

# China Consumer Staples

## Valuations at 5-year low; a silver-lining to the current uncertainty sell-off?

We conducted a screening on 20 major A/H F&B names in an attempt to gauge how current valuations track towards those in the last 3-5 years. While market seems to be pricing-in ex ante another consumption downtrend for 2Q, stock multiples across the F&B spectrum are now trading very close to their respective 3- and 5-year troughs. We are not arguing that downside risks are completely exhausted. Instead, as the 1Q result season is about to begin, we anticipate earnings revision would predominantly drive share price and hence potentially more rational movements upon better visibility into 2Q or even further. Assuming 2Q to be the trough spending quarter of the year, considering also the 5-year trough valuations, we start seeing occasional trading opportunities on names that offer 1) relatively steady margins outlook along with structural positives, and 2) sequential recovery from the concurrent Omnicor outbreak. The “stay-home” camp such as dairy and instant noodle should largely upkeep their sales momentum with ongoing premiumization, while the “Go-out” cohort such as beer is likely to rally on relief, albeit any earnings cut, as if the pandemic gradually dies down. We like Mengniu and CRB. Budweiser’s regional turn-around is a positive.

- Market momentum:** consumer staple stocks have been outperforming recently. F&B has outperformed CSI300 by 9.11% and was among the top performing sectors MTD, while it only beat the benchmark by 1.74% in YTD terms. HSCICS underperformed HSI YTD but beat the benchmark by 5.58% in Apr to date. Processed food, beer, snacks, meat product, soft drink were the top performers, e-cigar, food integrator and pork were relatively weak. Among major names monitored, WH, Tingyi, Laojiao, Wuliangye, Yili outperformed MTD, mainly driven by valuation mean-reversion, relatively staple demand or pricing power, and expectation of sequential recovery from the concurrent Omnicor outbreak.
- Valuation:** after the previous multiple waves of panic market sell-off, many consumer staples subsectors again offered highly attractive risk-reward profile. Current 1-y forward PE percentile level of dairy, meat product and pre-processed food was lower than 10%. That of retail, cosmetic was below 40%. Pork, meat product, retail and cosmetic are relatively more attractive with <1.0 PEG and 30%+ consensus CAGR for 2022-23E.
- Earnings visibility:** dairy, beer posted relatively steady margins, with relatively narrow GPM range (at c.32-38% and 36-45% in 2010-21 respectively) among main F&B subsectors. The valuation, in terms of 2022E PE, has felt to lower than -2SD for dairy and close to -1SD for beer currently.

### Earnings summary

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	45.35	80.0	18,756	37.0	31.1	14.89	17.14	13.0	14.1
TB	168 HK	BUY	63.05	86.0	10,967	25.3	20.9	11.95	9.82	12.2	13.6
Budweiser	1876 HK	BUY	20.40	28.0	34,442	36.2	30.8	15.23	13.81	8.7	9.8
Mengniu	2319 HK	BUY	42.50	57.0	21,419	24.6	21.8	8.47	7.83	12.0	12.3
Yili	600887 CH	BUY	38.43	46.5	38,372	26.3	23.5	18.84	15.63	27.3	29.1
Feihe	6186 HK	BUY	7.30	14.0	8,288	7.6	6.7	4.10	3.64	40.4	41.8
Nongfu	9633 HK	BUY	42.60	53.0	61,078	54.3	52.5	34.72	33.27	35.8	31.1
Smooore	6969 HK	BUY	17.34	43.0	13,286	16.5	13.1	11.40	9.00	34.3	31.7
RELX	RLX US	BUY	1.81	4.3	2,436	8.2	7.4	6.00	5.22	56.6	38.7

Note: prices as of Apr 21, 2022; financial data for 2021 is estimates for Yili  
 Source: Company data, CMBIGM estimates

