

# Yum China (9987 HK)

## 3Q23 result missed and we will stay cautious

3Q23 result was a miss, due to weak demand, slow SSSG and intense competition. We think Yum China has turned more active to gain or at least retain its market share, perhaps at the expenses of lower GP margin and higher opex (e.g. staff costs). But thanks to low valuation (after our earnings cut), we maintain BUY.

■ **What is new? Yum China (9987 HK) issued disappointing 3Q23 results.** Sales rose +9% YoY, missing BBG/ CMBI est. by 4%/ 8%, due to weaker-than-expected SSSG (4% for KFC and just 2% for Pizza Hut) and delivery sales growth. Net profit rose +18% YoY, missing BBG/ CMBI est. by 6%/ 18%, mainly because of more-than-expected promotions and less-than-expected operating leverage (hence labour and admin costs are higher than expected). Restaurant level OP margin for KFC/ Pizza Hut were at 18.6%/ 12.7%, both are 2.0ppt/ 0.7ppt lower than that of 20.6%/ 13.4% last year. Yum China opened about 500 new stores in 3Q23 and 1,155 new stores in 9M23, still on track to reach its FY23E guidance of 1,400-1,600 new stores.

■ **Our view: A big miss and outlook is hindered by industry weakness.**

1) This is a big miss in 3Q23 for both topline (only 4%/ 2% for KFC/ Pizza Hut vs CMBI est. of 5%/ 8%) and bottom line (OP margin was only at 11% vs CMBI est. of 15%). Noted that KFC's restaurant level OP margin finally dropped below the 3Q19 level, unlike the strong improvements in 1H23,

2) 4Q23E could still be under pressure given the weak demand (softening trend during Sep 2023 and 10-1 holidays), even though food costs are under control (aided by product innovation and highly capable supply chain), we still expect to see slow SSSG, higher discounting, less operating leverage (staffs are needed to serve more orders) and less other gains (there were tax and rental reliefs last year),

3) Consumers are now more value cautious and Yum China will roll out the most suitable products for such market. The current ASP should still be higher vs 2019 level and the fall in ticket size (by 5%/9% YoY for KFC/ Pizza Hut) could be explained by lowered delivery mix and increased breakfast sales mix in 3Q23, however, Yum China will certainly widen its product price range (including more products priced below RMB 20/ 50 for KFC/ Pizza Hut) and its categories to capture the more differentiated customer demand nowadays (e.g. Chinese style burger and one-person pizza meals or items). The environment, in our view, could stay promotional for a longer while,

4) Should stay cautious on FY24E, due to weak macro and intense competition, we only expect the sales and net profit growth to be at the low-end of YUMC's FY24E-26E guidance, which are both at around HSD.

■ **Maintain BUY and cut TP to HK\$ 435.82.** Our new TP is based on 27x FY24E P/E (unchanged), at par with 5-year average. We revised down FY23E/ 24E/ 25E net profit forecasts by 12%/ 29%/ 39% to factor in slower SSSG and less operating leverage. After the recent share price retreat (around 15%), YUMC is now trading at 22x FY24 P/E, not very demanding.

### Earnings Summary

| (YE 31 Dec)                | FY21A | FY22A  | FY23E  | FY24E  | FY25E  |
|----------------------------|-------|--------|--------|--------|--------|
| Revenue (US\$ mn)          | 9,853 | 9,569  | 10,855 | 11,694 | 12,968 |
| YoY growth (%)             | 19.2  | (2.9)  | 13.4   | 7.7    | 10.9   |
| Operating profit (US\$ mn) | 1,386 | 629    | 1,153  | 1,154  | 1,278  |
| Net profit (US\$ mn)       | 990.0 | 442.0  | 802.6  | 881.4  | 976.3  |
| EPS (Reported) (US\$)      | 2.28  | 1.04   | 1.95   | 2.08   | 2.31   |
| YoY growth (%)             | 17.0  | (54.2) | 86.2   | 7.1    | 10.8   |
| P/E (x)                    | 19.8  | 43.2   | 23.2   | 21.7   | 19.6   |
| P/B (x)                    | 2.5   | 2.5    | 2.4    | 2.2    | 2.0    |
| Yield (%)                  | 0.8   | 1.1    | 1.3    | 1.4    | 1.5    |
| ROE (%)                    | 13.8  | 5.9    | 10.7   | 10.8   | 10.9   |

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** HK\$435.82

(Previous TP HK\$609.41)

