

China / Hong Kong Industry Focus

Food & Beverages Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Mar 2022

Cost impacts aggravated by Russia-Ukraine conflict

- **The conflict between Russia and Ukraine has elevated global commodity price hikes, with some of them surging by >50% y-o-y in Mar 2022**
- **While selected agri-commodity prices rise more moderately in China, palm oil price surges >70% in Mar 2022. Sensitivity analyses suggest substantial earnings impacts across instant noodle players**
- **Stay selective: we prefer upstream plays like [China Modern Dairy](#) and [COFCO Joycome](#) in short-run; the downstream operators with strong pricing power should post firm prospects on a 12-month horizon**

Major shock to agricultural commodities. Russia and Ukraine, the breadbasket of Europe, mark an important force in the agricultural sector. High global commodity prices, along with COVID-19 resurgence and logistics disturbance, have surged further following sanctions being imposed on Russia and register strong double-digit growth (see page 4). Certain commodities in China, including corn, raw milk, sugar, wheat, and soybean meal, have seen much milder increases, perhaps except for palm oil and some packaging raw materials like aluminium that climb 72% and 30% respectively in China during Mar 2022.

Negatively impacted sectors. Food processors like Tingyi, UPC and Nissin Foods have lately warned that higher palm oil prices may have already offset the companies' price hikes over the past 12 months. Palm oil, up >55% y-o-y in 1Q22, normally takes up <10% of cost of goods sold. Based on our sensitivity analyses, we estimate FY22 earnings of UPC and Tingyi could be impacted by 1%-3% for every 5% increase in palm oil price. As such, we lowered the gross margin of UPC/Nissin Foods by 0.7ppt/0.8ppt to 31.9%/30.9% for FY22F and will review earnings of Tingyi.

Stay selective. On the back of rising agri-commodity prices, upstream players like China Modern Dairy (1117.HK, Buy) and COFCO Joycome (1610.HK, Buy) may benefit better from the uptrend. We believe mid-downstream processors could face higher cost pressure in 1H22 and affect near-term sentiment. However, we maintain BUY on China Mengniu and Yili, as we expect these leading dairy companies could find ways to largely offset the cost impacts through passing on the costs to consumers as well as further product-mix enhancement.

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Recommendation & valuation

	Price HK\$	Target Price HK\$	Rec	Mkt Cap US\$m	22F PE (x)
China Mengniu Dairy (2319 HK)	44.15	53.50	BUY	22,295	23.2
China Modern Dairy (1117 HK)	1.45	1.60	BUY	1,466	6.2
COFCO Joycome (1610 HK)	3.28	4.19	BUY	1,635	8.3
Inner Mongolia Yili (600887 CH)	35.75	52.00	BUY	35,941	21.1
Nissin Foods (1475 HK)	5.46	7.90	BUY	728	16.6
Tingyi (322 HK)	13.82	Under review	BUY	9,942	14.0
Uni-President China (220 HK)	6.95	8.80	BUY	3,835	15.6
Yihai Kerry (300999 CH)	48.56	49.00	HOLD	41,355	38.5

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

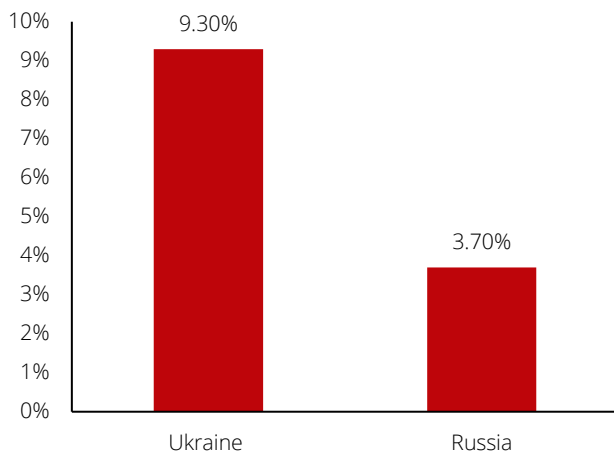


What are the roles of Russia and Ukraine in the agricultural sector globally?

Russia and Ukraine together mark an important force in the agriculture sector globally, with Ukraine known as the breadbasket in Europe. Similarly, the agriculture sector is of equal importance to their respective economies.

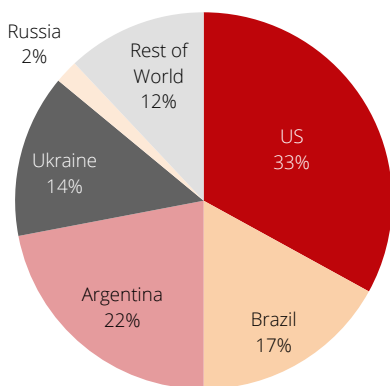
Key agricultural exports. Ukraine's and Russia's key agricultural exports include wheat, corn, barley, sunflowers, sunflower seeds, sunflower meal, sunflower oil, rye, potatoes, and more. Altogether, Russia & Ukraine account for about **26% of global wheat exports** (Russia: 16%; Ukraine: 10%), **c.16% of global corn exports** (2% from Russia, 14% from Ukraine), and **c.30% of barley exports** (Ukraine: 17%; Russia: 13%).

