

Tsingtao Brewery (168 HK)

A potentially strong 3Q, when our channel checks indicated low-teen sales growth for Jul-Sep

- **Our channel checks** indicated Tsingtao's 3Q sales likely stand at 10%+, driven not only by hot weather but also festive demand in which its canned products were perceived as ideal gifts during the mid-autumn festival. Of note, the product has been seeing strong demand growth thanks to stay-home consumption amid the pandemic over 1H. Interestingly, a seemingly weakening spending propensity has nonetheless facilitated consumption rotation from baijiu to beer over dinners and other social gatherings. Coupled with a relatively easy comp last year, we see grounds for another solid quarter.
- **2H outlook remains solid**, when Tsingtao's management continues to push for mix upgrade by phasing-out mass-market regional brands. Input costs are unlikely to be fully mitigated when recently procured raw materials have already kicked-in and impacted production costs. That said, given a low comp and a sequentially easing input price trend, we expect 2H GPM to healthily benchmark to that of 2H20, particularly when promotional efforts throughout Jul-Aug have been disciplined. Separately, selling expense has been on the rise given more resources were devoted for summer promotion.
- **1H results were in line with us but were HSD above consensus**, thanks to better-than-expected GPM as a result of strong premiumization trajectory.

 - i) 5% top line growth was slower than 7% CRB given a slower ASP uptick. Premium brands in general was up by a HSD, despite a few of them were weighed by lockdowns.
 - ii) Meanwhile, a 41% GPM was well supported when input cost pressure was mitigated.
- **Earnings change and valuation.** Our earnings assumptions for 2022/23E are little changed. Our revised TP is based on 15.0x roll-forward mid-23E EV/EBITDA which still represents +1sd above long-term average since 2018.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	27,760	30,167	32,628	34,977	37,799
YoY growth (%)	(0.8)	8.7	8.2	7.2	8.1
Net profit (RMB mn)	2,201.3	3,155.5	3,385.6	3,776.6	4,290.0
EPS (Reported) (RMB)	1.63	2.33	2.48	2.77	3.14
YoY growth (%)	18.9	42.9	6.6	11.5	13.6
Consensus EPS (RMB)	na	na	2.36	2.77	3.15
P/E (x)	31.3	25.4	26.3	23.5	20.7
P/B (x)	3.3	3.5	3.6	3.3	3.0
Yield (%)	1.5	1.9	1.8	2.0	2.3
ROE (%)	11.1	14.5	14.1	14.5	15.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$89.90**
 (Previous TP) HK\$86.00
Up/Downside **23.2%**
Current Price **HK\$72.95**

China Consumer Staples - Food and beverages

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Stock Data

Mkt Cap (HK\$ mn)	99,529.7
Avg 3 mths t/o (HK\$ mn)	75.2
52w High/Low (HK\$)	81.60/56.40
Total Issued Shares (mn)	1364.4

Source: FactSet

Shareholding Structure

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

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.5%	2.4%
3-mth	3.1%	20.5%
6-mth	15.8%	35.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

- [China Consumer Staples – A diverging 1H: mix upgrade and cost savings were keys to stay relevant](#) – 8 Sep, 2022
- [CR Beer \(291 HK\) – 1H22 beat on better cost efficiency: our top pick over 2H22](#) – 18 Aug, 2022
- [Budweiser APAC \(1876 HK\) 2Q results largely in line: solid premiumization efforts mitigated volume headwind](#) – 29 Jul, 2022

Figure 1: Earnings revision

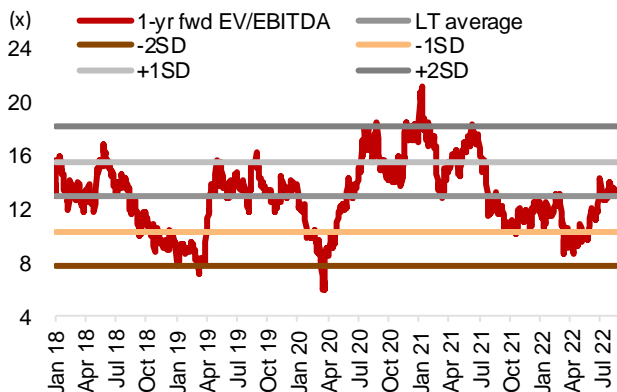
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	32,628	34,977	37,799	32,943	36,109	n.a	-1.0%	-3.1%	n.a
Gross Profit	10,307	11,297	12,548	10,107	11,095	n.a	2.0%	1.8%	n.a
EBITDA	5,358	5,971	6,759	5,078	5,780	n.a	5.5%	3.3%	n.a
Net profit	3,386	3,777	4,290	3,304	3,737	n.a	2.5%	1.1%	n.a
Gross Margin	31.6%	32.3%	33.2%	30.6%	30.7%	n.a	0.9ppt	1.6ppt	n.a
EBITDA Margin	16.4%	17.1%	17.9%	15.4%	16.0%	n.a	1ppt	1.1ppt	n.a
Net Margin	10.4%	10.8%	11.3%	10.0%	10.3%	n.a	0.3ppt	0.4ppt	n.a

