

CR Beer (291 HK)

We cut 2.5% of our 2022E shipment forecast to factor-in the current pandemic impact

Our channel check suggested that CRB's 1Q22 revenue was up by a high-single-digit growth thanks to a mid-single-digit ASP uptick and a low-single-digit volume growth. Subpremium+ sales was up by 20%+, in line with our expectation. Despite this, fragile market confidence continued to weigh on the company's share price, as the market attempted to factor-in a weakening 2Q22 outlook due to the concurrent wave of the pandemic outbreak. Of note, the quarter anecdotally contributed to c35% of the full-year volume. Assuming one-third of the quarter's shipment to be stake, we cut 2.5% of our 2022E shipment to 10.7mnkl (-2.7% YoY). Compounding with other earnings revisions below, we cut our 2022/23E net profits by 11.6%/18.2%, respectively. The very fluid pandemic situation should continue to be a near term drag, however, we are convinced CRB's premiumization progress still have legs when management reassured us its 4mnkl sub-premium+ shipment target by 2025E.

Other major revisions:

- We cut our 2022E revenue by 2% and that corresponds to a 2.5% reduction of the year's shipment, while we largely maintain a 6.5% ASP uptick as we believe price hikes from last Sep and earlier this year should have a full-scale impact to CRB's pricing momentum throughout 2022.
- Of a 10.7mnkl shipment, we expect subpremium+ to contribute 21% of the total at a 21% YoY growth. This implies mainstream SKUs to record a 7% YoY decline on back of the company's ongoing effort to proactively retreat from the mass market segment.
- We cut our 2022E GPM forecast by 2.2pp to 39.5% after factoring-in an inflated raw material costs of RMB1.6bn as management indicated. Our flattish GPM trajectory reflects our view that CRB should effectively mitigate any cost pressure through price hikes.
- Our recurring EBIT margins is set at 16% with recurring EBIT being RMB5.5bn, thanks to cost initiatives such as capacity optimization and stringent cost controls. Our recurring EBIT estimate is c.8% below consensus.

Valuation

In view of our earnings change, we lower our TP to HK\$71.0. Our TP is based on 28.0x 2022E EV/ EBITDA which represents +1sd above mean since 2018.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	31,448	33,387	34,494	35,849	38,426
YoY growth (%)	(5.2)	6.2	3.3	3.9	7.2
Net income (RMB mn)	2,094	4,587	3,832	4,281	5,042
EPS – recurring (RMB)	0.8	1.0	1.2	1.3	1.6
YoY growth (%)	32.6	21.0	18.7	11.7	17.8
Consensus EPS (RMB)	NA	NA	1.3	1.6	1.9
P/E (x)	NA	NA	31.0	27.8	23.6
P/B (x)	NA	NA	4.5	4.1	3.7
Yield (%)	NA	NA	1.3	1.4	1.7
ROE (%)	13.0	14.1	15.0	15.4	16.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$71.0
(Previous TP	HK\$80.0)
Up/Downside	+58.2%
Current Price	HK\$43.95

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn)	144,366
Avg 3 mths t/o (HK\$ mn)	626.65
52w High/Low (HK\$)	73.38/ 42.0
Total Issued Shares (mn)	3,244

Source: Wind

Shareholding Structure

CRH Beer	51.7%
COMMOTRA Co.	0.2%

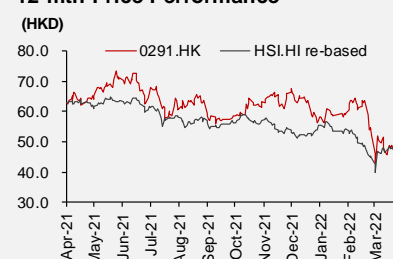
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-4.7%	-14.15%
3-mth	-23.2%	-10.8%
6-mth	-26.3%	-9.1%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte

Related Reports

1. [CR Beer \(291 HK\) – 2H21 results in-line: premiumization progress on track](#) – 25 Mar 2022
2. [CR Beer – Profit alert in line with us: still our sector top buy](#) – 26 Jan 2022
3. [China Consumer Staples – Cherry-picking amid a de-risking mentality: our top picks: CRB/ Mengniu/ Feihe](#) – 21 Jan 2022

Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	34,494	35,849	38,426	35,216	37,401	NA	-2.1%	-4.1%	NA
Gross Profit	13,507	14,568	16,204	14,559	16,045	NA	-7.2%	-9.2%	NA
Operating Profit	5,027	5,575	6,566	6,077	7,299	NA	-17.3%	-23.6%	NA
Net profit	3,832	4,281	5,042	4,337	5,235	NA	-11.6%	-18.2%	NA
EPS (US\$ cents)	1.18	1.32	1.55	1.30	1.60	NA	-9.1%	-17.5%	NA
Gross Margin	39.16%	40.64%	42.17%	41.34%	42.90%	NA	-2.2ppt	-2.3ppt	NA
Operating Margin	14.58%	15.55%	17.09%	17.26%	19.52%	NA	-2.7ppt	-4ppt	NA
Net Margin	11.11%	11.94%	13.12%	12.32%	14.00%	NA	-1.2ppt	-2.1ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	34,494	35,849	38,426	36,551	39,237	42,172	-5.6%	-8.6%	-8.9%
Gross Profit	13,507	14,568	16,204	14,743	16,560	18,449	-8.4%	-12.0%	-12.2%
Operating Profit	5,027	5,575	6,566	5,413	6,673	7,983	-7.1%	-16.4%	-17.8%
Net profit	3,832	4,281	5,042	4,136	5,219	6,407	-7.3%	-18.0%	-21.3%
EPS (US\$ cents)	1.18	1.32	1.55	1.275	1.591	1.919	-7.4%	-17.1%	-19.0%
Gross Margin	39.16%	40.64%	42.17%	40.34%	42.21%	43.75%	-1.2ppt	-1.6ppt	-1.6ppt
Operating Margin	14.58%	15.55%	17.09%	14.81%	17.01%	18.93%	-0.2ppt	-1.5ppt	-1.8ppt
Net Margin	11.11%	11.94%	13.12%	11.31%	13.30%	15.19%	-0.2ppt	-1.4ppt	-2.1ppt

