

Want Want China

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DBS Group Research . Equity

29 Jun 2022

FULLY VALUED

Last Traded Price (28 Jun 2022): HK\$7.77 (HSI : 22,419)

Price Target 12-mth: HK\$6.48 (17% downside) (Prev HK\$4.90)

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What's New

- Net profit growth of 1.1% in FY3/22 in line with market expectations
- Price hikes took effect from March to support topline growth ahead
- Raised FY23F earnings by 4% and introduced FY24/25 forecasts; maintain FULLY VALUED; TP at HK\$6.48

Price Relative



Forecasts and Valuation

FY Mar (RMBm)	2022A	2023F	2024F	2025F
Turnover	23,985	25,401	26,364	27,627
EBITDA	6,070	6,392	6,679	7,072
Pre-tax Profit	5,734	6,022	6,321	6,724
Net Profit	4,203	4,410	4,628	4,922
Net Pft (Pre Ex) (core profit)	4,203	4,410	4,628	4,922
Net Profit Gth (Pre-ex) (%)	1.1	4.9	5.0	6.4
EPS (RMB)	0.35	0.37	0.39	0.41
EPS (HK\$)	0.41	0.43	0.45	0.48
EPS Gth (%)	3.9	4.9	5.0	6.4
Diluted EPS (HK\$)	0.41	0.43	0.45	0.48
DPS (HK\$)	0.46	0.43	0.45	0.48
BV Per Share (HK\$)	1.63	1.60	1.62	1.65
PE (X)	18.9	18.0	17.2	16.1
P/Cash Flow (X)	36.1	15.3	15.4	14.7
P/Free CF (X)	40.7	19.0	16.7	15.9
EV/EBITDA (X)	12.4	11.8	11.3	10.6
Net Div Yield (%)	5.9	5.6	5.8	6.2
P/Book Value (X)	4.8	4.9	4.8	4.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.7	26.7	28.1	29.4
Earnings Rev (%)		4	New	New
Consensus EPS (RMB)		0.37	0.40	0.42
Other Broker Recs:		B:4	S:4	H:4

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Price hikes to partly offset cost pressure

Investment Thesis

Stable growth achieved, with price hikes to materialise. We maintain a Fully Valued call, with a target price of HK\$6.48/sh. Want Want China is trading at 17x FY24F PE. Want Want initiated price hikes in the mid-single digit across all three product categories, effective from March. This should support its overall topline growth. We forecast sales growth of 7%/4%/5% in FY23-25F.

Impact of higher material costs to sustain. Higher material costs will impact margins on rice crackers, dairy products and beverages and snack foods in varying degree. Gross profit margin contracted by 4.7ppts, 2.9ppts and 3.5ppts respectively in FY22. The pressure is expected to be milder in FY23F, due to price hikes.

Dividend payout. Want Want's net cash position expanded to Rmb10bn as of Mar'22 (Mar'21: Rmb9.1bn), supported by operating cash flow of Rmb5.7bn and lower capital expenditure of Rmb450.5m.

Valuation:

We maintain FULLY VALUED, with TP at HK\$6.48, based on 14.4x FY24F PE, equivalent to 10% below its 5-year trading average.

Where we differ:

Our earnings projections are largely below consensus forecast, with underlying earnings CAGR of 5% in FY22-25F

Key Risks to Our View:

Stronger than expected sales growth, new SKU launches perform better than expected; breakthrough into emerging channels.

At A Glance

Issued Capital (m shrs)	11,900
Mkt Cap (HKm/US\$m)	92,463 / 11,782
Major Shareholders (%)	
Tsai (Eng Meng)	53.1
Iwatsuka Confectionery Co Ltd	5.1
Free Float (%)	41.8
3m Avg. Daily Val. (US\$m)	8.98
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

WHAT'S NEW



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Want Want China**Record revenue achieved since listing**

Want Want China (Want Want) made net earnings of Rmb4,203m in FY3/22 (+1.1% y-o-y), in line with market expectations. Revenue rose 9% to Rmb23,985m, hitting a record since listing. Despite pandemic control measures having a greater impact on the supply chain in Mar'22, Want Want's product segments achieved revenue growth with 2HFY22 sales rising by 7.7% (1H22: 10.5%). The Group declared a final and special dividend of US2.10 cents/sh and US2.94 cents/sh. Total dividend payout amounted to 112% and represented a dividend yield of c.5.9%.