**Up/Downside** 24.5%

**Current Price** HK\$350.00

### China Consumer Discretionary

#### Walter WOO

(852) 3761 8776

walterwoo@cmbi.com.hk

#### Raphael TSE

(852) 3900 0856

raphaeltse@cmbi.com.hk

### Stock Data

|                          |               |
|--------------------------|---------------|
| Mkt Cap (HK\$ mn)        | 146,650.0     |
| Avg 3 mths t/o (HK\$ mn) | 133.4         |
| 52w High/Low (HK\$)      | 505.00/350.00 |
| Total Issued Shares (mn) | 419.0         |

Source: FactSet

### Shareholding Structure

|                        |       |
|------------------------|-------|
| JPMorgan Chase & Co.   | 10.5% |
| Invesco Advisers, Inc. | 8.0%  |

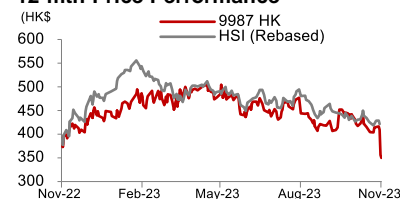
Source: HKEX

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -20.8%   | -18.1%   |
| 3-mth | -21.2%   | -10.7%   |
| 6-mth | -27.8%   | -16.4%   |

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Recent reports

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(15 Sep 23)

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(2 Aug 23)

## Earnings revision

Figure 1: Earnings revision

| US\$ mn                | New    |        |        | Old    |        |        | Diff (%) |         |         |
|------------------------|--------|--------|--------|--------|--------|--------|----------|---------|---------|
|                        | FY23E  | FY24E  | FY25E  | FY23E  | FY24E  | FY25E  | FY23E    | FY24E   | FY25E   |
| Revenue                | 10,855 | 11,694 | 12,968 | 11,262 | 12,979 | 15,085 | -3.6%    | -9.9%   | -14.0%  |
| Gross profit           | 7,681  | 8,313  | 9,234  | 7,959  | 9,203  | 10,705 | -3.5%    | -9.7%   | -13.7%  |
| Operating Profit       | 1,153  | 1,154  | 1,278  | 1,315  | 1,651  | 2,142  | -12.4%   | -30.1%  | -40.3%  |
| Net profit             | 803    | 881    | 976    | 909    | 1,232  | 1,590  | -11.7%   | -28.5%  | -38.6%  |
| EPS (US\$ cents)       | 1.946  | 2.084  | 2.308  | 2.203  | 2.913  | 3.760  | -11.7%   | -28.5%  | -38.6%  |
| Gross margin           | 70.8%  | 71.1%  | 71.2%  | 70.7%  | 70.9%  | 71.0%  | 0.1ppt   | 0.2ppt  | 0.2ppt  |
| EBIT margin            | 10.6%  | 9.9%   | 9.9%   | 11.7%  | 12.7%  | 14.2%  | -1.1ppt  | -2.9ppt | -4.3ppt |
| Net profit att. margin | 7.4%   | 7.5%   | 7.5%   | 8.1%   | 9.5%   | 10.5%  | -0.7ppt  | -2ppt   | -3ppt   |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| US\$ mn          | CMBIGM |        |        | Consensus |        |        | Diff (%) |         |         |
|------------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
|                  | FY23E  | FY24E  | FY25E  | FY23E     | FY24E  | FY25E  | FY23E    | FY24E   | FY25E   |
| Revenue          | 10,855 | 11,694 | 12,968 | 11,065    | 12,521 | 14,026 | -1.9%    | -6.6%   | -7.5%   |
| Gross profit     | 7,681  | 8,313  | 9,234  | 7,799     | 8,843  | 9,923  | -1.5%    | -6.0%   | -6.9%   |
| Operating Profit | 1,153  | 1,154  | 1,278  | 1,195     | 1,448  | 1,685  | -3.5%    | -20.3%  | -24.1%  |
| Net profit       | 803    | 881    | 976    | 873       | 1,049  | 1,222  | -8.0%    | -16.0%  | -20.1%  |
| EPS (US\$ cents) | 1.946  | 2.084  | 2.308  | 2.057     | 2.476  | 2.922  | -5.4%    | -15.8%  | -21.0%  |
| Gross Margin     | 70.8%  | 71.1%  | 71.2%  | 70.5%     | 70.6%  | 70.7%  | 0.3ppt   | 0.5ppt  | 0.5ppt  |
| Operating Margin | 10.6%  | 9.9%   | 9.9%   | 10.8%     | 11.6%  | 12.0%  | -0.2ppt  | -1.7ppt | -2.2ppt |
| Net Margin       | 7.4%   | 7.5%   | 7.5%   | 7.9%      | 8.4%   | 8.7%   | -0.5ppt  | -0.8ppt | -1.2ppt |

