

Hong Kong

ADD (no change)

Consensus ratings*: Buy 43 Hold 2 Sell 1

Current price:	HK\$56.00
Target price:	HK\$75.00 ▲
Previous target:	HK\$72.00
Up/downside:	33.9%
CGI / Consensus:	17.2%
Reuters:	0291.HK
Bloomberg:	291 HK
Market cap:	US\$23,166m HK\$181,674m
Average daily turnover:	US\$58.94m HK\$467.2m
Current shares o/s:	3,244m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

- FY22F core EPS increased by 1.1%.
- FY23F core EPS increased by 2.4%.
- FY24F core EPS increased by 5.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7	22.8	-8.3
Relative (%)	8.9	26.1	14.3

Major shareholders	% held
CRH BEER	51.7

Analysts

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China Resources Beer

Consistently improving product mix

- China Resources Beer (CRB) announced that revenue grew by 7.0% yoy in 1H22 to Rmb21bn, and that core net profit rose by 20.4% to Rmb3.8bn, slightly better than we expected due to more effective expenses control.
- The mix upgrade trend continued in 1H22, with the sales volume of premium products growing by 10.0% yoy. We expect the premiumization trend to continue in 2H22F.
- CRB also fully mitigated the raw material cost pressure in 1H22 through a mix upgrade and selling price increases; management expects cost pressure to fall hoh.
- Reiterate Add with a higher DCF-based TP of HK\$75.

1H22 results slightly above our expectations

Total revenue grew by 7.0% yoy in 1H22, driven by the 7.7% yoy ASP improvement. Sales volume dropped slightly by 0.7% yoy to 6.3mt in 1H22. CRB raised its selling prices for certain products in various markets in 1H22 to mitigate the cost pressure. The GPM remained relatively stable at 42.3% in 1H22, in line with that of 1H21. CRB also effectively controlled its expenses. The distribution and admin expenses ratios fell by 1.4ppt and 1.9ppt yoy to 15.3% and 6.4%, respectively, in 1H22. Adjusted by impairment losses related to a plant closure and land disposal gain in 1H21, core earnings grew by 20.4% yoy to Rmb3,802m in 1H22 vs. Rmb3,159m in 1H21. CRB currently has 18.3mt production capacity, with a 68.8% utilization rate in 1H22 vs. 67.8% in 1H21.

No change in the premiumization trend

Although the Covid situation slowed down the growth of premium products in 1H22, the overall trend has changed. The sales volume of premium products accounted for 18.1% of total sales volume in 1H22, vs. 16.4% in 1H21. Management said that the Heineken brands achieved over 30% yoy sales growth in 1H22 and the other premium products, like CRB draft, Super X and Mars Green, all achieved positive sales volume growth. CRB launched Black Lion fruit beer and carbonated beer drinks in 1H22, and plans to launch Heineken bubble beer in the near future. Management believes that the premiumization trend is just beginning in China and that premium products will reach over a 20% yoy sales CAGR in the next five years. The smoothing Covid situation and hot weather has facilitated a beer consumption recovery since Jun. Management said sales volume achieved c.10% yoy growth in Jul and high-teens yoy growth in Aug. We expect CRB's sales volume growth to return to yoy positive for FY22F. We also expect the premiumization trend to speed up in 2H22F. We now expect CRB to achieve sales growth of 8.3% and 7.5% yoy, respectively, in 2H22F and FY22F. The company also strengthened its large-customer management in 1H22, with the number of large customers increasing by 20.

Increasing raw material costs should be manageable

Management now expects the cost of goods sold to increase by Rmb1.2bn–1.3bn in FY22F, owing to increasing raw material prices, lower than the previous guidance of Rmb1.6bn–1.8bn. Barley and aluminum prices were up by 25% and 17% yoy, respectively, in 1H22, but both fell by 12% and 9% mom in July. We expect CRB to achieve GPM expansion of 0.4ppt and 0.1ppt yoy to 35.0% and 39.3% in 2H22F and FY22F, respectively.

Reiterate Add with a new DCF-based TP of HK\$75

We reiterate our Add rating, since we believe there is large growth potential for CRB through a mix upgrade and market share improvement. We raised our FY22F–24F EPS forecasts by 1.1–5.2% to reflect better-than-expected expenses control. A positive catalyst would be stronger-than-expected sales volume growth in 2H22F. A risk is higher-than-expected raw material costs. Our TP is derived from a DCF valuation, with 8.5% WACC and a 3% terminal growth rate (details on page 2).

