



Rating  
**Buy**

Asia  
China

Consumer  
Food & Beverage

Company  
**Tenwow**

Reuters 1219.HK    Bloomberg 1219 HK    Exchange HSI    Ticker 1219

Date  
22 March 2015

## Forecast Change

Price at 20 Mar 2015 (HKD)	2.64
Price target - 12mth (HKD)	3.70
52-week range (HKD)	3.64 - 2.14
HANG SENG INDEX	24,375

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## 2014 results update

### Growing own-brand contribution

Tenwow's 2014 result was in line with our expectation, with own-brand product sales growing to 33.5% of revenue (2013: 30.2%) and 57.2% of gross profit (2013: 54.2%) during the period, on track with the company's plan to expand its own-brand businesses. Maintaining Buy

### 2014 NPAT +21% yoy, 30% dividend payout

Tenwow reported 21% yoy growth in NPAT to RMB345m, in line with DB forecast of RMB350m. Excluding one-off listing expenses of RMB17m booked in 2013, recurring NPAT growth would have been 14%. Sales grew 8% yoy to RMB5.1bn, with own-brand sales increasing by 19.4% yoy to RMB1.7bn (1H14: +22% yoy) and third-party brand product sales up by 2.5% yoy to RMB3.4bn (1H14: -12% yoy). GPM gained 1.2 ppts yoy to 16.8% mainly thanks to increased contribution from higher-margin own-brand products. However, AR days remained high at 127 days (2013: 107 days). The company declared a HK\$4.06 interim dividend, implying a 30% payout, the same as in 1H14.

### Maintaining a competitive portfolio

In 2015, Tenwow will continue adding new flavors/new products to keep a competitive own-brand portfolio. New products recently launched and to be launched include red bean milk tea and Tetra Pak-format under the charcoal roasted tea/coffee series, kiwi and mango flavor under the VitCVitE series, new "Nuts' Manor" brand, "V Planet" RTD cocktail, "Mike and Ike" dairy beverage and "Happiness in a bottle" candies.

### 2015-16E NPAT forecasts -3%, target price unchanged at HKD3.7

We trim our 2015-16 NPAT forecasts by 3%, and keep our DCF-based target price unchanged at HKD3.7 (3.9% RFR, 5.6% ERP, 1.0 beta, a debt free structure and 2% TG), is also unchanged. We maintain Buy. Key downside risks include intensifying competition and an economic slowdown.

### Key changes

Sales (FYE)	5,484 to 5,911	↑	7.8%
Op prof margin (FYE)	11.0 to 10.3	↓	-6.1%
Net profit (FYE)	430.8 to 418.0	↓	-3.0%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.5	17.3	-22.4
HANG SENG INDEX	-1.8	5.4	15.1

Source: Deutsche Bank

### Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	4,724.9	5,084.0	5,911.3	6,603.4	7,314.6
EBITDA (CNYm)	504.3	570.3	718.6	775.7	859.0
Reported NPAT (CNYm)	286.3	345.3	418.0	473.5	536.3
Reported EPS FD(CNY)	0.17	0.16	0.20	0.22	0.25
DB EPS FD (CNY)	0.17	0.16	0.20	0.22	0.25
OLD DB EPS FD (CNY)	0.17	0.17	0.20	0.23	-
% Change	0.0%	-1.3%	-3.0%	-2.5%	-
DB EPS growth (%)	16.9	-4.6	21.0	13.3	13.3
PER (x)	15.6	14.7	10.6	9.4	8.3
EV/EBITDA (x)	9.3	9.6	5.7	5.0	4.2
DPS (net) (CNY)	0.04	0.03	0.06	0.07	0.08
Yield (net) (%)	1.5	1.3	2.8	3.2	3.6

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> 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: 20 March 2015

Running the numbers

Asia  
China  
Food & Beverage

Tenwow

Reuters: 1219.HK Bloomberg: 1219.HK

Buy

Price (20 Mar 15) HKD 2.64  
Target Price HKD 3.70  
52 Week range HKD 2.14 - 3.64  
Market Cap (m) HKDm 5,474  
USDm 706

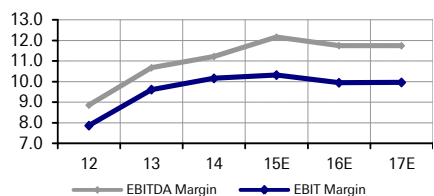
Company Profile

Tenwow sells packaged F&B products in China under its own brand, and also distributes packaged F&B products for third parties.

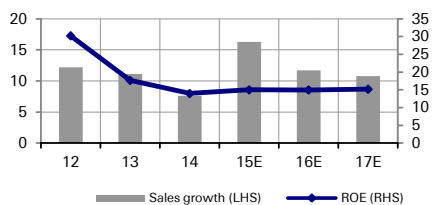
Price Performance



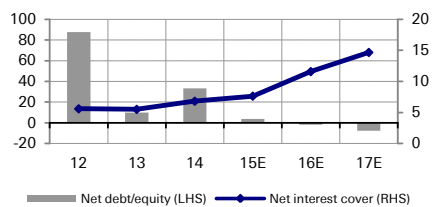
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	0.15	0.17	0.16	0.20	0.22	0.25
Reported EPS (CNY)	0.15	0.17	0.16	0.20	0.22	0.25
DPS (CNY)	0.08	0.04	0.03	0.06	0.07	0.08
BVPS (CNY)	0.6	1.1	1.2	1.4	1.6	1.8
Weighted average shares (m)	1,504	1,662	2,074	2,074	2,074	2,074
Average market cap (CNYm)	na	4,447	4,975	4,373	4,373	4,373
Enterprise value (CNYm)	na	4,689	5,473	4,088	3,883	3,635

Valuation Metrics

P/E (DB) (x)	na	15.6	14.7	10.6	9.4	8.3
P/E (Reported) (x)	na	15.6	14.7	10.6	9.4	8.3
P/BV (x)	0.00	2.48	1.36	1.46	1.31	1.17
FCF Yield (%)	na	nm	nm	18.9	7.0	8.3
Dividend Yield (%)	na	1.5	1.3	2.8	3.2	3.6
EV/Sales (x)	nm	1.0	1.1	0.7	0.6	0.5
EV/EBITDA (x)	nm	9.3	9.6	5.7	5.0	4.2
EV/EBIT (x)	nm	10.3	10.6	6.7	5.9	5.0

Income Statement (CNYm)

Sales revenue	4,252	4,725	5,084	5,911	6,603	7,315
Gross profit	543	736	854	1,030	1,168	1,328
EBITDA	377	504	570	719	776	859
Depreciation	42	50	54	109	119	130
Amortisation	0	0	0	0	0	0
EBIT	334	454	517	610	657	729
Net interest income/(expense)	-60	-82	-76	-80	-57	-50
Associates/affiliates	27	31	30	34	38	42
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	301	403	471	564	638	721
Income tax expense	71	106	114	134	151	171
Minorities	10	11	12	13	13	14
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	221	286	345	418	474	536
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	221	286	345	418	474	536

Cash Flow (CNYm)

Cash flow from operations	-236	-482	-167	928	416	482
Net Capex	-69	-29	-438	-100	-110	-121
Free cash flow	-305	-511	-605	828	306	361
Equity raised/(bought back)	190	1,196	0	0	0	0
Dividends paid	-26	-157	-134	-79	-138	-155
Net inc/(dec) in borrowings	289	322	251	-305	0	0
Other investing/financing cash flows	-385	-283	-148	0	0	0
Net cash flow	-237	567	-636	444	168	206
Change in working capital	-485	-833	-556	403	-169	-176

Balance Sheet (CNYm)

Cash and other liquid assets	188	1,078	693	1,149	1,330	1,550
Tangible fixed assets	586	615	900	964	955	946
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	367	396	428	451	477	505
Other assets	2,193	2,791	3,543	3,369	3,704	4,045
Total assets	3,334	4,880	5,565	5,933	6,466	7,046
Interest bearing debt	997	1,319	1,570	1,265	1,265	1,265
Other liabilities	1,413	1,154	1,361	1,631	1,815	2,000
Total liabilities	2,410	2,473	2,931	2,896	3,080	3,265
Shareholders' equity	881	2,361	2,585	2,987	3,336	3,730
Minorities	43	46	49	50	50	51
Total shareholders' equity	924	2,407	2,634	3,037	3,386	3,781
Net debt	809	241	877	116	-64	-284

Key Company Metrics

Sales growth (%)	12.2	11.1	7.6	16.3	11.7	10.8
DB EPS growth (%)	40.0	16.9	-4.6	21.0	13.3	13.3
EBITDA Margin (%)	8.9	10.7	11.2	12.2	11.7	11.7
EBIT Margin (%)	7.9	9.6	10.2	10.3	9.9	10.0
Payout ratio (%)	51.9	24.0	19.0	29.5	29.5	29.5
ROE (%)	30.2	17.7	14.0	15.0	15.0	15.2
Capex/sales (%)	1.6	0.6	8.6	1.7	1.7	1.7
Capex/depreciation (x)	1.6	0.6	8.1	0.9	0.9	0.9
Net debt/equity (%)	87.5	10.0	33.3	3.8	-1.9	-7.5
Net interest cover (x)	5.6	5.5	6.8	7.6	11.6	14.7

Source: Company data, Deutsche Bank estimates



# Review and outlook

## 2015 outlook: more new own-brand products

According to Tenwow management, the company will

- Continue adding new flavor/new product to keep a competitive portfolio. Products recently launched and to be launched include red bean milk tea and Tetra Pak-format under the charcoal roasted tea/coffee series, kiwi and mango flavor under VitCVitE series, new "Nuts' Manor" brand, "V Planet" RTD cocktail, "Mike and Ike" dairy beverage and "Happiness in a bottle" candies. Certain brands/products are tailored for the online channel (e.g., "Happiness in a bottle"); its highest online sales on a daily basis hit RMB1m, but it has yet to formulate a long-term online strategy.
- Continue expanding its distribution network to lower-tier cities, and increase online promotion.
- Distribute own-brand beverages upon expiry of distribution agreement with Nanpu at end-2015. We do not expect a significant change in profitability, but this move should enhance the efficiency of Tenwow's own-brand businesses.

## 2015-16E NPAT forecast revisions

We trim our 2015-16 NPAT forecasts by 3%, and keep our DCF-based target price unchanged at HKD3.7 (3.9% RFR, 5.6% ERP, 1.0 beta, a debt free structure and 2% TG), is also unchanged. We maintain Buy. Key downside risks include intensifying competition and an economic slowdown.

Figure 1: 2015-16E NPAT forecast revisions

(RMBm)	New		Old		Change	
	2015E	2016E	2015E	2016E	2015E	2016E
Revenue	5,911	6,603	5,484	6,187	8%	7%
GPM	17.4%	17.7%	17.2%	17.7%	0%	0%
EBITM	10.3%	9.9%	11.0%	10.7%	-1%	-1%
NPAT	418	474	431	486	-3%	-3%

Source: DeutscheBank

## 2014 review

TW NPAP for 2014 was RMB345m, up 20% yoy, in line with DBE (RMB350m). We list below the breakdown of revenue and GPM. As of end-2014, AR had increased 23% yoy to RMB2,352m, and AR days had lengthened to 127 days (2013: 107), despite the late Chinese New Year. According to management, it is due to increased sales to modern channel. Also as a result, its provisions increased c.RMB5m from a year ago.



