

China Consumer

Positive takeaway from F&B distributors; but sector's bull-run could take a breather from here

We had positive takeaways on F&B demand over the New Year holiday break from our channel check with distributors. In view of the strong foot traffic and hence gifting demand, **Baijiu and Beer** exceeded expectation, followed by **soft drinks and RTD**. **Dairies (including IMF)** had a good recovery despite a relatively high inventory level. Both **packaged snacks and instant noodle** had good momentum. Condiments beat with a LSD growth vs a flattish expectation. To conclude, overall sales momentum matched expectation (yet to be a meaningful beat). Considering the sector's bull-run since December, we think expectations of a strong New Year recovery has largely been priced-in. Without further catalysts into February/ March, near term valuation looks to be fatigue to the reopening theme, in our view. Share prices could start consolidating into result seasons, when market likely resets its earnings outlook for 2023. We recommend investors to be selective, and bias towards quality staple names that not only benefit from the reopening theme, but also deliver visible earnings trajectories. We are firmly positive on breweries, followed by soft drinks and dairies, and we are least preferred on IMF. Our top buy remains **CRB (291 HK, Buy)**, followed by Tsingtao (168 HK, Buy) and Bud (1876 HK, Buy). Beyond F&B, we are also buy-rated on CTGDF (601888 CH, Buy) and Proya (603605 CH, Buy).

Key takeaways

- **Baijiu.** Moutai recorded MSD to HSD sales growth, with strong momentum seen in Series SKUs. ASP for "Flying Fairy/ Feitian" sealed case was ~RMB2,970, while that for unsealed was RMB2,780, about RMB100 higher than those by end-22. WLY beat on a ~20% growth.
- **Beer.** A very strong segment when nearly all major brand sales came above expectation, with CRB/ Tsingtao/ Budweiser delivering 13%/ 10%/ 7% growth, compared to expectation of only 8%/ 5%/ 3%, respectively. Room for price hike is ample, but the scope and cadence remains to be seen.
- **Dairies/ IMF.** HSD growth for Mengniu and Yili. Discount has been widening but this has been effective in driving down inventory days. IMF saw a mid-teen recovery, but largely owing to a low base, in our view. Competitions remain keen, when birth rate may not start inflecting approaching end-23.
- **Soft drinks/ RTD.** Nongfu's no-sugar SKUs remained popular with 30%+ growth, while bottled water expanded by 20%+, highest among peers.

Valuation summary

Name	Ticker	Rating	Price (LC)	TP (LC)	Mkt Cap (US\$ bn)	P/E (x) FY22E	P/E (x) FY23E	Div yield (%) FY22E	Div yield (%) FY23E	ROE (%) FY22E	ROE (%) FY23E
CR Beer	291 HK	BUY	60.5	71.0	25,048	40.4	36.4	0.7	0.8	16.5	16.4
Tsingtao Beer	168 HK	BUY	77.1	86.0	17,393	26.7	23.9	1.3	1.5	13.7	14.0
Bud APAC	1876 HK	BUY	25.1	27.2	42,336	40.4	33.8	0.0	0.0	9.0	10.0
Yili	600887 CH	BUY	33.3	41.5	31,500	22.5	18.1	3.1	4.1	17.7	20.6
Mengniu	2319 HK	BUY	38.5	57.0	19,408	21.7	18.3	1.0	1.2	15.0	16.0
China Feihe	6186 HK	BUY	7.7	8.4	8,903	11.5	9.9	2.6	3.1	22.6	22.4
Nongfu Spring	9633 HK	BUY	44.5	53.0	63,796	52.7	43.9	4.0	4.8	33.2	32.4
Smoores	6969 HK	BUY	11.9	25.2	9,246	23.9	15.6	1.2	1.8	12.3	16.2
CTGDF	601888 CH	BUY	217.5	256.0	66,403	62.2	42.6	0.5	0.7	18.8	21.8
Botanee	300957 CH	BUY	141.2	229.0	8,857	51.0	38.8	0.6	0.8	20.8	22.7
Proya	603605 CH	BUY	165.3	184.0	6,938	64.3	47.7	0.5	0.6	21.2	23.6
Jahwa	600315 CH	BUY	31.3	39.2	3,142	36.9	28.1	0.8	1.1	7.8	9.6

Source: Company data, BBG, CMBIGM estimates

MARKET PERFORM (Maintain)

