

Nongfu Spring (9633 HK)

1H rev/np +23%/25%; a neat beat on tea beverage

1H revenue and net profits grew faster than we expected at 23%/25% (vs CMBle: mid-teen growth) to RMB20.5bn/5.8bn. The strength came in along with a higher gross margins at 60.2%. In our view, both were largely driven by 60% YoY revenue growth in tea beverages, of which ASP and gross margins are higher. During the analyst call, management sounded optimistic about 2H outlook, and expected 1H momentum to extend. This will not be only driven by consumers' growing health consciousness, but also marketing efforts and other distribution infrastructure upgrade that make the "Nongfu" brand more appealing. On the cost side, the lower input prices of sugar, paper and label have aided gross margins to expand over the period, when PET prices remained a drag. However, 2H gross margins could benefit from a low base if PET prices remain at current level. Operationally, selling expense should further go up in 2H given more intensive promotional efforts. This is despite management expense could benefit from operational leverage. Overall, we forecast earnings momentum to slightly come off HoH due to costs kitchen-sinking, and yet our revised net profits forecast still points to 18% YoY growth to RMB4.6bn. Maintain BUY.

■ **Other call takeaway.** 1) **Tea beverage** should remain the key growth driver with increasing popularity in Oriental Leaf and Tea Pie, and new launch (i.e. Black Oolong Tea and the re-branded Longjing Spring Tea). Management sees ample growth potential in sugar-free tea beverage, but expects growth to normalise given a larger scale; 2) **TAM of functional drinks** is rather limited at the moment and requires further consumer education to see a breakthrough. Juice saw benefits from repackaging. Carbonated beverage and coffee will be given more resources input to nurture star products; 3) **25%+ net margins** is a high water-mark to beverage maker. In the medium to long run, the print should normalise back to 20%+.

■ **Earnings change.** We raise our tea revenue by 20% to reflect the actual 1H, with other housekeeping changes in packaged water/ function drinks/ juice revenue. These explain an 8% increase our 2023E total revenue. We also lift our gross margins estimate by 1.7pp, and our net profit for the year is 11% higher than our previous estimate.

■ **Valuation.** Our revised TP is based on an updated 50.0x (from previously 58.0x) rolled-forward mid-24E P/E which still represents +1sd above 2 years average.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	29,696	33,239	40,843	48,093	56,463
YoY growth (%)	29.8	11.9	22.9	17.8	17.4
Net profit (RMB mn)	7,162.3	8,495.3	10,345.4	12,323.2	14,721.1
YoY growth (%)	35.7	18.6	21.8	19.1	19.5
EPS (RMB)	0.64	0.7	0.9	1.1	1.3
Consensus EPS (RMB)	na	na	0.9	1.0	1.2
P/E (x)	58.5	49.8	43.2	36.2	30.3
P/B (x)	20.2	17.6	16.7	15.0	13.4
Yield (%)	1.2	1.8	2.1	2.5	3.0
ROE (%)	39.5	37.9	40.7	43.6	46.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$56.9
(Previous TP)	HK\$58.0
Up/Downside	33.2%
Current Price	HK\$42.7

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Stock Data

Mkt Cap (HK\$ mn)	215,233.4
Avg 3 mths t/o (HK\$ mn)	133.9
52w High/Low (HK\$)	48.10/39.05
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	-4.5%	2.9%
3-mth	2.4%	3.0%
6-mth	-2.8%	4.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

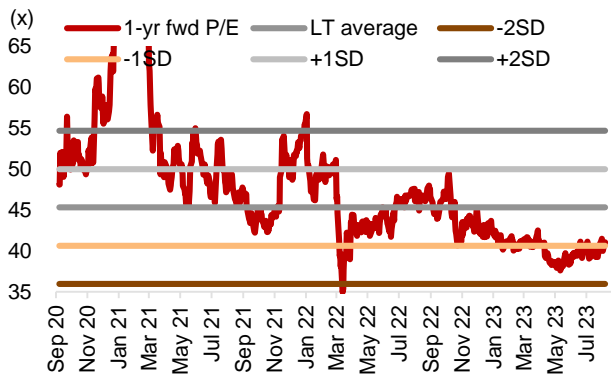
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	40,843	48,093	56,463	37,914	42,457	na	7.7%	13.3%	na
Gross Profit	23,999	28,696	34,267	22,192	25,099	na	8.1%	14.3%	na
EBIT	12,910	15,482	18,601	11,999	13,579	na	7.6%	14.0%	na
Net profit	10,345	12,323	14,721	9,645	10,860	na	7.3%	13.5%	na
Gross Margin	58.8%	59.7%	60.7%	58.2%	59.3%	na	0.5ppt	0.4ppt	na
EBIT Margin	31.6%	32.2%	32.9%	31.0%	31.7%	na	0.6ppt	0.5ppt	na
Net Margin	25.3%	25.6%	26.1%	24.4%	24.7%	na	1ppt	0.7ppt	na

Source: CMBIGM estimates

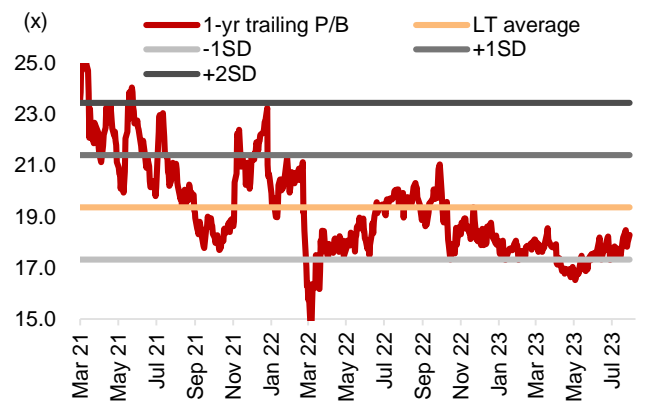
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	40,843	48,093	56,463	38,813	44,850	51,512	5.2%	7.2%	9.6%
Gross Profit	23,999	28,696	34,267	22,791	26,419	30,505	5.3%	8.6%	12.3%
EBIT	12,910	15,482	18,601	12,232	14,358	16,513	5.5%	7.8%	12.6%
Net profit	10,345	12,323	14,721	9,783	11,459	13,319	5.7%	7.5%	10.5%
Gross Margin	58.8%	59.7%	60.7%	58.7%	58.9%	59.2%	0ppt	0.8ppt	1.5ppt
EBIT Margin	31.6%	32.2%	32.9%	31.5%	32.0%	32.1%	0.1ppt	0.2ppt	0.9ppt
Net Margin	25.3%	25.6%	26.1%	25.2%	25.5%	25.9%	0.1ppt	0.1ppt	0.2ppt

Source: Bloomberg, CMBIGM estimate

Figure 3: 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	22,877	29,696	33,239	40,843	48,093	56,463
Cost of goods sold	(9,369)	(12,040)	(14,144)	(16,844)	(19,397)	(22,196)
Gross profit	13,508	17,656	19,095	23,999	28,696	34,267
Operating expenses	(6,835)	(8,984)	(9,656)	(11,967)	(14,091)	(16,544)
Selling expense	(5,511)	(7,233)	(7,821)	(9,884)	(11,639)	(13,664)
Admin expense	(1,324)	(1,751)	(1,835)	(2,083)	(2,453)	(2,880)
Operating profit	6,917	9,077	10,503	12,910	15,482	18,601
Other income	493	543	1,086	900	900	900
Other expense	(249)	(139)	(22)	(22)	(22)	(22)
EBITDA	8,599	11,050	11,926	15,260	18,351	21,988
Depreciation	(1,913)	(2,370)	(2,478)	(3,228)	(3,746)	(4,264)
Other amortisation	(13)	(8)	(9)	0	0	0
EBIT	6,673	8,672	9,440	12,032	14,605	17,724
Net Interest income/(expense)	69	278	547	547	547	547
Pre-tax profit	6,986	9,354	11,050	13,457	16,030	19,149
Income tax	(1,709)	(2,192)	(2,555)	(3,112)	(3,706)	(4,428)
Minority interest	0	0	0	0	0	0
Net profit	5,277	7,162	8,495	10,345	12,323	14,721
Gross dividends	2,639	5,061	7,648	9,313	11,094	13,252
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	12,192	17,836	18,361	19,261	20,975	23,850
Cash & equivalents	9,119	14,784	15,211	15,118	16,290	18,570
Account receivables	358	476	479	1,068	1,230	1,408
Inventories	1,805	1,809	2,108	2,511	2,891	3,309
Prepayment	910	558	560	560	560	560
Other current assets	0	208	3	3	3	3
Non-current assets	13,668	15,060	20,893	22,964	24,517	25,551
PP&E	12,592	12,800	15,398	17,383	18,881	19,890
Right-of-use assets	695	724	853	938	994	1,019
Deferred income tax	315	293	433	433	433	433
Intangibles	58	65	58	58	58	58
Other non-current assets	9	1,178	4,151	4,151	4,151	4,151
Total assets	25,859	32,896	39,255	42,225	45,492	49,402
Current liabilities	9,825	11,589	14,601	14,874	15,131	15,413
Short-term borrowings	2,414	2,500	2,425	2,425	2,425	2,425
Account payables	882	1,153	1,425	1,697	1,954	2,236
Tax payable	938	1,050	1,500	1,500	1,500	1,500
Other current liabilities	3,329	4,488	6,506	6,506	6,506	6,506
Lease liabilities	14	47	69	69	69	69
Contract liabilities	2,247	2,351	2,677	2,677	2,677	2,677
Non-current liabilities	542	566	569	569	569	569
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	41	43	31	31	31	31
Other non-current liabilities	501	522	538	538	538	538
Total liabilities	10,367	12,154	15,171	15,443	15,700	15,982
Share capital	1,125	1,125	1,125	1,125	1,125	1,125
Capital surplus	0	0	0	0	0	0
Retained earnings	14,368	19,617	22,959	25,657	28,667	32,295
Other reserves	0	0	0	0	0	0
Total shareholders equity	15,492	20,742	24,084	26,782	29,792	33,419
Minority interest	0	0	0	0	0	0
Total equity and liabilities	25,859	32,896	39,255	42,225	45,492	49,402

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,986	9,354	11,050	13,457	16,030	19,149
Depreciation & amortization	(1,925)	(2,378)	(2,487)	(3,228)	(3,746)	(4,264)
Change in working capital	698	1,795	2,335	(720)	(285)	(313)
Others	2,671	2,629	1,143	3,345	3,786	4,101
Net cash from operations	8,429	11,400	12,042	12,854	15,784	18,673
Investing						
Capital expenditure	(2,279)	(2,462)	(4,193)	(5,299)	(5,299)	(5,299)
Acquisition of subsidiaries/ investments	73	0	0	0	0	0
Net proceeds from disposal of short-term investments	75	12	80	0	0	0
Others	(2,526)	(2,865)	(5,313)	0	0	0
Net cash from investing	(4,657)	(5,316)	(9,426)	(5,299)	(5,299)	(5,299)
Financing						
Dividend paid	(7,980)	(1,912)	(5,059)	(7,648)	(9,313)	(11,094)
Net borrowings	1,364	18	(157)	0	0	0
Share repurchases	8,543	0	0	0	0	0
Others	(211)	21	16	0	0	0
Net cash from financing	1,716	(1,893)	(5,370)	(7,648)	(9,313)	(11,094)
Net change in cash						
Cash at the beginning of the year	783	6,056	10,188	7,821	7,728	8,900
Exchange difference	(215)	(59)	388	0	0	0
Cash at the end of the year	6,056	10,188	7,821	7,728	8,900	11,180
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(4.8%)	29.8%	11.9%	22.9%	17.8%	17.4%
Gross profit	1.5%	30.7%	8.2%	25.7%	19.6%	19.4%
Operating profit	9.8%	31.2%	15.7%	22.9%	19.9%	20.1%
EBITDA	9.8%	28.5%	7.9%	28.0%	20.3%	19.8%
EBIT	9.2%	30.0%	8.8%	27.5%	21.4%	21.4%
Net profit	6.6%	35.7%	18.6%	21.8%	19.1%	19.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	59.0%	59.5%	57.4%	58.8%	59.7%	60.7%
Operating margin	30.2%	30.6%	31.6%	31.6%	32.2%	32.9%
EBITDA margin	37.6%	37.2%	35.9%	37.4%	38.2%	38.9%
Return on equity (ROE)	41.6%	39.5%	37.9%	40.7%	43.6%	46.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.2	1.5	1.3	1.3	1.4	1.5
Receivable turnover days	28.8	22.2	23.2	23.2	23.2	23.2
Inventory turnover days	70.3	54.8	54.4	54.4	54.4	54.4
Payable turnover days	34.4	35.0	36.8	36.8	36.8	36.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	72.9	58.5	49.8	43.2	36.2	30.3
P/E (diluted)	72.9	58.5	49.8	43.2	36.3	30.3
P/B	24.8	20.2	17.6	16.7	15.0	13.4
Div yield (%)	0.7	1.2	1.8	2.1	2.5	3.0

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

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