

# China / Hong Kong Industry Focus

## Consumer Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### Fortune Twelve

- **We prefer more resilient staples & semi-durables in the near-term, and the consumer discretionary plays on a 12-month investment horizon**
- **As costs could stay high this year, operators with strong pricing power and cashflows are favoured. We also like companies that benefit from (1) rising health awareness, (2) a low base for 2022, and (3) potential border reopening to unlock pent-up demand**
- **Top picks: [Budweiser](#), [Yili](#), [Mengniu](#), [UPC](#) and [Haier](#). On 12-month horizon, we like [Galaxy](#), [SJM](#), [Sands China](#), [Prada](#), [Luk Fook](#), [Sa Sa](#) and [YUM China](#)**

**A broader view.** In this report, we feature 33 stocks categorized across 8 consumer sub-segments: brewery, food & non-alcoholic beverage, food retail, home appliance, household & personal care, discretionary retail, Macau gaming and restaurants. We expect overall consumption to grow at a double-digit rate in Greater China during 2022-2023, while lingering COVID-19 impact and an inflationary environment supporting high raw material & packaging costs may create short-term volatility.

**Key consumption trends.** We continue to see accelerating demand for premiumisation, brand differentiation, product quality & innovation, as well as upgraded shopping experience across multi-sectors. On the back of COVID-19 resurgence, health awareness stands as a top priority, supporting good demand for nutritious products that can boost immunity, such as dairy products.

**Our preferred picks.** In view of lingering pandemic impact in the near-term, we opt for market leaders in the staples (Budweiser, Yili, Mengniu, UPC) and semi-durable (Haier) segments that possess strong branding, pricing power, cashflows, sourcing, distribution & cost management capabilities, as they should be best placed to navigate the macro challenges. Over a 12-month horizon, our base-case scenario anticipates China-HK-Macau border reopening around mid-2022, and we prefer discretionary plays that would best capture strong pent-up shopping and travel demand in the region to catch their potential re-rating. These would include Galaxy, SJM, Sands China, Prada, Luk Fook, Sa Sa and YUM China.

HSI: 24,580

#### ANALYST

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
 Alice HUI CFA +852 36684182 alicehuidm@dbs.com  
 Alison FOK +852 36684170 alisonfok@dbs.com  
 Clement XU clementxu@dbs.com  
 Kay Tan kaytanx@dbs.com

#### Recommendation & valuation

		Price	Target Price	% upside	Recom	PE 23F	Yield 23F
		Local\$	Local\$			x	%
<b>Consumer staples &amp; semi-durables</b>							
<a href="#">Budweiser (1876 HK)</a>	HKD	21.70	31.08	43.2	BUY	29.7	1.2
<a href="#">CMD (2319 HK)</a>	HKD	46.30	53.50	15.6	BUY	21.8	1.4
<a href="#">Yili (600887 CH)</a>	CNY	38.76	52.00	34.2	BUY	20.1	3.5
<a href="#">Uni-President (220 HK)</a>	HKD	7.44	9.30	25.0	BUY	14.2	7.0
<a href="#">Haier Smart Home (6690 HK)</a>	HKD	29.60	42.90	44.9	BUY	13.1	2.8
<b>Consumer discretionary</b>							
<a href="#">Galaxy Ent (27 HK)</a>	HKD	46.40	54.17	16.7	BUY	19.1	1.6
<a href="#">SJM (880 HK)</a>	HKD	5.25	9.00	71.5	BUY	14.1	3.5
<a href="#">Sands China (1928 HK)</a>	HKD	22.55	37.92	68.1	BUY	14.8	6.8
<a href="#">Prada (1913 HK)</a>	HKD	48.15	65.02	35.0	BUY	30.2	1.7
<a href="#">Luk Fook (590 HK)</a>	HKD	20.30	30.01	47.9	BUY	8.1	7.4
<a href="#">Sa Sa Int'l (178 HK)</a>	HKD	1.50	1.93	28.6	BUY	15.6	6.4
<a href="#">Yum China (9987 HK)</a>	HKD	370.4	463.0	25.0	BUY	23.5	1.0

\* Consensus

Based on closing prices as at 7 Feb 2022

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")



Live more, Bank less

---

## Table of Contents

Brewery	3
Discretionary retail	9
Food retail	13
Food & Non-alcoholic Beverages	22
Home Appliances	29
Household & personal care	36
Macau Gaming	46
Restaurant	50
Stock Profiles	56

## Consumer Sector

## Brewery

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
 Clement XU clementxu@dbs.com

**Recommendation and Valuation**

		Price Local\$	Target Price Local\$	% upside	Recom
<a href="#">Budweiser (1876 HK)</a>	HKD	21.70	31.08	43.2	BUY
<a href="#">CR Beer (291 HK)</a>	HKD	59.50	72.29	21.5	BUY
<a href="#">Tsingtao-H (168 HK)</a>	HKD	70.45	91.47	29.8	BUY
<a href="#">Tsingtao-A (600600 CH)</a>	CNY	91.64	98.97	8.0	BUY

Source: Thomson Reuters, DBS HK

## Ample room to premiumise

- Product premiumisation continues to be a major ASP driver in China, on its much lower average beer prices vs. most developed regions globally
- Raw material cost pressure could also stay well contained in 2022, given strong pricing powers of leading brewers and the sequential moderation in key cost items, including barley and aluminium
- The sector should sustain sound returns in multi-years. Our top pick is BUD APAC (1876 HK), in view of its competent premium product portfolio, faster recovery in S. Korea, strong online potential (e.g., BEES), M&A opportunities, and attractive valuation

**Premiumisation is the key.** Riding on a much lower average selling price (ASP) and per capita spending on beer products vs. developed regions, such as the UK, Japan and S. Korea, we see ample room for major brewers to expand in China along with their strong efforts on product upgrades. In 2022, their ASP could at least rise by c.5% along with robust sales volume growth of featured premium/super-premium products, as sales volume of premium beers merely reaches c.10% of the total now.

**More selective regional exposures.** Market leaders are expanding/strengthening their operations towards the more affluent cities of China to better promote premium products to the relevant consumers. While COVID-19 resurgences since 2H21 have impacted sales channels in China to some extent, market expectations of >90% population to receive booster shots by end-Mar 2022 could help cushioning impacts from further major COVID-19 outbreaks. We also expect brewers with meaningful overseas exposure (e.g., BUD APAC's S. Korea division) to attain faster recovery this year.

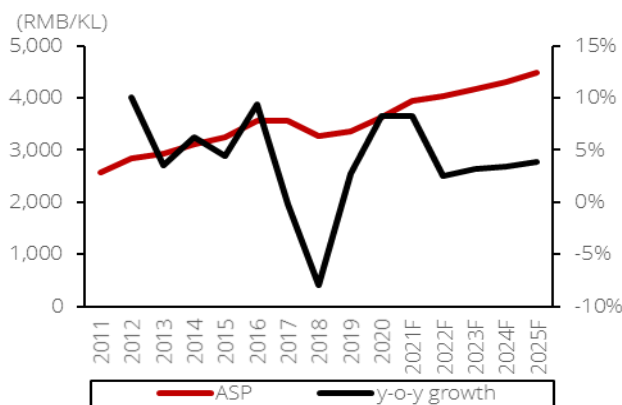
**Costs well under control.** Successful operators with strong pricing power and effective product-mix upgrades have more than offset rising raw material costs and safeguarded gross margins. Brewers with strong global sourcing and hedging strategies (e.g., BUD APAC) could also have an advantage in sustaining profitability. Looking ahead, the recent easing of commodity prices (e.g., barley, aluminium) could alleviate overall cost burden for further gross margin gains. We prefer BUD APAC that currently trades at attractive 14.8x prospective EV/EBITDA, while CR Beer also offers excellent growth prospects.

Valuation table

Company Name	Code	Local\$	Target		Mkt Cap US\$m	Fiscal Yr	PE		Yield		P/Bk		EV/EBITDA		ROE		
			Price	Price Recom			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F	
Budweiser APAC	1876 HK	HKD	21.7	31.08	BUY	36,728	Dec	33.7	29.7	1.0	1.2	3.1	2.9	14.8	13.3	9.5	10.1
CR Beer	291 HK	HKD	59.5	72.29	BUY	25,429	Dec	44.5	34.3	0.9	1.2	6.1	5.5	20.4	16.3	14.0	16.9
Tsingtao Brewery 'H'	168 HK	HKD	70.45	91.47	BUY	16,284	Dec	23.9	20.2	1.9	2.2	3.0	2.6	10.8	8.7	13.2	13.8
Tsingtao Brewery 'A'	600600 CH	CNY	91.64	98.97	BUY	16,284	Dec	38.2	32.2	1.2	1.4	4.8	4.2	19.7	16.5	13.2	13.8

Source: Thomson Reuters, DBS HK

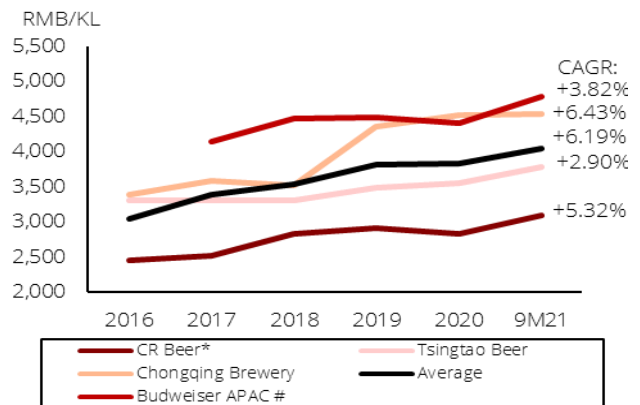
ASP trend of China brewery industry



ASP in the brewery sector has been trending up in the past few years, mainly supported by premiumisation efforts. Going forward, we expect ASP to sustain a single-digit CAGR in 2022- 2025F.

Source: Companies

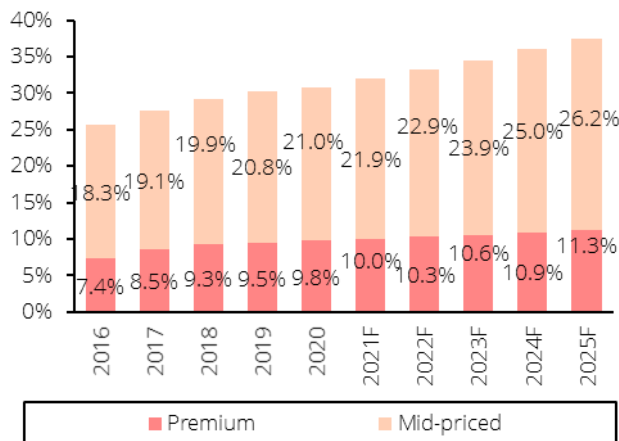
ASP trend of major brewers in China



In particular, ASP growth of major brewers has been steady due to better product-mix, led by on-going diligence in premiumisation. We expect major players to sustain about a mid-single digit growth in ASP over the medium-term.

Source: Companies

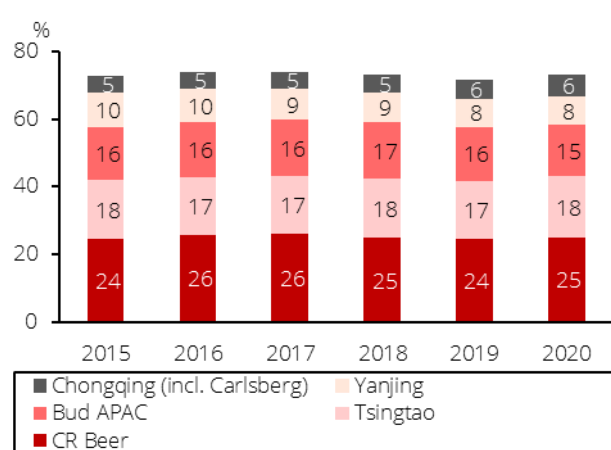
Market share of mid-priced and premium beer in China



The market share of mid- to high-end beer in China have seen steady growth in recent years, and are expected to account for c.38% of the beer market by 2025.

Source: Euromonitor (in volume terms)

Market share of top-5 brewers in China

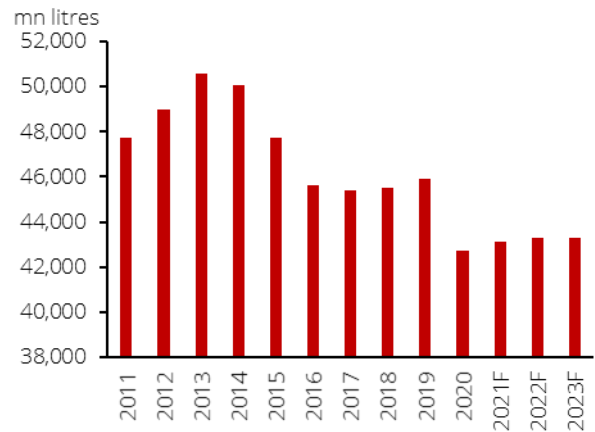
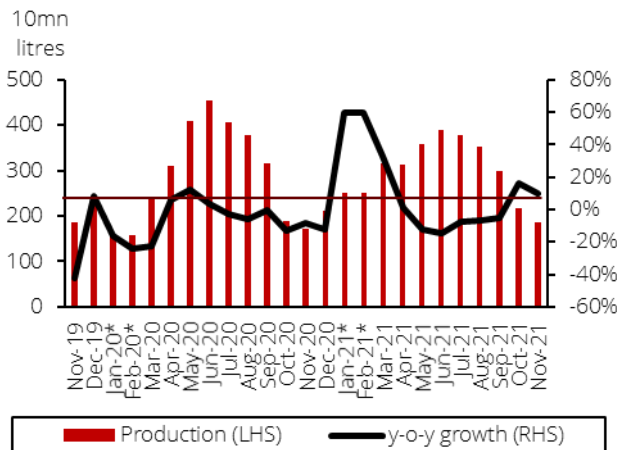


The market is highly consolidated as top-5 players make up 70%+ of the China beer market in terms of sales volume, with each major brewer having a relatively stable share. CR Beer is ranked number one in total sales volume.

Source: Euromonitor

**Monthly beer production of brewers above designated size in China (in 10 million litres)**

**Market consumption of beer in China (in million litres)**



Overall production volume in China has seen a mid- to high-single-digit decline y-o-y in 2Q/3Q21, mainly due to the COVID-19 outbreaks across various provinces. These were followed by 16%/10% increase in Oct/Nov 2021, on easing situation of the pandemic. We expect the market to achieve better recovery in 2022, especially in the peak seasons of 2Q-3Q.

The market size has peaked in 2013, with a 7% drop in 2020 due to impacts of the COVID-19 pandemic. Industry volume is expected to remain flattish or increase slightly over 2021-2023.

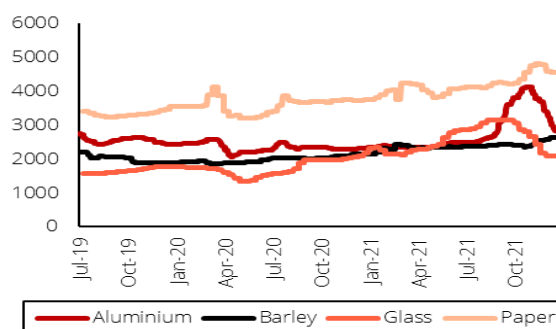
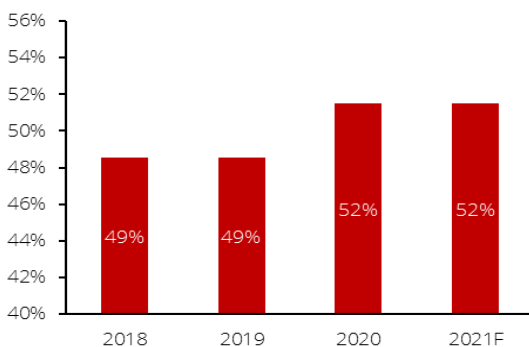
(\*Jan-Feb numbers are calculated as an average of the aggregate production in both months)

Source: Euromonitor

Source: National Bureau of Statistics, DBS HK

**Percentage of off-trade sales in China**

**Raw material prices (RMB/tonne)**



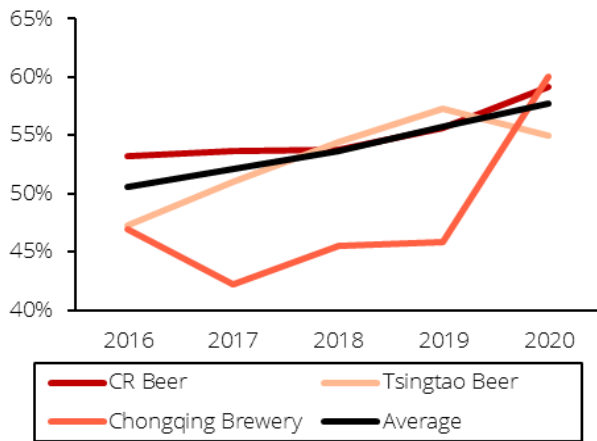
As a result of social restrictions and changes in consumption habits during the pandemic, the consumption trend has shifted from on-premise to in-home consumption.

Raw material prices has been on an upward trend since 2H20, with a substantial increase for most of 2021, and a sequential drop by Dec 2021. Brewers have been facing raw material costs pressure but the impact has been limited.

Source: Euromonitor

Source: Shanghai Metal Market, National Bureau of Statistics, Bloomberg Financial L.P., Wind

Capacity utilization rate of selected companies



Major brewers have closed some remote breweries in recent years in order to improve operating efficiency. As major brewers have been operating at more-than-sufficient production capacity, the impact of power curbs in China in recent months should be limited. We believe these companies will continue to target at higher utilisation rates, with on-going efficiency improvement measures that include plant closures.

Source: Companies, DBS HK

Major product brands of leading brewers in China

BUD APAC:

Super Premium			
Premium			
Core+			
Core			
Value			

CR Beer:



Tsingtao Brewery:



Source: Companies

Major product brands of leading brewers in China (con'd)

Chongqing Brewery:



Yanjing Brewery:



Source: Companies



## Discretionary retail

Mavis HUI +852 36684188 mavis\_hui@dbs.com

### Recommendation and Valuation

		Price	Target	%	
		Local\$	Price	upside	Recom
			Local\$		
<a href="#">Chow Sang Sang (116 HK)</a>	HKD	10.66	19.29	81.0	BUY
Chow Tai Fook#* (1929 HK)	HKD	13.90	n.a.	n.a.	NR
<a href="#">Luk Fook (590 HK)</a>	HKD	20.30	30.01	47.9	BUY
<a href="#">Golden Eagle (3308 HK)</a>	HKD	5.60	9.87	76.3	BUY
<a href="#">Lifestyle (1212 HK)</a>	HKD	4.50	7.96	76.9	BUY
<a href="#">Prada (1913 HK)</a>	HKD	48.15	65.02	35.0	BUY
<a href="#">Samsonite (1910 HK)</a>	HKD	17.58	19.10	8.6	BUY
<a href="#">Sa Sa Int'l (178 HK)</a>	HKD	1.50	1.93	28.6	BUY

\* Consensus

Source: Thomson Reuters, DBS HK

## Strong pent-up shopping demand

- China-HK border reopening to unlock robust pent-up consumption, as 30%+ shopping receipts in HK were fuelled by Mainland tourists pre-COVID-19
- Our base & worse case scenarios point to double-digit sales rebound and sound margin expansion across tourist-centric retailers in HK by 2H22 & 1H23, respectively, given their mega low base and ultra-lean cost structure
- Top picks: Luk Fook, Prada, and Sa Sa on better earnings catalyst once borders reopen and consumer sentiment improves. Lifestyle could be another option as negatives of its bond write-down (e.g., Evergrande) are mostly in the price

**Base & worse-case scenarios.** The World Health Organization expects COVID-19 to end sometime this year. This looks like the case, as we are now faced with highly infectious Omicron that has milder health impacts. With dedicated efforts to fight the pandemic, our current base case scenario expects China-HK border reopening around mid-2022 to bring 6%/10% retail sales growth in China/HK this year. On worse-case scenario, we look at border reopening by end-2022 and retail sales growth of 10%/2% in China/HK for 2022, plus a double-digit growth in HK for 2023.

**Prime beneficiaries: tourist-centric retailers.** In normal times, about 30-70% sales of the hard/soft luxuries and cosmetics retailers in HK came from Mainland tourists, amid HK's close proximity to Mainland China and its extensive, high-quality merchandise offerings that are tax-free. With an ultra-low base at the moment and better consumer sentiment upon subsiding COVID-19 impacts, these discretionary retailers could generate 15-30% y-o-y revenue growth in HK upon border reopening, especially if Mainlanders are still largely restrained from visiting overseas destinations until a later stage.

**Strong gets stronger.** Discretionary retailers have optimised their costs by now and should log excellent operating leverage and margin expansion upon a sales rebound. Their relatively higher profitability in HK versus other regions along with normalising market situation, given bigger revenue per store powered by tourists, could also be favourable. Accelerated market consolidation and retailers' hastened development of O2O and multi-channel platforms during the pandemic so far also strengthen ongoing performance of leading retailers.

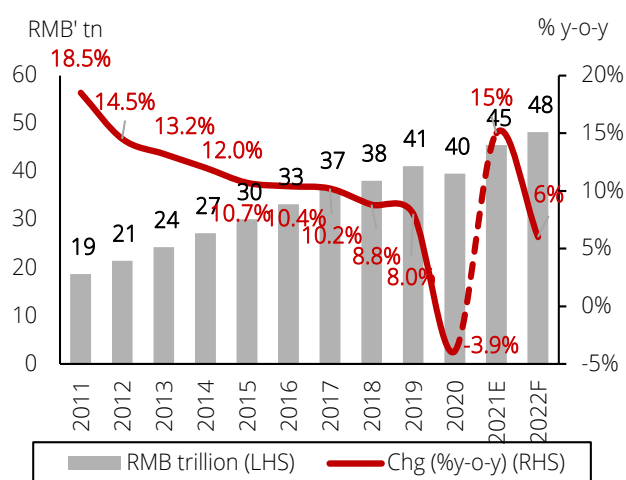
Valuation table

Company Name	Code		Target			Mkt Cap US\$m	Fiscal Yr	PE		Yield		P/Bk		EV/EBITDA		ROE	
			Price Local\$	Price Local\$	Price Recom			22F x	23F x	22F %	23F %	22F x	23F x	22F x	23F x	22F %	23F %
Chow Sang Sang	116 HK	HKD	10.66	19.29	BUY	920	Dec	5.5	4.8	7.2	8.4	0.5	0.5	3.8	3.2	10.0	10.9
Chow Tai Fook*	1929 HK	HKD	13.9	n.a.	NR	17,848	Mar	19.9	16.7	3.6	4.2	4.2	3.8	12.8	10.9	21.5	23.8
Luk Fook	590 HK	HKD	20.3	30.01	BUY	1,571	Mar	10.1	8.1	6.0	7.4	1.1	1.0	6.3	4.6	10.5	12.8
Golden Eagle	3308 HK	HKD	5.6	9.87	BUY	1,193	Dec	5.6	5.3	9.8	10.6	0.7	0.7	1.9	1.5	12.2	13.1
Lifestyle Intl.Hdg.	1212 HK	HKD	4.5	7.96	BUY	845	Dec	7.9	5.3	3.8	5.7	2.9	2.6	12.6	9.5	39.4	52.6
Prada S P 'A'	1913 HK	HKD	48.15	65.02	BUY	16,313	Dec	40.5	30.2	1.2	1.7	4.4	4.1	10.3	8.4	11.3	14.2
Samsonite Int'l	1910 HK	HKD	17.58	19.10	BUY	3,239	Dec	34.0	13.8	0.9	2.2	5.4	4.3	8.6	6.2	16.9	34.4
Sa Sa Int'l	178 HK	HKD	1.5	1.93	BUY	598	Mar	n.a.	15.6	0.0	6.4	4.1	4.1	n.a.	9.4	(15.6)	26.3

\* Consensus

Source: Thomson Reuters, DBS HK

China retail sales to grow 6% in 2022F (base-case)

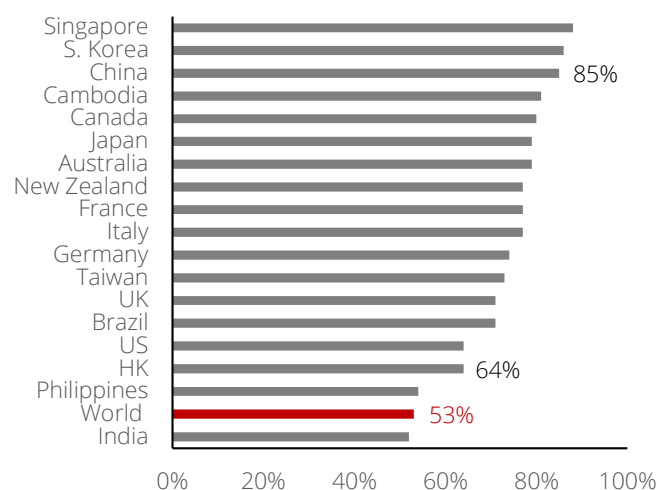


Source: CEIC, DBS HK

Our base-case scenario assumes China-HK borders to reopen around mid-2022, with our projection of China retail sales to grow at 6% this year. Our worse-case scenario assumes border reopening by end-2022, of which we expect China retail sales to grow by 10% in 2022 as most spending will be retained within Mainland China.

Source: CEIC

COVID-19: Fully-vaccinated rates by country

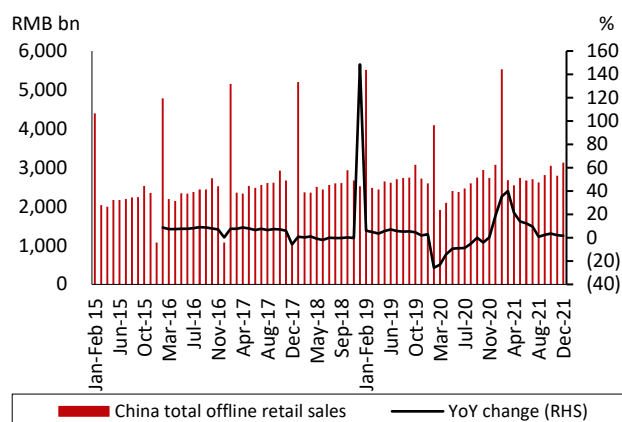


Source: BBC.com (8 Feb 2022; based on total population)

China targets at full vaccination rate of 90% by Mar 2022. As for HK, c.78,000 doses are currently being administered daily, including >21,000 doses for the second vaccination. On such basis, the full vaccination rate of HK could reach 90% by mid-May 2022 to meet the basic requirement for potential China-HK border reopening. The actual pace of vaccination could also accelerate ahead, given the latest COVID-19 containment measures (effective by 10 Feb 2022) to only allow persons who have received COVID-19 vaccination to enter restaurants, malls, religious premises, supermarkets, wet markets, etc.

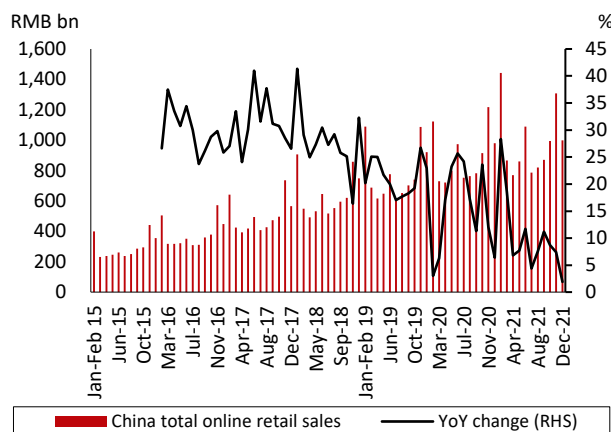
Source: CEIC

China total offline retail sales (monthly)



Source: CEIC

China total online retail sales (monthly)



Source: CEIC

China retail sales breakdown (Annual)

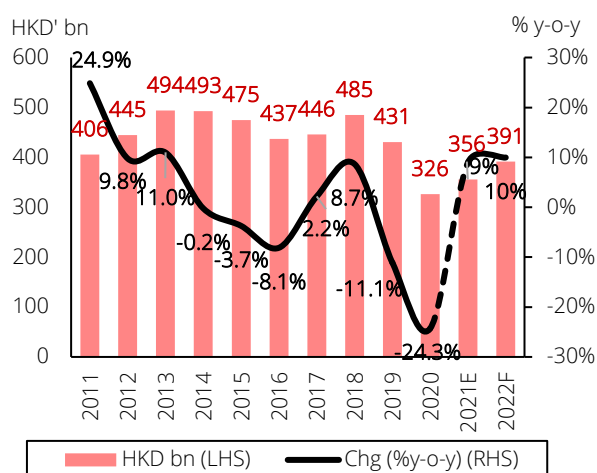
Categories	2012	2013	2014	2015	2016	2016	2017	2018	2019	2020	Nov-21
Grain, Oil & Foodstuff	18.2	14.5	11.6	15.1	12.6	10.9	10.2	10.2	10.2	9.9	10.7
Beverages	18.7	15.8	11.6	15.3	9.9	10.5	10.3	9.0	10.4	14.0	21.2
Tobacco & Liquor	16.5	11.1	9.1	12.7	7.4	9.3	7.9	7.4	7.4	5.4	23.3
Garments, Footwear, Hats, Knitwear	18.0	11.6	10.9	9.8	8.4	7.0	7.8	8.0	2.9	(6.6)	14.9
Garments	17.7	11.5	10.8	9.3	8.1	6.8	8.0	8.5	2.6	(8.1)	16.4
Cosmetics	17.0	13.3	10.0	8.8	11.4	8.3	13.5	9.6	12.6	9.5	15.3
Gold, Silver and Jewelry	16.0	25.8	0.0	7.3	(1.5)	0.0	5.6	7.4	0.4	(4.7)	34.1
Daily Use Goods	17.5	14.1	11.6	12.3	10.3	11.4	8.0	13.7	13.9	7.5	13.9
Sports and Recreational Articles	10.5	7.2	1.8	16.6	16.0	13.9	15.6	(2.7)	8.0	8.4	22.4
Newspapers and Magazines	16.3	9.9	11.1	8.8	7.5	8.7	7.0	12.1	11.1	3.5	9.4
Household Electric & Video Appliance	7.2	14.5	9.1	11.4	7.9	8.7	9.3	8.9	5.6	(3.8)	12.2
Traditional Chinese and Western Medicine	23.0	17.7	15.0	14.2	12.7	12.0	12.4	9.4	9.0	7.8	9.9
Furniture	27.0	21.0	13.9	16.1	16.4	12.7	12.8	10.1	5.1	(7.0)	16.9
Communication Appliance	28.9	20.4	32.7	29.3	20.1	11.9	11.7	7.1	8.5	12.9	16.3
Petroleum & Related Product	16.9	9.9	6.6	(6.6)	0.5	1.2	9.2	13.3	1.2	(14.5)	21.7
Construction & Decoration Material	24.6	22.1	13.9	18.7	14.9	14.0	10.3	8.1	2.8	(2.8)	22.2
Automobile	7.3	10.4	7.7	5.3	5.4	10.1	5.6	(2.4)	(0.8)	(1.8)	9.7
Catering	12.9	(1.8)	2.2	7.0	6.4	6.0	7.4	6.4	7.1	(14.0)	26.7

Noted: Above designated size enterprises

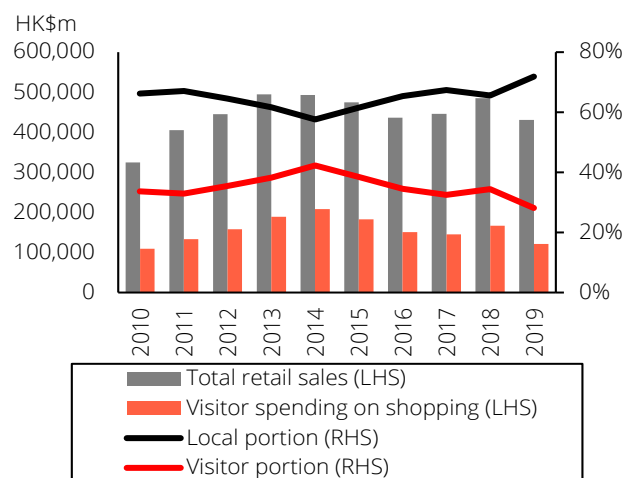
Source: CEIC, WIND

China retail sales saw a sound rebound last year. Amongst enterprises above the designated size, jewelry retailers scored the best growth of 34.1% y-o-y in 11M21, as most luxury spending has been retained within China, followed by a 26.7% growth for catering & restaurant sales, and 23.3% growth for tobacco & liquor sales.

**Hong Kong retail sales to grow 10% in 2022F (base case) Contributions by visitors and locals in HK retail sales**



Source: CEIC, DBS HK



Source: www.hkeconomy.gov.hk

Our base-case scenario assumes China-HK borders to reopen around mid-2022, and we project HK retail sales to grow at 10% this year. Our worse-case scenario assumes border reopening by end-2022, of which we expect HK retail sales to grow by 2% only in 2022 as most consumer spending will still be retained within Mainland China rather than flowing into HK. In our worse-case scenario, we also project HK to see double-digit retail sales growth in 2023.

Before the outbreak of COVID-19 pandemic, about 30% to 40%+ of HK retail sales in 2010-2019 were contributed by visitor spending, of which >90% of tourist consumption came from Mainland tourists.

**Hong Kong retail sales breakdown**

Categories	Retail sales growth (YoY, %)															
	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	11M21
Jewellery, Watches, Clocks & Valuable Gift	(16.7)	(10.2)	(15.9)	(15.2)	(21.1)	(13.2)	0.8	9.3	23.5	5.0	(6.5)	(38.9)	(65.5)	(35.7)	33.7	27.7
Clothing, Footwear & Allied Product	8.1	0.1	(3.6)	(10.1)	(7.8)	(0.9)	(2.4)	3.0	11.9	1.3	(3.3)	(26.3)	(50.8)	(26.6)	23.8	22.3
Consumer Durable Goods	(3.5)	8.6	12.3	(0.1)	(24.1)	(17.4)	(8.9)	2.8	13.7	1.1	(10.9)	(13.2)	(20.2)	0.2	20.8	17.3
Department Stores	3.0	(0.2)	(1.0)	(7.0)	(9.0)	(3.4)	0.8	5.9	14.1	5.5	0.9	(26.4)	(32.8)	(8.6)	(7.5)	(3.9)
Other Consumer Goods	6.6	6.1	(0.8)	(5.0)	(2.1)	1.5	3.8	7.2	15.8	10.0	1.3	(21.0)	(39.3)	(19.3)	11.2	12.8
Fuels	(0.9)	(1.9)	(12.5)	(8.5)	(1.6)	0.7	3.9	4.1	9.5	7.8	0.5	5.4	(0.8)	(3.8)	11.3	12.2
Supermarkets	6.0	3.2	1.1	1.5	1.0	0.6	(1.2)	0.7	1.5	1.0	1.3	0.0	10.6	8.8	(9.5)	(8.5)
Food, Alcoholic Drinks & Tobacco	7.1	6.1	7.9	4.0	1.2	2.2	2.4	3.9	7.5	2.0	0.6	(7.3)	(13.6)	(11.7)	(3.3)	(2.6)
Medicines & Cosmetics	8.4	10.2	0.9	(4.9)	(1.6)	1.7	2.7	8.6	17.5	10.9	(0.3)	(27.3)	(54.7)	(42.8)	(2.5)	2.4
<b>Retail Sales Value</b>	<b>(1.3)</b>	<b>0.8</b>	<b>(1.6)</b>	<b>(5.8)</b>	<b>(10.5)</b>	<b>(5.5)</b>	<b>(0.6)</b>	<b>5.0</b>	<b>13.4</b>	<b>4.3</b>	<b>(2.6)</b>	<b>(20.0)</b>	<b>(33.3)</b>	<b>(12.8)</b>	<b>8.4</b>	<b>8.3</b>

Source: CEIC

Following the consecutive and significant falls in retail sales of tourist-centric product categories during 2019-2020, including jewelry & watches, clothing & footwear, department stores, as well as medicines & cosmetics, we saw sales rebounds in selected categories on a mega low base during 11M21. A stronger recovery across these segments is expected once the China-HK borders reopen.

## Consumer Sector

## Food retail

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Clement XU clementxu@dbs.com

### Recommendation and Valuation

		Price Local \$	Target Price Local \$	% upside	Recom
<a href="#">Sun Art (6808 HK)</a>	HKD	2.91	3.06	5.1	HOLD
<a href="#">Yonghui-A (601933 CH)</a>	CNY	3.81	3.97	4.3	HOLD

Source: Thomson Reuters, DBS HK

### On its way to gradual recovery

- Fierce competition from community group buying ("CGB") players hit offline food retailers since 2H20. Further CGB consolidation could improve operating landscape in 2022-23.
- While full recovery could take time, 2022 offers a low base plus 2-3% food inflation for a higher ASP
- Store re-modelling and increasing number of sales channels could also offer newer growth opportunities.

**CGB consolidation.** Intense competition from CGB e-players' cut-throat prices and changes in consumption habits during the pandemic have impacted offline food retailers substantially. While overall e-grocery sales could expand at 37% y-o-y in 2022 (source: iResearch), market size of the CGB sector could continue to grow 30%+ this year. Due to intensifying competition and substantial price subsidies, selected CGB platforms (e.g., JD's Jingxi Pinpin (京喜拼拼) and DiDi's Chengxin Youxuan (橙心优选), etc.) have reduced market coverage recently. We believe the sector is going through a new round of consolidation, which, alongside the potential increase in delivery fees and the government's crack-down on the CGB sector, may help bringing some shoppers' traffic back to offline food retailers ahead.

**The worst was over, yet recovery remains slow.** 2021 has been a tough year for food retailers. Leading operators like Sun Art could stage 2% y-o-y sales dip for FY3/22 to its record-low since 2014, while Yonghui is expected to see a similar trend for FY21. As such, food retailers should attain better recovery in 2022 on a low base, rising food prices and further CGB consolidation. Lingering impacts of recent COVID outbreaks in China may also prompt grocery sales at mid- to high-single-digit rate. Yet, food retailers' profitability may remain low and take longer to regain higher GP margins and operating scale efficiency.

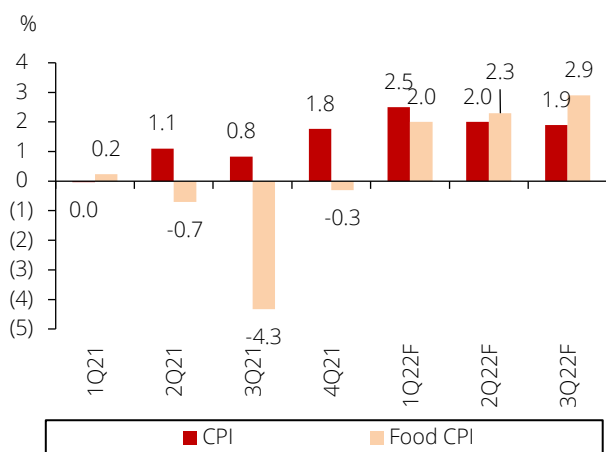
**Newer store formats & channels.** To better cope with CGB competition, newer store formats like warehouse store, mini stores, etc. have been launched by key hypermarket players in China. Supported by their strong direct sourcing from farmers, together with more efforts on online channels, leading food retailers should stay in a good position to see operational improvements over the medium-term.

Valuation table

Company Name	Code	Local\$	Target			Mkt Cap US\$m	Fiscal Yr	PE		PE Yield		P/Bk		EV/EBITDA		ROE	
			Price	Price	Recom			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
Sun Art Retail Group	6808 HK	HKD	2.91	3.06	HOLD	3,565	Mar	54.6	24.6	0.9	2.0	0.9	0.9	0.3	0.0	1.6	3.5
Yonghui Superstores 'A'	601933 CH	CNY	3.81	3.97	HOLD	5,578	Dec	84.6	35.5	0.8	2.0	2.1	1.6	11.9	9.3	2.8	5.1

Source: Thomson Reuters, DBS HK

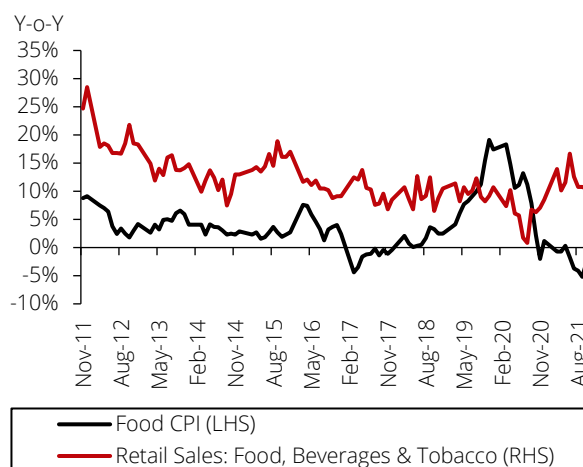
CPI inflation in China



The food price has been decreasing y-o-y in 2021 and is expected to see a 2-3% y-o-y increase in the coming quarters, favourable to food retailers in China.

Source: National Bureau of Statistics, Trading Economics

China Food CPI vs. F&B Retail Sales



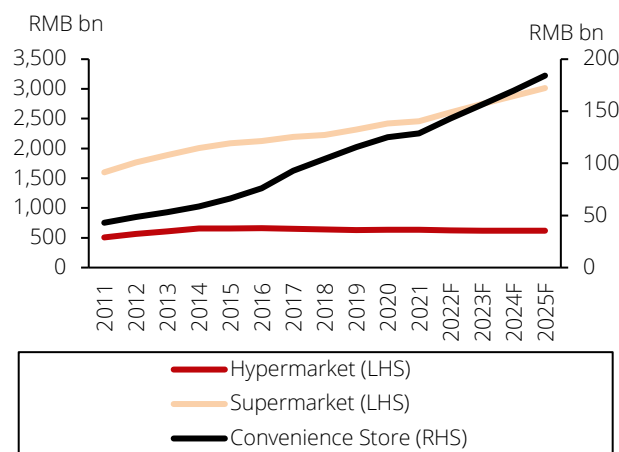
F&B retail sales growth generally tracked the trend of food inflation before 2021. While F&B retail sales began to recover since late 2020, food CPI, affected by the pork price, continued to decline on a high base. The potential rebound of the food CPI is a good sign for the food retail industry. We expect food and beverage sales to grow c.7% y-o-y in 2022.

Source: National Bureau of Statistics, Wind, CEIC, DBS HK

Sales composition: Grocery vs. non-grocery

%	2015	2016	2017	2018	2019	2020	2021
<b>Retailing</b>							
Grocery	40.6	40.3	40.1	40.0	40.0	43.0	44.5
Non-Grocery	59.4	59.7	59.9	60.0	60.0	57.0	55.5
<b>Hypermarkets</b>							
Grocery	60.4	60.5	60.8	61.4	61.8	62.0	62.7
Non-Grocery	39.6	39.5	39.2	38.6	38.2	38.0	37.3
<b>Supermarkets</b>							
Grocery	95.0	95.2	95.7	94.6	93.5	95.0	95.0
Non-Grocery	5.0	4.8	4.3	5.4	6.5	5.0	5.0

Sales: hypermarkets, supermarkets, and convenience stores



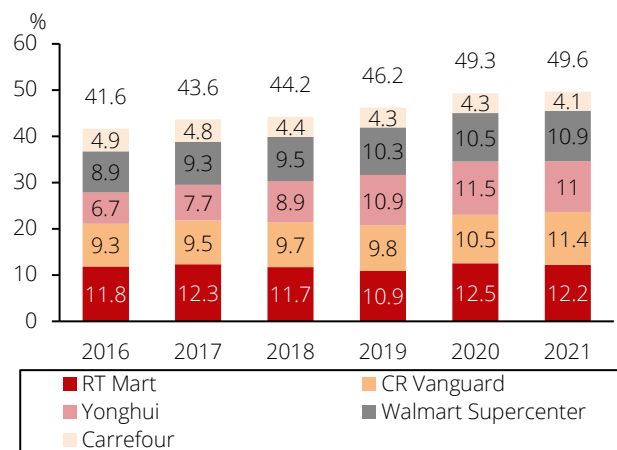
Grocery sales accounted for a higher proportion of total sales since 2020, as a result of the change in consumption habits during the pandemic. We expect the portion of grocery consumption to remain stable in 2022, given the primary focus of leading players on fresh supply (due to the change in consumption habits) and the competition posed by CGB players.

Source: Euromonitor

While sales of hypermarkets have been lacklustre and are estimated to remain flattish by 2025 according to Euromonitor, sales of supermarkets and convenience stores have seen steady growth in the past years and are expected to continue the upward momentum in the medium term. As such, new and small store formats may see better growth potential.

Source: Euromonitor

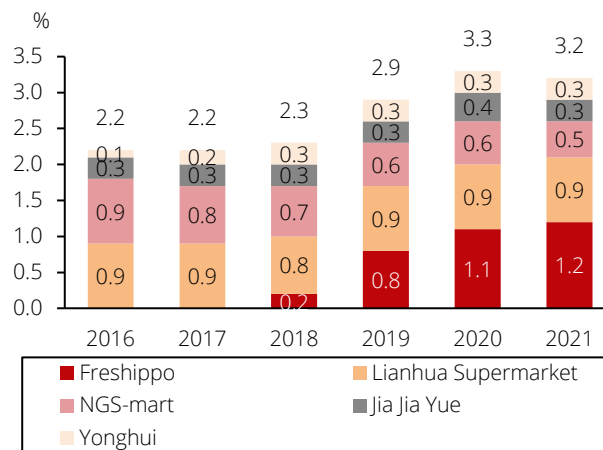
China hypermarkets: Top-5 market shares



The China hypermarket sector is highly consolidated with the top five operators making up nearly 50% of the total market size. CR Vanguard has been constantly gaining market share since 2016, while RT Mart and Yonghui saw market share loss in 2021. We believe further market consolidation is on the cards amid industry headwinds, and we may see higher total market share for top-five players in 2022.

Source: Euromonitor

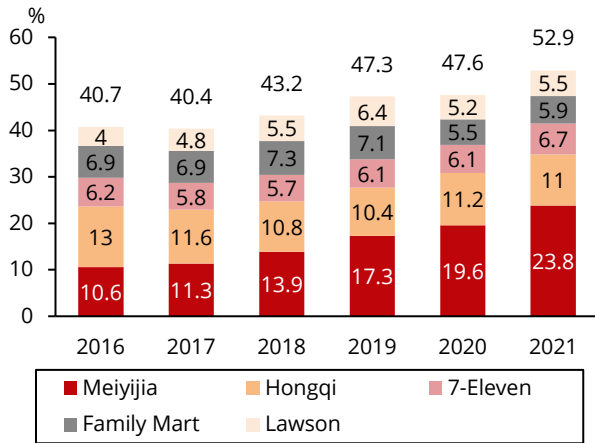
China supermarkets: Top-5 market shares



The supermarket sector in China is fragmented with the top five chains making up only 3.3% of the aggregate market share in 2020. Network expansion could be a key challenge for this sector, given a higher proportion of fresh product offerings, while Freshippo has attained faster growth, supported by its "New Retail" business model. We believe the market consolidation should continue in the medium term.

Source: Euromonitor

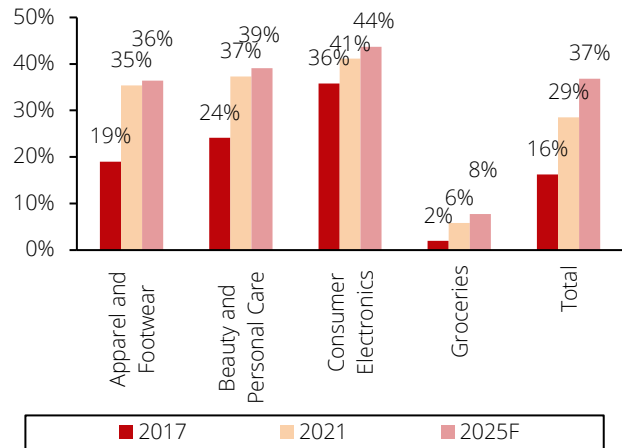
China convenience stores: Top-5 market shares



The convenience store sector is highly consolidated with aggressive store openings and leveraging a franchising model by leading market players such as Meiyijia. While Yonghui has reached a bottleneck in the mini store format, hypermarket operators like Sun Art are expanding into mini store models. We may see more intense competition in this segment in 2022 onwards.

Source: Euromonitor

China e-commerce penetration by category

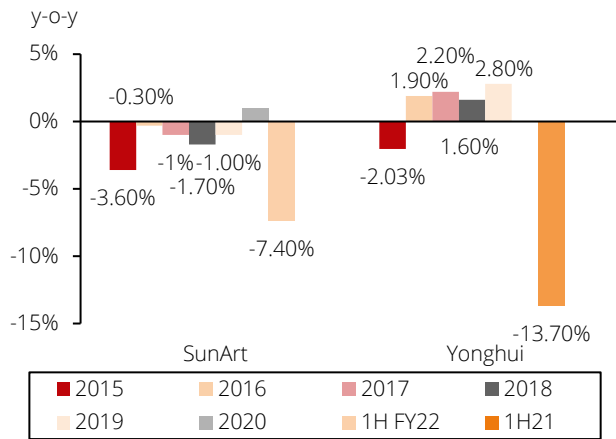


The online penetration of groceries remained low and has been lagging behind other non-food segments, mainly due to consumers' demand for convenience and the goods' perishable nature. With development of logistics facilities in China and the changing consumption habits, the online penetration is expected to be 6% in 2021 and should reach 8% by 2025.

Source: Euromonitor, DBS HK



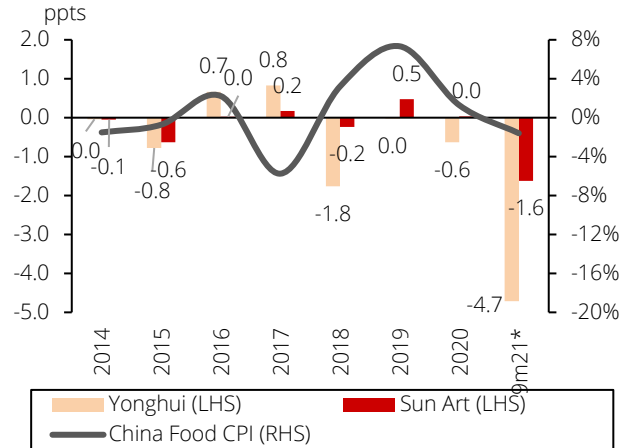
Listed grocery retailers: SSSG trends



Same-store sales growth (SSSG) of major food retailers in China has seen sluggish momentum in recent years and even a significant drop in 2021. The recent trend was largely due to the intensifying competition posed by CGB players and the decreasing food price. Yonghui has posted worse same-store performance vs. peers in 1H21 as a result of previous aggressive store expansion. With the potential rebound of food CPI and the slow-down of CGB completion, we expect leading food retailers to achieve mid-single-digit SSSG in 2022/2023 on a low base, leading to enhanced profitability.

Source: Companies, DBS HK

Listed grocery retailers: net profit margin trends

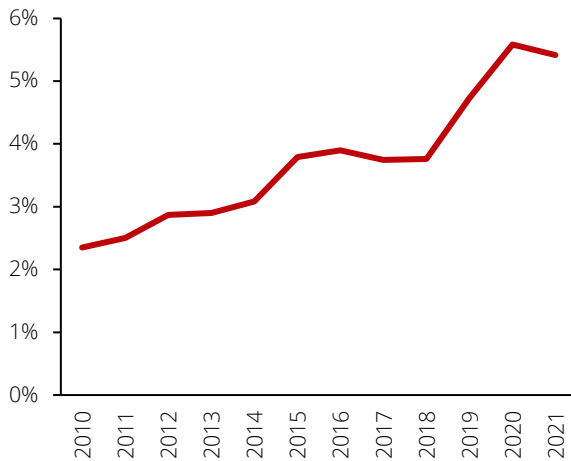


Affected by the decreasing food price since late 2020, the profitability margins of major food retailers have seen downward trends, alongside the rise in popularity of CGB business run by some tech giants. Although given a better outlook in 2022, recovery should take a longer period, as we expect the net margins of Yonghui and Sun Art to stay below 2% for the coming year.

(\*Sun Art has changed its year end date to 31 Mar since 2021 and the number represents the y-o-y change for 1H FY22 (i.e., Apr - Sep 2021).)

Source: Companies, DBS HK

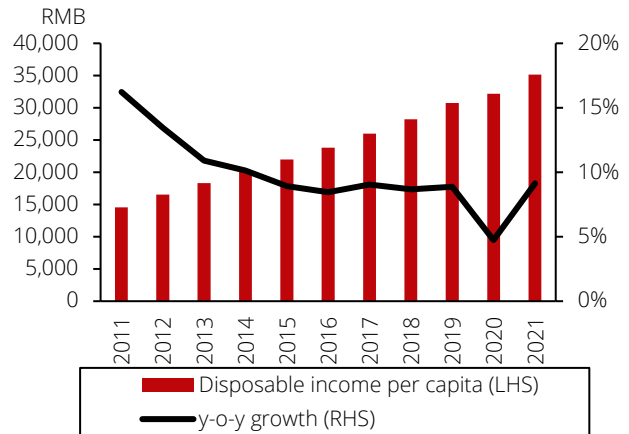
China: Food as % of total imported goods



As a result of rising demand for premium food products and increasing household disposable income, the proportion of imported food has seen a faster increase since 2018, followed by a slight drop in 2021 amid some short-term logistics setbacks. We believe food imports should continue to see an uptrend in the medium-term, given free trade agreements with other countries and the expansion of free trade zones into some newer regions, like Hainan, Jiangsu, Shandong, Heilongjiang, Guangxi and Yunnan since 2018.

Source: CEIC

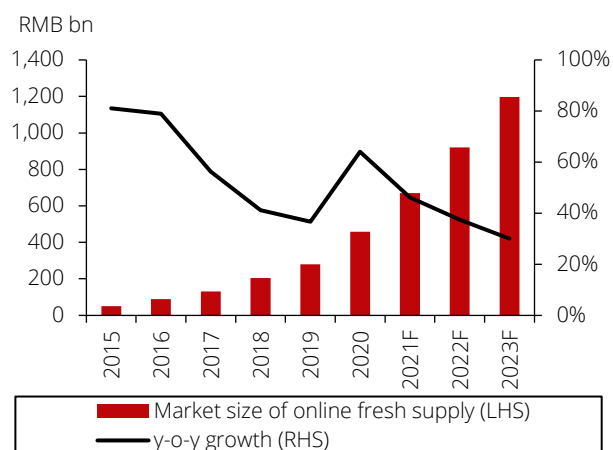
China: Average disposable income



China has seen stable growth in average disposable income in the past years at more than high single-digit rates, albeit the slower momentum in 2020 as a result of the COVID-19 pandemic. Taking GDP growth for reference, we should see the average disposable income growing c.5% in 2022, supporting the increasing food demand.

Source: CEIC

E-grocery sales in China



Online fresh supply is among the fastest-growing sectors, supported by the expansion of e-commerce in China. Considerable growth was recorded in 2020 as a result of higher consumer demand during the pandemic. The expansion trend is expected to continue (30%+ y-o-y growth in 2022/2023) post pandemic with changed consumption habits.

Source: iResearch

Recent consolidation of CGB sector

Name	Time	Issue
Meicai 美菜网	Sep-21	Cut headcount and reduced coverage cities and counties
Nice Tuan 十荟团	Aug-21	Cut headcount and focus on key areas; certain operations to be merged with Alibaba MMC
Tongcheng Life 同程生活	Jul-21	Rebranded as Micheng Life (蜜橙生活) in Jul and went bankrupt shortly afterwards.
Shixianghui 食享会	Jul-21	Key management resigned; operation largely shut down with new focus on snack stores
Shixianghui 食享会	Apr-21	Operations in Jiangsu merged with NiceTuan; cut some loss-making coverage
Yipin Daojia 谊品到家	Mar-21	Reduced coverage in Jiangsu
Meijia Maicai 美家买菜	Dec-20	Acquired by JD.COM
Songshu Pinpin 松鼠拼拼	Oct-20	Cut headcounts and shut down operations
Linlinyi 邻邻壹	Jul-20	Merged with Tongcheng Life

The CGB sector is going through a new round of market consolidation with mergers and closures going on. As excellent financial clout is required to snatch market share, tech giants with strong cash positions are likely to win the cannibalisation game. We expect such consolidation to continue in 2022 and may bring back the customer traffic to offline food retailers such as Yonghui and Sun Art.

Source: Companies, news reports, DBS HK

## Major CGB players in China

Name	Key investor/holding company	Entry time	Latest performance	Coverage	Remarks
Xingsheng Preference 兴盛优选	Xingsheng (Tencent, JD involved)	Mar-17	3% profit margin for 1H20; GMV up 300% y-o-y to 40bn in FY20	17 provinces and 1400+ cities	New round of USD300m financing
Nice Tuan 十荟团	Alibaba	Aug-18	Expect loss making in 2021	25 provinces and shrinking coverage	Fined RMB1.5m for price-dumping in Mar 2021; D round financing in Mar 2021
Chengxin Youxuan 橙心优选	Didi (Tencent involved)	Jun-20	Expect loss making in 2021	9 provinces and shrinking coverage	Fined RMB1.5m for price-dumping in Mar 2021; Sep 2021, cutting headcount and coverage; Dec 2021, removed from main app DiDi.
Meituan Select 美团优选	Meituan (Tencent involved)	Jul-20	Meituan's "New initiatives and others" segment recorded 9.2bn loss for 1H21; Target GMV RMB200bn	2600 cities and counties	Fined RMB1.5m for price-dumping in Mar 2021;
Duoduo Grocery 多多买菜	Pinduoduo (Tencent involved)	Aug-20	Expect loss making in 2021	300+ cities	Fined RMB1.5m for price-dumping in 2021
Yipin Daojia 谊品到家	Tencent	Oct-20	na	6000 sites, majorly in Chongqing, Hefei	
Jingxi Pinpin 京喜拼拼	JD (Tencent involved)	Jan-21	Expect loss making in 2021	12 provinces and shrinking coverage	
Taocaicai 淘菜菜	Alibaba	Sep-21	Expect loss making in 2021	20+ provinces	Merged from Freshippo Market (盒马集市) and Taobao Maicai (淘宝买菜) in Sep 2021

Source: Company websites, news reports, DBS HK

Key M&A deals in recent years

Date	Deal Type	Acquirer/Investor	Target Company	Transaction Value (CNY, mil)	Background
Dec-21	M&A	Lawson	Rainbow Weowo Convenience Store (Shenzhen) Co., Ltd.	310	Lawson (Guangdong) agreed to acquire 100% of Rainbow Weowo, with 200+ convenience stores, from Rainbow Department Store.
Dec-21	M&A	Lawson	Sichuan WOWO Supermarket Chain Management Co., Ltd.	N/A	Lawson (China) has acquired 100% stakes of Sichuan WOWO Supermarket Chain, which owned 255 stores in Chengdu, Sichuan.
Mar-21	M&A	JD.COM	Beijing Huaguan Commercial Technology Development Co., Ltd	N/A	Jiangsu Zhuoyu, a wholly owned subsidiary of JD.COM, acquired 100% interest of Beijing Huaguan
Oct-20	M&A	Taobao China (Alibaba)	Sun Art Retail	23,000	Taobao China announced the completion of acquiring 70.94% of A-RT's issued share capital. A-RT holds approximately 51.00% of the issued share capital of Sun Art Retail and therefore has become the ultimate controlling shareholder of the Sun Art.
Sep-21	M&A	Lianhua Supermarket	Lianhua Huashang	180	Lianhua Huashang agreed to acquire, and Yibai Supermarket agreed to sell, 60% equity interests in Bailian Supermarket at a consideration of RMB180m.
Aug-20	M&A	Yonghui Superstores	Yonghui Yunchuang Technology Co., Ltd	380	Yonghui Superstores further acquired 20% interests of Yonghui Yunchuang from Zhang Xuanning, resulting in 46.6% shareholding of Yonghui Yunchuang. Yonghui Yunchuang became a subsidiary of the group.
Oct-19	M&A	Wumei Technology Group	METRO Commerce Group Co., Ltd.	12,000	Wumei acquired METRO China consolidate its position in retail market, and holds 80% of shares of METRO China after the acquisition, with Metro AG holding 20%. The transaction was completed in Apr 2020.
Jun-19	M&A	Suning.com	Carrefour China Holdings NV	4,800	Bought 80% of Carrefour as the latter retreats from the Chinese market
Dec-18	INV	Private Investor	Yonghui Yunchuang Technology Co Ltd	394	Yonghui's 20% selldown of its stake in loss-making YunChuang to Chief Executive, Zhang Xuanning
Apr-18	M&A	Wumei Technology Group	Lotte Mart China Co Ltd/China	1,444	Bought Lotte Mart as it exits from the Chinese market
Jan-18	INV	Yonghui Superstores	Chengdu Hongqi Chain Co Ltd	710	Yonghui becomes second largest shareholder of the supermarket chain
Dec-17	INV	Yonghui Superstores	Chengdu Hongqi Chain Co Ltd	943	Group expansion and signed strategic partnership for collaboration in new retail, supply chain management and logistics
Dec-17	INV	Tencent	Yonghui Superstores Co Ltd	4,216	As a push into brick-and-mortar food retail, Tencent has invested in a 5% stake in Yonghui Superstores and 15% stake in Yonghui's supply chain and logistics subsidiary YunChuang
May-17	INV	Alibaba Group	Lianhua Supermarket Holdings Co Ltd	N/A	Alibaba invests in brick-and-mortar stores by taking 18% stake in Lianhua supermarket chain
Jan-17	M&A	Yonghui Superstores/Bain Capital	Daymon Worldwide Inc	2,828	Yonghui will invest 40% in US retail services Daymon which ranges from private brand development to strategy and branding, sourcing and logistics, retail merchandising services and consumer experience marketing

Source: Bloomberg Finance L.P., companies, news reports, DBS HK

## Consumer Sector

## Food &amp; Non-alcoholic Beverages

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

**Recommendation and Valuation**

		Price	Target	%	
		Local\$	Price	upside	Recom
			Local\$		
<a href="#">China Foods (506 HK)</a>	HKD	3.26	3.88	19.0	BUY
<a href="#">China Mengniu Dairy (2319 HK)</a>	HKD	46.30	53.50	15.6	BUY
<a href="#">China Modern Dairy (1117 HK)</a>	HKD	1.38	1.60	15.9	BUY
<a href="#">COFCO Joycome (1610 HK)</a>	HKD	3.40	3.40	0.0	HOLD
<a href="#">Inner Mongolia Yili (600887 CH)</a>	CNY	38.76	52.00	34.2	BUY
<a href="#">Nissin Foods (1475 HK)</a>	HKD	5.86	8.00	36.5	BUY
<a href="#">Tingyi (322 HK)</a>	HKD	16.58	18.10	9.2	BUY
<a href="#">Uni-President China (220 HK)</a>	HKD	7.44	9.30	25.0	BUY
<a href="#">Wh Group (288 HK)</a>	HKD	5.30	6.30	18.9	BUY

Source: Thomson Reuters, DBS HK

## Winners in an inflationary market

- Players with decent pricing power and solid market share are in a better position to weather inflationary pressures to support margins
- Healthy cashflows and strong cash positions also help sail through lingering COVID-19 uncertainties
- With the Omicron outbreak, products that enhance immunity or increase convenience could also sustain higher demand.
- Our top picks are Yili, China Mengniu and UPC.

**Dairies & instant foods to grow relatively faster in 2022.** In times of COVID-19 resurgence and an inflationary environment, we prefer companies with (1) sound pricing power and strong products to pass on higher costs and enhance product-mix for supportive margins; and (2) resilient cashflows plus firm liquidity positions to sail through market volatilities. (3) Rising demand for quality foods to boost immunity given better health awareness, plus growing needs for convenience are also positive catalysts. As such, we believe industries with faster growth in 2022 could include a mid-teens y-o-y growth in dairies, driven by higher demand for low-temperature dairy categories and emerging cheese & butter products, and mid- to high-single digit growth in instant foods & beverages, fuelled by price hikes and slight sales volume uptick along with periodic tightening of social-distancing policies.

**Cost pressure persists but could moderate in 2H22.** One key concern for F&B players still rests on rising commodity prices. Various industry leaders with strong products & brand powers remain in better positions to raise average selling prices (ASP) to largely offset higher raw material costs. For instance, leading dairy, instant food, and condiment operators successfully initiating ASP hikes in China since a year ago, at low-single digit rate to 10%+ y-o-y to partially offset rising costs. While there could be time lags in price adjustments, we expect overall margin pressure to start easing into 2H22 on high base. Our house view currently forecast China inflation to rise by 2.5%/2.2% in 2022/23.

**Selective upstream could also benefit.** We prefer dairies and instant food & beverage categories over pork sector under our coverage. On rising commodity prices, we anticipate pork prices to have bottomed-out since 4Q21 and could recover gradually as sow inventory has peaked. We currently have a HOLD rating on COFCO Joycome and prefer WH Group in the hog sector.

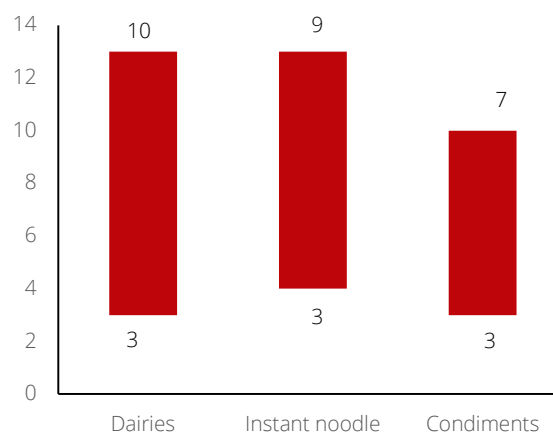
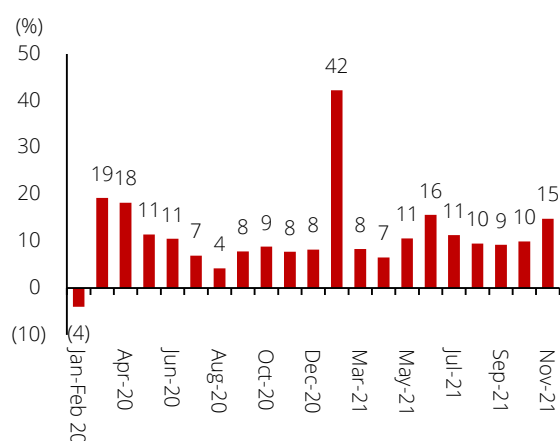
Valuation table

Company Name	Code		Target		Mkt	PE	PE Yield		Yield		P/Bk		EV/EBITDA		ROE		
			Price	Price Recom			Fiscal	22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
			Local\$	Local\$	US\$m	Yr	x	x	%	%	x	x	x	x	%	%	
China Foods	506 HK	HKD	3.26	3.88	BUY	1,171	Dec	11.6	10.5	2.2	2.4	1.3	1.2	5.1	4.8	11.6	11.7
China Mengniu Dairy	2319 HK	HKD	46.3	53.50	BUY	23,470	Dec	24.4	21.8	1.2	1.4	3.6	3.2	16.0	12.3	15.4	15.4
China Modern Dairy	1117 HK	HKD	1.38	1.60	BUY	1,103	Dec	5.9	4.9	3.1	3.8	0.9	0.8	3.8	3.2	16.0	16.6
COFCO Joycome Foods	1610 HK	HKD	3.4	3.40	HOLD	1,703	Dec	9.9	7.2	3.0	4.1	1.0	0.9	12.7	10.7	10.7	13.6
Inner Mongolia Yili 'A'	600887 CH	CNY	38.76	52.00	BUY	36,956	Dec	23.6	20.1	3.0	3.5	39.0	39.2	18.2	15.0	164.9	194.5
Nissin Foods	1475 HK	HKD	5.86	8.00	BUY	808	Dec	17.5	15.7	2.9	3.2	1.4	1.4	6.9	6.2	8.4	9.0
Tingyi	322 HK	HKD	16.58	18.10	BUY	11,973	Dec	16.8	15.9	5.9	6.3	3.5	3.5	6.8	6.6	21.2	22.1
Uni-President China	220 HK	HKD	7.44	9.30	BUY	4,126	Dec	15.7	14.2	6.4	7.0	1.9	1.9	6.9	6.2	12.1	13.2
WH Group	288 HK	HKD	5.3	6.30	BUY	10,034	Dec	6.8	6.2	5.2	5.7	0.9	0.8	5.8	5.4	13.8	13.6

Source: Thomson Reuters, DBS HK

Commodity Retail Sales Change % yoy: FB, Grain, Oil and Food (Above Designated Size Enterprise)

Price hikes of selected key players since Jan 2021



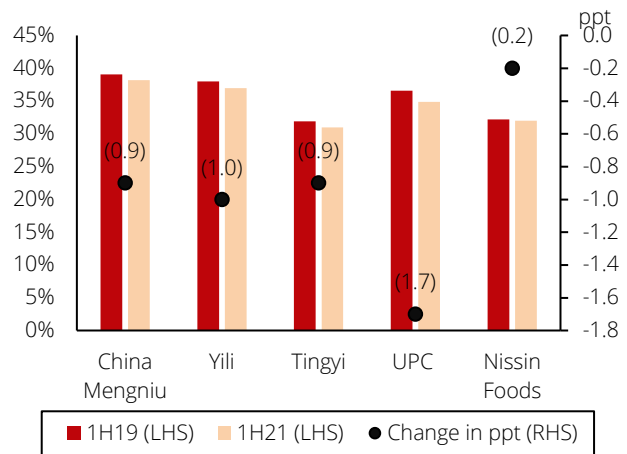
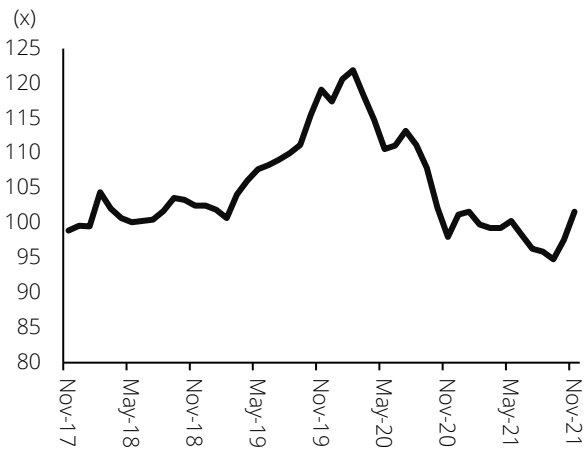
**Price hikes to partly offset commodity cost impact.** Commodity cost inflationary impact is one of the key concerns within the F&B sector. Leaders in various sub-categories such as instant food players (Tingyi, Uni-President China, Want Want, Nissin Foods), and dairies (China Mengniu, Yili), and others have announced respective price hikes to offset the impact of rising costs. For example, instant noodle players such as UPC and Nissin Foods have a selection of products under low-to-high single digit price increase in ex-factory prices. Tingyi has reverted some of its price hikes due to competitor not following suit in price increases. Dairies have seen low-to mid-single digit increases in white milk, with selective players such as Panda Dairy recording price up to double digit increase.

Source: National Bureau of Statistics, CEIC, DBS HK

Source: Company data, news sources, DBS HK

CPI inflation – Food

Change in gross profit margin in 1H19 vs. 1H21



**Product-mix upgrade.** We prefer companies with stronger pricing power given an inflationary market and rising raw material costs. Aside from price adjustments, we believe a company's capacity to elevate its blended average selling prices through product upgrades and product-mix enhancement along with rising premiumisation should be crucial to support its gross margin. Case in point, dairy sector reported 0.9-1ppt contraction between 1H19 and 1H21, while instant food & beverages saw a contraction of 0.2ppt and 0.9ppt respectively over the same period.

Source: National Bureau of Statistics, DBS HK

Source: National Bureau of Statistics, DBS HK



**Pricing adjustments in recent months**

Date	Company	Ticker	Segment	Description
Jan-21	Yili	600887.CH	Dairy	Raises ex-factory basic white milk by 3-5%
Jan-21	China Mengniu	2319.HK	Dairy	Raises basic white milk by 4-5%
Jul-21	Tingyi	322.HK	Instant noodle	Raises mid-priced & large packet 7-26% on both retail & ex-factory price (The Company has reverted some of the price hikes due to competitor not following suit starting Jan'22)
Jul-21	Nissin Foods	1475.HK	Instant noodle	Packaging size adjustments for CUP NOODLE brand
Aug-21	UPC	220.HK	Instant noodle	Adjustment in distribution rebate by 5-10% for large packets & bowls
Oct-21	Foshan Haitian	603288.CH	Condiments	Price adjustments on ex-factory prices for soybean, oyster sauce, other compound condiments by 3-7% starting Oct-25 due to increases in raw material, logistic and energy costs
Oct-21	Chacha Food	002557.CH	Snacks	Ex-factory price adjustment for sunflower seed, pumpkin, watermelon seeds by 8-18%
Oct-21	Anjoy Food	603345.CH	Frozen foods	Price adjustment for quick-frozen surimi products, rice and noodle products by 3-10% from 1-Nov
Nov-21	Haixin Food	002702.CH	Frozen foods	Price adjustment for quick-frozen rice or noodle dishes between 3-10% from 3-Nov
Nov-21	UPC	220.HK	Instant noodle	Price adjustment on ex-factory prices by mid-to-high single digit, with part of the increase to become effective starting 4Q21
Nov-21	Hengshun Vinegar	603288.CH	Condiments	Price adjustment between 5-15% on certain products from 20-Nov due to increase in raw material and logistic costs
Nov-21	Yili	600887.CH	Dairy	Mild price adjustment for low-temperature yogurt products (not disclosed)
Nov-21	Sanquan Foods	002216.CH	Frozen Foods	Selective frozen rice and noodle related products and quick frozen surimi products by 3-10%
Nov-21	Fuling Zhacai	002507.CH	Pickled vegetables	Selective products on ex-factory prices by 3-19%
Nov-21	Delisi	002330.CH	Meat processing	Increase pricing on selective beef products
Dec-21	Panda Dairy	300898.CH	Dairy	Price adjustment between 3-10% mainly targeting condensed milk related products, starting 1st of Jan 2022
Dec-21	China Mengniu	2319.HK	Dairy	Price adjustment of selective low-temperature products (not disclosed)
Dec-21	Want Want China	151.HK	Snacks	Each segment will see increase in pricing. In Jan-Feb, the increase in pricing will see 70-80% rebate back to distributors, where this would have a fixed percentage commitment to be used for advertising etc. The true pricing impact should only be seen starting March 2022. Dairy beverage (90% of sales) mid-single digit Rice-cracker (80% of sales) – mid-single digit Snacks (50% of sales) – mid-single digit
Jan-22	Nissin Foods	1475.HK	Instant noodle	Ex-factory price increase by mid-single digit for majority of products (CUP Noodle, Damae Iccho) starting 1st of March 2022.

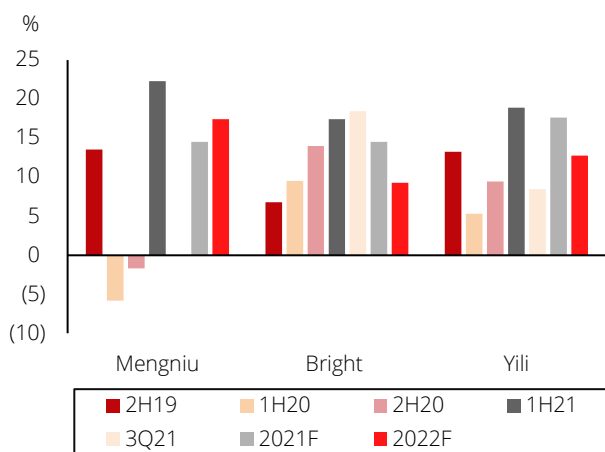
Source: Company data, news sources, DBS HK

**Prefer companies with ability to pass on costs.** We like companies with (1) pricing power to pass on cost to consumers through product mix enhancement, and price hikes to sustain margins, (2) healthy cashflows and strong cash positions to sail through volatility, and lastly, (3) growth catalysts with rising demand for quality foods that can boost immunity or a direct beneficiary of increased household consumption.

**Dairy sector**

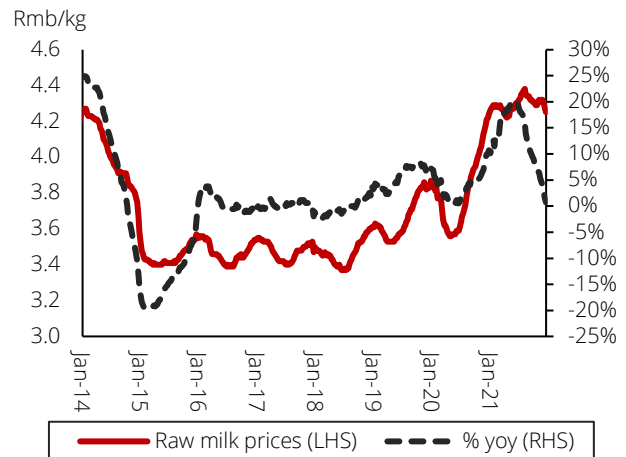
**Strong health proposition in face of COVID-19.** We like the dairy sector as we believe (1) both China Mengniu and Yili will foresee low-to-mid teens topline growth, with categories such as room-temperature liquid milk, low-temperature products (milk, yogurt) garnering double digit growth, emerging categories such as cheese & butter should also this includes China Mengniu in the dairy sector. (2) We expect dairy price pressure to ease in FY22F. Raw milk prices rose 0.7% y-o-y to Rmb4.25/kg in Jan-22. We forecast raw milk prices to rise by low-single digit in 2022E. (3) Historically, milk retail prices have increased steadily. According to MOC, milk and sour milk retail prices rose 4%/6% y-o-y to Rmb12.8/L and Rmb16.4/L in Dec'21 respectively.

