

# China Consumer Staples

## Cherry-picking winners amid a de-risking mentality; our top picks: CRB/ Mengniu/ Feihe

Whether 2022 will turn out to be another year of two tales remains a million-dollar question. What is unequivocal to us, however, is that the impact from property deleveraging and the zero-COVID policy is here to stay and likely be drags in tandem on any conventional boost to the waning consumption sentiment. Amid a de-risking mentality, the low correlation to the double whammy that F&B names offer continue to symbolize relative defensiveness. Although price hike and product mix upgrade exhibited an effective margins shield to the elevated raw material prices over 4Q21, macro risks have, in our view, prompted earnings cut albeit selective. From here, we cherry-pick relative outperformers that are anecdotally less hammered by the languishing propensity to consume and are more responsive to price hikes. In addition to our [previous recommendations](#), we are now adding Budweiser, Nongfu Spring, and Feihe to our coverage. Our revised pecking order: CR Beer/ Mengniu/ Feihe > Nongfu / Tsingtao/ Yili/ Budweiser > Smoore/ RELX.

- 4Q21 earnings preview and revisions.** We largely maintain our forecasts for CR Beer and Mengniu, while we cut our 2021/22E net profits forecasts for Smoore and RELX by 2-26% in view of the recent regulatory reform. We cut 8%/14% of Feihe's 2021/22E earnings upon coverage transfer. Our numbers for Budweiser and Nongfu Spring are slightly lower than consensus.
- Yet another COVID outbreak unlikely to trigger a structural de-rating to F&B names, neither did the previous ones.** Knee-jerk shares reaction was negative but subsequently picked up on channel restocking, steady demand, mix upgrade and price hike. We see less impact to beverage makers except breweries who derives 50% consumption on-trade. The lingering headwind should continue to weigh on birth rate and hence outlook for infant milk formula.
- We expect breweries to levy another round of price hike in 2Q,** ahead of the peak season, while dairies are premiumizing their SKU mix on rising consumer health awareness. Our analysis shows that share prices in general react positively on price hikes. An inflecting raw material price in 1Q also bodes well for gross margins expansion. We forecast a 10% change in input cost would lead to a ~4%/ 2% change in GPM for breweries and dairies, respectively.
- Valuations.** We benchmark our TPs for Mengniu and Nongfu Spring to +1sd above the stocks' 3-year averages, CRB, and Budweiser at 3-year average, while we set those for Feihe, Smoore and RLX at -1sd below.

### Earnings Summary

Name	Ticker	Rating	Price (LC)	TP (LC)	Mkt Cap (US\$ mn)	P/E (x)		EV/EBITDA (x)		ROE (%)	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CR Beer	291 HK	Buy	56.6	80.0	23,547	48.6	36.3	24.0	20.0	14.0	16.6
Mengniu	2319 HK	Buy	46.3	57.0	23,492	28.9	24.7	22.3	18.1	11.8	13.2
China Feihe	6186 HK	Buy	10.8	14.0	12,381	11.8	10.3	7.1	6.0	40.4	41.8
Nongfu Spring	9633 HK	Buy	43.4	53.0	62,575	72.9	70.0	36.7	34.5	33.7	30.6
Tsingtao	168 HK	Buy	67.1	86.0	15,549	27.2	22.5	13.2	10.5	12.2	13.6
Yili Industrial	600887 CH	Buy	39.3	50.0	39,632	28.9	25.2	20.6	18.2	27.7	30.4
Budweiser	1876 HK	Buy	19.5	26.6	33,214	39.2	34.1	16.0	14.0	7.8	8.5
Smoore	6969 HK	Buy	36.0	43.0	27,771	35.7	27.6	27.0	20.4	40.4	41.4
RELX	RLX US	Buy	3.6	4.3	5,702	15.9	14.4	13.1	10.7	56.6	38.7

Source: Company data, CMBIS estimates

### MARKET PERFORM (Maintain)

#### China Consumer Staples

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##### Investment thesis

A habitual consumption pattern, premiumization and an effective cost pass-through are structural drivers that F&B players offer to buffer relatively stable margins amid input cost inflation.

##### CR Beer (291 HK, Buy)

Target Price (HK\$)	80.0
Up/Downside	+41.8%
Current Price (HK\$)	56.5
Mkt Cap (HK\$ mn)	183,048
52w High/Low (HK\$)	76.0/ 53.4

Source: Bloomberg, CMBIS

##### Mengniu (2319 HK, Buy)

Target Price (HK\$)	57.0
Up/Downside	+23.1%
Current Price (HK\$)	46.3
Mkt Cap (HK\$ mn)	183,032
52w High/Low (HK\$)	51.1/ 38.5

Source: Bloomberg, CMBIS

##### China Feihe (6186 HK, Buy)

Target Price (HK\$)	14.0
Up/Downside	+30.0%
Current Price (HK\$)	10.8
Mkt Cap (HK\$ mn)	96,463
52w High/Low (HK\$)	25.7/ 9.7

Source: Bloomberg, CMBIS

##### Related Reports

- ["Marketing feedback – inflation & price hikes are key words appeared in every meeting"](#) – 23 Nov 2021
- ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

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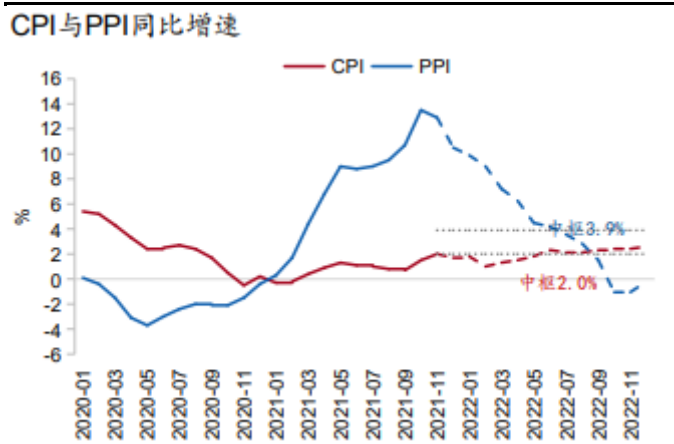
## Focus charts and tables

Figure 1: Stock returns post price hikes, 2020 - 2021

Company	Sector	Period	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return +90D	Stock return +180D	Stock return +360D	Stock return +720D	Stock return +1080D
Yili	Dairy	Dec 2020	5.4%	9.3%	2.2%	21.6%	5.2%	3.2%	-3.5%	-8.8%	3.3%	n.a.	n.a.
Mengniu	Dairy	Dec 2020	28.3%	19.3%	5.2%	11.2%	-1.1%	-9.3%	-4.1%	2.1%	-3.7%	n.a.	n.a.
Budweiser	Brewery	May 2021	-10.0%	0.2%	0.2%	6.2%	4.7%	13.3%	5.3%	-16.5%	n.a.	n.a.	n.a.
Jonjee	Condiments	May 2021	-8.7%	-17.5%	-5.1%	8.0%	10.4%	-6.2%	-17.3%	-17.5%	n.a.	n.a.	n.a.
Tsingtao Beer	Brewery	Aug 2021	-24.0%	-24.5%	-13.4%	2.0%	3.9%	-0.5%	10.4%	n.a.	n.a.	n.a.	n.a.
CRB	Brewery	Sep 2021	-2.7%	11.9%	2.8%	-3.4%	-11.5%	-0.8%	-1.8%	n.a.	n.a.	n.a.	n.a.
Angel Yeast	Condiments	Sep 2021	-0.9%	13.7%	10.0%	8.3%	20.1%	15.7%	31.4%	n.a.	n.a.	n.a.	n.a.
Teway Food	Condiments	Oct 2021	-16.2%	5.4%	-0.8%	1.9%	18.8%	15.3%	n.a.	n.a.	n.a.	n.a.	n.a.
Haitian Flavoring	Condiments	Oct 2021	-1.5%	25.6%	3.6%	1.6%	3.4%	0.9%	n.a.	n.a.	n.a.	n.a.	n.a.
Chacha Food	Food	Oct 2021	18.3%	11.9%	7.6%	16.2%	12.6%	24.0%	n.a.	n.a.	n.a.	n.a.	n.a.
Chongqing Brewery	Brewery	Oct 2021	8.4%	14.8%	17.2%	5.8%	-0.6%	5.6%	n.a.	n.a.	n.a.	n.a.	n.a.
Ligao Foods	Food	Oct 2021	16.6%	-3.0%	7.1%	-1.6%	-3.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Anjoy Foods	Food	Nov 2021	17.2%	-5.0%	-1.3%	3.5%	-6.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Angel Yeast	Condiments	Nov 2021	29.2%	15.0%	15.0%	-3.2%	-3.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Haixin Foods	Food	Nov 2021	10.7%	10.5%	11.6%	0.7%	-1.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hengshun Vinegar	Condiments	Nov 2021	21.8%	12.7%	12.0%	-6.2%	-12.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Snowsky Salt	Condiments	Nov 2021	-14.9%	-5.0%	9.3%	1.5%	6.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jiajia Food	Condiments	Nov 2021	10.3%	8.1%	19.3%	2.4%	12.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fuling Zhacai	Condiments	Nov 2021	19.4%	-0.5%	-5.5%	0.2%	12.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yili	Dairy	Nov 2021	18.0%	7.3%	-0.1%	-0.5%	-3.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qianhe	Condiments	Nov 2021	56.9%	28.9%	9.5%	-7.7%	-9.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sanquan Food	Food	Nov 2021	33.7%	21.7%	4.8%	-9.9%	-7.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Budweiser	Brewery	Nov 2021	8.2%	5.1%	-1.0%	-3.1%	2.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jonjee	Condiments	Nov 2021	3.2%	-9.6%	-5.8%	4.5%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lianweiyangchu Foc	Food	Nov 2021	10.5%	-4.0%	2.1%	1.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mengniu	Dairy	Dec 2021	-11.4%	-8.8%	-0.4%	2.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Want Want	Food	Dec 2021	15.1%	5.8%	2.0%	5.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

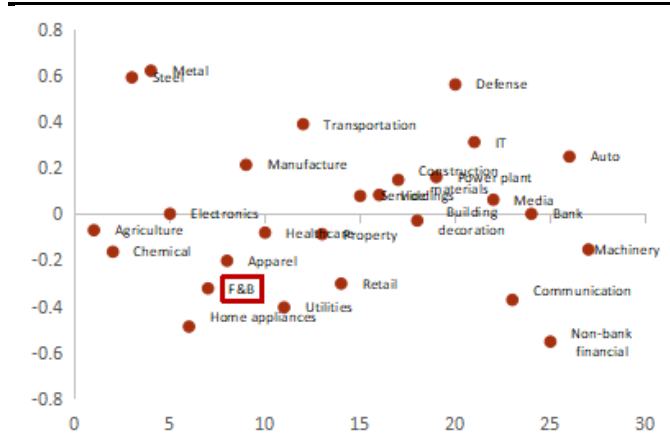
Source: Company data, CMBIS

Figure 2: China PPI and CPI inflations forecasts



Source: Wind, CMBIS

Figure 3: F&B GPM -ve correlated to PPI growth



Source: Bloomberg, CMBIS

**Figure 4: Summary of major assumptions/ management guidance for 4Q21 and 2022E**

Company	2H21/2021 guidance/estimates		2022 outlook
CRB	Volume/ Topline	2H21: mid-to-high single digit decline; 2021E: flat to LSD decline mainly due to a decline in mass-market volume; Premium/ sub-premium: 30%+ growth.	Volume: LSD growth YoY, driven by a ~20% sub-premium+ volume growth;  ASP: likely faster growth YoY, with price hike from both mass and sub-premium+ SKUs;  GPM: we estimate a 1.5pp improvement per annum between 2021-23E
	ASP	2H21: LSD increase; effect of the price hike of Snow Brave the World initiated in Sep 2021 will likely be reflected in the high season in 2022.	
	GPM	2021E: improvement; but with a smaller magnitude vs. 1H21	
	EBIT margins	2021E: selling expense ratio likely to increase by <3%; recurring EBIT margins 20%+	
Budweiser	Volume/ Topline	4Q21E topline down 1% y-y.	Volume: APAC East volume back to 2019 level, implying ~3% growth y-y.  ASP: +5%.  EBITDA margin: +0.5ppt, driven by reopening progress of other APAC countries and premiumization in China.
	ASP	n.a	
	GPM	n.a	
	OPM/ EBIT margins	2021E: better EBIT margin and NPM y-y.	
Mengniu	Volume/ Topline	2H21E: topline +8.5%, with ~8% growth in liquid milk.	Top line: low-to-mid teen growth, driven by low-teen growth in liquid milk, high-teen growth in milk formula and double-digit growth in ice cream revenue.  COCS: stable raw milk price expected over 2022E thanks to an increased supply.  Selective price hikes on Jan 2022
	ASP	Initiated price hikes for selective SKUs by MSD over 2H21	
	GPM	2H21E: ~36%, as raw milk price hike expected to taper from 17% y-y in 1H to LSD/MSD in 2H21E.	
	OPM	2H21E: recurring EBIT margins benchmarks to 2H19 level	
Feihe	Volume/ Topline	2021E: ~Rmb23bn total sales, 30% market share by 2023E; Rmb2bn infant formula revenue	n.a
	ASP	n.a	
	GPM	2H21E: lower h-h; long term target: 68-70%.	
	OPM/ NPM	2021E: higher selling expense ratio, lower EBIT margin, ~30% NPM.	
Nongfu Spring	Volume/ Topline	2H21E: low-teen topline growth	GPM likely to see pressure vs 2021 as the company expects a higher raw material price in 2022, including PET, sugar, and pulp. 2022 GPM could benchmarks to that of 2019  Long term NPM target at 20%+
	ASP	Raised price for selective large-sized water SKU	
	GPM	2H21E: lower h-h 2021E: stable y-y	
	OPM/ NPM	20%+	
Smoore	Volume/ Topline	~40% growth for 2021 topline	n.a
	ASP	n.a	
	GPM	n.a	
	OPM/ NPM	n.a	
RLX	Volume/ Topline	4Q top line to exhibit low-teen growth from that of 3Q	n.a
	ASP	n.a	
	GPM	n.a	
	OPM/ NPM	n.a	

Source: Company data, CMBIS

## Our stock screening framework and pecking order

We revise our stock pecking order. We now rank Mengniu and CR Beer as our top pick followed by Feihe. We also like Nongfu Spring, Tsingtao, Yili and Budweiser. We cherry pick stocks by elimination and assemble our framework with several criteria. These include near term earnings risks, and company fundamentals such as demand resilience amid the pandemic, regional exposure and pricing power. Meanwhile, we increasingly prefer low valuation to high valuation play given that the latter is more sensitive to valuation risk, when tapering and rate hike looks imminent in the US. Corporate governance is rated as important as the abovementioned, while, in contrast, exposure to risks as a result of any regulatory reforms is least preferred.

Investment highlights of our top picks are set out below:

- CRB (291 HK, Buy, TP HK\$80.0).** We slightly revised down our 2021E volume growth by 0.4pp to -0.7% to factor-in a slower 2H volume growth of a -7.5% decline. Despite this, we maintain our ~21% recurring EBIT growth (vs consensus ~25%) for 2021E. Factoring also a 3% higher SG&A expense, these lead to a ~1% to 5% reduction in our 2021/22E revenue and EBITDA assumptions, respectively. The volume hiccup has not altered our positive view on CR Beer, however, as we believe 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.
- Mengniu (2319 HK, Buy, TP HK\$57.0).** We maintain our recurring OPM of 5.4% for 2H21. A lower opex ratio should suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to LSD/MSD in 2H21E. Into 2022E, we look for a 13% top line growth. After all, we largely maintain our 2021/22E earnings assumption despite small changes in house-keeping items. We slightly twist our TP to HK\$57.0. Mengniu is our top pick.
- China Feihe (6186 HK, Buy, TP HK\$14.0).** We cut our 2021E revenue and net profits by 2%/ 8%, respectively, upon coverage transfer. After the adjustment, we still forecast a RMB23bn+ revenue for 2021E with 30% net margin. Looking into 2022E, we trim 7% of our volume assumption and hence an 8%/ 14% reduction in revenue and net profits. Albeit a relatively gloomy industry outlook, Feihe looks to stand tall with solid, though slower, premiumization progress and new product launch to play around any regulatory reforms.

**Major earnings revisions.** We largely maintain our forecasts for CR Beer and Mengniu, while we cut our 2021/22E net profits forecasts for Smoore and RLX by 2-26% in view of the recent regulatory reform. We cut 8%/14% of Feihe's 2021/22E earnings upon coverage transfer. Our numbers for Budweiser and Nongfu Spring are slightly lower than consensus.

Figure 5: Earnings revision summary

Local curr (mn)	Ticker	Revenue						Net income					
		New		Old		Diff (%)		New		Old		Diff (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CRB	291 HK	33,092	35,216	33,393	35,852	-0.9%	-1.8%	4,406	4,337	4,431	4,588	-0.6%	-5.5%
TB	168 HK	n.a.	n.a.	30,129	32,943	n.a.	n.a.	n.a.	n.a.	2,735	3,304	n.a.	n.a.
Budweiser	1876 HK	6,577	7,241	n.a.	n.a.	n.a.	n.a.	860	989	n.a.	n.a.	n.a.	n.a.
Mengniu	2319 HK	87,352	98,165	88,152	99,327	-0.9%	-1.2%	4,876	6,119	4,919	6,270	-0.9%	-2.4%
Yili	600887CH	n.a.	n.a.	111,354	122,964	n.a.	n.a.	9,048	11,148	9,039	11,188	0.1%	-0.4%
Feihe	6186 HK	23,486	27,760	23,941	29,459	-1.9%	-5.8%	7,087	8,113	7,692	9,444	-7.9%	-14.1%
Nongfu	9633 HK	27,956	32,912	n.a.	n.a.	n.a.	n.a.	6,526	7,093	n.a.	n.a.	n.a.	n.a.
Smoore	6969 HK	13,982	18,264	14,445	20,295	-3.2%	-10.0%	5,339	6,914	5,479	7,795	-2.6%	-11.3%
RELX	RLX US	8,465	9,650	8,886	15,421	-4.7%	-37.4%	2,151	2,379	2,401	3,216	-10.4%	-26.0%

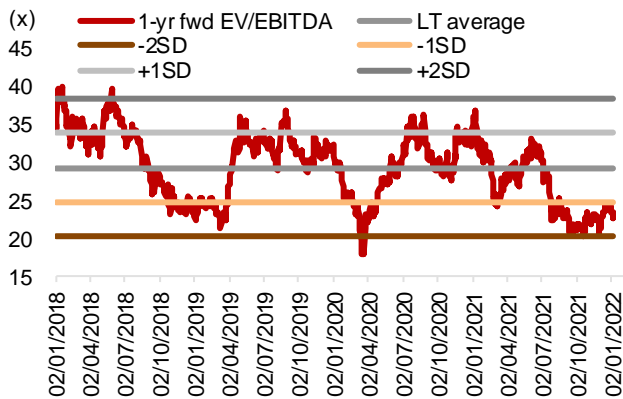
Note: Our RLX net income estimate is non-GAAP  
 Source: Company data, CMBIS.

Figure 6: China Consumer Staples valuation comps

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/Downside	Mkt. Cap (US\$ mn)	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CR Beer	291 HK	Buy	80.0	56.6	41.5	23,547	48.6	36.3	6.3	5.8	14.0	16.6
Tsingtao Brewery	168 HK	Buy	86.0	67.1	28.3	15,549	27.2	22.5	3.3	3.0	12.2	13.6
Budweiser APAC	1876 HK	Buy	26.6	19.5	36.1	33,214	39.2	34.1	3.0	2.9	7.8	8.5
Mengniu	2319 HK	Buy	57.0	46.3	25.3	23,492	28.9	24.7	4.0	3.6	11.8	13.2
Yili - A	600887 CH	Buy	50.0	39.3	27.2	39,632	28.9	25.2	8.0	7.1	27.7	30.4
Feihe	6186 HK	Buy	14.0	10.8	29.4	12,381	11.8	10.3	3.6	2.9	40.4	41.8
Nongfu Spring	9633 HK	Buy	53.0	43.4	22.3	62,575	72.9	70.0	25.2	21.2	33.7	30.6
Tingyi	322 HK	NR	N/A	15.9	n.a.	11,520	19.3	17.0	3.5	3.5	18.2	20.8
Uni-President China	220 HK	NR	N/A	7.5	n.a.	4,163	17.8	15.6	1.9	1.9	10.7	12.2
Zhou Hei Ya	1458 HK	NR	N/A	4.9	n.a.	1,505	21.1	14.1	2.1	2.0	10.6	14.2
Juewei Food	603517 CH	NR	N/A	58.3	n.a.	5,641	30.3	27.3	6.0	5.2	20.2	19.2
Kweichow Moutai	600519 CH	NR	N/A	1,912.	n.a.	378,357	45.9	38.9	12.5	10.6	28.5	28.4
Wuliangye	000858 CH	NR	N/A	210.8	n.a.	128,896	34.2	28.8	8.1	6.9	24.7	25.1
WH Group	288 HK	NR	N/A	5.0	n.a.	8,168	7.9	6.5	0.9	0.8	10.9	12.9
Foshan Haitian	603288 CH	NR	N/A	104.0	n.a.	68,994	65.2	54.9	17.3	14.4	28.9	28.7
Proya Cosmetics	603605 CH	NR	N/A	178.2	n.a.	5,641	60.5	47.9	12.6	10.4	21.3	22.4
Smooore	6969 HK	Buy	43.0	36.0	19.4	27,771	35.7	27.6	12.3	9.7	40.4	41.4
RELX Tech - ADR	RLX US	Buy	4.3	3.6	17.3	5,702	15.9	14.4	9.8	6.0	56.6	38.7

