



Company Report: China Resources Beer (00291 HK)

公司报告: 华润啤酒 (00291 HK)

Andy Chen 陈思超

(852) 2509 2665

andy.chen@gtjas.com.hk

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Aiming to Become a Comprehensive Alcoholic Beverage Giant, Reiterate "Buy" Rating

剑指成为综合性的酒业巨头，重申“买入”评级

- Reiterate "Buy" rating.** We forecast China Resources Beer's (CRB, or the "Company") 2022-2024 EPS to reach RMB1.302/ RMB1.709/ RMB2.128, respectively. Our TP of HK\$62.60 implies 43.8x/ 33.4x/ 26.8x 2022-2024 PER.
- Investment thesis:** The premiumization wave in the beer market in China will continue for the medium to long term. We expect CRB to benefit more from the structural upgrade trend and meanwhile achieve accelerating profit growth. By stepping further into the baijiu market, CRB is creating a second growth curve, targeting to become a comprehensive alcoholic beverage giant.
- Our views:** Despite that market concerns that YoY volume growth in some of CRB's premium beer products slowed over the past few quarters, we insist that CRB's road to premiumization strategy will move forward, and not retreat in the long run. Our argument is based on its powerful brand and product mix, efficient S&D channel model, tailor-made marketing strategy, and management execution excellence. For the proposed acquisition of Jinsha Winery, investors should not be too concerned about recent macro and baijiu-sector headwinds. We think operational synergies to be unleashed in the long run in beer and non-beer business are underestimated.
- Catalysts:** Marginal relief on cost pressure; more price hikes likely coming; easing of Covid measures likely in following quarters; beer volume to be consumed may exceed expectations during the FIFA World Cup period.
- Risk factors:** Recovery of offline consumption scene may miss expectations; fierce competition in the mid- to high-end beer market in China; unexpected price fluctuations in raw materials and/ or packaging components.
- 重申“买入”评级。** 我们预计 2022-2024 年华润啤酒（“润啤”或“公司”）的每股盈利将分别达到人民币 1.302 元、人民币 1.709 元、人民币 2.128 元。我们的目标价为 62.60 港元，相当于 43.8 倍、33.4 倍、26.8 倍的 2022-2024 年市盈率。
- 投资要点：** 中长期看，国内啤酒市场的高端化浪潮依旧方兴未艾。我们认为，润啤更加受益于结构升级进程的同时，利润增长或将边际提速。借由进一步拓展白酒市场，公司正打造第二增长曲线，旨在成为综合性的酒业巨头。
- 我们的观点：** 市场担忧润啤部分高端啤酒产品于过往季度的销量同比增速有所放缓，但我们坚信润啤的高端化之路长期向前且不会后撤——我们的主张乃植根于其强有力的品牌与产品组合，高效运作的分销渠道模式，量身定制的营销推广策略，及卓越的管理执行能力等方面。就拟收购金沙酒业的交易而言，投资者则不应过度关切白酒行业近期的不利因素与宏观逆风。我们认为，啤酒和非啤酒业务间长维度的营运协同前景被低估。
- 催化剂：** 成本压力边际钝化；存在进一步提价销售的可能性；新冠防疫措施有望于未来若干季度进一步优化；世界杯赛事期间的啤酒销量或将高于预期。
- 风险因素：** 线下消费场景的修复或不及预期；国内中高档啤酒市场竞争加剧；原材料及包装材料价格波动超预期。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$62.60

Revised from 原目标价:

HK\$69.50

Share Price 股价:

HK\$53.400

Stock Performance

股价表现



Change in Share Price	1 M	3 M	1 Y
	1 个月	3 个月	1 年
Abs. % 绝对变动 %	15.7	3.9	(14.6)
Rel. % to HS Index 相对恒指变动 %	2.3	5.1	7.0
Avg. Share Price (HK\$) 平均股价 (港元)	49.8	50.0	52.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2020A	31,448	2,094	0.645	59.7	71.6	6.540	7.1	0.259	0.6	10.2
2021A	33,387	4,587	1.414	119.2	31.6	7.531	5.9	0.566	1.3	20.1
2022F	37,573	4,225	1.302	(7.9)	38.4	8.271	6.0	0.521	1.0	16.5
2023F	40,296	5,544	1.709	31.3	29.3	9.378	5.3	0.684	1.4	19.4
2024F	42,834	6,902	2.128	24.5	23.5	10.738	4.7	0.851	1.7	21.2

Shares in Issue (m) 总股数 (m)	3,244.2	Major Shareholder 大股东	China Resources 51.7%
Market Cap. (HK\$ m) 市值 (HK\$ m)	173,239.0	Free Float (%) 自由流通比率 (%)	43.9
3 Month Average Vol. 3 个月平均成交股数 ('000)	11,450.9	FY23 Net Gearing (%) FY23 净负债/股东资金 (%)	Net Cash
52 Weeks High/Low (HK\$) 52 周高/低 (HK\$)	68.700 / 35.900	FY23 Est. NAV (HK\$) FY23 每股估值 (港元)	69.5

Source: the Company, Guotai Junan International.

See the last page for disclaimer

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1. Core Ideas

Reiterate "Buy" rating. We forecast the Company's EPS to be RMB1.302/ RMB1.709/ RMB2.128 in 2022-2024, respectively. Applying two valuation approaches, we set our TP at HK\$62.60, equivalent to 43.8x/ 33.4x/ 26.8x 2022-2024 PER and 24.9x/ 19.8x/ 16.6x 2022-2024 EV/EBITDA.

Investment thesis: 1) The premiumization wave in the beer market, which has been one of the most visible consumption trends in China's structural upgrade, will continue in the medium and long term. 2) We are more optimistic about the upside potential of CRB's beer business gross margin mainly because expansion in high-margin sales in the sub-premium beer segment and above, which may be stronger and more resilient than expected from a long-term perspective and because cost pressure from price inflation of raw materials and packaging components will probably mitigate in stages over the medium term. Furthermore, together with optimizing production capacity and operational efficiency, we expect the Company to see reduction in expense ratios, leading to accelerating bottom-line growth. 3) Aiming to become a comprehensive alcoholic beverage giant, CRB is creating a second growth curve by stepping further into the baijiu market in China.

Our views: 1) Despite market concerns that YoY volume growth in some of CRB's core premium beer products slowed down over the past quarters, we insist that CRB's road to premiumization will mostly likely move forward, not to retreat, in the long run. Our argument is on the grounds of CRB's pricing power and market dominance, which is rooted from a) well-designed product strategies, such as "1+1 & 4+4 & Light Cavalry"; b) rejuvenation of distribution channels based on the CDDS (channel, distribution management, dealer operation, and salesforce) model and its large client platform; c) best-in-class marketing practices; and d) stability of ownership structure combined with execution excellence. However, in the short term, it is the disparity in market expectations may present lucrative opportunities if investors buy assets with long-term promise and strong fundamentals (such as CRB) as others despondently sell. 2) In terms of the proposed acquisition of Jinsha Winery, investors should not be too concerned about near-term baijiu-sector headwinds. Instead, operational synergies to be released in beer business and non-beer business are being underestimated by the market.

Catalysts: Marginal relief on cost pressure; more price hikes are likely coming; likely marginal easing of zero-Covid measures in the coming quarters; consumers beer volume may exceed expectations during the FIFA World Cup tournament.

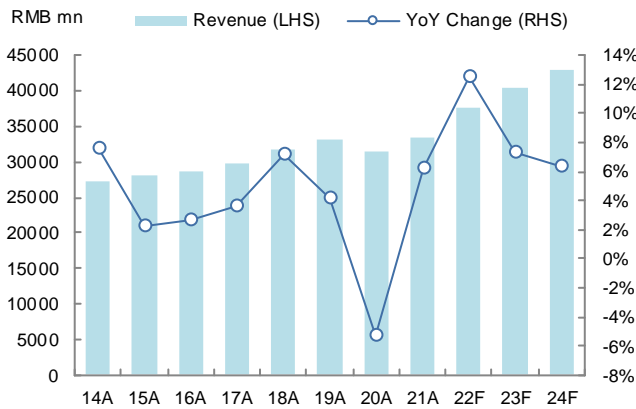
Risk factors: 1) Recovery of offline consumption scene may miss expectations; 2) intensified competition in the sub-premium beer market in China; and 3) unexpected price fluctuation of raw materials and/or packaging components.

2. Earnings Forecasts and Valuation

2.1 Earnings Forecasts

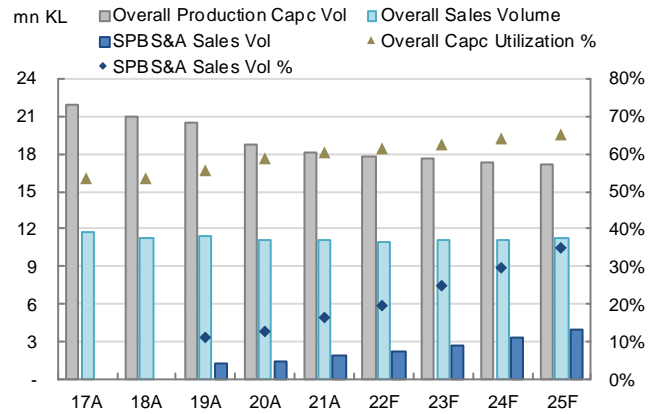
Revenue: We forecast that CRB's total sales volume will be 11.00 mn kl/ 11.06 mn kl/ 11.14 mn kl in 2022-2024, respectively. We forecast that CRB's per kl ASP will be RMB3,415/ RMB3,645/ RMB3,845 in 2022-2024, up YoY by 13.1%/ 6.7%/ 5.5%, respectively, driven by price hikes and ongoing premiumization. To be more specific, we forecast the sales volume of its sub-premium beer segment and above to reach 2.2 mn kl/ 2.8 mn kl/ 3.4 mn kl in 2022-2024, accounting for 20%/ 25%/ 30% of its total sales volume, respectively.

