

China Resources Beer (291.HK)

Acquisition of Heineken helping to open up mid-to high-end market;
Looking forward to harvest period

China | Consumer | Company report

24 July 2019

Investment Summary

China Resources Beer's acquisition of Heineken China was completed on April 29 this year. Heineken's mainland China, Hong Kong and Macao business will be included in CRB, which we expect will be reflected in the financial report afterwards. The acquisition will help to further increase the proportion of the high-end (more than RMB 5 per bottle) business of CRB, which accounted for 43% in 2018 and is expected increase to over 50% by 2020-2021. According to GlobalData, CRB has a market share of 23.2% in the Chinese beer market in 2018, which is the market leader. In the premium and super premium market, it ranks the third, with a market share of 11%. The top two are Budweiser and Tsingtao.

The recent suspension of the listing of Budweiser APAC has driven the market to pay attention to the prospects of the beer industry. We believe the suspension is more due to the recent market volatility and we are optimistic about the industry in medium to long term. China's beer market is the largest globally which accounted for a 25% share of global beer volumes. Despite its large aggregate size, beer consumption in China remains relatively low on a PCC basis at 35 liters per capita in 2018, indicating a significant potential for growth in beer consumption compared to other markets such as the US, Brazil and Mexico, which are at 71 liters, 60 liters and 74 liters respectively.

Overall beer market size in China by volume grew at a CAGR of 2% from 2013 to 2018, and is expected to grow at a CAGR of 0.9% until 2023. Premium and super premium categories in China grew and is expected to grow at CAGR of 6.4% and 4.9% respectively. In value terms, overall beer market size in China grew at a CAGR of 3.1% from 2013 to 2018, and is expected to grow at a CAGR of 4.7% until 2023. Premium and super premium categories grew and is expected to grow at CAGR of 12% and 8.5% respectively.

The management team of CRB expects that there will be a learning curve with Heinken in 2019, but believes that the situation will gradually improve and they are optimistic about business performance in 2020. It is expected that the operational efficiency will improve at that time. We expect the impact of the short-term acquisition on the financial report to be minor. Heineken recorded a net loss after tax of RMB 66.8 million in 2017. In 2016, it recorded a net profit after tax of RMB 51.3 million.

CRB's revenue in FY2018 increased by 7.2% y.o.y., which was mainly driven by an increase in ASP of 12.3%, while sales volume fell by 4.5%. The decline in sales volume was due to the decrease of volume in the northeastern market and intensified competitions, as well as the decline in sales volume resulted from the increase of product price in certain areas. In addition to the increase in prices of some products during the year, another important reason is that the sales of medium and high-end beer increased by 4.8%. Therefore, even with the rising costs of some raw materials and packaging materials, GPM can still improve by 1.4ppt per year y.o.y. to 35.64%.

During the year, 13 beer factories ceased operation, and the company continued the production capacity optimization and organizational restructuring. As a result, there were compensation and staff resettlement expenses. Together with the increase in transportation and advertising expenses, the operating expenses as a percentage of revenue increased by 3.1 ppt to 33.3%. Net profit fell 16.9% y.o.y.. As of the end of 2018, CRB operated 78 breweries in 24 provinces, municipalities and autonomous regions in mainland China, with an aggregate annual production capacity of approximately 21 million kiloliters. The management said that the cut down on the production capacity in FY 2019 will be less than that in FY 2018. We expect EPS of FY2019 will be RMB0.64, with target price HKD36.2, and target price-earnings ratio 50 times. (current price as of July 22, 2019)

Neutral

CMP HKD37.4

(Closing price at 22July 2019)

TARGET HKD36.2 (-3.2%)

COMPANY DATA

O/S SHARES (MN) :	3244
MARKET CAP (HKDBN) :	121332
52 - WK HI/LO (HKD):	24.10/39.15

SHARE HOLDING PATTERN, %

Gaoling Fung, L.P.	6.04
Hilhouse Capital Management	6.02

PRICE PERFORMANCE, %

	1 個月	3 個月	1 年
CRB	2.47	35.26	2.80
HSI	-0.50	5.06	0.41

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY17	FY18	FY19E	FY20E
Net Sales	29732	31867	33460	35468
Net Profit	1175	977	1496	2059
EPS, RMB	0.36	0.30	0.46	0.64
PER, x	91.79	108.82	71.07	51.64
BVPS, RMB	5.70	5.83	6.11	6.50
P/BV, x	5.80	5.67	5.41	5.09
ROE, %	6.42%	5.21%	7.61%	9.85%

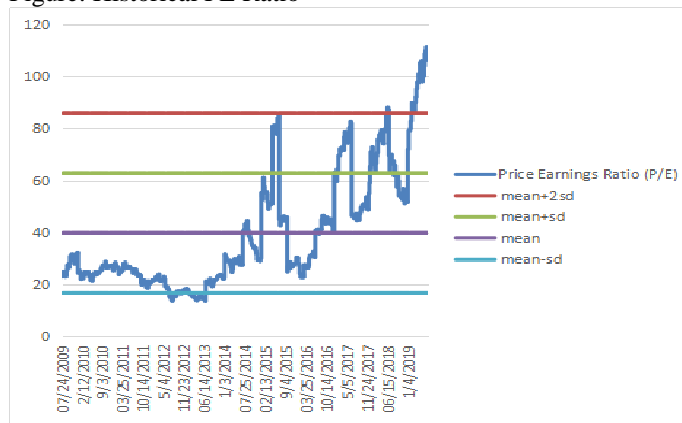
Source: Company, Phillip Securities Est.

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Investment Thesis & Valuation

We expect EPS of FY2019 will be RMB0.64, with target price HKD36.2, and target price-earnings ratio 50 times . Potential investment risks include revenue growth or channel expansion missing expectation, market competition deteriorates, huge fluctuations of raw material costs . (current price as of 22 July, 2019)

Figure: Historical PE Ratio



Source: Bloomberg, Phillip Securities

Financials

FYE	2016	2017	2018	2019E	2020E
Valuation Ratios					
Price to Earnings (P/E)	150.20	91.79	108.82	71.07	51.64
Price to Book (P/B)	5.38	5.80	5.67	5.41	5.09
Per Share Data (RMB)					
EPS	0.22	0.36	0.30	0.46	0.64
Book Value Per Share	6.15	5.70	5.83	6.11	6.50
Dividend Per Share	0.08	0.14	0.12	0.18	0.25
Growth (%)					
Revenue					
Operating Income	2.63%	3.62%	7.18%	5.00%	6.00%
Net Profit	-6.30%	6.35%	-18.72%	33.62%	36.78%
Margins (%)	-5.70%	86.80%	-16.85%	53.12%	37.63%
Gross Profit Margin					
Operating Profit Margin	33.71%	33.73%	35.14%	35.64%	36.64%
Net Profit Margin	6.37%	6.54%	4.96%	6.31%	8.14%
Key Ratios	2.19%	3.95%	3.07%	4.47%	5.81%
ROE (%)					
ROA (%)	8.03%	6.42%	5.21%	7.61%	9.85%
Income Statement (RMB, M)					
Revenue	28694	29732	31867	33460	35468
- Cost of Goods Sold	-19021	-19703	-20669	-21535	-22473
Gross Income	9673	10029	11198	11925	12995
-SD&A expenses	-8568	-8988	-10611	-10807	-11101
Operating Income	1828	1944	1580	2111	2888
Pretax Income	1739	1816	1532	2063	2840
- Minority Interest	790	11	8	12	17
Net Profit	629	1175	977	1496	2059

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate (0.8835) is one year HKD/CNY forward contract price on 22th July from Wind
(Financial figures as at 22th July 2019)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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