

Want Want (151 HK)

GPM to stabilize in 2HFY21E

1HFY21 NP/revenue +21%/+11%, both are 2% above consensus. 2QFY21 revenue growth was unexpectedly better than 1QFY21 partly thanks to good reception of new products, showing emerging channels could help the launch of new products. Management expects 2HFY21E GPM would not be lower than 1HFY21 as milk powder price softened. This should ease market concern on 2HFY21E GPM outlook. The stock trades at 14.6x FY21E P/E (at low-end of 13-24x P/E range beginning from FY16). Its 1.5x FY22E PEG is lower than Dali's 2.0x PEG. We think its valuation is undemanding. Maintain BUY.

- **Revenue +11%, 2% above consensus/our est.** 2QFY21 revenue growth was surprisingly better than 1QFY21, despite channel restocking in Apr & May. Management attributed good 2QFY21 to three reasons: (1) good reception of new products like lactobacillus beverage, beans and QQ candies; (2) canned milk sales improved led by recovery of food service channel; and (3) family-size snacks were well received by consumers post epidemic.
- **GPM to stabilize in 2HFY21E.** GPM fell 0.7ppt to 48.2% in 1HFY21 on rising milk powder and sugar prices. Given the retreat of milk powder and sugar prices and increasing sales mix from emerging channels (where mainly sells high-margin new products), management expects 2HFY21E GPM would be not less than that in 1HFY21.
- **Emerging channels to learn consumer behaviour.** These channels saw rapid sales growth in 1HFY21 and contributed mid-to-high single-digit sales mix. The B2C nature can help the Company better understand consumer behavior and improve accuracy ratio of launching new products (positive result was seen in 1HFY21). Though profit margin of emerging channels now is lower than traditional channel, we think emerging channels could accelerate revenue growth and improve GPM in long term by successfully growing high-margin new products.
- **Lift FY21-23E NP by 1-2%.** Our earnings revision is mainly due to better-than-expected sales. Looking into 2HFY21E, we forecast revenue to increase by 11% and NP to grow by 10%. NPM will slightly drop by 0.2ppt because the 1.3ppt increase of SG&A expenses ratio (certain A&P spending is delayed from 1HFY21 to 2HFY21E) is more than offset the 0.9ppt expansion of GPM to 48.2%.
- **Maintain Buy but trimmed TP to HK\$7.36.** Our TP was lowered from HK\$7.80 to HK\$7.36, based on 19.0x FY21E P/E (vs 21.2x previously). The stock has de-rated since its removal from HSI constituent stock was announced on 14 Aug. **Catalysts:** (1) better-than-expected revenue/margins; (2) share purchase by company or major shareholders. **Risks:** (1) keen competition; (2) food safety issues; (3) unfavorable raw materials prices.

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	20,712	20,095	22,261	23,058	24,239
Net profit (RMB mn)	3,477	3,649	4,190	4,385	4,721
EPS (RMB)	0.279	0.294	0.343	0.359	0.386
YoY growth (%)	12.0	5.2	17	5	8
Consensus EPS (RMB)	na	na	0.320	0.336	0.354
P/E (x)	17.4	17.2	14.6	14.0	13.0
P/B (x)	3.9	4.1	4.0	3.8	3.5
Yield (%)	4.7	5.7	5.5	5.7	6.0
ROAE (%)	23.3	23.8	27.6	28.0	28.2
Net cash (RMB mn)	7,643	8,376	8,704	10,237	11,912

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.36
(Previous TP	HK\$7.80)
Up/Downside	+30%
Current Price	HK\$5.67

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	69,330
Avg 3 mths t/o (HK\$ mn)	117.02
52w High/Low (HK\$)	7.34/ 4.66
Total Issued Shares (mn)	12,227.6

Source: Bloomberg

Shareholding Structure

Tsai Eng-Meng	51.69%
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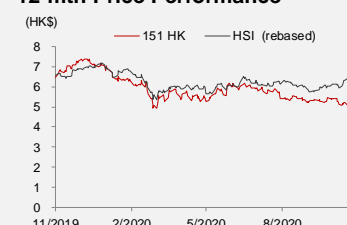
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.7%	-8.8%
3-mth	-5.4%	-9.6%
6-mth	-0.2%	-10.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Want Want – Double-digit revenue growth in Apr and May" – 17 Jun 2020
2. "Want Want – COVID-19 impact could be priced in" – 11 Mar 2020
3. "Want Want – 1HFY20 results beat on strong GPM" – 20 Nov 2019
4. "Want Want – Attractive valuation and dividend yield" – 19 Jun 2019
5. "Want Want – Various initiatives to drive sales growth; low valuation unjustified" – 8 Jan 2019

