

# China/Hong Kong Company Update

# COFCO Joycome Foods Ltd

Bloomberg: 1610 HK Equity | Reuters: 1610.HK

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DBS Group Research . Equity

21 Jan 2022

**HOLD** (Upgrade from Fully Valued)

Last Traded Price (20 Jan 2022): HK\$3.31 (HSI : 24,952)  
Price Target 12-mth: HK\$3.40 (3% upside) (Prev HK\$2.92)

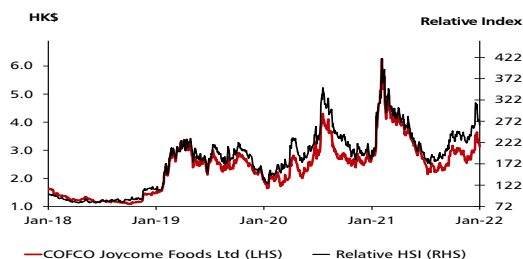
### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com  
Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Alice HUI CFA +852 36684182 alicehuis@dbs.com

### What's New

- Upgrade to HOLD as we expect live hog prices have bottomed out, and should stabilise in FY22F
- Expect production volume to grow 15% in FY22F
- New TP at HK\$3.4/sh

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	18,922	17,141	18,131	18,910
EBITDA	4,346	2,142	1,565	1,898
Pre-tax Profit	2,823	1,661	1,158	1,578
Net Profit	2,881	1,580	1,091	1,497
Net Pft (Pre Ex) (core profit)	3,584	1,580	1,091	1,497
Net Profit Gth (Pre-ex) (%)	578.0	(45.1)	(31.0)	37.3
EPS (RMB)	0.74	0.41	0.28	0.38
EPS (HK\$)	0.91	0.50	0.34	0.47
Core EPS (RMB)	0.92	0.41	0.28	0.38
Core EPS (HK\$)	1.13	0.50	0.34	0.47
EPS Gth (%)	578.0	(45.1)	(31.0)	37.2
Core EPS Gth (%)	743.2	(55.9)	(31.0)	37.2
Diluted EPS (HK\$)	0.91	0.50	0.34	0.47
DPS (HK\$)	0.34	0.19	0.10	0.14
BV Per Share (HK\$)	2.96	3.12	3.28	3.65
PE (X)	3.7	6.7	9.6	7.0
P/Cash Flow (X)	3.6	3.7	8.7	6.3
P/Free CF (X)	8.4	9.4	nm	152.5
EV/EBITDA (X)	4.3	8.7	12.5	10.5
Net Div Yield (%)	10.2	5.6	3.1	4.3
P/Book Value (X)	1.1	1.1	1.0	0.9
Net Debt/Equity (X)	0.8	0.8	0.9	0.8
ROAE (%)	37.3	16.4	10.7	13.6
Earnings Rev (%)		(44)	(42)	New
Consensus EPS (RMB)		0.50	0.42	0.70
Other Broker Recs:		B: 8	S: 1	H: 5

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

## Price recovery

### Investment Thesis

Hog prices appeared to have bottomed out. We forecast live hog prices to be at Rmb17.5/Rmb18/kg in FY22F/FY23F. We believe prices have bottomed out in Sept/Oct'21, with gradual recovery to be seen into 2H22, as supply should reflect mild stabilisation from control in industry sow inventory.

Feed cost more under control in FY22. We expect feed costs to be well managed with cost/kg to sustain at c.Rmb15.5/Rmb15/kg in FY22F/FY23F.

Steady hog production volume growth. We forecast hog production volume to increase 15%/13% in FY22F/23F (FY21: 3.48m heads)

### Valuation:

We revise our earnings by 44%/42% in FY21F/22F and upgrade to HOLD, as we expect earnings recovery to begin in 2H22. We value COFCO Joycome, based on DCF valuation (WACC at 9%, terminal growth at 3%), at HK\$3.4/share.

### Where we differ:

We introduce FY23F earnings, where we expect earnings to recover from stabilising hog prices and growing hog production volume.

### Key Risks to Our View:

Fluctuation in hog and corn prices, tightening in hog supply.

