Monday December 12, 2022

Company Report

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

China Resources Beer (291 HK)

Not materially affected by COVID restrictions in 4Q22

- **Not materially affected by COVID restrictions in 4Q22**
- **Premiumization continues**
- **Maintain BUY and TP at HKD 66.0**

Not materially affected by COVID restrictions in 4Q22

While COVID restrictions over the past few months have affected CRB's sales, during our recent conversation, management noted that FY22 sales volumes should not be materially affected by the COVID restrictions in 4Q22 because winter is typically a low season for beer consumption. In fact, given the strong sales volumes during this year's hot summer, CRB's FY22 sales volumes could grow yoy, despite COVID restrictions.

Premiumization continues

The sales volume of sub-premium and above segment in 2H22 is expected to be higher than the c. 10% yoy increase in 1H22 as CRB increased its promotional activities during the crucial summer months. In terms of brands, Heineken's 2H22 sales volumes could reach 40% yoy, higher than the 30% yoy in 1H22. This growth in the sub-premium and above segment should translate into an increase in ASP in 2H22.

Packaging costs start to decline in 4Q22

CRB's cost of packaging materials in 4Q22 has decreased yoy, which could potentially translate into an over 10% yoy decline in the cost of packaging in FY23. However, CRB remains conservative and expects flat aluminium prices in FY23. The price of FY23's barley is being set now and should translate into an increase of 15% to 20% yoy. That said, CRB should be able to raise product prices if necessary.

Jinsha changes should show by FY24

While the acquisition has not yet closed, CRB will transform Jinsha's baijiu products into FMCG focused and expects FY23 to be a year of adjustment with few major changes. CRB hopes to show some changes by FY24 with large scale effects by FY28.

Maintain BUY; TP of HKD66.0

We tweak our FY22 earnings forecasts by -3%. Should China continue to relax more COVID policies, we expect premiumization to continue into FY23 and beyond, we maintain our BUY rating and our target price of HKD66.0 which implies a PE of 39.6x on our forward 12 months EPS.
Key catalysts: Better-than-expected margins; **Key downside risks:** More prolonged and large scale COVID restrictions; Higher-than-expected raw material cost increases.

Financials

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenue	31,448	33,387	36,685	39,436	42,394
yoy growth	-5.2%	6.2%	9.9%	7.5%	7.5%
Attributable net profit	2,094	4,587	4,330	5,164	5,988
Diluted EPS (RMB)	0.65	1.41	1.33	1.59	1.85
yoy growth	59.6%	119.1%	-5.6%	19.3%	15.9%
P/E	76.0x	34.7x	36.8x	30.8x	26.6x
ROE	10.2%	20.1%	16.8%	18.0%	18.6%
Net debt (cash)/ equity	-21.3%	-22.0%	-41.9%	-48.6%	-55.4%

Sources: Company data, CMS (HK) estimates; share price as of Dec 9, 2022

Johnny WONG
+852 3189 6357
johnnywong@cmschina.com.hk

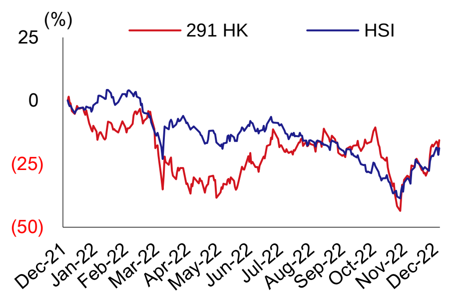
WHAT'S NEW

CRB was not materially affected by 4Q22 COVID restrictions while premiumization continues. Maintain BUY and TP of HKD66.0

BUY

Previous	BUY
Price (Dec 9, 2022)	HKD 55.00
12-month Target Price (Potential up/downside)	HKD66.0 (+20.0%)
Previous	HKD66.0

Price Performance



Source: Bloomberg; share price as of Dec 9, 2022

%	1m	6m	12m
291 HK	20.7	11.4	(15.5)
HSI	21.7	(9.0)	(18.0)

Sector: Consumer	
Hang Seng Index (Dec 9, 2022)	19,901
HSCEI (Dec 9, 2022)	6,834
Key Data	
52-week range (HKD)	35.9 - 68.7
Market cap (HKD mn)	178,430
Avg. daily volume (mn)	14.03
BVPS (RMB)	8.43
Shareholding Structure	
CRH (Beer) Limited	51.7%
Others	4.4%
No. of shares outstanding (mn)	3,244
Free float	43.9%

Source: Bloomberg

Related Research

1. China Resources Beer (291 HK) - More diversification into baijiu; Maintain BUY; (BUY) (Oct 25, 2022)
2. China Resources Beer (291 HK) - Unaffected by recent COVID rebound; Maintain BUY. (BUY) (Sept 28, 2022)