Agriculture sector as a % of GDP



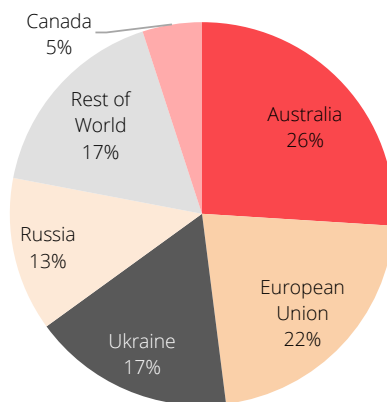
Source: World Bank (for 2020)

Top corn exporting countries



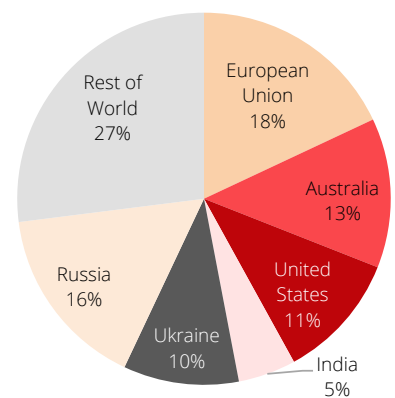
Source: USDA, DBS HK (for 2021)

Top barley exporting countries



Source: USDA, DBS HK (for 2021)

Top wheat exporting countries



Source: USDA, DBS HK (for 2021)

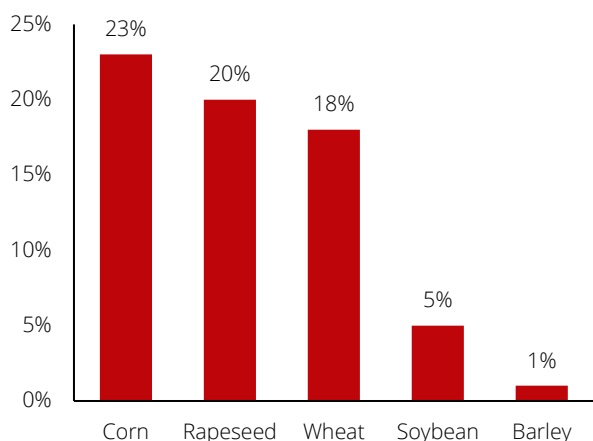
What is the relationship between Ukraine, Russia, and China in the agricultural sector?

The global prices of grains, oilseeds, and fertilisers are rising. Aside from the direct material impacts, a surge in natural gas prices also affect commodity prices. One of the key components in fertilisers is nitrogen, which is derived from natural gas. Surges in fertiliser and energy prices have led to surges in global agricultural commodity prices, including coarse grains such as corn, soybean, wheat, etc.

Today, China is a major producer of agricultural commodities such as corn, rapeseed, wheat, and soybean. It is also a major buyer, making up 60% of the global import volume of soybean, 30% of barley, and 14% of palm oil.

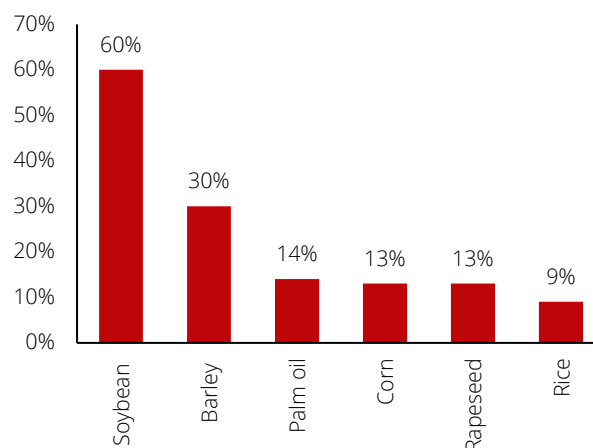
As trade partners, Ukraine is China's second largest corn importing partner, largest barley importer, and third largest sunflower oil importer. Russia is China's top sunflower oil importer.

China's production as a % of global export figures



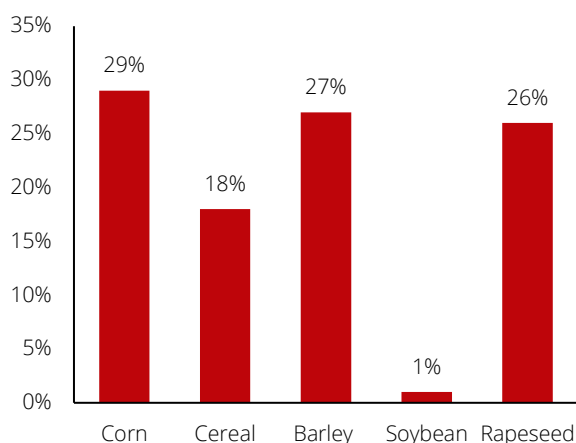
Source: USDA, DBS HK (for 2021)

China's purchases as a % of global import figures



Source: USDA, DBS HK (for 2021)

Ukraine's & Russia's % share of China's total import figures



Source: China Custom, WIND, DBS HK (for 2021)

Commodity price changes % yoy (China)

