

# China / Hong Kong Company Update

## Uni-President China Holdings

Bloomberg: 220 HK Equity | Reuters: 0220.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\$7.49 (HSI : 24,952)

Price Target 12-mth: HK\$9.30 (24% upside)

#### Analyst

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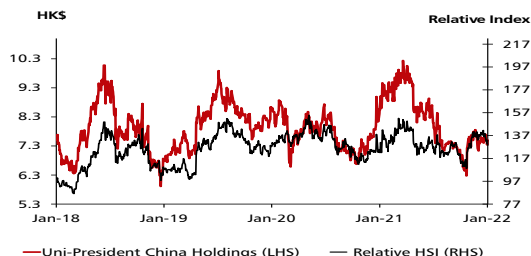
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#### What's New

- 2H21 sales growth expected to see mild acceleration from 1H21, driven by food category
- With price hikes initiated, margin pressure is expected begin easing as early as 2Q22
- Reiterate BUY, TP unchanged

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2019A	2020A	2021F	2022F
Turnover	22,020	22,762	24,833	26,484
EBITDA	4,581	4,727	2,952	3,215
Pre-tax Profit	1,971	2,326	2,089	2,392
Net Profit	1,366	1,626	1,460	1,672
Net Profit Gth (Pre-ex)(%)	32.7	19.0	(10.2)	14.5
EPS (RMB)	0.32	0.38	0.34	0.39
EPS (HK\$)	0.39	0.46	0.42	0.48
EPS Gth (%)	32.7	19.0	(10.2)	14.5
Diluted EPS (HK\$)	0.39	0.46	0.42	0.48
DPS (HK\$)	0.39	0.46	0.42	0.48
BV Per Share (HK\$)	3.88	3.95	3.90	3.96
PE (X)	19.3	16.2	18.0	15.8
P/Cash Flow (X)	9.2	8.2	8.9	9.1
P/Free CF (X)	10.8	9.0	11.2	10.5
EV/EBITDA (X)	5.2	5.1	7.9	7.0
Net Div Yield (%)	5.2	6.2	5.5	6.3
P/Book Value (X)	1.9	1.9	1.9	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	10.2	11.8	10.6	12.1
Earnings Rev (%):			(4)	n.a
Consensus EPS (RMB)			0.34	0.39
Other Broker Recs:		B:17	S:0	H:7

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

### Unwavering focus on premiumisation

#### Investment Thesis

**Positive on premium food development.** We are positive on UPC's development on premium products, which now account for c.40% of noodles sales versus 14% in FY16 due to rising consumption appetite for premium packaged products (instant hotpot and instant rice). UPC has raised ex-factory prices of selected instant food products by a mid to high single digit in end-FY21 to offset higher input costs, which should drive stabilisation in the gross profit margin. We forecast consolidated gross margin to raise by 0.5ppt in FY22F but remain below pre-COVID levels.

**Beverage growth to normalise.** Despite the fluctuation of the COVID-19 situation, beverage sales have seen stable recovery. We expect gradual improvement driven by selective products such as milk tea and coffee.

**Potential to raise dividend payout.** The group is considering raising its existing dividend payout (FY20: 100%), due to its existing net cash position of Rmb4.3bn as of end-Jun'21. We currently forecast 100% dividend payout in FY22F.

#### Valuation:

Our TP of HK\$9.3/sh is pegged to one-year forward EV/EBITDA (7.8x), equivalent to 20x FY22F PE. The group offers an attractive yield of +5%, with revised earnings.

#### Where we differ:

We forecast 7% sales growth in FY22F versus consensus of 6% y-o-y.

#### Key Risks to Our View:

Competition in the premium category, unfavourable raw material cost trends, and fluctuation in the COVID-19 pandemic situation.

#### At A Glance

Issued Capital (m shrs)	4,319
Mkt Cap (HK\$/US\$m)	32,349 / 4,155
Major Shareholders (%)	
Uni-President Enterprises Corp	71.6
Free Float (%)	28.4
3m Avg. Daily Val. (US\$m)	4.73
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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## Uni-President China Holdings

### Company Background

**A leading FMCG player.** Listed on the HKEX since December 2007, Uni-President China (UPC) is engaged in the production and distribution of instant food and beverages in China, mainly under the Uni-President brand. UPC is c.70.6%-owned by its Taiwan-based parent, Uni-President Enterprise.

UPC has the second-largest market share in the instant noodles and ready-to-drink (RTD) tea markets. It is the third-largest player in juices (below 26% juice content), after Coca-Cola and Tingyi (Source: AC Nielsen).

