

China / Hong Kong Company Update

China Resources Beer

Bloomberg: 291 HK EQUITY | Reuters: 0291.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Aug 2022

BUY

Last Traded Price (17 Aug 2022): HK\$56.00 (HSI : 19,922)
Price Target 12-mth: HK\$68.80 (23% upside) (Prev HK\$66.19)

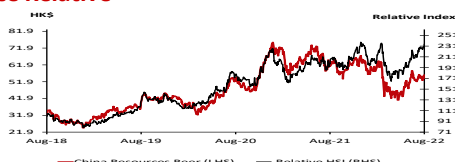
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What's New

- 1H22 results above expectations with core profit up 27.8% y-o-y to RMB3.8bn
- Premiumisation to continue with double-digit sales volume growth in 'sub-premium and above' segment in FY22 and FY23
- Cost pressure to ease in 2H22 and support GP margin growth
- Maintain BUY with revised TP of HK\$68.80

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	31,448	33,387	35,996	38,398
EBITDA	4,966	7,896	7,225	7,971
Pre-tax Profit	3,009	6,215	5,622	6,404
Net Profit	2,094	4,587	4,149	4,726
Net Pft (Pre Ex) (core profit)	3,063	3,583	4,356	5,120
Net Profit Gth (Pre-ex) (%)	29.6	17.0	21.6	17.5
EPS (RMB)	0.65	1.41	1.28	1.46
EPS (HK\$)	0.75	1.64	1.48	1.69
Core EPS (RMB)	0.94	1.10	1.34	1.58
Core EPS (HK\$)	1.09	1.28	1.55	1.83
EPS Gth (%)	59.6	119.1	(9.5)	13.9
Core EPS Gth (%)	29.6	17.0	21.6	17.5
Diluted EPS (HK\$)	0.75	1.64	1.48	1.69
DPS (HK\$)	0.30	0.65	0.59	0.67
BV Per Share (HK\$)	7.56	8.71	9.41	10.32
PE (X)	75.1	34.3	37.9	33.3
CorePE (X)	51.3	43.9	36.1	30.7
P/Cash Flow (X)	35.1	31.5	26.1	24.9
P/Free CF (X)	45.8	44.6	36.2	33.8
EV/EBITDA (X)	30.8	19.3	20.7	18.3
Net Div Yield (%)	0.5	1.2	1.1	1.2
P/Book Value (X)	7.4	6.4	6.0	5.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.2	20.1	16.3	17.1
Adj. EBITDA Rev (%)			2	1
Consensus EPS (RMB)			1.26	1.57
Other Broker Recs:		B:42	S:1	H:3

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

Decent growth despite near-term headwinds

Investment Thesis

1H22 results above expectations. 1H22 sales volume decreased slightly by 0.7% y-o-y to 6.3m KL amid COVID-19 disruptions, while revenue grew by 7% to RMB21bn. Attributable profit (excluding the one-off gain in 1H21) rose 27.8% to RMB3.8bn, above the market's and our expectations. Interim DPS of RMB0.234 (FY21 interim: RMB0.264) was declared. We maintain BUY in view of near-term channel recovery and decent premiumisation prospects.

Ongoing premiumisation. Despite the COVID-19 disruptions during 1H22, CR Beer continues to achieve decent sales volume growth in the "sub-premium and above" segment (e.g., Heineken up 30%+) during 1H22. We believe CR Beer should see faster growth in the sub-premium and above segment, with high-teen volume growth y-o-y in 2H22/FY23, riding on the channel recovery in China. CR Beer can also sustain an ASP CAGR of c.5% in FY22-FY25.

Easing cost pressure in 2H22. We believe the softening of commodity prices (e.g., aluminium and barley) as well as its ongoing efficiency improvements and potential regional price increase should help CR Beer to safeguard a c.1ppt GP margin expansion in FY22.

Valuation:

We raised FY22/FY23 adjusted EBITDA by 2%/1%. Our new TP of HK\$68.80 continues to benchmark a 22x adjusted EV/EBITDA on a 12-month rolling basis.

Where we differ:

We are more positive than the market in terms of FY22/FY23 earnings, considering CR Beer's better premiumisation and cost management.

Key Risks to Our View:

Severe COVID-19 outbreaks, rising competition, and higher-than-expected raw material costs.

