

Tsingtao Brewery (168 HK)

3Q rev/np -4.6%/+4.7%; above market expectation

Tsingtao announced 3Q results after market close last Friday (27 Oct). 3Q revenue and net profits came in at RMB9.4bn/RMB1.5bn, down/up -4.6%/+4.7% YoY. The results were consistent to our expectation, and was slightly better than what market previously expected of an approximately 10% sales decline. Premiumization continued, and the magnitude matched with that we saw for CR Beer (291 HK, BUY) during our [NDR last week](#). Stepping into 4Q, in which the quarter is typically rather irrelevant to full-year earnings, we think consensus estimates, and hence share price, is likely to settle here unless the recent food hygiene scandal spreads further and upsets investment sentiment. We maintain our BUY rating.

Key results highlights

- **ASP strength was offset by volume headwind.** Premiumization continued. ASP went up by 7.5% YoY, and this seemed to be higher than its major peers who only saw an MSD% increase. However, this was mainly offset by a 11.2% decline in volume. By brands, Tsingtao brand was down 5.5% YoY while mass market brands declined by 17.6% YoY.
- **Gross/operating margins.** Despite the revenue decline, gross margins went up by 3.3pp YoY to 33.7%. Selling expense increased 0.5pp YoY, likely on more intense promotional efforts during peak sales season. Administration expense, on the other hand, was rather flattish. These in aggregate brought operating margins to 18.1%, up 2.6pp YoY.
- **Earnings change.** We leave our estimates unchanged, given the in-line results. Our current 2023E estimates imply 4Q revenue/net loss to be RMB4.7bn/RMB517mn, respectively, which are largely in line with consensus. We see little incentive for consensus to move down further from here considering the solid results.
- **Valuation.** Our revised TP is based on an updated 13.0 (from previously 15.0x) mid-24E EV/EBITDA (from previously end-23E EV/EBITDA) which represents long-term average (from +1sd above long-term average) since 2018. Our methodology benchmarks with that we used for CR Beer.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,167	32,172	35,702	38,307	40,985
YoY growth (%)	8.7	6.6	11.0	7.3	7.0
Net profit (RMB mn)	3,155.5	3,710.6	4,391.2	4,922.1	5,482.2
YoY growth (%)	43.3	17.6	18.3	12.1	11.4
EPS (Reported) (RMB)	2.33	2.74	3.24	3.80	4.28
Consensus EPS (RMB)	na	na	3.23	3.72	4.15
P/E (x)	25.4	22.0	17.5	15.6	14.0
P/B (x)	3.5	3.2	2.8	2.6	2.4
Yield (%)	1.9	3.0	3.8	4.2	4.7
ROE (%)	14.5	15.3	16.6	17.3	17.9
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$82.1**
(Previous TP) HK\$88.9
Up/Downside **36.2%**
Current Price **HK\$60.3**

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Stock Data

Mkt Cap (HK\$ mn)	82,202.4
Avg 3 mths t/o (HK\$ mn)	171.2
52w High/Low (HK\$)	85.70/55.00
Total Issued Shares (mn)	1364.4
Source: FactSet	

Shareholding Structure

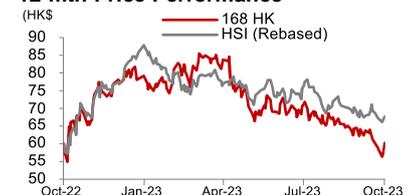
Tsingtao Beer Group Co.	32.5%
China Securities Finance Co.	1.2%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-5.2%	-4.0%
3-mth	-15.4%	-4.5%
6-mth	-27.7%	-17.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. [Kweichow Moutai \(600519 CH\) – 3Q rev/np +13%/16%; mixed near-term outlook](#) – Oct 24, 2023
2. [华润啤酒 \(291 HK\) – 消费企业日经营交流纪要](#) – Oct 24, 2023
3. [Budweiser APAC \(1876 HK\) – 3Q preview: flattish rev/EBITDA growth](#) – Oct 19, 2023
4. [Mengniu Dairy \(2319 HK\) – 1H core rev/np +3%/10%; a surprising beat](#) – Sep 1, 2023

Figure 1: Earnings revision

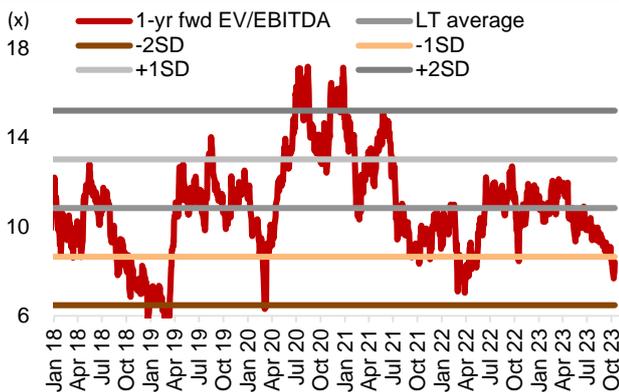
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,702	38,307	40,985	35,702	38,307	40,985	0.0%	0.0%	0.0%
Gross Profit	10,763	11,922	13,133	10,763	11,922	13,133	0.0%	0.0%	0.0%
EBITDA	5,785	6,601	7,456	5,785	6,601	7,456	0.0%	0.0%	0.0%
Net profit	4,391	4,922	5,482	4,391	4,922	5,482	0.0%	0.0%	0.0%
Gross Margin	30.1%	31.1%	32.0%	30.1%	31.1%	32.0%	0ppt	0ppt	0ppt
EBITDA Margin	16.2%	17.2%	18.2%	16.2%	17.2%	18.2%	0ppt	0ppt	0ppt
Net Margin	12.3%	12.8%	13.4%	12.3%	12.8%	13.4%	0ppt	0ppt	0ppt

Source: CMBIGM estimates

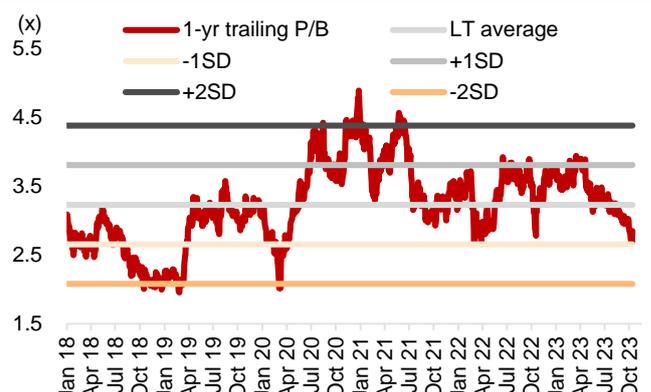
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,702	38,307	40,985	35,034	37,116	39,140	1.9%	3.2%	4.8%
Gross Profit	10,763	11,922	13,133	13,541	13,776	15,319	-20.5%	-13.5%	-14.3%
EBITDA	5,785	6,601	7,456	6,320	7,346	8,080	-8.5%	-10.1%	-7.7%
Net profit	4,391	4,922	5,482	4,444	5,171	5,824	-1.2%	-4.8%	-5.9%
Gross Margin	30.1%	31.1%	32.0%	38.7%	37.1%	39.1%	-8.5ppt	-6ppt	-7.1ppt
EBITDA Margin	16.2%	17.2%	18.2%	18.0%	19.8%	20.6%	-1.8ppt	-2.6ppt	-2.5ppt
Net Margin	12.3%	12.8%	13.4%	12.7%	13.9%	14.9%	-0.4ppt	-1.1ppt	-1.5ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: 12M forward EV/EBITDA band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	27,760	30,167	32,172	35,702	38,307	40,985
Cost of goods sold	(16,541)	(19,091)	(20,318)	(22,286)	(23,539)	(24,807)
Gross profit	9,000	8,757	9,463	10,763	11,922	13,133
Operating expenses	(8,903)	(8,139)	(8,064)	(8,722)	(9,359)	(10,013)
Selling expense	(4,985)	(4,097)	(4,200)	(4,641)	(4,980)	(5,328)
Admin expense	(1,700)	(1,723)	(1,473)	(1,428)	(1,532)	(1,639)
Others	(2,219)	(2,319)	(2,391)	(2,653)	(2,847)	(3,046)
EBITDA	3,459	4,044	4,872	5,785	6,601	7,456
Depreciation	(899)	(900)	(889)	(929)	(1,022)	(1,114)
Other amortisation	(244)	(208)	(193)	(163)	(170)	(177)
EBIT	2,316	2,937	3,790	4,693	5,410	6,165
Other income/expense	3,240	4,479	5,006	5,924	6,641	7,396
Pre-tax profit	3,240	4,479	5,006	5,924	6,641	7,396
Income tax	(913)	(1,223)	(1,201)	(1,422)	(1,594)	(1,775)
Minority interest	(126)	(101)	(94)	(111)	(125)	(139)
Net profit	2,201	3,155	3,711	4,391	4,922	5,482
Gross dividends	1,023	1,501	2,456	2,906	3,257	3,628
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	24,628	28,959	32,002	32,781	33,625	34,794
Cash & equivalents	18,467	14,598	17,855	18,218	18,796	19,696
Account receivables	125	125	120	133	142	152
Inventories	3,281	3,493	4,152	4,554	4,810	5,070
Prepayment	314	903	965	965	965	965
Other current assets	2,441	9,840	8,911	8,911	8,911	8,911
Non-current assets	16,886	17,604	18,309	20,061	21,584	23,007
PP&E	10,302	10,148	11,009	12,524	13,817	15,018
Deferred income tax	1,718	2,131	2,250	2,250	2,250	2,250
Investment in JVs & assos	374	366	368	538	708	878
Intangibles	2,501	2,481	2,558	2,625	2,684	2,737
Goodwill	1,307	1,307	1,307	1,307	1,307	1,307
Other non-current assets	684	1,171	817	817	817	817
Total assets	41,514	46,563	50,312	52,842	55,209	57,801
Current liabilities	15,510	18,259	19,672	20,027	20,252	20,481
Short-term borrowings	703	246	225	225	225	225
Account payables	2,372	3,298	3,662	4,017	4,242	4,471
Other current liabilities	12,435	14,715	15,785	15,785	15,785	15,785
Non-current liabilities	4,636	4,511	4,368	4,496	4,496	4,496
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	4,636	4,511	4,368	4,496	4,496	4,496
Total liabilities	20,146	22,769	24,039	24,523	24,749	24,977
Share capital	1,364	1,364	1,364	1,364	1,364	1,364
Capital surplus	5,076	5,357	5,555	5,555	5,555	5,555
Retained earnings	14,481	16,319	18,528	20,464	22,480	24,705
Other reserves	(299)	(38)	47	47	47	47
Total shareholders equity	20,622	23,002	25,495	27,430	29,447	31,671
Minority interest	746	792	777	889	1,014	1,153
Total equity and liabilities	41,514	46,563	50,312	52,842	55,209	57,801

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,240	4,479	5,006	5,924	6,641	7,396
Depreciation & amortization	1,143	1,108	1,082	1,092	1,192	1,291
Tax paid	(913)	(1,223)	(1,201)	(1,422)	(1,594)	(1,775)
Change in working capital	525	120	(27)	(61)	(40)	(41)
Others	958	1,559	19	0	0	0
Net cash from operations	4,953	6,043	4,879	5,534	6,199	6,872
Investing						
Capital expenditure	(1,460)	(1,359)	(2,545)	(2,545)	(2,545)	(2,545)
Acquisition of subsidiaries/ investments	(3,000)	(22,990)	(17,259)	0	0	0
Others	2,973	14,100	17,604	(170)	(170)	(170)
Net cash from investing	(1,488)	(10,250)	(2,199)	(2,715)	(2,715)	(2,715)
Financing						
Dividend paid	(793)	(1,111)	(1,576)	(2,456)	(2,906)	(3,257)
Proceeds from share issues	244	6	0	0	0	0
Others	193	(509)	(99)	0	0	0
Net cash from financing	(356)	(1,614)	(1,676)	(2,456)	(2,906)	(3,257)
Net change in cash						
Cash at the beginning of the year	14,557	17,643	11,814	12,840	13,203	13,781
Exchange difference	(24)	(9)	22	0	0	0
Others	824	2,784	5,015	5,015	5,015	5,015
Cash at the end of the year	18,467	14,598	17,855	18,218	18,796	19,696
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(0.8%)	8.7%	6.6%	11.0%	7.3%	7.0%
Gross profit	4.8%	(2.7%)	8.1%	13.7%	10.8%	10.2%
EBITDA	27.8%	16.9%	20.5%	18.7%	14.1%	13.0%
EBIT	46.2%	26.8%	29.1%	23.8%	15.3%	14.0%
Net profit	18.9%	43.3%	17.6%	18.3%	12.1%	11.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	32.4%	29.0%	29.4%	30.1%	31.1%	32.0%
EBITDA margin	12.5%	13.4%	15.1%	16.2%	17.2%	18.2%
Return on equity (ROE)	11.1%	14.5%	15.3%	16.6%	17.3%	17.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.9)	(0.6)	(0.7)	(0.7)	(0.6)	(0.6)
Current ratio (x)	1.6	1.6	1.6	1.6	1.7	1.7
Receivable turnover days	1.6	1.5	1.4	1.4	1.4	1.4
Inventory turnover days	72.4	66.8	74.6	74.6	74.6	74.6
Payable turnover days	52.3	63.1	65.8	65.8	65.8	65.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	31.3	25.4	22.0	17.5	15.6	14.0
P/E (diluted)	31.3	25.5	22.1	17.5	15.6	14.0
P/B	3.3	3.5	3.2	2.8	2.6	2.4
Div yield (%)	1.5	1.9	3.0	3.8	4.2	4.7

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

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