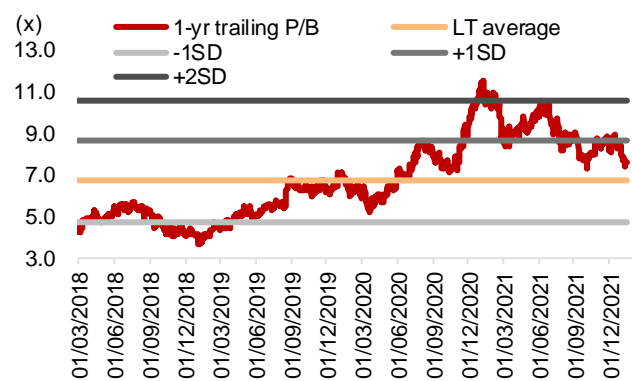
Source: Bloomberg, CMBIS

Figure 7: CRB - 12M forward EV/EBITDA



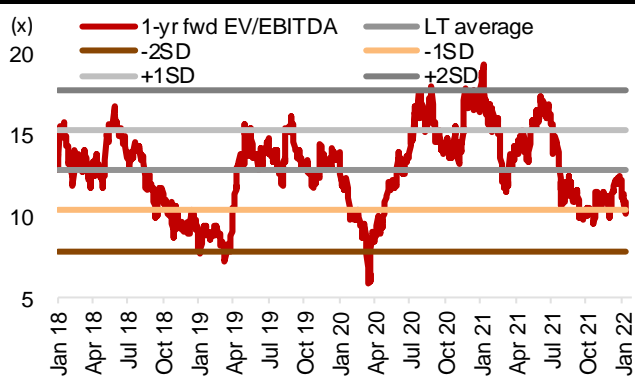
Source: Bloomberg, CMBIS

Figure 8: CRB - trailing P/B band



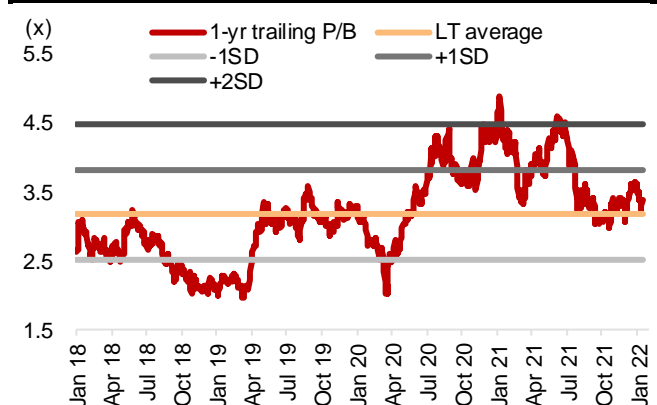
Source: Bloomberg, CMBIS

Figure 9: Tsingtao - 12M forward EV/EBITDA



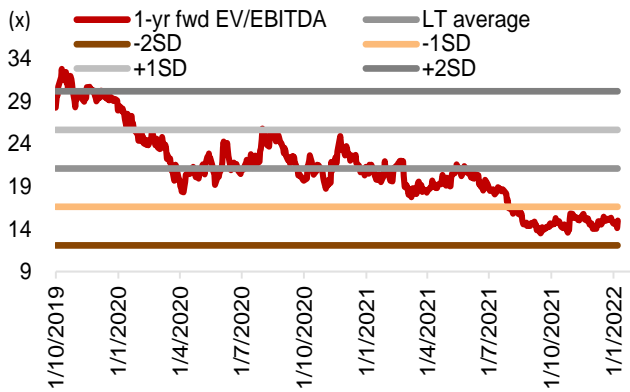
Source: Bloomberg, CMBIS

Figure 10: Tsingtao - trailing P/B band



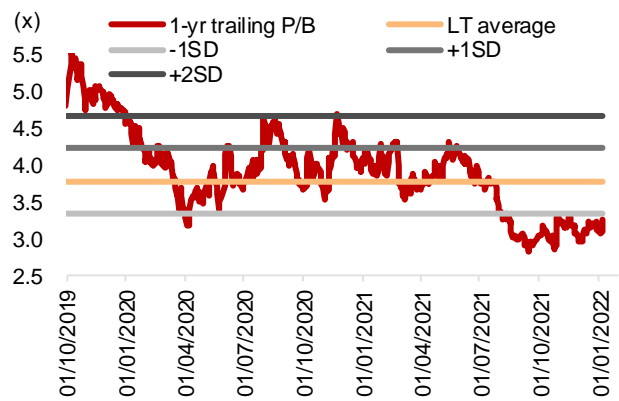
Source: Bloomberg, CMBIS

**Figure 11: Budweiser - 12M forward EV/EBITDA**



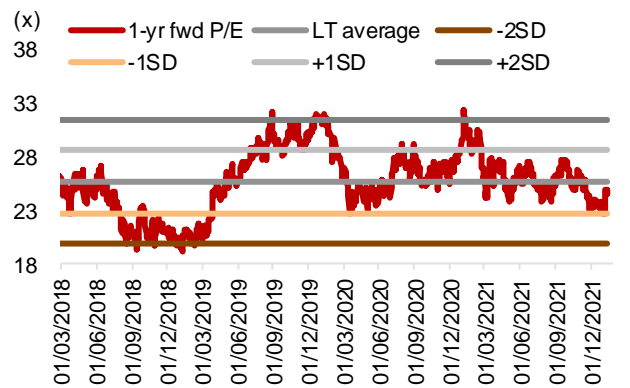
Source: Bloomberg, CMBIS

**Figure 12: Budweiser - trailing P/B band**



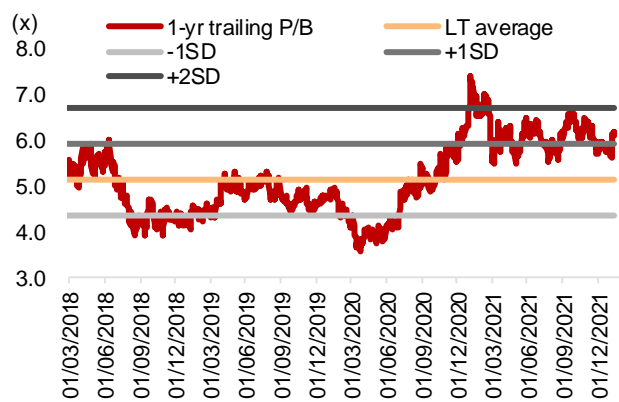
Source: Bloomberg, CMBIS

**Figure 13: Mengniu - 12M forward P/E band**



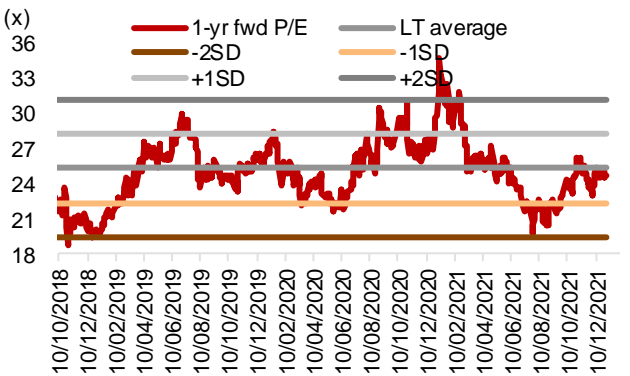
Source: Bloomberg, CMBIS

**Figure 14: Mengniu - trailing P/B band**



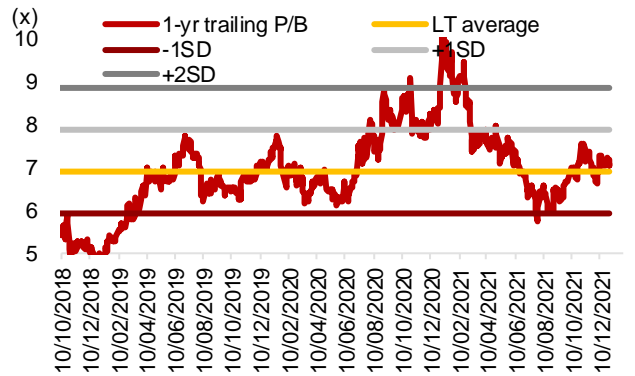
Source: Bloomberg, CMBIS

**Figure 15: Yili - 12M forward P/E band**



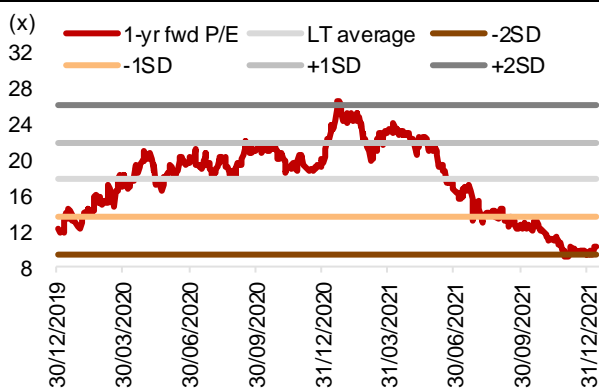
Source: Bloomberg, CMBIS

**Figure 16: Yili - trailing P/B band**



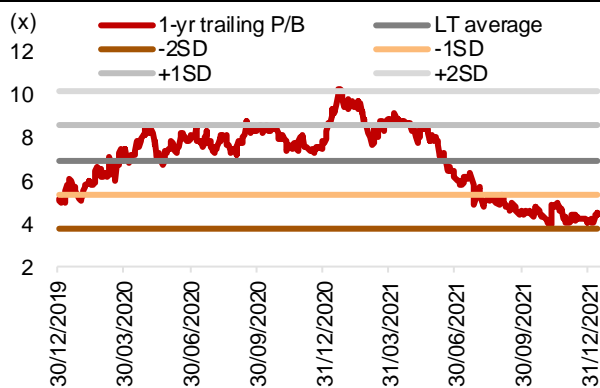
Source: Bloomberg, CMBIS

**Figure 17: Feihe - 12M forward P/E band**



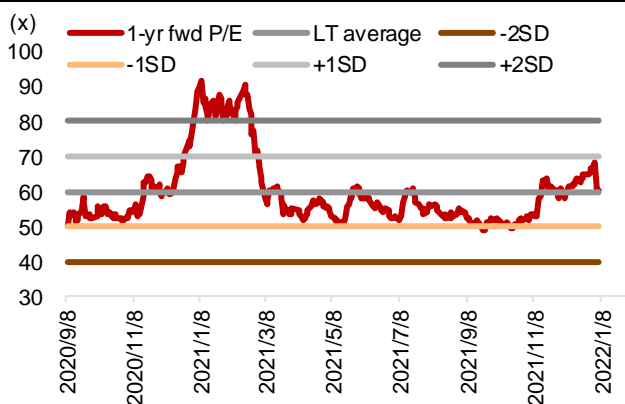
Source: Bloomberg, CMBIS

**Figure 18: Feihe - trailing P/B band**



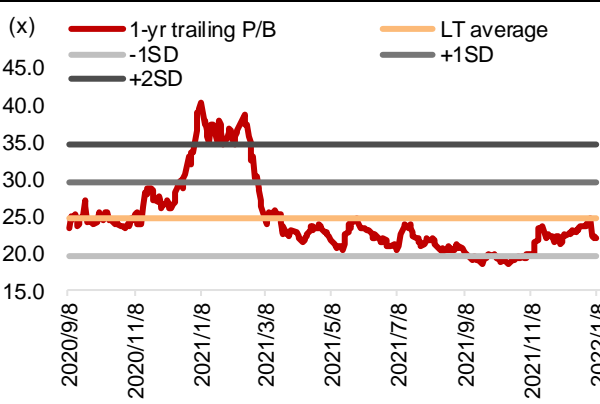
Source: Bloomberg, CMBIS

**Figure 19: Nongfu - 12M forward P/E band**



Source: Bloomberg, CMBIS

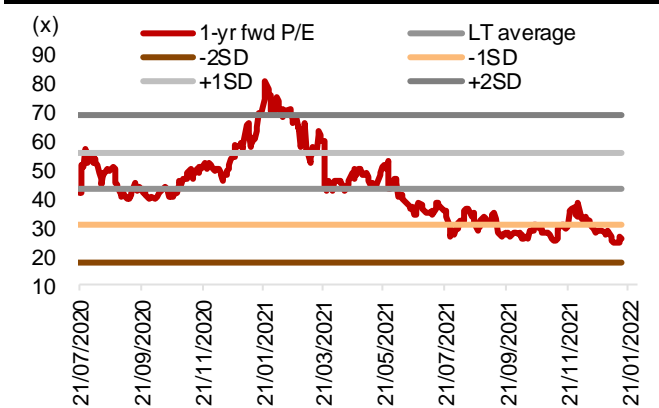
**Figure 20: Nongfu - trailing P/B band**



Source: Bloomberg, CMBIS

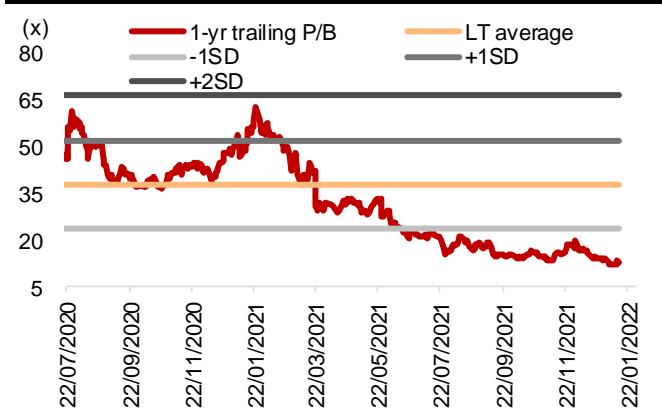


**Figure 21: Smoore - 12M forward P/E band**



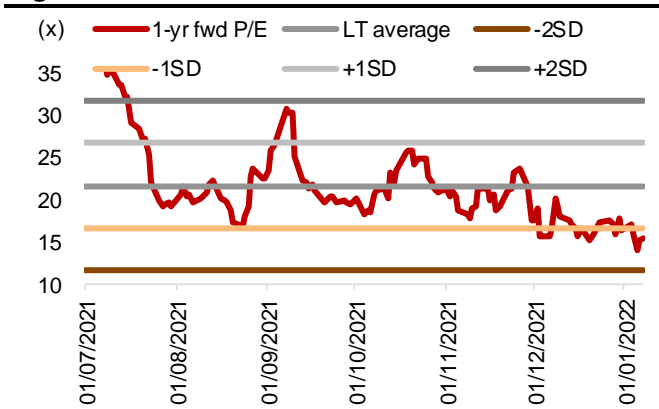
Source: Company data, CMBIS

**Figure 22: Smoore - trailing P/B band**



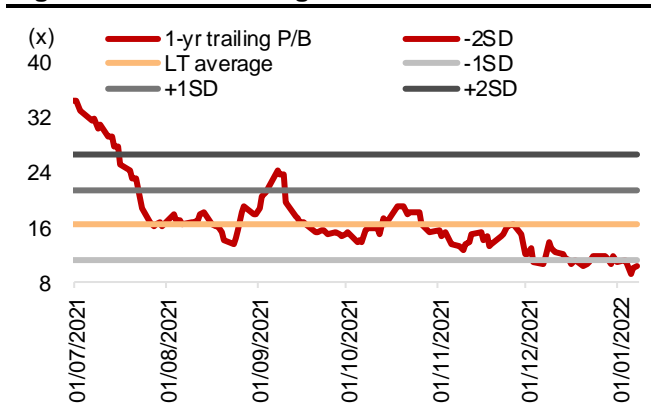
Source: Company data, CMBIS

**Figure 23: RLX - 12M forward P/E band**



Source: Company data, CMBIS

**Figure 24: RLX - trailing P/B band**



Source: Company data, CMBIS

## Price hikes catalyse near term positive stock returns

We recommend investors to accumulate F&B names which offer price hike potential at any share price correction. In our view, breweries are likely to revise their pricing strategies in 2Q, ahead of the peak season in summer while dairies premiumize their products mainly through mix upgrade and hence impact is more gradual.

Our analysis of stock price data in 2007-2021 suggests that price hike is likely to be a meaningful catalyst for short-term stock rally. Based on our sample, for historical waves (2007-2019) of price hike, the odds to achieve a positive return, if holding the stock from 30 days prior to 30 days after the day when a price hike goes live, was 72.5%, and 55% for obtaining >5% return and 30% for >10% return. This confirms our belief that investors do not only price-in ahead the event, but also react on the positive earnings impact brought by a higher margin.

Figure 25: Price hike and stock returns, 2007-2019

Company	Sector	Period	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return +90D	Stock return +180D	Stock return +360D	Stock return +720D	Stock return +1080D
Cheng De LoLo	Soft drink	4Q2007	-13.3%	-18.1%	9.3%	-1.6%	-7.6%	14.6%	10.6%	-11.0%	-39.7%	-24.3%	95.0%
Tsingtao Beer	Brewery	Jan 2008	2.9%	1.7%	2.1%	38.3%	5.5%	-9.8%	-15.2%	-37.3%	-37.5%	59.3%	69.5%
Yanjing Beer	Brewery	1Q2008	60.9%	43.1%	14.0%	20.1%	-4.8%	4.9%	-20.9%	-19.6%	-35.6%	-11.6%	-8.4%
Cheng De LoLo	Soft drink	Oct 2010	29.3%	19.1%	12.8%	1.5%	-11.7%	-9.7%	-26.4%	-30.3%	-43.5%	-33.7%	8.8%
Hengshun Vinegar	Condiments	Dec 2010	17.5%	19.4%	-1.6%	-5.3%	-9.2%	-20.8%	-14.6%	-28.5%	-40.8%	-25.2%	49.9%
Tsingtao Beer	Brewery	1Q2011	-0.9%	-4.6%	0.9%	0.1%	-12.0%	-9.2%	-9.2%	11.0%	7.7%	12.9%	63.1%
Fuling Zhacai	Condiments	1Q2011	n.a.	-10.0%	-4.2%	-1.5%	-13.5%	-9.4%	-15.7%	-26.9%	-47.0%	-18.4%	43.2%
Yanjing Beer	Brewery	Jan 2011	-1.2%	1.9%	-3.6%	-5.3%	-1.3%	1.4%	0.7%	-5.2%	-29.3%	-40.2%	-10.9%
Tsingtao Beer	Brewery	Apr 2011	3.2%	0.0%	-4.2%	9.9%	11.6%	23.8%	22.3%	14.2%	19.5%	31.4%	58.4%
Bright Dairy	Dairy	Dec 2011	15.5%	6.3%	-0.1%	-4.9%	-5.3%	-13.2%	-5.9%	7.9%	-4.9%	152.7%	80.6%
Bright Dairy	Dairy	Jan 2013	9.0%	13.6%	8.0%	-1.5%	1.7%	32.3%	46.5%	39.0%	122.5%	73.9%	62.5%
Sanyuan	Dairy	Feb 2013	22.0%	-10.1%	0.7%	1.9%	1.3%	-0.3%	-12.6%	3.0%	21.5%	45.1%	22.7%
Yili	Dairy	Apr 2013	23.2%	14.9%	-2.4%	-2.2%	-7.4%	-10.6%	0.1%	41.1%	12.8%	44.8%	39.6%
Mengniu	Dairy	Apr 2013	-1.5%	2.5%	6.2%	-3.8%	-2.9%	21.3%	25.3%	60.1%	76.8%	64.8%	-0.9%
Jonjee	Condiments	Jul 2013	20.5%	-6.0%	9.9%	4.8%	7.4%	15.3%	37.2%	51.9%	43.3%	201.8%	66.1%
Mengniu	Dairy	Sep 2013	18.0%	1.1%	6.0%	-1.1%	5.9%	4.0%	8.1%	21.3%	16.6%	-3.7%	-16.4%
Yili	Dairy	Sep 2013	-1.6%	-2.9%	1.1%	13.4%	27.8%	17.7%	16.5%	0.5%	14.3%	45.1%	71.7%
Yili	Dairy	Dec 2013	-8.9%	3.1%	3.6%	-3.3%	-4.0%	-12.9%	-13.8%	-16.6%	-5.8%	19.9%	42.3%
Sanyuan	Dairy	Dec 2013	-5.2%	0.8%	-3.9%	-4.5%	-4.3%	-15.7%	-7.3%	-17.2%	5.5%	-14.5%	0.1%
Bright Dairy	Dairy	Dec 2013	-3.3%	6.4%	0.3%	-1.7%	-2.6%	-22.2%	-22.7%	-22.6%	-29.1%	-26.4%	-36.1%
Hengshun Vinegar	Condiments	Jan 2014	9.1%	2.3%	6.3%	4.0%	27.4%	9.0%	0.3%	-9.6%	10.6%	49.2%	38.1%
Haitian Flavoring	Condiments	Nov 2014	-2.2%	1.0%	3.8%	-0.6%	6.5%	5.3%	20.1%	59.6%	65.8%	52.6%	142.5%
Jonjee	Condiments	Dec 2014	-2.5%	5.5%	6.5%	-4.3%	-3.2%	13.2%	23.5%	102.7%	48.1%	57.2%	127.7%
Hengshun Vinegar	Condiments	Jun 2016	2.6%	4.4%	1.9%	4.5%	10.6%	8.1%	2.3%	5.0%	-8.3%	21.6%	79.0%
Fuling Zhacai	Condiments	Jul 2016	10.8%	10.8%	5.4%	5.0%	7.7%	13.4%	12.9%	14.1%	43.5%	218.9%	257.8%
Haitian Flavoring	Condiments	Jan 2017	-7.1%	-6.8%	0.9%	0.9%	6.4%	4.6%	18.7%	41.7%	83.4%	130.7%	282.9%
Yantang	Dairy	Jan 2017	-32.3%	-20.4%	-5.0%	1.3%	0.6%	4.0%	-9.2%	-23.2%	-19.7%	-51.1%	-33.3%
Fuling Zhacai	Condiments	Feb 2017	4.6%	8.4%	3.6%	5.5%	6.2%	6.8%	11.0%	33.6%	71.3%	138.7%	144.1%
Jonjee	Condiments	Mar 2017	8.4%	3.6%	-2.7%	1.2%	4.7%	14.0%	7.7%	40.8%	82.9%	110.5%	155.0%
Sanyuan	Dairy	Mar 2017	7.6%	-0.2%	-1.6%	2.2%	-2.8%	-11.3%	-18.4%	-15.7%	-26.8%	-31.6%	-35.2%
Qianhe	Condiments	Apr 2017	-1.5%	1.1%	-6.4%	1.5%	7.9%	-7.5%	7.2%	31.7%	2.4%	30.1%	88.7%
Yanjing Beer	Brewery	Dec 2017	-7.1%	-4.9%	1.0%	-3.0%	12.7%	24.9%	22.9%	41.3%	-6.2%	3.5%	35.3%
CRB	Brewery	Jan 2018	26.9%	31.7%	-2.1%	8.2%	5.3%	12.3%	21.2%	36.2%	-4.3%	53.9%	141.5%
Tsingtao Beer	Brewery	Jan 2018	26.4%	27.6%	1.9%	11.8%	5.7%	6.2%	1.5%	6.7%	-19.2%	29.3%	104.8%
Chongqing Brewery	Brewery	Feb 2018	21.2%	10.6%	3.4%	-12.2%	-6.0%	-6.5%	5.2%	35.2%	36.6%	123.5%	480.5%
Yanjing Beer	Brewery	Mar 2018	4.8%	10.1%	2.1%	-7.8%	4.3%	6.9%	5.8%	-19.9%	-15.4%	-18.1%	-8.2%
Zhujiang Brewery	Brewery	Apr 2018	-3.5%	8.0%	10.3%	-0.7%	-1.3%	42.5%	1.3%	-7.4%	27.7%	23.1%	84.6%
Tsingtao Beer	Brewery	May 2018	17.5%	13.6%	3.4%	2.1%	-4.4%	-7.4%	-21.8%	-32.2%	7.6%	8.8%	52.7%
Fuling Zhacai	Condiments	Oct 2018	-25.0%	-26.9%	-21.1%	14.9%	12.4%	13.4%	18.4%	45.1%	25.5%	159.2%	74.7%
Hengshun Vinegar	Condiments	Jan 2019	5.6%	8.1%	-0.4%	2.9%	8.0%	18.4%	32.7%	77.1%	41.8%	184.3%	95.7%

Source: Company data, CMBIS

**Figure 26: Odds of positive returns upon price hike, 2007-2019**

2007-2019	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return -30D to +30D
Odds of +ve return	59.0%	71.8%	65.0%	55.0%	55.0%	62.5%	72.5%
Odds of -ve return	41.0%	28.2%	35.0%	45.0%	45.0%	37.5%	27.5%
Odds of >+5% return	46.2%	43.6%	27.5%	22.5%	42.5%	50.0%	55.0%
Odds of >+10% return	33.3%	28.2%	7.5%	12.5%	15.0%	35.0%	30.0%
Odds of >+15% return	30.8%	12.8%	0.0%	5.0%	5.0%	20.0%	25.0%
Odds of >+20% return	20.5%	7.7%	0.0%	5.0%	5.0%	12.5%	12.5%

Source: Company data, CMBIS

To further substantiate our findings, we also look into the recent wave of price hike that took place over mainly over 2H21. We calculate the odds to obtain positive return in the 30-day period prior to the event was 66.7%, compared to 52.2% in the 30-day period post event, and the odds to obtain >5%/>10% returns were 63%/40.7% ahead of the event, notably higher than 34.8%/26.1% post event. While there could be subsequent rounds of price increases by sector leaders in brewery and dairy in 2022E, in our view, it could become the catalyst for further rounds of stock rallies.

**Figure 27: Price hike and stock returns, 2020 - 2021**

Company	Sector	Period	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return +90D	Stock return +180D	Stock return +360D	Stock return +720D	Stock return +1080D
Yili	Dairy	Dec 2020	5.4%	9.3%	2.2%	21.6%	5.2%	3.2%	-3.5%	-8.8%	3.3%	n.a.	n.a.
Mengniu	Dairy	Dec 2020	28.3%	19.3%	5.2%	11.2%	-1.1%	-9.3%	-4.1%	2.1%	-3.7%	n.a.	n.a.
Budweiser	Brewery	May 2021	-10.0%	0.2%	0.2%	6.2%	4.7%	13.3%	5.3%	-16.5%	n.a.	n.a.	n.a.
Jonjee	Condiments	May 2021	-8.7%	-17.5%	-5.1%	8.0%	10.4%	-6.2%	-17.3%	-17.5%	n.a.	n.a.	n.a.
Tsingtao Beer	Brewery	Aug 2021	-24.0%	-24.5%	-13.4%	2.0%	3.9%	-0.5%	10.4%	n.a.	n.a.	n.a.	n.a.
CRB	Brewery	Sep 2021	-2.7%	11.9%	2.8%	-3.4%	-11.5%	-0.8%	-1.8%	n.a.	n.a.	n.a.	n.a.
Angel Yeast	Condiments	Sep 2021	-0.9%	13.7%	10.0%	8.3%	20.1%	15.7%	31.4%	n.a.	n.a.	n.a.	n.a.
Teway Food	Condiments	Oct 2021	-16.2%	5.4%	-0.8%	1.9%	18.8%	15.3%	n.a.	n.a.	n.a.	n.a.	n.a.
Haitian Flavoring	Condiments	Oct 2021	-1.5%	25.6%	3.6%	1.6%	3.4%	0.9%	n.a.	n.a.	n.a.	n.a.	n.a.
Chacha Food	Food	Oct 2021	18.3%	11.9%	7.6%	16.2%	12.6%	24.0%	n.a.	n.a.	n.a.	n.a.	n.a.
Chongqing Brewery	Brewery	Oct 2021	8.4%	14.8%	17.2%	5.8%	-0.6%	5.6%	n.a.	n.a.	n.a.	n.a.	n.a.
Ligao Foods	Food	Oct 2021	16.6%	-3.0%	7.1%	-1.6%	-3.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Anjoy Foods	Food	Nov 2021	17.2%	-5.0%	-1.3%	3.5%	-6.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Angel Yeast	Condiments	Nov 2021	29.2%	15.0%	15.0%	-3.2%	-3.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Haixin Foods	Food	Nov 2021	10.7%	10.5%	11.6%	0.7%	-1.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hengshun Vinegar	Condiments	Nov 2021	21.8%	12.7%	12.0%	-6.2%	-12.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Snowsky Salt	Condiments	Nov 2021	-14.9%	-5.0%	9.3%	1.5%	6.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jiajia Food	Condiments	Nov 2021	10.3%	8.1%	19.3%	2.4%	12.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fuling Zhacai	Condiments	Nov 2021	19.4%	-0.5%	-5.5%	0.2%	12.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yili	Dairy	Nov 2021	18.0%	7.3%	-0.1%	-0.5%	-3.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qianhe	Condiments	Nov 2021	56.9%	28.9%	9.5%	-7.7%	-9.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sanquan Food	Food	Nov 2021	33.7%	21.7%	4.8%	-9.9%	-7.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Budweiser	Brewery	Nov 2021	8.2%	5.1%	-1.0%	-3.1%	2.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jonjee	Condiments	Nov 2021	3.2%	-9.6%	-5.8%	4.5%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jianweiyangchu Foc	Food	Nov 2021	10.5%	-4.0%	2.1%	1.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mengniu	Dairy	Dec 2021	-11.4%	-8.8%	-0.4%	2.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Want Want	Food	Dec 2021	15.1%	5.8%	2.0%	5.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

