

# Budweiser Brewing Company APAC

Bloomberg: 1876 HK Equity | Reuters: 1876.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Nov 2023

## BUY

Last Traded Price (31 Oct 2023): HK\$14.88 (HSI : 17,112)  
Price Target 12-mth: HK\$25.90 (74% upside) (Prev HK\$28.50)

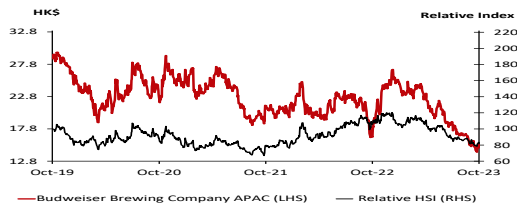
### Analysts

Clement Xu +852 36684185 clementxu@db.com  
Mavis Hui +852 36684188 mavis\_hui@db.com

### What's New

- Premiumisation trend in China intact, with high-single-digit ASP growth to be sustained in 4Q23
- Expect China to remain the key growth driver with supportive volume growth in 4Q23 on a low base
- Sequential improvement in South Korea to continue despite 5%/7% trim in FY23/FY24 earnings to factor in the near-term pressure there. Maintain BUY with revised TP of HK\$25.90

### Price Relative



### Forecasts and Valuation

FY Dec (US\$m)	2022A	2023F	2024F	2025F
Turnover	6,478	6,853	7,513	8,185
EBITDA	1,932	2,036	2,303	2,644
Pre-tax Profit	1,283	1,408	1,678	1,986
Net Profit	913	936	1,171	1,391
Net Pft (Pre Ex) (core profit)	914	956	1,196	1,421
Net Profit Gth (Pre-ex) (%)	(7.7)	4.6	25.1	18.8
EPS (US\$)	0.07	0.07	0.09	0.11
EPS (HK\$)	0.54	0.55	0.69	0.82
Core EPS (US\$)	0.07	0.07	0.09	0.11
Core EPS (HK\$)	0.54	0.57	0.71	0.84
EPS Gth (%)	(4.0)	2.6	25.1	18.8
Core EPS Gth (%)	(6.8)	4.6	25.1	18.8
Diluted EPS (HK\$)	0.54	0.55	0.69	0.82
DPS (HK\$)	0.30	0.19	0.24	0.29
BV Per Share (HK\$)	6.36	6.42	6.78	7.21
PE (X)	27.6	26.9	21.5	18.1
CorePE (X)	27.6	26.3	21.1	17.7
P/Cash Flow (X)	16.0	23.4	14.9	13.3
P/Free CF (X)	23.3	67.0	28.2	23.0
EV/EBITDA (X)	11.9	11.3	9.8	8.4
Net Div Yield (%)	2.0	1.3	1.6	1.9
P/Book Value (X)	2.3	2.3	2.2	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	8.4	8.7	10.5	11.8
Earnings Rev (%):		(5)	(7)	(5)
Consensus EPS (US\$)		0.08	0.09	0.11
Other Broker Recs:		B:30	S:0	H:3

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

## Performance in China intact

### Investment Thesis

**Premiumisation in China is intact.** On-premise channel recovery is tracking well in China with decent catering revenue growth. The product mix enhancement continued to support ASP growth YTD, which should be able to sustain high-single-digit growth in 4Q23. The low base effect in 4Q23 should also support better volume growth in China, more than offsetting the impacts of the late timing of the Chinese New Year. We expect 6%/7% growth in FY23 volume/ASP in APAC West.

**Outlook in South Korea.** Competition in South Korea should remain in the near term, along with the re-introduction of Japanese brands, while the price increase, effective 11 Oct, should be able to partly offset the impacts, supporting sequential improvements in South Korea.

**Margin improvements.** We expect a better margin improvement in FY24 with the softer barley prices. China operations should continue to be the key growth driver and we expect the group GP margin to increase by 0.5/1.7ppts in FY23/FY24F.

**Buy, HK\$25.90 TP** (vs. HK\$28.50 previously). We cut FY23/FY24F earnings by 5%/7% to reflect the near-term pressure in South Korea. Our revised TP of HK\$25.90 is based on FY24F EV/EBITDA, with APAC West being valued at 19x, and APAC East at 11x. This implies 17.9x forward EV/EBITDA at the group level, in line with the three-year historical average. We maintain BUY in view of the ongoing premiumisation in China and sequential improvement in South Korea.

### 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)	197,056 / 25,186
Major Shareholders (%)	
AB InBev Brewing Company Holdings (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	17.1
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

## Budweiser Brewing Company APAC

### WHAT'S NEW

**3Q23 results highlight.** Revenue grew by 0.6% organically (or 2% as reported) with the increase in APAC West largely offset by the decline in APAC East. In 9M23, revenue grew by 11.5% to US\$5.6bn. The gross profit margin dropped slightly, by 0.2ppt, to 51.1% in 3Q23 (up 0.1ppt to 51% in 9M23). SG&A ratio in 3Q23 expanded slightly by 0.4ppt to 30.7%, despite the increased marketing efforts y-o-y, with more effective cost control. The organic growth of 8.5% in normalised EBITDA was largely in line with the consensus. Normalised profit stayed flattish (on a reported basis) at US\$879m/US\$300m in 9M23/3Q23, slightly below expectations, along with the negative currency impacts and higher effective tax rate YTD.

In **APAC West**, volume expanded by 1.1% in 3Q23 on a relatively high base. 9M23 volume grew 7%. ASP grew 7%/8.8% in 9M23/3Q23. Revenue expanded by 14.3%/9.9% in 9M23/3Q23. Normalised EBITDA grew by 13.9%/10.1% in 9M23/3Q23.

In **APAC East**, revenue declined by 5% in 3Q23 (or up slightly by 0.6% in 9M23) as 3Q23 volume/ASP dropped by 3.2%/1.9%, with market competition and the impacts of higher liquor excise tax. Normalised EBITDA dropped by 21.1%/17.9% in 9M23/3Q23.

**Premiumisation in China intact.** In 3Q23, sales volume dropped slightly by 0.1% even on a high base, thanks to ongoing on-premise recovery. ASP grew 8.9%, thanks to ongoing product mix enhancement, supported by the double-digit revenue growth in the premium/super premium segments. The consumption downgrade should not be a concern, as the premium and super premium brands remain affordable in China. We expect the low

base effect in 4Q23 to continue to support better volume growth in China, while ASP could also sustain high-single-digit growth.

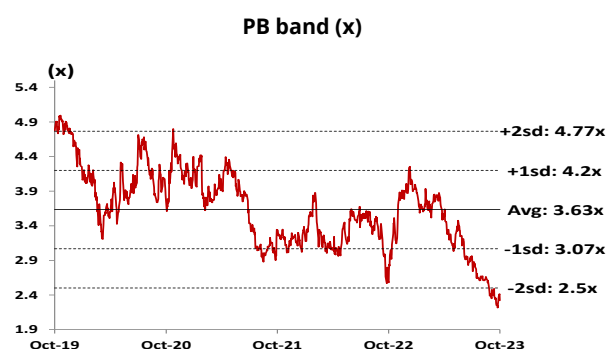
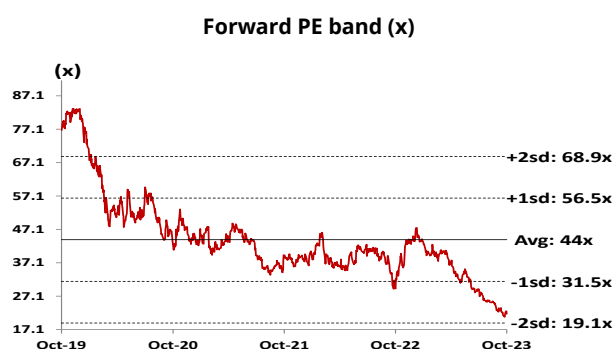
**Sequential improvement in South Korea.** South Korea's operations recorded sequential improvements in 3Q23. The decline in revenue and EBITDA narrowed q-o-q, with the EBITDA margin improving by 3.1 ppt to 26.7% vs. 2Q23. Competition from close peers and re-listed Japanese brands may remain in the near term. We expect the sequential improvement to continue, with the company's price increase from October, which may also be potentially followed by a close peer.

**India continues to outperform.** BUD APAC continued to deliver strong double-digit growth in revenue from the premium segment, which contributed over two-thirds of the top line in India. While the decent momentum in India should be sustained, we believe any potential M&A opportunities should act as a further growth driver, given the company's strong net cash position (US\$2.4bn as of 1H23).

