

# China Consumer Staples

## Expert call takeaways and CNY wrap-up - baijiu, beer and dairy sales stood out

- Key findings of our expert call.** The speaker noted that overall consumption sentiment remained weak but sales of selective beverages were solid. Foot traffic to the expert's offline stores in Beijing saw steep recovery (from about -30% YoY to +10% YoY) upon the start of the CNY break. The trajectory has put average store visitation largely at par to that of last year, although such was still 10-20% below that of 2019. By segment, baijiu sold the best, with most categories recording +ve growth, while processed meats and condiments disappointed despite huge promotional input. Meanwhile, the expert does not see ground to ramp-up consumption tax and expects supportive policy roll-out later this year to stimulate birth rate and hence child-related spendings.
- Other data sources we tracked pointed to similar conclusions.** Overall traffic flow improved YoY, but was still subpar to what we saw in 2019. Pandemic control intensity remains key to the pace of the recovery. F&B spending in general remained resilient, driven by stay-home and festive demands. We note double digit growth in baijiu, low-teen growth in dairy and MSD growth in beer sales.
  - Baijiu:** premium sales was steady while those of subpremium diverged. National subpremium sold worse than regional's as the latter was able to ride on "back home" traffics. Pricings were well disciplined, and inventory was healthy at around 30 days.
  - Dairy:** demand remained strong with premium outperforming on similar reasons as above. Other than that, an increasing health consciousness counts. Yili and Mengniu brand sales grew ~15% YoY, largely in line with our expectation.
  - Beer:** bright sales in January and CNY despite sporadic lockdowns. Price hike expectation and an earlier CNY holiday altogether drove strong channel re-stocking ahead of the forthcoming high season.
  - E-cigar:** momentum stabilised, after a low 2H21 due to intensifying competition rather than regulatory headwinds.
- Stock for actions.** Impact from property deleveraging and the zero-COVID policy remain lasting drags to the waning consumption sentiment. Amid a de-risking mentality, we cherry-pick relative outperformers that, in our view, are anecdotally less hammered by the languishing propensity to consume and are more responsive to price hikes. Our top picks are CR Beer, Mengniu and Feihe, followed by Nongfu and Budweiser. Meanwhile, we also believe near term earnings risks for these stocks are well-contained into March's results season based on [findings from our pre-results NDRs](#).

Name	Ticker	Rating	Price	TP	Mkt Cap (US\$ mn)	P/E (x)		EV/EBITDA (x)		ROE (%)	
			(LC)	(LC)		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CR Beer	291 HK	Buy	63.7	80.0	26,491	53.2	39.7	26.3	22.0	14.0	16.6
Mengniu	2319 HK	Buy	49.2	57.0	24,908	30.7	26.6	23.2	18.7	11.8	13.2
Feihe	6186 HK	Buy	11.3	14.0	12,900	11.6	10.1	6.9	5.9	40.4	41.8
Nongfu	9633 HK	Buy	48.0	53.0	69,202	76.1	70.0	42.5	38.7	33.6	30.6
Tsingtao	168 HK	Buy	77.3	86.0	17,323	31.8	26.5	16.2	13.0	12.2	13.6
Yili Industrial	600887 CH	Buy	40.5	50.0	40,887	27.9	24.8	19.6	17.6	27.3	29.1
Budweiser	1876 HK	Buy	23.1	26.6	39,217	45.5	39.5	18.7	16.4	7.8	8.5
Smooore	6969 HK	Buy	35.8	43.0	27,583	34.8	26.8	26.2	19.8	40.4	41.4
RELX	RLX US	Buy	3.8	4.3	5,985	16.8	15.2	13.9	11.4	56.6	38.7

Source: Company data, CMBIS estimates

### MARKET PERFORM (Maintain)

#### China Consumer Staples

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#### Investment thesis

A habitual consumption pattern, premiumization and an effective cost pass-through are structural merits that F&B players offer as margins buffer amid cost inflation.

#### Our sector top picks:

##### CR Beer (291 HK, Buy)

Target Price (HK\$)	80.0
Up/Downside	+25.6%
Current Price (HK\$)	63.7
52w High/Low (HK\$)	76.0/53.4

Source: Bloomberg, CMBIS

##### Mengniu (2319 HK, Buy)

Target Price (HK\$)	57.0
Up/Downside	+15.9%
Current Price (HK\$)	49.2
52w High/Low (HK\$)	51.1/38.5

Source: Bloomberg, CMBIS

##### Feihe (6186 HK, Buy)

Target Price (HK\$)	14.0
Up/Downside	+23.9%
Current Price (HK\$)	11.3
52w High/Low (HK\$)	25.7/9.7

Source: Bloomberg, CMBIS

#### Related Reports

- ["Cherry-picking amid a de-risking mentality; our top picks: CRB/Mengniu/Feihe"](#) – 21 Jan 2022
- ["Marketing feedback – inflation & price hikes are key words appeared in every meeting"](#) – 23 Nov 2021
- ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

