

# Hongjiu Fruits (6689 HK)

## Harvesting the low-hanging fruits

### ■ A fast-growing vanilla fruit wholesaler; initiate at Buy

Hongjiu is China's largest fruit distributor with operations extending into Southeast Asia. Leveraging its cross-region business model, Hongjiu has successfully morphed into a consolidator with industry-beating growth that stems from its competitive advantages, including 1) a multi-brand portfolio that enables the creation of brand equity and hence brand premium that sustains price mark-ups, 2) direct procurement from place of origin that ensures supply stability and best-of-breed quality. On the back end, these initiatives are backboned by a cost efficient end-to-end supply chain and a nation-wide distribution network that facilitates data circulation and value monetization. Relative to [Pagoda](#), Hongjiu is a vanilla fresh fruit distributor and yet with a much longer cash conversion cycle. While this looks to have raised the market's eyebrow, in our view, management has taken appropriate steps to contain the impact to share price. We believe, in addition to earnings delivery, the restoration of market confidence should represent yet another rerating catalyst to Hongjiu going forward.

### ■ Hongjiu is both growth-generative and margins-enhanceive

We project Hongjiu to deliver a 40.0% 3-year revenue CAGR, outgrowing 7.8% of the industry, per CIC. In our view, an accelerating branded fruits sales mix, from 75.9% in 2019 to 90.4% in 2024E, drives the outperformance. Alternatively, we envisage the growth will be underpinned by faster growth in durian, longan, and mangosteen etc, in which Hongjiu is unchallengedly leading. Both should aid GPM to expand from 17.5% in 2022E to 18.1% in 2024E.

### ■ OCF turnaround is around the corner under a renewed business focus

Hongjiu has once committed to trade-off a positive OCF for a fast-growing business that manifested into market leadership and pricing power. Entering into a new phase of the business cycle, we think Hongjiu will fine-tune its expansion pace (from previous 100%-ish to 40%-ish) in balance for more fruitful margins and healthier cash flow. For instance, the company will shorten its prepayment term with its suppliers and tighten the limit of the credit term with its downstream customers in order to revamp its OCF/FCF to positive by end-23/24E, in our view.

### ■ Valuation – the stock is trading at 5.5x end-23E P/E

Our TP is based on 8.4x end-23E P/E that represents +1sd above its valuation average since IPO. In our view, the methodology reflects 1) a faster top line growth than its local/ global peers, 2) a relatively higher sensitivity to China's re-opening given a rapidly recovering on-trade consumption.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,771	10,280	14,718	20,632	28,150
YoY growth (%)	177.8	78.1	43.2	40.2	36.4
Net income (RMB mn)	3	292	1,477	2,071	2,894
EPS (RMB)	0.0	1.5	3.3	4.6	6.4
YoY growth (%)	n.m	n.m	114.7	40.2	39.7
P/E (x)	n.a	n.a	7.8	5.5	3.9
P/B (x)	n.a	n.a	1.9	1.4	1.1
Div yield (%)	n.a	n.a	-	-	-
ROE (%)	n.m	6.6	25.1	26.0	26.7
Net gearing (%)	n.m	14.4	16.9	13.6	6.9

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Initiation)

Target Price **HK\$44.0**

Up/Downside **52.8%**  
Current Price **HK\$28.8**

**China Consumer –**  
Food and Beverages

**Joseph Wong**  
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### Stock Data

Mkt Cap (HK\$ mn)	40,381
Avg 3 mths t/o (HK\$ mn)	20.67
52w High/Low (HK\$)	41.8/10.0
Total Issued Shares (mn)	932

Source: BBG

### Shareholding Structure

Mr. Deng Hongjiu	20.66%
Alibaba	11.66%
China Agricultural	7.68%

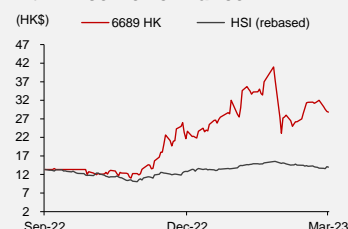
Source: BBG

### Share Performance

	Absolute	Relative
1-mth	6.6%	14.1%
3-mth	33.8%	21.6%
6-mth	n.a	n.a

Source: BBG

### 12-mth Price Performance



Source: BBG

### Related Reports

1. [Mengniu Dairy \(2319 HK\) – A laggard play to this early-staged consumption-led recovery](#) – 21 Feb 2023
2. [Yili Ind \(600887 CH\) – Shares could rally in relief on back of an in line 4Q22](#) – 21 Feb 2023
3. [Kweichow Moutai \(600519 CH\) – Proxy of China's consumption-led recovery](#) – 06 Feb 2023
4. [China Consumer – Sector's bull-run could take a breather from here](#) – 31 Jan 2023

## Investment summary

Hongjiu is a domestic fruit wholesaler who specializes in durian, dragon fruit, mangosteen and longan distribution. The company enjoys several competitive advantages that serve to cement an effective moat against new entrants.

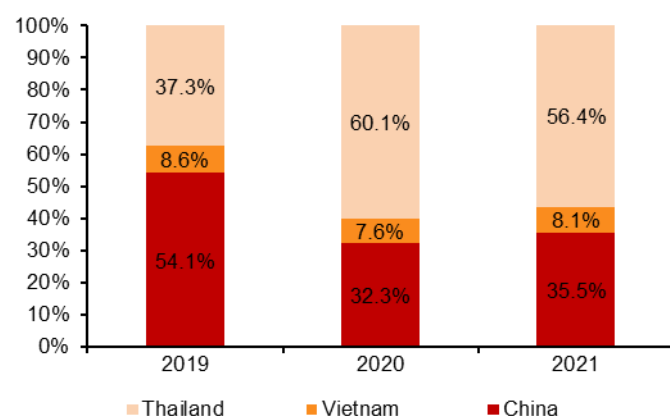
### Strong brands enable market leadership and price mark-ups

Hongjiu exhibits significant advantages in durian, dragon fruit, mangosteen and longan, which enjoys rapidly and continuously increasing volume expansion. Leveraging its extensive expertise and resources, the company has built up its product portfolio with 18 brands covering 14 fruit categories. Catering to market trends and customer preferences, Hongjiu rolls out different brands across categories, each representing unique and premium attributes, in order to better differentiate distinctive qualities and increase profitability. Successful branded products are not only able to enhance consumer loyalty, but also increase profitability driven by brand premium.

### Direct procurement from place of origins an effective moat to new entrants

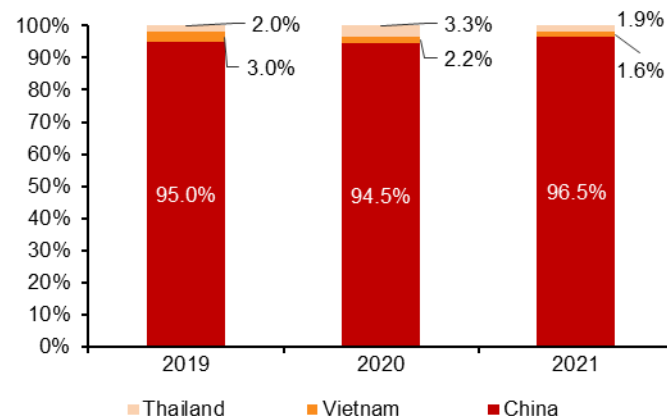
Upholding the principle of "one and only place" (找遍全球,唯有此地), Hongjiu sources only from places that offer the best product quality. Of note, the company sourced durian, longan, and mangosteen from Thailand, dragon fruit from Vietnam, red grapes and cherry from Chile, yellow peach from Fengjie County in Chongqing, and kiwi from Xifeng County in Guizhou Province. In our view, direct sourcing from places of origin also helps to maintain a quality and stable supply, mitigate seasonality impact, as well as enjoy cost advantage of its products.

**Figure 1: Core fruits procurement by region 2019-21**



Source: Company data, CMBIGM

**Figure 2: Other fruit procurement by region 2019-21**



Source: Company data, CMBIGM

### A well-managed end-to-end supply chain and a nation-wide sales network

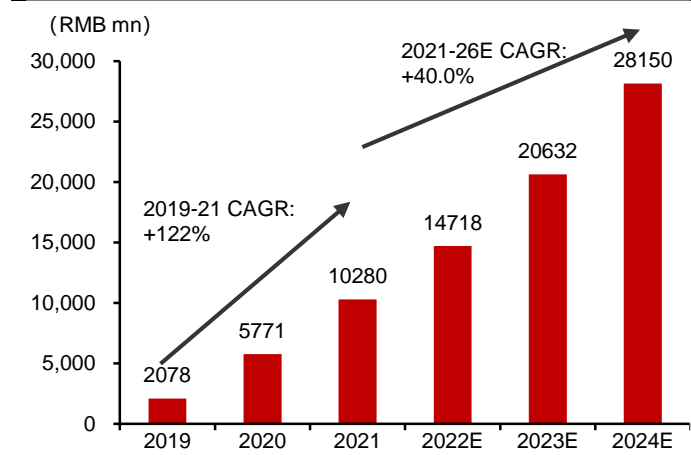
- Hongjiu has 19 sales branches and 60 sorting centers across China. The company strategically locates its sales branches in local wholesale fruit markets to maximize their service radius.

- Hongjiu has reshaped the industry by chipping away traditional redundancies and low efficiency caused by multi-layer intermediaries along the value chain. By means of this, the company has 1) strategically built fruit processing plants equipped with advanced optical grading technology that analyzes and grades each batch of fruit and better match with consumer tastes, 2) utilized the HJ Star Bridge system further facilitates digitalized control and integration of the supply chain, and 3) established sorting centers to separate a load of fruits into different scales and pack them into small-packet products of different specifications that are ready-to-sell upon request. This greatly saves customers' time and effort along the supply chain.

## Financial analysis

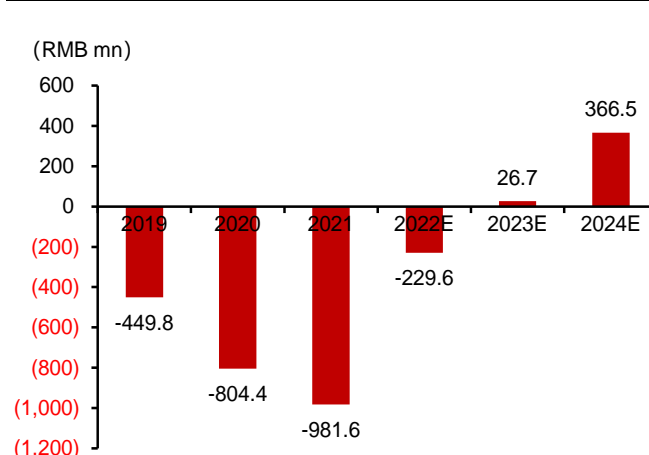
- **We forecast revenue will grow at 40% 3-year CAGR in 2021-24E**, led by a 50% CAGR in branded fruit revenue. Meanwhile, given a higher branded revenue share, we expect Hongjiu's blended GPM to gradually edge up by 0.2pp per annum, from 17.5% in 2022E to 18.1% in 2024E. Despite this, a growing sell expense ratio will offset the uptrend and result in a stable 12.8% EBIT margin.
- **We expect OCF/FCF to turn positive by end-23/24E**. In our view, Hongjiu has traded-off a positive OCF for a very fast-growing business with market leadership and pricing power. Entering into a new cycle of the business, we think Hongjiu will slow down its expansion pace in return for more fruitful margins and healthier cash flow. Meanwhile, the company will also shorten its prepayment term with its suppliers and tighten its credit term with its downstream customers.

**Figure 3: Revenue trend and growth 2019-24E**



Source: Company data, CMBIGM estimates

**Figure 4: Operating cash flow 2019-24E**



Source: Company data, CMBIGM estimates

## Valuation and risks

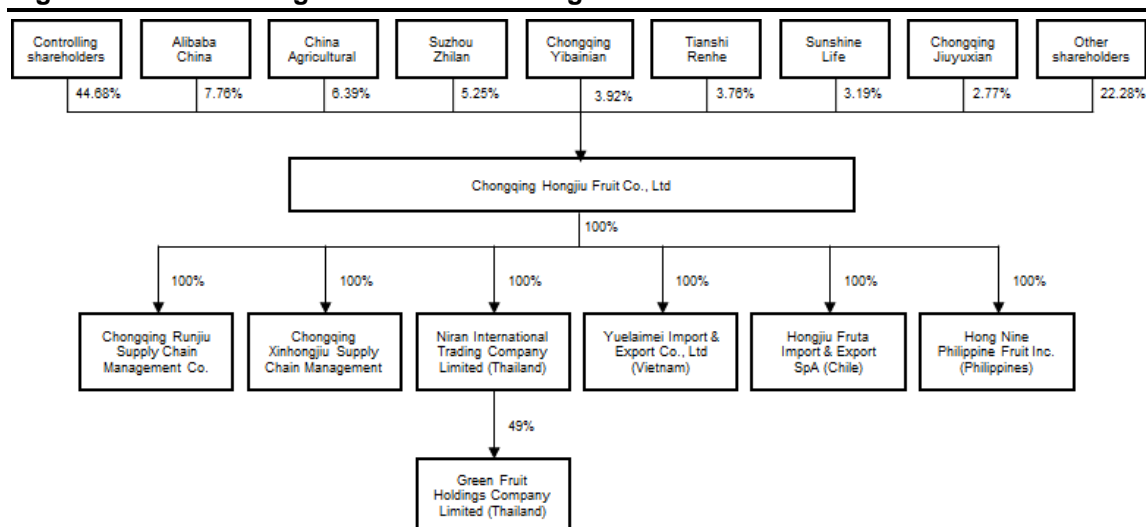
Hongjiu is trading at 5.5x, a deep discount to peers when market looks to have priced-in its relatively stressed OCF in 2022. Our TP is based on 8.4x end-23E P/E that represents +1sd above its valuation average. In our view, the methodology reflects 1) a faster top line growth than its local/global peers, 2) a relatively higher sensitivity to China's re-opening given a rapidly recovering on-trade consumption.

