

Budweiser APAC (1876 HK)

4Q23 a slight miss; S. Korea undershoot

Stripping off mainly the US\$66mn tax provision, Bud APAC 4Q results came in c.3%/6% below us/consensus. Operations in South Korea (esp. home channel) looked increasingly challenging upon the return of Japanese brands, with volume consecutively edging down by MSD% since 3Q23 (1H23: +LSD%). In our view, the headwind could mean hiccups to further price optimisation initiatives, and any upcoming EBITDA margin expansion would predominantly rely on cost reduction (beyond mix change). We envisage that the region could remain a drag on the Group's top line growth, when premiumization efforts in China consistently translate into upticks in both pricing and volume. A major surprise from the results was a 40% increase in final dividend payment that pushes dividend yield to 3.5%, a timely address to the appeal from capital market.

- Key 4Q numbers by region.** Although total volumes declined by 2.1% YoY, revenue/ASP grew by 8.9%/11.2% YoY, respectively, supported by continued premiumization in China and revenue management initiatives in East Asia. Normalized EBITDA increased by 31.3% YoY with margin expanded by 3.5ppt. **China** – volume was down 3.1% YoY but a 14.7% ASP uptick brought revenue/EBITDA for the region up by 11.1%/44.4% YoY, respectively. **South Korea** - sales volumes declined by MSD% YoY; revenue increased by LSD%, with ASP growing in line with a 6.9% price hike on core segment from Oct 2023.
- Tariff claim issue.** The wholly-owned subsidiary of Bud APAC in Korea, Oriental Brewery (OB), was fined by the Korea Customs in an allegation that the company (since 2018) had imported malts on top of the import quota. Of note, OB had provided US\$66mn for the claim by Dec 2023, and OB has filed its appeals to the court. Despite the verdict, the tax claim is one-off. That said, we worry that, going forward, OB will have to source an equivalent amount of malts locally at a price higher than what the company could source elsewhere. This brings up our concern on eroded procurement efficiency with lower gross margins to the entity.
- Earnings change.** We key-in the actual 2023 numbers with housekeeping changes. Other than that, we leave our 2024-25E top line largely unchanged but trim our gross margin estimates of the periods by 1.0pp per annum to factor in our concern above. We also introduce our 2026E estimates, and now our 2024-26E net profits are 9-12% below consensus.
- Valuation.** We revise TP to HK\$14.5 (from HK\$16.9) based on an updated 12.5x (from previously 14.5x) roll-forward end-24E EV/EBITDA, which still represents -1SD below the 3-year average. Our methodology attempts to reflect the headwinds we see in Bud APAC's South Korea business, and any potential risks in executing price optimisation initiatives in the China market as consumption trade-down likely persists.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	6,478	6,856	7,273	7,709	8,159
YoY growth (%)	(4.6)	5.8	6.1	6.0	5.8
Adjusted net profit (US\$ mn)	859.0	932.0	1,045.6	1,150.1	1,262.2
EPS (Adjusted) (US\$ cents)	6.91	6.45	7.31	8.10	8.95
Consensus EPS (US\$ cents)	na	7.70	9.10	10.40	11.23
P/E (x)	39.7	38.7	23.7	21.4	19.4
P/B (x)	3.4	3.1	2.1	2.0	2.0
Yield (%)	1.4	2.1	3.5	3.8	4.2
Net gearing (%)	(20.8)	(26.0)	(29.4)	(33.8)	(38.4)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$14.5
(Previous TP)	HK\$16.9)
Up/Downside	14.2%
Current Price	HK\$12.7

China Consumer Staples

Joseph WONG

(852) 3900 0838

josephwong@cmbi.com.hk

Bella LI

(852) 3757 6202

bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	179,526.5
Avg 3 mths t/o (HK\$ mn)	177.1
52w High/Low (HK\$)	25.15/11.34
Total Issued Shares (mn)	13219.9

Source: FactSet

Shareholding Structure

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

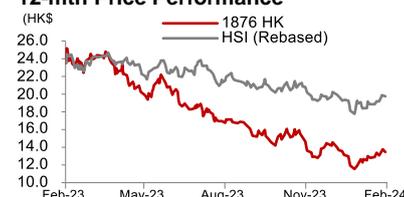
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	14.5%	10.5%
3-mth	-4.0%	0.8%
6-mth	-19.0%	-11.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	EY26E
Revenue	7,273	7,709	8,159	7,277	7,829	n.a	-0.1%	-1.5%	NA
Gross profit	3,746	4,047	4,365	3,821	4,189	n.a	-2.0%	-3.4%	NA
EBITDA	2,249	2,399	2,608	2,324	2,504	n.a	-3.2%	-4.2%	NA
Net profit	1,046	1,150	1,262	1,093	1,220	n.a	-4.3%	-5.8%	NA
Gross margin	51.5%	52.5%	53.5%	52.5%	53.5%	n.a	-1ppt	-1ppt	NA
EBITDA margin	30.9%	31.1%	32.0%	31.9%	32.0%	n.a	-1ppt	-0.9ppt	NA
Net margin	14.4%	14.9%	15.5%	15.0%	15.6%	n.a	-0.6ppt	-0.7ppt	NA

