

Company Report

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

Budweiser APAC (1876 HK)

Strong summer sales likely lapse; D/G to HOLD

- 2Q HSD% below consensus despite lowered expectation
- 2H earnings vulnerable to the likely lapse of peak season sales
- New TP HKD10.1 based on 10x mid-25E EV/EBITDA; D/G to HOLD

2H earnings increasingly prone to rainy weather

There was no concrete colour from the analyst call this morning about China's demand in July and August. In particular, management acknowledged that the lingering rainy weather does not bode well on the restocking outlook for provinces (such as Guangdong/Fujian/ Jiangxi) where the company has stronger footprints. Given a softer-than-expected July, in our view, even an exceptionally strong August alone seems in vain to resuscitate the country's FY revenue growth to positive. In APAC East, in contrast, we witnessed a clean turnaround in Korea where drags from its Japanese rivals and price hikes were already behind us. That said, a mere high-teen EBITDA contribution of the region looks insignificant to drive an earnings turn. Earnings risks for 2H remains on the downside and vulnerable to the likely lapse of peak season sales in China. We d/g Bud APAC to HOLD, with a c.14% below-consensus NP estimate for 2024E.

2Q HSD% below consensus despite lowered expectation

- 2Q organic sales were down by c.8% yoy with ASP/volume languishing by 1%/7%. Input cost efficiency mitigated part of the weakness and stabilized gross profits/normalised EBITDA at USD905/528mn with respective margins standing at 51.5%/30% (vs 51.6%/30% for 2Q23). NP declined by 9% yoy to USD255mn.
- APAC East/West diverged. The former saw a 21% yoy sales growth underpinned by 15%/5% ASP/volume increase. S. Korea delivered an all-round performance with price uptake and market share gain. On the other hand, APAC West was dragged by China in which organic sales decreased by 15% with ASP/volume down by 5%/10% respectively.

Earnings changes

- We trim our 2024-26E revenue by 8-20% to reflect the 2Q results and hence a weaker domestic outlook for the brand.
- Factoring input cost tailwinds, we cut our GP by a lesser 7-19%. We trim c.21-30% of our NP on a higher opex ratio.

Valuation and risks

Upon transfer of coverage, our new TP of HKD10.1 (from previously HKD13.1) is based on roll-forwarded 10.0x mid-25E EV/EBITDA (from previously end-24E 21.0x P/E), which represents 1.5SD below historical average (unchanged). **Upside risks:** price hike announcement, better than expected restocking momentum in the next few months; **Downside risks:** Rainy weather, unfavorable FX impacts.

Financials

Year ended 31 Dec (USD mn)	2022	2023	2024E	2025E	2026E
Revenue	6,478	6,856	6,724	7,111	7,433
yoy growth	-4.6%	5.8%	-1.9%	5.7%	4.5%
Attributable net profit	913	852	835	903	970
Adj. EPS (USD)	0.07	0.06	0.06	0.07	0.07
yoy growth	-4.0%	-6.9%	-2.0%	8.1%	7.4%
P/E	17.6x	18.9x	19.3x	17.8x	16.6x
Net debt (cash)/ equity	-20.6%	-25.9%	-27.6%	-30.9%	-34.4%

Sources: Company data, CMS (HK) estimates; share price as of Aug 1, 2024

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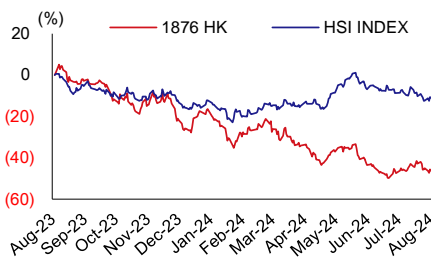
WHAT'S NEW

Earnings risks for 2H remains on the downside and vulnerable to the likely lapse of peak season sales in China, when a strong Korea cannot fully mitigate. We d/g Bud APAC to HOLD, with a c.14% below-consensus net profits estimate for 2024E.

▼ **HOLD**

Previous	BUY
Price	HKD9.39
12-month Target Price (Potential up/downside)	HKD10.1 (+6.6%)
Previous	HKD13.1

Price Performance



Source: Bloomberg; share price as of Aug 1, 2024

%	1m	6m	12m
1876 HK	4.0	(30.2)	(50.3)
HSI	9.4	4.2	(9.8)

Sector: Consumer

Hang Seng Index (Aug 1, 2024)	17,305
HSCEI (Aug 1, 2024)	6,086

Key Data

52-week range (HKD)	8.68 - 19.04
Market cap (HKD mn)	124,356
Avg. daily volume (mn)	11.89
BVPS (USD)	0.81

Shareholding Structure

AB InBev	87.22%
No. of shares outstanding (mn)	13,243
Free float	12.78%

Source: Bloomberg

Related Research

1. China Beer Sector - Heineken sales rebounded in July; full-year target remains challenging for distributors (NEUTRAL) (Jul 26, 2024)
2. CR Beer (291 HK) - Soft 1H priced-in; all eyes on potential 3Q recovery (BUY) (Jul 17, 2024)

Key conference call takeaway

- **Cost and margin:**
 - Cost management initiatives led the 0.6% decline of COGS per hectare litre.
 - The twelve month hedging policy exempted the Company from suffering the uncertainty of commodity prices, and management expects the commodity cost to be in similar conditions to the commodity price in 2H23.
- **China:**
 - Bud APAC expects to have a more normal comparing base in 2H24 versus in 1H24, where the high base was resulting from the post-Covid channel reopenings in prior 1H, adverse weather in Southern China and also the soft consumer confidence in 1H24.
 - The Company is very committed to China and will continue to expand geographically across China and expand its digital solutions with BEES; remained optimistic about China's premiumization in the long-term, and believes beer as a consumer good will remain resilient overall during trade-down.
 - Cooperation with Swire in Hubei and Anhui started to show a synergy effect, that the Company has grown market share in the premium/premium+ segment, and also implying more opportunities for channel expansions to come in the way, and the partnership could bring financial benefits in the future.
- **South Korea:**
 - The Company outperformed the industry in 2Q, with the market shares climbing back above the 2018 level before competitors launched products during these years.
 - Stella Artois which offers a higher margin launched earlier in 2024 has grown market shares in both in-home and on-premise channels.
 - Margin driver in 2H: price-hike/premiumization remained to be the primary driver (the Company increased the price by 6.9% for its core brand in since Oct 2023), followed by the operational efficiencies and the portfolio benefits.
- **India:** The Company has outperformed the market, with its premium beers accounting for 2/3 of the market shares in the country. India has become the fourth largest market for the Budweiser brand globally within parent company ABI. ASP in India is already at good levels, while the Company still sees further room for increasing through premiumization.

Key 2Q results data points

- **Volume** declined by 7.3% yoy 2Q24 impacted by a soft industry in China, partially offset by the strong performance in South Korea and India:
 - APAC West: declined by 7.2% in 1H24 and 9.0% in 2Q24
 - APAC East: increased by 1.3% in 1H24 and 6.0% in 2Q24
- **Revenue** decreased by 7.8% organically or 10.6% yoy on a reported basis in 2Q24, and **revenue per hl** declined by 0.5% yoy in 2Q24:
 - APAC West: organic revenue decreased by 7.8%/13.2% in 1H24/2Q24; revenue per hl down by 0.7%/4.6% in 1H24/2Q24
 - APAC East: organic revenue grew by 13.5%/21.2% in 1H24/2Q24; revenue per hl up by 12.1%/14.4% in 1H24/2Q24
- 2Q24 **normalized EBITDA** decreased by 6.2%, dragged down by the revenue decline; **EBITDA margin** was lifted by 53bps organically riding on the GPM expansion, which improved organically by 57bps in 2Q24:
 - APAC West: declined by 7.3% and 16.3% in 1H24/2Q24
 - APAC East: recorded a significant increase of 43.1%/69.6% in 1H24/2Q24

Figure 1: Earnings revision summary

USD mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	EY26E
Revenue	6,724	7,111	7,433	7,291	8,224	9,307	-7.8%	-13.5%	-20.1%
Gross Profit	3,429	3,655	3,865	3,697	4,190	4,766	-7.2%	-12.8%	-18.9%
EBIT	1,253	1,359	1,463	1,508	1,721	1,972	-16.9%	-21.1%	-25.8%
Net Profit	835	903	970	1,060	1,221	1,377	-21.2%	-26.0%	-29.5%
Adjusted Net Profit	915	983	1,050	1,060	1,221	1,377	-13.6%	-19.5%	-23.7%
GPM	51.0%	51.4%	52.0%	50.7%	50.9%	51.2%	0.3ppt	0.5ppt	0.8ppt
EBIT Margin	18.6%	19.1%	19.7%	20.7%	20.9%	21.2%	-2ppt	-1.8ppt	-1.5ppt
NPM	12.4%	12.7%	13.1%	14.5%	14.8%	14.8%	-2.1ppt	-2.1ppt	-1.7ppt
Adjusted Net Margin	13.6%	13.8%	14.1%	14.5%	14.8%	14.8%	-0.9ppt	-1ppt	-0.7ppt

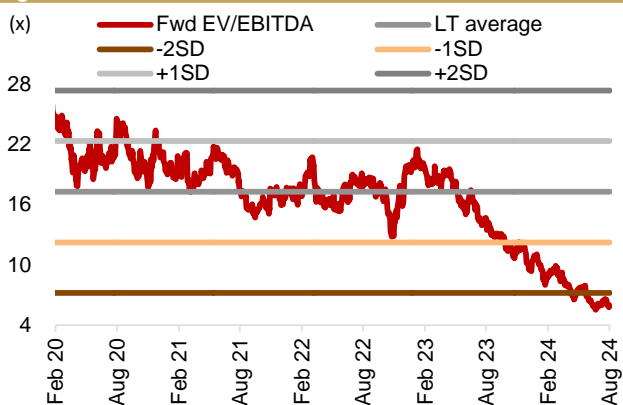
Sources: Company data, CMS (HK) estimates

Figure 2: CMS vs. consensus

USD mn	CMS			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,724	7,111	7,433	6,878	7,303	7,732	-2.2%	-2.6%	-3.9%
Gross Profit	3,429	3,655	3,865	3,522	3,803	4,075	-2.6%	-3.9%	-5.1%
EBIT	1,253	1,359	1,463	1,434	1,612	1,763	-12.6%	-15.7%	-17.0%
Net Profit	835	903	970	967	1,096	1,206	-13.6%	-17.6%	-19.5%
Adjusted Net Profit	915	983	1,050	967	1,096	1,206	-5.4%	-10.3%	-12.9%
GPM	51.0%	51.4%	52.0%	51.2%	52.1%	52.7%	-0.2ppt	-0.7ppt	-0.7ppt
EBIT Margin	18.6%	19.1%	19.7%	20.8%	22.1%	22.8%	-2.2ppt	-3ppt	-3.1ppt
NPM	12.4%	12.7%	13.1%	14.1%	15.0%	15.6%	-1.6ppt	-2.3ppt	-2.5ppt
Adjusted Net Margin	13.6%	13.8%	14.1%	14.1%	15.0%	15.6%	-0.4ppt	-1.2ppt	-1.5ppt

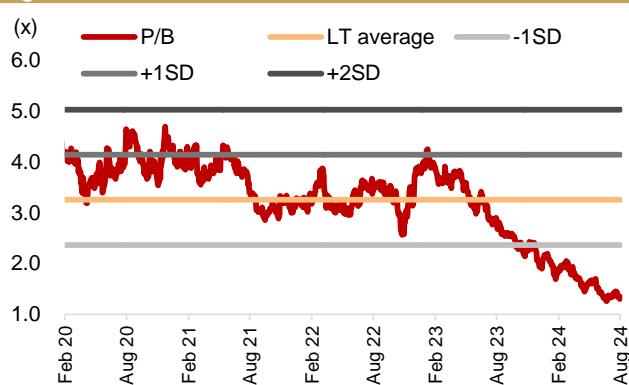
Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 3: Forward EV/EBITDA



Sources: Bloomberg, CMS (HK)

Figure 4: Historical P/B



Sources: Bloomberg, CMS (HK)

Financial statement

Balance Sheet

USD mn	2022	2023	2024E	2025E	2026E
PP&E	3,181	2,986	2,863	2,706	2,515
Goodwill	6,624	6,435	6,435	6,435	6,435
Intangible asset	1,605	1,572	1,580	1,587	1,592
Investment in associates	227	210	210	210	210
Other non-current assets	753	772	772	772	772
Non-current assets	12,390	11,975	11,860	11,710	11,524
Inventory	488	444	430	451	466
Trade and other receivables	401	419	419	443	463
Cash and cash equivalents	2,458	3,141	3,368	3,816	4,295
Other current assets	259	255	255	255	255
Current assets	3,606	4,259	4,472	4,964	5,478
Total assets	15,996	16,234	16,332	16,675	17,002
Trade and other payables	1,944	1,997	1,934	2,028	2,094
Short term loans	147	237	237	237	237
Consigned packaging and contract liabilities	1,405	1,456	1,456	1,456	1,456
Other current liabilities	919	959	959	959	959
Current liabilities	4,415	4,649	4,586	4,680	4,746
LT loan	77	97	97	97	97
Other non-current liabilities	671	638	638	638	638
Non-current liabilities	748	735	735	735	735
Total liabilities	5,163	5,384	5,321	5,415	5,481
Share Capital	6,442	6,114	6,114	6,114	6,114
Retained earnings	4,322	4,671	4,805	5,023	5,253
Non-controlling interests	69	65	92	122	154
Total equity	10,833	10,850	11,012	11,260	11,521
Total equity and liabilities	15,996	16,234	16,332	16,675	17,002

Cashflow Statement

USD mn	2022	2023	2024E	2025E	2026E
Net profit	913	852	835	903	970
Finance Costs	0	10	20	20	20
D&A	-671	-634	-659	-647	-683
Changes in OWC	-151	5	-49	49	31
Income tax paid	-334	-447	-438	-474	-509
Others	1,820	2,025	1,716	1,778	1,887
CF from operating activities	1,577	1,811	1,425	1,629	1,716
Capital expenditure	-494	-498	-497	-497	-497
Proceeds from asset disposal	44	62	0	0	0
Acquisition of business/subsidiaries	-8	-8	0	0	0
Others	18	-3	0	0	0
CF from investing activities	-440	-447	-497	-497	-497
Dividend paid	-432	-529	-701	-685	-741
Equity financing	-15	-85	0	0	0
Debt financing (repaid)	-48	28	0	0	0
Others	-5	-35	0	0	0
CF from financing activities	-500	-621	-701	-685	-741
Net cash flow	637	743	227	447	479

Profit & Loss

USD mn	2022	2023	2024E	2025E	2026E
Revenues	6,478	6,856	6,724	7,111	7,433
Cost of Sales	-3,238	-3,403	-3,295	-3,456	-3,568
Gross profits	3,240	3,453	3,429	3,655	3,865
Other net income	141	107	116	116	116
Distribution exp	-527	-520	-518	-540	-565
Selling & marketing exp	-1,151	-1,201	-1,210	-1,280	-1,338
Admin expense	-442	-470	-484	-512	-535
Operating profits	1,260	1,289	1,253	1,359	1,463
Non-recurring expenses	-1	-80	-80	-80	-80
Finance costs	0	10	20	20	20
Earnings from equity interests	23	28	28	28	28
Profit before tax	1,283	1,327	1,301	1,407	1,511
Income tax expense	-334	-447	-438	-474	-509
Net profit	949	880	863	933	1,002
Non-controlling interest	36	28	27	30	32
Attributable net profit	913	852	835	903	970
Diluted EPS (USD)	0.07	0.06	0.06	0.07	0.07
Div per share (USD)	0.04	0.05	0.05	0.06	0.06

Financial Ratio

	2022	2023	2024E	2025E	2026E
yoy growth rate					
Revenue	-4.6%	5.8%	-1.9%	5.7%	4.5%
Gross Profit	-11.4%	6.6%	-0.7%	6.6%	5.8%
Operating profit	-9.2%	2.3%	-2.8%	8.4%	7.7%
Net profit	-3.9%	-6.7%	-2.0%	8.1%	7.4%
EPS	-4.0%	-6.9%	-2.0%	8.1%	7.4%
Profitability					
Gross margin	50.0%	50.4%	51.0%	51.4%	52.0%
Operating margin	19.5%	18.8%	18.6%	19.1%	19.7%
Net margin	14.1%	12.4%	12.4%	12.7%	13.1%
Liquidity					
AR days	23.3	22.7	22.7	22.7	22.7
Inventory days	55.0	47.6	47.6	47.6	47.6
AP days	219.1	214.2	214.2	214.2	214.2
Cash conversion cycle	-140.8	-143.8	-143.8	-143.8	-143.8
Cash flow & leverage					
Free cash low	1,083	1,313	928	1,132	1,219
Net debt to equity	-20.6%	-25.9%	-27.6%	-30.9%	-34.4%
Dividend payout ratio	54.7%	82.0%	82.0%	82.0%	82.0%
Dividend yield	2.7%	3.8%	3.1%	3.6%	4.1%
Return analysis					
ROE	8.4%	7.9%	7.6%	8.0%	8.4%
ROA	5.7%	5.2%	5.1%	5.4%	5.7%
Valuation ratios					
P/E	17.6x	18.9x	19.3x	17.8x	16.6x
P/B	1.5x	1.5x	1.5x	1.4x	1.4x

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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