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	31,448	33,387	34,494	35,849	38,426
Premium & Super	7,330	9,585	11,715	14,277	17,230
Sub-premium	24,118	23,802	22,778	21,572	21,196
Gross profits	12,075	13,074	13,507	14,568	16,204
D&A	(1,553)	(1,641)	(1,624)	(1,670)	(1,713)
Selling expense	(6,123)	(6,743)	(6,381)	(6,811)	(7,301)
Administration expenses	(4,419)	(3,619)	(3,794)	(3,943)	(4,227)
Other operating expenses	1,546	3,300	1,696	1,762	1,889
Others	1,553	1,641	1,624	1,670	1,713
EBIT	3,079	6,012	5,027	5,575	6,566
EBITDA	4,632	7,653	6,652	7,245	8,279
Finance costs, net	80	224	161	221	261
Non-operating	(150)	(21)	-	-	-
Pre-tax profit	3,009	6,215	5,188	5,796	6,827
Income tax	(915)	(1,625)	(1,357)	(1,516)	(1,785)
Less: Minority interests	-	(3)	-	-	-
Net profit	2,094	4,587	3,832	4,281	5,042

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	2,094	4,587	3,832	4,281	5,042
D&A	1,553	1,641	1,624	1,670	1,713
Change in working capital	(1,165)	178	(2,244)	(3,178)	(3,815)
Others	1,200	(3,476)	-	-	-
Net cash fr. operating act.	3,682	2,930	3,212	2,773	2,941
Capex & investments	(1,043)	(1,252)	(1,189)	(1,130)	(1,073)
Acquisition	-	-	-	-	-
Others	-	-	-	-	-
Net cash fr. investing act.	(1,043)	(1,252)	(1,189)	(1,130)	(1,073)
Equity raised	-	-	-	-	-
Change of Debts	(511)	-	-	-	-
Dividend paid	(536)	(840)	(1,836)	(1,533)	(1,712)
Others	606	-	-	-	-
Net cash fr. financing act.	(441)	(840)	(1,836)	(1,533)	(1,712)
Net change in cash	2,198	838	187	111	155
Cash at the beginning of the year	2,340	4,538	5,376	5,563	5,674
Exchange difference	-	-	-	-	-
Cash at the end of the year	4,538	5,376	5,563	5,674	5,829
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	30,398	35,156	34,721	34,181	33,540
PP&E/Fixed assets	17,781	17,096	18,125	17,650	17,074
Goodwill	9,326	9,250	9,250	9,250	9,250
Deferred tax assets	2,858	3,368	3,368	3,368	3,368
Other non-current assets	433	5,442	3,978	3,913	3,848
Current assets	13,377	15,897	16,870	17,226	17,973
Cash	4,538	5,376	5,563	5,674	5,829
Account receivable	2,378	3,436	3,780	3,929	4,211
Taxation recoverable	6,014	6,458	6,900	6,997	7,306
Other current assets	447	627	627	627	627
Current liabilities	19,572	21,170	19,712	16,780	13,557
Borrowings	-	-	-	-	-
Account payables	19,327	21,007	19,549	16,617	13,394
Other payables	162	92	92	92	92
Lease liabilities	83	71	71	71	71
Non-current liabilities	2,929	5,394	5,394	5,394	5,394
Borrowings	-	-	-	-	-
Deferred tax liabilities	788	1,955	1,955	1,955	1,955
Other non-current liabilities	2,141	3,439	3,439	3,439	3,439
Minority Interest	57	57	57	57	57
Total net assets	21,274	24,489	26,485	29,233	32,562
Shareholders' equity	21,217	24,432	26,428	29,176	32,505

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Premium & Super premium	23.3	28.7	34.0	39.8	44.8
Sub-premium	76.7	71.3	66.0	60.2	55.2
P&L ratios (%)					
Gross margin	38.4	39.2	39.2	40.6	42.2
Operating margin	9.8	18.0	14.6	15.6	17.1
Pre-tax margin	9.6	18.6	15.0	16.2	17.8
Net margin	6.7	13.7	11.1	11.9	13.1
Effective tax rate	(30.4)	(26.1)	(26.1)	(26.1)	(26.1)
Balance sheet analysis					
Current ratio (x)	0.3	0.3	0.3	0.3	0.3
Net receivable days	28	38	40	40	40
Net payable days	364	377	340	285	220
Inventory turnover days	113	116	120	120	120
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.0	14.1	15.0	15.4	16.3
ROA	4.8	9.0	7.4	8.3	9.8
Dividend yield	N.A.	N.A.	1.0	1.1	1.3
Per share					
EPS - recurring (RMB)	0.8	1.0	1.2	1.3	1.6
DPS (RMB)	0.3	0.6	0.5	0.5	0.6
BVPS (RMB)	6.5	7.5	8.1	9.0	10.0

Source: Company data, CMBIGM estimates

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