

China / Hong Kong Company Update

Vitasoy

Bloomberg: 345 HK EQUITY | Reuters: 0345.HK

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DBS Group Research . Equity

30 Jun 2022

HOLD

Last Traded Price (29 Jun 2022): HK\$13.90 (HSI : 21,997)
Price Target 12-mth: HK\$14.40 (4% upside) (Prev HK\$18.40)

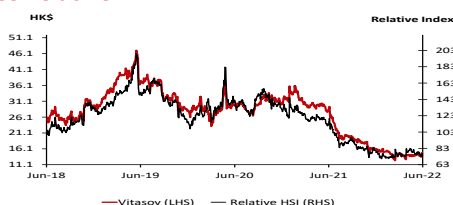
Analyst

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What's New

- FY3/22 net loss of HK\$159m in line with earlier profit warning
- Despite Omicron wave impacting the recovery in April and May, we expect Company to see a gradual sales recovery in China, while other regions continue to improve with lifting of lockdown restrictions
- We trimmed our FY23F earnings by 7.5% and introduced FY24F forecast; maintain HOLD with TP at HK\$14.4

Price Relative



Forecasts and Valuation

FY Mar (HK\$m)	2021A	2022A	2023F	2024F
Turnover	7,520	6,501	7,364	8,139
EBITDA	1,258	340	924	1,230
Pre-tax Profit	567	(236)	410	722
Net Profit	348	(159)	287	527
Net Pft (Pre Ex) (core profit)	548	(159)	287	527
Net Profit Gth (Pre-ex) (%)	2.3	N/A	N/A	84.1
EPS (HK\$)	0.33	(0.15)	0.27	0.49
Core EPS (HK\$)	0.33	(0.15)	0.27	0.49
Core EPS (HK\$)	0.52	(0.15)	0.27	0.49
Core EPS (HK\$)	0.52	(0.15)	0.27	0.49
EPS Gth (%)	(35.1)	N/A	N/A	84.1
Core EPS Gth (%)	2.2	N/A	N/A	84.1
Diluted EPS (HK\$)	0.52	(0.15)	0.27	0.49
DPS (HK\$)	0.33	0.00	0.17	0.31
BV Per Share (HK\$)	3.39	3.05	3.28	3.60
PE (X)	42.5	nm	51.8	28.2
CorePE (X)	27.0	nm	51.8	28.2
P/Cash Flow (X)	11.7	nm	11.2	12.2
P/Free CF (X)	24.3	nm	17.7	20.3
EV/EBITDA (X)	11.4	44.2	15.6	11.3
Net Div Yield (%)	2.4	0.0	1.2	2.3
P/Book Value (X)	4.1	4.6	4.2	3.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.3	(4.6)	8.5	14.3
Earnings Rev (%)			(7.5)	New
Consensus EPS (HK\$)			0.28	0.50
Other Broker Recs:		B:0	S:2	H:2

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

Gradual path to recovery

Investment Thesis

China to gradually recover. Vitasoy's products are gradually returning to the shelves since September, with a presence in most supermarkets. Sales has been recovering on a m-o-m basis. Despite some setback from the Omicron wave in April and May, Vitasoy aims to deliver top-line growth in FY22/23 through new products (VITAOAT, VITA Sparkling and Peach Tea) and marketing campaigns.

Other markets are on a recovery path. We expect Vitasoy's business in other core markets – Hong Kong and Australia & NZ – to see gradually improve post-COVID.

Stable cashflow to resume payout. With earnings recovery, Vitasoy is on track to see improving free cash flow which averaged HK\$385m (FY19-21), led by sales recovery and lower capex commitments. Vitasoy will likely resume its dividend payout, with historical payout roughly at c.63-64%, implying 1% yield.

Valuation:

We trimmed our target price (TP) to HK\$14.4 based on discounted cash flow (DCF) valuation, which implies FY23 EV/EBITDA of c.17.8x.

Where we differ:

Our earnings forecasts are more prudent than the market given our more cautious stance on margin assumptions.

