

China Consumer

Addressing recent investors' concerns; our top ideas into 4Q22

- A non-eventful 3Q.** While earnings cuts and de-ratings have taken place and reset market expectation [across 1H results](#), in our view, earnings volatility for 3Q is unlikely to be drastic. For items that we monitored, our channel checks suggested that sales momentum was largely on track to us - low-teen growth for CRB, double-digit growth for Nongfu, and particularly sequential double-digit recovery for Mengniu and Feihe. Separately, the lockdown of Hainan since August could mean downside revision potential for **CTGDF** despite a well-maintained GPM.
- Rotations around breweries and cosmetics names could take place over 4Q.** Following a slow 3Q, which we estimate 15-20%/ 25-30% revenue growth for **Proya/ Botanee**, respectively, we look forward to any buoyant expectation on Double 11 to redirect market interest back to the sector. Anecdotally, there could be seasonal rotation out of breweries given a relatively small 4Q earnings contribution (c.15% of total) on back of the lack of catalysts. However, amid a de-risking mentality, in our view, breweries remain defensive beta plays with relatively high earnings certainty. We still favor breweries and cosmetic names and recommend **Proya/ Botanee/ CRB** as our 4Q picks. We also think **CTGDF** could sequentially benefit from a festive 4Q tourist traffic. Meanwhile, should 3Q sales track towards DD growth, we think **Mengniu** could rally in relief and play catch-up as a laggard to **Yili**. **Smooore** could see bottom-fish interest as dust is settling with the new regime.
- RMB fluctuation.** A mixed bag to our coverages, as RMB could appreciate against other currencies when it depreciates against USD. **Dairies & Breweries** look to be quite irrelevant, given 1) the majority of raw materials, such as raw milk/ barley/ malt, are sourced locally, and 2) oversea revenue is insignificant. Our sensitivity analysis shows a 5% change in USD/ EUR would only lead to c.0.5% change in breweries' PBT. **Smooore** derives 70%+ revenue from overseas but since forex exposure is financially hedged, net forex gain/ loss represented <1% of 2021 net profits. C.20% of **Jahwa's** revenue derives from Tommee Tippee that is exposed to GBP/RMB movement. **Proya's** foreign cash/ accounts payable, as well as accounts receivable represented <1%/ c.5% of their respective total in 2021.
- Domestic lockdown/ quarantine relaxation as our blue-sky scenario.** **CTGDF** would be the designated beneficiary, followed by breweries, baijiu, condiments, processed foods that ride on dine-out resumption. Luggage producers and luxury brands share high sensitivity to global/ domestic tourist traffic and spending recovery, in our view.

Name	Ticker	Rating	Price	TP	Mkt Cap	P/E (x)		EV/EBITDA (x)		ROE (%)	
			(LC)	(LC)	(US\$ bn)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
CR Beer	291 HK	BUY	55.0	72.4	23.9	35.5	31.9	20.2	18.4	16.8	17.3
TB	168 HK	BUY	74.0	89.9	17.2	24.7	22.2	12.7	11.0	13.6	14.0
Bud APAC	1876 HK	BUY	20.6	28.4	36.6	33.4	28.0	14.9	12.7	9.2	10.3
Yili	600887 CH	BUY	33.0	43.0	30.2	23.2	19.6	16.1	13.2	19.7	22.1
Mengniu	2319 HK	BUY	31.2	50.5	15.1	17.1	15.5	12.9	11.3	12.9	12.7
Feihe	6186 HK	BUY	5.3	7.6	6.7	7.7	6.6	4.4	3.1	23.0	22.9
Nongfu	9633 HK	BUY	45.0	57.6	68.5	60.0	50.0	35.0	28.3	33.2	32.4
Smooore	6969 HK	BUY	9.3	25.2	7.6	13.1	8.5	7.7	4.6	19.9	26.4
CTGDF	601888 CH	BUY	198.2	253.0	58.4	43.2	29.8	28.8	19.5	25.1	29.1
Botanee	300957 CH	BUY	172.0	251.0	10.4	58.7	42.2	46.8	32.5	21.8	24.8
Proya	603605 CH	BUY	162.9	184.0	6.6	63.4	47.0	33.8	26.3	21.4	24.0
Jahwa	600315 CH	BUY	28.6	39.2	2.8	33.8	25.3	20.8	16.1	7.8	9.5

