

Tsingtao Brewery (168 HK)

Results beat; premiumization accelerated in 4Q20

Excluding fixed asset impairment loss, FY20 adj. NP rose 18% to RMB2,332mn, 5%/6% above our est./consensus, mainly due to lower-than-expected administrative expenses. Premiumization and efficiency enhancement remain key growth drivers. Our TP for H-share and A-share were raised from HK\$78.10 to HK\$85.45 and from RMB78.70 to RMB81.62, respectively. Maintain Buy on H-share and Hold on A-share.

- **Results highlights.** Revenue dropped 1% to RMB27.8bn, in-line. Sales volume fell 3% due to pandemic. Sales mix of on-premise channel decreased from 60% to 45%. High-end beer sales mix slightly decreased 0.2ppt to 22.9%. The Company accelerated online channel development to mitigate impact by pandemic. GPM widened 1.4ppt to 40.4% driven by 1.1ppt decrease of raw materials costs ratio. SG&A expenses ratio dropped 1ppt to 24.0% mainly due to savings from social security expenses. Dividend per share jumped 36% to RMB0.75. Payout ratio rose from 40% to 46%. The Company had RMB17.8bn net cash (+18%) as at 31 Dec 2020.
- **Premiumization accelerated in 4Q20.** 4Q20 revenue growth accelerated to 8% from 5% in 3Q20, led by 5% ASP growth (vs 2% growth in 3Q20). We think ASP recovery was led by more high-end sales from the recovery of nightlife and catering channel.
- **Sector recovered in 2M21.** Sector production volume jumped 61% YoY to RMB5.04mn kL in 2M21. Compared to 2M19, we estimate volume decline was ~3%, the decline was narrowed compared to ~10% in 4Q20.
- **Premiumization and efficiency enhancement are key growth drivers.** The Company will accelerate its product mix upgrade to ride on premiumization trend. Also, it will accelerate the development of smart factory and smart supply chain and eliminate outdated capacity to enhance efficiency. By raising product prices, enhancing product mix, increasing efficiency and increasing sales volume, the Company aims to achieve high quality development.
- **Maintain Buy.** We fine-tuned our FY21/22E adj. NP estimates by 2-3% to factor in lower administrative expenses ratio. We forecast the Company to deliver 14% adj. EPS CAGR in FY20-23E. Our TP for H-share was raised from HK\$78.10 to HK\$85.45, still at 36x FY21E adj. P/E. Maintain Buy. Our TP for A-share was lifted from RMB78.70 to RMB81.62, still at 41.0x FY21E adj. P/E. Maintain Hold. **Catalysts:** better-than-expected revenue and margins. **Risks:** costs pressure, keen competition and food safety issues.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	27,984	27,760	30,890	32,368	33,967
YoY growth (%)	5	(1)	11	5	5
Net profit (RMB mn)	1,852	2,201	2,690	3,022	3,435
Adj. net profit (RMB mn)	1,973	2,332	2,690	3,022	3,435
Adj. EPS (RMB)	1.461	1.726	1.991	2.237	2.543
YoY growth (%)	26	18	15	12	14
Consensus EPS (RMB)	na	na	1.949	2.207	2.515
Adj. P/E (x)	42.8	35.9	29.3	26.1	23.0
Yield (%)	0.9	1.2	1.5	1.7	2.0
P/B (x)	4.4	4.1	3.5	3.3	3.0
Net cash (RMB mn)	15,031	17,764	19,639	21,912	24,975

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$85.45
(Previous TP)	HK\$78.10)
Up/Downside	+23%
Current Price	HK\$69.65

China Beer Sector

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Stock Data

Mkt Cap (HK\$ mn)	116,032
Avg 3 mths t/o (HK\$ mn)	312.16
52w High/Low (HK\$)	90.70/ 38.55
Total Issued Shares (mn)	1,351.0

Source: Bloomberg

Shareholding Structure

Tsingtao Brewery Group	32.83%
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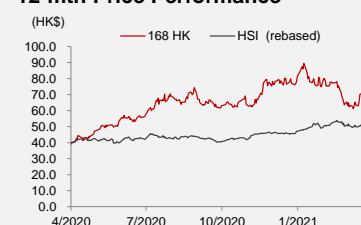
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.7%	12.2%
3-mth	-8.2%	-14.8%
6-mth	13.0%	-6.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

