

CR Beer (291 HK)

2025E premiumization target lifted; raise TP to HK\$91.90

The Company lifted 2025E premiumization volume target from 3.16mn kL to 4.0mn kL. 2020-25E sub-premium or above beer volume CAGR is also raised from 16.7% to 22.3%. YTD sub-premium or above growth saw 30%+. We raise FY22-23E adj. EPS by 4-5% on higher growth of sub-premium or above beer and lift our TP from HK\$81.00 to HK\$91.90, based on 50.4x FY22E P/E, still at 2.3x FY22E PEG. CR Beer's 1.8x FY22E PEG is lower than international peers' 2.6x and Bud APAC's 4.6x. Maintain Buy. 2020 European Cup may boost Heineken China sales given that Heineken is an official sponsor. **Catalysts:** better-than-expected revenue and margins. **Risks:** costs pressure, keen competition and food safety issues.

- Raised 2025E premiumization target.** The Company becomes more confident on premiumization trend, and raised sub-premium or above sales volume target from 3.16mn kL to 4.0mn kL in 2025E. The 5-yr CAGR target from 2020 to 2025 was raised from 16.7% to 22.3%. The reasons behind such upgrade was because (1) the Company has executed its premiumization strategies well; (2) competitors have not stirred up competition; (3) the recent appointment of new spokespersons (Wang Yibo for Super X and Gong Jun for Marrsreen); and (4) Heineken's global sports IPs (European Cup, European Champions League, F1 etc) could boost Heineken China sales.
- Become premium segment leader by 2025E.** By 2025, the Company targets to become the No.1 player in terms of volume in China's premium segment. Financially, it targets to reach current market leader's GPM level (38.4% vs 52.0% in FY20) and surpass the current market leader in terms of market cap and profit by 2025.
- YTD 30%+ volume growth of sub-premium or above beer.** Among the brands in its sub-premium or above portfolio, the Company will focus on growing Super X, Snow Draft and Heineken in 2021E, and then Marrsreen, Snow Draft, Lowen White Beer, Heineken and Amstel in 2022E. YTD volume growth of Super X has been strong. Moreover, the impact on Super X by the endorsement of Wang Yibo has been encouraging. First-day sales on Super X Tmall Flagship Store increased by 1790% vs 2020 Singles' Day (Figure 8). Management targets almost double of Super X sales volume in FY21E.
- Raise TP to HK\$91.90.** We lift FY22/23E adj. NP estimates by 4-5% on higher premiumization progress. We assume sub-high or above beer volume to grow at 21% CAGR to 2.61mn kL in FY23E (vs 16% previously). We forecast the Company to deliver 21.9% adj. EPS CAGR from FY19 to FY23E. Our TP was raised from HK\$81.00 to HK\$91.90, based on 50.4x FY22E P/E, at 2.3x FY22E PEG.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	33,190	31,448	36,134	39,713	42,806
YoY growth (%)	4	(5)	15	10	8
Net profit (RMB mn)	1,312	2,094	3,765	4,877	5,915
Adj. net profit (RMB mn)	2,838	2,967	4,140	5,227	6,265
Adj. EPS (RMB)	0.875	0.915	1.276	1.611	1.931
YoY growth (%)	12	5	40	26	20
Consensus EPS (RMB)	na	na	1.083	1.400	1.693
Adj. P/E (x)	71.6	69.0	49.2	39.0	32.5
P/B (x)	10.3	9.7	8.7	7.7	6.4
Yield (%)	0.3	0.4	0.7	1.0	1.2
Net cash (RMB mn)	1,897	4,606	7,663	11,135	16,899

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$91.90
(Previous TP)	HK\$81.00)
Up/Downside	+29%
Current Price	HK\$71.00

China Beer Sector

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Stock Data

Mkt Cap (HK\$ mn)	230,337
Avg 3 mths t/o (HK\$ mn)	514.19
52w High/Low (HK\$)	78.60/ 41.40
Total Issued Shares (mn)	3,244.0

