

## Eastroc Beverage (605499.SS): Shareholder Kunpeng announces plan to reduce its holding to reward employees/ distributors

### What's New

On Feb 20, Eastroc announced that its large shareholder Kunpeng Investment plans to reduce its holding in Eastroc by up to 7.17mn shares (i.e. 1.3786% of Eastroc's total shares outstanding) in the next three months from Mar 14 via centralized auction and block trades. Kunpeng Investment currently holds 6.4396% of Eastroc's total shares outstanding as the third largest shareholder. Post the reduction, the shareholding of Kunpeng would be lowered to 5.061%.

The announcement also specifies that the partners of Kunpeng, Mr. Lin Muqin (also the founder and Chairman of the company) and Mr. Lin Yupeng, and the senior management, controlling shareholders, directors and supervisors will not participate in the disposal.

### Our take on the plan

For context, Kunpeng is the shareholding platform for some of Eastroc's employees and distributors, and Mr. Lin Muqin and Mr. Lin Yupeng hold 63% of the interest. The maximum number of shares to be sold would account for c.21% of the equity ownership of the shareholding platform. According to the company, this plan is mainly for monetizing the stake and rewarding the distributors.

### Recent update

We expect sell-in growth to be at mid-teens-% yoy in Jan 2025, considering the fact that distributors completed prepayment earlier in Nov-Dec 2024 due to earlier LNY this year, hence the prepayment in 4Q24 was up c.60% yoy. We look for sell-in re-acceleration into Feb, as it is a month of KPI evaluation for channels/ distributors ahead of the upcoming peak season from 2Q25, and we expect Eastroc to sustain its fast growth in 1Q.

### New product development ahead of peak season

The company's Electrolyte Water brand Bushuila achieved monthly sales of over Rmb100mn in January, sustaining the strong growth momentum. On 17 Feb, Eastroc launched a new SKU of a 380ml bottle Bushuila with the same flavor as existing bottle sizes of 555ml/ 1-litre. The smaller sized electrolyte water likely

#### 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.

#### Valerie Zhou

+852-2978-0820 | valerie.zhou@gs.com  
Goldman Sachs (Asia) L.L.C.

intends to enhance the convenience feature and affordability, potentially offering better choices for students/ white collars. We estimate the full-year sales of Bushuila to be Rmb1.55bn/ 2.39bn in 2024E/25E (as 9%/12% of total revenue).

In addition, recently our channel checks with distributors suggest a new 1-litre RTD tea product of Eastroc named Guozhicha (“果之茶”) was launched in retail terminals, with the suggested retail price of Rmb5 per bottle. Distributors suggest the official launch date could be likely around March, which is right ahead of the beverage sales peak season. We think the key competitors of the Guozhicha could be Tingyi/UPC's 1-litre RTD tea products, which are priced at Rmb4.5-5, while Eastroc still offers promotion of “winning a chance of buying next bottle for Rmb1 only” for this SKU. We expect 7.5%/8.2% revenue mix from other beverages (excl. Bushuila) in 2024/25E.

### Valuation

Eastroc is trading at 26x/21x 2025/26E P/E post today's correction, while we estimate the fast earnings growth to sustain at 30%/24% yoy in 2025/26E, following a strong 54~69% earnings growth yoy (prelim results) in 2024. We reiterate our Buy-rating on Eastroc on still high visibility in retail momentum and sell-through of energy drinks, fast ramp-up of non-energy drinks category and continuing enhanced operating efficiency, leading to an attractive valuation against the solid growth profile. Our 12-m TP of Rmb281 (unchanged) implies an upside of 31% vs. today's close.

### Price Target Risks and Methodology - Eastroc Beverage

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

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

605499.SS		12m Price Target: Rmb281.00		Price: Rmb230.00		Upside: 22.2%	
Buy		GS Forecast					
Market cap: Rmb119.6bn / \$16.5bn Enterprise value: Rmb115.9bn / \$16.0bn 3m ADTV: Rmb583.9mn / \$80.1mn China China Consumer Staples M&A Rank: 3 Leases incl. in net debt & EV?: No	Revenue (Rmb mn)	12/23	12/24E	12/25E	12/26E		
	EBITDA (Rmb mn)	11,262.8	16,329.3	20,725.5	24,958.6		
	EPS (Rmb)	2,633.2	4,232.6	5,472.7	6,735.5		
	P/E (X)	3.92	6.36	8.25	10.19		
	P/B (X)	36.0	36.2	27.9	22.6		
	Dividend yield (%)	11.6	15.3	12.2	9.8		
	N debt/EBITDA (ex lease,X)	1.4	1.5	2.0	2.4		
	CROCI (%)	(1.1)	(0.9)	(1.1)	(1.1)		
	FCF yield (%)	34.3	63.4	74.3	82.1		
		3.2	2.6	2.6	3.5		
EPS (Rmb)		9/24	12/24E	3/25E	6/25E		
		1.88	1.15	1.70	2.58		

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 20 Feb 2025 close.

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# Disclosure Appendix

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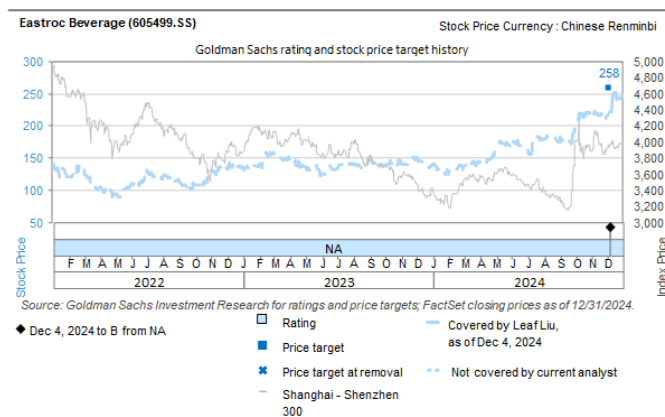
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