**Sales trends remain firm for China Mengniu and Yili**



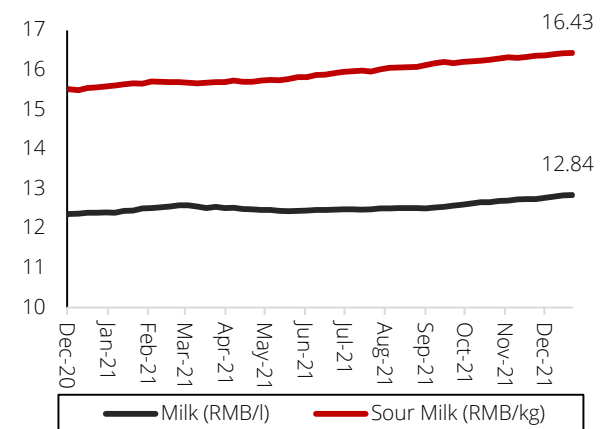
Source: Company data, DBS HK

**Raw milk price increase slowing in 1H22**



Source: MARA, CEIC, DBS HK

**Retail prices trending up steadily to offset increase in raw material prices**



Source: Ministry of Commerce, CEIC, DBS HK

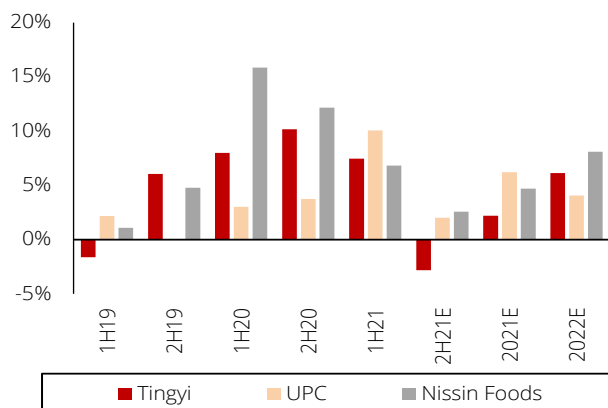
**Instant food & beverages sector**

**Increased demand on instant food on the back of COVID-19.** Instant food players such as Tingyi, UPC and Nissin Foods, should also benefit amid an uptick in demand due to a resurgence of COVID-19 cases. We expect instant noodle sales growth to be in the high single digit in 2022F, driven by ASP adjustments and normalising volume trends. As for RTD beverages, it will be dependent on the containment of COVID-19 cases. We currently forecast mid-high single digit topline growth across instant food and beverages players in 2022F.

**Raw material price impact partly mitigated by price hikes.** That said, raw material price surge remains a concern in the sector. Crude palm oil prices rose 74% y-o-y to MYR5,260/MT (US\$1,259/MT) in Jan-22. Based on our house view, crude oil palm prices are expected to be at US\$700/MT in 2022, as Indonesia aim to impose progressive export levies of US\$175/MT + US\$166/MT of export levies and taxes. As such, companies have initiated some price adjustments last year in face of higher input costs.

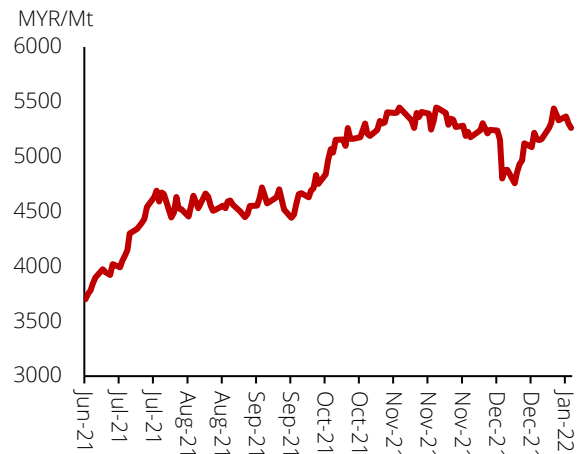
**Strong cashflows and cash positions to raise dividend payout.** Lastly, dividend payout has increased in recent years due to steady cash flows. Tingyi and UPC's net cash position sustained >Rmb6bn, while Nissin Foods stood at >HK\$2bn. With stable cash flows, Tingyi and UPC both effectively saw an increase in dividend payment in FY21F. Tingyi paid out a special dividend during interim results, which is estimated to raise dividend payout to above 150%, while UPC is also considering increasing payout above 100%, as announced in 3Q21.

**Sales trends pick up on increased demand from COVID-19**



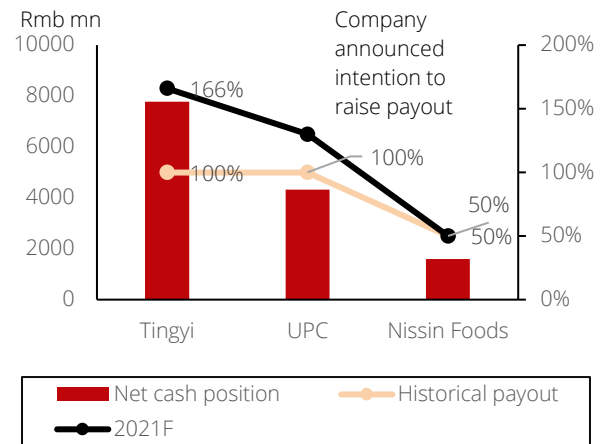
Source: Company data, DBS HK

**Crude palm oil prices remain high due to supply shortages in Southeast Asia**



Source: Bursa Malaysia, CEIC, DBS HK

**Dividend payout improvement supported by expanding financial positions**



Source: Company data, DBS HK

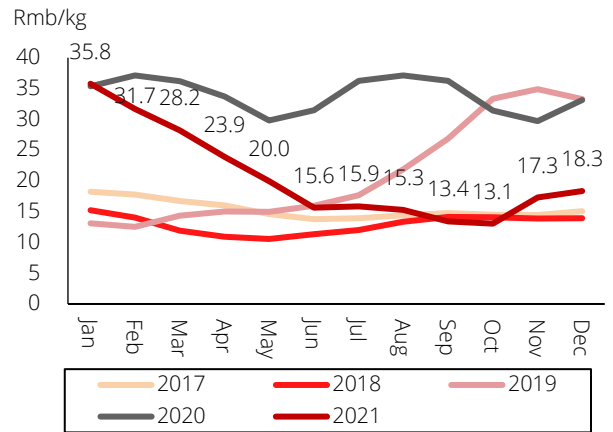
Pork sector

**Hog prices bottoming out.** We expect pork prices had largely bottomed out in 4Q21 and should gradually recover; Live hog prices saw mild rebound of 5% m-o-m with some reversion reported in early Jan'22. WH Group expects hog prices to range between Rmb14-18/kg in FY22F. We prefer the upstream players on gradual recovery in hog prices. We expect prices will recover on a m-o-m basis, with expectations at Rmb17.5/kg/Rmb18/kg in FY22F/FY23F.

**Production volume normalising.** production volume, whilst likely to slow versus FY21F, will deliver 15% growth in 2022F.

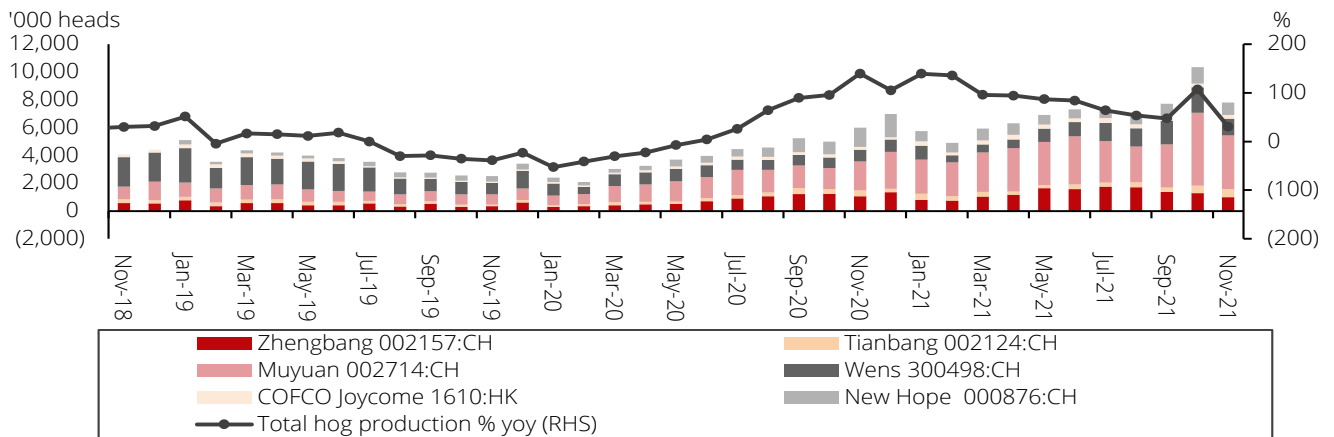
**Undemanding valuation versus peers.** COFCO Joycome is trading at an undemanding valuation at c.6x FY22F PE versus A-share listed peers at 20x FY22F PE.

Live hog prices bottomed out in Sept/Oct'21



Source: National Bureau of Statistics, DBS HK

Hog production build-up slowing down on weaker hog prices



Production volume has been slowing on weaker price trends. Nov21 volume declined 25% m-o-m (+30% y-o-y). 11M21 production volume rose 77% y-o-y to 77.3m heads.

Source: Company data, DBS HK

## Home Appliances

Mavis HUI +852 36684188 mavis\_hui@dbs.com

Kay Tan kaytanx@dbs.com

### Recommendation and Valuation

		Price Local\$	Target Price Local\$	% upside	Recom
<a href="#">Haier Smart Home (6690 HK)</a>	HKD	29.60	42.90	44.9	BUY
<a href="#">Haier Smart Home-A (600690 CH)</a>	CNY	27.77	35.75	28.7	BUY
<a href="#">Midea Group (000333 CH)</a>	CNY	74.70	93.51	25.2	BUY
<a href="#">GOME Retail (493 HK)</a>	HKD	0.59	0.75	27.5	HOLD

Source: Thomson Reuters, DBS HK

## A victim of slow property market?

- Despite slow property presales, overall pipeline for new home deliveries remains decent in 2022 given average laggard of 1-2 years to home completion, hence supporting home appliance demand this year
- Replacement demand also continues to take the lead to fuel ongoing home appliance sector growth
- More product innovation to prompt consumption upgrades & new demand, and improving overseas division should further drive performance. Top pick: Haier Smart Home (600690.CH; 6690.HK) on its higher exposure in washing machines & refrigerators that are largely supported by replacement demand, and better overseas performance

**New demand could remain largely intact.** Residential property sales in China have registered consecutive declines since Jul 2021 amid market concerns on troubled developers. Yet, most new home deliveries for 2022 are associated with properties purchased back in 2H20-1H21, hence new demand for home appliances should stay supportive this year. Latest monetary loosening in China might also help sentiment ahead.

**Replacement demand to dominate a majority of sales.** The correlation between white goods demand and new home completion has diminished over the years given the former's high household penetration rates. According to leading players, c.80% of washing machine and refrigerator sales, and at least half of air-conditioner sales are coming from replacement demand nowadays. Substantial replacement demand is also anticipated for 2022-2023, given the booming sales in 2008-2013 from China's rural subsidies and old-for-new subsidies, and average replacement cycle of 8-10 years.

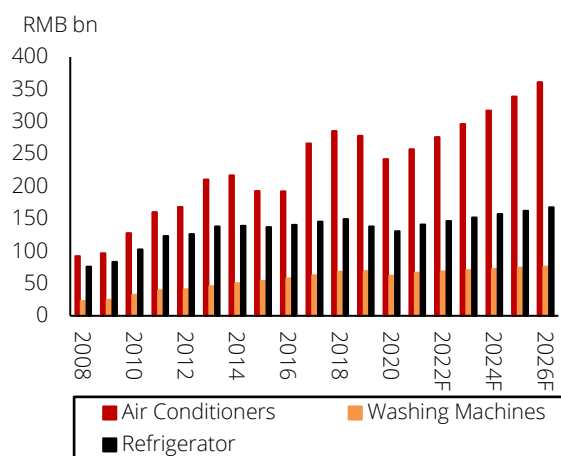
**Premiumisation remains the key to success.** Higher-end products have increasingly become the focus for product replacement amid rising household affordability. Haier's premium brand, Casarte, should maintain >30% revenue growth in 2022. Midea's high-end brand, COLMO, could also see strong double-digits' growth this year on a low base. Such product-mix upgrade could support margins despite volatile raw material costs. More R&D on product feature upgrades should also drive average selling price (ASP). Additionally, any improvements in the overseas division along with further scale expansion and localisation could unlock better medium-term growth potentials.

Valuation table

Company Name	Code		Target			Mkt Cap	Fiscal Yr	PE		PE Yield		P/Bk		EV/EBITDA		ROE	
			Price Local\$	Price Local\$	Price Recom			22F x	23F x	22F %	23F %	22F x	23F x	22F x	23F x	22F %	23F %
Haier Smart Home 'H'	6690 HK	HKD	29.6	42.90	BUY	38,425	Dec	14.9	13.1	2.4	2.8	2.7	2.5	9.1	7.9	19.4	19.8
Haier Smart Home 'A'	600690 CH	CNY	27.77	35.75	BUY	38,425	Dec	17.1	15.0	2.1	2.4	3.1	2.8	10.4	9.2	19.4	19.8
Midea Group 'A'	000333 CH	CNY	74.7	93.51	BUY	82,556	Dec	16.0	13.6	3.1	3.7	4.3	4.2	10.9	9.5	27.1	30.9
Gome Retail Holdings	493 HK	HKD	0.59	0.75	HOLD	1,633	Dec	n.a.	n.a.	0.0	0.0	1.5	1.2	20.8	13.9	(10.0)	(2.0)

Source: Thomson Reuters, DBS HK

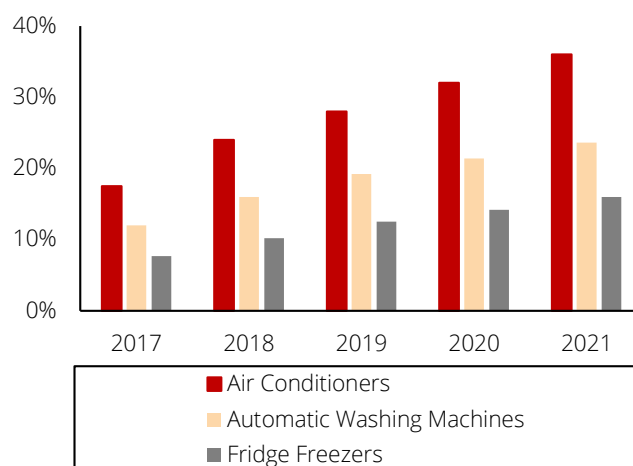
Market Size of China's Consumer Appliance Industry



The market size of air conditioners, washing machines, and refrigerators is expected to grow by 7.0%, 2.7%, and 3.5% CAGR in 2012F-2026F, respectively.

Source: Euromonitor, DBS HK

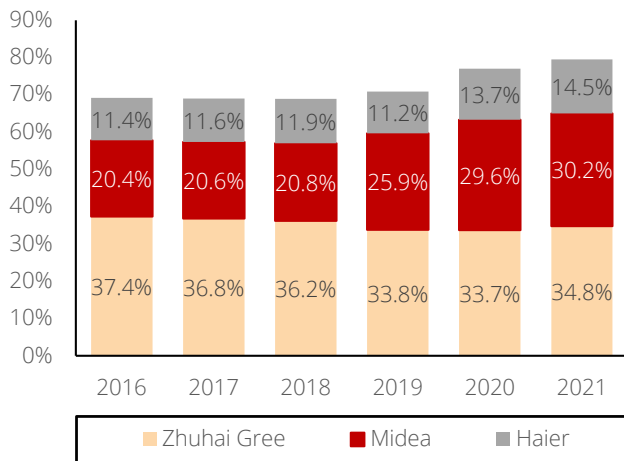
Smart Appliances as a Proportion of Segmental Sales



Proportionate sales of smart / connected appliances across the three main white goods segments had sustained a strong uptrend. We believed such a trend will continue to accelerate given strong market demand for smart appliances and continuous R&D investments by leading home appliance players.

Source: Euromonitor, DBS HK

**Market Share of Air-conditioner by Volume**



Gree has maintained its leading position in air-conditioners over the years, while Midea posted strong growth, boosting its market share by 10ppts over the past 6 years. Haier also lifted its market share by over 3ppts during 2019-2021.

Source: Euromonitor, DBS HK

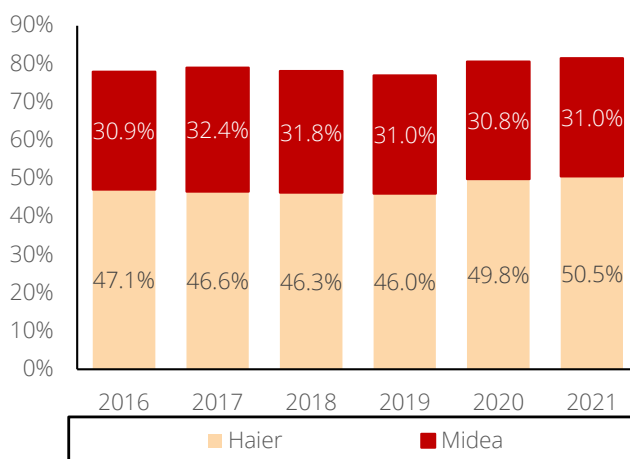
**Air-conditioners – Market Share by Volume**

	2016	2017	2018	2019	2020	2021
Zhuhai Gree	37.4%	36.8%	36.2%	33.8%	33.7%	34.8%
Midea	20.4%	20.6%	20.8%	25.9%	29.6%	30.2%
Haier	11.4%	11.6%	11.9%	11.2%	13.7%	14.5%
Hisense	6.4%	6.4%	6.2%	5.4%	4.9%	4.7%
AUX	6.4%	7.7%	8.8%	9.0%	5.3%	4.6%

Aside from Gree, Midea and Haier, Top-5 players in the air-conditioner segment in China include Hisense and AUX.

Source: Euromonitor, DBS HK

**Market Share of Washing Machines by Volume**



Haier dominates the washing machine segment, achieving more than 50% share of the market in 2021. Both Haier and Midea altogether account for more than 80% of the market.

Source: Euromonitor, DBS HK

**Washing Machines – Market Share by Volume**

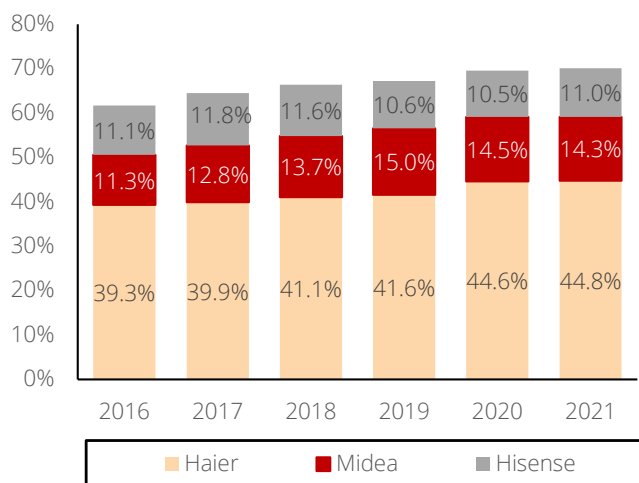
	2016	2017	2018	2019	2020	2021
Haier	47.1%	46.6%	46.3%	46.0%	49.8%	50.5%
Midea	30.9%	32.4%	31.8%	31.0%	30.8%	31.0%
TCL	3.0%	3.6%	3.5%	3.3%	3.3%	3.2%
Panasonic	4.1%	3.5%	3.7%	2.9%	2.6%	2.8%
Whirlpool	6.8%	6.2%	5.4%	4.8%	3.8%	2.0%

Aside from Haier and Midea, Top-5 players in the washing machine segment in China include TCL, Panasonic and Whirlpool.

Source: Euromonitor, DBS HK

Consumer Sector

Market Share of Refrigerators by Volume



Both Haier and Midea expanded their market share by around 5ppts and 3ppts respectively in 2016-2021, while Hisense more or less maintained its market share in past few years.

Source: Euromonitor, DBS HK

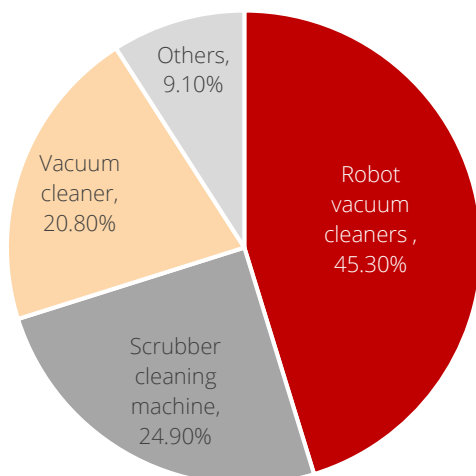
Refrigerators – Market Share by Volume

	2016	2017	2018	2019	2020	2021
Haier	39.3%	39.9%	41.1%	41.6%	44.6%	44.8%
Midea	11.3%	12.8%	13.7%	15.0%	14.5%	14.3%
Hisense	11.1%	11.8%	11.6%	10.6%	10.5%	11.0%
Hefei Meiling	7.4%	7.5%	7.5%	7.4%	6.9%	6.7%
TCL	3.1%	2.9%	3.1%	3.1%	2.9%	3.1%

Aside from Haier and Midea, Top-5 players in the refrigerator segment in China include Hisense, Hefei Meiling and TCL.

Source: Euromonitor, DBS HK

Cleaning Appliance Sales in 11.11 Festival (2021)



Sales of cleaning appliances climbed by 35.7% y-o-y in the 11.11 shopping festival last year to reach RMB5.5bn. Robot vacuum cleaners were the top sellers that accounted for nearly half of total sales of cleaning appliances.

Source: AVC, DBS HK

Cleaning Appliance growth in 11.11 Festival (2021)

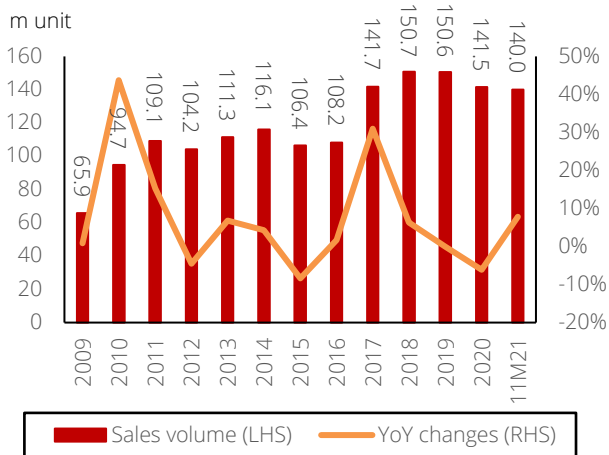
	Sales share of cleaning appliance	YoY changes in sales amount	ASP	YoY changes in ASP
Robot vacuum cleaners	45.30%	45%	3,152	61%
Scrubber cleaning machine	24.90%	166%	3,192	4%
Vacuum cleaner	20.80%	-6%	1,822	5%
Others	9.10%	-18%	386	-6%

Robot vacuum cleaners were the top sellers in 11.11 shopping festival during 2021, registering 61% y-o-y increase in average selling price (ASP) and 45% sales growth.

Source: AVC, DBS HK



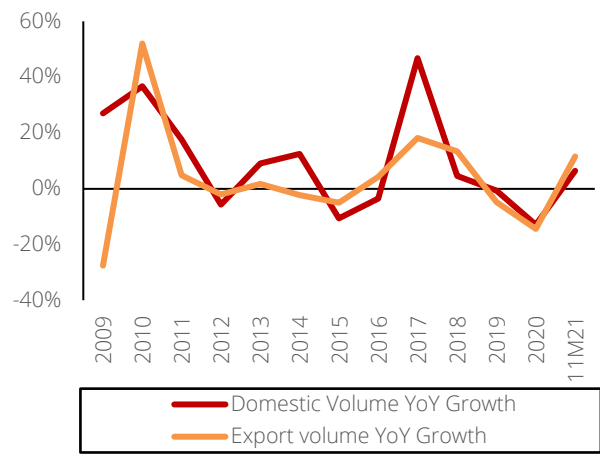
**Total Air Conditioner Sales Volume**



Sales volume of air conditioners hit a 10-year high in 2018, then trended downwards especially during the spark of COVID-19 in 2020, until recouping an 7.8% y-o-y growth in 11M21.

Source: ChinaIOL, DBS HK

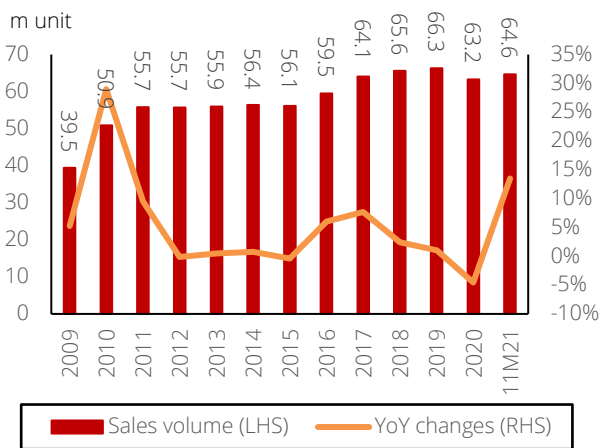
**Air Conditioner Sales Volume Growth**



Sales volume of air-conditioners resumed a positive growth last year, seeing 6.4% and 11.6% y-o-y increase in domestic and overseas sales, respectively, for 11M21.

Source: ChinaIOL, General Administration of Customs, DBS HK

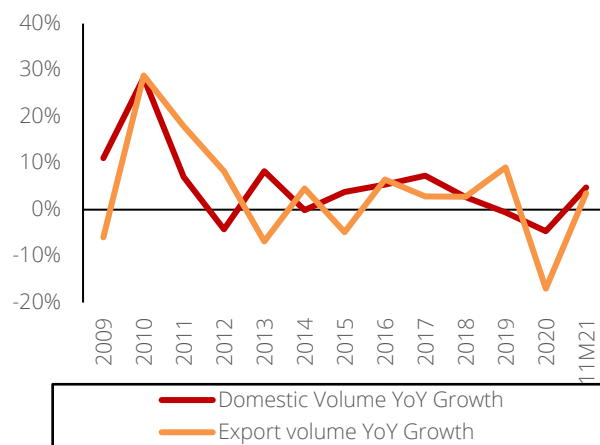
**Total Washing Machine Volume Sales**



The volume demand for washing machines has remained largely stable in recent years, except for the strong rebound in 11M21 from a low base amid initial COVID-19 outbreaks in 2020.

Source: ChinaIOL, DBS HK

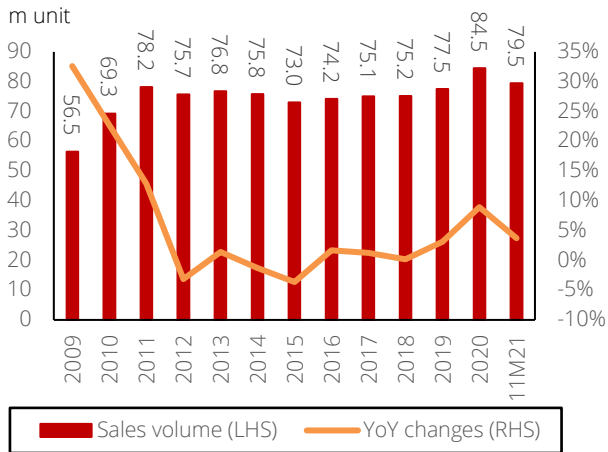
**Washing Machine Sales Volume Growth**



Overseas performance of washing machines bottomed in 2020, mainly due to the pandemic, and rebounded last year by 3.5% y-o-y in 11M21.

Source: ChinaIOL, General Administration of Customs, DBS HK

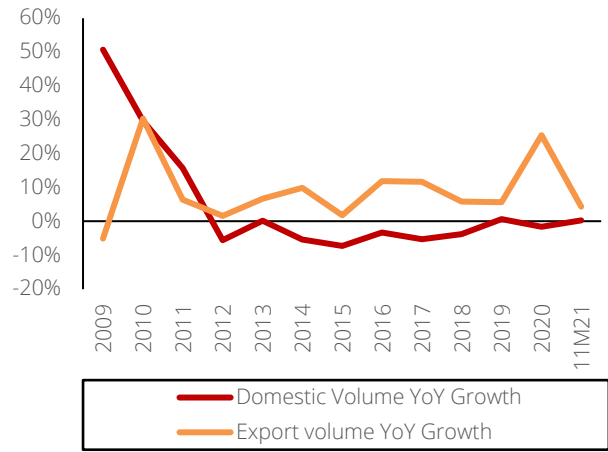
**Total Refrigerator Sales Volume**



Volume demand for refrigerators remained quite steady in recent years.

Source: ChinaIOL, DBS HK

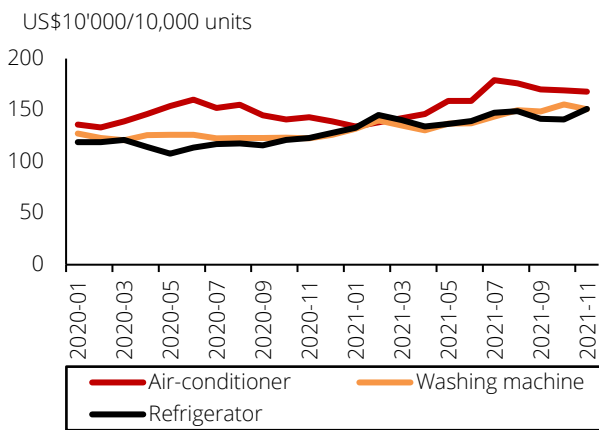
**Refrigerator Sales Volume Growth**



Compared to domestic volume of sales, export performance of refrigerators seems outperforming slightly.

Source: ChinaIOL, General Administration of Customs, DBS HK

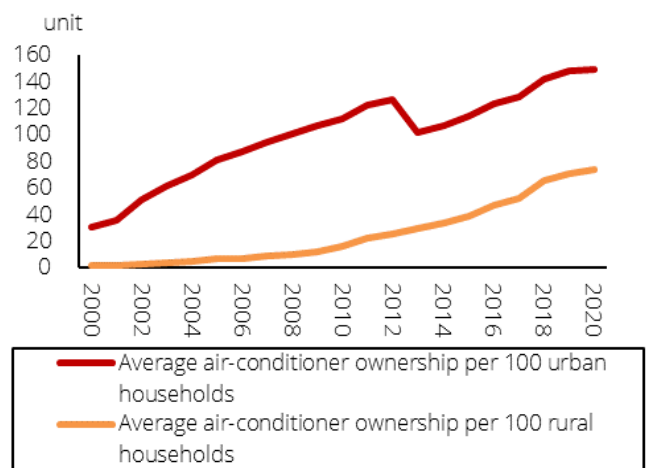
**Average price of Exports**



Increasing export prices during 2021 amid rising raw material prices and global shipping costs.

Source: WIND, DBS HK

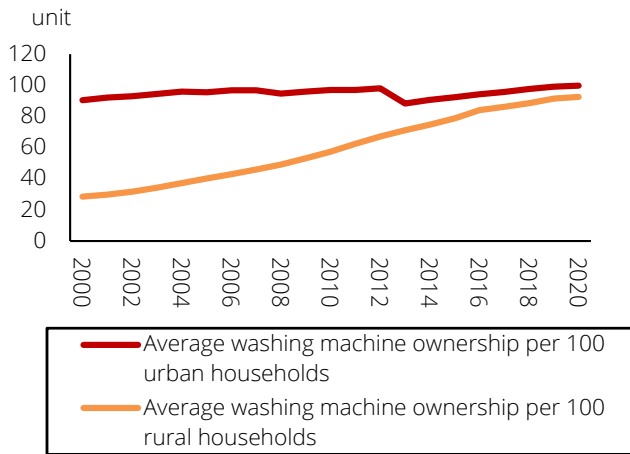
**Average Air-conditioners Ownership Per Family**



Demand for air-conditioners in both the cities and rural areas are on a strong uptrend. It is obvious that there is still room for the rural markets to improve further on penetration rates given their less than one air-conditioner per household.

Source: National Bureau of Statistics, DBS HK

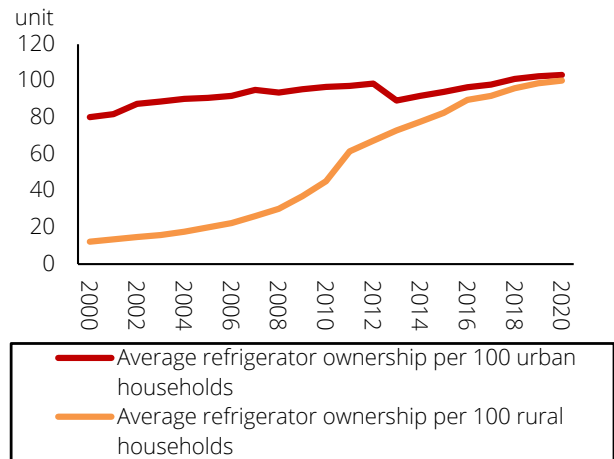
**Average Washing Machines Ownership Per Family**



The performance of both urban and rural markets is relatively close, with 99.7% and 92.6% of families in the urban and rural areas, respectively, possessing a washing machine. There is still some room for new demand but replacement will be the main growth driver.

Source: National Bureau of Statistics, DBS HK

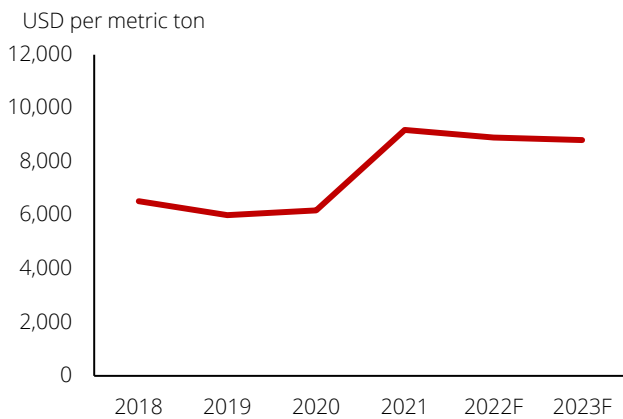
**Average Refrigerators Ownership Per Family**



Given the rising demand for food preservation, households in both the cities and rural areas have at least one refrigerator per household, with their respective penetration rates of 103.1% and 100.1%.

Source: National Bureau of Statistics, DBS HK

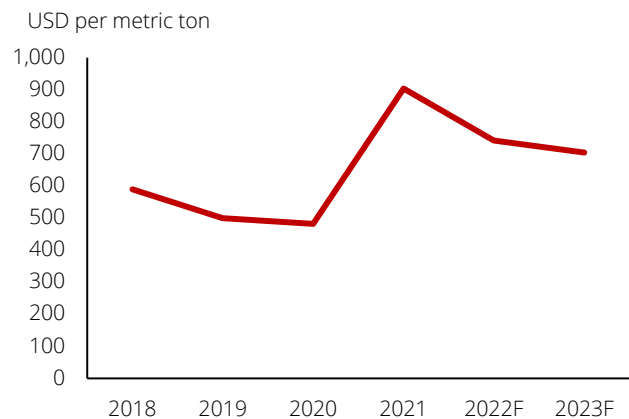
**Average Copper Price Trend**



Average copper prices peaked in 4Q21, with our house view from Commodities Team expecting a flattish price trend in 2022-2023.

Source: DBS HK

**Average Steel Price Trend**



Average steel prices peaked in 4Q21, with our house view from Commodities Team expecting a sequential price decline in 2022-2023.

Source: DBS HK

## Household & personal care

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
 Kay Tan kaytanx@dbs.com

### Recommendation and Valuation

		Price Local\$	Target Price Local\$	% upside	Recom
<a href="#">Hengan Int'l (1044 HK)</a>	HKD	39.70	47.32	19.2	BUY
<a href="#">Vinda International (3331 HK)</a>	HKD	21.60	25.53	18.2	BUY

Source: Thomson Reuters, DBS HK

## The higher-end drives opportunities

- Rising living standards and health awareness to sustain growing demand for hygiene & personal care products
- More room to expand on relatively low penetration & diversified consumer needs towards the high-end
- We prefer Vinda for its strong online sales and its niche in the premium segment. On valuation grounds, Hengan's share price also approaches a 10-year low and could be revisited.

**Leading players well-poised to grow further.** Riding on better living standards in China, the domestic tissue market expanded by a 5.7% 10-year volume CAGR to 10m tonnes in 2020 (2010: 5.7 tonnes), and is expected to sustain c.5.5% CAGR during 2021-2025. Currently, China's per capita tissue consumption of c.RMB100 per annum is merely less than half of the US' and still sees ample room to grow. The top-2 players, Hengan and Vinda, continue to gain market share over last few years; together with the third largest player C&S, altogether they seize c.25% of the market, with the tissue segment contributing to as much as c.50%/80%/95% of Hengan/Vinda/C&S' respective group revenue.

**Brand & quality matters.** Vinda's renowned premium-brand, "Tempo", achieved >50% y-o-y sales growth last year and outperformed the industry. Accounting for just 7% of group revenue and c.1% of market share in China, the "Tempo" brand should sustain robust potentials ahead, given rising demand for high-end products along with ascending household affluence and the needs for quality lifestyle merchandises. Hengan's efforts to roll-out more premium product lines such as "Cloudy Soft Skin" should also beef up growth prospects. As competition intensifies, strong brands and products should continue to safeguard solid market positions and form entry barriers to some extent.

### Mid-term potentials: selected personal care segments.

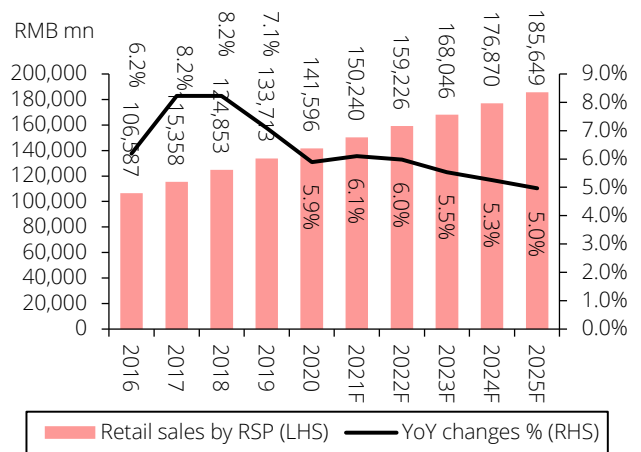
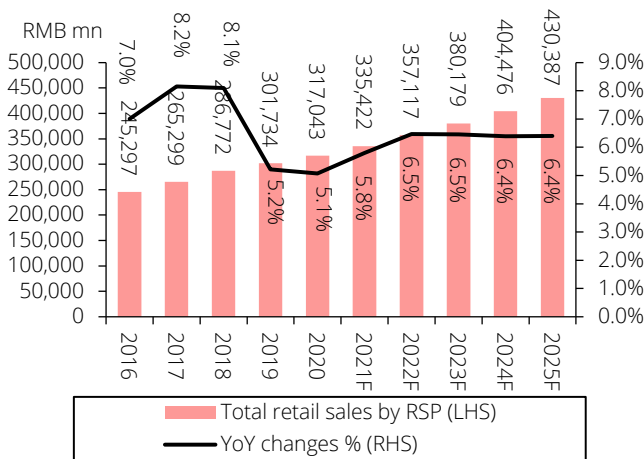
While the feminine sanitary napkin market is relatively more stable, improving awareness of hygiene care should fuel attractive medium-term growth of both the adult incontinence product and baby diaper segments. This is especially the case in China, on the back of an ageing population and the relatively lower penetration rate for incontinence products. While current sales exposure remains small, we believe these two segments could offer a sound business outlook and become additional growth drivers for major players over the next 5-10 years.

Valuation table

Company Name	Code	Local\$	Target		Mkt Cap US\$m	Fiscal Yr	PE		PE Yield		P/Bk		EV/EBITDA		ROE		
			Price Local\$	Price Recom Local\$			22F x	23F x	22F %	23F %	22F x	23F x	22F x	23F x	22F %	23F %	
Hengan Intl.Gp.	1044 HK	HKD	39.7	47.32	BUY	6,046	Dec	9.8	9.1	6.6	7.1	1.9	1.9	7.8	7.1	19.6	20.3
Vinda Int'l	3331 HK	HKD	21.6	25.53	BUY	3,292	Dec	12.7	10.7	2.2	2.6	2.0	1.9	7.7	6.8	15.6	18.0

Source: Thomson Reuters, DBS HK

Total Market Size of Household & Personal Care Products in China Market size: Tissue



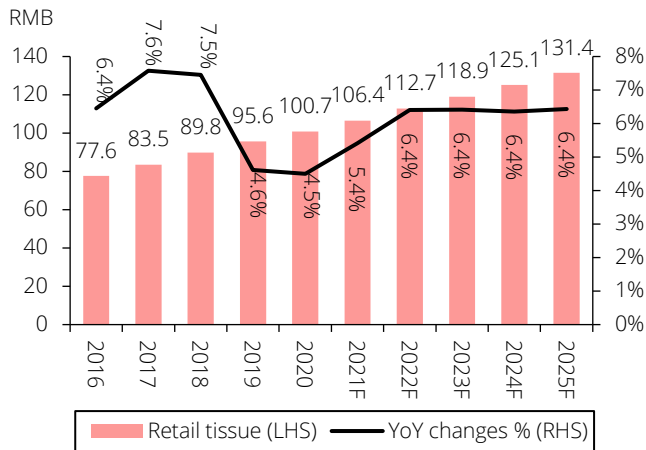
Increasing demand consumption power and living standards lay a good support to overall market size of the household & personal care industry ahead.

Source: Euromonitor, DBS HK

The tissue market in China had expanded by a 7% CAGR during 2016-2020. It is expected to sustain a decent 5.5% CAGR in 2020-2025F to reach RMB185.6bn.

Source: Euromonitor, DBS HK

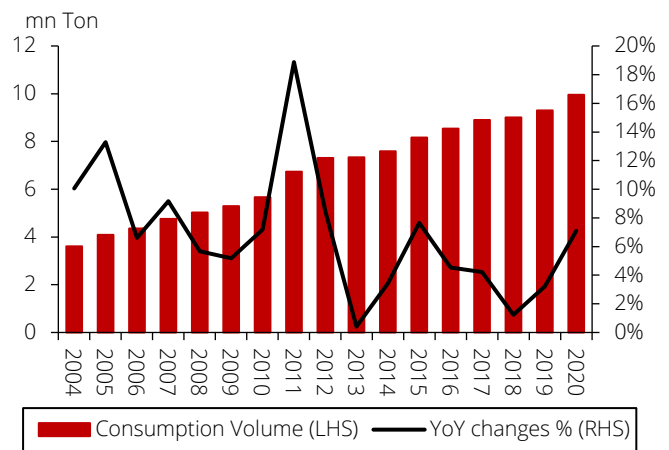
Per Capita Tissue Consumption in China



On the back of rising per capita disposable income in China, we have also seen a solid expansion in per capita tissue consumption, from RMB77.6 per annum in 2016 to RMB100.7 in 2020.

Source: Euromonitor, DBS HK

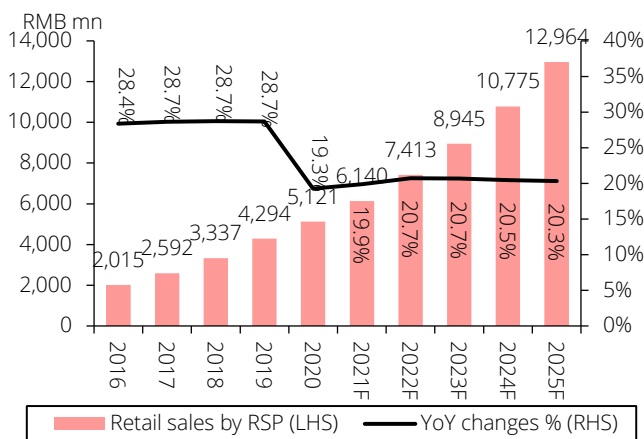
Total Tissue Consumption Volume in China



Total tissue consumption volume showed a stable increasing trend with a c.5.8% CAGR from 2004 to 2020.

Source: Almanac of China's Paper Industry, DBS HK

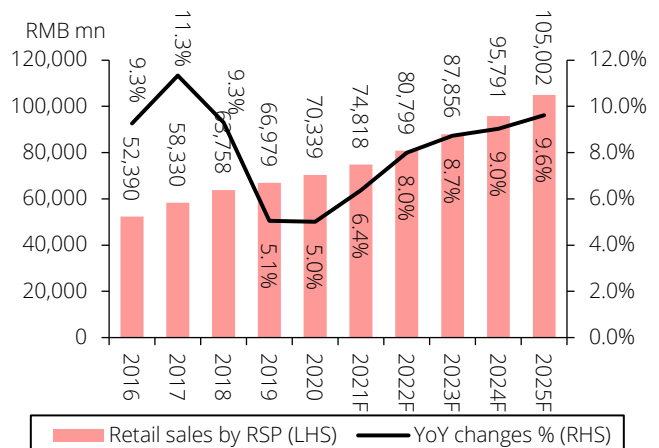
Market size: Adult Incontinence



Along with China's ageing population, demand for adult incontinence products should continue to grow fast.

Source: Euromonitor, DBS HK

Market size: Diapers

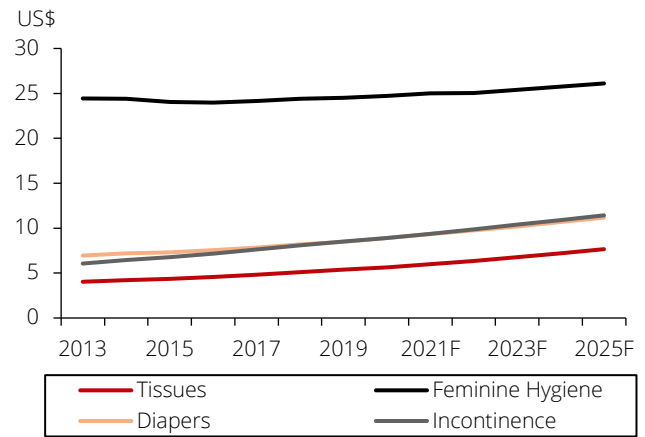
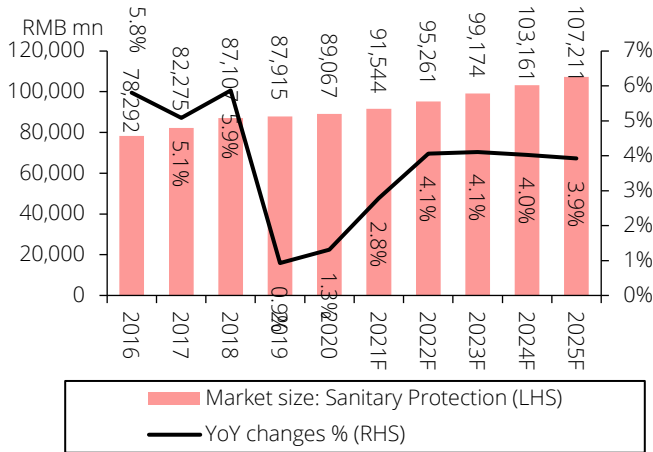


Riding on the improvement of living standards, consumption upgrades, and the newer three-child policy, the growth rate of diapers is faster than both the tissue and sanitary protection segments.

Source: Euromonitor, DBS HK

Market size: Feminine Sanitary Products

Price per unit (USD)



While a premiumisation and diversification trend is also noticed for this segment, given a relatively higher maturity, it is expected to maintain stable growth in the next few years.

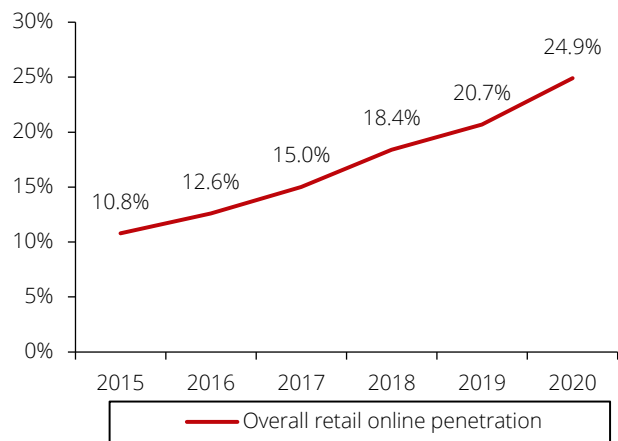
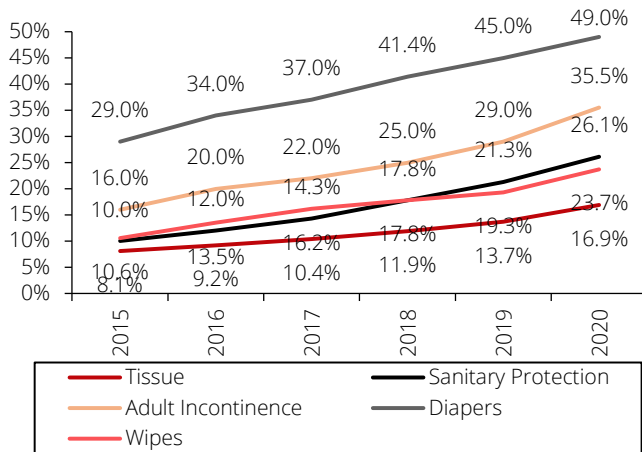
Price per unit showed a clear increasing trend and is expected to continue the momentum.

Source: Euromonitor, DBS HK

Source: Euromonitor, DBS HK

Online sales penetration by different segments

Online penetration – total retail sales in China



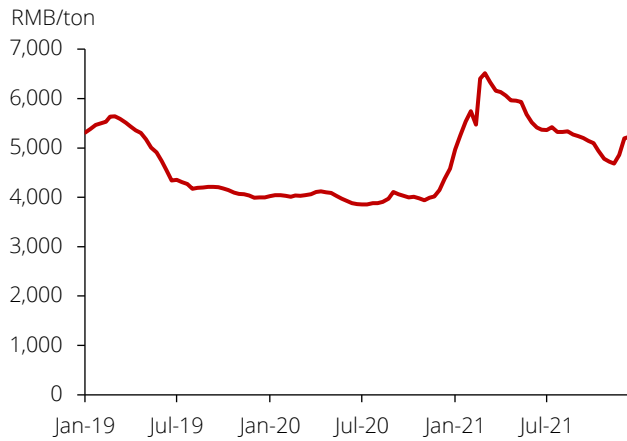
Nearly half of the diaper consumption went through e-commerce channels, while the online penetration of both adult incontinence products (35.5%) and sanitary napkins (26.1%) also exceeded the industry averages.

E-commerce has been seeing a good growth trajectory in China, which has further been accelerated by the COVID-19 pandemic.

Source: Euromonitor, DBS HK

Source: National Bureau of Statistics of China, DBS HK

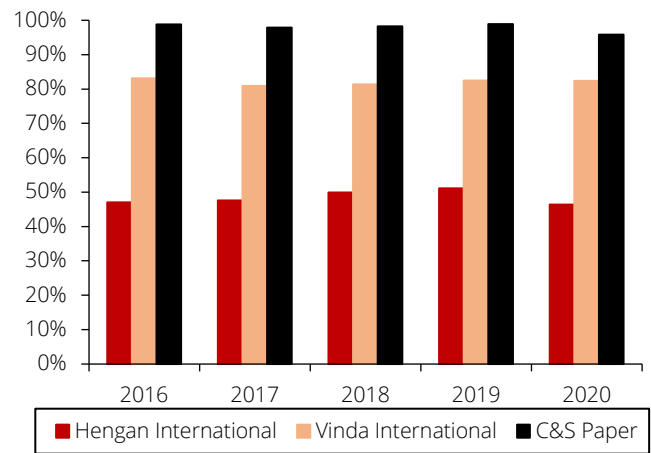
**Pulp Price**



A high pulp price since 2021 brought resistance for the tissue segment.

Source: National Bureau of Statistics of China, DBS HK

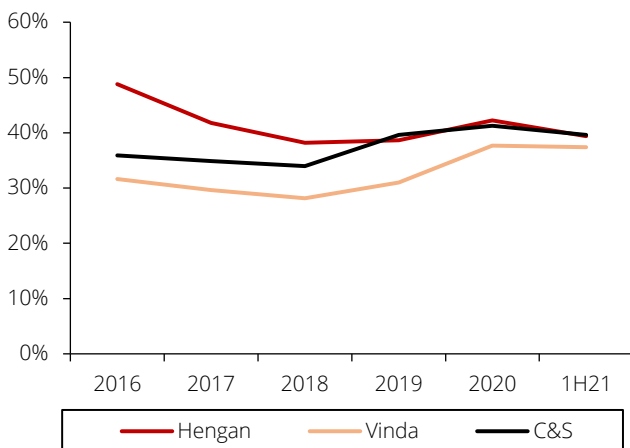
**Revenue Contribution of Tissue Segment**



Profitabilities would be largely affected, as tissue accounts for 46.4%, 82.4%, and 95.9% of total revenue for Hengan, Vinda, and C&S respectively in 2020.

Source: DBS HK

**GP Margin of Three Leading Players**



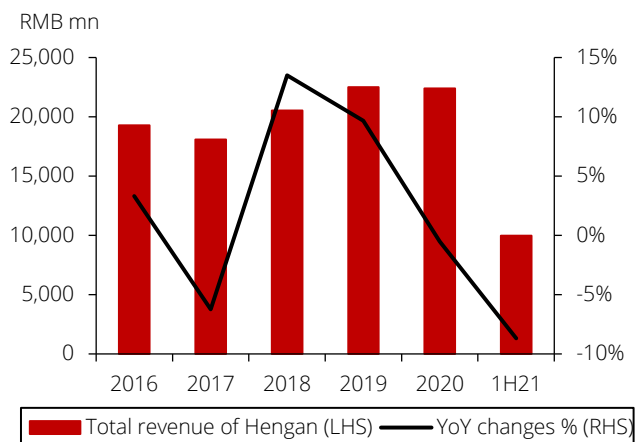
It is obvious that the GP margin is under pressure given the high raw material costs.

Source: DBS HK



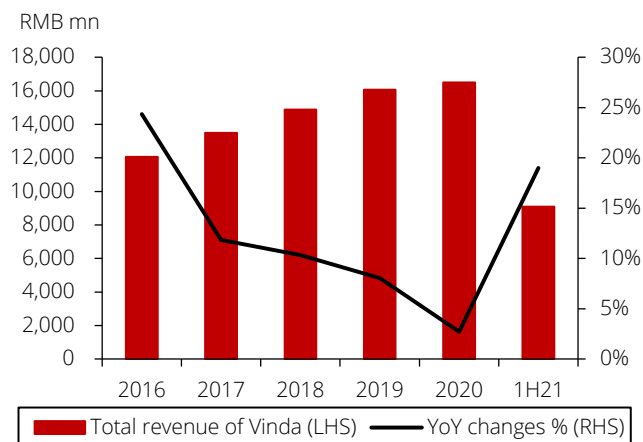
Consumer Sector

**Total Revenue: Hengan**



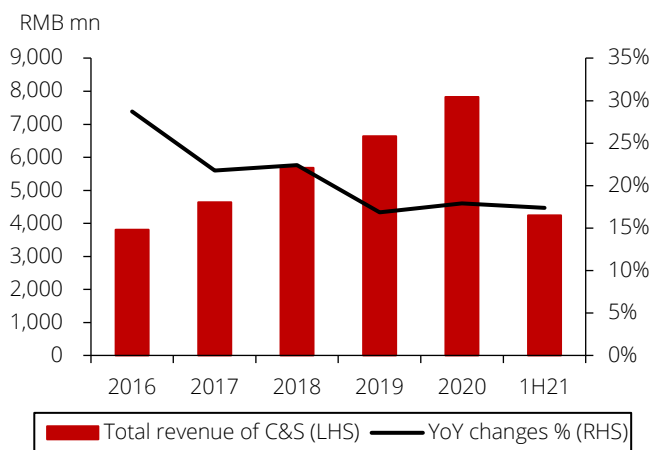
Source: DBS HK

**Total Revenue: Vinda**



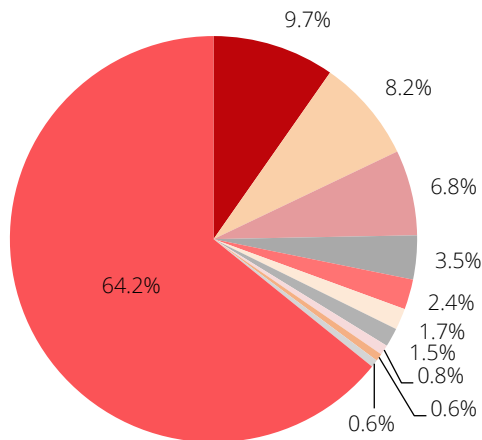
Source: DBS HK

**Total Revenue: C&S**



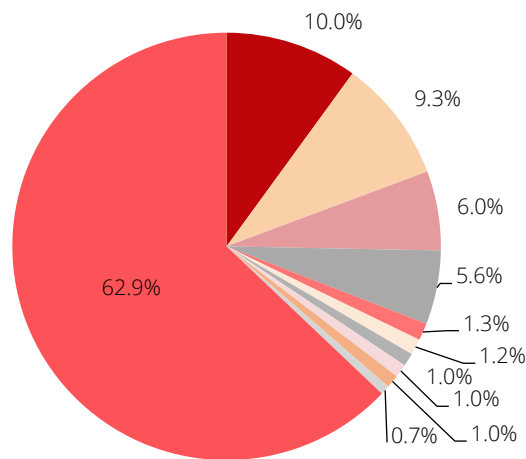
Source: DBS HK

China Top 10 Tissue Brand (2015 vs. 2020)



China Top 10 Tissue Brand Share in 2015

- Hearttex - Hengan International Group Co Ltd
- Vinda - Vinda International Group Co Ltd
- Breeze - Asia Pulp & Paper Co Ltd
- Clean & Soft - C&S Paper Co Ltd
- Kleenex - Kimberly-Clark Corp
- Hygienix - CIMIC Holdings Ltd
- May Flower - Yuen Foong Yu Paper Enterprise Co Ltd
- Sun Elements - Shandong Sun Paper industry JSC Ltd
- Tralin - Shandong Tralin Paper Co Ltd
- Private label - Private Label
- Others

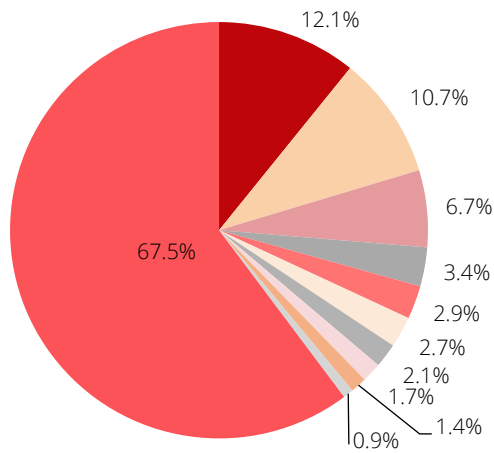


China Top 10 Tissue Brand Share in 2020

- Hearttex - Hengan International Group Co Ltd
- Vinda - Vinda International Group Co Ltd
- Clean & Soft - C&S Paper Co Ltd
- Breeze - Asia Pulp & Paper Co Ltd
- Hygienix - CIMIC Holdings Ltd
- Botare - Fujian Duoduoyun Co Ltd
- Kleenex - Kimberly-Clark Corp
- May Flower - Yuen Foong Yu Paper Enterprise Co Ltd
- Babo - Sichuan Huanlong New Material Co Ltd
- Sun Elements - Shandong Sun Paper industry JSC Ltd
- Others

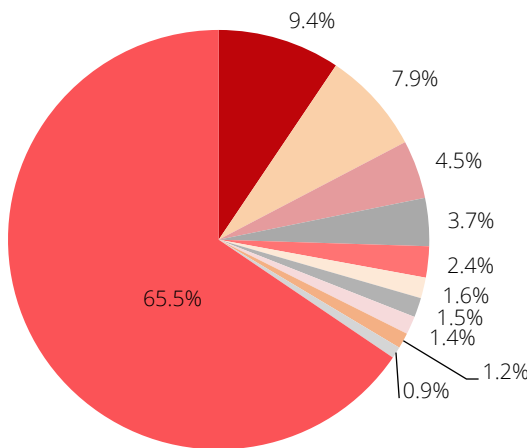
Source: Euromonitor, DBS HK

China Top 10 Adult Incontinence Brand (2015 vs. 2020)



China Top 10 Adult Incontinence Brand Share in 2015

- Elderjoy - Hengan International Group Co Ltd
- Coco - Hangzhou Coco Healthcare Products Co Ltd
- Dr P - Vinda International Group Co Ltd
- Zhen Qi - Hangzhou Zhen Qi Health Products Co Ltd
- Qianzhiya - Hangzhou Shutai Sanitary Products Co Ltd
- Depend - Kimberly-Clark Corp
- Saluba - Tianjin Xinglin Zhi Guang Science & Technology Dev Co Ltd
- Bangyiba - Tianjin Yifei Hygienic Products Co Ltd
- Chang Qing Shu - Qidong Tiancheng Daily Use Products Co Ltd
- Welfare - Shanghai Welfare Group Ltd
- Others

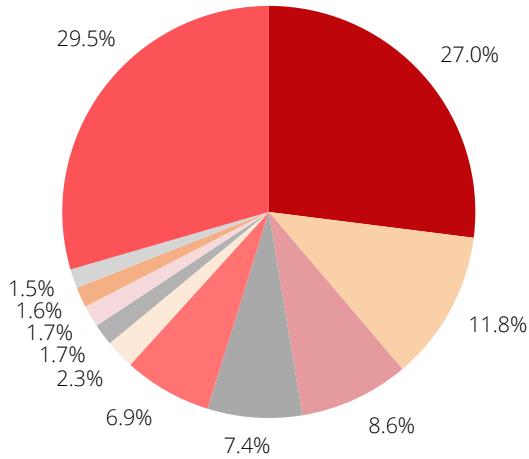


China Top 10 Adult Incontinence Brand Share in 2020

- Coco - Hangzhou Coco Healthcare Products Co Ltd
- Elderjoy - Hengan International Group Co Ltd
- Dr P - Vinda International Group Co Ltd
- Zhoudaren - Shandong Kangshun Daily Products Co Ltd
- Lao Lai Fu - Hebei Hongda Healthcare Co Ltd
- Depend - Kimberly-Clark Corp
- Zhen Qi - Hangzhou Zhen Qi Health Products Co Ltd
- Comfrey - Hangzhou Haoyue Industrial Co Ltd
- Qianzhiya - Hangzhou Shutai Sanitary Products Co Ltd
- Lifree - Unicharm Corp
- Others

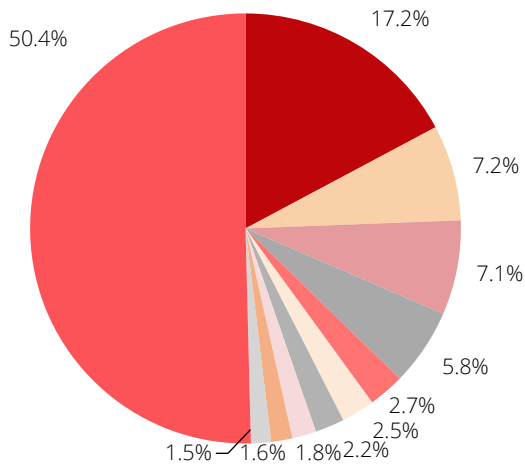
Source: Euromonitor, DBS HK

China Top 10 Diapers Brand (2015 vs. 2020)



China Top 10 Diapers Brand Share in 2015

- Pampers - Procter & Gamble Co
- Huggies - Kimberly-Clark Corp
- Merries - Kao Corp
- Mamypoko - Unicharm Corp
- Anerle - Hengan International Group Co Ltd
- Mignon Baby - AAB Group
- Goo.N - Daio Paper Corp
- Yinyin - Guangdong Yinyin Co Ltd
- Dress - Guangdong Winsun Sanitary Products Co Ltd
- Moony - Unicharm Corp
- Others

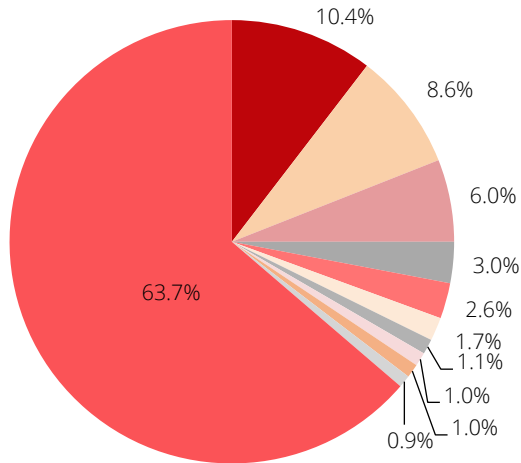


China Top 10 Diapers Brand Share in 2020

- Pampers - Procter & Gamble Co, The
- Huggies - Kimberly-Clark Corp
- Merries - Kao Corp
- Goo.N - Daio Paper Corp
- Moony - Unicharm Corp
- Mamypoko - Unicharm Corp
- Anerle - Hengan International Group Co Ltd
- Yinyin - Guangdong Yinyin Co Ltd
- Dress - Guangdong Winsun Sanitary Products Co Ltd
- Babycare - Shanghai Xier Industrial Co Ltd
- Others

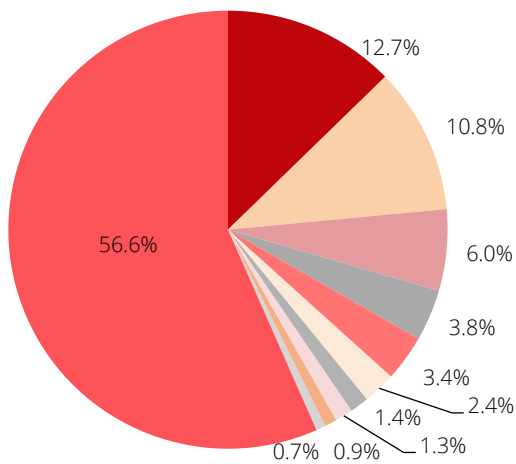
Source: Euromonitor, DBS HK

China Top 10 Feminine Sanitary Brand (2015 vs. 2020)



China Top 10 Feminine-care Brand Share in 2015

- Space 7 - Hengan International Group Co Ltd
- Sofy - Unicharm Corp
- Always/Whisper - Procter & Gamble Co, The
- ABC - Kingdom Healthcare Holdings Ltd, Guangdong
- Kotex - Kimberly-Clark Corp
- Laurier - Kao Corp
- Anerle - Hengan International Group Co Ltd
- Freemore - Chongqing Baiya Sanitary Products Co Ltd
- Lady Care - Beiersdorf AG
- Little Nurse - Tianjin Little Nurse Industry & Commence Dev Co Ltd
- Others



China Top 10 Feminine-care Brand Share in 2020

- Sofy - Unicharm Corp
- Space 7 - Hengan International Group Co Ltd
- Always/Whisper - Procter & Gamble Co, The
- Kotex - Kimberly-Clark Corp
- ABC - Kingdom Healthcare Holdings Ltd, Guangdong
- Laurier - Kao Corp
- Freemore - Chongqing Baiya Sanitary Products Co Ltd
- Lady Care - Beiersdorf AG
- Geron - Guilin Jieliang Industry Co Ltd
- Haoshushuang - Fujian Hengan Group Co Ltd
- Others

Source: Euromonitor, DBS HK

## Macau Gaming

Mavis HUI +852 36684188 mavis\_hui@dbs.com

### Recommendation and Valuation

		Price Local\$	Target Price Local\$	% upside	Recom
<a href="#">Galaxy Ent (27 HK)</a>	HKD	46.40	54.17	16.7	BUY
<a href="#">SJM (880 HK)</a>	HKD	5.25	9.00	71.5	BUY
<a href="#">Sands China (1928 HK)</a>	HKD	22.55	37.92	68.1	BUY
Melco Int'l* (200 HK)	HKD	9.20	n.a.	n.a.	NR
Wynn Macau (1128 HK)	HKD	7.01	n.a.	n.a.	NR
MGM China (2282 HK)	HKD	5.38	n.a.	n.a.	NR

Source: Thomson Reuters, DBS HK

## Catalysts could progressively materialise in 2022

- 1H22 GGR may still be impacted by periodic border restrictions in Macau amid potential COVID-19 resurgence and affect near-term sentiment. Yet, we believe potential China-Macau-HK border reopening around mid-2022 could be among the key catalysts, as China & HK took up >95% of Macau visitor numbers under the normal times
- Regulatory updates on gaming license re-tendering so far also came largely in line with expectations
- Top picks: Galaxy, SJM and Sands China

**Macau has tightened its borders.** YTD, authorities have extended restrictions on cross-border transport from Mainland China amid COVID-19 resurgence in selected regions of the country. While gross gaming revenue (GGR) could post a double-digit y-o-y growth in 2M22 on a low base, occasional interruptions in the number of visitor arrivals amid changing COVID-19 conditions could still potentially affect short-term investment sentiment.

**License re-tendering.** Government updates on certain details of gaming license re-tendering last month were largely aligned with market expectations and points to a positive progress. They include: (1) a cap of six new licenses for a term of 10 years; (2) sub-concession arrangements to be discontinued; (3) minimum capital requirement of MOP\$5bn (previously: MOP\$200m); (4) Macau-based Managing Director to hold at least a 15% stake (previously: 10%); (5) call off of the proposal to appoint government representatives to gaming concessionaires; (6) existing direct gaming tax to remain unchanged at 35%; and (7) potential extension of existing gaming licenses for a short term if the re-tendering cannot be completed by 26 Jun 2022. The market currently awaits more outcome of gaming law amendments from the Legislative Assembly, while the specifications so far have been encouraging.

**When is a good time to accumulate?** While we anticipate more updates to the gaming re-tendering requirements, we project Macau GGR to post >50% CAGR in 2021-2023 and remain optimistic on the sector. Perhaps a better time to anchor our top picks could be around mid-2Q22, as we expect more clarity on the gaming license re-bidding and potential China-HK-Macau border reopening by then.

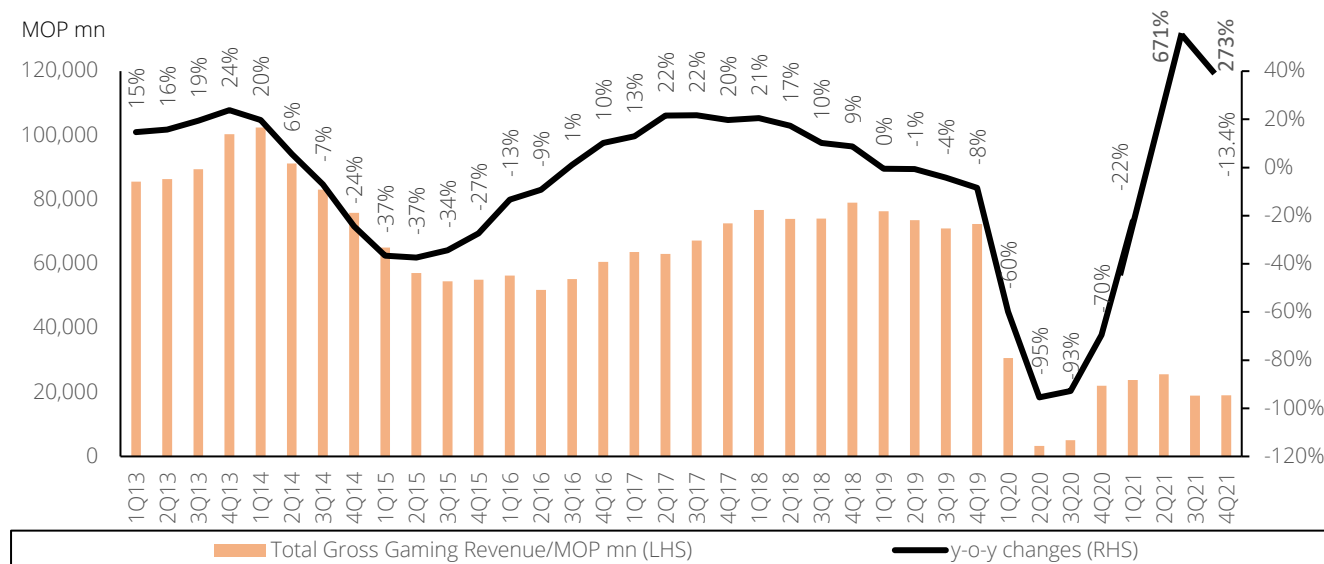
Valuation table

Company Name	Code	Local\$	Target		Mkt Cap US\$m	Fiscal Yr	PE		PE Yield		P/Bk		EV/EBITDA		ROE		
			Price	Price Recom			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F	
Galaxy Entertainment	27 HK	HKD	46.4	54.17	BUY	25,880	Dec	44.0	19.1	0.7	1.6	2.8	2.6	24.1	12.7	6.5	13.4
SJM Holdings	880 HK	HKD	5.25	9.00	BUY	3,827	Dec	n.a.	14.1	0.0	3.5	1.5	1.5	36.0	10.1	(6.5)	10.3
Sands China	1928 HK	HKD	22.55	37.92	BUY	23,424	Dec	55.5	14.8	1.8	6.8	21.0	21.0	19.8	11.2	37.9	142.1
Melco Int'l*	200 HK	HKD	9.2	n.a.	NR	1,792	Dec	n.a.	22.7	0.2	0.1	5.0	4.4	14.9	6.9	(104.1)	35.2
Wynn Macau*	1128 HK	HKD	7.01	n.a.	NR	4,686	Dec	n.a.	15.3	0.0	8.4	n.a.	n.a.	19.1	9.3	9.3	(25.2)
MGM China*	2282 HK	HKD	5.38	n.a.	NR	2,625	Dec	n.a.	22.9	0.0	1.6	n.a.	47.2	18.1	8.1	(274.7)	(30.1)

\* Consensus

Source: Thomson Reuters, DBS HK

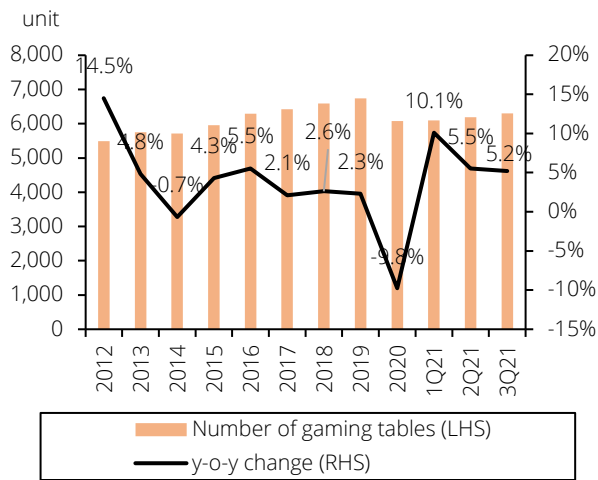
Total GGR y-o-y growth



Source: CEIC

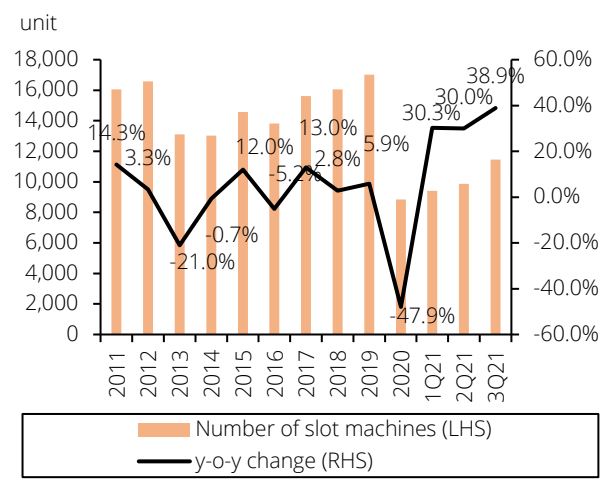
On a low base, Macau's gross gaming revenue (GGR) grew by 43.7% y-o-y to MOP87bn in 2021. During the Chinese New Year (CNY) holiday in early Feb 2022, GGR rose by about 60% against the same period a year ago, along with strong mass volume and a longer average length of stay, particularly for the premium mass segment, as well as higher VIP hold. Although such GGR level was still >60% below the CNY Holiday in 2019, the growth momentum was better than expectations amid travel hindrance caused by COVID-19 outbreak in the adjacent city of Zhuhai during the CNY. Overall, we project GGR to grow by >50% CAGR in the next two years to over MOP200bn by 2023.