Key Risks to Our View:

Resurgence of the pandemic, food industry headwinds such as rising raw material and labour costs, as well as food safety issues are some of the major risks for Vitasoy.

At A Glance

Issued Capital (m shrs)	1,070
Mkt Cap (HKm/US\$m)	14,873 / 1,895
Major Shareholders (%)	
Lo (Yau-lai)	8.8
First Sentier Investors	7.3
First Sentier Investors (Hong Kong) Limited	7.1
Lo Kwee Seong Foundation	6.8
Free Float (%)	70.1
3m Avg. Daily Val. (US\$m)	2.7
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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Vitasoy

WHAT'S NEW

Gradual recovery in place

Vitasoy released its FY3/22 results with a net loss of HK\$159m, vs. FY3/21 net profit of HK\$548m. This is in line with the profit warning alert of losses in the range of HK\$151-172m. Key drags were weaker sales performance in China, reduction in COVID-19 subsidies compared to the prior year, write-downs of inventories and impairment costs related to the relocation of Shenzhen operation. COVID-19 subsidies fell from HK\$225m to HK\$20m. Excluding COVID-19 related subsidies, adjusted loss would have narrowed to HK\$233m in FY3/22, vs. HK\$618m in FY3/21. Revenue declined 14% to HK\$6,501m in FY3/22, with 2H sales decline narrowing to 6.8% y-o-y (1H: -18.3%).

China 2H's performance reflects recovery. Sales in Vitasoy's largest geographic segment (59% of sales), China, recorded a narrower decline of 14.1% in 2H22 (1H22: -28.9%), with full-year revenue falling by 23% (local currency: -28% yoy). Operating losses expanded to HK\$307m in 2H22. The Company will focus on new products that were launched last year such as VITAOAT, VITA Sparkling and Peach Tea.

HK's 2H performance lightly impacted by pandemic disruption. HK sales rose 3.9% in 2H22 (1H22: +3.5%), partly impacted by COVID-19 pandemic disruption in Feb-Mar. The Company will focus on VITASOY and VITA to drive sales recovery in the region. Compared to FY3/19 level, Group revenue in FY3/21 was roughly c.14.5% below.

Solid recovery as restrictions lifted in Australia & NZ. Australia & NZ sales have seen decent recovery, thanks to reopening of borders and lifting of COVID restrictions. Revenue rose 15% to HK\$607m, while operating profit rose HK\$78m.

Singapore to see repositioning of tofu with new fresh milk plant in place. Singapore sales rose 3% to HK\$122m, but operating profit reported a net loss of HK\$14m, due to higher production and labour costs. The Company had repositioned its tofu business with packaging options with a new plant to drive better growth in the fresh plant milk segment.

Gross profit margin fell 5.4ppts to 47.2% in FY3/22, mainly due to sales deleverage, higher material cost and higher trade promotional expenses. EBITDA declined 73% to

HK\$340m in FY3/22, while EBITDA margin contracted by 12ppts to 5%.

As of Mar'22, cash position amounted to HK\$622m, while debt stood at HK\$854m. Of which, the Company's net gearing rose to 7% (FY3/21: net cash of HK\$453m). Capital expenditure declined to HK\$243m (FY3/21: HK\$623m) and was spent on mainly maintenance and upgrade of production lines.

Sustainability framework extended to include FY25/26F targets. Besides operational performance, Vitasoy had set further targets for its sustainability framework for 2025/26. In its product portfolio, the Company aims to deliver >85% less-zero sugars beverages (FY22: 82%), with products with front-of-pack labels across all key markets to 100% (FY22: 40%). In terms of packaging, the Company aims to maintain its FSC-certified paper for carton packs at 100%, while glass bottling recycling rate to be over 90%.

