CMS 招商證券國際

Thursday, October 27, 2022

# Company Report

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

# Budweiser APAC (1876 HK)

## 3Q22 results affected by COVID and FX; underlying demand remains strong

- **3Q22 results undermined by unfavourable currency depreciations**
- **Premiumization in China is still strong**
- **Maintain BUY. New TP of HKD22.0**

## Reported earnings affected by currency depreciation

3Q22 reported revenue declined grew by 1.2% yoy to USD1,860mn. 3Q22 net profit fell 13.9% yoy to USD303mn. Adjusted for FX, 3Q22 revenues grew 6.3% yoy as all of Budweiser APAC's functional currencies depreciated by 9%-17% yoy in 3Q22 vs its reporting currency of USD.

## Organic revenue growth in main markets

3Q22 APAC West (China and India) adjusted revenue increased 4.4% yoy as volume increases of 5.2% yoy was offset by ASP declines of 0.8% yoy. 3Q22 APAC East (South Korea) revenue grew by 19.5% yoy as volumes grew by 15.0% yoy while ASP grew by 3.9% yoy. The growth in South Korea was led by strong demand after the lifting of COVID restrictions.

## Premiumization in China is still strong

China 3Q22 revenues increased 1.6% yoy as volume increases of 3.7% yoy was offset by ASP declines of 2.0% yoy. COVID restrictions led to unfavourable product sales mix which affected ASP. Mgmt mentioned that 3Q22 revenues for the premium and super premium segments grew yoy as well vs pre-COVID levels. In non-COVID affected areas, Budweiser and the super premium brands grew by double-digit ppts yoy.

## Margins decline but should improve in FY23

3Q22 reported GPM declined by 3.8ppts yoy to 51.3% as ASP fell 7.0% yoy while cost per hectoliter increased 0.9% yoy. Mgmt expects 4Q22 commodity prices to be more normalized. For FY23, the commodity prices to continue to rise but likely at a lower rate than FY22. Overall 3Q22 normalized EBITDA grew by 1.6% yoy but reported EBITDA dropped 4.8% yoy. Normalized EBITDA margins declined 1.8 ppts yoy while reported EBITDA margins dropped 1.3 ppts yoy to 31.8%.

## Maintain BUY rating; New TP of HKD 22.0

We cut our FY22/23/24E EPS forecasts by -15.3%, -14.1% and -13.5%, respectively, mainly to factor in the currency depreciations. We drop our TP to HKD22.0 from HKD27.9 which implies a target P/E multiple of 36.2x (unchanged). Given the premiumization trend and strong underlying demand, excellent cost control, 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 | 6,249 | 7,337 | 8,383 |
| *yoy growth* | -14.6% | 21.5% | -7.9% | 17.4% | 14.3% |
| Attributable net profit | 514 | 950 | 959 | 1,166 | 1,343 |
| Adj. EPS (USD) | 0.04 | 0.07 | 0.07 | 0.09 | 0.10 |
| *yoy growth* | -42.8% | 84.8% | 1.0% | 21.5% | 15.3% |
| P/E | 58.8x | 31.8x | 31.5x | 25.9x | 22.5x |
| ROE | 5.0% | 8.8% | 8.8% | 10.4% | 11.2% |
| Net debt (cash)/ equity | -10.2% | -16.5% | -25.3% | -37.0% | -46.0% |

*Sources: Company data, CMS (HK) estimates; share price as of Oct 27, 2022*


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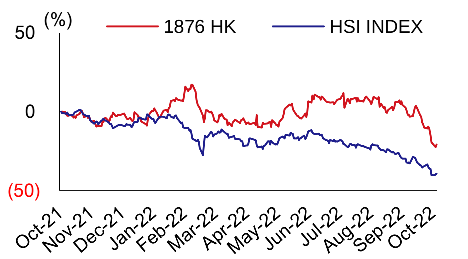
## WHAT'S NEW

Bud APAC's 3Q22 was hit by COVID and unfavorable currency depreciations. But underlying demand remains strong. Maintain BUY. New TP of HKD 22.0

## BUY

| | |
|---|---|
| Previous | BUY |
| Price | HKD 17.94 |
| 12-month Target Price (Potential up/downside) | HKD 22.0 (+22.6%) |
| Previous | HKD27.9 |

### Price Performance




*Source: Bloomberg; share price as of Oct 27, 2022*

| % | 1m | 6m | 12m |
|---|---|---|---|
| 1876 HK | (16.2) | (9.2) | (4.5) |
| HSI | (13.6) | (22.7) | (39.8) |

| Sector: Consumer | |
|---|---|
| Hang Seng Index (Oct 27, 2022) | 15,428 |
| HSCEI (Oct 27, 2022) | 5,243 |
| **Key Data** | |
| 52-week range (HKD) | 15.9 - 25.4 |
| Market cap (HKD mn) | 237,587 |
| Avg. daily volume (mn) | 6.06 |
| BVPS (USD) | 0.79 |
| **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) - We expect rebound in sales in 2H22 (BUY) (Aug 3, 2022)
2. Budweiser APAC (1876 HK) - 2Q22 hit by COVID but June sees recovery (BUY) (July 28, 2022)

Figure 1: Estimates change table

| Unit: USD mn | 2022 | | | 2023 | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Original | New | Diff % | Original | New | Diff % | Original | New | Diff % |
| **Revenue** | **7,540** | **6,249** | ***-17.1%*** | **8,704** | **7,337** | ***-15.7%*** | **9,939** | **8,383** | ***-15.7%*** |
| **Gross profit** | **3,873** | **3,147** | ***-18.8%*** | **4,647** | **3,882** | ***-16.5%*** | **5,426** | **4,536** | ***-16.4%*** |
| *GPM* | *51.4%* | *50.4%* | *-1.0ppt* | *53.4%* | *52.9%* | *-0.5ppt* | *54.6%* | *54.1%* | *-0.5ppt* |
| **Operating profit** | **1,549** | **1,253** | ***-19.1%*** | **1,952** | **1,617** | ***-17.2%*** | **2,227** | **1,846** | ***-17.1%*** |
| *OPM* | *20.5%* | *20.1%* | *-0.5ppt* | *22.4%* | *22.0%* | *-0.4ppt* | *22.4%* | *22.0%* | *-0.4ppt* |
| **Attributable net profit** | **1,132** | **959** | ***-15.3%*** | **1,356** | **1,166** | ***-14.0%*** | **1,553** | **1,343** | ***-13.5%*** |
| *NPM* | *15.0%* | *15.3%* | *0.3ppt* | *15.6%* | *15.9%* | *0.3ppt* | *15.6%* | *16.0%* | *0.4ppt* |
| **EPS (USD)** | **0.09** | **0.07** | ***-15.3%*** | **0.10** | **0.09** | ***-14.1%*** | **0.12** | **0.10** | ***-13.5%*** |
| | | | | | | | | | |
| **Revenue breakdown** | | | | | | | | | |
| **APAC West revenue** | **6,182** | **5,056** | ***-18.2%*** | **7,228** | **6,030** | ***-16.6%*** | **8,347** | **6,974** | ***-16.5%*** |
| *Vol ('000 hl)* | *78,778* | *77,174* | *-2.0%* | *85,177* | *84,985* | *-0.2%* | *91,192* | *90,986* | *-0.2%* |
| *ASP (USD/L)* | *0.78* | *0.66* | *-16.5%* | *0.85* | *0.71* | *-16.4%* | *0.92* | *0.77* | *-16.3%* |
| **APAC East revenue** | **1,358** | **1,193** | ***-12.1%*** | **1,477** | **1,307** | ***-11.5%*** | **1,592** | **1,409** | ***-11.5%*** |
| Vol ('000 hl) | 11,360 | 12,118 | *6.7%* | 11,815 | 12,723 | *7.7%* | 12,169 | 13,105 | *7.7%* |
| ASP (USD/L) | 1.20 | *0.98* | *-17.6%* | 1.25 | *1.03* | *-17.8%* | 1.31 | *1.07* | *-17.8%* |
| | | | | | | | | | |
| **Key expense ratios (%)** | | | | | | | | | |
| Distribution expense ratio | 7.9% | 7.9% | *0.0ppt* | 7.9% | 7.8% | *-0.1ppt* | 7.9% | 7.8% | *-0.1ppt* |
| Sales and marketing expense ratio | 18.5% | 18.0% | *-0.5ppt* | 18.7% | 18.7% | *0.0ppt* | 19.9% | 19.9% | *0.0ppt* |
| Administrative expense ratio | 6.6% | 6.6% | *0.0ppt* | 6.6% | 6.6% | *0.0ppt* | 6.6% | 6.6% | *0.0ppt* |

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

Figure 2: Target price and valuation table

| **Valuation - Budweiser** | | | |
|---|---|---|---|
| **Stock price (HKD)** | 17.94 | **Price date** | 10/27/2022 |
| **HKD/USD** | 7.85 | | |

| | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| **EPS (USD)** | 0.07 | 0.07 | 0.09 | 0.10 |
| **EPS, yoy growth** | *84.8%* | *1.0%* | *21.5%* | *15.3%* |
| **P/E** | 31.8x | 31.5x | 25.9x | 22.5x |

| | |
|---|---|
| **Target P/E** | **36.2x** |
| **Fwd 12-month EPS (USD)** | **0.08** |
| **Target price (HKD)** | **22.00** |
| **Upside** | **22.6%** |

*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 | 272 | 328 | 367 |
| **Non-current assets** | **13,857** | **13,464** | **12,145** | **12,121** | **12,082** |
| Inventory | 434 | 473 | 422 | 499 | 556 |
| Trade and other receivables | 534 | 560 | 276 | 348 | 397 |
| Cash and cash equivalents | 1,281 | 2,007 | 2,972 | 4,526 | 5,983 |
| Other current assets | 83 | 121 | 161 | 161 | 161 |
| **Current assets** | **2,332** | **3,161** | **3,830** | **5,533** | **7,097** |
| **Total assets** | **16,189** | **16,625** | **15,975** | **17,654** | **19,178** |
| Trade and other payables | 2,655 | 2,764 | 2,542 | 3,009 | 3,349 |
| Short term loans | 147 | 123 | 147 | 147 | 147 |
| Consigned packaging and contract liabilities | 1,449 | 1,495 | 1,367 | 1,619 | 1,802 |
| Other current liabilities | 386 | 309 | 320 | 384 | 427 |
| **Current liabilities** | **4,637** | **4,691** | **4,376** | **5,159** | **5,726** |
| LT loan | 37 | 53 | 68 | 68 | 68 |
| Deferred tax liabilities | 481 | 474 | 400 | 504 | 576 |
| Provisions | 131 | 132 | 124 | 124 | 124 |
| Other non-current liabilities | 160 | 192 | 123 | 134 | 143 |
| **Non-current liabilities** | **809** | **851** | **716** | **831** | **911** |
| **Total liabilities** | **5,446** | **5,542** | **5,092** | **5,989** | **6,636** |
| 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 | 4,362 | 5,144 | 6,021 |
| Non-controlling interests | 58 | 70 | 70 | 70 | 70 |
| **Total equity** | **10,743** | **11,083** | **10,883** | **11,665** | **12,542** |
| **Total equity and liabilities** | **16,189** | **16,625** | **15,975** | **17,654** | **19,178** |

## Cashflow Statement

| USD mn | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Net profit | 537 | 981 | 982 | 1,194 | 1,376 |
| 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 | 140 | 318 | 235 |
| Income tax paid | -357 | -395 | -91 | 48 | 33 |
| Others | 465 | 492 | -85 | 36 | 11 |
| **CF from operating activities** | **1,301** | **1,903** | **1,552** | **2,187** | **2,232** |
| 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 | -384 | -466 |
| Equity financing | 0 | 0 | -767 | 0 | 0 |
| Debt financing (repaid) | -16 | -24 | 39 | 0 | 0 |
| Others | -53 | -46 | -125 | 262 | 191 |
| **CF from financing activities** | **-432** | **-464** | **-1,253** | **-121** | **-275** |
| **Net cash flow** | **297** | **708** | **965** | **1,554** | **1,458** |

## Profit & Loss

| USD mn | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| **Revenues** | **5,588** | **6,788** | **6,249** | **7,337** | **8,383** |
| Cost of Sales | -2,681 | -3,131 | -3,102 | -3,455 | -3,846 |
| **Gross profits** | **2,907** | **3,657** | **3,147** | **3,882** | **4,536** |
| Other net income | 165 | 150 | 137 | 162 | 185 |
| Distribution exp | -458 | -524 | -491 | -571 | -652 |
| Selling & marketing exp | -1,278 | -1,407 | -1,127 | -1,371 | -1,670 |
| Admin expense | -399 | -449 | -412 | -485 | -554 |
| **Operating profits** | **937** | **1,427** | **1,253** | **1,617** | **1,846** |
| Non-recurring expenses | -28 | -40 | -20 | -25 | -28 |
| Finance costs | -24 | -6 | 15 | 42 | 70 |
| Earnings from equity interests | 23 | 32 | 27 | 23 | 23 |
| **Profit before tax** | **908** | **1,413** | **1,275** | **1,658** | **1,911** |
| Income tax expense | -371 | -432 | -293 | -464 | -535 |
| **Net profit** | **537** | **981** | **982** | **1,194** | **1,376** |
| Non-controlling interest | 23 | 31 | 23 | 28 | 32 |
| **Attributable net profit** | **514** | **950** | **959** | **1,166** | **1,343** |
| Diluted EPS (USD) | 0.04 | 0.07 | 0.07 | 0.09 | 0.10 |
| Div per share (USD) | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 |

## Financial Ratio

| | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| **yoy growth rate** | | | | | |
| Revenue | -14.6% | 21.5% | -7.9% | 17.4% | 14.3% |
| Gross Profit | -16.7% | 25.8% | -14.0% | 23.4% | 16.9% |
| Operating profit | -36.1% | 52.3% | -12.2% | 29.0% | 14.2% |
| Net profit | -42.8% | 84.8% | 1.0% | 21.5% | 15.3% |
| EPS | -42.8% | 84.7% | 1.0% | 21.5% | 15.3% |
| **Profitability** | | | | | |
| Gross margin | 52.0% | 53.9% | 50.4% | 52.9% | 54.1% |
| Operating margin | 16.8% | 21.0% | 20.1% | 22.0% | 22.0% |
| Net margin | 9.2% | 14.0% | 15.3% | 15.9% | 16.0% |
| **Liquidity** | | | | | |
| AR days | 38.7 | 29.4 | 24.4 | 15.5 | 16.2 |
| Inventory days | 59.1 | 55.1 | 49.6 | 52.7 | 52.7 |
| AP days | 357.3 | 315.9 | 312.1 | 293.2 | 301.7 |
| Cash conversion cycle | -259.5 | -231.3 | -238.1 | -225.0 | -232.7 |
| **Cash flow & leverage** | | | | | |
| Free cash low | 774 | 1,283 | 1,719 | 1,552 | 1,632 |
| Net debt to equity | -10.2% | -16.5% | -25.3% | -37.0% | -46.0% |
| Dividend payout ratio | 73.0% | 42.1% | 40.0% | 40.0% | 40.0% |
| Dividend yield | 1.2% | 1.3% | 1.3% | 1.5% | 1.8% |
| **Return analysis** | | | | | |
| ROE | 5.0% | 8.8% | 8.8% | 10.4% | 11.2% |
| Asset turnover | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 |
| Net margin | 9.2% | 14.0% | 15.3% | 15.9% | 16.0% |
| Financial leverage | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| ROA | 3.4% | 6.0% | 6.0% | 7.1% | 7.5% |
| **Valuation ratios** | | | | | |
| P/E | 58.8x | 31.8x | 31.5x | 25.9x | 22.5x |
| P/B | 2.8x | 2.7x | 2.8x | 2.6x | 2.4x |

*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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