

CR Beer (291 HK)

An in-line 2H22; our top pick among China F&B names

- **2023 outlook.** Management remains confident in 2023. We are unaware of a major revision to previous guides, which targets HSD growth in revenue, contributed by 1) LSD volume growth driven by ~20% sub-premium/ premium SKUs (~30% from Heineken) that accelerate from mid-teen growth in 2022, 2) 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 and this would imply double-digit recurring EBIT growth.
- **Baijiu business.** Jinsha is in full consolidation in January this year but financial impact to CRB is muted. Near term, management remains upbeat to manage Jinsha's high channel inventory. Price stabilisation and channel restructuring will be the key. 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.** We largely maintain our forecast despite changes in housekeeping items to reflect the actual results. Our new TP is based on an updated 27.5x (from previously 26.0x) end-23E P/E which still represents long-term average since 2018.

Other results takeaway

- **An largely in-line 2H22.** Recurring 2H net profits came in in-line at RMB718mn, driven by a 3.6% increase in sales (vs a 2% decline in 2H21). While GPM was 1.8pp lower, the weakness was mitigated by a 0.9pp lower opex ratio, and hence a 0.3pp increase in recurring EBIT margins.
- **Positive 2H volume growth,** standing at 1.7% YoY to 4.8mn kl, thanks mainly to a low base. Meanwhile, ASP was up 1.8% YoY on mix upgrade and price hikes, resulting in a 3.6% increase in 2H revenue to RMB 14.3bn.

Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	31,448	33,387	35,263	38,461	42,252
YoY growth (%)	(5.2)	6.2	5.6	9.1	9.9
Net income (RMB mn)	2,094	4,587	4,344	5,022	5,781
EPS (RMB)	0.8	1.1	1.4	1.5	1.8
YoY growth (%)	NM	37.0	26.2	11.1	15.1
Consensus EPS (RMB)	NA	NA	1.3	1.6	1.9
P/E (x)	NA	NA	37.6	33.9	29.4
P/B (x)	NA	NA	6.3	5.6	5.0
Div yield (%)	NA	NA	1.0	1.2	1.4
ROE (%)	12.8	15.7	17.5	17.5	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\$74.8**
 (Previous TP **HK\$77.4**)
 Up/Downside **+18.9%**
 Current Price **HK\$62.9**

China Consumer Staples –
 Food and Beverages

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Stock Data

Mkt Cap (HK\$ mn)	204,059
Avg 3 mths t/o (HK\$ mn)	417.3
52w High/Low (HK\$)	64.4/ 35.9
Total Issued Shares (mn)	3,244

Source: Wind

Shareholding Structure

CRH Beer	51.7%
Morgan Stanley	4.7%
HHLR	4.1%

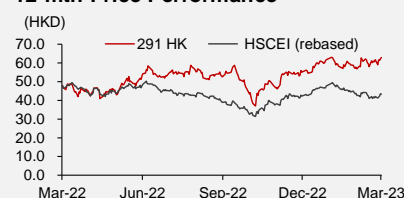
Source: Wind

Share Performance

	Absolute	Relative
1-mth	10.7%	9.3%
3-mth	14.2%	11.6%
6-mth	19.7%	7.7%

Source: Wind

12-mth Price Performance



Source: BBG

Related Reports

1. [CR Beer \(291 HK\) - Another positive year for 2023; our preferred pick for China's re-opening](#) – 17 Jan 2023
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3. [CR Beer \(291 HK\) – 1H22 beat on better cost efficiency: our top pick over 2H22](#) – 18 Aug 2022