Source: Company data, CMBIGM estimates

## Assumptions

Figure 3: CMBIGM's assumptions

| Major assumptions                          | FY21A        | FY22A         | FY23E        | FY24E       | FY25E        |
|--|--------------|---------------|--------------|-------------|--------------|
| <b>Sales by segment (US\$ mn)</b>          |              |               |              |             |              |
| KFC - dine in sales                        | 4,818        | 4,457         | 5,174        | 5,580       | 6,336        |
| KFC - delivery sales                       | 2,185        | 2,762         | 3,022        | 3,186       | 3,295        |
| PH - dine in sales                         | 1,340        | 1,125         | 1,373        | 1,533       | 1,828        |
| PH- delivery sales                         | 769          | 835           | 869          | 955         | 1,032        |
| Others                                     | 741          | 390           | 418          | 440         | 477          |
| Total                                      | 9,853        | 9,569         | 10,855       | 11,694      | 12,968       |
| <b>Sales by segment growth (%)</b>         |              |               |              |             |              |
| KFC - dine in sales                        | 16.0%        | -7.5%         | 16.1%        | 7.9%        | 13.6%        |
| KFC - delivery sales                       | 34.7%        | 26.4%         | 9.4%         | 5.4%        | 3.4%         |
| PH - dine in sales                         | 17.0%        | -16.1%        | 22.0%        | 11.7%       | 19.3%        |
| PH- delivery sales                         | 19.8%        | 8.6%          | 4.0%         | 10.0%       | 8.0%         |
| Others                                     | 5.7%         | -47.4%        | 7.1%         | 5.4%        | 8.3%         |
| Total                                      | 19.2%        | -2.9%         | 13.4%        | 7.7%        | 10.9%        |
| <b>Sales network by brand</b>              |              |               |              |             |              |
| KFC  | 8,168        | 9,094         | 10,254       | 11,494      | 12,734       |
| Pizza Hut                                  | 2,590        | 2,903         | 3,323        | 3,963       | 4,603        |
| Others                                     | 1,030        | 950           | 990          | 1,040       | 1,120        |
| Total                                      | 11,788       | 12,947        | 14,567       | 16,497      | 18,457       |
| <b>Restaurant profit margin by brand</b>   |              |               |              |             |              |
| KFC  | 14.5%        | 15.5%         | 17.9%        | 16.4%       | 16.0%        |
| Pizza hut                                  | 10.6%        | 9.1%          | 12.3%        | 13.1%       | 13.9%        |
| Others                                     | -1.3%        | -4.6%         | -0.2%        | 0.4%        | 0.5%         |
| Total                                      | 13.7%        | 14.1%         | 16.8%        | 15.8%       | 15.6%        |
| <b>Costs breakdown</b>                     |              |               |              |             |              |
| Food and paper/ sales                      | 28.5%        | 29.6%         | 29.2%        | 28.9%       | 28.8%        |
| Payroll and employee benefits/ sales       | 22.9%        | 25.0%         | 25.0%        | 26.3%       | 26.7%        |
| Rental and other operating expenses/ sales | 27.0%        | 27.2%         | 25.2%        | 25.5%       | 25.5%        |
| G & A expenses/ sales                      | 5.7%         | 6.2%          | 6.0%         | 5.8%        | 5.6%         |
| Franchisees expenses/ sales                | 6.6%         | 2.9%          | 2.7%         | 2.5%        | 2.4%         |
| Effective tax rate                         | 26.5%        | 30.4%         | 30.0%        | 25.0%       | 25.0%        |
| <b>NP att. margin</b>                      | <b>10.0%</b> | <b>4.6%</b>   | <b>7.4%</b>  | <b>7.5%</b> | <b>7.5%</b>  |
| <b>NP att. growth (%)</b>                  | <b>26.3%</b> | <b>-55.4%</b> | <b>81.6%</b> | <b>9.8%</b> | <b>10.8%</b> |

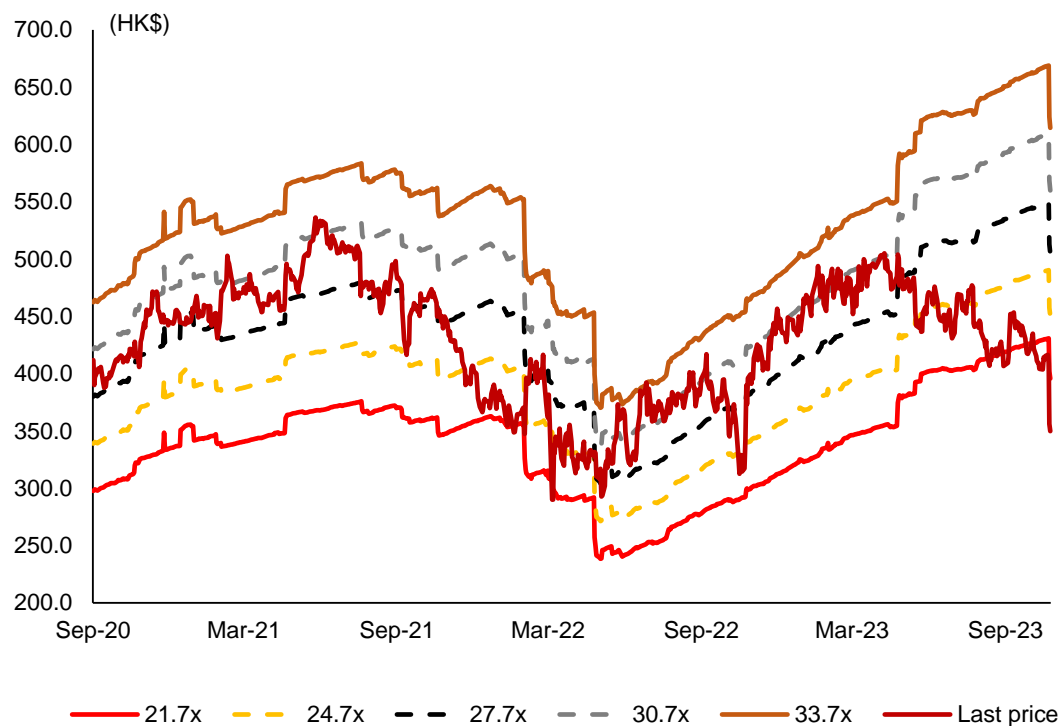
Source: Company data, CMBIGM estimates

## Valuation

Figure 4: Peers valuation table

|                                |         |        | 12m<br>TP | Price  | Up/<br>Down- | Mkt. Cap  | Year   | P/E (x) |       | P/B<br>(x) | ROE<br>(%) | 3yrs<br>PEG<br>(x) | Yield<br>(%) | YTD<br>perf. |
|--------------------------------|---------|--------|-----------|--------|--------------|-----------|--------|---------|-------|------------|------------|--------------------|--------------|--------------|
| Company                        | Ticker  | Rating | (LC)      | (LC)   | side         | (HK\$m)   | End    | FY1E    | FY2E  | FY2E       | FY0        | FY1E               | FY1E         | FY1E         |
| Leading Greater China Catering |         |        |           |        |              |           |        |         |       |            |            |                    |              |              |
| Yum China                      | 9987 HK | BUY    | 435.82    | 350.00 | 25%          | 145,250   | Dec-22 | 23.2    | 21.7  | 2.2        | 5.9        | 0.8                | 1.3          | (20.3)       |
| Jiumaojiu                      | 9922 HK | BUY    | 15.46     | 7.95   | 94%          | 11,563    | Dec-22 | 20.3    | 12.3  | 2.4        | 6.6        | 0.1                | 1.1          | (61.9)       |
| Haidilao                       | 6862 HK | BUY    | 24.76     | 16.86  | 47%          | 93,978    | Dec-22 | 19.4    | 16.8  | 5.6        | 46.0       | 0.3                | 1.4          | (24.7)       |
| Nayuki                         | 2150 HK | BUY    | 7.53      | 3.90   | 93%          | 6,689     | Dec-22 | 29.2    | 13.5  | 1.1        | (9.7)      | (0.1)              | 0.6          | (48.2)       |
| Helens                         | 9869 HK | NR     | n/a       | 5.70   | n/a          | 7,221     | Dec-22 | 21.1    | 16.6  | 2.8        | (68.1)     | (0.1)              | 1.1          | (60.9)       |
| Tam Jai                        | 2217 HK | NR     | n/a       | 1.34   | n/a          | 1,797     | Mar-23 | 12.2    | 8.4   | 1.1        | 9.1        | 0.5                | 2.5          | (49.0)       |
| Cafe De Coral                  | 341 HK  | BUY    | 12.32     | 10.20  | 21%          | 5,974     | Mar-23 | 18.1    | 13.3  | 1.9        | 3.9        | 0.3                | 5.7          | (31.5)       |
| Xiabuxiabu                     | 520 HK  | BUY    | 4.89      | 2.86   | 71%          | 3,106     | Dec-22 | 24.1    | 9.9   | 1.7        | (4.7)      | (0.1)              | 1.9          | (67.6)       |
| Yihai                          | 1579 HK | NR     | n/a       | 13.92  | n/a          | 14,431    | Dec-22 | 14.9    | 13.1  | 2.2        | 20.5       | 1.4                | 2.0          | (49.0)       |
| Gourmet Master                 | 2723 TT | NR     | n/a       | 101.00 | n/a          | 4,401     | Dec-22 | 17.9    | 14.4  | 1.4        | 7.6        | 0.4                | 4.5          | (33.3)       |
| Avg.                           |         |        |           |        |              |           |        | 20.0    | 14.0  | 2.2        | 1.7        | 0.3                | 2.2          | (44.7)       |
| Med.                           |         |        |           |        |              |           |        | 19.8    | 13.4  | 2.1        | 6.2        | 0.3                | 1.7          | (48.6)       |
| International Catering         |         |        |           |        |              |           |        |         |       |            |            |                    |              |              |
| Yum! Brands                    | YUM US  | NR     | n/a       | 121.30 | n/a          | 265,986   | Dec-22 | 22.9    | 20.8  | n/a        | n/a        | 1.8                | 2.0          | (5.3)        |
| Mcdonald's                     | MCD US  | NR     | n/a       | 261.97 | n/a          | 1,493,999 | Dec-22 | 22.3    | 21.0  | n/a        | n/a        | 1.3                | 2.4          | (0.6)        |
| Starbucks Corp                 | SBUX US | NR     | n/a       | 91.35  | n/a          | 818,800   | Oct-23 | 22.5    | 19.4  | n/a        | n/a        | 1.4                | 2.5          | (7.9)        |
| Rest' Brands                   | QSR US  | NR     | n/a       | 67.06  | n/a          | 242,769   | Dec-22 | 20.8    | 19.5  | 5.9        | 40.2       | 4.1                | 3.3          | 3.7          |
| Chipotle                       | CMG US  | NR     | n/a       | 1986.6 | n/a          | 426,667   | Dec-22 | 45.1    | 37.6  | 15.4       | 44.9       | 1.8                | 0.0          | 43.2         |
| Darden                         | DRI US  | NR     | n/a       | 145.66 | n/a          | 137,142   | May-23 | 16.6    | 15.0  | 7.3        | 46.7       | 1.7                | 3.6          | 5.3          |
| Domino's Pizza                 | DPZ US  | NR     | n/a       | 344.13 | n/a          | 93,934    | Jan-23 | 23.8    | 21.9  | n/a        | n/a        | 2.1                | 1.4          | (0.7)        |
| Wendy's Co                     | WEN US  | NR     | n/a       | 18.99  | n/a          | 30,651    | Jan-23 | 19.3    | 17.0  | 23.2       | 47.0       | 1.4                | 5.3          | (16.1)       |
| Shake Shack                    | SHAK US | NR     | n/a       | 57.27  | n/a          | 18,956    | Dec-22 | 217.8   | 142.8 | 5.2        | (1.8)      | (1.1)              | n/a          | 37.9         |
| Wingstop Inc                   | WING US | NR     | n/a       | 196.50 | n/a          | 45,232    | Dec-22 | 84.0    | 71.4  | n/a        | n/a        | 3.7                | 0.4          | 42.8         |
| Jollibee Foods                 | JFC PM  | NR     | n/a       | 205.00 | n/a          | 31,812    | Dec-22 | 27.8    | 24.3  | 2.8        | 9.3        | 1.7                | 1.5          | (10.9)       |
| Avg.                           |         |        |           |        |              |           |        | 47.5    | 37.3  | 10.0       | 31.0       | 1.8                | 2.2          | 8.3          |
| Med.                           |         |        |           |        |              |           |        | 22.9    | 21.0  | 6.6        | 42.6       | 1.7                | 2.2          | (0.6)        |
| H-share Consumer Staples       |         |        |           |        |              |           |        |         |       |            |            |                    |              |              |
| UPC                            | 220 HK  | NR     | n/a       | 5.35   | n/a          | 23,108    | Dec-22 | 14.3    | 12.3  | 1.6        | 11.8       | 0.9                | 7.8          | (31.5)       |
| Tingyi                         | 322 HK  | NR     | n/a       | 10.34  | n/a          | 58,259    | Dec-22 | 15.5    | 12.9  | 3.8        | 21.7       | 0.8                | 6.5          | (23.3)       |
| Want Want                      | 151 HK  | NR     | n/a       | 4.83   | n/a          | 57,308    | Mar-23 | 13.5    | 12.4  | 3.1        | 21.6       | 1.6                | 5.9          | (7.5)        |
| China Mengniu*                 | 2319 HK | BUY    | 36.50     | 25.70  | 42%          | 101,065   | Dec-22 | 16.0    | 13.8  | 1.9        | 11.3       | 1.5                | 1.9          | (26.3)       |
| Nongfu Spring*                 | 9633 HK | BUY    | 56.90     | 44.50  | 28%          | 500,468   | Dec-22 | 45.4    | 39.0  | 14.6       | 45.6       | 3.2                | 1.6          | 0.9          |
| Vitasoy                        | 345 HK  | NR     | n/a       | 9.60   | n/a          | 10,299    | Mar-23 | 56.5    | 27.7  | 3.0        | 1.5        | 0.5                | 1.1          | (40.2)       |
| Budweiser*                     | 1876 HK | HOLD   | 18.60     | 15.00  | 24%          | 198,651   | Dec-22 | 25.6    | 20.8  | 2.1        | 8.3        | 1.7                | 1.7          | (38.9)       |
| Tsingtao*                      | 168 HK  | BUY    | 88.90     | 57.30  | 55%          | 98,829    | Dec-22 | 16.7    | 14.3  | 2.4        | 16.0       | 1.4                | 3.2          | (25.1)       |
| CR Beer*                       | 291 HK  | BUY    | 73.10     | 40.70  | 80%          | 132,038   | Dec-22 | 23.0    | 18.9  | 3.5        | 17.9       | 1.3                | 1.7          | (25.4)       |
| Dali Foods                     | 3799 HK | NR     | n/a       | n/a    | n/a          | n/a       | Dec-22 | n/a     | n/a   | n/a        | 15.8       | n/a                | n/a          | n/a          |
| Avg.                           |         |        |           |        |              |           |        | 25.2    | 19.1  | 4.0        | 17.1       | 1.4                | 3.5          | (24.1)       |
| Med.                           |         |        |           |        |              |           |        | 16.7    | 14.3  | 3.0        | 15.9       | 1.4                | 1.9          | (25.4)       |

Source: Bloomberg, Company data, CMBIGM estimates, \*covered by Joseph Wong

**Figure 5: Forward 12M P/E valuation band**

Source: Bloomberg, CMBIGM estimates

## Financial Summary

| INCOME STATEMENT                           | 2020A   | 2021A   | 2022A   | 2023E   | 2024E   | 2025E   |
|--|---------|---------|---------|---------|---------|---------|
| YE 31 Dec (US\$ mn)                        |         |         |         |         |         |         |
| Revenue                                    | 8,263   | 9,853   | 9,569   | 10,855  | 11,694  | 12,968  |
| Cost of goods sold                         | (2,342) | (2,812) | (2,836) | (3,174) | (3,381) | (3,734) |
| Gross profit                               | 5,921   | 7,041   | 6,733   | 7,681   | 8,313   | 9,234   |
| Operating expenses                         | (5,245) | (6,298) | (6,010) | (6,550) | (7,194) | (7,995) |
| Selling expense                            | 0       | 0       | 0       | 0       | 0       | 0       |
| Admin expense                              | (591)   | (663)   | (704)   | (771)   | (807)   | (869)   |
| Staff costs                                | (1,730) | (2,258) | (2,389) | (2,712) | (3,070) | (3,461) |
| Other rental related expenses              | (814)   | (968)   | (957)   | (1,037) | (1,097) | (1,195) |
| Others                                     | (1,660) | (1,893) | (1,358) | (1,458) | (1,580) | (1,735) |
| Operating profit                           | 961     | 1,386   | 629     | 1,153   | 1,154   | 1,278   |
| Other income                               | 285     | 643     | (94)    | 22      | 35      | 39      |
| Share of (losses)/profits of associates/JV | 0       | 0       | 0       | 0       | 0       | 0       |
| EBITDA                                     | 1,411   | 1,902   | 1,231   | 1,725   | 1,794   | 2,013   |
| Depreciation                               | (431)   | (505)   | (582)   | (512)   | (583)   | (695)   |
| Other amortisation                         | (19)    | (11)    | (20)    | (60)    | (57)    | (40)    |
| Interest income                            | 43      | 60      | 84      | 111     | 137     | 152     |
| Interest expense                           | 0       | 0       | 0       | 0       | 0       | 0       |
| Net Interest income/(expense)              | 43      | 60      | 84      | 111     | 137     | 152     |
| Other income/expense                       | 104     | (54)    | (26)    | (29)    | (32)    | (35)    |
| Pre-tax profit                             | 1,108   | 1,392   | 687     | 1,235   | 1,259   | 1,395   |
| Income tax                                 | (295)   | (369)   | (209)   | (370)   | (315)   | (349)   |
| After tax profit                           | 813     | 1,023   | 478     | 864     | 944     | 1,046   |
| Minority interest                          | (29)    | (33)    | (36)    | (62)    | (63)    | (70)    |
| Net profit                                 | 784     | 990     | 442     | 803     | 881     | 976     |