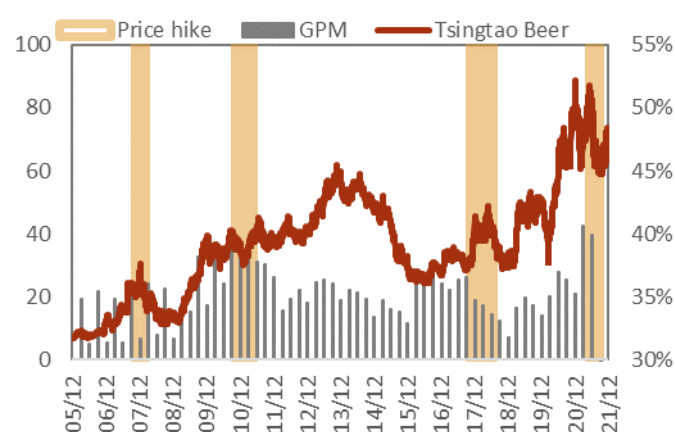
Source: Company data, CMBIS

**Figure 28: Odds of positive returns upon price hike, 2020-present**

2020-Dec 2021	Stock return -60D	Stock return -30D	Stock return -7D	Stock return +7D	Stock return +30D	Stock return +60D	Stock return -30D to +30D
Odds of +ve return	66.7%	66.7%	66.7%	70.4%	52.2%	63.6%	73.9%
Odds of -ve return	33.3%	33.3%	33.3%	29.6%	47.8%	36.4%	26.1%
Odds of >+5% return	63.0%	63.0%	40.7%	29.6%	34.8%	45.5%	60.9%
Odds of >+10% return	51.9%	40.7%	18.5%	11.1%	26.1%	36.4%	52.2%
Odds of >+15% return	40.7%	18.5%	7.4%	7.4%	8.7%	27.3%	30.4%
Odds of >+20% return	18.5%	11.1%	0.0%	3.7%	4.3%	9.1%	21.7%

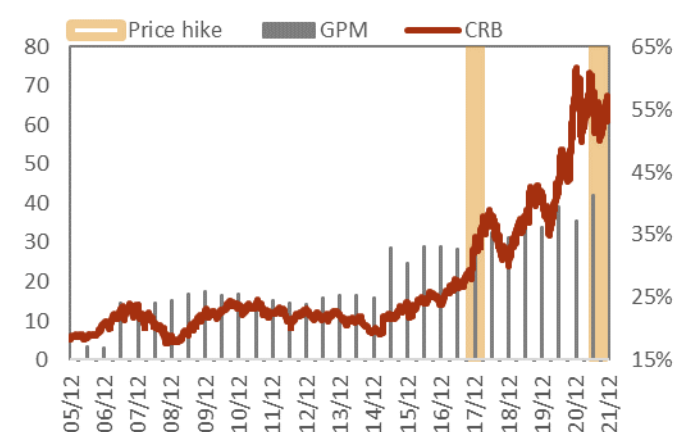
Source: Company data, CMBIS

**Figure 29: Stock price and GPM – TB**



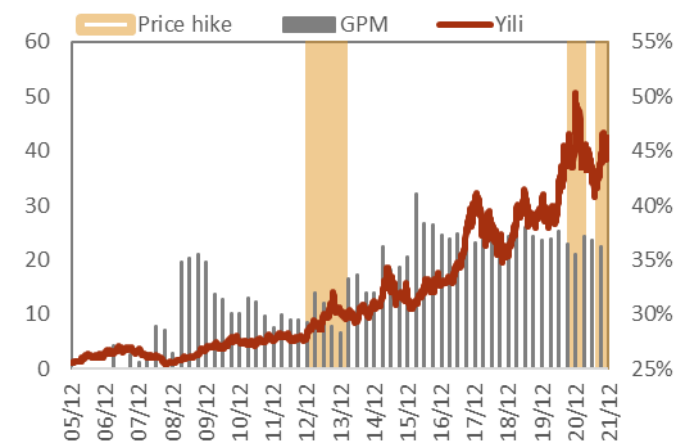
Source: Company data, CMBIS. Note: stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

**Figure 30: Stock price and GPM – CRB**



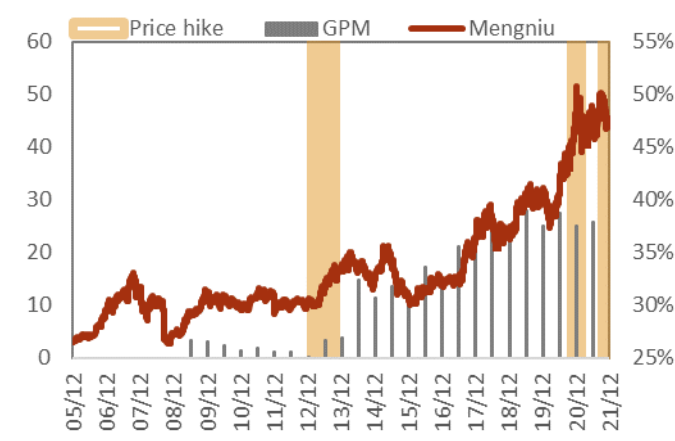
Source: Company data, CMBIS. Note: stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

**Figure 31: Stock price and GPM – Yili**



Source: Company data, CMBIS.  
Note: Stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

**Figure 32: Stock price and GPM – Mengniu**



Source: Company data, CMBIS.  
Note: Stock price re-based with 1<sup>st</sup> Jan 2006 as inception data

## Meanwhile, 4Q earnings risks look well-contained

### We only trim 2-5% of our 2021/22E earnings for breweries and dairies

Our takeaways from recent NDRs with the companies we cover were largely constructive. Most of the companies that we talked to guide for a relatively stable 4Q with stable sales at disciplined promotional efforts. For instance, breweries like CRB and Budweiser look for a flattish to a small decline in volume that is set to be mitigated by positive price momentum, while dairies like Mengniu and Yili maintain their earlier 2H21 EBIT target that more or less benchmarks to those of 2H19.

**Figure 33: Summary of major assumptions/ management guidance for 4Q21 and 2022E**

Company	2H21/2021 guidance/estimates		2022 outlook
CRB	Volume/ Topline	2H21: mid-to-high single digit decline; 2021E: flat to LSD decline mainly due to a decline in mass-market volume; Premium/ sub-premium: 30%+ growth.	Volume: LSD growth YoY, driven by a ~20% sub-premium+ volume growth;  ASP: likely faster growth YoY, with price hike from both mass and sub-premium+ SKUs;  GPM: we estimate a 1.5pp improvement per annum between 2021-23E
	ASP	2H21: LSD increase; effect of the price hike of Snow Brave the World initiated in Sep 2021 will likely be reflected in the high season in 2022.	
	GPM	2021E: improvement; but with a smaller magnitude vs. 1H21	
	EBIT margins	2021E: selling expense ratio likely to increase by <3%; recurring EBIT margins 20%+	
Budweiser	Volume/ Topline	4Q21E topline down 1% y-y.	Volume: APAC East volume back to 2019 level, implying ~3% growth y-y.  ASP: +5%.  EBITDA margin: +0.5ppt, driven by reopening progress of other APAC countries and premiumization in China.
	ASP	n.a	
	GPM	n.a	
	OPM/ EBIT margins	2021E: better EBIT margin and NPM y-y.	
Mengniu	Volume/ Topline	2H21E: topline +8.5%, with ~8% growth in liquid milk.	Top line: low-to-mid teen growth, driven by low-teen growth in liquid milk, high-teen growth in milk formula and high-teen growth in ice cream revenue.  COCS: stable raw milk price expected over 2022E thanks to an increased supply.  Selective price hikes on Jan 2022
	ASP	Initiated price hikes for selective SKUs by MSD over 2H21	
	GPM	2H21E: ~36%, as raw milk price hike expected to taper from 17% y-y in 1H to LSD/MSD in 2H21E.	
	OPM	2H21E: 5.4% recurring OPM, due to lower opex ratio; EBIT benchmarks to 2H19 level	
Feihe	Volume/ Topline	2021E: ~Rmb23bn total sales, 30% market share by 2023E; Rmb2bn infant formula revenue	n.a
	ASP	n.a	
	GPM	2H21E: lower h-h; long term target: 68-70%.	
	OPM/ NPM	2021E: higher selling expense ratio, lower EBIT margin, ~30% NPM.	
Nongfu Spring	Volume/ Topline	2H21E: low-teen topline growth	GPM likely to see pressure vs 2021 as the company expects a higher raw material price in 2022, including PET, sugar, and pulp. 2022 GPM could benchmarks to that of 2019  Long term NPM target at 20%+
	ASP	Raised price for selective large-sized water SKU	
	GPM	2H21E: lower h-h 2021E: stable y-y	
	NPM	Maintain at 20%+	
Smooore	Volume/ Topline	~40% growth for 2021 topline	n.a
	ASP	n.a	
	GPM	n.a	
	OPM	n.a	
RELX	Volume/ Topline	4Q top line to exhibit low-teen growth from that of 3Q	n.a
	ASP	n.a	
	GPM	n.a	
	OPM	n.a	

Source: Company data, CMBIS

In anticipation of a solid earnings quarter, we only fine-tune our earnings forecasts for the above 4 companies. In contrast, while it is prohibitive to launch new product and open new shops before the enforcement of the new tobacco law in China, we cut 2-26% of our 2021/22E net profits for Smoore and RELX. We also reduce our 2021E earnings assumptions for Feihe upon transfer of coverage.

**Figure 34: Earnings revision summary**

Local curr (mn)	Ticker	Revenue						Net income					
		New		Old		Diff (%)		New		Old		Diff (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CRB	291 HK	33,092	35,216	33,393	35,852	-0.9%	-1.8%	4,406	4,337	4,431	4,588	-0.6%	-5.5%
TB	168 HK	n.a.	n.a.	30,129	32,943	n.a.	n.a.	n.a.	n.a.	2,735	3,304	n.a.	n.a.
Budweiser	1876 HK	6,577	7,241	n.a.	n.a.	n.a.	n.a.	860	989	n.a.	n.a.	n.a.	n.a.
Mengniu	2319 HK	87,352	98,165	88,152	99,327	-0.9%	-1.2%	4,876	6,119	4,919	6,270	-0.9%	-2.4%
Yili	600887CH	n.a.	n.a.	111,354	122,964	n.a.	n.a.	9,048	11,148	9,039	11,188	0.1%	-0.4%
Feihe	6186 HK	23,486	27,760	23,941	29,459	-1.9%	-5.8%	7,087	8,113	7,692	9,444	-7.9%	-14.1%
Nongfu	9633 HK	27,956	32,912	n.a.	n.a.	n.a.	n.a.	6,526	7,093	n.a.	n.a.	n.a.	n.a.
Smoore	6969 HK	13,982	18,264	14,445	20,295	-3.2%	-10.0%	5,339	6,914	5,479	7,795	-2.6%	-11.3%
RELX	RLX US	8,465	9,650	8,886	15,421	-4.7%	-37.4%	2,151	2,379	2,401	3,216	-10.4%	-26.0%

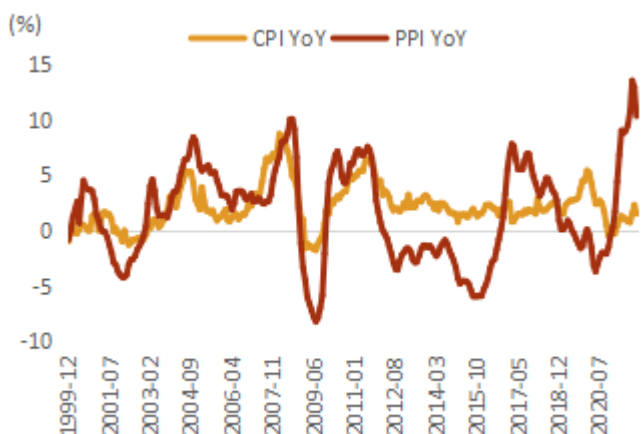
Note: Our RELX net income estimate is non-GAAP

Source: Company data, CMBIS

## A converging PPI-CPI gap signals input costs to peak out, while food prices are also on the rise

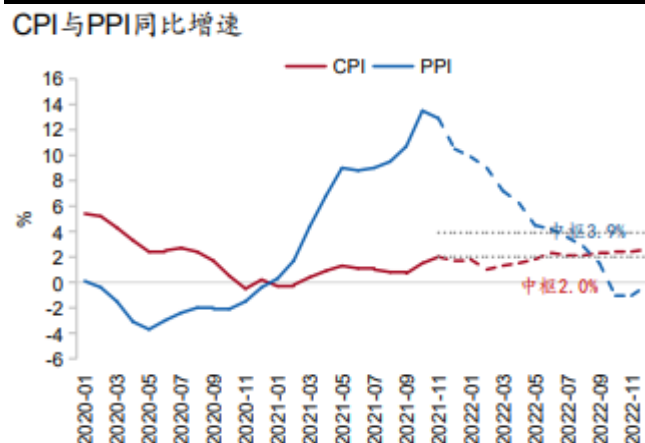
China's PPI has kept soaring since June 2020 to 13.5%/12.9% in Oct/Nov 2021, while the growth in CPI was much softer (Oct/Nov 2021: 1.5%/2.3%). The divergence has led to a widening gap between the two that set to reach its record high of 12% in Oct 2021. It is, however, our Chief Economist Ding Anhua thinks the gap would narrow in 2022E. He forecasts PPI inflation to gradually fall to ~3.9%, on a high base and with marginal fall of international commodity prices, while CPI inflation to re-pick up to ~2%, on stabilizing pork price into 2022E.

**Figure 35: The narrowing China PPI and CPI gap**



Source: Wind, CMBIS

**Figure 36: CPI and PPI forecast**

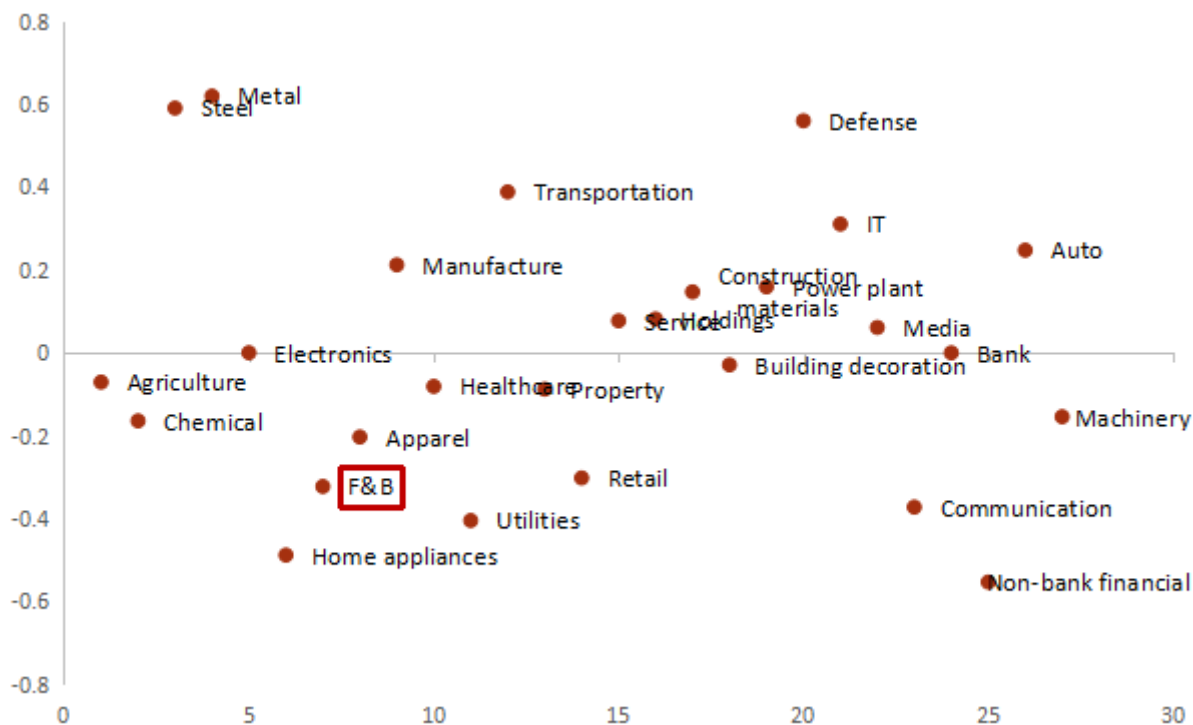


Source: Macrobond, China Merchants Bank Research Institute, CMBIS

### A falling PPI historically associates with better margins for some sectors

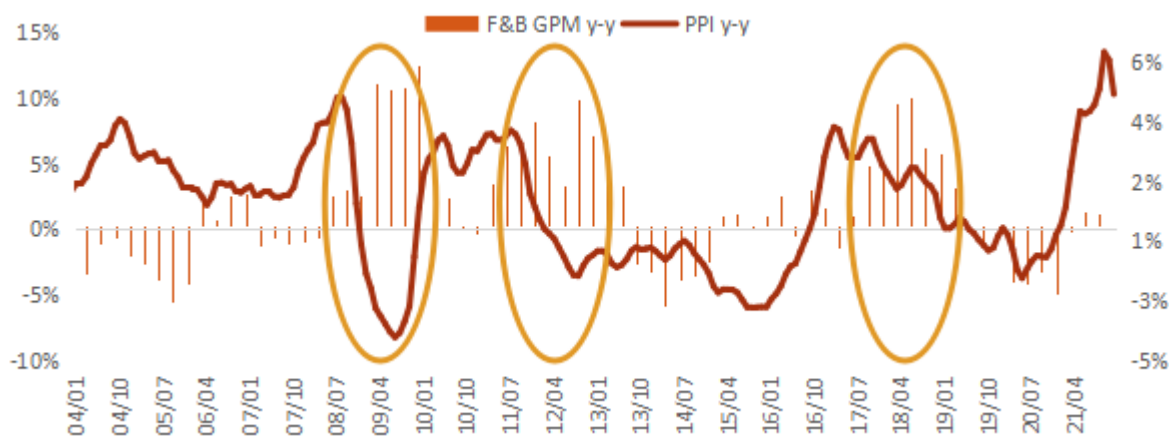
There have been 3 waves (excluding the current one) of PPI inflation in China since 2000. During which, F&B sector has witnessed a period lasting 4-8 quarters of GPM improvement once PPI inflation turned to its down-cycle. Based on data between 2003-3Q21, F&B is one of sectors of which GPM is relatively sensitive to a falling PPI. The sector offers a correlation of -0.32, which is behind those of non-bank financial, home appliances, utilities, and communication sectors.

**Figure 37: Correlation between PPI and GPM among sectors**



Source: Wind, CMBIS

**Figure 38: GPM expands with a falling PPI**

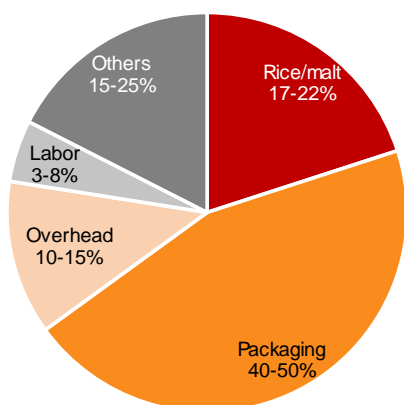


Source: Wind, CMBIS

Operationally, the negative correlation was explained by a high representation of raw material costs to COGS. Surveying data of the last 4 years, barley and rice accounted for 17-22% of COGS for breweries, while raw milk accounted for 45-50% of COGS for dairy player. Of note, breweries also bear a high packaging cost from glass and aluminum that contributed to 40-50% of their COGS. Naturally, peaking, or retreating commodity prices should relieve the input cost pressure for F&B companies.

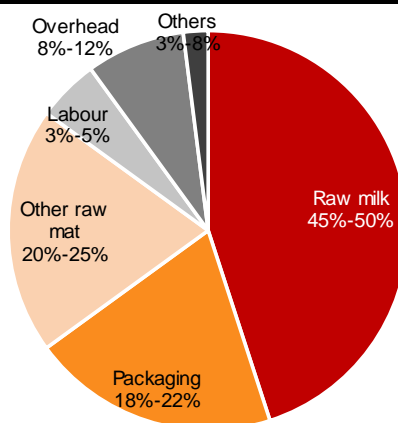


**Figure 39: COGS breakdown - beer producers**



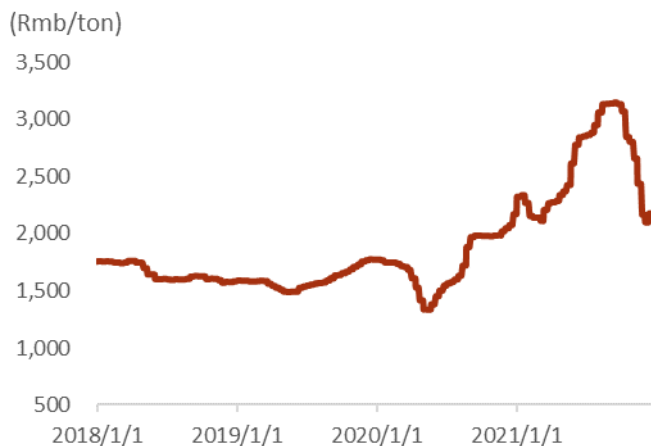
Source: Company data, CMBIS estimates

**Figure 40: COGS breakdown – dairy producers**



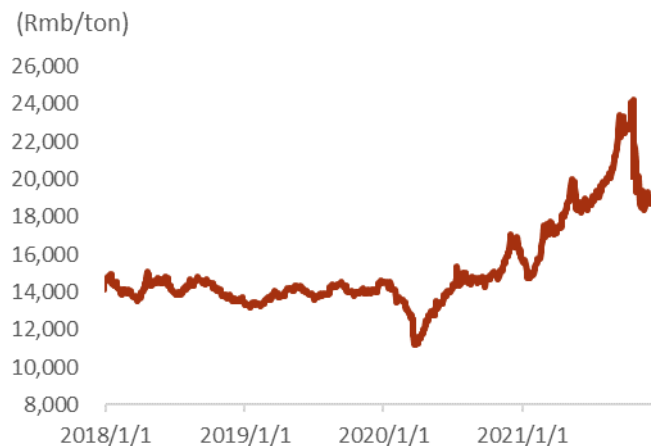
Source: Company data, CMBIS estimates

**Figure 41: China market price of float flat glass**



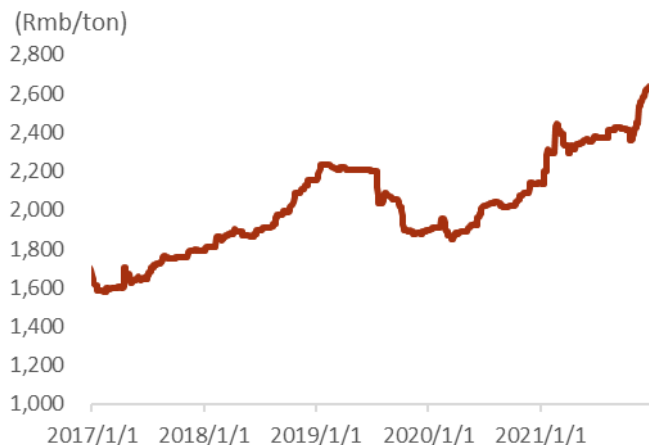
Source: Bloomberg, CMBIS

**Figure 42: China aluminium spot price**



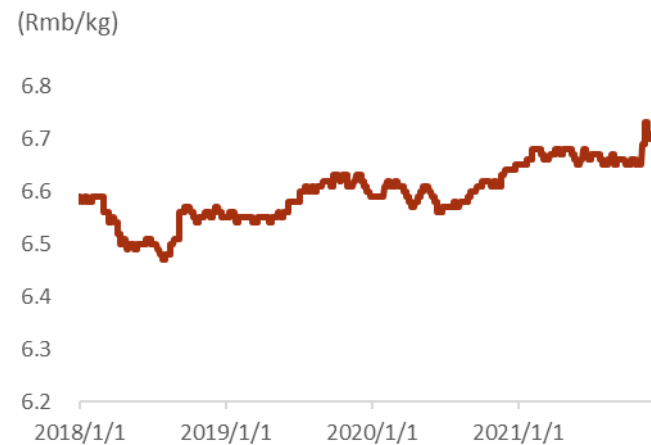
Source: Bloomberg, CMBIS

**Figure 43: China average barley price**



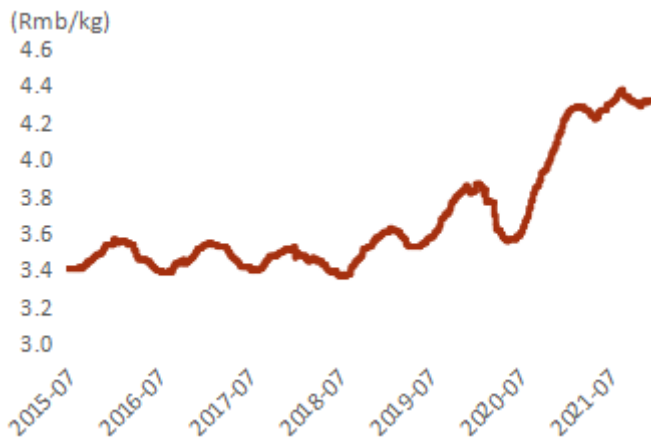
Source: Bloomberg, CMBIS

**Figure 44: China wholesale price of rice**



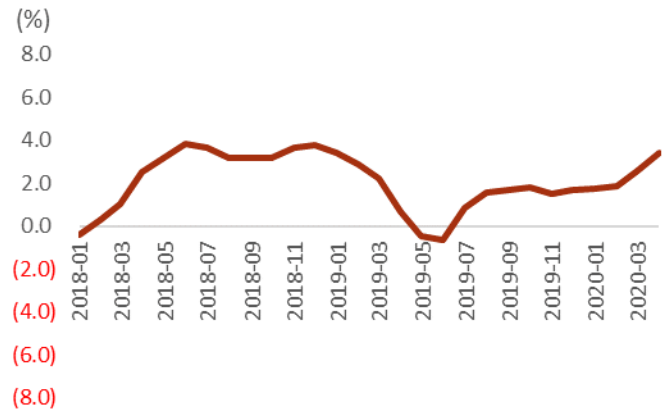
Source: Bloomberg, CMBIS

Figure 45: China raw milk price



Source: Wind, CMBIS

Figure 46: China feed price index growth YoY



Source: Wind, CMBIS

### A 10% decrease in input cost would boost GPM by 1.4% on average

We have conducted a sensitivity analysis on how GPM will change with respect to the change in varied input costs. Tsingtao, CRB and Nongfu Spring would be the major beneficiaries from a fall in packaging cost, while Mengniu, Feihe and CRB would benefit the most from a fall in agricultural raw mat cost.

