

Hong Kong

ADD (no change)

Consensus ratings*: Buy 17 Hold 8 Sell 0

Current price:	HK\$13.58
Target price:	HK\$19.00
Previous target:	HK\$19.80
Up/downside:	39.9%
CGI / Consensus:	4.0%
Reuters:	0322.HK
Bloomberg:	322 HK
Market cap:	US\$9,771m
	HK\$76,480m
Average daily turnover:	US\$16.77m
	HK\$129.9m
Current shares o/s:	5,594m
Free float:	32.4%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 16.2%.
- FY23F EPS decreased by 10.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-21.4	-14.1	-4.2
Relative (%)	-16.9	-7.2	19.3

Major shareholders

	% held
Ting Hsin (Cayman Islands) Hldg Corp.	33.6
Sanyo Foods Co., Ltd	33.6

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Tingyi (Cayman Islands)

Product price increases to continue

- Tingyi reported sales of Rmb74.1bn, up by 9.6% yoy in FY21, and net profit of Rmb3.8bn, down by 6.4% yoy, in line with our expectations.
- Because of the uncertainty of the international situation, the prices of palm oil, PET and sugar are expected to increase by double digits yoy in FY22F.
- Tingyi raised the selling price of its classic noodles in early Feb, and management said the price increase process was implemented quite well. The Company is trying to increase the price of its bottled water products in its strong areas, and it does not rule out the possibility of price increases for its other beverage products in FY22F.
- Reiterate Add with a new DCF-based TP of HK\$19.0.

FY21 results in line

Noodle sales dropped by 3.6% yoy in FY21 (down 14.7% in 1H21 but up 7.7% yoy in 2H21, 38.40% of total revenue in FY21) because of the high base in 1H20, while beverage sales grew strongly by 20.18% yoy (up 26.4% and 14.6% yoy in 1H21 and 2H21, 60.48% of total revenue in FY21), given strong market demand, a low base in FY20 and new product launches. The overall GPM dropped by 2.78ppt yoy to 30.39% in FY21, with the noodle GPM contracting by 4.94ppt and the beverage GPM down 2.11ppt yoy, mainly because of the rising palm oil price (up 34.7% yoy) and PET price (up 43.1% yoy). The distribution expenses ratio expanded by 0.3ppt yoy to 21.2%. Tingyi announced a final dividend of US\$0.53 per share, for a full-year payout ratio of 180%.

Raw material cost pressure to be offset by price hikes

The palm oil price peaked in 1Q22, after a YTD increase of over 12% yoy, and domestic wheat, sugar and PET prices have grown by 12.3%, 2.6%, and 6.6% yoy YTD, respectively. Because of the uncertainty of the international situation, prices for palm oil, PET and sugar are expected to increase by double digits in FY22F. Following the Jul 1, 2021 high-single-digit price increase for its big-pack noodle products, Tingyi increased the ex-factory and retail prices of its classic noodle products by 10–12% on Feb 7, 2022. In recent weeks, Tingyi gradually revoked the discounts associated with the price increase, and the market reaction was positive. Its main competitors did not follow the price increase, but they reduced their discount levels. Tingyi is also trying to increase the retail price of its bottled water products in its strong areas by Rmb0.5–1.5/bottle. For the rest of the year, Tingyi does not rule out the possibility of price increases for big-pack beverage products. For carbonated soft drinks, Tingyi will follow the moves of the market leader. Because of the price increase in classic noodle products, Tingyi may face market share pressure in 1H22F, but it is confident in winning back market share in 2H22F. In 1Q22F QTD, Tingyi saw strong sales growth, with beverage growth higher than noodles'.

Optimizing supply chain management to ensure food safety

Affected by the pickle quality issue exposed by 3.15 Consumer Rights Day, Tingyi immediately suspended cooperation with the related pickle factory, withdrew the pickled noodles, and sealed the products for investigation by the authorities. Tingyi will optimize its supply chain management to ensure food safety. The revenue contribution of pickled noodles was about 4%, and the problem products may affect total revenue by 1%.

Reiterate Add with a new DCF-based TP of HK\$19.0

We cut our FY22F and FY23F earnings forecasts by 16.2% and 10.9% to reflect raw material cost pressure. The key catalysts include: 1) further price hikes for beverage products, and 2) stronger-than-expected sales growth. The key risks are 1) higher raw material prices, and 2) stronger price competition in mid- to low-end product segments.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	67,618	74,082	80,554	86,628	91,930
Operating EBITDA (Rmbm)	9,478	9,124	9,793	10,794	11,641
Net Profit (Rmbm)	4,062	3,802	3,549	4,221	4,809
Core EPS (Rmb)	0.65	0.59	0.63	0.75	0.85
Core EPS Growth	34.4%	(8.5%)	6.6%	19.0%	13.9%
FD Core P/E (x)	17.07	18.65	17.51	14.72	12.92
DPS (Rmb)	0.72	1.12	0.00	0.00	0.00
Dividend Yield	6.5%	10.1%	0.0%	0.0%	0.0%
EV/EBITDA (x)	6.05	6.91	6.65	5.47	4.50
P/FCFE (x)	13.54	NA	14.39	9.92	9.07
Net Gearing	(31.3%)	(9.8%)	(1.8%)	(27.2%)	(45.6%)
P/BV (x)	2.94	3.33	3.90	3.08	2.49
ROE	17.9%	16.8%	20.5%	23.4%	21.3%
% Change In Core EPS Estimates			(16.2%)	(10.9%)	
CGI/consensus EPS (x)			0.83	0.89	0.98

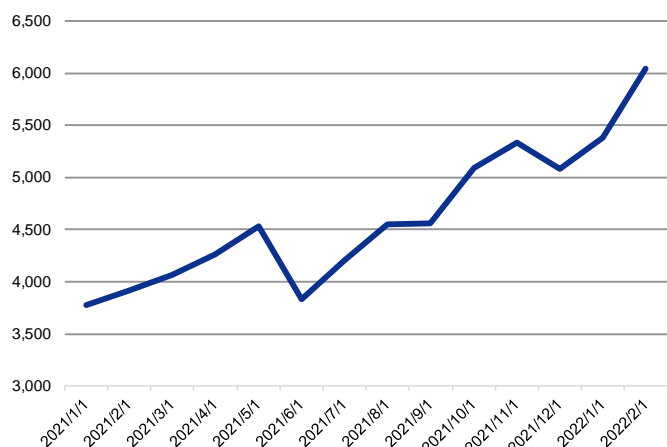
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Product price increases to continue

Figure 1: Tingyi earnings results

(Rmb m)	1H20	1H21	yoy	FY20	FY21	yoy
Turnover						
Instant noodles	14,910	12,722	-14.7%	29,510	28,448	-3.6%
Beverages - subtotal	17,617	22,276	26.4%	37,280	44,802	20.2%
Others	408	398	-2.3%	828	833	0.6%
Total	32,934	35,396	7.5%	67,618	74,082	9.6%
Total COGS	-21,925	-24,404	11.3%	-45,186	-51,572	14.1%
Total Gross Profit	11,010	10,992	-0.2%	22,432	22,510	0.3%
Average Gross Margin	33.4%	31.1%	-2.4% pts	33.2%	30.4%	-2.8% pts
Other income	650	1,090	67.7%	1,236	1,808	46.3%
Distribution costs	-6,500	-7,582	16.7%	-14,151	-15,708	11.0%
% of Turnover	19.7%	21.4%	1.7% pts	20.9%	21.2%	0.3% pts
Administrative expenses	-1,128	-1,179	4.5%	-2,291	-2,470	7.8%
% of Turnover	3.4%	3.3%	-0.1% pts	3.4%	3.3%	-0.1% pts
Other operating expenses	-277	-113	-59.2%	-476	-230	-51.7%
EBIT	3,754	3,208	-14.6%	6,750	5,910	-12.4%
EBIT margin	11.4%	9.1%	-2.3% pts	10.0%	8.0%	-2.0% pts
Interest expenses	-214	-113	-47.5%	-349	-223	-35.9%
Share of associates	125	119	-4.8%	130	122	-6.6%
Profit before taxation	3,665	3,215	-12.3%	6,532	5,809	-11.1%
Taxation	-1,012	-808	-20.1%	-1,958	-1,425	-27.2%
After-tax profit	2,653	2,406	-9.3%	4,574	4,384	-4.2%
Minority interest	-273	-371	36.0%	-511	-581	13.6%
Net profit/(loss)	2,380	2,035	-14.5%	4,062	3,802	-6.4%
Net margin	7.2%	5.7%	-1.5% pts	6.0%	5.1%	-0.9% pts

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: International palm oil price (MYR/ton)


SOURCES: CGI RESEARCH, BLOOMBERG

Figure 3: China PET market price (Rm b/ton)


SOURCES: CGIS RESEARCH, WIND

Figure 4: Tingyi earnings forecasts revision

	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue (Rmbm)	78,953	80,554	2.0%	83,938	86,628	3.2%	N/A	91,930	N/A
Gross margin	32.3%	29.8%	-2.5% pts	32.5%	30.2%	-2.3% pts	N/A	30.5%	N/A
Distribution exp/sales	21.0%	21.0%	0.0% pts	20.8%	20.8%	0.0% pts	N/A	20.6%	N/A
Admin exp/sales	3.3%	3.1%	-0.2% pts	3.2%	3.0%	-0.2% pts	N/A	2.9%	N/A
Operating margin	8.9%	7.6%	-1.3% pts	9.2%	8.2%	-1.0% pts	N/A	8.7%	N/A
Net profit (Rmbm)	4,237	3,549	-16.2%	4,736	4,221	-10.9%	N/A	4,809	N/A
Core net profit (Rmbm)	4,237	3,549	-16.2%	4,736	4,221	-10.9%	N/A	4,809	N/A

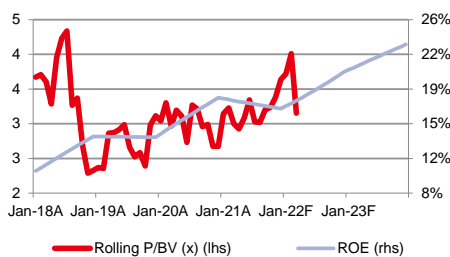
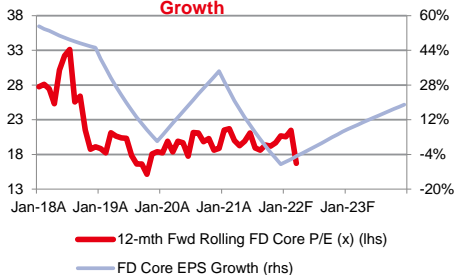
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 5: Tingyi DCF valuation

DCF valuation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT	6,110	7,111	7,958	8,515	9,111	9,749	10,431	11,162	11,943	12,779	13,674	14,494	15,364
Taxes	-1,810.4	-2,124.8	-2,391.9	-2,559.4	-2,738.5	-2,930.2	-3,135.4	-3,354.8	-3,589.7	-3,840.9	-4,109.8	-4,356.4	-4,617.8
NOPAT	4,299.9	4,986.3	5,566.2	5,955.8	6,372.7	6,818.8	7,296.1	7,806.8	8,353.3	8,938.1	9,563.7	10,137.5	10,745.8
<i>NOPAT growth</i>	-4.1%	16.0%	11.6%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	6.0%	6.0%
D&A	3,682.9	3,682.9	3,682.9	2,578.0	1,804.6	1,263.2	884.3	619.0	433.3	303.3	212.3	148.6	104.0
Funds from operation	7,982.9	8,669.2	9,249.1	8,533.8	8,177.3	8,082.0	8,180.4	8,425.8	8,786.6	9,241.4	9,776.0	10,286.2	10,849.8
Change in net working Capital	-962.5	298.5	301.4	241.1	192.9	154.3	123.5	98.8	79.0	63.2	50.6	40.5	32.4
Cash flow from operation	7,020.4	8,967.7	9,550.5	8,775.0	8,370.2	8,236.4	8,303.8	8,524.6	8,865.6	9,304.6	9,826.6	10,326.6	10,882.2
Capex	-2,150.0	-2,150.0	-2,150.0	-1,827.5	-1,553.4	-1,320.4	-1,122.3	-954.0	-810.9	-689.2	-585.9	-498.0	-423.3
Free cash flow from operation	4,870.4	6,817.7	7,400.5	6,947.5	6,816.9	6,916.0	7,181.5	7,570.6	8,054.8	8,615.3	9,240.7	9,828.6	10,458.9
<i>FCF growth</i>	7.8%	40.0%	8.5%	-6.1%	-1.9%	1.5%	3.8%	5.4%	6.4%	7.0%	7.3%	6.4%	6.4%
Terminal free cash flow	137,407	Assumptions											
Total discounted free cash flow	50,481	Equity Beta 0.9											
Present value of terminal free cash flow	36,804	Risk Free Rate 4.0%											
		Market Risk Premium 7.6%											
Total present value of forecasted free cash flows	87,285	Cost of Equity 10.8%											
Less: Net Debt / (Cash)	-340	Cost of Debt 2.7%											
Equity Value	87,625	Effective Tax Rate 24.6%											
No. of outstanding shares (millions)	5,627	Target Gearing 0.0%											
Per share Equity Value (Rmb)	15.57	WACC 10.8%											
Exchange rate	1.22	Terminal growth rate 3.0%											
Target price (HK\$)	19.00												

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-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	67,618	74,082	80,554	86,628	91,930
Gross Profit	22,432	22,510	23,979	26,182	28,012
Operating EBITDA	9,478	9,124	9,793	10,794	11,641
Depreciation And Amortisation	-3,148	-3,683	-3,683	-3,683	-3,683
Operating EBIT	6,329	5,441	6,110	7,111	7,958
Financial Income/(Expense)	-349	-223	-404	-404	-404
Pretax Income/(Loss) from Assoc.	130	122	134	147	162
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	6,111	5,340	5,840	6,854	7,716
Exceptional Items					
Pre-tax Profit	6,111	5,340	5,840	6,854	7,716
Taxation	-1,958	-1,425	-1,810	-2,125	-2,392
Exceptional Income - post-tax	421	469	0	0	0
Profit After Tax	4,574	4,384	4,030	4,729	5,324
Minority Interests	-511	-581	-481	-508	-515
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,062	3,802	3,549	4,221	4,809
Recurring Net Profit	3,642	3,334	3,549	4,221	4,809
Fully Diluted Recurring Net Profit	3,642	3,334	3,549	4,221	4,809

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,478	9,124	9,793	10,794	11,641
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,198	-1,399	-962	299	301
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-245	-2,531	0	0	0
Net Interest (Paid)/Received	-347	-223	-404	-404	-404
Tax Paid	-1,529	-1,425	-1,810	-2,125	-2,392
Cashflow From Operations	8,554	3,546	6,616	8,563	9,146
Capex	-2,147	-2,250	-2,150	-2,150	-2,150
Disposals Of FAs/subsidiaries	108	0	0	0	0
Acq. Of Subsidiaries/investments	177	0	0	0	0
Other Investing Cashflow	-1,027	-3,000	0	0	0
Cash Flow From Investing	-2,889	-5,250	-2,150	-2,150	-2,150
Debt Raised/(repaid)	-1,074	-35	-150	-150	-150
Proceeds From Issue Of Shares	4	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	-3,730	-4,062	-6,302	0	0
Preferred Dividends					
Other Financing Cashflow	3,169	229	0	0	0
Cash Flow From Financing	-1,631	-3,868	-6,452	-150	-150
Total Cash Generated	4,033	-5,572	-1,986	6,263	6,846
Free Cashflow To Equity	4,590	-1,739	4,316	6,263	6,846
Free Cashflow To Firm	6,011	-1,480	4,870	6,818	7,400

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	21,431	15,859	13,873	20,136	26,982
Total Debtors	1,660	2,044	3,134	3,370	3,576
Inventories	3,348	4,671	4,185	4,471	4,728
Total Other Current Assets	2,262	3,092	3,045	2,999	2,953
Total Current Assets	28,701	25,667	24,237	30,976	38,240
Fixed Assets	23,706	23,317	21,791	20,264	18,738
Total Investments	722	720	854	1,001	1,164
Intangible Assets	264	254	254	254	254
Total Other Non-Current Assets	8,138	10,351	10,345	10,339	10,332
Total Non-current Assets	32,830	34,642	33,244	31,858	30,487
Short-term Debt	5,891	7,311	7,311	7,311	7,311
Current Portion of Long-Term Debt					
Total Creditors	8,147	9,047	8,447	9,026	9,544
Other Current Liabilities	13,034	13,467	13,660	13,857	14,057
Total Current Liabilities	27,072	29,825	29,419	30,194	30,913
Total Long-term Debt	7,805	6,350	6,200	6,050	5,900
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	338	275	275	275	275
Total Non-current Liabilities	8,143	6,626	6,476	6,326	6,176
Total Provisions	1,577	1,450	1,450	1,450	1,450
Total Liabilities	36,792	37,901	37,345	37,969	38,538
Shareholders' Equity	21,113	18,660	15,906	20,128	24,937
Minority Interests	3,627	3,749	4,229	4,737	5,252
Total Equity	24,739	22,408	20,136	24,865	30,189

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	9.10%	9.56%	8.74%	7.54%	6.12%
Operating EBITDA Growth	15.2%	(3.7%)	7.3%	10.2%	7.8%
Operating EBITDA Margin	14.0%	12.3%	12.2%	12.5%	12.7%
Net Cash Per Share (Rmb)	1.38	0.39	0.06	1.21	2.45
BVPS (Rmb)	3.75	3.32	2.83	3.58	4.44
Gross Interest Cover	18.15	24.35	15.11	17.59	19.68
Effective Tax Rate	32.0%	26.7%	31.0%	31.0%	31.0%
Net Dividend Payout Ratio	73%	132%	NA	NA	NA
Accounts Receivables Days	9.01	9.13	11.73	13.70	13.83
Inventory Days	27.51	28.38	28.57	26.14	26.34
Accounts Payables Days	64.09	60.84	56.43	52.75	53.17
ROIC (%)	23.8%	22.6%	19.9%	23.8%	29.2%
ROCE (%)	16.5%	14.0%	16.8%	19.0%	18.8%
Return On Average Assets	10.6%	9.0%	10.4%	11.9%	12.2%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Noodles sales volume growth (%)	8.5%	-6.5%	4.8%	4.8%	3.6%
Beverage sales volume growth (%)	48.6%	12.6%	8.3%	6.4%	4.8%
Noodles ASP growth (%)	7.5%	3.1%	2.0%	2.0%	2.0%
Beverage ASP growth (%)	-29.5%	6.7%	1.5%	1.5%	1.5%

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)

Tingyi (Cayman Islands) (322 HK)

RECOMMENDATION FRAMEWORK

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