

Hong Kong

ADD (previously HOLD)

Consensus ratings*: Buy 18 Hold 6 Sell 0

Current price: HK\$7.44
 Target price: ▲ HK\$8.60
 Previous target: HK\$6.70
 Up/downside: 15.6%
 CGI / Consensus: -8.3%

Reuters: 0220.HK
 Bloomberg: 220 HK
 Market cap: US\$4,112m
 HK\$32,136m

Average daily turnover: US\$4.32m

HK\$33.69m

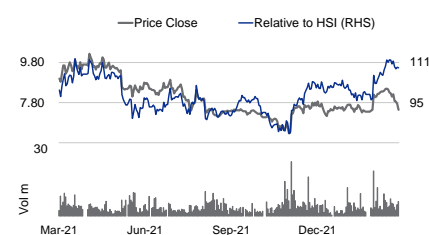
Current shares o/s: 4,319m

Free float: 29.5%

*Source: Bloomberg

Key changes in this note

- FY21 EPS increased by 4.8%.
- FY22F EPS increased by 0.3%.
- FY23F EPS increased by 4.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-4.6	-17
Relative (%)	14.3	7.6	10.6

Major shareholders	% held
Uni-President Enterprise	70.5

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Uni-President China**Digit marketing led to efficient expenses control**

- UPC reported that revenue grew 10.8% yoy to Rmb25.2bn and that net profit decreased slightly by 7.7% yoy to Rmb1.5bn in FY21, both above our expectations. The better-than-expected results were due mainly to higher revenue growth and better control of the distribution expenses ratio.
- UPC raised the selling prices of its classic noodles in Feb 22 and reduced noodle promotions, but management said increasing the ex-factory prices will depend on market conditions.
- The Russia-Ukraine war has pushed up palm oil and PET prices, which is expected to increase UPC's costs in FY22F. But management said it does not rule out the possibility of raising its beverage selling prices.
- Upgrade UPC from Hold to Add owing to a potential ASP hike and better expenses control, with a new DCF-based TP of HK\$8.6.

FY21 results above our expectations

Total revenue grew 10.8% yoy to Rmb25.2bn in FY21, and food and beverage revenue was up by 1.1% and 17.3% yoy, respectively. Food revenue turned to positive growth of 14.1% yoy in 2H21, from -9.5% yoy in 1H21, as UPC successfully cleared channel inventory. Self-heated food Kai Xiao Zao achieved over a 100% yoy revenue CAGR in the past two years. Beverage revenue maintained solid growth of 9.5% yoy in 2H21 vs. 25.0% yoy in 1H21. Green Tea and Assam Milk Tea both achieved solid growth in FY21, and juice revenue grew strongly by 40.6% yoy, driven by penetration into the catering channel. The gross profit margin dropped by 2.9ppt yoy to 32.6% in FY21, owing mainly to higher palm oil and PET prices. But UPC reduced its distribution expenses ratio by 1.5ppt yoy to 22.0% in FY21. Also, better expenses control helped net profit turn to positive yoy growth of 16.6% in 2H21, after a yoy drop of 20.5% in 1H21. For the first time in past five years, the Company achieved a net profit of Rmb12m in 4Q21 (4Q20: an Rmb58m loss). Management expects the Company to continue to achieve positive earnings in 4Q22F.

Premiumization and new product launches to drive growth

Management sees great growth potential for premium noodles with a retail price above Rmb5 and its self-heated food, Kai Xiao Zao. The segment revenue contribution from high-end noodles, Soup Daren, and Kai Xiao Zao reached 16% in FY21. Premium noodles with a retail price above Rmb5 accounted for 36% of food segment revenue in FY21. Kai Xiao Zao almost reached breakeven in FY21. UPC will launch more tastes for Kai Xiao Zao in FY22F to drive growth. Management said that despite Covid volatility in 1Q22F, the Company still achieved solid revenue growth, and channel inventory remains at a healthy level. We now expect UPC to achieve revenue and net profit growth of 6.9% and 7.8% yoy, respectively, in FY22F.

Cost pressure expected to remain high in FY22F

Palm oil, PET and flour account for c.4.2%, 7.6% and 4.3% of UPC's COGS. Palm oil and PET prices increased 62%/32% yoy in FY21 and 42%/35% yoy in 2M22. The Russia-Ukraine war has pushed up palm oil and PET prices, which have increased UPC's costs in FY22F. But management does not rule out the possibility of raising its selling prices for beverages. UPC raised the retail prices of its classic noodles (mid-end noodles, contributing 50-55% of food revenue) in Feb and reduced noodle promotions by 2-5%. Management said raising its ex-factory prices depends on market conditions.

Upgrade to Add with a new DCF-based TP of HK\$8.6

We fine tuned our FY22F earnings forecast and raised our FY23F forecast by 4.8%. We also rolled over our forecast to FY24F. We upgrade our rating on UPC from Hold to Add, owing to stronger revenue growth and better distribution expenses control, as well as the possibility of increasing its selling prices. The key risk will be higher raw material prices.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	22,762	25,231	26,981	28,796	30,677
Operating EBITDA (Rmbm)	3,307	2,868	2,949	3,383	3,671
Net Profit (Rmbm)	1,626	1,501	1,618	1,809	2,029
Core EPS (Rmb)	0.38	0.35	0.37	0.42	0.47
Core EPS Growth	19.0%	(7.7%)	7.8%	11.8%	12.2%
FD Core P/E (x)	15.98	17.31	16.06	14.37	12.80
DPS (Rmb)	0.38	0.35	0.37	0.42	0.47
Dividend Yield	6.26%	5.78%	6.23%	6.96%	7.81%
EV/EBITDA (x)	6.87	7.58	7.27	6.13	5.42
P/FCFE (x)	32.50	14.29	10.25	10.92	9.89
Net Gearing	(17.9%)	(24.9%)	(26.6%)	(31.0%)	(36.2%)
P/BV (x)	1.87	1.89	1.87	1.85	1.82
ROE	11.8%	10.9%	11.7%	12.9%	14.3%
% Change In Core EPS Estimates			(0.32%)	4.79%	
CGI/consensus EPS (x)			0.97	0.96	1.06

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Digital marketing led to efficient expenses control

Figure 1: Earnings revision

		FY21				FY22F				FY23F		
	Old	New	% change		Old	New	% change		Old	New	% change	
Revenue (Rmbm)	24,813	25,231	1.7%		26,063	26,981	3.5%		27,769	28,796	3.7%	
Gross margin	34.8%	32.6%	-2.2ppt		34.9%	32.1%	-2.7ppt		35.1%	32.6%	-2.5ppt	
Distribution exp/sal	24.7%	22.0%	-2.7ppt		24.1%	21.4%	-2.7ppt		23.8%	21.1%	-2.7ppt	
Admin exp/sales	4.1%	4.2%	0.0ppt		4.0%	4.1%	0.0ppt		3.9%	4.0%	0.0ppt	
Operating margin	7.2%	7.6%	0.3ppt		7.7%	7.3%	-0.5ppt		8.1%	8.2%	0.1ppt	
Net profit (Rmbm)	1,431	1,501	4.8%		1,624	1,618	-0.3%		1,726	1,809	4.8%	
EPS (Rmb)	0.33	0.35	4.8%		0.38	0.37	-0.3%		0.40	0.42	4.8%	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Palm oil freight on board price

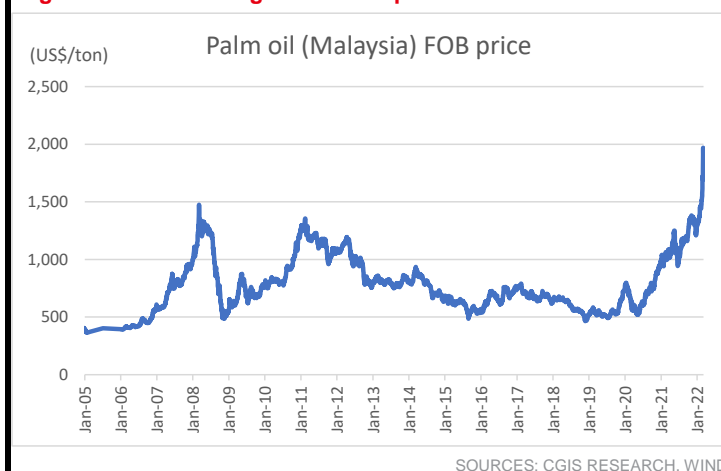


Figure 3: Propylene spot price in China

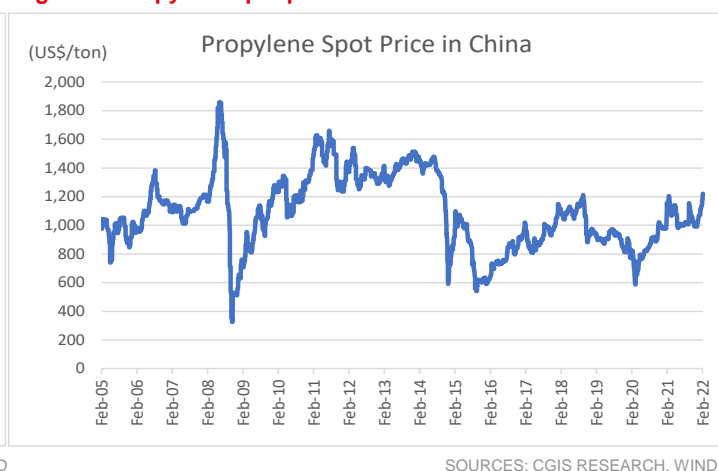


Figure 4: Average wholesale price of domestic flour

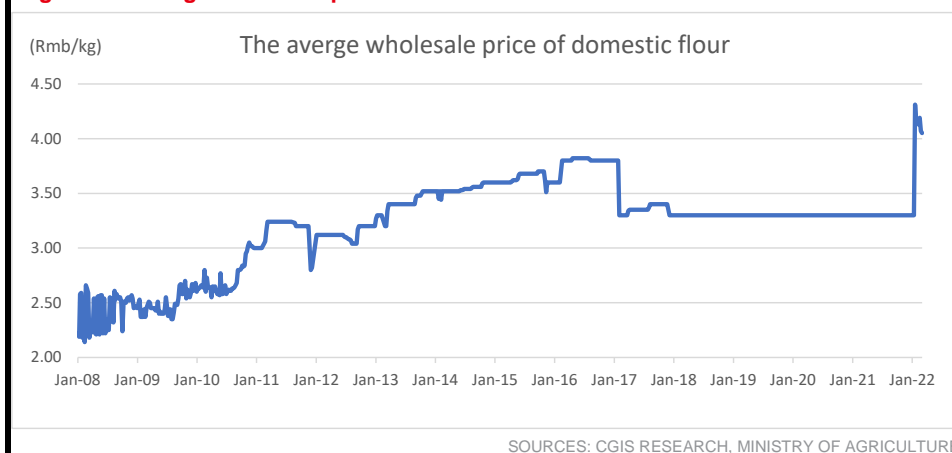


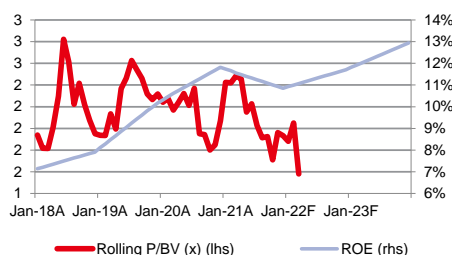
Figure 5: DCF valuation

FCF computation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	1,956.4	2,353.8	2,518.6	2,694.9	2,883.5	3,085.4	3,270.5	3,466.7	3,674.7	3,895.2	4,128.9	4,376.6
Taxes	-693.5	-775.2	-829.4	-887.5	-949.6	-1,016.1	-1,077.0	-1,141.7	-1,210.1	-1,282.8	-1,359.7	-1,441.3
NOPAT	1,262.9	1,578.7	1,689.2	1,807.4	1,933.9	2,069.3	2,193.5	2,325.1	2,464.6	2,612.4	2,769.2	2,935.3
NOPAT growth	-0.1%	25.0%	7.0%	7.0%	7.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
D&A	1,086.0	1,122.5	1,133.7	1,145.1	1,156.5	1,168.1	1,179.8	1,191.6	1,203.5	1,215.5	1,227.7	1,240.0
Funds from operation	2,348.9	2,701.2	2,822.9	2,952.5	3,090.5	3,237.4	3,373.2	3,516.6	3,668.1	3,828.0	3,996.9	4,175.3
Change in net working Capital	235.5	266.2	268.9	271.6	274.3	277.0	279.8	282.6	285.4	288.3	291.2	294.1
Cash flow from operation	2,584.4	2,967.4	3,091.8	3,224.1	3,364.8	3,514.4	3,653.1	3,799.3	3,953.5	4,116.3	4,288.1	4,469.4
Capex	-700.0	-800.0	-892.8	-996.4	-1,111.9	-1,240.9	-1,384.9	-1,545.5	-1,724.8	-1,924.9	-2,148.2	-2,397.4
Free cash flow from operation	1,884.4	2,167.4	2,199.0	2,227.7	2,252.8	2,273.5	2,268.2	2,253.7	2,228.7	2,191.4	2,139.9	2,072.0
FCF growth	-4.9%	15.0%	1.5%	1.3%	1.1%	0.9%	-0.2%	-0.6%	-1.1%	-1.7%	-2.4%	-3.2%
Terminal free cash flow	35,475.4	Assumptions										
Total discounted free cash flow	15,718.1	Risk free										
Present value of terminal free cash flow	12,746.3	Market risk premium										
		Beta										
Total present value of forecasted free cash flows	28,464.5	Cost of equity										
Less: Net Debt / Leases	-2,016.0	Cost of debt										
Equity Value	30,480.4	Effective Tax Rate										
No. Shares (millions)	4,319.3	Target Gearing										
Per Share Equity Value (Rmb)	7.10	WACC										
Exchange rate	1.2	Terminal growth rate										
Target price (HK\$)	8.60											

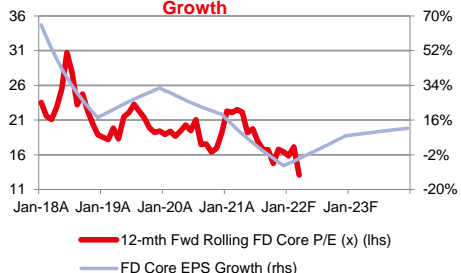
SOURCES: CGIS RESEARCH

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	22,762	25,231	26,981	28,796	30,677
Gross Profit	8,066	8,219	8,666	9,384	10,100
Operating EBITDA	3,307	2,868	2,949	3,383	3,671
Depreciation And Amortisation	(1,199)	(962)	(993)	(1,029)	(1,069)
Operating EBIT	2,108	1,906	1,956	2,354	2,602
Financial Income/(Expense)	172	201	320	195	262
Pretax Income/(Loss) from Assoc.	46	35	35	35	35
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	2,326	2,142	2,312	2,584	2,899
Exceptional Items					
Pre-tax Profit	2,326	2,142	2,312	2,584	2,899
Taxation	(701)	(641)	(694)	(775)	(870)
Exceptional Income - post-tax					
Profit After Tax	1,626	1,501	1,618	1,809	2,029
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,626	1,501	1,618	1,809	2,029
Recurring Net Profit	1,626	1,501	1,618	1,809	2,029
Fully Diluted Recurring Net Profit	1,626	1,501	1,618	1,809	2,029

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	3,307	2,868	2,949	3,383	3,671
Cash Flow from Inv. & Assoc.					
Change In Working Capital	355	262	235	266	346
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	223	93	413	93	(1)
Net Interest (Paid)/Received	(57)	201	320	195	262
Tax Paid	(613)	(632)	(683)	(758)	(850)
Cashflow From Operations	3,215	2,792	3,235	3,179	3,427
Capex	(322)	(600)	(700)	(800)	(800)
Disposals Of FAs/subsidiaries	315	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	(1,694)	0	0	0	0
Cash Flow From Investing	(1,701)	(600)	(700)	(800)	(800)
Debt Raised/(repaid)	(715)	(375)	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	(1,369)	(1,626)	(1,501)	(1,618)	(1,809)
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
Cash Flow From Financing	(2,084)	(2,000)	(1,501)	(1,618)	(1,809)
Total Cash Generated	(570)	192	1,035	761	819
Free Cashflow To Equity	800	1,818	2,535	2,379	2,627
Free Cashflow To Firm	1,572	2,224	2,585	2,429	2,677

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	2,970	3,544	3,804	4,472	5,291
Total Debtors	1,247	1,427	1,485	1,569	1,655
Inventories	1,943	2,393	2,234	2,336	2,443
Total Other Current Assets	0	0	0	0	0
Total Current Assets	6,161	7,364	7,523	8,377	9,388
Fixed Assets	7,977	7,257	7,328	7,100	6,832
Total Investments	794	813	848	883	918
Intangible Assets	9	7	3	1	1
Total Other Non-Current Assets	7,164	6,626	6,626	6,626	6,626
Total Non-current Assets	15,943	14,702	14,804	14,610	14,376
Short-term Debt	487	112	112	112	112
Current Portion of Long-Term Debt					
Total Creditors	7,150	7,551	7,696	8,165	8,721
Other Current Liabilities	29	20	20	20	20
Total Current Liabilities	7,666	7,683	7,828	8,297	8,853
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	254	286	286	286	286
Total Non-current Liabilities	254	286	286	286	286
Total Provisions	298	331	331	331	331
Total Liabilities	8,218	8,300	8,445	8,914	9,470
Shareholders' Equity	13,887	13,765	13,883	14,073	14,294
Minority Interests	0	0	0	0	0
Total Equity	13,887	13,765	13,883	14,073	14,294

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	3.4%	10.8%	6.9%	6.7%	6.5%
Operating EBITDA Growth	6.5%	(13.3%)	2.8%	14.7%	8.5%
Operating EBITDA Margin	14.5%	11.4%	10.9%	11.7%	12.0%
Net Cash Per Share (Rmb)	0.57	0.79	0.85	1.01	1.20
BVPS (Rmb)	3.21	3.19	3.21	3.26	3.31
Gross Interest Cover	36.85	60.09	39.13	47.08	52.04
Effective Tax Rate	30.1%	29.9%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	69.9%	70.1%	70.0%	70.0%	70.0%
Accounts Receivables Days	9.24	8.89	8.80	8.44	8.28
Inventory Days	45.86	46.52	46.11	42.97	42.50
Accounts Payables Days	44.87	42.89	39.51	35.76	36.36
ROIC (%)	20.0%	17.1%	19.3%	23.6%	27.5%
ROCE (%)	15.7%	14.8%	16.3%	18.0%	19.9%
Return On Average Assets	9.8%	8.8%	9.0%	10.5%	11.3%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Instant noodle sales volume growth (%)	8.2%	-5.0%	7.0%	5.0%	5.0%
Beverage sales volume growth (%)	-1.5%	16.8%	5.6%	5.9%	5.9%
Instant noodle ASP growth (%)	2.5%	1.0%	4.0%	1.5%	1.0%
Beverage ASP growth (%)	0.2%	0.5%	2.2%	1.0%	1.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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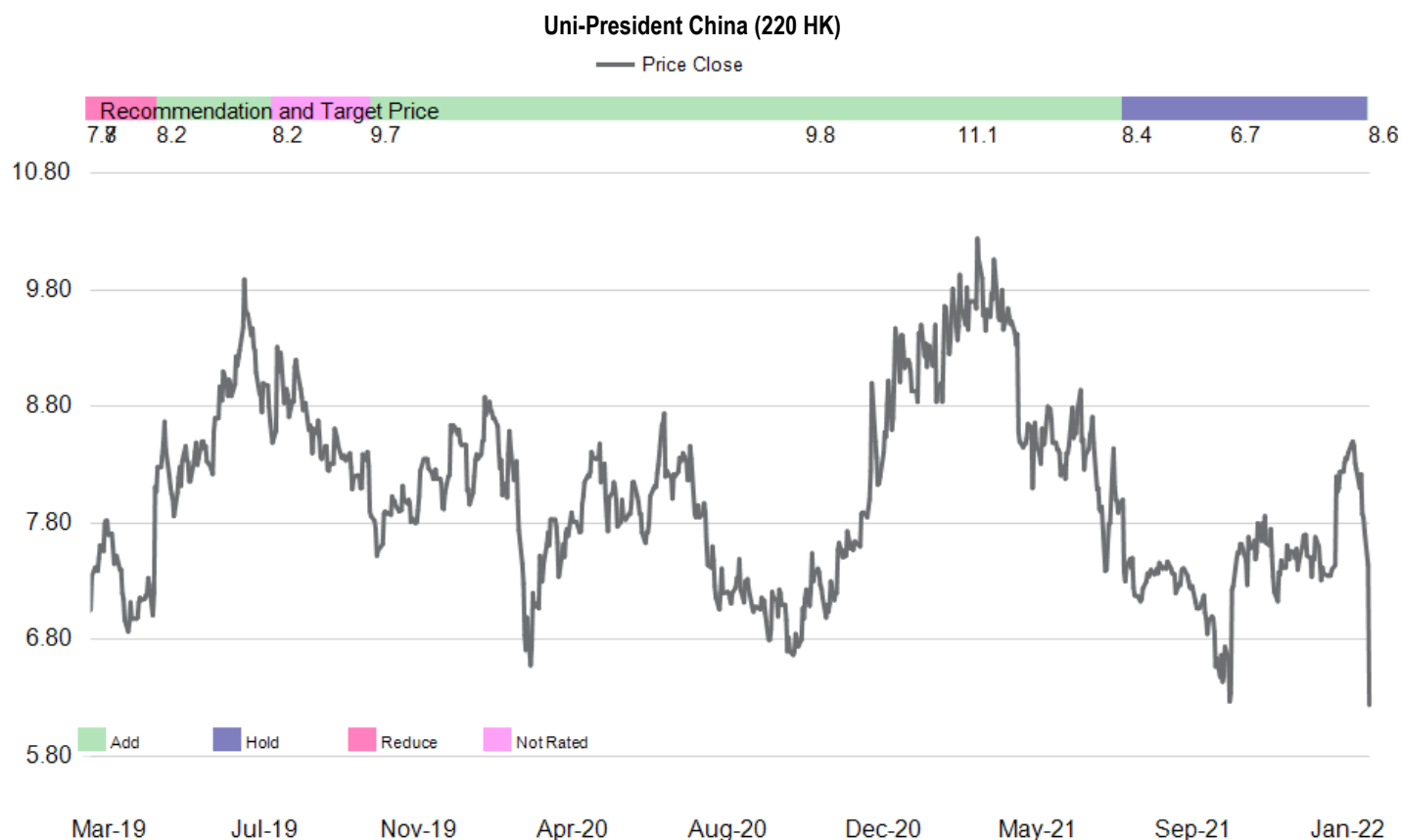
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619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



RECOMMENDATION FRAMEWORK

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