Outlook. The Omicron wave had severely impact China's recovery in April, and May, with decent recoveries seen in June. We expect the Company will drive growth across all regions, due to subsiding impact from COVID-19 restrictions and other factors. With higher material cost pressures on soy and packaging materials, the Company has initiated price hikes for selective markets including Singapore, Australia & NZ, while it relies on new product launches to drive growth in China. The Company has also locked in material prices for the year ahead to ensure better price control. We revised down our earnings by 7.5% in FY23, mainly as we lowered our gross profit margin and introduced FY24F forecasts. We trimmed our TP to HK\$14.4, and maintain HOLD.

Company Background

Founded in 1940 as a soymilk drink company, Vitasoy is currently one of the major beverage players in HK, with presence in over 40 markets around the world including mainland China, Australia and Singapore. Apart from soymilk drinks, the company has grown its product portfolio to include tea beverages, milk, bottled water, and juices, as well as tofu.

Vitasoy

Interim Income Statement (HK\$m)

FY Mar	2H2021	1H2022	2H2022	% chg_yoy	% chg_hoh
Revenue	3,110	3,604	2,897	(6.8)	(19.6)
Cost of Goods Sold	(1,565)	(1,878)	(1,553)	(0.8)	(17.3)
Gross Profit	1,545	1,727	1,344	(13.0)	(22.1)
Other Oper. (Exp)/Inc	(1,635)	(1,688)	(1,602)	(2.0)	(5.1)
Operating Profit	(91)	39	(258)	184.5	(764.2)
Other Non Opg (Exp)/Inc	0	0	0	nm	nm
Associates & JV Inc	(58)	0	0	nm	nm
Net Interest (Exp)/Inc	(1)	(5)	(11)	(1,431.1)	(118.7)
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	(149)	34	(270)	(80.6)	nm
Tax	39	7	67	71.2	818.2
Minority Interest	(14)	(8)	11	nm	nm
Net Profit	(123)	33	(192)	(55.1)	nm
Net profit bef Except.	(123)	33	(192)	(55.1)	nm
EBITDA	113	321	19	(83.5)	(94.2)
Margins (%)					
Gross Margins	49.7	47.9	46.4		
Opg Profit Margins	(2.9)	1.1	(8.9)		
Net Profit Margins	(4.0)	0.9	(6.6)		

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Mar	2021A	2022A	% chg_yoy
Revenue	7,520	6,501	(13.5)
Cost of Goods Sold	(3,565)	(3,431)	(3.8)
Gross Profit	3,954	3,071	(22.3)
Other Opng (Exp)/Inc	(3,119)	(3,290)	5.5
Operating Profit	836	(219)	(126.2)
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	(65)	0	nm
Net Interest (Exp)/Inc	(4)	(17)	(324.9)
Exceptional Gain/(Loss)	(200)	0	nm
Pre-tax Profit	567	(236)	nm
Tax	(177)	75	(142.1)
Minority Interest	(41)	3	nm
Net Profit	348	(159)	nm
Net Profit before Except.	548	(159)	nm
EBITDA	1,258	340	(73.0)
Margins & Ratio			
Gross Margins (%)	52.6	47.2	
Opg Profit Margin (%)	11.1	(3.4)	
Net Profit Margin (%)	4.6	(2.4)	

Source: Company, DBS HK

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Key Assumptions

FY Mar	2020A	2021A	2022A	2023F	2024F
Gross margin (%)	53.3	52.6	47.2	49.2	49.7
Operating margin (%)	9.8	11.2	(3.3)	6.0	9.2
Net margin (%)	7.4	7.3	(2.4)	3.9	6.5

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (HK\$ m)					
Hongkong	2,108	1,865	1,934	2,031	2,091
North America	0	0	0	0	0
China	4,504	5,008	3,838	4,568	5,253
Australia & New Zealand	502	528	607	637	663
Singapore	119	118	122	128	132
Total	7,233	7,520	6,501	7,364	8,139

Operating Profit (HK\$ m)

Hongkong	290	355	199	229	247
North America	0	0	0	0	0
China	523	524	(340)	320	394
Australia & New Zealand	77	68	78	82	85
Singapore	5	3	(13)	2	3
Total	895	950	(76)	633	728