### MARKET PERFORM (Maintain)

#### China Consumer Staples

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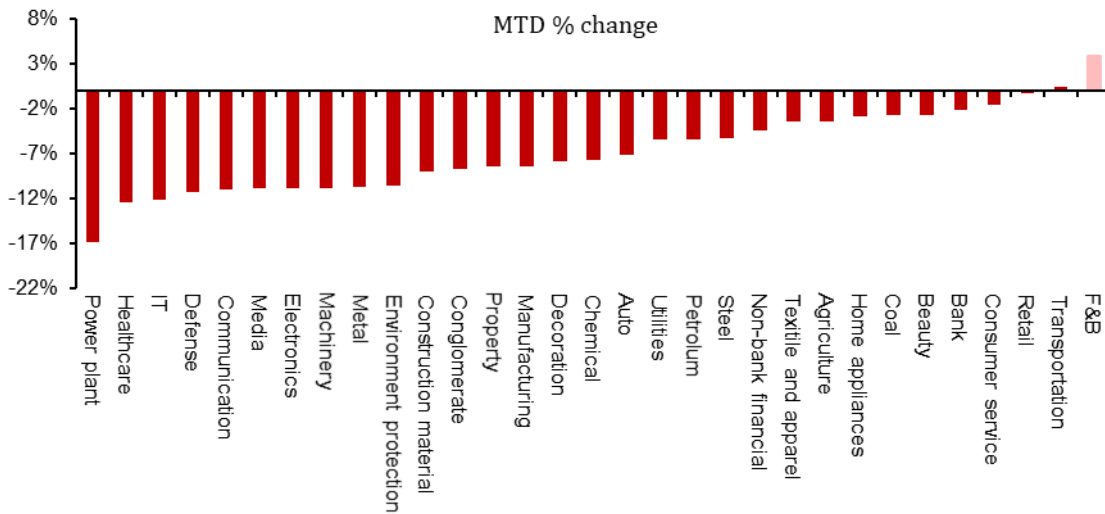
#### Investment thesis

A habitual consumption pattern, an ongoing premiumization trajectory and an effective cost pass-through are structural merits that F&B players offer to buffer any input cost inflations.

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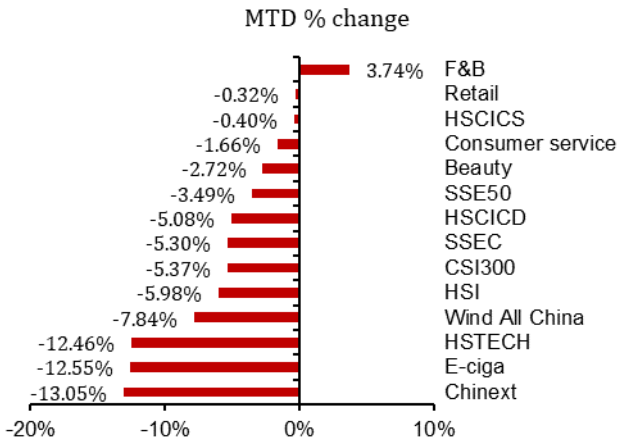
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**Figure 1: MTD sector performance**



