

Company Report

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

Johnny WONG +852 3189 6357
Bryan WANG +852 3189 6711

johnnywong@cmschina.com.hk bryanwang@cmschina.com.hk

Tingyi Holding (322 HK)

GPM is set to improve in 2H; Special dividend. BUY.

- Net profit miss due to one-off expenses (pickled cabbage incident)
- Raw materials price moderating; GPM should improve in 2H22
- Special dividend declared. Maintain BUY with TP of HKD16.4

1H22 net profit miss on increased selling expenses

Tingyi announced 1H22 revenue of RMB 38,217 mn, +8.0% yoy and -1.4% vs CMS est. 1H22 net profit was RMB1,253mn, -38.4% yoy and -29.3% vs CMS est. The main reason for the miss is an unexpected increase in selling and marketing expenses, which we attribute to the 315 pickled cabbage incident as Tingyi did a product re-call. Mgmt mentioned that losses related to the 315 pickled cabbage incident was a few hundreds of millions.

Noodle affected by 315 pickled cabbage incident

Instant noodle revenue was RMB13.6bn, +6.5% yoy, -1.9% vs CMS est. Segment GPM and EBIT margin was 20.6% (-3.3ppts yoy, +0.6 ppt vs CMS est.) and 4.3% (-3.6ppts yoy) respectively. While the noodle segment benefited from the rebound in COVID, the 315 pickled cabbage incident also negatively affected sales. Mgmt expect sales of pickled cabbage products will only reach pre-incident levels in FY23. The losses related to the 315 pickled cabbage will also partially carry into 3Q22. That said, Tingyi also raised prices on some of its mass market products in 3Q22 by c, 5%.

Beverage sales grew across several segments

Beverage revenue was RMB24.3bn, +9.1% yoy, -1.0% vs CMS est., mainly driven by strong growth in carbonated drinks, juice and water. Segment GPM and OPM was 32.1% (-2.6ppts yoy, +0.1ppt vs CMS est.) and 4.8% (-3.8ppts yoy) respectively.

Raw material costs expected to stabilize in 2H22

While palm oil prices are still high, the pace of increase has slowed from 1H22 (avg increase of 16.3% yoy in 2H22 so far vs 62.7% in 1H22). Similarly, PET resin prices have increased 13.2% yoy in 2H22 so far vs 25.1% yoy in 1H22. We believe the yoy change should be lower than that of 1H22 and we should see GPM improvements in 2H22 vs 1H22.

Maintain BUY and TP of HKD16.4

Tingyi management guided FY22 net profits to range between RMB2.5bn to RMB3.0bn depending on how much raw material prices decline in 2H22. We cut our FY22/23/24 EPS forecasts by 29.2%, 7.3% and 3.4% due mainly to the one-off expenses related to the 315 pickled cabbage incident. Tingyi also declared another special dividend of USD0.0663 per share. With GPM expected to recover in 2H22 and possibly another special dividend at year-end, we maintain our BUY rating and TP of HKD16.4 (previous HKD16.4), which implies a target PE multiple of 22.5x on the next 12-month EPS (previous FY22E 20.5x). **Key catalysts:** Better-than-expected sales. **Key risk:** Higher-than-expected raw material costs.

Financials

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenue	67,618	74,082	80,733	86,734	93,244
yoy growth	9.1%	9.6%	9.0%	7.4%	7.5%
Attributable net profit	4,062	3,802	2,716	4,158	5,415
Adj. EPS (RMB)	0.72	0.68	0.48	0.74	0.96
yoy growth	21.9%	-6.4%	-28.6%	53.1%	30.2%
P/E	15.2x	16.2x	22.7x	14.8x	11.4x
ROE	20.0%	19.1%	15.3%	23.7%	25.8%
Net debt (cash)/ equity	-31.1%	-9.7%	-15.1%	-24.6%	-41.1%
Dividend yield (%)	6.6%	10.2%	6.4%	8.0%	10.5%

Sources: Company data, CMS (HK) estimates; share price as of Aug 22, 2022

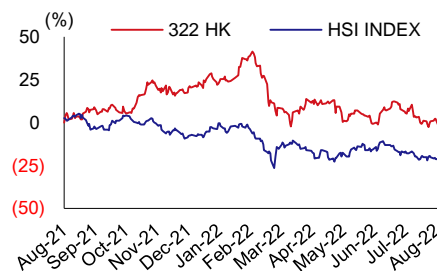
WHAT'S NEW

Tingyi 1H22 result missed due to one-off expense from the pickled cabbage incident. Special dividend should support stock price. Maintain BUY and TP at HKD16.4

BUY

Previous	BUY
Price	HKD 12.7
12-month Target Price (Potential up/downside)	HKD16.4 (+28.9%)
Previous	HKD16.4

Price Performance



Source: Bloomberg; share price as of Aug 22, 2022

%	1m	6m	12m
322 HK	(4.9)	(27.8)	4.6
HSI	(4.6)	(16.4)	(20.9)

Sector: Consumer

Hang Seng Index (Aug 22, 2022)	19,657
HSCEI (Aug 22, 2022)	6,695

Key Data

52-week range (HKD)	11.654 - 18.407
Market cap (HKD mn)	71,649
Avg. daily volume (mn)	4.84
BVPS (RMB)	3.65

Shareholding Structure

TING HSIN CAYMAN ISLANDS	33.5%
SANYO FOODS CO LTD	33.5%
Wei Ing-Chou	0.3%
No. of shares outstanding (mn)	5,632
Free float	32.7%

Source: Bloomberg

Related Research

1. China Food & Beverage Sector - Most raw material prices have dropped in 2H (OVERWEIGHT) (August 16, 2022)
2. China Food & Beverage Sector - 2H22 Outlook: Recovery from COVID lockdowns (OVERWEIGHT) (July 8, 2022)

Figure 1: 1H22 result summary table

Unit: RMB mn	1H22 CMS HK estimate	1H22 actual	% diff	yoy %
Revenue	38,755	38,217	-1.4%	8.0%
Cost of sales	(27,937)	(27,431)	-1.8%	12.4%
Gross profit	10,818	10,786	-0.3%	-1.9%
Other revenue (mainly interest income)	333	331	-0.4%	-9.1%
Other net income (expenses)	465	319	-31.4%	-56.0%
Distribution costs	(7,674)	(8,188)	6.7%	8.0%
Administrative expenses	(1,163)	(1,125)	-3.2%	-4.5%
Other operating expenses	(117)	(101)	-13.8%	-10.7%
Operating profit	2,663	2,022	-24.0%	-37.0%
Finance costs	(137)	(133)	-2.4%	18.6%
Share of results of associates and JVs	119	108	-9.7%	-9.7%
Profit before taxation	2,645	1,997	-24.5%	-37.9%
Taxation	(661)	(502)	-24.0%	-37.9%
Profit for the period	1,984	1,495	-24.7%	-37.9%
Profit attributable to:				
Owners of the Company	1,773	1,253	-29.3%	-38.4%
Non-controlling interests	211	241	14.5%	-35.0%
EPS, diluted (RMB)	0.32	0.22	-29.4%	-38.5%
Key metrics (%)				
GPM	27.9%	28.2%	0.3ppt	-2.8ppt
Selling & distribution expense ratio	19.8%	21.4%	1.6ppt	0.0ppt
Admin expense ratio	3.0%	2.9%	-0.1ppt	-0.4ppt
OPM	6.9%	5.3%	-1.6ppt	-3.8ppt
NPM	4.6%	3.3%	-1.3ppt	-2.5ppt
Revenue breakdown				
Instant noodles	13,804	13,548	-1.9%	6.5%
Bowl	6,449	6,356	-1.4%	6.4%
High-end packet	5,770	5,715	-0.9%	9.0%
Mid-end packet	1,440	1,313	-8.8%	-4.2%
Snack noodle & others	146	164	12.5%	21.5%
Beverages	24,546	24,298	-1.0%	9.1%
Tea	9,375	9,297	-0.8%	4.1%
Carbonated drinks and Others	9,616	9,282	-3.5%	11.0%
Juice	2,995	3,388	13.1%	18.8%
Water	2,560	2,331	-8.9%	9.3%
Others	406	371	-8.6%	-6.7%
Total	38,755	38,217	-1.4%	8.0%
GPM breakdown				
Instant noodles	20.0%	20.6%	0.6ppt	-3.3ppt
Beverages	32.0%	32.1%	0.1ppt	-2.6ppt
Others (frozen food)	50.0%	49.1%	-0.9ppt	-2.7ppt
Overall	27.9%	28.2%	0.3ppt	-2.8ppt