At A Glance

Issued Capital (m shrs)	3,244
Mkt Cap (HKm/US\$m)	181,664 / 23,161
Major Shareholders (%)	
China Resources Co Ltd	51.9
Free Float (%)	48.1
3m Avg. Daily Val. (US\$m)	60.97
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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China Resources Beer**WHAT'S NEW**

1H22 results highlights. 1H22 sales volume decreased slightly by 0.7% y-o-y to 6.3m KL amid COVID-19 disruptions, outperforming the industry. Revenue still grew by 7% to RMB21bn, supported by ASP growth of 7.7% in 1H22. Gross profit margin remained comparable to that of 1H21 at 42.3%, despite higher raw material costs. The SG&A expense ratio was also lowered by 3.4ppt to 21.7% in 1H22, driven by ongoing efficiency improvements and cost control. Core EBIT grew by 17% to RMB5.2bn. Excluding the one-off after-tax gain of RMB1.3bn on land disposal recognised in 1H21, attributable profit rose 27.8% to RMB3.8bn, above the market's and our expectations. Interim DPS of RMB0.234 (FY21 interim: RMB0.264) was declared.

Ongoing premiumisation despite near-term headwinds. Despite the COVID-19 disruptions during 1H22, the "sub-premium and above" segment continued to grow by 10% y-o-y in sales volume. In particular, Heineken has registered >30% volume growth, while SuperX and Snow Draft still achieved low single-digit volume expansion, despite the disruptions in on-trade channels. In the meantime, CR Beer also saw a strong premiumisation trend in off-trade channels, supporting ASP growth. With the continued recovery in the catering industry, we believe CR Beer should see faster growth in the sub-premium and above segment, with high-teen volume growth y-o-y in 2H22/FY23. With its ongoing efforts in premiumisation, we expect CR Beer to sustain an ASP CAGR of c.5% in FY22-FY25.

CR Beer should also continue to benefit from the premiumisation trend in China to achieve decent sales growth in the sub-premium and above segment over the medium term. Going forward, riding on its strong position in Eastern China, CR Beer should continue to expand to Southern China (e.g., Guangdong province) to capture the market share of premium segments, along with featured products (e.g., Heineken).

Cost pressure to ease in 2H22. Despite the double-digit increase in major raw material prices (mainly aluminium and barley) during 1H22, CR Beer was able to limit the impacts on production cost per KL to <8% y-o-y, leveraging on its strong sourcing power and advance purchase strategies. Moreover, the recent price downtrends of packaging materials and barley could also help to ease the cost pressure in 2H22. As CR Beer may continue to implement certain regional price increases going forward, we believe it should be able to limit the raw material cost impacts on its production cost per KL to a mid-single digit and score a c.1ppt GP margin expansion in FY22, along with its ongoing premiumisation. Also, CR Beer's ongoing efforts in capacity optimisation (e.g., closure of inefficient breweries and the centralisation of production) should continue to safeguard profit margin growth.

Long-term growth drivers. CR Beer should continue to focus on the development of its key account platforms to underpin its sales growth in the premium segments over the medium term. Going forward, CR Beer should also continue to seek appropriate partnerships and M&A targets in non-beer segments, along with its faster sales growth in non-beer products.

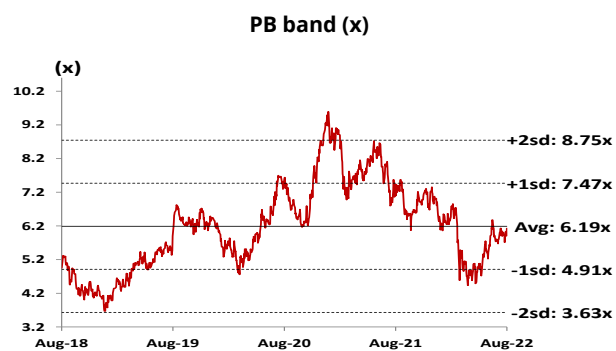
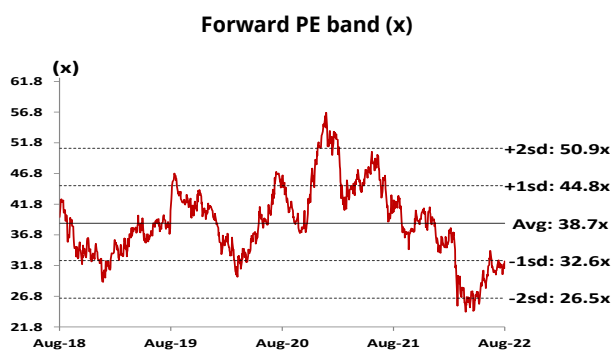
We raised FY22/FY23 adjusted EBITDA by 2%/1%. In view of CR Beer's decent premiumisation prospects and the near-term channel recovery in China, we maintain BUY with TP of HK\$68.80, which continues to benchmark a 22x adjusted EV/EBITDA on a 12-month rolling basis.

