

# Budweiser Brewing Company APAC

Bloomberg: 1876 HK Equity | Reuters: 1876.HK

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DBS Group Research . Equity

11 Jul 2023

## BUY

Last Traded Price (10 Jul 2023): HK\$18.62 (HSI : 18,480)  
Price Target 12-mth: HK\$30.40 (63% upside) (Prev HK\$31.50)

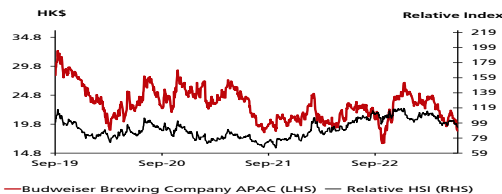
### Analyst

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### What's New

- Premiumisation in China intact with premium and super-premium beers leading a double-digit growth in total sales volume in 5M23
- Expect decent on-premise recovery to sustain and support a 7% ASP growth in APAC West FY23; overall GP margin to edge up by 1.8ppts
- Cut FY23/FY24F EBITDA by 11%/8% on near-term sales pressure in APAC East on a high base, as well as foreign currency impacts
- Maintain BUY with revised TP of HK\$30.40; a potential earnings upside of c.7% in FY23 are yet to be factored in, assuming a 3% volume increase from [El Nino](#) impacts

### Price Relative



### Forecasts and Valuation

FY Dec (US\$m)	2021A	2022A	2023F	2024F
Turnover	6,788	6,478	6,915	7,597
EBITDA	2,139	1,932	2,117	2,462
Pre-tax Profit	1,413	1,283	1,480	1,824
Net Profit	950	913	1,075	1,331
Net Pft (Pre Ex) (core profit)	980	914	1,103	1,356
Net Profit Gth (Pre-ex) (%)	82.7	(7.7)	20.7	22.9
EPS (US\$)	0.07	0.07	0.08	0.10
EPS (HK\$)	0.56	0.54	0.64	0.79
Core EPS (US\$)	0.07	0.07	0.08	0.10
Core EPS (HK\$)	0.58	0.54	0.65	0.80
EPS Gth (%)	84.7	(4.0)	17.8	23.8
Core EPS Gth (%)	75.9	(6.8)	20.7	22.9
Diluted EPS (HK\$)	0.56	0.54	0.64	0.79
DPS (HK\$)	0.24	0.30	0.22	0.28
BV Per Share (HK\$)	6.51	6.36	6.48	6.89
PE (X)	33.1	34.5	29.3	23.7
CorePE (X)	32.1	34.5	28.6	23.2
P/Cash Flow (X)	16.5	20.0	26.8	17.0
P/Free CF (X)	24.3	29.1	66.2	29.8
EV/EBITDA (X)	13.9	15.2	13.8	11.7
Net Div Yield (%)	1.3	1.6	1.2	1.5
P/Book Value (X)	2.9	2.9	2.9	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	8.9	8.4	9.9	11.8

Earnings Rev (%): (14) (9)  
Consensus EPS (US\$) 0.09 0.10  
Other Broker Recs: B:28 S:0 H:3  
*Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters*

## Intact premiumisation in China

### Investment Thesis

**On-premise recovery to fuel faster premiumisation in China.** We expect volume and average selling price (ASP) growth to be well supported by BUD APAC's strong position in the on-premise channel, especially its premium/super-premium brands in 2Q23, on a low base, amid China's reopening. We expect APAC West to see 9% and 8% organic growth in volume and ASP in 2Q23 respectively. Despite the company's stronger efforts in commercial investments amid China reopening, we believe normalised EBITDA could still rebound by 20% organically.

**Overseas markets.** Market competition as well as weaker consumer sentiment in South Korea could result in a teen's decline in APAC East's EBITDA in 2Q23, while we expect near-term sales pressure to ease gradually as inflationary pressure softens sequentially. Being the leader in premiumisation in India, with a 67% market share in premium/super-premium segments, the company should also excel in Indian market over the medium- to long-term, given the excellent potential to grow beer consumption in the country.