Number of gaming tables



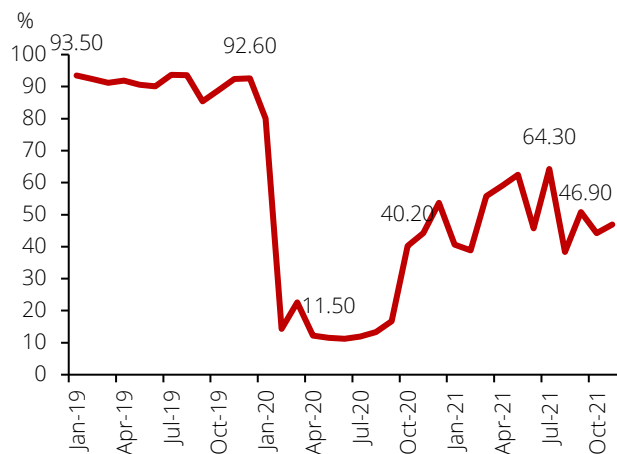
Source: CEIC

Number of slot machines



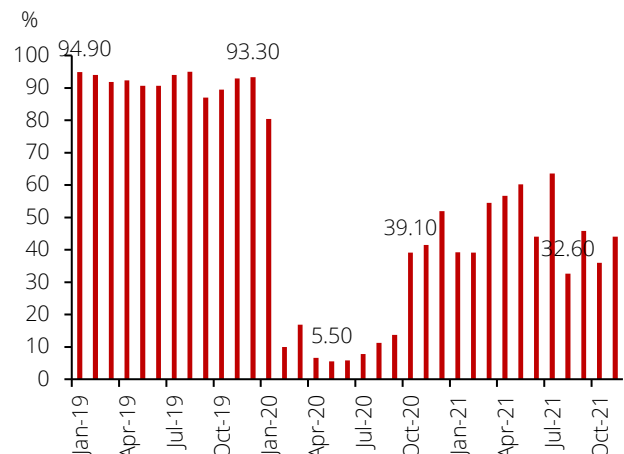
Source: CEIC

Room Occupancy Rate: Hotels



Source: CEIC

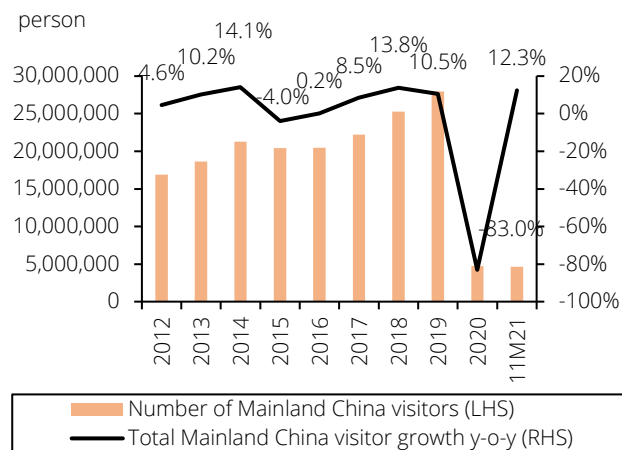
Monthly 5-star hotel room occupancy rate



Source: CEIC



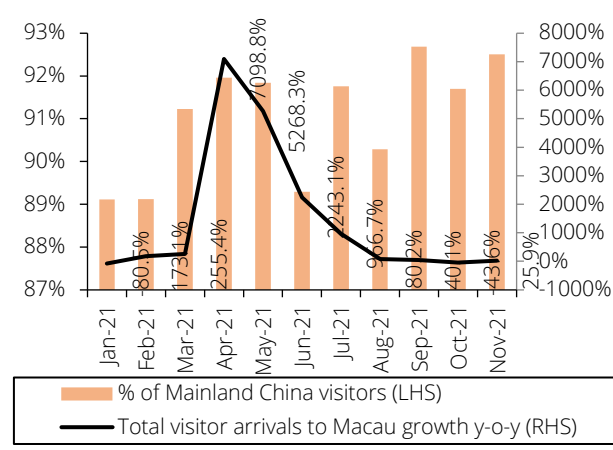
Number of Mainland Chinese visitors



Source: CEIC

Mainland visitor arrival numbers in Macau represented >90% of total visitor numbers, and grew by 12.3% y-o-y in 11M21 on a very low base. Such amount was merely equivalent to about a fifth of the pre-pandemic level. We expect more visitor arrivals in Macau once the COVID-19 situation improves and the China-Macau-HK borders reopen.

% of Mainland visitors vs. total visitor growth (2021)



Source: CEIC

According to the latest data of Public Security Police Force in Macau, the city welcomed a total of 113,699 visitors during the 7-day CNY holiday in early Feb 2022, up 25.4% as compared to the same period a year ago. While such arrival number was still c.90% lower than 2019's 1.2m visitors during the CNY holiday, amid lingering travel restrictions from certain parts of China and HK, we see ample room for a strong recovery upon border reopening.

## Consumer Sector

## Restaurant

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

---

 Recommendation and Valuation

		Price	Target	%	
		Local\$	Price	upside	Recom
			Local\$		
<a href="#">Cafe De Coral (341 HK)</a>	HKD	13.20	15.50	17.4	BUY
<a href="#">Haidilao Int'l (6862 HK)</a>	HKD	18.08	21.80	20.6	BUY
<a href="#">Xiabuxiabu (520 HK)</a>	HKD	5.30	7.00	32.1	BUY
<a href="#">Yum China (9987 HK)</a>	HKD	370.4	463.0	25.0	BUY
<a href="#">YUM China (YUMC US)</a>	USD	46.07	59.50	29.2	BUY

Source: Thomson Reuters, DBS HK

## Near-term challenges

- Resurgence of COVID-19 cases and slowing macro environment results in a benign start to 1Q22
- Demand for online food delivery is re-accelerating
- Our top pick is Yum China under the more defensive fast-food category, especially given heightened precautions during Beijing Winter Olympic Games (4-20 Feb 22) and potential COVID-19 resurgence

## Challenging environment amid COVID-19 resurgence.

Restaurant sales have been dampened by fresh outbreaks of COVID-19 and tightened public health measures. In China, Dec'21 sales declined 2.2% y-o-y (Nov'21: -2.7% y-o-y) as consumer sentiment was shaken by COVID-19 outbreaks in e.g., Shaanxi. Overall, 2021 restaurant sales stayed flattish vs. 2019, while table turnover remained below pre-COVID level. Looking ahead, margins could also come under pressure amid inflationary food costs and wages (mid-single digit growth) for 2022F. The key focus is to drive productivity and raise dine-in volumes to offset higher costs. For the full-year of 2022F, we forecast China catering sales to deliver mid- to high-single-digit growth (2021: 19%; 2020: -16.6%).

**Online food delivery on an accelerating trend.** According to Meituan, order contributions from afternoon tea & late-night snacks continue to rise. Meituan's gross transaction volume (GTV) rose 29.5% y-o-y to Rmb197bn in 3Q21 (9M21: +54%), with 4% increase in average value per order to Rmb49.1. Based on our house view, Meituan's average value per order and GTV could rise by 3%/3% and 29%/24%, respectively, in FY22E/23F. We forecast online food delivery to take up c.25% of restaurant sales in 2022F (2021E: 21%).

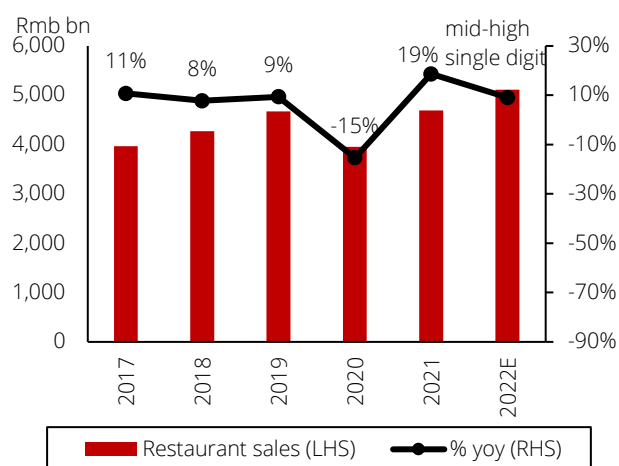
**We prefer the fast-food category.** Tightening social distancing measures are expected alongside the Winter Olympic Games and the outbreak of highly infectious Omicron, negatively affecting restaurant players in the near-term. We prefer YUM China for its relatively defensive nature, especially given its (1) increase in smaller and more efficient store units that are slated for deliveries (~35% of 4Q21 company sales); (2) steady new store pipeline (1,000-1,200 net store openings for 2022F), plus (3) new partnership with Lavazza (premium coffee) to open 1,000 stores by 2025F; and (4) c.US\$4bn net cash as of Dec'21.

Valuation table

Company Name	Code		Target		Mkt	PE	PE Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE				
			Price	Price										Recom	Cap	Fiscal	22F
			Local\$	Local\$	US\$m	Yr	x	x	%	%	x	x	x	x	%	%	
Cafe De Coral	341 HK	HKD	13.2	15.50	BUY	983	Mar	45.1	21.2	1.5	3.3	2.6	2.4	9.5	6.3	5.6	11.7
Haidilao Int'l	6862 HK	HKD	18.08	21.80	BUY	12,304	Dec	80.4	59.0	0.0	0.0	5.9	5.7	11.6	9.4	7.6	9.8
Xiabuxiabu	520 HK	HKD	5.3	7.00	BUY	738	Dec	19.3	15.4	2.1	2.6	1.9	1.7	2.2	1.9	10.0	11.7
Yum China Holdings	9987 HK	HKD	370.4	463.00	BUY	19,975	Dec	28.8	23.5	1.0	1.0	2.7	2.5	10.5	8.5	9.8	11.1
Yum China Holdings	YUMC US	USD	46.07	59.50	BUY	172,993	Dec	27.9	22.8	1.0	1.0	2.6	2.4	10.1	8.2	9.8	11.1

Source: Thomson Reuters, DBS HK

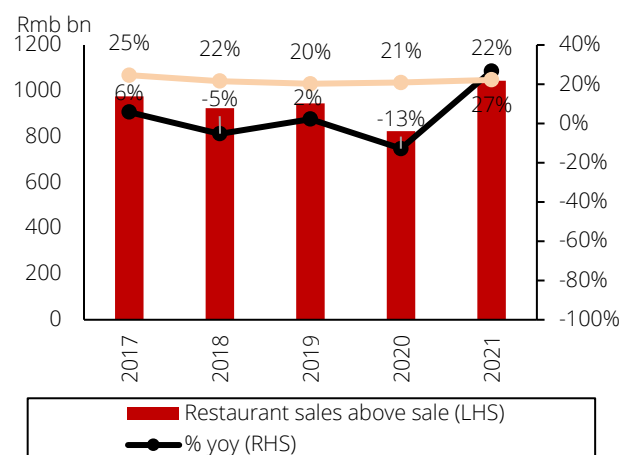
China restaurant sales



China restaurant sales grew 19% y-o-y to Rmb5,112bn in 2021. We forecast sales to rise by mid-to-high single digit in 2022E, dependent on the control of COVID-19, and strict social distancing measures in place.

Source: National Bureau of Statistics, CEIC, DBS HK

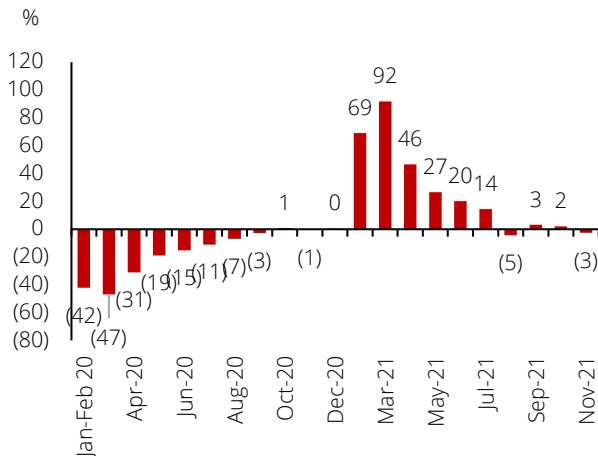
China restaurant sales (above designated size enterprise)



China restaurant sales (above designated sizes) rose 27% y-o-y to Rmb1,043bn in 2021, equivalent to 22% of total catering sales. (2021: 21%)

Source: National Bureau of Statistics, WIND, DBS HK

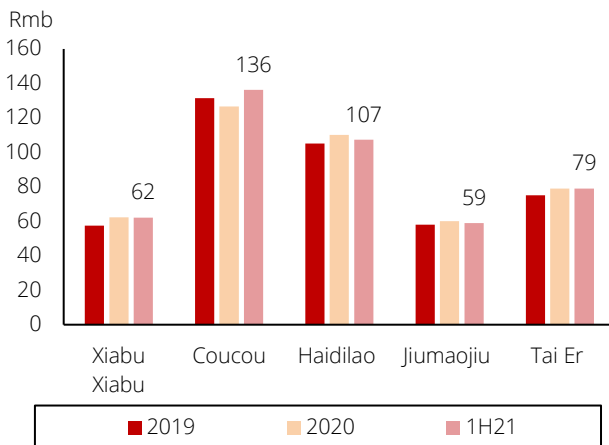
China restaurant sales y-o-y



Restaurant sales have been dampened by fresh outbreaks of COVID-19, despite high vaccination rate at 83.6% as of Dec'21 (Source: NHC). Dec'21 sales declined by 2.2% y-o-y. Consumer sentiment, particularly weaker in 3Q21 due to COVID-19 outbreaks, saw a mild recovery in Oct'21 bolstered by the Golden Week. However, sentiment was weaker in Dec'21 due to outbreaks nationwide, and tighter control with Beijing Winter Olympic Games.

Source: National Bureau of Statistics, WIND, DBS HK

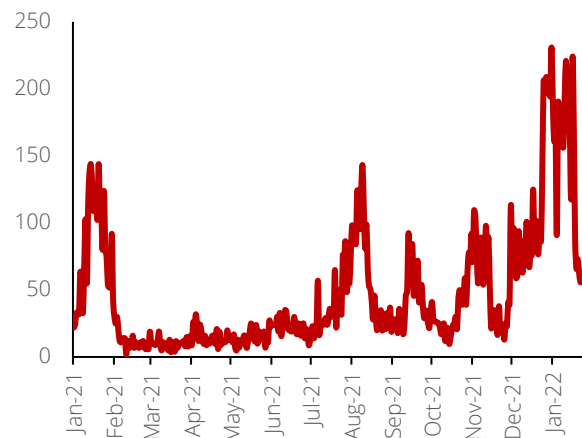
Average spending



Consumers appear price sensitive in light of a softening domestic economy. Despite selective SKU price increase due to higher input costs, overall average pricing was on a downtrend in 1H21.

Source: Company data

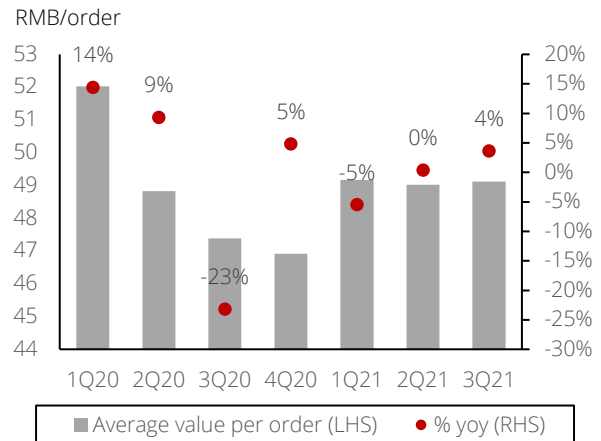
Daily increase of confirmed COVID-19 cases



Restaurants performed better in 1H21, while 2H21 saw sales underperformance, hampered by COVID-19 outbreaks, social distancing measures which had driven down consumer sentiment.

Source: National Bureau of Statistics, WIND, DBS HK

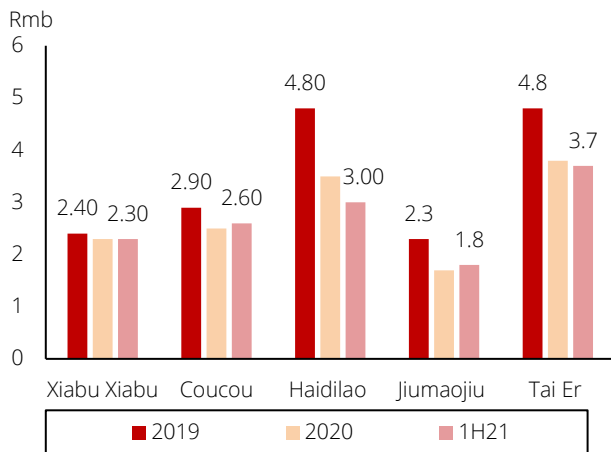
Meituan: Quarterly average value per order



Meituan's average value per order rose by 4% y-o-y to Rmb49 in 3Q21, with its more diverse and higher-quality categories.

Source: Company data

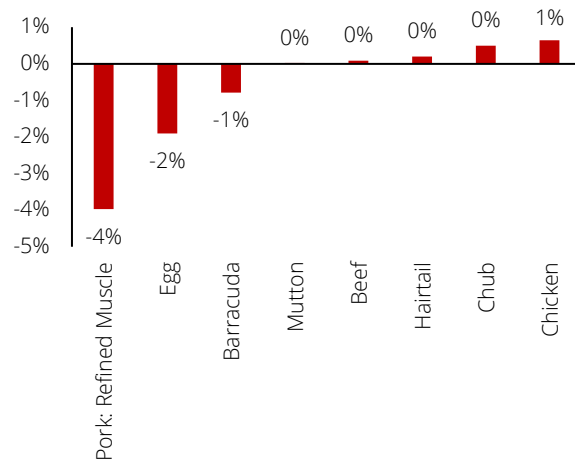
Table turnover ratio (x)



Most restaurant players have reported weaker dine-in volumes due to adoption of food delivery and concerns regarding COVID-19. In 1H21, table turnover rates remained lower than pre-COVID levels, ranging 1.8-3.7x.

Source: Company data

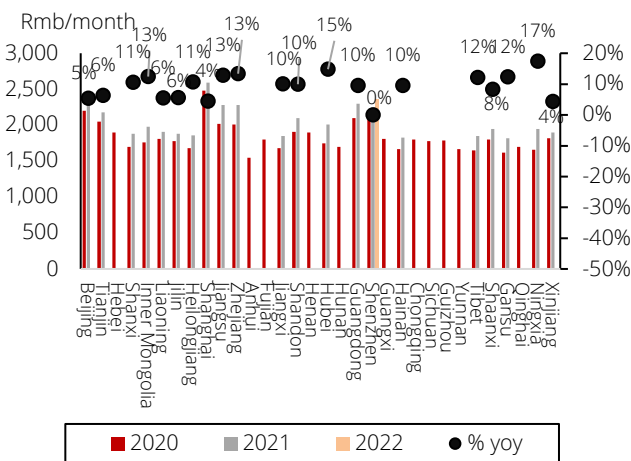
Retail prices % m-o-m – 36 city supermarket average – Dec'21



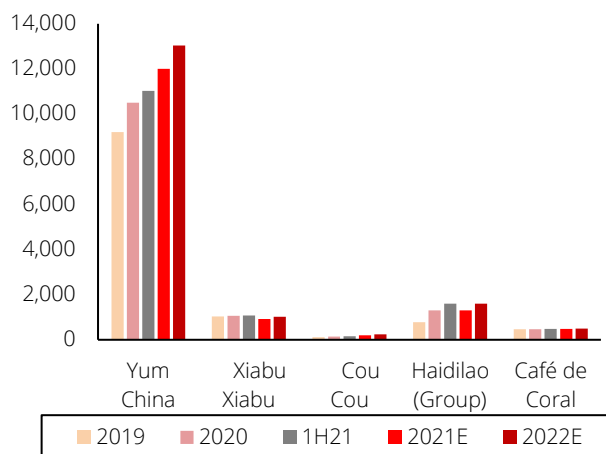
Food prices saw a surge in 2H21, with stabilisation seen in Dec'21.

Source: National Bureau of Statistics, CEIC, DBS HK

Standard monthly minimum wages



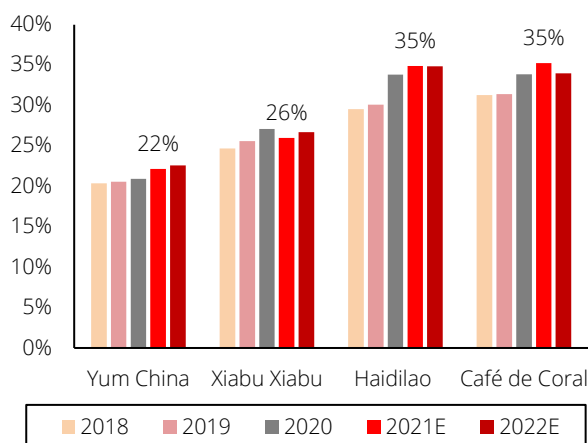
Store expansion



We forecast Yum China to expand its store count by 9% in FY22F, Haidilao by 23%, Xiabu Xiabu by 14% and Café de Coral by 2%. Jiumaojiu has announced its 2022 target of gross new openings of 150 Tai-Er and 10 Luan(hotpot) units.

Source: Company data, DBS HK

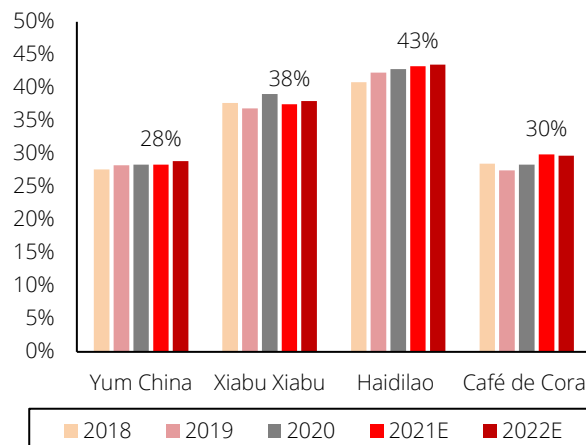
Margin trend – Wage



Wage inflationary pressure will arise in a gradual manner on increased rider costs. We expect wage cost of sales to rise by 0.4-0.7ppt in FY22F.

Source: Company data, DBS HK

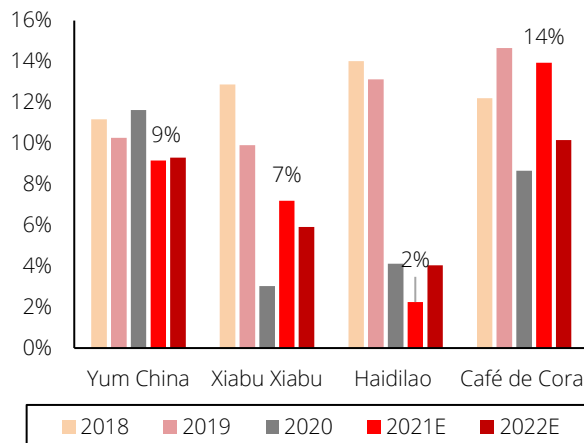
Cost trend – Raw materials as % of sales



Raw materials was largely well-controlled in 2021 and below pre-COVID level thanks to sales leverage. In 2022F, we expect mild food inflationary pressure will add 0.3-0.5ppt cost pressure to gross margin across key players, with increases in protein (poultry, beef etc) and packaging prices.

Source: Company data, DBS HK

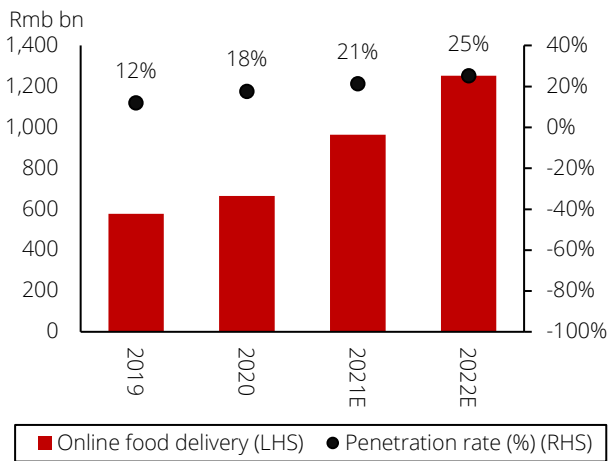
Operating margin



Operating margin trend remains below pre-COVID levels due to a change in sales-mix (online/offline) and rising costs, while same-store sales are also largely below pre-Covid levels.

Source: Company data, DBS HK

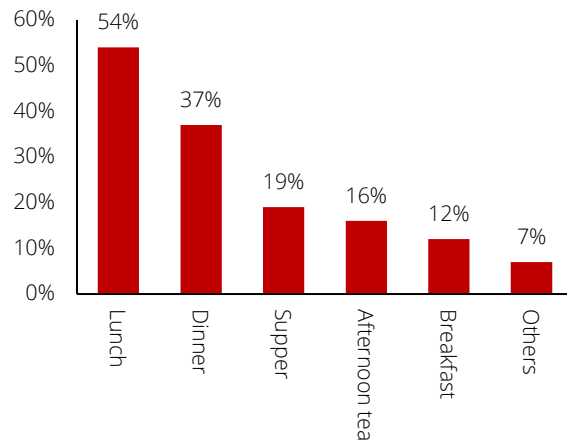
Delivery market size



Delivery demand remains buoyant aided by persistent regional outbreaks across China. The largest food delivery player, Meituan (a c.70% market share), reported 57% y-o-y sales growth in 9M21, thanks to a big change in consumption behaviour, an increase in volume in non-peak hours (supper, afternoon tea), and spurred by strong promotions in raising milk tea consumption. We forecast food delivery market penetration will reach c.25% by end-2022 (2021E: 21%).

Source: Qianzhan, National Bureau of Statistics, CEIC, DBS HK

Food delivery breakdown by segment: 2019



According to Meituan, late-night snacks and afternoon teas were particularly popular during the summer, with more promotions driving milk tea consumption.

Source: Meituan Research, DBS HK

# Budweiser Brewing Company APAC

Bloomberg: 1876 HK Equity | Reuters: 1876.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): HK\$21.70 (HSI : 24,580)  
Price Target 12-mth: HK\$31.08 (43% upside)

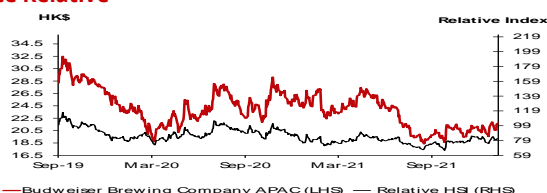
### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Clement XU clementxu@dbs.com

### What's New

- Strong execution of premiumisation strategies to support margin expansion ahead, given >9x higher gross margin of its super premium products vs. core & value brands
- Solid EBITDA rebound expected from S. Korea by 2022
- Ample opportunities from product line extension & innovation, e-commerce and M&As in medium term
- TP remains unchanged at HK\$31.08. Our top pick in the brewery sector for its excellent premiumisation outlook. Performance rebound in S. Korea will also be favourable.

### Price Relative



### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	5.588	6.693	7.256	7.787
EBITDA	1.584	2.061	2.335	2.542
Pre-tax Profit	908	1.340	1.642	1.867
Net Profit	514	912	1,095	1,244
Net Pft (Pre Ex) (core profit)	542	940	1,123	1,272
Net Profit Gth (Pre-ex) (%)	(45.6)	73.5	19.4	13.3
EPS (US\$)	0.04	0.07	0.08	0.09
EPS (HK\$)	0.30	0.54	0.64	0.73
Core EPS (US\$)	0.04	0.07	0.08	0.10
Core EPS (HK\$)	0.32	0.55	0.66	0.75
EPS Gth (%)	(42.8)	77.3	20.0	13.6
Core EPS Gth (%)	(45.6)	73.3	19.4	13.3
Diluted EPS (HK\$)	0.30	0.54	0.64	0.73
DPS (HK\$)	0.22	0.19	0.23	0.26
DPS (HK cts)	22.10	18.78	22.54	25.61
BV Per Share (HK\$)	6.28	6.57	6.98	7.46
PE (X)	71.7	40.4	33.7	29.7
CorePE (X)	68.0	39.2	32.9	29.0
P/Cash Flow (X)	28.3	27.1	21.1	19.8
P/Free CF (X)	46.5	47.8	32.0	29.2
EV/EBITDA (X)	22.6	17.2	14.8	13.3
Net Div Yield (%)	1.0	0.9	1.0	1.2
P/Book Value (X)	3.5	3.3	3.1	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	5.0	8.4	9.5	10.1
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (US\$)		0.07	0.08	0.10
Other Broker Recs:		B:27	S:1	H:0

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

## Premiumising its way up

### Investment Thesis

**Premiumisation in progress despite COVID headwinds.** BUD APAC achieved decent growth in revenue and the average selling price (ASP) albeit the drop in 3Q21 volume that was triggered by COVID-19 resurgence. As a leader in premium beer (e.g., over a 45% market share in China's premium beer segment), we expect both the GP margin and EBITDA margin to increase by 2ppt+ for FY21, with more room to expand further ahead.

**Impending recovery in South Korea.** With South Korea's goal for a "gradual return to normal life", lifting COVID restrictions on operating hours for restaurants in Nov 2021, with potential plans to gradually lift other distancing policies sometime in 2022, the region could possibly score >20% rebound in its EBITDA by 2022.

**Sound expansion blueprint and growth opportunities.** We believe BUD APAC should continue to see strong growth prospects via geographical expansion, partnerships with complementary renowned brands as well as potential M&As. Its successful B2B e-platform BEES, innovative product lines including "beyond beer" beverages, and access to >600 brands of parent group should also open up extensive growth opportunities.

### Valuation:

Our latest TP remains unchanged at HK\$31.08, which is based on APAC West (mostly China) being valued at 23x FY22F EV/EBITDA, and APAC East (mainly South Korea) at 15x FY22F EV/EBITDA.

### Where we differ:

We are slightly more positive than the market in terms of revenue and EBITDA. We expect BUD APAC to outperform peers in 4Q21, as COVID-19 outbreaks in China during 4Q21 mainly affect areas where BUD APAC has relatively small exposures. South Korea could also stage a better recovery into 2022, given less limitations on the on-premise channel as compared to the early months of 2021.

### Key Risks to Our View:

Resurgence of COVID-19 cases; market share loss; and high volatility of raw material prices.

### At A Glance

Issued Capital (m shrs)	13,243
Mkt Cap (HK\$m/US\$m)	286,049 / 36,728
Major Shareholders (%)	
AB InBev Brewing Company Hold (APAC) Ltd.	87.2
Free Float (%)	12.8
3m Avg. Daily Val. (US\$m)	15.25
GICS Industry: Consumer Goods / Beverages	



Watchlist the stock on Insights Direct to receive prompt updates



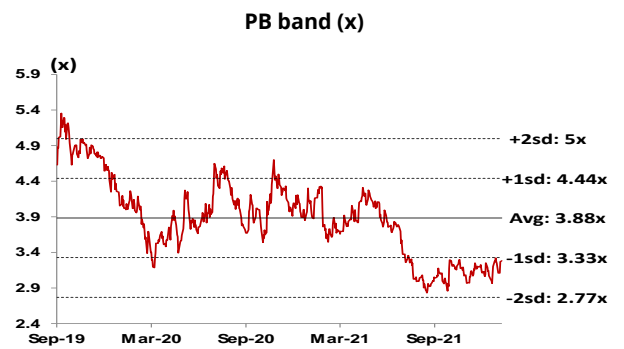
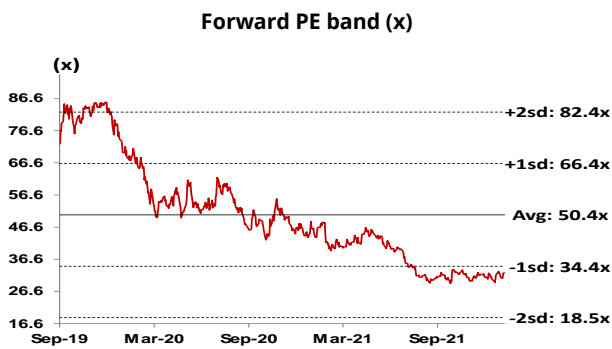


## Budweiser Brewing Company APAC

### Company Background

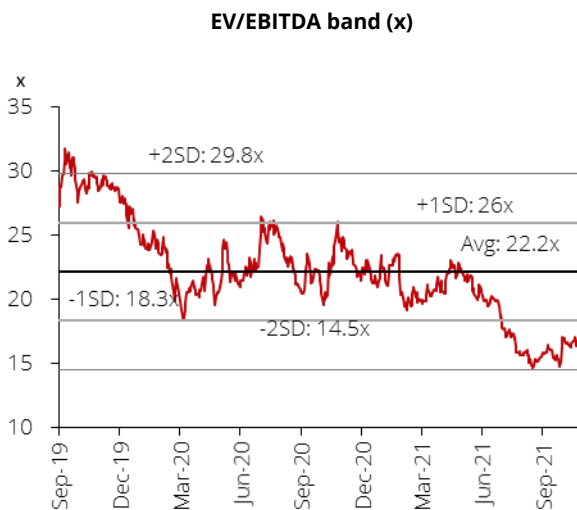
BUD APAC is the largest beer company in Asia Pacific in terms of sales value. In sales volume terms, the company ranked No.2 in India (20%) and No.3 in China (15%) in 2020, according to Euromonitor. Specifically, in the premium and super premium segments in China, BUD APAC is ranked No.1 in terms of sales volume.

### Historical PE and PB



Source: Thomson Reuters, DBS HK

### EV/EBITDA band



Source: Thomson Reuters, DBS HK

## Budweiser Brewing Company APAC

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Organic volume growth of APAC East	(7.2)	(10.5)	(1.0)	3.0	3.0
Organic volume growth of APAC West	(2.3)	(12.4)	7.8	1.5	1.5
Organic ASP growth of APAC East	2.3	1.7	2.0	3.0	4.0
Organic ASP growth of APAC West	6.3	(1.0)	7.0	5.0	4.5
Organic Normalized EBITDA Margin	32.4	28.3	30.8	32.2	32.6

Source: Company, DBS HK

### Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (US\$ m)</b>					
APAC East	1,370	1,162	1,256	1,345	1,456
APAC West	5,176	4,426	5,437	5,910	6,332
<b>Total</b>	<b>6,546</b>	<b>5,588</b>	<b>6,693</b>	<b>7,256</b>	<b>7,787</b>
<b>EBITDA (US\$ m)</b>					
APAC East	446	339	332	413	464
APAC West	1,675	1,245	1,729	1,922	2,078
<b>Total</b>	<b>2,121</b>	<b>1,584</b>	<b>2,061</b>	<b>2,335</b>	<b>2,542</b>
<b>EBITDA Margins (%)</b>					
APAC East	32.6	29.2	26.5	30.7	31.9
APAC West	32.4	28.1	31.8	32.5	32.8
<b>Total</b>	<b>32.4</b>	<b>28.3</b>	<b>30.8</b>	<b>32.2</b>	<b>32.6</b>

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	6,546	5,588	6,693	7,256	7,787
Cost of Goods Sold	(3,058)	(2,681)	(3,033)	(3,278)	(3,491)
<b>Gross Profit</b>	<b>3,488</b>	<b>2,907</b>	<b>3,660</b>	<b>3,978</b>	<b>4,296</b>
Other Opg (Exp)/Inc	(2,022)	(1,970)	(2,291)	(2,316)	(2,424)
<b>Operating Profit</b>	<b>1,466</b>	<b>937</b>	<b>1,369</b>	<b>1,662</b>	<b>1,872</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	23	25	28	31
Net Interest (Exp)/Inc	(24)	(24)	(26)	(19)	(7)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(98)	(28)	(28)	(28)	(28)
<b>Pre-tax Profit</b>	<b>1,367</b>	<b>908</b>	<b>1,340</b>	<b>1,642</b>	<b>1,867</b>
Tax	(459)	(371)	(415)	(517)	(588)
Minority Interest	(10)	(23)	(12)	(30)	(35)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>898</b>	<b>514</b>	<b>912</b>	<b>1,095</b>	<b>1,244</b>
Net Profit before Except.	996	542	940	1,123	1,272
EBITDA	2,121	1,584	2,061	2,335	2,542
<b>Growth</b>					
Revenue Gth (%)	(2.9)	(14.6)	19.8	8.4	7.3
EBITDA Gth (%)	6.4	(25.3)	30.1	13.3	8.8
Opg Profit Gth (%)	12.9	(36.1)	46.1	21.4	12.7
Net Profit Gth (%)	(6.3)	(42.8)	77.5	20.0	13.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	53.3	52.0	54.7	54.8	55.2
Opg Profit Margin (%)	22.4	16.8	20.5	22.9	24.0
Net Profit Margin (%)	13.7	9.2	13.6	15.1	16.0
ROAE (%)	9.0	5.0	8.4	9.5	10.1
ROA (%)	5.8	3.3	5.6	6.5	7.0
ROCE (%)	8.6	4.9	7.9	9.1	9.6
Div Payout Ratio (%)	38.8	73.1	35.0	35.0	35.0
Net Interest Cover (x)	61.1	39.0	51.7	87.1	258.8

Source: Company, DBS HK

## Budweiser Brewing Company APAC

### Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	3,638	3,716	3,698	3,712	3,723
Invt in Associates & JVs	418	433	400	400	400
Other LT Assets	9,144	9,708	9,567	9,467	9,372
Cash & ST Invt	992	1,295	1,744	2,541	3,396
Inventory	438	434	449	459	460
Debtors	652	534	640	693	744
Other Current Assets	26	69	12	12	12
<b>Total Assets</b>	<b>15,308</b>	<b>16,189</b>	<b>16,511</b>	<b>17,284</b>	<b>18,108</b>
ST Debt	235	164	156	148	141
Creditors	2,594	2,655	2,713	2,752	2,740
Other Current Liab	1,664	1,818	1,598	1,598	1,598
LT Debt	28	37	38	38	39
Other LT Liabilities	903	772	772	772	772
Shareholder's Equity	9,836	10,685	11,165	11,875	12,683
Minority Interests	48	58	70	100	135
<b>Total Cap. &amp; Liab.</b>	<b>15,308</b>	<b>16,189</b>	<b>16,511</b>	<b>17,284</b>	<b>18,108</b>
Non-Cash Wkg. Capital	(3,142)	(3,436)	(3,210)	(3,186)	(3,122)
Net Cash/(Debt)	729	1,094	1,551	2,355	3,216
Debtors Turn (avg days)	34.3	38.7	32.0	33.5	33.7
Creditors Turn (avg days)	390.4	471.0	418.5	383.0	355.2
Inventory Turn (avg days)	64.9	78.2	68.9	63.7	59.4
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	0.5	0.5	0.6	0.8	1.0
Quick Ratio (x)	0.4	0.4	0.5	0.7	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	232.3	252.7	304.8	321.7	333.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,367	908	1,340	1,642	1,867
Dep. & Amort.	655	647	692	674	670
Tax Paid	(459)	(371)	(415)	(517)	(588)
Assoc. & JV Inc/(loss)	(23)	(23)	(23)	(23)	(23)
(Pft)/ Loss on disposal of FAs	(105)	(46)	0	0	0
Chg in Wkg.Cap.	(209)	31	(231)	(24)	(64)
Other Operating CF	153	155	0	0	0
<b>Net Operating CF</b>	<b>1,379</b>	<b>1,301</b>	<b>1,362</b>	<b>1,752</b>	<b>1,862</b>
Capital Exp.(net)	(611)	(508)	(590)	(600)	(600)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(185)	(129)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	103	65	50	50	50
<b>Net Investing CF</b>	<b>(693)</b>	<b>(572)</b>	<b>(540)</b>	<b>(550)</b>	<b>(550)</b>
Div Paid	(976)	(348)	(319)	(383)	(435)
Chg in Gross Debt	68	(49)	(7)	(7)	(7)
Capital Issues	5,695	0	0	0	0
Other Financing CF	(6,186)	(35)	(15)	(15)	(15)
<b>Net Financing CF</b>	<b>(1,399)</b>	<b>(432)</b>	<b>(342)</b>	<b>(405)</b>	<b>(457)</b>
Currency Adjustments	(32)	90	0	0	0
Chg in Cash	(745)	387	480	797	855
Opg CFPS (US\$)	0.12	0.10	0.12	0.13	0.15
Free CFPS (US\$)	0.06	0.06	0.06	0.09	0.10

Source: Company, DBS HK

**Budweiser Brewing Company APAC**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Mar-21	HK\$23.55	HK\$28.00	Buy
2:	5-Oct-21	HK\$19.82	HK\$27.28	Buy
3:	13-Dec-21	HK\$20.15	HK\$31.08	Buy
4:	18-Jan-22	HK\$19.84	HK\$31.08	Buy

Source: DBS HK

Analyst: **Mavis HUI**  
**Clement XU**

# China/Hong Kong Company Update

## Café de Coral

Bloomberg: 341 HK EQUITY | Reuters: 0341.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$13.20 (HSI : 24,580)  
Price Target 12-mth: HK\$15.50 (17% upside) (Prev HK\$18.00)

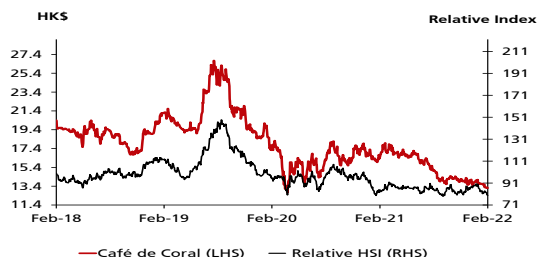
#### Analyst

Alison FOK +852 36684170 alisonfok@db.com  
Alice HUI CFA +852 36684182 alicehui@db.com

#### What's New

- With the latest Omicron outbreak, we expect Café de Coral operations in Hong Kong to be impacted by pandemic-related restrictions
- Key catalyst depends on the lifting of social distancing restrictions in Hong Kong and economy recovery
- Maintain BUY; TP trimmed to HK\$15.5

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$m)	2020A	2021A	2022F	2023F
Turnover	7,963	6,714	7,473	8,230
EBITDA	581	839	648	906
Pre-tax Profit	114	391	215	456
Net Profit	74	359	170	361
Net Profit Gth (Pre-ex) (%)	(87.1)	387.7	(52.8)	112.7
EPS (HK\$)	0.13	0.62	0.29	0.62
EPS Gth (%)	(87.1)	388.3	(52.8)	112.7
Diluted EPS (HK\$)	0.13	0.62	0.29	0.62
DPS (HK\$)	0.19	0.38	0.20	0.43
BV Per Share (HK\$)	4.55	5.17	5.08	5.41
PE (X)	103.9	21.3	45.1	21.2
P/Cash Flow (X)	5.3	4.5	6.0	5.3
P/Free CF (X)	8.1	5.3	8.9	7.4
EV/EBITDA (X)	12.6	8.0	9.5	6.3
Net Div Yield (%)	1.4	2.9	1.5	3.3
P/Book Value (X)	2.9	2.6	2.6	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	2.5	12.6	5.6	11.7
Earnings Rev (%)			(10)	(10)
Consensus EPS (HK\$)			0.43	0.69
Other Broker Recs:		B:7	S:0	H:0

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

### Omicron to impact sales

#### Investment Thesis

**Omicron outbreak largely in the price.** With the latest Omicron outbreak, Café de Coral's (CdC) operations in Hong Kong (HK) is expected to be impacted by pandemic-related restrictions, including the ban of dinner services, temporary halt in class schedules at schools, etc. While this means a delay in its recovery pace, CdC's leading position remains unchanged and its improved cost efficiency as well as its proactive strategy to boost takeaway and delivery sales should help to partly offset the impact.

**Well-positioned to gain market share.** The prolonged impact from the pandemic has accelerate market consolidation in the eating-out industry, as weaker players are phased out. With a leading market position and strong financials, CdC should be in a strong footing to not just survive the challenging environment, but to gain further market share.

**China expansion to continue.** The pandemic resurgences had also impacted CdC's China business, with slower pace of new store openings in 1HFY22 due to the outbreak in June. We expect some pick-up in 2HFY22, with 27 new stores in the pipeline vs 8 being opened in 1H21, despite near-term hiccups from COVID resurgence. China should remain a solid growth driver with store expansion projected to continue.

#### Valuation:

We adjusted our FY22 earnings to reflect impact from the longer-than-expected pandemic restrictions, on its dining and institutional catering segment. With the earnings cut of 10% in FY22/23, we revised our TP to HK\$15.5, premised on an unchanged 25x FY23F PE.

#### Where we differ:

Our earnings forecasts are slightly below market consensus, as we are more prudent on the normalisation pace – our current forecast assumes sales recovery in 2H of FY23.

#### Key Risks to Our View:

Significant economic downturn, major resurgence of the pandemic, weakening/disruption in foot traffic, cost inflationary pressure, and food safety issues.

#### At A Glance

Issued Capital (m shrs)	580
Mkt Cap (HK\$m/US\$m)	7,656 / 983
Major Shareholders (%)	
Wandels Investment Ltd.	15.9
Lo (Hoi Kwong Sunny)	11.0
Mondrian Investment Partners Ltd.	8.0
Lo (Hoi Chun)	6.2
MMW Holding Corporation	5.4
Free Float (%)	53.5
3m Avg. Daily Val. (US\$m)	0.98
GICS Industry: Consumer Discretionary / Consumer Services	



Watchlist the stock on Insights Direct to receive prompt updates



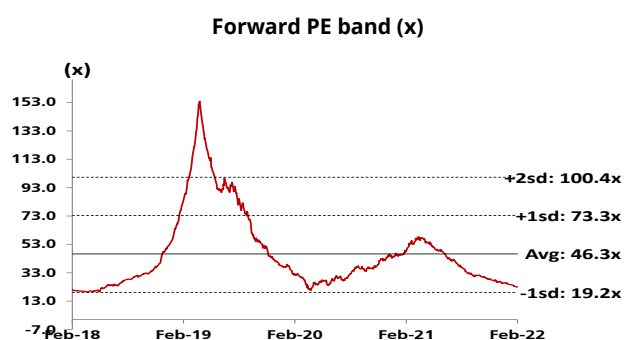
Live more, Bank less

## Café de Coral

### Company Background

Established in 1968, Cafe de Coral (CdC) is the largest Chinese fast-food operator in Hong Kong. The company was listed on the HK Stock Exchange in 1986. Apart from running fast food restaurants under the 'Cafe de Coral' brand name, the company has been diversifying its brand portfolio in both quick-service restaurants and speciality restaurants with brands including Super Super Congee & Noodles, Oliver's Super Sandwiches, Mixian Sense, Spaghetti House, Shanghai Lao Lao, etc. The company also offers institutional catering services under Asia Pacific Catering.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Café de Coral

### Key Assumptions

FY Mar	2019A	2020A	2021A	2022F	2023F
Food cost as % of sales	27.5	28.4	29.9	29.4	28.9
Staff cost as % of sales	31.4	33.9	35.2	33.2	32.7
Rental cost as % of sales	12.0	13.1	12.7	11.6	10.9

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Hong Kong	7,342	6,873	5,514	6,158	6,821
PRC	1,152	1,090	1,200	1,315	1,409
<b>Total</b>	<b>8,494</b>	<b>7,963</b>	<b>6,714</b>	<b>7,473</b>	<b>8,230</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Revenue	8,494	7,963	6,714	7,473	8,230
Cost of Goods Sold	(7,267)	(7,232)	(6,339)	(6,717)	(7,236)
<b>Gross Profit</b>	<b>1,227</b>	<b>731</b>	<b>375</b>	<b>756</b>	<b>993</b>
Other Opng (Exp)/Inc	(428)	(522)	98	(464)	(465)
<b>Operating Profit</b>	<b>800</b>	<b>209</b>	<b>474</b>	<b>292</b>	<b>528</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(99)	(94)	(83)	(77)	(72)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>700</b>	<b>114</b>	<b>391</b>	<b>215</b>	<b>456</b>
Tax	(128)	(40)	(30)	(43)	(93)
Minority Interest	(2)	(1)	(1)	(2)	(2)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>570</b>	<b>74</b>	<b>359</b>	<b>170</b>	<b>361</b>
EBITDA	1,155	581	839	648	906
<b>Growth</b>					
Revenue Gth (%)	0.8	(6.2)	(15.7)	11.3	10.1
EBITDA Gth (%)	26.3	(49.7)	44.4	(22.8)	39.9
Opg Profit Gth (%)	40.4	(73.9)	126.9	(38.4)	80.9
Net Profit Gth (%)	24.4	(87.1)	387.7	(52.8)	112.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	14.4	9.2	5.6	10.1	12.1
Opg Profit Margin (%)	9.4	2.6	7.1	3.9	6.4
Net Profit Margin (%)	6.7	0.9	5.3	2.3	4.4
ROAE (%)	16.9	2.5	12.6	5.6	11.7
ROA (%)	9.8	1.1	5.4	2.3	4.8
ROCE (%)	14.6	2.7	8.5	4.2	7.9
Div Payout Ratio (%)	86.3	151.1	62.0	70.0	70.0
Net Interest Cover (x)	8.0	2.2	5.7	3.8	7.3

Source: Company, DBS HK



**Café de Coral**
**Interim Income Statement (HK\$ m)**

<b>FY Mar</b>	<b>1H2020</b>	<b>2H2020</b>	<b>1H2021</b>	<b>2H2021</b>	<b>1H2022</b>
Revenue	4,264	3,699	3,226	3,489	3,870
Cost of Goods Sold	(3,765)	(3,468)	(3,087)	(3,269)	(3,491)
<b>Gross Profit</b>	<b>499</b>	<b>232</b>	<b>138</b>	<b>220</b>	<b>379</b>
Other Oper. (Exp)/Inc	(263)	(258)	87	11	(242)
<b>Operating Profit</b>	<b>235</b>	<b>(27)</b>	<b>226</b>	<b>231</b>	<b>137</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(47)	(47)	(43)	(40)	(41)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>188</b>	<b>(74)</b>	<b>183</b>	<b>190</b>	<b>96</b>
Tax	(38)	(2)	(20)	(38)	(14)
Minority Interest	(1)	0	(1)	(1)	(1)
<b>Net Profit</b>	<b>150</b>	<b>(76)</b>	<b>162</b>	<b>152</b>	<b>81</b>
<b>Growth</b>					
Revenue Gth (%)	1.6	(13.9)	(24.3)	(5.7)	20.0
Opg Profit Gth (%)	(28.9)	(105.7)	(4.1)	(964.2)	(39.3)
Net Profit Gth (%)	(34.5)	N/A	8.4	N/A	(50.0)
<b>Margins</b>					
Gross Margins (%)	11.7	6.3	4.3	6.3	9.8
Opg Profit Margins (%)	5.5	(0.7)	7.0	6.6	3.5
Net Profit Margins (%)	3.5	(2.1)	5.0	4.4	2.1

Source: Company, DBS HK

## Café de Coral

## Balance Sheet (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	2,160	2,194	2,062	2,129	2,173
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3,501	3,152	2,577	2,286	2,070
Cash & ST Invt	857	347	2,094	2,697	2,588
Inventory	241	261	235	261	288
Debtors	165	167	103	114	126
Other Current Assets	39	101	84	90	96
<b>Total Assets</b>	<b>6,965</b>	<b>6,221</b>	<b>7,155</b>	<b>7,577</b>	<b>7,341</b>
ST Debt	0	0	180	180	180
Creditors	220	172	178	198	218
Other Current Liab	1,461	1,443	1,330	1,883	2,031
LT Debt	0	0	999	999	499
Other LT Liabilities	2,104	1,934	1,433	1,333	1,233
Shareholder's Equity	3,175	2,667	3,029	2,976	3,171
Minority Interests	5	5	6	8	9
<b>Total Cap. &amp; Liab.</b>	<b>6,965</b>	<b>6,221</b>	<b>7,155</b>	<b>7,577</b>	<b>7,341</b>
Non-Cash Wkg. Capital	(1,235)	(1,088)	(1,086)	(1,616)	(1,739)
Net Cash/(Debt)	857	347	914	1,517	1,909
Debtors Turn (avg days)	7.7	7.6	7.3	5.3	5.3
Creditors Turn (avg days)	11.3	10.4	10.7	10.8	11.1
Inventory Turn (avg days)	12.6	13.4	15.1	14.2	14.6
Asset Turnover (x)	1.5	1.2	1.0	1.0	1.1
Current Ratio (x)	0.8	0.5	1.5	1.4	1.3
Quick Ratio (x)	0.6	0.3	1.3	1.2	1.1
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	23.4	35.6	61.8
Z-Score (X)	3.6	3.4	3.6	3.6	3.6

Source: Company, DBS HK

## Cash Flow Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	700	114	391	215	456
Dep. & Amort.	1,204	1,234	1,099	947	894
Tax Paid	(116)	(112)	(29)	(30)	(43)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	119	34	241	134	132
Other Operating CF	12	175	4	16	13
<b>Net Operating CF</b>	<b>1,920</b>	<b>1,445</b>	<b>1,705</b>	<b>1,282</b>	<b>1,452</b>
Capital Exp.(net)	(232)	(501)	(276)	(420)	(420)
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	6	18	11	0	0
<b>Net Investing CF</b>	<b>(226)</b>	<b>(483)</b>	<b>(265)</b>	<b>(420)</b>	<b>(420)</b>
Div Paid	(680)	(488)	(58)	(223)	(166)
Chg in Gross Debt	0	0	1,179	0	(500)
Capital Issues	(11)	(37)	(25)	0	0
Other Financing CF	(941)	(936)	(808)	(862)	(860)
<b>Net Financing CF</b>	<b>(1,632)</b>	<b>(1,461)</b>	<b>288</b>	<b>(1,085)</b>	<b>(1,525)</b>
Currency Adjustments	(29)	(12)	20	826	385
Chg in Cash	33	(511)	1,747	603	(108)
Opg CFPS (HK\$)	3.10	2.43	2.53	1.98	2.28
Free CFPS (HK\$)	2.91	1.63	2.47	1.49	1.78

Source: Company, DBS HK

**Café de Coral**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	25-Nov-21	HK\$13.76	HK\$18.00	Buy

Source: DBS HK

Analyst: Alison FOK

Alice HUI CFA

# China / Hong Kong Company Update

## China Foods

Bloomberg: 506 HK EQUITY | Reuters: 0506.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$3.26 (HSI : 24,580)

Price Target 12-mth: HK\$3.88 (19% upside)

#### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com

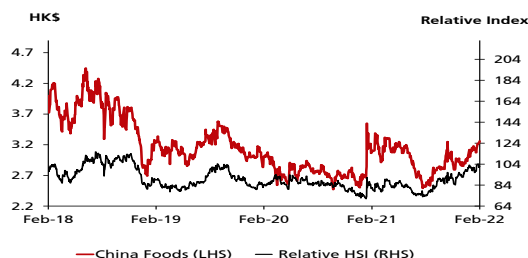
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Alice HUI CFA +852 36684182 alicehuis@dbs.com

#### What's New

- 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)	2020F	2021F	2022F	2023F
Turnover	17,249	18,765	20,940	23,380
EBITDA	1,657	1,800	1,981	2,062
Pre-tax Profit	1,253	1,345	1,527	1,686
Net Profit	499	565	641	708
Net Profit Gth (Pre-ex)(%)	19.4	13.2	13.5	10.5
EPS (RMB)	0.18	0.20	0.23	0.25
EPS (HK\$)	0.22	0.25	0.28	0.31
EPS Gth (%)	19.4	13.2	13.5	10.5
Diluted EPS (HK\$)	0.22	0.25	0.28	0.31
DPS (HK\$)	0.11	0.06	0.07	0.08
BV Per Share (HK\$)	2.17	2.31	2.53	2.77
PE (X)	14.9	13.2	11.6	10.5
P/Cash Flow (X)	3.9	nm	4.5	4.3
P/Free CF (X)	4.6	nm	8.6	8.1
EV/EBITDA (X)	5.2	5.7	5.1	4.8
Net Div Yield (%)	3.3	1.9	2.2	2.4
P/Book Value (X)	1.5	1.4	1.3	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	10.5	11.0	11.6	11.7
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (RMB)		0.20	0.23	0.25
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\$m/US\$m)	9,118 / 1,171
Major Shareholders (%)	
COFCO Corporation	74.1
Free Float (%)	25.9
3m Avg. Daily Val. (US\$m)	0.25
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



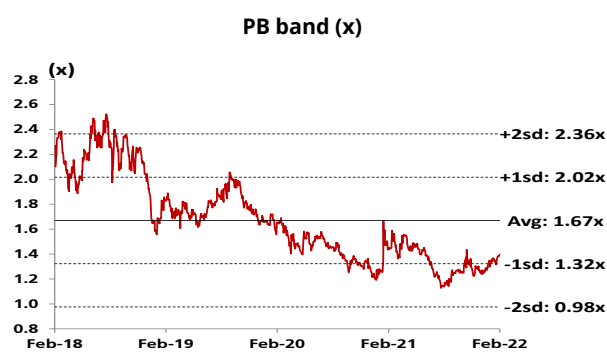
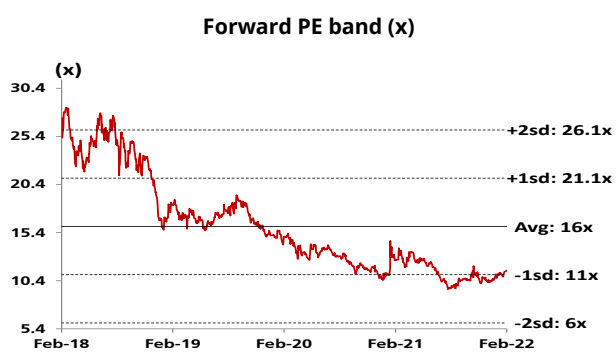
Live more, Bank less

## 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



Source: Thomson Reuters, DBS HK

## China Foods

### Income Statement (RMB m)

FY Dec	2019A	2020F	2021F	2022F	2023F
Revenue	17,172	17,249	18,765	20,940	23,380
Cost of Goods Sold	(10,898)	(10,424)	(11,529)	(12,762)	(14,252)
<b>Gross Profit</b>	<b>6,274</b>	<b>6,826</b>	<b>7,236</b>	<b>8,179</b>	<b>9,128</b>
Other Opng (Exp)/Inc	(5,249)	(5,583)	(5,897)	(6,662)	(7,456)
<b>Operating Profit</b>	<b>1,025</b>	<b>1,243</b>	<b>1,339</b>	<b>1,517</b>	<b>1,672</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	41	36	41	45	50
Net Interest (Exp)/Inc	(54)	(25)	(35)	(35)	(35)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,013</b>	<b>1,253</b>	<b>1,345</b>	<b>1,527</b>	<b>1,686</b>
Tax	(237)	(300)	(309)	(351)	(388)
Minority Interest	(358)	(455)	(471)	(534)	(590)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>418</b>	<b>499</b>	<b>565</b>	<b>641</b>	<b>708</b>
EBITDA	1,387	1,657	1,800	1,981	2,062
<b>Growth</b>					
Revenue Gth (%)	9.7	0.4	8.8	11.6	11.7
EBITDA Gth (%)	17.8	19.4	8.6	10.1	4.1
Opg Profit Gth (%)	33.3	21.2	7.7	13.3	10.2
Net Profit Gth (%)	30.2	19.4	13.2	13.5	10.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	36.5	39.6	38.6	39.1	39.0
Opg Profit Margin (%)	6.0	7.2	7.1	7.2	7.2
Net Profit Margin (%)	2.4	2.9	3.0	3.1	3.0
ROAE (%)	9.5	10.5	11.0	11.6	11.7
ROA (%)	3.0	3.4	3.8	4.3	4.3
ROCE (%)	9.5	11.2	11.5	11.8	11.7
Div Payout Ratio (%)	29.3	49.9	25.0	25.0	25.0
Net Interest Cover (x)	19.1	49.6	38.2	43.3	47.8

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	2019A	2020F	2021F	2022F	2023F
Net Fixed Assets	5,063	4,973	5,312	5,647	6,056
Invt in Associates & JVs	770	792	792	792	792
Other LT Assets	4,506	4,534	4,573	4,573	4,573
Cash & ST Invt	854	1,939	746	1,473	2,238
Inventory	1,890	1,834	1,864	2,063	2,304
Debtors	878	812	891	959	1,034
Other Current Assets	488	227	227	227	227
<b>Total Assets</b>	<b>14,448</b>	<b>15,110</b>	<b>14,404</b>	<b>15,734</b>	<b>17,224</b>
ST Debt	607	31	31	31	31
Creditors	3,856	4,298	2,805	3,101	3,452
Other Current Liab	2,270	2,223	2,223	2,223	2,223
LT Debt	0	20	20	20	20
Other LT Liabilities	403	459	459	459	459
Shareholder's Equity	4,540	4,954	5,270	5,770	6,318
Minority Interests	2,772	3,125	3,596	4,130	4,720
<b>Total Cap. &amp; Liab.</b>	<b>14,448</b>	<b>15,110</b>	<b>14,404</b>	<b>15,734</b>	<b>17,224</b>
Non-Cash Wkg. Capital	(2,870)	(3,648)	(2,047)	(2,075)	(2,111)
Net Cash/(Debt)	248	1,888	695	1,423	2,187
Debtors Turn (avg days)	7.4	6.7	6.5	6.6	6.6
Creditors Turn (avg days)	49.4	240.0	189.0	133.2	132.7
Inventory Turn (avg days)	63.9	65.2	58.5	56.1	55.9
Asset Turnover (x)	1.2	1.2	1.3	1.4	1.4
Current Ratio (x)	0.6	0.7	0.7	0.9	1.0
Quick Ratio (x)	0.3	0.4	0.3	0.5	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	115.9	641.4	1,581.8	1,581.8	1,581.8
Z-Score (X)	2.3	2.5	2.6	2.6	2.6

Source: Company, DBS HK

## Cash Flow Statement (RMB m)

FY Dec	2019A	2020F	2021F	2022F	2023F
Pre-Tax Profit	1,013	1,253	1,345	1,527	1,686
Dep. & Amort.	399	414	461	465	391
Tax Paid	(208)	(300)	(309)	(351)	(388)
Assoc. & JV Inc/(loss)	(41)	(36)	(41)	(45)	(50)
(Pft)/ Loss on disposal of FAs	(123)	0	0	0	0
Chg in Wkg.Cap.	775	599	(1,560)	73	85
Other Operating CF	86	0	0	0	0
<b>Net Operating CF</b>	<b>1,901</b>	<b>1,931</b>	<b>(105)</b>	<b>1,669</b>	<b>1,725</b>
Capital Exp.(net)	(703)	(324)	(800)	(800)	(800)
Other Invt.(net)	11	0	0	0	0
Invt in Assoc. & JV	1	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	146	(98)	0	0	0
<b>Net Investing CF</b>	<b>(545)</b>	<b>(422)</b>	<b>(800)</b>	<b>(800)</b>	<b>(800)</b>
Div Paid	(96)	(122)	(249)	(141)	(160)
Chg in Gross Debt	(588)	(556)	0	0	0
Capital Issues	1	0	0	0	0
Other Financing CF	(82)	195	(39)	0	0
<b>Net Financing CF</b>	<b>(764)</b>	<b>(484)</b>	<b>(288)</b>	<b>(141)</b>	<b>(160)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	592	1,026	(1,193)	727	764
Opg CFPS (RMB)	0.40	0.48	0.52	0.57	0.59
Free CFPS (RMB)	0.43	0.57	(0.32)	0.31	0.33

Source: Company, DBS HK

**China Foods**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Mar-21	HK\$3.32	HK\$4.35	Buy
2:	16-Nov-21	HK\$2.79	HK\$3.88	Buy
3:	21-Jan-22	HK\$3.15	HK\$3.88	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA



# China Mengniu

Bloomberg: 2319 HK EQUITY | Reuters: 2319.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): HK\$46.30 (HSI : 24,580)

Price Target 12-mth: HK\$53.50 (16% upside)

### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com

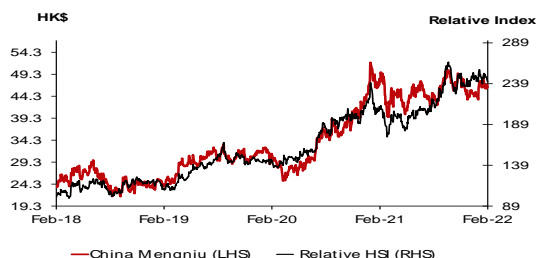
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Alice HUI CFA +852 36684182 alicehuis@dbs.com

### What's New

- Forecast double-digit sales growth driven by liquid milk, cheese, and butter sales in FY22F
- Expect gross profit margin to stabilise through product mix enhancement and easing raw milk price pressure
- Reiterate BUY, TP unchanged

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	76,035	87,092	102,270	121,365
EBITDA	4,676	7,629	9,947	12,403
Pre-tax Profit	4,155	6,756	8,633	10,805
Net Profit	3,525	5,368	6,090	6,809
Net Profit Gth (Pre-ex) (%)	(14.1)	52.3	13.5	11.8
EPS (RMB)	0.90	1.37	1.55	1.73
EPS (HK\$)	1.10	1.67	1.90	2.12
EPS Gth (%)	(14.1)	52.3	13.5	11.8
Diluted EPS (HK\$)	1.10	1.67	1.90	2.12
DPS (HK\$)	0.33	0.50	0.57	0.64
BV Per Share (HK\$)	10.28	11.62	13.02	14.57
PE (X)	42.1	27.7	24.4	21.8
P/Cash Flow (X)	27.8	38.3	18.6	12.2
P/Free CF (X)	159.0	391.8	33.3	17.1
EV/EBITDA (X)	34.2	21.3	16.0	12.3
Net Div Yield (%)	0.7	1.1	1.2	1.4
P/Book Value (X)	4.5	4.0	3.6	3.2
Net Debt/Equity (X)	0.2	0.3	0.1	CASH
ROAE (%)	11.4	15.3	15.4	15.4
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (RMB)		1.34	1.62	1.93
Other Broker Recs:		B:34	S:1	H:2

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

## Leading processor

### Investment Thesis

**Product premiumisation trend.** We expect China Mengniu's product upgrades and organic milk to support its premiumisation strategy and enable it to maintain market share and expand margins. We forecast liquid milk sales to deliver a CAGR of 10% in FY20-22F, driven by UHT milk.

**Leveraging recent acquisition of Shanghai Milkground.** We forecast the cheese category to be a strong growth contender within the dairy sector. In July'21, China Mengniu has become a substantial shareholder of Shanghai Milkground, a leading cheese enterprise, which should support its intention to expand in the domestic market.

**Low-temperature pasteurised milk development.** China Mengniu has increased its investment in dairy farms in recent years to prepare for increasing popularity of low-temperature products.

### Valuation:

Our TP is based on a 29x FY22F PE, equivalent to 1SD above its two-year trading average.

### Where we differ:

Our top-line assumption is 2% higher than consensus in FY22F.

### Key Risks to Our View:

Demand slowdown, raw material cost fluctuations, intense competition, and food safety concerns.

### At A Glance

Issued Capital (m shrs)	3,948
Mkt Cap (HK\$/US\$m)	182,792 / 23,470
Major Shareholders (%)	
COFCO Dairy Investments Ltd.	13.9
Prominent Achiever Ltd.	7.5
Free Float (%)	78.6
3m Avg. Daily Val. (US\$m)	61.62
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

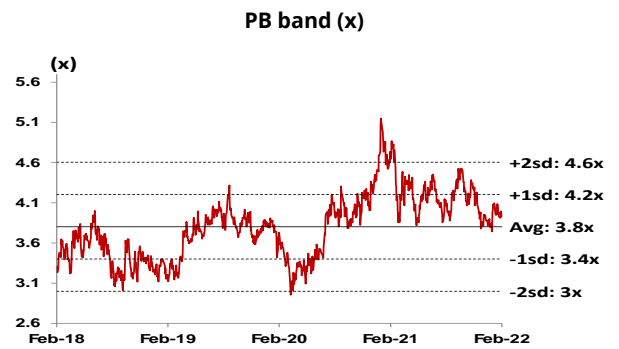
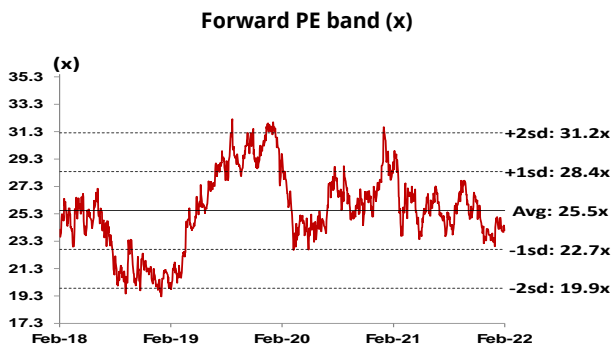
## China Mengniu

### Company Background

**One of the leading giants in China.** China Mengniu is one of the leading dairy giants in China. The company, through its subsidiaries, manufactures and distributes dairy-related products (UHT milk, yogurt, and milk beverages), ice cream, and other dairy products such as infant formula powder.

**Key listed companies.** China Mengniu has controlling stakes in listed companies – Yashili (1230.HK), China Modern Dairy (1117.HK), and Shengmu Dairy (1432.HK).

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China Mengniu

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Liquid milk	67,878	67,751	74,694	82,293	90,714
Ice cream	2,561	2,634	3,450	3,864	4,328
Other dairy products	7,870	4,573	5,287	6,344	7,614
Infant formula	721	1,077	3,662	9,769	18,710
<b>Total</b>	<b>79,030</b>	<b>76,035</b>	<b>87,092</b>	<b>102,270</b>	<b>121,365</b>
<b>Operating profit (RMB m)</b>					
Liquid milk	3,854	3,193	5,378	6,337	7,439
Ice cream	(246)	24	350	400	450
Other dairy products	(1,876)	17	48	202	312
Infant formula	(154)	40	80	120	121
<b>Total</b>	<b>4,970</b>	<b>3,216</b>	<b>5,556</b>	<b>7,333</b>	<b>9,505</b>
<b>Operating profit Margins (%)</b>					
Liquid milk	5.7	4.7	7.2	7.7	8.2
Ice cream	(9.6)	0.9	10.1	10.4	10.4
Other dairy products	(23.8)	0.4	0.9	3.2	4.1
Infant formula	(21.4)	3.7	2.2	1.2	0.6
<b>Total</b>	<b>6.3</b>	<b>4.2</b>	<b>6.4</b>	<b>7.2</b>	<b>7.8</b>

Source: Company, DBS HK

## China Mengniu

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	79,030	76,035	87,092	102,270	121,365
Cost of Goods Sold	(49,351)	(47,406)	(54,422)	(63,362)	(74,553)
<b>Gross Profit</b>	<b>29,679</b>	<b>28,629</b>	<b>32,670</b>	<b>38,907</b>	<b>46,813</b>
Other Opng (Exp)/Inc	(24,709)	(25,413)	(27,114)	(31,574)	(37,308)
<b>Operating Profit</b>	<b>4,970</b>	<b>3,216</b>	<b>5,556</b>	<b>7,333</b>	<b>9,505</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	175	426	700	900	900
Net Interest (Exp)/Inc	461	512	500	400	400
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>5,605</b>	<b>4,155</b>	<b>6,756</b>	<b>8,633</b>	<b>10,805</b>
Tax	(1,310)	(653)	(1,154)	(1,496)	(1,869)
Minority Interest	(190)	23	(234)	(1,048)	(2,127)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,105</b>	<b>3,525</b>	<b>5,368</b>	<b>6,090</b>	<b>6,809</b>
EBITDA	7,091	4,676	7,629	9,947	12,403
<b>Growth</b>					
Revenue Gth (%)	14.6	(3.8)	14.5	17.4	18.7
EBITDA Gth (%)	34.4	(34.1)	63.1	30.4	24.7
Opg Profit Gth (%)	29.6	(35.3)	72.8	32.0	29.6
Net Profit Gth (%)	34.9	(14.1)	52.3	13.5	11.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	37.6	37.7	37.5	38.0	38.6
Opg Profit Margin (%)	6.3	4.2	6.4	7.2	7.8
Net Profit Margin (%)	5.2	4.6	6.2	6.0	5.6
ROAE (%)	15.1	11.4	15.3	15.4	15.4
ROA (%)	5.7	4.4	6.5	6.8	6.9
ROCE (%)	7.0	4.5	7.5	9.1	10.6
Div Payout Ratio (%)	17.3	30.0	30.0	30.0	30.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	39,857	39,173	37,533	38,501	45,905
Cost of Goods Sold	(24,279)	(25,073)	(22,881)	(24,524)	(28,353)
<b>Gross Profit</b>	<b>15,579</b>	<b>14,100</b>	<b>14,652</b>	<b>13,977</b>	<b>17,553</b>
Other Oper. (Exp)/Inc	(13,275)	(11,434)	(13,696)	(11,717)	(14,659)
<b>Operating Profit</b>	<b>2,304</b>	<b>2,666</b>	<b>956</b>	<b>2,260</b>	<b>2,893</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	103	72	206	220	332
Net Interest (Exp)/Inc	189	272	240	272	172
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,596</b>	<b>3,010</b>	<b>1,402</b>	<b>2,752</b>	<b>3,397</b>
Tax	(435)	(874)	(268)	(386)	(430)
Minority Interest	(84)	(107)	77	(53)	(21)
<b>Net Profit</b>	<b>2,077</b>	<b>2,029</b>	<b>1,212</b>	<b>2,314</b>	<b>2,947</b>
<b>Growth</b>					
Revenue Gth (%)	15.6	13.5	(5.8)	(1.7)	22.3
Opg Profit Gth (%)	18.4	41.1	(58.5)	(15.2)	202.5
Net Profit Gth (%)	33.0	37.0	(41.7)	14.1	143.2
<b>Margins</b>					
Gross Margins (%)	39.1	36.0	39.0	36.3	38.2
Opg Profit Margins (%)	5.8	6.8	2.5	5.9	6.3
Net Profit Margins (%)	5.2	5.2	3.2	6.0	6.4

Source: Company, DBS HK

## China Mengniu

## Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	11,103	12,547	15,097	16,884	18,386
Invt in Associates & JVs	7,351	9,124	9,124	9,124	9,124
Other LT Assets	22,598	26,969	30,924	30,924	30,924
Cash & ST Invt	6,550	11,647	9,043	13,696	22,372
Inventory	5,090	2,988	3,431	3,819	4,494
Debtors	22,818	13,267	14,044	14,481	15,266
Other Current Assets	3,027	3,605	3,641	3,677	3,714
<b>Total Assets</b>	<b>78,537</b>	<b>80,146</b>	<b>85,304</b>	<b>92,606</b>	<b>104,279</b>
ST Debt	13,843	4,924	4,924	4,924	4,924
Creditors	6,739	7,969	8,588	8,984	10,570
Other Current Liab	11,153	13,251	12,783	13,607	15,919
LT Debt	9,635	14,020	14,020	14,020	14,020
Other LT Liabilities	3,822	2,734	3,197	3,753	4,419
Shareholder's Equity	29,132	32,983	37,292	41,771	46,752
Minority Interests	4,215	4,265	4,499	5,547	7,674
<b>Total Cap. &amp; Liab.</b>	<b>78,537</b>	<b>80,146</b>	<b>85,304</b>	<b>92,606</b>	<b>104,279</b>
Non-Cash Wkg. Capital	13,044	(1,360)	(255)	(613)	(3,016)
Net Cash/(Debt)	(16,927)	(7,298)	(9,901)	(5,248)	3,427
Debtors Turn (avg days)	86.8	86.6	57.2	50.9	44.7
Creditors Turn (avg days)	53.0	57.9	57.0	52.0	49.2
Inventory Turn (avg days)	36.1	31.8	22.1	21.5	20.9
Asset Turnover (x)	1.1	1.0	1.1	1.1	1.2
Current Ratio (x)	1.2	1.2	1.1	1.3	1.5
Quick Ratio (x)	0.9	1.0	0.9	1.0	1.2
Net Debt/Equity (X)	0.6	0.2	0.3	0.1	CASH
Net Debt/Equity ex MI (X)	0.6	0.2	0.3	0.1	CASH
Capex to Debt (%)	20.6	23.3	18.5	18.5	18.5
Z-Score (X)	3.2	3.2	3.2	3.2	3.2

Source: Company, DBS HK

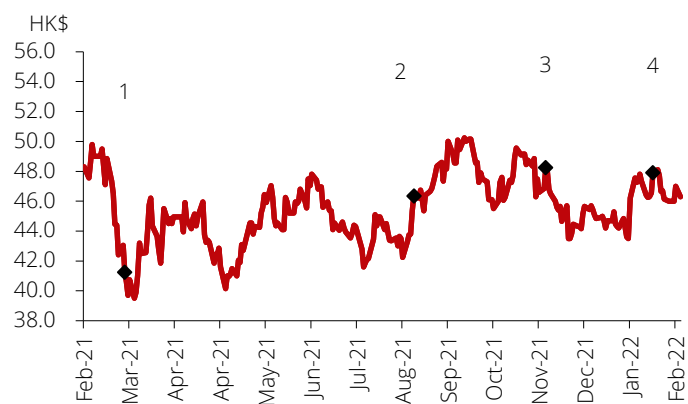
## Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	5,605	4,155	6,756	8,633	10,805
Dep. & Amort.	2,160	2,142	1,372	1,713	1,998
Tax Paid	(990)	(753)	(653)	(1,154)	(1,496)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	600	967	(1,896)	572	2,696
Other Operating CF	(1,069)	(1,164)	(1,700)	(1,800)	(1,800)
<b>Net Operating CF</b>	<b>6,307</b>	<b>5,348</b>	<b>3,879</b>	<b>7,964</b>	<b>12,203</b>
Capital Exp.(net)	(4,846)	(4,414)	(3,500)	(3,500)	(3,500)
Other Invt.(net)	(14,098)	8,163	(3,955)	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	1,414	1,073	1,700	1,800	1,800
<b>Net Investing CF</b>	<b>(17,530)</b>	<b>4,822</b>	<b>(5,755)</b>	<b>(1,700)</b>	<b>(1,700)</b>
Div Paid	(709)	(707)	(1,058)	(1,611)	(1,828)
Chg in Gross Debt	5,679	(12,280)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	4,881	7,913	331	0	0
<b>Net Financing CF</b>	<b>9,851</b>	<b>(5,073)</b>	<b>(727)</b>	<b>(1,611)</b>	<b>(1,828)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,371)	5,096	(2,603)	4,653	8,675
Opg CFPS (RMB)	1.45	1.12	1.47	1.88	2.42
Free CFPS (RMB)	0.37	0.24	0.10	1.14	2.22

Source: Company, DBS HK

**China Mengniu**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Mar-21	HK\$41.25	HK\$54.10	Buy
2:	27-Aug-21	HK\$45.35	HK\$58.30	Buy
3:	16-Nov-21	HK\$46.85	HK\$53.50	Buy
4:	21-Jan-22	HK\$46.55	HK\$53.50	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

# China/Hong Kong Company Update

## China Modern Dairy

Bloomberg: 1117 HK Equity | Reuters: 1117.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$1.38 (HSI : 24,580)  
Price Target 12-mth: HK\$1.60 (16% upside) (Prev HK\$3.00)

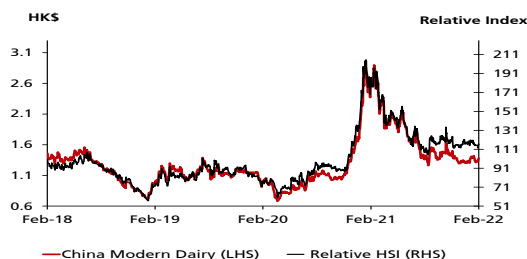
#### Analyst

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

- Expect raw milk price growth to slow in FY22F
- Remain positive on upstream sector development as market share consolidates
- Maintain BUY, TP cut to HK\$1.60

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	6,020	6,820	9,927	11,421
EBITDA	2,379	2,325	3,360	3,666
Pre-tax Profit	784	1,302	1,731	2,032
Net Profit	770	1,088	1,517	1,819
Net Pft (Pre Ex) (core profit)	1,801	1,588	2,647	2,949
Net Profit Gth (Pre-ex) (%)	125.6	41.3	39.4	19.9
EPS (RMB)	0.11	0.14	0.19	0.23
EPS (HK\$)	0.13	0.17	0.23	0.28
Core EPS (RMB)	0.25	0.20	0.33	0.37
Core EPS (HK\$)	0.31	0.25	0.41	0.46
EPS Gth (%)	96.2	26.9	39.4	19.9
Core EPS Gth (%)	13.5	(20.8)	66.7	11.4
Diluted EPS (HK\$)	0.13	0.17	0.23	0.28
DPS (HK\$)	0.02	0.03	0.04	0.05
BV Per Share (HK\$)	1.36	1.37	1.57	1.81
PE (X)	10.4	8.2	5.9	4.9
CorePE (X)	4.4	5.6	3.4	3.0
P/Cash Flow (X)	4.1	7.7	5.9	4.5
P/Free CF (X)	17.6	10.4	9.9	6.5
EV/EBITDA (X)	5.3	5.6	3.8	3.2
Net Div Yield (%)	1.8	2.3	3.1	3.8
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	0.6	0.5	0.4	0.2
ROAE(%)	10.3	13.0	16.0	16.6
Earnings Rev (%)		1	1	New
Consensus EPS (RMB)		0.15	0.22	0.26
Other Broker Recs:		B:11	S:0	H:0

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

### Scaling up

#### Investment Thesis

**Expanding herd size.** With the acquisition of Zhongyuan and Fuyuan (end-Nov'21), the company's herd size has expanded to over c.340,000 heads by end-Nov'21 (Jun'21: c.250,000 heads). CMD is committed to expanding its herd size by c.10% p.a. to 500,000 heads by 2025E, with annual production of fresh milk to expand to c.3.6m tons.