Figure 2: Tenwow 2014 results highlight

	Year End 31 Dec			Yoy change			Remarks
	1H14	2H14	2014	1H14	2H14	2014	
<b>Turnover</b>	<b>2,258</b>	<b>2,826</b>	<b>5,084</b>	<b>-2%</b>	<b>17%</b>	<b>8%</b>	
By segment:							
<b>Own-brands</b>							
Food and snacks	283	442	725	-11%	13%	2%	Sub-brand "Tenwow Idea" small-packing products gaining momentum
Non-alcoholic beverages	369	303	672	85%	33%	57%	New charcoal series +over 100%, VitCVitE +170% yoy, each sales <RMB200m. 2H14 slowed down due to cool summer and weak consumption
Alcoholic beverages	157	93	250	13%	-7%	5%	Driven by new mass market "Hao Zi Ran" Chinese rice wine
Others	14	43	57	-22%	29%	11%	
Sub-total	823	880	1,703	22%	17%	19%	
<b>Third-party brands</b>							
Food and snacks	326	391	717	-21%	-6%	-14%	Brand owners reduced marketing efforts
Non-alcoholic beverages	21	37	58	-27%	29%	1%	Saratoga spring water and Red Bull energy drinks
Alcoholic beverages	1,044	1,421	2,465	-9%	20%	6%	Increased effort on direct sales, and expanded portfolio to Moutai, mass market wine and beer
Others	44	98	142	23%	114%	74%	
Sub-total	1,435	1,946	3,381	-12%	17%	3%	
<b>GPM</b>	<b>16.1%</b>	<b>17.4%</b>	<b>16.8%</b>	<b>2.6%</b>			
By segment:							
<b>Own-brands</b>							
Food and snacks	23.7%	31.5%	28.4%	-4.5ppt	-3.6ppt	-3.5%	Lowered gift pack sales
Non-alcoholic beverages	25.7%	29.1%	27.2%	-0.4ppt	+5.7ppt	+2.6ppt	Increased sales diluted fixed costs, lower PET cost
Alcoholic beverages	28.0%	45.6%	34.6%	+10.5ppt	+14.5ppt	+11.3ppt	Wine GPM improved significantly due to weak euro, and increased effort on direct sales
Others	25.0%	22.8%	23.3%	+8.0ppt	-2.8ppt	+0.8ppt	
Blended	25.5%	31.7%	28.7%	+0.4ppt	+1.2ppt	+0.7ppt	
<b>Third-party brands</b>							
Food and snacks	6.1%	6.9%	6.5%	-0.4ppt	+1.3ppt	+0.4ppt	
Non-alcoholic beverages	9.5%	2.2%	4.8%	+2.0ppt	-5.2ppt	-2.6ppt	
Alcoholic beverages	12.4%	12.5%	12.5%	+2.7ppt	-1.5ppt	+0.6ppt	Increased direct sales
Others	6.8%	5.3%	5.8%	+2.5ppt	-2.7ppt	-0.6ppt	
Blended	10.7%	10.8%	10.8%	+2.0ppt	-0.8ppt	+0.6ppt	

Source: Company data; Deutsche Bank



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Tenwow	1219.HK	2.65 (HKD) 20 Mar 15	NA

\*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.

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### Historical recommendations and target price: Tenwow (1219.HK)

(as of 3/20/2015)



#### 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.	28/10/2013:	Upgrade to Buy, Target Price Change HKD3.54	2.	07/05/2014:	Buy, Target Price Change HKD3.70
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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 projected 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

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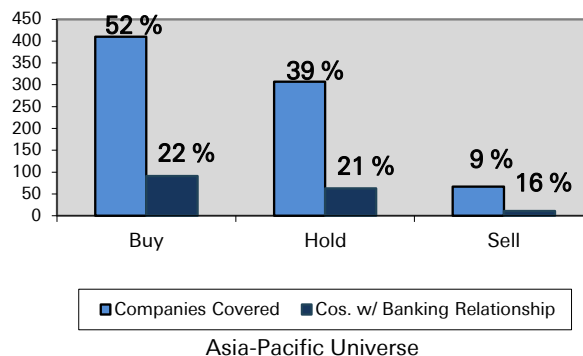
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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

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

Equity rating dispersion and banking relationships





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