

# Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

## Budweiser APAC (1876 HK)

### We expect rebound in sales in 2H22

- Channels re-opening; expect better sales in 2H22
- Cost pressure should alleviate by 4Q22
- Maintain BUY and TP of HKD 27.9

### Sales channel is recovering

While Budweiser APAC mgmt. did not disclose its July sales during our recent NDR, we can gain some inferences of the sales trend through its main distribution channels. In 2Q22, sales volume declined by 6.5% yoy. Mgmt estimated that during the peak of the COVID lockdowns in April, the opening rates of nightlife venues and restaurants in China were 38% and 82%. These opening rates improved to 91%/98% respectively in June. The opening rates mirrored the sales volume of Budweiser APAC where June overall sales volume saw high-single-digits ppts yoy growth. While July's opening rates are estimated to have slipped a bit to 81%/97%, we should still expect sales growth in July. Given our base assumption that there will not be any large scale lockdowns in 2H22, we should expect sales to recover in 2H22, especially given the hot weather so far this summer.

### Cost pressure could improve by 4Q22

1H22 GPM declined by 3.3ppts yoy to 50.7% due to a combination of price increases in raw materials and unfavorable change in the sales mix. Mgmt noted that the trend in the spot prices of raw materials suggests the margin pressure would peak by 3Q22. That said, mgmt expects raw material costs to continue to be volatile into FY23 although likely not as volatile as the past 12 months. Along with the expected recovery in sales of premium and super premium products, we expect 2H22 margins to recover hoh.

### Price hikes typically occur in Dec

While mgmt did not confirm the possibility of price hikes in 2H22, it did mention that Budweiser APAC typically hikes prices for core & value products in Apr (pre-summer) and Budweiser and core+ products in Dec (pre-CNY). That said, any price hikes are unlikely to fully offset the increases in raw material prices and Budweiser APAC will typically rely on product premiumization to increase ASP and margins.

### Maintain BUY rating and lift TP to HKD 27.9

We maintain our EPS forecasts and our target price of HKD27.9. Given the expected recovery in China and premiumization trend, we maintain our BUY rating.

**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	73.2x	39.6x	33.2x	27.8x	24.2x
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 Aug 3, 2022

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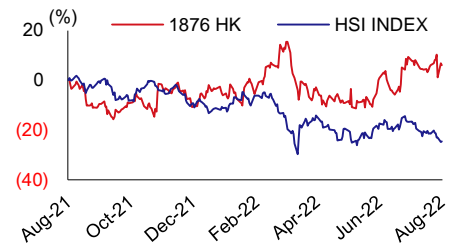
### WHAT'S NEW

Bud APAC's NDR affirmed our positive views. Maintain BUY and TP of HKD27.9

## BUY

Previous	BUY
Price	HKD 22.4
12-month Target Price (Potential up/downside)	HKD 27.9 (+24.8%)
Previous	HKD27.9

### Price Performance



Source: Bloomberg; share price as of August 3, 2022

%	1m	6m	12m
1876 HK	(4.9)	10.1	4.0
HSI	(9.6)	(17.0)	(24.5)

### Sector: Consumer

Hang Seng Index (Aug 3, 2022)	19,767
HSCEI (Aug 3, 2022)	6,737

### Key Data

52-week range (HKD)	18.18 - 25.4
Market cap (HKD mn)	295,990
Avg. daily volume (mn)	7.34
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. Budweiser APAC (1876 HK) - 2Q22 hit by COVID but June sees recovery (BUY) (Jul 28, 2022)
2. Budweiser APAC (1876 HK) - Surprisingly strong results despite COVID (BUY) (May 5, 2022)

Figure 1: Target price and valuation table

Valuation - Budweiser				
Stock price (HKD)	22.4		Price date	3/8/2022
HKD/USD	7.85			
	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EPS (USD)	0.07	0.09	0.10	0.12
EPS, yoy growth	84.8%	19.2%	19.8%	14.6%
P/E	39.6x	33.2x	27.8x	24.2x
Target P/E		<b>36.2x</b>		
Fwd 12-month EPS (USD)		<b>0.10</b>		
Target price (HKD)		<b>27.9</b>		
Upside		<b>24.8%</b>		
Div yield		1.2%		
Total return		26.0%		