Source: Bloomberg

Shareholding Structure

CR Group	31.24%
Heineken	20.67%

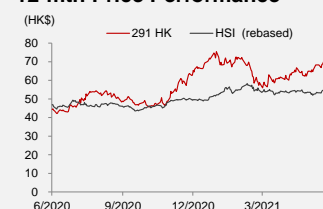
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.6%	7.3%
3-mth	15.3%	19.0%
6-mth	8.1%	-0.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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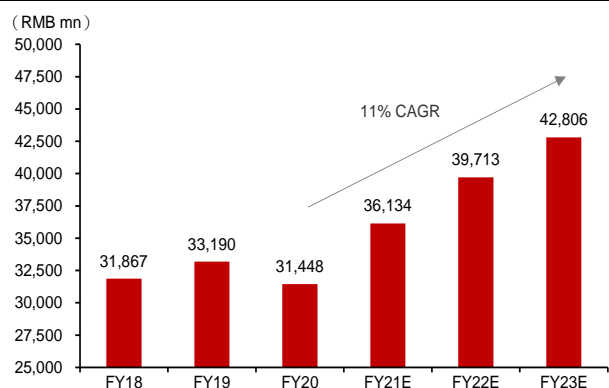
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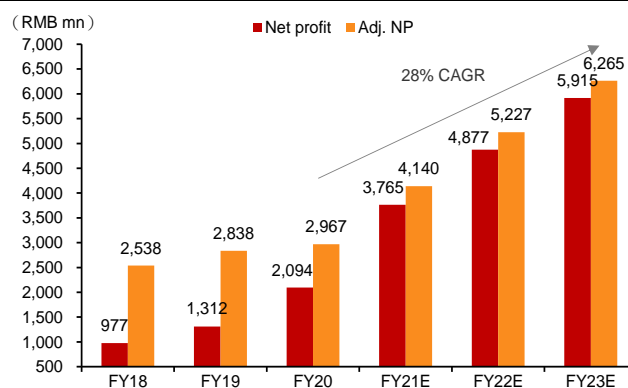
Focus Charts

