

Equity Research | HK China | Food & Beverage

18 March 2016

An emerging indigenous F&B brand

- Headquartered in Fujian, China, Tianyi Summi (Tianyi) is a manufacturer of orange juice products, selling its products to beverage makers such as Coca-Cola.
- Launched in Mar-15, its self-own Summi NFC brand products achieved strong sales growth and accounted for 24% of total revenue in 1H16 on aggressive distribution network expansion. The company intends to more than double its offline POS to 4,000 by end-16.
- Tianyi trades at 2016E 16.0x PER, versus an average forward PER of 18.0x of its Hong Kong-listed peers in the food & beverage space.

Distribution network expansion to drive strong own-brand sales. From launch in Mar 2015 to Jan 2016, sales of Tianyi's not-from-concentrate NFC orange juice under its "Summi" brand reached RMB107mn (Ex-factory price, VAT included) and contributed 24% of total revenue in 1H16, mainly attributable to the rapid expansion of its distribution network. As of end-Feb 2016, Summi NFC's offline point-of-sales (POS) has expanded to a total of 1,909 in HK and China, and management targets 4,000 POS by the end of 2016.

Vertical business extension improves sales and earnings visibility. Tianyi's traditional business (selling FCOJ & its related products as well as fresh oranges) currently suffers from fluctuating raw material prices and production output due to its upstream exposure in citrus plantation. But thanks to increasing sales contribution from Summi NFC, Tianyi should command greater pricing power after launching its own downstream brand, which should also improve sales and earnings visibility going forward. Meanwhile, NFC has already contributed net profit of RMB2.5mn in 1H16.

Key risks & Valuation. **Key risks:** 1) Its aggressive network expansion plan may fall through; 2) Threats from new entrants in the NFC market; 3) Biological assets a swing factor to reported profits; 4) Potential cannibalisation of upstream B2B business from downstream B2C business. **Valuation:** Tianyi currently trades at 16.0x PER FY16E, c.11% discount to an average forward PER of 18.0x of its Hong Kong-listed peers in the food & beverage space, according to Bloomberg consensus.

RMB mn (Year to June)	2013	2014	2015
Total Revenue	526	570	471
Revenue Growth	-19.2%	8.3%	-17.3%
EBITDA	175	196	145
EBITDA Growth	-42.0%	12.5%	-26.1%
Net Profit (RMB mn)	67	117	78
Net Profit Growth	-73.2%	74.8%	-33.1%
EPS (RMB)	0.060	0.090	0.060
DPS (HKD)	0.040	-	-
PER (x)	17.9	9.5	16.8
EV/EBITDA (x)	8.9	7.7	13.6

Source: Company data, CSCI Research

Tianyi Summi (756 HK)

Not rated

Close price	HKD1.11
Market cap.	HKD1.5bn
Free float	56.7%
52-week range	HKD0.75 – 1.59
3-mth ave. T/O	HKD5.1mn

Price as of 17 Mar, 2016

Stock rel HSI performance (%)



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Strong growth in newly launched own brand

Network expansion to drive strong own brand growth

Penetrating into B2C under its own Summi brand: Tianyi used to act as an upstream supplier by producing and selling frozen concentrated orange juice (FCOJ) to downstream beverage makers, with Coca-Cola, the beverage giant, being its major customer. Since Mar 2015, Tianyi has started to introduce its own downstream not frozen concentrated orange juice (NFCOJ) under the “Summi” brand, which is targeted to cater for those with a preference for a higher quality in their food & beverage consumption, which has led the company to foray into the B2C space.

