



## Company Report: Tingyi (00322 HK)

公司报告: 康师傅 (00322 HK)

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# Solidification and Reformation Aimed at 2020

巩固革新，剑指2020

- 1H18 results beat expectations.** Tingyi's 1H18 revenue increased by 8.5% YoY to RMB30,996 million, mainly driven by ASP hike. The Company's sales in beverage and noodles rose by 9.2% YoY and 8.4% YoY, respectively. In 1H18, despite the increase in packaging material costs, Tingyi's gross margin gained 2.1 ppt YoY to 31.2% thanks to ASP hike. The Company's SG&A expenses ratio in 1H18 was unchanged YoY. Excluding one-off gains/loss, the Company's core EBITDA in 1H18 grew by 16.7% YoY. Due to the rise in shareholding of beverage business, lower effective tax rate and higher other income, Tingyi's 1H18 and 2Q18 shareholders' profit surged 86.6% YoY and 122.9% YoY, respectively.
- Threat from delivery foods has returned; beverage sales growth may slow down.** Recent intense competition between O2O delivery platforms lowered price of delivery foods, which may affect noodles sales. Abnormal numbers of rainy days, sluggish retail environment and high base in 3Q17 may slow down Tingyi's beverage sales growth in 2H18. In addition, the impact of product price lifts on sales volume and market share may not be digested in the short term.
- Tingyi has taken a series of measures, including light assets and asset activation, product mix upgrades and product price hikes, achieving better-than-expected results. But in the long run, the uncertainties on high-end bottled water, premium RTD tea and target of transformation in 2020 still remains. Also, macro uncertainties, a sluggish retail environment and weak prospects for beverages lowered industry valuation. **Therefore, we maintain "Neutral" and lower TP to HK\$15.00, which represents 29.3x 2018 PER, 25.9x 2019 PER, and 23.5x 2020 PER.**
- 2018年上半年业绩好于预期。**康师傅2018年上半年收入同比增长8.5%至人民币309.96亿，主要受到平均售价上涨所带动。公司饮料和方便面销售分别上涨9.2%和8.4%。尽管上半年包装材料价格上涨，康师傅毛利率同比抬升2.1个百分点至31.2%，归功于平均售价上涨。公司销售管理费用率在上半年大致持平。去除一次性收入和费用，公司核心EBITDA在上半年同比增长16.7%。因为饮料业务持股比例上升，更低的有效税率以及更高的其他收入，康师傅2018年上半年和第2季度股东净利分别同比增长86.6%和122.9%。
- 外卖威胁重现，饮料销售增长可能放缓。**最近O2O外卖平台的激烈竞争降低了外卖的平均价格，可能会影响方便面的销售。不寻常的下雨次数，疲弱的零售环境以及2017年3季度的高基数，可能会减慢康师傅下半年的饮料销售增长。而且，产品提价对销量以及市场份额的影响可能不会在短期内被消化。
- 康师傅一系列的举措，包括轻资产和资产活化、产品结构提升以及价格上调，取得了好于预期的效果。但长期来看，高端瓶装水，高端即饮茶以及在2020年完成转型的不确定性仍然存在。而且宏观的不确定性，疲弱的零售环境以及饮料更差的预期降低了行业估值。**因此我们维持公司“中性”评级并下调目标价至15.00港元，相当于29.3倍，25.9倍和23.5倍2018年，2019年和2020年市盈率。**

Rating:

**Neutral**  
Maintained

评级:

中性 (维持)

6-18m TP 目标价:

**HK\$15.00**

Revised from 原目标价:

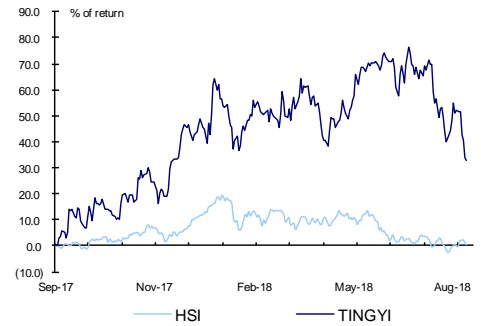
HK\$16.50

Share price 股价:

HK\$14.020

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1个月	3个月	1年
Abs. % 绝对变动 %	(16.7)	(21.4)	32.3
Rel. % to HS Index 相对恒指变动 %	(17.5)	(12.9)	32.5
Avg. Share price(HK\$) 平均股价 (港元)	15.8	17.1	15.2

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	55,579	1,162	0.207	(30.3)	61.7	3.140	4.1	0.103	0.8	6.3
2017A	58,954	1,819	0.325	57.0	36.5	3.171	3.7	0.165	1.4	10.0
2018F	62,548	2,327	0.414	27.4	29.6	3.531	3.5	0.207	1.7	12.2
2019F	65,900	2,635	0.469	13.3	26.1	3.792	3.2	0.235	1.9	12.8
2020F	69,288	2,909	0.518	10.4	23.7	4.076	3.0	0.259	2.1	13.2
Shares in issue (m) 总股数 (m)				5,616.6	Major shareholder 大股东					Ting Hsin 33.8%
Market cap. (HK\$ m) 市值 (HK\$ m)				80,092.7	Free float (%) 自由流通比率 (%)					32.3
3 month average vol. 3个月平均成交股数 ('000)				8,868.4	FY18 Net gearing (%) FY18 净负债/股东资金 (%)					4.2
52 Weeks high/low (HK\$) 52周高/低 (HK\$)				19.500 / 10.440	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)					17.2

Source: the Company, Guotai Junan International.

**Tingyi 1H18 Interim Results Review**

**Sales strongly grew, driven by ASP hike.** In 1H18, Tingyi's (the "Company") revenue rose by 8.5% YoY to RMB30,996 million, mainly driven by ASP hike. Benefiting from product price lift, the Company's beverage sales in 1H18 increased by 9.2% YoY to RMB19,148 million, of which drinking tea and carbonated drinks & other sales growth contributed the most, up 13.6% YoY and 27.5 YoY, respectively. Sales of bottled water and juices fell by 15.6% YoY and 5.7% YoY. On the other hand, Tingyi's instant noodles sales grew by 8.4% YoY to RMB 10,272 million in 1H18, mainly driven by product mix trade-up and slight price hike.

