

Want Want (151 HK)

1HFY20 results beat on strong GPM

1HFY20 net profit rose 18% YoY, 6%/4% above consensus/our estimates, due to stronger-than-expected GPM. The Company will adopt multi-brand strategy and channel diversification to drive growth and improve GPM. We raised FY20E net profit estimates by 3% and TP from HK\$7.50 to HK\$7.70. Maintain BUY.

- **1HFY20 results beat.** Revenue rose 1% YoY to RMB9.3bn, 3% above consensus. Except popsicle sales fell by double-digit due to unfavorable weather, core brands (85% of revenue) achieved mid-single-digit growth. New products accounted for 9% of revenue (vs 7% in FY19). GPM widened by 4.4ppt YoY to 48.9%, 1.9ppt above consensus, which was 50%/25%/25% driven by VAT cut /product mix enhancement /drop of raw materials costs. SG&A expenses ratio rose 0.9ppt to 28.5%, driven by 1.0ppt increase of R&D expenses ratio on new products development.
- **Multi-brand strategy and product upgrade to improve growth and GPM.** The Company had initiated multi-brand strategy to target different age groups (from babies, children, youngsters to elderly) and differentiated needs (keep fit, OL snacks) of consumers. New products (such as "Tian She Mi Shao", Pocket Jelly etc) and product upgrade (healthy and nutrition products such as low-sugar and trans-fatty acid free rice crackers, Hot-Kid pure milk etc) are brought in with high margins, while sales of low-margin sub-brands were reduced. New product sales mix increased to 9% in 1HFY20 from 7% in FY19.
- **Channel diversification to drive growth.** Sales mix from emerging channels increased from 5% in 1HFY19 to mid-to-high single-digit in 1HFY20, driven by rapid growth in e-commerce, maternity stores and themed stores channels. Management revealed GPM of emerging channels are generally higher than traditional channel because sales mainly come from new products. However, OPM of emerging channels is similar or slightly lower than traditional channel due to higher operating expenses ratio. We think OPM could improve in future when sales grow.
- **2HFY20E outlook.** The Company will continue to improve revenue growth and GPM through multi-brand strategy, product upgrade and channel diversification. That said, due to prices rebound of milk powder and sugar, we expect raw materials prices will be higher in 2HFY20E. GPM is estimated to expand 0.7ppt YoY to 46.8% in 2HFY20E, at a slower pace than 1HFY20. Management targets A&P expenses ratio would remain at historical ranges despite multi-brand strategy and launch of new products. R&D expense would stay at around 1.5% for 1-2 years to develop new products.
- **Lift TP to HK\$7.70.** We raised our FY20 net profit estimates by 3% mainly to reflect higher GPM assumption. Our TP is revised from HK\$7.50 to HK\$7.70, still based on 21.7x FY20E P/E (at historical average). **Catalysts:** (1) revenue growth accelerates; (2) better-than-expected margins. **Risks:** (1) keen competition; (2) food safety issues; (3) unfavorable raw materials prices.

Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	20,150	20,712	21,444	22,485	23,572
Net profit (RMB mn)	3,116	3,477	3,939	4,082	4,344
EPS (RMB)	0.249	0.279	0.317	0.329	0.350
YoY growth (%)	(5.5)	12.0	13.5	3.8	6.4
P/E (x)	22.7	20.5	18.9	18.2	17.1
P/B (x)	4.9	4.6	4.6	4.3	4.1
Yield (%)	3.6	4.0	4.2	4.4	4.7
ROAE (%)	23.3	23.3	24.9	24.4	24.5
Net cash (RMB mn)	5,596	7,620	9,088	10,350	11,793

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.70
(Previous TP	HK\$7.50)
Up/Downside	+15%
Current Price	HK\$6.68

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	82,933
Avg 3 mths t/o (HK\$ mn)	83.39
52w High/Low (HK\$)	6.85/ 5.14
Total Issued Shares (mn)	12,449.3

Source: Bloomberg

Shareholding Structure

Tsai Eng-Meng	50.7%
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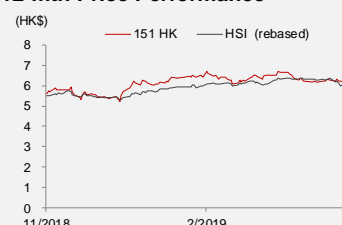
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.5%	0.6%
3-mth	5.6%	1.9%
6-mth	5.3%	10.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