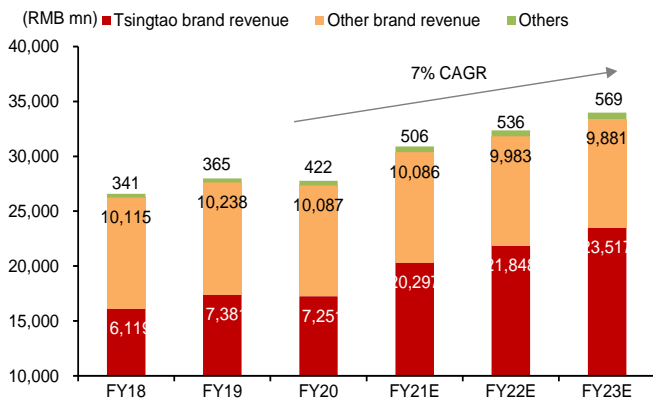
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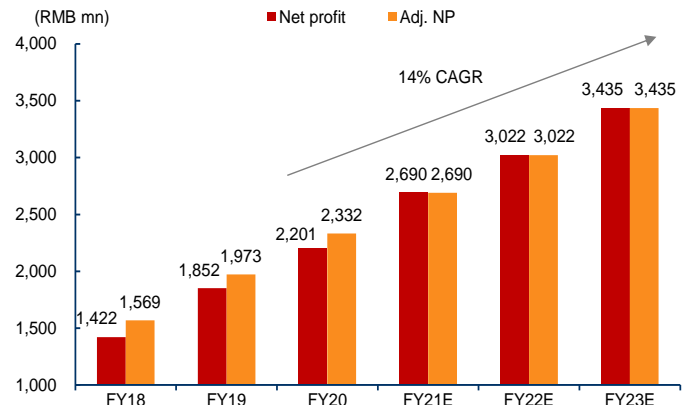
Focus Charts