**Raw milk prices.** China Modern Dairy (CMD) is a key beneficiary of the raw milk upcycle led by tightening milk supply and rising demand for pasteurised products. We forecast raw milk prices to increase 2% in FY22F.

**Committed to improving its financials.** CMD has been steadily improving its net gearing to 24.6% as of Jun'21 (Dec'20: 53%). With the acquisition of Fuyuan, CMD allotted 807m shares at HK\$2.24/sh to China Mengniu, equivalent to a sum of Rmb1.5bn.

#### Valuation:

Our target price (TP) is based on discounted cash flow (DCF) valuation with the weighted average cost of capital (WACC) at 8.9% and terminal growth of 3%. We revise down the long-term growth rate as we forecast volume growth should stabilize post 2025E. We adjust our TP accordingly to HK\$1.60.

#### Where we differ:

Our top line expectation in FY22F is higher as we forecast stronger contribution from recently acquired farms.

#### Key Risks to Our View:

Reliance on China Mengniu for raw milk, outbreak of diseases, food safety issues, raw milk price and raw material cost fluctuations, and ESG concerns are some of the key risks.

#### At A Glance

Issued Capital (m shrs)	6,459
Mkt Cap (HK\$/US\$m)	8,590 / 1,103
Major Shareholders (%)	
China Mengniu Dairy Co Ltd	56.4
New Hope Dairy Co., Ltd.	8.0
Free Float (%)	35.6
3m Avg. Daily Val. (US\$m)	2.51
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates

**DBS**  
Live more, Bank less

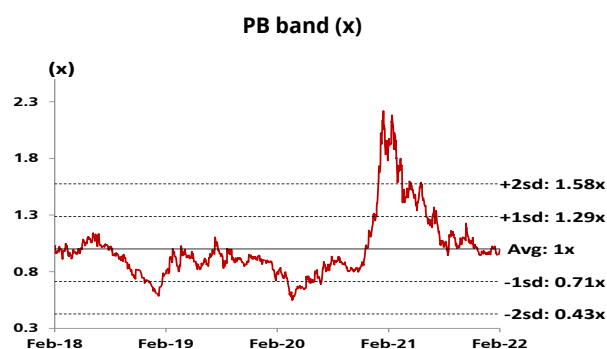
## China Modern Dairy

### Company Background

**Largest upstream dairy player.** Established in 2005 in Maanshan, Anhui province, China Modern Dairy (CMD) is one of the leading dairy farming companies in terms of herd size, as well as the largest raw milk producer in China. The group operated 26 dairy farms in China with over 340,000 dairy cows, with the acquisition of Fuyuan.

**A pioneer in large-scale dairy farming in China.** CMD was among the first to adopt a free-stall dairy farming business model in China to ensure higher yields and cost efficiency compared with small-scale backyard farmers.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK



## China Modern Dairy

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	5,514	6,020	6,820	9,927	11,421
Cost of Goods Sold	(3,412)	(3,562)	(4,232)	(6,022)	(7,086)
<b>Gross Profit</b>	<b>2,102</b>	<b>2,459</b>	<b>2,589</b>	<b>3,904</b>	<b>4,335</b>
Other Opng (Exp)/Inc	(260)	(517)	(536)	(822)	(950)
<b>Operating Profit</b>	<b>1,842</b>	<b>1,942</b>	<b>2,052</b>	<b>3,082</b>	<b>3,384</b>
Other Non Opng (Exp)/Inc	(121)	143	10	10	10
Associates & JV Inc	34	32	32	32	32
Net Interest (Exp)/Inc	(366)	(300)	(292)	(263)	(263)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(1,039)	(1,031)	(500)	(1,130)	(1,130)
<b>Pre-tax Profit</b>	<b>350</b>	<b>784</b>	<b>1,302</b>	<b>1,731</b>	<b>2,032</b>
Tax	(1)	(1)	(200)	(200)	(200)
Minority Interest	(9)	(14)	(14)	(14)	(14)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>341</b>	<b>770</b>	<b>1,088</b>	<b>1,517</b>	<b>1,819</b>
Net Profit before Except.	1,380	1,801	1,588	2,647	2,949
EBITDA	1,856	2,379	2,325	3,360	3,666
<b>Growth</b>					
Revenue Gth (%)	11.2	9.2	13.3	45.6	15.1
EBITDA Gth (%)	84.3	28.2	(2.2)	44.5	9.1
Opg Profit Gth (%)	128.6	5.4	5.7	50.2	9.8
Net Profit Gth (%)	N/A	125.6	41.3	39.4	19.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	38.1	40.8	38.0	39.3	38.0
Opg Profit Margin (%)	33.4	32.3	30.1	31.1	29.6
Net Profit Margin (%)	6.2	12.8	16.0	15.3	15.9
ROAE (%)	5.0	10.3	13.0	16.0	16.6
ROA (%)	2.2	4.9	6.8	8.9	10.1
ROCE (%)	13.1	13.7	11.9	17.6	18.7
Div Payout Ratio (%)	0.0	7.9	12.6	10.6	11.4
Net Interest Cover (x)	5.0	6.5	7.0	11.7	12.9

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	2,570	2,944	2,828	3,192	3,180
Cost of Goods Sold	(1,672)	(1,740)	(1,776)	(1,786)	(3,106)
<b>Gross Profit</b>	<b>898</b>	<b>1,204</b>	<b>1,052</b>	<b>1,407</b>	<b>74</b>
Other Oper. (Exp)/Inc	(139)	(312)	(437)	(398)	(175)
<b>Operating Profit</b>	<b>759</b>	<b>892</b>	<b>615</b>	<b>1,009</b>	<b>(101)</b>
Other Non Opng (Exp)/Inc	(27)	(94)	40	102	(10)
Associates & JV Inc	12	22	13	19	16
Net Interest (Exp)/Inc	(181)	6	8	11	0
Exceptional Gain/(Loss)	(430)	(609)	(449)	(583)	(406)
<b>Pre-tax Profit</b>	<b>134</b>	<b>217</b>	<b>227</b>	<b>558</b>	<b>(501)</b>
Tax	0	0	0	0	(91)
Minority Interest	(9)	0	(6)	(8)	0
<b>Net Profit</b>	<b>125</b>	<b>216</b>	<b>221</b>	<b>549</b>	<b>(592)</b>
Net profit bef Except.	555	825	670	1,132	(186)
<b>Growth</b>					
Revenue Gth (%)	4.1	18.3	10.0	8.4	12.4
Opg Profit Gth (%)	50.4	196.4	(19.1)	13.1	(116.4)
Net Profit Gth (%)	N/A	N/A	76.9	153.8	N/A
<b>Margins</b>					
Gross Margins (%)	34.9	40.9	37.2	44.1	2.3
Opg Profit Margins (%)	29.5	30.3	21.7	31.6	(3.2)
Net Profit Margins (%)	4.9	7.4	7.8	17.2	(18.6)

Source: Company, DBS HK

## China Modern Dairy

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	3,775	3,622	3,690	3,754	3,814
Invt in Associates & JVs	215	290	290	290	290
Other LT Assets	8,835	8,572	8,572	8,872	9,172
Cash & ST Invt	1,041	1,158	1,983	1,974	2,345
Inventory	1,078	1,159	1,101	1,567	1,844
Debtors	618	707	654	952	1,095
Other Current Assets	161	61	100	100	100
<b>Total Assets</b>	<b>15,724</b>	<b>15,568</b>	<b>16,391</b>	<b>17,509</b>	<b>18,661</b>
ST Debt	4,874	3,471	3,471	3,021	2,571
Creditors	1,522	1,411	1,101	1,567	1,844
Other Current Liab	41	84	84	84	84
LT Debt	1,716	2,171	2,571	2,563	2,364
Other LT Liabilities	364	393	193	1	0
Shareholder's Equity	7,082	7,897	8,843	10,159	11,697
Minority Interests	126	142	128	114	100
<b>Total Cap. &amp; Liab.</b>	<b>15,724</b>	<b>15,568</b>	<b>16,391</b>	<b>17,509</b>	<b>18,661</b>
Non-Cash Wkg. Capital	295	432	670	968	1,111
Net Cash/(Debt)	(5,549)	(4,484)	(4,059)	(3,611)	(2,590)
Debtors Turn (avg days)	46.3	40.2	36.4	29.5	32.7
Creditors Turn (avg days)	198.1	162.2	114.6	84.2	91.0
Inventory Turn (avg days)	113.4	123.8	103.1	84.2	91.0
Asset Turnover (x)	0.3	0.4	0.4	0.6	0.6
Current Ratio (x)	0.5	0.6	0.8	1.0	1.2
Quick Ratio (x)	0.3	0.4	0.6	0.6	0.8
Net Debt/Equity (X)	0.8	0.6	0.5	0.4	0.2
Net Debt/Equity ex MI (X)	0.8	0.6	0.5	0.4	0.2
Capex to Debt (%)	23.7	26.3	5.0	10.7	12.2
Z-Score (X)	1.0	1.1	1.2	1.2	1.2

Source: Company, DBS HK

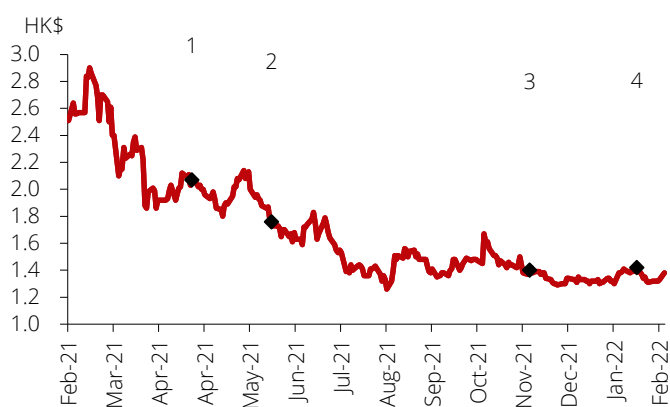
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	350	784	1,302	1,731	2,032
Dep. & Amort.	309	263	231	236	240
Tax Paid	(1)	0	(200)	(200)	(200)
Assoc. & JV Inc/(loss)	(34)	(32)	(17)	(17)	(17)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	42	(256)	(238)	(298)	(143)
Other Operating CF	1,383	1,180	81	52	52
<b>Net Operating CF</b>	<b>2,049</b>	<b>1,939</b>	<b>1,159</b>	<b>1,504</b>	<b>1,965</b>
Capital Exp.(net)	(1,559)	(1,484)	(300)	(600)	(600)
Other Invt.(net)	566	574	0	0	0
Invt in Assoc. & JV	(34)	(74)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	2	219	23	28	28
<b>Net Investing CF</b>	<b>(1,026)</b>	<b>(766)</b>	<b>(277)</b>	<b>(572)</b>	<b>(572)</b>
Div Paid	0	0	(142)	(201)	(280)
Chg in Gross Debt	(773)	283	400	(450)	(450)
Capital Issues	0	(1,015)	0	0	0
Other Financing CF	(59)	(210)	(315)	(291)	(291)
<b>Net Financing CF</b>	<b>(832)</b>	<b>(943)</b>	<b>(57)</b>	<b>(942)</b>	<b>(1,021)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	191	230	825	(10)	372
Opg CFPS (RMB)	0.32	0.31	0.18	0.23	0.27
Free CFPS (RMB)	0.08	0.06	0.11	0.11	0.17

Source: Company, DBS HK

## China Modern Dairy

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	22-Apr-21	HK\$2.03	HK\$3.36	Buy
2:	10-Jun-21	HK\$1.76	HK\$3.36	Buy
3:	16-Nov-21	HK\$1.37	HK\$3.01	Buy
4:	21-Jan-22	HK\$1.40	HK\$3.00	Buy

Source: DBS HK

Analyst: *Alison FOK*

*Mavis HUI*

*Alice HUI CFA*

# China / Hong Kong Company Update

## China Resources Beer

Bloomberg: 291 HK EQUITY | Reuters: 0291.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$59.50 (HSI : 24,580)  
Price Target 12-mth: HK\$72.29 (21% upside)

#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Clement XU clementxu@dbs.com

#### What's New

- On-going premiumisation to support margin expansion
- Better earnings momentum could also be expected by FY22 as COVID-19 impacts could further subside ahead
- Maintain BUY with TP unchanged at HK\$72.29

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	31,448	34,025	36,792	39,252
EBITDA*	4,966	8,464	7,132	8,652
Pre-tax Profit*	3,009	6,834	5,488	7,137
Net Profit*	2,094	4,405	3,537	4,600
Core Profit	3,063	3,597	4,511	5,542
Core Profit Gth (%)	29.6	17.4	25.4	22.9
EPS (RMB)*	0.65	1.36	1.09	1.42
EPS (HK\$)*	0.79	1.66	1.34	1.74
Core EPS (RMB)	0.94	1.11	1.39	1.71
Core EPS (HK\$)	1.16	1.36	1.70	2.09
EPS Gth (%)*	59.6	110.4	(19.7)	30.1
Core EPS Gth (%)	29.6	17.4	25.4	22.9
Diluted EPS (HK\$)*	0.79	1.66	1.34	1.74
DPS (HK\$)	0.32	0.67	0.54	0.70
DPS (HK cts)	31.71	66.71	53.57	69.67
BV Per Share (HK\$)	8.01	9.30	9.82	10.79
PE (X)*	75.2	35.8	44.5	34.3
Core PE (X)	51.4	43.8	34.9	28.4
P/Cash Flow (X)	35.2	25.7	28.0	25.6
P/Free CF (X)	45.9	30.7	34.1	30.6
EV/EBITDA (X)*	30.9	17.6	20.4	16.3
Net Div Yield (%)	0.5	1.1	0.9	1.2
P/Book Value (X)	7.4	6.4	6.1	5.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	10.2	19.2	14.0	16.9
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		1.34	1.39	1.73
Other Broker Recs:		B:38	S:3	H:0

(\* CR Beer booked RMB1.8bn gains on land disposal in 1H21.)

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

### Ample room for margin expansion

#### Investment Thesis

Ongoing efforts in premiumisation. China Resources Beer ("CR Beer") should achieve c.30% y-o-y volume increase in its "sub-premium and above" segment in FY21 on a low base, and we anticipate a further 20-25% growth in the segment for FY22. Seeing large potential to premiumise ahead, we expect the average selling price (ASP) to sustain a c.5% CAGR in 2021-2025 and support medium-term growth.

Firm recovery amid near-term headwinds. While the resurgence of COVID-19 in 2H21 resulted in flattish sales volume for FY21, full-year revenue and core earnings momentum have staged a better recovery. Further easing of the pandemic situation ahead, especially into 2H22 should improve overall consumer sentiment as well as the ability for a faster expansion.

Ample room for profitability growth. With an ongoing product-mix upgrade and capacity optimisation, CR Beer could potentially target at a GP margin of 50%+ by 2025 (FY21: c.41.5%), bringing EBITDA margin to c.30% by then.

#### Valuation:

Our TP remains unchanged at HK\$72.29, which is benchmarked to a 22x adjusted EV/EBITDA for FY22, equivalent to 1 S.D. above its four-year average.

#### Where we differ:

We are already slightly more conservative on FY21/22 revenue growth assumptions vs. market consensus as we merely factor in a mid-single-digit ASP growth for both FY21 and FY22.

#### Key Risks to Our View:

Significant sales volume decline due to COVID-19 resurgence; rising competition; higher-than-expected raw material costs.

#### At A Glance

Issued Capital (m shrs)	3,244
Mkt Cap (HK\$m/US\$m)	198,046 / 25,429
Major Shareholders (%)	
China Resources Co Ltd	51.9
Free Float (%)	48.1
3m Avg. Daily Val. (US\$m)	58.35
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



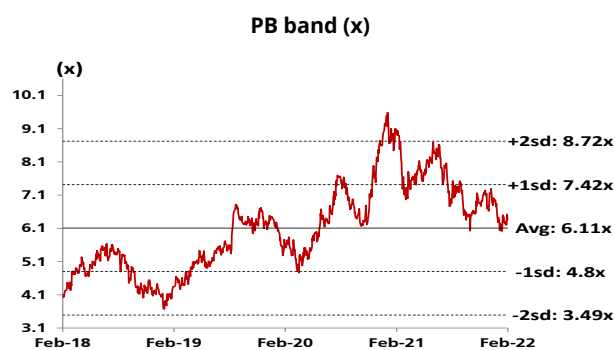
Live more, Bank less

## China Resources Beer

### Company Background

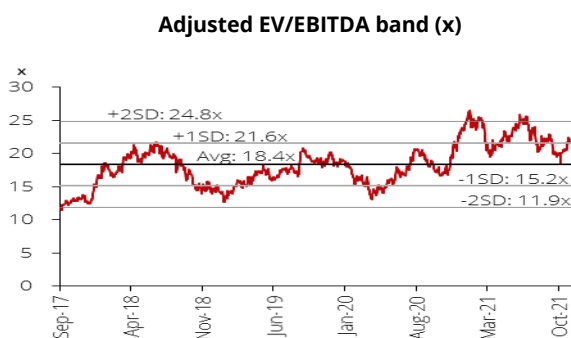
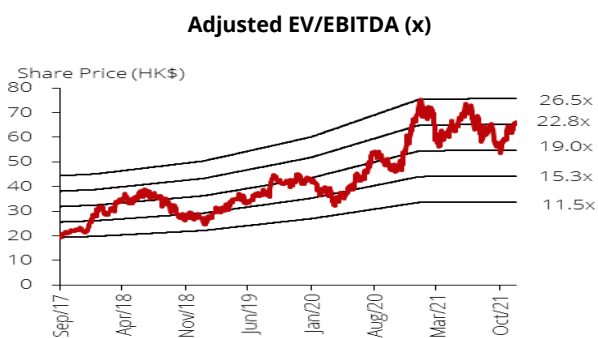
China Resources Beer (CR Beer) is the largest brewer in China, with sales volume of 11.1m KL in 2020, accounting for a 26.1% market share in China according to Euromonitor. As at end-2020, CR Beer owned 70 breweries across 25 provinces, municipalities, and autonomous regions in China, running on a production capacity of c.19m kl per year.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

### Adjusted EV/EBITDA



Source: Thomson Reuters, DBS HK

## China Resources Beer

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Mid-to-high-end beer revenue share (%)	56.3	57.6	59.1	60.3	61.4
Average selling price growth (%)	2.8	(2.4)	7.0	5.7	5.5
Sales volume growth (%)	1.3	(2.9)	1.1	2.3	1.1
Adjusted EBITDA margin (%)	15.2	18.9	22.5	22.0	24.4
Core net margin (%)	7.1	9.7	10.6	12.3	14.1

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Eastern region	16,927	15,785	16,974	18,620	19,935
Central region	8,073	7,497	8,182	8,720	9,294
Southern region	8,190	8,166	8,869	9,452	10,024
<b>Total</b>	<b>33,190</b>	<b>31,448</b>	<b>34,025</b>	<b>36,792</b>	<b>39,252</b>
<b>EBIT (RMB m)</b>					
Eastern region	1,007	1,134	3,649	2,793	3,588
Central region	598	757	1,391	1,046	1,394
Southern region	714	1,312	1,596	1,607	2,005
<b>Total</b>	<b>2,319</b>	<b>3,203</b>	<b>6,637</b>	<b>5,446</b>	<b>6,987</b>
<b>EBIT Margins (%)</b>					
Eastern region	5.9	7.2	21.5	15.0	18.0
Central region	7.4	10.1	17.0	12.0	15.0
Southern region	8.7	16.1	18.0	17.0	20.0
<b>Total</b>	<b>7.0</b>	<b>10.2</b>	<b>19.5</b>	<b>14.8</b>	<b>17.8</b>

Source: Company, DBS HK

## China Resources Beer

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	33,190	31,448	34,025	36,792	39,252
Cost of Goods Sold	(20,964)	(19,373)	(19,892)	(20,641)	(21,148)
<b>Gross Profit</b>	<b>12,226</b>	<b>12,075</b>	<b>14,133</b>	<b>16,151</b>	<b>18,104</b>
Other Opg (Exp)/Inc	(9,954)	(8,855)	(7,263)	(10,637)	(10,941)
<b>Operating Profit</b>	<b>2,272</b>	<b>3,220</b>	<b>6,870</b>	<b>5,514</b>	<b>7,163</b>
Other Non Opg (Exp)/Inc	943	828	(1,082)	417	190
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	39	(70)	238	530	726
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(1,052)	(969)	809	(973)	(942)
<b>Pre-tax Profit</b>	<b>2,202</b>	<b>3,009</b>	<b>6,834</b>	<b>5,488</b>	<b>7,137</b>
Tax	(892)	(915)	(2,429)	(1,950)	(2,537)
Minority Interest	2	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,312</b>	<b>2,094</b>	<b>4,405</b>	<b>3,537</b>	<b>4,600</b>
Net Profit before Except.	2,364	3,063	3,597	4,511	5,542
EBITDA	3,996	4,966	8,464	7,132	8,652
<b>Growth</b>					
Revenue Gth (%)	4.2	(5.2)	8.2	8.1	6.7
EBITDA Gth (%)	23.6	24.3	70.4	(15.7)	21.3
Opg Profit Gth (%)	43.8	41.7	113.4	(19.7)	29.9
Net Profit Gth (%)	34.3	59.6	110.4	(19.7)	30.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	36.8	38.4	41.5	43.9	46.1
Opg Profit Margin (%)	6.8	10.2	20.2	15.0	18.2
Net Profit Margin (%)	4.0	6.7	12.9	9.6	11.7
ROAE (%)	6.8	10.2	19.2	14.0	16.9
ROA (%)	3.2	4.9	9.7	7.3	9.0
ROCE (%)	6.2	9.6	17.1	12.6	15.3
Div Payout Ratio (%)	40.8	40.1	40.1	40.1	40.1
Net Interest Cover (x)	NM	46.0	NM	NM	NM

Source: Company, DBS HK

## China Resources Beer

## Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	19,413	17,781	18,165	16,761	15,515
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	12,460	12,617	12,564	12,519	12,482
Cash & ST Invts	2,340	4,538	9,232	12,472	16,607
Inventory	6,018	6,014	6,127	6,358	6,514
Debtors	943	2,378	932	1,008	1,075
Other Current Assets	417	447	447	447	447
<b>Total Assets</b>	<b>41,591</b>	<b>43,775</b>	<b>47,467</b>	<b>49,566</b>	<b>52,640</b>
ST Debt	601	83	83	83	83
Creditors	19,061	19,327	19,708	20,451	20,953
Other Current Liab	194	162	162	162	162
LT Debt	124	117	117	117	117
Other LT Liabilities	1,884	2,812	2,688	2,688	2,688
Shareholder's Equity	19,670	21,217	24,652	26,008	28,581
Minority Interests	57	57	57	57	57
<b>Total Cap. &amp; Liab.</b>	<b>41,591</b>	<b>43,775</b>	<b>47,467</b>	<b>49,566</b>	<b>52,640</b>
Non-Cash Wkg. Capital	(11,877)	(10,650)	(12,364)	(12,800)	(13,079)
Net Cash/(Debt)	1,615	4,338	9,032	12,272	16,407
Debtors Turn (avg days)	10.2	19.3	17.8	9.6	9.7
Creditors Turn (avg days)	348.1	397.4	389.3	385.3	384.4
Inventory Turn (avg days)	108.1	124.6	121.1	119.8	119.5
Asset Turnover (x)	0.8	0.7	0.7	0.8	0.8
Current Ratio (x)	0.5	0.7	0.8	1.0	1.2
Quick Ratio (x)	0.2	0.4	0.5	0.7	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	205.5	523.5	500.0	500.0	500.0
Z-Score (X)	5.0	4.8	4.9	5.1	5.1

Source: Company, DBS HK

## Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,202	3,009	6,834	5,488	7,137
Dep. & Amort.	1,724	1,746	1,594	1,618	1,489
Tax Paid	(706)	(1,148)	(2,429)	(1,950)	(2,537)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	885	958	(820)	962	931
Chg in Wkg.Cap.	75	185	1,177	7	(160)
Other Operating CF	(82)	(270)	(225)	(507)	(703)
<b>Net Operating CF</b>	<b>4,098</b>	<b>4,480</b>	<b>6,132</b>	<b>5,618</b>	<b>6,157</b>
Capital Exp.(net)	(1,490)	(1,047)	(1,000)	(1,000)	(1,000)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(2,216)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	938	(23)	400	400	400
<b>Net Investing CF</b>	<b>(2,768)</b>	<b>(1,070)</b>	<b>(600)</b>	<b>(600)</b>	<b>(600)</b>
Div Paid	(487)	(561)	(840)	(1,768)	(1,419)
Chg in Gross Debt	(241)	(526)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(150)	(110)	(6)	(6)	(6)
<b>Net Financing CF</b>	<b>(878)</b>	<b>(1,197)</b>	<b>(846)</b>	<b>(1,773)</b>	<b>(1,425)</b>
Currency Adjustments	30	(15)	8	(4)	2
Chg in Cash	482	2,198	4,694	3,241	4,134
Opg CFPS (RMB)	1.24	1.32	1.53	1.73	1.95
Free CFPS (RMB)	0.80	1.06	1.58	1.42	1.59

Source: Company, DBS HK



**China Resources Beer**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-Oct-21	HK\$57.90	HK\$65.65	Buy
2:	13-Dec-21	HK\$66.45	HK\$72.29	Buy
3:	18-Jan-22	HK\$56.45	HK\$72.29	Buy

Source: DBS HK

Analyst: *Mavis HUI*  
*Clement XU*

# China/Hong Kong Company Update

## Chow Sang Sang

Bloomberg: 116 HK EQUITY | Reuters: 0116.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$10.66 (HSI : 24,580)  
Price Target 12-mth: HK\$19.29 (81% upside) (Prev HK\$19.10)

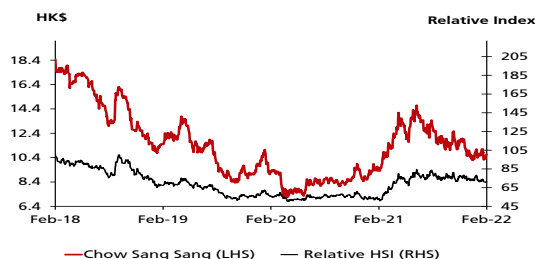
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- Potential China-HK border reopening to support growth
- Despite heavier capex, faster expansion of self-operated stores in China should also pay off in the medium-term
- Maintain BUY with new TP of HK\$19.29 on a 10x FY22 PE

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021F	2022F	2023F
Turnover	15,032	18,605	21,435	24,304
EBITDA	1,348	1,787	2,127	2,421
Pre-tax Profit	921	1,437	1,743	2,020
Net Profit	544	1,078	1,307	1,515
Net Pft (Pre Ex) (core profit)	669	1,078	1,307	1,515
Net Profit Gth (Pre-ex) (%)	(39.0)	61.1	21.2	15.9
EPS (HK\$)	0.80	1.59	1.93	2.24
EPS (HK\$)	0.80	1.59	1.93	2.24
Core EPS (HK\$)	0.99	1.59	1.93	2.24
Core EPS (HK\$)	0.99	1.59	1.93	2.24
EPS Gth (%)	(15.4)	98.0	21.2	15.9
Core EPS Gth (%)	(39.0)	61.1	21.2	15.9
Diluted EPS (HK\$)	0.80	1.59	1.93	2.24
DPS (HK\$)	0.47	0.64	0.77	0.89
BV Per Share (HK\$)	17.74	18.70	19.85	21.20
PE (X)	13.3	6.7	5.5	4.8
CorePE (X)	10.8	6.7	5.5	4.8
P/Cash Flow (X)	7.4	13.5	8.6	5.8
P/Free CF (X)	9.8	84.7	18.9	8.9
EV/EBITDA (X)	5.7	4.5	3.8	3.2
Net Div Yield (%)	4.4	6.0	7.2	8.4
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	0.0	0.1	0.1	0.0
ROAE(%)	4.8	8.7	10.0	10.9
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (HK\$)		1.51	1.71	1.72
Other Broker Recs:		B:4	S:0	H:3

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

### Faster PRC expansion helps branding

#### Investment Thesis

**Sequential improvements.** With potential recovery from the COVID-19 pandemic in 2H22, we stay positive on the company's outlook, especially given a low base for the HK/Macau markets and decent gold product sales to drive performance in FY22-23.

**Diversification could speed up growth.** Various newer brands namely PROMESSA, 生生活宇 (Oasis by Chow Sang Sang) and MARCO BICEGO being rolled out since 2020; enhancement in personalised product offerings; and its re-accelerated expansion in Mainland China to open c.100 self-operated stores per year since 2021 should all enable Chow Sang Sang (CSS) to leverage its successful omni-channel retail strategies and expedite growth.

**Closing underperforming non-core business.** CSS has closed down its non-core local brokerage division in May 2021. Redeploying resources to its core jewellery business should help beefing up overall prospects.

#### Valuation:

We have adjusted our TP to HK\$19.29 to base on 10x FY22F PE, equivalent to 1 S.D. above its four-year average PE to better reflect the counter's ongoing potentials from China-HK border reopening ahead, plus adopting a more recent valuation range. (Previous TP: HK\$19.10 on 12x FY21 PE, equivalent to its 10-year average PE)

#### Where we differ:

We are slightly more positive on our projections versus the market, given CSS' successful omni-channel retailing that rides on its reputable brands, and a robust industry outlook for mass luxuries along with rising Chinese household purchasing powers.

#### Key Risks to Our View:

Economic downturn; policy change; strong volatility of gold prices; intensifying competition; and catastrophic events.

#### At A Glance

Issued Capital (m shrs)	677
Mkt Cap (HK\$m/US\$m)	7,163 / 920
Major Shareholders (%)	
Chow Family	34.7
Free Float (%)	65.3
3m Avg. Daily Val. (US\$m)	0.39
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



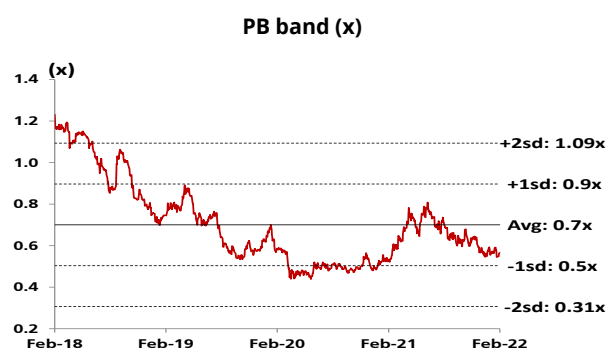
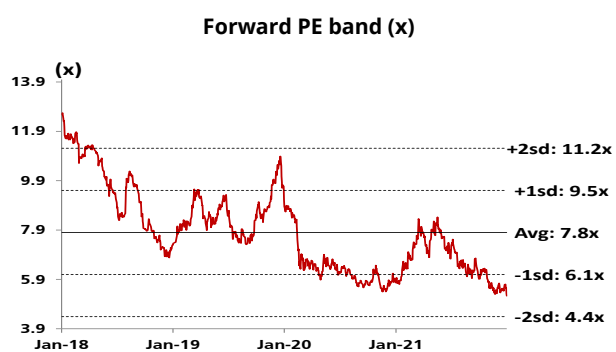
Live more, Bank less

## Chow Sang Sang

### Company Background

CSS mainly manufactures and retails gold and gem-set jewellery products across the Greater China Region. The company also retails watches and trades in gold bullion. Its non-core division of securities and futures broking business had been shut down by May 2021 to redeploy resources to its core operations.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Chow Sang Sang

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Hong Kong and Macau	70.0	69.0	67.0	67.0	67.0
China	606.0	653.0	753.0	853.0	933.0
Taiwan	24.0	26.0	26.0	26.0	26.0
<b>Total no. of stores</b>	<b>700.0</b>	<b>748.0</b>	<b>846.0</b>	<b>946.0</b>	<b>1,026.0</b>

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Manufacture & retail of jewellery	16,258	13,098	16,518	19,241	22,000
Wholesale of precious metals	1,436	1,885	2,074	2,178	2,287
Securities & futures broking	24	35	0	0	0
Other businesses	18	14	14	16	18
<b>Total</b>	<b>17,736</b>	<b>15,032</b>	<b>18,605</b>	<b>21,435</b>	<b>24,304</b>

### Segmental profit (HK\$ m)

Manufacture & retail of jewellery	1,282	915	1,153	1,343	1,536
Wholesale of precious metals	6	11	13	13	14
Securities & futures broking	(429)	(26)	0	0	0
Other businesses	(1)	(4)	(4)	(4)	(5)
<b>Total</b>	<b>858</b>	<b>896</b>	<b>1,162</b>	<b>1,353</b>	<b>1,545</b>

### Segmental profit Margins (%)

Manufacture & retail of jewellery	7.9	7.0	7.0	7.0	7.0
Wholesale of precious metals	0.4	0.6	0.6	0.6	0.6
Securities & futures broking	(1,777.6)	(74.8)	N/A	N/A	N/A
Other businesses	(5.9)	(26.7)	(26.7)	(26.7)	(26.7)
<b>Total</b>	<b>4.8</b>	<b>6.0</b>	<b>6.2</b>	<b>6.3</b>	<b>6.4</b>

Source: Company, DBS HK

## Chow Sang Sang

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	17,736	15,032	18,605	21,435	24,304
Cost of Goods Sold	(12,959)	(10,878)	(13,444)	(15,489)	(17,563)
<b>Gross Profit</b>	<b>4,777</b>	<b>4,155</b>	<b>5,161</b>	<b>5,946</b>	<b>6,742</b>
Other Opg (Exp)/Inc	(3,448)	(3,110)	(3,717)	(4,197)	(4,722)
<b>Operating Profit</b>	<b>1,330</b>	<b>1,045</b>	<b>1,443</b>	<b>1,748</b>	<b>2,019</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(20)	(25)	(31)	(31)	(25)
Dividend Income	26	25	25	25	25
Exceptional Gain/(Loss)	(452)	(125)	0	0	0
<b>Pre-tax Profit</b>	<b>883</b>	<b>921</b>	<b>1,437</b>	<b>1,743</b>	<b>2,020</b>
Tax	(240)	(376)	(359)	(436)	(505)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>644</b>	<b>544</b>	<b>1,078</b>	<b>1,307</b>	<b>1,515</b>
Net Profit before Except.	1,096	669	1,078	1,307	1,515
EBITDA	2,276	1,348	1,787	2,127	2,421
<b>Growth</b>					
Revenue Gth (%)	(5.7)	(15.2)	23.8	15.2	13.4
EBITDA Gth (%)	54.7	(40.8)	32.6	19.0	13.8
Opg Profit Gth (%)	7.8	(21.4)	38.1	21.1	15.5
Net Profit Gth (%)	(36.4)	(15.4)	98.0	21.2	15.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	26.9	27.6	27.7	27.7	27.7
Opg Profit Margin (%)	7.5	7.0	7.8	8.2	8.3
Net Profit Margin (%)	3.6	3.6	5.8	6.1	6.2
ROAE (%)	6.1	4.8	8.7	10.0	10.9
ROA (%)	4.3	3.3	6.2	7.2	7.9
ROCE (%)	7.2	4.2	7.1	8.2	8.9
Div Payout Ratio (%)	41.1	58.5	40.0	40.0	40.0
Net Interest Cover (x)	67.7	41.9	45.8	56.6	81.9

Source: Company, DBS HK

## Chow Sang Sang

### Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	1,347	1,352	1,488	1,592	1,650
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	2,536	2,542	2,563	2,586	2,611
Cash & ST Invts	1,042	1,663	1,391	1,345	1,661
Inventory	8,933	8,775	9,740	10,373	10,799
Debtors	1,935	2,001	2,069	2,325	2,569
Other Current Assets	444	494	494	494	494
<b>Total Assets</b>	<b>16,236</b>	<b>16,826</b>	<b>17,744</b>	<b>18,714</b>	<b>19,784</b>
ST Debt	2,250	1,701	1,751	1,804	1,859
Creditors	1,162	1,226	1,404	1,491	1,546
Other Current Liab	742	730	740	751	762
LT Debt	440	381	381	381	381
Other LT Liabilities	1,009	769	802	837	876
Shareholder's Equity	10,632	12,019	12,666	13,450	14,359
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>16,236</b>	<b>16,826</b>	<b>17,744</b>	<b>18,714</b>	<b>19,784</b>
Non-Cash Wkg. Capital	9,406	9,314	10,158	10,950	11,554
Net Cash/(Debt)	(1,649)	(419)	(742)	(840)	(579)
Debtors Turn (avg days)	44.1	47.8	39.9	37.4	36.7
Creditors Turn (avg days)	34.2	41.1	36.6	34.9	32.2
Inventory Turn (avg days)	248.4	304.9	257.4	242.5	224.8
Asset Turnover (x)	1.2	0.9	1.1	1.2	1.3
Current Ratio (x)	3.0	3.5	3.5	3.6	3.7
Quick Ratio (x)	0.7	1.0	0.9	0.9	1.0
Net Debt/Equity (X)	0.2	0.0	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	0.2	0.0	0.1	0.1	0.0
Capex to Debt (%)	15.4	11.7	21.1	21.0	19.5
Z-Score (X)	3.4	3.1	3.3	3.3	3.3

Source: Company, DBS HK

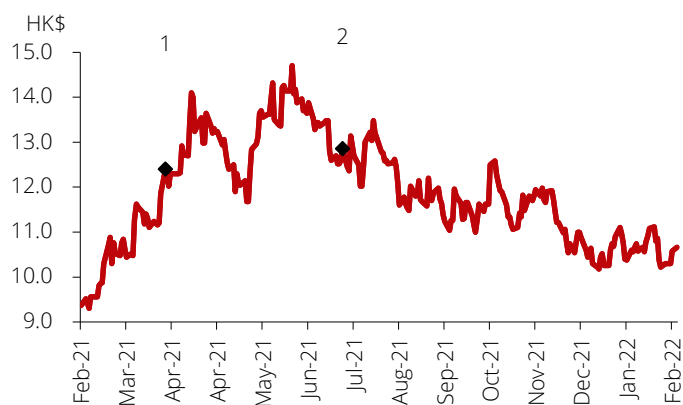
### Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	883	921	1,437	1,743	2,020
Dep. & Amort.	921	278	318	353	376
Tax Paid	(251)	(376)	(359)	(436)	(505)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	352	0	0	0	0
Chg in Wkg.Cap.	(1,715)	155	(855)	(802)	(616)
Other Operating CF	482	4	(7)	(17)	(28)
<b>Net Operating CF</b>	<b>672</b>	<b>982</b>	<b>535</b>	<b>841</b>	<b>1,247</b>
Capital Exp.(net)	(414)	(244)	(450)	(459)	(436)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	26	25	25	25	25
Other Investing CF	(9)	8	(21)	(23)	(25)
<b>Net Investing CF</b>	<b>(398)</b>	<b>(211)</b>	<b>(446)</b>	<b>(457)</b>	<b>(436)</b>
Div Paid	(393)	(318)	(431)	(523)	(606)
Chg in Gross Debt	251	(37)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(395)	210	69	93	111
<b>Net Financing CF</b>	<b>(537)</b>	<b>(145)</b>	<b>(363)</b>	<b>(430)</b>	<b>(495)</b>
Currency Adjustments	(11)	0	0	0	0
Chg in Cash	(274)	625	(273)	(46)	316
Opg CFPS (HK\$)	3.52	1.22	2.05	2.43	2.75
Free CFPS (HK\$)	0.38	1.09	0.13	0.56	1.20

Source: Company, DBS HK

**Chow Sang Sang**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Mar-21	HK\$11.86	HK\$19.10	Buy
2:	16-Jul-21	HK\$12.60	HK\$19.10	Buy

Source: DBS HK

Analyst: Mavis HUI

# China/Hong Kong Company Update

# COFCO Joycome Foods Ltd

Bloomberg: 1610 HK Equity | Reuters: 1610.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## HOLD

Last Traded Price (7 Feb 2022): HK\$3.40 (HSI : 24,580)

Price Target 12-mth: HK\$3.40 (0% upside)

### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com

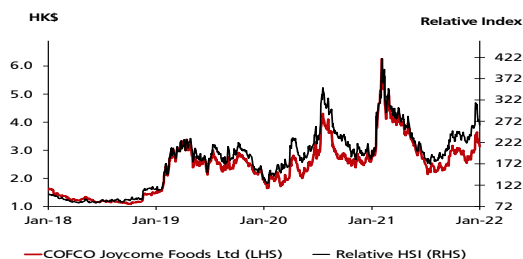
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Alice HUI CFA +852 36684182 alicehuism@dbs.com

### What's New

- We expect live hog prices to have bottomed out, and should stabilise in FY22F
- Expect production volume to grow 15% in FY22F
- TP maintained 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\$)	0.90	0.50	0.34	0.47
Core EPS (RMB)	0.92	0.41	0.28	0.38
Core EPS (HK\$)	1.12	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\$)	0.90	0.50	0.34	0.47
DPS (HK\$)	0.34	0.19	0.10	0.14
BV Per Share (HK\$)	2.95	3.11	3.27	3.63
PE (X)	3.8	6.9	9.9	7.2
P/Cash Flow (X)	3.7	3.8	8.9	6.5
P/Free CF (X)	8.7	9.7	nm	157.0
EV/EBITDA (X)	4.3	8.8	12.7	10.7
Net Div Yield (%)	9.9	5.4	3.0	4.1
P/Book Value (X)	1.2	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 (%):		Nil	Nil	Nil
Consensus EPS (RMB)		0.46	0.40	0.66
Other Broker Recs:		B:8	S:0	H:6

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/Rmb18kg 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 value COFCO Joycome based on DCF valuation (WACC at 9%, terminal growth at 3%), at HK\$3.4/share.

### Where we differ:

We expect margins to recover gradually from stabilising hog prices and growing hog production volume, while some good profits could only be seen by FY23F, in our view.

### Key Risks to Our View:

Fluctuation in hog and corn prices; changes in hog supplies

### At A Glance

Issued Capital (m shrs)	3,902
Mkt Cap (HK\$/US\$m)	13,267 / 1,703
Major Shareholders (%)	
COFCO Corporation	29.1
Free Float (%)	70.9
3m Avg. Daily Val. (US\$m)	14.81
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less



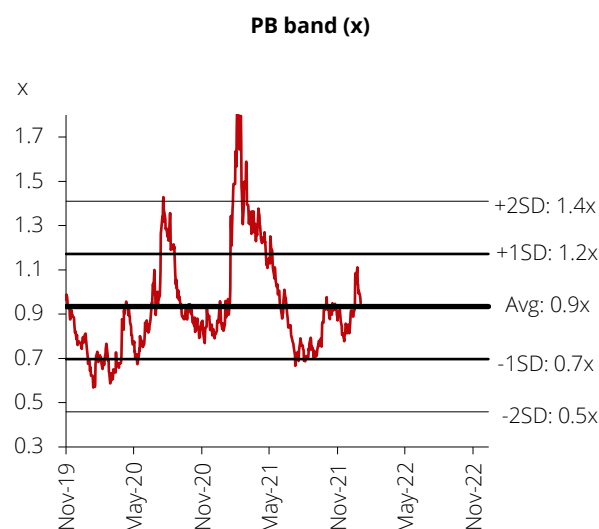
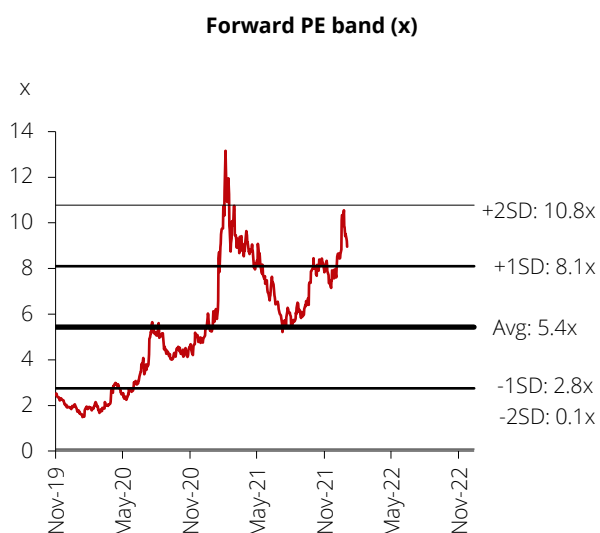
## COFCO Joycome Foods Ltd

### 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



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
4:	21-Jan-22	HK\$3.31	HK\$3.40	Hold

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

# China / Hong Kong Company Update

# Galaxy Entertainment

Bloomberg: 27 HK Equity | Reuters: 0027.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): HK\$46.40 (HSI : 24,580)  
Price Target 12-mth: HK\$54.17 (17% upside) (Prev HK\$63.36)

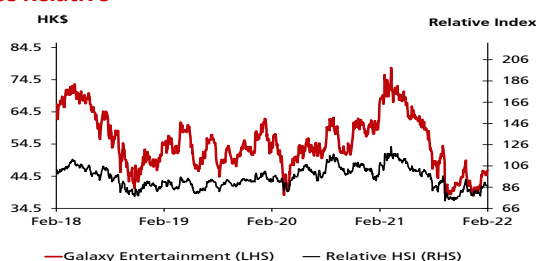
### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

### What's New

- 4Q21-1Q22 earnings could stay sluggish due to intermittent closure of China-Macau border amid COVID-19 resurgence
- Our current expectations of China-Macau-HK border reopening is around mid-2022. More visitors into Macau should revive its GGR and non-gaming income
- Such timing could also coincide with Galaxy's Phase 3 inauguration leading to a faster ramp-up. Maintain BUY

### Price Relative



### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021F	2022F	2023F
Turnover	12,876	20,342	29,719	42,699
EBITDA	(1,361)	3,774	8,181	14,636
Pre-tax Profit	(3,763)	826	4,848	11,034
Net Profit	(3,973)	758	4,591	10,557
Net Profit Gth (%)	N/A	N/A	505.8	129.9
EPS (HK\$)	(0.92)	0.17	1.06	2.43
EPS Gth (%)	N/A	N/A	505.8	129.9
Diluted EPS (HK\$)	(0.92)	0.17	1.05	2.42
DPS (HK\$)	0.46	0.05	0.32	0.73
BV Per Share (HK\$)	15.54	15.62	16.36	18.06
PE (X)	nm	266.3	44.0	19.1
P/Cash Flow (X)	nm	26.5	17.8	8.7
P/Free CF (X)	nm	94.7	37.4	12.1
EV/EBITDA (X)	nm	52.3	24.1	12.7
Net Div Yield (%)	1.0	0.1	0.7	1.6
P/Book Value (X)	3.0	3.0	2.8	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	(5.9)	1.1	6.5	13.4
Earnings Rev (%)		(39)	(45)	(7)
Consensus EPS (HK\$)		0.15	1.03	2.42
Other Broker Recs:		B:22	S:1	H:1

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

## Re-rating potential from border reopening

### Investment Thesis

**Sound foundation.** Galaxy has the best financials (c.HK\$5bn net cash) among its peers for ongoing investments in Macau. With the second highest share of Gross Gaming Revenue (GGR), including c.18% market share in the mass gaming segment, it is well positioned to deliver a speedier recovery versus peers.

**Impending mega projects.** The company is currently working on Galaxy Macau Phases 3 & 4, to roll out casinos and c.3,000 high-end family rooms & villas from 8 new hotels, as well as other non-gaming elements including retail, dining, and Asia's most technologically advanced MICE facilities. Phase 3 (to open in 2022F) comprises Andaz Hotel of Hyatt Hotels Corp., the all-suite Raffles Hotel, Galaxy Arena, and Galaxy International Convention Centre, all of which should strengthen its position and enable market share expansion.

**Enhancing mass gaming potential.** In normal times, hotel accommodation had been the bottleneck for growing the (premium) mass segment, especially during the high season. Thus, the opening of Phases 3 & 4 in the medium-term should help to overcome such problem. Upon completion, Galaxy should possess a sizeable inventory of c.7,500 hotel rooms to support better revenue-mix and profitability.

### Valuation:

We have cut earnings by 39%/45%/7% for FY21/FY22/FY23 as we defer our expectations of China-Macau-HK border reopening to around mid-2022. Our 12-month TP of HK\$54.17 (previous: HK\$63.36) is based on 15x FY23 EV/EBITDA, equivalent to the long-term sector average.

### Where we differ:

We believe Galaxy scores the highest chance to win in the upcoming gaming license re-tendering event. We are also more positive on its earnings outlook given its strong exposure in the mass gaming segment and stringent cost management.

### Key Risks to Our View:

Weaker economic growth in China; resurgence of COVID-19 infections; rising competition; unfavourable gov't policies.

### At A Glance

Issued Capital (m shrs)	4,344
Mkt Cap (HK\$m/US\$m)	201,562 / 25,880
Major Shareholders (%)	
City Lion Profits Corp.	22.3
Lui (Che Woo)	14.3
Free Float (%)	63.4
3m Avg. Daily Val. (US\$m)	72.15
GICS Industry: Consumer Discretionary / Consumer Services	



Watchlist the stock on Insights Direct to receive prompt updates



## Galaxy Entertainment

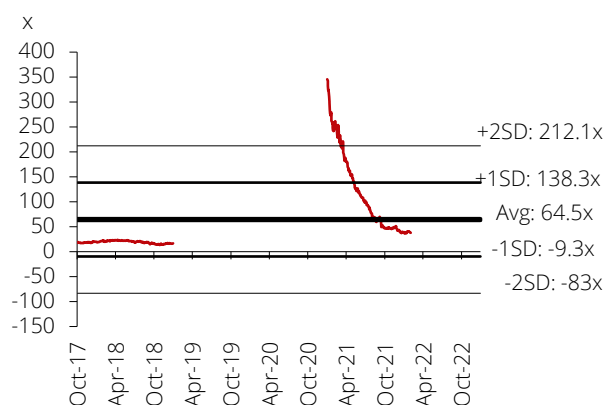
### Company Background

Galaxy Entertainment Group (“Galaxy”) is one of the leading resorts, hospitality, and gaming companies in Macau. It is amongst the original concessionaries in Macau offering services that span across integrated resorts, retail, dining, hotel, entertainment and gaming facilities. Galaxy operates three resorts - Galaxy Macau, StarWorld Macau and Broadway Macau. Galaxy Macau comprises five top hotels (Banyan Tree, Galaxy, JW Marriott, Okura and Ritz-Carlton) with ~3,600 rooms and hosts approximately 200 luxury

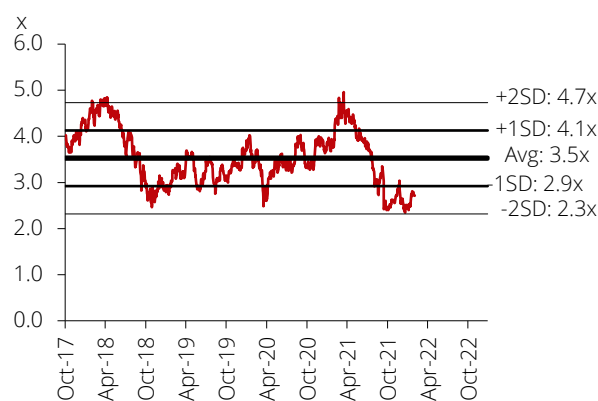
and retail brands, while Starworld Macau provides over 500 guestrooms and suites and Broadway Macau offers ~320 rooms and suites and a ~3000 seat Broadway theatre.

### Historical PE and PB band

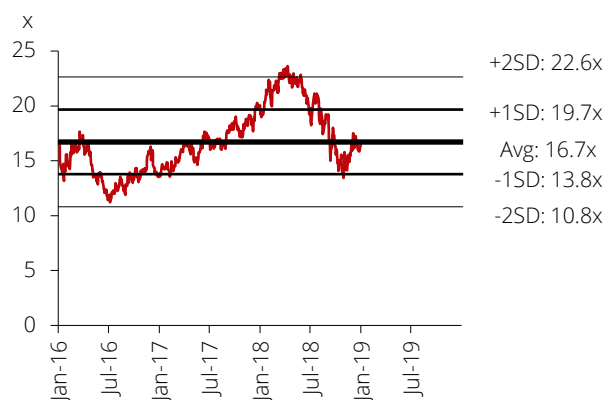
Forward PE band (x)



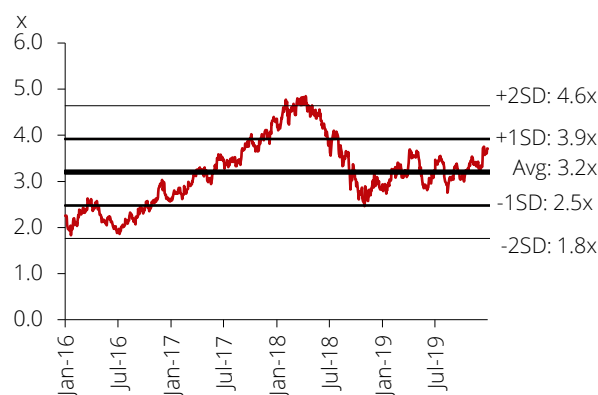
PB band (x)



Forward PE band (x) (2016-2019)



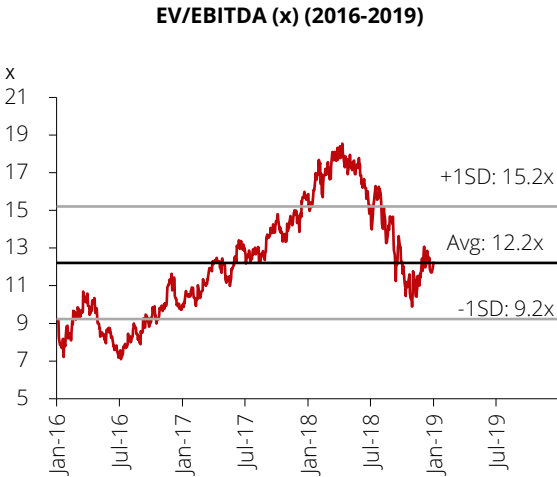
PB band (x) (2016-2019)



Source: Thomson Reuters, DBS HK

**Galaxy Entertainment**

**Historical EV/EBITDA band**



Source: Thomson Reuters, DBS HK



## Galaxy Entertainment

### Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Star world	14,615	2,838	4,522	6,681	9,502
Galaxy Macau	47,319	9,620	16,608	25,753	38,600
Broadway	625	99	91	161	241
Contributions from city club casinos	107	17	29	45	67
Tips received and administrative fees	25	14	23	36	54
Commission and incentives	(13,624)	(2,451)	(3,697)	(5,751)	(8,587)
<b>Total</b>	<b>51,902</b>	<b>12,876</b>	<b>20,342</b>	<b>29,719</b>	<b>42,699</b>
<b>Adjusted EBITDA (HK\$ m)</b>					
Star world	3,502	(275)	588	1,670	2,851
Galaxy Macau	12,641	(900)	3,239	6,438	11,580
Broadway	39	(162)	(136)	(32)	48
<b>Total</b>	<b>16,479</b>	<b>(1,020)</b>	<b>3,760</b>	<b>8,181</b>	<b>14,636</b>
<b>Adjusted EBITDA Margins (%)</b>					
Star world	24.0	(9.7)	13.0	25.0	30.0
Galaxy Macau	26.7	(9.4)	19.5	25.0	30.0
Broadway	6.2	(163.6)	(150.0)	(20.0)	20.0
<b>Total</b>	<b>31.8</b>	<b>(7.9)</b>	<b>18.5</b>	<b>27.5</b>	<b>34.3</b>

Source: Company, DBS HK

## Galaxy Entertainment

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	51,902	12,876	20,342	29,719	42,699
Cost of Goods Sold	(23,574)	(5,657)	(7,933)	(10,105)	(14,518)
<b>Gross Profit</b>	<b>28,328</b>	<b>7,220</b>	<b>12,409</b>	<b>19,615</b>	<b>28,181</b>
Other Opg (Exp)/Inc	(15,447)	(11,397)	(11,740)	(14,937)	(17,706)
<b>Operating Profit</b>	<b>12,881</b>	<b>(4,177)</b>	<b>668</b>	<b>4,678</b>	<b>10,475</b>
Other Non Opg (Exp)/Inc	532	453	250	250	625
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(129)	(38)	(92)	(79)	(66)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>13,284</b>	<b>(3,763)</b>	<b>826</b>	<b>4,848</b>	<b>11,034</b>
Tax	(156)	(151)	(58)	(194)	(331)
Minority Interest	(86)	(60)	(10)	(64)	(146)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>13,042</b>	<b>(3,973)</b>	<b>758</b>	<b>4,591</b>	<b>10,557</b>
Net Profit before Except.	13,042	(3,973)	758	4,591	10,557
EBITDA	16,338	(1,361)	3,774	8,181	14,636
<b>Growth</b>					
Revenue Gth (%)	(6.0)	(75.2)	58.0	46.1	43.7
EBITDA Gth (%)	(2.1)	N/A	N/A	116.8	78.9
Opg Profit Gth (%)	(3.6)	(132.4)	(116.0)	599.8	123.9
Net Profit Gth (%)	(3.4)	N/A	N/A	505.8	129.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	54.6	56.1	61.0	66.0	66.0
Opg Profit Margin (%)	24.8	(32.4)	3.3	15.7	24.5
Net Profit Margin (%)	25.1	(30.9)	3.7	15.4	24.7
ROAE (%)	17.7	(5.9)	1.1	6.5	13.4
ROA (%)	13.6	(4.3)	0.8	4.4	8.6
ROCE (%)	17.1	(5.1)	0.9	5.7	12.2
Div Payout Ratio (%)	30.7	N/A	29.9	29.9	29.9
Net Interest Cover (x)	99.6	(109.8)	7.2	59.0	157.9

Source: Company, DBS HK

## Galaxy Entertainment

## Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	32,737	36,210	38,597	41,037	43,281
Invt in Associates & JVs	1,838	1,956	1,956	1,956	1,956
Other LT Assets	41,605	34,101	38,601	43,101	47,601
Cash & ST Invt	14,646	15,840	12,830	12,296	21,420
Inventory	178	202	283	360	518
Debtors	2,145	1,741	2,750	4,017	5,772
Other Current Assets	2,547	2,677	2,677	2,677	2,677
<b>Total Assets</b>	<b>95,696</b>	<b>92,727</b>	<b>97,694</b>	<b>105,445</b>	<b>123,225</b>
ST Debt	544	9,233	7,933	6,633	5,333
Creditors	19,973	14,542	20,396	25,978	37,323
Other Current Liab	150	112	112	112	112
LT Debt	9	0	0	0	0
Other LT Liabilities	865	802	674	862	1,051
Shareholder's Equity	73,587	67,424	67,955	71,173	78,573
Minority Interests	567	613	624	687	833
<b>Total Cap. &amp; Liab.</b>	<b>95,696</b>	<b>92,727</b>	<b>97,694</b>	<b>105,445</b>	<b>123,225</b>
Non-Cash Wkg. Capital	(15,253)	(10,035)	(14,798)	(19,035)	(28,468)
Net Cash/(Debt)	14,093	6,607	4,897	5,663	16,087
Debtors Turn (avg days)	15.1	49.3	49.3	49.3	49.3
Creditors Turn (avg days)	362.4	1,869.1	1,541.9	1,436.4	1,315.4
Inventory Turn (avg days)	3.2	25.9	21.4	19.9	18.2
Asset Turnover (x)	0.5	0.1	0.2	0.3	0.3
Current Ratio (x)	0.9	0.9	0.7	0.6	0.7
Quick Ratio (x)	0.8	0.7	0.5	0.5	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	744.1	62.5	69.2	89.6	120.1
Z-Score (X)	8.2	8.5	8.6	8.6	8.6

Source: Company, DBS HK

## Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	13,284	(3,763)	826	4,848	11,034
Dep. & Amort.	3,457	2,817	3,105	3,503	4,161
Tax Paid	(156)	(151)	(58)	(194)	(331)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	4,384	(5,364)	4,763	4,237	9,433
Other Operating CF	(1,527)	(1,171)	(1,013)	(1,048)	(1,143)
<b>Net Operating CF</b>	<b>19,442</b>	<b>(7,631)</b>	<b>7,624</b>	<b>11,347</b>	<b>23,154</b>
Capital Exp.(net)	(4,116)	(5,771)	(5,492)	(5,944)	(6,405)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	27	0	0	0
Div from Assoc & JV	420	461	0	0	0
Other Investing CF	(11,189)	14,785	(3,487)	(3,452)	(3,357)
<b>Net Investing CF</b>	<b>(14,885)</b>	<b>9,502</b>	<b>(8,980)</b>	<b>(9,396)</b>	<b>(9,762)</b>
Div Paid	(4,006)	(2,004)	(227)	(1,373)	(3,157)
Chg in Gross Debt	(8,264)	8,639	(1,300)	(1,300)	(1,300)
Capital Issues	228	187	0	0	0
Other Financing CF	(43)	(52)	(128)	188	189
<b>Net Financing CF</b>	<b>(12,085)</b>	<b>6,769</b>	<b>(1,655)</b>	<b>(2,485)</b>	<b>(4,268)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(7,527)	8,639	(3,010)	(534)	9,124
Opg CFPS (HK\$)	3.48	(0.52)	0.66	1.63	3.15
Free CFPS (HK\$)	3.54	(3.09)	0.49	1.24	3.85

Source: Company, DBS HK

## Galaxy Entertainment

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Oct-21	HK\$42.55	HK\$63.36	Buy

Source: DBS HK

Analyst: Mavis HUI

# China/Hong Kong Company Update

## Golden Eagle

Bloomberg: 3308 HK EQUITY | Reuters: 3308.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$5.60 (HSI : 24,580)  
Price Target 12-mth: HK\$9.87 (76% upside) (Prev HK\$11.86)

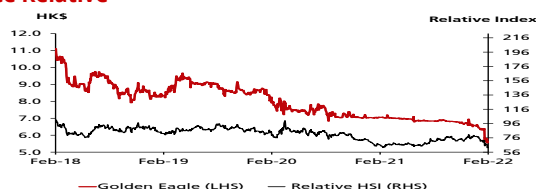
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Clement XU clementxu@dbs.com

#### What's New

- We expect 2H21 revenue and earnings to have contracted y-o-y amid regional COVID-19 outbreaks across China
- Shopping mall operations are expected to post steady recovery ahead, alongside promising expansion of both its G-Mart and 7-11 divisions
- Valuation remains attractive. Maintain BUY with a lower TP of HK\$9.87 on lingering impacts from the pandemic in near term and possibly softer economic growth

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	5,588	5,908	6,769	7,290
EBITDA	2,349	2,463	2,784	2,991
Pre-tax Profit	2,183	1,725	1,986	2,135
Net Profit	1,563	1,181	1,346	1,439
Net Pft (Pre Ex) (core profit)	1,082	1,081	1,246	1,339
Net Profit Gth (Pre-ex) (%)	5.8	(0.1)	15.2	7.5
EPS (RMB)	0.94	0.71	0.81	0.87
EPS (HK\$)	1.15	0.87	0.99	1.06
Core EPS (RMB)	0.65	0.65	0.75	0.81
Core EPS (HK\$)	0.80	0.80	0.92	0.99
EPS Gth (%)	32.8	(24.1)	13.9	6.9
Core EPS Gth (%)	6.6	0.3	15.2	7.5
Diluted EPS (HK\$)	1.15	0.87	0.99	1.06
DPS (HK\$)	0.43	0.48	0.55	0.59
BV Per Share (HK\$)	5.66	8.15	8.06	8.12
PE (X)	4.9	6.4	5.6	5.3
CorePE (X)	7.0	7.0	6.1	5.7
P/Cash Flow (X)	3.3	3.4	2.8	2.8
P/Free CF (X)	3.9	6.3	4.4	4.5
EV/EBITDA (X)	3.0	2.6	1.9	1.5
Net Div Yield (%)	7.6	8.5	9.8	10.6
P/Book Value (X)	1.0	0.7	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	21.5	12.6	12.2	13.1
Earnings Rev (%)		(3)	(6)	New

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

### Broadly positive for 2022-23

#### Investment Thesis

Pressure from COVID outbreaks could subside gradually. COVID outbreaks in Jiangsu and Shaanxi did affect shoppers' traffic of stores along with lockdown of selected cities and tightened social restrictions. While we expect Golden Eagle ("GE") to see a 7% y-o-y revenue contraction in 2H21, the full year of 2021 should still register c.6% revenue growth and flattish core profit, thanks to the strong recovery back in 1H21. Business performance ahead could also stage a better trend once the pandemic dies down.

**FMCG businesses to complement core operations.** GE's supermarket division, G-Mart, could help beefing up overall daily traffic of its lifestyle shopping malls & department stores. Besides, with its addition of 20+ new 7-11 franchised stores in 2H21, we believe the company will accelerate expansion of this profit-making retail chain in 2022 that shows decent growth prospects. On the whole, all these FMCG divisions should help expanding product offerings and further support GE's core retail operations.

**Positive outlook.** Assuming a swift subsiding of current COVID-19 outbreaks in China within the next 2-3 months, we expect GE to achieve 10%+ y-o-y revenue growth and supportive margins this year given its comprehensive and well-known brand portfolio.

#### Valuation:

We cut FY21/FY22 earnings by 3%/6% in view of sales pressure from regional COVID-19 outbreaks. Our new TP of HK\$9.87 benchmarks SOTP valuation with a 10% cap rate assumption (previous TP of HK\$11.86 was based on SOTP valuation with 7% cap rate).

#### Where we differ:

We are slightly more positive on Golden Eagle's business outlook, as we believe a gradual recovery from the COVID-19 pandemic could be witnessed in 2022-23 and offline retail operations will improve.

#### Key Risks to Our View:

Economic downturn, resurgence of COVID-19 cases, rising competition, policy changes.

#### At A Glance

Issued Capital (m shrs)	1,660
Mkt Cap (HK\$m/US\$m)	9,296 / 1,193
Major Shareholders (%)	
Wang (Hung Roger)	69.3
RVJD Holding Ltd.	10.0
ICFI HK (U.S.A) Investments, L.L.C.	7.2
Free Float (%)	13.5
3m Avg. Daily Val. (US\$m)	0.18
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



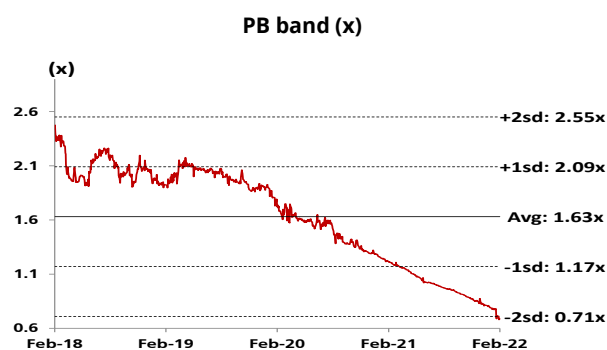
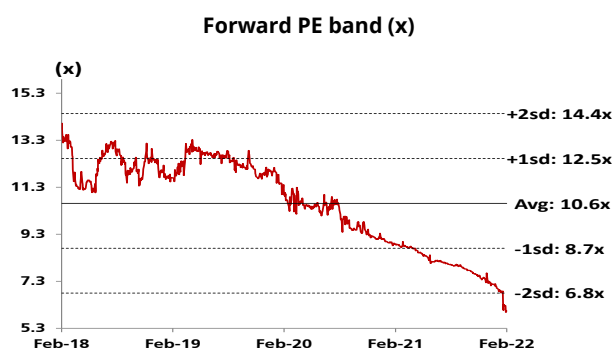
Live more, Bank less

## Golden Eagle

### Company Background

Golden Eagle Retail Group Ltd. (GE) operates department stores and lifestyle shopping centers in China, and possesses a strong niche in the Jiangsu Province. As of 1H21, the company had 31 stores, with total GFA of 2.5m sm. Its self-owned store properties are mainly located at prime sites and collectively account for 62.1% of total GFA.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Golden Eagle

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Self-operated stores	31.0	31.0	31.0	32.0	33.0
Managed stores	1.0	1.0	2.0	2.0	2.0
Total no. of stores	32.0	32.0	33.0	34.0	35.0

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Direct sales	2,326	2,640	2,873	3,140	3,431
Commission income	2,047	1,849	2,006	2,192	2,396
Rental income	863	822	889	944	1,039
Mgt fees	64	61	57	73	96
Property sales & hotel operations	850	217	83	420	328
<b>Total</b>	<b>6,149</b>	<b>5,588</b>	<b>5,908</b>	<b>6,769</b>	<b>7,290</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	6,149	5,588	5,908	6,769	7,290
Cost of Goods Sold	(2,539)	(2,401)	(2,572)	(2,903)	(3,103)
<b>Gross Profit</b>	<b>3,610</b>	<b>3,187</b>	<b>3,335</b>	<b>3,866</b>	<b>4,187</b>
Other Opg (Exp)/Inc	(1,416)	(1,160)	(1,378)	(1,638)	(1,803)
<b>Operating Profit</b>	<b>2,194</b>	<b>2,028</b>	<b>1,957</b>	<b>2,227</b>	<b>2,384</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(103)	(57)	8	8	8
Net Interest (Exp)/Inc	(367)	(268)	(340)	(349)	(357)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	162	480	100	100	100
<b>Pre-tax Profit</b>	<b>1,886</b>	<b>2,183</b>	<b>1,725</b>	<b>1,986</b>	<b>2,135</b>
Tax	(714)	(629)	(550)	(644)	(699)
Minority Interest	13	9	6	4	3
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,185</b>	<b>1,563</b>	<b>1,181</b>	<b>1,346</b>	<b>1,439</b>
Net Profit before Except.	1,023	1,082	1,081	1,246	1,339
EBITDA	2,468	2,349	2,463	2,784	2,991
<b>Growth</b>					
Revenue Gth (%)	(6.4)	(9.1)	5.7	14.6	7.7
EBITDA Gth (%)	(5.3)	(4.8)	4.9	13.0	7.4
Opg Profit Gth (%)	(5.7)	(7.6)	(3.5)	13.8	7.0
Net Profit Gth (%)	31.8	31.8	(24.4)	13.9	6.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	58.7	57.0	56.5	57.1	57.4
Opg Profit Margin (%)	35.7	36.3	33.1	32.9	32.7
Net Profit Margin (%)	19.3	28.0	20.0	19.9	19.7
ROAE (%)	18.2	21.5	12.6	12.2	13.1
ROA (%)	5.1	6.6	4.5	4.6	4.7
ROCE (%)	9.1	9.6	7.7	7.8	8.2
Div Payout Ratio (%)	39.4	37.2	54.9	55.5	55.8
Net Interest Cover (x)	6.0	7.6	5.8	6.4	6.7

Source: Company, DBS HK

## Golden Eagle

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	8,778	8,474	8,605	9,056	9,458
Invts in Associates & JVs	215	157	160	163	166
Other LT Assets	4,940	5,344	6,877	7,184	7,570
Cash & ST Invts	5,804	6,805	7,483	8,525	9,470
Inventory	354	374	395	453	488
Debtors	774	715	837	1,052	1,232
Other Current Assets	2,078	2,215	3,999	3,207	2,573
<b>Total Assets</b>	<b>22,942</b>	<b>24,083</b>	<b>28,355</b>	<b>29,639</b>	<b>30,957</b>
ST Debt	273	3,787	0	0	0
Creditors	4,375	4,272	4,516	5,175	5,573
Other Current Liab	3,928	4,237	4,672	5,155	5,691
LT Debt	6,455	2,459	6,259	6,259	6,259
Other LT Liabilities	957	1,537	1,768	2,033	2,338
Shareholder's Equity	6,855	7,701	11,050	10,928	11,006
Minority Interests	99	90	90	90	90
<b>Total Cap. &amp; Liab.</b>	<b>22,942</b>	<b>24,083</b>	<b>28,355</b>	<b>29,639</b>	<b>30,957</b>
Non-Cash Wkg. Capital	(5,098)	(5,205)	(3,957)	(5,618)	(6,971)
Net Cash/(Debt)	(924)	559	1,224	2,266	3,211
Debtors Turn (avg days)	56.4	48.6	47.9	50.9	57.2
Creditors Turn (avg days)	259.7	279.1	279.1	279.1	279.1
Inventory Turn (avg days)	21.0	24.4	24.4	24.4	24.4
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.2
Current Ratio (x)	1.1	0.8	1.4	1.3	1.2
Quick Ratio (x)	0.8	0.6	0.9	0.9	1.0
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	6.9	6.2	16.0	16.0	16.0
Z-Score (X)	1.4	1.3	1.4	1.4	1.4

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,886	2,183	1,725	1,986	2,135
Dep. & Amort.	377	378	498	548	598
Tax Paid	(536)	(508)	(444)	(520)	(565)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(21)	357	101	386	183
Other Operating CF	410	(83)	332	341	349
<b>Net Operating CF</b>	<b>2,117</b>	<b>2,327</b>	<b>2,212</b>	<b>2,741</b>	<b>2,700</b>
Capital Exp.(net)	(465)	(386)	(1,000)	(1,000)	(1,000)
Other Invts.(net)	(24)	(16)	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	701	747	48	48	48
<b>Net Investing CF</b>	<b>213</b>	<b>345</b>	<b>(952)</b>	<b>(952)</b>	<b>(952)</b>
Div Paid	(467)	(581)	(649)	(747)	(803)
Chg in Gross Debt	1,010	515	0	0	0
Capital Issues	0	(122)	0	0	0
Other Financing CF	(3,123)	(980)	13	0	0
<b>Net Financing CF</b>	<b>(2,580)</b>	<b>(1,167)</b>	<b>(635)</b>	<b>(747)</b>	<b>(803)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(250)	1,505	625	1,042	945
Opg CFPS (RMB)	1.27	1.18	1.27	1.42	1.52
Free CFPS (RMB)	0.98	1.16	0.73	1.05	1.02

Source: Company, DBS HK



# China / Hong Kong Company Update

## GOME Retail Holdings

Bloomberg: 493 HK Equity | Reuters: 0493.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### HOLD

Last Traded Price (7 Feb 2022): HK\$0.590 (HSI : 24,580)

Price Target 12-mth: HK\$0.75 (27% upside)

#### Analyst

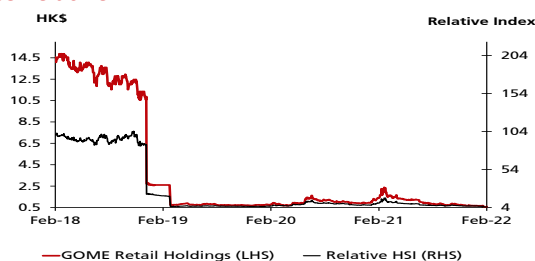
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Kay Tan kaytanx@dbs.com

### What's New

- Expect better traction from 'FUN' app and omnichannel strategies
- Further efforts on general retail repositioning and peer collaborations could bring medium-term results
- We stay hopeful and keep track of the implementation progress. Maintain HOLD with TP unchanged at HK\$0.75

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	44,119	53,394	60,140	69,555
EBITDA	(2,408)	(835)	1,432	1,978
Pre-tax Profit	(7,169)	(3,334)	(1,073)	(448)
Net Profit	(6,994)	(3,154)	(889)	(249)
Net Profit Gth (%)	(170.0)	54.9	71.8	72.0
EPS (RMB)	(0.35)	(0.14)	(0.04)	(0.01)
EPS (HK\$)	(0.43)	(0.17)	(0.05)	(0.01)
EPS Gth (%)	(169.8)	59.7	71.8	72.0
Diluted EPS (HK\$)	0.00	0.00	0.00	0.00
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	0.08	0.15	0.38	0.49
PE (X)	nm	nm	nm	nm
P/Cash Flow (X)	5.2	6.6	3.1	2.6
P/Free CF (X)	149.0	nm	4.3	3.4
EV/EBITDA (X)	nm	nm	20.8	13.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	7.6	3.8	1.5	1.2
Net Debt/Equity (X)	20.2	9.1	3.3	2.3
ROAE(%)	(84.7)	(54.4)	(10.0)	(2.0)
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		(0.10)	(0.04)	(0.02)
Other Broker Recs:		B:0	S:3	H:2

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

### Eyes on future deployment

#### Investment Thesis

**Strategic third-party co-operation.** GOME's proactive enhancement in channel collaboration with competent partners, including JD.com and PinDuoDuo, should improve overall supply chain and sales prospects, bringing about a win-win situation. More sales and earnings contributions might be expected in the longer run.

**Consumer experience upgrade.** The company has devoted more efforts to enhance its product offerings and service quality, with an aim to develop itself as a one-stop retailer that focuses on overall home solutions and better consumer experience to improve customer stickiness and loyalty.

**New retail strategy.** More efforts on the deployment of GOME's newer omnichannel strategies should support business expansion and safeguard the long-term prospects. We will observe the ongoing implementation and execution of its newer retail plans and await potential fruitful returns.

#### Valuation:

Our TP remains unchanged at HK\$0.75, which is pegged to 2x FY22F P/BV, equivalent to 1 SD below GOME's four-year average.

#### Where we differ:

Our FY21F net margin of -5.9% was slightly more conservative than the consensus amid a tougher operating environment in 2H21. However, we believe FY22-23 could see better traction from its newer strategies, as GOME continues to transform its business model and hopes to return to the black in one to two years. We see room to lift our estimates once solid income starts to flow in.

#### Key Risks to Our View:

**Upside risks:** Earlier-than-expected earnings turnaround

**Downside risks:** Execution of new retail strategies; COVID-19 affects consumer sentiment; new home demand remains slow

#### At A Glance

Issued Capital (m shrs)	21,553
Mkt Cap (HK\$m/US\$m)	12,716 / 1,633
Major Shareholders (%)	
Wong (Kwong Yu)	59.2
Free Float (%)	40.8
3m Avg. Daily Val. (US\$m)	5.96
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

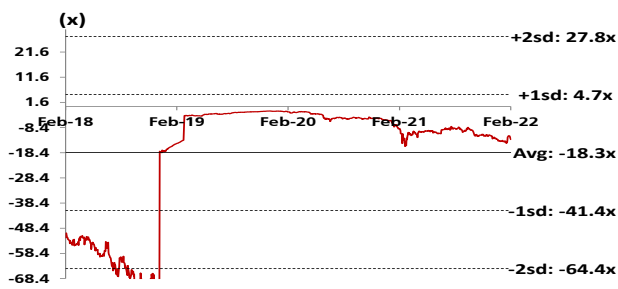
## GOME Retail Holdings

### Company Background

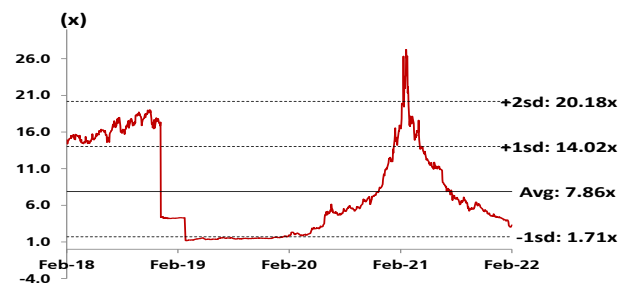
GOME is one of the leading retailers of appliances and electronics in China. The company was renamed from “GOME Electrical Appliances Holding” to “GOME Retail Holdings” in 2017 to reflect its repositioning as a general retailer.

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## GOME Retail Holdings

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Store number	2,735.0	3,421.0	3,956.0	4,496.0	5,036.0
Offline sales (RMB)	57,427.0	40,619.1	48,493.9	52,790.1	58,162.7
Online Revenue (RMB m)	2,055.8	3,500.0	4,900.0	7,350.0	11,392.5
Net gearing (%)	223.6	2,018.1	912.8	327.5	231.6
Gross profit margin (%)	15.3	10.3	14.1	14.1	14.1

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Online Revenue (RMB)	2,056	3,500	4,900	7,350	11,393
Offline Revenue (RMB)	57,427	40,619	48,494	52,790	58,163
<b>Total</b>	<b>59,483</b>	<b>44,119</b>	<b>53,394</b>	<b>60,140</b>	<b>69,555</b>
<b>Gross Profit (RMB m)</b>					
Online Revenue (RMB)	31	35	49	110	285
Offline Revenue (RMB)	9,080	4,515	7,468	8,341	9,539
<b>Total</b>	<b>9,111</b>	<b>4,550</b>	<b>7,517</b>	<b>8,451</b>	<b>9,823</b>
<b>Gross Profit Margins (%)</b>					
Online Revenue (RMB)	1.5	1.0	1.0	1.5	2.5
Offline Revenue (RMB)	15.8	11.1	15.4	15.8	16.4
<b>Total</b>	<b>15.3</b>	<b>10.3</b>	<b>14.1</b>	<b>14.1</b>	<b>14.1</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	59,483	44,119	53,394	60,140	69,555
Cost of Goods Sold	(50,372)	(39,569)	(45,877)	(51,689)	(59,732)
<b>Gross Profit</b>	<b>9,111</b>	<b>4,550</b>	<b>7,517</b>	<b>8,451</b>	<b>9,823</b>
Other Opng (Exp)/Inc	(10,239)	(10,248)	(9,324)	(7,939)	(8,734)
<b>Operating Profit</b>	<b>(1,129)</b>	<b>(5,697)</b>	<b>(1,807)</b>	<b>512</b>	<b>1,090</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(105)	(6)	(6)	(6)	(6)
Net Interest (Exp)/Inc	(1,662)	(1,465)	(1,521)	(1,579)	(1,532)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(2,896)</b>	<b>(7,169)</b>	<b>(3,334)</b>	<b>(1,073)</b>	<b>(448)</b>
Tax	(72)	(35)	(30)	(26)	(11)
Minority Interest	379	210	210	210	210
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>(2,590)</b>	<b>(6,994)</b>	<b>(3,154)</b>	<b>(889)</b>	<b>(249)</b>
Net Profit before Except.	(2,590)	(6,994)	(3,154)	(889)	(249)
EBITDA	2,728	(2,408)	(835)	1,432	1,978
<b>Growth</b>					
Revenue Gth (%)	(7.6)	(25.8)	21.0	12.6	15.7
EBITDA Gth (%)	N/A	N/A	65.3	N/A	38.1
Opg Profit Gth (%)	(75.9)	404.7	(68.3)	(128.4)	112.7
Net Profit Gth (%)	47.0	(170.0)	54.9	71.8	72.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	15.3	10.3	14.1	14.1	14.1
Opg Profit Margin (%)	(1.9)	(12.9)	(3.4)	0.9	1.6
Net Profit Margin (%)	(4.4)	(15.9)	(5.9)	(1.5)	(0.4)
ROAE (%)	(20.2)	(84.7)	(54.4)	(10.0)	(2.0)
ROA (%)	(3.9)	(9.8)	(4.6)	(1.3)	(0.4)
ROCE (%)	(2.9)	(13.0)	(4.3)	1.2	2.5
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Interest Cover (x)	NM	NM	NM	0.3	0.7

Source: Company, DBS HK

## GOME Retail Holdings

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	6,733	6,296	6,284	6,303	5,932
Invt in Associates & JVs	180	176	230	176	230
Other LT Assets	31,615	27,063	27,235	27,418	27,771
Cash & ST Invt	8,776	10,015	6,423	6,667	7,894
Inventory	7,688	8,368	9,301	9,630	10,637
Debtors	3,448	3,662	4,506	4,842	5,554
Other Current Assets	13,431	14,914	13,461	14,331	14,604
<b>Total Assets</b>	<b>71,872</b>	<b>70,494</b>	<b>67,441</b>	<b>69,367</b>	<b>72,621</b>
ST Debt	18,445	25,858	24,419	23,014	22,672
Creditors	23,685	25,408	23,214	23,735	25,770
Other Current Liab	4,282	1,677	2,825	2,759	2,821
LT Debt	8,581	9,739	7,759	6,695	6,220
Other LT Liabilities	8,717	6,544	6,403	6,131	6,071
Shareholder's Equity	11,600	4,916	6,680	11,103	13,347
Minority Interests	(3,439)	(3,649)	(3,859)	(4,069)	(4,279)
<b>Total Cap. &amp; Liab.</b>	<b>71,872</b>	<b>70,494</b>	<b>67,441</b>	<b>69,367</b>	<b>72,621</b>
Non-Cash Wkg. Capital	(3,400)	(141)	1,230	2,310	2,204
Net Cash/(Debt)	(18,250)	(25,583)	(25,754)	(23,041)	(20,998)
Debtors Turn (avg days)	28.8	29.4	27.9	28.4	27.3
Creditors Turn (avg days)	175.0	226.4	193.4	165.8	151.3
Inventory Turn (avg days)	57.6	74.1	70.3	66.8	61.9
Asset Turnover (x)	0.9	0.6	0.8	0.9	1.0
Current Ratio (x)	0.7	0.7	0.7	0.7	0.8
Quick Ratio (x)	0.3	0.3	0.2	0.2	0.3
Net Debt/Equity (X)	2.2	20.2	9.1	3.3	2.3
Net Debt/Equity ex MI (X)	1.6	5.2	3.9	2.1	1.6
Capex to Debt (%)	5.0	5.0	5.5	3.4	3.3
Z-Score (X)	0.9	1.0	1.1	1.3	1.3

Source: Company, DBS HK

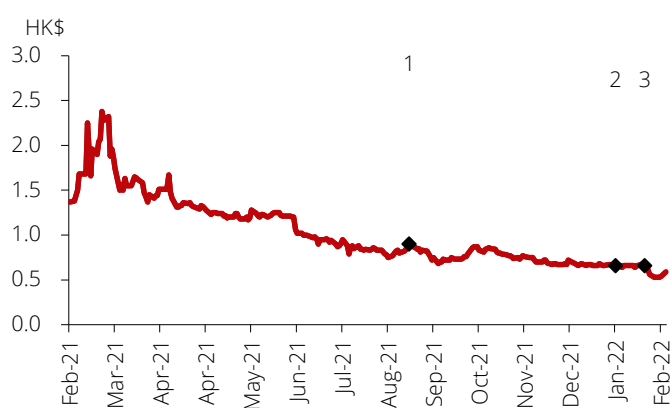
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	(2,896)	(7,169)	(3,334)	(1,073)	(448)
Dep. & Amort.	3,962	3,296	2,326	2,326	2,295
Tax Paid	(125)	20	(30)	(26)	(11)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	386	2,179	296	276	277
Chg in Wkg.Cap.	(406)	2,215	580	580	743
Other Operating CF	1,480	1,311	1,798	1,444	1,248
<b>Net Operating CF</b>	<b>2,401</b>	<b>1,851</b>	<b>1,636</b>	<b>3,528</b>	<b>4,103</b>
Capital Exp.(net)	(1,341)	(1,786)	(1,783)	(998)	(940)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(199)	(1)	(329)	(165)	(247)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	439	810	3,440	3,646	2,391
<b>Net Investing CF</b>	<b>(1,100)</b>	<b>(978)</b>	<b>1,328</b>	<b>2,483</b>	<b>1,204</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	5,946	8,301	285	285	285
Capital Issues	0	(16)	0	0	0
Other Financing CF	(9,217)	(7,692)	(6,819)	(6,014)	(4,337)
<b>Net Financing CF</b>	<b>(3,271)</b>	<b>593</b>	<b>(6,534)</b>	<b>(5,729)</b>	<b>(4,052)</b>
Currency Adjustments	14	(55)	(21)	(38)	(29)
Chg in Cash	(1,957)	1,411	(3,592)	244	1,226
Opg CFPS (RMB)	0.14	(0.02)	0.05	0.13	0.15
Free CFPS (RMB)	0.05	0.00	(0.01)	0.11	0.14

Source: Company, DBS HK

## GOME Retail Holdings

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Sep-21	HK\$0.90	HK\$0.71	Fully Valued
2:	7-Jan-22	HK\$0.66	HK\$0.75	Hold
3:	25-Jan-22	HK\$0.68	HK\$0.75	Hold

Source: DBS HK

Analyst: Mavis HUI  
Kay Tan

# China/Hong Kong Company Update

# Haidilao International

Bloomberg: 6862 HK Equity | Reuters: 6862.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): HK\$18.08 (HSI : 24,580)  
Price Target 12-mth: HK\$21.80 (21% upside) (Prev HK\$38.60)

### Analyst

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

### What's New

- Expect store expansion to remain prudent amidst volatile nature of pandemic
- Table turnovers remain below pre-COVID levels, with targeted approach to improve store productivity
- Lower earnings by 65-93% in FY21/22F; maintain BUY

## Prudent reset

### Investment Thesis

**Tempered store expansion amidst pandemic.** Haidilao has closed 300 units by end-2021, reversing its store openings in 1H21 of c.299 units due to operational underperformance due to COVID-19. We forecast the group to record store openings at a prudent pace of 50/100 units in FY22E/23E.

**Targets to raise store productivity.** Haidilao's table turnover remains below pre-covid levels due to the lingering impact from the pandemic. In 2022F, the group will focus on raising table turnover through better operational management, worker incentives, and investment in R&D to support new store operations.

**Margin pressure to sustain on weaker dine-in volume.** We forecast the operating margin would remain soft due to rising food and wage pressure. We currently forecast the operating margin to sustain at 3-4%, versus pre-COVID levels at low-teens level.

### Valuation:

We cut our earnings by 93%/65% to account for store impairment for 300 units closure in 2021 and slash our store expansion assumption to +50/+100, versus previous +400 units. We also account for share placement of 115m new shares at HK\$20.43/sh in Dec'21. We adjust our TP, now pegged to DCF valuation, with our new TP at HK\$21.8/sh.

### Where we differ:

Our FY21F/22F projections are lower than consensus, as we are more conservative on top-line contribution from new outlets. However, we believe operational weakness has been priced in at this level.

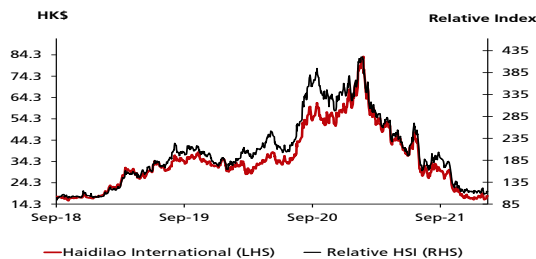
### Key Risks to Our View:

Weaker sales growth from new outlet contribution and cost pressure from labour constraints.

### At A Glance

Issued Capital (m shrs)	5,300
Mkt Cap (HK\$m/US\$m)	95,824 / 12,304
Major Shareholders (%)	
NP United Holding Ltd	32.3
Zhang (Yong)	25.1
Shi (Yonghong)	13.8
Shu (Ping)	7.4
Free Float (%)	21.4
3m Avg. Daily Val. (US\$m)	44.85
GICS Industry: Consumer Discretionary / Consumer Services	

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	28,614	40,519	48,035	51,402
EBITDA	4,103	4,836	6,448	7,783
Pre-tax Profit	735	311	1,339	1,825
Net Profit	309	90	937	1,277
Net Pft (Pre Ex) (core profit)	309	90	937	1,277
Net Profit Gth (Pre-ex) (%)	(86.8)	(70.8)	938.0	36.3
EPS (RMB)	0.06	0.02	0.18	0.25
EPS (HK\$)	0.08	0.02	0.22	0.31
EPS Gth (%)	(86.8)	(71.5)	938.0	36.3
Diluted EPS (HK\$)	0.08	0.02	0.22	0.31
DPS (HK\$)	0.01	0.07	0.00	0.00
BV Per Share (HK\$)	2.51	2.90	3.05	3.20
PE (X)	238.1	834.5	80.4	59.0
P/Cash Flow (X)	24.6	nm	28.3	25.1
P/Free CF (X)	nm	nm	35.9	40.2
EV/EBITDA (X)	18.2	16.0	11.6	9.4
Net Div Yield (%)	0.0	0.4	0.0	0.0
P/Book Value (X)	7.2	6.2	5.9	5.7
Net Debt/Equity (X)	0.1	0.2	CASH	CASH
ROAE(%)	3.0	0.8	7.6	9.8
Earnings Rev (%)		(93)	(65)	New
Consensus EPS (RMB)		0.04	0.49	0.75
Other Broker Recs:		B:24	S:3	H:11

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



Watchlist the stock on Insights Direct to receive prompt updates



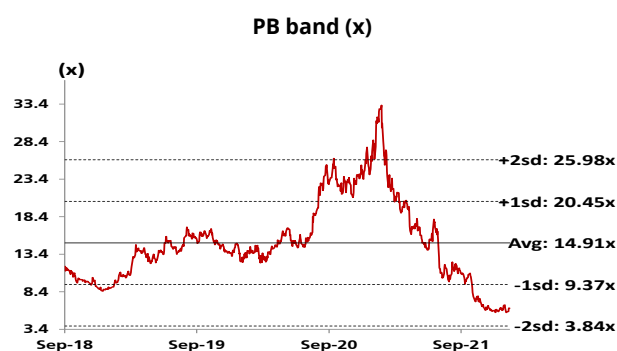
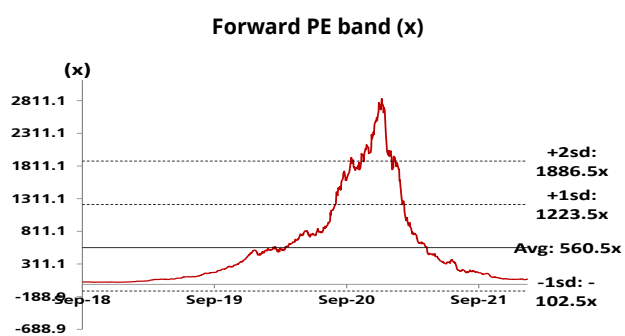
Live more, Bank less

## Haidilao International

### Company Background

Haidilao is a global leading and fast-growing hotpot restaurant chain, with a strong reputation for offering quality food and customer service. Serving over 160m customers a year, Haidilao operates 1,597 outlets in China and overseas (as of June 2021).

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Haidilao International

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Restaurant operation	25,589	27,434	39,175	46,466	49,569
Delivery business	449	718	660	792	951
Sales of condiment products and others	519	463	684	777	882
<b>Total</b>	<b>26,556</b>	<b>28,614</b>	<b>40,519</b>	<b>48,035</b>	<b>51,402</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	26,556	28,614	40,519	48,035	51,402
Cost of Goods Sold	(11,239)	(12,261)	(17,523)	(20,894)	(21,430)
<b>Gross Profit</b>	<b>15,317</b>	<b>16,353</b>	<b>22,996</b>	<b>27,141</b>	<b>29,972</b>
Other Opng (Exp)/Inc	(12,137)	(15,113)	(22,268)	(25,499)	(27,881)
<b>Operating Profit</b>	<b>3,180</b>	<b>1,239</b>	<b>728</b>	<b>1,642</b>	<b>2,091</b>
Other Non Opg (Exp)/Inc	95	(245)	(85)	0	0
Associates & JV Inc	65	75	97	127	164
Net Interest (Exp)/Inc	(93)	(334)	(430)	(430)	(430)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>3,247</b>	<b>735</b>	<b>311</b>	<b>1,339</b>	<b>1,825</b>
Tax	(900)	(426)	(220)	(402)	(548)
Minority Interest	(2)	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>2,345</b>	<b>309</b>	<b>90</b>	<b>937</b>	<b>1,277</b>
EBITDA	5,232	4,103	4,836	6,448	7,783
<b>Growth</b>					
Revenue Gth (%)	56.5	7.8	41.6	18.5	7.0
EBITDA Gth (%)	77.7	(21.6)	17.9	33.3	20.7
Opg Profit Gth (%)	44.0	(61.0)	(41.2)	125.6	27.3
Net Profit Gth (%)	35.4	(86.8)	(70.8)	938.0	36.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	57.7	57.1	56.8	56.5	58.3
Opg Profit Margin (%)	12.0	4.3	1.8	3.4	4.1
Net Profit Margin (%)	8.8	1.1	0.2	2.0	2.5
ROAE (%)	24.4	3.0	0.8	7.6	9.8
ROA (%)	14.4	1.3	0.3	3.0	4.0
ROCE (%)	19.0	2.9	1.0	4.9	6.1
Div Payout Ratio (%)	4.0	8.8	311.4	0.0	0.0
Net Interest Cover (x)	34.0	3.7	1.7	3.8	4.9

Source: Company, DBS HK



## Haidilao International

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	11,695	14,861	9,761	18,854	20,094
Cost of Goods Sold	(4,903)	(6,336)	(4,348)	(7,913)	(8,502)
<b>Gross Profit</b>	<b>6,792</b>	<b>8,525</b>	<b>5,412</b>	<b>10,940</b>	<b>11,592</b>
Other Oper. (Exp)/Inc	(5,622)	(6,591)	(6,366)	(9,363)	(11,297)
<b>Operating Profit</b>	<b>1,170</b>	<b>1,934</b>	<b>(954)</b>	<b>1,577</b>	<b>295</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	81	62	29	82	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,251</b>	<b>1,996</b>	<b>(924)</b>	<b>1,660</b>	<b>295</b>
Tax	(339)	(561)	(40)	(386)	(198)
Minority Interest	(1)	(1)	0	0	(2)
<b>Net Profit</b>	<b>911</b>	<b>1,434</b>	<b>(965)</b>	<b>1,274</b>	<b>95</b>

### Growth

Revenue Gth (%)	59.3	54.4	(16.5)	26.9	105.9
Opg Profit Gth (%)	29.8	42.1	(181.5)	(18.4)	(130.9)
Net Profit Gth (%)	45.6	34.7	N/A	(11.1)	N/A

### Margins

Gross Margins (%)	58.1	57.4	55.5	58.0	57.7
Opg Profit Margins (%)	10.0	13.0	(9.8)	8.4	1.5
Net Profit Margins (%)	7.8	9.6	(9.9)	6.8	0.5

Source: Company, DBS HK

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	7,690	12,064	14,074	12,199	11,137
Invts in Associates & JVs	281	360	360	360	360
Other LT Assets	5,443	8,510	8,510	8,510	8,510
Cash & ST Invts	4,026	2,921	2,195	4,742	6,552
Inventory	1,200	1,154	1,650	1,967	2,017
Debtors	1,917	2,473	3,376	3,953	4,211
Other Current Assets	58	45	45	45	45
<b>Total Assets</b>	<b>20,614</b>	<b>27,527</b>	<b>30,210</b>	<b>31,775</b>	<b>32,832</b>
ST Debt	145	3,721	3,721	3,721	3,721
Creditors	1,406	1,583	2,256	2,690	2,760
Other Current Liab	4,113	4,564	4,723	5,225	5,599
LT Debt	85	330	330	330	330
Other LT Liabilities	4,239	7,092	7,092	7,092	7,092
Shareholder's Equity	10,623	10,234	12,084	12,713	13,326
Minority Interests	3	3	4	4	5
<b>Total Cap. &amp; Liab.</b>	<b>20,614</b>	<b>27,527</b>	<b>30,210</b>	<b>31,775</b>	<b>32,832</b>
Non-Cash Wkg. Capital	(2,345)	(2,474)	(1,909)	(1,951)	(2,085)
Net Cash/(Debt)	3,796	(1,131)	(1,856)	690	2,500
Debtors Turn (avg days)	22.2	28.1	28.0	28.0	28.0
Creditors Turn (avg days)	45.7	47.1	47.0	47.0	47.0
Inventory Turn (avg days)	39.0	34.4	34.4	34.4	34.4
Asset Turnover (x)	1.6	1.2	1.4	1.5	1.6
Current Ratio (x)	1.3	0.7	0.7	0.9	1.1
Quick Ratio (x)	1.0	0.5	0.5	0.7	0.9
Net Debt/Equity (X)	CASH	0.1	0.2	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.1	0.2	CASH	CASH
Capex to Debt (%)	2,126.4	149.8	7.4	13.9	27.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

## Haidilao International

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	3,247	735	311	1,339	1,825
Dep. & Amort.	1,891	3,034	2,753	2,438	2,187
Tax Paid	(874)	(657)	(220)	(402)	(548)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(80)	184	0	0	0
Chg in Wkg.Cap.	368	(704)	(4,964)	(212)	32
Other Operating CF	93	404	(500)	(500)	(500)
<b>Net Operating CF</b>	<b>4,646</b>	<b>2,996</b>	<b>(2,621)</b>	<b>2,663</b>	<b>2,997</b>
Capital Exp.(net)	(4,881)	(6,070)	(299)	(563)	(1,125)
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	(145)	1,379	407	473	219
<b>Net Investing CF</b>	<b>(5,026)</b>	<b>(4,691)</b>	<b>108</b>	<b>(90)</b>	<b>(906)</b>
Div Paid	(473)	(703)	(93)	(27)	(281)
Chg in Gross Debt	(990)	3,160	0	0	0
Capital Issues	(3)	0	1,880	0	0
Other Financing CF	54	(336)	0	0	0
<b>Net Financing CF</b>	<b>(1,412)</b>	<b>2,121</b>	<b>1,787</b>	<b>(27)</b>	<b>(281)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,793)	426	(726)	2,546	1,810
Opg CFPS (RMB)	0.86	0.74	0.46	0.56	0.58
Free CFPS (RMB)	(0.05)	(0.62)	(0.57)	0.41	0.37

Source: Company, DBS HK

**Haidilao International**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Feb-21	HK\$77.90	HK\$93.70	Buy
2:	25-Mar-21	HK\$53.40	HK\$63.71	Buy
3:	26-Aug-21	HK\$27.35	HK\$37.40	Buy
4:	14-Sep-21	HK\$32.55	HK\$38.60	Buy

Source: DBS HK

Analyst: *Alison FOK*

*Mavis HUI*

*Alice HUI CFA*

## Haier Smart Home Co. Ltd.

Bloomberg: 6690 HK Equity | 600690 CH Equity | Reuters: 6690.HK | 600690.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## H: BUY

Last Traded Price (7 Feb 2022): HK\$29.60 (HSI: 24,580)

Price Target 12-mth: HK\$42.90 (44.9% upside)

## A: BUY

Last Traded Price (7 Feb 2022): RMB27.77 (CSI300 Index: 4,634)

Price Target 12-mth: RMB35.75 (28.7% upside)

## Analyst

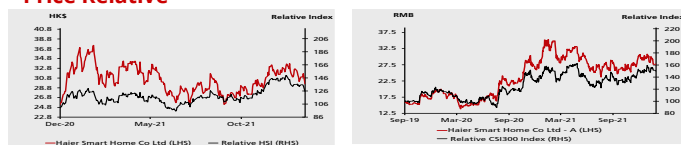
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Kay Tan kaytanx@dbs.com

## What's New

- Improvements in production process and a more agile sourcing strategy should support profitability
- Successful efforts on product premiumisation and smart home solutions as well as strong localisation in overseas markets could reinforce medium-term outlook
- Maintain BUY with TP unchanged at HK\$42.9 for H-share and RMB35.75 for A-share

## Price Relative



## Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	209,726	231,095	253,104	276,923
EBITDA	14,601	19,158	21,590	23,565
Pre-tax Profit	13,554	18,593	21,140	23,509
Net Profit	8,877	13,197	15,272	17,378
Core Profit	6,458	10,767	12,842	14,952
Core Profit Gth (%)	12.0	66.7	19.3	16.4
EPS (RMB)	0.98	1.41	1.62	1.85
EPS (HK\$)	1.20	1.73	1.99	2.26
Core EPS (HK\$)	0.88	1.41	1.67	1.95
EPS Gth (%)	(21.2)	43.4	15.2	13.8
Core EPS Gth (%)	(18.4)	60.9	18.7	16.4
Diluted EPS (HK\$)	0.88	1.41	1.67	1.95
DPS (HK\$)	0.36	0.57	0.72	0.81
BV Per Share (HK\$)	9.06	9.66	10.87	11.96
PE (X)	24.6	17.1	14.9	13.1
CorePE (X)	33.8	21.0	17.7	15.2
P/Cash Flow (X)	12.4	11.6	11.0	10.3
P/Free CF (X)	12.5	11.6	11.3	10.4
EV/EBITDA (X)	14.0	10.8	9.1	7.9
Net Div Yield (%)	1.2	1.9	2.4	2.8
P/Book Value (X)	3.3	3.1	2.7	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	15.5	18.8	19.4	19.8
Earnings Rev (%):		Nil	Nil	Nil
Consensus EPS (RMB)		1.43	1.69	1.94
Other Broker Recs:		B:18	S:0	H:3

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

## A safer bet amid weak property market

## Investment Thesis

**Consumption upgrades.** Casarte, the high-end brand of Haier, is expected to post 30%+ y-o-y growth in 2H21 and sustain a similar pace of sales expansion in FY22. The brand continues to stand as a prime beneficiary of accelerated premiumisation in China and helps supporting group profitability.

**Home solutions.** To satisfy the needs of different consumer groups, full-scenario solutions that provide home appliance & decoration services should beef up Haier's overall growth potentials amid rising demand for one-stop services.

**Spotlight on global expansion.** Strong localisation strategies in overseas markets should safeguard its competitiveness despite a toughened global shipping situation. Coupled with its comprehensive brand matrix, Haier stays in a favourable position to further expand its global prospects.

## Valuation:

Our target prices remain unchanged at HK\$42.9 (H-share) and RMB35.75 (A-share), based on 22x FY22F PE.

## Where we differ:

We are slightly more prudent in our estimates given uncertainties of raw material costs and global policy changes. Any potential y-o-y decline in costs (e.g., copper, steel) from high levels for 2022-23 could favour its margins. We have yet to factor this in.

## Key Risks to Our View:

Slower progress in overseas markets; weaker consumer demand due to the COVID-19 pandemic; and/or raw material price fluctuations.

## At A Glance

Issued Capital - H shares (m shs)	2,864
- Non H shrs (m shs)	6,309
H shs as a % of Total	31
Total Mkt Cap (HK\$/US\$m)	299,265 / 38,425
Major Shareholders (%)	
Haier Electric Appliances International Co., Ltd.	20.0
Haier Group Corporation	17.0
Major H Shareholders (As % of H shares)	
HCH (HK) Investment Management Co., Ltd.	18.8
H Shares-Free Float (%)	81.2
3m Avg. Daily Val. (US\$m)	30.74
GICS Industry: Consumer Discretionary / Consumer Durables & Apparel	



Watchlist the stock on Insights Direct to receive prompt updates



## Haier Smart Home Co. Ltd.

### Company Background

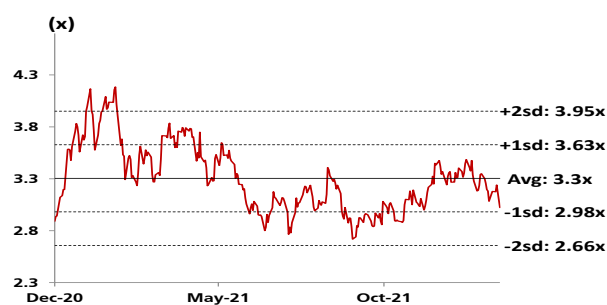
Haier Smart Home (Haier) is the largest global white goods manufacturer based in China, in terms of sales volume (source: Euromonitor). It mainly engages in the manufacturing and distribution of air conditioners, refrigerators, washing machines, kitchen appliances, and water heaters around the globe. Its brands include Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, and Candy.

### Historical PE and PB band

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## Haier Smart Home Co. Ltd.

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales	200,762.0	209,725.8	231,094.8	253,104.2	276,923.1
Gross Margin	29.8	29.7	30.2	30.4	30.6
EBITDA Margin	6.3	7.0	8.3	8.5	8.5
Operating Cash Flows	15,082.0	17,599.1	19,486.2	20,648.9	22,019.0
Cash	36,178.8	46,461.3	41,843.8	54,438.5	64,443.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Refrigerator	58,438	61,538	67,596	74,240	81,325
Air Conditioner	29,128	29,999	33,501	37,405	41,771
Kitchen App & Water Heater	39,133	41,218	44,372	47,759	51,434
Washing Machines	44,714	48,452	53,090	58,312	64,049
Integrated Channel Services	28,058	27,386	31,325	34,216	37,153
Non-core operations	1,292	1,133	1,212	1,172	1,192
<b>Total</b>	<b>200,762</b>	<b>209,726</b>	<b>231,095</b>	<b>253,104</b>	<b>276,923</b>
<b>Gross profit (RMB m)</b>					
Refrigerator	18,861	19,970	22,307	24,648	27,162
Air Conditioner	9,093	8,223	9,883	11,072	12,406
Kitchen App & Water Heater	13,598	14,448	15,709	17,163	18,589
Washing Machines	14,632	16,050	17,891	19,768	21,776
Integrated Channel Services	2,877	2,772	3,195	3,524	3,864
Non-core operations	833	787	845	821	837
<b>Total</b>	<b>59,894</b>	<b>62,251</b>	<b>69,830</b>	<b>76,995</b>	<b>84,635</b>
<b>Gross profit Margins (%)</b>					
Refrigerator	32.3	32.5	33.0	33.2	33.4
Air Conditioner	31.2	27.4	29.5	29.6	29.7
Kitchen App & Water Heater	34.7	35.1	35.4	35.9	36.1
Washing Machines	32.7	33.1	33.7	33.9	34.0
Integrated Channel Services	10.3	10.1	10.2	10.3	10.4
Non-core operations	64.5	69.5	69.7	70.0	70.2
<b>Total</b>	<b>29.8</b>	<b>29.7</b>	<b>30.2</b>	<b>30.4</b>	<b>30.6</b>

Source: Company, DBS HK

**Haier Smart Home Co. Ltd.**
**Income Statement (RMB m)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue	200,762	209,726	231,095	253,104	276,923
Cost of Goods Sold	(140,868)	(147,475)	(161,265)	(176,109)	(192,288)
<b>Gross Profit</b>	<b>59,894</b>	<b>62,251</b>	<b>69,830</b>	<b>76,995</b>	<b>84,635</b>
Other Opg (Exp)/Inc	(51,725)	(52,551)	(55,440)	(60,387)	(65,954)
<b>Operating Profit</b>	<b>8,169</b>	<b>9,700</b>	<b>14,390</b>	<b>16,608</b>	<b>18,681</b>
Other Non Opg (Exp)/Inc	3,505	1,012	836	896	1,122
Associates & JV Inc	1,409	1,620	1,900	2,100	2,300
Net Interest (Exp)/Inc	(893)	(1,196)	(963)	(893)	(1,020)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	2,441	2,419	2,430	2,430	2,426
<b>Pre-tax Profit</b>	<b>14,630</b>	<b>13,554</b>	<b>18,593</b>	<b>21,140</b>	<b>23,509</b>
Tax	(2,296)	(2,232)	(2,882)	(3,382)	(3,762)
Minority Interest	(4,128)	(2,446)	(2,514)	(2,486)	(2,370)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>8,206</b>	<b>8,877</b>	<b>13,197</b>	<b>15,272</b>	<b>17,378</b>
Net Profit before Except.	5,765	6,458	10,767	12,842	14,952
EBITDA	12,722	14,601	19,158	21,590	23,565
<b>Growth</b>					
Revenue Gth (%)	9.5	4.5	10.2	9.5	9.4
EBITDA Gth (%)	1.1	14.8	31.2	12.7	9.1
Opg Profit Gth (%)	(13.9)	18.7	48.3	15.4	12.5
Net Profit Gth (%)	10.3	8.2	48.7	15.7	13.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	29.8	29.7	30.2	30.4	30.6
Opg Profit Margin (%)	4.1	4.6	6.2	6.6	6.7
Net Profit Margin (%)	4.1	4.2	5.7	6.0	6.3
ROAE (%)	18.8	15.5	18.8	19.4	19.8
ROA (%)	4.6	4.5	6.4	7.2	7.6
ROCE (%)	8.0	8.9	13.3	14.8	15.3
Div Payout Ratio (%)	30.0	30.0	33.0	36.0	36.0
Net Interest Cover (x)	9.1	8.1	14.9	18.6	18.3

Source: Company, DBS HK

## Haier Smart Home Co. Ltd.

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	23,571	24,492	25,701	24,986	25,121
Invt in Associates & JVs	20,461	21,568	22,587	22,120	22,968
Other LT Assets	42,875	43,152	41,828	42,429	42,633
Cash & ST Invt	40,468	49,181	44,645	57,938	67,444
Inventory	28,229	29,447	33,508	31,981	34,506
Debtors	24,967	30,066	32,108	35,015	38,310
Other Current Assets	6,883	5,554	5,870	5,746	5,740
<b>Total Assets</b>	<b>187,454</b>	<b>203,459</b>	<b>206,247</b>	<b>220,215</b>	<b>236,722</b>
ST Debt	15,902	15,211	14,204	14,012	13,826
Creditors	53,059	57,539	63,298	69,961	76,388
Other Current Liab	26,648	36,643	35,890	32,152	33,451
LT Debt	20,280	18,535	10,017	10,578	11,184
Other LT Liabilities	6,574	7,421	7,639	7,617	7,719
Shareholder's Equity	47,889	66,816	73,846	83,410	91,784
Minority Interests	17,102	1,295	1,354	2,486	2,370
<b>Total Cap. &amp; Liab.</b>	<b>187,454</b>	<b>203,459</b>	<b>206,247</b>	<b>220,216</b>	<b>236,722</b>
Non-Cash Wkg. Capital	(19,629)	(29,115)	(27,702)	(29,371)	(31,283)
Net Cash/(Debt)	4,286	15,435	20,424	33,348	42,434
Debtors Turn (avg days)	45.1	47.9	49.1	48.4	48.3
Creditors Turn (avg days)	134.5	141.6	140.9	142.1	142.5
Inventory Turn (avg days)	67.8	73.8	73.4	69.8	64.7
Asset Turnover (x)	1.1	1.1	1.1	1.2	1.2
Current Ratio (x)	1.1	1.0	1.0	1.1	1.2
Quick Ratio (x)	0.7	0.7	0.7	0.8	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.1	0.3	0.3	2.0	1.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

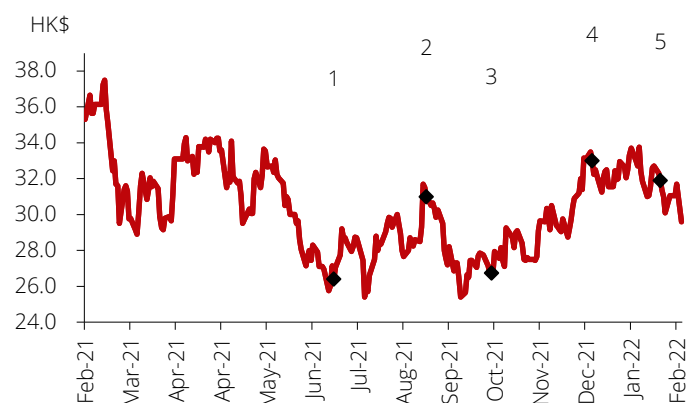
FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	14,630	13,554	18,593	21,140	23,509
Dep. & Amort.	4,553	4,901	4,769	4,982	4,884
Tax Paid	(1,475)	(1,859)	(2,296)	(2,232)	(2,882)
Assoc. & JV Inc/(loss)	(1,409)	(1,620)	(1,900)	(2,100)	(2,300)
(Pft)/ Loss on disposal of FAs	(397)	0	0	0	0
Chg in Wkg.Cap.	848	1,457	1,153	666	109
Other Operating CF	(1,669)	1,165	(831)	(1,808)	(1,301)
<b>Net Operating CF</b>	<b>15,082</b>	<b>17,599</b>	<b>19,486</b>	<b>20,649</b>	<b>22,019</b>
Capital Exp.(net)	(39)	(107)	(73)	(500)	(286)
Other Invt.(net)	1,534	4,203	2,868	3,536	3,202
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(2,641)	1,857	(1,208)	(1,568)	(890)
<b>Net Investing CF</b>	<b>(1,147)</b>	<b>5,953</b>	<b>1,587</b>	<b>1,468</b>	<b>2,025</b>
Div Paid	(4,204)	(4,290)	(4,300)	(7,719)	(4,800)
Chg in Gross Debt	(401)	(2,467)	(5,351)	888	(6,219)
Capital Issues	441	1,331	886	2,259	1,572
Other Financing CF	(1,848)	4,400	(4,028)	(45)	(2,037)
<b>Net Financing CF</b>	<b>(6,013)</b>	<b>(1,026)</b>	<b>(12,793)</b>	<b>(4,618)</b>	<b>(11,483)</b>
Currency Adjustments	294	(637)	(171)	(404)	(288)
Chg in Cash	8,216	21,889	8,109	17,095	12,273
Opg CFPS (RMB)	2.16	1.79	1.96	2.13	2.33
Free CFPS (RMB)	2.29	1.94	2.07	2.14	2.31

Source: Company, DBS HK



## Haier Smart Home Co. Ltd.

### HK Share - Target Price & Ratings History

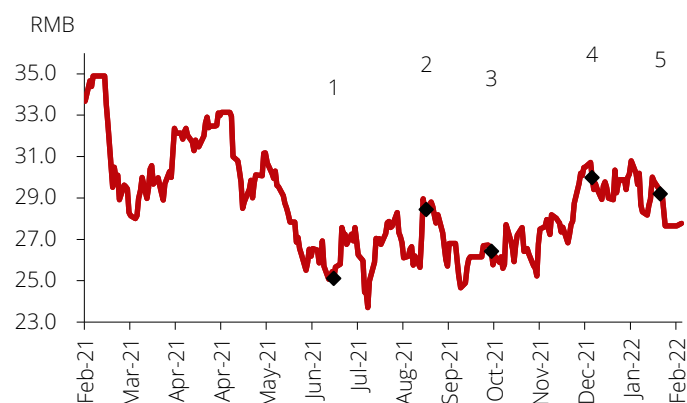


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-Jul-21	HK\$26.40	HK\$37.54	Buy
2:	3-Sep-21	HK\$31.50	HK\$37.54	Buy
3:	13-Oct-21	HK\$26.75	HK\$39.08	Buy
4:	14-Dec-21	HK\$33.50	HK\$40.15	Buy
5:	25-Jan-22	HK\$32.30	HK\$42.90	Buy

Source: DBS HK

Analyst: Mavis HUI  
Kay Tan

### US Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-Jul-21	RMB25.12	RMB31.28	Buy
2:	3-Sep-21	RMB28.41	RMB31.28	Buy
3:	13-Oct-21	RMB26.64	RMB32.57	Buy
4:	14-Dec-21	RMB30.71	RMB33.46	Buy
5:	25-Jan-22	RMB29.45	RMB35.75	Buy

Source: DBS HK

Analyst: Mavis HUI  
Kay Tan

# China/ Hong Kong Company Update

## Hengan International

Bloomberg: 1044 HK EQUITY | Reuters: 1044.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

**BUY** (Upgrade from HOLD)

Last Traded Price (7 Feb 2022): HK\$39.70 (HSI : 24,580)

Price Target 12-mth: HK\$47.32 (19% upside) (Previous: HK\$45.23)

### Analyst

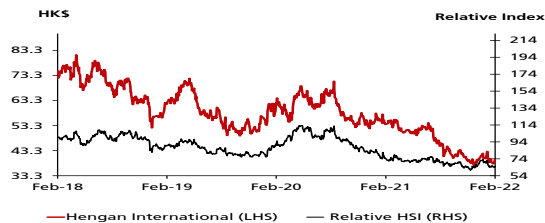
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Kay Tan kaytanx@dbs.com

### What's New

- GP margin far from the peak of 42.3% in FY20 as costs stay high; but should see gradual improvement ahead
- Ongoing premiumisation, strengthening online sales, and SE Asian expansion to support medium-term outlook
- Upgrade to BUY with new TP at HK\$47.32

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	22,374	21,848	22,283	22,991
EBITDA	5,869	4,098	4,528	4,902
Pre-tax Profit	5,961	4,830	5,111	5,518
Net Profit	4,595	3,719	3,940	4,255
Net Pft (Pre Ex) (core profit)	4,595	3,719	3,940	4,255
Net Profit Gth (Pre-ex) (%)	17.6	(19.1)	5.9	8.0
EPS (RMB)	3.86	3.13	3.31	3.58
EPS (HK\$)	4.73	3.83	4.06	4.38
EPS Gth (%)	17.6	(19.1)	5.9	8.0
Diluted EPS (HK\$)	4.73	3.83	4.06	4.38
DPS (HK\$)	3.06	2.49	2.62	2.80
BV Per Share (HK\$)	19.99	19.91	21.30	21.26
PE (X)	8.4	10.4	9.8	9.1
P/Cash Flow (X)	7.6	8.3	8.1	8.1
P/Free CF (X)	9.0	9.6	9.6	9.5
EV/EBITDA (X)	6.7	8.9	7.8	7.1
Net Div Yield (%)	7.7	6.3	6.6	7.1
P/Book Value (X)	2.0	2.0	1.9	1.9
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	24.6	19.2	19.6	20.3
Earnings Rev (%)		(1)	(5)	(8)
Consensus EPS (RMB)		3.12	3.27	3.51
Other Broker Recs:		B:6	S:1	H:13

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

## Challenges linger, yet a 10-year low

### Investment Thesis

**GP margin remains under stress.** On the back of rising raw material prices and intense market competition, Hengan's GP margin decreased by 4.3ppt y-o-y to 39.4% in 1H21. A low visibility on wood pulp prices that remain at a high level in Jan 2022 could add pressure on near-term profitability.

**New retail channel among the key drivers.** Hengan's e-commerce sales accounted for 20.1% of overall sales in 1H21 vs. 17.6% a year ago. The division could continue to drive performance over the medium term.

**Big premiumisation trend.** More efforts on high-end product innovation and marketing should support gradual expansion of its premium product-mix. Such initiatives could potentially safeguard the company's prospects.

### Valuation:

We have trimmed earnings estimates by 1%/5%/8% for FY21/FY22/FY23 given lingering uncertainties from COVID-19 and high pulp prices. Our new TP of HK\$47.32 is based on 12x FY22F PE, equivalent to 1 SD below average PE (previous TP: HK\$45.23 benchmarking 13x FY21F PE). We change from a HOLD to BUY mainly on valuation ground, as its share price is near a 10-year low while we believe most concerns are in the price.

### Where we differ:

Our FY21/FY22/FY23 gross margin of 36.9%/38.2%/38.8% should be lower than consensus, as we are more conservative given the strong increase in raw material costs and a competitive market.

### Key Risks to Our View:

Higher-than-expected pulp prices; failure to regain sales growth momentum and improve product-mix.

### At A Glance

Issued Capital (m shrs)	1,186
Mkt Cap (HK\$/US\$m)	47,084 / 6,046
Major Shareholders (%)	
Hui (Lin Chit)	23.1
Sze (Man Bok)	20.6
Artisan Partners Limited Partnership	6.0
Free Float (%)	50.3
3m Avg. Daily Val. (US\$m)	12.18
GICS Industry: Consumer Staples / Household & Personal Products	



Watchlist the stock on Insights Direct to receive prompt updates



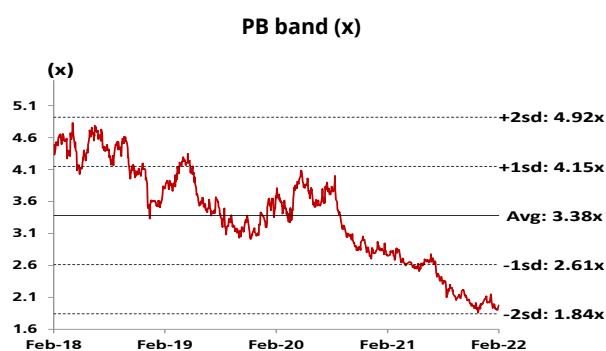
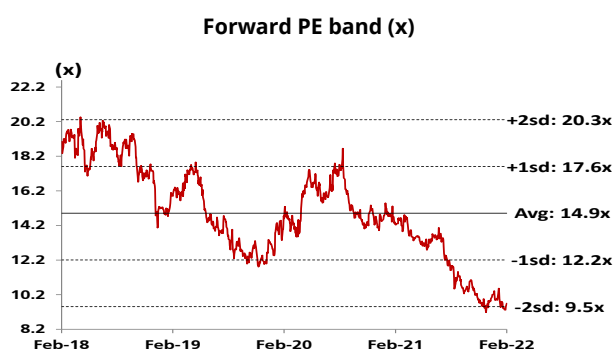
Live more, Bank less

## Hengan International

### Company Background

Hengan is a manufacturer of personal hygiene products, including sanitary napkins, tissue paper, and disposable diapers. Its products are sold under well-known brands in China, such as Hearttex, Anler, Anerle, Elderjoy, etc. that ride on its well-established distribution network to foster better market share ahead.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Hengan International

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Tissue sales growth	12.3	(9.6)	(9.5)	(1.0)	1.5
Sanitary napkins sales growth	(1.6)	2.6	2.0	2.5	2.5
Disposable diapers sales growth	(6.3)	(0.9)	1.0	1.5	2.0
Others growth	42.8	27.0	8.0	8.0	8.0

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Tissue	11,487	10,383	9,396	9,302	9,442
Sanitary napkins	6,487	6,655	6,788	6,958	7,131
Disposable diapers	1,439	1,426	1,440	1,461	1,491
Others	3,080	3,911	4,224	4,562	4,927
<b>Total</b>	<b>22,493</b>	<b>22,374</b>	<b>21,848</b>	<b>22,283</b>	<b>22,991</b>
<b>Gross Profit (RMB m)</b>					
Tissue	3,182	3,478	2,349	2,512	2,738
Sanitary napkins	4,560	4,751	4,684	4,870	4,992
Disposable diapers	583	565	490	541	552
Others	357	662	549	593	640
<b>Total</b>	<b>8,682</b>	<b>9,456</b>	<b>8,071</b>	<b>8,516</b>	<b>8,922</b>
<b>Gross Profit Margins (%)</b>					
Tissue	27.7	33.5	25.0	27.0	29.0
Sanitary napkins	70.3	71.4	69.0	70.0	70.0
Disposable diapers	40.5	39.6	34.0	37.0	37.0
Others	11.6	16.9	13.0	13.0	13.0
<b>Total</b>	<b>38.6</b>	<b>42.3</b>	<b>36.9</b>	<b>38.2</b>	<b>38.8</b>

Source: Company, DBS HK

## Hengan International

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	22,493	22,374	21,848	22,283	22,991
Cost of Goods Sold	(13,804)	(12,918)	(13,777)	(13,767)	(14,069)
<b>Gross Profit</b>	<b>8,689</b>	<b>9,456</b>	<b>8,071</b>	<b>8,516</b>	<b>8,922</b>
Other Opg (Exp)/Inc	(3,009)	(3,063)	(3,119)	(3,382)	(3,454)
<b>Operating Profit</b>	<b>5,680</b>	<b>6,392</b>	<b>4,952</b>	<b>5,134</b>	<b>5,468</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	(4)	(4)	(4)	(4)
Net Interest (Exp)/Inc	(633)	(426)	(118)	(18)	55
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>5,047</b>	<b>5,961</b>	<b>4,830</b>	<b>5,111</b>	<b>5,518</b>
Tax	(1,130)	(1,353)	(1,096)	(1,160)	(1,252)
Minority Interest	(9)	(14)	(14)	(11)	(11)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>3,908</b>	<b>4,595</b>	<b>3,719</b>	<b>3,940</b>	<b>4,255</b>
Net Profit before Except.	3,908	4,595	3,719	3,940	4,255
EBITDA	5,327	5,869	4,098	4,528	4,902
<b>Growth</b>					
Revenue Gth (%)	9.6	(0.5)	(2.4)	2.0	3.2
EBITDA Gth (%)	(6.0)	10.2	(30.2)	10.5	8.3
Opg Profit Gth (%)	4.6	12.5	(22.5)	3.7	6.5
Net Profit Gth (%)	2.8	17.6	(19.1)	5.9	8.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	38.6	42.3	36.9	38.2	38.8
Opg Profit Margin (%)	25.3	28.6	22.7	23.0	23.8
Net Profit Margin (%)	17.4	20.5	17.0	17.7	18.5
ROAE (%)	22.6	24.6	19.2	19.6	20.3
ROA (%)	8.8	10.5	8.2	8.5	9.0
ROCE (%)	10.8	12.3	9.2	9.3	9.7
Div Payout Ratio (%)	68.5	64.6	65.0	65.0	65.0
Net Interest Cover (x)	9.0	15.0	41.9	281.8	NM

Source: Company, DBS HK

## Hengan International

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	7,823	7,571	7,449	7,433	7,422
Invt in Associates & JVs	102	97	100	100	99
Other LT Assets	5,246	6,831	6,172	6,593	6,287
Cash & ST Invt	20,548	20,489	24,975	25,375	26,386
Inventory	3,803	4,311	3,699	3,696	3,777
Debtors	3,651	3,375	3,472	3,541	3,653
Other Current Assets	2,067	1,767	136	149	142
<b>Total Assets</b>	<b>43,239</b>	<b>44,441</b>	<b>46,003</b>	<b>46,887</b>	<b>47,767</b>
ST Debt	20,361	18,344	20,098	19,221	19,659
Creditors	2,224	2,244	2,340	2,376	2,428
Other Current Liab	1,079	1,474	1,209	1,310	1,259
LT Debt	1,247	2,493	2,564	2,675	2,998
Other LT Liabilities	176	225	216	216	216
Shareholder's Equity	17,873	19,411	19,340	20,864	20,992
Minority Interests	279	250	236	225	214
<b>Total Cap. &amp; Liab.</b>	<b>43,239</b>	<b>44,441</b>	<b>46,003</b>	<b>46,887</b>	<b>47,767</b>
Non-Cash Wkg. Capital	6,218	5,735	3,757	3,700	3,885
Net Cash/(Debt)	(1,061)	(348)	2,313	3,479	3,728
Debtors Turn (avg days)	52.7	57.3	57.2	57.4	57.1
Creditors Turn (avg days)	66.1	60.7	57.2	59.9	59.9
Inventory Turn (avg days)	104.3	110.2	99.9	93.9	93.2
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.3	1.4	1.4	1.4	1.5
Quick Ratio (x)	1.0	1.1	1.2	1.3	1.3
Net Debt/Equity (X)	0.1	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.0	CASH	CASH	CASH
Capex to Debt (%)	4.2	3.7	2.8	3.3	3.2
Z-Score (X)	3.1	3.3	3.4	3.4	3.4

Source: Company, DBS HK

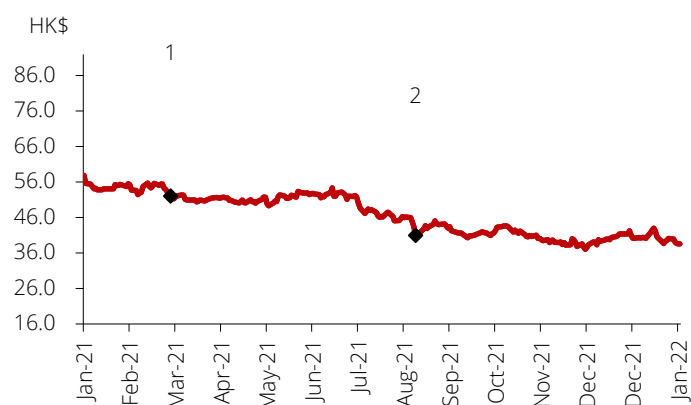
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	5,047	5,961	4,830	5,111	5,518
Dep. & Amort.	(444)	(723)	(339)	(415)	(509)
Tax Paid	(1,130)	(1,353)	(1,096)	(1,160)	(1,252)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	33	15	0	0	0
Chg in Wkg.Cap.	(1,094)	161	112	32	(254)
Other Operating CF	1,004	980	1,126	1,189	1,280
<b>Net Operating CF</b>	<b>3,416</b>	<b>5,042</b>	<b>4,632</b>	<b>4,757</b>	<b>4,783</b>
Capital Exp.(net)	(898)	(761)	(635)	(729)	(732)
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	2,012	2,317	1,395	(2,028)	(1,098)
<b>Net Investing CF</b>	<b>1,113</b>	<b>1,556</b>	<b>760</b>	<b>(2,757)</b>	<b>(1,830)</b>
Div Paid	(2,617)	(2,915)	(2,418)	(2,561)	(2,766)
Chg in Gross Debt	(2,873)	(50)	1,480	922	784
Capital Issues	(808)	(788)	0	0	0
Other Financing CF	671	(177)	(14)	(11)	(11)
<b>Net Financing CF</b>	<b>(5,627)</b>	<b>(3,929)</b>	<b>(951)</b>	<b>(1,651)</b>	<b>(1,993)</b>
Currency Adjustments	61	(182)	50	50	50
Chg in Cash	(1,037)	2,487	4,492	399	1,011
Opg CFPS (RMB)	3.79	4.10	3.80	3.97	4.24
Free CFPS (RMB)	2.12	3.60	3.36	3.39	3.41

Source: Company, DBS HK

## Hengan International

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	22-Mar-21	HK\$53.90	HK\$55.92	Hold
2:	19-Aug-21	HK\$43.45	HK\$45.23	Hold

Source: DBS HK

Analyst: Mavis HUI  
Kay Tan

# Inner Mongolia Yili Industrial

Bloomberg: 600887 CH Equity | Reuters: 600887.SS

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): RMB38.76 (CSI300 Index : 4,634)

Price Target 12-mth: RMB52.00 (34% upside)

### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com

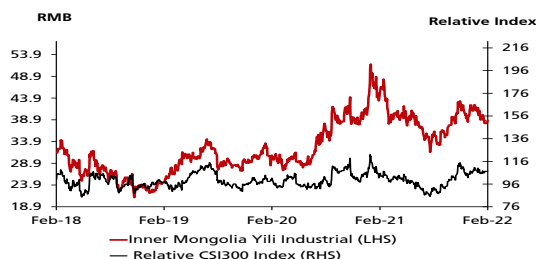
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Alice HUI CFA +852 36684182 alicehuidm@dbs.com

### What's New

- Expect double-digit top-line growth to be sustained, driven by white milk and milk powder sales
- Margin pressure to ease on stabilising raw milk prices in FY22F
- Reiterate BUY, TP unchanged

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	96,886	113,986	128,558	149,351
EBITDA	9,829	11,781	15,062	18,622
Pre-tax Profit	8,150	9,907	11,482	13,540
Net Profit	7,120	8,655	10,031	11,828
Net Profit Gth (Pre-ex) (%)	2.2	21.6	15.9	17.9
EPS (RMB)	1.18	1.42	1.64	1.93
EPS Gth (%)	1.8	20.9	15.3	17.3
Diluted EPS (RMB)	1.18	1.43	1.65	1.93
DPS (RMB)	0.88	0.99	1.14	1.34
BV Per Share (RMB)	1.00	1.00	0.99	0.99
PE (X)	32.9	27.2	23.6	20.1
P/Cash Flow (X)	23.8	23.1	17.8	14.3
P/Free CF (X)	70.0	90.7	50.1	35.7
EV/EBITDA (X)	26.5	22.7	18.2	15.0
Net Div Yield (%)	2.3	2.6	3.0	3.5
P/Book Value (X)	38.6	38.8	39.0	39.2
Net Debt/Equity (X)	0.0	0.1	0.2	0.2
ROAE(%)	117.0	142.3	164.9	194.5
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		1.47	1.72	2.01
Other Broker Recs:		B:42	S:0	H:1

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

## Firm demand driven by growing health proposition

### Investment Thesis

Liquid milk sales driven by UHT milk. Liquid milk accounts for 79% of total revenue, comprising milk, yogurt, milk beverages, and more. We expect the key driver to remain as UHT white milk, supported by a rise in consumption per capita.

Acquisition of a 34.33% stake in Austnutria to propel Yili's infant formula market share. Infant formula competition has been fierce, with rapid changes in regulations. With the acquisition of a 34.3% stake in Austnutria, we expect Yili's market share to propel it to be the second-largest domestic infant formula player in China, after Feihe.

Emerging categories see encouraging trends. Yili has been investing in developing new products such as pasteurised milk, cheese, and butter to capture the fast-growing trends in these categories. Despite limited contribution at this juncture, we expect these products to continue to enrich Yili's strong dairy portfolio in the medium term.

### Valuation:

Our TP stood at Rmb52, pegged to a 31.7x FY22F PE (1.5SD above its five-year average).

### Where we differ:

We expect Yili to deliver a 17% sales CAGR in FY21-23F, versus consensus' 10.5%, on better growth prospects from UHT products and infant formula.

### Key Risks to Our View:

COVID-19 impacts, volatility in raw material prices, tougher competition, execution risks on M&As, and trade war.

### At A Glance

Issued Capital (m shrs)	6,065
Mkt Cap (RMB\$/US\$m)	235,079 / 36,956
Major Shareholders (%)	
Huhhot Investment Company Ltd.	8.4
Free Float (%)	91.6
3m Avg. Daily Val. (US\$m)	358.16
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



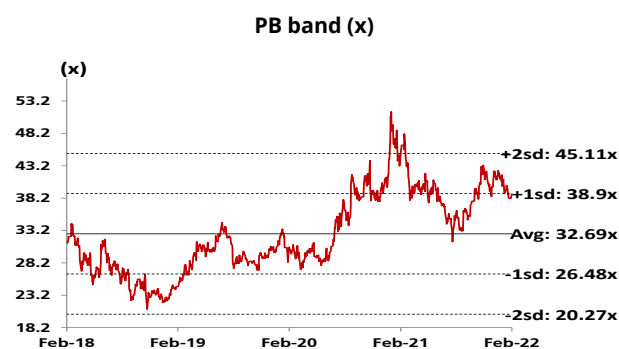


## Inner Mongolia Yili Industrial

### Company Background

Yili is one of the leading companies involved in the processing and manufacturing of milk products such as ice cream, milk powder, sterilised milk, and fresh milk. The group generates the bulk of its revenue (c.79% of FY20 sales) from the liquid milk segment (UHT milk, UHT yogurt). It is also a significant player in the milk powder category.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Inner Mongolia Yili Industrial

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Liquid milk	73,761	76,123	86,365	97,696	113,967
Milk and milk products	10,055	12,885	14,633	16,912	20,396
Mixed feed	62	179	0	0	0
Icecream	5,631	6,158	11,417	12,347	13,353
Other	714	1,540	1,571	1,603	1,635
<b>Total</b>	<b>90,223</b>	<b>96,886</b>	<b>113,986</b>	<b>128,558</b>	<b>149,351</b>
<b>Gross Profit (RMB m)</b>					
Liquid milk	25,963	25,920	30,271	34,438	40,402
Milk and milk products	4,838	5,527	6,277	7,255	8,749
Mixed feed	22	61	0	0	0
Icecream	2,619	2,997	5,594	6,050	6,543
Other	389	575	707	721	736
<b>Total</b>	<b>33,831</b>	<b>35,080</b>	<b>42,850</b>	<b>48,464</b>	<b>56,430</b>
<b>Gross Profit Margins (%)</b>					
Liquid milk	35.2	34.1	35.1	35.3	35.5
Milk and milk products	48.1	42.9	42.9	42.9	42.9
Mixed feed	34.8	33.8	N/A	N/A	N/A
Icecream	46.5	48.7	49.0	49.0	49.0
Other	54.5	37.3	45.0	45.0	45.0
<b>Total</b>	<b>37.5</b>	<b>36.2</b>	<b>37.6</b>	<b>37.7</b>	<b>37.8</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	90,223	96,886	113,986	128,558	149,351
Cost of Goods Sold	(56,392)	(61,806)	(71,136)	(80,093)	(92,921)
<b>Gross Profit</b>	<b>33,831</b>	<b>35,080</b>	<b>42,850</b>	<b>48,464</b>	<b>56,430</b>
Other Opg (Exp)/Inc	(25,543)	(26,334)	(32,159)	(36,350)	(42,363)
<b>Operating Profit</b>	<b>8,288</b>	<b>8,746</b>	<b>10,691</b>	<b>12,114</b>	<b>14,067</b>
Other Non Opg (Exp)/Inc	(86)	(408)	(429)	(280)	(178)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(8)	(188)	(354)	(352)	(349)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>8,194</b>	<b>8,150</b>	<b>9,907</b>	<b>11,482</b>	<b>13,540</b>
Tax	(1,243)	(1,051)	(1,278)	(1,481)	(1,746)
Minority Interest	17	21	25	29	
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>6,968</b>	<b>7,120</b>	<b>8,655</b>	<b>10,031</b>	<b>11,828</b>
EBITDA	9,665	9,829	11,781	15,062	18,622
<b>Growth</b>					
Revenue Gth (%)	13.4	7.4	17.6	12.8	16.2
EBITDA Gth (%)	9.3	1.7	19.9	27.9	23.6
Opg Profit Gth (%)	8.6	5.5	22.2	13.3	16.1
Net Profit Gth (%)	7.8	2.2	21.6	15.9	17.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	37.5	36.2	37.6	37.7	37.8
Opg Profit Margin (%)	9.2	9.0	9.4	9.4	9.4
Net Profit Margin (%)	7.7	7.3	7.6	7.8	7.9
ROAE (%)	114.3	117.0	142.3	164.9	194.5
ROA (%)	11.5	10.0	11.5	12.6	13.8
ROCE (%)	20.5	15.7	17.8	19.5	21.7
Div Payout Ratio (%)	63.2	74.6	69.8	69.8	69.8
Net Interest Cover (x)	1,035.8	46.5	30.2	34.5	40.3

Source: Company, DBS HK

## Inner Mongolia Yili Industrial

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	44,965	45,258	47,344	49,542	56,294
Cost of Goods Sold	(27,620)	(28,772)	(29,275)	(32,530)	(35,238)
<b>Gross Profit</b>	<b>17,346</b>	<b>16,486</b>	<b>18,069</b>	<b>17,011</b>	<b>21,056</b>
Other Oper. (Exp)/Inc	(12,946)	(12,597)	(13,203)	(13,131)	(14,705)
<b>Operating Profit</b>	<b>4,399</b>	<b>3,889</b>	<b>4,866</b>	<b>3,880</b>	<b>6,351</b>
Other Non Opg (Exp)/Inc	(73)	(13)	(421)	13	(92)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	145	(153)	(84)	(104)	36
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,471</b>	<b>3,723</b>	<b>4,361</b>	<b>3,788</b>	<b>6,295</b>
Tax	(672)	(571)	(604)	(446)	(975)
Minority Interest	18	(1)	22	(1)	(2)
<b>Net Profit</b>	<b>3,816</b>	<b>3,151</b>	<b>3,779</b>	<b>3,341</b>	<b>5,318</b>
<b>Growth</b>					
Revenue Gth (%)	13.6	13.2	5.3	9.5	18.9
Opg Profit Gth (%)	4.2	14.1	10.6	(0.2)	30.5
Net Profit Gth (%)	9.3	6.0	(1.0)	6.0	40.7
<b>Margins</b>					
Gross Margins (%)	38.6	36.4	38.2	34.3	37.4
Opg Profit Margins (%)	9.8	8.6	10.3	7.8	11.3
Net Profit Margins (%)	8.5	7.0	8.0	6.7	9.4

Source: Company, DBS HK

## Inner Mongolia Yili Industrial

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	6,165	5,425	11,529	16,905	22,176
Invt in Associates & JVs	3,109	6,532	6,432	6,332	6,232
Other LT Assets	25,482	30,817	30,717	30,617	30,517
Cash & ST Invt	11,325	11,695	8,348	6,171	4,683
Inventory	7,715	7,545	8,684	9,778	11,344
Debtors	1,837	1,759	2,070	2,334	2,712
Other Current Assets	4,828	7,381	7,576	7,763	8,030
<b>Total Assets</b>	<b>60,461</b>	<b>71,154</b>	<b>75,356</b>	<b>79,900</b>	<b>85,693</b>
ST Debt	4,903	7,812	7,712	7,612	7,512
Creditors	10,501	11,376	13,094	14,743	17,104
Other Current Liab	16,028	15,580	15,580	15,580	15,580
LT Debt	1,971	5,137	5,137	5,137	5,137
Other LT Liabilities	784	716	716	716	716
Shareholder's Equity	6,096	6,083	6,083	6,083	6,083
Minority Interests	20,178	24,450	27,034	30,030	33,562
<b>Total Cap. &amp; Liab.</b>	<b>60,461</b>	<b>71,154</b>	<b>75,356</b>	<b>79,900</b>	<b>85,693</b>
Non-Cash Wkg. Capital	(12,149)	(10,271)	(10,344)	(10,448)	(10,598)
Net Cash/(Debt)	4,451	(1,254)	(4,501)	(6,579)	(7,967)
Debtors Turn (avg days)	7.4	6.6	6.6	6.6	6.6
Creditors Turn (avg days)	69.8	68.8	68.7	70.0	70.8
Inventory Turn (avg days)	51.3	45.7	45.5	46.4	46.9
Asset Turnover (x)	1.5	1.4	1.5	1.6	1.7
Current Ratio (x)	0.8	0.8	0.7	0.7	0.7
Quick Ratio (x)	0.4	0.4	0.3	0.2	0.2
Net Debt/Equity (X)	CASH	0.0	0.1	0.2	0.2
Net Debt/Equity ex MI (X)	CASH	0.2	0.7	1.1	1.3
Capex to Debt (%)	134.0	50.2	59.3	67.5	79.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	8,194	8,150	9,907	11,482	13,540
Dep. & Amort.	1,463	1,491	1,519	3,228	4,733
Tax Paid	(1,243)	(1,051)	(1,278)	(1,481)	(1,746)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(1,168)	1,284	73	104	150
Other Operating CF	1,210	(21)	0	0	0
<b>Net Operating CF</b>	<b>8,455</b>	<b>9,852</b>	<b>10,222</b>	<b>13,334</b>	<b>16,677</b>
Capital Exp.(net)	(9,209)	(6,500)	(7,623)	(8,604)	(10,004)
Other Invt.(net)	903	(2,522)	100	100	100
Invt in Assoc. & JV	2	2	100	100	100
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1,696)	(23)	0	0	0
<b>Net Investing CF</b>	<b>(9,999)</b>	<b>(9,043)</b>	<b>(7,423)</b>	<b>(8,404)</b>	<b>(9,804)</b>
Div Paid	(4,406)	(5,310)	(6,046)	(7,006)	(8,262)
Chg in Gross Debt	6,633	5,122	(100)	(100)	(100)
Capital Issues	0	0	0	0	0
Other Financing CF	(5,757)	(2,372)	(2,514)	(2,514)	(2,514)
<b>Net Financing CF</b>	<b>(3,530)</b>	<b>(2,560)</b>	<b>(8,659)</b>	<b>(9,620)</b>	<b>(10,876)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(5,074)	(1,752)	(5,861)	(4,691)	(4,003)
Opg CFPS (RMB)	1.60	1.42	1.67	2.16	2.69
Free CFPS (RMB)	(0.12)	0.55	0.43	0.77	1.09

Source: Company, DBS HK

## Inner Mongolia Yili Industrial

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Nov-21	RMB42.56	RMB52.00	Buy
2:	21-Jan-22	RMB40.06	RMB52.00	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

# China / Hong Kong Company Update

## Lifestyle International

Bloomberg: 1212 HK Equity | Reuters: 1212.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

**BUY** (Upgrade from HOLD)

Last Traded Price (7 Feb 2022): HK\$4.50 (HSI : 24,580)

Price Target 12-mth: HK\$7.96 (77% upside) (Prev HK\$7.12)

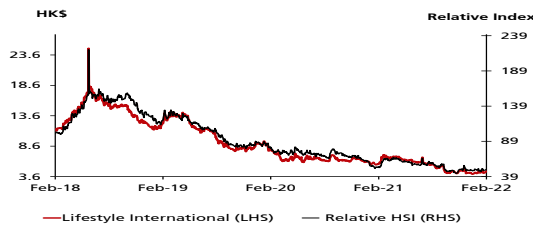
**Analyst**

Mavis HUI +852 36684188 mavis\_hui@dbs.com

### What's New

- Profit warning points to a HK\$1.3bn net loss for 2021, due to investment losses on equities and debt securities issued by Chinese developers
- Most of the write-offs should be done by 1H22, in our view. Expectations of border reopening for the return of Mainland visitors starting in 2H22 is also favourable
- Despite near-term earnings impact from tightened COVID-19 control measures in HK, share price is already at an all-time low and offers good value. Upgrade to BUY

### Price Relative



### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021F	2022F	2023F
Turnover	1,993	2,238	2,679	3,364
EBITDA	1,177	(737)	1,717	2,269
Pre-tax Profit	247	(1,387)	1,026	1,546
Net Profit	139	(1,300)	851	1,283
Core Profit	801	632	851	1,283
Core Profit Gth (%)	(50.9)	(21.1)	34.7	50.7
EPS (HK\$)	0.09	(0.87)	0.57	0.85
Core EPS (HK\$)	0.53	0.42	0.57	0.85
EPS Gth (%)	(92.7)	N/A	N/A	50.7
Core EPS Gth (%)	(50.9)	(21.1)	34.7	50.7
Diluted EPS (HK\$)	0.09	(0.87)	0.57	0.85
DPS (HK\$)	0.00	0.00	0.17	0.26
BV Per Share (HK\$)	2.56	1.34	1.54	1.71
PE (X)	48.8	nm	7.9	5.3
CorePE (X)	8.4	10.7	7.9	5.3
P/Cash Flow (X)	14.6	4.0	4.1	3.1
P/Free CF (X)	nm	13.6	nm	5.9
EV/EBITDA (X)	15.4	nm	12.6	9.5
Net Div Yield (%)	0.0	0.0	3.8	5.7
P/Book Value (X)	1.8	3.4	2.9	2.6
Net Debt/Equity (X)	3.0	7.0	6.4	5.8
ROAE(%)	3.6	(44.4)	39.4	52.6
Earnings Rev (%)		N/A	(31)	New
Consensus EPS (HK\$)		0.41	0.72	0.81
Other Broker Recs:		B:6	S:0	H:1

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

### Investment losses largely in the price

#### Investment Thesis

**Mega low base.** Following sentiment deterioration caused by social unrest in 2H19 and the COVID-19 pandemic since 2020, both local spending and tourist consumption in HK have been substantially affected. From a very low base, revenue had picked up slightly in 2021 and should stage a significant recovery once Mainland shoppers start coming back to HK in 2H22, in our view.

**Newer online efforts.** Lifestyle has revamped its e-platform offerings and upgraded its CRM system to better leverage on the rising trend of e-commerce, O2O and e-marketing. All such efforts should help to beef up its growth opportunities over the medium-term.

**Key catalyst.** In normal times, >50% of its sales proceeds came from Mainland tourist spending in HK. Their potential return should be a speedy remedy to Lifestyle's operations. Currently, our base-case scenario points to China-HK border reopening around mid-2022, potentially offering good re-rating prospects sometime this year.

#### Valuation:

Lifestyle posted a profit warning towards end-Jan 2022, stating that it would incur HK\$1.3bn net loss for 2021 due to HK\$1.9bn write-offs from equity & debt securities issued by China property developers, and HK\$32m revaluation loss on investment properties. We also cut our 2022 earnings estimate by 31% to stay prudent given the recent outbreak of the Omicron variant in HK. Our new target price of HK\$7.96 is based on sum-of-the-parts (SOTP) valuation, as we roll over to benchmark its 2022 operational performance. (Previously TP of HK\$7.12 benchmarked SOTP valuation on 2021 performance)

#### Where we differ:

Given a low market visibility, we are relatively more conservative than consensus to factor in lingering COVID-19 impacts throughout 1H22.

#### Key Risks to Our View:

Pandemic diseases, rising competition; forex changes; etc.

#### At A Glance

Issued Capital (m shrs)	1,502
Mkt Cap (HK\$m/US\$m)	6,579 / 845
Major Shareholders (%)	
Lau (Luen Hung)	39.0
United Goal Resources Ltd.	36.0
Free Float (%)	25.0
3m Avg. Daily Val. (US\$m)	0.20
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates

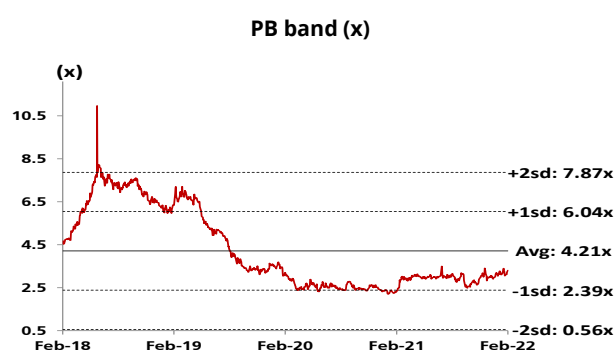
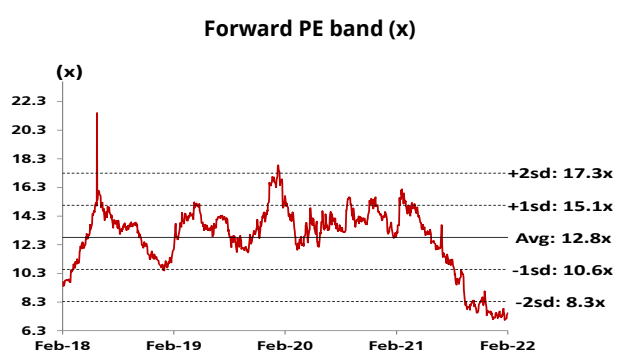


## Lifestyle International

### Company Background

Lifestyle International Holdings Limited (Lifestyle) operates lifestyle department stores in Hong Kong under the "SOGO" banner. The company currently owns the store property of its SOGO CWB Store, as well as the green field project of Kai Tak City. It also operates its SOGO TST Store on a lease that will expire in 2023.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Lifestyle International

### Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Direct sales of merchandise	1,673	955	996	1,196	1,505
Commission income from concessionaire sales	1,698	920	988	1,198	1,536
Services income	129	71	88	115	149
Rental income	41	48	166	170	174
<b>Total</b>	<b>3,542</b>	<b>1,993</b>	<b>2,238</b>	<b>2,679</b>	<b>3,364</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	3,542	1,993	2,238	2,679	3,364
Cost of Goods Sold	(889)	(519)	(606)	(705)	(873)
<b>Gross Profit</b>	<b>2,653</b>	<b>1,474</b>	<b>1,633</b>	<b>1,974</b>	<b>2,491</b>
Other Opng (Exp)/Inc	(582)	(300)	(760)	(609)	(609)
<b>Operating Profit</b>	<b>2,071</b>	<b>1,173</b>	<b>872</b>	<b>1,365</b>	<b>1,882</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(164)	(264)	(327)	(339)	(336)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	259	(663)	(1,932)	0	0
<b>Pre-tax Profit</b>	<b>2,166</b>	<b>247</b>	<b>(1,387)</b>	<b>1,026</b>	<b>1,546</b>
Tax	(276)	(108)	87	(174)	(263)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,891</b>	<b>139</b>	<b>(1,300)</b>	<b>851</b>	<b>1,283</b>
Net Profit before Except.	1,632	801	632	851	1,283
EBITDA	2,775	1,177	(737)	1,717	2,269
<b>Growth</b>					
Revenue Gth (%)	(18.7)	(43.7)	12.3	19.7	25.6
EBITDA Gth (%)	25.0	(57.6)	N/A	N/A	32.2
Opg Profit Gth (%)	(16.0)	(43.3)	(25.7)	56.5	37.8
Net Profit Gth (%)	11.9	(92.7)	N/A	N/A	50.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	74.9	73.9	72.9	73.7	74.0
Opg Profit Margin (%)	58.5	58.9	39.0	51.0	55.9
Net Profit Margin (%)	53.4	6.9	(58.1)	31.8	38.1
ROAE (%)	55.8	3.6	(44.4)	39.4	52.6
ROA (%)	8.4	0.6	(5.2)	3.5	5.1
ROCE (%)	8.6	2.8	3.6	4.7	6.5
Div Payout Ratio (%)	53.2	0.0	N/A	30.0	30.0
Net Interest Cover (x)	12.7	4.4	2.7	4.0	5.6

Source: Company, DBS HK



## Lifestyle International

### Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	6,292	6,541	7,848	9,116	9,640
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	6,141	9,576	9,312	9,100	8,931
Cash & ST Invt	11,927	8,990	7,199	6,508	6,508
Inventory	39	26	27	33	41
Debtors	103	645	71	107	162
Other Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>24,502</b>	<b>25,778</b>	<b>24,457</b>	<b>24,864</b>	<b>25,283</b>
ST Debt	4,071	9,629	9,629	9,629	9,629
Creditors	965	784	597	700	861
Other Current Liab	567	413	110	116	122
LT Debt	14,603	10,710	11,710	11,710	11,710
Other LT Liabilities	454	397	397	397	397
Shareholder's Equity	3,841	3,845	2,014	2,312	2,564
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>24,502</b>	<b>25,778</b>	<b>24,457</b>	<b>24,864</b>	<b>25,283</b>
Non-Cash Wkg. Capital	(1,390)	(526)	(609)	(676)	(779)
Net Cash/(Debt)	(6,747)	(11,349)	(14,140)	(14,831)	(14,831)
Debtors Turn (avg days)	15.1	68.5	58.4	12.1	14.6
Creditors Turn (avg days)	639.7	1,176.2	800.9	670.6	586.1
Inventory Turn (avg days)	24.6	43.3	30.9	31.2	27.8
Asset Turnover (x)	0.2	0.1	0.1	0.1	0.1
Current Ratio (x)	2.2	0.9	0.7	0.6	0.6
Quick Ratio (x)	2.1	0.9	0.7	0.6	0.6
Net Debt/Equity (X)	1.8	3.0	7.0	6.4	5.8
Net Debt/Equity ex MI (X)	1.8	3.0	7.0	6.4	5.8
Capex to Debt (%)	2.6	18.5	5.6	8.0	4.7
Z-Score (X)	2.3	2.2	2.2	2.2	2.2

Source: Company, DBS HK

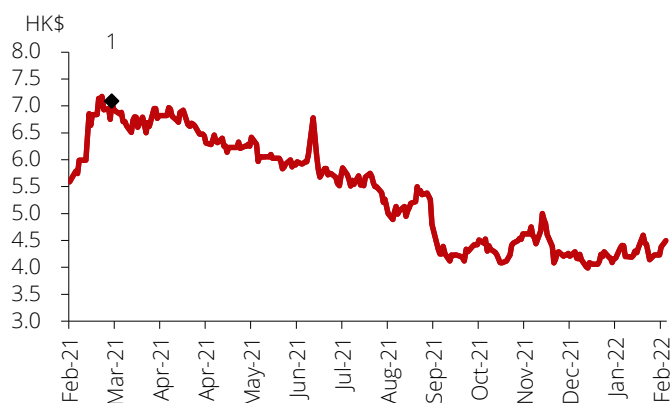
### Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,166	247	(1,387)	1,026	1,546
Dep. & Amort.	271	248	291	352	387
Tax Paid	(103)	(108)	87	(174)	(263)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	174	418	32	0	0
Chg in Wkg.Cap.	(290)	(710)	385	61	97
Other Operating CF	(190)	369	2,287	387	387
<b>Net Operating CF</b>	<b>2,029</b>	<b>464</b>	<b>1,696</b>	<b>1,652</b>	<b>2,155</b>
Capital Exp.(net)	(494)	(3,771)	(1,200)	(1,700)	(1,000)
Other Invt.(net)	(2,623)	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	5,608	0	0	0	0
<b>Net Investing CF</b>	<b>2,492</b>	<b>(3,771)</b>	<b>(1,200)</b>	<b>(1,700)</b>	<b>(1,000)</b>
Div Paid	(1,006)	0	0	(255)	(385)
Chg in Gross Debt	468	739	0	0	(383)
Capital Issues	2,327	0	0	0	0
Other Financing CF	(596)	(369)	(387)	(387)	(387)
<b>Net Financing CF</b>	<b>1,192</b>	<b>370</b>	<b>(387)</b>	<b>(643)</b>	<b>(1,155)</b>
Currency Adjustments	(14)	0	0	0	0
Chg in Cash	5,699	(2,937)	108	(691)	0
Opg CFPS (HK\$)	1.54	0.78	0.87	1.06	1.37
Free CFPS (HK\$)	1.02	(2.20)	0.33	(0.03)	0.77

Source: Company, DBS HK

**Lifestyle International**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Mar-21	HK\$6.75	HK\$7.12	Hold

Source: DBS HK

Analyst: Mavis HUI

# China/Hong Kong Company Update

## Luk Fook Holdings

Bloomberg: 590 HK EQUITY | Reuters: 0590.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$20.30 (HSI : 24,580)  
Price Target 12-mth: HK\$30.01 (48% upside)

#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- With a lower gold hedging ratio (c.20%) against major peers, an inflationary market that could sustain higher gold prices should be more favourable to Luk Fook
- Potential China-HK border reopening could also produce better sales impacts vs. peers, given its higher revenue mix from HK, as 90%+ of China stores are run by licensees
- Maintain BUY with TP unchanged at HK\$30.01

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$m)	2020A	2021A	2022F	2023F
Turnover	11,234	8,861	10,311	12,437
EBITDA	1,114	1,345	1,550	1,906
Pre-tax Profit	1,091	1,255	1,480	1,834
Net Profit	866	1,017	1,185	1,468
Net Pft (Pre Ex) (core profit)	753	1,017	1,185	1,468
Net Profit Gth (Pre-ex) (%)	(54.9)	35.0	16.5	23.9
EPS (HK\$)	1.48	1.73	2.02	2.50
Core EPS (HK\$)	1.28	1.73	2.02	2.50
EPS Gth (%)	(42.0)	17.4	16.5	23.9
Core EPS Gth (%)	(54.9)	35.0	16.5	23.9
Diluted EPS (HK\$)	1.48	1.73	2.02	2.50
DPS (HK\$)	1.00	1.50	1.21	1.50
BV Per Share (HK\$)	17.67	19.29	19.10	20.10
PE (X)	13.8	11.7	10.1	8.1
CorePE (X)	15.8	11.7	10.1	8.1
P/Cash Flow (X)	5.0	5.1	19.1	6.2
P/Free CF (X)	6.0	5.7	53.2	6.8
EV/EBITDA (X)	9.6	7.0	6.3	4.6
Net Div Yield (%)	4.9	7.4	6.0	7.4
P/Book Value (X)	1.1	1.1	1.1	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	8.3	9.4	10.5	12.8
Earnings Rev (%)			Nil	Nil
Consensus EPS (HK\$)			2.24	2.64
Other Broker Recs:		B:7	S:0	H:5

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

### Ample room for asset-light expansion

#### Investment Thesis

**Successful licensing model.** Proven licensing model that has helped to enhance scalability and brand awareness across Mainland China, hence also reinforcing HK/Macau operations. Current targets include a net addition of c.400-500 licensed stores each year across China over the medium term, on the back of ample room to open more stores in 4<sup>th</sup>- to 6<sup>th</sup>-tier cities via licensees given the good prospects of mass luxuries.

**E-commerce & O2O perform well.** 3Q FY22 online sales for Oct-Dec 2021 surged by 51% y-o-y, which included a 72% growth in gold product sales and 4% growth in fixed price jewellery sales. Luk Fook should sustain sound prospects in its e-commerce division over the coming years as online sales of jewellery become more popular ahead.

**Positive outlook.** Potential border reopening once COVID-19 starts subsiding should fuel further sales growth in HK/Macau. Its lower gold hedging ratio at 20%, as compared to Chow Tai Fook's that ranges from c.40 to 50%+, and Chow Sang Sang's 40%, could also produce higher gains from gold product sales should an inflationary market sustain the gold price uptrend.

#### Valuation:

Our target price of HK\$30.01 benchmarks 12x FY23 PE, equivalent to its average PE.

#### Where we differ:

We are slightly more positive on Luk Fook's earnings payout vs. market expectations given its c.HK\$2bn net cash, producing an attractive prospective dividend yield of c.6%.

#### Key Risks to Our View:

Slower-than-expected sales pick-up; strong volatility of gold prices; intensifying competition; catastrophic events.

#### At A Glance

Issued Capital (m shrs)	587
Mkt Cap (HK\$m/US\$m)	12,239 / 1,571
Major Shareholders (%)	
Luk Fook (Control) Ltd.	40.2
Silchester International Investors, L.L.P.	14.0
First Sentier Investors (Hong Kong) Limited	7.0
Free Float (%)	38.8
3m Avg. Daily Val. (US\$m)	1.40
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



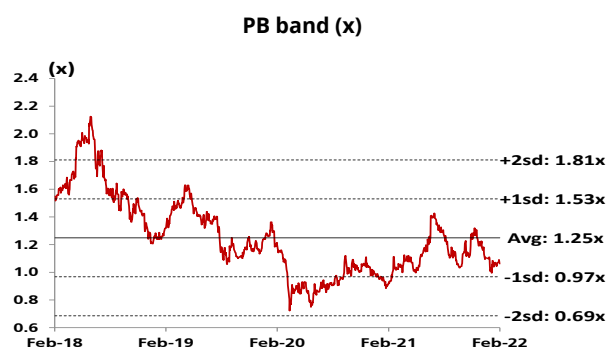
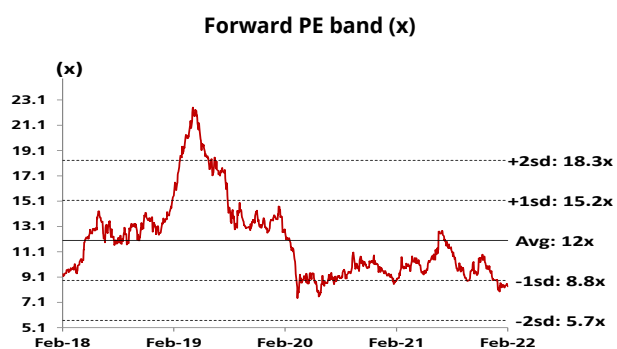
Live more, Bank less

## Luk Fook Holdings

### Company Background

Luk Fook was established in 1991 and listed on the Hong Kong Stock Exchange in May 1997. The company principally engages in designing, producing, retailing and wholesaling of gold, diamond and gemstone jewellery, and provides authentication services in the industry.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Luk Fook Holdings

### Key Assumptions (total no. of stores)

FY Mar	2019A	2020A	2021A	2022F	2023F
HK & Macau - Self-operated	60.0	60.0	60.0	60.0	60.0
HK & Macau - Licensee	0.0	0.0	0.0	0.0	0.0
China - Self-operated	141.0	116.0	87.0	87.0	87.0
China - Licensee	1,614.0	1,927.0	2,207.0	2,557.0	2,907.0
Overseas	13.0	14.0	12.0	13.0	14.0

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Retailing - HK, Macau & overseas	9,661	6,100	3,245	3,866	4,706
Retailing - PRC	2,414	1,740	1,708	1,581	1,708
Wholesaling (incl manufacturing)	2,978	2,593	2,962	3,686	4,565
Licensing	807	801	946	1,177	1,458
<b>Total</b>	<b>15,860</b>	<b>11,234</b>	<b>8,861</b>	<b>10,311</b>	<b>12,437</b>

### Segmental profit (HK\$ m)

Retailing - HK, Macau & overseas	777	254	(20)	58	141
Retailing - PRC	164	172	215	199	216
Wholesaling (incl manufacturing)	406	310	409	444	555
Licensing	554	564	719	894	1,108
<b>Total</b>	<b>1,901</b>	<b>1,299</b>	<b>1,323</b>	<b>1,596</b>	<b>2,020</b>

### Segmental profit Margins (%)

Retailing - HK, Macau & overseas	8.0	4.2	(0.6)	1.5	3.0
Retailing - PRC	6.8	9.9	12.6	12.6	12.7
Wholesaling (incl manufacturing)	13.6	11.9	13.8	12.1	12.2
Licensing	68.7	70.4	76.0	76.0	76.0
<b>Total</b>	<b>12.0</b>	<b>11.6</b>	<b>14.9</b>	<b>15.5</b>	<b>16.2</b>

Source: Company, DBS HK

## Luk Fook Holdings

### Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Revenue	15,860	11,234	8,861	10,311	12,437
Cost of Goods Sold	(11,826)	(7,911)	(6,229)	(7,222)	(8,705)
<b>Gross Profit</b>	<b>4,034</b>	<b>3,323</b>	<b>2,632</b>	<b>3,089</b>	<b>3,732</b>
Other Opng (Exp)/Inc	(2,004)	(2,280)	(1,388)	(1,650)	(1,948)
<b>Operating Profit</b>	<b>2,030</b>	<b>1,043</b>	<b>1,244</b>	<b>1,439</b>	<b>1,784</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(42)	(47)	(23)	(19)	(15)
Net Interest (Exp)/Inc	(4)	(18)	35	60	65
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(177)	113	0	0	0
<b>Pre-tax Profit</b>	<b>1,806</b>	<b>1,091</b>	<b>1,255</b>	<b>1,480</b>	<b>1,834</b>
Tax	(303)	(223)	(236)	(279)	(347)
Minority Interest	(11)	(1)	(2)	(15)	(19)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,493</b>	<b>866</b>	<b>1,017</b>	<b>1,185</b>	<b>1,468</b>
Net Profit before Except.	1,670	753	1,017	1,185	1,468
EBITDA	2,111	1,114	1,345	1,550	1,906
<b>Growth</b>					
Revenue Gth (%)	8.8	(29.2)	(21.1)	16.4	20.6
EBITDA Gth (%)	19.3	(47.2)	20.7	15.3	22.9
Opg Profit Gth (%)	21.4	(48.6)	19.3	15.6	24.0
Net Profit Gth (%)	9.0	(42.0)	17.4	16.5	23.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	25.4	29.6	29.7	30.0	30.0
Opg Profit Margin (%)	12.8	9.3	14.0	14.0	14.3
Net Profit Margin (%)	9.4	7.7	11.5	11.5	11.8
ROAE (%)	14.5	8.3	9.4	10.5	12.8
ROA (%)	11.2	6.1	7.2	8.2	9.9
ROCE (%)	14.1	6.5	8.1	9.1	10.9
Div Payout Ratio (%)	45.2	67.8	86.6	60.0	60.0
Net Interest Cover (x)	483.3	59.2	NM	NM	NM

Source: Company, DBS HK

## Luk Fook Holdings

### Balance Sheet (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	1,435	1,761	1,502	1,565	1,631
Invt in Associates & JVs	112	61	43	43	43
Other LT Assets	476	1,023	1,234	1,234	1,234
Cash & ST Invt	2,229	2,808	3,622	3,348	4,482
Inventory	9,322	7,533	7,322	7,519	7,155
Debtors	837	679	769	706	681
Other Current Assets	14	61	20	20	20
<b>Total Assets</b>	<b>14,424</b>	<b>13,925</b>	<b>14,512</b>	<b>14,436</b>	<b>15,248</b>
ST Debt	2,306	1,513	1,089	1,239	1,417
Creditors	1,258	1,448	1,688	1,385	1,431
Other Current Liab	152	112	170	170	170
LT Debt	0	0	0	0	0
Other LT Liabilities	145	440	241	430	430
Shareholder's Equity	10,517	10,372	11,325	11,212	11,799
Minority Interests	46	40	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>14,424</b>	<b>13,925</b>	<b>14,512</b>	<b>14,436</b>	<b>15,248</b>
Non-Cash Wkg. Capital	8,762	6,713	6,253	6,690	6,255
Net Cash/(Debt)	(77)	1,295	2,533	2,109	3,065
Debtors Turn (avg days)	18.0	24.6	29.8	26.1	20.4
Creditors Turn (avg days)	37.2	63.4	93.7	79.1	60.0
Inventory Turn (avg days)	270.0	394.7	444.1	381.9	312.5
Asset Turnover (x)	1.2	0.8	0.6	0.7	0.8
Current Ratio (x)	3.3	3.6	4.0	4.1	4.1
Quick Ratio (x)	0.8	1.1	1.5	1.5	1.7
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	27.9	25.9	22.3	32.3	10.6
Z-Score (X)	4.9	4.6	4.5	4.4	4.4

Source: Company, DBS HK

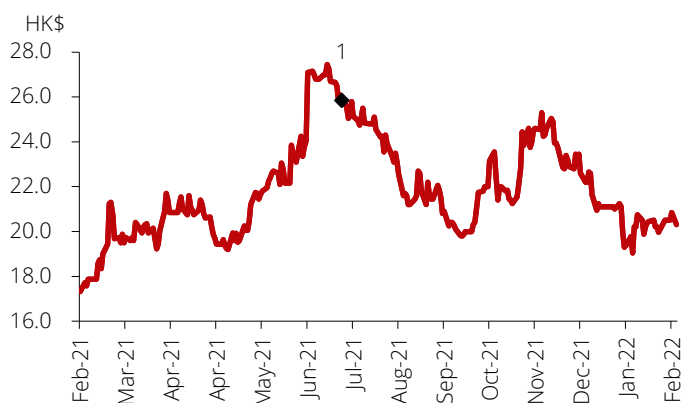
### Cash Flow Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,806	1,091	1,255	1,480	1,834
Dep. & Amort.	123	118	124	130	137
Tax Paid	(301)	(223)	(236)	(279)	(347)
Assoc. & JV Inc/(loss)	42	0	0	0	0
(Pft)/ Loss on disposal of FAs	11	0	0	0	0
Chg in Wkg.Cap.	(1,811)	1,407	1,280	(577)	433
Other Operating CF	16	(28)	(98)	(129)	(142)
<b>Net Operating CF</b>	<b>(113)</b>	<b>2,365</b>	<b>2,326</b>	<b>624</b>	<b>1,915</b>
Capital Exp.(net)	(644)	(392)	(243)	(400)	(150)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	1	1	1	1	1
Other Investing CF	(13)	45	63	70	77
<b>Net Investing CF</b>	<b>(655)</b>	<b>(346)</b>	<b>(179)</b>	<b>(329)</b>	<b>(72)</b>
Div Paid	(646)	(587)	(881)	(711)	(881)
Chg in Gross Debt	1,763	(793)	(424)	150	178
Capital Issues	0	0	0	0	0
Other Financing CF	(41)	(2)	(2)	(2)	(2)
<b>Net Financing CF</b>	<b>1,076</b>	<b>(1,383)</b>	<b>(1,307)</b>	<b>(564)</b>	<b>(705)</b>
Currency Adjustments	(121)	(9)	(8)	(5)	(3)
Chg in Cash	186	628	832	(274)	1,134
Opg CFPS (HK\$)	2.89	1.63	1.78	2.05	2.52
Free CFPS (HK\$)	(1.29)	3.36	3.55	0.38	3.01

Source: Company, DBS HK

**Luk Fook Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Jul-21	HK\$26.10	HK\$30.01	Buy

Source: DBS HK

Analyst: Mavis HUI



# Midea Group Company Limited

Bloomberg: 000333 CH Equity | Reuters: 000333.SZ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): RMB74.70 (CSI300 Index : 4,634)

Price Target 12-mth: RMB93.51 (25% upside)

### Analyst

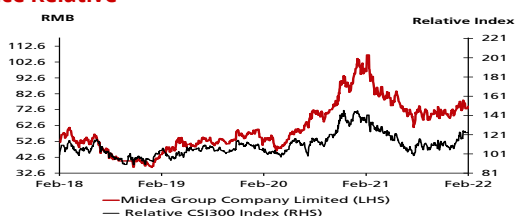
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Kay Tan kaytanx@dbs.com

### What's New

- Increasing premiumisation demand safeguards the future growth of high-end brand, COLMO
- Efforts in channel transition could beef up operational efficiency and optimise its cost structure
- Increasing industrial robotics demand and strategic deployment of KUKA should also reinforce medium-term outlook. Maintain BUY with TP unchanged at RMB93.51

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	285,710	334,226	371,934	415,496
EBITDA	33,643	35,448	40,094	46,590
Pre-tax Profit	31,664	33,711	38,364	44,970
Net Profit	27,223	28,692	32,653	38,276
Core Profit	24,615	27,270	30,638	35,776
Core Profit Gth (%)	8.3	10.8	12.4	16.8
EPS (RMB)	3.87	4.09	4.68	5.48
Core EPS (RMB)	3.50	3.89	4.39	5.12
EPS Gth (%)	7.3	5.7	14.2	17.2
Core EPS Gth (%)	3.3	11.2	12.7	16.8
Diluted EPS (RMB)	3.50	3.89	4.39	5.12
DPS (RMB)	1.85	2.07	2.34	2.74
BV Per Share (RMB)	16.72	17.05	17.47	17.96
PE (X)	19.3	18.2	16.0	13.6
CorePE (X)	21.3	19.2	17.0	14.6
P/Cash Flow (X)	17.8	15.3	13.3	12.2
P/Free CF (X)	19.7	16.8	14.4	13.2
EV/EBITDA (X)	15.0	12.3	10.9	9.5
Net Div Yield (%)	2.5	2.8	3.1	3.7
P/Book Value (X)	4.5	4.4	4.3	4.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	24.8	24.3	27.1	30.9
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		4.10	4.74	5.40
Other Broker Recs:		B:38	S:0	H:0

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

## Good medium-term potentials from robotics and its COLMO brand

### Investment Thesis

**Strategic global expansion.** Previous investments in the overseas markets and B2B business could continue to pay off. While the growth of overseas sales was slightly slower into 2H21, medium-term prospects could be enhanced given plans to further beef up overseas and B2B expansion for better operating efficiencies.

**Good robotics prospects.** KUKA scored a profit of RMB210m in 1H21 (1H20: RMB0.6bn losses). Coupled with the rising demand for automation upgrades across more light industries ahead, KUKA is well-poised for further progress. Potential buyout of the remaining 10% stake of KUKA should also pave way for its better contributions to Midea ahead.

**Spotlight on future COLMO performance.** COLMO has beaten its 2021 target ahead of the year-end. Given the accelerating trend of premiumisation in China, COLMO should stay in a good position to sustain strong double-digit y-o-y revenue growth for 2022 to support group margins.

### Valuation:

Our TP remains unchanged at RMB93.51, based on 20x FY22 PE, equivalent to 1 SD above its four-year average PE.

### Where we differ:

Our FY21F/FY22F gross margin of 24.5%/25.1% should be lower than the consensus, as we are more conservative given uncertainties on raw material cost trends.

### Key Risks to Our View:

Further pressure on raw material costs; price war across the home appliance sector; worse-than-expected robotics demand.

### At A Glance

Issued Capital (m shrs)	7,030
Mkt Cap (RMB\$/US\$m)	525,141 / 82,556
Major Shareholders (%)	
Midea Holdings Co., Ltd.	31.1
Free Float (%)	68.9
3m Avg. Daily Val. (US\$m)	307.45
GICS Industry: Consumer Discretionary / Consumer Durables & Apparel	



Watchlist the stock on Insights Direct to receive prompt updates



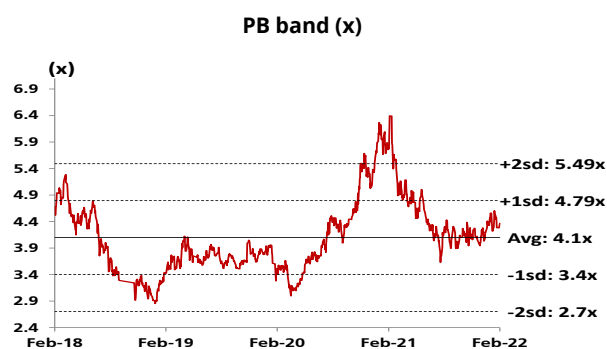
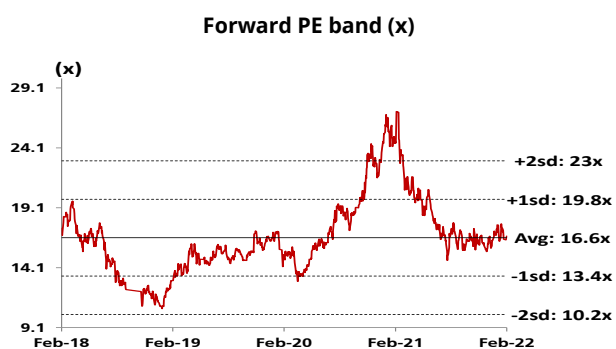
Live more, Bank less

## Midea Group Company Limited

### Company Background

Midea Group (Midea) is one of the largest global white goods manufacturers and suppliers based in China. It mainly engages in manufacturing and distributing air conditioners, refrigerators, washing machines, and small household appliances (kitchen appliances, water heaters, etc.).

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Midea Group Company Limited

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales (RMBm)	279,380.5	285,709.7	334,226.2	371,934.3	415,496.0
Gross Margin (%)	29.2	25.5	24.5	25.1	25.9
EBITDA margin (%)	11.6	11.8	10.6	10.8	11.2
Operating Cash Flows (RMBm)	38,590.4	29,557.1	34,289.1	39,184.6	42,719.2
Cash (RMBm)	70,916.8	81,210.5	63,426.7	65,749.2	70,241.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Air Conditioner	119,607	121,215	143,034	153,046	163,759
Consumer Appliance	109,487	113,891	125,442	140,086	156,635
KUKA	25,192	21,589	32,383	42,098	54,727
Others	25,095	29,015	33,367	36,704	40,374
<b>Total</b>	<b>279,381</b>	<b>285,710</b>	<b>334,226</b>	<b>371,934</b>	<b>415,496</b>
<b>Gross profit (RMB m)</b>					
Air Conditioner	37,980	29,290	32,326	36,731	40,940
Consumer Appliance	34,473	34,778	36,508	40,625	46,990
KUKA	5,238	4,291	8,096	10,524	13,682
Others	3,775	4,511	5,005	5,506	6,056
<b>Total</b>	<b>81,467</b>	<b>72,870</b>	<b>81,934</b>	<b>93,386</b>	<b>107,668</b>
<b>Gross profit Margins (%)</b>					
Air Conditioner	31.8	24.2	22.6	24.0	25.0
Consumer Appliance	31.5	30.5	29.1	29.0	30.0
KUKA	20.8	19.9	25.0	25.0	25.0
Others	15.0	15.5	15.0	15.0	15.0
<b>Total</b>	<b>29.2</b>	<b>25.5</b>	<b>24.5</b>	<b>25.1</b>	<b>25.9</b>

Source: Company, DBS HK

## Midea Group Company Limited

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	279,381	285,710	334,226	371,934	415,496
Cost of Goods Sold	(197,914)	(212,840)	(252,292)	(278,548)	(307,828)
<b>Gross Profit</b>	<b>81,467</b>	<b>72,870</b>	<b>81,934</b>	<b>93,386</b>	<b>107,668</b>
Other Opg (Exp)/Inc	(56,373)	(49,144)	(56,150)	(62,960)	(70,746)
<b>Operating Profit</b>	<b>25,094</b>	<b>23,726</b>	<b>25,784</b>	<b>30,426</b>	<b>36,922</b>
Other Non Opg (Exp)/Inc	611	2,288	3,077	2,485	2,000
Associates & JV Inc	506	403	550	600	600
Net Interest (Exp)/Inc	2,232	2,638	2,877	2,838	2,948
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	1,487	2,608	1,423	2,015	2,500
<b>Pre-tax Profit</b>	<b>29,929</b>	<b>31,664</b>	<b>33,711</b>	<b>38,364</b>	<b>44,970</b>
Tax	(4,652)	(4,157)	(4,720)	(5,371)	(6,296)
Minority Interest	(1,066)	(284)	(299)	(340)	(399)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>24,211</b>	<b>27,223</b>	<b>28,692</b>	<b>32,653</b>	<b>38,276</b>
Net Profit before Except.	22,724	24,615	27,270	30,638	35,776
EBITDA	32,359	33,643	35,448	40,094	46,590
<b>Growth</b>					
Revenue Gth (%)	6.7	2.3	17.0	11.3	11.7
EBITDA Gth (%)	13.9	4.0	5.4	13.1	16.2
Opg Profit Gth (%)	11.3	(5.4)	8.7	18.0	21.3
Net Profit Gth (%)	19.7	12.4	5.4	13.8	17.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	29.2	25.5	24.5	25.1	25.9
Opg Profit Margin (%)	9.0	8.3	7.7	8.2	8.9
Net Profit Margin (%)	8.7	9.5	8.6	8.8	9.2
ROAE (%)	26.2	24.8	24.3	27.1	30.9
ROA (%)	8.6	8.2	7.7	8.5	9.7
ROCE (%)	13.9	11.8	11.6	13.1	15.6
Div Payout Ratio (%)	43.4	47.7	50.3	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Midea Group Company Limited

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	22,859	23,717	24,141	24,352	24,761
Invt in Associates & JVs	2,791	2,901	3,016	3,082	3,043
Other LT Assets	59,823	92,109	93,414	92,806	94,417
Cash & ST Invt	130,956	81,210	154,294	155,521	149,229
Inventory	32,443	31,077	34,500	40,068	44,268
Debtors	30,998	42,185	48,838	52,516	58,666
Other Current Assets	22,086	87,184	22,008	21,017	22,097
<b>Total Assets</b>	<b>301,955</b>	<b>360,383</b>	<b>380,211</b>	<b>389,362</b>	<b>396,481</b>
ST Debt	5,702	9,944	8,180	8,883	8,353
Creditors	66,427	82,180	92,624	96,000	98,000
Other Current Liab	72,189	92,026	89,979	92,329	93,326
LT Debt	41,298	42,827	49,389	49,653	49,892
Other LT Liabilities	8,842	9,168	10,717	9,924	10,500
Shareholder's Equity	101,669	117,516	119,107	122,018	125,456
Minority Interests	5,827	6,721	10,214	10,555	10,953
<b>Total Cap. &amp; Liab.</b>	<b>301,955</b>	<b>360,383</b>	<b>380,211</b>	<b>389,362</b>	<b>396,481</b>
Non-Cash Wkg. Capital	(53,090)	(13,762)	(77,258)	(74,729)	(66,295)
Net Cash/(Debt)	83,956	28,439	96,725	96,985	90,984
Debtors Turn (avg days)	43.1	46.7	49.7	49.7	48.8
Creditors Turn (avg days)	123.1	130.5	129.1	125.9	117.0
Inventory Turn (avg days)	58.8	55.8	48.4	49.8	50.9
Asset Turnover (x)	1.0	0.9	0.9	1.0	1.1
Current Ratio (x)	1.5	1.3	1.4	1.4	1.4
Quick Ratio (x)	1.1	0.7	1.1	1.1	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	7.1	5.5	5.4	5.2	5.3
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

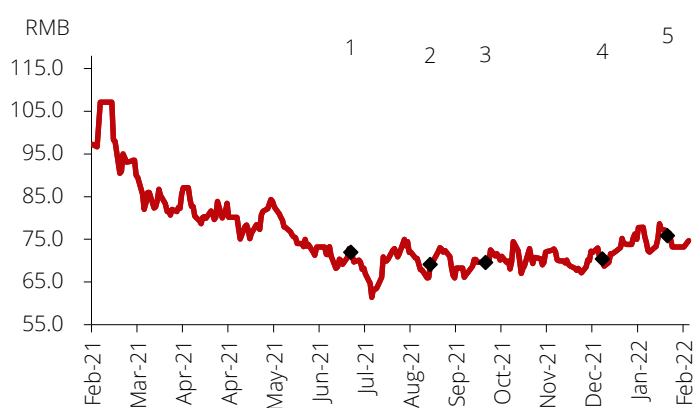
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	29,929	31,664	33,711	38,364	44,970
Dep. & Amort.	5,168	5,020	5,164	5,168	5,168
Tax Paid	(4,652)	(4,157)	(4,720)	(5,371)	(6,296)
Assoc. & JV Inc/(loss)	(60,039)	0	0	0	0
(Pft)/ Loss on disposal of FAs	76	0	0	0	0
Chg in Wkg.Cap.	11,800	1,574	(34)	1,004	(1,654)
Other Operating CF	56,307	(4,544)	167	19	531
<b>Net Operating CF</b>	<b>38,590</b>	<b>29,557</b>	<b>34,289</b>	<b>39,185</b>	<b>42,719</b>
Capital Exp.(net)	(3,326)	(2,926)	(3,126)	(3,026)	(3,076)
Other Invt.(net)	(3,116)	(6,303)	(6,000)	(6,000)	(6,300)
Invt in Assoc. & JV	(16,665)	(26,081)	(25,900)	(25,900)	(26,600)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
<b>Net Investing CF</b>	<b>(23,108)</b>	<b>(35,311)</b>	<b>(35,026)</b>	<b>(34,926)</b>	<b>(35,976)</b>
Div Paid	(11,056)	(12,823)	(11,939)	(12,381)	(12,160)
Chg in Gross Debt	8,474	9,717	9,095	9,406	9,251
Capital Issues	2,898	2,657	2,778	2,718	2,748
Other Financing CF	(3,590)	(308)	(1,949)	(1,128)	(1,538)
<b>Net Financing CF</b>	<b>(3,274)</b>	<b>(756)</b>	<b>(2,015)</b>	<b>(1,386)</b>	<b>(1,700)</b>
Currency Adjustments	280	(383)	(550)	(550)	(550)
Chg in Cash	12,489	(6,893)	(3,302)	2,323	4,492
Opg CFPS (RMB)	3.99	3.98	4.90	5.47	6.35
Free CFPS (RMB)	5.26	3.79	4.45	5.18	5.68

Source: Company, DBS HK

## Midea Group Company Limited

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	14-Jul-21	RMB72.00	RMB91.77	Buy
2:	1-Sep-21	RMB66.00	RMB93.81	Buy
3:	5-Oct-21	RMB70.27	RMB94.93	Buy
4:	16-Dec-21	RMB70.35	RMB93.51	Buy
5:	25-Jan-22	RMB77.08	RMB93.51	Buy

Source: DBS HK

Analyst: Mavis HUI

Kay Tan

# 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

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$5.86 (HSI : 24,580)

Price Target 12-mth: HK\$8.00 (37% upside) (Prev. HK\$7.8)

#### Analyst

Alison FOK +852 36684170 alisonfok@db.com

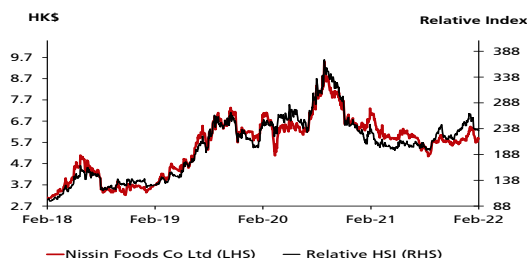
Mavis HUI +852 36684188 mavis\_hui@db.com

Alice HUI CFA +852 36684182 alicehui@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 with TP of HK\$8

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021F	2022F	2023F
Turnover	3,519	3,683	4,052	4,314
EBITDA	570	517	591	648
Pre-tax Profit	434	419	492	549
Net Profit	302	302	349	390
Net Profit Gth (Pre-ex)(%)	20.3	(0.1)	15.8	11.6
EPS (HK\$)	0.28	0.29	0.33	0.37
EPS Gth (%)	20.3	2.9	15.8	11.6
Diluted EPS (HK\$)	0.28	0.29	0.33	0.37
DPS (HK\$)	0.14	0.14	0.17	0.19
BV Per Share (HK\$)	3.63	3.88	4.05	4.23
PE (X)	20.9	20.3	17.5	15.7
P/Cash Flow (X)	12.6	14.6	17.6	16.0
P/Free CF (X)	26.7	38.7	41.6	33.6
EV/EBITDA (X)	7.6	7.9	6.9	6.2
Net Div Yield (%)	2.4	2.5	2.9	3.2
P/Book Value (X)	1.6	1.5	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	8.1	7.6	8.4	9.0
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (HK\$)		0.28	0.32	0.36
Other Broker Recs:		B:8	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 adjusted TP of HK\$8 to account for recent share buybacks, pegged to 24x FY22F PE given an improved sales trend supported by price hikes. The group is trading at 16.7x FY22F PE, equivalent to its trading average.

#### Where we differ:

We believe the Group could potentially raise dividend payout ahead, which will be a similar move to its competitors on the back of 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)	6,294 / 808
Major Shareholders (%)	
Nissin Foods Holdings Co Ltd	71.8
Free Float (%)	28.2
3m Avg. Daily Val. (US\$m)	0.86
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates

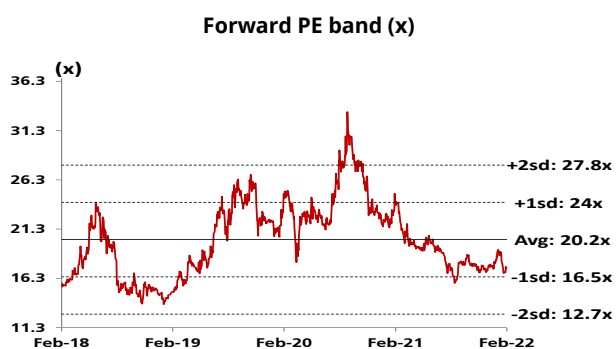


## Nissin Foods Co Ltd

### 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	2019A	2020A	2021F	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Hong Kong	1,300	1,418	1,368	1,359	1,377
PRC	1,788	2,096	2,315	2,693	2,937
<b>Total</b>	<b>3,088</b>	<b>3,519</b>	<b>3,683</b>	<b>4,052</b>	<b>4,314</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	3,088	3,519	3,683	4,052	4,314
Cost of Goods Sold	(2,074)	(2,360)	(2,526)	(2,757)	(2,920)
<b>Gross Profit</b>	<b>1,013</b>	<b>1,159</b>	<b>1,157</b>	<b>1,295</b>	<b>1,395</b>
Other Opg (Exp)/Inc	(661)	(725)	(738)	(803)	(845)
<b>Operating Profit</b>	<b>331</b>	<b>400</b>	<b>385</b>	<b>458</b>	<b>515</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	32	34	34	34	34
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(10)	0	0	0	0
<b>Pre-tax Profit</b>	<b>353</b>	<b>434</b>	<b>419</b>	<b>492</b>	<b>549</b>
Tax	(74)	(101)	(88)	(108)	(121)
Minority Interest	(28)	(31)	(30)	(35)	(39)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>251</b>	<b>302</b>	<b>302</b>	<b>349</b>	<b>390</b>
EBITDA	455	570	517	591	648
<b>Growth</b>					
Revenue Gth (%)	3.0	14.0	4.7	10.0	6.5
EBITDA Gth (%)	15.3	25.2	(9.2)	14.1	9.7
Opg Profit Gth (%)	25.8	21.0	(3.7)	19.0	12.5
Net Profit Gth (%)	22.2	20.3	(0.1)	15.8	11.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	32.8	32.9	31.4	32.0	32.3
Opg Profit Margin (%)	10.7	11.4	10.5	11.3	11.9
Net Profit Margin (%)	8.1	8.6	8.2	8.6	9.0
ROAE (%)	7.1	8.1	7.6	8.4	9.0
ROA (%)	5.5	6.2	5.7	6.3	6.6
ROCE (%)	7.0	7.8	7.2	8.1	8.7
Div Payout Ratio (%)	50.1	50.0	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)**

<b>FY Dec</b>	<b>1H2019</b>	<b>2H2019</b>	<b>1H2020</b>	<b>2H2020</b>	<b>1H2021</b>
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	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	1,511	1,681	1,797	1,969	2,141
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	127	206	206	206	206
Cash & ST Invt	1,610	2,115	2,185	2,250	2,329
Inventory	327	363	389	424	449
Debtors	494	601	625	678	716
Other Current Assets	564	217	217	217	217
<b>Total Assets</b>	<b>4,634</b>	<b>5,184</b>	<b>5,420</b>	<b>5,745</b>	<b>6,059</b>
ST Debt	0	0	0	0	0
Creditors	800	978	1,046	1,142	1,209
Other Current Liab	59	88	74	95	107
LT Debt	0	0	0	0	0
Other LT Liabilities	62	75	75	75	75
Shareholder's Equity	3,590	3,896	4,046	4,221	4,416
Minority Interests	123	148	177	212	251
<b>Total Cap. &amp; Liab.</b>	<b>4,634</b>	<b>5,184</b>	<b>5,420</b>	<b>5,745</b>	<b>6,059</b>
Non-Cash Wkg. Capital	526	116	110	83	66
Net Cash/(Debt)	1,610	2,115	2,185	2,250	2,329
Debtors Turn (avg days)	49.8	52.7	52.7	52.7	52.7
Creditors Turn (avg days)	140.8	151.2	151.2	151.2	151.2
Inventory Turn (avg days)	57.5	56.2	56.2	56.2	56.2
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Current Ratio (x)	3.5	3.1	3.0	2.9	2.8
Quick Ratio (x)	2.4	2.5	2.5	2.4	2.3
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	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	353	434	419	492	549
Dep. & Amort.	26	37	31	31	31
Tax Paid	(55)	(87)	(88)	(108)	(121)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	175	143	90	(34)	(44)
Other Operating CF	(40)	(25)	(34)	(34)	(34)
<b>Net Operating CF</b>	<b>459</b>	<b>502</b>	<b>418</b>	<b>347</b>	<b>382</b>
Capital Exp.(net)	(209)	(266)	(260)	(200)	(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	16	(54)	34	34	34
<b>Net Investing CF</b>	<b>(193)</b>	<b>(320)</b>	<b>(227)</b>	<b>(167)</b>	<b>(167)</b>
Div Paid	(102)	(126)	(151)	(151)	(175)
Chg in Gross Debt	1	1	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(22)	(17)	30	35	39
<b>Net Financing CF</b>	<b>(123)</b>	<b>(141)</b>	<b>(121)</b>	<b>(116)</b>	<b>(136)</b>
Currency Adjustments	(23)	61	0	0	0
Chg in Cash	121	102	70	64	79
Opg CFPS (HK\$)	0.26	0.33	0.31	0.37	0.41
Free CFPS (HK\$)	0.23	0.22	0.15	0.14	0.17

Source: Company, DBS HK

**Nissin Foods Co Ltd**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	19-Mar-21	HK\$6.30	HK\$7.90	Buy
2:	12-May-21	HK\$6.06	HK\$7.53	Buy
3:	31-Aug-21	HK\$5.30	HK\$7.53	Buy
4:	16-Nov-21	HK\$5.64	HK\$6.80	Buy
5:	21-Jan-22	HK\$6.30	HK\$7.80	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

# China / Hong Kong Company Update

## Prada

Bloomberg: 1913 HK Equity | Reuters: 1913.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$48.15 (HSI : 24,580)  
Price Target 12-mth: HK\$65.02 (35% upside) (Prev HK\$63.86)

#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- Swift sales recovery plus higher contributions from retail and full-priced sales should deliver >5ppt y-o-y rebound in 2021 EBIT margin
- Good efforts to strengthen its foundation over the past 2 years also help to sustain a sound outlook, seeing further room to achieve better profitability
- FY21-23F earnings raised by 5-6%; BUY; HK\$65.02 TP

### Ample potential for margin expansion

#### Investment Thesis

**Omni-channel fuels growth.** The COVID-19 pandemic has accelerated Prada's digital transformation and produced robust online sales expansion. Overall, its 2H21 retail revenue (including e-tailing) surged by 21% versus pre-pandemic 2H19 and continues to perform well. The company's decent sales momentum in Asia Pacific and the US markets, as well as improving performance in Europe should continue to support a good growth trajectory.

**Gross margin uptrend.** On the back of wholesale reforms and a quick rebound in retail sales, gross margin runs on track to attain a 10-year high of 74.5% in FY21, and potentially c.77% by FY23F along with further efforts on branding, research & development, and product-mix refinement.

**Ample room to grow.** Prada has swiftly returned to its pre-pandemic sales level in 2021. Under an inflationary global market, strong brands with sound pricing power should stand out better. We are more convinced that the company could attain 17-18% EBIT margin in 2 years, and potentially even better profitability ahead (record high EBIT: 27% in FY13).

#### Valuation:

Prada has demonstrated good capacity to enhance its product and channel-mix. The company announced earlier that its sales revenue reached EUR3,364m in FY21, slightly above expectations. We fine-tune our numbers and lift earnings estimates by 6%/6%/5% for FY21F/FY22F/FY23F. Our new TP of HK\$65.02 continues to peg to 41x FY23 PE (Previous TP: HK\$63.86).

#### Where we differ:

We are slightly more positive in our margin estimates vs. consensus. We believe Prada's swift COVID-19 recovery and strong efforts on e-commerce & cost control signal better returns ahead.

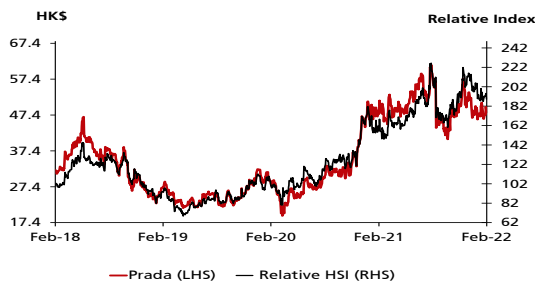
#### Key Risks to Our View:

Pandemics; economic slowdown; negative forex impacts; etc.

#### At A Glance

Issued Capital (m shrs)	2,559
Mkt Cap (HK\$/US\$m)	127,054 / 16,313
Major Shareholders (%)	
Prada Holdings S.P.A.	80.0
Free Float (%)	20.0
3m Avg. Daily Val. (US\$m)	5.39
GICS Industry: Consumer Discretionary / Retailing	

#### Price Relative



#### Forecasts and Valuation

FY Dec (EURm)	2020A	2021F	2022F	2023F
Turnover	2,423	3,364	3,706	4,045
EBITDA	689	1,064	1,251	1,432
Pre-tax Profit	(52)	314	490	658
Net Profit	(54)	218	341	458
Net Profit Gth (%)	N/A	N/A	56.3	34.4
EPS (EUR)	(0.02)	0.09	0.13	0.18
EPS (HK\$)	(0.19)	0.76	1.19	1.60
EPS Gth (%)	N/A	N/A	56.3	34.4
Diluted EPS (HK\$)	(0.19)	0.76	1.19	1.60
DPS (HK\$)	0.31	0.38	0.59	0.80
BV Per Share (HK\$)	9.87	10.25	10.84	11.64
PE (X)	nm	63.3	40.5	30.2
P/Cash Flow (X)	23.3	18.3	13.0	11.5
P/Free CF (X)	28.6	21.7	15.9	14.5
EV/EBITDA (X)	20.5	12.8	10.3	8.4
Net Div Yield (%)	0.6	0.8	1.2	1.7
P/Book Value (X)	4.9	4.7	4.4	4.1
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE(%)	(1.9)	7.6	11.3	14.2
Earnings Rev (%)		6	6	5
Consensus EPS (EUR)		0.10	0.15	0.19
Other Broker Recs:		B:12	S:3	H:9

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



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

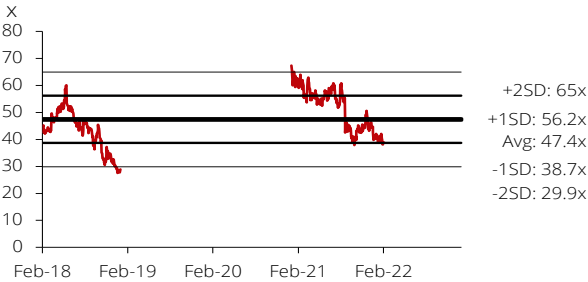
**Prada**

**Company Background**

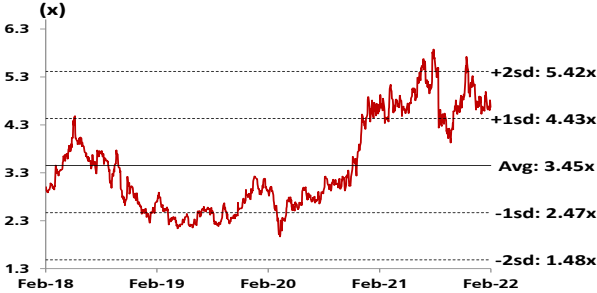
Prada designs, manufactures, promotes, and sells high-end luxury products worldwide, ranging from leather goods to ready-to-wear (apparels) and footwear under four key brands - PRADA, MIU MIU, CHURCH'S, and CAR SHOE.

**Historical PE and PB band**

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## Prada

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Total no. of stores	641.0	633.0	633.0	638.0	643.0
EBIT margin	9.5	5.6	11.2	14.7	17.5

Source: Company, DBS HK

### Segmental Breakdown (EUR m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (EUR m)</b>					
Prada	2,643	2,013	2,818	3,107	3,387
Miu Miu	450	329	447	492	545
Church's	70	37	52	56	60
Car Shoe	10	5	7	7	8
Others	52	39	41	43	46
<b>Total</b>	<b>3,226</b>	<b>2,423</b>	<b>3,364</b>	<b>3,706</b>	<b>4,045</b>

## Prada

**Income Statement (EUR m)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue	3,226	2,423	3,364	3,706	4,045
Cost of Goods Sold	(906)	(679)	(858)	(899)	(930)
<b>Gross Profit</b>	<b>2,320</b>	<b>1,743</b>	<b>2,506</b>	<b>2,807</b>	<b>3,115</b>
Other Opg (Exp)/Inc	(2,013)	(1,607)	(2,129)	(2,261)	(2,407)
<b>Operating Profit</b>	<b>307</b>	<b>136</b>	<b>378</b>	<b>546</b>	<b>708</b>
Other Non Opg (Exp)/Inc	0	(116)	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(72)	(72)	(64)	(56)	(49)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>235</b>	<b>(52)</b>	<b>314</b>	<b>490</b>	<b>658</b>
Tax	23	(3)	(94)	(147)	(198)
Minority Interest	(2)	0	(1)	(2)	(3)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>256</b>	<b>(54)</b>	<b>218</b>	<b>341</b>	<b>458</b>
Net Profit before Except.	256	(54)	218	341	458
EBITDA	997	689	1,064	1,251	1,432
<b>Growth</b>					
Revenue Gth (%)	2.7	(24.9)	38.9	10.1	9.2
EBITDA Gth (%)	80.9	(30.9)	54.4	17.6	14.4
Opg Profit Gth (%)	(5.3)	(55.7)	177.8	44.7	29.5
Net Profit Gth (%)	24.5	N/A	N/A	56.3	34.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	71.9	72.0	74.5	75.8	77.0
Opg Profit Margin (%)	9.5	5.6	11.2	14.7	17.5
Net Profit Margin (%)	7.9	(2.2)	6.5	9.2	11.3
ROAE (%)	8.8	(1.9)	7.6	11.3	14.2
ROA (%)	4.4	(0.8)	3.3	5.0	6.4
ROCE (%)	6.0	2.3	4.7	6.6	8.3
Div Payout Ratio (%)	0.0	N/A	50.0	50.0	50.0
Net Interest Cover (x)	4.3	1.9	5.9	9.7	14.4

Source: Company, DBS HK



## Prada

**Balance Sheet (EUR m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	1,642	1,506	1,449	1,398	1,351
Invt in Associates & JVs	81	66	66	66	66
Other LT Assets	3,617	3,301	2,772	2,250	1,765
Cash & ST Invt	421	442	988	1,746	2,526
Inventory	713	666	841	882	917
Debtors	318	290	367	385	400
Other Current Assets	246	256	256	256	256
<b>Total Assets</b>	<b>7,038</b>	<b>6,528</b>	<b>6,740</b>	<b>6,983</b>	<b>7,281</b>
ST Debt	241	301	301	301	301
Creditors	327	290	366	383	399
Other Current Liab	663	637	662	715	766
LT Debt	584	451	451	451	451
Other LT Liabilities	2,234	1,998	1,998	1,998	1,998
Shareholder's Equity	2,967	2,832	2,941	3,112	3,341
Minority Interests	21	20	21	23	26
<b>Total Cap. &amp; Liab.</b>	<b>7,038</b>	<b>6,528</b>	<b>6,740</b>	<b>6,983</b>	<b>7,281</b>
Non-Cash Wkg. Capital	286	286	436	424	408
Net Cash/(Debt)	(405)	(309)	237	994	1,774
Debtors Turn (avg days)	36.2	45.8	35.6	37.0	35.4
Creditors Turn (avg days)	543.1	10,787.2	697.0	705.1	692.5
Inventory Turn (avg days)	1,136.4	24,110.1	1,603.6	1,622.3	1,593.2
Asset Turnover (x)	0.6	0.4	0.5	0.5	0.6
Current Ratio (x)	1.4	1.3	1.8	2.3	2.8
Quick Ratio (x)	0.6	0.6	1.0	1.5	2.0
Net Debt/Equity (X)	0.1	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.1	CASH	CASH	CASH
Capex to Debt (%)	37.7	14.6	16.0	25.6	33.3
Z-Score (X)	2.4	2.2	2.6	2.7	2.7

Source: Company, DBS HK

**Cash Flow Statement (EUR m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	235	(52)	314	490	658
Dep. & Amort.	690	669	686	705	724
Tax Paid	(26)	(44)	(69)	(94)	(147)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(108)	106	(175)	(41)	(35)
Other Operating CF	20	(87)	0	0	0
<b>Net Operating CF</b>	<b>810</b>	<b>592</b>	<b>756</b>	<b>1,059</b>	<b>1,201</b>
Capital Exp.(net)	(311)	(110)	(121)	(193)	(251)
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	9	(40)	0	0	0
<b>Net Investing CF</b>	<b>(302)</b>	<b>(150)</b>	<b>(121)</b>	<b>(193)</b>	<b>(251)</b>
Div Paid	(155)	0	(90)	(109)	(170)
Chg in Gross Debt	(538)	(395)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
<b>Net Financing CF</b>	<b>(692)</b>	<b>(395)</b>	<b>(90)</b>	<b>(109)</b>	<b>(170)</b>
Currency Adjustments	6	(26)	0	0	0
Chg in Cash	(179)	21	546	758	780
Opg CFPS (EUR)	0.36	0.19	0.36	0.43	0.48
Free CFPS (EUR)	0.19	0.19	0.25	0.34	0.37

Source: Company, DBS HK

**Prada**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	12-Mar-21	HK\$50.50	HK\$45.96	Hold
2:	12-Nov-21	HK\$49.85	HK\$63.86	Buy

Source: DBS HK

Analyst: Mavis HUI

# China / Hong Kong Company Update

## Sa Sa

Bloomberg: 178 HK EQUITY | Reuters: 0178.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$1.50 (HSI : 24,580)  
Price Target 12-mth: HK\$1.93 (29% upside) (Prev HK\$2.56)

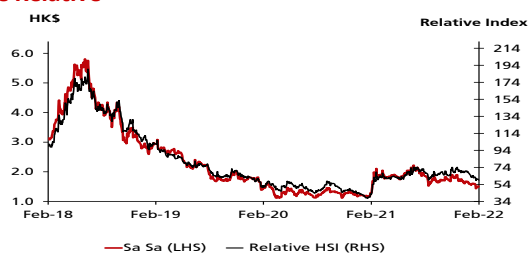
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- Effective cost management has enabled HK to swing to the black in Dec 2021 even as China-HK borders remain closed
- Newer outbreaks of Delta & Omicron variants in HK could affect near-term sales given more stringent COVID-19 control measures, while its operational and cost improvements should help to offset some of the impacts
- We benchmark our base-case scenario to assume China-HK border reopening around mid-2022. Maintain BUY on a 12-month investment horizon with new TP of HK\$1.93

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$m)	2020A	2021A	2022F	2023F
Turnover	5,717	3,043	3,537	4,823
EBITDA	339	140	(109)	466
Pre-tax Profit	(562)	(401)	(225)	358
Net Profit	(475)	(359)	(192)	299
Net Profit Gth (%)	N/A	24.4	46.5	N/A
EPS (HK\$)	(0.15)	(0.12)	(0.06)	0.10
EPS (HK\$)	(0.15)	(0.12)	(0.06)	0.10
EPS Gth (%)	N/A	24.5	46.5	N/A
Diluted EPS (HK\$)	(0.15)	(0.12)	(0.06)	0.10
DPS (HK\$)	0.00	0.00	0.00	0.10
BV Per Share (HK\$)	0.54	0.43	0.37	0.37
PE (X)	nm	nm	nm	15.6
P/Cash Flow (X)	10.5	10.9	nm	12.5
P/Free CF (X)	13.3	12.5	nm	14.9
EV/EBITDA (X)	11.5	29.4	nm	9.4
Net Div Yield (%)	0.0	0.0	0.0	6.4
P/Book Value (X)	2.8	3.5	4.1	4.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	(22.9)	(24.0)	(15.6)	26.3
Earnings Rev (%)			N/A	(25)
Consensus EPS (HK\$)			(0.08)	0.05
Other Broker Recs:		B:2	S:1	H:5

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

### Better times ahead

#### Investment Thesis

Market volatility could subside gradually. Most of Sa Sa's group profit had been coming from HK/Macau in the past. Consecutive challenges since mid-2019, including the HK social unrest as well as the coronavirus pandemic have affected performance of its core markets immensely, yet also creating a mega low base ahead.

**China might start paying off.** Re-accelerated expansion in China with opening of c.20 stores in FY22 could help to further enhance the critical mass in selected anchor cities.

**Good medium-term prospects.** Sa Sa's improving gross margin, leaner cost structure, and better operational efficiency should build a healthy and agile business model for ongoing expansion. Potential sales rebound, once China-HK borders reopen on rising COVID-19 vaccination rates and gradual pandemic improvements, could also boost operating leverage.

#### Valuation:

We revise down FY23 earnings by 25%, as we defer our expectations of the China-HK border reopening to mid-2022. Our new TP of HK\$1.93 continues to be benchmarked to 5% FY23F yield (previous TP: HK\$2.56). Sitting on >HK\$200m net cash, the company is committed to pay dividends in all profitable years, with a track record of 100% payout throughout the pre-pandemic years of FY16-FY19.

#### Where we differ:

We are slightly more positive on FY23 performance versus the market. Given Sa Sa's good brand awareness amongst local consumers & Mainland Chinese tourists, and its strong efforts in cost control for a more sustainable business, any improvement in the operating landscape should allow the company to recover relatively faster than most of its peers.

#### Key Risks to Our View:

Intensifying competition; weaker operating landscape; slower-than-expected progress in non-core markets.

#### At A Glance

Issued Capital (m shrs)	3,103
Mkt Cap (HK\$m/US\$m)	4,655 / 598
Major Shareholders (%)	
Kwok Family	62.7
Free Float (%)	37.3
3m Avg. Daily Val. (US\$m)	1.32
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



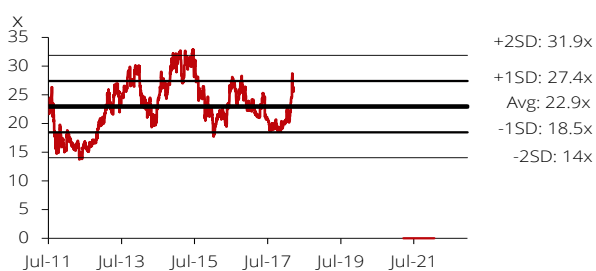
**Sa Sa**

**Company Background**

Sa Sa International Holdings Limited, through its subsidiaries, retails and wholesales cosmetics products including skin care and fragrances. The company is currently among leading cosmetics retail groups in Asia.

**Historical PE and PB band**

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## Sa Sa

## Key Assumptions

FY Mar	2019A	2020A	2021A	2022F	2023F
HK & Macau	118.0	112.0	100.0	85.0	83.0
China	54.0	44.0	57.0	77.0	85.0
Singapore & Malaysia	102.0	79.0	75.0	75.0	76.0
<b>Total no. of stores</b>	<b>274.0</b>	<b>235.0</b>	<b>232.0</b>	<b>237.0</b>	<b>244.0</b>

Source: Company, DBS HK

## Segmental Breakdown (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Retail sales of beauty products	7,984	5,373	2,542	2,885	3,976
Sasa.com	392	345	501	652	847
<b>Total</b>	<b>8,376</b>	<b>5,717</b>	<b>3,043</b>	<b>3,537</b>	<b>4,823</b>

Source: Company, DBS HK

## Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Revenue	8,376	5,717	3,043	3,537	4,823
Cost of Goods Sold	(4,958)	(3,635)	(1,991)	(2,212)	(2,872)
<b>Gross Profit</b>	<b>3,418</b>	<b>2,082</b>	<b>1,052</b>	<b>1,325</b>	<b>1,952</b>
Other Opg (Exp)/Inc	(2,875)	(2,610)	(1,427)	(1,530)	(1,587)
<b>Operating Profit</b>	<b>543</b>	<b>(527)</b>	<b>(375)</b>	<b>(205)</b>	<b>364</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	21	(35)	(26)	(20)	(6)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>563</b>	<b>(562)</b>	<b>(401)</b>	<b>(225)</b>	<b>358</b>
Tax	(91)	87	42	33	(59)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>472</b>	<b>(475)</b>	<b>(359)</b>	<b>(192)</b>	<b>299</b>
Net Profit before Except.	472	(475)	(359)	(192)	299
EBITDA	654	339	140	(109)	466
<b>Growth</b>					
Revenue Gth (%)	4.5	(31.7)	(46.8)	16.2	36.4
EBITDA Gth (%)	1.2	(48.2)	(58.6)	N/A	N/A
Opg Profit Gth (%)	(1.1)	(197.2)	(28.9)	(45.3)	(277.6)
Net Profit Gth (%)	1.5	N/A	24.4	46.5	N/A
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	40.8	36.4	34.6	37.5	40.5
Opg Profit Margin (%)	6.5	(9.2)	(12.3)	(5.8)	7.6
Net Profit Margin (%)	5.6	(8.3)	(11.8)	(5.4)	6.2
ROAE (%)	19.0	(22.9)	(24.0)	(15.6)	26.3
ROA (%)	12.5	N/A	N/A	N/A	13.8
ROCE (%)	17.2	N/A	N/A	N/A	21.0
Div Payout Ratio (%)	104.9	N/A	N/A	N/A	100.0
Net Interest Cover (x)	NM	NM	NM	NM	60.3

Source: Company, DBS HK

## Sa Sa

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

FY Mar	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	351	282	247	235	187
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	167	994	682	750	825
Cash & ST Invts	1,311	742	526	277	258
Inventory	1,414	1,006	766	757	826
Debtors	113	61	77	43	58
Other Current Assets	51	183	213	117	156
<b>Total Assets</b>	<b>3,406</b>	<b>3,267</b>	<b>2,511</b>	<b>2,180</b>	<b>2,310</b>
ST Debt	0	0	0	0	0
Creditors	800	454	492	349	476
Other Current Liab	63	609	359	360	360
LT Debt	0	0	0	0	0
Other LT Liabilities	56	540	330	333	337
Shareholder's Equity	2,487	1,664	1,330	1,138	1,138
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>3,406</b>	<b>3,267</b>	<b>2,511</b>	<b>2,180</b>	<b>2,310</b>
Non-Cash Wkg. Capital	714	186	205	209	204
Net Cash/(Debt)	1,311	742	526	277	258
Debtors Turn (avg days)	4.9	3.9	9.2	4.4	4.4
Creditors Turn (avg days)	66.9	82.7	116.9	72.5	54.3
Inventory Turn (avg days)	103.6	159.5	219.1	131.4	104.3
Asset Turnover (x)	2.5	1.7	1.2	1.6	2.1
Current Ratio (x)	3.3	1.9	1.9	1.7	1.6
Quick Ratio (x)	1.6	0.8	0.7	0.5	0.4
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)	6.9	3.5	3.7	4.0	4.0

Source: Company, DBS HK

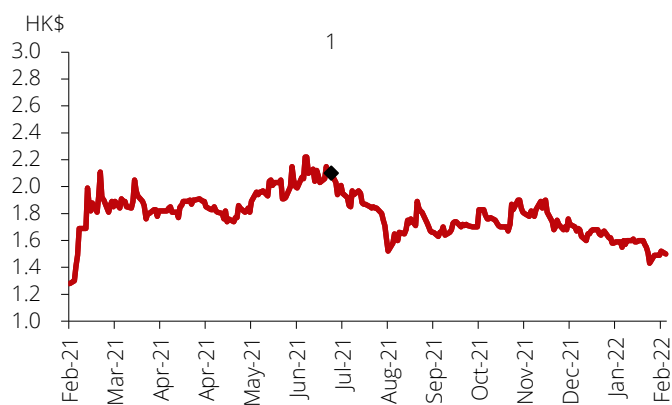
**Cash Flow Statement (HK\$ m)**

FY Mar	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	563	(562)	(401)	(225)	358
Dep. & Amort.	111	866	515	96	102
Tax Paid	91	52	25	20	(36)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	7	0	0	0	0
Chg in Wkg.Cap.	(226)	(12)	235	(4)	4
Other Operating CF	(111)	98	55	42	(57)
<b>Net Operating CF</b>	<b>435</b>	<b>442</b>	<b>428</b>	<b>(72)</b>	<b>372</b>
Capital Exp.(net)	(133)	(93)	(57)	(90)	(60)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	18	17	6	7	7
<b>Net Investing CF</b>	<b>(115)</b>	<b>(75)</b>	<b>(51)</b>	<b>(83)</b>	<b>(53)</b>
Div Paid	(442)	0	0	0	(299)
Chg in Gross Debt	0	0	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	6	(937)	(593)	(94)	(39)
<b>Net Financing CF</b>	<b>(436)</b>	<b>(937)</b>	<b>(593)</b>	<b>(94)</b>	<b>(338)</b>
Currency Adjustments	(10)	0	0	0	0
Chg in Cash	(126)	(570)	(215)	(249)	(19)
Opg CFPS (HK\$)	0.22	0.15	0.06	(0.02)	0.12
Free CFPS (HK\$)	0.10	0.11	0.12	(0.05)	0.10

Source: Company, DBS HK

**Sa Sa**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Jul-21	HK\$2.09	HK\$2.56	Buy

Source: DBS HK

Analyst: Mavis HUI

# China / Hong Kong Company Update

## Samsonite International

Bloomberg: 1910 HK EQUITY | Reuters: 1910.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$17.58 (HSI : 24,580)  
Price Target 12-mth: HK\$19.10 (9% upside) (Prev HK\$18.85)

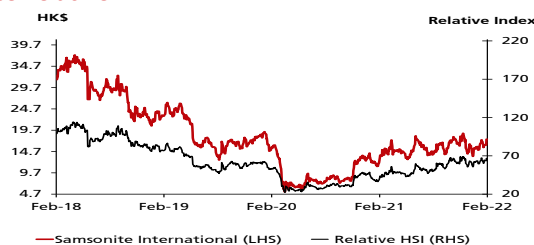
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- On track for firm sequential recovery in coming quarters
- Robust pent-up travel demand should lead to strong sales rebound, especially by 2H22-2023, in our view
- Diligent cost-saving efforts could also drive better operating leverage once market normalises; BUY, HK\$19.10 TP

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	1,537	2,047	3,093	3,672
EBITDA	(139)	294	565	762
Pre-tax Profit	(1,382)	(130)	134	325
Net Profit	(1,278)	(104)	95	234
Core Profit	(406)	(104)	95	234
Core Profit Gth (%)	N/A	74.5	N/A	145.9
EPS (US\$)	(0.89)	(0.07)	0.07	0.16
EPS (HK\$)	(6.94)	(0.56)	0.52	1.27
Core EPS (US\$)	(0.28)	(0.07)	0.07	0.16
Core EPS (HK\$)	(2.21)	(0.56)	0.52	1.27
EPS Gth (%)	N/A	91.9	N/A	145.9
Core EPS Gth (%)	N/A	74.5	N/A	145.9
Diluted EPS (HK\$)	(6.94)	(0.56)	0.52	1.27
DPS (HK\$)	0.00	0.00	0.15	0.38
BV Per Share (HK\$)	3.44	2.88	3.24	4.13
PE (X)	nm	nm	34.0	13.8
CorePE (X)	nm	nm	34.0	13.8
P/Cash Flow (X)	nm	18.3	9.9	6.1
P/Free CF (X)	nm	21.4	11.1	6.7
EV/EBITDA (X)	nm	16.4	8.6	6.2
Net Div Yield (%)	0.0	0.0	0.9	2.2
P/Book Value (X)	5.1	6.1	5.4	4.3
Net Debt/Equity (X)	2.5	2.7	2.5	1.8
ROAE(%)	(98.9)	(17.8)	16.9	34.4
Earnings Rev (%)		N/A	(59)	New
Consensus EPS (US\$)		(0.03)	0.13	0.17
Other Broker Recs:		B:11	S:0	H:0

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

### Anticipating full recovery by 2023

#### Investment Thesis

**A gradual recovery.** The COVID-19 pandemic and global travel restrictions had wiped out c.60% of Samsonite's revenue in 2020. As the proportion of global population taking COVID-19 vaccines continues to rise, Samsonite is well placed to benefit from sequential improvements in 2022-23. We believe the company could achieve pre-pandemic revenue by 2023.

**Margin potential.** A relatively higher EBITDA margin from fast-growing direct-to-consumer (DTC) e-commerce should lift medium-term profitability. Huge cost-cutting efforts have also positioned Samsonite for margin expansion upon market normalisation.

**Good medium-term outlook.** Samsonite's sound brand portfolio and excellent research and development capabilities should fuel better prospects, especially given its strengthened DTC e-business and rationalised wholesale division. The company's leaner cost structure and full support from banks that removes any liquidity concerns induced by the COVID-19 pandemic have also strengthened its franchise value.

#### Valuation:

In view of lingering COVID-19 impacts on global travel amid the upsurge of newer and more transmissible variants over last few months, we fine-tune our earnings to target at full recovery for Samsonite by 2023 instead of this year. We also roll forward to benchmark our new target price of HK\$19.10 to 15x FY23F PE (previous TP: HK\$18.85 pegged to 15x FY22F PE), which is 1 S.D. below its 4-year average PE (pre-pandemic). Samsonite should post a more noticeable recovery by 2H22-2023 on gradual improvement in the overall operating environment.

#### Where we differ:

We are slightly more positive on Samsonite's DTC e-business and its leaner cost structure to drive group margins.

#### Key Risks to Our View:

Pandemics; rising competition; foreign exchange (forex) fluctuations; execution risks on M&As; trade war.

#### At A Glance

Issued Capital (m shrs)	1,435
Mkt Cap (HK\$m/US\$m)	25,227 / 3,239
Major Shareholders (%)	
Federated Hermes International	8.0
DCP, Ltd.	7.0
Schroder Inv. Mgnt. (Singapore) Ltd.	5.2
Brain Alpha Ltd.	5.0
Free Float (%)	74.8
3m Avg. Daily Val. (US\$m)	12.76
GICS Industry: Consumer Discretionary / Household & Personal Products	



Watchlist the stock on Insights Direct to receive prompt updates





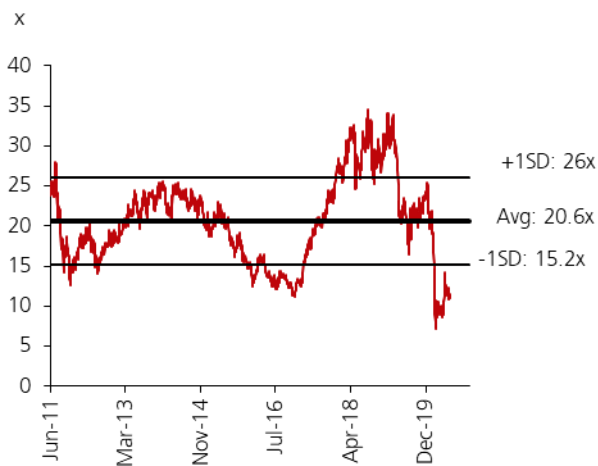
## Samsonite International

### Company Background

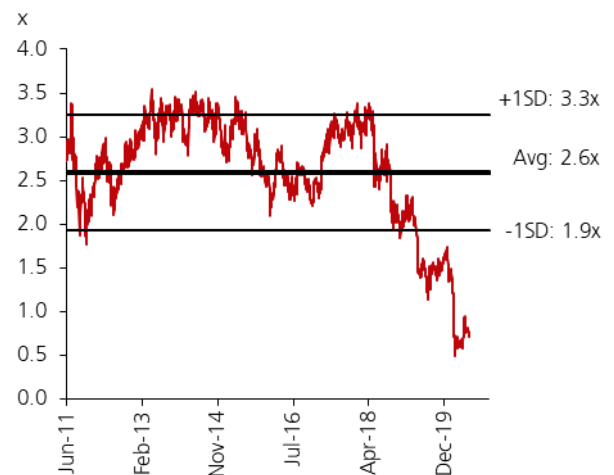
Samsonite is the world's largest travel luggage company with over 100 years of heritage. The company principally engages in the design, manufacture, sourcing and distribution of luggage, business and computer bags, outdoor and casual bags, and travel accessories, primarily under its key product brands of "Samsonite", "American Tourister", "High Sierra", "Hartmann", "Lipault", "Speck", and "Gregory", as well as other self-owned and licensed brand names. Its acquisition of "Tumi" in August 2016, a brand that focuses on the premium business & travel segment, has further completed Samsonite's product offerings. Currently, its products are sold in more than 100 countries through a variety of wholesale and retail distribution channels, including e-commerce.

### Historical PE and PB band

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK (pre-pandemic PE and PB band charts)

## Samsonite International

### Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (US\$ m)</b>					
Asia	1,313	559	743	1,077	1,314
North America	1,363	602	813	1,261	1,387
Europe	792	302	396	614	798
Latin America	167	71	93	139	169
Corporate	3	2	2	2	3
<b>Total</b>	<b>3,639</b>	<b>1,537</b>	<b>2,047</b>	<b>3,093</b>	<b>3,672</b>
<b>Operating profit (US\$ m)</b>					
Asia	242	(164)	147	215	265
North America	53	(621)	113	178	200
Europe	66	(138)	47	74	98
Latin America	(8)	(48)	2	4	5
Corporate	(70)	(296)	(283)	(188)	(101)
<b>Total</b>	<b>283</b>	<b>(1,266)</b>	<b>26</b>	<b>283</b>	<b>467</b>
<b>Operating profit Margins (%)</b>					
Asia	18.4	(29.3)	19.7	19.9	20.1
North America	3.9	(103.0)	13.9	14.2	14.5
Europe	8.3	(45.5)	11.8	12.0	12.2
Latin America	(4.7)	(67.1)	2.4	2.6	2.8
Corporate	(2,245.2)	(14,815.0)	(13,455.0)	(8,122.1)	(3,226.6)
<b>Total</b>	<b>7.8</b>	<b>(82.4)</b>	<b>1.3</b>	<b>9.2</b>	<b>12.7</b>

Source: Company, DBS HK

## Samsonite International

### Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	3,639	1,537	2,047	3,093	3,672
Cost of Goods Sold	(1,622)	(830)	(963)	(1,393)	(1,635)
<b>Gross Profit</b>	<b>2,017</b>	<b>706</b>	<b>1,084</b>	<b>1,700</b>	<b>2,036</b>
Other Opng (Exp)/Inc	(1,650)	(1,101)	(1,058)	(1,417)	(1,569)
<b>Operating Profit</b>	<b>366</b>	<b>(395)</b>	<b>26</b>	<b>283</b>	<b>467</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(98)	(116)	(156)	(149)	(142)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(83)	(872)	0	0	0
<b>Pre-tax Profit</b>	<b>185</b>	<b>(1,382)</b>	<b>(130)</b>	<b>134</b>	<b>325</b>
Tax	(32)	94	23	(34)	(81)
Minority Interest	(21)	10	3	(6)	(10)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>133</b>	<b>(1,278)</b>	<b>(104)</b>	<b>95</b>	<b>234</b>
Net Profit before Except.	216	(406)	(104)	95	234
EBITDA	676	(139)	294	565	762
<b>Growth</b>					
Revenue Gth (%)	(4.2)	(57.8)	33.2	51.1	18.7
EBITDA Gth (%)	4.5	N/A	N/A	92.1	35.1
Opg Profit Gth (%)	(30.3)	(207.7)	(106.6)	992.3	64.9
Net Profit Gth (%)	(44.0)	N/A	91.9	N/A	145.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	55.4	46.0	53.0	55.0	55.5
Opg Profit Margin (%)	10.1	(25.7)	1.3	9.2	12.7
Net Profit Margin (%)	3.6	(83.1)	(5.1)	3.1	6.4
ROAE (%)	6.8	(98.9)	(17.8)	16.9	34.4
ROA (%)	2.5	(23.9)	(2.1)	1.9	4.6
ROCE (%)	6.9	(8.7)	0.6	5.0	8.3
Div Payout Ratio (%)	0.0	N/A	N/A	30.0	30.0
Net Interest Cover (x)	3.7	(3.4)	0.2	1.9	3.3

Source: Company, DBS HK

## Samsonite International

### Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	267	188	197	207	217
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3,731	2,800	2,427	2,459	2,497
Cash & ST Invt	463	1,495	1,484	1,322	1,307
Inventory	587	456	468	658	750
Debtors	396	141	171	241	266
Other Current Assets	97	82	91	100	110
<b>Total Assets</b>	<b>5,541</b>	<b>5,162</b>	<b>4,838</b>	<b>4,987</b>	<b>5,148</b>
ST Debt	61	81	85	89	93
Creditors	676	413	479	693	813
Other Current Liab	313	238	96	100	104
LT Debt	1,694	3,110	2,955	2,807	2,667
Other LT Liabilities	796	652	655	659	663
Shareholder's Equity	1,951	634	530	597	761
Minority Interests	51	35	38	42	46
<b>Total Cap. &amp; Liab.</b>	<b>5,541</b>	<b>5,162</b>	<b>4,838</b>	<b>4,987</b>	<b>5,148</b>
Non-Cash Wkg. Capital	91	29	155	207	209
Net Cash/(Debt)	(1,293)	(1,696)	(1,555)	(1,574)	(1,453)
Debtors Turn (avg days)	41.0	63.8	27.8	24.3	25.2
Creditors Turn (avg days)	191.2	345.5	234.2	192.3	205.1
Inventory Turn (avg days)	168.3	331.0	242.6	184.8	191.8
Asset Turnover (x)	0.7	0.3	0.4	0.6	0.7
Current Ratio (x)	1.5	3.0	3.4	2.6	2.4
Quick Ratio (x)	0.8	2.2	2.5	1.8	1.6
Net Debt/Equity (X)	0.6	2.5	2.7	2.5	1.8
Net Debt/Equity ex MI (X)	0.7	2.7	2.9	2.6	1.9
Capex to Debt (%)	3.2	0.6	0.8	1.2	1.9
Z-Score (X)	1.6	0.8	1.5	1.8	1.8

Source: Company, DBS HK

### Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	153	(1,288)	(130)	134	325
Dep. & Amort.	310	255	268	281	295
Tax Paid	(63)	(28)	23	(34)	(81)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	34	120	16	(56)	(7)
Other Operating CF	143	827	0	0	0
<b>Net Operating CF</b>	<b>576</b>	<b>(114)</b>	<b>177</b>	<b>326</b>	<b>533</b>
Capital Exp.(net)	(55)	(21)	(26)	(35)	(52)
Other Invt.(net)	(18)	(6)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
<b>Net Investing CF</b>	<b>(73)</b>	<b>(26)</b>	<b>(26)</b>	<b>(35)</b>	<b>(52)</b>
Div Paid	(13)	(4)	0	0	0
Chg in Gross Debt	(157)	1,413	(162)	(454)	(467)
Capital Issues	0	0	0	0	0
Other Financing CF	(295)	(251)	0	0	(29)
<b>Net Financing CF</b>	<b>(465)</b>	<b>1,158</b>	<b>(162)</b>	<b>(454)</b>	<b>(495)</b>
Currency Adjustments	(3)	14	0	0	0
Chg in Cash	35	1,032	(11)	(163)	(15)
Opg CFPS (US\$)	0.38	(0.16)	0.11	0.27	0.38
Free CFPS (US\$)	0.36	(0.09)	0.11	0.20	0.34

Source: Company, DBS HK

**Samsonite International**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	9-Mar-21	HK\$14.74	HK\$18.85	Buy
2:	18-Mar-21	HK\$16.20	HK\$18.85	Buy

Source: DBS HK

Analyst: Mavis HUI

## Sands China

Bloomberg: 1928 HK Equity | Reuters: 1928.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$22.55 (HSI : 24,580)  
Price Target 12-mth: HK\$37.92 (68% upside) (Prev HK\$39.75)

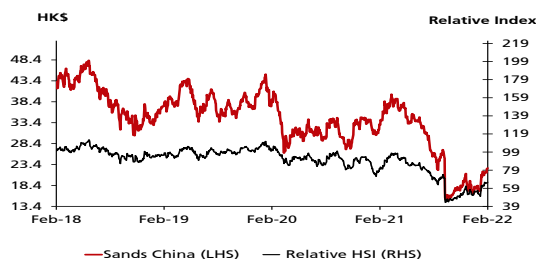
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- Sands China stands a good chance to secure the new gaming license given its strong commitment in mass-gaming and non-gaming segments since inauguration
- While latest COVID-19 resurgence in HK & China could affect visitor numbers to Macau, Sands China should re-emerge stronger in the mass sector once borders reopen
- We expect more mobility across China-Macau-HK around mid-2022. Maintain BUY, HK\$37.92 TP

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	1,687	2,923	5,306	7,536
EBITDA	(555)	300	1,524	2,642
Pre-tax Profit	(1,507)	(824)	431	1,614
Net Profit	(1,523)	(816)	422	1,582
Net Profit Gth (%)	N/A	46.4	N/A	274.8
EPS (US\$)	(0.19)	(0.10)	0.05	0.20
EPS (HK\$)	(1.47)	(0.79)	0.41	1.52
EPS Gth (%)	N/A	46.4	N/A	274.8
Diluted EPS (HK\$)	(1.47)	(0.79)	0.41	1.52
DPS (HK\$)	0.99	0.00	0.41	1.52
BV Per Share (HK\$)	1.86	1.07	1.07	1.07
PE (X)	nm	nm	55.5	14.8
CorePE (X)	nm	nm	55.5	14.8
P/Cash Flow (X)	nm	nm	22.3	8.9
P/Free CF (X)	nm	nm	35.4	11.2
EV/EBITDA (X)	nm	101.4	19.8	11.2
Net Div Yield (%)	4.4	0.0	1.8	6.8
P/Book Value (X)	12.1	21.0	21.0	21.0
Net Debt/Equity (X)	3.2	6.2	6.0	5.6
ROAE(%)	(79.0)	(73.3)	37.9	142.1
Earnings Rev (%)		(26)	(56)	(14)
Consensus EPS (US\$)		N/A	0.05	0.21
Other Broker Recs:		B:20	S:2	H:1

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

### A strong mass-gaming play

#### Investment Thesis

**A leader in (premium) mass-gaming.** Over the years, Sands China has held on to its No. 1 position in Macau gaming, largely owing to its strong exposure in the mass gaming segment (c.27% of total mass GGR) that also generates higher profitability. The company enjoys the best EBITDA margins in the sector, and this should head even higher on a tightened cost-base when operating conditions normalize.