By segment, dairy product and beverage reported the strongest growth at 16.9% to Rmb12,874m, making up 54% of FY22 sales. Hot Kid milk, which accounted for >90% of revenue, reported growth of 18.4% y-o-y. Gross profit margin contracted 2.9ppts to 46.7%, due to an increase in certain material costs such as tinfoil and whole milk powder.

Snack foods sales rose 1.6% to Rmb5,397m, where candies and jellies performed well, reporting growth of 5.1% in FY22. Emerging channels reported solid growth, while overseas market saw double digit growth in 2H22, due to a rise in contribution from new products. Gross profit margin contracted 3.5ppts to 44.2% due to increases in material costs such as paper and plastic pellets.

Rice cracker sales stood largely flat at Rmb5,592m, with recovery reported in the overseas market in 2H. Of which, rice-cracker core brands grew at low-single digit in FY22, with recovery seen in 2H (mid-single digit growth). Overseas sales (20% of rice-cracker sales) reported a decline in 1H due to pandemic impact and supply chain pressure. Overseas sales resumed growth in 2H. Gross profit margin contracted 4.7ppts to 41.4%.

Want Want's net cash position rose to Rmb10,101m as of Mar'22. Cash and other equivalents dropped to Rmb17bn, while total borrowings dropped to Rmb6.9bn. The Group's dividend payment totaled Rmb4,691m. Capital expenditure stood at Rmb460.5m, mainly on fixed investments and the construction of a new plant in Vietnam.

Looking ahead, Want Want implemented price hikes as announced across all product categories. In terms of sales, >90% of dairy beverages will see a mid-single digit increase, >80% of rice-crackers to see a mid-single digit growth in ASP, while 50% of sales snack foods will report a mid-single digit growth. Material costs have been higher than expected since March due to the Ukraine-Russia conflict. We raise our FY23F earnings by 4% and introduced FY24-25 earnings. We maintain our FULLY VALUED call. While Want Want is supported by price hikes, cost pressure remains an uncertainty.

Company Background

A leading food and beverage player. Established in China in 1992, Want Want was listed on the Singapore Stock Exchange in 1996, but was subsequently delisted in September 2007. It was then relisted on the Hong Kong Stock Exchange in 2008. Want Want is engaged in the manufacturing, distribution and sales of rice crackers, dairy products and beverages, snack foods and other products. While most of its operations are primarily located in China, it also has operations in Taiwan, Japan, Hong Kong and Singapore. Want Want also exports to the US, Canada, Southeast Asia and Europe.

Want Want China

Interim Income Statement (RMBm)

FY Mar	2H2021	1H2022	2H2022	% chg yoy	% chg hoh
Revenue	10,790	10,299	11,699	8.4	13.6
Cost of Goods Sold	(5,685)	(5,336)	(6,057)	6.5	13.5
Gross Profit	5,105	4,964	5,642	10.5	13.7
Other Oper. (Exp)/Inc	(2,353)	(2,429)	(2,441)	3.7	0.5
Operating Profit	2,752	2,535	3,201	16.3	26.3
Other Non Opg (Exp)/Inc	0	0	0	nm	nm
Associates & JV Inc	(2)	(1)	(1)	32.3	1.9
Net Interest (Exp)/Inc	109	170	91	(16.6)	(46.6)
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	2,859	2,704	3,291	15.1	21.7
Tax	(828)	(757)	(1,090)	31.6	44.0
Minority Interest	3	6	4	52.1	(22.5)
Net Profit	2,034	1,952	2,205	8.4	13.0
Net profit bef Except.	2,034	1,952	2,205	8.4	13.0
EBITDA	2,752	2,535	3,201	16.3	26.3
Margins (%)					
Gross Margins	47.3	48.2	48.2		
Opg Profit Margins	25.5	24.6	27.4		
Net Profit Margins	18.9	19.0	18.9		

Source: Company, DBS HK

Income Statement (RMB m)

FY Mar	2021A	2022A	% chg yoy
Revenue	21,998	23,985	9.0
Cost of Goods Sold	(11,393)	(13,237)	16.2
Gross Profit	10,606	10,747	1.3
Other Opng (Exp)/Inc	(4,869)	(5,291)	8.7
Operating Profit	5,736	5,457	(4.9)
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	(2)	(2)	(5.4)
Net Interest (Exp)/Inc	261	280	7.3
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	5,995	5,734	(4.3)
Tax	(1,847)	(1,545)	(16.3)
Minority Interest	10	14	33.7
Net Profit	4,158	4,203	1.1
Net Profit before Except.	4,158	4,203	1.1
EBITDA	6,361	6,070	(4.6)
Margins & Ratio			
Gross Margins (%)	48.2	44.8	
Opg Profit Margin (%)	26.1	22.8	
Net Profit Margin (%)	18.9	17.5	

Source: Company, DBS HK

Want Want China

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Want Want China

Segmental Breakdown (RMB m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Rice crackers	5,583	5,592	5,927	6,207	6,502
Dairy products and beverages	11,011	12,873	13,636	14,066	14,769
Snack foods	5,313	5,397	5,710	5,956	6,214
Others	92	122	128	135	141
Total	21,998	23,985	25,401	26,364	27,627

Source: Company, DBS HK

Income Statement (RMB m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Revenue	21,998	23,985	25,401	26,364	27,627
Cost of Goods Sold	(11,393)	(13,237)	(14,102)	(14,564)	(15,180)
Gross Profit	10,606	10,747	11,299	11,800	12,447
Other Opg (Exp)/Inc	(4,869)	(5,291)	(5,510)	(5,714)	(5,960)
Operating Profit	5,736	5,457	5,789	6,086	6,487
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(2)	(2)	(2)	(2)
Net Interest (Exp)/Inc	261	280	235	237	239
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	5,995	5,734	6,022	6,321	6,724
Tax	(1,847)	(1,545)	(1,626)	(1,707)	(1,815)
Minority Interest	10	14	14	14	14
Preference Dividend	0	0	0	0	0
Net Profit	4,158	4,203	4,410	4,628	4,922
Net Profit before Except.	4,158	4,203	4,410	4,628	4,922
EBITDA	6,361	6,070	6,392	6,679	7,072
Growth					
Revenue Gth (%)	9.5	9.0	5.9	3.8	4.8
EBITDA Gth (%)	16.8	(4.6)	5.3	4.5	5.9
Opg Profit Gth (%)	19.4	(4.9)	6.1	5.1	6.6
Net Profit Gth (%)	13.9	1.1	4.9	5.0	6.4
Margins & Ratio					
Gross Margins (%)	48.2	44.8	44.5	44.8	45.1
Opg Profit Margin (%)	26.1	22.8	22.8	23.1	23.5
Net Profit Margin (%)	18.9	17.5	17.4	17.6	17.8
ROAE (%)	27.6	26.7	26.7	28.1	29.4
ROA (%)	13.6	13.8	14.8	15.4	16.2
ROCE (%)	15.9	16.1	17.7	18.7	19.7
Div Payout Ratio (%)	41.1	111.6	100.0	100.0	100.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Want Want China

Interim Income Statement (RMB m)

FY Mar	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	11,464	9,304	10,790	10,299	11,699
Cost of Goods Sold	(6,181)	(4,754)	(5,685)	(5,336)	(6,057)
Gross Profit	5,283	4,550	5,105	4,964	5,642
Other Oper. (Exp)/Inc	(2,469)	(2,496)	(2,353)	(2,429)	(2,441)
Operating Profit	2,814	2,054	2,752	2,535	3,201
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(2)	(2)	(1)	(1)
Net Interest (Exp)/Inc	113	137	109	170	91
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,925	2,189	2,859	2,704	3,291
Tax	(818)	(585)	(828)	(757)	(1,090)
Minority Interest	5	10	3	6	4
Net Profit	2,112	1,615	2,034	1,952	2,205
Net profit bef Except.	2,112	1,615	2,034	1,952	2,205
Growth					
Revenue Gth (%)	2.4	0.6	(5.9)	10.7	8.4
Opg Profit Gth (%)	15.4	15.9	(2.2)	23.4	16.3
Net Profit Gth (%)	14.7	18.4	(3.7)	20.9	8.4
Margins					
Gross Margins (%)	46.1	48.9	47.3	48.2	48.2
Opg Profit Margins (%)	24.5	22.1	25.5	24.6	27.4
Net Profit Margins (%)	18.4	17.4	18.9	19.0	18.9

Source: Company, DBS HK

Want Want China

Balance Sheet (RMB m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	6,335	5,973	6,408	6,257	6,131
Invts in Associates & JVs	36	35	35	35	35
Other LT Assets	4,440	7,262	7,262	7,262	7,262
Cash & ST Invts	16,081	11,266	10,752	11,085	11,463
Inventory	2,529	3,226	3,198	3,303	3,442
Debtors	1,822	2,096	2,252	2,296	2,353
Other Current Assets	0	0	0	0	0
Total Assets	31,243	29,858	29,907	30,237	30,686
ST Debt	3,340	3,356	3,356	3,356	3,356
Creditors	5,538	4,162	4,475	4,520	4,580
Other Current Liab	288	1,731	1,762	1,843	1,951
LT Debt	6,493	3,546	3,546	3,546	3,546
Other LT Liabilities	612	354	354	354	354
Shareholder's Equity	14,899	16,634	16,352	16,570	16,864
Minority Interests	73	75	62	48	35
Total Cap. & Liab.	31,243	29,858	29,907	30,237	30,686
Non-Cash Wkg. Capital	(1,475)	(570)	(787)	(764)	(735)
Net Cash/(Debt)	6,248	4,364	3,850	4,183	4,561
Debtors Turn (avg days)	15.2	16.0	16.2	16.4	16.3
Creditors Turn (avg days)	32.6	28.3	32.1	34.9	34.7
Inventory Turn (avg days)	84.5	79.3	83.1	81.5	81.1
Asset Turnover (x)	0.7	0.8	0.9	0.9	0.9
Current Ratio (x)	2.2	1.8	1.7	1.7	1.7
Quick Ratio (x)	2.0	1.4	1.4	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	2.1	3.6	14.7	5.8	5.8
Z-Score (X)	4.4	4.5	4.5	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	5,995	5,734	6,022	6,321	6,724
Dep. & Amort.	625	613	603	593	585
Tax Paid	(1,413)	(1,847)	(1,545)	(1,626)	(1,707)
Assoc. & JV Inc/(loss)	2	2	2	2	2
(Pft)/ Loss on disposal of FAS	0	0	0	0	0
Chg in Wkg.Cap.	488	(2,299)	136	(104)	(138)
Other Operating CF	17	(6)	(26)	(45)	(61)
Net Operating CF	5,714	2,198	5,191	5,142	5,406
Capital Exp.(net)	(209)	(248)	(1,013)	(400)	(400)
Other Invts.(net)	3	(5,746)	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(86)	(19)	0	0	0
Net Investing CF	(292)	(6,013)	(1,013)	(400)	(400)
Div Paid	(3,064)	(1,819)	(4,691)	(4,410)	(4,628)
Chg in Gross Debt	952	(2,931)	0	0	0
Capital Issues	(45)	(23)	0	0	0
Other Financing CF	(4,442)	3,772	0	0	0
Net Financing CF	(6,599)	(1,000)	(4,691)	(4,410)	(4,628)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,176)	(4,815)	(513)	333	378
Opg CFPS (RMB)	0.43	0.38	0.42	0.44	0.46
Free CFPS (RMB)	0.45	0.16	0.35	0.40	0.42

Source: Company, DBS HK

Want Want China

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

Completed Date: 29 Jun 2022 11:20:45 (HKT)

Dissemination Date: 29 Jun 2022 11:34:19 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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