Figure 1: Summi NFC sold in Wellcome Supermarket in HK

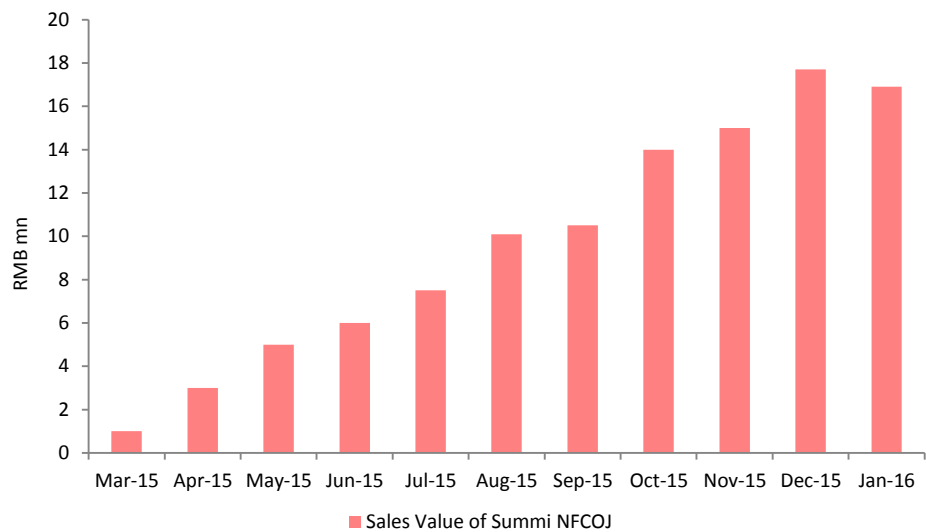


Source: CSCI Research

Strong growth potential of Summi NFC's products on distribution network expansion:

From launch in Mar 2015 to Jan 2016, sales of its Summi brand products reached RMB 107mn (Ex-factory price, VAT included) and contributed 24% of total revenue in 1H16 (6 months ended in Dec 15), mainly attributable to the rapid expansion of its distribution network. As of end-Feb 2016, Summi NFC's offline POS has expanded to a total of 1,909 in HK and China with 1,461 high-end supermarkets & convenience stores, and 448 cafes, bakeries & cinemas. Summi has also extended its sales network to 27 online platforms, including JD.COM, Taobao, amazon, and yihaodian. Management expects that there is still ample room for the sales growth of Summi NFC's products and targets 4,000 POS by the end of 2016.

Figure 2: Sales value of Summi NFC OJ since launch (Ex-factory price, VAT included)



Source: Company data, CSCI Research Remark: These values do not include the sales value of Summi NFC OJ in HK.

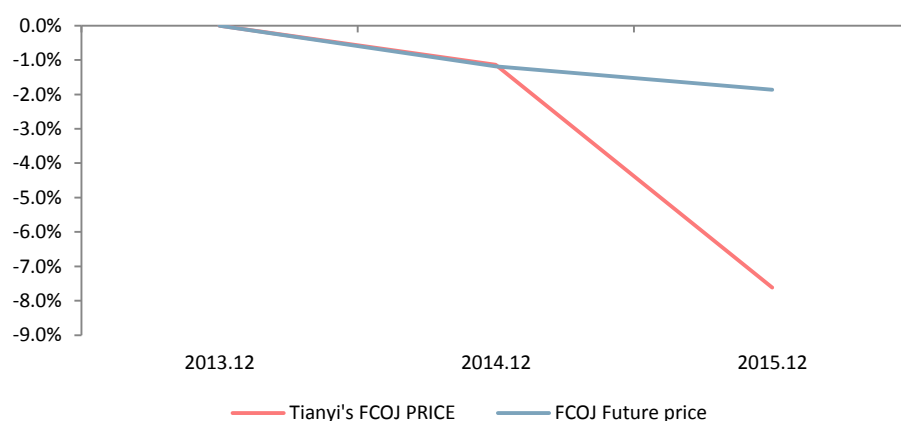
Figure 3: Sales network of Summi NFC



Vertical business extension improves sales and earnings visibility. Tianyi's traditional business (selling FCOJ & its related products as well as fresh oranges) currently suffers from fluctuating raw material prices and orange output due to its upstream exposure in citrus plantation. Take FCOJ as an example, Tianyi's FCOJ ASP shifted on a downward trend and coincided with the international FCOJ futures price during the period from 1H14 to 1H16. In our simple sensitivity analysis, when the international FCOJ futures price slipped by 1%, the ASP of Tianyi's FCOJ products also came down by 4.1% accordingly. Consequently, the GPM of FCOJ's products also dropped by 2.6ppts..

But thanks to increasing sales contribution from Summi NFC, Tianyi should command greater pricing power after launching its own downstream brand, which should also improve sales and earnings visibility going forward. Meanwhile, NFC has already contributed net profit of RMB2.5mn in 1H16 only 10 months after it first launched the product.

Figure 4: Relationship between International FCOJ future price and Tianyi's FCOJ ASP

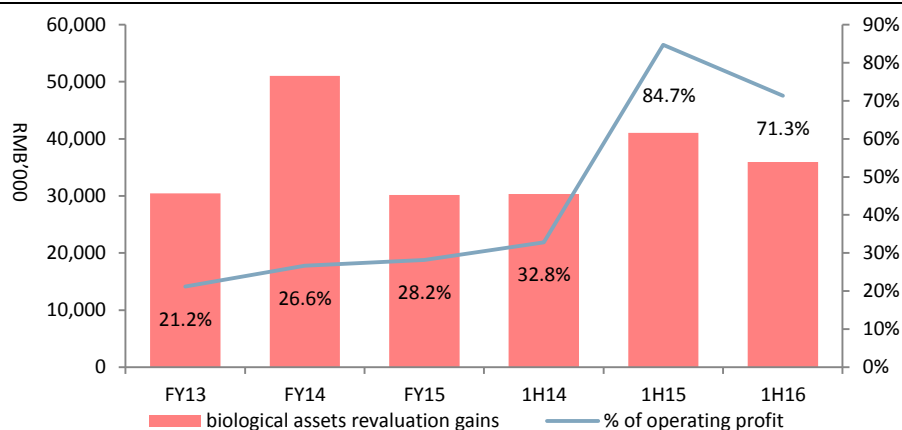


Source: Bloomberg, CSCI Research

Financial highlights

Biological asset revaluation gains could affect Tianyi's reported profits. Tianyi's biological asset refer to fresh oranges, and revaluation gains from biological asset represent the difference between costs and the market value of fresh oranges at the time of harvest. Biological asset revaluation gains could have a direct impact on Tianyi's reported profits. From the graph below, we may find an upward trend of biological asset revaluation gains to total operating profit.

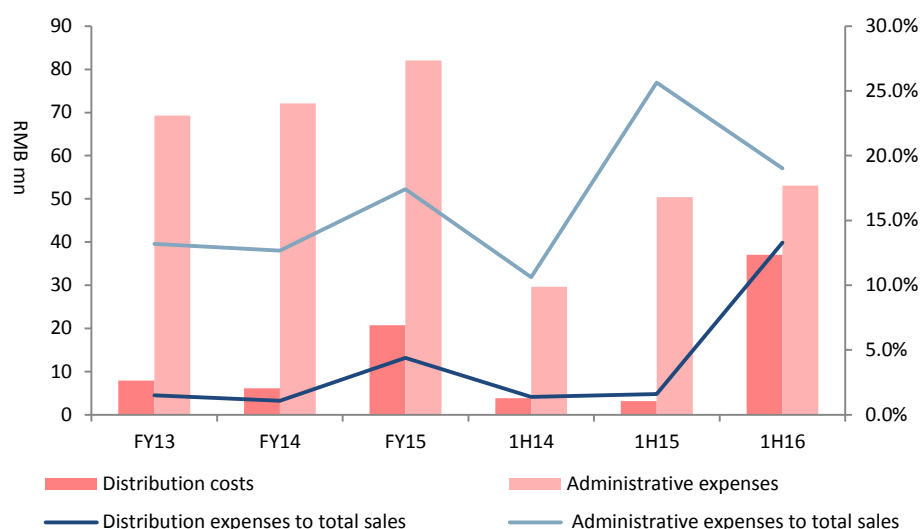
Figure 5: Biological assets revaluation gains and its % of operating profit



Source: Company data, CSCI Research Remark: Operating profit excludes gains on redemption of CB

SG&A expenses increased significantly due to Summi NFC marketing: Significant costs were incurred during the introduction of Summi NFC, which had caused distribution expenses as a percentage of total sales to increase significantly to 13.3% in 1H16 from 1.6% in 1H15.

Figure 6: SG&A expenses and their % of sales



Source: Company data, CSCI Research

Working capital shows obvious seasonality trend: Accounts receivable turnover days have shown an obvious seasonality trend since Tianyi usually meets its sales peak season in each year end while cash receivables would not be recognised until June of the following year. The large increase in inventory turnover days in FY15 was attributable to the inventory of Summi NFC as it was launched in Mar 2015.

Figure 7: Working capital

	AR T/O (days)	Inventory T/O (days)	AP T/O (days)	Cash conv. cycle (days)
FY2013	46	37	7	76
FY2014	24	31	10	46
FY2015	61	84	15	130
1H14	167	50	53	165
1H15	170	47	79	139
1H16	178	49	35	191

Source: Bloomberg, CSCI Research

Key risks and valuation

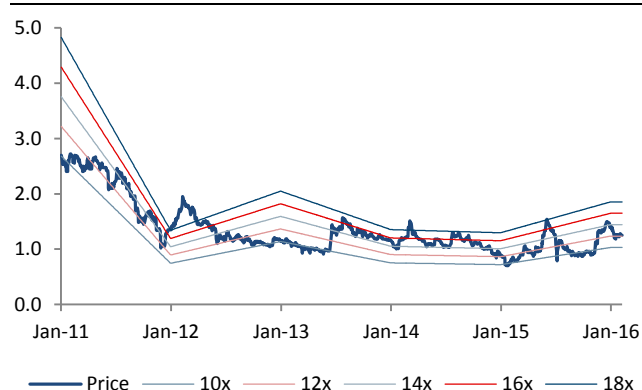
Key risks: 1) Its aggressive network expansion plan may fall through; 2) Threats from new entrants in the NFC market; 3) Biological assets a swing factor to reported profits; 4) Potential cannibalisation of upstream B2B business from downstream B2C business.

Valuation: Tianyi currently trades at 16.0x PER FY16E, c.11% discount to an average forward PER of 18.0x of its Hong Kong-listed peers in the food & beverage space, according to Bloomberg consensus, and c.31% premium to its 5-year historical average of 12.16x.

Figure 8: Peers valuation table

Name	Ticker	Mkt Cap (bn HK\$)	Currency	Last Price	FYE	1-yr fwd PER (x)	2-yr fwd PER (x)	1-yr PBR (x)	Sales growth (%)	Op Profit Margin (%)	Cap Ex/ Sales (%)	ROIC (%)	ROA (%)	Dvd Yield (%)	EV/ EBITDA (x)
HK listed															
Want Want China	151 HK	69.0	HKD	5.4	12/2015	15.2	15.2	4.1	(9.2)	21.3	9.4	15.4	13.4	2.6	9.7
Tingyi	322 HK	41.5	HKD	7.4	12/2014	21.7	20.3	1.6	(6.4)	6.8	12.8	6.0	3.7	3.7	6.5
Uni-President Ch	220 HK	22.4	HKD	5.2	12/2014	21.7	18.9	1.5	(3.6)	1.7	14.1	3.1	2.9	N/A	9.4
Dali Foods	3799 HK	55.6	HKD	4.1	12/2015	14.5	13.2	3.6	13.2	21.8	3.8	41.0	25.6	3.1	9.1
Tenwow Intl.	1219 HK	3.8	HKD	1.8	12/2014	8.3	7.1	0.9	7.6	10.2	5.1	10.0	7.0	3.6	6.9
Tsingtao Brewery	168 HK	42.4	HKD	29.9	12/2014	20.4	20.3	1.9	3.1	7.2	7.3	6.2	5.3	N/A	N/A
China Res beer	291 HK	35.1	HKD	14.4	12/2014	37.9	33.1	2.2	15.3	0.9	4.7	0.0	(3.1)	1.1	12.5
Mengniu Dairy	2319 HK	42.3	HKD	10.8	12/2014	14.6	13.8	1.4	15.4	5.2	5.6	6.7	5.5	1.5	8.6
China Huiyuan	1886 HK	7.7	HKD	3.0	12/2014	N/A	N/A	0.6	2.0	(1.2)	10.5	(0.0)	(1.4)	0.0	16.2
China Modern Dai	1117 HK	9.0	HKD	1.7	12/2014	8.0	8.3	0.9	52.8	20.7	18.7	8.2	5.1	N/A	10.1
China Shengmu Or	1432 HK	10.2	HKD	1.6	12/2014	12.2	8.2	1.2	86.4	44.2	35.8	22.4	14.8	0.0	8.8
Vitasoy Intl Hld	345 HK	14.1	HKD	13.5	03/2015	28.9	24.5	6.5	12.4	10.5	11.1	20.2	11.8	1.9	17.0
Tianyi Summi	756 HK	1.5	HKD	1.1	06/2015	16.0	11.0	0.8	(17.3)	14.9	6.1	5.2	2.9	0.0	8.5
HK Average		29.1				18.0	16.0	2.1	13.4	12.1	10.7	10.8	7.1	1.7	10.2

Source: Bloomberg, CSCI Research

Figure 9: PBR


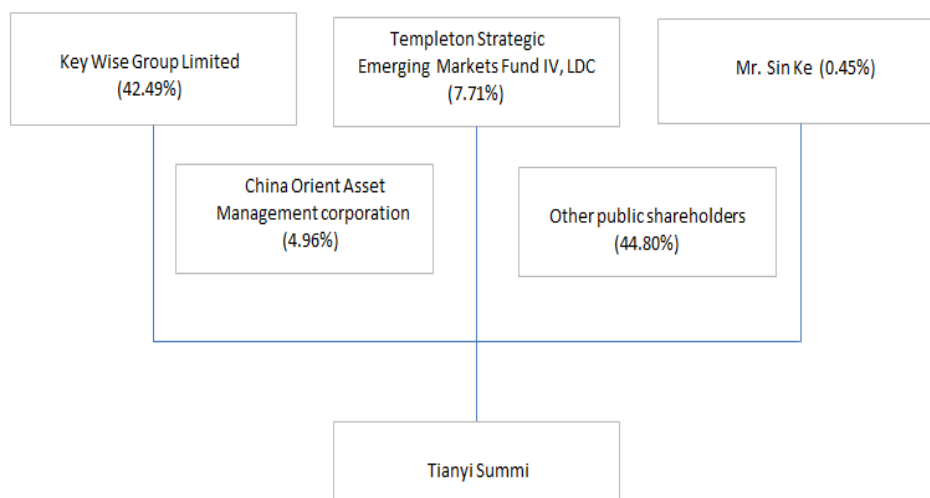
Source: Bloomberg, CSCI Research

Figure 10: PER


Source: Bloomberg, CSCI Research

Company background

Figure 11: Shareholding structure



Source: The Company, CSC Research

Company overview: Founded in 1993 and listed on the Main Board of the Hong Kong Stock Exchange in 2008, Tianyi is mainly engaged in the manufacturing and selling of frozen concentrated orange juice (FCOJ) and non-frozen concentrated orange juice (NFCOJ) under the “Summi” brand and related products, including fresh oranges and orange peels. Tianyi has a total of five production plants located in China’s major citrus growing areas, namely Chongqing, Fujian and Hunan. Tianyi officially launched its own brand Summi NFCOJ to the retail market in HK and China in Mar 2015. Summi NFCOJ is an orange juice product that does not go through the concentration process, thus it has a higher nutrition value than concentrate orange juice and retains the original flavour of orange juice.

Tianyi operates approximately 146,000mu of orange plantations in Kaxian, Chongqing, with an average production capacity of 1.8 tons of oranges/mu. The group uses the oranges harvested from these plantations as raw materials for producing FCOJ, Summi NFCOJ and its related products or sells the oranges as fresh oranges, depending on their grades.

Tianyi currently owns 18 juice extraction machines for Summi NFC in Chongqing with an annual production capacity of 126,900 tons, two packaging lines with an annual packaging capacity of 86mn packs of 1L NFC, and a self-owned cold storage facility with an annual storage capacity of 120,000 tons.

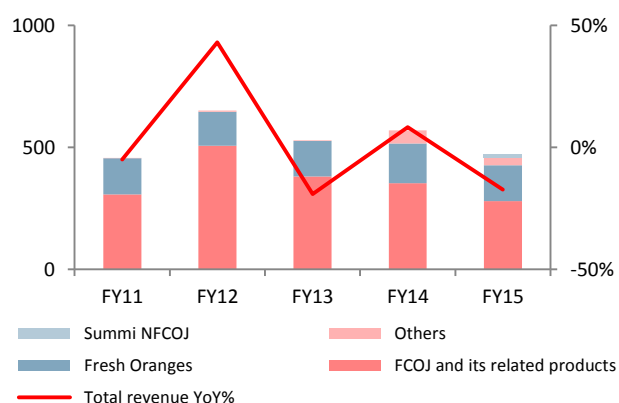
Financials

1H16 results recap: For 1H16 (six months ended in Dec 2015), Tianyi’s recurring net profit expanded by 18% YoY to RMB40.2mn (excluding the CB gain of RMB16m in 1H15) on the back of 42% YoY increase in total revenue to RMB279mn. Revenue from NFC reached RMB66.9mn, representing 24% of total revenue. Sales from FCOJ and fresh oranges rose 11.1% YoY to RMB211.3mn. Summi NFC’s high GPM (about 60%-70% suggested by the management) boosted the overall GPM by 5.9ppts to 36% from 30.1% in 1H15. Large SG&A expenses incurred during the promotion of Summi NFC have caused the OPM and NPM to slip to 18.1% and 14.4% from 33% and 25.6% in 1H15, respectively.

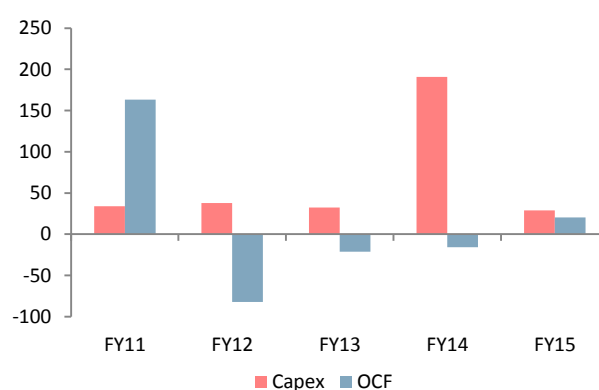
Figure 12: 1H16 results recap

(RMB mn, 6 months ended 31 Dec)	1H16	1H15	YoY (%)
FCOJ and related products	120	96	24.9%
Summi fresh orange juice	67	—	
Fresh Oranges	91	94	-2.9%
Other products	0.767	6	-88.1%
Total Revenue	279	196	42.0%
Cost of sales	-179	-137	30.1%
Gross profit	100	59	69.4%
GPM	36.0%	30.1%	5.8ppts.
Revaluation gains of biological assets	36	41	-12.5%
Other revenue & gains	4	20	-78.8%
Distribution costs	-37	-3	1082.6%
Administrative expenses	-53	-50	5.3%
Other operating income (expenses)	0.012	-2	-100.6%
Operating profit	50	65	-22.3%
OPM	18.1%	33.0%	-14.9ppts.
Finance costs	-11	-15	-26.6%
Profit before tax	39	50	-21.0%
Income tax credit	0.756	0.445	69.9%
Net profit	40	50	-20.2%
Net margin	14.4%	25.6%	-11.2ppts.
Recurring net profit	40	34	18.1%
Adjusted Net margin	14.4%	17.3%	-4ppts.

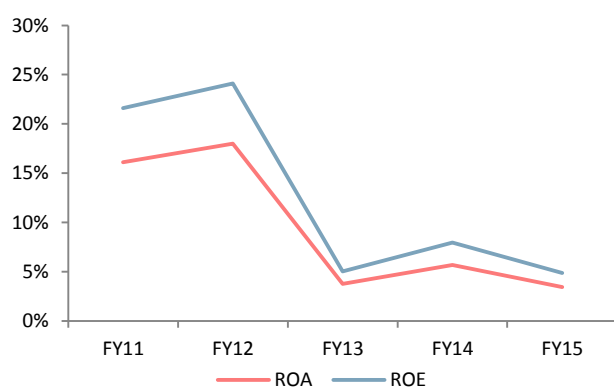
Source: Company data, CSCI Research Remark: Recurring net profit excludes gains on redemption of CB

Figure 13: Total revenue trend (past 5-yrs)


