

# China Beer Industry

## Price hikes suggest rising competitiveness for domestic brands

Company	Ticker	Rec	Mkt. cap. (HKD bn)	Cur	Last Price		PER (x)		EV/EBITDA	PBR (x)	Dividend yield (%)	ROIC (%)	Price Rtn YTD % (%)
					(HKD)	PT (HKD)	1-yr fwd	2-yr fwd					
China Resources Beer (CRB)	291 HK	BUY	100.2	HKD	30.9	30.0	46.4	37.7	15.7	4.5	0.6	6.3	10.2
Tsingtao Brewery	168 HK	HOLD	67.3	HKD	46.6	31.4	36.9	34.3	12.2	3.1	0.9	5.9	15.6
Beijing Yanjing Brewery	000729 CH	NR	24.9	CNY	8.8	n.a.	13.8	12.0	13.5	1.6	13.5	(8.6)	3.5
Guangzhou Zhujiang Brewery	002461 CH	NR	13.3	CNY	12.0	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	0.5	2.4
Chongqing Brewery	600132 CH	NR	10.8	CNY	22.2	n.a.	30.9	25.7	13.6	9.3	13.6	(4.1)	4.5
Carlsberg	CARLB DC	NR	145.7	DKK	966.0	n.a.	13.8	12.0	9.7	2.4	9.7	(4.2)	13.1
Molson Coors Brewing	TAP US	NR	17.7	USD	82.0	n.a.	19.1	17.1	6.2	1.4	6.2	36.9	67.7
Constellation Brands	STZ US	NR	44.2	USD	225.8	n.a.	26.8	24.1	15.9	5.6	15.9	12.0	32.7
Heineken	HEIO NA	NR	24.0	EUR	83.3	n.a.	24.9	21.6	9.3	3.7	9.3	1.4	13.3
Anheuser-Busch	ABI BB	NR	192.0	EUR	95.1	n.a.	27.0	22.5	17.7	3.0	17.7	4.4	28.3
AMBEV	ABEV3 BZ	NR	339.8	BRL	21.6	n.a.	34.3	25.1	16.4	7.2	16.4	(2.4)	37.5
Asahi	2502 JP	NR	2,882.7	JPY	5,961.0	n.a.	23.0	19.5	12.9	2.6	12.9	1.0	8.0
Sapporo	2501 JP	NR	278.9	JPY	3,540.0	n.a.	22.8	20.7	10.3	1.7	10.3	1.5	3.7
Kirin	2503 JP	NR	2,634.6	JPY	2,882.5	n.a.	21.0	24.5	12.1	2.9	12.1	(5.5)	6.8
Thai Beverage	THBEV SP	NR	22.9	SGD	0.9	n.a.	19.4	18.1	18.2	4.3	18.2	(0.0)	14.8

Source: Company, Bloomberg, CSCI Research estimates

- According to media reports last Friday, local brewers such as China Resources (CR) Beer, Tsingtao and Yanjing Beer have raised their wholesale prices by 10-20% YoY in Jan-18. Accordingly, CR Beer has hiked the retail prices of 550ml beer for its major product series, including Snow Draft Beer and Brave the World Series, by an average of RMB2-10/unit, whereas the extent of price increase by Tsingtao was unclear.
- There was no official announcement of the price adjustment by most of the companies, but we believe the news source has likely come from the brewers' internal price revision announcements issued to their respective distributors. Nonetheless, it reaffirms our findings of last Dec that domestic beer brands have hiked prices of their mid-to-high end product series.
- Such price adjustment on an industry-wide basis, which has not happened in the past decade, indicates that the competitive landscape is currently undergoing a change in favour of the domestic brewers. Domestic brewers have struggled in the past due to the severe competition from foreign beer brands. However, over the past three years, domestic brewers have been catching up rapidly on product upgrades, and hence, we expect to see the gap between domestic and foreign beer brands to narrow further going forward. We continue to prefer CR Beer (291.HK, BUY) over Tsingtao Brewery (168.HK, HOLD) on the back of CR Beer's higher operating leverage.

**Price rises for domestic beers, versus a decline for major foreign beers.** Our channel checks in Dec of last year indicated that CR Beer has indirectly raised prices by more than 30% as compared to the level in Jul-17 (see Figure 1) since the launch of their "Concept Series" in Nov-17. Meanwhile, we found that Tsingtao has also mildly raised its mid-to-high end series, but saw a drop in the low-end Laoshan brand. Harbin beer raised prices by 31%-48% during the same period. We started to conduct channel checks again in Jan of this year and discovered that CR Beer's prices have remained stable whilst there have been a drastic 9%-33% increase in Tsingtao's prices across almost all of its product categories as compared to the levels in Dec last year. And as for foreign beer brands, the price trend of the majority of them has remained stagnant as of Jan this year since reducing their prices in Dec last year, with the exception of Asahi which has continued to see its prices on the rise.

**An inflexion point for domestic brewers with the change in competitive landscape starting in 2H17.** We are now seeing a gradual change in the competitive landscape of China's beer industry in favour of the domestic brewers leveraging on the ability to adopt an industry-wide price hike by the domestic brands, which we believe will alleviate their input cost pressure on expectation of greater margin upside going forward. Moreover, we anticipate closures of excess production capacity to continue in the foreseeable future, and thus subsequent improvement in asset return, which will drive up sectoral EBITDA leading to further re-rating of the entire sector in 2018, in our view. We continue to favour CR Beer (291.HK, BUY) over Tsingtao Brewery (168.HK, HOLD) on the back of CR Beer's higher operating leverage.

**SO Lai Shan, Jennifer**  
 (CE No.: AHA295)

jenniferso@csci.hk  
 +852 3465 5781

**Figure 1: Comparison of Retail Price Adjustment for Major Beer Brands in China**

Company	Brand	Brand in Chinese	Type	Volume (ml)/ unit	Retail price (RMB/ unit) Jul 2017	Retail price (RMB/ unit) Dec 2017	Price Adjustment % Dec 2017 Versus Jul 2017	Retail price (RMB/ unit) Jan 2018	Price Adjustment % Jan 2018 Vs. Dec 2017
<b>Local Brewery:</b>									
<b>China Resources Beer (CRB)</b>	Snow Premium	冰酷	Canned	330 x 24	1.8	2.1	17%	1.9	-10.0%
	Snow Refreshing	清爽	Canned	500 x 12	3.3	3.2	-0.3%	3.2	No changes
	Snow - Brave the World	勇闯天涯	Canned	500 x 12	4.5	4.5	No changes	4.5	No changes
	Snow - Brave the World - "Concept Series"	《概念系列》勇闯天涯	Canned	500 x 12	N/A	6.0	↑33% versus original series	6.0	No changes
	Snow Draft Beer	純生	Canned	500 x 12	7.2	7.3	1%	7.3	No changes
	Snow Draft Beer - "Concept Series"	《概念系列》純生	Canned	500 x 12	N/A	10.0	↑37% versus original series	10.0	No changes
	Snow Black Beer	黑啤 13.5度	Canned	500 x 12	N/A	10.8	N/A	10.8	No changes
	Snow Opera Mask	臉譜	Canned	500 x 12	25.0	15.0	-40%	15.0	No changes
	Snow Opera Mask - "Concept Series"	《概念系列》臉譜花旦	Canned	500 x 12	N/A	15.0	No changes	15.0	No changes
<b>Tsingtao Brewery</b>	Laoshan	崂山8度	Canned	330 x 24	2.3	2.0	-13%	2.7	33.3%
	冰醇	Canned	500 x 12	2.9	3.2	9%	3.5	10.5%	
	Dray Beer	純幹	Canned	330 x 24	2.5	2.4	-2%	3.3	37.9%
	Classic	經典	Canned	330 x 24	3.7	4.0	9%	4.0	-1.0%
			Canned	500 x 12	4.8	4.8	No changes	4.6	-5.2%
	Tsingtao Draft	純生	Canned	330 x 24	4.9	4.9	No changes	5.4	9.3%
			Canned	500 x 12	5.7	5.8	1%	5.8	No changes
	Whole Wheat White Beer	全麥白啤	Canned	500 x 12	N/A	7.1	N/A	8.2	15.3%
	Augeta	奧古特	Canned	500 x 12	N/A	9.0	N/A	10.0	11.1%
<b>Harbin Beer</b>	Harbin Beer	小麥王	Canned	330 x 24	2.0	2.6	31%	2.4	-9.3%
			Canned	500 x 18	2.9	4.3	48%	3.3	-23.3%
	White Beer	冰爽	Canned	500 x 24	3.3	3.3	0%	3.3	No changes
		冰純	Canned	500 x 18	N/A	3.8	N/A	4.9	29.0%
<b>Yanjing Beer</b>	Yanjing Fresh	清爽10度進口麥芽	Canned	330 x 24	4.0	2.8	-30%	2.5	-11.4%
	Pineapple apple juice beer	9度菠萝水果汁味听装啤酒	Canned	330 x 24	2.5	2.7	10%	2.6	-3.1%
	Original Beer	原裝啤酒12度精釀啤酒	Canned	330 x 6	N/A	6.0	N/A	6.0	No changes
<b>Foreign Brewery:</b>									
<b>Anheuser-Busch InBev</b>	Budweiser	百威 小麥醇正	Canned	500 x 18	5.5	5.5	No changes	6.1	10.1%
	Draft	百威 小麥純生	Canned	330 x 24	5.8	5.4	-7%	5.4	No changes
	Hoegaarden White Beer (Import beer)	福佳白啤酒	Bottle	330 x 6	8.3	8.0	-4%	8.3	4.2%
<b>Asahi</b>	Corona Extra (Import beer)	科羅娜啤酒 墨西哥原裝進口	Bottle	330 x 6	8.3	8.0	-4%	7.0	-12.1%
	Super Dry	超爽	Canned	330 x 24	4.1	5.8	42%	5.8	No changes
			Bottle	630 x 12	6.7	6.2	-8%	7.3	18.9%
	Draft Beer	清爽	Canned	330 x 24	4.0	4.0	No changes	4.0	No changes
			Canned	500 x 24	4.1	5.4	32%	5.4	No changes
<b>Heineken</b>	Dry Black	超爽黑啤	Canned	500 x 1	4.7	6.0	29%	7.3	22.2%
	Lager	喜力	Canned	500 x 24	7.5	7.5	No changes	7.5	No changes
			Bottle	330 x 6	7.4	7.0	-5%	7.0	No changes
			Bottle	330 x 24	8.6	8.7	1%	8.7	No changes
<b>Kirin</b>	Draft Beer	一番榨	Canned	500 x 24	7.0	6.2	-12%	6.2	No changes
			Canned	330 x 24	4.8	5.0	4%	4.4	-12.4%
<b>Carlsberg</b>	kronenbourg 1664 blanc White Beer	凱麥1664白啤酒	Bottle	330 x 4	11.9	12.5	5%	12.5	No changes
<b>Suntory</b>		清爽	Canned	330 x 24	2.2	2.2	No changes	2.2	No changes
		超爽	Canned	500 x 12	6.0	3.1	-49%	3.1	No changes
	Fine malt beer	純生	Canned	500 x 12	7.4	7.4	No changes	7.4	No changes
	Premium Brew	尊釀	Canned	500 x 8	12.3	12.3	No changes	12.3	No changes
<b>Pabst Brewing Company</b>	Blue Ribbon Extra Beer	藍帶 蔚華	Bottle	500 x 12	9.0	9.0	No changes	9.0	No changes
		北美淡爽	Canned	330 x 24	N/A	2.7	N/A	3.0	13.2%
		超純啤酒	Canned	330 x 6	N/A	2.0	N/A	2.0	No changes
<b>Kuliner</b>	Kuliner black beer (Import Beer)	古立特黑啤酒	Canned	500 x 24	5.8	5.0	-14%	4.1	-16.8%

Source: CSCI Research, tmall.com, JD.com.



## Research

**LIU Taisheng, Steven**  
TMT  
(852) 3465 5652  
stevenliu@csci.hk

**SO Lai Shan, Jennifer**  
Consumer  
(852) 3465 5781  
jenniferso@csci.hk

**CHAN Ka Yeung, Duncan**  
Commodity  
(852) 3465 5654  
duncanchan@csci.hk

**TIAN Yang**  
Automotive  
(852) 3465 5775  
tianyong@csci.hk

**SUN Lingxiao, Roger**  
Industrials  
(852) 3465 5785  
rogersun@csci.hk

**YAO Xue, Snowy**  
Utilities & Coal  
snowyyao@csci.hk  
+852 3465 5675

**SHEN Xiangfei, Thomas**  
(852) 3465 8689  
thomasshen@csci.hk

**XU Qiwen**  
(852) 3465 8690  
xuqiwen@csci.hk

## Institutional Sales & Trading

**XIANG Xinrong, Ron**  
(852) 3465 5633  
ronxiang@csci.hk

**HO Wen Hao, Jack**  
(852) 3465 5685  
jackho@csci.hk

**WANG Zhuo, Gary**  
(852) 3465 8655  
wangzhuo@csci.hk

**LEE Ying Ju, Rose**  
(852) 3465 5707  
roselee@csci.hk

**LI Jiageng, Mike**  
(852) 3465 5636  
mikeli@csci.hk

**XIA Tian**  
(852) 3465 5670  
xiatian@csci.hk

**XU Xiaowei, Vincent**  
(852) 3465 5795  
vincentxu@csci.hk

## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

<b>Buy</b>	12-month absolute total return: $\geq 10\%$
<b>Hold</b>	12-month absolute total return: $> -10\%$ but $< 10\%$
<b>Sell</b>	12-month absolute total return: $\leq -10\%$

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### China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852) 21809495

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