	Source	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
% y-o-y														
Cereal Grain														
Corn	DCE	42	35	38	30	20	15	7	(0)	4	3	(4)	(4)	2
Soybean	DCE	42	14	15	9	13	24	28	30	19	10	5	7	5
Wheat	NBS	5	4	4	9	8	5	6	7	13	15	13	14	n.m
Rough rice	NBS	(0)	1	(1)	(3)	0	(3)	(6)	(2)	3	5	8	12	13
Barley	China Customs	8	13	20	22	32	32	29	30	29	22	28	22	n.m
Oilseeds														
Peanut oil	NBS	4	(6)	(7)	(8)	(7)	(7)	(5)	(11)	(14)	(16)	(22)	(24)	n/m
Palm oil	DCE	71	89	111	55	63	61	57	70	54	38	44	54	72
Soybean oil	DCE	72	60	69	55	51	46	37	42	27	12	12	22	18
Rapeseed oil	DCE	52	56	58	36	26	18	18	30	25	29	19	21	24
Feed														
Corn	MARA	41	38	35	34	29	21	19	15	13	11	2	(3)	(3)
Soybean Meal	MARA	15	7	13	16	16	16	17	15	10	9	1	2	17
Fattening Pig	MARA	16	14	14	15	13	11	11	9	8	7	4	2	4
Broiler Chicken	MARA	13	12	12	13	12	11	10	9	8	7	4	2	3
Egg Chicken	MARA	15	13	13	14	13	11	11	10	10	8	4	3	5
Protein prices														
Live hog	MARA	(22)	(29)	(33)	(50)	(56)	(59)	(63)	(57)	(42)	(49)	(59)	(59)	(56)
Pork price	MARA	(21)	(26)	(30)	(44)	(51)	(55)	(58)	(57)	(47)	(48)	(57)	(57)	(56)
Piglet prices	MARA	2	(12)	(23)	(44)	(58)	(64)	(72)	(75)	(68)	(64)	(69)	(71)	(72)
Raw milk prices	MARA	14	17	19	20	20	17	13	9	7	5	0	(1)	(2)
Whole milk powder	Fonterra	47	48	52	44	18	20	27	24	31	23	19	25	11
Other soft commodities														
Sugar	DCE	(3)	(1)	4	5	8	10	7	6	14	13	9	7	8
Packaging prices														
PET	DCE	40	41	24	12	17	15	18	29	15	7	14	9	3
Tin	NDRC	30	37	41	46	54	62	75	91	97	96	103	95	n.m
Aluminium	SFE	40	49	47	36	33	38	55	53	24	19	41	41	30

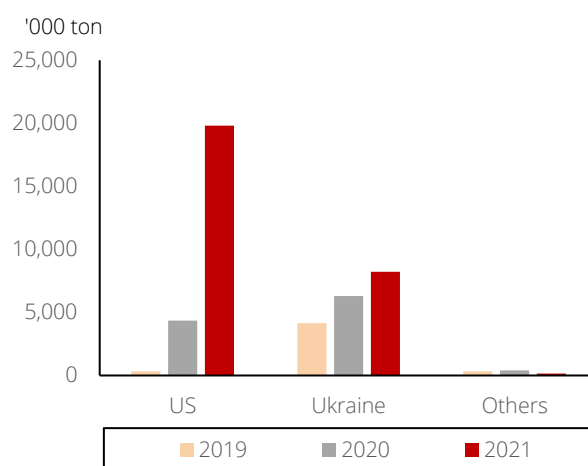
Source: CEIC, WIND, DBS HK (All prices for China, except for whole milk powder)

Food & Beverage

Domestic vs. international prices

Selective domestic prices have not reacted as strongly as global commodity prices. China corn prices rose 1% y-o-y in March vs. CME corn futures up 35% y-o-y. This is partly due to a surge in import volume made in 2021.

China corn import volume breakdown



Source: China Customs, CEIC, DBS HK

Commodity price changes % yoy (International market)

	Source	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Futures														
Corn	CME	54	92	119	105	82	70	43	35	37	36	18	18	35
Wheat	CME	19	23	38	34	27	41	28	23	35	31	18	24	80
Soybean	CME	63	74	87	69	59	52	28	17	8	7	2	15	19
Sugar	ICE	34	61	62	46	49	51	55	37	32	31	16	7	20
Cocoa	ICE	5	3	1	(2)	3	1	0	9	(7)	(7)	1	3	(1)
Coffee	CME	12	16	43	62	64	53	55	89	98	93	90	94	74
Live hog (US)	CME	52	127	79	135	118	85	32	14	15	17	20	23	10
Aluminium	LME	36	59	67	56	52	51	63	64	37	34	50	57	61
Tin	LME	79	90	111	94	96	99	95	109	112	101	90	65	62

Source: CEIC, DBS HK

Gross margin trend vs. raw material price change (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Dairy sector gross margin											
Mengniu	27.0	30.8	31.4	32.8	35.2	37.4	37.6	37.7	37.5	38.0	38.6
Bright	34.2	34.2	35.6	38.1	32.8	32.9	30.9	25.5	27.1	25.0	n.a
Yili	28.7	32.5	36.1	37.9	37.3	38.3	37.5	36.2	37.6	37.7	37.8
China Modern Dairy		37.1	34.4	32.8	29.9	31.2	38.1	40.8	38.0	39.3	39.8
Raw material prices											
Average raw milk price % yoy		12.1	(14.8)	0.6	0.2	(0.3)	5.4	3.6	13.4	(1.3)	
Soybean meal		(7.4)	(23.9)	10.7	(0.1)	8.5	(10.5)	3.7	23.5	12.6	
Corn		(0.3)	(4.3)	(21.2)	(6.5)	11.8	2.0	18.2	24.5	(1.8)	
Change in ppt											
Mengniu		3.9	0.5	1.4	2.4	2.2	0.2	0.1	(0.1)	0.5	0.6
Bright		(0.0)	1.4	2.5	(5.3)	0.1	(2.0)	(5.4)	1.6	(2.1)	n.a
Yili		3.8	3.6	1.8	(0.7)	1.0	(0.8)	(1.3)	1.4	0.1	0.1
China Modern Dairy		37.1	(2.7)	(1.6)	(2.9)	1.3	6.9	2.7	(2.8)	1.3	0.5
Instant noodle and RTD beverages gross margin											
Tingyi	30.3	30.5	31.9	31.3	29.4	30.9	31.9	33.2	30.4	n.m	n.m
Instant noodle	29.2	28.3	30.1	28.8	28.8	30.2	29.0	29.3	24.4	n.m	n.m
RTD beverage	30.8	31.9	33.2	33.0	29.8	31.3	33.7	35.9	33.8	n.m	n.m
UPC	33.3	32.5	36.8	34.4	31.6	33.5	36.0	35.4	32.6	31.9	32.4
Instant noodle	29.2	28.7	33.4	30.9	31.6	33.5	32.0	31.2	25.3	24.7	25.8
RTD beverage	35.8	35.8	39.3	37.6	34.7	37.0	39.9	39.7	38.6	37.9	38.1
Nissin Foods	34.1	37.9	39.6	30.5	31.1	32.8	32.9	31.7	30.9	31.3	
Raw material prices											
Palm oil	(21.6)	(3.4)	(15.6)	16.8	8.2	(14.9)	(4.4)	24.2	53.8	53.7	
Wheat	(6.2)	(13.9)	(12.7)	(14.0)	0.5	13.8	0.2	11.4	27.9	40.6	
PET	9.3	0.7	(18.0)	(0.2)	4.7	(0.6)	(16.5)	(10.0)	20.6	8.9	
Sugar	(12.7)	(15.7)	15.5	12.8	11.5	(19.4)	2.2	1.1	3.9	8.1	
Change in ppt											
Tingyi		0.2	1.4	(0.6)	(1.9)	1.5	1.0	1.3	(2.8)	n.m	n.m
Instant noodle		(0.9)	1.8	(1.3)	0.0	1.4	(1.2)	0.3	(4.9)	n.m	n.m
RTD beverage		1.2	1.3	(0.2)	(3.1)	1.4	2.4	2.3	(2.1)	n.m	n.m
UPC		(0.8)	4.3	(2.4)	(2.9)	1.9	2.5	(0.6)	(2.8)	(0.7)	0.5
Instant noodle		(0.5)	4.7	(2.5)	0.7	1.9	(1.5)	(0.8)	(5.9)	(0.6)	1.1
RTD beverage		0.0	3.5	(1.7)	(2.9)	2.3	2.9	(0.2)	(1.1)	(0.7)	0.2
Nissin Foods		34.1	3.7	1.7	(9.1)	0.6	1.7	0.1	(1.2)	(0.8)	0.4

Source: Company, CEIC, WIND, DBS HK (Tingyi under review)

Gross margin trend vs. raw material price change (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Pork sector gross margin											
COFCO Joycome	9.7	5.2	9.3	21.0	15.5	4.7	8.9	23.8	26.6	14.3	15.9
Raw material prices changes % yoy											
Average live hog prices % yoy		(10)	13	25	(17)	(15)	62	86	(40)	(58)	
Soybean meal		(7)	(24)	11	(0)	9	(11)	4	23	13	
Corn		(0)	(4)	(21)	(6)	12	2	18	25	(2)	
Change in ppt											
COFCO Joycome		(4.5)	4.2	11.6	(5.4)	(10.8)	4.2	14.9	2.8	(12.3)	1.7
Kitchen foods gross margin											
YKA			11.1		8.4	10.2	11.4	12.3	8.2	8.9	9.8
Kitchen food				12.9	10.6	12.4	12.6	13.0	8.3	9.1	9.8
Feed ingredients and oil technology				7.3	4.7	6.6	8.7	10.7	7.4	8.2	8.9
Raw material price change % yoy											
YKA						(2)	(3)	8	25	5	4
Kitchen food						(7)	(4)	11	18	4	4
Feed ingredients and oil technology						2	(9)	6	29	5	3
Change in ppt											
YKA					(2.7)	1.8	1.2	0.9	(4.1)	0.7	0.9

Source: Company, CEIC, WIND, DBS HK

Impact on dairy sector

Solid market growth by key players. Based on Yili's latest operating data, Jan Feb 22 preliminary sales rose 15% y-o-y, with net profit rising up to 20% y-o-y. This is driven by market share gains by key brands including Jin-Dian, Anmuxi, Gold Champion, Qiao Lezi, Zhen Xi, Changqing, MeiYiTian, Yili Children's Cheese Sticks, etc.; of which, Gold Champion infant formula sales recorded a 30% y-o-y growth.

