

Tianyun International | 6836.HK

CAPEX expansion to facilitate long term growth

Rating	BUY	Maintain
Target Price	HKD 2.09	From: HK\$2.05
Current price	HKD 1.53	Upside: +36.6%

1H21 result on track supported by own brand

Tianyun has delivered a set of in-line result, with revenue and net profit rose 54.3%/87.6% Yoy to RMB472mn/RMB89.5mn respectively, and reached 46%/50% of our FY21E forecast. Own brand sales growth outperformed OEM as COVID-19 is being well-contained in China which favoured consumer sentiment and hence offline sales, while lower effective tax rate also drove the bottom line.

Tianyun's blended GM was flat at 27.9%, in which OEM's GM fell short of our estimates and own brand's GM rose HoH thanks to the launch of higher margin beverage products. We expect Tianyun to continue expanding own brand business through gradual increasing new capacities and SKUs. Despite OEM would take a longer time to recover, it is still capable to provide a stable source of cashflow to support own brand development.

Own brand sales took up >60% of 1H21 revenue; OEM may take longer time to recover despite diversified clientele

Tianyun's own brand revenue rocketed 92% Yoy to RMB311.5mn (66% of total 1H21 revenue), while segment GM rose 3.1 ppts HoH to 29.0%, thanks to the official launch of new beverage products in end-2020 and 1H21 which enjoyed higher margins than other own brand products.

Tianyun has launched more new products (such as processed fruit products for cherry tomatoes, grapes and mangoes) and target to further diversify product SKUs in the future. We expect own brand's GM would improve Yoy in FY21E driven by launch of new products, and their increasing sales contribution to own brands' sales would continue favour gradual GM expansion

Due to COVID-19 resurgence overseas, Tianyun's 1H21 OEM revenue was down 28.5% HoH, and GM was down 3.8ppts HoH to 25.9% (vs. 29.3%/29.7% in 1H20/2H20) due to higher material cost and freight rates. Therefore, Tianyun's overseas sales contribution further narrowed to ~4% of total revenue (vs. 9.6%/5.8% in 1H20/2H20) in FY20, while China sales soared 63% Yoy due to lower comps and sales contribution from own brand beverage products.

As Tianyun possessed a diverse clientele worldwide including Europe, Canada, Australia and New Zealand, we continue to believe the current client portfolio would support Tianyun's stable OEM sales growth in the mid-long term.

Beverage sales on track and would continue to drive own brand's mid-term sales growth

Tianyun have launched a new line of sports beverage with fruit juice and vitamins "SHIOK PARTY" in China in end- November 2020, with total designed capacity in Shandong and Yichang at >50k ton/year by end-2021. This was in-line with company's strategy to offer more SKUs and diversify own brand product mix to reduce product seasonality.

Company Update

16 September 2021

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Trading data

52-Week Range (HK\$)	1.99/0.92
3 Mth Avg Daily Vol (m)	2.36
No of Shares (m)	990.51
Market Cap (HK\$m)	1,515.5
Major Shareholders (%)	Rainbow Lead Venture (26.6%) Yang Ziyuan (20.1%)
Auditors	PWC
Result Due	FY21E: Mar 2022

Company description

Established in January 2003 and listed in HKEx in July 2015, Tianyun sells their products (processed fruit in China and to overseas on an OEM basis, current clients include renowned international brands such as Del Monte and Tesco (TSCO.LN) etc. Tianyun has been promoting its own brand products under "Tiantong Food" (天同食品), "Bingo -My Times-" (糖果時代) and "Guo Xiao Lan" (果小懶), in the PRC and overseas countries. Tianyun commenced sales of Tiantong Food products in Hong Kong's supermarket chains in 2015. By Jun 2021, Tianyun currently has >300 exclusive regional distributors covering supermarket chains including Auchan, RT-Mart, CR Vanguard and AEON etc

Price chart



Sources: Bloomberg, CIRC

Based on our latest channel checks on JD.com, the ASP of Eastroc (605499 CH) Super Drink (東鵬特飲) was ~RMB3.0/can and Dali's (3799.HK) Hi-Tiger (樂虎) was ~RMB4.0/can, while Red Bull was selling at ~RMB6/can. We found out during our recent check on Tmall that SHIOK PARTY ASP was selling at ~RMB4.4/can, which was similar to that of Eastroc and Hi-Tiger, we believe the competitive pricing would enable Tianyun to grab market share.

Eastroc's GM was ~45-48% in FY17-FY20, while that of Monster was ~60% in FY18-FY20, we expect SHIOK PARTY's GM would be higher than current Tianyun's blended average (27.6% in FY20) but below that of Eastroc and Monster. If SHIOK PARTY proved to be a success for Tianyun, it would bring substantial positive impact on Tianyun's sales mix and blended margins.

Tianyun has also unveiled its new beverage product, "Yao Guo Ji", during the 104th Spring China Food & Drinks Fair (the "Fair") in Chengdu in March. It is a new series of fruit juice products which contain a combination of large and real fruit pulp, fruit juice and vitamin. Tianyun rolled out 3 flavors of fruit juice, including peach, grape and strawberry. Management expects more flavours will be entering the market, such as lychee, orange, coconut, hawthorn, pear, and loquat will be launched in the future.

■ Steady capacity expansion plan to support future growth

With current production capacity at ~140k tons/ year, Tianyun expects total designed capacity (including beverage products' capacity) would reach ~250k/~300k tons by FY22E/23E, mainly driven by i) production optimization in Shandong plant and continued ramp up of Hubei's plant, ii) full operation of production workshop No. 5 and No. 6 (expects to commence full production in FY22E) and iii) new plant setup in Yunnan Province in FY22E, which would involve the production of canned fruits and vegetables, beverages, fresh fruits and vegetables and jelly.

■ Undemanding FY22E 5.3x PE, diversifying own brand product mix continue favour re-rating

We lift Tianyun's FY21E/22E EPS by +9.7%/+12.9% to reflect higher sales forecasts and lower effective rate, while keeping our GM estimates largely unchanged. We expect Tianyun's revenue and EPS to grow at 20.0%/23.0% CAGR in FY20-FY23E driven by increasing contribution from own brand (including beverage products) and stable OEM business.

Tianyun's share price has slightly outperformed HK listed F&B peers YTD, the counter is still trading at undemanding FY21E/22E 6.4x/5.3x PE (~64% discount to weighted average of HK, A-share listed and international peers). As own brand already took up >65% of 1H21 sales and GM, these figures further support that Tianyun's own brand business is growing on the right track and continues to deserve a re-rating in the long run.

With solid track record since listed in 2015 and healthy financial position (RMB ~299mn net cash in 1H21, accounted for 23% of current market cap), we reiterate Tianyun's rating at BUY and value its TP at HK\$2.09 based on 7.2x weighted average FY22E PE (unchanged ~50% discount to peers' 14.7x weighted average PE).

Exhibit 1: We lift Tianyun's FY21E/22E earnings estimates and introduce FY23E forecasts

