

CR Beer (291 HK)

Another move to tap into the baijiu market; yet with near-term challenges

After market close yesterday, CRB announced that, through its wholly owned subsidiary, CRWH, it will acquire 55.2% of the shares of Guizhou Jinsha Jiaojiu Winery Industry, a sauce-flavored baijiu producer in Guizhou, at a total consideration of RMB12.3bn. The consideration comprises of RMB1.03bn capital injection and RMB11.27bn of share purchase. Considering an implied EV (at 100% stake) of RMB22.3bn and RMB1.3bn net profits achieved for 2021, the acquisition is valued at 17.0 P/E.

Our view:

- We take a neutral stance on the takeover, although it seems to be a value-accretive move for CRB to expand into the baijiu segment (instead of any greenfield projects) in the long term. Without any track record, we think CRB will have to prove itself in managing a baijiu business (R&D, pricing and distribution), and achieving synergy between the beer and baijiu businesses. Jinsha is a masstige baijiu brand that prices its products ranging from RMB120 to RMB1,000 per bottle per our survey on JD.com. We think the segment looks to be in a lukewarm position, when consumption upgrade decelerates, or polarizes. High inventory and over-supply also represent near-term headwinds that CRB would have to overcome.
- The RMB11.27bn consideration will likely be funded by the combination of internal resources and debt financing, either bond issuance or bank facilities. Management has not mentioned its intention to opt for equity financing during the call.
- The acquisition represents CRB's second notable move to tap into the baijiu market, after its investment in Shandong Jinzhi Baijiu on 26 Aug 2021. The market size of baijiu industry was approximately RMB603bn in 2021, growing at a CAGR of 8.7% from 2010 to 2021. Sauce-flavor baijiu industry contributed approximately 31.5% of the baijiu industry with market size of approximately RMB190bn in 2021, growing at a CAGR of 17.3% from 2015 to 2021. The weighted average gross profit margin and net profit margin of sauce-flavor baijiu companies in 2021 were approximately 82% and 41%.
- With over 70 years of experience since 1951, Guizhou Jinsha Jiaojiu Winery Industry is a sauce-flavored baijiu producer in Guizhou. It primarily engaged in the design, production and distribution of Chinese baijiu products in China. The Company is considered one of the six most notable baijiu producers in Guizhou. It distributes its products primarily under the brand series of Zhaiyao and Jinsha Huisha, both are of the sauce-flavor baijiu category.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	31,448	33,387	34,501	36,436	39,251
YoY growth (%)	(5.2)	6.2	3.3	5.6	7.7
Net income (RMB mn)	2,094	4,587	4,190	4,650	5,267
EPS (RMB)	0.8	1.1	1.3	1.4	1.6
YoY growth (%)	NM	37.0	17.0	11.0	13.3
Consensus EPS (RMB)	NA	NA	1.3	1.6	1.9
P/E (x)	NA	NA	28.5	25.6	22.7
P/B (x)	NA	NA	4.7	4.2	3.8
Div yield (%)	NA	NA	1.4	1.6	1.8
ROE (%)	12.8	15.7	16.8	17.3	17.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

BUY (maintain)

Target Price **HK\$72.4**
 (Previous TP **HK\$72.4**)
 Up/Downside **+63.8%**
 Current Price **HK\$44.2**

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn) 143,230
 Avg 3 mths t/o (HK\$ mn) 422.7
 52w High/Low (HK\$) 68.7/ 38.4
 Total Issued Shares (mn) 3,244

Source: Wind

Shareholding Structure

CRH Beer 51.7%
 Morgan Stanley 4.7%
 HHLR 4.1%

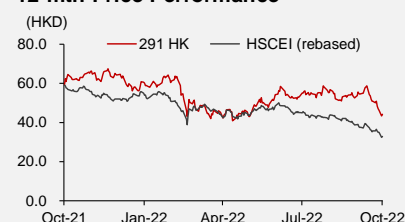
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-16.0%	-0.8%
3-mth	4.4	9.6%
6-mth	-25.4%	34.7%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte

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Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	31,448	33,387	34,501	36,436	39,251
Premium & Super premium	7,330	9,585	10,940	13,300	16,662
Sub-premium	24,118	23,802	23,561	23,136	22,590
Gross profits	12,075	13,074	13,510	14,402	15,881
D&A	(1,553)	(1,641)	(1,643)	(1,700)	(1,753)
Selling expense	(6,123)	(6,743)	(6,210)	(6,376)	(6,869)
Administration expenses	(4,419)	(3,619)	(2,760)	(2,915)	(3,140)
Other operating expenses	1,546	3,300	910	961	1,035
Others	1,553	1,641	1,643	1,700	1,753
EBIT	3,079	6,012	5,450	6,072	6,908
EBITDA	4,632	7,653	7,093	7,772	8,661
Finance costs, net	80	224	224	224	224
Non-operating	(150)	(21)	-	-	-
Pre-tax profit	3,009	6,215	5,674	6,296	7,132
Income tax	(915)	(1,625)	(1,484)	(1,646)	(1,865)
Less: Minority interests	-	(3)	-	-	-
Net profits (reported)	2,094	4,587	4,190	4,650	5,267

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	2,094	4,587	4,190	4,650	5,267
D&A	1,553	1,641	1,643	1,700	1,753
Change in working capital	(1,165)	178	(2,242)	(2,904)	(3,866)
Others	1,998	(1,411)	(500)	(300)	-
Net cash fr. operating act.	4,480	4,995	3,092	3,146	3,154
Capex & investments	(1,047)	(1,471)	(1,397)	(1,328)	(1,261)
Acquisition	-	-	-	-	-
Others	(23)	(1,279)	-	-	-
Net cash fr. investing act.	(1,070)	(2,750)	(1,397)	(1,328)	(1,261)
Equity raised	-	-	-	-	-
Change of Debts	1,469	-	-	-	-
Dividend paid	(561)	(1,281)	(1,836)	(1,676)	(1,860)
Others	(2,105)	(85)	-	-	-
Net cash fr. financing act.	(1,197)	(1,366)	(1,836)	(1,676)	(1,860)
Net change in cash	2,213	879	(142)	142	33
Cash at the beginning of the	2,340	4,538	5,376	5,234	5,377
Exchange difference	(15)	(41)	-	-	-
Cash at the end of the year	4,538	5,376	5,234	5,377	5,410
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	30,398	35,156	33,529	33,157	32,665
PP&E/Fixed assets	17,781	17,096	16,870	16,518	16,046
Goodwill	9,326	9,250	9,250	9,250	9,250
Deferred tax assets	2,858	3,368	3,368	3,368	3,368
Other non-current assets	433	5,442	4,041	4,021	4,001
Current assets	13,377	15,897	16,543	17,241	18,022
Cash	4,538	5,376	5,234	5,377	5,410
Account receivable	2,378	3,436	3,781	3,993	4,302
Taxation recoverable	6,014	6,458	6,901	7,244	7,683
Other current assets	447	627	627	627	627
Current liabilities	19,572	21,170	19,716	17,367	14,249
Borrowings	-	-	-	-	-
Account payables	19,327	21,007	19,553	17,204	14,086
Other payables	162	92	92	92	92
Lease liabilities	83	71	71	71	71
Non-current liabilities	2,929	5,394	4,894	4,594	4,594
Borrowings	-	-	-	-	-
Deferred tax liabilities	788	1,955	1,955	1,955	1,955
Other non-current liabilities	2,141	3,439	2,939	2,639	2,639
Minority Interest	57	57	57	57	57
Total net assets	21,274	24,489	25,462	28,436	31,843
Shareholders' equity	21,217	24,432	25,405	28,379	31,786

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Premium & Super premium	23.3	28.7	31.7	36.5	42.4
Sub-premium	76.7	71.3	68.3	63.5	57.6
P&L ratios (%)					
Gross margin	38.4	39.2	39.2	39.5	40.5
Operating margin	9.8	18.0	15.8	16.7	17.6
Pre-tax margin	9.6	18.6	16.4	17.3	18.2
Net margin	6.7	13.7	12.1	12.8	13.4
Effective tax rate	(30.4)	(26.1)	(26.1)	(26.1)	(26.1)
Balance sheet analysis					
Current ratio (x)	0.3	0.3	0.3	0.3	0.3
Net receivable days	28	38	40	40	40
Net payable days	364	377	340	285	220
Inventory turnover days	113	116	120	120	120
Net debt to equity (%)	Net	Net	Net	Net	Net
	cash	cash	cash	cash	cash
Returns (%)					
ROE	12.8	15.7	16.8	17.3	17.5
ROA	4.8	9.0	8.4	9.2	10.4
Dividend yield	N.A.	N.A.	1.1	1.2	1.4
Per share					
EPS - recurring (RMB)	0.8	1.1	1.3	1.4	1.6
DPS (RMB)	0.3	0.6	0.5	0.6	0.6
BVPS (RMB)	6.5	7.5	7.8	8.7	9.8

Source: Company data, CMBIGM estimates

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