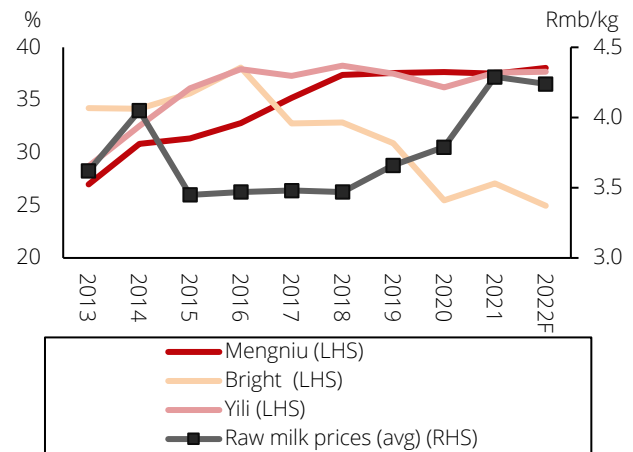
Resilience thanks to high health proposition. Despite the recent challenges with the resurgence of COVID-19 in Mar 22 in Guangzhou, Shanghai, Shandong, and Jilin, we expect the dairy sector to remain resilient with assurances of stable supply by the government.

Raw milk prices have stayed largely stable despite rises in soybean prices. Raw milk prices declined 2% y-o-y to Rmb4.2/kg in Mar 22.

Sensitivity analysis. If we assume an additional 5% increase in overall feed prices (vs. our assumption of a mid-single-digit increase), our GP margin projects a 1-2ppt drop in FY22F/FY23F, and our earnings projection could be c.15% lower. That said, China Mengniu and Yili's margins have

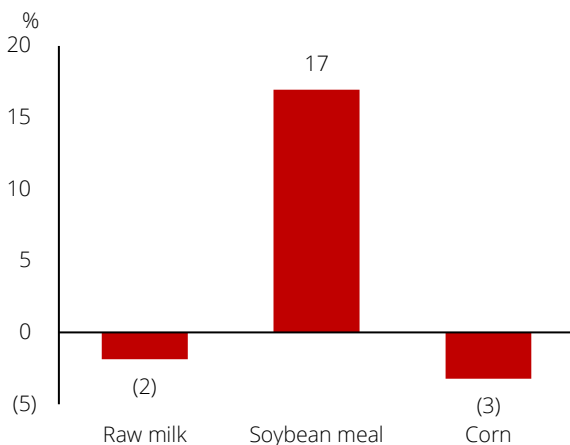
remained resilient against raw milk price volatility historically, thanks to product mix enhancement towards higher margin SKUs including premium UHT milk, milk powder, ice-cream etc. '

