

Company Report

Budweiser APAC (1876 HK) 2Q22 hit by COVID but June sees recovery

- 1H22 sales missed our est. due to COVID
- June sales in China was back on track
- Maintain BUY and TP of HKD 27.9

Sales missed our est. due to COVID

1H22 revenue increased by 2.7% yoy to USD3,453mn, -11.9% vs CMS forecast. 1H22 net profit grew by 24.3% yoy to USD625mn, +0.8% vs CMS estimates, given a tax provision reversal related to its Indian operations. 1H22 APAC West (mainly China and India) revenue increased by 0.3% yoy. Sales volume declined by 2.5% yoy while ASP grew by 2.9% yoy. 1H22 APAC East (mainly South Korea) revenue grew by 13.9% yoy as sales volume grew by 7.1% yoy, while ASP grew by 6.4% yoy.

Margins missed our est.

1H22 GPM declined by 3.3ppts yoy to 50.7%, lower than CMS estimate of 55.4%. Given that 1Q22 GPM declined by 1.8ppts yoy, the 2Q22 GPM must have dropped by c.4.8ppts yoy, which we believe was due to an increase in raw material costs, plus a lower mix of premium/super premium products sold (due to COVID restrictions in China). Company management noted that given the existing trend in the spot prices of raw materials and the relaxation of COVID restrictions in China, the margin pressure would likely peak in 2Q22 and 3Q22. Even if raw material costs continue to remain at high levels, the yoy increase in 4Q22 and FY23 should be lower than 2Q22 and 3Q22.

China sales recovered in June

While 2Q22 China volumes and revenues declined by 6.5% yoy and 4.9% yoy respectively, a recovery started in June. Overall sales volumes grew by high-single-digits while Premium and Super Premium products grew by double-digit ppts yoy in June. Given the hot weather and assuming no large scale COVID restrictions, we expect sales volumes to be strong in 3Q22 and premiumization to get back on the previous track.

Maintain BUY rating and TP of HKD 27.9

We change our FY22/23/24E EPS forecasts by -2.8%, -6.2% and -11.0%, respectively, to factor in the 2Q22 numbers. Given the expected recovery in China and premiumization trend, we maintain TP at HKD27.9 which implies a 36.2x P/E of Fwd 12-month EPS (inline with the company's historical average forward PE). Maintain BUY.

Key catalysts: faster-than-expected premiumization; price hike; better – than-expected margins;

Key risks: More and prolonged COVID lockdowns in China; Higher-than-expected raw material costs.

Financials

Year ended 31 Dec (USD mn)	2020	2021	2022E	2023E	2024E
Revenue	5,588	6,788	7,540	8,704	9,939
yoy growth	-14.6%	21.5%	11.1%	15.4%	14.2%
Attributable net profit	514	950	1,132	1,356	1,553
Adj. EPS (USD)	0.04	0.07	0.09	0.10	0.12
yoy growth	-42.8%	84.8%	19.2%	19.8%	14.6%
P/E	77.7x	42.0x	35.3x	29.4x	25.7x
ROE	5.0%	8.8%	10.3%	11.9%	12.5%
Net debt (cash)/ equity	-10.2%	-16.5%	-40.0%	-44.6%	-54.0%

Sources: Company data, CMS (HK) estimates; share price as of July 28, 2022

Johnny WONG +852 3189 6357
Bryan WANG +852 3189 6711

johnnywong@cmschina.com.hk bryanwang@cmschina.com.hk

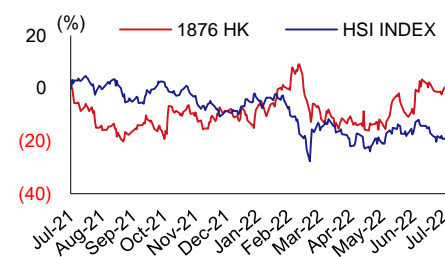
WHAT'S NEW

Bud APAC's 2Q22 missed our est. yet China sales recovery on track since June. Maintain BUY and TP of HKD 27.9

BUY

Previous	BUY
Price	HKD 23.7
12-month Target Price (Potential up/downside)	HKD 27.9 (+17.7%)
Previous	HKD27.9

Price Performance



Source: Bloomberg; share price as of July 28, 2022

%	1m	6m	12m
1876 HK	1.5	11.8	4.3
HSI	(8.0)	(12.4)	(19.0)

