

Company Report

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

China Resources Beer (291 HK)

At the tipping point; Upgrade to BUY

- An in-line 2H provides grounds for a more realistic recovery in 25E
- Positive 2M25 run-rate actualizes a seasonally stronger 2Q
- U/G to BUY; new TP based on 10.5x end-25E EV/EBITDA

Risk-reward turned more favourable; upgrade to BUY

Our [last downgrade](#) was premised by a fair valuation coupled with an absence of positive catalysts into a seasonally slower 2H24. With valuation still hovering at 7.0x EV/EBITDA (below -1sd of 5 yr average) and when company fundamentals look to have bottomed out, we upgrade CR Beer to BUY, and the building blocks to our upgrade are threefold:

- 1) An in line 2H24.** Total revenue came in in-line at -0.4% YoY, with ASP/volume +0.9%/-1.2%, respectively. Core EBITDA grew 17% YoY to RMB1.15bn despite front-loaded SG&A owing to an earlier CNY. Alternatively, this could mean a clean reboot to start off 2025E and solidify any expectations towards a more realistic recovery.
- 2) Positive 2M25 run-rate could manifest into an apparent volume come-back into 2Q25 in tandem with a re-accelerated premiumization.** CR Beer delivered SD% volume growth over 2M25 despite a high base. Meanwhile, Heineken grew DD% and substantiated a re-acceleration of consumer trade-up. In our view, the rosy momentum could roll over into 2Q25 not only driven by an easier comp (2Q24 vol -LSD%), but also a potential improvement in on-premises consumption thanks to a re-growing number of total restaurants in operation, barring the risk that we could have as many rainy days as we had in 2Q24.
- 3) A lessened ASP pressure for sauce-aroma baijiu upon stabilizing Feitian Moutai prices.** This may alternatively dispel any concern over asset write-down in CR Beer's baijiu business.

Earnings change

- Our 2025/26E revenue remains largely unchanged while we trim our EBITs by 4-5% to reflect the actual 2H24.

Valuation and risks

- Our revised TP of HKD33.0 (from previously HKD26.0) is based on 10.5x (from previously 8.6x) roll-forward end-25E EV/EBITDA, which now represents -1sd below (from -1.5sd below) the average valuation since 2019.
- In our current methodology, we assign zero value to the baijiu business.
- **Key risk:** Rainy weather, acceleration in restaurant bankruptcy rate, further slowdown in sub-premium+ beer sales.

Financials

Year ended 31 Dec (RMB mn)	2023	2024	2025E	2026E	2027E
Revenue	38,932	38,635	40,070	41,260	42,685
yoy growth	10.4%	-0.8%	3.7%	3.0%	3.5%
Attributable net profit	5,153	4,739	5,595	6,114	6,562
EPS (RMB)	1.59	1.46	1.72	1.88	2.02
yoy growth	1.0%	0.1%	18.6%	9.5%	7.5%
EV/EBITDA (x)	9.6x	9.4x	8.2x	7.6x	7.1x
ROE	14.9%	13.1%	14.6%	14.7%	14.6%
Net debt (cash)/equity	-1.2%	-5.6%	-4.5%	-5.1%	-5.0%

Sources: Company data, CMS (HK) estimates; share price as of Mar 18, 2025

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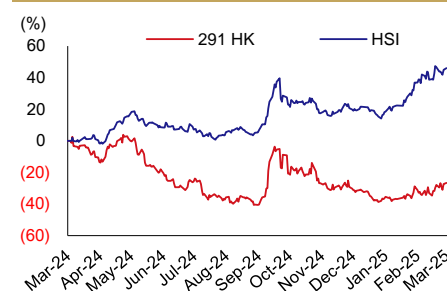
WHAT'S NEW

We upgrade CR Beer to BUY.