Sources: Company data, CMS (HK) estimates

Figure 2: Forecast adjustment table

Unit: RMB mn	2022E			2023E			2024E		
	Original	New	diff %	Original	New	diff %	Original	New	diff %
Revenue	81,272	80,733	-0.7%	87,339	86,734	-0.7%	93,926	93,244	-0.7%
Instant noodles	30,547	30,292	-0.8%	32,490	32,223	-0.8%	34,561	34,280	-0.8%
Beverages	49,875	49,627	-0.5%	53,983	53,680	-0.6%	58,481	58,116	-0.6%
Others	849	815	-4.1%	866	831	-4.1%	884	847	-4.1%
GPM	28.3%	28.4%	0.1ppt	30.2%	30.2%	0.0ppt	32.4%	32.4%	0.0ppt
Instant noodles	21.6%	21.9%	0.3ppt	25.0%	25.0%	0.0ppt	28.5%	28.5%	0.0ppt
Beverages	32.0%	32.1%	0.1ppt	33.0%	33.0%	0.0ppt	34.5%	34.5%	0.0ppt
Others	50.0%	49.6%	-0.4ppt	50.0%	50.0%	0.0ppt	50.0%	50.0%	0.0ppt
OPM	7.2%	5.6%	-1.7ppt	7.9%	7.8%	0.0ppt	9.2%	9.4%	0.2ppt
Attributable net profit	3,834	2,716	-29.2%	4,481	4,158	-7.2%	5,605	5,415	-3.4%
NPM	4.7%	3.4%	-1.4ppt	5.1%	4.8%	-0.3ppt	6.0%	5.8%	-0.2ppt
EPS (diluted), RMB	0.68	0.48	-29.2%	0.80	0.74	-7.3%	1.00	0.96	-3.4%

Sources: Company data, CMS (HK) estimates

Figure 3: Target price and valuation table

Valuation - Tingyi				
Stock price (HKD)	12.7	Price date	22/8/2022	
HKD/RMB	0.86			
	FY21	FY22E	FY23E	FY24E
EPS (RMB)	0.68	0.48	0.74	0.96
P/E	16.2x	22.7x	14.8x	11.4x
EPS yoy	-6.4%	-28.6%	53.1%	30.2%

Target price calculation

Target P/E	22.5x
Fwd 12-month EPS (RMB)	0.63
Target price (HKD)	16.4
Upside	28.9%
Div yield	6.4%
Total return	35.4%

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

Figure 4: Palm oil price has retreated from its peak



Sources: Wind, CMS (HK) estimates

Figure 5: PET price retreated from its peak



Sources: Wind, CMS (HK) estimates

Financial statement

Balance Sheet

RMB mn	2020	2021	2022E	2023E	2024E
PP&E	21,935	21,510	21,701	22,199	22,640
Right of use assets	3,804	3,692	3,656	3,656	3,656
Goodwill	98	98	98	98	98
Investment in associate/JV	722	720	828	828	828
Other non-current assets	6,271	8,623	9,556	9,808	10,105
Non-current assets	32,830	34,642	35,838	36,589	37,326
Inventories	3,348	4,671	4,322	4,467	4,638
Receivables and prepayments	3,901	4,396	4,764	5,071	5,455
Other financial assets	21	740	1,370	1,370	1,370
Deposits	38	21	21	21	21
Bank Balances and Cash	21,393	15,838	20,617	23,071	29,365
Current assets	28,701	25,667	31,094	33,999	40,848
Total assets	61,531	60,309	66,931	70,588	78,174
Account payable	8,147	9,047	11,138	11,737	12,185
Other payable and deposits	10,119	9,633	12,898	13,591	14,111
Bank Borrowings	5,891	7,311	10,033	10,033	10,033
Other current liabilities	2,914	3,834	3,084	3,406	3,768
Current liabilities	27,072	29,825	37,153	38,767	40,097
Deferred Tax Liabilities	1,577	1,450	1,500	1,500	1,500
Lease Liabilities	216	196	174	174	174
Bank Borrowing	7,805	6,350	7,478	7,478	7,478
Other Borrowing	2	3	4	4	4
Provision and other liabilities	120	77	73	73	73
Non-current liabilities	9,720	8,076	9,228	9,228	9,228
Total liabilities	36,792	37,901	46,381	47,996	49,326
Share Capital	965	1023	1043	1043	1043
Reserves	20,147	17,637	15,809	17,251	22,666
Non-controlling interests	3,627	3,749	3,698	4,298	5,141
Total equity	24,739	22,409	20,550	22,592	28,849
Total equity and liabilities	61,531	60,309	66,931	70,588	78,174

Cashflow Statement

RMB mn	2020	2021E	2022E	2023E	2024E
Profit before tax	6,532	5,809	4,327	6,624	8,627
Finance Costs	-319	-560	267	267	267
Shares of profit of associate/JV	16	5	0	0	0
D&A	3,148	3,142	2,474	2,499	2,557
Changes in OWC	1,198	-703	4,537	1,032	621
Others	-492	-523	-340	-267	-267
Income tax paid and others	-1,529	-1,751	-1,089	-1,667	-2,170
CF from operating activities	8,554	5,418	10,176	8,489	9,635
Capital expenditure	-2,147	-2,966	-2,998	-2,998	-2,998
Disposal of subsidiaries	177	251	300	0	0
Others	-919	-1,328	-898	-253	-297
CF from investing activities	-2,889	-4,044	-3,595	-3,250	-3,295
Dividend paid	-3,730	-7,025	-6,502	-2,916	-200
Equity financing	0	0	0	0	0
Debt financing (repaid)	-285	-991	1,127	0	0
Others	2,384	1,080	3,573	131	154
CF from financing activities	-1,631	-6,936	-1,802	-2,785	-46
Net cash flow	4,033	-5,561	4,779	2,454	6,294