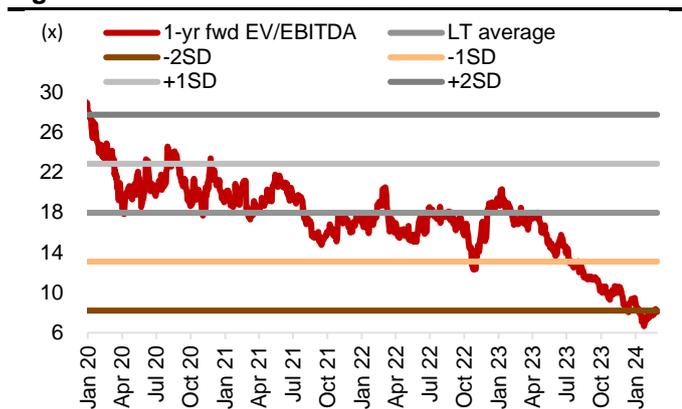
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	7,273	7,709	8,159	7,415	7,947	8,289	-1.9%	-3.0%	-1.6%
Gross profit	3,746	4,047	4,365	3,900	4,264	4,448	-4.0%	-5.1%	-1.9%
EBITDA	2,249	2,399	2,608	2,308	2,533	2,722	-2.6%	-5.3%	-4.2%
Net profit	1,046	1,150	1,262	1,151	1,313	1,404	-9.2%	-12.4%	-10.1%
Gross margin	51.5%	52.5%	53.5%	52.1%	53.0%	54.2%	-0.6ppt	-0.5ppt	-0.7ppt
EBITDA margin	30.9%	31.1%	32.0%	31.1%	31.9%	32.8%	-0.2ppt	-0.8ppt	-0.9ppt
Net margin	14.4%	14.9%	15.5%	15.5%	16.5%	16.9%	-1.1ppt	-1.6ppt	-1.5ppt

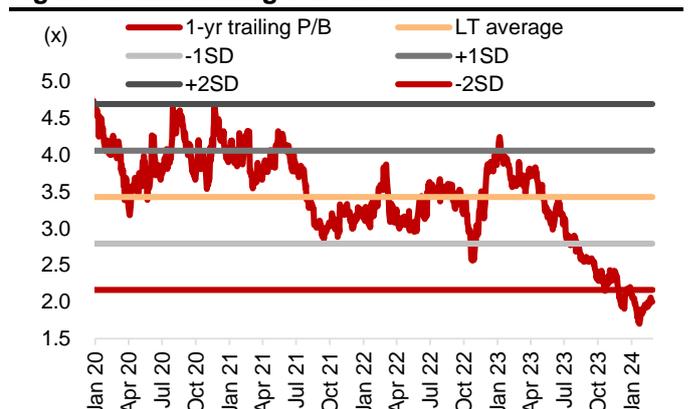
Source: Bloomberg, CMBIGM estimates

Figure 3: 12M forward EV/EBITDA chart



Source: Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B chart



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	6,788	6,478	6,856	7,273	7,709	8,159
Cost of goods sold	(3,131)	(3,238)	(3,403)	(3,527)	(3,662)	(3,794)
Gross profit	3,657	3,240	3,453	3,746	4,047	4,365
Operating expenses	(2,230)	(1,979)	(2,084)	(2,200)	(2,338)	(2,482)
Selling expense	(1,407)	(1,151)	(1,201)	(1,266)	(1,341)	(1,420)
Admin expense	(449)	(442)	(470)	(499)	(528)	(559)
Others	(374)	(386)	(413)	(436)	(469)	(503)
Operating profit	1,427	1,261	1,369	1,546	1,709	1,883
EBITDA	2,099	1,931	1,957	2,169	2,319	2,528
Depreciation	(619)	(583)	(581)	(614)	(647)	(680)
Other amortisation	(93)	(88)	(88)	(89)	(90)	(91)
EBIT	1,387	1,260	1,289	1,466	1,629	1,803
Interest income	39	39	60	60	60	60
Interest expense	(45)	(39)	(50)	(50)	(50)	(50)
Others	32	23	28	28	28	28
Pre-tax profit	1,413	1,283	1,327	1,504	1,667	1,841
Income tax	(432)	(334)	(447)	(507)	(561)	(620)
Minority interest	(31)	(36)	(28)	(32)	(35)	(39)
Adjusted net profit	980	859	932	1,046	1,150	1,262
Gross dividends	374	400	500	699	792	878
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	3,161	3,606	4,259	4,756	5,377	6,061
Cash & equivalents	2,007	2,458	3,141	3,588	4,164	4,802
Account receivables	512	514	537	571	598	626
Inventories	473	488	444	460	478	495
Other current assets	169	146	137	137	137	137
Non-current assets	13,464	12,390	11,975	11,850	11,621	11,358
PP&E	3,632	3,181	2,986	2,786	2,539	2,259
Deferred income tax	257	233	231	231	231	231
Intangibles	1,702	1,605	1,572	1,646	1,665	1,683
Goodwill	7,104	6,624	6,435	6,435	6,435	6,435
Other non-current assets	769	747	751	751	751	751
Total assets	16,625	15,996	16,234	16,606	16,998	17,419
Current liabilities	4,691	4,415	4,649	4,722	4,801	4,878
Short-term borrowings	123	147	237	237	237	237
Account payables	2,471	2,343	2,407	2,480	2,559	2,636
Tax payable	367	360	335	335	335	335
Other current liabilities	1,730	1,565	1,670	1,670	1,670	1,670
Non-current liabilities	851	748	735	735	735	735
Long-term borrowings	53	77	97	97	97	97
Other non-current liabilities	798	671	638	638	638	638
Total liabilities	5,542	5,163	5,384	5,457	5,536	5,613
Share capital	0	0	0	0	0	0
Capital surplus	7,218	6,442	6,114	6,114	6,114	6,114
Retained earnings	3,795	4,322	4,671	4,938	5,216	5,521
Total shareholders equity	11,013	10,764	10,785	11,052	11,330	11,635
Minority interest	70	69	65	97	132	171
Total equity and liabilities	16,625	15,996	16,234	16,606	16,998	17,419

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	950	913	852	966	1,070	1,182
Depreciation & amortization	668	624	621	656	690	725
Change in working capital	44	(151)	5	23	34	32
Others	241	191	139	32	35	39
Net cash from operations	1,903	1,577	1,617	1,676	1,830	1,978
Investing						
Capital expenditure	(606)	(494)	(462)	(462)	(462)	(462)
Acquisition of subsidiaries/ investments	(123)	(123)	0	0	0	0
Net proceeds from disposal of short-term investments	35	68	0	0	0	0
Others	(37)	109	(4)	0	0	0
Net cash from investing	(731)	(440)	(466)	(462)	(462)	(462)
Financing						
Dividend paid	(374)	(400)	(500)	(699)	(792)	(878)
Net borrowings	(8)	48	110	0	0	0
Proceeds from share issues	(263)	(776)	(328)	0	0	0
Others	181	628	(33)	0	0	0
Net cash from financing	(464)	(500)	(751)	(699)	(792)	(878)
Net change in cash						
Cash at the beginning of the year	1,264	2,007	2,458	3,072	3,588	4,164
Exchange difference	35	(186)	0	0	0	0
Cash at the end of the year	2,007	2,458	2,859	3,588	4,164	4,802
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	21.5%	(4.6%)	5.8%	6.1%	6.0%	5.8%
Gross profit	25.8%	(11.4%)	6.6%	8.5%	8.0%	7.9%
Operating profit	52.3%	(11.6%)	8.6%	12.9%	10.5%	10.2%
EBITDA	34.9%	(8.0%)	1.4%	10.8%	6.9%	9.0%
EBIT	52.6%	(9.2%)	2.3%	13.7%	11.1%	10.7%
Adj. net profit	75.9%	(12.3%)	8.5%	12.2%	10.0%	9.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	53.9%	50.0%	50.4%	51.5%	52.5%	53.5%
Operating margin	21.0%	19.5%	20.0%	21.3%	22.2%	23.1%
EBITDA margin	30.9%	29.8%	28.6%	29.8%	30.1%	31.0%
Adj. net profit margin	14.4%	13.3%	13.6%	14.4%	14.9%	15.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	0.7	0.8	0.9	1.0	1.1	1.2
Receivable turnover days	22.2	23.3	22.7	22.7	22.7	22.7
Inventory turnover days	55.1	55.0	47.6	47.6	47.6	47.6
Payable turnover days	242.7	219.1	214.2	214.2	214.2	214.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	41.0	39.7	38.7	23.7	21.4	19.4
P/E (diluted)	41.0	39.8	38.9	23.8	21.5	19.5
P/B	3.5	3.4	3.1	2.1	2.0	2.0
Div yield (%)	1.0	1.4	2.1	3.5	3.8	4.2

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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