

China Consumer Staples

2021 results wrap-up; taking out Feihe from our top picks on soft 1H22 outlook

- Not as good as we expected.** 2021 results were wrapped up by 2 beats, 1 in-line and 5 misses among the 9 companies we cover (with Yili to report by end-April). Of note, the misses were mainly attributable to systematic risks such as the pandemic-driven demand hiccup and high input costs that broadly weighed on margins. Knee-jerk market reactions were negative. That said, shares were able to gradually pick up on relieving guidance that infers a steady earnings outlook through price hikes and cost controls. We continue to prefer stocks with pricing power such as CR Beer and Mengniu. Budweiser looks incrementally interesting on a strong regional business turn-around.
- Beer – Budweiser was a strong beat** thanks to solid premiumization progress that justified a continuous ASP uplift and a prompt turn-around in its APAC-east business. Separately, CR beer reported an in-line bottom line but missed slightly on its high-end volume growth and GPM. Management guided for 1) a 20-25% premium growth for 2022; and 2) a RMB1.5-1.6b raw material cost inflation that could be largely mitigated by a MSD to HSD price hike.
- Dairy/ IMF –** Effective cost control has brought Mengniu's 2H results in line with market expectation, although the still-high raw milk cost dragged GPM. The company still looks for a low-teen top line growth with 30-50bps recurring OPM expansion that align future growth momentum with the company's 5-year plan. Mengniu's GPM trajectory could be a good read-across to Yili's results, in our view. Meanwhile, Feihe guided for 1) a slight sales decline in 1H22 due to channel inventory control and a high y-y comparable base, and 2) flattish 2022E GPM trend from 2H21 at 65-70%, 3) double digit sales growth for 2022 and maintain 2023E RMB35bn revenue target with 30% market share. In view of the softer guidance, we take out Feihe from our top picks.
- Beverages –** Nongfu's non-water beverage sales came in as a beat but was offset by raising PET price that flattened GPM. We think market is well-aware of a softening GPM trajectory for 2022E as what management has explained during 1H21 results and our NDRs in January. Our current GPM is set at 56.6% and we still assume a low-teen revenue growth for the year.
- E-cigarettes –** Regulatory reform has set a clearer path to the industry's evolution and yet production hiccup in the near term. We think worst is likely over for Smoore and RLX but we do not expect operation economics to see an immediate uptick.

Name	Ticker	Rating	Price	TP	Mkt Cap (US\$ mn)	P/E (x)		EV/EBITDA (x)		ROE (%)	
			(LC)	(LC)		FY21A	FY22E	FY21A	FY22E	FY21A	FY22E
CR Beer	291 HK	BUY	45.80	80.0	18,962	37.4	28.3	15.05	15.26	14.1	16.6
TBr	168 HK	BUY	60.10	86.0	10,464	24.1	19.9	11.17	9.19	12.2	13.6
Budweiser	1876 HK	BUY	20.40	28.0	34,478	36.2	30.8	15.23	13.81	8.7	9.8
Mengniu	2319 HK	BUY	42.55	57.0	21,467	25.9	21.9	19.76	18.50	12.0	12.8
Yili	600887 CH	BUY	37.20	46.5	37,318	25.4	22.8	18.25	15.14	27.3	29.1
Feihe	6186 HK	BUY	7.91	14.0	8,989	8.2	7.2	4.55	4.04	40.4	41.8
Nongfu	9633 HK	BUY	41.95	53.0	60,208	53.4	52.8	34.18	33.32	35.8	30.6
Smoore	6969 HK	BUY	18.26	43.0	14,006	17.3	13.8	12.10	9.56	34.3	31.7
RELX	RLX US	BUY	1.91	4.3	2,571	8.7	7.8	6.43	5.59	56.6	38.7

Note: Financial data for 2021 is estimates for Yili

Source: Company data, CMBIGM estimates

MARKET PERFORM (Maintain)

China Consumer Staples

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Investment thesis

A habitual consumption pattern, an ongoing premiumization trajectory and an effective cost pass-through are structural merits that F&B players offer as margins buffer amid cost inflation.

Related Reports

- ["Cherry-picking amid a de-risking mentality; our top picks: CRB/ Mengniu/ Feihe"](#) – 21 Jan 2022
- ["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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