Company Background

China Resources Beer is the largest brewer in China, with a sales volume of 11m KL in 2021, accounting for a 25% market share in China (source: Euromonitor). As at end-2021, CR Beer owned 65 breweries across 25 provinces, municipalities, and autonomous regions in China, running on a production capacity of c.19m KL per year.

China Resources Beer

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Mid-to-high-end beer revenue share (%)	56.3	57.6	59.1	60.3	61.4
Average selling price growth (%)	2.8	(2.4)	6.6	6.3	5.5
Sales volume growth (%)	1.3	(2.9)	(0.4)	1.5	1.0
Adjusted EBITDA margin (%)	15.2	18.9	18.8	20.6	21.8
Core net margin (%)	7.1	8.4	10.7	12.1	13.3

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Eastern region	16,927	15,785	16,599	17,863	19,033
Central region	8,073	7,497	7,913	8,611	9,220
Southern region	8,190	8,166	8,875	9,522	10,145
Total	33,190	31,448	33,387	35,996	38,398
EBIT (RMB m)					
Eastern region	1,007	1,134	3,395	2,680	3,426
Central region	598	757	1,187	1,119	1,383
Southern region	714	1,312	1,467	1,619	2,029
Total	2,319	3,203	6,049	5,418	6,838
EBIT Margins (%)					
Eastern region	5.9	7.2	20.5	15.0	18.0
Central region	7.4	10.1	15.0	13.0	15.0
Southern region	8.7	16.1	16.5	17.0	20.0
Total	7.0	10.2	18.1	15.1	17.8

Source: Company, DBS HK

China Resources Beer

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	33,190	31,448	33,387	35,996	38,398
Cost of Goods Sold	(20,964)	(19,373)	(20,313)	(21,545)	(22,196)
Gross Profit	12,226	12,075	13,074	14,450	16,201
Other Opg (Exp)/Inc	(9,954)	(8,855)	(6,819)	(8,793)	(9,767)
Operating Profit	2,272	3,220	6,255	5,658	6,435
Other Non Opg (Exp)/Inc	943	828	(1,247)	(117)	(104)
Associates & JV Inc	0	0	(21)	(10)	(5)
Net Interest (Exp)/Inc	39	(70)	224	298	472
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(1,052)	(969)	1,004	(207)	(394)
Pre-tax Profit	2,202	3,009	6,215	5,622	6,404
Tax	(892)	(915)	(1,625)	(1,470)	(1,674)
Minority Interest	2	0	(3)	(3)	(3)
Preference Dividend	0	0	0	0	0
Net Profit	1,312	2,094	4,587	4,149	4,726
Net Profit before Except.	2,364	3,063	3,583	4,356	5,120
EBITDA	3,996	4,966	7,896	7,225	7,971
Growth					
Revenue Gth (%)	4.2	(5.2)	6.2	7.8	6.7
EBITDA Gth (%)	23.6	24.3	59.0	(8.5)	10.3
Opg Profit Gth (%)	43.8	41.7	94.3	(9.6)	13.7
Net Profit Gth (%)	34.3	59.6	119.1	(9.5)	13.9
Margins & Ratio					
Gross Margins (%)	36.8	38.4	39.2	40.1	42.2
Opg Profit Margin (%)	6.8	10.2	18.7	15.7	16.8
Net Profit Margin (%)	4.0	6.7	13.7	11.5	12.3
ROAE (%)	6.8	10.2	20.1	16.3	17.1
ROA (%)	3.2	4.9	9.7	8.1	8.8
ROCE (%)	6.2	9.6	17.0	13.8	15.0
Div Payout Ratio (%)	40.8	40.1	40.0	40.0	40.0
Net Interest Cover (x)	NM	46.0	NM	NM	NM

