

Eastroc Beverage (605499.SS)

Core product to drive share gains, diversification to sustain growth; Initiate at Buy

Buy

605499.SS 12m Price Target: **Rmb258.00** Price: **Rmb220.94** Upside: **16.8%**

We believe energy drink consumption is still in an upcycle in China, and we view Eastroc Beverage as positively levered to L-T secular growth themes including rising penetration, growing distribution and improving POS productivity amid product diversification. While the market is concerned about the growth outlook post strong performance in the last three years, **we address three key**

debates: **(1)** China's energy drinks industry growth outlook: we expect the China energy drinks market to grow at a 7.2% CAGR in 2023-28E, with expanding consumer cohorts and intake per capita set to rise to 11 litres (benchmark to Thailand). **(2)** The growth path for Eastroc's energy drinks: our differentiated POS maturity model, which analyses regional and new/maturing POS/output, indicates sales per POS improvement driven by rising maturity of 3~5y POS contributing to the increasing sales growth of the energy drinks segment as well as non-energy drink cross selling. We expect Eastroc to gradually become the #1 player by value share by 2027E (c. 35% nationwide), and we see upside from its strong value positioning and digital management, driving the ability to diversify its product portfolio to the functional drink market (e.g. reaching 12% value share in sports drinks by end-24E) as a second growth pillar. **(3)** Room for further margin expansion: we expect the GPM for Eastroc's non-energy drink segment to increase from 17% to 35% in 2023-26E as it scales up vs. 45% for the energy drink segment in 2023.

We expect Eastroc to grow at 23%/26% sales/NP CAGR in 2024-26, after it tripled sales value and grew its net profit 10x over 2018-23. Post a strong rally YTD, the share price has been relatively stable post 3Q results, and we expect the solid growth to drive valuation as it evolves into a diversified beverage provider. Our 12m TP of Rmb258 (32X 2025E P/E) implies 18% upside; **initiate at Buy.**

Leaf Liu

+852-3966-4169 | leaf.liu@gs.com
Goldman Sachs (Asia) L.L.C.

Hongda Zhong

+852-2978-2300 | hongda.zhong@gs.com
Goldman Sachs (Asia) L.L.C.

Christina Liu

+852-2978-6983 | christina.liu@gs.com
Goldman Sachs (Asia) L.L.C.

Julia Mu

+852-2978-1219 | julia.mu@gs.com
Goldman Sachs (Asia) L.L.C.

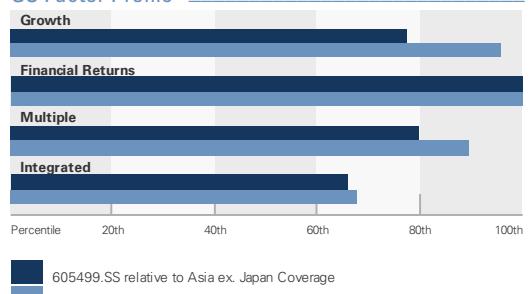
Key Data

Market cap: Rmb114.9bn / \$15.8bn
Enterprise value: Rmb111.3bn / \$15.3bn
3m ADTV: Rmb375.0mn / \$52.6mn
China
China Consumer Staples
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/23	12/24E	12/25E	12/26E
Revenue (Rmb mn)	11,262.8	16,055.3	20,239.8	24,372.2
EBITDA (Rmb mn)	2,633.2	4,171.8	5,353.3	6,585.7
EPS (Rmb)	3.92	6.27	8.07	9.96
P/E (X)	36.0	35.3	27.4	22.2
P/B (X)	11.6	14.8	11.9	9.6
Dividend yield (%)	1.4	1.6	2.0	2.5
N debt/EBITDA (ex lease,X)	(1.1)	(0.9)	(1.1)	(1.1)
CROCI (%)	34.3	62.5	72.6	80.4
FCF yield (%)	3.2	2.6	2.6	3.5
	6/24	9/24	12/24E	--
EPS (Rmb)	2.05	1.88	1.06	-

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

Goldman Sachs does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

Buy

Eastroc Beverage (605499.SS)

Rating since Dec 5, 2024

Ratios & Valuation

	12/23	12/24E	12/25E	12/26E
P/E (X)	36.0	35.3	27.4	22.2
P/B (X)	11.6	14.8	11.9	9.6
FCF yield (%)	3.2	2.6	2.6	3.5
EV/EBITDAR (X)	26.9	26.7	20.4	16.3
EV/EBITDA (excl. leases) (X)	26.8	26.6	20.4	16.3
CROCI (%)	34.3	62.5	72.6	80.4
ROE (%)	35.8	46.2	48.1	47.9
Net debt/equity (%)	(43.4)	(46.7)	(59.7)	(61.7)
Net debt/equity (excl. leases) (%)	(44.9)	(48.0)	(60.7)	(62.5)
Interest cover (X)	29.7	42.3	49.5	61.2
Days inventory outst, sales	15.6	15.3	15.9	16.1
Receivable days	2.1	2.4	2.6	2.6
Days payable outstanding	115.3	110.7	115.1	117.6
DuPont ROE (%)	32.3	41.9	43.4	43.3
Turnover (X)	0.8	0.9	0.9	1.0
Leverage (X)	2.3	2.3	2.3	2.1
Gross cash invested (ex cash) (Rmb)	5,196.4	6,113.1	6,252.8	7,401.9
Average capital employed (Rmb)	4,785.1	3,765.4	3,923.6	4,145.2
BVPS (Rmb)	12.16	14.96	18.58	23.04

Growth & Margins (%)

	12/23	12/24E	12/25E	12/26E
Total revenue growth	32.4	42.6	26.1	20.4
EBITDA growth	32.0	58.4	28.3	23.0
EPS growth	41.6	59.7	28.8	23.5
DPS growth	25.0	80.0	28.8	23.5
EBIT margin	21.1	23.8	24.5	25.1
EBITDA margin	23.4	26.0	26.4	27.0
Net income margin	18.1	20.3	20.7	21.3

Price Performance

Source: FactSet. Price as of 4 Dec 2024 close.

Income Statement (Rmb mn)

	12/23	12/24E	12/25E	12/26E
Total revenue	11,262.8	16,055.3	20,239.8	24,372.2
Cost of goods sold	(6,411.7)	(8,815.0)	(11,064.4)	(13,239.0)
SG&A	(2,445.3)	(3,393.5)	(4,176.8)	(4,956.4)
R&D	(54.4)	(61.5)	(77.5)	(93.3)
Other operating inc./exp.)	27.7	30.6	33.8	37.4
EBITDA	2,633.2	4,171.8	5,353.3	6,585.7
Depreciation & amortization	(254.0)	(355.9)	(398.4)	(464.9)
EBIT	2,379.2	3,815.9	4,954.9	6,120.8
Net interest inc./exp.)	42.4	91.7	123.7	188.0
Income/(loss) from associates	—	—	—	—
Pre-tax profit	2,579.3	4,068.6	5,239.6	6,469.8
Provision for taxes	(539.5)	(810.3)	(1,043.6)	(1,288.6)
Minority interest	—	—	—	—
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	2,039.8	3,258.3	4,196.0	5,181.2
Post-tax exceptionals	—	—	—	—
Net inc. (post-exceptionals)	2,039.8	3,258.3	4,196.0	5,181.2
EPS (basic, pre-except) (Rmb)	3.92	6.27	8.07	9.96
EPS (diluted, pre-except) (Rmb)	3.92	6.27	8.07	9.96
EPS (basic, post-except) (Rmb)	3.92	6.27	8.07	9.96
EPS (diluted, post-except) (Rmb)	3.92	6.27	8.07	9.96
DPS (Rmb)	1.92	3.46	4.46	5.50
Div. payout ratio (%)	49.0	55.2	55.2	55.2

Balance Sheet (Rmb mn)

	12/23	12/24E	12/25E	12/26E
Cash & cash equivalents	6,057.7	7,728.7	9,857.3	11,482.3
Accounts receivable	88.6	126.3	159.3	191.8
Inventory	568.6	781.7	981.2	1,174.1
Other current assets	2,053.6	2,053.6	2,053.6	2,053.6
Total current assets	8,768.6	10,690.4	13,051.4	14,901.7
Net PP&E	3,301.3	4,003.7	5,550.7	7,038.7
Net intangibles	484.8	634.9	803.5	981.5
Total investments	0.0	105.8	211.6	317.4
Other long-term assets	2,155.4	2,157.1	2,160.2	2,164.6
Total assets	14,710.0	17,591.9	21,777.5	25,403.9
Accounts payable	2,250.6	3,094.2	3,883.8	4,647.1
Short-term debt	2,995.7	3,995.7	3,995.7	3,995.7
Short-term lease liabilities	—	—	—	—
Other current liabilities	193.8	(6.2)	1,511.9	2,056.2
Total current liabilities	8,047.3	9,690.9	11,998.6	13,306.2
Long-term debt	220.0	—	—	—
Long-term lease liabilities	95.4	95.4	95.4	95.4
Other long-term liabilities	119.0	119.0	119.0	119.0
Total long-term liabilities	339.0	119.0	119.0	119.0
Total liabilities	8,386.3	9,809.9	12,117.6	13,425.2
Preferred shares	—	—	—	—
Total common equity	6,323.8	7,782.0	9,659.9	11,978.7
Minority interest	--	--	--	--
Total liabilities & equity	14,710.0	17,591.9	21,777.5	25,403.9
Net debt, adjusted	(2,842.0)	(3,733.0)	(5,861.6)	(7,486.5)

Cash Flow (Rmb mn)

	12/23	12/24E	12/25E	12/26E
Net income	2,039.8	3,258.3	4,196.0	5,181.2
D&A add-back	254.0	355.9	398.4	464.9
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	1,114.5	592.8	557.2	537.9
Other operating cash flow	(127.1)	—	—	—
Cash flow from operations	3,281.3	4,206.9	5,151.6	6,184.1
Capital expenditures	(917.7)	(1,210.0)	(2,117.2)	(2,135.2)
Acquisitions	(3.4)	—	—	—
Divestitures	—	—	—	—
Others	162.9	(105.8)	(105.8)	(105.8)
Cash flow from investing	(758.3)	(1,315.8)	(2,223.0)	(2,241.0)
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	(811.0)	(2,000.1)	(800.0)	(2,318.1)
Inc/(dec) in debt	77.0	780.0	—	—
Other financing cash flows	(352.5)	0.0	0.0	0.0
Cash flow from financing	(1,086.5)	(1,220.1)	(800.0)	(2,318.1)
Total cash flow	1,436.5	1,671.0	2,128.6	1,624.9
Free cash flow	2,363.5	2,996.9	3,034.4	4,048.9

Source: Company data, Goldman Sachs Research estimates.

What's unique in this report: (1) POS maturity analysis and regional POS comparison, (2) channel profitability analysis for energy drinks and electrolyte water, and (3) scenarios on potential sales upside benchmarking to global peers. **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.

PM Summary

Eastroc is the second largest energy drinks brand in China, accounting for 24% value share in China's energy drinks market estimated at Rmb90bn (US\$13bn) as of 2023 per GSe. Its core product Eastroc Special Drinks was launched in 2009 in Guangdong market and its revenues grew at 29% 5-yr CAGR reaching Rmb10.3bn (~92% of total revenue) in 2023. Eastroc Special Drinks has established itself as an increasingly well recognized energy drinks brand nationwide vs. the largest competitor Red Bull (~39% value shares as of 2023 per GSe industry analysis). With initial success in product diversification, revenue from other beverages grew by 216% yoy in 9M24 and accounted for 16% of total sales in 9M24.

Key strengths : (1) Clear brand positioning with better value for money vs. peers across its product portfolio with product and packaging innovation; (2) A pioneer of digitalization for distribution in beverage space with strong digital channel management capability; (3) Proof of success by replicating its strategies to regions outside Guangdong through strong channel management with its sales contribution from ex-Guangdong regions increasing from 39% to 73% in 2018 - 9M24; (4) Solid channel profitability.

Growth drivers: (1) Further share gains in energy drinks market with its value focus position and strong channel management; (2) Product expansion with new products ramp-up drawing lessons from its success in energy drinks market, initial achievement in Bushuila launched in 2023 nearly tripled its sales in 2024E to reach Rmb1bn+; and (3) Geographic expansion into more areas, with north/east/southwest/central China regions all showing encouraging momentum with 30%+ sales CAGR in 2018-23 and deepening distribution in lower tier regions.

Company overview:

1. The fastest growing beverage company among our coverage: Eastroc grew sales by >3x and net profit by close to 10x in 2018-2023. It has reported 27%/31% 2021-23 sales and NP CAGR, and continues to maintain high growth at 45%/64% yoy in 9M24 despite macro volatility. We expect the company to grow at 23%/26% sales/NP CAGR in 2024-26E, the fastest among our F&B coverage at 7%/13% (average of UPC/Tingyi/Nongfu/CR Beverage).
2. Fast market share gainer: Eastroc surpassed the former #2 player in China energy drinks market as a late entrant and is now quickly catching up with Red Bull, the

long-standing No.1 player. We believe China energy drinks market has been the fastest growing sub-sector in the soft drink sub-category (at 8% CAGR in 2018-23 vs. soft drinks retail sales CAGR at c.4%).

3. It is the first company in F&B space in China to implement digital system for channel management throughout value chain.
4. Eastroc demonstrated operating excellence with consistent margin expansion, operating cash flow at c.30% of sales as of 2023, ROE at 30%+, while deriving higher returns from incremental marketing spend (measured by incremental sales vs. incremental marketing expenses) vs. peers (based on our estimates).

Key debates:

- **Where do we stand in the energy drinks industry cycle?** Energy drinks market witnessed the fastest sales growth vs. other soft drinks categories in recent years driven by value product launches with better affordability. We expect the retail sales value of China energy drinks market to grow at a 7.2% CAGR in 2023-28E to Rmb128bn (c.US\$18bn) mainly driven by volume growth, given: 1) China's per capita consumption of energy drinks is still at a relatively under-penetrated level vs. Vietnam, Thailand, and some developed countries; 2) Longer working hours in China likely to drive increasing demand; 3) affordability (vs. hourly wage) is relatively better vs. purchasing power in China compared with other Asian regions e.g Japan/Thailand; 4) ASP might be diluted with players still focusing on penetration rather than premiumization/price hikes at the moment.
- **What is the sustainable growth path for Eastroc post a rapid growth in energy drinks?** 1) Continued solid performance by energy drink: The company has increasingly demonstrated its capability to replicate its success in other regions outside Guangdong, and we also expect sales per POS improvement esp. due to rising maturity of recently added POS to contribute more growth going forward. We still see shortage in supply in some fast growing regions, while we estimate a utilization rate of designed capacity at c.110% in 2024E. 2) Category expansion beyond energy drinks: we expect the company to leverage its national sales network to develop its "1+6" product strategy through cross-selling, evident by its initial success in electrolyte water exceeding Rmb1bn of ex-factory sales since its launch in Jan 2023.
- **How will margins be impacted amid the current growth investment phase?** We expect economies of scale and operating leverage will bring group-level unit EBIT improvement over time. We also believe further margin upside to come from GPM of non-energy drinks to gradually catch up with the level of its energy drinks despite the fast roll-out of non-energy drink product sales will slightly dilute the overall ASP. While

Our differentiated analysis to address the key debates: (1) POS maturity analysis and regional POS comparison; (2) Channel profitability analysis for energy drinks and electrolyte water; (3) scenarios on potential sales upside benchmarking to global peers.

Earnings forecasts and valuation:

We forecast 23% sales and 26% EPS CAGR in 24E-26E, driven by share gains in energy drinks market (value share to rise from 24% in 2023 to 34% in 2026E), non-energy drinks segment ramp-up, per-POS (Point-of-sale) productivity enhancement, and higher regional penetration.

The stock is trading at 27X 2025E P/E, 50%+ premium vs China beverage peers at 17X on average. However, we believe Eastroc will continue to be a clear market share gainer in energy drinks industry with good potential of establishing new large SKUs in other categories e.g, sports/functional drinks, contributing to its sales growth with better operating leverage. We apply 32X 2025E P/E (benchmarked to the historical avg P/E of Monster Beverage as the 2nd largest energy drinks player in the US competing with Red Bull), arriving at our 12-month target price of Rmb258/share, implying an 18% upside vs last close. We initiate Eastroc Beverage at Buy on attractive risk/reward.

