

Yihai (1579 HK)

Transitions for better long-term growth

Maintain BUY but adjust our TP to HK\$ 108.52, based on 58x FY22E P/E (reduced from 63x FY21E P/E, to factor in a slower growth). We are still confident on Yihai's ability to self-correct and ensure its execution capability as they expand to other product categories. We believe current valuation of 59x/ 46x FY21E/ 22E P/E and 2x PEG is not too demanding, vs HDL/ JMJ/ Haitian 's 49x/ 39x/ 63x.

- **FY20 net profit miss by 7%.** Yihai's net profit grew by 23% YoY, 7% below BBG/ CMBI est., mainly due to: 1) weaker-than-expected sales from related parties, e-commerce and convenient food products, 2) miss in GP margin and higher-than-expected opex (e.g. A&P and other opex).
- **Multiple issues in 2H20 and the management is coping with it.**
#1 Slowdown in growth after COVID-19. Demand for hot pot condiment (to third parties) and convenient food slowed down from 90%/ 96% YoY in 1H20 to 32%/ 33% YoY in 2H20. We attributed this to: 1) demand normalization, 2) intensified competition from traditional brands and 3) slow strategy adjustments. Management is fully aware and would: 1) introduce frequent reviews and more timely strategy adjustments, in order to achieve sales target, 2) increase product quality (e.g. healthier oil or fresher ingredients used for soup base) and 3) expand range of flavors, product categories and price point.
#2 Slow ramp up for new products. Many SKUs were introduced since the reform of product launches in FY18, but ramp up was slower than expected (e.g. brewed rice/ noodles), due to lack of advertising and supply chain constraint, therefore more investments will be made in FY21E on these areas. Also, success rate was not too satisfactory recently and Yihai had introduced the regional manager system in late 2020, which should help: 1) developing more regional products with national potential, 2) introducing better fliting and more careful evaluation before approving new products and 3) rationalizing marketing expenses in the region by linking it to regional manager's KPIs.
- **Related parties sales should rebound but with a lower ASP and margin.** Due to the low base in 1H19, we are relatively optimistic for a rebound in related parties sales in FY20E. But we would not be surprised to see Yihai's sales contribution to Haidilao to drop further in FY21 (vs ~85%/ 90%+ in FY20/19), as well as a drop in ASP and GP margins.
- **Maintain BUY but lower our TP to HK\$ 108.52.** We maintain BUY but cut TP to HK\$ 108.52, based on 58x FY22E P/E (from 63x). We cut FY21E/ 22E NP forecasts by 14%/ 16%, to factor in: 1) slower third parties and online sales, 2) lower GP margin and 3) higher A&P and opex. Current valuation is still attractive at 46x FY22E P/E, given a 29% NP CAGR in FY20-23E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	4,282	5,360	7,475	9,578	11,965
YoY growth (%)	59.7	25.2	39.5	28.1	24.9
Net income (RMB mn)	719	885	1,184	1,523	1,917
Diluted EPS (RMB)	0.74	0.90	1.21	1.55	1.95
YoY growth (%)	39.7	21.8	33.7	28.7	25.8
Consensus EPS (RMB)	n/a	n/a	1.922	2.904	3.692
P/E (x)	103.5	80.0	59.0	45.9	36.4
P/B (x)	27.3	20.4	15.7	12.4	9.8
Yield (%)	0.2	0.3	0.5	0.6	0.8
ROE (%)	26.3	25.5	26.6	27.0	26.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$108.52
(Previous TP	HK\$134.68)
Up/Downside	+26.5%
Current Price	HK\$85.80

China Catering Sector

Walter Woo
 (852) 3761 8776
 walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	89,824
Avg 3 mths t/o (HK\$ mn)	489.04
52w High/Low (HK\$)	148.6/52.88
Total Issued Shares (mn)	1,046.9

Source: Bloomberg

Shareholding Structure

Zhang Yong & Family	35.63%
Shi Yong Hong & Family	16.97%
Free Float	47.40%

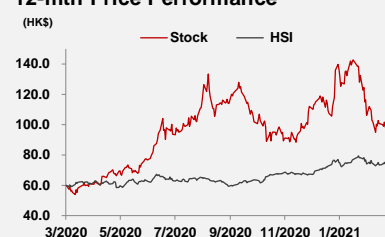
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-19.2%	-17.4%
3-mth	-23.5%	-28.7%
6-mth	-24.7%	-38.3%
12-mth	51.2%	24.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO China

Related Report

China Catering Sector (Outperform) - Leaders to benefit even more during recovery - 12 Mar 2021

Results Summary

Figure 1: Results review – Half Year

Half yearly (RMB mn)	1H19	2H19	1H20	2H20	1H19 YoY	2H19 YoY	1H20 YoY	2H20 YoY	2H20E CMBIS	Actual vs CMBIS
Revenue	1,656	2,627	2,218	3,142	65%	57%	34%	20%	3,290	-4%
COGS	(1,032)	(1,609)	(1,338)	(1,932)					(2,008)	
Gross profit	624	1,017	880	1,210	72%	50%	41%	19%	1,282	-6%
GP margins	37.7%	38.7%	39.7%	38.5%					39.0%	
Other income & gains	32	47	57	31					42	-27%
S & D expenses	(164)	(219)	(211)	(353)	87%	42%	29%	61%	(286)	23%
S & D exp / sales	-9.9%	-8.4%	-9.5%	-11.2%					-8.7%	
Admin expenses	(114)	(152)	(152)	(129)	105%	41%	33%	-15%	(194)	-33%
Admin exp / sales	-6.9%	-5.8%	-6.8%	-4.1%					-5.9%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	378	693	574	760	53%	46%	52%	10%	845	-10%
OP margins	22.9%	26.4%	25.9%	24.2%					25.7%	
Other items	0	0	0	0					0	
Net finance income	7	15	12	7					16	-57%
Net fin. income / sales	0.4%	0.6%	0.5%	0.2%					0.5%	
Profit after financing costs	386	708	586	766					861	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	386	708	586	766	51%	49%	52%	8%	861	-11%
Tax	(93)	(206)	(140)	(229)					(243)	-6%
Tax / sales	-5.6%	-7.8%	-6.3%	-7.3%					-7.4%	
Effective tax rate	-24.2%	-29.0%	-23.9%	-29.9%					-28.3%	
Minority interests	22	54	47	51					63	-20%
Net profit att.	270	448	399	486	46%	35%	48%	8%	554	-12%
NP margins	16.3%	17.1%	18.0%	15.5%					16.8%	
Sales by channel										
Related Parties	709	955	499	924	31%	50%	-30%	-3%	976	-5%
Distributors	806	1,498	1,545	2,075	122%	66%	92%	38%	2,095	-1%
E-commerce	118	157	159	128	47%	15%	35%	-19%	198	-35%
Others	23	17	15	15	14%	305%	-38%	-11%	21	-31%
Total	1,656	2,627	2,218	3,142	65%	57%	34%	20%	3,290	-4%
Sales by segment										
Hot pot condiment	1,088	1,726	1,215	1,975	41%	45%	12%	14%	1,968	0%
Chinese style condiment	200	195	299	231	63%	46%	50%	18%	194	19%
Convenient products	341	658	668	872	217%	93%	96%	33%	1,050	-17%
Others	27	48	35	64	456%	198%	30%	33%	78	-17%
Total	1,656	2,627	2,218	3,142	65%	57%	34%	20%	3,290	-4%

