

China Feihe (6186 HK)

Looks to be a beta play within 1H23, when birth rate likely starts inflecting post 3Q

Despite sentiment improving upon China's re-opening, we feel that Feihe will likely remain a beta play, or essentially a laggard, to its F&B peers that enjoy higher sensitivity to the theme. We acknowledge the long-term benefits from the abolishment of social-distancing measures. That said, we are also wary of the disruption to near term growth with uncertainties arising from how households and businesses react to this "exit wave". We think family and child planning is unlikely to top the spending agenda (as opposite to dine-out and travel demand), considering the level of financial resources required. In this case, the net consumption of stage 1-3 formula (for aged 0-3 infants) is unlikely to inflect within 1H23, when the exit wave could still weigh on birth rate and result in a stagnant, if not still shrinking, TAM (new born minus aged 3+ infants exit rate). Separately, competition should continue to be uptight given Yili's aggressive entry. The only merit we envisage is that the new national IMF standard would foster a more healthy operation landscape and benefit Feihe, as one of the leading players in the sector, in the long run. To model the above scenario, we trim our 2023E revenue by 2.9% but raise our 2024E revenue by 1.8%, leading to a -4.5%/+5.3% change in EBIT and thus -6.4%/+4.7% change in our net profits assumptions. Considering the potential valuation mean-reversion upon China's reopening going forward, we are buy-rated on Feihe but prefer CR Beer in the F&B segment.

Other earnings assumptions

- We largely maintain our 2H revenue assumptions at RMB11.5bn, up 2.5% YoY (or 19% HoH). Meanwhile, we expect 1H/2H 2023E revenue to reach RMB10.2bn/ 12.6bn, up 5.5%/ 9.9% YoY respectively.
- We mildly revised down our 2023 GPM and OPM by 0.3/0.6ppt to reflect a more aggressive product discount and A&P expense for Feihe to maintain its market share in response to Yili's entry. Our channel check suggests product discount is widening for both brands particularly in lower tier cities. Our 2022/23/24E NPM now stands at 24.9/25.0/26.6%, which falls slightly below management's target of 26-27%.
- Management targets DD HoH revenue growth in 2H and MSD revenue decline for 2022E (1H22: -16.2% YoY). Margin-wise, Feihe indicated that 2H NPM will improve HoH, with full year GPM and NPM standing at 66-68% (1H22: 68%, 2021: 70.3%) and c.26% (1H22: 23.3%, 2021: 30.2%). With that, this implies selling expense ratio to stabilise at c.30% in longer term (1H22: 32.5%).

Valuation methodology

Our new TP is based on an unchanged 11.5x roll-forward mid-23E P/E which still represents -1sd below its long term average.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	18,592	22,776	21,177	22,847	26,312
YoY growth (%)	35.5	22.5	(7.0)	7.9	15.2
Net income (RMB mn)	7,437	6,871	5,266	5,720	6,986
EPS (RMB)	0.8	0.8	0.6	0.6	0.8
YoY growth (%)	69.8	(7.6)	(23.4)	8.6	22.1
Consensus EPS (RMB)	n.a	n.a	0.7	0.8	0.9
P/E (x)	n.a	n.a	9.5	8.8	7.2
P/B (x)	n.a	n.a	2.2	1.9	1.6
Yield (%)	n.a	n.a	3.6	3.9	4.7
ROE (%)	41.9	32.8	23.2	21.7	22.5
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.0
(Previous TP	HK\$7.6)
Up/Downside	+21.2%
Current Price	HK\$6.6

China Consumer Staples – Food and Beverages

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Stock Data

Mkt Cap (HK\$ mn)	59,950
Avg 3 mths t/o (HK\$ mn)	147.1
52w High/Low (HK\$)	11.7/ 4.5
Total Issued Shares (mn)	8,883

Source: Bloomberg

Shareholding Structure

Garland Glory Holdings	43.6%
Morgan Stanley	7.8%
Dasheng Ltd	4.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.8%	15.3%
3-mth	12.7%	4.6%
6-mth	-20.3%	-16.8%

Source: Bloomberg

Related Reports

1. [China Feihe \(6186 HK\) – Completion of channel restructuring continues to drive a steady 2H recovery](#) – 22 Sep 2022
2. [China Feihe \(6186 HK\) – 1H softer than expected; a lower 2022E despite a sequentially better 2H](#) – 25 Jul 2022

[China Feihe - 2H sets to recover when channel restructuring completes as planned](#) – 30 Jun 2022