### 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.

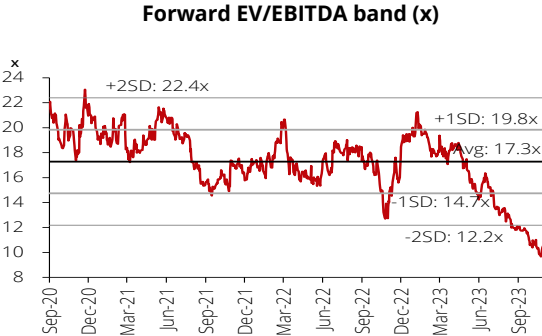
### Historical PE and PB band



Source: Thomson Reuters, DBS HK

### Budweiser Brewing Company APAC

#### Forward EV/EBITDA band



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	(0.1)	1.5	2.5
Organic volume growth of APAC West	9.7	(0.4)	6.3	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	29.7	30.7	32.3

Source: Company, DBS HK

### Segmental Breakdown (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (US\$ m)</b>					
APAC East	1,222	1,251	1,205	1,285	1,383
APAC West	5,566	5,227	5,648	6,228	6,801
<b>Total</b>	<b>6,788</b>	<b>6,478</b>	<b>6,853</b>	<b>7,513</b>	<b>8,185</b>
<b>EBITDA (US\$ m)</b>					
APAC East	330	365	302	323	363
APAC West	1,809	1,567	1,734	1,980	2,282
<b>Total</b>	<b>2,139</b>	<b>1,932</b>	<b>2,036</b>	<b>2,303</b>	<b>2,644</b>
<b>EBITDA Margins (%)</b>					
APAC East	27.0	29.2	25.1	25.2	26.2
APAC West	32.5	30.0	30.7	31.8	33.5
<b>Total</b>	<b>31.5</b>	<b>29.8</b>	<b>29.7</b>	<b>30.7</b>	<b>32.3</b>

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Income Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	6,788	6,478	6,853	7,513	8,185
Cost of Goods Sold	(3,131)	(3,238)	(3,390)	(3,591)	(3,775)
<b>Gross Profit</b>	<b>3,657</b>	<b>3,240</b>	<b>3,463</b>	<b>3,922</b>	<b>4,409</b>
Other Opng (Exp)/Inc	(2,230)	(1,979)	(2,064)	(2,247)	(2,422)
<b>Operating Profit</b>	<b>1,427</b>	<b>1,261</b>	<b>1,399</b>	<b>1,676</b>	<b>1,987</b>
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)	(6)	(1)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(40)	(1)	(20)	(25)	(30)
<b>Pre-tax Profit</b>	<b>1,413</b>	<b>1,283</b>	<b>1,408</b>	<b>1,678</b>	<b>1,986</b>
Tax	(432)	(334)	(436)	(470)	(556)
Minority Interest	(31)	(36)	(35)	(37)	(39)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>950</b>	<b>913</b>	<b>936</b>	<b>1,171</b>	<b>1,391</b>
Net Profit before Except.	980	914	956	1,196	1,421
EBITDA	2,139	1,932	2,036	2,303	2,644
<b>Growth</b>					
Revenue Gth (%)	21.5	(4.6)	5.8	9.6	8.9
EBITDA Gth (%)	35.0	(9.7)	5.4	13.1	14.8
Opg Profit Gth (%)	52.3	(11.6)	11.0	19.7	18.6
Net Profit Gth (%)	84.8	(3.9)	2.6	25.1	18.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	53.9	50.0	50.5	52.2	53.9
Opg Profit Margin (%)	21.0	19.5	20.4	22.3	24.3
Net Profit Margin (%)	14.0	14.1	13.7	15.6	17.0
ROAE (%)	8.9	8.4	8.7	10.5	11.8
ROA (%)	5.8	5.6	5.8	7.2	8.2
ROCE (%)	8.4	7.8	8.2	9.9	11.1
Div Payout Ratio (%)	42.0	54.8	35.0	35.0	35.0
Net Interest Cover (x)	237.8	NM	1,000.1	279.1	1,716.2

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)
<b>Gross Profit</b>	<b>1,878</b>	<b>1,779</b>	<b>1,752</b>	<b>1,488</b>	<b>1,867</b>
Other Oper. (Exp)/Inc	(1,083)	(1,147)	(961)	(1,018)	(1,017)
<b>Operating Profit</b>	<b>795</b>	<b>632</b>	<b>791</b>	<b>470</b>	<b>850</b>
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)
<b>Pre-tax Profit</b>	<b>776</b>	<b>637</b>	<b>806</b>	<b>477</b>	<b>863</b>
Tax	(258)	(174)	(166)	(168)	(273)
Minority Interest	(15)	(16)	(15)	(21)	(15)
<b>Net Profit</b>	<b>503</b>	<b>447</b>	<b>625</b>	<b>288</b>	<b>575</b>
Net profit bef Except.	525	465	630	284	580
<b>Growth</b>					
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)
<b>Margins</b>					
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	2,547	2,941	3,447
Inventory	473	488	511	521	548
Debtors	560	561	593	651	709
Other Current Assets	78	32	12	12	12
<b>Total Assets</b>	<b>16,625</b>	<b>15,996</b>	<b>16,029</b>	<b>16,630</b>	<b>17,333</b>
ST Debt	123	147	140	150	150
Creditors	2,764	2,629	2,567	2,522	2,445
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	10,871	11,468	12,208
Minority Interests	70	69	104	141	179
<b>Total Cap. &amp; Liab.</b>	<b>16,625</b>	<b>15,996</b>	<b>16,029</b>	<b>16,630</b>	<b>17,333</b>
Non-Cash Wkg. Capital	(3,457)	(3,187)	(3,048)	(2,936)	(2,774)
Net Cash/(Debt)	1,874	2,301	2,329	2,711	3,215
Debtors Turn (avg days)	29.4	31.6	30.7	30.2	30.3
Creditors Turn (avg days)	408.8	383.4	344.4	313.4	290.7
Inventory Turn (avg days)	68.4	68.3	66.2	63.6	62.6
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.5
Current Ratio (x)	0.7	0.8	0.9	1.0	1.1
Quick Ratio (x)	0.6	0.7	0.7	0.8	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