Figure 1: Earnings revision

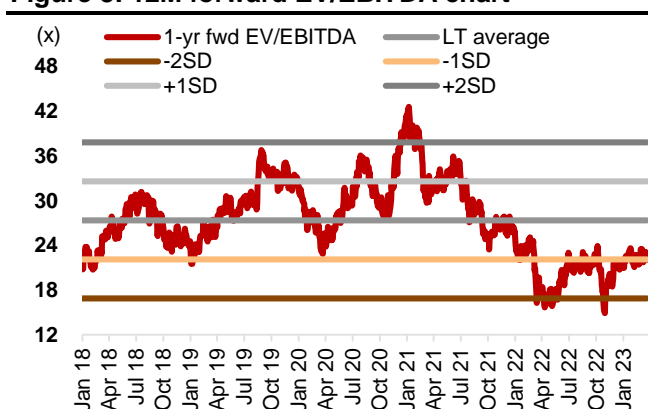
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,263	38,461	42,252	35,617	38,825	42,619	-1.0%	-0.9%	-0.9%
Gross Profit	13,561	15,067	16,865	13,947	15,488	17,322	-2.8%	-2.7%	-2.6%
Recurring EBIT	5,294	6,182	7,146	5,597	6,579	7,543	-5.4%	-6.0%	-5.3%
Net profit	4,344	5,022	5,781	4,299	5,024	5,736	1.0%	0.0%	0.8%
Gross Margin	38.5%	39.2%	39.9%	39.2%	39.9%	40.6%	-0.7ppt	-0.7ppt	-0.7ppt
EBIT Margin	15.0%	16.1%	16.9%	15.7%	16.9%	17.6%	-0.7ppt	-0.8ppt	-0.7ppt
Net margin	12.3%	13.1%	13.7%	12.1%	12.8%	13.5%	0.2ppt	0.3ppt	0.2ppt

Source: Company data, CMBIGM estimates

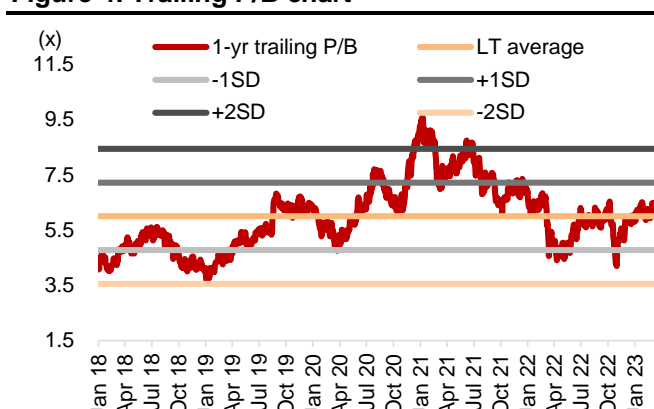
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,263	38,461	42,252	36,388	39,550	45,454	-3.1%	-2.8%	-7.0%
Gross Profit	13,561	15,067	16,865	14,442	16,588	19,756	-6.1%	-9.2%	-14.6%
Recurring EBIT	5,294	6,182	7,146	5,600	6,785	7,998	-5.5%	-8.9%	-10.7%
Net profit	4,344	5,022	5,781	4,325	5,258	6,050	0.4%	-4.5%	-4.5%
Gross Margin	38.5%	39.2%	39.9%	39.7%	41.9%	43.5%	-1.2ppt	-2.8ppt	-3.5ppt
EBITs margin	15.0%	16.1%	16.9%	15.4%	17.2%	17.6%	-0.4ppt	-1.1ppt	-0.7ppt
Net margin	12.3%	13.1%	13.7%	11.9%	13.3%	13.3%	0.4ppt	-0.2ppt	0.4ppt

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	35,263	38,461	42,252
Premium/ Sub premium	7,330	9,585	11,002	13,374	16,753
Mainstream	24,118	23,802	24,261	25,087	25,499
Gross profits	12,075	13,074	13,561	15,067	16,865
D&A	(1,553)	(1,641)	(1,530)	(1,559)	(1,617)
Selling expense	(6,123)	(6,743)	(6,750)	(7,231)	(7,901)
Administration expenses	(4,419)	(3,619)	(3,320)	(3,621)	(3,978)
Other operating expenses	1,546	3,300	1,803	1,967	2,160
Others	1,553	1,641	1,530	1,559	1,617
EBIT	3,079	6,012	5,294	6,182	7,146
EBITDA	4,632	7,653	6,824	7,741	8,763
Finance costs, net	80	224	301	200	200
Non-operating	(150)	(21)	(67)	-	-
Pre-tax profit	3,009	6,215	5,528	6,382	7,346
Income tax	(915)	(1,625)	(1,178)	(1,360)	(1,565)
Less: Minority interests	-	(3)	(6)	-	-
Net profits (reported)	2,094	4,587	4,344	5,022	5,781