Figure-1: Expecting CRB's revenue to grow at 3-year CAGR of 8.7% from 2021 to 2024F



Source: the Company, Guotai Junan International.

Figure-2: Expecting volume contribution of 35% from CRB's sub-premium categories and above by 2025F



Source: the Company, Guotai Junan International.

Profitability: Per unit cost will improve directly from the easing of input cost inflation in 2H2022-2023 and indirectly from ongoing optimization of production efficiency. Coupled with the increase in ASP, we expect CRB's gross margin to reach 40.4%/ 42.8%/ 44.7% in 2022-2024, up YoY by 1.2 ppt/ 2.4 ppt/ 1.9 ppt, respectively. We forecast S&D expenses ratio to be 19.3%/ 18.9%/ 18.2% in 2022-2024, down YoY by 0.9 ppt/ 0.4 ppt/ 0.7 ppt, respectively. Since non-recurring items are more likely to remain under proper control (due to a slowdown in net closure of breweries), we expect administrative and other expenses ratio to fall below 10% in 2023-2024. **To sum up, we forecast CRB's normalized EBIT to grow from RMB5,275 mn in 2021 to RMB9,793 mn in 2024, representing 3-year CAGR of 23%. We forecast shareholders' profit to reach RMB4,225 mn/ RMB5,544 mn/ RMB6,902 mn in 2022-2024, respectively.**

Table-1: Summary of CRB's earnings forecasts

RMB mn	2020A	2021A	2022F	2023F	2024F
Turnover	31,448	33,387	37,573	40,296	42,834
Cost of sales	-19,373	-20,313	-22,409	-23,049	-23,687
Gross profit	12,075	13,074	15,163	17,247	19,147
Other income	1,546	3,279	1,362	1,501	1,682
S&D expenses	-6,123	-6,743	-7,252	-7,628	-7,796
Administrative and other expenses	-4,419	-3,619	-3,849	-3,970	-4,136
EBITDA	4,825	7,632	7,128	8,778	10,444
Normalized EBITDA	6,093	6,916	8,056	9,656	11,340
EBIT	3,079	5,991	5,425	7,150	8,897
Normalized EBIT	4,347	5,275	6,353	8,029	9,793
Interest income	141	243			
Finance costs	-211	-19	292	350	420
PBT	3,009	6,215	5,717	7,500	9,317
Income tax	-915	-1,625	-1,488	-1,952	-2,410
PAT	2,094	4,590	4,228	5,548	6,907
NCI	0	-3	-3	-4	-5
Shareholder's profit	2,094	4,587	4,225	5,544	6,902
EPS (RMB)	0.645	1.414	1.302	1.709	2.128
Sales volume (mn kl)	11.10	11.06	11.00	11.06	11.14
ASP (RMB'000/kl)	2.833	3.020	3.415	3.645	3.844
Gross margin	38.4%	39.2%	40.4%	42.8%	44.7%
EBIT margin	9.8%	17.9%	14.4%	17.7%	20.8%
Normalized EBIT margin	13.8%	15.8%	16.9%	19.9%	22.9%
Net margin	6.7%	13.7%	11.2%	13.8%	16.1%

Source: the Company, Guotai Junan International.

Note: We have not incorporated the potential impact from the consolidation of Jinsha Winery into our earnings forecasts for 2022F-2024F because the acquisition may or may not proceed as completion is subject to, amongst other things, approval from the relevant government authorities, and execution of further transaction documentation (if necessary), according to the Company's announcement.

2.2 Valuation

We have applied two methods to value the Company. We set TP at HK\$62.60, based on the simple average of the results derived from PER valuation and EV/EBITDA valuation.

PER valuation: We pick China's four largest domestic brewing companies other than CRB (Budweiser APAC/ Tsingtao Brewery/ Chongqing Brewery/ Yanjing Brewery) as the Company's most comparable peers. The peers group is trading at 34.4x 2023F PER on a market-cap weighted average basis. Compared to the peers group, if we think of CRB's greater earnings growth potential from continuous premiumization, coupled with the second growth curve drawn from its baijiu business in the coming future, it is fair to give the Company a valuation premium. We apply a target 2023F PER of 37.8x (at a premium of 10% to the peers group's current weighted average 2023F PER), deriving share price of HK\$70.80.

Table-2: Peers comparison

Company	Ticker	\$	Last Price	PER				EV/EBITDA				PBR	% ROE	% D/Y	% GM	Market Cap (HK\$ mn)
				21A	22F	23F	24F	21A	22F	23F	24F					
HK Listed Brewery Companies																
Budweiser Brewing APAC	01876 HK	HKD	23.450	42.0	39.4	33.9	29.1	15.6	17.5	15.0	13.0	3.4	9.8	1.1	52.9	310,558
Tsingtao Brewery Co Ltd-H	00168 HK	HKD	74.000	26.4	27.8	24.1	21.4	16.9	20.6	17.7	15.0	3.3	14.6	1.9	35.0	129,995
China Resources Beer	00291 HK	HKD	54.250	31.9	38.3	30.8	25.6	21.4	22.0	18.1	15.2	5.5	18.4	1.3	42.2	175,997
Simple Average				33.4	35.2	29.6	25.4	18.0	20.0	16.9	14.4	4.1	14.3	1.4	43.4	
Weighted Average				35.8	36.7	30.9	26.5	17.5	19.4	16.5	14.1	4.0	13.3	1.3	46.1	
Mainland China Listed Brewery Companies																
Tsingtao Brewery Co Ltd-A	600600 CH	CNY	104.600	44.9	41.8	35.3	29.7	16.9	20.1	16.8	14.2	5.1	14.8	1.2	39.8	129,994
Chongqing Brewery Co-A	600132 CH	CNY	117.500	48.8	42.3	34.8	29.4	21.6	15.6	13.1	11.2	18.2	56.0	2.0	52.0	62,484
Shanghai Bairun Invest-A	002568 CH	CNY	36.730	57.8	74.2	53.2	42.2	47.1	51.3	35.9	27.9	8.2	16.1	0.7	63.1	42,382
Beijing Yanjing Brewery Co-A	000729 CH	CNY	10.010	123.6	82.7	57.9	43.3	18.5	20.4	16.7	13.7	2.0	3.5	0.5	40.6	31,000
GZ Zhujiang Brewery-A	002461 CH	CNY	7.610	27.2	27.2	22.9	20.4	19.1	n.a.	n.a.	n.a.	1.7	7.3	2.1	45.7	18,507
Ningbo Lehui International-A	603076 CH	CNY	35.830	79.6	58.7	26.9	13.8	47.2	n.a.	n.a.	n.a.	2.9	10.6	n.a.	25.6	4,752
FJ Yanjing-Huiquan Brew-A	600573 CH	CNY	10.240	82.6	n.a.	n.a.	n.a.	41.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,813
Lanzhou Huanghe Enterprise	000929 CH	CNY	9.270	90.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,892
Simple Average				69.3	54.5	38.5	29.8	30.3	26.9	20.6	16.8	6.3	18.1	1.3	44.5	
Weighted Average				56.0	50.4	39.3	32.1	23.3	24.0	19.0	15.6	7.8	22.2	1.3	46.1	
HK Listed Non-Alcoholic Beverage Companies																
Nongfu Spring Co Ltd-H	09633 HK	HKD	45.050	58.4	58.9	49.4	41.9	39.7	35.8	30.4	26.0	15.5	34.0	1.3	58.7	506,653
China Mengniu Dairy Co	02319 HK	HKD	35.350	23.0	22.1	19.8	17.0	21.7	17.1	15.0	12.8	2.8	14.9	1.4	36.9	139,816
Tingyi (Cayman Isln) Hldg Co	00322 HK	HKD	12.440	15.3	22.5	16.7	14.2	9.2	9.5	7.7	7.0	3.9	24.3	7.1	30.4	70,089
Vitasoy International Hldg	00345 HK	HKD	14.280	n.a.	126.4	54.3	n.a.	47.9	22.9	17.4	n.a.	4.2	7.9	0.2	48.4	15,291
Uni-President China Hldg	00220 HK	HKD	6.880	16.4	22.0	17.2	15.0	7.5	9.4	8.1	7.2	2.0	11.9	6.1	31.4	29,717
Want Want China Hldg	00151 HK	HKD	5.200	12.2	14.2	13.0	12.1	10.3	8.6	7.7	7.0	3.3	26.1	6.1	45.4	61,795
China Foods Ltd	00506 HK	HKD	2.550	10.3	9.8	8.9	8.0	4.4	5.0	4.8	3.1	1.1	12.9	3.7	35.3	7,133
Simple Average				22.6	39.4	25.6	18.0	20.1	15.5	13.0	10.5	4.7	18.8	3.7	40.9	
Weighted Average				43.2	45.8	37.5	31.7	30.6	26.9	23.0	19.8	10.6	27.9	2.3	50.3	
Global Listed Brewery Companies																
Anheuser-Busch Inbev S/Nv	ABI BB	EUR	56.810	28.8	20.0	18.0	15.7	11.6	10.0	9.3	8.4	1.5	8.8	1.4	54.2	932,022
Diageo Plc	DGE LN	GBP	3,847.000	33.8	27.4	21.7	19.8	24.3	19.7	16.8	15.5	10.7	49.2	2.2	61.4	825,721
Heineken Nv	HEIA NA	EUR	90.180	15.6	18.6	17.0	15.2	11.3	10.4	9.5	8.5	2.5	15.0	2.0	45.4	422,033
Carlsberg As-B	CARLB DC	DKK	899.600	18.9	16.7	16.2	14.6	12.9	10.0	9.7	9.0	3.4	20.3	3.1	48.6	147,899
Asahi Group Hldg Ltd	2502 JP	JPY	4,375.000	14.4	14.5	12.6	11.3	11.2	10.3	9.1	8.0	1.2	9.1	2.8	39.4	126,445
Kirin Hldg Co Ltd	2503 JP	JPY	2,147.500	29.9	13.2	14.1	12.4	15.3	10.3	9.3	8.5	1.7	12.4	3.3	45.3	111,890
Boston Beer Company Inc-A	SAM US	USD	384.370	323.0	48.7	33.0	26.3	71.6	21.6	16.4	13.8	3.8	13.0	0.0	44.9	36,789
Molson Coors Beverage Co	TAP US	USD	55.110	11.9	14.1	13.4	12.6	7.3	9.0	8.2	7.9	0.8	6.4	2.9	36.8	94,205
Constellation Brands Inc-A	STZ US	USD	257.350	24.9	n.a.	23.2	20.2	16.4	18.8	17.0	15.3	4.7	18.8	1.2	51.5	369,657
Simple Average				55.7	21.7	18.8	16.5	20.2	13.4	11.7	10.5	3.4	17.0	2.1	47.5	
Weighted Average				29.9	18.9	19.1	17.0	16.3	13.9	12.3	11.2	4.6	22.4	1.9	52.8	

