

Want Want (151 HK)

Double-digit revenue growth in Apr and May

FY20 NP rose 5% YoY to RMB3,649mn, in line with consensus and our estimate. Payout ratio rose 82% to 99% on strong operating cash flow. Sales trend recovered to normal with double-digit revenue growth in Apr and May. Share price fell 17% YTD (vs peers' +7%). While sales recovered to positive growth, the stock is still trading at 16.4x FY21E P/E (at low-end of 16-24x P/E range beginning from FY14). We think such underperformance is unjustified. Maintain BUY.

- **Results in line.** Revenue fell 3% YoY to RMB20,095mn, 4%/2% below consensus/our estimate. Before COVID-19, the whole business recorded high single-digit growth YoY for the period of 90 days leading to CNY holidays. GPM expanded 2.7ppt to 48.0%, in line with consensus but 0.6ppt above our estimate, which was driven by product mix optimization (new products and emerging channels) and VAT reduction. Selling expenses ratio fell 0.5ppt to 13.9% led by 0.2ppt/0.3ppt decline of A&P/staff expenses ratio. OP rose 5% with OPM rose 1.8ppt to 23.9%.
- **Generous dividend payout.** Including special dividend, total dividend per share rose 22% to US\$0.042. Payout ratio increased from 82% to 99%, backed by 11% growth of operating cash flow and 10% growth net cash. Management reiterates to return excess cash inflow to shareholders by dividend and share buyback. Since listing, around 83-85% FCF has been returned to shareholders.
- **Sales recovered in Apr and May.** Revenue fell 20%+ YoY in Feb and Mar. During epidemic, the Company introduced incentive policies and cooperated with banks to launch financial relief to distributors to help resume normal operations. Led by channel products replenishment and increased distributor confidence, the Company achieved double-digit sales growth in Apr and May. Channel inventory level is very healthy currently according to management.
- **New products and channel diversification to drive growth.** (1) **Emerging channels:** Sales from emerging channels increased by mid-teens in FY20, with channels' contribution reaching mid single-digit of total revenue. (2) **New products:** The Company will continue to launch new and healthy products to meet consumers' demand. For examples, the Company launched "Baby Mum-Mum", "Fix Body", "Prime of Love" and "Shi Ji Yan" to target consumers (from babies to young people to elderly) looking for low-sugar, low-calorie, no additives and new tastes snacks. New products and emerging channels generally possess higher GPM, which supported 1.2ppt GPM YoY expansion in 2HFY20.
- **Maintain Buy, raised TP to HK\$7.80.** We raised FY21/22E NP estimates by 5% driven by revising up GPM estimates by 1.4/1.8ppt. Our TP was upped from HK\$7.60 to HK\$7.80, based on 21.2x FY21E P/E (vs 21.7x previously, still at historical average beginning FY14). **Catalysts:** (1) better-than-expected revenue/margins; (2) share purchase by company or major shareholders. **Risks:** (1) keen competition; (2) food safety issues; (3) unfavorable raw materials prices.

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	20,712	20,095	21,845	22,615	23,640
Net profit (RMB mn)	3,477	3,649	4,092	4,357	4,697
EPS (RMB)	0.279	0.294	0.330	0.351	0.378
YoY growth (%)	12.0	5.2	12.2	6.5	7.8
Consensus EPS (RMB)	na	na	0.321	0.341	0.330
P/E (x)	18.5	18.3	16.4	15.4	14.3
P/B (x)	4.2	4.4	4.3	4.0	3.7
Yield (%)	4.5	5.4	4.9	5.2	5.6
ROAE (%)	23.3	23.8	26.4	26.8	27.1
Net cash (RMB mn)	7,620	8,376	9,281	10,821	12,459

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.80
(Previous TP	HK\$7.60)
Up/Downside	+28%
Current Price	HK\$6.02

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	74,739
Avg 3 mths t/o (HK\$ mn)	99.39
52w High/Low (HK\$)	7.45/ 4.73
Total Issued Shares (mn)	12,415.2

Source: Bloomberg

Shareholding Structure

Tsai Eng-Meng	50.7%
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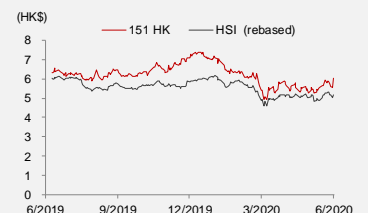
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.1%	5.2%
3-mth	-1.6%	-0.5%
6-mth	-21.9%	-9.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Want Want – COVID-19 impact could be priced in" – 11 Mar 2020
2. "Want Want – 1HFY20 results beat on strong GPM" – 20 Nov 2019
3. "Want Want – Attractive valuation and dividend yield" – 19 Jun 2019
4. "Want Want – Various initiatives to drive sales growth; low valuation unjustified" – 8 Jan 2019

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Figure 1: FY20 results review

Y/E Mar (RMB mn)	FY20	FY19	% change	Remarks
Revenue	20,095	20,712	-3%	Dairy and beverage +1%; Rice cracker/snack foods down 4%/9%
Cost of sales	(10,439)	(11,312)	-8%	
Gross profit	9,655	9,400	3%	
Other income	419	459	-9%	
Other gain/(losses)	9	50	-83%	RMB33mn donation expenses in FY20
Selling and distribution expenses	(2,791)	(2,985)	-6%	A&P exp ratio fell 0.2ppt as certain spending in 4QFY20 delayed, staff cost ratio fell 0.3ppt because of reducing headcounts
Administrative expenses	(2,485)	(2,338)	6%	increase in R&D exp and employees' salary
Operating profit	4,806	4,586	5%	
Finance income	559	503	11%	
Finance costs	(313)	(278)	13%	
Share of profit from associate	(3)	(5)	-38%	
Profit before tax	5,049	4,806	5%	
Tax expense	(1,413)	(1,344)	5%	
Profit after tax	3,636	3,463	5%	
Non-controlling interests	13	14	-8%	
Net profit	3,649	3,477	5%	
EPS (RMB)	0.29	0.28	5%	
DPS (US\$)	0.042	0.034	22%	
Margin & Ratio (%)				
Gross profit margin	48.0	45.4	2.7	Driven by optimized product mix and VAT cut
Operating profit margin	23.9	22.1	1.8	
SG&A expenses ratio	26.3	25.7	0.6	
A&P expenses ratio	2.9	3.1	(0.2)	
Net profit margin	18.2	16.8	1.4	
Effective tax rate	(28.0)	(28.0)	(0.0)	
	FY20	FY19	change	
Inventory days	90	80	10	affected by pandemic in 4QFY20
A/C receivables days	17	19	(2)	
A/C payable days	37	37	0	
	FY20	FY19	change	
Net cash/(debt) (Rmb mn)	8,376	7,620	10%	

Source: Company data

Figure 2: Earnings revision

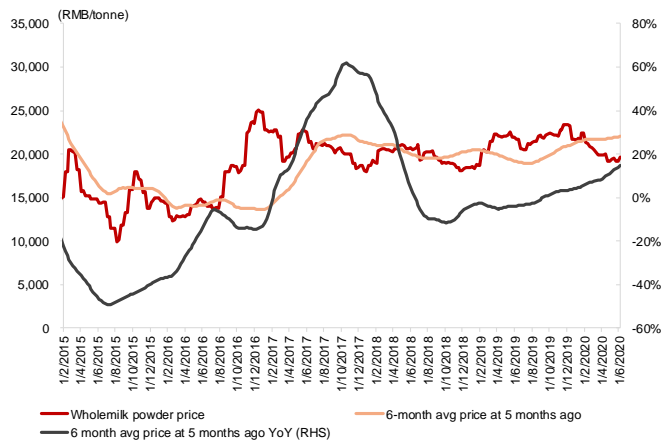
US\$ mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,845	22,615	23,640	22,035	23,098	na	-1%	-2%	na
Gross Profit	10,638	11,149	11,796	10,422	10,972	na	2%	2%	na
Operating Profit	5,362	5,659	6,076	4,970	5,260	na	8%	8%	na
Net profit	4,092	4,357	4,697	3,913	4,165	na	5%	5%	na
Gross Margin	48.7%	49.3%	49.9%	47.3%	47.5%	na	+1.4ppt	+1.8ppt	na
Operating Margin	24.5%	25.0%	25.7%	22.6%	22.8%	na	+1.9ppt	+2.2ppt	na
Net Margin	18.7%	19.3%	19.9%	17.8%	18.0%	na	+0.9ppt	+1.3ppt	na

Source: Company data, CMBIS estimates

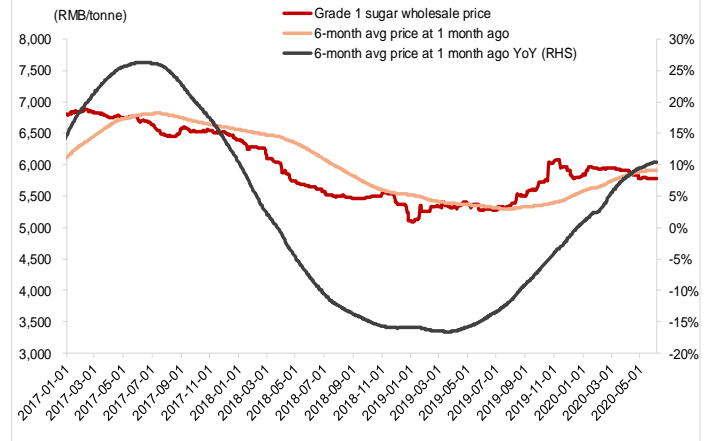
Figure 3: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,845	22,615	23,640	21,600	22,334	21,969	1%	1%	8%
Gross Profit	10,638	11,149	11,796	10,433	10,940	11,017	2%	2%	7%
Operating Profit	5,362	5,659	6,076	5,146	5,325	5,222	4%	6%	16%
Net profit	4,092	4,357	4,697	3,975	4,186	4,266	3%	4%	10%
Gross Margin	48.7%	49.3%	49.9%	48.3%	49.0%	50.2%	+0.4ppt	+0.3ppt	-0.3ppt
Operating Margin	24.5%	25.0%	25.7%	23.8%	23.8%	23.8%	+0.7ppt	+1.2ppt	+1.9ppt
Net Margin	18.7%	19.3%	19.9%	18.4%	18.7%	19.4%	+0.3ppt	+0.6ppt	+0.5ppt

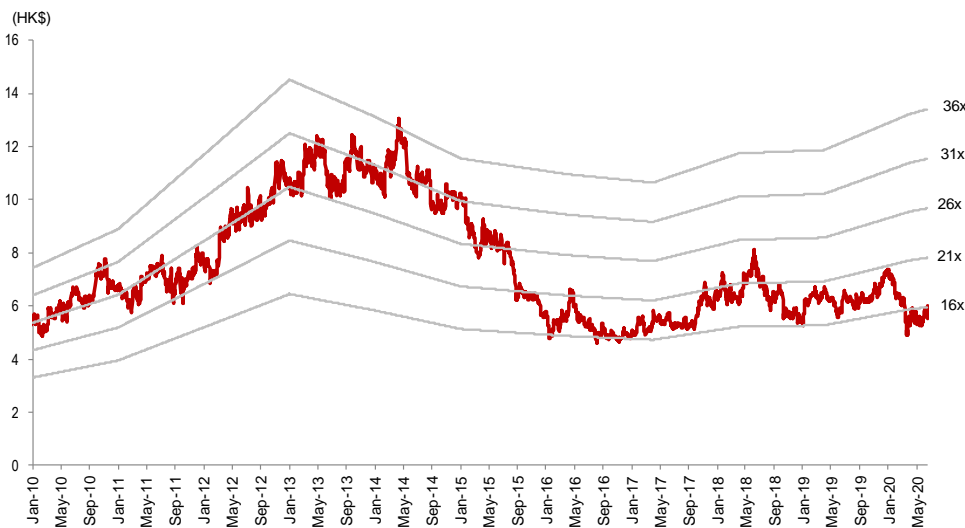
Source: Bloomberg, CMBIS estimates

Figure 4: New Zealand GDP whole milk powder price has dropped since 2020


Source: Bloomberg, CMBIS estimates

Figure 5: China's grade 1 white sugar wholesale price is stable


Source: Wind, CMBIS estimates

Figure 6: P/E band


Source: Bloomberg, Company data, CMBIS estimates

Figure 7: Share buyback record of the Company

Date	Number of shares	Avg price (HK\$)
18-Oct-19	1,875,000	6.35
16-Oct-19	3,459,000	6.25
14-Oct-19	2,119,000	6.34
17-May-19	8,500,000	6.03
15-May-19	6,000,000	6.01
10-May-19	4,786,000	6.15
09-May-19	3,882,000	6.20
06-May-19	2,737,000	6.18
03-May-19	270,000	6.20
02-May-19	315,000	6.18
30-Apr-19	160,000	6.16
28-Mar-18	10,000,000	6.14
16-Mar-18	1,867,000	6.29
15-Mar-18	880,000	6.26
20-Feb-18	2,700,000	6.16
15-Feb-18	378,000	6.18
14-Feb-18	528,000	6.12
FY20 total	34,103,000	

Source: HKEX, CMBIS

Figure 8: Share purchase record by Mr. Tsai's family since 2018

Date	Number of shares	Avg price (HK\$)	Purchaser
03-Feb-20	356,000	6.44	Tsai Shao-Chung
03-Sep-18	3,519,000	6.46	Tsai Eng-Meng
31-Aug-18	5,000,000	6.40	Tsai Eng-Meng
30-Aug-18	5,000,000	6.51	Tsai Eng-Meng
29-Aug-18	7,000,000	6.51	Tsai Eng-Meng
28-Aug-18	8,013,000	6.54	Tsai Eng-Meng
27-Aug-18	2,911,000	6.46	Tsai Eng-Meng
24-Aug-18	3,045,000	6.26	Tsai Eng-Meng
23-Aug-18	2,067,000	6.26	Tsai Eng-Meng
22-Aug-18	3,232,000	6.26	Tsai Eng-Meng
21-Aug-18	842,000	6.28	Tsai Eng-Meng
20-Aug-18	926,000	6.09	Tsai Eng-Meng
17-Aug-18	5,500,000	6.13	Tsai Eng-Meng
16-Aug-18	5,500,000	5.95	Tsai Eng-Meng
15-Aug-18	3,000,000	5.85	Tsai Eng-Meng
Total	55,911,000		

Source: HKEX, CMBIS

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	20,712	20,095	21,845	22,615	23,640
Rice crackers	5,813	5,611	6,012	6,191	6,473
Dairy and beverages	9,730	9,813	10,675	11,088	11,575
Snacks	5,101	4,634	5,112	5,290	5,546
Others	68	36	46	46	46
Cost of sales	(11,312)	(10,439)	(11,206)	(11,466)	(11,844)
Gross profit	9,400	9,655	10,638	11,149	11,796
Other income	459	419	449	462	487
Other gains/(losses)	50	9	(11)	(11)	(11)
Selling expenses	(2,985)	(2,791)	(3,080)	(3,189)	(3,333)
Administrative expenses	(2,338)	(2,485)	(2,635)	(2,753)	(2,863)
Operating profit	4,586	4,806	5,362	5,659	6,076
Net finance income	225	246	264	331	381
Share of profit of associate	(5)	(3)	(3)	(3)	(3)
Profit before tax	4,806	5,049	5,622	5,986	6,455
Income tax	(1,344)	(1,413)	(1,547)	(1,647)	(1,776)
Non-controlling interests	14	13	17	18	19
Net profit	3,477	3,649	4,092	4,357	4,697

Cash flow summary

YE 31 Mar (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Profit before tax	4,806	4,919	5,622	5,986	6,455
Depreciation and amortization	854	820	852	855	844
Change in working capital	(53)	137	9	54	48
Others	(1,254)	(1,158)	(1,544)	(1,644)	(1,773)
Net cash from operating	4,353	4,718	4,939	5,251	5,573
Capex	(355)	(400)	(400)	(400)	(400)
Change of financial inv.	482	0	0	0	0
Others	251	0	0	0	0
Net cash from investing	379	(400)	(400)	(400)	(400)
Change of borrowings	2,112	2,000	0	0	0
Share repurchase	(49)	(185)	0	0	0
Dividend paid	(2,297)	(2,933)	(3,634)	(3,312)	(3,534)
Others	(10)	0	0	0	0
Net cash from financing	(244)	(1,118)	(3,634)	(3,312)	(3,534)
Net change in cash	4,488	3,200	905	1,539	1,639
Cash at the beginning of the year	12,500	17,134	17,257	18,162	19,701
Exchange difference	146	0	0	0	0
Cash at the end of the year	17,134	20,334	18,162	19,701	21,340

Balance sheet

YE 31 Mar (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	8,642	8,219	7,764	7,307	6,860
PPE	7,324	6,771	6,391	6,001	5,616
Prepaid lease payments	940	1,062	993	931	875
Others	352	386	380	375	369
Current assets	21,195	21,606	22,852	24,521	26,341
Cash	17,134	17,257	18,162	19,701	21,340
Inventories	2,384	2,746	2,948	3,016	3,116
Account receivable	1,035	847	920	953	996
Prepayments	641	756	822	851	890
Others	0	0	0	0	0
Current liabilities	6,295	5,822	6,172	6,356	6,585
Trade payables	1,035	1,093	1,173	1,201	1,240
Other payables	3,175	3,956	4,226	4,382	4,572
Bank borrowings	1,744	587	587	587	587
Others	341	186	186	186	186
Non-current liabilities	8,113	8,649	8,649	8,649	8,649
Bank borrowings	7,770	8,294	8,294	8,294	8,294
Others	75	141	141	141	141
Deferred tax liabilities	268	214	214	214	214
Minority Interest	98	82	65	47	28
Total net assets	15,428	15,354	15,796	16,823	17,967
Shareholders' equity	15,331	15,273	15,731	16,776	17,939

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Rice crackers	28.1	27.9	27.5	27.4	27.4
Dairy and beverages	47.0	48.8	48.9	49.0	49.0
Snacks	24.6	23.1	23.4	23.4	23.5
Others	0.3	0.2	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	45.4	48.0	48.7	49.3	49.9
Operating profit margin	22.1	23.9	24.5	25.0	25.7
Effective tax rate	16.8	18.2	18.7	19.3	19.9
Net profit margin	28.0	28.0	27.5	27.5	27.5
Payout ratio	82.2	98.7	80.0	80.0	80.0
Balance sheet ratios					
Current ratio (x)	3.4	3.7	3.7	3.9	4.0
Asset turnover (x)	0.7	0.7	0.7	0.7	0.7
Net cash (RMB mn)	7,620	8,376	9,281	10,821	12,459
Returns (%)					
ROAE	23.3	23.8	26.4	26.8	27.1
ROAA	12.3	12.2	13.5	13.9	14.4
Per share					
EPS (RMB)	0.28	0.29	0.33	0.35	0.38
DPS (US\$)	0.034	0.042	0.038	0.040	0.043
BVPS (RMB)	1.23	1.23	1.27	1.35	1.44

Source: Company data, CMBIS estimates

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