Sector:	Consumer
Hang Seng Index (July 28, 2022)	20,623
HSCEI (July 28, 2022)	7,083

Key Data	
52-week range (HKD)	18.18 - 25.4
Market cap (HKD mn)	313,869
Avg. daily volume (mn)	5.14
BVPS (USD)	0.84

Shareholding Structure	
AB InBev	87.2%
No. of shares outstanding (mn)	13,220
Free float	12.8%

Source: Bloomberg

Related Research

1. China Food & Beverage Sector - 2H22 Outlook: Recovery from COVID lockdowns (OVERWEIGHT) (Jul 8, 2022)
2. Budweiser APAC (1876 HK) - Surprisingly strong results despite COVID (BUY) (May 5, 2022)

Figure 1: result summary table

Unit: USD mn	1H22 CMS estimate	1H22 actual	% diff	yoy %	1H22 vs 1H20
Revenue	3,921	3,453	-11.9%	-0.7%	34.1%
Cost of sales	-1,749	-1,701	-2.7%	6.4%	36.3%
Gross profit	2,172	1,752	-19.3%	-6.7%	32.0%
SG&A	-1,277	-1,028	-19.5%	-10.6%	3.3%
Other operating income	76	67	-11.3%	0.0%	31.4%
Adj. operating profit	970	791	-18.5%	-0.5%	106.5%
Non-recurring items	-25	-5	-79.8%		
Operating profit	946	786	-16.9%	1.7%	110.7%
Net finance cost	8	8	-4.6%		
Share of results of associates	8	12	50.0%		
Profit before tax	962	806	-16.2%	3.9%	120.8%
Income tax expense	-320	-166	-48.1%		
Profit for the year	642	640	-0.3%	23.6%	226.5%
Profit attributable to:					
Owners of the Company	620	625	0.8%	24.3%	237.8%
Non-controlling interests	22	15			
EPS (USD)	0.05	0.05	0.8%	24.3%	237.8%
Revenue breakdown					
Overall Sales volume (000 hl)	40,062	45,226	12.9%	-1.4%	16.8%
ASP (USD/L)	0.98	0.76	-22.0%	0.7%	14.8%
Key margins (%)					
GPM	55.4%	50.7%	-4.7ppt	-3.3ppt	0.0ppt
adj. OPM	24.7%	22.9%	-1.8ppt	0.0ppt	0.5ppt
PBT margin	24.5%	23.3%	-1.2ppt	1.0ppt	0.6ppt
Net profit margin	15.8%	18.1%	2.3ppt	3.6ppt	1.5ppt
Key expense ratios(%)					
SG&A expense ratio	32.6%	29.8%	-2.8ppt	-3.3ppt	-0.2ppt

Sources: Company data, CMS (HK) estimates

Note: the yoy changes are non-organic, which includes FX changes

Figure 2: Estimates change table

Unit: USD mn	2022			2023			2024		
	Original	New	Diff %	Original	New	Diff %	Original	New	Diff %
Revenue	7,540	7,540	0.0%	8,704	8,704	0.0%	9,939	9,939	0.0%
Gross profit	4,167	3,873	-7.1%	4,942	4,647	-6.0%	5,763	5,426	-5.8%
GPM	55.3%	51.4%	-3.9ppt	56.8%	53.4%	-3.4ppt	58.0%	54.6%	-3.4ppt
Operating profit	1,736	1,549	-10.8%	2,136	1,952	-8.6%	2,559	2,227	-13.0%
OPM	23.0%	20.5%	-2.5ppt	24.5%	22.4%	-2.1ppt	25.7%	22.4%	-3.3ppt
Attributable net profit	1,164	1,132	-2.8%	1,446	1,356	-6.2%	1,745	1,553	-11.0%
NPM	15.4%	15.0%	-0.4ppt	16.6%	15.6%	-1.0ppt	17.6%	15.6%	-1.9ppt
EPS (USD)	0.09	0.09	-2.8%	0.11	0.10	-6.2%	0.13	0.12	-11.0%
Revenue breakdown									
APAC West revenue	6,182	6,182	0.0%	7,228	7,228	0.0%	8,347	8,347	0.0%
Vol ('000 hl)	78,778	78,778	0.0%	85,177	85,177	0.0%	91,192	91,192	0.0%
ASP (USD/L)	0.78	0.78	0.0%	0.85	0.85	0.0%	0.92	0.92	0.0%
APAC East revenue	1,358	1,358	0.0%	1,477	1,477	0.0%	1,592	1,592	0.0%
Vol ('000 hl)	11,360	11,360	0.0%	11,815	11,815	0.0%	12,169	12,169	0.0%
ASP (USD/L)	1.20	1.20	0.0%	1.25	1.25	0.0%	1.31	1.31	0.0%
Key expense ratios (%)									
Distribution expense ratio	7.7%	7.9%	0.2ppt	7.7%	7.9%	0.2ppt	7.7%	7.9%	0.2ppt
Sales and marketing expense ratio	20.3%	18.5%	-1.8ppt	20.3%	18.7%	-1.6ppt	20.3%	19.9%	-0.4ppt
Administrative expense ratio	6.5%	6.6%	0.1ppt	6.5%	6.6%	0.1ppt	6.5%	6.6%	0.1ppt

