

# China/Hong Kong Company Update

## Nissin Foods Co Ltd

Bloomberg: 1475 HK Equity | Reuters: 1475.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

21 Jan 2022

### BUY

Last Traded Price (20 Jan 2022): HK\$6.30 (HSI : 24,952)  
Price Target 12-mth: HK\$7.80 (24% upside) (Prev HK\$6.80)

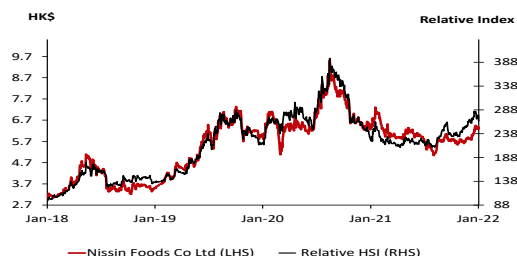
#### Analyst

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

#### What's New

- The Group aims to raise ex-factory prices by a mid-single digit for instant noodle products starting March in China
- Demand remains heightened under increased COVID-19 cases
- Maintain BUY; TP raised to HK\$7.8 as we raise FY22F earnings by 5% on stronger expectations on China growth

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2019A	2020A	2021F	2022F
Turnover	3,088	3,519	3,683	4,052
EBITDA	455	570	517	591
Pre-tax Profit	353	434	419	492
Net Profit	251	302	302	349
Net Profit Gth (Pre-ex) (%)	22.2	20.3	(0.1)	15.8
EPS (HK\$)	0.23	0.28	0.28	0.33
EPS Gth (%)	22.2	20.3	(0.1)	15.8
Diluted EPS (HK\$)	0.23	0.28	0.28	0.33
DPS (HK\$)	0.12	0.14	0.14	0.16
BV Per Share (HK\$)	3.34	3.63	3.77	3.93
PE (X)	27.0	22.4	22.4	19.4
P/Cash Flow (X)	14.7	13.5	16.2	19.5
P/Free CF (X)	27.0	28.7	42.8	46.1
EV/EBITDA (X)	11.6	8.4	9.2	8.0
Net Div Yield (%)	1.9	2.2	2.2	2.6
P/Book Value (X)	1.9	1.7	1.7	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.1	8.1	7.6	8.4
Earnings Rev (%)			Nil	5
Consensus EPS (HK\$)			0.28	0.32
Other Broker Recs:		B: 9	S: 0	H: 2

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

### Solid demand

#### Investment Thesis

**China to remain core driver.** China should remain the group's core driver and deliver 16% sales growth in FY22F. We forecast the China sales contribution to rise to 66% of total sales by FY22F. Due to higher raw material costs, Nissin Foods aims to increase ex-factory prices by mid-single digit growth for its instant noodle products, starting March'22.

**Still a solid market share gainer.** Relative to other instant food players, we expect Nissin Foods to continue to gain market share within the Rmb5+ category. Nissin Foods has a strong branding and market position in South China, with rising exposure in the East, North, and, recently, West China. The group's expanding revenue base in these newer regions should raise its production efficiency.

**Operating margin to recover with normalised sales trajectory in FY22F.** We expect continued gross profit margin pressure in 2H21 on increased raw material prices. Through product mix enhancement and price hikes, the overall operating margin should stabilise, rising by 0.2ppt in FY22F.

#### Valuation:

We maintain our BUY call on Nissin Foods with the TP raised to HK\$7.8, pegged to 24x FY22F PE, with improved sales trend supported by price hikes. The group is trading at a 20x FY21F PE, equivalent to c.1x below its trading average.

#### Where we differ:

Our forecast is largely in line with consensus, as we factor in the group's guidance on sales and net profit growth expectations. We believe the Group also holds potential to raise dividend payout, a similar move to its competitors due to its strong net cash position.

#### Key Risks to Our View:

A weaker-than-expected increase in sales volume in China, an unexpected lockdown impacting offline channels, and/or commodity price fluctuation.

