

# Uni-President China Holdings

Bloomberg: 220 HK Equity | Reuters: 0220.HK

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DBS Group Research . Equity

10 Aug 2022

## BUY

Last Traded Price (9 Aug 2022): HK\$7.38 (HSI : 20,003)  
Price Target 12-mth: HK\$8.60 (17% upside) (Prev HK\$8.80)

### Analyst

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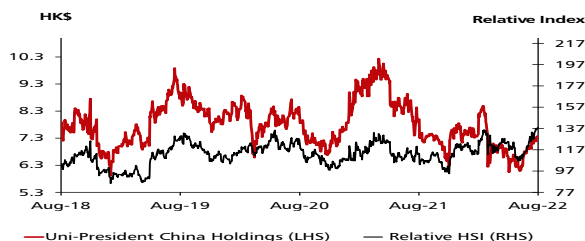
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### What's New

- UPC 1H22 net earnings declined 27.5% on COVID lockdown impacts and higher material cost trends
- We believe gross profit margin should have largely bottomed out in 1H22, with easing material cost trends, with costs of packaging and palm oil becoming more favourable
- We trim our earnings by 13%-18% in FY22E/23E and introduce FY24E forecasts. Retain BUY with TP at HK\$8.6

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	25,231	27,116	28,974	31,026
EBITDA	2,984	2,993	2,805	3,114
Pre-tax Profit	2,107	1,846	2,088	2,410
Net Profit	1,466	1,285	1,453	1,677
Net Pft (Pre Ex) (core profit)	1,466	1,285	1,453	1,677
Net Profit Gth (Pre-ex) (%)	(9.8)	(12.4)	13.1	15.4
EPS (RMB)	0.34	0.30	0.34	0.39
EPS (HK\$)	0.39	0.35	0.39	0.45
EPS Gth (%)	(9.8)	(12.4)	13.1	15.4
Diluted EPS (HK\$)	0.39	0.35	0.39	0.45
DPS (HK\$)	0.47	0.35	0.39	0.45
BV Per Share (HK\$)	3.70	3.58	3.62	3.68
PE (X)	18.7	21.3	18.9	16.4
P/Cash Flow (X)	11.3	8.3	10.8	9.9
P/Free CF (X)	13.3	10.2	12.8	11.6
EV/EBITDA (X)	8.1	7.8	8.0	6.9
Net Div Yield (%)	6.4	4.7	5.3	6.1
P/Book Value (X)	2.0	2.1	2.0	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.6	9.5	10.9	12.4
Earnings Rev (%)		(18)	(13)	New
Consensus EPS (RMB)		0.32	0.38	0.43
Other Broker Recs:		B:14	S:1	H:3

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

## Short-term pains

### Investment Thesis

**Margin bottoming out.** We are positive about the instant food development as the adoption of convenience food becomes more prevalent. We forecast a sales CAGR of 7% in FY21-24E. While raw material costs have been a concern, with GPM compressing to 22.2% in 1H22, we believe the margin has largely bottomed out, as material prices such as palm oil prices have begun to ease in June.

**Beverage growth stable.** Despite the fluctuating COVID-19 situation, beverage sales have seen a stable recovery, thanks to the expansion of channels such as catering. UPC should benefit from the hotter weather trends and rising beverage consumption per capita. We forecast beverages to achieve a sales CAGR of 7% in FY21-24E.

**Able to sustain 100% dividend payout.** With a decent net cash position of Rmb4.2bn as of Jun 22, we expect the group to be able to sustain a 100% payout, equivalent to a c.4.7% yield.

### Valuation:

We trim our earnings by 13%-18% in FY22/23E and introduce FY24E forecasts. We expect an earnings CAGR of 5% in FY21-24E. We rollover our TP to HK\$8.6/sh, pegged to an unchanged one-year forward EV/EBITDA (7.8x).

### Where we differ:

We forecast a 7% y-o-y sales CAGR in FY21-24E, versus the consensus estimate of 6%.

### Key Risks to Our View:

Competition in the premium category, unfavourable raw material cost trends, and fluctuations in the COVID-19 pandemic situation.

### At A Glance

Issued Capital (m shrs)	4,319
Mkt Cap (HKm/US\$m)	31,874 / 4,060
Major Shareholders (%)	
Uni-President Enterprises Corp	71.9
Free Float (%)	28.1
3m Avg. Daily Val. (US\$m)	3.5
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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## Uni-President China Holdings

### WHAT'S NEW

#### 1H22 results takeaway

Uni-President China (220.HK) (UPC)'s results revealed its net earnings were down 27.5% to Rmb614m, accounting for 43% of consensus estimates (1H21: 56%). This is mainly due to the resurgence of the pandemic, which resulted in lockdowns, higher raw material costs, and a rise in other operating costs (logistics) as well. EBITDA dropped 20% to Rmb1,459m.

Revenue rose 7% to Rmb13,940m, whereby instant food was the key driver. Beverages rose 5% to Rmb8,248m, and instant food rose 14% to Rmb5,369m. Within the instant food category, the instant noodle business reported a 17% growth to Rmb5,142m in 1H22. Of this, Soup Daren maintained double-digit growth thanks to the introduction of "Big Cup" (大大杯); noodles priced at Rmb5 and above rose 19.5%, and accounted for 43.7% of noodle sales, while mass market noodles rose c.2% y-o-y. While the Lao-tan 315 incident had a negative impact on sales, the company is optimistic that it has room for growth in other product categories.

In the beverage segment, tea sales rose 5% y-o-y to Rmb3,651m. Juice sales rose 25.7% y-o-y to Rmb1,401m. Milk tea sales were flat at Rmb2,970m. Other beverage sales dropped 23% to Rmb226m.

The gross profit margin contracted 4.7ppt to 30.1% due to the increase in bulk raw material prices, rise in global oil prices, and increased transportation costs due to the pandemic. By segment, beverage gross profit margin contracted 4.7ppt to 36.2%, while noodle gross profit margin contracted 4.4ppt to 22.2%.

The company's net cash position stood at Rmb4,243m as of Jun 22 (Dec 21: Rmb5.9bn).

Looking ahead, UPC appears to be slightly more cautious on account of the sporadic outbreaks of COVID cases still recurring, which has continued to dampen on-the-go consumption channels and weaken the consumption appetite, in addition to causing raw material cost volatility. In our view, the gross profit margin has largely bottomed out in 1H22, as material prices, such as palm oil prices, and packaging costs (PET, aluminum) have begun to ease and will have a higher base in 3Q. We expect sales to sustain a growth of roughly 7%, driven by beverages, while the gross profit margin should rebound by 2.4ppt to 32.5% in 2H22 vs. the 1H22 GPM contraction of 4.7ppt. We trim our earnings by 13%-18% in FY22/23F and introduce FY24F forecasts. Retain BUY with TP at HK\$8.6, based on an unchanged one-year forward EV/EBITDA of 7.8x.

#### Company Background

**A leading FMCG player.** Listed on the HKEX since December 2007, Uni-President China (UPC) is engaged in the production and distribution of instant food and beverages in China, mainly under the Uni-President brand. UPC is c.70.6%-owned by its Taiwan-based parent, Uni-President Enterprise.

UPC has the second-largest market share in the instant noodles and ready-to-drink (RTD) tea markets. It is the third-largest player in juices (below 26% juice content), after Coca-Cola and Tingyi (*Source: AC Nielsen*).

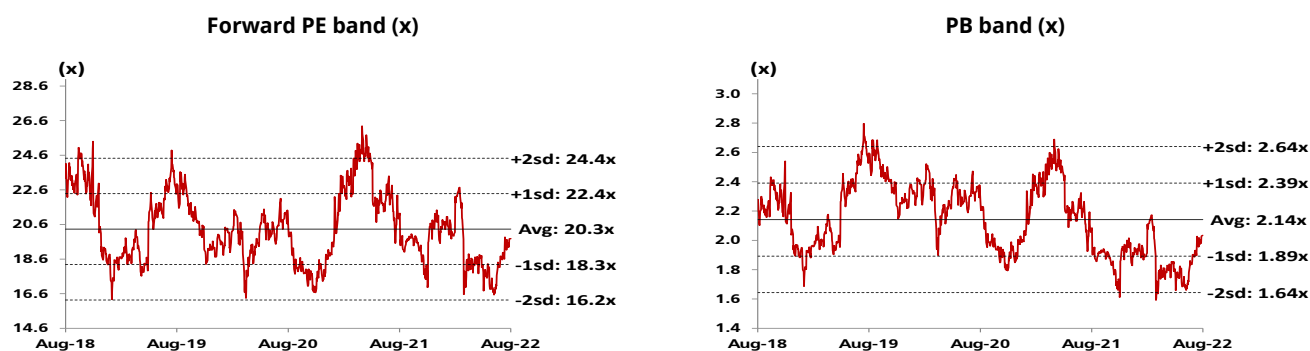
## Uni-President China Holdings

### Interim Income Statement (RMBm)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	13,007	12,224	13,940	7.2	14.0
Cost of Goods Sold	(8,474)	(8,538)	(9,741)	15.0	14.1
<b>Gross Profit</b>	<b>4,533</b>	<b>3,686</b>	<b>4,199</b>	<b>(7.4)</b>	<b>13.9</b>
Other Oper. (Exp)/Inc	(3,475)	(2,838)	(3,468)	(0.2)	22.2
<b>Operating Profit</b>	<b>1,058</b>	<b>848</b>	<b>731</b>	<b>(30.9)</b>	<b>(13.8)</b>
Other Non Opg (Exp)/Inc	0	0	0	nm	nm
Associates & JV Inc	26	(58)	19	(28.1)	(132.4)
Net Interest (Exp)/Inc	98	135	105	7.9	(21.9)
Exceptional Gain/(Loss)	0	0	0	nm	nm
<b>Pre-tax Profit</b>	<b>1,181</b>	<b>926</b>	<b>856</b>	<b>(27.6)</b>	<b>(7.6)</b>
Tax	(334)	(307)	(241)	(27.8)	(21.5)
Minority Interest	0	0	0	nm	nm
<b>Net Profit</b>	<b>847</b>	<b>618</b>	<b>614</b>	<b>(27.5)</b>	<b>(0.7)</b>
Net profit bef Except.	847	618	614	(27.5)	(0.7)
EBITDA	1,084	790	750	(30.8)	(5.1)
<b>Margins (%)</b>					
Gross Margins	34.8	30.2	30.1		
Opg Profit Margins	8.1	6.9	5.2		
Net Profit Margins	6.5	5.1	4.4		

Source: Company, DBS HK

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Uni-President China Holdings

### Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Revenues (RMB m)</b>					
Beverage	12,560	14,738	15,817	16,928	18,126
Instant noodles	9,424	9,525	10,273	10,958	11,747
Others	777	968	1,026	1,088	1,153
<b>Total</b>	<b>22,762</b>	<b>25,231</b>	<b>27,116</b>	<b>28,974</b>	<b>31,026</b>
<b>Segment result (RMB m)</b>					
Beverage	1,815	2,028	1,977	2,116	2,266
Instant noodles	517	151	185	241	258
Others	(223)	(274)	(554)	(512)	(362)
<b>Total</b>	<b>2,108</b>	<b>1,906</b>	<b>1,608</b>	<b>1,845</b>	<b>2,162</b>
<b>Segment result Margins (%)</b>					
Beverage	14.4	13.8	12.5	12.5	12.5
Instant noodles	5.5	1.6	1.8	2.2	2.2
Others	(28.7)	(28.3)	(54.0)	(47.1)	(31.4)
<b>Total</b>	<b>9.3</b>	<b>7.6</b>	<b>5.9</b>	<b>6.4</b>	<b>7.0</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	22,762	25,231	27,116	28,974	31,026
Cost of Goods Sold	(14,696)	(17,012)	(18,759)	(19,866)	(21,090)
<b>Gross Profit</b>	<b>8,066</b>	<b>8,219</b>	<b>8,357</b>	<b>9,108</b>	<b>9,936</b>
Other Opng (Exp)/Inc	(5,958)	(6,313)	(6,749)	(7,264)	(7,774)
<b>Operating Profit</b>	<b>2,108</b>	<b>1,906</b>	<b>1,608</b>	<b>1,845</b>	<b>2,162</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	46	(32)	40	45	50
Net Interest (Exp)/Inc	172	233	198	198	198
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,326</b>	<b>2,107</b>	<b>1,846</b>	<b>2,088</b>	<b>2,410</b>
Tax	(701)	(641)	(562)	(635)	(733)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,626</b>	<b>1,466</b>	<b>1,285</b>	<b>1,453</b>	<b>1,677</b>
EBITDA	4,727	2,984	2,993	2,805	3,114
<b>Growth</b>					
Revenue Gth (%)	3.4	10.8	7.5	6.9	7.1
EBITDA Gth (%)	3.2	(36.9)	0.3	(6.3)	11.0
Opg Profit Gth (%)	16.7	(9.6)	(15.6)	14.7	17.2
Net Profit Gth (%)	19.0	(9.8)	(12.4)	13.1	15.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	35.4	32.6	30.8	31.4	32.0
Opg Profit Margin (%)	9.3	7.6	5.9	6.4	7.0
Net Profit Margin (%)	7.1	5.8	4.7	5.0	5.4
ROAE (%)	11.8	10.6	9.5	10.9	12.4
ROA (%)	7.4	6.6	5.8	6.6	7.4
ROCE (%)	9.8	9.0	7.8	9.1	10.5
Div Payout Ratio (%)	100.0	120.0	100.0	100.0	100.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Uni-President China Holdings

### Interim Income Statement (RMB m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	11,817	10,945	13,007	12,224	13,940
Cost of Goods Sold	(7,590)	(7,105)	(8,474)	(8,538)	(9,741)
<b>Gross Profit</b>	<b>4,226</b>	<b>3,840</b>	<b>4,533</b>	<b>3,686</b>	<b>4,199</b>
Other Oper. (Exp)/Inc	(3,058)	(3,121)	(3,475)	(2,838)	(3,468)
<b>Operating Profit</b>	<b>1,168</b>	<b>719</b>	<b>1,058</b>	<b>848</b>	<b>731</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	23	26	(58)	19
Net Interest (Exp)/Inc	82	90	98	135	105
Exceptional Gain/(Loss)	221	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,495</b>	<b>832</b>	<b>1,181</b>	<b>926</b>	<b>856</b>
Tax	(429)	(271)	(334)	(307)	(241)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>1,065</b>	<b>561</b>	<b>847</b>	<b>618</b>	<b>614</b>
<b>Growth</b>					
Revenue Gth (%)	3.0	3.7	10.1	11.7	7.2
Opg Profit Gth (%)	(10.5)	43.5	(9.5)	18.0	(30.9)
Net Profit Gth (%)	6.8	52.0	(20.5)	10.3	(27.5)
<b>Margins</b>					
Gross Margins (%)	35.8	35.1	34.8	30.2	30.1
Opg Profit Margins (%)	9.9	6.6	8.1	6.9	5.2
Net Profit Margins (%)	9.0	5.1	6.5	5.1	4.4

