

# CR Beer (291 HK)

## Profit alert in line with us; still our sector top buy

- After market close yesterday, CRB pre-announced that 2021E net profits will kick-in between RMB4.4-4.7bn, up 110%-124% YoY. This implies 2H net profits will come in between RMB0.1-0.4bn, which is in line with our forecast that lies to the low end of the range. In the announcement, management attributed the profit alert to 1) a RMB1.3bn non-recurring gain on land transfer, 2) an expanding GPM driven by price hikes and premiumization, 3) a lower admin expense due to reduction of impairment loss and other one-off costs, and 4) a higher selling expense due to an increase in market expenses.
- We think the above were well communicated during our NDR earlier this month. We subsequently lowered our TP to HK\$80.0 on a 3ppt higher opex ratio that we further extrapolated to 2022E. Despite the cut, CR Beer remains our sector top pick, as we believe with well-contained earnings risk, the company is set to deliver the highest margins expansion potential among its peers, thanks to a unique blend of product premiumization and capacity optimization. We are buy-rated, and we view any news on price hikes as the major positive catalyst.
- Our TP is based on 29.0x end-22E EV/EBITDA, which represents 3-year average. We set our target multiple at the average to reflect the possibility of any mean reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion as market consensus now expects.

### Other key takeaways from our NDR earlier this month:

- 2021E premium/ sub-premium volume growth maintains at early 30%.** The upgrade has also pushed up 2021E premium/ sub-premium volume contribution to 17.3%, in our view, from 13.2% in 2020. The trend also solidifies any GPM expansion despite higher raw material inflation over 2H21.
- 2022E looks to be another solid year,** with LSD growth in shipment and an even strong price hike than 2021E. The former will be driven by a ~20% sub-premium+ volume growth, while the latter will be sustained by further price hike including any like-for-like price increase for existing products, which include both mass market and sub-premium+ SKUs.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	33,190	31,448	33,092	35,216	37,401
YoY growth (%)	4.2	(5.2)	5.2	6.4	6.2
Net income (RMB mn)	1,312	2,094	4,406	4,337	5,235
EPS (RMB)	0.6	0.8	1.0	1.3	1.6
YoY growth (%)	(2.1)	32.6	21.4	33.9	20.7
Consensus EPS (RMB)	n.a	n.a	0.9	1.3	1.7
P/E (x)	n.a	n.a	47.2	35.2	29.2
P/B (x)	n.a	n.a	6.2	5.6	4.9
Yield (%)	n.a	n.a	0.8	1.1	1.4
ROE (%)	10.4	13.0	14.0	16.6	17.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$80.0
(Previous TP)	HK\$80.0)
Up/Downside	+47.2%
Current Price	HK\$59.8

### China Consumer Staples

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#### Stock Data

Mkt Cap (HK\$ mn)	183,048
Avg 3 mths t/o (HK\$ mn)	465.3
52w High/Low (HK\$)	76.0/ 53.4
Total Issued Shares (mn)	3,244

Source: Bloomberg

#### Shareholding Structure

CRH Beer	51.7%
Morgan Stanley	4.7%
HHLR Advisor	4.1%

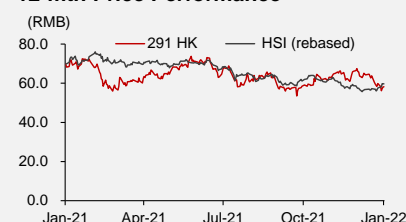
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-12.2%	-11.2%
3-mth	1.1%	6.1%
6-mth	-8.2%	6.0%