#### At A Glance

Issued Capital (m shrs)	1,074
Mkt Cap (HK\$m/US\$m)	6,766 / 869
Major Shareholders (%)	
Nissin Foods Holdings Co Ltd	71.8
Free Float (%)	28.2
3m Avg. Daily Val. (US\$m)	0.05
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates

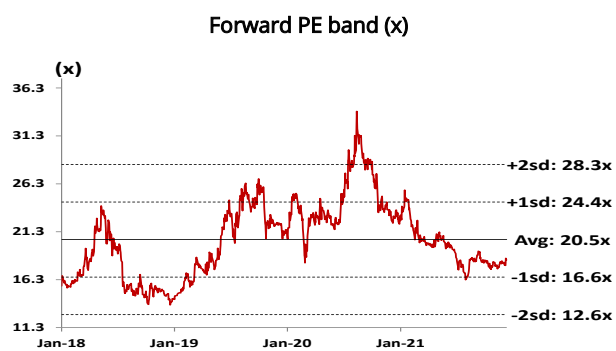


## Nissin Foods Co Ltd

### Company Background

Nissin Foods Holdings (Nissin Foods) is a spin-off of the instant noodle operations of Japan's Nissin Group Holdings (2897.JP) in Hong Kong and China. The company established its presence in Hong Kong in 1984 and has gradually expanded its business into the China market.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Nissin Foods Co Ltd

## Segmental Breakdown (HK\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
<b>Revenues (HK\$ m)</b>					
Hong Kong	1,324	1,300	1,418	1,368	1,359
PRC	1,675	1,788	2,096	2,315	2,693
<b>Total</b>	<b>2,999</b>	<b>3,088</b>	<b>3,519</b>	<b>3,683</b>	<b>4,052</b>

Source: Company, DBS HK

## Income Statement (HK\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	2,999	3,088	3,519	3,683	4,052
Cost of Goods Sold	(2,065)	(2,074)	(2,360)	(2,526)	(2,757)
<b>Gross Profit</b>	<b>933</b>	<b>1,013</b>	<b>1,159</b>	<b>1,157</b>	<b>1,295</b>
Other Opg (Exp)/Inc	(633)	(661)	(725)	(738)	(803)
<b>Operating Profit</b>	<b>263</b>	<b>331</b>	<b>400</b>	<b>385</b>	<b>458</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	37	32	34	34	34
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	(10)	0	0	0
<b>Pre-tax Profit</b>	<b>300</b>	<b>353</b>	<b>434</b>	<b>419</b>	<b>492</b>
Tax	(69)	(74)	(101)	(88)	(108)
Minority Interest	(25)	(28)	(31)	(30)	(35)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>205</b>	<b>251</b>	<b>302</b>	<b>302</b>	<b>349</b>
EBITDA	395	455	570	517	591
<b>Growth</b>					
Revenue Gth (%)	11.5	3.0	14.0	4.7	10.0
EBITDA Gth (%)	2.6	15.3	25.2	(9.2)	14.1
Opg Profit Gth (%)	6.8	25.8	21.0	(3.7)	19.0
Net Profit Gth (%)	5.0	22.2	20.3	(0.1)	15.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.1	32.8	32.9	31.4	32.0
Opg Profit Margin (%)	8.8	10.7	11.4	10.5	11.3
Net Profit Margin (%)	6.9	8.1	8.6	8.2	8.6
ROAE (%)	5.9	7.1	8.1	7.6	8.4
ROA (%)	4.6	5.5	6.2	5.7	6.3
ROCE (%)	5.6	7.0	7.8	7.2	8.1
Div Payout Ratio (%)	49.7	50.1	50.0	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Nissin Foods Co Ltd

### Interim Income Statement (HK\$ m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	1,498	1,590	1,735	1,783	1,854
Cost of Goods Sold	(1,015)	(1,059)	(1,147)	(1,213)	(1,262)
<b>Gross Profit</b>	<b>483</b>	<b>531</b>	<b>588</b>	<b>571</b>	<b>592</b>
Other Oper. (Exp)/Inc	(304)	(357)	(337)	(387)	(376)
<b>Operating Profit</b>	<b>163</b>	<b>167</b>	<b>235</b>	<b>167</b>	<b>200</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	16	16	16	16	16
Exceptional Gain/(Loss)	0	(10)	0	0	0
<b>Pre-tax Profit</b>	<b>179</b>	<b>173</b>	<b>251</b>	<b>183</b>	<b>216</b>
Tax	(33)	(41)	(55)	(46)	(29)
Minority Interest	(13)	(15)	(17)	(14)	(17)
<b>Net Profit</b>	<b>133</b>	<b>118</b>	<b>178</b>	<b>124</b>	<b>171</b>
<b>Growth</b>					
Revenue Gth (%)	1.1	4.8	15.9	12.2	6.8
Opg Profit Gth (%)	29.9	22.1	43.8	(0.1)	(14.6)
Net Profit Gth (%)	40.9	6.3	34.3	4.6	(4.2)
<b>Margins</b>					
Gross Margins (%)	32.2	33.4	33.9	32.0	31.9
Opg Profit Margins (%)	10.9	10.5	13.5	9.4	10.8
Net Profit Margins (%)	8.9	7.4	10.3	6.9	9.2

Source: Company, DBS HK

## Nissin Foods Co Ltd

**Balance Sheet (HK\$ m)**

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	1,386	1,511	1,681	1,797	1,969
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	136	127	206	206	206
Cash & ST Invt	1,677	1,610	2,115	2,185	2,250
Inventory	294	327	363	389	424
Debtors	532	494	601	625	678
Other Current Assets	419	564	217	217	217
<b>Total Assets</b>	<b>4,444</b>	<b>4,634</b>	<b>5,184</b>	<b>5,420</b>	<b>5,745</b>
ST Debt	0	0	0	0	0
Creditors	755	800	978	1,046	1,142
Other Current Liab	41	59	88	74	95
LT Debt	0	0	0	0	0
Other LT Liabilities	53	62	75	75	75
Shareholder's Equity	3,481	3,590	3,896	4,046	4,221
Minority Interests	115	123	148	177	212
<b>Total Cap. &amp; Liab.</b>	<b>4,444</b>	<b>4,634</b>	<b>5,184</b>	<b>5,420</b>	<b>5,745</b>
Non-Cash Wkg. Capital	449	526	116	110	83
Net Cash/(Debt)	1,677	1,610	2,115	2,185	2,250
Debtors Turn (avg days)	54.8	49.8	52.7	52.7	52.7
Creditors Turn (avg days)	133.4	140.8	151.2	151.2	151.2
Inventory Turn (avg days)	52.0	57.5	56.2	56.2	56.2
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Current Ratio (x)	3.7	3.5	3.1	3.0	2.9
Quick Ratio (x)	2.8	2.4	2.5	2.5	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

**Cash Flow Statement (HK\$ m)**

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	300	353	434	419	492
Dep. & Amort.	23	26	37	31	31
Tax Paid	(83)	(55)	(87)	(88)	(108)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	61	175	143	90	(34)
Other Operating CF	(37)	(40)	(25)	(34)	(34)
<b>Net Operating CF</b>	<b>264</b>	<b>459</b>	<b>502</b>	<b>418</b>	<b>347</b>
Capital Exp.(net)	(215)	(209)	(266)	(260)	(200)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(222)	16	(54)	34	34
<b>Net Investing CF</b>	<b>(436)</b>	<b>(193)</b>	<b>(320)</b>	<b>(227)</b>	<b>(167)</b>
Div Paid	(78)	(102)	(126)	(151)	(151)
Chg in Gross Debt	0	1	1	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(13)	(22)	(17)	30	35
<b>Net Financing CF</b>	<b>(92)</b>	<b>(123)</b>	<b>(141)</b>	<b>(121)</b>	<b>(116)</b>
Currency Adjustments	(45)	(23)	61	0	0
Chg in Cash	(309)	121	102	70	64
Opg CFPS (HK\$)	0.19	0.26	0.33	0.31	0.35
Free CFPS (HK\$)	0.05	0.23	0.22	0.15	0.14

Source: Company, DBS HK

**Nissin Foods Co Ltd**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	HK\$6.80	HK\$7.75	Buy
2:	19-Mar-21	HK\$6.30	HK\$7.90	Buy
3:	12-May-21	HK\$6.06	HK\$7.53	Buy
4:	31-Aug-21	HK\$5.30	HK\$7.53	Buy
5:	16-Nov-21	HK\$5.64	HK\$6.80	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

## Nissin Foods Co Ltd

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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)

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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

**Nissin Foods Co 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