

Nongfu Spring (9633 HK)

1H22 beat on GPM; tea beverage should continue to drive growth over 2H

Nongfu reported 1H results with RMB4.6bn net profits (+14% YoY) and RMB16.6bn revenue (+9% YoY). The results were above both our and consensus estimates, thanks to a higher-than-expected GPM at 59.3%. Revenue also came in 4% above us, thanks to 50%+ growth from tea beverage. The strength was mainly due to new launches under Tea Pai and Oriental Leaf, which our previous channel checks indicated 30%+ sales growth. Meanwhile, package water and juice recorded 4% growth, in line with us. Function drinks revenue was flattish, better than a mid-teen decline as we forecasted. To reflect the above, we raised our 2022/23E revenue by 2.2%/ 5.7%, respectively, driven mainly by a ~20% higher tea beverage revenue. We also lift our GPM by 0.4pp/ 1.0pp, and these in aggregate translate to a 15%/ 18% increase in our net profits, respectively. We remain BUY-rated.

- **A steady 2H outlook.** The strong growth in tea beverages in 1H was mainly due to new launches/ flavors of Oriental Leaf and Tea Pai, which received good feedback from young consumers. We expect the strong momentum to continue in 2H. Meanwhile, packaged water could recover, especially for small bottles, should there be no further large-scale lockdowns. Juices could accelerate but functional beverages likely remain under pressure, in our view, as the resumption of outdoor activities should be gradual.
- **2H guidance largely unchanged.** Management maintained DD sales growth target for 2022E, while expecting cost pressure to increase in 2H, due to the clear-up of lower-cost PET inventory and rising oil prices, which could lead to a GPM at 56-57% (2021: 59.5%) for the full 2022E. The company will keep controlling selling expenses in 2H, which could partially compensate the margin pressure from raw mat cost increase, in our view.
- Four out of five business segments recorded positive growth in 1H22, with tea beverage/ packaged water/ juices/ functional beverage growing +51.6%/ +4.8%/ +4.2%/ +0.9% YoY, respectively. The pandemic has weighed significantly on functional beverages and disrupted the steady momentum of packaged water, especially small bottles, in 1Q.
- **Valuation.** Upon our earnings changes, our revised TP is based on 60.0x (from 65.0x) mid-23E P/E which still represents +1sd above 2-year average since IPO.

Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	22,877	29,696	33,622	40,266	47,111
YoY growth (%)	(4.8)	29.8	13.2	19.8	17.0
Net income (RMB mn)	5,277	7,162	8,175	9,816	12,040
EPS (RMB)	0.5	0.6	0.7	0.9	1.1
YoY growth (%)	6.6	35.7	14.1	20.1	22.7
Consensus EPS (RMB)	na	na	0.7	0.8	1.0
P/E (x)	na	na	60.0	50.0	40.7
P/B (x)	na	na	19.9	16.2	13.1
Div yield (%)	na	na	0.9	1.1	1.4
ROE (%)	34.1	35.8	33.2	32.4	32.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price	HK\$57.6
(Previous TP	HK\$53.0)
Up/Downside	+23.7%
Current Price	HK\$46.6

China Consumer Staples – Food and Beverage

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

Zheng Xiaohui
 (852) 3900 0838
 zhengxiaohui@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	522.961
Avg 3 mths t/o (HK\$ mn)	187.24
52w High/Low (HK\$)	51.98/ 33.42
Total Issued Shares (mn)	11,246
Source: Wind	

Shareholding Structure

Yangshengtang Co	66.8%
Zhong Shanshan	17.2%

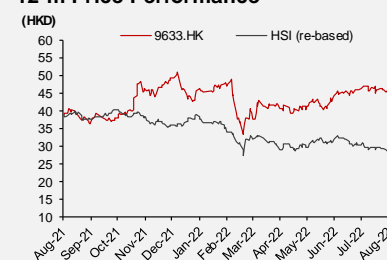
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-0.6%	2.8%
3-mth	8.9%	14.4%
6-mth	-3.8%	8.3%

Source: Wind

12-m Price Performance



Source: Wind

Auditor: Ernst and Young

Related Reports

1. [实地调研专题系列之二 – 食品饮料经销渠道调研情况梳理与投资观点 – 2 Aug 2022](#)
2. [实地调研专题系列之一 – 商超渠道调研情况梳理与投资观点 – 22 Jul 2022](#)