Source: Company data, CMBIGM estimates

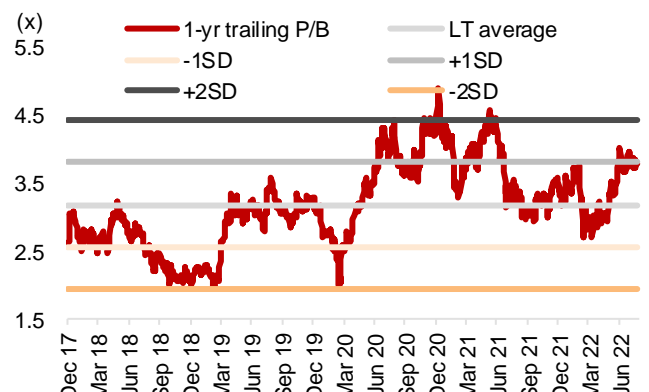
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	32,628	34,977	37,799	32,404	34,599	36,543	0.7%	1.1%	3.4%
Gross Profit	10,307	11,297	12,548	11,007	12,059	13,182	-6.4%	-6.3%	-4.8%
EBITDA	5,358	5,971	6,759	4,979	5,804	6,614	7.6%	2.9%	2.2%
Net profit	3,386	3,777	4,290	3,272	3,852	4,432	3.5%	-2.0%	-3.2%
Gross Margin	31.6%	32.3%	33.2%	34.0%	34.9%	36.1%	-2.4ppt	-2.6ppt	-2.9ppt
EBITDA Margin	16.4%	17.1%	17.9%	15.4%	16.8%	18.1%	1.1ppt	0.3ppt	-0.2ppt
Net Margin	10.4%	10.8%	11.3%	10.1%	11.1%	12.1%	0.3ppt	-0.3ppt	-0.8ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	27,984	27,760	30,167	32,628	34,977	37,799
Cost of goods sold	(17,080)	(16,541)	(19,091)	(19,813)	(20,992)	(22,346)
Gross profit	8,590	9,000	8,757	10,307	11,297	12,548
Operating expenses	(9,319)	(8,903)	(8,139)	(8,544)	(9,159)	(9,898)
Selling expense	(5,104)	(4,985)	(4,097)	(4,242)	(4,547)	(4,914)
Admin expense	(1,902)	(1,700)	(1,723)	(1,795)	(1,924)	(2,079)
Others	(2,313)	(2,219)	(2,319)	(2,508)	(2,689)	(2,905)
Operating profit	1,584	2,316	2,937	4,271	4,826	5,555
EBITDA	2,707	3,459	4,044	5,358	5,971	6,759
Depreciation	(893)	(899)	(900)	(925)	(979)	(1,033)
Other amortisation	(230)	(244)	(208)	(161)	(166)	(171)
Other income/expense	1,143	924	1,542	534	534	534
Pre-tax profit	2,727	3,240	4,479	4,806	5,361	6,089
Income tax	(798)	(913)	(1,223)	(1,312)	(1,463)	(1,662)
Minority interest	(77)	(126)	(101)	(108)	(121)	(137)
Net profit	1,852	2,201	3,155	3,386	3,777	4,290
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	21,002	24,628	28,959	30,754	32,980	35,640
Cash & equivalents	15,302	18,467	14,598	16,250	18,252	20,652
Account receivables	226	125	125	135	145	157
Inventories	3,182	3,281	3,493	3,625	3,841	4,088
Prepayment	203	314	903	903	903	903
Other current assets	2,088	2,441	9,840	9,840	9,840	9,840
Non-current assets	16,311	16,886	17,604	17,927	18,191	18,396
PP&E	10,221	10,302	10,148	10,431	10,660	10,836
Deferred income tax	1,455	1,718	2,131	2,131	2,131	2,131
Investment in JVs & assos	377	374	366	416	466	516
Intangibles	2,559	2,501	2,481	2,470	2,455	2,435
Goodwill	1,307	1,307	1,307	1,307	1,307	1,307
Other non-current assets	392	684	1,171	1,171	1,171	1,171
Total assets	37,312	41,514	46,563	48,681	51,171	54,036
Current liabilities	13,354	15,510	18,259	18,383	18,587	18,821
Short-term borrowings	271	703	246	246	246	246
Account payables	2,388	2,372	3,298	3,423	3,626	3,860
Other current liabilities	10,695	12,435	14,715	14,715	14,715	14,715
Non-current liabilities	4,045	4,636	4,511	4,511	4,511	4,511
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	4,045	4,636	4,511	4,511	4,511	4,511
Total liabilities	17,399	20,146	22,769	22,894	23,098	23,332
Share capital	1,351	1,364	1,364	1,364	1,364	1,364
Capital surplus	4,845	5,076	5,357	5,357	5,357	5,357
Retained earnings	13,023	14,481	16,319	18,203	20,370	22,863
Other reserves	(47)	(299)	(38)	(38)	(38)	(38)
Total shareholders equity	19,172	20,622	23,002	24,887	27,053	29,547
Minority interest	742	746	792	900	1,021	1,158
Total equity and liabilities	36,571	40,768	45,771	47,781	50,151	52,878