Figure 1: Revenue to grow at 6% CAGR from FY20 to FY23E



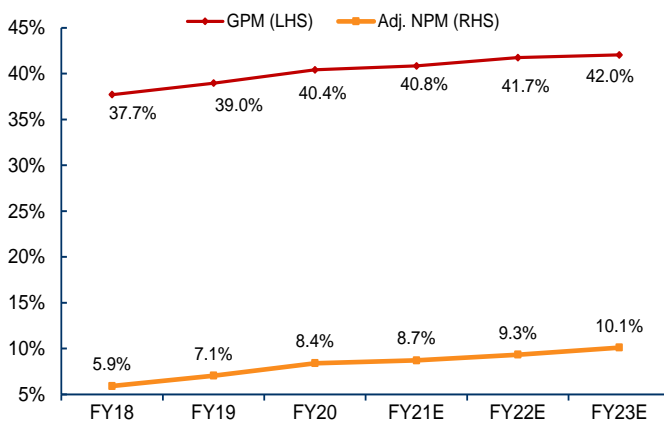
Source: Company data, CMBIS estimates

Figure 2: Adjusted net profit to grow at 14% CAGR from FY20 to FY23E



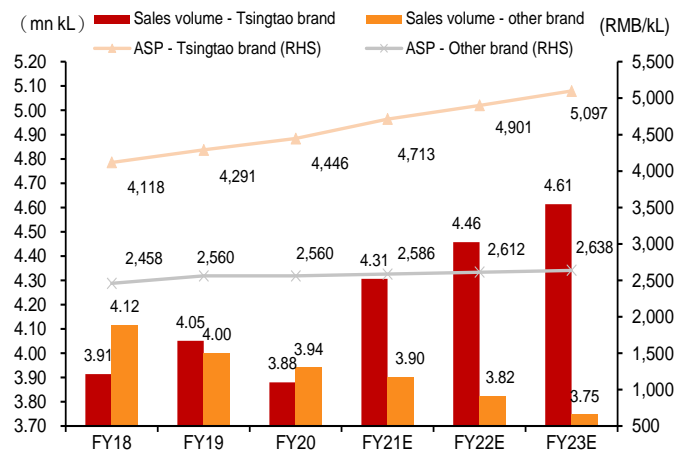
Source: Company data, CMBIS estimates

Figure 3: GPM expansion led by premiumization and efficiency gain



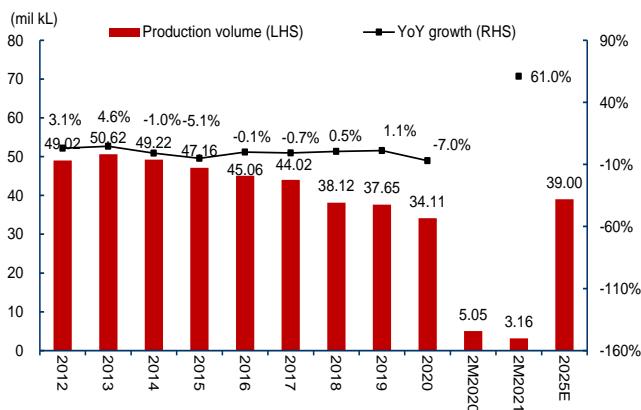
Source: Company data, CMBIS estimates

Figure 4: Overall volume/ASP to grow at 2%/5% CAGR from FY20 to FY23E



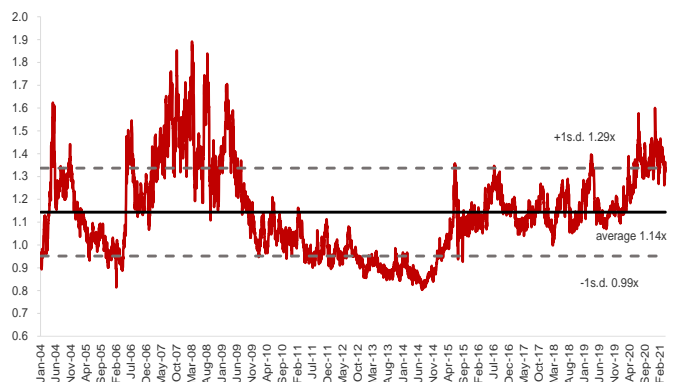
Source: Company, Tmall, CMBIS estimates

Figure 5: 2M20 beer sector production volume growth rebounded to 61%



Source: National Statistics Bureau, CADA estimates

Figure 6: A-share to H-share 1-year forward P/E ratio trades at 1.14



Source: Company data, Bloomberg, CMBIS estimates

Figure 7: FY20 results review

Y/E Dec (RMB m)	FY20	FY19	YoY (%)	Remarks
Revenue	27,760	27,984	-1%	Sales vol -3%. Tsingtao brand vol -4%, Other brands vol -2%
Cost of sales	(16,541)	(17,080)	-3%	
Gross profit	11,219	10,903	3%	
Other income	517	603	-14%	
Other gains/(losses)	64	67	-5%	
Selling expenses	(4,985)	(5,104)	-2%	due to savings from social security exp and drop of transport exp
Administrative expenses	(1,678)	(1,881)	-11%	due to savings from social security exp
R&D expenses	(21)	(21)	2%	
Tax & surcharges	(2,219)	(2,313)	-4%	
EBIT	2,897	2,254	28%	
Finance income, net	471	484	-3%	
gains/(losses) on disposal of assets	(5)	59	-109%	
asset impairment loss	(131)	(121)	8%	
JV and asso	18	21	-15%	
non-operating income, net	(11)	29	-136%	
Profit before tax	3,240	2,727	19%	
Tax expense	(913)	(798)	14%	
Profit after tax	2,327	1,929	21%	
Non-controlling interests	(126)	(77)	63%	
Net profit	2,201	1,852	19%	
Adj. net profit	2,332	1,973	18%	
Margin & Ratio (%)				
Gross margin	40.4	39.0	1.4	raw materials cost ratio dropped 1.1ppt
EBIT margin	10.4	8.1	2.3	
SG&A expenses ratio	24.0	25.0	(1.0)	
Adj. net margin	8.4	7.1	1.3	
Payout ratio	46.5	40.1	6.4	
Effective tax rate	28.2	29.3	(1.1)	
	FY20	FY19	change	
Inventory turnover days	71	62	9	
Net cash (RMB mn)	17,764	15,031	18%	

