

# CR Beer (291 HK)

## 1H24 Rev/NP -0.5%/+1.2%; earnings missed with beer premiumization continues

CR Beer unveiled its 1H24 results. During the period, revenue and NP missed the market consensus by 7% and 3%, respectively, mainly due to the shrinking sales volume of mainstream beer driven by unfavorable macroeconomic and weather conditions, as well as a high base. Management expects a low-single-digit decline in total beer sales volume but positive net profit growth for 2024, supported by gross margin expansion and operational expense control. Beer premiumization continues despite overall consumption downgrading trend. Baijiu business integration lags behind expectations, and the company will focus on mid-to-low end products and maintain its dual-brand strategy. We like the company for its absolute leading position. Transfer coverage with a BUY rating and TP of HK\$ 63.2, representing an 18x 2024E EV/EBITDA multiple.

- **Earnings dragged by weak consumption sentiment.** CR Beer reported revenue/NP of -0.5%/+1.2 YoY in 1H24 amidst weak consumption sentiment, unfavourable weather condition and a high base in 1H23. The main drag was a 4.7% YoY decline in low-end beer sales volume, resulting in 3.4% YoY decline in overall beer volume. The company expects overall volume to decline in LSDs in 2024E. Faster growth in NP was powered by 1ppt lift in GP margin to 46.9% thanks to premiumization strategy. The company anticipated manageable material costs in 2H24 and expected GPM to further improve in 2024E, driving positive growth in NP.
- **Beer premiumization continues.** Sales volume of sub-premium and above reached 1.46 mn tons in 1H24, up 1.1% YoY. In which, premium product grew 10% against the backdrop of a -3.4% for overall. This premiumization trend lifted the ASP of beer by 2% YoY. The Chairman shared that the company believes that the premiumization process of the beer industry has entered a phase characterized by diversification, with a focus on exploring new flavors and scenes. We think company's effort in this area will help mitigate the impact of slowing industry growth and support gross margins.
- **Baijiu integration progress lags, may expand mass-market product matrix.** Baijiu revenue grew 20.6% YoY in 1H24, 4% short of consensus, given a slower-than-expected brand re-modelling. In 1H24, 70% of baijiu revenue came from high-end product Zhaiyao, which reported +50% revenue growth. The company aims to reduce this proportion to 60% in line with its dual-brand strategy and plans to expand the product matrix for the mass-market brand Jinsha.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	35,263	38,932	39,010	41,405	44,104
YoY growth (%)	5.6	10.4	0.2	6.1	6.5
Net profit (RMB mn)	4,344.0	5,153.0	5,453.7	6,266.2	7,200.1
YoY growth (%)	(5.3)	18.6	5.8	14.9	14.9
EPS (Reported) (RMB)	1.34	1.59	1.68	1.93	2.22
Consensus EPS (RMB)	na	na	1.81	2.09	2.40
P/E (x)	16.4	13.8	13.1	11.4	9.9
P/B (x)	2.6	2.4	2.2	1.9	1.7
Yield (%)	2.4	4.3	3.1	3.5	4.0
ROE (%)	16.9	18.0	17.3	18.0	18.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$63.20  
(Previous TP) HK\$ 69.80  
**Up/Downside** 163.3%  
**Current Price** HK\$24.00

### China Consumer Staples

**Miao ZHANG**  
(852) 3761 8910  
zhangmiao@cmbi.com.hk

**Bella LI**  
(852) 3757 6202  
bellali@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn) 77,860.2  
Avg 3 mths t/o (HK\$ mn) 348.8  
52w High/Low (HK\$) 47.90/23.10  
Total Issued Shares (mn) 3244.2  
Source: FactSet

### Shareholding Structure

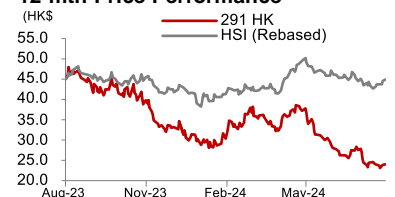
CRH Beer 51.7%  
Morgan Stanley 4.7%  
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-12.9%	-13.6%
3-mth	-35.2%	-27.9%
6-mth	-20.9%	-27.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

- **Transfer coverage with a BUY rating.** We lowered our revenue/NP estimates in 2024E by 6/11% to reflect the weak consumer sentiment. We transfer coverage with a BUY rating and TP of HK\$ 63.2, representing 18x 2024E EV/EBITDA. **Risks:** weak macro environment, intensified competitions, and slower-than-expected expansion for Baijiu business.

