

China Tianyi (756 HK)

Meeting Key Takeaways

We hosted a small group meeting for Tianyi on April 30, 2014 at our Hong Kong office. CEO Mr. Daniel Liao started off with a blind tasting test of the company's product. Tianyi is one of the few integrated producers in the frozen concentrated orange juice (FCOJ) industry in China. It will also be the first company to exploit the largely untapped not from concentrated orange juice (NFCOJ) in China by 2H FY2014.

Blind tasting test

We conducted a blind tasting test of different brands of NFCOJ, including Tinayi, Florida's Natural, and Tropicana.

One of the few integrated FCOJ producers in China

Tianyi has been operating in the FCOJ industry for 20 year. It adopts an integrated business model, which ranged from upper stream, middle stream and lower stream. The company is one of the few FCOJ processors operating its own upstream orange farm. It's Chongqing plantation, with area of 76,000 mu, produced 102 thousands tones of oranges in 1H14. Tianyi is one of the few local FCOJ suppliers for world's leading beverage manufacturers in China, which include Coca-Cola in China, Japan-based Suntory and Wahaha. Typically, FCOJ earns a segment margin of 35-38% compared with around 24% for fresh oranges.

Exploiting the untapped NFCOJ market

In 2012, 100% pure juice only accounted for 4% of total orange juice consumption in China. However, improvement of Chinese people's per capita income and health consciousness will shift demand from juice drink to nutrition and healthy pure juice. Tianyi is planning to enter into this market with the launch of its NFCOJ in 2H FY 2014. NFCOJ is 100% orange juice and is the highest quality orange juice among nectars and orange juice drinks. Currently, there is no locally produced NFCOJ in China and Chinese consumers pay roughly RMB50 per Liter for imported NFCOJ. Due to short shelf life (60 days), high transportation cost of NFCOJ and up to 37% import tariffs of NFCOJ, there is high barrier of entry for foreign producers to enter into the NFCOJ market in China.

Stronger product portfolio

The production process for FCOJ and NFCOJ are more or less the same but NFCOJ is expected to earn a higher gross margin than FCOJ. As such, the addition of NFCOJ into the product portfolio will provide a natural hedge against Tianyi's FCOJ business and improve overall margin of the company. Tianyi can adjust its resources into FCOJ and NFCOJ based on market demand. Distribution channels for NFCOJ will include selling NFCOJ as raw material, to OEMs, and launching its own branded NFCOJ products through collaboration with exclusive local vendors in 4 selective cities, including Shanghai, Beijing, Chongqing and Hong Kong.

NFCOJ production facilities completed and peak CAPEX cycle passed

To build facilities for NFCOJ production, Tianyi incurred a CAPEX of RMB 203million in 1H14. These include building road and watering system in Chongqing plantation, two new modern NFCOJ production and packaging lines and one exclusive freezer of NFCOJ. With the new production facilities for NFCOJ completed, the expected CAPEX will significantly decrease in 2H14.

Tianyi to benefit from favorable government policy

Tianyi benefits from "China's agriculture, rural areas and farmers" policy and enjoys enterprise income tax exemption.

Other takeaways

Hong Kong / Consumer Staples

05 May 2014	Non rated
Target price	N/A
Last price(5 May 14)	HK\$1.10
Upside/downside(%)	
HSI	21976.33
Mkt cap(HK\$m/US\$m)	1,470/190
52 week range (HK\$m)	0.90 - 1.60
Avg trading volume daily (US\$m)	.44
Free float(%)	48.9%

Source: Bloomberg

Performance



Performance	1M	3M	12M
Absolute (%)	(7.6)	(8.3)	10.0
Absolute(US\$, %)	(7.6)	(8.3)	10.0
Relative to HSI(%)	(5.2)	(11.7)	13.2

Source: Bloomberg

Company background

China Tianyi Holdings Limited manufactures and produces frozen concentrated orange juice in the People's Republic of China. The Company also provides wholesale distribution of oranges, produces concentrated strawberry and gooseberry juice, and processes dehydrated longans.

Source: Bloomberg

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NFCOJ price is yet to be determined.

Orange harvest is only in November each year.

Management expects to keep some inventory in 2H14, in anticipation of rising FCOJ prices.

The company terminated Fujian OJ plantation in Jun 2013, and consolidated OJ plantation in Chongqing.

