

Hong Kong

ADD (no change)

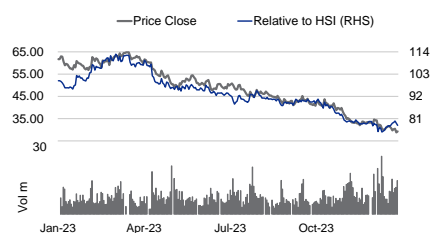
Consensus ratings*: Buy 49 Hold 0 Sell 1

Current price:	HK\$29.25
Target price:	HK\$60.00
Previous target:	HK\$84.00
Up/downside:	105.1%
CGI / Consensus:	-5.3%
Reuters:	0291.HK
Bloomberg:	291 HK
Market cap:	US\$12,131m
	HK\$94,892m
Average daily turnover:	US\$39.15m
	HK\$305.8m
Current shares o/s:	3,244m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

- FY23F EPS cut by 3.5%.
- FY24F EPS cut by 6.2%.
- FY25F EPS cut by 5.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-11.9	-29.5	-52.6
Relative (%)	-5.9	-18.9	-22.2

Major shareholders	% held
CRH BEER	51.7

Analyst(s)

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China Resources Beer

Premiumisation to continue in FY24F

- CRB's beer sales volume in FY23F inched up yoy, in line with industry output growth.
- We estimate overall ASP rose 4% in FY23F and likely by 3% yoy in FY24F, owing to a sustained product mix upgrade.
- The baijiu business achieved breakeven in FY23F and its current channel inventory is over 4 months. Management expects baijiu sales to grow by over 20% yoy in FY24F.
- Given this, coupled with the baijiu business's improvement, we expect CRB's sales and net profit to climb 4.8% and 11.1% yoy, respectively, in FY24F.
- Reiterate Add with a lower DCF-based TP of HK\$60 (WACC: 8.5%, TG: 3%).

Mix upgrade trend will drive FY24F beer sales growth

According to China's National Bureau of Statistics, industry beer output increased by 0.3% yoy in 2023 while 4Q23 output fell 10% yoy due to weak consumption sentiment. CRB's overall beer sales volume inched up yoy in FY23F, in line with industry output growth. Management said in a conference call that the premiumisation trend was still strong in 2H23F, pushing sales volume of premium and above products up 20% yoy in FY23F. Heineken's sales volume came to 0.6m tonnes, up 50% yoy, in FY23F and that for Snow draft climbed by double-digits yoy while Super X saw single-digit yoy growth. We estimate sales contribution of premium and above products reached 20-25% in FY23F. We now estimate overall ASP rose by 4% in FY23F and likely by 3% yoy in FY24F. Management has guided for overall beer sales volume growth of 1-2% yoy in FY24F, with sales volume for its premium and above beers jumping 15-20% yoy. As for mass market beer products, CRB aims to achieve yoy flatish sales volume growth in FY24F.

Baijiu business to deliver better sales growth in FY24F

For the Jinsha baijiu business, management believes baijiu revenue reached c.Rmb2bn in FY23F with Jinsha generating a small profit after deducting 45% minority interest and amortisation of intangible assets. And CRB did not need to make any impairments on goodwill for Jinsha in FY23F. However, the company needs to amortise intangible assets to the tune of Rmb700m per year for Jinsha for the next 10 years. For FY24F, management said in a call on 17 Jan during our consumer strategy day, it will focus on two things: 1) channel inventory reduction, and 2) product rebranding. The company plans to launch an upgraded version of its premium product, Zhaiyao, to attract corporate customers. Last week, CRB also launched a new product for its mid-range Jingsha Huisha brand, retailing at Rmb500-700.

GPM to continue to improve in FY24F

In FY23F, CRB's barley price increased by double-digits yoy but it was fully mitigated by lower prices for packaging materials, such as aluminium cans, paper, and glass bottles. We estimate GPM expanded 2.6% pts in FY23F and expect 1.0% pt yoy growth in FY24F. Management expects barley prices to see a double-digit yoy decline in FY24F. CRB does not have plans to increase its marketing expenses for mid-range products in FY24F and hence guided for declines in S&D and G&A expense ratios for the year.

