

LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	Cheung Siu To	Student ID number:	2322639
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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

I. Executive Summary

San Miguel Brewery Hong Kong Ltd. is evaluated through a comprehensive study focusing on its financial resources management and strategic positioning within the competitive brewery industry. The analysis begins with an overview of San Miguel's business scope, corporate structure, and market environment, followed with detailed financial comparison with key industry competitors. This comparison highlights San Miguel's strengths in liquidity management, indicating a robust ability to meet short-term obligations, while also identifying challenges in operational efficiency and profitability relative to peers such as Tsingtao Brewery and Budweiser Brewing Company.

The study underscores San Miguel's conservative financial approach, characterized by lower debt levels and leverage ratios, which provides financial stability but may limit growth potential. Despite these challenges, San Miguel has made significant progress in establishing a strong corporate governance framework, emphasizing effective risk management, transparency, and accountability. This framework supports sustainable growth and aligns with shareholder interests, providing a solid foundation for future development.

A key focus of the study is the proposed investment project to expand San Miguel's market presence through a new fruit beer product line in Guangdong, China. The project is deemed financially viable, with promising metrics such as a Net Present Value of \$128.75 million and an Internal Rate of Return of 13.0%. To finance this project, a combination of debt financing and asset sales is recommended, leveraging San Miguel's low debt levels while addressing potential inefficiencies in asset utilization. Overall, the study concludes that San Miguel has opportunities for growth and value creation by balancing its conservative approach with strategic investments, addressing key financial challenges, and capitalizing on its strong governance and promising investment prospects.

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1. Introduction

1.1. Company Background

San Miguel Brewery Hong Kong Ltd. is one of the large companies in Hong Kong in the brewing sector, focusing on the production and distribution of beer in bottles, cans. The company has consistently shown strong financial results over the years, with significant profits and revenue increases.

The origins of San Miguel Brewery Hong Kong Ltd. can be traced back to 1890 with the founding of La Fabrica de Cerveza de San Miguel in Manila, Philippines. The company's connection to Hong Kong began in 1914 when it started exporting San Miguel Beer to the region. A significant milestone occurred in 1948 when San Miguel acquired Hong Kong Brewers and Distillers Ltd., a company established in 1930 by Jehangir Hormusjee Ruttonjee in Sham Tseng. This acquisition marked San Miguel's direct entry into the Hong Kong market, laying the foundation for its current presence in the territory (San Miguel Brewery Hong Kong Limited, 2023).

1.2. Operating Business Overview

In 1963, the company was listed on the Hong Kong Stock Exchange with the stock code 236, marking a period of significant growth and expansion for the brewery. The company adopted its current name, San Miguel Brewery Hong Kong Ltd., in 1994, the same year the Sham Tseng facility was closed. A new brewery was subsequently opened in Yuen Long in 1996 (San Miguel Brewery Hong Kong Limited, 2023). San Miguel Brewery Hong Kong Ltd. offers a wide variety of beer products, including San Miguel Pale Pilsen, San Miguel Premium All-Malt, San Mig Light, and San Miguel Cerveza Negra. Additionally, the company distributes several

In recent years, San Miguel Brewery Hong Kong Ltd. has continued to innovate and adapt to the changing market dynamics. The company has been winning numerous awards for its consecutive years of success in marketing and branding. Last year (2023), the company celebrated its 75th anniversary. Now, it remains a key player in the Hong Kong beer market, known for its quality products and strong brand reputation (San Miguel Brewery Hong Kong Ltd., 2024).

1.3. Today's Business Environment

The beer industry in Hong Kong is currently experiencing a growth trajectory, with forecasts suggesting an annual market expansion of 1.86% from 2024 to 2029, (statista, 2024). This growth is driven by shifting consumer preferences, a growing interest in craft and premium beers, and the emergence of microbreweries. Hong Kong's lively nightlife and diverse culinary offerings further stimulate demand for a wide array of beer options, attracting both local and international brands. Additionally, Hong Kong's strategic position as a gateway to Asia makes it an appealing hub for beer producers aiming to broaden their regional footprint.

Furthermore, the beer industry in Hong Kong is reinforced by favourable business conditions, such as low tax rates and a strong distribution network (Best, 2024). The emergence of artisanal breweries has expanded the variety of beer available, offering consumers a wide range of styles, including specialty beers with complex flavours. There is also a noticeable shift towards non-alcoholic beers as consumers become more health-conscious, influencing product development and marketing strategies (Euromonitor, 2024). Breweries are focusing on promoting beer as a culinary experience, with unique flavour profiles, artistic packaging, and social spaces for tasting becoming more common. While leading international brands maintain strong positions, local breweries are gaining popularity, contributing to the market's dynamism (Best, 2024).

1.4. Comparison Between Two Companies of Same Business Nature

In the context of the brewing industry, San Miguel Brewing Hong Kong operates alongside notable competitors such as Tsingtao Brewery and Budweiser Brewing Company. These companies serve as valuable benchmarks for comparison due to their significant market presence and influence within the industry. Tsingtao Brewery, as one of the leading beer producers in China, on the other hand, Budweiser, with its global brand recognition and strong foothold in the Asian market. By analysing San Miguel's performance in relation to these industry giants, this report aims to highlight key financial performance indicators, offering a comprehensive view of San Miguel's position and potential within the brewing industry.

2. Financial Analysis of San Miguel Brewery Hong Kong Ltd.

A comprehensive analysis of San Miguel's financial ratios from 2021 to 2023 was conducted to identify trends and assess financial performance. Industry benchmarks were established through comparisons with Tsingtao and Budweiser. Key figures were extracted from the company's financial reports for this analysis (TSINGTAO, 2022, 2023, 2024) (BUDWEISER BREWING COMPANY APAC LIMITED, 2022, 2023, 2024) (San Miguel Brewery Hong Kong Ltd., 2022, 2023, 2024).

Table 2.1 – Summary of financial data of San Miguel extracted from financial reports

* Units in (in HKD '000) unless specified.

