

CR Beer (291 HK)

A crowded trade but worthy of a revisit for a potentially strong summer sales

CR Beer's share price corrected by c.10% on softer-than-expected April sales. However, our channel check suggests steadfast 4M sales growth that compares to that of 3M. Meanwhile, 20%/21% sector beer production growth in March/April could altogether reinforce a potentially strong summer sales that market has previously challenged with doubts. Separately, we note that the declining raw material costs have already kicked-in. Considering also the mix upgrade, we now forecast GPM to expand by 1pp for 2023E. 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. In our view, a solid restocking momentum will provide a good reason to revisit the name. CR Beer is a good proxy to play on the uneven consumption recovery that skewed towards service and small-ticket spending with an affordable premiumization strategy. We are buy-rated, and CR Beer is our top buy name within the sector along with Tsingtao (169 HK, Buy).

- **Recap on 2023 guidance.** Management targets 20%+ volume growth for sub-premium+ (from 13% in 2022), of which Heineken will see 30% growth, and push the segment's contribution to 22% (from 19% in 2022) and 30%+ in the next two years. Along with some operation cost savings, management looks for 20%+ growth in recurring EBIT for 2023.
- **Earnings change.** We slightly lift our revenue growth to 11% for 2023, which comprises of a 7% ASP uptick and 4% volume growth. On gross level, with input prices coming down year-to-date, we now expect a RMB400mn increase (vs previous RMB 500mn) in total raw material cost for 2023. These explain a 0.4pp uptake in each of our 2023/24E GPM. We also assume 20% recurring EBIT growth that is in line with management target. In this report, we introduce our 2025E forecast. This assumes a 9.5% 3-year revenue CAGR and a 16% 3-year net profits CAGR between 2022-25E.
- **Valuation/Key risks.** Our revised TP is based on an updated 27.0x (from previously 27.5x) EV/EBITDA which still represents its long-term average since 2018.

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------------|---------|---------|---------|---------|---------|
| Revenue (RMB mn) | 33,387 | 35,263 | 39,071 | 42,431 | 46,245 |
| YoY growth (%) | 6.2 | 5.6 | 10.8 | 8.6 | 9.0 |
| Net profit (RMB mn) | 4,587.0 | 4,344.0 | 5,164.3 | 5,970.2 | 6,836.7 |
| EPS (Reported) (RMB) | 1.41 | 1.34 | 1.59 | 1.84 | 2.11 |
| YoY growth (%) | 119.1 | (5.3) | 18.9 | 15.6 | 14.5 |
| Consensus EPS (RMB) | N/A | N/A | 1.59 | 1.84 | 2.11 |
| P/E (x) | 37.8 | 33.5 | 30.0 | 26.0 | 22.7 |
| P/B (x) | 7.1 | 5.4 | 5.1 | 4.5 | 4.0 |
| Yield (%) | 1.1 | 1.2 | 1.3 | 1.5 | 1.8 |
| ROE (%) | 20.1 | 16.9 | 18.0 | 18.4 | 18.7 |
| Net gearing (%) | (22.0) | (33.7) | (39.6) | (39.6) | (39.5) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$76.90**

(Previous TP) **HK\$74.80**

Up/Downside **44.4%**

Current Price **HK\$53.25**

China Consumer

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 172,752.4 |
| Avg 3 mths t/o (HK\$ mn) | 449.9 |
| 52w High/Low (HK\$) | 64.75/37.00 |
| Total Issued Shares (mn) | 3244.2 |

Source: FactSet

Shareholding Structure

| | |
|----------------|-------|
| CRH Beer | 51.7% |
| Morgan Stanley | 4.7% |

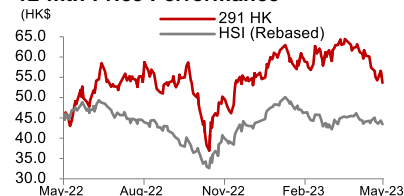
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -15.7% | -11.7% |
| 3-mth | -9.6% | -4.3% |
| 6-mth | 7.6% | -1.9% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