Gross margin trend vs. average raw milk prices



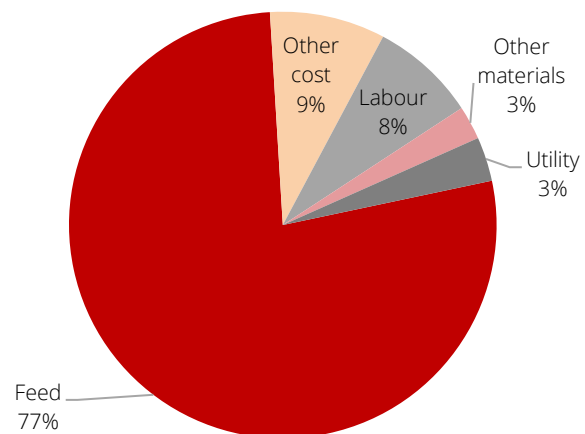
Source: Company data, DBS HK estimate

Price changes (% y-o-y) – March'22



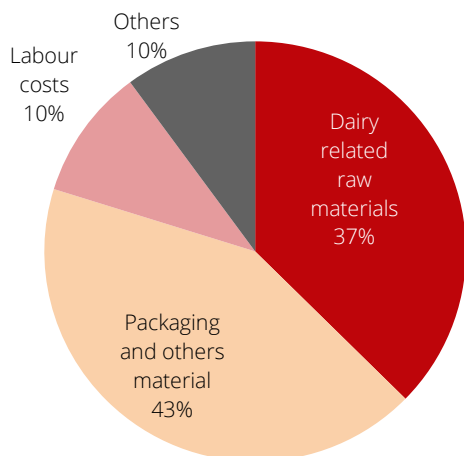
Source: MARA, DCE, CEIC, DBS HK

China Modern Dairy: Estimated breakdown of COGS



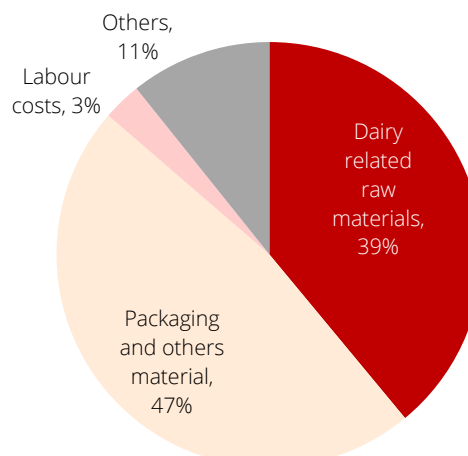
Source: Company data, DBS HK estimate

China Mengniu: Estimated breakdown of COGS



Source: Company data, DBS HK estimate

Yili: Estimated breakdown of COGS



Source: Company data, DBS HK estimate

China Modern Dairy: GP margin sensitivity
Assuming feed costs +/-5%

Cost (y-o-y)	FY22	FY23
15%	32%	31%
10%	35%	33%
5%	37%	36%
0%	39%	38%
-5%	42%	40%
-10%	44%	43%
-15%	46%	45%

Source: Company data, DBS HK estimate

China Modern Dairy: Net profit sensitivity
Assuming feed costs +/-5%

Cost (y-o-y)	FY22	FY23
15%	-46%	-45%
10%	-31%	-30%
5%	-15%	-15%
0%	0%	0%
-5%	15%	15%
-10%	31%	30%
-15%	46%	45%

Source: Company data, DBS HK estimate

China Mengniu: GP margin sensitivity
Assuming dairy-related costs +/-5%

Cost (y-o-y)	FY22F	FY23F
+15%	35.3%	35.8%
+10%	36.2%	36.7%
+5%	37.1%	37.7%
0%	38.0%	38.6%
-5%	39.0%	39.5%
-10%	39.9%	40.4%
-15%	40.8%	41.3%

Source: Company data, DBS HK estimate

China Mengniu: Net profit sensitivity
Assuming dairy-related costs +/-5%

Cost (y-o-y)	FY22F	FY23F
+15%	-39%	-41%
+10%	-26%	-27%
+5%	-13%	-14%
0%	0%	0%
-5%	13%	14%
-10%	26%	27%
-15%	39%	41%

Source: Company data, DBS HK estimate

Food & Beverage

Yili: GP margin sensitivity

Assuming dairy-related costs +/-5%

Cost (y-o-y)	FY22F	FY23F
+15%	34.9%	35.0%
+10%	35.8%	35.9%
+5%	36.8%	36.9%
0%	37.7%	37.8%
-5%	38.6%	38.7%
-10%	39.6%	39.6%
-15%	40.5%	40.6%

Source: Company data, DBS HK estimate

Yili: Net profit sensitivity

Assuming dairy-related costs +/-5%

Cost (y-o-y)	FY22F	FY23F
+15%	-31%	-31%
+10%	-21%	-21%
+5%	-10%	-10%
0%	0%	0%
-5%	10%	10%
-10%	21%	21%
-15%	31%	31%

Source: Company data, DBS HK estimate

Impacts on pork sector

Feed cost trends. Feed cost accounts for c.46% in our estimated cost-mix for COFCO Joycome's hog production business for 2022F. The combined feed cost for hog production rose 13% in China YTD, according to the National Development and Reform Commission (NDRC). While feed prices for hog production may remain at a high level in the near-term, the leading hog producers like COFCO Joycome should merely see a single-digit growth in its feed cost per kg of hog production this year, in our view, given its strong sourcing power and ongoing efforts to optimise feed composition through effective substitutes. Leveraging on the expertise of the COFCO Group in futures trading, COFCO Joycome could also exercise hedging strategies to further mitigate the risks posed by volatile feed prices ahead.

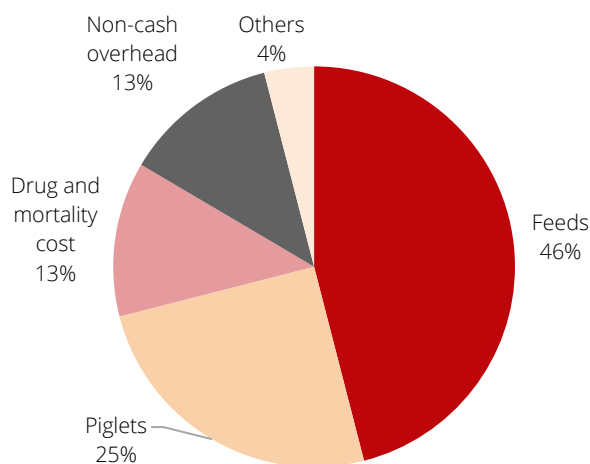
Sensitivity analyses. We have currently factored in a mid-single-digit growth in feed cost per unit in 2022F for COFCO Joycome, followed by a slight decline in 2023F. If we assume an additional 5% increase in overall feed costs as compared to our current estimate, our GP margin projected for the company could fall by 1.1ppt/1ppt to 13.2%/14.9% for

2022F/2023F, and earnings projections could be 11%/9% lower for 2022F/2023F. As our forecasts for COFCO Joycome have already been adjusted to the latest situation and incorporating management's cost control targets, the below sensitivity analyses are for indicative purpose only.

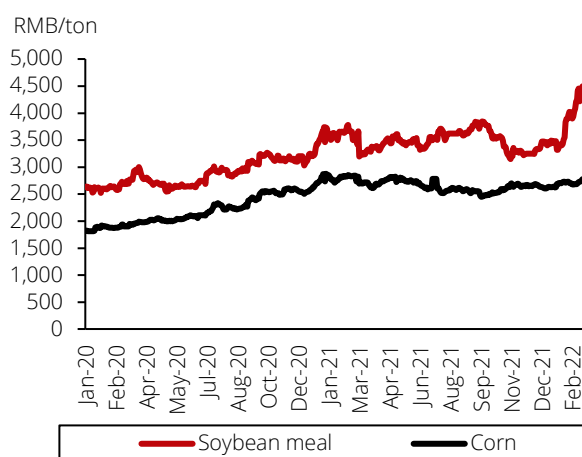
Potential COVID impacts. Unexpected surges of COVID cases across various cities in China may further interrupt crop production and the supply chain, lifting corn/soybean meal prices further. Stringent COVID measures by the government could also affect near-term demand for the downstream business. For example, COFCO Joycome's fresh pork and processed meat business may see sales pressure through B2B channels and self-operated stores in the near-term, along with the temporary closure of restaurants and stores in selected cities that are placed under lockdown.

Control over African Swine Fever (ASF). Occasional outbreaks of ASF and other infectious diseases continue to exist in certain hog farms but are well under control. COFCO Joycome should also see room for more than a RMB2/kg cut in unit costs, attributable to reductions in drug and mortality costs over the long run, as well as ongoing improvement in hog farming efficiency and disease prevention.

COFCO Joycome: Estimated breakdown of COGS of hog production in 2022



China corn and soybean meal price trends



Source: DBS HK, company data (COFCO Joycome also uses futures hedging to partially mitigate feed price risks) Source: CEIC, Dalian Commodity Exchange

COFCO Joycome: GP margin sensitivity
Assuming feed costs +/-5%

Cost (y-o-y)	2022F	2023F
15%	11.1%	13.0%
10%	12.2%	13.9%
5%	13.2%	14.9%
0	14.3%	15.9%
-5%	15.3%	16.9%
-10%	16.4%	17.9%
-15%	17.4%	18.9%

Source: DBS HK

COFCO Joycome: Net profit sensitivity
Assuming feed costs +/-5%

Cost (y-o-y)	2022F	2023F
15%	-33%	-28%
10%	-22%	-19%
5%	-11%	-9%
0	0%	0%
-5%	11%	9%
-10%	22%	19%
-15%	33%	28%

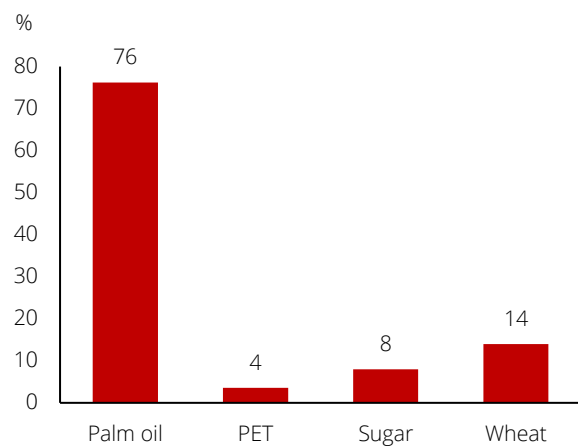
Source: DBS HK

Impact on instant noodle & beverages sector

Commodity price pressure to cause impact in 1H22. Recent resurgence of COVID-19 should boost noodle volume temporarily in Mar 22. However, raw material cost surges, such as for palm oil and wheat, will have an impact on the margin. Despite price hikes made by key players, margin pressure may be more severe in 1H22 due to surges in palm oil prices. To offset cost pressures, noodle players are likely to shift productions to higher priced products.

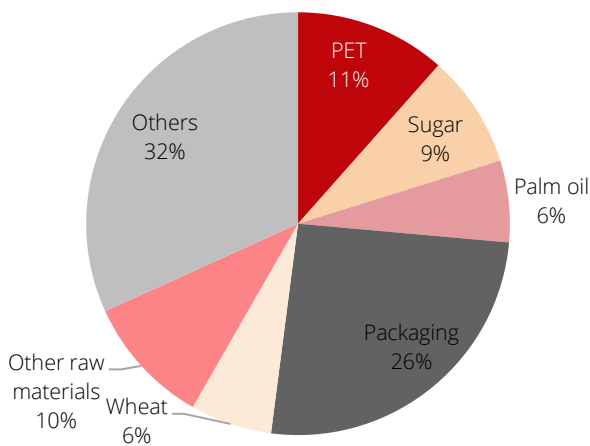
Sensitivity analysis. If we assume an additional 5% increase in the overall palm oil prices, our GP margin projects 0.1-0.2ppt drop in FY22F/FY23F, and earnings projections could be c.1% and c.3% lower for Tingyi and UPC, respectively.

Raw material price changes (% y-o-y) - March'22



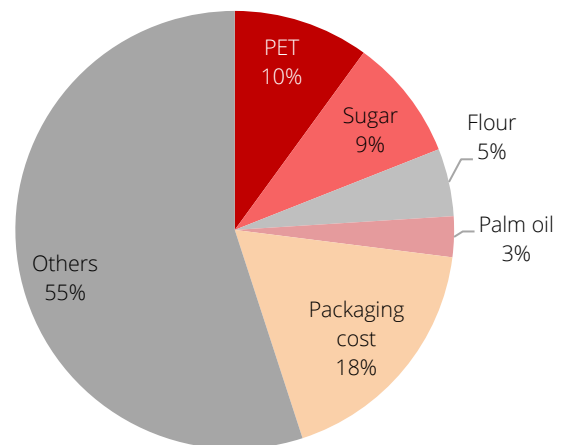
Source: DCE, Shanghai Futures Exchange, MARA, CEIC, DBS HK

Tingyi: Estimated breakdown of COGS



Source: Company data, DBS HK estimate

UPC: Estimated breakdown of COGS



Source: Company data, DBS HK estimate

Food & Beverage

Tingyi GP margin sensitivity
Assuming palm oil costs +/-5%

Cost (y-o-y)	2022E	2023E
15%	32.2%	32.2%
10%	32.4%	32.4%
5%	32.6%	32.6%
0%	32.8%	32.8%
-5%	33.0%	33.0%
-10%	33.2%	33.2%
-15%	33.4%	33.5%

Source: Company data, DBS HK estimate

Tingyi: Net profit sensitivity
Assuming palm oil costs +/-5%

Cost (y-o-y)	2022E	2023E
15%	-8%	-8%
10%	-5%	-5%
5%	-3%	-3%
0%	0%	0%
-5%	3%	3%
-10%	5%	5%
-15%	8%	8%

Source: Company data, DBS HK estimate

UPC: GP margin sensitivity
Assuming palm oil costs +/-5%

Cost (y-o-y)	2022E	2023E
15%	31.6%	32.1%
10%	31.7%	32.2%
5%	31.8%	32.3%
0%	31.9%	32.4%
-5%	32.0%	32.5%
-10%	32.1%	32.6%
-15%	32.2%	32.7%

Source: Company data, DBS HK estimate

UPC: Net profit sensitivity
Assuming palm oil costs +/-5%

Cost (y-o-y)	2022E	2023E
15%	-4%	-4%
10%	-2%	-2%
5%	-1%	-1%
0%	0%	0%
-5%	1%	1%
-10%	2%	2%
-15%	4%	4%

Source: Company data, DBS HK estimate

Food & Beverage

Impact on cooking oil and related condiments

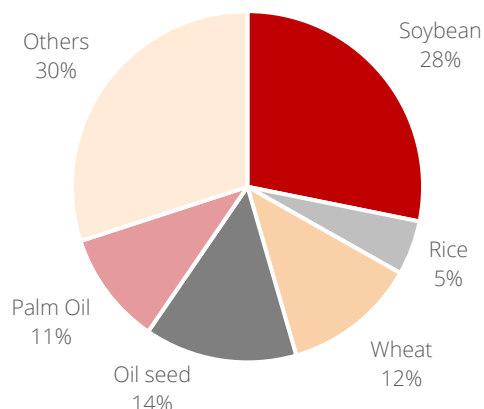
Raw material cost being the determinant. YKA's major business kitchen food includes food oil, rice and flour products, of which raw materials took up c.90% of COGS, and top-5 raw materials (soybean, rice, wheat, oil seed, palm oil) took up c.70% of COGS. We expect that soybean, rice, wheat, oil seed, and palm oil would represent 28%, 5%, 12%, 14%, 11% of agricultural product procurements, respectively, in FY22.

ASP lift to absorb cost pressure. Due to the continuous production and trade disturbance under the pandemic and geopolitics tension, we expect global raw material

procurement costs will largely increase in FY22. If we assume another 5% increase in raw material costs in FY22, our GP margin projections for the company would become 7.4% for 2022F and 8.2% for 2023F, and earnings projection could be 28%/23% lower for 2022F/2023F.

Lingering COVID-19 could still lift home cooking. The epidemic situation is worsening in China recently, and lockdown policies in selected cities have also hindered restaurant operations. We expect sales of YKA's small-packaged oil, rice, and flour products that are mainly sold to retail customers will be boosted, while sales of bulk-pack products mainly sold to the food industry and restaurants could be weakened as home cooking increases.

YKA: Estimated FY22 breakdown of COGS



Source: Company data, DBS HK

China's soybean price trend



Source: Wind, DBS HK

YKA: GP margin sensitivity

Assuming agricultural raw material prices +/-5%

Cost (y-o-y)	2022F	2023F
15%	5.9%	6.7%
10%	6.7%	7.5%
5%	7.4%	8.2%
0%	8.2%	9.0%
-5%	8.9%	9.7%
-10%	9.7%	10.5%
-15%	10.4%	11.2%

Source: DBS HK

YKA: Net profit sensitivity

Assuming agricultural raw material prices +/-5%

Cost (y-o-y)	2022F	2023F
15%	-83.3%	-69.4%
10%	-55.5%	-46.2%
5%	-27.8%	-23.1%
0%	0.0%	0.0%
-5%	27.8%	23.1%
-10%	55.5%	46.2%
-15%	83.3%	69.4%

Source: DBS HK

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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

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