Year	2021	2022	2023
Revenue	595616	681163	741619
Cost of Sales	352572	434085	456180
Inventories	69374	89643	88579
Net Current Assets	112459	153,537	220211
Fixed Assets	463694	451,777	483033
Total Assets	721080	719344	807556
LTL (Non-current Liabilities)	3294	2915	2534
Current Liabilities	144927	114030	104312
Total Liabilities	149978	129625	135084
Total Equity	476736	589719	672472
Retained earnings (Profit)	224212	223730	318628
EBIT	23552	36073	66784
Stock Value (HKD)	1.03	0.71	0.77
Number of Shares (in '000)	373570	373570	373570
Depreciation and Amortization	23092	22814	24246

Source: Constructed by the author

2.1. Calculation of Z-Score of prediction of bankruptcy

To begin analysing the company's financial performance, the Altman Z-Score is calculated to evaluate creditworthiness and predict bankruptcy. It considers solvency, assets, profitability, and market value. (Altman & Hotchkiss, 2010).

The formula is demonstrated as follows:

$$\text{Altman Z-Score} = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

A = working capital / total assets

B = retained earnings / total assets

C = earnings before interest and tax / total assets

D = market value of equity / total liabilities

E = sales / total assets

Table 2.2 – Summary of values of variables in Altman Z-Score

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
A	0.16	0.21	0.27	0.21	0.23	0.25	0.26	0.24	-0.09	-0.05	-0.02	-0.06
B	0.31	0.31	0.39	0.34	0.35	0.37	0.41	0.38	0.23	0.27	0.29	0.26
C	0.03	0.05	0.08	0.05	0.10	0.10	0.12	0.10	0.09	0.08	0.08	0.08
D	2.57	2.05	2.13	2.25	4.56	4.64	3.66	4.29	6.33	7.75	4.48	6.19
E	0.83	0.95	0.92	0.90	0.65	0.64	0.69	0.66	0.41	0.40	0.42	0.41
Z-Score	3.09	3.03	3.35	3.16	4.47	4.56	4.16	4.40	4.70	5.63	3.76	4.70

Source: Constructed by the author

According to Altman & Hotchkiss (2010), a Z-Score higher than 2.9 indicates a low probability of bankruptcy. For San Miguel, Table 2.2 shows that the company's Z-Score for the previous 3 years has consistently been above 2.9, suggesting overall healthy financial performance and a low risk of bankruptcy.

However, San Miguel has the lowest Z-Score among the selected companies. Examining the reasons, we observe that the values of "C" and "D" are significantly lower than those of the other two companies. San Miguel has experienced low EBIT, as shown in the Table 2.3. However, an increasing trend from 2021 to 2023 has contributed to the rise in the "C" value, which has now caught up with Budweiser and is approaching Tsingtao's level. To improve further, it is suggested that San Miguel either increase its EBIT or decrease current assets by investing its cash.

Table 2.3 – Additional information in current assets for San Miguel

Year	2021	2022	2023
Net Current Assets (in '000)	112459	153537	220211
Current Asset – “Cash and Cash equivalents”	101807	114006	179979
EBIT (in '000)	23552	36073	66784

Source: Constructed by the author

The "D" value is influenced by the market value of equity. San Miguel's stock value is significantly lower than that of Tsingtao and Budweiser. Beyond macroeconomic factors, enhancing profitability and revenue growth can boost investor confidence and raise stock prices, thereby increasing the "D" value.

2.2. Liquidity of the Company

Table 2.4 – Summary of Liquidity Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Current Ratio (Current Assets / Current Liabilities)	1.78	2.35	3.11	2.41	1.59	1.63	1.75	1.65	0.67	0.82	0.92	0.80
Quick Ratio (Current Assets – Inventory) / Current Liabilities	1.3	1.56	2.26	1.71	1.39	1.42	1.54	1.45	0.57	0.71	0.82	0.70
Cash Ratio (Cash / Current Liabilities)	0.7	1	1.73	1.14	0.80	0.91	1.14	0.95	0.43	0.56	0.68	0.55
Current Liabilities to Net Asset Ratio	0.25	0.19	0.15	0.20	0.77	0.75	0.60	0.70	0.42	0.41	0.43	0.42
Current Liabilities to Stock Ratio	2.09	1.27	1.18	1.51	5.23	4.74	4.78	4.91	9.92	9.05	10.47	9.81
Stock Credit Index	-0.62	-0.71	-1.49	-0.94	-2.06	-1.97	-2.59	-2.21	4.23	2.66	1.88	2.92

Source: Constructed by the author

Current Ratio, Quick Ratio, Cash Ratio

The Current Ratio, Quick Ratio, and Cash Ratio collectively indicate San Miguel's ability to generate cash to pay off liabilities (Berk & DeMarzo, 2019). From 2021 to 2023, the Current Ratio increased from 1.78 to 3.11, and the Quick Ratio rose from 1.3 to 2.26, reflecting improved short-term liquidity due to an increase in 'Cash and cash equivalents'. Similarly, the Cash Ratio surged from 0.7 to 1.73, a 2.5-fold increase, highlighting enhanced liquidity for settling short-term debts with cash and equivalents. This improvement is attributed to rising profits and reduced inventories, leading to more free cash. Compared to Tsingtao and Budweiser, San Miguel shows better performance in generating cash to meet its obligations.

Current Liabilities to Net Asset Ratio, Current Liabilities to Stock Ratio

The Current Liabilities to Net Asset Ratio and Current Liabilities to Stock Ratio assess a company's ability to cover current liabilities through asset liquidation (Ross, et al., 2019). Both ratios for San Miguel decreased by approximately 50% from 2021 to 2023, primarily due to reduced 'Trade Payables' and increased Net Assets and Inventories. This trend indicates San Miguel's improving capacity to meet short-term obligations through asset liquidation. Compared to Tsingtao and Budweiser, San Miguel's significantly lower ratios suggest a greater ability to manage liabilities promptly.

Stock Credit Index

The Stock Credit Index evaluates a company's performance by subtracting current assets (excluding inventories) from current liabilities and dividing by inventories. A more negative value indicates sufficient liquid assets to cover liabilities without relying on inventories, while a high ratio may signal liquidity issues. San Miguel's average negative value, positioned between Tsingtao and Budweiser, reflects a decrease due to reduced current liabilities and increased current assets.

2.3. Leverage Ratios

Table 2.5 – Summary of Leverage Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Fixed Asset to Long Term Liability Ratio (FA/LTL+TE)	0.8	0.75	0.66	0.74	2.25	2.52	2.73	2.50	4.27	4.25	4.06	4.19
Total Debt Ratio (%)	21%	18%	17%	19%	49%	48%	43%	46%	33%	32%	33%	33%
Debt / Equity Ratio	0.26	0.22	0.2	0.23	0.96	0.92	0.74	0.87	0.50	0.48	0.50	0.49
Long Term Debt Ratio* (interest-bearing) = Gearing (LTL/TE) (*Lease liabilities ONLY)	0.0058	0.0049	0.0038	0.0048	0.16	0.14	0.13	0.14	0.07	0.06	0.06	0.07
Total Debt / Fixed Asset Ratio (TL/FA)	0.327	0.29	0.304	0.31	2.24	2.18	1.88	2.10	1.53	1.62	1.80	1.65
Leverage Ratios (TA/TE)	1.51	1.22	1.2	1.31	0.96	0.92	0.74	0.87	0.01	0.01	0.02	0.02

Source: Constructed by the author

Fixed Asset to Long Term Liability Ratio

The ratio assesses a company's ability to cover long-term liabilities with fixed assets relative to equity; a higher ratio indicates better long-term financial stability (Brigham & Ehrhardt, 2016). San Miguel's ratio shows a decreasing trend due to a 15% increase in total equity from 2021 to 2023, outpacing a 5% rise in fixed assets. This suggests insufficient investment in fixed assets for development. San Miguel's average ratio of 0.74 is lower than Tsingtao's 2.50 and Budweiser's 4.19, indicating fewer fixed assets relative to long-term liabilities and equity, potentially reflecting lower capital intensity or higher leverage.

Total Debt Ratio (%)

This ratio indicates how much of a company's property is purchased using borrowed funds (Frank & Goyal, 2009). San Miguel's ratio decreased from 21% to 17% over the years, aligning with reduced current liabilities in their annual reports. With an average of 19%, San Miguel's debt financing is lower than Tsingtao's 46% and Budweiser's 33%, suggesting lower financial risk but potentially lower shareholder returns.

Debt / Equity Ratio, Long-Term Debt Ratio, Total Debt / Fixed Asset Ratio

The Debt/Equity and Long-Term Debt Ratios compare a company's total and long-term debt to shareholders' equity, with higher ratios indicating more leverage and risk (Myers, 2001). From 2021 to 2023, San Miguel's ratios decreased, averaging 0.23 and 0.0048, respectively, lower than Tsingtao's 0.87 and 0.14, and Budweiser's 0.49 and 0.07. This reflects a conservative capital structure with minimal reliance on long-term debt. Additionally, the Total Debt to Fixed Assets ratio, which measures debt financing of fixed assets (RAJAN & ZINGALES, 1995), averages 0.31 for San Miguel, compared to Tsingtao's 2.10 and Budweiser's 1.65, further confirming its conservative approach.

Leverage Ratios (Equity Multiplier)

The Equity Multiplier represents the proportion of assets financed by shareholders' equity, with a higher multiplier indicating greater leverage (Modigliani & Miller, 1958). San Miguel's average of 1.31 exceeds Tsingtao's 0.87 and Budweiser's 0.02, suggesting more assets relative to equity and a moderate leverage level among the three companies.

2.4. Coverage Ratios

Table 2.6 – Summary of Coverage Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Time Interest Cover Ratio	15.28	33.56	197	81.95	198.44	542.92	350.74	364.03	31.71	32.33	27.38	30.47
Cash Coverage	30.27	54.78	268.53	117.86	247.00	660.00	420.00	442.33	47.53	49.54	40.46	45.84

Source: Constructed by the author

Time Interest Cover Ratio

The Interest Coverage Ratio measures a company's ability to pay interest on its debt with pre-tax earnings, a higher ratio indicates better debt servicing capability (Damodaran, 2012). San Miguel's ratio has increased significantly, reflecting improved profitability or reduced debt costs. However, Tsingtao's ratio of 364.03 suggests a much stronger ability to cover interest expenses, while Budweiser shows a declining trend below its average performance.

Cash Coverage

The Cash Coverage Ratio measures the cash available to cover interest expenses (Ross, et al., 2019). San Miguel's dramatic increase indicates improved liquidity or operational efficiency, primarily due to a rise in EBIT. Compared to Tsingtao's 442.33, which suggests superior liquidity, and Budweiser's 45.84, San Miguel is better positioned to manage interest payments with available cash.

2.5. Efficiency Ratios

Table 2.7 – Summary of Efficiency Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Inventory Turnover (Cost of Goods / Inventory)	5.08	4.84	5.15	5.02	5.64	5.32	5.41	5.46	6.90	6.74	7.30	6.98
Days' Sales in Inventory	72	75	71	73	65	69	67	67	53	54	50	52
Receivables Turnover (Sales / Accounts Receivable)	14	16	17	16	247	263	309	273	12	12	12	12
Average Collection Period (Days)	26	23	21	23	1	1	1	1	29	32	31	31
Payment Period (Trade Payable / Cost of sales) (in Day)	44	36	35	38	54	59	56	57	316	304	282	301
Cash Period (in Day)	54	62	57	58	12	11	12	12	-234	-218	-201	-218
Total Asset Turnover	0.83	0.95	0.92	0.90	0.69	0.66	0.68	0.68	0.41	0.40	0.43	0.41

Source: Constructed by the author

Inventory Turnover

Inventory Turnover indicates how often a company's inventory is sold and replenished. San Miguel's turnover, averaging 5.02, dipped in 2022 but recovered in 2023. It remains slightly lower than Tsingtao and Budweiser, suggesting potential inefficiencies in inventory management (Brealey, et al., 2016).

Receivables Turnover

Receivables Turnover measures a company's efficiency in collecting credit sales (Gitman & Zutter, 2019). San Miguel's ratio improved steadily over three years, surpassing Budweiser but remaining below Tsingtao, indicating potential for enhanced collection practices.

Days' Sales in Inventory, Average Collection Period, Payment Period

The operating cycle, comprising Days' Sales in Inventory, Average Collection Period, and Payment Period, reflects a company's efficiency in managing inventory, receivables, and payables (Brigham & Houston, 2018). San Miguel's inventory management lags behind Tsingtao and Budweiser, with longer selling periods. Its collection period, while improving, remains longer than Tsingtao's but better than Budweiser's. San Miguel has reduced its payment period, outperforming Budweiser's 301-day average, indicating improved supplier management but potential for further optimization across the operating cycle.

Cash Period

Cash Period = Days' Sales in Inventory + Average Collection Period - Payment Period

The Cash Period measures the time between paying for materials and collecting cash from sales. San Miguel's averaged 58 days, fluctuating over three years. This is significantly longer than Tsingtao's 12 days and Budweiser's negative cycle, indicating potential liquidity management challenges for San Miguel (Richards & Laughlin, 1980).

Total Asset Turnover

Total Asset Turnover measures a company's efficiency in using assets to generate sales. San Miguel's ratio improved from 2021 to 2022, with a slight decrease in 2023. Despite this, San Miguel maintains a higher turnover than both Tsingtao and Budweiser, suggesting more efficient asset utilization (Selling & Stickney, 1989).

2.6. Profitability Ratios

Table 2.8 – Summary Profitability Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Net Profit (with ~~fx~~ adjusted) in '000	22108	33135	89580	48274.33	3984666	4255581	4892593	4377613.3	7649445.60	7396886	6874384	7306905.07
Net Profit Growth	60%	50%	170%	93%	40%	17%	14%	24%	83%	-3%	-7%	24%
Gross Profit Margin ((Sales – Cost of Goods Sold) / Sales)	0.408	0.363	0.385	0.39	0.367	0.368	0.387	0.374	0.539	0.500	0.504	0.514
Net Profit Margin (Net Income after tax / Sales)	0.037	0.049	0.121	0.07	0.108	0.118	0.128	0.118	0.145	0.146	0.128	0.140
EBITDA Margin	0.078	0.086	0.123	0.10	0.186	0.190	0.203	0.193	0.315	0.298	0.295	0.303
ROA (Return on Assets)	3.1	4.6	11.1	6.27	0.144	0.152	0.159	0.152	0.060	0.058	0.055	0.058
ROE (Return on Equity)	3.9	5.6	13.3	7.60	0.286	0.163	0.193	0.214	0.090	0.087	0.081	0.086

Source: Constructed by the author

Net Profit / Net Profit Growth

San Miguel's net profit surged from 22,108 in 2021 to 89,580 in 2023, marking a 170% growth, indicating robust profitability improvement. Although Tsingtao and Budweiser have higher average net profits, San Miguel's growth rate outpaces its competitors, showcasing superior profitability performance (Damodaran, 2012).

Gross Profit Margin, Net Profit Margin, EBITDA Margin

San Miguel's financial performance, as measured by Gross Profit Margin, Net Profit Margin, and EBITDA Margin, reveals both strengths and areas for improvement. The Gross Profit Margin averages 39%, placing it between Tsingtao (37.4%) and Budweiser (51.4%), indicating moderate efficiency in production cost management. The Net Profit Margin shows consistent improvement, reaching 7% in 2023, yet remains below Tsingtao (11.8%) and Budweiser (14%), suggesting further opportunities to optimize operations. San Miguel's EBITDA Margin has increased to 12.3% in 2023, but its average of 10% lags behind Tsingtao (19.3%) and Budweiser (30.3%), highlighting lower operational profitability, potentially due to higher operating costs or reduced pricing power (Palepu & Healy, 2007).

ROA (Return on Assets), ROE (Return on Equity)

San Miguel's financial efficiency, as reflected in Return on Assets (ROA) and Return on Equity (ROE), has shown significant improvement, particularly in 2023. The average ROA of 6.27% surpasses Budweiser's 5.8% but falls short of Tsingtao's 15.2%, indicated moderate asset utilization in the industry. Meanwhile, the average ROE of 7.60% is close to Budweiser's 8.6% yet remains below Tsingtao's 21.4%, suggesting growing shareholder returns with potential for further enhancement to match Tsingtao's performance (Penman, 2012).

2.7. Growth and Sustainability

Table 2.9 – Summary of Growth and Sustainability Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Growth (Retained Yield) (with fx adjusted) in '000	224212	223730	318628	255523	19969004	20724005	22879890	21190966	29591892	33687397	36488918	33256069
Self-Sustainable Growth Ratio (RE/TE) (%)	0.47	0.47	0.56	0.50	0.69	0.71	0.72	0.70	0.35	0.39	0.43	0.39

Source: Constructed by the author

San Miguel's Retained Yield and Self-Sustainable Growth Ratio both increased from 2021 to 2023, with a notable jump in 2023. While its Retained Yield lags behind Tsingtao and Budweiser, possibly due to company size and market differences, San Miguel's average Self-Sustainable Growth Ratio of 0.50 surpasses Budweiser's but falls short of Tsingtao's. This suggests that despite its smaller scale, San Miguel demonstrates a strong capacity to reinvest earnings for growth (Higgins, 1977).

