

20 November 2018

China

EQUITIES

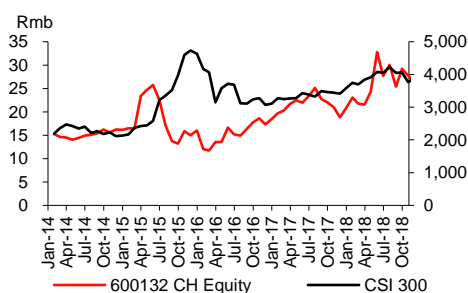
600132 CH	Not rated	
Stock price as of 16/11/2018 RMB	26.52	
GICS sector	Consumer staples	
Market cap	RMBm	12,835
Avg Value Traded (3m)	RMBm	51.1
12m high/low	RMB	34.00/18.25
PER FY19	x	26.5
P/BV FY 19	x	9.3

Historical financials

YE Dec (US\$m)	2015A	2016A	2017A
Revenue	3,324	3,196	3,176
% growth	4.9	-3.8	-0.6
EBITDA	140	389	519
% growth	-56.9	178.4	33.6
EPS	-14.00	37.00	68.00
% growth	na	na	82.0
EBIT Margin	-2.1	6.7	11.3

Source: Company data, FactSet, November 2018

Share price performance vs. CSI 300



*Relative to the market.

Source: FactSet, November 2018

Share Price Driver

Thematic
Growth
Value
Event

Source: Macquarie Research, November 2018

Analysts

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MacVisit: Chongqing Brewery

Gaining market share in Sichuan

Key points

- ▶ Mgmt believes volumes are growing faster than its initial guidance, and that premiumisation is on track.
- ▶ The company says it is gaining market share in Sichuan on leverage of high-end products.
- ▶ It is optimizing SKUs and bottle types to offset raw material price headwinds.

Event

- We recently visited Chongqing Brewery's headquarters and held an investor meeting with management. During the meeting, investors focused on its product mix upgrade trend and market expansion in Sichuan. They also followed up on Carlsberg China's asset injection plan, despite limited visibility currently. The company's full year guidance of Rmb3.06bn net sales after tax and 923k tons sales volume are well on track YTD, according to mgmt.

Impact

- **Volume increase above guidance, premiumisation on track.** The company's full-year guidance indicated 5% YoY sales growth and a 4% YoY volume increase. In 9M18, the company achieved 7% sales growth and a 5% volume increase, thanks to teen sales growth in both Sichuan and Hunan, while China beer industry output recorded only 0.3% growth in 9M18. Premiumisation was the main driver of 2% ASP growth, as the company did not raise prices of its main products at the beginning of this year.
- **Gaining market share in Sichuan.** To differentiate itself from the competitors, the company is building a high-end brand image in Sichuan by leveraging its international brand products: Tuborg at Rmb8-10/bottle and Carlsberg at Rmb12/bottle. With 135k tons actual capacity at two Sichuan plants (Chengdu and Yibin), the company has expanded its 'big city' strategy to eight more cities in the province this year. As a result, its sales in Sichuan grew 12.2% YoY in 9M18. Excluding contract brewing, sales increased by 4% YoY, driven by 6% volume growth. The company believes Sichuan's industry growth rate should not be substantially different from the 0.3% national wide growth and thus it is gaining market share in this province.
- **Optimizing SKUs and bottle types to offset raw material price headwinds.** The company launched 'Project Brave' in 2013 post Carlsberg's acquisition. It gradually streamlined SKUs to less than 100 from 500+ in 2013 and reduced bottle types to 20 from 86. It targets to further reduce bottle types to only four in 2020, by improving production efficiency and taking advantage of procurement price, thus smoothing gross margin amid raw material price headwinds. Its 9M18 gross margin expanded 0.7ppt compared with the 3.2ppt drop in Tsingtao's (168 HK, HK\$32.00, Neutral, TP: HK\$30.40) gross margin.

Financials, valuations, and risks

- Chongqing Brewery reported 9M18 revenue of Rmb2,924m, up 9% YoY, with net profit up 22% YoY to Rmb385m. 3Q18 revenue increased 6% to Rmb1,160m, with net profit increasing 13% to Rmb175m.
- The stock is trading at 27x FY19E PER, compared with the average 31x FY19E PER for domestic peers and 16x FY19E PER for global peers, all based on Bloomberg consensus.

Please refer to page 6 for important disclosures and analyst certification, or on our website

www.macquarie.com/research/disclosures.

