

Uni-President China Holdings

0220.HK 220 HK

EQUITY: CONSUMER RELATED

Beverages disappoint; 2H noodles profitable

First Look

FY14 net profit missed due to beverages and lower government grants

Uni-President China's (UPC) FY14 net profit of CNY286mn, implying 4Q14 recurring net loss of CNY184mn, was a big miss vs. consensus, which was mainly due to disappointing beverages results, lower government grants (grants reduced by CNY211mn) and higher overheads, we believe. 2H beverages sales declined by 14% y-y due to cool weather, with sales of RTD tea and other beverages declining by 24% y-y and 10% y-y, respectively. However, juice sales were better than our expectation with the sales decline narrowing to 5% in 2H vs. 10% in 1H, which we believe was mainly due to its new product "Haizhiyan". Operating profit at beverages declined by 56% y-y in 2H14, likely due to operational deleveraging.

Noodles business turns profitable in 2H; positive read-through to Tingyi (322 HK, Buy)

A positive aspect of UPC's results was that its noodles business turned profitable in 2H14 with an operating profit of CNY22mn, following the end of the price war. The noodles business has been loss-making for 1.5 years; we estimate that 3Q was likely still loss-making; hence, this suggests that there was significant turnaround in 4Q. This is a positive read-through for Tingyi as we believe Tingyi's operating margin at the noodles business would also likely expand in 4Q14F.

Global Markets Research

17 March 2015

Rating Remains	Neutral
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Target price Remains	HKD 6.70
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Closing price 17 March 2015	HKD 5.55
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Research analysts

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Fig. 1: UPC: FY14 results summary

CNY (mn)	FY13	FY14	1H FY13	2H FY13	1H FY14	2H FY14
Revenue						
Instant noodles	7,826	7,960	3,777	4,049	3,939	4,021
Beverages	15,152	14,005	8,262	6,890	8,092	5,913
RTD-tea	6,143	5,526	3,454	2,690	3,490	2,036
Juice	4,259	3,939	2,403	1,855	2,166	1,773
Others	4,750	4,540	2,405	2,345	2,436	2,104
Group	23,329	22,488	12,204	11,125	12,367	10,121
Revenue growth						
Instant noodles	7.7%	1.7%	10.4%	5.2%	4.3%	-0.7%
Beverages	8.9%	-7.6%	16.1%	1.3%	-2.1%	-14.2%
RTD-tea	9.8%	-10.0%	10.8%	8.5%	1.0%	-24.3%
Juice	6.6%	-7.5%	23.4%	-9.5%	-9.9%	-4.5%
Others	9.9%	-4.4%	17.3%	3.3%	1.3%	-10.3%
Group	9.0%	-3.6%	14.6%	3.4%	1.3%	-9.0%
Operating profit margin						
Instant noodles	-1.8%	-1.2%	-1.6%	-2.0%	-2.9%	0.6%
Beverages	4.2%	5.0%	5.5%	2.7%	7.7%	1.4%
Group (excl. one-off gain)	1.8%	0.9%	3.3%	0.2%	3.4%	-2.0%
Operating profit (RMB mn)						
Instant noodles	-143	-94	-60	-82	-116	22
Beverages	637	702	450	186	620	82
Group (excl. one-off gain)	431	213	408	23	416	-203
Net profit	916	286	575	342	355	-70
Change y-y	7%	-69%	14%	-3%	-38%	-120%
Normalised net profit	468	166	416	53	355	-189
Change y-y	-45%	-65%	-18%	-85%	-15%	-460%
Normalised net margin	2.0%	0.7%	3.4%	0.5%	2.9%	-1.9%

Source: Company data, Nomura estimates

Fig. 2: UPC's quarterly recurring net profit trends

CNY (mn)	1Q FY13	2Q FY13	3Q FY13	4Q FY13	1Q FY14	2Q FY14	3Q FY14	4Q FY14
Recurring net profit	316	100	92	-40	237	119	-6	-184
y-y change	26%	-61%	-69%	-172%	-25%	19%	-106%	n.a.