Source: Company data, CMBIS estimates

Figure 2: Results review - Full Year

Full yearly (RMB mn)	FY19	FY20	FY21E	FY19 YoY	FY20 YoY	FY21E YoY	FY20E CMBIS	Actual vs CMBIS
Revenue	4,282	5,360	7,475	60%	25%	39%	5,508	-3%
COGS	(2,641)	(3,270)	(4,625)				(3,346)	
Gross profit	1,641	2,090	2,850	58%	27%	36%	2,162	-3%
GP margins	38.3%	39.0%	38.1%				39.2%	
Other income & gains	79	88	127				99	-12%
S & D expenses	(383)	(563)	(771)	59%	47%	37%	(497)	13%
S & D exp / sales	-9.0%	-10.5%	-10.3%				-9.0%	
Admin expenses	(266)	(281)	(443)	63%	6%	58%	(345)	-19%
Admin exp / sales	-6.2%	-5.2%	-5.9%				-6.3%	
Other opex	0	0	0				0	
Operating profit (EBIT)	1,072	1,334	1,763	49%	24%	32%	1,419	-6%
OP margins	25.0%	24.9%	23.6%				25.8%	
Other items	0	0	0				0	
Net finance income	22	18	28				28	-33%
Net fin. income / sales	0.5%	0.3%	0.4%				0.5%	
Profit after financing costs	1,094	1,352	1,792				1,447	
Associated coms	0	0	0				0	
Jointly controlled coms	0	0	0				0	
Pre-tax profit	1,094	1,352	1,792	50%	24%	32%	1,447	-7%
Tax	(299)	(369)	(466)				(383)	-4%
Tax / sales	-7.0%	-6.9%	-6.2%				-7.0%	
Effective tax rate	-27.3%	-27.3%	-26.0%				-26.5%	
Minority interests	76	98	142				110	-11%
Net profit att.	719	885	1,184	39%	23%	34%	953	-7%
NP margins	16.8%	16.5%	15.8%				17.3%	
Sales by channel								
Related Parties	1,663	1,423	2,131	41%	-14%	50%	1,475	-3%
Distributors	2,304	3,620	4,995	82%	57%	38%	3,640	-1%
E-commerce	275	287	316	26%	4%	10%	357	-20%
Others	40	30	32	63%	-26%	10%	36	-18%
Total	4,282	5,360	7,475	60%	25%	39%	5,508	-3%
Sales by segment								
Hot pot condiment	2,813	3,190	4,421	44%	13%	39%	3,183	0%
Chinese style condiment	395	530	743	55%	34%	40%	494	7%
Convenient products	999	1,540	2,113	122%	54%	37%	1,718	-10%
Others	75	99	199	257%	32%	100%	113	-12%
Total	4,282	5,360	7,475	60%	25%	39%	5,508	-3%

Source: Company data, CMBIS estimates

Earnings revision

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,475	9,578	11,965	7,810	10,189	n/a	-4.3%	-6.0%	n/a
Gross profit	2,850	3,664	4,610	3,054	3,994	n/a	-6.7%	-8.3%	n/a
EBIT	1,763	2,251	2,839	1,991	2,592	n/a	-11.4%	-13.2%	n/a
Net profit att.	1,184	1,523	1,917	1,357	1,783	n/a	-12.8%	-14.6%	n/a
Diluted EPS (RMB)	1.21	1.55	1.95	1.40	1.84	n/a	-13.7%	-15.5%	n/a
Gross margin	38.1%	38.2%	38.5%	39.1%	39.2%	n/a	-1ppt	-1ppt	n/a
EBIT margin	23.6%	23.5%	23.7%	25.5%	25.4%	n/a	-1.9ppt	-1.9ppt	n/a
Net profit att. margin	15.8%	15.9%	16.0%	17.4%	17.5%	n/a	-1.5ppt	-1.6ppt	n/a

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,475	9,578	11,965	7,609	9,707	11,434	-1.8%	-1.3%	4.6%
Gross profit	2,850	3,664	4,610	2,893	3,704	4,281	-1.5%	-1.1%	7.7%
EBIT	1,763	2,251	2,839	1,789	2,312	2,817	-1.4%	-2.6%	0.8%
Net profit att.	1,184	1,523	1,917	1,189	1,541	1,999	-0.5%	-1.1%	-4.1%
Diluted EPS (RMB)	1.21	1.55	1.95	1.20	1.53	1.933	0.4%	1.3%	1.1%
Gross margin	38.1%	38.2%	38.5%	38.0%	38.2%	37.4%	0.1ppt	0.1ppt	1.1ppt
EBIT margin	23.6%	23.5%	23.7%	23.5%	23.8%	24.6%	0.1ppt	-0.3ppt	-0.9ppt
Net profit att. margin	15.8%	15.9%	16.0%	15.6%	15.9%	17.5%	0.2ppt	0ppt	-1.5ppt

