

China Staples: Beverages

A primer to decode the evolving beverage market in China

We expect China's soft drinks industry TAM of US\$99bn (Rmb713bn) in 2024E to grow steadily at 5.4% CAGR in 2024-26E benefiting from rising penetration, evolving function/flavor preferences & rising focus on function/health. We address three key themes, outline our investment framework, initiations at Buy, & reiterate our preference for beverages within our consumer staples coverage.

- Penetration rising on category diversification, driving LT secular growth:** Soft drinks per capita penetration remains low in China vs. developed Asian economies; we see key TAM drivers being energy drinks, RTD tea, sports drinks & bottled water in the next five years.
- Category with health & functional focus gaining popularity:** 1) Functional drinks entered a favorable cycle post-Covid. 2) Rising health focus with low-sugar/sugar-free beverages growing strongly in the past three years but still at only HSD% of total soft drink sales in China vs. 50%+ in Japan (2023).
- Intense competition is a given, prefer players with long-lasting category & capability in diversification:** Amid heightened price competition in water/RTD tea and emerging categories' fight for share of throat, we prefer leading players in their respective long-lasting core categories (e.g Eastroc in energy drinks, CR Beverage/Nongfu in water) with robust capability replicating product innovation success across categories.

Beverage industry outlook 2025: 1) Secular topline growth & margin self-help are pillars for share price performance; 2) Volume growth driven by recovery in water and continued strong momentum in functional drinks/sugar-free tea; 3) Continued competition as new categories emerge & ramp up.

Our **fundamental investment framework** assesses 5 covered companies on 1) growth prospects, 2) margin visibility, and 3) capital allocation, leading to our preference for stocks with higher growth visibility & better margin/return profile. We initiate **Eastroc Beverage** (fastest-growing leader in energy drinks with initial success in product diversification) and **CR Beverage** at **Buy** (leader in purified water expecting substantial margin expansion); maintain Nongfu Spring at **Buy** on diversification capabilities & sequential improvements in 2025; maintain Tingyi/UPC at **Neutral**.

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Table of Contents

Fundamental investment framework for our beverage coverage	3
Comprehensive comparisons of beverage players	7
Key theme #1: Penetration still on the rise with category diversification, driving secular growth in the long term	9
Key theme #2: Category with health and functional focus gaining popularity	13
Key theme #3: Intense competition appears inevitable, prefer players with long-lasting category and capability for diversification	19
Industry landscape by category	22
Japan case study	26
Eastroc Beverage (605499.SS): Core product to drive share gains, diversification to sustain growth; Initiate at Buy	31
China Resources Beverage (2460.HK): Fast market share gainer evolving into a multi-product player; Initiate at Buy	32
Nongfu (9633.HK): Successful product diversification path; expecting sequential improvement in 2025 with water pricing strategy getting rational; Maintain Buy	33
Estimate changes for Tingyi, updates from UPC	36
Disclosure Appendix	38

Fundamental investment framework for our beverage coverage

Our investment framework to assess the fundamentals of our 5 covered beverage companies, is based on their 1) growth prospects, 2) margin visibility, and 3) capital allocation.

On growth prospects, we expect more secular growth from long-lasting categories and also look for acceleration of sales growth for Nongfu/CR Bev in 2025. From a margin visibility perspective, we look into: 1) pricing/bargaining power: we see UPC/Tingyi exposed to higher commodity pricing volatility while Nongfu enjoys more flexibility due to a higher mix from sugar-free tea; 2) Self-help ability is reflected in more OPM expansion in CR Bev in 2025E from operating leverage/ optimizing production capacity, while the rest will also continue their active opex control (Nongfu to be more disciplined in its water pricing strategy since 2025); and 3) Competitive landscape: we think the energy drink segment enjoys the most favorable competition (with Red Bull being distracted as detailed in our Eastroc initiation), while sugared tea/ juice/ carbonates (as more mature categories) would be under more competitive pressure amid slower TAM growth. For capital allocation, although CR Bev is proactively expanding capacity/capex for a higher self-sufficiency ratio, we expect the profit improvement will lead to FCF ratio expansion despite the high capex ratio in 2024-25 and we expect capex ratio to go down starting 2026. Meanwhile, while Nongfu/Tingyi/UPC all pay high dividend % at 70~110%, Nongfu/Eastroc enjoy better cash conversion capability (OCF % >25%) to sustain the shareholder return.

The framework ranks Nongfu/ CR Bev/ Eastroc higher vs UPC/Tingyi, reflecting the growth in this category and leading us to prefer names with higher growth visibility and better margin/return profile. Looking ahead to 2025, we expect secular growth trends (topline expansion and margin self-help) to be the pillars for share price performance, and we like Eastroc for its market share expansion/product diversification which will likely drive valuation roll-forward and expect Nongfu to see a sequential recovery from its consumer sentiment swing and adjustments to its water competition strategy in 2025.

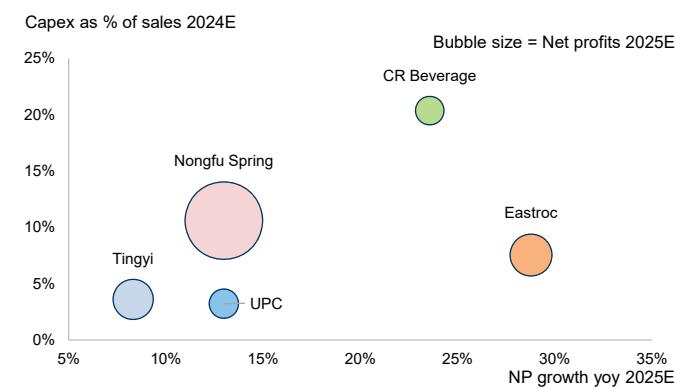
Exhibit 1: GS fundamental investment framework for our beverage coverage

	Eastroc	CR Beverage	Nongfu Spring	UPC	Tingyi
Growth opportunity - sales outlook					
Secular volume/penetration growth	2	2	2	0	0
Bottom out/acceleration: 25E - 24E sales yoy	0	1	2	0	1
2024E sales yoy	43%	6%	6%	6%	0%
2025E sales yoy	26%	9%	17%	6%	4%
Sub-scores	2	3	4	0	1
Defensive play - margin resilience					
Margin resilience					
Pricing power	1	1	2	0	0
Self help ability	2	2	1	1	1
Competitive dynamics	2	1	1	0	0
Capital Allocation					
Investment cycle	0	0	0	1	1
Shareholder return	1	0	2	2	2
Cash conversion ability	2	1	2	1	1
2024E NP yoy	60%	19%	2%	11%	15%
2025E NP yoy	29%	24%	15%	15%	8%
2024E Earnings revision trend	↑	n.a.	↓	↑	↗
2024E OPM	24%	14%	33%	7%	7%
25E-24E OPM yoy	0.7ppt	2.2ppt	(0ppt)	0.5ppt	0.2ppt
2024E OCF as % of sales	26%	17%	37%	9%	9%
OCF improvement: 25E-24E OCF as % of sales yoy	(0.7ppt)	3.4ppt	1.2ppt	0.3ppt	0.3ppt
2024E FCF as % of sales	19%	-4%	26%	6%	6%
FCF improvement: 25E-24E FCF as % of sales yoy	(3.7ppt)	5.7ppt	2.1ppt	0.4ppt	0.3ppt
2024E Capex as % of sales	8%	20%	11%	3%	4%
Capex ratio delta: +/- in 25E-24E	2.9ppt	(2.3ppt)	(1.0ppt)	(0.2ppt)	(0.1ppt)
2024E Dividend payout %	55%	30% (2025E)	70%	110%	100%
2024E Dividend yield %	1.7%	2.4% (2025E)	2.6%	7.6%	6.8%
Sub-scores	8	5	8	5	5
Total scores	10	8	12	5	6

Highest/lowest score at 2/0; Scores for growth depend on growth magnitude and changes in 2025E; Scores for margin resilience are based on margin levels and earnings improvement ability; Scores for capital allocation are based on the fixed asset investment growth, dividend payout, OCF and FCF growth outlook.

Source: Goldman Sachs Global Investment Research

Exhibit 2: We believe CR Beverage, Nongfu and Eastroc are still investing, with NP growth still at DD% ahead



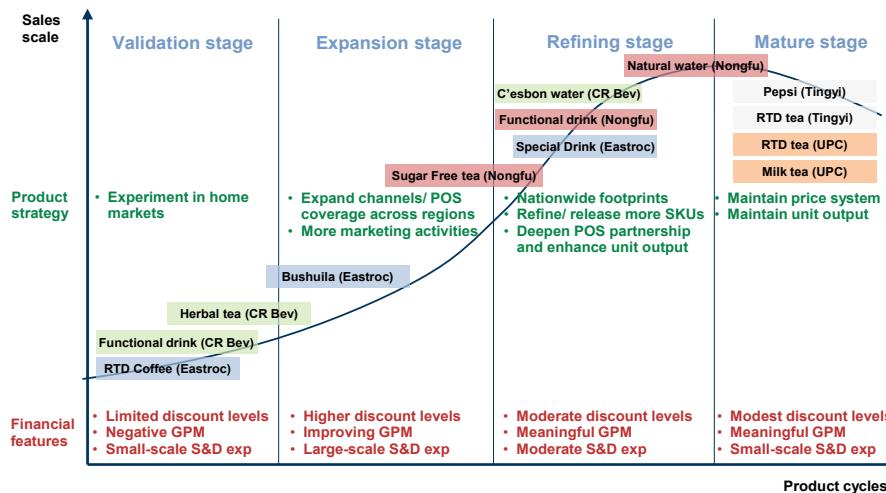
Source: Goldman Sachs Global Investment Research

Product life-cycle

Beverage industry is highly competitive and Product Cycles of beverage SKUs can vary significantly: We summarize the key features of soft drinks' product cycles, and

we identify key successful factors (KSF) for beverage companies launching potential blockbuster beverage SKUs. Beverages that serve basic/ functional needs tend to have longer product cycles in China.

Exhibit 3: Simplified product cycle of soft drink development



Source: Goldman Sachs Global Investment Research

We believe beverages that serve basic/ functional needs tend to have longer product cycles in China. Bottled water probably has the longest product life cycle, where the leading players Nongfu/ C'estbon have sold their water SKUs for over two decades. For energy drinks, Red Bull has set a relatively long product life cycle and a high ceiling of ex-f sales to over Rmb25bn in recent years (at a similar scale vs. premium liquid milk) vs. Eastroc's Special Drink of Rmb10bn in 2023. In our comparison below, Eastroc's Special Drink has seen the second-fastest growth in the past five years (29% 2018-23 CAGR), behind Nongfu Spring's Oriental Leaf.

KSF #1: A solid market presence by a core SKU may give advantages, as a reflection of brand power and channel know-how – Nongfu as a role model (water with nationwide footprints).

KSF #2: A stronghold home market can help 1) reduce experimental costs for new product launch and 2) accelerate channel penetration – Eastroc in the South.

KSF #3: Channel management efficiency differentiates: Eastroc is a pioneer in digitalization, expanding its horizon in per-employee productivity.

KSF #4: Early innovator along the trend; China was a laggard in sugar-reduced carbonates vs. other Asian countries, while the penetration only took c.5 years to reach Japan's level by 2023; Chi Forest was a key game changer.

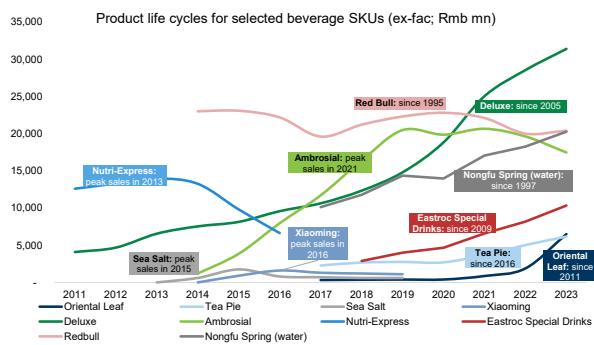
Exhibit 4: Summary of key metrics to focus for new products launch and growth

Key Metrics to Focus	Eastroc Beverage	CR Beverage	Nongfu Spring	Tingyi	UPC
Long-lasting Category	✓✓✓ Functional drinks	✓✓✓ Bottled water	✓✓✓ Bottled water/ sugar-free RTD tea	✓✓ Pepsi/ RTD tea	✓✓ RTD tea/ Milk tea
Stronghold Home Markets	✓✓✓ Guangdong (60%/33% of sales in 2018/2023)	✓✓✓ South China (39%/32% of sales in 2021/2023)	✓✓✓ East China	✓ Relatively balanced	✓ Relatively balanced
Channel Mgmt Capability	✓✓✓ First mover in digitalizing distribution	✓✓ Extensive channel network but improving digitalization	✓✓✓ Extensive nationwide channel network	✓✓ Nationwide channel network	✓✓ Nationwide channel network
Growth Profile	29% sales CAGR 23-26E	7.8% sales CAGR 23-26E	11.2% sales CAGR 23-26E	2.5% sales CAGR 23-26E	5.6% sales CAGR 23-26E
Margin Upside	36% NP CAGR 23-26E	22% NP CAGR 23-26E	8.6% NP CAGR 23-26E	9.1% NP CAGR 23-26E	10.6% NP CAGR 23-26E

Source: Company data, Goldman Sachs Global Investment Research

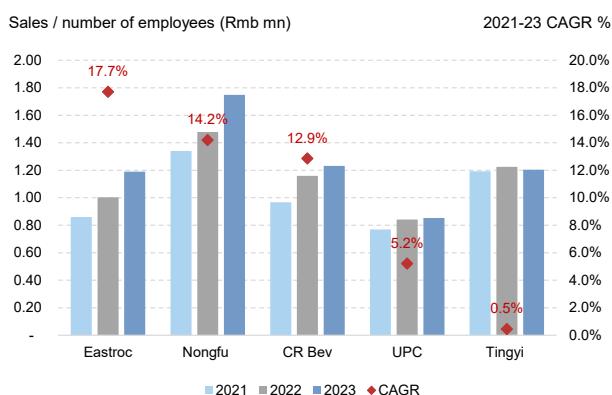
Exhibit 5: Beverages that serve basic/functional needs tend to have longer product cycles in China

Product life cycles for selected beverage SKUs (ex-factory sales, Rmb mn)



Red Bull and Nutri-Express data are sourced from Euromonitor on retail sales basis; the remainder is based on ex-fac sales

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

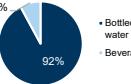
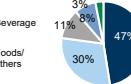
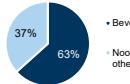
Exhibit 6: Eastroc delivered fast per-employee sales growth in the last three years, likely driven by its more advanced digitalization capability

Source: Company data

Comprehensive comparisons of beverage players

Operating comps

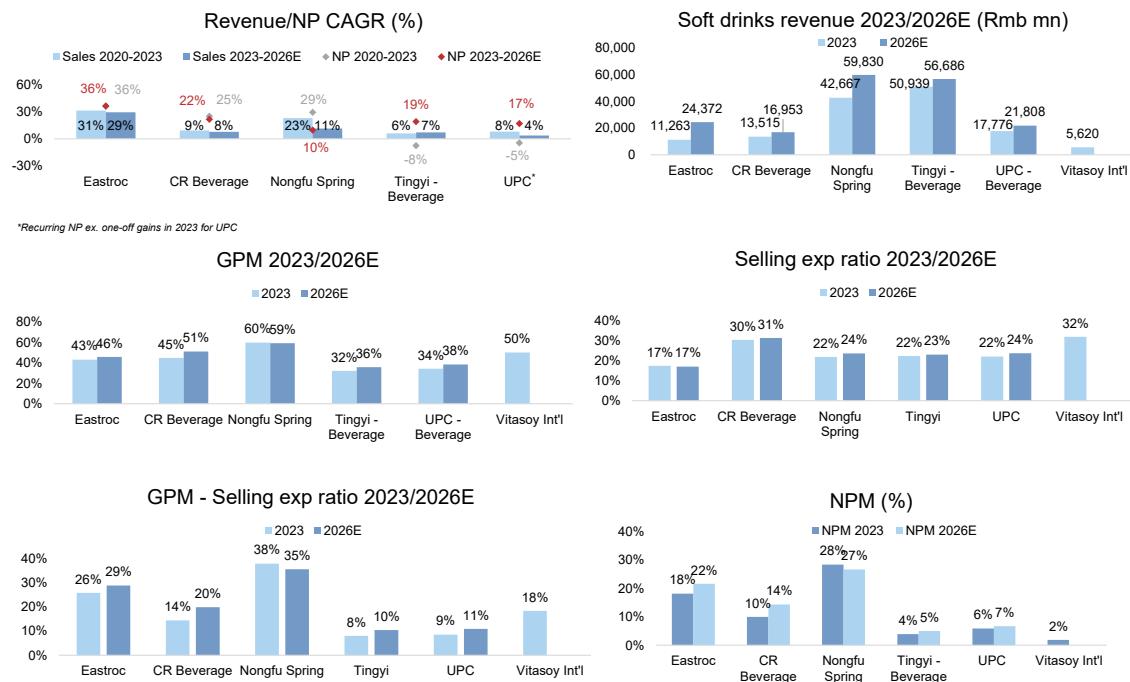
Exhibit 7: Operating comps of beverage industry

Company	CR Beverage (2460.HK)	Eastroc Beverage (605499.SS)	Dali Foods (Private)	Nongfu Spring (9633.HK)	Tingyi (0322.HK)	Uni-President China (0220.HK)
Logo	 CR BEVERAGE		 DALI FOODS GROUP	 农夫山泉		
Key brand	C'estbon	Eastroc Special Drink	Hi-Tiger	Nongfu Spring	Master Kong	Uni-President
Key product						
Financial information (as of 2023 unless o/w stated)						
Beverage sales (Rmb bn)	13.5	11.3	5.1 (2022)	42.7	50.9	28.6
2019-23 CAGR	9% (2021-23)	28%	-10% (2019-22)	15%	9%	7%
Beverage GPM	45%	43%	46% (2022)	60%	32%	34%
Beverage OPM	13%	21%	n.a.	35%	4%	11%
Beverage net margin	10%	18%	n.a.	28%	3%	n.a.
Operating metrics (as of 2023 unless o/w stated)						
Products						
Year of key product launch	1980s	2009	2013	1997 (water) / 2011 (RTD tea)	2003	1996 (black tea) / 2009 (milk tea)
Key category	Bottled water	Energy drinks	Energy drinks	Bottled water & RTD tea	Bottled water & RTD tea	Bottled water & RTD tea
Market share in key category (value, GSe)	 18 (Bottled water)	 24 (Energy drinks)	 8 (Energy drinks)	 24 (Bottled water)	 21 (RTD tea)	 20 (RTD tea)
Pricing of key product(s)	RMB 2 / 555ml	Rmb 5 / 500ml	Rmb5 / 380ml	RMB 2 / 500ml	Rmb 3-3.5 / 500ml	Rmb 3-3.5 / 500ml
Key category sales volume (mn ton)	13.5 (Bottled water)	2.4 (Energy drinks)	n.a.	19.9 (Packaged water)/ 2.7 (Tea) (GSe)	n.a.	n.a.
Key product sales (Rmb bn)	12.4 (Bottled water)	10.3 (Eastroc Special Drink)	2.8 (Hi-Tiger, 2022)	20.3 (Spring)/ 6.8 (Tea Pie)/ 5.8 (Oriental Leaf) (GSe)	~20 (RTD tea, GSe)	~6 (Milk tea, GSe)
Sales mix by category %, 2023	 92% • Bottled water • Beverage	 92% • Energy drinks • Other beverage	 74% • Beverage • Foods/ others (2022)	 47% • Bottled water • Tea • Functional • Juice • Others	 63% • Beverage • Noodles/ others	 62% • Beverage • Noodles/ others
Channels						
# PoS (mn)	2.0+	3.4+	3.0+ (2021)	6.2 (total)/ 2.5+ (effective)	4.0+ (2020)	2.3+ (2020)
# Fridges (k, 2024E)	~500	~250	n.a.	~1,200	~1,300	~1,000
# Distributors	1,068	2,981	6,000+ (F&B)	~4,500	76,875 (group)	n.a.
# Employees	11,284 (Apr 2024)	9,460	39,518 (2022)	18,590	66,807	33,539
Capacity						
# Plants	13 (self-owned) / 31 (3rd-party)	9	39 for F&B (as of Oct '23)	13	60 for beverages	31 for beverages
# production lines	61 (self-owned)/ 70 (3rd party)	30-40	n.a.	137 (106 water/ 31 bevs)	394 for beverage (1H24)	70 for beverages

Source: Company data, Goldman Sachs Global Investment Research

Financial comps

Exhibit 8: Key financial data summary of our beverage coverage



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: Financial comps as of 2023A

CY2023 data Ticker	Eastroc 605499.SS	CR Beverage 2460.HK	Nongfu Spring 9633.HK	UPC 0220.HK	Tingyi 0322.HK	Vitasoy Int'l 0345.HK	Monster MNST	Coca Cola KO	PepsiCo PEP			
RMB mn (unless o/w stated)							USD mn (unless o/w stated)					
Margin and Return												
GPM												
Sales	11,263	13,515	42,667	28,591	80,418	5,620	7,140	45,784	91,471			
COGS	(6,412)	(7,480)	(17,260)	(19,880)	(55,951)	(2,808)	(3,333)	(18,465)	(41,734)			
Gross Profit	4,851	6,035	25,407	8,712	24,467	2,813	3,807	27,319	49,737			
Selling exp	1,956	4,087	9,284	6,278	17,883	1,787	998	5,010	5,700			
Admin exp	423	301	2,162	1,068	2,616	634	842	n.a.	n.a.			
SG&A exp	2,500	4,449	11,446	7,346	20,499	2,420	1,841	13,983	35,862			
EBIT	2,379	1,742	14,797	1,366	4,761	168	2,014	13,336	13,875			
D&A	254	464	2,631	1,113	3,111	13	69	1,128	2,948			
EBITDA	2,633	2,206	17,428	3,109	8,207	180	2,083	14,464	16,823			
Net income	2,040	1,344	12,073	1,667	3,117	105	1,645	11,660	10,533			
GPM	43%	45%	60%	30%	30%	50%	53%	60%	54%			
Selling exp ratio	17%	30%	22%	22%	22%	32%	14%	11%	6%			
GPM - Selling exp ratio	26%	14%	38%	9%	8%	18%						
Admin exp ratio	4%	2%	5%	4%	3%	11%	12%	n.a.	n.a.			
SG&A exp ratio	22%	33%	27%	26%	25%	43%	26%	31%	39%			
D&A ratio	2%	3%	6%	4%	4%	0%	1%	2%	3%			
OPM	21%	13%	35%	7%	6%	2%	28%	29%	15%			
NPM	18%	10%	28%	6%	4%	2%	23%	25%	12%			
ROE	32%	22%	46%	13%	18%	2%	21%	44%	59%			
Asset turnover	0.8	1.1	1.0	1.3	1.4	1.1	0.8	0.5	1.0			
Asset / Equity	2.3	1.9	1.7	1.7	3.8	1.8	1.2	3.6	5.4			
Growth Profile												
Sales CAGR 23-26E	29%	8%	12%	6%	2%	n.a.	10%	4%	3%			
Net Profit CAGR 23-26E	36%	22%	10%	11%	9%	n.a.	10%	6%	7%			
Sales CAGR 20-23	31%	9%	23%	8%	6%	-6%	16%	12%	9%			
Net Profit CAGR 20-23	36%	25%	29%	1%	-8%	-40%	9%	11%	11%			
Operation metrics												
Beverage Sales	11,263	13,515	42,667	17,776	50,939	n.a.	n.a.	n.a.	n.a.			
Volume sold (k tons)	2,857	13,766	24,796	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
ASP per litre (Rmb)	3.9	1.0	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Unit COGS per litre (Rmb)	2.2	0.5	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Selling expense	1,956	4,087	9,284	6,278	17,883	1,787	998	5,010	5,700			
Selling expense per ton (Rmb)	684	297	374	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Logistic cost	381	1,046	4,523	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Logistic cost per ton	133	76	182	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
A&P	864	1,074	2,176	n.a.	n.a.	n.a.	n.a.	5,010	5,700			
A&P per kton (Rmb)	302	78	88	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
A&P ratio %	8%	8%	5%	n.a.	n.a.	n.a.	n.a.	11%	6%			
Distributor number (#)	2,981	1,068	4,500	n.a.	76,875	n.a.	n.a.	n.a.	n.a.			
Sales per distributor	3.8	12.7	9.5	n.a.	0.7	n.a.	n.a.	n.a.	n.a.			
Sales contribution per headcount	54.7	1.5	1.4	0.9	1.2	0.9	1.2	0.6	0.3			
Salary cost per headcount	0.00	0.19	0.24	0.13	0.12	0.24	n.a.	n.a.	n.a.			
Balance sheet metrics												
Trade payable days	128	245	37	39	56	214	62	306	216			
Inventory days	32	18	65	39	29	65	106	87	47			
AR days	3	18	5	7	7	51	61	27	43			
Contract liabilities	2,607	139	3,585	2,823	2,822	n.a.	n.a.	n.a.	n.a.			
Contract liabilities as % of sales	23%	1%	8%	10%	4%	n.a.	n.a.	n.a.	n.a.			
Capex	918	2,312	4,863	1,079	3,672	120	221	1,852	5,518			
Capex as % of sales	8.1%	17.1%	11.4%	3.8%	4.6%	2.1%	3%	4%	6%			
Dividend payout ratio	49%	0%	70%	110%	100%	71%	0%	68%	63%			
Dividend yield	1.2%	0.0%	2.6%	6.9%	6.2%	0.6%	0.0%	2.9%	3.0%			
Net cash/ (debt)	2,842	4,372	21,005	3,123	(6,974)	100	3,253	(28,401)	(32,506)			
Net cash/ (debt) as % of equity	74%	63%	74%	23%	-50%	4%	40%	-109%	-176%			
Net operating cashflow	3,281	1,718	17,305	3,335	5,495	715	1,718	11,599	13,442			
Net operating cashflow as % of sales	29%	13%	41%	12%	7%	13%	24%	25%	15%			

Source: Company data, Goldman Sachs Global Investment Research

Key theme #1: Penetration still on the rise with category diversification, driving secular growth in the long term

Per capita consumption comps vs. global

There is potential for growth in per capita consumption value for most beverage sub-categories as many are still relatively low value as of 2023, especially RTD coffee, RTD alcoholic drinks, and sports drinks (with the exception of flavoured milk drinks), per Euromonitor data. Sports drinks represent only 0.4x per capita value consumption vs.

Asia DMs, while the energy drinks category is higher (1.3x to Asia DMs) although this is still below the level in Thailand/Vietnam (which is 1.4x/1.2x to China).

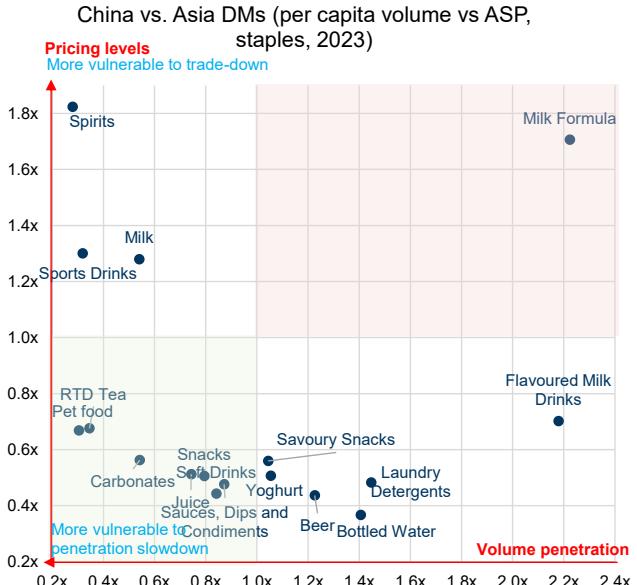
Exhibit 10: Most staples categories in China have relatively lower per capita consumption value...



Per capita figures are based on urban population only

Source: Euromonitor, Goldman Sachs Global Investment Research

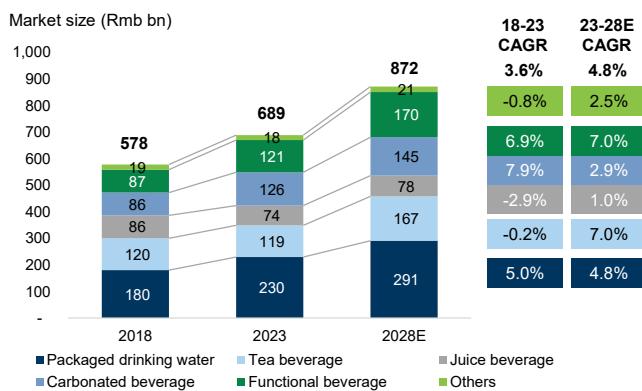
Exhibit 11: ... with categories e.g. bottled water, flavoured milk drinks recording higher volume penetration despite lower ASP; sports drinks saw higher ASP but lower volume per capita consumption



Source: Euromonitor, Goldman Sachs Global Investment Research

We construct our soft drinks industry model by key category, where we noted across soft drink sub-categories, functional drinks (energy drinks and sports drinks) have grown fast at 6.9% CAGR in the past five years, mainly driven by volume growth since 2009, and we expect the volume growth to sustain at a fast pace going forward. For RTD tea, the growth has been driven by the rise of sugar-free penetration, which we expect to continue to rise with lessons from Japan in the 1990s-2000s. We expect bottled water to remain the most resiliently growing segment, to achieve a 4.8% CAGR in the next five years, also remaining as the largest category with total market size of Rmb291bn by 2028E within the soft drink industry in China.

Exhibit 12: Soft drinks has reached retail sales of Rmb689bn in 2023 in China, and is expected to reach Rmb872bn by 2028E per our estimates



Source: Goldman Sachs Global Investment Research, Euromonitor

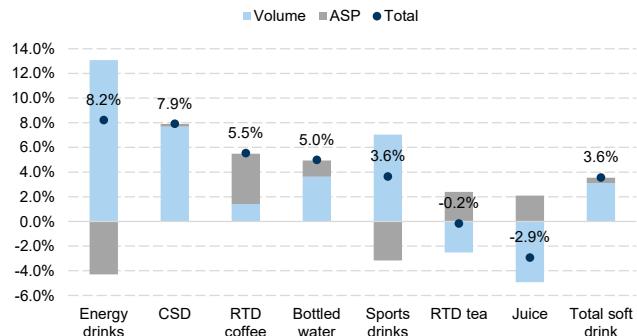
Exhibit 14: We expect Energy drinks to continue to see fastest volume growth in the next five years, followed by RTD tea and sports drinks



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 13: Energy drinks/ carbonates grew fastest in the past five years, mainly driven by volume growth

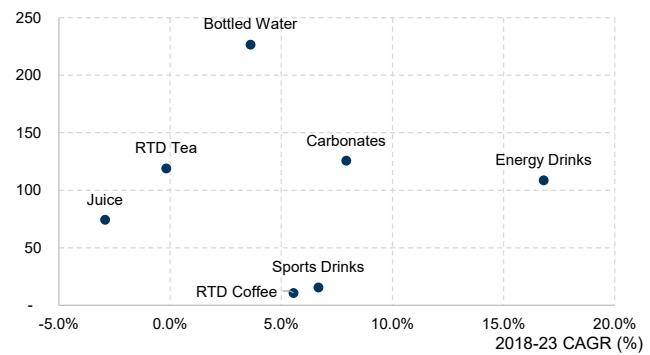
China soft drinks CAGR from 2018-2023



Source: Goldman Sachs Global Investment Research, Euromonitor

Exhibit 15: Energy drinks is one of the fastest growing categories in 2018-23

Retail sales (Rmb bn)



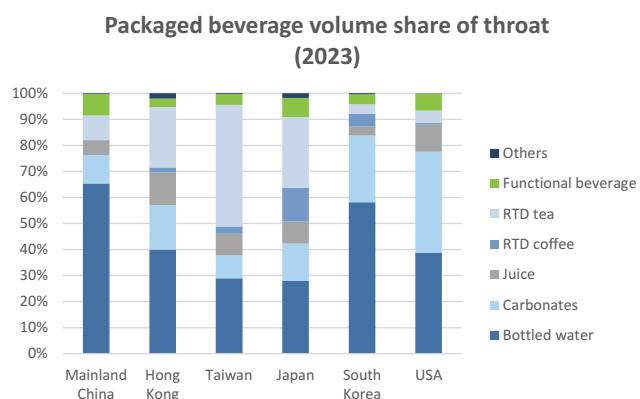
Retail sales as of 2023

Source: Euromonitor, Goldman Sachs Global Investment Research

Soft drinks penetration in China

Compared to other markets, we believe total beverage intake still has room to grow in China with category shift within the sector along times. We note that Chinese packaged beverage consumption primarily comes from bottled water nowadays.