Reiterate Add with a lower DCF-based TP of HK\$60

We cut our EPS forecasts for FY23F-25F by 3.5-6.2%, reflecting our concerns that the current weak consumption sentiment might weigh down CRB's beer volume growth; this also reduces our DCF-based TP. We reiterate our Add rating as we believe CRB has a well-built distribution network, which should help its new baijiu business expand and support its beer premiumisation plans. We expect the baijiu business to become another growth driver in the long term. The key downside risk is weaker-than-expected sales volume growth in FY24F.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	33,387	35,263	38,917	40,785	42,960
Operating EBITDA (Rmbm)	5,442	5,586	6,652	7,753	8,794
Net Profit (Rmbm)	4,587	4,344	5,082	5,666	6,423
Normalised EPS (Rmb)	1.77	1.57	1.80	2.07	2.30
Normalised EPS Growth	48.1%	(11.1%)	14.5%	14.8%	11.3%
FD Normalised P/E (x)	15.15	17.04	14.89	12.97	11.66
DPS (Rmb)	0.57	0.54	0.63	0.70	0.79
Dividend Yield	2.11%	2.00%	2.34%	2.61%	2.96%
EV/EBITDA (x)	14.75	13.68	12.63	10.38	8.68
P/FCFE (x)	38.75	12.63	NA	14.98	13.14
Net Gearing	(22.0%)	(33.6%)	(5.2%)	(15.5%)	(25.0%)
P/BV (x)	3.56	3.22	2.93	2.62	2.34
ROE	25.2%	19.8%	20.6%	21.3%	21.2%
CGI/consensus EPS (x)			0.95	0.87	0.83
% Change In Normalised EPS Estimates			(3.46%)	(6.20%)	(5.63%)
Normalised EPS/consensus EPS (x)			1.09	1.03	0.97

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Premiumisation to continue in FY24F

Figure 1: Earnings revision

(Rmb m)	FY23F			FY24F			FY25F		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales	38,903	38,917	0.0%	42,004	40,785	-2.9%	44,536	42,960	-3.5%
Sales growth	10.3%	10.4%	0.0%	8.0%	4.8%	-3.2%	6.0%	5.3%	-0.7%
GPM	41.0%	41.1%	0.1%	42.0%	42.1%	0.1%	42.8%	43.1%	0.3%
OPM	17.5%	17.2%	-0.3%	18.7%	18.3%	-0.4%	19.8%	19.6%	-0.2%
Core Earnings	5,476	5,267	-3.8%	6,294	5,851	-7.0%	7,053	6,608	-6.3%
Net Profit	5,291	5,082	-3.9%	6,109	5,666	-7.3%	6,868	6,423	-6.5%
Normalised EPS	1.87	1.80	-3.5%	2.29	2.07	-6.2%	2.26	2.30	-5.6%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

We cut our EPS forecasts for FY23F-25F by 3.5-6.2%, reflecting our concerns that the current weak consumption sentiment might weigh down CRB's beer volume growth; this also reduces our DCF-based TP. We reiterate our Add rating as we believe CRB has a well-built distribution network, which should help its new baijiu business expand and support its beer premiumisation plans. We expect the baijiu business to become another growth driver over the next five years. The key downside risk is weaker-than-expected sales volume growth in FY24F.

Other downside risks are 1) weaker-than-expected sales volume growth in FY24F, 2) intensifying price competition in the beer market in FY24F, which might lead to high marketing spend and lower net profit margins; and 3) a slower-than-expected growth in baijiu sales.

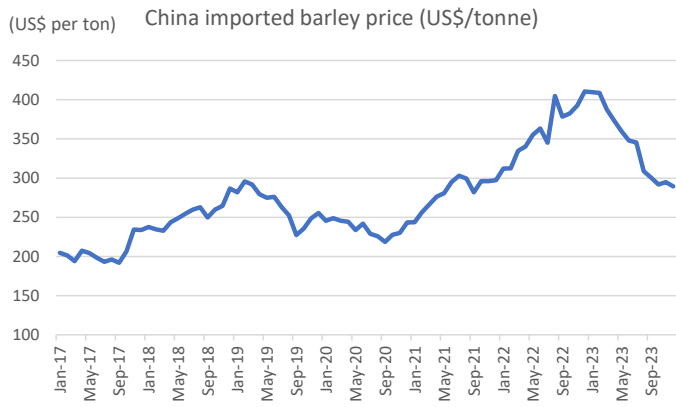
Re-rating catalysts include stronger baijiu sales growth in FY24F on the back of greater integration with CRB's current distribution network.

Figure 2: DCF valuation

(Rmb m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	6,200	7,315	8,107	8,742	9,632	10,555	11,506	12,476	13,456	14,437	15,406
Taxes	-1,321	-1,559	-1,728	-1,863	-2,052	-2,249	-2,452	-2,659	-2,867	-3,076	-3,283
EBIT, tax-affected	4,878	5,756	6,379	6,879	7,579	8,306	9,054	9,817	10,589	11,360	12,123
Add: Depreciation & amortisation	2,138	2,491	2,564	2,302	1,974	1,577	1,564	1,536	1,460	1,366	1,253
Add Changes in Working capital	1,118	-92	-110	-165	-227	797	847	897	944	990	1,033
Less Capital Expenditure	-13,025	-1,800	-1,800	-1,517	-1,459	-1,104	-1,092	-1,069	-1,104	-1,115	-1,098
Free Cash Flow to firm	-4,891	6,356	7,034	7,499	7,867	9,576	10,374	11,181	11,890	12,602	13,312
NPV of FY24F-28F Cash flow	29,894										
NPV of FY29F -33F Cash Flow	30,948										
NPV of Terminal Value	110,750										
Enterprise Value	171,593										
Less Net debt	9,108										
Less Minority	-38										
Equity value of firm	180,663										
Share outstanding (m)	3,244										
Target price (Rmb)	55.7										
Exchange rate	1.08										
Target price (HK\$)	60.0										

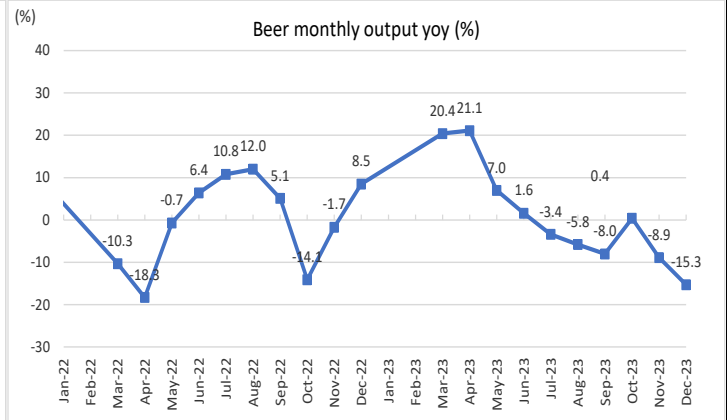
SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA, BLOOMBERG

Figure 3: China import barley price (US\$/tonne)



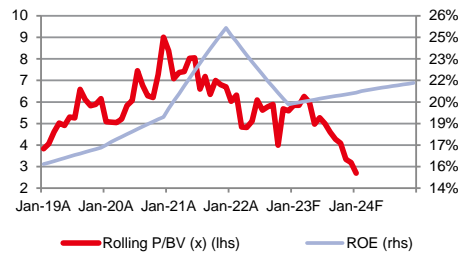
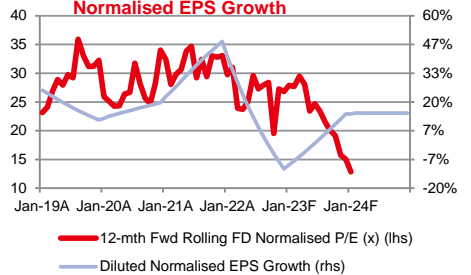
SOURCES: CGIS RESEARCH, CHINA CUSTOM

Figure 4: Beer industry's monthly output yoy (%) in China



SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth


Profit & Loss

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	33,387	35,263	38,917	40,785	42,960
Gross Profit	13,074	13,561	15,978	17,153	18,497
Operating EBITDA	5,442	5,586	6,652	7,753	8,794
Depreciation And Amortisation	-2,730	-2,095	-2,138	-2,491	-2,564
Operating EBIT	2,712	3,491	4,514	5,261	6,229
Financial Income/(Expense)	-19	-79	-198	-198	-198
Pretax Income/(Loss) from Assoc.	-21	-67	0	0	0
Non-Operating Income/(Expense)	3,543	2,183	2,183	2,183	2,183
Profit Before Tax (pre-EI)	7,369	6,288	7,260	8,287	9,255
Exceptional Items					
Pre-tax Profit	6,215	5,528	6,500	7,247	8,215
Taxation	-1,625	-1,178	-1,385	-1,544	-1,751
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	4,590	4,350	5,115	5,703	6,464
Minority Interests	-3	-6	-32	-36	-41
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,587	4,344	5,082	5,666	6,423
Normalised Net Profit	5,744	5,110	5,874	6,743	7,505
Fully Diluted Normalised Profit	5,741	5,104	5,842	6,707	7,464

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	5,442	5,586	6,652	7,753	8,794
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-96	1,447	1,118	-92	-110
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	943	1,162	1,687	1,687	1,687
Net Interest (Paid)/Received	-19	-79	-198	-198	-198
Tax Paid	-1,275	-1,270	-1,385	-1,544	-1,751
Cashflow From Operations	4,995	6,846	7,874	7,606	8,423
Capex	-1,471	-1,661	-1,800	-1,800	-1,800
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-1,279	603	-11,225	0	0
Cash Flow From Investing	-2,750	-1,058	-13,025	-1,800	-1,800
Debt Raised/(repaid)	0	1,100	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-1,284	-1,742	-2,404	-2,198	-2,480
Preferred Dividends					
Other Financing Cashflow	-82	-169	0	0	0
Cash Flow From Financing	-1,366	-811	-2,404	-2,198	-2,480
Total Cash Generated	879	4,977	-7,555	3,608	4,143
Free Cashflow To Equity	2,245	6,888	-5,151	5,806	6,623
Free Cashflow To Firm	2,264	5,867	-4,954	6,004	6,820

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	5,376	10,208	2,653	6,261	10,404
Total Debtors	132	118	138	145	152
Inventories	6,458	7,402	6,285	6,475	6,702
Total Other Current Assets	3,931	3,150	3,150	3,150	3,150
Total Current Assets	15,897	20,878	12,226	16,030	20,408
Fixed Assets	13,717	14,050	14,260	14,397	14,461
Total Investments	1,381	1,489	1,489	1,489	1,489
Intangible Assets	9,505	9,588	20,761	20,429	20,096
Total Other Non-Current Assets	10,553	11,308	11,308	11,308	11,308
Total Non-current Assets	35,156	36,435	47,818	47,623	47,354
Short-term Debt	0	512	512	512	512
Current Portion of Long-Term Debt					
Total Creditors	3,108	3,441	3,461	3,566	3,691
Other Current Liabilities	18,062	19,714	19,714	19,714	19,714
Total Current Liabilities	21,170	23,667	23,687	23,792	23,917
Total Long-term Debt	0	588	588	588	588
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,394	5,981	5,981	5,981	5,981
Total Non-current Liabilities	5,394	6,569	6,569	6,569	6,569
Total Provisions	0	0	0	0	0
Total Liabilities	26,564	30,236	30,256	30,361	30,486
Shareholders' Equity	24,432	27,039	29,717	33,186	37,129
Minority Interests	57	38	70	107	148
Total Equity	24,489	27,077	29,788	33,292	37,277

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	6.2%	5.6%	10.4%	4.8%	5.3%
Operating EBITDA Growth	8.9%	2.6%	19.1%	16.5%	13.4%
Operating EBITDA Margin	16.3%	15.8%	17.1%	19.0%	20.5%
Net Cash Per Share (Rmb)	1.66	2.81	0.48	1.59	2.87
BVPS (Rmb)	7.53	8.33	9.16	10.23	11.44
Gross Interest Cover	203.5	53.8	26.7	31.9	36.8
Effective Tax Rate	26.1%	21.3%	21.3%	21.3%	21.3%
Net Dividend Payout Ratio	32.0%	34.1%	34.8%	33.8%	34.4%
Accounts Receivables Days	1.79	1.29	1.20	1.27	1.26
Inventory Days	112.1	116.6	108.9	98.8	98.3
Accounts Payables Days	48.92	55.07	54.91	54.41	54.14
ROIC (%)	19.7%	18.4%	23.5%	19.3%	22.3%
ROCE (%)	16.9%	16.1%	17.9%	19.3%	20.0%
Return On Average Assets	12.2%	9.6%	10.3%	11.2%	11.7%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Volume growth (%)	-0.4%	0.4%	1.0%	1.0%	2.0%
ASP growth (%)	6.6%	5.2%	4.0%	3.0%	3.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2023		
636 companies under coverage for quarter ended on 31 Dec 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

China Resources Beer (291 HK)

— Price Close



Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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#11