Operating Profit Margins (%)

Hongkong	13.8	19.0	10.3	11.3	11.8
North America	N/A	N/A	N/A	N/A	N/A
China	11.6	10.5	(8.9)	7.0	7.5
Australia & New Zealand	15.3	12.9	12.8	12.8	12.8
Singapore	4.2	2.5	(10.4)	1.5	2.0
Total	12.4	12.6	(1.2)	8.6	8.9

Source: Company, DBS HK

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Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	7,233	7,520	6,501	7,364	8,139
Cost of Goods Sold	(3,381)	(3,565)	(3,431)	(3,738)	(4,091)
Gross Profit	3,851	3,954	3,071	3,625	4,048
Other Opng (Exp)/Inc	(3,157)	(3,119)	(3,290)	(3,200)	(3,312)
Operating Profit	695	836	(219)	426	736
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(17)	(65)	0	(20)	(20)
Net Interest (Exp)/Inc	2	(4)	(17)	4	6
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	(200)	0	0	0
Pre-tax Profit	679	567	(236)	410	722
Tax	(109)	(177)	75	(90)	(159)
Minority Interest	(34)	(41)	3	(33)	(36)
Preference Dividend	0	0	0	0	0
Net Profit	536	348	(159)	287	527
Net Profit before Except.	536	548	(159)	287	527
EBITDA	1,079	1,258	340	924	1,230
Growth					
Revenue Gth (%)	(3.9)	4.0	(13.5)	13.3	10.5
EBITDA Gth (%)	(10.7)	16.6	(73.0)	172.0	33.1
Opg Profit Gth (%)	(27.9)	20.3	(126.2)	(294.1)	73.0
Net Profit Gth (%)	(23.0)	(35.0)	N/A	N/A	84.1
Margins & Ratio					
Gross Margins (%)	53.3	52.6	47.2	49.2	49.7
Opg Profit Margin (%)	9.6	11.1	(3.4)	5.8	9.0
Net Profit Margin (%)	7.4	4.6	(2.4)	3.9	6.5
ROAE (%)	17.0	10.3	(4.6)	8.5	14.3
ROA (%)	8.7	5.1	(2.3)	4.0	6.6
ROCE (%)	15.4	13.9	(5.1)	7.6	12.3
Div Payout Ratio (%)	63.9	100.5	N/A	63.8	63.8
Net Interest Cover (x)	NM	213.6	NM	NM	NM

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Mar	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	2,548	4,410	3,110	3,604	2,897
Cost of Goods Sold	(1,253)	(2,001)	(1,565)	(1,878)	(1,553)
Gross Profit	1,295	2,410	1,545	1,727	1,344
Other Oper. (Exp)/Inc	(1,315)	(1,483)	(1,635)	(1,688)	(1,602)
Operating Profit	(20)	926	(91)	39	(258)
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(14)	(7)	(58)	0	0
Net Interest (Exp)/Inc	(1)	(3)	(1)	(5)	(11)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(34)	916	(149)	34	(270)
Tax	44	(216)	39	7	67
Minority Interest	(7)	(28)	(14)	(8)	11
Net Profit	3	672	(123)	33	(192)
Net profit bef Except.	3	672	(123)	33	(192)
Growth					
Revenue Gth (%)	(17.2)	(5.9)	22.0	(18.3)	(6.8)
Opg Profit Gth (%)	(107.6)	29.7	364.0	(95.8)	184.5
Net Profit Gth (%)	(98.5)	26.0	N/A	(95.1)	(55.1)
Margins					
Gross Margins (%)	50.8	54.6	49.7	47.9	46.4
Opg Profit Margins (%)	(0.8)	21.0	(2.9)	1.1	(8.9)
Net Profit Margins (%)	0.1	15.2	(4.0)	0.9	(6.6)

