

# China Consumer Staples

## Structural merits look prominent amid transitory headwind and any stagflation expectation

2021 has been an eventful year. While market sentiment looks to have digested any consequences from policy changes and a bumpy path to a post-COVID recovery, in our view, investors should not be too complacent either. Supply chain bottlenecks, channel reshuffling and the contagious “wealth effect” from property tightening are uncertainties that could extend beyond 2021. Compounding with any stagflation expectations, we see emerging values from a habitual consumption pattern, premiumization and an effective cost pass-through that F&B players offer. We recommend investors to stick to players with high pricing power that would manifest into steadfast margins. In this report, we initiate 6 F&B stocks that fit this thesis. CRB and Mengniu are our top picks, followed by Yili as we worry its share placement could remain a near term overhang to share price albeit our LT positive view. We also like Smoore. Tsingtao looks undemanding.

- Margins pressure driven by supply shocks looks to be transitory.** The supply shocks in energy and raw material have led to concerns over F&B producers’ GPM trajectories. We noted little production halts. Margins dilution from a higher electricity tariff looks to be uneven, ranging from 0.3%-2.9%, with beer producers suffering the most on our sensitivity analysis. That said, we believe the margins upside brought by premiumization should suffice to smooth out the distortion. With raw milk cost hike likely peaking-out, in our view, 2H21 would probably mark the trough to F&B producers’ GPMs.
- Property tightening could result in contagious impact to consumption.** Anecdotal evidence and our data-mining analysis suggest that household income remains crucial in supporting consumption, while property and financial income have been drivers of disposable income growth. Any wealth effect amid a property market downturn would lead to hiccups to large-ticket discretionary spending, while food and beverage historically took a lighter hit.
- CGB likely to linger as an ongoing but idiosyncratic disruption across the F&B spectrum.** We think SKUs that are frequently consumed at home without distinguishable product differentiation, along with high channel margins, are prone to the channel migration. Producers’ pricing power, distributor management and the degree of market consolidation also matter. Our channel check suggests that beer and dairy producers remain cautious in monetizing this fast-growing opportunity, while e-vapor makers are irrelevant.
- Valuation.** The MSCI China Consumer Staple index is trading at 23.0x 2022E P/E. We benchmark our TPs for Mengniu, Yili and Tsingtao to +1sd above the stocks’ 3-year averages, CRB at 3-year average, while we set those for Smoore and RLX at -1sd below, as we attempt to price-in the perplexed sentiment post regulatory scrutiny.

| Name      | Ticker    | Rating | Price | TP   | Mkt Cap<br>(US\$ mn) | P/E (x) |       | P/B (x) |       | ROE (%) |       |
|-----------|-----------|--------|-------|------|----------------------|---------|-------|---------|-------|---------|-------|
|           |           |        | (LC)  | (LC) |                      | FY21E   | FY22E | FY21E   | FY22E | FY21E   | FY22E |
| CR Beer   | 291 HK    | Buy    | 64.5  | 88.0 | 26,912               | 39.7    | 38.3  | 7.1     | 6.4   | 13.9    | 17.5  |
| Mengniu   | 2319 HK   | Buy    | 49.6  | 58.0 | 25,192               | 44.2    | 37.2  | 6.3     | 5.5   | 11.9    | 13.5  |
| Smoore    | 6969 HK   | Buy    | 37.3  | 51.4 | 28,830               | 35.1    | 24.7  | 12.3    | 9.5   | 41.7    | 45.8  |
| Tsingtao  | 168 HK    | Buy    | 67.7  | 86.0 | 17,262               | 27.8    | 23.0  | 3.4     | 3.1   | 12.2    | 13.6  |
| Yili Ind. | 600887 CH | Buy    | 43.0  | 50.0 | 40,878               | 29.0    | 25.1  | 8.0     | 7.1   | 27.7    | 30.5  |
| RLX Tech  | RLX US    | Buy    | 4.9   | 6.9  | 7,760                | 19.4    | 14.5  | 18.6    | 10.8  | 39.7    | 42.0  |

Source: Company data, CMBIS estimates

### MARKET PERFORM (Initiation)

#### China Consumer Staples

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##### Investment thesis

A habitual consumption pattern, premiumization and an effective cost pass-through are structural drivers that F&B players offer to buffer a relatively stable margins outlook amid a cost-inflation environment. We recommend investors to be selective.

##### Our stock picks:

##### CR Beer (291 HK, Buy)

|                          |           |
|--------------------------|-----------|
| Target Price (HK\$)      | 88.0      |
| Up/Downside              | +36.3%    |
| Current Price (HK\$)     | 64.5      |
| Mkt Cap (HK\$ mn)        | 200,652   |
| Avg 3 mths t/o (HK\$ mn) | 531.4     |
| 52w High/Low (HK\$)      | 46.0/78.6 |
| Total Issued Shares (mn) | 3,244     |

Source: Bloomberg, CMBIS

##### Mengniu (2319 HK, Buy)

|                          |           |
|--------------------------|-----------|
| Target Price (HK\$)      | 58.0      |
| Up/Downside              | +17.1%    |
| Current Price (HK\$)     | 49.6      |
| Mkt Cap (HK\$ mn)        | 195,874   |
| Avg 3 mths t/o (HK\$ mn) | 547.5     |
| 52w High/Low (HK\$)      | 36.3/53.9 |
| Total Issued Shares (mn) | 3,926     |

Source: Bloomberg, CMBIS

##### Smoore (6969 HK, Buy)

|                          |           |
|--------------------------|-----------|
| Target Price (HK\$)      | 51.4      |
| Up/Downside              | +37.7%    |
| Current Price (HK\$)     | 37.3      |
| Mkt Cap (HK\$ mn)        | 224,165   |
| Avg 3 mths t/o (HK\$ mn) | 596.7     |
| 52w High/Low (HK\$)      | 31.2/90.0 |
| Total Issued Shares (mn) | 6,185     |

Source: Bloomberg, CMBIS

##### Yili Industrial (600887 CH, Buy)

|                          |           |
|--------------------------|-----------|
| Target Price (RMB)       | 50.0      |
| Up/Downside              | +16.3%    |
| Current Price (RMB)      | 43.0      |
| Mkt Cap (RMB mn)         | 261,534   |
| Avg 3 mths t/o (RMB mn)  | 2,434     |
| 52w High/Low (RMB)       | 30.9/51.9 |
| Total Issued Shares (mn) | 6,085     |

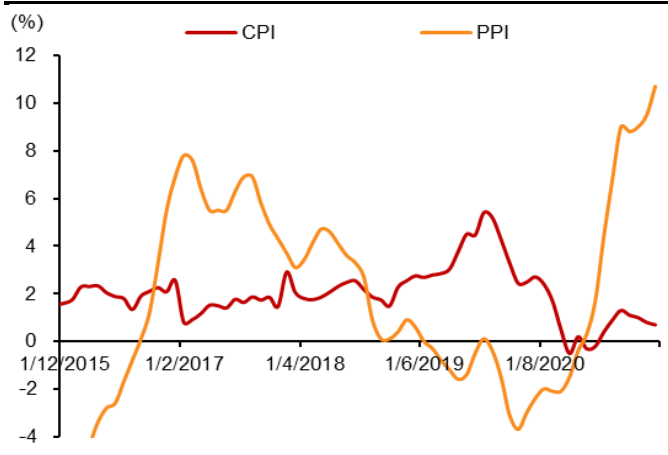
Source: Bloomberg, CMBIS

## Contents

|  |           |
|--|-----------|
| <b>Focus charts</b> .....  | <b>3</b>  |
| <b>Investment summary</b> .....  | <b>4</b>  |
| Margins distortion looks to be transitory; F&B margins look steady .....   | 4         |
| Property tightening – an uneven impact to consumption.....   | 4         |
| CGB – an ongoing but idiosyncratic risk to the F&B spectrum .....  | 4         |
| CRB and Mengniu are our top picks; we also like Smoore and Yili.....   | 5         |
| <b>Margins distortion looks to be transitory, premiumization drives<br/>steadfast margins despite cost inflation</b> ..... | <b>6</b>  |
| <b>The property tightening – an uneven and contagious impact to<br/>household consumption</b> .....                        | <b>11</b> |
| <b>Community Group Buying – an ongoing but idiosyncratic risk to the<br/>F&amp;B spectrum</b> .....                        | <b>15</b> |
| <b>Valuation</b> .....   | <b>18</b> |
| <b>CR Beer (291 HK, BUY, TP HK\$88.0)</b> .....  | <b>22</b> |
| <b>Mengniu Dairy (2319 HK, BUY, TP HK\$58.0)</b> .....   | <b>25</b> |
| <b>Smoore Int’l (6969 HK, BUY, TP HK\$51.4)</b> .....  | <b>28</b> |
| <b>Yili Industrial (600887 CH, BUY, TP RMB50.0)</b> .....  | <b>31</b> |
| <b>Tsingtao Brewery (168 HK, BUY, TP HK\$86.0)</b> .....   | <b>34</b> |
| <b>RLX Technology (RLX US, BUY, TP US\$6.9)</b> .....  | <b>37</b> |

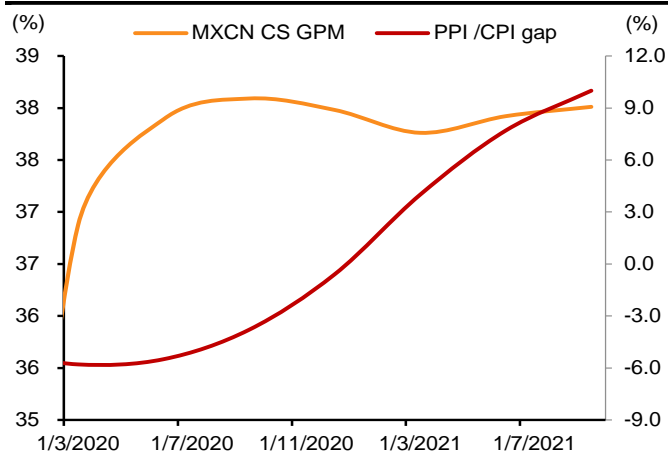
**Focus charts**

**Figure 1: China PPI and CPI inflations**



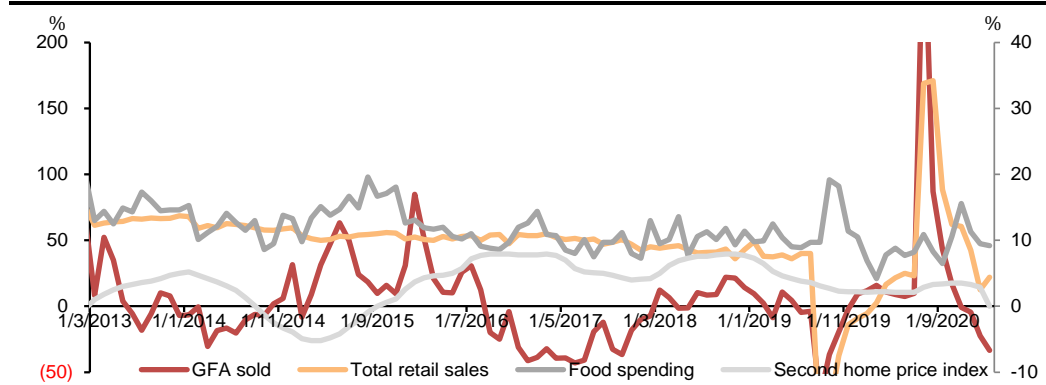
Source: Wind, CMBIS

**Figure 2: Strong margins buffer amid cost inflation**



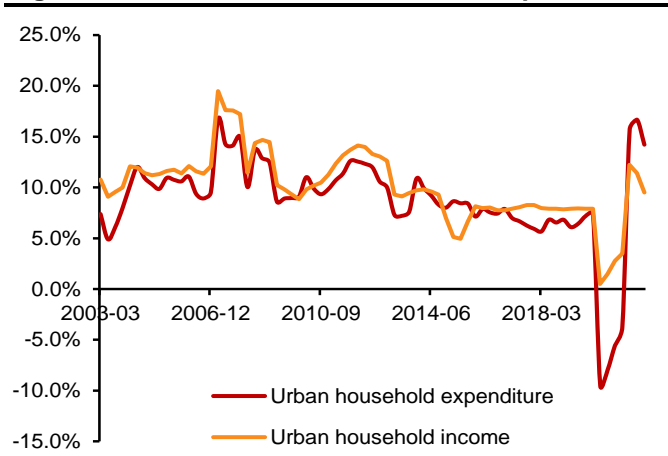
Source: Bloomberg, CMBIS

**Figure 3: Food spending offered a relatively resilience compared to China total retail sales, GFA sold and home price changes**



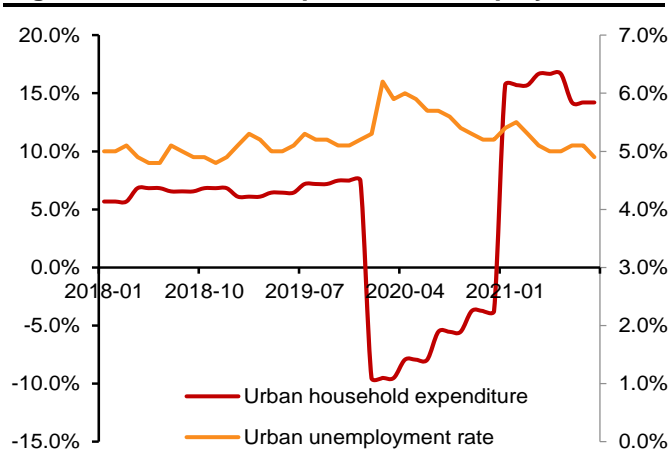
Source: Wind, CMBIS

**Figure 4: Urban household income vs expenditure**



Source: Wind, CMBIS

**Figure 5: Household expense vs unemployment**



Source: Wind, CMBIS

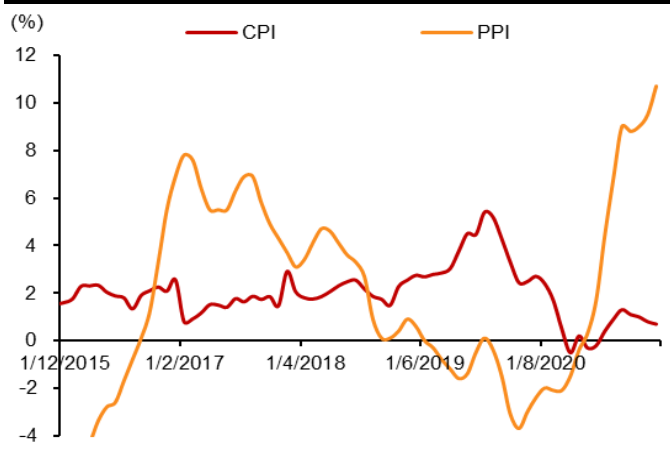
## Investment summary

The recurring wave of COVID (and Beijing's zero-tolerance approach), supply shocks (power supply, raw material), and ripple effect from property tightening are headwinds that could linger into 2022E. Compounding with any stagflation expectations, we see emerging values from a habitual consumption pattern, premiumization and an effective cost pass-through that F&B players offer. We recommend investors to be selective, and stick to players with high pricing power that would manifest into steadfast margins. In this report, we initiate 6 F&B stocks that fit this thesis.

### Margins distortion looks to be transitory; F&B margins look steady

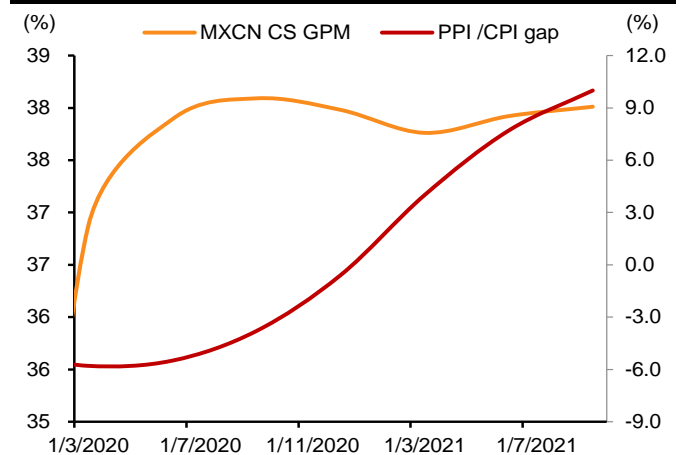
2021 has been an eventful year when the path to recovery was very much distorted by the recurring wave of COVID and Beijing's revamped carbon emission target. PPI stands at cycle-high and input cost inflation was prominent. Despite this, premiumization, product differentiation and a proactive channel management are catalysts that effectively mitigate any pressure from cost inflation, leading to a reviving margins trajectory. We expect 2H21 would probably mark the trough to F&B gross margins.

**Figure 6: China PPI and CPI inflations**



Source: Wind, CMBIS

**Figure 7: Strong margins buffer amid cost inflation**



Source: Bloomberg, CMBIS

### Property tightening – an uneven impact to consumption

The Evergrande's fallout is unprecedented, and the ripple effect from unemployment, wage reduction and any "wealth effect" is likely to represent a more meaningful hiccup to large-ticket discretionary items, while that to food and beverage historically took a lighter hit. The impact to consumption propensity is uneven. Our analysis shows food expenditure exhibited a stronger correlation to income, rather than property investment gain.

### CGB – an ongoing but idiosyncratic risk to the F&B spectrum

Community Group Buying (CGB) offers both pros and cons to consumers, distributors and producers. With that, we see different dynamics across the Fast-Moving-Consumer-Good (FMCG) spectrum – we think SKUs that are frequently consumed at home without distinguishable product differentiation, along with high channel margins, are less immune to the channel migration to CGB. Producers' pricing power, distributor management and the degree of market consolidation also matters. Our channel check suggests that beer and dairy producers remain conservative in monetizing this fast-growing opportunity.

**CRB and Mengniu are our top picks; we also like Smoore and Yili.**

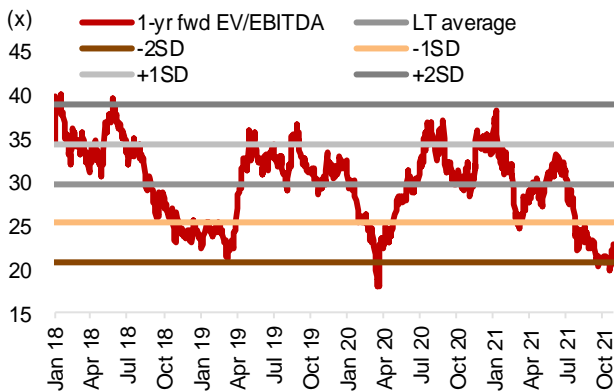
**CRB (291 HK, Buy, TP HK\$88.0).** Despite an anticipated 3Q consumption disruption and a seasonally slower 4Q, CRB remains a high-quality name to stand tall thanks to its undisrupted premiumization trajectory, underpinned by a ~2% sub-premium price hike and a ~5% from a higher premium mix, respectively. We envisage these should also mitigate any cost inflation (4-5%) to be materialized over 2H21.

**Mengniu (2319 HK, Buy, TP HK\$58.0).** Our 5.9% 2H EBIT margins stemmed from an effective cost control that was well proven in 1H. This efficiency gain should also suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to 5-6% YoY in 2H21E, resulting a ~36% 2H gross margins (2H19: 36.3%).

**Smoore (6969 HK, Buy, TP HK\$51.4).** Regulatory scrutiny is a well-known overhang to Smoore. That said, it also serves as a double-edged sword by lifting up the entry barrier to new entrants, upkeeping a high pricing discipline and projecting a more visible competitive landscape.

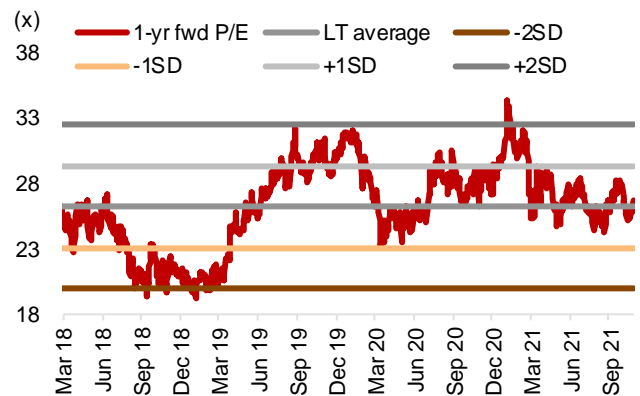
**Yili Industrial (600887 CH, Buy, TP RMB50.0).** Our incorporation of a 7.8% 2H EBIT margins is benchmarked to the level of 2H19, based on a similar rationale we assumed for Mengniu. The 15% raw milk price hike over 1H has resulted in a 0.6pp gross margins dilution to Yili, and we expect the impact to proportionately diminish if the hike maintains at 5% over 2H. We assume a 33.5% 2H gross margin.

**Figure 8: CRB - 12M forward EV/EBITDA**



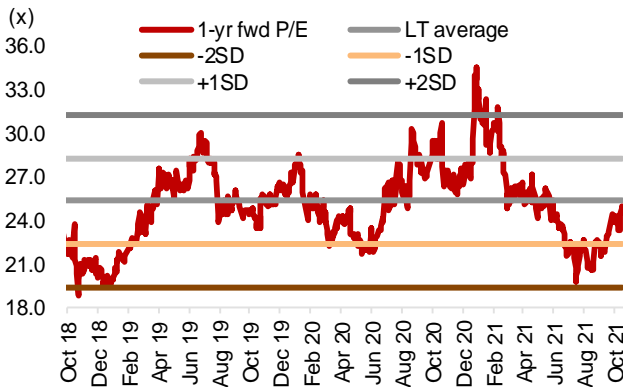
Source: Bloomberg, CMBIS

**Figure 9: Mengniu - 12M forward P/E band**



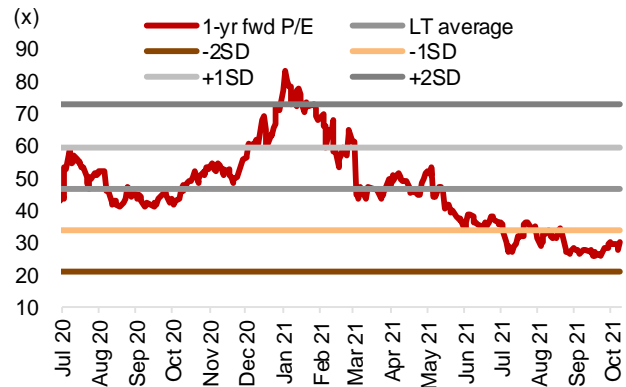
Source: Company data, CMBIS

**Figure 10: Yili - 12M forward P/E band**



Source: Bloomberg, CMBIS

**Figure 11: Smoore - 12M forward P/E band**

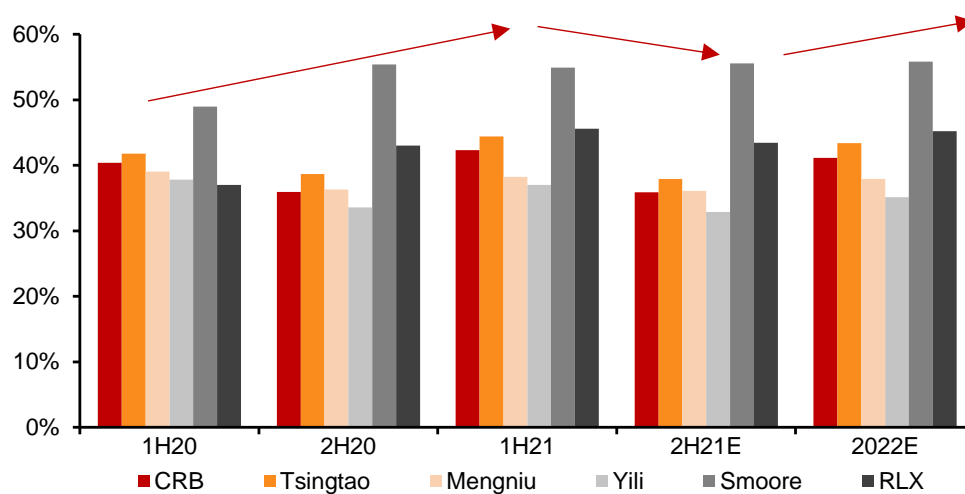


Source: Bloomberg, CMBIS

## Margins distortion looks to be transitory, premiumization drives steadfast margins despite cost inflation

A regular or even a habitual consumption pattern, by nature, explains the rather inelastic demand to food and beverages (F&B) throughout economic cycles. Meanwhile, the cyclicity that F&B producers face is subject to, if not only seasonal demand, margins elasticity driven by external factors such as raw material costs and electricity charges. 2021 has been an extraordinary year with the dynamics of these were very much distorted by the recurring wave of COVID and Beijing's revamped carbon emission target. Despite this, premiumization, product differentiation and a proactive channel management are catalysts that effectively mitigate any pressure from input cost inflation, leading to a reviving margins trajectory. We expect 2H21 would probably mark the trough to F&B producers' gross margins.

