

CR Beer (291 HK)

1H22 beat on better cost efficiency; our top pick over 2H22

- **1H22 beat.** Recurring EBIT came in at RMB5.2bn, up 17% YoY, above our estimates. Given 7% revenue growth (to RMB21bn) and a stable GPM YoY (42.3%), growth in recurring EBIT looks to be mainly underpinned by a 3.4pp lower SG&A. We attribute this to a higher operation efficiency and a more optimized resources allocation, when the company scaled back its investment pace and advertising expense over the challenging 1H.
- **Major financial indicators are in line with us.** Shipment/ ASP/ GPM all came in in line with us/ market expectation. Of note, a 7.7% ASP uptick not only neutralized a 1% decline in shipment but also mitigated higher raw material costs and stabilized GPM. Premium/ sub-premium shipment grew 10% YoY, and was consistent to our NDR takeaway.
- **Management call highlights:**
 - i) The 10% volume growth of premium/ sub-premium SKUs (18.1% volume share from 16.4% in 1H21) was mainly driven by Heineken (+30% YoY), while Snow Draft/ SuperX grew at LSD YoY in 1H, being negatively affected by a high exposure to on-trade channels (c.70-80% of their sales volume). These, though, have been recovering quickly since Jun and would be back to HSD volume growth in 2H.
 - ii) Overall sales volume recovery has been well on track since Jun, helped by hot weather across many regions in China, with YTD volume growth back to positive in Jul and MTD growth to high teens in Aug.
 - iii) Heineken/ SnowDraft/ SuperX/ Laoxue are the main key brands to promote in 2H22, which could drive 2H22/ 2022E volume growth to be at LSD. Management remained positive on the premiumization trend in China's beer market in the next 3-5 years, and turned marginally more optimistic on raw material cost pressure by revising down annual increment to RMB1.2-1.3bn, from previously RMB1.5-1.6bn.
- **Earnings revision and valuation.** While 1H typically contributes 85%+ of full year NI, and taking into account a strong summer sales momentum, we consider CR Beer's earnings risk as rather limited for 2H. We raised our 2022/23E recurring EBIT by 8.4%/ 8.9%, which lead to 9.4%/ 8.6% increase in NI over the same period. Our new TP is based on 27.0x (from 28.0x) mid-23E EV/ EBITDA which represents +1sd above mean since 2018.

Earnings summary

(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	36.1	32.6	28.7
P/B (x)	NA	NA	6.0	5.3	4.8
Div yield (%)	NA	NA	1.1	1.2	1.4
ROE (%)	12.8	15.7	16.8	17.3	17.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price	HK\$72.4
(Previous TP	HK\$71.0)
Up/Downside	+29.3%
Current Price	HK\$56.0

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Stock Data

Mkt Cap (HK\$ mn)	181,674
Avg 3 mths t/o (HK\$ mn)	473.7
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%

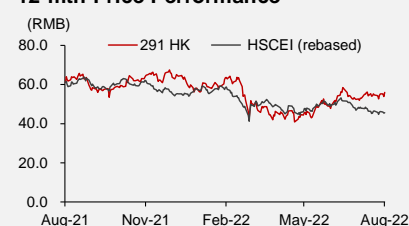
Source: Wind

Share Performance

	Absolute	Relative
1-mth	7.0%	10.2%
3-mth	22.8%	28.8%
6-mth	-11.9%	13.5%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte

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- **Our channel check takeaway.** Beer witnessed a strong demand recovery in July/ August, mainly driven by, in our view, re-opening of on-trade channels and a hot summer. On-trade channels have been gradually recovering since Jun, when major Chinese cities such as Shanghai and Beijing started to marginally ease their lockdown policy, and which would have recovered to c.60-70% re-opening rate so far, with barbecue restaurants and large food stalls to c.80-90%. Other than that, we note also that products priced RMB10+ have resumed DD YoY growth from Jun-to-date, taking shares from those priced RMB5-10 (HSD growth) and those priced <RMB5 (negative growth). Overall channel inventory is c.10-15 days higher than average but looks to be normal during peak sales season.

