

Want Want China

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Jun 2021

FULLY VALUED (Downgrade from Buy)

Last Traded Price (23 Jun 2021): HK\$5.69 (HSI : 28,817)

Price Target 12-mth: HK\$4.90 (14% downside) (Prev HK\$7.20)

Analyst

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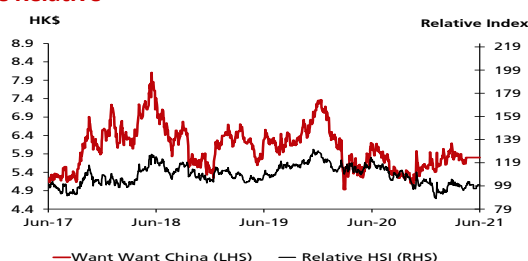
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What's New

- Expect sales growth to slow post COVID-19 disruption; earnings projection below consensus
- Rising commodity prices to put pressure on margins
- With slowing sales and rising commodity cost pressure, we downgrade the stock to FULLY VALUED, with TP cut to HK\$4.9

Price Relative



Forecasts and Valuation

FY Mar (RMBm)	2020A	2021A	2022F	2023F
Turnover	20,095	21,998	22,876	23,999
EBITDA	5,444	6,361	6,006	6,225
Pre-tax Profit	5,049	5,995	5,626	5,855
Net Profit	3,649	4,158	4,089	4,255
Net Profit Gth (Pre-ex) (%)	5.0	13.9	(1.7)	4.1
EPS (RMB)	0.29	0.34	0.34	0.35
EPS (HK\$)	0.35	0.41	0.41	0.43
EPS Gth (%)	5.2	15.2	0.5	4.1
Diluted EPS (HK\$)	0.35	0.41	0.41	0.43
DPS (HK\$)	0.30	0.17	0.17	0.18
DPS (HK cts)	30.13	16.80	16.88	17.57
BV Per Share (HK\$)	1.48	1.46	1.73	1.99
PE (X)	16.0	13.9	13.9	13.3
CorePE (X)	16.0	13.9	13.9	13.3
P/Cash Flow (X)	12.1	10.1	13.6	11.9
P/Free CF (X)	12.8	10.5	17.1	13.0
EV/EBITDA (X)	9.2	8.1	7.6	6.9
Net Div Yield (%)	5.3	3.0	3.0	3.1
P/Book Value (X)	3.8	3.9	3.3	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.8	27.6	25.4	22.9
Earnings Rev (%)			(3)	New
Consensus EPS (RMB)			0.35	0.37
Other Broker Recs:		B:12	S:2	H:7

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Beware of margin pressure

Investment Thesis

Growth impacted by intensifying competition and changing consumption trends; earnings projection below consensus: To-date, the traditional channel, accounting for >80% of sales, remains a key pillar for the Group. Other channels including e-commerce, account for high-single digit of sales, which is low versus competitors. Currently, 30% of online food sales comes from snack foods according to Ministry of Commerce. We expect the Group to continue to experience softer growth relative to peers in the medium term. Our earnings projection are 4%/5% below consensus in FY22/23F.

Rising commodity prices will put pressure on margins. In the past few years, Want Want's gross profit margin has improved from 43% in FY18 to over 48% in FY21, thanks to favourable commodity costs. With rising PET and milk powder prices, we expect gross profit margin to contract by 1.6ppts in FY22F.

Strong financial position; yet dividend was cut. Want Want's net cash position has expanded to Rmb9.1bn as of Mar'21 (Mar'20: Rmb8.4bn), supported by operating cash flow of >Rmb5.4bn and lower capital expenditure of Rmb317m. This translates to HK\$0.908/sh, equivalent to 16% of its market cap. The Group's dividend change creates uncertainty for investors.

Valuation:

With earnings expected to decline, we now value Want Want at 12x FY22F PE (18.5x previously), pegged to 2SD below its 5-year average PE. Downgrade to FULLY VALUED.

Where we differ:

Our earnings projections are 4%/5% below consensus as we expect weaker gross profit margin due to higher input cost pressure.

Key Risks to Our View:

Stronger than expected sales growth, new SKU launches perform better than expected, channel breakthrough into emerging channels.