**Investment risks** - branding, extreme weather, competition, and supply stability.

## Company Overview

### About Hongjiu

Figure 5: Shareholding structure after listing on HKEX



Source: Company data, CMBIGM

Figure 6: Company milestone

Year	Key event
2002	·The Company's predecessor, Chongqing Hongjiu Fruit Company Limited, was established
2011	·The Company expanded its business to Thailand ·Chongqing Hongjiu Fruit Company Ltd was converted into a joint stock limited company with its name changed to Chongqing Hongjiu Fruit Co., Ltd
2013	·The Company first launched its self-owned brand ·The Company commenced listing on CSTC
2015	·The Company was awarded "Top 100 Enterprises in the PRC Fruit Industry in 2015" by China Fruit Marketing Association
2017	·The Company expanded its business to Vietnam and established its subsidiary in Chile ·The Company was recognized as "National Key Leading Enterprise in Agricultural Industrialization" by Ministry of Agriculture and Rural Affairs of the PRC
2019	·The Company was recognized as "The 40th Anniversary of Reform and Opening-up - Leading Unit in the Fruit Industry" by China Fruit Marketing Association ·The Company was awarded "Leading Private Enterprise in the Poverty Alleviation Campaign - Ten-Thousands Enterprises Helping Ten Thousand Villages" by State Council Leading Group Office of Poverty Alleviation and Development
2020	·The Company's revenue exceeded RMB 5bn and we established our subsidiary in Philippines
2022	·The Company listed on the Hong Kong Stock Exchange (Stock Code: 6689)

Source: Company data, CMBIGM

## Seasoned management team

Figure 7: Management team profile

Name	Age	Date of joining the Company	Date of Director appointment	Position	Responsibility
Mr. Deng Hongjiu (鄧洪九)	51 years old	Oct-02	Oct-02	Chairman of the Board, Executive Director	Responsible for overall strategic planning of the Company and presiding over the Board affairs
Ms. Jiang Zongying (江宗英)	50 years old	Oct-02	Apr-13	Executive Director, General Manager	Overseeing the operations and management of the Company
Mr. Peng He (彭何)	51 years old	Jun-15	Jun-15	Executive Director, Executive Deputy, General Manager	Overseeing and managing the daily operation of the Company and the operation of various functional departments
Mr. Yang Junwen (楊俊文)	48 years old	Dec-05	Oct-19	Executive Director, Deputy General Manager	Channel development and strategic planning of the supermarket operations of the Company
Ms. Tan Bo (譚波)	42 years old	May-10	Apr-13	Executive Director, Deputy General Manager, Secretary of the Board	Leading the work relating to financial management of the Company and its subsidiaries, financing and investors relations management and information disclosure

Source: Company data, CMBIGM

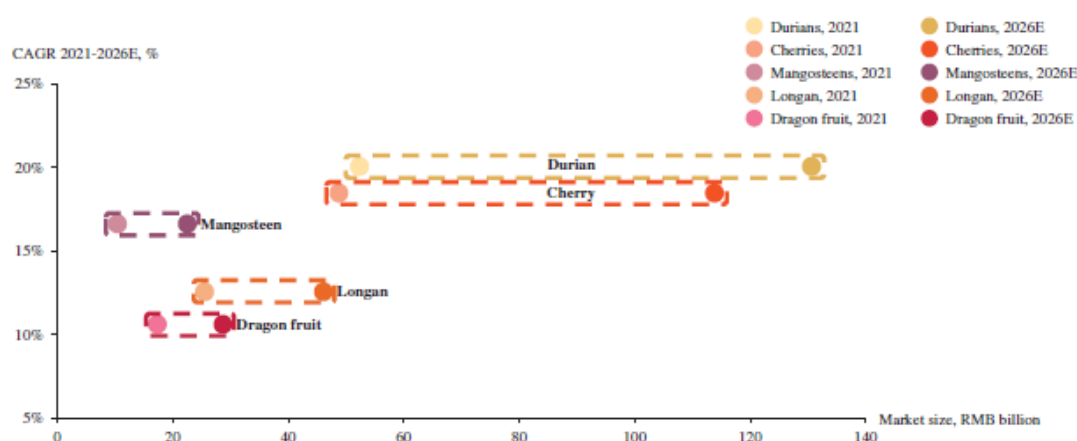
## Strong branding enables market leadership and price mark-ups

Hongjiu is a domestic fruit wholesaler who specializes in durian, dragon fruit, mangosteen and longan distribution. Among all of its core competence, a strong brand portfolio, in our view, was the key to the company's success as it not only that differentiates Hongjiu from the rest of its peers amid homogenous competition, but also empowers the company to command a price premium that fuels margins expansion in the next few years.

## Clear leadership in durian, dragonfruit, mangosteen and longan

Hongjiu exhibits significant advantages in durian, dragon fruit, mangosteen and longan, which enjoy rapidly and continuously increasing volume expansion. According to CIC, the aggregate retail value of these four fruits will grow at a CAGR of 16.6% from RMB105.6bn to RMB228.0bn between 2021 to 2026. In particular, durian has become China's largest imported fruit category, with a retail value of RMB52.4 bn in China in 2021. Among those with retail value of RMB10.0 bn+, CIC expected durian to offer the fastest growth rate of 20.1% CAGR in the next 5 years with RMB130.6bn sales in 2026.

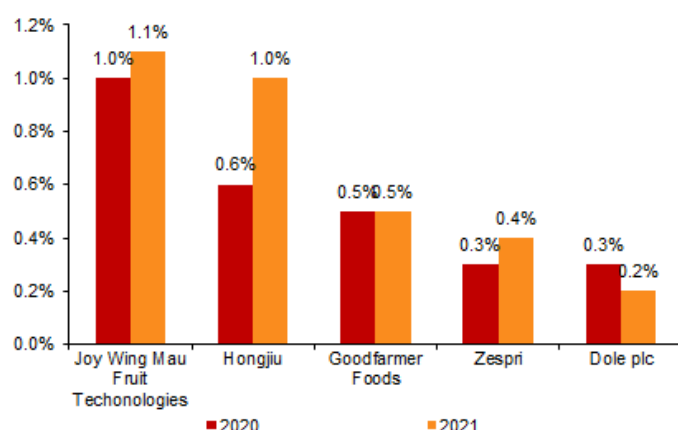
**Figure 8: Hongjiu's brand portfolio and growth outlook for its major fruits SKU**



Source: Company data, CMBIGM

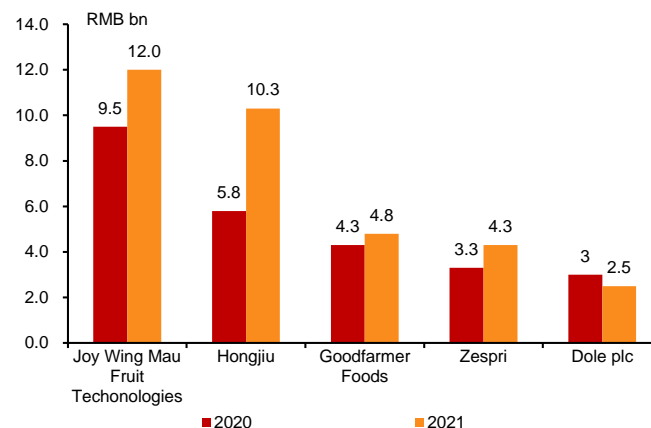
Over the past 20 years, Hongjiu has been focusing on these fruit categories and has cultivated good relationship with suppliers globally. Considering also Hongjiu's internal capability in its supply chain management, we think Hongjiu is ready to monetize the growing trend and remain its unchallenged leadership in the segments. Of note, Hongjiu was the largest durian domestic reseller with 8.3% market in 2021. The company was also a top 5 distributor of mangosteen, dragon fruit, and longan and shared 2.2%, 6.1% and 2.8% of the market, respectively.

Figure 9: Top 5 distributors market share 2020-21



Source: Company data, CMBIGM

Figure 10: Top 5 distributors revenue 2020-21



Source: Company data, CMBIGM

## Multiple brand strategy

Engaged in the fresh fruit industry for nearly 20 years, Hongjiu has been developing its own fruit brands since 2013. Leveraging its extensive expertise and resources, the company has built up its product portfolio with 18 brands covering 14 fruit categories. For instance, the company operates all of its core SKU under brands since 2019. Catering to market trends and customer preferences, Hongjiu rolls out different brands across categories, each representing unique and premium attributes, in order to better differentiate distinctive qualities and increase profitability. The strategic combination of brands demonstrates Hongjiu's strong capability in branding and product development, resulting in enhanced capability in attracting and retaining customers, while effectively mitigating the impacts of market volatility and homogeneous competition.

Figure 11: Hongjiu's brand portfolio



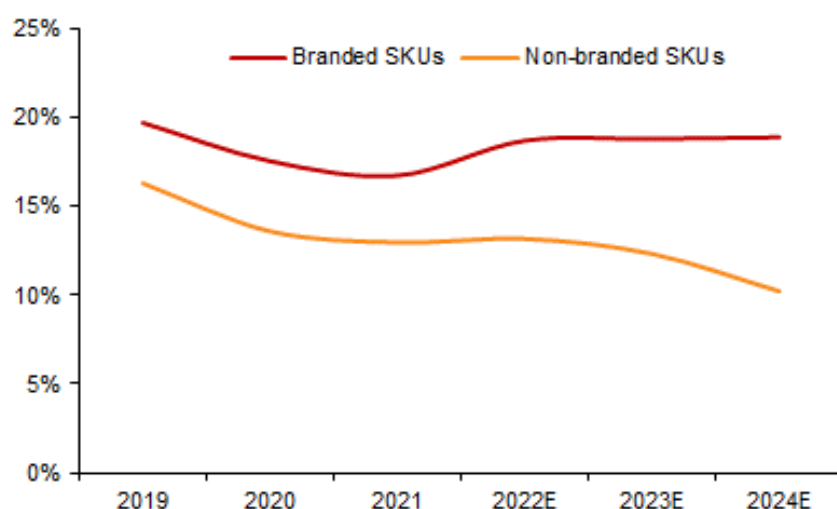
Source: Company data, CMBIGM

## Branding enables mark-up pricing

The consumption upgrade of fruits has created a demand for branded fruit. The trends of vertical integration of the supply chain, increased digitalization and standardization have laid foundations for fresh fruit distributors to create fresh fruit brands. Successful branded products are not only able to enhance consumer loyalty, but also increase profitability driven by brand premium. For instance, branded fruits typically command an approximately 10% premium over those without. This explains why the GPM for branded SKUs is higher than those unbranded.

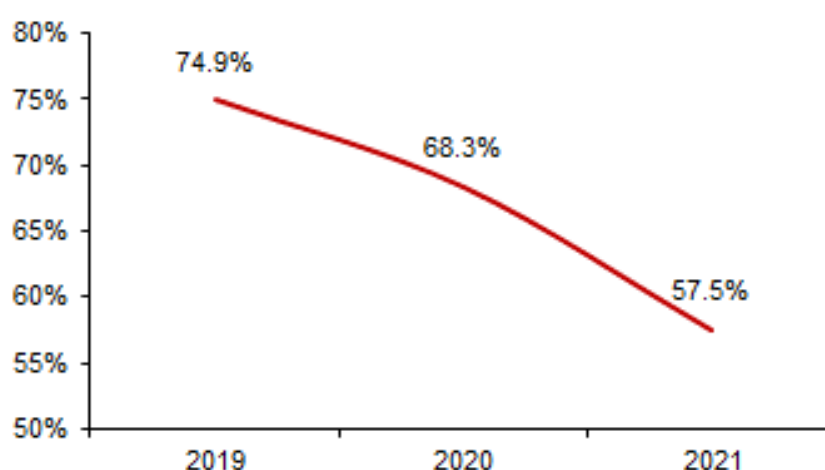
Beyond this, since Hongniu provides different categories and quality of fruits across channels, the company will also take into account other factors for the mark-up. These include current market price, supply and demand dynamics, historical sales, competition etc.

**Figure 12: GP Margin between branded and non-branded SKUs 2019-24E**



Source: Company data, CMBIGM

**Figure 13: Revenue generated from six core fruit products of total revenue 2019-21**



Source: Company data, CMBIGM



## Direct procurement from place of origins

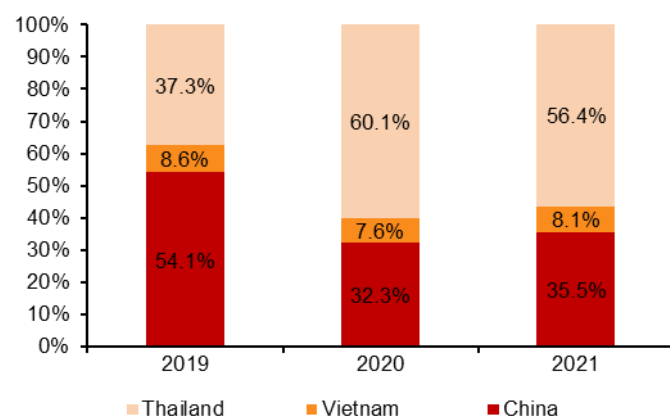
In identifying appropriate fruit categories for branding, Hongjiu focused on fruits with premium attributes and consumption scale, which, in our view, fits well to the China's consumption upgrade thesis. Upholding the principle of "one and only place" (找遍全球, 唯有此地), Hongjiu sources only from places that offer the best product quality. Of note, the company sourced durian, longan, and mangosteen from Thailand, dragon fruit from Vietnam, red grapes and cherry from Chile, yellow peach from Fengjie County in Chongqing, and kiwi from Xifeng County in Guizhou Province. In numbers, for instance, Hongjiu raised its procurement of durian, mangosteen and longan from Thailand from 72% to 84% between 2019 to 2022.

Figure 14: Hongjiu's global sourcing at a glance



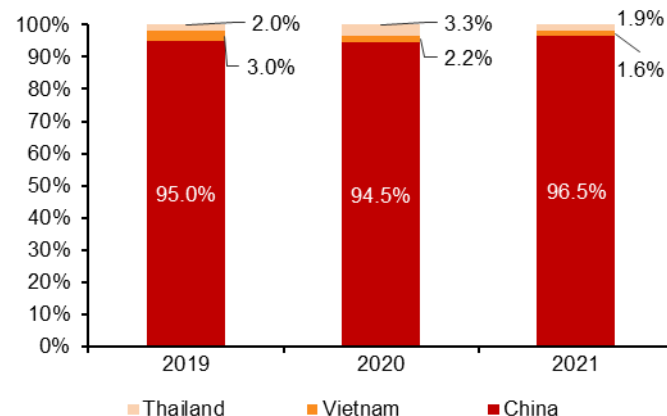
Source: Company data, CMBIGM

Figure 15: Purchase proportion breakdown by supplier region of core fruit products, 2019-21



Source: Company data, CMBIGM

Figure 16: Purchase proportion breakdown by supplier region of other fruit products, 2019-21



Source: Company data, CMBIGM



## Advantages of direct sourcing

- 1. Ensure premium fruit quality at a stable supply.** Direct sourcing from places of origin is an important initiative that Hongjiu has taken to maintain a quality and stable supply, as well as cost advantage of its products. It typically sources fruit located in regions that enjoy optimal geographic, climatic and biological conditions. Fruit grown in such regions is rare in nature and difficult to replicate, providing consumers with premium quality and taste. Hongjiu began its exploration of the local markets in the places of origin early since 2011 and has been continually developing local teams of 400 employees in Thailand and Vietnam. The local teams consist of dedicated employees from Thailand, Vietnam and China. Through orchard visits, referrals by existing suppliers and local organizations, they interacted with the local orchards and growers and pursued collaboration actively. The company also empowers these growers with advanced farming techniques, and advise them on flower induction as well as fruit thinning. Through years of effort, the long-term relationships enables Hongjiu to secure a stable supply of quality fruits with a competitive moat.
- 2. Mitigate seasonality impact.** Although fruit is seasonal by nature, and some fruits are only available for limited periods in China, Hongjiu's dynamic procurement strategy enables it to procure in-season fruits from various regions. For instance, the peak period for durian and mangosteen in east Thailand falls from March to June, while the peak period in south falls from June to October, which perfectly complement each other, realizing a stable year-round supply of durian. In this case, we do not expect the company to experience supply shortage due to the seasonality. Furthermore, when a fruit is off-season, Hongjiu can supplement it with another in-season fruit. For example, in Thailand, the peak production period for durian and mangosteen is March to October, while the peak production period for longan is August to May in the next year; thus, longan could be used as a supplement to durian and mangosteen.

