

CR Beer (291 HK)

2H21 results in-line; premiumization progress on track;

- **2H21 net profits came in at RMB296mn**, in line with the company's profit alert in which management indicated full year net profit to fall within RMB4.4-4.7bn, as a result of 1) a RMB1.3bn non-recurring gain on land transfer, 2) an expanding GPM driven by price hikes and premiumization, 3) a lower admin expense due to reduction of impairment loss and other one-off costs, and 4) a higher selling expense due to an increase in marketing spending.
- **Stripping out any non-core items**, full year results were driven by a 22% increase in recurring EBIT, which came in in line with our [pre-result NDR takeaways](#). A better operation efficiency was largely attributable to a 2.5% reduction in opex ratio. Of note, CR Beer trimmed 0.55mn kl of excess capacity and raised its capacity utilization rate to 60.7% (from 2020: 59.2%)
- **2H21 shipment was 4.7mn kl, down 6.8% y-y**, slightly ahead of our forecast at -7.5%. Despite the decline, we note a solid premiumization trend with a 28% growth in premium shipment to 1.87mn kl. Although this came in slightly below guidance at 30% (due to geographic mix subject to lockdowns), this effectively fueled a 5% ASP uptick, which not only neutralized a volume hiccup but also brought 2H revenue to RMB13.7bn.
- **During the management call**, management commented that they will not adjust their full-year and long term target owing to the pandemic. While focusing on a c.25% sub-premium/ premium shipment growth for 2022E, management still aims to achieve 4mn kl sub-premium+ shipment by 2025E. Separately, management expects a RMB1.5-1.6bn cost inflation for 2022 due mainly to price hikes from raw material and packaging costs. We will keep watching the trajectory.
- **Premiumization will remain the company's focus** and Heineken will be the core brand to drive the growth of its sub-premium+ business, according to the company's business strategy. Previous investment in Heineken started to pay out, with strong growth of the brand in 2021 and 2M22, through all major channels, including catering, clubs and CVS (consumer value stores).
- **The company will keep enriching its premium portfolio** with other products/ brands. It plans to launch Pure Draft Beer, Heineken®0.0 and Lowen Beer with other fruit flavors in 2022. Management was confident on Heineken to maintain its strong momentum and targets for it to become top 1 brand in Rmb12+ price range in China's beer market in longer term. Amstel will be another key brand to promote to expand sub-premium+ sales.
- **We maintained our LSD shipment growth estimates for 2022** along with 5%+ price hikes which we expect to start taking place from 2Q22, before peak season starts. The former will be driven by a 20-25% sub-premium+ volume growth, while the latter will be executed through any like-for-like price increase for existing products, which include both mass market and sub-premium+ SKUs, as well as any premium new launches.
- **Our TP is based on 29.0x end-22E EV/EBITDA**, which represents 3-year average. We set our target multiple at the average to reflect the possibility of any mean reversion once investors look past the current volume hiccup, and upon the realization of gross margin expansion as market consensus now expects.

BUY (Maintain)

Target Price	HK\$80.0
(Previous TP	HK\$80.0)
Up/Downside	+66.84%
Current Price	HK\$47.95

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn)	155,558
Avg 3 mths t/o (HK\$ mn)	594.44
52w High/Low (HK\$)	73.38/ 43.1
Total Issued Shares (mn)	3,244.

Source: Bloomberg

Shareholding Structure

CRH Beer	51.7%
Morgan Stanley	4.7%
HHLR Advisor	4.1%

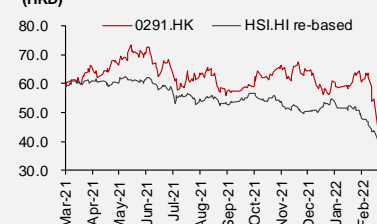
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-22.7%	-15.5%
3-mth	-25.8%	-20.4%
6-mth	-16.8%	-7.5%

Source: Bloomberg

12-mth Price Performance (HKD)



Source: Bloomberg

Auditor: Deloitte

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1. [CR Beer – Profit alert in line with us: still our sector top buy](#) – 26 Jan 2022
2. [China Consumer Staples – Cherry-picking amid a de-risking mentality: our top picks: CRB/ Mengniu/ Feihe](#) – 21 Jan 2022
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