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	34,501	36,436	39,251	34,494	35,849	38,426	0.0%	1.6%	2.1%
Gross Profit	13,510	14,402	15,881	13,507	14,568	16,204	0.0%	-1.1%	-2.0%
Recurring EBIT	5,450	6,072	6,908	5,027	5,575	6,566	8.4%	8.9%	5.2%
Net profit	4,190	4,650	5,267	3,832	4,281	5,042	9.4%	8.6%	4.5%
Gross Margin	39.2%	39.5%	40.5%	39.2%	40.6%	42.2%	0ppt	-1.1ppt	-1.7ppt
EBIT Margin	15.8%	16.7%	17.6%	14.6%	15.6%	17.1%	1.2ppt	1.1ppt	0.5ppt
Net margin	12.1%	12.8%	13.4%	11.1%	11.9%	13.1%	1.0ppt	0.8ppt	0.3ppt

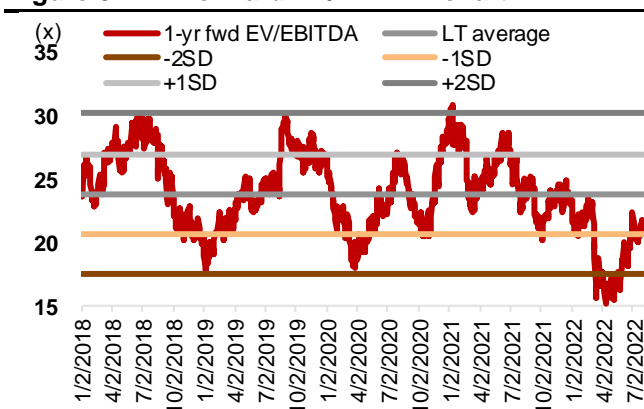
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	34,501	36,436	39,251	36,291	39,108	42,072	-4.9%	-6.8%	-6.7%
Gross Profit	13,510	14,402	15,881	14,549	16,448	18,371	-7.1%	-12.4%	-13.6%
Recurring EBIT	5,450	6,072	6,908	5,067	6,379	7,798	7.6%	-4.8%	-11.4%
Net profit	4,190	4,650	5,267	4,052	5,147	6,381	3.4%	-9.7%	-17.5%
Gross Margin	39.2%	39.5%	40.5%	40.1%	42.1%	43.7%	-0.9ppt	-2.5ppt	-3.2ppt
EBITs margin	15.8%	16.7%	17.6%	14.0%	16.3%	18.5%	1.8ppt	0.4ppt	-0.9ppt
Net margin	12.1%	12.8%	13.4%	11.2%	13.2%	15.2%	1.0ppt	-0.4ppt	-1.7ppt

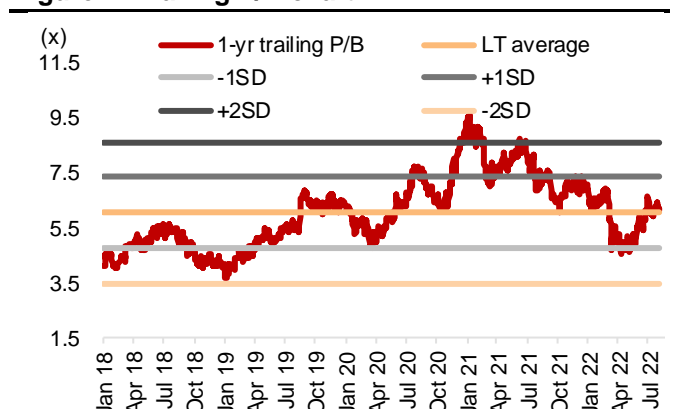
Source: Company data, CMBIGM estimate

Figure 3: 12M forward EV/EBITDA chart



Source: Bloomberg, CMBIS estimates

Figure 4: Trailing P/B chart



Source: Bloomberg, CMBIS 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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