

## Eastroc Beverage (605499.SS): 2024 Results First Take: In-line with prelim results; Fast ramp-up of non-energy-drink categories

On Mar 7, Eastroc announced 2024 full-year results, delivering total revenue/ net profits of Rmb15.84bn/3.33bn, up 41%/63% yoy, largely in line with the mid-point of revenue range of Rmb15.72bn-16.10bn/ NP range of Rmb3.15bn-3.45bn released in its preliminary results. In 4Q24, company achieved revenue/net profits of Rmb3,281mn/Rmb619mn, +25%/61% yoy (vs. 3Q24's 47%/78% yoy), vs. GSe Rmb3,771mn/Rmb599mn.

By product segment, Eastroc achieved revenue from energy drinks/ electrolyte water/ other drinks of Rmb13.3bn/1.5bn/1.0bn in 2024 (+28%/+280%/+103% yoy), with electrolyte water/other drinks sales mix up by 6.0pp/2.0pp yoy to 9.5%/6.5% of total, respectively. The overall GPM was up 1.7pp yoy to 44.8% in 2024 (slightly below GSe 45.1%), mainly driven by lower raw material prices. The 4Q24 GPM was down -1.0pp yoy to 43.9%, trending below 3Q24's 45.8% and GSe 45.1%. SG&A expense ratio was down 0.4ppt yoy to 20.0% in 2024, vs. GSe 20.4%, thanks to operating leveraging while partly offset by higher channel investments (mainly fridges). By end-2024, Eastroc recorded **83% yoy increase** in the contract liability, indicating higher prepayments from distributors and also higher sales discounts/ rebates booked during the period. **For 2025, Eastroc aims for 20%+ sales growth and 20%+ NP growth, while we also noted same targets were set for 2024.**

Company proposed a final dividend at DPS of Rmb2.5 (totaling Rmb1.3bn, +30% yoy) for 2024. Together with the interim dividend of Rmb2.5/share, for 2024, the total dividend payout ratio reached 69% (vs. 49%/56% in 2023/2022) with a dividend yield of 2.2%.

**The company will host investor briefings on Mar 10 at 10:00am HKT.** Key focus areas are: 1) sales/ margin outlook for 2025 lapping a solid base delivered last year; 2) industry trends and competitive landscape ahead, 3) geographical/ channel expansion strategies for energy drinks/ electrolyte water, 4) new product pipeline and product strategy, 5) capacity expansion and global expansion updates, among others.

**Revenue by segment:** 2024/4Q24 sales grew by 41%/25%, showing strong sales demand across categories: In 2024, the biggest category energy drinks grew 28% yoy to Rmb13.3bn, implying a 19% growth in 4Q24 (vs. 28% yoy in 3Q24). Electrolyte water, one of the fastest growth products, was up 280% yoy to

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Rmb1.5bn in 2024, and delivered Rmb284mn sales in 4Q24 (+101% yoy, vs. +300% yoy in 3Q24). Other drinks grew 103% yoy to Rmb1.0bn in 2024, implying a 58% yoy in 4Q24 (vs. 107% yoy in 3Q24).

**Operating update:** Company has equipped the retail terminal POS network with over 300k fridges by end-2024. By end-2024, the total production capacity reached 4.87mn tons per annum, vs. 3.35mn tons by end-2023.

**Overseas expansion:** To support its global expansion strategy, Company also announced its proposed plan of listing in Hong Kong Stock Exchange. In 2024, company launched energy drink products in the US, Malaysia and Korea, etc, and also announced subsidiary setup in Indonesia dated Dec 2024. We summarize the SEA growth potential for energy drinks in our initiation feedback.

**Profit margins:** In 4Q24, company delivered an overall GPM of 43.9%, down -1.0pp yoy or -1.9pp QoQ. By segment, the unit cost (per ton) for energy drinks was down -5.7% yoy due to lower raw material prices (esp. sugar), while that for other drinks was up 1.8% yoy likely due to product mix evolution. The operating profit was up 60%/ 43% yoy in 2024/ 4Q24, with the OPM up 2.9pp/2.5pp yoy (vs. 3Q24's +5.5pp yoy). The selling expense ratio was down 0.4pp/1.5pp yoy in 2024/4Q24 on operating leveraging and admin expense ratio declined by 0.7pp/ 0.6pp yoy respectively.

Net profit grew by 63% in 2024, implying 61% yoy in 4Q24 (vs. 78% yoy 3Q24). The NP margin was up 2.9pp yoy in full-year 2024, higher than the 1.2pp increases in 2023, mainly driven by further GPM improvement from commodity tailwinds, and savings in opex from operating leveraging. The effective tax rate was 19.0% in 2024, lower yoy by 1.9pp and below GSe by 0.9pp.

**Investment thesis:** We initiated our coverage of Eastroc dated Dec 2024, where we assign Eastroc a Buy-rating as we believe Eastroc will be able to maintain its competitive edge in the energy drink market- its core, cash-cow business- on top of its 4.0mn POS nationwide coverage/ c.300k fridges sent into retail terminals (end-2024), given the favorable value-for-money consumption trends, which should allow it to fund more emerging product ramp-ups. Meanwhile, as one of the first movers applying digitalized tools for channel management and a strong market leader in Guangdong, we believe Eastroc is capable of efficiently rolling out new products and expanding to new markets nationwide, driving further margin gains over the long-term.

## Exhibit 1: Act vs. GSe

605499.SS Eastroc Beverage														
Summary P&L (Rmb mn)	2021	2022	2023	2024	2024	1Q24	2Q24	3Q24	4Q24					
	Actual	Actual	Actual	Actual	GSe	Diff	oy	Actual	Actual	Actual	Actual	GSe	Diff	oy
<b>Total revenues</b>	6,978	8,505	11,263	15,839	16,329	-3%	41%	3,482	4,391	4,685	3,281	3,771	-13%	25%
COGS	(3,882)	(4,905)	(6,412)	(8,742)	(8,970)	-3%	36%	(1,993)	(2,369)	(2,539)	(1,841)	(2,069)	-11%	27%
<b>Gross profit</b>	<b>3,096</b>	<b>3,600</b>	<b>4,851</b>	<b>7,097</b>	<b>7,359</b>	<b>-4%</b>	<b>46%</b>	<b>1,489</b>	<b>2,022</b>	<b>2,146</b>	<b>1,440</b>	<b>1,702</b>	<b>-15%</b>	<b>22%</b>
SG&A	(1,663)	(1,749)	(2,379)	(3,169)	(3,339)	-5%	33%	(710)	(738)	(970)	(751)	(920)	-18%	14%
Selling expense	(1,368)	(1,449)	(1,956)	(2,681)	(2,831)	-5%	37%	(596)	(629)	(837)	(619)	(769)	-19%	16%
Admin expense	(294)	(299)	(423)	(488)	(508)	-4%	15%	(114)	(109)	(134)	(132)	(152)	-13%	9%
Other operating expenses, net	39	(80)	(93)	(128)	(145)	-12%	37%	(10)	(61)	(26)	(31)	(48)	-36%	-50%
<b>EBIT</b>	<b>1,473</b>	<b>1,771</b>	<b>2,379</b>	<b>3,800</b>	<b>3,876</b>	<b>-2%</b>	<b>60%</b>	<b>770</b>	<b>1,223</b>	<b>1,150</b>	<b>658</b>	<b>734</b>	<b>-10%</b>	<b>43%</b>
Depreciation	(173)	(212)	(242)	(326)	(338)	-4%	35%	(81)	(81)	(81)	(81)	(93)	-13%	88%
Amortization	(12)	(12)	(12)	(17)	(19)	-8%	39%	(4)	(4)	(4)	(4)	(6)	-26%	43%
<b>EBITDA</b>	<b>1,658</b>	<b>1,995</b>	<b>2,633</b>	<b>4,143</b>	<b>4,233</b>	<b>-2%</b>	<b>57%</b>	<b>855</b>	<b>1,309</b>	<b>1,236</b>	<b>744</b>	<b>833</b>	<b>-11%</b>	<b>47%</b>
Net interest income/(expense)	11	(41)	(2)	191	92	108%	n.m.	45	59	30	56	(43)	-229%	-312%
Non-operating income/(loss)	30	106	202	117	161	-28%	-42%	15	30	32	40	84	-53%	-37%
<b>Pre-tax profit</b>	<b>1,514</b>	<b>1,836</b>	<b>2,579</b>	<b>4,107</b>	<b>4,129</b>	<b>-1%</b>	<b>59%</b>	<b>830</b>	<b>1,312</b>	<b>1,212</b>	<b>753</b>	<b>775</b>	<b>-3%</b>	<b>52%</b>
Provision for taxes	(321)	(395)	(539)	(781)	(822)	-5%	45%	(166)	(246)	(235)	(134)	(176)	-24%	19%
Minority interest	-	-	-	0	-	-	-	-	-	-	0	-	-	-
<b>Net income</b>	<b>1,193</b>	<b>1,441</b>	<b>2,040</b>	<b>3,327</b>	<b>3,306</b>	<b>1%</b>	<b>63%</b>	<b>664</b>	<b>1,067</b>	<b>977</b>	<b>619</b>	<b>599</b>	<b>3%</b>	<b>61%</b>
<b>YoY Growth %</b>														
Sales	41%	22%	32%	41%	45%			39.8%	47.9%	47.3%	25%	44%		
<b>Gross profit</b>	<b>34%</b>	<b>16%</b>	<b>35%</b>	<b>46%</b>	<b>52%</b>			<b>37.4%</b>	<b>59.3%</b>	<b>62.5%</b>	<b>22%</b>	<b>45%</b>		
EBIT	47%	20%	34%	60%	63%			26.7%	73.3%	89.6%	43%	60%		
EBITDA	46%	20%	32%	57%	61%			30.9%	74.0%	89.3%	47%	65%		
NPAT	47%	21%	42%	63%	62%			33.5%	74.6%	78.4%	61%	56%		
<b>Margin analysis</b>														
Gross margin	44.4%	42.3%	43.1%	44.8%	45.1%	-0.3ppt	1.7ppt	42.8%	46.1%	45.8%	43.9%	45.1%	-1.2ppt	-1.0ppt
EBITDA margin	23.8%	23.5%	23.4%	26.2%	25.9%	0.2ppt	2.8ppt	24.6%	29.8%	26.4%	22.7%	22.1%	0.6ppt	3.4ppt
EBIT margin	21.1%	20.8%	21.1%	24.0%	23.7%	0.3ppt	2.9ppt	22.1%	27.8%	24.5%	20.1%	19.5%	0.6ppt	2.5ppt
Pre-tax profit margin	21.7%	21.6%	22.9%	25.9%	25.3%	0.6ppt	3.0ppt	23.8%	29.9%	25.9%	23.0%	20.5%	2.4ppt	4.0ppt
Net profit margin	17.1%	16.9%	18.1%	21.0%	20.2%	0.8ppt	2.9ppt	19.1%	24.3%	20.8%	18.9%	15.9%	3.0ppt	4.2ppt
SG&A	23.8%	20.6%	21.1%	20.0%	20.4%	-0.4ppt	-1.1ppt	20.4%	16.8%	20.7%	22.9%	24.4%	-1.5ppt	-2.1ppt
Selling expense ratio	19.6%	17.0%	17.4%	16.9%	17.3%	-0.4ppt	-0.4ppt	17.1%	14.3%	17.9%	18.9%	20.4%	-1.5ppt	-1.5ppt
Admin expense ratio	4.2%	3.5%	3.8%	3.1%	3.1%	0.0ppt	-0.7ppt	3.3%	2.5%	2.9%	4.0%	4.0%	0.0ppt	-0.6ppt
Effective tax rate	(21%)	(22%)	(21%)	(19%)	(20%)	0.9ppt	1.9ppt	(20%)	(19%)	(19%)	(18%)	(23%)	4.9ppt	4.9ppt

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 2: Eastroc Operating Data Summary**

Operation data	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
<b>Revenue</b>												
Energy drinks	1,907	2,212	2,274	1,780	2,383	2,752	2,859	2,342	3,101	3,754	3,652	2,797
yoY %	16%	16%	27%	42%	25%	24%	26%	32%	30%	36%	28%	19%
Non-energy drinks	93	73	75	78	106	214	320	275	377	630	1,015	496
yoY %	51%	15%	-12%	-52%	14%	193%	325%	253%	257%	194%	217%	81%
As % of total revenue	4.6%	3.2%	3.2%	4.2%	4.2%	7.2%	10.1%	10.5%	10.8%	14.3%	21.7%	15.1%
<b>Major business total</b>	<b>1,999</b>	<b>2,285</b>	<b>2,349</b>	<b>1,936</b>	<b>2,489</b>	<b>2,966</b>	<b>3,179</b>	<b>2,617</b>	<b>3,478</b>	<b>4,384</b>	<b>4,667</b>	<b>3,293</b>
Guangdong	785	863	1,024	682	842	1,038	1,060	822	921	1,193	1,312	933
Other parts of China	1,036	1,254	1,100	1,089	1,417	1,671	1,791	1,350	2,143	2,555	2,631	1,681
<b>Number of distributors</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>4Q24</b>
Offline	2,231	2,233	2,393	2,393	2,375	2,328	2,327	2,485	2,410	2,366	2,369	2,536
DTC & Online	359	367	386	386	418	468	453	496	502	616	624	657
<b>Sales per distributor mn</b>												
Offline						1.11	1.21	0.85	1.27	1.58	1.66	1.03
DTC & Online						0.80	0.80	1.00	0.82	1.03	1.16	1.03
<b>Number of POS mn</b>								3.30		3.60		4.00
<b>Sales volume (k tons)</b>	<b>1H22</b>	<b>2H22</b>			<b>1H23</b>	<b>2H23</b>			<b>1H24</b>	<b>2H24</b>		
Energy drinks	940	919			1,207	1,178			1,605	1,479		
yoY %					28%	28%			33%	26%		
Bushuila					47	110			209	451		
yoY %										342%	311%	
Other drinks	87	109			126	190			238	234		
yoY %										90%	23%	
All other drinks	87	109			173	299			448	685		
					98%	175%			159%	129%		
<b>ASP/ kg</b>	<b>1H22</b>	<b>2H22</b>			<b>1H23</b>	<b>2H23</b>			<b>1H24</b>	<b>2H24</b>		
Energy drinks					4.25	4.42			4.27	4.36		
yoY %										0%	-1%	
Bushuila					2.63	2.44			2.27	2.26		
yoY %										-14%	-8%	
Other drinks					1.55	1.72			2.23	2.11		
yoY %										44%	22%	
All other drinks					1.85	1.99			2.25	2.21		
										22%	11%	
<b>Revenue (quarterly)</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>4Q24</b>
Energy Drinks	1,907	2,212	2,274	1,780	2,383	2,752	2,859	2,342	3,101	3,754	3,652	2,797
yoY %	16%	16%	27%	42%	25%	24%	26%	32%	30%	36%	28%	19%
Bushuila						184	84			735	284	
yoY %											300%	237%
Other drinks						136	190			281	211	
yoY %											107%	11%
All other drinks						320	275			1,016	495	
											218%	80%
<b>Mix</b>												
Energy Drinks						90%	89%			78%	85%	
All other drinks						10%	10%			22%	15%	
Bushuila						6%	3%			16%	9%	
Other drinks						4%	7%			6%	6%	

2023 annual sales/volume of energy drinks and other drinks have been restated by less than 0.2% as of sales/volume of 2023 numbers implied by disclosed yoY growth rates in 2024 results; we do not adjust 2023 quarterly data manually in above summary table as the impact is minor.

Source: Company data, Goldman Sachs Global Investment Research

### Price Target Risks and Methodology - Eastroc Beverage

We are Buy rated on Eastroc with a 12-month TP of Rmb281, based on a 30X 2026E P/E discounted back to end-2025E, with reference to historical average P/E of Monster Beverage in 2017-2019 when Red Bull was losing shares in the US

Key risks: 1) Lower industry growth in energy drinks, 2) worse competitive landscape, 3) failure/slower ramp-up of Eastroc's new product launches, 4) potential capacity shortage with already high utilization ratio, 5) higher increases in raw material costs, 6) slower geographical expansion of Eastroc, 7) slower POS penetration/ deployment of fridges, and 8) reputational risks.

<b>605499.SS</b>	12m Price Target: <b>Rmb281.00</b>	Price: <b>Rmb228.95</b>	Upside: <b>22.7%</b>
<b>Buy</b>		<b>GS Forecast</b>	
Market cap: Rmb119.1bn / \$16.4bn	<b>12/23</b>	<b>12/24E</b>	<b>12/25E</b>
Enterprise value: Rmb115.4bn / \$15.9bn	11,262.8	16,329.3	20,725.5
3m ADTV: Rmb660.6mn / \$90.6mn	2,633.2	4,232.6	5,472.7
China China Consumer Staples M&A Rank: 3	3.92	6.36	8.25
Leases incl. in net debt & EV?: No	36.0	36.0	27.7
	11.6	15.2	12.2
	1.4	1.5	2.0
	(1.1)	(0.9)	(1.1)
	34.3	63.4	74.3
	3.2	2.6	2.6
	<b>9/24</b>	<b>12/24E</b>	<b>3/25E</b>
EPS (Rmb)	1.88	1.15	1.70
			<b>6/25E</b>
			2.58

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 7 Mar 2025 close.

# Disclosure Appendix

## Reg AC

We, Leaf Liu, Hongda Zhong, Christina Liu, Julia Mu and Valerie Zhou, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACP) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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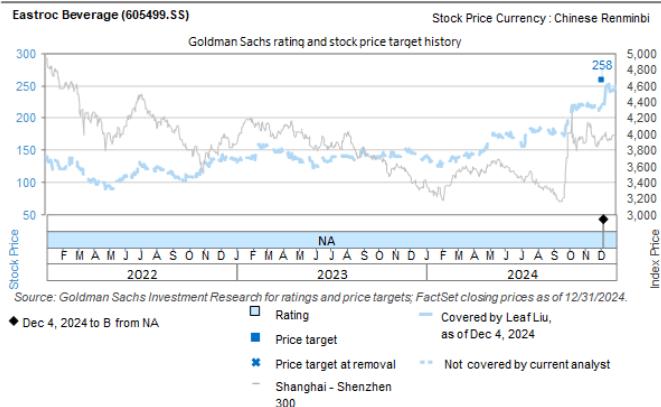
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