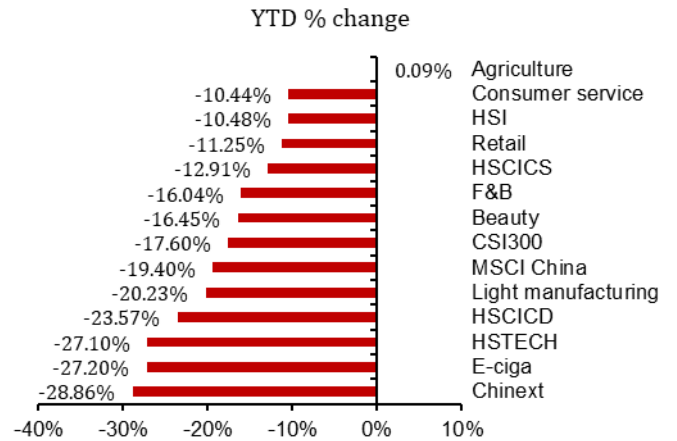
Source: Wind, CMBIGM estimates

**Figure 2: MTD major indexes performance**



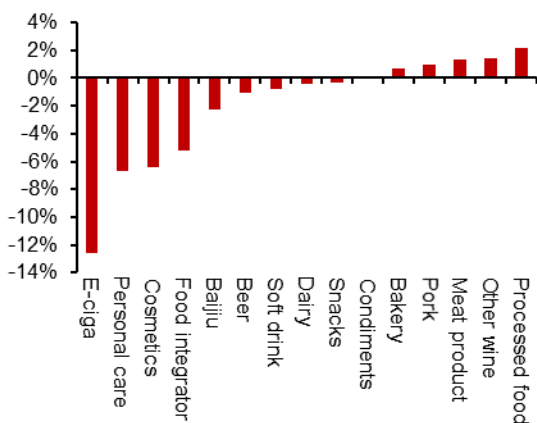
Source: Wind, CMBIGM estimates

**Figure 3: YTD major indexes performance**



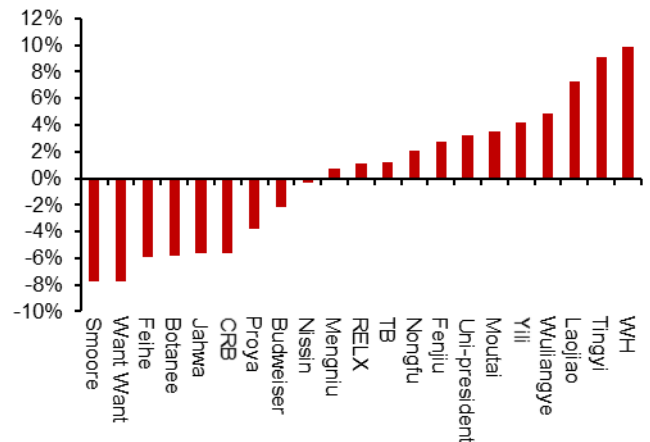
Source: Wind, CMBIGM estimates

**Figure 4: MTD % change by main F&B subsectors**



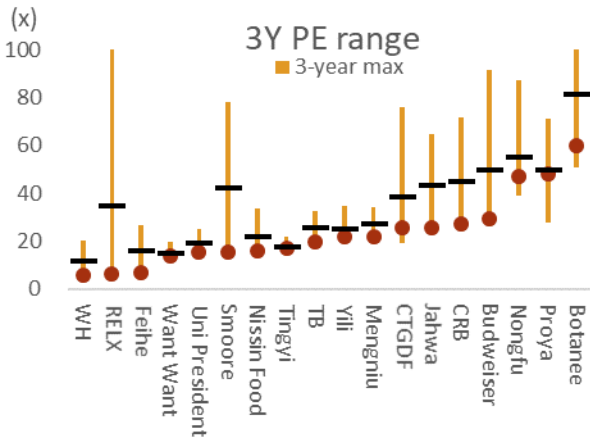
Source: Wind, CMBIGM estimates

**Figure 5: MTD % change by major A/H F&B names**



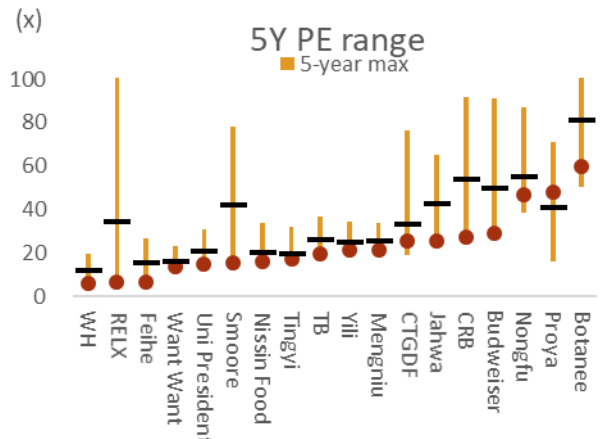
Source: Wind, CMBIGM estimates

**Figure 6: Forward PE range by major staple subsectors (3Y)**



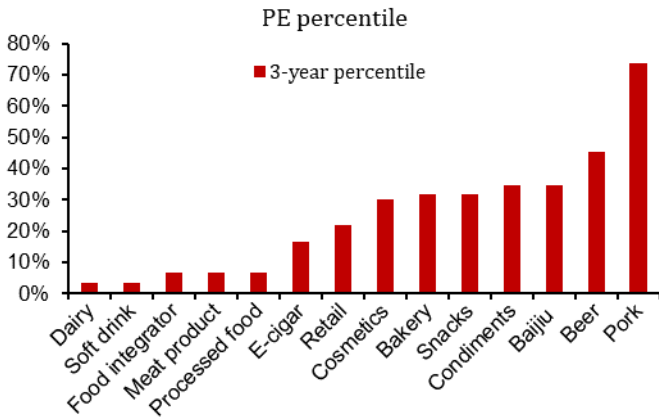