Figure 47: Sensitivity analysis to gross margins on decrease in input cost

(RMB mn)	Assumed % change	CRB	Tsingtao	Budweiser (USD mn)	Mengniu	Yili	Feihe	Nongfu	RLX
Revenue (2021E)		33,092	30,129	6,577	87,352	111,150	23,486	27,956	8,465
Agricultural raw mat cost		(3,694)	(2,922)	(540)	(23,562)	(7,346)	(5,504)	(1,480)	-
Packaging cost		(7,986)	(8,925)	(1,209)	(8,675)	(12,823)	(1,121)	(6,832)	(297)
Gross profit		13,126	12,607	3,545	32,495	39,487	17,116	16,569	3,725
GPM		39.7%	41.8%	53.9%	37.2%	35.5%	72.9%	59.3%	44.0%
Packaging cost change	-10%	799	893	121	868	1,282	112	683	30
<b>GPM impact</b>		<b>2.4%</b>	<b>3.0%</b>	<b>1.8%</b>	<b>1.0%</b>	<b>1.2%</b>	<b>0.5%</b>	<b>2.4%</b>	<b>0.4%</b>
<b>Scenario 2</b>									
Agricultural raw mat cost char	-10%	369	292	54	2,356	735	550	148	-
<b>GPM impact</b>		<b>1.1%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>2.7%</b>	<b>0.7%</b>	<b>2.3%</b>	<b>0.5%</b>	<b>0.0%</b>

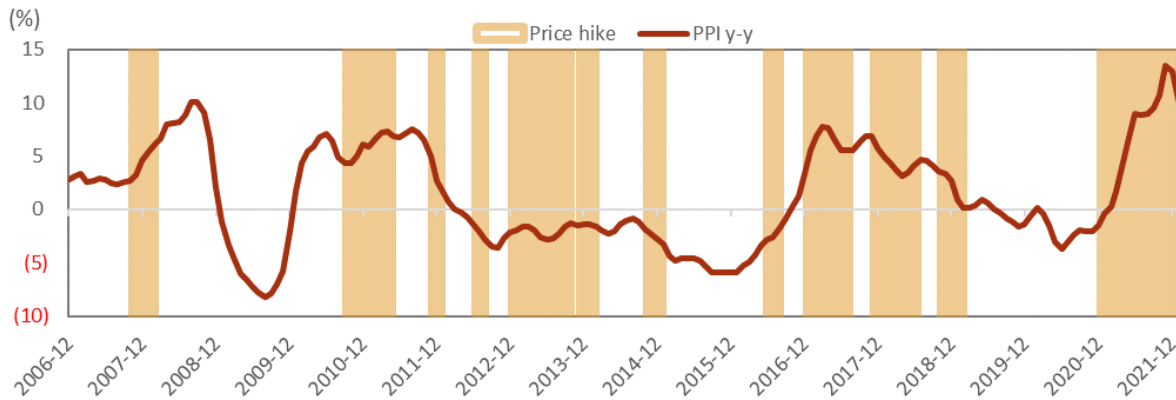
Source: Company data, CMBIS

## Price hike – the margins booster

### A high PPI typically drives price hike in the next 2 to 3 quarters

The 4 notable PPI inflations in China triggered 4 respective waves of price hikes during 2007-2008, 2H09-2011, 2016-1H17 and 2H20-present. A lesson from history revealed that leading producers normally levied multiple rounds of price increase on back of an inflated input cost that persisted for more than 2 to 3 quarters. The magnitude of the price increase ranged from 5-17% that, in our view, benchmarks to the severity and the duration of the raw material price rallies.

**Figure 48: Waves of PPI inflation were followed by price hikes initiated by F&B companies**



Source: Company data, CMBIS

**Figure 49: List of recent price hikes initiated by F&B companies**

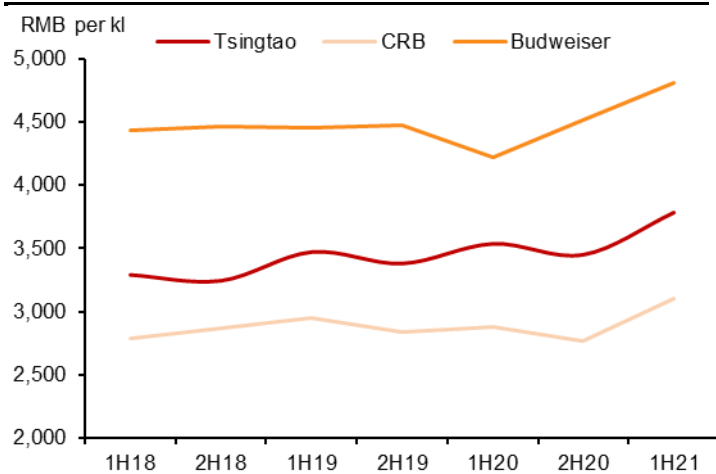
Ticker	Company	Sector	Period	Price increase
600887 CH	Yili	Dairy	Dec 2020	3%-5%
2319 HK	Mengniu	Dairy	Dec 2020	4%-5%
600872 CH	Jonjee	Condiments	May 2021	Some large-pack products for restaurant channel: +1%-5%
168 HK	Tsingtao Beer	Brewery	Aug 2021	Draft Beer: +5%
291 HK	CRB	Brewery	Sep 2021	SuperX: +10%
600298 CH	Angel Yeast	Condiments	Sep 2021	20%-30%
603317 CH	Teway Food	Condiments	Oct 2021	Price increase for 2 products in mid October 2021.
603288 CH	Haitian Flavoring	Condiments	Oct 2021	3%-7%
002557 CH	Chacha Food	Food	Oct 2021	8%-18%
600132 CH	Chongqing Brewery	Brewery	Oct 2021	4%-8%
300973 CH	Ligao Foods	Food	Oct 2021	5%
603345 CH	Anjoy Foods	Food	Nov 2021	3%-10%
600298 CH	Angel Yeast	Condiments	Nov 2021	-
002702 CH	Haixin Foods	Food	Nov 2021	3%-10%
600305 CH	Hengshun Vinegar	Condiments	Nov 2021	5%-15%
600929 CH	Snowsky Salt	Condiments	Nov 2021	Edible salt: +10% Industrial salt: 30%-50%
002650 CH	Jiajia Food	Condiments	Nov 2021	3%-7%
002507 CH	Fuling Zhacai	Condiments	Nov 2021	Some products: +3%-19%
600887 CH	Yili	Dairy	Nov 2021	Shanghai subsidiary increased the wholesale prices of some products
-	Lee Kum Kee	Condiments	Nov 2021	6%-10%
603027 CH	Qianhe	Condiments	Nov 2021	Some low/mid end products: +5%
002216 CH	Sanquan Food	Food	Nov 2021	3%-10%
1876 HK	Budweiser	Brewery	Nov 2021	-
600872 CH	Jonjee	Condiments	Nov 2021	-
001215 CH	Qianweiyangchu Food	Food	Nov 2021	2%-10%
2319 HK	Mengniu	Dairy	Dec 2021	Increased the price of some products
151 HK	Want Want	Food	Dec 2021	Increased the price of dozens of products

Source: Company data, CMBIS

**Price hike fuels margins expansion**

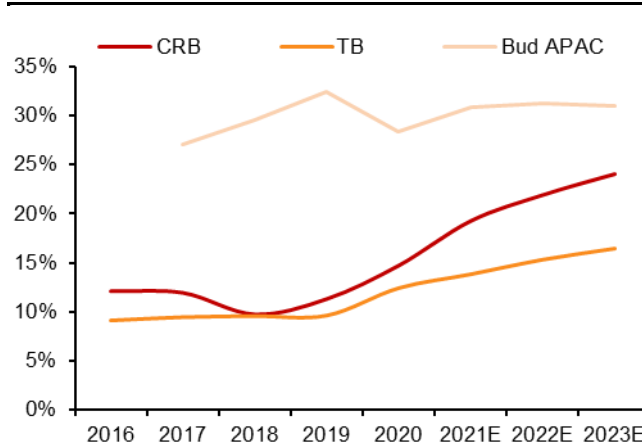
Anecdotally, price hikes lead to margins expansion with a lag of 2-4 quarters. During 2018-2019, after the price hike wave by major breweries, including CRB, TB, Chongqing Beer, Budweiser, Yanjing Beer, the sector margins turned positive in 1Q19 and went up by 0.3pp/ 0.8pp/ 0.9pp/ 1.5pp in 1Q19-4Q19. CR Beer reported positive GPM growth in 1H18 after its price increase in Jan 2018. Its GPM picked up by 2.5pp/ 1.4pp/ 1.9pp/ 1.7pp/ 2.5pp, respectively, in 1H18-2H19. CR Beer's EBITDA margin kept improving from 10% in 2018 to 15% in 2020. TB's GPM growth turned positive since 2Q19, and came in at +1.27pp/ 1.5pp/ 1.7pp/ 1pp/ 2pp in 2Q19-2Q20. Its EBITDA margin picked up 2.9pp from 9.6% in 2018 to 12.5 in 2020. Chongqing Beer's GPM started to improve in 3Q18, with +0.9pp/ 0.8pp/ 2.4pp/ 1.6pp/ 0.9pp GPM growth y-y in 3Q18-3Q19. As major breweries and dairies have initiated another round of price hikes in end-3Q/4Q21, we think positive effect of such moves on margins would started to be reflected in 2022E results.

**Figure 50: China breweries price trend**



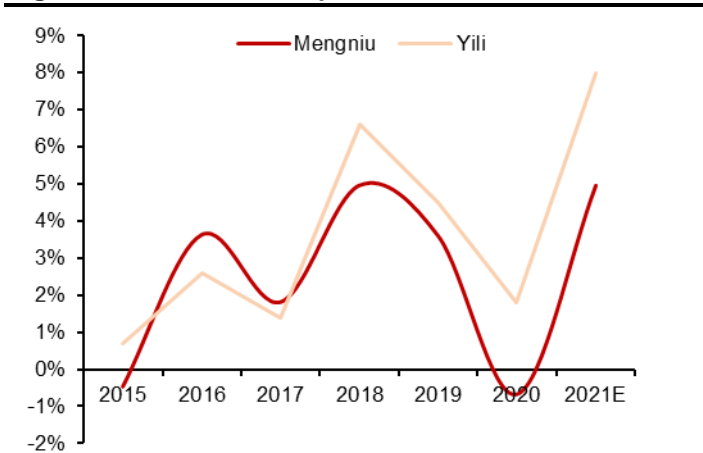
Source: Company data, CMBIS

**Figure 51: China breweries EBITDA per kilolitre**



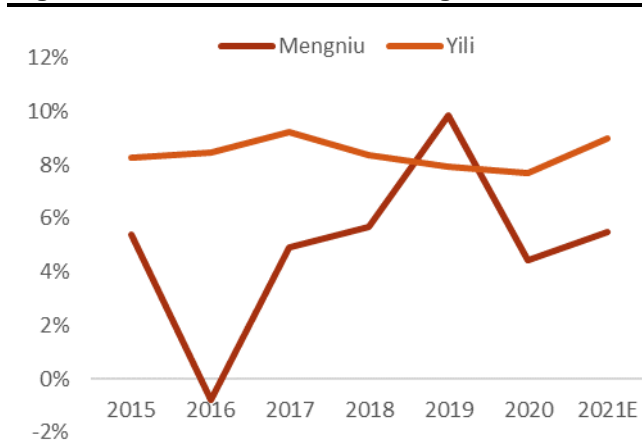
Source: Company data, CMBIS

**Figure 52: China dairies price trend**



Source: Company data, CMBIS

**Figure 53: China dairies EBIT margins**

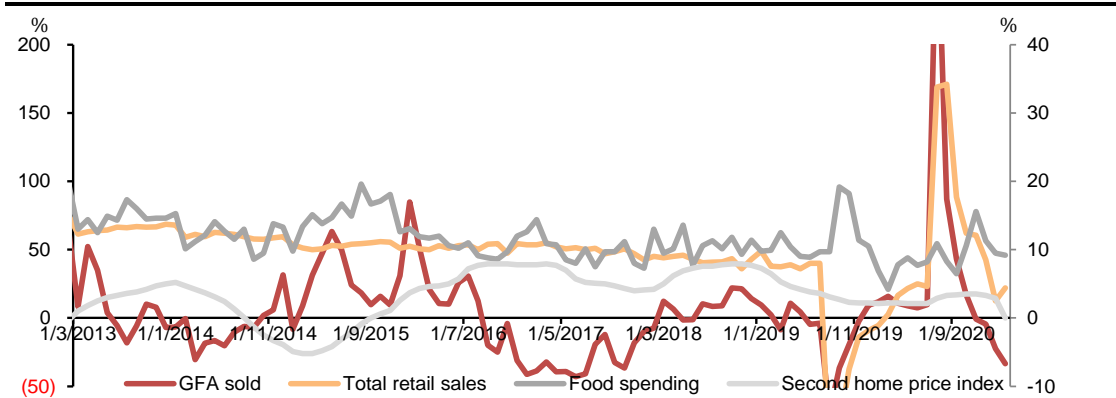


Source: Company data, CMBIS

## Property curbs unlikely to represent a major headwind to F&B consumption

The Evergrande's fallout is unprecedented, but the risks associated with property tightening to consumption is not, in our view. The ripple effect from unemployment, wage reduction and any "wealth effect" is likely to represent a more meaningful hiccup to large-ticket discretionary items, while that to food and beverage historically took a lighter hit. The impact to consumption propensity is uneven. Our analysis shows food expenditure exhibited a stronger correlation to income, rather than property investment gain. In the long term, structural drivers such as gradually rising income, better products and a growing sense of enjoyment and health-awareness remain well in place to cement a broad-based premiumization trajectory.

**Figure 54: Food spending offered a relatively resilience compared to China total retail sales, GFA sold and home price changes**

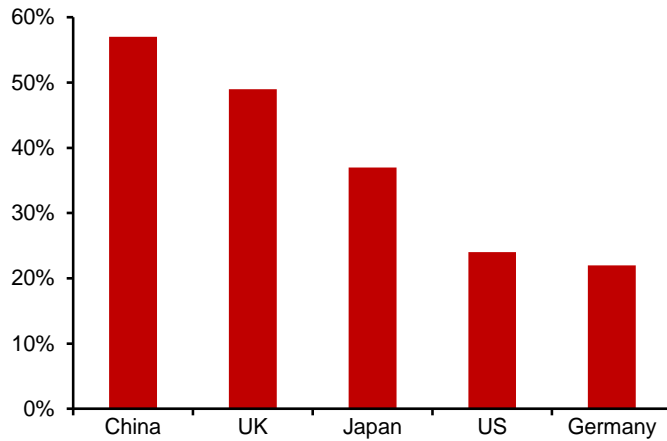


Source: Wind, CMBIS

### Property investment represents 57% of household wealth...

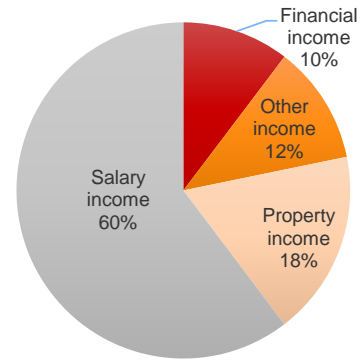
The value contribution of residential property among Chinese household has been decreasing. Of note, the peak was seen in 2019 at 77%. Since then, the representation has been sliding to almost 57% until more recently, according to [Sina news](#), driven by asset diversification to other assets such as stocks, autos, and even commercial properties. The weighting of property investment remains significant, and it has been one of the drivers of household income growth, on the back of a mounting household gearing for home mortgages. Separately, the apparent deceleration in household income, owing to a fragile business and property income growth, does not bode well for the near term consumption outlook.

**Figure 55: Residential property represents 57% of household assets in China 2020**



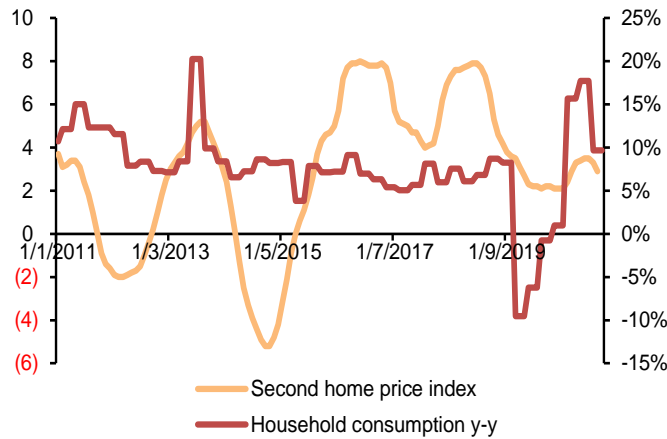
Source: Sina News, CMBIS

**Figure 56: Income from property transfer is one of the major household income in 2019**



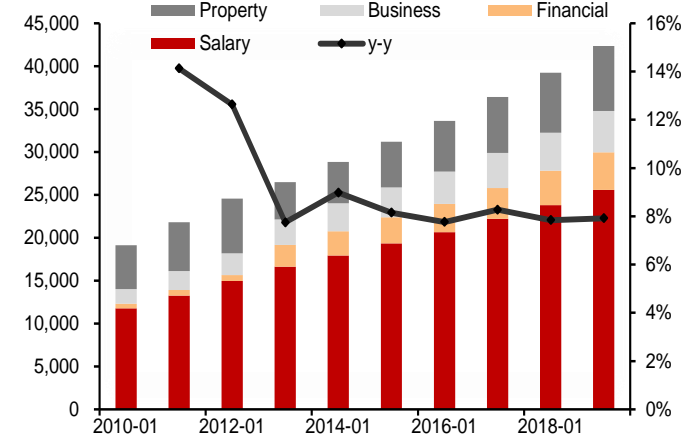
Source: Wind, CMBIS

**Figure 57: Home prices vs household spending**



Source: Wind, CMBIS

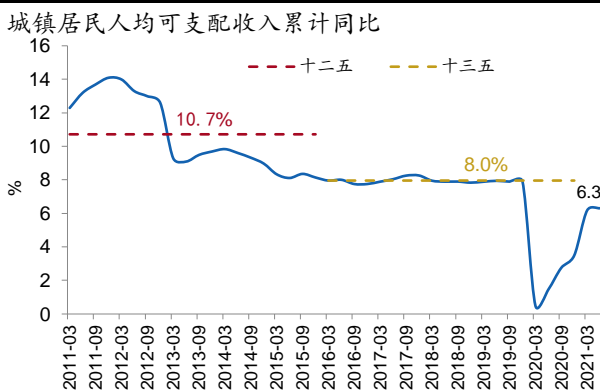
**Figure 58: Breakdown on household income**



Source: Wind, CMBIS

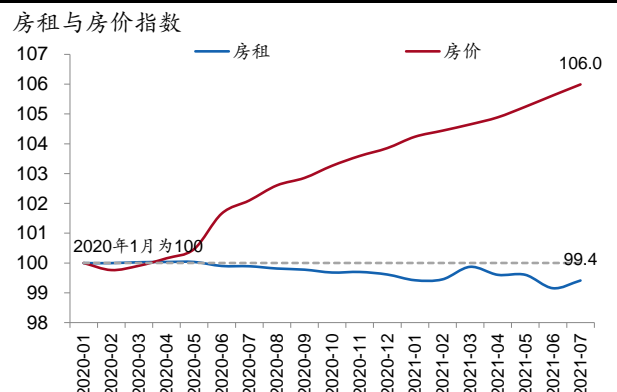
As a side note, our Chief Economist Ding AnHua argued that the last property upcycle has come to its end, but the divergence between home price and rental would remain because of a widening income inequality.

**Figure 59: Household income growth 2011-2021**



Source: Wind, China Merchants Bank Institute, CMBIS

**Figure 60: Divergence between home price and rental**

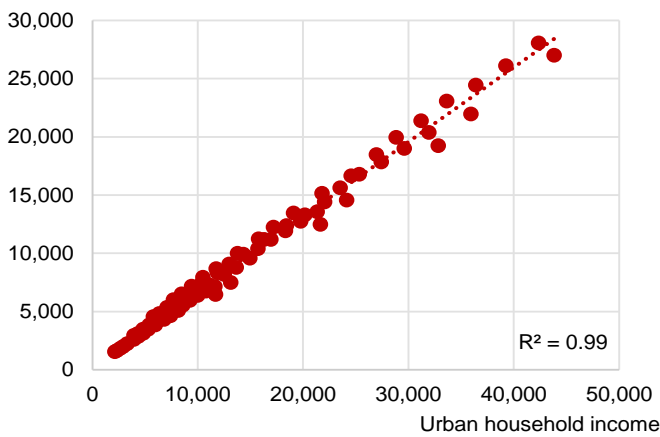


Source: Wind, China Merchants Bank Institute, CMBIS

**... but household income still a major driver for spending**

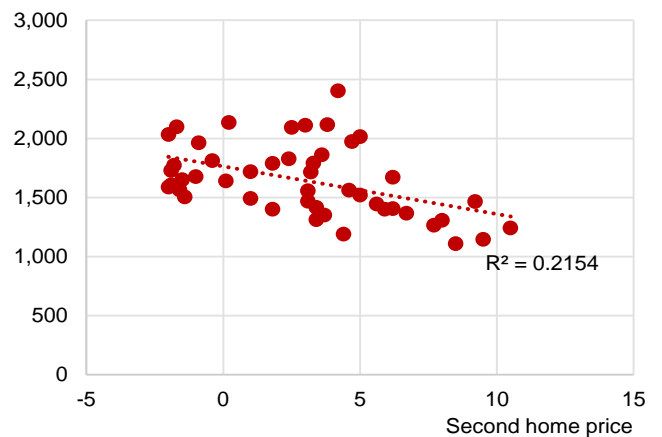
However, the low correlation in the past 10 years was not strong enough to indicate any causal relationship between home prices and household spending propensity. The impact on wealth effect from financial gains to consumption is ambiguous. Instead, household income and job security remains a predominant driver to household spending. Between 2011-2021, we note that an 8.4% household income CAGR has correspondingly led to a 6.7% consumption CAGR. Among which, spending on housing grew the most at 18%, followed by that of durables at 6%, food at 4% and clothing at 1%, respectively. Spending on food, in particular, demonstrated resilience with positive growth during the pandemic. Separately, consumption pattern has shown an even distribution across previous property market down-cycle, stock market crashes and economic troughs with high-end discretionary spending fluctuate the most.

**Figure 61: Household income and expenditure demonstrates a strong correlation**



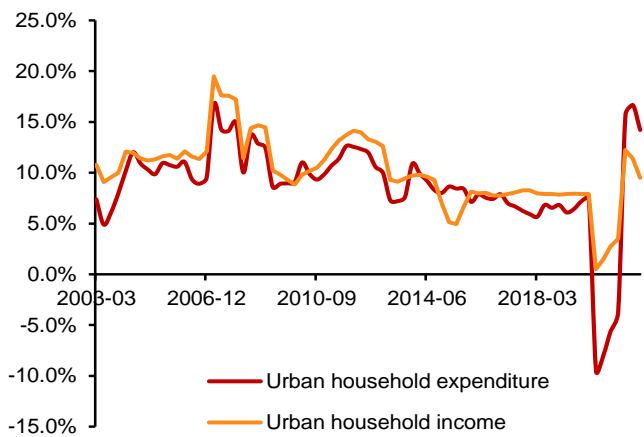
Source: Wind, CMBIS

**Figure 62: Household expense and home price show weak correlation**



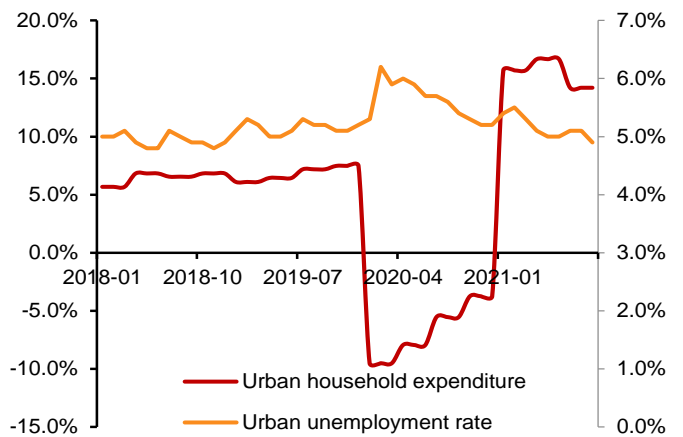
Source: Wind, CMBIS

**Figure 63: Urban household income vs expenditure**



Source: Wind, CMBIS

**Figure 64: Household expense vs unemployment**



Source: Wind, CMBIS

# CR Beer (291 HK)

## Likely an in-line 2H; all eyes on the next price hike and ongoing premiumization trajectory

We slightly revised down our 2021E volume growth by 0.4pp to -0.7% to factor in a slower 2H volume growth of -7.5% (from -6.5% previously). Despite this, we maintain our ~21% recurring EBIT growth (vs consensus 25%+) for 2021E. Factoring also a ~3% higher SG&A for 2022E, we cut our 2021/22E revenue and EBITDA forecasts by ~1%/ 5%, and hence our new TP HK\$ 80.0 (from HK\$ 88.0). The volume hiccup has not altered our positive view on CR Beer, however, as we believe 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. CR Beer is our sector top pick along with Mengniu (2319HK, Buy).