Source: Company data, CMBIS

Earnings Revision

Figure 8: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	30,890	32,368	33,967	30,839	32,372	na	0%	0%	na
Gross Profit	12,613	13,510	14,277	12,615	13,505	na	0%	0%	na
EBIT	3,286	3,691	4,190	3,170	3,590	na	4%	3%	na
Adj. Net profit	2,690	3,022	3,435	2,617	2,971	na	3%	2%	na
Gross Margin	40.8%	41.7%	42.0%	40.9%	41.7%	na	-0.1ppt	flat	na
EBIT Margin	10.6%	11.4%	12.3%	10.3%	11.1%	na	+0.3ppt	+0.3ppt	na
Adj. Net Margin	8.7%	9.3%	10.1%	8.5%	9.2%	na	+0.2ppt	+0.1ppt	na

Source: CMBIS estimates

Figure 9: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	30,890	32,368	33,967	30,141	31,835	33,309	2%	2%	2%
Gross Profit	12,613	13,510	14,277	12,294	13,217	na	3%	2%	na
EBIT	3,286	3,691	4,190	3,060	3,490	3,704	7%	6%	13%
Adj. Net profit	2,690	3,022	3,435	2,652	2,944	3,430	1%	3%	0%
Gross Margin	40.8%	41.7%	42.0%	40.8%	41.5%	na	flat	+0.2ppt	na
EBIT Margin	10.6%	11.4%	12.3%	10.2%	11.0%	11.1%	+0.4ppt	+0.4ppt	+1.2ppt
Adj. Net Margin	8.7%	9.3%	10.1%	8.8%	9.2%	10.3%	-0.1ppt	+0.1ppt	-0.2ppt

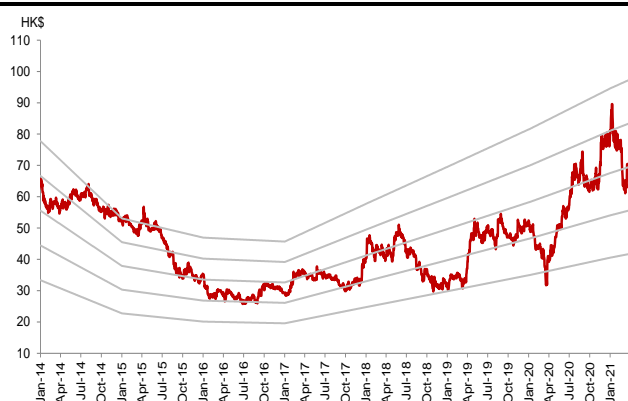
Source: CMBIS estimates, Bloomberg estimates