Mainland China Listed Baijiu Companies

Kweichow Moutai Co Ltd-A	600519 CH	CNY	1,630.800	39.1	32.8	28.1	24.1	34.0	23.6	20.3	17.7	7.7	28.4	1.8	92.5	2,250,958
Wuliangye Yibin Co Ltd-A	000858 CH	CNY	164.590	27.3	23.8	20.7	18.0	24.9	15.3	13.0	11.0	4.8	23.7	2.4	76.4	701,979
Luzhou Laojiao Co Ltd-A	000568 CH	CNY	195.390	36.0	28.3	23.0	19.1	33.7	20.7	16.9	14.1	6.7	29.9	2.4	87.3	316,001
Jiangsu Yanghe Brewery -A	002304 CH	CNY	145.380	29.0	22.9	19.2	16.3	22.9	16.1	13.5	11.5	4.0	21.5	3.0	75.6	240,726
Shanxi XHC Fen Wine-A	600809 CH	CNY	260.620	59.6	41.6	31.8	25.2	52.6	30.2	22.7	17.8	10.9	36.0	1.2	78.1	349,384
Jiangsu KingS Luck Brew-A	603369 CH	CNY	43.740	27.0	22.1	18.1	14.8	23.2	15.3	12.2	9.7	4.1	23.1	1.8	76.6	60,292
Sichuan Swellfun Co Ltd-A	600779 CH	CNY	65.300	26.6	24.1	20.0	16.9	33.1	17.3	14.1	12.0	7.2	36.9	2.6	85.1	35,040
Anhui Kouzi Distillery Co-A	603589 CH	CNY	51.700	18.0	17.5	15.1	13.1	16.2	11.5	9.8	8.1	2.9	19.4	3.3	75.6	34,084
Anhui Gujing Distillery Co-A	000596 CH	CNY	243.880	54.8	42.6	33.7	27.2	32.4	24.5	18.9	14.8	6.0	17.8	1.2	77.3	123,056
Jiugui Liquor Co Ltd-A	000799 CH	CNY	125.120	45.5	33.4	25.7	20.2	54.8	22.9	17.5	13.4	7.3	29.5	1.4	80.6	44,671
Shede Spirits Co Ltd-A	600702 CH	CNY	158.380	41.9	34.0	26.8	20.7	41.0	n.a.	n.a.	n.a.	6.7	25.3	0.8	78.7	57,782
Anhui Yingjia Distillery C-A	603198 CH	CNY	50.660	29.3	22.9	18.6	15.3	27.7	n.a.	n.a.	n.a.	4.7	25.2	2.3	70.9	44,531
Jinhui Liquor Co Ltd-A	603919 CH	CNY	23.160	36.2	32.6	25.6	20.1	37.7	n.a.	n.a.	n.a.	3.3	13.2	1.5	63.8	12,909
Hebei Hengshui Laobaigan-A	600559 CH	CNY	24.150	56.2	31.4	31.9	24.6	38.5	n.a.	n.a.	n.a.	4.5	15.1	0.8	68.8	24,273
Simple Average				37.6	29.3	24.2	19.7	33.8	19.7	15.9	13.0	5.8	24.7	1.9	77.7	
Weighted Average				38.1	31.0	26.1	22.0	33.3	21.9	18.3	15.6	7.0	27.4	1.9	85.8	

Source: Bloomberg.

Note: All market data are updated as at 1 December 2022.

EV/EBITDA valuation: On a market-cap weighted average basis, the aforementioned peers group is currently trading at 15.4x 2023F EV/EBITDA. Following a similar logic, we apply a target 2023F EV/EBITDA of 17.0x (at a premium of 10% to the peers group's current weighted average 2023F EV/EBITDA), deriving share price of HK\$54.40.

3. Beer Businesses Expected to Achieve Marginally Accelerating Profit Growth

3.1 Quality Development: Optimizing Efficiency in Operations and Production Capacity Management

Established for over 30 years, CRB has been one of the most essential players in China's beer market. Over its history, entrepreneurial spirit has been embedded across CRB, with purpose-driven culture and responsive transformations. CRB was founded in 1992 and before 2015 was named China Resources Enterprise (CRE). The Company has gone through four stages of development: **1) Start-up and initial growth stage (1992-2003):** CRE entered into the beer market in China in 1993, when JV China Resources (Shenyang) Snowflake Brewery Company Limited was established. CRE established a cooperation partnership with SAB Group in 1994, presenting access to international expertise for the Company to aid in operating breweries across China. In addition to the beer business, CRE diversified its business empire by acquiring Ng Fung Hong Limited and retail lines (including CR Vanguard) during this period. **2) Rapid development stage (2004-2013):** The sales volume of "Snow" Beer reached nearly 1.6 mn kl in 2005 (implying a CAGR of 35%+ from 2003 to 2005), which enabled the Company's beer business to rank first in the China market. In the meantime, the Company strategically restructured its operations by selling its non-core operations (including petroleum and chemical business segments), focusing on its retail and consumer goods business segments starting 2005. The Company's turnover and sales volume maintained robust growth momentum during this period, which made CRE the largest beer company in China. **3) Transition and readjustment stage (2014-2016):** China's beer market size in terms of volume peaked in 2013 and growth of beer giants in China has slowed since then. In 2015, CRE completed disposal of all non-beer businesses and was renamed as China Resources Beer Holdings Company Limited (CRB), which acquired 49% stake of CRSB held by SAB Group in 2016 and made CRSB a wholly-owned subsidiary of CRB. In this period, owing to redundant production capacity and low operational efficiency, the Company's profit from continuing operations faltered. Once the Company's "3+3+3" corporate strategy was introduced in 2017, CRB stepped into its **4) high-quality growth stage**, consisting of 3 sub-stages with strategic KPIs, with an aim to reach world class standards in all aspects of its business by 2025.

Table-3: The Company's milestones to the leader in China's brewing industry today

Year	Key Events
1992	China Resources Holdings ("CRH") acquired Winland Investment Limited and renamed it as China Resources Enterprise Limited ("CRE"), which was among the first Chinese enterprises listed on HKEX. Property investment was the main focus of CRE then.
1993	Founded the JV China Resources (Shenyang) Snowflake Brewery Co. Ltd., marking CRE's venture into beer business.

1994	Signed an agreement with South African Breweries (SAB) Group (that acquired Miller Brewing Company in 2002 and changed its name to SABMiller PLC, which was acquired by Anheuser-Busch InBev SA/NV in 2016) to jointly develop beer business in China.
1995	Ng Fung Hong Limited (now known as China Resources Ng Fung Limited), in which CRE acquired 26% stake and began operating food business, was listed on HKEX.
1999	Acquired the retail business of CRH including Chinese Arts & Crafts (H.K.) Limited and CRC Department Store Limited. Increased shareholding in China Resources Supermarket (Hong Kong) Limited to 100%.
2002	Acquired the retail business of CR Vanguard and the Suguo brand supermarket business.
2004	Opened the first "Ole" supermarket in Shenzhen.
2005	Strategically restructured its businesses by selling non-core operations including petrol stations, oil storage and petroleum and chemical business, etc. and focusing on its core retail and consumer goods businesses. "Snow" beer became the best-selling single beer brand in China in terms of volume. The total sales volume of its beer business ranked 1st in the China market.
2007	Completed disposal of all petroleum related business. Increased stake in purified water business to 100%. Opened the first "VanGO" convenience store in Shenzhen.
2008	"Snow" series became the best-selling beer brand worldwide in terms of volume.
2015	CRE completed the disposal of all non-beer businesses, including retails, food and beverage business to CRH and the Company was renamed from "China Resources Enterprise Limited" to "China Resources Beer (Holdings) Company Limited".
2016	Reached an agreement with Anheuser-Busch InBev SA/NV to acquire 49% stake of CRSB held by SABMiller Asia Limited, for a consideration of US\$1.6 bn, making CRSB a wholly-owned subsidiary of the Company.
2017	Initiated the "3+3+3" strategic roadmap to improve the Company's long-term competitiveness by stepping up the transformation in various aspects including but not limited to brand re-modeling, capacity optimization, organizational re-engineering, operational transformation, corporate culture re-modeling, and information/digitalization upgrades.
2018	Agreed to establish a long-term strategic partnership with the Heineken Group in August and entered into a share purchase agreement.
2019	Completed the transaction with Heineken Group, which enabled CRB to promote to a new high level on its rapid development of premium segments.
2021	Acquired a 40% stake in Shandong Jingzhi Baijiu by injecting RMB1.3 bn, as a beginning of diversifying alcoholic drinks portfolio.
2022	Proposed acquisition of 55.19% equity interest in Guizhou Jinsha Winery for a total consideration of RMB12.3 bn.

Source: the Company, Guotai Junan International.