Source: Company data, Nomura estimates

Appendix A-1

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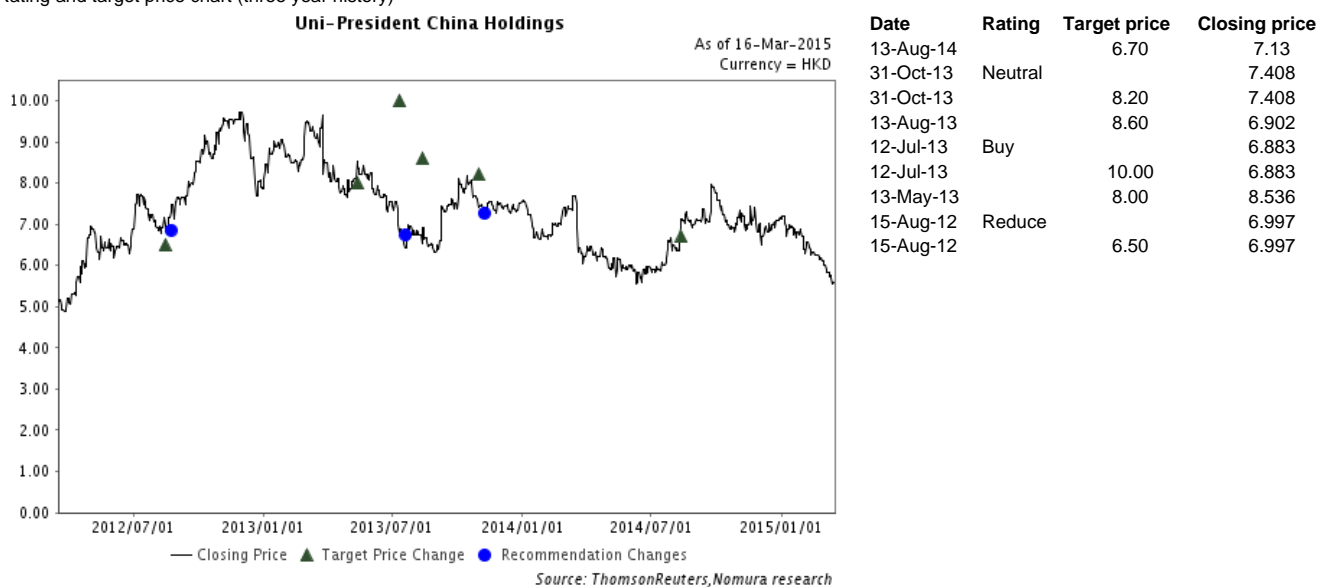
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Uni-President China Holdings	220 HK	HKD 5.55	17-Mar-2015	Neutral	N/A	
Tingyi Holdings	322 HK	HKD 18.12	17-Mar-2015	Buy	N/A	A10

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Uni-President China Holdings (220 HK)

HKD 5.55 (17-Mar-2015) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



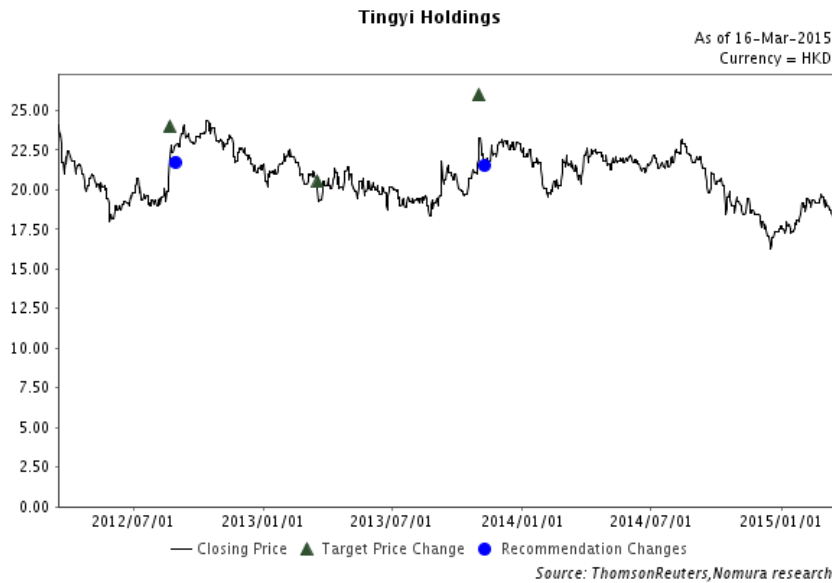
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our HKD6.7 TP is based on SOTP method where we value its beverage business at 25x 12-month forward EPS of CNY0.15, its instant noodles business at 1.5x its net asset value due to its loss-making nature and its associate business at 18x 12-month forward EPS of CNY0.04. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Upside risks: price hikes; and better-than-expected sales growth. Downside risks: weaker-than-expected sales growth; higher-than-expected marketing costs; and higher-than-expected raw-material costs.

Tingyi Holdings (322 HK)**HKD 18.12 (17-Mar-2015) Buy (Sector rating: N/A)**

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
31-Oct-13	Buy		21.90
31-Oct-13		26.00	21.90
18-Mar-13		20.50	19.96
21-Aug-12	Neutral		22.10
21-Aug-12		24.00	22.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We derive our TP of HKD26 using an SOTP approach in which we value Tingyi's existing business at 28x 12-month forward EPS (USD0.108), a 20% premium to the F&B historical sector average. We award a 20% premium for Tingyi given its strong execution. We value Tingyi's PepsiCo bottling business at HKD2.3, based on 28x FY15F earnings. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Downside risks: Lower-than-expected sales; spike in raw-material prices; and higher-than-expected A&P expenses.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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