

# Shenzhen Pagoda (2411 HK)

## An ensuring 2022; and we remain positive for 2023

- **An in-line 2022.** Pagoda's 2022 net profits came in in-line with us. Since this is the first result reporting after IPO in Jan this year, we think the event could provide incremental confidence to investors about Pagoda's business stability, and corporate governance going forward.
- **2023 outlook.** Management remained positive for 2023 during analyst briefing and maintained its guidance for the year. We project Pagoda to deliver a 12.1% 3-year revenue CAGR, outgrowing 7.8% of the industry, per Frost & Sullivan. In our view, an accelerating Excellent-grade sales mix, from 9.2% in 2019 to 19.6% in 2024E, drives the outperformance. Alternatively, we envisage the growth will be underpinned by a c.600 store addition per annum along with 7%/9% same-store-sales growth for 2023/24E. Both should aid GPM to expand from 11.6% in 2022 to 12.7% in 2024E.
- **A c.40% dividend payout.** Relative to Hongjiu, Pagoda enjoys a shorter cash conversion cycle. Given capex has already peaked-out, the ample cash stream, in our view, should continue to sustain a c.40% dividend payout to shareholders.
- **Earnings change.** Given an in-line result, we largely maintain our 2023-24E forecasts despite any housekeeping changes from the actual 2022 results announcement.
- **Valuation.** Our TP is based on an unchanged 23.0x end-23E P/E which still benchmarks to the average valuation of its domestic and global peers. In our view, our methodology is more appropriate to reflect 1) Pagoda's fair value given a short listing history since IPO in Jan 2023, and 2) the financial comparability of each peer group.

### Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,854	10,289	11,312	12,890	14,482
YoY growth (%)	(1.4)	16.2	9.9	13.9	12.4
Net income (RMB mn)	49	235	323	434	575
EPS (RMB)	0.2	0.2	0.2	0.3	0.4
YoY growth (%)	-	(5.8)	37.7	34.1	32.7
P/E (x)	n.a	n.a	24.7	18.4	13.9
P/B (x)	n.a	n.a	2.6	2.4	2.2
Yield (%)	n.a	n.a	1.1	1.5	2.0
ROE (%)	2.0	8.9	10.9	13.4	15.8
Net gearing (%)	19.3	33.6	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$7.7
(Previous TP)	HK\$7.9
Up/Downside	26.2%
Current Price	HK\$6.1

### China Consumer – Food and Beverages

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### Stock Data

Mkt Cap (HK\$ mn)	9,690
Avg 3 mths t/o (HK\$ mn)	n.a
52w High/Low (HK\$)	7.1/5.5
Total Issued Shares (mn)	1,183

Source: BBG

### Shareholding Structure

Wang Yonghua	14.93%
CICC	13.26%
Hong Yuan Shang Go	10.97%

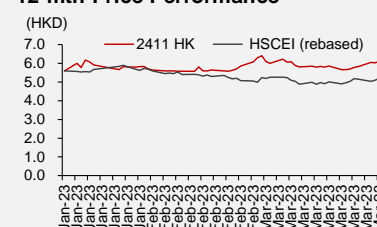
Source: BBG

### Share Performance

	Absolute	Relative
1-mth	-3.2%	-7.5%
3-mth	n.a	n.a
6-mth	n.a	n.a

Source: BBG

### 12-mth Price Performance



Source: BBG

### Related Reports

1. [CR Beer \(291 HK\) – An in-line 2H22: our top pick among China F&B names](#) – 27 Mar 2023
2. [Hongjiu Fruits \(6689 HK\) – A solid and robust 2022: all eyes on the upcoming OCF turnaround](#) – 22 Mar 2023

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	11,312	12,890	14,482	11,176	12,752	14,308	1.2%	1.1%	1.2%
Gross Profit	1,314	1,582	1,846	1,328	1,586	1,848	-1.1%	-0.2%	-0.1%
EBIT	385	530	686	385	541	698	0.0%	-2.2%	-1.7%
Net profit	323	434	575	318	447	586	1.7%	-3.1%	-1.8%
Gross Margin	11.6%	12.3%	12.7%	11.9%	12.4%	12.9%	-0.3ppt	-0.2ppt	-0.2ppt
EBIT Margin	3.4%	4.1%	4.7%	3.4%	4.2%	4.9%	0ppt	-0.1ppt	-0.1ppt
Net Margin	2.9%	3.4%	4.0%	2.8%	3.5%	4.1%	0ppt	-0.1ppt	-0.1ppt