Profit & Loss

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	67,618	74,082	80,733	86,734	93,244
Cost of Sales	-45,186	-51,572	-57,769	-60,548	-63,001
Gross profits	22,432	22,510	22,964	26,186	30,243
Other revenue	668	784	675	773	932
Other net income	568	1,024	787	954	1,026
Selling expenses	-14,151	-15,708	-17,329	-18,214	-20,048
Admin expenses	-2,291	-2,470	-2,401	-2,689	-3,124
Other expenses	-476	-230	-213	-229	-246
Operating profits	6,750	5,910	4,483	6,781	8,783
Finance costs	-349	-223	-267	-267	-267
Shares of results of JV/associates	130	122	110	110	110
Profit before tax	6,532	5,809	4,327	6,624	8,627
Income tax expense	-1,958	-1,425	-1,089	-1,667	-2,170
Net profit	4,574	4,384	3,238	4,958	6,457
Non-controlling interest	511	581	523	800	1,042
Attributable net profit	4,062	3,802	2,716	4,158	5,415
Diluted EPS (RMB)	0.72	0.68	0.48	0.74	0.96
Dividend per share (RMB)	0.72	1.12	0.70	0.88	1.15

Financial Ratio

	2020	2021	2022E	2023E	2024E
YoY growth rate					
Revenue	9.1%	9.6%	9.0%	7.4%	7.5%
Gross Profit	13.5%	0.3%	2.0%	14.0%	15.5%
Operating profit	20.7%	-12.4%	-24.1%	51.2%	29.5%
Net profit	22.0%	-6.4%	-28.6%	53.1%	30.2%
EPS	21.9%	-6.4%	-28.6%	53.1%	30.2%
Profitability					
Gross margin	33.2%	30.4%	28.4%	30.2%	32.4%
Operating margin	10.0%	8.0%	5.6%	7.8%	9.4%
Net margin	6.0%	5.1%	3.4%	4.8%	5.8%
Liquidity					
AR days	9.0	9.1	9.2	8.7	8.6
Inventory days	27.4	28.4	28.4	26.5	26.4
AP days	63.9	60.8	63.8	68.9	69.3
Cash conversion cycle	-27.5	-23.3	-26.2	-33.7	-34.3
Cash flow & leverage					
Free cash low	6,941	3,938	7,369	5,608	6,754
Net debt to equity	-31.1%	-9.7%	-15.1%	-24.6%	-41.1%
Dividend payout ratio	100.0%	165.7%	145.9%	100.0%	100.0%
Dividend yield	6.6%	10.2%	6.4%	8.0%	10.5%
Return analysis					
ROE	20.0%	19.1%	15.3%	23.7%	25.8%
Asset turnover	1.1	1.2	1.3	1.3	1.3
Net margin	6.0%	5.1%	3.4%	4.8%	5.8%
Financial leverage	2.9	3.1	3.6	3.9	3.5
ROA	7.7%	7.2%	5.1%	7.2%	8.7%
Valuation ratios					
P/E	15.2x	16.2x	22.7x	14.8x	11.4x
P/B	2.5x	2.7x	3.0x	2.7x	2.1x

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
HOLD	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

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website
<http://www.newone.com.hk/cmshk/gb/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co Limited. The information contained herein has been obtained from or is based on sources believed to be reliable. China Merchant Securities (HK) Co Limited, its holding company or affiliated companies, or any of its or their directors, officers or employees (collectively "CMS") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof.

This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

Opinions, and associated estimates and forecasts, or any content and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies.

This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS. CMS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person.

In Hong Kong, this document is distributed by China Merchants Securities (HK) Co., Limited, which is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571).

In South Korea, professional clients can get copies of this document (upon request) through China Merchants Securities (Korea) Co., Limited

In the United Kingdom, this document is distributed by China Merchants Securities (UK) Limited. This document is for distribution only to persons who: (i) are persons falling within the definition of "Investment Professionals" pursuant to Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"); (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Financial Promotion Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

If there is any inconsistency or ambiguity between the English version and the Chinese version of this disclaimer, the English version shall prevail.

© China Merchant Securities (HK) Co., Limited. All rights reserved.

Hong Kong

China Merchants Securities (HK) Co., Ltd.

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888 Fax: +852 3101 0828