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	31,448	33,387	35,903	38,045	40,316
Operating EBITDA (Rmbm)	4,997	5,442	5,667	6,805	7,937
Net Profit (Rmbm)	2,094	4,608	4,108	4,452	5,324
Normalised EPS (Rmb)	1.19	1.78	1.35	1.55	1.78
Normalised EPS Growth	19.7%	48.7%	(24.1%)	14.7%	15.4%
FD Normalised P/E (x)	40.57	27.29	35.95	31.34	27.16
DPS (Rmb)	0.26	0.57	0.50	0.55	0.66
Dividend Yield	0.53%	1.17%	1.03%	1.13%	1.36%
EV/EBITDA (x)	30.57	27.66	25.83	21.04	17.51
P/FCFE (x)	54.52	70.04	26.56	29.70	25.24
Net Gearing	(21.3%)	(22.0%)	(35.7%)	(43.7%)	(52.2%)
P/BV (x)	7.41	6.44	5.88	5.41	4.86
ROE	19.0%	25.2%	17.1%	18.0%	18.8%
% Change In Normalised EPS Estimates			2.44%	2.39%	5.13%
Normalised EPS/consensus EPS (x)			1.06	0.97	0.93

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Consistently improving product mix

Figure 1: CRB interim results summary

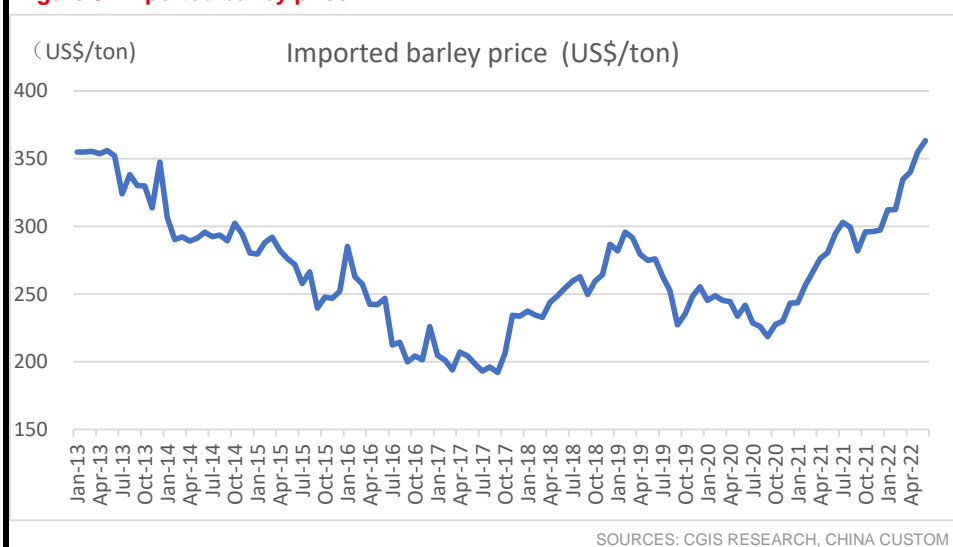
(Rmb m)	1H21	2H21	1H22	2H22F	1H22 YoY	FY21	FY22F	YoY
Turnover	19,634	13,753	21,013	14,890	7%	33,387	35,903	8%
yoy growth	13%	-2%	7%	8%		6%	8%	
Gross profit	8,305	4,769	8,878	5,217	7%	13,074	14,095	8%
Other income	2,643	900	1,028	572	-61%	3,543	1,600	-55%
Selling and distribution expenses	-3,291	-3,452	-3,220	-3,600	-2%	-6,743	-6,820	1%
General and administrative expenses	-1,637	-1,982	-1,346	-1,934	-18%	-3,619	-3,280	-9%
Operating profit	6,020	235	5,340	255	-11%	6,255	5,595	-11%
Net profit	4,291	296	3,802	246	-11%	4,587	4,048	-12%
Core earnings	3,159	421	3,802	446		3,580	4,248	19%
Margin					1H22 ppt chg			ppt chg
Gross profit margin	42.3%	34.7%	42.3%	35.0%	0.0%	39.2%	39.3%	0.1%
S&D expense ratio	16.8%	25.1%	15.3%	24.2%	-1.4%	20.2%	19.0%	-1.2%
G&A expense ratio	8.3%	14.4%	6.4%	13.0%	-1.9%	10.8%	9.1%	-1.7%
Operating profit margin	30.7%	1.7%	25.4%	1.7%	-5.2%	18.7%	15.6%	-3.2%
Net profit margin	21.9%	2.2%	18.1%	1.7%	-3.8%	13.7%	11.3%	-2.5%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Earning revisions

