



Company Report: Uni-President China (00220 HK)

公司报告: 统一企业中国 (00220 HK)

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Ample Room for Profitability Improvement

盈利能力尚有很大的提升空间

- UPC's revenue in 2014 was RMB22.5 billion, down 3.6% YoY and reported net profit arrived at RMB286 million, down 68.8% YoY. **UPC's reported net profit in 2014 missed consensus by more than 40% on 1) Absence of government grant; 2) Weak beverage business in 4Q14; and 3) Higher effective tax rate.**
- UPC's sales growth of instant noodle business could remain gloomy in 2015 but the beverage business's profitability is expected to significantly improve on expected normalized summer and favorable raw materials. **Some cost-savings will be reinvested in brand building and promotion of new products but the Company will focus on profitability in 2015.** We revise up reported EPS forecasts in 2015-2016 by 52.8% and 41.6%, respectively. We expect UPC's reported EPS in 2015-2017 to be RMB0.172, RMB0.188 and RMB0.207, up 138.8%, 9.4% and 10.4% YoY, respectively.
- UPC's market capitalization and sales are approximately one-fourth and one-third of Tingyi's but UPC's earnings in 2015 are at most one-fifth that of Tingyi's (assuming Tingyi holds 100% equity interest in beverage business). **We expect UPC's long-term profitability to further improve on new products initiation that leads to product mix improvement.** Therefore, we upgrade UPC's investment rating to "Accumulate" but cut the Company's TP to HK\$6.20 on weak sales growth expectation. The new TP represents 28.6x 2015 PER, 26.1x 2016 PER and 23.7x 2017 PER.
- 统一 2014 年收入为人民币 225 亿元, 同比下降 3.6%, 而报告净利按年大跌 68.8%, 至人民币 286 百万元。统一 2014 年报告净利较市场低超过 40%, 主要是因为 1) 政府补助大幅减少; 2) 饮料业务于 2014 年第 4 季持续疲弱; 及 3) 有效税率较高。
- 统一方便面分部于 2015 年的销售增长预期仍然疲弱, 但受惠于正常炎热的夏天及原材料价格走低, 饮料分部利润率预期将大幅改善。统一预期将从原材料所省下的部分费用投入到品牌及新品推广, 但公司同时表示 2015 年的重点是改善利润率。我们分别上调统一 2015-2016 年每股报告净利预测 52.8% 及 41.6%。我们预期统一 2015-2017 年每股报告净利分别为人民币 0.172 元、人民币 0.188 元及人民币 0.207 元, 按年分别增长 138.8%、9.4% 及 10.4%。
- 统一的市值及收入分别约为康师傅的四分之一及三分之一, 但统一 2015 年净利预期最多仅为康师傅的五分之一 (假设康师傅持有饮料业务 100% 股权)。我们认为统一推出新品有助产品组合改善, 长期利润率仍然有提升空间。因此, 我们上调统一的投资评级至 "收集", 但由于较低的收入增长预期, 目标价下调至 6.20 港元, 相当于公司 28.6 倍 2015 年市盈率、26.1 倍 2016 年市盈率及 23.7 倍 2017 年市盈率。

Rating:

Accumulate

Upgraded

评级:

收集 (上调)

6-18m TP 目标价:

HK\$6.20

Revised from 原目标价:

HK\$7.00

Share price 股价:

HK\$5.600

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(10.5)	(18.8)	(28.8)
Rel. % to HS index 相对恒指变动 %	(7.7)	(24.5)	(40.5)
Avg. share price(HK\$) 平均股价 (港元)	5.9	6.5	6.6

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
FY13A	23,329	916	0.255	7.1	17.2	2.262	1.9	0.051	1.2	11.6
FY14A	22,488	286	0.072	(71.8)	62.4	2.509	1.8	0.013	0.3	3.0
FY15F	24,033	741	0.172	138.8	25.8	2.667	1.7	0.034	0.8	6.6
FY16F	25,563	810	0.188	9.4	23.6	2.820	1.6	0.038	0.8	6.8
FY17F	26,898	894	0.207	10.4	21.4	2.990	1.5	0.041	0.9	7.1

Shares in issue (m) 总股数 (m)	4,319.3	Major shareholder 大股东	Uni-President Enterprises 70.5%
Market cap. (HK\$ m) 市值 (HK\$ m)	24,188.3	Free float (%) 自由流通比率 (%)	29.5
3 month average vol. 3 个月平均成交股数 ('000)	4,016.5	FY15 Net gearing (%) 15 年净负债/股东资金 (%)	33.8
52 Weeks high/low (HK\$) 52 周高/低	7.970 / 5.550	FY15 Est. NAV (HK\$) 15 年每股估值 (港元)	6.2

Source: the Company, Guotai Junan International.

Key Takeaways from Analyst Meeting:

Gloomy Noodles Outlook in 2015 but Expect Beverages to Rebound. In addition to weak macro environment, UPC also attributes slow revenue growth in 2014 to be shift of Spring Festival (2015: Feb; 2014: Jan). However, the Company admits that both YTD noodles and beverages sales growths have not shown strong rebounds versus the latest previous months. Inventory level of distribution channel is not high but is also not exceptionally low. The management does not seem to believe 2015 is a good year to UPC's instant noodle business but hopes its high-end products to gain higher market share. On the other hand, with expected normalized summer (hot and sunny) in 2015 vs. exceptional cool and rainy summer in 2014, the Company believes its beverage business to report both satisfactory sales growth and profitability improvement benefitted from low raw materials prices in 2015.

