

CR Beer (291 HK)

Premiumization and efficiency improvement more than offset cost pressure in 1H21E

We hosted an investors' meeting recently. YTD volume growth of sub-premium or above beer has been 30%+. In 1H21E, raw materials cost pressure can be absorbed by premiumization and efficiency improvement. Also, the increase of selling expenses is rational. We forecast a 31% adj. NP growth in 1H21E. CR Beer's 1.6x FY22E PEG is lower than international peers' 2.4x and Bud APAC's 4.1x. Maintain Buy and TP of HK\$91.90, based on 50.4x P/E or 2.3x PEG in FY22E. **Catalysts:** price hikes, better-than-expected revenue and margins.

- Cost pressure under control in 1H21E.** In 1H21, prices of barley, bottle, can and paper box increased by different extent. Given that the Company procured most of barley needed in FY21 in advance and implemented the beer sales with returnable bottles, the impact of barley and bottle cost pressure would be less significant than can and paper box. However, through premiumization trend and efficiency improvement, the cost pressure can be absorbed in 1H21E.
- Potential price hikes in 2H21E.** The Company expects raw materials prices to increase further in 2H21E, therefore it does not rule out possibility of nationwide price hikes in 2H21E or 2021 year-end. The price increment could be quite a bit high to ensure the absorption of potential cost pressures in coming few years. Based on the Company's target to reach Bud APAC's GPM level in FY25E, its GPM is needed to expand by more than 1-2 ppt on average every year. By considering cost pressure and possibly price hike in 2H21E, the Company believes FY21E GPM is on track.
- Competition has been rational.** The Company believes the industry's investment in channel and POS was quite rational in 1H21E though peers increased investment. In the past month, the Company increased spending after changing spokespersons and promoting UEFA Euro 2020. If selling expenses ratio increases YoY in FY21E, the magnitude would be rational.
- 1H21E preview.** We estimate 15% revenue growth in 1H21E, driven by 6% volume growth (1H21 volume similar to 1H19) and 8% ASP growth (30%+ YTD volume growth of sub-premium or above beer). We assume a 2.5ppt GPM expansion in 1H21E. We estimate selling expenses ratio to increase 1.0ppt YoY in 1H21E, less than +1.6ppt YoY in FY20. It is because revenue fell 5% in FY20 (vs 15% growth in 1H21E) and the Company increased spending between Mar and May in FY20 to boost sales after COVID-19 outbreak. We expect expenses related to factory closures to fall YoY in 1H21E as the Company expects 2-3 factories closure in FY21E (vs 4 in FY20). Overall, we estimate 1H21E adj. NP to increase 31% YoY to RMB3,104mn.

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	1.084	1.402	1.703
Adj. P/E (x)	63.4	61.2	43.6	34.5	28.9
P/B (x)	9.2	8.6	7.7	6.8	6.0
Yield (%)	0.3	0.5	0.8	1.1	1.3
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\$91.90)
Up/Downside	+46%
Current Price	HK\$62.95

China Beer Sector

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Stock Data

Mkt Cap (HK\$ mn)	204,221
Avg 3 mths t/o (HK\$ mn)	479.63
52w High/Low (HK\$)	78.60/ 44.10
Total Issued Shares (mn)	3,244.0

Source: Bloomberg

Shareholding Structure

CR Group	31.24%
Heineken	20.67%

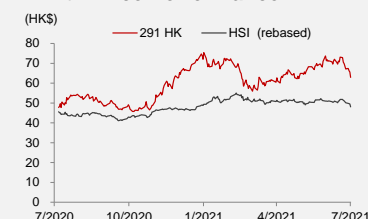
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.1%	-8.4%
3-mth	8.5%	11.3%
6-mth	-8.9%	-10.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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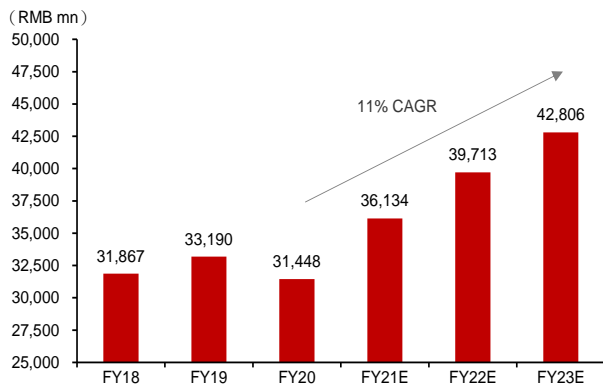
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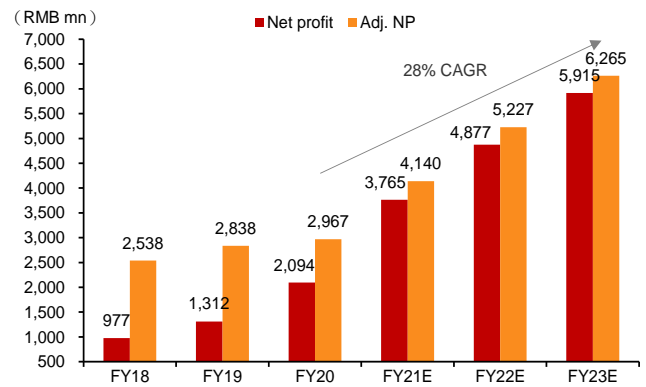
Focus Charts

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



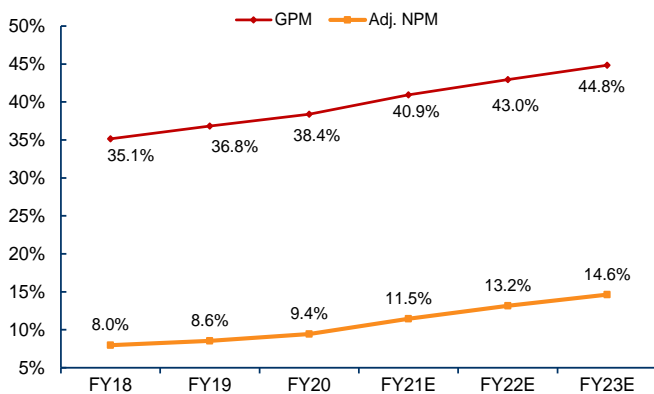
Source: Company data, CMBIS estimates

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



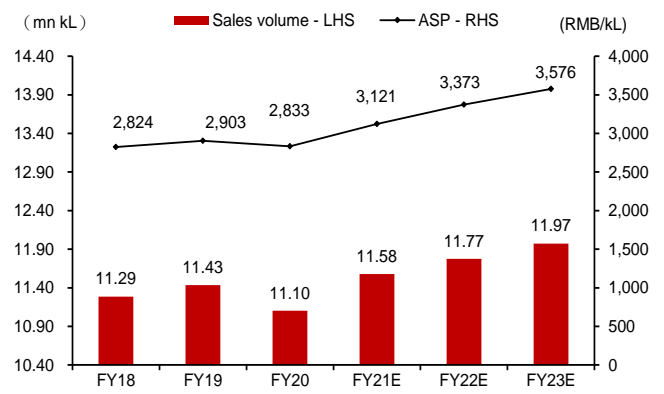
Source: Company data, CMBIS estimates

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



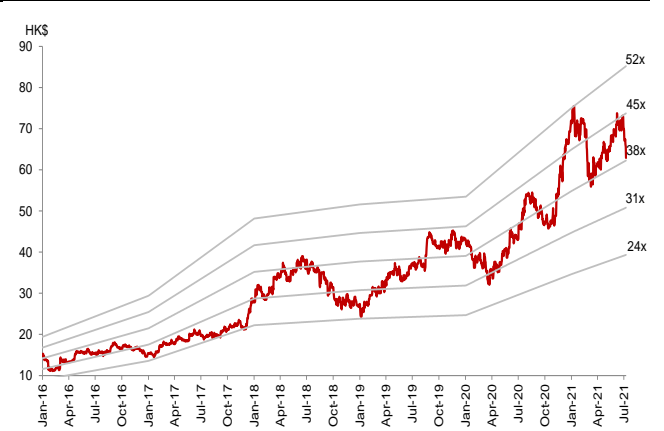
Source: Company data, CMBIS estimates

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



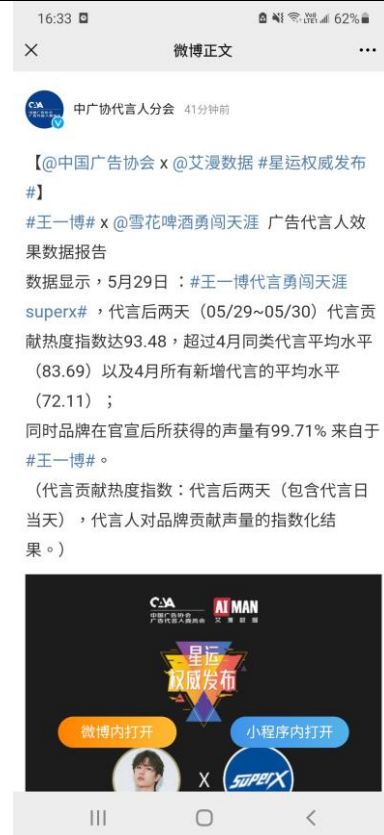
Source: media

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



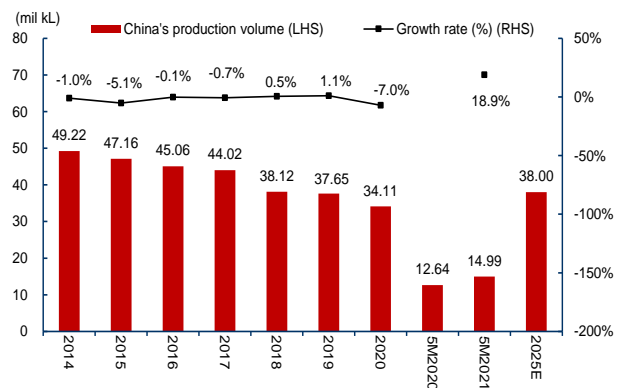
Source: Official Weibo of Spokesperson Sub-association of China Advertising Association

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 18.9% volume growth YoY in 5M21



Source: Statistics Bureau, CADA estimates

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

Figure 15: 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	35,167	37,936	40,648	3%	5%	5%
Gross Profit	14,792	17,060	19,190	14,172	15,971	17,804	4%	7%	8%
EBIT	5,601	6,911	8,206	4,887	6,261	7,486	15%	10%	10%
Adj. Net profit	4,140	5,227	6,265	3,361	4,419	5,439	23%	18%	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%	13.9%	16.5%	18.4%	+2.0ppt	+1.3ppt	+1.4ppt
Adj. Net Margin	11.5%	13.2%	14.6%	9.6%	11.6%	13.4%	+1.9ppt	+1.4ppt	+1.2ppt

Source: CMBIS estimates, Bloomberg estimates

Valuation

Figure 16: 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	FY2
						FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY1	EPS cagr	PEG
Budweiser Brewing	1876 HK	NR	23.75	314,531	Dec-20	40.2	33.6	29.7	80	20	13	3.6	8.9	8.3	4.1
CR Beer	291 HK	Buy	62.95	204,221	Dec-20	43.6	34.5	28.8	40	26	20	7.7	18.4	21.9	1.6
Tsingdao Beer	168 HK	Buy	74.65	133,506	Dec-20	27.9	24.9	21.9	15	12	14	4.0	12.5	14.9	1.7
H share beer sector						37.3	31.0	26.8	45	19	16	5	13	15.0	2.4
Tsingtao Brewery	600600 CH	Hold	99.48	111,362	Dec-20	50.0	44.5	39.1	15	12	14	6.0	12.5	14.9	3.0
Chongqing Brewery	600132 CH	NR	188.00	90,987	Dec-20	83.6	66.1	55.4	1	27	19	69.7	105.2	25.7	2.6
Yanjing Brewery	000729 CH	NR	6.89	19,420	Dec-20	61.0	51.0	45.9	61	19	11	1.4	2.2	17.0	3.0
Zhuijiang Beer	002461 CH	NR	10.45	23,129	Dec-20	33.3	27.8	24.4	21	20	14	2.5	7.5	18.1	1.5
A share beer sector						57.0	47.3	41.2	25	20	14	19.9	31.8	18.9	2.5
Asahi	2502 JP	NR	5145.00	23,742	Dec-20	16.2	14.8	13.6	62	9	9	1.6	10.1	4.6	3.2
Kirin	2503 JP	NR	2091.00	17,395	Dec-20	16.5	13.7	12.5	48	20	10	1.9	12.2	5.3	2.6
Carlsberg	CARLB DC	NR	1171.00	28,576	Dec-20	25.3	22.2	20.0	7	14	11	4.2	16.6	9.3	2.4
Heineken NV	HEIA NA	NR	100.50	68,401	Dec-20	31.2	24.7	21.3	61	26	16	4.0	12.7	1.9	13.0
Budweiser	BUD US	NR	70.78	142,922	Dec-20	23.3	19.8	17.4	60	18	14	1.9	8.3	(0.9)	(22.8)
Int'l beer sector						22.5	19.0	16.9	47	18	12	2.7	12.0	4.0	(0.3)
Int'l beer sector - excluding outliers														9.3	2.4

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	0	0	0
Impairment losses	(1,052)	(969)	(600)	(550)	(550)
Staff compensation	(826)	(299)	(75)	(50)	(50)
Pre-tax profit	2,202	3,009	5,087	6,546	7,939
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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