**Margin improvements.** Cost pressure continues to ease as YTD average aluminium price in China has dropped by c.12% y-o-y. While the y-o-y increase in barley price has also slowed down, we expect this to further support the company's margin expansion in FY24, given its 12-month hedging practice. Ongoing premiumisation trend along with appropriate price increases should also support GP margin expansion of 1.8/1.6ppts in FY23/FY24F.

**BUY, lower TP to HK\$30.40.** We cut FY23/FY24F EBITDA by 11%/8%, and earnings by 14%/9%, given the near-term sales pressure in South Korea as well as negative foreign currency impacts. Our TP of HK\$30.40 (previously HK\$31.50) is based on APAC West (mostly China) being valued at 23x EV/EBITDA, and APAC East (mainly South Korea) at 15x EV/EBITDA on a rolling basis (previous TP based on FY23 forecast), in line with peers, which implies c.21x FY23 EV/EBITDA at group level. Key re-rating catalysts are better-than-expected ASP and margin expansion driven by on-premise recovery in China. Assuming a 3% volume growth from [El Nino](#) impacts that we have not factored in, the company could also see a c.7% earnings upside in FY23.

### Key Risks

Market share loss, weaker economic growth, and high volatility of raw material prices.

### At A Glance

Issued Capital (m shrs)	13,243
Mkt Cap (HKm/US\$m)	246,585 / 31,501
Major Shareholders (%)	
AB InBev Brewing Company Holdings (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	19.0
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

## Budweiser Brewing Company APAC

### Company Background

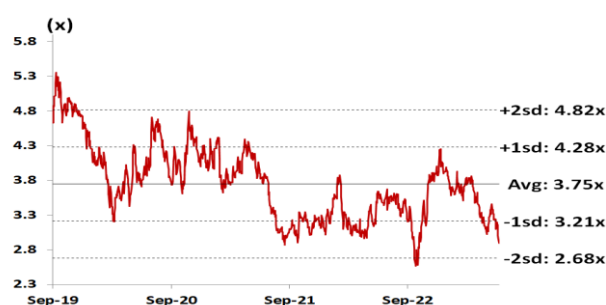
BUD APAC is the largest beer company in Asia Pacific in terms of sales value. In sales volume terms, the company ranked No. 2 in India (19%) and No. 3 in China (16%) in 2022, according to Euromonitor. BUD APAC is ranked No.1 in China's premium and super-premium segments in terms of sales volume.

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

### Forward EV/EBITDA band

Forward EV/EBITDA band (x)



Source: Thomson Reuters, DBS HK

## Budweiser Brewing Company APAC

### Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
Organic volume growth of APAC East	(10.5)	(1.1)	8.9	1.5	2.8
Organic volume growth of APAC West	(12.4)	9.7	(0.4)	6.5	3.0
Organic ASP growth of APAC East	1.7	2.6	6.1	1.5	4.0
Organic ASP growth of APAC West	(1.0)	8.0	(0.2)	7.0	6.0
Organic Normalized EBITDA Margin	28.3	31.5	29.8	30.6	32.4

Source: Company, DBS HK

### Segmental Breakdown (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
<b>Revenues (US\$ m)</b>					
APAC East	1,162	1,222	1,251	1,257	1,357
APAC West	4,426	5,566	5,227	5,659	6,240
<b>Total</b>	<b>5,588</b>	<b>6,788</b>	<b>6,478</b>	<b>6,915</b>	<b>7,597</b>
<b>EBITDA (US\$ m)</b>					
APAC East	339	330	365	340	378
APAC West	1,245	1,809	1,567	1,777	2,084
<b>Total</b>	<b>1,584</b>	<b>2,139</b>	<b>1,932</b>	<b>2,117</b>	<b>2,462</b>
<b>EBITDA Margins (%)</b>					
APAC East	29.2	27.0	29.2	27.0	27.8
APAC West	28.1	32.5	30.0	31.4	33.4
<b>Total</b>	<b>28.3</b>	<b>31.5</b>	<b>29.8</b>	<b>30.6</b>	<b>32.4</b>

