|---------------|
| Beer shipment (mn liter)        | 1,277 | 2,079 | 2,023 | (2.7) | (2.7)         |
| ASP (US\$/thousand liter)       | 749   | 782   | 807   | 3.1   | 4.3           |
| Unit COGS (US\$/thousand liter) | 417   | 369   | 395   | 7.0   | 6.0           |

Source: Bud APAC, UOB Kay Hian

### STOCK IMPACT

- China's COVID-19-related restrictions impacted top-line; logistics were unaffected.** Its sales volume in strong footprint areas (Guangdong, Fujian, Jilin and Heilongjiang) have been heavily impacted by the heightened COVID-19 restrictions. It estimated that nightlife in 100 cities was fully closed. The nightlife channel/Chinese restaurants/in-home channel was 42/86/96% and 38/82/96% reopened as of end-Mar 22 and end-Apr 22. Total sales to retailers (STR) dropped by high-teens in the last two weeks of Mar 22, with the Premium and Super Premium portfolios more heavily impacted. We concur with management that China will continue to impose sporadic lockdowns but now with shorter impact period (except Shanghai and Jilin). On the bright side, there was no supply chain disruption thanks to its wide brewery footprint across China and its locations close to wholesalers.
- Strategy in China unchanged given strong underlying demand.** In cities unaffected by COVID-19 restrictions, Budweiser/Super Premium portfolio grew by "strong double-digit"/"double-digit" in 1Q22. That said, its expansion strategy for Budweiser/Super Premium portfolio remained unchanged. In the recent two weeks, management also observed accelerated consumer demand in Fujian and Guangdong alongside the ease in COVID-19 restrictions. In Mar 22 and Apr 22, it executed like-for-like mid-single digit price hikes in the Core and Value segments across China. It accelerated its BEES platform expansion to more than 28 cities as of end-Mar 22 (vs two pilot cities as of end-21), higher than initially planned at "more than 10 cities in 1H22". Currently, more than 20,000 customers have been placing orders via its BEES platform.
- Continues to keep cost hikes in check.** We saw an effective cost control (+6% yoy in cost of sales per hl) despite the overall double-digit increase in most commodity prices. We reckon the company will continue to keep up its cost control efforts via premiumisation and other initiatives (12-month hedging policy and lower water usage).
- South Korea –** Management expects 2Q22 revenue per hl to improve sequentially, given: a) 7.7% yoy price hike in the Core segment domestic brand effective 8 Mar 22, and b) new excise tax increased by 2.5% effective 1 Apr 22, while partially offset by c) a lower revenue per hl as on-premise channels normalise. Management expects consumer sentiment to improve in the upcoming quarters and exceed that of pre-COVID-19 levels.
- India –** In 1Q22, its Premium and Super Premium portfolio grew strong double digits yoy. Specifically, its Budweiser brand outperformed the industry and gained market share during the quarter. Overall, 1Q22 revenue and EBITDA grew yoy. It added more varieties to its non-alcoholic offerings (Budweiser 0.0 Green Apple flavour and Hoegaarden 0.0 Rose flavour) ahead of the peak season in 2Q22.

### EARNINGS REVISION/RISK

- Earnings revision.** We fine-tune our earnings estimates by 1.0/1.1/1.3% for 2022-24.
- Risks.** a) Uncontrolled resurgence of COVID-19 cases; and b) upmarket push below expectations.

### VALUATION/RECOMMENDATION

- Maintain BUY and lift our target price to HK\$28.80.** Its 1Q22 results surprised the market on solid bottom line growth. Despite reopening rates of the on-premise channel as of end-Apr 22 were still similar to that of end-Mar 22 which would then likely drag 2Q22 performance, we think the company would not disappoint given: a) the like-for-like price hikes in China and South Korea should be mostly reflected in 2Q22, b) economy reopening in other regions like South Korea and India, and c) product mix and consumption upgrade. Our target price implies 42.3x 2022F PE and 37.3x 2023F PE.