## Successful cases from the “Taihaochi” series

In developing longan under the brand Hongjiu “Taihaochi” (洪九泰好吃), the company stringently selects orchards with trees aged over 15 years. These trees are typically located in east Thailand, where the unique weather and local environmental conditions, including daily temperature variation, sunlight and soil composition, enable local growers to produce longan with distinctive attributes. Beyond this, Hongjiu also instructs growers to perform fruit thinning in strict compliance with the company's requirements, and harvest the longan at the optimal time, achieving a fruit commodification rate of above 95%. According to a survey conducted by CIC last year, more than 81% of interviewed consumers recommend the Taihaochi series, and more than 83% of the interviewed consumers rate full mark in terms of satisfaction with taste, freshness, appearance, affordability and packaging. About 88% of the interviewees confirmed that they are willing to purchase the new products.

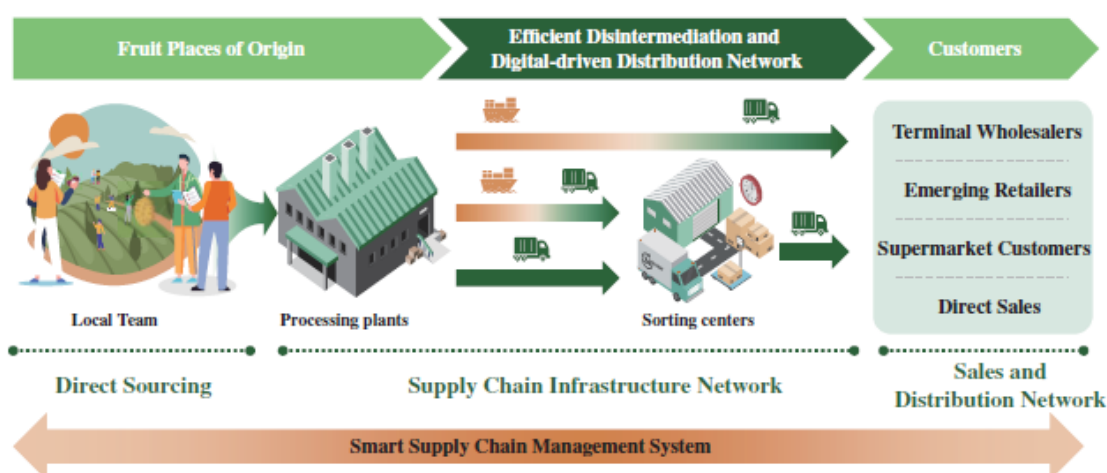
## A cost efficient end-to-end supply chain management

Supply chain management represents another key competence to fresh fruit distributors, as it not only ensures distribution yield rate, but also represents a core component within a global sourcing mechanism. We believe Hongjiu has excelled itself in the area through streamlining distribution layers and digitalization.

### Supply chain de-intermediation

Within the context of global sourcing, Hongjiu has reshaped the industry by chipping away traditional redundancies and low efficiency caused by multi-layer intermediaries along the value chain. In other words, Hongjiu has 1) strategically built fruit processing plants equipped with advanced optical grading technology that analyzes and grades each batch of fruit and better match with consumer tastes, 2) utilized HJ Star Bridge (洪九星橋) system further facilitates digitalized control and integration of the supply chain, and 3) enabled supply chain visual supervision on a real-time basis, facilitating effective tracking of each batch of fruits in transit.

**Figure 17: Hongjiu's supply chain management at a glance**



Source: Company data, CMBIGM

- Fruit processing plants.** Hongjiu's fruit processing plants are located near partner orchards in the places of origin, which allow Hongjiu to carry out grading, preservation, packaging and labelling right after picking at orchards. As such, fruits coming in with different conditions will be processed, and packaged, thereby improving the overall logistics convenience. For instance, Hongjiu has 16 fruit processing plants, all of which were located in the places of origin of the core products, namely Vietnam and Thailand.

**Figure 18: Longan processing plant in Thailand**

Source: Company data, CMBIGM

**Figure 19: Durian processing site in Thailand**

Source: Company data, CMBIGM

**Figure 20: Mangosteen processing assembly line in Thailand**

Source: Company data, CMBIGM

**Figure 21: Dragon fruit processing plant in Vietnam**

Source: Company data, CMBIGM

Hongjiu adopts different post-harvest processing procedures at their plants, including preservation, packaging, pre-cooling, and ripening. Hongjiu uses specialized machines and customized assembly lines to process fruit based on their attributes and categories. For example, the advanced optical grading technology is capable of grading and measuring the internal and external quality of fruit automatically, including detecting internal rot and early stage sprouting, as well as most common defects including external rot, black mold and mechanical damage. Hongjiu also installs cameras on the assembly line, where fruit is rotated under the camera and multiple images are taken to inspect and grade fruit from various angles. As a result, Hongjiu is able to enjoy a significant reduction in labor while consistently maintaining a high quality product.

- **Sorting centre.** Hongjiu established sorting centers to separate a load of fruits into different scales and pack them into small-packet products of different specifications that are ready-to-sell upon request. This greatly saves customers' time and effort. As such, customers can benefit from the expertise in handling fruit products without incurring significant capital expense in performing such operations themselves, allowing them to focus on their core business in serving end consumers.



**Figure 22: Sorting centre in Guangdong**

Source: Company data, CMBIGM

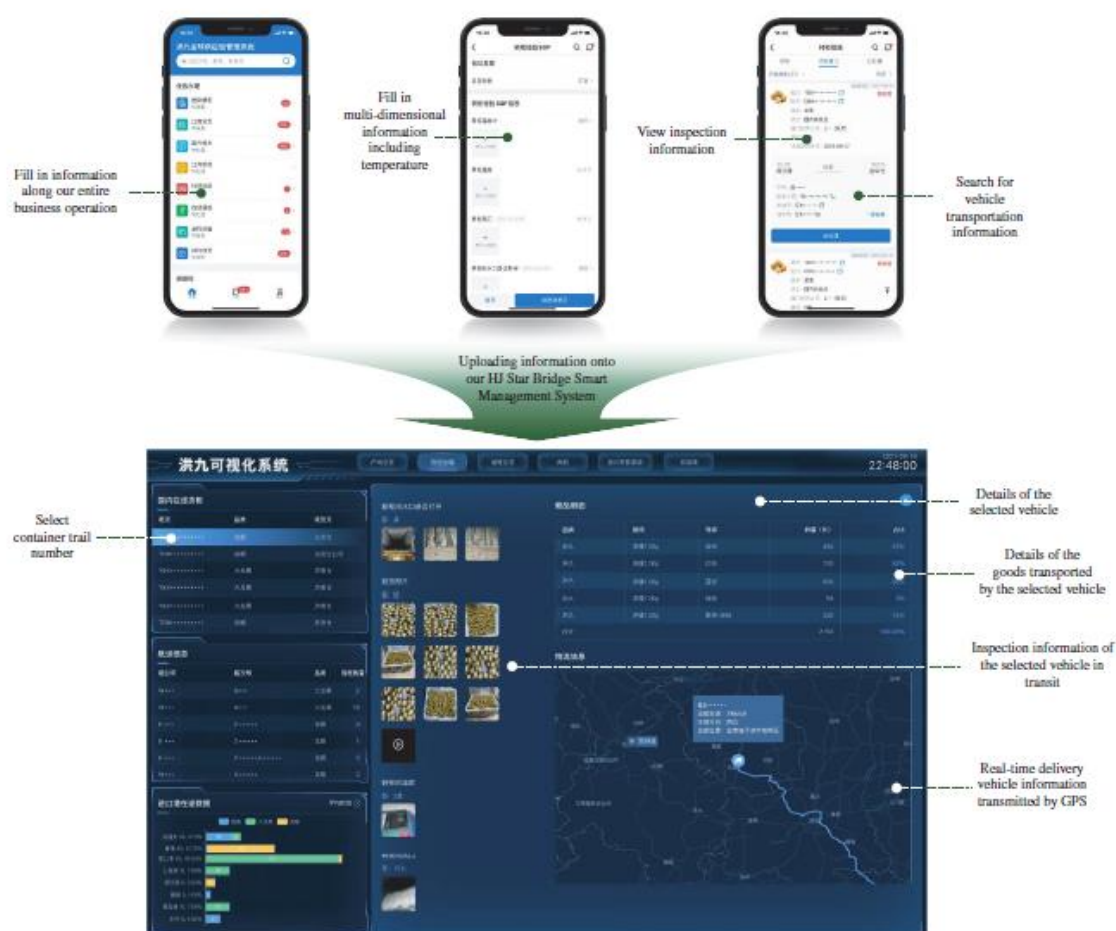
**Figure 23: Sorting centre in Guangdong**

Source: Company data, CMBIGM

■ **HJ Star Bridge System.** It is a proprietary integrated digitalized management system covering the entire supply chain and comprising multiple modules taking charge of the key sector of procurement, transportation and sales. Specifically, the system composes of:

1. **Procurement Management.** In which, Hongjiu collects data on pricing, quantity, quality and transportation of various fruits from origins to their destinations. All of these data assist the company in developing a more precise procurement plan, bringing them more favorable terms on purchase timing and price. With such insights, Hongjiu can also provide orchards with sales forecasts, facilitating them to make production plans accordingly. This allows the company to strengthen cooperation with orchards, and in turn, orchards benefit from more predictable income while enjoying a secure and stable supply.
2. **In-transit Container Management.** This system provides Hongjiu with a comprehensive view of each key stage of the transportation process of its containers for fruits procured from Thailand and Vietnam through real-time vehicle and product tracking. Hongjiu requires its employees and delivery partners to fill in information during transportation on the APPs. Combined with IoT technologies, such as data loggers and IoT sensors, Hongjiu collects a wealth of data along the supply chain in real time, including route deviation, container quantity, fruit quality change, container temperatures, logistics trajectories and customs clearance processes. All data and information are then uploaded and displayed on the HJ star bridge (洪九星橋) system, enabling the company to improve operational efficiency by having real-time supply chain visibility.

Figure 24: HJ Star Bridge system



Source: Company data, CMBIGM

- Sales management.** Data collected from various distribution channels will be further analyzed to develop sale strategies and managing and tracking customers. Hongjiu will accordingly adjust the pricing strategy suitable for different sales channels, and enable profit maximization. In addition, through analyzing regional customer preferences, inventory levels, and market trends in each sales region, Hongjiu can tailor an optimal dispatching plan for each container of its fruit products in different sales regions.

## Nation-wide sales and distribution network

Hongjiu has 19 sales branches and 60 sorting centers across China. Such sales branches function as frontline sales grids covering 300 cities. The company strategically locates its sales branches in local wholesale fruit markets to maximize their service radius. There are four types of distribution channel within the network. Most of Hongjiu's customers sell directly to consumers through their own sales network. Hongjiu's supermarket customers and emerging retailers generally sell fruits to end consumers (to C), while terminal wholesalers may sell to other distributors and retailers (to B), including local groceries and mom-and-pop stores.

**Figure 25: Hongjiu's sales and distribution network in China**

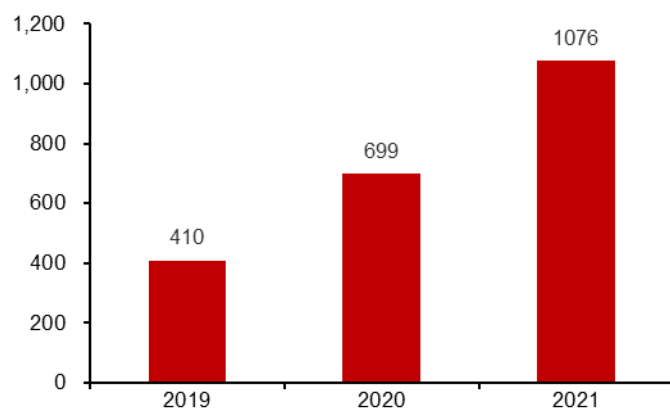


Source: Company data, CMBIGM

## Terminal wholesalers

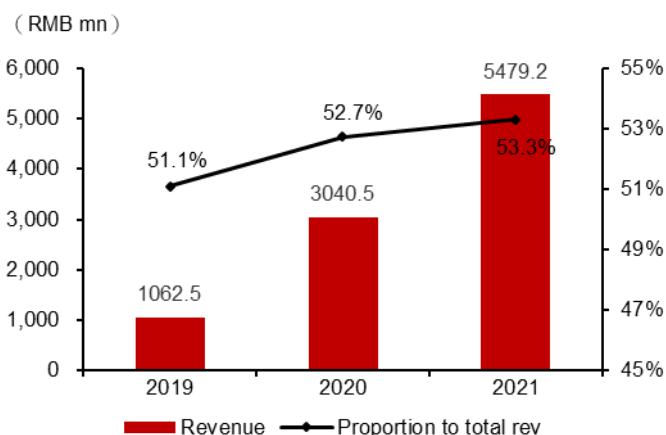
These players are generally localized, with sizeable local operations and strong direct sales resources within their respective local regions. They distribute products to local consumers and smaller-scale retail points of sale, allowing their suppliers, like Hongjiu, to increase the market share in a relatively short timeframe, particularly when entering a new market.

**Figure 26: No. of terminal wholesalers 2019-21**



Source: Company data, CMBIGM

**Figure 27: Terminal wholesalers revenue 2019-21**



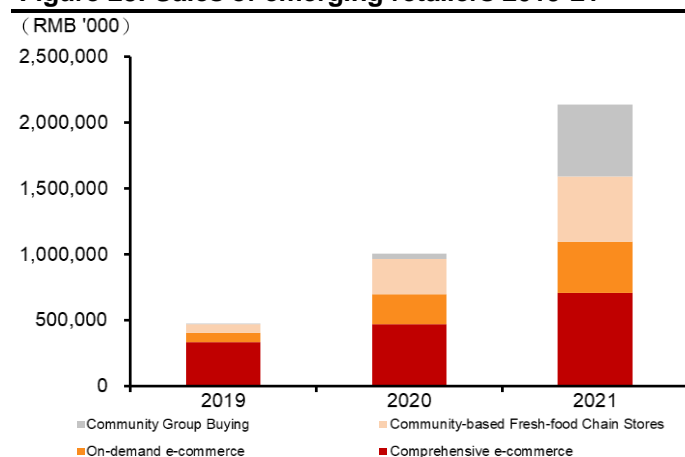
Source: Company data, CMBIGM



## Emerging retailers

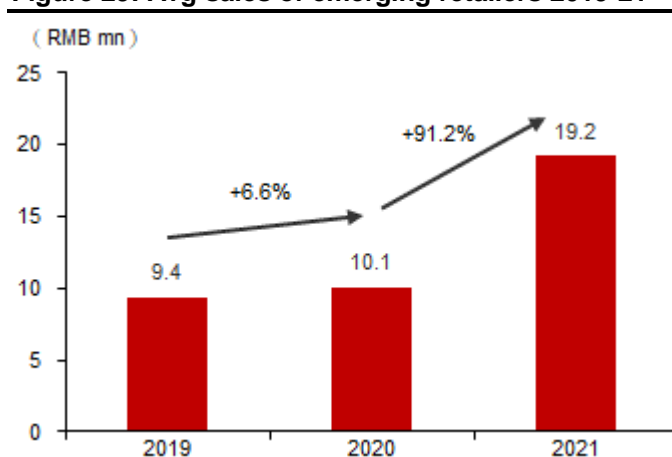
Emerging retail channel has witnessed significant growth in the last five years and we expect them to further expand by leveraging the consumption upgrading in China with more optimized shopping experiences and more diversified products. Emerging retail channel primarily includes community-based fresh-food chain stores, on-demand e-commerce, community group buying, and comprehensive e-commerce. Hongjiu has exposure to almost all of the channels. This should help Hongjiu to further expand its network to lower-tier cities without significant CAPEX.

**Figure 28: Sales of emerging retailers 2019-21**



Source: Company data, CMBIGM

**Figure 29: Avg sales of emerging retailers 2019-21**

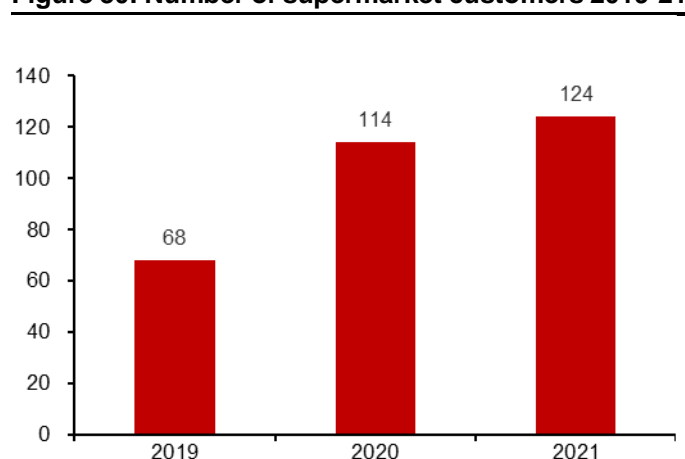


Source: Company data, CMBIGM

## Supermarket Customers

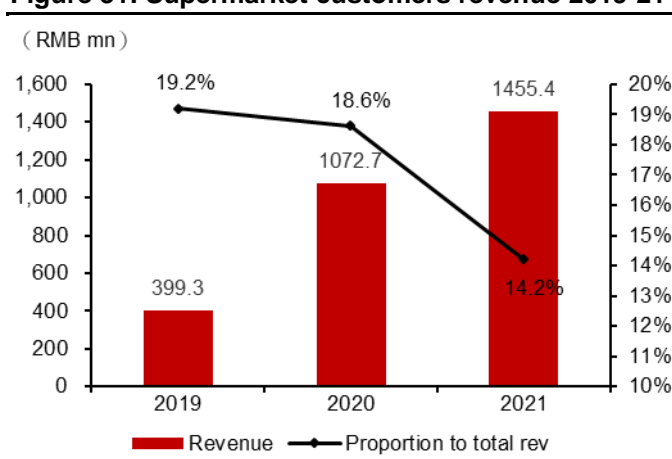
In this segment, Hongjiu has secured relationship with eight of China's top ten supermarket companies. Hongjiu has appropriately addressed the needs of supermarket customers through: (i) its reliable and stable supply of fruit product in quality and in quantity; (ii) its bespoke service capacity; and (iii) its digitalized supply chain management, which enables Hongjiu to supply fruit products based on customer specification of time and quantity.

**Figure 30: Number of supermarket customers 2019-21**



Source: Company data, CMBIGM

**Figure 31: Supermarket customers revenue 2019-21**

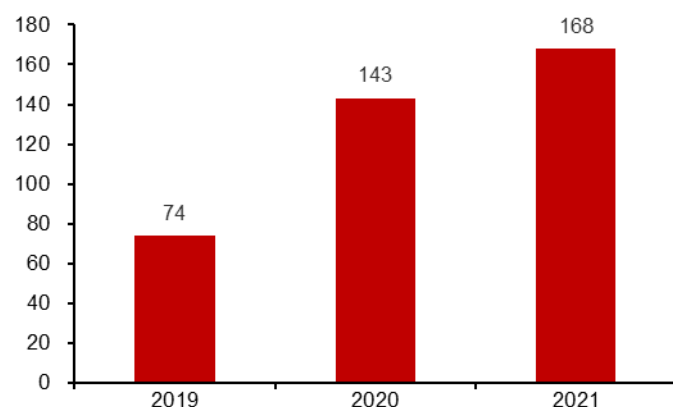


Source: Company data, CMBIGM

## Direct sales

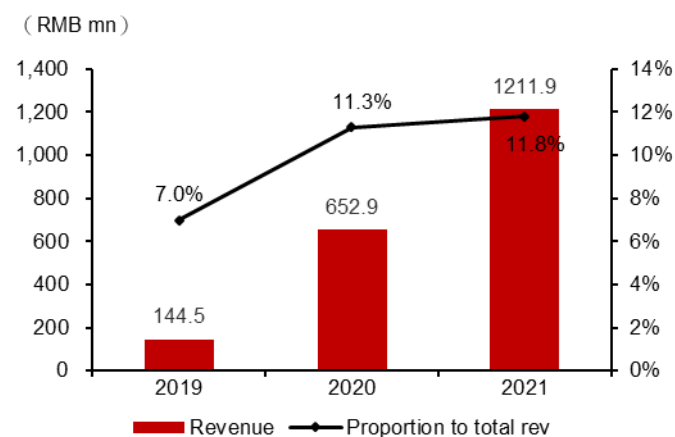
Hongjiu sets up points of sale in the wholesale markets across China to serve as logistics stations and infrastructures primarily to facilitate and support sales to terminal wholesaler, supermarket and emerging retailer customers, where they can pick up orders or obtain required delivery services. In addition to serving as fruit exhibition spaces allowing customers to inspect fruit quality, these points of sale are also used for temporary storage and quick dispatching terminals.

**Figure 32: Number of direct points of sale 2019-21**



Source: Company data, CMBIGM

**Figure 33: Direct points of sales revenue 2019-21**

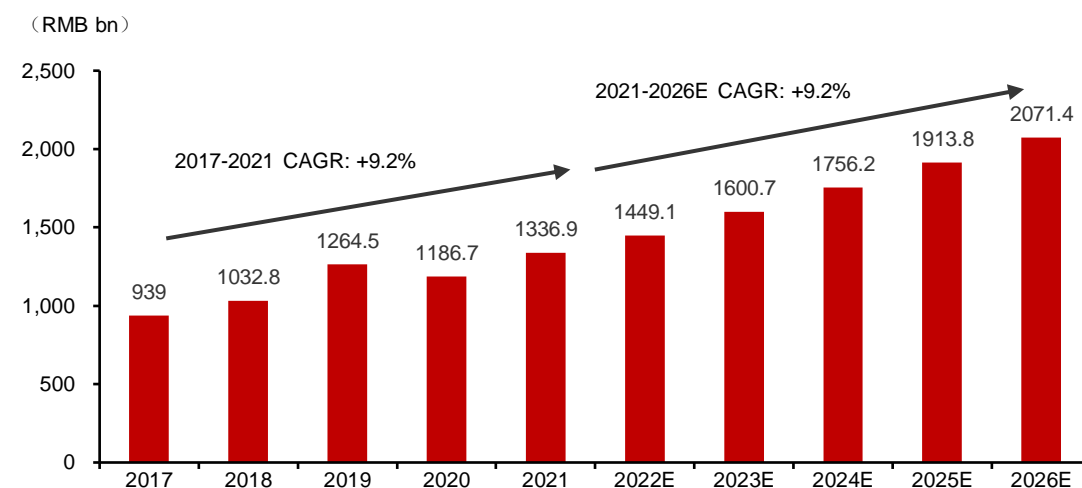


Source: Company data, CMBIGM

## Industry Analysis

According to CIC, China's fruit retail market has grown by a CAGR of 9.2% between 2017-21, from RMB939bn to RMB1,337bn. This translated to per capita 46kg to 57kg consumption over the same period. Relative to that of other developed countries, such as the US, China still represents a large room of consumption expansion. CIC further indicated that the retail fruit market will grow at a 9.2% CAGR to RMB2,071bn in 2026E.

**Figure 34: Market size of fresh fruit by retail value in China 2017-26E**



Source: CIC, Company data, CMBIGM

## Key drivers

### ■ Food upgrade

1. Increasing attention to health among Chinese promotes fruits consumption. According to Frost & Sullivan, per capita consumption of fruits increased at a 3.7% CAGR from 2016 to 2021, and a projected CAGR of 2.8% until 2026. Compared with developed countries, the per capita consumption of fruit in the US/Japan was 2.1/1.4 times of China. There is a great potential for growth of China's fruits market. Moreover, China's economic growth has led to a continuous increase in disposable income per capita, customers are paying more attention to food safety and sources, and are willing to pay a premium for high-quality fruits.
2. In Aug 2019, the National Health Council issued the "Healthy China Action (2019-2030)", encouraging residents to improve their diet structure, and emphasizes the importance of promoting a healthy diet. The continuous improvement of health awareness is mainly represented by vegetarian and organic food as healthy diets.
3. Since younger generation gradually realizes the significance of healthy diet, they consume fruits as the main dietary substitute in their daily leisure, which has further promoted the expansion of the consumption scenarios and the consumption and market growth of fruits.

## ■ Supply chain especially cold-chain logistics upgrade

1. The lag of logistics technology in the past has caused a considerable loss of fresh food. The expansion of logistics coverage, and rapid developments in cold chain logistics technologies have enabled upgrades of professional transportation vehicles and warehouses, increasing transportation speed, and effectively reducing the loss.
2. Expansion of logistics coverage, including more constant temperature warehouses, professional transportation vehicles and labor force, is able to speed up transportation and reduce damage costs. With continuous applications of the IoTs, block chain, radio-frequency identification, and other technologies in cold chain logistics, real-time monitoring means will be gradually commercialized in the logistics phases, effectively guarantee quality control and reduce loss of fruit products.
3. The development of supply chain and the promotion of cold chain warehousing and logistics technologies have successfully guaranteed the quality of the fresh food products, further driving rapid development of fresh food industry.

## ■ Policy support

China has launched a series of policies to support the development of the fruit industry in recent years, covering planting, logistics, sales and other aspects. Such policies emphasize the importance of agricultural quality and safety to the lifestyle of citizens, encourage transformation and upgrade of agricultural products, logistics and warehousing, and new retail of agricultural products.

**Figure 35: Relevant policies and supported projects by the central government**

Policies	Year of issuance	Issuing authorities	Objectives of policies
Development Plan for Cold Chain Logistics of "14th Five-Year"...	2021	State Council of the PRC	Building a national backbone network of cold chain logistics with internal and external connections, improving the large scale development and network operation of cold chain logistics, improving the utilization efficiency of cold chain facilities in production areas and post-production commercialization of agricultural products, and giving full play to the important role of cold chain logistics in promoting consumption and improving social and people's livelihood
The Rural Development Plan of Digital Agriculture (2019-2025)...	2020	Ministry of Agriculture and Rural Affairs, the Office of the Central Cyberspace Affairs Commission	Promoting the development of digital agriculture and rural construction by establishing a basic data collection system. Speeding up the digital transformation of production and operation, promoting digital transformation of management services, and implementing the construction of the National Agricultural and Rural Big Data Center
Main Points of Planting in 2019...	2019	Ministry of Agriculture	Adhering to "integration, improvement, promotion and unsealing" to deepen supply-side structural reform of agriculture, stabilize grain production, ensure supply of major agricultural products, optimize the planting structure, accelerate the promotion of green development, and comprehensively promote the development of high-quality planting industry
Opinions on Accelerating the Development of Cold Chain Logistics to Ensure Food Safety and Promote Consumption Upgrade...	2017	State Council of the PRC	Establishing a modern cold chain logistics system with strict standards and better traceability covering the entire value chain. Improving cold chain logistics infrastructure network and cold chain logistics information level, improving cold chain circulation rate, refrigerated transportation rate of fresh agricultural products and perishable food, and reducing decay rate of fresh products
Opinions of General Office of the State Council on Promoting Innovation and Transformation of Physical Retail...	2016	State Council of the PRC	Proposing 16 specific measures to promote transformation, upgrade and development vitality of physical retailers. Measures such as promoting online and offline integration, innovating operation mechanism, simplifying administration and decentralization, promoting fair competition and reducing tax burden of enterprises have become important guarantees to support the development of new retail industry.
Guiding Opinions of the State Council on Vigorously Advancing the "Internet Plus" Action...	2015	State Council of the PRC	Emphasis is placed on improving the rural e-commerce distribution service network and solving the key problems such as standardization of agricultural products, standardization of logistics, cold chain warehousing construction, etc.

Source: Company data, CMBIGM

## Upcoming trends

- **Agricultural moderation.** The planting process often lacked support of modern agriculture in the past, with low mechanized production capability and highly dispersed planting. With the development of modern planting technology, the mechanization level in planting of fruit groceries has greatly improved. It reduces costs, improve quality and production volume to meet the increasing customers' demand in large-scale cultivation of fruits. For warehousing and logistics, by virtue of advanced cold-chain logistics and supply-chain management capabilities, enterprises may simplify and shorten the circulation process, improve efficiency and reduce costs. For sales channels, fruit specialty retailers, modern retailers and e-commerce operators rely on the optimization of connection from cultivation to sales and trend of direct sourcing to further improve overall supply chain efficiency to increase corporate profitability and quality control level.
- **Emergence of new retail.** Traditional markets have been replaced by modern retail and fresh specialty retail due to large-scale urban transformation. At the same time, diversified sales channels have emerged and entered to the market, in particular, Community Group Purchase which offers diversified consumption scenarios, leveraging modern technologies, data and customer engagement techniques. Consumers have been gradually shifting from traditional markets to new retail operators.

New models leverage technologies to grasp consumers' purchasing habits and provide more convenient shopping experience, leading to a continuous increase in market share. Offline fruit specialty chain retail is able to offer convenient shopping experience and drive high repeated purchase rate. Meanwhile, fruit distributors take advantage of the integration of cultivation and sales end to shorten logistics duration, and reduce losses, further contributing to growth of the industry. In addition, the outbreak of COVID-19 in the beginning of 2020 accelerated the acceptance level and frequency of online consumption, which leads to a continuous increase in business opportunities through online expansion.

- **Becoming more tech-savvy.** Through integration of 5G, AI, big data and other technologies, fruit sellers can control the quality and freshness of fruits, reducing losses and costs. Efficient delivery goods will be carried out through the IoTs and real-time data sharing to ensure freshness and quality of fruits.
- **A widening product offerings.** Consumers' demand increase promotes diversified offering and branding of fruit categories. As disposable income per capita increases and consumers are more concerned about consumption experience, consumers will select high quality distributors, who are able to provide more types of fruits.

At present, China's fruit industry is in the period of industrial transformation in which products are mostly standardized. However, a few enterprises are simultaneously deploying channel brands and product category brands. Strong planting and processing technology, mechanized-oriented unified processing, as well as the emphasis on quality control ensure and accelerate this trend. A strong fruit brand will change the traditional idea that customers may only evaluate fruits in accordance with the place of production and freshness, in order to increase customer stickiness and maintain a long-term relationship with loyal customers.

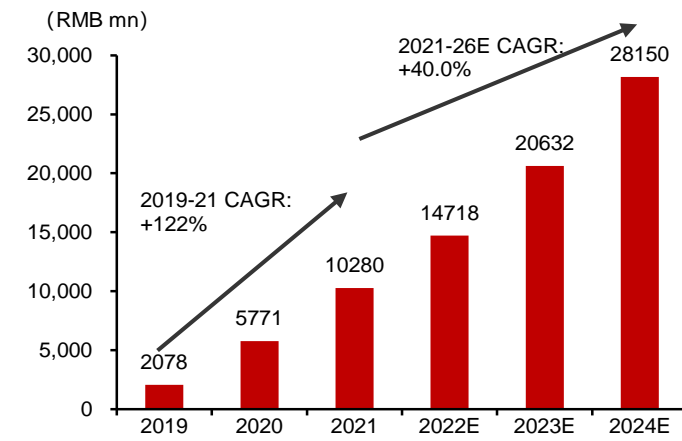


## Financial analysis

### Revenue to grow at 40.0% CAGR in 2021-24E

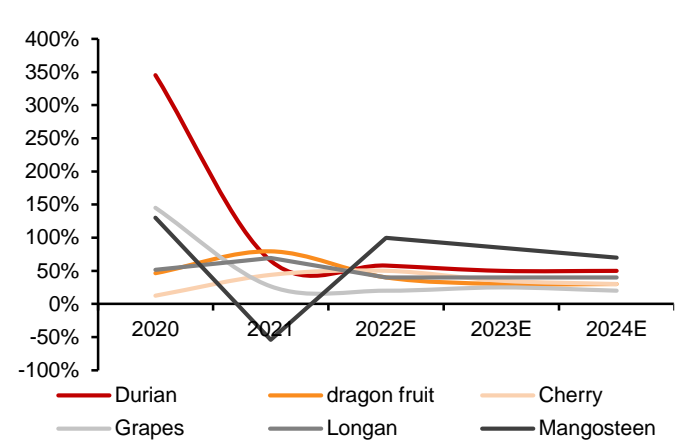
- **We forecast revenue will grow at 40.0% 3-year CAGR in 2021-24E**, led by a 50% CAGR in branded fruit revenue. The segment mainly consists of fast-growing SKUs such as durian, dragon fruit, longan etc, which Hongjiu conquered 15%, 17% and 13% of market share, respectively. We believe branding popular and low penetrated fruits will ensure Hongjiu to grow faster than its peers, when China's branding fruit penetration was 34% in 2021, much lower than 70% of the US, according to CIC. Specifically, with the above growth rates, we forecast Hongjiu would be able to secure 20%, 22% and 16% shares of the durian, dragon fruit, longan markets by 2024E.

**Figure 36: Revenue 2019-24E**



Source: Company data, CMBIGM estimates

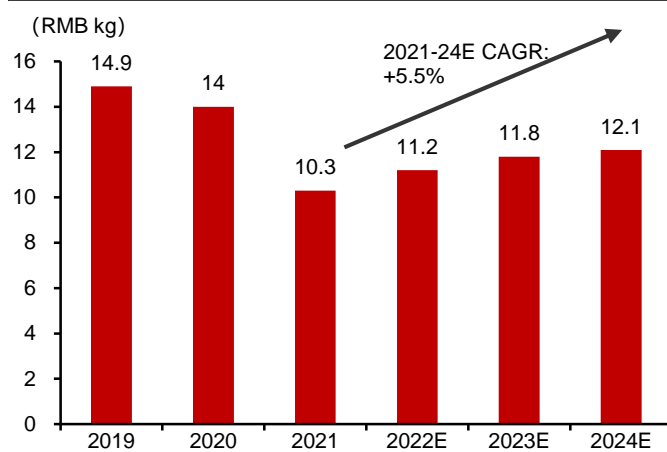
**Figure 37: Revenue growth breakdown 2020-24E**



Source: Company data, CMBIGM estimates

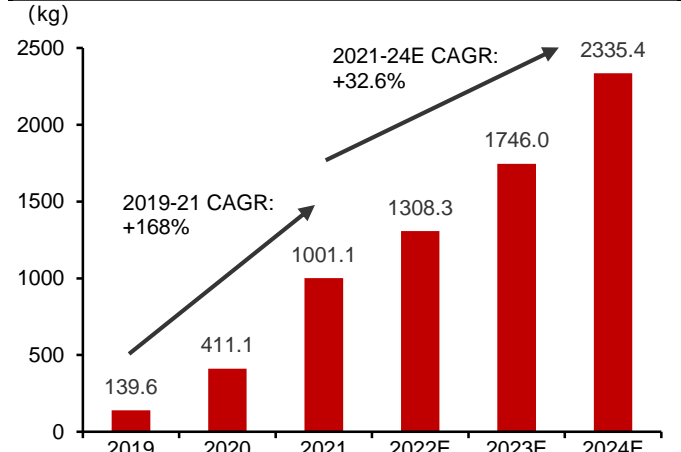
- **We expect the majority of revenue growth will be contributed by volume.** This consists of a 33% 3-year volume CAGR and a 6% ASP CAGR between 2022-24E. For the latter, we expect the growth will be fuelled by organic product mix upgrade as explained above. In this case, we have asserted steady ASPs for all of the major categories over our forecast period.

**Figure 38: ASP 2019-24E**



Source: Company data, CMBIGM estimates

**Figure 39: Total volume 2019-24E**



Source: Company data, CMBIGM estimates

Figure 40: Revenue breakdown and our key revenue assumptions

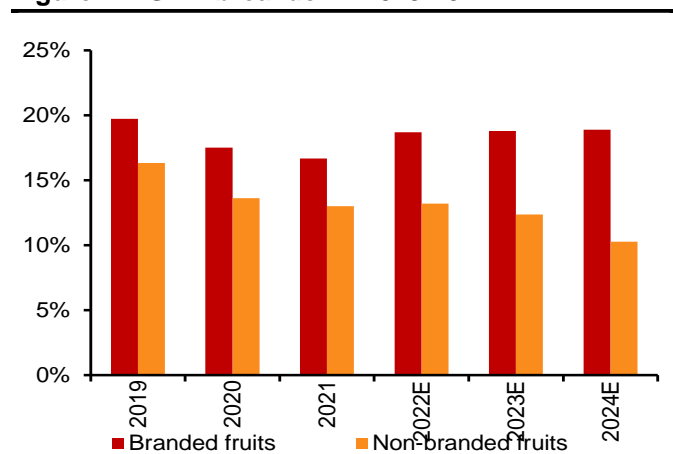
Revenue by branded	2019	2020	2021	2022E	2023E	2024E
Total Revenue (Rmb mn)	2,077.697	5,771.391	10,280.074	14,717.837	20,631.748	28,149.614
Branded fruits	1,577.686	4,396.967	7,532.499	11,540.310	17,159.705	25,446.704
Core fruits products	1,555.999	3,941.825	5,910.490	8,945.095	13,007.362	18,802.955
Durian	473.273	2,107.155	3,481.639	5,500.990	8,251.484	12,377.227
dragon fruit	321.897	471.297	845.676	1,183.946	1,539.130	2,000.869
Cherry	200.797	225.795	324.776	487.164	657.671	854.973
Grapes	161.273	395.262	500.226	600.271	750.339	900.407
Longan	223.293	338.513	572.703	801.784	1,122.498	1,571.497
Mangosteen	175.466	403.803	185.470	370.940	686.239	1,097.982
Other fruits products	21.687	455.142	1,622.009	2,595.214	4,152.343	6,643.749
Tangerine	14.184	170.357	539.317	-	-	-
Mango	-	-	221.447	-	-	-
Kiwi	6.631	22.608	209.836	-	-	-
Others	0.872	262.177	651.409	-	-	-
Non-branded fruits	500.011	1,374.424	2,747.575	3,177.528	3,472.043	2,702.910
Total Revenue y-y		177.8%	78.1%	43.2%	40.2%	36.4%
Branded fruits		178.7%	71.3%	53.2%	48.7%	48.3%
Core fruits products		153.3%	49.9%	51.3%	45.4%	44.6%
Durian		345.2%	65.2%	58.0%	50.0%	50.0%
dragon fruit		46.4%	79.4%	40.0%	30.0%	30.0%
Cherry		12.4%	43.8%	50.0%	35.0%	30.0%
Grapes		145.1%	26.6%	20.0%	25.0%	20.0%
Longan		51.6%	69.2%	40.0%	40.0%	40.0%
Mangosteen		130.1%	-54.1%	100.0%	85.0%	60.0%
Other fruits products		1998.7%	256.4%	60.0%	60.0%	60.0%
Tangerine		1101.1%	216.6%	-	-	-
Mangos		-	-	-	-	-
Kiwi		240.9%	828.1%	-	-	-
Others		-	148.5%	-	-	-
Non-branded fruits		174.9%	99.9%	15.6%	9.3%	-22.2%

Source: Company data, CMBIGM estimates

## GPM to edge up by an average 0.3pp per annum within 2022-24E

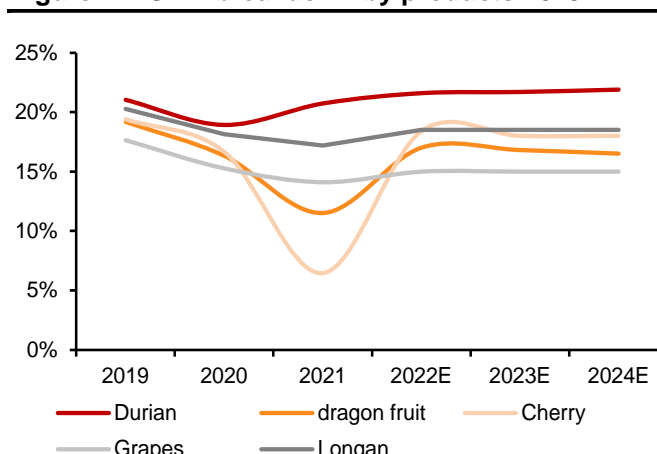
Branded SKUs typically carry a higher GPM, as a result of better consumer perception and hence a better pricing power by the brand owners. Given its better than average growth, we expect Hongjiu's blended GPM to gradually edge up by 0.2pp per annum, from 17.5% in 2022E to 18.1% in 2024E.

Figure 41: GPM breakdown 2019-2024E



Source: Company data, CMBIGM estimates

Figure 42: GPM breakdown by products 2019-24E

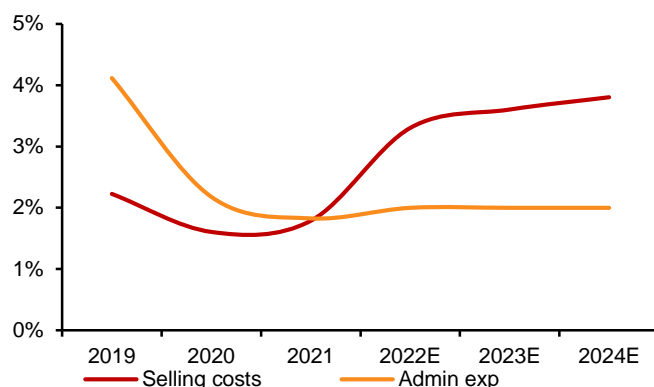


Source: Company data, CMBIGM

## A steady EBIT margin

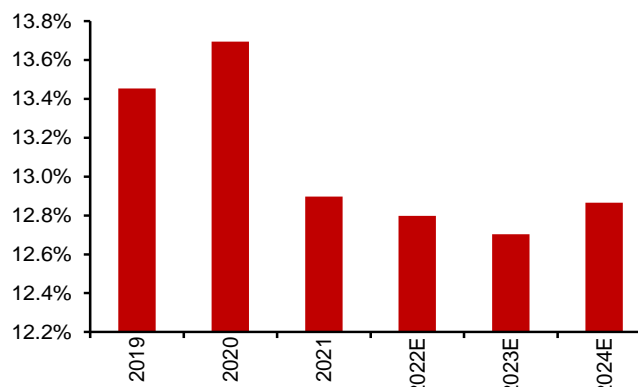
- **We forecast a stable 12.8% EBIT margins between 2022-24E.** Given a fast growing revenue trajectory, we expect selling expense ratio to increase proportionately, from 3.3% of revenue in 2022E to 3.8% by 2024E. This will be mainly driven by marketing and promotional expense, when other overheads and utility expense remain largely constant. Meanwhile, the uptrend will be, in our forecast, offset by a well-controlled administration expense, of which we forecast its ratio to revenue to hover at 2% across the forecast period.

Figure 43: Opex ratio to revenue 2019-24E



Source: Company data, CMBIGM estimates

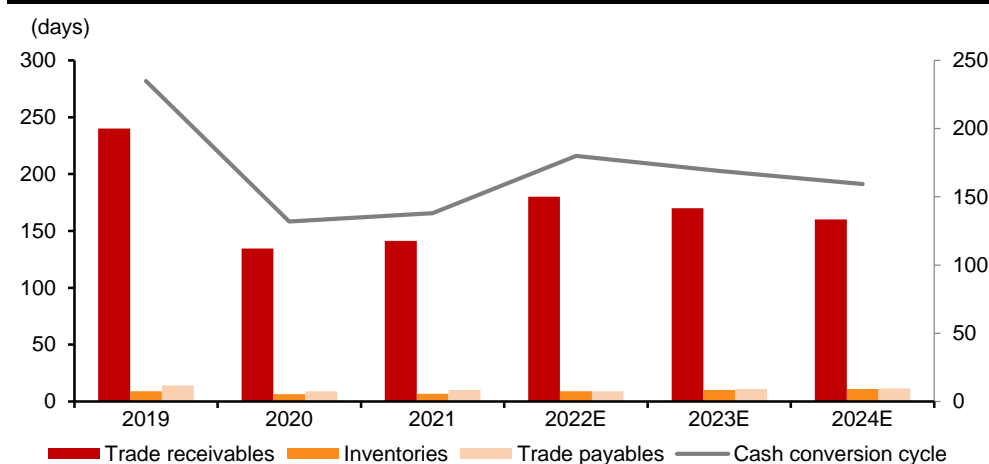
Figure 44: EBIT margins 2019-24E



Source: Company data, CMBIGM estimates

## Cash flow analysis

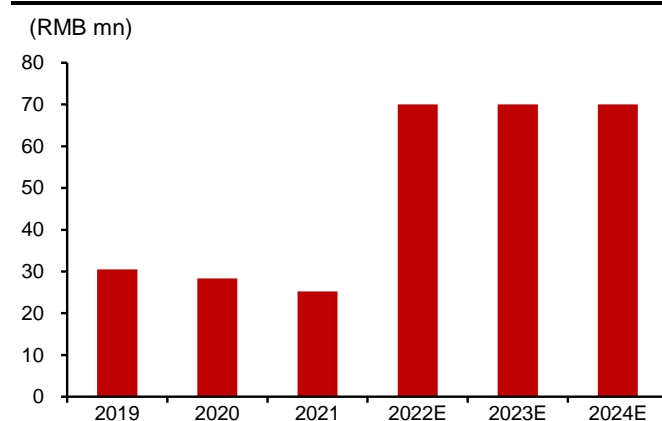
- **Operating cash inflow to turn positive by 2023E.** Hongjiu has a long receivable cycle of c.180 days in 2022E, and, in our view, this largely explains why Hongjiu will likely deliver a negative OCF in 2022E. Of note, this is mainly owing to:
  1. **A Point-to-Point business model.** Hongjiu prepays its procurement expense in order to lock down the seasonal fruit supply, especially to those the company sources overseas. Meanwhile, as a distributor, Hongjiu grants its retailers a 120-day credit term that is in line with industry norm.
  2. **Rapidly expanding market share.** To cater for the strong demand in durian, longan and dragon fruits, Hongjiu has opted to stress its working capital in return for a fast-growing market shares in the last two years. According to the management, OCF would have been positive if Hongjiu opted to slow down its revenue growth to sub-50% between 2019-21 (from almost 100% on average per annum).

**Figure 45: Working capital days analysis and cash conversion cycle 2019-24E**

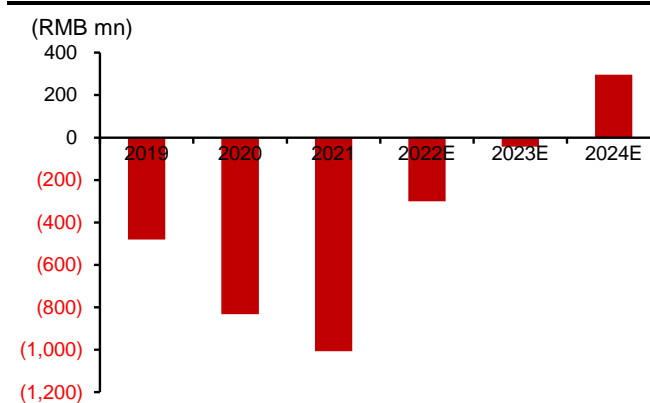
Source: Company data, CMBIGM estimates

In our view, Hongjiu has traded-off a positive OCF for a very fast-growing business with market leadership and pricing power. Entering into a new cycle of the business, we think Hongjiu will slow down its expansion pace in return for higher margins and a healthier cashflow. According to management, a RMB1.9bn working capital would suffice to sustain 40% top line growth per annum. Meanwhile, the company will also shorten its prepayment term with its suppliers, from 120-day in 2021, to 60-day in 2022 and further to 30-day in 2023. On the other hand, Hongjiu will limit its credit term with its downstream customer from 180-day in 2021, to 120-day in 2022 and further to 90-day in 2023. Assuming all of the policies will be smoothly executed, we forecast Hongjiu is all set to bring its OCF to positive in 2023.

- **A disciplined capex plan.** We expect Hongjiu to spend RMB70mn on capex in the next three years, falling in line with management's guidance of RMB50-80mn per annum. The majority of the investments will be allocated to machinery and buildings purchases to cater for a higher number of procurement office, as well as sorting and screen centre. Should we also include rental expense of warehouses and factories, we expect the amount to shot up to RMB100-150mn per annum. In our view, when capex looks to flatten out from 2022E onwards, free cashflow is on track to turn positive by 2024E.

**Figure 46: Capex 2019-24E**

Source: Company data, CMBIGM estimates

**Figure 47: Free cashflow 2019-24E**

Source: Company data, CMBIGM estimates

## Peers comparison

### Vis-à-vis Pagoda (2411 HK, BUY)

We consider Pagoda the closest comparable peers to Hongjiu Fruits.

#### ■ Similarities

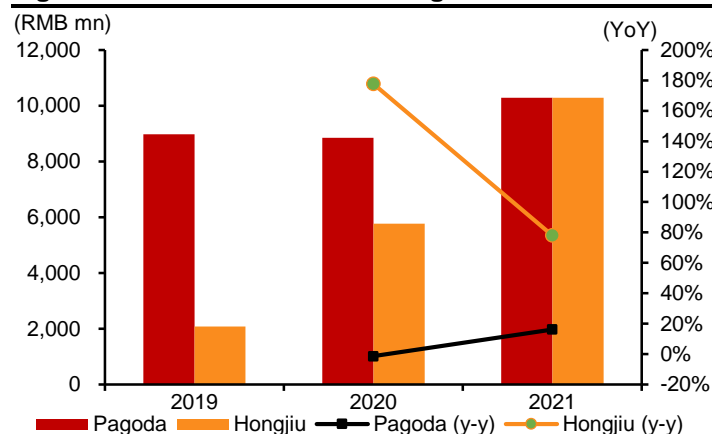
1. Both of them operate in the domestic fresh fruit distribution business for over 20 years of history;
2. Both of them engage in the fruit wholesales business;
3. Both of them develop their own brands;
4. Both of them source from both local and overseas markets;
5. Both of them leverage advanced technology to reduce costs and enhance operation efficiency;
6. Both of their businesses were once hit by the pandemic but are set to recover in the next three years.

#### ■ Difference

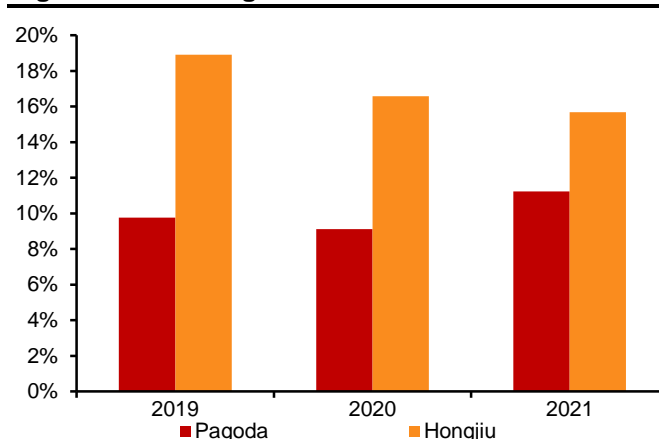
7. Hongjiu selects fruits suppliers from the best place of origination to exert product quality control;
8. Hongjiu has a clear leadership in durian, dragon fruits, longan, mangosteen etc;
9. Hongjiu is a pure play in fruit wholesaling through four various channels;

#### ■ These similarities and differences have manifested into the following financial attributes:

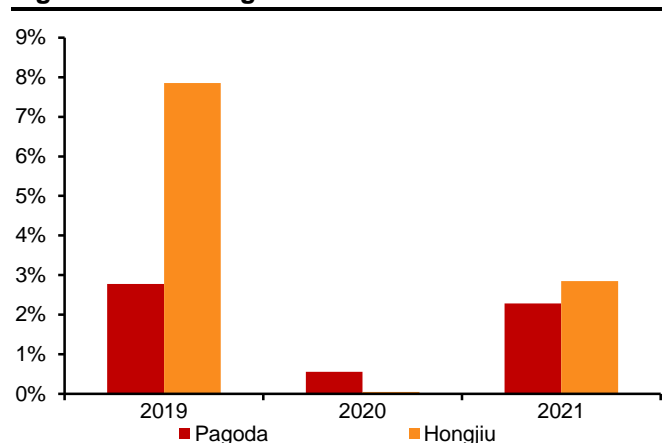
10. Both of them would enjoy the ongoing fresh fruits demand recovery, especially the structural wallet share gains on high-quality fruits;
11. Brand initiations will not only help them to gain market share from non-branded competitors; but also empower them to be more efficient in price segmentation execution;
12. Hongjiu delivers faster and a more concentrated top line growth;
13. Wholesales margins are higher, but suffer from a longer receivable cycle and hence a more demanding working capital threshold

**Figure 48: Revenue and revenue growth 2019-21**

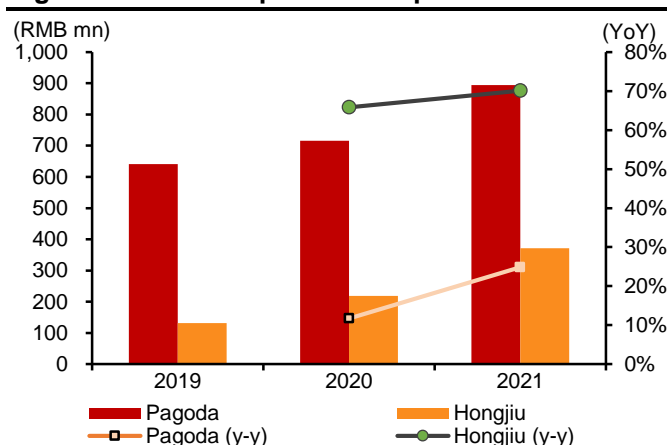
Source: Company data, CMBIGM

**Figure 49: GP margin 2019-21**

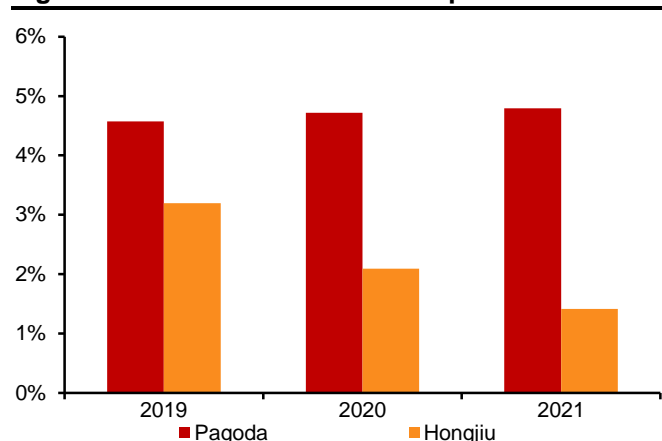
Source: Company data, CMBIGM

**Figure 50: NP margin 2019-21**

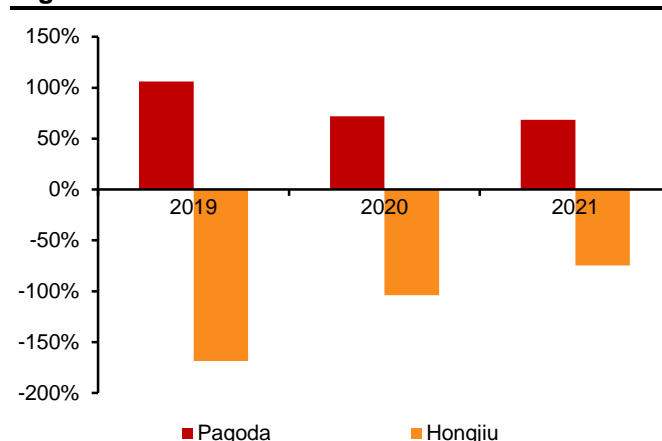
Source: Company data, CMBIGM

**Figure 51: SG&A expenses comparison 2019-21**

Source: Company data, CMBIGM

**Figure 52: PPE to total assets comparison 2019-21**

Source: Company data, CMBIGM

**Figure 53: Free cash flow conversion 2019-21**

Source: Company data, CMBIGM

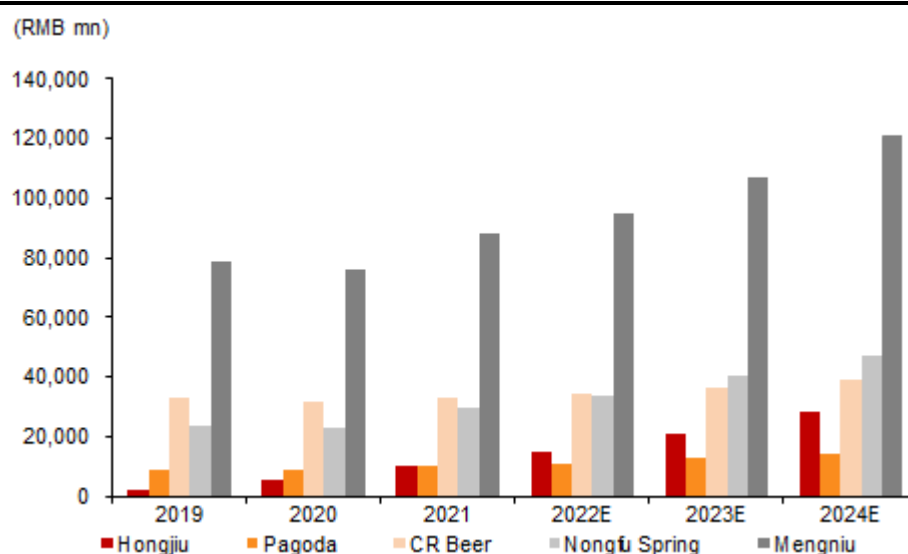


## Vis-à-vis China F&B H-share peers

We compare Hongjiu with other H-share F&B peers CR Beers (291 HK, BUY), Mengniu (2319 HK, BUY) and Nongfu Spring (9633 HK, BUY) to better understand the business dynamics of different sub-segments.

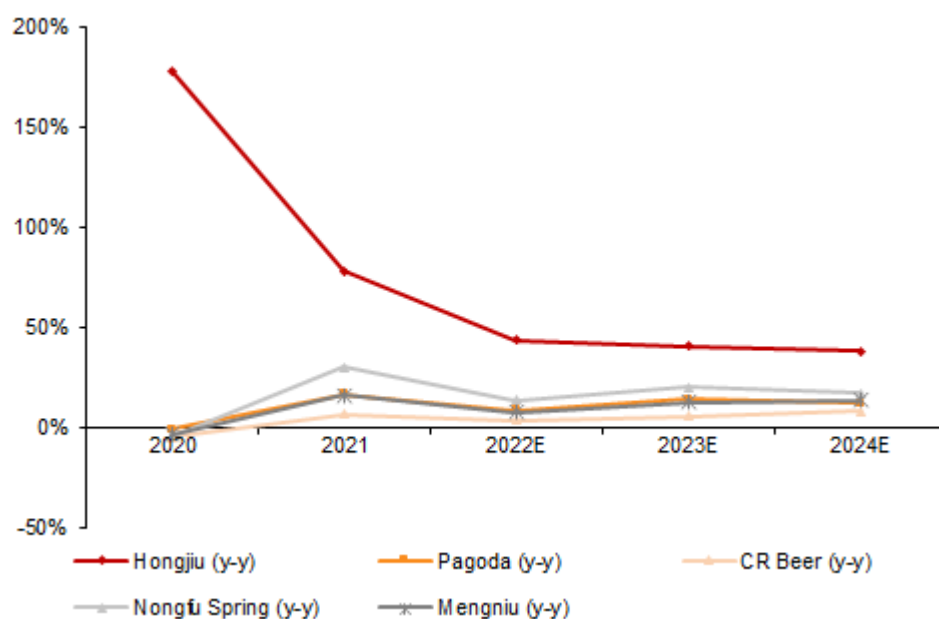
- **Revenue growth.** Among the four companies in our analysis, Hongjiu offers faster revenue growth profile to the peer average. Except CR Beer that offers a mid-single digit 3-year CAGR between 2021-24E in our forecast, as China's beer market is already ex-growth, the other three companies, in our view, will deliver low-to-mid-teen increases driven by both market share gain and penetration improvement.

**Figure 54: Revenue comparison 2019-24E**



Source: Company data, CMBIGM estimates

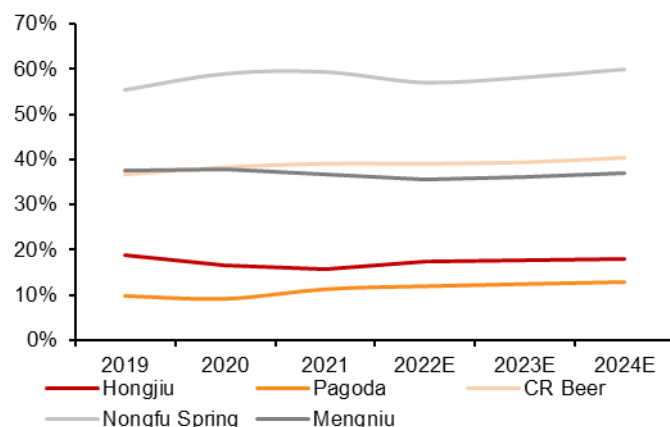
**Figure 55: Revenue growth comparison 2020-24E**



Source: Company data, CMBIGM estimates

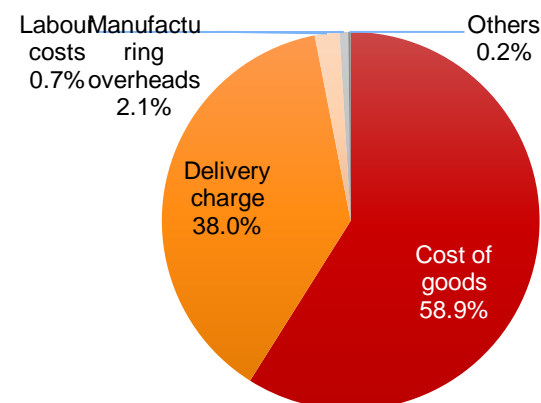
- **Gross margin.** Except to Pagoda, Hongjiu has lower gross margins relative to the rest of its peers. We attribute this to 1) a less flexible COGS structure when raw material costs represent 70%+ to total COGS vs 50%-ish for the peer group; 2) a more price-transparent competition landscape of the fresh food industry and 3) a relatively less solid brand power that stems from less value-added to the production process and investment into advertising and promotions.

Figure 56: Gross margins comparison 2019-24E



Source: Company data, CMBIGM estimates

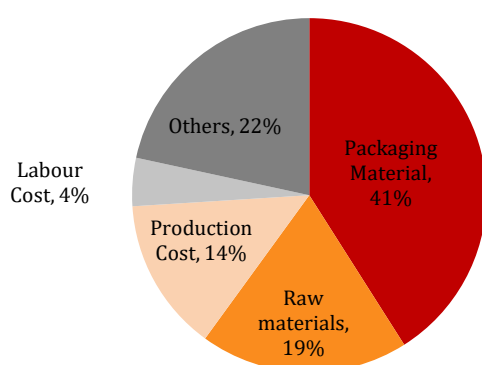
Figure 57: COGS mix 2021



Source: Company data, CMBIGM

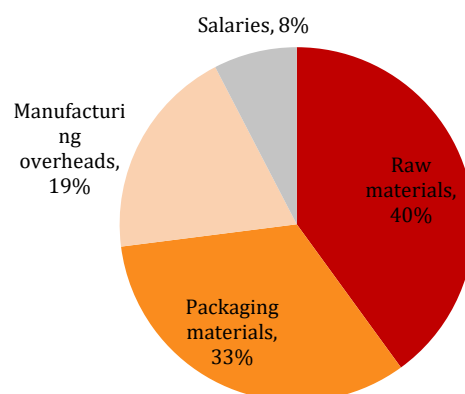
Despite these, Hongjiu has muted packaging cost shares in its COGS mix and that should save the company from any packaging cost inflation which CR Beer (bottle and aluminium cost) and Nongfu (PET) have been facing.

Figure 58: CR Beer COGS mix 2021



Source: Company data, CMBIGM

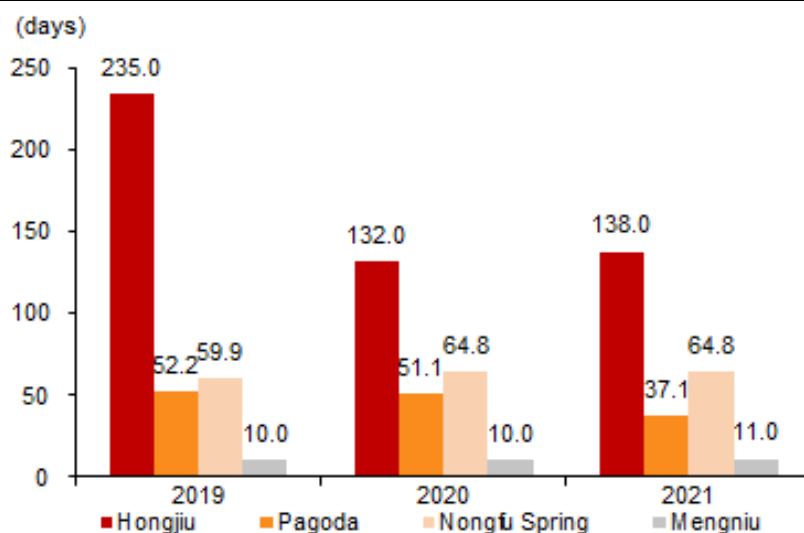
Figure 59: Nongfu Spring COGS mix 2021



Source: Company data, CMBIGM

- **Cash conversion cycle/ OCF.** Hongjiu has a much longer receivable day, hence cash conversion cycle than that of its peer group. However, we expect the situation to improve gradually in the next few years, as management has been actively shortening the credit terms from 180 days to 90 days during new contract engagement (or renewal).

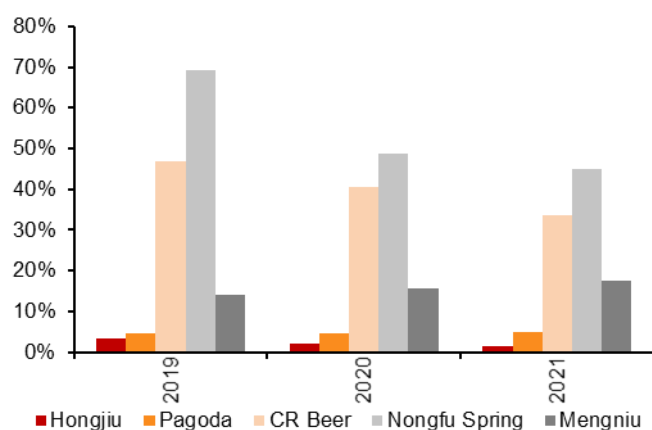
**Figure 60: Cash conversion days comparison 2019-21**



Source: Company data, CMBIGM

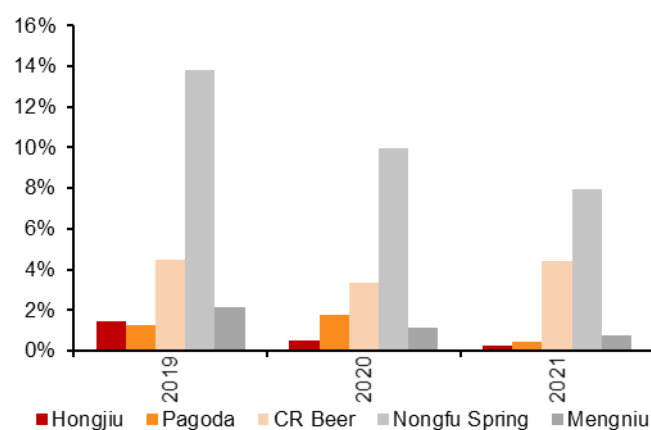
- **PPE and Capex.** Hongjiu has the lowest PPE ratio to total assets among its peers, as the company is relatively less automated with less value addition along the production process, and 2) Hongjiu's product upgrade mainly relies on procurement, which seems to be irrelevant to fixed assets upgrade. Separately, these also explain why Hongjiu spends the least on capex among all.

**Figure 61: PPE to total assets 2019-21**



Source: Company data, CMBIGM

**Figure 62: Capex to revenue 2019-21**

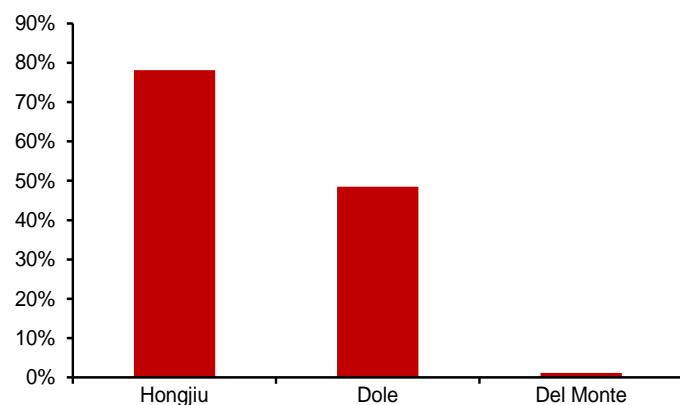


Source: Company data, CMBIGM

## Vis-à-vis Global Fresh food peers

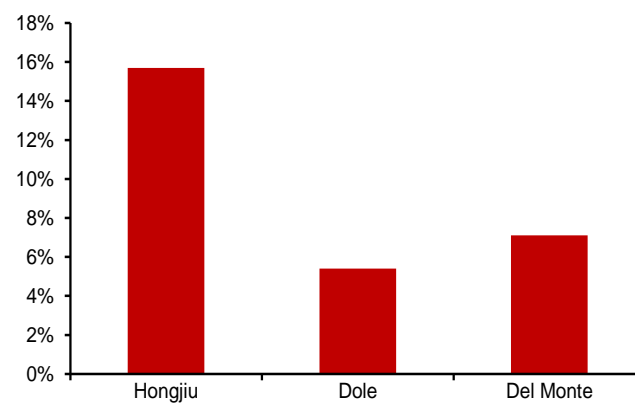
Despite being a single market supplier, Hongjiu performs better to its global fresh food retail peers such as Del Monte (FDP US, NR) and Dole (DOLE US, NR) in terms of their gross and operating margins. Meanwhile, we project Hongjiu to offer faster revenue growth thanks to its domestic leadership.

**Figure 63: Revenue growth comparison 2021**



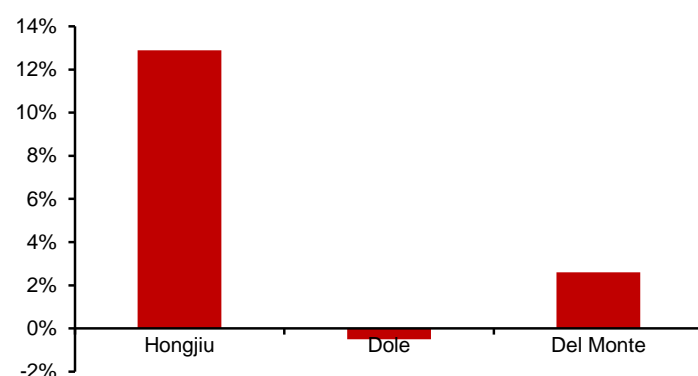
Source: Bloomberg, Company data, CMBIGM

**Figure 64: Gross margins comparison 2021**



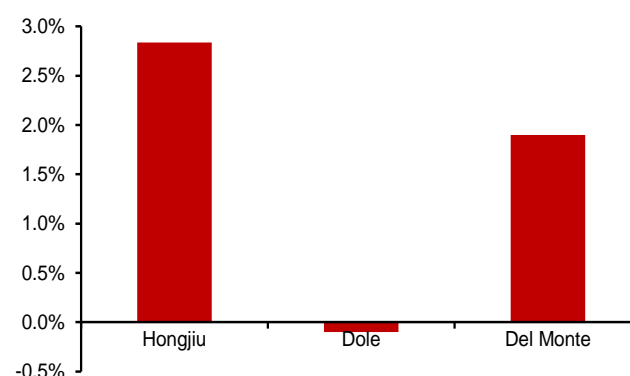
Source: Bloomberg, Company data, CMBIGM

**Figure 65: EBIT margin comparison 2021**



Source: Bloomberg, Company data, CMBIGM

**Figure 66: Net margins comparison 2021**



Source: Bloomberg, Company data, CMBIGM

**Figure 67: Global peers comparison at a glance**

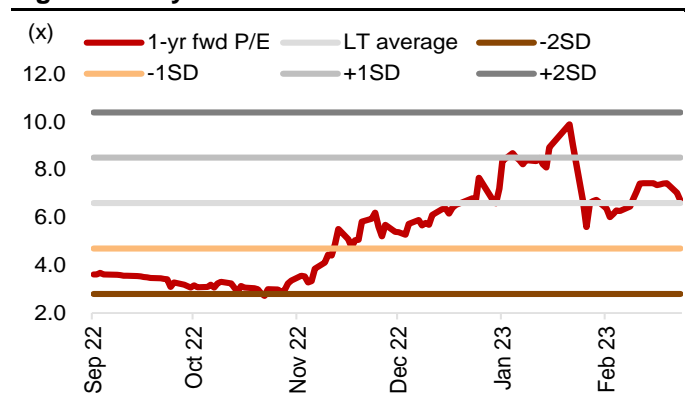
US\$ mn	Hongjiu	Dole	Bid Corp	Del Monte	Mission Produce	Performance Food	Great Sun Food	Zespri
Ticker	6689.HK	DOLE.US	BID.SJ	FDP.US	AVO.US	PFGC.US	603336.SS	N/A
Sales	1,593	6,454	7,762	4,252	892	50,894	151	3,012
Sales YoY growth	78.1%	48.5%	28.2%	1.2%	3.4%	67.4%	1.1%	9.3%
GP margin	15.7%	5.4%	24.0%	7.1%	14.0%	10.3%	10.5%	N/A
EBIT margin	12.9%	-0.5%	4.2%	2.6%	6.8%	0.6%	6.5%	11.7%
Adjusted net margin	10.6%	-0.1%	2.7%	1.9%	5.0%	0.2%	4.6%	8.4%

Source: Bloomberg, Company data, CMBIGM

## Valuation

Despite all financial asymmetries originated from the difference in business models, sub-segment dynamics and end-market consumption pattern, Hongjiu, in our view, remains a quality domestic fruit distributor driven to be growth-generative and margins-enhancive. Our TP is based on 8.4x end-23E P/E that represents +1sd above its valuation average. In our view, the methodology reflects 1) a faster top line growth than its local/ global peers, 2) a relatively higher sensitivity to China's re-opening given a rapidly recovering on-trade consumption.

**Figure 68: 1-year forward P/E chart**



Source: Bloomberg, Company data, CMBIGM

## Investment risks

- **The branding risk.** Hongjiu's multiple brand strategy stems from its overseas procurement from third party suppliers, and hence less control on product quality. Any failure to maintain food safety and consistent quality could have a material and adverse effect on the brands, business and financial performance.
- **The extreme weather risk.** Cultivation of fresh fruits is vulnerable to extreme weather conditions such as windstorms, hailstorms, drought, temperature extremes and typhoons, as well as natural disasters such as earthquakes, forest fires and floods. Unfavourable conditions can reduce both fruit yield and quality. In extreme cases, entire harvests may be lost in some geographic areas. These factors may create substantial volatility in the availability and price of certain fruits in a certain period.
- **The competition risk.** Fruit retailing is a highly fragmented industry with top five players commanding no more than 3.2% (Hongjiu at 1%), according to the CIC. Any new entrants with enormous cash wallet to burn could intensify competition or disintegrate the competitive moat that Hongjiu has cemented over the past 20 years.
- **The supplier risk.** Maintaining strong relationships with fruit suppliers is important to the growth of Hongjiu's business. In particular, it depends significantly on the ability to directly procure fruit products from suppliers on favourable terms. Hongjiu typically enters into 1-3 year framework agreement with suppliers and renew it upon expiration, but there can be no assurance that these framework agreements could ensure the availability of products or the continuation of particular pricing practices or payment terms beyond the end of contractual term.
- **The valuation risk.** Our valuation framework is based on global and China peer average valuation, underpinned by our growth assumptions that Hongjiu will benefit from China's reopening and other company specific catalysts. Should growth outlook significantly derail from our projections, we see risk in multiple compression away from the range we deploy in our framework.

Figure 69: Valuation comps – China leading F&amp;B and global fresh food peers

			TP	Price	Mkt Cap	PER (x)		Div yield (%)		ROE (%)	
Name	Ticker	Rating	(LC)	(LC)	USD Mn	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
China F&B peers											
CR Beer	291 HK	BUY	77.4	61.9	25,562	42.1	37.9	0.7	0.8	16.5	16.4
Tsingtao Beer	168 HK	BUY	89.9	81.2	18,382	28.6	25.7	1.3	1.4	13.7	14.0
Budweiser APAC	1876 HK	HOLD	27.2	24.7	41,588	39.7	33.2	0.0	0.0	9.0	10.0
Chongqing Beer	600132 CH	NR	n.a.	137.4	9,641	51.5	41.5	0.0	0.0	59.9	55.5
Mengniu	2319 HK	BUY	52.0	35.6	17,938	20.4	17.3	1.1	1.3	15.0	16.0
Yili	600887 CH	BUY	44.0	31.1	28,888	21.1	16.9	3.3	4.4	17.8	20.9
China Feihe	6186 HK	BUY	8.0	6.5	7,509	9.9	8.5	3.2	3.7	22.6	22.4
Nongfu Spring	9633 HK	BUY	57.6	44.4	63,541	53.6	44.6	4.1	4.9	33.2	32.4
Smooore	6969 HK	BUY	25.2	10.6	8,208	21.7	14.2	1.3	2.0	12.7	17.3
Hongjiu Fruits	6689 HK	BUY	44.0	28.8	5,144	7.8	5.5	-	-	25.2	26.2
Pagoda	2411 HK	BUY	7.9	6.1	1,234	25.3	18.0	0.6	0.9	10.6	13.3
WH Group	288 HK	NR	n.a.	4.8	7,878	6.0	5.9	0.1	0.1	14.9	13.6
Want Want	151 HK	NR	n.a.	5.1	7,751	12.6	13.9	0.1	0.1	27.3	22.6
Tingyi	322 HK	NR	n.a.	13.1	9,431	23.3	17.1	0.1	0.1	15.8	24.1
Uni-President	220 HK	NR	n.a.	7.3	3,995	22.1	17.2	0.0	0.1	9.2	11.9
Zhouheiya	1458 HK	NR	n.a.	4.1	1,257	165.3	26.9	0.0	0.0	3.1	7.4
Juewei	603517 CH	NR	n.a.	51.5	4,717	96.5	31.2	0.0	0.0	5.8	15.2
Haitian	603288 CH	NR	n.a.	81.6	54,818	55.1	46.7	0.0	0.0	24.9	25.2
Moutai	600519 CH	NR	n.a.	1828.0	332,912	36.8	31.3	0.0	0.0	28.9	28.9
Wuliangye	000858 CH	NR	n.a.	206.2	116,059	29.8	25.9	0.0	0.0	24.0	23.9
Laojiao	000568 CH	NR	n.a.	255.0	54,409	37.0	30.0	0.0	0.0	30.7	30.7
Shede	600702 CH	NR	n.a.	201.8	9,747	43.5	34.3	0.0	0.0	25.1	25.1
Mean						37.0	30.8	0.7	0.9	20.3	21.5
Median						29.2	25.8	0.1	0.1	17.1	21.7
Global Fresh Food peers											
Mission Produce	AVO US	NR	n.a.	11.5	811	25.2	16.9	n.a.	0.0	5.8	7.6
Dole	DOLE US	NR	n.a.	11.9	1,127	12.9	10.6	0.0	0.0	6.6	6.7
Del Monte	FDP US	NR	n.a.	31.7	1,516	21.7	14.1	n.a.	n.a.	n.a.	n.a.
Performnce Food	PFGC US	NR	n.a.	57.3	8,947	22.3	15.0	n.a.	n.a.	6.8	14.4
Bid Corp	BID SJ	NR	n.a.	39827	7,354	31.0	21.8	0.0	0.0	16.8	19.9
Mean						22.6	15.7	0.0	0.0	9.0	12.2
Median						22.3	15.0	0.0	0.0	6.7	11.0
Average of Global and China peers mean						29.8	23.0	0.4	0.5	14.6	16.8
Average of Global and China peers median						25.7	20.4	0.0	0.0	11.9	16.3

Source: Bloomberg, Company data, CMBIGM estimates



## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>5,771</b>	<b>10,280</b>	<b>14,718</b>	<b>20,632</b>	<b>28,150</b>
Branded	4,397	5,910	8,945	13,007	18,803
Non-branded	1,374	4,370	5,773	7,624	9,347
<b>Gross profits</b>	<b>957</b>	<b>1,613</b>	<b>2,578</b>	<b>3,657</b>	<b>5,096</b>
Selling expense	(93)	(184)	(486)	(743)	(1,070)
Administration expenses	(126)	(188)	(294)	(413)	(563)
Other expense, net	52	84	86	121	164
<b>EBIT</b>	<b>790</b>	<b>1,326</b>	<b>1,884</b>	<b>2,622</b>	<b>3,628</b>
Finance costs, net	(6)	(29)	(60)	(65)	(55)
Non-operating	(660)	(797)	-	-	-
<b>Pre-tax profit</b>	<b>125</b>	<b>500</b>	<b>1,824</b>	<b>2,557</b>	<b>3,573</b>
Income tax	(122)	(207)	(365)	(511)	(715)
Less: Minority interests	(0)	(1)	18	26	36
<b>Net profit</b>	<b>3</b>	<b>292</b>	<b>1,477</b>	<b>2,071</b>	<b>2,894</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profits before tax</b>	<b>125</b>	<b>500</b>	<b>1,824</b>	<b>2,557</b>	<b>3,573</b>
D&A	9	13	45	53	58
Change in working capital	(1,507)	(2,127)	(1,794)	(2,117)	(2,507)
Others	569	633	(305)	(447)	(659)
<b>Net cash fr. operating act.</b>	<b>(804)</b>	<b>(982)</b>	<b>(230)</b>	<b>46</b>	<b>464</b>
Capex & investments	(28)	(25)	(70)	(70)	(70)
Others	102	154	-	-	-
<b>Net cash fr. investing act.</b>	<b>73</b>	<b>129</b>	<b>(70)</b>	<b>(70)</b>	<b>(70)</b>
Change of Debts	106	774	400	100	(200)
Dividend paid	-	(0)	-	-	-
Others	827	(53)	(60)	(65)	(55)
<b>Net cash fr. financing act.</b>	<b>933</b>	<b>721</b>	<b>340</b>	<b>35</b>	<b>(255)</b>
<b>Net change in cash</b>	<b>202</b>	<b>(132)</b>	<b>40</b>	<b>11</b>	<b>139</b>
Cash at the beginning of the	174	371	240	280	291
<b>Cash at the end of the year</b>	<b>376</b>	<b>240</b>	<b>280</b>	<b>291</b>	<b>430</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>104</b>	<b>148</b>	<b>173</b>	<b>190</b>	<b>202</b>
PP&E/Fixed assets	77	81	106	123	135
Intangible assets	0	0	0	0	0
Right-of-use assets	20	59	59	59	59
Other non-current assets	7	8	8	8	8
<b>Current assets</b>	<b>3,567</b>	<b>5,608</b>	<b>7,847</b>	<b>10,375</b>	<b>13,474</b>
Cash	376	240	280	291	430
Account receivable	2,929	5,134	7,258	9,609	12,340
Inventory	99	225	299	465	695
Other current assets	163	10	10	10	10
<b>Current liabilities</b>	<b>3,623</b>	<b>1,311</b>	<b>1,452</b>	<b>1,639</b>	<b>1,877</b>
Accounts payable	152	325	466	653	891
Borrowing	67	875	875	875	875
Lease liability	7	19	19	19	19
Other current liabilities	3,398	92	92	92	92
<b>Non-current liabilities</b>	<b>46</b>	<b>35</b>	<b>700</b>	<b>1,012</b>	<b>1,027</b>
Borrowings	40	-	400	500	300
Lease liabilities	5	35	299	512	726
Other non-current liabilities	0	0	0	0	0
<b>Total equity</b>	<b>2</b>	<b>4,410</b>	<b>5,869</b>	<b>7,914</b>	<b>10,772</b>
Paid in capital/share	453	453	453	453	453
Reserves	(453)	3,953	5,431	7,502	10,396
Non-controlling interests	2	3	(15)	(41)	(76)

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Branded	76.2	57.5	60.8	63.0	66.8
Non-branded	23.8	42.5	39.2	37.0	33.2
<b>P&amp;L ratios (%)</b>					
Gross margin	16.6	15.7	17.5	17.7	18.1
EBIT margin	13.7	12.9	12.8	12.7	12.9
Pre-tax margin	2.2	(0.0)	0.1	0.1	0.1
Net margin	0.0	2.8	10.0	10.0	10.3
Effective tax rate	97.8	41.5	20.0	20.0	20.0
<b>Balance sheet analysis</b>					
Current ratio (x)	0.1	0.0	0.0	0.0	0.0
Net trade receivable days	134.5	141.2	180.0	170.0	160.0
Inventory turnover days	6.4	6.7	9.0	10.0	11.0
Net trade payable days	9.0	9.9	9.0	11.0	11.5
Net debt to equity (%)	n.m	14.4	16.9	13.6	6.9
<b>Returns (%)</b>					
ROE	n.a	6.6	25.1	26.0	26.7
ROA	0.1	5.1	18.4	19.6	21.2
ROIC	0.1	5.3	18.2	19.0	20.5
<b>Per share</b>					
EPS (RMB)	0.0	1.5	3.3	4.6	6.4
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	0.0	23.0	13.0	17.5	23.8

Source: Company data, CMBIGM estimates

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