

Budweiser APAC (1876 HK)

4Q beats and prompts further earnings upgrade

We expected Budweiser to deliver a strong 4Q but the actual results came in even higher than our expectation thanks to a robust China business, as there were no lockdowns in major provinces such as Guangdong and Fujian during the quarter. Beyond this, we believe a better sales mix also explained a 8.5% volume growth and a 10.3% ASP hike for the region. This, along with further operating efficiency improvement, has led to a 29% EBITDA growth for the country that exceeded pre-pandemic level. Accordingly, we raised 2% of our 2022E revenue to US\$7.4bn with a 2.1ppt lowered opex ratio to reflect the strong quarter. Both led to a ~4.5% increase in our 2022E normalised EBITDA, and hence our new TP of HK\$28. Given a 40%+ premium volume contribution and a 50%+ GPM (highest among its Chinese peers), we still prefer CR Beer (291HK, Buy) for a more appealing premiumization trajectory going forward. Our TP is still based on 21x end-22E EV/ EBITDA, which represents the stock's 3-year average.

Key takeaway from the 4Q results and management call

- 2021 topline/ net income/ adjusted net income grew 21.5% (14.9% in organic terms)/ 84.8%/ 75.9% YoY, beating our estimates and market consensus, and GPM/ OPM/ NPM/ adjusted NPM improved 1.9pp/ 4.2pp/ 4.8pp/ 4.5pp YoY, respectively.
- Total beer sales volume increased by 8.3% in 2021, with acceleration to 8.6% growth in 4Q, assisted by market share gains and positive revenue per hl growth in all key markets. Overall revenue per hl grew 6.1% YoY.
- Cost control measures were also expected to continue to help mitigate possible input cost inflation. The company planned to deal with such inflations through hedging, which has been carried out in 2021, digital transformation and operating efficiency improvement.
- DPS was US\$3.02 cents (2020 US\$3.0 cents), implying 42% payout ratio.
- Premiumization and cost control efficiency could support better margin in 2022. The company would also consider further price hikes based on the local inflation dynamic.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	6,546	5,588	6,788	7,372	8,156
YoY growth (%)	(2.9)	(14.6)	21.5	8.6	10.6
Net income (US\$ mn)	898	514	950	1,117	1,336
EPS (US\$)	0.08	0.04	0.07	0.08	0.10
YoY growth (%)	(9.5)	(48.1)	84.7	17.6	19.6
Consensus EPS (US\$)	n.a.	n.a.	0.07	0.08	0.10
P/E (x)	n.a.	n.a.	42.8	36.4	30.4
P/B (x)	n.a.	n.a.	3.7	3.5	3.2
Div Yield (%)	n.a.	n.a.	1.0	1.2	1.4
ROE (%)	9.0	5.0	8.7	9.8	10.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$28.0
(previous TP)	HK\$ 26.6)
Up/Downside	+19.0%
Current Price	HK\$24.0

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn)	317,179
Avg 3 mths t/o (HK\$ mn)	129.9
52w High/Low (HK\$)	27.8/ 18.2
Total Issued Shares (mn)	13,243

Source: Wind

Shareholding Structure

AB Inbev Brewing Co	87.2%
JPMorgan Chase & Co	0.9%
T Towe Price	0.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.5%	21.8%
3-mth	17.1%	24.5%
6-mth	23.6%	33.4%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: PricewaterhouseCoopers

Related Reports

- "Cherry-picking winners amid a de-risking mentality; our top picks: CRB/ Mengniu/ Feihe" – 21 Jan 2022
- "Marketing feedback – inflation & price hikes were key words that appeared in every meeting" – 23 Nov 2021
- "Structural merits look prominent amid transitional headwind and any stagflation expectation" – 2 Nov 2021