Brazil and USA supply 80% and 20% of global FCOJ, respectively. The orange future price decreased significantly in 2012 and started to pick up in 2013. We expect the upward movement of OJ future will benefit Tianyi.

Figure 1: Financial Summary

Year to Jun 30 (RMBmn)	2009A	2010A	2011A	2012A	2013A
Revenue	464	479	455	651	526
Operating Profit	139	196	185	277	144
Reported Profit	95	157	154	250	67
Underlying Profit	95	157	154	250	67
Underlying EPS (RMB)	0.1	0.2	0.1	0.2	0.1
DPS (RMB)	0.00	0.00	0.01	0.00	0.01
BVPS (RMB)	0.50	0.61	0.76	1.06	1.14
P/E (x)	8.53	5.88	5.99	4.31	16.05
Dividend Yield (%)	0.0	0.0	1.4	0.0	1.3
P/B (x)	1.78	1.45	1.17	0.84	0.78

Source: Guosen Securities(HK)

中国天溢控股 (756 HK)

会议纪要

我们于四月三十日与中国天溢控股的管理层在国信香港见面。列席者亦参与盲品测试。天溢是冷冻浓缩橙汁(FCOJ)行业在中国的主要生产商,今年七月并将成为第一家在中国生产非浓缩橙汁(NFCOJ)的公司。

盲品测试

我们在不知道牌子的情况下尝到三种 NFCOJ, 这三个品牌分别是天溢, 美国的 Tropicana 和 Florida's Natural。

少数经营上/中/下游的冷冻浓缩橙汁公司

天溢有二十年经营冷冻浓缩橙汁的历史。他们综合性的商业模式, 整合其上游, 中游和下游。他们是少数经营自己的上游橙园的冷冻浓缩橙汁公司。于 1H 2014 年, 重庆 76000 亩橙园已经生产了 102 千公吨的橘子。天溢是提供世界领先的饮料生产商的冷冻浓缩橙汁供应商, 其中包括中国可口可乐, 日本的三得利和娃哈哈。一般来说, 冷冻浓缩橙汁的利润率为 35-38%, 而鲜橙的利润率大概是 24%。

未开发的(NFCOJ)非浓缩橙汁市场

2012 年, 100% 纯果汁仅占中国的总橙汁消费 4%。然而, 随着中国人的收入改善和健康意识提高, 果汁饮料需求将转移到较健康的纯果汁。天一正计划进入这个市场, 在 2014 年七月推出 NFCOJ。NFCOJ 是 100% 橙汁, 是中浓度果汁及橙汁饮料中最高品质的橙汁。目前, 还没有本地生产的 NFCOJ, 中国消费者要支付大约 \$70 人民币购买进口 NFCOJ。由于 NFCOJ 保质期短(60 天), 运输成本高并且有高达 37% 的进口关税, 外国生产商, 难进入中国的 NFCOJ 市场。

多元化的产品组合

FCOJ 及 NFCOJ 的生产过程或多或少相同, 但预期 NFCOJ 的毛利率超过 FCOJ。因此非浓缩橙汁与天溢的冷冻浓缩橙汁提供了自然对冲。天溢可以根据市场需求调整 FCOJ 及 NFCOJ 的生产。他们 NFCOJ 分销渠道包括销售 NFCOJ 原料, OEM, 并推出自有品牌的 NFCOJ。他们将与当地的独家经销商合作, 在上海, 北京, 重庆和香港推出自有品牌的 NFCOJ。

资本支出的高峰期过

2014H 的资本支出为人民币 2 亿。用作建设道路及灌水系统, NFCOJ 生产和包装线及专属冰柜。随着 NFCOJ 新生产设施建成后, 预计资本支出将在 2014 年下半年显著下降。

优惠政策

天溢受益于“中国的农业政策, 并享受企业所得税免税。

其他纪要

NFCOJ 价格尚未确定。

他们的橙园每年一次于十一月收割。

管理层相信冷冻浓缩橙汁的价格将继续上涨, 预计明年将首次录得库存。

巴西和美国分别提供全球 80% 和 20% 的冷冻浓缩橙汁。FCOJ 的价格在 2012 年显著下降, 在 2013 年开始回升, 我们预期天溢将会受益。

香港 / 消费零售

未评级

2014 年 5 月 5 日

目标价	N/A
收盘价(5 May 14)	HK\$1.10
Upside/downside (%)	
恒生指数	21976.33
总市值(HK\$/US\$m)	1,470/190
52 周最高/最低 (HK\$)	0.90 - 1.60
日均成交额 (US\$m)	.44
流通量 (%)	48.9%

资料来源: 彭博

股价表现



股票数据	1M	3M	12M
绝对回报 (%)	(7.6)	(8.3)	10.0
绝对回报 (US\$, %)	(7.6)	(8.3)	10.0
相对 HSI 回报 (%)	(5.2)	(11.7)	13.2

资料来源: 彭博

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资料来源: 彭博

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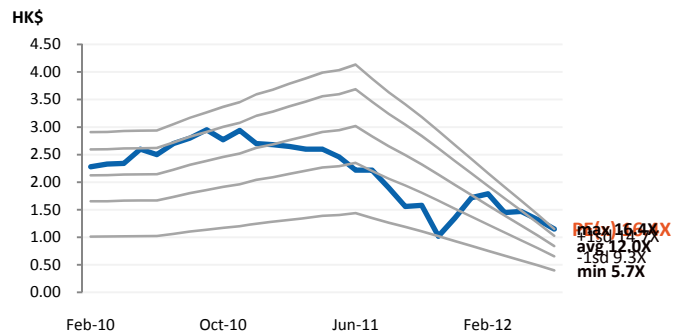
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Figure 2: 盈利预测

截至 Jun 30 (人民币百万)	2009A	2010A	2011A	2012A	2013A
营业额	464	479	455	651	526
经营盈利	139	196	185	277	144
净利润	95	157	154	250	67
实际盈利	95	157	154	250	67
每股实际盈利 (RMB)	0.1	0.2	0.1	0.2	0.1
每股股息 (RMB)	0.00	0.00	0.01	0.00	0.01
每股账面价值 (RMB)	0.50	0.61	0.76	1.06	1.14
市盈率 (x)	8.53	5.88	5.99	4.31	16.05
股息率 (%)	0.0	0.0	1.4	0.0	1.3
市净率 (x)	1.78	1.45	1.17	0.84	0.78

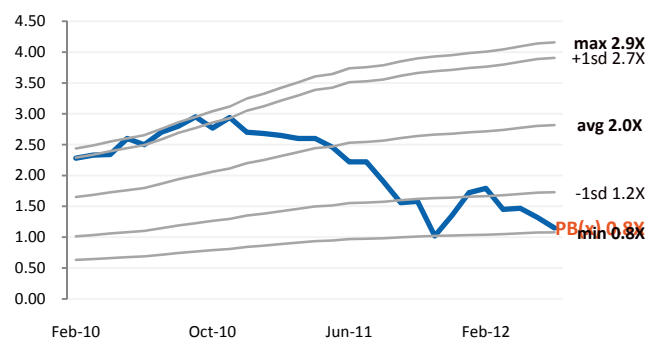
资料来源: 国信证券(香港)

Figure 3 12M forward PE band chart



Source: Bloomberg, Guosen Securities(HK) Research

Figure 4 12M forward PB band chart



Source: Bloomberg, Guosen Securities(HK) Research

Summary financial statements

Profit & Loss (RMBmn)	2009A	2010A	2011A	2012A	2013A
Revenue	464	479	455	651	526
Cost of sales	(336)	(294)	(314)	(403)	(328)
Gross profit	128	186	141	248	198
Other income/(expense)	47	81	121	107	23
Operating expenses	(36)	(70)	(77)	(78)	(77)
Operating profit	139	196	185	277	144
Other non operating inc/(exp)	0	0	0	0	0
Finance income	0	0	0	0	0
Finance expenses	(1)	(2)	(20)	(27)	(44)
Associates & JCE	0	0	0	0	0
Profit before taxation	138	194	166	250	100
Taxation	(40)	(36)	(12)	0	(33)
Non-controlling interests	(2)	(2)	0	0	0
Net profit	95	157	154	250	67
Other Adjustments on UP	0	0	0	0	0
Underlying Profit	95	157	154	250	67

Source: Guosen Research estimates

Financial Ratios	2009A	2010A	2011A	2012A	2013A
Revenue growth (%)	0.0	3.4	(5.0)	43.0	(19.2)
Operating profit growth (%)	0.0	41.7	(5.6)	49.4	(48.1)
Reported profit growth (%)	0.0	64.7	(1.8)	62.8	(73.2)
Underlying profit growth (%)	0.0	64.7	(1.8)	62.8	(73.2)
Underlying EPS growth (%)	0.0	45.1	(1.8)	38.8	(73.1)
Dividend growth (%)	0.0	0.0	0.0	(100)	0.0
Gross profit margin (%)	27.5	38.7	31.0	38.1	37.7
Operating profit margin (%)	29.9	40.9	40.7	42.5	27.3
Underlying profit margin (%)	20.5	32.7	33.8	38.4	12.8
Net debt/equity (%)	(42.0)	(46.3)	(37.7)	(14.8)	(16.2)
Net debt/total assets (%)	(38.6)	(35.8)	(27.3)	(11.3)	(12.0)
Current ratio (%)	1,531	2,369	247	468	367
Dividend payout (%)	0.0	0.0	8.6	0.0	21.4
Interest cover (x)	227.1	109.2	9.5	10.4	3.3
Dividend cover (x)			11.6		4.7

Dupont Analysis	2009A	2010A	2011A	2012A	2013A
Tax burden (%)	68.9	80.5	92.8	100	67.2
Interest burden (%)	99.6	99.1	89.4	90.3	69.4
Operating profit margin (%)	29.9	40.9	40.7	42.5	27.3
Asset turnover (x)		0.7	0.5	0.5	0.3
Leverage ratio (x)		1.2	1.3	1.3	1.3
ROA (%)		23.9	16.1	18.0	3.8
ROE (%)		28.8	21.6	24.1	5.0

Source: Guosen Research estimates

Balance Sheet (RMBmn)	2009A	2010A	2011A	2012A	2013A
Fixed assets	108	143	159	235	245
Associates & JCE	0	0	0	0	0
Others	45	143	255	659	725
Non-current assets	153	286	414	894	970
Inventories	10	5	8	34	33
Debtors & prepayments	80	54	64	164	185
Bank deposits & cash	193	429	556	513	489
Others	58	45	49	86	193
Current assets	340	533	677	797	900
Bank & other borrowings	0	0	256	141	186
Trade & payables	19	18	8	8	6
Taxation	3	5	0	0	33
Others	0	0	10	21	20
Current liabilities	22	22	274	170	246
Bank & other borrowings	5	139	5	184	199
Others	12	24	21	49	45
Non-current liabilities	17	162	26	233	244
Net assets	455	634	790	1,287	1,380
Share capital	9	9	9	11	11
Premium & reserves	446	625	781	1,277	1,369
Shareholders' funds	455	634	790	1,287	1,380
Non-controlling interests	0	0	0	0	0
Total equity	455	634	790	1,287	1,380

Source: Guosen Research estimates

Cashflow (RMBmn)	2009A	2010A	2011A	2012A	2013A
Operating profit	139	196	185	277	144
Depreciation & amortization	6	8	12	22	28
Interest income	(2)	(1)	(5)	(8)	(7)
Change in working capital	52	19	96	(264)	(168)
Tax paid	(55)	(33)	(17)	(11)	(1)
Other operating cashflow	(35)	(66)	(106)	(92)	(6)
Operating activities	105	123	165	(77)	(10)
Purchase of non-current assets (Capex)	(88)	(48)	(34)	(38)	(33)
Free cash flow	17	75	131	(115)	(43)
Disposal of non-current assets	0	0	0	1	0
Associates & JCE (net)	0	0	0	17	0
Interest received	2	1	2	3	2
Dividends received	0	0	0	0	0
Other investing cashflow	(8)	0	(115)	(2)	3
Investing activities	(94)	(47)	(147)	(18)	(28)
New loans raised	5	0	254	576	69
Repayment of loans	(17)	0	(140)	(558)	(27)
Dividends paid	0	0	(13)	0	(14)
Other financing cashflow	126	160	8	34	(12)
Financing activities	114	160	109	52	15
Inc/(dec) in cash	125	236	127	(43)	(23)
Cash at beginning of year	68	193	429	556	513
Foreign exchange effect	0	0	0	0	(2)
Cash at end of year	193	429	556	513	489

Source: Guosen Research estimates

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Stock Ratings:

Buy: A return potential of 10 % or more relative to overall market within 6 – 12 months.

Neutral: A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months.

Sell: A negative return of 10% or more relative to overall market within 6 –12 months.

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Overweight: The sector will outperform the overall market by 10% or higher within 6 –12 months.

Neutral: The sector performance will range from -10% to 10% relative to overall market within 6 –12 months.

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