

CR Beer (291 HK)

Expecting a solid 1H23

- **2Q preview.** 1H23 operational performance came in largely in line with mid-single-digit volume growth, although that of 1Q was slightly stronger than 2Q due to Chinese New Year impact. By segment, sub-premium+ delivered 20% growth, with Heineken achieving 30%+. Meanwhile, SuperX and others saw teen growth. By channel, restaurant demand has fully recovered to pre-pandemic levels, while that from night life has been ramping up. Coupled with a mid-single-digit ASP increase, we think CR Beer is on track to deliver low-teen revenue growth for 1H23.
- **Operations in Fujian.** Management clarified on recent market chatters which concerned Heineken's high inventory level in Fujian. CR Beer has no intention to stuff the channels and considering 30% sales growth for the brand, the distributor takeaway of a 3-month inventory looks to be ill-founded. This is not to mention Zhejiang and Fujian have always been the two best-selling regions to Heineken.
- **Raw material cost savings.** The soft aluminium and glass prices have been favourable to raw material cost savings, and this is consistent to what management guided earlier this year. On the other hand, any favourable impact from the import tariff lift on Australian barley will be more financially apparent next year. Overall, we think CR Beer is on track to budget for a RMB400-500mn raw material cost increase for 2023E.
- **Update on Jinsha.** The restructuring on Jinsha has almost completed and management is looking to relaunch within 3Q. Upcoming debuts will mainly focus on the mass market segment and light-packaged products (光瓶酒). Jinsha has also been buying back slow-moving inventory from the channel to exert a better grasp on retail pricing (avoiding retailers to sell below ex-factory prices). Given these exercises and current market situation, management does not expect Jinsha to achieve any meaningful profit contribution for the Group, but see a RMB3.0bn+ revenue contribution for 2023E.
- **Valuation/Key risks.** We have not factored in the financial impact of Jinsha's consolidation to CR Beer. Our TP is based on 27.0x EV/EBITDA which still represents its long-term average since 2018.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	33,387	35,263	39,071	42,431	46,245
YoY growth (%)	6.2	5.6	10.8	8.6	9.0
Net profit (RMB mn)	4,587.0	4,344.0	5,164.3	5,970.2	6,836.7
EPS (Reported) (RMB)	1.41	1.34	1.59	1.84	2.11
YoY growth (%)	119.1	(5.3)	18.9	15.6	14.5
Consensus EPS (RMB)	na	na	1.67	2.02	2.40
P/E (x)	37.8	33.5	28.0	24.2	21.1
P/B (x)	7.1	5.4	4.7	4.2	3.7
Yield (%)	1.1	1.2	1.4	1.7	1.9
ROE (%)	20.1	16.9	18.0	18.4	18.7
Net gearing (%)	(22.0)	(33.7)	(39.6)	(39.6)	(39.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$76.90
(Previous TP HK\$76.90)
Up/Downside 61.2%
Current Price HK\$47.7

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Stock Data

Mkt Cap (HK\$ mn) 156,044.9
Avg 3 mths t/o (HK\$ mn) 405.1
52w High/Low (HK\$) 64.75/37.00
Total Issued Shares (mn) 3244.2
Source: FactSet

Shareholding Structure

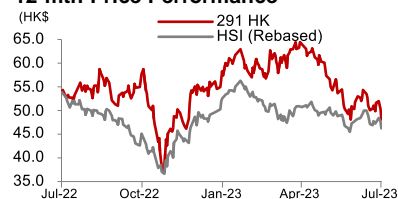
CRH Beer 51.7%
Morgan Stanley 4.7%
Source: HKEx

Share Performance

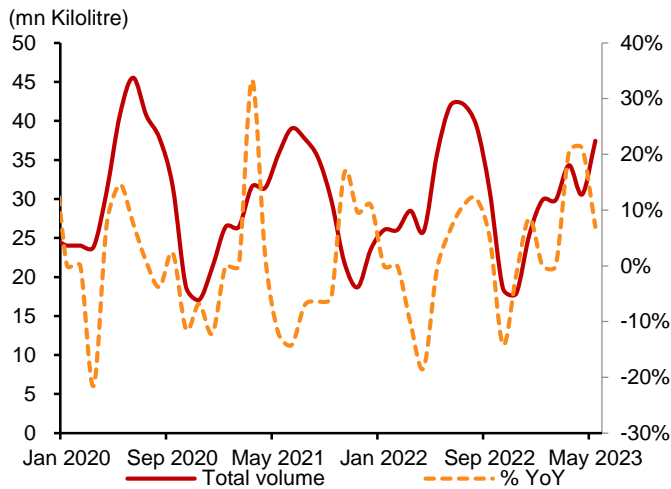
	Absolute	Relative
1-mth	-7.1%	-4.3%
3-mth	-25.7%	-18.5%
6-mth	-16.3%	-5.2%

