



Company Report: Uni-President China (00220 HK)

公司报告: 统一企业中国 (00220 HK)

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Beverage Sales to Rebound in 2H2022, Maintain "Buy"

饮料销售将在2022年下半年复苏, 维持“买入”

- **We maintain our rating of "Buy" and TP of HK\$8.20.** We revise down our earnings forecast for 2022 to reflect the worse-than-expected 1H2022 results. We forecast 2022-2024 EPS to be RMB0.303/ RMB0.378/ RMB0.424, respectively. Considering marginal relief on cost inflation and advancement of premiumization strategy, we maintain our rating of "Buy" and TP of HK\$8.20.
- **1H2022 results missed as the negative impact of cost inflation on raw materials lasted longer than previous expectations.** 1H2022 revenue increased by 7.2% YoY, of which sales in food business increased by 14.0% YoY and sales in beverages business grew by 4.9% YoY. Gross margin fell by 4.7 ppts YoY/ 3.0 ppts HoH to 30.1% in 1H2022, negatively affected by significant cost inflation on raw materials. The YoY decline in net profit widened in 2Q2022; UPC's 1H2022 net profit decreased by 27.5% YoY to RMB614 million.
- **We expect that improvement in UPC's profitability in 2H2022 may exceed market expectations.** As at Aug. 9, palm oil price decreased by around 48% from the YTD high in March and PET price declined by about 17% from the YTD high in June. As UPC has maintained a relatively low level of raw material inventory throughout this round of cost inflation, we believe that the marginal relief in raw material costs recently will be reflected in the Company's profitability in the short term. In addition, we expect that the hot weather this summer and UPC's expansion of its catering channel will lead to considerable beverage sales growth, which will also be favorable to improvement in profitability.
- **Catalyst:** Robust beverage sales; continuous decrease in raw material prices.
- **Risks:** Slower-than-expected relief on raw material costs; resurgence of COVID-19 pandemic; increased market competition.
- **我们维持“买入”的投资评级与 8.20 港元的目标价。** 由于不及预期的 2022 年上半年业绩, 我们下调了 2022 年的盈利预测。我们预计 2022-2024 年的每股盈利为人民币 0.303/ 0.378/ 0.424 元。考虑到公司成本压力的边际缓解和高端化战略, 我们维持“买入”的投资评级与 8.20 港元的目标价。
- **由于原材料成本压力的持续时间超出此前预计, 统一 2022 年上半年业绩不及预期。** 2022 年上半年收入同比增长 7.2%, 其中食品业务销售额同比上升 14.0%, 饮料销售额同比增长 4.9%。2022 上半年毛利率同比下滑 4.7 个百分点/环比下滑 3.0 个百分点至 30.1%, 主要受到原材料成本显著上涨的负面影响。净利润的同比降幅在 2022 年第 2 季度扩大, 2022 年上半年统一净利润同比下滑 27.5% 至人民币 6.14 亿元。
- **我们预计 2022 年下半年统一盈利能力的改善幅度或将超出市场预期。** 截至 8 月 9 日, 棕榈油价格较 3 月份的年内高点下跌约 48%, PET 价格较 6 月份的年内高点下跌约 17%。由于统一在本轮成本上涨过程中始终保持较低的原材料库存水平, 我们认为近期原材料价格的边际改善将在较短时间内反映在公司的盈利能力上。此外, 我们预计今年夏天的高温天气与统一在餐饮渠道的扩展将带来可观的饮料销售增长, 这也将有利于盈利能力改善。
- **催化剂:** 强劲的饮料销售; 原材料价格的持续下降。
- **风险因素:** 原材料成本降幅小于预期; 新冠疫情反复; 市场竞争加剧。

Rating: **Buy**
Maintained

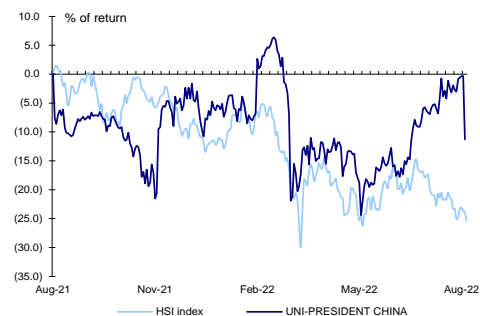
评级: **买入 (维持)**

6-18m TP 目标价: **HK\$8.20**
Revised from 原目标价: HK\$8.20

Share price 股价: **HK\$6.560**

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(5.3)	0.3	(17.9)
Rel. % to HSI Index 相对恒指变动 %	4.4	0.4	8.4
Avg. share price (HK\$) 平均股价 (港元)	7.1	6.6	6.7

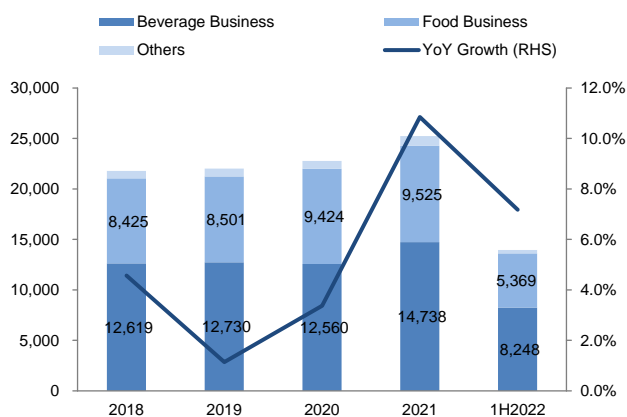
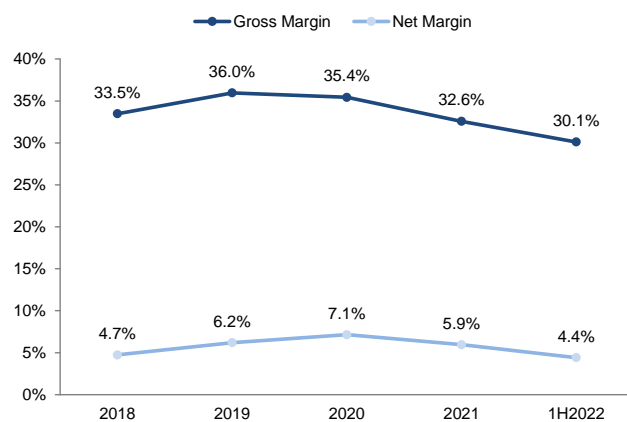
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2020A	22,762	1,626	0.376	19.0	14.7	3.215	1.7	0.376	6.8	11.8
2021A	25,231	1,501	0.347	(7.7)	15.4	3.187	1.7	0.417	7.8	10.9
2022F	27,132	1,311	0.303	(12.7)	18.4	3.080	1.8	0.303	5.4	9.7
2023F	28,989	1,631	0.378	24.8	14.8	3.163	1.8	0.378	6.8	12.1
2024F	30,695	1,831	0.424	12.2	13.2	3.217	1.7	0.424	7.6	13.3

Shares in issue (m) 总股数 (m)	4,319.0	Major shareholder 大股东	Uni-President Enterprises 71.5%
Market cap. (HK\$ m) 市值 (HK\$ m)	28,332.6	Free float (%) 自由流通比率 (%)	28.6
3 month average vol. 3 个月平均成交股数 ('000)	4,140.3	FY22 Net gearing (%) FY22 净负债/股东资金 (%)	Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	8.660 / 5.700	FY22 Est. NAV (HK\$) FY22 每股估值 (港元)	9.2

Source: the Company, Guotai Junan International.

Uni-President China's ("UPC", or the "Company") 1H2022 results missed market expectations as the negative impact from increasing raw material price lasted longer than previous expectations. UPC's revenue in 1H2022 increased by 7.2% YoY to RMB13,940 million, of which sales in food business increased by 14.0% to RMB5,369 million while sales in beverages business grew by 4.9% YoY to RMB8,248 million. Driven by Uni Guo Kumquat Lemon and the expansion in catering channel, juice products recorded strong YoY growth of 25.7% in 1H2022, but growth of milk tea products was stagnant. On the flipside, thanks to double-digit percentage YoY growth of Soup Daren, the sales of instant noodles products priced above RMB5 recorded positive YoY growth of 21% in 1H2022, accounting for 43.7% of food business sales, indicating a continuous premiumization trend. The Company's gross margin reduced by 4.7 ppts YoY and 3.0 HoH to 30.1% in 1H2022, negatively affected by increasing raw material price (especially palm oil price and PET price). Mainly thanks to reduction in promotion activities in 1H2022, the Company's selling and marketing expenses ratio decreased 1.8 ppts YoY to 22.3%. As a result of the combined effect of YoY growth of 7.2% in revenue, the decrease in gross margin brought by the significant increase in raw material price, and strict pandemic control measures in 2Q2022, UPC's 1H2022 net profit decreased by 27.5% YoY to RMB614 million.

Figure-1: UPC's Steady Revenue Growth

Figure-2: UPC's Margin under Pressure from Cost Inflation


Source: the Company, Guotai Junan International.

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Table-1: UPC Beverage Sales Breakdown

RMB million	Beverage Segment		
	1H2021	1H2022	YoY
Juice Drinks	1,115	1,401	25.7%
RTD Tea	3,482	3,651	4.9%
Milk Tea	2,973	2,970	(0.1%)
Others	291	226	(22.4%)
Beverage	7,860	8,248	4.9%

Source: the Company, Guotai Junan International.

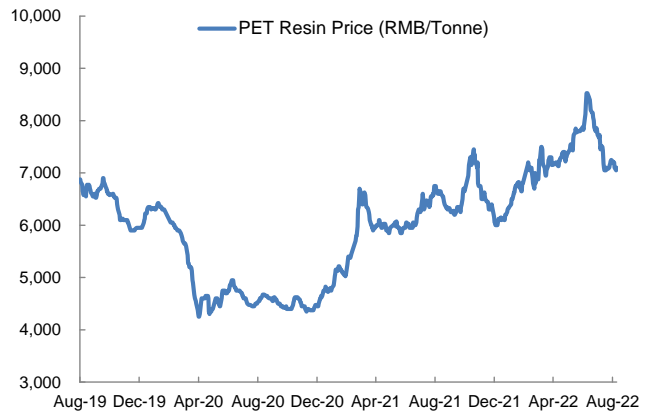
We expect the Company's beverage sales performance to regain momentum in 3Q2022. In 1H2022, the Company sustained steady revenue growth. Despite the negative impact from the 315 pickled cabbage incident, the increasing willingness of channel distributors to try new products accelerated growth of other UPC products. For instance, sales of King of Tomato grew by 2.4 times in 1H2022. On the flipside, although the Company's beverage sales in 2Q2022 was under pressure due to strict pandemic control measures, we expect that the hot weather this summer and the Company's expansion of its restaurant channel will lead to considerable beverage sales growth in 3Q2022, particularly in segments such as bottled water and RTD drinks. Meanwhile, the Company has completed the initial construction of catering channels, which already contributed mid- to low-single-digit percentage of beverage sales in 1H2022.

We expect the marginal improvement in raw material cost to be reflected in the Company's profitability. Although high raw material prices continued to suppress the Company's gross margin in 1H2022, we have seen major raw material prices begin to fall. As at Aug. 9, palm oil price decreased by around 48% from the YTD high in March and the PET price declined by about 17% from the YTD high in June. Considering the Indonesian government's export tax cut on palm oil, palm oil production in Southeast Asia entered its peak season as expected amid declining oil price; we expect cost improvement in the Company's major raw materials to continue in 2H2022. As the Company has maintained a relatively low level of raw material inventory throughout this round of cost inflation, we believe that the marginal improvement in raw material costs recently will be reflected

in the Company's profitability in the short term. In addition, we expect the Company to continue to reduce channel discounts and control selling and marketing cost ratios to offset pressure on overall profitability.

Figure-3: Palm Oil Price Began to fall since May


Source: MDEX.

Figure-4: PET Price Fell after Hitting a YTD High in June


Source: www.tbs-china.com, WIND.

Maintain "Buy" and TP of HK\$8.20. We revise down 2022-2024 net profit forecasts by 11.7%, 0.6%, 0.8% to RMB1,311 mn, RMB1,631 mn and RMB1,831 mn, respectively, mainly due to: i) a decrease in our gross margin assumptions for 2022 to reflect unfavorable raw material price and lower-than-expected gross margin in 1H2022; and ii) basically maintained our forecasts for 2023-2024. In general, we believe that on the premise of maintaining steady top-line growth driven by recovery in beverage sales in 2H2022 and continuous product mix improvement in the food business, and the Company's efforts in lowering channel discounts and promotion expense, the Company's profitability improvement in 2H2022 may exceed market expectations as major raw material prices begin to fall. Therefore, we maintain the Company's investment rating as "Buy" and TP of HK\$8.20, which represents 23.0x, 18.5x and 16.4x 2022-2024 PER.

Catalysts: Strong beverage sales performance; continuous decrease in raw material prices.

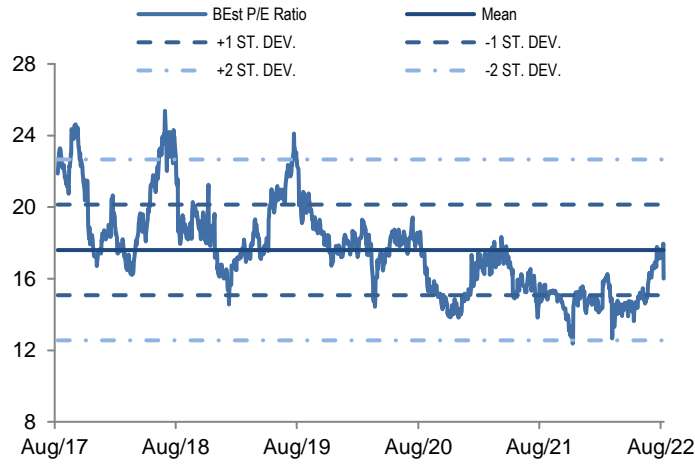
Risk factors: Slower-than-expected relief on raw material costs; resurgence of COVID-19 pandemic; increased market competition.

Table-2: Peers Comparison

Company	Ticker	\$	Share Price	Market Cap (HK\$ mn)	PER (x)			PBR(x)	ROE(%)	Gross Margin(%)	Operating Margin(%)
					FY22F	FY23F	FY24F	FY22F	FY22F	FY22F	FY22F
Nongfu Spring Co	09633 HK	HKD	44.800	503,842	57.5	47.5	40.5	17.8	33.1	56.5	27.9
Budweiser Brewing Co	01876 HK	HKD	22.550	298,639	34.9	30.1	25.9	3.3	9.5	52.3	21.5
China Resources Beer	00291 HK	HKD	52.650	170,806	36.7	28.9	23.9	5.6	15.4	40.1	13.9
China Mengniu Dairy	02319 HK	HKD	34.200	135,265	20.0	16.6	14.2	2.8	14.1	37.0	5.9
Tsingtao Brewery Co	00168 HK	HKD	75.450	135,940	28.0	23.9	21.3	3.6	13.1	35.5	12.1
Tingyi (Cayman Isln)	00322 HK	HKD	12.200	68,720	17.9	14.4	12.4	3.5	19.3	29.0	6.2
Want Want China	00151 HK	HKD	6.300	74,967	14.8	13.7	12.7	3.9	25.7	45.2	22.1
Dali Foods Group Co	03799 HK	HKD	3.610	49,436	12.0	10.7	9.8	2.0	17.7	35.4	18.0
Uni-President China	00220 HK	HKD	6.560	28,335	18.2	14.9	13.0	1.8	10.0	30.8	6.2
Vitasoy Intl Holdings	00345 HK	HKD	10.780	11,543	67.0	28.7	22.9	3.3	4.9	48.7	3.0
China Foods Ltd	00506 HK	HKD	2.480	6,937	9.7	8.5	7.8	1.1	11.6	34.1	6.9
Simple Average					28.8	21.6	18.6	4.4	15.9	40.4	13.1
Weighted Average					38.0	31.5	26.9	8.4	20.5	46.9	19.2

Source: Bloomberg.

Figure-5: PER Band of UPC



Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB mn)	2020A	2021A	2022F	2023F	2024F	Year end 31 Dec (RMB mn)	2020A	2021A	2022F	2023F	2024F
Total Revenue	22,762	25,231	27,132	28,989	30,695	Property, plant and equipment	7,977	7,257	7,044	6,861	6,698
Cost of sales	(14,696)	(17,012)	(18,744)	(19,638)	(20,533)	Right-of-use assets	1,759	1,691	1,608	1,532	1,465
Gross Profit	8,066	8,219	8,388	9,351	10,161	Financial assets at fair value through PL	0	300	0	0	0
Other gains - net	107	78	39	31	32	Others	6,207	5,454	5,287	5,147	5,014
Other income	367	478	396	409	425	Total Non-current Assets	15,943	14,702	13,939	13,541	13,177
Other expenses	(123)	(277)	(280)	(283)	(285)	Cash & Cash Equivalents	1,348	2,128	2,740	3,641	4,220
Selling expenses	(5,350)	(5,543)	(5,863)	(6,259)	(6,784)	Inventories	1,943	2,393	2,220	1,868	2,407
Administrative expenses	(958)	(1,049)	(1,085)	(1,212)	(1,274)	Bills receivable	581	649	660	753	744
Operating Profit	2,108	1,906	1,594	2,039	2,276	Trade and bills receivables	623	762	839	922	1,015
Finance income	230	233	230	241	287	Others	1,666	1,432	1,288	1,159	1,043
Finance costs	(57)	(32)	(3)	(3)	(3)	Total Current Assets	6,161	7,364	7,747	8,344	9,428
Share of JCEs & associates	46	35	36	37	38	Total Assets	22,104	22,065	21,686	21,885	22,606
Profit Before Tax	2,326	2,142	1,857	2,314	2,599	Short-term debts	487	112	101	91	82
Income Tax	(701)	(641)	(546)	(683)	(768)	Bills payable	1,880	2,118	2,157	1,932	2,343
Profit after Tax	1,626	1,501	1,311	1,631	1,831	Accrued expenses and other payables	2,721	2,068	1,965	1,867	1,773
Non-controlling Interest	0	0	0	0	0	Others	2,578	3,384	3,501	3,623	3,752
Shareholders' Profit / Loss	1,626	1,501	1,311	1,631	1,831	Total Current Liabilities	7,666	7,683	7,724	7,513	7,951
Adjusted Net Profit	1,551	1,501	1,311	1,631	1,831	Non-current liabilities	298	331	348	365	383
Basic EPS	0.376	0.347	0.303	0.378	0.424	Others	254	286	313	343	375
Adjusted EPS (RMB)	0.359	0.347	0.303	0.378	0.424	Total Non-current Liabilities	552	617	661	707	758
						Total Liabilities	8,218	8,300	8,384	8,221	8,709
						Total Shareholders' Equity	13,887	13,765	13,302	13,664	13,897
						Minority Interest	0	0	0	0	0
						Total Equity	13,887	13,765	13,302	13,664	13,897

Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB mn)	2020A	2021A	2022F	2023F	2024F		2020A	2021A	2022F	2023F	2024F
PBT	2,326	2,142	1,857	2,314	2,599	Revenue growth (%)	3.4	10.8	7.5	6.8	5.9
DD&A	1,292	1,229	985	951	921	Gross profit growth (%)	1.9	1.9	2.1	11.5	8.7
Net interest income	56	32	30	28	27	Operating profit growth (%)	16.7	(9.6)	(16.4)	27.9	11.6
Change in working capital	355	(267)	142	(19)	(169)	Net profit growth (%)	19.0	(7.7)	(12.6)	24.4	12.2
Others	(202)	(119)	(66)	(66)	(65)	Gross Margin (%)	35.4	32.6	30.9	32.3	33.1
Income tax paid	(613)	(595)	(518)	(652)	(733)	- Beverages	39.7	38.6	36.8	38.0	38.7
Cash from Operating Activities	3,215	2,421	2,430	2,557	2,580	- Food	31.2	25.3	23.3	25.3	26.7
Investing activities						Operating Margin (%)	9.3	7.6	5.9	7.0	7.4
Capital expenditure	(318)	(378)	(700)	(700)	(700)	Net Margin (%)	7.1	5.9	4.8	5.6	6.0
Time Deposits	(156)	(200)	158	152	146	ROA (%)	7.4	6.8	6.0	7.5	8.2
Others	(1,227)	(2)	536	213	193	ROE (%)	11.8	10.9	9.7	12.1	13.3
Cash from Investing Activities	(1,701)	(580)	(6)	(335)	(361)	Inventory turnover days	45.7	40.0	39.0	38.0	38.0
Financing activities						Receivable turnover days	9.2	9.1	9.0	8.9	8.9
Loans changes	(676)	(375)	(11)	(10)	(9)	Payable turnover days	44.7	40.0	39.0	38.0	38.0
Dividend paid	(1,369)	(1,622)	(1,801)	(1,311)	(1,631)	Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Others	(39)	(45)	(0)	0	(0)	Net interest cover (x)	Net	Net	Net	Net	Net
Cash from Financing Activities	(2,084)	(2,042)	(1,812)	(1,321)	(1,640)	income	income	income	income	income	
Cash at Beg of Year	1,057	486	286	897	1,798	Payout ratio (%)	100.0	120.0	100.0	100.0	100.0
Net Changes in Cash	(570)	(201)	612	901	579						
Foreign exchange effect	(1)	(0)	0	0	0						
Cash	486	286	897	1,798	2,377						
Add: Short-term time deposit over 3M	862	1,843	1,843	1,843	1,843						
Cash at End of Year	1,348	2,128	2,740	3,641	4,220						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; Or the fundamental outlook of the sector is unfavorable.

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