Source: Wind, CMBIGM estimates

**Figure 7: Forward PE range by major staple subsectors (5Y)**



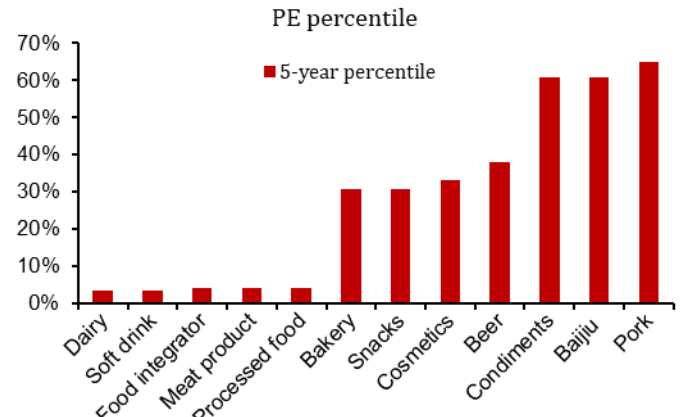
Source: Wind, CMBIGM estimates

**Figure 8: Forward PE percentile by major staple subsectors (3Y)**



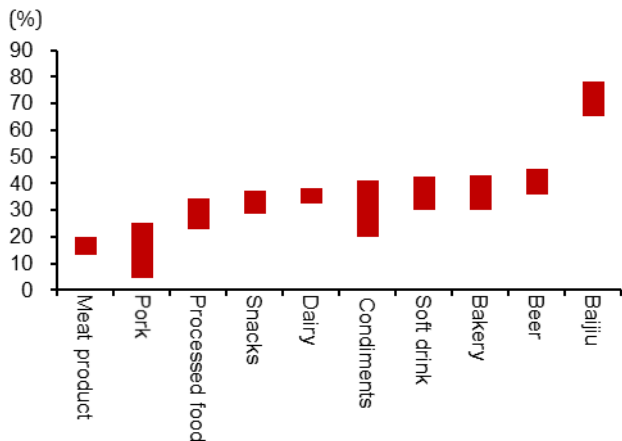
Source: Wind, CMBIGM estimates

**Figure 9: Forward PE percentile by major staple subsectors (5Y)**



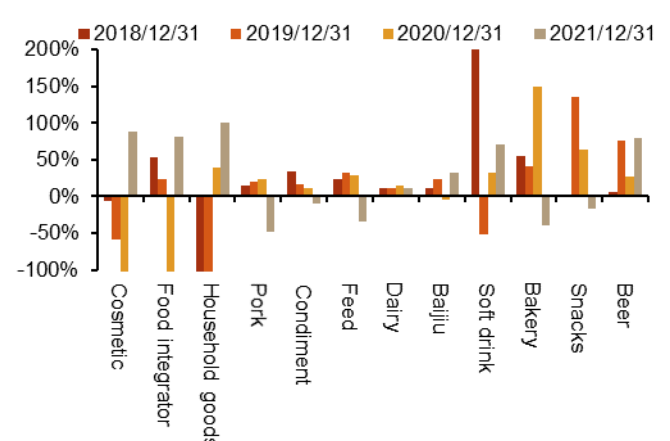
Source: Wind, CMBIGM estimates

**Figure 10: GPM range by major F&B sector**



Source: Wind, CMBIGM estimates

**Figure 11: Adjusted NI YoY by major F&B sector**



Source: Wind, CMBIGM estimates