Source: FactSet

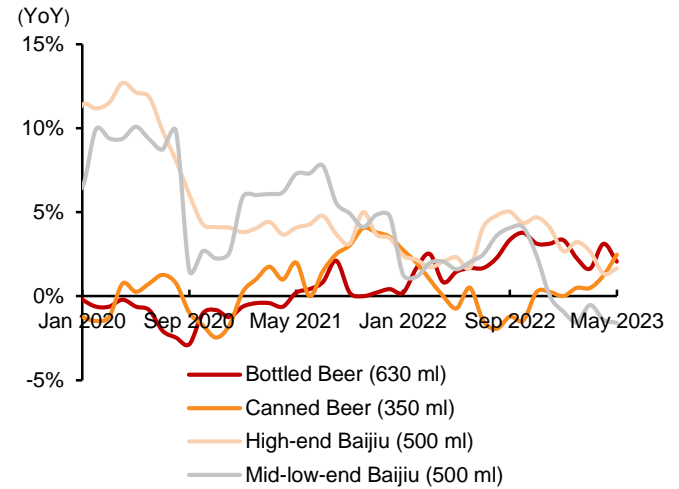
12-mth Price Performance



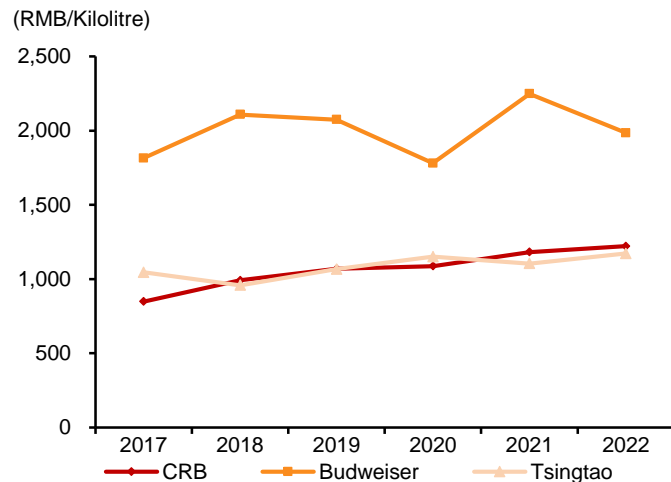
Source: FactSet

Figure 1: China domestic beer production volume

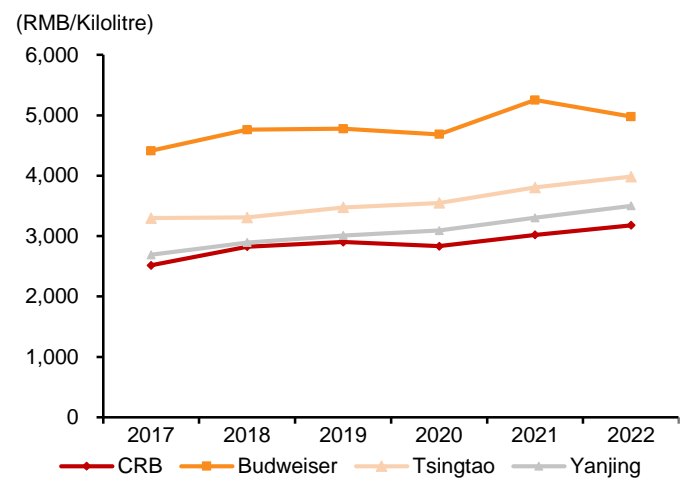
Source: Wind, CMBIGM

Figure 2: Avg. price changes of Beer and Baijiu

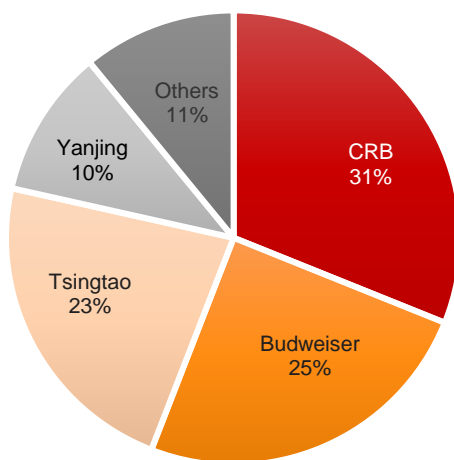
Source: Wind, CMBIGM

Figure 3: Unit gross profits of breweries

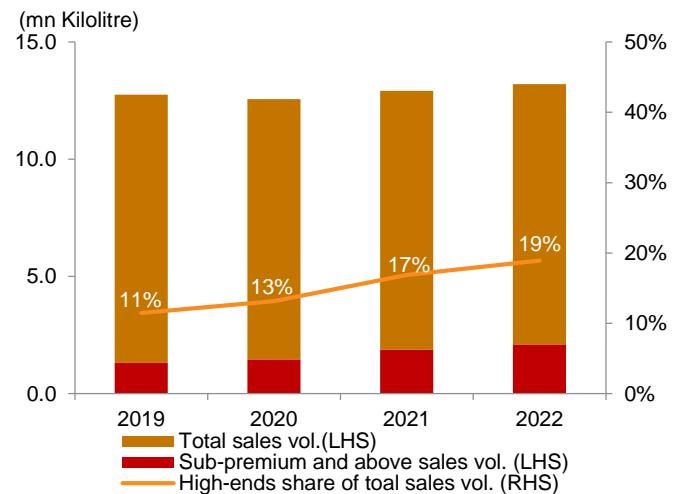
Source: Company Data, CMBIGM

Figure 4: Unit avg. selling price of breweries

Source: Company Data, CMBIGM

Figure 5: Breweries' market shares by 2022 sales vol.

Source: Company Data, CMBIGM

