

Budweiser APAC (1876 HK)

3Q preview: flattish rev/EBITDA growth

We further trim our 2023E revenue/net profit by 5.8%/5.2%, respectively, to factor in ex ante a potentially dull quarter for Bud APAC. Numerically, we look for a LSD% decline to flattish growth with net sales for the quarter reaching US\$1.8bn, followed by a relatively flattish EBITDA growth. By region, we forecast sales of APAC West to stand at US\$1.5bn, and that of China likely to fall by a LSD%. According to our channel check, the trajectory should look similar to peers', such as CR Beer (flattish to LSD% growth) and Tsingtao (MSD% decline), due to headwinds in common such as a high base and impact from an unfavourable weather. The trend of premiumization should remain intact with a MSD% ASP increase but the strength likely being offset by hiccups in shipment. For APAC East, S. Korea continues to be a drag with a MSD% to HSD% sales decline in our estimates. We do not expect a notable improvement until 2Q24E, following Bud APAC's 6.9% price hike in the region initiated on October 4. Overall, we concur that declining raw material prices should help maintain profitability amid in a slower growth environment, and operating efficiency will look incrementally meaningful to margins into 2024E. Reiterate HOLD.

■ **More about recent price hike in S. Korea.** Oriental Brewery (OB) announced to lift up the factory prices of its beer products by up to 6.9% starting from October 11. According to the news, the hike is predominantly driven by elevating raw material costs and logistical expenses, upon the rising global oil prices. The move came in with an exception for the canned Cass 500ml SKU, the best-seller among S. Korea households. Meanwhile, major local competitor Lotte Chilsung Beverage said that it has no specific plans to follow suit at the moment.

■ **Renewed strategy in S. Korea.** We attribute 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 began to narrow over the summer. For mainstream brands in the region, Bud APAC debuted new SKUs with refreshed packaging.

■ **Valuation.** Our revise TP to HK\$16.8 (from HK\$18.6) based on an updated 15.0x (from previously 16.0x) end-23E EV/EBITDA which still represents -1SD below 3-year average. Our methodology reflects the decelerating S. Korea momentum 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	6,783	7,277	7,829
YoY growth (%)	21.5	(4.6)	4.7	7.3	7.6
Adjusted net profit (US\$ mn)	980.0	859.0	971.5	1,093.0	1,220.4
YoY growth (%)	75.9	-12.3	13.1	12.5	11.6
EPS (Adjusted) (US\$ cents)	7.19	6.91	7.34	8.26	9.22
Consensus EPS (US\$ cents)	na	na	7.70	9.30	10.66
P/E (x)	41.0	39.7	26.0	23.1	20.7
P/B (x)	3.5	3.4	2.2	2.1	2.0
Yield (%)	1.0	1.4	2.1	2.4	2.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$16.8
(Previous TP)	HK\$18.6)
Up/Downside	12.8%
Current Price	HK\$14.9

China Consumer Staples

Joseph WONG

(852) 3900 0838

josephwong@cmbi.com.hk

Bella LI

(852) 3757 6202

bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	197,505.6
Avg 3 mths t/o (HK\$ mn)	143.9
52w High/Low (HK\$)	27.00/14.94
Total Issued Shares (mn)	13219.9

Source: FactSet

Shareholding Structure

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

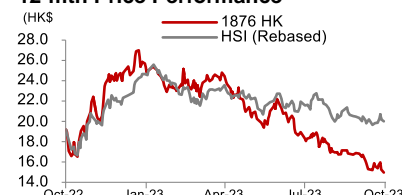
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.2%	-10.2%
3-mth	-18.3%	-12.4%
6-mth	-38.8%	-28.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. Mengniu Dairy (2319 HK) – 1H core rev/np +3%/10%; a surprising beat – 1 Sep 2023 ([link](#))
2. Nongfu Spring (9633 HK) – 1H rev/np +23%/25%; a neat beat on tea beverage – 31 Aug 2023 ([link](#))
3. Yili Industrial (600887 CH) – 2Q rev/np +1%/3%; all eyes on cost savings – 30 Aug 2023 ([link](#))
4. Tsingtao Brewery (168 HK) – 2Q rev/np +8%/14% on recurring strengths – 29 Aug 2023 ([link](#))
5. CR Beer (291 HK) – 1H rev/EBIT +13%/26%; Heineken grew 60% - 21 Aug 2023 ([link](#))
6. Budweiser APAC (1876 HK) – 2Q organic sales +15%; overall a mix bag but we see China strength a good trade - 4 Aug 2023 ([link](#))

