

Tsingtao Brewery (168 HK)

Stronger ahead

Tsingtao's solid 1Q and takeaway from briefing again convinced us that the Company is dedicated to its premiumization effort along with a more cost-effective operation. Despite market talks about soft beer sales in April, Tsingtao's low-teen sales growth of the month was encouraging, considering also the mid-double-digit volume growth in Classic & above. Looking ahead, 2Q is an important quarter for beer consumption, as the quarter's restocking momentum typically provides a good gauge to peak season demand, and therefore any earnings upside for Tsingtao. We think this explains recent profit-taking on shares, and expect the trend to continue until signs of a strong 2Q emerge. Despite this, we remain Buyer of Tsingtao and rate it as our preferred pick along with CR Beer (291HK, Buy) within our coverage universe.

■ **2Q outlook.** 1Q momentum has largely extended into April with low-teen sales growth. Approaching the end of May, we should be able to obtain incremental information about the demand for Dragon Boat Festival and more importantly, for the upcoming summer strong season. For now, we assert a similar, if not better, growth trajectory for the quarter as our base case scenario. Long term, Tsingtao's management targets to maintain double-digit sales growth thanks to sustainable drivers such as price hike, mix upgrade and cost initiatives.

■ **A re-ramped product/ regional strategy.** Tsingtao plans to reshape its product structure to diamond-shaped, having mass market products (mainly Classic) contributing a large part of the mix, followed by that of super-premium. Low end SKUs will represent the smallest shares. By region, Tsingtao will maintain its lead in Shangdong, Shaanxi, Gansu, and will look for regaining market share in weaker regions such as Guangdong, Zhejiang and Fujian.

■ **Earnings change.** To reflect the above, we fine-tune our 2023/24E revenue and GPM estimates. In particular, we raise our gross profits by 3-6%, on the assumption that a low packaging cost could only drive up COGS by a LSD YoY. We further lower our SG&A ratio by 0.5pp. These together lead to a 8-14% increase in our EBITDA estimates for the same period. For now, as we introduce our 2025E forecasts, and we forecast a 9% revenue CAGR between 2022-25E with an average 1.0pp GPM expansion per annum.

■ **Valuation.** Our revised TP is still based on 15.0x roll-forward end-23E EV/EBITDA which still represents +1sd above long term average since 2018.

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	30,167	32,172	35,852	39,475	43,570
YoY growth	8.7	6.6	11.4	10.1	10.4
Net income	3,155	3,711	4,398	5,081	5,861
EPS (RMB)	2.3	2.7	3.2	3.7	4.3
YoY growth	42.6	17.4	18.5	15.5	15.3
Consensus	n.a	n.a	3.3	3.6	4.0
P/E (x)	n.a	n.a	19.5	16.8	14.6
P/B (x)	n.a	n.a	3.1	2.9	2.7
Div yield (%)	n.a	n.a	3.4	3.9	4.5
ROE (%)	13.7	14.6	16.0	17.2	18.3
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price HK\$92.9
(Previous TP) HK\$89.9
Up/Downside +23.0%
Current Price HK\$75.5

China Consumer

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Stock Data

Mkt Cap (HK\$ mn) 136,009
 Avg 3 mths t/o (HK\$ mn) 212.3
 52w High/Low (HK\$) 87.4/ 54.5
 Total Issued Shares (mn) 655.1

Source: Wind

Shareholding Structure

Tsingtao Beer Group Co. 32.5%
 China Securities Finance Co. 1.2%

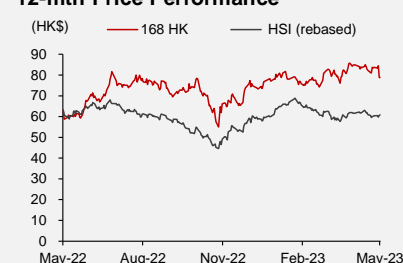
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-11.3%	-5.6%
3-mth	-0.5%	12.6%
6-mth	15.0%	-3.4%

Source: Wind

12-mth Price Performance



Source: BBG

Related Reports

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Figure 1: Earnings revisions

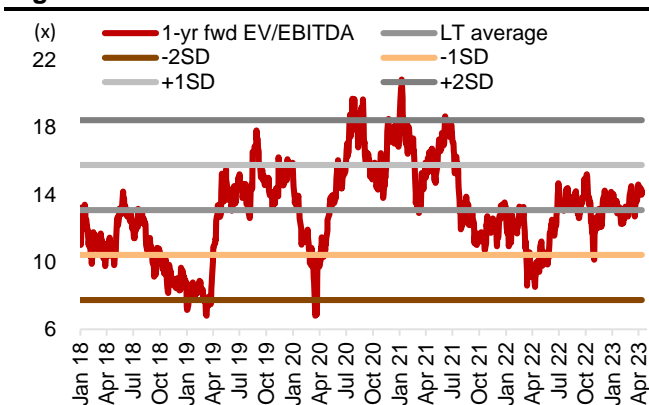
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,852	39,475	43,570	34,977	37,799	n.a	2.5%	4.4%	NA
Gross Profit	10,869	12,414	14,170	10,563	11,680	n.a	2.9%	6.3%	NA
EBITDA	5,795	6,816	7,967	5,358	5,971	n.a	8.1%	14.1%	NA
Net profit	4,398	5,081	5,861	3,777	4,290	n.a	16.4%	18.4%	NA
Gross Margin	30.3%	31.4%	32.5%	30.2%	30.9%	NA	0.1ppt	0.5ppt	NA
EBITDA Margin	16.2%	17.3%	18.3%	15.3%	15.8%	NA	0.8ppt	1.5ppt	NA
Net margin	12.3%	12.9%	13.5%	10.8%	11.3%	NA	1.5ppt	1.5ppt	NA

Source: Company data, CMBIGM estimates

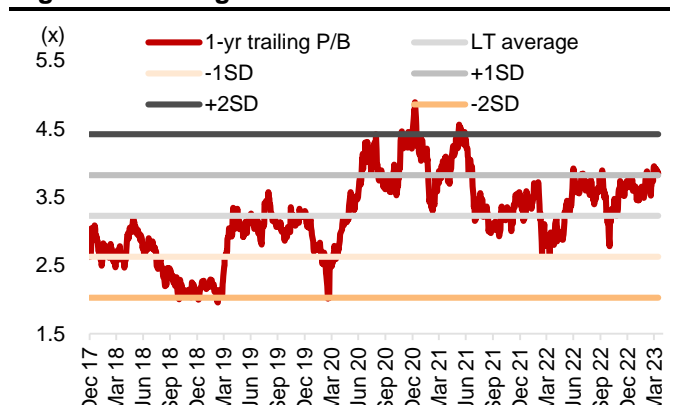
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,852	39,475	43,570	34,599	37,521	40,622	3.6%	5.2%	7.3%
Gross Profit	10,869	12,414	14,170	10,869	12,087	13,221	0.0%	2.7%	7.2%
EBITDA	5,795	6,816	7,967	5,804	6,614	7,355	-0.2%	3.0%	8.3%
Net profit	4,398	5,081	5,861	4,401	4,866	5,408	-0.1%	4.4%	8.4%
Gross Margin	30.3%	31.4%	32.5%	31.4%	32.2%	32.5%	-1.1ppt	-0.8ppt	0ppt
EBITDA margin	16.2%	17.3%	18.3%	16.8%	17.6%	18.1%	-0.6ppt	-0.4ppt	0.2ppt
Net margin	12.3%	12.9%	13.5%	12.7%	13.0%	13.3%	-0.5ppt	-0.1ppt	0.1ppt

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	30,167	32,172	35,852	39,475	43,570
Beer	29,673	31,697	35,265	38,828	42,856
Others	494	474	474	474	474
Gross profits	8,757	9,463	10,869	12,414	14,170
D&A	(1,108)	(1,082)	(1,092)	(1,192)	(1,291)
Selling expense	(4,097)	(4,200)	(4,661)	(5,132)	(5,664)
Administration expenses	(1,723)	(1,473)	(1,506)	(1,658)	(1,830)
Other operating expenses	1,108	1,082	1,092	1,192	1,291
EBIT	2,937	3,790	4,703	5,624	6,676
EBITDA	4,044	4,872	5,795	6,816	7,967
Finance costs, net	243	353	353	353	353
Associates & JCEs	186	170	170	170	170
Non-operating	1,061	539	539	539	539
Pre-tax profit	4,479	5,006	5,934	6,855	7,907
Income tax	(1,223)	(1,201)	(1,424)	(1,645)	(1,898)
Less: Minority interests	(101)	(94)	(112)	(129)	(149)
Net profit	3,155	3,711	4,398	5,081	5,861