BUY

Previous	HOLD
Price (Mar 18, 2025)	HKD 28.5
12-month Target Price (Potential up/downside)	HKD33.0 (+15.7%)
Previous	HKD26.0

Price Performance



Source: Bloomberg; share price as of Mar 18, 2025

%	1m	6m	12m
291 HK	14.2	28.4	(24.9)
HSI	7.7	40.1	47.8

Sector: Consumer

Hang Seng Index (Aug 19, 2024)	24,741
HSCEI (Aug 19, 2024)	9,178

Key Data

52-week range (HKD)	21.6 - 39.198
Market cap (HKD mn)	92,459
Avg. daily volume (mn)	30.57
BVPS (RMB)	10.13

Shareholding Structure

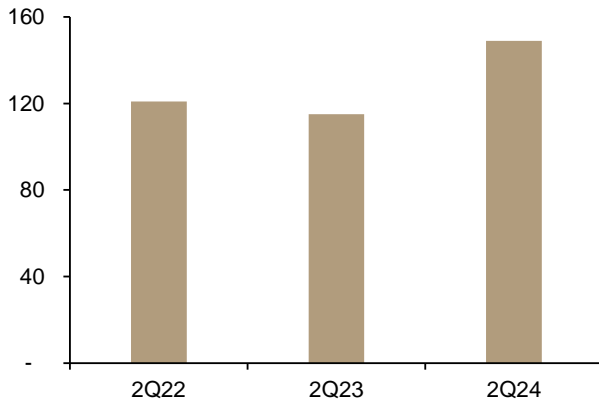
CRH (Beer) Limited	51.7%
No. of shares outstanding (mn)	3,244
Free float	48.3%

Source: Bloomberg

Related Research

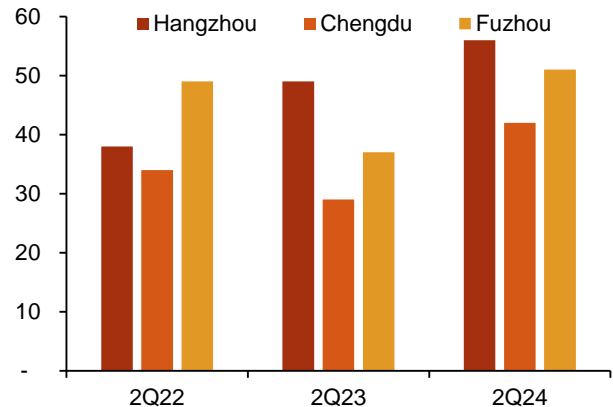
1. CR Beer (291 HK) - Soft 1H priced-in; all eyes on potential 3Q recovery (BUY) (Jul 17, 2024)
2. CR Beer (291 HK) - Premiumization continues; margins to expand (BUY) (Apr 8, 2024)
3. Budweiser APAC (1876 HK) - Expect premiumization and GPM increase to continue in FY24 (BUY) (Feb 29, 2024)

Figure 1: There were 30% more rainy days in 2Q24 vs 2Q23 among Hangzhou/Chengdu/Fuzhou where CR Beer had stronger sales exposure



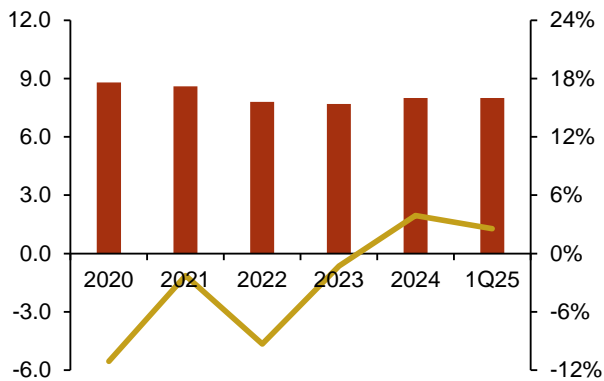
Sources: Tianqi.com, CMS (HK)

Figure 2: All 3 cities we monitored had more rainy days in 2Q24 vs 2Q23 & 2Q22



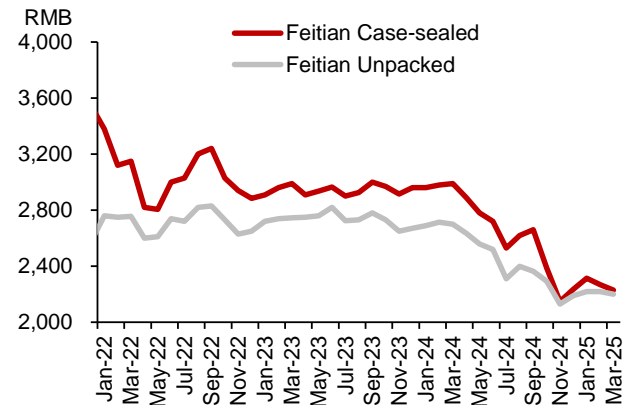
Sources: Tianqi.com, CMS (HK)

Figure 3: Total number of restaurants in operation in China saw a small rebound in 4Q24 and 1Q25



Sources: Canyin88, CMS (HK)

Figure 4: Stabilizing Feitian Moutai prices could alleviate ASP pressure of other sauce-aroma baijiu



Sources: Wind, CMS (HK)

Figure 5: Quarterly beer sales of major China breweries we monitored

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E
CRB	+HSD%	+HSD%	+MSD%	+LSD%	+teens%	+MSD%	-MSD%	+LSD%	+LSD%	-LSD%	-LSD%	+LSD%
Bud APAC (APW)	0.4%	-1.6%	-1.2%	-18.5%	4.3%	7.9%	2.0%	11.0%	-3.5%	-10.6%	-10.1%	-11.7%
Tsingtao	3.1%	7.5%	16.0%	-9.8%	16.3%	8.2%	-4.6%	-3.4%	-5.2%	-8.9%	-5.3%	HSD%

Sources: Company data, CMS (HK) estimates

Figure 6: Earnings changes summary

RMB m n	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	40,070	41,260	42,685	40,381	41,474	na	-0.8%	-0.5%	na
Gross Profit	17,381	18,219	19,177	17,750	18,809	na	-2.1%	-3.1%	na
Recurring EBIT	7,567	8,278	8,893	7,919	8,713	na	-4.4%	-5.0%	na
Net profit	5,595	6,114	6,562	5,630	6,121	na	-0.6%	-0.1%	na
Gross Margin	43.4%	44.2%	44.9%	43.4%	44.2%	na	-0.1ppt	0ppt	na
Recur.EBIT Margin	18.9%	20.1%	20.8%	19.1%	20.0%	na	-0.2ppt	0ppt	na
Net margin	14.0%	14.8%	15.4%	13.9%	14.6%	na	0.1ppt	0.2ppt	na

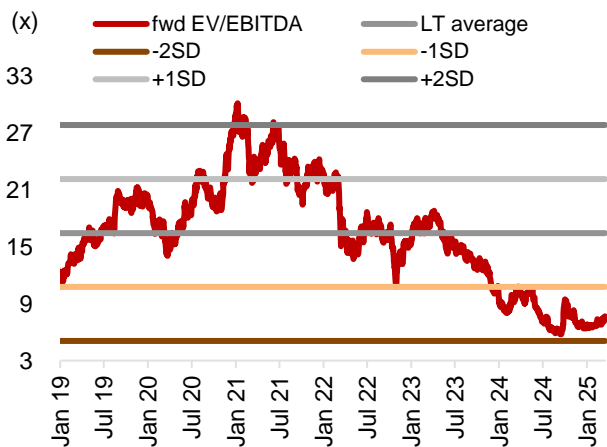
Sources: Company data, CMS (HK) estimates

Figure 7: CMS vs. Consensus

RMB m n	CMS			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	40,070	41,260	42,685	39,819	41,192	44,707	0.6%	0.2%	-4.5%
Gross Profit	17,381	18,219	19,177	17,245	18,246	20,867	0.8%	-0.1%	-8.1%
EBIT	7,567	8,278	8,893	7,547	8,266	9,630	0.3%	0.1%	-7.6%
Net profit	5,595	6,114	6,562	5,618	6,237	6,862	-0.4%	-2.0%	-4.4%
Gross Margin	43.4%	44.2%	44.9%	43.3%	44.3%	46.7%	0.1ppt	-0.1ppt	-1.7ppt
EBIT Margin	18.9%	20.1%	20.8%	43.8%	45.3%	46.1%	-24.9ppt	-25.2ppt	-25.3ppt
Net margin	14.0%	14.8%	15.4%	74.4%	75.5%	71.3%	-60.5ppt	-60.6ppt	-55.9ppt

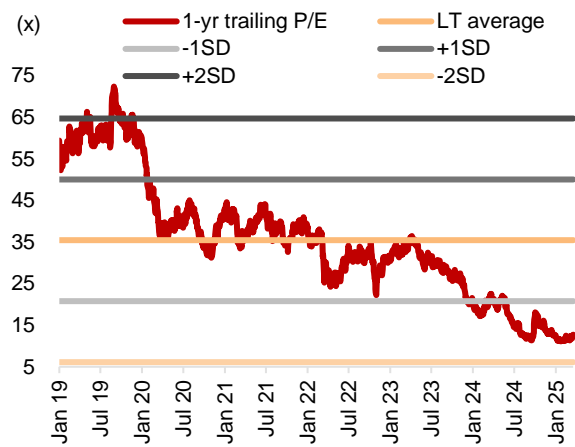
Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 8: Forward EV/EBITDA band



Sources: Bloomberg, CMS (HK)

Figure 9: P/E band



Sources: Bloomberg, CMS (HK)

Financial statement

Balance Sheet

RMB mn	2023	2024	2025E	2026E	2027E
PP&E	19,523	21,174	22,796	23,996	24,924
Right of use assets	16,806	16,806	16,806	16,806	16,806
Goodwill & other intangible asset	3,728	2,193	2,193	2,193	2,193
Deferred tax assets	3,716	3,672	3,672	3,672	3,672
Other non-current assets	10,610	9,835	9,102	8,369	7,636
Non-current assets	54,383	53,680	54,569	55,036	55,231
Inventory	9,502	9,640	9,870	10,023	10,226
Trade and other receivables	1,506	1,646	1,707	1,758	1,819
Cash and cash equivalents	5,520	3,816	3,582	3,959	4,095
Other current assets	613	526	526	526	526
Current assets	17,141	15,628	15,685	16,266	16,665
Total assets	71,524	69,308	70,254	71,302	71,896
Trade and other payables	22,755	24,583	22,378	20,201	17,389
Short term loans	931	1,168	1,168	1,168	1,168
Lease liabilities	84	76	76	76	76
Taxation payable	594	227	227	227	227
Current liabilities	24,364	26,054	23,849	21,672	18,860
LT loan	4,181	681	681	681	681
Lease liabilities	89	74	74	74	74
Deferred taxation liabilities	4,181	681	681	681	681
Other non-current liabilities	4,325	3,928	3,928	3,928	3,928
Non-current liabilities	12,986	7,669	7,669	7,669	7,669
Total liabilities	37,350	33,723	31,518	29,341	26,529
Share Capital	14,090	14,090	14,090	14,090	14,090
Reserves	16,205	17,602	20,729	23,929	27,307
Non-controlling interests	3,879	3,893	3,917	3,942	3,970
Total equity	34,174	35,585	38,736	41,961	45,367
Total equity and liabilities	71,524	69,308	70,254	71,302	71,896

Cashflow Statement

RMB mn	2023	2024	2025E	2026E	2027E
Profit before tax	7,078	6,649	7,676	8,387	9,002
Finance Costs	-122	-229	-229	-229	-229
Gain on disposal of fixed assets	157	0	0	0	0
D&A	-2,277	-2,350	-2,562	-2,682	-2,796
Changes in OWC	-1,241	1,550	-2,496	-2,381	-3,075
Income tax paid	-1,864	-1,890	-2,057	-2,248	-2,413
CF from operating activities	4,149	6,928	5,684	6,440	6,311
Capital expenditure	-2,520	-3,489	-3,315	-3,149	-2,991
Acquisition of business/subsidiaries	-9,709	0	0	0	0
Others	2,542	1,156	-136	0	0
CF from investing activities	-9,687	-2,333	-3,450	-3,149	-2,991
Dividend paid	-1,911	-3,036	-2,468	-2,914	-3,184
Equity financing	0	0	0	0	0
Debt financing (repaid)	4,012	-3,263	0	0	0
Others	-1,174	0	0	0	0
CF from financing activities	927	-6,299	-2,468	-2,914	-3,184
Net cash flow	-4,611	-1,704	-234	377	135

Profit & Loss

RMB mn	2023	2024	2025E	2026E	2027E
Revenues	38,932	38,635	40,070	41,260	42,685
Cost of Sales	-22,829	-22,160	-22,689	-23,042	-23,507
Gross profits	16,103	16,475	17,381	18,219	19,177
Other net income	2,285	1,780	1,846	1,901	1,967
Selling & marketing exp	-8,065	-8,378	-8,294	-8,417	-8,708
Admin expense	-3,362	-3,303	-3,366	-3,425	-3,543
Operating profits	6,961	6,574	7,567	8,278	8,893
Finance costs	122	229	229	229	229
Other income/expenses	-5	-154	-120	-120	-120
Profit before tax	7,078	6,649	7,676	8,387	9,002
Income tax expense	-1,864	-1,890	-2,057	-2,248	-2,413
Net profit	5,214	4,759	5,619	6,139	6,590
Non-controlling interest	-61	-20	-24	-26	-28
Attributable net profit	5,153	4,739	5,595	6,114	6,562
EPS (RMB)	1.59	1.46	1.72	1.88	2.02
DPS (RMB)	0.94	0.76	0.90	0.98	1.05

Financial Ratio

	2023	2024	2025E	2026E	2027E
yoy growth rate					
Revenue	10.4%	-0.8%	3.7%	3.0%	3.5%
Gross Profit	18.7%	2.3%	5.5%	4.8%	5.3%
Operating profit	12.9%	2.9%	15.5%	9.6%	7.6%
Net profit	18.6%	-8.0%	18.1%	9.3%	7.3%
Diluted EPS	18.6%	-8.0%	18.1%	9.3%	7.3%
Profitability					
Gross margin	41.4%	42.6%	43.4%	44.2%	44.9%
Operating margin	17.9%	17.0%	18.9%	20.1%	20.8%
Net margin	13.2%	12.3%	14.0%	14.8%	15.4%
Liquidity					
AR days	14.1	15.6	15.6	15.6	15.6
Inventory days	151.9	158.8	158.8	158.8	158.8
AP days	363.8	404.9	360.0	320.0	270.0
Cash conversion cycle	-197.8	-230.6	-185.7	-145.7	-95.7
Cash flow & leverage					
Free cash low	1,629	3,439	2,370	3,291	3,319
Net debt to equity	-1.2%	-5.6%	-4.5%	-5.1%	-5.0%
Dividend payout ratio	58.9%	52.1%	52.1%	52.1%	52.1%
Dividend yield	3.5%	2.9%	3.4%	3.7%	4.0%
Return analysis					
ROE	14.9%	13.1%	14.6%	14.7%	14.6%
ROA	7.1%	6.5%	7.8%	8.4%	8.9%
ROIC	20.7%	19.0%	19.1%	18.6%	17.8%
BVPS	9.3	9.8	10.7	11.7	12.8
Valuation ratios					
EV/EBITDA	9.6x	9.4x	8.2x	7.6x	7.1x
P/E	16.7x	18.1x	15.3x	14.0x	13.1x
P/B	2.8x	2.7x	2.5x	2.3x	2.1x

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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Hong Kong

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