

Vitasoy Int'l 维他奶国际(345 HK)

Sweet taste, Sweet return

Vitasoy International ("Vitasoy") is an iconic Hong Kong food and beverage brand, which was founded 78 years ago. Today, a wide variety of Vitasoy products have been sold in over 40 markets around the world with plants located in Hong Kong, Mainland China, Australia and Singapore. In 2016, Vitasoy divested North American Mainstream and SANSUI Business to free up resources for further expansion into China and other Asian markets such as Philippines. In our opinion, Vitasoy is now a growth play on top of yield play that limits the downside risk. Initiate BUY with the target price of HK\$27.2.

China's robust demand for soymilk. Soymilk is estimated to have a high growth rate due to its increased availability and the scientific discovery that soymilk has a higher nutritive value in terms of quality, nutrition and pure natural minerals which can lower blood cholesterol and reduce the risk of certain cancers.

Accelerating development in China. Although Vitasoy is a leading brand of ready-to-drink (RTD) soymilk in China, the market was still highly fragmented as many small companies in aggregate accounted for more than 50% market share in 2016. Vitasoy has a comprehensive plan of building factories to ensure sufficient production capacity for the company's future expansion and help gain a stronger market share.

Sustainable business growth and dividend payment in 2018H1. Driven by strong sales performance in Mainland China, Vitasoy delivered strong performance on both top line and bottom line in 2018H1. We remain optimistic and confident that the Group can achieve a sustainable growth in the long run. In addition, its strong cash flow may continue to support good dividend and we consider 70% payout ratio sustainable.

Pressure on GP margin. The raw material (sugar and soybean) price has rebounded slightly since 2015 and the commodity prices are likely to rise further. We expect the impact is hard to be completely offset despite the fact the Group has secured several long term contracts to mitigate the repercussions of price growth and has the ability to pass on most of the increased costs to customers.

Initiate BUY. We value the counter at HK\$27.2 based on our DCF valuation, which translates into 42.2x FY18 P/E and 10.6x FY18 P/B. Parameters include 10% discount and 4% terminal growth rate. We initiate coverage with BUY rating and TP of HK\$27.2.

Investment Summary

FY-end Mar	2016	2017	2018E	2019E	2020E
Turnover (HK\$ mn)	5,552	5,406	6,217	7,274	8,583
Chg (%)	10%	(3%)	15%	17%	18%
Net Profit (HK\$ mn)	565	653	648	712	823
Chg (%)	38%	16%	(1%)	10%	16%
EPS (HK\$)	0.509	0.589	0.584	0.641	0.741
Chg (%)	16%	(1%)	10%	16%	29%
P/E (x)	48.4	41.9	42.2	38.4	33.2
P/B (x)	10.7	9.6	8.9	8.3	7.8
P/OCF (x)	0.04	0.03	0.02	0.02	0.02
EV/EBITDA (x)	31	23	23	21	18
DPS (HK\$)	0.250	0.303	0.425	0.464	0.546
Yield (%)	1.0	1.2	1.7	1.9	2.2

Source: Company data, Orient Securities (Hong Kong)

BUY

Share Price	Target Price
HK\$24.65	HK\$27.2

China / Consumer goods / Food & Beverage

11 June 2018

Cyrus Tai (SFC CE: BKJ685)

(852) 3519 1292

cyrus.tai@dfzq.com.hk

Latest Key Data

Total shares outstanding (mn)	1,054
Market capitalization (HK\$m)	25,969
Enterprise value (HK\$m)	25,323
12M daily turnover (HK\$m)	15.9
12M volatility (%)	24
PEG FY17-19E (x)	9.7
RoE avg FY17-19E (%)	23
P/B FY18E (x)	8.9
Net debt/equity FY18E (%)	net cash

Performance (%)

	1M	YTD	12M
Absolute	15	23	52
Relative to HSI	13	20	33

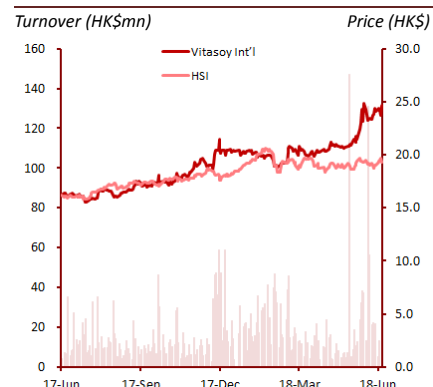
Major Shareholders (%)

Commonwealth Bank of Australia	13
Mr. Yau-lai LO	9

Auditor

KPMG

Price Chart



Source: Bloomberg, Orient Securities (Hong Kong)

Figure 1: The Lo Family



Source: Lighter Capital, Orient Securities (Hong Kong)

A food and beverage icon in Hong Kong

Vitasoy was established in 1940 by Dr. Lo Kwee-seong. Over 78 years, Vitasoy has gone from strength to strength and has become a leading manufacturer and distributor of plant-based and beverages headquartered in Hong Kong. Vitasoy products range expanded from high protein soymilk drinks into a wider variety of beverages such as fruit juice, milk, tea, soft drinks, water and tofu nowadays.

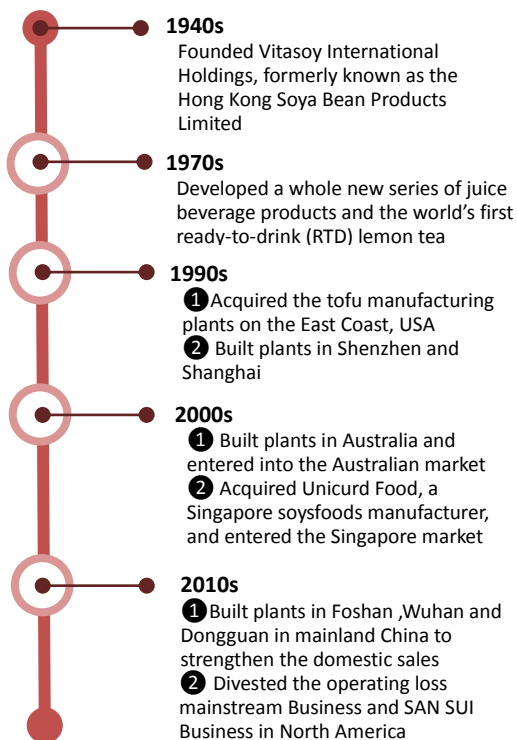
Inherit the Lo family management style

Members of the Lo family have founded other big name companies in the food industry headquartered in Hong Kong. They are all listed companies in Hong Kong and their management styles are all in line with stable expansion, not aggressive, cash flow is good and sustain to have a high dividend payout.

The Mainland China market has become the growth engine of Vitasoy's business

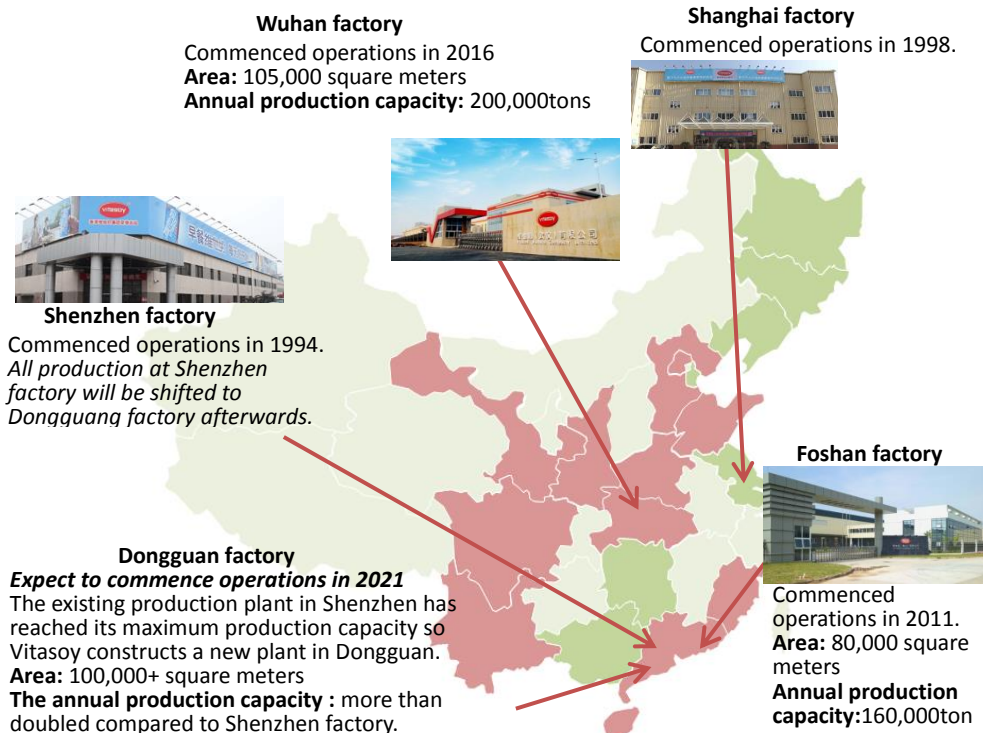
Although Vitasoy products are stocked by stores and supermarkets in about 40 markets around the world, the sales in Mainland China has grown significantly for ten years and has started to outperform the sales in Hong Kong since 2016. In order to fulfill market demand in China, Vitasoy spent around HKD1.82bn to build up other new plants (Wuhan and Dongguan factory) in China.

Figure 2: Development Milestones



Source: company data, Orient Securities (Hong Kong)

Figure 3: The production plants in Mainland China



Build up the Wuhan plant to accelerate the development in China

Vitasoy China accelerated growth in the Central and Eastern regions, backed by strong support from the new Wuhan plant. Wuhan plant which is located in central China has shortened product delivery distances to customers in Central and Eastern regions, leading to a significant saving in fuel and shipping costs.

Evokes a lot of collective memories among Hong Kong people

With more than 78 years of great taste, Vitasoy has been a part of many precious moments in Hong Kong people's lives.

Figure 2: Successful advertising campaign

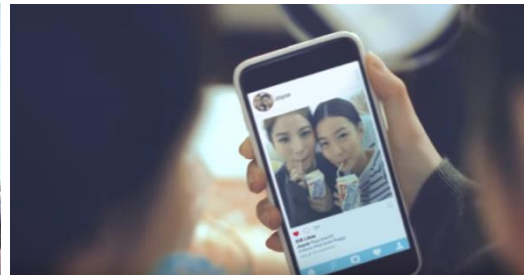
As a friend that has grown up with Hong Kong people, stand by them and share everyday life experience with them



In 1983 (Have you had Vitasoy today?)



In 2009 (Stand By me)



In 2018 (Warm interpersonal relationship)

Source: youtube, Orient Securities (Hong Kong)

Bringing drinks to Hong Kong people everywhere

Vitasoy is always here for you. Most of the supermarkets, convenience stores such as 7-Eleven, Circle K, vending machine and e-commerce platform are selling Vitasoy's products. Everywhere and everytime is easy to grab consumers attention that make consumers to drink Vitasoy's products.

Figure 2:Buy Vitasoy's products everywhere, everytime



Source: company data, google,, Orient Securities (Hong Kong)

Re-launch the products with new packaging in an effort to overcome a consumer perception of being "dated" or too traditional

To reinforce Vitasoy's market position among young generation, Vitasoy not only creates the new products every year, but also re-launch the products behind new packaging graphics in every 5-7 years.



Stability of Lo's management style



Executive Chairman (Start from 1972):
Mr. Winston Yau-lai LO

Two major brands in Vitasoy

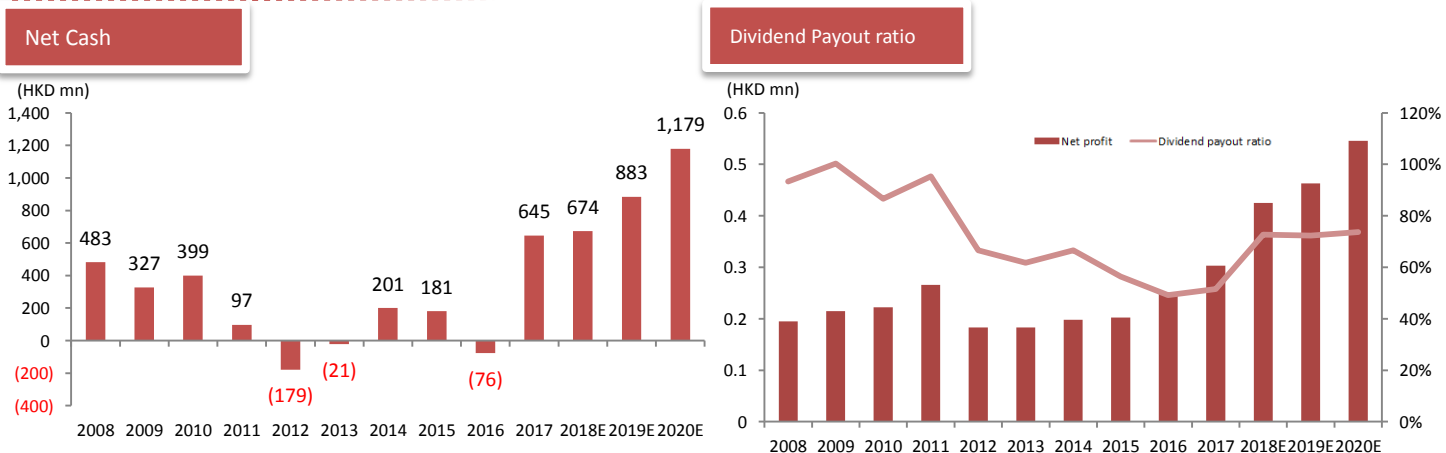
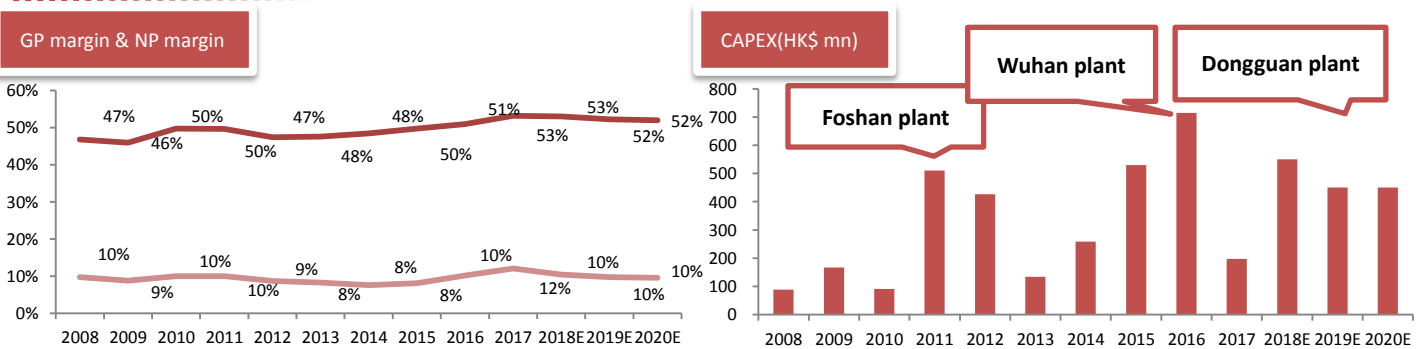
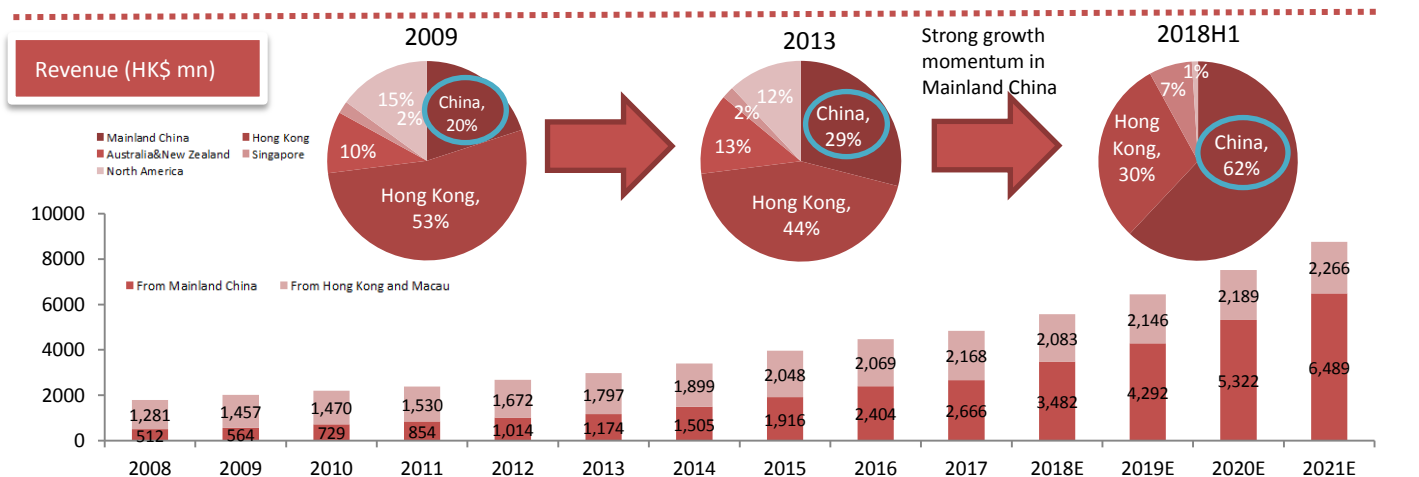
Vitasoy Brand
(Plant based milk, Tofu)



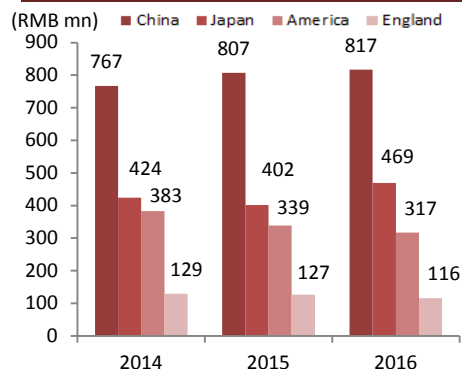
Vita Brand
(Tea, juices, distilled water and milk)



Products are sold in over 40 markets around the world, mainly in Hong Kong, Mainland China, Singapore, Australia and New Zealand and Philippines.



China enters the era of soymilk

Figure 4: Major soymilk markets in the world


Source: Winshang.com, Orient Securities (Hong Kong)

The China soymilk market share is witnessing a rapid growth supported by rise in health conscious lifestyle. **However, why Soymilk is a dairy milk alternative?** Soy milk is produced by soaking soybeans and grinding them in water, which contains excellent source of calcium, magnesium, vitamin A, vitamin B and vitamin D. Moreover, there are 4 major factors for the growth of soymilk market.

- Soymilk does not contain lactose which has increased its popularity among the lactose intolerant consumers (around 30% of total population in China has milk lactose intolerance);
- Soymilk does not contain cholesterol and is more suitable for middle-aged and elderly group;
- Plant-based protein can also increase the burning rate of fat, promote the excretion of excess cholesterol, keep the blood cholesterol level low, thus soft blood vessels, stabilize blood pressure and prevent obesity;
- Soymilk is rich in soy lecithin which can promote brain development and prevent Alzheimer's disease.

Figure 5: The difference between soymilk and a dairy milk

	A soymilk	A dairy milk
Protein	Plant-based protein, provide 9 kinds of amino acids that they cannot synthesize	Whole protein, able to supply sufficient amino acids that essential in human nutrition
Fat	1.8%	3.2%
Saponins	Antioxidant, inhibits pigmentation, promotes lipid metabolism, prevents fat accumulation	-
Linoleic acid	Lower blood cholesterol and blood lipids	-
Oligosaccharides	Prevent constipation, food poisoning and colon cancer	-
Lecithin	Contains abundant of Lecithin	Contains small amount of Lecithin
Vitamins	Calcium, phosphorus, iron, magnesium, etc. The iron content is 25 times higher than milk.	Calcium, phosphorus, iron, zinc, copper, manganese, molybdenum.
Cholesterol	N/A	15mg/100g
Lactose	N/A	4.6-4.8%

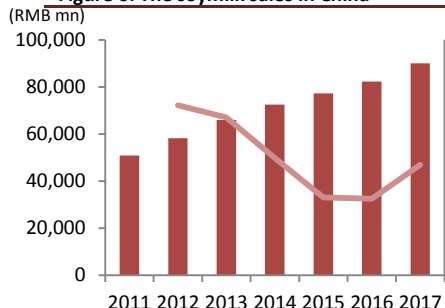
Source: zhihu.com, Orient Securities (Hong Kong)

Great potential of soymilk market in China

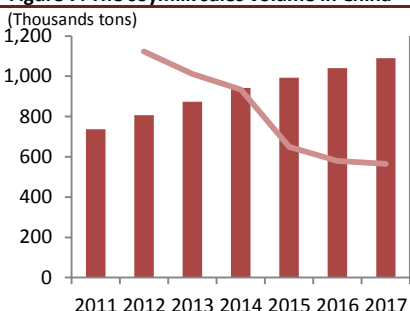
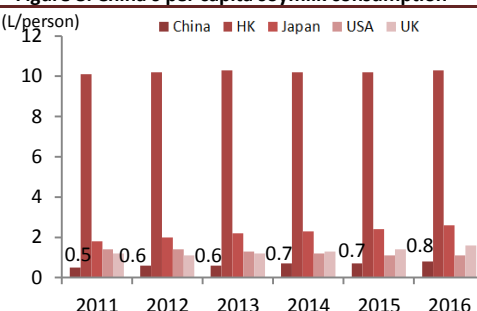
According to Euromonitor, China's soymilk sales increased from RMB 5.08 billion (sales volume: 737,000 tons) in 2011 to RMB 9 billion (volume sales: 1.09 million tons) in 2017 at a CAGR of about 10%. China has already become the world's largest soymilk market and the sales will exceed RMB 10 billion by 2020.

From our view, soymilk has become a category favored by the new generation group and we expect the demand of soymilk market in China will develop rapidly with the entry of giant food and beverage companies such as Mengniu dairy, Dali Food's Group.

In addition, China's per capita soymilk consumption was about 0.8L in 2016, which was the lowest compared to the other countries. Thus, we believe that the soymilk market in China has great growth potential in future.

