

CR Beer (291 HK)

Another positive year for 2023; our preferred pick for China's re-opening

- **A lackluster 4Q22.** Subsequent to a strong 3Q, 4Q volume has been unexciting partly due to slow season and lockdowns. Compared to a 0.7% YoY decline in 1H, management expects FY volume to hover at break-even. Premium/ sub-premium growth continued to outperform group average at ~10% within 2H (and hence FY) thanks to Heineken. ASP-wise, management expects a FY MSD increase YoY and this came in consistent to our expectation. The growth should also lead to a stable GPM for the period, when cost hike should have largely been mitigated, in our view. SG&A continued to decline in 2H, but at a slower pace than what we saw in 1H, due to expense incurred for capacity optimization.
- **Initial 2023 outlook.** Management remains confident in 2023, and guides for a HSD growth in revenue, contributed by 1) a LSD volume growth driven by ~20% sub-premium/ premium SKUs that accelerate from mid-teen growth in 2022, 2) a MSD to HSD ASP growth thanks to regional price hike and product mix upgrade. Meanwhile, input cost pressure is easing (~RMB500mn increase vs RMB1bn+ in 2022) and should fuel GPM to expand further from 2022. Opex ratio will continue to decline, as the company will continue to optimize production structure and focus on premium SKUs. More exercises on capacity optimization, in our view, is reasonable and looks to be ongoing within 2023.
- **Baijiu business.** Jinsha went to full consolidation on 10 Jan but financial impact is muted. Management commented that this is a long-term initiative and expects the business to expand in the next 3-5 years and to bear fruit around 2028.
- **Earnings change and valuation.** To reflect the above, we raise our 2022/23E revenue by 3.2/ 6.6%, GPM by 0.0/ 0.4pp, and these lead to a 2.6/ 8.1% increase in our net profits assumptions, respectively. Our new TP is based on an updated 26.0x (from previous 27.0x) roll-forward end-23E P/E which still represents long-term average since 2018.

Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	31,448	33,387	35,617	38,825	42,619
YoY growth (%)	(5.2)	6.2	6.7	9.0	9.8
Net income (RMB mn)	2,094	4,587	4,299	5,024	5,736
EPS (RMB)	0.8	1.1	1.3	1.5	1.8
YoY growth (%)	NM	37.0	20.0	16.9	14.2
Consensus EPS (RMB)	NA	NA	1.3	1.6	1.9
P/E (x)	NA	NA	38.1	32.6	28.6
P/B (x)	NA	NA	6.4	5.7	5.0
Div yield (%)	NA	NA	1.0	1.2	1.4
ROE (%)	12.8	15.7	17.2	18.5	18.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$77.4
(Previous TP	HK\$72.4)
Up/Downside	+27.6%
Current Price	HK\$60.6

China Consumer Staples – Food and Beverages

Joseph Wong
 (852) 3900 0838
 josephwong@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	195,948
Avg 3 mths t/o (HK\$ mn)	560.3
52w High/Low (HK\$)	64.9/ 35.9
Total Issued Shares (mn)	3,244

Source: Wind

Shareholding Structure

CRH Beer	51.7%
Morgan Stanley	4.7%
HHLR	4.1%

Source: Wind

Share Performance

	Absolute	Relative
1-mth	11.9%	1.2%
3-mth	18.8%	-8.8%
6-mth	15.4%	9.5%

Source: Wind

12-mth Price Performance



Source: BBG

Auditor: Deloitte

Related Reports

1. [CR Beer \(291 HK\) – Another move to tap into the baijiu market; yet with near-term challenges](#) – 26 Oct 2022
2. [CR Beer \(291 HK\) – 1H22 beat on better cost efficiency; our top pick over 2H22](#) – 18 Aug 2022
3. [【行业研究】实地调研专题系列之二 – 食品饮料经销商渠道调研情况梳理与投资观点](#) – 2 Aug 2022

