

Company Report

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

Yihai International (1579 HK) Sales and GPM should rebound in 2H22

- 1H22 sales inline but GPM lower than expected
- Sales to Haidilao and margins should improve in 2H22
- Maintain HOLD and TP of HKD23.1

Third parties sales grew while related party sales fell

Yihai reported lower-than-expected 1H22 earnings. 1H22 revenue was RMB2,688mn, +2.2% yoy, inline with CMS est. 1H22 net profit was RMB263mn, -24.6% yoy, -14.6% vs CMS est. Sales to third parties grew 18.8% yoy while sales to Haidilao fell 26.2% yoy mainly due to COVID restrictions. Haidilao's own 1H22 restaurant revenues fell 18.3% yoy.

ASP were better than expected; while GPM were worse

1H22 overall ASP increased 8.5% yoy, better than our est. of -5.4% yoy, due mainly to a favourable sales mix towards products with ASP increases. 1H22 GPM was 28.5%, -4.3ppts yoy, -3.9% vs CMS est. 1H22 OPM was 14.5%, -5.1ppts yoy, +1.3ppts vs CMS est. The GPM decline was attributable to higher raw material costs as well as some cuts in prices in the convenient ready-to-eat products. While some costs such as packaging materials and transport costs falling in 2H22, we should expect GPM to recover somewhat in 2H22 despite Yihai not expecting to raise prices. The OPM was better than expected as SGA expenses were lower than expected. Yihai had previously said it hopes to keep 2H22 sales and marketing expenses as a percentage of revenues flat yoy.

Sales to Haidilao should be better in 2H22

Haidilao said that its operating performance of restaurants has markedly improved on a month-on-month basis since June 2022, after the relaxation of COVID restrictions. As Yihai's management does not believe there to be much room for cuts in its selling price to Haidilao, we do not expect any changes to selling prices in 2H22.

Maintain HOLD and TP of HKD23.1

We cut FY22/23/24 EPS by 8.8%/6.9%/7.1% respectively, mainly on lower than expected 1H22 earnings and more conservative assumptions. That said, we believe the worst should be over for Yihai given the recovering operations at Haidilao and the trend of lowering raw material costs. We maintain our TP of HKD23.1 which implies a target PE multiple of 25.1x next 12 months' EPS (previously 23x). We maintain our HOLD rating.

Key catalyst: Better-than-expected sales and margins from convenient ready-to-eat products.

Key downside risks: Higher-than-expected costs, more negative drag from Haidilao due to COVID.

Financials

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenue	5,360	5,943	6,476	7,801	9,279
yoy growth	25.2%	10.9%	9.0%	20.5%	18.9%
Attributable net profit	885	766	694	870	1,006
Diluted EPS (RMB)	0.90	0.78	0.71	0.89	1.03
yoy growth	21.8%	-13.4%	-9.4%	25.4%	15.6%
P/E (x)	20.6x	23.8x	26.3x	21.0x	18.1x
ROE	31.5%	22.5%	17.6%	19.1%	19.8%
Net debt (cash)/ equity	-60.3%	-38.3%	-43.3%	-46.7%	-51.4%

Johnny WONG
+852 3189 6357
johnnywong@cmschina.com.hk

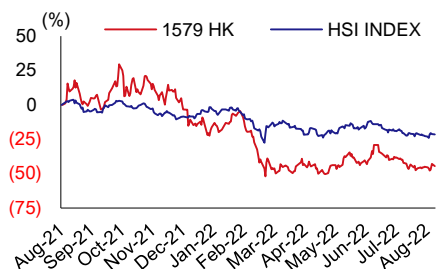
WHAT'S NEW

1H22 lower than expected. Maintain HOLD and TP of HKD23.1

HOLD

Previous	HOLD
Price	HKD21.65
12-month Target Price (Potential up/downside)	HKD23.1 (+6.7%)
Previous	HKD23.1

Price Performance



Source: Bloomberg; share price as of Aug 30, 2022

%	1m	6m	12m
1579 HK	(6.1)	(32.8)	(46.3)
HSI	(1.0)	(12.2)	(21.9)

Sector: Consumer

Hang Seng Index (Aug 30, 2022)	19,949
HSCEI (Aug 30, 2022)	6,840

Key Data

52-week range (HKD)	19.18 – 51.75
Market cap (HKD mn)	22,665.4
Avg. daily volume (mn)	3.86
BVPS (RMB)	4.78

Shareholding Structure

ZYSP YIHAI Ltd	35.6%
LHY YIHAI Ltd	8.5%
SYH YIHAI Ltd.	8.5%
JLJH YIHAI Ltd	6.4%
UBS Group AG	7.6%
No. of shares outstanding (mn)	980
Free float	33.4%

Source: Bloomberg

Related Research

1. Yihai International (1579 HK) - Sales rebounds but margins should decline (HOLD) (Jun 15, 2022)

Sources: Company data, CMS (HK) estimates; share price as of Aug 30, 2022

Figure 1: Result summary table

Unit: RMB mn	1H22 CMS est	1H22 actual	% diff	yoy %
Revenue	2,688	2,688	0.0%	2.2%
Gross profit	869	765	-12.0%	-11.1%
Operating profit	458	389	-15.0%	-24.5%
Pretax profit	458	401	-12.4%	-23.5%
Attributable net profit	308	263	-14.6%	-24.6%
EPS (RMB)	0.31	0.27	-14.6%	-24.5%
Key metrics (%)				
GP margin	32.3%	28.5%	-3.9ppt	-4.3ppt
EBIT margin	17.0%	14.5%	-2.6ppt	-5.1ppt
PBT margin	17.0%	14.9%	-2.1ppt	-5.0ppt
Net profit margin	11.5%	9.8%	-1.7ppt	-3.5ppt
Revenue breakdown				
Hot pot condiments	1,416	1,423	0.5%	-5.7%
<i>Third parties</i>	756	810	7.1%	17.0%
<i>Related parties</i>	660	613	-7.1%	-25.0%
Chinese style compound condime	353	343	-2.8%	6.5%
<i>Third parties</i>	332	338	1.7%	14.1%
<i>Related parties</i>	21	5	-76.6%	-81.1%
Convenient ready to eat products	855	897	4.9%	19.9%
<i>Third parties</i>	816	856	4.8%	22.6%
<i>Related parties</i>	39	42	7.2%	-18.0%
Others	64	25	-60.1%	-50.1%
GPM				
Hot pot condiments	37.7%	32.8%	-4.9ppt	-3.8ppt
<i>Third parties</i>	50.4%	47.9%	-2.5ppt	-3.5ppt
<i>Related parties</i>	23.0%	12.7%	-10.3ppt	-11.3ppt
Chinese style compound condime	33.0%	31.8%	-1.3ppt	-2.0ppt
<i>Third parties</i>	33.8%	32.0%	-1.8ppt	-2.8ppt
<i>Related parties</i>	20.1%	16.0%	-4.1ppt	-5.1ppt
Convenient ready to eat products	25.6%	21.1%	-4.5ppt	-5.6ppt
<i>Third parties</i>	25.5%	21.2%	-4.2ppt	-5.2ppt
<i>Related parties</i>	29.2%	18.9%	-10.4ppt	-11.4ppt
Others	0.2%	1.6%	1.5ppt	1.5ppt
Overall	32.3%	28.5%	-3.9ppt	-4.3ppt
Key expense ratio				
Distribution Expenses	- 333	(314)	-5.7%	-3.6%
<i>Distribution expense ratio</i>	12.4%	11.7%	-0.7ppt	-0.7ppt
Admin expense	- 138	(126)	-8.3%	-6.3%
<i>admin expense ratio</i>	5.1%	4.7%	-0.4ppt	-0.4ppt

Sources: Company data, CMS (HK) estimates

Figure 2: Key assumption changes

Unit: RMB mn	2022			2023			2024		
	Original	New	Diff %	Original	New	Diff %	Original	New	Diff %
Revenue	6,613	6,476	-2.1%	8,000	7,801	-2.5%	9,520	9,279	-2.5%
Gross profit	2,081	1,923	-7.6%	2,523	2,385	-5.5%	2,968	2,803	-5.6%
GPM	31.5%	29.7%	-1.8ppt	31.5%	30.6%	-1.0ppt	31.2%	30.2%	-1.0ppt
Operating profit	1,157	1,054	-8.9%	1,419	1,330	-6.3%	1,645	1,537	-6.6%
OPM	17.5%	16.3%	-1.2ppt	17.7%	17.0%	-0.7ppt	17.3%	16.6%	-0.7ppt
Attributable net profit	762	694	-8.8%	935	870	-6.9%	1,083	1,006	-7.1%
EPS (RMB)	0.78	0.71	-8.8%	0.95	0.89	-6.9%	1.11	1.03	-7.1%
Revenue									
Hot pot condiments									
Third parties	1,933	1,986	2.8%	2,164	2,224	2.8%	2,424	2,491	2.8%
Related parties	1,821	1,735	-4.7%	2,106	2,005	-4.8%	2,359	2,245	-4.8%
Sub-total	3,754	3,721	-0.9%	4,270	4,229	-1.0%	4,783	4,737	-1.0%
Compound condiments									
Third parties	546	555	1.6%	639	649	1.6%	747	759	1.6%
Related parties	47	31	-35.4%	55	35	-36.9%	62	39	-36.9%
Sub-total	593	585	-1.3%	694	684	-1.4%	809	798	-1.3%
Convenient ready to eat products									
Third parties	2,024	1,970	-2.7%	2,736	2,664	-2.7%	3,557	3,463	-2.7%
Related parties	117	117	-0.2%	149	149	-0.2%	190	190	-0.2%
Sub-total	2,141	2,087	-2.5%	2,886	2,813	-2.5%	3,748	3,653	-2.5%
Others	125	82	-34.6%	150	76	-49.6%	180	91	-49.6%
Total revenue	6,613	6,476	-2.1%	8,000	7,801	-2.5%	9,520	9,279	-2.5%

Sources: Company data, CMS (HK) estimates

Figure 3: Target price and valuation table

Stock price	21.7			
HKD to RMB	0.86			
Price date	8/30/2022			
	FY21	FY22E	FY23E	FY24E
EPS (RMB)	0.78	0.71	0.89	1.03
P/E	23.8x	26.3x	21.0x	18.1x
EPS yoy growth	-13%	-9%	25%	16%

Target Price calculation

Target P/E Multiple	25.1x
Target Price (HKD)	23.1
Upside	6.7%
Rating	HOLD

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

Financial statement

Balance Sheet

RMB mn	2020	2021	2022E	2023E	2024E
PP&E	790	1,283	1,543	1,771	1,873
Right of use assets	208	281	269	257	251
Intangible assets	21	20	22	23	23
Deferred income tax	16	45	89	108	80
Other non-current assets	422	980	822	822	822
Non-current assets	1,457	2,610	2,745	2,981	3,050
Inventories	406	395	419	496	573
Trade receivables	191	237	234	278	270
Term deposits	132	0	0	0	0
Cash and equivalents	1,987	1,574	2,033	2,531	3,013
Other current assets	114	189	109	109	109
Current assets	2,830	2,395	2,795	3,414	3,965
Total assets	4,287	5,005	5,540	6,395	7,015
Lease liabilities	44	104	99	98	97
Other non-current liabilities	24	59	0	0	0
Non-current liabilities	68	163	99	98	97
Trade payables	279	294	308	364	426
Contract liabilities	80	108	70	82	73
Lease liabilities	29	37	49	49	48
Other payables and accruals	192	197	231	273	432
other liabilities	125	96	93	113	79
Current liabilities	774	896	849	979	1,155
Total liabilities	842	1,059	948	1,077	1,252
Share capital	0	0	0	0	0
Shares held for employee share	0	0	0	0	0
Reserves	3,295	3,806	4,307	4,935	5,335
Non-controlling interests	218	303	384	481	525
Shareholder's equity	3,514	4,109	4,691	5,416	5,860