New Products and Promotion Scheme. UPC is expected to launch many new products in all aspects (noodles, RTD tea, juice, etc...) to the market in 2015. All these new products are mid-to-high-end products with ASP of RMB5/pack or bottle and gross margin is expected to be more than 40%. On the other hand, the Company will try to promote its brand rather than its products in order to avoid peers entering the market and producing very similar products to compete against UPC. Selling expenses to turnover ratio in 2015 may slightly go up as the Company needs to promote quite a lot of new products in 2015.

Eye on Distributors' Help to Promote New Products. Originally UPC's salesperson to fight for business on their own and distributors only act as logistics provider and provides warehouse services to the Company. UPC intends to rely more on distributors to promote its new products and the Company is able to provide more incentives to distributors as the new products' profitability are much higher than the old ones. Thus, UPC may not hire new salesperson in 2015 and instead, possible layoffs of existing salesperson as some job duties are delegated to distributors.

Profitability Focus in 2015. With weak results in 2014 and gloomy economic environment, UPC admits that profitability will be the primarily focus in 2015. Although some cost-savings from raw materials will be reinvested in brand building, the majority is expected to go to the bottom line, which should be realized especially in 2H15 if beverages sales are better. On the other hand, the management is still aiming to achieve breakeven for its instant noodle business. For 1H15, UPC benefits from low raw materials prices but facing huge pressure in top-line.

No Plan to Dispose Machineries to Mother Company in 2015. UPC disposed 4 factories to the mother company in 2013 and 2014 and recorded a total disposal gain of RMB370 million. The management says currently there is no plan for further machineries and factories disposal to the mother company in 2015. However, with utilisation rate of only 50%-55% in 2014 and a further capital expenditure of at most RMB3 billion to be spent in 2015, we still believe there is a possibility for UPC to dispose old machineries to the mother company in 2015. On the other hand, the management does not expect government grant to significantly increase YoY in 2015 due to the completion of new factories.

2014 Annual Results Review:

Absence of Government Grant and Weak 4Q14 Results. UPC's reported net profit in 2014 plunged by 68.8% YoY, to only RMB286 million, which missed consensus by more than 40% due to significant fall of government grant (down RMB211 million YoY) and high effective tax rate (2014: 39.2%, up 12.1 ppt YoY). On the other hand, the Company's reported net profit in 1Q-3Q14 was RMB350 million, which means the Company made a reported net loss of RMB64 million in 4Q14. As the Company recorded RMB160 million disposal gain (pre-tax) in 4Q14, core net loss in 4Q14 is expected to be amounted to above RMB160 million, which could be the worst 4Q in the past 8 years.

Table-1: 2014 Annual Results Review

Income Statement									
RMB million	2013	2014	YoY	1H13	1H14	YoY	2H13	2H14	YoY
Revenue	23,329	22,488	-3.6%	12,204	12,367	1.3%	11,125	10,121	-9.0%
Cost of sales	(15,549)	(15,179)	-2.4%	(8,059)	(8,347)	3.6%	(7,490)	(6,832)	-8.8%
Gross Profit	7,780	7,308	-6.1%	4,145	4,020	-3.0%	3,635	3,289	-9.5%
Other income, net	384	168	-56.3%	162	73	-54.8%	222	95	-57.4%
Distribution expenses	(6,825)	(6,295)	-7.8%	(3,498)	(3,208)	-8.3%	(3,327)	(3,086)	-7.2%
Administrative expenses	(840)	(968)	15.2%	(390)	(469)	20.2%	(450)	(499)	10.9%
Core EBIT	499	214	-57.2%	419	416	-0.7%	81	(202)	n.a.
Finance income, net	(7)	(22)	192.6%	1	(64)	n.a.	(9)	42	n.a.
Associates & JVs	88	85	-3.9%	48	103	112.1%	40	(18)	n.a.
Core Profit before tax	580	277	-52.3%	468	454	-3.0%	112	(177)	n.a.
Other gains	536	138	-74.3%	261	0	-99.9%	275	137	-50.0%
Income tax	(200)	(129)	-35.3%	(154)	(99)	-35.8%	(45)	(30)	-33.8%
Reported Net Profit	916	286	-68.8%	575	355	-38.2%	342	(70)	n.a.
Core Net Profit *	447	202	-54.9%	373	355	-4.8%	74	(153)	n.a.
Gross Margin	33.3%	32.5%	-0.8 ppt	34.0%	32.5%	-1.5 ppt	32.7%	32.5%	-0.2 ppt
Core EBIT Margin	2.1%	1.0%	-1.2 ppt	3.4%	3.4%	-0.1 ppt	0.7%	-2.0%	-2.7 ppt
Reported Net Margin	3.9%	1.3%	-2.7 ppt	4.7%	2.9%	-1.8 ppt	3.1%	-0.7%	-3.8 ppt
Core Net Margin	1.9%	0.9%	-1.0 ppt	3.1%	2.9%	-0.2 ppt	0.7%	-1.5%	-2.2 ppt

Source: the Company, Guotai Junan International.

* Exclude disposal gains and FOREX.

RTD Tea Suffered the Most in 2H14. Due to exceptional cool and rainy summer in 2014, demand for beverages slowed HoH in 2H14 and distributors were actively clearing excessive inventories. Therefore, beverages sales of UPC were negatively affected with a 14.2% YoY fall. Among various beverages, sales of RTD tea in 2H14 were the weakest with a 24.2% YoY fall. On the other hand, despite a 4.5% YoY fall in juice sales in 2H14, such products' sales YoY growth in 2H14 slightly improved HoH, while other beverages' sales YoY growth in 2H14 deteriorated HoH.

Table-2: Beverage Business Revenue Breakdown – By Product

Beverage Business Revenue Breakdown						
RMB million	1H13	2H13	1H14	2H14	2H14	
					YoY	HoH
Segment Revenue						
RTD Tea	3,454	2,690	3,488	2,038	-24.2%	-41.6%
Juice Drinks	2,403	1,855	2,166	1,773	-4.5%	-18.2%
Milk Tea & Others	<u>2,405</u>	<u>2,345</u>	<u>2,438</u>	<u>2,102</u>	-10.3%	-13.7%
Total	8,262	6,890	8,092	5,913	-14.2%	-26.9%

Source: the Company.

Instant Noodle Business Turnaround in 2H14. Excluding disposal gains in 2013 (RMB213 million) and 2014 (RMB160 million), core operating profit of beverage business dropped by 14.6% YoY, to RMB543 million in 2014. Such disappointing results were mainly related to a 14.2% sales decrease in 2H14 and UPC's beverage business recorded a core operating loss of RMB78 million in 2H14, vs. a core operating profit of RMB186 million in 2H13. On the other hand, the Company's instant noodle business reported an operating profit of RMB22 million in 2H14, vs. an operating loss of RMB82 million in 2H13 and RMB116 million in 1H14.

Table-3: Segment Results Breakdown – By Business

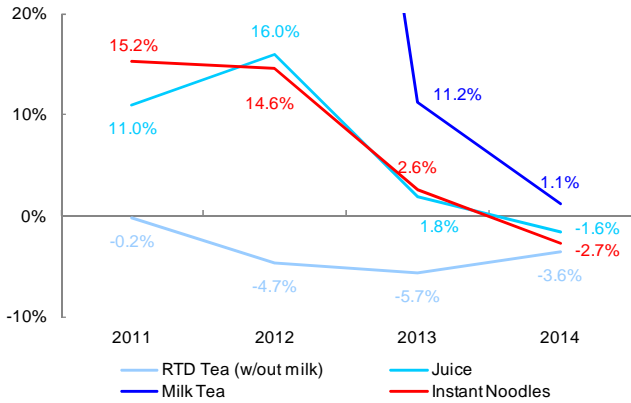
RMB million	Segment Results								
	2013	2014	YoY	1H13	1H14	YoY	2H13	2H14	YoY
Segment Revenue									
Beverages	15,152	14,005	-7.6%	8,262	8,092	-2.1%	6,890	5,913	-14.2%
Instant Noodle	7,826	7,960	1.7%	3,777	3,939	4.3%	4,049	4,021	-0.7%
Others	<u>352</u>	<u>523</u>	48.7%	<u>166</u>	<u>336</u>	102.5%	<u>186</u>	<u>187</u>	0.7%
Total	23,329	22,488	-3.6%	12,204	12,367	1.3%	11,125	10,121	-9.0%
Gross Profit									
Beverages	5,424	4,944	-8.9%	2,966	2,913	-1.8%	2,458	2,031	-17.4%
Instant Noodle	2,285	2,285	0.0%	1,148	1,060	-7.7%	1,137	1,225	7.7%
Others	<u>70</u>	<u>80</u>	14.2%	<u>31</u>	<u>47</u>	53.5%	<u>40</u>	<u>33</u>	-16.4%
Total	7,780	7,308	-6.1%	4,145	4,020	-3.0%	3,635	3,289	-9.5%
Core Operating Profit *									
Beverages	635	543	-14.6%	449	620	38.2%	186	(78)	n.a.
Instant Noodle	(143)	(94)	-34.4%	(60)	(116)	92.4%	(82)	22	n.a.
Others	<u>(63)</u>	<u>(237)</u>	274.6%	<u>18</u>	<u>(88)</u>	n.a.	<u>(82)</u>	<u>(149)</u>	82.2%
Total	430	212	-50.6%	407	416	2.2%	22	(204)	n.a.
Gross Margin									
Beverages	35.8%	35.3%	-0.5 ppt	35.9%	36.0%	0.1 ppt	35.7%	34.3%	-1.3 ppt
Instant Noodle	29.2%	28.7%	-0.5 ppt	30.4%	26.9%	-3.5 ppt	28.1%	30.5%	2.4 ppt
Core Operating Margin									
Beverages	4.2%	3.9%	-0.3 ppt	5.4%	7.7%	2.2 ppt	2.7%	-1.3%	-4.0 ppt
Instant Noodle	-1.8%	-1.2%	0.6 ppt	-1.6%	-2.9%	-1.3 ppt	-2.0%	0.6%	2.6 ppt

Source: the Company, Guotai Junan International.

