

Want Want (151 HK)

Downgrade to Hold as cost pressure not priced in

FY21 NP/revenue +14%/+9%. Both are in line with market consensus and our estimates. Payout ratio decreased to 42% from 99%. That said, the Company used RMB1.4bn to buy back shares in FY21. Therefore, total amount returned to shareholders was 80% in FY21, consistent to its policy. Amid raw material cost pressure, management said its record-high GPM in FY21 is at a relatively high level and it will not be the first one in the sector to raise price. Historically, GPM fell in FY14 and FY18 during raw materials prices upcycle. We cut FY22-23E NP by 6-7% on lower GPM assumptions and expect NP to drop 2% in FY22E. We downgrade the stock from Buy to HOLD, and lower TP from HK\$7.36 to HK\$6.02, based on 15x FY22E P/E. We think earnings downside risk is not priced in given that share price +2% YTD.

- Emerging channels accounted for high sd of revenue in FY21.** Revenue +9% led by 12% and 15% growth of dairy & beverage and snack food segments, respectively. Sales of rice crackers segment fell 0.5% due to weak gift pack and export sales. Gift pack sales was affected by isolated COVID-19 outbreaks before CNY. Also, pandemic outbreak abroad dampened export sales. On the positive side, revenue mix of high-GPM emerging channels increased from mid single-digit to high single-digit, driving 0.2ppt GPM expansion to 48.2%.
- 2HFY21 OP growth moderated.** 2HFY21 revenue growth was 8% YoY (vs 11% in 1HFY21). 2HFY21 GPM widened 0.9ppt YoY to 48.2%, driven by 3.4ppt GPM expansion of dairy & beverage (wholemilk powder cost dropped in 2HFY21). 2HFY21 OP growth moderated to 16% YoY from 23% YoY in 1HFY21 due to 0.9ppt increase of admin expenses ratio. If the RMB238mn gain from disposal of fixed assets was excluded, 2HFY21 OP YoY growth would be 8%.
- FY22E YTD performance.** FY22E YTD Hot-kid milk growth momentum has continued (vs 11% growth in FY21) as consumers think drinking milk can enhance immunity. YTD rice cracker sales declined YoY due to high base but increased compared to the same period in FY19.
- Raw materials cost pressure.** Prices of wholemilk powder, tinplate, paper and palm oil (around 30% of COGS) recorded double-digit increase this year. The Company will optimize production efficiency and grow its top line to offset cost pressure and study the feasibility of price hikes. Management said its record-high GPM in FY21 is at a relatively high level and it will not be the first one in the sector to raise price. Historically, during raw materials prices upcycle in FY14 and FY18, GPM declined 1.3ppt YoY in FY14 and 4.1ppt YoY in FY18, respectively.
- Downgrade to Hold.** Our TP is reduced from HK\$7.36 to HK\$6.02, based on 15.0x FY22E P/E (vs 19.0x FY21 P/E previously). **Catalysts:** (1) price hikes; (2) better-than-expected revenue/margins. **Risks:** (1) unfavorable raw materials prices; (2) keen competition; (3) food safety issues.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	20,095	21,998	23,101	24,148	25,119
Net profit (RMB mn)	3,649	4,158	4,066	4,427	4,651
EPS (RMB)	0.294	0.338	0.337	0.366	0.385
YoY growth (%)	5	15	(1)	9	5
Consensus EPS (RMB)	na	na	0.349	0.366	0.382
P/E (x)	17.4	14.8	14.3	13.1	12.5
P/B (x)	4.2	4.1	3.4	3.2	3.0
Yield (%)	5.7	2.8	5.6	6.1	6.4
ROAE (%)	23.8	27.6	25.3	24.9	24.7
Net cash (RMB mn)	8,376	9,098	11,895	13,580	15,200

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	HK\$6.02
(Previous TP)	HK\$7.36)
Up/Downside	+5%
Current Price	HK\$5.74

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	69,025
Avg 3 mths t/o (HK\$ mn)	52.73
52w High/Low (HK\$)	6.33/ 5.03
Total Issued Shares (mn)	12,096.6

Source: Bloomberg

Shareholding Structure

Tsai Eng-Meng	52.56%
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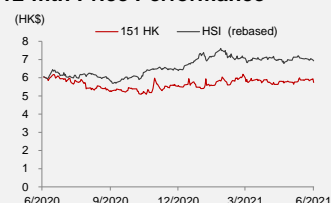
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.1%	3.0%
3-mth	-4.0%	-2.3%
6-mth	7.4%	-0.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Want Want – GPM to stabilize in 2HFY21E" – 20 Nov 2020
- "Want Want – Double-digit revenue growth in Apr and May" – 17 Jun 2020
- "Want Want – COVID-19 impact could be priced in" – 11 Mar 2020
- "Want Want – 1HFY20 results beat on strong GPM" – 20 Nov 2019

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Figure 1: FY21 results review

Y/E Mar (RMB mn)	FY21	FY20	% change	Remarks
Revenue	21,998	20,095	9%	Hot-kid milk, beverages, popsicles and candies saw dd growth
Cost of sales	(11,393)	(10,439)	9%	
Gross profit	10,606	9,655	10%	
Other income	321	419	-23%	
Other gain/(losses)	289	9	3231%	RMB230mn gain from disposal of fixed assets
Selling and distribution expenses	(2,766)	(2,791)	-1%	lean business management and saving of social security expenses
Administrative expenses	(2,713)	(2,485)	9%	increase in R&D exp and employees' salary
Operating profit	5,736	4,806	19%	
Finance income	469	559	-16%	
Finance costs	(208)	(313)	-33%	
Share of profit from associate	(2)	(3)	-37%	
Profit before tax	5,995	5,049	19%	
Tax expense	(1,847)	(1,413)	31%	Withholding tax increased by RMB185mn. Prepare funding to repay bonds due 2022
Profit after tax	4,148	3,636	14%	
Non-controlling interests	10	13	-22%	
Net profit	4,158	3,649	14%	
EPS (RMB)	0.34	0.29	15%	
DPS (US\$)	0.021	0.042	-49%	
Margin & Ratio (%)				
Gross profit margin	48.2	48.0	0.2	Higher margin emerging channel revenue mix rose from msd to hsd
Operating profit margin	26.1	23.9	2.2	
SG&A expenses ratio	24.9	26.3	(1.4)	
A&P expenses ratio	2.5	2.9	(0.4)	
Net profit margin	18.9	18.2	0.7	
Effective tax rate	(30.8)	(28.0)	(2.8)	
	FY21	FY20	change	
Inventory days	85	90	(5)	
A/C receivables days	15	17	(2)	
A/C payable days	33	37	(4)	
	FY21	FY20	change	
Net cash/(debt) (Rmb mn)	9,098	8,376	9%	

Source: Company data

Figure 2: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	23,101	24,148	25,119	23,058	24,239	na	0%	0%	na
Gross Profit	10,903	11,591	12,132	11,229	11,925	na	-3%	-3%	na
Operating Profit	5,390	5,822	6,097	5,750	6,168	na	-6%	-6%	na
Net profit	4,066	4,427	4,651	4,385	4,721	na	-7%	-6%	na
Gross Margin	47.2%	48.0%	48.3%	48.7%	49.2%	na	-1.5ppt	-1.2ppt	na
Operating Margin	23.3%	24.1%	24.3%	24.9%	25.4%	na	-1.6ppt	-1.3ppt	na
Net Margin	17.6%	18.3%	18.5%	19.0%	19.5%	na	-1.4ppt	-1.2ppt	na

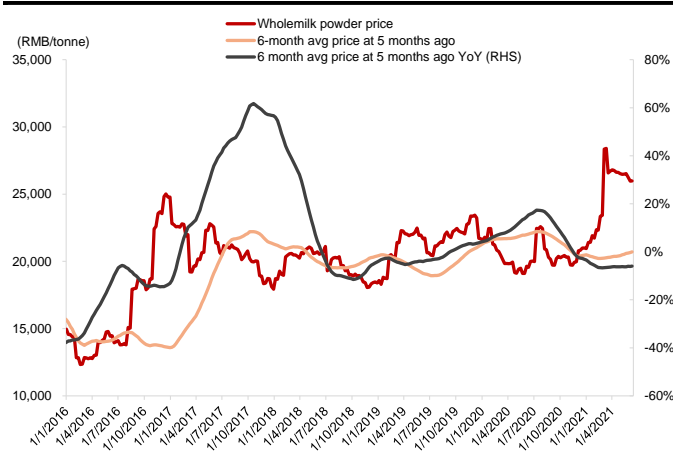
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	23,101	24,148	25,119	22,866	23,804	24,958	1%	1%	1%
Gross Profit	10,903	11,591	12,132	11,044	11,531	12,091	-1%	1%	0%
Operating Profit	5,390	5,822	6,097	5,574	5,777	6,068	-3%	1%	0%
Net profit	4,066	4,427	4,651	4,291	4,491	4,637	-5%	-1%	0%
Gross Margin	47.2%	48.0%	48.3%	48.3%	48.4%	48.4%	-1.1ppt	-0.4ppt	-0.1ppt
Operating Margin	23.3%	24.1%	24.3%	24.4%	24.3%	24.3%	-1.1ppt	-0.2ppt	flat
Net Margin	17.6%	18.3%	18.5%	18.8%	18.9%	18.6%	-1.2ppt	-0.6ppt	-0.1ppt

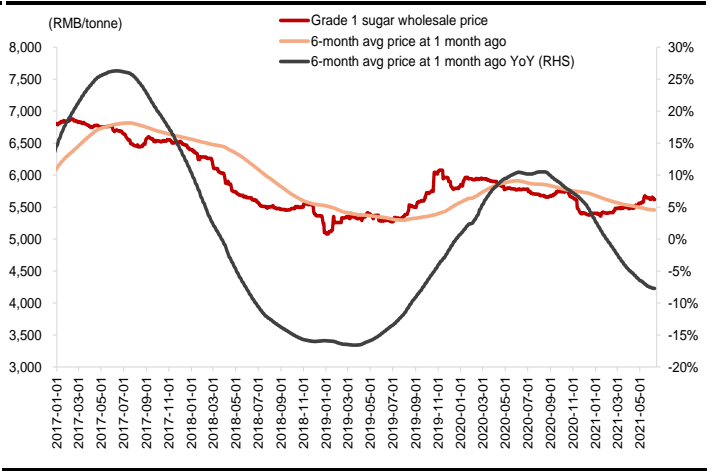
Source: Bloomberg, CMBIS estimates

Figure 4: New Zealand GDT whole milk powder price to increase in 2HFY22E



Source: Bloomberg, CMBIS estimates

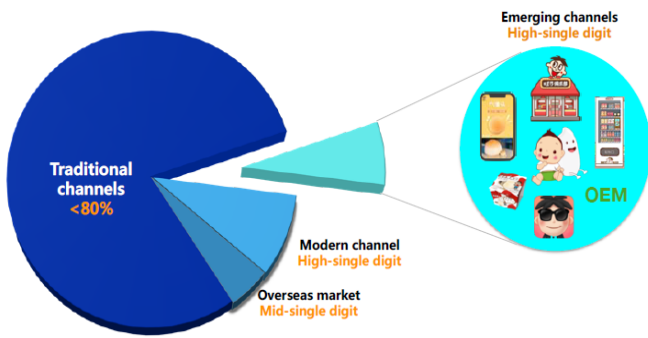
Figure 5: Price pressure of China's white sugar is easing



Source: Wind, CMBIS estimates

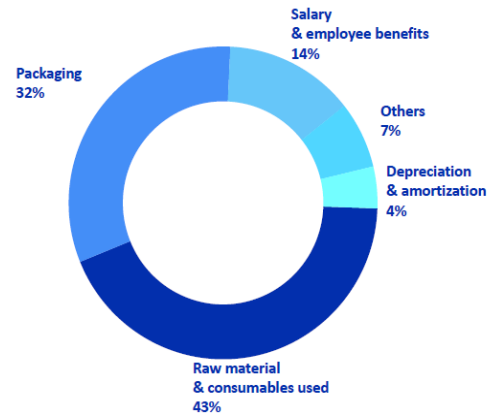
Figure 6: Revenue breakdown by channel in FY21

2020FY revenue contribution by channel



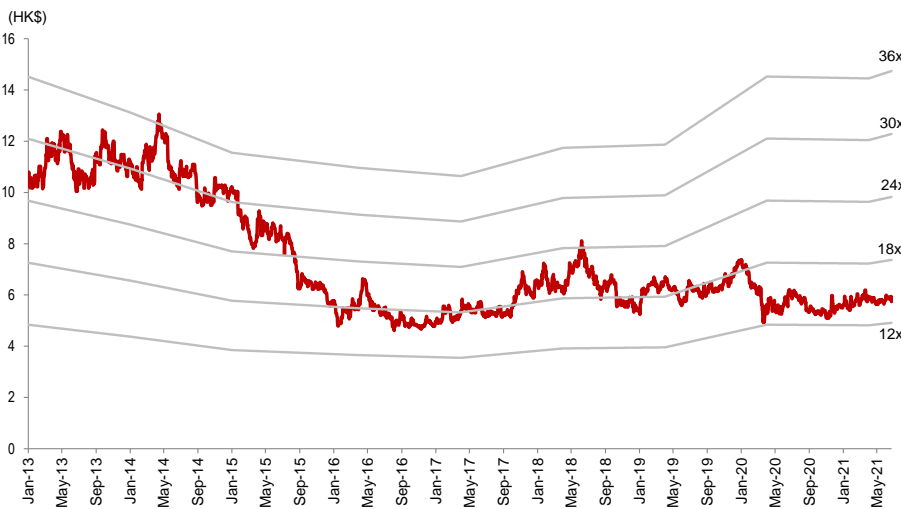
Source: Company data

Figure 7: Cost of sales breakdown in FY21



Source: Company data

Figure 8: P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 9: Share purchase record by Directors in 2020

Date	Number of shares	Avg price (HK\$)	Purchaser
27-Aug-20	300,000	5.34	Maki Haruo
21-Aug-20	500,000	5.56	Tsai Shao-Chung
05-Aug-20	396,000	5.87	Tsai Shao-Chung
22-Jul-20	4,268,000	5.95	Tsai Eng-Meng
03-Jul-20	233,000	5.92	Tsai Eng-Meng
02-Jul-20	7,231,000	5.91	Tsai Eng-Meng
29-Jun-20	4,300,000	5.96	Tsai Eng-Meng
26-Jun-20	962,000	6.01	Tsai Eng-Meng
19-Jun-20	6,000	6.08	Tsai Eng-Meng
17-Jun-20	600,000	6.08	Tsai Eng-Meng
17-Jun-20	632,000	6.20	Tsai Shao-Chung
03-Feb-20	356,000	6.44	Tsai Shao-Chung
Total	19,784,000		

Source: HKEX, CMBIS

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	20,095	21,998	23,101	24,148	25,119
Rice crackers	5,611	5,583	5,723	5,837	5,953
Dairy and beverages	9,813	11,011	11,776	12,495	13,133
Snacks	4,634	5,313	5,478	5,668	5,868
Others	36	92	124	149	165
Cost of sales	(10,439)	(11,393)	(12,197)	(12,557)	(12,987)
Gross profit	9,655	10,606	10,903	11,591	12,132
Other income	419	321	321	346	364
Other gains/(losses)	9	289	72	72	67
Selling expenses	(2,791)	(2,766)	(3,003)	(3,139)	(3,265)
Administrative expenses	(2,485)	(2,713)	(2,903)	(3,049)	(3,201)
Operating profit	4,806	5,736	5,390	5,822	6,097
Net finance income	246	261	248	318	356
Share of profit of associate	(3)	(2)	(2)	(2)	(2)
Profit before tax	5,049	5,995	5,636	6,138	6,451
Income tax	(1,413)	(1,847)	(1,579)	(1,719)	(1,807)
Non-controlling interests	13	10	9	8	7
Net profit	3,649	4,158	4,066	4,427	4,651