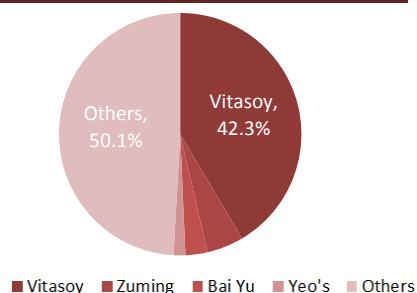
Figure 6: The soymilk sales in China


Source: Euromonitor, Orient Securities (Hong Kong)

Figure 7: The soymilk sales volume in China

Figure 8: China's per capita soymilk consumption


See last page for disclaimer.

Figure 9: Market share breakdown



Source: Euromonitor, Orient Securities (Hong Kong)

Vitasoy faces competition from new brands in China

Low temperature soymilk, ready-to-drink (RTD) soymilk, soymilk powder and freshly ground soybean milk are the four major soymilk products in soymilk market industry.

Vitasoy was a leading brand of ready-to-drink (RTD) soymilk in China, accounted for 42.3% market shares in 2016 which was higher than other well-known brands such as Zuming and Yang Xiecheng. However, the market was still highly fragmented, other unknown companies accounted for more than 50% market share.

New entry of giant food and beverages companies

In fact, the new entrants in recent years are not uncommon in the soymilk industry because of two main reasons:

- China enters the era of soymilk and expect RMB 100 billion soymilk market in 2019;
- The domestic soybean milk industry is in a period of decentralized structure and low industry concentration. No a real enterprise are capable of being an absolutely leading leader.

Figure 10: New competitors entered into ready-to-drink (RTD) soymilk market

Brand	"Dou Ben Dou" from Dali Food's Group which launched in 2017	Mengniu dairy group entered into soymilk market in 2016	"DongBei soymilk" from China Beidahuang industry Group which launched in 2017
Price*	RMB 3/250ml Organic categories cost RMB 5/250 ml	Around RMB2.5/245ml	Around RMB4.8/248ml
Main market	head start in the northern market, especially in lower-tier cities and rural area	Mainly focus on first and second-tier cities	Hot sales in Henan, Shandong, Anhui and Hebei

Source: Company data, Orient Securities (Hong Kong)

*Product price via Tmall

Figure 11: High-end products of Vitasoy



Source: Winshang.com, Orient Securities (Hong Kong)

Vitasoy is well-prepared to fight against the new competitors

Vitasoy's major markets are concentrated in the Southern region in China. Different regions have different tastes and spending habits that make up the barriers to entry into a market. Therefore, new competitors seem to focus on their familiar regions where not Vitasoy's major markets are. Moreover, most of new competitors are dairy producers which mainly focus on the product of milk and yogurt. At this moment, we can say that Vitasoy has no direct competitors in soymilk industry and Vitasoy continues to grow market share through following methods:

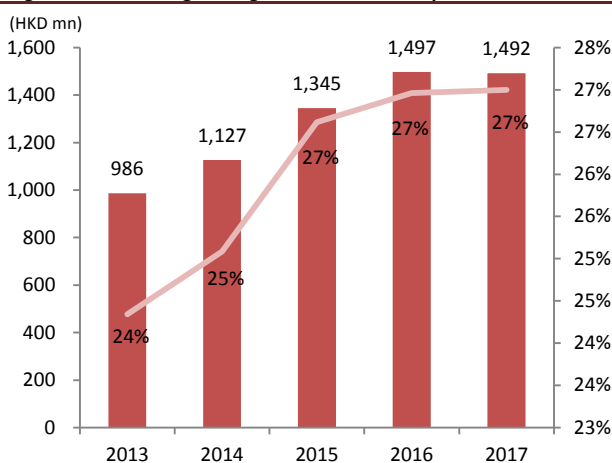
- Accelerating to construct the production plant
Vitasoy started to construct two large production bases (Wuhan and Dongguan factory) within these two years to support its future expansion and enhance the market share.
- A product diversification strategy-enrich product portfolio
Diversifying into new products can provide an effective path to fast growth, as Vitasoy can sell more new innovative products to existing customers or establish new markets.
Vitasoy has a large product portfolio from low end to high end. Up until now, there are around 17 varieties of soymilk and plant-based products which are selling in China now..

Strategies to expand the distribution channels effectively

Expanding the distribution channels can be an effective tool to increase the business but how does it work? **“Build brand awareness first, distribution second”**.

Vitasoy spends around 25%-30% of the revenue each year to produce different types of marketing programs such as television commercial, one-to-one marketing, outdoor advertising and online advertising in order to build a strong and memorable identity to get customers' attention and build emotional bond towards the brand. From time to time, Vitasoy is established as a household name in most Hong Kong people's mind.

Figure 12: Marketing, selling and distribution expenses



Source: Company data, Orient Securities (Hong Kong)

Figure 13: Series of marketing programs

Vitasoy x McDull (Hong Kong born cartoon character)



New media advertising

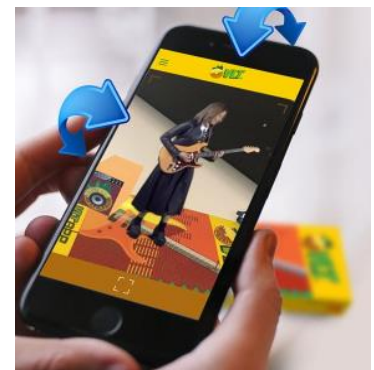


Figure 14: Sales volume in Shanghai and nearby offline stores



Uni-President and Master Kong accounted for more than 40% of the sales volume in Shanghai and nearby offline stores

Source: Shanghai Oriental Century Consumer Goods Development & Promotion Center, Orient Securities (Hong Kong)

Vita lemon tea (VLT) became popular on e-commerce platforms in China

Benefit from a series of marketing strategies in China, Vita Lemon Tea were attracted by netizen and created some funny expression packs in WeChat in second half of 2016. As a result, Vita lemon tea became popular throughout the internet in China.

With comprehensive distribution channel, the sales of Vita Lemon Tea grew faster and especially in online e-commerce platform.

According to the report “The sales volume of Tea products in e-commerce platform which accounted for more than 80% of the entire B2C retail market in China in the first quarter of 2017” from Shanghai Oriental Century Consumer Goods Development & Promotion Center, Vita lemon tea beat Uni-President and became sales champion.

Figure 15: Funny expression packs in WeChat



Figure 16: Sponsor a video program







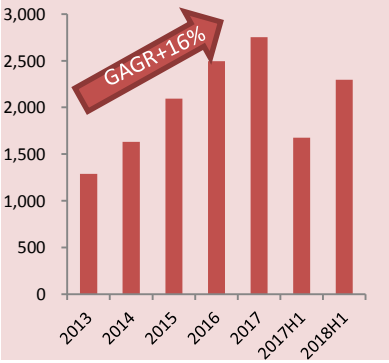
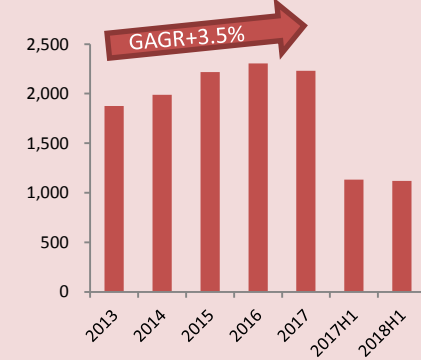


Sponsor a Tencent video program to enhance brand awareness and young consumers.

Source: jucanw.com, Zi Media, Orient Securities (Hong Kong)

Global sales enhancement with expansion and product innovation

Continuing to expand the geographical presence can help the Group to maintain robust growth against market headwinds. The Group's core markets are Mainland China, Hong Kong, Australia and Singapore. Apart from those regions, the Group set up a joint company with Universal Robina Corp (URC) to expand their network into Philippines in 2017, aiming to sell soy related beverage.

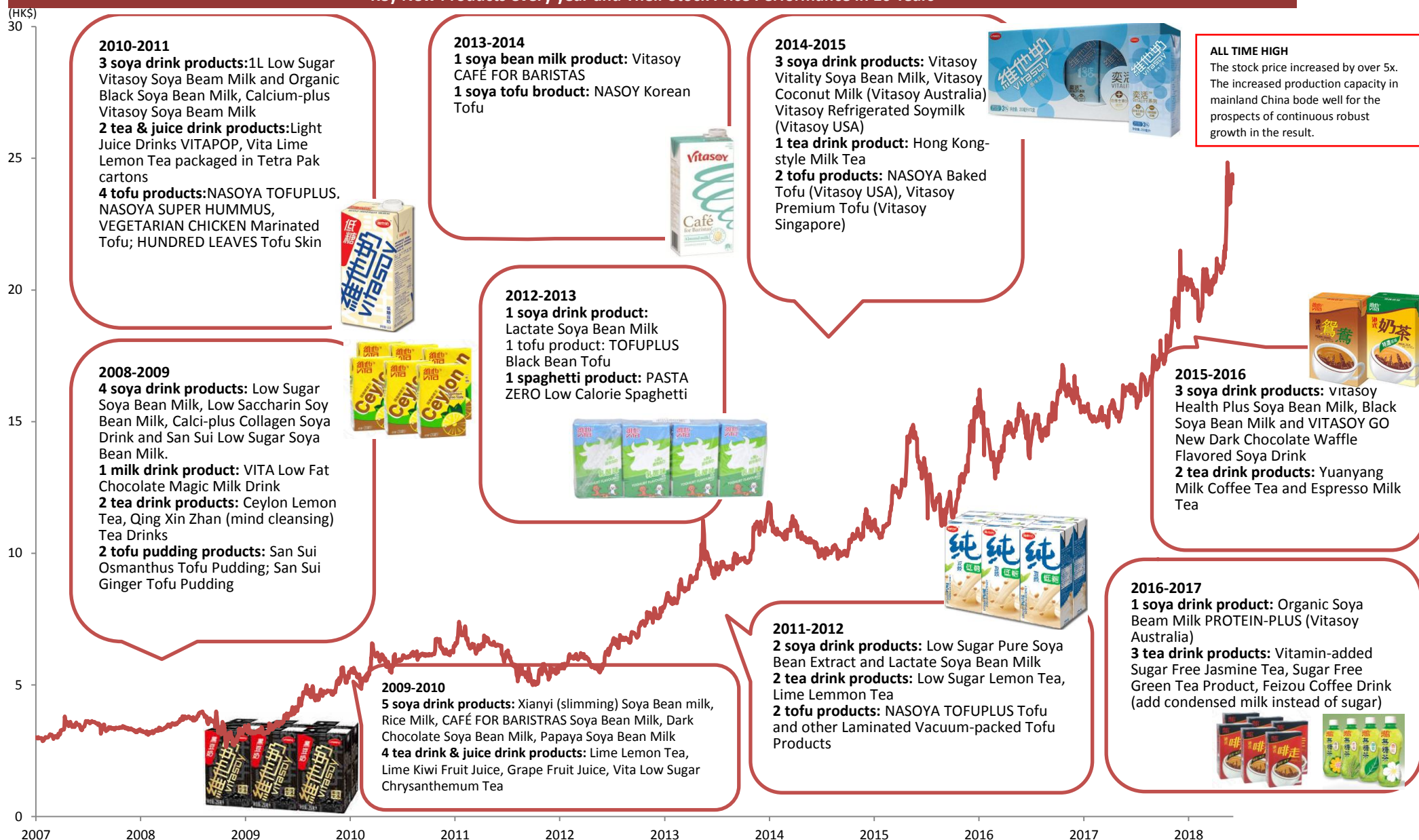
Figure17: The global network sales

Segment				
Business model	The manufacture and sale of soya milk, tea, juice, etc.	The manufacture and sale of soya milk, tea, water, juice, tofu, etc.	The manufacture and sale of soya milk and rice milk etc. in Australia and sale of beverages in New Zealand	The manufacture and sale of soya related products in Singapore and in overseas.
	Products are sold in over 40 countries around the world			
Business growth momentum	Keep improving market presence of Vitasoy and VITA brands.	VITASOY innovation and strong VITA Tea range	the leading plant milk brand in both markets Continues to grow via plant based innovation like Almond Milk	VITASOY branded tofu and imported beverage sales
Contribution of revenue	With Strong sales growth , China became the largest contributor to the Group's revenue.	Stable with a moderate sales growth. Second-largest contributor to the Group's revenue	Steady revenue improvement It contributed less than 10% of total revenue to the Group.	Business continued to grow *but it contributed the smallest portion of revenue to the Group.
Revenue (HKD mn)	 <p>GAGR+16%</p>	 <p>GAGR+3.5%</p>	 <p>+6%</p>	 <p>+8%</p>

Source: company data, Orient Securities (Hong Kong)

*The revenue dropped in 2017 because of the transition for the Singapore business

Key New Products every year and Their Stock Price Performance in 10 Years



Maintained a Sustainable Growth

Takes time to increase brand awareness and product trials in the new region, Philippines

In the FY2017/2018 interim, Vitasoy recorded an increase of 21% in revenue to HK\$3,646 million. **Mainland China is Vitasoy's largest market outside Hong Kong, contributing 61.7% of its total revenue.** The business in China is largely in Guangdong province so it is a great potential to increase market shares in other parts of regions such as Central and Eastern regions afterwards.

We expect the sales performance in Mainland China will continue to be the key growth driver for the Group, complemented by a moderate sales increase in Hong Kong and a steady growth in Australia and Singapore.

Pressure on GP margin

Figure 18: Revenue breakdown by regions (*revenue from the North American divestiture business was included in 2017)

		2015	2016	2017*	2018E	2019E	2020E
Mainland China	Revenue	1,916	2,404	2,666	3,482	4,292	5,412
	Yoy	27%	25%	11%	31%	23%	26%
	% of total revenue	38%	43%	49%	56%	59%	62%
Hong Kong	Revenue	2,048	2,069	2,168	2,083	2,146	2,226
	Yoy	8%	1%	5%	(4%)	3%	4%
	% of total revenue	41%	37%	40%	34%	30%	26%
Australia and New Zealand	Revenue	479	420	472	560	655	829
	Yoy	(3%)	(12%)	12%	19%	17%	27%
	% of total revenue	9%	8%	9%	9%	9%	10%
Singapore	Revenue	86	106	100	93	145	175
	Yoy	1%	23%	(5%)	(7%)	56%	20%
	% of total revenue	2%	2%	2%	2%	2%	2%
Philippines	Revenue	-	-	-	-	36.369	87.287
	Yoy	-	-	-	-	-	100%
	% of total revenue	-	-	-	-	1%	1%

Source: Company data, Orient Securities (Hong Kong)

Driven by strong sales performance, the gross profit increased 19% to HK\$1,922 million and the gross profit margin maintained at 53% in 1H FY2017/2018. As we can see the chart below, we believe the impact of increasing commodity prices such as sugar, soybean are not significant in the result of FY2017/2018 and the commodity prices will go up continuously from the lowest level. Although the Group has secured several long term contracts to mitigate the impact of increasing commodity prices, we expect it is hard to totally offset.

Figure 19: ICE Futures Sugar #11

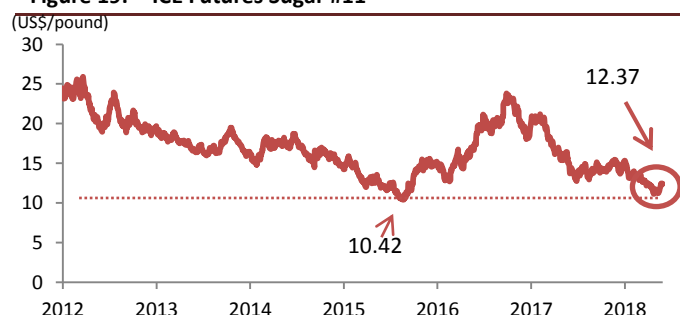
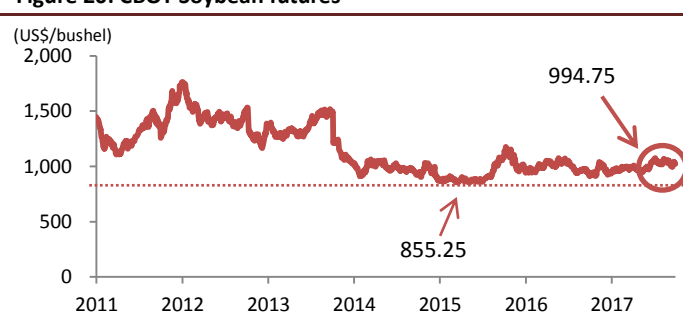


Figure 20: CBOT Soybean futures



Source: Wind, Orient Securities (Hong Kong)

See last page for disclaimer.

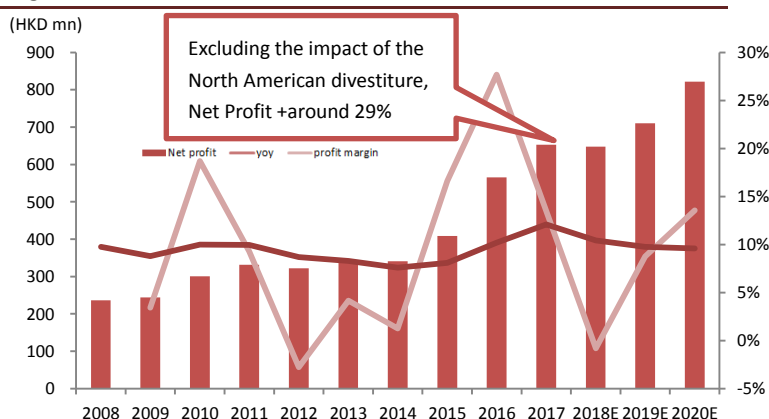
Highly profitable business with strong net cash

The past 10 years have recorded a steady net profit margin within 8-10% so we believe that the net profit margin will be sustained as like as previous results. Despite we expect a big jump in revenue in 2018E, Vitasoy's net profit fall 2% to HK\$637mn due to the fact that the one-off gain (around USD 24.4million pre-tax net gain) of divestiture of the North American Mainstream and SAN SUI Business in 2017.

Figure 21: CAPEX



Figure 22: Net Profit



Source: Company data, Orient Securities (Hong Kong)

Increase production capacity and efficiency to meet demand

Vitasoy's capex should peak in these few years as more funds will be required to expand production capacity, including construction of new production plant, acquisition of new production line and upgrade of existing production machinery. CAPEX will be reduced after the new Dongguan plant commences production in 2021.

Vitasoy always keep their debt level low

Strong normal business operations support Vitasoy's CAPEX expansion. Vitasoy always has positive free cash flow and increases to HK\$783mn in 2020E from our forecast. Therefore, we can definitely assume that low debt level will be sustained with the strong expectation of sales performance in China. In addition, we expect its strong cash flow continues to support good dividend and we consider 70% payout ratio sustainable.

Figure 23: Dividend payment

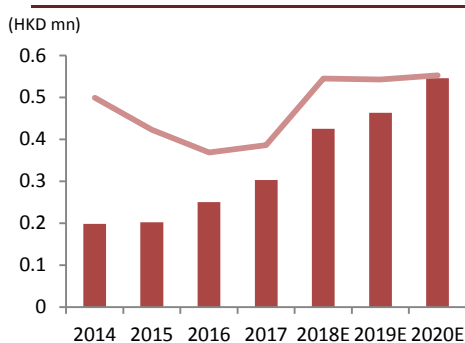


Figure 24: Net Cash

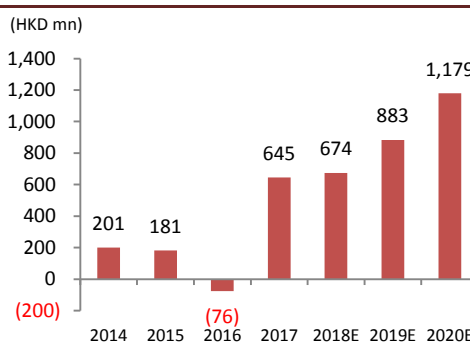
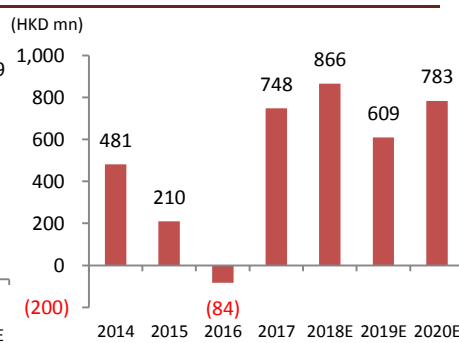


Figure 25: Free Cash Flow



Source: Company data, Orient Securities (Hong Kong)

Initiate at BUY with a TP of HK\$27.2

Figure 26: Key assumptions of Vitasoy's DCF model

WACC	9.9%
Terminal growth rate (%)	4%
Terminal value (HK\$mn)	22,997
Total FCF (HK\$mn)	32,771
NAV Price/Share (HK\$)	30.27
Target NAV Discount (%)	10
Target price (HK\$)	27.2
Upside potential	10.3%

Source: Company, Orient Securities (Hong Kong)

We initiate Buy on Vitasoy with a target price of HK\$27.2 based on DCF valuation method. The relevant assumptions are as follows:

- **WACC.** We assume the weighted average cost of capital (WACC) and terminal growth rate are 9.9% and 4%, respectively. The WACC is derived by assuming a beta of 0.5 and a market risk premium of 12.3%.
- **Long-term growth.** New capex cycle enhances the production capacity to support strong revenue growth. We conservatively assume revenue growth will gradually slow in 2024-2020, while the margin will remain stable.
We have confidence that the highly experienced management team could create an efficient and capable business. Therefore, we apply a 4% terminal growth rate.
- **CAPEX.** Vitasoy are accelerating the development in China so we expect the CAPEX will remain high. We expect CAPEX will be reduced when new Dongguan plant commences production in 2021.
Cash flow. To cope with the impact of increasing commodity prices, we believe that Vitasoy has ability to pass on most of the increased costs to customers with small effects on its' gross margins.
Supported by strong earnings growth, operating cash flow will maintain positive for the next decade.