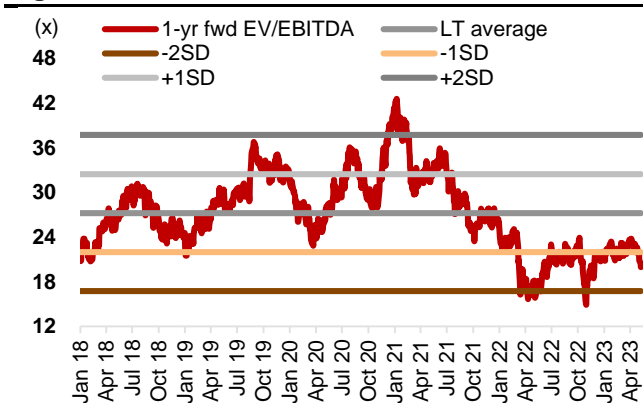
| RMB mn | New | | | Old | | | Diff (%) | | |
|----------------|--------|--------|--------|--------|--------|-------|----------|--------|-------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 39,071 | 42,431 | 46,245 | 38,461 | 42,252 | N/A | 1.6% | 0.4% | N/A |
| Gross Profit | 15,305 | 17,013 | 18,980 | 15,067 | 16,865 | N/A | 1.6% | 0.9% | N/A |
| Recurring EBIT | 6,363 | 7,387 | 8,488 | 6,182 | 7,146 | N/A | 2.9% | 3.4% | N/A |
| Net profit | 5,164 | 5,970 | 6,837 | 5,022 | 5,748 | N/A | 2.8% | 3.9% | N/A |
| Gross Margin | 39.2% | 40.1% | 41.0% | 38.8% | 39.7% | N/A | 0.4ppt | 0.4ppt | N/A |
| EBIT Margin | 16.3% | 17.4% | 18.4% | 16.0% | 17.1% | N/A | 0.3ppt | 0.3ppt | N/A |
| Net margin | 13.2% | 14.1% | 14.8% | 12.8% | 13.5% | N/A | 0.4ppt | 0.6ppt | N/A |

Source: Company data, CMBIGM estimates

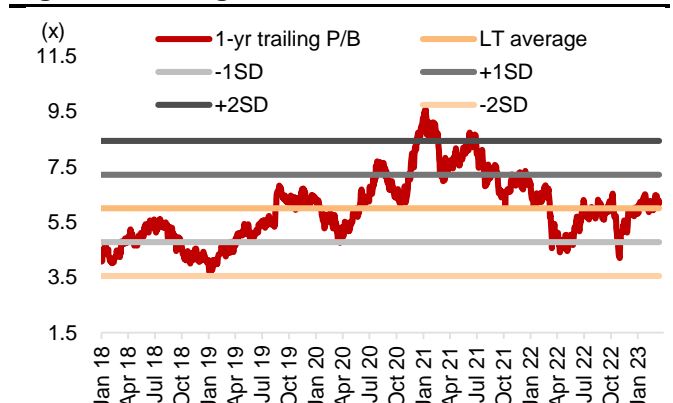
Figure 2: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|----------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 39,071 | 42,431 | 46,245 | 40,393 | 43,550 | 45,454 | -3.3% | -2.6% | 1.7% |
| Gross Profit | 15,305 | 17,013 | 18,980 | 15,936 | 17,480 | 19,756 | -4.0% | -2.7% | -3.9% |
| Recurring EBIT | 6,363 | 7,387 | 8,488 | 6,541 | 7,618 | 8,869 | -2.7% | -3.0% | -4.3% |
| Net profit | 5,164 | 5,970 | 6,837 | 5,426 | 6,253 | 7,300 | -4.8% | -4.5% | -6.3% |
| Gross Margin | 39.2% | 40.1% | 41.0% | 39.5% | 40.1% | 43.5% | -0.3ppt | 0ppt | -2.4ppt |
| EBITs margin | 16.3% | 17.4% | 18.4% | 16.2% | 17.5% | 19.5% | 0.1ppt | -0.1ppt | -1.2ppt |
| Net margin | 13.2% | 14.1% | 14.8% | 13.4% | 14.4% | 16.1% | -0.2ppt | -0.3ppt | -1.3ppt |

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 | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|-------------------------------|----------|----------|----------|----------|----------|----------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 31,448 | 33,387 | 35,263 | 39,071 | 42,431 | 46,245 |
| Cost of goods sold | (19,373) | (20,313) | (21,702) | (23,766) | (25,418) | (27,265) |
| Gross profit | 12,075 | 13,074 | 13,561 | 15,305 | 17,013 | 18,980 |
| Operating expenses | (8,996) | (7,062) | (8,267) | (8,942) | (9,626) | (10,492) |
| Selling expense | (6,123) | (6,743) | (6,750) | (7,306) | (7,850) | (8,555) |
| Admin expense | (4,419) | (3,619) | (3,320) | (3,634) | (3,946) | (4,301) |
| Others | 1,546 | 3,300 | 1,803 | 1,998 | 2,170 | 2,364 |
| Operating profit | 3,079 | 6,012 | 5,294 | 6,363 | 7,387 | 8,488 |
| EBITDA | 5,381 | 6,293 | 6,992 | 8,139 | 9,235 | 10,408 |
| Depreciation | (1,489) | (1,576) | (1,510) | (1,570) | (1,626) | (1,679) |
| Goodwill amortisation | (64) | (65) | (20) | (20) | (20) | (20) |
| EBIT | 3,079 | 6,012 | 5,294 | 6,363 | 7,387 | 8,488 |
| Interest income | 141 | 243 | 380 | 200 | 200 | 200 |
| Interest expense | (61) | (19) | (79) | 0 | 0 | 0 |
| Net Interest income/(expense) | 80 | 224 | 301 | 200 | 200 | 200 |
| Others | (150) | (21) | (67) | 0 | 0 | 0 |
| Pre-tax profit | 3,009 | 6,215 | 5,528 | 6,563 | 7,587 | 8,688 |
| Income tax | (915) | (1,625) | (1,178) | (1,399) | (1,617) | (1,851) |
| After tax profit | 2,094 | 4,590 | 4,350 | 5,164 | 5,970 | 6,837 |
| Minority interest | 0 | (3) | (6) | 0 | 0 | 0 |
| Discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 2,094 | 4,587 | 4,344 | 5,164 | 5,970 | 6,837 |
| Adjusted net profit | 2,094 | 4,587 | 4,344 | 5,164 | 5,970 | 6,837 |

| BALANCE SHEET | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 13,377 | 15,897 | 20,878 | 24,180 | 26,408 | 28,986 |
| Cash & equivalents | 4,538 | 5,376 | 10,208 | 13,151 | 14,720 | 16,425 |
| Account receivables | 2,378 | 3,436 | 2,612 | 3,211 | 4,069 | 4,434 |
| Inventories | 6,014 | 6,458 | 7,402 | 7,162 | 6,964 | 7,470 |
| Other current assets | 447 | 627 | 656 | 656 | 656 | 656 |
| Non-current assets | 30,398 | 35,156 | 36,435 | 36,345 | 36,124 | 35,778 |
| PP&E | 17,781 | 17,096 | 17,206 | 17,136 | 16,935 | 16,609 |
| Deferred income tax | 2,858 | 3,368 | 3,266 | 3,266 | 3,266 | 3,266 |
| Intangibles | 320 | 255 | 203 | 183 | 163 | 143 |
| Goodwill | 9,326 | 9,250 | 9,385 | 9,385 | 9,385 | 9,385 |
| Other non-current assets | 113 | 5,187 | 6,375 | 6,375 | 6,375 | 6,375 |
| Total assets | 43,775 | 51,053 | 57,313 | 60,526 | 62,532 | 64,764 |
| Current liabilities | 19,572 | 21,170 | 23,667 | 23,454 | 21,557 | 19,340 |
| Short-term borrowings | 0 | 0 | 512 | 512 | 512 | 512 |
| Account payables | 19,327 | 21,007 | 23,002 | 22,789 | 20,892 | 18,675 |
| Tax payable | 162 | 92 | 100 | 100 | 100 | 100 |
| Other current liabilities | 83 | 71 | 53 | 53 | 53 | 53 |
| Non-current liabilities | 2,929 | 5,394 | 6,569 | 6,569 | 6,569 | 6,569 |
| Long-term borrowings | 0 | 0 | 588 | 588 | 588 | 588 |
| Deferred income | 788 | 1,955 | 1,850 | 1,850 | 1,850 | 1,850 |
| Other non-current liabilities | 2,141 | 3,439 | 4,131 | 4,131 | 4,131 | 4,131 |
| Total liabilities | 22,501 | 26,564 | 30,236 | 30,023 | 28,126 | 25,909 |
| Share capital | 14,090 | 14,090 | 14,090 | 14,090 | 14,090 | 14,090 |
| Retained earnings | 7,127 | 10,342 | 12,949 | 16,374 | 20,279 | 24,727 |
| Total shareholders equity | 21,217 | 24,432 | 27,039 | 30,464 | 34,369 | 38,817 |
| Minority interest | 57 | 57 | 38 | 38 | 38 | 38 |
| Total equity and liabilities | 21,274 | 24,489 | 27,077 | 30,502 | 34,407 | 38,855 |

| CASH FLOW | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 3,009 | 6,215 | 5,528 | 6,563 | 7,587 | 8,688 |
| Depreciation & amortization | 1,553 | 1,641 | 1,530 | 1,590 | 1,646 | 1,699 |
| Tax paid | (915) | (1,625) | (1,178) | (1,399) | (1,617) | (1,851) |
| Change in working capital | (1,165) | 178 | 1,875 | (572) | (2,557) | (3,089) |
| Others | 1,998 | (1,414) | (909) | 0 | 0 | 0 |
| Net cash from operations | 4,480 | 4,995 | 6,846 | 6,182 | 5,060 | 5,448 |
| Investing | | | | | | |
| Capital expenditure | (1,047) | (1,471) | (1,661) | (1,500) | (1,425) | (1,354) |
| Acquisition of subsidiaries/ investments | 3 | 4 | 5 | 6 | 7 | 8 |
| Net proceeds from disposal of short-term investments | 384 | 226 | 591 | 0 | 0 | 0 |
| Others | (410) | (1,509) | 7 | (6) | (7) | (8) |
| Net cash from investing | (1,070) | (2,750) | (1,058) | (1,500) | (1,425) | (1,354) |
| Financing | | | | | | |
| Dividend paid | (561) | (1,281) | (1,739) | (1,739) | (2,066) | (2,388) |
| Net borrowings | (526) | 0 | 1,100 | 0 | 0 | 0 |
| Proceeds from share issues | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (110) | (85) | (172) | 0 | 0 | 0 |
| Net cash from financing | (1,197) | (1,366) | (811) | (1,739) | (2,066) | (2,388) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 2,340 | 4,538 | 5,376 | 10,208 | 13,151 | 14,720 |
| Exchange difference | (15) | (41) | (145) | 0 | 0 | 0 |
| Cash at the end of the year | 4,538 | 5,376 | 10,208 | 13,151 | 14,720 | 16,425 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Revenue | (5.2%) | 6.2% | 5.6% | 10.8% | 8.6% | 9.0% |
| Gross profit | (1.2%) | 8.3% | 3.7% | 12.9% | 11.2% | 11.6% |
| Operating profit | 42.3% | 95.3% | (11.9%) | 20.2% | 16.1% | 14.9% |
| EBITDA | (4.6%) | 16.9% | 11.1% | 16.4% | 13.5% | 12.7% |
| EBIT | 42.3% | 95.3% | (11.9%) | 20.2% | 16.1% | 14.9% |
| Net profit | 59.6% | 119.1% | (5.3%) | 18.9% | 15.6% | 14.5% |
| Adj. net profit | 59.6% | 119.1% | (5.3%) | 18.9% | 15.6% | 14.5% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 38.4% | 39.2% | 38.5% | 39.2% | 40.1% | 41.0% |
| Operating margin | 9.8% | 18.0% | 15.0% | 16.3% | 17.4% | 18.4% |
| EBITDA margin | 17.1% | 18.8% | 19.8% | 20.8% | 21.8% | 22.5% |
| Adj. net profit margin | 6.7% | 13.7% | 12.3% | 13.2% | 14.1% | 14.8% |
| Return on equity (ROE) | 10.2% | 20.1% | 16.9% | 18.0% | 18.4% | 18.7% |
| GEARING/LIQUIDITY/ACTIVITIES | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | (0.2) | (0.2) | (0.3) | (0.4) | (0.4) | (0.4) |
| Current ratio (x) | 0.7 | 0.8 | 0.9 | 1.0 | 1.2 | 1.5 |
| Receivable turnover days | 27.6 | 37.6 | 27.0 | 30.0 | 35.0 | 35.0 |
| Inventory turnover days | 113.3 | 116.0 | 124.5 | 110.0 | 100.0 | 100.0 |
| Payable turnover days | 364.1 | 377.5 | 386.9 | 350.0 | 300.0 | 250.0 |
| VALUATION | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| P/E | 63.3 | 37.8 | 33.5 | 30.0 | 26.0 | 22.7 |
| P/E (diluted) | 63.3 | 37.8 | 33.5 | 30.0 | 26.0 | 22.7 |
| P/B | 6.3 | 7.1 | 5.4 | 5.1 | 4.5 | 4.0 |
| Div yield (%) | 0.6 | 1.1 | 1.2 | 1.3 | 1.5 | 1.8 |

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

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| | |
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