

Bud APAC (1876 HK)

A relieving 3Q; China's price hike and APAC East outperformance remain key growth drivers

- **3Q normalized EBITDA came in above consensus at US\$593m, up 1.6% YoY.** APAC East performance, especially which in South Korea, continued to surprise under a more liberal social distancing policy.
- **September China nightlife opening ratio went further to the south to 60%/95%, respectively, from c.75%/ 95%+ in July.** The restrictions were mostly concentrated in Bud APAC's premium footprints, especially in southeast Fujian, Zhejiang and North Beijing, Tianjin, and then the northwest area. Going forward, the Company continues to expect sporadic but shorter lockdowns with the current dynamic zero policy. To mitigate the impact, management developed digitalized tracking platform that enables quick calculation of channel impact by city and allocates inventory in a dynamic way.
- **Bud APAC announced a price hike effective from 1 Nov** for its premium and super premium SKU in China. The magnitude, according to the management, will benchmark to the country's CPI on an average level. While this is likely the first price hike announced for 4Q, we expect other brands to follow suit in the next few months, given slow sales season (during winter time) has been a good window for distributor to absorb the impact.
- **New brewery capacity was launched in Fujian** with 2.5mn hl in order to drive the growth of Bud APAC's premium SKUs. "059 Coastline" was the new brand to debut of which the name was inspired by the coastline of the province. Meanwhile, the Company has been looking into breeding new SKUs that, for example, infuses with tea and has been working out the concept with local tea growers and farmers.
- **Strong potential in India with its demographic advantage.** The optimization progress has been satisfactory and management looks beyond DD growth but doubling of the total size of the market size for its brand. For instance, Corona is now available in over 15 states in India.
- **We keep our earnings unchanged for now.** Upon changes in housekeeping items, our revised TP of HK\$27.2 (from HK\$28.0) is still based on 20.0x end-23E EV/ EBITDA, which represents 3-year average. Overall, the results were largely in line with consensus and we consider this a relief post the recent shares sell-off. We remain BUY-rated.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	5,588	6,788	6,865	7,595	8,111
YoY growth (%)	(14.6)	21.5	1.1	10.6	6.8
Net income (US\$ mn)	514	950	1,047	1,251	1,357
EPS (US\$)	0.04	0.07	0.08	0.09	0.10
YoY growth (%)	(48.1)	84.7	10.2	19.5	8.5
Consensus EPS (US\$)	n.a.	n.a.	0.08	0.10	0.12
P/E (x)	n.a.	n.a.	29.1	24.4	22.5
P/B (x)	n.a.	n.a.	2.6	2.4	2.3
Div Yield (%)	n.a.	n.a.	1.5	1.7	1.9
ROE (%)	5.0	8.7	9.2	10.3	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price	HK\$27.2
(Previous TP)	HK\$28.0
Up/Downside	+51.6%
Current Price	HK\$17.9

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn)	234,938
Avg 3 mths t/o (HK\$ mn)	137.7
52w High/Low (HK\$)	25.4/ 15.9
Total Issued Shares (mn)	13,243

Source: Wind

Shareholding Structure

AB Inbev Brewing Co	87.2%
JPMorgan Chase & Co	0.9%
T Towe Price	0.6%

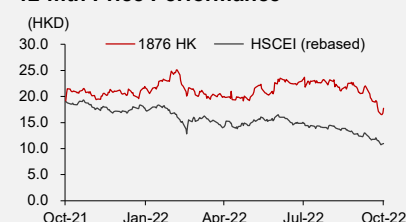
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-17.0%	-2.8%
3-mth	-23.3%	2.8%
6-mth	-11.2%	14.2%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: PricewaterhouseCoopers