At A Glance

Issued Capital (m shrs)	12,079
Mkt Cap (HK\$/US\$m)	68,730 / 8,849
Major Shareholders (%)	
Tsai (Eng Meng)	52.6
Iwatsuka Confectionery Co Ltd	5.1
Free Float (%)	42.4
3m Avg. Daily Val. (US\$m)	6.90
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Live more, Bank less

Want Want China

WHAT'S NEW

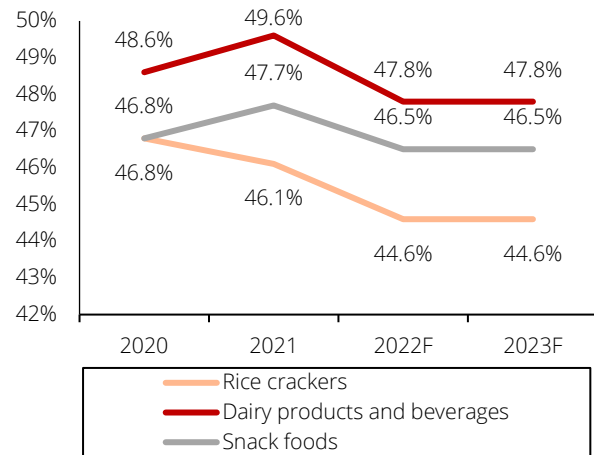
Expect sales to slow and input cost pressure to be higher in FY22F

Cut TP, downgrade to FULLY VALUED as growth softens. We cut our FY22F earnings by 3%, incorporating softer sales trend and trimming our gross profit margin assumptions, and introduced FY23 forecast. We expect sales will slow amidst a recovery post COVID-19. We have also turned more cautious on margins as rising commodity costs will affect packaging and whole milk powder prices. With earnings expected to decline, we cut our TP to HK\$4.9, pegged to 12x FY22F PE, equivalent to 2 SD below its 5-year average (previously 18.5x). Downgrade to FULLY VALUED.

Expect sales to slow. We expect sales of milk beverages, accounting for 50% of sales, to face increasing pressure ahead, on rising health awareness spurred by COVID-19 towards the lower sugar categories. We expect milk beverage sales to slow to 2% (FY21: +12%) in FY22F. To-date, traditional channel, accounting for >80% of sales, remains a key pillar to the Group. Other sales channels including e-commerce, account for high-single digit of sales, and contribution remains low versus competitors. Currently, 30% of online food sales comes from snack foods according to Ministry of Commerce. We expect the Group would continue to experience softer growth relative to peers in the medium term.

prices will have a 4% impact on earnings. We currently forecast gross profit margin to contract by 1.6ppts in FY22F.

Gross profit margin trend by segment (%)



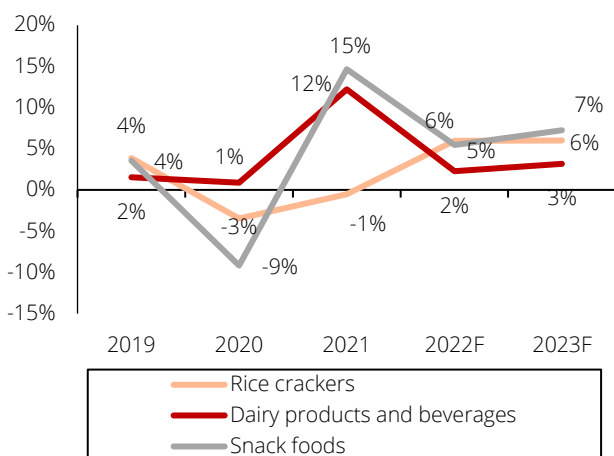
Source: Company data, DBS HK

Cut in dividend payout. Want Want's net cash position has expanded to Rmb9.1bn as of Mar'21 (Mar'20: Rmb8.4bn), Despite a rising net cash position, the Group's dividend adjustment could cause some uncertainty. Previously, Want Want was also seen as a yield play, hence we expect to see some penalization by market.

Results Analysis. Want Want reported earnings growth of 14% in FY21 to Rmb4,158m, in line with expectations. The growth was driven by a hike in household consumption as a result of COVID-19 and gain on disposal of PPE and land-use rights. Excluding gain on disposal, core earnings rose 8% y-o-y. Operating profit margin climbed 2.2ppts to 26.1%, thanks to improvement in operating leverage. The Group reported a final dividend of US1.46cents. Including interim dividend, dividend payout was cut to 41% (FY20: 85%) due to higher share repurchase programme.

Want Want reported sales growth of 9% in FY21, with 2H21 reporting 8.4% y-o-y growth (1H21: 11%). By segment, rice cracker sales contracted by 5% in 2H due to less gifting opportunities and meetups during CNY. Dairy sales and beverages rose 17% in 2H, garnering decent recovery versus 1H's +7%, thanks to rising health awareness. Snack foods recorded 2H21 sales growth of 11% (1H21: 17.7%).