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## Uni-President China Holdings

### Segmental Breakdown (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
<b>Revenues (RMB m)</b>					
Beverage	12,619	12,730	12,560	14,359	15,235
Instant noodles	8,425	8,501	9,424	9,658	10,384
Others	728	788	777	816	865
<b>Total</b>	<b>21,772</b>	<b>22,020</b>	<b>22,762</b>	<b>24,833</b>	<b>26,484</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	21,772	22,020	22,762	24,833	26,484
Cost of Goods Sold	(14,484)	(14,101)	(14,696)	(16,277)	(17,230)
<b>Gross Profit</b>	<b>7,289</b>	<b>7,918</b>	<b>8,066</b>	<b>8,556</b>	<b>9,253</b>
Other Opng (Exp)/Inc	(5,957)	(6,112)	(5,958)	(6,705)	(7,115)
<b>Operating Profit</b>	<b>1,332</b>	<b>1,806</b>	<b>2,108</b>	<b>1,851</b>	<b>2,139</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	84	13	46	50	55
Net Interest (Exp)/Inc	123	152	172	188	198
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,540</b>	<b>1,971</b>	<b>2,326</b>	<b>2,089</b>	<b>2,392</b>
Tax	(510)	(605)	(701)	(629)	(720)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,030</b>	<b>1,366</b>	<b>1,626</b>	<b>1,460</b>	<b>1,672</b>
EBITDA	2,752	4,581	4,727	2,952	3,215
<b>Growth</b>					
Revenue Gth (%)	4.6	1.1	3.4	9.1	6.6
EBITDA Gth (%)	5.2	66.5	3.2	(37.5)	8.9
Opg Profit Gth (%)	12.2	35.6	16.7	(12.2)	15.5
Net Profit Gth (%)	17.2	32.7	19.0	(10.2)	14.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	33.5	36.0	35.4	34.5	34.9
Opg Profit Margin (%)	6.1	8.2	9.3	7.5	8.1
Net Profit Margin (%)	4.7	6.2	7.1	5.9	6.3
ROAE (%)	7.9	10.2	11.8	10.6	12.1
ROA (%)	4.9	6.3	7.4	6.6	7.4
ROCE (%)	5.9	8.1	9.8	8.7	10.1
Div Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Uni-President China Holdings

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	11,470	10,550	11,817	10,945	13,007
Cost of Goods Sold	(7,274)	(6,827)	(7,590)	(7,105)	(8,474)
<b>Gross Profit</b>	<b>4,195</b>	<b>3,723</b>	<b>4,226</b>	<b>3,840</b>	<b>4,533</b>
Other Oper. (Exp)/Inc	(2,890)	(3,222)	(3,058)	(3,121)	(3,475)
<b>Operating Profit</b>	<b>1,305</b>	<b>501</b>	<b>1,168</b>	<b>719</b>	<b>1,058</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	17	(4)	23	23	26
Net Interest (Exp)/Inc	70	82	82	90	98
Exceptional Gain/(Loss)	0	0	221	0	0
<b>Pre-tax Profit</b>	<b>1,392</b>	<b>579</b>	<b>1,495</b>	<b>832</b>	<b>1,181</b>
Tax	(395)	(211)	(429)	(271)	(334)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>997</b>	<b>369</b>	<b>1,065</b>	<b>561</b>	<b>847</b>
<b>Growth</b>					
Revenue Gth (%)	2.2	0.0	3.0	3.7	10.1
Opg Profit Gth (%)	40.0	25.4	(10.5)	43.5	(9.5)
Net Profit Gth (%)	39.6	16.9	6.8	52.0	(20.5)

### Margins

Gross Margins (%)	36.6	35.3	35.8	35.1	34.8
Opg Profit Margins (%)	11.4	4.7	9.9	6.6	8.1
Net Profit Margins (%)	8.7	3.5	9.0	5.1	6.5

