

# Yum China (9987 HK)

## Robust recovery and store expansion ahead

4Q22 result should have been well expected and the turnaround is already here. YUMC is one of our sector top picks, because we think it can further surprise the market in FY23E, due to its: 1) refined store economics, 2) decent room for upward revision on the opening plan and 3) the inclusion in stock connect programme recently. Hence, we maintain BUY and raise TP to HK\$ 554.61, based on 33x FY23E P/E.

- **A soft 4Q22 was well expected.** Sales fell by 9% YoY to US\$ 2.1bn. Net profit dropped by 89% YoY to US\$ 51mn, missing CMBI est. by 52% but beating BBG est. by 10%. We believe this is totally understandable given the COVID-19 outbreaks in Nov and Dec 2022. KFC was highly resilient, with just 3% SSS drop and a 12.7% restaurant OP margin (vs 8.6% last year) while Pizza Hut was under great pressure with 8% SSS decline and a restaurant OP margin of just 1.9% (vs 5.9% last year). Net number of stores increased by 538/ 1,159 in 4Q22/ FY22, inline with the Company's guidance of 1,000 to 1,200, which is fairly encouraging under the pandemic.
- **The worst should have gone and we forecast MSD SSSG in FY23E.** While we do concur with management's view of a non-linear recovery in FY23E, we also expect the SSS to return to MSD growth, supported by: 1) decent start in CNY, where SSSG had gone up by MSD, better than Tai Er/ Cou Cou/ HDL's 3%/ 0%/ -10%, 2) sales recovery for stores located in the tourist attractions and transportation hubs (recorded 20%-30% SSSG during CNY), 3) the company's shift in priority to sales growth, 4) low base last year, as high as 4,300 stores were affected in 4Q22, and 5) excellent pipeline of new products (e.g. whole chicken and beef burger launched last year were extremely successful and already contributed ~5% of sales).
- **Targeting 1,100 to 1,300 net new stores in FY23E, and we see reasonable upside.** This target announced by the management is effectively implying 8% to 10% YoY growth in FY23E, no acceleration from the 10% last year and we do find it too conservative, because: 1) there should be no drags by COVID-19 anymore, 2) mix of gross closures should drop as SSS improves, 3) the effective room for expansion should have been larger given the smaller store format, and 4) many peers have announced accelerated expansion plans (e.g. MCD is targeting 900 gross new stores in China (vs 800 last year) and SBUX is keeping its target of 9,000 stores by 2026, implying ~800 to 1200 new stores each year (vs ~650 last year)).
- **Maintain BUY and raise TP to HK\$ 554.61.** Our new TP is based on 33x FY23E P/E (up from 30x), close to 2 s.d. above the 5 years average of 27x since the industry is entering an upcycle and well supported by 32% NP CAGR during FY22-25E. We adjusted FY23E/ 24E NP by +1%/ -5% to factor in weaker SSSG but a better KFC margin. YUMC is currently trading at 28x FY23E P/E, not demanding.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	9,853	9,569	11,072	12,414	13,938
YoY growth (%)	19.2	(2.9)	15.7	12.1	12.3
Operating profit (US\$ mn)	1,386	629	1,117	1,370	1,718
Net profit (US\$ mn)	990.0	442.0	880.8	1,087.0	1,362.8
EPS (Reported) (US\$)	2.28	1.04	2.17	2.68	3.36
YoY growth (%)	17.0	(54.4)	108.6	23.4	25.4
P/E (x)	26.2	45.5	28.2	22.8	18.2
P/B (x)	3.3	2.7	3.1	2.8	2.5
Yield (%)	0.8	1.1	1.1	1.3	1.6
ROE (%)	13.8	5.9	11.7	13.2	14.8

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$554.61  
(Previous TP HK\$465.05)  
**Up/Downside** 15.5%  
**Current Price** HK\$480.00

### China Consumer Discretionary

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### Stock Data

Mkt Cap (HK\$ mn)	201,120.0
Avg 3 mths t/o (HK\$ mn)	442.1
52w High/Low (HK\$)	494.00/290.00
Total Issued Shares (mn)	419.0

Source: FactSet

### Shareholding Structure

Invesco	9.5%
BlackRock	7.3%

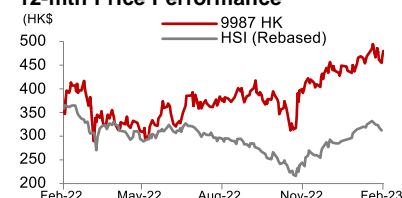
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	9.8%	8.3%
3-mth	22.7%	-4.5%
6-mth	28.2%	20.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

