

Bud APAC (1876 HK)

Down to HOLD; when positives of the recovery trade have mostly played out

4Q results came in below us with a net loss of US\$12mn and a slightly deeper than expected revenue decline. However, this was not a total surprise to us when [our channel check](#) suggested a lukewarm sales momentum for the quarter impacted by lockdowns. While results could be eventful to near term share price, we believe long term market would instead focus on the reopening trend. For instance, management has been guiding an almost 100% reopening ratio of restaurants and nightlife channels by the end-Feb, and remains constructive on the recovery trajectory for 2Q23. [Budweiser has been one of our top picks](#). However, considering a 40% bull-run since end-Oct, driven by the company's price hike, and subsequently China's re-opening announcements, we think catalysts to this recovery trade have mostly been priced-in. This becomes more evident to us that the stock is trading close to its 3-year average, when majority of its F&B peers are still trading below. Meanwhile, we are not aware of any incremental drivers that could push up earnings materially higher than what we are looking at. We downgrade Bud APAC to HOLD.

- **Key takeaway from management call.** The weak 4Q was mostly due to channel closures in combined with big customer traffic reductions. Despite CNY seasonality, momentum has started recovering in Jan and extended into Feb. This has led to a 20% volume growth for the month. On the other hand, Korea has seen double-digit growth already in 2022. While government policy continues to be a tailwind to the recovery, growth could decelerate from a high base, in our view.
- **Higher dividend payout.** Management announced an increase on the final dividend per share to the shareholders from 3.02 cents US\$ in 2021 to 3.78 cents US\$ in 2022, which translates to a 54.7% payout (from 42% in 2021).
- **Earnings change and valuation.** We cut 5.3%/6.3% of our net earnings for 2023/24E, following the 4Q22 results, driven by a 5.6%/6.7% reduction in revenues. Our TP of HK\$26.6 (from HK\$27.2) is based on an unchanged 20.0x end-23E EV/EBITDA which still represents 3-year average. In our view, Bud APAC remains a quality play with strong corporate governance and execution in the region that continuously rides on consumer premiumization.
- **Upside risks to our HOLD call** would be 1) stronger-than-expected sales recovery from night-life channel in China, 2) further price hike for 2023, 3) value-accretive M&A, and 4) better-than-expected sales performance from regions outside China.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	5,588	6,788	6,478	7,463	7,975
YoY growth (%)	(14.6)	21.5	(4.6)	15.2	6.9
Net income (US\$ mn)	514	950	913	1,267	1,362
EPS (US\$)	0.04	0.07	0.07	0.10	0.10
YoY growth (%)	(48.1)	84.6	(4.0)	38.7	7.5
Consensus EPS (US\$)	n.a.	n.a.	0.07	0.10	0.11
P/E (x)	n.a.	n.a.	46.2	33.3	31.0
P/B (x)	n.a.	n.a.	3.9	3.7	3.5
Div Yield (%)	n.a.	n.a.	1.2	1.6	1.8
ROE (%)	5.0	8.7	8.3	11.3	11.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price	HK\$26.6
(Previous TP	HK\$27.2)
Up/Downside	+7.3%
Current Price	HK\$24.8

China Consumer – Food and Beverage

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Stock Data

Mkt Cap (HK\$ mn)	328,436
Avg 3 mths t/o (HK\$ mn)	178.4
52w High/Low (HK\$)	27.4/ 15.9
Total Issued Shares mn	13,243

Source: BBG

Shareholding Structure

AB Inbev Brewing Co	87.2%
JPMorgan Chase & Co	0.9%
T Towe Price	0.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.8%	10.2%
3-mth	4.4%	-3.2%
6-mth	11.2%	8.0%

Source: BBG

12-mth Price Performance



Source: BBG

Auditor: PricewaterhouseCoopers

Related Reports

1. Mengniu (2319 HK) – [A laggard play to this early-staged consumption-led recovery](#) – 21 Feb 2023
2. Yili Ind (600887 CH) – [Shares could rally in relief on back of an in line 4Q22](#) – 21 Feb 2023
3. Kweichow Moutai (600519 CH) – [Proxy of China's consumption-led recovery](#) – 06 Feb 2023
4. [China Consumer – Positive takeaway from F&B distributors: but sector's bull-run could take a breather from here](#) - 31 Jan 2023

Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,478	7,463	7,975	7,128	7,903	8,544	-9.1%	-5.6%	-6.7%
Normalized EBITDA	1,883	2,385	2,571	2,340	2,599	2,853	-19.5%	-8.3%	-9.9%
Net profit (reported)	913	1,267	1,362	1,154	1,333	1,479	-20.9%	-5.0%	-7.9%
EPS (US\$)	0.07	0.10	0.10	0.09	0.10	0.11	-23.4%	-5.3%	-6.3%
Norm EBITDA Margin	29.1%	31.9%	32.2%	32.8%	32.9%	33.4%	-3.8ppt	-0.9ppt	-1.2ppt
Net Margin (reported)	14.1%	17.0%	17.1%	16.2%	16.9%	17.3%	-2.1ppt	0.1ppt	-0.2ppt

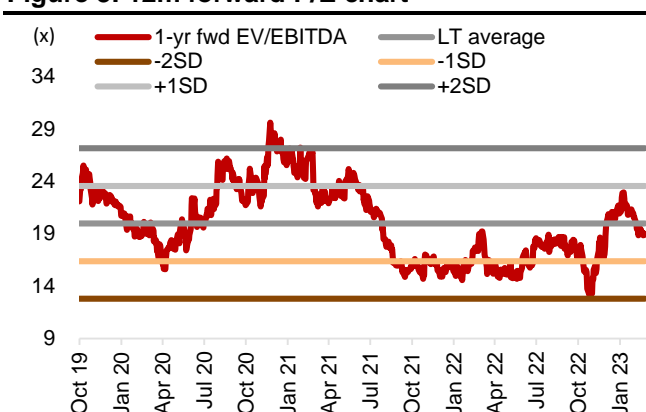
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,478	7,463	7,975	6,687	7,487	8,109	-3.1%	-0.3%	-1.7%
Normalized EBITDA	1,883	2,385	2,571	NA	NA	NA	NA	NA	NA
Net profit (reported)	913	1,267	1,362	950	1,279	1,405	-3.9%	-0.9%	-3.0%
EPS (US\$)	0.07	0.10	0.10	0.07	0.10	0.11	-4.2%	-1.4%	-3.8%
Norm EBITDA Margin	29.1%	31.9%	32.2%	NA	NA	NA	NA	NA	NA
Net Margin (reported)	14.1%	17.0%	17.1%	14.2%	17.1%	17.3%	-0.1ppt	-0.1ppt	-0.2ppt

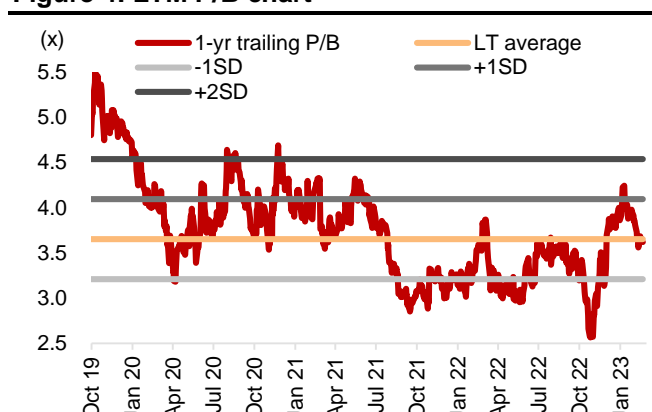
Source: Company data, CMBIGM estimates

Figure 3: 12m forward P/E chart



Source: Bloomberg, CMBIGM estimates

Figure 4: LTM P/B chart



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,588	6,788	6,478	7,463	7,975
Asia Pacific East	1,162	1,222	1,251	1,470	1,513
Asia Pacific West	4,426	5,566	5,227	5,994	6,462
Gross profits	2,907	3,657	3,240	3,970	4,266
Distribution expenses	(458)	(524)	(527)	(597)	(638)
Sales and marketing	(1,278)	(1,407)	(1,151)	(1,314)	(1,404)
Administrative expenses	(399)	(449)	(442)	(448)	(478)
Other operating income	165	150	141	141	141
Operating profits	937	1,427	1,261	1,753	1,887
EBITDA	1,584	2,139	1,883	2,385	2,571
Finance costs, net	(24)	(6)	-	-	-
Joint ventures &	23	32	23	28	28
Other non-recurring items	(28)	(40)	(1)	(1)	(1)
Pre-tax profit	908	1,413	1,283	1,780	1,914
Income tax	(371)	(432)	(334)	(463)	(498)
Less: Minority interests	23	31	36	50	54
Net profits	514	950	913	1,267	1,362