Source: Company data, BBG, CMBIGM estimates

MARKET PERFORM (Maintain)

China Consumer

Joseph Wong

(852) 3900 0838

josephwong@cmbi.com.hk

Zheng Xiaohui

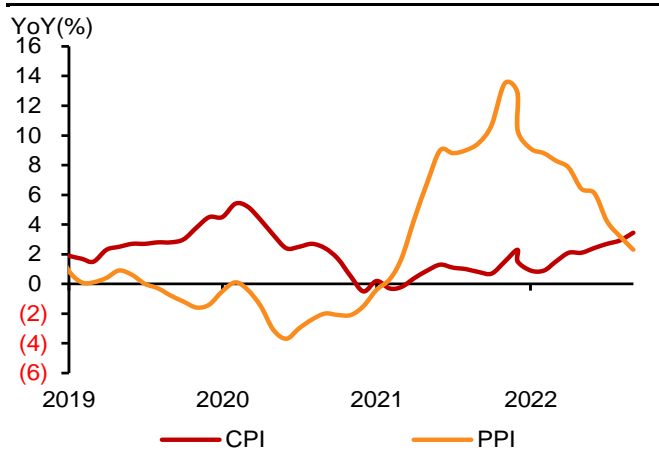
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zhengxiaohui@cmbi.com.hk

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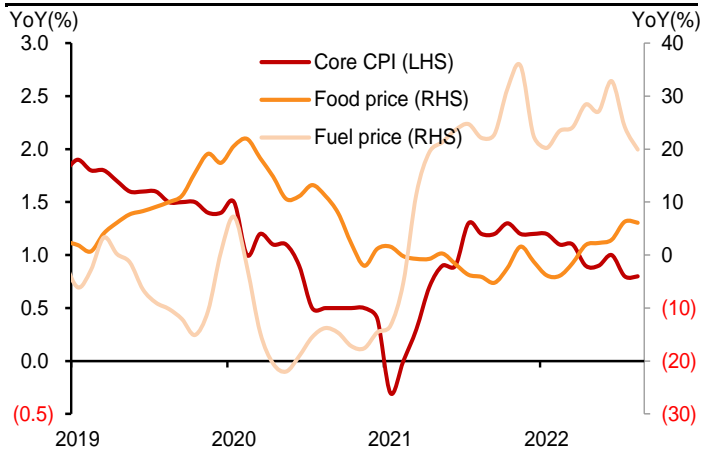
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Figure 1: PPI intersected CPI since Dec 2020