**Figure 12: Gross margins trajectories for F&B producers that we monitor**



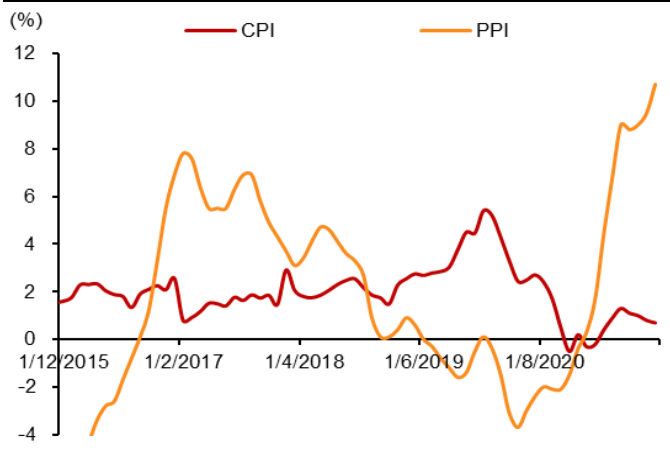
Source: Company data, CMBIS

### ■ Energy cost inflation amid a more stringent scrutiny on GHG emission

China's unprecedented ambition in enforcing energy consumption and greenhouse gas (GHG) emissions have led to ripple effects to producer costs inflation and margins compressions, in our view. Of note, the NDRC has toughened its stance in curbing high energy consumption businesses in September, which require local governments to fulfil KPIs for both 2020 and 2021. This has led to an immediate shut down of high-energy-density operations, as well as power blackouts in provinces which received warnings from the NDRC such as Jiangsu and Guangdong. The supply shock in raw materials or work-in-progress explained the recent input cost surge, in our view, and instead likely to benefit upstream producers.

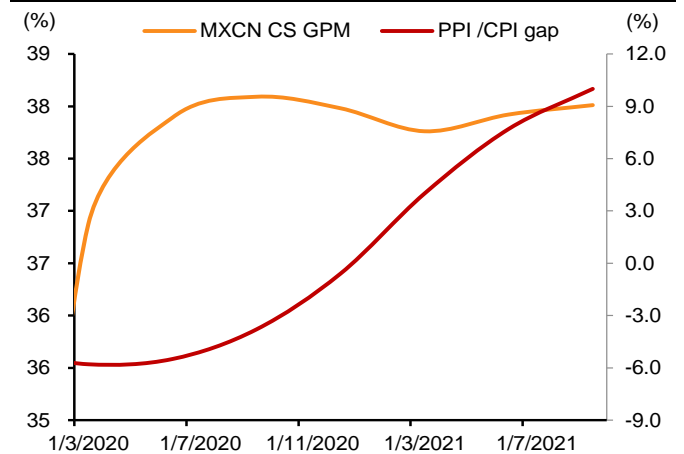
That said, the upside should kick-in at a cost to the downstream OEMs and distributors, where margins will be squeezed. The phenomenon was well depicted in the scissors gap between China's PPI and CPI inflations, which came in at 10.7% and 0.7% YoY in September, respectively. The forthcoming Winter Olympic Games, which is set to commence in February 2022, should remain a major driver to sustain, if not widening, the gap. In our view, Beijing will likely aim for a Green Olympic, as a pledge or an initial first step that the leadership has made to have China's CO<sub>2</sub> emission peak-out before 2030 and [carbon neutral by 2060](#).

**Figure 13: China PPI and CPI inflations – and we expect minimal pass-through near term**



Source: Wind, CMBIS

**Figure 14: Relatively resilient margins from Staple names amid a cost inflation environment**

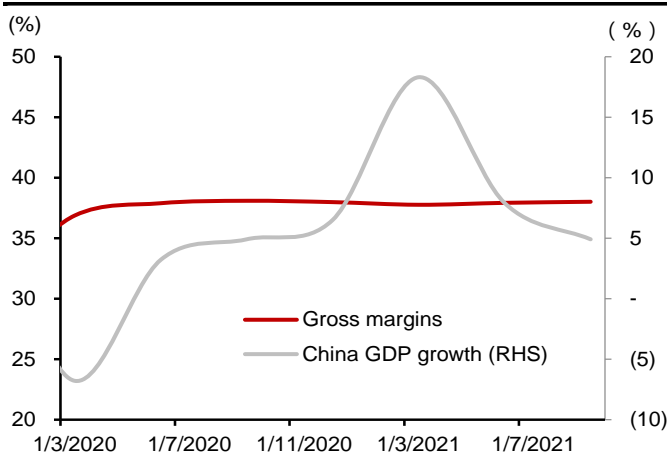


Source: Bloomberg, CMBIS

■ **Staple names offer relatively steadfast margins throughout economic cycles**

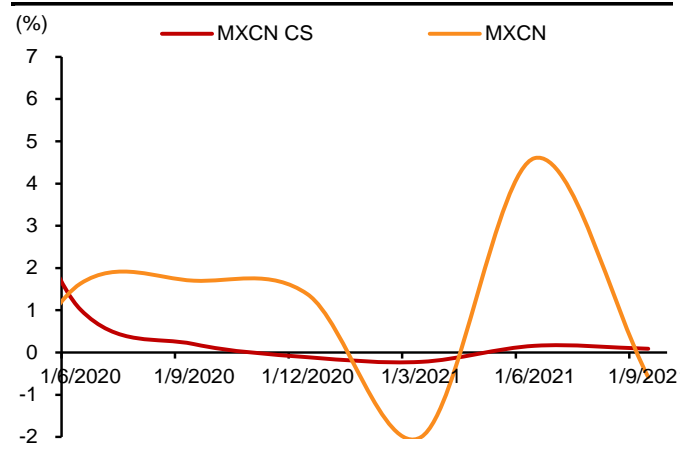
Despite economic cycles and any gradual hike in raw material prices since early 2020, anecdotally, companies under the MSCI China Consumer Staple index offer a relatively more resilient gross margins trajectories, hence more stabilised earnings growth, than companies under the MSCI China index. We believe this is mainly driven by 1) an accelerated product innovations and new channel penetrations, 2) more targeted marketing promotion towards young generations, and 3) a parallel price hike that passes on the cost inflation to end-consumers. On F&B consumption, in general, we think consumers are relatively insensitive to price changes, because 1) they are becoming more aware of food quality and tasting experience, 2) the price hikes are initiated along with quality improvement, which are less apparent to be noticed, 3) a low unit price which makes the absolute price increase less material to buyers' wallet.

**Figure 15: MXCN Consumer Staples offer resilient margins throughout economic cycles**



Source: Bloomberg, CMBIS estimates

**Figure 16: A more steady GPM increment – MSCI Consumer staples vs MSCI China**

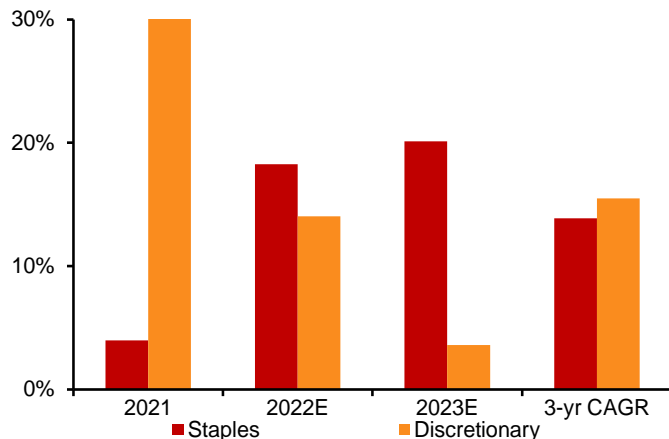


Source: Company data, CMBIS estimates

Our channel check suggests that impact from the recent power shortage to food and beverage producers we are monitoring is limited. There were little production suspensions. Separately, packaging material supply was the only area we noted that were affected – due mainly to their high energy consumption nature. With that, the consequence to e-cigarette,

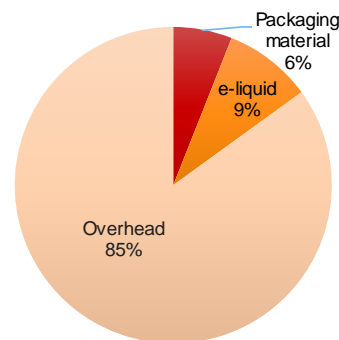
and dairy producers was manageable, as the material represented 6-18% of the COGS. We note a more apparent impact to Beer producers, who incur 40%+ of the COGS from packaging cost due to glass and can bottling.

**Figure 17: Consensus EPS growth comparison**



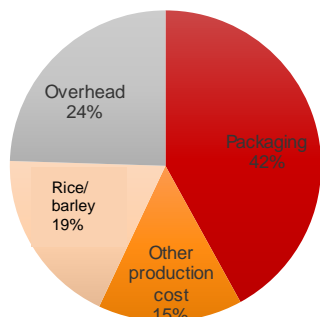
Source: Bloomberg, CMBIS  
Note: include companies only with positive EPS

**Figure 18: COGS breakdown - e-cigarette producers**



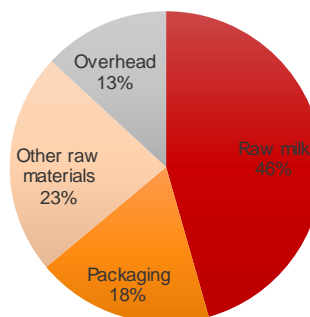
Source: Company data, CMBIS estimates

**Figure 19: COGS breakdown - beer producers**



Source: Company data, CMBIS

**Figure 20: COGS breakdown – dairy producers**



Source: Company data, CMBIS estimates

■ **We estimate a 10% increase in packaging cost would upset GPM by 0.1-1.0%**  
Our utility analyst Robin Xiao believes that coal supply shortage situation likely will be eased as National Energy Association (NEA) had released several policies to relax coal mining volume, and to boost coal output in Inner Mongolia, Shanxi and Shaanxi. Meanwhile, since coal output ramp-up takes time, coal supply will likely remain tight until 1Q22E particularly during winter heating season in North China. By incorporating the time frame into our sensitivity analysis, and further assuming a full pass-through between electricity tariff hike and packaging cost, we estimate that a 10% increase in the former would lead to a 0.1-1.0% decrease in our 2021E gross margins as below.



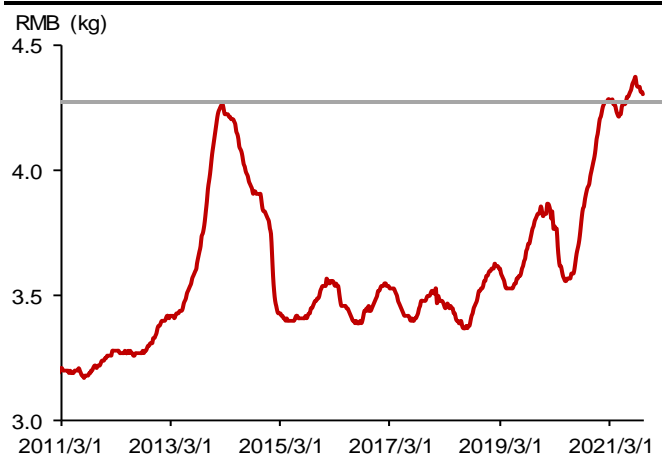
**Figure 21: Sensitivity analysis to gross margins upon a 10% increase in packaging costs**

| (RMB mn)                      | CRB           | Tsingtao      | Mengniu       | Yili          | RLX          |
|-------------------------------|---------------|---------------|---------------|---------------|--------------|
| Revenue                       | 33,393        | 30,093        | 88,152        | 110,492       | 8,886        |
| Packaging cost                | (8,060)       | (8,753)       | (8,675)       | (12,819)      | (297)        |
| 10% cost inflation            | (806)         | (875)         | (868)         | (1,282)       | (30)         |
| Gross profits                 | 13,243        | 12,607        | 32,793        | 38,655        | 3,934        |
| <b>Adjusted gross profits</b> | <b>12,437</b> | <b>11,732</b> | <b>31,925</b> | <b>37,373</b> | <b>3,905</b> |
| GPM                           | 39.7%         | 41.9%         | 37.2%         | 35.0%         | 44.3%        |
| <b>Adjusted GPM</b>           | <b>37.2%</b>  | <b>39.0%</b>  | <b>36.2%</b>  | <b>33.8%</b>  | <b>43.9%</b> |
| <b>GPM impact</b>             | <b>-2.4%</b>  | <b>-2.9%</b>  | <b>-1.0%</b>  | <b>-1.2%</b>  | <b>-0.3%</b> |

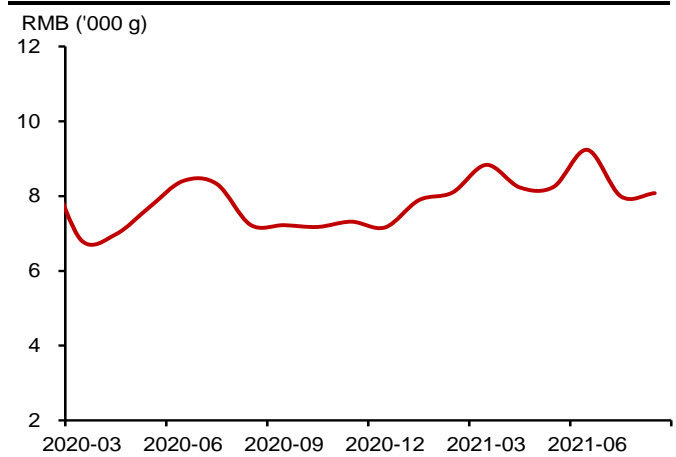
Source: Company data, CMBIS

### ■ On the other hand, raw milk price hike likely to peak out

Domestic raw milk price has entered into its upcycle since second-half last year, driven by 1) a decreasing import in rehydrated milk (a substitute to raw milk), 2) an increase in feedstock price such as corns and soybean meal, 3) a diminishing milch cattle population due to upstream consolidation and a strengthening carbon emission requirement. The supply gap was further widened by an increase in raw milk consumption driven by the overwhelmed popularity in pasteurised milk products (higher nutritional value than UHT milk), on back of a rising health awareness post-COVID. The shortage has raised the eyebrows of dairy producers like Mengniu and Yili, who have further secured the supply through vertical integration and organic expansion since late-2020. Considering the lead time of the new facilities ramp-up, we believe domestic raw milk demand and supply is likely to reach its equilibrium in 2022E, along with a normalising raw milk price.

**Figure 22: Domestic raw milk price**

Source: Wind, CMBIS

**Figure 23: Raw milk imported price**

Source: Wind, CMBIS

### ■ Premiumization as another source to enhance product margins

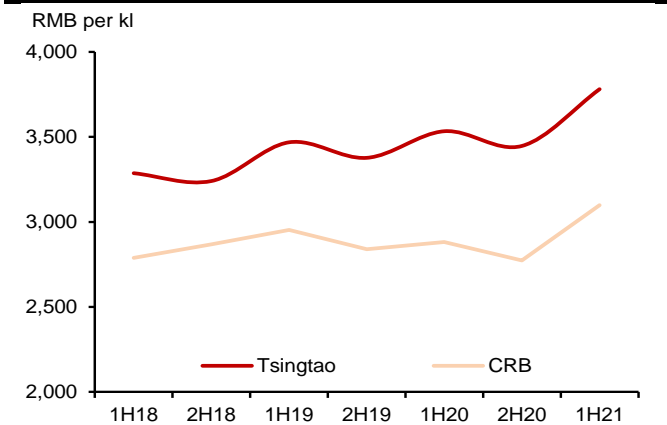
The recent rounds of price hike for dairy and beer producers was originated by their premiumization initiative, which is the combination of several structural tailwinds such as better product quality, a more focused pricing strategy, channel restocking, increased brand-building. Of note, we see good examples from dairy players to exhibit product innovation while beer brewers are role models in consumer trade-ups execution.

- **Dairy** - We see frequent and continuous new SKU introduction in liquid milk categories that are aiding the expansion of the customer base for dairy consumption. For instance, Mengniu executed different strategies across its star brands Milk Deluxe, Fruit Milk Drink and Just Yoghurt. Milk Deluxe's "Dream Cap"

series is designed to penetrate the luxury segment, while Just Yoghurt and Fruit Milk Drink is set up to pinpoint Gen-Z/ health-conscious consumer demand.

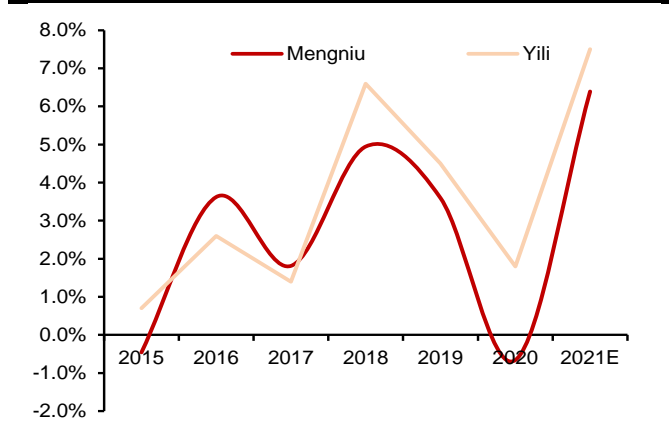
- **Beer** – China Resource Beer’s brand pillars cover a wide pricing range, from local mid/ mass market to imported luxury brand such as Heineken. Each sub-segment offers a differentiated taste, packaging presentation and hence well-defined customer group. The launch of SKUs under the Heineken brand umbrella, such as Heineken, Sol Tiger and Desperados last year acted as a game changer for local beer drinkers in terms of the way of consumption, taste re-vamp and brand perception.

**Figure 24: Beer - ASP upgrade despite COVID**



Source: Company data, CMBIS

**Figure 25: Dairy - ASP upgrade despite COVID**

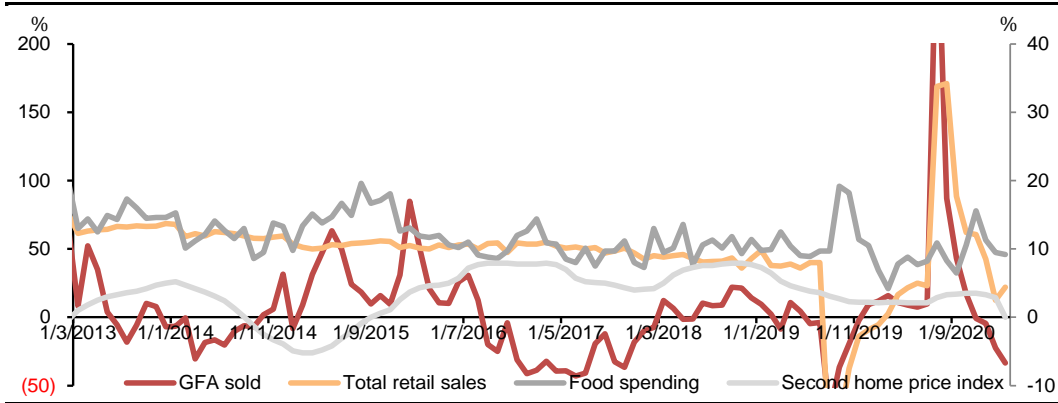


Source: Company data, CMBIS

## The property tightening – an uneven and contagious impact to household consumption

The Evergrande's fallout is unprecedented, but the risks associated with property tightening to consumption is not, in our view. The ripple effect from unemployment, wage reduction and any "wealth effect" is likely to represent a more meaningful hiccup to large-ticket discretionary items, while that to food and beverage historically took a lighter hit. The impact to consumption propensity is uneven. Our analysis shows food expenditure exhibited a stronger correlation to income, rather than property investment gain. In the long term, structural drivers such as gradually rising income, better products and a growing sense of enjoyment and health-awareness remain well in place to cement a broad-based premiumization trajectory.

**Figure 26: Food spending offered a relatively resilience compared to China total retail sales, GFA sold and home price changes**

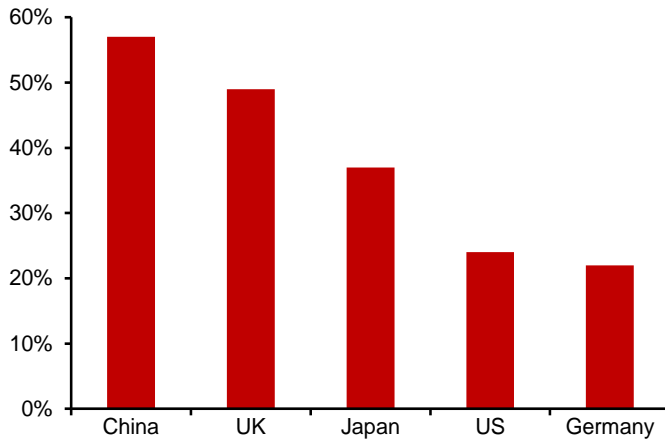


Source: Wind, CMBIS

### ■ Property investment represents 57% of household wealth...

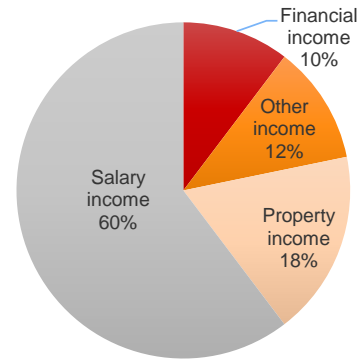
The value contribution of residential property among Chinese household has been decreasing. Of note, the peak was seen in 2019 at 77%. Since then, the representation has been sliding to almost 57% until more recently, according to [Sina news](#), driven by asset diversification to other assets such as stocks, autos, and even commercial properties. The weighting of property investment remains significant, and it has been one of the drivers of household income growth, on back of a mounting household gearing for home mortgages. Separately, the apparent deceleration in household income, owing to a fragile business and property income growth, does not bode well for the near term consumption outlook.

**Figure 27: Residential property represents 57% of household assets in China 2020**



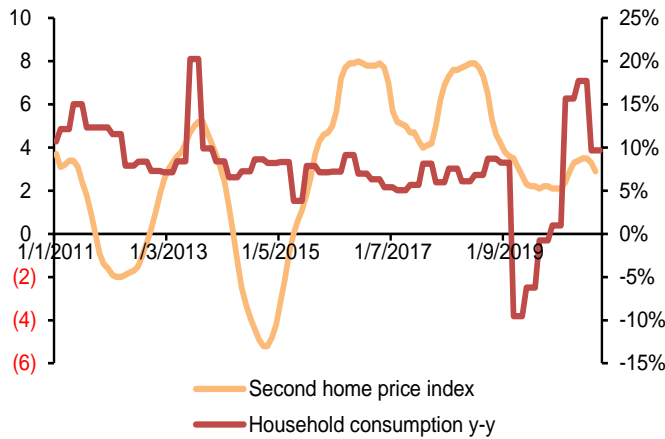
Source: Sina News, CMBIS

**Figure 28: Income from property transfer is one of the major household income in 2019**



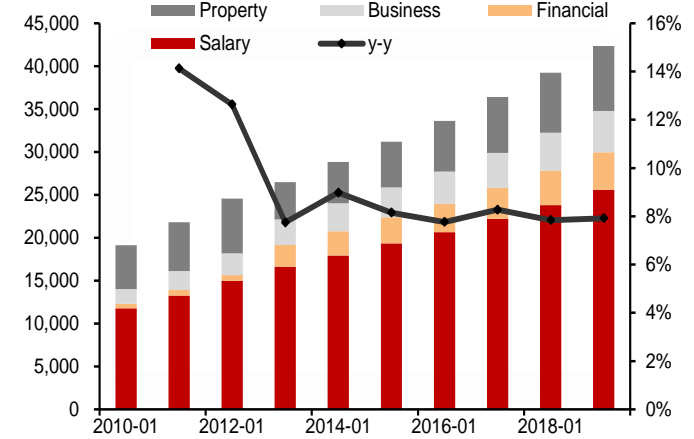
Source: Wind, CMBIS

**Figure 29: Home prices vs household spending**



Source: Wind, CMBIS

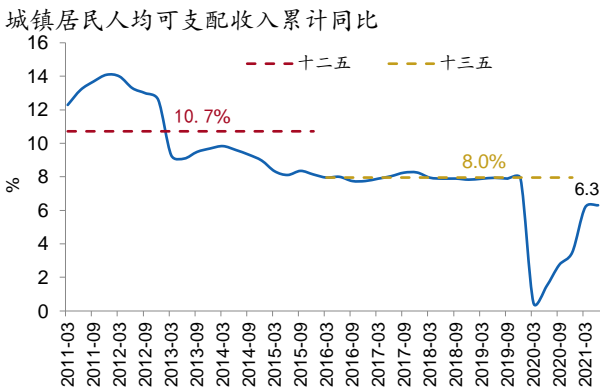
**Figure 30: Breakdown on household income**



Source: Wind, CMBIS

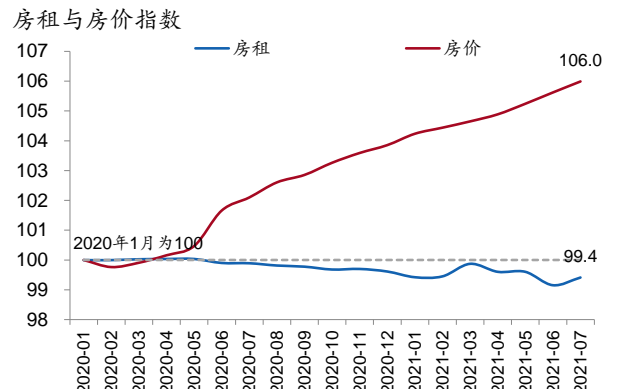
As a side note, our Chief Economist Ding AnHua argued that the last [property upcycle has come to its end](#), but the divergence between home price and rental would remain because of a widening income inequality.

**Figure 31: Household income growth 2011-2021**



Source: Wind, China Merchants Bank Institute, CMBIS

**Figure 32: Divergence between home price and rental**

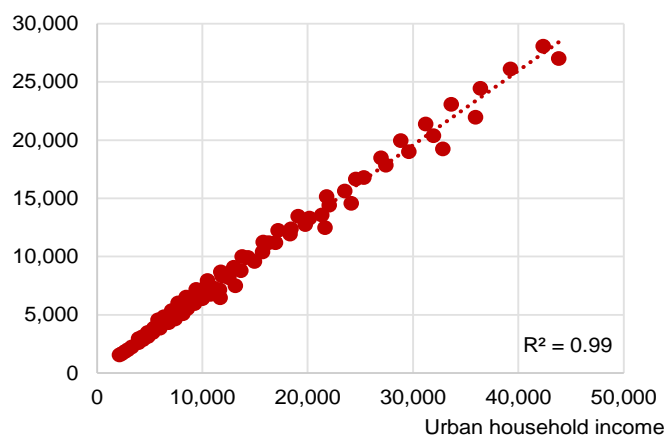


Source: Wind, China Merchants Bank Institute, CMBIS

■ ... but household income still a major driver for spending

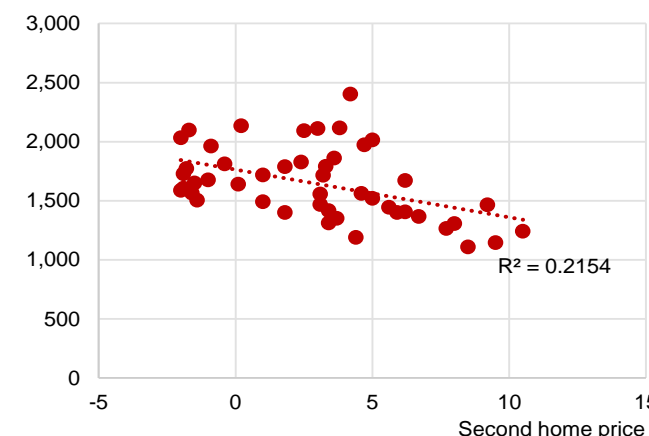
However, the low correlation in the past 10 years was not strong enough to indicate any causal relationship between home prices and household spending propensity. The impact on wealth effect from financial gains to consumption is ambiguous. Instead, household income and job security remains a predominant driver to household spending. Between 2011-2021, we note that an 8.4% household income CAGR has correspondingly led to a 6.7% consumption CAGR. Among which, spending on housing grew the most at 18%, followed by that of durables at 6%, food at 4% and clothing at 1%, respectively. Spending on food, in particular, demonstrated resilience with positive growth during the pandemic. Separately, consumption pattern has shown an even distribution across previous property market down-cycle, stock market crashes and economic troughs with high-end discretionary spending fluctuate the most.

**Figure 33: Household income and expenditure demonstrates a strong correlation**



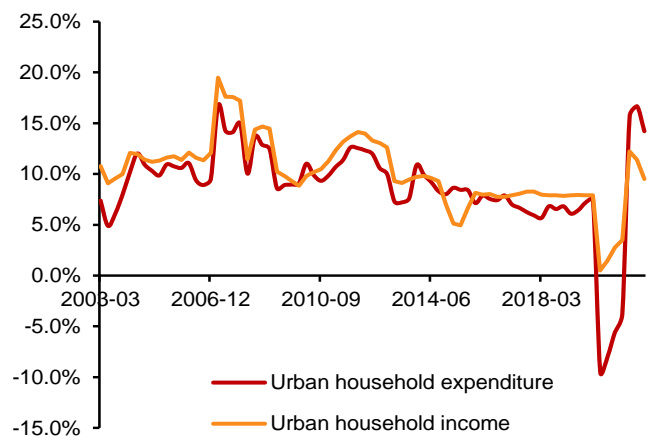
Source: Wind, CMBIS

**Figure 34: Household expense and home price show weak correlation**



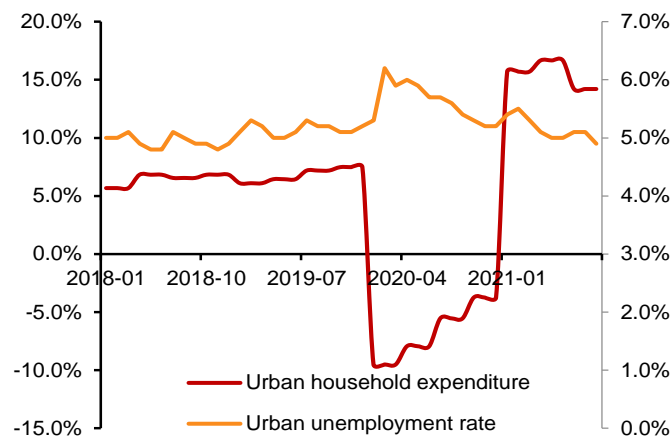
Source: Wind, CMBIS

**Figure 35: Urban household income vs expenditure**



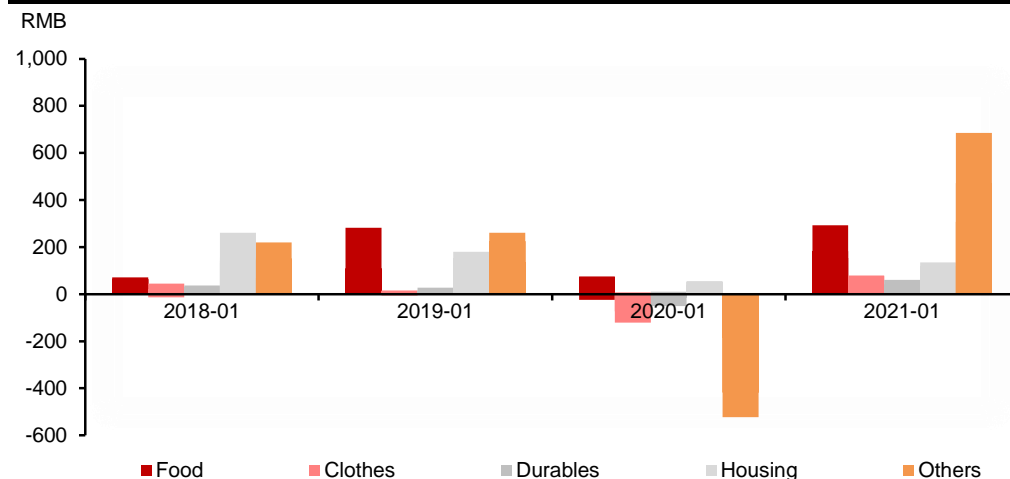
Source: Wind, CMBIS

**Figure 36: Household expense vs unemployment**



Source: Wind, CMBIS

**Figure 37: Incremental spending on food, clothing, durables and housing in 2018-21**



Source: Wind, CMBIS

Note: Other items include jewellery, cosmetics and other entertainment spending, etc.

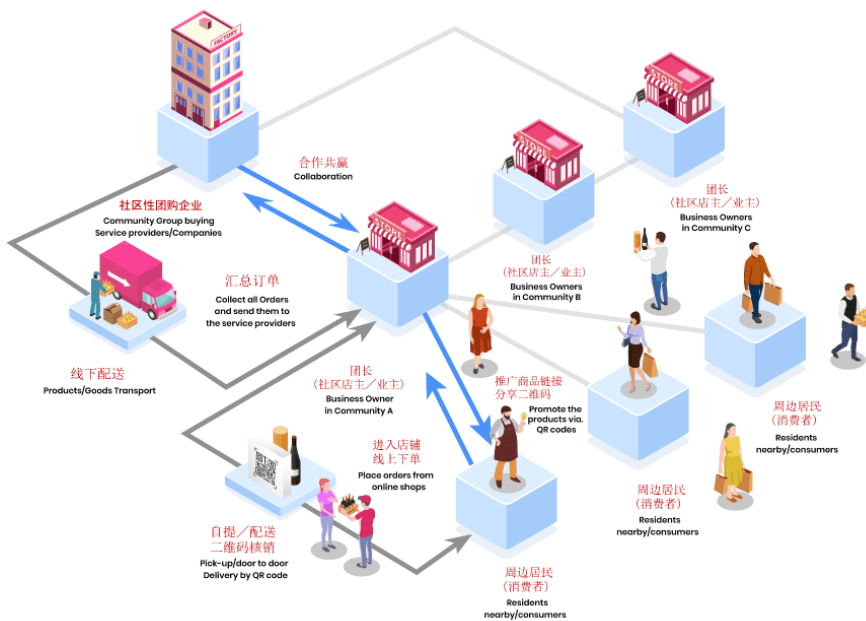
## Community Group Buying – an ongoing but idiosyncratic risk to the F&B spectrum

CGB offers both pros and cons to consumers, distributors and producers. With that, we see different dynamics across the Fast-Moving-Consumer-Good (FMCG) spectrum – we think SKUs that are frequently consumed at home without distinguishable product differentiation, along with high channel margins, are less immune to the channel migration to CGB. Producers’ pricing power, distributor management and the degree of market consolidation also matters. Our channel check suggests that beer and dairy producers remain conservative in monetizing this fast-growing opportunity.

### ■ A brief overview on CGB

We consider the emerging Community group buying (CGB) a disruptor to brand owners’ existing distribution channel, and hence profitability of the value chain. CGB is organised by a designated community leader, who creates a social media group (usually a WeChat group) to coordinate grocery orders for a community. Members are able to order a large variety of food and beverage items, even paper towels, shampoo, etc., via mini-programs within WeChat or other social apps. Orders are collectively delivered to a designated place to the community leader and then disseminated to other buyers.

**Figure 38: The framework and building blocks of Community Group Buying (CGB)**



Source: Asia Beverage Media Group

■ **Beer and dairies are unlikely to see rapid channel migration to CGB**

FMCGs cover a wide spectrum of SKUs and each of them shares very different product attributes and consumption context to others. The asymmetrical feature explains why CGB is more popular in fresh food purchasing, for instance, while it is less penetrated in dairies and spirits. Specifically, in our view, channel margins, consumption frequency/ destination, product differentiation/ pricing as well as logistics requirement are major criteria that determine the pace of channel shift and any changes to consumers' buying behaviour. In general, we believe items that are consumed frequently at home with ambiguous product differentiation correspond to a more rapid channel migration from wet/ supermarket to CGB. These products include, but not limited to, condiments, fresh food, tissue paper and personal hygiene items, etc. On the flip side, we observed a slower channel migration for SKUs, such as beer and dairies, of which brand owners are more hands-on with distributor management. They upkeep high pricing discipline, and establish distinguishable product differentiations.

**Figure 39: Consumption aspects of major FMCGs**

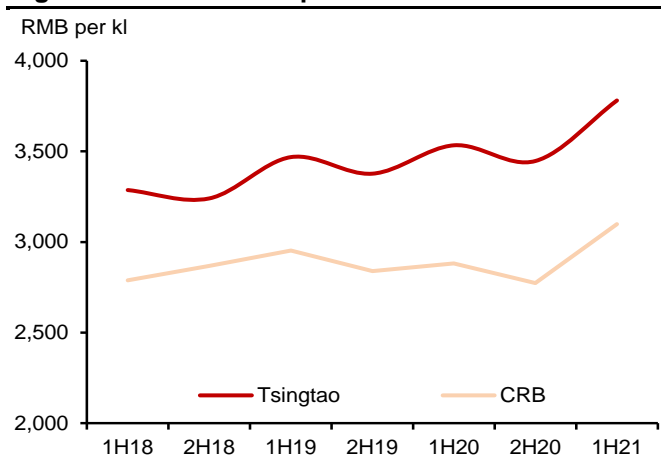
|                   | Channel margins | Consumption frequency | Home consumption | Product differentiation | Pricing discipline | Logistics requirement |
|-------------------|-----------------|-----------------------|------------------|-------------------------|--------------------|-----------------------|
| Condiment         | medium          | frequent              | mainly           | not obvious             | medium             | low                   |
| Fresh food        | medium          | frequent              | mainly           | not obvious             | low                | high                  |
| Packaged food     | low             | depends               | depends          | obvious                 | medium             | low                   |
| Beverages         | high            | depends               | depends          | obvious                 | medium             | depends               |
| Dairy             | low             | frequent              | depends          | obvious                 | high               | high                  |
| Alcohol           | high            | depends               | depends          | obvious                 | high               | high                  |
| Tissue            | low             | frequent              | mainly           | not obvious             | medium             | low                   |
| Personal hygienes | medium          | frequent              | mainly           | obvious                 | medium             | low                   |
| E-cigarettes      | not applicable  | not applicable        | not applicable   | not applicable          | not applicable     | not applicable        |

Source: Company data, CMBIS

1) **Beer – a highly consolidated market mitigates a rapid CGB channel shift**

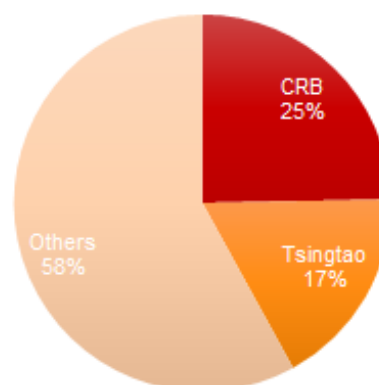
The high on-trade consumption of beer has formed a natural barrier to deter an abrupt channel shift to CGB. Of note, approximately 55% of the beer consumption is consumed on-trade, splitting between restaurants (~20%) and night-entertainment premises (30%+). On the supply side, while CGB in general offers a high discounts (some 10-30%+) to products than those offered in traditional channels like supermarket, we believe this goes against the current strategy of the breweries, like CRB and Tsingtao, who have adhered to a strict pricing discipline and are unwilling to sacrifice margins in return for market share gains.

**Figure 40: Continuous premiumization trend**



Source: Company data, CMBIS

**Figure 41: China beer market is rather consolidated**



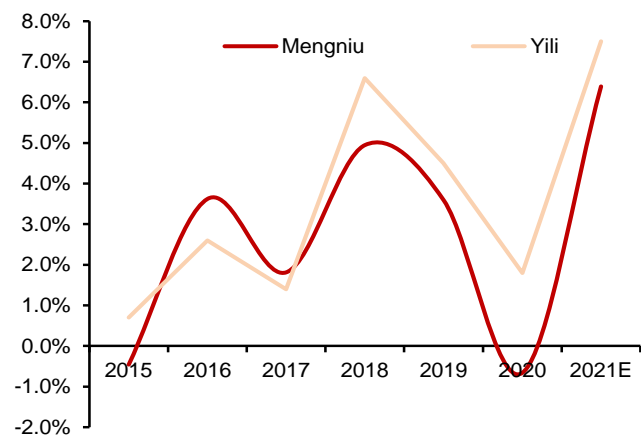
Source: Company data, CMBIS



**2) Dairy – taking a proactive approach to contain the distortion**

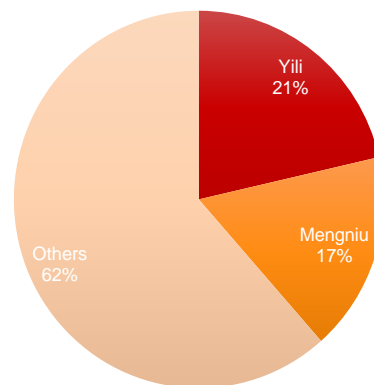
Producers in the segment are implementing a more precise channel segmentation in hope of containing the distortion to pricing and distribution we observed last year. Both Mengniu and Yili have taken proactive approaches to minimize the number of overlapped SKUs and distributors between their existing and the CGB channel.

**Figure 42: Premiumization trend continues**



Source: Company data, CMBIS

**Figure 43: China dairy market is rather consolidated**

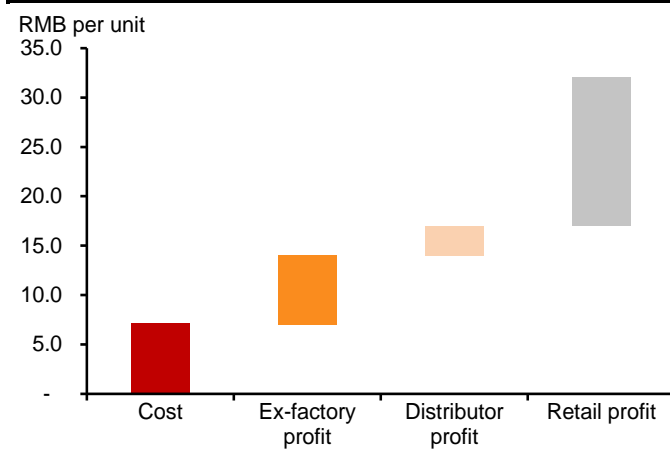


Source: Company data, CMBIS

**3) E-cigarettes - irrelevant to this channel shift**

The distribution of e-cigarettes, or e-vapors, has been prohibited, following a revision of the Minor Protection Law, effective since 1st Jun, clearing point-of-sales nearby campus, and prohibition of online channel promotion and distribution. The major channel for e-vapor ODM remains physical outlets such as franchise stores and point-of-sales within malls. From a product perspective, e-vapor penetration in China still hovers at 1.5%, indicating only a small smoker community that is unlikely to leverage on any CGB channels even should regulation ban is lifted. The well-aligned interest along the value chain, from cartridge producers and device manufacturers to retail distributors, also represents a significant mitigating factor to prevent from a rapid channel shift.

**Figure 44: Channel profitability for cartridges**

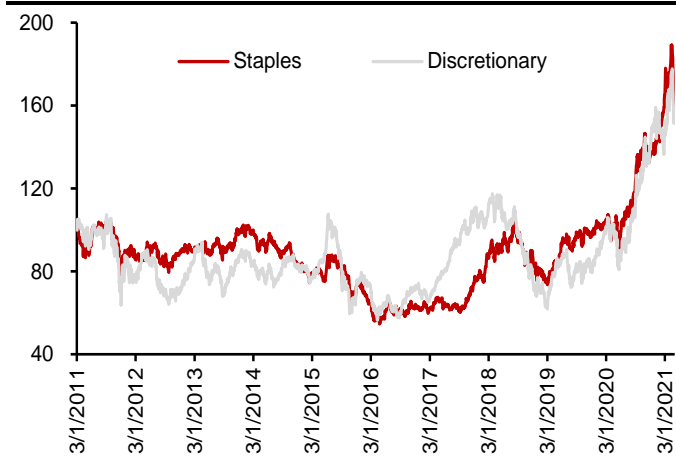


Source: Company data, CMBIS

## Valuation

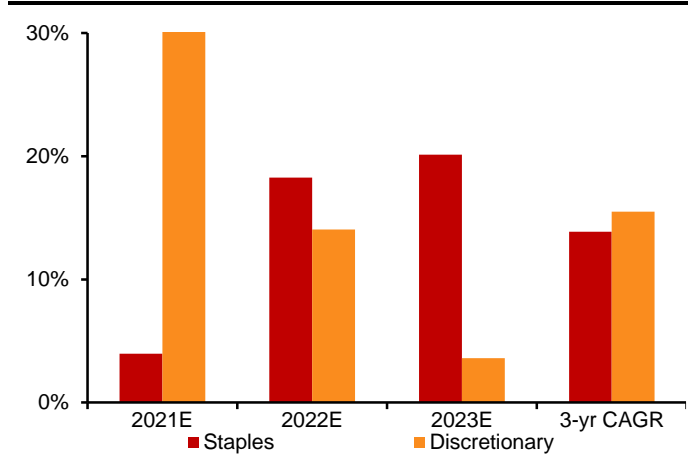
Food and beverage (F&B) stocks historically delivered more resilient stock market returns during down-cycles over end-2012, mid-2015, end-2018 and throughout 2020. While market sentiment looks to have digested any consequences from policy changes and a bumpy path to a post-pandemic recovery, in our view, investors should not be too complacent either. The recurring waves of COVID (and Beijing’s zero-tolerance approach), supply shocks (in terms of power shortage and raw material price hike), and ripple effect from property tightening are drags that could linger into 2022E. F&B names are not immune from these. That said, we argue premiumization, an effective cost pass-through and low consumption penetration remains catalyst to maintain a high pricing power that would manifest into steady margins and earnings buffer. The MSCI China Consumer Staples Index now trades at 23x end-2022E P/E at ~20% earnings growth, which we think is well-justified given the reasons above. Among our coverage, CRB and Mengniu are our top picks. We also like Smoore and Yili.

**Figure 45: MXCN staple/ discretionary index performance (Jan 2011=100)**



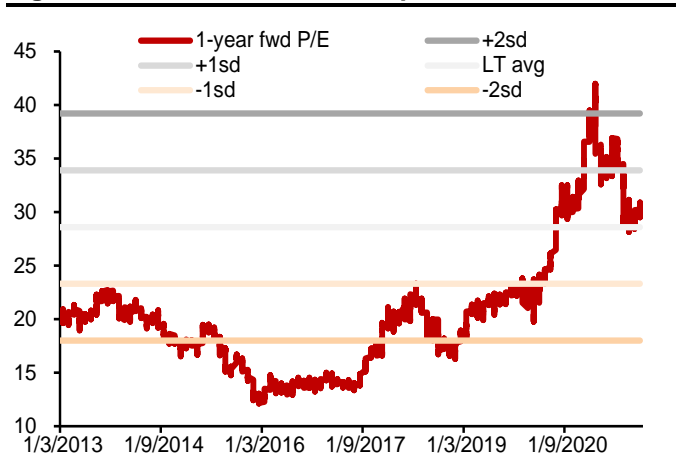
Source: Bloomberg, CMBIS

**Figure 46: Consensus EPS growth comparison - MXCN consumer staples and discretionary**



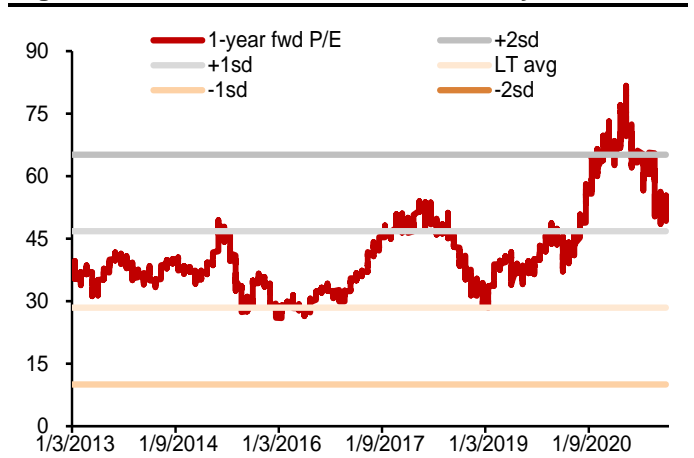
Source: Bloomberg, CMBIS

**Figure 47: MXCN consumer staples LTM P/E**



Source: Bloomberg, CMBIS

**Figure 48: MXCN consumer discretionary LTM P/E**



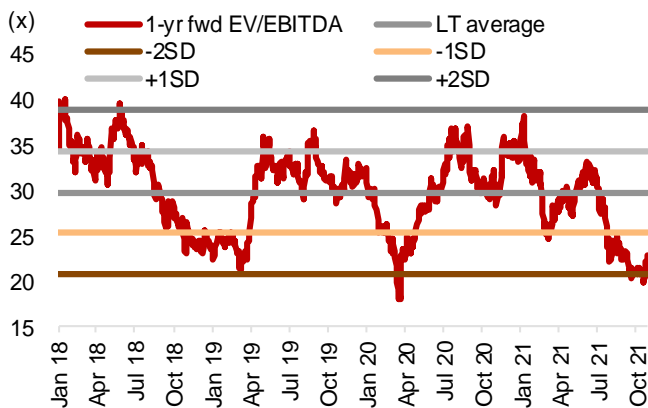
Source: Bloomberg, CMBIS

Figure 49: China Consumer Staples valuation comps

| Company                                       | Ticker    | Rating | 12m TP (LC) | Price (LC) | Upside/Downside | Mkt. Cap (US\$ mn) | P/E (x) |       | P/B (x) |       | ROE (%) |       |
|---|-----------|--------|-------------|------------|-----------------|--------------------|---------|-------|---------|-------|---------|-------|
|   |           |        |             |            |                 |                    | FY21E   | FY22E | FY21E   | FY22E | FY21E   | FY22E |
| <b>Food/ beverage/ cosmetics/ e-cigarette</b> |           |        |             |            |                 |                    |         |       |         |       |         |       |
| CR Beer                                       | 291 HK    | Buy    | 87.90       | 64.5       | 36.3            | 26,912.1           | 39.7    | 38.3  | 7.1     | 6.4   | 13.9    | 17.5  |
| Tsingtao Brewery                              | 168 HK    | Buy    | 78.00       | 67.7       | 27.3            | 17,262.4           | 27.8    | 23.0  | 3.4     | 3.1   | 12.2    | 13.6  |
| Budweiser APAC                                | 1876 HK   | NR     | N/A         | 21.5       | N/A             | 36,535.0           | N/A     | N/A   | N/A     | N/A   | 8.3     | 9.4   |
| Mengniu                                       | 2319 HK   | Buy    | 57.00       | 49.6       | 17.1            | 25,191.8           | 44.2    | 37.2  | 6.3     | 5.5   | 11.9    | 13.5  |
| Yili - A                                      | 600887 CH | Buy    | 47.20       | 43.0       | 16.3            | 40,878.0           | 29.0    | 25.1  | 8.0     | 7.1   | 27.7    | 30.5  |
| Feihe   | 6186 HK   | NR     | N/A         | 13.0       | N/A             | 14,860.1           | N/A     | N/A   | N/A     | N/A   | 37.2    | 35.6  |
| Nongfu Spring                                 | 9633 HK   | NR     | N/A         | 39.5       | N/A             | 57,061.9           | N/A     | N/A   | N/A     | N/A   | 36.1    | 32.4  |
| Tingyi  | 322 HK    | NR     | N/A         | 14.6       | N/A             | 10,539.2           | 17.7    | 15.9  | 3.2     | 3.2   | 18.5    | 21.0  |
| Uni-President China                           | 220 HK    | NR     | N/A         | 6.6        | N/A             | 3,688.7            | 16.2    | 13.9  | 1.7     | 1.7   | 10.7    | 12.2  |
| Zhou Hei Ya                                   | 1458 HK   | NR     | N/A         | 7.0        | N/A             | 2,148.6            | 27.7    | 18.5  | 3.0     | 2.8   | 11.5    | 15.5  |
| Juewei Food                                   | 603517 CH | NR     | N/A         | 65.9       | N/A             | 6,321.9            | 39.5    | 31.0  | 7.0     | 6.0   | 17.7    | 19.3  |
| Kweichow Moutai                               | 600519 CH | NR     | N/A         | 1,826.1    | N/A             | 358,547.9          | 43.6    | 37.3  | 11.9    | 10.0  | 28.5    | 28.1  |
| Wuliangye                                     | 000858 CH | NR     | N/A         | 216.5      | N/A             | 131,356.7          | 34.5    | 28.9  | 8.3     | 7.0   | 25.1    | 25.2  |
| WH Group                                      | 288 HK    | NR     | N/A         | 5.5        | N/A             | 9,009.7            | 8.4     | 7.0   | 1.0     | 0.9   | 11.5    | 13.2  |
| Foshan Haitian                                | 603288 CH | NR     | N/A         | 117.0      | N/A             | 77,049.6           | 70.5    | 58.0  | 20.0    | 16.5  | 29.8    | 29.7  |
| Proya Cosmetics                               | 603605 CH | NR     | N/A         | 201.0      | N/A             | 6,318.4            | 68.4    | 54.7  | 14.2    | 11.8  | 21.0    | 21.7  |
| Smooore                                       | 6969 HK   | Buy    | 51.42       | 37.3       | 37.7            | 28,830.4           | 35.1    | 24.7  | 12.3    | 9.5   | 41.7    | 45.8  |
| RLX Tech - ADR                                | RLX US    | Buy    | 7.89        | 4.9        | 40.9            | 7,759.7            | 19.4    | 14.5  | 18.6    | 10.8  | 39.7    | 42.0  |

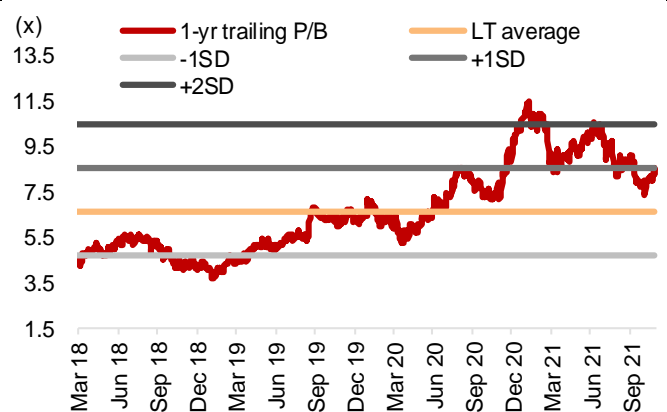
Source: Bloomberg, CMBIS

Figure 50: CRB - 12M forward EV/EBITDA



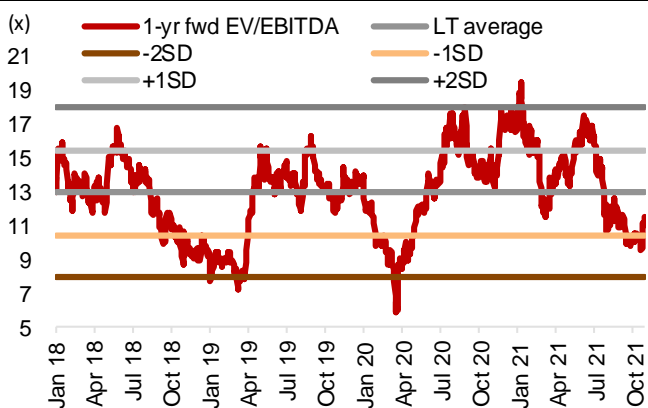
Source: Bloomberg, CMBIS

Figure 51: CRB - trailing P/B band



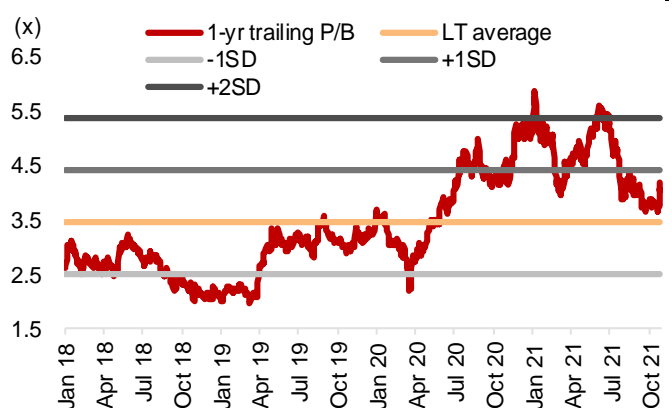
Source: Company data, CMBIS

Figure 52: Tsingtao - 12M forward EV/EBITDA



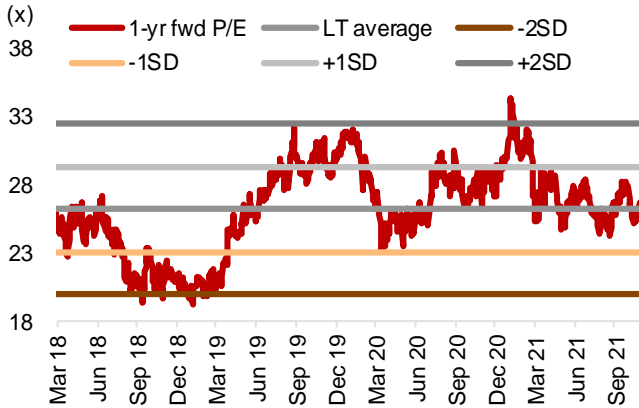
Source: Bloomberg, CMBIS

Figure 53: Tsingtao - trailing P/B band



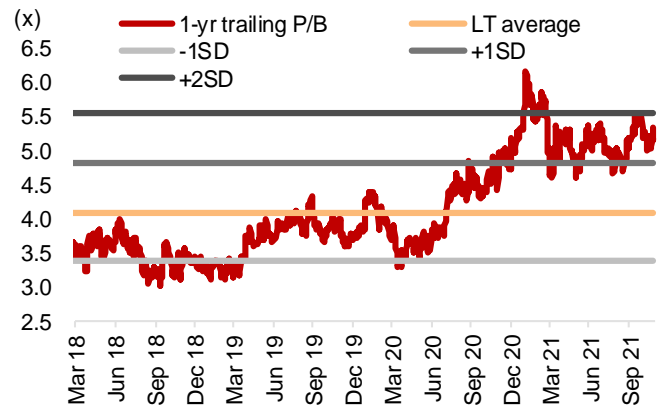
Source: Bloomberg, CMBIS

**Figure 54: Mengniu - 12M forward P/E band**



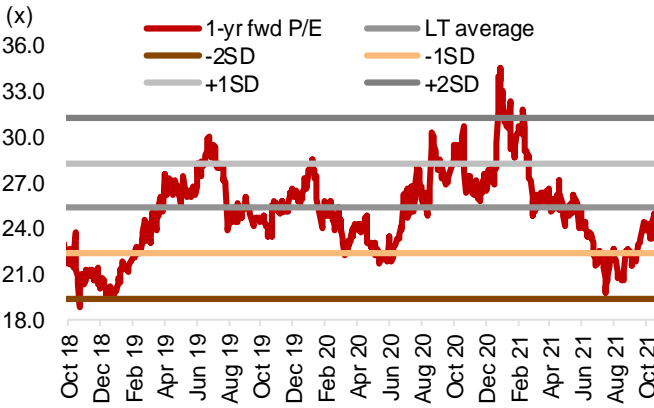
Source: Bloomberg, CMBIS

**Figure 55: Mengniu - trailing P/B band**



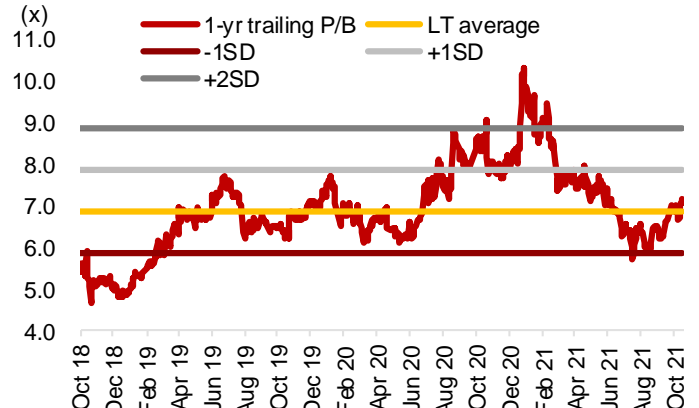
Source: Bloomberg, CMBIS

**Figure 56: Yili - 12M forward P/E band**



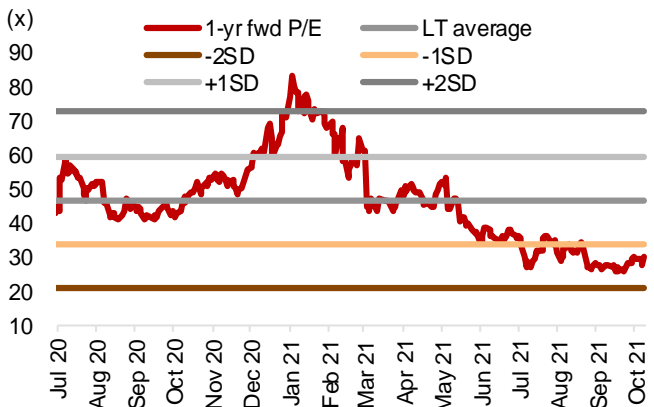
Source: Bloomberg, CMBIS

**Figure 57: Yili - trailing P/B band**



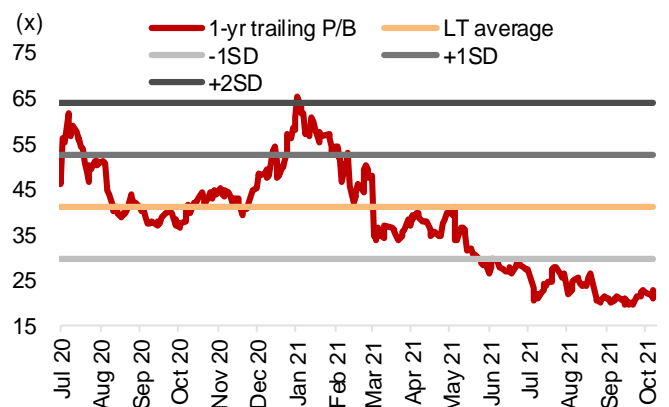
Source: Bloomberg, CMBIS

**Figure 58: Smoore - 12M forward P/E band**



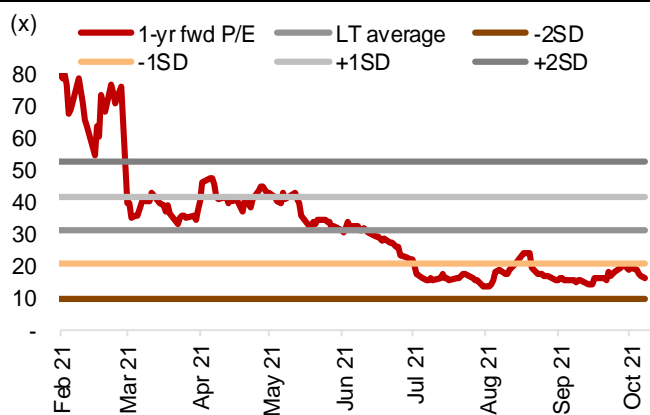
Source: Company data, CMBIS

**Figure 59: Smoore - trailing P/B band**



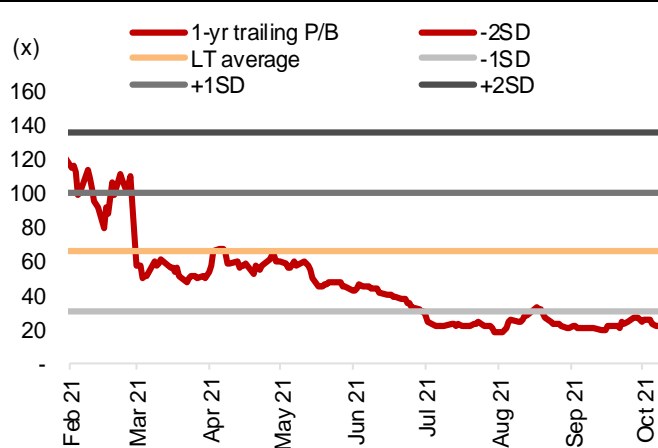
Source: Company data, CMBIS

**Figure 60: RLX - 12M forward P/E band**



Source: Company data, CMBIS

**Figure 61: RLX - trailing P/B band**



Source: Company data, CMBIS

# CR Beer (291 HK)

## A mix-driven ASP boost to offset any volume hiccup over 2H; our sector top pick

Despite an anticipated 3Q consumption disruption and a seasonally slower 4Q, CRB, in our view, remains a high-quality name to stand tall thanks to its undisrupted premiumization trajectory, underpinned by a ~2% sub-premium price hike and a ~5% from a higher premium mix, respectively. We envisage these should also mitigate any cost inflation (4-5%) to be materialized over 2H21. Looking into 2022E, barring any pandemic disruptions, we forecast CR Beer's shipment to recover to 11.5m kl, similar to that in 2019, driven by a 30% YoY sub-premium/premium sales increase, with a slightly faster Heineken volume growth. The mix upgrade should translate to a net 1.5pp gross margins expansion p.a. and hence our 26% 3-year adjusted net profit CAGR assumption. Separately, CRB's adjacent extension into the baijiu (through strategic investment in Shandong Jingzhi Liquor) is a long-term catalyst to be watched. CRB is our sector top pick, along with Mengniu, among our Consumer Staple coverages. We initiate CRB at Buy.

- **We estimate 2H volume to down ~6% YoY due to 3Q delta-variant outbreak.** In our view, the disruption will likely bring down full-year shipment growth to ~1%, from 4.9% growth in 1H21. That said, we still expect CRB to deliver a guided 30% premium/sub-premium shipment growth, given the mix upgrade as well as a more well-defined client tier-ing system.
- **We factored-in a 5% cost hike over 2H21E to reflect an ongoing input cost inflation.** The drag has led to a 4.0% increase in 1H21 COGS/ kiloliter. Power supply shortage unlikely to represent a hiccup to production, in our view. That said, it looks to beef up the company's packaging cost that represents ~40% of COGS.
- **The renewed "Snow Brave the World" likely to boost ASP by ~2% p.a.** The Company targets to fresh its pricing strategy (effectively a price hike) starting from this launch. Of note, the product roughly contributed to 20-25% of CRB's total shipment in 2020 (over half of sub-premium shipment), and we estimate a 10% price hike could imply a ~2% ASP boost per annum.
- **Valuation.** Our TP is based on 3-year average 29.0x end-22E EV/EBITDA. We set our target multiple at long term average to reflect any mean-reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion as market consensus now expects.

### Earnings Summary

| (YE 31 Dec)         | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 33,190   | 31,448   | 33,393   | 35,852   | 38,454   |
| YoY growth (%)      | 4.2      | (5.2)    | 6.2      | 7.4      | 7.3      |
| Net income (RMB mn) | 1,312    | 2,094    | 4,431    | 4,588    | 5,402    |
| Reported EPS (RMB)  | 0.4      | 0.6      | 1.4      | 1.4      | 1.7      |
| YoY growth (%)      | (2.1)    | 59.6     | 111.6    | 3.5      | 17.7     |
| Consensus EPS (RMB) | N/A      | N/A      | 1.3      | 1.3      | 1.7      |
| P/E (x)             | N/A      | N/A      | 39.7     | 38.3     | 32.5     |
| P/B (x)             | N/A      | N/A      | 7.1      | 6.4      | 5.6      |
| Yield (%)           | N/A      | N/A      | 0.7      | 1.0      | 1.2      |
| ROE (%)             | 10.4     | 13.0     | 13.9     | 17.5     | 18.3     |
| Net gearing (%)     | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

|               |          |
|---------------|----------|
| Target Price  | HK\$88.0 |
| Up/Downside   | +36.3%   |
| Current Price | HK\$64.5 |

### China Consumer Staples

#### Joseph Wong

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#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 200,652   |
| Avg 3 mths t/o (HK\$ mn) | 531.4     |
| 52w High/Low (HK\$)      | 46.0/78.6 |
| Total Issued Shares (mn) | 3,244     |

Source: Bloomberg

#### Shareholding Structure

|                |       |
|----------------|-------|
| CRH Beer       | 51.7% |
| Morgan Stanley | 4.7%  |
| HHLR Advisor   | 4.1%  |

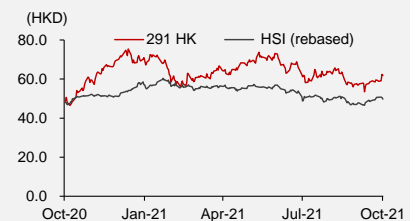
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 10.7%    | 6.1%     |
| 3-mth | 1.8%     | 1.5%     |
| 6-mth | -1.9%    | 11.5%    |

Source: Bloomberg

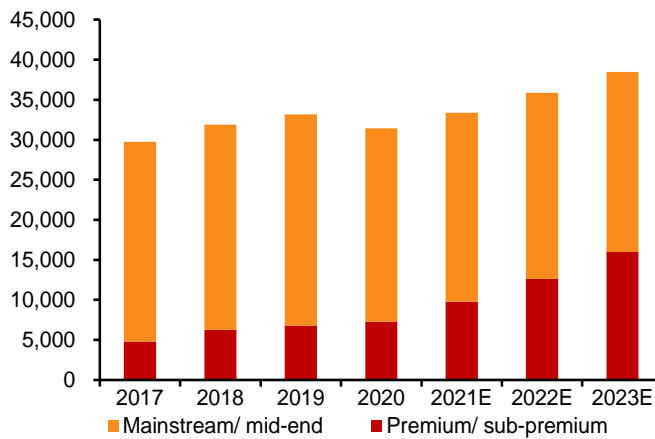
#### 12-mth Price Performance



Source: Bloomberg

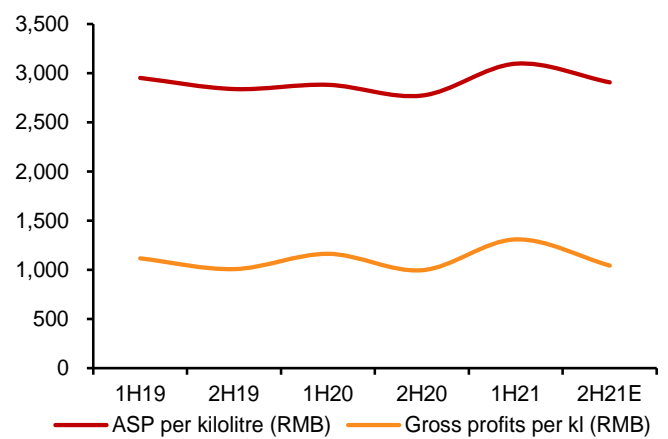
Auditor: Deloitte

**Figure 62: CRB revenue by segment 2017-23E**



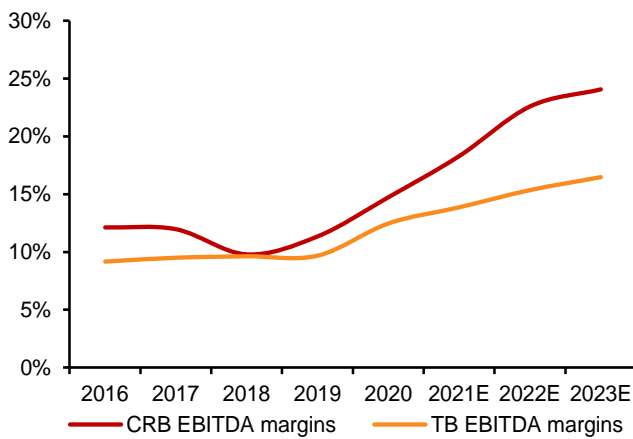
Source: Company data, CMBIS estimates

**Figure 63: Interim ASP and gross profits per kl**



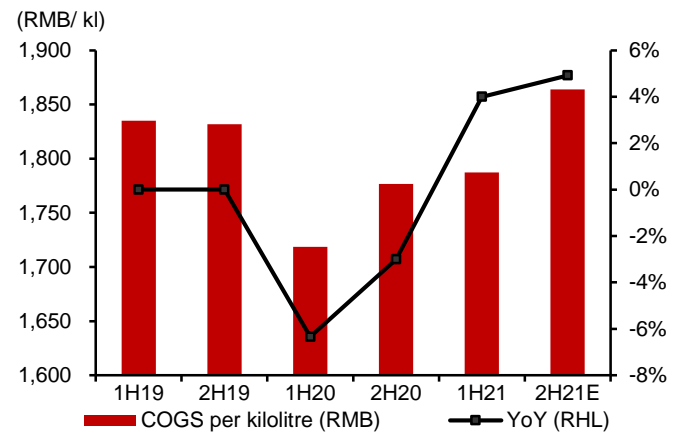
Source: Company data, CMBIS estimates

**Figure 64: CRB offers a higher EBITDA margin growth**



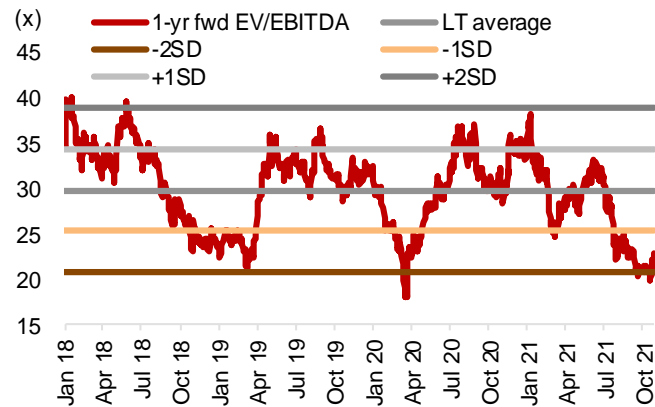
Source: Company data, CMBIS estimates

**Figure 65: We expect 2H21E COGS/ kl to up by 5%**



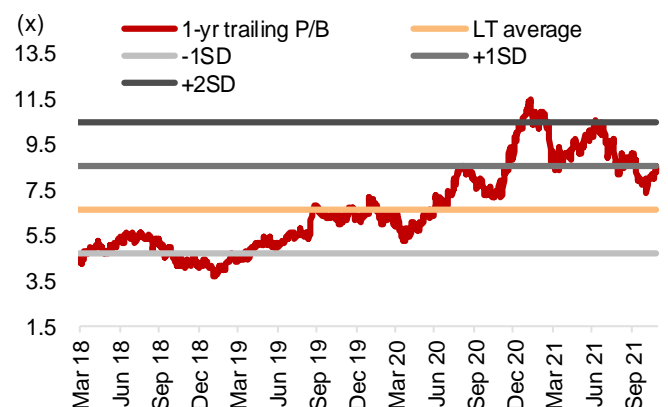
Source: Company data, CMBIS estimates

**Figure 66: 1-year forward EV/EBITDA chart**



Source: Bloomberg, CMBIS estimates

**Figure 67: Trailing P/E chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)       | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>           | <b>33,190</b> | <b>31,448</b> | <b>33,393</b> | <b>35,852</b> | <b>38,454</b> |
| Premium & Super          | 6,779         | 7,300         | 9,786         | 12,634        | 15,986        |
| Sub-premium              | 26,411        | 24,148        | 23,607        | 23,218        | 22,468        |
| <b>Gross profits</b>     | <b>12,226</b> | <b>12,075</b> | <b>13,243</b> | <b>14,750</b> | <b>16,268</b> |
| D&A                      | (1,601)       | (1,553)       | (1,575)       | (1,623)       | (1,669)       |
| Selling expense          | (5,925)       | (6,123)       | (6,345)       | (6,453)       | (6,729)       |
| Administration expenses  | (5,046)       | (4,419)       | (4,007)       | (3,585)       | (3,845)       |
| Other operating expenses | 908           | 1,546         | 1,642         | 1,763         | 1,890         |
| Others                   | 1,601         | 1,553         | 1,575         | 1,623         | 1,669         |
| <b>EBIT</b>              | <b>2,163</b>  | <b>3,079</b>  | <b>4,533</b>  | <b>6,474</b>  | <b>7,584</b>  |
| <b>EBITDA</b>            | <b>3,764</b>  | <b>4,632</b>  | <b>6,108</b>  | <b>8,097</b>  | <b>9,253</b>  |
| Finance costs, net       | 43            | 80            | 79            | 119           | 179           |
| Non-operating            | (4)           | (150)         | 1,755         | -             | -             |
| <b>Pre-tax profit</b>    | <b>2,202</b>  | <b>3,009</b>  | <b>6,367</b>  | <b>6,593</b>  | <b>7,763</b>  |
| Income tax               | (892)         | (915)         | (1,936)       | (2,005)       | (2,361)       |
| Less: Minority interests | 2             | -             | -             | -             | -             |
| <b>Net profit</b>        | <b>1,312</b>  | <b>2,094</b>  | <b>4,431</b>  | <b>4,588</b>  | <b>5,402</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY19A          | FY20A          | FY21E          | FY22E          | FY23E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net income</b>                  | <b>1,312</b>   | <b>2,094</b>   | <b>4,431</b>   | <b>4,588</b>   | <b>5,402</b>   |
| D&A                                | 1,601          | 1,553          | 1,575          | 1,623          | 1,669          |
| Change in working capital          | 75             | (1,165)        | (1,669)        | (3,366)        | (4,035)        |
| Others                             | 1,110          | 1,200          | -              | -              | -              |
| <b>Net cash fr. operating act.</b> | <b>4,098</b>   | <b>3,682</b>   | <b>4,337</b>   | <b>2,845</b>   | <b>3,036</b>   |
| Capex & investments                | (1,490)        | (1,043)        | (1,252)        | (1,189)        | (1,130)        |
| Acquisition                        | (2,216)        | -              | -              | -              | -              |
| Others                             | 938            | -              | -              | -              | -              |
| <b>Net cash fr. investing act.</b> | <b>(2,768)</b> | <b>(1,043)</b> | <b>(1,252)</b> | <b>(1,189)</b> | <b>(1,130)</b> |
| Equity raised                      | -              | -              | -              | -              | -              |
| Change of Debts                    | 1,875          | (511)          | -              | -              | -              |
| Dividend paid                      | (487)          | (536)          | (840)          | (1,772)        | (1,835)        |
| Others                             | (2,266)        | 606            | -              | -              | -              |
| <b>Net cash fr. financing act.</b> | <b>(878)</b>   | <b>(441)</b>   | <b>(840)</b>   | <b>(1,772)</b> | <b>(1,835)</b> |
| <b>Net change in cash</b>          | <b>452</b>     | <b>2,198</b>   | <b>2,245</b>   | <b>(117)</b>   | <b>71</b>      |
| Cash at the beginning of the       | 1,858          | 2,340          | 4,538          | 6,783          | 6,666          |
| Exchange difference                | 30             | -              | -              | -              | -              |
| <b>Cash at the end of the year</b> | <b>2,340</b>   | <b>4,538</b>   | <b>6,783</b>   | <b>6,666</b>   | <b>6,737</b>   |
| Less: pledged cash                 | -              | -              | -              | -              | -              |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>      | <b>31,873</b> | <b>30,398</b> | <b>30,075</b> | <b>29,641</b> | <b>29,101</b> |
| PP&E/Fixed assets              | 19,413        | 17,781        | 17,522        | 17,152        | 16,676        |
| Goodwill                       | 9,422         | 9,326         | 9,326         | 9,326         | 9,326         |
| Deferred tax assets            | 2,532         | 2,858         | 2,858         | 2,858         | 2,858         |
| Other non-current assets       | 506           | 433           | 369           | 305           | 241           |
| <b>Current assets</b>          | <b>9,718</b>  | <b>13,377</b> | <b>18,066</b> | <b>18,558</b> | <b>20,516</b> |
| Cash                           | 2,340         | 4,538         | 6,783         | 6,666         | 6,737         |
| Account receivable             | 943           | 2,378         | 3,660         | 3,929         | 4,214         |
| Taxation recoverable           | 349           | 371           | 371           | 371           | 371           |
| Other current assets           | 6,086         | 6,090         | 7,253         | 7,592         | 9,193         |
| <b>Current liabilities</b>     | <b>19,856</b> | <b>19,572</b> | <b>20,347</b> | <b>17,589</b> | <b>15,441</b> |
| Borrowings                     | 511           | -             | -             | -             | -             |
| Account payables               | 19,061        | 19,327        | 20,102        | 17,344        | 15,196        |
| Other payables                 | 194           | 162           | 162           | 162           | 162           |
| Lease liabilities              | 90            | 83            | 83            | 83            | 83            |
| <b>Non-current liabilities</b> | <b>2,008</b>  | <b>2,929</b>  | <b>2,929</b>  | <b>2,929</b>  | <b>2,929</b>  |
| Borrowings                     | -             | -             | -             | -             | -             |
| Deferred tax liabilities       | 678           | 788           | 788           | 788           | 788           |
| Other non-current liabilities  | 1,330         | 2,141         | 2,141         | 2,141         | 2,141         |
| <b>Minority Interest</b>       | <b>57</b>     | <b>57</b>     | <b>57</b>     | <b>57</b>     | <b>57</b>     |
| <b>Total net assets</b>        | <b>19,727</b> | <b>21,274</b> | <b>24,865</b> | <b>27,681</b> | <b>31,247</b> |
| <b>Shareholders' equity</b>    | <b>19,670</b> | <b>21,217</b> | <b>24,808</b> | <b>27,624</b> | <b>31,190</b> |

### Key ratios

| YE 31 Dec                     | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|-------------------------------|----------|----------|----------|----------|----------|
| <b>Sales mix (%)</b>          |          |          |          |          |          |
| Premium & Super premium       | 20.4     | 23.2     | 29.3     | 35.2     | 41.6     |
| Sub-premium                   | 79.6     | 76.8     | 70.7     | 64.8     | 58.4     |
| <b>P&amp;L ratios (%)</b>     |          |          |          |          |          |
| Gross margin                  | 36.8     | 38.4     | 39.7     | 41.1     | 42.3     |
| Operating margin              | 6.5      | 9.8      | 13.6     | 18.1     | 19.7     |
| Pre-tax margin                | 6.6      | 9.6      | 19.1     | 18.4     | 20.2     |
| Net margin                    | 4.0      | 6.7      | 13.3     | 12.8     | 14.0     |
| Effective tax rate            | (40.5)   | (30.4)   | (30.4)   | (30.4)   | (30.4)   |
| <b>Balance sheet analysis</b> |          |          |          |          |          |
| Current ratio (x)             | 0.2      | 0.3      | 0.4      | 0.4      | 0.3      |
| Net receivable days           | 10.4     | 27.6     | 40.0     | 40.0     | 40.0     |
| Net payable days              | 331.9    | 364.1    | 364.1    | 300.0    | 250.0    |
| Inventory turnover days       | 107.9    | 95.0     | 104.8    | 113.3    | 130.0    |
| Net debt to equity (%)        | Net cash | Net cash | Net cash | Net cash | Net cash |
| <b>Returns (%)</b>            |          |          |          |          |          |
| ROE                           | 10.4     | 13.0     | 13.9     | 17.5     | 18.3     |
| ROA                           | 2.1      | 2.1      | 1.9      | 1.7      | 1.6      |
| Dividend yield                | 0.4      | 0.6      | 0.7      | 1.1      | 1.2      |
| <b>Per share</b>              |          |          |          |          |          |
| EPS - reported (RMB)          | 0.4      | 0.6      | 1.4      | 1.4      | 1.7      |
| DPS (RMB)                     | 0.2      | 0.3      | 0.4      | 0.6      | 0.7      |
| BVPS (RMB)                    | 6.1      | 6.5      | 7.6      | 8.5      | 9.6      |

Source: Company data, CMBIS estimates



# Mengniu Dairy (2319 HK)

## Raw milk price hike an overhang but cost control & mix upgrade are clear margins boosters

Our 5.9% 2H EBIT margins stemmed from an effective cost control that was well proven in 1H. This efficiency gain should also suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to 5-6% YoY in 2H21E, resulting a ~36% 2H gross margins (2H19: 36.3%). On top of that, we look for a 10% 2H topline growth. A ~9% increase in liquid milk revenue looks to be a major driver, in which we combine a 7% volume growth with a 2% ASP accretion. Longer term, the margins hiccup does not prevent us from projecting a 21%/ 31% 3-year revenue/ EBIT CAGR for Mengniu. A raising consumer health awareness, an effective mix upgrade, an extending overseas footprint and a calculated 5-year revenue target altogether summarize this visible earnings trajectory. Amid the current lacklustre consumption sentiment, the resilient demand to basic dairy products have anecdotally enable Mengniu to better shield against economic cyclicity. We initiate Mengniu at Buy, and Mengniu is our top Buy along with CR Beer (291HK, Buy).

- **Mengniu targets to double its 2020 sales revenue within five years**, through its 'Creating a new Mengniu' ambition. The company will execute the strategy through a boost to production capacity along with new and more high-end product launches including A2 fresh milk, and adult milk powder, etc. 1H21 capex was RMB2.5bn and we expect RMB6bn+ for 2021E.
- **Milkground acquisition should set stage for Mengniu to diversify into cheese business.** Milkground has been well-known for its flavored cheese customized for Chinese consumers. According to [Yicai](#), Milkground owns 4.8% of the cheese market, 5th/1st among overseas/ domestic brand.
- **Business extension to Southeast Asia through the takeover of Aice.** The acquiree is a Southeast Asia ice cream brand with annual turnover of RMB2bn+. Mengniu intends to leverage on Aice's brand equity and distribution network to explore the Southeast Asia market. With a 20% 1H revenue growth, Aice was fully consolidated to Mengniu since 2Q.
- **Valuation.** Our TP is based on 29.8x end-22E P/E which represents +1sd above its 3-year average. Our multiple benchmarks to Yili's 29.0x.

### Earnings Summary

| (YE 31 Dec)         | FY19A  | FY20A  | FY21E  | FY22E  | FY23E   |
|---------------------|--------|--------|--------|--------|---------|
| Revenue (RMB mn)    | 79,030 | 76,035 | 88,152 | 99,327 | 112,079 |
| YoY growth (%)      | 14.6   | (3.8)  | 15.9   | 12.7   | 12.8    |
| Net income (RMB mn) | 4,105  | 3,525  | 4,919  | 6,270  | 7,586   |
| EPS (RMB)           | 0.8    | 0.9    | 1.3    | 1.6    | 1.9     |
| YoY growth (%)      | 6.7    | 8.6    | 49.7   | 18.8   | 21.0    |
| Consensus EPS (RMB) | N/A    | N/A    | 1.3    | 1.5    | 1.9     |
| P/E (x)             | N/A    | N/A    | 44.2   | 37.2   | 30.8    |
| P/B (x)             | N/A    | N/A    | 6.3    | 5.5    | 4.9     |
| Yield (%)           | N/A    | N/A    | 1.0    | 1.2    | 1.5     |
| ROE (%)             | 12.3   | 9.5    | 11.9   | 13.5   | 14.5    |
| Net gearing (%)     | 49.5   | 19.0   | 13.1   | (0.6)  | (14.6)  |

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Initiation)**

Target Price **HK\$58.0**  
 Up/Downside **+17.1%**  
 Current Price **HK\$49.6**

### China Consumer Staples

#### Joseph Wong

(852) 3900 0838

josephwong@cmbi.com.hk

#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 195,874   |
| Avg 3 mths t/o (HK\$ mn) | 547.5     |
| 52w High/Low (HK\$)      | 36.3/53.9 |
| Total Issued Shares (mn) | 3,926     |

Source: Bloomberg

#### Shareholding Structure

|                        |       |
|------------------------|-------|
| Charoen Pokphand Group | 22.3% |
| CitiGroup              | 6.8%  |
| JPMorgan Chase         | 6.8%  |

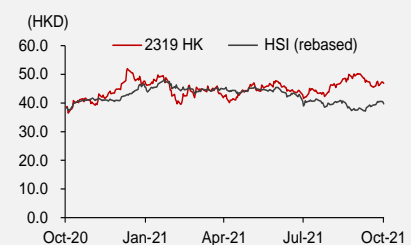
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -2.1%    | -6.1%    |
| 3-mth | 17.0%    | 16.6%    |
| 6-mth | 15.4%    | 31.3%    |

Source: Bloomberg

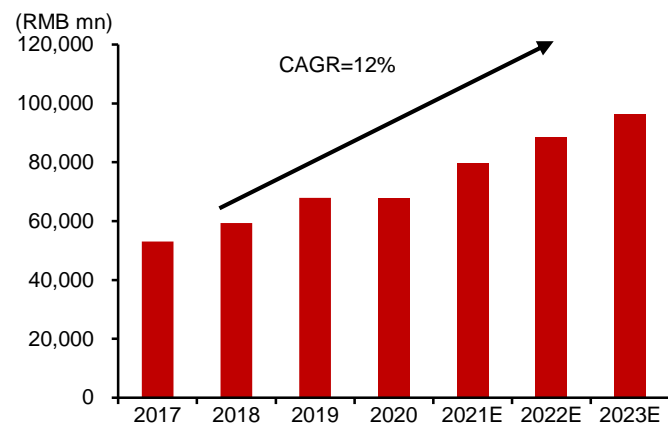
#### 12-mth Price Performance



Source: Bloomberg

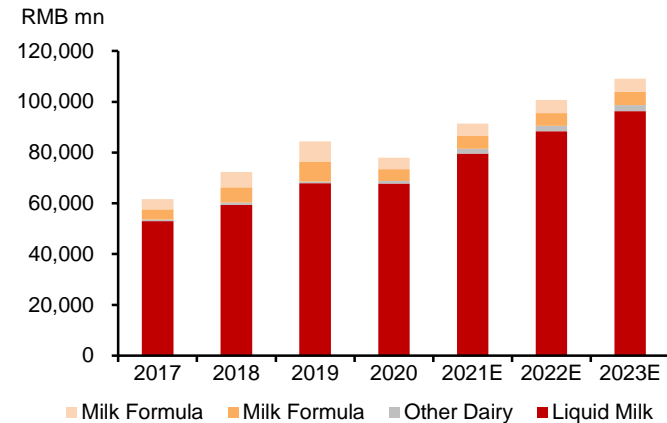
Auditor: Ernst & Young

**Figure 68: Liquid milk to deliver 12% 3-year CAGR**



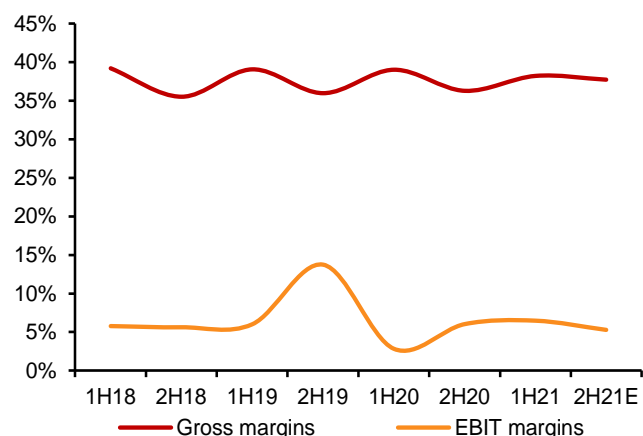
Source: Company data, CMBIS

**Figure 69: Revenue by product segment 2017-23E**



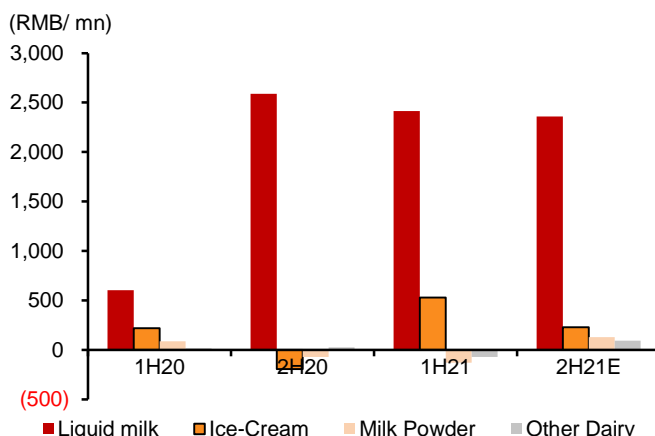
Source: Company data, CMBIS estimates

**Figure 70: Gross margins and EBIT margins 2017-23E**



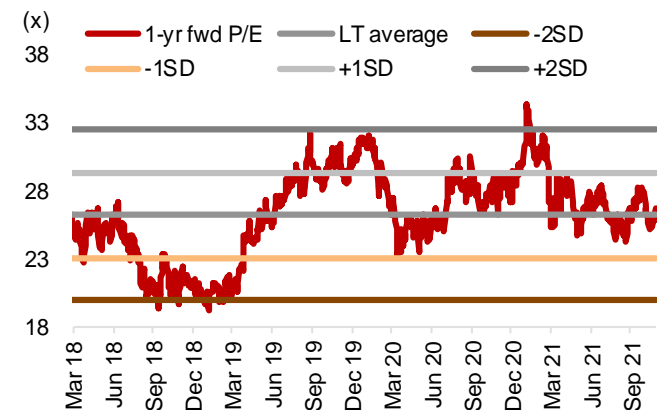
Source: Company data, CMBIS estimates

**Figure 71: EBIT breakdown by product**



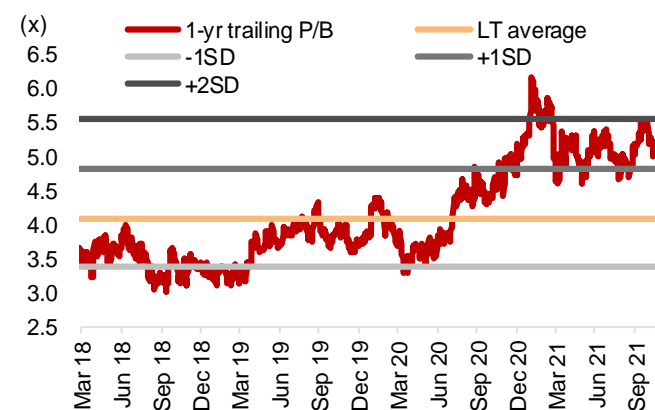
Source: Company data, CMBIS

**Figure 72: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 73: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)       | FY19A         | FY20A         | FY21E         | FY22E         | FY23E          |
|--------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>Revenue</b>           | <b>79,030</b> | <b>76,035</b> | <b>88,152</b> | <b>99,327</b> | <b>112,079</b> |
| Liquid Milk              | 67,878        | 67,751        | 77,882        | 88,076        | 100,022        |
| Others                   | 11,152        | 8,284         | 10,271        | 11,250        | 12,058         |
| <b>Gross profits</b>     | <b>29,679</b> | <b>28,629</b> | <b>32,793</b> | <b>37,645</b> | <b>42,926</b>  |
| D&A                      | (2,024)       | (2,042)       | (2,294)       | (2,345)       | (2,399)        |
| Selling expense          | (21,536)      | (21,541)      | (24,242)      | (27,315)      | (30,822)       |
| Administration expenses  | (3,023)       | (2,915)       | (2,909)       | (3,278)       | (3,699)        |
| Other operating expenses | (1,146)       | (1,783)       | (1,783)       | (1,783)       | (1,783)        |
| Others                   | 5,829         | 3,029         | 3,276         | 3,304         | 3,375          |
| <b>EBIT</b>              | <b>7,778</b>  | <b>3,377</b>  | <b>4,840</b>  | <b>6,228</b>  | <b>7,599</b>   |
| <b>EBITDA</b>            | <b>9,802</b>  | <b>5,419</b>  | <b>7,135</b>  | <b>8,573</b>  | <b>9,998</b>   |
| Finance costs, net       | (644)         | (572)         | (542)         | (482)         | (421)          |
| Non-operating            | (1,528)       | 1,350         | 1,588         | 1,756         | 1,900          |
| <b>Pre-tax profit</b>    | <b>5,605</b>  | <b>4,155</b>  | <b>5,886</b>  | <b>7,502</b>  | <b>9,078</b>   |
| Income tax               | (1,310)       | (653)         | (925)         | (1,180)       | (1,427)        |
| Less: Minority interests | (190)         | 23            | (42)          | (53)          | (64)           |
| <b>Net profit</b>        | <b>4,105</b>  | <b>3,525</b>  | <b>4,919</b>  | <b>6,270</b>  | <b>7,586</b>   |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY19A           | FY20A          | FY21E          | FY22E          | FY23E          |
|------------------------------------|-----------------|----------------|----------------|----------------|----------------|
| <b>Net income</b>                  | <b>4,105</b>    | <b>3,525</b>   | <b>4,919</b>   | <b>6,270</b>   | <b>7,586</b>   |
| D&A                                | 2,024           | 2,042          | 2,294          | 2,345          | 2,399          |
| Change in working capital          | 600             | 967            | (3,368)        | (66)           | 806            |
| Others                             | (422)           | (1,187)        | (1,323)        | (1,457)        | (1,607)        |
| <b>Net cash fr. operating act.</b> | <b>6,307</b>    | <b>5,348</b>   | <b>2,523</b>   | <b>7,092</b>   | <b>9,185</b>   |
| Capex & investments                | (1,112)         | (611)          | (700)          | (800)          | (800)          |
| Acquisition                        | (6,580)         | (26)           | -              | -              | -              |
| Others                             | (9,839)         | 5,459          | 891            | 875            | 895            |
| <b>Net cash fr. investing act.</b> | <b>(17,530)</b> | <b>4,822</b>   | <b>191</b>     | <b>75</b>      | <b>95</b>      |
| Equity raised                      | -               | -              | -              | -              | -              |
| Change of Debts                    | 11,791          | (3,926)        | (2,000)        | (2,000)        | (2,000)        |
| Dividend paid                      | (711)           | (712)          | (1,058)        | (1,476)        | (1,882)        |
| Others                             | (466)           | 68             | 0              | -              | 0              |
| <b>Net cash fr. financing act.</b> | <b>10,614</b>   | <b>(4,571)</b> | <b>(3,058)</b> | <b>(3,476)</b> | <b>(3,882)</b> |
| <b>Net change in cash</b>          | <b>(608)</b>    | <b>5,599</b>   | <b>(345)</b>   | <b>3,690</b>   | <b>5,398</b>   |
| Cash at the beginning of the       | 7,049           | 5,970          | 11,397         | 11,052         | 14,743         |
| Exchange difference                | 36              | (172)          | -              | -              | -              |
| <b>Cash at the end of the year</b> | <b>6,476</b>    | <b>11,397</b>  | <b>11,052</b>  | <b>14,743</b>  | <b>20,141</b>  |
| Less: pledged cash                 | -               | -              | -              | -              | -              |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>      | <b>41,052</b> | <b>48,640</b> | <b>47,629</b> | <b>46,852</b> | <b>46,146</b> |
| PP&E/Fixed assets              | 11,103        | 12,547        | 11,220        | 9,952         | 8,640         |
| Goodwill                       | 4,719         | 4,883         | 4,883         | 4,883         | 4,883         |
| Deferred tax assets            | 1,056         | 1,277         | 1,277         | 1,277         | 1,277         |
| Other non-current assets       | 24,174        | 29,933        | 30,249        | 30,740        | 31,346        |
| <b>Current assets</b>          | <b>37,486</b> | <b>31,507</b> | <b>34,827</b> | <b>40,586</b> | <b>47,752</b> |
| Cash                           | 6,476         | 11,397        | 11,052        | 14,743        | 20,141        |
| Account receivable             | 3,477         | 2,927         | 6,038         | 7,075         | 7,984         |
| Inventory                      | 5,090         | 5,512         | 6,067         | 7,098         | 7,957         |
| Other current assets           | 22,443        | 11,670        | 11,670        | 11,670        | 11,670        |
| <b>Current liabilities</b>     | <b>31,734</b> | <b>26,144</b> | <b>26,442</b> | <b>28,444</b> | <b>31,018</b> |
| Borrowings                     | 13,663        | 4,767         | 4,767         | 4,767         | 4,767         |
| Account payables               | 4,331         | 5,122         | 3,337         | 3,380         | 3,789         |
| Other payables                 | 77            | 11,488        | 13,571        | 15,530        | 17,695        |
| Lease liabilities              | 13,663        | 4,767         | 4,767         | 4,767         | 4,767         |
| <b>Non-current liabilities</b> | <b>13,456</b> | <b>16,754</b> | <b>14,641</b> | <b>12,528</b> | <b>10,415</b> |
| Borrowings                     | 9,310         | 13,696        | 11,696        | 9,696         | 7,696         |
| Deferred tax liabilities       | 1,942         | 2,280         | 2,167         | 2,054         | 1,941         |
| Other non-current liabilities  | 2,204         | 779           | 779           | 779           | 779           |
| <b>Minority Interest</b>       | <b>4,215</b>  | <b>4,265</b>  | <b>4,307</b>  | <b>4,360</b>  | <b>4,424</b>  |
| <b>Total net assets</b>        | <b>33,347</b> | <b>37,248</b> | <b>41,373</b> | <b>46,466</b> | <b>52,463</b> |
| <b>Shareholders' equity</b>    | <b>29,132</b> | <b>32,983</b> | <b>37,067</b> | <b>42,106</b> | <b>48,039</b> |

### Key ratios

| YE 31 Dec                     | FY19A  | FY20A  | FY21E  | FY22E  | FY23E  |
|-------------------------------|--------|--------|--------|--------|--------|
| <b>Sales mix (%)</b>          |        |        |        |        |        |
| Liquid Milk                   | 85.9   | 89.1   | 88.3   | 88.7   | 89.2   |
| Others                        | 14.1   | 10.9   | 11.7   | 11.3   | 10.8   |
| <b>P&amp;L ratios (%)</b>     |        |        |        |        |        |
| Gross margin                  | 37.6   | 37.7   | 37.2   | 37.9   | 38.3   |
| Operating margin              | 9.8    | 4.4    | 5.5    | 6.3    | 6.8    |
| Pre-tax margin                | 7.1    | 5.5    | 6.7    | 7.6    | 8.1    |
| Net margin                    | 5.2    | 4.6    | 5.6    | 6.3    | 6.8    |
| Effective tax rate            | (23.4) | (15.7) | (15.7) | (15.7) | (15.7) |
| <b>Balance sheet analysis</b> |        |        |        |        |        |
| Current ratio (x)             | 0.2    | 0.4    | 0.3    | 0.4    | 0.4    |
| Net receivable days           | 25.7   | 22.5   | 25.0   | 26.0   | 26.0   |
| Inventory turnover days       | 37.6   | 42.4   | 40.0   | 42.0   | 42.0   |
| Net payable days              | 20.0   | 24.6   | 22.0   | 20.0   | 20.0   |
| Net debt to equity (%)        | 49.5   | 19.0   | 13.1   | (0.6)  | (14.6) |
| <b>Returns (%)</b>            |        |        |        |        |        |
| ROE                           | 12.3   | 9.5    | 11.9   | 13.5   | 14.5   |
| ROA                           | 5.2    | 4.4    | 6.0    | 7.2    | 8.1    |
| Dividend yield                | N/A    | N/A    | 0.9    | 1.2    | 1.4    |
| <b>Per share</b>              |        |        |        |        |        |
| EPS (RMB)                     | 0.8    | 0.9    | 1.3    | 1.6    | 1.9    |
| DPS (RMB)                     | 0.2    | 0.3    | 0.4    | 0.5    | 0.6    |
| BVPS (RMB)                    | 7.4    | 8.4    | 9.4    | 10.7   | 12.2   |

Source: Company data, CMBIS estimates

# Smooore Int'l (6969 HK)

## The policy de-rating likely to take a pause; PMTA's GMO an event-driven catalyst

Smooore's proprietary FEELM-based cartridge has manifested the Company to be a facilitator behind the global combustible-tobacco-to-e-vapors conversion. Through its invaluable customer base, which include leading OEMs such as BAT, Japan Tobacco and RLX, etc., Smooore achieves not only market share gains but regional diversification, in which it derives over 55% revenue overseas. Regulatory scrutiny is a well-known overhang to Smooore. That said, it also serves as a double-edged sword by lifting up the entry barrier to new entrants, upkeeping a high pricing discipline and projecting a more visible competitive landscape. We project Smooore to offer a 42% 3-year revenue CAGR, along with a mix-driven gross margins expansion of 0.4ppt p.a. These translate to a 60% net profit CAGR over the same period. We initiate Smooore at Buy.

- The FEELM-based cartridges.** The proprietary technology facilitates more rapid vapor generation, better taste and accelerated nicotine delivery through an evenly distributed metal film over a ceramic conductor. We envisage Smooore to apply the similar know-how "CCELL" on medical/recreational cannabis device component, which opens up opportunities in a new sub-segment.
- PMTA's GMO acts as a key near term catalyst.** US Food and Drug Association's (FDA) unprecedented requirement in demanding flavored e-vapor manufacturers to submit harm reduction evidence to juvenile consumers have led to the issuance of 100k+ Marketing Denial Order (MDO). Not until recently one of Smooore's major clients RJR Group has received [Marketing Granted Order \(MGO\)](#) for its flavored ENDS products under the Vuse Solo series. We view any regulatory scrutiny as positive catalyst to foster a more centralized market share.
- Valuation.** Our TP is based on 34.0x end-22E P/E which represents -1sd below its 2-year average of 47.0x. Our methodology, in our view, reflects the current perplexed market sentiment that looks to price-in any regulatory tightening on the e-vapor segment.

### Earnings Summary

| (YE 31 Dec)         | FY19A | FY20A  | FY21E  | FY22E  | FY23E  |
|---------------------|-------|--------|--------|--------|--------|
| Revenue (RMB mn)    | 7,611 | 10,010 | 14,445 | 20,295 | 28,528 |
| YoY growth (%)      | 2.0   | 31.5   | 44.3   | 40.5   | 40.6   |
| Net income (RMB mn) | 2,174 | 2,400  | 5,479  | 7,795  | 11,059 |
| EPS (RMB)           | 0.4   | 0.4    | 0.9    | 1.3    | 1.8    |
| YoY growth (%)      | 26.7  | (1.4)  | 110.0  | 42.3   | 41.9   |
| Consensus EPS (RMB) | N/A   | N/A    | 0.9    | 1.3    | 1.7    |
| P/E (x)             | N/A   | N/A    | 35.1   | 24.7   | 17.4   |
| P/B (x)             | N/A   | N/A    | 12.3   | 9.5    | 7.2    |
| Yield (%)           | N/A   | N/A    | 1.2    | 1.7    | 2.4    |
| ROE (%)             | N/A   | 25.1   | 41.7   | 45.8   | 49.1   |
| Net gearing (%)     | N/A   | N/A    | N/A    | N/A    | N/A    |

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Initiation)**

Target Price **HK\$51.4**  
Up/Downside **+37.7%**  
Current Price **HK\$37.3**

### China Consumer Staples

#### Joseph Wong

(852) 3900 0838

josephwong@cmbi.com.hk

#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 224,165   |
| Avg 3 mths t/o (HK\$ mn) | 596.7     |
| 52w High/Low (HK\$)      | 31.2/90.0 |
| Total Issued Shares (mn) | 6,185     |

Source: Bloomberg

#### Shareholding Structure

|                     |       |
|---------------------|-------|
| Chen Zhiping        | 33.1% |
| Eve Battery Inv Ltd | 31.6% |
| Xiong Shaoming      | 8.0%  |

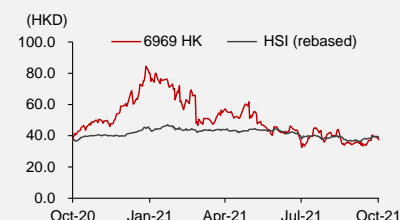
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 3.4%     | -0.9%    |
| 3-mth | 5.5%     | 5.1%     |
| 6-mth | -34.3%   | -25.3%   |

Source: Bloomberg

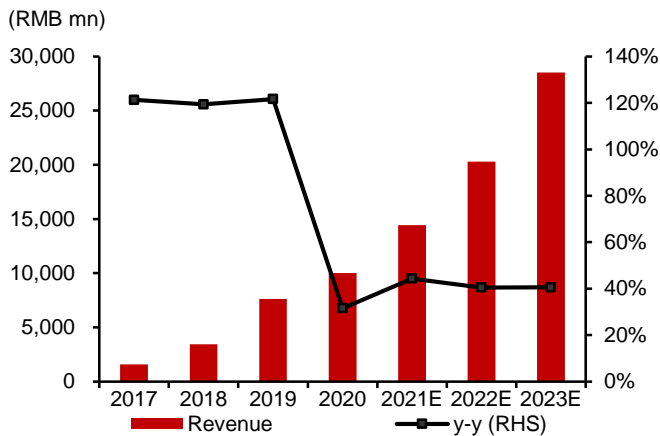
#### 12-mth Price Performance



Source: Bloomberg

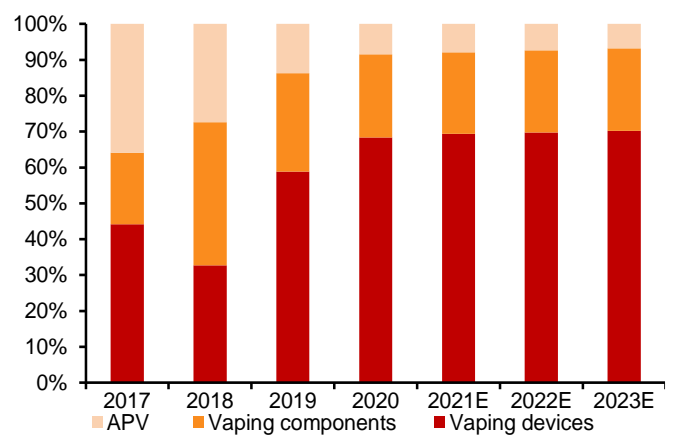
Auditor: Deloitte

**Figure 74: Revenue and growth projection 2017-23E**



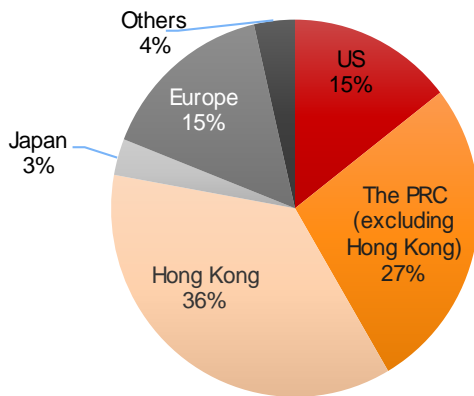
Source: Company data, CMBIS estimates

**Figure 75: Revenue breakdown by products**



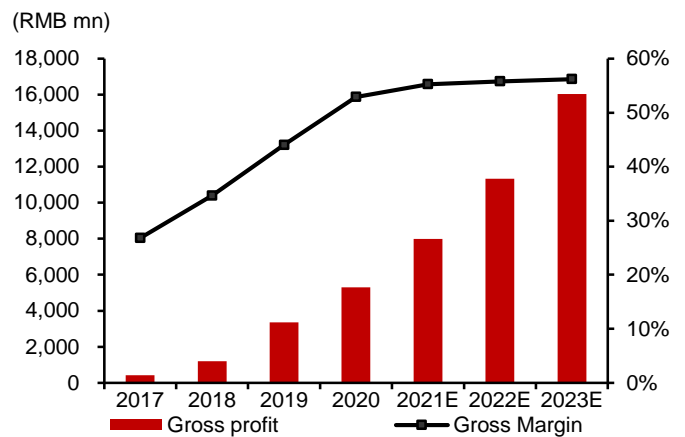
Source: Company data, CMBIS estimates

**Figure 76: Revenue mix by region 2020**



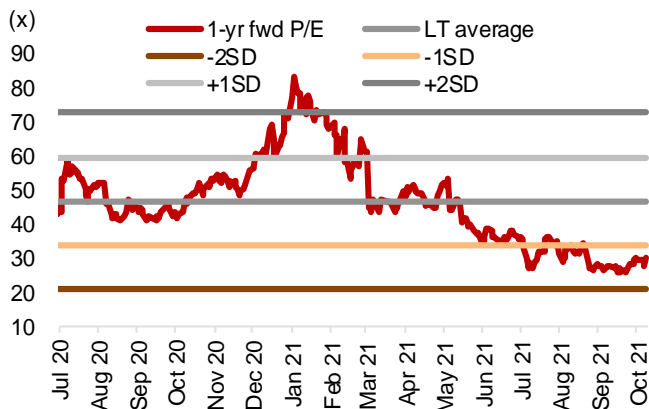
Source: Company data, CMBIS

**Figure 77: Gross margins 2017-23E**



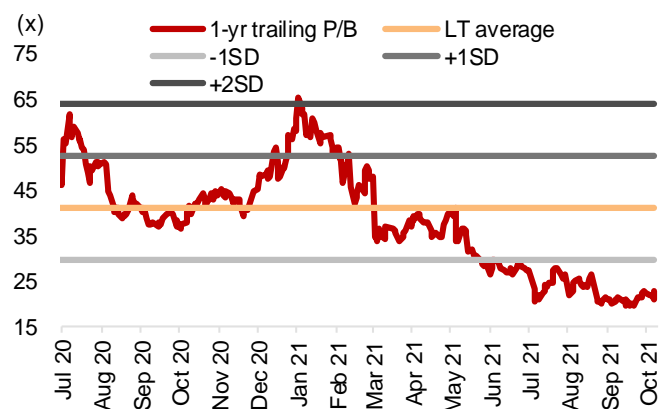
Source: Company data, CMBIS estimates

**Figure 78: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 79: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)                       | FY19A        | FY20A         | FY21E         | FY22E         | FY23E         |
|--|--------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                           | <b>7,611</b> | <b>10,010</b> | <b>14,445</b> | <b>20,295</b> | <b>28,528</b> |
| Vaping devices & Advanced personal vapor | 6,569        | 9,163         | 13,302        | 18,808        | 26,595        |
|  | 1,042        | 847           | 1,144         | 1,487         | 1,933         |
| <b>Gross profits</b>                     | <b>3,352</b> | <b>5,296</b>  | <b>7,982</b>  | <b>11,325</b> | <b>16,034</b> |
| D&A                                      | (20)         | (36)          | (57)          | (174)         | (232)         |
| Selling expense                          | (158)        | (144)         | (159)         | (223)         | (314)         |
| Administration expenses                  | (327)        | (683)         | (780)         | (1,096)       | (1,541)       |
| R&D expenses                             | (277)        | (420)         | (506)         | (710)         | (998)         |
| Other operating expenses                 | 19           | 177           | 57            | 174           | 232           |
| <b>EBIT</b>                              | <b>2,589</b> | <b>4,191</b>  | <b>6,537</b>  | <b>9,295</b>  | <b>13,181</b> |
| EBITDA                                   | 2,763        | 4,422         | 6,833         | 9,725         | 13,713        |
| Finance costs, net                       | (18)         | (15)          | (15)          | (15)          | (15)          |
| Non-operating                            | (4)          | (1,058)       | -             | -             | -             |
| <b>Pre-tax profit</b>                    | <b>2,567</b> | <b>3,118</b>  | <b>6,522</b>  | <b>9,280</b>  | <b>13,166</b> |
| Income tax                               | (393)        | (718)         | (1,044)       | (1,485)       | (2,107)       |
| Less: Minority interests                 | -            | -             | -             | -             | -             |
| <b>Net profit</b>                        | <b>2,174</b> | <b>2,400</b>  | <b>5,479</b>  | <b>7,795</b>  | <b>11,059</b> |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY19A          | FY20A          | FY21E          | FY22E          | FY23E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net income</b>                  | <b>2,174</b>   | <b>2,400</b>   | <b>5,479</b>   | <b>7,795</b>   | <b>11,059</b>  |
| D&A                                | 20             | 36             | 57             | 174            | 232            |
| Change in working capital          | (115)          | (1,004)        | 299            | (890)          | (1,253)        |
| Others                             | 106            | 1,603          | 224            | 241            | 284            |
| <b>Net cash fr. operating act.</b> | <b>2,184</b>   | <b>3,035</b>   | <b>6,058</b>   | <b>7,320</b>   | <b>10,322</b>  |
| Capex & investments                | (456)          | (339)          | (848)          | (848)          | (848)          |
| Associated companies               | -              | -              | -              | -              | -              |
| Others                             | (34)           | (922)          | 15             | 15             | 15             |
| <b>Net cash fr. investing act.</b> | <b>(489)</b>   | <b>(1,261)</b> | <b>(832)</b>   | <b>(832)</b>   | <b>(832)</b>   |
| Equity raised                      | 0              | 7,390          | -              | -              | -              |
| Change of Debts                    | 1              | -              | -              | -              | -              |
| Dividend paid                      | (1,142)        | (1,437)        | (2,230)        | (3,173)        | (4,502)        |
| Others                             | (759)          | 1,105          | -              | -              | -              |
| <b>Net cash fr. financing act.</b> | <b>(1,900)</b> | <b>7,058</b>   | <b>(2,230)</b> | <b>(3,173)</b> | <b>(4,502)</b> |
| <b>Net change in cash</b>          | <b>(205)</b>   | <b>8,832</b>   | <b>2,995</b>   | <b>3,314</b>   | <b>4,988</b>   |
| Cash at the beginning of the year  | 942            | 731            | 9,558          | 12,553         | 15,868         |
| Exchange difference                | (6)            | (6)            | -              | -              | -              |
| <b>Cash at the end of the year</b> | <b>731</b>     | <b>9,558</b>   | <b>12,553</b>  | <b>15,868</b>  | <b>20,856</b>  |
| Less: pledged cash                 | -              | -              | -              | -              | -              |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY19A        | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>      | <b>1,132</b> | <b>2,333</b>  | <b>1,879</b>  | <b>2,297</b>  | <b>2,613</b>  |
| Fixed asset                    | 887          | 1,116         | 1,648         | 2,052         | 2,359         |
| Prepaid lease payments         | 59           | 88            | 108           | 122           | 132           |
| Interest in JV                 | 14           | 12            | 12            | 12            | 12            |
| Other non-current assets       | 173          | 1,117         | 111           | 111           | 111           |
| <b>Current assets</b>          | <b>2,170</b> | <b>12,441</b> | <b>16,682</b> | <b>21,658</b> | <b>28,984</b> |
| Cash                           | 731          | 9,558         | 12,553        | 15,868        | 20,856        |
| Account receivable             | 659          | 2,218         | 3,200         | 4,496         | 6,320         |
| Prepayments                    | 231          | 226           | 327           | 459           | 645           |
| Other current assets           | 548          | 439           | 602           | 835           | 1,163         |
| <b>Current liabilities</b>     | <b>2,049</b> | <b>2,108</b>  | <b>2,647</b>  | <b>3,419</b>  | <b>4,503</b>  |
| Borrowings                     | -            | -             | -             | -             | -             |
| Obligations under finance      | 442          | 702           | 963           | 1,336         | 1,861         |
| Other payables                 | 1,513        | 1,121         | 1,399         | 1,797         | 2,357         |
| Tax payables                   | 94           | 285           | 285           | 285           | 285           |
| <b>Non-current liabilities</b> | <b>518</b>   | <b>266</b>    | <b>266</b>    | <b>266</b>    | <b>266</b>    |
| Borrowings                     | -            | -             | -             | -             | -             |
| Obligations under finance      | 283          | 213           | 213           | 213           | 213           |
| Deferred income                | 235          | 53            | 53            | 53            | 53            |
| Others                         | -            | -             | -             | -             | -             |
| <b>Minority Interest</b>       | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| <b>Total net assets</b>        | <b>735</b>   | <b>12,400</b> | <b>15,648</b> | <b>20,270</b> | <b>26,828</b> |
| <b>Shareholders' equity</b>    | <b>735</b>   | <b>12,400</b> | <b>15,648</b> | <b>20,270</b> | <b>26,828</b> |

### Key ratios

| YE 31 Dec                     | FY19A  | FY20A  | FY21E  | FY22E  | FY23E  |
|-------------------------------|--------|--------|--------|--------|--------|
| <b>Sales mix (%)</b>          |        |        |        |        |        |
| Vaping devices &              | 86.3   | 91.5   | 92.1   | 92.7   | 93.2   |
| Advanced personal vapor       | 13.7   | 8.5    | 7.9    | 7.3    | 6.8    |
| <b>P&amp;L ratios (%)</b>     |        |        |        |        |        |
| Gross margin                  | 44.0   | 52.9   | 55.3   | 55.8   | 56.2   |
| Operating margin              | 34.0   | 41.9   | 45.3   | 45.8   | 46.2   |
| Pre-tax margin                | 33.7   | 31.1   | 45.2   | 45.7   | 46.2   |
| Net margin                    | 33.7   | 31.1   | 45.2   | 45.7   | 46.2   |
| Effective tax rate            | (15.3) | (23.0) | (16.0) | (16.0) | (16.0) |
| <b>Balance sheet analysis</b> |        |        |        |        |        |
| Current ratio (x)             | 0.3    | 0.8    | 0.8    | 0.7    | 0.7    |
| Net receivable days           | 33.2   | 60.8   | 75.4   | 76.3   | 76.3   |
| Net payable days              | 43.4   | 44.3   | 47.0   | 46.8   | 46.7   |
| Inventory turnover days       | 40.3   | 38.2   | 29.4   | 29.2   | 29.2   |
| Net debt to equity (%)        | N/A    | N/A    | N/A    | N/A    | N/A    |
| <b>Returns (%)</b>            |        |        |        |        |        |
| ROE                           | N/A    | 25.1   | 41.7   | 45.8   | 49.1   |
| ROA                           | N/A    | 23.9   | 29.5   | 32.5   | 35.0   |
| Dividend yield                | N/A    | 0.8    | 1.2    | 1.7    | 2.4    |
| <b>Per share</b>              |        |        |        |        |        |
| EPS (RMB)                     | 0.4    | 0.4    | 0.9    | 1.3    | 1.8    |
| DPS (RMB)                     | 0.2    | 0.3    | 0.4    | 0.5    | 0.8    |
| BVPS (RMB)                    | 0.1    | 2.2    | 2.5    | 3.3    | 4.3    |

Source: Company data, CMBIS estimates

# Yili Industrial (600887 CH)

## The Ausnutria takeover a boost to IMF business; shares placement overhang looks short-lived

Our incorporation of a 7.8% 2H EBIT margins is benchmarked to the level of 2H19, based on a similar rationale we assumed for Mengniu. The 15% raw milk price hike over 1H has resulted in a 0.6pp gross margins dilution to Yili, and we expect the impact to proportionately diminish if the hike maintains at 5% over 2H. We assume a 33.5% 2H gross margin. We project a 12%/ 24% 3-year revenue/ EBIT CAGR based on 11%/ 18%/ 12% CAGRs for liquid milk, chilled dairy and milk powder, respectively. Our assumption of a 0.5pp net margins increment per annum is in line with management target. We initiate Yili at Buy. Despite short-lived, Yili's share placement could remain an overhang to share price performance. That said, an effective mix upgrade, stable margins expansion as well as further horizontal integration are sustainable drivers that justify our long-term positive view.

- The takeover of Ausnutria.** Total acquisition cost was HK\$6.2bn, including a HK\$5.3bn to acquire shares from shareholders and another HK\$905m share issuance to Ausnutria at HK\$10.06. After the move, Yili will hold 34.3% of Ausnutria. We believe that the transaction could potentially commensurate with Yili's high-end infant milk formula (IMF) dedication and effort, as well as securing overseas raw milk supply from Netherland and New Zealand. Bloomberg consensus estimates Ausnutria to generate RMB1.3b net profits for 2022E. This implies the transaction will be ~3.8% accretive.
- Regulators approved the RMB12bn share placement.** We expect the exercise to be completed before the end of 4Q. Yili will issue 432mn of new shares, and is likely to lead to a 7% share price dilution. The purpose of the fund raising, according to the Company, was to support expense in related to the capacity expansion for liquid milk (RMB502mn) and milk powder (RMB155mn), as well as capital structure optimization (RMB357mn).
- Valuation.** Our TP is based on 29.0x end-22E P/E which represents +1sd above its 3-year average. Our multiple benchmarks to Mengniu's 29.8x. We have factored-in an expanded 7% share base and Ausnutria's earnings contribution in our 2022E earnings assumption.

### Earnings Summary

| (YE 31 Dec)         | FY19A    | FY20A  | FY21E   | FY22E   | FY23E   |
|---------------------|----------|--------|---------|---------|---------|
| Revenue (RMB mn)    | 90,223   | 96,886 | 111,354 | 122,964 | 135,420 |
| YoY growth (%)      | 13.4     | 7.4    | 14.9    | 10.4    | 10.1    |
| Net income (RMB mn) | 6,934    | 7,078  | 9,039   | 11,188  | 13,151  |
| EPS (RMB)           | 1.1      | 1.2    | 1.5     | 1.7     | 2.0     |
| YoY growth (%)      | 11.6     | 2.0    | 27.7    | 15.6    | 17.5    |
| Consensus EPS (RMB) | N/A      | N/A    | 1.5     | 1.8     | 2.0     |
| P/E (x)             | N/A      | N/A    | 29.0    | 25.1    | 21.3    |
| P/B (x)             | N/A      | N/A    | 8.0     | 7.1     | 6.5     |
| Yield (%)           | N/A      | N/A    | 2.6     | 3.0     | 3.5     |
| ROE (%)             | 24.9     | 22.0   | 27.7    | 30.5    | 32.8    |
| Net gearing (%)     | net cash | 1.3    | 6.7     | 5.1     | 2.9     |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

|               |         |
|---------------|---------|
| Target Price  | RMB50.0 |
| Up/Downside   | +16.3%  |
| Current Price | RMB43.0 |

### China Consumer Staples

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#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (RMB mn)         | 261,534   |
| Avg 3 mths t/o (RMB mn)  | 2,434     |
| 52w High/Low (RMB)       | 30.9/51.9 |
| Total Issued Shares (mn) | 6,085     |

Source: Bloomberg

#### Shareholding Structure

|                       |       |
|-----------------------|-------|
| HKSCC                 | 12.3% |
| Huhe Haote Investment | 8.9%  |
| Pan Gang              | 4.7%  |

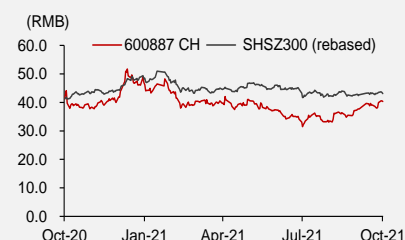
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 8.5%     | 9.0%     |
| 3-mth | 26.4%    | 23.7%    |
| 6-mth | 3.8%     | 9.3%     |