Financial Summary

Income statement

YE 31 Dec (USD mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	6,546	5,588	6,788	7,372	8,156
Asia Pacific East	1,370	1,162	1,222	1,335	1,541
Asia Pacific West	5,176	4,426	5,566	6,037	6,615
Gross profit	3,488	2,907	3,657	3,981	4,445
Distribution expenses	(519)	(458)	(524)	(538)	(595)
Sales and marketing	(1,358)	(1,278)	(1,407)	(1,474)	(1,550)
Administrative expenses	(382)	(399)	(449)	(442)	(449)
Other operating income	237	165	150	150	150
Operating profit	1,466	937	1,427	1,676	2,001
EBITDA	2,121	1,584	2,139	2,358	2,679
Finance costs, net	(24)	(24)	(6)	(6)	(6)
Joint ventures &	23	23	32	32	32
Other non-recurring items	(98)	(28)	(40)	(40)	(40)
Pre-tax profit	1,367	908	1,413	1,662	1,987
Income tax	(459)	(371)	(432)	(508)	(608)
Less: Minority interests	10	23	31	36	44
Net profit	898	514	950	1,117	1,336

Cash flow summary

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	898	514	950	1,117	1,336
D&A	618	608	712	682	677
Change in working capital	(46)	183	44	50	144
Others	(91)	(4)	(31)	95	44
Net cash fr. operating act.	1,379	1,301	1,675	1,946	2,201
Capex & investments	(647)	(516)	(786)	(750)	(550)
Acquisition	(176)	-	-	-	-
Others	80	(56)	(26)	-	-
Net cash fr. investing act.	(743)	(572)	(812)	(750)	(550)
Equity raised	-	659	(263)	-	-
Change of Debts	(382)	(4)	(8)	-	-
Dividend paid	(976)	(315)	(374)	(400)	(469)
Others	1,256	(772)	26	-	-
Net cash fr. financing act.	(1,349)	(432)	(619)	(400)	(469)
Net change in cash	(713)	297	244	796	1,182
Cash at the beginning of the year	1,622	877	1,264	1,508	2,304
Exchange difference	(32)	90	-	-	-
Cash at the end of the year	877	1,264	1,508	2,304	3,486
Plus: pledged cash	75	17	499	-	-

Balance sheet

YE 31 Dec (USD mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Non-current assets	13,200	13,857	13,464	13,763	13,635
Fixed asset	3,638	3,716	3,632	3,891	3,783
Net intangibles assets	8,629	9,125	8,806	8,845	8,826
Right of use assets, net	247	256	251	251	251
Other non-current assets	686	760	775	775	775
Current assets	2,108	2,332	3,161	3,580	4,831
Cash	952	1,281	2,007	2,304	3,486
Account receivable	449	367	412	459	507
Inventory	438	434	473	548	569
Other current assets	269	250	269	269	269
Current liabilities	4,493	4,637	4,691	4,655	4,868
Borrowings	160	147	123	123	123
Payables	2,152	2,112	2,156	2,329	2,542
Contract liabilities	1,260	1,449	1,495	1,495	1,495
Payables with parentco	222	142	74	74	74
Other current liabilities	699	787	843	634	634
Non-current liabilities	931	809	851	851	851
Borrowings	28	37	53	53	53
Other non-current liabilities	903	772	798	798	798
Minority Interest	48	58	70	106	150
Total net assets	9,884	10,743	11,083	11,837	12,747
Shareholders' equity	9,836	10,685	11,013	11,730	12,597

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Asia Pacific East	20.9	20.8	18.0	18.1	18.9
Asia Pacific West	79.1	79.2	82.0	81.9	81.1
P&L ratios (%)					
Gross profit margin	53.3	52.0	53.9	54.0	54.5
Operating margin	22.4	16.8	21.0	22.7	24.5
Pre-tax margin	20.9	16.2	20.8	22.5	24.4
Net margin	13.7	9.2	14.0	15.2	16.4
Effective tax rate	(7.0)	(6.6)	(6.4)	(6.9)	(7.4)
Balance sheet ratios					
Current ratio (x)	0.5	0.5	0.7	0.8	1.0
Net receivable days	25	24	22	22	22
Net payable days	230	268	243	243	243
Inventory turnover days	52	59	55	59	56
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	8.95	4.98	8.71	9.75	10.87
Dividend yield	n.a.	n.a.	1.0	1.2	1.4
Per share					
EPS (US\$)	0.08	0.04	0.07	0.08	0.10
DPS (US\$)	0.03	0.03	0.03	0.04	0.04
BVPS (US\$)	0.74	0.81	0.83	0.89	0.95
EV/ EBITDA (x)	n.a.	n.a.	18.2	16.3	13.9

Source: Company data, CMBIS estimates

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