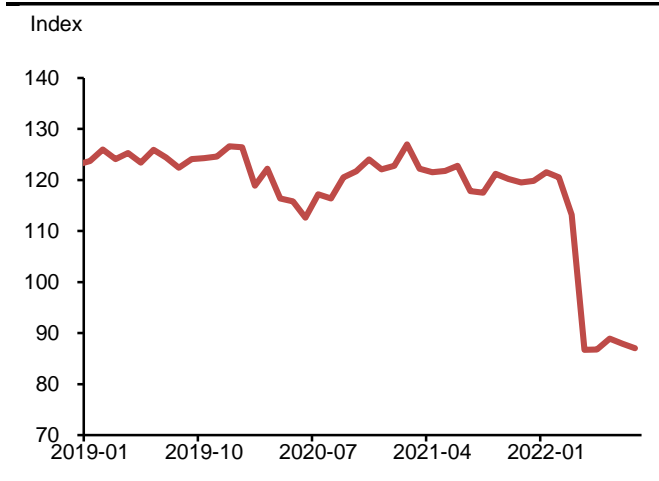
Source: Wind, CMBIGM

Figure 2: Food prices on the rise since early 2022



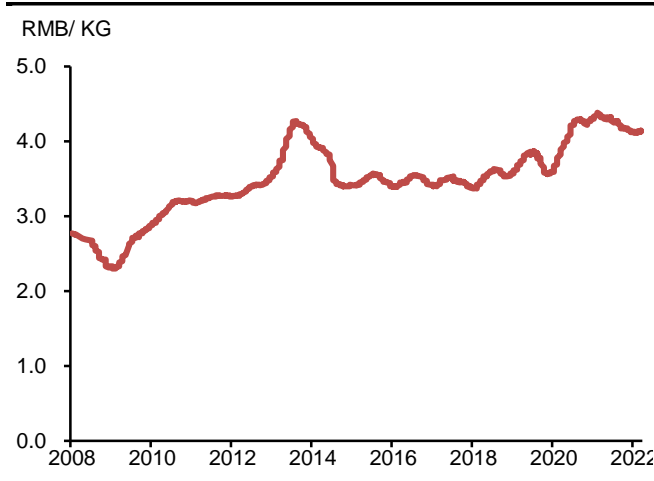
Source: Wind, CMBIGM

Figure 3: Consumer confidence remained fragile



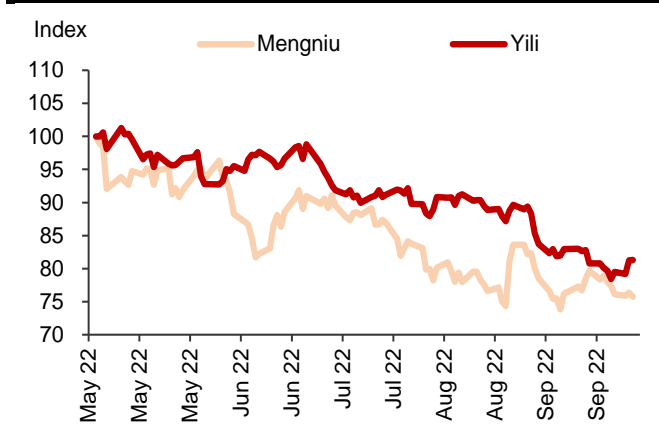
Source: Wind, CMBIGM

Figure 4: Raw milk price trend



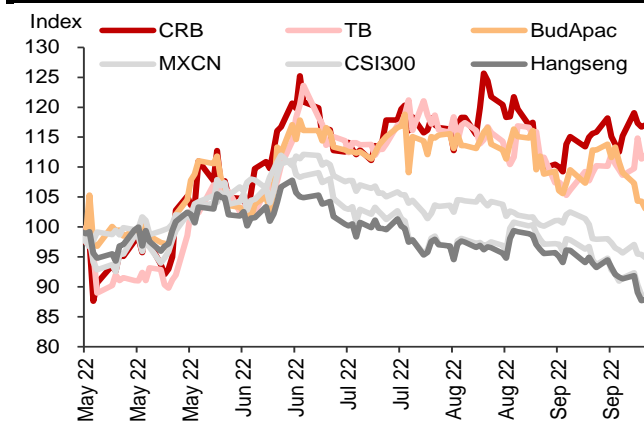
Source: Wind, CMBIGM

Figure 5: Mengniu could play catch-up to Yili as a laggard since Shanghai's reopening in May



