CMS 招商證券國際

Wednesday, May 12, 2021

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

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Uni-President China (220 HK)

1Q21 numbers remain on track

- **1Q21 revenue grew by double digit percentage points yoy**
- **1Q21 revenue and net profit are on track to meet our forecasts**
- **Maintain NEUTRAL with TP of HKD10.0**

1Q numbers are on track with our forecast

UPC announced 1Q21 unaudited net profit of RMB377.6mn (-10.9% yoy). Adjusted for a one-off disposal gain of RMB61mn in 1Q20, 1Q21 unaudited net profit increased by 2.4% yoy. The 1Q21 revenue represented 35% of our 1H21 forecast, which is in-line with historic 1Q/1H breakdown. 1Q21 revenue grew at double digit percentage rate yoy and vs 1Q19. We estimate it is led by 18-20% yoy growth in the beverage segment. Instant noodle declined by single digit percentage point vs 1Q20 but grew by double digit percentage points vs 1Q19.

Maintain revenue guidance

UPC maintain its guidance for FY21 sales of high single digit percentage point yoy growth. There was no guidance for margins or net profits growth. We forecast FY21 sales growth of 6.1% yoy and gross margins to decline by 0.3 ppts yoy.

Raw material costs rose in 1Q21 but still manageable

As expected, raw material costs (PET plastic, packaging and palm oil) rose in 1Q21. Although UPC did not disclose the financial impact, it did say that it believed the rising costs are manageable. Further, UPC noted rising costs could be beneficial. Some competitors had overstocked during the lunar new year and dropped prices to clear inventory. UPC hoped that rising costs would force these competitors to price more rationally.

More new products

UPC introduced more new products such as instant shrimp dumplings (huntun 馄饨) marketed under the Kai Xiao Zao brand (retail price of RMB12) and the Pure & Noble Milk Tea (retail price of RMB8). While UPC would not give guidance on the expected sales for FY21, it views Kai Xiao Zao as a long-term star product and will continue to put resources into it. We also expect Kai Xiao Zao to be a growth driver for UPC.

Maintain NEUTRAL and TP at HKD10.0

These unaudited results confirm our view of UPC and we do not adjust our forecasts. We maintain our NEUTRAL rating with at a target price of HKD10.00.

Catalyst: Better-than-expected sales

Risk: Higher-than-expected raw material costs

Financials

Year ended 31 Dec (RMB mn)	2019	2020	2021E	2022E	2023E
Revenue	22,020	22,762	24,161	25,858	27,642
yoy growth	*1.1%*	*3.4%*	*6.1%*	*7.0%*	*6.9%*
Attributable net profit	1,366	1,626	1,720	1,935	2,180
Adj. EPS (RMB)	0.32	0.38	0.40	0.45	0.50
yoy growth	*32.7%*	*19.0%*	*5.8%*	*12.5%*	*12.6%*
P/E (x)	25.0x	21.0x	19.9x	17.7x	15.7x
ROE	10.2%	11.8%	12.3%	13.7%	15.2%
Net debt (cash)/ equity	-20.5%	-6.2%	-12.4%	-18.4%	-24.2%
Dividend yield	4.0%	4.8%	5.0%	5.7%	6.4%

Sources: Company data, CMS (HK) estimates; share price as of May 12, 2021

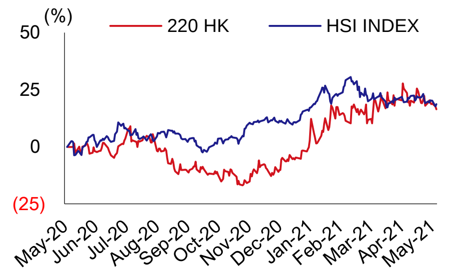
WHAT'S NEW

UPC 1Q21 operational data update

NEUTRAL

Previous	Neutral
Price	HKD 9.4
12-month Target Price (Potential up/downside)	HKD10.0 (+6.2%)
Previous	HKD10.0

Price Performance



Source: Bloomberg; share price as of May 12, 2021

%	1m	6m	12m
220 HK	(4.8)	31.7	19.8
HSI	(0.8)	7.9	16.4

Sector: Consumer	
Hang Seng Index (May 12, 2021)	28,231
HSCEI (May 12, 2021)	10,557
Key Data	
52-week range (HKD)	6.6 - 10.46
Market cap (HKD mn)	40,688
Avg. daily volume (mn)	1.80
BVPS (RMB)	3.21
Shareholding Structure	
Uni-President Enterprise	70.5%
Others	0.7%
No. of shares outstanding (mn)	4,319
Free float	28.8%

Source: Bloomberg

Figure 1: Target price and valuation table

Valuation - UPC				
Stock price	9.42		**Price date**	12/5/2021
HKD/RMB	0.84			

	FY21E	**FY22E**	**FY23E**
EPS (RMB)	0.40	0.45	0.50
P/E	**19.9x**	**17.7x**	**15.7x**
EPS CAGR (since FY19)	12.2%	12.3%	12.4%
PEG	**1.6x**	**1.4x**	**1.3x**
EPS, yoy growth	*5.8%*	*12.5%*	*12.6%*

Target price calculation	
Target P/E	**21.1x**
FY21E EPS (RMB)	**0.40**
Target price (HKD)	**10.0**
Upside	**6.2%**
Div yield	5.0%
Total return	11.2%

Sources: Company data, Bloomberg, CMS (HK) estimates

Note: EPS CAGR is from FY19, to remove the abnormal earnings in FY20 due to COVID-19.

Financial statement

Balance Sheet

RMB mn	2019	2020	2021E	2022E	2023E
PP&E	8,902	7,977	7,555	7,185	6,862
Right of use assets	1,833	1,759	1,672	1,590	1,511
LT deposits	2,530	4,720	4,720	4,720	4,720
Interests in associate/JV	780	794	839	889	943
Other non-current assets	694	693	671	653	636
Non-current assets	**14,739**	**15,943**	**15,457**	**15,036**	**14,672**
Inventories	1,739	1,943	1,750	1,542	1,312
Receivables and prepayments	1,280	1,204	1,154	1,095	1,028
Other financial assets	45	1,666	1,622	1,622	1,622
Bank Balances and Cash	3,954	1,348	2,215	3,101	3,979
Current assets	**7,018**	**6,161**	**6,741**	**7,359**	**7,940**
Total assets	**21,757**	**22,104**	**22,198**	**22,395**	**22,612**
Account payable	1,723	1,880	1,688	1,481	1,252
Other payable and deposits received	2,546	2,721	2,721	2,721	2,721
Bank Borrowings	1,163	487	487	487	487
Other current liabilities	2,209	2,578	2,769	2,958	3,159
Current liabilities	**7,641**	**7,666**	**7,665**	**7,647**	**7,619**
Deferred Tax Liabilities	229	298	298	298	298
Lease Liabilities	22	16	16	16	16
Bank Borrowing	-	-	-	-	-
Other non-current liabilities	232	237	237	237	237
Non-current liabilities	**483**	**552**	**552**	**552**	**552**
Total liabilities	**8,124**	**8,218**	**8,217**	**8,199**	**8,171**
Share Capital	4870	4870	4870	4870	4870
Reserves	8,763	9,017	9,111	9,326	9,571
Non-controlling interests	-	-	-	-	-
Total equity	**13,633**	**13,887**	**13,981**	**14,196**	**14,441**
Total equity and liabilities	**21,757**	**22,104**	**22,198**	**22,395**	**22,612**

Cashflow

RMB mn	2019	2020	2021E	2022E	2023E
Profit before tax	1,971	2,326	2,464	2,773	3,124
Finance Costs	57	56	-160	-160	-160
Shares of profit of associate/JV	-13	-46	-45	-50	-54
D&A	1,385	1,292	1,132	1,071	1,018
Changes in OWC	183	355	247	250	269
Income tax paid	-632	-613	-744	-838	-944
Others	-83	-156	160	160	160
CF from operating activities	**2,869**	**3,215**	**3,053**	**3,206**	**3,413**
Capital expenditure	-504	-318	-600	-600	-600
Disposal of subsidiaries	626	-1,561	0	0	0
Increase in LT deposits	-1,564	-156	0	0	0
Others	-28	334	0	0	0
CF from investing activities	**-1,470**	**-1,701**	**-600**	**-600**	**-600**
Dividend paid	-1,047	-1,369	-1,626	-1,720	-1,935
Equity financing	0	0	0	0	0
Debt financing (repaid)	-824	-676	0	0	0
Others	-35	-39	39	0	0
CF from financing activities	**-1,905**	**-2,084**	**-1,586**	**-1,720**	**-1,935**
Net cash flow	**-506**	**-570**	**867**	**886**	**878**

Profit & Loss Statement

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	**22,020**	**22,762**	**24,161**	**25,858**	**27,642**
Cost of Sales	-14,101	-14,696	-15,675	-16,708	-17,801
Gross profits	**7,918**	**8,066**	**8,487**	**9,150**	**9,841**
Other gains (net)	14	107	121	129	138
Other net income	360	367	459	491	525
Selling & marketing exp	-5,368	-5,350	-5,690	-6,038	-6,399
Admin expense	-1,007	-958	-993	-1,037	-1,053
Other operating exp	-111	-123	-124	-133	-142
Operating profits	**1,806**	**2,108**	**2,259**	**2,563**	**2,910**
Finance costs	152	172	160	160	160
Shares of results of JV/associates	13	46	45	50	54
Profit before tax	**1,971**	**2,326**	**2,464**	**2,773**	**3,124**
Income tax expense	-605	-701	-744	-838	-944
Net profit	**1,366**	**1,626**	**1,720**	**1,935**	**2,180**
Non-controlling interest	0	0	0	0	0
Attributable net profit	**1,366**	**1,626**	**1,720**	**1,935**	**2,180**
Diluted EPS (RMB)	0.32	0.38	0.40	0.45	0.50
Dividend per share (RMB)	0.32	0.38	0.40	0.45	0.50

Financial Ratio

	2019	2020	2021E	2022E	2023E
yoy growth rate					
Revenue	1.1%	3.4%	6.1%	7.0%	6.9%
Gross Profit	8.6%	1.9%	5.2%	7.8%	7.6%
Operating profit	35.6%	16.7%	7.1%	13.5%	13.6%
Net profit	32.7%	19.0%	5.8%	12.5%	12.6%
EPS	32.7%	19.0%	5.8%	12.5%	12.6%
Profitability					
Gross margin	36.0%	35.4%	35.1%	35.4%	35.6%
Operating margin	8.2%	9.3%	9.3%	9.9%	10.5%
Net margin	6.2%	7.1%	7.1%	7.5%	7.9%
Liquidity					
AR days	9.1	9.2	8.1	6.1	4.3
Inventory days	41.4	45.7	43.0	36.0	29.3
AP days	42.4	44.7	41.5	34.6	28.0
Cash conversion cycle	8.1	10.2	9.5	7.5	5.5
Cash flow & leverage					
Free cash low	2,316	2,802	2,355	2,510	2,718
Net debt to equity	-20.5%	-6.2%	-12.4%	-18.4%	-24.2%
Dividend payout ratio	100.0%	100.0%	100.0%	100.0%	100.0%
Dividend yield	4.0%	4.8%	5.0%	5.7%	6.4%
Return analysis					
ROE	10.2%	11.8%	12.3%	13.7%	15.2%
Asset turnover	1.0	1.0	1.1	1.2	1.2
Net margin	6.2%	7.1%	7.1%	7.5%	7.9%
Financial leverage	1.6	1.6	1.6	1.6	1.6
ROA	6.3%	7.4%	7.8%	8.7%	9.7%
Valuation ratios					
P/E	25.0x	21.0x	19.9x	17.7x	15.7x
P/B	2.5x	2.5x	2.4x	2.4x	2.4x

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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