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	19,413	17,781	17,096	16,871	16,623
Invt in Associates & JVs	0	0	1,381	1,381	1,381
Other LT Assets	12,460	12,617	16,679	16,609	16,568
Cash & ST Invt	2,340	4,538	5,376	8,256	11,602
Inventory	6,018	6,014	6,458	7,189	7,271
Debtors	943	2,378	3,436	986	1,052
Other Current Assets	417	447	627	627	627
Total Assets	41,591	43,775	51,053	51,919	55,125
ST Debt	601	83	71	71	71
Creditors	19,061	19,327	21,007	21,391	22,037
Other Current Liab	194	162	92	92	92
LT Debt	124	117	60	60	60
Other LT Liabilities	1,884	2,812	5,334	3,855	3,855
Shareholder's Equity	19,670	21,217	24,432	26,391	28,947
Minority Interests	57	57	57	60	63
Total Cap. & Liab.	41,591	43,775	51,053	51,919	55,125
Non-Cash Wkg. Capital	(11,877)	(10,650)	(10,578)	(12,681)	(13,179)
Net Cash/(Debt)	1,615	4,338	5,245	8,125	11,471
Debtors Turn (avg days)	10.2	19.3	31.8	22.4	9.7
Creditors Turn (avg days)	348.1	397.4	394.2	387.3	383.6
Inventory Turn (avg days)	108.1	124.6	121.9	124.7	127.7
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.7
Current Ratio (x)	0.5	0.7	0.8	0.8	0.9
Quick Ratio (x)	0.2	0.4	0.4	0.4	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	205.5	523.5	1,122.9	1,275.6	1,275.6
Z-Score (X)	5.0	4.8	4.9	5.1	5.1

Source: Company, DBS HK

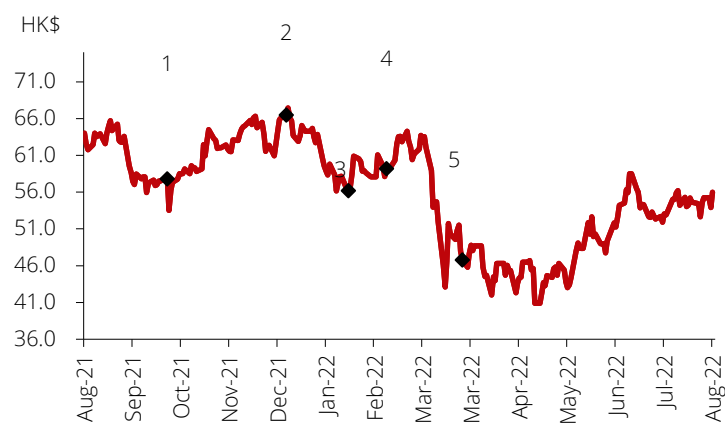
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	2,202	3,009	6,215	5,622	6,404
Dep. & Amort.	1,724	1,746	1,641	1,567	1,537
Tax Paid	(706)	(1,148)	(1,275)	(1,470)	(1,674)
Assoc. & JV Inc/(loss)	0	0	21	0	0
(Pft)/ Loss on disposal of FAs	885	958	(1,155)	196	383
Chg in Wkg.Cap.	75	185	(96)	536	273
Other Operating CF	(82)	(270)	(356)	(430)	(604)
Net Operating CF	4,098	4,480	4,995	6,021	6,318
Capital Exp.(net)	(1,490)	(1,047)	(1,471)	(1,671)	(1,671)
Other Invt.(net)	0	0	7	0	0
Invt in Assoc. & JV	(2,216)	0	(1,502)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	938	(23)	216	400	400
Net Investing CF	(2,768)	(1,070)	(2,750)	(1,271)	(1,271)
Div Paid	(487)	(561)	(1,281)	(1,836)	(1,661)
Chg in Gross Debt	(241)	(526)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(150)	(110)	(85)	(6)	(6)
Net Financing CF	(878)	(1,197)	(1,366)	(1,842)	(1,667)
Currency Adjustments	30	(15)	(41)	(28)	(35)
Chg in Cash	482	2,198	838	2,880	3,346
Opg CFPS (RMB)	1.24	1.32	1.57	1.69	1.86
Free CFPS (RMB)	0.80	1.06	1.09	1.34	1.43

Source: Company, DBS HK

China Resources Beer

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-Oct-21	HK\$57.90	HK\$65.65	Buy
2:	13-Dec-21	HK\$66.45	HK\$72.29	Buy
3:	18-Jan-22	HK\$56.45	HK\$72.29	Buy
4:	9-Feb-22	HK\$59.50	HK\$72.29	Buy
5:	25-Mar-22	HK\$47.95	HK\$66.19	Buy

Source: DBS HK

Analyst: Clement Xu
Mavis Hui

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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