Source: Company, DBS HK

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Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	3,712	4,143	3,968	4,071	4,042
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	181	164	283	283	283
Cash & ST Invts	848	971	622	1,236	1,738
Inventory	594	726	773	761	833
Debtors	1,075	1,274	1,161	1,247	1,379
Other Current Assets	0	0	0	0	0
Total Assets	6,410	7,276	6,807	7,598	8,274
ST Debt	241	130	490	490	490
Creditors	2,448	2,913	2,433	2,852	3,153
Other Current Liab	14	41	109	234	263
LT Debt	0	0	0	0	0
Other LT Liabilities	289	236	206	206	206
Shareholder's Equity	3,128	3,616	3,258	3,504	3,849
Minority Interests	290	341	311	311	314
Total Cap. & Liab.	6,410	7,276	6,807	7,598	8,274
Non-Cash Wkg. Capital	(793)	(954)	(607)	(1,078)	(1,204)
Net Cash/(Debt)	607	840	132	747	1,248
Debtors Turn (avg days)	52.9	57.0	68.3	59.7	58.9
Creditors Turn (avg days)	285.5	317.9	339.7	299.5	306.3
Inventory Turn (avg days)	82.2	78.2	95.3	86.9	81.3
Asset Turnover (x)	1.2	1.1	0.9	1.0	1.0
Current Ratio (x)	0.9	1.0	0.8	0.9	1.0
Quick Ratio (x)	0.7	0.7	0.6	0.7	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	446.7	498.5	99.0	99.0	99.0
Z-Score (X)	8.3	8.0	7.5	7.5	NA

Source: Company, DBS HK

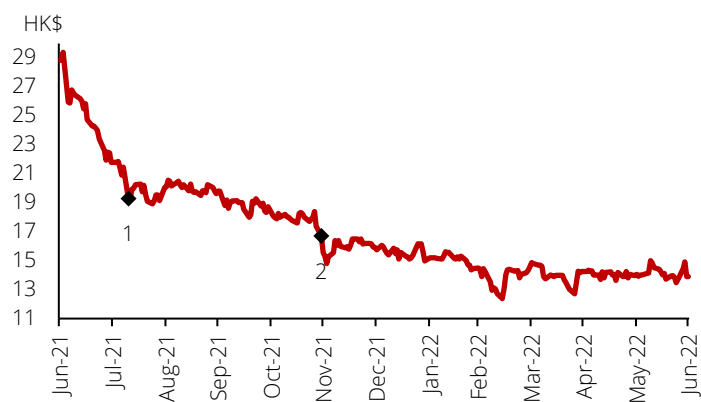
Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	679	767	(236)	410	722
Dep. & Amort.	402	488	559	518	513
Tax Paid	(169)	(188)	(77)	35	(130)
Assoc. & JV Inc/(loss)	17	65	0	20	20
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	330	122	(365)	345	96
Other Operating CF	1	7	17	(4)	(6)
Net Operating CF	1,260	1,260	(103)	1,324	1,216
Capital Exp.(net)	(1,078)	(650)	(485)	(485)	(485)
Other Invts.(net)	2	6	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	11	7	6	13	15
Net Investing CF	(1,066)	(637)	(478)	(472)	(469)
Div Paid	(482)	(374)	(342)	(73)	(216)
Chg in Gross Debt	205	(124)	0	0	0
Capital Issues	33	38	9	0	0
Other Financing CF	(68)	(92)	566	(164)	(28)
Net Financing CF	(312)	(552)	233	(237)	(244)
Currency Adjustments	(39)	52	0	0	0
Chg in Cash	(157)	122	(348)	615	502
Opg CFPS (HK\$)	0.87	1.07	0.25	0.92	1.05
Free CFPS (HK\$)	0.17	0.57	(0.55)	0.78	0.68

Source: Company, DBS HK

Vitasoy

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	9-Aug-21	HK\$21.45	HK\$20.50	HOLD
2	29-Nov-21	HK\$17.38	HK\$18.40	HOLD

Source: DBS HK

Analyst: Alison Fok
Alice Hui

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

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

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