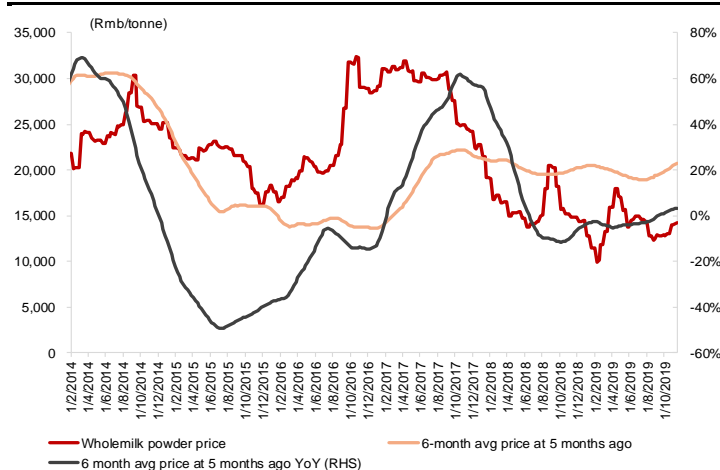
Related Reports

1. "Want Want – Attractive valuation and dividend yield" – 19 Jun 2019
2. "Want Want – Various initiatives to drive sales growth; low valuation unjustified" – 8 Jan 2019

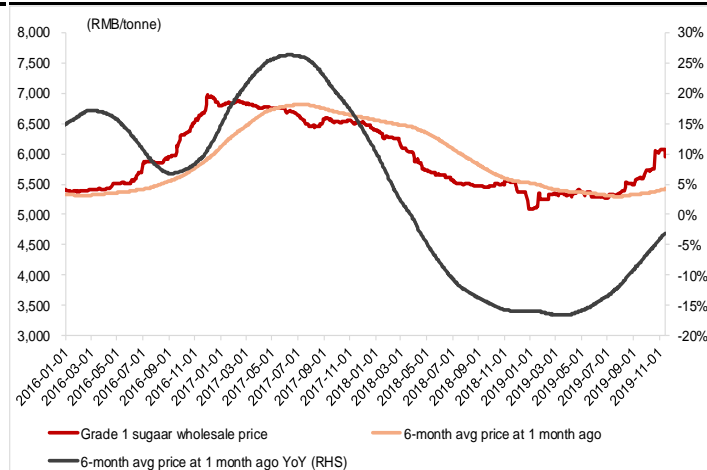
Figure 1: 1HFY20 results review

Y/E Mar (RMB mn)	1HFY20	1HFY19	% change	Remarks
Revenue	9,304	9,248	1%	Core products (Hot-Kid milk, Want Want rice crackers, candies and bean, jellies and others) posted mid single-digit growth
Cost of sales	(4,754)	(5,131)	-7%	
Gross profit	4,550	4,117	11%	
Other income	158	214	-26%	government grant fell 30%
Other gain/(losses)	2	(4)	-141%	
Selling and distribution expenses	(1,370)	(1,439)	-5%	A&P expenses effectively controlled, staff costs dropped on decrease of headcount
Administrative expenses	(1,286)	(1,115)	15%	increase of R&D expenses, upward adjustment of salaries
Operating profit	2,054	1,772	16%	
Finance income	296	236	25%	
Finance costs	(158)	(124)	28%	
Share of profit from associate	(2)	(4)	-52%	
Profit before tax	2,189	1,881	16%	
Tax expense	(585)	(526)	11%	
Profit after tax	1,605	1,355	18%	
Non-controlling interests	10	9	13%	
Net profit	1,615	1,364	18%	
EPS (RMB)	0.13	0.11	19%	
DPS (US\$)	0.0064	0.0053	21%	Payout ratio was 34% in 1HFY20
Margin & Ratio (%)				
Gross profit margin	48.9	44.5	4.4	VAT cut/product mix enhancement/drop of raw materials prices contributed 50%/25%/25% of GPM improvement
Operating profit margin	22.1	19.2	2.9	A&P expenses ratio fell 0.4ppt to 3.3%, staff costs expenses ratio fell 0.5 ppt to 5.9%
SG&A expenses ratio	28.5	27.6	0.9	R&D expenses ratio increased 1.0ppt to 1.5%
A&P expenses ratio	3.3	3.7	(0.4)	
Net profit margin	17.4	14.8	2.6	
Effective tax rate	(26.7)	(27.9)	1.2	
	1HFY20	1HFY19	change	
Inventory days	94	96	(2)	
A/C receivables days	19	21	(2)	
A/C payable days	43	45	(2)	
	1HFY20	1HFY19	change	
Net cash/(debt) (Rmb mn)	6,301	4,033	56%	

Source: Company data

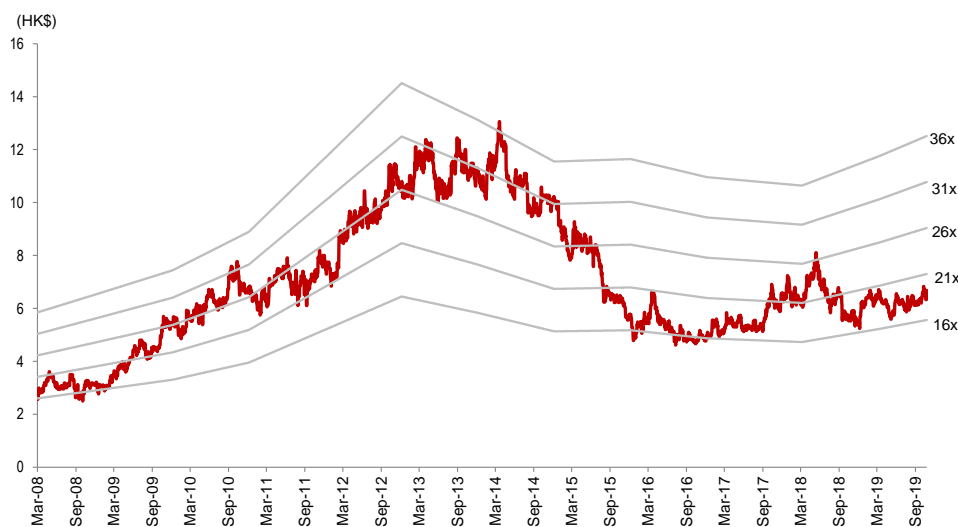
Figure 2: New Zealand GDP whole milk powder price is rebounding

Source: Bloomberg, CMBIS estimates

Figure 3: China's grade 1 white sugar wholesale price is rebounding

Source: Wind, CMBIS estimates

Figure 4: P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 5: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	21,444	22,485	23,572	21,499	22,476	23,608	0%	0%	0%
Gross Profit	10,229	10,658	11,220	10,083	10,609	11,214	1%	0%	0%
Operating Profit	5,047	5,173	5,473	4,951	5,227	5,555	2%	-1%	-1%
Net profit	3,939	4,082	4,344	3,807	4,072	4,362	3%	0%	0%
Gross Margin	47.7%	47.4%	47.6%	46.9%	47.2%	47.5%	+0.8ppt	+0.2ppt	+0.1ppt
Operating Margin	23.5%	23.0%	23.2%	23.0%	23.3%	23.5%	+0.5ppt	-0.3ppt	-0.3ppt
Net Margin	18.4%	18.2%	18.4%	17.7%	18.1%	18.5%	+0.7ppt	+0.1ppt	-0.1ppt

Source: Company data, CMBIS estimates

Figure 6: CMBI estimates vs consensus

US\$ mn	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	21,444	22,485	23,572	21,371	22,155	22,928	0%	1%	3%
Gross Profit	10,229	10,658	11,220	10,066	10,359	10,754	2%	3%	4%
Operating Profit	5,047	5,173	5,473	4,892	5,138	5,228	3%	1%	5%
Net profit	3,939	4,082	4,344	3,776	3,980	4,190	4%	3%	4%
Gross Margin	47.7%	47.4%	47.6%	47.1%	46.8%	46.9%	+0.6ppt	+0.6ppt	+0.7ppt
Operating Margin	23.5%	23.0%	23.2%	22.9%	23.2%	22.8%	+0.6ppt	-0.2ppt	+0.4ppt
Net Margin	18.4%	18.2%	18.4%	17.7%	18.0%	18.3%	+0.7ppt	+0.2ppt	+0.1ppt

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	20,150	20,712	21,444	22,485	23,572
Rice crackers	5,597	5,813	5,952	6,152	6,360
Dairy and beverages	9,581	9,730	10,373	10,969	11,600
Snacks	4,927	5,101	5,051	5,296	5,544
Others	45	68	68	68	68
Cost of sales	(11,539)	(11,312)	(11,215)	(11,827)	(12,352)
Gross profit	8,610	9,400	10,229	10,658	11,220
Other income	553	459	422	429	452
Other gains/(losses)	148	50	(18)	(21)	(21)
Selling expenses	(2,879)	(2,985)	(2,959)	(3,148)	(3,324)
Administrative expenses	(2,241)	(2,338)	(2,627)	(2,745)	(2,855)
Operating profit	4,192	4,586	5,047	5,173	5,473
Net finance income	109	225	345	415	475
Share of profit of associate	(7)	(5)	(3)	(3)	(3)
Profit before tax	4,293	4,806	5,389	5,585	5,945
Income tax	(1,183)	(1,344)	(1,467)	(1,520)	(1,618)
Non-controlling interests	5	14	17	17	17
Net profit	3,116	3,477	3,939	4,082	4,344

Cash flow summary

YE 31 Mar (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	5,323	4,806	5,389	5,585	5,945
Depreciation and amortization	1,153	854	820	795	785
Change in working capital	249	(53)	79	5	19
Others	(1,408)	(1,254)	(1,254)	(1,504)	(1,590)
Net cash from operating	5,317	4,353	5,035	4,881	5,158
Capex	(409)	(355)	(400)	(450)	(450)
Change of financial inv.	524	482	0	0	0
Others	57	251	0	0	0
Net cash from investing	172	379	(400)	(450)	(450)
Change of borrowings	(2,390)	2,112	2,000	2,000	2,000
Share repurchase	(323)	(49)	(185)	0	0
Dividend paid	(1,804)	(2,297)	(2,983)	(3,168)	(3,265)
Others	97	(10)	0	0	0
Net cash from financing	(4,419)	(244)	(1,167)	(1,168)	(1,265)
Net change in cash	1,070	4,488	3,468	3,263	3,443
Cash at the beginning of the year	11,557	12,500	17,134	20,602	23,865
Exchange difference	(128)	146	0	0	0
Cash at the end of the year	12,500	17,134	20,602	23,865	27,308

Balance sheet

YE 31 Mar (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,330	8,642	8,219	7,871	7,532
PPE	7,801	7,324	6,934	6,619	6,314
Prepaid lease payments	1,150	940	914	888	862
Others	380	352	345	338	330
Current assets	17,353	21,195	24,701	28,177	31,819
Cash	12,500	17,134	20,602	23,865	27,308
Inventories	2,569	2,384	2,364	2,493	2,603
Account receivable	1,146	1,035	1,072	1,124	1,178
Prepayments	672	641	664	696	730
Others	466	0	0	0	0
Current liabilities	8,729	6,295	6,439	6,670	6,912
Trade payables	1,287	1,035	1,026	1,082	1,130
Other payables	3,223	3,175	3,302	3,464	3,634
Bank borrowings	3,803	1,744	1,744	1,744	1,744
Tax payables	416	341	367	380	404
Non-current liabilities	3,343	8,113	10,113	12,113	14,113
Bank borrowings	3,101	7,770	9,770	11,770	13,770
Others	98	75	75	75	75
Deferred tax liabilities	144	268	268	268	268
Minority Interest	123	98	81	64	47
Total net assets	14,611	15,428	16,368	17,265	18,326
Shareholders' equity	14,488	15,331	16,287	17,201	18,279

Key ratios

YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Rice crackers	27.8	28.1	27.8	27.4	27.0
Dairy and beverages	47.5	47.0	48.4	48.8	49.2
Snacks	24.5	24.6	23.6	23.6	23.5
Others	0.2	0.3	0.3	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	42.7	45.4	47.7	47.4	47.6
Operating profit margin	20.8	22.1	23.5	23.0	23.2
Effective tax rate	15.5	16.8	18.4	18.2	18.4
Net profit margin	27.6	28.0	27.2	27.2	27.2
Payout ratio	82.7	82.2	80.0	80.0	80.0
Balance sheet ratios					
Current ratio (x)	2.0	3.4	3.8	4.2	4.6
Asset turnover (x)	0.8	0.7	0.7	0.6	0.6
Net cash (RMB mn)	5,596	7,620	9,088	10,350	11,793
Returns (%)					
ROAE	23.3	23.3	24.9	24.4	24.5
ROAA	11.5	12.3	12.5	11.8	11.5
Per share					
EPS (RMB)	0.25	0.28	0.32	0.33	0.35
DPS (US\$)	0.031	0.034	0.036	0.038	0.040
BVPS (RMB)	1.16	1.23	1.31	1.39	1.47

Source: Company data, CMBIS estimates

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