

Nongfu Spring (9633 HK)

Mid-teen top-line growth and 90% dividend payout sustain the valuation premium over peers

- **2023 outlook.** Management prudently guided for low-teen top-line growth for the year, owing mainly to 1) the current scale of what Nongfu has already achieved, and 2) intensifying competition post COVID. Despite this, year-to-date Nongfu has achieved mid-teen sales growth, thanks to strong volume recovery in Oriental Leaf and large-sized bottled water. Nongfu expects selling expense to “normalize” in the post-COVID era when the Company plans to step up and rejuvenate its brand image among consumers.
- **Gross margins could mildly edge up.** While PET price has already flattened out year-to-date, management mentioned that the difference was not significant when compared to that of 2020. While GPM in 1H22 was marginally benefitted by capturing the low cost PET procured in 2020, we think that could form the ceiling we could see for 2023 GPM. Channel competition and product mix upgrade are other key moving parts, beyond the cost of PET, in shaping the near-term GPM trajectory, according to management.
- **New tea/ bottled water SKUs were well-received.** Oriental Leaf remained the best-seller with stronger growth than Tea Pi, despite a smaller scale. Overall sales momentum for bottled-water has been stable. In particular, 4.5L and 6L SKUs grew faster than those of small-sized, thanks to a differentiated consumption occasion, such as office and kitchen, etc.
- **A 90% dividend payout could sustain.** We consider this another positive from the 2H results that came in as a small beat to us. Nongfu will maintain the payout ratio as long as the Company does not pursue takeover opportunities that consume the majority of internal cash resources.
- **Earnings change.** To reflect the actual 2H22 and management guidance, we cut our 2023/24E revenue by 6-10%, and this leads to a 2-10% cut in our net profits estimates.
- **Valuation.** Upon our earnings changes, our revised TP is based on an updated 58.0x (from 60.0x) rolled-forward end-23E P/E which still represents +1sd above 2 years average since IPO.

Earnings summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 22,877 | 29,696 | 33,239 | 37,914 | 42,457 |
| YoY growth (%) | (4.8) | 29.8 | 11.9 | 14.1 | 12.0 |
| Net income (RMB mn) | 5,277 | 7,162 | 8,495 | 9,645 | 10,860 |
| EPS (RMB) | 0.5 | 0.6 | 0.8 | 0.9 | 1.0 |
| YoY growth (%) | 6.6 | 35.7 | 18.6 | 13.5 | 12.6 |
| Consensus EPS (RMB) | na | na | 0.7 | 0.8 | 1.0 |
| P/E (x) | na | na | 58.0 | 51.1 | 45.4 |
| P/B (x) | na | na | 20.5 | 18.9 | 17.4 |
| Div yield (%) | na | na | 1.7 | 1.9 | 2.1 |
| ROE (%) | 34.1 | 35.8 | 35.3 | 37.0 | 38.4 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price **HK\$58.0**
 (Previous TP **HK\$57.6**)
 Up/Downside **+24.7%**
 Current Price **HK\$46.5**

China Consumer –
 Food and Beverage

Joseph Wong
 (852) 3900 0838
 josephwong@cmbi.com.hk

Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 520,711 |
| Avg 3 mths t/o (HK\$ mn) | 178.9 |
| 52w High/Low (HK\$) | 48.6/ 38.0 |
| Total Issued Shares (mn) | 5,035 |

Source: Wind

Shareholding Structure

| | |
|------------------|-------|
| Yangshengtang Co | 66.8% |
| Zhong Shanshan | 17.2% |

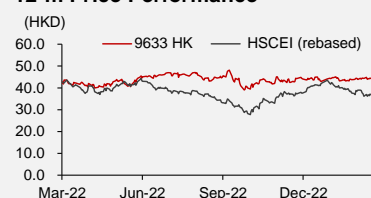
Source: Wind

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 5.2% | 0.7% |
| 3-mth | 5.0% | 2.3% |
| 6-mth | 1.6% | -12.6% |

Source: Wind

12-m Price Performance



Source: Wind

Related Reports

1. [CR Beer \(291 HK\) – An in-line 2H22: our top pick among China F&B names](#) – 27 Mar 2023
2. [Hongjiu Fruits \(6689 HK\) – A solid and robust 2022: all eyes on the upcoming OCF turnaround](#) – 22 Mar 2023

Figure 1: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|--------------|--------|--------|--------|--------|--------|--------|----------|--------|---------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 33,239 | 37,914 | 42,457 | 33,622 | 40,266 | 47,111 | -1.1% | -5.8% | -9.9% |
| Gross Profit | 19,095 | 22,192 | 25,099 | 19,188 | 23,445 | 28,286 | -0.5% | -5.3% | -11.3% |
| EBIT | 10,503 | 11,999 | 13,579 | 10,346 | 12,489 | 15,394 | 1.5% | -3.9% | -11.8% |
| Net profit | 8,495 | 9,645 | 10,860 | 8,175 | 9,816 | 12,040 | 3.9% | -1.7% | -9.8% |
| Gross Margin | 57.4% | 58.5% | 59.1% | 57.1% | 58.2% | 60.0% | 0.4ppt | 0.3ppt | -0.9ppt |
| EBIT Margin | 31.6% | 31.6% | 32.0% | 30.8% | 31.0% | 32.7% | 0.8ppt | 0.6ppt | -0.7ppt |
| Net Margin | 25.6% | 25.4% | 25.6% | 24.3% | 24.4% | 25.6% | 1.2ppt | 1.1ppt | 0ppt |

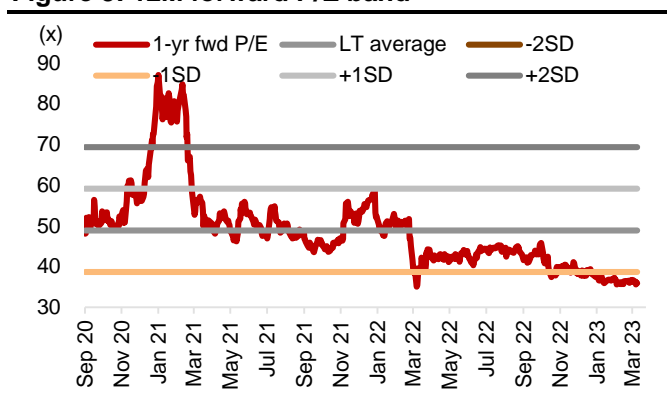
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|--------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 33,239 | 37,914 | 42,457 | 33,428 | 39,299 | 45,458 | -0.6% | -3.5% | -6.6% |
| Gross Profit | 19,095 | 22,192 | 25,099 | 19,133 | 23,059 | 26,952 | -0.2% | -3.8% | -6.9% |
| EBIT | 10,503 | 11,999 | 13,579 | 10,312 | 12,213 | 14,387 | 1.9% | -1.8% | -5.6% |
| Net profit | 8,495 | 9,645 | 10,860 | 7,911 | 9,254 | 10,888 | 7.4% | 4.2% | -0.3% |
| Gross Margin | 57.4% | 58.5% | 59.1% | 57.2% | 58.7% | 59.3% | 0.2ppt | -0.1ppt | -0.2ppt |
| EBIT Margin | 31.6% | 31.6% | 32.0% | 30.8% | 31.1% | 31.6% | 0.7ppt | 0.6ppt | 0.3ppt |
| Net Margin | 25.6% | 25.4% | 25.6% | 23.7% | 23.5% | 24.0% | 1.9ppt | 1.9ppt | 1.6ppt |

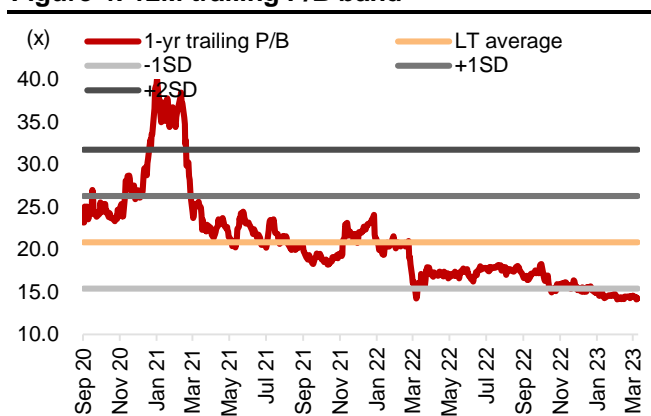
Source: Company data, CMBIGM estimate

Figure 3: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 22,877 | 29,696 | 33,239 | 37,914 | 42,457 |
| Packaged drinking water | 13,960 | 17,058 | 18,263 | 19,271 | 20,499 |
| Tea beverage products | 3,088 | 4,579 | 6,906 | 8,719 | 10,672 |
| Functional beverage | 2,792 | 3,695 | 3,838 | 4,652 | 5,219 |
| Juice beverage products | 1,977 | 2,614 | 2,879 | 3,344 | 3,752 |
| Gross profit | 13,508 | 17,656 | 19,095 | 22,192 | 25,099 |
| Selling and distribution | (5,511) | (7,233) | (7,821) | (9,099) | (10,190) |
| Administrative expenses | (1,324) | (1,751) | (1,835) | (1,972) | (2,208) |
| Other expense | 78 | 418 | 471 | 521 | 1,063 |
| Operating profit | 6,917 | 9,077 | 10,503 | 11,999 | 13,579 |
| EBITDA | 8,599 | 10,899 | 11,882 | 13,779 | 15,574 |
| Finance costs, net | 69 | 278 | 547 | 547 | 547 |
| JCE | - | - | - | - | - |
| Pre-tax profit | 6,986 | 9,354 | 11,050 | 12,546 | 14,126 |
| Income tax | (1,709) | (2,192) | (2,555) | (2,901) | (3,266) |
| Less: Minority interests | - | - | - | - | - |
| Net profit | 5,277 | 7,162 | 8,495 | 9,645 | 10,860 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income | 5,277 | 7,162 | 8,495 | 9,645 | 10,860 |
| Depreciation and | 1,925 | 2,227 | 2,442 | 2,658 | 2,873 |
| Change in working capital | 698 | (861) | 2,335 | (595) | (183) |
| Others | 529 | - | 515 | - | (0) |
| Net cash from operating | 8,429 | 8,528 | 13,787 | 11,708 | 13,550 |
| Capex & investments | (2,279) | (2,359) | (2,358) | (2,357) | (2,356) |
| Acquisition | - | - | - | - | - |
| Others | (2,377) | - | (2,973) | (2,806) | - |
| Net cash from investing | (4,657) | (2,359) | (5,331) | (5,163) | (2,356) |
| Equity raised | 8,543 | - | - | - | - |
| Change of Debts | 1,414 | (2,414) | (75) | - | - |
| Dividend paid | (7,980) | (2,639) | (5,061) | (7,648) | (8,683) |
| Others | (261) | (0) | 16 | - | - |
| Net cash from financing | 1,716 | (5,053) | (5,120) | (7,648) | (8,683) |
| Net change in cash | 5,488 | 1,116 | 3,335 | (1,103) | 2,511 |
| Cash at the beginning of the year | 783 | 6,056 | 10,188 | 13,523 | 12,420 |
| Exchange difference | (215) | - | - | - | - |
| Cash at the end of the year | 6,056 | 7,172 | 13,523 | 12,420 | 14,932 |
| Plus: time deposits | 3,063 | 3,063 | 4,596 | 4,596 | 4,596 |

Balance sheet

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 13,668 | 13,800 | 20,893 | 20,491 | 19,974 |
| Fixed assets | 12,592 | 12,692 | 15,398 | 15,077 | 14,547 |
| Intangibles assets | 58 | 55 | 58 | 43 | 34 |
| Right-of-use assets | 695 | 730 | 853 | 787 | 809 |
| Other non-current assets | 324 | 324 | 4,584 | 4,584 | 4,584 |
| Current assets | 12,192 | 14,423 | 18,361 | 20,920 | 23,779 |
| Cash | 9,119 | 10,235 | 15,211 | 17,016 | 19,527 |
| Account receivable | 358 | 952 | 479 | 997 | 1,101 |
| Inventory | 1,805 | 2,326 | 2,108 | 2,344 | 2,588 |
| Other current assets | 910 | 910 | 563 | 563 | 563 |
| Current liabilities | 9,825 | 7,665 | 14,601 | 14,760 | 14,925 |
| Borrowings | 2,414 | - | 2,425 | 2,425 | 2,425 |
| Accounts payable | 882 | 1,136 | 1,425 | 1,584 | 1,749 |
| Other payables | 4,260 | 4,260 | 8,005 | 8,005 | 8,005 |
| Contract liabilities | 2,247 | 2,247 | 2,677 | 2,677 | 2,677 |
| Other current liabilities | 21 | 21 | 69 | 69 | 69 |
| Non-current liabilities | 542 | 542 | 569 | 569 | 569 |
| Borrowings | - | - | - | - | - |
| Other non-current liabilities | 542 | 542 | 569 | 569 | 569 |
| Minority Interest | - | - | - | - | - |
| Total net assets | 15,492 | 20,016 | 24,084 | 26,082 | 28,259 |
| Shareholders' equity | 15,492 | 20,016 | 24,084 | 26,082 | 28,259 |

Key ratios

| YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|-----------------------------|----------|----------|----------|----------|----------|
| Sales mix (%) | | | | | |
| Packaged water | 61.0 | 57.4 | 54.9 | 50.8 | 48.3 |
| Tea beverage | 13.5 | 15.4 | 20.8 | 23.0 | 25.1 |
| Functional beverage | 12.2 | 12.4 | 11.5 | 12.3 | 12.3 |
| Juice | 8.6 | 8.8 | 8.7 | 8.8 | 8.8 |
| P&L ratios (%) | | | | | |
| Gross profit margin | 59.0 | 59.5 | 57.4 | 58.5 | 59.1 |
| Operating margin | 30.2 | 30.6 | 31.6 | 31.6 | 32.0 |
| Pre-tax margin | 30.5 | 31.5 | 33.2 | 33.1 | 33.3 |
| Net margin | 23.1 | 24.1 | 25.6 | 25.4 | 25.6 |
| Effective tax rate | (7.5) | (7.4) | (7.7) | (7.7) | (7.7) |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Net receivable days | 28.8 | 28.8 | 23.2 | 23.2 | 23.2 |
| Net payable days | 34.4 | 34.4 | 36.8 | 36.8 | 36.8 |
| Inventory turnover days | 70.4 | 70.4 | 54.4 | 54.4 | 54.4 |
| Net debt / equity ratio (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Returns (%) | | | | | |
| ROE | 34.1 | 35.8 | 35.3 | 37.0 | 38.4 |
| Dividend yield | na | na | 1.7 | 1.9 | 2.1 |
| Per share | | | | | |
| EPS (RMB) | 0.47 | 0.64 | 0.76 | 0.86 | 0.97 |
| DPS (RMB) | 0.23 | 0.32 | 0.68 | 0.77 | 0.87 |
| BVPS (RMB) | 1.38 | 1.78 | 2.14 | 2.32 | 2.51 |
| EV/ EBITDA (x) | na | 39.1 | 35.1 | 30.1 | 26.5 |

Source: Company data, CMBIGM estimates

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| | |
|-----------------------|---|
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| UNDERPERFORM | : Industry expected to underperform the relevant broad market benchmark over next 12 months |

CMB International Global Markets Limited

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

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