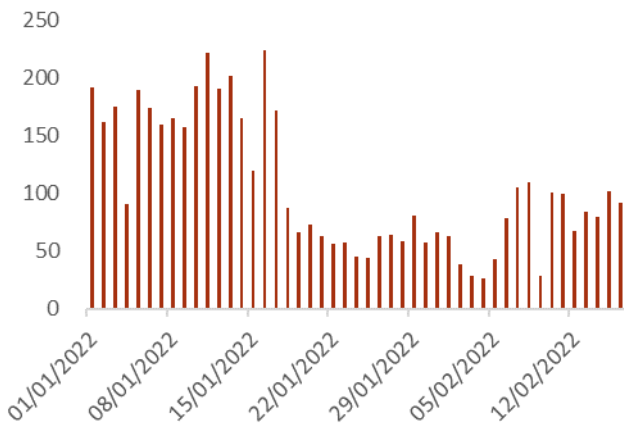
## Key takeaways from our expert call

- **Overall sales in CNY and to date:** The speaker noted that overall consumption sentiment remained weak since 2Q21. This was largely due to income growth slowdown and traffic flow restrictions amid the pandemic. F&B has been relatively steady. During the CNY, dairy and beer were the outperformers, thanks to smooth sales mix upgrade and price pass-through. A normalizing offline social activities also aided the robust performance. Baijiu was steady, with majority of the brands recording positive growth. Separately, both processed meat products and condiments sales disappointed, with the former recording a y-y decline and the latter growing below expectation.
- **Baijiu: Moutai** saw still strong demand and inventory shortage for the core Feitian, while a more rational attitude and less speculative run for higher-priced new products including Moutai Zhenpin upgraded (MSRP Rmb4,599), the zodiac Tiger themed wine (MSRP Rmb2,499). The sales for the core thousand-yuan-priced new product, Moutai 1935 (2,000-3,000 tons planned production), was expected to ramp up in 2022. **Fenjiu** grew better than peers at 20-30% y-y, but such was still slightly weaker than expected. **Wuliangye** grew by 10-15%, with healthy pricing and inventory, but its relatively lower channel margins could incentivize distribution to allocate greater promotional effort to other higher-margin brands of similar positioning. **Laojiao** was expected to accelerate, given its higher channel margins and ESOP plan could create major incentives for distributors and employees. **Sub-premium: Shede, Jiugujiu** were relatively the strongest trending ones, with 50-70% and 40-50% growth in CNY, based on channel check. **Shuijingfang** and **Kouzijiao** were robust, with 25-30% growth in CNY. The trend in **Yanghe** improved since 3Q21, with ~15% growth in CNY.
- **Dairy:** both **Yili** and **Mengniu** maintained robust sales in CNY, likely achieving low-to-mid-teen growth YoY. Both had a lower promotional spending for this CNY than the last National Day and Mid-Autumn Festival. Super-premium products maintained strong momentum, and the expert expected that to persist over 2022. Both companies are likely to ramp up their cheese businesses this year. The expert envisaged competition to intensify, but was optimistic about its growth potential in the long term, thanks to consumption upgrade.
- **IMF:** competition is heating up, as Yili and Mengniu are making major effort to expand their footholds in this market in the year, according to the expert. Growth was relatively soft for Feihe in CNY, with low-to-single digit growth YoY in the period. The expert also commented a relatively high current level of channel inventory (~100 days) and declines in ASP for Feihe products since 4Q21, which could discourage distributors to further stock up in the next cycle.
- **Beer:** overall healthy pricing and discounts during CNY. The robust sales were sustained by continued online growth and the recovery of on-trade channels such as nightclubs. **CR Beer** was the outperformer. Its Yongchuang was among the best sellers, while Marrisgreen and Heineken also performed brightly.
- **Condiments and packaged food:** recorded weaker-than-expected sales, mainly due to slow recovery of restaurant channel along with heavy discounts. The impact of price hikes initiated in 2H21 was likely offset by heavier discounts. On the other hand, inventory level was high even for major players including **Haitian, Chubang, Hengshun, Fulingzhacai** and **Angel Yeast**. **Yihai** and **Tianwei**, the two leading players in hot pot bed charge, have been facing intensified competition in the segment.

## COVID was well managed during the CNY holiday

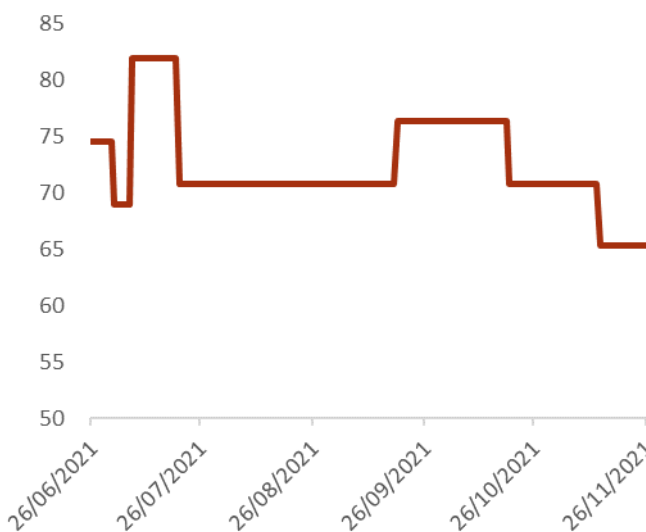
Overall, the Covid situation has been well under control in mainland China during 2022 CNY holiday (31 Jan – 6 Feb) and to date thereafter. There have been 163 newly confirmed domestic cases during CNY (mainly in Guangxi, Guangdong, Zhejiang and Tianjin), notably lower than 237 in the previous week. The rate of vaccination was 219 doses per 100 persons in China as of 14 Feb, ranked the 12<sup>th</sup> globally. China has been trying to adopt more flexible Covid-19 policy, to avoid unnecessary harm to consumption and traffic flow recovery due to too simplistic Covid-19 response applied to all regions. Restrictions have been marginally relaxed during 2022 CNY. Oxford Covid-19 Government Response Index for China dropped to 69.91 on 24 Jan from 79.19 the day before. Overall, the number of mid/ high-risk districts in China has kept falling. The conditional approval of Pfizer’s Covid-19 drug Plaxlovid on 11 Feb also reflected China’s willingness to accelerate the recovery process.