Source: Bloomberg

#### 12-mth Price Performance



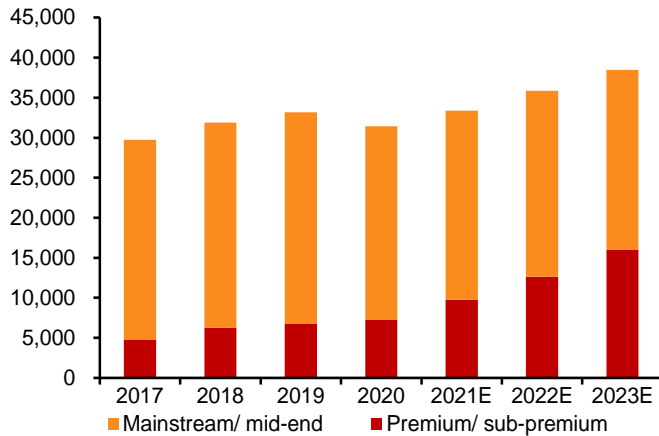
Source: Bloomberg

Auditor: Deloitte

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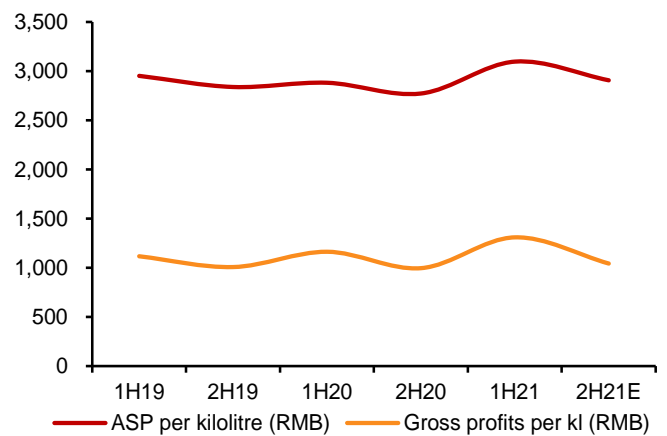
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**Figure 1: CRB revenue by segment 2017-23E**



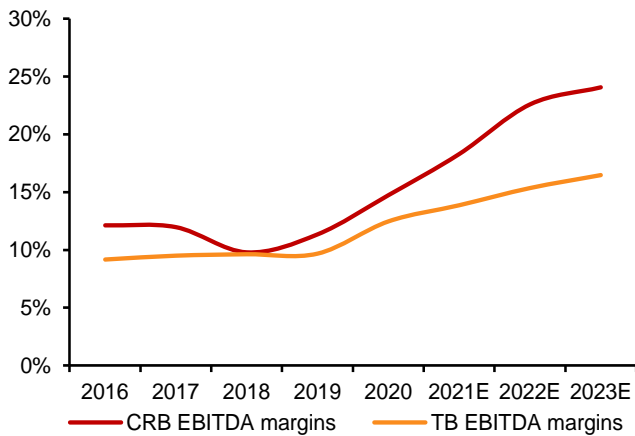
Source: Company data, CMBIS estimates

**Figure 2: Half year ASP and gross profits per kl**



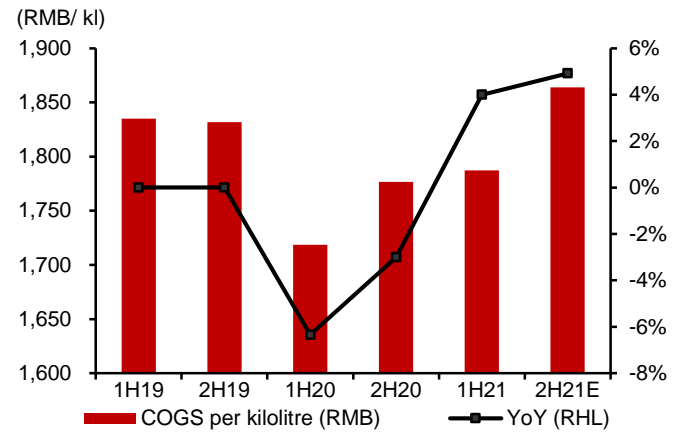
Source: Company data, CMBIS estimates

**Figure 3: CRB offers a higher EBITDA margin growth**



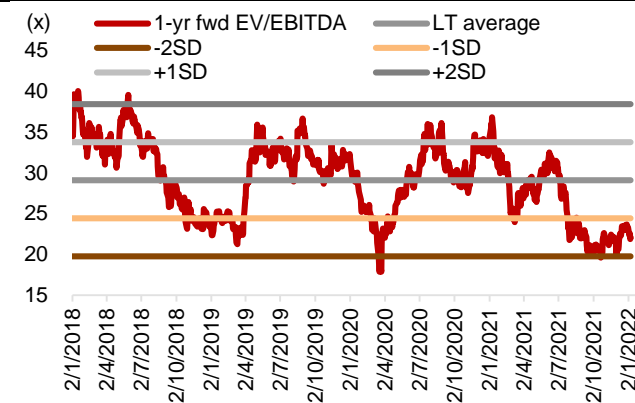
Source: Company data, CMBIS estimates

**Figure 4: We expect 2H21E COGS/ kl to up by 5%**



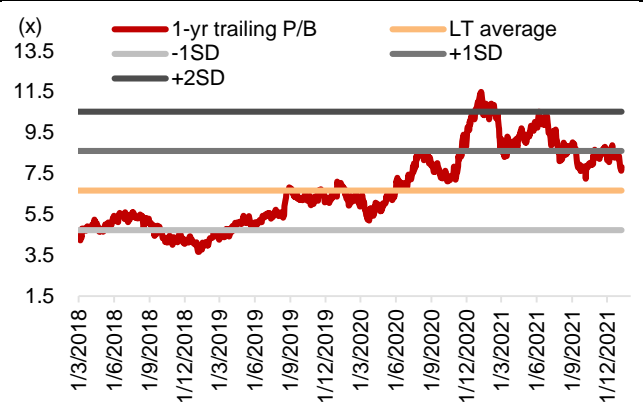
Source: Company data, CMBIS estimates

**Figure 5: 1-year forward EV/EBITDA chart**



Source: Bloomberg, CMBIS estimates

**Figure 6: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>33,190</b>	<b>31,448</b>	<b>33,092</b>	<b>35,216</b>	<b>37,401</b>
Premium & Super	6,779	7,300	10,508	14,270	18,648
Sub-premium	26,411	24,148	22,584	20,946	18,753
<b>Gross profits</b>	<b>12,226</b>	<b>12,075</b>	<b>13,126</b>	<b>14,559</b>	<b>16,045</b>
D&A	(1,601)	(1,553)	(1,575)	(1,623)	(1,669)
Selling expense	(5,925)	(6,123)	(5,956)	(6,339)	(6,470)
Administration expenses	(5,046)	(4,419)	(4,004)	(3,874)	(4,114)
Other operating expenses	908	1,546	1,627	1,731	1,839
Others	1,601	1,553	1,575	1,623	1,669
<b>EBIT</b>	<b>2,163</b>	<b>3,079</b>	<b>4,792</b>	<b>6,077</b>	<b>7,299</b>
<b>EBITDA</b>	<b>3,764</b>	<b>4,632</b>	<b>6,367</b>	<b>7,700</b>	<b>8,968</b>
Finance costs, net	43	80	79	119	179
Non-operating	(4)	(150)	1,755	-	-
<b>Pre-tax profit</b>	<b>2,202</b>	<b>3,009</b>	<b>6,626</b>	<b>6,196</b>	<b>7,478</b>
Income tax	(892)	(915)	(2,220)	(1,859)	(2,244)
Less: Minority interests	2	-	-	-	-
<b>Net profit</b>	<b>1,312</b>	<b>2,094</b>	<b>4,406</b>	<b>4,337</b>	<b>5,235</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>1,312</b>	<b>2,094</b>	<b>4,406</b>	<b>4,337</b>	<b>5,235</b>
D&A	1,601	1,553	1,575	1,623	1,669
Change in working capital	75	(1,165)	(4,168)	(4,233)	(1,806)
Others	1,110	1,200	-	-	-
<b>Net cash fr. operating act.</b>	<b>4,098</b>	<b>3,682</b>	<b>1,813</b>	<b>1,727</b>	<b>5,098</b>
Capex & investments	(1,490)	(1,043)	(1,252)	(1,189)	(1,130)
Acquisition	(2,216)	-	-	-	-
Others	938	-	-	-	-
<b>Net cash fr. investing act.</b>	<b>(2,768)</b>	<b>(1,043)</b>	<b>(1,252)</b>	<b>(1,189)</b>	<b>(1,130)</b>
Equity raised	-	-	-	-	-
Change of Debts	1,875	(511)	-	-	-
Dividend paid	(487)	(536)	(840)	(1,762)	(1,735)
Others	(2,266)	606	-	-	-
<b>Net cash fr. financing act.</b>	<b>(878)</b>	<b>(441)</b>	<b>(840)</b>	<b>(1,762)</b>	<b>(1,735)</b>
<b>Net change in cash</b>	<b>452</b>	<b>2,198</b>	<b>(279)</b>	<b>(1,225)</b>	<b>2,233</b>
Cash at the beginning of the	1,858	2,340	4,538	4,259	3,035
Exchange difference	30	-	-	-	-
<b>Cash at the end of the year</b>	<b>2,340</b>	<b>4,538</b>	<b>4,259</b>	<b>3,035</b>	<b>5,268</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>31,873</b>	<b>30,398</b>	<b>30,075</b>	<b>29,641</b>	<b>29,101</b>
PP&E/Fixed assets	19,413	17,781	17,522	17,152	16,676
Goodwill	9,422	9,326	9,326	9,326	9,326
Deferred tax assets	2,532	2,858	2,858	2,858	2,858
Other non-current assets	506	433	369	305	241
<b>Current assets</b>	<b>9,718</b>	<b>13,377</b>	<b>17,858</b>	<b>18,124</b>	<b>19,733</b>
Cash	2,340	4,538	6,673	6,461	6,411
Account receivable	943	2,378	3,626	3,859	4,099
Taxation recoverable	349	371	371	371	371
Other current assets	6,086	6,090	7,187	7,434	8,852
<b>Current liabilities</b>	<b>19,856</b>	<b>19,572</b>	<b>20,164</b>	<b>17,224</b>	<b>14,872</b>
Borrowings	511	-	-	-	-
Account payables	19,061	19,327	19,919	16,979	14,627
Other payables	194	162	162	162	162
Lease liabilities	90	83	83	83	83
<b>Non-current liabilities</b>	<b>2,008</b>	<b>2,929</b>	<b>2,929</b>	<b>2,929</b>	<b>2,929</b>
Borrowings	-	-	-	-	-
Deferred tax liabilities	678	788	788	788	788
Other non-current liabilities	1,330	2,141	2,141	2,141	2,141
<b>Minority Interest</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>
<b>Total net assets</b>	<b>19,727</b>	<b>21,274</b>	<b>24,840</b>	<b>27,612</b>	<b>31,033</b>
<b>Shareholders' equity</b>	<b>19,670</b>	<b>21,217</b>	<b>24,783</b>	<b>27,555</b>	<b>30,976</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Premium & Super premium	20.4	23.2	31.8	40.5	49.9
Sub-premium	79.6	76.8	68.2	59.5	50.1
<b>P&amp;L ratios (%)</b>					
Gross margin	36.8	38.4	39.7	41.3	42.9
Operating margin	6.5	9.8	14.5	17.3	19.5
Pre-tax margin	6.6	9.6	20.0	17.6	20.0
Net margin	4.0	6.7	13.3	12.3	14.0
Effective tax rate	(40.5)	(30.4)	(33.5)	(30.0)	(30.0)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.2	0.3	0.3	0.2	0.3
Net receivable days	10.4	27.6	40.0	40.0	40.0
Net payable days	331.9	364.1	364.1	300.0	250.0
Inventory turnover days	107.9	95.0	104.8	113.3	130.0
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	10.4	13.0	14.0	16.6	17.9
ROA	41.3	33.0	24.0	20.0	17.0
Dividend yield	0.3	0.5	0.8	1.1	1.3
<b>Per share</b>					
EPS - recurring (RMB)	0.6	0.8	1.0	1.3	1.6
DPS (RMB)	0.2	0.3	0.4	0.5	0.6
BVPS (RMB)	6.1	6.5	7.6	8.4	9.5

Source: Company data, CMBIS estimates

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