

China

ADD (previously *REDUCE*)

Consensus ratings*: Buy 27 Hold 5 Sell 1

Current price:	Rmb33.20
Target price:	Rmb37.60 ▲
Previous target:	Rmb34.20
Up/downside:	13.3%
CGI / Consensus:	-5.6%
Reuters:	600872.SS
Bloomberg:	600872.CH
Market cap:	US\$4,159m
	Rmb26,448m
Average daily turnover:	US\$84.47m
	Rmb536.9m
Current shares o/s:	796.6m
Free float:	64.4%

*Source: Bloomberg

Key changes in this note

- FY21F EPS increased by 42.5%.
- FY22F EPS increased by 18.3%.
- FY23F EPS increased by 13.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-13.4	-10.1	-47.7
Relative (%)	-9.8	-8.8	-45.4

Major shareholders	% held
ZS Runtian Investment Co Ltd	24.9
Zhongshan Torch Group Co Ltd	10.7
National Social Security Fund	5.6

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Jonjee Hi-Tech Industrial

Signs of channel improvement

- Jonjee announced its key headline numbers for FY21. Total revenue dipped slightly by 0.14% yoy to Rmb5.1bn, and net profit dropped by 15% yoy to Rmb753m in FY21, better than our expectations, mainly due to a better property sales contribution and improved condiment sales qoq. The detailed results will be released on 30 Mar.
- Jonjee's condiment sales in 4Q21 turned to positive yoy growth of 6.7%, driven mainly by volume growth, indicating the Company's sales channels are gradually recovering.
- The Company announced price hikes of 3%–10% starting on 1 Jan 2022 for 70% of its condiment products to mitigate cost pressure in FY22F.
- Upgrade to Add with a new DCF-based TP of Rmb37.6, as the Company's condiment business has shown signs of recovery.

Worst period for the condiment business over

In FY21, Jonjee's condiment sales (Meiweixian) declined by 7% yoy to Rmb4.6bn, accounting for 90% of total revenue, and its related net profit dropped by 30% yoy to Rmb607m, mainly because the community group purchase platforms had a negative impact on the Company's traditional KA channels, especially in 1H21. Because of higher raw material prices, the net profit margin of Jonjee's condiment business declined by 4.2% pts yoy to 13.1% in FY21. As at the end of 3Q21, the company's Qijiang Dongan (岐江东岸) commercial and residential property project, plot D, had a total of 696 flats for sale, 385 of which were pre-sold; the remaining 311 flats and 3,500 sqm of commercial property have yet to be sold. We estimate that the project contributed Rmb300m–400m in revenue in FY21. Owing to the current weak property market in China, we expect the sales contribution from its property business for FY22F to be only about Rmb200m. Now we expect the Company's total revenue to grow by 0.8% yoy in FY22F and net profit to increase by 0.6% yoy, with sales of the condiment business rising by 7.8% yoy and related net profit up by 15.2% yoy in FY22F, driven mainly by a selling price increase and distribution channel recovery.

Signs of channel improvement in 4Q21

Jonjee started to collaborate with community group purchase platforms in Aug 21, and we believe it is on the right path. Its KA distribution channel is also on a recovery trend now. The Company's condiment sales turned to positive yoy growth of 6.7% in 4Q21, after a severe yoy decline of 27% yoy in 2Q21 and 15% yoy in 3Q21. Management said sales growth in 4Q21 was driven mainly by volume growth, as 1) 4Q is usually the high season for condiment sales, and 2) its distributors placed advance orders in Dec to prepare for the upcoming peak CNY season. On 1 Jan, the Company increase its ex-factory price by 3%–10% for 70% of its condiment products to mitigate raw material price increase pressure. We estimate that the Company's channel inventory has been reduced to the normal level of 1.5–2 months now, from 3 months before Chinese New Year.

Continued short-term overhang from controlling shareholder

According to the latest announcement on 15 Jan 2022, about 85% of the equity interest in Jonjee of the controlling shareholder, ZS Runtian Investment, is still pledged owing to Runtian's Rmb41bn debt to financial institutions. Also, the Company's divestment of its property business for a non-public share placement with its controlling shareholder has faced some obstacles, as the parent company of Runtian Investment, Baoneng Group, currently has liquidity issues with its property business. Although it has not affected Jonjee's daily operations, we think if Baoneng reduces its stake in Jonjee in the future, it might benefit the fundraising process for Jonjee's capacity expansion project.

Financial Summary

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rmbm)	4,675	5,123	5,116	5,176	5,850
Operating EBITDA (Rmbm)	1,025	1,208	1,063	1,093	1,296
Net Profit (Rmbm)	717.9	889.9	752.6	757.3	898.1
Core EPS (Rmb)	0.91	1.13	0.95	0.96	1.13
Core EPS Growth	18.3%	24.2%	(15.5%)	0.6%	18.5%
FD Core P/E (x)	36.59	29.47	34.89	34.68	29.28
DPS (Rmb)	0.28	0.68	0.38	0.38	0.45
Dividend Yield	0.84%	2.05%	1.14%	1.15%	1.36%
EV/EBITDA (x)	25.51	22.31	25.39	24.49	20.32
P/FCFE (x)	69.26	NA	46.40	44.20	32.58
Net Gearing	(13.8%)	2.4%	1.7%	(3.6%)	(11.1%)
P/BV (x)	6.70	5.73	5.48	5.01	4.50
ROE	19.1%	21.0%	16.1%	15.1%	16.2%
% Change In Core EPS Estimates			42.0%	18.2%	13.7%
CGI/consensus EPS (x)			1.33	1.00	0.97

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Signs of channel improvement

Upgrade to Add with a new DCF-based TP of Rmb37.6

We raised our EPS forecast for FY21–23F by 42.5%/18.3%/13.8%, to reflect 1) the improved property business sales contribution; 2) the Company's price hikes on 1 Jan 2022 and a likely reduction in raw material price increase pressure, and 3) recovery signs in the Company's core condiment business since 4Q21, along with the gradual recovery of the distribution channel. The Company's distribution network has consistently expanded. As at the end of 3Q21, the number of distributors increased to 1,708, a net increase of 287. The Company's prefecture level and country level coverage improved by 2.3% pts and 9.9% pts to 92.3% and 60.8%, respectively, in 3Q21. We believe the Company's condiment business is on a turnaround trend.

Figure 1: Earnings revision

(Rmb m)	FY21F			FY22F			FY23F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales	4,626	5,116	10.6%	5,136	5,176	0.8%	5,814	5,850	0.6%
Sales growth	-9.7%	-0.1%	9.6%	11.0%	1.2%	-9.8%	13.2%	13.0%	-0.2%
GPM	31.6%	35.8%	4.3%	32.6%	35.3%	2.8%	33.6%	35.8%	2.3%
OPM	15%	18.8%	4.2%	16%	18.7%	2.7%	17%	19.6%	2.3%
Net profit	528	753	42.5%	640	757	18.3%	789	898	13.8%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: Market price of soybeans in China's domestic market



SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 3: Market price of high-strength corrugated paper



SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

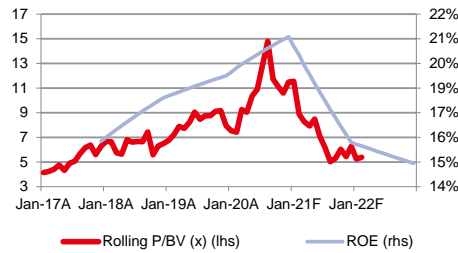
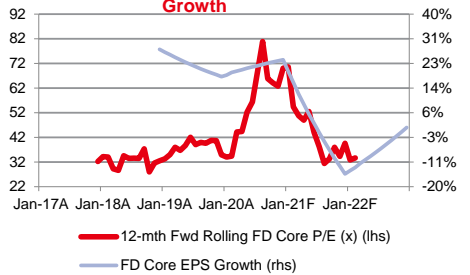
Figure 4: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
Operating EBIT	969	1,147	1,315	1,494	1,670	1,845	2,021	2,193	2,358	2,512
Taxes	-135	-160	-185	-210	-235	-259	-284	-308	-331	-353
EBIT, tax-affected	834	987	1,130	1,284	1,435	1,586	1,737	1,885	2,027	2,159
Add: Depreciation & amortisation	169	193	219	216	213	210	207	204	201	198
Add Changes in Working capital	3	38	44	49	55	61	67	72	78	83
Less Capital Expenditure	-400	-400	-241	-194	-190	-185	-180	-175	-171	-166
Free Cash Flow to firm	605	819	1,152	1,355	1,514	1,672	1,831	1,986	2,135	2,274
NPV of FY22-26 cash flow	4,160									
NPV of FY27-31 cash flow	5,306									
NPV of Terminal Value	21,004									
Enterprise Value	30,470									
Add Net cash/(Net Debt)	-90									
Less Minority	-445									
Equity value of firm	29,936									
Share outstanding (m)	797									
Target price	37.6									

Key assumptions

Company 2yr average	1.1
Risk free rate	3.4%
Risk premium	6.1%
Cost of equity	8.3%
Cost of debt	4.3%
Debt %	3.3%
Tax rate	14.7%
WACC	8.1%
Terminal growth rate	3.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