**Figure 1: No. of newly confirmed domestic cases during 2022 CNY**



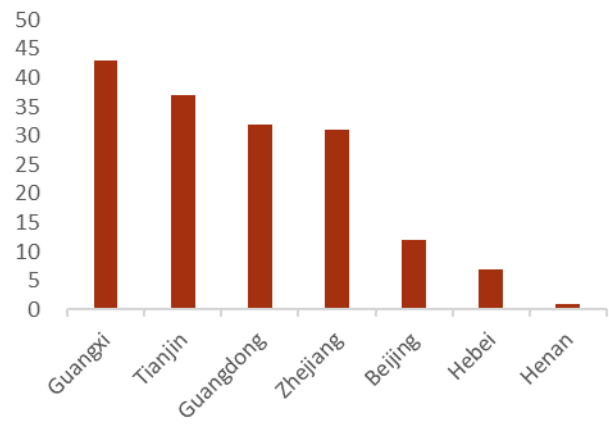
Source: Wind, CMBIS

**Figure 3: Covid-19 Government Response Index for China**



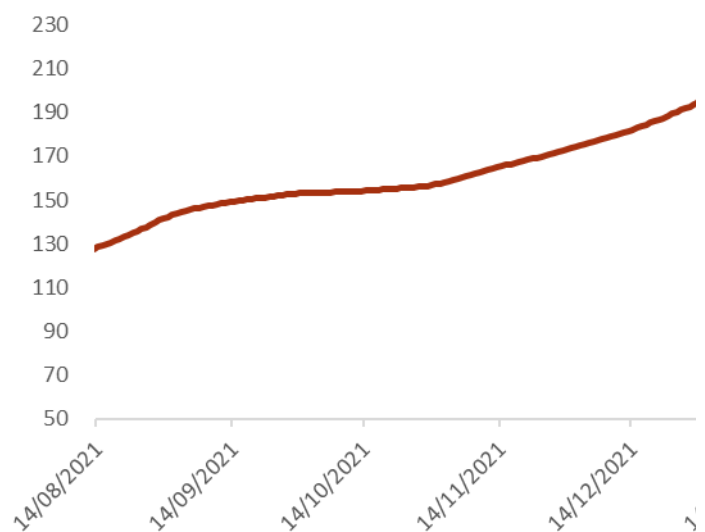
Source: Wind, CMBIS

**Figure 2: No. of newly confirmed domestic cases during 2022 CNY by province**



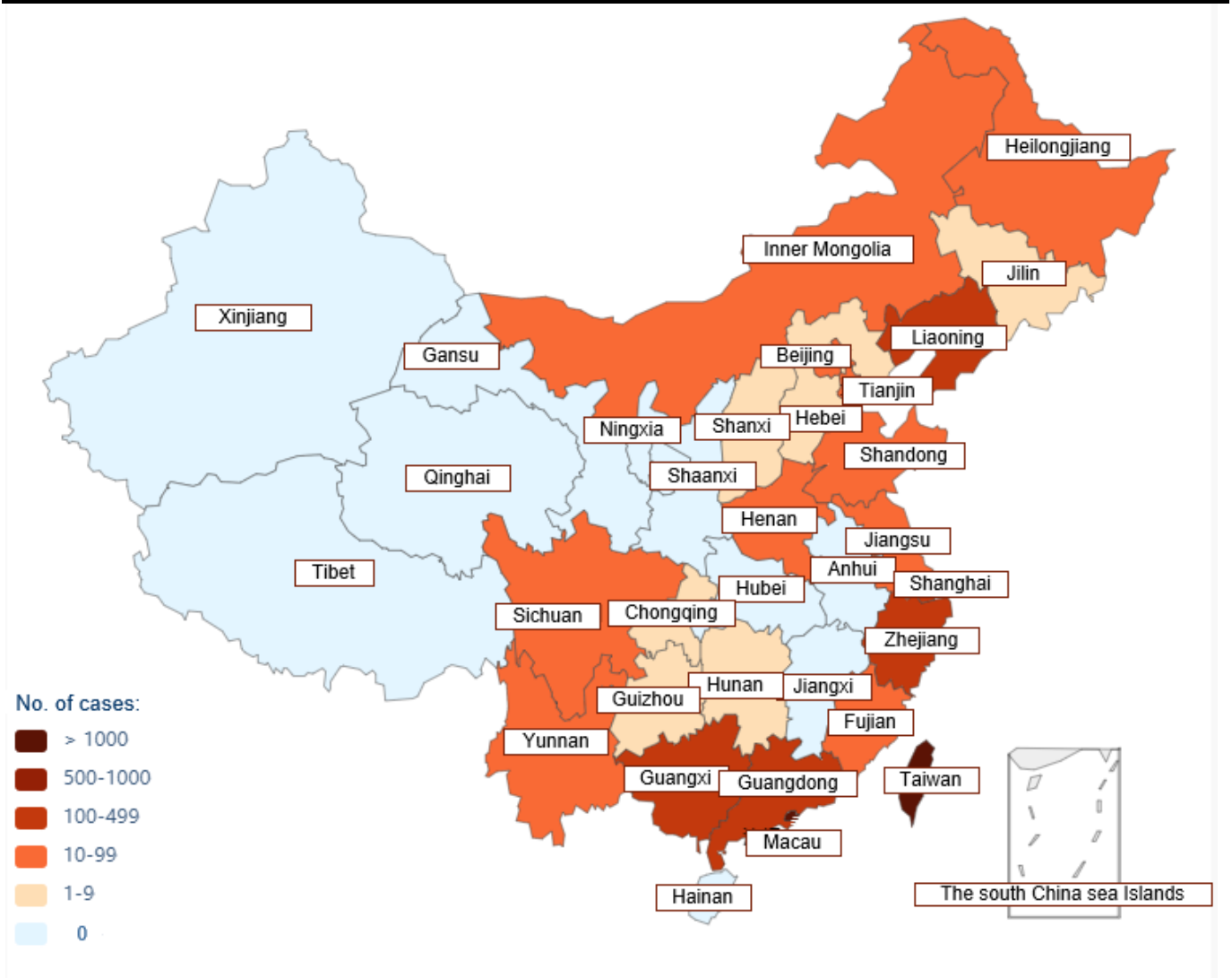
Source: Wind, CMBIS

**Figure 4: Rate of Covid-19 vaccination in China**



Source: Wind, CMBIS

**Figure 5: Map of existing confirmed cases in China by province (Feb 16)**

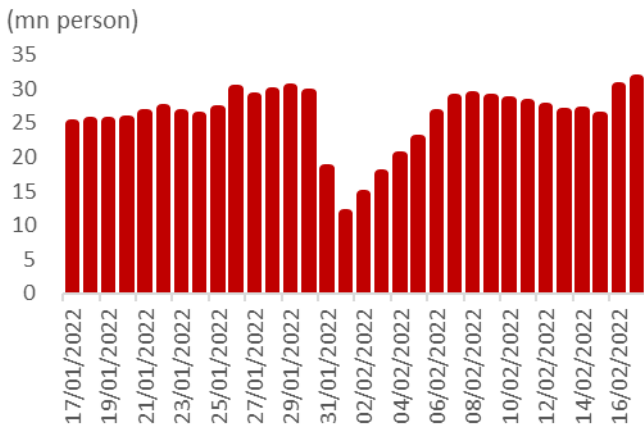


Source: 21jingji.com, CMBIS

■ **Passenger flow improved YoY, but still below that of 2019; T1/2 cities recovered relatively slower than T3/4 cities due to stricter Covid control**

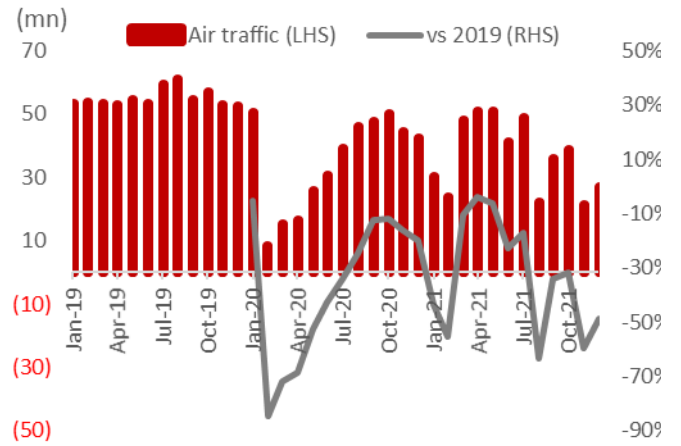
Based on Ministry of Transport’s data, passenger flow in the first 21 days of the CNY holiday between Jan 17-Feb 6, or the so-called “Chunyun” was up 43% YoY to 512m. Despite the increase, the number only represented 34% of what we saw for 2019, and is below the estimates of Peking University, which forecasted passenger flow to reach about 46% of 2019. On the other hand, according to Baidu, the traffic flow during Chunyun (which included also private cars) was up 67% YoY and stood at 91% of 2019. The slightly diverging data sets put us to believe that the actual traffic would have stood between the studies. Meanwhile, we also noted that higher tier cities recovered slower than lower tier cities, as a result of having a higher number of districts being regarded as mid to high-ris. Of note, traffic flow of the latter has already approached pre-covid level in 2019.