Company Overview

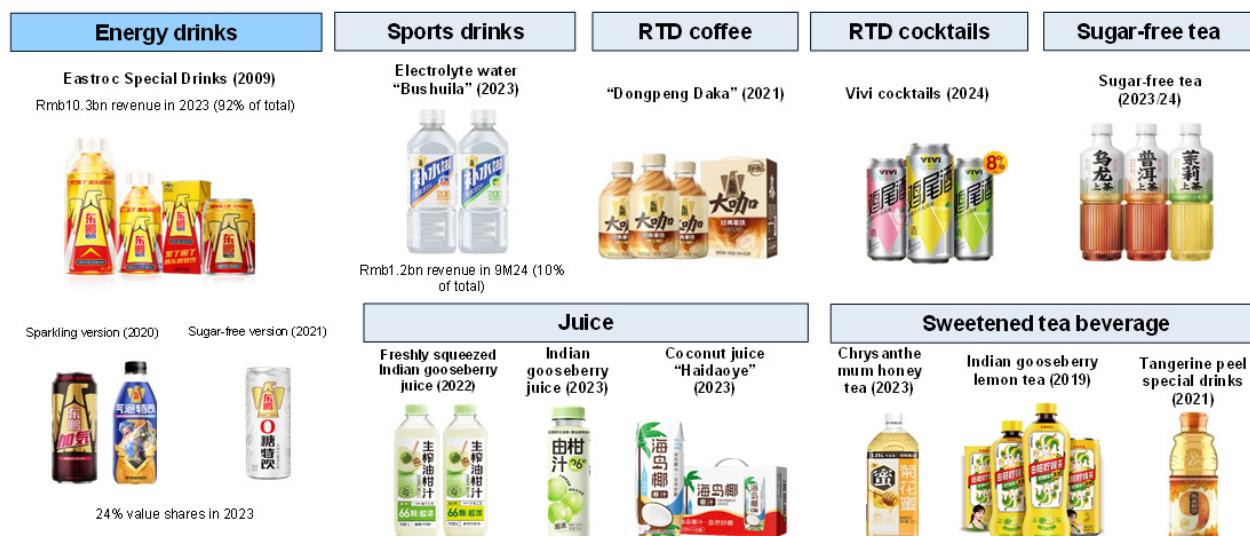
Eastroc Special Drinks as the pillar with efforts to diversify portfolio

Eastroc is the second largest energy drink brand in China, accounting for 24% value share in China's energy drinks market estimated at Rmb90bn (US\$13bn) as of 2023 per GSe. Its core product Eastroc Special Drinks was launched in 2009 in Guangdong market and recorded revenue growth at 29% 5-yr CAGR reaching Rmb10.3bn (~92% of total revenue) in 2023. Eastroc Special Drinks has established itself as an increasingly well recognized energy drink brand nationwide, known for better affordability vs. the largest competitor Red Bull (c.39% value shares as of 2023).

The company accelerated its new product launches since 2022, across various categories such as Sports drinks, RTD tea, RTD coffee, Juice and RTD cocktails, etc. Its Electrolyte water (named Bushuila) and RTD coffee (named Dongpeng Daka) recorded sales of Rmb576mn (5.1% of total) in 2023, which we see as initial stages of progress in Eastroc's product diversification.

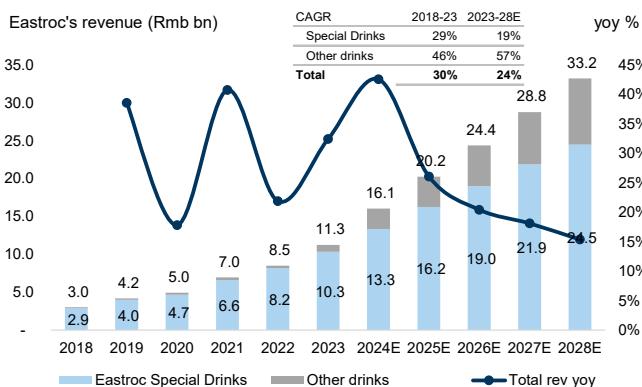
The company released its "1+6" product strategy in early 2023, where the "1" refers to its flagship product Eastroc Special Drinks, and the "6" is six categories the company will focus to develop, incl. electrolyte water, RTD coffee, sugar-free tea, RTD cocktails, coconut juice, and large-size beverages.

Exhibit 1: Eastroc Special Drinks is the core revenue and profit contributors as of now, with new product launches accelerating Eastroc's selected product portfolio



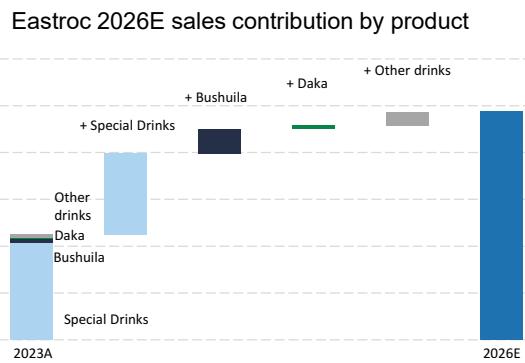
Source: Company data

Exhibit 2: We expect Eastroc to see more contribution from new products aside from the Special Drinks' fast growth in 2024-28E
Revenue and CAGR in 2018-28E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Eastroc 2026E sales contribution by product



Source: Company data, Goldman Sachs Global Investment Research

Rising dominant player in energy drinks market

- **Expanding distribution network:** Eastroc managed to grow its distribution network from its home market Guangdong to nationwide in the past years. As of Dec 2023, Eastroc's PoS reached 3.4mn+ in China and approached to 3.8mn in 1H24 for its energy drink products, vs. leading beverage player Nongfu Spring's 6.2mn.
- **Diversifying regional exposure:** In 2018-2023, the company managed to expand its non-Guangdong sales from 39% to 67%, striving to reshape itself as a beverage company with greater nationwide brand awareness and customer base, and providing initial proof of success by replicating its strategies to regions outside Guangdong through strong channel management.
- **Market shares increasingly dominant:** Comparing across major categories e.g

bottled water and RTD tea (detailed operating comps refer to [our beverage primer](#)), we note Eastroc has achieved a fairly high market share of 24% in energy drink as of 2023 (2nd in the category), vs. Nongfu's 23% in bottled water (1st) and Tingyi's 21% in RTD tea (1st). We believe there is still room for Eastroc to gain market share (esp. from the leading player Red Bull, more analysis below) along with potential for Eastroc to explore new beverage categories with relative experienced know-how in energy drinks industry.

Capacity Expansion to support nationwide growth

Production footprint:

- Five of Eastroc's eight factories reached 90%+ capacity utilization rate in 2023. The company has three new factories under construction in Guangdong, Changsha, and Chongqing, and two capacity upgrade projects in Guangzhou and Haifeng within Guangdong province as of end-2023.
- 53% of Eastroc's current capacity is located within Guangdong, while only 33% of its revenue was generated in Guangdong in 2023.

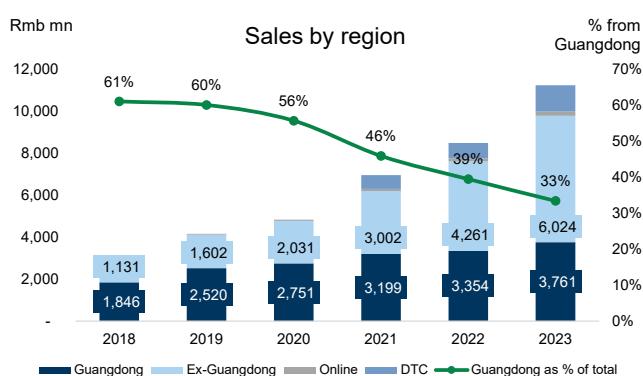
Capacity layout and further expansion plans:

On the back of a strong growth momentum in the recent years, we note Eastroc's production capacity could likely be a near-term growth constraint if new capacity addition is slower than expected, as 5 of Eastroc's 8 factories reached 90%+ capacity utilization rate in 2023.

Looking ahead, Eastroc has announced multiple new factory projects, in which Quzhou and Changsha have been put into production in recent quarters, and Tianjing, Chongqing, Zhongshan and Kunming have been under construction. The total production value at full capacity of these six factories could be over Rmb6bn per year (vs. total revenue of Rmb11bn in 2023), meaningfully easing the pressure from capacity constraints.

Exhibit 4: From 2018-2023, the company managed to expand its non-Guangdong sales from 39% to 67%

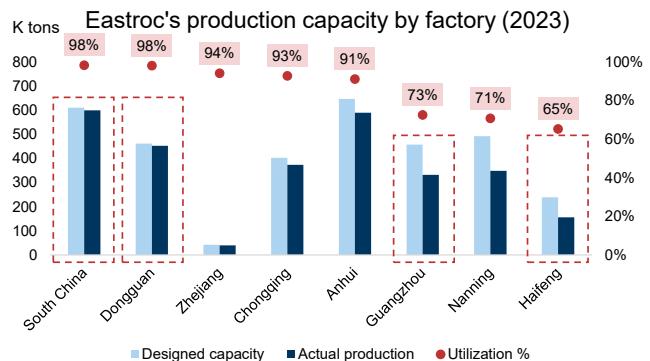
Sales by region



Source: Company data

Exhibit 5: 5 of Eastroc's 8 factories reached 90%+ capacity utilization rate in 2023; 53% of Eastroc's current capacity is located within Guangdong

Production capacity by factory (2023)

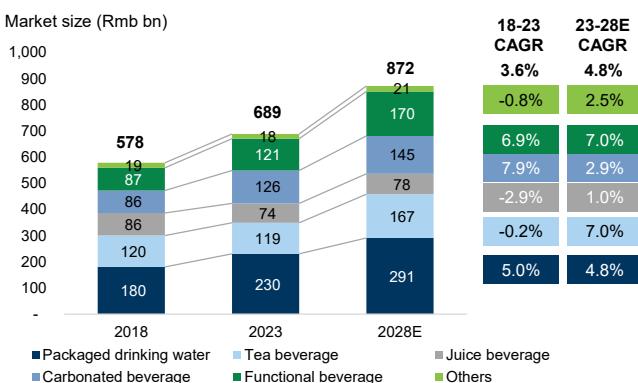


Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Key debate 1: Where do we stand in the energy drinks industry growth cycle?

- **Industry growth trajectory:** Energy drinks market witnessed the fastest sales growth vs other soft drinks categories in recent years, which we think is mainly due to more value product launches aiming to take market shares from Red Bull, whose ASP was the highest amongst major players. Based on CIC and Euromonitor data, we estimate that the overall retail value of China energy drinks market grew by 8.2% CAGR from 2018 to Rmb90bn (US\$13bn) in 2023, and expect a growth of 7.2% CAGR in 2023-28E to Rmb128bn (US\$18bn), still mainly driven by volume growth (8.4% CAGR).
- **Growth potential:** Comparing with other countries, China's energy drinks industry is still in a relatively under-penetrated level, despite its fastest growth pace. In 2023, China was still ranked behind Asian markets e.g. Vietnam (1.2x vs. China) and Thailand (1.4x), and more significantly behind developed countries, in terms of consumption volume per capita.
 - We note certain level of correlation between working hours and energy drink intake. As the country with the longest working hours (per OECD and China NBS), China could see more consumption of energy drinks vs. other countries in our view. We also note that the weekly working hours have been in an upward trend.
 - Pricing: We think China is still in the early stage with players focused on penetration rather than premiumization/ price hikes at the moment. When volume growth normalizes, e.g. in Japan/Taiwan, focus could shift to pricing.
- **Market share dynamic: Eastroc in a favorable position**
 - **Ongoing Red Bull China dispute:** TCP (Red Bull brand owner) collaborated with Reignwood setting up a JV in 1996, with the latter authorized to run the sales and operation of the Red Bull brand in China. In 2016, TCP sued Reignwood for trademark infringement, alleging that Reignwood continued to use the Red Bull trademark for sales after the end of its 20-year licence, while Reignwood claimed it had 50-year rights of use. With the dispute still ongoing, while we do not take a view on the final outcome, we expect Eastroc to be market share gainers with solid channel and regional setup.

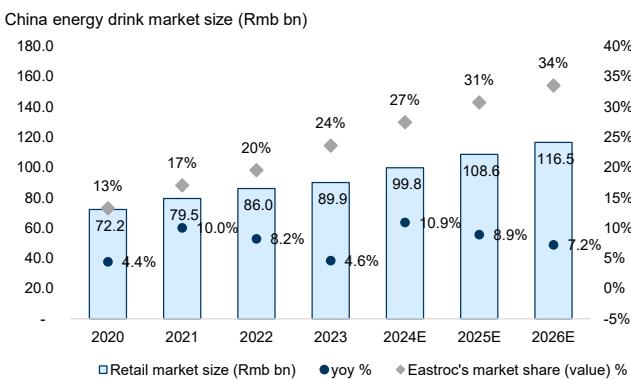
Exhibit 6: Functional drink reached Rmb121bn retail sales in 2023 and we expect it to outgrow other categories in 2023-28E



Functional beverage refers to energy drinks and sports drinks combined

Source: Euromonitor, Goldman Sachs Global Investment Research

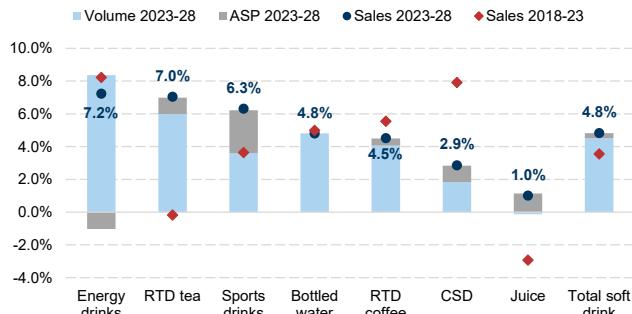
Exhibit 8: We expect Eastroc to outgrow the market in the following years



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: Energy drinks will continue to see the fastest volume growth in the next five years

China soft drinks CAGR by category

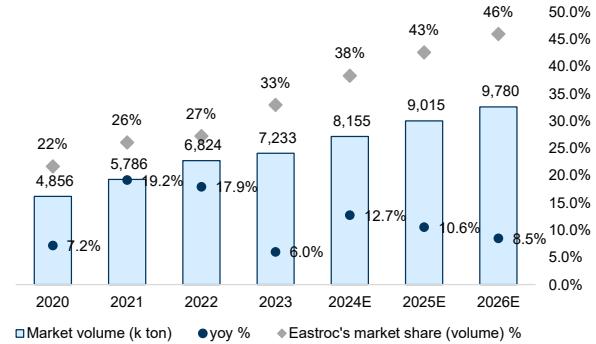


Energy drinks, sports drinks, bottled water per GSe

Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 9: We expect Eastroc to further grow volume share from 33% to 46% in 2023-26E; Eastroc takes higher volume share in 2023 vs. value share at 24% as it's positioned as a more value-focused offering

China energy drink market sales volume (k tonnes)

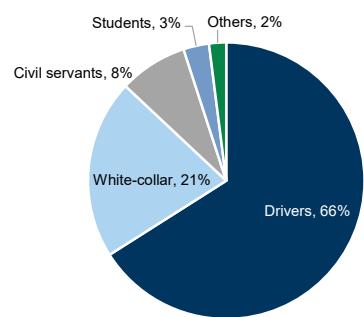


Source: Company data, Goldman Sachs Global Investment Research

Exhibit 10: The majority of energy drinks consumers have been drivers (e.g. truck drivers), per Toubao, while we note the mix is moving towards more white collar employees and younger generation recently

Customer profile

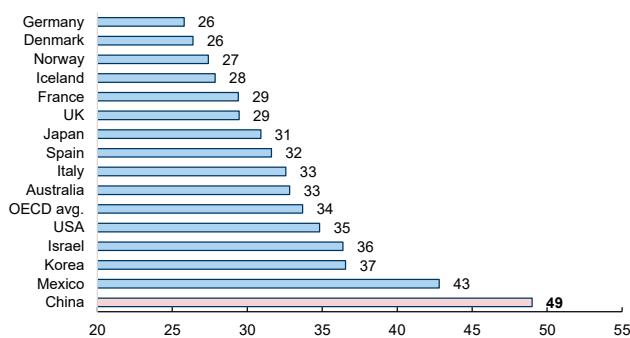
Customer mix for energy drinks in China (2022)