(Rmb m)	FY22F			FY23F			FY24F		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales	35,545	35,903	1.0%	37,667	38,045	1.0%	39,914	40,316	1.0%
Sales growth	6.5%	7.5%	1.1%	6.0%	6.0%	0.0%	6.0%	6.0%	0.0%
GPM	39.6%	39.3%	-0.3%	40.4%	40.3%	-0.1%	41.2%	41.5%	0.3%
OPM	11.9%	15.6%	3.7%	13.5%	16.0%	2.5%	14.8%	18.0%	3.2%
Core Earnings	4,204	4,248	1.1%	4,835	4,952	2.4%	5,441	5,724	5.2%

SOURCES: CGIS RESEARCH ESTIMATES

Figure 3: Imported barley price


We reiterate our Add rating, since we believe there is large growth potential for CRB through a mix upgrade and market share improvement in the medium term. We raised our FY22F–24F EPS forecasts by 1.1–5.2% to reflect better-than-expected expenses control. A positive catalyst would be stronger-than-expected sales volume growth in 2H22F. A risk is higher-than-expected raw material costs might negatively impact on GPM. Our TP is derived from a DCF valuation, with 8.5% WACC and a 3% terminal growth rate. The WAAC component includes 0.8 beta, a 3.4% risk-free rate, a 6.3% equity risk premium, and a 26% tax rate. Our TP changes is mainly due to stronger sales growth and better GPM from mix upgrades and price hike.

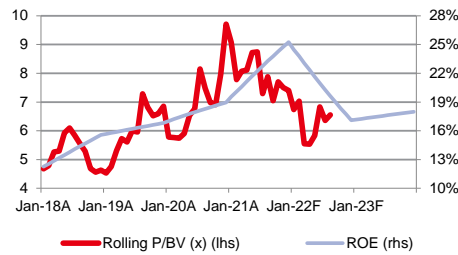
Figure 4: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
EBIT	5,332	5,614	6,639	9,997	12,709	14,204	15,781	17,431	19,141	20,899
Taxes	-1,394	-1,468	-1,736	-2,614	-3,323	-3,714	-4,126	-4,557	-5,005	-5,464
EBIT, tax-affected	3,938	4,146	4,903	7,383	9,386	10,490	11,655	12,873	14,136	15,435
Add: Depreciation & amortisation	1,672	2,023	1,973	1,695	1,364	962	487	404	306	160
Add Changes in Working capital	1,497	416	430	420	408	389	817	872	927	981
Less Capital Expenditure	-1,800	-1,800	-1,800	-1,038	-899	-711	-341	-282	-213	-121
Free Cash Flow to firm	5,307	4,785	5,506	8,461	10,259	11,130	12,618	13,868	15,157	16,454
NPV of FY22-26 Cash flow	24,329									
NPV of FY27-31 Cash Flow	37,553									
NPV of Terminal Value	142,773									
Enterprise Value	204,654									
Less Net debt	5,376									
Less Minority	-57									
Equity value of firm	209,973									
Share outstanding (m)	3,244									
Target price (Rmb)	65									
Exchange rate	1.16									
Target price (HK\$)	75.0									
							Key assumptions			
							Industry average beta	0.8		
							Risk free rate	3.4%		
							Risk premium	6.3%		
							Cost of equity	8.5%		
							Cost of Debt	4.8%		
							Debt %	0.5%		
							Tax rate	26.1%		
							WACC	8.5%		
							Terminal growth rate	3.0%		

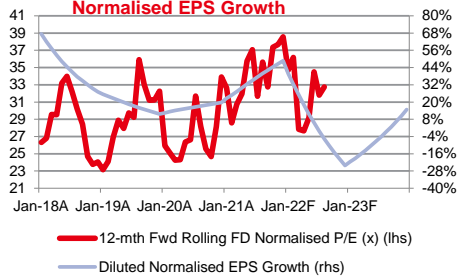
SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA, BLOOMBERG