Cashflow Statement

RMB mn	2020	2021E	2022E	2023E	2024E
Profit before tax	1,352	1,170	1,066	1,186	1,330
Finance income/expense	-18	-23	-12	0	0
D&A	86	122	151	167	183
Changes in OWC	63	-77	71	15	-11
Interest received	20	29	15	0	0
Income tax paid	-319	-357	-374	-357	-362
Others	14	-34	2	-3	0
CF from operating activities	1,199	829	918	1,007	1,139
Capital expenditure	-326	-608	-400	-400	-400
Proceeds from disposal of PPE	50	2	0	0	0
Others	204	-315	157	0	0
CF from investing activities	-73	-922	-243	-400	-400
Dividend paid	-204	-244	-193	-193	-242
Repayment of bank borrowings	0	0	0	0	0
New borrowings raised	0	0	0	0	0
Proceeds from equity issuance	0	0	0	0	0
Others	-7	-55	-23	-26	0
CF from financing activities	-210	-299	-216	-219	-242
Net cash flow	916	-392	460	388	497

Profit & Loss

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	5,360	5,943	6,476	7,801	9,279
COGS	-3,270	-4,019	-4,553	-5,416	-6,476
Gross profit	2,090	1,924	1,923	2,385	2,803
Distribution Expenses	-563	-698	-739	-891	-1,060
Administrative expenses	-281	-247	-254	-307	-365
Other income and gains	88	168	125	143	160
Operating profit	1,334	1,147	1,054	1,330	1,537
Interest income	20	29	15	0	0
Interest expense	-2	-5	-3	0	0
Profit before tax	1,352	1,170	1,066	1,330	1,537
Income tax expense	-369	-313	-291	-362	-419
Net profit	983	858	775	967	1,118
Non-controlling interest	-98	-91	-81	-97	-112
Attributable net profit	885	766	694	870	1,006
Diluted EPS (RMB)	0.90	0.78	0.71	0.89	1.03
Dividend per share (RMB)	0.21	0.22	0.20	0.25	0.29

Financial Ratio

	2020	2021	2022E	2023E	2024E
yoY growth rate					
Revenue	25.2%	10.9%	9.0%	20.5%	18.9%
Gross profit	27.3%	-7.9%	-0.1%	24.1%	17.5%
Operating profit	24.5%	-14.0%	-8.1%	26.2%	15.6%
Net profit	23.2%	-13.4%	-9.4%	25.4%	15.6%
EPS	21.8%	-13.4%	-9.4%	25.4%	15.6%
Profitability					
Gross margin	39.0%	32.4%	29.7%	30.6%	30.2%
EBIT margin	24.9%	19.3%	16.3%	17.0%	16.6%
Net margin	16.5%	12.9%	10.7%	11.2%	10.8%
Liquidity					
AR days	15.7	13.1	13.3	12.0	10.8
Inventory days	39.3	36.4	32.6	30.8	30.1
AP days	27.7	26.0	24.1	22.6	22.3
Cash conversion cycle	27.2	23.5	21.8	20.2	18.6
Cash flow and leverage					
Free cash low	793	277	588	748	890
Net debt to equity	-60.3%	-38.3%	-43.3%	-46.7%	-51.4%
Dividend payout ratio	22.9%	28.1%	27.8%	27.8%	27.8%
Dividend yield	0.8%	0.9%	0.8%	1.0%	1.1%
Return analysis					
ROE	31.5%	22.5%	17.6%	19.1%	19.8%
Asset turnover	1.4	1.3	1.2	1.3	1.4
Net margin	18.3%	14.4%	12.0%	12.4%	12.1%
Financial leverage	1.2	1.2	1.2	1.2	1.2
ROIC	18.6%	10.2%	7.0%	8.3%	9.3%
Valuation ratios					
P/E	20.6x	23.8x	26.3x	21.0x	18.1x
P/B	5.2x	4.4x	3.9x	3.4x	3.1x

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

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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