Figure 6: CRB's sub-premium+ to total volume sales

Source: Company Data, CMBIGM

Figure 7: Earnings revision

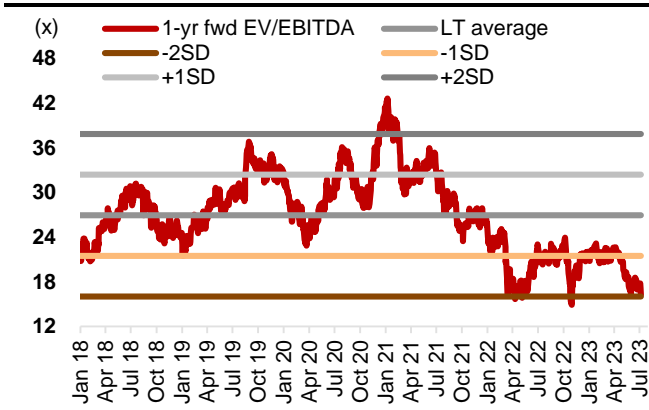
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	39,071	42,431	46,245	39,071	42,431	46,245	0.0%	0.0%	0.0%
Gross Profit	15,305	17,013	18,980	15,305	17,013	18,980	0.0%	0.0%	0.0%
Recurring EBIT	6,363	7,387	8,488	6,363	7,387	8,488	0.0%	0.0%	0.0%
Net profit	5,164	5,970	6,837	5,164	5,970	6,837	0.0%	0.0%	0.0%
Gross Margin	39.2%	40.1%	41.0%	39.2%	40.1%	41.0%	0ppt	0ppt	0ppt
EBIT Margin	16.3%	17.4%	18.4%	16.3%	17.4%	18.4%	0ppt	0ppt	0ppt
Net margin	13.2%	14.1%	14.8%	13.2%	14.1%	14.8%	0ppt	0ppt	0ppt

Source: Company data, CMBIGM estimates

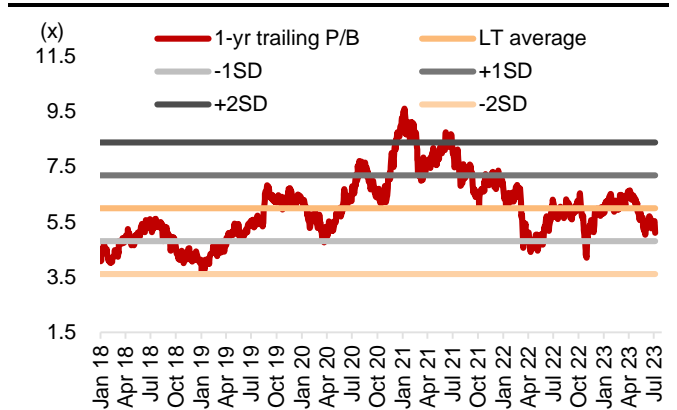
Figure 8: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	39,071	42,431	46,245	40,778	44,270	47,940	-4.2%	-4.2%	-3.5%
Gross Profit	15,305	17,013	18,980	16,865	19,117	21,439	-9.3%	-11.0%	-11.5%
Recurring EBIT	6,363	7,387	8,488	7,227	8,779	10,415	-2.7%	-3.0%	-4.3%
Net profit	5,164	5,970	6,837	5,443	6,591	7,743	-5.1%	-9.4%	-11.7%
Gross Margin	39.2%	40.1%	41.0%	41.4%	43.2%	44.7%	-2.2ppt	-3.1ppt	-3.7ppt
EBITs margin	16.3%	17.4%	18.4%	16.0%	17.2%	18.5%	0.2ppt	0.2ppt	-0.1ppt
Net margin	13.2%	14.1%	14.8%	13.3%	14.9%	16.2%	-0.1ppt	-0.8ppt	-1.4ppt

Source: Company data, CMBIGM estimate

Figure 9: 12M forward EV/EBITDA chart

Source: Bloomberg, CMBIGM estimates

Figure 10: Trailing P/B chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	31,448	33,387	35,263	39,071	42,431	46,245
Cost of goods sold	(19,373)	(20,313)	(21,702)	(23,766)	(25,418)	(27,265)
Gross profit	12,075	13,074	13,561	15,305	17,013	18,980
Operating expenses	(8,996)	(7,062)	(8,267)	(8,942)	(9,626)	(10,492)
Selling expense	(6,123)	(6,743)	(6,750)	(7,306)	(7,850)	(8,555)
Admin expense	(4,419)	(3,619)	(3,320)	(3,634)	(3,946)	(4,301)
Others	1,546	3,300	1,803	1,998	2,170	2,364
Operating profit	3,079	6,012	5,294	6,363	7,387	8,488
EBITDA	5,381	6,293	6,992	8,139	9,235	10,408
Depreciation	(1,489)	(1,576)	(1,510)	(1,570)	(1,626)	(1,679)
Goodwill amortisation	(64)	(65)	(20)	(20)	(20)	(20)
EBIT	3,079	6,012	5,294	6,363	7,387	8,488
Interest income	141	243	380	200	200	200
Interest expense	(61)	(19)	(79)	0	0	0
Net Interest income/(expense)	80	224	301	200	200	200
Others	(150)	(21)	(67)	0	0	0
Pre-tax profit	3,009	6,215	5,528	6,563	7,587	8,688
Income tax	(915)	(1,625)	(1,178)	(1,399)	(1,617)	(1,851)
After tax profit	2,094	4,590	4,350	5,164	5,970	6,837
Minority interest	0	(3)	(6)	0	0	0
Discontinued operations	0	0	0	0	0	0
Net profit	2,094	4,587	4,344	5,164	5,970	6,837
Adjusted net profit	2,094	4,587	4,344	5,164	5,970	6,837

