

Hongjiu Fruits (6689 HK)

A solid and robust 2022; all eyes on the upcoming OCF turnaround

- **An in-line 2022 reaffirms our belief**, and we continue to project Hongjiu to deliver a 40.5% 3-year revenue CAGR between 2022-24E, outgrowing 7.8% of the industry, per CIC. In our view, an accelerating branded fruits sales mix, from 75.9% in 2019 to 90.5% 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 the segment. Both should aid GPM to expand from 17.5% in 2022E to 18.1% in 2024E.
- **Concerns over the OCF pressure are well acknowledged**, as 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 customer in order to revamp its OCF/FCF to positive by end-23/24E, in our view.
- **Earnings change.** Given the in-line result, we only adjust our forecasts for housekeeping items from the announcement and this leads to a 3% change in 2023/24E net profits, respectively.
- **Valuation.** Our TP is based on an updated 8.0x (from previously 8.4x) end-23E P/E that still represents +1sd above its valuation average since IPO. In our view, the methodology reflects 1) 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.

Other major result takeaways

- **2022 net profits came in at RMB 1.45bn, up 109% YoY**, mainly driven by a 46% increase in revenue. Gross margins expanded from 15.7% in 2021 to 17.1% in 2022, thanks to a 3.5pp GPM increase in branded fruits.
- **Core products such as durian have shown good growth momentum** with a 3pp increase in import market share to 13%.
- **The strong growth enabled operation leverage** that put down selling expense ratio to decline by 0.3pp to 1.3% of revenue.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,771	10,280	15,081	23,815	31,969
YoY growth (%)	177.8	78.1	46.7	57.9	34.2
Net income (RMB mn)	3	292	1,452	2,204	3,020
EPS (RMB)	0.0	1.5	3.2	4.8	6.6
YoY growth (%)	(97.8)	n.m	108.9	51.7	37.0
Consensus EPS (RMB)	n.a	n.a	n.a	n.a	n.a
P/E (x)	n.a	n.a	8.5	5.6	4.1
P/B (x)	n.a	n.a	1.9	1.4	1.1
Div yield (%)	n.a	n.a	-	-	-
ROE (%)	n.m	6.6	22.8	25.7	26.0
Net gearing (%)	n.m	14.4	33.5	15.0	14.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$43.5
(Previous TP)	HK\$44.0)
Up/Downside	+40.4%
Current Price	HK\$31.0

China Consumer – Food and Beverage

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Stock Data

Mkt Cap (HK\$ mn)	43,465
Avg 3 mths t/o (HK\$ mn)	29.46
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%

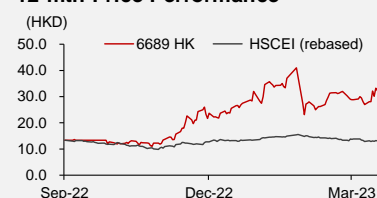
Source: BBG

Share Performance

	Absolute	Relative
1-mth	-0.6%	5.0%
3-mth	20.0%	19.0%
6-mth	132.5%	122.4%

Source: BBG

12-mth Price Performance



Source: BBG

Auditor: Deloitte

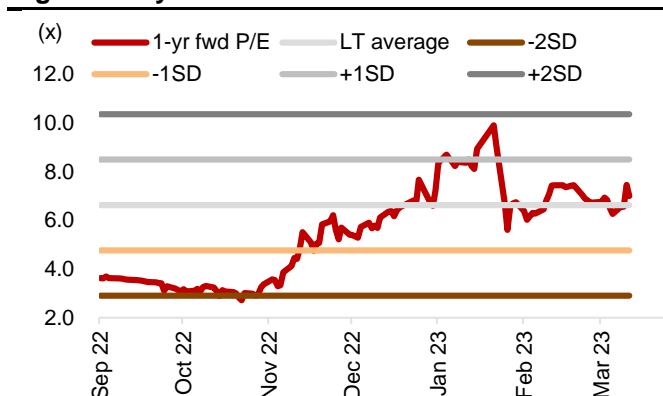
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1. [Hongjiu Fruits \(6689 HK\) – Harvesting the low-hanging fruits](#) – 03 Mar 2023
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Figure 1: Earnings revisions

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,081	23,815	31,969	14,718	20,632	28,150	2.5%	15.4%	13.6%
Gross Profit	2,576	4,086	5,612	2,578	3,657	5,096	-0.1%	11.8%	10.1%
EBIT	1,788	2,656	3,627	1,884	2,622	3,628	-5.1%	1.3%	0.0%
Net profit	1,452	2,204	3,020	1,477	2,071	2,894	-1.7%	6.4%	4.4%
Gross Margin	17.1%	17.2%	17.6%	17.5%	17.7%	18.1%	-0.4ppt	-0.6ppt	-0.5ppt
EBIT Margin	11.9%	11.2%	11.3%	12.8%	12.7%	12.9%	-0.9ppt	-1.6ppt	-1.5ppt
Net Margin	9.6%	9.3%	9.4%	10.0%	10.0%	10.3%	-0.4ppt	-0.8ppt	-0.8ppt

Source: Company data, CMBIGM estimates

Figure 2: 1-year forward P/E chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,771	10,280	15,081	23,815	31,969
Branded	4,397	5,910	8,945	13,007	18,803
Non-branded	1,374	4,370	6,135	10,807	13,166
Gross profits	957	1,613	2,576	4,086	5,612
Selling expense	(93)	(184)	(199)	(857)	(1,215)
Administration expenses	(126)	(188)	(678)	(714)	(959)
Other expense, net	52	84	89	141	190
EBIT	790	1,326	1,788	2,656	3,627
Finance costs, net	(6)	(29)	(77)	(60)	(70)
Non-operating	(660)	(797)	-	-	-
Pre-tax profit	125	500	1,710	2,595	3,557
Income tax	(122)	(207)	(256)	(388)	(532)
Less: Minority interests	(0)	(1)	(2)	(4)	(5)
Net profit	3	292	1,452	2,204	3,020

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profits before tax	125	500	1,710	2,595	3,557
D&A	9	13	45	53	58
Change in working capital	(1,507)	(2,127)	(3,504)	(1,323)	(3,401)
Others	569	633	(179)	(328)	(462)
Net cash fr. operating act.	(804)	(982)	(1,927)	997	(247)
Capex & investments	(28)	(25)	(70)	(70)	(70)
Others	102	154	-	-	-
Net cash fr. investing act.	73	129	(70)	(70)	(70)
Change of Debts	106	774	1,984	(500)	300
Dividend paid	-	(0)	-	-	-
Others	827	(53)	(77)	(83)	(70)
Net cash fr. financing act.	933	721	1,906	(583)	230
Net change in cash	202	(132)	(90)	344	(88)
Cash at the beginning of the	174	371	240	149	493
Cash at the end of the year	376	240	149	493	405

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	104	148	282	322	334
PP&E/Fixed assets	77	81	83	123	135
Intangible assets	0	0	0	0	0
Right-of-use assets	20	59	91	91	91
Other non-current assets	7	8	108	108	108
Current assets	3,567	5,608	9,480	12,127	16,090
Cash	376	240	149	493	405
Account receivable	2,929	5,134	8,996	11,092	14,890
Inventory	99	225	334	541	794
Other current assets	163	10	1	1	1
Current liabilities	3,623	1,311	3,324	3,269	3,984
Accounts payable	152	325	768	1,213	1,628
Borrowing	67	875	2,283	1,783	2,083
Lease liability	7	19	27	27	27
Other current liabilities	3,398	92	246	246	246
Non-current liabilities	46	35	61	595	831
Borrowings	40	-	-	-	-
Lease liabilities	5	35	60	595	830
Other non-current liabilities	0	0	0	0	0
Total equity	2	4,410	6,378	8,585	11,610
Paid in capital/share	453	453	467	467	467
Reserves	(453)	3,953	5,905	8,109	11,129
Non-controlling interests	2	3	6	9	14

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Branded	76.2	57.5	59.3	54.6	58.8
Non-branded	23.8	42.5	40.7	45.4	41.2
P&L ratios (%)					
Gross margin	16.6	15.7	17.1	17.2	17.6
EBIT margin	13.7	12.9	11.9	11.2	11.3
Pre-tax margin	2.2	4.9	11.3	10.9	11.1
Net margin	0.0	2.8	9.6	9.3	9.4
Effective tax rate	97.8	41.5	15.0	15.0	15.0
Balance sheet analysis					
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	170.0
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 (%)	-	14.4	33.5	15.0	14.5
Returns (%)					
ROE	-	6.6	22.8	25.7	26.0
ROA	0.1	5.1	14.9	17.7	18.4
ROIC	0.1	5.3	15.2	17.7	18.1
Per share					
EPS (RMB)	0.0	1.5	3.2	4.8	6.6
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	0.0	23.0	13.9	18.8	25.4

Source: Company data, CMBIGM estimates

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