Sales change (% yoy) by segment



Source: Company data, DBS HK

Commodity prices on the rise. Commodity prices have been on the rise due to inflationary pressures. Whole milk powder (Fonterra) and PET prices are up 45% and 11% y-o-y. We estimate every 5% increase in milk powder and PET

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Want Want reported a steady improvement in net cash position at Rmb9.1bn as of Mar'21 (Mar-20: Rmb8.4bn), thanks to improvement in operating cash flow of Rmb5.4bn, partly offset by capital expenditure of Rmb317m and share repurchase of Rmb1,601m. In FY21, Want Want had repurchased 338.3m shares, equivalent to HK\$1,854m. Between Apr-May, the Group has acquired a further 51.7m shares, or HK\$297m in value.

Company Background

A leading food and beverage player. Established in China in 1992, Want Want was listed on the Singapore Stock Exchange in 1996, but was subsequently delisted in September 2007. It was then relisted on the Hong Kong Stock Exchange in 2008. Want Want is engaged in the manufacturing, distribution and sales of rice crackers, dairy products and beverages, snack foods and other products. While most of its operations are primarily located in China, it also has operations in Taiwan, Japan, Hong Kong and Singapore. Want Want also exports to the US, Canada, Southeast Asia and Europe.

Want Want China

Interim Income Statement (RMBm)

FY Mar	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	11,464	9,304	10,790	(5.9)	16.0
Cost of Goods Sold	(6,181)	(4,754)	(5,685)	(8.0)	19.6
Gross Profit	5,283	4,550	5,105	(3.4)	12.2
Other Oper. (Exp)/Inc	(2,469)	(2,496)	(2,353)	(4.7)	(5.7)
Operating Profit	2,814	2,054	2,752	(2.2)	34.0
Other Non Opg (Exp)/Inc	0	0	0	nm	nm
Associates & JV Inc	(2)	(2)	(2)	9.6	(11.0)
Net Interest (Exp)/Inc	113	137	109	(3.6)	(20.8)
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	2,925	2,189	2,859	(2.2)	30.6
Tax	(818)	(585)	(828)	1.2	41.7
Minority Interest	5	10	3	(42.8)	(71.1)
Net Profit	2,112	1,615	2,034	(3.7)	26.0
EBITDA	2,814	2,054	2,752	(2.2)	34.0
Margins (%)					
Gross Margins	46.1	48.9	47.3		
Opg Profit Margins	24.5	22.1	25.5		
Net Profit Margins	18.4	17.4	18.9		

Source: Company, DBS HK

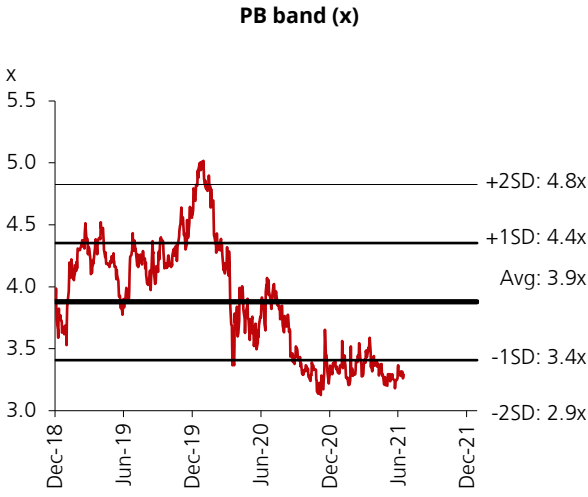
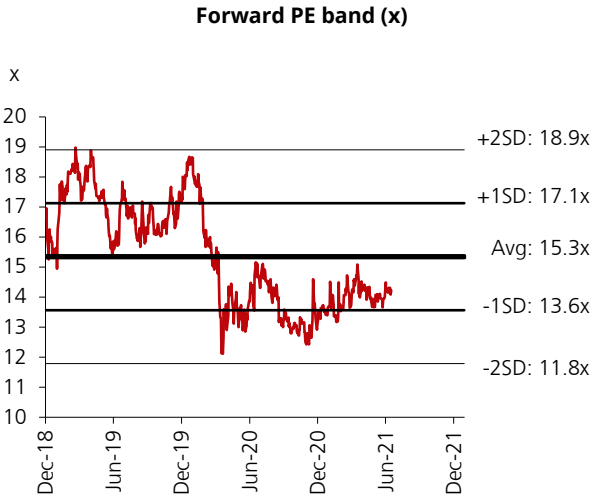
Income Statement (RMB m)