Ownership

Major shareholders as at end-FY17:

- Carlsberg Hong Kong 42.54%
- Carlsberg Chongqing 17.46% (Carlsberg owns 60% in total)
- Gaoguan Investment 3.45%
- Central Huijin Investment 2.37%
- Goldman Sachs & Co. LLC 2.08%
- Bill & Melinda Gates Foundation Trust 1.74%

Balance sheet data and refinancing (as at end-FY17)

- Cash and bank balance of Rmb688.8m
- Fixed assets: Rmb1332.9m
- No short-term or long-term debt
- Net cash/equity ratio of 59.2%

Latest annual results highlights (FY17)

- FY17 revenue decreased 0.6% YoY to Rmb3,176m.
- Gross profit decreased 0.5% to Rmb1,249m, with GPM remaining flattish at 39.3%.
- Operating profit increased 65.6% YoY to Rmb345m, with OPM increasing 3.9ppt to 10.9%.
- Net profit attributed to shareholders grew 82% YoY to Rmb329m, with net profit margin expanding 4.0ppt to 9.7%.
- Dividend in FY17 was Rmb0.8/sh, indicating a dividend payout ratio at 117.5%.

History and corporate governance

- 1958: built up the first of the company's breweries, one of the top 10 breweries in China
- 1993: Chongqing Brewery LLC established
- 1997: listed on Shanghai Stock Exchange
- 2008: Carlsberg brought a 17.46% stake
- 2010: Carlsberg further acquired a 12.25% stake
- 2013: Carlsberg became the majority shareholder with a 60% stake

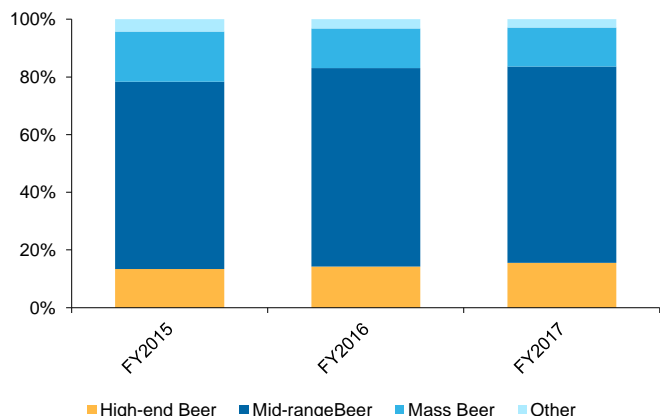
Management and Directors' background

- Mr. Jun Cai Ke, CEO of Carlsberg China and Chairman of Chongqing Brewery. Prior to Carlsberg, he was CEO of Heinz China and Heinz LongFong.
- Mr. Chin Wee Hua, CFO of Carlsberg China and Director of Chongqing Brewery. He used to be CFO of Alstom (Malaysia) and CFO of Wuhan Boiler Company.
- Mr. Song Chen, CEO of Chongqing Brewery since April 2015. Before joining the company, he had extensive experience in the FMCG industry and worked for Heinz and P&G.
- Mr. Nian Li, CFO of Chongqing Brewery since 2015. He joined Carlsberg China in 2013 and was auditor manager in PwC before 2013.

Latest quarterly results highlights (3Q18)

- 3Q18 revenue increased 5.8% to Rmb1,160m.
- Gross profit grew 12.7% to Rmb508m, with GPM increasing 2.7ppt to 43.8%.
- Operating profit expanded 31.6% to Rmb88m, with OPM lifting 3.8ppt to 19.3%.
- Net profit rose 13.3% to Rmb76m, with net profit margin up 1.0ppt to 15.1%.

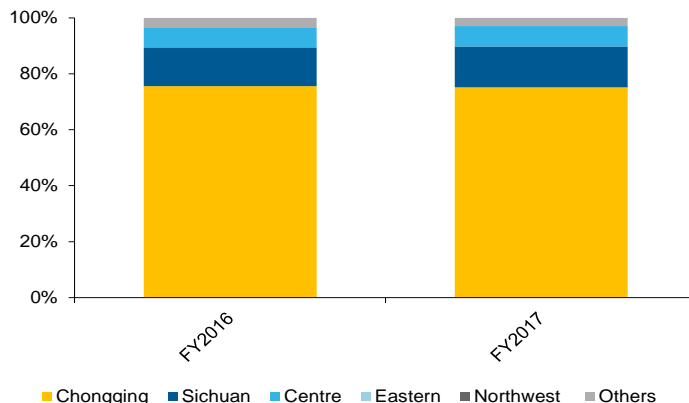
Fig 1 Revenue breakdown by product – percentage of high-end and mid-range beer keeps rising



Note: Retail price of high-end above Rmb8/bottle, mid-range Rmb4–8/bottle, mass below Rmb4/bottle.