- **We expect a low-single-digit decline YoY for 2H revenue**, in which an uplift in ASP continues to mitigate any volume downside. Specifically, we look for a ~3.6% ASP uptake to neutralize a -7.5% volume decline and bring 2H revenue growth to -4% YoY.
- **We forecast 2021/22E premium/ sub-premium volume growth to maintain at 30%/ 20%, respectively**, while we forecast mainstream products to record a corresponding 5.5%/ 5.0% decline. The decline looks to kick-in faster than that of the beer market as we think CR Beer is committed to its premiumization effort and will continue to reallocate resources away from its mid-market products. The rotation will also drive up 2022E premium/ sub-premium volume contribution to 21.4% (from 17.3%).
- **We see window for CR Beer to further lift price in 2Q22E ahead of the upcoming peak season**. We forecast a 6.5% ASP uptake for 2022E, and such will boost gross margins by 1.5pp, according to our sensitivity analysis. We assume gross margins to reach 43% by 2023E (1.5pp expansion p.a.).
- **Recent lockdown unlikely to represent a big volume disruption to 2022E target**, as shipment over the slack season unlikely to be very meaningful (about low-to-mid teen) to full year contribution.
- **Our new TP is still based on 29.0x end-22E EV/EBITDA**, which represents 3-year average. We set our target multiple at LT average to reflect any mean-reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion as market consensus now expects.

### 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 - recurring (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\$88.0)
Up/Downside	+41.8%
Current Price	HK\$56.5

### 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%

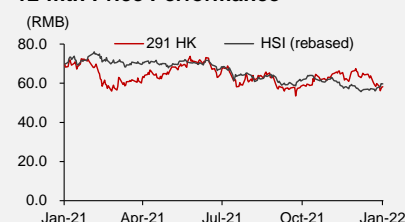
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-11.2%	-14.7%
3-mth	-5.1%	1.4%
6-mth	-20.4%	-2.1%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

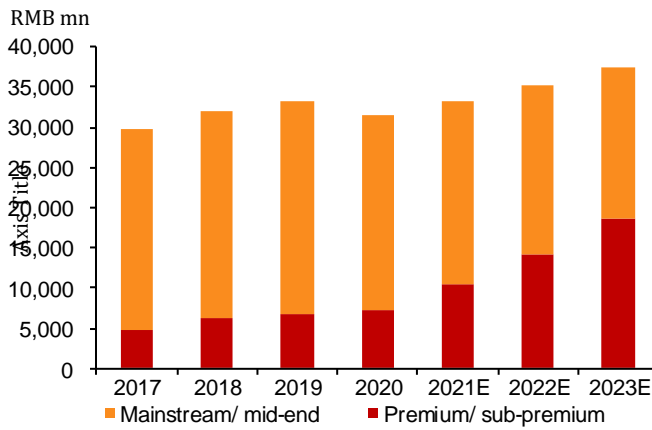
Auditor: Deloitte

#### Related Reports

1. ["4Q likely in line with on track premiumization progress; our sector top pick"](#) – 10 Jan 2022
2. ["Marketing feedback – inflation & price hikes were key words that appeared in every meeting"](#) – 23 Nov 2021
3. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

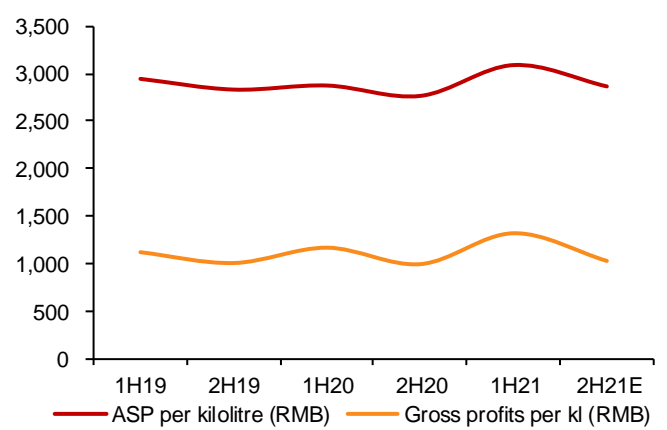


**Figure 65: CRB revenue by segment 2017-23E**



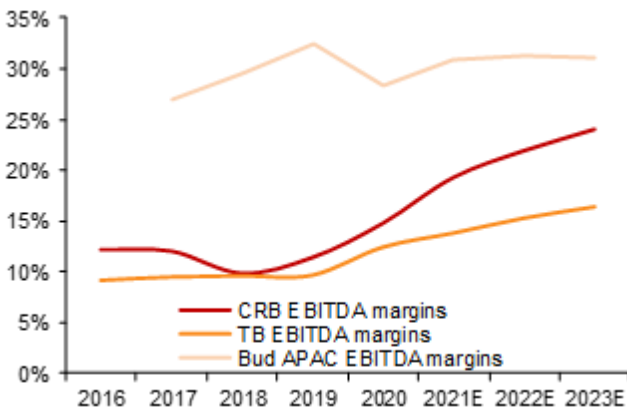
Source: Company data, CMBIS estimates

**Figure 66: ASP and gross profits per kl**



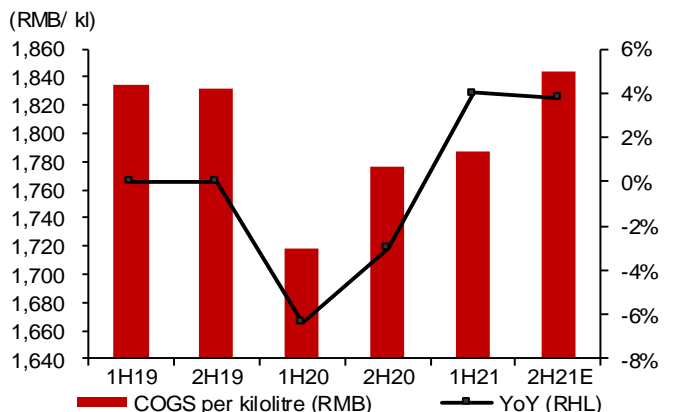
Source: Company data, CMBIS estimates

**Figure 67: CRB offers a higher EBITDA growth**



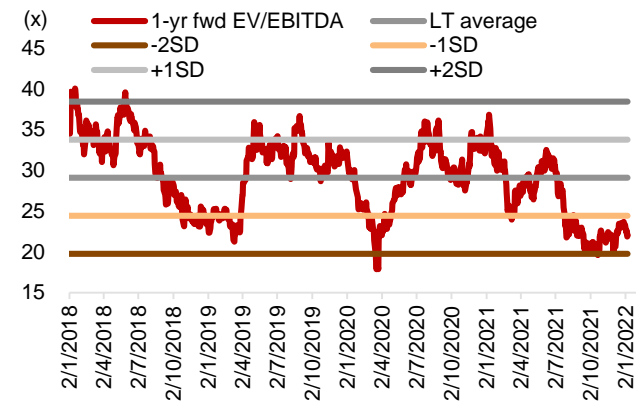
Source: Company data, CMBIS estimates

**Figure 68: We expect 2H21E COGS/ kl to up by 4%**



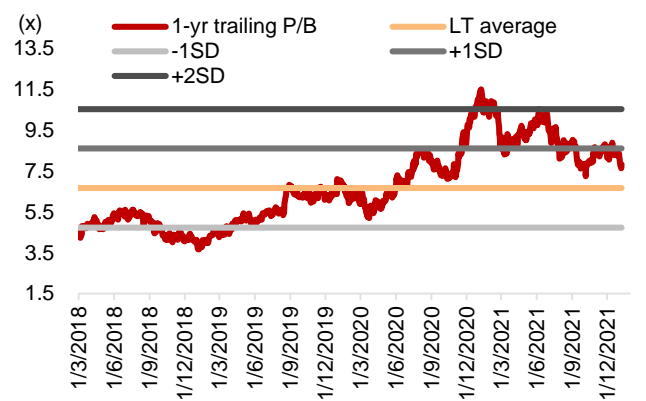
Source: Company data, CMBIS estimates

**Figure 69: 1-year forward EV/EBITDA chart**



Source: Bloomberg, CMBIS estimates

**Figure 70: 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 year	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
Minority Interest	57	57	57	57	57
<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
EV/EBITDA	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
EV/EBITDA (x)	n.a	n.a	23.3	19.4	16.4

Source: Company data, CMBIS estimates

## Key highlights on our recent NDR

- **2021 guidance generally in line with the takeaway from our Consumer Corporate Day in November.** Management guided for a flat to LSD decline to 2021 shipment with a ~5% ASP uptick. This implies 2H volume and ASP to be about a HSD decline and a LSD increase, decelerating from +4.9% and +7.5% in 1H21, respectively.
- **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.
- **Recent lockdown unlikely to represent a big volume disruption to 2022E target,** as shipment over the slack season unlikely to be very meaningful (about low-to-mid teen) to full year contribution. We keep watching the trajectory.

# Mengniu Dairy (2319 HK)

## 2H earnings risk looks well-contained on relieving 2H guidance; 2022E outlook is solid

We maintain our recurring OPM of 5.4% for 2H21 (reporting OPM of 5.9%) as a result of an effective cost control that was well executed over the period. A lower opex ratio should suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to LSD/MSD in 2H21E, resulting a ~36% 2H gross margins (2H19: 36.3%). On top of that, we look for an 8.5% 2H top line growth, on the back of a ~8% increase in liquid milk revenue. Into 2022E, our forecast of a 13% top line growth will be driven by 1) low teen growth in liquid milk revenue, in which we assume LSD growth in UHT yoghurt, and low-teen growth in UHT milk beverage SKU, 2) high-teen growth in milk formula revenue thanks to the contribution of Bellamy and adult milk formula SKU, and 3) high-teen growth in ice cream revenue. After all, we largely maintain our 2021/22E earnings assumption despite small changes in house-keeping items. We are buy-rated and we slightly twist our TP to HK\$57.0 (from HK\$58.0). Mengniu is our top pick.

- **Raw milk price pressure easing and corresponding price hikes have mitigated the pressure.** Mengniu guided that its raw milk cost increased by high single digits in 2021, tapering from 15%+ over 1H21. This implies raw milk cost only grew by a MSD over 2H21 as we previously expected. Despite the inflection, we still expect GPM to sequentially lower on a HoH basis. Meanwhile, we look for a stable raw milk price over 2022E thanks to an increased supply.
- **Premiumization continues.** Mengniu levied price hikes for selective SKUs by MSD over 2H21 and January 2022. Meanwhile, we forecast the company's high-end Milk Delux delivered ~30% shipment growth in 2021 and ~20% in 2022.
- **The issuance of a HK\$4.86b worth of Convertible Bonds under the employee incentive scheme will bring up RMB1.5bn expense in total.** Of note, the expense is non-cash and is one-off. The booking of the expense will be spread over the next 5 years with RMB50mn to be booked in 2021.
- **Our TP is still based on 30x end-22E P/E,** which represents +1sd above its 3-year average. Our target multiple also benchmarks to Yili's.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	79,030	76,035	87,352	98,165	109,924
YoY growth (%)	14.6	(3.8)	14.9	12.4	12.0
Net income (RMB mn)	4,105	3,525	4,876	6,119	7,359
EPS (RMB)	0.8	0.9	1.3	1.6	1.9
YoY growth (%)	6.7	8.6	48.5	16.9	20.3
Consensus EPS (RMB)	n.a	n.a	1.3	1.7	2.2
P/E (x)	n.a	n.a	28.9	24.7	20.6
P/B (x)	n.a	n.a	4.0	3.6	3.2
Yield (%)	n.a	n.a	1.0	1.2	1.5
ROE (%)	12.3	9.5	11.8	13.2	14.1
Net gearing (%)	49.5	19.0	13.3	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$57.0**  
 (Previous TP **HK\$58.0**)  
 Up/Downside **+23.1%**  
 Current Price **HK\$46.3**

### China Consumer Staples

**Joseph Wong**  
 (852) 3900 0838  
 josephwong@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	183,032
Avg 3 mths t/o (HK\$ mn)	506.2
52w High/Low (HK\$)	38.5/51.1
Total Issued Shares (mn)	3,953

Source: Bloomberg

### Shareholding Structure

Charoen Pokphand Group	22.3%
CitiGroup	6.8%
JPMorgan Chase	6.8%

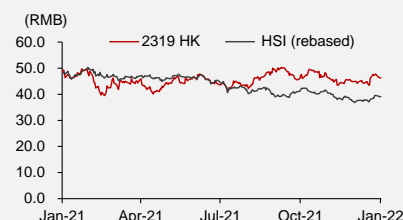
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	3.2%	-0.8%
3-mth	-2.0%	4.7%
6-mth	-3.5%	18.5%

Source: Bloomberg

### 12-mth Price Performance



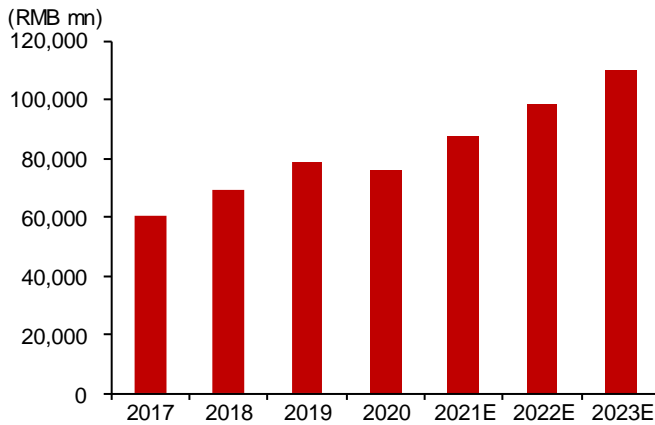
Source: Bloomberg

Auditor: Ernst & Young

### Related Reports

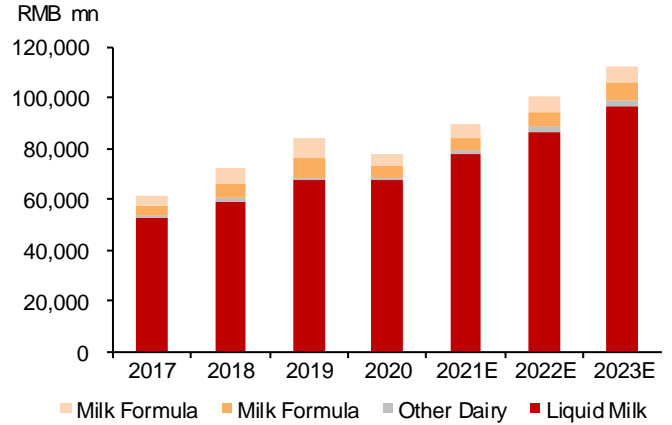
1. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021
2. ["Marketing feedback – inflation & price hikes were key words that appeared in every meeting"](#) – 23 Nov 2021

**Figure 71: Mengniu is on-track to deliver its LT target**



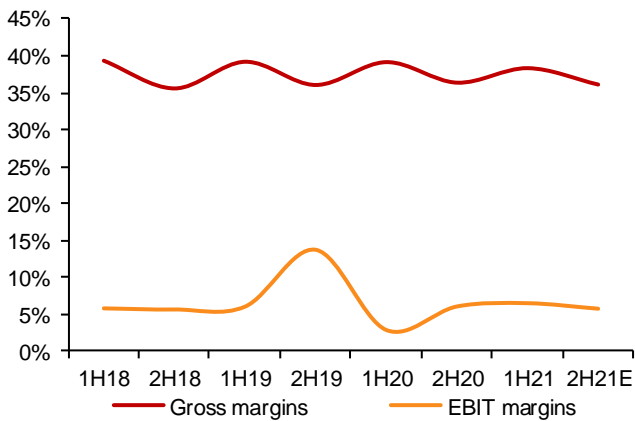
Source: Company data, CMBIS

**Figure 72: Revenue by product segment 2017-23E**



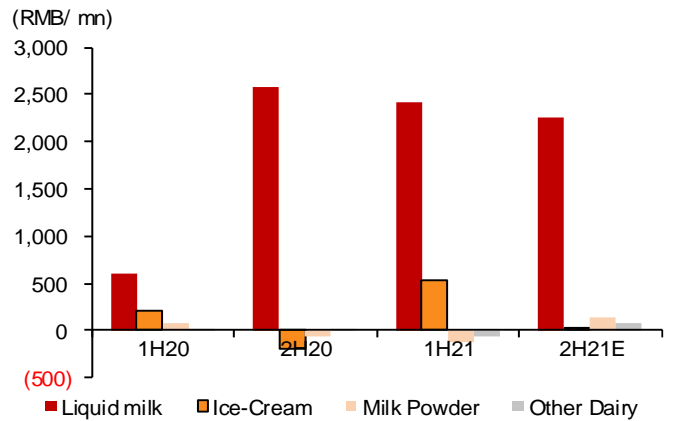
Source: Company data, CMBIS estimates

**Figure 73: Gross margins and EBIT margins 2017-23E**



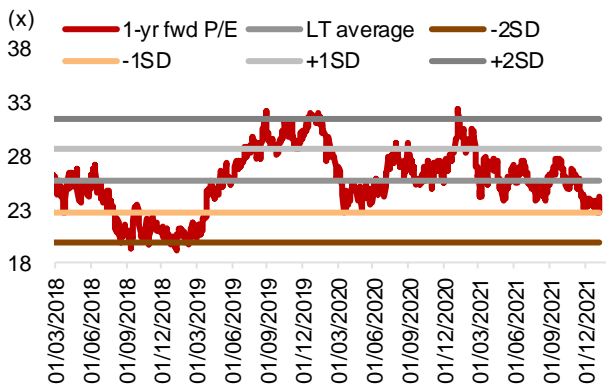
Source: Company data, CMBIS estimates

**Figure 74: EBIT breakdown by product**



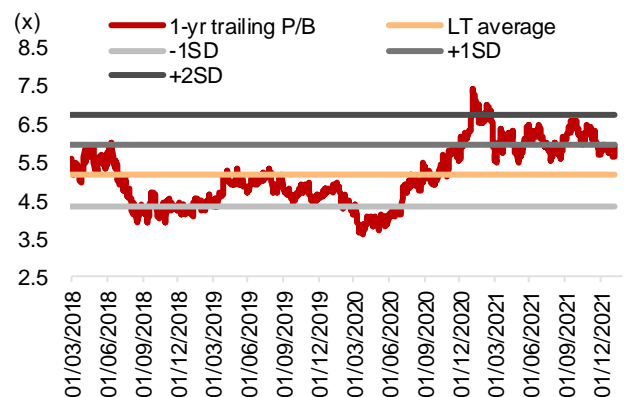
Source: Company data, CMBIS

**Figure 75: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 76: 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>79,030</b>	<b>76,035</b>	<b>87,352</b>	<b>98,165</b>	<b>109,924</b>
Liquid Milk	67,878	67,751	77,775	86,736	96,715
Others	11,152	8,284	9,576	11,429	13,208
<b>Gross profits</b>	<b>29,679</b>	<b>28,629</b>	<b>32,495</b>	<b>37,205</b>	<b>42,101</b>
D&A	(2,024)	(2,042)	(2,294)	(2,345)	(2,399)
Selling expense	(21,536)	(21,541)	(24,022)	(26,995)	(30,229)
Administration expenses	(3,023)	(2,915)	(2,883)	(3,338)	(3,737)
Other operating expenses	(1,146)	(1,783)	(1,783)	(1,783)	(1,783)
Others	5,829	3,029	3,276	3,304	3,375
<b>EBIT</b>	<b>7,778</b>	<b>3,377</b>	<b>4,789</b>	<b>6,048</b>	<b>7,327</b>
<b>EBITDA</b>	<b>9,802</b>	<b>5,419</b>	<b>7,083</b>	<b>8,393</b>	<b>9,727</b>
Finance costs, net	(644)	(572)	(542)	(482)	(421)
Non-operating	(1,528)	1,350	1,588	1,756	1,900
<b>Pre-tax profit</b>	<b>5,605</b>	<b>4,155</b>	<b>5,835</b>	<b>7,322</b>	<b>8,806</b>
Income tax	(1,310)	(653)	(917)	(1,151)	(1,384)
Less: Minority interests	(190)	23	(42)	(52)	(63)
<b>Net profit</b>	<b>4,105</b>	<b>3,525</b>	<b>4,876</b>	<b>6,119</b>	<b>7,359</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>4,105</b>	<b>3,525</b>	<b>4,876</b>	<b>6,119</b>	<b>7,359</b>
D&A	2,024	2,042	2,294	2,345	2,399
Change in working capital	600	967	(3,393)	(67)	784
Others	(422)	(1,187)	(1,323)	(1,458)	(1,608)
<b>Net cash fr. operating act.</b>	<b>6,307</b>	<b>5,348</b>	<b>2,454</b>	<b>6,939</b>	<b>8,934</b>
Capex & investments	(1,112)	(611)	(700)	(800)	(800)
Acquisition	(6,580)	(26)	-	-	-
Others	(9,839)	5,459	891	875	895
<b>Net cash fr. investing act.</b>	<b>(17,530)</b>	<b>4,822</b>	<b>191</b>	<b>75</b>	<b>95</b>
Equity raised	-	-	-	-	-
Change of Debts	11,791	(3,926)	(2,000)	(2,000)	(2,000)
Dividend paid	(711)	(712)	(1,058)	(1,464)	(1,837)
Others	(466)	68	0	-	-
<b>Net cash fr. financing act.</b>	<b>10,614</b>	<b>(4,571)</b>	<b>(3,058)</b>	<b>(3,464)</b>	<b>(3,837)</b>
<b>Net change in cash</b>	<b>(608)</b>	<b>5,599</b>	<b>(413)</b>	<b>3,550</b>	<b>5,192</b>
Cash at the beginning of the year	7,049	5,970	11,397	10,984	14,535
Exchange difference	36	(172)	-	-	-
<b>Cash at the end of the year</b>	<b>6,476</b>	<b>11,397</b>	<b>10,984</b>	<b>14,535</b>	<b>19,727</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>41,052</b>	<b>48,640</b>	<b>47,629</b>	<b>46,852</b>	<b>46,145</b>
PP&E/Fixed assets	11,103	12,547	11,220	9,952	8,640
Goodwill	4,719	4,883	4,883	4,883	4,883
Deferred tax assets	1,056	1,277	1,277	1,277	1,277
Other non-current assets	24,174	29,933	30,249	30,740	31,346
<b>Current assets</b>	<b>37,486</b>	<b>31,507</b>	<b>34,649</b>	<b>40,212</b>	<b>47,032</b>
Cash	6,476	11,397	13,378	17,493	23,040
Account receivable	3,477	2,927	3,590	4,034	4,517
Inventory	5,090	5,512	6,012	7,015	7,804
Other current assets	22,443	11,670	11,670	11,670	11,670
<b>Current liabilities</b>	<b>31,734</b>	<b>26,144</b>	<b>26,307</b>	<b>28,253</b>	<b>30,664</b>
Borrowings	13,663	4,767	4,767	4,767	4,767
Account payables	4,331	5,122	3,306	3,340	3,716
Other payables	77	11,488	13,466	15,378	17,413
Lease liabilities	13,663	4,767	4,767	4,767	4,767
<b>Non-current liabilities</b>	<b>13,456</b>	<b>16,754</b>	<b>14,641</b>	<b>12,528</b>	<b>10,415</b>
Borrowings	9,310	13,696	11,696	9,696	7,696
Deferred tax liabilities	1,942	2,280	2,167	2,054	1,941
Other non-current liabilities	2,204	779	779	779	779
<b>Minority Interest</b>	<b>4,215</b>	<b>4,265</b>	<b>4,307</b>	<b>4,359</b>	<b>4,422</b>
<b>Total net assets</b>	<b>33,347</b>	<b>37,248</b>	<b>41,330</b>	<b>46,283</b>	<b>52,097</b>
<b>Shareholders' equity</b>	<b>29,132</b>	<b>32,983</b>	<b>37,024</b>	<b>41,924</b>	<b>47,676</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Liquid Milk	85.9	89.1	89.0	88.4	88.0
Others	14.1	10.9	11.0	11.6	12.0
<b>P&amp;L ratios (%)</b>					
Gross margin	37.6	37.7	37.2	37.9	38.3
Operating margin	9.8	4.4	5.5	6.2	6.7
Pre-tax margin	7.1	5.5	6.7	7.5	8.0
Net margin	5.2	4.6	5.6	6.2	6.7
Effective tax rate	(23.4)	(15.7)	(15.7)	(15.7)	(15.7)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.2	0.4	0.4	0.4	0.5
Net receivable days	16.1	14.1	15.0	15.0	15.0
Inventory turnover days	37.6	42.4	40.0	42.0	42.0
Net payable days	20.0	24.6	22.0	20.0	20.0
Net debt to equity (%)	49.5	19.0	7.5	Net cash	Net cash
<b>Returns (%)</b>					
ROE	12.3	9.5	11.8	13.2	14.1
Dividend yield	n.a	n.a	0.9	1.2	1.4
<b>Per share</b>					
EPS (RMB)	0.8	0.9	1.3	1.6	1.9
DPS (RMB)	0.2	0.3	0.4	0.5	0.6
BVPS (RMB)	7.4	8.4	9.4	10.7	12.1
EV/ EBITDA (x)	n.a	n.a	21.8	17.7	14.5

Source: Company data, CMBIS estimates

# China Feihe (6186 HK)

## Shares look undervalued on solid 2021 guidance and steadfast margins outlook for 2022E

We cut our 2021E revenue and net profits by 2%/ 6%, respectively, upon coverage transfer. After the adjustment, we still forecast a RMB23bn+ revenue for 2021E with 30% net margin. Feihe was also able to gain market share to 20%+ from ~18% in 2020, per management, despite a slowdown of 2H21 shipment growth to mid-teen. Looking into 2022E, when birth rate likely to remain sluggish in view of the lingering COVID outbreak, we trim 7% of our volume assumption and hence an 8%/ 14% reduction in revenue and net profits, respectively. Albeit a relatively gloomy industry outlook, Feihe looks to stand tall with solid, though slower, premiumization progress and new product launch to play around any regulatory reforms. We are buy-rated but trim our TP to HK\$14.0 (from HK\$24.0). Feihe is our top pick along with Mengniu (2319 HK, Buy) and CR Beer (291 HK, Buy).