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	13,377	15,897	20,878	24,180	26,408	28,986
Cash & equivalents	4,538	5,376	10,208	13,151	14,720	16,425
Account receivables	2,378	3,436	2,612	3,211	4,069	4,434
Inventories	6,014	6,458	7,402	7,162	6,964	7,470
Other current assets	447	627	656	656	656	656
Non-current assets	30,398	35,156	36,435	36,345	36,124	35,778
PP&E	17,781	17,096	17,206	17,136	16,935	16,609
Deferred income tax	2,858	3,368	3,266	3,266	3,266	3,266
Intangibles	320	255	203	183	163	143
Goodwill	9,326	9,250	9,385	9,385	9,385	9,385
Other non-current assets	113	5,187	6,375	6,375	6,375	6,375
Total assets	43,775	51,053	57,313	60,526	62,532	64,764
Current liabilities	19,572	21,170	23,667	23,454	21,557	19,340
Short-term borrowings	0	0	512	512	512	512
Account payables	19,327	21,007	23,002	22,789	20,892	18,675
Tax payable	162	92	100	100	100	100
Other current liabilities	83	71	53	53	53	53
Non-current liabilities	2,929	5,394	6,569	6,569	6,569	6,569
Long-term borrowings	0	0	588	588	588	588
Deferred income	788	1,955	1,850	1,850	1,850	1,850
Other non-current liabilities	2,141	3,439	4,131	4,131	4,131	4,131
Total liabilities	22,501	26,564	30,236	30,023	28,126	25,909
Share capital	14,090	14,090	14,090	14,090	14,090	14,090
Retained earnings	7,127	10,342	12,949	16,374	20,279	24,727
Total shareholders equity	21,217	24,432	27,039	30,464	34,369	38,817
Minority interest	57	57	38	38	38	38
Total equity and liabilities	21,274	24,489	27,077	30,502	34,407	38,855

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,009	6,215	5,528	6,563	7,587	8,688
Depreciation & amortization	1,553	1,641	1,530	1,590	1,646	1,699
Tax paid	(915)	(1,625)	(1,178)	(1,399)	(1,617)	(1,851)
Change in working capital	(1,165)	178	1,875	(572)	(2,557)	(3,089)
Others	1,998	(1,414)	(909)	0	0	0
Net cash from operations	4,480	4,995	6,846	6,182	5,060	5,448
Investing						
Capital expenditure	(1,047)	(1,471)	(1,661)	(1,500)	(1,425)	(1,354)
Acquisition of subsidiaries/ investments	3	4	5	6	7	8
Net proceeds from disposal of short-term investments	384	226	591	0	0	0
Others	(410)	(1,509)	7	(6)	(7)	(8)
Net cash from investing	(1,070)	(2,750)	(1,058)	(1,500)	(1,425)	(1,354)
Financing						
Dividend paid	(561)	(1,281)	(1,739)	(1,739)	(2,066)	(2,388)
Net borrowings	(526)	0	1,100	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(110)	(85)	(172)	0	0	0
Net cash from financing	(1,197)	(1,366)	(811)	(1,739)	(2,066)	(2,388)
Net change in cash						
Cash at the beginning of the year	2,340	4,538	5,376	10,208	13,151	14,720
Exchange difference	(15)	(41)	(145)	0	0	0
Cash at the end of the year	4,538	5,376	10,208	13,151	14,720	16,425
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(5.2%)	6.2%	5.6%	10.8%	8.6%	9.0%
Gross profit	(1.2%)	8.3%	3.7%	12.9%	11.2%	11.6%
Operating profit	42.3%	95.3%	(11.9%)	20.2%	16.1%	14.9%
EBITDA	(4.6%)	16.9%	11.1%	16.4%	13.5%	12.7%
EBIT	42.3%	95.3%	(11.9%)	20.2%	16.1%	14.9%
Net profit	59.6%	119.1%	(5.3%)	18.9%	15.6%	14.5%
Adj. net profit	59.6%	119.1%	(5.3%)	18.9%	15.6%	14.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	38.4%	39.2%	38.5%	39.2%	40.1%	41.0%
Operating margin	9.8%	18.0%	15.0%	16.3%	17.4%	18.4%
EBITDA margin	17.1%	18.8%	19.8%	20.8%	21.8%	22.5%
Adj. net profit margin	6.7%	13.7%	12.3%	13.2%	14.1%	14.8%
Return on equity (ROE)	10.2%	20.1%	16.9%	18.0%	18.4%	18.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Current ratio (x)	0.7	0.8	0.9	1.0	1.2	1.5
Receivable turnover days	27.6	37.6	27.0	30.0	35.0	35.0
Inventory turnover days	113.3	116.0	124.5	110.0	100.0	100.0
Payable turnover days	364.1	377.5	386.9	350.0	300.0	250.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	63.3	37.8	33.5	28.0	24.2	21.1
P/E (diluted)	63.3	37.8	33.5	28.0	24.2	21.1
P/B	6.3	7.1	5.4	4.7	4.2	3.7
Div yield (%)	0.6	1.1	1.2	1.4	1.7	1.9

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

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