Figure 1: 1H24 results summary

RMB mn	1H23	1H24	YoY	Vs. Consensus
<b>Revenue</b>	<b>23,871</b>	<b>23,744</b>	<b>-0.5%</b>	<b>-6.8%</b>
Beer	22,894	22,566	-1.4%	-6.9%
Baijiu	977	1,178	20.6%	-4.0%
<b>Gross Profit</b>	<b>10,991</b>	<b>11,139</b>	<b>1.3%</b>	
<b>Net Profit</b>	<b>4,649</b>	<b>4,705</b>	<b>1.2%</b>	<b>-3.2%</b>
EPS (RMB)	1.43	1.45	1.2%	n.a.
DPS (RMB)	0.29	0.37	30.0%	n.a.
Dividend payout ratio	20%	26%		
<b>GP Margin</b>	<b>46.0%</b>	<b>46.9%</b>	<b>0.9 ppt</b>	<b>n.a.</b>
Beer	45.2%	45.8%	0.6 ppt	n.a.
Baijiu	65.5%	67.6%	2.1 ppt	n.a.
<b>Net Margin</b>	<b>19.5%</b>	<b>19.8%</b>	<b>0.3 ppt</b>	<b>0.7 ppt</b>

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,010	41,405	44,104	44,196	47,229	na	-11.7%	-12.3%	na
Gross Profit	16,979	18,679	20,618	17,729	19,486	na	-4.2%	-4.1%	na
Recurring EBIT	7,725	8,856	10,155	8,237	9,376	na	-6.2%	-5.5%	na
Net profit	5,454	6,266	7,200	6,126	6,944	na	-11.0%	-9.8%	na
Gross Margin	43.5%	45.1%	46.7%	40.1%	41.3%	na	3.4ppt	3.9ppt	na
EBIT Margin	19.8%	21.4%	23.0%	18.6%	19.9%	na	1.2ppt	1.5ppt	na
Net margin	14.0%	15.1%	16.3%	13.9%	14.7%	na	0.1ppt	0.4ppt	na

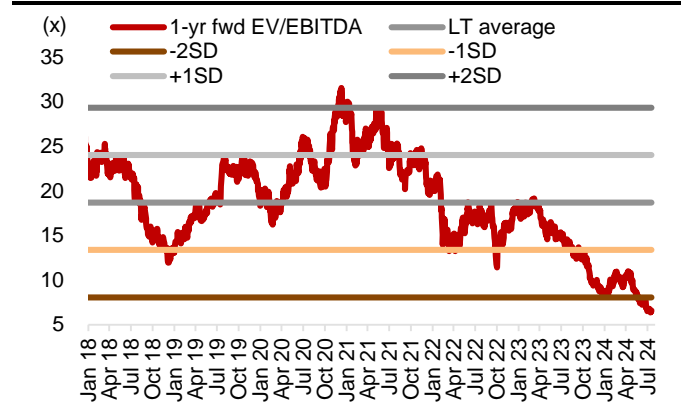
Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,010	41,405	44,104	40,968	43,515	46,093	-4.8%	-4.8%	-4.3%
Gross Profit	16,979	18,679	20,618	17,750	19,449	21,169	-4.3%	-4.0%	-2.6%
Recurring EBIT	7,725	8,856	10,155	7,663	8,839	10,098	0.8%	0.2%	0.6%
Net profit	5,454	6,266	7,200	5,850	6,712	7,715	-6.8%	-6.6%	-6.7%
Gross Margin	43.5%	45.1%	46.7%	43.3%	44.7%	45.9%	0.2ppt	0.4ppt	0.8ppt
EBITs margin	19.8%	21.4%	23.0%	18.7%	20.3%	21.9%	1.1ppt	1.1ppt	1.1ppt
Net margin	14.0%	15.1%	16.3%	14.3%	15.4%	16.7%	-0.3ppt	-0.3ppt	-0.4ppt

