

Hong Kong
ADD (no change)

Consensus ratings*: Buy 6 Hold 10 Sell 5

Current price:	HK\$7.75
Target price:	HK\$8.70 ▲
Previous target:	HK\$8.00
Up/downside:	12.3%
CGI / Consensus:	21.8%
Reuters:	0151.HK
Bloomberg:	151 HK
Market cap:	US\$11,846m
	HK\$92,221m
Average daily turnover:	US\$8.42m
	HK\$65.58m
Current shares o/s:	12,289m
Free float:	48.5%

*Source: Bloomberg

Key changes in this note

- FY3/23F net profit increased by 2.5%.
- FY3/24F net profit increased by 4.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.5	31.4	41.7
Relative (%)	4.9	38.1	59.1

Major shareholders	% held
Tsai Eng Meng	48.0
Wen Hsien Cheng	3.5

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Want Want China

Successful price hike to drive growth

- Want Want raised the selling prices for 80% of its products by mid-single digits effective from 1 Jan 2022. We expect the price hike to drive top-line and margin improvement in FY3/23F.
- Want Want achieved strong revenue growth in Oct–Dec 2021 because of the early Chinese New Year. Management said it will closely watch retail market sales and channel inventory in Feb and Mar 2022.
- Reiterate Add with a higher DCF-based TP of HK\$8.7, since we expect Want Want to achieve better growth in the medium term, driven by selling price increases, new product launches, and new distribution channel expansion.

Selling price increase to drive growth in FY3/23F

Want Want raised the selling prices for 80% of its products by mid-single digits effective from 1 Jan 2022 – mid-to-high single digits for rice crackers and dairy products and low-single digits for snacks. Management said if raw material prices remain at the current level, it expects this round of price hikes to be enough to offset the cost pressure. We now expect Want Want's GPM to improve by 0.6ppt yoy to 47.4% in FY22F because of a mix upgrade and price hikes. In Jan and Feb 2022, the Company will return 80% of the price increases to its distributors if the distributors meet certain sales targets, so that Want Want can guarantee smooth progress for the selling price increases and better motivate distributors. We now expect Want Want to achieve sales growth of 6.3% and net profit growth of 8.6% yoy in FY3/23F. Management expects the OPM to gradually improve in FY3/23F, owing to improved operating leverage and a lower administrative expenses ratio.

Strong revenue growth from Oct to Dec 2021

Want Want achieved strong revenue growth in Oct–Dec 2021 because of the early Chinese New Year and distributors building up some inventory before the price hike. Management said it will closely watch end market sales and channel inventory and will not allow distributors to over-stock. Currently, we maintain our forecasts for top-line growth of 10.8% and bottom-line growth of 9.3% yoy for 2HFY3/22F. Management said 2HFY3/22F cost pressure is higher than that in 1H, since Want Want previously had five to six months milk powder inventory at a lower price.

New products and channels to improve growth in the medium term

Currently, new products account for c.10% of Want Want's total sales. The Company will continue to launch new higher-end products with more social functions to attract the attention of younger customers. It will also launch different products for different channels. For example, Want Want launched different candy products for different channels to better meet the specific needs of its target customers. Emerging channels now account for 10% of total sales, with e-commerce accounting for 6%. In 2021, Want Want set up special sales teams to cooperate with Hema Supermarket and Tiktok. Want Want has successfully used emerging channels to promote new products.

Reiterate Add with a new DCF-based TP of HK\$8.7

We raised our earnings forecasts for FY3/23F and FY3/24F by 2.5% and 4.1%, respectively, to reflect the selling price hike and a better margin outlook. Management aims to achieve mid-to-high single digit revenue growth in the next 3–5 years, driven by 1) price hikes and a mix upgrade, 2) new product launches, and 3) expansion in new emerging channels. In FY3/22F, management expects new emerging channels to drive overall sales growth by 2–3%. The key catalysts include: 1) stronger revenue growth and 2) lower-than-expected raw material prices.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rmbm)	20,095	21,998	24,350	25,881	27,164
Operating EBITDA (Rmbm)	5,632	6,558	6,593	7,167	7,621
Net Profit (Rmbm)	3,649	4,158	4,500	4,886	5,271
Core EPS (Rmb)	0.29	0.34	0.37	0.40	0.43
Core EPS Growth	5.2%	15.2%	8.2%	8.6%	7.9%
FD Core P/E (x)	21.45	18.62	17.21	15.85	14.69
DPS (Rmb)	0.29	0.14	0.29	0.32	0.34
Dividend Yield	4.66%	2.21%	4.65%	5.05%	5.45%
EV/EBITDA (x)	12.18	10.19	9.95	8.97	8.24
P/FCFE (x)	22.61	19.03	16.02	14.74	13.78
Net Gearing	(54.6%)	(41.7%)	(47.1%)	(52.3%)	(57.2%)
P/BV (x)	5.13	5.20	4.90	4.62	4.34
ROE	23.8%	27.6%	29.3%	30.0%	30.5%
% Change In Core EPS Estimates			0.00%	2.49%	4.07%
CGI/consensus EPS (x)			1.02	1.04	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

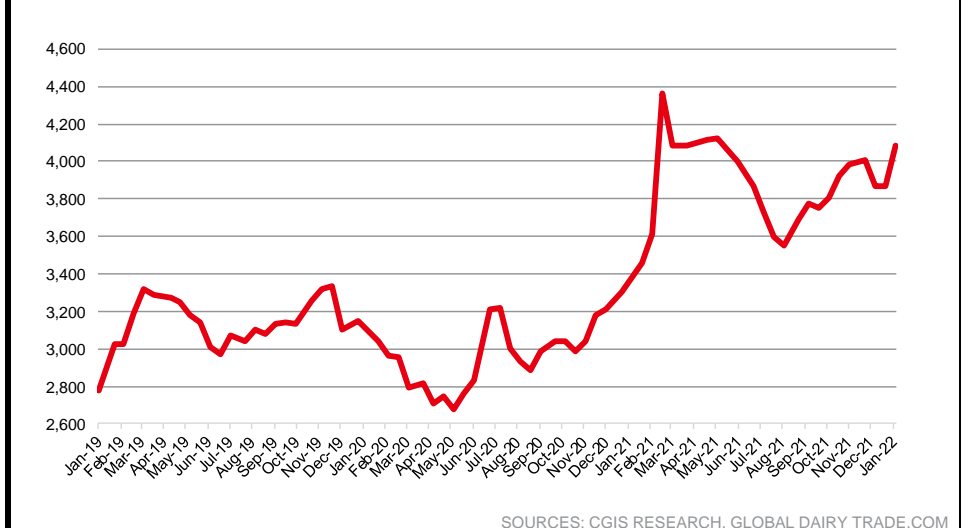
Successful price hike to drive growth

Figure 1: Want Want earnings revisions

	FY3/22F			FY3/23F			FY3/24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (Rmb m)	24,350	24,350	0.0%	25,466	25,881	1.6%	26,522	27,164	2.4%
Gross margin	46.8%	46.8%	0.0%	47.1%	47.4%	0.3%	47.2%	47.7%	0.5%
Distribution expen/sales	12.5%	12.5%	0.0%	12.4%	12.4%	0.0%	12.3%	12.3%	0.0%
Operating margin	24.1%	24.1%	0.0%	24.6%	24.9%	0.2%	24.8%	25.3%	0.5%
Effective tax rate	27.5%	27.5%	0.0%	28.0%	28.0%	0.0%	28.0%	28.0%	0.0%
Net profit (Rmb m)	4,500	4,500	0.0%	4,767	4,886	2.5%	5,065	5,271	4.1%

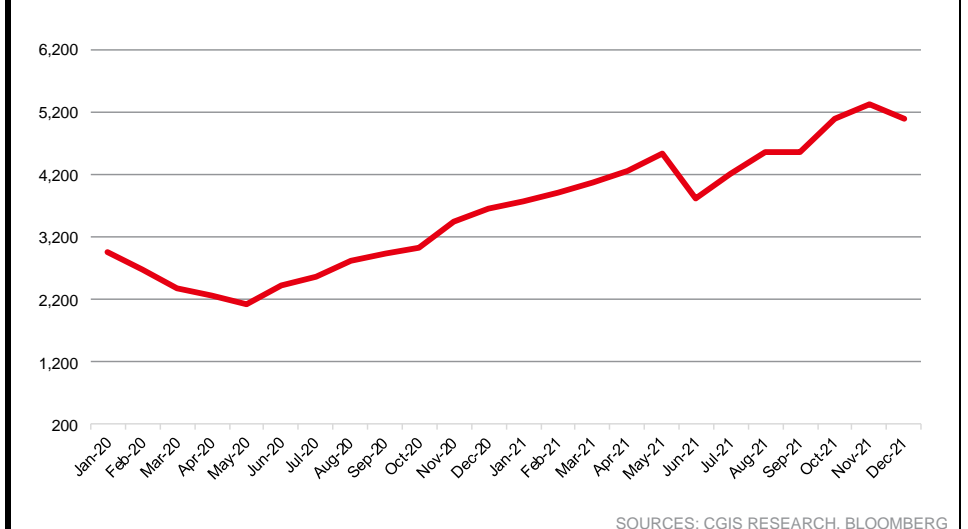
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: International whole milk powder price (US\$/mt)



SOURCES: CGIS RESEARCH, GLOBAL DAIRY TRADE.COM

Figure 3: International palm oil price trend (MYR/t)



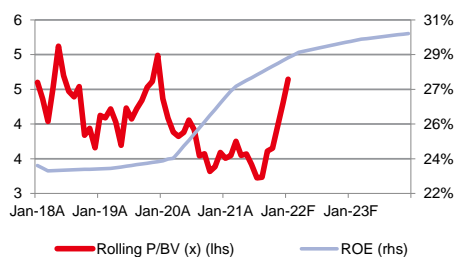
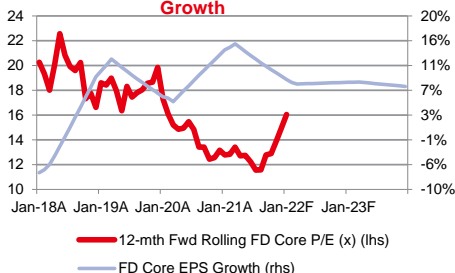
SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 4: Want Want DCF valuation

DCF valuation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT	5,877.3	6,432.8	6,869.5	6,938.2	7,007.6	7,077.7	7,148.5	7,219.9	7,292.1	7,365.1	7,438.7	7,513.1	7,738.5
Taxes	-1,703.8	-1,900.0	-2,032.2	-2,052.5	-2,073.0	-2,093.8	-2,114.7	-2,135.9	-2,157.2	-2,178.8	-2,200.6	-2,222.6	-2,289.3
NOPAT	4,173.5	4,532.8	4,837.3	4,885.7	4,934.6	4,983.9	5,033.8	5,084.1	5,134.9	5,186.3	5,238.1	5,290.5	5,449.2
NOPAT growth	7.3%	8.6%	6.7%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	3.0%
D&A	715.7	733.7	751.7	759.3	766.8	774.5	782.3	790.1	798.0	806.0	814.0	822.2	830.4
Funds from operation	4,889.2	5,266.5	5,589.1	5,645.0	5,701.4	5,758.4	5,816.0	5,874.2	5,932.9	5,992.2	6,052.2	6,112.7	6,279.6
Change in net working Capital	18.3	27.0	33.9	34.2	34.6	34.9	35.3	35.6	36.0	36.3	36.7	37.1	37.4
Cash flow from operation	4,907.6	5,293.5	5,623.0	5,679.2	5,736.0	5,793.3	5,851.3	5,909.8	5,968.9	6,028.6	6,088.9	6,149.7	6,317.1
Capex	-400.0	-400.0	-400.0	-420.0	-441.0	-463.1	-486.2	-510.5	-536.0	-562.8	-591.0	-620.5	-651.6
Free cash flow from operation	4,507.6	4,893.5	5,223.0	5,259.2	5,295.0	5,330.3	5,365.1	5,399.3	5,432.8	5,465.7	5,497.9	5,529.2	5,665.5
FCF growth	-5.6%	8.6%	6.7%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	2.5%
Terminal free cash flow	104,954.3			Assumptions									
Total discounted free cash flow	42,829.8			Cost of equity									
Present value of terminal free cash flow	38,638.2			Risk free									
				Market risk premium									
				Beta									
				Target Debt / (Debt + Equity)									
				WACC									
				Terminal growth rate									
Total present value of forecasted free cash flows	81,468.0												
Less: Net Debt	-7,474.1												
Equity Value	88,942.1												
No. of outstanding shares (millions)	12,288.6												
Per share Equity Value (Rmb)	7.20												
Exchange rate	0.83												
Target price (HK\$)	8.70												

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	20,095	21,998	24,350	25,881	27,164
Gross Profit	9,655	10,606	11,396	12,272	12,964
Operating EBITDA	5,632	6,558	6,593	7,167	7,621
Depreciation And Amortisation	(826)	(822)	(716)	(734)	(752)
Operating EBIT	4,806	5,736	5,877	6,433	6,870
Financial Income/(Expense)	246	261	326	361	396
Pretax Income/(Loss) from Assoc.	(3)	(2)	(8)	(8)	(8)
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	5,049	5,995	6,196	6,786	7,258
Exceptional Items					
Pre-tax Profit	5,049	5,995	6,196	6,786	7,258
Taxation	(1,413)	(1,847)	(1,704)	(1,900)	(2,032)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	3,636	4,148	4,492	4,886	5,226
Minority Interests	13	10	8	0	45
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,649	4,158	4,500	4,886	5,271
Recurring Net Profit	3,649	4,158	4,500	4,886	5,271
Fully Diluted Recurring Net Profit	3,649	4,158	4,500	4,886	5,271

Cash Flow

(Rmbm)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	5,632	6,558	6,593	7,167	7,621
Cash Flow from Inv. & Assoc.					
Change In Working Capital	630	378	18	27	34
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	133	(132)	0	0	0
Net Interest (Paid)/Received	(295)	(193)	(167)	(157)	(147)
Tax Paid	(1,737)	(1,625)	(1,704)	(1,900)	(2,032)
Cashflow From Operations	4,363	4,986	4,741	5,137	5,476
Capex	(291)	(316)	(400)	(400)	(400)
Disposals Of FAs/subsidiaries	(1)	296	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	485	(2,462)	493	517	543
Cash Flow From Investing	193	(2,483)	93	117	143
Debt Raised/(repaid)	(1,095)	1,565	0	0	0
Proceeds From Issue Of Shares	(185)	(1,601)	0	0	0
Shares Repurchased					
Dividends Paid	(3,101)	(3,511)	(3,600)	(3,909)	(4,217)
Preferred Dividends					
Other Financing Cashflow	(110)	(87)	0	0	0
Cash Flow From Financing	(4,490)	(3,634)	(3,600)	(3,909)	(4,217)
Total Cash Generated	67	(1,130)	1,234	1,345	1,402
Free Cashflow To Equity	3,462	4,069	4,833	5,254	5,619
Free Cashflow To Firm	4,852	2,696	5,000	5,411	5,766

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet					
(Rmbm)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	17,257	16,081	17,307	18,645	20,040
Total Debtors	847	920	1,321	1,404	1,474
Inventories	2,746	2,529	2,843	2,987	3,116
Total Other Current Assets	756	902	998	1,061	1,113
Total Current Assets	21,606	20,432	22,469	24,096	25,743
Fixed Assets	6,809	6,372	6,056	5,722	5,371
Total Investments	1,397	4,428	4,428	4,428	4,428
Intangible Assets	13	11	11	11	11
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	8,219	10,811	10,496	10,162	9,810
Short-term Debt	587	3,340	3,340	3,340	3,340
Current Portion of Long-Term Debt					
Total Creditors	1,093	943	1,158	1,216	1,269
Other Current Liabilities	4,141	4,883	5,498	5,756	5,989
Total Current Liabilities	5,822	9,166	9,996	10,312	10,598
Total Long-term Debt	8,294	6,493	6,493	6,493	6,493
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	356	612	612	612	612
Total Non-current Liabilities	8,649	7,106	7,106	7,106	7,106
Total Provisions	0	0	0	0	0
Total Liabilities	14,471	16,271	17,101	17,418	17,703
Shareholders' Equity	15,273	14,899	15,799	16,776	17,830
Minority Interests	82	73	65	65	20
Total Equity	15,354	14,972	15,864	16,841	17,850

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	(3.0%)	9.5%	10.7%	6.3%	5.0%
Operating EBITDA Growth	3.6%	16.5%	0.5%	8.7%	6.3%
Operating EBITDA Margin	28.0%	29.8%	27.1%	27.7%	28.1%
Net Cash Per Share (Rmb)	0.67	0.51	0.61	0.72	0.83
BVPS (Rmb)	1.23	1.21	1.29	1.37	1.45
Gross Interest Cover	15.38	27.53	35.26	41.05	46.64
Effective Tax Rate	28.0%	30.8%	27.5%	28.0%	28.0%
Net Dividend Payout Ratio	100%	41%	80%	80%	80%
Accounts Receivables Days	17.14	14.66	16.80	19.21	19.39
Inventory Days	90.00	84.50	75.68	78.17	78.65
Accounts Payables Days	37.30	32.62	29.60	31.84	32.03
ROIC (%)	44%	67%	87%	101%	117%
ROCE (%)	21.8%	25.3%	25.2%	26.5%	27.3%
Return On Average Assets	11.6%	13.0%	13.3%	13.8%	14.2%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Rice crackers sales volume growth (%)	0.0%	3.0%	-6.0%	1.0%	2.0%
Dairy and beverage sales volume growth (%)	0.0%	1.5%	26.0%	3.0%	3.0%
Snacks sales volume growth (%)	0.0%	6.0%	4.0%	1.0%	2.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Want Want China (151 HK)

RECOMMENDATION FRAMEWORK

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