- **Decent upsides in margin expansion, driven by SSS recovery and better store economics.** On one hand, we are forecasting a stable GP margin in FY23E, which consists of: 1) LSD commodity inflation (chicken price may continue to climb) and 2) less but smarter promotions. On the other hand, we believe: 1) the pressure from wages inflation (about MSD) and 2) absence of rental reliefs (about US\$ 86mn in FY22, equal to roughly 0.8ppt of sales in FY23E) could be more than offset by: 1) the improved store economics (as a result of more automations, smaller size, less depreciation due to lower capex, etc.), where the breakeven point had gone down by 20% (achieved if the same store sales reached 80% of the 2019 level), evidenced by the shortened payback period of just 2/3 years for KFC/ Pizza Hut, 2) higher sales mix from these more profitable new stores and 3) the recovery of Pizza Hut's offline sales and hence its store productivity. All in all, we do expect the restaurant level OP margin to reach 16.3% in FY23E, even higher than the 16.0% back in FY19.

## Earnings revision

Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,072	12,414	13,938	11,636	13,131	n/a	-4.9%	-5.5%	n/a
Gross profit	7,814	8,769	9,856	8,220	9,283	n/a	-4.9%	-5.5%	n/a
Operating Profit	1,117	1,370	1,718	1,106	1,457	n/a	1.0%	-6.0%	n/a
Net profit	881	1,087	1,363	873	1,145	n/a	0.9%	-5.0%	n/a
EPS (US\$ cents)	2.169	2.677	3.357	2.001	2.623	n/a	8.4%	2.1%	n/a
Gross margin	70.6%	70.6%	70.7%	70.6%	70.7%	n/a	-0.1ppt	-0.1ppt	n/a
EBIT margin	10.1%	11.0%	12.3%	9.5%	11.1%	n/a	0.6ppt	-0.1ppt	n/a
Net profit att. margin	8.0%	8.8%	9.8%	7.5%	8.7%	n/a	0.5ppt	0ppt	n/a

Source: Company data, CMBIGM estimates

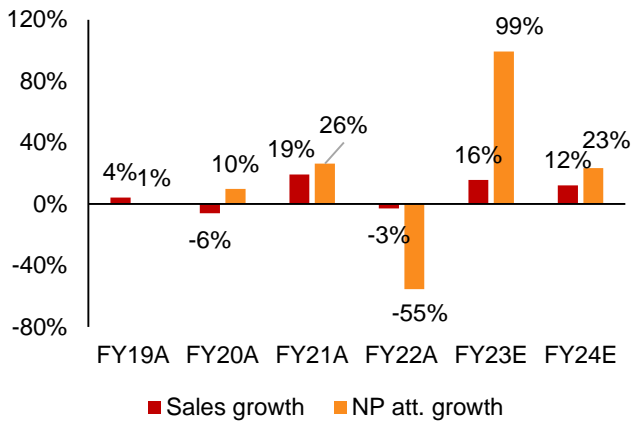
Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,072	12,414	13,938	11,399	12,851	14,949	-2.9%	-3.4%	-6.8%
Gross profit	7,814	8,769	9,856	8,321	9,073	10,599	-6.1%	-3.3%	-7.0%
Operating Profit	1,117	1,370	1,718	1,086	1,332	1,790	2.9%	2.9%	-4.0%
Net profit	881	1,087	1,363	820	995	1,261	7.5%	9.2%	8.1%
EPS (US\$ cents)	2.169	2.677	3.357	1.906	2.358	3.055	13.8%	13.6%	9.9%
Gross Margin	70.6%	70.6%	70.7%	73.0%	70.6%	70.9%	-2.4ppt	0ppt	-0.2ppt
Operating Margin	10.1%	11.0%	12.3%	9.5%	10.4%	12.0%	0.6ppt	0.7ppt	0.4ppt
Net Margin	8.0%	8.8%	9.8%	7.2%	7.7%	8.4%	0.8ppt	1ppt	1.3ppt

Source: Company data, CMBIGM estimates

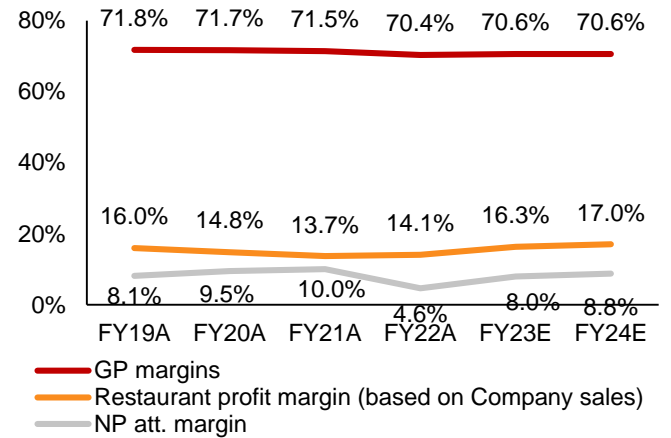
## Focus Charts

**Figure 3: Sales and net profit att. growth**



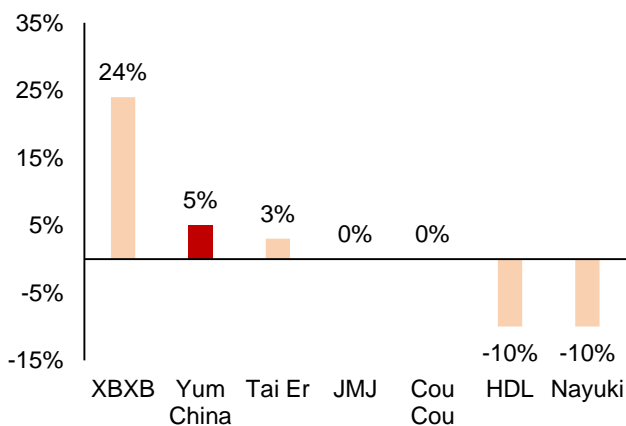
Source: Company data, CMBIGM estimates

**Figure 4: GP/ restaurant profit/ NP att. margin**



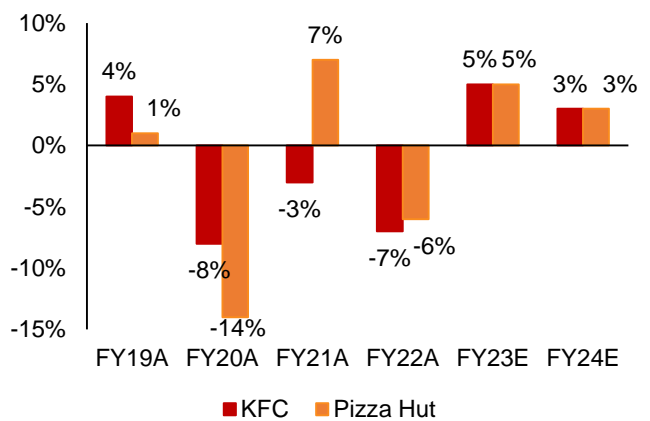
Source: Company data, CMBIGM estimates

**Figure 5: SSSG during 2023 CNY, by brand**



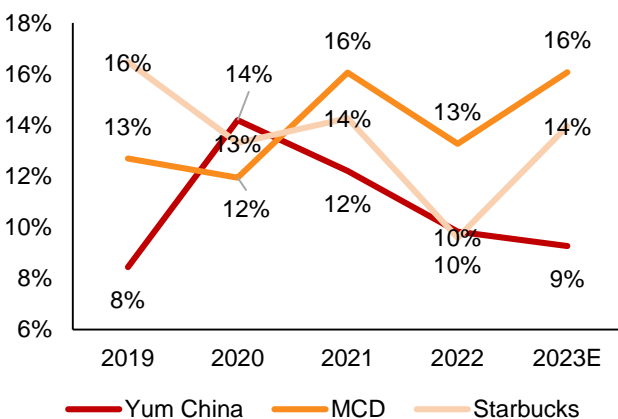
Source: Company data, CMBIGM estimates

**Figure 6: SSSG, by brand**



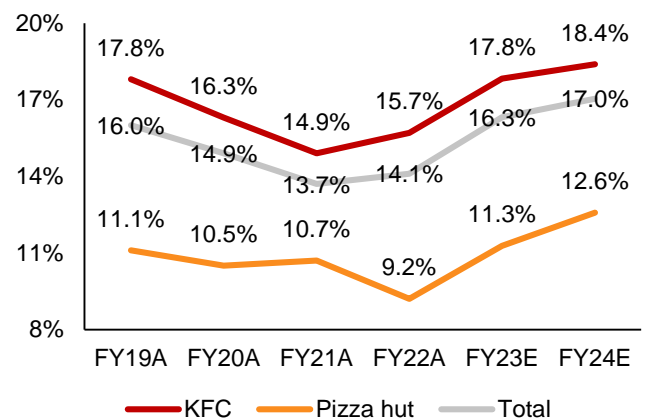
Source: Company data, CMBIGM estimates

**Figure 7: Number of restaurants growth, by brand**



Source: Company data, CMBIGM estimates

**Figure 8: Restaurant profit margin, by brand**



Source: Company data, CMBIGM estimates

## Results Review

Figure 9: Results review – Quarterly

Half yearly (US\$ mn)	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	1Q22 YoY	2Q22 YoY	3Q22 E YoY	4Q22 E YoY	4Q22E CMBI	Act. vs CMBI
<b>Revenue</b>	<b>2,554</b>	<b>2,291</b>	<b>2,668</b>	<b>2,128</b>	<b>2,685</b>	<b>2,088</b>	<b>4%</b>	<b>-13%</b>	<b>5%</b>	<b>-9%</b>	<b>2,506</b>	<b>-17%</b>
Food and paper	-743	-679	-792	-627	-787	-630					-727	
Gross profit	1,811	1,612	1,876	1,501	1,898	1,458	1%	-15%	5%	-10%	1,779	-18%
<b>GP margins</b>	<b>70.9%</b>	<b>70.4%</b>	<b>70.3%</b>	<b>70.5%</b>	<b>70.7%</b>	<b>69.8%</b>					<b>71.0%</b>	
Other income & gains	10	628	-25	-24	-24	-21					-7	205%
Payroll & benefits	-591	-583	-667	-549	-603	-570	23%	2%	2%	-2%	-653	-13%
<b>Payroll &amp; benefits/ sales</b>	<b>-23.1%</b>	<b>-25.4%</b>	<b>-25.0%</b>	<b>-25.8%</b>	<b>-22.5%</b>	<b>-27.3%</b>					<b>-26.0%</b>	
Rent & other opex	-694	-669	-738	-605	-691	-570	14%	-7%	0%	-15%	-735	-22%
<b>Rent &amp; other opex/ sales</b>	<b>-27.2%</b>	<b>-29.2%</b>	<b>-27.7%</b>	<b>-28.4%</b>	<b>-25.7%</b>	<b>-27.3%</b>					<b>-29.3%</b>	
Admin expenses	-339	-310	-236	-210	-242	-219	-25%	-33%	-29%	-29%	-244	-10%
<b>Admin exp / sales</b>	<b>-13.3%</b>	<b>-13.5%</b>	<b>-8.8%</b>	<b>-9.9%</b>	<b>-9.0%</b>	<b>-10.5%</b>					<b>-9.7%</b>	
Other opex	-19	-45	-19	-32	-22	-37					-47	
Operating profit (EBIT)	178	633	191	81	316	41	-44%	-65%	78%	-94%	93	-56%
<b>OP margins</b>	<b>7.0%</b>	<b>27.6%</b>	<b>7.2%</b>	<b>3.8%</b>	<b>11.8%</b>	<b>2.0%</b>					<b>3.7%</b>	
Investment gain (loss)	-39	-11	-37	19	-15	7					23	
Net finance income	16	13	12	14	25	33					11	201%
<b>Net finance income / sales</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.4%</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.6%</b>					<b>0.4%</b>	
Profit after financing costs	155	635	166	114	326	81					127	
Associated coms	0	0	0	0	0	0					0	
Jointly controlled coms	0	0	0	0	0	0					0	
Pre-tax profit	155	635	166	114	326	81	-52%	-56%	110%	-87%	127	-36%
Tax	-44	-159	-56	-31	-97	-25					-43	
<b>Tax / sales</b>	<b>-1.7%</b>	<b>-6.9%</b>	<b>-2.1%</b>	<b>-1.5%</b>	<b>-3.6%</b>	<b>-1.2%</b>					<b>-1.7%</b>	
<b>Effective tax rate</b>	<b>-28.4%</b>	<b>-25.0%</b>	<b>-33.7%</b>	<b>-27.2%</b>	<b>-29.8%</b>	<b>-30.9%</b>					<b>-34.0%</b>	
Minority interests	7	1	10	0	21	5					-21	-123%
<b>Net profit att.</b>	<b>104</b>	<b>475</b>	<b>100</b>	<b>83</b>	<b>208</b>	<b>51</b>	<b>-57%</b>	<b>-54%</b>	<b>100%</b>	<b>-89%</b>	<b>105</b>	<b>-52%</b>
<b>NP margins</b>	<b>4.1%</b>	<b>20.7%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>7.7%</b>	<b>2.4%</b>					<b>4.2%</b>	
<b>Sales</b>												
KFC	1,801	1,636	2,017	1,594	2,017	1,591	10%	-8%	12%	-3%	1,793	-11.3%
Pizza hut	551	479	547	448	561	404	1%	-17%	2%	-16%	538	-25.0%
Others	202	176	104	86	107	93	-43%	-52%	-47%	-47%	174	-46.7%
Total	2,554	2,291	2,668	2,128	2,685	2,088	4%	-13%	5%	-9%	2,506	-16.7%
<b>Restaurant OP margin by brand</b>												
KFC	13.6%	8.6%	15.2%	13.4%	20.6%	12.7%					12.0%	0.7ppt
Pizza hut	8.2%	5.9%	10.7%	8.6%	13.4%	1.9%					7.0%	-5.1ppt
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					0.0%	0ppt
Total	11.0%	6.8%	13.2%	11.5%	17.9%	9.8%					8.4%	1.4ppt

Source: Company data, CMBIGM estimates

## Assumptions

Figure 10: CMBIGM's assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales by segment (US\$ mn)</b>					
KFC - dine in sales	4,818	4,457	5,028	5,493	6,116
KFC - delivery sales	2,185	2,762	3,354	3,938	4,506
PH - dine in sales	1,340	1,125	1,313	1,453	1,677
PH- delivery sales	769	835	977	1,124	1,225
Others	741	390	399	406	414
Total	9,853	9,569	11,072	12,414	13,938
<b>Sales by segment growth (%)</b>					
KFC - dine in sales	16.0%	-7.5%	12.8%	9.2%	11.3%
KFC - delivery sales	34.7%	26.4%	21.4%	17.4%	14.4%
PH - dine in sales	17.0%	-16.1%	16.8%	10.6%	15.4%
PH- delivery sales	19.8%	8.6%	17.0%	15.0%	9.0%
Others	5.7%	-47.4%	2.4%	1.7%	1.9%
Total	19.2%	-2.9%	15.7%	12.1%	12.3%
<b>Sales network by brand (US\$ mn)</b>					
KFC	8,168	9,094	10,034	10,974	11,914
Pizza Hut	2,590	2,903	3,223	3,563	3,903
Others	1,030	950	990	1,040	1,120
Total	11,788	12,947	14,247	15,577	16,937
<b>Restaurant profit margin by brand</b>					
KFC	14.5%	15.5%	17.6%	18.2%	19.4%
Pizza hut	10.6%	9.1%	11.2%	12.5%	13.5%
Others	-1.3%	-4.6%	-0.2%	0.4%	0.5%
Total	13.7%	14.1%	16.3%	17.0%	18.2%
<b>Costs breakdown</b>					
Food and paper/ sales	28.5%	29.6%	29.4%	29.4%	29.3%
Payroll and employee benefits/ sales	22.9%	25.0%	24.3%	24.3%	24.1%
Rental and other operating expenses/ sales	27.0%	27.2%	26.5%	26.2%	25.6%
G & A expenses/ sales	5.7%	6.2%	6.0%	5.8%	5.6%
Franchisees expenses/ sales	6.6%	2.9%	2.5%	2.2%	1.9%
Effective tax rate	26.5%	30.4%	25.0%	25.0%	25.0%
<b>NP att. margin</b>	<b>10.0%</b>	<b>4.6%</b>	<b>8.0%</b>	<b>8.8%</b>	<b>9.8%</b>
<b>NP att. growth (%)</b>	<b>26.3%</b>	<b>-55.4%</b>	<b>99.3%</b>	<b>23.4%</b>	<b>25.4%</b>

Source: Company data, CMBIGM estimates

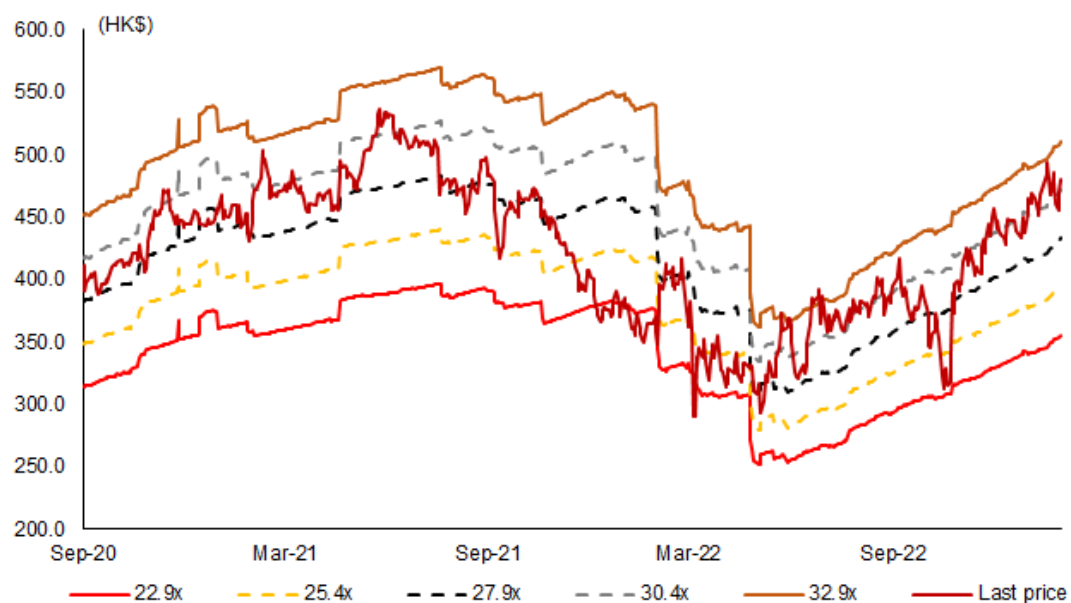
## Valuation

Figure 11: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$mn)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
<b>Leading Greater China Catering</b>														
Yum China	9987 HK	BUY	554.61	480.00	16%	200,845	Dec-21	59.6	28.6	3.5	3.2	13.8	10.9	0.8
Jiumaojiu	9922 HK	BUY	19.70	19.00	4%	27,636	Dec-21	87.8	34.1	7.0	5.9	6.7	2.0	0.2
Haidilao	6862 HK	BUY	20.79	19.44	7%	108,359	Dec-21	204.9	40.0	11.0	8.8	(50.6)	(1.1)	0.1
Nayuki	2150 HK	BUY	7.38	6.19	19%	10,617	Dec-21	n/a	44.6	2.0	1.8	n/a	n/a	0.0
Helens	9869 HK	NR	n/a	13.60	n/a	17,230	Dec-21	n/a	34.3	5.2	4.6	(15.1)	n/a	0.0
Tam Jai	2217 HK	NR	n/a	2.51	n/a	3,365	Mar-22	17.9	10.9	2.2	1.9	19.3	0.9	1.6
Cafe De Coral	341 HK	BUY	15.12	13.84	9%	8,106	Mar-22	36.7	21.0	2.8	2.6	1.7	0.2	1.8
Xiabuxiabu	520 HK	NR	n/a	7.55	n/a	8,201	Dec-21	n/a	26.6	4.2	3.7	(27.1)	n/a	0.9
Yihai	1579 HK	BUY	108.52	25.95	318%	27,167	Dec-21	33.6	27.7	5.1	4.4	18.8	6.0	0.9
Gourmet Master	2723 TT	NR	n/a	155.00	n/a	7,288	Dec-21	51.6	27.0	2.4	2.2	4.9	11.7	1.8
<b>Avg.</b>								<b>70.3</b>	<b>29.5</b>	<b>4.5</b>	<b>3.9</b>	<b>(3.1)</b>	<b>4.4</b>	<b>0.8</b>
<b>Med.</b>								<b>51.6</b>	<b>28.1</b>	<b>3.8</b>	<b>3.5</b>	<b>4.9</b>	<b>2.0</b>	<b>0.9</b>
<b>International Catering</b>														
Yum! Brands	YUM US	NR	n/a	129.34	n/a	285,988	Dec-21	25.1	21.9	n/a	n/a	n/a	1.9	1.9
Mcdonald's	MCD US	NR	n/a	267.34	n/a	1,537,000	Dec-21	25.3	22.9	n/a	n/a	n/a	1.6	2.3
Starbucks Corp	SBUX US	NR	n/a	106.83	n/a	963,727	Oct-21	31.5	26.4	n/a	n/a	n/a	1.7	2.0
Rest' Brands	QSR US	NR	n/a	68.13	n/a	241,066	Dec-21	21.6	22.2	10.8	10.0	39.7	2.9	3.2
Chipotle	CMG US	NR	n/a	1722.9	n/a	373,621	Dec-21	40.7	33.6	17.2	17.6	38.5	1.5	0.0
Darden	DRI US	NR	n/a	149.59	n/a	142,909	May-22	19.2	17.2	8.5	8.1	39.8	2.2	3.3
Domino's Pizza	DPZ US	NR	n/a	357.20	n/a	99,256	Jan-22	29.5	25.2	n/a	n/a	n/a	5.0	1.2
Wendy's Co	WEN US	NR	n/a	22.73	n/a	38,009	Jan-22	26.8	22.8	10.2	13.7	38.4	2.8	2.2
Shake Shack	SHAK US	NR	n/a	59.07	n/a	19,544	Dec-21	n/a	n/a	6.1	6.0	(5.6)	n/a	n/a
Wingstop Inc	WING US	NR	n/a	165.51	n/a	38,867	Dec-21	100.2	85.8	n/a	n/a	n/a	5.5	0.4
Jollibee Foods	JFC PM	NR	n/a	242.00	n/a	38,789	Dec-21	29.0	29.3	3.9	3.6	18.0	1.5	1.0
<b>Avg.</b>								<b>34.9</b>	<b>30.7</b>	<b>9.5</b>	<b>9.8</b>	<b>28.1</b>	<b>2.7</b>	<b>1.7</b>
<b>Med.</b>								<b>27.9</b>	<b>24.1</b>	<b>9.3</b>	<b>9.0</b>	<b>38.5</b>	<b>2.1</b>	<b>2.0</b>
<b>H-shares Consumer Staples</b>														
UPC	220 HK	NR	n/a	7.20	n/a	31,099	Dec-21	21.5	16.8	2.0	2.0	9.9	3.6	5.1
Tingyi	322 HK	NR	n/a	12.78	n/a	72,005	Dec-21	22.5	16.2	3.9	3.7	17.4	4.4	7.0
Want Want	151 HK	NR	n/a	4.93	n/a	58,587	Mar-22	13.2	12.0	3.0	2.9	25.6	18.0	6.1
China Mengniu*	2319 HK	BUY	57.00	37.90	50%	149,903	Dec-21	22.3	19.9	3.1	2.8	15.8	1.7	1.3
Nongfu Spring*	9633 HK	BUY	53.00	44.65	19%	502,155	Dec-21	54.7	45.8	17.5	13.8	41.1	3.8	1.1
Vitasoy	345 HK	NR	n/a	16.60	n/a	17,775	Mar-22	146.9	63.1	5.3	4.9	(1.5)	(0.6)	0.1
Budweiser*	1876 HK	BUY	27.20	23.45	16%	310,558	Dec-21	39.8	33.6	3.4	3.4	10.1	3.0	0.9
Tsingtao*	168 HK	BUY	86.00	75.20	14%	131,901	Dec-21	26.5	23.1	3.5	3.1	15.4	2.7	1.8
CR Beer*	291 HK	BUY	71.00	57.00	25%	184,918	Dec-21	37.6	30.2	6.1	5.4	15.6	3.5	1.0
Dali Foods	3799 HK	NR	n/a	3.50	n/a	47,929	Dec-21	12.2	10.8	2.0	1.8	18.5	5.0	4.1
<b>Avg.</b>								<b>39.7</b>	<b>27.1</b>	<b>5.0</b>	<b>4.4</b>	<b>16.8</b>	<b>4.5</b>	<b>2.9</b>
<b>Med.</b>								<b>24.5</b>	<b>21.5</b>	<b>3.5</b>	<b>3.3</b>	<b>15.7</b>	<b>3.6</b>	<b>1.5</b>

Source: Bloomberg, Company data, CMBIGM estimates, \*covered by Joseph Wong

Figure 12: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates



## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	8,263	9,853	9,569	11,072	12,414	13,938
Cost of goods sold	(2,342)	(2,812)	(2,836)	(3,257)	(3,644)	(4,082)
Gross profit	5,921	7,041	6,733	7,814	8,769	9,856
Operating expenses	(5,245)	(6,298)	(6,010)	(6,720)	(7,437)	(8,179)
Selling expense	0	0	0	0	0	0
Admin expense	(591)	(663)	(704)	(786)	(857)	(934)
Staff costs	(1,730)	(2,258)	(2,389)	(2,693)	(3,019)	(3,361)
Other rental related expenses	(814)	(968)	(984)	(1,125)	(1,243)	(1,374)
Others	(1,660)	(1,893)	(1,390)	(1,543)	(1,698)	(1,846)
Operating profit	961	1,386	629	1,117	1,370	1,718
Other income	285	643	(94)	22	37	42
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,411	1,902	1,172	1,690	1,990	2,382
Depreciation	(431)	(505)	(478)	(513)	(563)	(625)
Other amortisation	(19)	(11)	(65)	(60)	(57)	(40)
Interest income	43	60	84	88	113	137
Interest expense	0	0	0	0	0	0
Net Interest income/(expense)	43	60	84	88	113	137
Other income/expense	104	(54)	(26)	(30)	(34)	(38)
Pre-tax profit	1,108	1,392	687	1,174	1,449	1,817
Income tax	(295)	(369)	(209)	(294)	(362)	(454)
After tax profit	813	1,023	478	881	1,087	1,363
Minority interest	(29)	(33)	(36)	0	0	0
Net profit	784	990	442	881	1,087	1,363

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	4,936	4,716	3,940	5,218	6,330	7,486
Cash & equivalents	1,158	1,136	1,130	2,277	3,279	4,310
Restricted cash	3,105	2,860	2,022	2,022	2,022	2,022
Account receivables	99	67	64	76	85	95
Inventories	398	432	417	488	546	611
Prepayment	176	221	307	355	398	447
Other current assets	0	0	0	0	0	0
Non-current assets	5,939	8,507	7,886	7,499	7,406	7,508
PP&E	1,765	2,251	2,118	2,324	2,506	2,648
Right-of-use assets	2,164	2,612	2,219	2,219	2,219	2,219
Investment in JVs & assos	85	292	266	266	266	266
Intangibles	246	272	159	99	42	2
Goodwill	832	2,142	1,988	1,455	1,237	1,237
Other non-current assets	847	938	1,136	1,136	1,136	1,136
Total assets	10,875	13,223	11,826	12,717	13,736	14,994
Current liabilities	2,067	2,383	2,166	2,379	2,571	2,790
Short-term borrowings	0	0	0	0	0	0
Account payables	708	830	830	953	1,067	1,195
Tax payable	72	51	68	68	68	68
Other current liabilities	1,287	1,502	1,268	1,357	1,437	1,527
Non-current liabilities	2,337	2,918	2,500	2,500	2,500	2,500
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	2,337	2,918	2,500	2,500	2,500	2,500
Total liabilities	4,404	5,301	4,666	4,879	5,071	5,290
Share capital	4,829	4,967	4,291	4,291	4,291	4,291
Retained earnings	2,105	2,892	2,191	2,608	3,372	4,330
Other reserves	(463)	63	678	940	1,001	1,083
Total shareholders equity	6,471	7,922	7,160	7,839	8,664	9,704
Minority interest	0	0	0	0	0	0
Total equity and liabilities	6,471	7,922	7,160	7,839	8,664	9,704



<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	1,108	1,392	687	1,174	1,449	1,817
Depreciation & amortization	450	516	543	573	620	664
Tax paid	111	160	(20)	(294)	(362)	(454)
Change in working capital	69	53	0	82	83	94
Others	(624)	(990)	203	533	218	0
<b>Net cash from operations</b>	<b>1,114</b>	<b>1,131</b>	<b>1,413</b>	<b>2,069</b>	<b>2,008</b>	<b>2,121</b>
<b>Investing</b>						
Capital expenditure	(419)	(689)	(679)	(720)	(745)	(767)
Acquisition of subsidiaries/ investments	(288)	(115)	(23)	0	0	0
Others	(2,402)	(51)	180	0	0	0
<b>Net cash from investing</b>	<b>(3,109)</b>	<b>(855)</b>	<b>(522)</b>	<b>(720)</b>	<b>(745)</b>	<b>(767)</b>
<b>Financing</b>						
Dividend paid	(95)	(203)	(202)	(202)	(262)	(323)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	2,195	0	0	0	0	0
Share repurchases	(8)	(75)	(466)	0	0	0
Others	(34)	(35)	(176)	0	0	0
<b>Net cash from financing</b>	<b>2,058</b>	<b>(313)</b>	<b>(844)</b>	<b>(202)</b>	<b>(262)</b>	<b>(323)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,046	1,158	1,136	1,130	2,277	3,279
Exchange difference	40	15	(53)	0	0	0
Others	72	(37)	47	1,147	1,002	1,031
<b>Cash at the end of the year</b>	<b>1,158</b>	<b>1,136</b>	<b>1,130</b>	<b>2,277</b>	<b>3,279</b>	<b>4,310</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(5.8%)	19.2%	(2.9%)	15.7%	12.1%	12.3%
Gross profit	(6.0%)	18.9%	(4.4%)	16.1%	12.2%	12.4%
Operating profit	6.7%	44.2%	(54.6%)	77.6%	22.7%	25.4%
EBITDA	6.2%	34.8%	(38.4%)	44.2%	17.7%	19.7%
Net profit	10.0%	26.3%	(55.4%)	99.3%	23.4%	25.4%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	71.7%	71.5%	70.4%	70.6%	70.6%	70.7%
Operating margin	11.6%	14.1%	6.6%	10.1%	11.0%	12.3%
EBITDA margin	17.1%	19.3%	12.2%	15.3%	16.0%	17.1%
Return on equity (ROE)	16.3%	13.8%	5.9%	11.7%	13.2%	14.8%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	2.4	2.0	1.8	2.2	2.5	2.7
Receivable turnover days	4.1	3.1	2.5	2.5	2.5	2.5
Inventory turnover days	60.6	53.9	54.6	54.6	54.6	54.6
Payable turnover days	103.7	99.8	106.8	106.8	106.8	106.8
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	28.4	26.2	45.5	28.2	22.8	18.2
P/E (diluted)	28.4	26.2	45.5	28.2	22.8	18.2
P/B	3.5	3.3	2.7	3.1	2.8	2.5
P/CFPS	20.0	23.0	14.2	12.0	12.4	11.7
Div yield (%)	0.4	0.8	1.1	1.1	1.3	1.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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