

# Budweiser APAC (1876 HK)

## 2Q results largely in line; solid premiumization efforts mitigated volume headwind

Budweiser reported 2Q normalised EBITDA at US\$569mn, down 5.6% YoY, along with a small decline in revenue to US\$1.8bn, despite the challenging operation environment for its China business. City-wise lockdown has weighed on the region's sales volume with a 6.5% decline in 2Q, which translated to a 13.7% organic decrease in EBITDA, considering rising raw material costs and operation deleverage. Despite that, Bud APAC remained capable of delivering double-digit growth for its super-premium/ premium SKUs for non-Covid area in June. We still look for 2H China volume to revive to positive LSD growth with a steady 2%+ ASP uptick, and these would bring the region's FY revenue flattish YoY with a slightly lower normalised EBITDA margin at 35-36%. Meanwhile, we continue to expect the company's APAC business to recover, especially that in Korea, where all lockdown restrictions in on-premise channels now lifted. Given the results is largely in line with our estimates, we only trim our 2022E revenue and EBITDA by -3.3% and -1%, respectively, and we remain BUY-rated. Our new TP of HK\$28.4 is based on an updated 20.0x (from previously 22.0x) roll-forward end-23E EV/ EBITDA which still represents 3-year average.

- **China:** volumes and revenue declined by 5.5% and 3.2% in 1H22 (2Q: -6.5% and -4.9%), dragged by channel disruptions and an unfavourable geographic mix amid heightened lockdown measures across various cities. However, conditions have been improving MoM according to management. Channel disruptions peaked in Apr and gradually eased since May with the reopening of Covid cities. ASP still grew 2.4% YoY in 1H22, and volumes recovered to HSD growth in Jun, with premium and super premium portfolios bouncing back to DD growth. Management expected the trend to continue in 2H, supported by consumer demand which remained strong and steady premiumization momentum.
- **South Korea:** continued to improve. The company outperformed the industry in both on-premise and in-home channels and achieved a solid total market share gain in 1H22. Revenue grew by DD and EBITDA by strong DD, thanks to solid growth in volume and ASP. In 2Q22, revenue/ volumes/ EBITDA grew by DD/ HSD/ strong DD, with solid margin expansion. ASP picked up by HSD, supported by 7.7% price increase in Core brands such as Cass and HANMAC.
- **India:** the industry volumes recovered to above pre-pandemic levels in 1H22. The company achieved strong revenue and EBITDA growth, with premium and super premium volumes doubled (on a low base) YoY. Management expected the strong momentum in India to continue, driven by demographic advantage and growing middle class in the country, which would underpin increasing demand and continued premiumization.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	5,588	6,788	7,128	7,903	8,544
YoY growth (%)	(14.6%)	21.5%	5.0%	10.9%	8.1%
Net profit (US\$ mn)	514	950	1,155	1,333	1,479
EPS (Reported) (US\$)	0.04	0.07	0.09	0.10	0.11
YoY growth (%)	(48.1%)	84.8%	21.5%	15.5%	10.9%
Consensus EPS (US\$)	n.a.	n.a.	0.08	0.10	0.11
P/E (x)	n.a.	n.a.	34.0	29.4	26.5
P/B (x)	n.a.	n.a.	3.3	3.1	2.9

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$28.40

(Previous TP) HK\$28.00

**Up/Downside** 21.9%

**Current Price** HK\$23.30

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### Stock Data

Mkt Cap (HK\$ mn)	308,038.0
Avg 3 mths t/o (HK\$ mn)	21.3
52w High/Low (HK\$)	25.10/18.34
Total Issued Shares (mn)	13220.5

Source: FactSet

### Shareholding Structure

AB Inbev Brewing Co APAC Ltd	87.2%
JPMorgan Chase & Co	1.0%

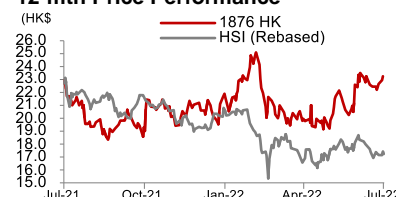
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	4.0%	11.9%
3-mth	16.5%	12.4%
6-mth	7.9%	28.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