Figure 1: 1HFY21 results review

Y/E Mar (RMB mn)	1HFY21	1HFY20	% change	Remarks
Revenue	10,299	9,304	11%	Rice crackers/dairy & beverage/snack foods +9%/7%/18%
Cost of sales	(5,336)	(4,754)	12%	
Gross profit	4,964	4,550	9%	milk powder/sugar prices rose mid single-digit/double-digit
Other income	161	158	2%	
Other gain/(losses)	(36)	2	-2120%	increase of donation exp and forex loss
Selling and distribution expenses	(1,250)	(1,370)	-9%	A&P exp ratio fell 1ppt to 2.3%, staff exp ratio fell 1.4ppt to 4.5% on reduced headcount and social security exp
Administrative expenses	(1,304)	(1,286)	1%	
Operating profit	2,535	2,054	23%	
Finance income	270	296	-9%	
Finance costs	(100)	(158)	-37%	
Share of profit from associate	(1)	(2)	-41%	
Profit before tax	2,704	2,189	23%	
Tax expense	(757)	(585)	30%	
Profit after tax	1,947	1,605	21%	
Non-controlling interests	6	10	-43%	
Net profit	1,952	1,615	21%	
EPS (RMB)	0.16	0.13	21%	
DPS (US\$)	0.007	0.006	2%	
Margin & Ratio (%)				
Gross profit margin	48.2	48.9	(0.7)	GPM of dairy & beverage/snacks fell 2.3/0.5ppt to 48.7%/48.2%, GPM of rice crackers widened 3.2ppt to 46.3%
Operating profit margin	24.6	22.1	2.5	
SG&A expenses ratio	24.8	28.5	(3.7)	
A&P expenses ratio	2.3	3.3	(1.0)	
Net profit margin	19.0	17.4	1.6	
Effective tax rate	(28.0)	(26.7)	(1.3)	
	1HFY21	1HFY20	change	
Inventory days	90	94	(4)	
A/C receivables days	17	19	(2)	
A/C payable days	37	43	(6)	
	1HFY21	1HFY20	change	
Net cash/(debt) (Rmb mn)	7,121	6,301	13%	

Source: Company data

Figure 2: Earnings revision

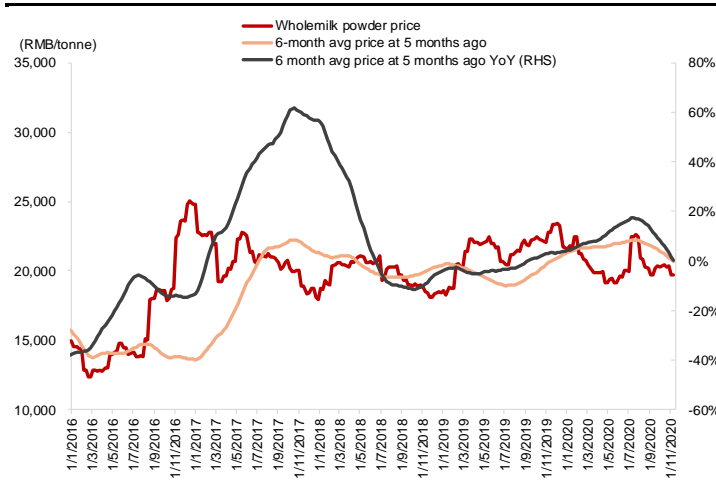
US\$ mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,261	23,058	24,239	21,845	22,615	23,640	2%	2%	3%
Gross Profit	10,730	11,229	11,925	10,638	11,149	11,796	1%	1%	1%
Operating Profit	5,517	5,750	6,168	5,362	5,659	6,076	3%	2%	2%
Net profit	4,190	4,385	4,721	4,092	4,357	4,697	2%	1%	1%
Gross Margin	48.2%	48.7%	49.2%	48.7%	49.3%	49.9%	-0.5ppt	-0.6ppt	-0.7ppt
Operating Margin	24.8%	24.9%	25.4%	24.5%	25.0%	25.7%	+0.3ppt	-0.1ppt	-0.3ppt
Net Margin	18.8%	19.0%	19.5%	18.7%	19.3%	19.9%	+0.1ppt	-0.3ppt	-0.4ppt

Source: Company data, CMBIS estimates

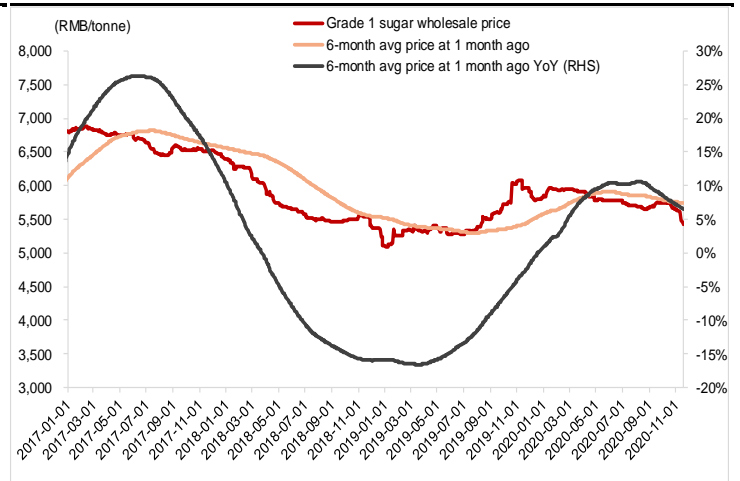
Figure 3: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,261	23,058	24,239	21,348	22,143	22,923	4%	4%	6%
Gross Profit	10,730	11,229	11,925	10,290	10,709	11,109	4%	5%	7%
Operating Profit	5,517	5,750	6,168	5,130	5,390	5,591	8%	7%	10%
Net profit	4,190	4,385	4,721	3,958	4,148	4,335	6%	6%	9%
Gross Margin	48.2%	48.7%	49.2%	48.2%	48.4%	48.5%	flat	+0.3ppt	+0.7ppt
Operating Margin	24.8%	24.9%	25.4%	24.0%	24.3%	24.4%	+0.8ppt	+0.6ppt	+1.0ppt
Net Margin	18.8%	19.0%	19.5%	18.5%	18.7%	18.9%	+0.3ppt	+0.3ppt	+0.6ppt

Source: Bloomberg, CMBIS estimates

Figure 4: New Zealand GDT whole milk powder cost will drop in 2HFY21E


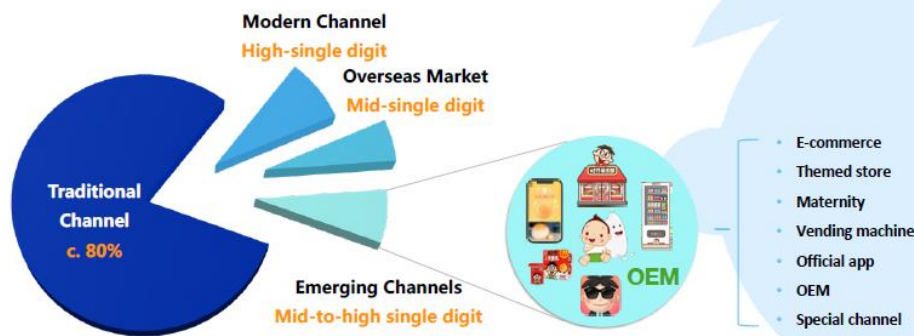
Source: Bloomberg, CMBIS estimates

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


Source: Wind, CMBIS estimates

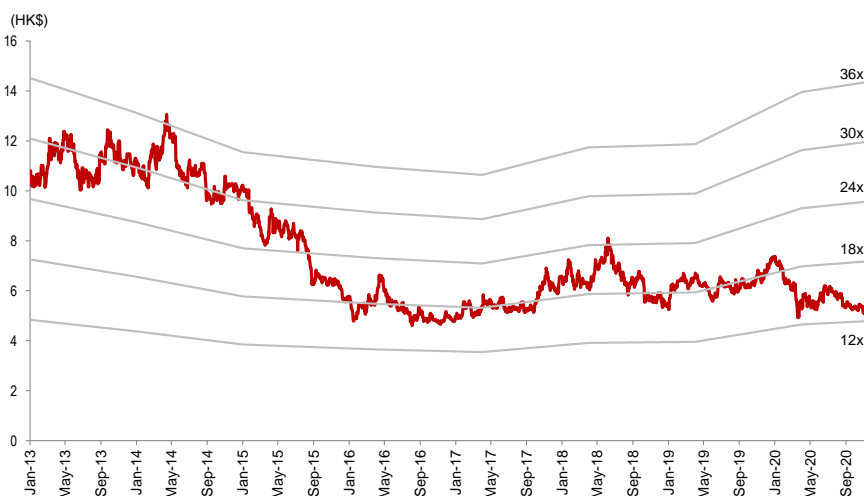
Figure 6: Emerging channels saw rapid growth in 1HFY21

Emerging channels and overseas market
continue to serve as important growth drivers



1H 2020FY revenue contribution by channel

Source: Company

Figure 7: P/E band


Source: Bloomberg, Company data, CMBIS estimates

Figure 8: Share buyback record of the Company in 2020

Date	Number of shares	Avg price (HK\$)	total paid
16-Oct-20	1,160,000	5.44	6,308,000
15-Oct-20	3,113,000	5.28	16,433,890
14-Oct-20	1,750,000	5.25	9,195,800
12-Oct-20	7,000,000	5.23	36,604,000
09-Oct-20	5,371,000	5.23	28,088,030
08-Oct-20	9,242,000	5.21	48,159,780
07-Oct-20	7,000,000	5.28	36,984,890
06-Oct-20	7,705,000	5.31	40,916,560
05-Oct-20	4,382,000	5.34	23,412,060
28-Sep-20	1,381,000	5.31	7,338,830
25-Sep-20	5,945,000	5.30	31,500,630
24-Sep-20	4,361,000	5.24	22,868,040
21-Sep-20	10,000,000	5.23	52,263,320
17-Sep-20	9,022,000	5.34	48,170,500
16-Sep-20	10,000,000	5.39	53,854,460
10-Sep-20	12,000,000	5.42	65,050,480
09-Sep-20	9,693,000	5.44	52,747,300
07-Sep-20	6,322,000	5.51	34,832,323
04-Sep-20	2,841,000	5.48	15,566,407
03-Sep-20	11,000,000	5.40	59,454,570
02-Sep-20	4,349,000	5.39	23,420,530
01-Sep-20	12,810,000	4.09	52,410,580
31-Aug-20	9,700,000	5.40	52,410,580
28-Aug-20	3,349,000	5.33	17,851,730
27-Aug-20	14,000,000	5.34	74,737,240
26-Aug-20	5,117,000	5.41	27,700,360
25-Aug-20	3,982,000	5.41	21,534,820
20-Aug-20	5,000,000	5.37	26,834,450
Total	187,595,000		

Source: HKEX, CMBIS

Figure 9: Share purchase record by Directors in 2020

Date	Number of shares	Avg price (HK\$)	Purchaser
27-Aug-20	300,000	5.34	Maki Haruo
21-Aug-20	500,000	5.56	Tsai Shao-Chung
05-Aug-20	396,000	5.87	Tsai Shao-Chung
05-Aug-20	396,000	5.87	Tsai Shao-Chung
22-Jul-20	4,268,000	5.95	Tsai Eng-Meng
03-Jul-20	233,000	5.92	Tsai Eng-Meng
02-Jul-20	7,231,000	5.91	Tsai Eng-Meng
29-Jun-20	4,300,000	5.96	Tsai Eng-Meng
26-Jun-20	962,000	6.01	Tsai Eng-Meng
19-Jun-20	6,000	6.08	Tsai Eng-Meng
17-Jun-20	600,000	6.08	Tsai Eng-Meng
17-Jun-20	632,000	6.20	Tsai Shao-Chung
03-Feb-20	356,000	6.44	Tsai Shao-Chung
Total	20,180,000		

Source: HKEX, CMBIS

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	20,712	20,095	22,261	23,058	24,239
Rice crackers	5,813	5,611	5,985	6,175	6,492
Dairy and beverages	9,730	9,813	10,654	10,988	11,449
Snacks	5,101	4,634	5,575	5,848	6,252
Others	68	36	46	46	46
Cost of sales	(11,312)	(10,439)	(11,531)	(11,829)	(12,313)
Gross profit	9,400	9,655	10,730	11,229	11,925
Other income	459	419	434	457	490
Other gains/(losses)	50	9	(29)	(19)	(19)
Selling expenses	(2,985)	(2,791)	(2,983)	(3,124)	(3,296)
Administrative expenses	(2,338)	(2,485)	(2,635)	(2,793)	(2,932)
Operating profit	4,586	4,806	5,517	5,750	6,168
Net finance income	225	246	283	320	368
Share of profit of associate	(5)	(3)	(3)	(3)	(3)
Profit before tax	4,806	5,049	5,797	6,067	6,532
Income tax	(1,344)	(1,413)	(1,624)	(1,699)	(1,830)
Non-controlling interests	14	13	17	18	19
Net profit	3,477	3,649	4,190	4,385	4,721

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Profit before tax	4,806	5,049	5,797	6,067	6,532
Depreciation and amortization	854	906	897	893	889
Change in working capital	(53)	630	(27)	49	37
Others	(1,254)	(1,739)	(1,621)	(1,696)	(1,827)
Net cash from operating	4,353	4,845	5,047	5,312	5,631
Capex	(355)	(291)	(400)	(400)	(400)
Change of financial inv.	482	0	0	0	0
Others	251	(1)	0	0	0
Net cash from investing	379	(292)	(400)	(400)	(400)
Change of borrowings	2,112	(1,095)	0	0	0
Share repurchase	(49)	(185)	0	0	0
Dividend paid	(2,297)	(3,101)	(3,634)	(3,312)	(3,534)
Others	(10)	(110)	0	0	0
Net cash from financing	(244)	(4,490)	(3,634)	(3,312)	(3,534)
Net change in cash	4,488	63	905	1,539	1,639
Cash at the beginning of the year	12,500	17,160	17,257	18,162	19,701
Exchange difference	146	33	0	0	0
Cash at the end of the year	17,134	17,257	18,162	19,701	21,340

Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	8,642	8,219	7,718	7,223	6,731
PPE	7,324	6,771	6,366	5,961	5,556
Prepaid lease payments	940	1,062	972	887	806
Others	352	386	380	375	369
Current assets	21,195	21,606	22,394	24,069	25,965
Cash	17,134	17,257	17,585	19,118	20,793
Inventories	2,384	2,746	3,033	3,112	3,239
Account receivable	1,035	847	938	972	1,021
Prepayments	641	756	838	868	912
Others	0	0	0	0	0
Current liabilities	6,295	5,822	6,255	6,446	6,705
Trade payables	1,035	1,093	1,207	1,239	1,289
Other payables	3,175	3,956	4,275	4,435	4,643
Bank borrowings	1,744	587	587	587	587
Others	341	186	186	186	186
Non-current liabilities	8,113	8,649	8,649	8,649	8,649
Bank borrowings	7,770	8,294	8,294	8,294	8,294
Others	75	141	141	141	141
Deferred tax liabilities	268	214	214	214	214
Minority Interest	98	82	65	47	28
Total net assets	15,428	15,354	15,208	16,196	17,342
Shareholders' equity	15,331	15,273	15,144	16,149	17,314

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Rice crackers	28.1	27.9	26.9	26.8	26.8
Dairy and beverages	47.0	48.8	47.9	47.7	47.2
Snacks	24.6	23.1	25.0	25.4	25.8
Others	0.3	0.2	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	45.4	48.0	48.2	48.7	49.2
Operating profit margin	22.1	23.9	24.8	24.9	25.4
Effective tax rate	16.8	18.2	18.8	19.0	19.5
Net profit margin	28.0	28.0	28.0	28.0	28.0
Payout ratio	82.2	98.7	80.0	80.0	80.0
Balance sheet ratios					
Current ratio (x)	3.4	3.7	3.6	3.7	3.9
Asset turnover (x)	0.7	0.7	0.7	0.7	0.7
Net cash (RMB mn)	7,620	8,376	8,704	10,237	11,912
Returns (%)					
ROAE	23.3	23.8	27.6	28.0	28.2
ROAA	12.3	12.2	13.9	14.2	14.7
Per share					
EPS (RMB)	0.28	0.29	0.34	0.36	0.39
DPS (US\$)	0.034	0.042	0.040	0.042	0.044
BVPS (RMB)	1.23	1.23	1.24	1.32	1.42

Source: Company data, CMBIS estimates

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