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 5: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by brand (RMB mn)					
Related Parties	1,663	1,423	2,131	2,880	3,562
Distributors	2,304	3,620	4,995	6,319	7,994
E-commerce	275	287	316	344	372
Others	40	30	32	35	37
Total	4,282	5,360	7,475	9,578	11,965
Sales growth by brand (%)					
Related Parties	41.4%	-14.4%	49.7%	35.1%	23.7%
Distributors	82.4%	57.1%	38.0%	26.5%	26.5%
E-commerce	26.5%	4.5%	10.0%	9.0%	8.0%
Others	62.9%	-26.4%	10.0%	7.5%	5.0%
Total	59.7%	25.2%	39.5%	28.1%	24.9%
Sales by segment (RMB mn)					
Hot pot condiment	2,813	3,190	4,421	5,768	7,396
Chinese style compound condiment	395	530	743	995	1,304
Convenient ready-to-eat food products	999	1,540	2,113	2,518	2,878
Others	75	99	199	298	387
Total	4,282	5,360	7,475	9,578	11,965
Sales by segment growth (%)					
Hot pot condiment	43.9%	13.4%	38.6%	30.5%	28.2%
Chinese style compound condiment	54.6%	34.3%	40.0%	34.0%	31.0%
Convenient ready-to-eat food products	122.4%	54.2%	37.2%	19.1%	14.3%
Others	257.0%	32.0%	100.0%	50.0%	30.0%
Total	59.7%	25.2%	39.5%	28.1%	24.9%
GP margins by segment					
Related Parties	27.5%	26.1%	25.7%	25.5%	25.0%
Third parties	45.2%	43.7%	43.1%	43.7%	44.3%
Total	38.3%	39.0%	38.1%	38.2%	38.5%
Opex breakdown					
Distribution expenses	-9.0%	-10.5%	-10.3%	-10.4%	-10.3%
Administrative expenses	-6.2%	-5.2%	-5.9%	-6.1%	-6.2%
EBIT margins					
Effective tax rate	25.0%	24.9%	23.6%	23.5%	23.7%
NP att. margins					
Effective tax rate	27.3%	27.3%	26.0%	26.0%	26.0%
NP att. growth (%)					
	16.8%	16.5%	15.8%	15.9%	16.0%
	38.8%	23.2%	33.7%	28.7%	25.8%

Source: Company data, CMBIS estimates

Valuation

Figure 6: Peers valuation

												ROE (%)	3yrs PEG(x)	Yield (%)	YTD perf. (%)
Company	Ticker	Rating	12M TP HK\$/ LC	Price HK\$/ LC	Up/dow n-side (%)	Mkt cap HK\$ mn	Year End	PER (x) FY1 FY2		PBR (x) FY1 FY2		FY1	FY1	FY1	
Leading Greater China Catering															
Yihai Int'l	1579 HK	BUY	108.52	85.80	26%	89,824	Dec-20	59.0	45.9	15.7	12.4	30.6	2.0	0.5	(25.4)
Jiumaojiu Int'l	9922 HK	BUY	40.07	30.25	32%	43,966	Dec-20	75.1	48.9	11.4	9.4	15.9	0.7	0.2	28.2
Haidilao Int'l	6862 HK	BUY	78.33	53.35	47%	282,755	Dec-20	56.1	39.5	16.7	12.1	32.8	0.3	0.5	(10.6)
Cafe De Coral	341 HK	BUY	20.69	17.08	21%	10,004	Mar-20	26.4	24.0	3.4	3.3	13.7	0.3	2.4	2.3
Xiabuxiabu	520 HK	NR	n/a	16.20	n/a	17,583	Dec-19	454.6	27.8	6.1	5.1	1.7	13.5	0.1	(8.4)
Yum China	9987 HK	BUY	566.34	463.00	22%	194,648	Dec-20	30.2	25.9	3.6	3.3	12.8	3.3	0.8	4.1
Gourmet Master	2723 TT	NR	n/a	169.00	n/a	8,263	Dec-20	22.6	19.0	2.5	2.3	11.4	n/a	2.6	19.9
Avg.								103.4	33.0	8.5	6.9	17.0	3.3	1.0	1.4
Med.								56.1	27.8	6.1	5.1	13.7	1.3	0.5	2.3
Other Greater China Catering															
Fairwood	52 HK	NR	n/a	17.38	n/a	2,251	Mar-20	n/a	14.9	3.2	2.8	(1.6)	n/a	2.4	(1.8)
Tai Hing	6811 HK	NR	n/a	1.86	n/a	1,863	Dec-20	10.6	9.1	1.7	1.5	16.2	0.4	5.3	26.5
Hop Hing	47 HK	NR	n/a	0.05	n/a	463	Dec-19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(6.1)
Tsui Wah	1314 HK	NR	n/a	0.34	n/a	473	Mar-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	26.4
Ajisen	538 HK	NR	n/a	1.18	n/a	1,288	Dec-20	10.9	n/a	n/a	n/a	n/a	n/a	5.0	(9.9)
Tao Heung	573 HK	NR	n/a	0.92	n/a	935	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.2
Tang Palace	1181 HK	NR	n/a	0.88	n/a	947	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(3.3)
Avg.								10.8	12.0	2.4	2.2	7.3	0.4	4.2	6.3
Med.								10.8	12.0	2.4	2.2	7.3	0.4	5.0	(1.8)
Greater China Catering															
Avg.								82.9	28.3	7.2	5.8	14.9	2.9	2.0	3.9
Med.								30.2	25.9	3.6	3.3	13.7	0.7	1.6	0.2
International Catering															
Yum! Brands	YUM US	NR	n/a	108.06	n/a	251,908	Dec-20	27.1	23.7	n/a	n/a	(16.5)	1.4	1.9	(0.5)
Mcdonald'S	MCD US	NR	n/a	225.21	n/a	1,304,529	Dec-20	26.8	24.5	n/a	n/a	(122.7)	1.6	2.3	5.0
Starbucks	SBUX US	NR	n/a	109.90	n/a	1,005,220	Sep-20	39.6	31.8	n/a	n/a	(45.4)	0.6	1.8	2.7
Restaurant Brands	QSR US	NR	n/a	67.92	n/a	248,322	Dec-20	25.6	22.4	11.4	10.8	33.3	0.9	3.1	11.1
Chipotle Mexican	CMG US	NR	n/a	1445.5	n/a	316,064	Dec-20	62.8	47.4	17.1	14.6	28.8	1.4	0.0	4.2
Darden	DRI US	NR	n/a	148.98	n/a	150,849	May-20	38.1	21.5	7.2	6.6	19.5	(0.1)	1.2	25.1
Domino'S Pizza	DPZ US	NR	n/a	371.84	n/a	112,091	Jan-21	28.8	25.1	n/a	n/a	(8.0)	2.7	1.0	(3.0)
Wendy'S	WEN US	NR	n/a	20.74	n/a	36,068	Jan-21	30.2	25.6	8.1	9.3	23.3	1.4	1.8	(5.4)
Shake Shack	SHAK US	NR	n/a	115.00	n/a	37,499	Dec-20	n/a	203.5	12.1	11.4	3.0	(11.4)	n/a	35.6
Wingstop	WING US	NR	n/a	125.13	n/a	28,861	Dec-20	98.5	73.8	n/a	n/a	(11.4)	2.6	0.5	(5.6)
Jollibee Foods	JFC PM	NR	n/a	174.90	n/a	31,068	Dec-20	47.0	30.7	3.1	2.9	7.1	n/a	0.8	(10.4)
Avg.								42.5	48.2	9.8	9.3	(8.1)	0.1	1.4	5.4
Med.								34.2	25.6	9.7	10.1	3.0	1.4	1.5	2.7
A-shares Greater China Catering															
Foshan Haitian	603288 CH	NR	n/a	150.45	n/a	579,058	Dec-19	75.2	63.0	23.7	19.4	33.1	3.4	0.8	(25.0)
Fujian Sunner	002299 CH	NR	n/a	27.01	n/a	39,922	Dec-19	13.2	14.8	3.0	2.7	21.1	(1.1)	4.5	1.8
Angel Yeast	600298 CH	NR	n/a	54.14	n/a	52,992	Dec-20	31.0	25.9	6.3	5.4	20.9	1.9	1.0	6.0
Meihua	600873 CH	NR	n/a	5.65	n/a	20,804	Dec-19	15.7	11.3	1.9	1.8	12.2	0.6	5.3	21.2
Guangzhou Restaurant	603043 CH	NR	n/a	36.76	n/a	17,639	Dec-19	35.4	27.3	6.0	5.2	16.7	1.6	1.1	(5.1)
China Quanjude	002186 CH	NR	n/a	10.64	n/a	3,898	Dec-19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.6
Xi'An Catering	000721 CH	NR	n/a	4.48	n/a	2,656	Dec-19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.7
Avg.								34.1	28.5	8.2	6.9	20.8	1.3	2.5	1.3
Med.								31.0	25.9	6.0	5.2	20.9	1.6	1.1	4.7
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	9.62	n/a	41,552	Dec-20	20.4	18.3	2.5	2.5	12.3	1.8	4.9	21.9
Tingyi	322 HK	NR	n/a	14.18	n/a	79,758	Dec-20	17.5	15.9	3.2	3.1	18.3	2.4	5.4	7.1
Want Want	151 HK	NR	n/a	5.74	n/a	69,435	Mar-20	14.3	13.8	3.7	3.6	27.0	1.4	6.0	2.3
Mengniu Dairy	2319 HK	NR	n/a	45.50	n/a	179,643	Dec-20	29.2	24.5	4.1	3.6	14.5	1.0	0.8	(2.8)
Vitasoy	345 HK	NR	n/a	30.95	n/a	32,992	Mar-20	47.9	44.9	9.4	8.5	20.6	3.0	1.3	2.5
Budweiser Brewing	1876 HK	NR	n/a	23.55	n/a	311,882	Dec-20	39.9	33.3	3.6	3.3	9.1	1.0	0.9	(8.0)
Tsingtao Brewery	168 HK	NR	n/a	69.85	n/a	114,397	Dec-19	36.0	30.2	3.8	3.5	10.9	1.9	1.1	(14.0)
CR Beer	291 HK	NR	n/a	60.80	n/a	197,246	Dec-20	46.0	36.2	7.0	6.3	14.8	1.2	0.9	(14.8)
Dali Foods	3799 HK	NR	n/a	4.50	n/a	61,624	Dec-19	13.5	12.2	3.1	2.8	22.9	1.7	5.0	1.6
Avg.								29.4	25.5	4.5	4.1	16.7	1.7	2.9	(0.5)
Med.								29.2	24.5	3.7	3.5	14.8	1.7	1.3	1.6

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,282	5,360	7,475	9,578	11,965
Related Parties	1,663	1,423	2,131	2,880	3,562
Distributors	2,304	3,620	4,995	6,319	7,994
E-commerce	275	287	316	344	372
Others	40	30	32	35	37
Cost of goods sold	(2,641)	(3,270)	(4,625)	(5,915)	(7,354)
Gross profit	1,641	2,090	2,850	3,664	4,610
Other income	79	88	127	163	203
Operating expenses	(649)	(844)	(1,214)	(1,576)	(1,974)
Distribution expenses	(383)	(563)	(771)	(993)	(1,234)
Administrative expenses	(266)	(281)	(443)	(583)	(740)
EBIT	1,072	1,334	1,763	2,251	2,839
Finance costs, net	22	18	28	41	58
JVs & associates	-	-	-	-	-
Exceptional	-	-	-	-	-
Pre-tax profit	1,094	1,352	1,792	2,292	2,897
Income tax	(299)	(369)	(466)	(596)	(753)
Less: Minority interests	76	98	142	172	227
Net profit	719	885	1,184	1,523	1,917

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	1,099	1,390	1,840	2,338	2,929
D & A	27	56	76	87	89
Change in working capital	53	(9)	(75)	(72)	(81)
Income tax paid	(278)	(369)	(466)	(596)	(753)
Others	50	(38)	(48)	(46)	(31)
Net cash from operating	951	1,031	1,328	1,710	2,152
Capex & investments	(258)	(268)	(299)	(335)	(299)
Associated companies	-	-	-	-	-
Interest received	6	-	-	-	-
Others	(696)	-	-	-	-
Net cash from investing	(947)	(268)	(299)	(335)	(299)
Equity raised	-	-	-	-	-
Net change in bank loans	-	-	-	-	-
Dividend paid	(149)	(149)	(204)	(331)	(427)
Others	(5)	-	-	-	-
Net cash from financing	(154)	(149)	(204)	(331)	(427)
Net change in cash	(150)	614	825	1,044	1,426
Beginning cash balance	1,180	1,036	1,650	2,475	3,519
Exchange difference	6	-	-	-	-
Cash at the end of the year	1,036	1,650	2,475	3,519	4,945

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	958	1,169	1,392	1,640	1,850
Fixed asset	483	695	917	1,165	1,375
Intangible assets & goodwill	18	18	18	18	18
Prepaid lease payments	195	195	195	195	195
Interest in joint ventures	-	-	-	-	-
Other non-current assets	262	262	262	262	262
Current assets	2,354	3,054	4,144	5,444	7,159
Cash & cash equivalents	1,036	1,650	2,475	3,519	4,945
Inventories	297	355	502	642	798
Trade and other receivables	269	298	415	532	665
Prepayments	-	-	-	-	-
Other current assets	751	751	751	751	751
Current liabilities	557	635	824	1,009	1,216
Bank loans	-	-	-	-	-
Trade payables	217	251	356	455	565
Accruals & other payables	174	217	303	388	485
Tax payables	107	107	107	107	107
Others	59	59	59	59	59
Non-current liabilities	27	27	27	27	27
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	0	0	0	0	0
Others	26	26	26	26	26
Minority interest	-	98	240	412	639
Total net assets	2,728	3,465	4,445	5,637	7,127
Shareholders' equity	2,728	3,465	4,445	5,637	7,127

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Related Parties	38.8	26.6	28.5	30.1	29.8
Distributors	53.8	67.5	66.8	66.0	66.8
E-commerce	6.4	5.4	4.2	3.6	3.1
Others	0.9	0.6	0.4	0.4	0.3
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	38.3	39.0	38.1	38.2	38.5
Operating margin	25.0	24.9	23.6	23.5	23.7
Pre-tax margin	25.5	25.2	24.0	23.9	24.2
Net margin	16.8	16.5	15.8	15.9	16.0
Effective tax rate	27.3	27.3	26.0	26.0	26.0
Balance sheet ratios					
Current ratio (x)	4.2	4.8	5.0	5.4	5.9
Quick ratio (x)	3.7	4.3	4.4	4.8	5.2
Cash ratio (x)	186	260	300	349	407
Inventory turnover days	40	40	40	40	40
Trade receivables days	20	20	20	20	20
Trade payables days	28	28	28	28	28
Total debt / total equity ratio (%)	-	-	-	-	-
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	26.3	25.5	26.6	27.0	26.9
ROA	21.7	21.0	21.4	21.5	21.3
Per share					
EPS (RMB)	0.74	0.90	1.21	1.55	1.95
DPS (RMB)	0.19	0.29	0.49	0.63	0.79
BVPS (RMB)	3.52	4.99	6.58	8.34	10.5

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Disclosure

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.