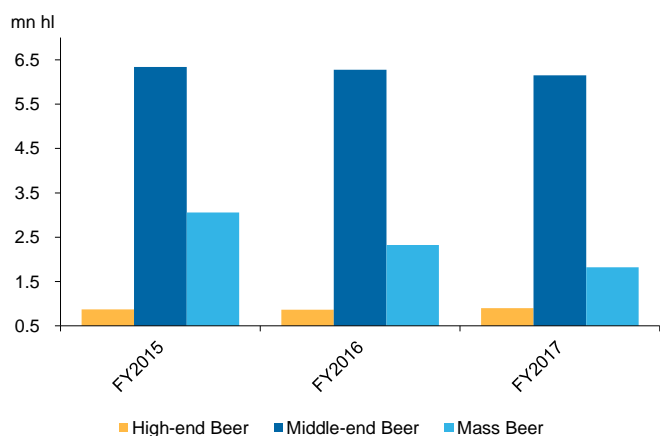
Source: Company data, November 2018

Fig 2 Revenue breakdown by region – Chongqing accounted for 75% of Chongqing Brewery's total revenue



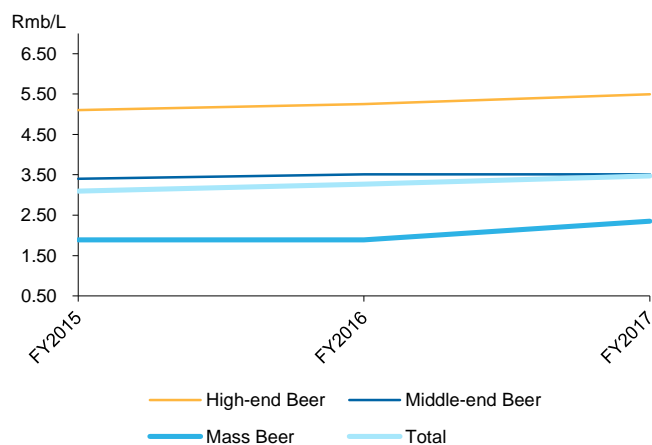
Source: Company data, November 2018

Fig 3 Sales volume by product – sales of mass products continue to fall



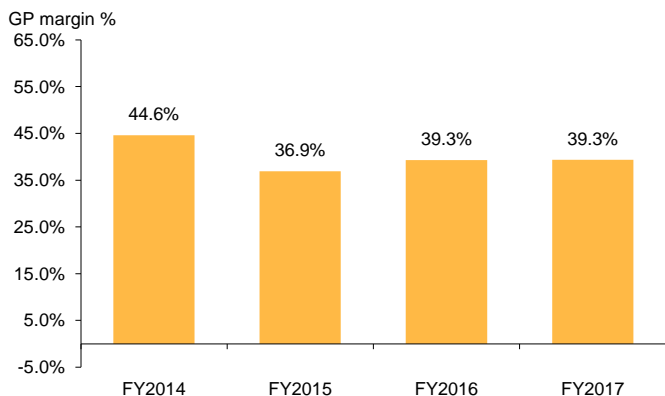
Source: Company data, November 2018

Fig 4 Average ex-factory price by product – high-end and mass rising, while mid-range remains flat



