

CR Beer (291 HK)

We cut 2.5% of our 2022E shipment forecast to factor-in the current pandemic impact

Our channel check suggested that CRB's 1Q22 revenue was up by a high-single-digit growth thanks to a mid-single-digit ASP uptick and a low-single-digit volume growth. Subpremium+ sales was up by 20%+, in line with our expectation. Despite this, fragile market confidence continued to weigh on the company's share price, as the market attempted to factor-in a weakening 2Q22 outlook due to the concurrent wave of the pandemic outbreak. Of note, the quarter anecdotally contributed to c35% of the full-year volume. Assuming one-third of the quarter's shipment to be stake, we cut 2.5% of our 2022E shipment to 10.7mnkl (-2.7% YoY). Compounding with other earnings revisions below, we cut our 2022/23E net profits by 11.6%/18.2%, respectively. The very fluid pandemic situation should continue to be a near term drag, however, we are convinced CRB's premiumization progress still have legs when management reassured us its 4mnkl sub-premium+ shipment target by 2025E.

Other major revisions:

- We cut our 2022E revenue by 2% and that corresponds to a 2.5% reduction of the year's shipment, while we largely maintain a 6.5% ASP uptick as we believe price hikes from last Sep and earlier this year should have a full-scale impact to CRB's pricing momentum throughout 2022.
- Of a 10.7mnkl shipment, we expect subpremium+ to contribute 21% of the total at a 21% YoY growth. This implies mainstream SKUs to record a 7% YoY decline on back of the company's ongoing effort to proactively retreat from the mass market segment.
- We cut our 2022E GPM forecast by 2.2pp to 39.5% after factoring-in an inflated raw material costs of RMB1.6bn as management indicated. Our flattish GPM trajectory reflects our view that CRB should effectively mitigate any cost pressure through price hikes.
- Our recurring EBIT margins is set at 16% with recurring EBIT being RMB5.5bn, thanks to cost initiatives such as capacity optimization and stringent cost controls. Our recurring EBIT estimate is c.8% below consensus.

Valuation

In view of our earnings change, we lower our TP to HK\$71.0. Our TP is still based on 29.0x 2022E EV/ EBITDA which represents an average valuation since 2018.

Earnings Summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|-----------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 31,448 | 33,387 | 34,494 | 35,849 | 38,426 |
| YoY growth (%) | (5.2) | 6.2 | 3.3 | 3.9 | 7.2 |
| Net income (RMB mn) | 2,094 | 4,587 | 3,832 | 4,281 | 5,042 |
| EPS – recurring (RMB) | 0.8 | 1.0 | 1.2 | 1.3 | 1.6 |
| YoY growth (%) | 32.6 | 21.0 | 18.7 | 11.7 | 17.8 |
| Consensus EPS (RMB) | NA | NA | 1.3 | 1.6 | 1.9 |
| P/E (x) | NA | NA | 31.0 | 27.8 | 23.6 |
| P/B (x) | NA | NA | 4.5 | 4.1 | 3.7 |
| Yield (%) | NA | NA | 1.3 | 1.4 | 1.7 |
| ROE (%) | 13.0 | 14.1 | 15.0 | 15.4 | 16.3 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$71.0
 (Previous TP) HK\$80.0
Up/Downside +58.2%
Current Price HK\$43.95

China Consumer Staples

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

Zheng Xiaohui
 zhengxiaohui@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn) 144,366
 Avg 3 mths t/o (HK\$ mn) 626.65
 52w High/Low (HK\$) 73.38/ 42.0
 Total Issued Shares (mn) 3,244
 Source: Wind

Shareholding Structure

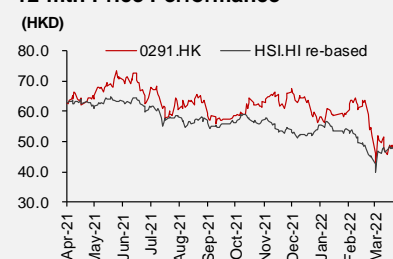
CRH Beer 51.7%
 COMMOTRA Co. 0.2%
 Source: Wind

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -4.7% | -14.15% |
| 3-mth | -23.2% | -10.8% |
| 6-mth | -26.3% | -9.1% |

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte

Related Reports

1. [CR Beer \(291 HK\) – 2H21 results in-line; premiumization progress on track](#) – 25 Mar 2022
2. [CR Beer – Profit alert in line with us; still our sector top buy](#) – 26 Jan 2022
3. [China Consumer Staples – Cherry-picking amid a de-risking mentality; our top picks: CRB/ Mengniu/ Feihe](#) – 21 Jan 2022