FY Mar	2020A	2021A	% cha yoy
Revenue	20,095	21,998	9.5
Cost of Goods Sold	(10,439)	(11,393)	9.1
Gross Profit	9,655	10,606	9.8
Other Opng (Exp)/Inc	(4,849)	(4,869)	0.4
Operating Profit	4,806	5,736	19.4
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	(3)	(2)	36.9
Net Interest (Exp)/Inc	246	261	5.9
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	5,049	5,995	18.7
Tax	(1,413)	(1,847)	30.8
Minority Interest	13	10	(21.9)
Net Profit	3,649	4,158	13.9
EBITDA	5,444	6,361	16.8
Margins & Ratio			
Gross Margins (%)	48.0	48.2	
Opg Profit Margin (%)	23.9	26.1	
Net Profit Margin (%)	18.2	18.9	

Source: Company, DBS HK

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

Want Want China

Segmental Breakdown (RMB m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Rice crackers	5,813	5,611	5,583	5,915	6,269
Dairy products and beverages	9,730	9,813	11,011	11,261	11,620
Snack foods	5,101	4,634	5,313	5,603	6,009
Others	68	36	92	96	101
Total	20,712	20,095	21,998	22,876	23,999

Source: Company, DBS HK

Income Statement (RMB m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Revenue	20,712	20,095	21,998	22,876	23,999
Cost of Goods Sold	(11,312)	(10,439)	(11,393)	(12,213)	(12,818)
Gross Profit	9,400	9,655	10,606	10,663	11,181
Other Opng (Exp)/Inc	(4,814)	(4,849)	(4,869)	(5,269)	(5,558)
Operating Profit	4,586	4,806	5,736	5,393	5,623
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(5)	(3)	(2)	(2)	(2)
Net Interest (Exp)/Inc	225	246	261	235	235
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	4,806	5,049	5,995	5,626	5,855
Tax	(1,344)	(1,413)	(1,847)	(1,547)	(1,610)
Minority Interest	14	13	10	10	10
Preference Dividend	0	0	0	0	0
Net Profit	3,477	3,649	4,158	4,089	4,255
Net Profit before Except.	3,477	3,649	4,158	4,089	4,255
EBITDA	5,271	5,444	6,361	6,006	6,225
Growth					
Revenue Gth (%)	2.8	(3.0)	9.5	4.0	4.9
EBITDA Gth (%)	6.0	3.3	16.8	(5.6)	3.6
Opg Profit Gth (%)	9.4	4.8	19.4	(6.0)	4.3
Net Profit Gth (%)	11.6	5.0	13.9	(1.7)	4.1
Margins & Ratio					
Gross Margins (%)	45.4	48.0	48.2	46.6	46.6
Opg Profit Margin (%)	22.1	23.9	26.1	23.6	23.4
Net Profit Margin (%)	16.8	18.2	18.9	17.9	17.7
ROAE (%)	23.3	23.8	27.6	25.4	22.9
ROA (%)	12.3	12.2	13.6	12.6	12.2
ROCE (%)	14.0	13.9	15.9	14.7	14.0
Div Payout Ratio (%)	82.8	85.0	41.1	41.1	41.1
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Want Want China

Interim Income Statement (RMB m)

FY Mar	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	11,190	9,248	11,464	9,304	10,790
Cost of Goods Sold	(6,465)	(5,131)	(6,181)	(4,754)	(5,685)
Gross Profit	4,725	4,117	5,283	4,550	5,105
Other Oper. (Exp)/Inc	(2,287)	(2,345)	(2,469)	(2,496)	(2,353)
Operating Profit	2,438	1,772	2,814	2,054	2,752
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(4)	(4)	(2)	(2)	(2)
Net Interest (Exp)/Inc	96	112	113	137	109
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,530	1,881	2,925	2,189	2,859
Tax	(687)	(526)	(818)	(585)	(828)
Minority Interest	(1)	9	5	10	3
Net Profit	1,842	1,364	2,112	1,615	2,034
Net profit bef Except.	1,842	1,364	2,112	1,615	2,034
Growth					
Revenue Gth (%)	N/A	3.2	2.4	0.6	(5.9)
Opg Profit Gth (%)	N/A	1.0	15.4	15.9	(2.2)
Net Profit Gth (%)	N/A	7.1	14.7	18.4	(3.7)
Margins					
Gross Margins (%)	42.2	44.5	46.1	48.9	47.3
Opg Profit Margins (%)	21.8	19.2	24.5	22.1	25.5
Net Profit Margins (%)	16.5	14.8	18.4	17.4	18.9

