



Rating
Hold

Asia
China

Consumer
Food & Beverage

Company
China Foods Alert

Reuters 0506.HK	Bloomberg 506 HK	Exchange HKG	Ticker 0506
ADR Ticker CHFHY	ISIN US1689161040		

Date
25 March 2015

Results

Price at 25 Mar 2015 (HKD)	2.99
Price target - 12mth (HKD)	2.70
52-week range (HKD)	3.48 - 2.47
HANG SENG INDEX	24,400

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Key takeaways from analyst meeting

HKD225m net loss for 2014

China Foods (CF) reported a net loss of HKD225m (2013: HKD890m net loss), including HKD56m of provision against inventories (2013: HKD123m). The reported loss was worst than DBE of HKD195m loss.

Looking ahead, **management thinks SOE reform may happen in 2015**, through which CF may introduce strategic investors into its various businesses. The company is also considering M&A(s) this year.

Separately, management is confident of a turnaround in 2015, with double-digit revenue growth and more cost saving. By segment, management expects,

- **Wine restocking** - as currently channel inventory is at historical low (2-3 months vs. 6months at the beginning of 2014). The company expects 1) GPM to stabilize at 40% and NPM to grow to 10% in two years (2014: loss); 2) 50% yoy growth in import wine sales (2014: RMB100m). Longer term, management targets at RMB5bn sales from wine business (2014: HKD2.2bn).
- **Margin recovery of edible oil** - with NPM to rise from 0.4% in 2014 to 1% in 2015, through improving product mix. In 2015, it targets at 200,000 tonne of corn oil sales (2014: 140,000 tonne) and 100,000 tonne of sunflower seed oil sales (2014: nil)
- **Possible disposal of loss-making confectionery business**, unless its net loss significantly narrowed in 2015.
- **Continuous growth of the beverage business**, which outperformed competitors in 2014 due to more A&P investment.
- **Improving efficiency** - restructuring since 2H13 will help improving efficiency of the supply chain. CF recorded RMB200m cost saving in 2014 from cutting 400 headcount.

Stock data

Market cap (HKDm)	8,364
Market cap (USDm)	1,078
Shares outstanding (m)	2,835.6
Major shareholders	COFCO (74.25%)
Free float (%)	25.8
Avg daily value traded (USDm)	1.1

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	26,218	27,581	33,857
Net Profit (HKDm)	-795.6	-194.6	196.1
DB EPS (HKD)	-0.28	-0.07	0.07
PER (x)	-	-	44.4
Yield (net) (%)	0.0	0.0	0.0

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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