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	2,094	4,587	4,344	5,022	5,781
D&A	1,553	1,641	1,530	1,559	1,617
Change in working capital	(1,165)	178	1,875	(1,737)	921
Others	1,998	(1,411)	316	-	-
Net cash fr. operating act.	4,480	4,995	8,065	4,845	8,318
Capex & investments	(1,047)	(1,471)	-	(1,500)	(1,425)
Acquisition	-	-	-	-	-
Others	(23)	(1,279)	(2,497)	-	-
Net cash fr. investing act.	(1,070)	(2,750)	(2,497)	(1,500)	(1,425)
Equity raised	-	-	-	-	-
Change of Debts	1,469	-	1,100	-	-
Dividend paid	(561)	(1,281)	(1,836)	(1,739)	(2,009)
Others	(2,105)	(85)	-	-	-
Net cash fr. financing act.	(1,197)	(1,366)	(736)	(1,739)	(2,009)
Net change in cash	2,213	879	4,832	1,606	4,884
Cash at the beginning of the	2,340	4,538	5,376	10,208	11,814
Exchange difference	(15)	(41)	-	-	-
Cash at the end of the year	4,538	5,376	10,208	11,814	16,698
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	30,398	35,156	36,435	36,376	36,184
PP&E/Fixed assets	17,781	17,096	17,206	17,167	16,995
Goodwill	9,326	9,250	9,385	9,385	9,385
Deferred tax assets	2,858	3,368	3,266	3,266	3,266
Other non-current assets	433	5,442	6,578	6,558	6,538
Current assets	13,377	15,897	20,878	23,651	29,526
Cash	4,538	5,376	10,208	11,814	16,698
Account receivable	2,378	3,436	2,612	2,849	3,130
Taxation recoverable	6,014	6,458	7,402	8,332	9,042
Other current assets	447	627	656	656	656
Current liabilities	19,572	21,170	23,667	23,097	25,009
Borrowings	-	-	512	512	512
Account payables	19,327	21,007	23,002	22,432	24,344
Other payables	162	92	100	100	100
Lease liabilities	83	71	53	53	53
Non-current liabilities	2,929	5,394	6,569	6,569	6,569
Borrowings	-	-	588	588	588
Deferred tax liabilities	788	1,955	1,850	1,850	1,850
Other non-current liabilities	2,141	3,439	4,131	4,131	4,131
Minority Interest	57	57	38	38	38
Total net assets	21,274	24,489	27,077	30,360	34,132
Shareholders' equity	21,217	24,432	27,039	30,322	34,094

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Premium/ Sub-premium	23.3	28.7	31.2	34.8	39.7
Mainstream	76.7	71.3	68.8	65.2	60.3
P&L ratios (%)					
Gross margin	38.4	39.2	38.5	39.2	39.9
Operating margin	9.8	18.0	15.0	16.1	16.9
Pre-tax margin	9.6	18.6	15.7	16.6	17.4
Net margin	6.7	13.7	12.3	13.1	13.7
Effective tax rate	(30.4)	(26.1)	(21.3)	(21.3)	(21.3)
Balance sheet analysis					
Current ratio (x)	0.3	0.3	0.5	0.5	0.6
Net receivable days	28	38	27	27	27
Net payable days	364	377	387	350	350
Inventory turnover days	113	116	124	130	130
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	12.8	15.7	17.5	17.5	17.9
ROA	4.8	9.0	7.6	8.4	8.8
Dividend yield	N.A.	N.A.	1.0	1.2	1.4
Per share					
EPS - recurring (RMB)	0.8	1.1	1.4	1.5	1.8
DPS (RMB)	0.3	0.6	0.5	0.6	0.7
BVPS (RMB)	6.5	7.5	8.3	9.3	10.5

Source: Company data, CMBIGM estimates

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