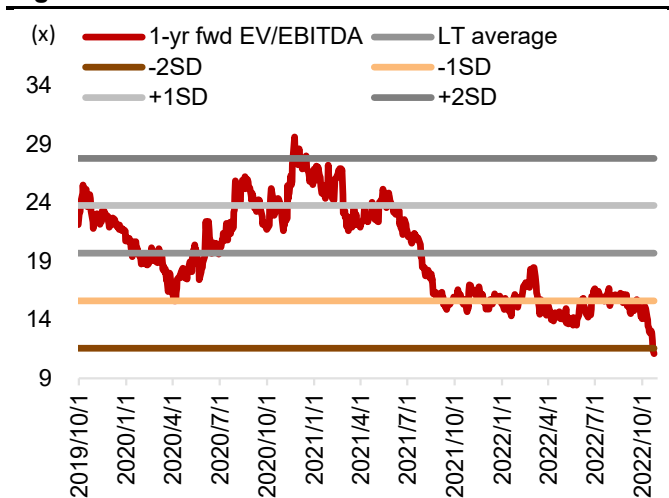
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1. [China Consumer – Addressing recent investors' concerns: our top ideas into 4Q22](#) – 7 Oct 2022
2. [Budweiser APAC \(1876 HK\) – 2Q results largely in line; solid premiumization efforts mitigated volume headwind](#) – 29 Jul 2022
3. [Bud APAC \(1876 HK\) – Solid 1Q22 on strong APAC East performance; we stay vigilant on potential volume risk in 2Q](#) – 6 May 2022

Key country performance:

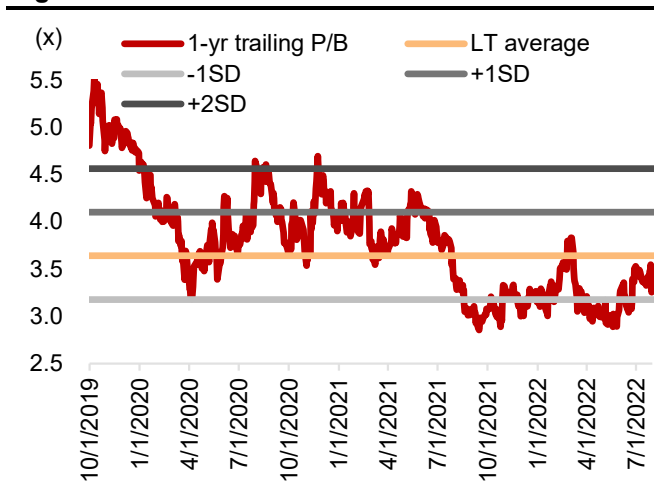
- **APAC East:** the segment delivered 3Q organic sales growth of 19% YoY, thanks to 15%/4% volume/ ASP increase respectively, when EBITDA grew 18% YoY with margin standing steadily at 28.7%.
- **APAC West:** the segment delivered 4% organic sales growth on 5%/ -1% volume growth/ ASP decline, while EBITDA was down 2% with the margin declining to 32.6%.
- **China:** Social restrictions remained an overhang to the segment's performance and affected mostly the Company's premium channels such as nightlife venues and restaurants. Despite that, volume of the quarter still grew 3.7% YoY driven by strong mass-market sales and easy comps. The shift in product mix also led to a 2% ASP decline, which resulted in 1.6% revenue growth. Normalised EBITDA declined by 3.1% with cost saving initiative already mitigated part of the operation headwinds.
- **South Korea:** Operating environment continued to improve with all COVID restrictions lifted from on-premise channels. Volumes expanded by DD with continued market share growth. Revenue also grew by DD with ASP expanded by MSD, driven by product mix upgrade but this was partially offset by the channel mix impact of a volume shift from in-home to on-premise. EBITDA increased by DD with an expanded EBITDA margin despite a tougher comparable from commercial investment phasing.

Figure 1: 12m forward P/E chart



Source: Bloomberg, CMBIGM estimates

Figure 2: LTM P/B chart



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20E	FY21A	FY22E	FY23E	FY24E
Revenue	5,588	6,788	6,865	7,595	8,111
Asia Pacific East	1,162	1,222	1,335	1,541	1,586
Asia Pacific West	4,426	5,566	5,530	6,055	6,525
Gross profit	2,907	3,657	3,707	4,140	4,420
Distribution expenses	(458)	(524)	(501)	(554)	(592)
Sales and marketing	(1,278)	(1,407)	(1,373)	(1,443)	(1,541)
Administrative expenses	(399)	(449)	(412)	(418)	(406)
Other operating income	165	150	150	150	150
Operating profit	937	1,427	1,571	1,874	2,032
EBITDA	1,584	2,139	2,193	2,490	2,684
Finance costs, net	(24)	(6)	(6)	(6)	(6)
Joint ventures &	23	32	32	32	32
Other non-recurring items	(28)	(40)	(40)	(40)	(40)
Pre-tax profit	908	1,413	1,557	1,860	2,018
Income tax	(371)	(432)	(476)	(569)	(617)
Less: Minority interests	23	31	34	41	44
Net profit	514	950	1,047	1,251	1,357

Cash flow summary

YE 31 Dec (US\$ mn)	FY20E	FY21A	FY22E	FY23E	FY24E
Net income	514	950	1,047	1,251	1,357
D&A	608	668	622	616	652
Change in working capital	183	44	(25)	135	89
Others	(4)	241	(175)	41	44
Net cash fr. operating act.	1,301	1,903	1,469	2,042	2,143
Capex & investments	(516)	(606)	(560)	(560)	(560)
Acquisition	(111)	(123)	-	-	-
Others	55	(2)	-	-	-
Net cash fr. investing act.	(572)	(731)	(560)	(560)	(560)
Equity raised	659	(263)	-	-	-
Change of Debts	(4)	(8)	-	-	-
Dividend paid	(315)	(374)	(400)	(440)	(525)
Others	(772)	181	-	-	-
Net cash fr. financing act.	(432)	(464)	(400)	(440)	(525)
Net change in cash	297	708	509	1,043	1,057
Cash at the beginning of the year	877	1,264	2,007	2,516	3,559
Exchange difference	90	35	-	-	-
Cash at the end of the year	1,264	2,007	2,516	3,559	4,616
Plus: pledged cash	17	-	-	-	-

Balance sheet

YE 31 Dec (US\$ mn)	FY20E	FY21A	FY22E	FY23E	FY24E
Non-current assets	13,857	13,464	13,402	13,346	13,254
Fixed asset	3,716	3,632	3,560	3,495	3,395
Net intangibles assets	9,125	8,806	8,816	8,826	8,833
Right of use assets, net	256	251	251	251	251
Other non-current assets	760	775	775	775	775
Current assets	2,332	3,161	3,689	4,793	5,915
Cash	1,281	2,007	2,516	3,559	4,616
Account receivable	367	412	429	473	504
Inventory	434	473	476	492	526
Other current assets	250	269	269	269	269
Current liabilities	4,637	4,691	4,477	4,672	4,827
Borrowings	147	123	123	123	123
Payables	2,112	2,156	2,151	2,346	2,501
Contract liabilities	1,449	1,495	1,495	1,495	1,495
Payables with parentco	142	74	74	74	74
Other current liabilities	787	843	634	634	634
Non-current liabilities	809	851	851	851	851
Borrowings	37	53	53	53	53
Other non-current liabilities	772	798	798	798	798
Minority Interest	58	70	104	145	189
Total net assets	10,743	11,083	11,764	12,616	13,491
Shareholders' equity	10,685	11,013	11,660	12,471	13,302

Key ratios

YE 31 Dec	FY20E	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Asia Pacific East	20.8	18.0	19.4	20.3	19.6
Asia Pacific West	79.2	82.0	80.6	79.7	80.4
P&L ratios (%)					
Gross profit margin	52.0	53.9	54.0	54.5	54.5
Operating margin	16.8	21.0	22.9	24.7	25.0
Pre-tax margin	16.2	20.8	22.7	24.5	24.9
Net margin	9.2	14.0	15.2	16.5	16.7
Effective tax rate	(6.6)	(6.4)	(6.9)	(7.5)	(7.6)
Balance sheet ratios					
Current ratio (x)	0.5	0.7	0.8	1.0	1.2
Net receivable days	24	22	22	22	22
Net payable days	268	243	240	240	240
Inventory turnover days	59	55	55	52	52
Net debt / equity ratio (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	4.98	8.71	9.16	10.26	10.39
Dividend yield	n.a.	n.a.	1.5	1.8	1.9
Per share					
EPS (US\$)	0.04	0.07	0.08	0.09	0.10
DPS (US\$)	0.03	0.03	0.03	0.04	0.04
BVPS (US\$)	0.81	0.83	0.88	0.94	1.01
EV/ EBITDA (x)	n.a.	n.a.	12.5	10.6	9.5

Source: Company data, CMBIS estimates

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