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,177	22,847	26,312	21,177	23,536	25,851	0.0%	-2.9%	1.8%
Gross Profit	14,116	15,286	17,712	14,116	15,821	17,484	0.0%	-3.4%	1.3%
EBIT	7,601	8,233	9,904	7,389	8,621	9,405	2.9%	-4.5%	5.3%
Net profit	5,266	5,720	6,986	5,229	6,112	6,672	0.7%	-6.4%	4.7%
EPS (RMB)	0.58	0.63	0.77	0.57	0.67	0.73	0.7%	-6.4%	4.7%
Gross Margin	66.7%	66.9%	67.3%	66.7%	67.2%	67.6%	0ppt	-0.3ppt	-0.3ppt
EBIT Margin	35.9%	36.0%	37.6%	34.9%	36.6%	36.4%	1ppt	-0.6ppt	1.3ppt
Net Margin	24.9%	25.0%	26.6%	24.7%	26.0%	25.8%	0.2ppt	-0.9ppt	0.7ppt

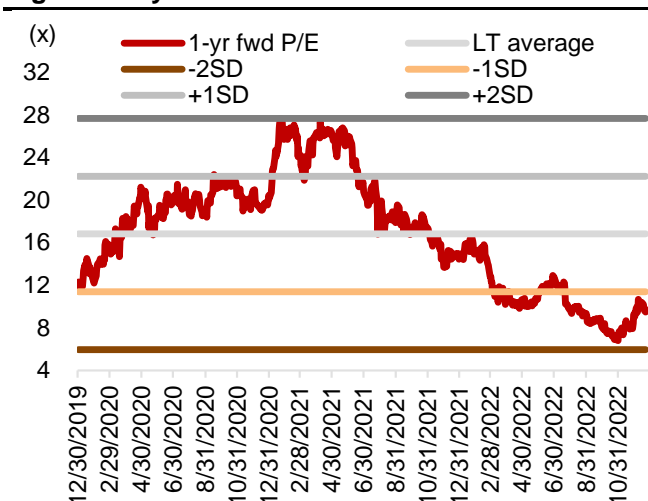
Source: CMBIGM estimates

Figure 2: Our earnings estimates vs Bloomberg consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,177	22,847	26,312	22,631	25,313	28,120	-6.4%	-9.7%	-6.4%
Gross Profit	14,116	15,286	17,712	15,239	17,075	18,894	-7.4%	-10.5%	-6.3%
Operating Profit	7,601	8,233	9,904	7,608	9,661	10,661	-0.1%	-14.8%	-7.1%
Net profit	5,266	5,720	6,986	6,200	7,011	7,761	-15.1%	-18.4%	-10.0%
EPS (RMB)	0.58	0.63	0.77	0.68	0.77	0.86	-14.7%	-18.1%	-10.2%
Gross Margin	66.7%	66.9%	67.3%	67.3%	67.5%	67.2%	-0.7ppt	-0.6ppt	0.1ppt
EBIT Margin	35.9%	36.0%	37.6%	33.6%	38.2%	37.9%	2.3ppt	-2.1ppt	-0.3ppt
Net Margin	24.9%	25.0%	26.6%	27.4%	27.7%	27.6%	-2.5ppt	-2.7ppt	-1ppt

