

Nongfu Spring (9633 HK)

Solid 1H25 fuelled by strong non-water biz

Nongfu's 1H25 revenue grew 15.6% YoY (in-line) and net profit rose 22% YoY (5% above BBG consensus), driven by water biz recovery and strong tea/functional/juice performance, as well as effective cost control especially on raw materials. We raise TP by 24% to HK\$57.75 mainly to reflect a 1-year forward earnings (4-month FY25E + 8-month FY26E) and a 15% increase in target P/E given 1) largely eased pressure on core biz, 2) solidified leadership in tea segment; 3) more visibility on barriers to widen the gap vs peers; 4) diversified strategy execution significantly ahead of competitors. Maintain BUY.

- **Tea biz: solid growth with leading position strengthened.** Segment revenue increased 20% YoY to RMB10.1bn in 1H25, moderating from 59%/32% in 1H24/FY24 as scale expansion entered a more stable growth phase. OP margin expanded 4.3ppts YoY to 48.4%, benefiting from the company's cost control in raw material procurement, product mix optimization, and scale efficiencies. Amid intensified competition in 1H25, the performance further solidified its leadership position in the tea beverage field.
- **Water biz: recovery underway with enhanced competitive barriers.** In 1H25, segment revenue rose 11% YoY to RMB9.4bn, based on a low base in 1H24 and 1H25 efforts including expanding consumption scenarios and rolling out of water knowledge education etc. OP margin climbed 3.3ppts to 35.4% on further PET price decline. The company added three water sources in 1H25 (with plans for more), which we believe will boost its transportation efficiency and channel layout barriers, widening the gap with peers.
- **New categories emerging as growth drivers.** Juice drinks and functional drinks revenue rose 21%/14% YoY to RMB2.6bn/RMB2.9bn in 1H25, supported by the product quality advantages and proactive marketing. Their OP margins climbed 7.7ppts/5.9ppts YoY to 3.3%/47.1%, driven by economies of scale and the company's development in raw material bases. These categories are expected to become new growth engines ahead in our view. Additionally, the company's customized product collaborations for emerging channels have provided more high-end user-oriented product innovation insights, laying a stronger foundation for its diversified development.
- **Maintain Buy.** We raise our TP by 24% to HK\$57.75, reflecting 1-year forward earnings (4-month FY25E + 8-month FY26E) and a 15% increase in target P/E to 40.3x (from 35x), justified by: 1) largely eased pressure on core biz, 2) solidified leadership in the tea beverage segment; 3) increasingly visible competitive moat that will further widen the gap vs peers; and 4) diversified strategy execution significantly ahead of competitors, with new growth engines now well-established. Risks: 1) food safety incidents; 2) raw material price hikes.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	42,667	42,896	49,474	55,106	60,518
YoY growth (%)	28.4	0.5	15.3	11.4	9.8
Net profit (RMB mn)	12,079.5	12,123.3	13,907.0	15,458.3	16,962.1
YoY growth (%)	42.2	0.4	14.7	11.2	9.7
EPS (Reported) (RMB)	1.07	1.08	1.24	1.37	1.51
Consensus EPS (RMB)	na	na	1.28	1.46	1.65
P/E (x)	42.6	42.4	37.0	33.3	30.3
P/B (x)	18.0	15.9	13.7	11.9	10.4
Yield (%)	1.6	1.7	1.9	2.1	2.3
ROE (%)	45.9	39.8	39.8	38.2	36.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$57.75
(Previous TP)	HK\$46.74)
Up/Downside	15.5%
Current Price	HK\$49.98

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Stock Data

Mkt Cap (HK\$ mn)	251,634.3
Avg 3 mths t/o (HK\$ mn)	329.5
52w High/Low (HK\$)	50.30/24.35
Total Issued Shares (mn)	5034.7

Source: FactSet

Shareholding Structure

Zhong Shanshan	38.3%
Yangshengtang Co.	25.9%

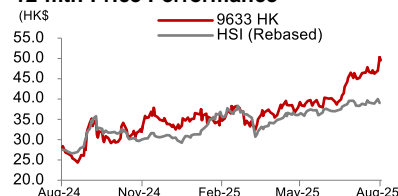
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.7%	9.6%
3-mth	26.5%	18.9%
6-mth	44.0%	31.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 9633 HK results summary- 1H25

RMB mn	2023	2024	YoY	1H24	2H24	1H25	YoY	HoH
Revenue	42,667	42,896	0.5%	22,173	20,723	25,622	15.6%	23.6%
Packaged drinking water products	20,262	15,952	-21%	8,531	7,422	9,443	11%	27%
Tea beverage products	12,659	16,745	32%	8,430	8,314	10,089	20%	21%
Functional beverage products	4,902	4,932	1%	2,550	2,382	2,898	14%	22%
Juice beverage products	3,533	4,085	16%	2,114	1,971	2,564	21%	30%
Other products	1,311	1,182	-10%	548	634	629	15%	-1%
Gross Profit	25,407	24,916	-1.9%	13,032	11,883	15,456	18.6%	30.1%
Operating Profit	16,379	16,024	-2.2%	8,169	7,856	10,622	30.0%	35.2%
Packaged drinking water products	7,347	4,971	-32%	2,743	2,227	3,347	22%	50%
Tea beverage products	5,622	7,563	35%	3,717	3,845	4,879	31%	27%
Functional beverage products	2,068	2,082	1%	1,050	1,032	1,364	30%	32%
Juice beverage products	946	1,017	8%	499	518	803	61%	55%
Other products	396	392	-1%	159	234	229	44%	-2%
Net profit	12,079	12,123	0.4%	6,240	5,884	7,622	22.2%	29.5%
EPS (RMB)	1.07	1.08	0.4%	0.555	0.52	0.677	22.0%	29.4%
DPS (RMB)	0.75	0.76	1.3%					
Dividend payout ratio	69.8%	70.5%						
Gross Margin	60%	58%	-1.5 ppt	58.8%	57.3%	60.3%	1.5 ppt	3.0 ppt
OP Margin	38%	37%	-1.0 ppt	36.8%	37.9%	41.5%	4.6 ppt	3.5 ppt
Packaged drinking water products	36%	31%	-5.1 ppt	32.2%	30%	35%	3.3 ppt	5.4 ppt
Tea beverage products	44%	45%	0.8 ppt	44.1%	46%	48%	4.3 ppt	2.1 ppt
Functional beverage products	42%	42%	0.0 ppt	41.2%	43%	47%	5.9 ppt	3.8 ppt
Juice beverage products	27%	25%	-1.9 ppt	23.6%	26%	31%	7.7 ppt	5.0 ppt
Other products	30%	33%	3.0 ppt	28.9%	37%	36%	7.4 ppt	-0.5 ppt
Net Margin	28%	28%	0.0 ppt	28.1%	28%	30%	1.6 ppt	1.4 ppt
Operating profit mix %								
Packaged drinking water products	44.9%	31.0%	-13.8 ppt	33.6%	28.4%	31.5%	-2.1 ppt	3.2 ppt
Tea beverage products	34.3%	47.2%	12.9 ppt	45.5%	48.9%	45.9%	0.4 ppt	-3.0 ppt
Functional beverage products	12.6%	13.0%	0.4 ppt	12.9%	13.1%	12.8%	0.0 ppt	-0.3 ppt
Juice beverage products	5.8%	6.3%	0.6 ppt	6.1%	6.6%	7.6%	1.4 ppt	1.0 ppt
Other products	2.4%	2.4%	0.0 ppt	1.9%	3.0%	2.2%	0.2 ppt	-0.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	49,474	55,106	60,518	49,474	55,106	60,518	0.0%	0.0%	0.0%
Gross profit	29,144	32,547	35,791	29,144	32,547	35,791	0.0%	0.0%	0.0%
EBIT	17,682	19,640	21,495	17,682	19,640	21,495	0.0%	0.0%	0.0%
Net profit	13,907	15,458	16,962	13,907	15,458	16,962	0.0%	0.0%	0.0%
Gross margin	58.9%	59.1%	59.1%	58.9%	59.1%	59.1%	0ppt	0ppt	0ppt
EBIT margin	35.7%	35.6%	35.5%	35.7%	35.6%	35.5%	0ppt	0ppt	0ppt
Net margin	28.1%	28.1%	28.0%	28.1%	28.1%	28.0%	0ppt	0ppt	0ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	49,474	55,106	60,518	49,945	56,805	63,475	-0.9%	-3.0%	-4.7%
Gross profit	29,144	32,547	35,791	29,609	33,819	37,892	-1.6%	-3.8%	-5.5%
EBIT	17,682	19,640	21,495	17,752	20,259	22,726	-0.4%	-3.1%	-5.4%
Net profit	13,907	15,458	16,962	14,422	16,328	17,970	-3.6%	-5.3%	-5.6%
Gross margin	58.9%	59.1%	59.1%	59.3%	59.5%	59.7%	-0.4ppt	-0.5ppt	-0.6ppt
EBI margin	35.7%	35.6%	35.5%	35.5%	35.7%	35.8%	0.2ppt	0ppt	-0.3ppt
Net margin	28.1%	28.1%	28.0%	28.9%	28.7%	28.3%	-0.8ppt	-0.7ppt	-0.3ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	33,239	42,667	42,896	49,474	55,106	60,518
Cost of goods sold	(14,144)	(17,260)	(17,980)	(20,330)	(22,560)	(24,728)
Gross profit	19,095	25,407	24,916	29,144	32,547	35,791
Operating expenses	(9,656)	(11,446)	(11,136)	(12,695)	(14,140)	(15,529)
Selling expense	(7,821)	(9,284)	(9,173)	(10,432)	(11,619)	(12,760)
Admin expense	(1,835)	(2,162)	(1,962)	(2,263)	(2,521)	(2,769)
Operating profit	10,503	14,797	15,013	17,682	19,640	21,495
Other income	1,086	850	1,263	1,263	1,263	1,263
Other expense	(22)	(14)	(30)	(30)	(30)	(30)
EBITDA	11,926	16,592	16,426	19,203	21,470	23,475
Depreciation	(2,478)	(2,620)	(2,623)	(2,731)	(3,043)	(3,195)
Other amortisation	(9)	(11)	(23)	(23)	(20)	(18)
EBIT	9,440	13,960	13,780	16,449	18,406	20,262
Net Interest income/(expense)	547	892	775	428	491	594
Pre-tax profit	11,050	15,688	15,788	18,111	20,131	22,089
Income tax	(2,555)	(3,609)	(3,665)	(4,204)	(4,673)	(5,127)
Minority interest	0	0	0	0	0	0
Net profit	8,495	12,079	12,123	13,907	15,458	16,962
Core net profit	8,743	12,079	12,123	13,907	15,458	16,962
Gross dividends	7,648	8,435	8,547	9,735	10,821	11,873

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	18,361	28,461	19,072	20,290	24,103	28,478
Cash & equivalents	15,211	24,125	10,722	11,801	15,109	19,020
Account receivables	479	547	581	276	306	335
Inventories	2,108	3,092	5,013	5,459	5,934	6,368
Prepayment	560	695	1,218	1,218	1,218	1,218
Other current assets	3	3	1,537	1,537	1,537	1,537
Non-current assets	20,893	20,676	34,088	37,921	40,017	41,964
PP&E	15,398	17,180	21,083	24,898	26,985	28,934
Right-of-use assets	853	947	1,027	1,088	1,136	1,172
Deferred income tax	433	921	1,088	1,088	1,088	1,088
Intangibles	58	74	72	29	(11)	(49)
Other non-current assets	4,151	1,554	10,819	10,819	10,819	10,819
Total assets	39,255	49,137	53,160	58,211	64,120	70,443
Current liabilities	14,601	19,877	19,985	19,676	19,862	20,043
Short-term borrowings	2,425	3,121	3,625	3,121	3,121	3,121
Account payables	1,425	1,770	1,499	1,695	1,881	2,062
Tax payable	1,500	2,054	1,695	1,695	1,695	1,695
Other current liabilities	6,506	9,289	9,544	9,544	9,544	9,544
Lease liabilities	69	58	56	56	56	56
Contract liabilities	2,677	3,585	3,566	3,566	3,566	3,566
Non-current liabilities	569	690	888	888	888	888
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	31	31	66	66	66	66
Other non-current liabilities	538	658	823	823	823	823
Total liabilities	15,171	20,566	20,873	20,564	20,750	20,931
Share capital	1,125	1,125	1,125	1,125	1,125	1,125
Capital surplus	0	0	0	0	0	0
Retained earnings	22,959	27,446	31,163	36,522	42,246	48,387
Other reserves	0	0	0	0	0	0
Total shareholders equity	24,084	28,571	32,287	37,647	43,370	49,512
Minority interest	0	0	0	0	0	0
Total equity and liabilities	39,255	49,137	53,160	58,211	64,120	70,443

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	11,050	15,688	15,788	18,111	20,131	22,089
Depreciation & amortization	(2,487)	(2,631)	(2,646)	(2,754)	(3,064)	(3,213)
Change in working capital	2,335	2,835	(2,935)	56	(319)	(283)
Others	1,143	1,413	815	1,304	1,455	1,298
Net cash from operations	12,042	17,305	11,022	16,717	18,203	19,892
Investing						
Capital expenditure	(4,193)	(4,714)	(6,461)	(6,586)	(5,160)	(5,160)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	80	27	14,184	0	0	0
Others	(5,313)	(9,596)	3,388	0	0	0
Net cash from investing	(9,426)	(14,284)	(4,502)	(6,586)	(5,160)	(5,160)
Financing						
Dividend paid	(5,059)	(7,646)	(8,435)	(8,547)	(9,735)	(10,821)
Net borrowings	(157)	615	370	(505)	0	0
Share repurchases	0	0	0	0	0	0
Others	16	120	3	0	0	0
Net cash from financing	(5,370)	(7,022)	(8,062)	(9,052)	(9,735)	(10,821)
Net change in cash						
Cash at the beginning of the year	10,188	7,821	3,876	2,416	3,495	6,803
Exchange difference	388	56	82	0	0	0
Cash at the end of the year	7,821	3,876	2,416	3,495	6,803	10,714
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	11.9%	28.4%	0.5%	15.3%	11.4%	9.8%
Gross profit	8.2%	33.1%	(1.9%)	17.0%	11.7%	10.0%
Operating profit	15.7%	40.9%	1.5%	17.8%	11.1%	9.4%
EBITDA	7.9%	39.1%	(1.0%)	16.9%	11.8%	9.3%
EBIT	8.8%	47.9%	(1.3%)	19.4%	11.9%	10.1%
Net profit	18.6%	42.2%	0.4%	14.7%	11.2%	9.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	57.4%	59.5%	58.1%	58.9%	59.1%	59.1%
Operating margin	31.6%	34.7%	35.0%	35.7%	35.6%	35.5%
EBITDA margin	35.9%	38.9%	38.3%	38.8%	39.0%	38.8%
Return on equity (ROE)	37.9%	45.9%	39.8%	39.8%	38.2%	36.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.7)	(0.2)	(0.2)	(0.3)	(0.3)
Current ratio (x)	1.3	1.4	1.0	1.0	1.2	1.4
Receivable turnover days	5.3	4.7	4.9	4.9	4.9	4.9
Inventory turnover days	54.4	65.4	101.8	98.0	96.0	94.0
Payable turnover days	36.8	37.4	30.4	30.4	30.4	30.4
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	60.5	42.6	42.4	37.0	33.3	30.3
P/E (diluted)	60.5	42.6	42.4	37.0	33.3	30.3
P/B	21.4	18.0	15.9	13.7	11.9	10.4
Div yield (%)	1.5	1.6	1.7	1.9	2.1	2.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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