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Daiwa cuts China Resources Beer target price to HK$27 on weaker demand outlook

The broker kept a Buy rating after warning that slower volume recovery and higher input costs will weigh on earnings

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Daiwa cut its target price on China Resources Beer to HK$27 from HK$30 on Friday, November 20, saying the brewer faces a more difficult near-term outlook as weak demand and higher input costs weigh on performance.

The brokerage, cited in a research note after meeting with company management, kept its Buy rating on the Hong Kong-listed brewer but said a recovery in sales volume is likely to take longer than it had previously expected. It lowered its beer volume assumptions to reflect a high-single-digit year-over-year decline in overall sales volume in the second half of 2026, along with greater cost pressure.

Daiwa said beer sales volume in the third quarter is expected to post a high-single-digit decline from a year earlier, broadly in line with the wider industry. That performance would leave sales volume for the first nine months and the first 10 months of the year down by a low-single-digit rate year over year, according to the note.

The weakness was concentrated in China Resources Beer’s mid-priced and lower-end products. By contrast, its premium portfolio remained more resilient. Daiwa said premium and above products recorded sales volume growth of more than 10% in the first 10 months of the year, while Heineken, one of the company’s key premium labels, posted growth of more than 20%.

That split points to a brewing market in China that is becoming more polarized, with mass-market demand under pressure while premium brands continue to expand. For the broader beverage sector, that could mean companies selling beer, wine or spirits face a sharper divide between consumers trading down in some categories and spending on higher-end labels in others.

Daiwa attributed the company’s weak third-quarter performance to soft demand, unfavorable weather and changes to regional sales teams in key markets such as Sichuan. Those adjustments were made as the company responded to intensifying competition and changing consumption patterns, the brokerage said.

The pressure from raw materials and other inputs also featured prominently in the revised view. Daiwa said rising costs, combined with slower volume recovery, made the earnings outlook more challenging than before. It added that its earnings-per-share forecasts for 2026 through 2028 are 2% to 4% below market expectations.

Even with the lower target price, Daiwa said the stock’s valuation is not demanding based on its forecast 2027 price-to-earnings ratio of 11 times and a projected dividend yield of 5% to 6%. It said possible catalysts for the shares include industrywide or company-led price increases and progress in dealing with the group’s exposure to the baijiu business.

According to the note, China Resources Beer’s management expects the dividend payout ratio to reach 55% to 60% in 2026 and to rise gradually to 60% to 70% over the following three to five years. Management is also seeking different ways to reduce the company’s exposure to baijiu, an area that investors have watched closely as the group tries to improve returns and sharpen its operating focus.

China Resources Beer has long been seen as a major player in China’s effort to move beer consumption toward premium products, but Daiwa’s latest assessment suggests that transition is becoming less even across the market. Growth in premium labels is helping offset weakness elsewhere, yet not enough to fully protect the company from softer consumer demand and a tougher cost environment.

The revised forecast comes as investors across China’s consumer sector remain focused on whether spending can recover more broadly and whether companies can defend margins without hurting demand. In brewing, that question has become especially important as producers balance pricing, product mix and distribution against a backdrop of cautious household spending.

For China Resources Beer, the message from Daiwa was that premiumization is still working in parts of the portfolio, but the overall operating environment has become harder. That combination helps explain why the broker kept a positive recommendation on the shares while cutting its target price and trimming its earnings expectations.