

Nissin Foods Co Ltd

Bloomberg: 1475 HK Equity | Reuters: 1475.HK

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DBS Group Research . Equity

31 Aug 2022

BUY

Last Traded Price (30 Aug 2022): HK\$6.37 (HSI : 19,949)
Price Target 12-mth: HK\$8.70 (37% upside) (Prev HK\$7.90)

Analyst

Alison Fok +852 36684170 alisonfok@dbs.com
Mavis Hui +852 36684188 mavis_hui@dbs.com
Alice Hui +852 36684182 alicehui@dbs.com

What's New

- 2Q22 earnings decline narrowed to 4% y-o-y, broadly in-line with expectations
- Price hike to continue in HK as Nissin Foods engages a premium food strategy
- Trimmed FY22/23F earnings by 2.7%/1%; Reiterate BUY, TP at HK\$8.7

Price hikes bearing fruit

Investment Thesis

China to remain growth driver. China should remain the group's growth engine and deliver 10% sales growth in FY22-24F. Price hikes should offset raw material cost impact and support margins.

Still gaining market share. Relative to other instant food players, we expect Nissin Foods to continue to gain market share within the Rmb5+ category. Nissin Foods has a strong branding and market position in South China, with rising exposure in the East, North, and, recently, West China. The group's expanding revenue base in these newer regions should raise its production efficiency.

Operating margin to stabilise in FY22F. We expect gross profit margin pressure to continue due to higher raw material prices. With price hikes and cost efficiencies, the overall operating margin should stabilise at roughly 12.5% in FY22F.

Valuation:

We trimmed our earnings by 2.7%/1% in FY22E/23F and introduced FY24F forecasts. We maintain our BUY call on Nissin Foods with a TP of HK\$8.7/sh, as we roll over to FY23F, pegged to an unchanged 24x PE.

Where we differ:

We are positive on the group's topline growth in FY22-24F.

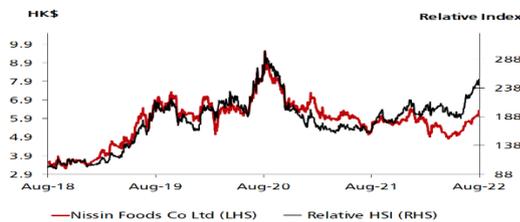
Key Risks to Our View:

Weaker-than-expected increase in sales volume in China, an unexpected lockdown impacting offline channels, and/or commodity price fluctuations.

At A Glance

Issued Capital (m shrs)	1,048
Mkt Cap (HKm/US\$m)	6,676 / 851
Major Shareholders (%)	
Nissin Foods Holdings Co Ltd	72.1
China Orient Asset Management Co., Ltd.	5.0
Free Float (%)	22.9
3m Avg. Daily Val. (US\$m)	0.5
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2021A	2022F	2023F	2024F
Turnover	3,866	4,210	4,549	4,875
EBITDA	530	577	640	697
Pre-tax Profit	442	498	570	634
Net Profit	304	334	382	425
Net Pft (Pre Ex) (core profit)	304	334	382	425
Net Profit Gth (Pre-ex) (%)	0.6	9.9	14.3	11.3
EPS (HK\$)	0.29	0.32	0.37	0.41
Core EPS (HK\$)	0.29	0.32	0.37	0.41
EPS Gth (%)	3.7	9.9	14.3	11.3
Core EPS Gth (%)	3.7	9.9	14.3	11.3
Diluted EPS (HK\$)	0.29	0.32	0.37	0.41
DPS (HK\$)	0.17	0.16	0.18	0.20
BV Per Share (HK\$)	3.79	3.95	4.13	4.33
PE (X)	21.9	19.9	17.4	15.6
CorePE (X)	21.9	19.9	17.4	15.6
P/Cash Flow (X)	21.9	5.8	18.0	16.1
P/Free CF (X)	nm	8.3	55.3	40.7
EV/EBITDA (X)	9.4	8.6	7.8	7.1
Net Div Yield (%)	2.7	2.5	2.9	3.2
P/Book Value (X)	1.7	1.6	1.5	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.7	8.3	9.1	9.6
Earnings Rev (%)		(3)	(1)	New
Consensus EPS (HK\$)		0.33	0.37	0.42
Other Broker Recs:		B:6	S:0	H:1

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



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Nissin Foods Co Ltd

WHAT'S NEW**Price hike lifts results**

Nissin Foods' 2Q22 net earnings decline narrowed to 4% to HK\$75m, broadly in line with market expectations. Revenue rose 9% to HK\$971m, lifted by both geographic segments (HK: +16%; China +5%). Gross profit margin contracted 0.5ppt to 31.5% due to increases in raw material and production costs. SG&A as % of sales contracted 0.7ppt to 21.2% due to stringent cost controls despite a strong increase in logistic costs. Effective tax rate was higher at ~27% due to the absence of deferred tax assets.