Figure 1: Earnings revision

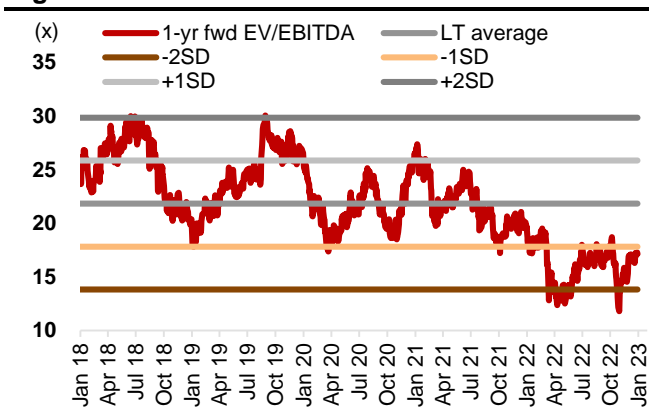
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,617	38,825	42,619	34,501	36,436	39,251	3.2%	6.6%	8.6%
Gross Profit	13,947	15,488	17,322	13,510	14,402	15,881	3.2%	7.5%	9.1%
Recurring EBIT	5,597	6,579	7,543	5,450	6,072	6,908	2.7%	8.4%	9.2%
Net profit	4,299	5,024	5,736	4,190	4,650	5,267	2.6%	8.1%	8.9%
Gross Margin	39.2%	39.9%	40.6%	39.2%	39.5%	40.5%	0ppt	0.4ppt	0.1ppt
EBIT Margin	15.7%	16.9%	17.7%	15.8%	16.7%	17.6%	-0.1ppt	0.2ppt	0.1ppt
Net margin	12.1%	12.9%	13.5%	12.1%	12.8%	13.4%	0ppt	0.1ppt	0.1ppt

Source: Company data, CMBIGM estimates

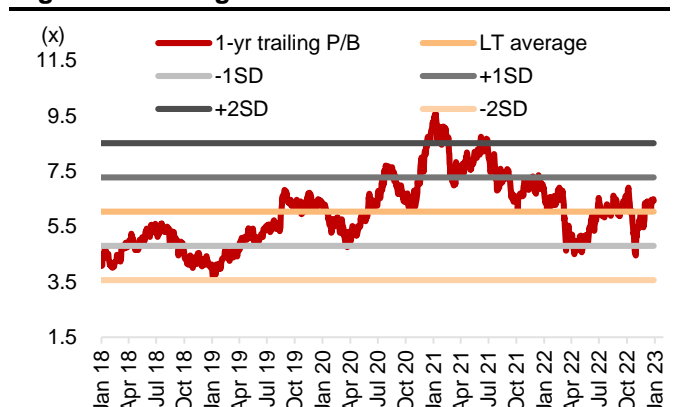
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,617	38,825	42,619	36,388	39,550	45,454	-2.1%	-1.8%	-6.2%
Gross Profit	13,947	15,488	17,322	14,442	16,588	19,756	-3.4%	-6.6%	-12.3%
Recurring EBIT	5,597	6,579	7,543	5,600	6,785	7,998	-0.1%	-3.0%	-5.7%
Net profit	4,299	5,024	5,736	4,192	5,258	6,456	2.5%	-4.4%	-11.2%
Gross Margin	39.2%	39.9%	40.6%	39.7%	41.9%	43.5%	-0.5ppt	-2.1ppt	-2.8ppt
EBITs margin	15.7%	16.9%	17.7%	15.4%	17.2%	17.6%	0.3ppt	-0.2ppt	0.1ppt
Net margin	12.1%	12.9%	13.5%	11.5%	13.3%	14.2%	0.5ppt	-0.4ppt	-0.7ppt