* Exclude disposal gains.

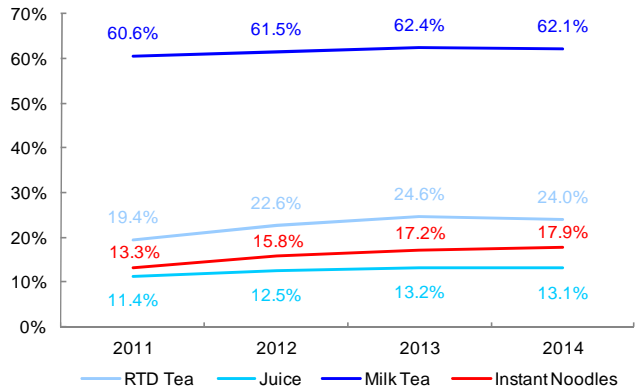
Beverage Business Underperformed Industry Growth in 2014. UPC's sales growths of RTD tea, juice, and milk tea & coffee in 2014 were -10.0%, -7.5% and -5.1%, respectively, which all underperformed the corresponding industry growths of -3.6%, -1.6% and 1.1%. UPC's market shares in these markets in 2014 also slightly decreased YoY. However, UPC continued to gain market share in instant noodle business and the Company's instant noodle sales in 2014 also outperformed industry growth.

Figure-1: Sales Growth of Various Products in China



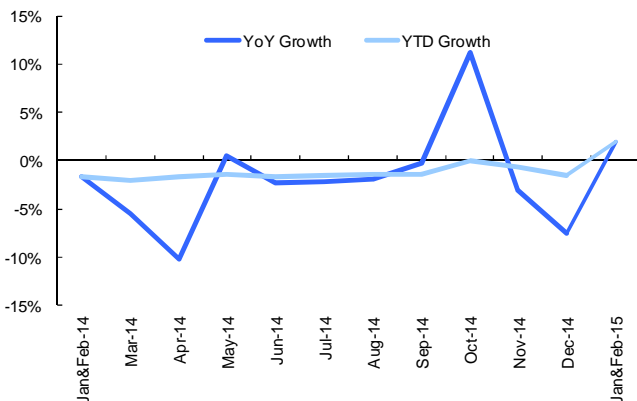
Source: the Company, Nielsen.

Figure-2: UPC Market Share in Various Markets



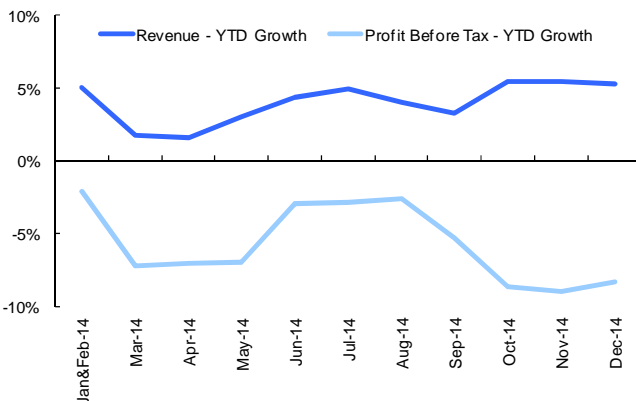
Source: the Company, Nielsen.

Figure-3: Production Volume Growth of Instant Noodles in China



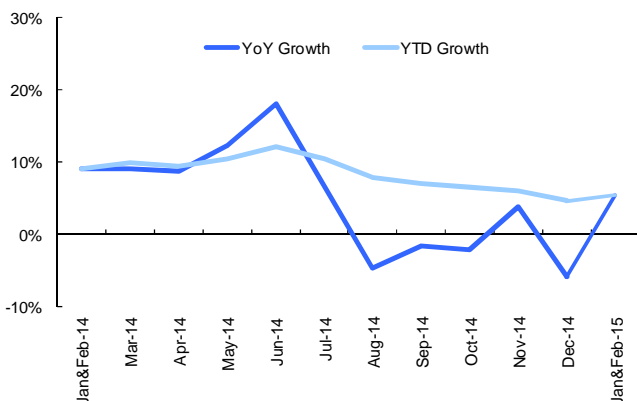
Source: National Bureau of Statistics of China.

Figure-4: Revenue & Profit Growth of Instant Noodles and Instant Food Manufacturers in China



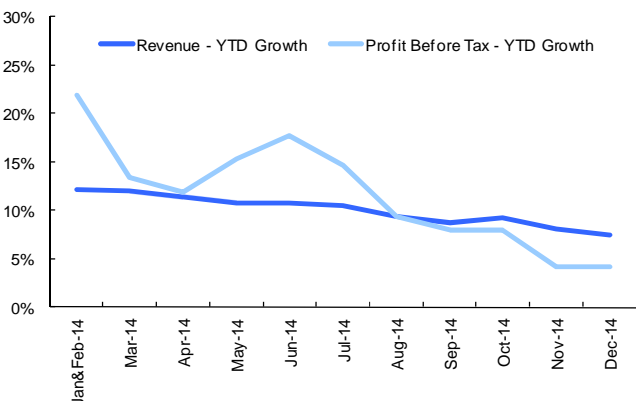
Source: National Bureau of Statistics of China.

Figure-5: Production Volume Growth of Soft Drinks in China

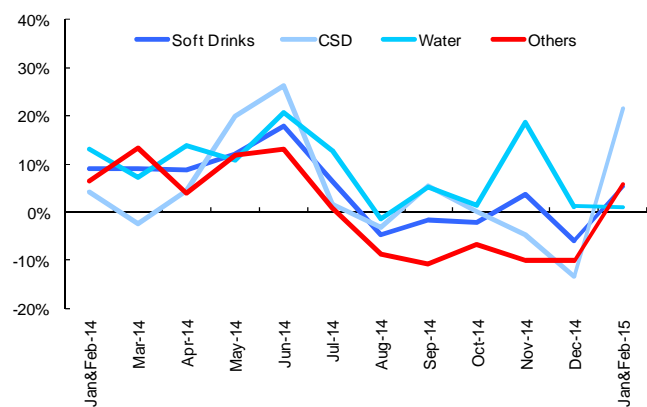


Source: National Bureau of Statistics of China.

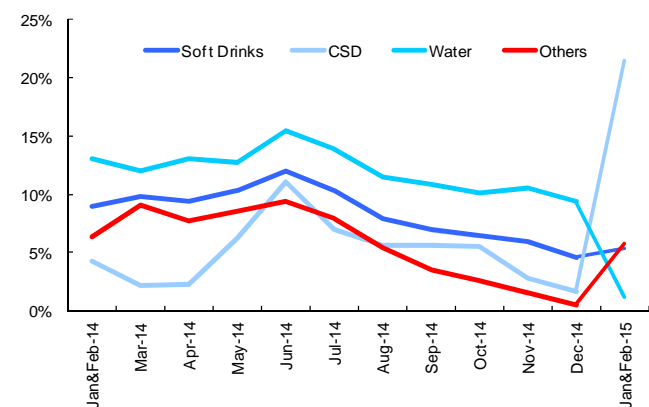
Figure-6: Revenue & Profit Growth of Beverages Manufacturers in China



Source: National Bureau of Statistics of China.

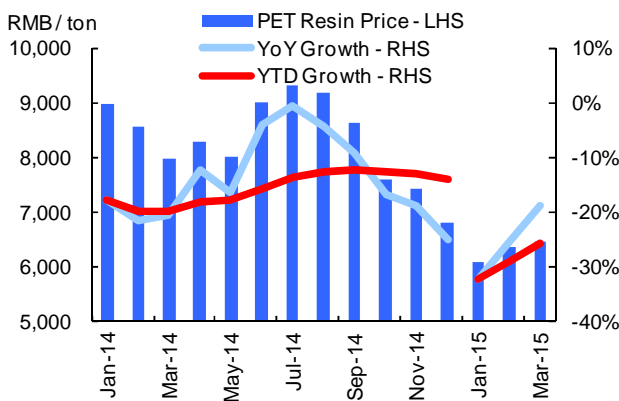
Figure-7: YoY Production Volume Growth of Various Soft Drinks in China


Source: National Bureau of Statistics of China, Guotai Junan International.

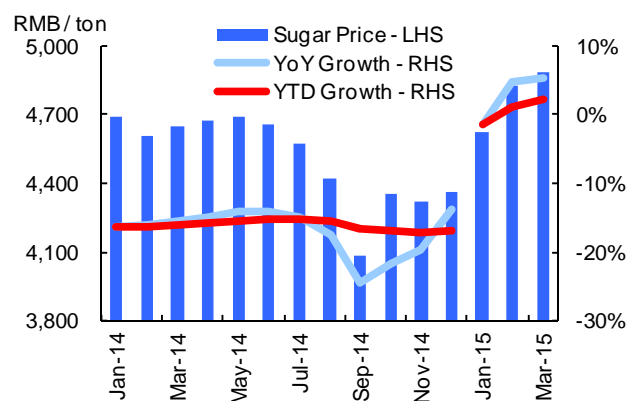
Figure-8: YTD Production Volume Growth of Various Soft Drinks in China


Source: National Bureau of Statistics of China, Guotai Junan International.

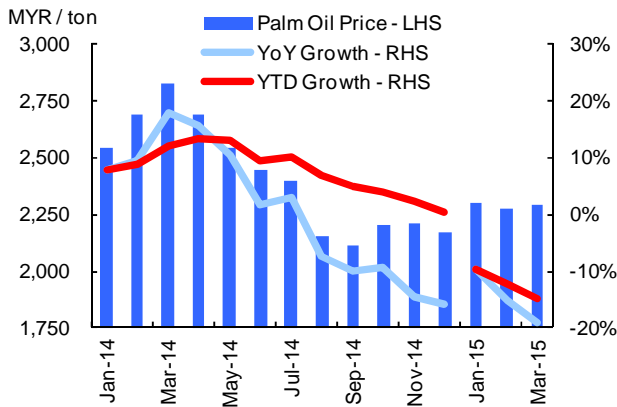
Beverage Business is Expected to Benefit from Low PET Resin Price. PET accounted for ~18% of UPC's total COGS in 2014. YTD PET resin price plunged by 27.1% YoY and was 24.7% lower than the average price in 2014. There could be possibility for crude oil price to rebound moderately from current level in 2H15 but we expect average PET resin price in 2015 to be at least 15% lower than that in 2014. Although sugar price rebounds, cost savings from weak PET resin as well as milk powder prices help beverages manufacturers' profitability to improve in 2015. We expect UPC's gross margin of beverage business to improve by 4.4 ppt YoY to 39.7% in 2015. On the other hand, palm oil price is currently under pressure while flour price is not expected to post huge pressure to instant noodle manufacturers in 2015. With the help of ASP and product mix improvement, instant noodle manufacturers' gross margin in 2015 is also expected to improve YoY. UPC's gross margin of instant noodle business is expected to reach 29.6% in 2015, up 0.9 ppt YoY.

Figure-9: Average PET Resin Price YoY & YTD Growth


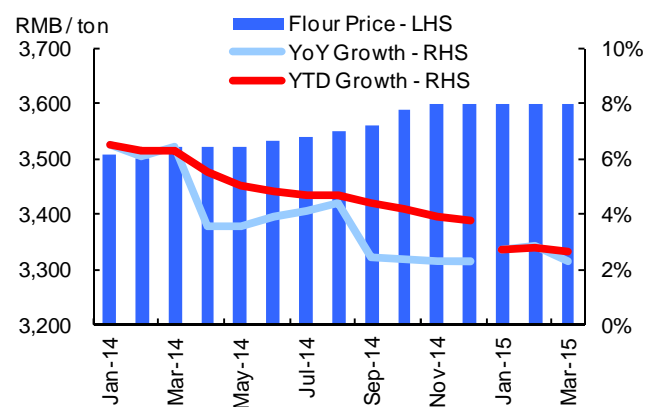
Source: www.tbs-china.com.

Figure-10: Average Sugar Price YoY & YTD Growth


Source: Bloomberg.

Figure-11: Average Palm Oil Price YoY & YTD Growth


Source: MDEX.

Figure-12: Average Flour Price YoY & YTD Growth


Source: National Bureau of Statistics of China.

Earnings Forecast Assumptions and Revisions:

Revise Up Beverage Business Earnings Forecast on Higher Gross Margin. Due to better gross margin expectation on low raw materials prices and expected slight improvement in product mix, we revise up beverages business core EBIT by 55.7% and 44.6% in 2015-2016, respectively.

Table-4: Beverage Business Assumptions Revisions

RMB million	NEW			OLD		CHANGE	
	2015F	2016F	2017F	2015F	2016F	2015F	2016F
Revenue	15,284	16,161	16,794	15,226	16,075	0.4%	0.5%
Gross Profit	6,071	6,306	6,386	5,574	5,869	8.9%	7.4%
Core Operating Profit	1,230	1,223	1,252	790	846	55.7%	44.6%
Gross Margin	39.7%	39.0%	38.0%	36.6%	36.5%	3.1 ppt	2.5 ppt
Core Operating Margin	8.0%	7.6%	7.5%	5.2%	5.3%	2.9 ppt	2.3 ppt

Source: Guotai Junan International.

Revise Down Instant Noodle Business Earnings Forecast on Weaker Sales Growth Expectation. Demand for instant noodle remains weak and UPC's "Revolution Noodles" does not receive overwhelming response from consumers. Therefore, we trim the Company's revenue growth and EBIT forecasts in 2015-2016.

Table-5: Instant Noodle Business Assumptions Revisions

RMB million	NEW			OLD		CHANGE	
	2015F	2016F	2017F	2015F	2016F	2015F	2016F
Revenue	8,200	8,825	9,498	8,763	9,431	-6.4%	-6.4%
Gross Profit	2,428	2,613	2,958	2,502	2,827	-3.0%	-7.6%
Core Operating Profit	(21)	41	128	57	138	n.a.	-70.4%
Gross Margin	29.6%	29.6%	31.1%	28.6%	30.0%	1.1 ppt	-0.4 ppt
Core Operating Margin	-0.3%	0.5%	1.4%	0.7%	1.5%	-0.9 ppt	-1.0 ppt

Source: Guotai Junan International.

Raise 2015 Reported Earnings by 52.8%. We revise up earnings forecast significantly as the Company's beverage business is expected to be hugely benefited from low raw materials prices. However, we remain slightly pessimistic towards the UPC's instant noodle business as the Company's new products are not expected to be as successful as "Pickled Cabbage" flavored ones. To conclude, UPC's reported net profit for 2015-2016 are revised up by 52.8% and 41.6%, respectively. The Company's reported EPS in 2015-2017 are expected to be RMB0.172, RMB0.188 and RMB0.207, up 138.8%, 9.4% and 10.4% YoY, respectively. Earnings growth is expected to slow in 2015 and 2016 as we still expect slow revenue growth, while gross margin could fall due to possible rebound of raw materials.

Table-6: Earnings Estimate Revisions

RMB million	NEW			OLD		CHANGE	
	2015F	2016F	2017F	2015F	2016F	2015F	2016F
Revenue	24,033	25,563	26,898	24,569	26,144	-2.2%	-2.2%
Gross Profit	8,583	9,007	9,437	8,163	8,792	5.2%	2.4%
Core EBIT	904	952	1,052	609	751	48.4%	26.8%
Reported Net Profit	741	810	894	485	572	52.8%	41.6%
Core Net Profit *	706	773	857	447	535	57.8%	44.5%
Reported EPS (RMB)	0.172	0.188	0.207	0.112	0.132	52.8%	41.6%
Core EPS (RMB)	0.163	0.179	0.198	0.104	0.124	57.8%	44.5%
Gross Margin	35.7%	35.2%	35.1%	33.2%	33.6%	2.5 ppt	1.6 ppt
Core EBIT Margin	3.8%	3.7%	3.9%	2.5%	2.9%	1.3 ppt	0.9 ppt
Reported Net Margin	3.1%	3.2%	3.3%	2.0%	2.2%	1.1 ppt	1.0 ppt
Core Net Margin	2.9%	3.0%	3.2%	1.8%	2.0%	1.1 ppt	1.0 ppt

Source: Guotai Junan International.

* Exclude disposal gains and FOREX.

Upgrade to “Accumulate” but Cut TP to HK\$6.20. We expect strong earnings growth to be seen in 2015 on significant fall in raw materials prices and possible sales rebound of beverages on expected better summer. However, weak sales growth is still a concern as sales contribution from new products are only able to alleviate negative impact from falling sales of old products. Valuation is fair as current price represents 25.8x 2015 PER. On the other hand, UPC's market capitalization and sales are approximately one-fourth and one-third of Tingyi's but UPC's earnings in 2015 are at most one-fifth that of Tingyi's (assuming Tingyi holds 100% equity interest in beverage business). We expect UPC's long-term profitability to further improve on new products initiation that leads to product mix improvement. Therefore, we upgrade UPC's investment rating to “Accumulate” but cut the Company's TP to HK\$6.20 on weak sales growth expectation. The new TP represents 28.6x 2015 PER, 26.1x 2016 PER and 23.7x 2017 PER.

Table-7: Peers Valuation Comparison

Company	Ticker	\$	Share Price	Market Cap (HK\$ mn)	PER (x)			PBR (x)	ROE (%)	Gross Margin	Operating Margin
					FY13A	FY14F	FY15F	FY14F	FY14F	FY14F	FY14F
Want Want China	00151 HK	HK\$	7.820	103,164	19.4	21.5	17.8	6.5	31.1	40.2	20.6
Tsingtao Brewery	00168 HK	HK\$	48.850	68,310	26.5	26.2	23.6	3.4	14.0	33.5	7.3
Uni-President China	00220 HK	HK\$	5.600	24,188	17.4	62.0	26.4	1.8	3.0	32.5	1.7
WH Group	00288 HK	HK\$	4.030	59,033	13.7	8.7	8.4	1.5	20.2	16.6	7.5
Tingyi	00322 HK	HK\$	18.360	102,891	32.4	30.0	24.3	4.2	14.1	30.8	7.3
China Foods	00506 HK	HK\$	2.980	8,336	n.a.	n.a.	82.8	1.4	(2.8)	22.7	0.5
Hengan International	01044 HK	HK\$	86.450	105,850	28.6	28.3	23.2	5.9	21.7	45.6	20.6
China Yurun Food	01068 HK	HK\$	2.580	4,703	107.5	n.a.	89.0	0.3	0.3	7.5	0.1
China Modern Dairy	01117 HK	HK\$	2.570	12,406	20.9	9.8	10.0	1.5	16.5	37.4	27.3
China Mengniu Dairy	02319 HK	HK\$	36.450	71,429	32.0	27.2	22.4	2.7	11.6	31.5	4.9
Vinda International	03331 HK	HK\$	12.500	12,481	23.0	21.0	18.9	2.5	12.2	30.2	9.9
China Huishan Dairy	06863 HK	HK\$	1.360	19,475	10.7	11.3	9.2	1.1	10.7	54.9	37.8
Simple Average					30.2	24.6	29.7	2.7	12.7	31.9	12.1
Weighted Average					25.6	25.3	21.6	4.0	17.8	34.8	12.8

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end Dec (RMB m)	FY13A	FY14A	FY15F	FY16F	FY17F
Revenue	23,329	22,488	24,033	25,563	26,898
Cost of sales	(15,549)	(15,179)	(15,450)	(16,556)	(17,461)
Gross Profit	7,780	7,308	8,583	9,007	9,437
Other income, net	384	168	175	180	185
Selling expenses	(6,825)	(6,295)	(6,789)	(7,081)	(7,303)
Administrative expenses	(840)	(968)	(1,065)	(1,154)	(1,267)
Core EBIT	499	214	904	952	1,052
Finance income, net	(7)	(22)	(67)	(49)	(25)
Share of JCEs & associates	88	85	120	96	86
Core Profit before tax	580	277	957	998	1,114
Other gains, net	536	138	50	50	50
Income tax	(200)	(129)	(266)	(238)	(269)
Reported Net Profit	916	286	741	810	894
Core Net Profit *	447	202	706	773	857
Reported EPS (RMB)	0.255	0.072	0.172	0.188	0.207
Core EPS (RMB)	0.124	0.051	0.163	0.179	0.198

Segment Results					
Year end Dec (RMB m)	FY13A	FY14A	FY15F	FY16F	FY17F
Revenue	23,329	22,488	24,033	25,563	26,898
- Beverages	15,152	14,005	15,284	16,161	16,794
- Instant Noodles	7,826	7,960	8,200	8,825	9,498
- Others	352	523	549	576	605
Core Operating Profit	430	212	954	1,002	1,102
- Beverages	635	543	1,230	1,223	1,252
- Instant Noodles	(143)	(94)	(21)	41	128
- Others	(63)	(237)	(255)	(262)	(278)

Cash Flow Statement					
Year end Dec (RMB m)	FY13A	FY14A	FY15F	FY16F	FY17F
Profit before tax	1,116	415	1,007	1,048	1,164
Depreciation & amortisation	1,104	1,413	1,634	1,702	1,706
Others	(578)	22	55	69	65
Working capital change	(23)	(101)	36	11	14
Interest and tax paid	(385)	(337)	(355)	(392)	(421)
Operating cash flow	1,234	1,411	2,377	2,438	2,528
Purchase of PP&E	(4,487)	(3,254)	(2,500)	(1,500)	(1,500)
Others	404	29	316	(95)	(95)
Investing cash flow	(4,083)	(3,225)	(2,184)	(1,595)	(1,595)
Change in borrowings, net	2,147	(168)	164	(500)	(500)
Dividends paid	(171)	2,371	(57)	(148)	(162)
Financing cash flow	1,975	2,204	107	(648)	(662)
Change in cash and cash equivalents	(874)	390	299	195	271
Foreign exchange effect	(3)	0	0	0	0
Cash balance at year end	1,414	1,804	2,103	2,298	2,569

Source: the Company, Guotai Junan International.
 * Exclude disposal gains and FOEX.

Balance Sheet					
As at Dec 31 (RMB m)	FY13A	FY14A	FY15F	FY16F	FY17F
PP&E	10,186	11,642	12,595	12,493	12,404
Interests in JCEs & associates	1,500	1,546	1,666	1,762	1,848
Leasehold land	2,114	2,151	2,182	2,198	2,199
Others	660	838	751	742	747
Non-current assets	14,460	16,176	17,193	17,196	17,198
Inventories	1,514	1,129	1,241	1,383	1,488
Trade and other receivables	1,574	1,744	1,949	2,142	2,304
Cash and cash equivalents	1,414	1,804	2,103	2,298	2,569
Others	6	411	0	0	0
Current assets	4,508	5,088	5,293	5,822	6,361
Trade and other payables	4,325	4,081	4,410	4,729	4,982
Short-term borrowings	902	1,556	1,500	1,500	1,500
Others	109	83	96	110	126
Current liabilities	5,336	5,721	6,005	6,339	6,609
Long-term borrowings	5,102	4,280	4,500	4,000	3,500
Others	388	427	460	496	535
Non-current liabilities	5,490	4,707	4,960	4,496	4,035
Shareholders' equity	8,142	10,837	11,520	12,183	12,915
BPS (RMB)	2.262	2.509	2.667	2.820	2.990

Financial Ratio					
	FY13A	FY14A	FY15F	FY16F	FY17F
Revenue Growth (%)	9.0	(3.6)	6.9	6.4	5.2
Gross Profit Growth (%)	5.1	(6.1)	17.4	4.9	4.8
Core EBIT Growth (%)	(41.9)	(57.2)	322.8	5.3	10.6
Reported Net Profit Growth (%)	7.1	(68.8)	159.5	9.4	10.4
Core Net Profit Growth (%)	(46.0)	(54.9)	249.8	9.5	10.9
Gross Margin (%)	33.3	32.5	35.7	35.2	35.1
- Beverages	35.8	35.3	39.7	39.0	38.0
- Instant Noodles	29.2	28.7	29.6	29.6	31.1
Core Operating Margin (%)	1.8	0.9	4.0	3.9	4.1
- Beverages	4.2	3.9	8.0	7.6	7.5
- Instant Noodles	(1.8)	(1.2)	(0.3)	0.5	1.4
Reported Net Margin (%)	3.9	1.3	3.1	3.2	3.3
Core Net Margin (%)	1.9	0.9	2.9	3.0	3.2
ROA (%)	5.2	1.4	3.4	3.6	3.8
ROE (%)	11.6	3.0	6.6	6.8	7.1
Inventory turnover days	32.8	31.8	28.0	29.0	30.0
Receivable turnover days	8.3	8.4	8.0	8.5	8.5
Payable turnover days	33.5	29.6	27.0	29.0	30.0
Cash conversion cycle	7.7	10.6	9.0	8.5	8.5
Current Ratio (x)	0.8	0.9	0.9	0.9	1.0
Quick Ratio (x)	0.6	0.7	0.7	0.7	0.7
Net gearing (%)	56.4	37.2	33.8	26.3	18.8
Net interest cover (x)	67.1	9.8	13.5	19.3	42.3
Payout ratio (%)	20.0	20.0	20.0	20.0	20.0

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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