Source: Company, DBS HK

## Uni-President China Holdings

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	7,977	7,257	6,312	5,797	5,295
Invt in Associates & JVs	794	813	813	813	813
Other LT Assets	7,172	6,632	6,795	6,745	6,695
Cash & ST Invt	2,970	3,544	4,470	5,325	6,240
Inventory	1,943	2,393	1,946	2,068	2,202
Debtors	1,208	1,412	1,537	1,668	1,813
Other Current Assets	39	16	16	16	16
<b>Total Assets</b>	<b>22,104</b>	<b>22,065</b>	<b>21,888</b>	<b>22,431</b>	<b>23,075</b>
ST Debt	487	112	112	112	112
Creditors	5,148	5,301	5,461	5,624	5,793
Other Current Liab	2,031	2,269	2,407	2,619	2,869
LT Debt	254	286	286	286	286
Other LT Liabilities	298	331	331	331	331
Shareholder's Equity	13,887	13,765	13,291	13,459	13,683
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>22,104</b>	<b>22,065</b>	<b>21,888</b>	<b>22,431</b>	<b>23,075</b>
Non-Cash Wkg. Capital	(3,988)	(3,751)	(4,369)	(4,491)	(4,631)
Net Cash/(Debt)	2,229	3,145	4,072	4,927	5,842
Debtors Turn (avg days)	9.2	8.9	9.1	9.1	9.1
Creditors Turn (avg days)	44.7	42.9	43.3	44.2	44.1
Inventory Turn (avg days)	38.1	35.9	36.3	36.9	37.0
Asset Turnover (x)	1.0	1.1	1.2	1.3	1.4
Current Ratio (x)	0.8	1.0	1.0	1.1	1.2
Quick Ratio (x)	0.5	0.6	0.8	0.8	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	40.4	91.6	153.7	100.4	100.4
Z-Score (X)	3.8	3.8	3.8	3.8	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	2,326	2,107	1,846	2,088	2,410
Dep. & Amort.	2,573	1,110	1,344	915	902
Tax Paid	(613)	(595)	(641)	(562)	(635)
Assoc. & JV Inc/(loss)	(46)	32	(40)	(45)	(50)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(1,653)	509	698	48	42
Other Operating CF	627	(741)	90	95	100
<b>Net Operating CF</b>	<b>3,215</b>	<b>2,421</b>	<b>3,298</b>	<b>2,540</b>	<b>2,768</b>
Capital Exp.(net)	(299)	(365)	(613)	(400)	(400)
Other Invt.(net)	(8)	(17)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1,394)	(198)	0	0	0
<b>Net Investing CF</b>	<b>(1,701)</b>	<b>(580)</b>	<b>(613)</b>	<b>(400)</b>	<b>(400)</b>
Div Paid	(1,408)	(1,622)	(1,759)	(1,285)	(1,453)
Chg in Gross Debt	(676)	3,124	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(413)	(3,544)	0	0	0
<b>Net Financing CF</b>	<b>(2,497)</b>	<b>(2,042)</b>	<b>(1,759)</b>	<b>(1,285)</b>	<b>(1,453)</b>
Currency Adjustments	(1)	0	0	0	0
Chg in Cash	(983)	(201)	926	855	915
Opg CFPS (RMB)	1.13	0.44	0.60	0.58	0.63
Free CFPS (RMB)	0.68	0.48	0.62	0.50	0.55

Source: Company, DBS HK

## Uni-President China Holdings

### Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	13-Aug-21	HK\$7.30	HK\$8.70	BUY
2	16-Nov-21	HK\$7.50	HK\$9.30	BUY
3	21-Jan-22	HK\$7.49	HK\$9.30	BUY
4	9-Feb-22	HK\$7.44	HK\$9.30	BUY
5	9-Mar-22	HK\$6.24	HK\$8.80	BUY

Source: DBS HK

Analyst: Alison Fok

Mavis Hui

Alice Hui

## Uni-President China Holdings

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

Completed Date: 10 Aug 2022 16:29:38 (HKT)

Dissemination Date: 10 Aug 2022 16:58:22 (HKT)

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

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**Uni-President China Holdings**

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