**Tingyi's 1H18 results were better than expectations.** In 1H18, despite the increase in packaging material costs, such as PET price and cardboard price, the gross margin of the Company was up 2.1 ppt YoY to 31.2% due to product price lift, while the gross margin of beverages and instant noodles increased by 2.1 ppt YoY and 2.3 ppt YoY to 32.1% and 29.8%, respectively. The Company's distribution costs ratio in 1H18 remained at 19.9%, roughly the same as 1H17. Tingyi's EBITDA in 1H18 rose by 11.9% YoY to RMB3,741 million. Excluding activation on assets and provision of impairment on machinery and equipment, the Company's adjusted EBITDA in 1H18 increased by 16.7% YoY to RMB3,901 million. Due to the increase shareholding in beverage business, lower effective tax rate and higher other income, Tingyi's 1H18 shareholders' profit increased by 86.6% YoY to RMB1,306 million. Tingyi's 2Q18 shareholders' profit rose 122.9% YoY to RMB594 million, better than market consensus, hitting a new high in recent years.

**Table-1: Tingyi's 1H18 Interim Results Review**

Income Statement						
RMB m	2Q17	2Q18	YoY	1H17	1H18	YoY
<b>Turnover</b>	14,370	15,959	11.1%	28,568	30,996	8.5%
Cost of sales	(10,037)	(10,738)	7.0%	(20,254)	(21,316)	5.2%
<b>Gross Profit</b>	<u>4,333</u>	<u>5,221</u>	20.5%	8,313	9,680	16.4%
Other net income	223	145	-35.1%	411	798	93.9%
Distribution costs	(3,046)	(3,437)	12.9%	(5,658)	(6,167)	9.0%
Administrative expenses	(547)	(613)	12.0%	(1,061)	(1,239)	16.8%
Other operating expenses	(251)	(186)	-25.9%	(485)	(949)	95.7%
<b>Operating Profit</b>	<u>711</u>	<u>1,129</u>	58.7%	<u>1,521</u>	<u>2,123</u>	39.6%
Finance costs, net	(139)	(108)	-22.8%	(270)	(223)	-17.7%
Share of results of associates	46	52	14.2%	95	96	1.1%
<b>Profit before tax</b>	<u>618</u>	<u>1,074</u>	73.8%	<u>1,345</u>	<u>1,997</u>	48.4%
Taxation	(212)	(300)	41.4%	(465)	(508)	9.3%
<b>Profit after tax</b>	<u>405</u>	<u>773</u>	90.8%	<u>880</u>	<u>1,488</u>	69.1%
Minority interests	(139)	(179)	29.0%	(180)	(182)	1.0%
<b>Shareholders' Profit</b>	<u>267</u>	<u>594</u>	122.9%	<u>700</u>	<u>1,306</u>	86.6%
EPS (RMB)	0.048	0.106	122.3%	0.125	0.233	86.2%
<b>EBITDA</b>	1611	1925	19.5%	3,343	3,741	11.9%
<b>Core EBITDA</b>				3,343	3,901	16.7%
Gross Margin	30.2%	32.7%	2.6 ppt	29.1%	31.2%	2.1 ppt
Operating Margin	4.9%	7.1%	2.1 ppt	5.3%	6.9%	1.5 ppt
Net Margin	1.9%	3.7%	1.9 ppt	2.5%	4.2%	1.8 ppt

Source: the Company, Guotai Junan International.

Note: Excluded effects of activation on assets and provision of impairment on machinery and equipment.

**Table-2: Tingyi's Segment Results Breakdown**

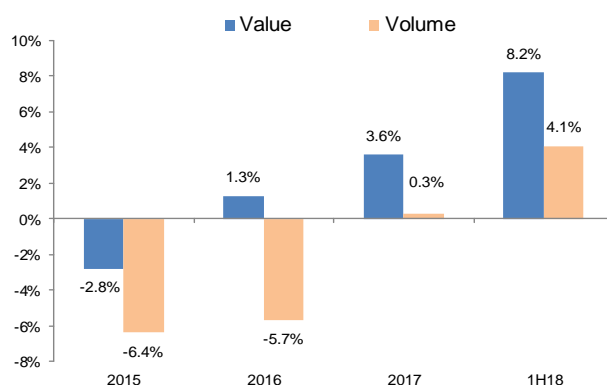
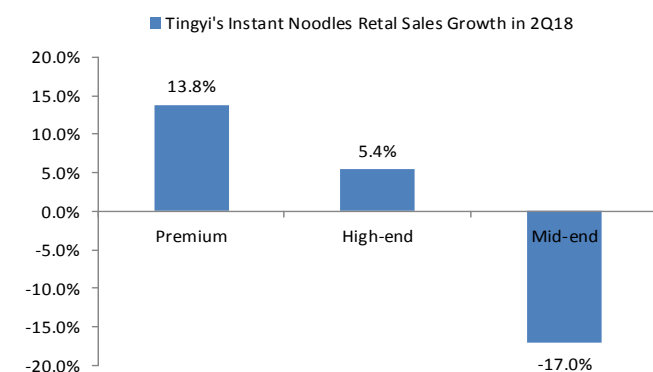
Segment Revenue						
RMB m	2Q17	2Q18	YoY	1H17	1H18	YoY
<b>Segment Revenue</b>						
Instant Noodle	4,461	4,826	8.2%	10,271	11,134	8.4%
Beverage	9,554	10,796	13.0%	17,536	19,147	9.2%
Instant Food & Others	356	337	-5.3%	760	715	-5.9%
<b>Total</b>	<b>14,370</b>	<b>15,959</b>	<b>11.1%</b>	<b>28,568</b>	<b>30,996</b>	<b>8.5%</b>
<b>Gross Profit</b>						
Instant Noodle	1,214	1,412	16.3%	2,827	3,321	17.5%
Beverage	3,023	3,705	22.6%	5,270	6,152	16.7%
Instant Food & Others	96	104	8.0%	217	207	-4.6%
<b>Total</b>	<b>4,333</b>	<b>5,221</b>	<b>20.5%</b>	<b>8,313</b>	<b>9,680</b>	<b>16.4%</b>
<b>EBIT</b>						
Instant Noodle	160	318	98.1%	643	879	36.8%
Beverage	449	754	68.1%	687	753	9.6%
Instant Food & Others	86	25	-70.6%	168	423	151.4%
<b>Total</b>	<b>694</b>	<b>1,097</b>	<b>57.9%</b>	<b>1,498</b>	<b>2,055</b>	<b>37.2%</b>
<b>Net Profit</b>						
Instant Noodle	139	227	63.2%	532	667	25.3%
Beverage	129	420	226.0%	166	369	122.6%
Instant Food & Others	-1	-53		2	271	
<b>Total</b>	<b>267</b>	<b>594</b>	<b>122.9%</b>	<b>700</b>	<b>1,306</b>	<b>86.6%</b>
<b>Gross Margin</b>						
Instant Noodle	27.2%	29.3%	2 ppt	27.5%	29.8%	2.3 ppt
Beverage	31.6%	34.3%	2.7 ppt	30.1%	32.1%	2.1 ppt
<b>EBIT Margin</b>						
Instant Noodle	3.6%	6.6%	3 ppt	6.3%	7.9%	1.6 ppt
Beverage	4.7%	7.0%	2.3 ppt	3.9%	3.9%	0 ppt
<b>Net Margin</b>						
Instant Noodle	3.1%	4.7%	1.6 ppt	5.2%	6.0%	0.8 ppt
Beverage	1.3%	3.9%	2.5 ppt	0.9%	1.9%	1 ppt

Source: the Company, Guotai Junan International.

Note: Excluded effects of activation on assets and provision of impairment on machinery and equipment.

**Key Takeaways from Tingyi's Analyst Meeting**

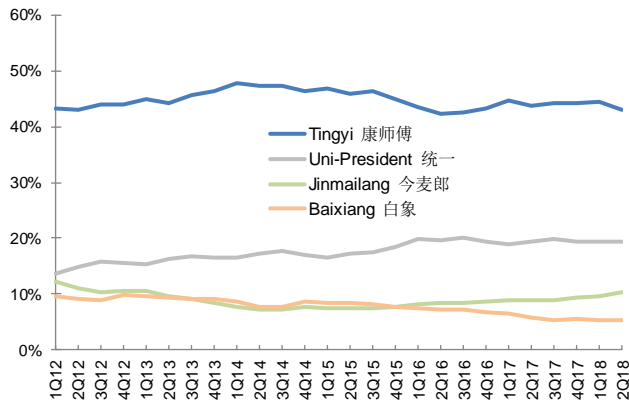
**Noodles demand recovered and ASP hike improved revenue growth.** In 1H18, China's instant noodles sales continued to pick up, with sales volume up 4.1% YoY and sales value up 8.2% YoY according to Nielsen. Benefiting from industry recovery and a leading position in the market, Tingyi's instant noodles sales maintained recovery. Broken down by category, the Company's sell-in sales of bowl and high-end packet instant noodles reported strong growth in 2Q18, up 7.0% YoY and 14.8% YoY. Likewise, according to Nielsen, Tingyi's retail sales of premium noodles recorded robust growth, up 13.8% YoY. Together with slight product price lift (3%) at the end of 2017, the Company's ASP of instant noodles improved greatly. Tingyi's product price lift slightly affected its overall market share, but the Company's market share in the premium market improved QoQ.

**Figure-1: China's Instant Noodles Retail Sales Growth**

**Figure-2: Tingyi's Instant Noodles Retail Sales Growth**


Source: Nielsen, the Company, Guotai Junan International.

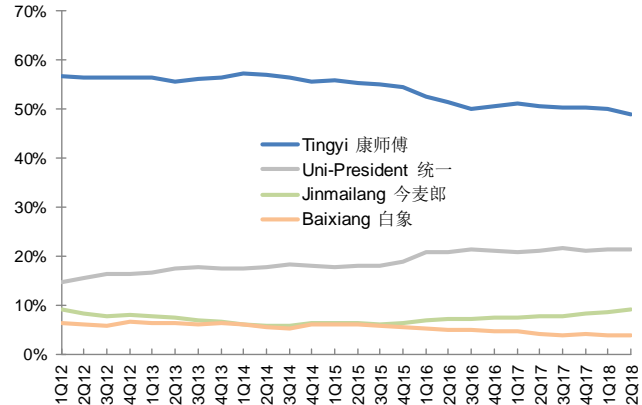
Source: Nielsen, the Company, Guotai Junan International.

Figure-3: Instant Noodles Market Share – by Volume



Source: Nielsen, the Company, Guotai Junan International.

Figure-4: Instant Noodles Market Share – by Value



Source: Nielsen, the Company, Guotai Junan International.

**The impact from O2O delivery platforms may be reinforced.** As Meituan is approaching its listing date, Eleme has raised more funds to exert a price war with Meituan in order to attract public attention and grasp more market share. As a counter, Meituan also launched special offers for its customers. As a result, the ASP of O2O delivery foods have lowered accordingly. In the short term, instant noodles sales may be affected by favorable prices of O2O take-away foods, which have become a major substitute for instant noodles.

Figure-5: Eleme's discounted Delivery Fees



Source: Eleme, Guotai Junan International.

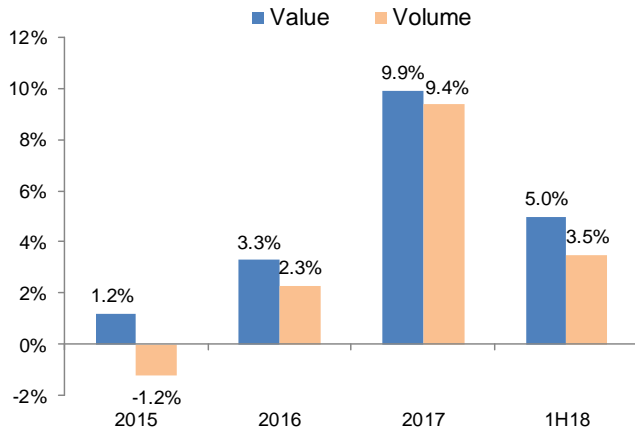
Figure-6: Meituan's Special Offers



Source: Meituan, Guotai Junan International.

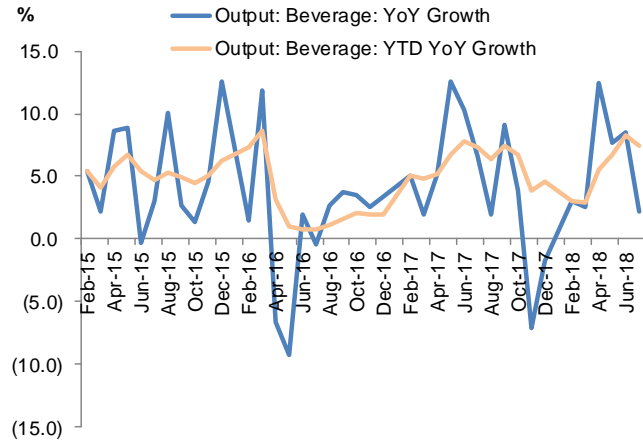
**China's beverage industry grew sustainably in 1H18 but concerns remained in 3Q18.** In 1H18, China's beverage industry grew steadily. According to Nielsen, beverage sales volume and sales value grew YoY by 3.4% and 5.0%, respectively. According to the National Bureau of Statistics of China, total output of beverages in China expanded 8.3% YoY in 1H2018. However, we are concerned about the performance of the beverage industry in 3Q18 due to 1) the national average precipitation being 10.9% higher than the historic average in July, 2) a sluggish retail environment affected by multiple factors, and 3) a high base in 3Q17. China's output of beverages in July was up 2.2% YoY, notably lower than 1H18. The management also stated conservative forecasts for 2H18.

Figure-7: China's Beverage Retail Sales Growth



Source: Nielsen, the Company, Guotai Junan International.

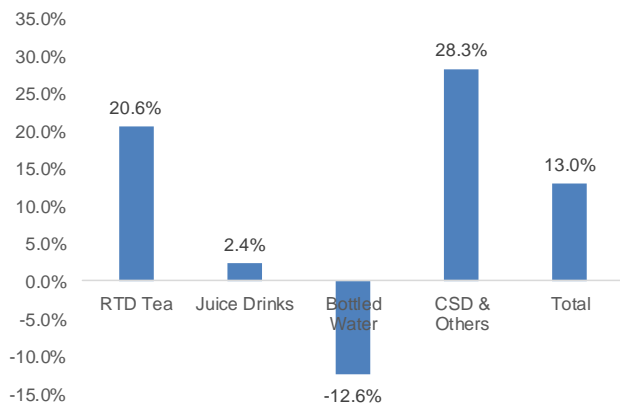
Figure-8: China's Beverage Output



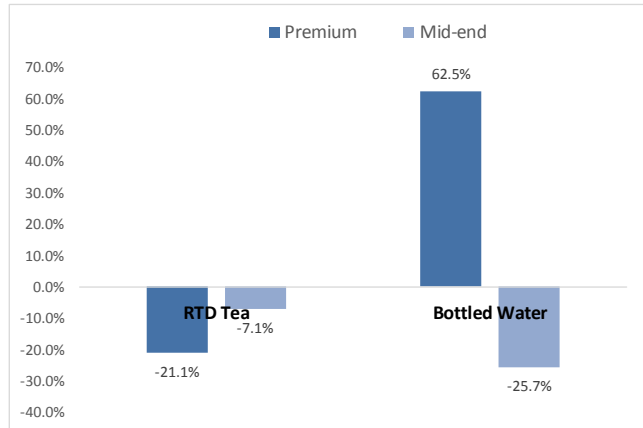
Source: National Bureau of Statistics of China, Guotai Junan International.

**Product price lift affected sales volume and market share.** Although the Company's beverage sales and profitability essentially improved in 1H18, the market share of Tingyi's beverage categories in 2Q18 all showed a downward trend, as its channels had not fully absorbed the impact of the Company's ex-factory price lift. In particular, the Company's bottled water price lifts were huge. Its two rounds of price lifts accounted for a total increase of 25%. The price lift of bottled water significantly affected sell-in sales and retail sales. In order to enhance distributors' profitability, retail price of its low-end bottled water increased from RMB1 to RM1.5-RMB2. Tingyi's current strategy is to sacrifice profit of low-end bottled water, but to exert it as a weapon for market competition to interfere with the profitability of competitors. The Company is highly counting on the development of RMB3 bottled water to improve performance in the bottled water segment. Although the Company's sell-in sales of RTD tea still grew strongly in 2Q18, its retail sales and market share both retreated. The Company has decided not to launch premium RTD tea before 2020 until its reform is completed.

Figure-9: Tingyi's Beverage Sell-in Sales Growth in 2Q18 Figure-10: Tingyi's Beverage Retail Sales Growth in 2Q18

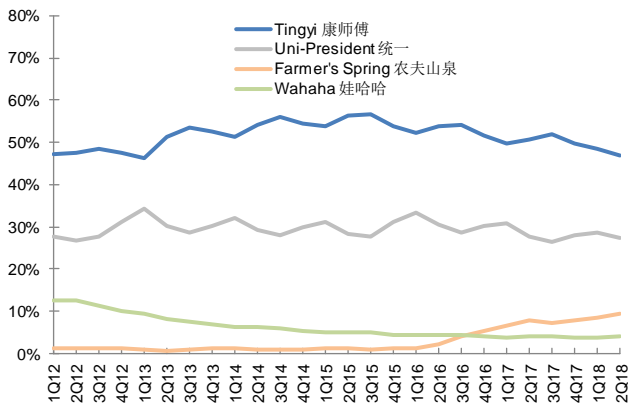


Source: Nielsen, the Company, Guotai Junan International.



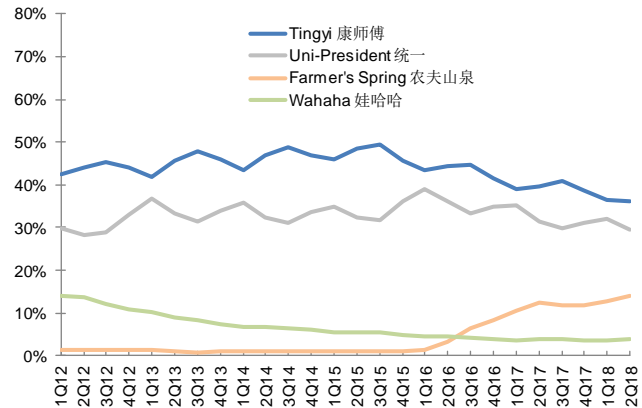
Source: Nielsen, the Company, Guotai Junan International.

**Figure-11: RTD Tea (including milk tea) Market Share – by Volume**



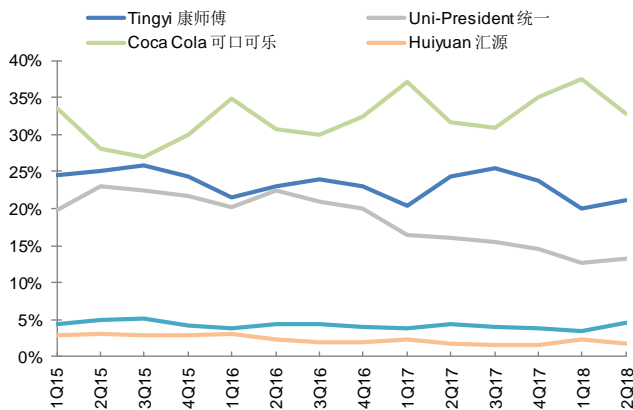
Source: Nielsen, the Company, Guotai Junan International.

**Figure-12: RTD Tea (including milk tea) Market Share – by Value**



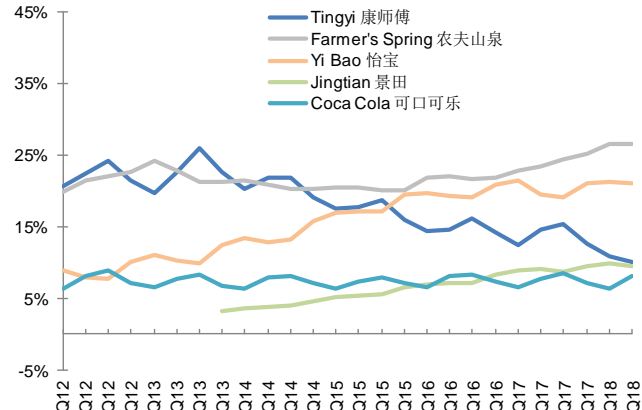
Source: Nielsen, the Company, Guotai Junan International.

**Figure-13: Diluted Juice Market Share – by Volume**



Source: Nielsen, the Company, Guotai Junan International.

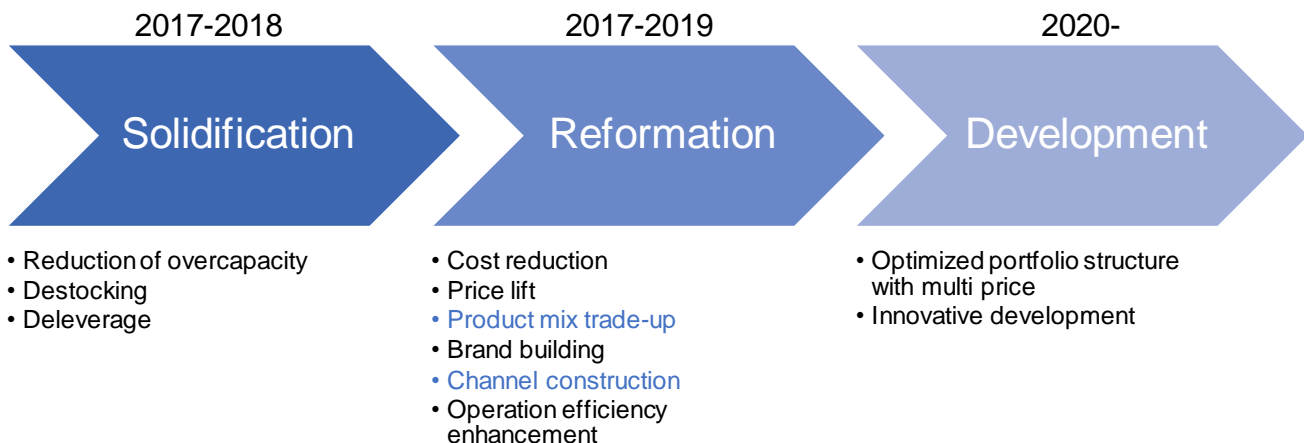
**Figure-14: Bottled Water Market Share – by Volume**



Source: Nielsen, the Company, Guotai Junan International.

**Laying foundations for innovative development in 2020.** Tingyi has made a clear plan for future growth. It plans to gain more profit during 2017-2019 by lifting price and improving product mix in order to lay a solid foundation for its development after 2020. The Company is determined to transform to an innovation-driven company after 2020. By then, Tingyi will launch premium RTD tea and more innovative products. To achieve this goal, we believe that the Company needs to completely change its path of dependence.

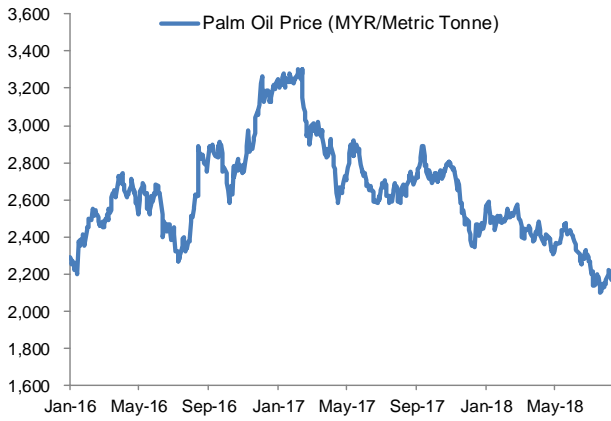
**Figure-15: The Company's Long-term Strategy**



Source: the Company, Guotai Junan International.

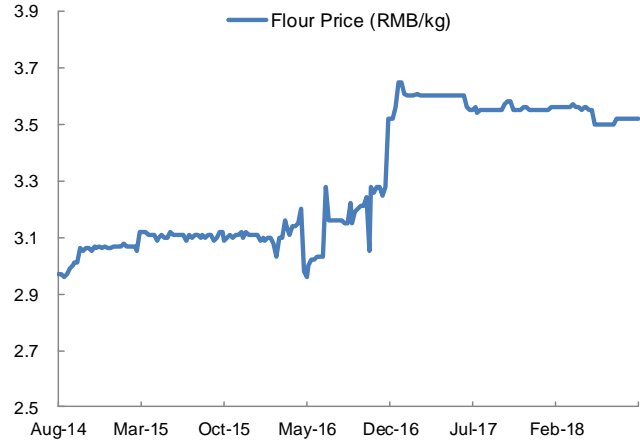
**Surging packaging costs are a major threat to gross margin.** As at September 1, 2018, YTD price of flour, palm oil and sugar declined 1.4% YoY, 17.0% YoY and 15.3% YoY, respectively; favorable for Tingyi. However, in August, PET price surged significantly, up 25.1% MoM. As at September 1, 2018, the YTD price of PET rose 38.7% YoY. Also, cardboard prices still stayed at a high level due to limited upstream supply. Overall, the Company will still be under pressure of high input costs.

**Figure-16: Palm Oil price**



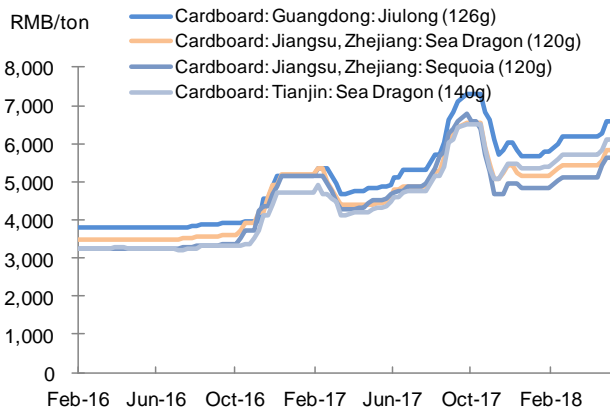
Source: MDEX.

**Figure-17: Flour price**



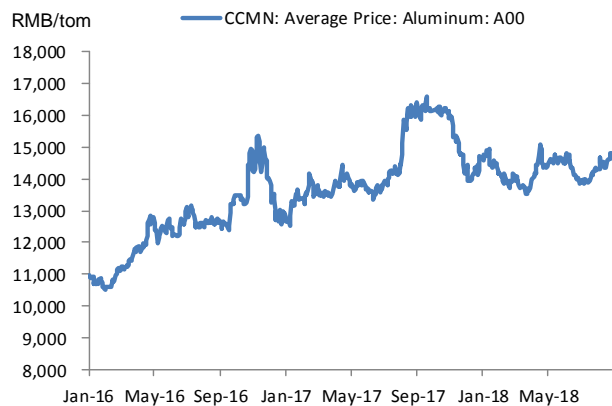
Source: the Ministry of Agriculture of China.

**Figure-18: Cardboard Price**



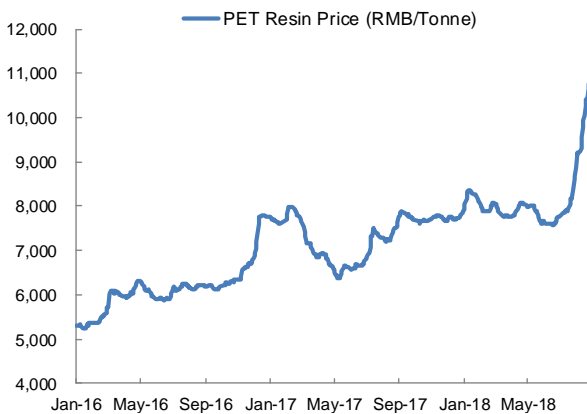
Source: WIND.

**Figure-19: Aluminum**



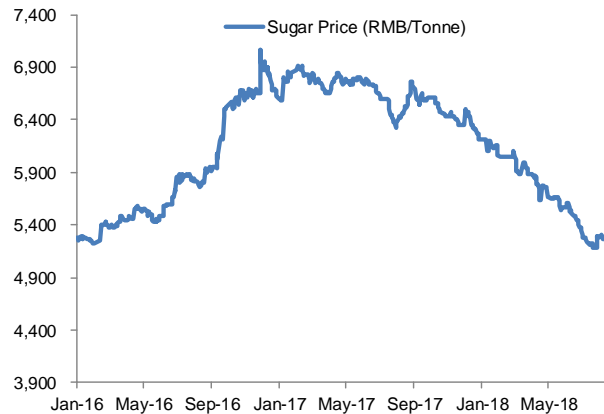
Source: WIND.

**Figure-20: PET price**



Source: www.tbs-china.com, WIND.

**Figure-21: Domestic Sugar price**



Source: Bloomberg.