Table-4: 2022 – The last stage of the second 3-year plan in CRB's "3+3+3" strategic roadmap for 2025

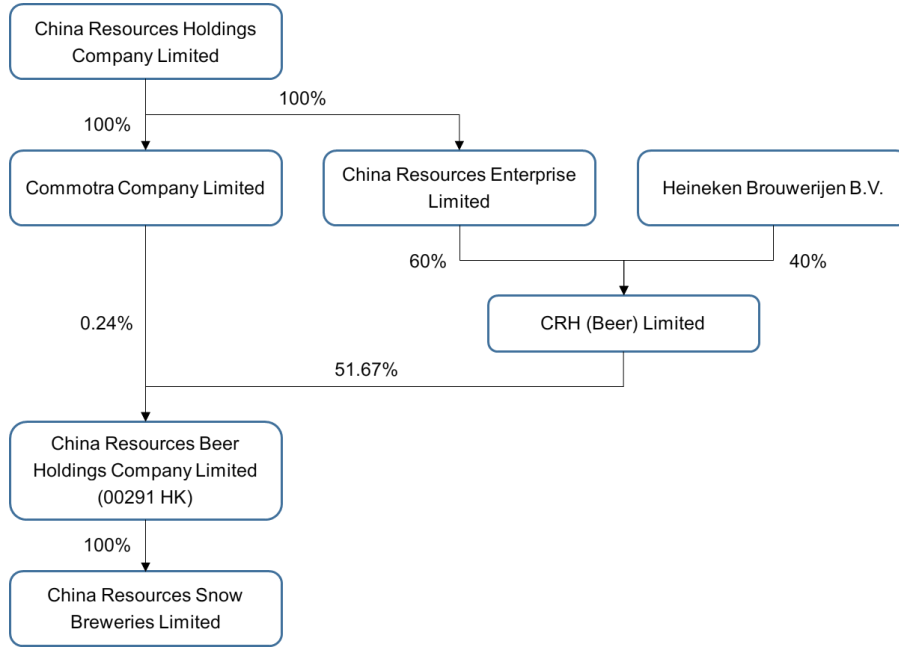
Phase	Core Theme and Actions
First 3-Year Plan (2017-2019)	<ul style="list-style-type: none"> ● Theme: Transformative upgrading + Innovative development ● Actions: Removing burden + Strengthening foundation + Accumulating energy
Second 3-Year Plan (2020-2022)	<ul style="list-style-type: none"> ● Theme: Quality development + Battle for high-end market share ● Actions: Fighting for high-end market share + Improving efficiency + Focusing on quality
Third 3-Year Plan (2023-2025)	<ul style="list-style-type: none"> ● Theme: Decisive victory in high-end market share + Excellent development ● Actions: Dominating high-end market + Double benchmarking + Building world-class brewery

Source: the Company, Guotai Junan International.

CRB's management formulated long-term strategies with an experienced and knowledgeable management team. Mr.

Hou Xiaohai joined China Resources Group in 2001, and obtained front-line experience in sales and marketing strategy formulation as well as experience in provincial branches. Mr. Hou was appointed as Executive Director and Chief Executive Officer of the Company in 2016, and has taken charge in the design and implementation of CRB's "3+3+3" strategic roadmap since 2017. Mr. Wei Qiang, Executive Director and Chief Financial Officer, has worked for the Company for over 20 years, with extensive experience in financial accounting, corporate governance, M&As and investment in China and overseas. Notably, the Company offers competitive remuneration packages for its top management to ensure stability in leadership. Meanwhile, Mr. Hou also holds 1.018 mn ordinary shares in the Company.

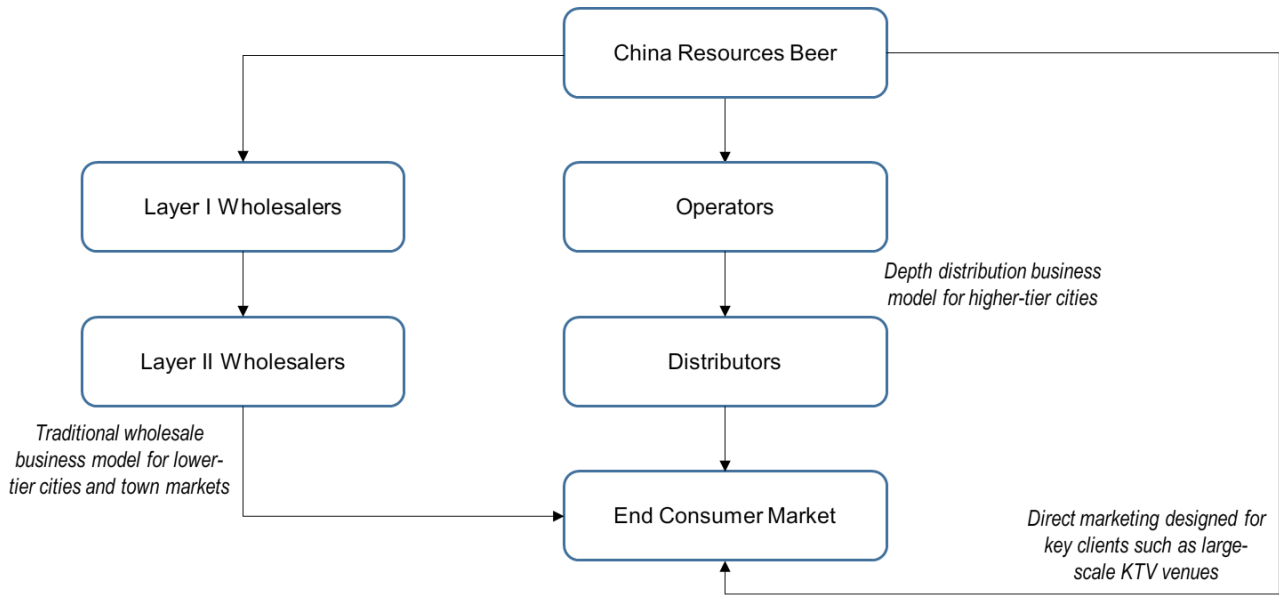
Figure-3: Stable and concentrated shareholder structure – CRH/ Heineken Indirectly Holds 31.2%/ 20.7%



Source: the Company, Guotai Junan International.

CRB has been promoting its second transformation of channels, with an aim to empower distributors and strengthen the Company's operational efficiency. In 2018, the Company initiated its second transformation of channels, which was centered on the CDDS framework consisting of channel, distribution management, dealer operation, and salesforce model, in various provinces and regions. In this way, CRB redefined the responsibilities of distributors and salesforce. To be more specific, distributors have more incentive to develop, while each sales representative has moved into a manager role, providing distributors with closer support in aspects including sales and marketing methodology, logistics/ storage management systems, business intelligence and best-practices. Generally speaking, for different sales channels, CRB's policy design basically focuses on exclusivity, flatness, regionalization and professionalism. In our view, the Company has an effective sales channel strategy with unique on-the-ground operating capability.

Figure-4: Overview of different sales channel strategies in urban markets and regional markets



Urban markets

High end on-trade channel	<ul style="list-style-type: none"> Specific sales force to target on-trade customers such as high-end restaurants and night clubs to promote sales of mid to high-end products Build and maintain a strong channel and customer relationship
Other on-trade channel and traditional retail channel	<ul style="list-style-type: none"> Established a flat distributor network by dividing targeted markets into smaller areas which eliminates layers of distributors Allows for higher profitability, closer proximity to end customers and better management of distributors and retailers
Modern retail channel	<ul style="list-style-type: none"> Sales team at headquarters covers and negotiates with nationwide retailers directly Regional sales teams coordinate negotiations with regional retailers and provide comprehensive sales support and monitor performance
E-commerce channel	<ul style="list-style-type: none"> Sales on e-commerce platforms such as T-mall Flagship stores on platforms such as JD.com Establishing own e-commerce platform to directly interact with end customers and consumers

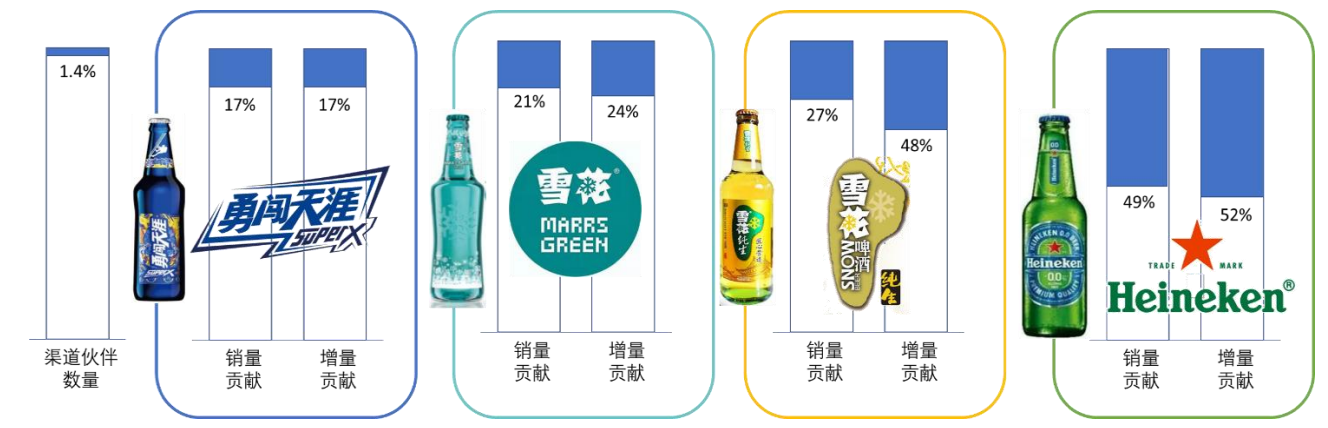
Regional markets¹

<ul style="list-style-type: none"> Maintain long standing relationships with local distributors to broaden coverage and penetration
<ul style="list-style-type: none"> Flat distribution model through careful and finer division of regional markets
<ul style="list-style-type: none"> Utilize secondary distributors to supply to rural areas

Source: the Company, Guotai Junan International.

Aiming to speed up mid- to high-end volume growth, CRB will rely more heavily on its large client platform. Since 2020, the Company's large client platform has been divided into three categories, including Hua Ding Hui, Hua Zun Hui, and Hua Jue Hui. As CRB's management revealed on the 3rd Snow Channel Partners Convention in November 2022, the total number of VIP membership distributors through this platform reached 800+ and they contributed 40%+ of sales volume of the Company's premium beer products. Going forward, CRB will continuously solicit more and more high-quality large clients to expand this platform, which is key to its premiumization strategy in 2023-2025.

Figure-5: Accounting for 1.4% of total number of channel partners in 2021, large clients substantially contribute to sales performance of CRB's core premium beer products



Source: the Company, Guotai Junan International.

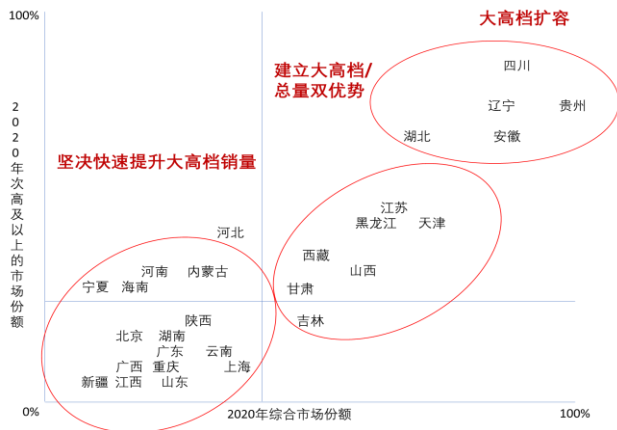
Figure-6: "Become the New World Leader" – 3rd Snow Channel Partners Convention in November 2022



Source: the Company, Guotai Junan International.

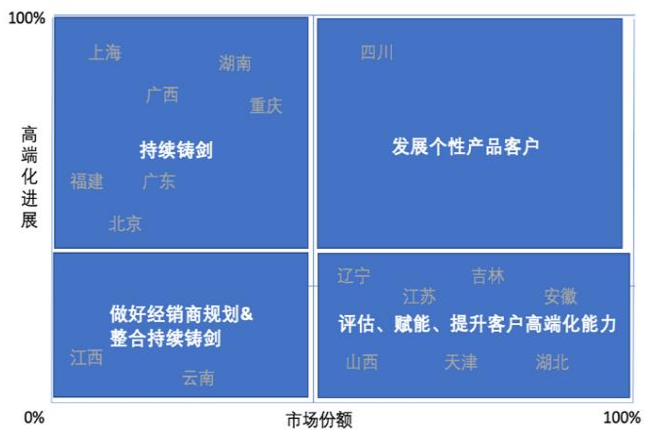
Consolidating advantageous markets and concentrating on eastern and southern costal regions. In the next phase, the Company will emphasize the strategic layout of "2 provinces, 5 cities, 8 highlands and other provincial capitals". Specifically, "2 provinces" refers to Zhejiang and Fujian, while "5 cities" refers to Hong Kong, Shanghai, Beijing, Shenzhen and Guangzhou. Due to higher per capita disposable income, the premium beer business in these developed regions currently has plenty of room for expansion, in particular with considerable profit potential. As CRB's senior management has revealed on the third Snow Channel Partners Convention, the Company aims to be a 1) well-rounded market leader in the developed regions, 2) no.1 player in the premium beer segment in the rapidly developing regions (including Central and Southwestern China), and 3) having first-mover advantage in the premium beer segment in less developed regions (such as Northwestern/ Northeastern/ North China and other low-tier cities and towns). We think that CRB's capability of refining its mix upgrade measures to local conditions at just the right time will exceed market expectations.

Figure-7: Product development tactics in different geographic markets



Source: the Company, Guotai Junan International.

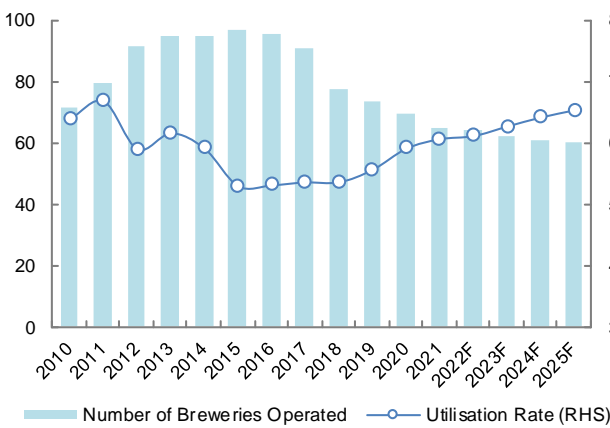
Figure-8: Operational tasks focus on different geographic markets



Source: the Company, Guotai Junan International.

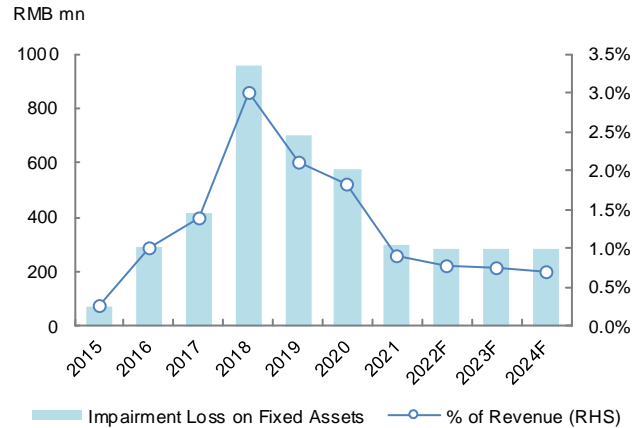
CRB also continued with its deployment of capacity optimization so as to minimize idle production capacity and raise the effective output of its breweries. CRB launched its capacity optimization initiatives and shut down 5/ 13/ 7/ 4/ 5 breweries in 2017-2021, respectively, on a net basis. Capacity utilization rate reached 60.7% in 2021, 7.5 ppt higher than in 2017. Looking forward, we expect the Company to further upgrade its domestic production layout, with an emphasis on large-scale production of more sub-premium segment and above offerings. The Company is going through a period of digitalization and technological upgrade. In 2023-2024, CRB may shut down old breweries at a slow and stable pace, and its non-recurring items (including staff settlement expenses and impairment loss on fixed assets) should be under control. As a result, higher production efficiency will marginally strengthen the Company's gross profit margin, and at the same time, one-off losses related to the closure of breweries will have less negative impact on its overall financial performance.

Figure-9: Expecting utilization rate to gradually rise from 53.7% in 2017 to 65.6% in 2025F



Source: the Company, Guotai Junan International.

Figure-10: Expecting sales proportion of impairment loss on fixed assets to stay below 1.0%

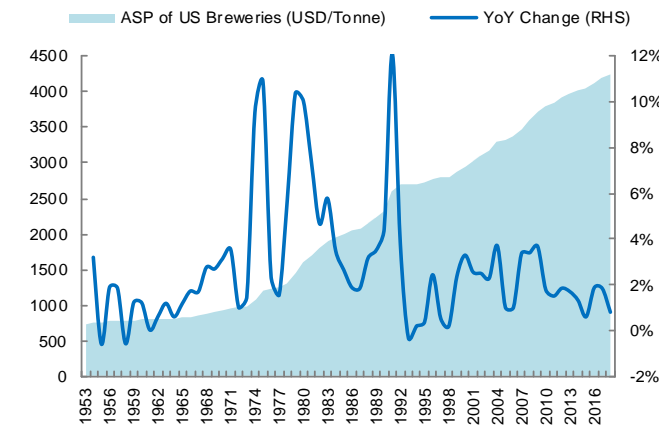


Source: the Company, Guotai Junan International.

3.2 Decisive Battle for the High-End Market: Leveraging Successful Product Strategy Alongside Marketing Initiatives

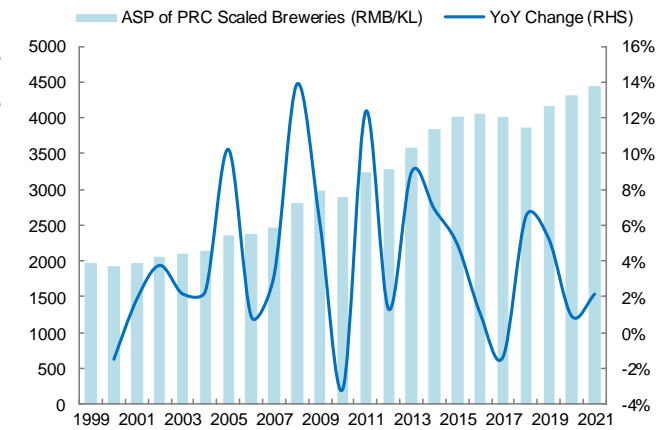
We expect China's beer market to achieve steady ASP growth in the long term, in line with the pattern in the United States beer market from 1953 to 2018 under the consumption upgrade trend. Compared to other brewing giants in China, CRB has much lower ASP due to much higher volume contribution from low-end products. Looking forward, we expect CRB to unleash much greater upside potential in terms of volume contribution from high-end beer sales. In other words, the Company is expected to benefit the most from the development of premium beer business in China.