China sales rose 5% to HK\$570m in 2Q22. The key drivers came from an increase in sales volume of cup-type instant noodles, and price hikes initiated in Mar-22. This was partly offset by weaker sales from distribution business in Shanghai due to severe lockdowns in 2Q22. Segment result rose 25% to HK\$64m, thanks to mid-single digit price hikes since Mar-22.

Hong Kong sales rose 16% to HK\$402m, lifted by strong demand for instant noodles and frozen foods due to the resurgence of COVID-19. Segment results rose 5% to HK\$29m, due to higher raw material and production costs. The group had implemented price hikes in the mid-to-high single digit since April'22, which had helped ease the cost pressure in 2Q22.

2H outlook in Hong Kong. Looking ahead, Nissin Foods aims to continue adopting a premium-focused strategy with further price hikes on instant noodle, and frozen foods in the mid-to-high-single digit in September due to higher material costs. The Group has launched new products such as 100% Hokkaido Wheat Flour Series, and

Mala flavour under Damae Iccho. In the non-noodle series, the group continues to broaden its offerings such as frozen dim sum and pasta, KAGOME vegetables, granola, and pre-packaged ready-to-eat fresh-cut vegetables.

On the other hand, competition in China has been fierce. July sales was sluggish across the FMCG category, with some improvements seen in August due to better demand from back-to-school. However, as competitors have not initiated price hikes, which has driven stronger competition in the premium segment. Nissin Foods does not expect to raise ASP in 2H, while raw material cost pressure is expected to continue into Oct/Nov due to a time-lag effect.

The group has maintained its guidance of double digit topline and bottom-line growth. HK is forecast to grow at mid-to-high single digit, while China will deliver double digit growth. Nissin Foods aims to maintain roughly c.50% dividend payout in 2022E.

All-in, we revised our earnings down by 2.7%/1% in FY22F/FY23F and introduced FY24F forecasts. We remain positive on the group's premium product offerings, and ability to raise prices to offset the impact of higher material costs, which defines Nissin Foods unique positioning. Maintain Buy.

Company Background

Nissin Foods Holdings (Nissin Foods) is a spin-off of the instant noodle operations of Japan's Nissin Group Holdings (2897.JP) in Hong Kong and China. The company established its presence in Hong Kong in 1984 and has gradually expanded its business into the Chinese market.

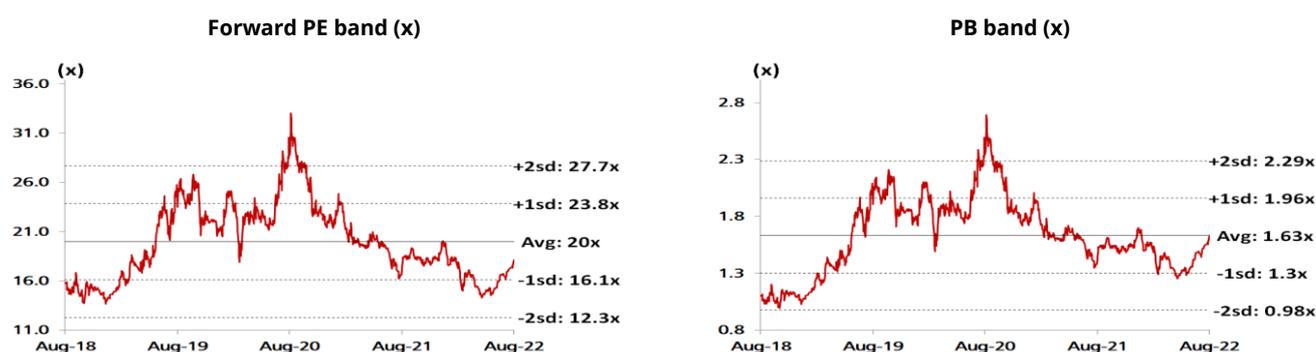
Nissin Foods Co Ltd

Interim Income Statement (HK\$m)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	1,854	2,013	2,033	9.7	1.0
Cost of Goods Sold	(1,262)	(1,377)	(1,394)	10.5	1.2
Gross Profit	592	635	639	7.9	0.6
Other Oper. (Exp)/Inc	(376)	(410)	(395)	5.0	(3.8)
Operating Profit	200	209	228	13.9	9.2
Other Non Opg (Exp)/Inc	0	0	0	nm	nm
Associates & JV Inc	0	0	0	nm	nm
Net Interest (Exp)/Inc	16	16	16	0.0	0.0
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	216	225	244	12.9	8.6
Tax	(29)	(73)	(62)	112.9	(16.0)
Minority Interest	(17)	(19)	(18)	(6.9)	(5.2)
Net Profit	171	133	165	(3.5)	24.0
Net profit bef Except.	171	133	165	(3.5)	24.0
EBITDA	281	249	305	8.4	22.6
Margins (%)					
Gross Margins	31.9	31.6	31.4		
Opg Profit Margins	10.8	10.4	11.2		
Net Profit Margins	9.2	6.6	8.1		

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Nissin Foods Co Ltd

Segmental Breakdown (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (HK\$ m)					
Hong Kong	1,418	1,466	1,587	1,662	1,702
PRC	2,096	2,400	2,624	2,886	3,173
Total	3,519	3,866	4,210	4,549	4,875

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	3,519	3,866	4,210	4,549	4,875
Cost of Goods Sold	(2,360)	(2,639)	(2,886)	(3,098)	(3,300)
Gross Profit	1,159	1,227	1,324	1,450	1,575
Other Opg (Exp)/Inc	(725)	(786)	(826)	(881)	(941)
Operating Profit	400	408	464	536	600
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	34	34	34	34	34
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	434	442	498	570	634
Tax	(101)	(102)	(125)	(142)	(158)
Minority Interest	(31)	(35)	(40)	(46)	(51)
Preference Dividend	0	0	0	0	0
Net Profit	302	304	334	382	425
Net Profit before Except.	302	304	334	382	425
EBITDA	570	530	577	640	697
Growth					
Revenue Gth (%)	14.0	9.9	8.9	8.0	7.2
EBITDA Gth (%)	25.2	(7.0)	8.8	11.0	8.9
Opg Profit Gth (%)	21.0	1.9	13.9	15.3	12.0
Net Profit Gth (%)	20.3	0.6	9.9	14.3	11.3
Margins & Ratio					
Gross Margins (%)	32.9	31.7	31.5	31.9	32.3
Opg Profit Margin (%)	11.4	10.5	11.0	11.8	12.3
Net Profit Margin (%)	8.6	7.9	7.9	8.4	8.7
ROAE (%)	8.1	7.7	8.3	9.1	9.6
ROA (%)	6.2	5.8	6.2	6.6	7.0
ROCE (%)	7.8	7.5	8.1	8.9	9.4
Div Payout Ratio (%)	50.0	60.0	50.0	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Nissin Foods Co Ltd
Interim Income Statement (HK\$ m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	1,735	1,783	1,854	2,013	2,033
Cost of Goods Sold	(1,147)	(1,213)	(1,262)	(1,377)	(1,394)
Gross Profit	588	571	592	635	639
Other Oper. (Exp)/Inc	(337)	(387)	(376)	(410)	(395)
Operating Profit	235	167	200	209	228
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	16	16	16	16	16
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	251	183	216	225	244
Tax	(55)	(46)	(29)	(73)	(62)
Minority Interest	(17)	(14)	(17)	(19)	(18)
Net Profit	178	124	171	133	165
Net profit bef Except.	178	124	171	133	165
Growth					
Revenue Gth (%)	15.9	12.2	6.8	12.8	9.7
Opg Profit Gth (%)	43.8	(0.1)	(14.6)	25.0	13.9
Net Profit Gth (%)	34.3	4.6	(4.2)	7.7	(3.5)
Margins					
Gross Margins (%)	33.9	32.0	31.9	31.6	31.4
Opg Profit Margins (%)	13.5	9.4	10.8	10.4	11.2
Net Profit Margins (%)	10.3	6.9	9.2	6.6	8.1

