

Bud APAC (1876 HK)

3Q rev/NP +2%/-1%; S.Korea disappointed

In line with ours but likely below what the market expected, Bud APAC shares retreated another 4% upon its 3Q results, in which revenue/net profit grew/declined by +2.0%/-1.5% YoY. In our view, while the market has stubbornly laser-focused on the weak S.Korea performance (sales/EBITDA -5%/-21%), it seemed to have overlooked the solid APAC West performance. For instance, the company's China sales looked no worse than its major peers, considering a HSD% ASP uptick (vs Tsingtao/CR Beer: 8%/LSD%) and a flattish shipment (vs Tsingtao/CR Beer: -11%/-LSD%). We believe what Bud APAC is facing in S.Korea is not so transient, especially with the unknown brought to the competitive landscape upon the re-entry of the Japanese high-end brands. That said, when the region only represents <20% of the group EBITDA, a c.50% correction since our downgrade looks overdone. Outlook with S.Korea could still be a mixed bag, but ironically it looks to be the key to revive the stalling share price. We would closely monitor to what level S.Korea profitability could recover in the next few quarters. Reiterate HOLD.

- **Major takeaways from analyst call. China outlook** - Bud APAC now covers about one third of its TAM in China, and quarter-to-date progress suggested the company is on track to expand into 220 cities by year end. Management believes premium/super premium remain the sweet spot and expects an accumulated 80%+ profit growth in 5-10 years, along with 50%+ of the growth contributed by super premium (RMB12@). Meanwhile, Core+ (RMB8-10@) would first see benefit under the current consumer trade-up.
- **S.Korea outlook** - Near term, all eyes are on the 6.9% price hike that Orient Brewery initiated on October 11th. The return of Japanese brands should speed up preimmunization, per management. That said, Bud APAC will watch the trajectory on how the incident will shuffle the competitive landscape. Some price initiatives are withheld for this reason. Separately, the growing participation of young women in beer consumption represents a long-term structural tailwind.
- **Earnings change.** We leave our estimates unchanged. Our current 2023E estimates imply 4Q23 revenue/net loss to be US\$1.2bn/US\$96mn, respectively, which is 5% below consensus. We see incentive for the latter to move down further from here.
- **Valuation.** Our revise TP to HK\$16.9 (from HK\$16.8) based on an updated 14.5x (from previously 15.0x) roll-forwarded mid-24E EV/EBITDA, which still represents -1SD below 3-year average. Our methodology attempts to reflect the weakening S.Korea momentum, and this compares to the average valuation we used for CR Beer (291 HK, BUY) and Tsingtao (168 HK, BUY).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	6,788	6,478	6,783	7,277	7,829
YoY growth (%)	21.5	(4.6)	4.7	7.3	7.6
Adjusted net profit (US\$ mn)	980.0	859.0	971.5	1,093.0	1,220.4
YoY growth (%)	75.9	-12.3	13.1	12.5	11.6
EPS (Adjusted) (US\$ cents)	7.19	6.91	7.34	8.26	9.22
Consensus EPS (US\$ cents)	na	na	7.70	9.30	10.66
P/E (x)	41.0	39.7	26.5	23.5	21.1
P/B (x)	3.5	3.4	2.3	2.2	2.1
Yield (%)	1.0	1.4	2.1	2.3	2.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$16.9
(Previous TP)	HK\$16.8)
Up/Downside	12.5%
Current Price	HK\$15.4

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Stock Data

Mkt Cap (HK\$ mn)	200,942.8
Avg 3 mths t/o (HK\$ mn)	132.8
52w High/Low (HK\$)	27.00/14.20
Total Issued Shares (mn)	13219.9

Source: FactSet

Shareholding Structure

AB Inbev Brewing Co APAC ltd	87.2%
JPMorgan Chase & Co	1.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.2%	-2.0%
3-mth	-19.2%	-8.8%
6-mth	-32.0%	-22.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. [Tsingtao Brewery \(168 HK\) – 3Q rev/np -4.6%/+4.7%; above market expectation](#) - Oct 30, 2023
2. [Kweichow Moutai \(600519 CH\) – 3Q rev/np +13%/16%; mixed near-term outlook](#) – Oct 24, 2023
3. [华润啤酒 \(291 HK\) – 消费企业日报营交流纪要](#) - Oct 24, 2023
4. [Budweiser APAC \(1876 HK\) – 3Q preview: flattish rev/EBITDA growth](#) – Oct 19, 2023