Source: Toubao

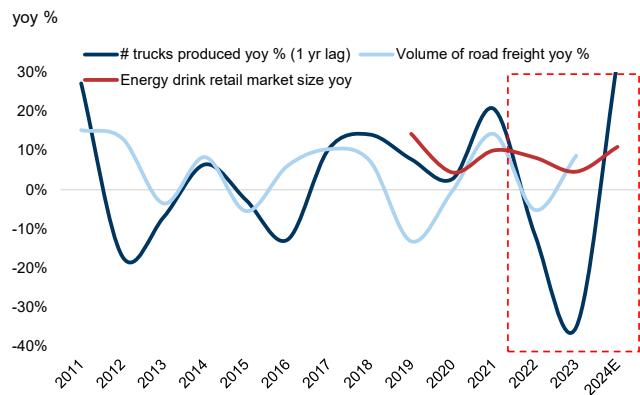
Exhibit 12: China has the longest working hours vs OCED countries

Number of hours worked per capita per week



Source: OECD, NBS

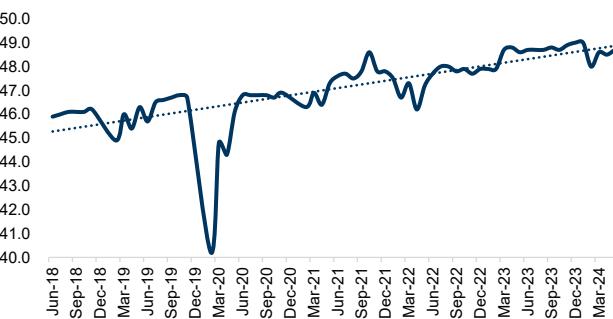
Exhibit 11: We observe meaningful correlation between growth in energy drinks retail sales against road freight volume and number of trucks produced in China yoy



Source: NBS, Goldman Sachs Global Investment Research, Euromonitor, Nielsen

Exhibit 13: Over time average working hours have been longer in China

Avg. # hours worked per employee per week in China

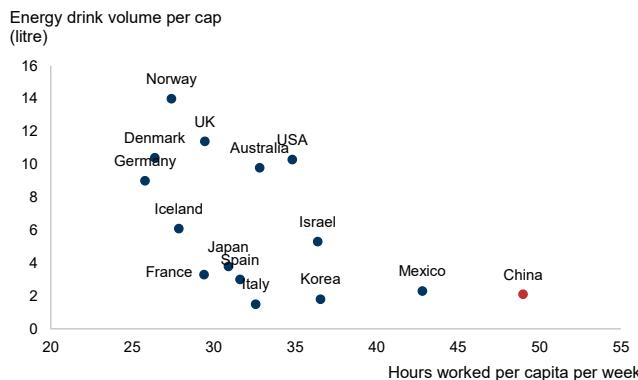


Source: NBS

Global comparison: China vs. other countries shows high potential for growth

China saw faster growth in energy drinks industry driven by volume growth, with slight ASP erosion likely due to competition from local players diluting Red Bull's shares. We think China is still in the early stage with players focused on penetration rather than premiumization/ price hikes at the moment. We note other regions have seen more active ASP expansion in recent years esp. in 2022/23, likely on the back of their more stable competitive landscape and more mature industry life cycle (with slower volume growth). When volume growth normalizes, e.g., in Japan/Taiwan, the focus could shift to pricing.

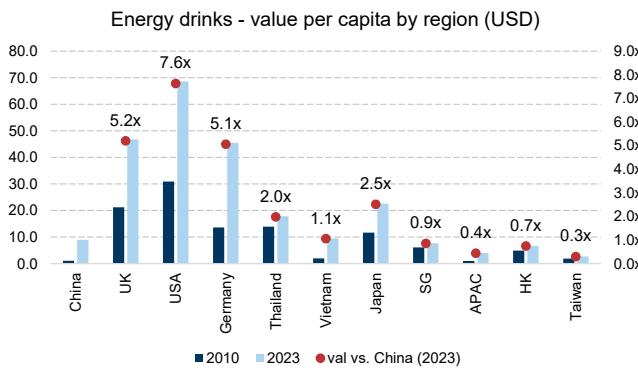
Exhibit 14: As the country with the longest working hours, China could see more consumption of energy drinks vs. other countries in our view



Source: OECD, NBS

Exhibit 16: On value basis, per-capita consumption in China was also roughly half of that of Thailand in 2023, post fast growth in the past decade

Energy drinks - value per capita by region (USD)

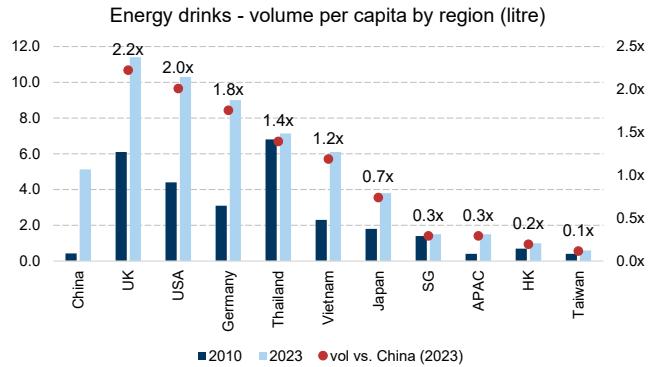


Source: Euromonitor, Data compiled by Goldman Sachs Global Investment Research

We view the pricing and absolute market size of energy drinks in China suggest strong upside for longer-term development, where affordability (vs. hourly wage) has been relatively better vs. purchasing power in other Asian regions e.g Japan/Thailand. In the past few years, China's energy drinks annual intake per capita has been on a rapid rise, surpassing Japan and approaching Thailand's level recently. We also note that the penetration in the U.S., despite already among the highest levels, is still steadily increasing, likely due to more specialization/ innovation coming out in terms of functional benefits, packaging, flavors and changes in sugar content or other additives, etc, while China has greater room to develop as the channel penetration is still among the top focuses at this stage.

Exhibit 15: China recorded fastest growth in terms of volume consumption per capita for energy drinks in 2010-2023 across below regions/ countries, while the absolute level is still lower than Asian countries e.g. Vietnam, Thailand

Energy drinks - volume per capita by region (litre)

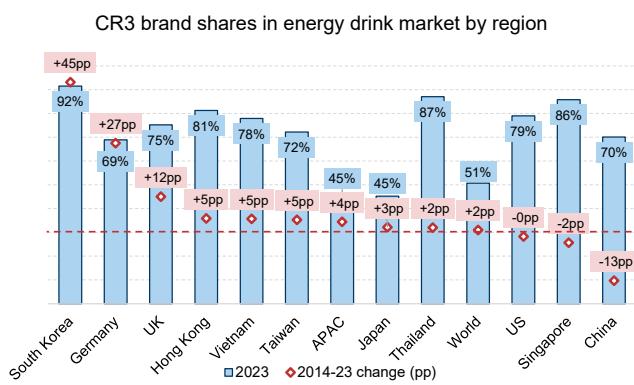


China and Thailand's consumption volume per capita per GSe, other countries per Euromonitor

Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 17: China has been a different region with CR3 market share being significantly diluted

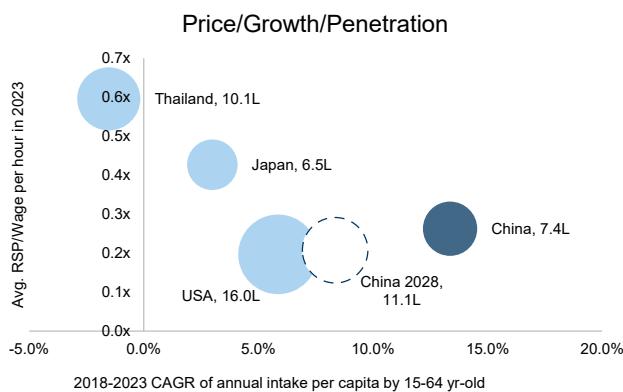
CR3 brand shares in energy drinks market by region



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 18: China has seen fast growth in per-capita intake in the past 5 years, with RSP relatively friendly vs purchase power in other regions

Affordability vs. penetration

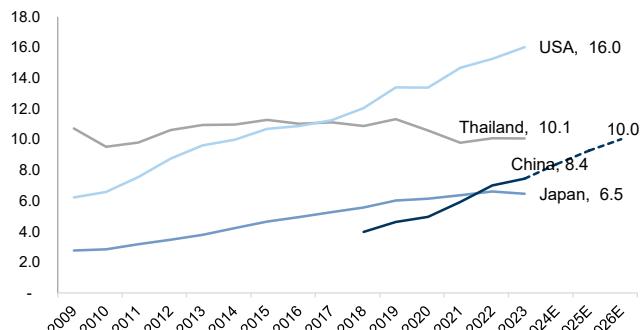


Bubble size: annual intake per capita (L)

Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 19: China's energy drinks intake volume per capita is rising towards the level of Thailand

Annual intake per capita by 15-64 yr-old (L)



China's market size is GS estimates

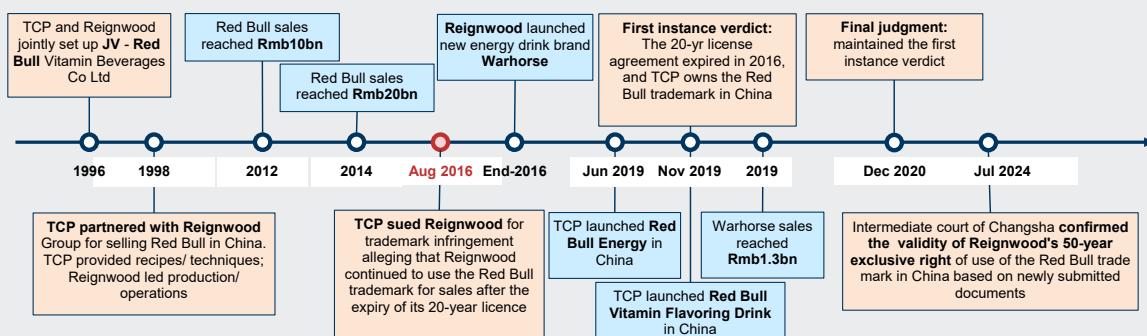
Source: Euromonitor, Goldman Sachs Global Investment Research

Background on Red Bull China dispute

Thai pharma company TCP is the original developer and owner of the Red Bull brand. It collaborated with Reignwood setting up a JV named Red Bull Vitamin Beverages Co Ltd to enter the China market in 1996, with the latter authorized to run the sales and operation of Red Bull brand in China. In 2016, TCP sued Reignwood for trademark infringement, alleging that Reignwood continued to use the Red Bull trademark for sales after the expiry of its 20-year licence, while Reignwood claimed it had 50-year rights of use. In Dec 2020, TCP obtained a final court judgment that it owned the Red Bull trademark in China; however in July 2024, the Intermediate Court of Changsha confirmed the validity of Reignwood's 50-year exclusive right of use of the Red Bull trademark in China based on newly submitted documents. TCP has disputed this ruling and said it will appeal again.

We believe that the ongoing dispute has affected Red Bull's sales in the past decade, which have lagged industry growth, esp. in 2016-2017 leading to lost market share (-16ppt from 2016-2023) to new entrants such as Eastroc. We expect Eastroc to continue gaining shares and surpass Red Bull by 2027E supported by agility in marketing and promotion.

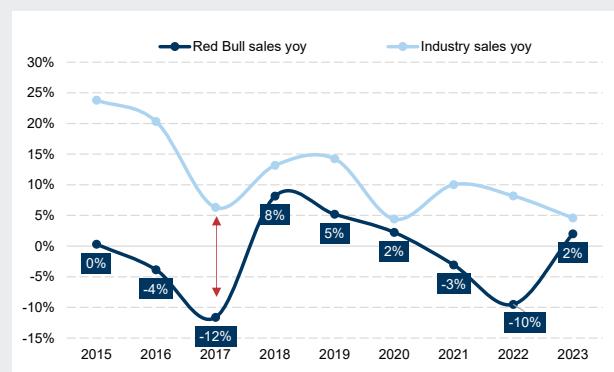
Exhibit 20: Summary of the ongoing Red Bull trademark dispute between TCP and Reignwood



Source: Company data (TCP, Reignwood), Data compiled by Goldman Sachs Global Investment Research

Exhibit 21: Red Bull's sales in the past decade was mostly below industry growth, esp. in 2016-2017

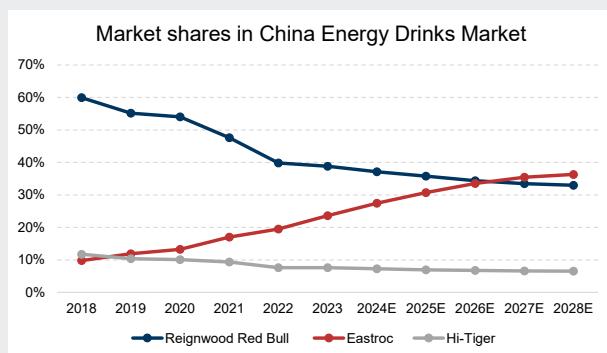
Red Bull sales yoy vs. industry



Source: Goldman Sachs Global Investment Research, Euromonitor, Company data

Exhibit 22: We expect Eastroc to continue gaining shares and surpass Red Bull by 2027E

Energy drinks market volume share (%)



Source: Goldman Sachs Global Investment Research

Key debate 2: Growth path for Eastroc: a product diversification model with initial success

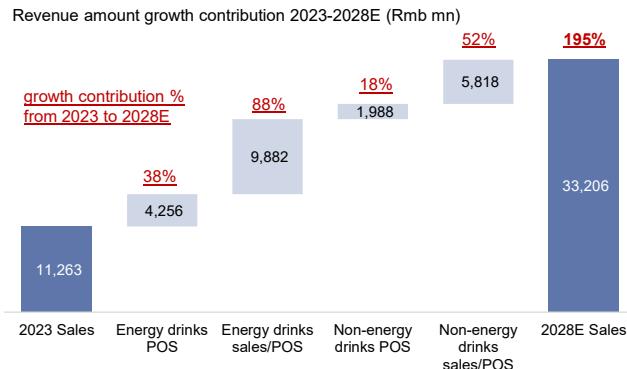
Bottom line: We believe Eastroc's core strengths are its value focused position and consumer insights that drives its product innovation supported by strong channel control with digital system, which has driven Eastroc's faster growth vs. competitors. We expect continued growth from further market share gains in energy drinks, and penetration in other beverages with new products, starting from sports drinks with its electrolyte water "Bushuila".

Exhibit 23: Electrolyte water "Bushuila" as the 2nd star SKU, is ramping up quickly and we expect it to contribute topline meaningfully by 2026E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 24: We expect the pick-up in sales per POS to be the key topline growth driver for Eastroc ahead



Source: Company data, Goldman Sachs Global Investment Research

Pillars: What has supported Eastroc's growth out-performance

Key Strength #1: Value focused position across Eastroc's product portfolio

Started with a value-focused proposition, Eastroc's Special Drink comprises very similar content and additives as Red Bull, e.g., same amount of caffeine, inositol, taurine and lysine, but is priced lower at Rmb1.0/100ml (taking the 500ml bottle as example) vs. the direct competitor Red Bull's Rmb2.4/100ml (250ml can as example). Eastroc managed to rapidly gain market shares in the home market Guangdong with sales reaching Rmb100mn in 2012 (3 years since launched), as its energy drink is focused on penetrating consumer group primarily including factory workers, drivers, while Red Bull was positioned with brand image associated with white collar customer group and extreme sports enthusiasts at that time.

Such value-focused positioning is also reflected in Eastroc's recently launched new products e.g., RTD coffee, tea and juice. The suggested retail prices were generally set somewhat below the mainstream products in corresponding categories.