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	35,903	38,045	40,316
Gross Profit	12,075	13,074	14,095	15,317	16,714
Operating EBITDA	4,997	5,442	5,667	6,805	7,937
Depreciation And Amortisation	-3,464	-2,730	-1,672	-2,023	-1,973
Operating EBIT	1,533	2,712	3,995	4,782	5,964
Financial Income/(Expense)	-211	-19	-50	-50	-50
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	1,687	3,543	1,600	1,300	1,300
Profit Before Tax (pre-EI)	4,791	7,390	5,810	6,598	7,679
Exceptional Items					
Pre-tax Profit	3,009	6,236	5,545	6,032	7,214
Taxation	-915	-1,625	-1,434	-1,577	-1,886
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	2,094	4,611	4,111	4,455	5,328
Minority Interests	0	-3	-3	-3	-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	4,108	4,452	5,324
Normalised Net Profit	3,876	5,765	4,376	5,020	5,793
Fully Diluted Normalised Profit	3,876	5,762	4,374	5,017	5,789

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	4,997	5,442	5,667	6,805	7,937
Cash Flow from Invt. & Assoc.					
Change In Working Capital	185	-96	1,497	416	430
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	657	943	2,040	1,500	1,600
Net Interest (Paid)/Received	-211	-19	-50	-50	-50
Tax Paid	-1,148	-1,275	-1,434	-1,577	-1,886
Cashflow From Operations	4,480	4,995	7,720	7,094	8,030
Capex	-1,047	-1,471	-1,800	-1,800	-1,800
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-23	-1,279	0	0	0
Cash Flow From Investing	-1,070	-2,750	-1,800	-1,800	-1,800
Debt Raised/(repaid)	-526	0	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-561	-1,284	-1,739	-2,109	-2,026
Preferred Dividends					
Other Financing Cashflow	-110	-82	0	0	0
Cash Flow From Financing	-1,197	-1,366	-1,739	-2,109	-2,026
Total Cash Generated	2,213	879	4,181	3,185	4,204
Free Cashflow To Equity	2,884	2,245	5,920	5,294	6,230
Free Cashflow To Firm	3,621	2,264	5,970	5,344	6,280

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	9,557	12,742	16,946
Total Debtors	2,378	3,436	3,126	3,313	3,510
Inventories	6,014	6,458	5,915	6,227	6,466
Total Other Current Assets	447	627	627	627	627
Total Current Assets	13,377	15,897	19,225	22,909	27,549
Fixed Assets	14,414	13,717	13,410	13,052	12,644
Total Investments	7	1,381	1,381	1,381	1,381
Intangible Assets	9,646	9,505	9,440	9,375	9,310
Total Other Non-Current Assets	6,331	10,553	10,553	10,553	10,553
Total Non-current Assets	30,398	35,156	34,784	34,361	33,888
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	19,327	21,007	21,651	22,565	23,432
Other Current Liabilities	245	163	163	163	163
Total Current Liabilities	19,572	21,170	21,814	22,728	23,595
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	27,208	28,122	28,989
Shareholders' Equity	21,217	24,432	26,741	29,085	32,382
Minority Interests	57	57	60	63	66
Total Equity	21,274	24,489	26,801	29,147	32,449

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(5.25%)	6.17%	7.54%	5.97%	5.97%
Operating EBITDA Growth	2.9%	8.9%	4.1%	20.1%	16.6%
Operating EBITDA Margin	15.9%	16.3%	15.8%	17.9%	19.7%
Net Cash Per Share (Rmb)	1.40	1.66	2.95	3.93	5.22
BVPS (Rmb)	6.54	7.53	8.24	8.97	9.98
Gross Interest Cover	15.7	203.5	85.2	107.0	128.6
Effective Tax Rate	30.4%	26.1%	25.9%	26.1%	26.1%
Net Dividend Payout Ratio	21.7%	31.9%	37.0%	35.5%	36.8%
Accounts Receivables Days	19.66	31.78	33.36	30.89	30.97
Inventory Days	113.7	112.1	103.5	97.5	98.4
Accounts Payables Days	362.6	362.4	357.0	355.0	356.7
ROIC (%)	16.7%	19.7%	18.4%	25.2%	31.5%
ROCE (%)	16.0%	16.9%	16.6%	19.1%	20.9%
Return On Average Assets	9.6%	12.2%	8.4%	9.1%	9.8%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Volume 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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Distribution of stock ratings and investment banking clients for quarter ended on 30 Jun 2022		
643 companies under coverage for quarter ended on 30 Jun 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

China Resources Beer (291 HK)

RECOMMENDATION FRAMEWORK

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