Figure-11: ASP of breweries in the United States grew at CAGR of 2.7% from 1953 to 2018



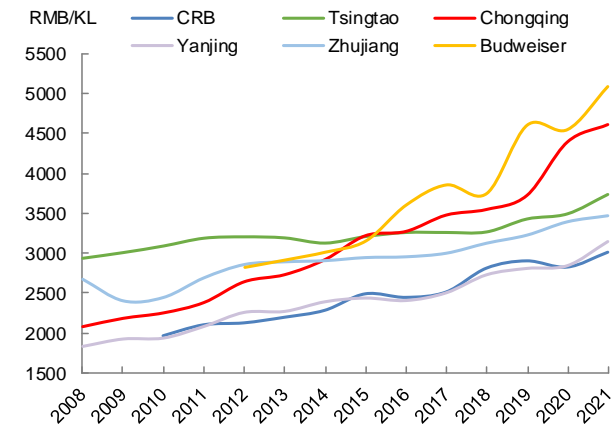
Source: Insider.com, Guotai Junan International.

Figure-12: ASP of brewing firms above designated size regained growth momentum from 2019



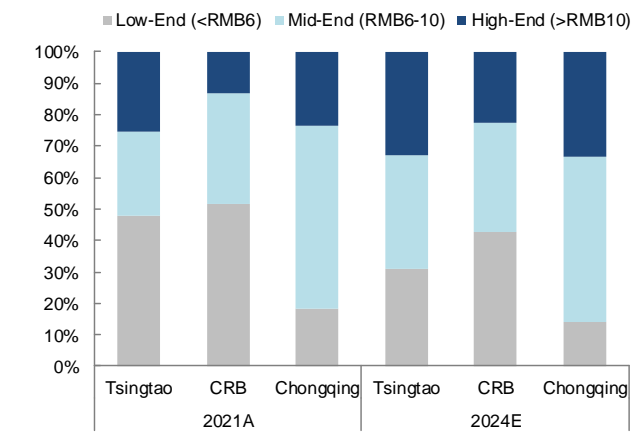
Source: National Bureau of Statistics of China, Guotai Junan International.

Figure-13: CRB's ASP was still much lower compared with other brewing giants in China



Source: the Companies, Guotai Junan International.

Figure-14: Expecting CRB to release upside potential in high-end volume contribution



Source: the Companies, Guotai Junan International.

Benefitting from structural upgrade trend, CRB has leveraged its successful brand and product portfolio strategy to drive high value-added beer sales. Since 2020, the Company has enriched its "4+4"-based premium beer brand layout. Collaborating with the Heineken Group, CRB is making breakthroughs in particular in sales and marketing when competing with its major rivals (such as Budweiser APAC) in the high-end beer market in China. In this section, we will highlight the integration of CRB's high-profile premium beer portfolio and tailor-made omnichannel marketing strategies. Looking forward, we think that the expansion in the Company's high-margin sales in the sub-premium beer segment and above may be stronger and more durable than market expectations from a long-term perspective.

"4+4" brand mix has been well-established and is expected to further strengthen CRB's presence in the premium beer market in China. In terms of China's high-end beer sales, the combined market share of CRB and Heineken was 12.7% in 2018, compared to Budweiser's 46.6%. Looking forward, CRB's management aims to take the lead in high-end beer market share by 2025. At the current stage, the Company still has large growth potential for mix improvement. CRB's sales volume in the sub-premium segment and above delivered YoY growth of 27.8%/ 10.0% in 2021/ 1H2022, respectively, outpacing overall sales volume. According to our estimation, the sales volume of CRB's sub-premium beer category and above should be approximately 4.0 mn kl in 2025, representing CAGR of 21% from 2022 to 2025, accounting for over 35% of the overall sales volume in 2025.

Table-5: CRB's core premium brand and product portfolio

4 Core Local Brands	Brave the World SuperX	Marrs Green	Jiang Xin Ying Zao	Snow Opera Mask
Release Date	March 2018	April 2019	August 2018	April 2020
Retail Price	RMB7-8 / 500 ml	RMB10 / 455 ml	RMB14	RMB17
Target Audience	Generation Z	Hipsters Aged 25-30	Aged 35-45	Middle-to-Upper Class Aged 25-45
IP Positioning	Sports & Party Nights	IP & M-SPACE	Fine-Dining & Banquets	Super-Premium Chinese Culture
Package				
4 Core Int'l Brands	Amstel	Heineken Original & Silver	SOL	Desperados
Release Date	2021	2Q2020	2Q2019	In the Pipeline
Retail Price	RMB10 / 300 ml	RMB11-12 / 500 ml	RMB12-15+	N/A
Target Audience	Aged 20-30	Aged 20-35	Aged 20-30	Millennial Generation
IP Positioning	European Vintage (Dutch Mild-Bitter Taste)	Informal Gatherings & Sports (Iconic Red Star Logo)	High-End Lounges & Casual Pubs (Golden Mexican Sunshine)	Bars (Clubs) & Festivals (Tequila-Flavored Pale Lager)
Package				
Other Premium Brands	Tiger (Int'l)	Lowen White Beer (Int'l)	Edelweiss (Int'l)	Snow Draft Beer
Release Date	2019	3Q2019	2021	2009
Retail Price	RMB7 / 300 ml	RMB12+	RMB12-15+	RMB10
Target Audience	Aged 20-25	Aged 25-40	Middle-to-Upper Class Aged 25-35	Aged 35-55
Positioning	Street Food & BBQs	Casual & Social Nights	Alpine Hefeweizen-Style	Chinese Nostalgic Culture
Package				

Source: the Company, Guotai Junan International.

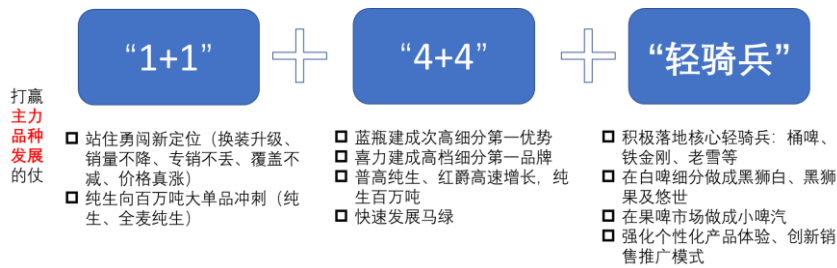
CRB will continue to refresh its high-end product line. Currently, CRB's core local brands include Snow Draft Beer, SuperX and Marrs Green; core international brands include Heineken Original and Silver. The management expects each of Snow Draft Beer, Heineken series and SuperX to reach 1.0 mn kl in annual sales volume in 2025 and onwards. More takeaways from the Company's 3rd Snow Channel Partners Convention include:

- **Snow Draft Beer:** to grow to no.1 Chinese national high-end beer brand, with annual sales volume of more than 1.0 mn kl in the upcoming future.
- **Heineken Series:** to record YoY growth of 30%-40% in 2023 and onwards, driven by product mix upgrade and omnichannel marketing. Products introduced in the past year include: Heineken Silver (canned), Heineken Original (5L Iron King Kong), and Heineken Original Mini (150 ml). Products to be released in 2023 include Heineken 0.0 (Pure Malt Lager). Marketing will aim to a) increase marketing exposure in sports activities, electric music festivals and other festival celebration themes; b) leverage digital new media advertisement and launch tailor-made A&P campaigns for Heineken 0.0; and c) penetrate into outdoor channels, other emerging channels (for example, live houses, western cuisines and bar bistros) and off-premise channels.

- **SuperX:** To scale up YoY steadily and eventually build solid presence in the sub-"RMB10" market segment.

The introduction of "Amstel" and "Edelweiss" in 2021 has further enriched the Company's ultra high-end mix. Looking forward, CRB is also planning to launch Dark Ale Beer products and actively develop new categories such as craft beer IPA and fruit beer products, which will lead to a more diversified high-end portfolio targeting a larger customer base. **In our view, CRB is poised to take advantage of its major rivals (including Budweiser) in each pricing zone, where brand equity is the cornerstone in the premium beer category.**

Figure-15: CRB designed its product strategy "1+1" + "4+4" + "Light Cavalry"



Source: the Company, Guotai Junan International.

Figure-16: China's major breweries have replenished product lines in each pricing zone of the premium beer market

价格带	华润啤酒	青岛啤酒	百威亚太	重庆啤酒	燕京啤酒
15-20元 超高端	高端&超高端~(酒精度15%VOL) 苏尔, 喜力铝瓶, 悠世白, 雪花脸谱	高端&超高端~(酒精度25%VOL) 鸿运当头, 原浆, 皮尔森	高端&超高端~(酒精度40%VOL) 蓝妹, 教士, 科罗娜, 福佳白啤, 时代	高端&超高端~(酒精度25%VOL) 1664, 风花雪月, 格林堡	狮王世涛, 燕京八景
10-15元 高端	红爵, 雪花纯生, 喜力铁金, 喜力星, 雪花马尔斯绿	青纯生, 青岛经典1903, 奥古特	百威, 百威金樽, 百威昕蓝	嘉士伯, 特醇嘉士伯, 夏日纷, 乌苏	白啤, U8 plus
6-10元 中端	虎牌, Super X, 勇闯天涯	青岛白啤, 青岛经典	哈尔滨冰萃, 贝克	乐堡	u8, 滴泉1998, 鲜啤, 纯生
6元及以下 经济	雪花 经济~(酒精度50%VOL)	崂山, 汉斯, 银麦 经济~(酒精度45%VOL)	哈尔滨, 雪津 经济~(酒精度30%VOL)	山城, 大理, 重庆, 西夏 经济~(酒精度20%VOL)	精品, 蓝听

Source: Guotai Junan International.

Rejuvenation of SuperX sets a good example for future A&P practices under the Snow brand. CRB appointed Mr. Wang Yibo, who has made achievements in the street fashion and extreme sports (such as racing, skateboarding, and hip-hop) industries, as the brand spokesperson for SuperX. First, SuperX uses the slogan of "Never Give Up", which has appealed to the young generation. Second, the offline A&P activities for SuperX appeal to the core values of Generation Z in particular. Moreover, from TV commercials to popular IP sponsorships and social media hot topics discussions, CRB targets channels where its target audience gathers, and provides content through WeChat/ Weibo/ Douyin. Along with effective offline advertisements, the Company has built strong brand communication. In our view, Snow Beer's marketing processes for its sub-premium and above categories are domestically best-in-class.