Cash flow summary

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	514	950	913	1,267	1,362
D&A	608	668	622	631	683
Change in working capital	183	44	(151)	67	66
Others	(4)	241	(68)	50	54
Net cash fr. operating act.	1,301	1,903	1,316	2,015	2,165
Capex & investments	(516)	(606)	(560)	(560)	(560)
Acquisition	(111)	(123)	-	-	-
Others	55	(2)	22	-	-
Net cash fr. investing act.	(572)	(731)	(538)	(560)	(560)
Equity raised	659	(263)	(776)	-	-
Change of Debts	(4)	(8)	48	-	-
Dividend paid	(315)	(374)	(400)	(500)	(693)
Others	(772)	181	-	-	-
Net cash fr. financing act.	(432)	(464)	(1,128)	(500)	(693)
Net change in cash	297	708	(350)	956	912
Cash at the beginning of the year	877	1,264	2,007	1,657	2,613
Exchange difference	90	35	-	-	-
Cash at the end of the year	1,264	2,007	1,657	2,613	3,525
Plus: pledged cash	17	-	-	-	-

Balance sheet

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	13,857	13,464	12,390	13,247	13,123
Fixed asset	3,716	3,632	3,181	3,921	3,790
Net intangibles assets	9,125	8,806	8,229	8,346	8,353
Right of use assets, net	256	251	227	227	227
Other non-current assets	760	775	753	753	753
Current assets	2,332	3,161	3,606	3,846	4,822
Cash	1,281	2,007	2,458	2,613	3,525
Account receivable	367	412	414	490	523
Inventory	434	473	488	498	528
Other current assets	250	269	246	246	246
Current liabilities	4,637	4,691	4,415	4,568	4,697
Borrowings	147	123	147	147	147
Payables	2,112	2,156	2,018	2,171	2,300
Contract liabilities	1,449	1,495	1,405	1,405	1,405
Payables with parent co	142	74	74	74	74
Other current liabilities	787	843	771	771	771
Non-current liabilities	809	851	748	875	875
Borrowings	37	53	77	77	77
Other non-current liabilities	772	798	671	798	798
Minority Interest	58	70	69	119	173
Total net assets	10,743	11,083	10,833	11,650	12,373
Shareholders' equity	10,685	11,013	10,764	11,531	12,200

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Asia Pacific East	20.8	18.0	19.3	19.7	19.0
Asia Pacific West	79.2	82.0	80.7	80.3	81.0
P&L ratios (%)					
Gross profit margin	52.0	53.9	50.0	53.2	53.5
Operating margin	16.8	21.0	19.5	23.5	23.7
Pre-tax margin	16.2	20.8	19.8	23.9	24.0
Net margin	9.2	14.0	14.1	17.0	17.1
Effective tax rate	(6.6)	(6.4)	(5.2)	(6.2)	(6.2)
Balance sheet ratios					
Current ratio (x)	0.5	0.7	0.8	0.8	1.0
Net receivable days	24	22	23	23	23
Net payable days	268	243	219	219	219
Inventory turnover days	59	55	55	52	52
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	4.98	8.71	8.33	11.27	11.34
Dividend yield	n.a.	n.a.	1.2	1.6	1.8
Per share					
EPS (US\$)	0.04	0.07	0.07	0.10	0.10
DPS (US\$)	0.03	0.03	0.04	0.05	0.06
BVPS (US\$)	0.81	0.83	0.81	0.87	0.92
EV/ EBITDA (x)	n.a.	n.a.	21.1	16.6	15.1

Source: Company data, CMBIGM estimates

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