**Figure 12: CRB's forward PE**



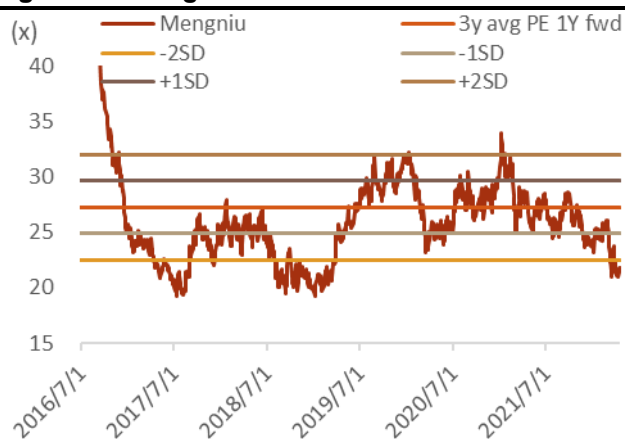
Source: Wind, CMBIGM estimates

**Figure 13: Budweiser's forward PE**



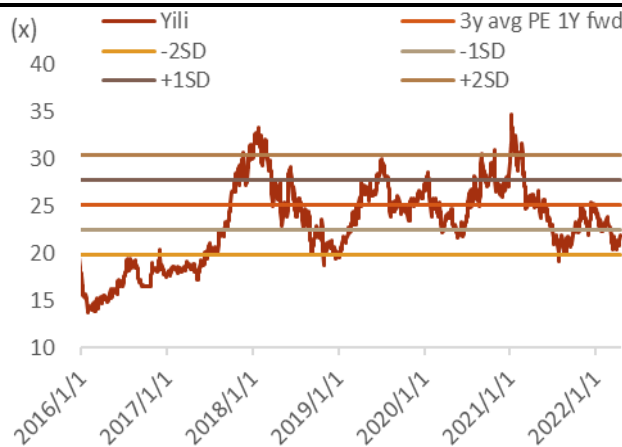
Source: Wind, CMBIGM estimates

**Figure 14: Mengniu's forward PE**



Source: Wind, CMBIGM estimates

**Figure 15: Yili's forward PE**



Source: Wind, CMBIGM estimates

**Figure 16: Nissin Food's forward PE**



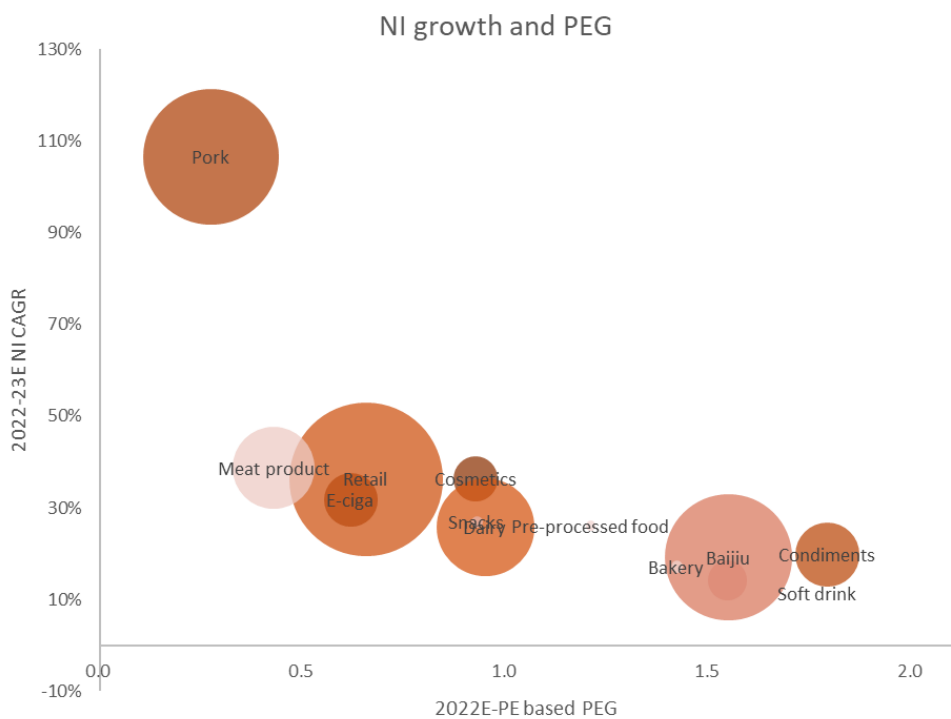
Source: Wind, CMBIGM estimates

**Figure 17: Tingyi's forward PE**



Source: Wind, CMBIGM estimates

**Figure 18: NI growth and PEG by major staple subsectors**



Source: Wind, CMBIGM estimates

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