Figure 1: : Earnings adjustment table

Unit: RMB mn	2022E			2023E			2024E		
	Original	New	diff %	Original	New	diff %	Original	New	diff %
Revenue	**36,685**	**36,685**	***0.0%***	**39,436**	**39,436**	***0.0%***	**42,394**	**42,394**	***0.0%***
Sales vol (mn KL)	11.3	11.3	*0.0%*	11.3	11.3	*0.0%*	11.3	11.3	*0.0%*
ASP (RMB/KL)	3,247	3,247	*0.0%*	3,491	3,491	*0.0%*	3,753	3,753	*0.0%*
Gross profit	**14,547**	**14,391**	***-1.1%***	**16,033**	**16,033**	***0.0%***	**17,659**	**17,659**	***0.0%***
GPM	*39.7%*	*39.2%*	*-0.4ppt*	*40.7%*	*40.7%*	*0.0ppt*	*41.7%*	*41.7%*	*0.0ppt*
Operating profit	**6,326**	**6,122**	***-3.2%***	**7,431**	**7,436**	***0.1%***	**8,619**	**8,612**	***-0.1%***
OPM	*17.2%*	*16.7%*	*-0.6ppt*	*18.8%*	*18.9%*	*0.0ppt*	*20.3%*	*20.3%*	*0.0ppt*
Pretax profit	***6,233***	***6,030***	***-3.3%***	***7,375***	***7,380***	***0.1%***	***8,563***	***8,556***	***-0.1%***
Pretax margin	*17.0%*	*16.4%*	*-0.6ppt*	*18.7%*	*18.7%*	*0.0ppt*	*20.2%*	*20.2%*	*0.0ppt*
Attributable net profit	**4,473**	**4,330**	***-3.2%***	**5,161**	**5,164**	***0.1%***	**5,993**	**5,988**	***-0.1%***
NPM	12.2%	11.8%	*-0.4ppt*	13.1%	13.1%	*0.0ppt*	14.1%	14.1%	*0.0ppt*
Diluted EPS (RMB)	**1.38**	**1.33**	***-3.2%***	**1.59**	**1.59**	***0.1%***	**1.85**	**1.85**	***-0.1%***

Sources: Company data, CMS (HK) estimates

Figure 2: Target price and valuation table

Valuation - CR Beer				
Stock price	55.0		**Price date**	12/9/2022
HKD/RMB	0.89			

	FY21	FY22E	FY23E	FY24E
EPS (RMB)	1.41	1.33	1.59	1.85
P/E	**34.7x**	**36.8x**	**30.8x**	**26.6x**

Target price calculation	
Target P/E	**39.6x**
Fwd 12-month EPS (RMB	**1.49**
Target price (HKD)	**66.0**
Upside	**20.0%**

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

Financial statement

Balance Sheet

RMB mn	2020	2021	2022E	2023E	2024E
PP&E	14,414	13,717	13,359	13,101	12,963
Right of use assets	3,367	3,379	3,850	4,139	4,450
Goodwill and other intangible	9,581	9,480	9,544	9,544	9,544
Deferred tax assets	2,858	3,368	3,838	4,126	4,435
Other non-current assets	178	5,212	5,372	5,407	5,443
Non-current assets	**30,398**	**35,156**	**35,963**	**36,317**	**36,835**
Inventory	6,014	6,458	7,024	7,318	7,741
Trade and other receivables	2,378	3,436	2,601	2,796	3,006
Cash and cash equivalents	4,538	5,376	12,197	15,600	19,741
Other current assets	447	627	501	824	1,077
Current assets	**13,377**	**15,897**	**22,322**	**26,538**	**31,564**
Total assets	**43,775**	**51,053**	**58,286**	**62,855**	**68,399**
Trade and other payables	19,327	21,007	23,976	24,979	26,425
Short term loans	0	0	800	800	800
Lease liabilities	83	71	85	85	85
Taxation payable	162	92	218	359	470
Current liabilities	**19,572**	**21,170**	**25,080**	**26,224**	**27,780**
LT loan	0	0	0	0	0
Lease liabilities	117	60	64	64	64
Deferred taxation liabilities	788	1,955	2,148	2,148	2,148
Other non-current liabilities	2,024	3,379	3,821	3,981	4,211
Non-current liabilities	**2,929**	**5,394**	**6,033**	**6,193**	**6,423**
Total liabilities	**22,501**	**26,564**	**31,113**	**32,417**	**34,203**
Share Capital	14,090	14,090	14,090	14,090	14,090
Reserves	7,127	10,342	13,041	16,306	20,064
Non-controlling interests	57	57	42	42	42
Total equity	**21,274**	**24,489**	**27,173**	**30,438**	**34,196**
Total equity and liabilities	**43,775**	**51,053**	**58,286**	**62,855**	**68,399**