Exhibit 25: Product comps

Energy drinks	Suggested Retail Price (Rmb)	Price/100ml	Sugar (g/100ml)	Caffeine (mg/100ml)	Inositol (mg/100ml)	Taurine (mg/100ml)	Lysine (mg/100ml)	Health Food Qualification?
Eastroc Special Drink	5.0	1.0	11.9	20.0	20.0	50.0	20.0	Yes
Hi-Tiger	5.0	1.0	11.4	12.8	10.0	49.2	-	Yes
Warhorse	6.0	1.9	10.9	15.0	-	40.0	-	Yes
Red Bull Vitamin Functional Drink	6.0	2.4	12.1	20.0	20.0	50.0	20.0	Yes
Red Bull Vitamin Flavoring Drink	6.0	2.4	12.7	-	9.2	55.0	-	No
Red Bull Energy Drink (TCP)	6.0	2.4	12.1	20.0	9.0	190.0	-	Yes
Zhongwo	5.0	0.8	12.6	2.0	-	51.5	-	No
Monster	7.0	2.1	5.8	28.2	-	54.2	-	No

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Eastroc developed its energy drink products in 6 specs, i.e., 500ml bottle, 250ml bottle, 250ml can, 335ml can, 250ml Tetra Pak, and 250ml Tetra Prisma, while the company mainly pushed the sales of 500ml bottles (suggested price at Rmb5, vs 250ml Red Bull at Rmb6) to position it as a value-for-money choice for consumers. We estimate that the 500ml bottle accounts for c.80%+ of Eastroc's energy drinks sales in recent years (vs. 76% in 2021 per company data), as consumers prefer convenience and value for money. Compared to the traditional 250ml canned Red Bull, the 500ml bottle satisfies more

drinking demand in a day and is easier to carry along when working/ driving as the PET bottle can be capped again. More creatively Eastroc's bottled Special Drink has an exterior plastic cap on top of the bottle cap, and consumers find that helpful for dust prevention, drink sharing, or even use as ashtrays, which impressed consumers and strengthened its product positioning amongst factory workers, long-haul truck drivers etc.

Hi-Tiger: The energy drink brand of Dali Foods (private) grew at 40% CAGR in 2014-2018 as a key competitor to Red Bull with cheaper ASP as well, however its growth pace slowed down, likely associated with issues in channel control and relatively limited resources from the group compared to Eastroc's focuses on its core product. Hi-Tiger recorded -2% sales CAGR in 2018-22, vs. Eastroc's 30% in the same period.

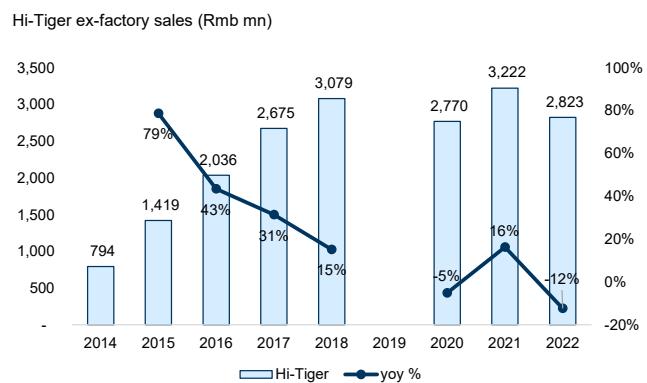
Exhibit 26: Eastroc's products are generally selling at a lower retail price vs mainstream products across categories, per our channel checks

Price comps for Eastroc's beverage products

Eastroc's beverage SKUs vs. peers	Net content (ml)	Suggested Retail Price (Rmb)	Price/100ml
RTD Coffee			
Dongpeng Daka (Eastroc)	500	6.4	1.3
Nestle Smooovatte	500	10.4	2.1
COSTA Latte (Coca Cola)	500	9.1	1.8
Juice			
Haidaiye Coconut Juice (Eastroc)	250	1.9	0.8
Coconut Palm Cocunut Juice	245	4.0	1.6
Huanlejia Coconut Juice	250	2.5	1.0
Susa Coconut Juice	250	3.0	1.2
RTD Cocktails			
VIVI Cocktails	500	9.0	1.8
RIO Cocktails	500	9.8	2.0
RTD Tea			
Yougan Lemon Tea (Eastroc)	500	3.2	0.6
Vita Lemon Tea	500	5.0	1.0
Oolong Shangcha (Eastroc)	555	4.0	0.7
Oriental Leaf	500	5.0	1.0

Source: Tmall, JD, Data compiled by Goldman Sachs Global Investment Research

Exhibit 27: Hi-Tiger recorded -2% sales CAGR in 2018-22, vs. Eastroc's 30% in the same period
Hi-Tiger ex-factory sales



2019 sales was not disclosed; 2020 yoy was based on 2018-2020 CAGR

Source: Company data

Key Strength #2: Effective channel management as back bone: comprehensive digitalized system + consumer insights

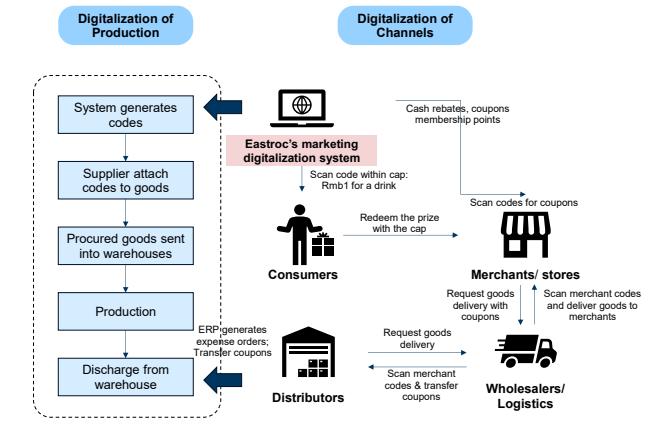
Channel system design: Eastroc leveraged a "distributor + postman system", to simultaneously promote POS expansion and refined its channel management. The postmen distributors are entitled with additional S&D expense budget from Eastroc and lower wholesale prices vs. normal distributors, which enables their efficiency to expand POS, esp. special channels e.g Internet cafes.

Comprehensive digitalized system: Eastroc started digitalization trials in its channel and marketing management back in 2016, trying to connect QR codes in beverage packages and merchant memberships. In 2018, Eastroc set up an independent specialized marketing IT company named Pengxun Yunshang (now named Pengzhirui "鹏智瑞"). In 2020, it leveraged its unique 5-in-1 QR code (5 QR codes within bottle caps, on the bottle caps, within cases, on the cases and on the goods stacks) (1) to deliver interactive marketing events and give changes to consumers to buy another bottle at only Rmb1 (by scanning the QR code within bottle caps, i.e., "一元乐享"), (2) to allow merchants to receive rebates and even offer merchants/retail terminals with tailor-made marketing events, and (3) to monitor channel turnover and retail sell-through in real time

to control channel inventory level. **As of end 2023, the company has connected with over 3mn active PoS and 180mn+ consumers who scanned the codes, and c.3,000 distributors.**

Consumer insights from QR Code scanning: The QR code scanning mechanism (210mn+ consumers scanned as of 1H24) enables the company to precisely understand the latest profile and preference of its consumer cohorts, where they have been seeing higher mix from younger generation and white collar employees, and more from tier-1/2 cities (vs. prior more from tier-3 or below).

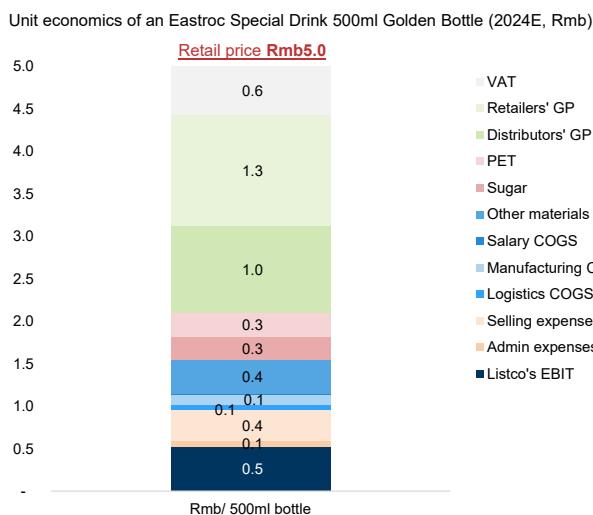
Exhibit 28: Eastroc's digital system for channel management and consumer/merchant rebates (Five QR Code in One)



Source: Goldman Sachs Global Investment Research

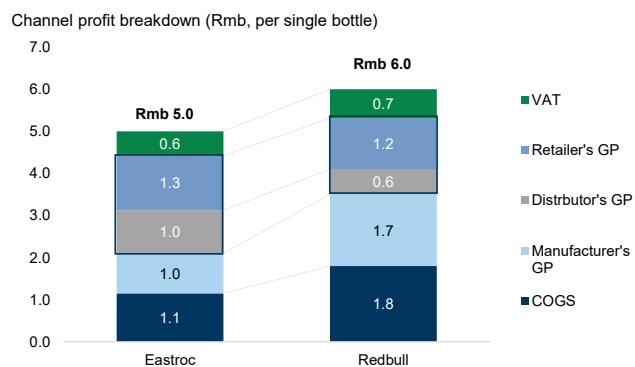
Strength #3: Well designed channel profitability

Based on the company disclosures and our channel checks, we analyze unit economics that suggests the 500ml Eastroc Special Drink (PET bottle) shares Rmb1.3/1.0 per bottle with retailers/ distributors from the suggested retail price of Rmb5.0 on average, and the company could retain an EBIT of roughly Rmb0.5 per bottle post operating spending in 2024E, for which we estimate the ex-factory price is at Rmb2.1. Our industry value chain analysis suggests Eastroc could offer relatively higher incentives to distributors vs Red Bull, even with an already-lower retail ASP.

Exhibit 29: Unit economics of an Eastroc Special Drink 500ml Golden Bottle


We assume opex is equally distributed to all the company's beverages

Source: Goldman Sachs Global Investment Research

Exhibit 30: Eastroc grants distributors/retailers higher channel profits vs. Redbull despite lower RSP


500ml/ 250ml for one bottle of Eastroc Special Drink / Red Bull

Source: Company data, Goldman Sachs Global Investment Research

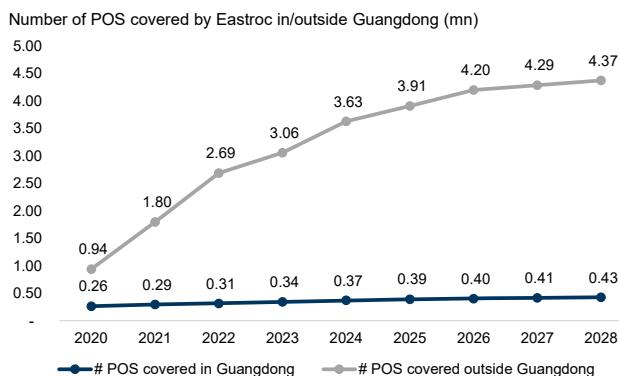
Key Growth Driver #1: Continued solid performance by energy drink

1) Decomposition of Regional POS/output growth- Replicating its energy drinks' success in Guangdong

Rooted in Guangdong, Eastroc has increasingly demonstrated its capability to replicate its success in other regions outside Guangdong - 1) sales mix from Guangdong is reduced to 27% in 9M24 from 61% in 2018; 2) sales per distributor across regions rose notably, even along with fast distributor enrollment e.g. in Southwest/ North China; and 3) the regional GPM and ASP does not significantly differ from one another amid regional expansion.

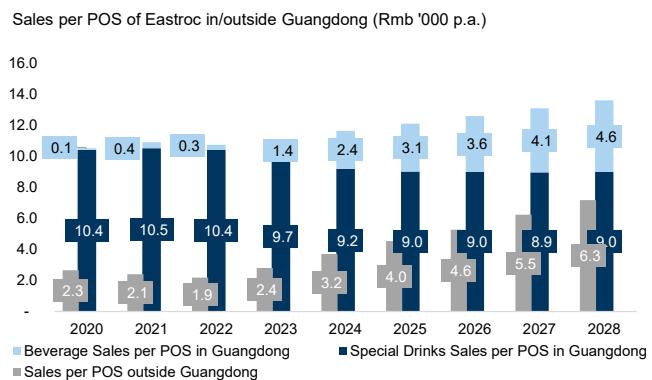
In addition, the company leverages its home market Guangdong as a test field for new products, partly leading to fluctuation of ASP and blended GPM in recent years, which we see effective in terms of better cost control and more real-time channel feedback.

Exhibit 31: We estimate that the POS penetration of Eastroc in Guangdong has been relatively mature, and nationwide footprint expansion will drive further growth



Source: Goldman Sachs Global Investment Research

Exhibit 32: In Guangdong, beverage mix increase is the key driver for Eastroc, while outside Guangdong, both POS penetration and per-POS output see ample room to grow



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 33: Eastroc managed to expand nationwide and its home market Guangdong now only accounts for 1/3 of its sales, and Guangdong has been an experimental field for new products with solid distribution network

Summary of geographical performance

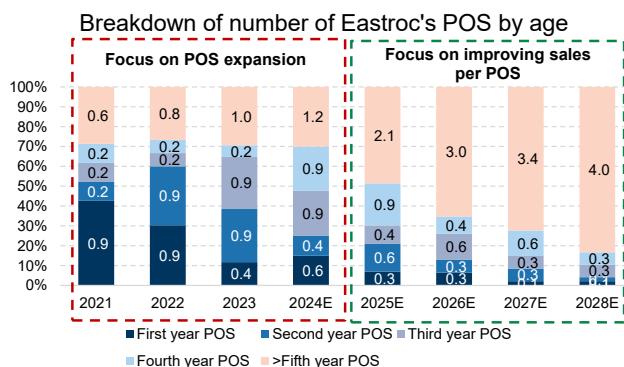
Region	Sales mix %				Distributor mix %			Per-distributor sales (Rmb mn)			GPM %			ASP (Rmb/litre)				
	2018	2023	9M24	2028	\$ CAGR 18-23	\$ CAGR 23-28	2018	2023	# CAGR	2018	2023	\$ CAGR	2020	2023	ppt CAGR	2020	2023	\$ CAGR
Guangdong	61%	33%	27%	17%	15%	9%	19%	10%	6%	8.7	13.1	8%	51.9%	45.9%	(2.0pp)	4.33	3.78	-4.4%
Central China	9%	12%	14%	13%	37%	25%	20%	14%	13%	1.3	3.4	22%	44.2%	41.7%	(0.8ppt)	4.44	4.00	-3.4%
Guangxi	11%	9%	7%	5%	24%	11%	6%	4%	13%	4.6	7.4	10%	41.4%	43.7%	0.8ppt	4.34	4.28	-0.5%
East China	9%	13%	14%	17%	42%	30%	22%	10%	4%	1.1	5.1	36%	46.7%	42.6%	(1.4ppt)	4.54	4.04	-3.9%
Southwest	4%	10%	11%	14%	59%	33%	8%	15%	38%	1.2	2.4	16%	47.6%	40.4%	(2.4ppt)	4.81	3.93	-6.5%
North China	5%	9%	12%	13%	48%	34%	25%	30%	26%	0.5	1.1	17%	34.1%	41.7%	2.5ppt	3.98	3.93	-0.4%
Online & DTC	1%	13%	14%	21%	101%	36%	-	17%	n.a.	-	3.0	n.a.	51.9%	46.8%	(1.7ppt)	4.52	4.00	-4.0%
Total	100%	100%	100%	100%	30%	24%	100%	100%	22%	2.7	3.8	7%	46.0%	43.1%	(1.0ppt)	4.06	3.94	-1.0%

Source: Company data, Goldman Sachs Global Investment Research

2) Decomposition of POS growth and unit output for energy drinks in our POS Maturity Model Analysis

Our POS maturity model analysis suggests that the company has been shifting strategic focus on improving sales per POS going forward, with a more stable, time-tested POS network. The fast POS expansion in recent years started contributing positively to sales per POS for special drinks, and we expect sales per POS improvement esp. of rising maturity of recently added POS to contribute more sales growth of energy drinks segment going forward.