### At A Glance

Issued Capital (m shrs)	3,902
Mkt Cap (HK\$/US\$m)	12,916 / 1,659
Major Shareholders (%)	
COFCO Corporation	29.1
Free Float (%)	70.9
3m Avg. Daily Val. (US\$m)	16.08
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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## COFCO Joycome Foods Ltd

### Company Background

COFCO Joycome's operations comprise feed production, hog production, slaughtering and cutting, the production, distribution and sale of fresh pork and processed meat products, and the import and distribution of meat products (including pork, beef, poultry and mutton). The company operates under two key brands, namely "Joycome" for chilled pork and "Maverick" for low-temperature meat products.

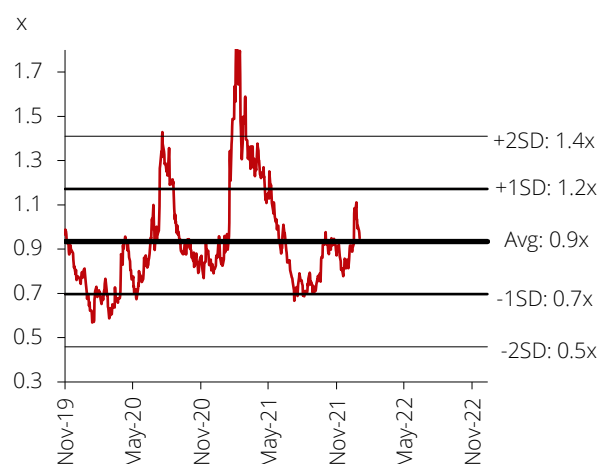
COFCO Joycome's hog production bases are located in Jilin, Inner Mongolia, Tianjin, Hebei, Henan, Jiangsu, and Hubei with plans to expand its production capacity. For fresh pork, the group owns two modern slaughtering and processing bases in Jiangsu and Hubei and is currently in the process of building bases in Hubei, Inner Mongolia and Jilin. Its "Joycome" brand is mainly marketed in high-consumption-per-capita areas such as Shanghai, Yangtze River Delta, Beijing, and Wuhan. For processed meat, the group owns three meat product processing bases in Jiangsu, Hubei, and Guangdong.

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## COFCO Joycome Foods Ltd

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Hog price (Rmb/kg)	16.2	32.3	24.0	20.0	20.0
Corn price (Rmb/kg)	2.0	2.0	2.0	2.0	2.0
Average finish weight (kg)	110.0	120.0	120.6	121.2	121.8
Production volume (m head)	2.0	2.0	3.5	4.0	4.5

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Hog production	3,505	6,339	6,922	8,160	9,180
Fresh Pork	3,217	3,704	4,325	4,127	3,937
Processed meat	447	693	787	787	787
Imported meat	5,157	9,252	5,107	5,056	5,005
<b>Total</b>	<b>11,079</b>	<b>18,922</b>	<b>17,141</b>	<b>18,131</b>	<b>18,910</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	11,079	18,922	17,141	18,131	18,910
Cost of Goods Sold	(10,986)	(18,736)	(14,745)	(16,188)	(16,568)
<b>Gross Profit</b>	<b>93</b>	<b>187</b>	<b>2,396</b>	<b>1,942</b>	<b>2,342</b>
Other Opng (Exp)/Inc	452	3,496	(614)	(664)	(645)
<b>Operating Profit</b>	<b>545</b>	<b>3,683</b>	<b>1,781</b>	<b>1,278</b>	<b>1,697</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(162)	(156)	(120)	(120)	(119)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	(703)	0	0	0
<b>Pre-tax Profit</b>	<b>383</b>	<b>2,823</b>	<b>1,661</b>	<b>1,158</b>	<b>1,578</b>
Tax	(9)	87	(50)	(35)	(47)
Minority Interest	52	(30)	(31)	(33)	(34)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>425</b>	<b>2,881</b>	<b>1,580</b>	<b>1,091</b>	<b>1,497</b>
Net Profit before Except.	425	3,584	1,580	1,091	1,497
EBITDA	855	4,346	2,142	1,565	1,898
<b>Growth</b>					
Revenue Gth (%)	54.5	70.8	(9.4)	5.8	4.3
EBITDA Gth (%)	363.0	408.1	(50.7)	(26.9)	21.3
Opg Profit Gth (%)	(775.7)	576.0	(51.6)	(28.2)	32.7
Net Profit Gth (%)	N/A	578.0	(45.1)	(31.0)	37.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	0.8	1.0	14.0	10.7	12.4
Opg Profit Margin (%)	4.9	19.5	10.4	7.1	9.0
Net Profit Margin (%)	3.8	15.2	9.2	6.0	7.9
ROAE (%)	7.9	37.3	16.4	10.7	13.6
ROA (%)	3.2	15.7	7.6	5.0	6.4
ROCE (%)	4.7	22.5	9.2	6.2	7.7
Div Payout Ratio (%)	40.4	37.3	37.3	30.0	30.0
Net Interest Cover (x)	3.4	23.6	14.8	10.7	14.3