- **Management guided for a solid 2021 with ~30% 2021 net margins**, during our roadshow last week. This comes with a higher 2H21 promotional efforts that lowered EBIT margins. On the other hand, Infant formula revenue is likely to reach RMB2bn for 2021. Feihe also has a longer-term market share target of 30% by 2023E.
- **Diversifying into Stage 4 formula looks to be a sensible move.** Feihe's Stage 3 formula represents 50% of the company's sales, and is the company's largest product category. Given a slowing newborn rate and the baby boom during 2016-17, in our view, the adjacent expansion to Stage 4 milk powder makes sense and should extend the product life cycle for its Stage 3 SKU. Through in-depth cooperation with maternity and baby stores (MBS), Feihe could educate parents about the advantages of Stage 4 milk powder.
- **Regulatory overhang and market dynamics.** The encouragement of breastfeeding, as a substitute to stage 1 formula, is not new. Barring any rollout of more restrictive policies in the future, we think Feihe will stand tall given that only a ~15% sales mix is contributed by stage 1 SKUs. Meanwhile, we also think levying a price cap is unlikely as market mechanism should drive price down amid the current industry down-cycle. For instance, offline traffic has yet to normalize while online sales remain very promotion-driven.
- **Our revised TP is based on 13x roll-forward end-22E P/E**, which represents -1 sd below its long term average of 17x. Our methodology reflects our prudence in view of the current low birth rate and industry overhang.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	13,722	18,592	23,486	27,760	32,524
YoY growth (%)	2.0	35.5	26.3	18.2	17.2
Net income (RMB mn)	3,935	7,437	7,087	8,113	9,544
EPS (RMB)	0.5	0.8	0.8	0.9	1.0
YoY growth (%)	26.7	69.8	(4.8)	14.5	17.6
Consensus EPS (RMB)	n.a	n.a	0.9	1.2	1.4
P/E (x)	n.a	n.a	11.6	10.1	8.6
P/B (x)	n.a	n.a	3.6	2.9	2.3
Yield (%)	n.a	n.a	2.6	2.9	3.5
ROE (%)	30.2	25.1	40.4	41.8	44.0
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

**Target Price** HK\$14.0  
 (Previous TP) HK\$24.0  
**Up/Downside** +30.0%  
**Current Price** HK\$10.8

### China Consumer Staples

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#### Stock Data

Mkt Cap (HK\$ mn)	96,463
Avg 3 mths t/o (HK\$ mn)	182.2
52w High/Low (HK\$)	25.7/ 9.7
Total Issued Shares (mn)	8,915

Source: Bloomberg

#### Shareholding Structure

Garland Glory Holdings	43.6%
Morgan Stanley	7.8%
Dasheng Ltd	4.5%

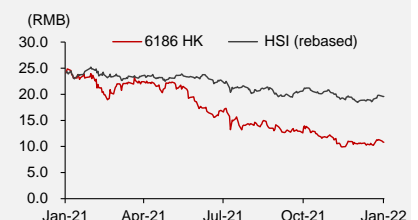
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	2.1%	-1.9%
3-mth	-21.1%	-15.7%
6-mth	-34.8%	-25.7%

Source: Bloomberg

#### 12-mth Price Performance



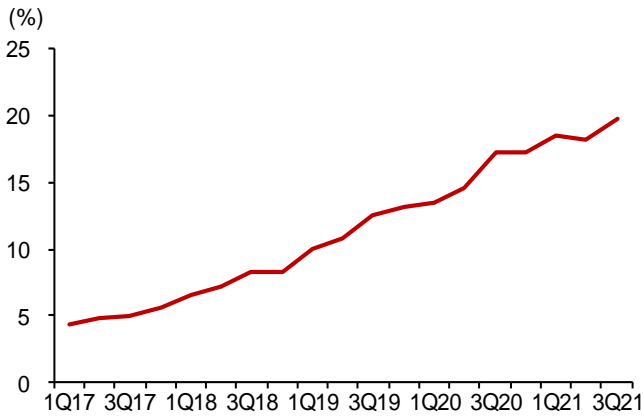
Source: Bloomberg

#### Auditor: Ernst and Young

#### Related Reports

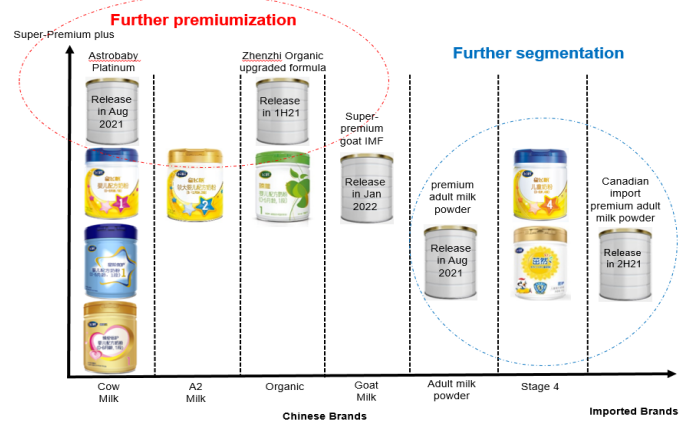
1. ["Marketing feedback – inflation & price hikes were key words that appeared in every meeting"](#) – 23 Nov 2021
2. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

**Figure 77: Market share trend for Feihe**



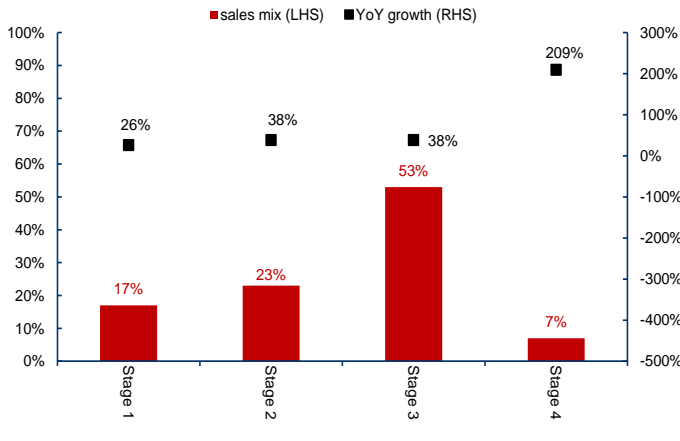
Source: Company data, CMBIS estimates

**Figure 78: Product segmentation**



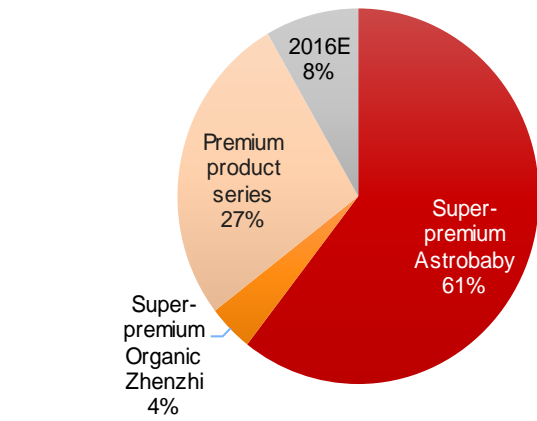
Source: Company data, CMBIS estimates

**Figure 79: Stage 3 IMF mix supports stage 4 expansion**



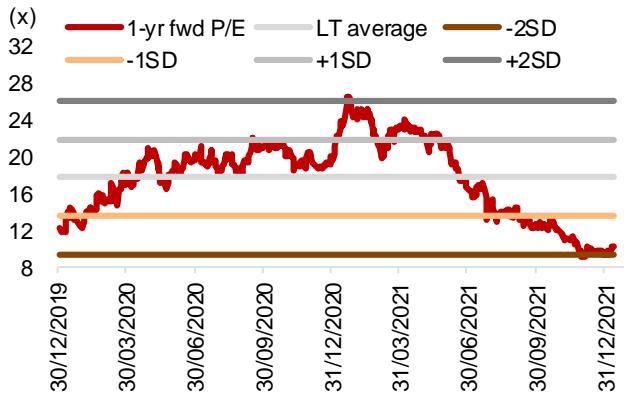
Source: Company data, CMBIS estimates

**Figure 80: Shipment breakdown by segment**



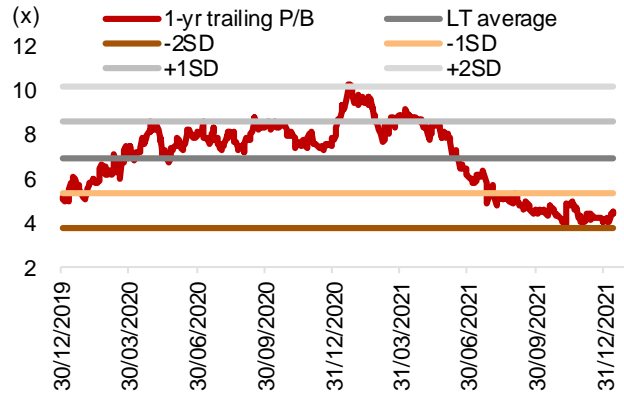
Source: Company data, CMBIS estimates

**Figure 81: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 82: 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>13,722</b>	<b>18,592</b>	<b>23,486</b>	<b>27,760</b>	<b>32,524</b>
IMF	12,538	17,674	22,383	26,291	30,513
Others	1,183	919	1,102	1,469	2,011
<b>Gross profits</b>	<b>9,610</b>	<b>13,480</b>	<b>17,116</b>	<b>19,856</b>	<b>23,113</b>
D&A	(181)	(266)	(250)	(275)	(302)
Selling expense	(3,848)	(5,263)	(6,811)	(8,050)	(9,107)
Administration expenses	(913)	(1,161)	(1,456)	(1,721)	(2,016)
Other income, gains	889	3,019	1,200	1,200	1,200
Other expense	(70)	(231)	(250)	(250)	(250)
<b>EBIT</b>	<b>5,668</b>	<b>9,844</b>	<b>9,799</b>	<b>11,034</b>	<b>12,940</b>
<b>EBITDA</b>	<b>5,849</b>	<b>10,110</b>	<b>10,049</b>	<b>11,309</b>	<b>13,243</b>
Finance costs, net	15	74	74	74	74
Non-operating	-	(18)	(306)	(156)	(156)
<b>Pre-tax profit</b>	<b>5,683</b>	<b>9,900</b>	<b>9,568</b>	<b>10,953</b>	<b>12,859</b>
Income tax	(1,748)	(2,464)	(2,381)	(2,726)	(3,200)
Less: Minority interests	-	0	(100)	(114)	(114)
<b>Net profit</b>	<b>3,935</b>	<b>7,437</b>	<b>7,087</b>	<b>8,113</b>	<b>9,544</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>3,935</b>	<b>7,437</b>	<b>7,087</b>	<b>8,113</b>	<b>9,544</b>
D&A	181	266	250	275	302
Change in working capital	562	1,253	(108)	(111)	(118)
Others	503	(1,205)	100	120	120
<b>Net cash fr. operating act.</b>	<b>5,181</b>	<b>7,751</b>	<b>7,328</b>	<b>8,397</b>	<b>9,849</b>
Capex & investments	(1,401)	(816)	(794)	(874)	(961)
Short term investment	-	-	-	-	-
Others	(4,114)	(2,970)	-	-	-
<b>Net cash fr. investing act.</b>	<b>(5,515)</b>	<b>(3,786)</b>	<b>(794)</b>	<b>(874)</b>	<b>(961)</b>
Equity raised	5,984	-	-	-	-
Change of Debts	3,070	(3,630)	-	-	-
Dividend paid	(2,704)	(2,685)	(2,287)	(2,480)	(2,839)
Others	(2,226)	3,772	-	-	-
<b>Net cash fr. financing act.</b>	<b>4,123</b>	<b>(2,543)</b>	<b>(2,287)</b>	<b>(2,480)</b>	<b>(2,839)</b>
<b>Net change in cash</b>	<b>3,789</b>	<b>1,421</b>	<b>4,247</b>	<b>5,043</b>	<b>6,049</b>
Cash at the beginning of the year	3,607	8,810	10,059	14,306	19,348
Exchange difference	(18)	(173)	-	-	-
<b>Cash at the end of the year</b>	<b>7,377</b>	<b>10,059</b>	<b>14,306</b>	<b>19,348</b>	<b>25,397</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>5,715</b>	<b>9,778</b>	<b>10,323</b>	<b>10,916</b>	<b>11,569</b>
PP&E/Fixed assets	3,971	7,197	7,742	8,340	8,999
Intangible assets	48	48	48	48	48
Right of use assets, net	-	1,442	1,442	1,442	1,442
Other non-current assets	1,696	1,091	1,091	1,086	1,080
<b>Current assets</b>	<b>17,289</b>	<b>18,544</b>	<b>23,178</b>	<b>28,672</b>	<b>35,172</b>
Cash	7,377	10,059	14,306	19,348	25,397
Account receivable	314	289	360	425	498
Inventories	571	557	557	557	557
Other current assets	9,026	7,640	7,956	8,341	8,720
<b>Current liabilities</b>	<b>7,439</b>	<b>7,107</b>	<b>7,386</b>	<b>7,726</b>	<b>8,060</b>
Borrowings	360	514	833	1,042	1,133
Account payables	144	346	407	614	910
Other payables	534	903	1,083	3,094	448
Rent payable	6,401	5,344	5,062	2,976	5,569
<b>Non-current liabilities</b>	<b>2,536</b>	<b>2,030</b>	<b>2,030</b>	<b>2,030</b>	<b>2,030</b>
Borrowings	1,716	732	732	732	732
Deferred tax liabilities	128	139	139	139	139
Other non-current liabilities	691	1,158	1,158	1,158	1,158
<b>Minority Interest</b>	<b>-</b>	<b>1,438</b>	<b>1,538</b>	<b>1,653</b>	<b>1,767</b>
<b>Total net assets</b>	<b>13,030</b>	<b>19,186</b>	<b>24,085</b>	<b>29,832</b>	<b>36,651</b>
<b>Shareholders' equity</b>	<b>13,030</b>	<b>17,747</b>	<b>22,547</b>	<b>28,179</b>	<b>34,884</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
IMF	91.4	95.1	95.3	94.7	93.8
Others	8.6	4.9	4.7	5.3	6.2
<b>P&amp;L ratios (%)</b>					
Gross margin	70.0	72.5	72.9	71.5	71.1
Operating margin	41.3	52.9	41.7	39.7	39.8
Pre-tax margin	41.4	53.3	40.7	39.5	39.5
Net margin	28.7	40.0	30.2	29.2	29.3
Effective tax rate	(30.8)	(24.9)	(24.9)	(24.9)	(24.9)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.4	0.5	0.6	0.7	0.7
Net receivable days	8.2	5.6	5.6	5.6	5.6
Inventory turnover days	92.5	80.9	80.9	80.9	80.9
Net payable days	60.9	91.7	91.7	91.7	91.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
<b>Returns (%)</b>					
ROE	30.2	25.1	40.4	41.8	44.0
Dividend yield	n.a	n.a	10.2	9.6	8.6
<b>Per share</b>					
EPS (RMB)	0.5	0.8	0.8	0.9	1.0
DPS (RMB)	0.2	0.3	0.3	0.3	0.4
BVPS (RMB)	1.6	2.0	2.5	3.2	3.9
EV/ EBITDA (x)	n.a	n.a	6.9	5.9	4.4

Source: Company data, CMBIS estimates

# Nongfu Spring (9633 HK)

## A relative benchmark; simplicity is valued at its best amid any de-risking sentiments

Despite a beverage producer at its form, Nongfu Spring, in substance, is a solution provider (to dehydration) that arbitrages the relative scarcity value of water among places. It ports water, a relatively free and abundant local resource, from its natural water sources to places where consumers price water with its scarcity value. The simplicity of Nongfu's business model, the essential and universal need of water (60% of China's beverage consumption), and the quality financial matrices (50%+ GPM; net cash) put the company at its best position to enjoy a premium over peers. We believe earnings risk is well contained given a well-guided 2021, and we look for a 13% 2H revenue to grow at stable margins. Meanwhile, a recent 10%+ share price correction seems attempting to price-in the risk of high PET cost to gross margins, in our view, and makes Nongfu more attractive on a risk-reward basis. From here, any upside surprise in the synergistic functional drinks and tea revenue should fuel further earnings upgrade potential. We forecast revenue to grow at a 16% 2-year CAGR with stable 20%+ net margins for 2021-23E. We initiate Nongfu at Buy.

- **The demand drivers to bottled water include** 1) increase in sports and outdoor activities, especially during summer; 2) increasing health awareness to consume low-sugar non-alcoholic beverages; and 3) growing demand in clean and accessible indoor water sources at home, offices and restaurants.
- **The compound of brand equity and operating scale makes imitation extremely difficult.** Nongfu's persistent pursuit on freshness and natural production has long implemented in consumers' mind. Its deep financial muscle also enables the company to invest ahead of any consumption trend and focus on product quality without hassles from near term profit fluctuation. Its sugar-free tea, which was launched about 5 years ago, is good example to illustrate Nongfu's vision and execution.
- **Our TP is based on 70x end-22E P/E**, which represents +1sd above Nongfu's valuation average since its IPO. We consider Nongfu a relative benchmark to its peers and its premium is well justified given its market leadership, and simple but unique business model that investors value most amidst of any de-risking mentality.

### Earnings summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	24,021	22,877	27,956	32,912	38,077
YoY growth (%)	17.3	(4.8)	22.2	17.7	15.7
Net income (RMB mn)	4,948	5,770	6,526	7,093	8,326
EPS (RMB)	0.4	0.5	0.6	0.6	0.7
YoY growth (%)	37.2	16.6	13.1	8.7	17.4
Consensus EPS (RMB)	n.a.	n.a.	0.6	0.7	0.8
P/E (x)	n.a.	n.a.	72.9	70.0	55.9
P/B (x)	n.a.	n.a.	25.2	21.2	17.3
Yield (%)	n.a.	n.a.	0.8	0.9	1.1
ROE (%)	50.1	37.2	33.7	30.6	29.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

Target Price	HK\$53.0
Up/Downside	+22.0%
Current Price	HK\$43.4

### China Consumer Staples

**Joseph Wong**  
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#### Stock Data

Mkt Cap (HK\$ mn)	487,534
Avg 3 mths t/o (HK\$ mn)	437.4
52w High/Low (HK\$)	67.6/ 36.5
Total Issued Shares (mn)	5,035

Source: Bloomberg

#### Shareholding Structure

Zhong Shan Shan	38.3%
YangshengTang Co	25.9%
Blackrock	0.8%

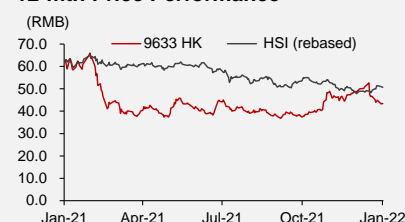
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-11.6%	-15.0%
3-mth	15.1%	23.1%
6-mth	-1.8%	11.9%

Source: Bloomberg

#### 12-mth Price Performance



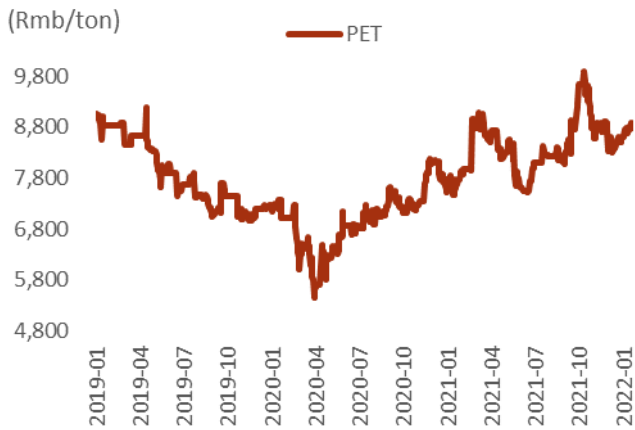
Source: Bloomberg

Auditor: Ernst & Young

#### Related Reports

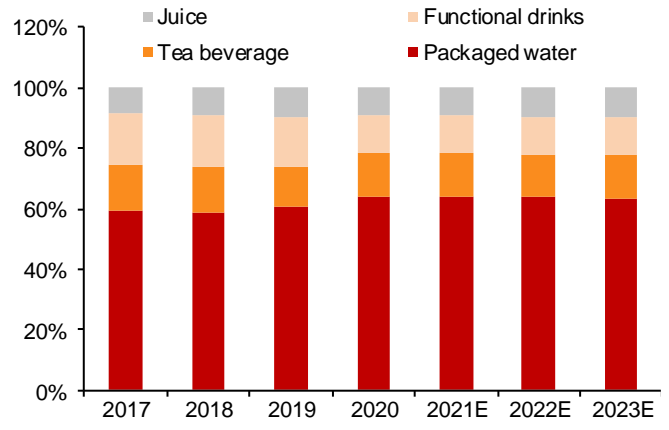
1. ["Marketing feedback – inflation & price hikes were key words that appeared in every meeting"](#) – 23 Nov 2021
2. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

**Figure 83: Daily PET price**



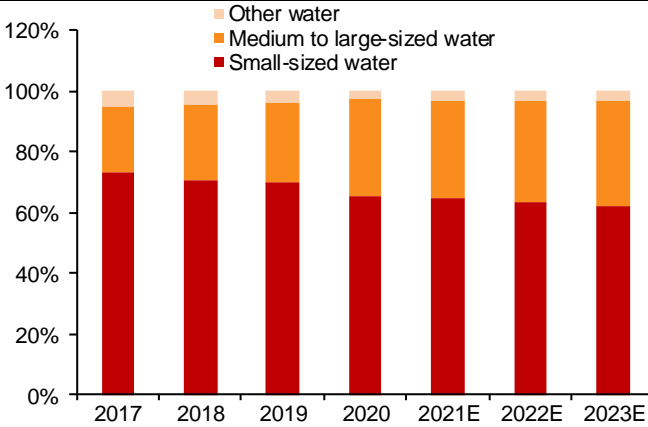
Source: Company data, CMBIS

**Figure 84: Revenue breakdown by product segment**



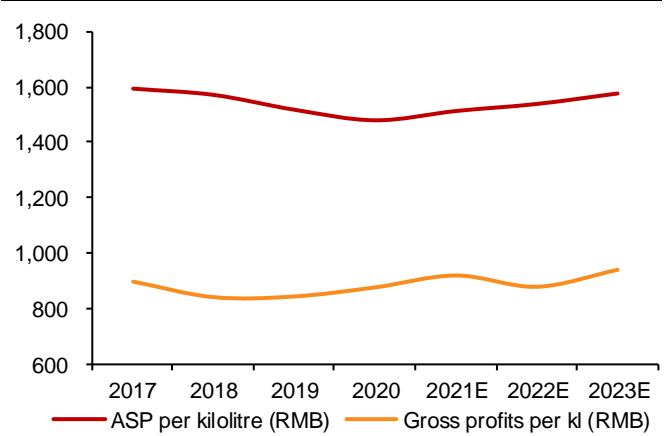
Source: Bloomberg, CMBIS estimates

**Figure 85: Packaged water revenue breakdown**



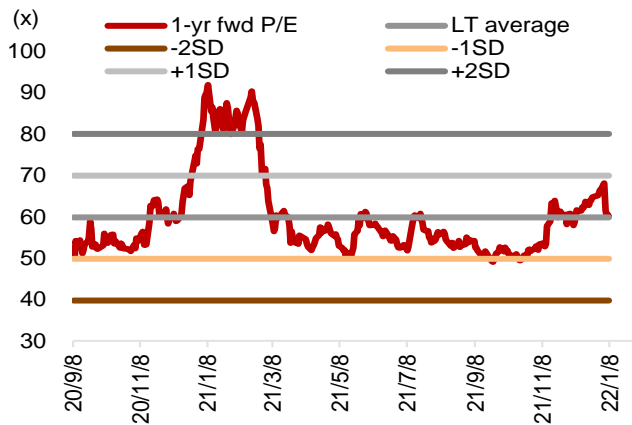
Source: Company data, CMBIS estimates

**Figure 86: ASP and gross profits per tonne 2017-23E**



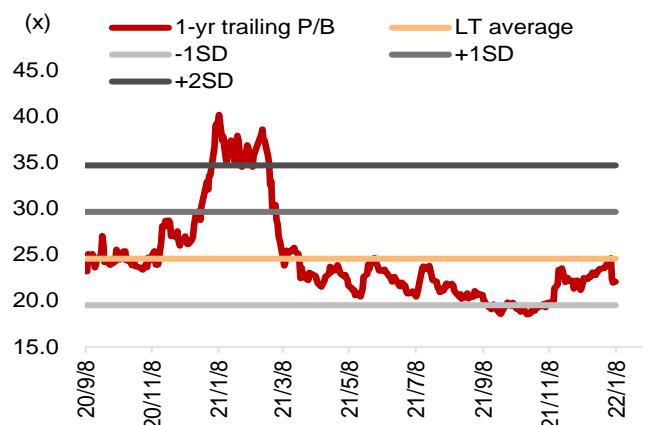
Source: Company data, CMBIS estimates

**Figure 87: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 88: 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>24,021</b>	<b>22,877</b>	<b>27,956</b>	<b>32,912</b>	<b>38,077</b>
Packaged drinking water	14,346	13,960	16,770	19,445	21,965
Tea beverage products	3,138	3,088	3,761	4,374	4,996
Functional beverage	3,779	2,792	3,283	3,851	4,518
Juice beverage products	2,311	1,977	2,450	2,873	3,282
<b>Gross profit</b>	<b>13,311</b>	<b>13,508</b>	<b>16,569</b>	<b>18,643</b>	<b>21,785</b>
Selling and distribution	(5,816)	(5,511)	(6,849)	(7,965)	(9,215)
Administrative expenses	(1,383)	(1,324)	(1,593)	(1,876)	(2,170)
Other expense	186	78	308	244	244
<b>Operating profit</b>	<b>6,297</b>	<b>7,410</b>	<b>8,370</b>	<b>9,046</b>	<b>10,644</b>
<b>EBITDA</b>	<b>7,833</b>	<b>8,599</b>	<b>10,353</b>	<b>11,245</b>	<b>13,058</b>
Finance costs, net	201	69	89	148	148
JCE					
<b>Pre-tax profit</b>	<b>6,498</b>	<b>7,479</b>	<b>8,459</b>	<b>9,194</b>	<b>10,792</b>
Income tax	(1,545)	(1,709)	(1,933)	(2,101)	(2,466)
Less: Minority interests	6	-	-	-	-
<b>Net profit</b>	<b>4,948</b>	<b>5,770</b>	<b>6,526</b>	<b>7,093</b>	<b>8,326</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>4,948</b>	<b>5,770</b>	<b>6,526</b>	<b>7,093</b>	<b>8,326</b>
Depreciation and	1,721	1,925	2,227	2,442	2,658
Change in working capital	428	698	(740)	2,302	40
Others	374	36	(0)	-	0
<b>Net cash from operating</b>	<b>7,472</b>	<b>8,429</b>	<b>8,013</b>	<b>11,838</b>	<b>11,023</b>
Capex & investments	(3,313)	(2,279)	(2,359)	(2,358)	(2,357)
Acquisition	-	-	-	-	-
Others	3,956	(2,377)	-	-	-
<b>Net cash from investing</b>	<b>643</b>	<b>(4,657)</b>	<b>(2,359)</b>	<b>(2,358)</b>	<b>(2,357)</b>
Equity raised	-	8,543	-	-	-
Change of Debts	1,000	1,414	(2,414)	-	-
Dividend paid	(9,618)	(7,980)	(2,639)	(3,263)	(3,547)
Others	(79)	(261)	(0)	-	-
<b>Net cash from financing</b>	<b>(8,697)</b>	<b>1,716</b>	<b>(5,053)</b>	<b>(3,263)</b>	<b>(3,547)</b>
<b>Net change in cash</b>	<b>(582)</b>	<b>5,488</b>	<b>601</b>	<b>6,217</b>	<b>5,120</b>
Cash at the beginning of the year	1,364	783	6,056	6,657	12,874
Exchange difference	1	(215)	-	-	-
<b>Cash at the end of the year</b>	<b>783</b>	<b>6,056</b>	<b>6,657</b>	<b>12,874</b>	<b>17,994</b>
Plus: time deposits	300	3,063	3,063	3,063	3,063

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>13,424</b>	<b>13,668</b>	<b>13,800</b>	<b>13,716</b>	<b>13,415</b>
Fixed assets	12,314	12,592	12,692	12,582	12,262
Intangibles assets	60	58	55	50	43
Right-of-use assets	656	695	730	760	787
Other non-current assets	394	324	324	324	324
<b>Current assets</b>	<b>4,372</b>	<b>12,192</b>	<b>13,723</b>	<b>17,909</b>	<b>23,179</b>
Cash	1,083	9,119	9,720	13,123	17,844
Account receivable	306	358	899	1,126	1,286
Inventory	1,762	1,805	2,195	2,750	3,140
Other current assets	1,221	910	910	910	910
<b>Current liabilities</b>	<b>7,441</b>	<b>9,825</b>	<b>7,601</b>	<b>7,872</b>	<b>8,063</b>
Borrowings	1,000	2,414	-	-	-
Accounts payable	791	882	1,072	1,343	1,534
Other payables	3,567	4,260	4,260	4,260	4,260
Contract liabilities	2,078	2,247	2,247	2,247	2,247
Other current liabilities	6	21	21	21	21
<b>Non-current liabilities</b>	<b>473</b>	<b>542</b>	<b>542</b>	<b>542</b>	<b>542</b>
Borrowings	-	-	-	-	-
Other non-current liabilities	473	542	542	542	542
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>9,882</b>	<b>15,492</b>	<b>19,380</b>	<b>23,210</b>	<b>27,990</b>
<b>Shareholders' equity</b>	<b>9,882</b>	<b>15,492</b>	<b>19,380</b>	<b>23,210</b>	<b>27,990</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Packaged water	59.7	61.0	60.0	59.1	57.7
Tea beverage	13.1	13.5	13.5	13.3	13.1
Functional beverage	15.7	12.2	11.7	11.7	11.9
Juice	9.6	8.6	8.8	8.7	8.6
<b>P&amp;L ratios (%)</b>					
Gross profit margin	55.4	59.0	59.3	56.6	57.2
Operating margin	26.2	32.4	29.9	27.5	28.0
Pre-tax margin	27.1	32.7	30.3	27.9	28.3
Net margin	20.6	25.2	23.3	21.6	21.9
Effective tax rate	(6.4)	(7.5)	(6.9)	(6.4)	(6.5)
<b>Balance sheet ratios</b>					
Current ratio (x)	0.2	0.7	0.7	0.7	0.8
Net receivable days	26.8	28.8	28.8	28.8	28.8
Net payable days	27.0	34.4	34.4	34.4	34.4
Inventory turnover days	60.1	70.4	70.4	70.4	70.4
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	50.1	37.2	33.7	30.6	29.7
Dividend yield	n.a	n.a	0.8	0.9	1.1
<b>Per share</b>					
EPS (RMB)	0.44	0.51	0.58	0.63	0.74
DPS (RMB)	0.85	0.23	0.29	0.32	0.37
BVPS (RMB)	0.88	1.38	1.72	2.06	2.49
EV/ EBITDA (x)	n.a	n.a	37.0	34.7	27.9

Source: Company data, CMBIS estimates

# Budweiser APAC (1876 HK)

## Effective shield to input cost hike protects margins; further APAC turnaround an upside

Budweiser remains a good margin play among H share listed breweries with a diversified regional exposure to enjoy the upside from the lagging reopening progress (relative to China) of other APAC countries such as Korea. We expect the latter to bring APAC East 2022E volume back to 2019 level, implying ~3% growth YoY, underpinned by easing social distancing measures that allows longer opening hours and the recent success in new launches namely Hanmac. Meanwhile, China remains the company's growth engine with on-track premiumization progress to fuel a 3% YoY volume and 0.5pp EBITDA margin expansion for 2022E, in our view. Given a 42% premium volume contribution and a 54% GPM for 2022E (highest among its Chinese peers), however, we believe Budweiser's premiumization upside looks less appealing to CR Beer (291HK, Buy). Despite our preference, we initiate Budweiser at Buy as we think market has not fully appreciated the earnings upside from Budweiser's APAC business turn-around.

- **We expect 4Q topline to up ~2% to US\$1.2bn**, when a 5.0% ASP increase neutralized a 2.5% volume decline. This will bring 2H21 revenue to US\$3.1bn and up 2.8% YoY. This will be mainly driven by sequentially better China sales when there were no lockdowns in major provinces such as Guangdong and Fujian during the quarter. We expect 4Q21 to be marginally breakeven which is comparable to that in 4Q20.
- **Mix upgrade and direct price hike should protect margins.** Different to its peers, Budweiser saw limited pressure from the input cost inflation throughout 2021, as the company adopted a 12-month hedging policy. As high-cost materials have started kicking-in by the end of 2021, we envisage Budweiser will take a more proactive approach to offset the pressure. This will not only include like-for-like price hike but also other means such as mix upgrade and efficiency boost. We forecast a 5.5% ASP uptick with a flattish GPM for 2022E.
- **Our TP is based on 21x end-22E EV/ EBITDA**, which represents its 3-year average since 2019. We expect valuation to mean-revert to its average when market price-in the turn-around for Budweiser's APAC business with less stringent social-distancing policies.

### Earnings summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	6,546	5,588	6,577	7,241	8,012
YoY growth (%)	(2.9)	(14.6)	17.7	10.1	10.6
Net income (RMB mn)	898	514	860	989	1,129
EPS (RMB)	0.07	0.04	0.07	0.07	0.09
YoY growth (%)	(6.3)	(42.7)	67.3	15.0	14.2
Consensus EPS (RMB)	n.a.	n.a.	0.07	0.08	0.10
P/E (x)	n.a.	n.a.	38.5	33.5	29.3
P/B (x)	n.a.	n.a.	3.0	2.8	2.7
Yield (%)	n.a.	n.a.	1.2	1.3	1.5
ROE (%)	9.0	5.0	7.8	8.5	9.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

Target Price	HK\$26.6
Up/Downside	+36.6%
Current Price	HK\$19.5

### China Consumer Staples

**Joseph Wong**  
(852) 3900 0838  
josephwong@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	258,776
Avg 3 mths t/o (HK\$ mn)	128.2
52w High/Low (HK\$)	28.0/ 18.2
Total Issued Shares (mn)	13,243

Source: Bloomberg

#### Shareholding Structure

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

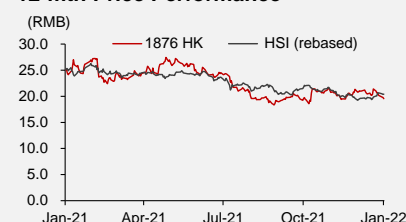
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-8.5%	-12.0%
3-mth	-0.4%	6.4%
6-mth	-19.1%	-7.8%

Source: Bloomberg

#### 12-mth Price Performance



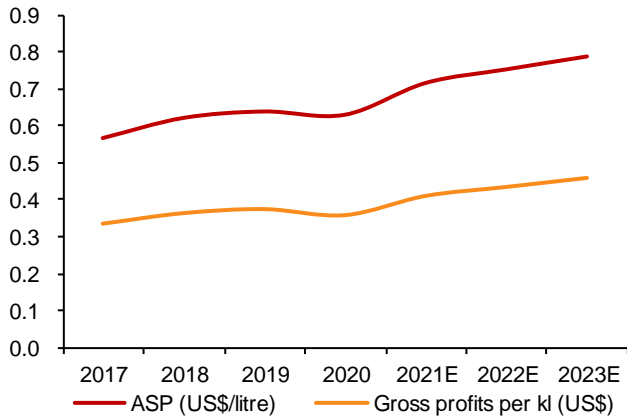
Source: Bloomberg

#### Auditor: PricewaterhouseCoopers

#### Related Reports

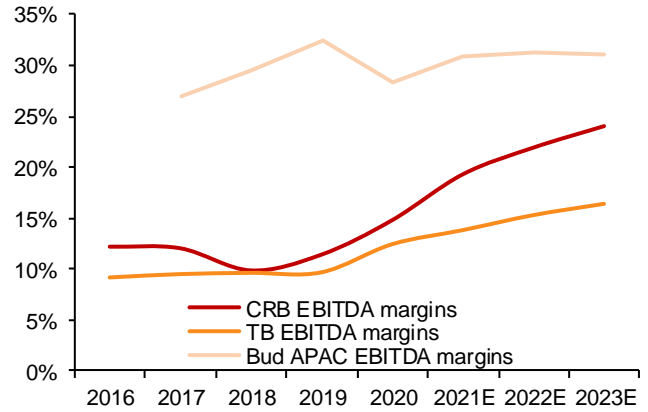
1. ["Marketing feedback – inflation & price hikes were key words that appeared in every meeting" – 23 Nov 2021](#)
2. ["Structural merits look prominent amid transitional headwind and any stagflation expectation" – 2 Nov 2021](#)

**Figure 89: ASP per kl and gross profits per kl are still on an uptrend between 2017-23E**



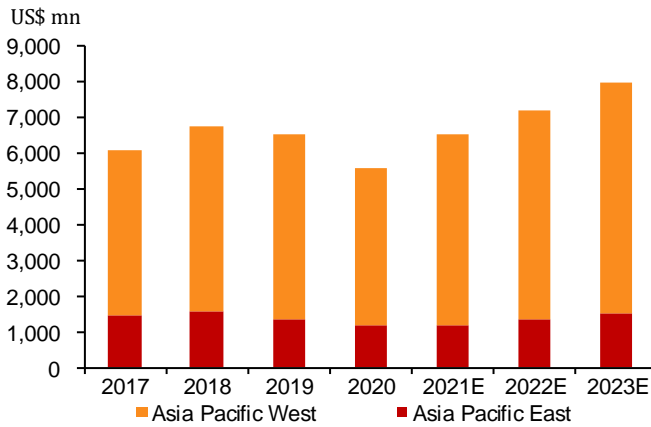
Source: Company data, CMBIS estimates

**Figure 90: CRB offers a higher EBITDA margin growth, while that of Bud APAC remains highest**



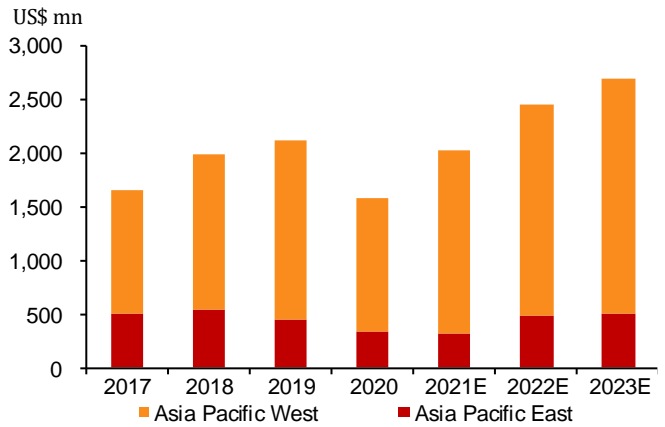
Source: Company data, CMBIS estimates

**Figure 91: Revenue breakdown by region 2017-23E**



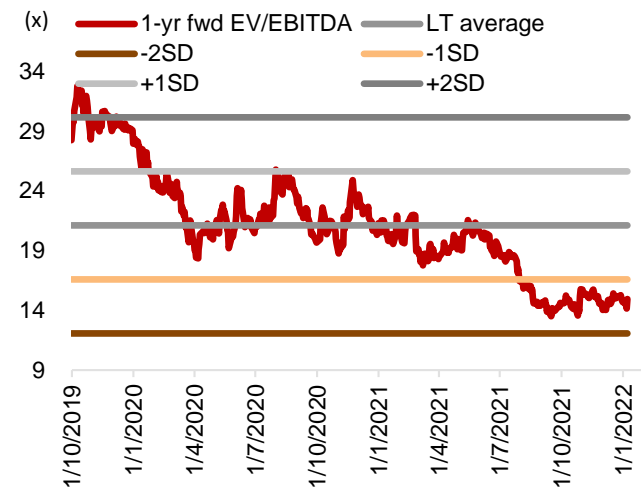
Source: Company data, CMBIS estimates

**Figure 92: EBITDA breakdown by region 2017-23E**



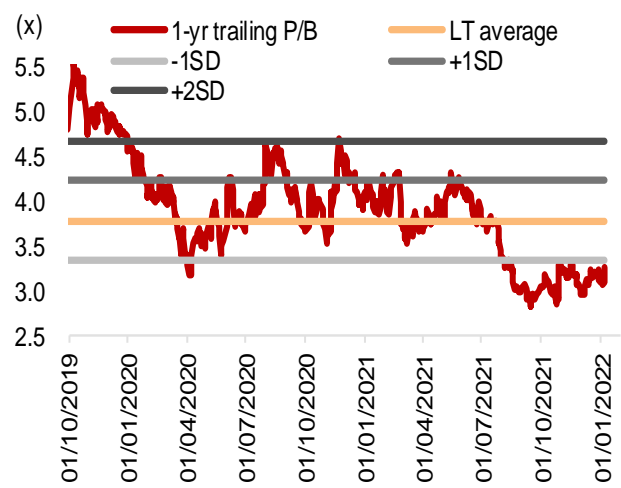
Source: Company data, CMBIS estimates

**Figure 93: 1-year forward EV/EBITDA chart**



Source: Bloomberg, CMBIS estimates

**Figure 94: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>6,546</b>	<b>5,588</b>	<b>6,577</b>	<b>7,241</b>	<b>8,012</b>
Asia Pacific East	1,370	1,162	1,181	1,335	1,541
Asia Pacific West	5,176	4,426	5,396	5,906	6,471
<b>Gross profit</b>	<b>3,488</b>	<b>2,907</b>	<b>3,545</b>	<b>3,910</b>	<b>4,366</b>
Distribution expenses	(519)	(458)	(513)	(547)	(605)
Sales and marketing	(1,358)	(1,278)	(1,447)	(1,571)	(1,706)
Administrative expenses	(382)	(399)	(362)	(362)	(401)
Other operating income	237	165	165	165	165
<b>Operating profit</b>	<b>1,466</b>	<b>937</b>	<b>1,388</b>	<b>1,595</b>	<b>1,819</b>
<b>EBITDA</b>	<b>2,121</b>	<b>1,584</b>	<b>2,024</b>	<b>2,259</b>	<b>2,478</b>
Finance costs, net	(24)	(24)	(19)	(19)	(19)
Joint ventures &	23	23	35	35	35
Other non-recurring items	(98)	(28)	(28)	(28)	(28)
<b>Pre-tax profit</b>	<b>1,367</b>	<b>908</b>	<b>1,376</b>	<b>1,583</b>	<b>1,807</b>
Income tax	(459)	(371)	(482)	(554)	(633)
Less: Minority interests	10	23	35	40	46
<b>Net profit</b>	<b>898</b>	<b>514</b>	<b>860</b>	<b>989</b>	<b>1,129</b>

### Cash flow summary

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>898</b>	<b>514</b>	<b>860</b>	<b>989</b>	<b>1,129</b>
D&A	618	608	635	664	659
Change in working capital	(46)	183	124	128	160
Others	(91)	(4)	(192)	40	46
<b>Net cash fr. operating act.</b>	<b>1,379</b>	<b>1,301</b>	<b>1,427</b>	<b>1,821</b>	<b>1,993</b>
Capex & investments	(647)	(516)	(786)	(750)	(550)
Acquisition	(176)	-	-	-	-
Others	80	(56)	-	-	-
<b>Net cash fr. investing act.</b>	<b>(743)</b>	<b>(572)</b>	<b>(786)</b>	<b>(750)</b>	<b>(550)</b>
Equity raised	(1,247)	659	-	-	-
Change of Debts	(382)	(4)	-	-	-
Dividend paid	(976)	(348)	(374)	(387)	(445)
Others	1,256	(739)	-	-	-
<b>Net cash fr. financing act.</b>	<b>(1,349)</b>	<b>(432)</b>	<b>(374)</b>	<b>(387)</b>	<b>(445)</b>
<b>Net change in cash</b>	<b>(713)</b>	<b>297</b>	<b>267</b>	<b>685</b>	<b>998</b>
Cash at the beginning of the year	1,622	877	1,264	1,531	2,216
Exchange difference	(32)	90	-	-	-
<b>Cash at the end of the year</b>	<b>877</b>	<b>1,264</b>	<b>1,531</b>	<b>2,216</b>	<b>3,214</b>
Plus: pledged cash	75	17	-	-	-

### Balance sheet

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>13,200</b>	<b>13,857</b>	<b>14,008</b>	<b>14,093</b>	<b>13,985</b>
Fixed asset	3,638	3,716	3,865	3,950	3,841
Net intangibles assets	8,629	9,125	9,127	9,128	9,127
Right of use assets, net	247	256	256	256	256
Other non-current assets	686	760	760	760	760
<b>Current assets</b>	<b>2,108</b>	<b>2,332</b>	<b>2,716</b>	<b>3,492</b>	<b>4,561</b>
Cash	952	1,281	1,531	2,216	3,214
Account receivable	449	367	444	488	538
Inventory	438	434	491	538	559
Other current assets	269	250	250	250	250
<b>Current liabilities</b>	<b>4,493</b>	<b>4,637</b>	<b>4,651</b>	<b>4,870</b>	<b>5,102</b>
Borrowings	160	147	147	147	147
Payables	2,152	2,112	2,370	2,589	2,821
Contract liabilities	1,260	1,449	1,449	1,449	1,449
Payables with parentco	222	142	142	142	142
Other current liabilities	699	787	543	543	543
<b>Non-current liabilities</b>	<b>931</b>	<b>809</b>	<b>809</b>	<b>809</b>	<b>809</b>
Borrowings	28	37	37	37	37
Other non-current liabilities	903	772	772	772	772
<b>Minority Interest</b>	<b>48</b>	<b>58</b>	<b>93</b>	<b>133</b>	<b>179</b>
<b>Total net assets</b>	<b>9,884</b>	<b>10,743</b>	<b>11,264</b>	<b>11,906</b>	<b>12,635</b>
<b>Shareholders' equity</b>	<b>9,836</b>	<b>10,685</b>	<b>11,171</b>	<b>11,773</b>	<b>12,457</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Asia Pacific East	20.9	20.8	18.0	18.4	19.2
Asia Pacific West	79.1	79.2	82.0	81.6	80.8
<b>P&amp;L ratios (%)</b>					
Gross profit margin	53.3	52.0	53.9	54.0	54.5
Operating margin	22.4	16.8	21.1	22.0	22.7
Pre-tax margin	20.9	16.2	20.9	21.9	22.6
Net margin	13.7	9.2	13.1	13.7	14.1
Effective tax rate	(7.0)	(6.6)	(7.3)	(7.7)	(7.9)
<b>Balance sheet ratios</b>					
Current ratio (x)	0.5	0.5	0.6	0.7	0.9
Net receivable days	25	24	24	24	24
Net payable days	230	268	268	268	268
Inventory turnover days	52	59	59	59	56
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	8.95	4.98	7.81	8.54	9.20
Dividend yield	n.a.	n.a.	1.2	1.3	1.5
<b>Per share</b>					
EPS (US\$)	0.07	0.04	0.07	0.07	0.09
DPS (US\$)	0.03	0.03	0.03	0.03	0.04
BVPS (US\$)	0.74	0.81	0.84	0.89	0.94
EV/ EBITDA (x)	n.a.	n.a.	15.7	13.8	12.1

Source: Company data, CMBIS estimates

# Smooore Int'l (6969 HK)

## A slightly lower 2H due to regulatory reform; overseas orders to fuel growth for 2022E

We cut our 2H revenue forecasts by 6% to RMB7bn (from RMB7.5bn) to reflect the soft sales momentum subsequent to China's recent regulatory reform. The reduction in general is in line with our assumptions for RLX (about 30% of Smooore's 1H21 revenue), in which we look for a ~10% sequential improvement in 4Q21 shipment. We have also extrapolated the revision to 2022E, and lowered our revenue forecasts by approximately 30% for the same reason. For now, we only expect 2H21/ 2022E revenue to grow by 15%/ 31% YoY (from 22%/ 41%), respectively, and much of the growth will be driven by overseas order. On the other hand, we do not expect Smooore to suffer from an augmented input cost such as electronic component, plastic and copper, etc. and maintain our GPM forecasts for now. That said, we raised our opex ratio by an average of 0.4pp for each of 2021/22E in view of a more aggressive R&D ambition, despite any hiccups in new product debut in China. The above changes in aggregate lead to a 2%/ 11% cut in our 2021/22E net profits, and hence our lowered TP of HK\$43.0 (from HK\$51.6). Smooore's diversified regional exposure and its upper hand in cost pass-through (as an upstream supplier) should effectively mitigate risks arising from local regulatory reform. We remain Buy-rated.