Exhibit 34: Eastroc has been shifting strategic focus on improving sales per POS going forward, with a more stable, time-tested POS network



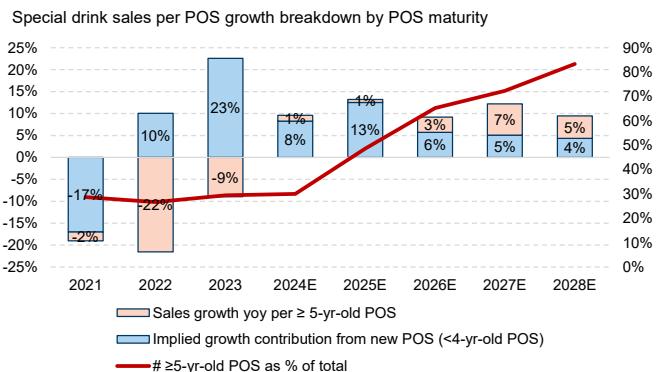
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 36: The pick-up of per-POS sales from newly added POS in 2023/24 started contributing positively to sales per POS for special drinks



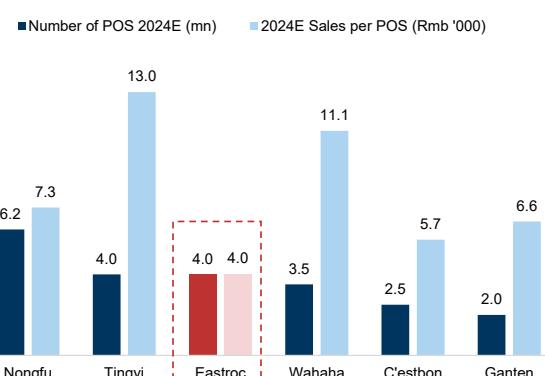
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 35: Into 2024, we expect mature POS start to contribute to sales per POS growth, driven by more resources spent on existing POS



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 37: Although we expect Eastroc to expand POS coverage to 4.0mn, the per-POS output is still low vs. beverage peers



Source: Company data, Goldman Sachs Global Investment Research

Scenario analysis for Eastroc's further market share upside referencing the US market vs our base case

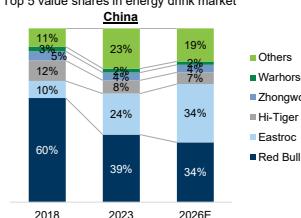
As discussed above in Red Bull's dispute section (Exhibit 20), we see favorable market landscape for Eastroc's growth to continue in China, and we make reference to the US market shares to gauge potential upside vs. our base case. Our scenario 1/2 assumes Eastroc to reach No.1 player (Red Bull)'s market shares in the US in 2023/ No.2 player (Monster)'s recent highest shares in 2018 by 2026E, which could result in 12%/20% sales upside vs. our base case estimates.

Exhibit 38: Eastroc's revenue could be increased further by 12%/20% based on our scenarios

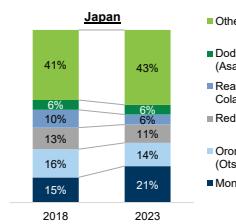
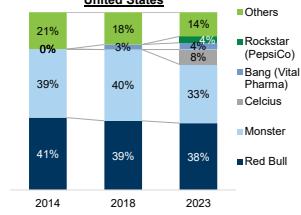
Scenario analysis

Scenarios for energy drink market shares**Base case: Eastroc in China**

	2024E	2026E
China energy drink market		
Retail market size (value, Rmb mn)	99,771	116,480
Retail market size (volume, k ton)	8,155	9,780
Eastroc		
Energy drinks ex-fac sales (Rmb mn)	13,337	19,001
Energy drinks retail sales (Rmb mn)	27,402	39,039
Energy drinks sales volume (k ton)	3,124	4,495
Total sales value (Rmb mn)	16,055	24,372
Eastroc		
Value share (2024E)	27%	34%
Volume share (2024E)	38%	46%

Top 5 value shares in energy drink market**Scenario #1: Eastroc to reach value share same as Red Bull in 2023 in the US (latest top 1 player) by 2026E****Eastroc in China**

Retail value share	
Eastroc's sales value of energy drinks (Rmb mn)	21,317
+/- % vs. base case 2026E	+12%
Eastroc in China	
Retail value share	
Eastroc's sales value of energy drinks (Rmb mn)	22,734
+/- % vs. base case 2026E	+20%

United States

Source: Company data, Goldman Sachs Global Investment Research, Euromonitor

Key driver #2: Category expansion beyond energy drinks

The key success factors include: its continuous focus on value position for new products, targeting at categories with high potential, seizing cross-selling opportunity for the covered POSs.

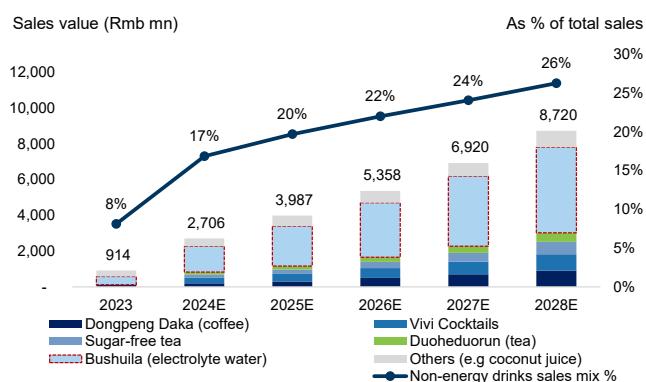
Overall, Eastroc aims to reach total sales of Rmb20bn in 3-4 years (vs. Rmb10.3bn/11.3bn for its energy drink segment/total sales in 2023) with the support of 1+6 Strategy. Looking forward, we estimate the non-energy drinks segment could account for 20%/22% of Eastroc's total revenue by 2025/2026E, vs. 8% in 2023. The sales staff output will also be enhanced by launching and investing in more SKUs, which will drive operating leveraging ahead.

Bushuila - A potential blockbuster SKU: Eastroc's electrolyte drink Bushuila was launched in Jan 2023, in 555ml/1000ml size and a relatively low unit ASP (Rmb0.6-0.7/100ml) targeting mass market and focused on retail channels in lower-tier regions, vs. peers e.g., Pocari mainly targeting sports stadiums/ schools in tier-1/2 cities. The accumulated retail sales of Bushuila has exceeded Rmb1bn since its launch, per our channel checks. Management believes Bushuila will be another key product besides Special Drink and expects the annual sales to reach Rmb3bn in 2026E.

Electrolyte water: In 2021, Nongfu Spring managed to revitalize its sports drink Scream by releasing a third-generation positioning as isotonic drinks for sports scenarios, and Genki Forest also successfully launched its electrolyte water Alienenergy with stylish packaging, healthy and diverse flavors, gaining popularity rapidly amongst young

generation, challenging the strong players further e.g, Mizone in the functional and sports drinks market. Per Euromonitor, Mizone lost c.8ppt of its shares in 2020-2023, while Scream/ Alienenergy's shares were up by 4ppt/3ppt respectively during the same period. Eastroc's Bushuila has also been ramping up quickly since its launch in 2023, we estimate the ex-factory sales of Bushuila was over Rmb400mn in 2023 and will likely reach Rmb1bn in 2024E.

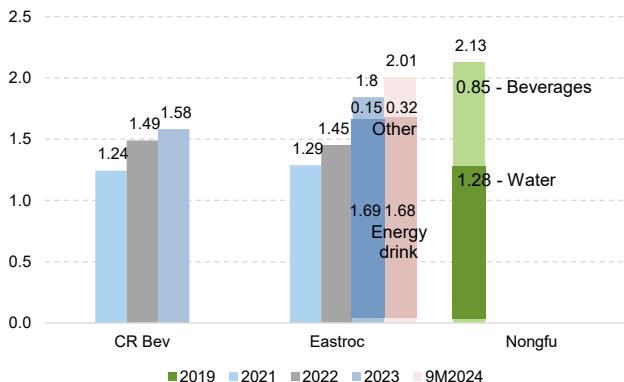
Exhibit 39: We expect the non-energy drink sales to account for over 20% of total by 2026E, with Bushuila as the largest contributor



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 40: The sales staff output will also be enhanced by launching and investing in more SKUs, which will drive operating leveraging ahead

Sales per salesperson (Rmb mn, p.a.)



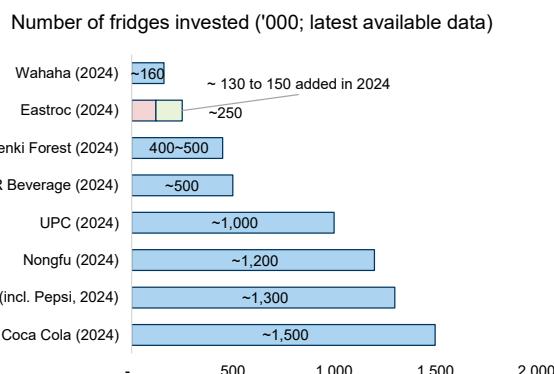
For Eastroc we assume number of salespersons in 9M24 equal to that in end-2023

Source: Company data, Goldman Sachs Global Investment Research

Seize cross-selling opportunity

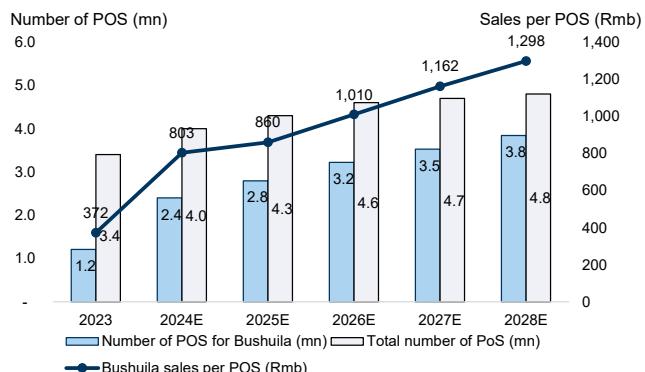
We think the number of fridges operated across retail terminals is critical for developing product portfolio, as that offers concentrated display areas for multiple SKUs and more flexibility for better exposure for new products. We see Coca Cola and Tingyi owned most number of fridges in the market (>1mn), while Eastroc's scale is still relatively small. The company has been more actively spending on fridges, and we estimate it to reach c.250k fridges by end-2024E with c.130-150mn addition through the year, which would require Rmb650mn+ investment in 2024E (c.23%+ of selling expenses), assuming the aggregate cost per fridge to be roughly Rmb5,000, also inclusive of subsidies to merchants for electricity costs.

Exhibit 41: We see Coca Cola and Tingyi owned most number of fridges in the market; Eastroc's scale is still relatively small



Source: Goldman Sachs Global Investment Research, Company data

Exhibit 42: We expect rising POS penetration (towards 80% by 2028E) and improving sales per POS (from low base) to contribute Bushuila sales ramp-up



Source: Company data, Goldman Sachs Global Investment Research

Monthly operating data tracker showed strong momentum for Bushuila

We construct a monthly operating data tracker for Eastroc based on our channel checks. The tracker suggests a strong momentum in the retail sell-through of Special Drinks and new product Bushuila in 2024YTD.

Exhibit 43: Monthly operating data tracker for Eastroc based on our channel checks

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Aug-24	Oct-24	2M24	4M24	5M24	6M24	8M24
Monthly sales															
Eastroc Special Drink	28% yoy (Nov+Dec)	-20% yoy	46% yoy	28% yoy	32% yoy	38% yoy	40%+ yoy	30%+ yoy	25% yoy	35%+ yoy	33%	35%	37%	35%+	
Special Drink 500ml							c.26% yoy	c.25% yoy							
Bushuila				Rmb110mn		Rmb100mn+	c.Rmb165mn				c.Rmb570mn	Rmb700mn+	Rmb1bn+		
Non-energy drink sales mix					c.4%	c.15%	c.19%	c.16%			7%	c.13%	c.13%		
Channel inventory days	100 days	105-110 days	90 days	MoM decline	80 days	80 days									
Number of PoS (mn): by end of each month															
Bushuila				1.3		1.3									
Total PoS	3.3					3.8									

Source: Data compiled by Goldman Sachs Global Investment Research

Key debate 3: How to look at margin level amid investment for growth?

Eastroc experienced a rapid ramp-up in scale in the past years while its GPM was fluctuating due mainly to 1) accelerated new product launches diluting overall GPM in near-term (e.g., GPM of non-energy drinks was 13-17% in 2021-23, vs. c.45% for energy drinks, while catching up in 2024), etc. 2) fluctuation in raw material prices esp. sugar and PET, each accounting for roughly 1/3 of the cost on GSes, and 3) reclassification of transportation expenses into COGS (reducing 2-3ppt to GPM, but neutral to OPM) since 2021. Meanwhile, OPM expanded significantly on sales cross-selling.

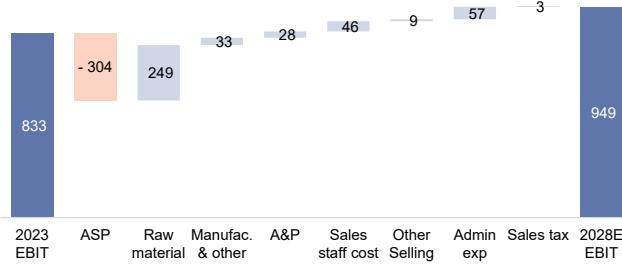
Sustainability of solid profitability

The fast roll-out of non-energy drink product sales will slightly dilute the overall ASP, while we expect economies of scale and operating leveraging will lead to group-level unit EBIT improvement over time (i.e., operating leverage for sales from cross selling). We expect beverage drink segment's GPM to expand from 17.3% in 2023 to 39.8% in 2028 as it scales up. The company has demonstrated its ROI for commercial investments with higher return of incremental sales generated relative to marginal

marketing expenses, ranking higher than Nongfu and CR Beverage in our coverage in 2018-23.

Exhibit 44: We see a relatively steady unit EBIT towards 2028E, driven by economies of scale though partly offset by blended ASP evolution

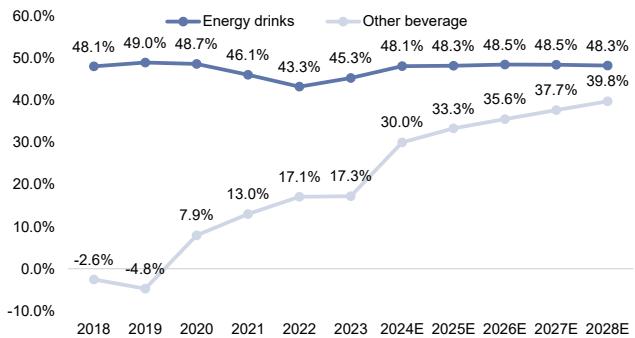
EBIT per ton changes in 2023-2028E (Rmb)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 46: We expect the beverage segment's GPM to expand with scale up

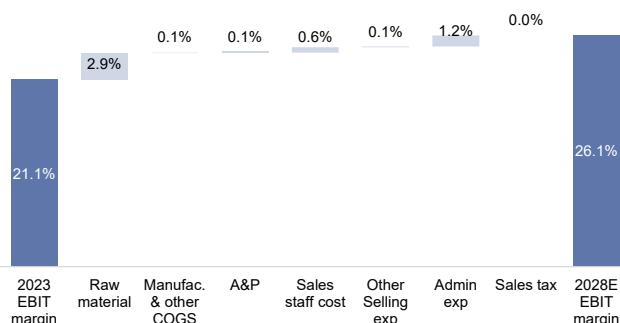
Eastroc's GPM by segment (%)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 45: The economies of scale is mainly reflected in manufacturing and admin costs; Lower blended raw material costs come from non-energy drinks' roll out, where less sugar is used per unit

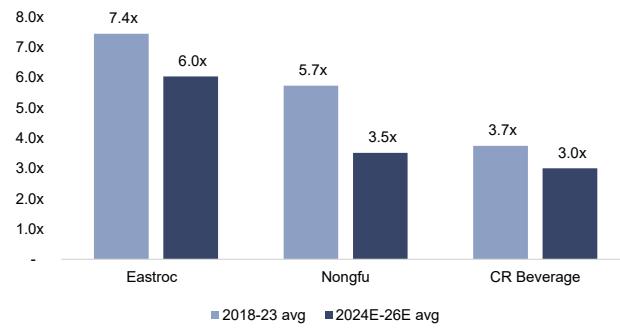
EBIT margin changes in 2023-2028E (%)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 47: Eastroc has made higher return from incremental marketing spend (measured by incremental sales) vs. Nongfu/ CR Bev

Incremental sales / incremental marketing expenses (x)



For CR Beverage we only apply 2021-2023 for average ratio calculation

Source: Company data, Goldman Sachs Global Investment Research

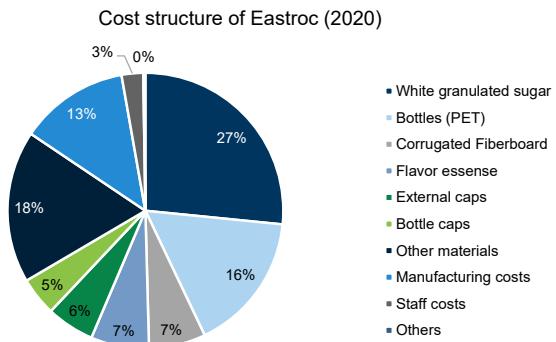
COGS breakdown

Overall the majority of raw material costs were from sugar (GSe c.29% of COGS) and PET (c.30%, inclusive of caps), which led to sequential cost pressure in 2021-23, and our cost index suggests such cost level to gradually ease in 2024 on declining sugar and PET prices.

While raw material cost is hard to forecast, we believe margin improvement would likely mainly come from non-energy drinks: we estimate GPM of non-energy drinks to have the potential to gradually approach to the level of its energy drinks (with similar PET bottle packaging, and rising scale). For example, we estimate GPM of the company's key product Bushuila in the non-energy drink categories to be above 30% in 2024E given the rising economies of scales at similar retail pricing but still with more channel rebate

vs. energy drinks, and in the long run we see potential for Bushuila's GPM to surpass energy drink because the raw material costs for Bushuila is probably lower than Eastroc Special Drinks (the latter contains more sugar and functional additives).

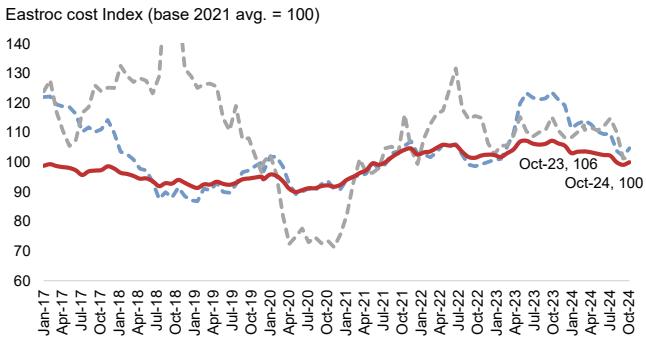
Exhibit 48: Per company disclosures, material costs accounted for 80%+ of Eastroc's COGS, in which packaging accounted for 33% and white granulated sugar for 27% in 2020



Source: Company data

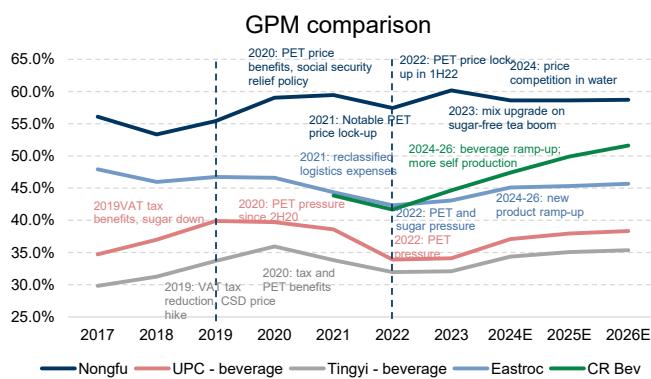
Exhibit 49: We note mild sequential easing on raw material cost prices YTD, mainly driven by sugar price declines

Eastroc cost index



Source: Wind, Company data, Goldman Sachs Global Investment Research

Exhibit 50: Eastroc's GPM sustained at relatively robust level amid fast ramp-up



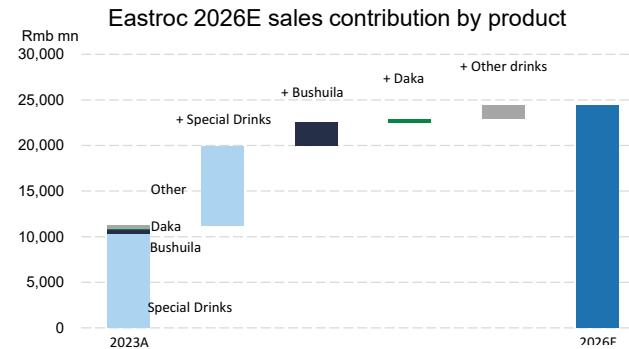
Source: Company data, Goldman Sachs Global Investment Research

Company Financials

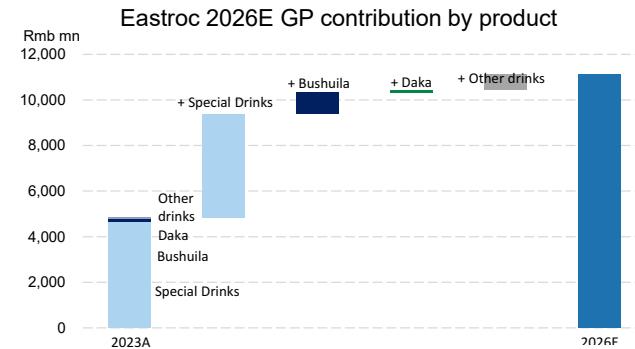
We expect Eastroc's revenue to exceed Rmb33.2bn in 2028E with a 2023-28E CAGR of 24%. **For key products**, we expect Eastroc Special Drink to deliver 19% revenue CAGR in 2023-28E, outpacing the China energy drinks market (at 7%) and overall beverages sector (at 4%). We estimate Rmb4,779mn sales by 2028E for Bushuila. Other products are expected to contribute Rmb3,940mn sales (as 12% of total) by 2028E, vs. 4% of total in 2023. **By Volume/ASP**, we expect Eastroc Special Drink to grow volume at 19% CAGR in 23-28E mainly driven by rising geographical penetration and the latter largely reflecting competition intensity, while foresee ASP to slightly decrease within 1.5% in 24-25E and then stay flat.

We expect Eastroc's GPM/OPM to gradually improve, benchmarking to leading

beverage company Nongfu's level and reach 46.1%/26.1% in 2028E (vs. 43.1%/21.1% in 2023), thanks to economies of scale, product diversification, and more manageable capacity.

Exhibit 51: Eastroc 2026E sales contribution by product


Source: Company data, Goldman Sachs Global Investment Research

Exhibit 52: Eastroc 2026E GP contribution by product


Source: Company data, Goldman Sachs Global Investment Research

Exhibit 53: Summary of Eastroc's income statement - consolidated

Consolidated P/L (Rmb mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	18-23 5yr CAGR	23-28 5yr CAGR
Revenue	3,038	4,209	4,959	6,978	8,505	11,263	16,055	20,240	24,372	28,784	33,206	30.0%	24.1%
COGS	-1,641	-2,242	-2,648	-3,882	-4,905	-6,412	-8,815	-11,064	-13,239	-15,575	-17,904	31.3%	22.8%
GP	1,396	1,967	2,311	3,096	3,600	4,851	7,240	9,175	11,133	13,209	15,301	28.3%	25.8%
SG&A (excl. other rev/exp)	(1,153)	(1,257)	(1,310)	(1,740)	(1,841)	(2,500)	(3,455)	(4,254)	(5,050)	(5,878)	(6,681)	16.7%	21.7%
Selling Exp.	(969)	(984)	(1,040)	(1,368)	(1,449)	(1,956)	(2,783)	(3,468)	(4,127)	(4,817)	(5,490)	15.1%	22.9%
Admin Exp.	(144)	(229)	(219)	(294)	(299)	(423)	(499)	(569)	(661)	(752)	(834)	24.1%	14.5%
OP	244	710	1,001	1,357	1,759	2,351	3,785	4,921	6,083	7,331	8,621	57.4%	29.7%
Other income/expenses	(2)	(7)	1	116	12	28	31	34	37	41	46		
EBIT (reported)	241	703	1,001	1,473	1,771	2,379	3,816	4,955	6,121	7,373	8,666	58.0%	29.5%
D&A	(85)	(110)	(134)	(185)	(224)	(254)	(356)	(398)	(465)	(615)	(771)	24.5%	24.9%
EBITDA	326	813	1,136	1,658	1,995	2,633	4,172	5,353	6,586	7,987	9,437	51.8%	29.1%
Net Finance Exp.	-5	14	16	11	-41	-2	92	124	188	240	319		
Other Non-Op Income	37	19	12	30	106	202	161	161	161	161	161		
Profit Before Tax	273	737	1,030	1,514	1,836	2,579	4,069	5,240	6,470	7,773	9,146	56.7%	28.8%
Tax	-57	-166	-217	-321	-395	-539	-810	-1044	-1289	-1548	-1822		
Minority Interest	0	0	0	0	0	0	0	0	0	0	0		
NPAT to shareholders	216	571	812	1,193	1,441	2,040	3,258	4,196	5,181	6,225	7,325	56.7%	29.1%
One-off's after tax	-28	25	-7										
Recurring NPAT	188	595	805	1,193	1,441	2,040	3,258	4,196	5,181	6,225	7,325	61.2%	29.1%
EPS - Basic (Rmb/Sh)	0.47	1.22	1.74	2.29	2.77	3.92	6.27	8.07	9.96	11.97	14.09	52.6%	29.1%
EPS - Diluted (Rmb/Sh)	0.47	1.22	1.74	2.29	2.77	3.92	6.27	8.07	9.96	11.97	14.09	52.6%	29.1%
Growth													
Sales	7%	39%	18%	41%	22%	32%	43%	26%	20%	18%	15%		
GP	2%	41%	17%	34%	16%	35%	49%	27%	21%	19%	16%		
SG&A	17%	9%	4%	33%	6%	36%	38%	23%	19%	16%	14%		
Selling Exp.	17%	1%	6%	32%	6%	35%	42%	25%	19%	17%	14%		
Admin Exp.	30%	60%	-4%	34%	2%	41%	18%	14%	16%	14%	11%		
Operating profit (GP less SG&A)	-36%	191%	41%	36%	30%	34%	61%	30%	24%	21%	18%		
EBIT	-37%	191%	42%	47%	20%	34%	60%	30%	24%	20%	18%		
Reported NPAT	-27%	164%	42%	47%	21%	42%	60%	29%	23%	20%	18%		
Recurring NPAT	-37%	217%	35%	48%	21%	42%	60%	29%	23%	20%	18%		
Margins													
GP margin	46.0%	46.7%	46.6%	44.4%	42.3%	43.1%	45.1%	45.3%	45.7%	45.9%	46.1%		
Operating profit (GP less SG&A)	8.0%	16.9%	20.2%	19.4%	20.7%	20.9%	23.6%	24.3%	25.0%	25.5%	26.0%		
EBIT margin	7.9%	16.7%	20.2%	21.1%	20.8%	21.1%	23.8%	24.5%	25.1%	25.6%	26.1%		
Reported NPAT margin	7.1%	13.6%	16.4%	17.1%	16.9%	18.1%	20.3%	20.7%	21.3%	21.6%	22.1%		
Selling expense/Sales	-31.9%	-23.4%	-21.0%	-19.6%	-17.0%	-17.4%	-17.3%	-17.1%	-16.9%	-16.7%	-16.5%		
Admin expense/Sales	-4.7%	-5.4%	-4.4%	-4.2%	-3.5%	-3.8%	-3.1%	-2.8%	-2.7%	-2.6%	-2.5%		
Effective Tax Rate	-21%	-23%	-21%	-21%	-22%	-21%	-20%	-20%	-20%	-20%	-20%		

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 54: Summary of Eastroc's income statement - by segment

Eastroc Beverage (605499.SS) Rmb millions											
Divisional P/L	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue											
Energy drinks	2,885	4,003	4,655	6,592	8,172	10,336	13,337	16,241	19,001	21,852	24,474
Other beverage	136	189	281	372	319	914	2,706	3,987	5,358	6,920	8,720
Bushuila						450	1,450	2,233	3,037	3,918	4,779
Others						464	1,256	1,754	2,322	3,003	3,940
Total	3,038	4,209	4,959	6,978	8,505	11,263	16,055	20,240	24,372	28,784	33,206
Gross Profit											
Energy drinks	1,387	1,962	2,266	3,038	3,536	4,685	6,419	7,837	9,219	10,591	11,824
Other beverage	-3	-9	22	48	54	158	813	1,329	1,906	2,610	3,469
Total	1,396	1,967	2,311	3,096	3,600	4,851	7,240	9,175	11,133	13,209	15,301
Group OP	244	710	1,001	1,357	1,759	2,351	3,785	4,921	6,083	7,331	8,621
Breakdown											
Revenues											
Energy drinks	95%	95%	94%	94%	96%	92%	83%	80%	78%	76%	74%
Other beverage	4%	4%	6%	5%	4%	8%	17%	20%	22%	24%	26%
Total	99%	100%	100%	100%	100%	108%	117%	120%	122%	124%	126%
Gross Profit											
Energy drinks	99%	100%	98%	98%	98%	97%	89%	85%	83%	80%	77%
Other beverage	0%	0%	1%	2%	2%	3%	11%	14%	17%	20%	23%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
YoY Growth (%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
By segment											
Energy drinks		39%	16%	42%	24%	26%	29%	22%	17%	15%	12%
Other beverage		39%	49%	33%	-14%	187%	196%	47%	34%	29%	26%
Bushuila							222%	54%	36%	29%	22%
Others							170%	40%	32%	29%	31%
Total	7%	39%	18%	41%	22%	32%	43%	26%	20%	18%	15%
Gross Profit Margin	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
By segment											
Energy drinks	48.1%	49.0%	48.7%	46.1%	43.3%	45.3%	48.1%	48.3%	48.5%	48.5%	48.3%
Other beverage	-2.6%	-4.8%	7.9%	13.0%	17.1%	17.3%	30.0%	33.3%	35.6%	37.7%	39.8%
Total	46.0%	46.7%	46.6%	44.4%	42.3%	43.1%	45.1%	45.3%	45.7%	45.9%	46.1%

Source: Company data, Goldman Sachs Global Investment Research

Balance sheet and Cash flows

We estimate total net cash of Rmb3.7bn (48% of total equity) with Rmb4.0bn interest-bearing debt and Rmb7.7bn cash in 2024E. The company barely has account receivables due to its payment agreements with distributors, and it has c.32/128 inventor/ payable days in 2023.

In 2021-23, the company's has strong operating cash flows were as 1.7x/1.4x/1.6x of its net income. Capex was Rmb0.8bn/0.8bn or roughly 11%/8% of its sales in 2022/23, and we expect the ratio to stay flattish in 2024E and gradually normalize going forward, considering stepping-up investments in fridges in 2024E and capacity expansion plans going forward. We expect dividend payout to maintain 55% in 2024E-26E, same as the level in 1H24, as it is still in the relatively fast expansion stage with potentially greater needs of investments in near term. Hence, we expect the ROE to increase from 28%/32% in 2022/23 to 42%/43% in 2024/25.

Our 2024E sales estimate is largely inline with consensus, while 2025/2026E sales is ~1/2% lower than consensus, our 2025-26E NP estimate is 1~3% lower than consensus reflecting our more aggressive expectation of channel investment (fridge and marketing expenses) for other beverage segment's scale up.

Exhibit 55: GS vs Consensus

Eastroc	Sales			NP		
	Rmb mn	2024	2025	2026	2024	2025
GSe	16,055	20,240	24,372	3,258	4,196	5,181
Consensus	16,065	20,460	24,962	3,244	4,249	5,332
GSe vs. Con	-0.1%	-1.1%	-2.4%	0.4%	-1.2%	-2.8%

Source: Bloomberg, Goldman Sachs Global Investment Research

Valuation

We initiate Eastroc Beverage at Buy with a 12m TP of Rmb258, implying 18% upside. We apply a forward P/E ratio of 32X to the company's 2025E EPS to derive our target equity valuation. We see P/E valuation as most suitable for Eastroc as 1) the company has maintained a stable and robust net margin profile, 2) profitability is a key metric for assessing the competitiveness and prospect of its business in the industry. The target multiple of 32X is benchmarked to the 10-year avg. P/E of Monster Beverage as the No.2 player in the US energy drinks market. Monster has been trading largely steady at 32x (-/+ 1std PE at 28/35x) in the past decade, with EPS CAGR at c.15% in 2014-2023. As a cross-reference, we compare Eastroc's growth profile and valuation with broad China/global F&B peers and note that Eastroc's 23%/26% 2024-26E sales/NP CAGR demonstrates higher visibility and more promising growth outlook vs. our F&B coverage average of 7%/13% (average of Nongfu/Tingyi/UPC/CR Bev).

Exhibit 56: We apply a 32x 2025E P/E to Eastroc with a TP at the end of 2025 at Rmb258

Eastroc Beverage	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
EPS	2.29	2.77	3.92	6.27	8.07	10.12	11.97	14.09
yoY %	32%	21%	42%	60%	29%	23%	20%	18%
Target PE					32.0x			

Target price (end-2025E)	258.0
Current price A share (RMB)	218.4
Potential share price upside	18.1%
TP Implied PE	41.2x
Trading P/E	34.9x
	27.1x
	9.7%
	18.3x

Current price as of Dec 2, 2024

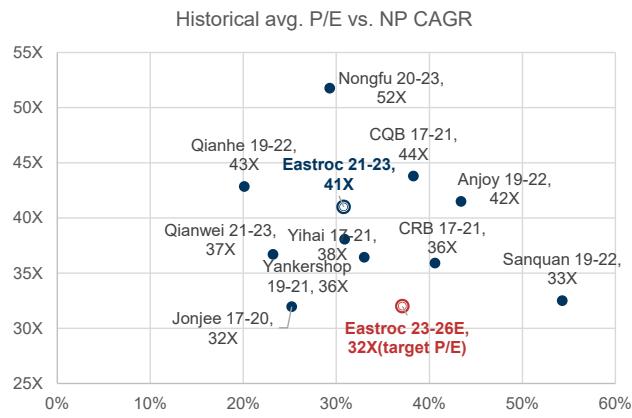
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 57: Eastroc P/E was trending lower but edging up recently, while its net profit growth expectation has been better since its listing

Source: Refinitiv Eikon, Goldman Sachs Global Investment Research

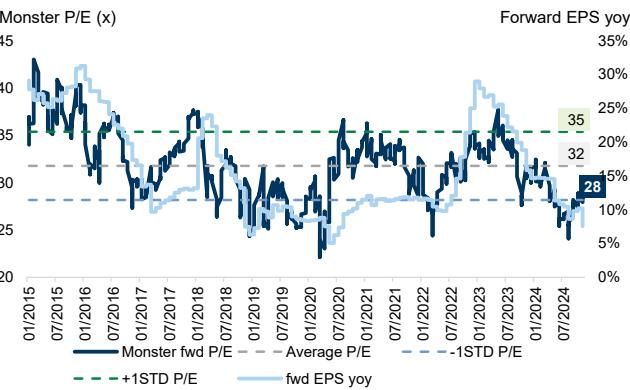
Exhibit 58: Our implied P/E for Eastroc looks prudent compared to the historical P/E range of our key staples companies in their fast-growing stages

Eastroc P/E vs. Nongfu and Monster



Source: Refinitiv Eikon, Goldman Sachs Global Investment Research

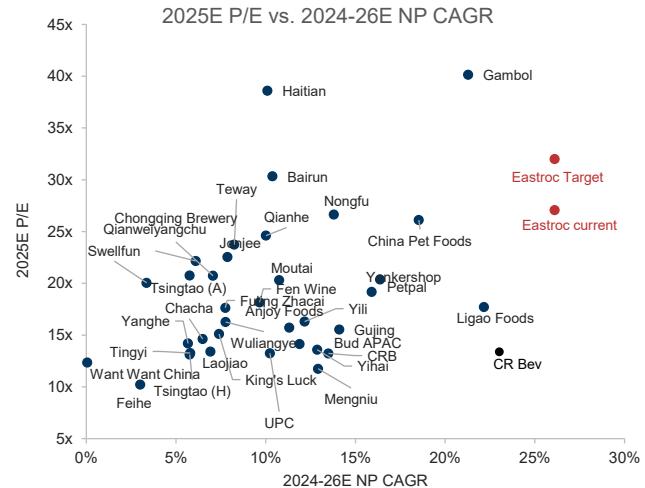
Exhibit 60: Monster's historical P/E



Source: Datastream, Data compiled by Goldman Sachs Global Investment Research

As our valuation cross-check, we also perform a DCF for Eastroc, where we consider the free cash flow strength driven by its strong product development and channel management ability. We apply a WACC of 9.7% and a terminal growth of 3%, largely in line with our consumer staples coverage.

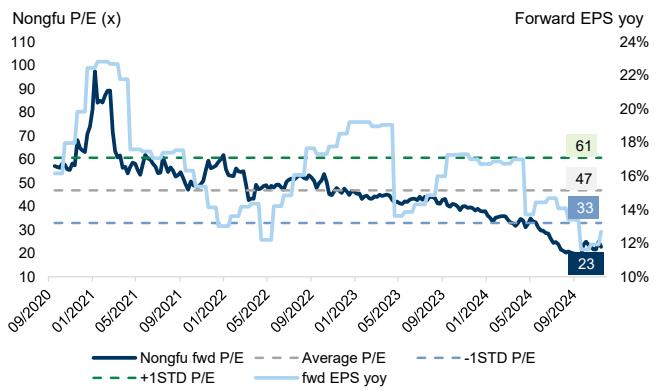
Exhibit 59: Eastroc is trading at a comparable reward to its promising NP growth outlook vs. our other major staples names



Data as of Dec 2, 2024

Source: Refinitiv Eikon, Goldman Sachs Global Investment Research

Exhibit 61: Nongfu Spring's historical P/E



Source: Datastream, Data compiled by Goldman Sachs Global Investment Research

Exhibit 62: DCF for Eastroc as cross check

A shares			
WACC calculation		DCF summary results	
Equity component		Firm value (Rmb mn)	
Equity market premium	6.5%	Net debt (Rmb mn)	(5,862)
Risk free rate	3.2%	Minority interest (Rmb mn)	-
Beta	1.00	Fair value (Rmb mn)	137,964
Cost of equity	9.7%	Shares outstanding (current)	520
Debt component		Equity value/share (Rmb)	265.3
Cost of debt	5.0%		
Tax rate	21.8%		
After-tax cost of debt	3.9%		
Long-run debt-to-capital ratio	-		
WACC	9.7%		
Explicit growth rate		DCF value/A share (RMB)	265.0
Terminal growth rate	3.0%	Current price A share (RMB)	218.4
		Potential share price upside	21%

Discounted cash flow model											
DCF calculation	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	4,955	6,121	7,373	8,666	9,706	10,774	11,851	12,918	13,951	14,928	15,824
- EBIT x tax rate	987	1,219	1,468	1,726	1,933	2,146	2,360	2,573	2,779	2,973	3,152
+ Depreciation and amortization	398	465	615	771	833	899	971	1,049	1,133	1,223	1,321
- Increase/(decrease) in NWC	(557)	(538)	(578)	(576)	(634)	(697)	(767)	(844)	(928)	(1,021)	(1,123)
- capital expenditure	2,117	2,135	1,457	1,182	1,277	1,379	1,489	1,609	1,721	1,825	1,934
FCF (Rmb mn)	2,806	3,769	5,640	7,105	7,962	8,845	9,739	10,629	11,512	12,374	13,182
% growth	34%	50%	26%	12%	11%	10%	9%	8%	7%	7%	7%
A shares											
Terminal value (Rmb mn)											202,649
Total FCF	2,806	3,769	5,640	7,105	7,962	8,845	9,739	10,629	11,512	12,374	215,831

Source: Goldman Sachs Global Investment Research

Exhibit 63: Valuation comps for Eastroc

Ticker	Company	Rating	Mkt cap US\$ mn	Ccy	Price 12/2/2024	12-m TP	+/-	PE			TP Implied PE			23-26E		23-26E		EV/EBITDA		ROE	Div Yield	YTD perf %	LST week perf %
								2024E	2025E	2026E	2024E	2025E	2026E	Rev CAGR	NP CAGR	2024E	2025E	2026E	2024E	2025E	2026E		
F&B																							
605499.SS	Eastroc Beverage	Buy	15,781	CNY	218.40	258.00	18%	35X	27X	22X	41X	32X	26X	29%	36%	27X	20X	16X	46%	1.6%	56%	4%	
9633.HK	Nongfu Spring	Buy	50,718	HKD	35.85	38.00	6%	30X	27X	24X	32X	28X	25X	12%	10%	19X	16X	14X	40%	2.3%	-19%	12%	
0322.HK	Tingyi	Neutral	7,237	HKD	9.74	10.60	9%	14X	13X	13X	15X	14X	14X	2%	9%	7X	7X	6X	20%	6.8%	5%	-3%	
0220.HK	Uni-President China	Neutral	3,946	HKD	6.85	7.50	9%	15X	13X	12X	16X	15X	13X	6%	11%	8X	7X	7X	14%	7.1%	23%	3%	
2460.HK	China Resources Beverage	Buy	3,728	HKD	12.14	17.30	43%	14X	13X	11X	21X	19X	16X	8%	22%	8X	6X	4X	17%	10.4%	n.a.	3%	
MNST	Monster Beverage Corp.	Buy	58,660	USD	54.98	61.00	11%	33X	28X	24X	37X	31X	27X	10%	10%	27X	22X	19X	23%	0.0%	-6%	0%	
KO	Coca-Cola Co.	Neutral	274,597	USD	63.65	65.00	2%	22X	21X	20X	23X	22X	20X	4%	6%	20X	18X	17X	44%	3.1%	6%	-1%	
PEP	PepsiCo Inc.	Buy	222,823	USD	163.05	192.00	18%	20X	19X	17X	24X	22X	20X	3%	7%	15X	14X	13X	57%	3.3%	-6%	0%	
Avg.								21X	19X	17X	24X	22X	19X	6%	11%	15X	13X	11X	31%	4.7%	1%	2%	
Beer																							
1876.HK	Budweiser APAC	Buy	12,518	HKD	7.47	10.10	35%	16X	14X	13X	22X	19X	17X	1%	5%	5X	5X	4X	7%	5.4%	-47%	3%	
0291.HK	China Resources Beer	Buy	10,941	HKD	26.55	38.10	44%	15X	13X	12X	21X	19X	17X	2%	10%	9X	8X	6X	15%	3.4%	-15%	4%	
0168.HK	Tsingtao Brewery	Buy	8,583	HKD	49.40	58.30	18%	14X	13X	13X	16X	16X	15X	-1%	5%	7X	7X	6X	15%	4.5%	-2%	5%	
600600.SS	Tsingtao Brewery	Neutral	13,413	CNY	73.04	66.80	-9%	22X	21X	20X	20X	19X	18X	-1%	5%	13X	12X	11X	15%	2.9%	2%	4%	
000132.SS	Chongqing Brewery	Neutral	4,269	CNY	61.82	56.60	-8%	22X	21X	19X	20X	19X	18X	2%	5%	8X	8X	7X	31%	3.9%	-3%	2%	
002568.SZ	Shanghai Bairun	Neutral	3,632	CNY	26.26	16.40	-38%	33X	30X	27X	21X	19X	17X	7%	8%	22X	20X	18X	19%	1.6%	10%	13%	
Avg.								20X	19X	17X	20X	18X	17X	2%	6%	11X	10X	9X	17%	3.6%	-9%	5%	
Dairy																							
600887.SS	Yili Industrial	Buy	25,589	CNY	28.82	31.30	9%	10X	16X	15X	20X	18X	16X	1%	7%	13X	11X	10X	16%	3.9%	10%	2%	
2319.HK	Mengniu Dairy	Buy	8,705	HKD	17.32	19.90	15%	15X	12X	10X	17X	14X	12X	0%	8%	10X	8X	7X	9%	3.1%	-13%	4%	
6186.HK	China Feifei Ltd.	Neutral	6,479	HKD	5.73	4.40	-23%	11X	10X	10X	8X	8X	8X	4%	4%	5X	5X	4X	17%	6.0%	37%	7%	
Avg.								15X	13X	12X	15X	13X	12X	1%	6%	10X	8X	7X	14%	4.3%	11%	4%	
Snacks																							
002557.SZ	Chacha Food Co.	Sell	2,111	CNY	30.72	26.50	-14%	16X	15X	14X	13X	13X	12X	8%	12%	10X	10X	9X	17%	3.9%	-9%	3%	
002847.SZ	Yankershop Food	Buy	1,975	CNY	53.49	55.80	4%	23X	19X	17X	24X	20X	18X	21%	20%	17X	15X	13X	41%	2.7%	6%	5%	
0151.HK	Want Want China	Sell	6,870	HKD	4.41	3.60	-18%	12X	12X	12X	10X	10X	10X	1%	0%	7X	7X	7X	23%	6.4%	-7%	-4%	
Avg.								17X	15X	14X	16X	14X	13X	10%	11%	11X	10X	9X	27%	4.3%	-3%	1%	

Data as of Dec 2, 2024

Source: Refinitiv Eikon, Goldman Sachs Global Investment Research

M&A Rank

We assign the M&A score of 3 to Eastroc, on the back of its dedicated funding management, rising market shares, solid valuation levels and good operating efficiency.

Exhibit 64: We assign the M&A score of 3 to Eastroc

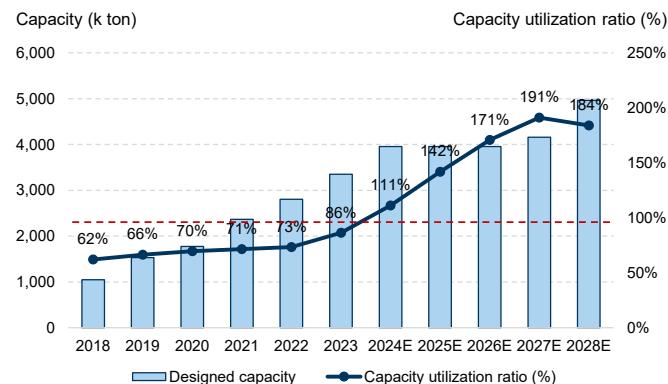
Ticker	Company name	Final score (lower score = higher probability)	Government ownership (Yes / No)	Intention to Sell (1 = High)	Quantitative Factors		Qualitative Factors	
					Market share (1 = Low)	Valuation (1 = Low)	Portfolio (1 = Less preferred)	Operating efficiency (1 = Low)
605499.SS	Eastroc Beverage	3	No	3	3	3	3	3

Source: Goldman Sachs Global Investment Research

Key risks

- **Lower-than-expected industry growth in energy drinks:** We see downside risks could come from evolving consumer preference towards substitute categories such as RTD/fresh-made coffee, which would lead to slower topline growth and potentially operating deleveraging.
- **Worse-than-expected competitive landscape:** Competition pressure from Red Bull and also newer entrants could become higher in the future. That would likely lead to price competition, more aggressive marketing spend, and therefore lower profitability than we expect.
- **Failure/ slower than expected ramp-up of Eastroc's new product launches:** The company accelerated its new product launches in 2023/24 e.g, in electrolyte water/ RTD tea/ cocktail areas. If the pace is below the company's expectation, it could impact profitability e.g, with more than expected S&M spending and lower visibility for revenue and profit contribution from these newly launched products. **Slower than expected POS penetration/ deployment of fridges:** We think the slower POS penetration and slower deployment of fridges could lead to slower ramp up of beverage sales, which would create uncertainties for topline growth.
- **Potential capacity shortage with already high utilization ratio:** We observe intermittent supply shortage of some products in selected regions in 2024 per our channel checks, and the company's production capacity has been reaching c.90% as of 2023. Before considering new factories added/ further capacity upgrade to its existing plants besides its announced projects, we see possibility for it to reach bottleneck in production in the following years.
- **Higher-than-expected increases in raw material costs:** Considering that the company typically does not hike prices to pass on higher costs, if the increase in raw material costs (mainly sugar, PET and other packaging) is bigger than expected, it would have a negative impact on our margin forecasts.
- **Reputational risks:** There have been news concerning potential negative health impact from consuming excess sugar (e.g a bottle of 500ml special drink contains 66.5g sugar, higher than the suggested daily sugar intake upper limit of 50g per the Chinese Dietary Guidelines) and other functional additives in energy drinks, and we think that could impact consumer preference for these products.