Figure 1: Earnings revisions

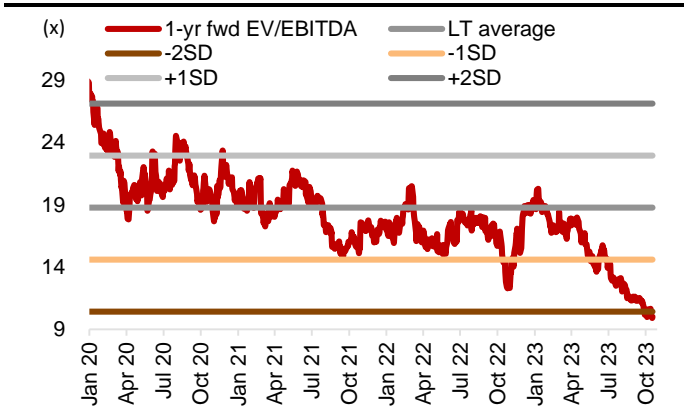
USD mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,783	7,277	7,829	7,200	7,763	8,409	-5.8%	-6.3%	-6.9%
Gross profit	3,493	3,821	4,189	3,708	4,076	4,499	-5.8%	-6.3%	-6.9%
EBITDA	2,106	2,324	2,504	2,174	2,394	2,597	-3.1%	-2.9%	-3.6%
Net profit	972	1,093	1,220	1,017	1,141	1,283	-4.5%	-4.2%	-4.9%
Gross margin	51.5%	52.5%	53.5%	53.2%	53.5%	53.5%	-1.7ppt	-1ppt	0ppt
EBITDA margin	31.0%	31.9%	32.0%	30.2%	30.8%	30.9%	0.8ppt	1.1ppt	1.1ppt
Net margin	14.3%	15.0%	15.6%	14.1%	14.7%	15.3%	0.2ppt	0.3ppt	0.3ppt

Source: CMBIGM estimates

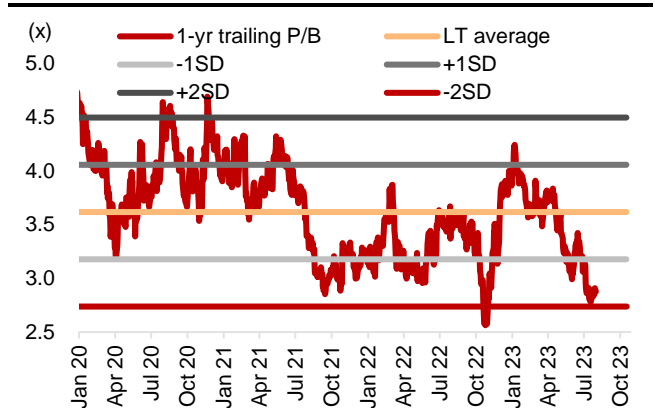
Figure 2: CMBIGM estimates vs consensus

USD mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,783	7,277	7,829	7,074	7,662	8,244	-4.1%	-5.0%	-5.0%
Gross profit	3,493	3,821	4,189	3,623	4,030	4,424	-3.6%	-5.2%	-5.3%
EBITDA	2,106	2,324	2,504	2,126	2,425	2,681	-1.0%	-4.2%	-6.6%
Net profit	972	1,093	1,220	1,025	1,236	1,419	-5.2%	-11.6%	-14.0%
Gross margin	51.5%	52.5%	53.5%	51.2%	52.6%	53.7%	0.3ppt	-0.1ppt	-0.2ppt
EBITDA margin	31.0%	31.9%	32.0%	30.1%	31.6%	32.5%	1ppt	0.3ppt	-0.5ppt
Net margin	14.3%	15.0%	15.6%	14.5%	16.1%	17.2%	-0.2ppt	-1.1ppt	-1.6ppt

Source: Bloomberg, CMBIGM estimates

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	6,783	7,277	7,829
Cost of goods sold	(2,681)	(3,131)	(3,238)	(3,290)	(3,457)	(3,641)
Gross profit	2,907	3,657	3,240	3,493	3,821	4,189
Operating expenses	(1,970)	(2,230)	(1,979)	(2,056)	(2,200)	(2,375)
Selling expense	(1,278)	(1,407)	(1,151)	(1,194)	(1,266)	(1,362)
Admin expense	(399)	(449)	(442)	(463)	(497)	(534)
Others	(293)	(374)	(386)	(400)	(437)	(479)
Operating profit	937	1,427	1,261	1,437	1,621	1,813
EBITDA	1,556	2,099	1,931	2,105	2,323	2,503
Depreciation	(562)	(619)	(583)	(581)	(614)	(647)
Other amortisation	(85)	(93)	(88)	(88)	(89)	(90)
EBIT	909	1,387	1,260	1,436	1,620	1,812
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	1,466	1,650	1,842
Income tax	(371)	(432)	(334)	(455)	(511)	(571)
Minority interest	(23)	(31)	(36)	(41)	(46)	(52)
Adjusted net profit	557	980	859	972	1,093	1,220
Gross dividends	315	374	400	500	531	598

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,332	3,161	3,606	4,308	5,210	6,222
Cash & equivalents	1,281	2,007	2,458	3,147	3,993	4,944
Account receivables	486	512	514	547	578	613
Inventories	434	473	488	469	493	519
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	16,539	17,246	18,030
Current liabilities	4,637	4,691	4,415	4,446	4,546	4,657
Short-term borrowings	147	123	147	147	147	147
Account payables	2,473	2,471	2,343	2,374	2,474	2,585
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	5,194	5,294	5,405
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	4,793	5,354	5,975
Total shareholders equity	10,685	11,013	10,764	11,235	11,796	12,417
Minority interest	58	70	69	110	156	208
Total equity and liabilities	16,189	16,625	15,996	16,539	17,246	18,030

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	514	950	913	971	1,092	1,219
Depreciation & amortization	608	668	624	621	656	690
Change in working capital	183	44	(151)	18	45	49
Others	(4)	241	191	41	46	52
Net cash from operations	1,301	1,903	1,577	1,651	1,839	2,010
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)	(531)	(598)
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)	(531)	(598)
Net change in cash						
Cash at the beginning of the year	877	1,264	2,007	2,458	3,147	3,993
Exchange difference	90	35	(186)	0	0	0
Cash at the end of the year	1,264	2,007	2,458	3,147	3,993	4,944
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(14.6%)	21.5%	(4.6%)	4.7%	7.3%	7.6%
Gross profit	(16.7%)	25.8%	(11.4%)	7.8%	9.4%	9.6%
Operating profit	(36.1%)	52.3%	(11.6%)	14.0%	12.8%	11.9%
EBITDA	(26.6%)	34.9%	(8.0%)	9.0%	10.4%	7.7%
EBIT	na	52.6%	(9.2%)	14.0%	12.8%	11.9%
Adj. net profit	na	75.9%	(12.3%)	13.1%	12.5%	11.6%
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%	21.2%	22.3%	23.2%
EBITDA margin	27.8%	30.9%	29.8%	31.0%	31.9%	32.0%
Adj. net profit margin	10.0%	14.4%	13.3%	14.3%	15.0%	15.6%
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	1.1	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	26.0	23.1	20.7
P/E (diluted)	79.9	41.0	39.8	26.1	23.2	20.7
P/B	3.9	3.5	3.4	2.2	2.1	2.0
Div yield (%)	0.9	1.0	1.4	2.1	2.4	2.6

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.