Figure 1: Earnings revision

| US\$ mn | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|-------|----------|---------|-------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 34,494 | 35,849 | 38,426 | 35,216 | 37,401 | NA | -2.1% | -4.1% | NA |
| Gross Profit | 13,507 | 14,568 | 16,204 | 14,559 | 16,045 | NA | -7.2% | -9.2% | NA |
| Operating Profit | 5,027 | 5,575 | 6,566 | 6,077 | 7,299 | NA | -17.3% | -23.6% | NA |
| Net profit | 3,832 | 4,281 | 5,042 | 4,337 | 5,235 | NA | -11.6% | -18.2% | NA |
| EPS (US\$ cents) | 1.18 | 1.32 | 1.55 | 1.30 | 1.60 | NA | -9.1% | -17.5% | NA |
| Gross Margin | 39.16% | 40.64% | 42.17% | 41.34% | 42.90% | NA | -2.2ppt | -2.3ppt | NA |
| Operating Margin | 14.58% | 15.55% | 17.09% | 17.26% | 19.52% | NA | -2.7ppt | -4ppt | NA |
| Net Margin | 11.11% | 11.94% | 13.12% | 12.32% | 14.00% | NA | -1.2ppt | -2.1ppt | NA |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| US\$ mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 34,494 | 35,849 | 38,426 | 36,551 | 39,237 | 42,172 | -5.6% | -8.6% | -8.9% |
| Gross Profit | 13,507 | 14,568 | 16,204 | 14,743 | 16,560 | 18,449 | -8.4% | -12.0% | -12.2% |
| Operating Profit | 5,027 | 5,575 | 6,566 | 5,413 | 6,673 | 7,983 | -7.1% | -16.4% | -17.8% |
| Net profit | 3,832 | 4,281 | 5,042 | 4,136 | 5,219 | 6,407 | -7.3% | -18.0% | -21.3% |
| EPS (US\$ cents) | 1.18 | 1.32 | 1.55 | 1.275 | 1.591 | 1.919 | -7.4% | -17.1% | -19.0% |
| Gross Margin | 39.16% | 40.64% | 42.17% | 40.34% | 42.21% | 43.75% | -1.2ppt | -1.6ppt | -1.6ppt |
| Operating Margin | 14.58% | 15.55% | 17.09% | 14.81% | 17.01% | 18.93% | -0.2ppt | -1.5ppt | -1.8ppt |
| Net Margin | 11.11% | 11.94% | 13.12% | 11.31% | 13.30% | 15.19% | -0.2ppt | -1.4ppt | -2.1ppt |

Source: Company data, CMBIGM estimates

Financial Summary

| Income statement | | | | | | Cash flow summary | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E | YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
| Revenue | 31,448 | 33,387 | 34,494 | 35,849 | 38,426 | Net income | 2,094 | 4,587 | 3,832 | 4,281 | 5,042 |
| Premium & Super | 7,330 | 9,585 | 11,715 | 14,277 | 17,230 | D&A | 1,553 | 1,641 | 1,624 | 1,670 | 1,713 |
| Sub-premium | 24,118 | 23,802 | 22,778 | 21,572 | 21,196 | Change in working capital | (1,165) | 178 | (2,244) | (3,178) | (3,815) |
| | | | | | | Others | 1,200 | (3,476) | - | - | - |
| Gross profits | 12,075 | 13,074 | 13,507 | 14,568 | 16,204 | Net cash fr. operating act. | 3,682 | 2,930 | 3,212 | 2,773 | 2,941 |
| D&A | (1,553) | (1,641) | (1,624) | (1,670) | (1,713) | Capex & investments | (1,043) | (1,252) | (1,189) | (1,130) | (1,073) |
| Selling expense | (6,123) | (6,743) | (6,381) | (6,811) | (7,301) | Acquisition | - | - | - | - | - |
| Administration expenses | (4,419) | (3,619) | (3,794) | (3,943) | (4,227) | Others | - | - | - | - | - |
| Other operating expenses | 1,546 | 3,300 | 1,696 | 1,762 | 1,889 | Net cash fr. investing act. | (1,043) | (1,252) | (1,189) | (1,130) | (1,073) |
| Others | 1,553 | 1,641 | 1,624 | 1,670 | 1,713 | Equity raised | - | - | - | - | - |
| EBIT | 3,079 | 6,012 | 5,027 | 5,575 | 6,566 | Change of Debts | (511) | - | - | - | - |
| | | | | | | Dividend paid | (536) | (840) | (1,836) | (1,533) | (1,712) |
| EBITDA | 4,632 | 7,653 | 6,652 | 7,245 | 8,279 | Others | 606 | - | - | - | - |
| Finance costs, net | 80 | 224 | 161 | 221 | 261 | Net cash fr. financing act. | (441) | (840) | (1,836) | (1,533) | (1,712) |
| Non-operating | (150) | (21) | - | - | - | Net change in cash | 2,198 | 838 | 187 | 111 | 155 |
| Pre-tax profit | 3,009 | 6,215 | 5,188 | 5,796 | 6,827 | Cash at the beginning of the year | 2,340 | 4,538 | 5,376 | 5,563 | 5,674 |
| Income tax | (915) | (1,625) | (1,357) | (1,516) | (1,785) | Exchange difference | - | - | - | - | - |
| Less: Minority interests | - | (3) | - | - | - | Cash at the end of the year | 4,538 | 5,376 | 5,563 | 5,674 | 5,829 |
| Net profit | 2,094 | 4,587 | 3,832 | 4,281 | 5,042 | Less: pledged cash | - | - | - | - | - |