Cash flow summary

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	5,049	0	5,636	6,138	6,451
Depreciation and amortization	906	0	912	902	892
Change in working capital	630	0	6	68	57
Others	(1,739)	0	(1,577)	(1,717)	(1,805)
Net cash from operating	4,845	5,416	4,978	5,390	5,594
Capex	(291)		(400)	(400)	(400)
Change of financial inv.	0		0	0	0
Others	(1)		0	0	0
Net cash from investing	(292)	(2,914)	(400)	(400)	(400)
Change of borrowings	(1,095)		0	(3,250)	0
Share repurchase	(185)		0	0	0
Dividend paid	(3,101)		(1,781)	(3,305)	(3,574)
Others	(110)		0	0	0
Net cash from financing	(4,490)	(3,634)	(1,781)	(6,555)	(3,574)
Net change in cash	63	(1,133)	2,797	(1,565)	1,621
Cash at the beginning of the year	17,160	17,257	16,081	18,878	17,313
Exchange difference	33	(43)	0	0	0
Cash at the end of the year	17,257	16,081	18,878	17,313	18,934

Balance sheet

YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	8,219	10,811	10,297	9,793	9,299
PPE	6,771	6,335	5,935	5,540	5,150
Prepaid lease payments	1,062	1,098	988	884	784
Others	386	3,378	3,373	3,369	3,365
Current assets	21,606	20,432	23,498	22,100	23,896
Cash	17,257	16,081	18,878	17,313	18,934
Inventories	2,746	2,529	2,707	2,787	2,883
Account receivable	847	920	966	1,010	1,051
Prepayments	756	902	947	990	1,030
Others	0	0	0	0	0
Current liabilities	5,822	9,166	9,442	9,676	9,908
Trade payables	1,093	943	1,010	1,040	1,075
Other payables	3,956	4,489	4,698	4,902	5,099
Bank borrowings	587	3,340	3,340	3,340	3,340
Others	186	394	394	394	394
Non-current liabilities	8,649	7,106	7,106	3,856	3,856
Bank borrowings	8,294	6,493	6,493	3,243	3,243
Others	141	264	264	264	264
Deferred tax liabilities	214	348	348	348	348
Minority Interest	82	73	64	55	48
Total net assets	15,354	14,972	17,248	18,361	19,432
Shareholders' equity	15,273	14,899	17,184	18,306	19,384

Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Rice crackers	27.9	25.4	24.8	24.2	23.7
Dairy and beverages	48.8	50.1	51.0	51.7	52.3
Snacks	23.1	24.2	23.7	23.5	23.4
Others	0.2	0.4	0.5	0.6	0.7
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	48.0	48.2	47.2	48.0	48.3
Operating profit margin	23.9	26.1	23.3	24.1	24.3
Effective tax rate	18.2	18.9	17.6	18.3	18.5
Net profit margin	28.0	30.8	28.0	28.0	28.0
Payout ratio	98.7	42.3	80.0	80.0	80.0
Balance sheet ratios					
Current ratio (x)	3.7	2.2	2.5	2.3	2.4
Asset turnover (x)	3.2	2.0	2.2	2.0	2.1
Net cash (RMB mn)	8,376	9,098	11,895	13,580	15,200
Returns (%)					
ROAE	23.8	27.6	25.3	24.9	24.7
ROAA	12.2	13.6	12.5	13.5	14.3
Per share					
EPS (RMB)	0.29	0.34	0.34	0.37	0.39
DPS (US\$)	0.042	0.021	0.041	0.045	0.047
BVPS (RMB)	1.23	1.23	1.42	1.52	1.60

Source: Company data, CMBIS estimates

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