

Budweiser Brewing Company APAC

Bloomberg: 1876 HK Equity | Reuters: 1876.HK

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DBS Group Research . Equity

9 Oct 2023

BUY

Last Traded Price (6 Oct 2023): HK\$15.60 (HSI : 17,486)
Price Target 12-mth: HK\$28.50 (83% upside) (Prev HK\$30.40)

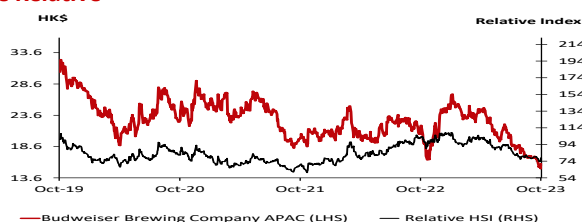
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What's New

- Product mix enhancement in China supports high-single digit ASP growth in APAC West in 2H23
- Competition in South Korea remained in 3Q23; gradual improvement ahead with price increase from October
- Cut FY23/FY24F earnings by 8%/6% on near-term pressure in South Korea; maintain BUY with HK\$28.50 TP as premiumisation prospects in China remain robust

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2022A	2023F	2024F	2025F
Turnover	6,478	6,842	7,507	8,178
EBITDA	1,932	2,051	2,386	2,712
Pre-tax Profit	1,283	1,422	1,747	2,040
Net Profit	913	989	1,256	1,471
Net Pft (Pre Ex) (core profit)	914	1,009	1,281	1,501
Net Profit Gth (Pre-ex) (%)	(7.7)	10.4	27.0	17.2
EPS (US\$)	0.07	0.07	0.09	0.11
EPS (HK\$)	0.54	0.58	0.74	0.87
Core EPS (US\$)	0.07	0.08	0.10	0.11
Core EPS (HK\$)	0.54	0.60	0.76	0.89
EPS Gth (%)	(4.0)	8.3	27.0	17.1
Core EPS Gth (%)	(6.8)	10.4	27.0	17.2
Diluted EPS (HK\$)	0.54	0.58	0.74	0.87
DPS (HK\$)	0.30	0.20	0.26	0.30
BV Per Share (HK\$)	6.37	6.45	6.83	7.30
PE (X)	28.9	26.7	21.0	17.9
CorePE (X)	28.9	26.1	20.6	17.6
P/Cash Flow (X)	16.7	24.0	14.8	13.3
P/Free CF (X)	24.4	65.9	26.9	22.4
EV/EBITDA (X)	12.5	11.8	10.0	8.6
Net Div Yield (%)	1.9	1.3	1.7	2.0
P/Book Value (X)	2.5	2.4	2.3	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	8.4	9.1	11.2	12.3
Earnings Rev (%):		(8)	(6)	New
Consensus EPS (US\$)		0.08	0.09	0.11
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

China remains the driving force

Investment Thesis

Intact premiumisation in China. On-premise channel recovery is tracking well in China with decent catering revenue growth. However, due to the relatively high base in 3Q23, we expect BUD APAC to see a slight volume drop in APAC West. In the meantime, average selling price (ASP) should continue to see a high-single digit growth, supported by product mix enhancement. Overall, we expect 6%/7% growth in FY23 volume/ASP in APAC West.

Outlook in South Korea. Competition in South Korea remained in 3Q23, while we expect BUD APAC should continue its commercial investments in order to secure market share. We expect ASP to decline by mid-single digit in APAC East (along with the higher excise tax) in 3Q23. The price increase takes effect from Oct 11th, and could help support ASP and margin recovery in South Korea. This could also potentially signal easing market condition with sequential improvement in 4Q23.

Margin improvements. We expect a slight increase in unit cost in 2H23 (vs. 3.7% in 1H23) along with ongoing premiumisation, while the sequential downtrend in barley prices should further support margin expansion in FY24, given the company's 12-month hedging practice. China operations should continue to be the key growth driver and we expect group GP margin to increase by 1.1/1.7ppts in FY23/FY24F.

Buy, HK\$28.50 TP. We cut FY23/FY24F earnings by 8%/6% to reflect the near-term pressure in South Korea. Our revised TP of HK\$28.50 is based on APAC West being valued at 23x EV/EBITDA (unchanged), and APAC East (mainly South Korea) at 11x EV/EBITDA (vs. 15x in previous valuation), on a rolling basis. This implies c.21x forward EV/EBITDA at the group level. Pressure on South Korea operations should have been largely priced in. We maintain BUY with key re-rating catalysts coming from better-than-expected ASP and margin expansion driven by premiumisation in China.

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)	206,591 / 26,380
Major Shareholders (%)	
AB InBev Brewing Company Holdings (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	20.81
GICS Industry: Consumer Goods / Beverages	

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)



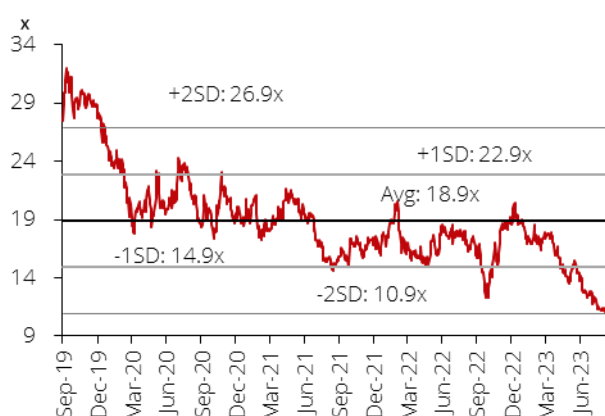
PB band (x)



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	2021A	2022A	2023F	2024F	2025F
Organic volume growth of APAC East	(1.1)	8.9	0.3	2.0	2.5
Organic volume growth of APAC West	9.7	(0.4)	6.0	3.0	2.0
Organic ASP growth of APAC East	2.6	6.1	(1.1)	4.0	4.0
Organic ASP growth of APAC West	8.0	(0.2)	7.0	6.0	6.0
Organic Normalized EBITDA Margin	31.5	29.8	30.0	31.8	33.2

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (US\$ m)					
APAC East	1,222	1,251	1,210	1,296	1,396
APAC West	5,566	5,227	5,632	6,211	6,782
Total	6,788	6,478	6,842	7,507	8,178
EBITDA (US\$ m)					
APAC East	330	365	316	352	398
APAC West	1,809	1,567	1,734	2,034	2,314
Total	2,139	1,932	2,051	2,386	2,712
EBITDA Margins (%)					
APAC East	27.0	29.2	26.1	27.1	28.5
APAC West	32.5	30.0	30.8	32.8	34.1
Total	31.5	29.8	30.0	31.8	33.2

Source: Company, DBS HK

Budweiser Brewing Company APAC

Income Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	6,788	6,478	6,842	7,507	8,178
Cost of Goods Sold	(3,131)	(3,238)	(3,342)	(3,542)	(3,725)
Gross Profit	3,657	3,240	3,500	3,965	4,453
Other Opng (Exp)/Inc	(2,230)	(1,979)	(2,086)	(2,206)	(2,398)
Operating Profit	1,427	1,261	1,414	1,759	2,055
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	32	23	30	33	30
Net Interest (Exp)/Inc	(6)	0	(1)	(20)	(14)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(40)	(1)	(20)	(25)	(30)
Pre-tax Profit	1,413	1,283	1,422	1,747	2,040
Tax	(432)	(334)	(398)	(454)	(531)
Minority Interest	(31)	(36)	(35)	(37)	(39)
Preference Dividend	0	0	0	0	0
Net Profit	950	913	989	1,256	1,471
Net Profit before Except.	980	914	1,009	1,281	1,501
EBITDA	2,139	1,932	2,051	2,386	2,712
Growth					
Revenue Gth (%)	21.5	(4.6)	5.6	9.7	8.9
EBITDA Gth (%)	35.0	(9.7)	6.1	16.4	13.7
Opg Profit Gth (%)	52.3	(11.6)	12.1	24.4	16.8
Net Profit Gth (%)	84.8	(3.9)	8.3	27.0	17.1
Margins & Ratio					
Gross Margins (%)	53.9	50.0	51.1	52.8	54.5
Opg Profit Margin (%)	21.0	19.5	20.7	23.4	25.1
Net Profit Margin (%)	14.0	14.1	14.5	16.7	18.0
ROAE (%)	8.9	8.4	9.1	11.2	12.3
ROA (%)	5.8	5.6	6.2	7.7	8.6
ROCE (%)	8.4	7.8	8.6	10.6	11.7
Div Payout Ratio (%)	42.0	54.8	35.0	35.0	35.0
Net Interest Cover (x)	237.8	NM	1,010.4	89.2	144.3

Source: Company, DBS HK

Interim Income Statement (US\$ m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	3,477	3,311	3,453	3,025	3,666
Cost of Goods Sold	(1,599)	(1,532)	(1,701)	(1,537)	(1,799)
Gross Profit	1,878	1,779	1,752	1,488	1,867
Other Oper. (Exp)/Inc	(1,083)	(1,147)	(961)	(1,018)	(1,017)
Operating Profit	795	632	791	470	850
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	17	15	12	11	16
Net Interest (Exp)/Inc	(14)	8	8	(8)	2
Exceptional Gain/(Loss)	(22)	(18)	(5)	4	(5)
Pre-tax Profit	776	637	806	477	863
Tax	(258)	(174)	(166)	(168)	(273)
Minority Interest	(15)	(16)	(15)	(21)	(15)
Net Profit	503	447	625	288	575
Net profit bef Except.	525	465	630	284	580
Growth					
Revenue Gth (%)	35.0	9.9	(0.7)	(8.6)	6.2
Opg Profit Gth (%)	107.6	14.1	(0.5)	(25.6)	7.5
Net Profit Gth (%)	171.9	35.9	24.3	(35.6)	(8.0)
Margins					
Gross Margins (%)	54.0	53.7	50.7	49.2	50.9
Opg Profit Margins (%)	22.9	19.1	22.9	15.5	23.2
Net Profit Margins (%)	14.5	13.5	18.1	9.5	15.7

Source: Company, DBS HK

Budweiser Brewing Company APAC

Balance Sheet (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	3,632	3,181	3,293	3,511	3,695
Invt in Associates & JVs	452	464	400	412	424
Other LT Assets	9,380	8,745	8,673	8,582	8,497
Cash & ST Invt	2,050	2,525	2,553	3,004	3,564
Inventory	473	488	504	514	541
Debtors	560	561	593	650	708
Other Current Assets	78	32	12	12	12
Total Assets	16,625	15,996	16,027	16,686	17,441
ST Debt	123	147	140	150	150
Creditors	2,764	2,629	2,531	2,488	2,412
Other Current Liab	1,804	1,639	1,598	1,598	1,598
LT Debt	53	77	79	80	82
Other LT Liabilities	798	671	671	671	671
Shareholder's Equity	11,013	10,764	10,905	11,558	12,350
Minority Interests	70	69	104	141	179
Total Cap. & Liab.	16,625	15,996	16,027	16,686	17,441
Non-Cash Wkg. Capital	(3,457)	(3,187)	(3,020)	(2,909)	(2,749)
Net Cash/(Debt)	1,874	2,301	2,335	2,774	3,332
Debtors Turn (avg days)	29.4	31.6	30.8	30.2	30.3
Creditors Turn (avg days)	408.8	383.4	348.1	314.2	291.5
Inventory Turn (avg days)	68.4	68.3	66.9	63.7	62.8
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.5
Current Ratio (x)	0.7	0.8	0.9	1.0	1.2
Quick Ratio (x)	0.6	0.7	0.7	0.9	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	344.3	220.5	320.8	347.7	345.3
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	1,413	1,283	1,422	1,747	2,040
Dep. & Amort.	712	671	637	627	657
Tax Paid	(432)	(334)	(398)	(454)	(531)
Assoc. & JV Inc/(loss)	(32)	(23)	(25)	(28)	(31)
(Pft)/ Loss on disposal of FAs	(34)	0	0	0	0
Chg in Wkg.Cap.	141	44	(264)	(111)	(161)
Other Operating CF	135	(64)	(272)	0	0
Net Operating CF	1,903	1,577	1,100	1,781	1,976
Capital Exp.(net)	(606)	(494)	(700)	(800)	(800)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(131)	10	0	(150)	(150)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	6	44	80	80	80
Net Investing CF	(731)	(440)	(620)	(870)	(870)
Div Paid	(374)	(399)	(346)	(440)	(515)
Chg in Gross Debt	(63)	(40)	(6)	12	2
Capital Issues	0	0	0	0	0
Other Financing CF	(27)	(61)	(33)	(33)	(33)
Net Financing CF	(464)	(500)	(385)	(461)	(546)
Currency Adjustments	35	(186)	0	0	0
Chg in Cash	743	451	95	451	560
Opg CFPS (US\$)	0.13	0.12	0.10	0.14	0.16
Free CFPS (US\$)	0.10	0.08	0.03	0.07	0.09

Source: Company, DBS HK

Budweiser Brewing Company APAC

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Oct-22	HK\$16.80	HK\$31.63	Buy
2:	2-Dec-22	HK\$23.45	HK\$32.20	Buy
3:	10-Feb-23	HK\$23.70	HK\$31.50	Buy
4:	2-Mar-23	HK\$25.15	HK\$31.50	Buy
5:	4-May-23	HK\$23.30	HK\$31.50	Buy
6:	5-Jun-23	HK\$20.10	HK\$31.50	Buy
7:	11-Jul-23	HK\$18.62	HK\$30.40	Buy
8:	3-Aug-23	HK\$18.24	HK\$30.40	Buy

Source: DBS HK

Analyst: Clement Xu
Mavis Hui

Budweiser Brewing Company APAC

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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