Exhibit 65: We expect utilization ratio to remain high and will likely be under capacity going forward



Source: Company data, Goldman Sachs Global Investment Research

Appendix: Company Background

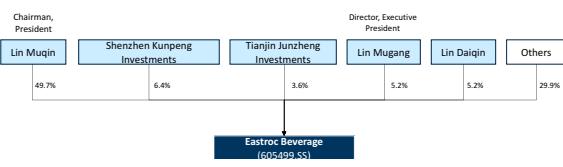
Exhibit 66: Summary of Eastroc's company milestones

Eastroc	
Year	Milestone
1994	Eastroc was established in Nanshan, Shenzhen
1997	Eastroc Special Drink was first launched
2003	Eastroc was transformed from state-owned to private-owned
2009	Refreshed Eastroc Special Drink in bottle packaging was re-launched
2013	Signed celebrity Nicholas Tse as brand ambassador; started national expansion
2018	Renamed as Eastroc Beverage (Group) Co.
2021	Listed in Shanghai Stock Exchange in May 2021
2023	Electrolyte drinks Bushuila was launched
2024	Signed actor YU Shi as Bushuila's brand ambassador; expanding Bushuila's

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 67: Shareholding structure

As of Sep 30, 2024



Source: Company data

Exhibit 68: Management background

Name	Title	Date of joining the group	Prior work experience
Lin Muqin (林木勤)	Chairman, President	1997	Department manager at Shenzhen Aolin Beverages (1988-1997)
Lin Mugang (林木港)	Director, Executive President	2001	Served as manager, vice president and marketing general manager prior
Lu Yifu (卢义富)	Director, Vice President	2018	General Manager of subsidiary of JDB Group (2006-2017); General Manager of Marketing Center of Xiaopiaopai (2017-2018)
Jiang Weiwei (蒋微微)	Director, Vice President	2017	Served as head of marketing center of Eastroc
Zhang Lei (张磊)	Director, Vice President and Board Secretary	2023	Board Secretary of Eternal Asia, Skyworth Group, Shenzhen Jieshun Tech
Peng Dexin (彭得新)	Finance Director	2003	Served as finance head, deputy CFO prior

Source: Company data

Exhibit 69: Recently finished and upcoming product capacity expansion projects of Eastroc

Production capacity expansion plan	Location	Total FA investment (Rmb mn)	Total GFA	Est production value (Rmb mn)	Est production volume ('000 ton)	Construction period	Ready for production	Number of production lines	Key products
Announcement date									
Nov-21 New	Quzhou, Zhejiang	~625	197 mu	1,000	274	Completed	Nov-23	6	Special Drinks, Bushuila and RTD tea
Jul-23 New	Changsha, Hunan	~600	146.9 mu	1,000	274	Completed	Mar-24	6	Special Drinks
Nov-23 New	Tianjin	600+	~200 mu	800	221		End-2026	6	Special Drinks, RTD tea
Jan-24 Phase IV	Chongqing	~100	13 mu	200	55			4	250/500ml Special Drinks
Apr-24 New	Zhongshan, Guangdong	1,080+	~180 mu	2,160	594	36 months	2027	8	500ml Special Drinks, Daka, Bushuila, RTD tea
Jun-24 New	Kunming, Yunnan	~1,000	~248 mu	1,000 (GSe)	275	24 months	30 months (2027)		
Nov-24 New	Hainan	~1,200	213.4 mu	1,000 (GSe)	275	24 months	30 months since construction start		
Total		5,205	1,198 mu	7,160	1,967				

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 Rmb258, based on a 32X 2025E P/E, with reference to historical average P/E of Monster Beverage.

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.

Investment Thesis - Eastroc Beverage

Eastroc is a fast growing soft drink producer in China among our F&B coverage, and is evolving into a multi-product player. Its flagship product Eastroc Special Drinks accounts for 92% of its total sales in 2023, ranking No.2 (24% value share) in the energy drinks market, and its other beverages products grew by 216% yoy in 9M24, accounting for 16% of the company's total sales in 9M24. 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.250k fridges sent into retail terminals (end-2024E), 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 (17% GPM for non-energy drinks vs. 45% by energy drinks in 2023) over the long-term. Post a strong rally YTD, the share price has been relatively stable post the 3Q results release, and we expect the solid growth to drive valuations along the way as it evolves into a diversified beverage provider. We are Buy-rated on Eastroc.

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.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

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).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Logo Disclosure

Third party brands used in this report are the property of their respective owners, and are used here for informational purposes only. The use of such brands should not be viewed as an endorsement, affiliation or sponsorship by or for Goldman Sachs or any of its products/services.

The rating(s) for Eastroc Beverage is/are relative to the other companies in its/their coverage universe: Angel Yeast, Anhui Gujing Distillery Co., Budweiser APAC, Chacha Food Co., China Feihe Ltd., China Pet Foods, China Resources Beer, China Resources Beverage, Chongqing Brewery, Eastroc Beverage, Foshan Haitian Flavouring & Food, Fu Jian Anjoy Foods Co., Fuling Zhacai, Gambol Pet Group Co., Jiangsu Hengshun Vinegar, Jiangsu King's Luck Brewery, Jiangsu Yanghe, Jiugui Liquor, Jonjee Hi-Tech, Kweichow Moutai, Ligao Foods, Luzhou Laojiao, Mengniu Dairy, Nongfu Spring, Petpal Pet Nutrition Technology, Qianhe Condiment and Food, Qianweiyangchu, Sanquan Foods, Shanghai Bairun, Shanxi Xinghuacun Fen Wine, Sichuan Swelfun Co., Sichuan Teway Food Group, Tingyi, Tsingtao Brewery (A), Tsingtao Brewery (H), Uni-President China, Want Want China, Weizhixiang, Wuliangye Yibin, Yankershop Food, Yihai International Holding, Yili Industrial, ZJLD

Company-specific regulatory disclosures

The following disclosures relate to relationships between The Goldman Sachs Group, Inc. (with its affiliates, "Goldman Sachs") and companies covered by Goldman Sachs Global Investment Research and referred to in this research.

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Eastroc Beverage (Rmb220.94)

Goldman Sachs had an investment banking services client relationship during the past 12 months with: Eastroc Beverage (Rmb220.94)

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	49%	34%	17%	63%	57%	40%

As of October 1, 2024, Goldman Sachs Global Investment Research had investment ratings on 2,988 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by the FINRA Rules. See 'Ratings, Coverage universe and related definitions' below. The Investment Banking Relationships chart reflects the percentage of subject companies within each rating category for whom Goldman Sachs has provided investment banking services within the previous twelve months.

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs trades or may trade as a principal in debt securities (or in related derivatives) of issuers discussed in this report.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy generally prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director or advisor of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman Sachs & Co. LLC and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Distribution of ratings: See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <https://www.gs.com/research/hedge.html>.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. In

producing research reports, members of Global Investment Research of Goldman Sachs Australia may attend site visits and other meetings hosted by the companies and other entities which are the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. To the extent that the contents of this document contains any financial product advice, it is general advice only and has been prepared by Goldman Sachs without taking into account a client's objectives, financial situation or needs. A client should, before acting on any such advice, consider the appropriateness of the advice having regard to the client's own objectives, financial situation and needs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests and a copy of Goldman Sachs' Australian Sell-Side Research Independence Policy Statement are available at: <https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html>. **Brazil:** Disclosure information in relation to CVM Resolution n. 20 is available at <https://www.gs.com/worldwide/brazil/area/gir/index.html>. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 20 of CVM Resolution n. 20, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** This information is being provided to you for information purposes only and is not, and under no circumstances should be construed as, an advertisement, offering or solicitation by Goldman Sachs & Co. LLC for purchasers of securities in Canada to trade in any Canadian security. Goldman Sachs & Co. LLC is not registered as a dealer in any jurisdiction in Canada under applicable Canadian securities laws and generally is not permitted to trade in Canadian securities and may be prohibited from selling certain securities and products in certain jurisdictions in Canada. If you wish to trade in any Canadian securities or other products in Canada please contact Goldman Sachs Canada Inc., an affiliate of The Goldman Sachs Group Inc., or another registered Canadian dealer. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited, Research Analyst - SEBI Registration Number INH000001493, 951-A, Rational House, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India, Corporate Identity Number U74140MH2006FTC160634, Phone +91 22 6616 9000, Fax +91 22 6616 9001. Goldman Sachs may beneficially own 1% or more of the securities (as such term is defined in clause 2 (h) the Indian Securities Contracts (Regulation) Act, 1956) of the subject company or companies referred to in this research report. Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Goldman Sachs (India) Securities Private Limited Investor Grievance E-mail: india-client-support@goldmansachs.com. Compliance Officer: Anil Rajput | Tel: + 91 22 6616 9000 | Email: anil.m.rajput@goldmansachs.com. **Japan:** See below. **Korea:** This research, and any access to it, is intended only for "professional investors" within the meaning of the Financial Services and Capital Markets Act, unless otherwise agreed by Goldman Sachs. Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests is available at: <https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html>. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. Research reports do not constitute a personalized investment recommendation as defined in Russian laws and regulations, are not addressed to a specific client, and are prepared without analyzing the financial circumstances, investment profiles or risk profiles of clients. Goldman Sachs assumes no responsibility for any investment decisions that may be taken by a client or any other person based on this research report. **Singapore:** Goldman Sachs (Singapore) Pte. (Company Number: 198602165W), which is regulated by the Monetary Authority of Singapore, accepts legal responsibility for this research, and should be contacted with respect to any matters arising from, or in connection with, this research. **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Conduct Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union and United Kingdom: Disclosure information in relation to Article 6 (2) of the European Commission Delegated Regulation (EU) (2016/958) supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council (including as that Delegated Regulation is implemented into United Kingdom domestic law and regulation following the United Kingdom's departure from the European Union and the European Economic Area) with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest is available at <https://www.gs.com/disclosures/europeanpolicy.html> which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau under registration number Kinsho 69, and a member of Japan Securities Dealers Association, Financial Futures Association of Japan Type II Financial Instruments Firms Association, The Investment Trusts Association, Japan, and Japan Investment Advisers Association. Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock

exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage universe and related definitions

Buy (B), Neutral (N), Sell (S) Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's total return potential relative to its coverage universe. Any stock not assigned as a Buy or a Sell on an Investment List with an active rating (i.e., a stock that is not Rating Suspended, Not Rated, Coverage Suspended or Not Covered), is deemed Neutral. Each region manages Regional Conviction lists, which are selected from Buy rated stocks on the respective region's Investment lists and represent investment recommendations focused on the size of the total return potential and/or the likelihood of the realization of the return across their respective areas of coverage. The addition or removal of stocks from such Conviction lists are managed by the Investment Review Committee or other designated committee in each respective region and do not represent a change in the analysts' investment rating for such stocks.

Total return potential represents the upside or downside differential between the current share price and the price target, including all paid or anticipated dividends, expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The total return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage Universe: A list of all stocks in each coverage universe is available by primary analyst, stock and coverage universe at <https://www.gs.com/research/hedge.html>.

Not Rated (NR). The investment rating, target price and earnings estimates (where relevant) are not provided or have been suspended pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or in a strategic transaction involving this company, when there are legal, regulatory or policy constraints due to Goldman Sachs' involvement in a transaction, when the company is an early-stage biotechnology company, and in certain other circumstances. **Rating Suspended (RS)**. Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target price. The previous investment rating and target price, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS)**. Goldman Sachs has suspended coverage of this company. **Not Covered (NC)**. Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA)**. The information is not available for display or is not applicable. **Not Meaningful (NM)**. The information is not meaningful and is therefore excluded.

Global product; distributing entities

Goldman Sachs Global Investment Research produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; Public Communication Channel Goldman Sachs Brazil: 0800 727 5764 and / or contatogoldmanbrasil@gs.com. Available Weekdays (except holidays), from 9am to 6pm. Canal de Comunicação com o Públco Goldman Sachs Brasil: 0800 727 5764 e/ou contatogoldmanbrasil@gs.com. Horário de funcionamento: segunda-feira à sexta-feira (exceto feriados), das 9h às 18h; in Canada by Goldman Sachs & Co. LLC; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. LLC. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom.

Goldman Sachs International ("GSI"), authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA, has approved this research in connection with its distribution in the United Kingdom.

European Economic Area: GSI, authorised by the PRA and regulated by the FCA and the PRA, disseminates research in the following jurisdictions within the European Economic Area: the Grand Duchy of Luxembourg, Italy, the Kingdom of Belgium, the Kingdom of Denmark, the Kingdom of Norway, the Republic of Finland and the Republic of Ireland; GSI - Succursale de Paris (Paris branch) which is authorised by the French Autorité de contrôle prudentiel et de resolution ("ACPR") and regulated by the Autorité de contrôle prudentiel et de resolution and the Autorité des marchés financiers ("AMF") disseminates research in France; GSI - Sucursal en España (Madrid branch) authorized in Spain by the Comisión Nacional del Mercado de Valores disseminates research in the Kingdom of Spain; GSI - Sweden Bankfilial (Stockholm branch) is authorized by the SFSA as a "third country branch" in accordance with Chapter 4, Section 4 of the Swedish Securities and Market Act (Sw. lag (2007:528) om värdepappersmarknaden) disseminates research in the Kingdom of Sweden; Goldman Sachs Bank Europe SE ("GSBE") is a credit institution incorporated in Germany and, within the Single Supervisory Mechanism, subject to direct prudential supervision by the European Central Bank and in other respects supervised by German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and Deutsche Bundesbank and disseminates research in the Federal Republic of Germany and those jurisdictions within the European Economic Area where GSI is not authorised to disseminate research and additionally, GSBE, Copenhagen Branch filial of GSBE, Tyskland, supervised by the Danish Financial Authority disseminates research in the Kingdom of Denmark; GSBE - Sucursal en España (Madrid branch) subject (to a limited extent) to local supervision by the Bank of Spain disseminates research in the Kingdom of Spain; GSBE - Succursale Italia (Milan branch) to the relevant applicable extent, subject to local supervision by the Bank of Italy (Banca d'Italia) and the Italian Companies and Exchange Commission (Commissione Nazionale per le Società e la Borsa "Consob") disseminates research in Italy; GSBE - Succursale de Paris (Paris branch), supervised by the AMF and by the ACPR disseminates research in France; and GSBE - Sweden Bankfilial (Stockholm branch), to a limited extent, subject to local supervision by the Swedish Financial Supervisory Authority (Finansinpektionen) disseminates research in the Kingdom of Sweden.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by Global Investment Research. Goldman Sachs & Co. LLC, the United States broker dealer, is a member of SIPC (<https://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analyst's published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analyst's fundamental equity rating for such stocks, which rating reflects a stock's return

potential relative to its coverage universe as described herein.

We and our affiliates, officers, directors, and employees will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research, unless otherwise prohibited by regulation or Goldman Sachs policy.

The views attributed to third party presenters at Goldman Sachs arranged conferences, including individuals from other parts of Goldman Sachs, do not necessarily reflect those of Global Investment Research and are not an official view of Goldman Sachs.

Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options and futures disclosure documents which are available from Goldman Sachs sales representatives or at <https://www.theocc.com/about/publications/character-risks.jsp> and

https://www.fiadocumentation.org/fia/regulatory-disclosures_1/fia-uniform-futures-and-options-on-futures-risk-disclosures-booklet-pdf-version-2018.

Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Differing Levels of Service provided by Global Investment Research: The level and types of services provided to you by Goldman Sachs Global Investment Research may vary as compared to that provided to internal and other external clients of GS, depending on various factors including your individual preferences as to the frequency and manner of receiving communication, your risk profile and investment focus and perspective (e.g., marketwide, sector specific, long term, short term), the size and scope of your overall client relationship with GS, and legal and regulatory constraints. As an example, certain clients may request to receive notifications when research on specific securities is published, and certain clients may request that specific data underlying analysts' fundamental analysis available on our internal client websites be delivered to them electronically through data feeds or otherwise. No change to an analyst's fundamental research views (e.g., ratings, price targets, or material changes to earnings estimates for equity securities), will be communicated to any client prior to inclusion of such information in a research report broadly disseminated through electronic publication to our internal client websites or through other means, as necessary, to all clients who are entitled to receive such reports.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For research, models or other data related to one or more securities, markets or asset classes (including related services) that may be available to you, please contact your GS representative or go to <https://research.gs.com>.

Disclosure information is also available at <https://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

© 2024 Goldman Sachs.

You are permitted to store, display, analyze, modify, reformat, and print the information made available to you via this service only for your own use. You may not resell or reverse engineer this information to calculate or develop any index for disclosure and/or marketing or create any other derivative works or commercial product(s), data or offering(s) without the express written consent of Goldman Sachs. You are not permitted to publish, transmit, or otherwise reproduce this information, in whole or in part, in any format to any third party without the express written consent of Goldman Sachs. This foregoing restriction includes, without limitation, using, extracting, downloading or retrieving this information, in whole or in part, to train or finetune a machine learning or artificial intelligence system, or to provide or reproduce this information, in whole or in part, as a prompt or input to any such system.