| BALANCE SHEET                 | 2020A  | 2021A  | 2022A  | 2023E  | 2024E  | 2025E  |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (US\$ mn)           |        |        |        |        |        |        |
| Current assets                | 4,936  | 4,716  | 3,940  | 5,177  | 5,799  | 6,330  |
| Cash & equivalents            | 1,158  | 1,136  | 1,130  | 2,258  | 2,816  | 3,244  |
| Restricted cash               | 3,105  | 2,860  | 2,022  | 2,022  | 2,022  | 2,022  |
| Account receivables           | 99     | 67     | 64     | 74     | 80     | 89     |
| Inventories                   | 398    | 432    | 417    | 475    | 506    | 559    |
| Prepayment                    | 176    | 221    | 307    | 348    | 375    | 416    |
| Other current assets          | 0      | 0      | 0      | 0      | 0      | 0      |
| Non-current assets            | 5,939  | 8,507  | 7,886  | 7,486  | 7,680  | 8,113  |
| PP&E                          | 1,765  | 2,251  | 2,118  | 2,311  | 2,781  | 3,253  |
| Right-of-use assets           | 2,164  | 2,612  | 2,219  | 2,219  | 2,219  | 2,219  |
| Investment in JVs & assos     | 85     | 292    | 266    | 266    | 266    | 266    |
| Intangibles                   | 246    | 272    | 159    | 99     | 42     | 2      |
| Goodwill                      | 832    | 2,142  | 1,988  | 1,455  | 1,237  | 1,237  |
| Other non-current assets      | 847    | 938    | 1,136  | 1,136  | 1,136  | 1,136  |
| Total assets                  | 10,875 | 13,223 | 11,826 | 12,663 | 13,480 | 14,443 |
| Current liabilities           | 2,067  | 2,383  | 2,166  | 2,341  | 2,452  | 2,630  |
| Short-term borrowings         | 0      | 0      | 0      | 0      | 0      | 0      |
| Account payables              | 708    | 830    | 830    | 929    | 989    | 1,093  |
| Tax payable                   | 72     | 51     | 68     | 68     | 68     | 68     |
| Other current liabilities     | 1,287  | 1,502  | 1,268  | 1,344  | 1,394  | 1,470  |
| Non-current liabilities       | 2,337  | 2,918  | 2,500  | 2,500  | 2,500  | 2,500  |
| Long-term borrowings          | 0      | 0      | 0      | 0      | 0      | 0      |
| Other non-current liabilities | 2,337  | 2,918  | 2,500  | 2,500  | 2,500  | 2,500  |
| Total liabilities             | 4,404  | 5,301  | 4,666  | 4,841  | 4,952  | 5,130  |
| Share capital                 | 4,829  | 4,967  | 4,291  | 4,291  | 4,291  | 4,291  |
| Retained earnings             | 2,105  | 2,892  | 2,191  | 2,553  | 3,173  | 3,859  |
| Other reserves                | (463)  | 63     | 678    | 978    | 1,065  | 1,163  |
| Total shareholders equity     | 6,471  | 7,922  | 7,160  | 7,822  | 8,528  | 9,312  |
| Minority interest             | 0      | 0      | 0      | 0      | 0      | 0      |
| Total equity and liabilities  | 10,875 | 13,223 | 11,826 | 12,663 | 13,480 | 14,443 |

| <b>CASH FLOW</b>                         | <b>2020A</b>   | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024E</b>   | <b>2025E</b>   |
|--|----------------|--------------|--------------|--------------|----------------|----------------|
| <b>YE 31 Dec (US\$ mn)</b>               |                |              |              |              |                |                |
| <b>Operating</b>                         |                |              |              |              |                |                |
| Profit before taxation                   | 1,108          | 1,392        | 687          | 1,235        | 1,259          | 1,395          |
| Depreciation & amortization              | 450            | 516          | 602          | 572          | 640            | 735            |
| Tax paid                                 | 111            | 160          | (20)         | (370)        | (315)          | (349)          |
| Change in working capital                | 69             | 53           | 0            | 66           | 47             | 77             |
| Others                                   | (624)          | (990)        | 144          | 533          | 218            | 0              |
| <b>Net cash from operations</b>          | <b>1,114</b>   | <b>1,131</b> | <b>1,413</b> | <b>2,035</b> | <b>1,849</b>   | <b>1,857</b>   |
| <b>Investing</b>                         |                |              |              |              |                |                |
| Capital expenditure                      | (419)          | (689)        | (679)        | (706)        | (1,052)        | (1,167)        |
| Acquisition of subsidiaries/ investments | (288)          | (115)        | (23)         | 0            | 0              | 0              |
| Others                                   | (2,402)        | (51)         | 180          | 0            | 0              | 0              |
| <b>Net cash from investing</b>           | <b>(3,109)</b> | <b>(855)</b> | <b>(522)</b> | <b>(706)</b> | <b>(1,052)</b> | <b>(1,167)</b> |
| <b>Financing</b>                         |                |              |              |              |                |                |
| Dividend paid                            | (95)           | (203)        | (202)        | (202)        | (238)          | (262)          |
| Net borrowings                           | 0              | 0            | 0            | 0            | 0              | 0              |
| Proceeds from share issues               | 2,195          | 0            | 0            | 0            | 0              | 0              |
| Share repurchases                        | (8)            | (75)         | (466)        | 0            | 0              | 0              |
| Others                                   | (34)           | (35)         | (176)        | 0            | 0              | 0              |
| <b>Net cash from financing</b>           | <b>2,058</b>   | <b>(313)</b> | <b>(844)</b> | <b>(202)</b> | <b>(238)</b>   | <b>(262)</b>   |
| <b>Net change in cash</b>                |                |              |              |              |                |                |
| Cash at the beginning of the year        | 1,046          | 1,158        | 1,136        | 1,130        | 2,258          | 2,816          |
| Exchange difference                      | 40             | 15           | (53)         | 0            | 0              | 0              |
| Others                                   | 72             | (37)         | 47           | 1,128        | 559            | 428            |
| <b>Cash at the end of the year</b>       | <b>1,158</b>   | <b>1,136</b> | <b>1,130</b> | <b>2,258</b> | <b>2,816</b>   | <b>3,244</b>   |
| <b>GROWTH</b>                            | <b>2020A</b>   | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024E</b>   | <b>2025E</b>   |
| <b>YE 31 Dec</b>                         |                |              |              |              |                |                |
| Revenue                                  | (5.8%)         | 19.2%        | (2.9%)       | 13.4%        | 7.7%           | 10.9%          |
| Gross profit                             | (6.0%)         | 18.9%        | (4.4%)       | 14.1%        | 8.2%           | 11.1%          |
| Operating profit                         | 6.7%           | 44.2%        | (54.6%)      | 83.3%        | 0.1%           | 10.8%          |
| EBITDA                                   | 6.2%           | 34.8%        | (35.3%)      | 40.1%        | 4.0%           | 12.2%          |
| Net profit                               | 10.0%          | 26.3%        | (55.4%)      | 81.6%        | 9.8%           | 10.8%          |
| <b>PROFITABILITY</b>                     | <b>2020A</b>   | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024E</b>   | <b>2025E</b>   |
| <b>YE 31 Dec</b>                         |                |              |              |              |                |                |
| Gross profit margin                      | 71.7%          | 71.5%        | 70.4%        | 70.8%        | 71.1%          | 71.2%          |
| Operating margin                         | 11.6%          | 14.1%        | 6.6%         | 10.6%        | 9.9%           | 9.9%           |
| EBITDA margin                            | 17.1%          | 19.3%        | 12.9%        | 15.9%        | 15.3%          | 15.5%          |
| Return on equity (ROE)                   | 16.3%          | 13.8%        | 5.9%         | 10.7%        | 10.8%          | 10.9%          |
| <b>GEARING/LIQUIDITY/ACTIVITIES</b>      | <b>2020A</b>   | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024E</b>   | <b>2025E</b>   |
| <b>YE 31 Dec</b>                         |                |              |              |              |                |                |
| Current ratio (x)                        | 2.4            | 2.0          | 1.8          | 2.2          | 2.4            | 2.4            |
| Receivable turnover days                 | 4.1            | 3.1          | 2.5          | 2.5          | 2.5            | 2.5            |
| Inventory turnover days                  | 60.6           | 53.9         | 54.6         | 54.6         | 54.6           | 54.6           |
| Payable turnover days                    | 103.7          | 99.8         | 106.8        | 106.8        | 106.8          | 106.8          |
| <b>VALUATION</b>                         | <b>2020A</b>   | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024E</b>   | <b>2025E</b>   |
| <b>YE 31 Dec</b>                         |                |              |              |              |                |                |
| P/E                                      | 23.2           | 19.8         | 43.2         | 23.2         | 21.7           | 19.6           |
| P/E (diluted)                            | 23.2           | 19.8         | 43.2         | 23.2         | 21.7           | 19.6           |
| P/B                                      | 2.8            | 2.5          | 2.5          | 2.4          | 2.2            | 2.0            |
| P/CFPS                                   | 20.0           | 23.0         | 14.2         | 9.1          | 10.2           | 10.2           |
| Div yield (%)                            | 0.4            | 0.8          | 1.1          | 1.3          | 1.4            | 1.5            |

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



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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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