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Income Statement (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	5,588	6,788	6,478	6,915	7,597
Cost of Goods Sold	(2,681)	(3,131)	(3,238)	(3,335)	(3,538)
<b>Gross Profit</b>	<b>2,907</b>	<b>3,657</b>	<b>3,240</b>	<b>3,580</b>	<b>4,059</b>
Other Opng (Exp)/Inc	(1,970)	(2,230)	(1,979)	(2,100)	(2,224)
<b>Operating Profit</b>	<b>937</b>	<b>1,427</b>	<b>1,261</b>	<b>1,480</b>	<b>1,835</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	32	23	30	33
Net Interest (Exp)/Inc	(24)	(6)	0	(1)	(19)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(28)	(40)	(1)	(28)	(25)
<b>Pre-tax Profit</b>	<b>908</b>	<b>1,413</b>	<b>1,283</b>	<b>1,480</b>	<b>1,824</b>
Tax	(371)	(432)	(334)	(370)	(456)
Minority Interest	(23)	(31)	(36)	(35)	(37)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>514</b>	<b>950</b>	<b>913</b>	<b>1,075</b>	<b>1,331</b>
Net Profit before Except.	557	980	914	1,103	1,356
EBITDA	1,584	2,139	1,932	2,117	2,462
<b>Growth</b>					
Revenue Gth (%)	(14.6)	21.5	(4.6)	6.7	9.9
EBITDA Gth (%)	(25.3)	35.0	(9.7)	9.6	16.3
Opg Profit Gth (%)	(36.1)	52.3	(11.6)	17.3	24.0
Net Profit Gth (%)	(42.8)	84.8	(3.9)	17.8	23.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	52.0	53.9	50.0	51.8	53.4
Opg Profit Margin (%)	16.8	21.0	19.5	21.4	24.2
Net Profit Margin (%)	9.2	14.0	14.1	15.5	17.5
ROAE (%)	5.1	8.9	8.4	9.9	11.8
ROA (%)	3.3	5.8	5.6	6.7	8.1
ROCE (%)	4.9	8.4	7.8	9.4	11.2
Div Payout Ratio (%)	73.1	42.0	54.8	35.0	35.0
Net Interest Cover (x)	39.0	237.8	NM	1,057.6	95.9

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Balance Sheet (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	3,716	3,632	3,181	3,293	3,511
Invt in Associates & JVs	433	452	464	400	412
Other LT Assets	9,462	9,380	8,745	8,673	8,582
Cash & ST Invt	1,295	2,050	2,525	2,599	3,099
Inventory	434	473	488	503	514
Debtors	534	560	561	599	658
Other Current Assets	69	78	32	12	12
<b>Total Assets</b>	<b>15,943</b>	<b>16,625</b>	<b>15,996</b>	<b>16,078</b>	<b>16,787</b>
ST Debt	164	123	147	140	150
Creditors	2,655	2,764	2,629	2,525	2,485
Other Current Liab	1,818	1,804	1,639	1,598	1,598
LT Debt	37	53	77	79	80
Other LT Liabilities	772	798	671	671	671
Shareholder's Equity	10,439	11,013	10,764	10,961	11,663
Minority Interests	58	70	69	104	141
<b>Total Cap. &amp; Liab.</b>	<b>15,943</b>	<b>16,625</b>	<b>15,996</b>	<b>16,078</b>	<b>16,787</b>
Non-Cash Wkg. Capital	(3,436)	(3,457)	(3,187)	(3,010)	(2,899)
Net Cash/(Debt)	1,094	1,874	2,301	2,380	2,868
Debtors Turn (avg days)	38.7	29.4	31.6	30.6	30.2
Creditors Turn (avg days)	471.0	408.8	383.4	348.6	314.1
Inventory Turn (avg days)	78.2	68.4	68.3	67.0	63.7
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.5
Current Ratio (x)	0.5	0.7	0.8	0.9	1.0
Quick Ratio (x)	0.4	0.6	0.7	0.8	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 (%)	252.7	344.3	220.5	320.8	347.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

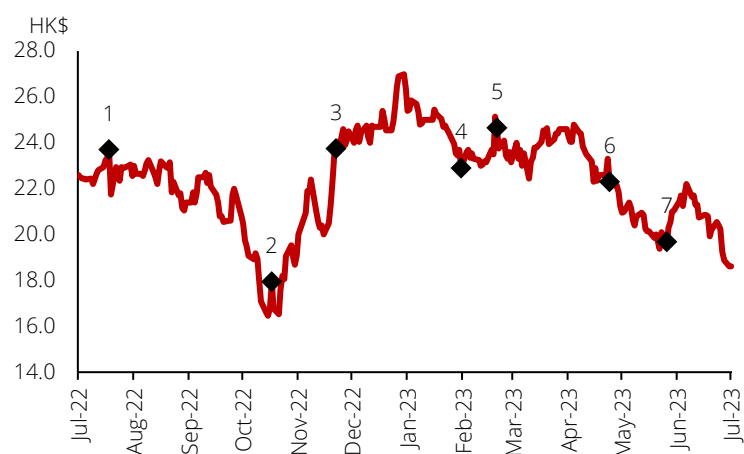
### Cash Flow Statement (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	908	1,413	1,283	1,480	1,824
Dep. & Amort.	647	712	671	637	627
Tax Paid	(371)	(432)	(334)	(370)	(456)
Assoc. & JV Inc/(loss)	(23)	(32)	(23)	(25)	(28)
(Pft)/ Loss on disposal of FAs	(46)	(34)	0	0	0
Chg in Wkg.Cap.	31	141	44	(274)	(110)
Other Operating CF	155	135	(64)	(272)	0
<b>Net Operating CF</b>	<b>1,301</b>	<b>1,903</b>	<b>1,577</b>	<b>1,176</b>	<b>1,857</b>
Capital Exp.(net)	(508)	(606)	(494)	(700)	(800)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(129)	(131)	10	0	(150)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	65	6	44	80	80
<b>Net Investing CF</b>	<b>(572)</b>	<b>(731)</b>	<b>(440)</b>	<b>(620)</b>	<b>(870)</b>
Div Paid	(348)	(374)	(399)	(376)	(466)
Chg in Gross Debt	(49)	(63)	(40)	(6)	12
Capital Issues	0	0	0	0	0
Other Financing CF	(35)	(27)	(61)	(33)	(33)
<b>Net Financing CF</b>	<b>(432)</b>	<b>(464)</b>	<b>(500)</b>	<b>(415)</b>	<b>(487)</b>
Currency Adjustments	90	35	(186)	0	0
Chg in Cash	387	743	451	141	500
Opg CFPS (US\$)	0.10	0.13	0.12	0.11	0.15
Free CFPS (US\$)	0.06	0.10	0.08	0.04	0.08

Source: Company, DBS HK

**Budweiser Brewing Company APAC**

**Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	Target Price	Rating
1	28-Jul-22	HK\$23.70	HK\$32.37	BUY
2	27-Oct-22	HK\$16.80	HK\$31.63	BUY
3	2-Dec-22	HK\$23.45	HK\$32.20	BUY
4	10-Feb-23	HK\$23.70	HK\$31.50	BUY
5	2-Mar-23	HK\$25.15	HK\$31.50	BUY
6	4-May-23	HK\$23.30	HK\$31.50	BUY
7	5-Jun-23	HK\$20.10	HK\$31.50	BUY

Source: DBS HK

Analyst: Clement Xu

Mavis Hui

## 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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**Budweiser Brewing Company APAC**

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