Source: Company, DBS HK

Nissin Foods Co Ltd

Balance Sheet (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	1,681	1,833	1,989	2,211	2,433
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	206	318	318	318	318
Cash & ST Invt	2,115	1,809	1,888	1,920	1,977
Inventory	363	465	509	546	581
Debtors	601	563	605	647	687
Other Current Assets	217	273	273	273	273
Total Assets	5,184	5,260	5,581	5,914	6,268
ST Debt	0	0	0	0	0
Creditors	978	983	1,075	1,154	1,229
Other Current Liab	88	78	100	118	134
LT Debt	0	0	0	0	0
Other LT Liabilities	75	83	83	83	83
Shareholder's Equity	3,896	3,951	4,118	4,308	4,521
Minority Interests	148	166	206	251	302
Total Cap. & Liab.	5,184	5,260	5,581	5,914	6,268
Non-Cash Wkg. Capital	116	240	211	194	178
Net Cash/(Debt)	2,115	1,809	1,888	1,920	1,977
Debtors Turn (avg days)	52.7	44.9	44.9	44.9	44.9
Creditors Turn (avg days)	151.2	135.9	135.9	135.9	135.9
Inventory Turn (avg days)	56.2	64.3	64.3	64.3	64.3
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.8
Current Ratio (x)	3.1	2.9	2.8	2.7	2.6
Quick Ratio (x)	2.5	2.2	2.1	2.0	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

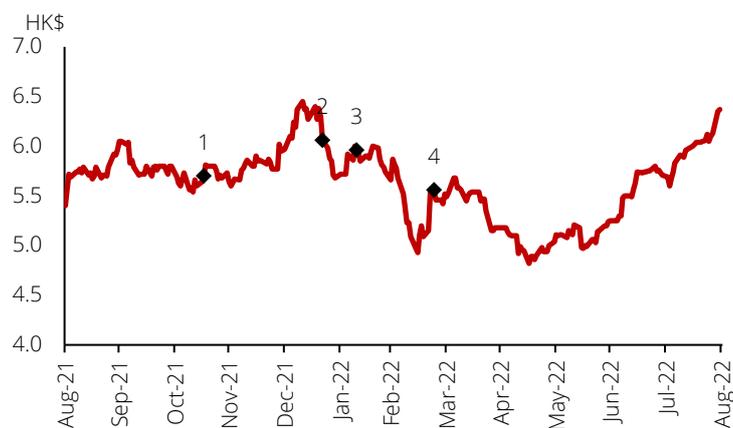
Cash Flow Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	434	442	498	570	634
Dep. & Amort.	37	31	31	31	31
Tax Paid	(87)	(102)	(125)	(142)	(158)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	143	(32)	778	(54)	(59)
Other Operating CF	(25)	(34)	(34)	(34)	(34)
Net Operating CF	502	304	1,149	370	413
Capital Exp.(net)	(266)	(350)	(350)	(250)	(250)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(54)	(83)	34	34	34
Net Investing CF	(320)	(433)	(317)	(217)	(217)
Div Paid	(126)	(151)	(182)	(167)	(191)
Chg in Gross Debt	1	0	0	0	0
Capital Issues	0	(182)	0	0	0
Other Financing CF	(17)	35	40	46	51
Net Financing CF	(141)	(298)	(142)	(121)	(140)
Currency Adjustments	61	0	0	0	0
Chg in Cash	102	(427)	690	32	57
Opg CFPS (HK\$)	0.33	0.32	0.36	0.41	0.45
Free CFPS (HK\$)	0.22	(0.04)	0.77	0.12	0.16

Source: Company, DBS HK

Nissin Foods Co Ltd

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	16-Nov-21	HK\$5.64	HK\$6.80	BUY
2	21-Jan-22	HK\$6.30	HK\$7.80	BUY
3	9-Feb-22	HK\$5.86	HK\$8.00	BUY
4	24-Mar-22	HK\$5.51	HK\$7.90	BUY

Source: DBS HK

Analyst: *Alison Fok*
Mavis Hui
Alice Hui

Nissin Foods Co Ltd

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*Share price appreciation + dividends

Completed Date: 31 Aug 2022 09:29:38 (HKT)

Dissemination Date: 31 Aug 2022 11:26:29 (HKT)

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DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Nissin Foods Co Ltd

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand