



Rating
Hold

Asia
China

Consumer
Food & Beverage

Company
Uni-President China

Reuters 0220.HK	Bloomberg 220 HK	Exchange HSI	Ticker 0220
ADR Ticker UPCHY	ISIN US90458K1034		

Date
18 March 2015

Forecast Change

Price at 18 Mar 2015 (HKD)	5.60
Price target - 12mth (HKD)	6.10
52-week range (HKD)	7.97 - 5.55
HANG SENG INDEX	23,901

It was bad, but tailwinds are clear

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Awaiting easy comp, together with lower input costs

We expect UPC to enjoy tailwinds from lower input costs coupled with Tingyi's (322Hk; Hold) plan to maintain ASP in 2015. Longer term, we like UPC's premiumization strategy. However, we believe 1Q15 will remain tough due to challenging top-line growth and a high base; maintaining Hold.

2014 was bad: 4Q14 net loss of RMB233m (4Q13: RMB40m loss)

Reported NPAT was down 69% yoy to RMB286m, substantially below DBE/consensus of RMB541m/RMB513m. Ex-disposal gains, recurring NPAT would have declined by 73% yoy in 2014, with an RMB233m loss in 4Q14 (4Q13: RMB40m loss). To us, the disappointment came partly from beverage margin erosion, and partly from lower other income/higher other expenses.

2015: tough 1Q15 + easy comp in 2H + lower input costs

According to management, 1Q15 top-line growth will be tough as UPC didn't see any exciting turnaround in Jan-Feb. For 2015 overall, management is not as pessimistic, given 2H14 makes an easy comp. Management is comfortable with margin improvement – due to lower input costs and the absence of the free sausage campaign, and a few ppt GPM improvement won't be difficult. UPC will launch more than seven new beverage products in 2015, and will hold another briefing on 10 April to discuss its development strategy in detail.

2015-16E NPAT -4.7-12.5%, TP -9%, maintaining Hold

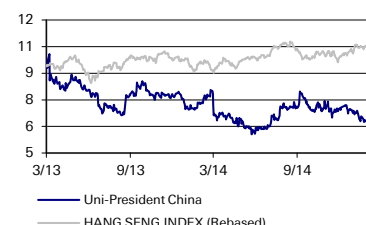
We have cut our 2015-16E NPAT forecast by 4.7-12.5%, to factor in slower revenue growth in view of the macro headwinds of weak consumption, offset by lower input costs. Based on our new forecast, and rolling over by one year, our DCF-based target price is reduced by 9% to HKD6.1 from HKD6.7 (3.9% RFR; 5.6% ERP; 1.0 beta; debt free structure; 2% TG, all in line with our valuation methodology for Chinese consumer stocks). Maintaining Hold. Key upside risks: better-than-expected new product launch(es), lower-than-expected input costs. Key downside risks: input cost hikes.

Key changes

Price target	6.70 to 6.10	↓	-9.0%
Sales (FYE)	24,347 to 23,754	↓	-2.4%
Op prof margin (FYE)	4.6 to 4.4	↓	-4.1%
Net profit (FYE)	820.7 to 782.1	↓	-4.7%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-10.5	-18.8	-28.8
HANG SENG INDEX	-3.7	4.7	10.7

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	23,329.0	22,488.0	23,753.6	26,119.6	27,790.9
Reported NPAT (CNYm)	916.4	286.0	782.1	919.4	1,057.3
Reported EPS FD(CNY)	0.25	0.07	0.18	0.21	0.24
DB EPS FD (CNY)	0.12	0.03	0.18	0.21	0.24
OLD DB EPS FD (CNY)	0.11	0.09	0.19	0.24	-
% Change	7.2%	-69.3%	-4.7%	-12.5%	-
DB EPS growth (%)	-48.5	-77.8	568.4	17.6	15.0
PER (x)	53.0	200.3	24.9	21.2	18.4
DPS (net) (CNY)	0.05	0.01	0.04	0.04	0.05
Yield (net) (%)	0.8	0.2	0.8	0.9	1.1

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 18 March 2015

Running the numbers

Asia

China

Food & Beverage

Uni-President China

Reuters: 0220.HK

Bloomberg: 220 HK

Hold

Price (18 Mar 15) HKD 5.60

Target Price HKD 6.10

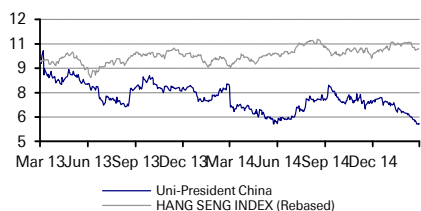
52 Week range HKD 5.55 - 7.97

Market Cap (m) HKDm 24,188
USDm 3,115

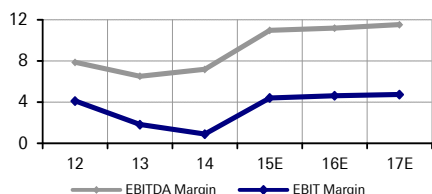
Company Profile

Uni-President China is a leading producer of instant noodles and soft drinks in China.

Price Performance



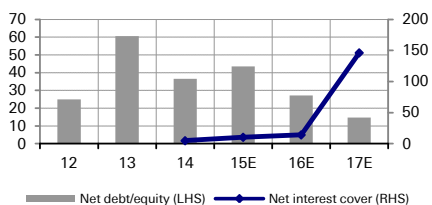
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	0.24	0.12	0.03	0.18	0.21	0.24
Reported EPS (CNY)	0.24	0.25	0.07	0.18	0.21	0.24
DPS (CNY)	0.05	0.05	0.01	0.04	0.04	0.05
BVPS (CNY)	2.1	2.2	2.5	2.6	2.8	3.0
Weighted average shares (m)	3,609	3,599	3,959	4,319	4,319	4,319
Average market cap (CNYm)	21,097	23,273	21,479	19,477	19,477	19,477
Enterprise value (CNYm)	21,058	26,396	23,686	22,606	20,852	19,357

Valuation Metrics

P/E (DB) (x)	24.6	53.0	200.3	24.9	21.2	18.4
P/E (Reported) (x)	24.6	25.4	81.9	24.9	21.2	18.4
P/BV (x)	3.20	2.83	2.27	1.71	1.60	1.50
FCF Yield (%)	nm	nm	nm	nm	9.3	8.1
Dividend Yield (%)	0.8	0.8	0.2	0.8	0.9	1.1
EV/Sales (x)	1.0	1.1	1.1	1.0	0.8	0.7
EV/EBITDA (x)	12.5	17.3	14.7	8.7	7.1	6.0
EV/EBIT (x)	23.9	62.0	116.7	21.5	17.2	14.7

Income Statement (CNYm)

Sales revenue	21,406	23,329	22,488	23,754	26,120	27,791
Gross profit	7,402	7,737	7,308	8,666	9,512	10,150
EBITDA	1,685	1,524	1,616	2,608	2,924	3,203
Depreciation	803	1,098	1,413	1,557	1,713	1,884
Amortisation	0	0	0	0	0	0
EBIT	882	426	203	1,050	1,211	1,319
Net interest income/(expense)	64	95	-42	-101	-85	-9
Associates/affiliates	132	88	85	94	100	100
Exceptionals/extraordinaries	0	507	169	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,077	609	246	1,043	1,226	1,410
Income tax expense	221	200	129	261	306	352
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	856	916	286	782	919	1,057
DB adjustments (including dilution)	0	-477	-169	0	0	0
DB Net profit	856	439	117	782	919	1,057

Cash Flow (CNYm)

Cash flow from operations	2,570	1,244	1,533	2,332	2,822	3,052
Net Capex	-3,397	-4,007	-3,300	-2,901	-1,012	-1,474
Free cash flow	-827	-2,763	-1,767	-569	1,811	1,578
Equity raised/(bought back)	0	0	2,266	0	0	0
Dividends paid	-94	-171	-183	-57	-156	-184
Net inc/(dec) in borrowings	909	2,067	-161	0	0	0
Other investing/financing cash flows	-67	-4	0	-5	0	0
Net cash flow	-78	-871	155	-631	1,654	1,395
Change in working capital	1,035	-66	158	-45	244	165

Balance Sheet (CNYm)

Cash and other liquid assets	2,291	1,420	2,128	1,113	2,767	4,162
Tangible fixed assets	9,513	12,566	14,063	15,797	15,095	14,685
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,916	1,692	1,739	1,832	1,932	2,032
Other assets	2,820	3,290	3,334	3,355	3,519	3,632
Total assets	16,540	18,968	21,264	22,096	23,314	24,511
Interest bearing debt	4,168	6,235	6,074	6,074	6,074	6,074
Other liabilities	4,872	4,774	4,410	4,616	5,098	5,449
Total liabilities	9,040	11,009	10,484	10,691	11,172	11,524
Shareholders' equity	7,500	7,959	10,780	11,405	12,141	12,987
Minorities	0	0	0	0	0	0
Total shareholders' equity	7,500	7,959	10,780	11,405	12,141	12,987
Net debt	1,877	4,815	3,946	4,962	3,307	1,913

Key Company Metrics

Sales growth (%)	26.4	9.0	-3.6	5.6	10.0	6.4
DB EPS growth (%)	173.6	-48.5	-77.8	568.4	17.6	15.0
EBITDA Margin (%)	7.9	6.5	7.2	11.0	11.2	11.5
EBIT Margin (%)	4.1	1.8	0.9	4.4	4.6	4.7
Payout ratio (%)	20.1	20.0	18.3	20.0	20.0	20.0
ROE (%)	12.0	11.9	3.1	7.1	7.8	8.4
Capex/sales (%)	17.2	22.6	14.7	12.2	3.9	5.3
Capex/depreciation (x)	4.6	4.8	2.3	1.9	0.6	0.8
Net debt/equity (%)	25.0	60.5	36.6	43.5	27.2	14.7
Net interest cover (x)	nm	nm	4.8	10.4	14.2	146.2

Source: Company data, Deutsche Bank estimates

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The year of new drinks

2015 guidance

According to UPC management, in 2015:

- **1Q15 top-line growth will be tough** as management has not seen any exciting turnaround in Jan-Feb. For 2015 overall, management is not as pessimistic, given 2H14 makes an easy comp.
- **Comfortable with margin improvement:** due to lower input costs and the absence of the free sausage campaign, a few ppt GPM improvement is not difficult.
- **More new drinks:** the company will launch 7-8 new beverage products in 2015, including new RTD tea (“Xiaoming Tongxue”, retail price @RMB5/bottle, launched in March 2015) catering to the younger generation, and new high-end RTD coffee. 2014 to date, the company had launched three flavors under “Haizhiyan” (starting April 2014), and rebranded traditional juice under “Ruyin”, UPC’s first hot drink. As for noodles, UPC largely completed new product launches in 2014.
- **Reinvest in branding:** the A&P expense ratio could be slightly higher than in 2014, as the company will reinvest the input cost benefit on new product launches/branding. It will focus on branding but not particular products, after expensive lessons learned from pickled cabbage noodles and traditional juice. By investing in a brand, it can always change the product portfolio (by adding/removing flavors, packaging, etc) to adjust to consumer preference. In the past, it focused on products, which could easily be copied, and if a product lost momentum, all investment (financial and management resources) could be wasted.
- **RMB3bn capex:** planned capex is c. RMB3bn, with 70-80% on beverages with the aim of upgrading the design and packaging.

UPC will hold another briefing on 10 April to discuss its development strategy in detail.

2015-16E NPAT and TP revisions

For the new products launched in 2014, “Gemian” was below our expectation while “Haizhiyan” was above. We have cut our 2015-16E NPAT forecast by 4.7-12.5%, to factor in slower revenue partly due to the macro headwinds of weak consumption, offset by lower input costs. Based on our new forecast, and rolling over by one year, our DCF-based target price is reduced by 9% to HKD6.1 from HKD6.7 (3.9% RFR; 5.6% ERP; 1.0 beta; debt free structure; 2% TG, all in line with our valuation methodology for Chinese consumer stocks).



Figure 1: 2015-16E forecast changes

(RMBm)	New		Old		Forecast change	
	2015E	2016E	2015E	2016E	2015E	2016E
Revenue	23,754	26,120	24,347	27,082	-2.4%	-3.6%
GPM	36.5%	36.4%	35.3%	35.8%	1.2%	0.6%
EBITM	4.4%	4.6%	4.6%	5.1%	-0.2%	-0.5%
NPAT	782	919	821	1,050	-4.7%	-12.5%

Source: Deutsche Bank

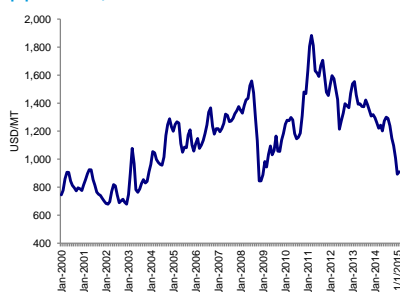
Lower PET costs favor beverage makers, including UPC. We estimate the cost of petrochem-related raw materials to account for 16% of its total COGS in 2015E, and for every 2% change in related cost from our base case (unit packaging cost of beverage -15% yoy), UPC's 2015E NPAT will be changed by 4.8%. Note that back in 2009, when average PET (bottle resin) prices fell 19% yoy, UPC's beverage GPM gained 4.5ppt. Assuming all such gain was purely due to lower input costs, it would have been equivalent to 39% of 2009 NPAT.

Figure 2: UPC NPAT sensitivity to change in cost of petro-related raw material

	2015E		2016E	
	USDm	Vs. base case	USDm	Vs. base case
6%	(113)	-14.5%	(127)	-13.8%
4%	(75)	-9.6%	(85)	-9.2%
2%	(38)	-4.8%	(42)	-4.6%
Base case NPAT	782.1		919.4	
-2%	38	4.8%	42	4.6%
-4%	75	9.6%	85	9.2%
-6%	113	14.5%	127	13.8%

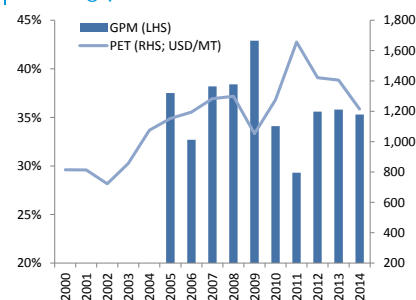
Source: Deutsche Bank

Figure 3: PET, bottle resin (not Coke approved)



Source: CMAI

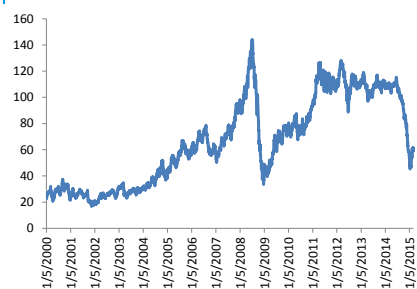
Figure 4: UPC beverage GPM vs. PET avg price