### SEGMENT INFORMATION

|                         | 1Q21 organic growth | 1Q22 organic growth |
|-------------------------|---------------------|---------------------|
| <b>Revenue % change</b> |                     |                     |
| APAC East               | -1.2%               | 10.3%               |
| South Korea             | n.a.                | Double-digit growth |
| APAC West               | 87.4%               | -0.2%               |
| China                   | 92.5%               | -1.3%               |
| India                   | Double-digit growth | n.a.                |

|                                   |        |                     |
|-----------------------------------|--------|---------------------|
| <b>Normalised EBITDA % change</b> |        |                     |
| APAC East                         | -22.1% | 45.6%               |
| South Korea                       | n.a.   | Double-digit growth |
| APAC West                         | 336.3% | 3.0%                |
| China                             | 243.5% | n.a.                |
| India                             | n.a.   | n.a.                |

|                           |                          |                         |
|---------------------------|--------------------------|-------------------------|
| <b>Shipments % change</b> |                          |                         |
| APAC East                 | -1.8%                    | 6.7%                    |
| South Korea               | Low single-digit decline | Mid-single-digit growth |
| APAC West                 | 79.5%                    | -3.8%                   |
| China                     | 84.6%                    | -4.3%                   |
| India                     | Double-digit growth      | n.a.                    |

|                     |      |                         |
|---------------------|------|-------------------------|
| <b>ASP % change</b> |      |                         |
| APAC East           | 0.6% | 3.3%                    |
| South Korea         | n.a. | Low single-digit growth |
| APAC West           | 4.4% | 3.7%                    |
| China               | 4.3% | 3.2%                    |
| India               | n.a. | n.a.                    |

Source: Bud APAC, UOB Kay Hian

## PROFIT & LOSS

| Year to 31 Dec (US\$m)        | 2021    | 2022F   | 2023F   | 2024F   |
|-------------------------------|---------|---------|---------|---------|
| Net turnover                  | 6,788.0 | 7,478.8 | 7,970.2 | 8,494.0 |
| EBITDA                        | 2,105.0 | 2,398.6 | 2,663.6 | 2,949.4 |
| Deprec. & amort.              | 712.0   | 747.9   | 797.0   | 849.4   |
| EBIT                          | 1,393.0 | 1,650.7 | 1,866.6 | 2,100.0 |
| Associate contributions       | 32.0    | 32.0    | 32.0    | 32.0    |
| Net interest income/(expense) | (6.0)   | 11.2    | 19.8    | 40.7    |
| Pre-tax profit                | 1,413.0 | 1,693.9 | 1,918.4 | 2,172.8 |
| Tax                           | (432.0) | (508.2) | (575.5) | (651.8) |
| Minorities                    | (31.0)  | (40.3)  | (45.7)  | (51.7)  |
| Net profit                    | 950.0   | 1,145.4 | 1,297.2 | 1,469.2 |
| Net profit (adj.)             | 950.0   | 1,145.4 | 1,297.2 | 1,469.2 |

## BALANCE SHEET

| Year to 31 Dec (US\$m)                | 2021            | 2022F           | 2023F           | 2024F           |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Fixed assets                          | 3,632.0         | 3,609.6         | 3,578.5         | 3,538.2         |
| Other LT assets                       | 9,832.0         | 9,864.0         | 9,896.0         | 9,928.0         |
| Cash/ST investment                    | 2,007.0         | 3,665.9         | 4,712.0         | 5,833.5         |
| Other current assets                  | 1,154.0         | 1,242.8         | 1,316.5         | 1,395.1         |
| <b>Total assets</b>                   | <b>16,625.0</b> | <b>18,382.3</b> | <b>19,503.0</b> | <b>20,694.8</b> |
| ST debt                               | 150.0           | 295.3           | 295.3           | 295.3           |
| Other current liabilities             | 4,515.0         | 5,341.3         | 5,601.4         | 5,818.5         |
| LT debt                               | 53.0            | 53.0            | 53.0            | 53.0            |
| Other LT liabilities                  | 666.0           | 666.0           | 666.0           | 666.0           |
| Shareholders' equity                  | 11,013.0        | 11,758.4        | 12,573.3        | 13,496.4        |
| Minority interest                     | 70.0            | 110.3           | 156.0           | 207.7           |
| <b>Total liabilities &amp; equity</b> | <b>16,625.0</b> | <b>18,382.3</b> | <b>19,503.0</b> | <b>20,694.8</b> |

## CASH FLOW

| Year to 31 Dec (US\$m)                      | 2021           | 2022F          | 2023F          | 2024F          |
|---|----------------|----------------|----------------|----------------|
| <b>Operating</b>                            | <b>1,903.0</b> | <b>1,591.3</b> | <b>1,536.7</b> | <b>1,692.8</b> |
| Pre-tax profit                              | 981.0          | 1,693.9        | 1,918.4        | 2,172.8        |
| Tax   | (395.0)        | (508.2)        | (575.5)        | (651.8)        |
| Deprec. & amort.                            | 712.0          | 131.6          | 140.3          | 149.5          |
| Associates                                  | (32.0)         | (32.0)         | (32.0)         | (32.0)         |
| Working capital changes                     | 141.0          | 305.9          | 85.6           | 54.3           |
| Non-cash items                              | (25.0)         | 0.0            | 0.0            | 0.0            |
| Other operating cashflows                   | 521.0          | 0.0            | 0.0            | 0.0            |
| <b>Investing</b>                            | <b>(731.0)</b> | <b>322.3</b>   | <b>(8.3)</b>   | <b>(25.0)</b>  |
| Capex (growth)                              | (606.0)        | (109.2)        | (109.2)        | (109.2)        |
| Investments                                 | (131.0)        | 0.0            | 0.0            | 0.0            |
| Proceeds from sale of assets                | 35.0           | 0.0            | 0.0            | 0.0            |
| Others                                      | (29.0)         | 431.5          | 100.9          | 84.2           |
| <b>Financing</b>                            | <b>(464.0)</b> | <b>(254.7)</b> | <b>(482.3)</b> | <b>(546.2)</b> |
| Dividend payments                           | (394.0)        | (400.0)        | (482.3)        | (546.2)        |
| Issue of shares                             | 0.0            | 0.0            | 0.0            | 0.0            |
| Proceeds from borrowings                    | 0.0            | 295.3          | 295.3          | 295.3          |
| Loan repayment                              | (63.0)         | (150.0)        | (295.3)        | (295.3)        |
| Others/interest paid                        | (7.0)          | 0.0            | 0.0            | 0.0            |
| <b>Net cash inflow (outflow)</b>            | <b>708.0</b>   | <b>1,658.9</b> | <b>1,046.1</b> | <b>1,121.5</b> |
| <b>Beginning cash &amp; cash equivalent</b> | <b>1,264.0</b> | <b>2,007.0</b> | <b>3,665.9</b> | <b>4,712.0</b> |
| Changes due to forex impact                 | 35.0           | 0.0            | 0.0            | 0.0            |
| <b>Ending cash &amp; cash equivalent</b>    | <b>2,007.0</b> | <b>3,665.9</b> | <b>4,712.0</b> | <b>5,833.5</b> |

## KEY METRICS

| Year to 31 Dec (%)        | 2021   | 2022F  | 2023F  | 2024F  |
|---------------------------|--------|--------|--------|--------|
| <b>Profitability</b>      |        |        |        |        |
| EBITDA margin             | 31.0   | 32.1   | 33.4   | 34.7   |
| Pre-tax margin            | 20.8   | 22.6   | 24.1   | 25.6   |
| Net margin                | 14.0   | 15.3   | 16.3   | 17.3   |
| ROA                       | 5.8    | 6.5    | 6.8    | 7.3    |
| ROE                       | 8.8    | 10.1   | 10.7   | 11.3   |
| <b>Growth</b>             |        |        |        |        |
| Turnover                  | 21.5   | 10.2   | 6.6    | 6.6    |
| EBITDA                    | 36.9   | 13.9   | 11.0   | 10.7   |
| Pre-tax profit            | 55.6   | 19.9   | 13.3   | 13.3   |
| Net profit                | 84.8   | 20.6   | 13.3   | 13.3   |
| Net profit (adj.)         | 84.8   | 20.6   | 13.3   | 13.3   |
| EPS                       | 84.8   | 20.6   | 13.3   | 13.3   |
| <b>Leverage</b>           |        |        |        |        |
| Debt to total capital     | 1.8    | 2.9    | 2.7    | 2.5    |
| Debt to equity            | 1.8    | 3.0    | 2.8    | 2.6    |
| Net debt/(cash) to equity | (16.4) | (28.2) | (34.7) | (40.6) |
| Interest cover (x)        | 350.8  | n.a.   | n.a.   | n.a.   |

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