

China Consumer Staples

Divergence continues

We had diverging takeaways from our distributor channel check after the Dragon Boat Festival holiday, with beer being the only segment with positive momentum over 2Q. Considering the price gap between beer and other alcoholic drinks, and also the growing preference of low alcoholic content, in our view, breweries still offer a multi-year story that looks to be sustainable in the next 4-5 years. In the contrary, we continue to see near-term drags in baijiu, dairies and condiments that not only led to a lacklustre 2Q but also a possible slow 2H. Upon any stimulus policy, we think both beer and baijiu will benefit most from an improved spending sentiment among peers. We like CRB, Tsingtao and Moutai.

- **Beer.** Solid premiumization trend continued, and much of the volume growth was driven by the trade-down of mid-priced baijiu to high-end beer within on-trade channels like restaurants. A hot summer also helped. By brand, Yanjing/CRB/TB/Bud grew ~35%/~20%/~15%/~10% respectively in 2Q per distributors we surveyed.
- **Baijiu.** Overall sales were below expectation during the Dragon Boat Festival. Best performer remained Moutai, despite a small price decline in unsealed Feitian Moutai from RMB2,950 per bottle (early Jun) to RMB2,730-2,800. The distributor commented that fluctuations within a RMB200 price range was normal, not to mention a healthy 15-day inventory level. On the other hand, Wuliangye and Laojiao have not seen recovery as expected. Selling prices have been below ex-factory prices (WLY/Laojiao cRMB935/900), and hence there is little hope to levy a price hike within 2023. Channel inventory level inflated to 2.5 months (from 1.5 months earlier this year). That said, distributors maintained a steady restocking momentum.
- **Dairies.** 2Q has been a slow season and hence little expectation from the market. Discount on super high-end SKUs are widening, while that for high-end/mass market has been narrowing to below ~30% off (buy-2-get-1-free during CNY). The hot weather upset the restocking sentiment for UHT milk, but low-temp SKUs saw increasing popularity. Inventory hovered at a 2-month level. The distributor saw ~12%/~10% 2Q growth for Yili/Mengniu.
- **Soft drinks.** Nongfu sales grew ~30% over 1H23, thanks to 50%+ combined growth in Oriental Leaf and Tea Pi. Tingyi/UPC delivered HSD growth in soft drinks and bottled water, but instant noodles was a drag. Eastroc saw benefits from Red Bull's trademark brawl.
- **Condiments.** 2Q consumption recovered better than that of 1Q. Jonjee outperformed Haitian, of which sales grew ~10% for the quarter. Hot weather, consumer trade-down, and night activities were key drivers that offset the drag from restaurant shut-down wave.

Valuation Table

Name	Ticker	Rating	TP (LC)	Price (LC)	Mkt Cap USD Mn	PER (x)	PBR (x)	Div yield (%)	ROE (%)
						FY23E	FY24E	FY23E	FY24E
CR Beer	291 HK	BUY	76.9	50.6	20,914	29.3	25.4	5.0	4.4
Tsingtao Beer	168 HK	BUY	92.9	69.0	15,817	19.7	17.1	3.2	2.9
Budweiser APAC	1876 HK	HOLD	26.6	20.8	35,081	27.8	25.8	3.0	2.9
Mengniu	2319 HK	BUY	40.0	30.5	15,382	17.9	15.3	2.5	2.2
Yili	600887 CH	BUY	44.0	28.5	25,114	16.7	14.8	3.3	3.1
China Feihe	6186 HK	HOLD	5.9	4.3	5,024	7.1	6.3	1.3	1.2
Nongfu Spring	9633 HK	BUY	58.0	43.2	61,951	46.4	41.2	17.2	15.9
Hongjiu Fruits	6689 HK	BUY	43.5	17.6	3,180	3.4	2.5	0.9	0.6
Pagoda	2411 HK	BUY	7.7	5.6	1,134	17.3	13.2	2.3	2.1
Moutai	600519 CH	BUY	2440.0	1728.4	300,219	29.8	26.2	9.1	7.6

Source: Bloomberg, Company data, CMBIGM estimates

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Beer

Robust 2Q23 sales were seen in major brands. Given an uneven recovery, the trade-down of mid-priced baijiu to high-end beer within on-trade channels like restaurants has been apparent, and has fueled much of the volume growth in 2Q.

- Several rounds of price increases have been successfully implemented, and new products targeting higher price range have gained high market acceptance.
- The growing preference of low-alcohol beverages by younger generation underpins product diversification and preimmunization.
- Yanjing/CRB/TB/Bud grew ~35%/~20%/~15%/~10% respectively in 2Q per distributors we surveyed.

Baijiu

Baijiu's overall sales missed market expectations during the Dragon Boat holidays. Distributors have been selling below ex-factory prices for some brands.

Maotai:

- Brand remained the top performer during the holiday, there was a slight drop in Moutai's retail sales price compared to that of early June. Unsealed Feitian Moutai price moved from RMB2,950 per bottle (early Jun) to RMB2,730-2,800. The distributor commented that fluctuations within a RMB200 price range was normal, not to mention a healthy 15-day inventory level.
- 2Q sales growth stabilized at high-teen YoY, with inventory level remaining steady at 15 days.

Wuliangye:

- Stagnant sales momentum remained as retail prices are still below ex-factory.
- Lacklustre sales, when inventory levels increased from 1.5 months in 1Q to 2.5 months in 2Q.
- Despite this, distributors maintained a steady restocking momentum.

Dairy

2Q is not a strong season for dairies, when the quarter accounted for 17-18% of the annual sales. Current inventory level is 2 months. Regarding 6.18, retailers focused on promoting ultra-premium products (MSRP at RMB 99/pack, e.g.: Telunsu Dessert Organic) and narrowed discounts on premium lines (MSRP at RMB 69/pack, e.g: Yili Golden Milk, Amux). Compared to CNY this year, recently retailers removed the "buy 2 get 1 free" promotions. The distributors saw 15% growth in low-temp SKUs, higher than that of room-temp. Given a hot summer, channels have been reluctant to restock the latter. IMF growth remained low.

Yili:

- The distributor saw ~12% 2Q growth for his business.

Mengniu:

- The distributor saw ~10% 2Q growth for his business.

Condiment

Restaurant shutdowns nonetheless dragged demand growth. However, the reopening of night life activities and consumer trade-down rejuvenated some spending. Demand in soy sauce and seasonings continued to grow, with 2Q being much stronger than that of 1Q. Hotpot flavor packet entered into low-demand season.

Haitian:

- The distributor saw a 10% YoY growth in 2Q. Soy sauce saw a 5% YoY growth, while others continued to see healthy growth upon price hikes and mix change.
- New packaging partially dispelled the negative influences from the scandal in 4Q22. Sales with military and schools, etc. have fully normalised.

Jonjee:

- Approximately 10% YoY growth in 2Q, contributing by the overall positive development of the sector.

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