

Nongfu Spring (9633 HK)

1H24 missed, tea became top profit contributor

Nongfu's [1H24 revenue](#) missed company's guidance given its market share loss in the packaged water segment. We expect low single digit revenue growth for the segment since market share recovery takes time. Tea beverage revenue grew 59% YoY and delivered revenue share close to water of 38%, with a 10ppt higher in OPM than water segment. The tea beverage replaced the packaged water and became the company's top profit driver. We think that it is challenging for the company to meet the double digit growth target for 2024E revenue given unfavourable environment in 2H and softer tone of management. We cut TP by 13% to HK\$ 50.38 based on 40x 2024E P/E to reflect lower earnings forecasts. Maintain BUY.

- **Water segment hurt by market share loss.** 1H24 revenue grew 8.4% YoY, below the guidance, due to an 18% YoY decline in packaged water revenue, driven by market share loss since Feb caused by brand damage from online rumours. The company observed a recovery in market share during July and Aug, although it takes time to return to pre-Feb levels. We project low single digit growth in full-year revenue for packaged water segment, reflecting a partial offset from the growth in medium to large sized water against the decline in small-sized water segment. OPM of packaged water declined by 4.2 ppt YoY due to promotional activities for green bottle, which dragged the overall OPM down by 1 ppt. We expect continued pressure on margins.
- **Tea beverage became top profit contributor.** Revenue from tea beverage grew 59% YoY in 1H24 on a high base, driven by increased penetration and higher per capita consumption, raising its revenue share to a record 38%, nearing packaged water's contribution. The company expects sustained growth in tea beverages through deeper penetration in lower-tier markets. With tea beverages having an OP margin 10 ppt higher than packaged water, we estimate it will contribute 46% of operating profit, surpassing that of 34% from packaged water and becoming the key profit driver. The company anticipates gradual normalization of tea segment's gross margin.
- **Gloomy 2H24 outlook, challenging to meet the target.** The company notes significant 1H damage, with 2H priorities shifting toward recovery rather than rigid KPIs. Considering the lack of improvement signal in consumer sentiment in 2H24, we expect the company to struggle to achieve double-digit revenue growth for 2024E. We lowered our 2024/25E revenue forecasts by 7-10% and gross margin estimates by 2-3 ppt, leading to an 8-12% reduction in net profit expectations. We maintain our BUY rating, with TP cut by 13% to HK\$50.38 based on 40x 2024E P/E. **Risks:** food safety issues, intensifying competition, raw material price hike etc.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,239	42,667	47,853	55,402	63,554
YoY growth (%)	11.9	28.4	12.2	15.8	14.7
Net profit (RMB mn)	8,495.3	12,079.5	12,534.3	14,357.0	16,361.4
YoY growth (%)	18.6	42.2	3.8	14.5	14.0
EPS (Reported) (RMB)	0.76	1.07	1.11	1.28	1.46
Consensus EPS (RMB)	na	na	1.12	1.26	1.48
P/E (x)	32.7	23.0	22.2	19.4	17.0
P/B (x)	11.5	9.7	8.5	7.3	6.2
Yield (%)	2.8	3.0	3.1	3.6	4.1
ROE (%)	37.9	45.9	40.9	40.5	39.5
Net gearing (%)	(53.1)	(73.5)	(73.1)	(73.5)	(75.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$50.38**
 (Previous TP **HK\$57.80**)
Up/Downside **86.2%**
Current Price **HK\$27.05**

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Stock Data

Mkt Cap (HK\$ mn)	136,188.6
Avg 3 mths t/o (HK\$ mn)	284.6
52w High/Low (HK\$)	47.95/27.05
Total Issued Shares (mn)	5034.7

Source: FactSet

Shareholding Structure

Zhong Shanshan	38.3%
Yangshengtang Co.	25.9%

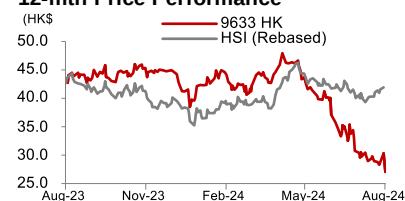
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.5%	-14.8%
3-mth	-37.7%	-33.8%
6-mth	-38.7%	-42.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1H24 results summary