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,727	3,240	4,479	4,806	5,361	6,089
Depreciation & amortization	1,123	1,143	1,108	1,087	1,145	1,204
Tax paid	(798)	(913)	(1,223)	(1,312)	(1,463)	(1,662)
Change in working capital	(197)	525	120	(18)	(22)	(26)
Others	1,162	958	1,559	0	0	0
Net cash from operations	4,017	4,953	6,043	4,563	5,021	5,605
Investing						
Capital expenditure	(1,393)	(1,460)	(1,359)	(1,359)	(1,359)	(1,359)
Acquisition of subsidiaries/ investments	0	(3,000)	(22,990)	0	0	0
Others	1,045	2,973	14,100	(50)	(50)	(50)
Net cash from investing	(348)	(1,488)	(10,250)	(1,409)	(1,409)	(1,409)
Financing						
Dividend paid	(711)	(793)	(1,111)	(1,501)	(1,610)	(1,796)
Proceeds from share issues	0	244	6	0	0	0
Others	(58)	193	(509)	0	0	0
Net cash from financing	(769)	(356)	(1,614)	(1,501)	(1,610)	(1,796)
Net change in cash						
Cash at the beginning of the year	11,653	14,557	17,643	11,814	13,467	15,468
Exchange difference	4	(24)	(9)	0	0	0
Others	745	824	2,784	2,784	2,784	2,784
Cash at the end of the year	15,302	18,467	14,598	16,250	18,252	20,652
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	5.3%	(0.8%)	8.7%	8.2%	7.2%	8.1%
Gross profit	11.7%	4.8%	(2.7%)	17.7%	9.6%	11.1%
Operating profit	11.7%	46.2%	26.8%	45.4%	13.0%	15.1%
EBITDA	5.9%	27.8%	16.9%	32.5%	11.5%	13.2%
Net profit	30.2%	18.9%	43.3%	7.3%	11.5%	13.6%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	30.7%	32.4%	29.0%	31.6%	32.3%	33.2%
Operating margin	5.7%	8.3%	9.7%	13.1%	13.8%	14.7%
EBITDA margin	9.7%	12.5%	13.4%	16.4%	17.1%	17.9%
Return on equity (ROE)	10.0%	11.1%	14.5%	14.1%	14.5%	15.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.6	1.6	1.6	1.7	1.8	1.9
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	29.0	31.3	25.4	26.3	23.5	20.7
P/E (diluted)	29.0	31.3	25.5	26.1	23.4	20.6
P/B	2.8	3.3	3.5	3.6	3.3	3.0
Div yield (%)	1.4	1.5	1.9	1.8	2.0	2.3

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

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