Source: Company data, CMBIGM estimate

Figure 3: 12M forward EV/EBITDA chart

Source: Bloomberg, CMBIGM estimates

Figure 4: Trailing P/B chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	31,448	33,387	35,617	38,825	42,619
Premium/ Sub premium	7,330	9,585	10,819	13,151	16,473
Mainstream	24,118	23,802	24,797	25,674	26,146
Gross profits	12,075	13,074	13,947	15,488	17,322
D&A	(1,553)	(1,641)	(1,643)	(1,700)	(1,753)
Selling expense	(6,123)	(6,743)	(6,411)	(6,794)	(7,458)
Administration expenses	(4,419)	(3,619)	(2,849)	(3,106)	(3,409)
Other operating expenses	1,546	3,300	910	992	1,089
Others	1,553	1,641	1,643	1,700	1,753
EBIT	3,079	6,012	5,597	6,579	7,543
EBITDA	4,632	7,653	7,240	8,279	9,296
Finance costs, net	80	224	224	224	224
Non-operating	(150)	(21)	-	-	-
Pre-tax profit	3,009	6,215	5,821	6,803	7,767
Income tax	(915)	(1,625)	(1,522)	(1,779)	(2,031)
Less: Minority interests	-	(3)	-	-	-
Net profits (reported)	2,094	4,587	4,299	5,024	5,736

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	2,094	4,587	4,299	5,024	5,736
D&A	1,553	1,641	1,643	1,700	1,753
Change in working capital	(1,165)	178	(1,955)	(2,863)	(4,035)
Others	1,998	(1,411)	(500)	(300)	-
Net cash fr. operating act.	4,480	4,995	3,487	3,561	3,455
Capex & investments	(1,047)	(1,471)	(1,397)	(1,328)	(1,261)
Acquisition	-	-	-	-	-
Others	(23)	(1,279)	-	-	-
Net cash fr. investing act.	(1,070)	(2,750)	(1,397)	(1,328)	(1,261)
Equity raised	-	-	-	-	-
Change of Debts	1,469	-	-	-	-
Dividend paid	(561)	(1,281)	(1,836)	(1,720)	(2,010)
Others	(2,105)	(85)	-	-	-
Net cash fr. financing act.	(1,197)	(1,366)	(1,836)	(1,720)	(2,010)
Net change in cash	2,213	879	254	514	184
Cash at the beginning of the	2,340	4,538	5,376	5,630	6,144
Exchange difference	(15)	(41)	-	-	-
Cash at the end of the year	4,538	5,376	5,630	6,144	6,328
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	30,398	35,156	33,529	33,157	32,665
PP&E/Fixed assets	17,781	17,096	16,870	16,518	16,046
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	4,041	4,021	4,001
Current assets	13,377	15,897	17,284	18,698	19,942
Cash	4,538	5,376	5,630	6,144	6,328
Account receivable	2,378	3,436	3,903	4,255	4,671
Taxation recoverable	6,014	6,458	7,124	7,673	8,317
Other current assets	447	627	627	627	627
Current liabilities	19,572	21,170	20,348	18,385	15,410
Borrowings	-	-	-	-	-
Account payables	19,327	21,007	20,185	18,222	15,247
Other payables	162	92	92	92	92
Lease liabilities	83	71	71	71	71
Non-current liabilities	2,929	5,394	4,894	4,594	4,594
Borrowings	-	-	-	-	-
Deferred tax liabilities	788	1,955	1,955	1,955	1,955
Other non-current liabilities	2,141	3,439	2,939	2,639	2,639
Minority Interest	57	57	57	57	57
Total net assets	21,274	24,489	25,571	28,876	32,602
Shareholders' equity	21,217	24,432	25,514	28,819	32,545

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Premium/ Sub-premium	23.3	28.7	30.4	33.9	38.7
Mainstream	76.7	71.3	69.6	66.1	61.3
P&L ratios (%)					
Gross margin	38.4	39.2	39.2	39.9	40.6
Operating margin	9.8	18.0	15.7	16.9	17.7
Pre-tax margin	9.6	18.6	16.3	17.5	18.2
Net margin	6.7	13.7	12.1	12.9	13.5
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	12.8	15.7	17.2	18.5	18.7
ROA	4.8	9.0	8.5	9.7	10.9
Dividend yield	N.A.	N.A.	1.0	1.2	1.4
Per share					
EPS - recurring (RMB)	0.8	1.1	1.3	1.5	1.8
DPS (RMB)	0.3	0.6	0.5	0.6	0.7
BVPS (RMB)	6.5	7.5	7.9	8.9	10.0

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.