**Figure 6: Passenger flow in 2022 CNY**



Source: Department of Transportation, CMBIS

**Figure 7: China monthly air traffic (total seats)**



Source: Wind, CMBIS

## Dairy and beer sales stood out as expected

### ■ Dairy: robust sales; premium products the outperformer in particular

Based on channel check, dairy demand was solid over 2022 CNY, with premium segment extending its above-trend growth, driven by improved “back home” traffic flow and higher health consciousness amid pandemic. Both Yili and Mengniu likely registered double-digit sales growth in UHT products, driven in particular by premium liquid milk and yogurt. Channel inventory stood at relatively low level. Selling expenses should have been overall stable, as the two major players have not notably increased promotional moves for this CNY and existing promotions were often for premium products, based on our channel check. Yili, as the only official dairy sponsor of 2022 Beijing Winter Olympic Games, has carried out a series of innovative marketing initiatives, including the launch of special Olympics-themed milk packaging, the first variety show dedicated to Winter Olympic Games and the first digital milk NFT. We remain positive on dairy consumption going forward, driven by increasing demand stickiness, strong momentum of premiumization and softening competition.

### ■ Beer also tracked brightly

Expectation of further price hikes and an earlier CNY have driven strong channel restocking ahead of the incoming high season. Overall, on-trade sales recorded a positive trend with more flexible Covid policy during CNY. TB's produced 11mn liters beer in CNY, over 200% increase YoY. Based on channel check, TB is likely to record mid-single-digit sales volume growth in Jan, CRB and Chongqing Brewery to register strong Jan sales volumes, while Zhujiang Beer to record slight growth in sales volume YTD.

### ■ Premium baijiu sales steadied while that of sub-premium diverged; prices in general were stable and inventory was healthy

**Sales:** based on channel check, premium sales was steady while that of sub-premium diverged. Shortage of Moutai persisted; when Wuliangye sales was flat or slightly higher YoY on a high base. Distributors were in general confident about future price increase of Wuliangye products. On the other hand, Luzhou Laojiao has been relatively weak in non-core regions. Separately, sales for national sub-premium diverged while regional sub-premium has overall shown a positive trend. Traditional core products of mainstream sub-premium brands, including Gujinggong, Kouzijiao, Yingjia, Yanghe, Jinshiyuan, were strong in their core regional markets. Overall, regions with stronger “back home” traffic inflow, lower number of mid/ high covid risk districts, such as Anhui, Jiangsu and Jiangxi, have stood out in particular.

**Prices:** overall, prices have been stable. Premium segment: price difference between Moutai loose bottles and FCL (full container load) narrowed. Sales of the newly launched Moutai 1935 was not particularly strong, of which wholesale price stood at Rmb1,500-1,600. Wuliangye's core product, Puwu's wholesale price maintained flat at Rmb970. For Luzhou Laojiao's Guojiao, wholesale price increased by Rmb30-40 to Rmb910-920. Sub-premium segment: wholesale prices of core products were Rmb380 for Fenjiu's Qinghua, Rmb350-360 for Shede's Pinwei, Rmb210-220 for Gujinggong's Gu-8, Rmb220 for Kouzijiao's Kouzi-10.

**Channel inventory:** Overall inventory level is healthy. So far, inventory is low for Moutai, while ~1 month for other premium brands, ~1.5 months for sub-premium (~1 month for Fenjiu), 1.5-2 months for regional brands.

**Figure 8: Prices, inventory, shipments and payment for main spirit companies in CNY**

Company	Wholesale price (Rmb)	Inventory level	% of orders paid by distributors	% of orders shipped	
Moutai	Feitian loose bottles	2,750-2,800	< 0.5m	c.25% in Jan-Feb	Started shipment of the quota for Feb
	Feitian FCL	3,150-3,200			
	Moutai 1935	1,500-1,600			
Wuliangye	Standard Wuliangye	c.970	c.1m	c.40%	c.30%
	Classic Wuliangye	1,750-1,800			
Luzhou Laojiao	Guojiao	910-920	c.1m	c.35%	c.25%
Yanghe	Dream 3 crystal version	410-440	Overall c.40%, c.45% in Jiangsu prc	Overall slower than payment by distributors	
	Dream 6+	610-640			
Shanxi Fenjiu	Qinghua 20	380	< 1m	c.30-35%	Overall in line with payments by distributors
	Qinghua 30 renaissance version	850-890			
Jiuguujiu	Jiuguujiu	850-560	c.1.5m	c.35-40%	Overall slower than payment by distributors
Shede	Pinwei	350-360	c.1.5-2m	c.30%	Overall in line with payments by distributors
	Zihui	450-470			
Jinshiyuan	Sikai	420-440	c.1.5-2m	c.40% in Anhui province	Overall slower than payment by distributors
Shuijingfang	No.8	330	c.1-1.5m	c.30%	Overall in line with payments by distributors
	Jingtai	440			
Gujinggong	Honor version	80	c.2m	in Anhui province, 30% out:	Overall slower than payment by distributors, c.30%
	Gu 5	110			
	Gu 8	210			
	Gu 20	560			
Kouzijiao	Kou 5	100	c.1.5m	c.30%	Overall slower than payment by distributors
	Kou 10	220			
	Kou 20	320-330			
Yingjiagongjiu	Dong 6	100	c.2m	c.50%	Overall slower than payment by distributors
	Dong 9	180-200			
	Dong 16	290-300			
	Dong 20	c.500			