Source: CMBIGM estimates

## Financials

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>8,854</b>	<b>10,289</b>	<b>11,312</b>	<b>12,890</b>	<b>14,482</b>
Sales of fruits/ other	8,637	9,992	10,982	12,492	14,022
Others	217	298	330	398	460
<b>Gross profits</b>	<b>807</b>	<b>1,156</b>	<b>1,314</b>	<b>1,582</b>	<b>1,846</b>
Selling expense	(395)	(452)	(499)	(580)	(666)
Administration expenses	(216)	(303)	(322)	(342)	(362)
R&D expense	(106)	(140)	(173)	(206)	(217)
Other expense, net	57	37	64	75	85
<b>EBIT</b>	<b>148</b>	<b>300</b>	<b>385</b>	<b>530</b>	<b>686</b>
Finance costs, net	(40)	(54)	(52)	(41)	(29)
Non-operating	(36)	16	13	13	13
<b>Pre-tax profit</b>	<b>72</b>	<b>262</b>	<b>346</b>	<b>502</b>	<b>670</b>
Income tax	(26)	(36)	(40)	(71)	(98)
Less: Minority interests	3	9	17	3	3
<b>Net profit</b>	<b>49</b>	<b>235</b>	<b>323</b>	<b>434</b>	<b>575</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profits before tax</b>	<b>72</b>	<b>262</b>	<b>346</b>	<b>502</b>	<b>670</b>
D&A	47	55	61	61	79
Change in working capital	197	104	260	(162)	(172)
Others	(18)	(134)	14	(31)	(69)
<b>Net cash fr. operating act.</b>	<b>298</b>	<b>286</b>	<b>681</b>	<b>371</b>	<b>509</b>
Capex & investments	(158)	(44)	(55)	(55)	(55)
Others	(220)	(534)	(50)	(50)	(50)
<b>Net cash fr. investing act.</b>	<b>(378)</b>	<b>(578)</b>	<b>(105)</b>	<b>(105)</b>	<b>(105)</b>
Change of Debts	308	523	(100)	(100)	(100)
Dividend paid	-	-	(60)	(141)	(188)
Others	(90)	(121)	485	(41)	(29)
<b>Net cash fr. financing act.</b>	<b>217</b>	<b>402</b>	<b>325</b>	<b>(282)</b>	<b>(318)</b>
<b>Net change in cash</b>	<b>137</b>	<b>110</b>	<b>901</b>	<b>(16)</b>	<b>86</b>
Cash at the beginning of the	317	455	565	1,466	1,450
<b>Cash at the end of the year</b>	<b>455</b>	<b>565</b>	<b>1,466</b>	<b>1,450</b>	<b>1,536</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>1,750</b>	<b>2,015</b>	<b>2,080</b>	<b>2,074</b>	<b>2,050</b>
PP&E/Fixed assets	247	308	450	466	454
Intangible assets	252	248	242	220	207
Right-of-use assets	295	610	547	547	547
Other non-current assets	955	849	841	841	841
<b>Current assets</b>	<b>3,495</b>	<b>4,409</b>	<b>4,730</b>	<b>4,921</b>	<b>5,234</b>
Cash	455	565	1,466	1,450	1,536
Account receivable	1,291	1,156	1,118	1,271	1,409
Inventory	259	247	337	341	381
Other current assets	1,490	2,442	1,808	1,858	1,908
<b>Current liabilities</b>	<b>2,321</b>	<b>3,057</b>	<b>3,155</b>	<b>3,041</b>	<b>2,937</b>
Accounts payable	305	345	510	496	492
Accruals and other	1,028	1,178	1,318	1,318	1,318
Borrowing	911	1,435	1,231	1,131	1,031
Other current liabilities	77	98	96	96	96
<b>Non-current liabilities</b>	<b>395</b>	<b>650</b>	<b>635</b>	<b>644</b>	<b>654</b>
Borrowings	18	17	104	104	104
Lease liabilities	261	519	433	433	433
Other non-current liabilities	116	114	98	107	117
<b>Total equity</b>	<b>2,529</b>	<b>2,717</b>	<b>3,019</b>	<b>3,309</b>	<b>3,693</b>
Share capital	1,500	1,500	1,500	1,500	1,500
Minority Interest	74	77	65	62	59
Reserves	955	1,140	1,455	1,747	2,134

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Sales of fruits/ other products	97.6	97.1	97.1	96.9	96.8
Others	2.4	2.9	2.9	3.1	3.2
<b>P&amp;L ratios (%)</b>					
Gross margin	9.1	11.2	11.6	12.3	12.7
EBIT margin	1.7	2.9	3.4	4.1	4.7
Pre-tax margin	0.8	2.5	3.1	3.9	4.6
Net margin	0.6	2.3	2.9	3.4	4.0
Effective tax rate	36.3	13.8	11.6	14.2	14.6
<b>Balance sheet analysis</b>					
Current ratio (x)	0.1	0.1	0.3	0.3	0.3
Net trade receivable days	53.2	41.0	36.1	36.0	35.5
Inventory turnover days	11.8	9.9	12.3	11.0	11.0
Net trade payable days	13.8	13.8	18.6	16.0	14.2
Net debt to equity (%)	19.3	33.6	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	2.0	8.9	10.9	13.4	15.8
ROA	0.9	3.7	4.7	6.2	7.9
ROIC	1.0	4.3	5.3	7.3	9.5
<b>Per share</b>					
EPS (RMB)	0.2	0.2	0.2	0.3	0.4
DPS (RMB)	-	-	0.1	0.1	0.1
BVPS (RMB)	1.7	1.8	2.0	2.2	2.5

Source: Company data, CMBIGM estimates

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