Figure 27: Vitasoy's DCF forecast

(HK\$mn)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Pre-tax profit	837	920	1,063	1,374	1,771	2,267	2,812	3,100	3,564	4,029
Taxes paid	(189)	(208)	(240)	(311)	(400)	(512)	(635)	(701)	(805)	(911)
Depreciation & amortization	269	301	334	367	404	444	488	522	558	597
Change in working capital	230	(43)	(3)	(55)	(25)	37	(118)	(29)	82	8
Others	30	(9)	(10)	(12)	(14)	(20)	(29)	(37)	(45)	(56)
Operating cash flow	1,416	1,059	1,233	1,406	1,877	2,358	2,661	3,000	3,498	3,814
CAPEX	(550)	(450)	(450)	(450)	(250)	(250)	(250)	(500)	(450)	(450)
Annual free cash flow (HK\$mn)	866	609	783	956	1,627	2,108	2,411	2,500	3,048	3,364
Discounted free cash flow	788	504	590	655	1,015	1,196	1,244	1,174	1,302	1,307

Source: Company, Orient Securities (Hong Kong)

Risks for our model - 10% discount to the DCF model

We estimated NAV price per share is HK\$27.2, implying 10% NAV discount relative to the current share price of HK\$24.65. Taking into account the economic and industrial uncertainties in the future, Vitasoy may suffer the following main risks:

- It may happen price wars with rival companies in a bid to grab market companies;
- The food safety violation tarnished the image of the company and caused severe customer decrease ;
- Failed diversification strategies, including products and geographical presence.

The above uncertainties will bring downside risks to our model or target price. Therefore, we apply a 10% discount to DCF model.

Comparison and analysis of current and historical P/E and P/B

We compared the historical and current P/E and P/B ratios with the P/E band and P/B band as well as the standard deviation. Vitasoy is currently trading at 42.2x FY18E P/E and 10.6x FY18E P/B, according to the historical valuation range, the current P/E and P/B ratios are at relatively high levels.

Figure 28: P/E band

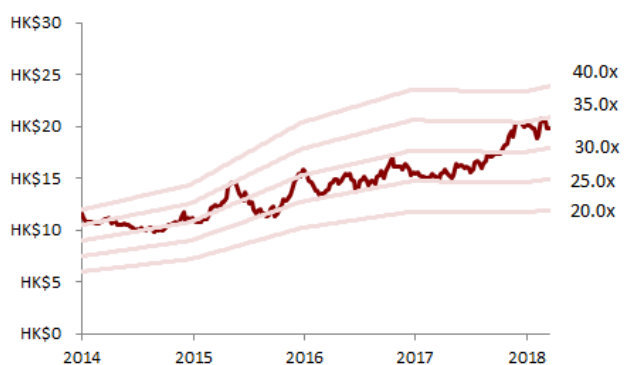
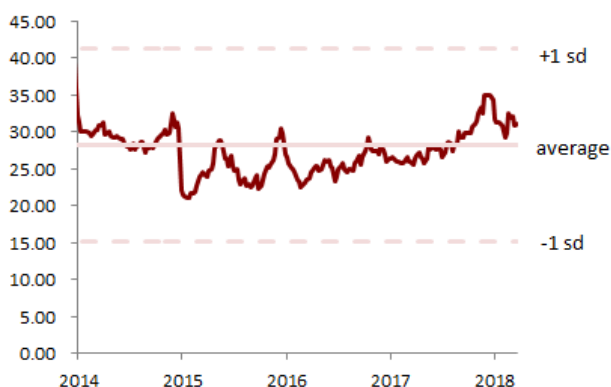


Figure 29: Historical P/E

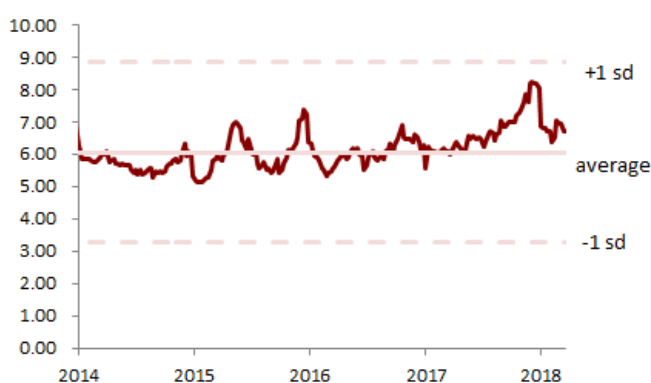


Source: Bloomberg, Orient Securities (Hong Kong)

Figure 30: P/B band



Figure 31: Historical P/B



Source: Bloomberg, Orient Securities (Hong Kong)

Figure 32: Peer valuation table

Ticker	Company	Reporting Currency	Share Price	Market Capitalization (HK\$mn)	P/E (x)				PEG (x)	P/B (x)		Div. Yield (%)		EV/EBITDA (x)		
					17	18E	19E	20E		17	18E	17	18E	17	18E	19E
345 HK	Vitasoy Int'l	HKD	23.65	25,098	41.9	42.2	38.4	33.2	9.7	9.6	8.9	1.2	1.7	23.0	23.0	21.0
151 HK	Want Want	CNY	8.11	100,964	26.5	25.5	23.4	21.5	4.2	5.7	5.7	1.9	1.9	15.3	14.7	14.0
220 HK	U-President	CNY	9.02	38,960	36.2	29.3	25.7	22.3	1.9	2.5	2.4	1.9	1.8	11.8	11.0	10.4
374 HK	Four Seas Mer	HKD	3.36	1,291	25.6					0.8		2.8		8.8		
1219 HK	Tenwow Int'l	CNY	0.62	1,368	7.0	6.1	5.4	4.9	0.5	0.3	0.3	7.2	7.9	7.0	6.6	6.0
HK listed diversified & beverage companies					27.4	25.8	23.2	20.5	4.1	3.8	4.3	3.0	3.3	13.2	13.8	12.8

Source: Bloomberg, Orient Securities (Hong Kong)

Financial Statements & Forecast
Income statement (consolidated)

FY-end Mar (HK\$ mn)	2016	2017	2018E	2019E	2020E
Revenue	5,552	5,406	6,217	7,274	8,583
From Mainland China	2,404	2,666	3,482	4,292	5,322
From Hong Kong and Macau	2,069	2,168	2,083	2,146	2,189
From Australia and New Zealand	420	472	560	655	815
From Singapore	106	100	93	145	172
From North America	552	0	0	0	0
From Philippines	0	0	0	36	86
Cost of sales	(2,726)	(2,533)	(2,922)	(3,477)	(4,120)
Gross profit	2,826	2,873	3,295	3,797	4,463
Other income	30	219	21	21	21
Other expense	(289)	(270)	(311)	(364)	(429)
Selling and marketing expenses	(1,497)	(1,492)	(1,710)	(2,000)	(2,360)
Administrative expenses	(468)	(488)	(466)	(546)	(644)
Finance income	2	5	9	9	10
Operating profit	603	848	838	918	1,062
Finance costs	(4)	(4)	(1)	0	0
Others	0	(1)	0	0	0
Pre-tax profit	599	844	837	920	1,063
Income tax expense	(34)	(190)	(189)	(208)	(240)
Net profit	565	653	648	712	823
EBITDA	814	1,089	1,1073	1,221	1,397
EBIT	603	848	838	920	1,063
EPS (HK\$)	0.509	0.589	0.584	0.642	0.742
DPS (HK\$)	0.250	0.303	0.425	0.464	0.546

Cash flow (consolidated)

FY-end Mar (HK\$ mn)	2016	2017	2018E	2019E	2020E
Pre-tax profit	599	844	837	920	1,063
Income tax paid	(106)	(153)	(189)	(208)	(240)
Depreciation & amortization	212	242	269	301	334
Change in working capital	67	47	230	(43)	(3)
Others	(141)	(35)	268	89	79
Operating cash flow	631	945	1,416	1,059	1,233
CAPEX	(66)	(60)	(95)	(133)	(187)
Disposals	2	339	1	1	1
Investments	2	5	9	11	12
Government grants	31	4	0	0	0
Others	44	(52)	0	0	0
Investing cash flow	(635)	98	(540)	(438)	(437)
Capital element of finance lease	(1)	(1)	(1)	(1)	(1)
Change in bank borrowings	193	(140)	(180)	(28)	0
Shares issued on exercise of share interest paid	(6)	(6)	(1)	(0)	(0)
Dividends paid	(285)	(342)	(471)	(510)	(599)
Others	(0)	3	0	0	0
Financing cash flow	(51)	(451)	(653)	(539)	(601)
Free cash flow	(84)	748	866	609	783
Net cash flow	(63)	581	223	82	195