Cashflow Statement

RMB mn	2020	2021	2022E	2023E	2024E
Profit before tax	3,009	6,215	6,030	7,380	8,556
Finance Costs	-85	-237	0	0	0
Gain on disposal of fixed assets	-11	-1,857	0	0	0
D&A	1,746	1,641	1,129	938	922
Changes in OWC	185	-96	3,489	331	669
Income tax paid	-1,148	-1,275	-1,698	-2,214	-2,567
Others	784	604	113	100	100
CF from operating activities	**4,480**	**4,995**	**9,063**	**6,534**	**7,680**
Capital expenditure	-1,047	-1,471	-1,284	-1,380	-1,484
Disposal of subsidiaries	384	233	400	600	600
Acquisition of business/subsidiaries	0	-1,502	0	0	0
Others	-407	-10	-695	-324	-347
CF from investing activities	**-1,070**	**-2,750**	**-1,579**	**-1,104**	**-1,230**
Dividend paid	-561	-1,284	-1,739	-1,899	-2,230
Equity financing	0	0	0	0	0
Debt financing (repaid)	-526	0	800	0	0
Others	-110	-82	276	-128	-79
CF from financing activities	**-1,197**	**-1,366**	**-663**	**-2,027**	**-2,309**
Net cash flow	**2,213**	**879**	**6,821**	**3,403**	**4,141**

Profit & Loss

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	**31,448**	**33,387**	**36,685**	**39,436**	**42,394**
Cost of Sales	-19,373	-20,313	-22,294	-23,403	-24,734
Gross profits	**12,075**	**13,074**	**14,391**	**16,033**	**17,659**
Other net income	1,687	3,543	2,252	2,585	2,911
Selling & marketing exp	-6,123	-6,743	-7,060	-7,538	-8,104
Admin expense	-4,419	-3,619	-3,461	-3,644	-3,854
Operating profits	**3,220**	**6,255**	**6,122**	**7,436**	**8,612**
Finance costs	-211	-19	-62	-76	-76
Share of associates/JV	0	-21	-31	20	20
Profit before tax	**3,009**	**6,215**	**6,030**	**7,380**	**8,556**
Income tax expense	-915	-1,625	-1,698	-2,214	-2,567
Net profit	**2,094**	**4,590**	**4,331**	**5,166**	**5,989**
Non-controlling interest	0	3	1	1	2
Attributable net profit	**2,094**	**4,587**	**4,330**	**5,164**	**5,988**
Diluted EPS (RMB)	0.65	1.41	1.33	1.59	1.85
DPS (RMB)	0.26	0.57	0.50	0.64	0.74

Financial Ratio

	2020	2021	2022E	2023E	2024E
yoy growth rate					
Revenue	-5.2%	6.2%	9.9%	7.5%	7.5%
Gross Profit	-1.2%	8.3%	10.1%	11.4%	10.1%
Operating profit	41.7%	94.3%	-2.1%	21.4%	15.8%
Net profit	59.6%	119.1%	-5.6%	19.3%	15.9%
Diluted EPS	59.6%	119.1%	-5.6%	19.3%	15.9%
Profitability					
Gross margin	38.4%	39.2%	39.2%	40.7%	41.7%
Adj. OPM	10.2%	18.7%	16.7%	18.9%	20.3%
Net margin	6.7%	13.7%	11.8%	13.1%	14.1%
Liquidity					
AR days	19.3	31.8	30.0	25.0	25.0
Inventory days	113.3	112.1	110.4	111.8	111.1
AP days	361.6	362.4	368.2	381.8	379.3
Cash conversion cycle	-229.0	-218.5	-227.8	-245.0	-243.2
Cash flow & leverage					
Free cash low	4,030	5,331	7,845	5,193	6,236
Net debt to equity	-21.3%	-22.0%	-41.9%	-48.6%	-55.4%
Dividend payout ratio	40.1%	40.0%	37.5%	40.0%	40.0%
Dividend yield	0.5%	1.2%	1.0%	1.3%	1.5%
Return analysis					
ROE	10.2%	20.1%	16.8%	18.0%	18.6%
Asset turnover	0.7	0.7	0.7	0.7	0.6
Net margin	6.7%	13.7%	11.8%	13.1%	14.1%
Financial leverage	2.1	2.1	2.1	2.1	2.0
ROA	4.9%	9.7%	7.9%	8.5%	9.1%
Valuation ratios					
P/E	76.0x	34.7x	36.8x	30.8x	26.6x
P/B	7.5x	6.5x	5.9x	5.2x	4.7x

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

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website
http://www.newone.com.hk/cmshk/gb/disclosure.html or http://www.cmschina.com.hk/Research/Disclosure.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co Limited. The information contained herein has been obtained from or is based on sources believed to be reliable. China Merchant Securities (HK) Co Limited, its holding company or affiliated companies, or any of its or their directors, officers or employees (collectively "CMS") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof.

This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

Opinions, and associated estimates and forecasts, or any content and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies.

This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS. CMS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person.

In Hong Kong, this document is distributed by China Merchants Securities (HK) Co., Limited, which is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571).

In South Korea, professional clients can get copies of this document (upon request) through China Merchants Securities (Korea) Co., Limited

In the United Kingdom, this document is distributed by China Merchants Securities (UK) Limited. This document is for distribution only to persons who: (i) are persons falling within the definition of "Investment Professionals" pursuant to Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”); (ii) are persons falling within Article 49(2)(a) to (d) (“High Net Worth Companies, Unincorporated Associations, etc.”) of the Financial Promotion Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

If there is any inconsistency or ambiguity between the English version and the Chinese version of this disclaimer, the English version shall prevail.

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