China Consumer

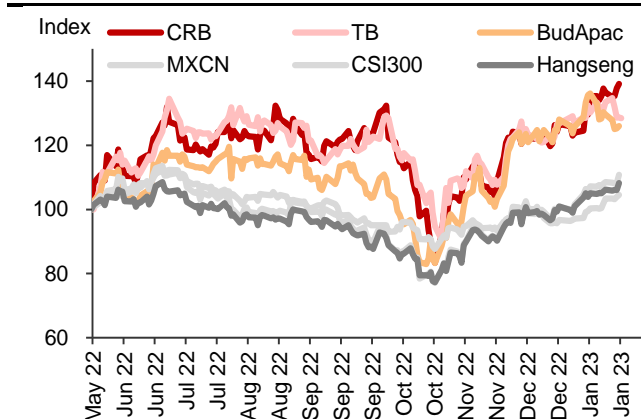
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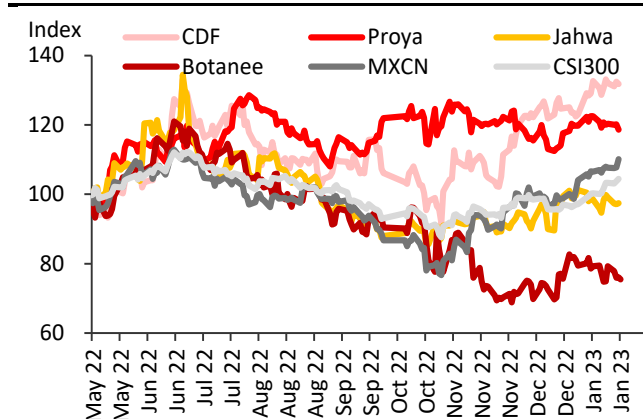
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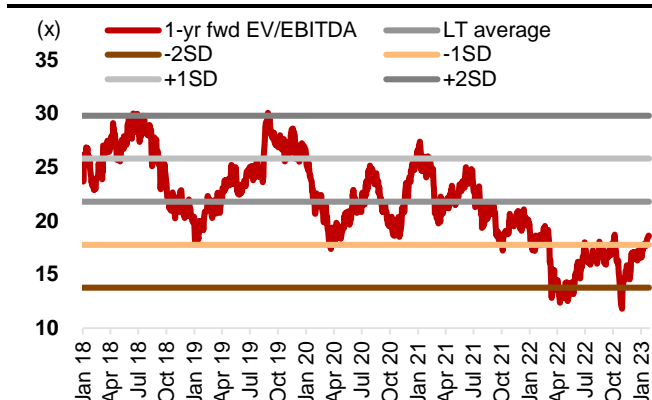
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Figure 1: Breweries outperformed major indices

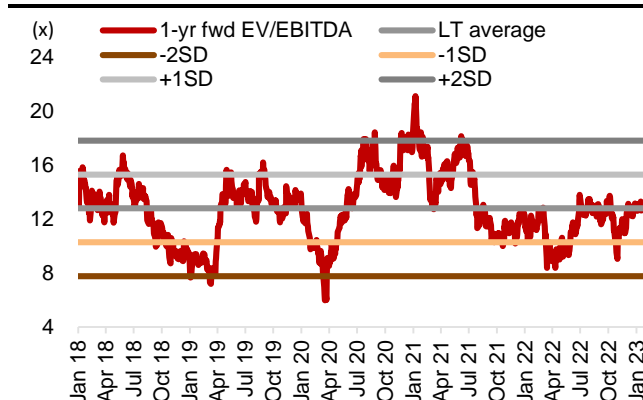
Source: BBG, CMBIGM

Figure 2: CDF outperformed major indices

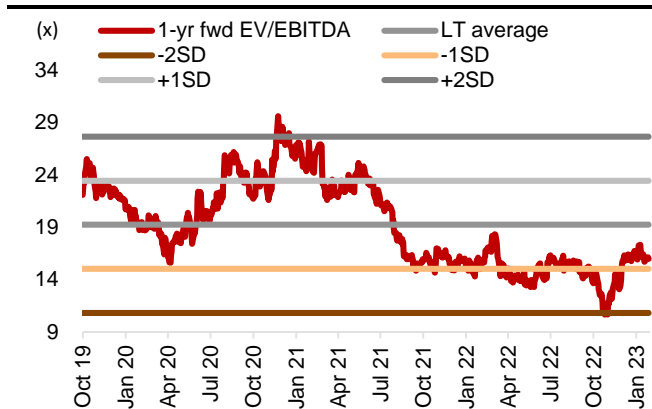
Source: BBG, CMBIGM

Figure 3: CRB – 1-year forward EV/EBITDA chart

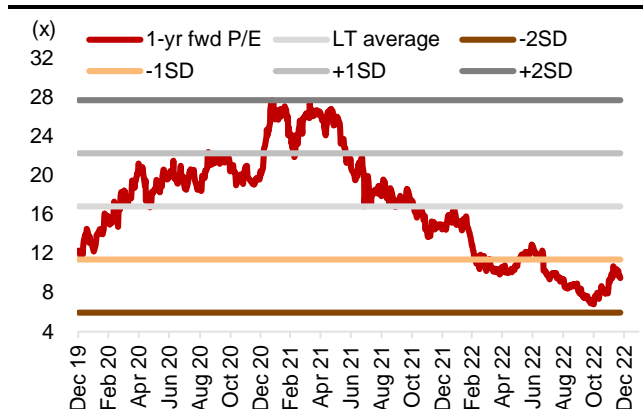
Source: BBG, CMBIGM

Figure 4: Tsingtao – 1-year forward EV/EBITDA chart

Source: BBG, CMBIGM

Figure 5: Budweiser – 1-year forward EV/EBITDA chart

Source: BBG, CMBIGM

Figure 6: Feihe – 1-year forward P/E chart

Source: BBG, CMBIGM

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