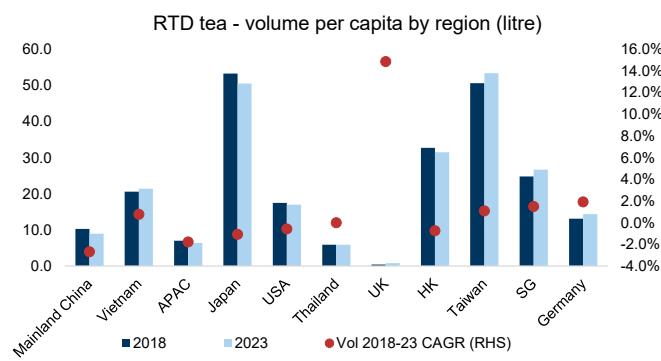
Exhibit 16: Chinese packaged beverage consumption primarily comes from bottled water.



China's bottled water and functional beverage data per GSe

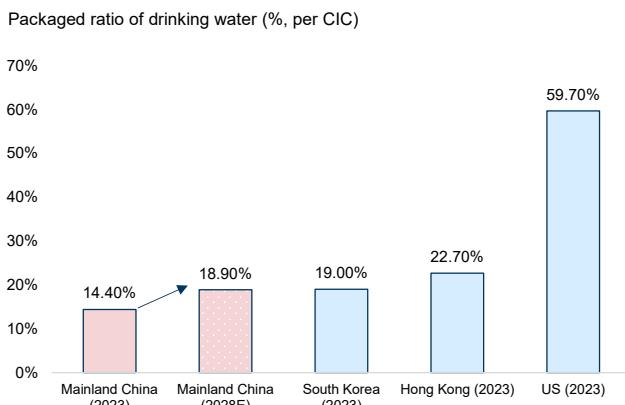
Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 18: Penetration of RTD tea in mainland China still shows growth potential vs. Asia DMs



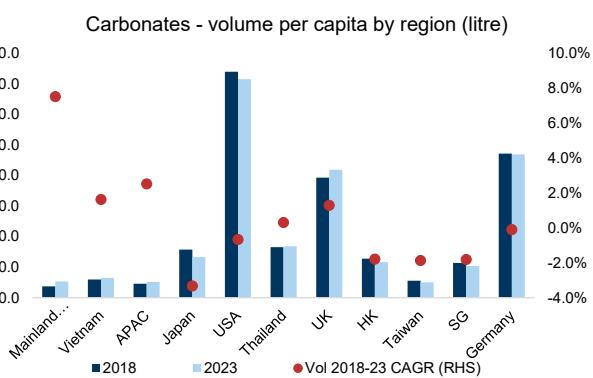
Source: Euromonitor

Exhibit 17: We expect the packaged ratio to gradually increase to HK's level, which will drive volume growth



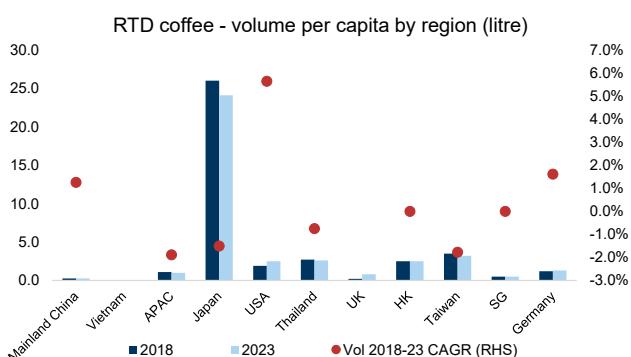
Source: CIC, Goldman Sachs Global Investment Research

Exhibit 19: Penetration of carbonates in mainland China is still relatively low vs. developed markets despite the relatively more encouraging growth in the past five years



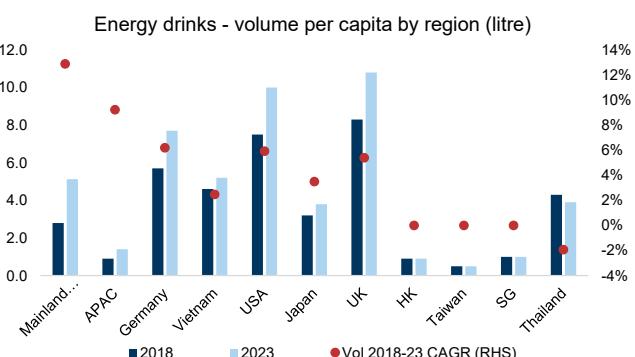
Source: Euromonitor

Exhibit 20: Japan consumes significantly more RTD coffee on per-capita basis vs. other Asian markets and developed countries



Source: Euromonitor

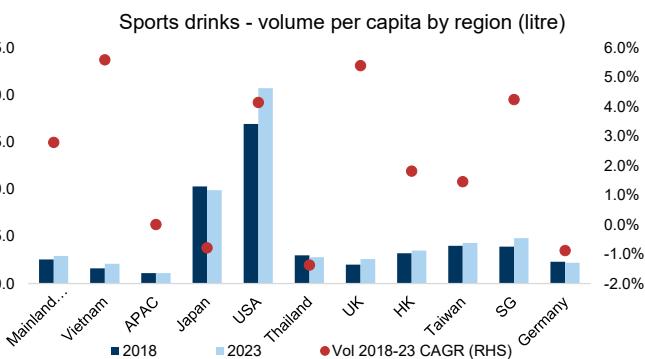
Exhibit 21: Mainland China demonstrates further potential in per-capita consumption growth for energy drinks vs. Vietnam/Thailand and USA/UK



Mainland China data per GSe

Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 22: Penetration of sports drinks in mainland China demonstrates significant potential to grow vs. Japan/US



Mainland China data per GSe

Source: Euromonitor, Goldman Sachs Global Investment Research

Key theme #2: Category with health and functional focus gaining popularity

Functional benefits are increasingly valued by consumers

Consumers of packaged soft drinks are now looking beyond the hydration needs.

According to consumer surveys (see below [Exhibit 23](#) and [Exhibit 24](#)) consumers increasingly pay attention to tastes, functional benefits and health-related concepts (e.g. quality ingredients such as not from concentrate juice). We think the pandemic and rising health focus trend has amplified the demand for products with functional benefits, incl. low-sugar, traditional herbal ingredients, hydration etc.

The consumer survey indicated that when choosing products consumers will increase spending on soft drinks containing healthy ingredients, such as vitamins/nutritional supplements. Post pandemic, the rise in consumer awareness of effective hydration

with electrolyte intake boosted the sales of electrolyte water, with the purposes of maintaining the body's electrolyte balance when feeling unwell, expanding beyond sports/ outdoor consumption scenarios. The Energy drinks category has also been one of the fastest growth beverage categories in the past decade, where we see the long working hours in China being one contributor to the penetration growth.

Exhibit 23: Consumer survey shows increasing focus on health

Nielsen IQ consumer insights survey 2024	
Choose products that are positive for health	82%
Try new products that are positive for health	78%
Try/ increase intake of vitamins/ nutritional supplements	74%
Try/ increase intake of pressure-relieving products	73%
Choose sustainable products/ services	70%
Choose products that are helpful for weight control	63%

Source: Nielsen IQ

Exhibit 24: Consumer survey: The top keywords of beverage consumption focus are health-related

Keywords of beverage consumption focus (Survey conducted in 2023)	
1. Fat reduction & sugar control	6. Basic nutritional elements
2. Weight losses	7. DIY drinks
3. Sugar	8. Sparkling
4. Wellness	9. Refreshing
5. Fruits	10. Summer

Source: Little Red Book

Electrolyte water gaining popularity in China market post Covid

As a sub-category of functional/ sports drinks, electrolyte water is effective for hydration, usually consumed as an enhanced alternative to bottled water in more specialized scenarios e.g post outdoor/ sport activities. It is marketed as a health-conscious product with 1) healthier ingredients (vs. many other beverages), 2) functional benefits, 3) perception that it is providing positive health benefits for consumers especially with specific supplements.

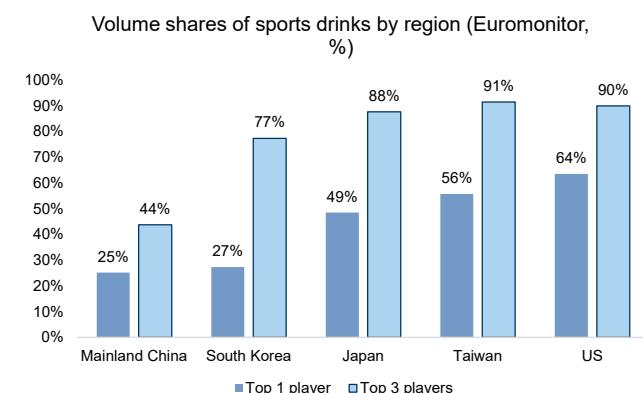
Electrolyte water gained popularity in China during Covid especially in late 2022/ early 2023, when the National Health Commission encouraged Covid-infected patients to consume electrolyte water to maintain the water/ electrolyte balance, and also resonated with increased health awareness for proper hydration for some disease symptoms e.g diarrhea/ fever. After China's reopening, the recovering demand for outdoor activities/ traveling became a tailwind for electrolyte water's further penetration, leading to greater competition with numerous new entrants amid fast industry growth to-date.

Exhibit 25: We look for growth acceleration of China's electrolyte water sales post reopening in 2022/23



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 26: Volume shares tend to be highly concentrated in a more mature market



As of 2023

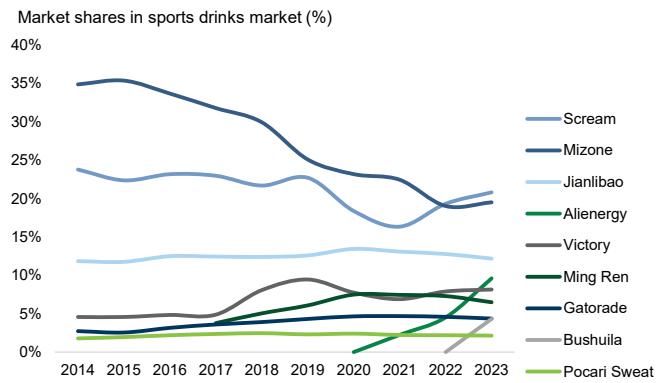
Source: Euromonitor

Exhibit 27: 2024YTD, sports drinks saw significant share gains QoQ, and the positively growing categories were all boosted by emerging sugar-free concepts or functional features

Market share yoy changes of select categories in soft drink industry		2024Q1	2024Q2	2024Q3
Sports drinks		1.5%	6.7%	18.5%
RTD tea		18.0%	10.2%	4.1%
Bottled water		8.1%	3.1%	2.6%
Energy drinks		1.5%	7.8%	2.5%
Carbonates		-5.8%	-8.1%	-2.5%
RTD coffee		-9.3%	-7.1%	n.a.

Source: Mashangying

Exhibit 28: The electrolytes water by Alienergy and Bushuila by Eastroc as new entrants of sports drinks market have intensified the competition



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

References to competitive landscape of sports drinks in Japan/ US

- One key lesson learnt from the US sports drink market is that the leading brand PepsiCo's Gatorade has a very long product cycle with over 50 years' strong presence in the market (64% volume share of the US sports drink market in 2023, per Euromonitor) in our view, which is branded as the scientifically researched, professional and game-tested way to replace electrolytes lost in sweat for athletes.
- In addition, we see that the sports drink market becomes highly consolidated when it enters to a more mature stage, where the US/Japan saw the top 3 players accounting for 88%/90% volume share, while China is still at the early stage with the top 3 only at c.44%, per Euromonitor.

Pocari Sweat and Gatorade are two iconic electrolyte water products that have shaped the sports drink industry in Japan/US, respectively. Pocari Sweat's introduction in the 1980s marked the rise of Japan's sports drink industry, which grew at a steady CAGR of 5% until peaking in 2010 and then saw renewed growth post-COVID from 2021-2023. In the US, the sports drink market emerged in the 1960s, with Gatorade gaining historical significance as the first scientifically formulated sports drink designed to replenish fluids and electrolytes lost during intense physical activity.

We notice common trends in the Japan/US sports drink markets:

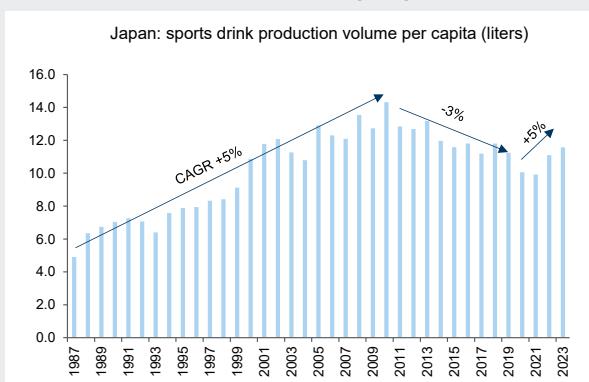
1) Channel and consumption scenario penetration play key parts: The initial success of Pocari Sweat and Gatorade relied heavily on strategic partnerships with athletes and robust advertising at sporting events, but strategies among major players began to diverge as the market evolved. In Japan, Coca-Cola successfully challenged Pocari Sweat as a late entrant by introducing a diverse range of flavors of energy drinks vs. Pocari Sweat's singular formula, and leveraging leading investments in channels, especially vending machines. By 2020, Coca-Cola controlled c.1mn vending machines in Japan, roughly a third of the total, surpassing Suntory's 0.5 mn units as the second.

2) Steady ASP increase outpacing CPI: In Japan, sports drinks maintained resilient ASP increase, outgrowing other major soft drink categories despite declining volume. In the US, sports drinks kept MSD%~low teens% yoy ASP increase in 2018-2024.

3) High concentration and robust brand longevity: Gatorade commands 2/3 share and Coca-Cola holds 1/4, collectively accounting for c.90% of sales value in the US (per NielsenIQ, 2023). Similarly, Pocari Sweat maintains over 20%+ share in Japan and significant presence in other Asian markets like Mainland China/HK/Taiwan.

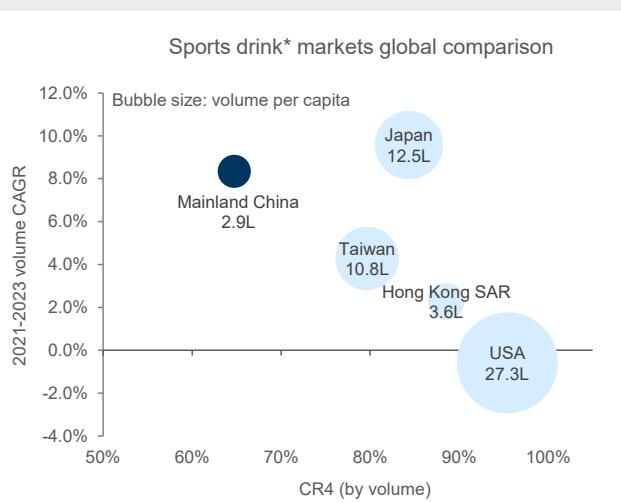
4) Product portfolio expansion: Gatorade's evolution illustrates the category expansion trajectory from pure hydration to comprehensive sports nutrition, progressing from its original electrolyte formula to a diverse portfolio encompassing energy bars, protein supplements, and the specialized G Series line.

Exhibit 29: Japan sports drinks emerged in the 1980s and steadily grew by c.5% CAGR (volume per capita) in the following two decades, then revived post pandemic



Source: Japan Soft Drink Association

Exhibit 31: Mainland China's volume per capita is relatively low but growing faster, and the market landscape is more fragmented at CR4=c.60% vs. CR4>80% in other markets

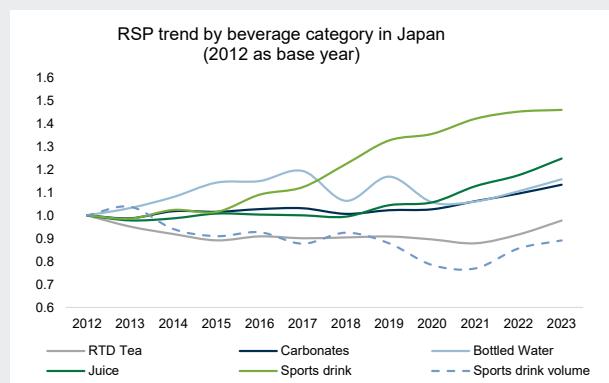


* refers to sports drink and functional bottled water combined per Euromonitor for Japan/USA/HK/Taiwan, per GS for Mainland China

Source: Euromonitor, Goldman Sachs Global Investment Research

Referencing Japan's experience, we highlight several growth drivers for Eastroc's electrolyte water in the next few years:

Exhibit 30: Sports drinks maintained resilient ASP increase outgrowing other major soft drink categories despite declining volume



Source: Japan Soft Drink Association

1) Mainland China's sports drink market shows significant growth potential for emerging brands to expand, with per capita consumption at 2.9L compared to mature markets like Taiwan, Japan, and the US (>10L) and robust growth at a c.9% CAGR in 2021-2023, amid a more fragmented competitive landscape with CR4 at c.60%, vs. >80% in comparable markets.

2) Channel expansion and consumer base development: Pocari Sweat's successful youth-focused branding strategy to penetrate new demographics, particularly younger consumers and higher-tier city residents, complements Eastroc's existing energy drink customer base of working class. Bushuila's channel strategy to advertise in sports events and expand into schools/sports stadiums also benefits from China's expanding sports infrastructure (total sports sites growing from 3.2 mn in 2018 to 4.6 m in 2023 at an 8% CAGR, per NBS).

3) Value position and ASP increase potential: RSP of sports drinks now stands at 2.4x of bottled water in China vs. 2.8x in Japan, while Bushuila is priced at c.2.0x as the most competitively priced option. Bushuila has a unique position at the intersection of two key macro trends: fitness & sports participation and health, differentiating through lower sugar content vs. Pocari Sweat and Gatorade's classic products in China markets. Its comprehensive size portfolio (380ml, 500ml, 1L) effectively caters to various consumption occasions (daily use, short trips, extended outings, sports, etc.), following Japan's format strategy where larger sizes (700ml+) now represent 40% of PET volume vs. 15~30% for CSD/juice/milk beverages.

Sugar-free concept leading to growth opportunities in soft drinks industry

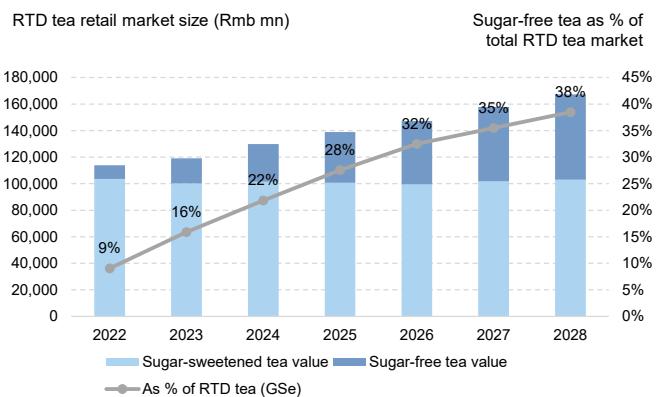
Sugar-free beverage consumption is still low in China, accounting for c. HSD% of total soft drink sales currently, compared to 50%+ in Japan as of 2023. The largest segment of sugar-free beverage has been sugar-free RTD tea led by Nongfu's Oriental Leaf.

Exhibit 32: Sugar-free penetration ratio in China is at HSD% as of 2024, vs. Japan's over 50%

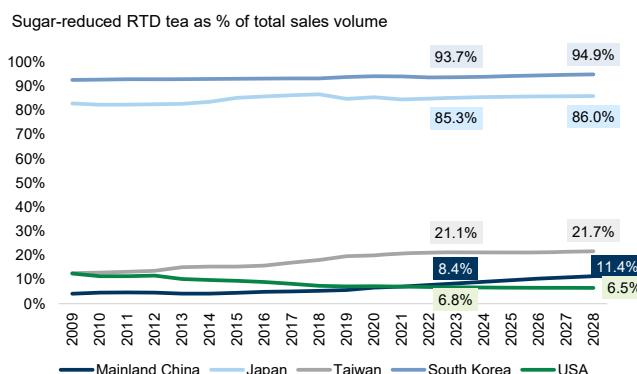


Source: iiMedia, Goldman Sachs Global Investment Research

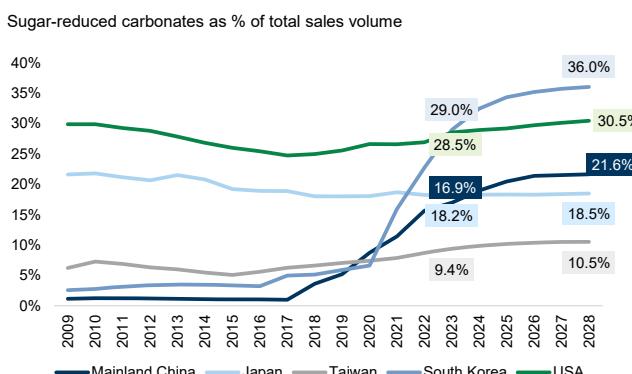
Exhibit 33: China sugar free tea is on the rise, and we expect penetration to increase to above 30% by 2026E, contributing the most incremental growth to overall RTD tea market



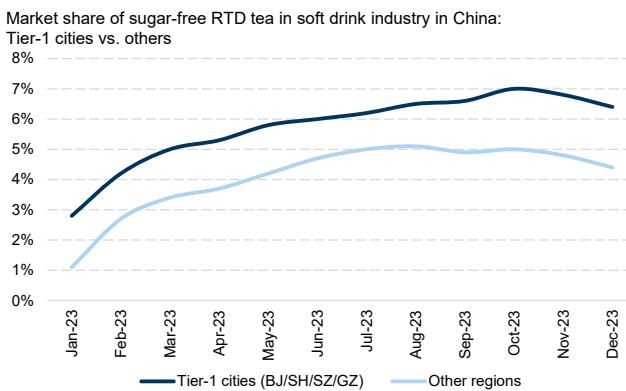
Source: CIC, Goldman Sachs Global Investment Research

Exhibit 34: Sugar-reduced RTD tea penetration % vs. selected DMs

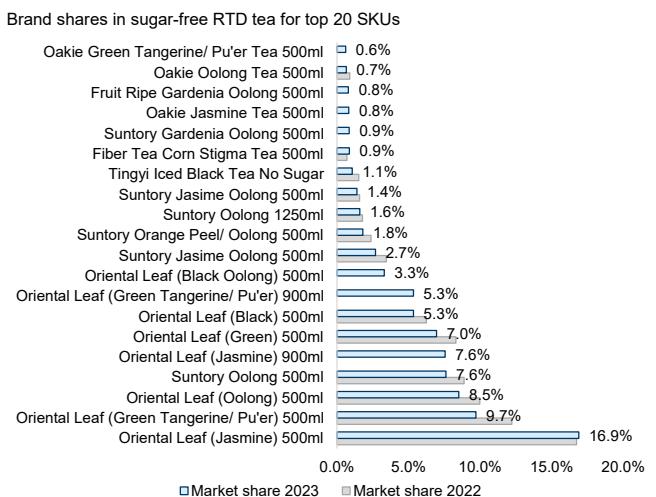
Source: Euromonitor

Exhibit 35: Sugar-reduced carbonates penetration % vs. selected DMs

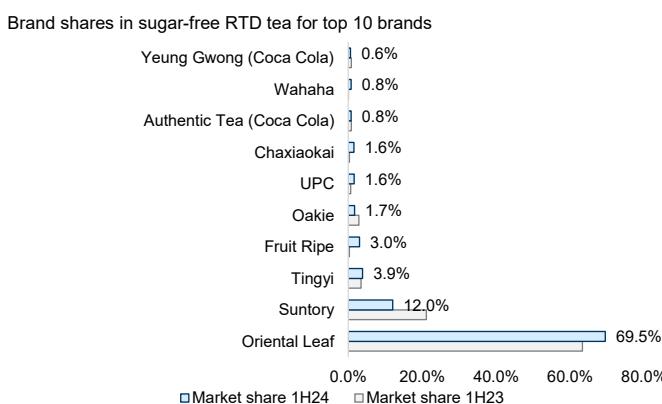
Source: Euromonitor

Exhibit 36: Sugar-free tea penetrated further into top tier cities in China

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

Exhibit 37: Oriental Leaf dominates the sugar free RTD tea market, while we note the leading brands' shares were diluted in 2023 vs. in 2022

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

Exhibit 38: In 1H24, Oriental Leaf continued to gain market shares from peers on a yoy basis

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

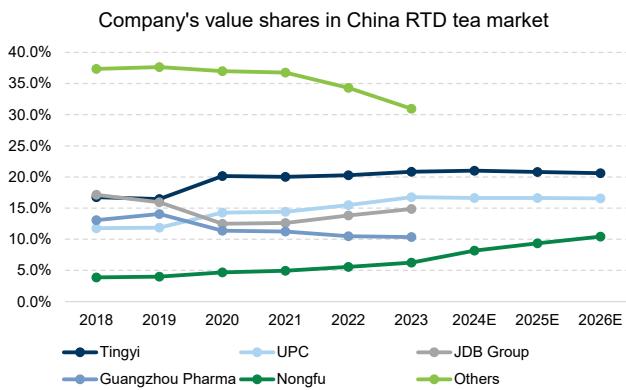
Key theme #3: Intense competition appears inevitable, prefer players with long-lasting category and capability for diversification

Intensifying competition in RTD tea space driven by more product launches:

2024YTD, we have seen accelerating new releases of sugar-free RTD tea with 34 new SKUs launched in Jan-May, per Mashangying data. However, pricing competition has intensified, where key SKUs with suggested retail prices at Rmb5-6 originally are making discounts towards Rmb3-4 per bottle. Our channel checks indicate that the recent actual selling prices in both online and offline channels have discounts of around 30-40% on average.

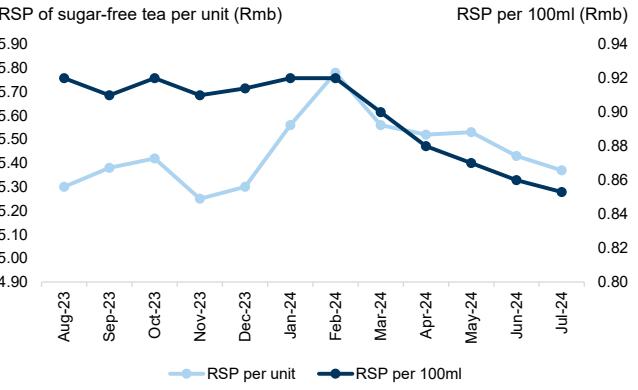
Bottled water category became a battleground in 2024 but we expect sequential improvement in 2025: We saw deeper discounts especially after Nongfu launched its green bottle purified water alongside its core product red bottle spring water, aiming to expand into the purified water market against key players including C'estbon (CR Beverage). However, while this “green bottle” strategy by Nongfu led to pricing pressure in the bottled water market in 2024, we saw volume share loss in Nongfu’s bottled water with its green bottle cannibalizing sales of its red bottle given that its green bottle carried higher rebates to channels. Since Sept-Oct 2024, we have observed Nongfu has become more disciplined on bottled water promotion and adjusted its “green bottle” strategy. We expect a gradual recovery in small-sized bottled water’s retail pricing in 2025; however we expect faster growth of mid-to-large sized bottled water (lower unit price vs. small bottle) to largely offset the pricing recovery trend.

Exhibit 39: Nongfu's strong pickup in sugar-free tea is re-shaping the RTD tea market landscape



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 40: However, we note competition likely also intensified amid fast growth, being reflected in sequential declines in RSP YTD



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

Exhibit 41: Sugar-free tea recent selling price summary- heavy discount in online channels

Sugar-free tea price summary as of Jun 2024					
Product	Company	Vol	Suggested retail	RSP (Rmb)	Discount
Selected offline channels					
DyDo	DyDo	600ml	5.9	3.5	-42%
Oriental Leaf	Nongfu Spring	500ml	5.5	3.3	-39%
Eastroc Shangcha	Eastroc	555ml	5.0	3.3	-34%
Fruit Ripe	Fruit Ripe	487ml	5.9	4.0	-33%
Suntory Tea	Suntory	500ml	5.0	3.5	-30%
Cha Xiao Kai	Kai Tea	500ml	5.8	4.4	-25%
Average			5.5	3.6	-34%
Online official stores					
Vita Coldbrew Tea	VitaSoy	500ml	7.8	2.3	-70%
Eastroc Shangcha	Eastroc	555ml	5.0	2.9	-42%
Chaliwang	UPC	500ml	5.0	3.0	-40%
Oakie	Genki Forest	500ml	6.5	4.0	-39%
Ito En Grean Tea	Ito En	500ml	5.5	3.8	-31%
Authentic Tea House	Coca Cola	480ml	6.0	4.3	-29%
Let's Tea	Rang Cha	500ml	6.0	4.3	-28%
Suntory Barley Tea	Suntory	500ml	5.0	3.7	-25%
Average			5.9	3.5	-38%

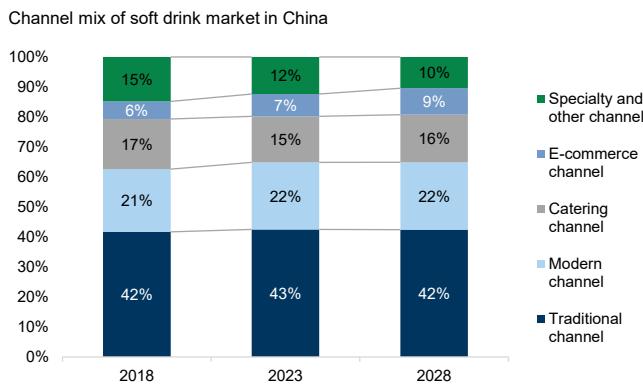
Source: Channel checks, Tmall, JD.COM, Goldman Sachs Global Investment Research

Exhibit 42: The wholesale price range of Oriental Leaf saw mild declines mom in 2024YTD, per Mashangying

Price of Oriental Leaf Jasmine Tea 500ml (Rmb)					
Region	Month	Median retail price	First quartile wholesale price	Median wholesale price	Third quartile wholesale price
Central China	Oct-24	5.00	3.60	3.67	3.67
Central China	Sep-24	5.00	3.53	3.66	3.67
Central China	Aug-24	5.00	3.60	3.67	3.67
Central China	Jul-24	5.00	3.63	3.67	3.80
Central China	Jun-24	5.00	3.60	3.67	3.80
Central China	May-24	5.00	3.53	3.67	3.80
Central China	Apr-24	5.00	3.67	3.67	3.80
North China	Oct-24	5.00	3.67	3.70	3.85
North China	Sep-24	5.00	3.67	3.80	3.87
North China	Aug-24	5.00	3.67	3.80	3.87
North China	Jul-24	5.00	3.67	3.80	3.86
North China	Jun-24	5.00	3.67	3.77	3.80
North China	May-24	5.00	3.67	3.73	3.83
North China	Apr-24	5.00	3.67	3.73	3.86
Southwest China	Oct-24	5.00	3.67	3.67	3.80
Southwest China	Sep-24	5.00	3.67	3.67	3.80
Southwest China	Aug-24	5.00	3.60	3.67	3.80
Southwest China	Jul-24	5.00	3.67	3.67	3.80
Southwest China	Jun-24	5.00	3.67	3.67	3.93
Southwest China	May-24	5.00	3.67	3.70	3.93
Southwest China	Apr-24	5.00	3.67	3.73	3.87

Source: Mashangying

Exhibit 43: Online channels are expected to take shares in soft drink market going forward, per CIC, which creates potential pressure for offline pricing system



Source: CIC

Exhibit 44: Beverage price hike summary 2023/2024YTD -still going through the process

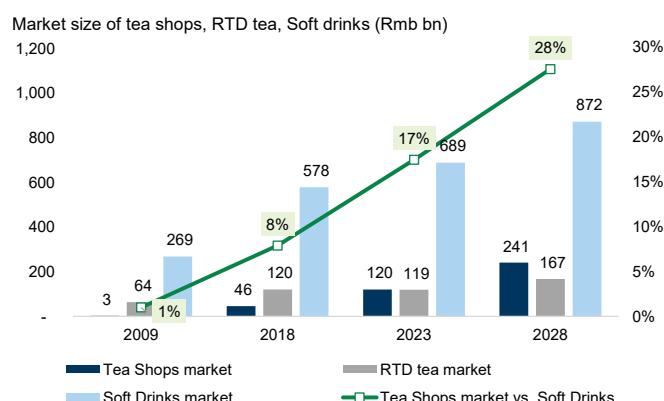
(+) Price hikes in 2023/2024YTD	
Sector	Details and effective dates
Soft drinks	<ul style="list-style-type: none"> Coca Cola: Price hike to Rmb3.5 from 3.0 for 500ml Coke/ Sprite/ Fanta, etc in Hubei, Jiangxi, Zhengzhou (Apr 2024) Tingyi: Suggested retail price hike to Rmb5.0 from 4.0 with ex-factory price increased LSD% for 1L Tea (Apr 2024)

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

Competition from outside the industry: Freshly-made specialty coffee and tea shops still on the rise

In China, freshly-made coffee and tea shops saw rapid growth, which is still in a rising trend. We note that tea shops are growing faster vs. RTD soft drink market (to 17%/28% in 2023/2028E from 8% in 2018, vs. overall TAM of RTD soft drink market), and likely reached the similar scale vs. RTD tea in 2023, while RTD coffee is still very small in size per CIC and Euromonitor. While we think that specialty coffee and tea shops are posing stronger competition to RTD coffee and overall soft drinks, we also believe that the overall POS penetration of RTD soft drinks at 6mn+ with nationwide coverage and far reach to very low-tier/rural regions with lower pricing points are unlikely to be replaced by freshly made tea shops.

Exhibit 45: Tea shops are taking higher share from the beverage industry, and expected to be at similar scale vs. RTD tea in 2023



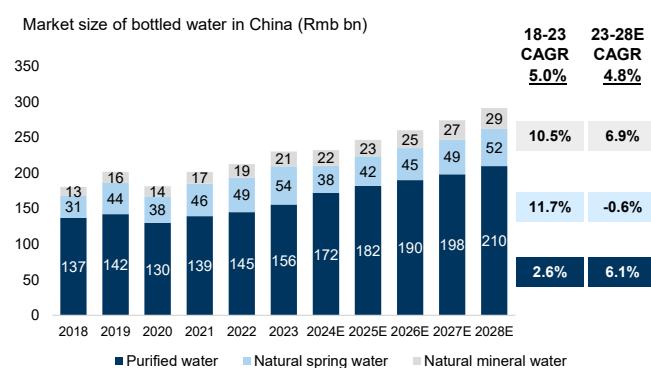
Data for 2009 and Tea Shops data over time are sourced from Euromonitor; RTD tea/ soft drink markets are based on GS

Source: Euromonitor, Goldman Sachs Global Investment Research

Industry landscape by category

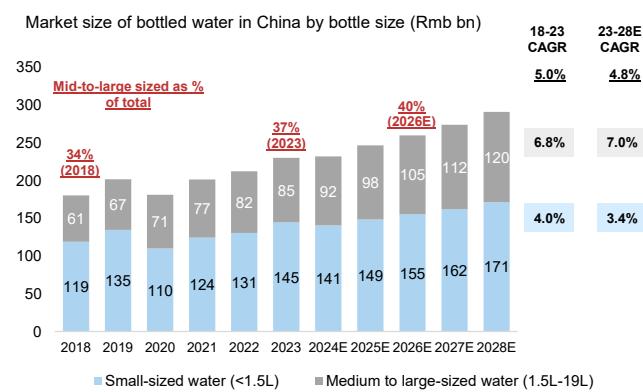
Bottled Water

Exhibit 46: We expect purified drinking water and natural mineral water to gradually consolidate market shares over time



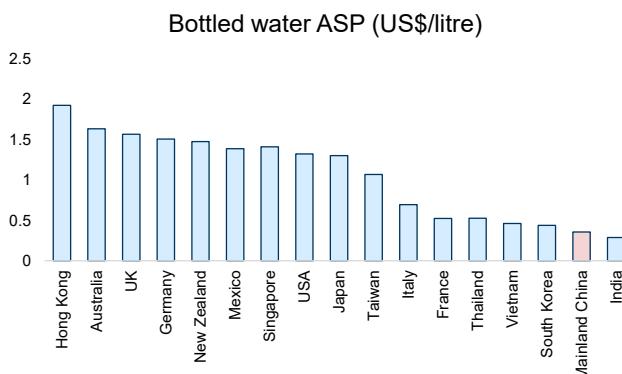
Source: Goldman Sachs Global Investment Research

Exhibit 47: We expect mid-to-large pack water to drive the volume growth at 7.0% CAGR in 2023-38E vs. total volume to grow at 4.8%



Source: Goldman Sachs Global Investment Research

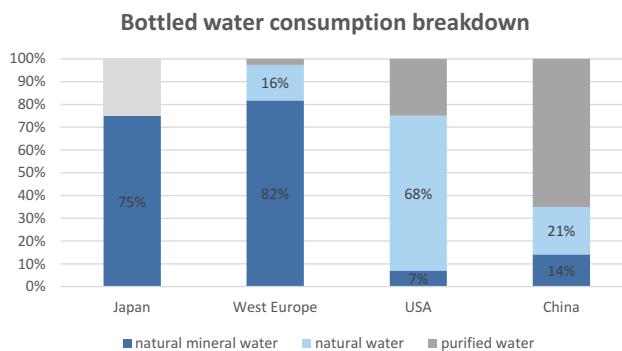
Exhibit 48: Price for bottled water in Mainland China is still in the lower end vs. global (as of 2023)



China's ASP per GSe

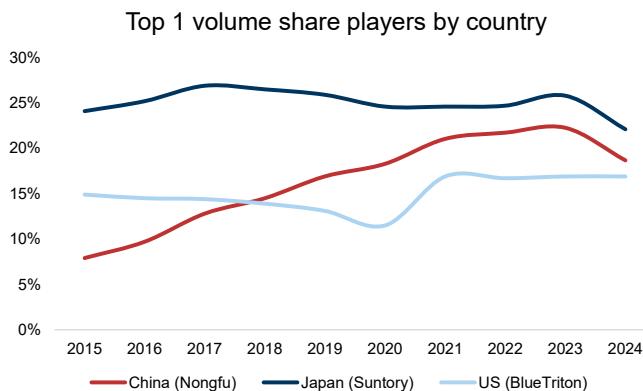
Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 50: Consumers in other markets prefer natural mineral and natural spring water; increasing contribution can drive mix upgrade in China



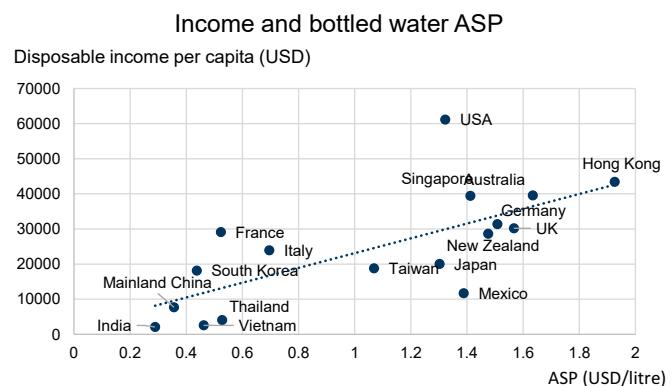
Source: European Commission, Frost & Sullivan, Mineral Water Association of Japan, Euromonitor, Beverage Marketing Corp

Exhibit 52: Nongfu's market share in bottled water is still below that of leader in Japan's bottled water market



Source: Euromonitor, Goldman Sachs Global Investment Research

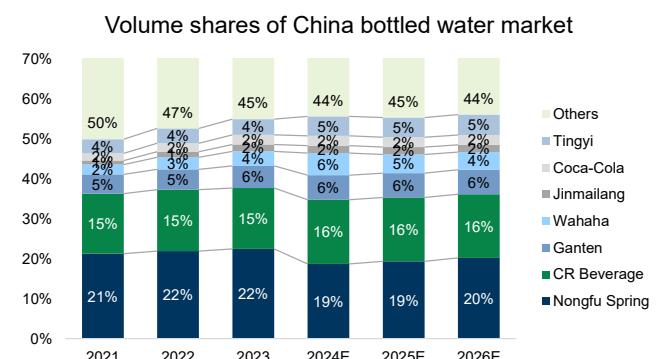
Exhibit 49: Income has some impact on water ASP but other factors such as consumer knowledge matter too



China's ASP per GSe

Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 51: We expect Nongfu to stay No.1 in China's packaged water industry, with CR Beverage gradually catching up

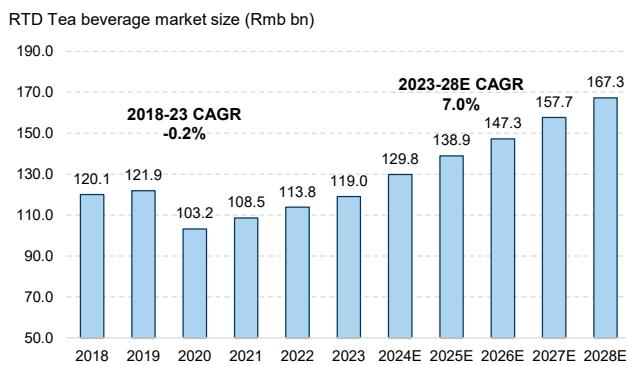


Source: Company data, Goldman Sachs Global Investment Research

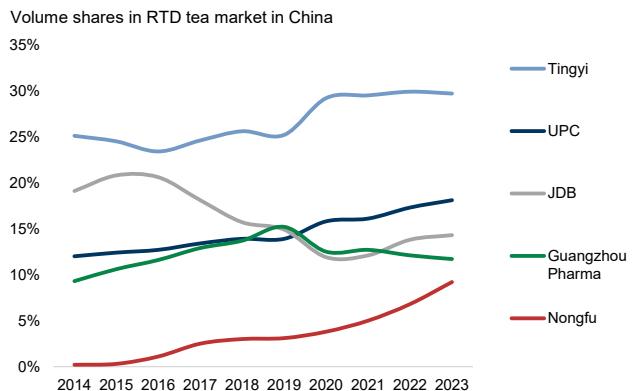
Exhibit 53: Snapshot of water tiering for major players

Rmb/550ml	Nongfu Spring	CR Beverage	Wahaha	Tingyi	Shenzhen Ganten
Premium (Above Rmb 3)	Baby natural water	5.4	L'eau	23.6	Ganten Baisuishan natural mineral water 3.0
	Sports Cap natural mineral water	4.5	FEEL sparkling water	4.6	
	Chang Bai Xue	3.0			
Mid-end (Rmb 2-3)	Nongfu Spring natural water	2.0	C'estbon purified drinking water	2.0	Ganten purified drinking water 2.0
	Nongfu Spring purified water	2.0	Bonjour Foret natural mineral water	2.0	
Mass (Rmb 1-2)			Wahaha purified drinking water	1.4	Master Kong purified drinking water 1.5

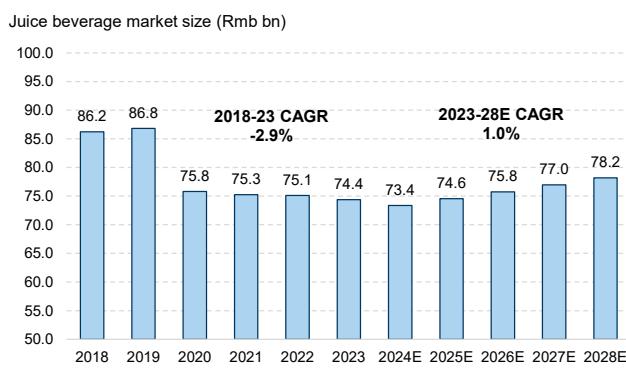
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

RTD tea**Exhibit 54: RTD Tea market size is c.Rmb119 billion in 2023 and we expect a 7.0% CAGR for 2023-28E**

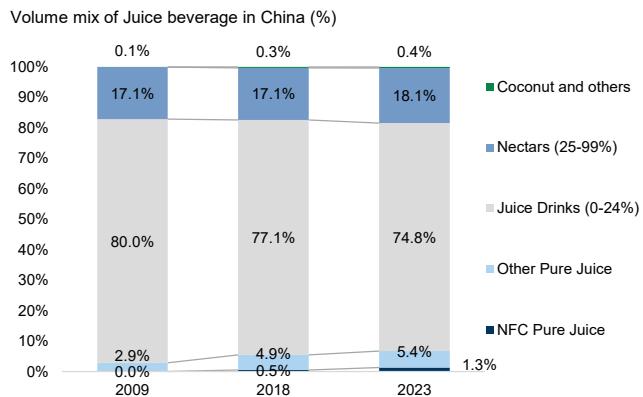
Source: Goldman Sachs Global Investment Research, Euromonitor

Exhibit 55: Nongfu Spring quickly rose in terms of volume share RTD tea market

Source: Euromonitor

Juice**Exhibit 56: Juice market size is about Rmb74 billion in 2023, and is expected to grow at 1% CAGR per Euromonitor**

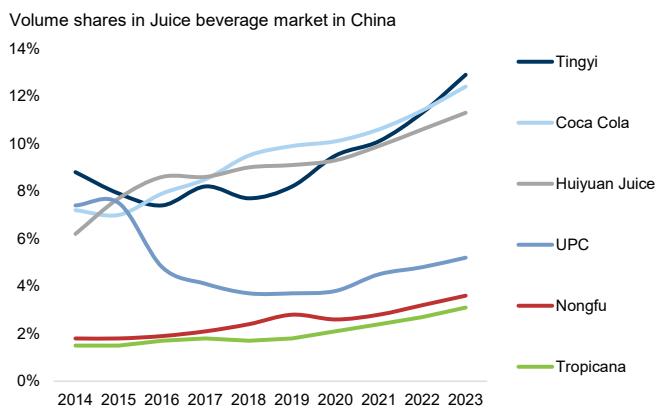
Source: Goldman Sachs Global Investment Research, Euromonitor

Exhibit 57: Overall, the 0-24% juice drinks are still the majority of Juice industry while pure juice and 25-99% juice are rising

NFC = not from concentrate

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

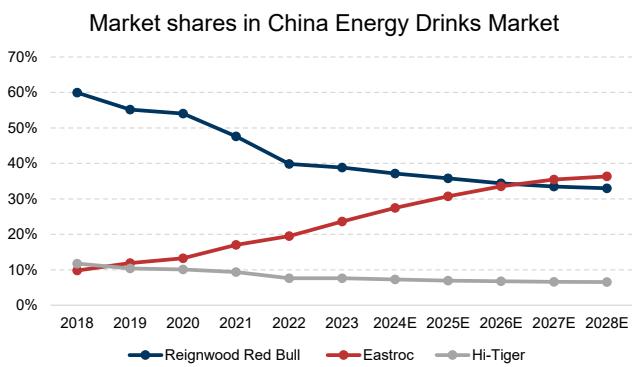
Exhibit 58: Top players in Juice segment generally gained market shares in the past five years



Source: Euromonitor

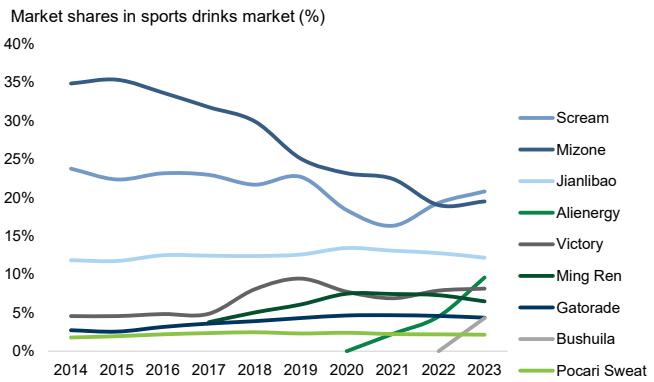
Functional Drinks

Exhibit 59: We expect Eastroc to continue gaining shares and surpass Red Bull by 2027E
Energy drink market volume share (%)



Source: Company data, Goldman Sachs Global Investment Research

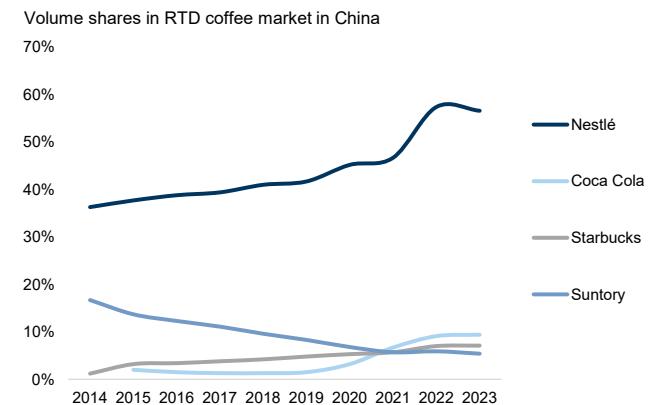
Exhibit 60: The electrolytes water by Alienergy and Bushuila by Eastroc as new entrants of sports drinks market have intensified the competition



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

RTD Coffee

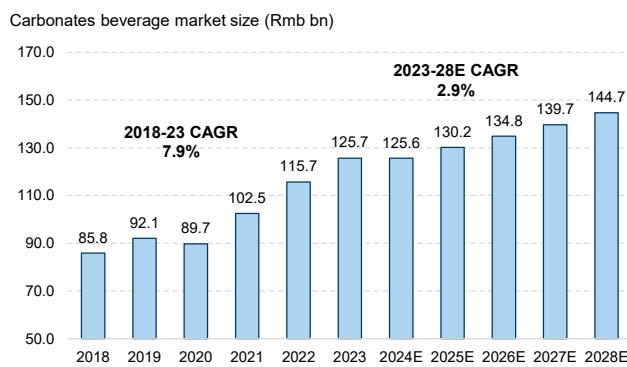
Exhibit 61: Nestle kept enhancing its leading market share in RTD coffee
RTD tea coffee market



Source: Euromonitor

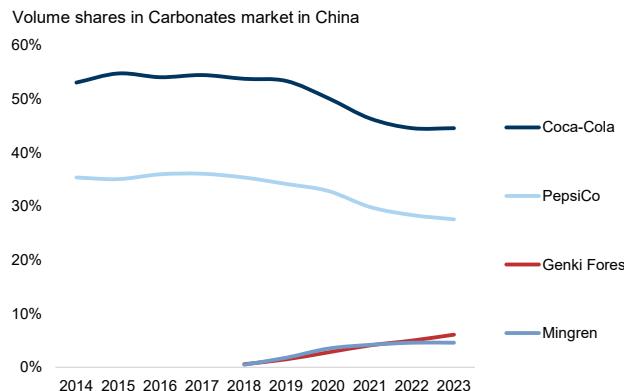
Carbonates

Exhibit 62: We see carbonates market relatively mature in China
Carbonates market size in China (Rmb bn)



Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 63: Genki Forest and Mingren gained shares from two leading players since 2018 in carbonate drinks market
Carbonates market

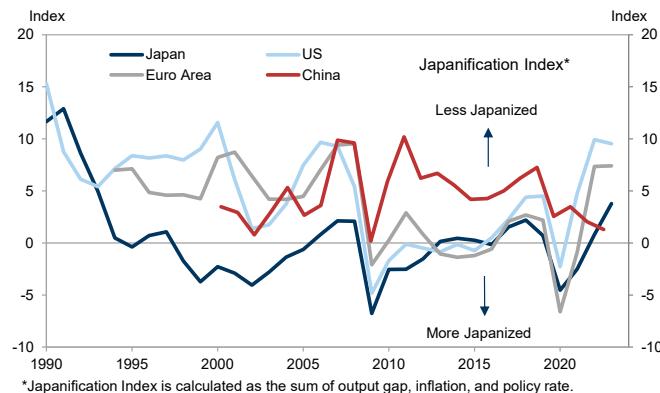


Source: Euromonitor

Japan case study

Amid economic recession, consumption desire tended to transform to “simple pleasure” mode

As a backdrop, Japan entered into the start of economic recession in the beginning of the 1990s, along with sharp declines in land prices, which we think somewhat altered consumption behaviors. We note some macro aspects that are similar between China and Japan during that time, which led us to a case study for consumption pattern reference as below.

Exhibit 64: In 2023, China showed more characteristics of "Japanification" than before the pandemic


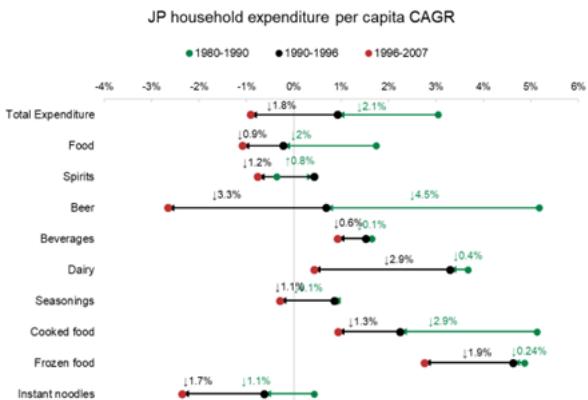
Source: Haver Analytics, Cabinet Office, Goldman Sachs Global Investment Research

Exhibit 66: Most staples subcategories still saw healthy growth in spending per capita in 1990-1996, especially dairy and frozen food

Categories	CAGR - Expenditure per capita			
	1980-1990	Momentum	1990-1996	Momentum
Total Expenditure	3.0%	Decelerating	0.9%	Declining
Alcoholic drinks	2.3%	Decelerating	0.0%	Declining
Sake	-1.9%	Decline moderated	-0.2%	Declining
Distilled spirits	9.5%	Decelerating	2.6%	Accelerating
Wine	6.6%	Decelerating	3.6%	Accelerating
Beer*	5.2%	Decelerating	0.7%	Declining
Beverages	1.6%	Flat	1.5%	Decelerating
Coffee	1.7%	Flat	1.9%	Decelerating
Tea	-0.7%	Accelerating	8.8%	Decelerating
CSD	-3.5%	Accelerating	1.5%	Declining
Juice	5.2%	Declining	-1.1%	Declining
Dairy	3.7%	Flat	3.3%	Decelerating
Fresh milk	0.9%	Decelerating	-0.1%	Declining
Milk powder	-1.5%	Accelerating	3.1%	Declining
Yogurt		Accelerating	5.3%	Decelerating
Butter	-0.3%	Accelerating	0.9%	Declining
Cheese	3.4%	Decelerating	2.6%	Decelerating
Seasonings	0.9%	Flat	0.8%	Decelerating
Salt	1.4%	Accelerating	3.4%	Declining
Soy sauce	-3.1%	Decline moderated	-0.2%	Declining
Sugar	-4.2%	Declining	-4.8%	Declining
Vinegar	2.6%	Decelerating	0.3%	Accelerating
Frozen food	4.9%	Flat	4.6%	Decelerating
Instant noodles	0.4%	Decelerating	-0.6%	Declining

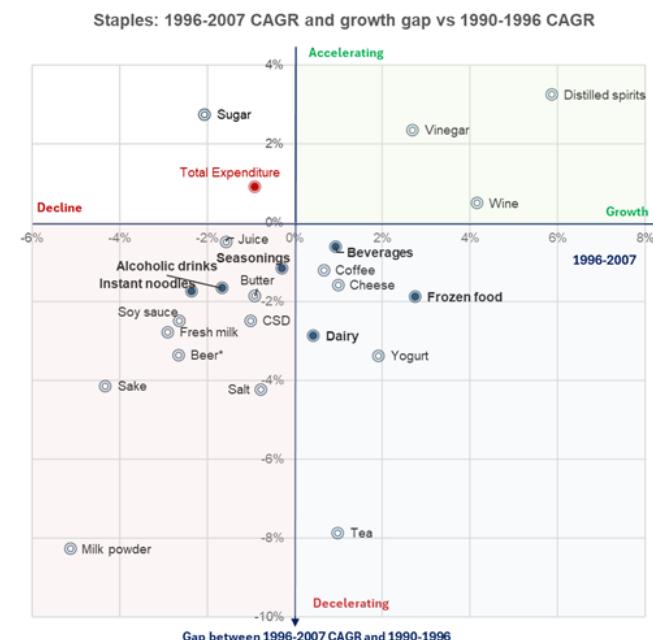
Beer category includes Happoshu (low malt beer/sparkling beer)

Source: Japan Statistics Bureau

Exhibit 65: Most categories saw expenditure growth deceleration in 1991-1996 vs. the 1980s, followed by a decline in 1996-2007


Spirits refer to sake and distilled spirits (Shochu).

Source: Japan Statistics Bureau

Exhibit 67: By Staple Sector: Beverage was relatively resilient during the macro down trends in 1990-1996


Beer category includes Happoshu (low malt beer/sparkling beer)

Source: Japan Statistics Bureau

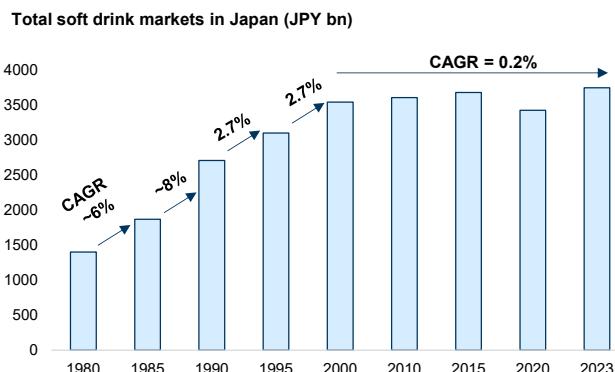
Family size trended smaller and rapid channel expansion contributed to rising soft drink consumption in 1980-2000 in Japan

Per Ito En's disclosures, the soft drink market in Japan grew rapidly in 1980-2000, while staying relatively stable century-to-date. We think the fast growth was mainly attributed to 1) more focuses on staples consumption and conservative large-ticket-size consumption appetite amid the weaker economic outlook, 2) family size trending smaller amid lower fertility willingness and higher mortality rates led to simpler and more individual-focused F&B consumption, and 3) rapid distribution network expansion, including convenience stores and vending machines that mainly sell more convenient

formats of F&B, e.g., packaged beverages, instant noodles/rices and snacks.

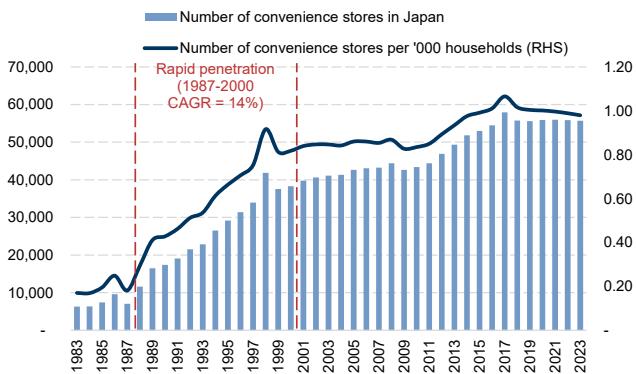
Convenience stores rapidly expanded across Japan since the 1990s when FamilyMart was listed on TSE and 7-11 started providing utility bill payment services and ATM services, significantly providing a convenient retailing experience to households and therefore pushing soft drink consumption to increase.

Exhibit 68: The soft drink market in Japan grew rapidly in 1980-2000, while staying relatively stable century-to-date



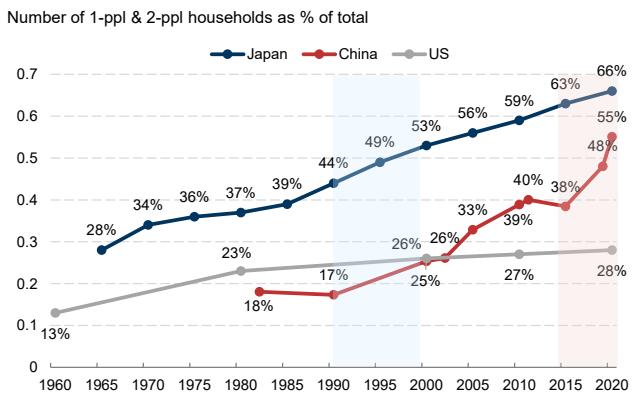
Source: Ito En

Exhibit 70: Convenience stores rapidly expanded across Japan since the 1990s, providing convenient retailing experience to households and therefore encouraging rising soft drink consumption



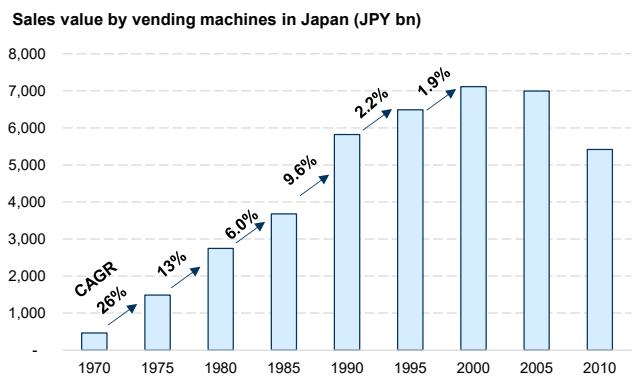
Source: Japan Franchise Association, Euromonitor, Goldman Sachs Global Investment Research

Exhibit 69: We have seen rising share of 1/2-ppl families in Japan since the 1990s likely as one reason for more RTD tea and bottled water consumption; China saw smaller family size catching up to Japan's level rapidly in recent years



Source: Ministry of Internal Affairs and Communications of Japan, National Bureau of Statistics of China

Exhibit 71: Vending machines also expanded across Japan rapidly and reached a peak by 2000

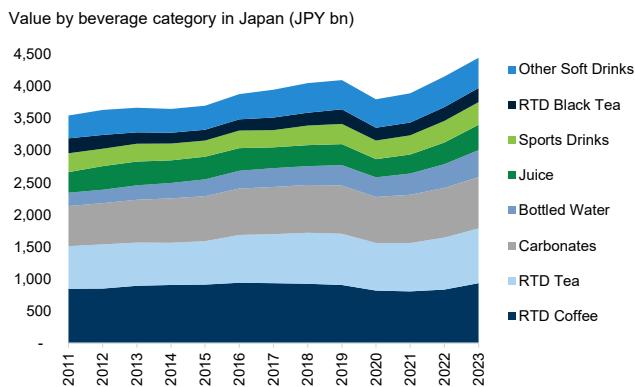


Source: Japan Vending Machine Association

Bottled water captured basic drinking demand as most resilient category, driving solid L-T volume growth

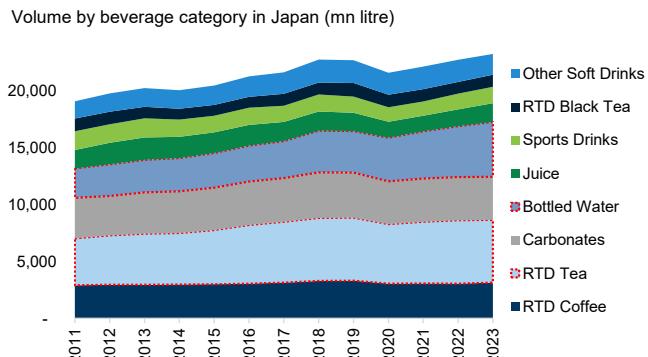
In the past decade or so, as the largest soft drink category in Japan, sales volume of RTD tea also recorded the second fastest growth (at 2%+ CAGR) in the past decade, following the 5%+ CAGR seen in bottled water. Other categories underperformed the overall industry volume growth of 1.7% CAGR in 2011-2023.

Exhibit 72: Bottled water (6% CAGR), RTD tea (2%) and carbonates (2%) were growth contributors to overall soft drink industry sales in 2011-23



Source: Japan Soft Drink Association

Exhibit 73: As the largest soft drink category in Japan, sales volume of RTD tea recorded the second fastest growth (at 2%+ CAGR) in the past decade, following 5%+ CAGR seen in bottled water

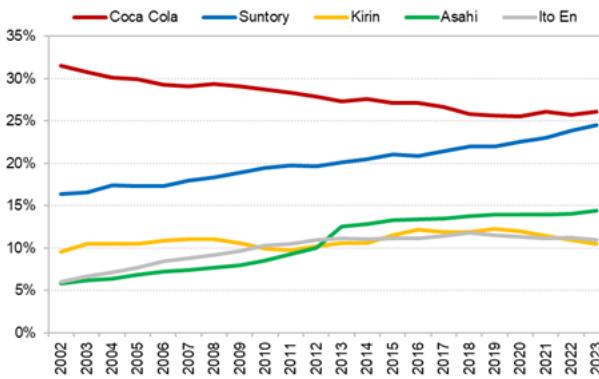


Source: Japan Soft Drink Association

A largely stable duopoly in the past two decades; Pricing power could come from categories with greater functional benefits e.g. Juice and Sports Drinks

Exhibit 74: In the past two decades, Japan's soft drink market saw leader Coca Cola keep losing share

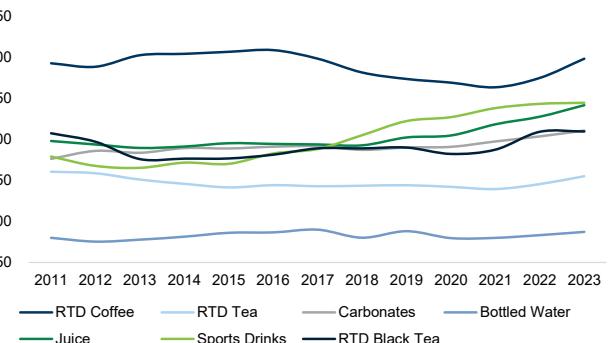
Domestic market share for soft drinks



Source: Inyou Souken

Exhibit 75: Sports Drinks and Juice are the two categories seeing most price increases (at 2%-3% CAGR) in the past decade

RSP by beverage category in Japan (JPY/litre)

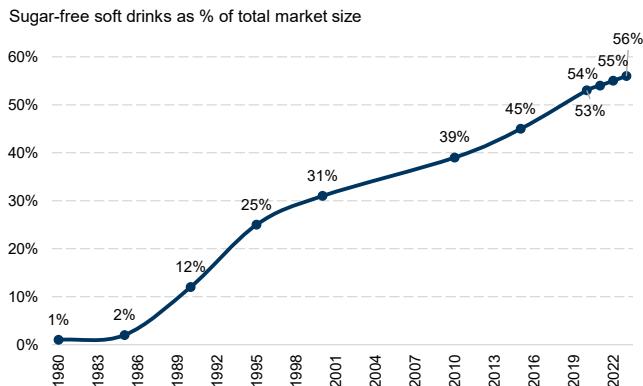


Source: Japan Soft Drink Association, Data compiled by Goldman Sachs Global Investment Research

Free of sugar/ additives led to increasing popularity of RTD tea and bottled water

Exhibit 76: In 1980-1995, Japan saw rapid penetration of sugar-free soft drinks to 25% from nil

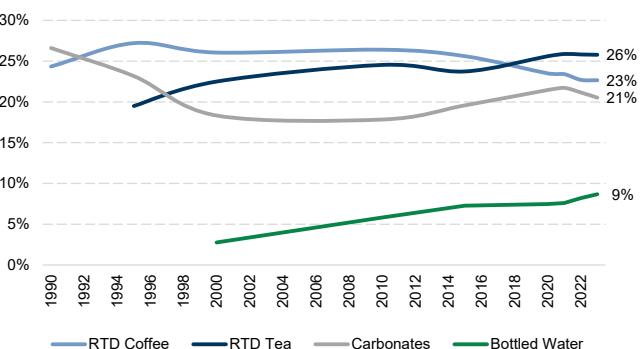
Sugar-free soft drinks as % of total market size



Source: Ito En

Exhibit 77: Per Ito En's data, RTD tea caught up since the 1990s to become the largest category in Japan's soft drink markets

Sales mix of key categories of soft drink markets in Japan (%)



Source: Ito En

Eastroc Beverage (605499.SS): Core product to drive share gains, diversification to sustain growth; Initiate at Buy

605499.SS	12m Price Target: Rmb258	Price: Rmb218.6	Upside: 18%		
Buy	GS Forecast	12/23	12/24E	12/25E	12/26E
Market cap: Rmb113.7bn / \$15.6bn	Revenue (Rmb mn)	11,262.8	16,055.3	20,239.8	24,372.2
Enterprise value: Rmb110.0bn / \$15.1bn	EBITDA (Rmb mn)	2,633.2	4,171.8	5,353.3	6,585.7
3m ADTV :Rmb373.5mn / \$52.4mn	EPS (Rmb)	3.92	6.27	8.07	9.96
China	P/E (X)	36.0	34.9	27.1	21.9
China Consumer Staples	P/B (X)	11.6	14.6	11.8	9.5
	Dividend yield (%)	1.4	1.6	2.0	2.5
M&A Rank: 3	N debt/EBITDA (ex lease,X)	(1.1)	(0.9)	(1.1)	(1.1)
Leases incl. in net debt & EV?: No	CROCI (%)	34.3	62.5	72.6	80.4
	FCF yield (%)	3.2	2.6	2.7	3.6
		6/24	9/24	12/24E	--
	EPS (Rmb)	2.05	1.88	1.06	--

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Dec 2024 close.

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.**

China Resources Beverage (2460.HK): Fast market share gainer evolving into a multi-product player; Initiate at Buy

2460.HK	12m Price Target: HK\$17.3	Price: HK\$12.96	Upside: 33.5%
Buy	GS Forecast		
Market cap: HK\$30.4bn / \$3.9bn	Revenue (Rmb mn)	13,514.7	14,262.9
Enterprise value: HK\$24.2bn / \$3.1bn	EBITDA (Rmb mn)	2,205.7	2,740.9
3m ADTV: NA	EPS (Rmb)	0.67	0.77
China	P/E (X)	NM	15.7
China Consumer Staples	P/B (X)	NM	2.6
	Dividend yield (%)	#VALUE!	10.0
M&A Rank: 3	N debt/EBITDA (ex lease,X)	(2.0)	(2.2)
Leases incl. in net debt & EV?: Yes	CROCI (%)	25.1	24.3
	FCF yield (%)	#VALUE!	(1.8)
		6/24	12/24E
	EPS (Rmb)	0.60	0.17
		6/25E	12/25E
		0.73	0.11

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Dec 2024 close.

We expect China Resources Beverage (CR Beverage/CR Bev) to maintain its position as the second largest player in the Rmb230bn (US\$32bn) packaged water market and continue expanding in the Rmb689bn (US\$96bn) soft drink market supported by key strengths in branding, production, and distribution network. In 2023-2028E, we look for an 8% sales CAGR vs. soft drink CAGR of c.5% per GSe, and expect NP to outpace at 20%, with NPM expanding from 10% to 17%, supported by: **1) Category expansion:** we expect mid-to-large pack in catering/in-home channels to drive water growth (+4.2% 23-28E CAGR), and beverage (+32% 23-28E CAGR) to accelerate through cross-selling leveraging the nationwide distribution network; **2) Channel expansion:** we look for POS to double by 2028E (to 4.2mn) by penetrating into more granular cities and deepening presence in non-south regions and sufficient room for beverage products coverage, where we see competitive landscape being a key debate; **3) Margin improvement:** we expect strong OPM expansion from 12.9% in 2023 to 21.8% in 2028E, mainly contributed by 5.5ppt savings from cheaper in-house production as more owned capacities phase in and 2.9ppt unit manufacturing cost savings. We **initiate coverage at Buy.**

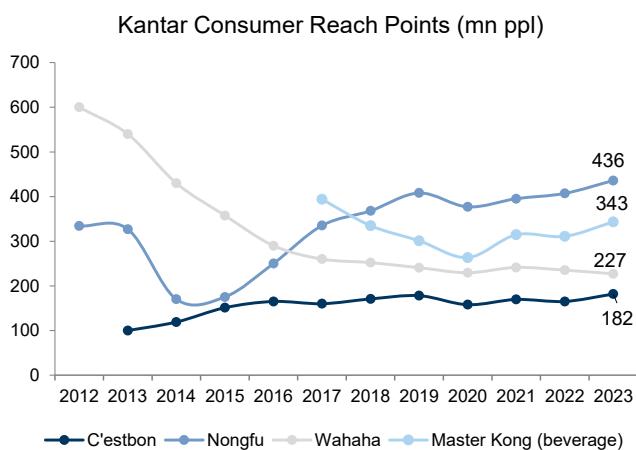
The stock has corrected by 16% since its October IPO and now trades at 14X/13X 2024/25E P/E, the mid-point of our H-share coverage despite a more attractive NP growth outlook. We value CR Bev at 19X 2025P/E benchmarking Tingyi/UPC's avg. P/E in 2018-2024YTD with similar growth profile, deriving our 12-m TP of HK\$17.3, implying 43% upside. We see owned capacity expansion and launch of new beverage products as key catalysts. Risks include rising competition in bottled water market; slow beverage scale-up; slower-than-expected capacity ramp-up; raw material prices.

Nongfu (9633.HK): Successful product diversification path; expecting sequential improvement in 2025 with water pricing strategy getting rational; Maintain Buy

9633.HK	12m Price Target: HK\$38	Price: HK\$35.1	Upside: 8.3%
Buy			GS Forecast
Market cap: HK\$394.8bn / \$50.7bn	Revenue (Rmb mn) New	12/23	12/24E
Enterprise value: HK\$368.8bn / \$47.4bn	Revenue (Rmb mn) Old	42,667.2	45,306.0
3m ADTV :HK\$555.1mn/ \$71.4mn	EBITDA (Rmb mn)	52,783.3	59,830.3
China Consumer Staples	EPS (Rmb) New	17,428.1	18,197.9
M&A Rank: 3	EPS (Rmb) Old	1.07	1.09
Leases incl. in net debt & EV?: Yes	P/E (X)	1.26	1.26
	P/B (X)	36.9	30.1
	Dividend yield (%)	15.6	11.4
	CROCI (%)	1.9	2.3
		24.6	24.9
		12/23	12/24E
	EPS (Rmb)	0.57	0.55
		0.54	--
		--	--

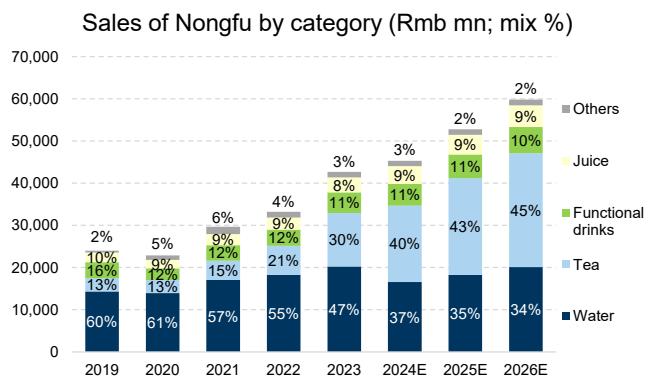
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 04 Dec 2024 close.

Exhibit 78: Resilience of Nongfu's brand reputation

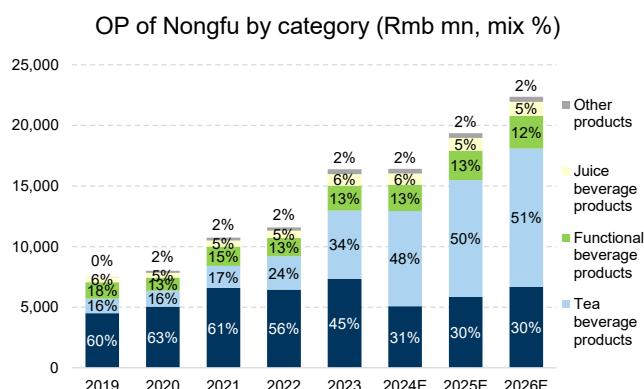


Source: Kantar, Data compiled by Goldman Sachs Global Investment Research

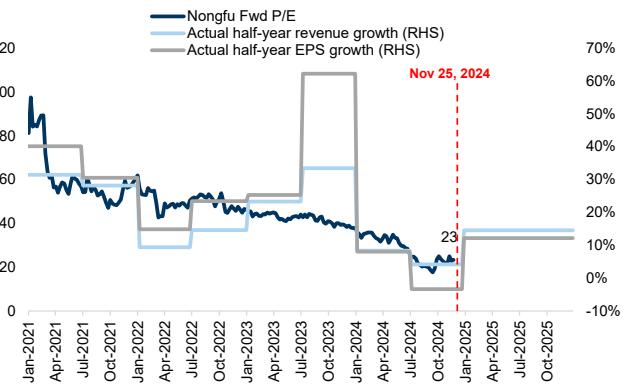
Exhibit 79: Successful Product Diversification Path by Nongfu



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 80: Tea segment to become the major OP contributor

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 81: We expect sequential improvement in bottom line growth in 2025

Source: Refinitiv Eikon, Company data, Goldman Sachs Global Investment Research

Maintain Nongfu Spring at Buy: Strong leader in bottled water and sugar-free tea with diversified portfolio. We look for a rebound in growth in 2025 with its water pricing strategies getting more rational and riding continued strong momentum in sugar-free tea (up c.50%+ YTD, with sweetened tea also growing at DD%). Hence, we lowered NP estimate in 2024 by 0.5% considering the intense competition and increase Nongfu's NP estimates in 2025-26E within 3% expecting the gradual recovery in water and stronger momentum in tea and rolled forward our target P/E (from 25x to 27x on a more rational competitive strategy, still benchmarking to global peers' historical average) to 2026E EPS (from 2025E) and discount back to end-2025E. Our 12m target price increases to HK\$38.00 (from HK\$33.15).

Exhibit 82: Nongfu's Earnings Revision

New vs. Old

Nongfu Spring (9633.HK)													
RMB mn	2020	2021	2022	2023	2024E	2025E New	2026E	2024E	2025E Old	2026E	2024E	2025E	2026E
Consolidated P&L											% Change		
Revenue													
Packaged drinking water product	13,966	17,058	18,263	20,262	16,584	18,277	20,107	17,792	19,655	21,586	(6.8%)	(7.0%)	(6.9%)
Tea beverage products	3,088	4,579	6,906	12,659	18,112	22,898	27,019	17,312	21,052	24,841	4.6%	8.8%	8.8%
Functional beverage products	2,792	3,695	3,838	4,902	5,124	5,637	6,200	5,149	5,560	6,005	(0.5%)	1.4%	3.2%
Juice beverage products	1,977	2,614	2,879	3,534	4,240	4,664	5,131	4,064	4,592	5,051	4.3%	1.6%	1.6%
Other products	1,054	1,750	1,354	1,311	1,245	1,308	1,373	1,245	1,308	1,373	0.0%	0.0%	0.0%
Total	22,877	29,696	33,239	42,667	45,306	52,783	59,830	45,562	52,167	58,856	(0.6%)	1.2%	1.7%
YOY Growth %													
Revenue													
Packaged drinking water product	-3%	22%	7%	11%	-18%	10%	10%	-12%	10%	10%			
Tea beverage products	-2%	48%	51%	83%	43%	26%	18%	37%	22%	18%			
Functional beverage products	-26%	32%	4%	28%	5%	10%	10%	5%	8%	8%			
Juice beverage products	-14%	32%	10%	23%	20%	10%	10%	15%	13%	10%			
Other products	136%	66%	-23%	-3%	-5%	5%	5%	-5%	5%	5%			
Total	-5%	30%	12%	28%	6%	17%	13%	7%	14%	13%			
Operating profit													
Packaged drinking water product	5,055	6,575	6,443	7,347	5,078	5,842	6,668	5,233	5,731	6,419	(3.0%)	1.9%	3.9%
Tea beverage products	1,314	1,832	2,753	5,622	7,852	9,652	11,416	7,611	9,137	10,828	3.2%	5.6%	5.4%
Functional beverage products	1,079	1,595	1,534	2,068	2,160	2,430	2,704	2,218	2,445	2,663	(2.6%)	(0.6%)	1.5%
Juice beverage products	395	503	580	946	945	1,048	1,159	940	1,079	1,188	0.5%	(2.8%)	(2.5%)
Other products	156	226	280	396	382	391	418	360	367	394	6.0%	6.3%	6.1%
Margin													
Packaged drinking water product	36%	39%	35%	36%	31%	32%	33%	29%	29%	30%	1.2%	2.8%	3.4%
Tea beverage products	43%	40%	40%	44%	43%	42%	42%	44%	43%	44%	(0.6%)	(1.2%)	(1.3%)
Functional beverage products	39%	43%	40%	42%	42%	43%	44%	43%	44%	44%	(0.9%)	(0.9%)	(0.7%)
Juice beverage products	20%	19%	20%	27%	22%	22%	23%	23%	23%	24%	(0.9%)	(1.0%)	(0.9%)
Other products	15%	13%	21%	30%	31%	30%	30%	29%	28%	29%	1.7%	1.8%	1.8%
Consolidated P&L	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Total Sales	22,877	29,696	33,239	42,667	45,306	52,783	59,830	45,562	52,167	58,856	-0.6%	1.2%	1.7%
COGS	-9,369	-12,040	-14,144	-17,260	-18,744	-21,721	-24,519	-18,380	-20,956	-23,588	2.0%	3.7%	3.9%
Gross Profit	13,508	17,656	19,095	25,407	26,562	31,062	35,312	27,181	31,211	35,268	-2.3%	-0.5%	0.1%
SG&A	-6,835	-8,984	-9,656	-11,446	-12,333	-14,472	-16,668	-12,877	-14,896	-17,157	-4.2%	-2.8%	-2.9%
Other operating income/(expense)	244	404	1,063	836	712	713	714	712	713	714	0.0%	0.0%	0.0%
EBIT	6,917	9,077	10,503	14,797	14,941	17,303	19,357	15,016	17,028	18,825	-0.5%	1.6%	2.8%
Depreciation	-1,913	-2,370	-2,478	-2,620	-3,239	-3,649	-4,061	-3,239	-3,649	-4,061	0.0%	0.0%	0.0%
Amortization	-13	-8	-9	-11	-18	-18	-18	-18	-18	-18	0.0%	0.0%	0.0%
EBITDA	8,843	11,455	12,990	17,428	18,198	20,970	23,436	18,273	20,695	22,904	-0.4%	1.3%	2.3%
Net finance costs	69	278	547	892	1,076	1,078	1,280	1,076	1,071	1,252	0.0%	0.7%	2.2%
Other non-op. rev/ (exp)	0	-0	-	-	-	-	-	-	-	-			
Pretax income	6,986	9,354	11,050	15,688	16,017	18,381	20,637	16,092	18,099	20,077	-0.5%	1.6%	2.8%
Provisions for taxes	-1,709	-2,193	-2,555	-3,609	-3,684	-4,228	-4,747	-3,702	-4,163	-4,618	-0.5%	1.6%	2.8%
Minority interest (I/S item)	-	-	-	-	-	-	-	-	-	-			
Reported NPAT	5,277	7,162	8,495	12,079	12,333	14,153	15,890	12,390	13,936	15,458	-0.5%	1.6%	2.8%
Less: net one-off's	-304	-119	246	6	73	18	14	72	18	14			
Recurring NPAT	5,581	7,280	8,249	12,073	12,260	14,135	15,876	12,318	13,917	15,444	-0.5%	1.6%	2.8%
EPS (Adj., diluted, RMB/Sh)	0.50	0.65	0.73	1.07	1.09	1.26	1.41	1.10	1.24	1.37	-0.5%	1.6%	2.8%
YoY Growth %													
Sales	-4.8%	29.8%	11.9%	28.4%	6.2%	16.5%	13.4%	6.8%	14.5%	12.8%			
GP	1.5%	30.7%	8.2%	33.1%	4.5%	16.9%	13.7%	7.0%	14.8%	13.0%			
SG&A	-5.1%	31.4%	7.5%	18.5%	7.7%	17.3%	15.2%	12.5%	15.7%	15.2%			
EBIT	9.8%	31.2%	15.7%	40.9%	1.0%	15.8%	11.9%	1.5%	13.4%	10.5%			
EBITDA	10.1%	29.5%	13.4%	34.2%	4.4%	15.2%	11.8%	4.8%	13.3%	10.7%			
NPAT	6.6%	35.7%	18.6%	42.2%	2.1%	14.8%	12.3%	2.6%	12.5%	10.9%			
Margins (on total sales)											ppt	ppt	ppt
GP	59.0%	59.5%	57.4%	59.5%	58.6%	58.8%	59.0%	59.7%	59.8%	59.9%	-1.0%	-1.0%	-0.9%
SG&A	29.9%	30.3%	29.0%	26.8%	27.2%	27.4%	27.9%	28.3%	28.6%	29.2%	-1.0%	-1.1%	-1.3%
EBIT	30.2%	30.6%	31.6%	34.7%	33.0%	32.8%	32.4%	33.0%	32.6%	32.0%	0.0%	0.1%	0.4%
EBITDA	38.7%	38.6%	39.1%	40.8%	40.2%	39.7%	39.2%	40.1%	39.7%	38.9%	0.1%	0.1%	0.3%
NPAT	23.1%	24.1%	25.6%	28.3%	27.2%	26.8%	26.6%	27.2%	26.7%	26.3%	0.0%	0.1%	0.3%
Recurring NPAT	24.4%	24.5%	24.8%	28.3%	27.1%	26.8%	26.5%	27.0%	26.7%	26.2%	0.0%	0.1%	0.3%

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - Nongfu Spring

We are Buy rated on Nongfu. Our 12-m TP of HK\$38.0 is based on a 27X 2026E P/E in line with global peers in the past three years, discounted back to end-2025E using an

8.7% CoE

Key risks: Lower-than-expected tea/water sales momentum; higher-than-expected cost inflation; more intense beverage industry competition

Estimate changes for Tingyi, updates from UPC

Uni-President China

0220.HK	12m Price Target: HK\$7.5	Price: HK\$6.96	Upside: 7.8%
Neutral	GS Forecast		
Market cap: HK\$30.1bn / \$3.9bn	Revenue (Rmb mn)	28,591.3	30,401.2
Enterprise value: HK\$28.5bn / \$3.7bn	EBITDA (Rmb mn)	3,109.3	3,405.1
3m ADTV :HK\$54.2mn/ \$7.0mn	EPS (Rmb)	0.39	0.43
China	P/E (X)	15.3	15.2
China Consumer Staples	P/B (X)	1.9	2.1
	Dividend yield (%)	7.2	7.3
M&A Rank: 3	N debt/EBITDA (ex lease,X)	(0.5)	(0.5)
Leases incl. in net debt & EV?: Yes	CROCI (%)	11.7	10.3
	FCF yield (%)	8.8	6.8
		12/23	6/24
	EPS (Rmb)	0.18	0.22
		12/24E	--
		0.21	--

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Dec 2024 close.

Tingyi

0322.HK	12m Price Target: HK\$10.6	Price: HK\$10.22	Upside: 3.7%
Neutral	GS Forecast		
Market cap: HK\$57.6bn / \$7.4bn	Revenue (Rmb mn) New	80,418.1	80,646.6
Enterprise value: HK\$68.0bn / \$8.7bn	Revenue (Rmb mn) Old	80,418.1	81,078.7
3m ADTV :HK\$133.6mn/ \$17.2mn	EBITDA (Rmb mn)	8,209.4	9,049.3
China	EPS (Rmb) New	0.55	0.64
China Consumer Staples	EPS (Rmb) Old	0.55	0.64
	P/E (X)	19.3	15.0
M&A Rank: 3	P/B (X)	4.3	3.7
Leases incl. in net debt & EV?: Yes	Dividend yield (%)	5.2	6.7
	CROCI (%)	15.5	11.9
		12/23	6/24
	EPS (Rmb)	0.26	0.33
		12/24E	--
		0.30	--

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 27 Nov 2024 close.

Maintain Neutral on Tingyi and UPC on relatively lower growth visibility, while palm oil cost has been surging in 4Q24 and might impact noodles margin into next year. However, both companies pay out 100%+ dividend, with yield at 6~7%. We update Tingyi's NP estimates by c.1% in 2024E-26E on the back of UPC's recent comments on industry competition in noodles/ beverages, and commodity headwinds (palm oil). Our TP for Tingyi is slightly trimmed to HK\$10.6 (from HK\$10.7).

Price Target Risks and Methodology - Tingyi

Valuation methodology: We are Neutral rated on Tingyi. Our 12-month TP of HK\$10.6

is based on a 15X 2024E-2025E avg. P/E.

Key risks: 1) Higher/lower-than-expected raw material cost pressures; 2) More/less intense competition in noodles/beverages; 3) Stronger/weaker premiumization trends in instant noodle/beverage

Price Target Risks and Methodology - Uni-President China

Valuation methodology: We are Neutral rated on UPC. Our 12-m TP of HK\$7.5 is based on a 15X 2024E-2025E avg. P/E.

Key upside risks: 1) More favorable raw material price movements; 2) Better-than-expected performance of convenience food driven by demand recovery or new product launch; 3) Better-than-expected competition in instant noodles/beverage

Key downside risks: 1) Higher-than-expected raw material cost pressures; 2) More intense competition in instant noodles/beverage; 3) Food quality issues.

Disclosure Appendix

Reg AC

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

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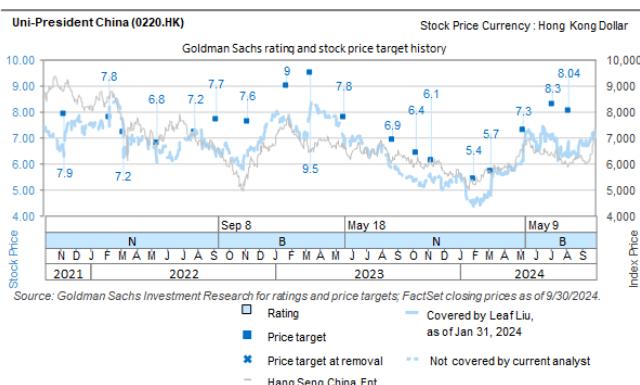
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	Rating Distribution			Investment Banking Relationships		
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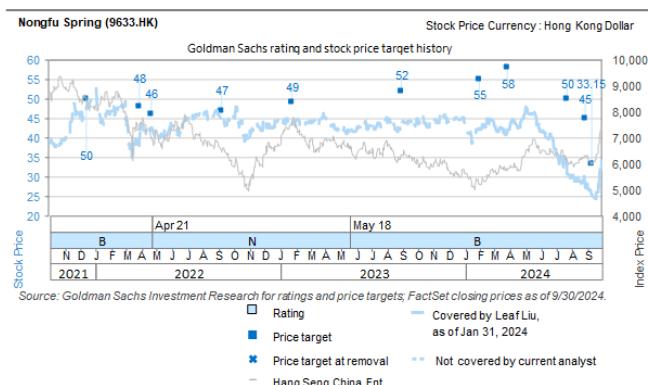
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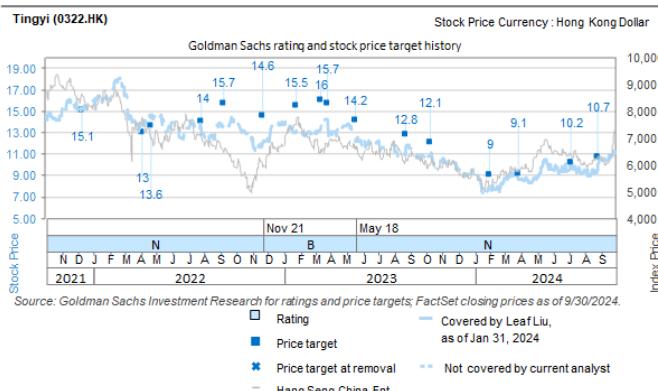
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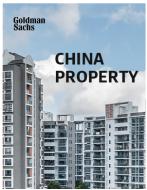
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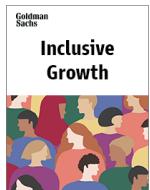
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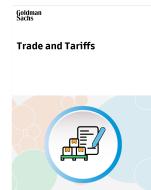
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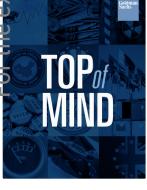
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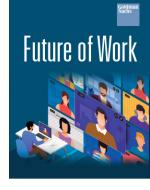
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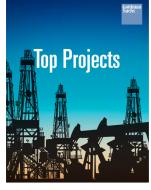
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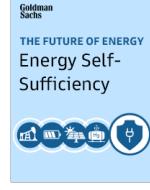
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