**An edge in non-gaming.** Sands China's refurbished integrated resort complex, The Londoner Macao, offers a superb Victorian design and higher-end accommodation to better cater to premium-mass customers. Overall, by having c.50% of 5-star hotel inventory in Macau, and as a pioneer in retail (c.1.9m sf of shopping GFA) and MICE facilities (c.2m sf of exhibition & meeting space), Sands China is in a strong position to outperform as VIP business remains subdued.

**COVID-19 impact could be short-lived.** Sands China saw wider losses of US\$423m in 3Q21, versus US\$166m loss in 2Q21, as COVID-19 outbreaks slowed recovery. Like its peer operators, tightened border restrictions could also affect 4Q21-1Q22 performance. An eventual return of tourists should drive a strong revival.

#### Valuation:

We have cut earnings by 26%/56%/14% for FY21/FY22/FY23 as we defer our expectations of China-Macau-HK border reopening to around mid-2022. Our new 12-month TP of HK\$37.92 (previous: HK\$39.75) continues to base on 15x FY23 EV/EBITDA, equivalent to the long-term sector average.

#### Where we differ:

We are slightly more positive on Sands China winning the gaming license in the upcoming re-tendering.

#### Key Risks to Our View:

Weaker economic growth in China; resurgence of COVID-19 infections; rising competition; unfavourable gov't regulations

#### At A Glance

Issued Capital (m shrs)	8,090
Mkt Cap (HK\$m/US\$m)	182,430 / 23,424
Major Shareholders (%)	
Las Vegas Sands Corp	69.9
Free Float (%)	30.1
3m Avg. Daily Val. (US\$m)	50.37
GICS Industry: Consumer Discretionary / Consumer Services	



Watchlist the stock on Insights Direct to receive prompt updates



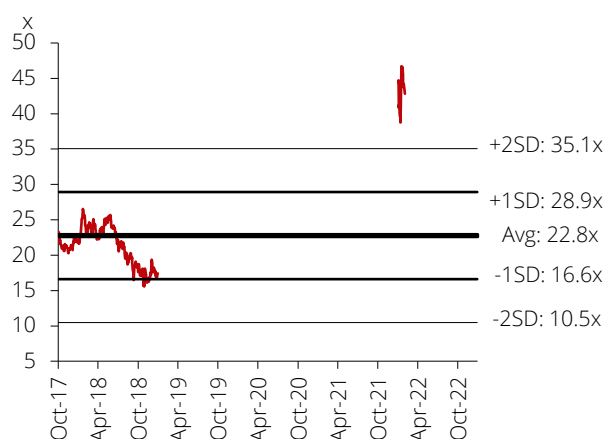
## Sands China

### Company Background

Sands China is a dominant player in the Macau gaming & entertainment industry. It operates integrated resorts with key reportable segments namely The Venetian Macao, The Londoner Macao (previously Sands Cotai Central), The Parisian Macao, The Plaza Macao, Sands Macao, and ferry & other operations. Sands China is a subsidiary of Las Vegas Sands Corp. which holds a 69.9% stake in the company.

### Historical PE and PB band

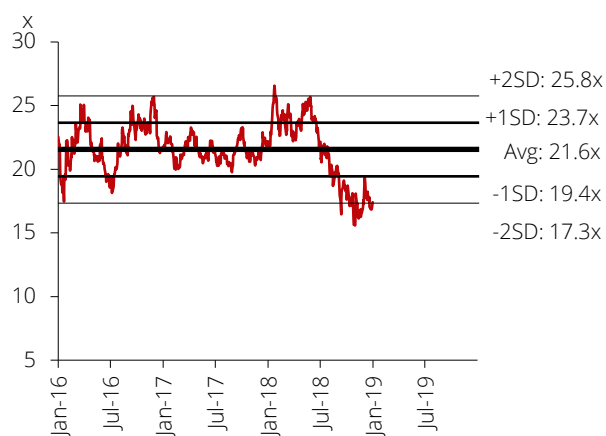
**Forward PE band (x)**



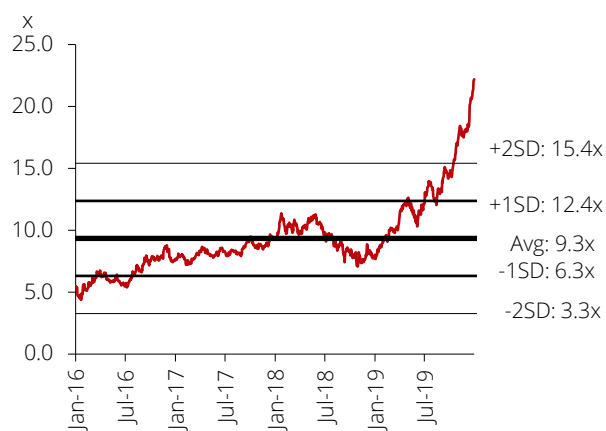
**PB band (x)**



**Forward PE band (x) (2016-2019)**



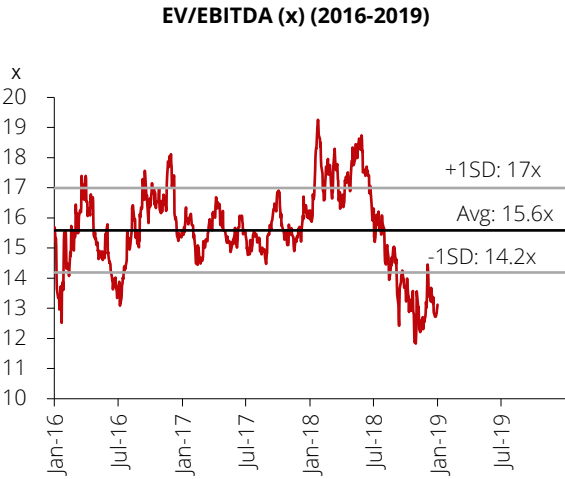
**PB band (x) (2016-2019)**



Source: Thomson Reuters, DBS HK

Sands China

Historical EV/EBITDA band



Source: Thomson Reuters, DBS HK



## Sands China

### Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (US\$ m)</b>					
The Venetian Macao	3,510	738	1,077	1,927	2,596
Sands Cotai Central	2,052	297	674	1,736	3,001
The Parisian Macao	1,650	259	386	626	821
The Plaza Macao	877	265	606	827	920
Sands Macao	628	120	173	183	193
Ferry and Other Operations	106	21	21	22	22
Inter - Segment revenue	(15)	(13)	(14)	(16)	(17)
<b>Total</b>	<b>8,808</b>	<b>1,687</b>	<b>2,923</b>	<b>5,306</b>	<b>7,536</b>
<b>Adjusted EBITDA (US\$ m)</b>					
The Venetian Macao	1,407	(53)	280	694	1,228
Sands Cotai Central	726	(184)	(54)	608	1,050
The Parisian Macao	544	(131)	(8)	63	328
The Plaza Macao	345	33	206	331	368
Sands Macao	175	(76)	35	55	58
Ferry and Other Operations	(4)	(17)	1	1	1
<b>Total</b>	<b>3,193</b>	<b>(428)</b>	<b>460</b>	<b>1,751</b>	<b>3,034</b>
<b>Adjusted EBITDA Margins (%)</b>					
The Venetian Macao	40.1	(7.2)	26.0	36.0	47.3
Sands Cotai Central	35.4	(62.0)	(8.0)	35.0	35.0
The Parisian Macao	33.0	(50.6)	(2.0)	10.0	40.0
The Plaza Macao	39.3	12.5	34.0	40.0	40.0
Sands Macao	27.9	(63.3)	20.0	30.0	30.0
Ferry and Other Operations	(3.8)	(81.0)	5.0	5.0	5.0
<b>Total</b>	<b>36.3</b>	<b>(25.4)</b>	<b>15.7</b>	<b>33.0</b>	<b>40.3</b>

Source: Company, DBS HK

## Sands China

### Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	8,808	1,687	2,923	5,306	7,536
Cost of Goods Sold	(3,518)	(648)	(1,057)	(1,918)	(2,724)
<b>Gross Profit</b>	<b>5,290</b>	<b>1,039</b>	<b>1,867</b>	<b>3,388</b>	<b>4,812</b>
Other Opng (Exp)/Inc	(3,015)	(2,278)	(2,320)	(2,593)	(2,857)
<b>Operating Profit</b>	<b>2,275</b>	<b>(1,239)</b>	<b>(453)</b>	<b>796</b>	<b>1,955</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(242)	(268)	(371)	(365)	(341)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,033</b>	<b>(1,507)</b>	<b>(824)</b>	<b>431</b>	<b>1,614</b>
Tax	0	(16)	8	(9)	(32)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>2,033</b>	<b>(1,523)</b>	<b>(816)</b>	<b>422</b>	<b>1,582</b>
Net Profit before Except.	2,033	(1,523)	(816)	422	1,582
EBITDA	2,981	(555)	300	1,524	2,642
<b>Growth</b>					
Revenue Gth (%)	1.7	(80.8)	73.3	81.5	42.0
EBITDA Gth (%)	6.1	N/A	N/A	408.8	73.3
Opg Profit Gth (%)	5.6	(154.5)	(63.4)	(275.5)	145.7
Net Profit Gth (%)	8.4	N/A	46.4	N/A	274.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	60.1	61.6	63.9	63.9	63.9
Opg Profit Margin (%)	25.8	(73.4)	(15.5)	15.0	25.9
Net Profit Margin (%)	23.1	(90.3)	(27.9)	8.0	21.0
ROAE (%)	45.7	(79.0)	(73.3)	37.9	142.1
ROA (%)	16.8	(14.4)	(7.9)	4.1	14.6
ROCE (%)	17.5	(19.6)	(12.8)	0.6	13.3
Div Payout Ratio (%)	99.4	N/A	N/A	100.0	100.0
Net Interest Cover (x)	9.4	(4.6)	(1.2)	2.2	5.7

Source: Company, DBS HK

## Sands China

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

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	8,361	8,832	8,380	8,038	7,899
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	692	634	634	634	634
Cash & ST Invt	2,471	861	1,128	1,369	1,880
Inventory	16	15	5	9	12
Debtors	510	190	161	292	415
Other Current Assets	50	16	16	16	16
<b>Total Assets</b>	<b>12,100</b>	<b>10,548</b>	<b>10,324</b>	<b>10,357</b>	<b>10,857</b>
ST Debt	19	21	21	21	21
Creditors	1,874	1,388	1,057	1,048	1,488
Other Current Liab	5	5	5	5	5
LT Debt	5,589	7,044	8,044	8,044	8,044
Other LT Liabilities	167	161	84	127	186
Shareholder's Equity	4,446	1,929	1,113	1,113	1,113
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>12,100</b>	<b>10,548</b>	<b>10,324</b>	<b>10,357</b>	<b>10,857</b>
Non-Cash Wkg. Capital	(1,303)	(1,172)	(880)	(736)	(1,050)
Net Cash/(Debt)	(3,137)	(6,204)	(6,937)	(6,696)	(6,185)
Debtors Turn (avg days)	21.1	41.1	20.1	20.1	20.1
Creditors Turn (avg days)	243.2	(14,072.8)	1,269.2	321.5	266.6
Inventory Turn (avg days)	2.1	(152.1)	5.7	2.6	2.2
Asset Turnover (x)	0.7	0.2	0.3	0.5	0.7
Current Ratio (x)	1.6	0.8	1.2	1.6	1.5
Quick Ratio (x)	1.6	0.7	1.2	1.5	1.5
Net Debt/Equity (X)	0.7	3.2	6.2	6.0	5.6
Net Debt/Equity ex MI (X)	0.7	3.2	6.2	6.0	5.6
Capex to Debt (%)	13.1	14.6	3.7	4.8	6.8
Z-Score (X)	4.5	4.5	4.6	4.6	4.7

Source: Company, DBS HK

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

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,033	(1,507)	(824)	431	1,614
Dep. & Amort.	706	684	753	728	687
Tax Paid	(6)	(5)	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(126)	(131)	(292)	(144)	314
Other Operating CF	205	143	(68)	34	27
<b>Net Operating CF</b>	<b>2,812</b>	<b>(816)</b>	<b>(432)</b>	<b>1,049</b>	<b>2,642</b>
Capital Exp.(net)	(737)	(1,029)	(300)	(386)	(548)
Other Invt.(net)	24	5	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(2)	0	0	0	0
<b>Net Investing CF</b>	<b>(715)</b>	<b>(1,024)</b>	<b>(300)</b>	<b>(386)</b>	<b>(548)</b>
Div Paid	(2,051)	(1,030)	0	(422)	(1,582)
Chg in Gross Debt	0	1,495	1,000	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(261)	(234)	0	0	0
<b>Net Financing CF</b>	<b>(2,312)</b>	<b>231</b>	<b>1,000</b>	<b>(422)</b>	<b>(1,582)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(215)	(1,609)	267	240	511
Opg CFPS (US\$)	0.36	(0.08)	(0.02)	0.15	0.29
Free CFPS (US\$)	0.26	(0.23)	(0.09)	0.08	0.26

Source: Company, DBS HK

**Sands China**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Oct-21	HK\$17.96	HK\$39.75	Buy

Source: DBS HK

Analyst: Mavis HUI

## SJM Holdings

Bloomberg: 880 HK Equity | Reuters: 0880.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$5.25 (HSI : 24,580)  
Price Target 12-mth: HK\$9.00 (72% upside) (Prev HK\$11.20)

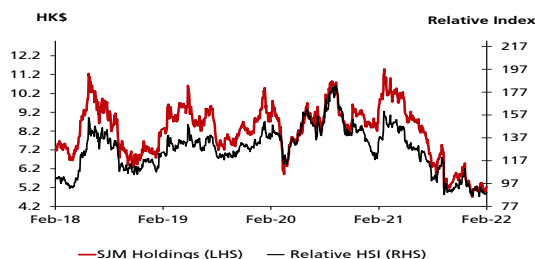
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

#### What's New

- Amongst operators with best chance to secure the new gaming licenses in the impending re-tendering process
- The full opening of Grand Lisboa Palace in 2022 should strengthen its position in the premium mass segment
- Most negatives should be in the price given share price underperformance vs. peers. Our base-case scenario for China-Macau-HK borders to reopen around mid-2022 is the key catalyst for a re-rating. Maintain BUY; HK\$9 TP

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021F	2022F	2023F
Turnover	7,507	10,564	21,704	31,663
EBITDA	(2,137)	(2,195)	1,458	5,228
Pre-tax Profit	(3,152)	(3,695)	(1,278)	1,931
Net Profit	(3,025)	(3,824)	(1,260)	2,108
Net Profit Gth (%)	N/A	(26.4)	67.0	N/A
EPS (HK\$)	(0.53)	(0.67)	(0.22)	0.37
EPS Gth (%)	N/A	(26.4)	67.0	N/A
Diluted EPS (HK\$)	(0.53)	(0.67)	(0.22)	0.37
DPS (HK\$)	0.22	0.00	0.00	0.19
BV Per Share (HK\$)	4.32	3.65	3.42	3.61
PE (X)	nm	nm	nm	14.1
P/Cash Flow (X)	nm	nm	7.5	3.6
P/Free CF (X)	nm	nm	nm	38.1
EV/EBITDA (X)	nm	nm	36.0	10.1
Net Div Yield (%)	4.2	0.0	0.0	3.5
P/Book Value (X)	1.2	1.4	1.5	1.5
Net Debt/Equity (X)	0.5	1.0	1.2	1.1
ROAE(%)	(12.3)	(18.5)	(6.5)	10.3
Earnings Rev (%)		(8)	(63)	(32)
Consensus EPS (HK\$)		(0.66)	(0.22)	0.35
Other Broker Recs:		B:14	S:0	H:7

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

### Immense potential from Cotai property

#### Investment Thesis

**Strengthened capacity to gain market share.** SJM's first property in Cotai, the Grand Lisboa Palace (GLP), was soft opened in Jul 2021. Upon its full opening this year to launch luxury hotel towers of Palazzo Versace Macau and THE KARL LAGERFELD, as well as other non-gaming elements, the company will be more competent to capture premium mass customer flow for better sales-mix and margins ahead.

**Good margin upside.** Apart from the COVID-19 impact, SJM's profitability has been distorted by ultra-low EBITDA margin of 2-3% from satellite casinos. With rising contribution from GLP going forward, we should see a good lift in its overall EBITDA margin, estimated at 16.5% by FY23 (FY19: 13.7%), and potentially on a further uptrend once GLP becomes more mature in its operations.

**Likely among the top winners of new gaming concession.** We have strong confidence that SJM should stand as one of the best candidates to win in the re-tendering as existing gaming concessions expire by Jun 2022. Despite potential near-term challenges in 4Q21-1Q22 amid lingering COVID-19 impact and initial losses of GLP, we stay positive on its business outlook.

#### Valuation:

We have cut earnings by 8%/63%/32% for FY21/FY22/FY23 as we defer our expectations of China-Macau-HK border reopening to around mid-2022. Our new 12-month TP of HK\$9.0 (previous: HK\$11.20) continues to base on 15x FY23 EV/EBITDA, equivalent to the long-term sector average.

#### Where we differ:

We believe SJM is among the top candidates to win a new gaming concession. We are also slightly more positive on our earnings projection, as we believe GLP's initial losses could be well contained by stringent cost controls. With the potential China-Macau-HK border reopening around mid-2022, in our view, a gradual improvement in tourist arrival numbers should also help quicken a turnaround, as brand new integrated resorts like GLP normally draw more visitors.

#### Key Risks to Our View:

Weaker economic growth in China; resurgence of COVID-19 infections; rising competition; unfavourable regulations.

#### At A Glance

Issued Capital (m shrs)	5,678
Mkt Cap (HK\$m/US\$m)	29,810 / 3,827
Major Shareholders (%)	
STDM	53.9
Leong (On Kei)	8.1
Free Float (%)	38.0
3m Avg. Daily Val. (US\$m)	14.18
GICS Industry: Consumer Discretionary / Consumer Services	



Watchlist the stock on Insights Direct to receive prompt updates



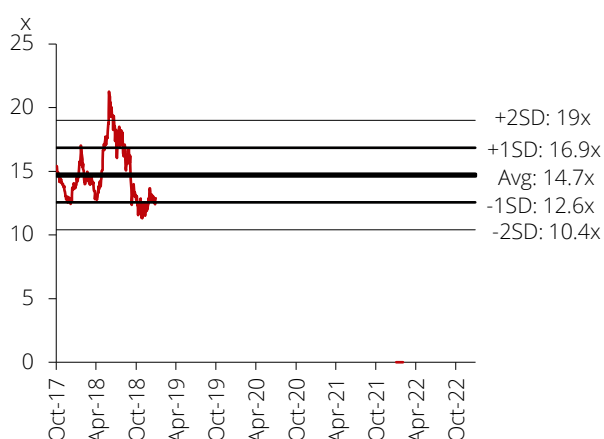
## SJM Holdings

### Company Background

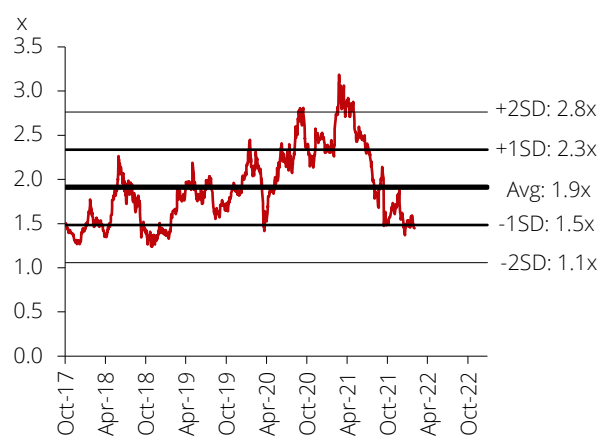
SJM's major operations are in the areas of gaming, hotels, and other tourism-related facilities in Macau. SJM's integrated resort in Cotai - The Grand Lisboa Palace (GLP) has been soft-launched in Jul 2021. It will feature ~1.9k hotel rooms & suites, facilities for meetings & conferences, shopping, dining, entertainment and casino operations upon full opening.

### Historical PE and PB band

**Forward PE band (x)**



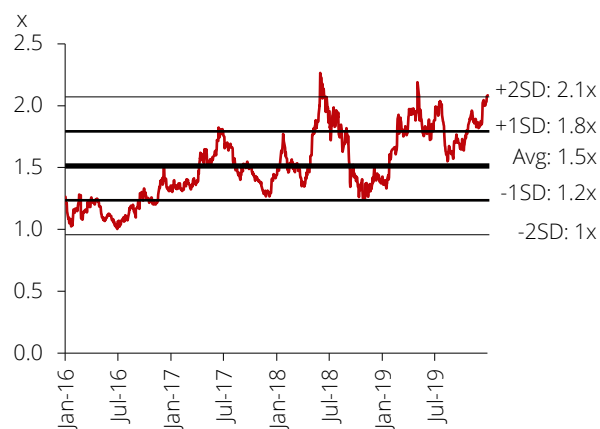
**PB band (x)**



**Forward PE band (x) (2016-2019)**



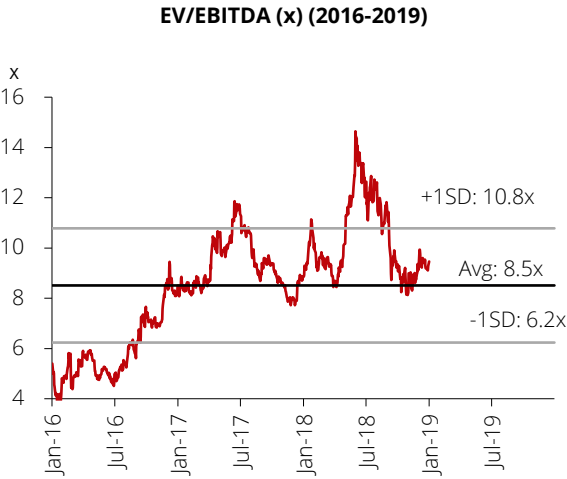
**PB band (x) (2016-2019)**



Source: Thomson Reuters, DBS HK

**SJM Holdings**

**Historical EV/EBITDA band**



Source: Thomson Reuters, DBS HK

## SJM Holdings

### Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Casino Grand Lisboa	12,910	2,067	2,135	4,130	4,588
Other Self-promoted Casinos	6,308	1,354	1,598	1,926	2,293
Satellite Casinos	20,782	4,854	6,946	16,889	26,535
Grand Lisboa Palace	0	0	700	1,387	1,732
Commissions and Incentives	(6,842)	(971)	(1,252)	(3,650)	(4,921)
Non Gaming Operations	717	203	437	1,022	1,436
<b>Total</b>	<b>33,875</b>	<b>7,507</b>	<b>10,564</b>	<b>21,704</b>	<b>31,663</b>
<b>EBITDA (HK\$ m)</b>					
Casino Grand Lisboa	2,365	(1,048)	(797)	772	1,889
Other Self-promoted Casinos	1,223	(666)	(320)	385	917
Satellite Casinos	522	(152)	(69)	507	1,327
Grand Lisboa Palace	0	0	(163)	233	546
Others	103	(223)	(106)	(217)	317
<b>Total</b>	<b>4,639</b>	<b>(2,137)</b>	<b>(2,195)</b>	<b>1,458</b>	<b>5,228</b>
<b>EBITDA Margins (%)</b>					
Casino Grand Lisboa	18.3	(50.7)	(37.3)	18.7	41.2
Other Self-promoted Casinos	19.4	(49.2)	(20.0)	20.0	40.0
Satellite Casinos	2.5	(3.1)	(1.0)	3.0	5.0
Grand Lisboa Palace	N/A	N/A	(23.3)	16.8	31.5
<b>Total</b>	<b>13.7</b>	<b>(28.5)</b>	<b>(20.8)</b>	<b>6.7</b>	<b>16.5</b>

Source: Company, DBS HK



## SJM Holdings

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	33,875	7,507	10,564	21,704	31,663
Cost of Goods Sold	(15,908)	(3,572)	(4,331)	(9,116)	(15,198)
<b>Gross Profit</b>	<b>17,967</b>	<b>3,934</b>	<b>6,233</b>	<b>12,588</b>	<b>16,465</b>
Other Opg (Exp)/Inc	(14,383)	(7,072)	(9,909)	(13,431)	(14,039)
<b>Operating Profit</b>	<b>3,584</b>	<b>(3,137)</b>	<b>(3,676)</b>	<b>(842)</b>	<b>2,426</b>
Other Non Opg (Exp)/Inc	19	17	20	20	20
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(34)	(32)	(39)	(456)	(516)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>3,569</b>	<b>(3,152)</b>	<b>(3,695)</b>	<b>(1,278)</b>	<b>1,931</b>
Tax	(52)	(23)	(129)	(45)	97
Minority Interest	(110)	150	0	63	81
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>3,407</b>	<b>(3,025)</b>	<b>(3,824)</b>	<b>(1,260)</b>	<b>2,108</b>
Net Profit before Except.	3,407	(3,025)	(3,824)	(1,260)	2,108
EBITDA	4,639	(2,137)	(2,195)	1,458	5,228
<b>Growth</b>					
Revenue Gth (%)	(1.6)	(77.8)	40.7	105.4	45.9
EBITDA Gth (%)	12.8	N/A	(2.7)	N/A	258.7
Opg Profit Gth (%)	21.4	(187.5)	17.2	(77.1)	(388.0)
Net Profit Gth (%)	19.6	N/A	(26.4)	67.0	N/A
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	53.0	52.4	59.0	58.0	52.0
Opg Profit Margin (%)	10.6	(41.8)	(34.8)	(3.9)	7.7
Net Profit Margin (%)	10.1	(40.3)	(36.2)	(5.8)	6.7
ROAE (%)	11.7	(12.3)	(18.5)	(6.5)	10.3
ROA (%)	5.9	(5.7)	(7.7)	(2.3)	3.4
ROCE (%)	7.5	(6.8)	(8.6)	(3.7)	3.2
Div Payout Ratio (%)	48.2	N/A	N/A	N/A	50.1
Net Interest Cover (x)	106.3	(99.0)	(94.3)	(1.8)	4.7

Source: Company, DBS HK

## SJM Holdings

### Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	35,441	39,840	41,087	44,315	49,211
Invt in Associates & JVs	471	488	488	488	488
Other LT Assets	4,771	5,347	5,260	5,158	5,059
Cash & ST Invt	15,525	6,127	1,572	3,072	5,732
Inventory	103	122	95	125	125
Debtors	1,314	798	868	1,189	1,388
<b>Total Assets</b>	<b>57,626</b>	<b>52,722</b>	<b>49,369</b>	<b>54,346</b>	<b>62,002</b>
ST Debt	217	5,272	5,272	5,272	5,272
Creditors	12,044	7,731	4,153	7,492	11,243
Other Current Liab	301	294	294	294	294
LT Debt	15,064	13,515	17,515	20,515	23,515
Other LT Liabilities	763	1,270	1,320	1,280	1,215
Shareholder's Equity	28,998	24,528	20,704	19,443	20,496
Minority Interests	238	112	112	49	(32)
<b>Total Cap. &amp; Liab.</b>	<b>57,626</b>	<b>52,722</b>	<b>49,369</b>	<b>54,346</b>	<b>62,002</b>
Non-Cash Wkg. Capital	(10,928)	(7,105)	(3,484)	(6,472)	(10,023)
Net Cash/(Debt)	244	(12,660)	(21,215)	(22,715)	(23,055)
Debtors Turn (avg days)	14.2	38.8	30.0	20.0	16.0
Creditors Turn (avg days)	296.0	1,097.1	532.0	401.2	331.0
Inventory Turn (avg days)	2.5	17.3	12.2	6.7	3.7
Asset Turnover (x)	0.6	0.1	0.2	0.4	0.5
Current Ratio (x)	1.3	0.5	0.3	0.3	0.4
Quick Ratio (x)	1.3	0.5	0.3	0.3	0.4
Net Debt/Equity (X)	CASH	0.5	1.0	1.2	1.1
Net Debt/Equity ex MI (X)	CASH	0.5	1.0	1.2	1.1
Capex to Debt (%)	36.0	16.2	11.6	21.0	26.4
Z-Score (X)	2.4	2.2	2.0	1.9	1.9

Source: Company, DBS HK

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

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	3,569	(3,152)	(3,695)	(1,278)	1,931
Dep. & Amort.	1,055	1,000	1,482	2,300	2,802
Tax Paid	(52)	(23)	(129)	(45)	97
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	131	(4,980)	(3,621)	2,988	3,552
Other Operating CF	(281)	(338)	0	0	0
<b>Net Operating CF</b>	<b>4,423</b>	<b>(7,493)</b>	<b>(5,964)</b>	<b>3,965</b>	<b>8,381</b>
Capital Exp.(net)	(5,499)	(3,046)	(2,641)	(5,426)	(7,599)
Other Invt.(net)	5,729	5,822	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	4	2	0	0	0
Other Investing CF	501	(239)	0	0	0
<b>Net Investing CF</b>	<b>734</b>	<b>2,539</b>	<b>(2,641)</b>	<b>(5,426)</b>	<b>(7,599)</b>
Div Paid	(1,643)	(1,247)	0	0	(1,056)
Chg in Gross Debt	(225)	3,430	4,000	3,000	3,000
Capital Issues	19	114	0	0	0
Other Financing CF	(894)	(773)	50	(39)	(66)
<b>Net Financing CF</b>	<b>(2,742)</b>	<b>1,523</b>	<b>4,050</b>	<b>2,961</b>	<b>1,878</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	2,415	(3,431)	(4,555)	1,500	2,660
Opg CFPS (HK\$)	0.76	(0.44)	(0.41)	0.17	0.85
Free CFPS (HK\$)	(0.19)	(1.86)	(1.52)	(0.26)	0.14

Source: Company, DBS HK

**SJM Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Oct-21	HK\$6.00	HK\$11.20	Buy

Source: DBS HK

Analyst: Mavis HUI

# China/Hong Kong Company Update

## Sun Art Retail Group

Bloomberg: 6808 HK Equity | Reuters: 6808.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### HOLD

Last Traded Price (7 Feb 2022): HK\$2.91 (HSI : 24,580)  
Price Target 12-mth: HK\$3.06 (5% upside) (Prev HK\$3.81)

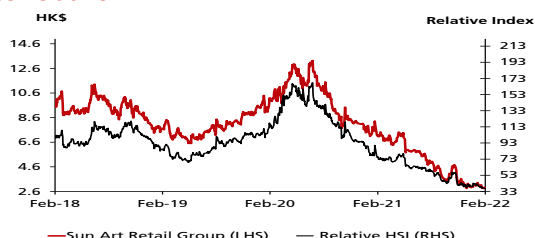
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Clement XU clementxu@dbs.com

#### What's New

- Lingering sales pressure continues to exist with intense competition from CGB, while multi-format and omni-channels may support better recovery in the long-run
- Net profit for FY22/23/24 revised down by 32%/20%/20% in view of lower profitability in the medium-term
- Maintain HOLD with new target price of HK\$3.06

#### Price Relative



#### Forecasts and Valuation

FY Mar (RMBm)	2021A	2022F	2023F	2024F
Turnover	92,679	89,772	97,134	101,990
EBITDA	7,934	5,584	6,625	7,160
Pre-tax Profit	3,201	601	1,333	1,638
Net Profit	2,145	415	920	1,130
Net Pft (Pre Ex) (core profit)	2,145	415	920	1,130
Net Profit Gth (Pre-ex) (%)	(25.3)	(80.7)	121.6	22.9
EPS (RMB)	0.22	0.04	0.10	0.12
EPS (HK\$)	0.28	0.05	0.12	0.15
Core EPS (RMB)	0.22	0.04	0.10	0.12
Core EPS (HK\$)	0.28	0.05	0.12	0.15
EPS Gth (%)	(25.3)	(80.7)	121.6	22.9
Core EPS Gth (%)	(25.3)	(80.7)	121.6	22.9
Diluted EPS (HK\$)	0.28	0.05	0.12	0.15
DPS (HK\$)	0.13	0.03	0.06	0.07
BV Per Share (HK\$)	3.37	3.42	3.29	3.16
PE (X)	10.6	54.6	24.6	20.1
CorePE (X)	10.6	54.6	24.6	20.1
P/Cash Flow (X)	2.8	3.5	3.4	3.3
P/Free CF (X)	4.0	6.6	6.0	5.4
EV/EBITDA (X)	0.4	0.3	0.0	0.0
Net Div Yield (%)	4.6	0.9	2.0	2.5
P/Book Value (X)	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	8.3	1.6	3.5	4.5
Earnings Rev (%):		(32)	(20)	(20)
Consensus EPS (RMB)		0.11	0.17	0.16
Other Broker Recs:		B:9	S:1	H:8

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

### Longer time for recovery

#### Investment Thesis

**Lingering sales pressure.** Competition from community group buying (CGB) players may continue in the near-term, alongside the on-going consolidation in CGB sector. We expect Sun Art's revenue to drop 3% in FY22 due to sales pressure and unfavourable market conditions, but to attain 8%/5% growth in FY23/FY24, in view of normalising operating environment. Net margin recovery might take slightly longer to rebound to >1% by FY24 amid the competitive operating environment in the industry.

#### Multi-format and omni-channels continue to be the focus.

Remodelling of hypermarkets and the expansion of smaller formats (i.e., RT-Super and RT-Mini) are on track. Online business also continues to stay in the spotlight, with increasing focus on self-operated platform, along with the on-going collaboration with Alibaba on CGB businesses.

**Potential for efficiency improvement.** Riding on its direct sourcing power and the expanding fresh processing centres, as well as logistics facility shared with Tmall, Sun Art should be able to further improve its supply chain for a gradual recovery in operating efficiency and profitability.

#### Valuation:

Our new TP of HK\$3.06 (previous TP: HK\$3.81) continues to peg to 26x FY23 PE.

#### Where we differ:

We are more prudent than the market considering the latest sales pressure, while Sun Art may still achieve a faster recovery than its close peers along with accelerated consolidation of the CGB segment.

#### Key Risks to Our View:

Upside risk: faster consolidation amongst CGB grocery players;  
Downside risks: food safety issues; catastrophic events; etc.

#### At A Glance

Issued Capital (m shrs)	9,540
Mkt Cap (HK\$m/US\$m)	27,761 / 3,565
Major Shareholders (%)	
Alibaba Group	78.7
Free Float (%)	21.3
3m Avg. Daily Val. (US\$m)	4.09
GICS Industry: Consumer Staples / Food & Staples Retailing	



Watchlist the stock on Insights Direct to receive prompt updates

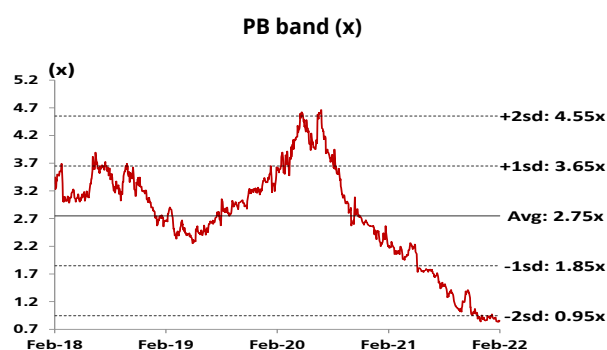
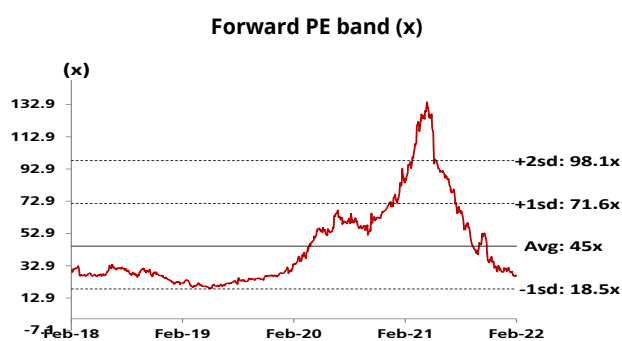
**DBS**  
Live more, Bank less

## Sun Art Retail Group

### Company Background

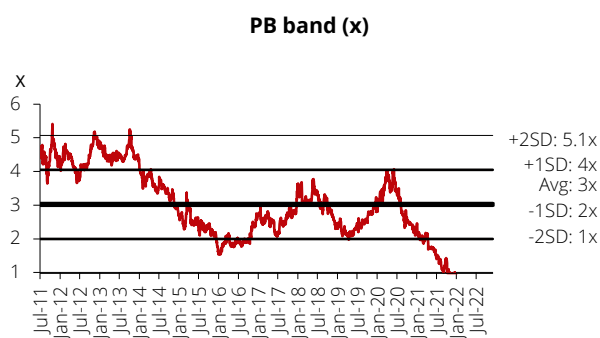
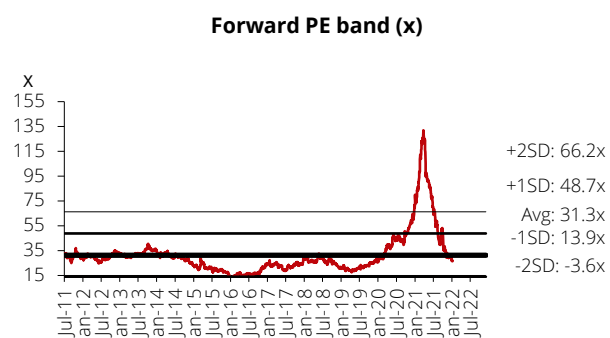
Sun Art is a leading hypermarket operator in China. As of 30 Sep 2021, the company operated a total of 491 hypermarkets under the banners of “RT-Mart” and “Auchan”, six supermarkets under “RT-Super” and 68 “RT-Mini” stores, with total GFA of 13.6m sqm. As of 31 Sep 2021, Taobao China directly or indirectly held 78.7% of the issued share capital in Sun Art, and, therefore, is the ultimate controlling shareholder of the company.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

### 1-yr forward PE and PB band charts (since IPO in 2011)



Source: Thomson Reuters, DBS HK

## Sun Art Retail Group

### Segmental Breakdown (RMB m)

FY Mar	2020A	2021A	2022F	2023F	2024F
<b>Revenues (RMB m)</b>					
Sales of goods	91,984	88,474	85,357	92,409	96,935
Rental income	3,502	4,205	4,415	4,724	5,055
<b>Total</b>	<b>95,486</b>	<b>92,679</b>	<b>89,772</b>	<b>97,134</b>	<b>101,990</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenue	95,486	92,679	89,772	97,134	101,990
Cost of Goods Sold	(71,143)	(67,443)	(66,611)	(71,879)	(75,473)
<b>Gross Profit</b>	<b>24,343</b>	<b>25,236</b>	<b>23,161</b>	<b>25,255</b>	<b>26,518</b>
Other Opg (Exp)/Inc	(19,679)	(21,406)	(22,066)	(23,438)	(24,406)
<b>Operating Profit</b>	<b>4,664</b>	<b>3,830</b>	<b>1,095</b>	<b>1,816</b>	<b>2,111</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(3)	(16)	(2)	(1)	(1)
Net Interest (Exp)/Inc	(547)	(613)	(492)	(482)	(473)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,114</b>	<b>3,201</b>	<b>601</b>	<b>1,333</b>	<b>1,638</b>
Tax	(1,068)	(908)	(156)	(347)	(426)
Minority Interest	(174)	(148)	(30)	(67)	(82)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>2,872</b>	<b>2,145</b>	<b>415</b>	<b>920</b>	<b>1,130</b>
Net Profit before Except.	2,872	2,145	415	920	1,130
EBITDA	8,768	7,934	5,584	6,625	7,160
<b>Growth</b>					
Revenue Gth (%)	0.1	(2.9)	(3.1)	8.2	5.0
EBITDA Gth (%)	(5.7)	(9.5)	(29.6)	18.6	8.1
Opg Profit Gth (%)	(4.6)	(17.9)	(71.4)	65.8	16.2
Net Profit Gth (%)	1.3	(25.3)	(80.7)	121.6	22.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	25.5	27.2	25.8	26.0	26.0
Opg Profit Margin (%)	4.9	4.1	1.2	1.9	2.1
Net Profit Margin (%)	3.0	2.3	0.5	0.9	1.1
ROAE (%)	11.6	8.3	1.6	3.5	4.5
ROA (%)	4.1	3.1	0.6	1.3	1.5
ROCE (%)	10.2	7.9	2.3	3.8	4.6
Div Payout Ratio (%)	0.0	48.9	50.0	50.0	50.0
Net Interest Cover (x)	8.5	6.2	2.2	3.8	4.5

Source: Company, DBS HK

## Sun Art Retail Group

### Balance Sheet (RMB m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	33,054	33,388	31,565	29,607	27,266
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	1,309	1,297	1,309	1,309	1,309
Cash & ST Invt	18,501	21,285	22,728	24,583	26,704
Inventory	14,928	9,990	13,527	14,637	15,368
Debtors	2,835	3,267	3,689	3,992	4,191
Other Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>70,627</b>	<b>69,227</b>	<b>72,819</b>	<b>74,127</b>	<b>74,839</b>
ST Debt	0	0	0	0	0
Creditors	23,819	20,644	24,595	26,612	27,943
Other Current Liab	12,534	13,472	12,777	13,024	13,276
LT Debt	0	0	0	0	0
Other LT Liabilities	7,116	7,257	7,116	7,116	7,116
Shareholder's Equity	25,487	26,223	26,630	25,608	24,654
Minority Interests	1,671	1,631	1,701	1,768	1,850
<b>Total Cap. &amp; Liab.</b>	<b>70,627</b>	<b>69,227</b>	<b>72,819</b>	<b>74,127</b>	<b>74,839</b>
Non-Cash Wkg. Capital	(18,590)	(20,859)	(20,155)	(21,008)	(21,659)
Net Cash/(Debt)	18,501	21,285	22,728	24,583	26,704
Debtors Turn (avg days)	11.1	12.0	14.1	14.4	14.6
Creditors Turn (avg days)	135.2	128.1	132.9	139.3	141.4
Inventory Turn (avg days)	88.9	71.8	69.1	76.6	77.8
Asset Turnover (x)	1.3	1.3	1.3	1.3	1.4
Current Ratio (x)	1.0	1.0	1.1	1.1	1.1
Quick Ratio (x)	0.6	0.7	0.7	0.7	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 (%)	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 (RMB m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	4,114	3,201	601	1,333	1,638
Dep. & Amort.	4,104	4,104	4,489	4,808	5,049
Tax Paid	(1,131)	(1,098)	(156)	(347)	(426)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	918	1,553	1,323	605	399
Other Operating CF	199	203	203	207	211
<b>Net Operating CF</b>	<b>8,204</b>	<b>7,963</b>	<b>6,459</b>	<b>6,606</b>	<b>6,871</b>
Capital Exp.(net)	(1,561)	(2,320)	(3,000)	(2,850)	(2,708)
Other Invt.(net)	(9,750)	(2,852)	7,131	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	368	357	336	336	336
<b>Net Investing CF</b>	<b>(10,943)</b>	<b>(4,815)</b>	<b>4,467</b>	<b>(2,514)</b>	<b>(2,371)</b>
Div Paid	(1,498)	(1,049)	(208)	(460)	(565)
Chg in Gross Debt	0	0	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(1,483)	(1,534)	(1,743)	(1,778)	(1,814)
<b>Net Financing CF</b>	<b>(2,981)</b>	<b>(2,583)</b>	<b>(1,951)</b>	<b>(2,238)</b>	<b>(2,379)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(5,720)	565	8,976	1,855	2,121
Opg CFPS (RMB)	0.76	0.67	0.54	0.63	0.68
Free CFPS (RMB)	0.70	0.59	0.36	0.39	0.44

Source: Company, DBS HK

**Sun Art Retail Group**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-May-21	HK\$5.84	HK\$8.42	Buy
2:	3-Nov-21	HK\$3.72	HK\$3.81	Hold

Source: DBS HK

Analyst: *Mavis HUI*  
*Clement XU*



# China/Hong Kong Company Update

## Tingyi Holdings

Bloomberg: 322 HK EQUITY | Reuters: 0322.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$16.58 (HSI : 24,580)

Price Target 12-mth: HK\$18.10 (9% upside)

#### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com

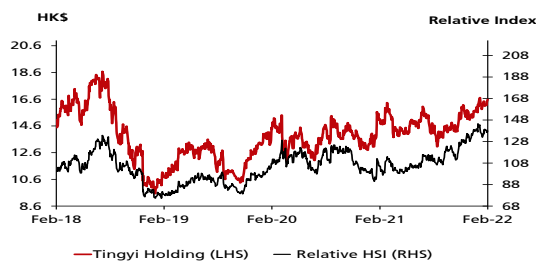
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Alice HUI CFA +852 36684182 alicehuidm@dbs.com

#### What's New

- Tingyi has reverted some of its earlier price hikes due to competitors not following suit in price increases
- Beverage sales to see further demand improving from water, carbonated beverages in FY22F
- Reiterate BUY, TP unchanged

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	67,618	74,008	78,524	83,357
EBITDA	10,029	9,661	10,182	10,360
Pre-tax Profit	6,532	6,224	7,092	7,541
Net Profit	4,062	3,934	4,520	4,800
Net Profit Gth (Pre-ex)(%)	22.0	(3.1)	14.9	6.2
EPS (RMB)	0.72	0.70	0.80	0.85
EPS (HK\$)	0.88	0.86	0.98	1.05
EPS Gth (%)	22.0	(3.1)	14.9	6.2
Diluted EPS (HK\$)	0.88	0.86	0.98	1.05
DPS (HK\$)	0.89	0.86	0.98	1.05
BV Per Share (HK\$)	4.60	4.57	4.70	4.76
PE (X)	18.7	19.3	16.8	15.9
P/Cash Flow (X)	8.9	10.3	12.8	12.7
P/Free CF (X)	11.9	13.0	17.4	17.1
EV/EBITDA (X)	7.2	7.2	6.8	6.6
Net Div Yield (%)	5.3	5.2	5.9	6.3
P/Book Value (X)	3.6	3.6	3.5	3.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	20.0	18.7	21.2	22.1
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (RMB)		0.67	0.76	0.84
Other Broker Recs:		B:16	S:0	H:9

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

### Stabilising growth

#### Investment Thesis

**Instant noodles demand stabilising.** In Jan'22, Tingyi had reverted some of its price hikes on mid-priced packets, and large packs as competitors did not follow suit in price hikes. That said, due to increased demand from COVID'19, 2H21 sales should see further stabilisation versus 1H21, and we forecast instant noodle sales to rise 4% in FY22F.

**Beverage packaging mix adjustment.** The strongest performers include coffee, water, and carbonated beverages within Tingyi's portfolio in FY21. The group is optimistic on Rmb2 sales growth whereas contribution (c.20% of total water sales) is likely to expand steadily, which should drive improvement in the gross profit margin. We forecast beverage sales to rise 7% in FY22F.

**Strong cash position to sustain higher dividend payout.** As of Jun'21, the net cash position stood at Rmb7.8bn (Dec'20: Rmb7.8bn). The group had announced a special dividend during interim results, driving overall dividend payout to exceed 150%. We believe the Group can sustain dividend payout >100% in the medium term, due to its strong cash position and lower capex needs.

#### Valuation:

We value Tingyi at 8x FY22F EV/EBITDA, equivalent to its three-year average.

#### Where we differ:

Our FY22F earnings is 4% higher than consensus estimate on margin recovery in instant noodles.

#### Key Risks to Our View:

Fluctuations in commodity prices such as palm oil, wheat, PET, and sugar; food safety concerns; changes in the number of COVID-19 cases.

#### At A Glance

Issued Capital (m shrs)	5,624
Mkt Cap (HK\$/US\$m)	93,246 / 11,973
Major Shareholders (%)	
Sanyo Foods Company Ltd.	33.4
Ting Hsin (Cayman Islands) Holding Corporation	33.4
Free Float (%)	33.1
3m Avg. Daily Val. (US\$m)	11.30
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates

**DBS**  
Live more, Bank less

## Tingyi Holdings

### Company Background

Market leader in instant noodles and RTD tea. Tingyi is engaged in the production and distribution of instant noodles, beverages, and instant food products mainly under the Master Kong brand in China. The group commenced its instant noodle business in China in 1992 and expanded into beverages and instant food products in 1996. In March 2012, Tingyi formed a strategic alliance with PepsiCo, and became the exclusive manufacturer and distributor of Pepsi's non-alcoholic drinks in China.

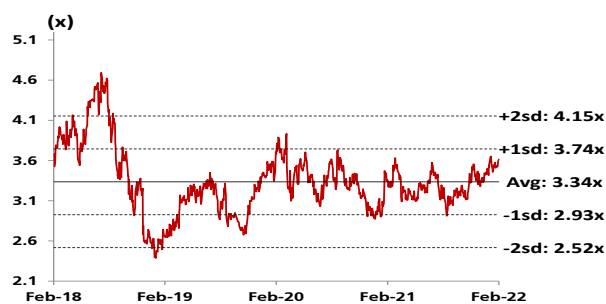
With a nationwide presence of around 365 sales offices serving 47,898 wholesalers and 210,366 direct retailers as of December 2020, Tingyi's network is one of the most extensive among peers. This makes the company an attractive partner for global brands. Apart from the Tingyi-Pepsi alliance, the company has also partnered with Starbucks to produce and sell RTD coffee in China starting from 2016.

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## Tingyi Holdings

### Segmental Breakdown (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
<b>Revenues (RMB m)</b>					
Noodles	23,916	25,295	29,501	29,426	30,733
Beverages	35,311	35,580	37,266	43,774	46,942
Others	1,459	1,102	851	808	848
<b>Total</b>	<b>60,686</b>	<b>61,978</b>	<b>67,618</b>	<b>74,008</b>	<b>78,524</b>
<b>Gross Profit (RMB m)</b>					
Noodles	7,230	7,338	8,644	7,651	8,298
Beverages	11,038	11,987	13,393	15,321	16,899
Others	459	434	395	407	407
<b>Total</b>	<b>18,727</b>	<b>19,759</b>	<b>22,432</b>	<b>23,378</b>	<b>25,604</b>
<b>Gross Profit Margins (%)</b>					
Noodles	30.2	29.0	29.3	26.0	27.0
Beverages	31.3	33.7	35.9	35.0	36.0
Others	31.5	39.4	46.4	50.4	48.0
<b>Total</b>	<b>30.9</b>	<b>31.9</b>	<b>33.2</b>	<b>31.6</b>	<b>32.6</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	60,686	61,978	67,618	74,008	78,524
Cost of Goods Sold	(41,958)	(42,219)	(45,186)	(50,629)	(52,920)
<b>Gross Profit</b>	<b>18,727</b>	<b>19,759</b>	<b>22,432</b>	<b>23,378</b>	<b>25,604</b>
Other Opng (Exp)/Inc	(14,398)	(14,168)	(15,682)	(16,894)	(18,415)
<b>Operating Profit</b>	<b>4,329</b>	<b>5,591</b>	<b>6,750</b>	<b>6,484</b>	<b>7,189</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	72	234	130	140	149
Net Interest (Exp)/Inc	(422)	(414)	(349)	(400)	(400)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>3,979</b>	<b>5,412</b>	<b>6,532</b>	<b>6,224</b>	<b>6,939</b>
Tax	(1,251)	(1,693)	(1,958)	(1,743)	(1,943)
Minority Interest	(265)	(387)	(511)	(547)	(586)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>2,463</b>	<b>3,331</b>	<b>4,062</b>	<b>3,934</b>	<b>4,410</b>
EBITDA	7,725	9,083	10,029	9,661	10,028
<b>Growth</b>					
Revenue Gth (%)	2.9	2.1	9.1	9.4	6.1
EBITDA Gth (%)	3.4	17.6	10.4	(3.7)	3.8
Opg Profit Gth (%)	15.6	29.1	20.7	(3.9)	10.9
Net Profit Gth (%)	35.4	35.2	22.0	(3.1)	12.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	30.9	31.9	33.2	31.6	32.6
Opg Profit Margin (%)	7.1	9.0	10.0	8.8	9.2
Net Profit Margin (%)	4.1	5.4	6.0	5.3	5.6
ROAE (%)	12.9	17.0	20.0	18.7	20.8
ROA (%)	4.6	6.0	6.8	6.2	6.7
ROCE (%)	8.1	10.6	12.2	11.5	12.6
Div Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Interest Cover (x)	10.3	13.5	19.4	16.2	18.0

Source: Company, DBS HK

## Tingyi Holdings

### Balance Sheet (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	24,928	23,014	21,935	20,469	19,350
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	7,168	9,508	10,896	12,149	13,557
Cash & ST Invt	13,840	17,430	21,431	24,013	25,118
Inventory	2,652	3,445	3,348	3,751	3,921
Debtors	4,415	4,562	3,922	4,555	5,061
Other Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>53,003</b>	<b>57,960</b>	<b>61,531</b>	<b>64,937</b>	<b>67,006</b>
ST Debt	6,462	7,454	5,891	5,891	5,891
Creditors	15,477	18,639	18,226	21,584	22,560
Other Current Liab	1,946	2,214	2,954	2,761	2,985
LT Debt	4,373	4,920	7,805	7,805	7,805
Other LT Liabilities	1,133	1,686	1,915	2,011	2,111
Shareholder's Equity	19,653	19,579	21,113	20,985	21,460
Minority Interests	3,959	3,468	3,627	3,900	4,193
<b>Total Cap. &amp; Liab.</b>	<b>53,003</b>	<b>57,960</b>	<b>61,531</b>	<b>64,937</b>	<b>67,006</b>
Non-Cash Wkg. Capital	(10,356)	(12,846)	(13,910)	(16,039)	(16,564)
Net Cash/(Debt)	3,006	5,056	7,735	10,317	11,421
Debtors Turn (avg days)	10.3	10.1	9.7	9.7	9.7
Creditors Turn (avg days)	134.6	164.2	155.6	155.6	155.6
Inventory Turn (avg days)	23.1	29.8	27.0	27.0	27.0
Asset Turnover (x)	1.1	1.1	1.1	1.2	1.2
Current Ratio (x)	0.9	0.9	1.1	1.1	1.1
Quick Ratio (x)	0.8	0.8	0.9	0.9	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	12.5	14.4	15.7	11.4	11.4
Z-Score (X)	2.8	2.6	2.6	2.6	2.6

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	3,979	5,412	6,532	6,224	6,939
Dep. & Amort.	3,210	3,251	3,142	3,031	2,683
Tax Paid	(1,555)	(1,344)	(1,529)	(1,958)	(1,743)
Assoc. & JV Inc/(loss)	(72)	(234)	(130)	(140)	(149)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	1,757	928	756	1,186	(982)
Other Operating CF	(352)	(182)	(217)	(928)	(918)
<b>Net Operating CF</b>	<b>6,968</b>	<b>7,831</b>	<b>8,554</b>	<b>7,415</b>	<b>5,829</b>
Capital Exp.(net)	(1,359)	(1,788)	(2,147)	(1,565)	(1,565)
Other Invt.(net)	2,499	(754)	(1,955)	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	414	1,137	1,213	1,068	1,068
Other Investing CF	0	0	0	0	0
<b>Net Investing CF</b>	<b>1,555</b>	<b>(1,405)</b>	<b>(2,889)</b>	<b>(497)</b>	<b>(497)</b>
Div Paid	(1,070)	(2,601)	(3,730)	(4,336)	(4,228)
Chg in Gross Debt	(3,987)	1,427	(1,074)	0	0
Capital Issues	40	46	4	0	0
Other Financing CF	15	(1,721)	3,169	0	38
<b>Net Financing CF</b>	<b>(5,002)</b>	<b>(2,849)</b>	<b>(1,631)</b>	<b>(4,335)</b>	<b>(4,190)</b>
Currency Adjustments	35	12	(33)	0	0
Chg in Cash	3,556	3,590	4,001	2,582	1,143
Opg CFPS (RMB)	0.93	1.23	1.39	1.11	1.21
Free CFPS (RMB)	1.00	1.07	1.14	1.04	0.76

Source: Company, DBS HK

**Tingyi Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	23-Mar-21	HK\$15.14	HK\$16.40	Hold
2:	16-Nov-21	HK\$16.06	HK\$18.10	Buy
3:	21-Jan-22	HK\$16.12	HK\$18.10	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

# Tsingtao Brewery

Bloomberg: 168 HK EQUITY | 600600 CH Equity | Reuters: 0168.HK | 600600.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## H: BUY

Last Traded Price (7 Feb 2022): HK\$70.45 (HSI : 24,580)

Price Target 12-mth: HK\$91.47 (29.8% upside)

## A: BUY

Last Traded Price (7 Feb 2022): RMB91.64 (CSI300 Index : 4,634)

Price Target 12-mth: RMB98.97 (8.0% upside)

### Analyst

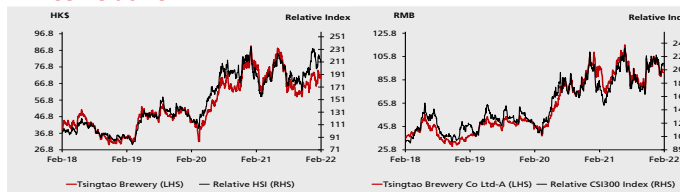
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Clement XU clementxu@dbs.com

### What's New

- Premiumisation is making progress along with continuing product-mix upgrade and ASP growth.
- Potential price hikes could further mitigate raw material cost pressure and support margin expansion.
- Maintain BUY on better earnings outlook.

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	27,760	30,206	32,395	34,354
EBITDA*	3,510	4,325	4,925	5,579
Pre-tax Profit*	3,240	4,500	4,790	5,609
Net Profit*	2,201	3,150	3,277	3,882
Core Profit	1,816	2,194	2,913	3,518
Core Profit Gth (%)	34.8	20.8	32.8	20.8
EPS (RMB)*	1.61	2.31	2.40	2.85
EPS (HK\$)*	1.98	2.83	2.94	3.48
Core EPS (RMB)	1.33	1.61	2.13	2.58
Core EPS (HK\$)	1.63	1.97	2.61	3.16
EPS Gth (%)*	17.7	43.1	4.0	18.5
Core EPS Gth (%)	33.5	20.8	32.8	20.8
Diluted EPS (HK\$)*	1.99	2.83	2.94	3.48
DPS (HK\$)	0.92	1.27	1.32	1.57
BV Per Share (HK\$)	18.50	20.95	23.60	26.87
PE (X)*	35.6	24.9	23.9	20.2
Core PE (X)	43.2	35.8	26.9	22.3
P/Cash Flow (X)	15.8	14.0	19.5	11.0
P/Free CF (X)	21.3	15.0	21.8	11.7
EV/EBITDA (X)	16.9	12.8	10.8	8.7
Net Div Yield (%)	1.3	1.8	1.9	2.2
P/Book Value (X)	3.8	3.4	3.0	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.1	14.3	13.2	13.8
Earnings Rev (%)*		Nil	Nil	Nil
Consensus EPS (RMB)		2.12	2.35	2.68
Other Broker Recs:		B:20	S:1	H:3

(\*FY21F net profit included RMB436m gains of land resumption.)

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

## Encouraging prospects

### Investment Thesis

On-going premiumisation counterbalances the COVID headwinds.

Despite 3Q21's sales volume decline along with the COVID outbreaks in China, Tsingtao still achieved 6% y-o-y growth in average selling price (ASP), thanks to continuing product-mix enhancement. With increasing contribution (i.e., 50%+) from its main brand "Tsingtao", We believe Tsingtao should continue to post an ASP uptrend, at c.5% each year in FY22/FY23 (FY21F: c.7%).

**Cost pressure to ease with future price hikes.** Alongside efficient cost management and on-going premiumisation efforts, Tsingtao Brewery was able to achieve 1.7ppt y-o-y GP margin expansion during 9M21 despite lingering raw material cost pressure. With the support of potential price hikes on certain product lines of "Tsingtao" ahead, we believe the company should be able to further expand its GP margin by c.1ppt each year in FY22/FY23 to 43%/44%.

**Effective brand promotion to secure more market share.** Tsingtao continues to promote its brand image by focusing a bit more on sports (e.g., 2022 Beijing Winter Olympics) and cultural events (e.g., International Beer Festival). Equipped with the initiatives of Tsingtao 1903 Bar, good R&D powers (e.g., non-alcoholic beers), and the expansion into more coastal regions, Tsingtao should further reinforce its influence on younger/higher-income consumer groups to grab more market share in the premium segments.

### Valuation:

Our TP of RMB98.97 for its A-share is benchmarked to 22x FY22 EV/EBITDA, equivalent to 1SD above its 3-year average to reflect its positive growth prospects. This also translates into our TP of HK\$91.47 for its H-share, based on 3-year average discount of c.30% of its H-share vs. A-share.

### Where we differ:

We are slightly more prudent than the market on FY22 revenue, taking into account potential lingering impacts of COVID-19 outbreaks in China.

### Key Risks to Our View:

Unexpected resurgence of COVID-19 cases; lower-than-expected ASP hikes; significant sales volume decline due to weather or market share changes; higher-than-expected raw material costs.

### At A Glance

Issued Capital - H shares (m shs)	655
- Non H shrs (m shs)	709
H shs as a % of Total	48
Total Mkt Cap (HK\$/US\$m)	126,828 / 16,284
Major Shareholders (%)	
Tsingtao Brewery Group Company Limited	57.1
Major H Shareholders (As % of H shares)	
Fosun International Ltd	10.5
Tsingtao Brewery Group Company Limited	5.9
Baillie Gifford & Co.	5.3
H Shares-Free Float (%)	78.4
3m Avg. Daily Val. (US\$m)	37.25
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

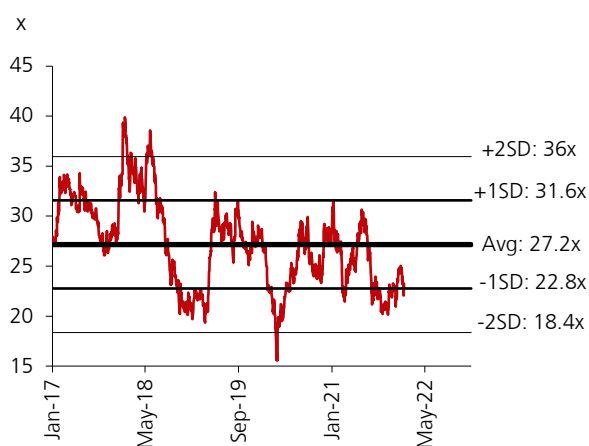
## Tsingtao Brewery

### Company Background

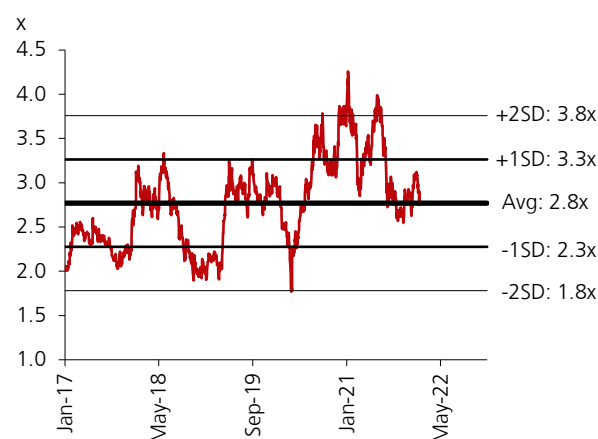
Tsingtao Brewery is the second largest brewer (in terms of sales volume) in China, with sales volume of 7.82m kl in 2020, accounting for around 18% of market share in the country. In 2020, the company's production capacity was 13.49m kl with 60 breweries across 20 provinces/municipalities.

### Historical PE and PB band [H share]

Forward PE band (x)



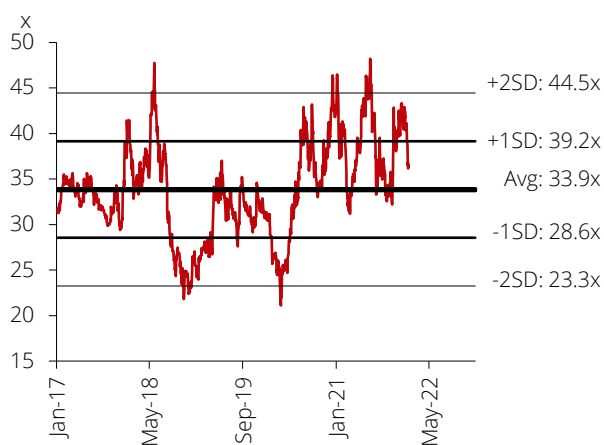
PB band (x)



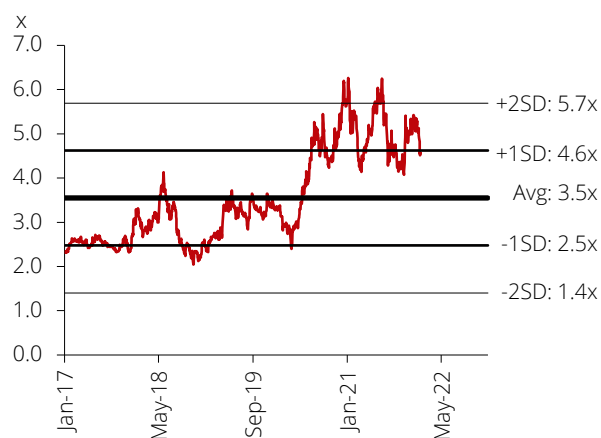
Source: Thomson Reuters, DBS HK

### Historical PE and PB band [A share]

Forward PE band (x)



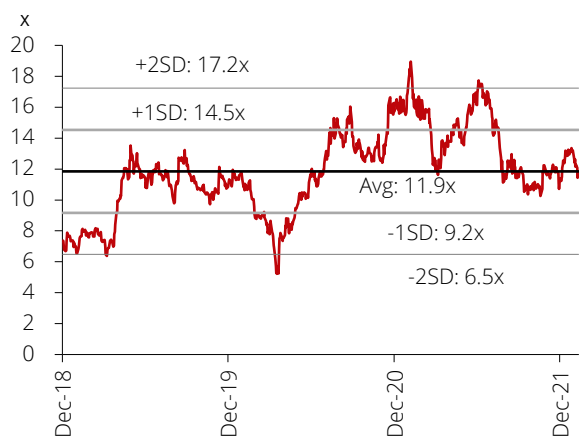
PB band (x)



Source: Thomson Reuters, DBS HK

## Tsingtao Brewery

**Tsingtao Brewery (168 HK) -EV/EBITDA band**



**Tsingtao Brewery (600600 CH) -EV/EBITDA band**



Source: Thomson Reuters, DBS HK



## Tsingtao Brewery

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales volume growth (%)	0.2	(2.9)	1.8	1.9	1.0
ASP growth (%)	5.0	1.9	7.1	5.3	5.0
COGS per unit (RMB/Liter)	2.1	2.1	2.2	2.3	2.3
Distribution & Selling cost as % of Sales	18.2	18.0	18.8	18.2	18.2
Admin cost as % of Sales	6.7	6.0	5.9	5.9	5.9

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Shandong	18,299	18,026	19,469	20,637	21,875
China (other than Shandong)	9,012	9,172	10,067	11,055	11,740
Overseas	672	562	670	704	739
<b>Total</b>	<b>27,984</b>	<b>27,760</b>	<b>30,206</b>	<b>32,395</b>	<b>34,354</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	27,984	27,760	30,206	32,395	34,354
Cost of Goods Sold	(17,080)	(16,541)	(17,519)	(18,491)	(19,239)
<b>Gross Profit</b>	<b>10,903</b>	<b>11,219</b>	<b>12,687</b>	<b>13,904</b>	<b>15,115</b>
Other Opng (Exp)/Inc	(9,187)	(8,854)	(9,440)	(10,113)	(10,741)
<b>Operating Profit</b>	<b>1,717</b>	<b>2,365</b>	<b>3,247</b>	<b>3,791</b>	<b>4,374</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	21	18	24	30	30
Net Interest (Exp)/Inc	484	471	273	605	841
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	505	386	956	364	364
<b>Pre-tax Profit</b>	<b>2,727</b>	<b>3,240</b>	<b>4,500</b>	<b>4,790</b>	<b>5,609</b>
Tax	(798)	(913)	(1,260)	(1,413)	(1,627)
Minority Interest	(77)	(126)	(90)	(100)	(100)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,852</b>	<b>2,201</b>	<b>3,150</b>	<b>3,277</b>	<b>3,882</b>
Net Profit before Except.	1,347	1,816	2,194	2,913	3,518
EBITDA	2,841	3,510	4,325	4,925	5,579
<b>Growth</b>					
Revenue Gth (%)	5.3	(0.8)	8.8	7.2	6.0
EBITDA Gth (%)	7.2	23.5	23.2	13.9	13.3
Opg Profit Gth (%)	14.6	37.8	37.3	16.7	15.4
Net Profit Gth (%)	30.2	18.9	43.1	4.0	18.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	39.0	40.4	42.0	42.9	44.0
Opg Profit Margin (%)	6.1	8.5	10.7	11.7	12.7
Net Profit Margin (%)	6.6	7.9	10.4	10.1	11.3
ROAE (%)	10.0	11.1	14.3	13.2	13.8
ROA (%)	5.2	5.6	7.2	6.9	7.5
ROCE (%)	5.2	6.7	8.3	8.5	8.9
Div Payout Ratio (%)	40.1	46.5	45.0	45.0	45.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Tsingtao Brewery

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	10,401	10,642	10,578	10,929	11,418
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	5,910	6,244	6,186	6,178	6,163
Cash & ST Invts	16,826	20,356	25,145	27,332	32,539
Inventory	3,182	3,281	2,479	3,601	2,724
Debtors	151	120	147	158	167
Other Current Assets	843	872	886	886	886
<b>Total Assets</b>	<b>37,312</b>	<b>41,514</b>	<b>45,421</b>	<b>49,085</b>	<b>53,898</b>
ST Debt	271	703	1,303	1,303	1,303
Creditors	2,388	2,372	2,807	2,747	3,143
Other Current Liab	10,695	12,435	12,754	13,425	14,102
LT Debt	0	0	0	0	0
Other LT Liabilities	4,045	4,636	4,368	4,368	4,368
Shareholder's Equity	19,172	20,622	23,352	26,305	29,945
Minority Interests	742	746	836	936	1,036
<b>Total Cap. &amp; Liab.</b>	<b>37,312</b>	<b>41,514</b>	<b>45,421</b>	<b>49,085</b>	<b>53,898</b>
Non-Cash Wkg. Capital	(8,907)	(10,534)	(12,050)	(11,528)	(13,468)
Net Cash/(Debt)	16,555	19,652	23,842	26,029	31,235
Debtors Turn (avg days)	1.7	1.8	1.8	1.8	1.8
Creditors Turn (avg days)	32.3	31.3	31.3	31.3	31.3
Inventory Turn (avg days)	62.3	71.3	60.0	60.0	60.0
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.7
Current Ratio (x)	1.6	1.6	1.7	1.8	2.0
Quick Ratio (x)	1.3	1.3	1.5	1.6	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	426.1	184.2	29.8	32.9	32.9
Z-Score (X)	4.5	4.6	4.6	4.5	4.5

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,727	3,240	4,500	4,790	5,609
Dep. & Amort.	1,102	1,103	1,079	1,135	1,205
Tax Paid	(819)	(798)	(913)	(1,260)	(1,413)
Assoc. & JV Inc/(loss)	(21)	(18)	(24)	(30)	(30)
(Pft)/ Loss on disposal of FAs	248	20	0	0	0
Chg in Wkg.Cap.	878	1,691	1,168	(675)	1,726
Other Operating CF	(99)	(284)	(199)	73	13
<b>Net Operating CF</b>	<b>4,017</b>	<b>4,953</b>	<b>5,611</b>	<b>4,033</b>	<b>7,109</b>
Capital Exp.(net)	(1,155)	(1,295)	(389)	(428)	(428)
Other Invts.(net)	807	(193)	(7,111)	3,500	2,500
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
<b>Net Investing CF</b>	<b>(348)</b>	<b>(1,488)</b>	<b>(7,500)</b>	<b>3,072</b>	<b>2,072</b>
Div Paid	(711)	(793)	(1,023)	(1,418)	(1,475)
Chg in Gross Debt	0	0	600	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(58)	437	0	0	0
<b>Net Financing CF</b>	<b>(769)</b>	<b>(356)</b>	<b>(423)</b>	<b>(1,418)</b>	<b>(1,475)</b>
Currency Adjustments	4	(24)	(10)	0	0
Chg in Cash	2,904	3,086	(2,322)	5,687	7,706
Opg CFPS (RMB)	2.32	2.40	3.26	3.45	3.95
Free CFPS (RMB)	2.12	2.69	3.83	2.64	4.90

Source: Company, DBS HK

## Tsingtao Brewery

### H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	18-Jan-22	HK\$66.60	HK\$91.47	Buy

Source: DBS HK

Analyst: Mavis HUI  
Clement XU

### A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	18-Jan-22	RMB89.18	RMB98.97	Buy

Source: DBS HK

Analyst: Mavis HUI  
Clement XU

# 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

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): HK\$7.44 (HSI : 24,580)

Price Target 12-mth: HK\$9.30 (25% upside)

### Analyst

Alison FOK +852 36684170 alisonfok@dbs.com

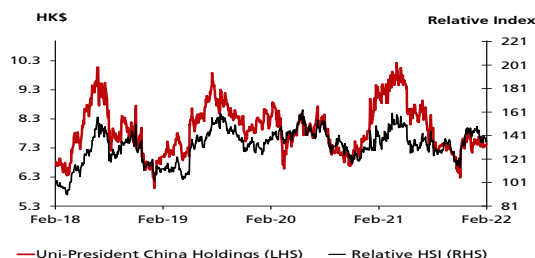
Mavis HUI +852 36684188 mavis\_hui@dbs.com

Alice HUI CFA +852 36684182 alicehuidm@dbs.com

### 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)	2020A	2021F	2022F	2023F
Turnover	22,762	24,833	26,484	28,230
EBITDA	4,727	2,952	3,215	3,437
Pre-tax Profit	2,326	2,089	2,392	2,644
Net Profit	1,626	1,460	1,672	1,848
Net Profit Gth (Pre-ex)(%)	19.0	(10.2)	14.5	10.6
EPS (RMB)	0.38	0.34	0.39	0.43
EPS (HK\$)	0.46	0.41	0.47	0.52
EPS Gth (%)	19.0	(10.2)	14.5	10.6
Diluted EPS (HK\$)	0.46	0.41	0.47	0.52
DPS (HK\$)	0.46	0.41	0.47	0.52
BV Per Share (HK\$)	3.94	3.89	3.95	4.00
PE (X)	16.1	18.0	15.7	14.2
P/Cash Flow (X)	8.2	8.9	9.1	8.7
P/Free CF (X)	9.0	11.1	10.5	10.0
EV/EBITDA (X)	5.1	7.9	6.9	6.2
Net Div Yield (%)	6.2	5.6	6.4	7.0
P/Book Value (X)	1.9	1.9	1.9	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	11.8	10.6	12.1	13.2
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (RMB)		0.34	0.39	0.44
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%.

### Where we differ:

We forecast 7% y-o-y sales growth for FY22F, versus consensus estimate of 6%.

### Key Risks to Our View:

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

### At A Glance

Issued Capital (m shrs)	4,319
Mkt Cap (HK\$m/US\$m)	32,133 / 4,126
Major Shareholders (%)	
Uni-President Enterprises Corp	71.6
Free Float (%)	28.4
3m Avg. Daily Val. (US\$m)	4.83
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

## 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.

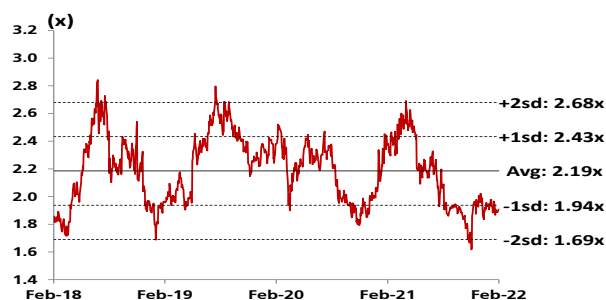
UPC has the second-largest market share in the instant noodles and ready-to-drink (RTD) tea markets. It is the third-largest player in juices (below 26% juice content), after Coca-Cola and Tingyi (Source: AC Nielsen).

### 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	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Beverage	12,730	12,560	14,359	15,235	16,181
Instant noodles	8,501	9,424	9,658	10,384	11,132
Others	788	777	816	865	917
<b>Total</b>	<b>22,020</b>	<b>22,762</b>	<b>24,833</b>	<b>26,484</b>	<b>28,230</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	22,020	22,762	24,833	26,484	28,230
Cost of Goods Sold	(14,101)	(14,696)	(16,277)	(17,230)	(18,272)
<b>Gross Profit</b>	<b>7,918</b>	<b>8,066</b>	<b>8,556</b>	<b>9,253</b>	<b>9,958</b>
Other Opng (Exp)/Inc	(6,112)	(5,958)	(6,705)	(7,115)	(7,567)
<b>Operating Profit</b>	<b>1,806</b>	<b>2,108</b>	<b>1,851</b>	<b>2,139</b>	<b>2,391</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	13	46	50	55	55
Net Interest (Exp)/Inc	152	172	188	198	198
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,971</b>	<b>2,326</b>	<b>2,089</b>	<b>2,392</b>	<b>2,644</b>
Tax	(605)	(701)	(629)	(720)	(796)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,366</b>	<b>1,626</b>	<b>1,460</b>	<b>1,672</b>	<b>1,848</b>
EBITDA	4,581	4,727	2,952	3,215	3,437
<b>Growth</b>					
Revenue Gth (%)	1.1	3.4	9.1	6.6	6.6
EBITDA Gth (%)	66.5	3.2	(37.5)	8.9	6.9
Opg Profit Gth (%)	35.6	16.7	(12.2)	15.5	11.8
Net Profit Gth (%)	32.7	19.0	(10.2)	14.5	10.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	36.0	35.4	34.5	34.9	35.3
Opg Profit Margin (%)	8.2	9.3	7.5	8.1	8.5
Net Profit Margin (%)	6.2	7.1	5.9	6.3	6.5
ROAE (%)	10.2	11.8	10.6	12.1	13.2
ROA (%)	6.3	7.4	6.6	7.4	8.0
ROCE (%)	8.1	9.8	8.7	10.1	11.1
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)
<b>Margins</b>					
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	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	8,902	7,977	7,326	6,705	6,114
Invt in Associates & JVs	780	794	794	794	794
Other LT Assets	5,057	7,172	7,317	7,267	7,217
Cash & ST Invt	3,954	2,970	3,701	4,739	5,694
Inventory	1,739	1,943	1,723	1,829	1,944
Debtors	1,280	1,208	1,324	1,435	1,555
Other Current Assets	45	39	39	39	39
<b>Total Assets</b>	<b>21,757</b>	<b>22,104</b>	<b>22,224</b>	<b>22,807</b>	<b>23,357</b>
ST Debt	1,163	487	487	487	487
Creditors	4,650	5,148	5,302	5,461	5,625
Other Current Liab	1,828	2,031	2,161	2,374	2,584
LT Debt	254	254	254	254	254
Other LT Liabilities	229	298	298	298	298
Shareholder's Equity	13,633	13,887	13,721	13,933	14,109
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>21,757</b>	<b>22,104</b>	<b>22,224</b>	<b>22,807</b>	<b>23,357</b>
Non-Cash Wkg. Capital	(3,414)	(3,988)	(4,378)	(4,532)	(4,671)
Net Cash/(Debt)	2,536	2,229	2,960	3,998	4,953
Debtors Turn (avg days)	9.1	9.2	8.9	9.0	9.0
Creditors Turn (avg days)	42.4	44.7	44.4	45.4	45.4
Inventory Turn (avg days)	38.4	38.1	36.9	37.6	37.7
Asset Turnover (x)	1.0	1.0	1.1	1.2	1.2
Current Ratio (x)	0.9	0.8	0.9	1.0	1.1
Quick Ratio (x)	0.7	0.5	0.6	0.7	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	30.1	40.4	80.2	54.0	54.0
Z-Score (X)	3.8	3.8	3.8	3.8	3.8

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

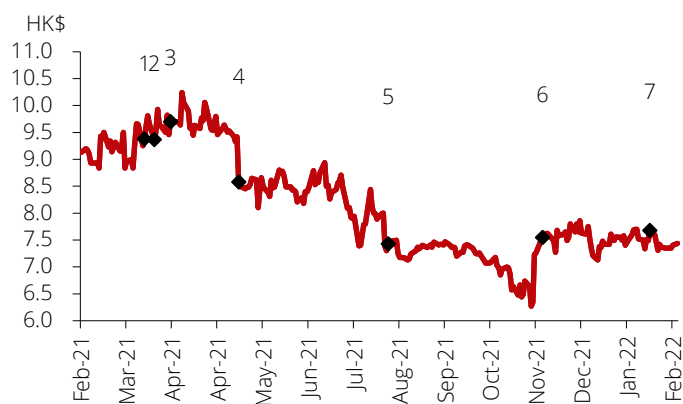
FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,971	2,326	2,089	2,392	2,644
Dep. & Amort.	2,762	2,573	1,051	1,021	991
Tax Paid	(632)	(613)	(701)	(629)	(720)
Assoc. & JV Inc/(loss)	(13)	(46)	(50)	(55)	(55)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(2,194)	(1,653)	462	64	62
Other Operating CF	975	627	100	105	105
<b>Net Operating CF</b>	<b>2,869</b>	<b>3,215</b>	<b>2,951</b>	<b>2,898</b>	<b>3,027</b>
Capital Exp.(net)	(427)	(299)	(594)	(400)	(400)
Other Invt.(net)	(32)	(8)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1,011)	(1,394)	0	0	0
<b>Net Investing CF</b>	<b>(1,470)</b>	<b>(1,701)</b>	<b>(594)</b>	<b>(400)</b>	<b>(400)</b>
Div Paid	(1,082)	(1,408)	(1,626)	(1,460)	(1,672)
Chg in Gross Debt	(824)	(676)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(166)	(413)	0	0	0
<b>Net Financing CF</b>	<b>(2,071)</b>	<b>(2,497)</b>	<b>(1,626)</b>	<b>(1,460)</b>	<b>(1,672)</b>
Currency Adjustments	(1)	(1)	0	0	0
Chg in Cash	(673)	(983)	731	1,038	956
Opg CFPS (RMB)	1.17	1.13	0.58	0.66	0.69
Free CFPS (RMB)	0.57	0.68	0.55	0.58	0.61

Source: Company, DBS HK



**Uni-President China Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Mar-21	HK\$9.25	HK\$10.60	Buy
2:	22-Mar-21	HK\$9.66	HK\$10.60	Buy
3:	1-Apr-21	HK\$9.46	HK\$10.60	Buy
4:	13-May-21	HK\$9.42	HK\$10.60	Buy
5:	13-Aug-21	HK\$7.30	HK\$8.70	Buy
6:	16-Nov-21	HK\$7.50	HK\$9.30	Buy
7:	21-Jan-22	HK\$7.49	HK\$9.30	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

## Vinda Int'l

Bloomberg: 3331 HK EQUITY | Reuters: 3331.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$21.60 (HSI : 24,580)

Price Target 12-mth: HK\$25.53 (18% upside)

#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com

Kay Tan kaytanx@dbs.com

#### What's New

- GP margin to stay supportive via effective premiumisation strategy and cost control capabilities
- Further investments on brand building, product R&D and sales channels could beef up future growth power
- Strengthening e-commerce advantages should also reinforce a positive medium-term outlook. Maintain BUY

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	16,512	18,676	21,247	23,824
EBITDA	3,601	3,291	3,885	4,367
Pre-tax Profit	2,326	1,950	2,434	2,925
Net Profit	1,874	1,638	2,044	2,428
Net Profit Gth (%)	64.7	(12.6)	24.8	18.8
EPS (HK\$)	1.56	1.36	1.70	2.02
EPS Gth (%)	64.3	(12.8)	24.8	18.8
Diluted EPS (HK\$)	1.44	1.26	1.57	1.87
DPS (HK\$)	0.44	0.38	0.48	0.57
BV Per Share (HK\$)	9.74	10.84	10.95	11.56
PE (X)	13.8	15.8	12.7	10.7
P/Cash Flow (X)	12.9	9.8	10.8	9.0
P/Free CF (X)	79.1	28.7	43.1	25.6
EV/EBITDA (X)	8.2	9.0	7.7	6.8
Net Div Yield (%)	2.0	1.8	2.2	2.6
P/Book Value (X)	2.2	2.0	2.0	1.9
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE (%)	17.7	13.3	15.6	18.0
Earnings Rev (%)			Nil	Nil
Consensus EPS (HK\$)			1.60	1.85
Other Broker Recs:		B:15	S:2	H:3

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

### Premium products in the spotlight

#### Investment Thesis

**Consumption upgrades.** The high-end tissue product portfolio, which scored over 30% y-o-y growth in 2021, is expected to sustain its rapid growth, given the accelerated premiumisation trend in China. Such performance should also help in supporting group profitability and create synergies for the growth of other products.

**Expansion of feminine care market share.** Vinda's feminine care products achieved fast growth in China last year along with substantial increase in repeated purchases. This should reinforce the group's total market position and profitability.

**E-commerce advantage.** Vinda is among the leading players in the industry that sustains strong e-commerce penetration in China (77% of group revenue in 2021). With continuous investment in channel deployment, its strength should continue to drive performance ahead.

#### Valuation:

Our TP of HK\$25.53 is based on 15x FY22 PE, which is equivalent to its four-year average PE.

#### Where we differ:

We maintain a conservative attitude amid potential raw material cost fluctuation and the pandemic impacts. Nevertheless, increasing investments in brand building, channel deployment, etc. should all support growth and profitability over the next few years.

#### Key Risks to Our View:

Higher-than-expected raw material price hikes; intensified market competition; and resurgence of new COVID-19 cases.

#### At A Glance

Issued Capital (m shrs)	1,201
Mkt Cap (HK\$m/US\$m)	25,641 / 3,292
Major Shareholders (%)	
Essity Aktiebolag (publ)	51.7
Fu An International Co., Ltd.	21.9
Free Float (%)	26.4
3m Avg. Daily Val. (US\$m)	3.94
GICS Industry: Consumer Staples / Household & Personal Products	



Watchlist the stock on Insights Direct to receive prompt updates



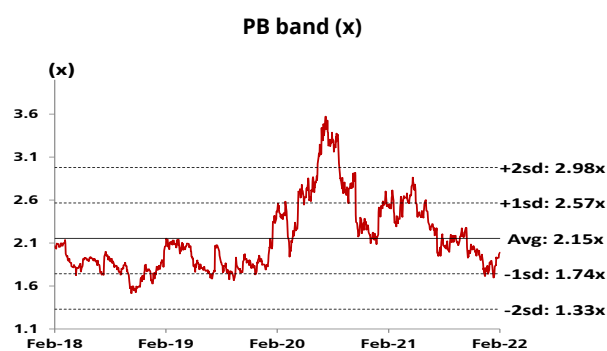
Live more, Bank less

## Vinda Int'l

### Company Background

Vinda is a manufacturer of personal hygiene products including tissue paper and personal care products (e.g. feminine, baby and continence care products) under the brands of "Vinda", "Tempo", "Tork", "TENA", "Dr. P", "Libresse", "VIA", "Libero", and "Drypers". In recent years, Vinda has been actively expanding its premium tissue and personal care products to further enhance its brand- and product-mix and enrich overall brand portfolio.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Vinda Int'l

## Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Tissue sales	13,254.0	13,608.0	15,501.0	17,738.3	19,929.2
Personal care sales	2,820.3	2,904.0	3,175.0	3,508.4	3,894.3
Tissue gross margin	31.4	38.3	35.4	35.8	36.0
Personal care gross margin	29.1	34.7	35.1	35.5	36.0
E-commerce channel growth	25.3	27.5	23.0	24.0	22.0

Source: Company, DBS HK

## Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	16,074	16,512	18,676	21,247	23,824
Cost of Goods Sold	(11,089)	(10,289)	(12,079)	(13,651)	(15,247)
<b>Gross Profit</b>	<b>4,985</b>	<b>6,223</b>	<b>6,596</b>	<b>7,596</b>	<b>8,576</b>
Other Opng (Exp)/Inc	(3,416)	(3,770)	(4,553)	(5,027)	(5,517)
<b>Operating Profit</b>	<b>1,570</b>	<b>2,453</b>	<b>2,043</b>	<b>2,569</b>	<b>3,059</b>
Other Non Opng (Exp)/Inc	(6)	(6)	(7)	(7)	(7)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(193)	(120)	(86)	(128)	(127)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,371</b>	<b>2,326</b>	<b>1,950</b>	<b>2,434</b>	<b>2,925</b>
Tax	(232)	(452)	(311)	(389)	(497)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,138</b>	<b>1,874</b>	<b>1,638</b>	<b>2,044</b>	<b>2,428</b>
Net Profit before Except.	1,138	1,874	1,638	2,044	2,428
EBITDA	2,678	3,601	3,291	3,885	4,367
<b>Growth</b>					
Revenue Gth (%)	8.0	2.7	13.1	13.8	12.1
EBITDA Gth (%)	36.5	34.4	(8.6)	18.0	12.4
Opg Profit Gth (%)	53.9	56.3	(16.7)	25.7	19.1
Net Profit Gth (%)	75.3	64.7	(12.6)	24.8	18.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.0	37.7	35.3	35.8	36.0
Opg Profit Margin (%)	9.8	14.9	10.9	12.1	12.8
Net Profit Margin (%)	7.1	11.4	8.8	9.6	10.2
ROAE (%)	12.5	17.7	13.3	15.6	18.0
ROA (%)	5.9	8.8	6.9	8.3	9.5
ROCE (%)	9.1	12.8	9.8	11.6	13.4
Div Payout Ratio (%)	29.4	28.1	28.1	28.1	28.1
Net Interest Cover (x)	8.1	20.4	23.7	20.1	24.2

Source: Company, DBS HK

## Vinda Int'l

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

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	8,858	10,117	11,226	11,865	12,831
Invts in Associates & JVs	3	2	2	2	3
Other LT Assets	4,491	4,631	4,593	4,717	4,783
Cash & ST Invts	460	749	1,025	939	1,164
Inventory	3,223	4,774	4,427	4,502	4,609
Debtors	2,214	2,809	2,864	2,807	2,984
Other Current Assets	32	39	44	50	56
<b>Total Assets</b>	<b>19,281</b>	<b>23,122</b>	<b>24,181</b>	<b>24,883</b>	<b>26,430</b>
ST Debt	584	1,445	867	997	991
Creditors	4,604	5,640	5,432	5,799	6,745
Other Current Liab	422	749	300	416	355
LT Debt	3,572	2,986	3,929	3,869	3,782
Other LT Liabilities	636	633	635	653	674
Shareholder's Equity	9,463	11,667	13,019	13,149	13,883
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>19,281</b>	<b>23,122</b>	<b>24,181</b>	<b>24,883</b>	<b>26,430</b>
Non-Cash Wkg. Capital	443	1,232	1,604	1,145	549
Net Cash/(Debt)	(3,696)	(3,682)	(3,771)	(3,927)	(3,609)
Debtors Turn (avg days)	52.7	55.5	55.4	48.7	44.4
Creditors Turn (avg days)	165.3	144.8	131.3	118.1	117.7
Inventory Turn (avg days)	109.2	141.9	139.0	119.4	109.1
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.9
Current Ratio (x)	1.1	1.1	1.3	1.2	1.1
Quick Ratio (x)	0.5	0.5	0.6	0.5	0.5
Net Debt/Equity (X)	0.4	0.3	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.3	0.3
Capex to Debt (%)	29.4	37.8	36.3	37.2	39.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

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

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,371	2,326	1,950	2,434	2,925
Dep. & Amort.	1,109	1,148	1,248	1,316	1,308
Tax Paid	(173)	(498)	(460)	(576)	(735)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(17)	(15)	0	0	0
Chg in Wkg.Cap.	153	(896)	0	(610)	(452)
Other Operating CF	70	(62)	(91)	(152)	(147)
<b>Net Operating CF</b>	<b>2,514</b>	<b>2,004</b>	<b>2,647</b>	<b>2,412</b>	<b>2,898</b>
Capital Exp.(net)	(1,224)	(1,677)	(1,742)	(1,810)	(1,885)
Other Invts.(net)	(65)	(34)	(45)	(37)	(39)
Invts in Assoc. & JV	(3)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	19	(15)	27	60	44
<b>Net Investing CF</b>	<b>(1,273)</b>	<b>(1,725)</b>	<b>(1,759)</b>	<b>(1,788)</b>	<b>(1,879)</b>
Div Paid	(251)	(372)	(564)	(575)	(683)
Chg in Gross Debt	(1,028)	364	(12)	(79)	(55)
Capital Issues	3	53	23	0	0
Other Financing CF	(71)	(77)	(85)	(85)	(85)
<b>Net Financing CF</b>	<b>(1,347)</b>	<b>(31)</b>	<b>(638)</b>	<b>(739)</b>	<b>(822)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(106)	248	249	(114)	197
Opg CFPS (HK\$)	1.98	2.42	2.20	2.52	2.79
Free CFPS (HK\$)	1.08	0.27	0.75	0.50	0.84

Source: Company, DBS HK

**Vinda Int'l**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Sep-21	HK\$22.50	HK\$25.91	Buy
2:	27-Jan-22	HK\$21.00	HK\$25.53	Buy

Source: DBS HK

Analyst: *Mavis HUI*  
*Kay Tan*

# China/Hong Kong Company Update

## WH Group Ltd

Bloomberg: 288 HK Equity | Reuters: 0288.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (7 Feb 2022): HK\$5.30 (HSI : 24,580)  
Price Target 12-mth: HK\$6.30 (19% upside) (Prev HK\$8.30)

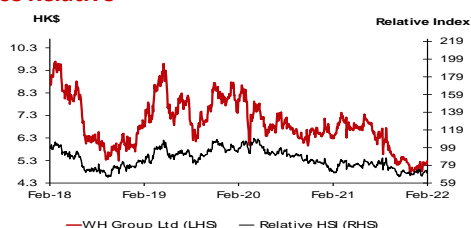
#### Analyst

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

#### What's New

- Expect China pork segment to see stabilising profitability with favourable hog prices
- US packaged meat and pork segment to see gradual recovery driven by favourable price spread
- Maintain BUY, TP adjusted to HK\$6.30

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	25,589	26,799	27,758	27,963
EBITDA	2,113	2,008	2,127	2,263
Pre-tax Profit	1,500	1,780	1,919	2,070
Net Profit	973	1,133	1,293	1,416
Net Pft (Pre Ex) (core profit)	973	1,133	1,293	1,416
Net Profit Gth (Pre-ex) (%)	(29.5)	16.4	14.1	9.6
EPS (US\$)	0.07	0.09	0.10	0.11
EPS (HK\$)	0.51	0.68	0.78	0.86
EPS Gth (%)	(29.4)	33.6	14.1	9.6
Diluted EPS (HK\$)	0.51	0.68	0.78	0.86
DPS (HK\$)	0.18	0.27	0.27	0.30
BV Per Share (HK\$)	5.27	5.37	5.99	6.57
PE (X)	10.3	7.7	6.8	6.2
P/Cash Flow (X)	4.3	8.6	7.6	6.6
P/Free CF (X)	5.6	20.8	16.0	12.1
EV/EBITDA (X)	5.7	6.3	5.8	5.4
Net Div Yield (%)	3.3	5.2	5.2	5.7
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	0.1	0.3	0.2	0.2
ROAE (%)	10.4	12.0	13.8	13.6
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (US\$)		0.08	0.10	0.11
Other Broker Recs:		B:21	S:0	H:1

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

### Stable recovery

#### Investment Thesis

**China operations to see a reprieve.** China accounted for 42%/67% of FY20 sales/operating profit. China hog prices have seen mild stabilisation in 3Q21, with management expectations that prices will remain manageable between Rmb14-18/kg in FY22F. This should stabilise the profitability of the group's Pork segment.

#### US operations bolstered by domestic economy recovery.

COVID-19 had a negative impact on the group's US business from its disruption in production plants and impact on B2B channels. Operating profit declined 55% y-o-y in FY20. The US operations have benefited from the reopening of the economy, with improving volumes in the packaging meat segment. In 3Q21, sales to the catering channel have reached c.90% of 2019 levels, suggesting strong improvement and normalisation in the channel mix. While domestic hog prices are expected to remain high in FY22F, domestic demand remains buoyant, while the meat-hog price spread should remain attractive. We forecast US operating profit to continue to recover, driven by packaged meat.

**Reprieve from one-off losses.** WH Group is expected to account for US\$340m worth of lawsuit settlement, with roughly US\$170m to be accounted for in 4Q21. Without this occurrence, WH Group should see a reprieve in earnings in FY21F.

#### Valuation:

Our TP is based on SOTP valuation, where we value China operations at 13x (Prev 14x) and US operations at 6x (9x) as we take a more conservative view on export business. The stock is trading at a 6.8x FY22F PE.

#### Where we differ:

Our FY22F/FY23F earnings are in-line with consensus

#### Key Risks to Our View:

Declining domestic demand; volatility in raw material prices (corn and hog prices); trade and regulation changes; food safety issues; and disease outbreaks.

#### At A Glance

Issued Capital (m shrs)	14,745
Mkt Cap (HK\$/US\$m)	78,149 / 10,034
Major Shareholders (%)	
Rise Grand Group Ltd.	27.1
Wan (Long)	7.2
Mondrian Investment Partners Ltd.	6.0
Free Float (%)	59.7
3m Avg. Daily Val. (US\$m)	17.31
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates

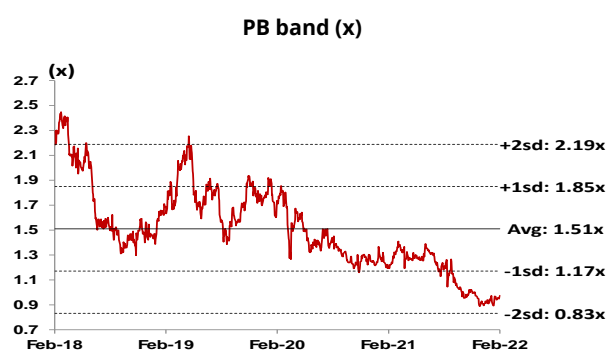
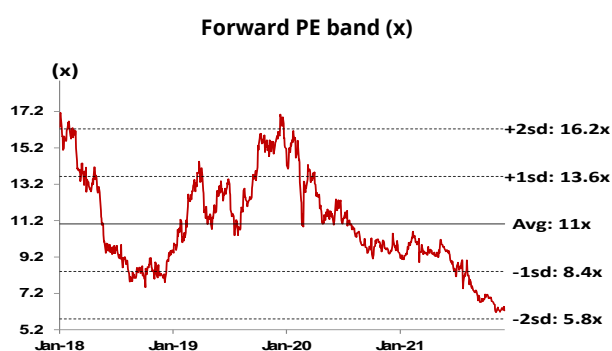
**DBS**  
Live more, Bank less

## WH Group Ltd

### Company Background

WH Group is the largest pork company in the world, with leading positions in China, the US, and key markets in Europe. The group operates an integrated pork business chain including hog production, fresh pork, and packaged meat. WH Group is a controlling shareholder of Shuanghui Development (000895:CH) with a 70.33% stake, Asia's largest meat processing business, and controls 100% of Smithfield. As at end-2020, the group had a total of 4.25m tons of packaged meat production capacity (US: 2.12m tons; China: 1.71m tons; Europe: 0.42m tons), and 65.42m heads of fresh pork production capacity (China: 23.73m heads; US: 34.6m heads; Europe: 7.63m heads).

### Historical PE and PB band



Source: Thomson Reuters, DBS HK



## WH Group Ltd

### Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (US\$ m)</b>					
China	8,756	10,828	10,627	11,388	11,415
US	13,159	12,363	13,677	13,835	13,973
Others	2,188	2,398	2,494	2,534	2,575
<b>Total</b>	<b>24,103</b>	<b>25,589</b>	<b>26,799</b>	<b>27,758</b>	<b>27,963</b>
<b>Segment result (US\$ m)</b>					
China	957	1,140	1,130	976	982
US	932	415	707	844	979
Others	142	174	162	177	189
<b>Total</b>	<b>2,031</b>	<b>1,729</b>	<b>1,999</b>	<b>1,998</b>	<b>2,149</b>

Source: Company, DBS HK

### Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	24,103	25,589	26,799	27,758	27,963
Cost of Goods Sold	(18,102)	(21,096)	(21,932)	(22,790)	(22,821)
<b>Gross Profit</b>	<b>6,001</b>	<b>4,493</b>	<b>4,867</b>	<b>4,968</b>	<b>5,141</b>
Other Opng (Exp)/Inc	(3,977)	(2,788)	(2,867)	(2,970)	(2,992)
<b>Operating Profit</b>	<b>2,024</b>	<b>1,705</b>	<b>1,999</b>	<b>1,998</b>	<b>2,149</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	52	(87)	(115)	24	24
Net Interest (Exp)/Inc	(130)	(118)	(104)	(103)	(103)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,946</b>	<b>1,500</b>	<b>1,780</b>	<b>1,919</b>	<b>2,070</b>
Tax	(336)	(263)	(312)	(336)	(363)
Minority Interest	(230)	(264)	(335)	(290)	(291)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,380</b>	<b>973</b>	<b>1,133</b>	<b>1,293</b>	<b>1,416</b>
Net Profit before Except.	1,380	973	1,133	1,293	1,416
EBITDA	2,518	2,113	2,008	2,127	2,263
<b>Growth</b>					
Revenue Gth (%)	6.6	6.2	4.7	3.6	0.7
EBITDA Gth (%)	21.0	(16.1)	(5.0)	5.9	6.4
Opg Profit Gth (%)	24.1	(15.8)	17.3	(0.1)	7.6
Net Profit Gth (%)	31.8	(29.5)	16.4	14.1	9.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	24.9	17.6	18.2	17.9	18.4
Opg Profit Margin (%)	8.4	6.7	7.5	7.2	7.7
Net Profit Margin (%)	5.7	3.8	4.2	4.7	5.1
ROAE (%)	16.8	10.4	12.0	13.8	13.6
ROA (%)	8.5	5.4	6.1	6.8	7.1
ROCE (%)	12.4	9.4	10.8	10.6	10.8
Div Payout Ratio (%)	43.3	34.2	39.9	35.0	35.0
Net Interest Cover (x)	15.6	14.4	19.2	19.4	20.9

Source: Company, DBS HK

## WH Group Ltd

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

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	11,127	12,976	12,481	13,108	13,331
Cost of Goods Sold	(8,967)	(9,135)	(10,212)	(10,884)	(11,093)
<b>Gross Profit</b>	<b>2,160</b>	<b>3,841</b>	<b>2,269</b>	<b>2,224</b>	<b>2,238</b>
Other Oper. (Exp)/Inc	(1,398)	(2,579)	(1,358)	(1,430)	(1,033)
<b>Operating Profit</b>	<b>762</b>	<b>1,262</b>	<b>911</b>	<b>794</b>	<b>1,205</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(7)	73	5	(75)	(9)
Net Interest (Exp)/Inc	(70)	(74)	(68)	(67)	(68)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>685</b>	<b>1,261</b>	<b>848</b>	<b>652</b>	<b>1,128</b>
Tax	(120)	(216)	(173)	(90)	(169)
Minority Interest	(101)	(129)	(126)	(138)	(118)
<b>Net Profit</b>	<b>464</b>	<b>916</b>	<b>549</b>	<b>424</b>	<b>841</b>
Net profit bef Except.	464	916	549	424	841

### Growth

Revenue Gth (%)	(0.4)	13.5	12.2	1.0	6.8
Opg Profit Gth (%)	(10.7)	62.2	19.6	(37.1)	32.3
Net Profit Gth (%)	(16.8)	87.3	18.3	(53.7)	53.2

### Margins

Gross Margins (%)	19.4	29.6	18.2	17.0	16.8
Opg Profit Margins (%)	6.8	9.7	7.3	6.1	9.0
Net Profit Margins (%)	4.2	7.1	4.4	3.2	6.3

Source: Company, DBS HK

### Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	5,406	5,531	6,007	6,503	7,014
Invt in Associates & JVs	347	354	354	354	354
Other LT Assets	4,822	4,996	4,996	4,996	4,996
Cash & ST Invt	593	1,650	492	731	974
Inventory	2,903	2,641	2,746	2,853	2,857
Debtors	1,555	1,427	1,521	1,612	1,681
Other Current Assets	1,656	2,116	2,252	2,406	2,580
<b>Total Assets</b>	<b>17,282</b>	<b>18,715</b>	<b>18,369</b>	<b>19,455</b>	<b>20,456</b>
ST Debt	905	796	1,500	1,500	1,500
Creditors	720	1,223	1,251	1,280	1,346
Other Current Liab	2,244	2,048	2,120	2,195	2,197
LT Debt	2,187	1,840	1,840	1,840	1,840
Other LT Liabilities	1,774	1,823	1,788	1,754	1,722
Shareholder's Equity	8,684	10,005	8,890	9,906	10,870
Minority Interests	768	980	980	980	980
<b>Total Cap. &amp; Liab.</b>	<b>17,282</b>	<b>18,715</b>	<b>18,369</b>	<b>19,455</b>	<b>20,456</b>
Non-Cash Wkg. Capital	3,150	2,913	3,148	3,397	3,574
Net Cash/(Debt)	(2,499)	(986)	(2,848)	(2,609)	(2,366)
Debtors Turn (avg days)	58.5	45.7	45.7	45.7	45.7
Creditors Turn (avg days)	21.7	15.8	15.8	15.8	15.8
Inventory Turn (avg days)	58.5	45.7	45.7	45.7	45.7
Asset Turnover (x)	1.5	1.4	1.4	1.5	1.4
Current Ratio (x)	1.7	1.9	1.4	1.5	1.6
Quick Ratio (x)	0.6	0.8	0.4	0.5	0.5
Net Debt/Equity (X)	0.3	0.1	0.3	0.2	0.2
Net Debt/Equity ex MI (X)	0.3	0.1	0.3	0.3	0.2
Capex to Debt (%)	22.0	20.9	18.0	18.0	18.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

**WH Group Ltd**
**Cash Flow Statement (US\$ m)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Pre-Tax Profit	2,052	1,315	1,780	1,919	2,070
Dep. & Amort.	451	503	124	106	90
Tax Paid	(233)	(418)	(312)	(336)	(363)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	136	587	(335)	(290)	(291)
Chg in Wkg.Cap.	(930)	382	(235)	(249)	(178)
Other Operating CF	(13)	(12)	0	0	0
<b>Net Operating CF</b>	<b>1,463</b>	<b>2,357</b>	<b>1,022</b>	<b>1,150</b>	<b>1,328</b>
Capital Exp.(net)	(680)	(551)	(600)	(601)	(601)
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	(116)	(412)	(35)	(34)	(32)
<b>Net Investing CF</b>	<b>(796)</b>	<b>(963)</b>	<b>(635)</b>	<b>(635)</b>	<b>(633)</b>
Div Paid	(375)	(599)	(331)	(276)	(452)
Chg in Gross Debt	2,457	3,279	704	0	0
Capital Issues	(132)	880	(1,917)	0	0
Other Financing CF	(2,543)	(4,039)	0	0	0
<b>Net Financing CF</b>	<b>(593)</b>	<b>(479)</b>	<b>(1,544)</b>	<b>(276)</b>	<b>(452)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	74	915	(1,158)	239	243
Opg CFPS (US\$)	0.16	0.13	0.10	0.11	0.12
Free CFPS (US\$)	0.05	0.12	0.03	0.04	0.06

Source: Company, DBS HK

**WH Group Ltd**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Apr-21	HK\$6.87	HK\$7.60	Buy
2:	27-Oct-21	HK\$5.23	HK\$7.30	Buy
3:	21-Jan-22	HK\$5.13	HK\$8.30	Buy

Source: DBS HK

Analyst: *Alison FOK*  
*Mavis HUI*  
*Alice HUI CFA*

# Xiabuxiabu Catering Management

Bloomberg: 520 HK Equity | Reuters: 0520.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (7 Feb 2022): HK\$5.30 (HSI : 24,580)  
 Price Target 12-mth: HK\$7.00 (32% upside) (Prev HK\$11.10)

### 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

- Forecast XBXB store to expand by 11% in FY22F
- Focus on raising store productivity
- Maintain BUY with TP cut to HK\$7

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	5,455	6,531	7,490	8,623
EBITDA	1,162	1,393	1,609	1,870
Pre-tax Profit	67	129	330	411
Net Profit	2	87	238	298
Net Pft (Pre Ex) (core profit)	2	87	238	298
Net Profit Gth (Pre-ex) (%)	(99.4)	4,661.2	172.3	25.3
EPS (RMB)	0.00	0.08	0.22	0.28
EPS (HK\$)	0.00	0.10	0.27	0.34
EPS Gth (%)	(99.4)	4,661.2	172.3	25.3
Diluted EPS (HK\$)	0.00	0.10	0.27	0.34
DPS (HK\$)	0.00	0.04	0.11	0.14
BV Per Share (HK\$)	2.67	2.66	2.83	3.04
PE (X)	2504.7	52.6	19.3	15.4
P/Cash Flow (X)	3.6	8.1	9.0	8.2
P/Free CF (X)	5.3	64.5	370.2	77.5
EV/EBITDA (X)	3.1	2.5	2.2	1.9
Net Div Yield (%)	0.0	0.8	2.1	2.6
P/Book Value (X)	2.0	2.0	1.9	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	0.1	3.8	10.0	11.7
Earnings Rev (%)		(73)	(50)	New
Consensus EPS (RMB)		0.12	0.36	0.49
Other Broker Recs:		B:11	S:1	H:7

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

## Soft recovery

### Investment Thesis

**Negative news priced in; revisions made to store unit expansion targets.** With the resurgence of COVID-19 cases and strict social distancing measures in place for the Beijing Winter Olympics, we expect overall store traffic has been weakened in 1Q22E. With the closure of underperforming store units, we now expect XiabuXiabu (XBXB) store units to resume mild growth at 11% in FY22F.

**Efforts to raise store productivity.** With weaker dine-in volumes across the industry, XBXB reported table turnover declining to 2.6x in 1H21, with soft performance to sustain in 2H21. XBXB aims to raise store productivity through application of digitalisation and an effective labouring schedule.

**Gradual recovery in operating margins.** Despite softer table turnover, we expect rising COVID-19 vaccination rates to enable better operating landscape for the group to record a gradual recovery in operating margin by c.1ppt for FY22F.

### Valuation:

Our TP of HK\$7.0 is based on 22x FY23F PE (previous TP of HK\$11.10 was based on 22x FY22F), equivalent to 1 SD below its four-year average (pre-pandemic).

### Where we differ:

We revise our earnings by 73%/50% in FY21/22E to account for weaker dine-in volumes. Our FY21F earnings are now lower than consensus, with expected earnings recovery in FY22F.

### Key Risks to Our View:

Resurgence of the COVID-19 pandemic; failure to garner strong reception for new brand; rising competition; food safety concerns.

### At A Glance

Issued Capital (m shrs)	1,084
Mkt Cap (HK\$/US\$m)	5,745 / 738
Major Shareholders (%)	
Ho (Kuang-Chi)	41.5
General Atlantic LLC	13.5
Free Float (%)	45.0
3m Avg. Daily Val. (US\$m)	2.21
GICS Industry: Consumer Discretionary / Consumer Services	



Watchlist the stock on Insights Direct to receive prompt updates

**DBS**  
Live more, Bank less

## **Xiabuxiabu Catering Management**

---

### **Company Background**

Since its inception in 1998, Xiabuxiabu Catering Management (Xiabu) has been a leading Taiwanese-style fast-casual hotpot chain restaurant in China with c.1,000 outlets nationwide under its mass-market brand "Xiabuxiabu" and premium brand "Coucou (湊湊)". The group operates under a wholly-owned operating model supported by fully-integrated supply chain. In response to rising demand for delivery services, Xiabu has launched Xiabu Fresh (hotpot delivery) and XiabuXiaTang (instant hotpot meal). The Group also holds a 40/60 joint venture with the founder that engages in food processing (condiments, soup-bases).

## Xiabuxiabu Catering Management

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	6,030	5,455	6,531	7,490	8,623
Cost of Goods Sold	(2,225)	(2,130)	(2,580)	(2,884)	(3,277)
<b>Gross Profit</b>	<b>3,805</b>	<b>3,325</b>	<b>3,951</b>	<b>4,607</b>	<b>5,346</b>
Other Opng (Exp)/Inc	(3,217)	(3,170)	(3,733)	(4,196)	(4,855)
<b>Operating Profit</b>	<b>588</b>	<b>155</b>	<b>218</b>	<b>410</b>	<b>491</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(85)	(88)	(88)	(80)	(80)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>503</b>	<b>67</b>	<b>129</b>	<b>330</b>	<b>411</b>
Tax	(213)	(56)	(32)	(83)	(103)
Minority Interest	(3)	(10)	(10)	(10)	(10)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>288</b>	<b>2</b>	<b>87</b>	<b>238</b>	<b>298</b>
EBITDA	1,427	1,162	1,393	1,609	1,870
<b>Growth</b>					
Revenue Gth (%)	27.4	(9.5)	19.7	14.7	15.1
EBITDA Gth (%)	73.9	(18.6)	19.9	15.5	16.3
Opg Profit Gth (%)	(1.9)	(73.6)	40.1	88.5	19.6
Net Profit Gth (%)	(37.7)	(99.4)	4,661.2	172.3	25.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	63.1	61.0	60.5	61.5	62.0
Opg Profit Margin (%)	9.8	2.9	3.3	5.5	5.7
Net Profit Margin (%)	4.8	0.0	1.3	3.2	3.5
ROAE (%)	12.5	0.1	3.8	10.0	11.7
ROA (%)	6.5	0.0	1.5	3.8	4.4
ROCE (%)	11.0	0.7	4.3	7.9	9.0
Div Payout Ratio (%)	40.0	0.0	40.0	40.0	40.0
Net Interest Cover (x)	6.9	1.8	2.5	5.1	6.1

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	2,713	3,318	1,922	3,533	3,047
Cost of Goods Sold	(997)	(1,228)	(764)	(1,366)	(1,135)
<b>Gross Profit</b>	<b>1,716</b>	<b>2,089</b>	<b>1,158</b>	<b>2,167</b>	<b>1,912</b>
Other Oper. (Exp)/Inc	(1,445)	(1,762)	(1,420)	(1,740)	(1,917)
<b>Operating Profit</b>	<b>271</b>	<b>327</b>	<b>(262)</b>	<b>428</b>	<b>(4)</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(49)	(50)	(49)	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>221</b>	<b>278</b>	<b>(311)</b>	<b>428</b>	<b>(4)</b>
Tax	(63)	(150)	60	(116)	7
Minority Interest	2	(4)	(3)	(7)	(3)
<b>Net Profit</b>	<b>160</b>	<b>124</b>	<b>(254)</b>	<b>305</b>	<b>(1)</b>
<b>Growth</b>					
Revenue Gth (%)	27.4	27.4	(29.1)	6.5	58.5
Opg Profit Gth (%)	(4.8)	3.8	(196.9)	30.7	(98.3)
Net Profit Gth (%)	(23.6)	(40.3)	N/A	146.5	99.8
<b>Margins</b>					
Gross Margins (%)	63.3	63.0	60.2	61.3	62.8
Opg Profit Margins (%)	10.0	9.9	(13.7)	12.1	(0.1)
Net Profit Margins (%)	5.9	3.7	(13.2)	8.6	0.0

Source: Company, DBS HK

## Xiabuxiabu Catering Management

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	3,389	3,268	3,618	3,968	4,318
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	230	294	294	294	294
Cash & ST Invts	785	1,097	1,146	1,075	1,027
Inventory	712	691	639	714	812
Debtors	378	392	372	426	491
Other Current Assets	131	38	38	38	38
<b>Total Assets</b>	<b>5,626</b>	<b>5,780</b>	<b>6,106</b>	<b>6,515</b>	<b>6,980</b>
ST Debt	0	20	20	20	20
Creditors	1,470	1,045	1,343	1,502	1,706
Other Current Liab	244	914	960	1,008	1,058
LT Debt	0	0	0	0	0
Other LT Liabilities	1,525	1,461	1,438	1,488	1,508
Shareholder's Equity	2,375	2,319	2,315	2,458	2,638
Minority Interests	11	21	31	40	50
<b>Total Cap. &amp; Liab.</b>	<b>5,626</b>	<b>5,780</b>	<b>6,106</b>	<b>6,515</b>	<b>6,980</b>
Non-Cash Wkg. Capital	(492)	(839)	(1,255)	(1,331)	(1,425)
Net Cash/(Debt)	785	1,077	1,126	1,055	1,007
Debtors Turn (avg days)	20.8	20.8	20.8	20.8	20.8
Creditors Turn (avg days)	190.1	190.1	190.1	190.1	190.1
Inventory Turn (avg days)	90.4	90.4	90.4	90.4	90.4
Asset Turnover (x)	1.4	1.0	1.1	1.2	1.3
Current Ratio (x)	1.2	1.1	0.9	0.9	0.9
Quick Ratio (x)	0.7	0.8	0.7	0.6	0.5
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	2,023.2	2,500.0	2,500.0	2,500.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

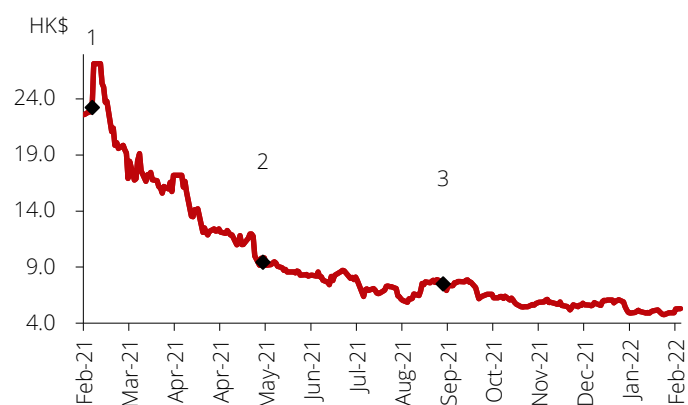
FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	503	67	129	330	411
Dep. & Amort.	837	1,004	150	150	150
Tax Paid	(163)	(113)	(56)	(32)	(83)
Assoc. & JV Inc/(loss)	0	0	0	0	1
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	100	(324)	371	28	43
Other Operating CF	534	1,592	79	138	139
<b>Net Operating CF</b>	<b>1,022</b>	<b>1,270</b>	<b>571</b>	<b>512</b>	<b>559</b>
Capital Exp.(net)	(727)	(405)	(500)	(500)	(500)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(179)	31	12	12	12
<b>Net Investing CF</b>	<b>(906)</b>	<b>(374)</b>	<b>(488)</b>	<b>(488)</b>	<b>(488)</b>
Div Paid	(167)	(80)	(35)	(95)	(119)
Chg in Gross Debt	0	(749)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(505)	244	0	0	(1)
<b>Net Financing CF</b>	<b>(672)</b>	<b>(584)</b>	<b>(35)</b>	<b>(95)</b>	<b>(120)</b>
Currency Adjustments	0	0	0	0	1
Chg in Cash	(556)	312	48	(71)	(48)
Opg CFPS (RMB)	0.87	1.50	0.19	0.46	0.49
Free CFPS (RMB)	0.28	0.81	0.07	0.01	0.06

Source: Company, DBS HK



## Xiabuxiabu Catering Management

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Feb-21	HK\$22.85	K\$27.50	Buy
2:	26-May-21	HK\$9.80	HK\$9.80	Hold
3:	14-Sep-21	HK\$7.71	HK\$11.10	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

# China/Hong Kong Company Update

## Yonghui Superstores

Bloomberg: 601933 CH Equity | Reuters: 601933.SS

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### HOLD

Last Traded Price (7 Feb 2022): RMB3.81 (CSI300 Index : 4,634)

Price Target 12-mth: RMB3.97 (4% upside) (Prev RMB4.91)

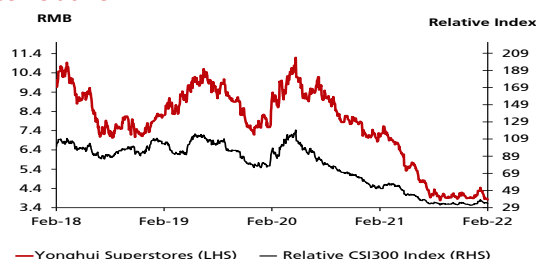
#### Analyst

Mavis HUI +852 36684188 mavis\_hui@dbs.com  
Clement XU clementxu@dbs.com

#### What's New

- Expect loss of RMB2.6bn in FY21 with lingering sales pressure and low profitability.
- FY22 to be a better year with net profit, supported by CGB consolidation and food price rebound.
- Maintain HOLD with lower TP of HK\$3.97 in view of sales pressure and lower profit margins.

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	93,199	90,988	98,446	105,257
EBITDA	2,281	1,288	3,255	3,740
Pre-tax Profit	2,174	(3,450)	155	909
Net Profit	1,794	(2,633)	419	1,000
Net Pft (Pre Ex) (core profit)	580	(2,333)	419	1,000
Net Profit Gth (Pre-ex) (%)	(45.4)	N/A	N/A	138.5
EPS (RMB)	0.19	(0.28)	0.05	0.11
Core EPS (RMB)	0.06	(0.25)	0.05	0.11
EPS Gth (%)	17.3	N/A	N/A	138.5
Core EPS Gth (%)	(44.2)	N/A	N/A	138.5
Diluted EPS (RMB)	0.19	(0.28)	0.05	0.11
DPS (RMB)	0.19	0.00	0.03	0.08
BV Per Share (RMB)	2.08	1.34	1.84	2.36
PE (X)	19.8	nm	84.6	35.5
CorePE (X)	61.2	nm	84.6	35.5
P/Cash Flow (X)	5.8	35.0	7.3	6.7
P/Free CF (X)	8.7	nm	10.5	9.4
EV/EBITDA (X)	16.7	33.2	11.9	9.3
Net Div Yield (%)	4.9	0.0	0.8	2.0
P/Book Value (X)	1.8	2.8	2.1	1.6
Net Debt/Equity (X)	0.1	0.5	0.2	CASH
ROAE (%)	9.1	(16.5)	2.8	5.1
Earnings Rev (%)		(414)	(66)	New
Consensus EPS (RMB)		(0.14)	0.06	0.11
Other Broker Recs:		B:12	S:3	H:6

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

### Looking for better recovery

#### Investment Thesis

**Lingering pressure in the near term.** Sales pressure continued with the intense competition posed by community group buying (CGB) players (especially operated by tech giants), as they offer goods at cut-throat prices with expanding markets. Faced with low food CPI and fierce competition, Yonghui's gross profit margin may remain low at <19% in FY21 while operating costs should increase. We expect Yonghui to post an attributable loss of RMB2.6bn in FY21 in view of fierce competition and relatively low profitability.

**Warehouse store and online channel as growth opportunities.** Fast transformation of hypermarkets into warehouse stores, with more affordable prices and fewer SKUs, has attracted more customer traffic (e.g., 3.9% y-o-y sales growth in 3Q21). Yonghui should continue the expansion of warehouse store to grab more market share going forward. We believe the online channel may also serve as a growth driver and see 30%+ y-o-y sales growth in FY22 with Yonghui's on-going efforts in both the Yonghui Shenghuo (永辉生活) app and third-party platforms.

**Better outlook for 2022.** While some CGB players still show large potential, we believe Yonghui should benefit from the new round of CGB consolidation and to achieve 8% growth in sales, alongside potential food CPI rebound in 2022. However, profit margins may remain low and need longer time for recovery.

#### Valuation:

We adjusted our TP to RMB3.97 based on a 37x FY23 PE, equivalent to its four-year pre-pandemic average (previous TP: RMB4.91 benchmarking 37x FY22 PE) to reflect its longer-term valuation.

#### Where we differ:

We cut FY21/FY22 sales by 2%/4%, FY21/FY22 earnings by 414%/66%, given intense competition posed by CGB players. We are more prudent than the market on FY21 sales/earnings in view of lower profitability but slightly more positive on FY22/FY23 sales/earnings considering the slow-down of CGB competition and improving profitability.

#### Key Risks to Our View:

Faster-than-expected consolidation amongst the CGB grocery players or more effective measures to ease the price dumping situation.

#### At A Glance

Issued Capital (m shrs)	9,313
Mkt Cap (RMB\$/US\$m)	35,483 / 5,578
Major Shareholders (%)	
The Dairy Farm Company Limited	21.1
Zhang (Xuan Song)	11.7
Zhang (Xuan Ning)	8.2
Jiangsu Jingdong Bangneng Inv. Mgmt. Co., Ltd.	8.1
Linzhi Tencent Technology Co., Ltd.	5.3
Free Float (%)	45.6
3m Avg. Daily Val. (US\$m)	33.95
GICS Industry: Consumer Staples / Food & Staples Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



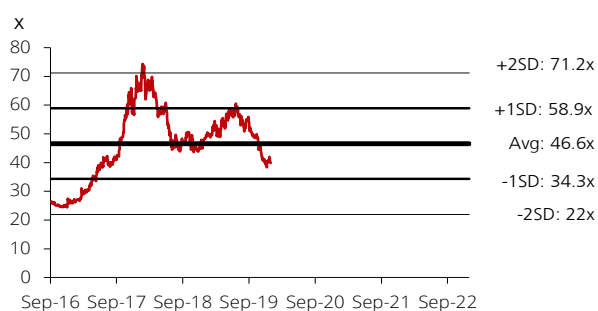
## Yonghui Superstores

### Company Background

Yonghui is the third largest hypermarket chain operator in China. The company is headquartered in Fujian and runs a total of 1,017 hypermarkets across China as of the end of FY20, predominantly under its flagship “Yonghui” brand. The company’s main operations are in grocery food retail, complemented by non-food product offerings. Its venture into O2O service should pave the way for better medium-term prospects.

### Historical PE and PB band

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## Yonghui Superstores

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	84,877	93,199	90,988	98,446	105,257
Cost of Goods Sold	(66,574)	(73,281)	(74,015)	(78,402)	(83,378)
<b>Gross Profit</b>	<b>18,303</b>	<b>19,918</b>	<b>16,972</b>	<b>20,045</b>	<b>21,879</b>
Other Opg (Exp)/Inc	(16,368)	(18,644)	(18,560)	(19,483)	(20,728)
<b>Operating Profit</b>	<b>1,935</b>	<b>1,274</b>	<b>(1,587)</b>	<b>561</b>	<b>1,151</b>
Other Non Opg (Exp)/Inc	615	1,409	(639)	802	777
Associates & JV Inc	(422)	(285)	(56)	(70)	(87)
Net Interest (Exp)/Inc	(351)	(223)	(1,168)	(1,138)	(932)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,777</b>	<b>2,174</b>	<b>(3,450)</b>	<b>155</b>	<b>909</b>
Tax	(324)	(521)	518	(36)	(209)
Minority Interest	111	141	300	300	300
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,564</b>	<b>1,794</b>	<b>(2,633)</b>	<b>419</b>	<b>1,000</b>
Net Profit before Except.	1,061	580	(2,333)	419	1,000
EBITDA	2,786	2,281	1,288	3,255	3,740
<b>Growth</b>					
Revenue Gth (%)	20.4	9.8	(2.4)	8.2	6.9
EBITDA Gth (%)	86.6	(18.1)	(43.6)	152.8	14.9
Opg Profit Gth (%)	156.9	(34.2)	(224.6)	(135.4)	105.1
Net Profit Gth (%)	5.6	14.8	N/A	N/A	138.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	21.6	21.4	18.7	20.4	20.8
Opg Profit Margin (%)	2.3	1.4	(1.7)	0.6	1.1
Net Profit Margin (%)	1.8	1.9	(2.9)	0.4	0.9
ROAE (%)	7.9	9.1	(16.5)	2.8	5.1
ROA (%)	3.4	3.3	(4.1)	0.6	1.3
ROCE (%)	5.7	2.9	(3.7)	0.8	1.6
Div Payout Ratio (%)	79.1	96.0	N/A	70.0	70.0
Net Interest Cover (x)	5.5	5.7	(1.4)	0.5	1.2

Source: Company, DBS HK

## Yonghui Superstores

**Balance Sheet (RMB m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	5,128	5,310	26,918	25,662	24,525
Invt in Associates & JVs	5,886	5,410	5,200	5,200	5,200
Other LT Assets	10,272	12,259	12,568	12,250	11,833
Cash & ST Invt	8,152	12,247	7,982	11,497	15,119
Inventory	12,333	10,882	9,473	10,249	10,958
Debtors	993	447	437	473	505
Other Current Assets	9,587	9,603	9,544	9,741	9,922
<b>Total Assets</b>	<b>52,353</b>	<b>56,158</b>	<b>72,121</b>	<b>75,073</b>	<b>78,062</b>
ST Debt	10,813	13,890	14,500	14,320	14,140
Creditors	12,983	12,514	12,217	13,218	14,133
Other Current Liab	7,690	8,490	8,214	8,814	9,362
LT Debt	0	0	0	0	0
Other LT Liabilities	412	871	23,924	21,104	18,284
Shareholder's Equity	20,106	19,351	12,525	17,175	22,002
Minority Interests	348	1,042	742	442	142
<b>Total Cap. &amp; Liab.</b>	<b>52,353</b>	<b>56,158</b>	<b>72,121</b>	<b>75,073</b>	<b>78,062</b>
Non-Cash Wkg. Capital	2,240	(72)	(977)	(1,569)	(2,109)
Net Cash/(Debt)	(2,661)	(1,643)	(6,518)	(2,823)	979
Debtors Turn (avg days)	6.6	2.8	1.8	1.7	1.7
Creditors Turn (avg days)	63.0	64.4	63.4	61.3	61.8
Inventory Turn (avg days)	56.8	58.6	52.2	47.5	47.9
Asset Turnover (x)	1.8	1.7	1.4	1.3	1.4
Current Ratio (x)	1.0	1.0	0.8	0.9	1.0
Quick Ratio (x)	0.3	0.4	0.2	0.3	0.4
Net Debt/Equity (X)	0.1	0.1	0.5	0.2	CASH
Net Debt/Equity ex MI (X)	0.1	0.1	0.5	0.2	CASH
Capex to Debt (%)	28.7	15.0	12.4	10.5	10.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

**Cash Flow Statement (RMB m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,777	2,174	(3,450)	155	909
Dep. & Amort.	851	1,007	2,875	2,693	2,589
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	(422)	(285)	(56)	(70)	(87)
(Pft)/ Loss on disposal of FAs	(38)	(1,143)	0	0	0
Chg in Wkg.Cap.	(3,165)	2,208	732	592	541
Other Operating CF	1,413	2,179	915	1,502	1,321
<b>Net Operating CF</b>	<b>416</b>	<b>6,140</b>	<b>1,015</b>	<b>4,873</b>	<b>5,273</b>
Capital Exp.(net)	(3,099)	(2,080)	(1,800)	(1,500)	(1,500)
Other Invt.(net)	(6,110)	(6,132)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	4,709	6,041	142	142	142
<b>Net Investing CF</b>	<b>(4,501)</b>	<b>(2,171)</b>	<b>(1,658)</b>	<b>(1,358)</b>	<b>(1,358)</b>
Div Paid	(1,338)	(1,562)	(1,723)	0	(293)
Chg in Gross Debt	7,107	3,084	(890)	0	0
Capital Issues	160	354	0	0	0
Other Financing CF	(29)	(1,770)	0	0	0
<b>Net Financing CF</b>	<b>5,900</b>	<b>106</b>	<b>(2,613)</b>	<b>0</b>	<b>(293)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	1,815	4,074	(3,256)	3,515	3,621
Opg CFPS (RMB)	0.38	0.42	0.03	0.46	0.51
Free CFPS (RMB)	(0.28)	0.44	(0.08)	0.36	0.41

Source: Company, DBS HK

## Yonghui Superstores

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	6-May-21	RMB5.57	RMB4.91	Hold

Source: DBS HK

Analyst: Mavis HUI  
Clement XU

# China/Hong Kong Company Update

## Yum China Holdings

Bloomberg: 9987 HK Equity | YUMC US Equity | Reuters: 9987.HK | YUMC.N

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

9 Feb 2022

### HK: BUY

Last Traded Price (7 Feb 2022): HK\$370.40 (HSI : 24,580)  
Price Target 12-mth: HK\$463 (25% upside) (Prev HK\$558)

### US: BUY

Last Traded Price (7 Feb 2022): US\$46.07 (NASDAQ : 14,098)  
Price Target 12-mth: US\$59.50 (29% upside) (Prev US\$71.54)

#### Analyst

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

#### What's New

- Preventative measures including mass testing, regional lockdowns and travel restrictions to continue to negatively impact restaurant industry
- Same-store sales improved modestly in Jan-22 vs. 4Q21, but remains lower y-o-y
- FY22 to open 1,000-1,200 stores; maintain Buy; TP cut to HK\$463

### Navigating through waters

#### Investment Thesis

**Delivery to offset weak dine-in volume.** 1Q22 same-store sales is expected to remain lower y-o-y due to preventative health measures, outbreaks, and urges to reduce travelling. As such, Yum China has been proactively directing its unit mix to delivery-focused amidst a non-linear recovering environment. Delivery contributed 35% of KFC and Pizza Hut's Company sales in 4Q21 (+0.6ppt y-o-y).

**Stringent cost strategy.** The group's restaurant margin is dependent on its sales leverage. Yum China's leading adoption of digitalisation and delivery will help alleviate margin pressure better than peers, from rising food and wage costs.

**Store expansion remains strong.** With a net cash position of ~US\$4bn, Yum China aims for a net store opening of 1,000-1,200 in FY22F (FY21: 11,788; net store opening of 1,282), and raised capital expenditure to US\$800-US\$1bn with increased investments in supply chain, infrastructure and digital. We forecast store expansion of 10% in FY22F.

#### Valuation:

We cut our earnings by 26% in FY22F on weaker sales expectations due to resurgence in COVID, and introduce FY23F forecasts. Our TP is trimmed to HK\$463, pegged to 36x FY22F PE (Previously 32x FY21F), equivalent to 0.5SD above its trading average.

#### Where we differ:

We are in-line with consensus sales assumption in FY22F.

#### Key Risks to Our View:

Resurgence in COVID-19 nationwide; geopolitical risks between the US and China; weaker-than-expected SSSG recovery; cost inflation relating to raw materials and wages.

#### At A Glance

Issued Capital (m shrs)	420
Mkt Cap (HK\$m/US\$m)	155,568 / 19,975
Major Shareholders (%)	
Invesco Advisers, Inc.	9.3
Free Float (%)	90.7
3m Avg. Daily Val. (US\$m)	5.66
GICS Industry: Consumer Discretionary / Consumer Services	

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	8,263	9,853	11,016	12,393
EBITDA	1,346	1,383	1,577	1,852
Pre-tax Profit	1,108	1,392	1,016	1,233
Net Profit	784	990	717	876
Net Pft (Pre Ex) (core profit)	615	525	717	876
EPS (US\$)	1.82	2.28	1.65	2.02
Core EPS (US\$)	1.43	1.21	1.65	2.02
EPS Gth (%)	(0.7)	25.3	(27.6)	22.2
DPS (HK\$)	1.87	3.74	3.74	3.74
BV Per Share (HK\$)	112.30	126.71	135.84	147.83
PE (X)	26.1	20.8	28.8	23.5
CorePE (X)	33.3	39.3	28.8	23.5
P/Cash Flow (X)	18.4	18.2	9.7	10.8
P/Free CF (X)	29.5	46.7	17.0	20.5
EV/EBITDA (X)	12.2	12.7	10.5	8.5
Net Div Yield (%)	0.5	1.0	1.0	1.0
P/Book Value (X)	3.3	2.9	2.7	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	16.9	14.9	9.8	11.1
Earnings Rev (%)			(26)	New
Consensus EPS (US\$)		1.53	2.07	2.51
Other Broker Recs:		B:30	S:1	H:2

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



Watchlist the stock on Insights Direct to receive prompt updates

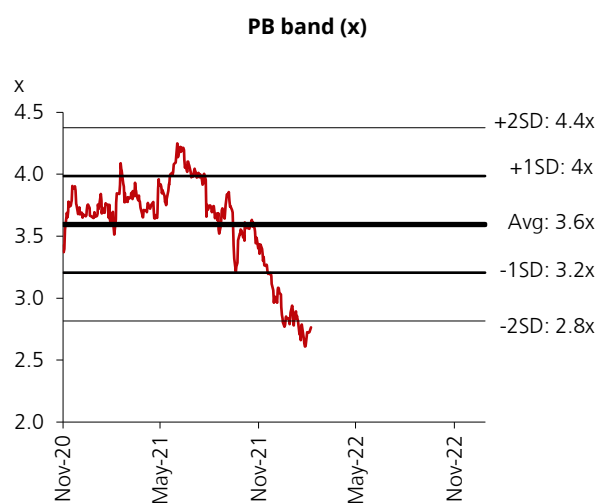
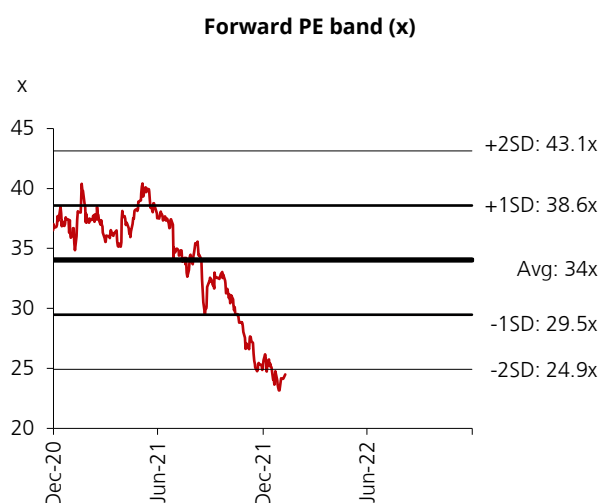


## Yum China Holdings

### Company Background

Yum China is engaged in the operation and management of restaurants and fast-food chains. Yum China is the largest restaurant group in China with c.11,788 outlets as of December 2021. Its restaurant brand concepts include KFC, Pizza Hut, as well as East Dawning, Little Sheep, Taco Bell, and COFFii Joy. Yum China holds the exclusive rights to operate and sub-license the KFC, Pizza Hut, and Taco Bell brands in China, and it owns the IP rights to East Dawning, Little Sheep, and COFFii Joy. In addition, Yum China has partnered with Lavazza, a coffee concept.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK



## Yum China Holdings

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
No. of KFC Outlets	6,534.0	7,166.0	8,168.0	9,133.0	10,098.0
No. of Pizza Hut Outlets	2,281.0	2,355.0	2,590.0	2,640.0	2,690.0
No. of Other Outlets	385.0	985.0	1,030.0	1,180.0	1,330.0

Source: Company, DBS HK

### Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (US\$ m)</b>					
KFC	6,039	5,821	7,003	7,969	9,130
Pizza Hut	2,055	1,730	2,109	2,299	2,508
Others	682	712	741	749	754
<b>Total</b>	<b>8,776</b>	<b>8,263</b>	<b>9,853</b>	<b>11,016</b>	<b>12,393</b>

Source: Company, DBS HK

### Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	8,776	8,263	9,853	11,016	12,393
Cost of Goods Sold	(2,479)	(2,342)	(2,812)	(3,214)	(3,644)
<b>Gross Profit</b>	<b>6,297</b>	<b>5,921</b>	<b>7,041</b>	<b>7,802</b>	<b>8,749</b>
Other Opg (Exp)/Inc	(5,380)	(5,129)	(6,120)	(6,846)	(7,576)
<b>Operating Profit</b>	<b>917</b>	<b>792</b>	<b>921</b>	<b>956</b>	<b>1,173</b>
Other Non Opg (Exp)/Inc	63	104	(54)	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	39	43	60	60	60
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(16)	169	465	0	0
<b>Pre-tax Profit</b>	<b>1,003</b>	<b>1,108</b>	<b>1,392</b>	<b>1,016</b>	<b>1,233</b>
Tax	(260)	(295)	(369)	(269)	(327)
Minority Interest	(30)	(29)	(33)	(30)	(30)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>713</b>	<b>784</b>	<b>990</b>	<b>717</b>	<b>876</b>
Net Profit before Except.	729	615	525	717	876
EBITDA	1,408	1,346	1,383	1,577	1,852
<b>Growth</b>					
Revenue Gth (%)	4.3	(5.8)	19.2	11.8	12.5
EBITDA Gth (%)	12.0	(4.4)	2.7	14.0	17.5
Opg Profit Gth (%)	9.3	(13.6)	16.3	3.8	22.6
Net Profit Gth (%)	0.7	10.0	26.3	(27.6)	22.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	71.8	71.7	71.5	70.8	70.6
Opg Profit Margin (%)	10.4	9.6	9.3	8.7	9.5
Net Profit Margin (%)	8.1	9.5	10.0	6.5	7.1
ROAE (%)	24.0	16.9	14.9	9.8	11.1
ROA (%)	12.3	8.8	8.2	5.3	6.0
ROCE (%)	15.9	8.3	6.9	6.3	7.3
Div Payout Ratio (%)	26.2	13.2	21.0	29.1	23.8
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Yum China Holdings

### Quarterly Income Statement (US\$ m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	2,259	2,557	2,451	2,554	2,291
Cost of Goods Sold	(631)	(704)	(686)	(743)	(679)
<b>Gross Profit</b>	<b>1,628</b>	<b>1,853</b>	<b>1,765</b>	<b>1,811</b>	<b>1,612</b>
Other Oper. (Exp)/Inc	(1,446)	(1,508)	(1,528)	(1,641)	(1,443)
<b>Operating Profit</b>	<b>182</b>	<b>345</b>	<b>237</b>	<b>170</b>	<b>169</b>
Other Non Opg (Exp)/Inc	29	(12)	8	(39)	(11)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	15	15	16	16	13
Exceptional Gain/(Loss)	(2)	(3)	(4)	8	464
<b>Pre-tax Profit</b>	<b>224</b>	<b>345</b>	<b>257</b>	<b>155</b>	<b>635</b>
Tax	(63)	(102)	(64)	(44)	(159)
Minority Interest	(10)	(13)	(12)	(7)	(1)
<b>Net Profit</b>	<b>151</b>	<b>230</b>	<b>181</b>	<b>104</b>	<b>475</b>
Net profit bef Except.	153	233	185	96	11
EBITDA	461	461	369	259	294

### Growth (QoQ)

Revenue Gth (%)	(3.8)	13.2	(4.1)	4.2	(10.3)
EBITDA Gth (%)	(37.1)	38.0	(20.0)	(29.8)	13.5
Opg Profit Gth (%)	(52.1)	89.6	(31.3)	(28.3)	(0.6)
Net Profit Gth (%)	(65.6)	52.3	(21.3)	(42.5)	356.7

### Growth (YoY)

Revenue Gth (%)	11.3	45.8	28.9	8.8	1.4
EBITDA Gth (%)	44.0	131.7	30.9	(51.2)	(12.0)
Opg Profit Gth (%)	78.4	252.0	79.5	(55.3)	(7.1)
Net Profit Gth (%)	67.8	271.0	37.1	(76.3)	214.6

### Margins

Gross Margins (%)	72.1	72.5	72.0	70.9	70.4
Opg Profit Margins (%)	8.1	13.5	9.7	6.7	7.4
Net Profit Margins (%)	6.7	9.0	7.4	4.1	20.7

Source: Company, DBS HK

## Yum China Holdings

### Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	1,594	1,765	2,251	1,935	2,160
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3,097	4,174	6,256	6,256	6,256
Cash & ST Invt	1,657	4,263	3,996	5,004	5,803
Inventory	380	398	432	494	560
Debtors	88	99	67	75	84
Other Current Assets	134	176	221	232	244
<b>Total Assets</b>	<b>6,950</b>	<b>10,875</b>	<b>13,223</b>	<b>13,996</b>	<b>15,107</b>
ST Debt	0	0	0	0	0
Creditors	1,736	2,067	2,383	2,617	3,031
Other Current Liab	0	0	0	0	0
LT Debt	0	0	0	0	0
Other LT Liabilities	2,039	2,337	2,918	2,918	2,918
Shareholder's Equity	3,077	6,206	7,056	7,565	8,232
Minority Interests	98	265	866	896	926
<b>Total Cap. &amp; Liab.</b>	<b>6,950</b>	<b>10,875</b>	<b>13,223</b>	<b>13,996</b>	<b>15,107</b>
Non-Cash Wkg. Capital	(1,134)	(1,394)	(1,663)	(1,816)	(2,143)
Net Cash/(Debt)	1,657	4,263	3,996	5,004	5,803
Debtors Turn (avg days)	3.7	4.4	2.5	2.5	2.5
Creditors Turn (avg days)	249.0	310.9	302.7	302.7	302.7
Inventory Turn (avg days)	55.9	62.0	56.1	56.1	56.1
Asset Turnover (x)	1.5	0.9	0.8	0.8	0.9
Current Ratio (x)	1.3	2.4	2.0	2.2	2.2
Quick Ratio (x)	1.0	2.1	1.7	1.9	1.9
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 (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	743	813	1,023	747	906
Dep. & Amort.	767	450	516	620	679
Tax Paid	(147)	(168)	(197)	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(344)	(369)	(446)	881	297
Other Operating CF	166	388	235	(127)	30
<b>Net Operating CF</b>	<b>1,185</b>	<b>1,114</b>	<b>1,131</b>	<b>2,121</b>	<b>1,912</b>
Capital Exp.(net)	(435)	(419)	(689)	(905)	(905)
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	(475)	(2,690)	(166)	0	0
<b>Net Investing CF</b>	<b>(910)</b>	<b>(3,109)</b>	<b>(855)</b>	<b>(905)</b>	<b>(905)</b>
Div Paid	(181)	(95)	(203)	(208)	(208)
Chg in Gross Debt	0	0	0	0	0
Capital Issues	(265)	(8)	(75)	0	0
Other Financing CF	(43)	2,170	(26)	0	0
<b>Net Financing CF</b>	<b>(489)</b>	<b>2,067</b>	<b>(304)</b>	<b>(208)</b>	<b>(208)</b>
Currency Adjustments	(6)	40	6	0	0
Chg in Cash	(220)	112	(22)	1,008	799
Opg CFPS (US\$)	3.93	3.44	3.63	2.86	3.72
Free CFPS (US\$)	1.93	1.61	1.02	2.80	2.32

Source: Company, DBS HK

## Yum China Holdings

### HK Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Feb-21	HK\$463.00	HK\$548.00	Buy
2:	28-Apr-21	HK\$461.20	HK\$585.00	Buy
3:	29-Jul-21	HK\$480.00	HK\$558.00	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

### US Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Feb-21	US\$61.06	US\$70.66	Buy
2:	28-Apr-21	US\$59.91	US\$75.00	Buy
3:	29-Jul-21	US\$62.37	US\$71.54	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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: 9 Feb 2022 16:29:38 (HKT)

Dissemination Date: 9 Feb 2022 19:12:56 (HKT)

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

#### GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank (Hong Kong) Limited ("DBS HK"). This report is solely intended for the clients of DBS Bank Ltd., DBS HK, DBS Vickers (Hong Kong) Limited ("DBSV HK"), and DBS Vickers Securities (Singapore) Pte Ltd. ("DBSVS"), its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS HK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., DBS HK, DBSV HK, DBSVS, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets. Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

#### ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate<sup>1</sup> does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests<sup>2</sup> in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

#### COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBSVS or their subsidiaries and/or other affiliates have proprietary positions in Tingyi Cayman Islands Holding Corp (322 HK), Uni-President China Holdings Ltd (220 HK), China Mengniu Dairy Co Ltd (2319 HK), WH Group Ltd (288 HK), GOME Retail Holdings Ltd (493 HK), Haier Smart Home Co Ltd-H (6690 HK), Budweiser Brewing Company APAC (1876 HK), China Resources Beer Holdings Co Ltd (291 HK), Tsingtao Brewery Co Ltd (168 HK), Samsonite International SA (1910 HK), Hengan International Group Co Ltd (1044 HK), Galaxy Entertainment Group Ltd (27 HK), SJM Holdings Ltd (880 HK), Sands China Ltd (1928 HK), Haidilao International Holding Ltd (6862 HK), Yum China Holdings Inc (9987 HK), Wynn Macau Ltd (1128 HK) and MGM China Holdings Ltd (2282 HK) recommended in this report as of 07 Feb 2022.
2. **Compensation for investment banking services:**  
DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from China Mengniu Dairy Co Ltd (2319 HK), China Modern Dairy Holdings Ltd (1117 HK) and Tencent Holdings Ltd (700 HK) as of 31 Dec 2021.
3. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for China Modern Dairy Holdings Ltd (1117 HK) and Tencent Holdings Ltd (700 HK) in the past 12 months, as of 31 Dec 2021.


DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

4. **Disclosure of previous investment recommendation produced:**  
DBS Bank Ltd, DBSVS, DBS HK, their subsidiaries and/or other affiliates of DBSVUSA may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed on page 1 of this report to view previous investment recommendations published by DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA in the preceding 12 months.

<sup>1</sup> An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

<sup>2</sup> Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

<p><b>General</b></p>	<p>This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.</p>
<p><b>Australia</b></p>	<p>This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946.</p> <p>DBS Bank Ltd, DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
<p><b>Hong Kong</b></p>	<p>This report is being distributed in Hong Kong by DBS Bank Ltd, DBS Bank (Hong Kong) Limited and DBS Vickers (Hong Kong) Limited, all of which are registered with or licensed by the Hong Kong Securities and Futures Commission to carry out the regulated activity of advising on securities. DBS Bank Ltd., Hong Kong Branch is a limited liability company incorporated in Singapore.</p>
<p><b>Indonesia</b></p>	<p>This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.</p>
<p><b>Malaysia</b></p>	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <div style="text-align: right;">   Wong Ming Tek, Executive Director, ADBSR </div>
<p><b>Singapore</b></p>	<p>This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6878 8888 for matters arising from, or in connection with the report.</p>
<p><b>Thailand</b></p>	<p>This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.</p> <p>For any query regarding the materials herein, please contact [Chanpen Sirithanarattanakul] at [research@th.dbs.com]</p>
<p><b>United Kingdom</b></p>	<p>This report is produced by DBS HK which is regulated by the Hong Kong Monetary Authority</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>

<p>Dubai International Financial Centre / United Arab Emirates</p>	<p>This communication is provided to you as a Professional Client or Market Counterparty as defined in the DFSA Rulebook Conduct of Business Module (the "COB Module"), and should not be relied upon or acted on by any person which does not meet the criteria to be classified as a Professional Client or Market Counterparty under the DFSA rules.</p> <p>This communication is from the branch of DBS Bank Ltd operating in the Dubai International Financial Centre (the "DIFC") under the trading name "DBS Bank Ltd. (DIFC Branch)" ("DBS DIFC"), registered with the DIFC Registrar of Companies under number 156 and having its registered office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates.</p> <p>DBS DIFC is regulated by the Dubai Financial Services Authority (the "DFSA") with a DFSA reference number F000164. For more information on DBS DIFC and its affiliates, please see <a href="http://www.dbs.com/ae/our--network/default.page">http://www.dbs.com/ae/our--network/default.page</a>.</p> <p>Where this communication contains a research report, this research report is prepared by the entity referred to therein, which may be DBS Bank Ltd or a third party, and is provided to you by DBS DIFC. The research report has not been reviewed or authorised by the DFSA. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBS DIFC.</p> <p>Unless otherwise indicated, this communication does not constitute an "Offer of Securities to the Public" as defined under Article 12 of the Markets Law (DIFC Law No.1 of 2012) or an "Offer of a Unit of a Fund" as defined under Article 19(2) of the Collective Investment Law (DIFC Law No.2 of 2010).</p> <p>The DFSA has no responsibility for reviewing or verifying this communication or any associated documents in connection with this investment and it is not subject to any form of regulation or approval by the DFSA. Accordingly, the DFSA has not approved this communication or any other associated documents in connection with this investment nor taken any steps to verify the information set out in this communication or any associated documents, and has no responsibility for them. The DFSA has not assessed the suitability of any investments to which the communication relates and, in respect of any Islamic investments (or other investments identified to be Shari'a compliant), neither we nor the DFSA has determined whether they are Shari'a compliant in any way.</p> <p>Any investments which this communication relates to may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on any investments. If you do not understand the contents of this document you should consult an authorised financial adviser.</p>
<p>United States</p>	<p>This report was prepared by DBS HK. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.</p>
<p>Other jurisdictions</p>	<p>In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.</p>

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



**DBS Regional Research Offices**

**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

**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

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

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: indonesiaesearch@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

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand