

Hong Kong

**HOLD** (previously ADD)

Consensus ratings\*: Buy 6 Hold 10 Sell 6

Current price: HK\$6.89  
 Target price: ▼ HK\$7.60  
 Previous target: HK\$8.70  
 Up/downside: 10.3%  
 CGI / Consensus: 8.1%

Reuters: 0151.HK  
 Bloomberg: 151 HK  
 Market cap: US\$10,447m  
 HK\$81,988m  
 Average daily turnover: US\$8.20m  
 HK\$68.40m  
 Current shares o/s: 11,953m  
 Free float: 48.5%  
 \*Source: Bloomberg

**Key changes in this note**

- FY23F EPS decreased by 12.1%.
- FY24F EPS decreased by 9.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-12.5	-5.1	24.6
Relative (%)	-18.8	-5.4	48.7

Major shareholders	% held
Tsai Eng Meng	48.0
Wen Hsien Cheng	3.5

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# Want Want China

## Results missed amid the pandemic lockdown

- Want Want reported FY3/22 revenue growth of 9.0% yoy and net profit growth of 1.1% yoy, below our expectations, because of weak 2H FY3/22 sales amid Omicron outbreaks and margin pressure because of raw material price hikes.
- We expect Want Want's margin pressure to linger in the next 6–9 months as raw material prices are higher than management's previous expectations, and the sales price hikes since Jan 1, 2022 are not enough to fully offset the cost pressure.
- Downgrade to Hold with a new DCF-based TP of HK\$7.6 to reflect the Omicron impact and margin pressure amid raw material price hikes.

### FY3/22 results below expectations

In FY3/22, sales of rice crackers, dairy and beverages, snacks, and others grew by 0.2%, 16.9%, 1.6% and 32.9% yoy, respectively. Sales of rice crackers in 2H FY3/22 recovered after a sales drop in 1H FY3/22, as sales in overseas markets recovered to mid-single digit growth amid an improved pandemic situation. Sales growth of dairy and beverages dropped from 23.5% in 1H FY3/22 to 10.8% yoy in 2H FY3/22 because the pandemic lockdowns affected outdoor consumption. Affected by higher raw material prices, its FY3/22 gross margin was 44.8%, down 3.4% pt yoy. The administrative expenses ratio fell by 0.9% pt yoy, reflecting better cost control. The distribution expenses ratio rose by 0.5% pt yoy, driven by a 0.4% pt increase in the advertising and promotion expenses ratio. Its operating profit margin dropped by 3.3% pts yoy to 22.8% in the period. It announced a final dividend of US\$2.10 cents/share and a special dividend of US\$2.94 cents/share, reaching a full year dividend payout ratio of 112%.

### Selling price hikes not enough to mitigate cost pressure

Want Want raised the selling prices of 70–80% of its products by mid-single digits effective on 1 Jan 2022 – mid- to high-single digits for rice crackers and dairy products and low-single digits for snacks. Management expects the stimulation of price hikes on revenue to start to show in Apr/May, which will be recorded in the 1H FY3/23F results. However, because of the lockdown measures in several cities, channel inventory piled up in the lockdown areas, and this needs to be consumed before implementing more sales price hikes. According to management, current channel inventory levels in the areas that were under lockdown in the previous months is about 35 days, versus 25–30 days in the areas that were not locked down. We expect Want Want's margin pressure to linger for a while, as raw material prices are still on an upward trend. We expect the GPM to drop yoy in 1H FY3/23F but to see some recovery in 2H FY3/23F.

### Active overseas market expansion

Sales in overseas markets recovered to mid-single-digit yoy growth in 2H FY3/22. To strengthen its overseas sales, Want Want is actively setting up offices in major overseas markets, and its Vietnam factory will start operations this year. Want Want will try to enter the mass market in South East Asia. The sales contribution from emerging channels improved to c.10% in FY3/22, but their OPM is 3–5% lower than in traditional channels.

### Downgrade to Hold with a new DCF-based TP of HK\$7.6

We cut our net profit forecasts for FY3/23F and FY3/24F by 12.1% and 9.4%, respectively, and adjusted down our DCF-based TP to HK\$7.6 (risk-free rate: 4.0%, beta: 0.60, WACC: 8.6%), to reflect the Omicron impact and raw material cost pressure. Downgrade to Hold as we believe Want Want will still take some time to recover from the margin pressure. Upside risks include: stronger revenue growth because of successful price hike and lower-than-expected raw material prices. Downside risks include: further raw material price hikes, which will hurt margins, and further pandemic rebounds and failure sales price hike, which will hurt revenue growth.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rmbm)	21,998	23,985	24,843	26,522	28,109
Operating EBITDA (Rmbm)	6,558	6,173	6,234	6,811	7,358
Net Profit (Rmbm)	4,158	4,203	4,179	4,645	5,031
Core EPS (Rmb)	0.34	0.35	0.35	0.39	0.42
Core EPS Growth	15.2%	3.9%	(0.6%)	11.1%	8.3%
FD Core P/E (x)	17.41	16.75	16.85	15.16	13.99
DPS (Rmb)	0.14	0.39	0.28	0.31	0.34
Dividend Yield	2.36%	6.66%	4.75%	5.28%	5.72%
EV/EBITDA (x)	9.42	9.54	9.25	8.28	7.48
P/FCFE (x)	17.79	NA	15.20	14.22	13.10
Net Gearing	(41.7%)	(26.1%)	(31.9%)	(37.0%)	(42.0%)
P/BV (x)	4.86	4.23	4.03	3.83	3.63
ROE	27.6%	26.7%	24.5%	25.9%	26.6%
% Change In Core EPS Estimates			(12.1%)	(9.4%)	
CGI/consensus EPS (x)			0.90	0.94	1.08

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Results missed amid the pandemic lockdown

**Figure 1: Want Want results review**

(Rmb m)	2HFY3/21	2HFY3/22	yoy chg	FY3/21	FY3/22	yoy chg
<b>Turnover</b>	<b>11,699.2</b>	<b>12,602.3</b>	<b>7.7%</b>	<b>21,998.4</b>	<b>23,984.9</b>	<b>9.0%</b>
Rice crackers	3,590.3	3,716.0	3.5%	5,582.6	5,592.3	0.2%
Dairy and beverages	5,696.3	6,311.7	10.8%	11,011.3	12,873.5	16.9%
Snacks	2,360.7	2,523.3	6.9%	5,312.7	5,397.2	1.6%
Others	51.8	51.4	-0.8%	91.8	122.0	32.9%
Cost of sales	-6,057.3	-7,178.3	18.5%	-11,392.9	-13,237.5	16.2%
<b>Gross profit</b>	<b>5,641.9</b>	<b>5,424.0</b>	<b>-3.9%</b>	<b>10,605.5</b>	<b>10,747.4</b>	<b>1.3%</b>
<b>Gross margin</b>	<b>48.2%</b>	<b>43.0%</b>	<b>-5.2% pts</b>	<b>48.2%</b>	<b>44.8%</b>	<b>-3.4% pts</b>
Other operating income	484.5	333.0	-31.3%	609.7	577.4	-5.3%
Distribution costs	-1,515.8	-1,706.4	12.6%	-2,765.6	-3,133.2	13.3%
G&A expenses	-1,409.3	-1,374.4	-2.5%	-2,713.4	-2,734.7	0.8%
<b>Operating profit</b>	<b>3,201.3</b>	<b>2,676.2</b>	<b>-16.4%</b>	<b>5,736.2</b>	<b>5,456.8</b>	<b>-4.9%</b>
<b>Operating margin</b>	<b>27.4%</b>	<b>21.2%</b>	<b>-6.1% pts</b>	<b>26.1%</b>	<b>22.8%</b>	<b>-3.3% pts</b>
Share of profits of associates	-1.1	-0.7	-39.2%	-2.1	-2.2	5.4%
Net financing charges	584.4	615.8	5.4%	717.7	767.8	7.0%
<b>Profit before tax</b>	<b>3,291.0</b>	<b>2,852.1</b>	<b>-13.3%</b>	<b>5,994.8</b>	<b>5,734.4</b>	<b>-4.3%</b>
Tax	-1,090.0	-746.7	-31.5%	-1,847.2	-1,545.3	-16.3%
Minority interest	4.4	7.3	64.7%	10.1	13.5	33.7%
<b>Net profit</b>	<b>2,205.4</b>	<b>2,112.6</b>	<b>-4.2%</b>	<b>4,157.8</b>	<b>4,202.7</b>	<b>1.1%</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 2: Want Want earnings revisions**

	FY3/23F			FY3/24F			FY3/25F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (Rmb m)	25,881	24,843	-4.0%	27,164	26,522	-2.4%	N/A	28,109	N/A
Gross margin	47.4%	44.8%	-2.6%	47.7%	45.4%	-2.3%	N/A	45.9%	N/A
Distribution expen/sales	12.4%	13.0%	0.6%	12.3%	12.9%	0.6%	N/A	12.8%	N/A
Operating margin	24.9%	22.1%	-2.7%	25.3%	22.8%	-2.4%	N/A	23.4%	N/A
Effective tax rate	28.0%	28.0%	0.0%	28.0%	28.0%	0.0%	N/A	28.0%	N/A
Net profit (Rmb m)	4,886	4,179	-14.5%	5,265	4,645	-11.8%	N/A	5,031	N/A
EPS (Rmb)	0.40	0.35	-12.1%	0.43	0.39	-9.3%	N/A	0.42	N/A

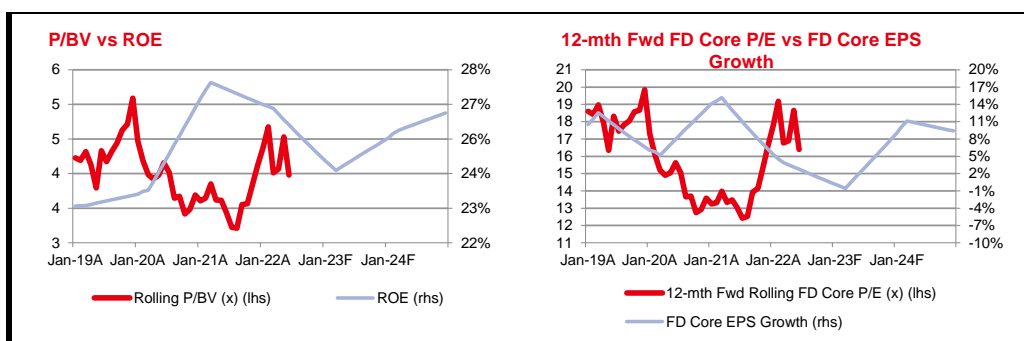
SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

**Figure 3: Want Want DCF valuation**

DCF valuation (Rmb m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	FY35F
<b>EBIT</b>	<b>5,500.1</b>	<b>6,059.5</b>	<b>6,588.7</b>	<b>6,555.8</b>	<b>6,523.0</b>	<b>6,490.4</b>	<b>6,457.9</b>	<b>6,425.6</b>	<b>6,393.5</b>	<b>6,361.5</b>	<b>6,329.7</b>	<b>6,298.1</b>	<b>6,266.6</b>
Taxes	-1,625.3	-1,791.0	-1,948.5	-1,938.7	-1,929.0	-1,919.4	-1,909.8	-1,900.3	-1,890.8	-1,881.3	-1,871.9	-1,862.5	-1,853.2
<b>NOPAT</b>	<b>3,874.9</b>	<b>4,268.5</b>	<b>4,640.2</b>	<b>4,617.0</b>	<b>4,593.9</b>	<b>4,571.0</b>	<b>4,548.1</b>	<b>4,525.4</b>	<b>4,502.7</b>	<b>4,480.2</b>	<b>4,457.8</b>	<b>4,435.5</b>	<b>4,413.4</b>
<b>NOPAT growth</b>	<b>-0.9%</b>	<b>10.2%</b>	<b>8.7%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.5%</b>
D&A	733.7	751.7	769.7	777.4	785.2	793.1	801.0	809.0	817.1	825.3	833.5	841.8	850.3
<b>Funds from operation</b>	<b>4,608.6</b>	<b>5,020.3</b>	<b>5,410.0</b>	<b>5,394.5</b>	<b>5,379.1</b>	<b>5,364.0</b>	<b>5,349.1</b>	<b>5,334.4</b>	<b>5,319.8</b>	<b>5,305.5</b>	<b>5,291.3</b>	<b>5,277.4</b>	<b>5,263.6</b>
Change in net working Capital	110.2	-15.0	-12.4	-12.6	-12.7	-12.8	-12.9	-13.1	-13.2	-13.3	-13.5	-13.6	-13.7
<b>Cash flow from operation</b>	<b>4,718.8</b>	<b>5,005.3</b>	<b>5,397.5</b>	<b>5,381.9</b>	<b>5,366.5</b>	<b>5,351.2</b>	<b>5,336.2</b>	<b>5,321.3</b>	<b>5,306.6</b>	<b>5,292.2</b>	<b>5,277.9</b>	<b>5,263.8</b>	<b>5,249.9</b>
Capex	-400.0	-400.0	-400.0	-420.0	-441.0	-463.1	-486.2	-510.5	-536.0	-562.8	-591.0	-620.5	-651.6
<b>Free cash flow from operation</b>	<b>4,318.8</b>	<b>4,605.3</b>	<b>4,997.5</b>	<b>4,961.9</b>	<b>4,925.5</b>	<b>4,888.2</b>	<b>4,850.0</b>	<b>4,810.8</b>	<b>4,770.6</b>	<b>4,729.3</b>	<b>4,686.9</b>	<b>4,643.3</b>	<b>4,598.3</b>
<b>FCF growth</b>	<b>30.1%</b>	<b>6.6%</b>	<b>8.5%</b>	<b>-0.7%</b>	<b>-0.7%</b>	<b>-0.8%</b>	<b>-0.8%</b>	<b>-0.8%</b>	<b>-0.8%</b>	<b>-0.9%</b>	<b>-0.9%</b>	<b>-0.9%</b>	<b>-1.0%</b>
Terminal free cash flow	85,185.0	<b>Assumptions</b>											
Total discounted free cash flow	38,884.1	Cost of equity											
Present value of terminal free cash flow	31,274.6	Risk free											
		Market risk premium											
		Beta											
<b>Total present value of forecasted free cash flows</b>	<b>70,158.7</b>	Target Debt / (Debt + Equity)											
Less: Net Debt	-5,595.4	WACC											
<b>Equity Value</b>	<b>75,754.1</b>	Terminal growth rate											
No. of outstanding shares (millions)	11,953.2												
<b>Per share Equity Value (Rmb)</b>	<b>6.30</b>												
Exchange rate	0.83												
<b>Target price (HK\$)</b>	<b>7.60</b>												

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rmbm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>21,998</b>	<b>23,985</b>	<b>24,843</b>	<b>26,522</b>	<b>28,109</b>
<b>Gross Profit</b>	<b>10,606</b>	<b>10,747</b>	<b>11,128</b>	<b>12,042</b>	<b>12,897</b>
<b>Operating EBITDA</b>	<b>6,558</b>	<b>6,173</b>	<b>6,234</b>	<b>6,811</b>	<b>7,358</b>
Depreciation And Amortisation	(822)	(716)	(734)	(752)	(770)
<b>Operating EBIT</b>	<b>5,736</b>	<b>5,457</b>	<b>5,500</b>	<b>6,060</b>	<b>6,589</b>
Financial Income/(Expense)	261	280	312	344	378
Pretax Income/(Loss) from Assoc.	(2)	(2)	(8)	(8)	(8)
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>5,995</b>	<b>5,734</b>	<b>5,804</b>	<b>6,396</b>	<b>6,959</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>5,995</b>	<b>5,734</b>	<b>5,804</b>	<b>6,396</b>	<b>6,959</b>
Taxation	(1,847)	(1,545)	(1,625)	(1,791)	(1,948)
Exceptional Income - post-tax	0	0	0	0	0
<b>Profit After Tax</b>	<b>4,148</b>	<b>4,189</b>	<b>4,179</b>	<b>4,605</b>	<b>5,010</b>
Minority Interests	10	14	0	39	21
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>4,158</b>	<b>4,203</b>	<b>4,179</b>	<b>4,645</b>	<b>5,031</b>
Recurring Net Profit	4,158	4,203	4,179	4,645	5,031
<b>Fully Diluted Recurring Net Profit</b>	<b>4,158</b>	<b>4,203</b>	<b>4,179</b>	<b>4,645</b>	<b>5,031</b>

### Cash Flow

(Rmbm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>6,558</b>	<b>6,173</b>	<b>6,234</b>	<b>6,811</b>	<b>7,358</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	378	(909)	110	(15)	(12)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(132)	359	0	0	0
Net Interest (Paid)/Received	(193)	(164)	(154)	(145)	(136)
Tax Paid	(1,625)	(1,545)	(1,625)	(1,791)	(1,948)
<b>Cashflow From Operations</b>	<b>4,986</b>	<b>3,913</b>	<b>4,564</b>	<b>4,860</b>	<b>5,261</b>
Capex	(316)	(400)	(400)	(400)	(400)
Disposals Of FAs/subsidiaries	296	0	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,462)	(4,942)	466	490	514
<b>Cash Flow From Investing</b>	<b>(2,483)</b>	<b>(5,342)</b>	<b>66</b>	<b>90</b>	<b>114</b>
Debt Raised/(repaid)	1,565	(2,931)	0	1	1
Proceeds From Issue Of Shares	(1,601)	(23)	0	0	0
Shares Repurchased					
Dividends Paid	(3,511)	(4,691)	(3,343)	(3,716)	(4,025)
Preferred Dividends					
Other Financing Cashflow	(87)	4,212	0	0	0
<b>Cash Flow From Financing</b>	<b>(3,634)</b>	<b>(3,433)</b>	<b>(3,343)</b>	<b>(3,715)</b>	<b>(4,024)</b>
Total Cash Generated	(1,130)	(4,863)	1,287	1,235	1,351
<b>Free Cashflow To Equity</b>	<b>4,069</b>	<b>(4,361)</b>	<b>4,631</b>	<b>4,951</b>	<b>5,376</b>
<b>Free Cashflow To Firm</b>	<b>2,696</b>	<b>(1,265)</b>	<b>4,785</b>	<b>5,095</b>	<b>5,512</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	16,081	11,266	12,498	13,725	15,069
Total Debtors	920	1,005	1,348	1,439	1,525
Inventories	2,529	3,226	3,010	3,178	3,338
Total Other Current Assets	902	1,092	1,131	1,207	1,280
<b>Total Current Assets</b>	<b>20,432</b>	<b>16,588</b>	<b>17,986</b>	<b>19,549</b>	<b>21,211</b>
Fixed Assets	6,372	6,008	5,722	5,371	5,001
Total Investments	4,428	7,252	7,252	7,252	7,252
Intangible Assets	11	10	10	10	10
Total Other Non-Current Assets	0	0	0	0	0
<b>Total Non-current Assets</b>	<b>10,811</b>	<b>13,270</b>	<b>12,984</b>	<b>12,632</b>	<b>12,263</b>
Short-term Debt	3,340	3,356	3,356	3,357	3,358
Current Portion of Long-Term Debt					
Total Creditors	943	1,107	1,226	1,294	1,359
Other Current Liabilities	4,883	4,786	4,943	5,195	5,436
<b>Total Current Liabilities</b>	<b>9,166</b>	<b>9,249</b>	<b>9,525</b>	<b>9,846</b>	<b>10,153</b>
Total Long-term Debt	6,493	3,546	3,546	3,546	3,546
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	612	354	354	354	354
<b>Total Non-current Liabilities</b>	<b>7,106</b>	<b>3,901</b>	<b>3,901</b>	<b>3,901</b>	<b>3,901</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>16,271</b>	<b>13,149</b>	<b>13,425</b>	<b>13,747</b>	<b>14,054</b>
Shareholders' Equity	14,899	16,634	17,469	18,398	19,405
Minority Interests	73	75	75	36	15
<b>Total Equity</b>	<b>14,972</b>	<b>16,709</b>	<b>17,545</b>	<b>18,434</b>	<b>19,420</b>

**Key Ratios**

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	9.47%	9.03%	3.58%	6.76%	5.98%
Operating EBITDA Growth	16.5%	(5.9%)	1.0%	9.3%	8.0%
Operating EBITDA Margin	29.8%	25.7%	25.1%	25.7%	26.2%
Net Cash Per Share (Rmb)	0.51	0.37	0.47	0.57	0.68
BVPS (Rmb)	1.21	1.39	1.46	1.54	1.62
Gross Interest Cover	27.53	33.21	35.61	41.73	48.27
Effective Tax Rate	30.8%	26.9%	28.0%	28.0%	28.0%
Net Dividend Payout Ratio	41%	112%	80%	80%	80%
Accounts Receivables Days	14.66	14.64	17.28	19.23	19.24
Inventory Days	84.50	79.34	82.98	78.20	78.17
Accounts Payables Days	32.62	28.27	31.04	31.85	31.84
ROIC (%)	67%	81%	73%	86%	101%
ROCE (%)	25.3%	24.4%	24.8%	26.3%	27.5%
Return On Average Assets	13.0%	13.0%	13.0%	13.8%	14.4%

**Key Drivers**

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Rice crackers sales volume growth (%)	3.0%	-6.0%	-3.0%	4.0%	3.0%
Dairy and beverage sales volume growth (%)	1.5%	26.0%	-2.0%	5.0%	4.0%
Snacks sales volume growth (%)	6.0%	4.0%	-1.0%	3.0%	3.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2022		
632 companies under coverage for quarter ended on 31 Mar 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**

**Want Want China (151 HK)**

## RECOMMENDATION FRAMEWORK

### Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
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.

### Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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