Source: Company, DBS HK

Want Want China

Balance Sheet (RMB m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	7,324	6,771	6,335	6,587	6,408
Invt in Associates & JVs	38	38	36	36	36
Other LT Assets	1,280	1,410	4,440	1,494	1,494
Cash & ST Invt	17,134	17,257	16,081	20,636	23,307
Inventory	2,384	2,746	2,529	2,770	2,907
Debtors	1,676	1,603	1,822	1,949	2,000
Other Current Assets	0	0	0	0	0
Total Assets	29,836	29,825	31,243	33,472	36,154
ST Debt	1,744	587	3,340	3,340	3,340
Creditors	4,210	5,049	5,538	5,648	5,753
Other Current Liab	341	186	288	38	51
LT Debt	7,770	8,294	6,493	6,493	6,493
Other LT Liabilities	343	356	612	612	612
Shareholder's Equity	15,331	15,273	14,899	17,278	19,852
Minority Interests	98	82	73	63	52
Total Cap. & Liab.	29,836	29,825	31,243	33,472	36,154
Non-Cash Wkg. Capital	(491)	(885)	(1,475)	(968)	(897)
Net Cash/(Debt)	7,620	8,376	6,248	10,803	13,474
Debtors Turn (avg days)	20.1	17.1	15.2	16.4	16.3
Creditors Turn (avg days)	37.5	37.2	32.6	30.6	32.2
Inventory Turn (avg days)	79.9	89.7	84.5	79.2	80.8
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Current Ratio (x)	3.4	3.7	2.2	2.8	3.1
Quick Ratio (x)	3.0	3.2	2.0	2.5	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.8	3.2	2.1	8.8	4.1
Z-Score (X)	4.3	4.4	4.4	4.5	4.5

Source: Company, DBS HK

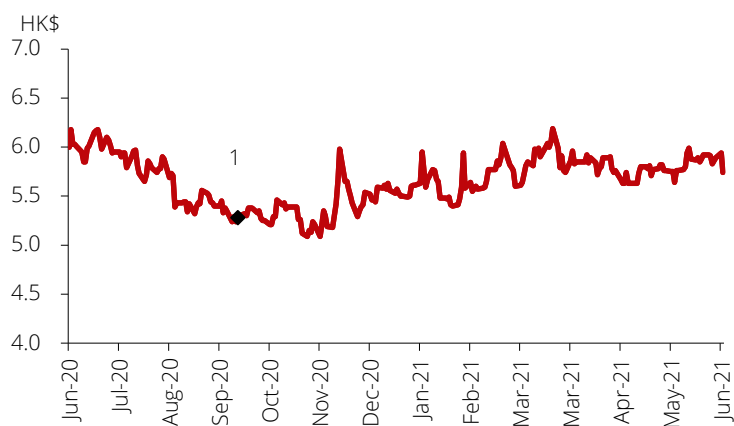
Cash Flow Statement (RMB m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	4,806	5,049	5,995	5,626	5,855
Dep. & Amort.	685	638	625	613	603
Tax Paid	(1,285)	(1,737)	(1,413)	(1,847)	(1,547)
Assoc. & JV Inc/(loss)	5	3	2	2	2
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(77)	683	488	(208)	(134)
Other Operating CF	220	209	17	(6)	(26)
Net Operating CF	4,353	4,845	5,714	4,181	4,753
Capital Exp.(net)	(77)	(287)	(209)	(861)	(400)
Other Invt.(net)	0	0	3	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	455	(5)	(86)	0	0
Net Investing CF	379	(292)	(292)	(861)	(400)
Div Paid	(2,297)	(3,101)	(3,064)	(1,710)	(1,682)
Chg in Gross Debt	2,112	(1,095)	952	0	0
Capital Issues	(49)	(185)	(45)	0	0
Other Financing CF	(10)	(110)	(4,442)	2,945	0
Net Financing CF	(244)	(4,490)	(6,599)	1,235	(1,682)
Currency Adjustments	146	32	0	0	0
Chg in Cash	4,634	95	(1,176)	4,555	2,671
Opg CFPS (RMB)	0.36	0.34	0.43	0.36	0.41
Free CFPS (RMB)	0.34	0.37	0.45	0.28	0.36

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Sep-20	HK\$5.24	HK\$7.20	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

Want Want China

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 23 Jun 2021 18:00:38 (HKT)

Dissemination Date: 23 Jun 2021 18:15:23 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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