Source: Company, DBS HK

## Uni-President China Holdings

## Balance Sheet (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	9,906	8,902	7,977	7,326	6,705
Invts in Associates & JVs	748	780	794	794	794
Other LT Assets	3,428	5,057	7,172	7,317	7,267
Cash & ST Invts	4,626	3,954	2,970	3,701	4,739
Inventory	1,459	1,739	1,943	1,723	1,829
Debtors	1,533	1,280	1,208	1,324	1,435
Other Current Assets	32	45	39	39	39
<b>Total Assets</b>	<b>21,733</b>	<b>21,757</b>	<b>22,104</b>	<b>22,224</b>	<b>22,807</b>
ST Debt	1,988	1,163	487	487	487
Creditors	4,452	4,650	5,148	5,302	5,461
Other Current Liab	1,650	1,828	2,031	2,161	2,374
LT Debt	238	254	254	254	254
Other LT Liabilities	183	229	298	298	298
Shareholder's Equity	13,222	13,633	13,887	13,721	13,933
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>21,733</b>	<b>21,757</b>	<b>22,104</b>	<b>22,224</b>	<b>22,807</b>
Non-Cash Wkg. Capital	(3,078)	(3,414)	(3,988)	(4,378)	(4,532)
Net Cash/(Debt)	2,401	2,536	2,229	2,960	3,998
Debtors Turn (avg days)	9.2	9.1	9.2	8.9	9.0
Creditors Turn (avg days)	37.2	42.4	44.7	44.4	45.4
Inventory Turn (avg days)	33.0	38.4	38.1	36.9	37.6
Asset Turnover (x)	1.0	1.0	1.0	1.1	1.2
Current Ratio (x)	0.9	0.9	0.8	0.9	1.0
Quick Ratio (x)	0.8	0.7	0.5	0.6	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	37.3	30.1	40.4	80.2	54.0
Z-Score (X)	3.6	3.8	3.8	3.8	3.8

Source: Company, DBS HK

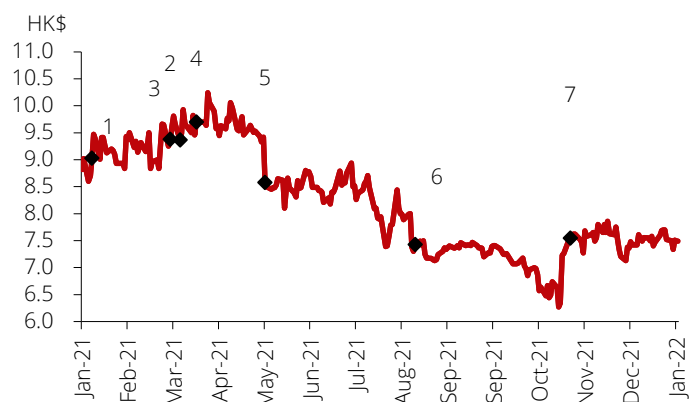
## Cash Flow Statement (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	1,540	1,971	2,326	2,089	2,392
Dep. & Amort.	1,336	2,762	2,573	1,051	1,021
Tax Paid	(489)	(632)	(613)	(701)	(629)
Assoc. & JV Inc/(loss)	(84)	(13)	(46)	(50)	(55)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	566	(2,194)	(1,653)	462	64
Other Operating CF	(304)	975	627	100	105
<b>Net Operating CF</b>	<b>2,563</b>	<b>2,869</b>	<b>3,215</b>	<b>2,951</b>	<b>2,898</b>
Capital Exp.(net)	(830)	(427)	(299)	(594)	(400)
Other Invts.(net)	(25)	(32)	(8)	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(2,535)	(1,011)	(1,394)	0	0
<b>Net Investing CF</b>	<b>(3,390)</b>	<b>(1,470)</b>	<b>(1,701)</b>	<b>(594)</b>	<b>(400)</b>
Div Paid	(619)	(1,082)	(1,408)	(1,626)	(1,460)
Chg in Gross Debt	652	(824)	(676)	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	2,636	(166)	(413)	0	0
<b>Net Financing CF</b>	<b>2,669</b>	<b>(2,071)</b>	<b>(2,497)</b>	<b>(1,626)</b>	<b>(1,460)</b>
Currency Adjustments	1	(1)	(1)	0	0
Chg in Cash	1,844	(673)	(983)	731	1,038
Opg CFPS (RMB)	0.46	1.17	1.13	0.58	0.66
Free CFPS (RMB)	0.40	0.57	0.68	0.55	0.58

Source: Company, DBS HK

## Uni-President China Holdings

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	HK\$8.70	HK\$10.60	Buy
2:	16-Mar-21	HK\$9.25	HK\$10.60	Buy
3:	22-Mar-21	HK\$9.66	HK\$10.60	Buy
4:	1-Apr-21	HK\$9.46	HK\$10.60	Buy
5:	13-May-21	HK\$9.42	HK\$10.60	Buy
6:	13-Aug-21	HK\$7.30	HK\$8.70	Buy
7:	16-Nov-21	HK\$7.50	HK\$9.30	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

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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)

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Completed Date: 21 Jan 2022 12:29:38 (HKT)

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