

CR Beer (291 HK)

Premiumization trend accelerated in 4Q20

Excluding staff settlement compensation and impairment on fixed assets relating to breweries closure, FY20 adj. NP rose 5% to RMB2,967mn, in line with our estimates. Raw materials costs were under control because certain procurement was done in advance. Premiumization trend saw acceleration in 4Q20. CR Beers targets to achieve high double-digit growth of sub-premium or above beer in FY21E. We maintain our TP at HK\$73.10. CR Beer's 2.0x FY21E PEG is lower than international peers' 3.7x and Bud APAC's 6.0x. Maintain Buy.

- **Sub-premium or above beer growth in line.** Total sales volume dropped 2.9% to 11.1mn kL due to outbreak of COVID-19 in 1H20 and exit of unprofitable businesses in certain regions (1ppt vol decline). That said, sub-premium or above beer volume increased 11.1% to 1.46mn kL, led by almost 100% growth of Heineken, followed by 40%+ growth of Super X. Premiumization trend saw acceleration given that such growth was stronger than 7% in 9M20.
- **Continue to improve production efficiency.** CR Beer further closed two inefficient breweries in 2H20 (four in FY20) and total breweries was 70 in end of 2020. Utilization rate rose 3.4ppt to 59.2% in FY20. The Company has set its five-year capacity plan. CR Beer could close 2-4 inefficient breweries every year, but the closure plan should be balanced with new capacity built.
- **Raw materials costs under control so far.** Spot prices of barley, can and paper box increased a lot. Because certain procurement of raw materials was secured in advance, management thinks the cost pressure was under control. If prices of raw materials increase further, the Company might raise price nationwide in mid-2021 or 2H21.
- **Premiumization momentum continued in 2M21.** By comparing 2M21 to 2M19, overall sales volume has recovered and sub-premium or above beer recorded double-digit growth. CR Beer targets to achieve high double-digit YoY growth of sub-premium or above beer in FY21E. The Company had set a CAGR target of 16.6% from 2020 to 2025E.
- **Maintain Buy.** We keep our estimates largely unchanged. Our TP remains at HK\$73.10, still at 51x FY21E adj. P/E. We forecast CR Beer to deliver 21% adj. EPS CAGR in FY19-22E. **Catalysts:** better-than-expected revenue and margins. **Risks:** costs pressure, keen competition and food safety issues.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	33,190	31,448	36,197	39,209	42,014
YoY growth (%)	4	(5)	15	8	7
Net profit (RMB mn)	1,312	2,094	3,738	4,675	5,614
Adj. net profit (RMB mn)	2,838	2,967	4,113	5,025	5,964
Adj. EPS (RMB)	0.875	0.915	1.268	1.549	1.838
YoY growth (%)	12	5	39	22	19
Consensus EPS (RMB)	na	na	1.161	1.463	1.578
Adj. P/E (x)	59.9	57.8	41.4	33.9	28.6
P/B (x)	8.6	8.1	7.3	6.5	5.4
Yield (%)	0.3	0.5	0.9	1.1	1.3
Net cash (RMB mn)	1,897	4,614	7,599	10,804	16,288

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$73.10**
 (Previous TP **HK\$73.10**)
 Up/Downside **+23%**
 Current Price **HK\$59.40**

China Beer Sector

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Stock Data

Mkt Cap (HK\$ mn)	192,704
Avg 3 mths t/o (HK\$ mn)	806.41
52w High/Low (HK\$)	78.60/ 31.85
Total Issued Shares (mn)	3,244.2

Source: Bloomberg

Shareholding Structure

CR Group	31.24%
Heineken	20.67%

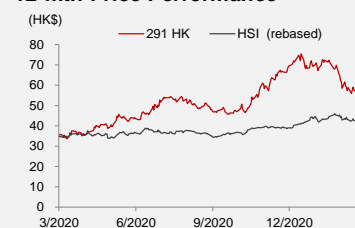
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.6%	-6.6%
3-mth	-6.9%	-15.6%
6-mth	25.4%	3.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

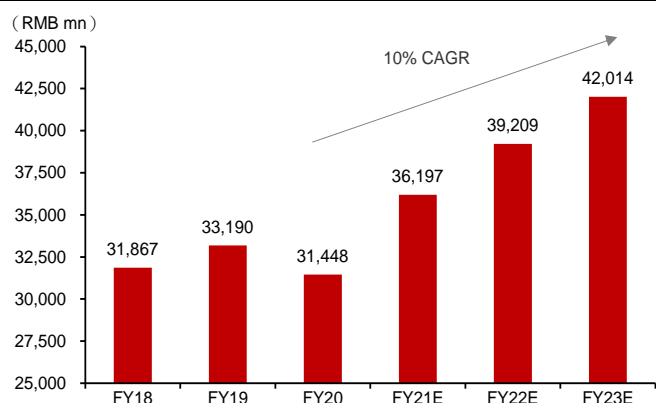
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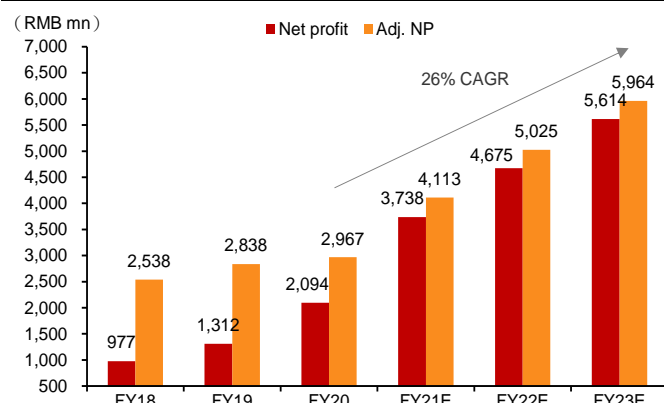
Focus Charts

Figure 1: Revenue to grow at 10% CAGR from FY20 to FY23E



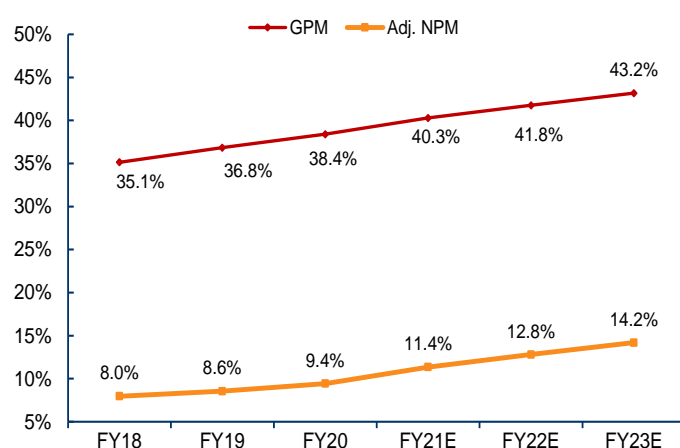
Source: Company data, CMBIS estimates

Figure 2: Adjusted net profit to grow at 26% CAGR from FY20 to FY23E



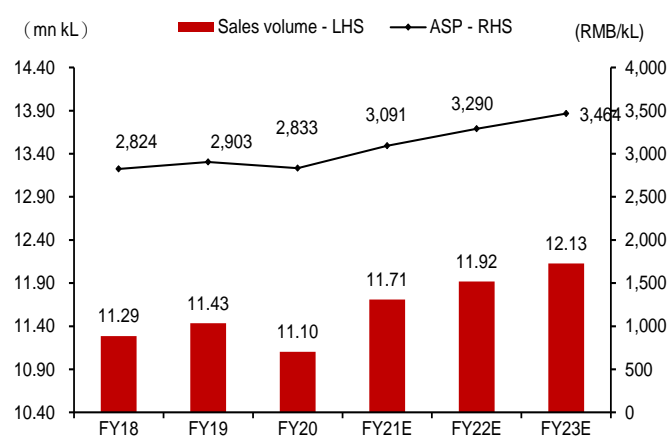
Source: Company data, CMBIS estimates

Figure 3: GPM expansion led by premiumization and capacity efficiency gain



Source: Company data, CMBIS estimates

Figure 4: Sales volume and ASP estimates in FY20-22E



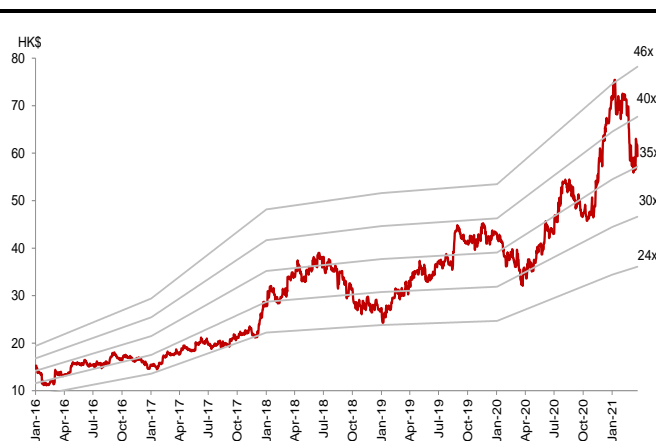
Source: Company, Tmall, CMBIS estimates

Figure 5: CR Beer and Heineken have unrivalled market leadership in China

	# of regions with > 15% market share
CR Beer + Heineken China	20+
Competitor A	10
Competitor B	8
Competitor C	6
Competitor D	4
Competitor E	1

Source: Heineken N.V.

Figure 6: P/E band chart



Source: Company data, Bloomberg, CMBIS estimates

Results highlights

Revenue dropped 5% to RMB31,448mn, 2%/3% below our estimate/consensus, attributable to 2.9% volume decline and 2.4% ASP decline. The volume decline was due to the outbreak of COVID-19 in 1H20 and contraction of non-profitable businesses. Volume of sub-premium or above beer increased 11.5% to 1.46m kL, in line with expectation. The Company further implemented the beer sales with returnable bottles in more regions in 2020. We think these measures caused ASP to drop 2.4%.

GPM widened by 1.6ppt to 38.4% driven by premiumization and cost savings from expansion of the beers sales with returnable bottles. GPM was 0.7ppt below our estimates because of expansion of the beer sales with returnable bottles, which caused bottle usage fees to soar 179% to RMB567mn.

Other income jumped 101% to RMB1,493mn due to increase of bottle usage fees and government grant.

SG&A expenses ratio increased by 2.1ppt to 29.5%. Overall, EBIT margin expanded 2.0ppt to 13.7%.

Number of breweries decreased from 74 in 2019 to 70 in 2020, implying two breweries closed in 2H20. Impairment loss on fixed assets fell 18% to RMB574mn. Impairment loss on inventories rose 12% to RMB395mn.

Net cash surged 143% to RMB4.6bn. Payout ratio maintained at 40%. Total dividend in FY20 increased 57% to HK\$0.259/share.

Figure 7: FY20 results review

Y/E Dec (RMB mn)	FY20	FY19	% change	Remarks
Revenue	31,448	33,190	-5%	Vol down 2.9%. Exit of non-profitable businesses contributed 1ppt decline. ASP down 2.4% due to increased beers with returnable concept
Cost of sales	(19,373)	(20,964)	-8%	
Gross profit	12,075	12,226	-1%	
Other income	1,493	741	101%	Bottle usage fee +179% to 567mn. Gov't grant +192% to 473mn
Selling expenses	(6,123)	(5,925)	3%	
Administrative expenses	(3,151)	(3,168)	-1%	
EBIT	4,294	3,874	11%	
Finance income	141	109	29%	
Finance costs	(211)	(70)	201%	
profit on disposal of fixed assets	53	167	-68%	
Impairment loss on fixed assets and stocks	(969)	(1,052)	-8%	closed two breweries each in 1H20 and 2H20
compensation and staff settlement exp	(299)	(826)	-64%	
Profit before tax	3,009	2,202	37%	
Tax expense	(915)	(892)	3%	
Profit after tax	2,094	1,310	60%	
Non-controlling interests	0	2	-100%	
Net profit	2,094	1,312	60%	
Adjusted net profit	2,967	2,838	5%	
Adjusted EPS (RMB)	0.91	0.87	5%	
Margin & Ratio (%)				
Gross margin	38.4	36.8	1.6	sub-premium or above beer vol +11.1%
Adjusted gross margin (incl. bottle usage fee)	39.5	37.2	2.3	
EBIT margin	13.7	11.7	2.0	
SG&A expenses ratio	29.5	27.4	2.1	
Staff expenses ratio	17.8	19.0	(1.2)	number of headcount reduced from 30,000 to 27,000
Net finance income	(0.2)	0.1	(0.3)	
Adjusted net margin	9.4	8.6	0.9	
Effective tax rate	40.5	30.4	10.1	
	FY20	FY19	change	
Inventory days	113	99	14	
A/C receivables days	3	4	(1)	
A/C payable days	48	44	4	
Net cash (RMB mn)	4,614	1,897	143%	

