

## China Beer Industry

## Beer expert call takeaway: expecting premium growth to continue

Industry Overview

## Near-term softness vs. long-term premium outlook

We hosted a call with Mr. Jiang, a beer distributor in South China. The call highlighted the sector's near-term demand trend, shifting channel dynamics, competitive landscape, and premiumization outlook. While sales volume continued to be soft at the start of the year, the expert remained positive on premium growth in 2024. (Kindly note that the discussion was specific to the expert's region and may not represent nationwide trend).

## A slightly soft start to 2024

Industry sales volume remained relatively soft in January, similar to 4Q23, according to the expert. 1H23 enjoyed the fastest growth, followed by normalization in 3Q and slowdown in 4Q. For FY23, Tsingtao/Harbin/Bud/Chongqing had around +1.5%/+2%/+3%/+4.5% volume growth for the expert (though South China outperformed other regions in FY23 given more favorable weather pattern). Similar trends continued in Jan (LSD growth YoY off an easy base) but Feb could see volume decline on a more challenging comp (given pent-up demand last year). On-trade channels recovered sequentially, but still not yet back to pre-COVID level, with soft nightlife/restaurant demand amid challenging macro. Restaurant/nightlife/off-trade volume split went from 45%/15%/40% pre-COVID to 40%/10%/50% at the peak of COVID and to 43%/12%/45% in Jan 2024. Most beer companies target LSD% volume growth for 2024. Given soft sell-out, channel inventory has built up to around 2.8 weeks in Jan (seasonality-adjusted), higher than the 2 weeks during similar seasons previously. However, the expert expects inventory to normalize notably post-CNY.

## But premiumization still on track

Despite soft industry volume trend, the expert remains optimistic on premium growth trend. Premium growth was the strongest in 1H23 with volume +10-12%, driven by pent-up demand, on-trade recovery, and low base, followed by some normalization in 2H. The expert expects 6-7% premium volume growth in 2024 (slightly slower than 2023 but still outgrow flattish total industry volume). Premiumization is driven by low penetration (20%+ in China, vs. 35-40% in developed markets), structural shift in consumer behavior (young cohorts drinking less but drinking better) and supply-side support (as leading breweries prioritize resources in premium products). In addition, while night-life and high-end restaurant could be under some pressure, the expert still witnesses solid premium growth from off-trade, mass-market restaurant, e-Com and other new retail channels. Within premium, Bud APAC remains the largest with c.36% market share. It suffered share loss to local rivals during 2020-2021 but recovered some lost ground in 2023, with stabilizing performance. The expert does not foresee major changes to nationwide competitive landscape, though regional competition remains heated in the coastal region. In Guangdong, CRB's current presence remains concentrated (in eastern areas) and could potentially expand penetration after recent channel restructuring.

**Continues next page for more on channel investment and margin**

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## Acronyms

CNY: Chinese New Year

CRB: China Resources Beer

GPM: Gross profit margin

LSD: Low-single digit

NPM: Net profit margin

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## **Competition stepping up but spending largely rational**

Competition among leading brewers is still intense, but channel investment look to remain largely rational. Most players align their channel investment with the growth targets (keeping spending ratio largely stable). They also prioritize protecting channel margins, in order to strengthen distributor relationship and maintain channel advantages. GPM for distributors is around 10-14% on average. It is slightly higher for CRB (13-14%) than for BUD (10%) but CRB requires higher investment from distributors. Tsingtao increased their channel rebate after the video incident last October to strengthen distributor confidence, with distributor GPM currently at around 12%. Chongqing has the highest channel margin, but still see challenges in inventory shipment control. Stripping away operating expense and other cost, the overall NPM for beer distributors is around 5% on average in the expert's region. Meanwhile the expert does not foresee large-scale price hikes in 2024, though small-scale hikes in select regions or products are still possible.

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