Sources: Company data, CMS (HK) estimates

Figure 3: organic and reported growth figures

Growth %	BUD APAC		APAC West		APAC East		China	
	Organic	Reported	Organic	Reported	Organic	Reported	Organic	Reported
Volume								
2Q22	-0.4%	-0.4%	-1.4%	-1.4%	7.4%	7.4%	-6.5%	-6.5%
1H22	-1.4%	-1.4%	-2.5%	-2.5%	7.1%	7.1%	-5.5%	-5.5%
Revenue per hl								
2Q22	4.1%	-1.2%	2.2%	-1.7%	8.7%	-2.2%	1.7%	-1.9%
1H22	4.2%	0.7%	2.9%	0.9%	6.4%	-3.0%	2.4%	0.8%
Net revenue								
2Q22	3.7%	-1.6%	0.8%	-3.1%	16.8%	5.1%	-4.9%	-8.3%
1H22	2.7%	-0.7%	0.3%	-1.6%	13.9%	3.9%	-3.2%	-4.7%
Normalized EBITDA								
2Q22	-5.6%	-9.3%	-12.1%	-14.2%	34.9%	22.1%	-13.7%	-15.8%
1H22	0.4%	-1.4%	-5.1%	-5.4%	39.2%	27.3%	-7.3%	-7.7%

Sources: Company data, CMS (HK) estimates

Note: organic growth rules out FX effect

Figure 4: Target price and valuation table

Valuation - Budweiser				
Stock price (HKD)	23.7		Price date	28/7/2022
HKD/USD	7.85			
	FY21	FY22E	FY23E	FY24E
EPS (USD)	0.07	0.09	0.10	0.12
EPS, yoy growth	84.8%	19.2%	19.8%	14.6%
P/E	42.0x	35.3x	29.4x	25.7x
Target P/E		36.2x		
Fwd 12-month EPS (USD)		0.10		
Target price (HKD)		27.9		
Upside		17.7%		
Div yield		1.1%		
Total return		18.9%		

Sources: Company data, Bloomberg, CMS (HK) estimates

Financial statement

Balance Sheet

USD mn	2020	2021	2022E	2023E	2024E
PP&E	3,716	3,632	3,008	2,928	2,849
Goodwill	7,350	7,104	6,606	6,606	6,606
Intangible asset	2,026	1,939	1,810	1,810	1,810
Investment in associates	433	452	449	449	449
Other non-current assets	332	337	372	379	425
Non-current assets	13,857	13,464	12,245	12,172	12,140
Inventory	434	473	592	579	644
Trade and other receivables	534	560	403	412	471
Cash and cash equivalents	1,281	2,007	4,639	5,545	7,218
Other current assets	83	121	161	161	161
Current assets	2,332	3,161	5,795	6,698	8,494
Total assets	16,189	16,625	18,041	18,870	20,634
Trade and other payables	2,655	2,764	3,566	3,493	3,884
Short term loans	147	123	147	147	147
Consigned packaging and contract liabilities	1,449	1,495	1,919	1,879	2,089
Other current liabilities	386	309	428	455	513
Current liabilities	4,637	4,691	6,060	5,975	6,634
LT loan	37	53	68	68	68
Deferred tax liabilities	481	474	585	598	683
Provisions	131	132	124	124	124
Other non-current liabilities	160	192	148	146	155
Non-current liabilities	809	851	925	936	1,030
Total liabilities	5,446	5,542	6,985	6,911	7,664
Share Capital	7,378	7,378	7,378	7,378	7,378
Other reserves	103	-160	-927	-927	-927
Retained earnings	3,204	3,795	4,535	5,438	6,449
Non-controlling interests	58	70	70	70	70
Total equity	10,743	11,083	11,056	11,959	12,970
Total equity and liabilities	16,189	16,625	18,041	18,870	20,634

Cashflow Statement

USD mn	2020	2021	2022E	2023E	2024E
Net profit	537	981	1,159	1,388	1,591
Finance Costs	24	6	0	0	0
Gain on disposal of fixed assets	-46	-34	0	0	0
D&A	647	712	605	591	578
Changes in OWC	31	141	867	-70	267
Income tax paid	-357	-395	-6	6	39
Others	465	492	19	-5	21
CF from operating activities	1,301	1,903	2,644	1,911	2,495
Capital expenditure	-508	-606	8	-522	-510
Proceeds from asset disposal	39	35	48	47	46
Acquisition of business/subsidiaries	-111	-123	0	0	0
Others	8	-37	610	-36	-35
CF from investing activities	-572	-731	666	-511	-500
Dividend paid	-363	-394	-400	-453	-542
Equity financing	0	0	-767	0	0
Debt financing (repaid)	-16	-24	39	0	0
Others	-53	-46	450	-41	219
CF from financing activities	-432	-464	-678	-494	-323
Net cash flow	297	708	2,632	906	1,673

Profit & Loss

USD mn	2020	2021	2022E	2023E	2024E
Revenues	5,588	6,788	7,540	8,704	9,939
Cost of Sales	-2,681	-3,131	-3,667	-4,057	-4,512
Gross profits	2,907	3,657	3,873	4,647	5,426
Other net income	165	150	169	193	220
Distribution exp	-458	-524	-595	-685	-783
Selling & marketing exp	-1,278	-1,407	-1,398	-1,627	-1,980
Admin expense	-399	-449	-500	-575	-656
Operating profits	937	1,427	1,549	1,952	2,227
Non-recurring expenses	-28	-40	-27	-29	-33
Finance costs	-24	-6	10	66	88
Earnings from equity interests	23	32	27	23	23
Profit before tax	908	1,413	1,559	2,012	2,305
Income tax expense	-371	-432	-399	-624	-715
Net profit	537	981	1,159	1,388	1,591
Non-controlling interest	23	31	27	33	37
Attributable net profit	514	950	1,132	1,356	1,553
Diluted EPS (USD)	0.04	0.07	0.09	0.10	0.12
Div per share (USD)	0.03	0.03	0.03	0.04	0.05

Financial Ratio

	2020	2021	2022E	2023E	2024E
yoy growth rate					
Revenue	-14.6%	21.5%	11.1%	15.4%	14.2%
Gross Profit	-16.7%	25.8%	5.9%	20.0%	16.8%
Operating profit	-36.1%	52.3%	8.5%	26.0%	14.1%
Net profit	-42.8%	84.8%	19.2%	19.8%	14.6%
EPS	-42.8%	84.8%	19.2%	19.8%	14.6%
Profitability					
Gross margin	52.0%	53.9%	51.4%	53.4%	54.6%
Operating margin	16.8%	21.0%	20.5%	22.4%	22.4%
Net margin	9.2%	14.0%	15.0%	15.6%	15.6%
Liquidity					
AR days	38.7	29.4	23.3	17.1	16.2
Inventory days	59.1	55.1	58.9	52.1	52.1
AP days	357.3	315.9	315.0	317.6	298.4
Cash conversion cycle	-259.5	-231.3	-232.8	-248.3	-230.0
Cash flow & leverage					
Free cash low	774	1,283	2,633	1,347	1,873
Net debt to equity	-10.2%	-16.5%	-40.0%	-44.6%	-54.0%
Dividend payout ratio	73.0%	42.1%	40.0%	40.0%	40.0%
Dividend yield	0.9%	1.0%	1.1%	1.4%	1.6%
Return analysis					
ROE	5.0%	8.8%	10.3%	11.9%	12.5%
Asset turnover	0.4	0.4	0.4	0.5	0.5
Net margin	9.2%	14.0%	15.0%	15.6%	15.6%
Financial leverage	1.5	1.5	1.6	1.6	1.6
ROA	3.4%	6.0%	6.7%	7.5%	8.1%
Valuation ratios					
P/E	77.7x	42.0x	35.3x	29.4x	25.7x
P/B	3.7x	3.6x	3.6x	3.3x	3.1x

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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Hong Kong

China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong Kong
Tel: +852 3189 6888 Fax: +852 3101 0828