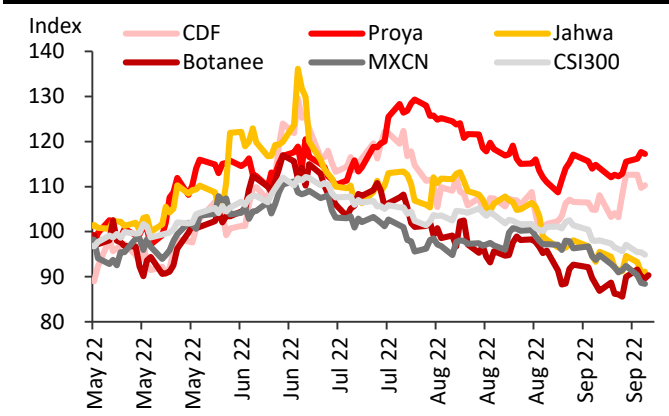
Source: BBG, CMBIGM

Figure 6: Breweries outperformed major indices since Shanghai's reopening in May



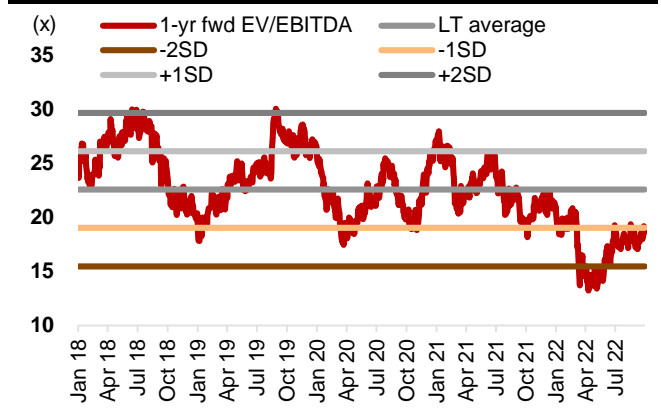
Source: BBG, CMBIGM

Figure 7: CDF and Proya outperformed major indices



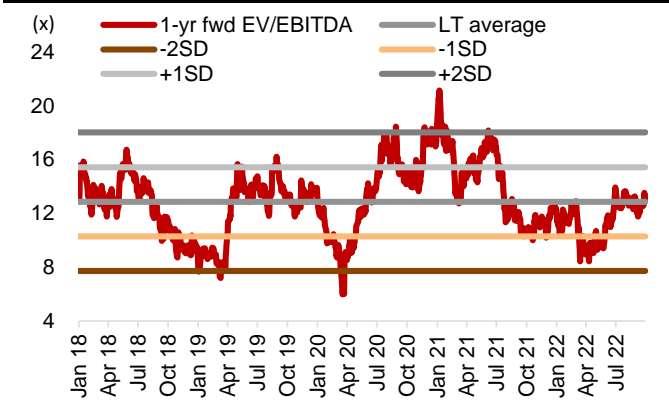
Source: BBG, CMBIGM

Figure 8: CRB – 1-year forward EV/EBITDA chart



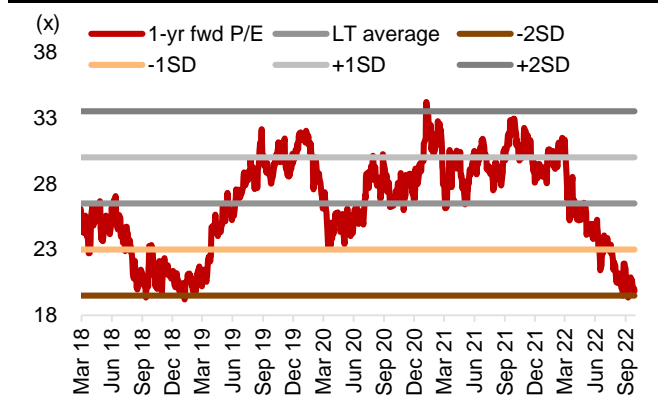
Source: BBG, CMBIGM

Figure 9: TB – 1-year forward EV/EBITDA chart



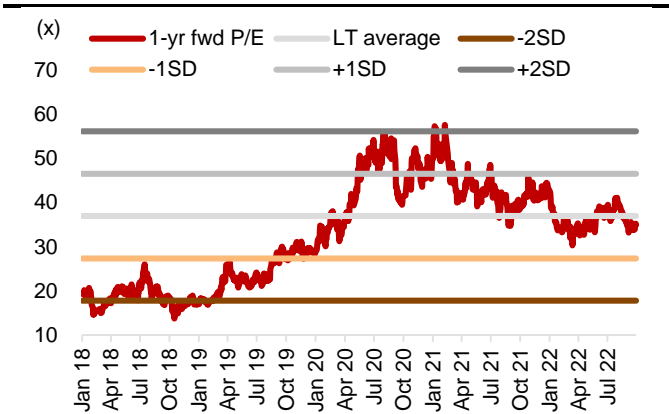
Source: BBG, CMBIGM

Figure 10: Mengniu – 1-year forward P/E chart



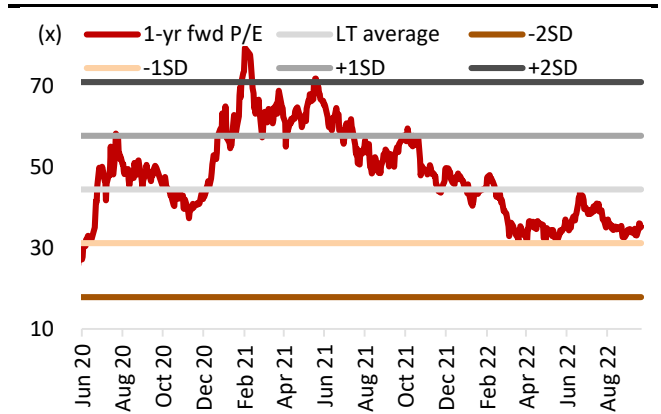
Source: BBG, CMBIGM

Figure 11: Proya – 1-year forward P/E chart



Source: BBG, CMBIGM

Figure 12: CTGDF – 1-year forward P/E chart



Source: BBG, CMBIGM

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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