

Tsingtao Brewery (168 HK)

2Q rev/np +8%/14% on recurring strengths

Tsingtao reported 14% growth in 2Q net profits to RMB2.0bn. Driven by 3% volume growth and 5% ASP uptick, revenue stood at RMB11bn, up 8% YoY. This compared to [HSD growth of CR Beer](#) and [20% of Budweiser](#). Gross/EBIT margins was up approximately 2pp to 33%/21%, respectively, and we expect recurring strengths in both premiumization and cost efficiency to fuel margins expansion into 2H. Specifically, during the analyst call, management commented that they have been taking the initiative to conduct ongoing price reviews. Like-for-like price hikes are unlikely to take place this year, given faltering purchasing power. This is, however, Tsingtao has selectively lifted up prices in the areas where the brand has stronger pricing power, and similar opportunities should exist in 2H. Meanwhile, mix improvement, as another engine of ASP uptick, should prevail and the 15% sub-premium+ shipment growth (including 15% in Classic, 40% in Wheat beer, 20% in Draft etc) in 1H (to 39% of total) should hold through the remainder of the year. On the cost side, management acknowledged that there will be room for raw material cost savings over 2H, and even next year, when they are now able to procure barley from Australia at a lower cost, relative to that from the US at a higher price. These should substantiate our current earnings forecasts and hence our buy call. Among breweries, we still prefer CR Beer (291HK, BUY) and Tsingtao (168HK, BUY) to Budweiser (1876HK, HOLD).

- **Call takeaways.** 1) **Shandong and Eastern China** saw faster sales growth, when promotional effort and hence consumer trade-up is bearing fruit. There will be further strategy optimization for these regions in 2H; 2) **Capacity optimization** has been carrying out pre-COVID, and benefits have started surfacing; 3) **Extreme weather** has disrupted peak season sales in August, but there could still be opportunities to make up the loss in the festive September; 4) **Government subsidy income** was partially delayed and decreased by RMB70mn for the quarter and resulted in a lower reported net profits; 5) **Management expense** was well controlled in 1H (down 0.7pp to 3% of revenue) and the trend should extend into 2H.
- **Earnings change.** Our 2023E earnings forecasts are largely unchanged.
- **Valuation.** Our revised TP is based on an unchanged 15.0x end-23E EV/EBITDA which still represents +1sd above long-term average since 2018.

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 (RMB)	2.3	2.7	3.2	3.6	4.0
Consensus EPS (RMB)	na	na	3.2	3.7	4.2
P/E (x)	25.4	22.0	19.3	17.2	15.4
P/B (x)	3.5	3.2	3.1	2.9	2.7
Yield (%)	1.9	3.0	3.4	3.9	4.3
ROE (%)	14.5	15.3	16.6	17.3	17.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$88.9
(Previous TP)	HK\$92.9
Up/Downside	32.9%
Current Price	HK\$66.9

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Stock Data

Mkt Cap (HK\$ mn)	91,275.3
Avg 3 mths t/o (HK\$ mn)	189.2
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	-6.9%	2.3%
3-mth	-5.2%	-3.0%
6-mth	-13.6%	-5.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. [CR Beer \(291 HK\) – 1H rev/EBIT +13%/26%: Heineken grew 60% - 21 Aug 2023](#)
2. [Budweiser APAC \(1876 HK\) – 2Q organic sales +15%: overall a mix bag but we see China strength a good trade - 4 Aug 2023](#)
3. [Kweichow Moutai \(600519 CH\) – 2Q Rev/NP +20.4/21.0% as pre-announced - 3 Aug 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	35,852	39,475	43,570	-0.4%	-3.0%	-5.9%
Gross Profit	10,763	11,922	13,133	10,869	12,414	14,170	-1.0%	-4.0%	-7.3%
EBITDA	5,785	6,601	7,456	5,795	6,816	7,967	-0.2%	-3.1%	-6.4%
Net profit	4,391	4,922	5,482	4,398	5,081	5,861	-0.2%	-3.1%	-6.5%
Gross Margin	30.1%	31.1%	32.0%	30.3%	31.4%	32.5%	-0.2ppt	-0.3ppt	-0.5ppt
EBITDA Margin	16.2%	17.2%	18.2%	16.2%	17.3%	18.3%	0ppt	0ppt	-0.1ppt
Net Margin	12.3%	12.8%	13.4%	12.3%	12.9%	13.5%	0ppt	0ppt	-0.1ppt

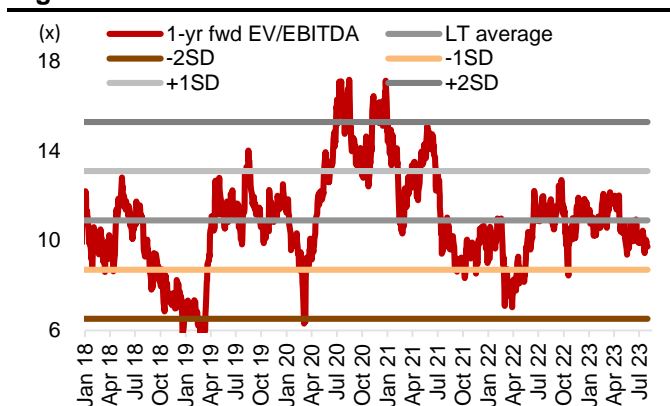
Source: CMBIGM estimates

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	34,925	37,018	39,126	2.2%	3.5%	4.8%
Gross Profit	10,763	11,922	13,133	13,293	14,601	15,896	-19.0%	-18.3%	-17.4%
EBITDA	5,785	6,601	7,456	6,226	7,237	7,996	-7.1%	-8.8%	-6.7%
Net profit	4,391	4,922	5,482	4,327	4,986	5,580	1.5%	-1.3%	-1.8%
Gross Margin	30.1%	31.1%	32.0%	38.1%	39.4%	40.6%	-7.9ppt	-8.3ppt	-8.6ppt
EBITDA Margin	16.2%	17.2%	18.2%	17.8%	19.5%	20.4%	-1.6ppt	-2.3ppt	-2.2ppt
Net Margin	12.3%	12.8%	13.4%	12.4%	13.5%	14.3%	-0.1ppt	-0.6ppt	-0.9ppt

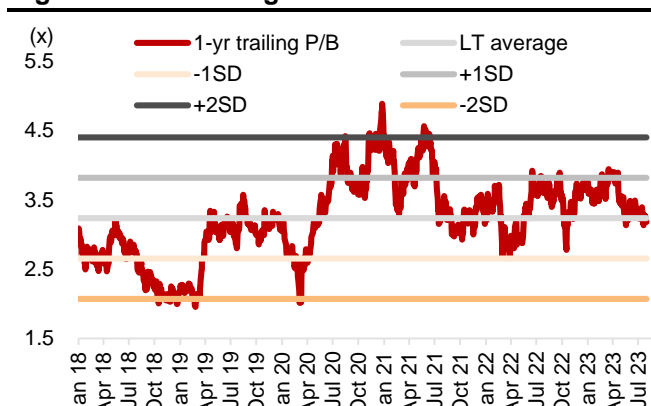
Source: Bloomberg, CMBIGM estimates

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	2020A	2021A	2022A	2023E	2024E	2025E
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	19.3	17.2	15.4
P/E (diluted)	31.3	25.5	22.1	19.3	17.2	15.4
P/B	3.3	3.5	3.2	3.1	2.9	2.7
Div yield (%)	1.5	1.9	3.0	3.4	3.9	4.3

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

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