2.8. Market-related Ratios

Table 2.10 – Summary of Market-related Ratios for San Miguel, Tsingtao and Budweiser from 2021 -2023

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Earnings per Share (EPS)	0.05	0.09	0.23	0.12	2.85	3.09	3.44	3.13	0.58	0.51	0.54	0.54
Price Earnings Ratio (P/E)	20.6	7.89	3.35	10.61	24.91	23.34	15.23	21.16	35.76	46.46	26.22	36.15
Market to Book Ratio	1.24	2.22	2.34	1.93	3.88	3.77	2.42	3.36	3.17	3.69	2.22	3.03
Dividend Yield	N/A	11.28%	20.85%	16.07%	1.90%	2.70%	4.18%	2.93%	1.14%	1.25%	2.91%	1.77%

Source: Constructed by the author

San Miguel shows strong growth in EPS and an increasing market to book ratio, suggesting improving in profitability. However, its P/E ratio has decreased significantly, which could be due to various market perceptions or stock price adjustments, the result is correlated with the drop in stock price from 2021 to 2023. Its dividend yield is notably higher than its competitors, which could attract investors looking for income. Compared to Tsingtao and Budweiser, San Miguel appears to offer different investment attributes, potentially being undervalued with a high dividend yield.

Based on the analysis, San Miguel shows improving profitability with rising EPS, but its lower P/E and Market to Book ratios compared to competitors suggest it might be undervalued. Its high dividend yield stands out as a potential attraction for income-focused investors.

2.9. Summary of the analysis

San Miguel presents a mixed financial picture, showing improvements in liquidity and maintaining a conservative capital structure with lower debt levels compared to competitors. The company's liquidity ratios have strengthened from 2021 to 2023, indicating a better ability to meet short-term debts. However, San Miguel faces challenges in operational efficiency and profitability. While net profit and net profit margin have increased, the company's Gross Profit Margin, EBITDA Margin, and efficiency metrics like Inventory Turnover lag behind industry peers Tsingtao and Budweiser.

The key financial problems for San Miguel cantered on improving operational efficiency and enhancing overall competitiveness. The company's Z-Score, though above the bankruptcy threshold, is the lowest among analyzed competitors, primarily due to lower EBIT and market value of equity. San Miguel needs to focus on optimizing inventory management, boosting profit margins, and addressing potential undervaluation as indicated by lower P/E and Market-to-Book ratios. To strengthen its financial position, the company should prioritize strategies to improve operational efficiency, increase profitability, and enhance its market position relative to industry leaders.

3. Cooperate Governance analysis

Following a thorough review of San Miguel's corporate governance, it is evident that the company has made significant strides in enhancing its governance framework to support sustainable growth and align with shareholder interests. This section will examine into the detailed aspects of San Miguel's corporate governance, including its board of directors, governance structure, operational effectiveness, transparency, and risk management.

3.1 Corporate Governance Structure

The company operates under a robust framework of internal systems and controls. This is evidenced by its consistent application of principles and compliance with requirements outlined in the Corporate Governance Code ('CG Code'). These guidelines are part of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which the company adheres to throughout the year (HKEX, 2024).

San Miguel's governance framework is built on well-defined accountability and responsibility channels. The company's leadership is entrusted to a diverse board consisting of eleven members. This board is composed of one executive director, who serves as the managing director, six non-executive directors, and four independent non-executive directors. This structure ensures a balance of perspectives and expertise in the company's governance (San Miguel Brewery Hong Kong Ltd., 2024).

The board and senior management effectively implement self-regulatory measures to safeguard the interests of the company's stakeholders. There are Audit Committee, Remuneration Committee and nomination committee to oversee the respective functions with each committee consists of three or more members (San Miguel Brewery Hong Kong Ltd., 2024).

According to San Miguel's 2023 annual report (2024), the board exhibited its dedication to robust governance by conducting four meetings to address diverse strategic and operational matters. In addition, the audit and remuneration committees each assembled twice, while the nomination committee met once. This pattern of meetings illustrates a methodical approach to corporate supervision and decision-making processes.

Importantly, the board members do not have any financial, business, family, or other significant relationships with one another, highlighting the board's independence and integrity. This absence of conflicts ensures impartial decision-making and strengthens the board's capacity to serve the best interests of all stakeholders.

3.2 Effectiveness of Operation

Each year, the board undertakes a comprehensive evaluation of the Company's internal control mechanisms. This assessment covers financial, operational, and

compliance controls, as well as risk management processes. To gauge the effectiveness of these systems, the board examines the findings from evaluations carried out by three key entities: the audit committee, the management team, and the Group Internal Auditor Function. This multi-faceted approach ensures a thorough and balanced assessment of the Company's internal controls.

3.3 Measures to Maintain Corporate Transparency

The Company has adopted an Inside Information Policy to ensure that sensitive internal information is disclosed to the public in a fair and timely manner, in line with applicable laws and regulations. Additionally, a Code of Conduct is in place to prevent the unauthorized use of confidential or inside information. Furthermore, the Company has implemented a Whistleblowing Policy, providing procedures and channels for directors, employees, and other stakeholders to report any misconduct or improprieties affecting the Group (San Miguel Brewery Hong Kong Ltd., 2022, 2023, 2024).

3.4 Risk Management Aspect

San Miguel has implemented a "Three Lines of Defence" model for risk management (San Miguel Brewery Hong Kong Ltd., 2022, 2023, 2024). This model includes the management team, Business Control team, and Group Internal Audit Function, each playing a role in identifying and mitigating financial risks.

- First Line of Defence: Management Team

They are responsible for identifying, assessing, and managing risks directly within their areas of operation, responsible for implementing and maintaining effective internal controls, executing daily risk and control procedures, and promptly identifying and reporting issues and risks to senior leadership.

- Second Line of Defence: Business Control Team

This team oversees risk management activities and provides guidance on implementing control measures. They are responsible for monitoring compliance with both internal policies and external regulations, ensuring the organization operates within established guidelines. Additionally, it provides essential support and guidance to the first line of defence, empowering them to effectively manage risks in their day-to-day operations.

- Third Line of Defence: Group Internal Audit

This provides an independent and objective assessment of the effectiveness of governance, risk management, and internal controls. It conducts independent audits and evaluations of the company's risk management and control processes, reports its findings directly to the Audit Committee, and offers recommendations to strengthen the overall governance framework.

4. Investment appraisals exercise

4.1. Overview of investment project

To expand its market, San Miguel Brewing Hong Kong shall launch a new fruit beer product line targeting the dynamic young adult segment, leveraging the success of San Miguel Light among young consumers (San Miguel Brewery Hong Kong Ltd., 2024). With continuous growth in fruit beer market, driven by a preference for flavoured, low-alcohol beverages (IMARC Group, 2023). We recommend establishing a new brewery in Guangdong, China, to boost production and meet regional demand for fruit and innovative beers.

Table 4.1 – Details of investment project

Project Costs	Remark
Factory Area	18,000 m ²
Building Price	1118 RMB / m ² [Department of Natural Resources of Guangdong Province, 2021], Total 21.89 million @ fx 1.0867 [yahoo!finance, 2024]
Equipment Cost	171.094 million
Depreciation years	20 (Building), 10 (Equipment)
Sales growth rate	11.6%
Discount rate (WACC)	6.54% (alphaspread, 2024)
Long Term growth rate	2.5% (Textor, 2024)
EBITDA Margin (%)	9.58%
Cash Period (Days)	10
Project Period (Years)	20
First Year Sales	336.4 million

Source: Constructed by the author

The estimations of the project are based on the following considerations:

Factory Area / Building Price / Equipment Cost

We propose a factory in Guangdong Province, China, to optimize costs. With a building price of 1,118 RMB/m² (Department of Natural Resources of Guangdong Province, 2021) and an area of 18,000 m², construction costs are estimated at 21.89 million RMB. Equipment costs, based on half the average tangible non-current assets in 2023 financial report (San Miguel Brewery Hong Kong Ltd., 2024), are estimated at 171.094 million RMB.

Depreciation years

Depreciation follows the company's straight-line method, with machinery, equipment, furniture, and fixtures depreciated over 2 to 50 years. We have selected 20 years for buildings and 10 years for equipment.

Cash Period

San Miguel's average Cash Period of 58 days significantly impacts working capital. To improve project feasibility, we recommend extending the Payment Period to 85 days, aligning with industry peers. This would reduce the Cash Period to 10 days, ensuring adequate cash flow to sustain the project.

Sales growth rate / EBITDA Margin

We used average Sales growth rate and EBITDA Margin from 2021 to 2023. This approach balances performance metrics and minimizes pandemic-related sales distortions.

Discount Rate

The discount rate used is the Weighted Average Cost of Capital (WACC) of San Miguel company (alphaspread, 2024), it chosen as short term discount rate as it represents the average return expected by all of the company's investors, including both shareholders and creditors. By using WACC, the company acknowledges the opportunity cost of allocating capital to a particular project instead of other potential investments.

First Year Sales

The first-year sales chosen is the half of sales of average in 2021-2023 as of the production scales of the investment is by half of the current production.

4.2. Evaluation of the Investment Project

Calculation of Tax and other cost

Table 4.2 – Calculation of Tax and other cost

Project (Unit: Million HKD)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Sales = Last year sales x (1+growth rate)	336.4	375.4	419.0	467.6	521.8
EBITDA	32.2	36.0	40.1	44.8	50.0
Building Depreciation, 20 years	-1.1	-1.1	-1.1	-1.1	-1.1
Equipment Depreciation, 10 years	-17.1	-17.1	-17.1	-17.1	-17.1
Total depreciation	-18.2	-18.2	-18.2	-18.2	-18.2
EBIT:	14.0	17.8	21.9	26.6	31.8
Tax expense (std tax rate: 25%) (Mainland Tax Rate)	-3.5	-4.4	-5.5	-6.6	-7.9
Profit:	10.5	13.3	16.5	19.9	23.8

Source: Constructed by the author

Calculation of Free Cashflow

Table 4.3 – Calculation of Free Cashflow

Project (Unit: Million HKD)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
EBITDA	32.2	36.0	40.1	44.8	50.0
Working capital movement ^{*1}	-9.2	-10.3	-11.5	-12.8	-14.3
Tax Expenses	-3.5	-4.4	-5.5	-6.6	-7.9
Free cash flow ^{*3} :	19.5	21.2	23.2	25.3	27.7

Source: Constructed by the author

To evaluate the project performance, with regarding to the calculations above, we can assess the evaluate the proposed project by calculating the Net Present Value (NPV), Payback Period, Accounting Rate of Return (ARR), Interest Rate of Return (IRR) and Profitability Index (PI).

Table 4.4 – Projected Cash Flow, Present Value, and Profit Analysis for the Investment Period

Yr	現金流 CASHFLOW in(out)	CUM CASHFLOW 現金流	Present Value 現值現金流	淨利潤值 PROFIT
0	(193)	(193)	(193)	(193)
1	19.5	(173)	18.3	10.5
2	21.2	(152)	18.7	13.3
3	23.2	(129)	19.2	16.5
4	25.3	(104)	19.7	19.9
5	27.7	(76)	20.2	23.8
6	28.4	(48)	19.4	24.4
7	29.2	(18)	18.7	25.0
8	29.9	11	18.0	25.7
9	30.6	42	17.3	26.3
10	31.4	74	16.7	27.0
11	32.2	106	16.0	27.6
12	33.0	139	15.4	28.3
13	33.8	172	14.8	29.0
14	34.7	207	14.3	29.8
15	35.5	243	13.7	30.5
16	36.4	279	13.2	31.3
17	37.3	316	12.7	32.1
18	38.2	355	12.2	32.9
19	39.2	394	11.8	33.7
20	40.2	434	11.3	34.5

Source: Constructed by the author

Calculation of NPV / ARR

NPV assesses investment profitability by calculating the present value of future cash flows, discounted at 6.54% (Smith-Daniels & Smith-Daniels, 1987). A positive NPV indicates feasibility, requiring estimates of initial cost, cash flows, and discount rate. ARR, calculated as average net income after tax divided by initial investment, must exceed the discount rate to justify the investment (Lefley, 1996). Using Excel, the NPV is 128.75 million, and the ARR is 13.53%.

Calculation of Payback Period / IRR

The Internal Rate of Return (IRR) is the discount rate at which the Net Present Value (NPV) of cash flows becomes zero (Ross, et al., 2019), used to assess investment appeal. The Payback Period, indicating the time to recoup initial costs, is 7 years and 8 months (Alesii, 2006). With an IRR of 13.0%, exceeding the discount rate, the investment is attractive.

Calculation of PI

The Profitability Index (PI) evaluates the appeal of an investment by dividing the present value of its future cash flows by the initial cost of the investment (Magni, 2015). A PI above 1 suggests profitability (Battisti & Campo, 2019). The calculated PI of 1.67 indicates the project is investment-worthy.

Appraisal of Investment

The investment project is financially viable, as indicated by a positive NPV of 128.75 million, suggesting significant value creation beyond initial costs. The ARR of 13.53% and IRR of 13.0% both exceed the discount rate, highlighting attractive returns. With the Payback Period is 7 years and 8 months, the PI of 1.67 confirms strong profitability potential. Overall, the project is a sound investment opportunity.

5. Financing (Fund-raising) management and working capital management

To initiate the proposed investment project, necessary fundraising is required. The initial investment cost is 193 million HKD.

Table 5.1 – Extracted financial metrics for San Miguel, Tsingtao, and Budweiser (2021-2023)

Year	San Miguel				Tsingtao				Budweiser			
	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Cash and Cash equivalent (HKD in '000)	101807	114006	179979	131931	17863071	19970741	21696224	19843346	15649753	19158635	24536664	19781761
Retained Profit (HKD in '000)	224212	223730	318628	255523	19969004	20724005	22879890	21190966	29591892	33687397	36488918	33256069
Cash Ratio (Cash / Current Liabilities)	0.7	1	1.73	1.14	0.80	0.91	1.14	0.95	0.43	0.56	0.68	0.55
Total Debt Ratio	0.21	0.18	0.17	0.19	0.49	0.48	0.43	0.46	0.33	0.32	0.33	0.33
Long Term Debt Ratio* (interest-bearing) = Ges	0.0058	0.0049	0.0038	0.0048	0.1594	0.1425	0.1263	0.1427	0.0713	0.0646	0.0634	0.0664
Total Debt / Fixed Asset Ratio (TL/FA)	0.327	0.29	0.304	0.31	2.24	2.18	1.88	2.1	1.53	1.62	1.8	1.65
Stock Value (HKD)	1.03	0.71	0.77		67.71	72.66	50.12		2.65	3.02	1.82	
Price Earning Ratio (PE)	29.6	7.89	3.35	10.61	24.91	23.34	15.23	21.16	35.76	46.46	26.22	36.15
Fix Asset Turnover	1.28	1.51	1.54	1.44	2.97	2.92	3.04	2.98	1.87	2.04	2.30	2.07

Source: Constructed by the author

Based on the financial analysis, San Miguel has four financing options available for fundraising.

1. Cash Payment

Cash payment provides the company with flexibility to allocate funds as needed without external constraints, avoiding interest payments or repayment obligations associated with debt financing. However, examining the “Cash and Cash Equivalent”, San Miguel's “Cash and Cash Equivalent” in 2023 is approximately 180 million, which is insufficient for the investment project. Additionally, the project would account for about 61% of the “Retained Profit” (318 million in 2023), representing a significant impact on the company's reserve fund and shareholder returns.

2. Debt Financing

Debt financing offers immediate access to capital but increases leverage and financial risk, impacting cash flow. However, referring to the Table 5.1, San Miguel has the lowest “Total Debt Ratio”, “Total Debt / Fixed Asset Ratio”, and “Long Term Debt Ratio” within the industry, indicating potential room for increasing debt. San Miguel's current gearing ratio is only 0.4%. With the addition of 193 million in interest-bearing debt for the investment project, the gearing ratio would increase to 3%, which would still be the lowest compared to Tsingtao and Budweiser.

3. Equity Financing

Equity financing has the advantage of not increasing company debt levels, thus reducing the risk of insolvency. However, this approach dilutes existing shareholders' ownership. Given San Miguel's low stock value and P/E ratio, it appears investors currently have limited interest in the company's stock. Further dilution of shareholders' ownership through equity financing could potentially further diminish the incentive for both existing and potential shareholders to invest in the company.

4. Asset Sale

Asset Sale allows the quick infusion of cash and help reduce the assets that are not essential to business operations, however it may cause negative impact the company's operational capabilities. In view of San Miguel's situation, the Fix Asset Turnover ratio is relatively low compared to the other 2 companies (Barnes, 1987). The lower ratio may indicate inefficient use of fixed assets in generating sales, suggesting potential idleness. Therefore, selling of asset may be a potential option for fund raising.

Table 5.2 – Fixed Asset Turnover for San Miguel, Tsingtao, and Budweiser (2021-2023)

	San Miguel				Tsingtao				Budweiser			
Year	2021	2022	2023	Avg.	2021	2022	2023	Avg.	2021	2022	2023	Avg.
Fixed Asset Turnover	1.28	1.51	1.54	1.44	2.97	2.92	3.04	2.98	1.87	2.04	2.30	2.07

Source: Constructed by the author

5. Final Financing Recommendation

Based on San Miguel's financial data analysis, a combination of debt financing and asset sale is recommended as the optimal funding strategy for the investment project. San Miguel's current low debt levels provide capacity for additional debt without significantly increasing financial risk. Adding \$193 million in interest-bearing debt would only raise the gearing ratio to 3%, remaining the lowest among peers. This approach allows quick capital access without diluting existing shareholders' ownership.

The relatively low fixed asset turnover ratio suggests potential inefficiencies in asset utilization, making asset sale viable. Selling underutilized assets can provide a quick cash infusion without increasing debt or affecting shareholder equity.

Combining these financing methods allows San Miguel to maintain a balanced financial structure, funding the investment project effectively while minimizing impacts on current working capital parameters and shareholder returns. This strategy aligns with the company's financial stability and growth objectives, offering flexibility in capital allocation.

6. Conclusion and Recommendations

6.1. Conclusion

San Miguel Brewery Hong Kong Ltd. presents a mixed financial performance, characterized by a conservative financial approach. While the company's liquidity ratios have improved, indicating a stronger ability to meet short-term obligations, it faces challenges in operational efficiency and profitability compared to industry peers like Tsingtao Brewery and Budweiser Brewing Company. San Miguel's conservative stance is evident in its lower debt levels and leverage ratios. However, this approach, while providing financial stability, may be limiting the company's growth potential. The Altman Z-Score, although above the bankruptcy threshold, is the lowest among competitors, primarily due to lower EBIT and market value of equity, underscoring the need for San Miguel to optimize inventory management and enhance profit margins.

On the corporate governance, San Miguel has made substantial progress by establishing a robust framework that supports sustainable growth and aligns with shareholder interests. This is achieved through clear accountability, independent oversight, and effective risk management practices. These improvements, coupled with the company's conservative financial approach, provide a solid foundation for future development while minimizing financial risks.

To promote sustainable growth, an investment project has been proposed to expand San Miguel's market presence through a new fruit beer product line in Guangdong, China. The project shows promising financial viability with a Net Present Value of \$128.75 million, an Accounting Rate of Return of 13.53%, and an Internal Rate of Return of 13.0%. To finance this project, a combination of debt financing and asset sales is recommended. This approach leverages San Miguel's current low debt levels, aligning with its conservative financial strategy while providing an opportunity for controlled expansion.

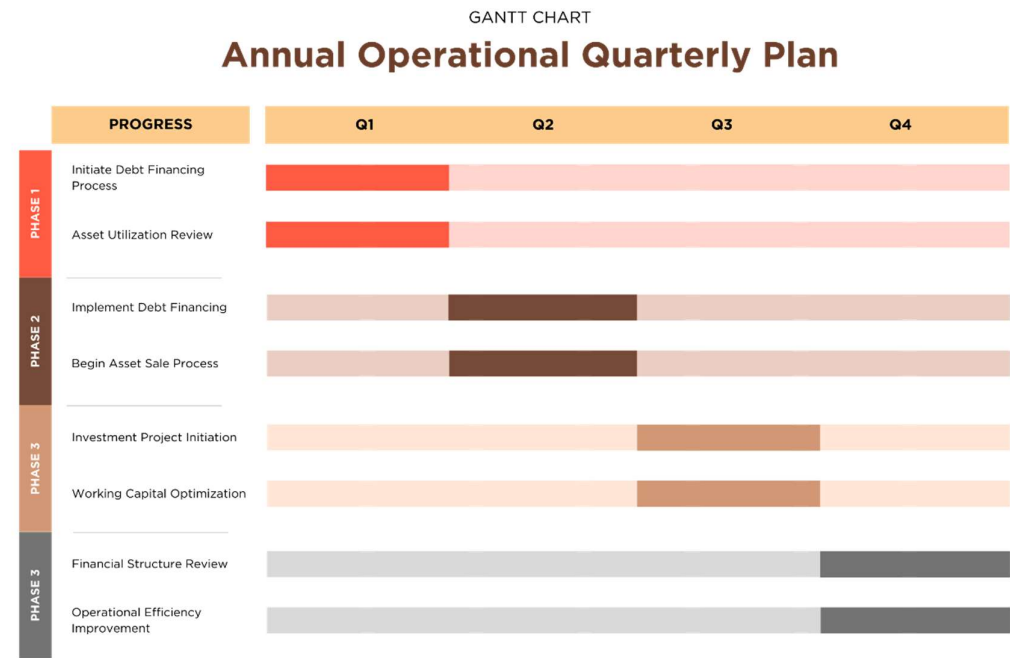
Overall, San Miguel has opportunities for growth and value creation by carefully balancing its conservative approach with strategic investments, addressing key financial challenges, and capitalizing on its strong governance and promising prospects.

6.2. Recommendations

Based on the recent financial review, a strategic Annual Operational Quarterly Plan is proposed for San Miguel. This plan prioritizes actions to strengthen market position, improve profitability, and ensure long-term financial stability.

The Operational Plan can be summarized as the Gantt Chart Below

Chart 7.1 – Gantt Chart of San Miguel’s Annual Operational Quarterly Plan



Source: Constructed by the author

Q1 (Months 1-3): In the first three months, the company shall initiate the debt financing process to secure \$193 million in funding for the new investment project. This high-impact action will require significant management attention, as the capital influx is crucial for funding the investment project. Regarding to the low Fixed Asset Turnover, the company shall conduct a comprehensive review of its asset management practices to address the issue, which is expected to have a moderate financial impact by potentially reducing holding costs and improving cash flow.

Q2 (Months 4-6): In the second quarter, the company shall finalize and implement the debt financing agreement, which will have a high financial impact due to the influx of capital and increased leverage. Additionally, the company needs to identify and implement strategies to reduce operational expenses and improve EBITDA margin, which is expected to have a high financial impact by potentially leading to significant improvement in profitability ratios.

Q3 (Months 7-9): In the third quarter, the company shall begin the implementation of the investment project, which includes the development of the new fruit beer product line and the initiation of construction for the Guangdong brewery. Additionally, the company needs to implement strategies to improve the cash period, which is expected to have a moderate financial impact by improving cash flow and working capital management.

Q4 (Months 10-12): In the final quarter, the company shall develop and begin implementing marketing strategies for the new fruit beer product line, which is expected to have a moderate financial impact by potentially increasing market share, while requiring high management attention for the success of the new product line. Additionally, the company need to monitor the impact of the new debt and investment project on the overall financial structure and profitability, which is expected to have a high financial impact by ensuring balanced leverage and improved profitability metrics.

Throughout the year, these factors shall be continuously monitored:

1. Debt coverage and gearing ratios to ensure they remain within acceptable levels.
2. Progress of the investment project and its impact on cash flows.
3. Market conditions that might affect asset values or debt terms.
4. Overall liquidity and working capital management.

This plan shall address the key issues identified in the financial review, focusing on improving San Miguel's financial structure, asset utilization, and operational efficiency. Priority is given to actions with significant financial impacts, such as debt financing and the investment project initiation, while also addressing operational inefficiencies.

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