RMB mn	1H23	2H23	1H24	YoY	HoH
Revenue	20,462	22,205	22,173	8.4%	-0.1%
Packaged drinking water products	10,442	9,820	8,531	-18%	-13%
Tea beverage products	5,286	7,373	8,430	59%	14%
Functional beverage products	2,457	2,445	2,550	4%	4%
Juice beverage products	1,686	1,847	2,114	25%	14%
Other products	591	720	548	-7%	-24%
Gross Profit	12,310	13,097	13,032	5.9%	-0.5%
Operating Profit	7,724	8,655	8,169	5.8%	-5.6%
Packaged drinking water products	3,802	3,545	2,743	-28%	-23%
Tea beverage products	2,280	3,342	3,717	63%	11%
Functional beverage products	986	1,081	1,050	6%	-3%
Juice beverage products	497	448	499	0%	11%
Other products	158	238	159	0%	-33%
Net profit	5,775	6,304	6,240	8.0%	-1.0%
EPS (RMB)	0.51	0.56	0.55	7.8%	-2.5%
Gross Margin	60.2%	59.0%	58.8%	-1.4 ppt	-0.2 ppt
OP Margin	37.7%	39.0%	36.8%	-0.9 ppt	-2.1 ppt
Packaged drinking water products	36.4%	36.1%	32.2%	-4.2 ppt	-3.9 ppt
Tea beverage products	43.1%	45.3%	44.1%	1.0 ppt	-1.2 ppt
Functional beverage products	40.1%	44.2%	41.2%	1.0 ppt	-3.1 ppt
Juice beverage products	29.5%	24.3%	23.6%	-5.9 ppt	-0.7 ppt
Other products	26.8%	33.0%	28.9%	2.1 ppt	-4.1 ppt
Net Margin	28.2%	28.4%	28.1%	-0.1 ppt	-0.3 ppt
Operating profit mix %	100.0%	100.0%	100.0%		
Packaged drinking water products	49.2%	41.0%	33.6%	-15.6 ppt	-7.4 ppt
Tea beverage products	29.5%	38.6%	45.5%	16.0 ppt	6.9 ppt
Functional beverage products	12.8%	12.5%	12.9%	0.1 ppt	0.4 ppt
Juice beverage products	6.4%	5.2%	6.1%	-0.3 ppt	0.9 ppt
Other products	2.1%	2.7%	1.9%	-0.1 ppt	-0.8 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	47,853	55,402	63,554	51,600	61,759	n.a.	-7.3%	-10.3%	n.a.
Gross Profit	27,610	31,833	36,394	31,047	37,389	n.a.	-11.1%	-14.9%	n.a.
EBIT	15,387	17,605	20,001	17,259	20,645	n.a.	-10.8%	-14.7%	n.a.
Net profit	12,534	14,357	16,361	13,689	16,292	n.a.	-8.4%	-11.9%	n.a.
Gross Margin	57.7%	57.5%	57.3%	60.2%	60.5%	n.a.	-2.5ppt	-3.1ppt	n.a.
EBIT Margin	32.2%	31.8%	31.5%	33.4%	33.4%	n.a.	-1.3ppt	-1.7ppt	n.a.
Net Margin	26.2%	25.9%	25.7%	26.5%	26.4%	n.a.	-0.3ppt	-0.5ppt	n.a.

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs. BBG consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	47,853	55,402	63,554	47,898	55,102	62,427	-0.1%	0.5%	1.8%
Gross Profit	27,610	31,833	36,394	28,451	32,846	37,472	-3.0%	-3.1%	-2.9%
EBIT	15,387	17,605	20,001	15,700	18,202	20,837	-2.0%	-3.3%	-4.0%
Net profit	12,534	14,357	16,361	12,517	14,329	16,745	0.1%	0.2%	-2.3%
Gross Margin	57.7%	57.5%	57.3%	59.4%	59.6%	60.0%	-1.7ppt	-2.2ppt	-2.8ppt
EBIT Margin	32.2%	31.8%	31.5%	32.8%	33.0%	33.4%	-0.6ppt	-1.3ppt	-1.9ppt
Net Margin	26.2%	25.9%	25.7%	26.1%	26.0%	26.8%	0.1ppt	-0.1ppt	-1.1ppt