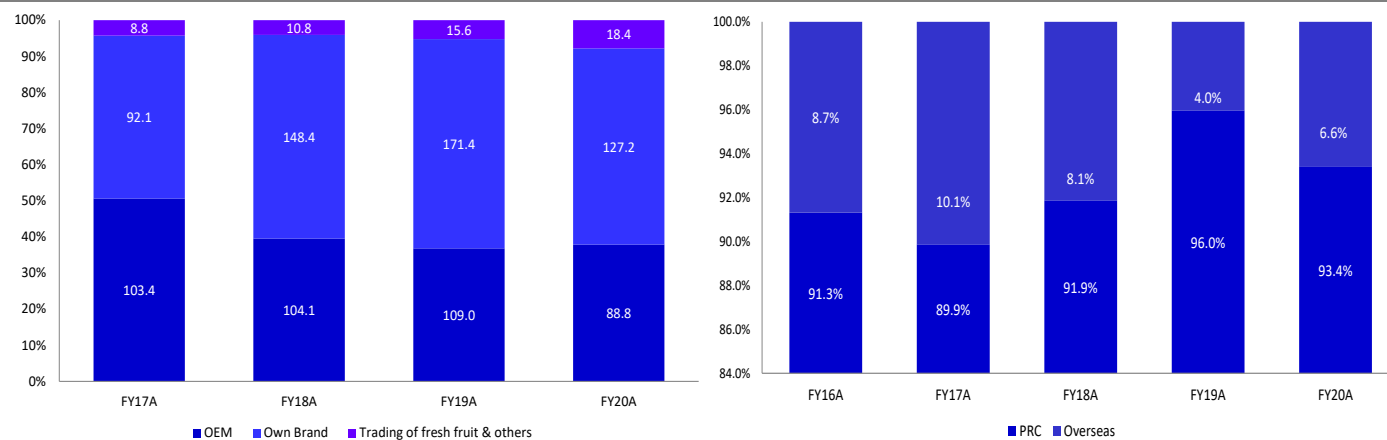
	FY21 (old)	FY21(new)	Diff	FY22E (old)	FY22E (new)	Diff	FY23E (new)	Yoy(%)
Revenue	1,016	1,094	7.7%	1,165	1,287	10.5%	1,481	15.1%
GP	283	305	7.5%	331	366	10.5%	426	16.5%
GM	27.9%	27.9%	+0bps	28.4%	28.4%	+10bps	28.7%	+30bps
Net Profit	178	196	9.7%	211	238	12.9%	279	16.8%
EPS	0.181	0.199	9.7%	0.214	0.242	12.9%	0.283	16.8%

Source: Company data, CIRC estimates

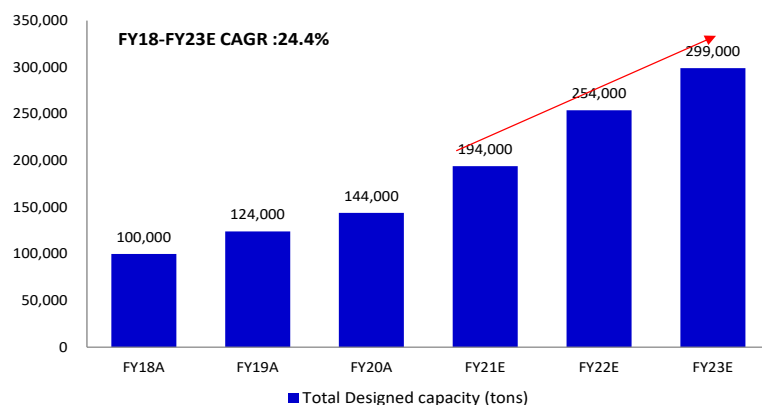
Exhibit 2: Tianyun's own brand GM was flat Yoy, while OEM GM was down due to rising material and shipping cost

Year to Dec (RMB mn)		1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21
OEM		156	189	181.4	181	166	172	118	183	130.9
	Yoy(%)	-8.4%	-10.8%	16.1%	-4.2%	-8.3%	-4.9%	-28.8%	6.1%	10.6%
	% of revenue	45.5%	47.0%	41.3%	36.1%	36.4%	28.4%	38.7%	33.5%	27.7%
Own Brand		138.7	183.4	209.5	272.8	258	373.8	162.2	307.2	311.5
	Yoy(%)	53.9%	87.5%	51.0%	48.7%	23.2%	37.0%	-37.1%	-17.8%	92.0%
	% of revenue	40.4%	45.6%	47.7%	54.4%	56.4%	61.7%	53.0%	56.4%	66.0%
Trading of fresh fruit & others		48	30	48.4	48	33	60	25.4	55	29.8
	Yoy(%)	3.0%	-17.6%	0.2%	58.9%	-31.8%	25.3%	-23.0%	-8.4%	17.3%
	% of revenue	14.1%	7.4%	11.0%	9.5%	7.2%	9.8%	8.3%	10.0%	6.3%
Total		343	402	439	501	457	605	306	544	472
	Yoy(%)	11.6%	16.3%	28.0%	24.6%	4.1%	20.8%	-33.1%	-10.1%	54.3%
Gross Margin Breakdown (By Segment)										
Year to Dec (RMB mn)		1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21
OEM		47	56	51	53	50	59	35	54	34
	Yoy(%)	-14.4%	-17.8%	8.0%	-5.5%	-2.1%	11.3%	-30.7%	-8.0%	-2.3%
	GM	30.3%	29.6%	28.2%	29.2%	30.1%	34.2%	29.3%	29.7%	25.9%
	% of total GM	51.1%	50.2%	41.9%	37.5%	39.2%	35.0%	40.6%	36.4%	25.7%
Own Brand		38	54	65	84	74	97	48	80	90
	Yoy(%)	36.4%	81.6%	69.6%	55.1%	14.4%	16.4%	-35.4%	-18.3%	88.3%
	GM	27.5%	29.4%	30.9%	30.6%	28.7%	26.0%	29.5%	25.9%	29.0%
	% of total GM	41.2%	48.3%	53.1%	59.2%	57.9%	57.9%	56.0%	53.3%	68.4%
Trading of fresh fruit & others		7	2	6	5	4	12	3	15	8
	Yoy(%)	-33.3%	-78.4%	-15.3%	193.8%	-39.3%	153.2%	-21.6%	29.4%	165.5%
	GM	14.9%	5.4%	12.6%	9.9%	11.2%	20.0%	11.4%	28.3%	25.8%
	% of total GM	7.8%	1.4%	5.0%	3.3%	2.9%	7.1%	3.4%	10.3%	5.8%
Total		93	112	122	141	128	168	86	149	132
	Yoy(%)	-1.5%	6.0%	31.6%	26.6%	4.8%	19.1%	-33.2%	-11.3%	54.2%
	Blended GM	27.0%	27.7%	27.8%	28.2%	28.0%	27.8%	27.9%	27.4%	27.9%

Source: Company data, CIRL

Exhibit 3: Tianyun sales mix by segment (left) and by region (right)


Source: Company data, CIRL

Exhibit 4: Tianyun's total designed capacity would increase to ~300k ton/ year in FY23E


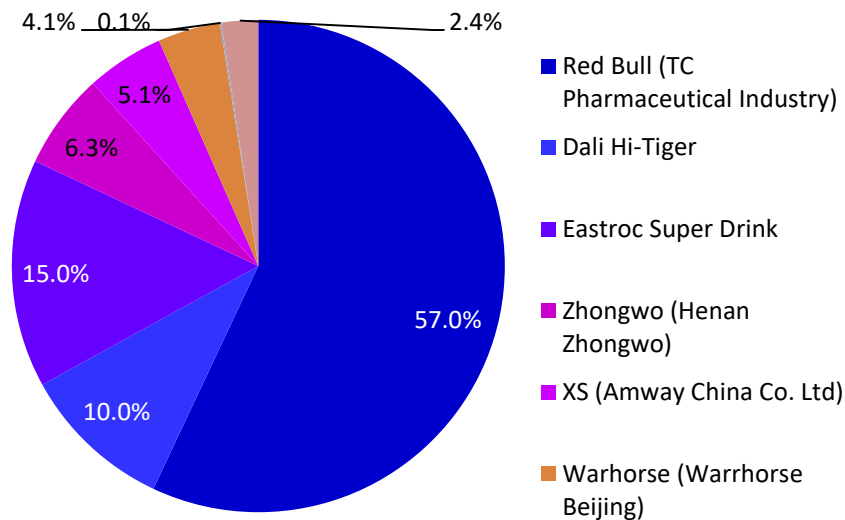
Source: Company data, CIRL

Exhibit 5: Tianyun launched sports beverage with fruit juice and vitamins (SHIOK PARTY) and 'Yao Guo Ji' in end 2020 and March 2021



Source: Company data, CIRL

Exhibit 6: Energy drink market share in 2019 (based on off trade sales volume)



Source: Euromonitor, CIRL

Exhibit 7: Tianyun's profitability vs. peers in FY20

	bloomberg code	Mkt Cap (HKD mn)	ROE (%) FY20	ROA (%) FY20	Net Gearing (%) FY20	FY20		
						GM (%)	OM (%)	PM (%)
HK listed consumer staples								
NONGFU SPRING -H	9633 HK	461,105	41.9	24.4	(42.9)	59%	31%	23%
BUDWEISER BREWIN	1876 HK	321,815	5.0	3.3	(10.2)	52%	16%	9%
CHINA RESOURCES	291 HK	211,845	12.3	5.9	(20.4)	38%	10%	7%
CHINA FEIHE LTD	6186 HK	198,320	40.2	24.1	(43.1)	73%	52%	40%
MENGNIU DAIRY	2319 HK	172,733	11.9	4.7	(0.6)	38%	5%	5%
TSINGTAO BREW-H	168 HK	128,093	11.6	5.8	(90.9)	40%	10%	8%
TSINGTAO BREW-H	168 HK	128,093	11.6	5.8	(90.9)	40%	10%	8%
WH GROUP LTD	288 HK	98,649	8.5	4.4	6.2	20%	6%	3%
TINGYI	322 HK	80,438	20.2	6.9	(29.8)	33%	9%	6%
WANT WANT CHINA	151 HK	69,984	23.9	12.2	(53.8)	48%	24%	18%
DALI FOODS GROUP	3799 HK	62,582	22.8	18.0	(67.9)	39%	22%	18%
UNI-PRESIDENT CH	220 HK	41,854	11.3	7.1	(17.6)	35%	9%	7%
AUSNUTRIA	1717 HK	19,700	22.0	11.5	(19.1)	50%	15%	13%
HEALTH AND HAPPY	1112 HK	18,369	20.5	7.0	70.0	64%	16%	10%
COFCO JOYCOME FO	1610 HK	16,583	52.0	21.9	86.8	1%	-8%	21%
CHINA MODERN DAI	1117 HK	14,644	10.3	4.9	58.8	41%	20%	13%
YANTAI NORTH-H	2218 HK	10,340	4.5	4.3	(26.8)	24%	18%	18%
CHINA FOODS LTD	506 HK	8,699	11.0	3.5	(22.1)	40%	7%	3%
NISSIN FOODS CO	1475 HK	6,317	N/A	5.4	(56.8)	33%	12%	9%
TENFU HLDGS CO	6868 HK	6,060	17.8	10.4	27.1	61%	28%	18%
CHINA SHENGMU OR	1432 HK	5,448	21.6	8.7	30.4	39%	23%	15%
SHANDONG FENGX-H	9977 HK	3,444	(1.9)	(1.1)	14.4	10%	5%	4%
YASHILI INT'L	1230 HK	3,322	1.3	1.0	(30.0)	37%	0%	3%
YUANSHENGTAI DAI	1431 HK	3,236	8.7	7.4	(19.5)	30%	51%	37%
CHINA YURUN FOOD	1068 HK	1,823	N/A	(11.3)	-	5%	-11%	-13%
HONWORLD	2226 HK	1,777	N/A	N/A	-	N/A	N/A	N/A
SHENGUAN HOLDING	829 HK	1,373	3.4	3.0	(21.1)	25%	8%	9%
JIASHILI GROUP L	1285 HK	706	17.3	8.4	(12.3)	34%	11%	9%
SUMMI GROUP HOLD	756 HK	463	N/A	9.6	-	15%	709%	619%
LABIXIAOXIN	1262 HK	330	(17.1)	(5.5)	82.0	33%	11%	-6%
CHINA PUTIAN FOO	1699 HK	217	0.7	0.4	55.8	16%	5%	1%
CHRISTINE INTERN	1210 HK	169	N/A	(16.5)	-	40%	-25%	-27%
CHINA KANGDA FD	834 HK	165	(1.4)	(0.6)	30.5	8%	-1%	-2%
CHINA GREENFRESH	6183 HK	123	N/A	N/A	-	N/A	N/A	N/A
CHINA HAISHENG	359 HK	110	(42.1)	(4.8)	280.9	4%	8%	-13%
HUISENG INTL	1340 HK	83	N/A	N/A	-	N/A	N/A	N/A
Average		58,306	16.5	8.5	67.5	34%	40%	34%
TIANYUN INTERNAT	6836 HK	1,593	15.6	11.7	(34.7)	28%	21%	18%
China listed consumer staples								
FOSHAN HAITIAN-A	603288 CH	651,036	34.2	23.1	(106.5)	42%	32%	28%
INNER MONG YIL-A	600887 CH	288,316	N/A	N/A	-	N/A	N/A	N/A
HENAN SHUAN-A	000895 CH	164,514	29.8	18.9	(43.9)	17%	10%	8%
JUEWEI FOOD CO-A	603517 CH	58,178	15.2	12.7	(21.0)	33%	20%	13%
GUANGZHOU ZHUJ-A	002461 CH	30,477	6.6	4.6	(55.8)	50%	12%	13%
BRIGHT DAIRY-A	600597 CH	27,478	10.4	3.3	(0.0)	26%	5%	2%
BEIJING YAN-A	000729 CH	25,515	N/A	N/A	-	N/A	N/A	N/A
COFCO SUGAR HO-A	600737 CH	23,679	9.4	4.8	23.3	13%	4%	3%
JIANGSU HENGSH-A	600305 CH	23,141	12.5	9.3	(31.1)	41%	19%	16%
JIANGXI HUANGS-A	002695 CH	11,985	12.3	9.7	(38.5)	38%	13%	12%
IAJIA FOOD GRO-A	002650 CH	8,186	N/A	N/A	-	N/A	N/A	N/A
V V FOOD BVRG-A	600300 CH	8,047	N/A	N/A	-	N/A	N/A	N/A
XINJIANG GUANN-A	600251 CH	6,388	9.1	3.7	69.6	17%	11%	9%
Average		7,218	9.1	3.7	46.5	17%	11%	9%
TIANYUN INTERNAT	6836 HK	1,574	15.6	11.7	(34.7)	28%	21%	18%
Energy drinks play								
COCA-COLA CO/THE	KO US	1,811,856	44.1	9.7	157.4	59%	27%	23%
PEPSICO INC	PEP US	1,562,566	54.4	9.0	267.8	55%	14%	10%
MONSTER BEVERAGE	MNST US	399,266	26.8	22.0	(39.5)	59%	36%	31%
SUNTORY FOOD BEV	2587 JP	82,381	7.4	3.6	10.0	41%	8%	4%
Average		964,017	N/A	N/A	145.1	54%	21%	17%
TIANYUN INTERNAT	6836 HK	1,574	15.6	11.7	(34.7)	28%	21%	18%

Source: Bloomberg, CIRC

Exhibit 9: Tianyun's 12 month Forward P/E Ratio


Source: Bloomberg, CIRL

Exhibit 10: Financial statement
Income statement

Year to Dec (RMB Mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,063	850	1,094	1,287	1,481
Gross profit (reported)	296	235	305	366	426
EBITDA	253	199	262	324	389
Depreciation	19	23	29	43	62
EBIT	234	176	233	281	327
Net interest income (exp.)	(9)	7	1	3	4
Associates	0	0	0	0	0
Exceptionals/others	0	0	0	0	0
Profit before tax	225	183	234	284	331
Tax expenses	(56)	(34)	(39)	(45)	(53)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net profit	169	149	196	238	279
Adjusted Net Profit	169	149	196	238	279
Dividends	37	42	0	29	36
Adjusted diluted EPS (RMB)	0.17	0.15	0.20	0.24	0.28

Balance sheet

Year to Dec (RMB Mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash & equiv	473	533	474	467	530
Trade receivables	188	218	219	206	237
Other receivables	0	0	0	0	0
Inventories	102	87	111	130	149
Other current assets	0	0	0	0	0
Fixed assets	368	463	684	890	1,028
Intangible assets	0	0	0	0	0
Investment, associates etc	61	63	62	62	62
Total assets	1,192	1,364	1,550	1,756	2,006
Account payables	52	48	56	66	76
Other payables	7	21	21	21	21
Short-term debt	203	180	192	186	189
Other current liabs	25	94	94	94	94
Long-term debts	0	0	0	0	0
Deferred tax and others	10	5	5	5	5
Other long-term liabs	0	0	0	0	0
Total liabilities	298	348	367	371	384
Share capital	168	142	142	142	142
Reserves	726	875	1,041	1,244	1,481
Shareholders' equity	894	1,017	1,183	1,386	1,622
Minorities	(0)	(0)	(0)	(0)	(0)
Total equity	894	1,016	1,183	1,385	1,622
Net cash (debt)	270	353	282	281	341

Cash flow

Year to Dec (RMB Mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pre-tax profit	225	183	234	284	331
Taxes paid	(64)	(25)	(49)	(47)	(60)
Depreciation & amortization	19	23	29	43	62
Associates & Others	79	27	48	44	54
CFO bef. WC change	260	208	262	323	386
Change in working cap	(39)	(22)	(16)	5	(38)
Cashflow from operation	221	187	246	328	348
CAPEX	(75)	(119)	(250)	(250)	(200)
Free cash flow	146	68	(4)	78	148
Dividends	37	42	0	29	36
Balance sheet adj.	(220)	(27)	(67)	(108)	(124)
Share issued	0	0	0	0	0
Others	0	0	0	0	0
Net cash flow	(37)	83	(71)	(1)	60
Net cash (debt) start	307	270	353	282	281
Net cash (debt) at year-end	270	353	282	281	341

Ratios

Year to Dec (RMB Mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Growth rate (%)					
Revenue	13.0%	-20.0%	28.7%	17.7%	15.1%
EBITDA	9.1%	-21.4%	31.7%	23.7%	19.9%
EBIT	10.2%	-24.7%	32.3%	20.7%	16.3%
Adjusted Net profit	14.4%	-11.7%	31.0%	22.0%	16.8%
Fully diluted EPS	14.6%	-11.7%	31.0%	22.0%	16.8%
Margins (%)					
Gross margin (reported)	27.9%	27.6%	27.9%	28.4%	28.7%
EBITDA	23.8%	23.4%	24.0%	25.2%	26.2%
EBIT	22.0%	20.7%	21.3%	21.8%	22.1%
Net margin	15.9%	17.6%	17.9%	18.5%	18.8%
Other ratios					
ROE (%)	20.4%	15.6%	17.8%	18.6%	18.5%
ROA (%)	14.8%	11.7%	13.4%	14.4%	14.8%
Net gearing (%)	-30.2%	-34.7%	-23.8%	-20.3%	-21.0%
Interest coverage (x)	-26.1	25.2	212.9	109.2	73.6
Receivables days	52.0	87.1	72.9	60.2	54.6
Payables days	24.6	28.7	26.0	26.0	26.3
Inventory days	48.5	51.6	51.6	51.6	51.6
Effective tax rate (%)	-24.9%	-18.5%	-16.5%	-16.0%	-16.0%

Source: Company data, CIRL estimates

Risk Factors

Downside risks include: 1) Slower than expected sales from sports beverage drink and new processed fruit products; 2) loss of OEM orders; 3) high material cost puts pressure on GM; 4) sharp rise in SG&A ratio; 5) Food safety issue and 6) increasing trade tension

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

Analysts List

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Analyst Certification

I, Hayman Chiu, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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