Source: Company, DBS HK

## COFCO Joycome Foods Ltd

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	4,403	6,676	9,168	9,754	7,503
Cost of Goods Sold	(4,533)	(5,555)	(7,060)	(7,256)	(5,549)
<b>Gross Profit</b>	<b>(130)</b>	<b>1,121</b>	<b>2,109</b>	<b>2,498</b>	<b>1,954</b>
Other Oper. (Exp)/Inc	(56)	(390)	(372)	(553)	(213)
<b>Operating Profit</b>	<b>(186)</b>	<b>731</b>	<b>1,737</b>	<b>1,946</b>	<b>1,742</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(84)	(78)	(129)	(27)	(52)
Exceptional Gain/(Loss)	(2)	2	(260)	(443)	(36)
<b>Pre-tax Profit</b>	<b>(273)</b>	<b>655</b>	<b>1,348</b>	<b>1,476</b>	<b>1,653</b>
Tax	(4)	(6)	36	51	(92)
Minority Interest	49	(79)	2	(31)	14
<b>Net Profit</b>	<b>(227)</b>	<b>571</b>	<b>1,385</b>	<b>1,496</b>	<b>1,575</b>
Net profit bef Except.	(225)	569	1,646	1,938	1,611

### Growth

Revenue Gth (%)	34.9	71.0	108.2	46.1	(18.2)
Opg Profit Gth (%)	(367.8)	(586.7)	(1,032.0)	166.1	0.3
Net Profit Gth (%)	N/A	N/A	N/A	161.8	13.7

### Margins

Gross Margins (%)	(3.0)	16.8	23.0	25.6	26.0
Opg Profit Margins (%)	(4.2)	11.0	18.9	19.9	23.2
Net Profit Margins (%)	(5.2)	8.6	15.1	15.3	21.0

Source: Company, DBS HK

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	6,668	7,908	9,068	10,371	11,761
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	1,214	2,013	2,061	2,112	2,165
Cash & ST Invts	640	428	375	231	175
Inventory	3,181	2,325	2,020	2,218	2,270
Debtors	182	659	470	497	518
Other Current Assets	4,238	7,229	7,241	7,291	7,345
<b>Total Assets</b>	<b>16,124</b>	<b>20,562</b>	<b>21,236</b>	<b>22,719</b>	<b>24,233</b>
ST Debt	6,301	8,134	8,134	8,434	8,734
Creditors	463	508	523	574	588
Other Current Liab	1,420	1,491	1,539	1,590	1,643
LT Debt	1,333	172	172	800	800
Other LT Liabilities	447	675	812	797	810
Shareholder's Equity	6,057	9,409	9,914	10,415	11,584
Minority Interests	104	173	142	109	75
<b>Total Cap. &amp; Liab.</b>	<b>16,124</b>	<b>20,562</b>	<b>21,236</b>	<b>22,719</b>	<b>24,233</b>
Non-Cash Wkg. Capital	5,719	8,214	7,669	7,841	7,902
Net Cash/(Debt)	(6,994)	(7,878)	(7,931)	(9,003)	(9,359)
Debtors Turn (avg days)	6.0	12.7	10.0	10.0	10.0
Creditors Turn (avg days)	16.7	12.9	12.9	12.9	12.9
Inventory Turn (avg days)	115.1	59.3	50.0	50.0	50.0
Asset Turnover (x)	NM	NM	NM	NM	NM
Current Ratio (x)	1.0	1.1	1.0	1.0	0.9
Quick Ratio (x)	0.1	0.1	0.1	0.1	0.1
Net Debt/Equity (X)	1.1	0.8	0.8	0.9	0.8
Net Debt/Equity ex MI (X)	1.2	0.8	0.8	0.9	0.8
Capex to Debt (%)	12.7	20.6	20.5	17.3	16.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