Figure 1: Earnings revision

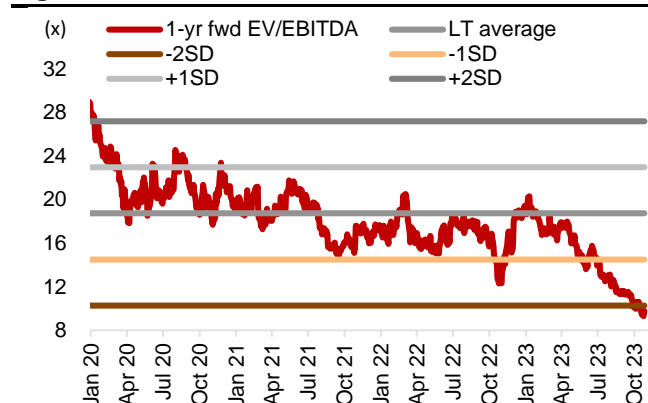
US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,783	7,277	7,829	6,783	7,277	7,829	0.0%	0.0%	0.0%
Gross Profit	3,493	3,821	4,189	3,493	3,821	4,189	0.0%	0.0%	0.0%
EBITDA	2,106	2,324	2,504	2,106	2,324	2,504	0.0%	0.0%	0.0%
Net profit	972	1,093	1,220	972	1,093	1,220	0.0%	0.0%	0.0%
Gross Margin	51.5%	52.5%	53.5%	51.5%	52.5%	53.5%	0ppt	0ppt	0ppt
EBITDA Margin	31.0%	31.9%	32.0%	31.0%	31.9%	32.0%	0ppt	0ppt	0ppt
Net Margin	14.3%	15.0%	15.6%	14.3%	15.0%	15.6%	0ppt	0ppt	0ppt

Source: CMBIGM estimates

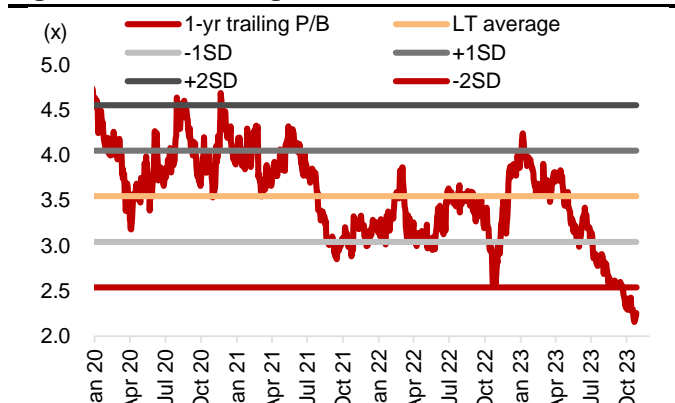
Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,783	7,277	7,829	7,074	7,662	8,244	-4.1%	-5.0%	-5.0%
Gross Profit	3,493	3,821	4,189	3,623	4,030	4,424	-3.6%	-5.2%	-5.3%
EBITDA	2,106	2,324	2,504	2,126	2,425	2,681	-1.0%	-4.2%	-6.6%
Net profit	972	1,093	1,220	1,025	1,236	1,419	-5.2%	-11.6%	-14.0%
Gross Margin	51.5%	52.5%	53.5%	51.2%	52.6%	53.7%	0.3ppt	-0.1ppt	-0.2ppt
EBITDA Margin	31.0%	31.9%	32.0%	30.1%	31.6%	32.5%	1ppt	0.3ppt	-0.5ppt
Net Margin	14.3%	15.0%	15.6%	14.5%	16.1%	17.2%	-0.2ppt	-1.1ppt	-1.6ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: 12M forward EV/EBITDA chart

Source: Bloomberg, CMBIGM estimates

Figure 4: 12M Trailing P/B chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	5,588	6,788	6,478	6,783	7,277	7,829
Cost of goods sold	(2,681)	(3,131)	(3,238)	(3,290)	(3,457)	(3,641)
Gross profit	2,907	3,657	3,240	3,493	3,821	4,189
Operating expenses	(1,970)	(2,230)	(1,979)	(2,056)	(2,200)	(2,375)
Selling expense	(1,278)	(1,407)	(1,151)	(1,194)	(1,266)	(1,362)
Admin expense	(399)	(449)	(442)	(463)	(497)	(534)
Others	(293)	(374)	(386)	(400)	(437)	(479)
Operating profit	937	1,427	1,261	1,437	1,621	1,813
EBITDA	1,556	2,099	1,931	2,105	2,323	2,503
Depreciation	(562)	(619)	(583)	(581)	(614)	(647)
Other amortisation	(85)	(93)	(88)	(88)	(89)	(90)
EBIT	909	1,387	1,260	1,436	1,620	1,812
Interest income	21	39	39	39	39	39
Interest expense	(45)	(45)	(39)	(39)	(39)	(39)
Others	23	32	23	30	30	30
Pre-tax profit	908	1,413	1,283	1,466	1,650	1,842
Income tax	(371)	(432)	(334)	(455)	(511)	(571)
Minority interest	(23)	(31)	(36)	(41)	(46)	(52)
Adjusted net profit	557	980	859	972	1,093	1,220
Gross dividends	315	374	400	500	531	598