Source: Company data, CMBIS

Earnings Revision

Figure 8: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	36,197	39,209	42,014	36,873	39,499	na	-2%	-1%	na
Gross Profit	14,584	16,373	18,135	15,268	17,030	na	-4%	-4%	na
EBIT	5,565	6,646	7,813	5,576	6,620	na	0%	0%	na
Adj. Net profit	4,113	5,025	5,964	4,110	4,982	na	0%	1%	na
Gross Margin	40.3%	41.8%	43.2%	41.4%	43.1%	na	-1.1ppt	-1.3ppt	na
EBIT Margin	15.4%	17.0%	18.6%	15.1%	16.8%	na	+0.3ppt	+0.2ppt	na
Adj. Net Margin	11.4%	12.8%	14.2%	11.1%	12.6%	na	+0.3ppt	+0.2ppt	na

Source: CMBIS estimates

Figure 9: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	36,197	39,209	42,014	35,776	38,493	38,877	1%	2%	8%
Gross Profit	14,584	16,373	18,135	14,486	16,239	16,778	1%	1%	8%
EBIT	5,565	6,646	7,813	5,040	6,273	6,260	10%	6%	25%
Adj. Net profit	4,113	5,025	5,964	3,530	4,634	5,182	17%	8%	15%
Gross Margin	40.3%	41.8%	43.2%	40.5%	42.2%	43.2%	-0.2ppt	-0.4ppt	flat
EBIT Margin	15.4%	17.0%	18.6%	14.1%	16.3%	16.1%	+1.3ppt	+0.7ppt	+2.5ppt
Adj. Net Margin	11.4%	12.8%	14.2%	9.9%	12.0%	13.3%	+1.5ppt	+0.8ppt	+0.9ppt

Source: CMBIS estimates, Bloomberg estimates

Valuation

Figure 10: Peers valuation table

	Stock code	Rating	Price	Mkt cap (HK\$/US\$/RMBmn)	Y/E	P/E (x)			EPS growth (%)			P/B (x)	ROAE (%)	FY0-3	
						FY1	FY2	FY3	FY1	FY2	FY3			EPS cagr	FY2 PEG
Budweiser Brewing	1876 HK	NR	23.65	313,206	Dec-19	66.2	40.1	33.5	(39)	65	20	4.0	6.3	6.7	6.0
CR Beer	291 HK	Buy	59.40	192,704	Dec-19	57.8	41.4	33.9	5	39	22	8.1	13.8	21.0	2.0
Tsingdao Beer	168 HK	Buy	69.00	111,865	Dec-19	32.1	27.4	24.1	12	17	14	4.0	11.1	14.2	1.9
H share beer sector						52.0	36.3	30.5	(7)	40	18	5	10	14.0	3.3
Tsingtao Brewery	600600 CH	Hold	78.81	93,776	Dec-19	48.2	41.1	36.2	12	17	14	5.2	11.1	14.2	2.9
Chongqing Brewery	600132 CH	NR	102.82	49,762	Dec-19	73.4	66.9	57.8	3	10	16	36.4	51.9	9.3	7.2
Yanjing Brewery	000729 CH	NR	7.24	20,406	Dec-19	103.4	72.4	55.7	(13)	43	30	1.5	1.5	17.6	4.1
Zhujiang Beer	002461 CH	NR	9.62	21,292	Dec-19	37.0	32.1	27.9	18	15	15	2.4	6.4	16.2	2.0
A share beer sector						65.5	53.1	44.4	5	21	19	11.4	17.7	14.3	4.0
Asahi	2502 JP	NR	4729.00	22,045	Dec-19	21.2	15.3	14.0	(30)	38	9	1.6	6.8	2.1	7.2
Kirin	2503 JP	NR	2179.50	18,316	Dec-19	19.1	16.8	14.4	(16)	13	17	2.1	9.1	3.6	4.7
Carlsberg	CARLB DC	NR	990.60	24,525	Dec-19	22.8	21.8	19.2	6	5	14	3.5	13.3	7.9	2.8
Heineken NV	HEIA NA	NR	89.74	61,620	Dec-19	44.9	28.4	22.6	(54)	58	26	3.3	6.2	(3.2)	(8.8)
Budweiser	BUD US	NR	63.83	128,888	Dec-19	36.5	21.4	18.1	(58)	71	18	1.7	4.0	(5.7)	(3.7)
Int'l beer sector						28.9	20.7	17.7	(31)	37	17	2.4	7.9	0.9	0.4
Int'l beer sector - excluding outliers														5.8	3.7

Source: Bloomberg estimates, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	33,190	31,448	36,197	39,209	42,014
Cost of sales	(20,964)	(19,373)	(21,613)	(22,837)	(23,879)
Gross profit	12,226	12,075	14,584	16,373	18,135
Other income	741	1,493	1,480	1,530	1,600
Selling expenses	(5,925)	(6,123)	(7,221)	(7,881)	(8,445)
Administration expenses	(3,168)	(3,151)	(3,277)	(3,375)	(3,477)
EBIT	3,874	4,294	5,565	6,646	7,813
Finance income, net	39	(70)	161	229	322
Profit on disposals of FA	167	53	100	100	100
Impairment losses	(1,052)	(969)	(600)	(550)	(550)
Staff compensation	(826)	(299)	(75)	(50)	(50)
Pre-tax profit	2,202	3,009	5,151	6,376	7,635
Income tax	(892)	(915)	(1,313)	(1,600)	(1,922)
Less: Minority interests	2	0	0	0	0
Net profit	1,312	2,094	3,738	4,675	5,614
Adjusted net profit	2,838	2,967	4,113	5,025	5,964

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Profit before tax	2,202	3,489	5,051	6,276	7,535
D&A	1,724	1,825	1,605	1,585	1,607
Net finance cost	(44)	(109)	(161)	(229)	(322)
Change in working capital	75	633	853	523	547
Others	141	(769)	(1,187)	(1,591)	(1,880)
Operating cash flow	4,098	5,068	6,161	6,563	7,487
Capex	(1,490)	(2,000)	(2,000)	(2,000)	(2,000)
Acquisitions	(2,216)	0	0	0	0
Others	938	310	381	479	620
Investing cash flow	(2,768)	(1,690)	(1,619)	(1,521)	(1,380)
Change of borrowing	(241)	(511)	0	0	0
Dividend paid	(494)	(561)	(1,477)	(1,761)	(552)
Others	(143)	(103)	(80)	(76)	(72)
Financing cash flow	(878)	(1,175)	(1,557)	(1,837)	(624)
Net change in cash	452	2,203	2,985	3,205	5,483
Cash at the beginning	1,858	2,340	4,543	7,528	10,733
Forex effect	30	0	0	0	0
Cash at the end	2,340	4,543	7,528	10,733	16,216

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	31,816	30,398	30,793	31,248	31,602
PPE	19,413	17,781	18,240	18,720	19,177
Goodwill and intangible assets	9,749	9,646	9,582	9,557	9,454
Others	2,654	2,971	2,971	2,971	2,971
Current assets	9,775	13,377	17,081	20,875	26,878
Inventories	6,018	6,014	6,374	6,735	7,042
Trade receivables	329	196	226	244	262
Other receivables	671	2,182	2,511	2,721	2,915
Others	417	447	447	447	447
Cash balance	2,340	4,538	7,523	10,728	16,212
Current liabilities	19,856	19,572	21,436	22,791	24,103
Trade payables	2,713	2,337	2,607	2,755	2,881
Other payables	16,348	16,990	18,592	19,807	20,997
Bank borrowings	511	0	0	0	0
Others	284	245	237	229	226
Non-current liabilities	2,008	2,929	2,904	2,883	2,866
Borrowings	0	0	0	0	0
Others	1,330	2,141	2,116	2,095	2,078
Deferred tax liabilities	678	788	788	788	788
Total net assets	19,727	21,274	23,534	26,449	31,510
Shareholders' equity	19,670	21,217	23,477	26,392	31,454
Non-controlling interests	57	57	57	57	57

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
P&L ratios (%)					
Gross margin	36.8	38.4	40.3	41.8	43.2
EBIT margin	11.7	13.7	15.4	17.0	18.6
Net margin	4.0	6.7	10.3	11.9	13.4
Adjusted net margin	8.6	9.4	11.4	12.8	14.2
Payout ratio	40.8	40.1	40.0	40.0	40.0
Balance sheet ratios					
Current ratio (x)	0.5	0.6	0.8	0.9	1.1
Quick ratio (x)	0.2	0.3	0.5	0.6	0.8
A/C receivables days	4	4	2	2	2
A/C payables days	44	48	42	43	43
Inventory days	99	107	105	105	105
Asset turnover (x)	0.8	0.8	0.8	0.8	0.7
Net cash (RMB mn)	1,897	4,606	7,599	10,804	16,288
Returns (%)					
Adjusted ROE	14.7	13.7	18.3	20.2	20.6
Adjusted ROA	7.0	6.6	9.0	10.1	10.8
Per share					
Adj. EPS (RMB)	0.87	0.91	1.27	1.55	1.84
DPS (RMB)	0.17	0.26	0.46	0.58	0.69
BVPS (RMB)	6.06	6.54	7.24	8.14	9.70

Source: Company data, CMBIS estimates

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