Source: channel check, CMBIS

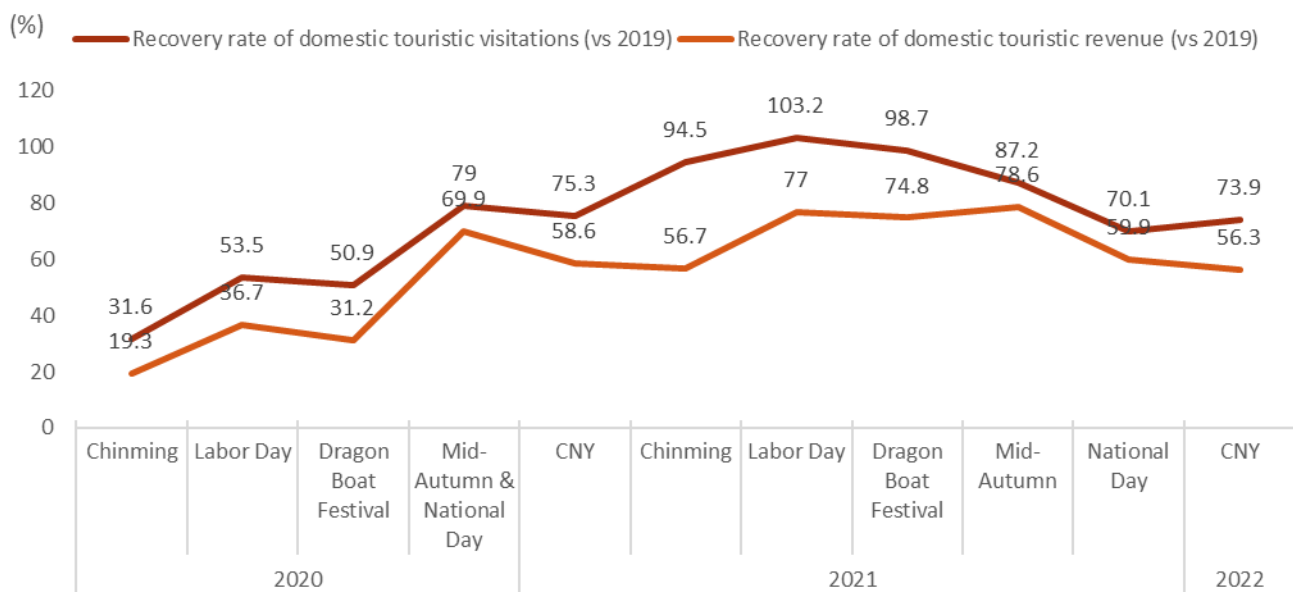
#### ■ E-cigar recorded steady sales momentum

66% of the 385 e-cigar retailers we monitored recorded steady sales in Jan 2021 vs Dec 2022. Most retailers surveyed were optimistic on e-cigar sales growth after the new policy roll-out in the remainder of the year. Some retailers commented to record weaker sales in 2H21 vs 1H21, and attributed the decline to intensifying competition, rather than any regulatory shake-up. So far, business performance of leading brands has been steady.

## Overall consumption in slow recovery

According to PBOC, the number and total amount of non-cash payments during 2022 CNY grew 10% and 16.2% YoY, weaker than National holiday in 2021. Delivery parcel volume grew 16% YoY/ +585% vs 2019. The number of domestic touristic visitations and revenue declined 2% and 3.9% YoY, and were 74% and 56% of 2019 level, respectively. These ranked relatively low among the major national holidays since the Mid-Autumn Festival in 2020.

**Figure 9: Recovery rate vs 2019 during major national holidays since 2020**



Source: Ministry of Culture and Tourism, CMBIS

**Figure 10: Summary of consumption data by provinces/ cities in 2022 CNY**

Province/ Provincial city	Sample	Sales value (Rmb)	Change YoY
Beijing	Key monitored department stores, supermarkets, specialty stores, catering and e-commerce enterprises	5.2bn	Stable
Shanghai	Amount of offline consumption	37.1bn	28.6% (vs 2019)
Jiangsu	Key monitored commercial enterprises	13.8bn	8.5% (vs 2021), 23% (vs 2019)
Sichuan	Key monitored retail and catering enterprises	2.5bn	7.3% (vs 2021), 15.8% (vs 2019)
Henan	320 key monitored retail and catering enterprises	2.3bn	6.5%
Hebei	147 large-scale shopping malls, supermarkets and catering enterprises	1.75bn	7.2%
Shaanxi	524 key monitored commercial enterprises	1.43bn	Flat
Shandong	500 monitored commercial enterprises	8.84bn	1.8% (vs 2021), 7.5% (vs 2019)
Hunan	283 key monitored retail and catering enterprises	1.9bn	12.40%
Chongqing	Major business centers and key monitored commercial enterprises	30bn	9.30%

Source: Departments of Commerce of different provinces, CMBIS



■ **Limited effect of consumption-related policies up-to-date urges for more direct and powerful supportive policy**

Since the Central Economic Work Conference (CEWC) in Dec 2021 has indicated the expansion of domestic consumption as a key task for 2022, there has been the issuance of different implementation measures to support consumption, but mainly at local level and in the forms of consumption vouchers (usually discounts upon reaching certain level of spending threshold), tickets for touristic visits, red pocket for “stay in place” employees etc. Currently, these measures seem to have given limited results, based on the consumption data during 2022 CNY. The two-year average growth of total retail sales in China has declined to 3.9% in 2021, almost halved vs pre-covid level. This could urge for more supportive policies to come out in 2022, in our view.

## Price hikes catalyse near term positive stock returns

We recommend investors to accumulate F&B names which offer price hike potential at any share price correction. In our view, breweries are likely to revise their pricing strategies in 2Q, ahead of the peak season in summer while dairies premiumize their products mainly through mix upgrade and hence impact is more gradual.

Our analysis of stock price data in 2007-2021 suggests that price hike is likely to be a meaningful catalyst for short-term stock rally. Based on our sample, for historical waves (2007-2019) of price hike, the odds to achieve a positive return, if holding the stock from 30 days prior to 30 days after the day when a price hike goes live, was 72.5%, and 55% for obtaining >5% return and 30% for >10% return. This confirms our belief that investors do not only price-in ahead the event, but also react on the positive earnings impact brought by a higher margin.