Source: Company data, CMBIGM estimates

Figure 4: Valuation comps

Company	Ticker	Last Price	Mkt Cap	P/E (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield	
		(LC)		24E	25E	26E	24E	25E	26E		23A	24E
Nongfu Spring	9633.HK	27.05	38,992	22.2 x	19.4 x	17.0 x	3.8	14.5	14.0	69%	3.0%	3.1%
Eastro Beverage	605499.SH	228.79	12,851	33.0 x	26.0 x	21.2 x	36.0	26.7	22.9	49%	1.1%	1.2%
Tingyi	0322.HK	10.20	7,366	15.0 x	13.9 x	12.9 x	11.9	8.2	7.9	98%	5.8%	7.1%
Want Want China	0151.HK	4.73	7,161	12.7 x	11.1 x	10.5 x	14.7	6.6	6.8	69%	5.4%	0.0%
U-Presid China	0220.HK	6.78	3,753	14.2 x	13.0 x	12.1 x	12.5	9.6	7.7	109%	6.9%	8.0%
Hebei Yangyuanzhui Beverage	603156.SH	18.01	3,200	14.4 x	13.0 x	11.6 x	8.2	10.3	12.3	138%	8.9%	0.0%
Chengdelolo	000848.SZ	7.06	1,043	11.0 x	9.9 x	8.9 x	6.0	11.3	10.3	66%	5.7%	5.5%
China Foods	0506.HK	2.53	907	7.8 x	7.4 x	7.5 x	(0.9)	6.0	(1.9)	48%	6.3%	7.4%
Xiangpiaopiao Food	603711.SH	10.74	619	13.2 x	10.6 x	8.9 x	19.6	23.8	20.0	51%	3.3%	3.4%
Lzy	605337.SH	8.53	472	12.4 x	10.7 x	9.3 x	14.3	16.0	14.6	83%	5.9%	5.1%
Average				21.3 x	18.2 x	15.9 x	11.8	14.7	13.7	73%	3.7%	3.1%

Source: Company data, Wind, CMBIGM estimates

Note: Data as of 28 Aug.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	29,696	33,239	42,667	47,853	55,402	63,554
Cost of goods sold	(12,040)	(14,144)	(17,260)	(20,243)	(23,569)	(27,159)
Gross profit	17,656	19,095	25,407	27,610	31,833	36,394
Operating expenses	(8,984)	(9,656)	(11,446)	(12,709)	(14,714)	(16,879)
Selling expense	(7,233)	(7,821)	(9,284)	(10,412)	(12,055)	(13,829)
Admin expense	(1,751)	(1,835)	(2,162)	(2,297)	(2,659)	(3,051)
Operating profit	9,077	10,503	14,797	15,387	17,605	20,001
Other income	543	1,086	850	500	500	500
Other expense	(139)	(22)	(14)	(14)	(14)	(14)
EBITDA	11,050	11,926	16,592	18,094	20,703	23,491
Depreciation	(2,370)	(2,478)	(2,620)	(3,180)	(3,570)	(3,960)
Other amortisation	(8)	(9)	(11)	(13)	(15)	(16)
EBIT	8,672	9,440	13,960	14,901	17,119	19,515
Net Interest income/(expense)	278	547	892	892	1,041	1,248
Pre-tax profit	9,354	11,050	15,688	16,279	18,646	21,249
Income tax	(2,192)	(2,555)	(3,609)	(3,745)	(4,289)	(4,888)
Minority interest	0	0	0	0	0	0
Net profit	7,162	8,495	12,079	12,534	14,357	16,361
Core net profit	7,281	8,743	12,079	12,534	14,357	16,361
Gross dividends	5,061	7,648	8,435	8,752	10,025	11,425

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	17,836	18,361	28,461	31,405	36,488	42,620
Cash & equivalents	14,784	15,211	24,125	27,014	31,266	36,710
Account receivables	476	479	547	247	302	348
Inventories	1,809	2,108	3,092	3,447	4,222	4,865
Prepayment	558	560	695	695	695	695
Other current assets	208	3	3	3	3	3
Non-current assets	15,060	20,893	20,676	22,035	23,000	23,572
PP&E	12,800	15,398	17,180	18,456	19,358	19,885
Right-of-use assets	724	853	947	1,018	1,074	1,115
Deferred income tax	293	433	921	921	921	921
Intangibles	65	58	74	86	94	98
Other non-current assets	1,178	4,151	1,554	1,554	1,554	1,554
Total assets	32,896	39,255	49,137	53,440	59,488	66,193
Current liabilities	11,589	14,601	19,877	20,080	20,523	20,892
Short-term borrowings	2,500	2,425	3,121	3,121	3,121	3,121
Account payables	1,153	1,425	1,770	1,973	2,417	2,785
Tax payable	1,050	1,500	2,054	2,054	2,054	2,054
Other current liabilities	4,488	6,506	9,289	9,289	9,289	9,289
Lease liabilities	47	69	58	58	58	58
Contract liabilities	2,351	2,677	3,585	3,585	3,585	3,585
Non-current liabilities	566	569	690	690	690	690
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	43	31	31	31	31	31
Other non-current liabilities	522	538	658	658	658	658
Total liabilities	12,154	15,171	20,566	20,770	21,213	21,581
Share capital	1,125	1,125	1,125	1,125	1,125	1,125
Capital surplus	0	0	0	0	0	0
Retained earnings	19,617	22,959	27,446	31,546	37,150	43,486
Other reserves	0	0	0	0	0	0
Total shareholders equity	20,742	24,084	28,571	32,670	38,275	44,611
Minority interest	0	0	0	0	0	0
Total equity and liabilities	32,896	39,255	49,137	53,440	59,488	66,193

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,354	11,050	15,688	16,279	18,646	21,249
Depreciation & amortization	(2,378)	(2,487)	(2,631)	(3,193)	(3,584)	(3,976)
Change in working capital	1,795	2,335	2,839	149	(387)	(321)
Others	2,629	1,143	1,409	2,641	2,880	3,064
Net cash from operations	11,400	12,042	17,305	15,876	17,555	20,016
Investing						
Capital expenditure	(2,462)	(4,193)	(4,714)	(4,552)	(4,550)	(4,548)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	12	80	27	0	0	0
Others	(2,865)	(5,313)	(9,596)	0	0	0
Net cash from investing	(5,316)	(9,426)	(14,284)	(4,552)	(4,550)	(4,548)
Financing						
Dividend paid	(1,912)	(5,059)	(7,646)	(8,435)	(8,752)	(10,025)
Net borrowings	18	(157)	615	0	0	0
Share repurchases	0	0	0	0	0	0
Others	21	16	120	0	0	0
Net cash from financing	(1,893)	(5,370)	(7,022)	(8,435)	(8,752)	(10,025)
Net change in cash						
Cash at the beginning of the year	6,056	10,188	7,821	3,876	6,764	11,017
Exchange difference	(59)	388	56	0	0	0
Cash at the end of the year	10,188	7,821	3,876	6,764	11,017	16,460
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	29.8%	11.9%	28.4%	12.2%	15.8%	14.7%
Gross profit	30.7%	8.2%	33.1%	8.7%	15.3%	14.3%
Operating profit	31.2%	15.7%	40.9%	4.0%	14.4%	13.6%
EBITDA	28.5%	7.9%	39.1%	9.1%	14.4%	13.5%
EBIT	30.0%	8.8%	47.9%	6.7%	14.9%	14.0%
Net profit	35.7%	18.6%	42.2%	3.8%	14.5%	14.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	59.5%	57.4%	59.5%	57.7%	57.5%	57.3%
Operating margin	30.6%	31.6%	34.7%	32.2%	31.8%	31.5%
EBITDA margin	37.2%	35.9%	38.9%	37.8%	37.4%	37.0%
Return on equity (ROE)	39.5%	37.9%	45.9%	40.9%	40.5%	39.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.5)	(0.7)	(0.7)	(0.7)	(0.8)
Current ratio (x)	1.5	1.3	1.4	1.6	1.8	2.0
Receivable turnover days	5.9	5.3	4.7	4.7	4.7	4.7
Inventory turnover days	54.8	54.4	65.4	65.4	65.4	65.4
Payable turnover days	35.0	36.8	37.4	37.4	37.4	37.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	38.8	32.7	23.0	22.2	19.4	17.0
P/E (diluted)	38.8	32.7	23.0	22.2	19.4	17.0
P/B	13.4	11.5	9.7	8.5	7.3	6.2
Div yield (%)	1.8	2.8	3.0	3.1	3.6	4.1

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

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SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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