Source: Company data

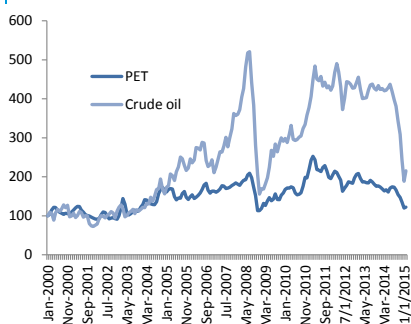


Figure 5: Crude oil-Brent dated FOB U\$/BBL



Source: Bloomberg Finance LP

Figure 6: Crude oil and PET price rebased



Source: CMAI, Bloomberg Finance LP

Enjoying tailwinds, maintaining Hold

Awaiting easy comp together with lower input costs

UPC is highly sensitive to lower input costs, but such a cost benefit is a one-off. We think the more important tailwind to UPC is a stable competitive landscape. If Tingyi keeps its plan for maintaining ASP for profitability, UPC will have a comfortable year to promote product mix improvement for sustainable growth in 2015, albeit with strong macro headwinds of weak consumption.

China is slowing down but consumers are changing faster than ever. To sustain growth in the longer term, it is increasingly important to reconnect with consumers, who are eager for continual novelty in products and branding. We like UPC's premiumization strategy.

While UPC has not seen strong signals for a turnaround in 2015, we are wary of UPC's high base in 1Q15, and maintain our Hold recommendation on the stock.

Key upside risks: better-than-expected new product launch(es), lower-than-expected input costs. Key downside risks: input cost hikes.

No turnaround in 1Q15

Based on industry data provided by UPC, we deduced 2H14 industry performance by simple average, and saw a deterioration in 2H14 by volume consumption (except for carbonated drinks), but we saw premiumization in noodles and selective beverages in 2H14. In 1Q15, UPC still isn't seeing any turnaround.



Figure 7: Industry growth

	1H14		2014	
	Volume	Value	Volume	Value
Noodle	-5.9%	-1.9%	-7.0%	-2.7%
Beverage	4.9%	8.9%	2.8%	6.6%
RTD tea (ex-milk tea)	1.0%	-1.6%	-2.6%	-3.6%
Juice	-2.3%	0.2%	-4.7%	-1.6%
Mil tea	1.0%	6.4%	-2.9%	1.1%
Carbonated drink	0.3%	2.0%	0.4%	2.4%
Bottled water	8.0%	15.7%	5.8%	14.7%
Functional drink	28.1%	27.2%	22.8%	21.9%
Asian traditional drink	13.2%	19.8%	8.1%	12.6%

Source: Company data

Figure 8: DB deduced price change and 2H14 performance

	1H14			2H14		
	Volume	Value	Price	Volume	Value	Price
Noodles	-5.9%	-1.9%	4.3%	-8.1%	-3.5%	5.0%
Beverage	4.9%	8.9%	3.8%	0.7%	4.3%	3.6%
RTD tea (ex-milk tea)	1.0%	-1.6%	-2.6%	-6.2%	-5.6%	0.6%
Juice	-2.3%	0.2%	2.6%	-7.1%	-3.4%	4.0%
Mil tea	1.0%	6.4%	5.3%	-6.8%	-4.2%	2.8%
Carbonated drink	0.3%	2.0%	1.7%	0.5%	2.8%	2.3%
Bottled water	8.0%	15.7%	7.1%	3.6%	13.7%	9.7%
Functional drink	28.1%	27.2%	-0.7%	17.5%	16.6%	-0.8%
Asian traditional drink	13.2%	19.8%	5.8%	3.0%	5.4%	2.3%

Source: Company data; Deutsche Bank

2014 review

UPC reported headline NPAT of RMB286m, down 69% yoy. Ex-exceptional gain (RMB485m and RMB169m in 2013-14, respectively) from disposals of investment and beverage packaging machinery and equipment to sister companies, UPC's recurring NPAT would have declined by 73% yoy, as a combined result of 1) the free sausage campaign; 2) an unseasonably cool summer; and 3) lower government subsidies and higher other expenses.