Figure 11: Price hike and stock returns, 2007-2019

Company	Sector	Period	Stock	Stock	Stock	Stock	Stock	Stock	Stock	Stock	Stock	Stock	Stock
			return	return	return	return	return	return	return	return	return	return	return
			-60D	-30D	-7D	+7D	+30D	+60D	+90D	+180D	+360D	+720D	+1080D
Cheng De LoLo	Soft drink	4Q2007	-13.3%	-18.1%	9.3%	-1.6%	-7.6%	14.6%	10.6%	-11.0%	-39.7%	-24.3%	95.0%
Tsingtao Beer	Brewery	Jan 2008	2.9%	1.7%	2.1%	38.3%	5.5%	-9.8%	-15.2%	-37.3%	-37.5%	59.3%	69.5%
Yanjing Beer	Brewery	1Q2008	60.9%	43.1%	14.0%	20.1%	-4.8%	4.9%	-20.9%	-19.6%	-35.6%	-11.6%	-8.4%
Cheng De LoLo	Soft drink	Oct 2010	29.3%	19.1%	12.8%	1.5%	-11.7%	-9.7%	-26.4%	-30.3%	-43.5%	-33.7%	8.8%
Hengshun Vinegar	Condiments	Dec 2010	17.5%	19.4%	-1.6%	-5.3%	-9.2%	-20.8%	-14.6%	-28.5%	-40.8%	-25.2%	49.9%
Tsingtao Beer	Brewery	1Q2011	-0.9%	-4.6%	0.9%	0.1%	-12.0%	-9.2%	-9.2%	11.0%	7.7%	12.9%	63.1%
Fuling Zhacai	Condiments	1Q2011	n.a.	-10.0%	-4.2%	-1.5%	-13.5%	-9.4%	-15.7%	-26.9%	-47.0%	-18.4%	43.2%
Yanjing Beer	Brewery	Jan 2011	-1.2%	1.9%	-3.6%	-5.3%	-1.3%	1.4%	0.7%	-5.2%	-29.3%	-40.2%	-10.9%
Tsingtao Beer	Brewery	Apr 2011	3.2%	0.0%	-4.2%	9.9%	11.6%	23.8%	22.3%	14.2%	19.5%	31.4%	58.4%
Bright Dairy	Dairy	Dec 2011	15.5%	6.3%	-0.1%	-4.9%	-5.3%	-13.2%	-5.9%	7.9%	-4.9%	152.7%	80.6%
Bright Dairy	Dairy	Jan 2013	9.0%	13.6%	8.0%	-1.5%	1.7%	32.3%	46.5%	39.0%	122.5%	73.9%	62.5%
Sanyuan	Dairy	Feb 2013	22.0%	-10.1%	0.7%	1.9%	1.3%	-0.3%	-12.6%	3.0%	21.5%	45.1%	22.7%
Yili	Dairy	Apr 2013	23.2%	14.9%	-2.4%	-2.2%	-7.4%	-10.6%	0.1%	41.1%	12.8%	44.8%	39.6%
Mengniu	Dairy	Apr 2013	-1.5%	2.5%	6.2%	-3.8%	-2.9%	21.3%	25.3%	60.1%	76.8%	64.8%	-0.9%
Jonjee	Condiments	Jul 2013	20.5%	-6.0%	9.9%	4.8%	7.4%	15.3%	37.2%	51.9%	43.3%	201.8%	66.1%
Mengniu	Dairy	Sep 2013	18.0%	1.1%	6.0%	-1.1%	5.9%	4.0%	8.1%	21.3%	16.6%	-3.7%	-16.4%
Yili	Dairy	Sep 2013	-1.6%	-2.9%	1.1%	13.4%	27.8%	17.7%	16.5%	0.5%	14.3%	45.1%	71.7%
Yili	Dairy	Dec 2013	-8.9%	3.1%	3.6%	-3.3%	-4.0%	-12.9%	-13.8%	-16.6%	-5.8%	19.9%	42.3%
Sanyuan	Dairy	Dec 2013	-5.2%	0.8%	-3.9%	-4.5%	-4.3%	-15.7%	-7.3%	-17.2%	5.5%	-14.5%	0.1%
Bright Dairy	Dairy	Dec 2013	-3.3%	6.4%	0.3%	-1.7%	-2.6%	-22.2%	-22.7%	-22.6%	-29.1%	-26.4%	-36.1%
Hengshun Vinegar	Condiments	Jan 2014	9.1%	2.3%	6.3%	4.0%	27.4%	9.0%	0.3%	-9.6%	10.6%	49.2%	38.1%
Haitian Flavoring	Condiments	Nov 2014	-2.2%	1.0%	3.8%	-0.6%	6.5%	5.3%	20.1%	59.6%	65.8%	52.6%	142.5%
Jonjee	Condiments	Dec 2014	-2.5%	5.5%	6.5%	-4.3%	-3.2%	13.2%	23.5%	102.7%	48.1%	57.2%	127.7%
Hengshun Vinegar	Condiments	Jun 2016	2.6%	4.4%	1.9%	4.5%	10.6%	8.1%	2.3%	5.0%	-8.3%	21.6%	79.0%
Fuling Zhacai	Condiments	Jul 2016	10.8%	10.8%	5.4%	5.0%	7.7%	13.4%	12.9%	14.1%	43.5%	218.9%	257.8%
Haitian Flavoring	Condiments	Jan 2017	-7.1%	-6.8%	0.9%	0.9%	6.4%	4.6%	18.7%	41.7%	83.4%	130.7%	282.9%
Yantang	Dairy	Jan 2017	-32.3%	-20.4%	-5.0%	1.3%	0.6%	4.0%	-9.2%	-23.2%	-19.7%	-51.1%	-33.3%
Fuling Zhacai	Condiments	Feb 2017	4.6%	8.4%	3.6%	5.5%	6.2%	6.8%	11.0%	33.6%	71.3%	138.7%	144.1%
Jonjee	Condiments	Mar 2017	8.4%	3.6%	-2.7%	1.2%	4.7%	14.0%	7.7%	40.8%	82.9%	110.5%	155.0%
Sanyuan	Dairy	Mar 2017	7.6%	-0.2%	-1.6%	2.2%	-2.8%	-11.3%	-18.4%	-15.7%	-26.8%	-31.6%	-35.2%
Qianhe	Condiments	Apr 2017	-1.5%	1.1%	-6.4%	1.5%	7.9%	-7.5%	7.2%	31.7%	2.4%	30.1%	88.7%
Yanjing Beer	Brewery	Dec 2017	-7.1%	-4.9%	1.0%	-3.0%	12.7%	24.9%	22.9%	41.3%	-6.2%	3.5%	35.3%
CRB	Brewery	Jan 2018	26.9%	31.7%	-2.1%	8.2%	5.3%	12.3%	21.2%	36.2%	-4.3%	53.9%	141.5%
Tsingtao Beer	Brewery	Jan 2018	26.4%	27.6%	1.9%	11.8%	5.7%	6.2%	1.5%	6.7%	-19.2%	29.3%	104.8%
Chongqing Brewery	Brewery	Feb 2018	21.2%	10.6%	3.4%	-12.2%	-6.0%	-6.5%	5.2%	35.2%	36.6%	123.5%	480.5%
Yanjing Beer	Brewery	Mar 2018	4.8%	10.1%	2.1%	-7.8%	4.3%	6.9%	5.8%	-19.9%	-15.4%	-18.1%	-8.2%
Zhujiang Brewery	Brewery	Apr 2018	-3.5%	8.0%	10.3%	-0.7%	-1.3%	42.5%	1.3%	-7.4%	27.7%	23.1%	84.6%
Tsingtao Beer	Brewery	May 2018	17.5%	13.6%	3.4%	2.1%	-4.4%	-7.4%	-21.8%	-32.2%	7.6%	8.8%	52.7%
Fuling Zhacai	Condiments	Oct 2018	-25.0%	-26.9%	-21.1%	14.9%	12.4%	13.4%	18.4%	45.1%	25.5%	159.2%	74.7%
Hengshun Vinegar	Condiments	Jan 2019	5.6%	8.1%	-0.4%	2.9%	8.0%	18.4%	32.7%	77.1%	41.8%	184.3%	95.7%

Source: Company data, CMBIS

Figure 12: Odds of positive returns upon price hike, 2007-2019

2007-2019	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return -30D to +30D
Odds of +ve return	59.0%	71.8%	65.0%	55.0%	55.0%	62.5%	72.5%
Odds of -ve return	41.0%	28.2%	35.0%	45.0%	45.0%	37.5%	27.5%
Odds of >+5% return	46.2%	43.6%	27.5%	22.5%	42.5%	50.0%	55.0%
Odds of >+10% return	33.3%	28.2%	7.5%	12.5%	15.0%	35.0%	30.0%
Odds of >+15% return	30.8%	12.8%	0.0%	5.0%	5.0%	20.0%	25.0%
Odds of >+20% return	20.5%	7.7%	0.0%	5.0%	5.0%	12.5%	12.5%

Source: Company data, CMBIS

To further substantiate our findings, we also look into the recent wave of price hike that took place over mainly over 2H21. We calculate the odds to obtain positive return in the 30-day period prior to the event was 66.7%, compared to 52.2% in the 30-day period post event, and the odds to obtain >5%/>10% returns were 63%/40.7% ahead of the event, notably higher than 34.8%/26.1% post event. While there could be subsequent rounds of price increases by sector leaders in brewery and dairy in 2022E, in our view, it could become the catalyst for further rounds of stock rallies.

Figure 13: Price hike and stock returns, 2020 - 2021

Company	Sector	Period	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return +90D	Stock return +180D	Stock return +360D	Stock return +720D	Stock return +1080D
Yili	Dairy	Dec 2020	5.4%	9.3%	2.2%	21.6%	5.2%	3.2%	-3.5%	-8.8%	3.3%	n.a.	n.a.
Mengniu	Dairy	Dec 2020	28.3%	19.3%	5.2%	11.2%	-1.1%	-9.3%	-4.1%	-3.7%	n.a.	n.a.	n.a.
Budweiser	Brewery	May 2021	-10.0%	0.2%	0.2%	6.2%	4.7%	13.3%	5.3%	-16.5%	n.a.	n.a.	n.a.
Jonjee	Condiments	May 2021	-8.7%	-17.5%	-5.1%	8.0%	10.4%	-6.2%	-17.3%	-17.5%	n.a.	n.a.	n.a.
Tsingtao Beer	Brewery	Aug 2021	-24.0%	-24.5%	-13.4%	2.0%	3.9%	-0.5%	10.4%	n.a.	n.a.	n.a.	n.a.
CRB	Brewery	Sep 2021	-2.7%	11.9%	2.8%	-3.4%	-11.5%	-0.8%	-1.8%	n.a.	n.a.	n.a.	n.a.
Angel Yeast	Condiments	Sep 2021	-0.9%	13.7%	10.0%	8.3%	20.1%	15.7%	31.4%	n.a.	n.a.	n.a.	n.a.
Teway Food	Condiments	Oct 2021	-16.2%	5.4%	-0.8%	1.9%	18.8%	15.3%	n.a.	n.a.	n.a.	n.a.	n.a.
Haitian Flavoring	Condiments	Oct 2021	-1.5%	25.6%	3.6%	1.6%	3.4%	0.9%	n.a.	n.a.	n.a.	n.a.	n.a.
Chacha Food	Food	Oct 2021	18.3%	11.9%	7.6%	16.2%	12.6%	24.0%	n.a.	n.a.	n.a.	n.a.	n.a.
Chongqing Brewery	Brewery	Oct 2021	8.4%	14.8%	17.2%	5.8%	-0.6%	5.6%	n.a.	n.a.	n.a.	n.a.	n.a.
Ligao Foods	Food	Oct 2021	16.6%	-3.0%	7.1%	-1.6%	-3.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Anjoy Foods	Food	Nov 2021	17.2%	-5.0%	-1.3%	3.5%	-6.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Angel Yeast	Condiments	Nov 2021	29.2%	15.0%	15.0%	-3.2%	-3.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Haixin Foods	Food	Nov 2021	10.7%	10.5%	11.6%	0.7%	-1.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hengshun Vinegar	Condiments	Nov 2021	21.8%	12.7%	12.0%	-6.2%	-12.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Snowsky Salt	Condiments	Nov 2021	-14.9%	-5.0%	9.3%	1.5%	6.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jiajia Food	Condiments	Nov 2021	10.3%	8.1%	19.3%	2.4%	12.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fuling Zhacai	Condiments	Nov 2021	19.4%	-0.5%	-5.5%	0.2%	12.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yili	Dairy	Nov 2021	18.0%	7.3%	-0.1%	-0.5%	-3.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qianhe	Condiments	Nov 2021	56.9%	28.9%	9.5%	-7.7%	-9.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sanquan Food	Food	Nov 2021	33.7%	21.7%	4.8%	-9.9%	-7.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Budweiser	Brewery	Nov 2021	8.2%	5.1%	-1.0%	-3.1%	2.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jonjee	Condiments	Nov 2021	3.2%	-9.6%	-5.8%	4.5%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jianweiyangchu Foc	Food	Nov 2021	10.5%	-4.0%	2.1%	1.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mengniu	Dairy	Dec 2021	-11.4%	-8.8%	-0.4%	2.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Want Want	Food	Dec 2021	15.1%	5.8%	2.0%	5.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

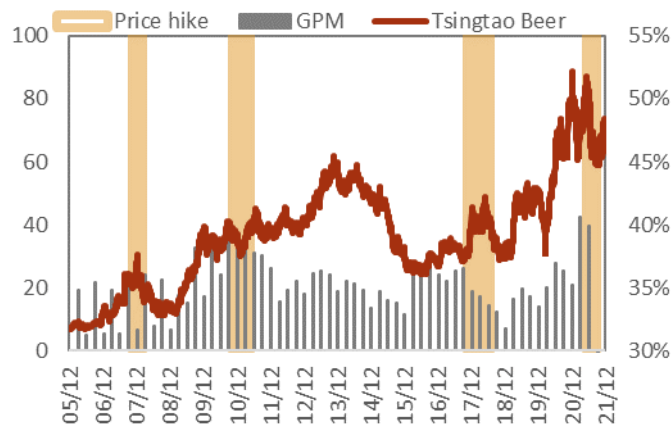
Source: Company data, CMBIS

Figure 14: Odds of positive returns upon price hike, 2020-present

2020-Dec 2021	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return -30D to +30D
Odds of +ve return	66.7%	66.7%	66.7%	70.4%	52.2%	63.6%	73.9%
Odds of -ve return	33.3%	33.3%	33.3%	29.6%	47.8%	36.4%	26.1%
Odds of >+5% return	63.0%	63.0%	40.7%	29.6%	34.8%	45.5%	60.9%
Odds of >+10% return	51.9%	40.7%	18.5%	11.1%	26.1%	36.4%	52.2%
Odds of >+15% return	40.7%	18.5%	7.4%	7.4%	8.7%	27.3%	30.4%
Odds of >+20% return	18.5%	11.1%	0.0%	3.7%	4.3%	9.1%	21.7%

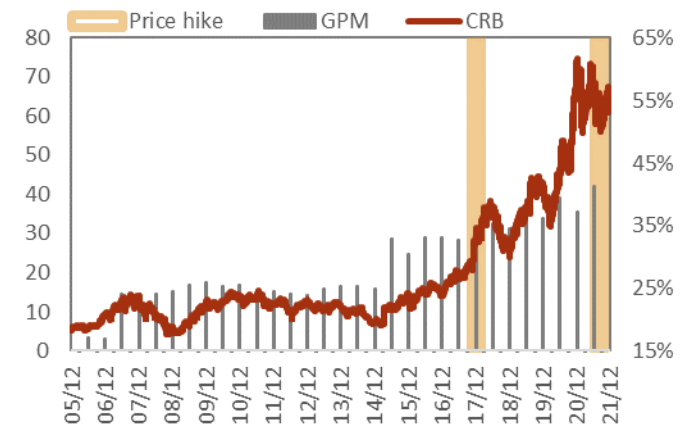
Source: Company data, CMBIS

Figure 15: Stock price and GPM – TB



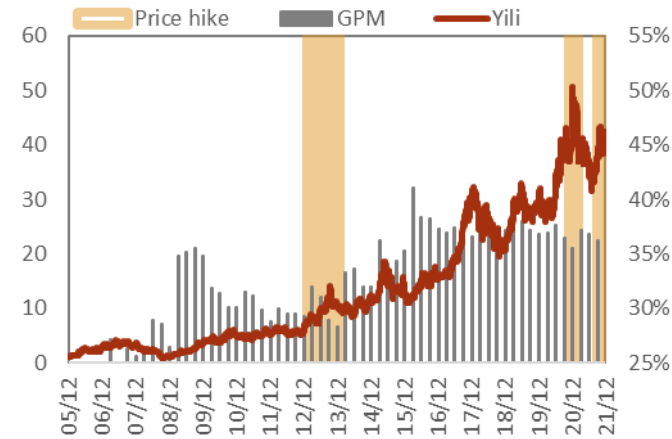
Source: Company data, CMBIS. Note: stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

Figure 16: Stock price and GPM – CRB



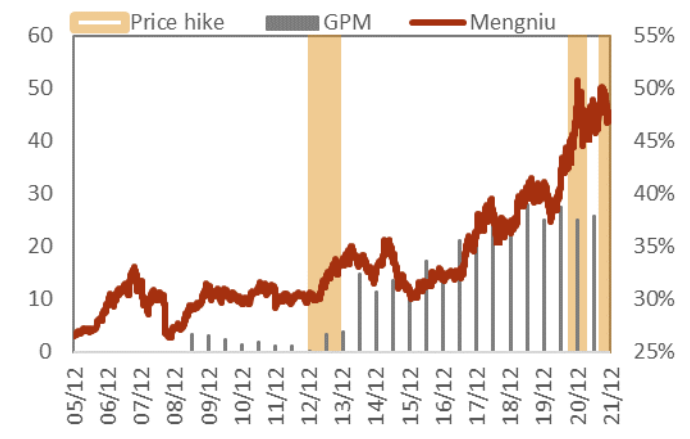
Source: Company data, CMBIS. Note: stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

Figure 17: Stock price and GPM – Yili



Source: Company data, CMBIS.  
Note: Stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

Figure 18: Stock price and GPM – Mengniu



Source: Company data, CMBIS.  
Note: Stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

## Our stock screening framework and pecking order

We rank CR Beer and Mengniu as our top pick followed by Feihe. We also like Nongfu Spring, Tsingtao, Yili and Budweiser. We cherry pick stocks by elimination and assemble our framework with several criteria. These include near term earnings risks, and company fundamentals such as demand resilience amid the pandemic, regional exposure and pricing power. Meanwhile, we increasingly prefer low valuation to high valuation play given that the latter is more sensitive to valuation risk, when tapering and rate hike looks imminent in the US. Corporate governance is rated as important as the abovementioned, while, in contrast, exposure to risks as a result of any regulatory reforms is least preferred.

Investment highlights of our top picks are set out below:

- **CRB (291 HK, Buy, TP HK\$80.0).** We slightly revised down our 2021E volume growth by 0.4pp to -0.7% to factor-in a slower 2H volume growth of a -7.5% decline. Despite this, we maintain our ~21% recurring EBIT growth (vs consensus ~25%) for 2021E. Factoring also a 3% higher SG&A expense, these lead to a ~1% to 5% reduction in our 2021/22E revenue and EBITDA assumptions, respectively. The volume hiccup has not altered our positive view on CR Beer, however, as we believe the company is set to deliver the highest margins expansion potential, among its peers, thanks to a unique blend of product premiumization and capacity optimization.
- **Mengniu (2319 HK, Buy, TP HK\$57.0).** We maintain our recurring OPM of 5.4% for 2H21. A lower opex ratio should suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to LSD/MSD in 2H21E. Into 2022E, we look for a 13% top line growth. After all, we largely maintain our 2021/22E earnings assumption despite small changes in house-keeping items. We slightly twist our TP to HK\$57.0. Mengniu is our top pick.
- **China Feihe (6186 HK, Buy, TP HK\$14.0).** We cut our 2021E revenue and net profits by 2%/ 8%, respectively, upon coverage transfer. After the adjustment, we still forecast a RMB23bn+ revenue for 2021E with 30% net margin. Looking into 2022E, we trim 7% of our volume assumption and hence an 8%/ 14% reduction in revenue and net profits. Albeit a relatively gloomy industry outlook, Feihe looks to stand tall with solid, though slower, premiumization progress and Stage 4 product rotation to play around any regulatory reforms.

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