| Balance sheet | | | | | | Key ratios | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------------------|----------|----------|----------|----------|----------|
| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E | YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
| Non-current assets | 30,398 | 35,156 | 34,721 | 34,181 | 33,540 | Sales mix (%) | | | | | |
| PP&E/Fixed assets | 17,781 | 17,096 | 18,125 | 17,650 | 17,074 | Premium & Super premium | 23.3 | 28.7 | 34.0 | 39.8 | 44.8 |
| Goodwill | 9,326 | 9,250 | 9,250 | 9,250 | 9,250 | Sub-premium | 76.7 | 71.3 | 66.0 | 60.2 | 55.2 |
| Deferred tax assets | 2,858 | 3,368 | 3,368 | 3,368 | 3,368 | P&L ratios (%) | | | | | |
| Other non-current assets | 433 | 5,442 | 3,978 | 3,913 | 3,848 | Gross margin | 38.4 | 39.2 | 39.2 | 40.6 | 42.2 |
| Current assets | 13,377 | 15,897 | 16,870 | 17,226 | 17,973 | Operating margin | 9.8 | 18.0 | 14.6 | 15.6 | 17.1 |
| Cash | 4,538 | 5,376 | 5,563 | 5,674 | 5,829 | Pre-tax margin | 9.6 | 18.6 | 15.0 | 16.2 | 17.8 |
| Account receivable | 2,378 | 3,436 | 3,780 | 3,929 | 4,211 | Net margin | 6.7 | 13.7 | 11.1 | 11.9 | 13.1 |
| Taxation recoverable | 6,014 | 6,458 | 6,900 | 6,997 | 7,306 | Effective tax rate | (30.4) | (26.1) | (26.1) | (26.1) | (26.1) |
| Other current assets | 447 | 627 | 627 | 627 | 627 | Balance sheet analysis | | | | | |
| Current liabilities | 19,572 | 21,170 | 19,712 | 16,780 | 13,557 | Current ratio (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Borrowings | - | - | - | - | - | Net receivable days | 28 | 38 | 40 | 40 | 40 |
| Account payables | 19,327 | 21,007 | 19,549 | 16,617 | 13,394 | Net payable days | 364 | 377 | 340 | 285 | 220 |
| Other payables | 162 | 92 | 92 | 92 | 92 | Inventory turnover days | 113 | 116 | 120 | 120 | 120 |
| Lease liabilities | 83 | 71 | 71 | 71 | 71 | Net debt to equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Non-current liabilities | 2,929 | 5,394 | 5,394 | 5,394 | 5,394 | Returns (%) | | | | | |
| Borrowings | - | - | - | - | - | ROE | 13.0 | 14.1 | 15.0 | 15.4 | 16.3 |
| Deferred tax liabilities | 788 | 1,955 | 1,955 | 1,955 | 1,955 | ROA | 4.8 | 9.0 | 7.4 | 8.3 | 9.8 |
| Other non-current liabilities | 2,141 | 3,439 | 3,439 | 3,439 | 3,439 | Dividend yield | N.A. | N.A. | 1.0 | 1.1 | 1.3 |
| Minority Interest | 57 | 57 | 57 | 57 | 57 | Per share | | | | | |
| Total net assets | 21,274 | 24,489 | 26,485 | 29,233 | 32,562 | EPS - recurring (RMB) | 0.8 | 1.0 | 1.2 | 1.3 | 1.6 |
| Shareholders' equity | 21,217 | 24,432 | 26,428 | 29,176 | 32,505 | DPS (RMB) | 0.3 | 0.6 | 0.5 | 0.5 | 0.6 |
| | | | | | | BVPS (RMB) | 6.5 | 7.5 | 8.1 | 9.0 | 10.0 |

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.