- **PMTA's GMO remains a key event-driven catalyst.** US Food and Drug Association's (FDA) unprecedented requirement in demanding flavored e-vapor manufacturers to submit harm reduction evidence to juvenile consumers have led to the issuance of 100k+ Marketing Denial Order (MDO). Not until recently one of Smooore's major clients R.J. Reynolds Vapor Company has received [Marketing Granted Order \(MGO\)](#) for its flavored ENDS products under the Vuse Solo series. We view any regulatory scrutiny as positive catalyst to foster a more centralized market share, when smaller non-compliant producers will be crowded out.
- **By region, we forecast revenue growth for overseas countries to maintain at 35-40% with that of US and Europe are largely indifferent.** We cut our China forecast to 20% YoY due to hiccups from regulatory reform.
- **Our new TP is based on an updated 32x (from 34x) end-22E P/E**, which still represents -1sd below its 2-year average of 44x (from 47x). Our methodology, in our view, reflects the current perplexed market sentiment that attempts to price-in any regulatory tightening on the e-vapor segment. Our 2022E earnings is 8% below consensus.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	7,611	10,010	13,982	18,264	24,786
YoY growth (%)	2.0	31.5	39.7	30.6	35.7
Net income (RMB mn)	2,174	2,400	5,339	6,914	9,385
EPS (RMB)	0.4	0.4	0.9	1.1	1.5
YoY growth (%)	26.7	(1.4)	104.7	29.5	35.7
Consensus EPS (RMB)	n.a	n.a	0.9	1.3	1.8
P/E (x)	n.a	n.a	34.8	26.8	19.8
P/B (x)	n.a	n.a	11.9	9.4	7.4
Yield (%)	n.a	n.a	1.2	1.6	2.1
ROE (%)	n.a	25.1	40.4	41.4	43.8
Net gearing (%)	n.a	n.a	n.a	n.a	n.a

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$43.0
(Previous TP)	HK\$51.6)
Up/Downside	+19.2%
Current Price	HK\$36.0

### China Consumer Staples

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 josephwong@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	216,368
Avg 3 mths t/o (HK\$ mn)	689.5
52w High/Low (HK\$)	90.0/ 31.2
Total Issued Shares (mn)	6,010

Source: Bloomberg

#### Shareholding Structure

Chen Zhiping	33.1%
Eve Battery Inv Ltd	31.6%
Xiong Shaoming	8.0%

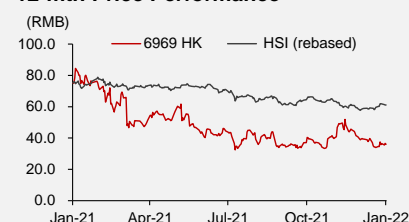
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-11.9%	-15.3%
3-mth	-10.8%	-4.6%
6-mth	-17.6%	-6.1%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

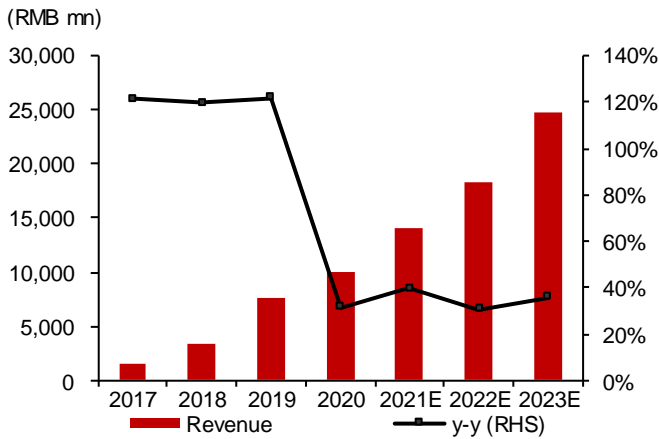
Auditor: Deloitte

#### Related Reports

1. ["Marketing feedback – inflation & price hikes are key words appeared in every meeting"](#) – 23 Nov 2021
2. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

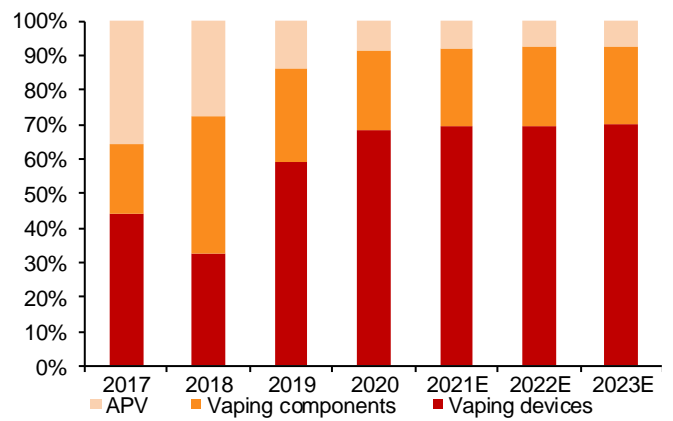


**Figure 95: Revenue and growth projection 2017-23E**



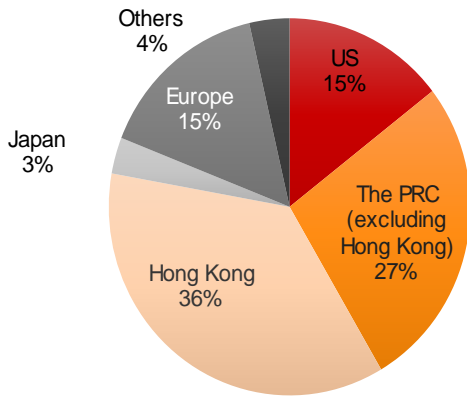
Source: Company data, CMBIS estimates

**Figure 96: Revenue breakdown by products**



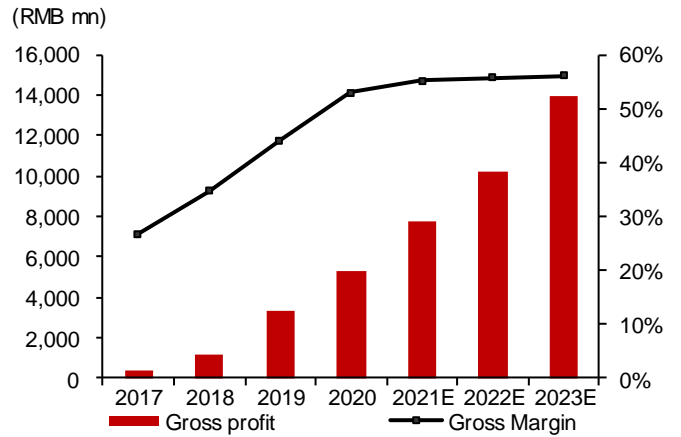
Source: Company data, CMBIS estimates

**Figure 97: Revenue mix by region 2021**



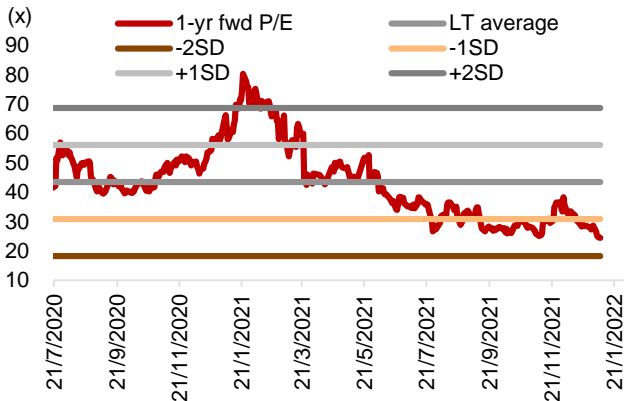
Source: Company data, CMBIS

**Figure 98: Gross margins 2017-23E**



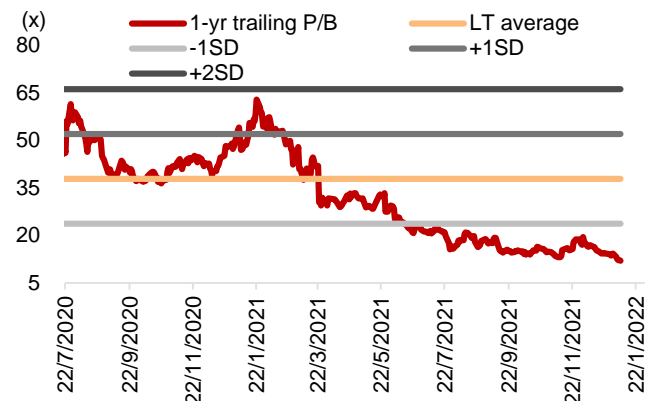
Source: Company data, CMBIS estimates

**Figure 99: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 100: 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>7,611</b>	<b>10,010</b>	<b>13,982</b>	<b>18,264</b>	<b>24,786</b>
Vaping device/ component	6,569	9,163	12,839	16,857	22,985
Advanced personal vapor	1,042	847	1,144	1,407	1,801
<b>Gross profits</b>	<b>3,352</b>	<b>5,296</b>	<b>7,723</b>	<b>10,121</b>	<b>13,832</b>
D&A	(20)	(36)	(57)	(174)	(232)
Selling expense	(158)	(144)	(154)	(219)	(297)
Administration expenses	(327)	(683)	(643)	(840)	(1,140)
R&D expenses	(277)	(420)	(629)	(913)	(1,338)
Other operating expenses	19	177	57	174	232
<b>EBIT</b>	<b>2,589</b>	<b>4,191</b>	<b>6,297</b>	<b>8,149</b>	<b>11,056</b>
<b>EBITDA</b>	<b>2,763</b>	<b>4,422</b>	<b>6,593</b>	<b>8,579</b>	<b>11,588</b>
Finance costs, net	(18)	(15)	(15)	(15)	(15)
Non-operating	(4)	(1,058)	-	-	-
<b>Pre-tax profit</b>	<b>2,567</b>	<b>3,118</b>	<b>6,281</b>	<b>8,134</b>	<b>11,041</b>
Income tax	(393)	(718)	(942)	(1,220)	(1,656)
Less: Minority interests	-	-	-	-	-
<b>Net profit to shareholder</b>	<b>2,174</b>	<b>2,400</b>	<b>5,339</b>	<b>6,914</b>	<b>9,385</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>2,174</b>	<b>2,400</b>	<b>5,339</b>	<b>6,914</b>	<b>9,385</b>
D&A	20	36	57	174	232
Change in working capital	(115)	(1,004)	368	(641)	(989)
Others	106	1,603	224	241	284
<b>Net cash fr. operating act.</b>	<b>2,184</b>	<b>3,035</b>	<b>5,988</b>	<b>6,687</b>	<b>8,912</b>
Capex & investments	(456)	(339)	(848)	(848)	(848)
Associated companies	-	-	-	-	-
Others	(34)	(922)	15	15	15
<b>Net cash fr. investing act.</b>	<b>(489)</b>	<b>(1,261)</b>	<b>(832)</b>	<b>(832)</b>	<b>(832)</b>
Equity raised	0	7,390	-	-	-
Change of Debts	1	-	-	-	-
Dividend paid	(1,142)	(1,437)	(2,173)	(2,814)	(3,820)
Others	(759)	1,105	-	-	-
<b>Net cash fr. financing act.</b>	<b>(1,900)</b>	<b>7,058</b>	<b>(2,173)</b>	<b>(2,814)</b>	<b>(3,820)</b>
<b>Net change in cash</b>	<b>(205)</b>	<b>8,832</b>	<b>2,982</b>	<b>3,041</b>	<b>4,260</b>
Cash at the beginning of the year	942	731	9,558	12,540	15,580
Exchange difference	(6)	(6)	-	-	-
<b>Cash at the end of the year</b>	<b>731</b>	<b>9,558</b>	<b>12,540</b>	<b>15,580</b>	<b>19,840</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>1,132</b>	<b>2,333</b>	<b>1,879</b>	<b>2,297</b>	<b>2,613</b>
PP&E/Fixed assets	887	1,116	1,648	2,052	2,359
Intangible assets	59	88	108	122	132
Deferred tax assets	14	12	12	12	12
Other non-current assets	173	1,117	111	111	111
<b>Current assets</b>	<b>2,170</b>	<b>12,441</b>	<b>16,536</b>	<b>20,798</b>	<b>26,911</b>
Cash	731	9,558	12,540	15,580	19,840
Account receivable	659	2,218	3,098	4,046	5,491
Prepayments	231	226	316	413	561
Other current assets	548	439	583	758	1,020
<b>Current liabilities</b>	<b>2,049</b>	<b>2,108</b>	<b>2,584</b>	<b>3,164</b>	<b>4,029</b>
Borrowings	-	-	-	-	-
Account payables	442	702	933	1,213	1,632
Other payables	1,513	1,121	1,367	1,666	2,112
Tax payables	94	285	285	285	285
<b>Non-current liabilities</b>	<b>518</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>266</b>
Borrowings	-	-	-	-	-
Deferred tax liabilities	283	213	213	213	213
Other non-current liabilities	235	53	53	53	53
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>735</b>	<b>12,400</b>	<b>15,566</b>	<b>19,665</b>	<b>25,230</b>
<b>Shareholders' equity</b>	<b>735</b>	<b>12,400</b>	<b>15,566</b>	<b>19,665</b>	<b>25,230</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Vaping devices &	86.3	91.5	91.8	92.3	92.7
Advanced personal vapor	13.7	8.5	8.2	7.7	7.3
<b>P&amp;L ratios (%)</b>					
Gross margin	44.0	52.9	55.2	55.4	55.8
Operating margin	34.0	41.9	45.0	44.6	44.6
Pre-tax margin	33.7	31.1	44.9	44.5	44.5
Net margin	28.6	24.0	38.2	37.9	37.9
Effective tax rate	(15.3)	(23.0)	(15.0)	(15.0)	(15.0)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.3	0.8	0.8	0.7	0.7
Net receivable days	33.2	60.8	76.5	78.7	77.4
Net payable days	43.4	44.3	47.7	48.1	47.4
Inventory turnover days	40.3	38.2	29.8	30.0	29.6
Net debt to equity (%)	n.a	n.a	n.a	n.a	n.a
<b>Returns (%)</b>					
ROE	n.a	25.1	40.4	41.4	43.8
Dividend yield	n.a	n.a	1.2	1.6	2.2
<b>Per share</b>					
EPS (RMB)	0.4	0.4	0.9	1.1	1.5
DPS (RMB)	0.2	0.3	0.4	0.5	0.6
BVPS (RMB)	0.1	2.2	2.5	3.2	4.1
EV/ EBITDA (x)	n.a	n.a	26.2	19.8	14.3

Source: Company data, CMBIS estimates

# RELX Technology (RLX US)

## 4Q likely in line with sequential improvement; regulatory overhang priced-in

We continue to expect 3Q a trough quarter to RLX and look for a sequential recovery to take place in 4Q, when shipment likely to grow by low-teen at stable ASP. The recovery should bring annual cartridges and devices shipment to 500mn/ 20mn units in our forecasts, implying 120mn/ 3.9mn units of shipment for the quarter. Of note, channel destocking has completed by 3Q and distributors have in general started restocking with preference on flavored cartridges, particularly those which might see production ban when the new tobacco law becomes effective. Until then, it is prohibitive to launch new products and open new shops. While A&P efforts are simultaneously under constraints, in our view, growth engines will only reside with store efficiency improvement and we expect RLX to aggressively shut down non-profitable outlets. We assume a 0.5pp reduction in 2022E opex ratio (pre-sbp) to 15.2% to reflect these. Barring any operational turnaround upon a clearer regulatory roadmap, we now look for a flat ASP and a 10% shipment growth for 2022E, with the latter being purely driven by penetration of existing customer base. In other words, we have cut our 2022E shipment/ ASP assumptions by 28%/ 12%, respectively, and that led to a 40%/ 26% reduction in our revenue/ net profits forecasts. We trim our TP to US\$4.3 (from US\$6.9), accordingly.

- **The 2% nicotine concentration will set the new benchmark.** We expect lower user experience; however, this would be compensated by a longer whitelist with flavored cartridge offering (such as menthol), which is previously rumored to be hit by the ban hammer. Of note, RLX has picked up the production know-how to maintain the same level of user satisfaction with lower nicotine concentration and we are not expecting any operational bottleneck arising from the change.
- **Valuation.** While shares have tumbled by ~35% since the release of STMA's proposed regulatory framework, we think part of the headwind is priced-in at current valuation of 16.0x P/E. A 15%+ share price upside underpins a Buy rating. Our TP is based on an updated 17.0x (from 20.4x) end-22E P/E, which still represents 1sd below the average valuation since March 2021, as we attempt to take into account of the perplexed sentiment amid the current tightening on the e-cigarette industry.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,549	3,820	8,465	9,650	12,578
YoY growth (%)	2.0	146.5	121.6	14.0	30.3
Net profits (non-GAAP)	100	801	2,151	2,379	3,084
EPS (RMB)	0.1	0.6	1.4	1.6	2.0
YoY growth (%)	n.m	n.m	151.8	10.6	29.7
Consensus EPS (RMB)	n.a	n.a	1.6	2.0	2.4
P/E (x)	n.a	n.a	15.9	14.4	11.1
P/B (x)	n.a	n.a	9.8	6.0	4.0
Yield (%)	n.a	n.a	n.a	n.a	n.a
ROE (%)	45.1	n.a	56.6	38.7	33.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	US\$4.3
(Previous TP)	US\$6.9)
Up/Downside	+17.3%
Current Price	US\$3.6

### China Consumer Staples

**Joseph Wong**  
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#### Stock Data

Mkt Cap (US\$ mn)	5,702
Avg 3 mths t/o (US\$ mn)	62.0
52w High/Low (US\$)	35.0/ 3.3
Total Issued Shares (mn)	953

Source: Bloomberg

#### Shareholding Structure

Coatue Management LLC	1.5%
Brilliance Asset Management	0.8%
BlackRock	0.8%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-6.9%	-6.0%
3-mth	-39.5%	-40.3%
6-mth	-42.9%	-46.9%

Source: Bloomberg

#### 12-mth Price Performance



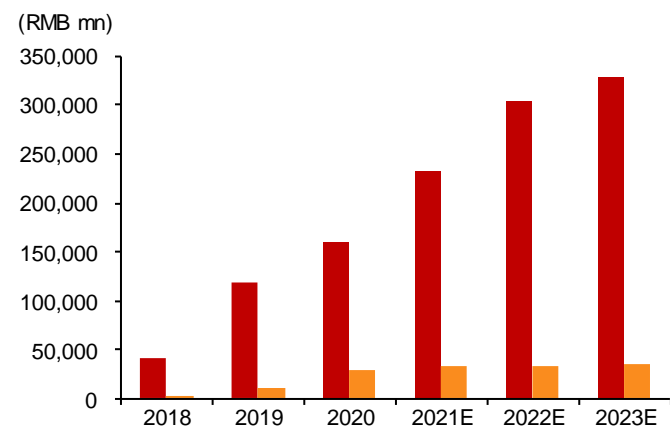
Source: Bloomberg

Auditor: PwC Zhong Tian

#### Related Reports

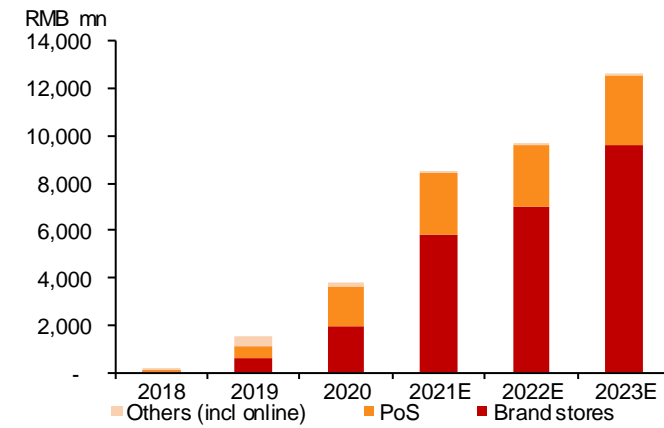
1. ["Marketing feedback – inflation & price hikes are key words appeared in every meeting"](#) – 23 Nov 2021
2. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

**Figure 101: Revenue breakdown by channel**



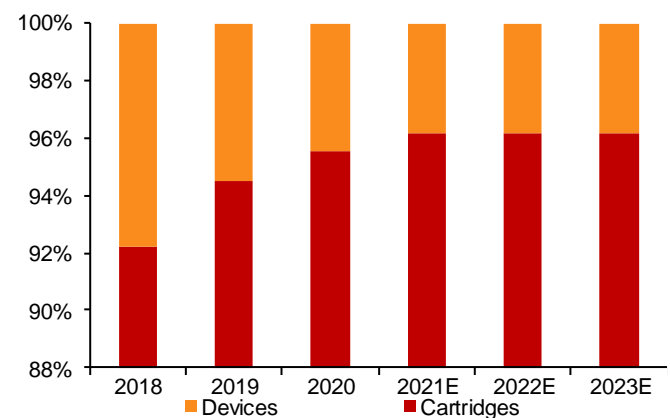
Source: Company data, CMBIS estimates

**Figure 102: Revenue per outlet 2018-23E**



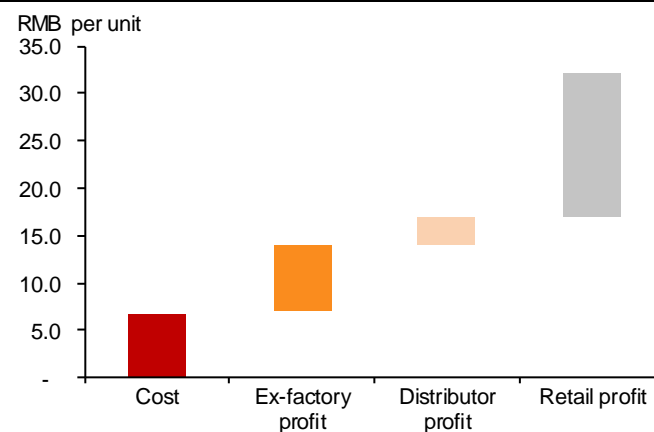
Source: Company data, CMBIS estimates

**Figure 103: Volume mix 2018-23E**



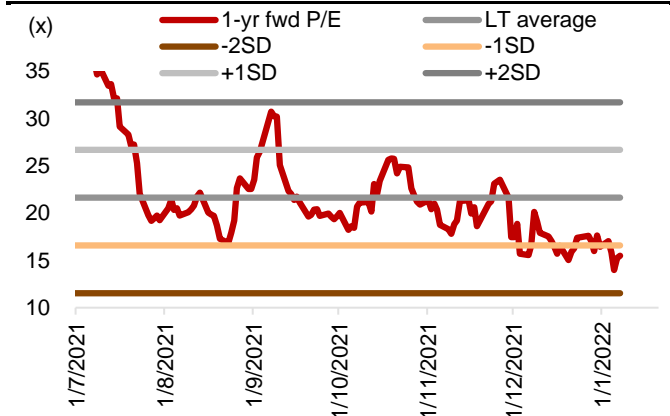
Source: Company data, CMBIS estimates

**Figure 104: Cartridge distribution channel profitability**



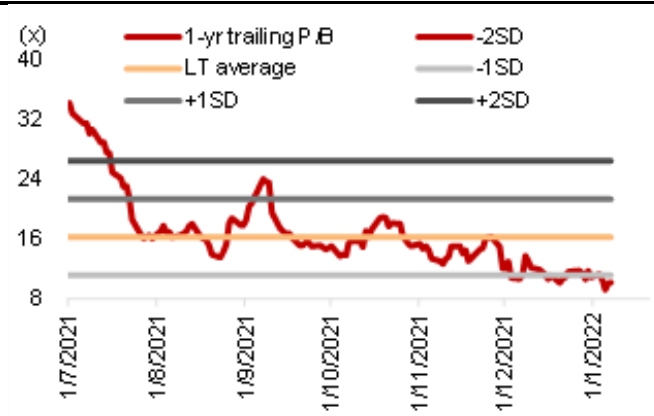
Source: Company data, CMBIS estimates

**Figure 105: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 106: 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>1,549</b>	<b>3,820</b>	<b>8,465</b>	<b>9,650</b>	<b>12,578</b>
Cartridges	1,033	2,842	6,486	7,393	9,698
Devices	516	978	1,980	2,257	2,880
<b>Gross profits</b>	<b>581</b>	<b>1,528</b>	<b>3,725</b>	<b>4,188</b>	<b>5,567</b>
D&A	(13)	(59)	(59)	(69)	(85)
Selling expense	(359)	(443)	(508)	(579)	(755)
Administration expenses	(133)	(772)	(745)	(772)	(1,006)
Other operating expenses	(19)	(240)	(195)	(220)	(293)
<b>EBIT</b>	<b>56</b>	<b>13</b>	<b>2,218</b>	<b>2,547</b>	<b>3,429</b>
<b>EBITDA</b>	<b>69</b>	<b>72</b>	<b>2,277</b>	<b>2,617</b>	<b>3,514</b>
Finance costs, net	1	32	60	60	60
Non-operating	-	20	90	90	90
Total investment	17	37	160	50	50
<b>Pre-tax profit</b>	<b>74</b>	<b>102</b>	<b>2,528</b>	<b>2,747</b>	<b>3,629</b>
Income tax	(26)	(231)	(556)	(549)	(726)
Less: Minority interests	-	-	(3)	-	-
<b>Net profit (GAAP)</b>	<b>48</b>	<b>(128)</b>	<b>1,970</b>	<b>2,198</b>	<b>2,903</b>
<b>Net profit (non-GAAP)</b>	<b>100</b>	<b>801</b>	<b>2,151</b>	<b>2,379</b>	<b>3,084</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>48</b>	<b>(128)</b>	<b>1,970</b>	<b>2,198</b>	<b>2,903</b>
D&A	13	59	59	69	85
Change in working capital	260	870	629	(1,749)	(1,289)
Others	18	1,788	331	84	208
<b>Net cash fr. operating act.</b>	<b>338</b>	<b>2,589</b>	<b>2,988</b>	<b>602</b>	<b>1,907</b>
Capex & investments	(92)	(1,234)	(1,467)	(1,409)	(1,221)
Short term investment	(40)	(5,444)	-	-	-
Others	(365)	4,865	1,337	1,279	1,091
<b>Net cash fr. investing act.</b>	<b>(498)</b>	<b>(1,813)</b>	<b>(130)</b>	<b>(130)</b>	<b>(130)</b>
Equity raised	60	1,530	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	-	-	-	-	-
Others	517	(1,355)	-	-	-
<b>Net cash fr. financing act.</b>	<b>576</b>	<b>175</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>417</b>	<b>951</b>	<b>2,858</b>	<b>472</b>	<b>1,777</b>
Cash at the beginning of the year	(280)	144	1,114	3,972	4,444
Exchange difference	(1)	19	-	-	-
<b>Cash at the end of the year</b>	<b>136</b>	<b>1,114</b>	<b>3,972</b>	<b>4,444</b>	<b>6,221</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>261</b>	<b>193</b>	<b>376</b>	<b>465</b>	<b>580</b>
PP&E/Fixed assets	66	75	127	163	182
Intangible assets	5	5	24	49	75
Right of use assets, net	90	92	203	232	302
Other non-current assets	99	21	21	21	21
<b>Current assets</b>	<b>1,183</b>	<b>3,867</b>	<b>6,974</b>	<b>8,953</b>	<b>12,229</b>
Cash	136	1,114	3,972	4,444	6,221
Account receivable	39	20	209	1,058	2,068
Inventories	219	329	390	1,048	1,537
Other current assets	789	2,404	2,404	2,404	2,404
<b>Current liabilities</b>	<b>620</b>	<b>2,497</b>	<b>3,817</b>	<b>3,688</b>	<b>4,176</b>
Borrowings	-	-	-	-	-
Account payables	499	1,460	2,338	2,095	2,305
Other payables	118	674	674	674	674
Rent payable	3	364	806	919	1,197
<b>Non-current liabilities</b>	<b>718</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>
Borrowings	-	-	-	-	-
Other non-current liabilities	718	55	55	55	55
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>106</b>	<b>1,508</b>	<b>3,478</b>	<b>5,675</b>	<b>8,578</b>
<b>Shareholders' equity</b>	<b>106</b>	<b>1,508</b>	<b>3,478</b>	<b>5,675</b>	<b>8,578</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Cartridges	66.7	74.4	76.6	76.6	77.1
Devices	33.3	25.6	23.4	23.4	22.9
<b>P&amp;L ratios (%)</b>					
Gross margin	37.5	40.0	44.0	43.4	44.3
Operating margin	3.6	0.3	26.2	26.4	27.3
Pre-tax margin	4.8	2.7	29.9	28.5	28.9
Net margin	3.1	(3.4)	23.3	22.8	23.1
Effective tax rate	(35.2)	(225.1)	(22.0)	(20.0)	(20.0)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.1	0.3	0.6	0.5	0.5
Net receivable days	9.1	1.9	9.0	40.0	60.0
Inventory turnover days	82.7	52.4	30.0	70.0	80.0
Net payable days	188.1	232.5	180.0	140.0	120.0
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	45.1	n.a	56.6	38.7	33.8
Dividend yield	-	-	-	-	-
<b>Per share</b>					
EPS (RMB)	0.1	0.6	1.4	1.6	2.0
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	0.1	1.0	2.3	3.7	5.6
EV/ EBITDA (x)	n.m	n.m	13.1	10.7	7.4

Source: Company data, CMBIS estimates

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