Figure 10: Peers valuation table

	Stock code	Rating	Price	Mkt cap (HK\$/US\$/RMBmn)	Y/E	P/E (x)			EPS growth (%)			P/B (x)	ROAE (%)	FY0-3 EPS cagr	FY2 PEG
						FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY1		
Budweiser Brewing	1876 HK	NR	23.40	309,895	Dec-19	65.4	39.6	33.1	(39)	65	20	3.9	6.3	6.7	5.9
CR Beer	291 HK	Buy	60.90	197,570	Dec-19	59.2	42.5	34.7	5	39	22	8.3	13.8	21.0	2.0
Tsingdao Beer	168 HK	Buy	69.65	115,981	Dec-19	31.2	27.0	24.1	18	15	12	4.1	11.7	15.3	1.8
H share beer sector						51.9	36.4	30.6	(5)	40	18	5	11	14.3	3.2
Tsingtao Brewery	600600 CH	Hold	83.80	97,960	Dec-19	48.5	42.1	37.5	18	15	12	5.5	11.7	15.3	2.8
Kweichow Moutai	600519 CH	Buy	2034.10	2,555,232	Dec-19	56.1	47.2	38.4	11	19	23	16.0	30.8	17.3	2.7
Haitian Flavouring	603288 CH	NR	152.06	492,742	Dec-19	76.0	63.7	53.5	21	19	19	24.0	33.1	19.9	3.2
Yili	600887 CH	Buy	40.40	245,738	Dec-19	33.2	28.1	24.4	6	18	15	8.6	27.1	13.0	2.2
Yonghui	601933 CH	NR	6.81	64,806	Dec-19	27.7	22.1	18.0	48	25	23	3.1	14.6	31.6	0.7
C&S Paper	002511 CH	NR	25.62	33,588	Dec-19	37.6	30.0	25.3	45	25	19	6.9	18.5	29.1	1.0
Shanghai Jahwa	600315 CH	NR	48.50	32,882	Dec-19	83.5	62.7	43.3	(30)	33	45	5.0	5.7	10.5	6.0
A share segment leaders						51.8	42.3	34.3	17	22	22	9.8	20.2	21.0	2.1
Tsingtao Brewery	600600 CH	Hold	83.80	97,960	Dec-19	48.5	42.1	37.5	18	15	12	5.5	11.7	15.3	2.8
Chongqing Brewery	600132 CH	NR	111.37	53,900	Dec-19	79.3	72.6	62.8	3	9	16	39.4	52.0	9.3	7.8
Yanjing Brewery	000729 CH	NR	7.31	20,604	Dec-19	104.4	73.1	56.2	(13)	43	30	1.6	1.5	17.6	4.2
Zhujiang Beer	002461 CH	NR	9.80	21,691	Dec-19	37.7	32.9	28.0	18	15	17	2.4	6.4	16.7	2.0
A share beer sector						67.5	55.2	46.1	7	21	19	12.2	17.9	14.7	4.2
Asahi	2502 JP	NR	4687.00	21,674	Dec-19	21.0	15.2	13.9	(30)	38	9	1.6	6.8	2.1	7.2
Kirin	2503 JP	NR	2185.50	18,219	Dec-19	19.1	17.0	14.5	(16)	12	17	2.1	9.1	3.4	5.0
Carlsberg	CARLB DC	NR	979.60	24,158	Dec-19	22.6	21.6	19.0	6	5	14	3.5	13.3	7.9	2.7
Heineken NV	HEIA NA	NR	88.18	59,874	Dec-19	44.1	28.1	22.2	(54)	57	26	3.2	6.2	(3.2)	(8.7)
Budweiser	BUD US	NR	63.31	127,838	Dec-19	36.2	21.1	17.9	(58)	71	18	1.7	4.0	(5.6)	(3.8)
Int'l beer sector						28.6	20.6	17.5	(31)	37	17	2.4	7.9	0.9	0.5
Int'l beer sector - excluding outliers														5.7	3.9

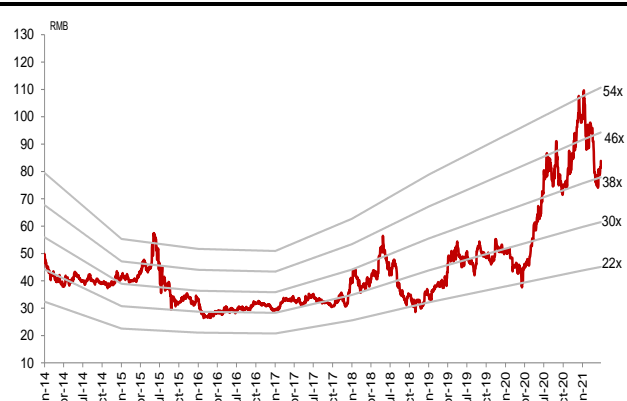
Source: Bloomberg estimates, CMBIS estimates

Figure 11: P/E band chart of H-share



Source: CMBIS estimates, Bloomberg, Company data

Figure 12: P/E band chart of A-share



Source: CMBIS estimates, Bloomberg, Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	27,984	27,760	30,890	32,368	33,967
Beer	27,618	27,338	30,383	31,831	33,399
Others	365	422	506	536	569
Cost of sales	(17,080)	(16,541)	(18,276)	(18,858)	(19,690)
Gross profit	10,903	11,219	12,613	13,510	14,277
Other income	603	517	573	609	649
Selling expenses	(5,104)	(4,985)	(5,622)	(6,020)	(6,318)
Admin expenses	(1,881)	(1,678)	(1,980)	(2,079)	(2,058)
R&D expenses	(21)	(21)	(25)	(26)	(27)
Tax & surcharges	(2,313)	(2,219)	(2,348)	(2,381)	(2,418)
EBIT	2,187	2,833	3,212	3,612	4,105
Finance income, net	484	471	509	568	644
Others	(33)	(146)	25	25	25
JV & asso	21	18	21	22	23
Pre-tax profit	2,660	3,176	3,767	4,227	4,797
Income tax	(798)	(913)	(1,050)	(1,178)	(1,336)
Less: Minority interests	(77)	(126)	(101)	(106)	(111)
Net profit	1,785	2,138	2,616	2,943	3,349
Adj net profit	1,973	2,332	2,690	3,022	3,435