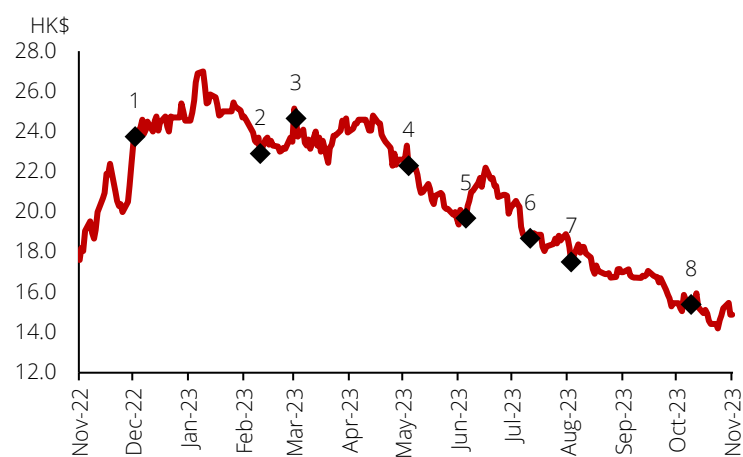
### Cash Flow Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	1,413	1,283	1,408	1,678	1,986
Dep. & Amort.	712	671	637	627	657
Tax Paid	(432)	(334)	(436)	(470)	(556)
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	(236)	(113)	(162)
Other Operating CF	135	(64)	(272)	0	0
<b>Net Operating CF</b>	<b>1,903</b>	<b>1,577</b>	<b>1,076</b>	<b>1,695</b>	<b>1,894</b>
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
<b>Net Investing CF</b>	<b>(731)</b>	<b>(440)</b>	<b>(620)</b>	<b>(870)</b>	<b>(870)</b>
Div Paid	(374)	(399)	(328)	(410)	(487)
Chg in Gross Debt	(63)	(40)	(6)	12	2
Capital Issues	0	0	0	0	0
Other Financing CF	(27)	(61)	(33)	(33)	(33)
<b>Net Financing CF</b>	<b>(464)</b>	<b>(500)</b>	<b>(367)</b>	<b>(431)</b>	<b>(518)</b>
Currency Adjustments	35	(186)	0	0	0
Chg in Cash	743	451	89	394	506
Opg CFPS (US\$)	0.13	0.12	0.10	0.14	0.16
Free CFPS (US\$)	0.10	0.08	0.03	0.07	0.08

Source: Company, DBS HK

**Budweiser Brewing Company APAC**

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



S.No.	Date	Closing Price	Target Price	Rating
1	2-Dec-22	HK\$23.45	HK\$32.20	BUY
2	10-Feb-23	HK\$23.70	HK\$31.50	BUY
3	2-Mar-23	HK\$25.15	HK\$31.50	BUY
4	4-May-23	HK\$23.30	HK\$31.50	BUY
5	5-Jun-23	HK\$20.10	HK\$31.50	BUY
6	11-Jul-23	HK\$18.62	HK\$30.40	BUY
7	3-Aug-23	HK\$18.24	HK\$30.40	BUY
8	9-Oct-23	HK\$15.60	HK\$28.50	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

Completed Date: 1 Nov 2023 14:29:38 (HKT)

Dissemination Date: 1 Nov 2023 16:42:42 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

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## Budweiser Brewing Company APAC

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**DBS Bank (Hong Kong) Limited**

 13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

## Budweiser Brewing Company APAC

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### DBS Regional Research Offices

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#### HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,  
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

#### SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

#### INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower  
Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

#### THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,  
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand