

Company Report: China Resources Beer (00291 HK)

公司报告: 华润啤酒 (00291 HK)

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Selling Price Rise but Fair Valuation, "Neutral"

售价提升但估值合理, "中性"

- **Beer selling prices rose in January 2018.** Numerous news reports indicated that domestic beer breweries including CRB (00291 HK), Tsingtao Brew (00168 HK) and Yanjing Brewery (000729 CH) had raised beer prices at the beginning of 2018. CRB made an announcement admitting the price rise and explained that the main reason was to offset cost hikes.
- **Profitability improvement can be expected in the long term but pressure remains in the short term.** China's total beer production volume was not favorable in 2017 with 0.7% YoY decline and we expect moderate sales volume growth for the Company during the period. In addition, we believe that more brewery plants will close in 2017 and 2018, which will result in a larger amount of impairment losses. However, we think the measure will help improve long-term profitability.
- **We maintain the investment rating as "Neutral" but raise TP to HK\$27.94.** We revise down earnings in 2017 by 13.3% but revise up 2018 and 2019 by 1.8% and 6.7%, respectively. We think the Company's current valuation is fair and new TP represents 20.4x 2017 EV/EBITDA and 16.5x 2018 EV/EBITDA, respectively. Upside risks include M&As and lower-than-expected raw material costs; downside risks include fiercer competition.
- **2018年1月啤酒销售价格上涨。**媒体报道国内啤酒厂包括华润啤酒(00291 HK)、青岛啤酒(00168 HK)和燕京啤酒(000729 CH)在2018年初提升售价。华润啤酒公告承认涨价并表示提价的主要原因是为了对冲成本上升。
- **长期利润率提升可期但短期压力仍在。**中国啤酒产量在2017年同比倒退0.7%, 难言理想。我们认为期内公司的销量增长也较为平稳。此外, 我们认为2017年和2018年会有更多的酒厂关闭, 并会带来更多的减值损失。然而, 长期来看我们认为该举措能提升公司的盈利能力。
- **我们维持公司评级为"中性"但上调目标价至27.94港元。**我们下调2017年盈利预测13.3%但上调2018年和2019年盈利预测1.8%和6.7%。我们认为目前公司估值合理, 新目标价分别对应20.4倍2017年EV/EBITDA和16.5倍2018年EV/EBITDA。上行风险包括收购兼并以及低于预期的材料成本, 下行风险包括更为激烈的竞争。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP目标价:

HK\$27.94

Revised from 原目标价:

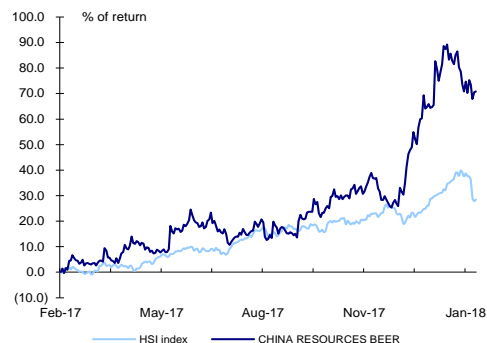
HK\$20.70

Share price 股价:

HK\$29.200

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(8.8)	25.7	68.2
Rel. % to HS Index 相对恒指变动 %	(4.5)	22.6	41.4
Avg. Share price(HK\$) 平均股价 (港元)	29.9	26.9	21.5

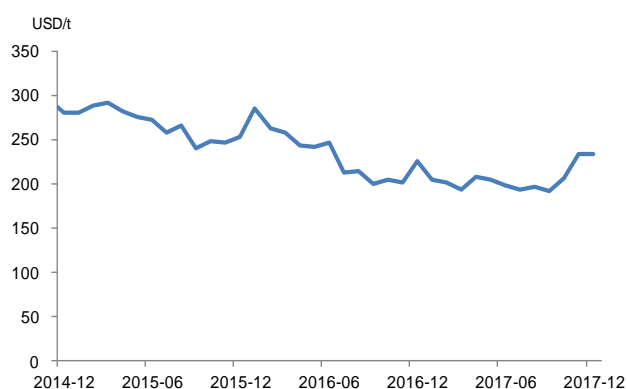
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2015A	27,959	1,219	0.252	4.6	97.0	0.252	97.0	10.076	41.2	3.5
2016A	28,694	629	0.219	(13.1)	119.4	0.219	119.4	0.080	0.3	3.4
2017F	30,145	1,553	0.479	118.7	49.4	0.479	49.4	0.191	0.8	8.5
2018F	32,198	2,146	0.662	38.2	35.7	0.662	35.7	0.265	1.1	10.9
2019F	34,125	2,458	0.758	14.5	31.2	0.758	31.2	0.303	1.3	11.6
Shares in issue (m) 总股数 (m)				94,730.0	Major shareholder 大股东				CRH beer ltd 51.7%	
Market cap. (HK\$ m) 市值 (HK\$ m)				2,766,116.0	Free float (%) 自由流通比率 (%)				42.9	
3 month average vol. 3 个月平均成交股数 ('000)				4,293.6	FY18 Net gearing (%) FY18 净负债/股东资金 (%)				1.0	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				21.200 / 14.460	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				30.0	

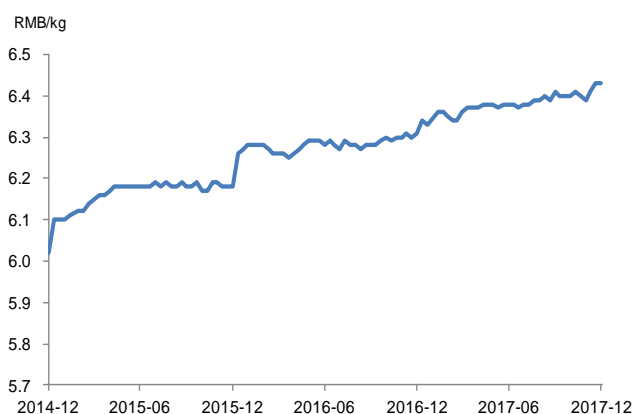
Source: the Company, Guotai Junan International.

Beer prices rose among main brands in China including China Resources Beer ("CRB" or "the Company"), Tsingtao Brew (00168 HK) and Yanjing Brewery (000729 CH). Press reports indicated that several brewery enterprises implemented substantial price increases from January 2018. CRB admitted the price increase in an announcement stating rising prices of raw materials, packaging materials, labor and other costs as the main reasons. Also, Tsingtao Brew made an announcement saying that price rises were limited to certain areas within certain products and the average increase rate would be no more than 5%.

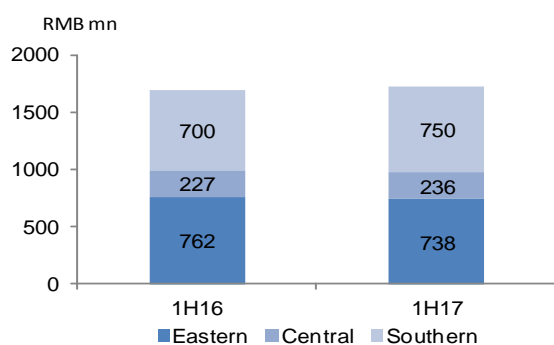
Price adjustments to offset the climb in costs. According to the Company, CRB raised prices of 9 products, including Snow Brave the World Series and Snow Draft Beer, which are mid-end to high-end products and core competitive products. The surge in raw material costs is a key reason for the price adjustment. Imported malt prices experienced rapid growth in 2H17, increasing from US\$198 per ton to US\$234 per ton, up 17.8% HoH. Packaging material prices including aluminum and fiberboard also reached high levels in 2H17. In addition, environmental protection tax implemented in 2018 is expected to further erode profitability of beer companies. Thus, we believe that CRB's gross margin may have been negatively affected by the cost hikes in 2017 but will see strong improvement supported by price rise and product mix upgrades in 2018 and 2019.

Figure-1: Imported Malt Price in China


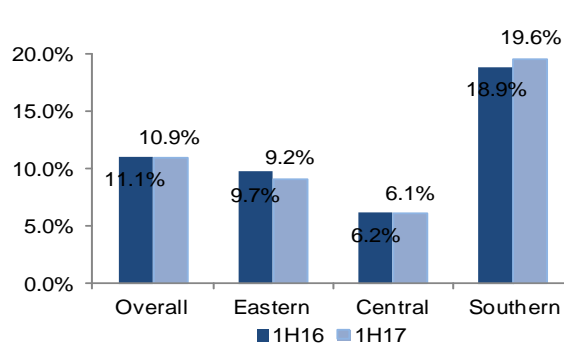
Source: China Customs.

Figure-2: Average Rice Price of 50 Cities in China


Source: National Bureau of Statistics of China.

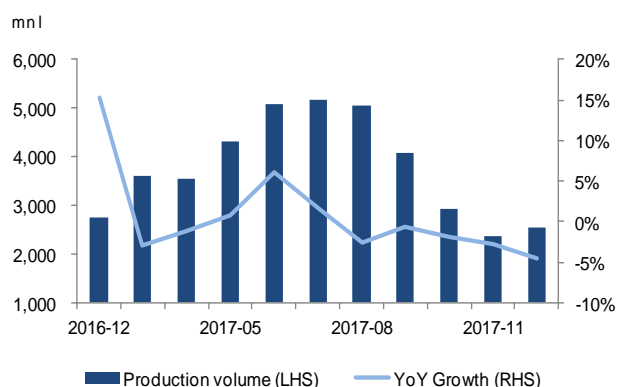
Figure-3: Aluminum Price in China


Source: Ministry of Commerce of the PRC.

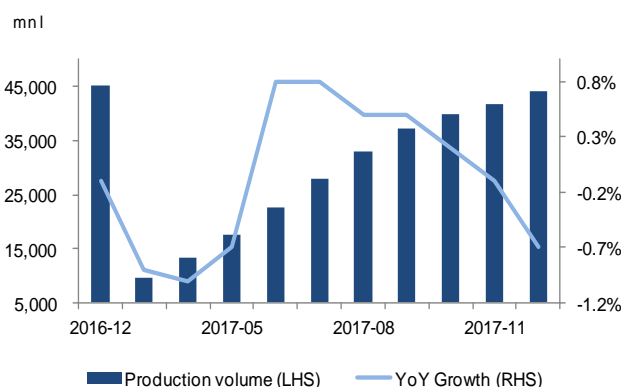
Figure-4: Average Fiberboard Price in East China


Source: Risi-umpaper

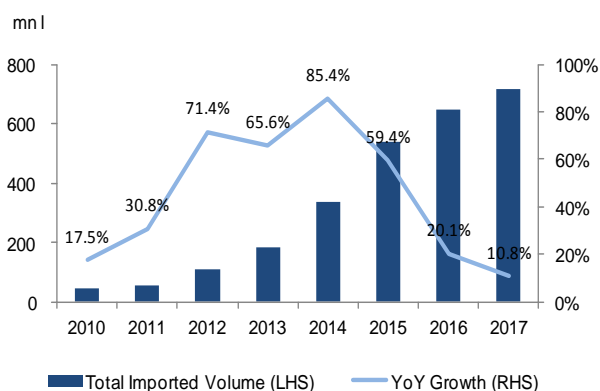
Total beer consumption remained weak in China in 2017. According to the National Bureau of Statistics of China, total beer production volume dropped by 0.7% YoY to 44,015 million liters in China and the production volume declined for the fourth consecutive year. Looking at monthly production data, production volume recorded continuous decrease after short increases during May-July. On the other hand, imported beer still achieved double-digit growth in volume of 10.8% in 2017, outpacing total beer consumption volume despite that the growth rate has narrowed. We believe that per capita beer consumption in China is at a relatively high level and do not expect fast volume growth in the coming years. Instead, product mix upgrades and price rises will be a main revenue driver for the China's beer industry.

Figure-5: Monthly Beer Sales Volume and YoY Growth in China


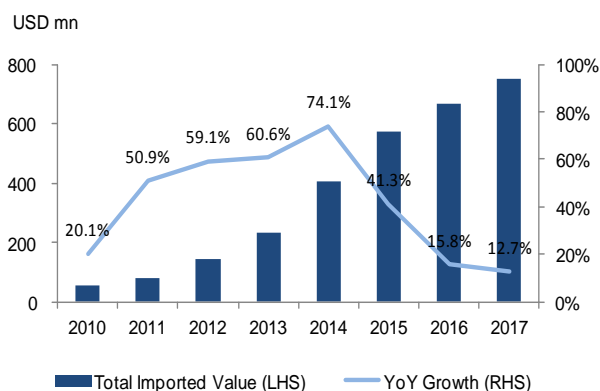
Source: National Bureau of Statistics of China.

Figure-6: Accumulated Beer Sales Volume and YoY Growth in China


Source: National Bureau of Statistics of China.

Figure-7: Imported Beer in China - By Sales Volume


Source: China Customs.

Figure-8: Imported Beer in China - By Sales Value


Source: China Customs.

Earnings Forecast Assumptions and Revisions

We revise down 2017 shareholders' profit by 13.3% and revise up 2018-2019 shareholders' profit by 1.8% and 6.7%.

The Company's beer sales volume growth in 1H17 outperformed the industry and recorded decent results in the peak season in 2H17 despite a weaker 4Q. We maintain our whole year sales volume forecasts. We think that increase in raw material costs and packing costs would erode the Company's gross margin in 2017 but selling price rise is expected to offset the negative impact and improve profitability in 2018 and 2019. In addition, the collective price rise among the main beer breweries in China shows a good signal that price competition has been alleviated and profitability has become a focus in the industry. However, we expect brewery optimization to continue in 2017 and 2018 and will record one-off impairment loss in the short term. In 2016, the Company closed two small plants with impairment loss of around RMB460 million and the impairment is expected to be a larger amount in 2017 and 2018 with more plant closures. Thus we cut 2017 net profit by 13.3% to RMB1,553 million and raise 2018-2019 forecasts by 1.8% and 6.7% to RMB2,146 million and RMB 2,458 million, respectively, taking account of the price rise factor.

Table-1: Key Figure Revisions for CRB

RMB million	New			Old			Change		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Sales volume (mn kl)	12.1	12.4	12.8	12.1	12.4	12.8	0.0%	0.0%	0.0%
YoY%	3.2	2.7	2.7	3.2	2.7	2.7	0 ppt	0 ppts	0 ppts
ASP (RMB/kl)	2,493	2,593	2,676	2,493	2,566	2,640	0.0%	1.1%	1.4%
YoY%	1.8	4.0	3.2	1.8	2.9	2.9	0 ppt	110 ppts	30 ppts
Revenue	30,145	32,198	34,125	30,145	31,857	33,666	0.0%	1.1%	1.4%
Gross profit	9,978	11,269	12,046	9,918	10,545	11,244	0.6%	6.9%	7.1%
EBITDA	3,829	4,677	5,183	4,130	4,622	4,980	-7.3%	1.2%	4.1%
Operating profit	2,049	2,805	3,189	2,351	2,750	2,986	-12.8%	2.0%	6.8%
Shareholders' profit	1,553	2,146	2,458	1,790	2,108	2,304	-13.3%	1.8%	6.7%
EPS (RMB)	0.479	0.662	0.758	0.552	0.650	0.710	-13.3%	1.8%	6.7%
Gross margin	33.1%	35.0%	35.3%	32.9%	33.1%	33.4%	0.1 ppts	1.9 ppts	1.9 ppts
EBITDA margin	12.7%	14.5%	15.2%	13.7%	14.5%	14.8%	-1.0 ppt	0 ppts	0.4 ppts
Operating margin	6.6%	8.5%	9.2%	7.6%	8.5%	8.8%	-1.0 ppt	0.1 ppts	0.5 ppts
Net margin	5.2%	6.7%	7.2%	5.9%	6.6%	6.8%	-0.8 ppts	0.1 ppts	0.4 ppts

Source: Guotai Junan International.

Maintain investment rating as “Neutral” but raise TP to HK\$27.94. CRB's stock price experienced a surge after reports of selling price rise. We are positive on the Company's long-term profitability and improving operating efficiency. However, we think the current valuation is fair and the bottom line in the short term may stay below market consensus. Thus, we maintain our rating as “Neutral” but raise TP to HK\$27.94, presenting 49.6x 2017 PER, 35.9x 2018 PER, 20.4x 2017 EV/EBITDA and 16.5x 2018 EV/EBITDA. Upside risks include M&As and lower-than-expected raw material costs; downside risks include stronger competition.

Table-2: Peers Comparison

Company	Stock Code	Currency	Last price	PER(x)				EV/EBITDA				PBR(x)	ROE (%)	D/Y (%)	Market Cap
				16A	17F	18F	19F	16A	17F	18F	19F	17F	17F	17F	HKD mil
HK - Listed Brewery															
Tsingtao Brewery	168 HK	HKD	41.900	46.4	31.0	28.3	25.4	12.8	15.0	13.6	11.9	2.7	8.7	1.2	59,474
China Resources Beer	291 HK	HKD	29.200	113.5	44.9	33.9	28.7	14.0	20.7	16.3	13.9	4.0	9.0	0.6	94,730
Simple Average				80.0	37.9	31.1	27.1	13.4	17.8	14.9	12.9	3.4	8.9	0.9	
Weighted Average				87.7	39.5	31.8	27.4	13.5	18.5	15.3	13.1	3.5	8.9	0.8	
PRC - Listed Brewery															
Tsingtao Brewery	600600 CH	CNY	37.320	48.3	34.9	31.5	28.4	12.8	15.0	13.6	12.0	2.9	8.6	1.1	59,474
Beijing Yanjing Brewery	000729 CH	CNY	7.050	63.5	45.2	36.0	30.8	15.9	16.0	14.2	12.8	1.5	3.3	0.6	24,504
Chongqing Brewery	600132 CH	CNY	20.390	55.1	29.1	24.0	20.0	28.0	n.a.	n.a.	n.a.	7.9	26.2	2.6	12,169
Simple Average				55.7	36.4	30.5	26.4	18.9	15.5	13.9	12.4	4.1	12.7	1.4	
Weighted Average				53.1	36.8	31.7	28.0	15.5	15.3	13.8	12.3	3.2	9.5	1.2	
HK - Listed Staple															
Hengan Intl	1044 HK	HKD	73.250	21.1	19.0	17.2	16.0	12.0	12.4	11.3	10.3	4.5	24.6	3.4	88,353
Want Want China	151 HK	HKD	6.170	19.1	20.2	19.5	18.9	9.3	11.8	11.4	11.0	4.6	23.7	2.3	76,913
Tingyi	322 HK	HKD	15.200	62.0	40.9	32.6	28.7	8.6	11.8	10.4	9.6	3.8	9.6	1.3	85,373
China Mengniu Dairy	2319 HK	HKD	24.600	n.a.	33.2	23.5	19.4	53.1	17.8	13.9	11.9	3.4	10.3	0.7	96,613
Uni-President China	220 HK	HKD	6.760	41.1	26.9	22.8	20.3	9.0	9.0	7.9	7.0	1.8	7.0	1.1	29,199
Vinda International	3331 HK	HKD	15.380	25.7	29.2	24.2	19.8	11.9	12.8	11.3	9.9	2.1	8.0	1.2	18,367
China Foods	506 HK	HKD	3.850	21.5	37.4	24.1	19.5	11.1	7.9	6.9	6.0	1.6	12.0	10.1	10,769
Simple Average				31.8	29.5	23.4	20.4	16.4	11.9	10.4	9.4	3.1	13.6	2.9	
Weighted Average				34.1	28.7	23.3	20.6	20.3	13.1	11.4	10.3	3.7	15.5	2.0	
International Brewery															
Anheuser-Busch Inbev	ABI BB	EUR	84.050	129.1	24.8	20.1	18.0	19.8	14.6	13.3	12.3	2.9	11.2	3.8	1,638.9
Diageo Plc	DGE LN	GBp	2,474.000	27.6	23.3	21.4	19.8	20.5	18.4	17.1	16.0	6.6	28.3	2.7	665,095
Heineken Nv	HEIA NA	EUR	82.100	30.4	24.2	19.5	17.8	11.6	13.0	10.5	9.7	3.6	14.6	1.7	456,687
Asahi Group	2502 JP	JPY	5,405.000	27.8	20.2	17.4	16.5	10.8	14.5	11.9	11.0	2.6	13.6	1.3	190,079
Kirin Holdings	2503 JP	JPY	2,505.500	19.3	18.4	21.3	19.9	11.0	11.8	11.0	10.0	2.8	16.0	1.7	166,535
Carlsberg	CARLB DC	DKK	703.000	23.9	85.2	20.6	19.4	9.5	15.9	9.4	8.8	2.3	2.6	2.1	138,905
Simple Average				43.0	32.7	20.0	18.6	13.9	14.7	12.2	11.3	3.4	14.4	2.2	
Weighted Average				78.5	26.4	20.2	18.4	17.4	15.1	13.3	12.4	3.7	15.2	3.0	

Source: Bloomberg, Guotai Junan International.

14 February 2018

China Resources Beer 华润啤酒 (00291 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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