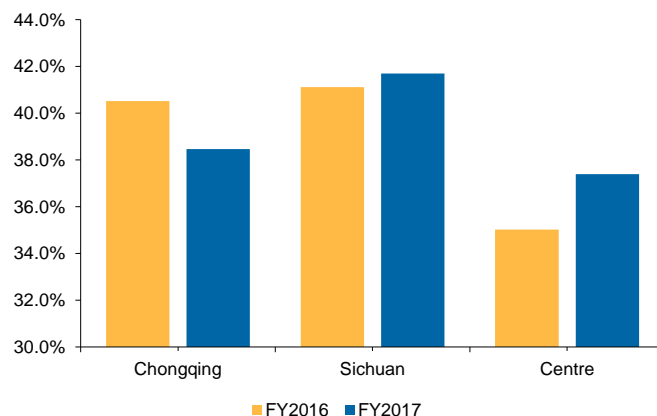
Source: Company data, November 2018

Fig 5 GP margin remained flattish in FY17



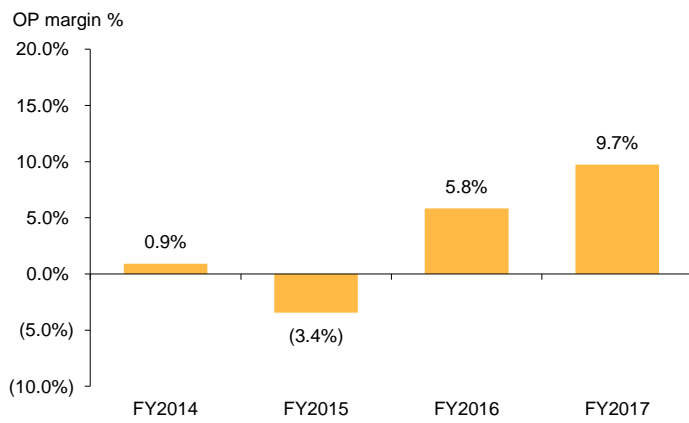
Source: Company data, November 2018

Fig 6 GP margin by region



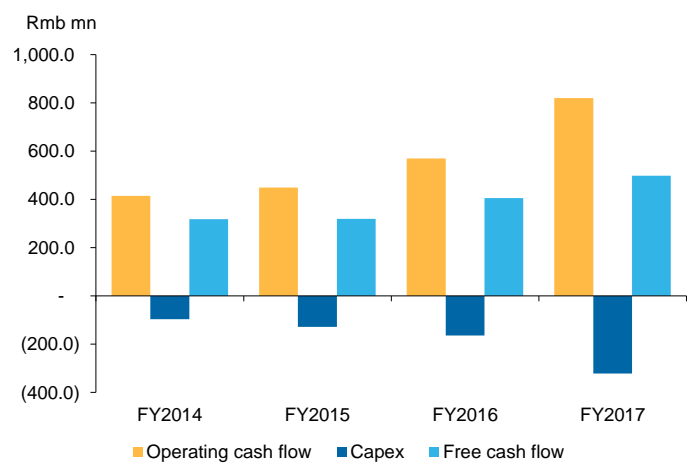
Source: Company data, November 2018

Fig 7 OP margin expanded by 390bps to 9.7% in FY17



Source: Company data, November 2018

Fig 8 FCF in FY17 rose 23% to Rmb497m



Source: Company data, November 2018

Chongqing Brewery(600132 CH, not rated)

Interim Results					Annual Results																								
		2H16A	1H17A	2H17A	1H18A		2014A	2015A	2016A	2017A																			
Revenue	m	1,560	1,590	1,585	1,764	Revenue	m	3,169	3,324	3,196	3,176																		
Gross profit	m	615	637	612	695	Gross profit	m	1,413	1,227	1,256	1,249																		
Cost of goods sold	m	945	953	973	1,069	Cost of goods sold	m	1,755	2,096	1,940	1,926																		
EBITDA	m	188	286	233	348	EBITDA	m	324	140	389	519																		
Depreciation	m	78	73	76	81	Depreciation	m	208	196	162	149																		
Amortisation	m	7	6	7	6	Amortisation	m	18	14	14	13																		
EBIT	m	109	207	151	260	EBIT	m	98	(70)	213	358																		
Net interest income	m	(12)	(11)	(12)	(11)	Net interest income	m	(69)	(44)	(26)	(23)																		
Forex gain/loss	m	0	0	0	0	Forex gain/loss	m	0	0	0	0																		
Other pre-tax profit	m	(71)	3	8	1	Other pre-tax profit	m	(4)	3	(30)	11																		
Pre-Tax Profit	m	62	199	146	251	Pre-Tax Profit	m	25	(111)	157	345																		
Tax expenses	m	(17)	(27)	8	(16)	Tax expenses	m	(57)	(43)	(17)	(19)																		
Net profit	m	45	172	154	234	Net profit	m	(32)	(154)	140	326																		
Minority interest	m	(38)	10	(14)	24	Minority interest	m	(105)	(88)	(41)	(3)																		
				0																									
Reported Earnings	m	83	162	168	210	Reported Earnings	m	73	(66)	181	329																		
Reported Earnings	m	83	162	168	210	Reported Earnings	m	73	(66)	181	329																		
EPS (rep)	¢	17	33	35	43	EPS (rep)	¢	15	(14)	37	68																		
EPS (adj)	¢	17	33	35	43	EPS (adj)	¢	15	(14)	37	68																		
EPS grow th yoy (adj)	%	na	65	106	30	EPS grow th yoy (adj)	%	(54)	na	na	82																		
						PE (rep)	x	108	na	27	30																		
						PE (adj)	x	108	na	27	30																		
EBITDA margin	%	12.0	18.0	14.7	19.7	Total DPS	¢	20.0	20.0	80.0	80.0																		
EBIT margin	%	7.0	13.0	9.5	14.7	Payout ratio	%	133.3	na	216.2	117.6																		
Revenue grow th	%	na	-2.8	1.7	10.9	Weighted average shares	m	484	484	484	484																		
EBIT grow th	%	na	100.7	37.6	25.7																								
2014A					2015A					2016A					2017A														
Profit and Loss Ratios					Cash Flow Analysis					2014A					2015A					2016A					2017A				
Revenue growth	%	(6.4)	4.9	(3.8)	(0.6)	Net income	m	(32)	(154)	140	326	Depreciation & Amortisation	m	226	210	176	162												
EBITDA grow th	%	(31.8)	(56.9)	178.4	33.6	Other non-cash adjustments	m	222	243	71	(61)	Changes in non-cash capital	m	(2)	149	183	394												
EBIT Grow th	%	(61.2)	(171.7)	(401.9)	68.2	Operating cash flow	m	414	448	569	820	Acquisitions	m	0	0	142	66												
Gross profit margin	%	44.6	36.9	39.3	39.3	Capex	m	(97)	(129)	(165)	(323)	Asset sales	m	14	60	6	5												
EBITDA margin	%	10.2	4.2	12.2	16.4	Other	m	3	(32)	(54)	258	Investing cash flow	m	(79)	(101)	(71)	6												
EBIT margin	%	3.1	(2.1)	6.7	11.3	Dividends	m	(163)	(130)	(117)	(397)	Equity raised	m	0	0	0	0												
Net profit margin	%	(1.0)	(4.6)	4.4	10.3	Debt movements	m	(383)	(123)	(623)	(7)	Other	m	0	0	291	(2)												
Payout ratio	%	133.3	na	216.2	117.6	Financing cash flow	m	(547)	(253)	(449)	(405)	Forex	m	0	0	0	0												
Balance Sheet Ratios						Net change in cash/debt	m	(212)	95	49	421	Free cash flow	m	317	319	404	497												
ROE	%	5	(5)	15	28	Balance Sheet						Cash		124	219	268	689												
ROA	%	(1)	(4)	4	9	Cash		124	219	268	689	Receivables		40	60	51	27												
Net debt/equity	x	0.4	0.3	-0.2	-0.6	Inventories		1,159	1,075	826	631	Investments		0	38	100	0												
						Fixed asset		1,747	1,479	1,115	1,333	Intangible asset		498	463	364	309												
						Other assets		356	388	642	518	Total assets		3,925	3,721	3,366	3,506												
						Payables		1,608	1,678	1,650	1,857	Short term debt		753	630	7	0												
						Long term debt		0	0	0	0	Other liabilities		145	194	467	484												
						Total liabilities		2,506	2,502	2,123	2,341	Share capital		484	484	484	484												
						Surplus reserves		242	242	242	242	Undistributed profits		588	425	509	451												
						Other		106	68	7	(12)	Total S/H equity		1,419	1,219	1,242	1,165												
						Total liab & S/H equity		3,925	3,721	3,366	3,506																		

All figures in CNY unless noted.

Source: Company data, Wind, Bloomberg, November 2018

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Mazi Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.56%	59.51%	45.05%	46.88%	67.86%	46.70%	(for global coverage by Macquarie, 3.70% of stocks followed are investment banking clients)
Neutral	33.20%	28.92%	37.36%	47.70%	25.00%	42.73%	(for global coverage by Macquarie, 2.04% of stocks followed are investment banking clients)
Underperform	15.23%	11.57%	17.58%	5.42%	7.14%	10.57%	(for global coverage by Macquarie, 0.47% of stocks followed are investment banking clients)

168 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
 Source: FactSet, Macquarie Research, November 2018

12-month target price methodology

168 HK: HK\$30.40 based on a PER methodology

Company-specific disclosures:

168 HK: Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of Tsingtao Brewery Co Ltd.

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