Figure 1: Revenue to grow at 11% CAGR from FY20 to FY23E



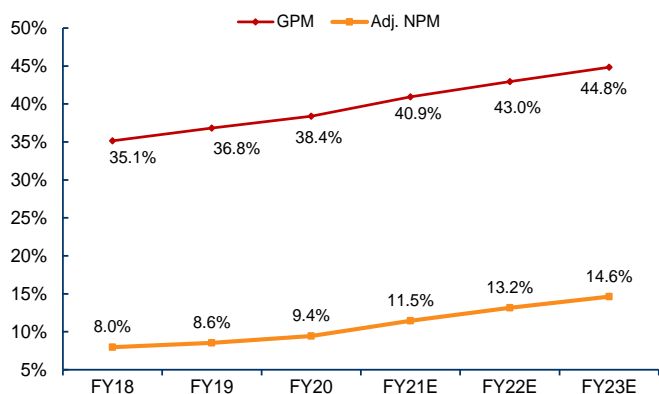
Source: Company data, CMBIS estimates

Figure 2: Adjusted net profit to grow at 28% CAGR from FY20 to FY23E



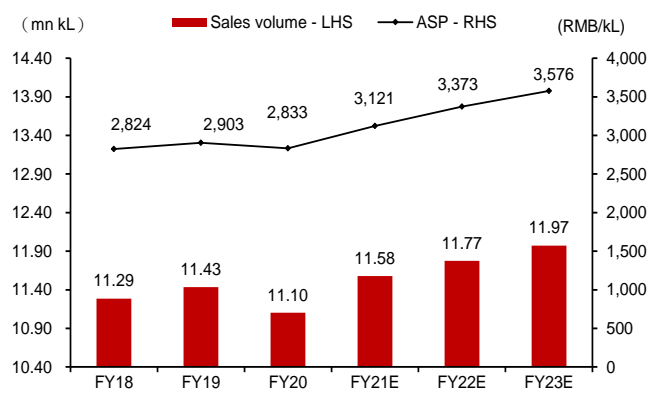
Source: Company data, CMBIS estimates

Figure 3: GPM expansion led by premiumization and capacity efficiency gain



Source: Company data, CMBIS estimates

Figure 4: Sales volume and ASP estimates in FY20-22E



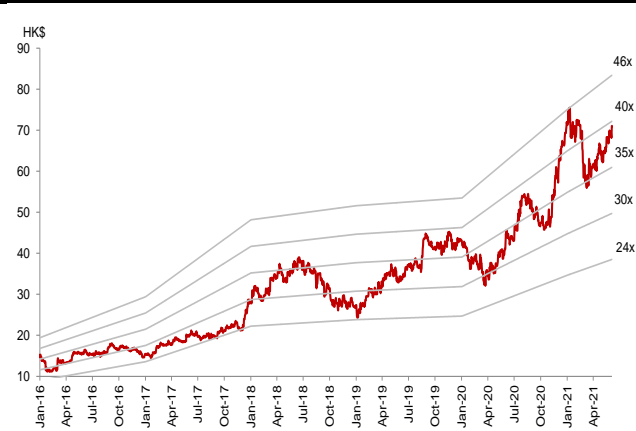
Source: Company data, CMBIS estimates

Figure 5: Wang Yibo became the latest spokesperson of Brave the World Super X



Source: media

Figure 6: P/E band chart



Source: Company data, Bloomberg, CMBIS estimates

Figure 7: Endorsement impact already very encouraging on first day



Source: media

Figure 8: Super X Tmall flagship store first day sales increased by 1790% vs 2020 Singles' Day



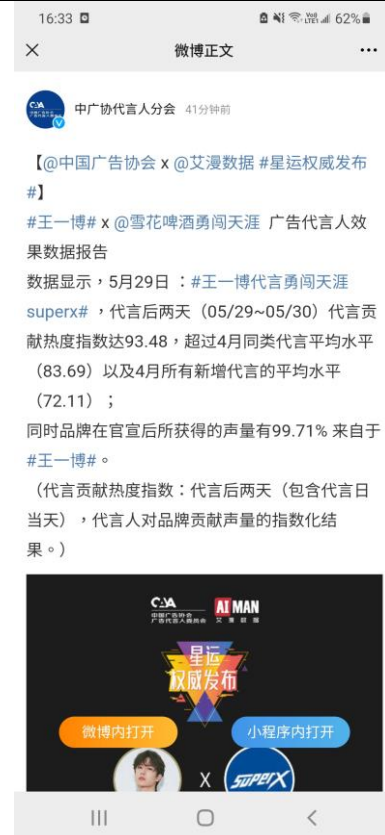
Source: media

Figure 9: Wang Yibo was the spokesperson of Yanjing U8 before joining Brave the World Super X



Source: media

Figure 10: Endorsement Contribution Index by Wang Yibo to Brave the World Super X on first two days (29-30 May) beat average index of all new endorsement in Apr 2021



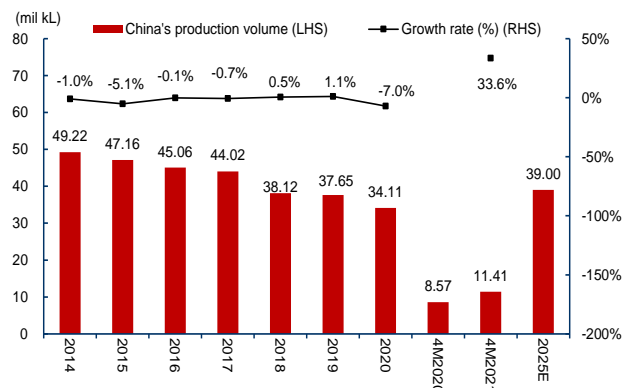
Source: Official Weibo of Spokesperson Sub-association of China Advertising Association

Figure 11: The endorsement impact by Wang Yibo to Anta ranked number 1 in apparel sector in Apr 2021



Source: media

Figure 12: Above-designated size beer enterprises reported 33.6% volume growth YoY in 4M21



Source: Statistics Bureau

Figure 13: Heineken promotion activities for 2020 European Cup and 2021 European Champions League

Figure 14: Heineken promotion activities for 2021 European Champions League



Source: Heineken China



Source: Heineken China

Earnings Revision

Figure 15: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	36,134	39,713	42,806	35,939	38,864	41,580	1%	2%	3%
Gross Profit	14,792	17,060	19,190	14,703	16,566	18,290	1%	3%	5%
EBIT	5,601	6,911	8,206	5,587	6,675	7,785	0%	4%	5%
Adj. Net profit	4,140	5,227	6,265	4,129	5,048	5,944	0%	4%	5%
Gross Margin	40.9%	43.0%	44.8%	40.9%	42.6%	44.0%	flat	+0.4ppt	+0.8ppt
EBIT Margin	15.5%	17.4%	19.2%	15.5%	17.2%	18.7%	+0.1ppt	+0.2ppt	+0.5ppt
Adj. Net Margin	11.5%	13.2%	14.6%	11.5%	13.0%	14.3%	flat	+0.2ppt	+0.3ppt

Source: CMBIS estimates

Figure 16: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	36,134	39,713	42,806	35,153	37,849	40,545	3%	5%	6%
Gross Profit	14,792	17,060	19,190	14,155	15,928	17,749	4%	7%	8%
EBIT	5,601	6,911	8,206	4,757	6,088	7,236	18%	14%	13%
Adj. Net profit	4,140	5,227	6,265	3,372	4,450	5,430	23%	17%	15%
Gross Margin	40.9%	43.0%	44.8%	40.3%	42.1%	43.8%	+0.6ppt	+0.9ppt	+1.0ppt
EBIT Margin	15.5%	17.4%	19.2%	13.5%	16.1%	17.8%	+2.0ppt	+1.3ppt	+1.4ppt
Adj. Net Margin	11.5%	13.2%	14.6%	9.6%	11.8%	13.4%	+1.9ppt	+1.4ppt	+1.2ppt

Source: CMBIS estimates, Bloomberg estimates

Valuation

Figure 17: Peers valuation table

	Stock code	Rating	Price	Mkt cap (HK\$/US\$/RMBmn)	Y/E	P/E (x)			EPS growth (%)			P/B (x)	ROAE (%)	FY19-23E	
						FY1	FY2	FY3	FY1	FY2	FY3			EPS cagr	FY2 PEG
Budweiser Brewing	1876 HK	NR	25.75	341,017	Dec-20	43.7	36.5	32.5	80	20	12	3.9	8.9	8.0	4.6
CR Beer	291 HK	Buy	71.00	230,337	Dec-20	49.2	39.0	32.5	39.5	26.3	19.9	8.7	18.4	21.9	1.8
Tsingdao Beer	168 HK	Buy	84.70	143,773	Dec-20	31.5	28.1	24.7	15	12	14	4.5	12.5	14.9	1.9
H share beer sector						41.5	34.5	29.9	45	19	15	6	13	14.9	2.7
Tsingtao Brewery	600600 CH	Hold	102.85	118,815	Dec-20	51.7	46.0	40.4	15	12	14	6.2	12.5	14.9	3.1
Chongqing Brewery	600132 CH	NR	171.25	82,880	Dec-20	76.0	60.3	51.2	1	26	18	63.6	104.9	25.2	2.4
Yanjing Brewery	000729 CH	NR	7.97	22,464	Dec-20	70.5	59.0	53.1	61	19	11	1.7	2.2	17.0	3.5
Zhujiang Beer	002461 CH	NR	12.18	26,958	Dec-20	38.8	32.4	28.5	21	20	14	2.9	7.5	18.1	1.8
A share beer sector						59.2	49.4	43.3	25	19	14	18.6	31.8	18.8	2.7
Asahi	2502 JP	NR	5442.00	25,044	Dec-20	17.3	15.9	14.6	60	9	9	1.7	10.1	4.1	3.9
Kirin	2503 JP	NR	2244.00	18,617	Dec-20	17.8	14.8	13.4	47	21	10	2.0	12.1	5.2	2.8
Carlsberg	CARLB DC	NR	1105.00	27,593	Dec-20	24.0	21.0	19.0	6	14	11	4.0	16.5	9.2	2.3
Heineken NV	HEIA NA	NR	97.32	67,885	Dec-20	30.7	24.3	20.9	59	26	16	3.9	12.5	1.5	16.1
Budweiser	BUD US	NR	76.34	154,149	Dec-20	25.6	21.5	19.0	57	19	13	2.1	8.1	(1.1)	(18.7)
Int'l beer sector						23.1	19.5	17.4	46	18	12	2.7	11.9	3.8	1.3
Int'l beer sector - excluding outliers														7.2	2.6

Source: Bloomberg estimates, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	33,190	31,448	36,134	39,713	42,806
Cost of sales	(20,964)	(19,373)	(21,342)	(22,653)	(23,616)
Gross profit	12,226	12,075	14,792	17,060	19,190
Other income	741	1,493	1,566	1,543	1,601
Selling expenses	(5,925)	(6,123)	(7,480)	(8,300)	(9,075)
Administration expenses	(3,168)	(3,151)	(3,277)	(3,392)	(3,510)
EBIT	3,874	4,294	5,601	6,911	8,206
Finance income, net	39	(70)	161	234	334
Profit on disposals of FA	167	53	100	100	100
Impairment losses	(1,052)	(969)	(600)	(550)	(550)
Staff compensation	(826)	(299)	(75)	(50)	(50)
Pre-tax profit	2,202	3,009	5,187	6,646	8,039
Income tax	(892)	(915)	(1,323)	(1,669)	(2,025)
Less: Minority interests	2	0	0	0	0
Net profit	1,312	2,094	3,765	4,877	5,915
Adjusted net profit	2,838	2,967	4,140	5,227	6,265

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,202	3,009	5,087	6,546	7,939
D&A	1,724	1,746	1,605	1,585	1,607
Net finance cost	(44)	(85)	(161)	(234)	(334)
Change in working capital	75	185	890	600	607
Others	141	(375)	(1,397)	(1,787)	(2,099)
Operating cash flow	4,098	4,480	6,024	6,708	7,720
Capex	(1,490)	(1,047)	(2,000)	(2,000)	(2,000)
Acquisitions	(2,216)	0	0	0	0
Others	938	(23)	582	612	748
Investing cash flow	(2,768)	(1,070)	(1,418)	(1,388)	(1,252)
Change of borrowing	(241)	(526)	0	0	0
Dividend paid	(494)	(561)	(1,477)	(1,772)	(632)
Others	(143)	(110)	(80)	(76)	(72)
Financing cash flow	(878)	(1,197)	(1,557)	(1,848)	(705)
Net change in cash	452	2,203	3,049	3,472	5,764
Cash at the beginning	1,858	2,340	4,543	7,592	11,064
Forex effect	30	0	0	0	0
Cash at the end	2,340	4,543	7,592	11,064	16,828

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	31,816	30,398	30,793	31,248	31,602
PPE	19,413	17,781	18,240	18,720	19,177
Goodwill and intangible assets	9,749	9,646	9,582	9,557	9,454
Others	2,654	2,971	2,971	2,971	2,971
Current assets	9,775	13,377	17,061	21,190	27,472
Inventories	6,018	6,014	6,294	6,681	6,965
Trade receivables	329	196	225	248	267
Other receivables	671	2,182	2,507	2,755	2,970
Others	417	447	447	447	447
Cash balance	2,340	4,538	7,587	11,059	16,823
Current liabilities	19,856	19,572	21,388	22,888	24,259
Trade payables	2,713	2,337	2,575	2,733	2,849
Other payables	16,348	16,990	18,577	19,926	21,185
Bank borrowings	511	0	0	0	0
Others	284	245	237	229	226
Non-current liabilities	2,008	2,929	2,904	2,883	2,866
Borrowings	0	0	0	0	0
Others	1,330	2,141	2,116	2,095	2,078
Deferred tax liabilities	678	788	788	788	788
Total net assets	19,727	21,274	23,561	26,666	31,948
Shareholders' equity	19,670	21,217	23,505	26,609	31,891
Non-controlling interests	57	57	57	57	57

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
P&L ratios (%)					
Gross margin	36.8	38.4	40.9	43.0	44.8
EBIT margin	11.7	13.7	15.5	17.4	19.2
Net margin	4.0	6.7	10.4	12.3	13.8
Adjusted net margin	8.6	9.4	11.5	13.2	14.6
Payout ratio	40.8	40.1	40.0	40.0	40.0
Balance sheet ratios					
Current ratio (x)	0.5	0.6	0.8	0.9	1.1
Quick ratio (x)	0.2	0.3	0.5	0.6	0.8
A/C receivables days	4	4	2	2	2
A/C payables days	44	48	42	43	43
Inventory days	99	107	105	105	105
Asset turnover (x)	0.8	0.8	0.8	0.8	0.7
Net cash (RMB mn)	1,897	4,606	7,663	11,135	16,899
Returns (%)					
Adjusted ROE	14.7	13.7	18.4	20.9	21.4
Adjusted ROA	7.0	6.6	9.1	10.4	11.2
Per share					
Adj. EPS (RMB)	0.87	0.91	1.28	1.61	1.93
DPS (RMB)	0.17	0.26	0.46	0.60	0.73
BVPS (RMB)	6.06	6.54	7.25	8.20	9.83

Source: Company data, CMBIS estimates

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