Semi-annual breakdown

FY-end Mar (HK\$ mn)	2H16	1H17	2H17	1H18	2H18E
Revenue	2,435	3,013	2,393	3,646	2,571
Gross profit	1,228	1,611	1,262	1,922	1,373
Operating profit	179	649	199	568	270
Pre-tax profit	177	648	196	557	280
Tax	59	(164)	(27)	(130)	(59)
Adjusted net profit	221	460	158	397	219
Gross margin (%)	50.4%	53.5%	52.7%	52.7%	53.4%
Effective tax rate (%)	-33.3%	25.3%	13.6%	23.3%	21.2%
Adjusted net margin (%)	9.1%	15.3%	6.6%	10.9%	8.5%
EPS (HK\$)	0.212	0.438	0.151	0.377	0.265
DPS (HK\$)	0.212	0.038	0.265	0.038	0.426

Source: Company, Orient Securities (Hong Kong)

Balance sheet (consolidated)

FY-end Mar (HK\$ mn)	2016	2017	2018E	2019E	2020E
Current assets	1,854	2,336	2,790	3,142	3,698
Inventories	528	582	672	765	906
Trade and other receivables	828	900	1,042	1,219	1,438
Current tax recoverable	8	1	1	1	1
Assets of disposal group classified as held for sale	218	0	0	0	0
Bank deposit	0	0	0	0	0
Cash and cash equivalents	271	853	1,075	1,157	1,352
Non-current assets	2,330	2,151	2,401	2,400	2,374
Property, plant and equipment	2,114	1,986	2,228	2,240	2,218
investment property	5	5	4	4	3
Intangible assets	5	4	3	3	2
interests in leasehold land held for own use under operating leases	68	62	61	59	58
Goodwill	37	35	34	33	32
Deposits for the acquisition of fixed	0	1	1	1	1
Others	101	57	60	60	60
Total assets	4,183	4,487	5,191	5,542	6,072
Current liabilities	1,470	1,513	1,995	2,245	2,652
Trade and other payable	1,285	1,466	1,929	2,156	2,513
Bank loans	140	7	28	50	100
Obligations under finance leases	1	1	1	1	1
Current tax payable	17	38	38	38	38
Other liabilities	26	0	0	0	0
Non-current liabilities	303	284	284	184	84
Deferred tax liabilities	65	61	61	61	61
Other non-current liabilities	238	223	224	124	24
Total liabilities	1,773	1,797	2,279	2,429	2,736
Share capital	734	774	774	774	774
Reserves	1,466	1,697	1,910	2,097	2,303
Non-controlling interest	212	218	227	241	259
Total equity	2,412	2,690	2,911	3,113	3,336
Total liabilities & equity	4,183	4,487	5,191	5,542	6,072
Net cash/(debt)	(76)	645	848	1,007	1,252
Working capital	41	(7)	(237)	(194)	(190)
Total capital employed	2,713	2,974	3,196	3,297	3,419
Net gearing (%)	3	NC	NC	NC	NC
BVPS (HK\$)	2.314	2.561	2.764	2.955	3.167

Key ratios

FY-end Mar	2016	2017	2018E	2019E	2020E
Growth (%)					
Revenue	9.9	(2.6)	15.0	17.0	18.0
Gross profit	12.5	1.7	14.7	15.2	17.5
EBITDA	11.9	33.7	1.7	10.2	14.4
EBIT	14.0	40.6	(1.2)	9.7	15.6
Net Profit	38.3	15.6	(0.8)	9.8	15.6
EPS	42.0	15.7	(0.7)	9.8	15.6
Margin (%)					
Gross	50.9	53.2	53.0	52.2	52.0
EBITDA	14.7	20.1	17.8	16.8	16.3
EBIT	10.9	15.7	13.5	12.6	12.4
Net	10.2	12.1	10.4	9.8	9.6
Others (%)					
Effective tax rate	6	23	23	23	23
Dividend payout ratio	49	51	73	72	74
RoCE	20	21	19	21	23
Average RoE	24	25	23	24	25
Average RoA	13	14	12	12	13
Interest cover (x)	148	226	1,013	0	0

Key assumptions

FY-end Mar	2016	2017	2018E	2019E	2020E
Operating figures					
From Mainland China (% growth)	25%	11%	31%	23%	24%
From Hong Kong (% growth)	1%	5%	(4%)	3%	2%

Analyst Certification

I, Cyrus Tai (Tai Wai Ho), being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that

- (1) all of the views expressed in this report accurately reflect my personal view about the subject company(ies) and its (or their) securities;
- (2) no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report, or our Investment Banking Department;
- (3) I am not, directly or indirectly, supervised by or reporting to our Investment Banking Department;
- (4) the subject company(ies) do(es) not fall into the restriction of the quiet period as defined in paragraph 16.5(g) of SFC Code of Conduct;
- (5) I and my associates do not deal in or trade in the stock(s) covered in this report within 30 calendar days prior to the date of issue of the report;
- (6) I and my associates do not serve as an officer(s) of the listed company(ies) covered in this report; and
- (7) I and my associates have no financial interests in relation to the listed company (ies) covered in this report.

Meanings of Orient Securities Ratings

Buy – Describes stocks that we expect to provide a total return of >10% within a 12-month period.

Accumulate – Describes stocks that we expect to provide a total return of >0% within a 12-month period.

Hold – Describes stocks that we expect to provide a total return of between -20% and +20% within a 12-month period.

Sell – Describes stocks that we expect to provide a total return of <0% within a 12-month period.

Disclosure & Disclaimer

Orient Securities (Hong Kong) Limited does and seeks to do business with the company or companies covered in this report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Orient Securities (Hong Kong) Limited and its affiliates, officers, directors, and employees may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this report.

In no event will Orient Securities (Hong Kong) Limited or any other member of Orient Securities (Hong Kong) Limited be liable or responsible for loss of any kind, whether direct, indirect, consequential or incidental, resulting from the act or omission of any third party occurring in reliance upon the contents of this report.

Any information provided in this research report is for information purpose only and have no regards to the investment objectives, financial situation or risk tolerance level of any specific recipient and does not constitute any solicitation or any offer to buy or sell any securities or any other financial instruments. Before entering into any investment contract, individual should exercise judgment or seek for professional advice when necessary. Orient Securities (Hong Kong) Limited may not execute transactions for individual(s) in the securities/instruments mentioned.

Although the information in this report is obtained or compiled from sources that Orient Securities (Hong Kong) Limited believes to be reliable, no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the materials contained in this report. All price-related information is indicative only, and value of the investment(s) referred to in this report and the income from them may fluctuate because of changes in foreign exchange rates, market indexes, relevant operational / financial conditions of the company and other factors. Information contained in this report may change at any time and Orient Securities (Hong Kong) Limited gives no undertaking to provide notice of any such change. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation, rule or other registration or licensing requirement.

Investment(s) in securities / financial instructions put through/execute outside Hong Kong are subject to the applicable laws and regulations of the relevant overseas jurisdiction, the entity issuing this research report and the analyst(s) authoring this research report are not subject to all the disclosures and other regulatory requirements in other countries.

This report may not be copied, reproduced, distributed, redistribute or published by any person for any purpose without the prior written consent of Orient Securities (Hong Kong) Limited. All rights are reserved.