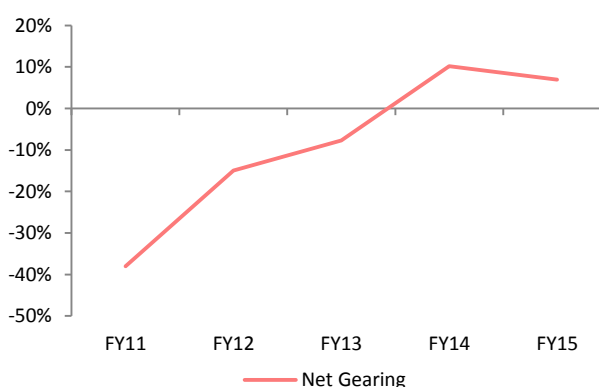
Source: Company data, CSCI Research

Figure 14: Capex versus OCF (past 5-yrs)


Source: Company data, CSCI Research

Figure 15: ROA and ROE (past 5-yrs)


Source: Company data, CSCI Research

Figure 16: Net Gearing (past 5-yrs)


Source: Company data, CSCI Research

Income statement (RMBm)

Year end: Jun	2013	2014	2015
Revenue	526	569	471
COGS	(328)	(361)	(301)
Gross profit	198	208	170
Selling expenses	(8)	(6)	(21)
General and administrative	(69)	(72)	(82)
Impairment loss of intangibles	-	(28)	(18)
Other operating expenses	(17)	(3)	(2)
Other income	40	64	60
EBIT	144	163	107
Net interest	(44)	(49)	(33)
JVs and associates	-	-	-
Pretax profit	100	114	74
Taxation	(33)	3	4
Minority interests	-	-	-
Net profit	67	117	78
Net profit (adjusted)	67	117	78
Basic EPS (RMB)	0.06	0.09	0.06
Diluted EPS (RMB)	0.06	0.09	0.06
DPS (HKD)	0.04	-	-

Cash flow statement (RMBm)

Year end: Jun	2013	2014	2015
Net Income	67	117	78
Depreciation & Amortization	31	33	38
Other Non-Cash Adjustments	(184)	(226)	(25)
Changes in Non-Cash Capital	65	61	(51)
Cash From Operations	(21)	(16)	40
Disposal of Fixed Assets	0	5	0
Capital Expenditures	(33)	(191)	(29)
Increase in Investments	-	(200)	(12)
Decrease in Investments	-	-	-
Other Investing Activities	3	83	49
Cash From Investing Activities	(30)	(303)	9
Dividends Paid	(14)	(24)	-
Change in Short-Term Borrowings	42	-	-
Increase in Long-Term Borrowings	-	408	384
Decrease in Long-Term Borrowings	-	(186)	(490)
Increase in Capital Stocks	1	112	7
Decrease in Capital Stocks	-	-	-
Other Financing Activities	(2)	1	(0)
Cash from Financing Activities	27	311	(99)
Net Changes in Cash	(24)	(7)	(50)

Balance sheet (RMBm)

Year end: Jun	2013	2014	2015
Cash	489	482	431
Short term investments	34	23	20
Accounts receivables	66	38	79
Inventory	33	31	69
Other current assets	278	203	192
Total current assets	900	777	791
PP&E	245	395	427
Intangible Assets	169	132	108
Prepaid payments	538	748	748
Long-term investments	-	16	16
Other long term assets	18	195	194
Total long term assets	970	1,486	1,492
TOTAL ASSETS	1,870	2,263	2,283
Short term debt	183	230	228
Convertible bonds	-	230	-
Accounts payables	6	10	12
Accruals & other payables	20	17	56
Other current liabilities	36	-	-
Total current liabilities	246	487	297
Long term debt	-	181	317
Deferred tax & others	45	33	25
Convertible bonds	199	-	-
Other long term liabilities	-	-	-
Total long term liabilities	244	214	341
TOTAL LIABILITIES	490	701	638
Reserves	1369	1550	1634
Share capital	11	12	12
Shareholders' equity	1,380	1,562	1,646
TOTAL LIAB AND EQUITY	1,870	2,263	2,283

Source: Company data, CSCI Research

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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Outperform	Relative Performance >10%
Neutral	Relative Performance is -10% to 10%
Underperform	Relative Performance <10%

Disclosure of Interests

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