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23	FY24E	FY25E
Net income	3,155	3,711	4,398	5,081	5,861
D&A	1,108	1,082	1,092	1,192	1,291
Change in working capital	120	(27)	(62)	(57)	(64)
Others	1,660	113	112	129	149
Net cash fr. operating act.	6,043	4,879	5,540	6,344	7,236
Capex & investments	(1,359)	(2,545)	(2,545)	(2,545)	(2,545)
Investments	(22,990)	(17,259)	-	-	-
Others	14,100	17,604	(170)	(170)	(170)
Net cash fr. investing act.	(10,250)	(2,199)	(2,715)	(2,715)	(2,715)
Equity raised	6	-	-	-	-
Lease repayment	42	-	-	-	-
Dividend paid	(1,111)	(1,576)	(2,456)	(2,911)	(3,363)
Others	(551)	(99)	-	-	-
Net cash fr. financing act.	(1,614)	(1,676)	(2,456)	(2,911)	(3,363)
Net change in cash	(5,820)	1,004	369	719	1,159
Cash at the beginning of the	20,427	16,829	17,85	18,224	18,943
Exchange difference	(9)	22	-	-	-
Cash at the end of the year	14,598	17,855	18,22	18,943	20,103
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	17,604	18,309	20,061	21,584	23,007
PP&E/Fixed assets	10,148	11,009	12,524	13,817	15,018
Intangible assets	2,481	2,558	2,625	2,684	2,737
Equity method investments	366	368	538	708	878
Other non-current assets	4,609	4,374	4,374	4,374	4,374
Current assets	28,959	32,002	32,794	33,897	35,487
Cash	14,598	17,855	18,224	18,943	20,103
Account receivable	125	120	133	147	162
Inventories	3,493	4,152	4,561	4,931	5,347
Other current assets	10,743	9,876	9,876	9,876	9,876
Current liabilities	18,259	19,672	20,032	20,358	20,725
Borrowings	246	225	225	225	225
Account payables	3,298	3,662	4,022	4,348	4,715
Contract liabilities	8,123	8,910	8,910	8,910	8,910
Other payables	6,592	6,875	6,875	6,875	6,875
Non-current liabilities	4,511	4,368	4,496	4,496	4,496
Borrowings	-	-	-	-	-
Lease liabilities	-	-	-	-	-
Other non-current liabilities	113	98	98	98	98
Minority Interest	792	777	889	1,018	1,166
Total net assets	23,794	26,272	28,326	30,626	33,272
Shareholders' equity	23,002	25,495	27,437	29,608	32,106

Key ratios

YE 31 Dec	FY21A	FY22A	FY23	FY24E	FY25E
Sales mix (%)					
Beer	98.4	98.5	98.4	98.4	98.4
Others	1.6	1.5	1.3	1.2	1.1
P&L ratios (%)					
Gross margin	29.0	29.4	30.3	31.4	32.5
Operating margin	9.7	11.8	13.1	14.2	15.3
Pre-tax margin	14.8	15.6	16.6	17.4	18.1
Net margin	10.5	11.5	12.3	12.9	13.5
Effective tax rate	(27.3)	(24.0)	(24.0)	(24.0)	(24.0)
Balance sheet analysis					
Current ratio (x)	0.5	0.6	0.6	0.6	0.6
Net receivable days	1.5	1.4	1.4	1.4	1.4
Net payable days	63.1	65.8	65.8	65.8	65.8
Inventory turnover days	66.8	74.6	74.6	74.6	74.6
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.7	14.6	16.0	17.2	18.3
Dividend yield	n.a	n.a	3.4	3.9	4.5
Per share					
EPS (RMB)	2.3	2.7	3.2	3.7	4.3
DPS (RMB)	1.1	1.8	2.1	2.5	2.9
BVPS (RMB)	16.9	18.7	20.2	21.8	23.6

Source: Company data, CMBIGM estimates

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