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
<b>Non-current assets</b>	<b>13,857</b>	<b>13,464</b>	<b>12,245</b>	<b>12,172</b>	<b>12,140</b>
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
<b>Current assets</b>	<b>2,332</b>	<b>3,161</b>	<b>5,795</b>	<b>6,698</b>	<b>8,494</b>
<b>Total assets</b>	<b>16,189</b>	<b>16,625</b>	<b>18,041</b>	<b>18,870</b>	<b>20,634</b>
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
<b>Current liabilities</b>	<b>4,637</b>	<b>4,691</b>	<b>6,060</b>	<b>5,975</b>	<b>6,634</b>
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
<b>Non-current liabilities</b>	<b>809</b>	<b>851</b>	<b>925</b>	<b>936</b>	<b>1,030</b>
<b>Total liabilities</b>	<b>5,446</b>	<b>5,542</b>	<b>6,985</b>	<b>6,911</b>	<b>7,664</b>
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
<b>Total equity</b>	<b>10,743</b>	<b>11,083</b>	<b>11,056</b>	<b>11,959</b>	<b>12,970</b>
<b>Total equity and liabilities</b>	<b>16,189</b>	<b>16,625</b>	<b>18,041</b>	<b>18,870</b>	<b>20,634</b>

### Cashflow Statement

USD mn	2020	2021E	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
<b>CF from operating activities</b>	<b>1,301</b>	<b>1,903</b>	<b>2,644</b>	<b>1,911</b>	<b>2,495</b>
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
<b>CF from investing activities</b>	<b>-572</b>	<b>-731</b>	<b>666</b>	<b>-511</b>	<b>-500</b>
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
<b>CF from financing activities</b>	<b>-432</b>	<b>-464</b>	<b>-678</b>	<b>-494</b>	<b>-323</b>
<b>Net cash flow</b>	<b>297</b>	<b>708</b>	<b>2,632</b>	<b>906</b>	<b>1,673</b>

### Profit & Loss

USD mn	2020	2021	2022E	2023E	2024E
<b>Revenues</b>	<b>5,588</b>	<b>6,788</b>	<b>7,540</b>	<b>8,704</b>	<b>9,939</b>
Cost of Sales	-2,681	-3,131	-3,667	-4,057	-4,512
<b>Gross profits</b>	<b>2,907</b>	<b>3,657</b>	<b>3,873</b>	<b>4,647</b>	<b>5,426</b>
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
<b>Operating profits</b>	<b>937</b>	<b>1,427</b>	<b>1,549</b>	<b>1,952</b>	<b>2,227</b>
Non-recurring expenses	-28	-40	-27	-29	-33
Finance costs	-24	-6	10	66	88
Earnings from equity interests	23	32	27	23	23
<b>Profit before tax</b>	<b>908</b>	<b>1,413</b>	<b>1,559</b>	<b>2,012</b>	<b>2,305</b>
Income tax expense	-371	-432	-399	-624	-715
<b>Net profit</b>	<b>537</b>	<b>981</b>	<b>1,159</b>	<b>1,388</b>	<b>1,591</b>
Non-controlling interest	23	31	27	33	37
<b>Attributable net profit</b>	<b>514</b>	<b>950</b>	<b>1,132</b>	<b>1,356</b>	<b>1,553</b>
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
<b>yoy growth rate</b>					
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%
<b>Profitability</b>					
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%
<b>Liquidity</b>					
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
<b>Cash flow &amp; leverage</b>					
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	1.0%	1.0%	1.2%	1.4%	1.6%
<b>Return analysis</b>					
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%
<b>Valuation ratios</b>					
P/E	73.2x	39.6x	33.2x	27.8x	24.2x
P/B	3.5x	3.4x	3.4x	3.1x	2.9x

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
HOLD	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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