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Profit before tax	1,929	2,327	2,790	3,128	3,546
Investment income	(25)	(25)	(21)	(22)	(23)
D&A	1,138	1,163	1,187	1,200	1,210
Net finance income	(356)	(288)	(509)	(568)	(644)
Change in working capital	1,601	1,977	(198)	27	19
Others	(271)	(201)	690	(140)	(147)
Operating cash flow	4,017	4,953	3,939	3,625	3,960
Capex	(1,155)	(1,295)	(1,195)	(1,195)	(695)
Interest received	515	514	563	623	700
Others	293	(706)	495	525	558
Investing cash flow	(348)	(1,488)	(137)	(47)	563
Change of borrowings	(33)	450	0	0	0
Dividend paid	(31)	282	(54)	(55)	(56)
Interest paid	(711)	(793)	(1,013)	(1,210)	(1,360)
Others	6	(294)	(36)	(40)	(44)
Financing cash flow	(769)	(356)	(1,103)	(1,305)	(1,460)
Net change in cash	2,900	3,110	2,699	2,273	3,063
Cash at the beginning	11,653	14,557	17,643	20,343	22,615
Exchange difference	4	(24)	0	0	0
Cash at the end	14,557	17,643	20,343	22,615	25,679

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	16,311	16,886	17,015	17,132	16,740
PPE	10,505	10,838	11,044	11,237	10,921
Intangible assets and goodwill	3,866	3,811	3,711	3,611	3,511
JV and asso	377	374	395	417	440
Others	1,564	1,863	1,865	1,867	1,869
Current assets	21,002	24,628	27,074	29,708	33,162
Inventories	3,182	3,281	3,651	3,826	4,015
Trade receivables	226	125	139	146	153
Other receivables	203	314	349	366	384
Others	2,088	2,441	2,592	2,756	2,932
Cash	15,302	18,467	20,342	22,615	25,679
Current liabilities	13,354	15,510	16,192	16,974	17,799
Trade payables	2,388	2,372	2,609	2,740	2,877
Other payables	10,159	11,548	11,994	12,645	13,333
Borrowings	271	703	703	703	703
Others	536	886	886	886	886
Non-current liabilities	4,045	4,636	4,752	4,804	4,855
Borrowings	0	0	0	0	0
Deferred income	2,520	2,900	2,900	2,900	2,900
Others	1,341	1,569	1,685	1,737	1,788
Deferred tax liabilities	184	168	168	168	168
Total net assets	19,913	21,368	23,145	25,062	27,248
Shareholders' equity	19,172	20,622	22,298	24,110	26,185
Non-controlling interests	742	746	847	952	1,063

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Beer	98.7	98.5	98.4	98.3	98.3
Others	1.3	1.5	1.6	1.7	1.7
P&L ratios (%)					
Gross margin	39.0	40.4	40.8	41.7	42.0
EBIT margin	8.1	10.4	10.6	11.4	12.3
Net margin	6.6	7.9	8.7	9.3	10.1
Adj. net margin	7.1	8.4	8.7	9.3	10.1
Payout ratio	40.1	46.0	45.0	45.0	45.0
Balance sheet ratios					
Current ratio (x)	1.6	1.6	1.7	1.8	1.9
Quick ratio (x)	1.3	1.4	1.4	1.5	1.6
A/C receivables days	3	2	2	2	2
A/C payables days	53	53	50	52	52
Inventory days	62	71	69	72	73
Net cash (RMB mn)	15,031	17,764	19,639	21,912	24,975
Returns (%)					
Adj. ROE	10.6	11.7	12.5	13.0	13.7
Adj. ROA	5.7	6.2	6.5	6.9	7.3
Per share					
EPS (RMB)	1.46	1.73	1.99	2.24	2.54
DPS (RMB)	0.55	0.75	0.90	1.01	1.14
BVPS (RMB)	14.19	15.26	16.51	17.85	19.38

Source: Company data, CMBIS estimates

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