

DBS Group Research . Equity

21 Jan 2022

## BUY

Last Traded Price (20 Jan 2022): HK\$3.15 (HSI : 24,952)

Price Target 12-mth: HK\$3.88 (23% upside)

### Analyst

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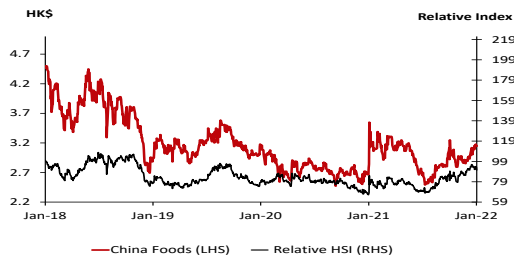
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### What's New

- We forecast 10% volume growth driven by an increase in consumption per capita and new product launches
- Adjustment in product packaging towards slim cans and small cans to partly offset raw material price pressure
- Maintain BUY, TP unchanged

### Price Relative



### Forecasts and Valuation

| FY Dec (RMBm)              | 2019A  | 2020A  | 2021F  | 2022F  |
|----------------------------|--------|--------|--------|--------|
| Turnover                   | 17,172 | 17,249 | 18,765 | 20,940 |
| EBITDA                     | 1,387  | 1,657  | 1,800  | 1,981  |
| Pre-tax Profit             | 1,013  | 1,253  | 1,345  | 1,527  |
| Net Profit                 | 418    | 499    | 565    | 641    |
| Net Profit Gth (Pre-ex)(%) | 30.2   | 19.4   | 13.2   | 13.5   |
| EPS (RMB)                  | 0.15   | 0.18   | 0.20   | 0.23   |
| EPS (HK\$)                 | 0.18   | 0.22   | 0.25   | 0.28   |
| EPS Gth (%)                | 30.2   | 19.4   | 13.2   | 13.5   |
| Diluted EPS (HK\$)         | 0.18   | 0.22   | 0.25   | 0.28   |
| DPS (HK\$)                 | 0.05   | 0.11   | 0.06   | 0.07   |
| BV Per Share (HK\$)        | 1.99   | 2.17   | 2.31   | 2.53   |
| PE (X)                     | 17.2   | 14.4   | 12.7   | 11.2   |
| P/Cash Flow (X)            | 3.8    | 3.7    | nm     | 4.3    |
| P/Free CF (X)              | 6.0    | 4.5    | nm     | 8.3    |
| EV/EBITDA (X)              | 7.0    | 5.1    | 5.6    | 5.0    |
| Net Div Yield (%)          | 1.7    | 3.5    | 2.0    | 2.2    |
| P/Book Value (X)           | 1.6    | 1.4    | 1.4    | 1.2    |
| Net Debt/Equity (X)        | CASH   | CASH   | CASH   | CASH   |
| ROAE(%)                    | 9.5    | 10.5   | 11.0   | 11.6   |
| Earnings Rev (%)           |        |        | n.a    | n.a    |
| Consensus EPS (RMB)        |        |        | 0.15   | 0.23   |
| Other Broker Recs:         |        | B:4    | S:0    | H:1    |

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

## Bubbling away

### Investment Thesis

Volume driven by new products and recovering demand. We expect carbonated beverage sales volume to grow by 10% in FY22F (1H21: +17%), supported by new SKU launches and rising consumption per capita. For comparison, China's annual consumption per capita of carbonated beverage stood at 5.7 litres versus Singapore's 14.6 litres, according to Euromonitor.

### Average selling price to increase on changing product mix.

We forecast the ASP to rise by 2% in 2022, driven by product innovation and a change in the packaging mix towards "Sugar-Free" and "Fiber+" series.

Opex savings to offset raw material cost pressures. We are positive on opex savings to offset higher PET and syrup prices. We forecast EBIT margin to stay largely unchanged at c.7%.

### Valuation:

Our valuation is based on a 6x FY22F EV/EBITDA, equivalent to its forward average. The stock is currently trading at roughly 1SD below its four-year PE average.

### Where we differ:

Our gross margin assumption is largely in line with consensus.

### Key Risks to Our View:

Resurgence of COVID-19 cases, food safety concerns, and/or raw material cost volatility.

### At A Glance

|  |               |
|--|---------------|
| Issued Capital (m shrs)                                    | 2,797         |
| Mkt Cap (HK\$/US\$m)                                       | 8,811 / 1,132 |
| Major Shareholders (%)                                     |               |
| COFCO Corporation  | 74.1          |
| Free Float (%)   | 25.9          |
| 3m Avg. Daily Val. (US\$m)                                 | 0.30          |
| GICS Industry: Consumer Staples / Food, Beverage & Tobacco |               |

## China Foods

### Company Background

China Foods manufactures, distributes, markets, and sells the Coca-Cola series products at 19 provincial level administrative regions in the PRC through COFCO Coca-Cola Beverages Limited (COFCO Coca-Cola), a 65%-owned joint venture with The Coca Cola Company. COFCO Coca Cola offers 20 brands of products, covering 10 major types of beverages, which include sparkling drinks, juices, bottled water, milk, energy drinks, tea, coffee, functional nutrition drinks, sports drinks, and plant-based protein drinks.

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## China Foods

## Income Statement (RMB m)

| FY Dec                     | 2018A        | 2019A        | 2020A        | 2021F        | 2022F        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                    | 15,648       | 17,172       | 17,249       | 18,765       | 20,940       |
| Cost of Goods Sold         | (10,107)     | (10,898)     | (10,424)     | (11,529)     | (12,762)     |
| <b>Gross Profit</b>        | <b>5,541</b> | <b>6,274</b> | <b>6,826</b> | <b>7,236</b> | <b>8,179</b> |
| Other Opng (Exp)/Inc       | (4,772)      | (5,249)      | (5,583)      | (5,897)      | (6,662)      |
| <b>Operating Profit</b>    | <b>769</b>   | <b>1,025</b> | <b>1,243</b> | <b>1,339</b> | <b>1,517</b> |
| Other Non Opg (Exp)/Inc    | 0            | 0            | 0            | 0            | 0            |
| Associates & JV Inc        | 44           | 41           | 36           | 41           | 45           |
| Net Interest (Exp)/Inc     | (75)         | (54)         | (25)         | (35)         | (35)         |
| Dividend Income            | 0            | 0            | 0            | 0            | 0            |
| Exceptional Gain/(Loss)    | 0            | 0            | 0            | 0            | 0            |
| <b>Pre-tax Profit</b>      | <b>738</b>   | <b>1,013</b> | <b>1,253</b> | <b>1,345</b> | <b>1,527</b> |
| Tax                        | (162)        | (237)        | (300)        | (309)        | (351)        |
| Minority Interest          | (256)        | (358)        | (455)        | (471)        | (534)        |
| Preference Dividend        | 0            | 0            | 0            | 0            | 0            |
| <b>Net Profit</b>          | <b>321</b>   | <b>418</b>   | <b>499</b>   | <b>565</b>   | <b>641</b>   |
| EBITDA                     | 1,178        | 1,387        | 1,657        | 1,800        | 1,981        |
| <b>Growth</b>              |              |              |              |              |              |
| Revenue Gth (%)            | 17.1         | 9.7          | 0.4          | 8.8          | 11.6         |
| EBITDA Gth (%)             | (57.6)       | 17.8         | 19.4         | 8.6          | 10.1         |
| Opg Profit Gth (%)         | (66.0)       | 33.3         | 21.2         | 7.7          | 13.3         |
| Net Profit Gth (%)         | (72.9)       | 30.2         | 19.4         | 13.2         | 13.5         |
| <b>Margins &amp; Ratio</b> |              |              |              |              |              |
| Gross Margins (%)          | 35.4         | 36.5         | 39.6         | 38.6         | 39.1         |
| Opg Profit Margin (%)      | 4.9          | 6.0          | 7.2          | 7.1          | 7.2          |
| Net Profit Margin (%)      | 2.1          | 2.4          | 2.9          | 3.0          | 3.1          |
| ROAE (%)                   | 7.8          | 9.5          | 10.5         | 11.0         | 11.6         |
| ROA (%)                    | 2.4          | 3.0          | 3.4          | 3.8          | 4.3          |
| ROCE (%)                   | 7.3          | 9.5          | 11.2         | 11.5         | 11.8         |
| Div Payout Ratio (%)       | 30.0         | 29.3         | 49.9         | 25.0         | 25.0         |
| Net Interest Cover (x)     | 10.3         | 19.1         | 49.6         | 38.2         | 43.3         |

Source: Company, DBS HK

## Interim Income Statement (RMB m)

| FY Dec                  | 1H2019       | 2H2019       | 1H2020       | 2H2020       | 1H2021       |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                 | 9,551        | 7,621        | 9,401        | 7,848        | 11,219       |
| Cost of Goods Sold      | (6,157)      | (4,741)      | (5,766)      | (4,657)      | (6,857)      |
| <b>Gross Profit</b>     | <b>3,394</b> | <b>2,880</b> | <b>3,635</b> | <b>3,191</b> | <b>4,362</b> |
| Other Oper. (Exp)/Inc   | (2,688)      | (2,561)      | (2,896)      | (2,686)      | (3,428)      |
| <b>Operating Profit</b> | <b>706</b>   | <b>320</b>   | <b>739</b>   | <b>504</b>   | <b>934</b>   |
| Other Non Opg (Exp)/Inc | 0            | 0            | 0            | 0            | 0            |
| Associates & JV Inc     | 23           | 18           | 13           | 22           | 42           |
| Net Interest (Exp)/Inc  | (29)         | (25)         | (15)         | (10)         | (2)          |
| Exceptional Gain/(Loss) | 0            | 0            | 0            | 0            | 0            |
| <b>Pre-tax Profit</b>   | <b>699</b>   | <b>313</b>   | <b>737</b>   | <b>516</b>   | <b>974</b>   |
| Tax                     | (163)        | (74)         | (177)        | (123)        | (228)        |
| Minority Interest       | (245)        | (113)        | (230)        | (225)        | (341)        |
| <b>Net Profit</b>       | <b>291</b>   | <b>127</b>   | <b>330</b>   | <b>168</b>   | <b>405</b>   |
| <b>Growth</b>           |              |              |              |              |              |
| Revenue Gth (%)         | 9.8          | 9.7          | (1.6)        | 3.0          | 19.3         |
| Opg Profit Gth (%)      | 20.6         | 74.1         | 4.7          | 57.7         | 26.5         |
| Net Profit Gth (%)      | 15.4         | 84.7         | 13.4         | 33.1         | 22.5         |
| <b>Margins</b>          |              |              |              |              |              |
| Gross Margins (%)       | 35.5         | 37.8         | 38.7         | 40.7         | 38.9         |
| Opg Profit Margins (%)  | 7.4          | 4.2          | 7.9          | 6.4          | 8.3          |
| Net Profit Margins (%)  | 3.0          | 1.7          | 3.5          | 2.1          | 3.6          |

Source: Company, DBS HK

## China Foods

## Balance Sheet (RMB m)

| FY Dec                        | 2018A         | 2019A         | 2020A         | 2021F         | 2022F         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Fixed Assets              | 4,887         | 5,063         | 4,973         | 5,312         | 5,647         |
| Invt in Associates & JVs      | 742           | 770           | 792           | 792           | 792           |
| Other LT Assets               | 4,439         | 4,506         | 4,534         | 4,573         | 4,573         |
| Cash & ST Invt                | 243           | 854           | 1,939         | 746           | 1,473         |
| Inventory                     | 1,650         | 1,890         | 1,834         | 1,864         | 2,063         |
| Debtors                       | 871           | 878           | 812           | 891           | 959           |
| Other Current Assets          | 456           | 488           | 227           | 227           | 227           |
| <b>Total Assets</b>           | <b>13,288</b> | <b>14,448</b> | <b>15,110</b> | <b>14,404</b> | <b>15,734</b> |
| ST Debt                       | 580           | 607           | 31            | 31            | 31            |
| Creditors                     | 3,302         | 3,856         | 4,298         | 2,805         | 3,101         |
| Other Current Liab            | 1,806         | 2,270         | 2,223         | 2,223         | 2,223         |
| LT Debt                       | 587           | 0             | 20            | 20            | 20            |
| Other LT Liabilities          | 300           | 403           | 459           | 459           | 459           |
| Shareholder's Equity          | 4,219         | 4,540         | 4,954         | 5,270         | 5,770         |
| Minority Interests            | 2,495         | 2,772         | 3,125         | 3,596         | 4,130         |
| <b>Total Cap. &amp; Liab.</b> | <b>13,288</b> | <b>14,448</b> | <b>15,110</b> | <b>14,404</b> | <b>15,734</b> |
| Non-Cash Wkg. Capital         | (2,131)       | (2,870)       | (3,648)       | (2,047)       | (2,075)       |
| Net Cash/(Debt)               | (923)         | 248           | 1,888         | 695           | 1,423         |
| Debtors Turn (avg days)       | 8.3           | 7.4           | 6.7           | 6.5           | 6.6           |
| Creditors Turn (avg days)     | 64.8          | 49.4          | 240.0         | 189.0         | 133.2         |
| Inventory Turn (avg days)     | 62.0          | 63.9          | 65.2          | 58.5          | 56.1          |
| Asset Turnover (x)            | 1.2           | 1.2           | 1.2           | 1.3           | 1.4           |
| Current Ratio (x)             | 0.6           | 0.6           | 0.7           | 0.7           | 0.9           |
| Quick Ratio (x)               | 0.2           | 0.3           | 0.4           | 0.3           | 0.5           |
| Net Debt/Equity (X)           | 0.1           | CASH          | CASH          | CASH          | CASH          |
| Net Debt/Equity ex MI (X)     | 0.2           | CASH          | CASH          | CASH          | CASH          |
| Capex to Debt (%)             | 58.8          | 115.9         | 641.4         | 1,581.8       | 1,581.8       |
| Z-Score (X)                   | 2.3           | 2.3           | 2.5           | 2.6           | 2.6           |