Figure-17: SuperX pop-up stores integrate technology with social media and reality



Source: the Company, Guotai Junan International.

Figure-18: Offline advertisements for SuperX in airport terminals across China



Source: the Company, Guotai Junan International.

Heineken is long-term sponsor of top sports events. Associating its brand with high-end sports has helped Heineken enhance its brand awareness. For example, Heineken is a symbolic icon of the UEFA Champions League, the No. 1 annual sports event in the world over the last decade, watched by a cumulative audience of 4.2 bn viewers. Apart from football, Heineken is the global partner of many other big sporting events such as Formula 1 racing and the European Rugby Champions Cup. We think that Heineken's strong brand appeal worldwide will be essential to the long-lasting expansion of CRB's Heineken series in the premium beer market in China.

Figure-19: Sponsorship of UEFA Champions League – Heineken: Open Your World



Source: Heineken.com, Guotai Junan International.

Figure-20: Heineken sponsoring Formula 1 racing from 2016



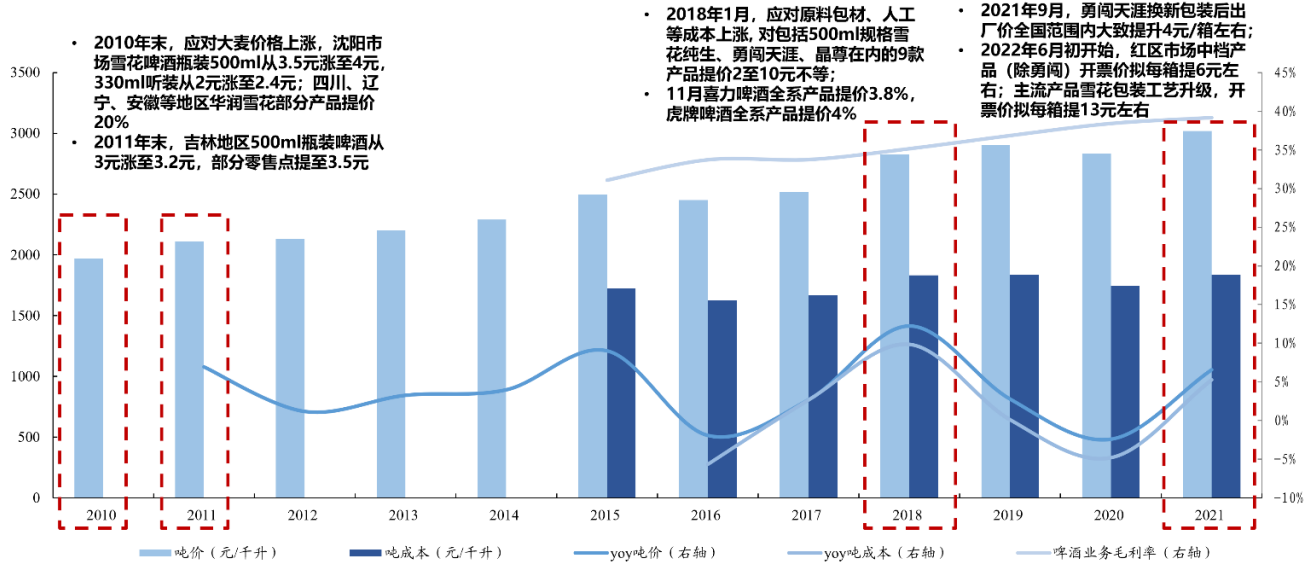
Source: Heineken.com, Guotai Junan International.

3.3 Stronger Expansion in Gross Profit Margin Driven by Increase in ASP and Marginal Relief on Cost Pressure

Price hikes in China's beer market are typically driven by cost inflation. The cost ratio of raw materials and packaging components exceeded two-thirds for domestic breweries. Raw materials mainly include barley and rice. Packaging components mainly include glass bottles, aluminum cans, and corrugated cardboard. In general, commodity price fluctuations are cyclical. For instance, the price of imported barley surged in 2007-2008, resulting in domestic breweries adopting price hikes. Remarkably, after the price of imported barley dropped in 2009, gross profit per unit and gross margin per unit of domestic breweries improved given that the selling price is less likely to go down. Similar situations were seen in 2017-2018 and 2020-2021. **However, this time is different in light of positive impact from premiumization.** Compared with the mainstream beer market, the premium beer market is less competitive. Relatively speaking, brand sensitivity instead of price sensitivity now has the most influence on consumer choice when purchasing mid- and high-end beer products. As a result, for the premium beer market, the current price hike will not slow down volume expansion but stimulate the upgrading of sales structure, in particular during 2H2022-2023.

Emphasis is placed on setting of pricing strategies in different segment markets. In September 2021, CRB raised the wholesale price of SuperX by RMB4/case nationwide after packaging upgrades. Starting from June 2022, for CRB's mid-end products (excluding "Snow Beer Brave the World"), the invoice price per case rose by RMB6. For mainstream products (priced below RMB6/bottle) which was tailored to local market conditions, invoice price per case rose by RMB13 in the Company's "red" regions. Looking forward, we think that it is likely for the Company to adopt more price hikes for some of its product lines in specific segment markets in 2023.

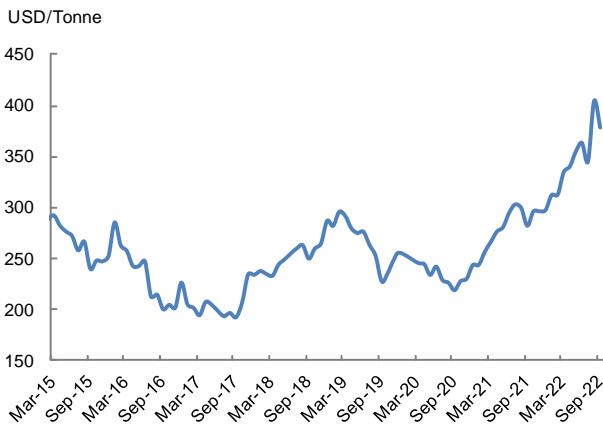
Figure-21: Price hikes in response to cost inflation mainly related to raw materials and packaging components



Source: the Company, Guotai Junan International.

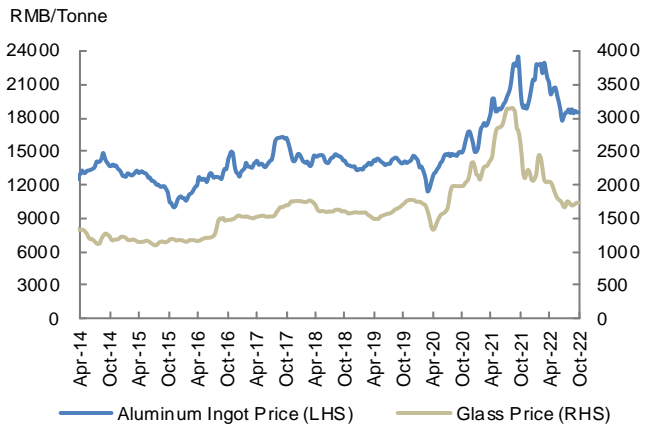
In conclusion, we are more optimistic about the huge upside potential of CRB's unit gross profit. ASP is expected to see stronger growth: 1) price hikes will gradually come into full effect in P&L starting 2H2022; 2) volume contribution from sub-premium beer category and above will continue to improve. **Remarkably, we expect the direct pressure from input price inflation to gradually mitigate in 2023.** In addition, the management has been striving to optimize procurement decisions to replenish stocks at appropriate times. To be more specific, CRB has expanded barley procurement sources and set up the "Supplier Star System" to ensure stable quality of raw materials. Another favorable assumption is associated with the Company's marginally improved production efficiency as previously mentioned. To sum up, we forecast that the upside potential for CRB's unit gross profit and gross margin will probably remain stronger than expected.

Figure-22: Average price of imported barley



Source: China Customs, Guotai Junan International.

Figure-23: Market price of major packaging components



Source: National Bureau of Statistics of China, Guotai Junan International.

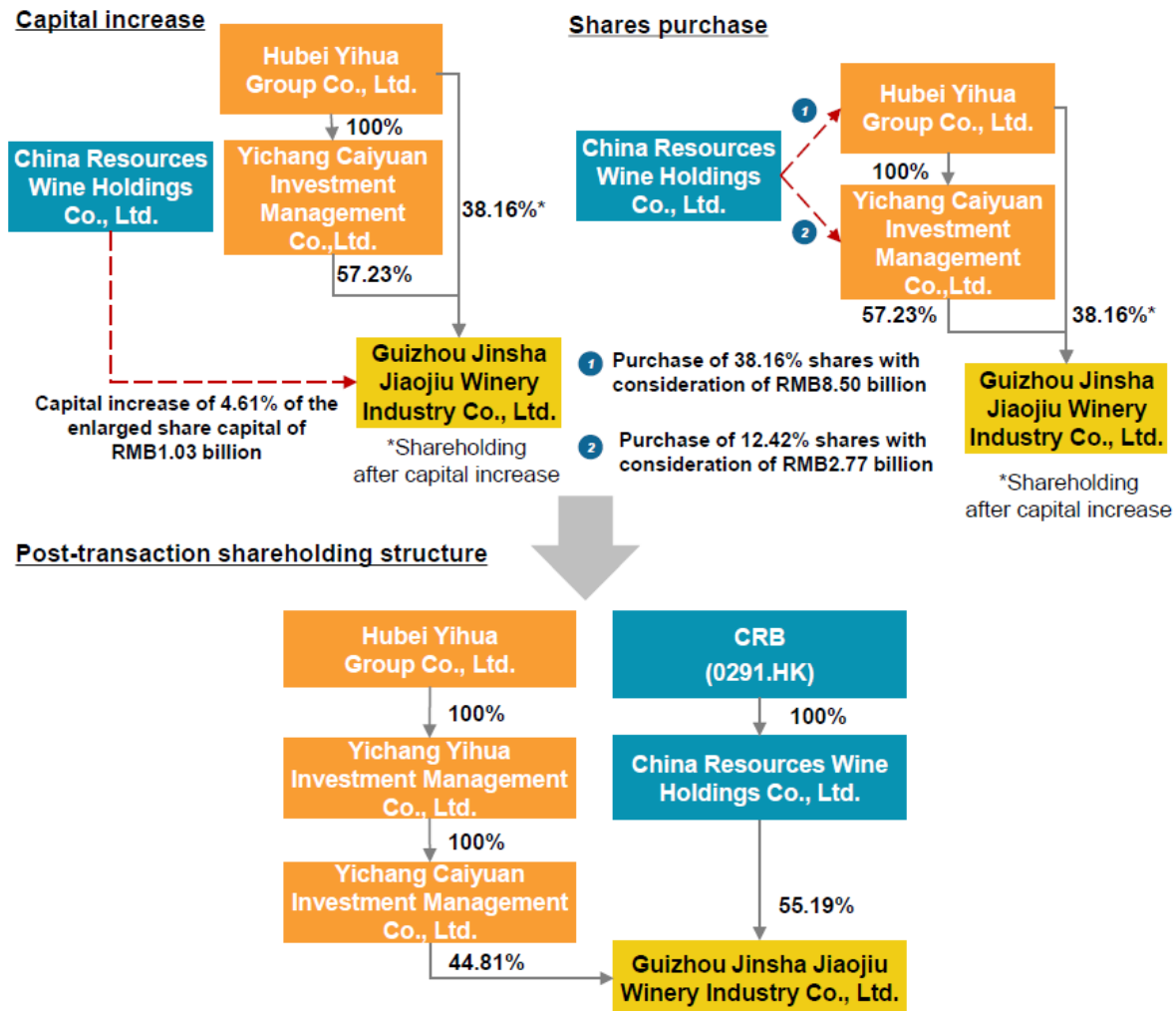
4. Creating the Second Growth Curve by Further Stepping into China's Baijiu Market

4.1 Proposed Acquisition of Another Well-Known Sauce-Flavor Baijiu Producer Located in Guizhou

CRB announced the proposed acquisition of 55.19% equity interest in Guizhou Jinsha Jiaojiu Winery ("Jinsha Winery") for a total consideration of RMB12.3 bn on 25 October 2022. According to the Company, the acquisition will be financed by a combination of internal and external financing. In terms of the transaction structure, the proposed acquisition includes: 1) capital raised from newly issued shares of 4.61% of the enlarged share capital of Jinsha Winery at a consideration of RMB1.03 bn and 2) a purchase of a total of 50.58% existing shares of the enlarged share capital of Jinsha Winery at a consideration of RMB11.27 bn. The management sees the market for baijiu, which CRB first tapped into in August 2021 when it entered into investment in Shandong Jingzhi Baijiu, as having large potential.

We think that the acquisition price is fair and reasonable. Jinsha Winery's net asset value amounted to RMB997 mn as at 30 June 2022 and its net profit for 2020/ 2021/ 2H2022 was RMB615 mn/ RMB1,315 mn/ RMB670 mn, respectively, equivalent to 17x 2021 implied PER for the proposed acquisition. In contrast, A share-listed baijiu players are currently trading at a market-cap weighted average PER of 38.1x/ 31.0x/ 26.1x for 2021/ 2022F/ 2023F (see Table-2), based on Bloomberg consensus estimates. The valuation discount seems attractive. However, investors are concerned about Jinsha Winery's growth sustainability due to short-term sector headwinds, high inventory and over-supply in the baijiu market, and softening domestic demand. If we take into consideration risk-return tradeoff, the proposed acquisition price is fair and reasonable at this point.

Figure-24: Proposed deal of 55.19% equity interest in Jinsha Winery includes capital increase and shares purchase



Source: the Company, Guotai Junan International.

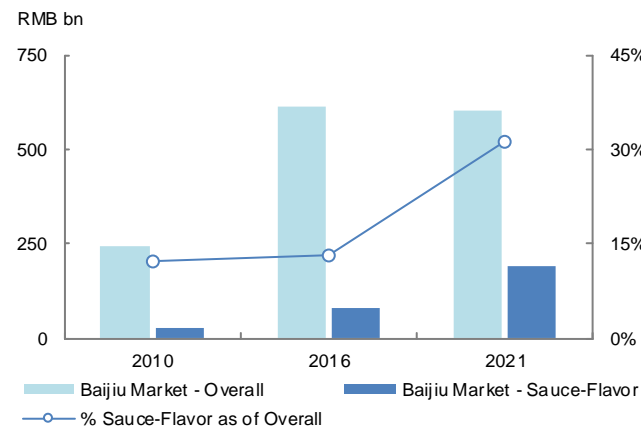
Note: We estimate that the funding structure of the transaction should include both internal resources (given that CRB's net cash amounted to RMB13,628 mn as of 30 June 2022) and external borrowings.

4.2 Jinsha Winery: Robust Results in the Past Few Years Driven by the Surge in Sauce-Flavor Baijiu Products

Sauce-flavor baijiu penetration rate surged in recent years. According to Boston Consulting Group, the baijiu market size remained stable at around RMB600 bn in 2016-2021, following sharp growth in 2010-2016. Notably, sauce-flavor baijiu market size surged from RMB81 bn to RMB190 bn between 2016-2021, representing 5-year CAGR of 18.6% and 31.5% of the baijiu industry in China in 2021. Also, sauce-flavor baijiu has bigger margins; the weighted average gross margin and net margin of sauce-flavor baijiu companies in 2021 were around 82% and 41%, respectively.

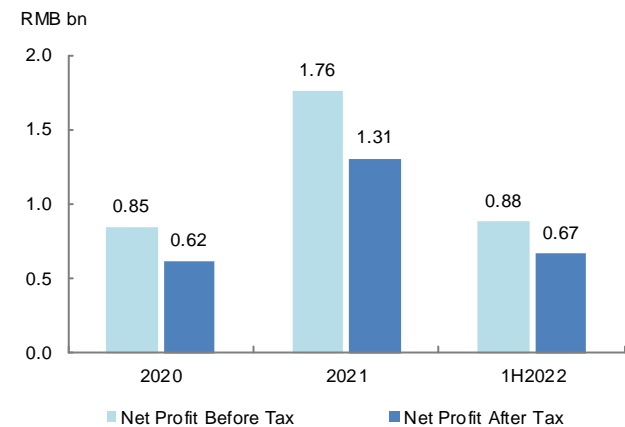
Founded in 1951, Jinsha Winery has well-established brand equity and mid-end and high-end baijiu product portfolios. Jinsha Winery produces and distributes baijiu products under the "Zhaiyao" and "Jinsha Huisha" brands in China. It recorded revenue of RMB0.58 bn/ RMB1.53 bn/ RMB2.73 bn/ RMB6.07 bn in 2018-2021, respectively, amid industry tailwinds. According to Jinsha Winery's management, its cash-basis sales of "Zhaiyao" and "Jinsha Huisha" reached RMB3.76 bn and RMB2.31 bn, up 156% YoY and 88% YoY, respectively, in 2021. CRB's management claimed that Jinsha Winery's market share should be around 1.6%-1.7%. As the second largest sauce-flavor baijiu producer in Guizhou, Jinsha Winery has more than 2,000 employees. In 2021, its annual base liquor production capacity/ base liquor storage was 19,000 tonnes/ 40,000 tonnes, respectively.

Figure-25: Sauce-flavor baijiu market size in China surged at CAGR of 18.6% from 2016 to 2021



Source: Boston Consulting Group, Guotai Junan International.

Figure-26: Jinsha Winery's net profit maintained robust growth momentum in 2021 and 1H2022



Source: the Company, Guotai Junan International.

4.3 We Are Relatively Positive on Proposed Acquisitions in the Long Run

A comprehensive alcoholic beverage giant in the future. We like CRB's move into the "dual empowerment model" to develop both beer and non-beer businesses. For the baijiu market, CRB has regional brands (under Anhui Golden Seed Winery and Shandong Jingzhi Liquor) plus nationwide brands (under Jinsha Winery), with a wide range of flavor types. The Company has formed a "1+n" framework. CRB may acquire other baijiu companies in appropriate circumstances in the coming future. The senior management expects that the Company will ride on the second growth curve and generate revenue from the baijiu segment at over RMB10 bn/year in 2025 and onwards. In terms of the bottom line, by consolidating the high value-added baijiu segment, CRB is expected to accelerate margin growth, which will also drive the Company's valuation premium in the long run.

Operational synergies to be released. 1) For the baijiu businesses acquired, some investors have raised concerns that CRB might not be able to replicate its success due to differences in business models compared with the beer segment. As previously mentioned, near-term sector headwinds cannot be neglected too. However, we believe that the market has not fully priced in the potential added value that CRB will bring to its baijiu category. The major areas of added value include: i) sales and distribution network expansion, ii) optimization of inventory management, and iii) efficient organizational structure and operational teams. 2) For CRB's beer segment, in addition to a positive effect on brand recognition and cultural value, the marketing methods of baijiu products can provide good reference for beer premiumization. CRB may diversify its product lines and enrich channel profit for its distributors with more baijiu offerings.

5. Major Risk Factors

- 1) Recovery of offline consumption scene may miss expectations.
- 2) Marginally intensified competition in the mid-end and high-end beer markets in China.
- 3) Unexpected price fluctuations of raw materials and/or packaging components.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the Company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the Company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the Company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the Company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the Company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtjai.com