

China Resources Enterprise (0291.HK)

Buy

Equity Research

Strong ASP and sweetened offer from CRH drives re-rating; Buy

What's changed

We attended CRE's analyst briefing post 1Q15 results and the revised offer for its non-beer assets. **Key takeaways:** 1) CR Snow saw strong ASP growth in April similar to 1Q15 (5% YoY) and positive YoY volume growth. FY2015 beer sales growth was guided at 5-10% with two-thirds coming from ASP and one-third from volume growth; 2) CR Snow expects steady margin for FY15 despite strong ASP given slightly higher packaging cost for premium products as well as higher SG&A – we forecast 50bps EBITDA margin improvement to 13.1% in 2015E; 3) Kingway plants are still loss-making but CR Snow has begun utilising its spare capacity to produce Snow brand and share Kingway's distribution network in South China. We raise CR Snow's NPAT by 1-3% for 2015-17E on higher ASP and better margin.

Implications

Retain Buy. The current share price of HK\$25.80 implies 12.8x 2016E EV/EBITDA for CR Snow, a 20% discount to Tsingtao's 16x. Over the next few years, we see CR Snow delivering strong sales and margin momentum through increased mix towards mid-high end products, as well as realization of scale benefits (eg lower depreciation, lower tax). We forecast 8% topline CAGR (4% from ASP), and 11%/16% EBITDA/NPAT CAGR for 2014-16E. The HK\$10bn loan facility granted by parent company CRH as part of the revised proposal also arms CRE with more available funds for potential M&A. In our SOTP, CR Snow is valued at HK\$16.2/sh (from HK\$15.7/sh) and we incorporate a higher special dividend (HK\$12.3 vs. HK\$11.5/share prev.) to derive our revised 12m TP of HK\$28.50.

Valuation

We value CRE's beer division at an unchanged 15X FY16 EV/EBITDA, a 15% premium to its peer Tsingtao's 13X given a more positive outlook.

Key risks

Failure to secure the disposal approval; lower than expected beer sales growth; higher SG&A expense ratio due to competition in peak season.

INVESTMENT LIST MEMBERSHIP

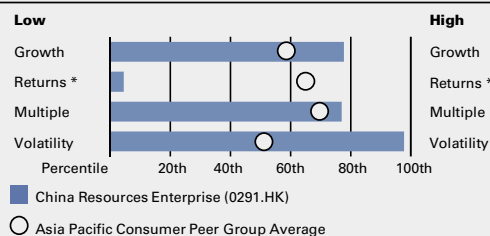
Asia Pacific Buy List

Coverage View: Neutral

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Investment Profile

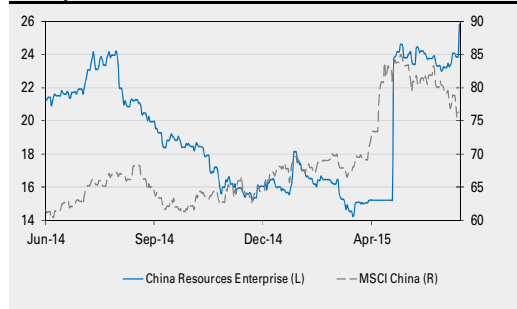


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK\$)	25.80
12 month price target (HK\$)	28.50
Market cap (HK\$ mn / US\$ mn)	62,166.3 / 8,019.3
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
EPS (HK\$) New	(0.07)	0.00	0.33	0.64
EPS revision (%)	0.0	NM	2.3	0.6
EPS growth (%)	(108.4)	102.2	22,355.2	91.1
EPS (dil) (HK\$) New	(0.07)	0.00	0.33	0.64
P/E (X)	NM	NM	77.5	40.5
P/B (X)	1.0	1.3	1.3	1.2
EV/EBITDA (X)	13.4	13.5	11.4	9.8
Dividend yield (%)	1.3	1.0	0.9	1.1
ROE (%)	(0.3)	0.0	1.6	3.1
CROCI (%)	3.2	4.0	4.6	5.3

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	72.5	69.5	21.7
Rel. to MSCI China	53.9	39.4	(1.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/18/2015 close.

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Exhibit 1: We raise CRE beer NPAT by 3%/2%/1% respectively for 2015-17E
 CRE new vs old estimates

China Resources Enterprise (291.HK)

HKD mn

Divisional P/L	2013		2014		FY2015E			FY2016E			FY2017E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Gross Revenue													
Beer	32,994	34,482		36,785	37,039	0.7%	39,956	40,222	0.7%	42,793	43,073	0.7%	
Non-beer	113,419	134,382		146,439	146,438	(0.0%)	153,245	153,245	(0.0%)	161,315	161,314	(0.0%)	
Core External Revenue	146,413	168,864		183,224	183,477	0.1%	193,201	193,467	0.1%	204,108	204,387	0.1%	
EBITDA													
Beer	4,415	4,353		4,725	4,853	2.7%	5,191	5,324	2.6%	5,606	5,745	2.5%	
Non-beer	4,153	2,195		2,684	2,684	0.0%	3,790	3,790	0.0%	4,908	4,908	(0.0%)	
Core EBITDA	8,568	6,548		7,409	7,537	1.7%	8,981	9,114	1.5%	10,514	10,653	1.3%	
							0	11%					
Attributable NPAT													
Beer	943	761		861	885	2.8%	1,012	1,031	1.8%	1,159	1,166	0.6%	
Non-beer	699	(1,555)		(879)	(881)	0.2%	(227)	(228)	0.3%	367	368	0.3%	
Recurring NPAT	1,642	(794)		(18)	4	(119.5%)	785	803	2.3%	1,525	1,534	0.6%	
YoY Growth (%)													
Revenues													
Beer	17.6%	4.5%		6.7%	7.4%		8.6%	8.6%		7.1%	7.1%		
Group Core Revenues	16%	15%		9%	9%		5%	5%		6%	6%		
EBITDA													
Beer	15.5%	(1.4%)		8.5%	11.5%		9.9%	9.7%		8.0%	7.9%		
Group Core EBITDA	13.2%	(23.6%)		13.2%	15.1%		21.2%	20.9%		17.1%	16.9%		
Attributable NPAT													
Beer	14.6%	(19.3%)		13%	16%		18%	17%		14%	13%		
Group Recurring NPAT	7.5%	(148.4%)		nmf	nmf		nmf	nmf		94%	91%		
Margins													
EBITDA													
Beer	13.4%	12.6%		12.8%	13.1%	0.3%	13.0%	13.2%	0.2%	13.1%	13.3%	0.2%	
Group Core EBITDA	5.9%	3.9%		4.0%	4.1%	0.1%	4.6%	4.7%	0.1%	5.2%	5.2%	0.1%	
Attributable NPAT													
Beer	2.9%	2.2%		2.3%	2.4%	0.0%	2.5%	2.6%	0.0%	2.7%	2.7%	(0.0%)	
Group Total	1.1%	(0.5%)		(0.0%)	0.0%	0.0%	0.4%	0.4%	0.0%	0.7%	0.8%	0.0%	

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 2: Our new SOTP based 12-month TP is HK\$28.5

SOTP valuation

SOTP valuation (HK\$m)	CRE % equity interest	Attributable 2016E EBITDA		New value Based on 2016E		Old value Based on 2015E		Per share value(HK\$)		Change
		New	Old	New	Old	New	Old			
Beer enterprise value	51%	2,715	2,662	40,731	39,714	16.8	16.4	3%		
Beer attributable net debt/(cash)				1,446	1,767	0.6	0.7	-18%		
Beer equity value				39,285	37,947	16.2	15.7	4%		
Non-beer equity value: Retail, Beverage, Food, Property etc.	various			29,783	27,846	12.3	11.5	7%		
Total equity value				69,068	65,793	28.5	27.2	5%		
Shares outstanding (mn)				2,421						
Target Price (HK\$)				28.5	27.2			5%		

Source: Goldman Sachs Global Investment Research.

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Reg AC

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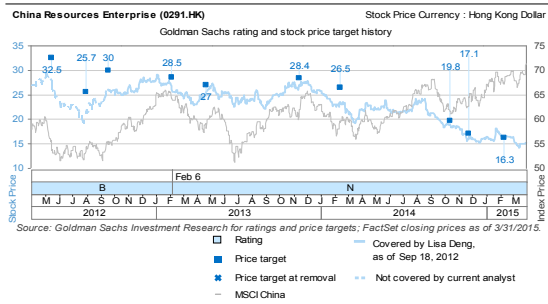
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