Source: Company, DBS HK

## Cash Flow Statement (RMB m)

| FY Dec                         | 2018A          | 2019A        | 2020A        | 2021F        | 2022F        |
|--------------------------------|----------------|--------------|--------------|--------------|--------------|
| Pre-Tax Profit                 | 738            | 1,013        | 1,253        | 1,345        | 1,527        |
| Dep. & Amort.                  | 415            | 399          | 414          | 461          | 465          |
| Tax Paid                       | (150)          | (208)        | (300)        | (309)        | (351)        |
| Assoc. & JV Inc/(loss)         | (44)           | (41)         | (36)         | (41)         | (45)         |
| (Pft)/ Loss on disposal of FAs | 0              | (123)        | 0            | 0            | 0            |
| Chg in Wkg.Cap.                | 331            | 775          | 599          | (1,560)      | 73           |
| Other Operating CF             | (15)           | 86           | 0            | 0            | 0            |
| <b>Net Operating CF</b>        | <b>1,275</b>   | <b>1,901</b> | <b>1,931</b> | <b>(105)</b> | <b>1,669</b> |
| Capital Exp.(net)              | (686)          | (703)        | (324)        | (800)        | (800)        |
| Other Invt.(net)               | 0              | 11           | 0            | 0            | 0            |
| Invt in Assoc. & JV            | 0              | 1            | 0            | 0            | 0            |
| Div from Assoc & JV            | 0              | 0            | 0            | 0            | 0            |
| Other Investing CF             | (348)          | 146          | (98)         | 0            | 0            |
| <b>Net Investing CF</b>        | <b>(1,034)</b> | <b>(545)</b> | <b>(422)</b> | <b>(800)</b> | <b>(800)</b> |
| Div Paid                       | (168)          | (96)         | (122)        | (249)        | (141)        |
| Chg in Gross Debt              | (590)          | (588)        | (556)        | 0            | 0            |
| Capital Issues                 | 0              | 1            | 0            | 0            | 0            |
| Other Financing CF             | (71)           | (82)         | 195          | (39)         | 0            |
| <b>Net Financing CF</b>        | <b>(829)</b>   | <b>(764)</b> | <b>(484)</b> | <b>(288)</b> | <b>(141)</b> |
| Currency Adjustments           | 0              | 0            | 0            | 0            | 0            |
| Chg in Cash                    | (589)          | 592          | 1,026        | (1,193)      | 727          |
| Opg CFPS (RMB)                 | 0.34           | 0.40         | 0.48         | 0.52         | 0.57         |
| Free CFPS (RMB)                | 0.21           | 0.43         | 0.57         | (0.32)       | 0.31         |

Source: Company, DBS HK

**China Foods**

**Target Price & Ratings History**



| S.No. | Date      | Closing Price | 12-mth Target Price | Rating |
|-------|-----------|---------------|---------------------|--------|
| 1:    | 27-Jan-21 | HK\$3.22      | HK\$4.35            | Buy    |
| 2:    | 24-Mar-21 | HK\$3.32      | HK\$4.35            | Buy    |
| 3:    | 16-Nov-21 | HK\$2.79      | HK\$3.88            | Buy    |

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

## China Foods

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**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: 21 Jan 2022 09:29:38 (HKT)

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

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## China Foods

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