



Rating
Buy

Asia
China

Consumer
Food & Beverage

Company
Tenwow Alert

Reuters
1219.HK

Bloomberg
1219 HK

Exchange
HSI

Ticker
1219

Date
23 March 2015

Company Update

Price at 23 Mar 2015 (HKD)	2.64
Price target - 12mth (HKD)	3.70
52-week range (HKD)	3.61 - 2.14
HANG SENG INDEX	24,375

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Positive surprise from corporate purchase in 1Q15

Key takeaways from NDR

During Tenwow's NDR with us on 23 March 2015, management said,

- Jan-Feb 2015 performance was satisfactory, partly due to late Chinese New Year (CNY), and the positive surprise was improvement of corporate purchase, although no full recovery. For instance, a client in 2013 had a budget of RMB3,000/head as CNY gift for government officials and RMB1,200/head for staffs, in 2014, it cut down all, in 2015, the client has a new RMB400/head-festive celebration policy for staffs. Management doesn't expect a full recovery but nevertheless better than 2014.
- Its 3-4 year target is to increase own-brand contribution to >50% of sales (2014: 33.5%) and >75% of GP (2014:57.2%), therefore continuous margin improvement.
- It covers all provincial cities now, and aims at penetrating into lower tier cities this year. Number of distributors/sub-distributor could double (2014: around 1,500), as it also plans to expand more rapidly its coverage of traditional channel, partly as modern channel is losing market share and delaying payment.
- New natural water business has 25-30% GPM. Distribution of Moutai is a thin-margin business, but warrants quick inventory turnover. Tenwow sees potential in RTD alcoholic cocktails, in particular favorable amongst young girls. However, competitor is also strong in the segment. Tenwow sells import UHT milk under its own-brand "Milk of milk", but management thinks the import UHT market now is similar to import wine market a few years back, that consumers are hopping between an increasing pool of import brands.
- A&P focused on non-alcoholic beverage, as regional difference is not as strong comparing to other segments, and eases multi-region brand image promotion.
- Tenwow is preparing to take over the national distribution from Nanpu end of this year, and don't expect any interruption next year.

Stock data

Market cap (HKDm)	5,474
Market cap (USDm)	706
Shares outstanding (m)	2,073.6
Major shareholders	Lin Jianhua (67.8%)
Free float (%)	0.3
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	5,084	5,911	6,603
Net Profit (CNYm)	345.3	418.0	473.5
DB EPS (CNY)	0.16	0.20	0.22
PER (x)	14.7	10.6	9.4
Yield (net) (%)	1.3	2.8	3.2

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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