

Budweiser APAC (1876 HK)

2Q organic sales +15%; overall a mix bag but we see China strength a good trade

Bud APAC's core net profit of US\$279mn was slightly below us, owing to 1) a weak S.Korea performance which consisted of a 7% revenue decline and a 30% slip in normalised EBITDA, 2) a normalising effective tax base subsequent to a provision reversal in India, and 3) currency erosion driven by a weak RMB and KRW to USD. Excluding the latter, Bud APAC reported an organic 14.9% sales growth for the quarter (vs 7.9% as on reported basis), with the help of the continuous strength in China that consisted of an 11.0% volume growth and a 7.8% ASP uptick. While we assert that there is no quick fix to the operational landscape in S.Korea (though transient, per management), we think market might have overlooked the robust China momentum that looks to be parallel to our sector picks such as **CR Beer (291HK, Buy)** and **Tsingtao (168HK, Buy)**. We stay HOLD until we are offered with a roadmap to recovery in S.Korea (18% EBITDA contribution to total). That said, we see Bud APAC as a good trade should our picks report similar China growth prints in the coming weeks.

Key earnings call takeaway

- Management claimed that their business remains resilient and sees little impact from China's consumption trade down trend, as the business is less reliant on lower-income groups. Meanwhile, the willingness to spend on premium/ super premium beer remains keen among mid-high income group. Considering premiumization penetration in China is still less than half of the mature markets, the trend has not lost its steam and Budweiser should be able to enjoy double-digit growth in stronghold province. Operationally, Bud APAC sees ongoing distribution expansion opportunity given the brand only penetrated 1/3 of the national network.
- During the call, management attributed S.Korea's weakness to price hikes initiated on premium brands in response to the 3.57% excise tax rate levied since April. While other brands have started following, price gap among brands should start narrowing during the summer. For mainstream brands in the region, Bud APAC debuted new SKUs with refreshed packaging.

Earnings change/Valuation. We trim our 2023/24E revenue and net profits by 3.5/2.7% and 19.7/16.3% for reasons mentioned above. Our revised TP of HK\$18.6 (from HK\$26.6) is based on 16.0x end-23E EV/EBITDA which represents -1sd below 3-year average (revised down from 20.0x end-23E EV/EBITDA 3-year average). We lower our target multiple to reflect the soft S.Korea performance until we see hints of an operational turn-around.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	6,788	6,478	7,200	7,763	8,409
YoY growth (%)	21.5	(4.6)	11.1	7.8	8.3
Adjusted net profit (US\$ mn)	980	859	1,017	1,141	1,283
YoY growth (%)	75.9	-12.3	18.4	12.1	12.5
EPS (Adjusted) (US\$ cents)	7.19	6.91	7.69	8.62	9.70
Consensus EPS (US\$ cents)	na	na	8.40	10.00	11.40
P/E (x)	41.0	39.7	29.2	26.0	23.1
P/B (x)	3.5	3.4	2.6	2.5	2.4
Yield (%)	2.4	2.5	3.4	3.8	4.3
Net gearing (%)	net cash				

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$18.60**

(Previous TP) **HK\$26.60**

Up/Downside **5.08%**

Current Price **HK\$17.70**

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Stock Data

Mkt Cap (HK\$ mn)	241,131.3
Avg 3 mths t/o (HK\$ mn)	170.2
52w High/Low (HK\$)	27.00/16.46
Total Issued Shares (mn)	13219.9

Source: FactSet

Shareholding Structure

AB Inbev Brewing Co APAC ltd	87.2%
JPMorgan Chase & Co	1.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.7%	-12.5%
3-mth	-19.5%	-17.8%
6-mth	-25.9%	-16.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revisions

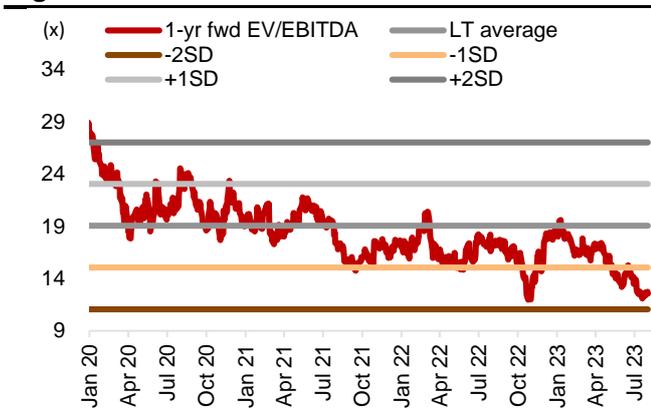
USD mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,200	7,763	8,409	7,463	7,975	NA	-3.5%	-2.7%	NA
Gross Profit	3,708	4,076	4,499	3,970	4,266	NA	-6.6%	-4.5%	NA
EBITDA	2,175	2,395	2,598	2,385	2,571	NA	-8.8%	-6.8%	NA
Adjusted Net Profit	1,017	1,141	1,283	1,267	1,362	NA	-19.7%	-16.3%	NA
Gross Margin	51.5%	52.5%	53.5%	53.2%	53.5%	NA	-1.7ppt	-1ppt	NA
EBITDA Margin	30.2%	30.9%	30.9%	32.0%	32.2%	NA	-1.8ppt	-1.4ppt	NA
Adjusted Net Margin	14.1%	14.7%	15.3%	17.0%	17.1%	NA	-2.8ppt	-2.4ppt	NA

Source: Company data, CMBIGM estimates

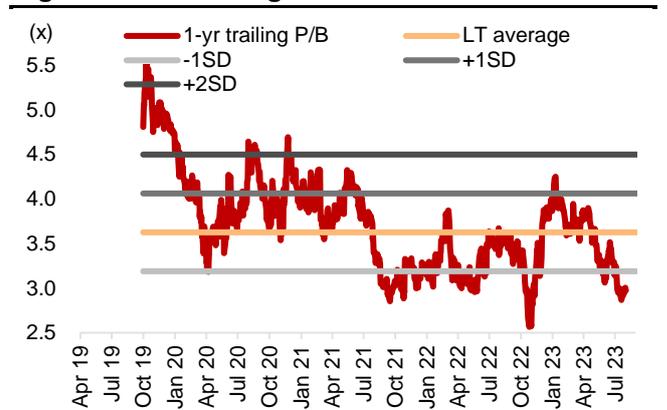
Figure 2: CMBIGM estimates vs consensus

USD mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,200	7,763	8,409	7,487	8,109	8,109	-3.8%	-4.3%	3.7%
Gross Profit	3,708	4,076	4,499	3,861	4,283	4,345	-4.0%	-4.8%	3.5%
EBITDA	2,175	2,395	2,598	2,238	2,560	2,834	-2.8%	-6.4%	-8.3%
Adjusted Net Profit	1,017	1,141	1,283	1,112	1,325	1,503	-8.5%	-13.9%	-14.6%
Gross Margin	51.5%	52.5%	53.5%	51.6%	52.8%	53.6%	-0.1ppt	-0.3ppt	-0.1ppt
EBITDA Margin	30.2%	30.9%	30.9%	29.9%	31.6%	34.9%	0.3ppt	-0.7ppt	-4ppt
Adjusted Net Margin	14.1%	14.7%	15.3%	14.9%	16.3%	18.5%	-0.7ppt	-1.6ppt	-3.3ppt

Source: Company data, CMBIGM estimate

Figure 3: 12M forward EV/EBITDA band

Source: Company data, Bloomberg, CMBIGM

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	5,588	6,788	6,478	7,200	7,763	8,409
Cost of goods sold	(2,681)	(3,131)	(3,238)	(3,492)	(3,687)	(3,910)
Gross profit	2,907	3,657	3,240	3,708	4,076	4,499
Operating expenses	(1,970)	(2,230)	(1,979)	(2,202)	(2,383)	(2,591)
Selling expense	(1,278)	(1,407)	(1,151)	(1,279)	(1,379)	(1,494)
Admin expense	(399)	(449)	(442)	(491)	(530)	(574)
Others	(293)	(374)	(386)	(431)	(474)	(523)
Operating profit	937	1,427	1,261	1,506	1,693	1,908
EBITDA	1,556	2,099	1,931	2,174	2,394	2,597
Depreciation	(562)	(619)	(583)	(581)	(614)	(647)
Other amortisation	(85)	(93)	(88)	(88)	(89)	(90)
EBIT	909	1,387	1,260	1,505	1,692	1,907
Interest income	21	39	39	39	39	39
Interest expense	(45)	(45)	(39)	(39)	(39)	(39)
Others	23	32	23	30	30	30
Pre-tax profit	908	1,413	1,283	1,535	1,722	1,937
Income tax	(371)	(432)	(334)	(476)	(534)	(600)
Minority interest	(23)	(31)	(36)	(43)	(48)	(54)
Net profit	514	950	913	1,016	1,140	1,282
Adjusted net profit	557	980	859	1,017	1,141	1,283
Gross dividends	315	374	400	500	556	624
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	2,332	3,161	3,606	4,477	5,420	6,495
Cash & equivalents	1,281	2,007	2,458	3,261	4,140	5,142
Account receivables	486	512	514	573	609	650
Inventories	434	473	488	498	525	557
Other current assets	131	169	146	146	146	146
Non-current assets	13,857	13,464	12,390	12,231	12,037	11,808
PP&E	3,716	3,632	3,181	3,000	2,786	2,539
Deferred income tax	273	257	233	233	233	233
Intangibles	1,775	1,702	1,605	1,626	1,646	1,665
Goodwill	7,350	7,104	6,624	6,624	6,624	6,624
Other non-current assets	743	769	747	747	747	747
Total assets	16,189	16,625	15,996	16,708	17,457	18,303
Current liabilities	4,637	4,691	4,415	4,567	4,685	4,818
Short-term borrowings	147	123	147	147	147	147
Account payables	2,473	2,471	2,343	2,495	2,613	2,746
Tax payable	324	367	360	360	360	360
Other current liabilities	1,693	1,730	1,565	1,565	1,565	1,565
Non-current liabilities	809	851	748	748	748	748
Long-term borrowings	37	53	77	77	77	77
Other non-current liabilities	772	798	671	671	671	671
Total liabilities	5,446	5,542	5,163	5,315	5,433	5,566
Share capital	0	0	0	0	0	0
Capital surplus	7,481	7,218	6,442	6,442	6,442	6,442
Retained earnings	3,204	3,795	4,322	4,838	5,422	6,080
Total shareholders equity	10,685	11,013	10,764	11,280	11,864	12,522
Minority interest	58	70	69	112	160	215
Total equity and liabilities	16,189	16,625	15,996	16,708	17,457	18,303

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	514	950	913	1,016	1,140	1,282
Depreciation & amortization	608	668	624	621	656	690
Change in working capital	183	44	(151)	84	54	61
Others	(4)	241	191	43	48	54
Net cash from operations	1,301	1,903	1,577	1,764	1,897	2,088
Investing						
Capital expenditure	(516)	(606)	(494)	(462)	(462)	(462)
Acquisition of subsidiaries/ investments	(111)	(123)	(123)	0	0	0
Net proceeds from disposal of short-term investments	39	35	68	0	0	0
Others	16	(37)	109	0	0	0
Net cash from investing	(572)	(731)	(440)	(462)	(462)	(462)
Financing						
Dividend paid	(315)	(374)	(400)	(500)	(556)	(624)
Net borrowings	(4)	(8)	48	0	0	0
Proceeds from share issues	659	(263)	(776)	0	0	0
Others	(772)	181	628	0	0	0
Net cash from financing	(432)	(464)	(500)	(500)	(556)	(624)
Net change in cash						
Cash at the beginning of the year	877	1,264	2,007	2,458	3,261	4,140
Exchange difference	90	35	(186)	0	0	0
Cash at the end of the year	1,264	2,007	2,458	3,261	4,140	5,142
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(14.6%)	21.5%	(4.6%)	11.1%	7.8%	8.3%
Gross profit	(16.7%)	25.8%	(11.4%)	14.4%	9.9%	10.4%
Operating profit	(36.1%)	52.3%	(11.6%)	19.4%	12.4%	12.7%
EBITDA	(26.6%)	34.9%	(8.0%)	12.6%	10.2%	8.5%
EBIT	na	52.6%	(9.2%)	19.5%	12.4%	12.7%
Adj. net profit	na	75.9%	(12.3%)	18.4%	12.1%	12.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	52.0%	53.9%	50.0%	51.5%	52.5%	53.5%
Operating margin	16.8%	21.0%	19.5%	20.9%	21.8%	22.7%
EBITDA margin	27.8%	30.9%	29.8%	30.2%	30.8%	30.9%
Adj. net profit margin	10.0%	14.4%	13.3%	14.1%	14.7%	15.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Current ratio (x)	0.5	0.7	0.8	1.0	1.2	1.3
Receivable turnover days	24.0	22.2	23.3	23.3	23.3	23.3
Inventory turnover days	59.1	55.1	55.0	52.0	52.0	52.0
Payable turnover days	268.2	242.7	219.1	219.1	219.1	219.1
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	79.9	41.0	39.7	29.2	26.0	23.1
P/E (diluted)	79.9	41.0	39.8	29.2	26.0	23.1
P/B	3.9	3.5	3.4	2.6	2.5	2.4
Div yield (%)	1.3	2.4	2.5	3.4	3.8	4.3

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

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NOT RATED : Stock is not rated by CMBIGM

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