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

Profit & Loss

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	4,675	5,123	5,116	5,176	5,850
Gross Profit	1,788	2,071	1,775	1,770	2,029
Operating EBITDA	1,025	1,208	1,063	1,093	1,296
Depreciation And Amortisation	-135	-140	-145	-169	-193
Operating EBIT	890	1,068	918	924	1,102
Financial Income/(Expense)	-49	-13	-0	-0	-0
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	87	76	38	38	38
Profit Before Tax (pre-EI)	934	1,139	962	968	1,147
Exceptional Items					
Pre-tax Profit	928	1,130	956	962	1,140
Taxation	-137	-159	-134	-135	-160
Exceptional Income - post-tax					
Profit After Tax	791	971	822	827	980
Minority Interests	-73	-81	-69	-69	-82
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	718	890	753	757	898
Recurring Net Profit	723	897	758	763	903
Fully Diluted Recurring Net Profit	723	897	758	763	903

Cash Flow

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	1,025	1,208	1,063	1,093	1,296
Cash Flow from Invt. & Assoc.					
Change In Working Capital	141	-97	4	3	38
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-105	-109	-97	-97	-122
Net Interest (Paid)/Received	-49	-13	-0	-0	-0
Tax Paid					
Cashflow From Operations	1,012	988	970	998	1,212
Capex	-234	-328	-400	-400	-400
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	106	-797	0	0	0
Cash Flow From Investing	-128	-1,125	-400	-400	-400
Debt Raised/(repaid)	-502	-710	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-239	-257	-542	-301	-303
Preferred Dividends					
Other Financing Cashflow	110	633	0	0	0
Cash Flow From Financing	-631	-334	-542	-301	-303
Total Cash Generated	253	-471	28	297	509
Free Cashflow To Equity	382	-847	570	598	812
Free Cashflow To Firm	933	-124	570	598	812

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	699	242	270	568	1,076
Total Debtors	54	72	69	69	74
Inventories	1,568	1,682	1,688	1,698	1,759
Total Other Current Assets	1,204	2,103	2,103	2,103	2,103
Total Current Assets	3,525	4,099	4,130	4,438	5,012
Fixed Assets	1,424	1,458	1,720	1,957	2,170
Total Investments	363	589	589	589	589
Intangible Assets	213	199	193	187	181
Total Other Non-Current Assets	429	314	314	314	314
Total Non-current Assets	2,429	2,560	2,816	3,047	3,254
Short-term Debt	113	360	360	360	360
Current Portion of Long-Term Debt					
Total Creditors	662	737	744	757	861
Other Current Liabilities	826	460	460	460	460
Total Current Liabilities	1,600	1,557	1,565	1,578	1,682
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	108	110	110	110	110
Total Non-current Liabilities	108	110	110	110	110
Total Provisions	0	0	0	0	0
Total Liabilities	1,708	1,667	1,675	1,688	1,792
Shareholders' Equity	3,949	4,616	4,827	5,283	5,878
Minority Interests	297	376	445	514	596
Total Equity	4,246	4,992	5,271	5,797	6,474

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	12.2%	9.6%	(0.1%)	1.2%	13.0%
Operating EBITDA Growth	19.6%	17.8%	(12.0%)	2.8%	18.6%
Operating EBITDA Margin	21.9%	23.6%	20.8%	21.1%	22.1%
Net Cash Per Share (Rmb)	0.74	-0.15	-0.11	0.26	0.90
BVPS (Rmb)	4.96	5.79	6.06	6.63	7.38
Gross Interest Cover	18	81	2,723	32,880	470,394
Effective Tax Rate	14.7%	14.0%	14.0%	14.0%	14.0%
Net Dividend Payout Ratio	30.8%	60.3%	39.7%	39.7%	39.7%
Accounts Receivables Days	2.92	2.13	2.25	2.11	2.00
Inventory Days	199.9	194.9	184.1	181.4	165.1
Accounts Payables Days	55.16	59.33	59.64	58.40	56.26
ROIC (%)	24.5%	31.6%	20.0%	19.0%	21.7%
ROCE (%)	22.6%	24.5%	17.6%	16.5%	17.8%
Return On Average Assets	14.2%	15.8%	12.2%	11.5%	12.5%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Soy sauce ASP growth (%)	0.4%	1.5%	-3.0%	10.0%	1.0%
Chicken Powder ASP growth (%)	-0.2%	0.0%	1.0%	8.0%	1.0%
Table sauce ASP growth (%)	1.0%	1.0%	1.0%	5.0%	2.0%
Soy sauce Volume growth (%)	10.8%	12.5%	-16.0%	8.0%	8.0%
Chicken Powder Volume growth (%)	19.2%	-6.9%	12.0%	20.0%	25.0%
Table sauce Volume growth (%)	10.0%	8.0%	-20.0%	10.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)**Jonjee Hi-Tech Industrial (600872 CH)**

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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