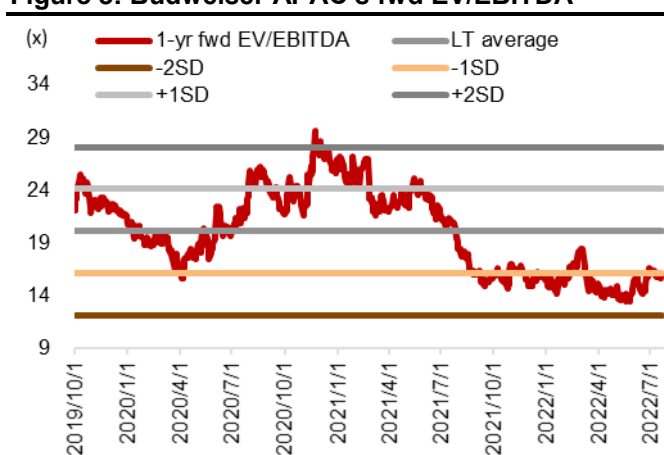
US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,128	7,903	8,544	7,372	8,156	8,720	-3.3%	-3.1%	-2.0%
Normalized EBITDA	2,340	2,599	2,853	2,358	2,679	2,887	-0.8%	-3.0%	-1.2%
Net profit (reported)	1,154	1,333	1,479	1,117	1,336	1,452	3.3%	-0.2%	1.9%
EPS (US\$)	0.09	0.10	0.11	0.08	0.10	0.11	3.3%	-0.2%	1.9%
Normalized EBITDA Margin	32.8%	32.9%	33.4%	32.0%	32.8%	33.1%	0.8ppt	0ppt	0.3ppt
Net Margin (reported)	16.2%	16.9%	17.3%	15.2%	16.4%	16.6%	1ppt	0.5ppt	0.7ppt

Source: Company data, CMBIGM estimates

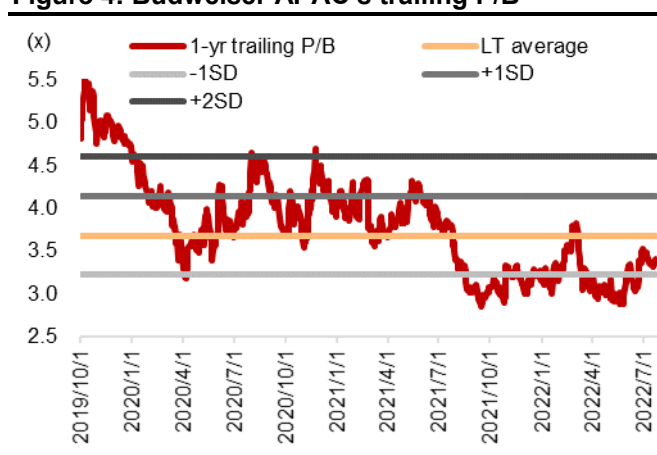
**Figure 2: CMBIGM estimates vs consensus**

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,128	7,903	8,544	7,136	7,786	8,409	-0.1%	1.5%	1.6%
Normalized EBITDA	2,340	2,599	2,853	NA	NA	NA	NA	NA	NA
Net profit (reported)	1,154	1,333	1,479	1,062	1,279	1,467	8.8%	4.2%	0.8%
EPS (US\$)	0.09	0.10	0.11	0.08	0.10	0.11	9.2%	3.9%	-0.1%
Normalized EBITDA Margin	32.8%	32.9%	33.4%	NA	NA	NA	NA	NA	NA
Net Margin (reported)	16.2%	16.9%	17.3%	14.9%	16.4%	17.4%	1.3ppt	0.4ppt	-0.1ppt

Source: Company data, CMBIGM estimates

**Figure 3: Budweiser APAC's fwd EV/EBITDA**

Source: Company data, CMBIGM estimates

**Figure 4: Budweiser APAC's trailing P/B**

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	6,546	5,588	6,788	7,128	7,903	8,544
Gross profit	3,488	2,907	3,657	3,706	4,165	4,571
Operating expenses	(2,022)	(1,970)	(2,230)	(1,988)	(2,181)	(2,370)
Selling expense	(1,358)	(1,278)	(1,407)	(1,140)	(1,264)	(1,367)
Admin expense	(382)	(399)	(449)	(463)	(474)	(513)
Others	(282)	(293)	(374)	(385)	(443)	(491)
Operating profit	1,466	937	1,427	1,718	1,983	2,200
EBITDA	2,121	1,584	2,139	2,340	2,599	2,853
Other Income/ Expense	(99)	(29)	(14)	(1)	(1)	(1)
Pre-tax profit	1,367	908	1,413	1,717	1,982	2,199
Income tax	(459)	(371)	(432)	(525)	(606)	(672)
Net profit	898	514	950	1,154	1,333	1,479
Minority interest	10	23	31	38	43	48
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	2,108	2,332	3,161	3,974	5,129	6,343
Cash & equivalents	952	1,281	2,007	2,744	3,836	4,978
Account receivables	449	367	412	445	492	531
Inventories	438	434	473	516	533	566
Other current assets	269	250	269	269	269	269
Non-current assets	13,200	13,857	13,464	13,402	13,346	13,254
PP&E	3,638	3,716	3,632	3,560	3,495	3,395
Intangibles	8,629	9,125	8,806	8,816	8,826	8,833
Other non-current assets	933	1,016	1,026	1,026	1,026	1,026
Total assets	15,308	16,189	16,625	17,376	18,475	19,597
Current liabilities	4,493	4,637	4,691	4,650	4,858	5,012
Short-term borrowings	160	147	123	123	123	123
Account payables	2,152	2,112	2,156	2,324	2,532	2,686
Other current liabilities	2,181	2,378	2,412	2,203	2,203	2,203
Non-current liabilities	931	809	851	851	851	851
Long-term borrowings	28	37	53	53	53	53
Other non-current liabilities	903	772	798	798	798	798
Total liabilities	5,424	5,446	5,542	5,501	5,709	5,863
Total shareholders equity	9,836	10,685	11,013	11,767	12,615	13,534
Minority interest	48	58	70	108	151	199
Total equity and liabilities	15,308	16,189	16,625	17,376	18,475	19,597
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	1,367	908	1,413	1,717	1,982	2,199
Depreciation & amortization	618	608	712	622	616	652
Tax paid	(459)	(371)	(432)	(525)	(606)	(672)
Change in working capital	(46)	183	44	92	144	82
Others	(101)	(27)	166	(209)	0	0
Net cash from operations	1,379	1,301	1,903	1,697	2,137	2,261
Investing						
Capital expenditure	(647)	(516)	(606)	(560)	(560)	(560)
Acquisition of subsidiaries/ investments	(176)	(111)	(123)	0	0	0

Net proceeds from disposal of short-term investments	80	55	(2)	0	0	0
<b>Net cash from investing</b>	<b>(743)</b>	<b>(572)</b>	<b>(731)</b>	<b>(560)</b>	<b>(560)</b>	<b>(560)</b>
<b>Financing</b>						
Dividend paid	(976)	(315)	(374)	(400)	(485)	(560)
Net borrowings	(382)	(4)	(8)	0	0	0
Proceeds from share issues	(1,247)	659	(263)	0	0	0
Others	1,256	(772)	181	0	0	0
<b>Net cash from financing</b>	<b>(1,349)</b>	<b>(432)</b>	<b>(464)</b>	<b>(400)</b>	<b>(485)</b>	<b>(560)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,622	877	1,264	2,007	2,744	3,836
Exchange difference	(32)	90	35	0	0	0
Others	75	17	0	0	0	0
<b>Cash at the end of the year</b>	<b>952</b>	<b>1,281</b>	<b>2,007</b>	<b>2,744</b>	<b>3,836</b>	<b>4,978</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	(2.9%)	(14.6%)	21.5%	5.0%	10.9%	8.1%
Gross profit	(0.3%)	(16.7%)	25.8%	1.4%	12.4%	9.7%
Operating profit	12.9%	(36.1%)	52.3%	20.4%	15.4%	10.9%
EBITDA	6.6%	(25.3%)	35.0%	9.4%	11.1%	9.7%
Net profit	(6.3%)	(42.8%)	84.8%	21.5%	15.5%	10.9%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	53.3%	52.0%	53.9%	52.0%	52.7%	53.5%
Operating margin	22.4%	16.8%	21.0%	24.1%	25.1%	25.8%
EBITDA margin	32.4%	28.3%	31.5%	32.8%	32.9%	33.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	0.5	0.5	0.7	0.9	1.1	1.3
Receivable turnover days	25.0	24.0	22.2	22.2	22.2	22.2
Inventory turnover days	52.3	59.1	55.1	55.0	52.0	52.0
Payable turnover days	230.4	268.2	242.7	240.0	240.0	240.0
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	n.a.	n.a.	n.a.	34.0	29.4	26.5
P/B	n.a.	n.a.	n.a.	3.3	3.1	2.9
Div yield (%)	n.a.	n.a.	n.a.	1.2%	1.4%	1.6%

Note: The calculation of net cash includes financial assets. Source: Company data, CMBIGM estimates

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