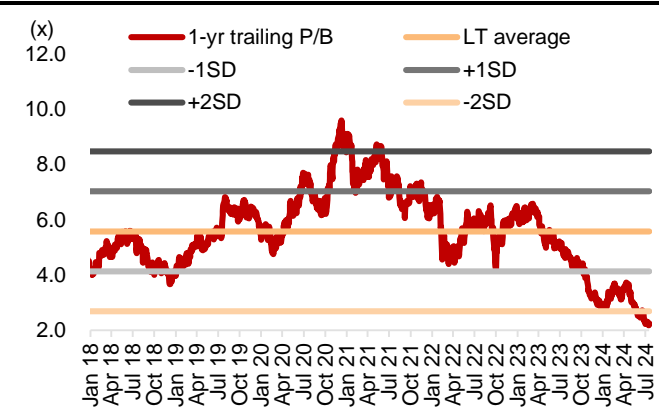
Source: Bloomberg, CMBIGM estimate

Figure 4: 12M forward EV/EBITDA chart



Source: Bloomberg, CMBIGM estimates

Figure 5: Trailing P/B chart



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	33,387	35,263	38,932	39,010	41,405	44,104
Cost of goods sold	(20,313)	(21,702)	(22,829)	(22,031)	(22,727)	(23,487)
Gross profit	13,074	13,561	16,103	16,979	18,679	20,618
Operating expenses	(7,062)	(8,267)	(9,137)	(9,254)	(9,823)	(10,463)
Selling expense	(6,743)	(6,750)	(8,065)	(7,880)	(8,364)	(8,909)
Admin expense	(3,619)	(3,320)	(3,362)	(3,277)	(3,478)	(3,705)
Others	3,300	1,803	2,290	1,903	2,019	2,151
Operating profit	6,012	5,294	6,966	7,725	8,856	10,155
EBITDA	6,293	7,024	9,379	10,150	11,357	12,719
Depreciation	(1,576)	(1,510)	(1,565)	(1,713)	(1,788)	(1,852)
Goodwill amortisation	(65)	(52)	(712)	(712)	(712)	(712)
EBIT	6,012	5,294	6,966	7,725	8,856	10,155
Interest income	243	380	361	204	204	204
Interest expense	(19)	(79)	(244)	(244)	(244)	(244)
Net Interest income/(expense)	224	301	117	(40)	(40)	(40)
Others	(21)	(67)	(5)	0	0	0
Pre-tax profit	6,215	5,528	7,078	7,685	8,816	10,115
Income tax	(1,625)	(1,178)	(1,864)	(2,024)	(2,322)	(2,664)
After tax profit	4,590	4,350	5,214	5,661	6,494	7,451
Minority interest	(3)	(6)	(61)	(207)	(228)	(251)
Discontinued operations	0	0	0	0	0	0
Net profit	4,587	4,344	5,153	5,454	6,266	7,200
Adjusted net profit	4,587	4,344	5,153	5,454	6,266	7,200
Gross dividends	980	980	2,105	1,250	1,575	1,949

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	15,897	20,878	17,141	16,609	19,721	23,692
Cash & equivalents	5,376	10,208	5,520	6,615	9,423	13,623
Account receivables	3,436	2,612	1,506	2,138	2,836	3,021
Inventories	6,458	7,402	9,502	7,243	6,849	6,435
Other current assets	627	656	613	613	613	613
Non-current assets	35,156	36,435	54,383	54,100	53,420	52,403
PP&E	17,096	17,206	19,523	19,952	19,984	19,679
Deferred income tax	3,368	3,266	3,728	3,728	3,728	3,728
Intangibles	255	203	8,991	8,279	7,567	6,855
Goodwill	9,250	9,385	16,806	16,806	16,806	16,806
Other non-current assets	5,187	6,375	5,335	5,335	5,335	5,335
Total assets	51,053	57,313	71,524	70,709	73,141	76,095
Current liabilities	21,170	23,667	24,364	20,924	19,043	17,052
Short-term borrowings	0	512	931	931	931	931
Account payables	21,007	23,002	22,755	19,315	17,434	15,443
Tax payable	92	100	594	594	594	594
Other current liabilities	71	53	84	84	84	84
Non-current liabilities	5,394	6,569	12,986	12,986	12,986	12,986
Long-term borrowings	0	588	4,181	4,181	4,181	4,181
Deferred income	1,955	1,850	4,391	4,391	4,391	4,391
Other non-current liabilities	3,439	4,131	4,414	4,414	4,414	4,414
Total liabilities	26,564	30,236	37,350	33,910	32,029	30,038
Share capital	14,090	14,090	14,090	14,090	14,090	14,090
Retained earnings	10,342	12,949	16,205	18,623	22,707	27,401
Total shareholders equity	24,432	27,039	30,295	32,713	36,797	41,491
Minority interest	57	38	3,879	4,086	4,315	4,566
Total equity and liabilities	51,053	57,313	71,524	70,709	73,141	76,095

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	6,215	5,528	7,078	7,685	8,816	10,115
Depreciation & amortization	1,641	1,562	2,277	2,425	2,500	2,564
Tax paid	(1,625)	(1,178)	(1,864)	(2,024)	(2,322)	(2,664)
Change in working capital	178	1,875	(1,241)	(1,813)	(2,185)	(1,761)
Others	(1,414)	(941)	(2,101)	0	0	0
<b>Net cash from operations</b>	<b>4,995</b>	<b>6,846</b>	<b>4,149</b>	<b>6,273</b>	<b>6,810</b>	<b>8,254</b>
<b>Investing</b>						
Capital expenditure	(1,471)	(1,661)	(2,520)	(2,142)	(1,821)	(1,548)
Acquisition of subsidiaries/ investments	4	5	6	7	8	8
Net proceeds from disposal of short-term investments	226	591	157	0	0	0
Others	(1,509)	7	(7,330)	(7)	(8)	(8)
<b>Net cash from investing</b>	<b>(2,750)</b>	<b>(1,058)</b>	<b>(9,687)</b>	<b>(2,142)</b>	<b>(1,821)</b>	<b>(1,548)</b>
<b>Financing</b>						
Dividend paid	(1,281)	(1,739)	(1,911)	(3,036)	(2,181)	(2,506)
Net borrowings	0	1,100	4,012	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(85)	(172)	(1,174)	0	0	0
<b>Net cash from financing</b>	<b>(1,366)</b>	<b>(811)</b>	<b>927</b>	<b>(3,036)</b>	<b>(2,181)</b>	<b>(2,506)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,538	5,376	10,208	5,520	6,615	9,423
Exchange difference	(41)	(145)	(77)	0	0	0
<b>Cash at the end of the year</b>	<b>5,376</b>	<b>10,208</b>	<b>5,520</b>	<b>6,615</b>	<b>9,423</b>	<b>13,623</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	6.2%	5.6%	10.4%	0.2%	6.1%	6.5%
Gross profit	8.3%	3.7%	18.7%	5.4%	10.0%	10.4%
Operating profit	95.3%	(11.9%)	31.6%	10.9%	14.6%	14.7%
EBITDA	16.9%	11.6%	33.5%	8.2%	11.9%	12.0%
EBIT	95.3%	(11.9%)	31.6%	10.9%	14.6%	14.7%
Net profit	119.1%	(5.3%)	18.6%	5.8%	14.9%	14.9%
Adj. net profit	119.1%	(5.3%)	18.6%	5.8%	14.9%	14.9%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	39.2%	38.5%	41.4%	43.5%	45.1%	46.7%
Operating margin	18.0%	15.0%	17.9%	19.8%	21.4%	23.0%
EBITDA margin	18.8%	19.9%	24.1%	26.0%	27.4%	28.8%
Adj. net profit margin	13.7%	12.3%	13.2%	14.0%	15.1%	16.3%
Return on equity (ROE)	20.1%	16.9%	18.0%	17.3%	18.0%	18.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	(0.3)	(0.0)	(0.0)	(0.1)	(0.2)
Current ratio (x)	0.8	0.9	0.7	0.8	1.0	1.4
Receivable turnover days	37.6	27.0	14.1	20.0	25.0	25.0
Inventory turnover days	116.0	124.5	151.9	120.0	110.0	100.0
Payable turnover days	377.5	386.9	363.8	320.0	280.0	240.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	15.5	16.4	13.8	13.1	11.4	9.9
P/B	2.9	2.6	2.4	2.2	1.9	1.7
Div yield (%)	2.6	2.4	4.3	3.1	3.5	4.0

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

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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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