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	33,622	40,266	47,111	32,912	38,077	43,413	2.2%	5.7%	8.5%
Gross Profit	19,188	23,445	28,286	18,643	21,785	25,458	2.9%	7.6%	11.1%
EBIT	9,606	12,049	14,954	8,803	10,400	12,477	9.1%	15.9%	19.8%
Net profit	8,175	9,816	12,040	7,093	8,326	9,929	15.2%	17.9%	21.3%
EPS (RMB)	0.73	0.87	1.07	0.63	0.74	0.88	15.2%	17.9%	21.3%
Gross Margin	57.1%	58.2%	60.0%	56.6%	57.2%	58.6%	0.4ppt	1ppt	1.4ppt
EBIT Margin	28.6%	29.9%	31.7%	26.7%	27.3%	28.7%	1.8ppt	2.6ppt	3ppt
Net Margin	24.3%	24.4%	25.6%	21.6%	21.9%	22.9%	2.8ppt	2.5ppt	2.7ppt

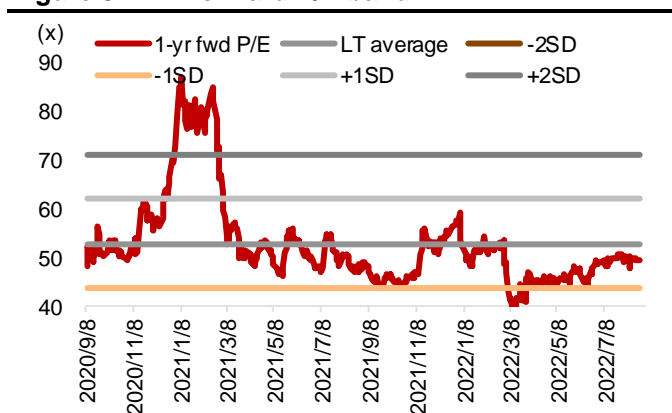
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	33,622	40,266	47,111	33,994	39,831	46,071	-1.1%	1.1%	2.3%
Gross Profit	19,188	23,445	28,286	19,233	23,059	26,652	-0.2%	1.7%	6.1%
EBIT	9,606	12,049	14,954	9,576	11,827	13,808	0.3%	1.9%	8.3%
Net profit	8,175	9,816	12,040	7,377	9,025	10,523	10.8%	8.8%	14.4%
EPS (RMB)	0.73	0.87	1.07	0.68	0.82	0.96	7.7%	6.8%	12.1%
Gross Margin	57.1%	58.2%	60.0%	56.6%	57.9%	57.8%	0.5ppt	0.3ppt	2.2ppt
EBIT Margin	28.6%	29.9%	31.7%	28.2%	29.7%	30.0%	0.4ppt	0.2ppt	1.8ppt
Net Margin	24.3%	24.4%	25.6%	21.7%	22.7%	22.8%	2.6ppt	1.7ppt	2.7ppt

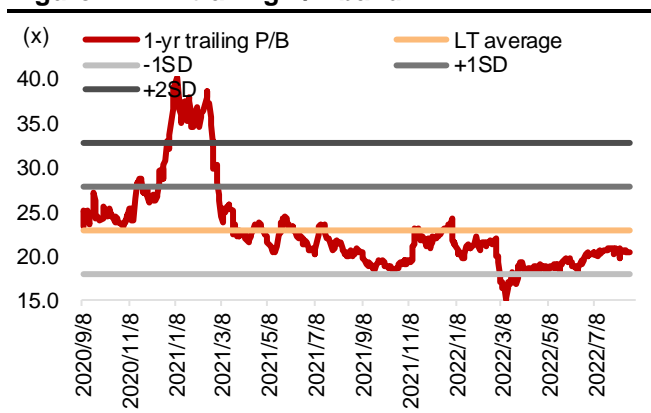
Source: Company data, CMBIGM estimate

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	33,622	40,266	47,111
Packaged drinking water	13,960	17,058	19,262	21,761	25,275
Tea beverage products	3,088	4,579	6,319	9,023	11,044
Functional beverage	2,792	3,695	3,517	4,304	4,829
Juice beverage products	1,977	2,614	2,748	3,224	3,617
Gross profit	13,508	17,656	19,188	23,445	28,286
Selling and distribution	(5,511)	(7,233)	(7,800)	(9,261)	(10,836)
Administrative expenses	(1,324)	(1,751)	(1,782)	(2,134)	(2,497)
Other expense	78	418	433	483	740
Operating profit	6,917	9,077	10,346	12,489	15,394
EBITDA	8,599	10,899	12,048	14,707	17,827
Finance costs, net	69	278	331	331	331
JCE	-	-	-	-	-
Pre-tax profit	6,986	9,354	10,676	12,820	15,725
Income tax	(1,709)	(2,192)	(2,502)	(3,004)	(3,685)
Less: Minority interests	-	-	-	-	-
Net profit	5,277	7,162	8,175	9,816	12,040

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	5,277	7,162	8,175	9,816	12,040
Depreciation and	1,925	2,227	2,442	2,658	2,873
Change in working capital	698	(861)	(420)	(424)	(356)
Others	529	-	(0)	-	-
Net cash from operating	8,429	8,528	10,197	12,050	14,557
Capex & investments	(2,279)	(2,359)	(2,358)	(2,357)	(2,356)
Acquisition	-	-	-	-	-
Others	(2,377)	-	-	-	-
Net cash from investing	(4,657)	(2,359)	(2,358)	(2,357)	(2,356)
Equity raised	8,543	-	-	-	-
Change of Debts	1,414	(2,414)	-	-	-
Dividend paid	(7,980)	(2,639)	(3,581)	(4,087)	(4,908)
Others	(261)	(0)	-	-	-
Net cash from financing	1,716	(5,053)	(3,581)	(4,087)	(4,908)
Net change in cash	5,488	1,116	4,258	5,605	7,293
Cash at the beginning of the year	783	6,056	7,172	11,430	17,035
Exchange difference	(215)	-	-	-	-
Cash at the end of the year	6,056	7,172	11,430	17,035	24,328
Plus: time deposits	3,063	3,063	3,063	3,063	3,063

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	13,668	13,800	13,716	13,415	12,898
Fixed assets	12,592	12,692	12,582	12,262	11,732
Intangibles assets	58	55	50	43	34
Right-of-use assets	695	730	760	787	809
Other non-current assets	324	324	324	324	324
Current assets	12,192	14,423	19,323	25,578	33,415
Cash	9,119	10,235	14,492	20,098	27,391
Account receivable	358	952	1,139	1,328	1,486
Inventory	1,805	2,326	2,782	3,242	3,628
Other current assets	910	910	910	910	910
Current liabilities	9,825	7,665	7,888	8,112	8,301
Borrowings	2,414	-	-	-	-
Accounts payable	882	1,136	1,359	1,584	1,772
Other payables	4,260	4,260	4,260	4,260	4,260
Contract liabilities	2,247	2,247	2,247	2,247	2,247
Other current liabilities	21	21	21	21	21
Non-current liabilities	542	542	542	542	542
Borrowings	-	-	-	-	-
Other non-current liabilities	542	542	542	542	542
Minority Interest	-	-	-	-	-
Total net assets	15,492	20,016	24,609	30,338	37,470
Shareholders' equity	15,492	20,016	24,609	30,338	37,470

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Packaged water	61.0	57.4	57.3	54.0	53.7
Tea beverage	13.5	15.4	18.8	22.4	23.4
Functional beverage	12.2	12.4	10.5	10.7	10.3
Juice	8.6	8.8	8.2	8.0	7.7
P&L ratios (%)					
Gross profit margin	59.0	59.5	57.1	58.2	60.0
Operating margin	30.2	30.6	30.8	31.0	32.7
Pre-tax margin	30.5	31.5	31.8	31.8	33.4
Net margin	23.1	24.1	24.3	24.4	25.6
Effective tax rate	(7.5)	(7.4)	(7.4)	(7.5)	(7.8)
Balance sheet ratios					
Current ratio (x)	0.7	0.7	0.7	0.8	0.8
Net receivable days	28.8	28.8	28.8	28.8	28.8
Net payable days	34.4	34.4	34.4	34.4	34.4
Inventory turnover days	70.4	70.4	70.4	70.4	70.4
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	34.1	35.8	33.2	32.4	32.1
Dividend yield	na	na	0.9	1.1	1.4
Per share					
EPS (RMB)	0.47	0.64	0.73	0.87	1.07
DPS (RMB)	0.23	0.32	0.36	0.44	0.54
BVPS (RMB)	1.38	1.78	2.19	2.70	3.33
EV/ EBITDA (x)	na	39.1	35.0	28.3	22.9

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.

CMBIGM 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 CMBIGM

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 Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM 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 CMBIGM.

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 CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM 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 (CMBIGMG) (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. CMBIGMG 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, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.