At the recurring level, UPC made a loss of RMB238m in 2H14 (2H13: RMB48m profit), and an RMB233m loss in 4Q14 (4Q13: RMB61m loss). In 2H14, although the termination of the noodle price war helped the segment return to the black, it failed to offset the decline of beverage profit due to weak consumption and an unseasonably cool summer. We are frustrated about the sudden increase in other losses/expenses (net of income/gain) in 2H14, as this can't be explained purely by lower government subsidies, which were also low in 1H14.



Figure 9: UPC results highlights (ex-disposal gains)

(RMBm)	1H12	2H12	1H13	2H13	1H14	2H14	yoy
Sales							
Noodle	3,421	3,849	3,777	4,049	3,939	4,021	-1%
Beverage	7,114	6,799	8,261	6,891	8,092	5,912	-14%
Others	114	109	166	186	336	188	1%
TOTAL	10,648	10,758	12,204	11,126	12,367	10,121	-9%
Gross margin							
Noodle	34.3%	32.2%	30.4%	28.1%	26.9%	30.5%	+2.4ppt
Beverage	35.0%	36.2%	35.5%	36.2%	36.0%	34.3%	-1.8ppt
Others	14.7%	16.9%	38.5%	3.3%	13.8%	18.0%	
Blended	34.6%	34.6%	34.0%	32.7%	32.5%	32.5%	-0.2ppt
Gross profit	3,680	3,722	4,145	3,635	4,019	3,289	-10%
Selling exp	(2,882)	(3,161)	(3,498)	(3,327)	(3,208)	(3,087)	-7%
Gen and admin	(353)	(370)	(390)	(450)	(469)	(499)	11%
Other gains-expenses	96	163	211	232	74	84	-64%
EBIT	541	355	468	91	416	(213)	
EBITM	5.1%	3.3%	3.8%	0.7%	3.4%	-2.1%	-2.8ppt
Core NPAT	505	351	383	56	355	(238)	
Segment profit							
Noodle	133	36	(60)	(83)	(116)	22	
Beverage	385	320	385	196	568	(83)	
Others	(12)	(5)	58	(57)	(97)	(177)	

Source: Company data; Deutsche Bank

Figure 10: Market share by value

	2011	2012	2013	2014
Noodles	13.3%	15.8%	17.2%	17.9%
RTD tea	19.4%	22.6%	24.6%	24.0%
Milk tea	60.6%	61.5%	62.4%	62.1%
Juice	11.4%	12.5%	13.2%	13.1%

Source: Company data

Noodle: mid-end below expectation, high-end above expectation

The instant noodle segment reported a loss of RMB94m with revenue up 1.7% yoy to RMB7,960m for 2014, implying RMB22m profit in 2H14 (1H14: RMB116m loss), and a 0.7% yoy decline in 2H14 revenue. During the year, high-end "Tangdaren" (retail price @RMB8/bowl) sales were c. RMB200m, but sales of mid-end "Gemian" (RMB5/bowl) and premium "Guanjunbang" (RMB10/bowl) were similar in 2014.

To us, "Gemian" was below expectation but "Tangdaren" and "Guangjunbang" were above expectation. For 2H14, UPC noodle sales were 3% below our forecast, but margin surprised us on the positive side, and segment profit was better than our forecast for a loss. Based on industry data provided by UPC, the China noodle market declined more significantly in 2H14, but the average price was stronger in 2H14 compared to 1H14. UPC gained significant market share in high-priced noodles (retail price RMB5 or above).

Beverage: 2H14 margin erosion worse than expected

We expected poor beverage sales in 2H14, but UPC's 2H14 beverage sales were 16% above our forecast. Nevertheless, it came in at a lower-than-



expected GPM and with higher selling expenses, and the 2H14 loss was worse than our forecast. In addition, its beverage associate contribution turned to a loss in 2H14 (1H14: +114% yoy).

Figure 11: UPC beverage sales

Sales	1H13	2H13	1H14	2H14	Yoy change	
					1H14	2H14
RTD tea	3,454	2,689	3,490	2,036	1.0%	-24.3%
Juice drinks	2,403	1,856	2,166	1,773	-9.9%	-4.5%
Milk tea, coffee	2,267	2,194	2,272	1,963	0.2%	-10.5%
Others	138	151	164	140	18.8%	-7.0%
TOTAL	8,262	6,890	8,092	5,912	-2.1%	-14.2%

Source: Deutsche Bank

For UPC, juice was the only segment which showed sequential improvement in 2H14, mainly as “Haizhiyan” (launched in April 2014) has been well-received. For 2014, the product contributed c. RMB600m (c. 15% of juice sales). Traditional juice was the worst-performing product.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Uni-President China	0220.HK	5.60 (HKD) 18 Mar 15	14,15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

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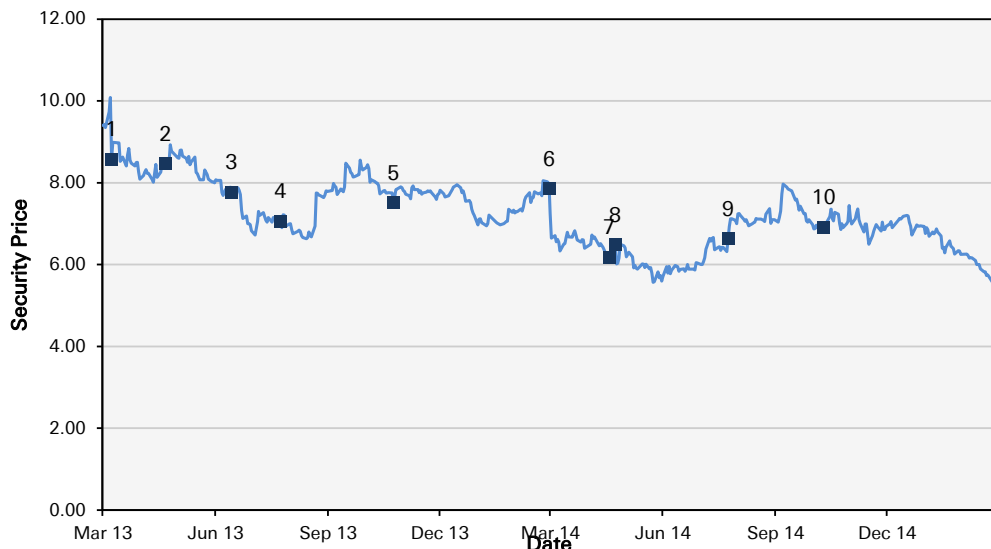
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Historical recommendations and target price: Uni-President China (0220.HK)

(as of 3/18/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	27/03/2013:	Hold, Target Price Change HKD8.21	6.	19/03/2014:	Hold, Target Price Change HKD7.10
2.	10/05/2013:	Hold, Target Price Change HKD8.45	7.	07/05/2014:	Hold, Target Price Change HKD6.70
3.	03/07/2013:	Hold, Target Price Change HKD7.94	8.	12/05/2014:	Hold, Target Price Change HKD6.30
4.	12/08/2013:	Hold, Target Price Change HKD7.50	9.	12/08/2014:	Hold, Target Price Change HKD6.20
5.	12/11/2013:	Hold, Target Price Change HKD7.30	10.	29/10/2014:	Hold, Target Price Change HKD6.70

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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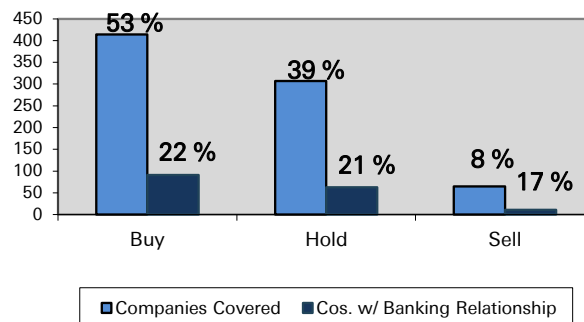
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Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe



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