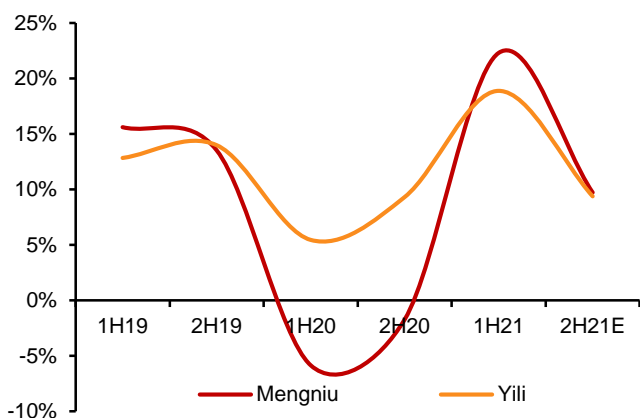
Source: Bloomberg

#### 12-mth Price Performance



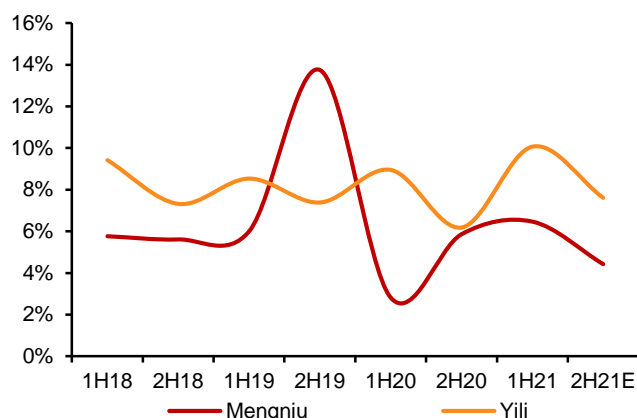
Source: Bloomberg

**Figure 80: Revenue growth, Mengniu vs Yili**



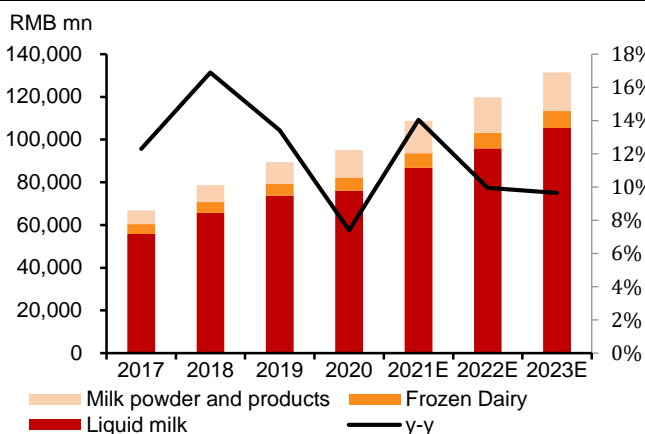
Source: Company data, CMBIS estimates

**Figure 81: EBIT margins, Mengniu vs Yili**



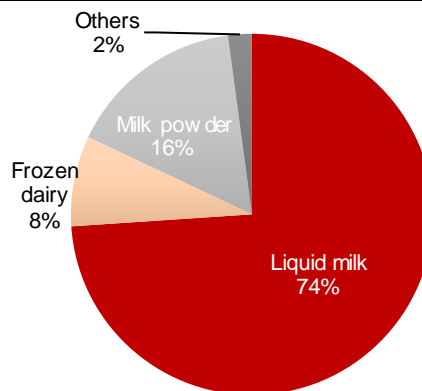
Source: Company data, CMBIS estimates

**Figure 82: Revenue breakdown 2017-23E**



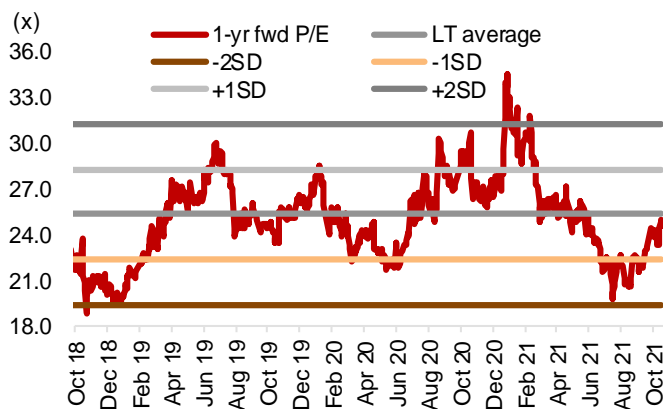
Source: Company data, CMBIS estimates

**Figure 83: Gross profits breakdown by product**



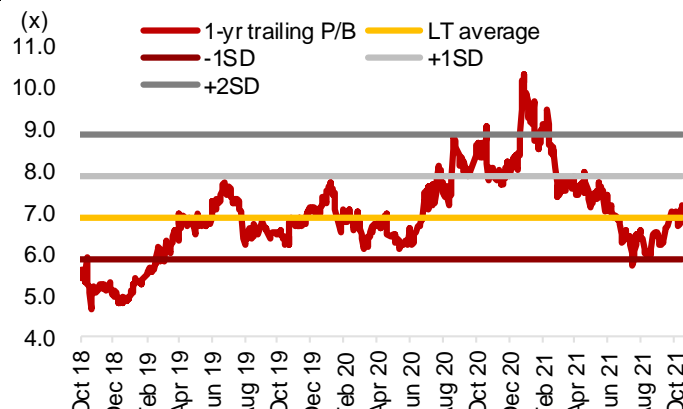
Source: Company data, CMBIS

**Figure 84: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 85: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates



## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)       | FY19A         | FY20A         | FY21E          | FY22E          | FY23E          |
|--------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Revenue</b>           | <b>90,223</b> | <b>96,886</b> | <b>111,354</b> | <b>122,964</b> | <b>135,420</b> |
| Liquid milk              | 73,761        | 76,123        | 86,781         | 95,810         | 105,37         |
| Others                   | 16,462        | 20,762        | 24,574         | 27,154         | 30,043         |
| <b>Gross profits</b>     | <b>33,254</b> | <b>34,534</b> | <b>39,487</b>  | <b>43,967</b>  | <b>48,721</b>  |
| D&A                      | (1,958)       | (2,442)       | (2,821)        | (3,252)        | (3,688)        |
| Selling expense          | (21,070)      | (21,538)      | (23,607)       | (25,208)       | (27,084)       |
| Administration expenses  | (4,780)       | (5,363)       | (5,902)        | (6,517)        | (7,177)        |
| Other op expense         | 1,734         | 2,286         | 2,821          | 3,252          | 3,688          |
| <b>EBIT</b>              | <b>7,181</b>  | <b>7,476</b>  | <b>9,978</b>   | <b>12,242</b>  | <b>14,459</b>  |
| <b>EBITDA</b>            | <b>9,139</b>  | <b>9,919</b>  | <b>12,798</b>  | <b>15,494</b>  | <b>18,147</b>  |
| Finance costs, net       | (8)           | (188)         | (369)          | (456)          | (443)          |
| Investment gains/loss    | 1,108         | 1,270         | 1,250          | 1,700          | 1,780          |
| Non-operating            | (86)          | (408)         | (200)          | (300)          | (300)          |
| <b>Pre-tax profit</b>    | <b>8,194</b>  | <b>8,150</b>  | <b>10,658</b>  | <b>13,187</b>  | <b>15,496</b>  |
| Income tax               | (1,243)       | (1,051)       | (1,599)        | (1,978)        | (2,324)        |
| Less: Minority interests | (17)          | (21)          | (21)           | (21)           | (21)           |
| <b>Net profit</b>        | <b>6,934</b>  | <b>7,078</b>  | <b>9,039</b>   | <b>11,188</b>  | <b>13,151</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY19A          | FY20A          | FY21E          | FY22E          | FY23E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net income</b>                  | <b>6,934</b>   | <b>7,078</b>   | <b>9,039</b>   | <b>11,188</b>  | <b>13,151</b>  |
| D&A                                | 1,958          | 2,442          | 2,821          | 3,252          | 3,688          |
| Change in working capital          | (2,286)        | 4,684          | (847)          | 752            | 814            |
| Others                             | 1,850          | (4,353)        | (329)          | (779)          | (859)          |
| <b>Net cash fr. operating act.</b> | <b>8,455</b>   | <b>9,852</b>   | <b>10,684</b>  | <b>14,412</b>  | <b>16,794</b>  |
| Capex & investments                | (9,243)        | (6,522)        | (6,597)        | (7,638)        | (6,845)        |
| Acquisition                        | (1,583)        | 22             | -              | -              | -              |
| Others                             | 826            | (2,543)        | (900)          | (900)          | (900)          |
| <b>Net cash fr. investing act.</b> | <b>(9,999)</b> | <b>(9,043)</b> | <b>(7,497)</b> | <b>(8,538)</b> | <b>(7,745)</b> |
| Equity raised                      | 275            | 248            | -              | 1,200          | -              |
| Change of Debts                    | 8,986          | 5,122          | (400)          | (400)          | (400)          |
| Dividend paid                      | (4,913)        | (4,988)        | (4,988)        | (6,742)        | (8,344)        |
| Others                             | (5,364)        | (428)          | -              | -              | -              |
| <b>Net cash fr. financing act.</b> | <b>(1,016)</b> | <b>(47)</b>    | <b>(5,388)</b> | <b>(5,942)</b> | <b>(8,744)</b> |
| <b>Net change in cash</b>          | <b>(2,560)</b> | <b>762</b>     | <b>(2,201)</b> | <b>(67)</b>    | <b>304</b>     |
| Cash at the beginning of the       | 13,824         | 11,328         | 11,695         | 9,494          | 9,427          |
| Exchange difference                | 62             | (395)          | -              | -              | -              |
| <b>Cash at the end of the year</b> | <b>11,325</b>  | <b>11,695</b>  | <b>9,494</b>   | <b>9,427</b>   | <b>9,731</b>   |
| Less: pledged cash                 | -              | -              | -              | -              | -              |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>      | <b>34,755</b> | <b>42,774</b> | <b>47,800</b> | <b>53,886</b> | <b>58,823</b> |
| PP&E/Fixed assets              | 24,461        | 28,768        | 32,282        | 36,340        | 39,455        |
| Goodwill                       | 1,936         | 1,897         | 2,160         | 2,487         | 2,530         |
| Investments                    | 2,494         | 3,423         | 4,673         | 6,373         | 8,153         |
| Other non-current assets       | 5,864         | 8,685         | 8,685         | 8,685         | 8,685         |
| <b>Current assets</b>          | <b>25,706</b> | <b>28,381</b> | <b>28,569</b> | <b>29,685</b> | <b>31,266</b> |
| Cash                           | 11,325        | 11,695        | 9,494         | 9,427         | 9,731         |
| Account receivable             | 2,032         | 1,875         | 2,441         | 2,695         | 2,968         |
| Inventory                      | 7,715         | 7,545         | 9,369         | 10,297        | 11,301        |
| Other current assets           | 4,634         | 7,266         | 7,266         | 7,266         | 7,266         |
| <b>Current liabilities</b>     | <b>31,432</b> | <b>34,768</b> | <b>37,865</b> | <b>41,203</b> | <b>44,558</b> |
| Borrowings                     | 4,560         | 6,957         | 6,757         | 6,557         | 6,357         |
| Account payables               | 13,618        | 17,975        | 19,518        | 21,453        | 23,544        |
| Other payables                 | 13,254        | 9,836         | 11,590        | 13,193        | 14,657        |
| <b>Non-current liabilities</b> | <b>2,755</b>  | <b>5,853</b>  | <b>5,653</b>  | <b>5,453</b>  | <b>5,253</b>  |
| Borrowings                     | 1,971         | 5,137         | 4,937         | 4,737         | 4,537         |
| Other non-current liabilities  | 784           | 716           | 716           | 716           | 716           |
| Common stock                   | 6,096         | 6,083         | 6,083         | 6,513         | 6,513         |
| Retained earnings              | 21,534        | 23,541        | 25,838        | 28,682        | 32,024        |
| Minority Interest              | 143           | 149           | 169           | 190           | 211           |
| <b>Total net assets</b>        | <b>26,274</b> | <b>30,533</b> | <b>32,851</b> | <b>36,915</b> | <b>40,278</b> |
| <b>Shareholders' equity</b>    | <b>26,131</b> | <b>30,384</b> | <b>32,681</b> | <b>36,725</b> | <b>40,067</b> |

### Key ratios

| YE 31 Dec                     | FY19A    | FY20A  | FY21E  | FY22E  | FY23E  |
|-------------------------------|----------|--------|--------|--------|--------|
| <b>Sales mix (%)</b>          |          |        |        |        |        |
| Liquid milk                   | 81.8     | 78.6   | 77.9   | 77.9   | 77.8   |
| Others                        | 18.2     | 21.4   | 22.1   | 22.1   | 22.2   |
| <b>P&amp;L ratios (%)</b>     |          |        |        |        |        |
| Gross margin                  | 36.9     | 35.6   | 35.5   | 35.8   | 36.0   |
| Operating margin              | 8.0      | 7.7    | 9.0    | 10.0   | 10.7   |
| Pre-tax margin                | 9.1      | 8.4    | 9.6    | 10.7   | 11.4   |
| Net margin                    | 7.7      | 7.3    | 8.1    | 9.1    | 9.7    |
| Effective tax rate            | (15.2)   | (12.9) | (15.0) | (15.0) | (15.0) |
| <b>Balance sheet analysis</b> |          |        |        |        |        |
| Current ratio (x)             | 0.4      | 0.4    | 0.3    | 0.3    | 0.3    |
| Net receivable days           | 8.2      | 7.1    | 8.0    | 8.0    | 8.0    |
| Inventory turnover days       | 49.9     | 44.6   | 48.0   | 48.0   | 48.0   |
| Net payable days              | 88.1     | 106.2  | 100.0  | 100.0  | 100.0  |
| Net debt to equity (%)        | net cash | 1.3    | 6.7    | 5.1    | 2.9    |
| <b>Returns (%)</b>            |          |        |        |        |        |
| ROE                           | 24.9     | 22.0   | 27.7   | 30.5   | 32.8   |
| ROA                           | 11.5     | 9.9    | 11.8   | 13.4   | 14.6   |
| Dividend yield                | 2.0      | 2.0    | 2.6    | 3.0    | 3.5    |
| <b>Per share</b>              |          |        |        |        |        |
| EPS (RMB)                     | 1.1      | 1.2    | 1.5    | 1.7    | 2.0    |
| DPS (RMB)                     | 0.8      | 0.8    | 1.1    | 1.3    | 1.5    |
| BVPS (RMB)                    | 4.3      | 5.0    | 5.4    | 6.0    | 6.6    |

Source: Company data, CMBIS estimates

# Tsingtao Brewery (168 HK)

## Shares look undervalued on profit turnaround from non-core regions and mix upgrade

A less promising premiumization strategy and hurdles in its capacity and labour optimization has rendered Tsingtao to trade at an average 40% discount to CRB since 2018. We do not expect the gap to close in the near term. It is, however, Tsingtao looks to be undervalued at 12.3x end-22E EV/EBITDA on our 15% 5-year EBITDA CAGR estimate, which will be driven by the market share gains from the Company's "1+1" and regional-focus strategy. For instance, the strategies have already contributed to the EBITDA per kl turnaround from a 3-year CAGR of -1.6% in 2016 to 17.7% in 2021E. We envisage they will continue to play out well, particularly with the Laoshan's potential nationwide roll-out and profit turnarounds in non-core regions. With that, we forecast Tsingtao to deliver a 9% 3-year revenue CAGR from 2020-23E, roughly made up of a 3% volume growth and a 6% ASP accretion. The latter should result in a net 1.5pp gross margins expansion p.a. over the same period, as we take into account an inflating raw material cost. We initiate Tsingtao Beer at Buy, but prefer CRB for a more visible earnings trajectory from its premiumization execution with the aid of Heineken.

- Mix upgrade in good momentum and should continue to play-out well.**  
 We believe the upside will mainly come from the turnaround of non-core regions such as East China (turned breakeven) and Southeast China (turned profitable). The launch of the facelifted Laoshan contributed much to the success. Extending the product's coverage to nationwide markets should fuel a higher premium mix. Currently, we expect premium volume to represent 33% of total by 2023E, up from 27% in 2021E.
- Management's share incentive plan a double-edged sword.** The adoption has effectively aligned shareholder/ managers' interest that we expect Tsingtao's 2022E net profit to comfortably exceed the target stipulated (roughly RMB2.4bn at 90% growth from the average of 2016-18). Given the plan, meanwhile, we also acknowledge the fact that Tsingtao may not be as nimble as CRB in terms of capacity and labour optimization, which is evidenced by a lower EBITDA CAGR of 15% (vs CBR 18%) in 2017-22E.
- Valuation.** Our TP is based on 15.0x end-22E EV/EBITDA which represents +1sd above long term average since 2018.

### Earnings Summary

| (YE 31 Dec)         | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 27,984   | 27,760   | 30,129   | 32,943   | 36,109   |
| YoY growth (%)      | 5.3      | (0.8)    | 8.5      | 9.3      | 9.6      |
| Net income (RMB mn) | 1,852    | 2,201    | 2,735    | 3,304    | 3,737    |
| EPS (RMB)           | 1.4      | 1.6      | 2.0      | 2.4      | 2.8      |
| YoY growth (%)      | 30.2     | 18.9     | 24.3     | 20.8     | 13.1     |
| Consensus EPS (RMB) | N/A      | N/A      | 2.0      | 2.5      | 2.8      |
| P/E (x)             | N/A      | N/A      | 27.8     | 23.0     | 20.4     |
| P/B (x)             | N/A      | N/A      | 3.4      | 3.1      | 2.9      |
| Yield (%)           | N/A      | N/A      | 1.7      | 2.0      | 2.3      |
| ROE (%)             | 9.7      | 10.7     | 12.2     | 13.6     | 14.1     |
| Net gearing (%)     | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

|               |          |
|---------------|----------|
| Target Price  | HK\$86.0 |
| Up/Downside   | +27.3%   |
| Current Price | HK\$67.7 |

### China Consumer Staples

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 josephwong@cmbi.com.hk

#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 134,227   |
| Avg 3 mths t/o (HK\$ mn) | 248.6     |
| 52w High/Low (HK\$)      | 57.3/93.5 |
| Total Issued Shares (mn) | 1,351     |

Source: Bloomberg

#### Shareholding Structure

|                   |       |
|-------------------|-------|
| Fosun             | 16.7% |
| E Fund Management | 10.3% |
| FMR LLC           | 5.1%  |

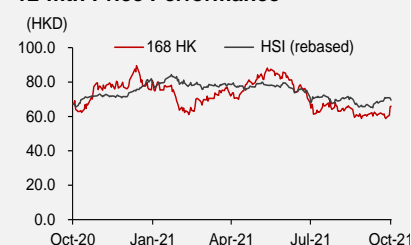
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 10.7%    | 6.2%     |
| 3-mth | 0.4%     | 0.1%     |
| 6-mth | -8.3%    | 4.3%     |

Source: Bloomberg

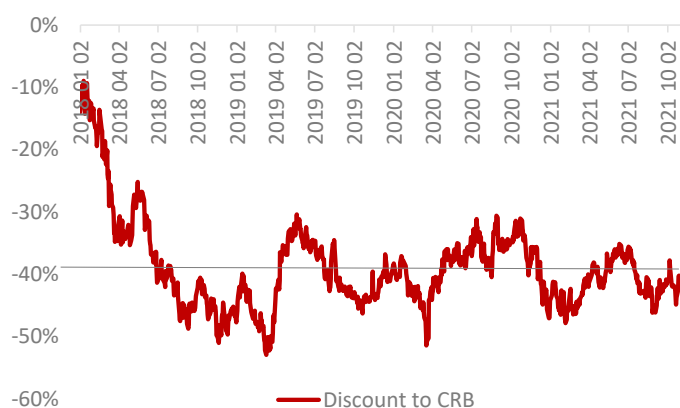
#### 12-mth Price Performance



Source: Bloomberg

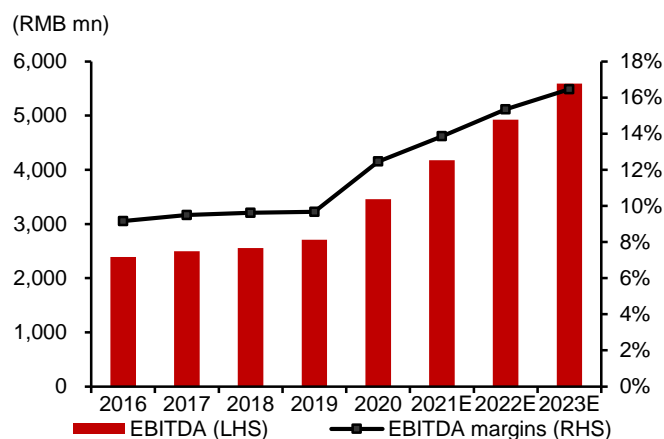
Auditor: PwC

**Figure 86: Tsingtao's discount to CRB**



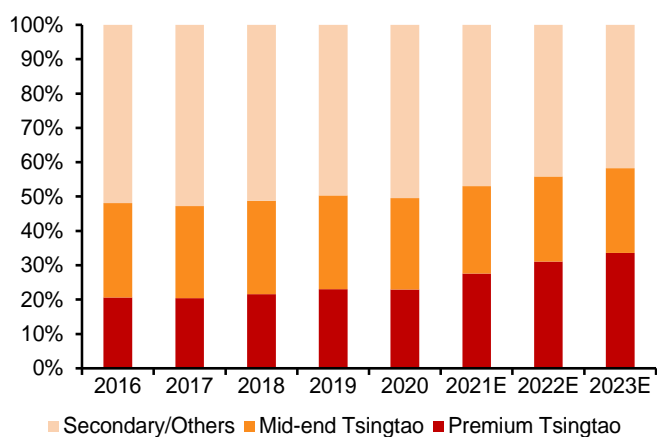
Source: Bloomberg, CMBIS

**Figure 87: EBITDA and EBITDA margins 2016-23E**



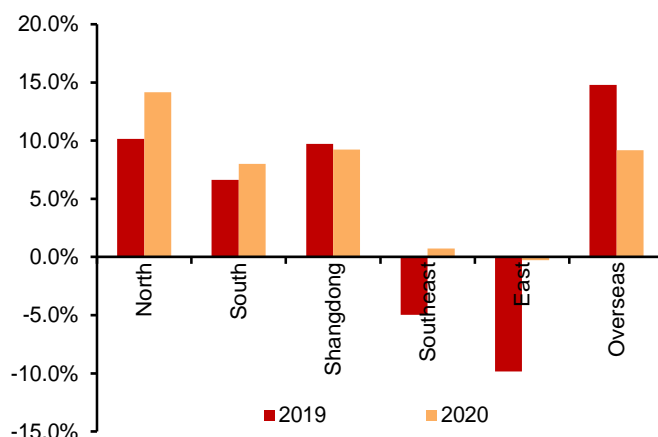
Source: Company data, CMBIS estimates

**Figure 88: Premium volume mix is increasing**



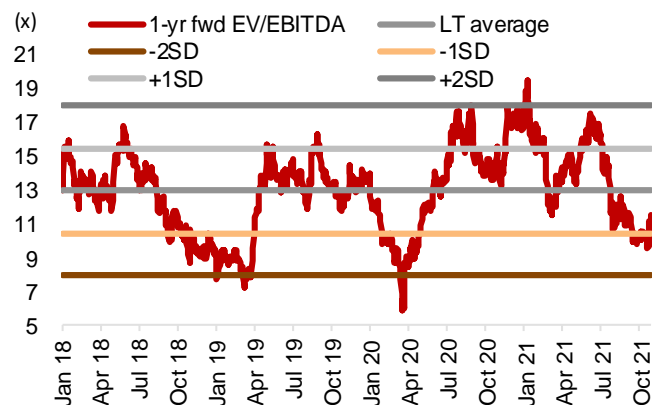
Source: Company data, CMBIS estimates

**Figure 89: EBIT margins by regions**



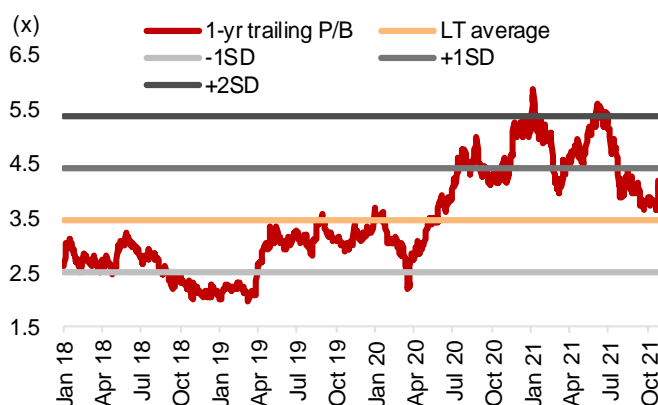
Source: Company data, CMBIS

**Figure 90: 1-year forward EV/EBITDA chart**



Source: Bloomberg, CMBIS estimates

**Figure 91: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)       | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>           | <b>27,984</b> | <b>27,760</b> | <b>30,129</b> | <b>32,943</b> | <b>36,109</b> |
| Beer                     | 27,618        | 27,338        | 29,671        | 32,442        | 35,560        |
| Others                   | 365           | 422           | 422           | 422           | 422           |
| <b>Gross profits</b>     | <b>10,903</b> | <b>11,219</b> | <b>12,607</b> | <b>14,174</b> | <b>15,802</b> |
| D&A                      | (1,123)       | (1,143)       | (1,147)       | (1,213)       | (1,278)       |
| Selling expense          | (5,104)       | (4,985)       | (5,363)       | (5,765)       | (6,319)       |
| Administration expenses  | (1,902)       | (1,700)       | (1,808)       | (1,911)       | (2,094)       |
| Other operating expenses | (1,191)       | (1,076)       | (1,261)       | (1,421)       | (1,609)       |
| <b>EBIT</b>              | <b>1,584</b>  | <b>2,316</b>  | <b>3,028</b>  | <b>3,865</b>  | <b>4,502</b>  |
| <b>EBITDA</b>            | <b>2,707</b>  | <b>3,459</b>  | <b>4,175</b>  | <b>5,078</b>  | <b>5,780</b>  |
| Finance costs, net       | 484           | 471           | 471           | 471           | 471           |
| Associates & JCEs        | 25            | 25            | 25            | 25            | 25            |
| Non-operating            | 691           | 501           | 501           | 501           | 501           |
| <b>Pre-tax profit</b>    | <b>2,727</b>  | <b>3,240</b>  | <b>4,025</b>  | <b>4,863</b>  | <b>5,500</b>  |
| Income tax               | (798)         | (913)         | (1,134)       | (1,370)       | (1,549)       |
| Less: Minority interests | (77)          | (126)         | (156)         | (189)         | (213)         |
| <b>Net profit</b>        | <b>1,852</b>  | <b>2,201</b>  | <b>2,735</b>  | <b>3,304</b>  | <b>3,737</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY19A         | FY20A          | FY21E          | FY22E          | FY23E          |
|------------------------------------|---------------|----------------|----------------|----------------|----------------|
| <b>Net income</b>                  | <b>1,852</b>  | <b>2,201</b>   | <b>2,735</b>   | <b>3,304</b>   | <b>3,737</b>   |
| D&A                                | 1,123         | 1,143          | 1,147          | 1,213          | 1,278          |
| Change in working capital          | (197)         | 525            | (65)           | (81)           | (99)           |
| Others                             | 1,239         | 1,084          | 156            | 189            | 213            |
| <b>Net cash fr. operating act.</b> | <b>4,017</b>  | <b>4,953</b>   | <b>3,974</b>   | <b>4,624</b>   | <b>5,129</b>   |
| Capex & investments                | (1,393)       | (1,460)        | (1,460)        | (1,460)        | (1,460)        |
| Investments                        | -             | -              | -              | -              | -              |
| Others                             | 1,045         | (27)           | (25)           | (25)           | (25)           |
| <b>Net cash fr. investing act.</b> | <b>(348)</b>  | <b>(1,488)</b> | <b>(1,486)</b> | <b>(1,486)</b> | <b>(1,486)</b> |
| Equity raised                      | 0             | 244            | -              | -              | -              |
| Lease repayment                    | (25)          | (52)           | -              | -              | -              |
| Dividend paid                      | (711)         | (793)          | (1,023)        | (1,271)        | (1,536)        |
| Others                             | (33)          | 245            | -              | -              | -              |
| <b>Net cash fr. financing act.</b> | <b>(769)</b>  | <b>(356)</b>   | <b>(1,023)</b> | <b>(1,271)</b> | <b>(1,536)</b> |
| <b>Net change in cash</b>          | <b>2,900</b>  | <b>3,110</b>   | <b>1,465</b>   | <b>1,867</b>   | <b>2,108</b>   |
| Cash at the beginning of the       | 12,398        | 15,381         | 18,467         | 19,932         | 21,799         |
| Exchange difference                | 4             | (24)           | -              | -              | -              |
| <b>Cash at the end of the year</b> | <b>15,302</b> | <b>18,467</b>  | <b>19,932</b>  | <b>21,799</b>  | <b>23,907</b>  |
| Less: pledged cash                 | -             | -              | -              | -              | -              |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>      | <b>16,311</b> | <b>16,886</b> | <b>17,224</b> | <b>17,497</b> | <b>17,706</b> |
| PP&E/Fixed assets              | 10,221        | 10,302        | 10,678        | 10,996        | 11,255        |
| Intangible assets              | 2,559         | 2,501         | 2,438         | 2,368         | 2,291         |
| Equity method investments      | 377           | 374           | 400           | 425           | 450           |
| Other non-current assets       | 3,154         | 3,709         | 3,709         | 3,709         | 3,709         |
| <b>Current assets</b>          | <b>21,002</b> | <b>24,628</b> | <b>26,299</b> | <b>28,426</b> | <b>30,853</b> |
| Cash                           | 15,302        | 18,467        | 19,932        | 21,799        | 23,907        |
| Account receivable             | 226           | 125           | 136           | 149           | 163           |
| Inventories                    | 3,182         | 3,281         | 3,476         | 3,723         | 4,028         |
| Other current assets           | 2,292         | 2,755         | 2,755         | 2,755         | 2,755         |
| <b>Current liabilities</b>     | <b>13,354</b> | <b>15,510</b> | <b>15,651</b> | <b>15,829</b> | <b>16,050</b> |
| Borrowings                     | 271           | 703           | 703           | 703           | 703           |
| Account payables               | 2,388         | 2,372         | 2,513         | 2,692         | 2,912         |
| Contract liabilities           | 6,276         | 6,567         | 6,567         | 6,567         | 6,567         |
| Other payables                 | 4,419         | 5,867         | 5,867         | 5,867         | 5,867         |
| <b>Non-current liabilities</b> | <b>4,045</b>  | <b>4,636</b>  | <b>4,636</b>  | <b>4,636</b>  | <b>4,636</b>  |
| Borrowings                     | 0             | -             | -             | -             | -             |
| Lease liabilities              | 37            | 116           | 116           | 116           | 116           |
| Other non-current liabilities  | 4,008         | 4,520         | 4,520         | 4,520         | 4,520         |
| <b>Minority Interest</b>       | <b>742</b>    | <b>746</b>    | <b>902</b>    | <b>1,091</b>  | <b>1,304</b>  |
| <b>Total net assets</b>        | <b>19,913</b> | <b>21,368</b> | <b>23,236</b> | <b>25,458</b> | <b>27,872</b> |
| <b>Shareholders' equity</b>    | <b>19,172</b> | <b>20,622</b> | <b>22,334</b> | <b>24,367</b> | <b>26,568</b> |

### Key ratios

| YE 31 Dec                     | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|-------------------------------|----------|----------|----------|----------|----------|
| <b>Sales mix (%)</b>          |          |          |          |          |          |
| Beer                          | 98.7     | 98.5     | 98.5     | 98.5     | 98.5     |
| Others                        | 1.3      | 1.5      | 1.4      | 1.3      | 1.2      |
| <b>P&amp;L ratios (%)</b>     |          |          |          |          |          |
| Gross margin                  | 39.0     | 40.4     | 41.8     | 43.0     | 43.8     |
| Operating margin              | 5.7      | 8.3      | 10.0     | 11.7     | 12.5     |
| Pre-tax margin                | 9.7      | 11.7     | 13.4     | 14.8     | 15.2     |
| Net margin                    | 6.6      | 7.9      | 9.1      | 10.0     | 10.3     |
| Effective tax rate            | (29.3)   | (28.2)   | (28.2)   | (28.2)   | (28.2)   |
| <b>Balance sheet analysis</b> |          |          |          |          |          |
| Current ratio (x)             | 0.7      | 0.7      | 0.8      | 0.8      | 0.8      |
| Net receivable days           | 2.9      | 1.6      | 1.6      | 1.6      | 1.6      |
| Net payable days              | 51.0     | 52.3     | 52.3     | 52.3     | 52.3     |
| Inventory turnover days       | 68.0     | 72.4     | 72.4     | 72.4     | 72.4     |
| Net debt to equity (%)        | Net cash | Net cash | Net cash | Net cash | Net cash |
| <b>Returns (%)</b>            |          |          |          |          |          |
| ROE                           | 9.7      | 10.7     | 12.2     | 13.6     | 14.1     |
| ROA                           | 5.0      | 5.3      | 6.3      | 7.2      | 7.7      |
| Dividend yield                | 0.9      | 1.3      | 1.7      | 2.0      | 2.3      |
| <b>Per share</b>              |          |          |          |          |          |
| EPS (RMB)                     | 1.4      | 1.6      | 2.0      | 2.4      | 2.8      |
| DPS (RMB)                     | 0.6      | 0.8      | 0.9      | 1.1      | 1.3      |
| BVPS (RMB)                    | 14.2     | 15.3     | 16.5     | 18.0     | 19.7     |

Source: Company data, CMBIS estimates

# RLX Technology (RLX US)

## 3Q likely marks the near term trough; store expansion and new launches still LT drivers

3Q likely to represent a trough quarter to RELX due to slower SSS, decelerating new shop openings and compressed margins on channel destocking. That said, we envisage a higher operating efficiency per store to neutralize part of the weakness, and a less aggressive promotional discount starting from 4Q could revive RELX's growth trajectory. To reflect this, for 2H21E, we assume a RMB3.9b revenue (3Q: RMB1.8b) with a 11% net margins that is slightly lower than 11.3% achieved in 1H. We still look for a 55% 2-year revenue CAGR between 2020-22E along with a ~2ppt margins expansion p.a, underpinned by a low e-vapor take rate (<2%) in China. We initiate RLX with a Buy rating.

- A differentiated business model.** With only 4 years of operating history, RELX successfully shaped its competitive advantage through its own production know-how with tailored production solutions, and nation-wide distribution network. This convinces us that the company could sustain its 60%+ market leadership along with a more superior growth trajectory (79% revenue CAGR vs ~65% of the market during 2020-23E).
- A rapid network expansion.** We forecast a rapid non-GAAP net earnings to grow over 2021/22E, thanks to a 50%+/ 20%+ increase in the number of brand stores and points-of-sales, respectively, and a ~20%+ higher revenue per store. Store efficiency enhancement is an ongoing exercise that facilitates user penetration as well as retention, and, in our view, to provide further margins buffer in case of mix change and price promotions.
- Regulatory scrutiny a double-edged sword.** Subsequent to the ban of online tobacco sales and the revision to the minor protection law, we still see risks that RELX could be subject to further regulatory scrutiny such as more stringent license approval, tax hike, means of distribution, etc. On the flip side, we also see opportunities arising from a more consolidated market, as well as a strong margins buffer along the value chain in view of a c50% downstream channel margins.
- Valuation.** Our TP is based on 20.4x end-22E P/E, which represents 1sd below the average valuation since March, when NDRC proposed to regulate e-vapors with reference to those of traditional cigarette. Our methodology takes into accounts of the current perplexed sentiment that looks to price-in regulatory tightening on the e-vapor segment, in our view.

### Earnings Summary

| (YE 31 Dec)         | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 1,549    | 3,820    | 8,886    | 15,421   | 21,252   |
| YoY growth (%)      | 2.0      | 146.5    | 132.6    | 73.5     | 37.8     |
| Net income (RMB mn) | 48       | (128)    | 991      | 1,806    | 2,554    |
| EPS (RMB)           | 0.1      | 0.6      | 1.6      | 2.1      | 2.6      |
| YoY growth (%)      | 26.7     | 169.7    | 626.7    | 82.3     | 41.4     |
| Consensus EPS (RMB) | N/A      | N/A      | 0.7      | 1.3      | 2.0      |
| P/E (x)             | N/A      | N/A      | 19.4     | 14.5     | 11.7     |
| P/B (x)             | N/A      | N/A      | 18.6     | 10.8     | 6.8      |
| Yield (%)           | N/A      | N/A      | -        | -        | -        |
| ROE (%)             | 45.1     | N/A      | 39.7     | 42.0     | 37.2     |
| Net gearing (%)     | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

|               |         |
|---------------|---------|
| Target Price  | US\$6.9 |
| Up/Downside   | +40.9%  |
| Current Price | US\$4.9 |

### China Consumer Staples

#### Joseph Wong

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#### Stock Data

|                          |          |
|--------------------------|----------|
| Mkt Cap (US\$ mn)        | 7,760    |
| Avg 3 mths t/o (US\$ mn) | 61.2     |
| 52w High/Low (US\$)      | 3.7/35.0 |
| Total Issued Shares (mn) | 1,532.4  |

Source: Bloomberg

#### Shareholding Structure

|                             |      |
|-----------------------------|------|
| Coatue Management LLC       | 1.5% |
| Brilliance Asset Management | 0.8% |
| BlackRock                   | 0.8% |

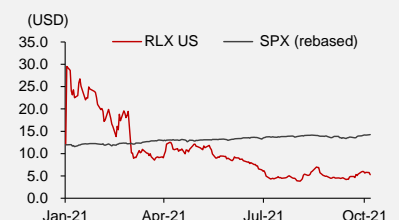
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 9.8%     | 5.2%     |
| 3-mth | 12.8%    | 12.4%    |
| 6-mth | -58.9%   | -53.5%   |

Source: Bloomberg

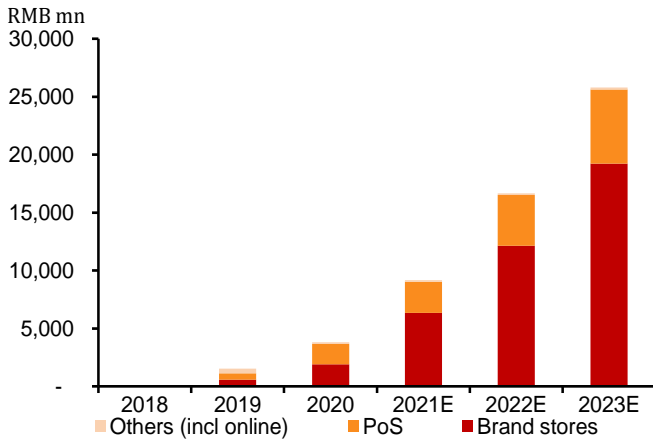
#### 12-mth Price Performance



Source: Bloomberg

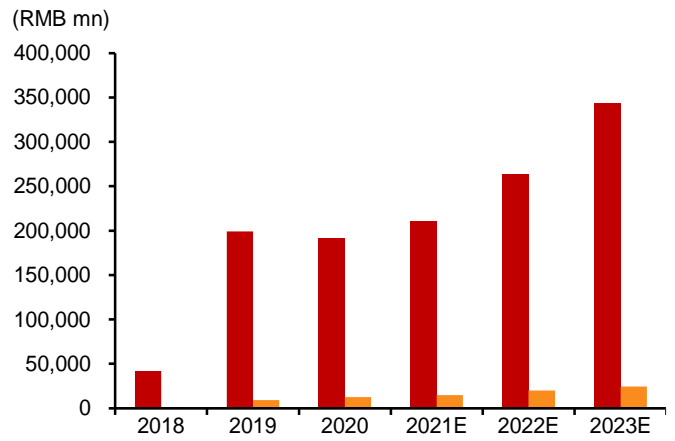
Auditor: PwC Zhong Tian

**Figure 92: Revenue breakdown by channels**



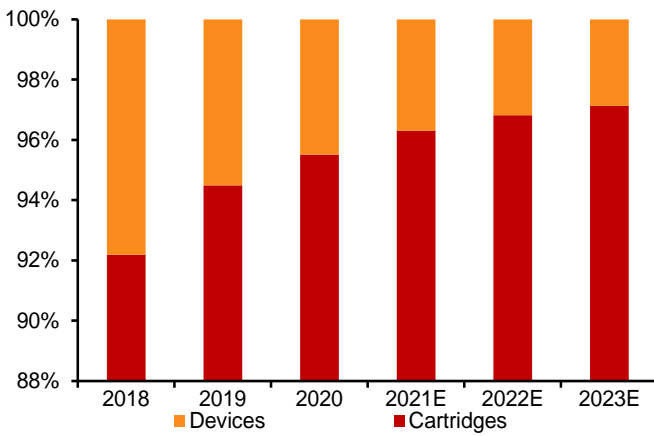
Source: Company data, CMBIS estimates

**Figure 93: Revenue per outlets 2018-23E**



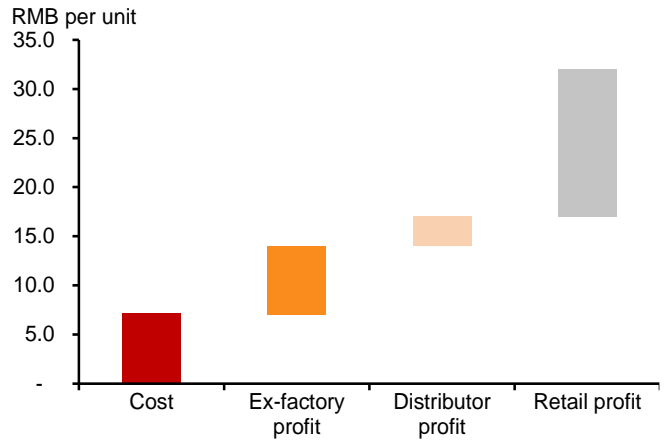
Source: Company data, CMBIS estimates

**Figure 94: Volume mix 2018-23E**



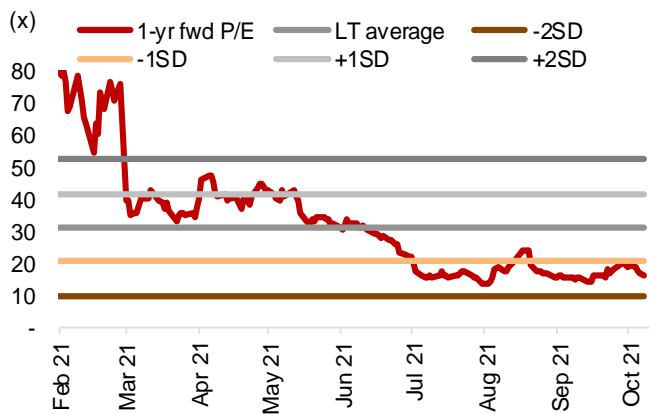
Source: Company data, CMBIS estimates

**Figure 95: Cartridge distribution channel profitability**



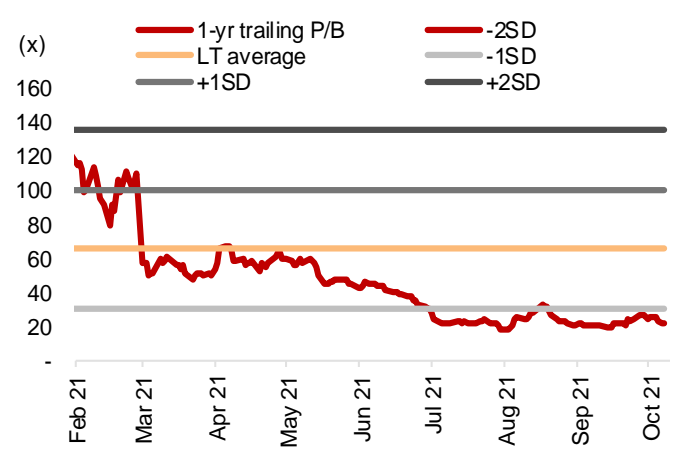
Source: Company data, CMBIS estimates

**Figure 96: 1-year forward P/E chart**



Source: Bloomberg, CMBIS estimates

**Figure 97: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

| Income statement         |              |              |              |               |               | Cash flow summary                  |              |                |              |              |              |
|--------------------------|--------------|--------------|--------------|---------------|---------------|------------------------------------|--------------|----------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn)       | FY19A        | FY20A        | FY21E        | FY22E         | FY23E         | YE 31 Dec (RMB mn)                 | FY19A        | FY20A          | FY21E        | FY22E        | FY23E        |
| <b>Revenue</b>           | <b>1,549</b> | <b>3,820</b> | <b>8,886</b> | <b>15,421</b> | <b>21,252</b> | <b>Net income</b>                  | <b>48</b>    | <b>(128)</b>   | <b>991</b>   | <b>1,806</b> | <b>2,554</b> |
| Cartridges               | 1,033        | 2,842        | 6,925        | 12,614        | 17,256        | D&A                                | 13           | 59             | 59           | 69           | 85           |
| Devices                  | 516          | 978          | 1,960        | 2,807         | 3,996         | Change in working capital          | 260          | 870            | 705          | (1,889)      | (2,159)      |
| <b>Gross profits</b>     | <b>581</b>   | <b>1,528</b> | <b>3,934</b> | <b>6,992</b>  | <b>9,747</b>  | Others                             | 18           | 1,788          | 361          | 465          | 415          |
| D&A                      | (13)         | (59)         | (59)         | (69)          | (85)          | <b>Net cash fr. operating act.</b> | <b>338</b>   | <b>2,589</b>   | <b>2,116</b> | <b>451</b>   | <b>894</b>   |
| Selling expense          | (359)        | (443)        | (889)        | (1,542)       | (2,125)       | Capex & investments                | (92)         | (1,234)        | (1,467)      | (1,409)      | (1,221)      |
| Administration expenses  | (133)        | (772)        | (1,404)      | (2,436)       | (3,358)       | Short term investment              | (40)         | (5,444)        | -            | -            | -            |
| Other operating expenses | (19)         | (240)        | (385)        | (702)         | (978)         | Others                             | (365)        | 4,865          | 1,337        | 1,279        | 1,091        |
| <b>EBIT</b>              | <b>56</b>    | <b>13</b>    | <b>1,198</b> | <b>2,242</b>  | <b>3,201</b>  | <b>Net cash fr. investing act.</b> | <b>(498)</b> | <b>(1,813)</b> | <b>(130)</b> | <b>(130)</b> | <b>(130)</b> |
| <b>EBITDA</b>            | <b>69</b>    | <b>72</b>    | <b>1,257</b> | <b>2,312</b>  | <b>3,286</b>  | Equity raised                      | 60           | 1,530          | -            | -            | -            |
| Finance costs, net       | 1            | 32           | 32           | 32            | 32            | Change of Debts                    | -            | -              | -            | -            | -            |
| Non-operating            | -            | 20           | 20           | 20            | 20            | Dividend paid                      | -            | -              | -            | -            | -            |
| Total investment         | 17           | 37           | 20           | 20            | 20            | Others                             | 517          | (1,355)        | -            | -            | -            |
| <b>Pre-tax profit</b>    | <b>74</b>    | <b>102</b>   | <b>1,270</b> | <b>2,315</b>  | <b>3,274</b>  | <b>Net cash fr. financing act.</b> | <b>576</b>   | <b>175</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     |
| Income tax               | (26)         | (231)        | (279)        | (509)         | (720)         | <b>Net change in cash</b>          | <b>417</b>   | <b>951</b>     | <b>1,986</b> | <b>321</b>   | <b>764</b>   |
| Less: Minority interests | -            | -            | -            | -             | -             | Cash at the beginning of the       | (280)        | 144            | 1,114        | 3,100        | 3,421        |
| <b>Net profit</b>        | <b>48</b>    | <b>(128)</b> | <b>991</b>   | <b>1,806</b>  | <b>2,554</b>  | Exchange difference                | (1)          | 19             | -            | -            | -            |
|                          |              |              |              |               |               | <b>Cash at the end of the year</b> | <b>136</b>   | <b>1,114</b>   | <b>3,100</b> | <b>3,421</b> | <b>4,185</b> |
|                          |              |              |              |               |               | Less: pledged cash                 | -            | -              | -            | -            | -            |

| Balance sheet                  |              |              |              |              |               | Key ratios                    |       |       |       |       |       |
|--------------------------------|--------------|--------------|--------------|--------------|---------------|-------------------------------|-------|-------|-------|-------|-------|
| YE 31 Dec (RMB mn)             | FY19A        | FY20A        | FY21E        | FY22E        | FY23E         | YE 31 Dec                     | FY19A | FY20A | FY21E | FY22E | FY23E |
| <b>Non-current assets</b>      | <b>261</b>   | <b>193</b>   | <b>386</b>   | <b>603</b>   | <b>789</b>    | <b>Sales mix (%)</b>          |       |       |       |       |       |
| PP&E/Fixed assets              | 66           | 75           | 127          | 163          | 182           | Cartridges                    | 66.7  | 74.4  | 77.9  | 81.8  | 81.2  |
| Intangible assets              | 5            | 5            | 24           | 49           | 75            | Devices                       | 33.3  | 25.6  | 22.1  | 18.2  | 18.8  |
| Right of use assets, net       | 90           | 92           | 213          | 370          | 510           | <b>P&amp;L ratios (%)</b>     |       |       |       |       |       |
| Other non-current assets       | 99           | 21           | 21           | 21           | 21            | Gross margin                  | 37.5  | 40.0  | 44.3  | 45.3  | 45.9  |
| <b>Current assets</b>          | <b>1,183</b> | <b>3,867</b> | <b>6,129</b> | <b>9,131</b> | <b>12,604</b> | Operating margin              | 3.6   | 0.3   | 13.5  | 14.5  | 15.1  |
| Cash                           | 136          | 1,114        | 3,100        | 3,421        | 4,185         | Pre-tax margin                | 4.8   | 2.7   | 14.3  | 15.0  | 15.4  |
| Account receivable             | 39           | 20           | 219          | 1,690        | 3,494         | Net margin                    | 3.1   | (3.4) | 11.2  | 11.7  | 12.0  |
| Inventories                    | 219          | 329          | 407          | 1,616        | 2,522         | Effective tax rate            |       |       |       |       |       |
| Other current assets           | 789          | 2,404        | 2,404        | 2,404        | 2,404         | <b>Balance sheet analysis</b> |       |       |       |       |       |
| <b>Current liabilities</b>     | <b>620</b>   | <b>2,497</b> | <b>3,961</b> | <b>5,375</b> | <b>6,479</b>  | Current ratio (x)             | 0.1   | 0.3   | 0.5   | 0.4   | 0.3   |
| Borrowings                     | -            | -            | -            | -            | -             | Net receivable days           | 9.1   | 1.9   | 9.0   | 40.0  | 60.0  |
| Account payables               | 499          | 1,460        | 2,442        | 3,233        | 3,783         | Inventory turnover days       | 82.7  | 52.4  | 30.0  | 70.0  | 80.0  |
| Other payables                 | 118          | 674          | 674          | 674          | 674           | Net payable days              | 188.1 | 232.5 | 180.0 | 140.0 | 120.0 |
| Rent payable                   | 3            | 364          | 846          | 1,468        | 2,023         | Net debt to equity (%)        | N/A   | N/A   | N/A   | N/A   | N/A   |
| <b>Non-current liabilities</b> | <b>718</b>   | <b>55</b>    | <b>55</b>    | <b>55</b>    | <b>55</b>     | <b>Returns (%)</b>            |       |       |       |       |       |
| Borrowings                     | -            | -            | -            | -            | -             | ROE                           | 45.1  | N/A   | 39.7  | 42.0  | 37.2  |
| Other non-current liabilities  | 718          | 55           | 55           | 55           | 55            | ROA                           | 3.3   | N/A   | 15.2  | 18.6  | 19.1  |
| <b>Minority Interest</b>       | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>      | Dividend yield                | -     | -     | -     | -     | -     |
| <b>Total net assets</b>        | <b>106</b>   | <b>1,508</b> | <b>2,499</b> | <b>4,305</b> | <b>6,858</b>  | <b>Per share</b>              |       |       |       |       |       |
| <b>Shareholders' equity</b>    | <b>106</b>   | <b>1,508</b> | <b>2,499</b> | <b>4,305</b> | <b>6,858</b>  | EPS (RMB)                     | 0.1   | 0.6   | 1.6   | 2.1   | 2.6   |
|                                |              |              |              |              |               | DPS (RMB)                     | -     | -     | -     | -     | -     |
|                                |              |              |              |              |               | BVPS (RMB)                    | 0.1   | 1.0   | 1.6   | 2.8   | 4.5   |

Source: Company data, CMBIS estimates

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