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,332	3,161	3,606	4,308	5,210	6,222
Cash & equivalents	1,281	2,007	2,458	3,147	3,993	4,944
Account receivables	486	512	514	547	578	613
Inventories	434	473	488	469	493	519
Other current assets	131	169	146	146	146	146
Non-current assets	13,857	13,464	12,390	12,231	12,037	11,808
PP&E	3,716	3,632	3,181	3,000	2,786	2,539
Deferred income tax	273	257	233	233	233	233
Intangibles	1,775	1,702	1,605	1,626	1,646	1,665
Goodwill	7,350	7,104	6,624	6,624	6,624	6,624
Other non-current assets	743	769	747	747	747	747
Total assets	16,189	16,625	15,996	16,539	17,246	18,030
Current liabilities	4,637	4,691	4,415	4,446	4,546	4,657
Short-term borrowings	147	123	147	147	147	147
Account payables	2,473	2,471	2,343	2,374	2,474	2,585
Tax payable	324	367	360	360	360	360
Other current liabilities	1,693	1,730	1,565	1,565	1,565	1,565
Non-current liabilities	809	851	748	748	748	748
Long-term borrowings	37	53	77	77	77	77
Other non-current liabilities	772	798	671	671	671	671
Total liabilities	5,446	5,542	5,163	5,194	5,294	5,405
Share capital	0	0	0	0	0	0
Capital surplus	7,481	7,218	6,442	6,442	6,442	6,442
Retained earnings	3,204	3,795	4,322	4,793	5,354	5,975
Total shareholders equity	10,685	11,013	10,764	11,235	11,796	12,417
Minority interest	58	70	69	110	156	208
Total equity and liabilities	16,189	16,625	15,996	16,539	17,246	18,030

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	514	950	913	971	1,092	1,219
Depreciation & amortization	608	668	624	621	656	690
Change in working capital	183	44	(151)	18	45	49
Others	(4)	241	191	41	46	52
Net cash from operations	1,301	1,903	1,577	1,651	1,839	2,010
Investing						
Capital expenditure	(516)	(606)	(494)	(462)	(462)	(462)
Acquisition of subsidiaries/ investments	(111)	(123)	(123)	0	0	0
Net proceeds from disposal of short-term investments	39	35	68	0	0	0
Others	16	(37)	109	0	0	0
Net cash from investing	(572)	(731)	(440)	(462)	(462)	(462)
Financing						
Dividend paid	(315)	(374)	(400)	(500)	(531)	(598)
Net borrowings	(4)	(8)	48	0	0	0
Proceeds from share issues	659	(263)	(776)	0	0	0
Others	(772)	181	628	0	0	0
Net cash from financing	(432)	(464)	(500)	(500)	(531)	(598)
Net change in cash						
Cash at the beginning of the year	877	1,264	2,007	2,458	3,147	3,993
Exchange difference	90	35	(186)	0	0	0
Cash at the end of the year	1,264	2,007	2,458	3,147	3,993	4,944
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(14.6%)	21.5%	(4.6%)	4.7%	7.3%	7.6%
Gross profit	(16.7%)	25.8%	(11.4%)	7.8%	9.4%	9.6%
Operating profit	(36.1%)	52.3%	(11.6%)	14.0%	12.8%	11.9%
EBITDA	(26.6%)	34.9%	(8.0%)	9.0%	10.4%	7.7%
EBIT	na	52.6%	(9.2%)	14.0%	12.8%	11.9%
Adj. net profit	na	75.9%	(12.3%)	13.1%	12.5%	11.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	52.0%	53.9%	50.0%	51.5%	52.5%	53.5%
Operating margin	16.8%	21.0%	19.5%	21.2%	22.3%	23.2%
EBITDA margin	27.8%	30.9%	29.8%	31.0%	31.9%	32.0%
Adj. net profit margin	10.0%	14.4%	13.3%	14.3%	15.0%	15.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Current ratio (x)	0.5	0.7	0.8	1.0	1.1	1.3
Receivable turnover days	24.0	22.2	23.3	23.3	23.3	23.3
Inventory turnover days	59.1	55.1	55.0	52.0	52.0	52.0
Payable turnover days	268.2	242.7	219.1	219.1	219.1	219.1
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	79.9	41.0	39.7	26.5	23.5	21.1
P/E (diluted)	79.9	41.0	39.8	26.5	23.6	21.1
P/B	3.9	3.5	3.4	2.3	2.2	2.1
Div yield (%)	0.9	1.0	1.4	2.1	2.3	2.6

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

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