

CR Beer (291 HK)

1H rev/EBIT +13%/26%; Heineken grew 60%

CR beer's 13.6% 1H revenue growth comprised 9.0% beer revenue growth and RMB977mn baijiu revenue, which was reported and consolidated for the first time. While the former seems to be slightly below our estimate of a low-teen growth, beer gross margin of 45.2% was 1.5pp ahead of us, thanks to raw material cost savings, and a better-than-expected sales mix. Of note, Heineken recorded 60% YoY shipment growth, and now sub-premium+ (Super-x and above) contributed to 22% of total shipment over the reporting period. The strength also translated into a 26.6% recurring EBIT margins that kicked-in 1.5pp above us. Separately, the baijiu business reported RMB71mn EBIT, negligible to the Group's total as expected (RMB395mn should we exclude amortization from intangible assets arising from Jinsha acquisition).

- **Outlook.** Management remains upbeat in the momentum of beer premiumization in the next few years, and sees revolutions in bottle size, flavours and alcohol content to be the major catalysts to the trend. Meanwhile, management commented that they are satisfied with what Heineken (+60%) and Snow (+26%) are performing in China. SuperX performance was relatively lukewarm due to rather limited upside price hike, and yet management looks forward to any room of improvement should price levels of the formers continue to go up. Overall, a 20%+ growth in sub-premium+ is maintained for 2023E.
- **Baijiu.** In view of the current industry headwind, price management tops Jinsha's operation agenda and the brand will set RMB100-300 to be the core price range, with RMB500-1,000+ as a complimentary focus. Management aims RMB10bn revenue in 3 years with an achievable net profit of RMB2-3bn.
- **Earnings change.** We have included our financial forecasts for Jinsha in our model, in which we assume an RMB3.0bn revenue and a muted EBIT contribution. Meanwhile, we also lifted up our 2023E gross margins by 1.8pp to reflect the results. All these explained an 11% increase in our recurring EBIT estimate for 2023E.
- **Valuation.** Our TP is based on an updated 23.0x (from previously 27.0x) rolled-forward mid-24E EV/EBITDA which still represents its long-term average since 2018.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	33,387	35,263	41,449	44,196	47,229
YoY growth (%)	6.2	5.6	17.5	6.6	6.9
Net profit (RMB mn)	4,587.0	4,344.0	5,461.1	6,858.9	7,949.2
YoY growth (%)	119.1	(5.3)	25.7	25.6	15.9
YoY growth (%)	119.1	(5.3)	25.7	25.6	15.9
EPS (Reported) (RMB)	1.41	1.34	1.68	2.11	2.45
Consensus EPS (RMB)	na	na	1.67	2.02	2.39
P/E (x)	37.8	33.5	25.4	20.3	17.5
P/B (x)	7.1	5.4	4.5	3.9	3.4
Yield (%)	1.1	1.2	1.6	2.0	2.3
ROE (%)	20.1	16.9	18.9	20.7	20.9
Net gearing (%)	(22.0)	(33.7)	(40.8)	(41.7)	(42.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$73.10
(Previous TP HK\$76.90)
Up/Downside 58.9%
Current Price HK\$46.00

China Consumer Staples

Joseph WONG
(852) 3900 0838
josephwong@cmbi.com.hk

Bella Li
(852) 3757 6202
bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	149,232.1
Avg 3 mths t/o (HK\$ mn)	394.6
52w High/Low (HK\$)	64.75/37.00
Total Issued Shares (mn)	3244.2

Source: FactSet

Shareholding Structure

CRH Beer	51.7%
Morgan Stanley	4.7%

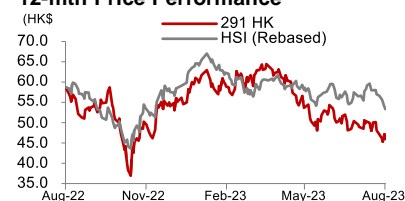
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.1%	-1.6%
3-mth	-13.6%	-5.1%
6-mth	-21.9%	-9.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,449	44,196	47,229	39,071	42,431	46,245	6.1%	4.2%	2.1%
Gross Profit	17,464	19,357	21,505	15,305	17,013	18,980	14.1%	13.8%	13.3%
Recurring EBIT	6,982	8,800	10,224	6,363	7,387	8,488	9.7%	19.1%	20.4%
Net profit	5,461	6,859	7,949	5,164	5,970	6,837	5.7%	14.9%	16.3%
Gross Margin	42.1%	43.8%	45.5%	39.2%	40.1%	41.0%	3ppt	3.7ppt	4.5ppt
EBIT Margin	16.8%	19.9%	21.6%	16.3%	17.4%	18.4%	0.6ppt	2.5ppt	3.3ppt
Net margin	13.2%	15.5%	16.8%	13.2%	14.1%	14.8%	0ppt	1.4ppt	2ppt

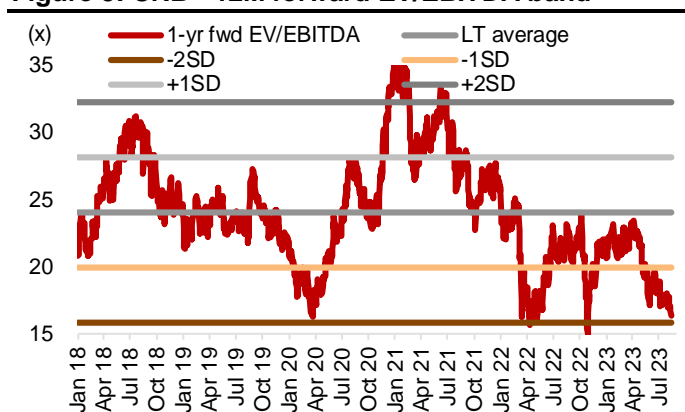
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,449	44,196	47,229	40,669	44,116	47,670	1.9%	0.2%	-0.9%
Gross Profit	17,464	19,357	21,505	16,768	19,020	21,292	4.1%	1.8%	1.0%
Recurring EBIT	6,982	8,800	10,224	7,193	8,748	10,320	-2.9%	0.6%	-0.9%
Net profit	5,461	6,859	7,949	5,416	6,564	7,697	0.8%	4.5%	3.3%
Gross Margin	42.1%	43.8%	45.5%	41.2%	43.1%	44.7%	0.9ppt	0.7ppt	0.9ppt
Recurring EBIT	16.8%	19.9%	21.6%	17.7%	19.8%	21.6%	-0.8ppt	0.1ppt	0ppt
Net margin	13.2%	15.5%	16.8%	13.3%	14.9%	16.1%	-0.1ppt	0.6ppt	0.7ppt

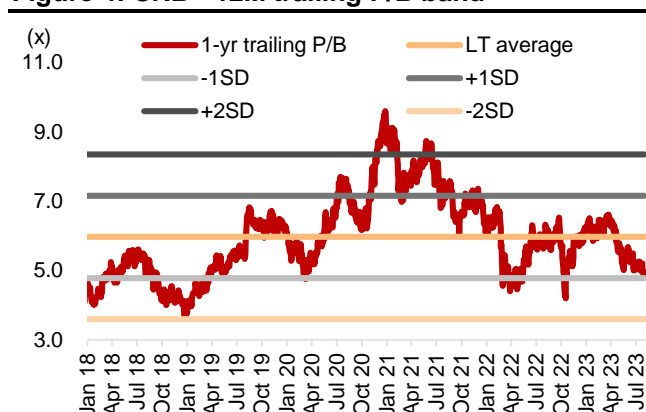
Source: Company data, CMBIGM estimate

Figure 3: CRB - 12M forward EV/EBITDA band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CRB - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	31,448	33,387	35,263	41,449	44,196	47,229
Cost of goods sold	(19,373)	(20,313)	(21,702)	(23,985)	(24,839)	(25,724)
Gross profit	12,075	13,074	13,561	17,464	19,357	21,505
Operating expenses	(8,996)	(7,062)	(8,267)	(10,481)	(10,557)	(11,282)
Selling expense	(6,123)	(6,743)	(6,750)	(8,538)	(8,486)	(9,068)
Admin expense	(4,419)	(3,619)	(3,320)	(4,062)	(4,331)	(4,628)
Others	1,546	3,300	1,803	2,119	2,260	2,415
Operating profit	3,079	6,012	5,294	6,982	8,800	10,224
EBITDA	5,381	6,293	6,992	8,770	10,657	12,148
Depreciation	(1,489)	(1,576)	(1,510)	(1,570)	(1,626)	(1,679)
Goodwill amortisation	(64)	(65)	(20)	(20)	(20)	(20)
EBIT	3,079	6,012	5,294	6,982	8,800	10,224
Interest income	141	243	380	300	300	300
Interest expense	(61)	(19)	(79)	0	0	0
Net Interest income/(expense)	80	224	301	300	300	300
Others	(150)	(21)	(67)	0	0	0
Pre-tax profit	3,009	6,215	5,528	7,282	9,100	10,524
Income tax	(915)	(1,625)	(1,178)	(1,552)	(1,939)	(2,243)
After tax profit	2,094	4,590	4,350	5,731	7,161	8,281
Minority interest	0	(3)	(6)	(269)	(302)	(332)
Discontinued operations	0	0	0	0	0	0
Net profit	2,094	4,587	4,344	5,461	6,859	7,949
Adjusted net profit	2,094	4,587	4,344	5,461	6,859	7,949
Gross dividends	425	980	980	1,425	1,985	2,421

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	13,377	15,897	20,878	24,957	27,570	30,657
Cash & equivalents	4,538	5,376	10,208	13,666	15,871	18,425
Account receivables	2,378	3,436	2,612	3,407	4,238	4,529
Inventories	6,014	6,458	7,402	7,228	6,805	7,048
Other current assets	447	627	656	656	656	656
Non-current assets	30,398	35,156	36,435	36,345	36,124	35,778
PP&E	17,781	17,096	17,206	17,136	16,935	16,609
Deferred income tax	2,858	3,368	3,266	3,266	3,266	3,266
Intangibles	320	255	203	183	163	143
Goodwill	9,326	9,250	9,385	9,385	9,385	9,385
Other non-current assets	113	5,187	6,375	6,375	6,375	6,375
Total assets	43,775	51,053	57,313	61,302	63,694	66,435
Current liabilities	19,572	21,170	23,667	23,665	21,081	18,284
Short-term borrowings	0	0	512	512	512	512
Account payables	19,327	21,007	23,002	23,000	20,416	17,619
Tax payable	162	92	100	100	100	100
Other current liabilities	83	71	53	53	53	53
Non-current liabilities	2,929	5,394	6,569	6,569	6,569	6,569
Long-term borrowings	0	0	588	588	588	588
Deferred income	788	1,955	1,850	1,850	1,850	1,850
Other non-current liabilities	2,141	3,439	4,131	4,131	4,131	4,131
Total liabilities	22,501	26,564	30,236	30,234	27,650	24,853
Share capital	14,090	14,090	14,090	14,090	14,090	14,090
Retained earnings	7,127	10,342	12,949	16,671	21,346	26,551
Total shareholders equity	21,217	24,432	27,039	30,761	35,436	40,641
Minority interest	57	57	38	307	609	941
Total equity and liabilities	43,775	51,053	57,313	61,302	63,694	66,435

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,009	6,215	5,528	7,282	9,100	10,524
Depreciation & amortization	1,553	1,641	1,530	1,590	1,646	1,699
Tax paid	(915)	(1,625)	(1,178)	(1,552)	(1,939)	(2,243)
Change in working capital	(1,165)	178	1,875	(624)	(2,992)	(3,330)
Others	1,998	(1,414)	(909)	0	0	0
Net cash from operations	4,480	4,995	6,846	6,697	5,815	6,651
Investing						
Capital expenditure	(1,047)	(1,471)	(1,661)	(1,500)	(1,425)	(1,354)
Acquisition of subsidiaries/ investments	3	4	5	6	7	8
Net proceeds from disposal of short-term investments	384	226	591	0	0	0
Others	(410)	(1,509)	7	(6)	(7)	(8)
Net cash from investing	(1,070)	(2,750)	(1,058)	(1,500)	(1,425)	(1,354)
Financing						
Dividend paid	(561)	(1,281)	(1,739)	(1,739)	(2,184)	(2,744)
Net borrowings	(526)	0	1,100	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(110)	(85)	(172)	0	0	0
Net cash from financing	(1,197)	(1,366)	(811)	(1,739)	(2,184)	(2,744)
Net change in cash						
Cash at the beginning of the year	2,340	4,538	5,376	10,208	13,666	15,871
Exchange difference	(15)	(41)	(145)	0	0	0
Cash at the end of the year	4,538	5,376	10,208	13,666	15,871	18,425
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(5.2%)	6.2%	5.6%	17.5%	6.6%	6.9%
Gross profit	(1.2%)	8.3%	3.7%	28.8%	10.8%	11.1%
Operating profit	42.3%	95.3%	(11.9%)	31.9%	26.0%	16.2%
EBITDA	(4.6%)	16.9%	11.1%	25.4%	21.5%	14.0%
EBIT	42.3%	95.3%	(11.9%)	31.9%	26.0%	16.2%
Net profit	59.6%	119.1%	(5.3%)	25.7%	25.6%	15.9%
Adj. net profit	59.6%	119.1%	(5.3%)	25.7%	25.6%	15.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	38.4%	39.2%	38.5%	42.1%	43.8%	45.5%
Operating margin	9.8%	18.0%	15.0%	16.8%	19.9%	21.6%
EBITDA margin	17.1%	18.8%	19.8%	21.2%	24.1%	25.7%
Adj. net profit margin	6.7%	13.7%	12.3%	13.2%	15.5%	16.8%
Return on equity (ROE)	10.2%	20.1%	16.9%	18.9%	20.7%	20.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Current ratio (x)	0.7	0.8	0.9	1.1	1.3	1.7
Receivable turnover days	27.6	37.6	27.0	30.0	35.0	35.0
Inventory turnover days	113.3	116.0	124.5	110.0	100.0	100.0
Payable turnover days	364.1	377.5	386.9	350.0	300.0	250.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	63.3	37.8	33.5	25.4	20.3	17.5
P/B	6.3	7.1	5.4	4.5	3.9	3.4
Div yield (%)	0.6	1.1	1.2	1.6	2.0	2.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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