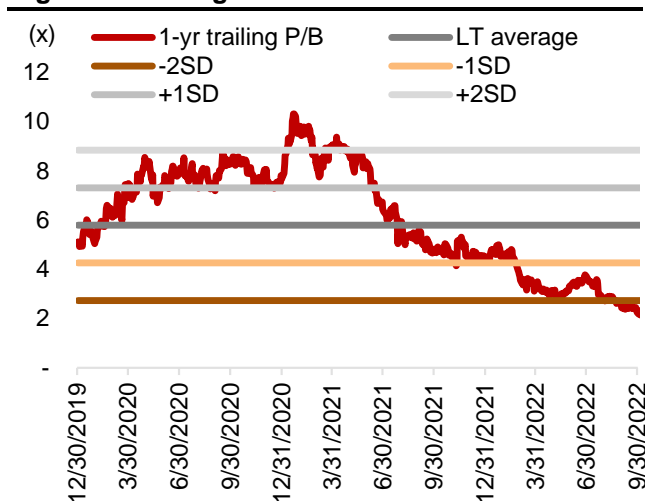
Source: Bloomberg, CMBIGM estimates

Figure 3: 1-year forward P/E chart



Source: Bloomberg, CMBIS estimates

Figure 4: Trailing P/B chart



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	18,592	22,776	21,177	22,847	26,312
IMF	17,674	21,853	20,256	21,928	25,394
Others	919	923	921	919	918
Gross profits	13,480	16,008	14,116	15,286	17,712
D&A	(266)	(443)	(510)	(601)	(684)
Selling expense	(5,263)	(6,729)	(6,988)	(7,540)	(8,157)
Administration expenses	(1,161)	(1,208)	(1,271)	(1,257)	(1,395)
Other income, gains	3,019	1,864	1,864	1,864	1,864
Other expense	(231)	(90)	(120)	(120)	(120)
EBIT	9,844	9,844	7,601	8,233	9,904
EBITDA	10,110	10,288	8,111	8,834	10,588
Finance costs, net	74	81	87	91	91
Non-operating	(18)	(253)	(276)	(276)	(176)
Pre-tax profit	9,900	9,672	7,413	8,048	9,819
Income tax	(2,464)	(2,757)	(2,113)	(2,294)	(2,799)
Less: Minority interests	0	(44)	(34)	(34)	(34)
Net profit	7,437	6,871	5,266	5,720	6,986

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	7,437	6,871	5,266	5,720	6,986
D&A	266	443	510	601	684
Change in working capital	1,253	(827)	21	(67)	(139)
Others	(1,205)	328	49	49	49
Net cash fr. operating act.	7,751	6,815	5,846	6,303	7,581
Capex & investments	(816)	(1,930)	(2,023)	(1,748)	(1,742)
Short term investment	-	-	-	-	-
Others	(2,970)	(514)	-	-	-
Net cash fr. investing act.	(3,786)	(2,444)	(2,023)	(1,748)	(1,742)
Equity raised	-	(365)	-	-	-
Change of Debts	(3,630)	(444)	(200)	(100)	-
Dividend paid	(2,685)	(3,392)	(3,462)	(2,106)	(2,288)
Others	3,772	(44)	-	-	-
Net cash fr. financing act.	(2,543)	(4,245)	(3,662)	(2,206)	(2,288)
Net change in cash	1,421	125	161	2,349	3,550
Cash at the beginning of the year	8,810	9,553	9,629	9,790	12,139
Exchange difference	(173)	(49)	-	-	-
Cash at the end of the year	10,059	9,629	9,790	12,139	15,689
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	9,778	11,512	13,009	14,141	15,183
PP&E/Fixed assets	7,197	8,437	9,944	11,091	12,149
Intangible assets	48	133	139	139	139
Right of use assets, net	1,442	1,707	1,707	1,707	1,707
Other non-current assets	1,091	1,234	1,219	1,203	1,188
Current assets	18,544	19,970	20,165	22,676	26,562
Cash	10,059	9,629	9,790	12,139	15,689
Account receivable	289	477	438	472	544
Inventories	557	576	576	576	576
Other current assets	7,640	9,287	9,361	9,489	9,753
Current liabilities	7,107	6,942	6,898	6,993	7,190
Borrowings	514	833	1,042	1,133	1,284
Account payables	346	407	614	910	1,063
Other payables	903	1,083	3,094	448	313
Rent payable	5,344	4,618	2,147	4,501	4,530
Non-current liabilities	2,030	2,136	2,036	1,936	1,936
Borrowings	732	621	521	421	421
Deferred tax liabilities	139	115	115	115	115
Other non-current liabilities	1,158	1,399	1,399	1,399	1,399
Minority Interest	1,438	1,482	1,516	1,549	1,583
Total net assets	19,186	22,403	24,241	27,888	32,620
Shareholders' equity	17,747	20,921	22,725	26,339	31,037

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
IMF	95.1	95.9	95.7	96.0	96.5
Others	4.9	4.1	4.3	4.0	3.5
P&L ratios (%)					
Gross margin	72.5	70.3	66.7	66.9	67.3
Operating margin	52.9	43.2	35.9	36.0	37.6
Pre-tax margin	53.3	42.5	35.0	35.2	37.3
Net margin	40.0	30.6	24.9	25.0	26.6
Effective tax rate	(24.9)	(28.5)	(28.5)	(28.5)	(28.5)
Balance sheet analysis					
Current ratio (x)	0.5	0.5	0.5	0.5	0.6
Net receivable days	5.6	7.5	7.5	7.5	7.5
Inventory turnover days	80.9	69.2	69.2	69.2	69.2
Net payable days	91.7	92.8	92.8	92.8	92.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	25.1	40.4	23.2	21.7	22.5
Dividend yield	n.a	n.a	3.6	3.9	4.7
Per share					
EPS (RMB)	0.8	0.8	0.6	0.6	0.8
DPS (RMB)	0.3	0.4	0.2	0.3	0.3
BVPS (RMB)	2.0	2.3	2.5	3.0	3.5
EV/ EBITDA (x)	n.a	n.a	5.4	4.4	3.3

Source: Company data, CMBIS estimates

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