**Earnings Forecasts Assumptions and Revisions**

Our forecasts are generally unchanged, which is in line with the Company's guidance: low single-digit percentage growth of beverage sales, high single-digit percentage growth of instant noodles sales and 25% YoY growth of shareholders' profit excluding one-off gain/loss. We slightly revise up shareholders' profit by 2.5%, 2.8%, 2.9% in 2018-2020, respectively, due to lower effective tax rate of beverage business.

**Table-3: Earnings Estimates Revisions**

RMB million	NEW			OLD			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	62,548	65,900	69,288	61,904	65,268	68,690	1.0%	1.0%	0.9%
Gross profit	19,687	20,844	21,858	19,484	20,903	22,226	1.0%	-0.3%	-1.7%
Operating profit	4,132	4,671	5,096	4,123	4,642	5,060	0.2%	0.6%	0.7%
Profit after tax	2,619	2,944	3,240	2,543	2,851	3,137	3.0%	3.3%	3.3%
Shareholders' profit	2,327	2,635	2,909	2,271	2,562	2,827	2.5%	2.8%	2.9%
EPS (RMB)	0.414	0.469	0.518	0.404	0.456	0.503	2.6%	2.9%	3.0%
Gross margin	31.5%	31.6%	31.5%	31.50%	32.00%	32.40%	0 ppt	-0.4 ppt	-0.9 ppt
Operating margin	6.6%	7.1%	7.4%	6.70%	7.10%	7.40%	-0.1 ppt	0 ppt	0 ppt
PAT margin	4.2%	4.5%	4.7%	4.10%	4.40%	4.60%	0.1 ppt	0.1 ppt	0.1 ppt
Net margin	3.7%	4.0%	4.2%	3.70%	3.90%	4.10%	0 ppt	0.1 ppt	0.1 ppt

Source: Guotai Junan International.

**Maintain "Neutral" and lower TP to HK\$15.00.** Tingyi has undertaken a series of measures, including light assets and asset activation, product mix upgrades and price hikes, fully exploiting its profit potential based on its existing sales volume scale. We believe that the results achieved by the Company have notably exceeded market expectations. However, in the long run, uncertainties remain on development of high-end bottled water, premium RTD tea and target of transformation. Also, macro uncertainties, a sluggish retail environment and weak prospects for beverages lowered down industry valuation. Therefore, we maintain "Neutral" and lower TP to HK\$15.00, which represents 29.3x 2018 PER, 25.9x 2019 PER, and 23.5x 2020 PER.

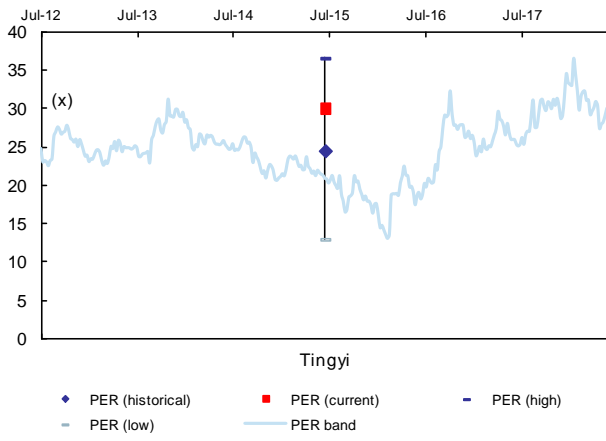
**Table-4: Peers Comparison**

Company	Ticker	\$	Share Price	Market Cap (HK\$ mn)	PER (x)			PBR(x)	ROE(%)	Gross Margin(%)	Operating Margin(%)
					FY18F	FY19F	FY20F				
China Resources Beer	291 HK	HKD	33.400	108,356	46.8	36.3	29.4	4.8	10.8	35.8	8.8
China Mengniu Dairy	2319 HK	HKD	22.650	88,956	25.3	19.5	15.8	3.1	12.8	37.2	5.6
Tingyi	322 HK	HKD	14.020	78,761	27.8	23.5	20.5	3.4	12.8	31.1	6.7
Dali Foods	3799 HK	HKD	5.700	78,056	17.6	15.2	13.4	4.5	27.1	38.9	20.8
Want Want China	151 HK	HKD	6.410	79,800	20.2	20.0	18.4	4.5	21.8	45.0	21.5
Tsingtao Brewery	168 HK	HKD	37.300	51,771	27.5	23.3	20.3	2.4	9.0	40.3	6.3
Uni-President China	220 HK	HKD	7.730	33,388	25.4	22.3	19.8	2.2	8.7	34.1	6.6
Vitasoy Ltd	345 HK	HKD	25.200	26,735	48.5	38.8	33.2	9.8	21.6	52.7	13.0
China Foods	506 HK	HKD	3.900	10,909	24.4	20.1	16.6	2.3	9.1	35.6	5.2
<b>Simple Average</b>					<b>29.3</b>	<b>24.3</b>	<b>20.8</b>	<b>4.1</b>	<b>14.9</b>	<b>39.0</b>	<b>10.5</b>
<b>Weighted Average</b>					<b>29.3</b>	<b>24.3</b>	<b>20.7</b>	<b>4.1</b>	<b>15.5</b>	<b>38.2</b>	<b>11.3</b>

Source: Bloomberg.

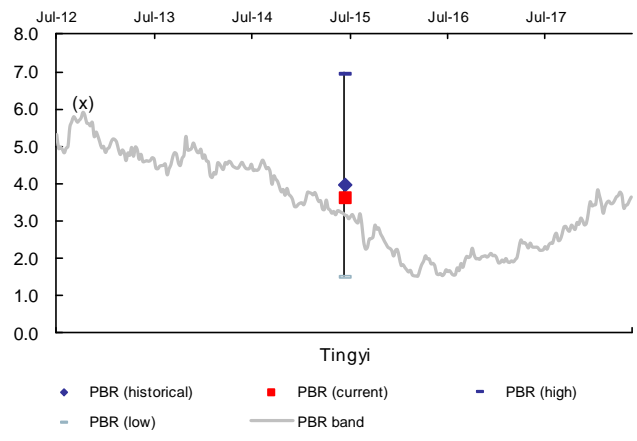


**Figure-22: PER Band of Tingyi**



Source: Bloomberg, Guotai Junan International.

**Figure-23: PBR Band of Tingyi**



Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	55,579	58,954	62,548	65,900	69,288	Property, plant and equipment	32,557	28,015	27,106	25,804	24,690
Cost of sales	(38,201)	(41,616)	(42,860)	(45,056)	(47,430)	Prepaid lease payments	3,932	3,731	3,824	3,920	4,018
Gross profit	17,378	17,338	19,687	20,844	21,858	Others	2,994	3,413	3,090	3,191	3,302
Other revenue and income	707	991	1,163	1,008	1,123	Total Non-current Assets	39,483	35,158	34,019	32,914	32,009
Distribution costs	(12,070)	(11,269)	(12,322)	(12,982)	(13,650)	Cash & Cash Equivalents	10,232	10,285	16,025	20,254	24,469
Administrative expenses	(2,044)	(2,189)	(2,377)	(2,504)	(2,633)	Inventories	2,482	2,397	2,535	2,526	2,802
Other operating expenses	(1,116)	(1,124)	(2,020)	(1,695)	(1,603)	Bills receivable	1,590	1,636	1,362	1,797	1,525
Operating Profit	2,856	3,746	4,132	4,671	5,096	Others	2,734	4,623	1,398	4,921	1,723
Finance costs	(496)	(455)	(432)	(506)	(511)	Total Current Assets	17,038	18,941	21,321	29,498	30,519
Share of profits from associates	74	101	105	116	127	Total Assets	56,521	54,099	55,340	62,412	62,528
Profit Before Tax	2,434	3,393	3,806	4,281	4,712	Short-term debts	9,164	7,775	8,428	8,520	9,157
Income Tax	(1,051)	(1,137)	(1,187)	(1,337)	(1,472)	Bills payable	6,595	7,119	5,093	7,868	5,776
Profit after Tax	1,382	2,255	2,619	2,944	3,240	Accrued expenses and other payables	6,698	7,417	6,087	8,109	6,835
Non-controlling Interest	(220)	(436)	(291)	(310)	(331)	Others	1,251	1,668	1,791	1,917	2,040
Shareholders' Profit / Loss	1,162	1,819	2,327	2,635	2,909	Total Current Liabilities	23,708	23,980	21,399	26,415	23,808
Basic EPS	0.207	0.325	0.414	0.469	0.518	Net current assets	(6,670)	(5,039)	(78)	3,083	6,711
						Total assets less current liabilities	32,813	30,120	33,941	35,998	38,720
						Long-term debts	6,880	6,609	8,428	8,520	9,157
						Others	1,832	1,217	1,510	1,694	1,857
						Total Non-current Liabilities	8,712	7,825	9,938	10,214	11,014
						Total Liabilities	32,420	31,805	31,337	36,629	34,822
						Share capital	235	235	235	235	235
						Reserves	17,889	18,177	19,595	21,066	22,657
						Total Shareholders' Equity	18,124	18,412	19,830	21,301	22,892
						Minority Interest	5,977	3,882	4,173	4,483	4,814
						Total Equity	24,101	22,294	24,003	25,784	27,706

Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
PBT	2,434	3,393	3,806	4,281	4,712	Revenue Growth (%)	-5.9	6.1	6.1	5.4	5.1
DD&A	3,677	3,514	3,009	2,802	2,614	Gross Profit Growth (%)	-7.7	-0.2	13.5	5.9	4.9
Change in working capital	2,544	1,510	7	919	(99)	EBIT Growth (%)	-15.7	31.2	10.3	13.0	9.1
Others	658	82	336	(90)	(223)	Net Profit Growth (%)	-30.2	56.6	27.9	13.2	10.4
Cash generated from operations	9,312	8,499	7,159	7,912	7,004	Gross Margin (%)	31.3	29.4	31.5	31.6	31.5
Income and interest tax paid	(1,318)	(1,817)	(1,239)	(1,619)	(1,787)	- Instant noodles	28.8	28.8	31.4	31.1	30.8
Cash from Operating Activities	7,994	6,682	5,920	6,293	5,217	- Beverages	33.0	29.8	31.6	32.1	32.2
Investing activities						PAT Margin (%)	2.5	3.8	4.2	4.5	4.7
Capital expenditure	(1,539)	(1,049)	(2,100)	(1,500)	(1,500)	- Instant noodles	5.4	6.6	6.4	7.0	7.4
Interest income	218	271	309	481	608	- Beverages	1.2	2.4	2.4	2.4	2.5
Others	(330)	(54)	50	(66)	(65)	Net Margin (%)	2.1	3.1	3.7	4.0	4.2
Cash from Investing Activities	(1,651)	(832)	(1,742)	(1,085)	(958)	ROA (%)	2.5	4.1	4.8	5.0	5.2
Financing activities						ROE (%)	6.3	10.0	12.2	12.8	13.2
Loans changes	(1,646)	(3,141)	2,471	185	1,273	Inventory turnover days	22.0	21.4	21.0	20.5	20.5
Share placing	996	0	0	0	0	Account receivable days	10.2	10.0	8.8	8.8	8.8
Dividend paid	(941)	(713)	(910)	(1,164)	(1,317)	Account payable days	53.9	60.1	52.0	52.5	52.5
Others	(1,200)	(1,908)	0	0	0	Net gearing (%)	33.0	23.0	4.2	Net cash	Net cash
Cash from Financing Activities	(2,791)	(5,762)	1,562	(978)	(44)	Net interest cover (x)	5.8	8.2	9.6	9.2	10.0
Net Changes in Cash	3,552	88	5,740	4,229	4,215	Payout ratio (%)	50.0	50.0	50.0	50.0	50.0
Foreign exchange effect	33	(35)	0	0	0						
Cash at Beg of Year	6,647	10,232	10,285	16,025	20,254						
Cash at End of Year	10,232	10,285	16,025	20,254	24,469						

Source: the Company, Guotai Junan International.

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

**Sector Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; Or the fundamental outlook of the sector is unfavorable.

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