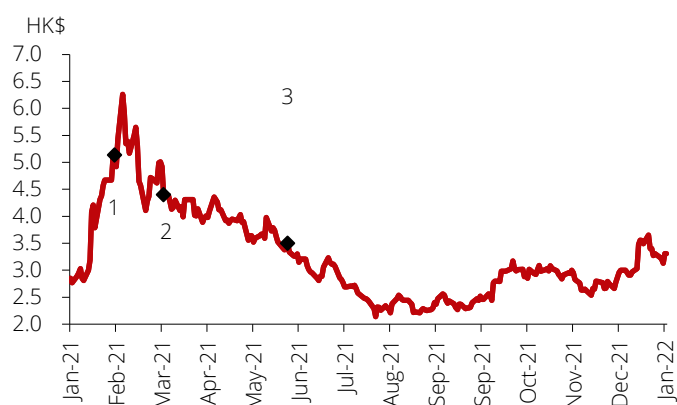
**COFCO Joycome Foods Ltd**
**Cash Flow Statement (RMB m)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Pre-Tax Profit	1,522	4,025	1,580	1,091	1,497
Dep. & Amort.	310	385	361	287	201
Tax Paid	(8)	(27)	87	(50)	(35)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(1,901)	115	363	(197)	(76)
Other Operating CF	(973)	(1,535)	429	83	82
<b>Net Operating CF</b>	<b>(1,049)</b>	<b>2,962</b>	<b>2,820</b>	<b>1,215</b>	<b>1,669</b>
Capital Exp.(net)	(966)	(1,713)	(1,700)	(1,600)	(1,600)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	11	21	0	0	0
Other Investing CF	960	(30)	0	0	0
<b>Net Investing CF</b>	<b>4</b>	<b>(1,722)</b>	<b>(1,700)</b>	<b>(1,600)</b>	<b>(1,600)</b>
Div Paid	0	0	(1,076)	(590)	(327)
Chg in Gross Debt	1,930	(602)	0	928	300
Capital Issues	0	0	0	0	0
Other Financing CF	(489)	(854)	(97)	(97)	(97)
<b>Net Financing CF</b>	<b>1,441</b>	<b>(1,456)</b>	<b>(1,173)</b>	<b>241</b>	<b>(124)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	397	(215)	(53)	(144)	(55)
Opg CFPS (RMB)	0.22	0.73	0.63	0.36	0.45
Free CFPS (RMB)	(0.52)	0.32	0.29	(0.10)	0.02

Source: Company, DBS HK

**COFCO Joycome Foods Ltd**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	17-Feb-21	HK\$5.09	HK\$4.60	Hold
2:	19-Mar-21	HK\$4.92	HK\$4.60	Hold
3:	3-Jun-21	HK\$3.54	HK\$2.92	Fully Valued

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

**COFCO Joycome Foods Ltd**

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**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

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**DBS Bank (Hong Kong) Limited**

 13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

**COFCO Joycome Foods Ltd**

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**DBS Regional Research Offices**

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**HONG KONG**

**DBS Bank (Hong Kong) Ltd**

**Contact: Carol Wu**

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: [dbsvhk@dbs.com](mailto:dbsvhk@dbs.com)

**MALAYSIA**

**AllianceDBS Research Sdn Bhd**

**Contact: Wong Ming Tek (128540 U)**

19th Floor, Menara Multi-Purpose, Capital Square,

8 Jalan Munshi Abdullah 50100, Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: [general@alliancedbs.com](mailto:general@alliancedbs.com)

Co. Regn No. 198401015984 (128540-U)

**SINGAPORE**

**DBS Bank Ltd**

**Contact: Janice Chua**

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: [groupresearch@dbs.com](mailto:groupresearch@dbs.com)

Company Regn. No. 196800306E

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**

**Contact: Maynard Priajaya Arif**

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: [indonesiaresearch@dbs.com](mailto:indonesiaresearch@dbs.com)

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**

**Contact: Chanpen Sirithanarattanakul**

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: [research@th.dbs.com](mailto:research@th.dbs.com)

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand