

China Consumer Sector

Diverging performance within the sector
to be new norm





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Diverging performance within the sector to be new norm

- Strong holiday tourism growth shows demand potential in consumer sector
- Macro conditions crucial to consumption revival; demand recovery still in slow pace
- New policies to boost consumption will help stimulate consumer market growth
- **OVERWEIGHT** sector rating; favor leaders with ability to capture growth opportunities

Market potential demonstrated by strong holiday tourism growth. The consumer market during Spring Festival in Feb 2024 and Qingming Festival in Apr 2024 shows strong demand on tourism and service-related consumption, indicating potential for strong recovery in other consumer market subsectors once macroeconomic condition improves. However, the macroeconomic challenges continue to affect consumers' purchasing power and outlook, and overall consumer market growth.

Macro condition crucial to consumption revival. We believe rising value-consciousness among consumers and conservative spending habits are affected by the volatile disposable income growth. We expect resolving macroeconomic challenges would improve consumers' purchasing power and market sentiment, thus unleashing more growth potential in the consumer market.

Demand recovery remains slow. In Mar 2024, CPI in China fell and only one among the seven major commodity types saw CPI increase. Low inflation could be conducive for consumption growth, but it signals sluggish demand recovery. There were also signs of lackluster spending in between holidays, further showing signs of pace of demand recovery is being challenged.

"Year of Consumption Promotion". 2024 is designated by the Ministry of Commerce as the "Year of Consumption Promotion". In order to boost consumption, central authorities have issued several pieces of policies to tap into the potential growth drivers. In addition, the Government work report issued in Mar 2024 also emphasized the importance of stimulating consumption growth with additional targets to address enhancement of consumer market standards and optimization of consumer market environment.

Sector recommendations. We believe current sector-wide valuation is suppressed due to the weakened consumer market and varying performance among sector players. We expect short-term volatility to be seen due to the diverging fundamentals. Sector rating is Overweight as we believe leading players in the sector would be resilient and the sector has ample room for long-term growth.

Risk factors: 1) Macroeconomic risk; 2) Raw material costs risk ; 3) Policy risk; 4) Shifting consumer mindset; 5) Product quality and safety risk; 6) Higher leverage among certain players.

Sector Top Pick Valuation Summary

Company	Ticker	Price	P/E(x)		P/B (x)		Yield (%)		ROAE(%)	
			24E	25E	24E	25E	24E	25E	24E	25E
Anta	2020 HK	83.30	17.4	14.6	3.7	3.2	2.8	3.3	22.7	23.6
Nongfu Spring	9633 HK	43.35	33.6	29.5	13.4	10.7	1.5	1.7	43.2	40.4
WH Group	288 HK	5.41	7.6	6.5	0.8	0.8	4.6	5.4	11.4	12.4
YUM China	YUMC US	37.73	16.8	15.5	2.5	2.2	1.7	1.7	14.6	15.3
	9987 HK	295.00	16.8	15.4	2.5	2.2	1.7	1.7	14.6	15.3
Yili	600887 CH	27.04	14.7	13.3	3.0	2.8	4.8	5.3	21.1	21.6
Mengniu	2319 HK	15.80	10.3	9.2	1.2	1.1	3.9	4.4	12.1	12.6
Shuanghui	000895 CH	26.93	16.0	14.9	4.3	3.7	3.1	3.4	27.5	26.8

Note: Data as of Apr15, 2024; US\$/HK\$=7.8256; RMB/HK\$ = 1.0834

Source(s): Bloomberg, ABCI Securities estimates

Sector Report

Apr 16, 2024

Overweight

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Key Data

Avg. 24E P/E (x)	16.0
Avg.24E P/B (x)	2.5
Avg.24E Dividend Yield (%)	3.7

Note: as of Apr 15, 2024

Source(s): Bloomberg, ABCI Securities

Sector Performance (%)

	Absolute	Relative*
1-mth	(1.8)	0.3
3-mth	8.5	6.3
6-mth	(5.7)	1.1

Note: as of Apr 15, 2024; relative to HSI

Source(s): Bloomberg, ABCI Securities



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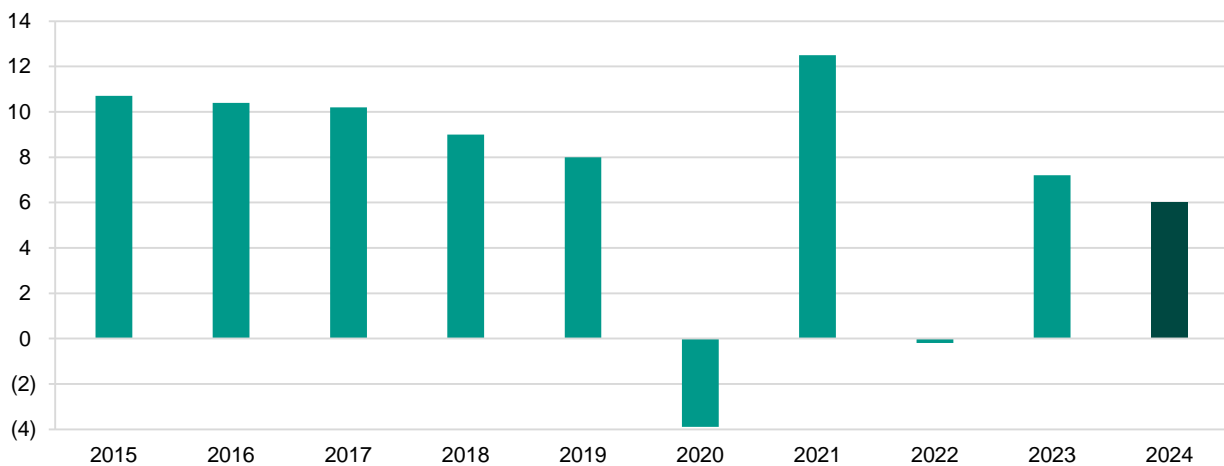
Resilient consumer market to support 2024 outlook

We believe the consumer market in 2024 would proceed with the growth normalization process, as disruptions associated with the pandemic largely occurred in early 2023, when reopening measures was gradually introduced.

As the consumer market is free from disturbances, recovery of consumption activities and market sentiment become possible. We believe the consumer market in China would remain robust due to the large consumer base, the depth of the market, and emerging growth opportunities cultivated by evolving consumer demand. The consumption patterns and holiday spending in the Spring Festival and Qingming Festival in 2024 also imply growth opportunities and potential demand to be unleashed. The resiliency of consumer market would support the overall growth outlook in 2024 and long term growth potential.

However, macroeconomic challenges remain. Issues in certain economic sectors, the uncertainty in income growth prospects, rising value-consciousness among consumers, and shifting competitive landscape of the consumer market are affecting the consumer market recovery simultaneously. We foresee growth in different product categories to diverge. Certain product/consumption categories, which benefited more from the initial reopening process, would experience growth normalization more prominently. We believe the new economic reality would enable market players who are more adaptive to the changes to thrive.

Exhibit 1: Annual national retail sales (YoY %)



Note: 2024 figure is ABCI in-house estimate
 Source(s): NBS, ABCI Securities estimate

Strong holiday tourism performance shows potential market demand

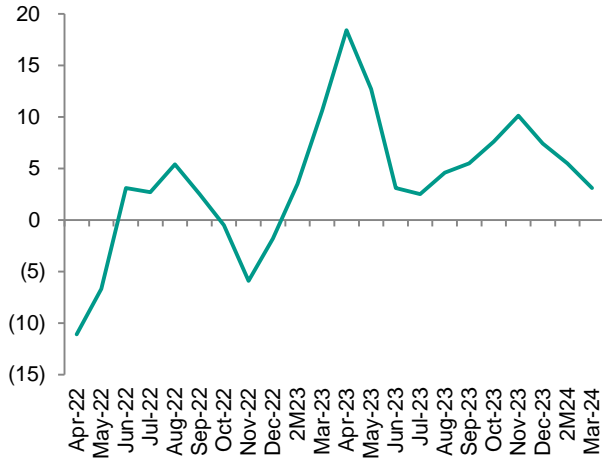
Spring Festival in Feb 2024 saw strong growth of consumer spending. According to Ministry of Culture and Tourism, in 2024 Spring Festival holiday, which had duration of 8 days, total number of tourists reached 474mn, representing YoY growth of 34.3% and a 19.0% growth rate compared to the same holiday in 2019; spending on domestic tourism reached RMB 632.687bn, representing YoY growth of 47.3% and a 7.7% growth rate compared to the same holiday in 2019. In addition, during the 2024 Spring Festival holiday, box office and cinema admission reached RMB 8016mn and 163mn, representing YoY growth of 18.47% and 26.36%; key retail and catering enterprises saw revenue growth of 8.5% YoY; key e-commerce platform saw catering sales growth of 40.8% YoY and hotel booking sales growth of more than 60% YoY.

Qingming Festival in Apr 2024 also saw decent growth in tourism industry. According to Ministry of Culture and Tourism, in 2024 Qingming Festival holiday, which had duration of 3 days, total number of tourist reached 119mn, representing growth of 11.5% compared to the same holiday in 2019; total spending on domestic tourism reached RMB 53.95bn, representing growth of 12.7% compared to same holiday in 2019.

The spending growth in the two major holidays mentioned above show strong demand on tourism and service-related consumption, indicating potential for strong recovery in other consumer market subsectors once macroeconomic condition improves. The strong appetites of Chinese consumers for service consumption during the holidays also show emerging consumption patterns that could become new opportunities. However, the strong figures also indicate underlying issues in the consumer market. In comparison with the strong tourism and service consumption growth in Spring Festival, Mar 2024 retail sales growth was only 3.1% YoY. The discordant growth rates can be attributed to the following factors. On the one hand, catering retail sales was the only service-related consumption included in the official statistics, and strong growth in other service-related consumption cannot be reflected in the retail sales figures (3M24 service retail sales growth: 10.0% YoY). On the other hand, consumer sentiment has not fully restored due to the macro challenges and uncertainty in income growth prospect. Consumers may adopt more conservative spending behaviors in order to save for the activities during big holidays.

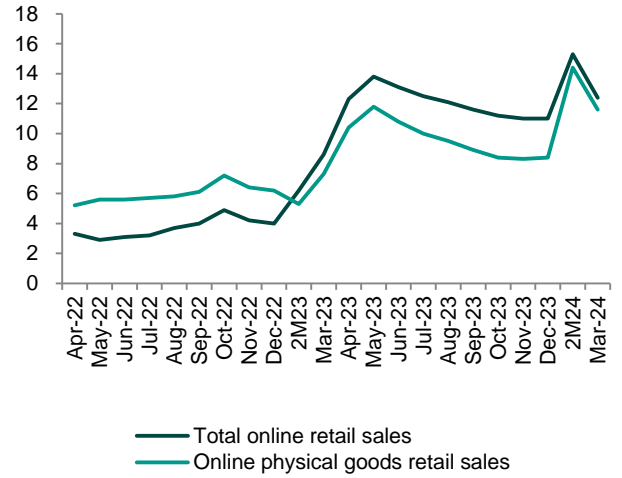


Exhibit 2: National retail sales (YoY %)



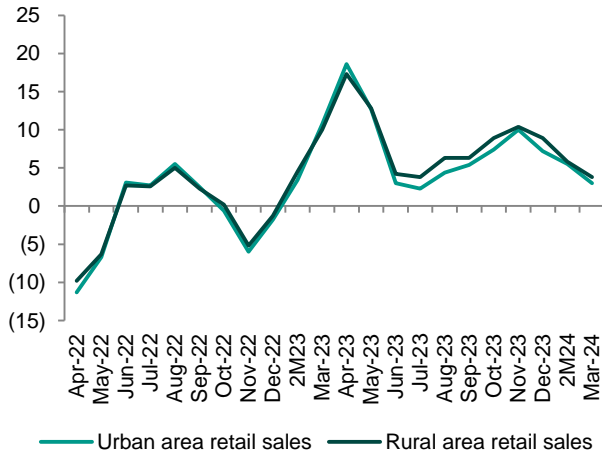
Source(s): NBS, ABCI Securities

Exhibit 3: Online retails sales (YTD YoY %)



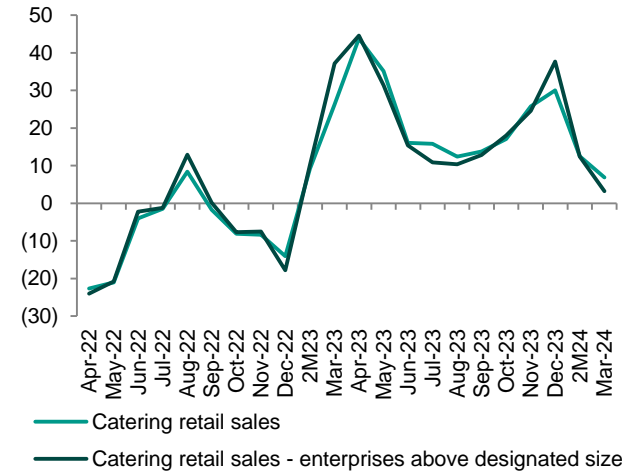
Source(s): NBS, ABCI Securities

Exhibit 4: Retail sales by region (YoY %)



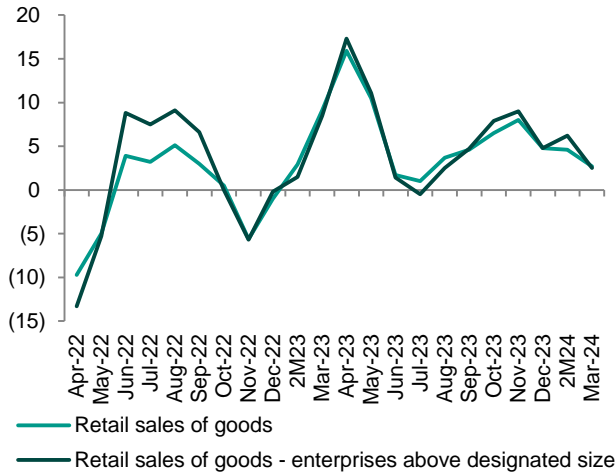
Source(s): NBS, ABCI Securities

Exhibit 5: Catering retail sales (YoY %)



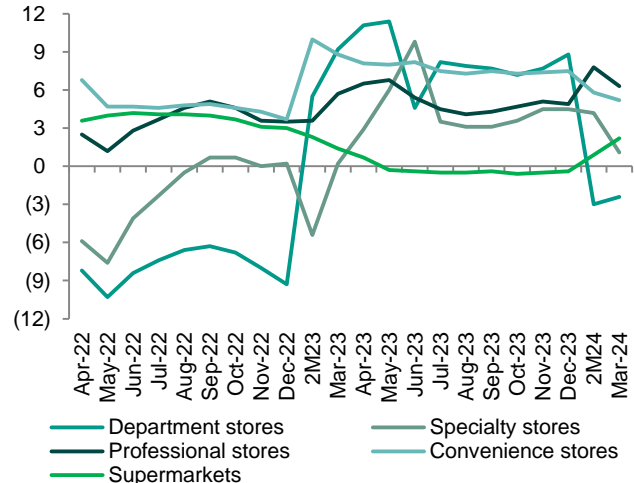
Source(s): NBS, ABCI Securities

Exhibit 6: Retail sales of goods (YoY %)



Source(s): NBS, ABCI Securities

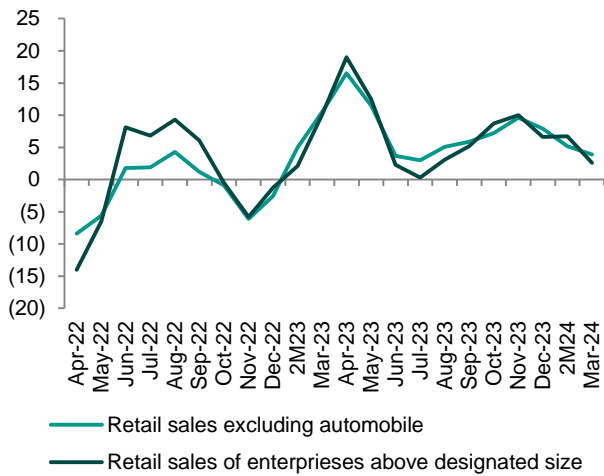
Exhibit 7: Retail sales by store format (YTD YoY %)



Source(s): NBS, ABCI Securities

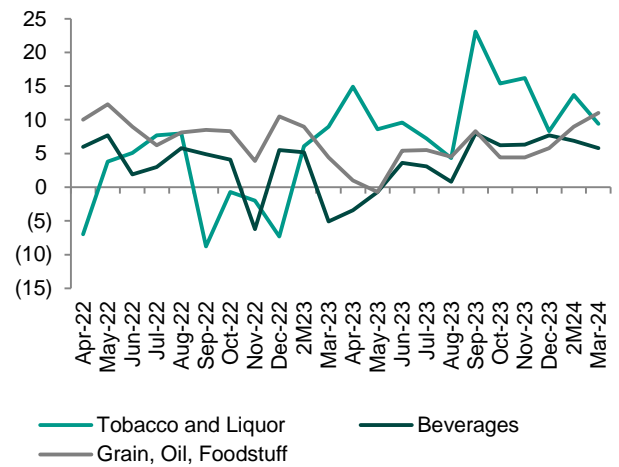


Exhibit 8: National retail sales ex. automobile & of enterprises above designated size (YoY %)



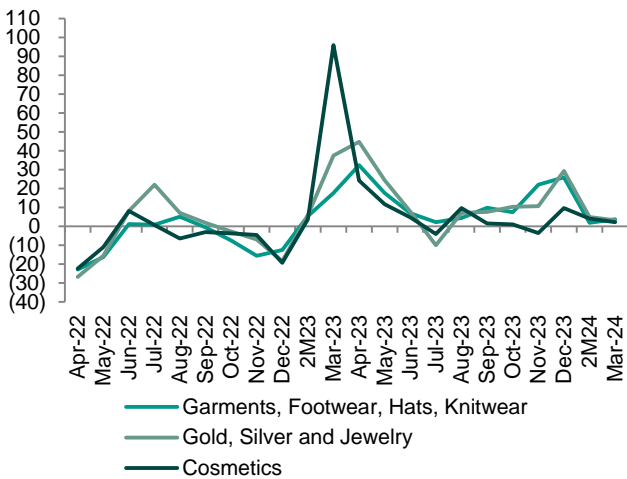
Source(s): NBS, ABCI Securities

Exhibit 9: Retail sales of selected goods (YoY %)



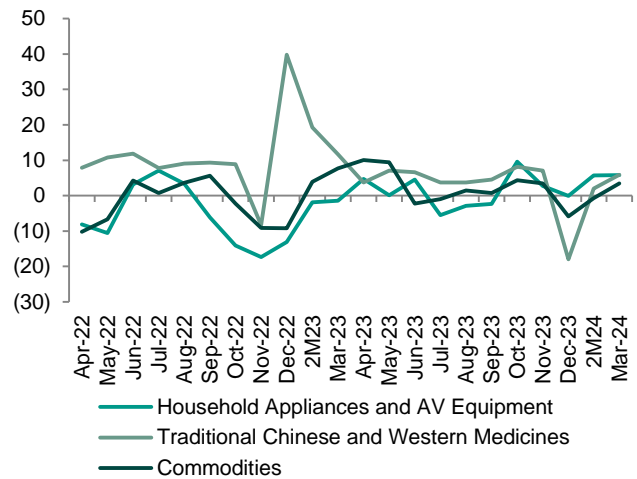
Source(s): NBS, ABCI Securities

Exhibit 10: Retail sales of selected goods (YoY %)



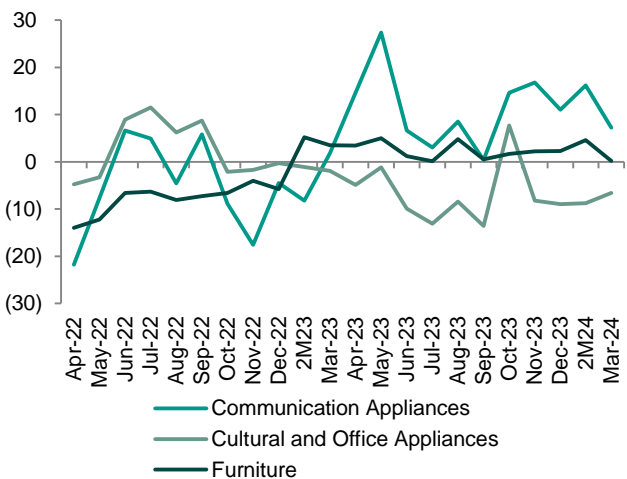
Source(s): NBS, ABCI Securities

Exhibit 11: Retail sales of selected goods (YoY %)



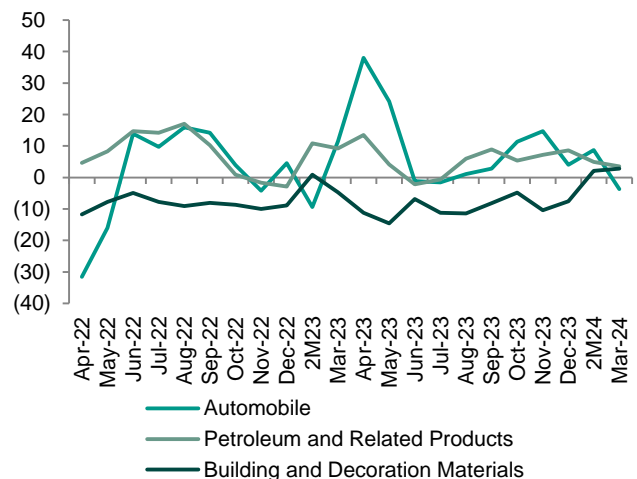
Source(s): NBS, ABCI Securities

Exhibit 12: Retail sales of selected goods (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 13: Retail sales of selected goods (YoY %)



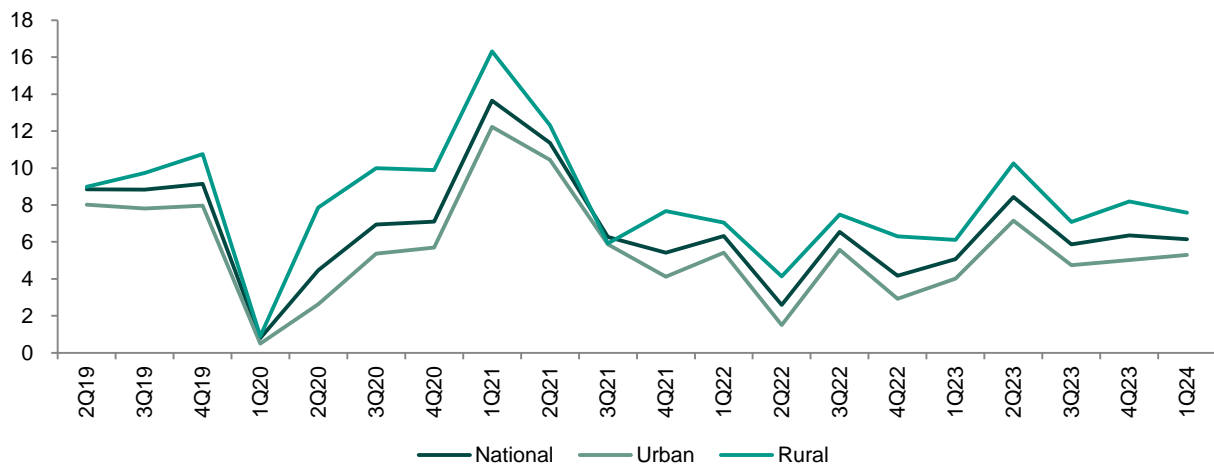
Source(s): NBS, ABCI Securities

Consumer market recovery hinges on improvement of macroeconomic condition

In 2024, macroeconomic challenges remain. These issues affect employment stability, income growth prospect, and purchasing power, which would ultimately affect consumer behavior and purchasing decisions.

We believe the volatility in per capita income growth resulted from the macroeconomic challenges led to more conservative consumer behaviors and rising value-consciousness among consumers, which is evident in the average per capita spending-to-disposable income ratio in 2023. In 2023, this ratio was generally below that of 2019 and 2021 except for 3Q, but remained above that of 2020 and 2022, when the consumer market was facing more disruptions. The ratio was at ~63% in 1Q24. The figures imply that once the macroeconomic condition improves and consumers have a better income growth/economic outlook, the spending pattern would shift away from the conservative patterns.

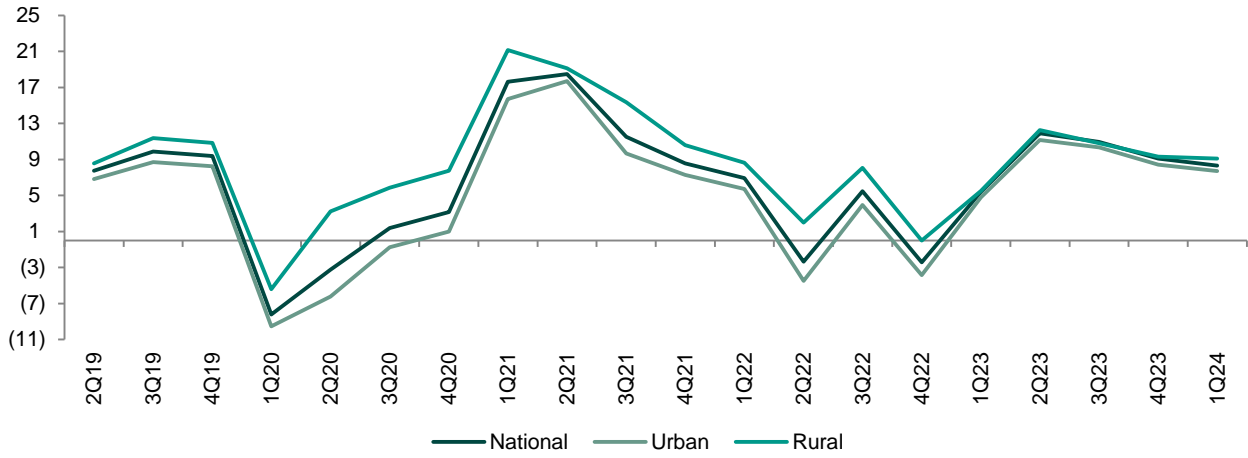
Exhibit 14: Average per capita disposable income (YoY %)



Source(s): NBS, ABCI Securities

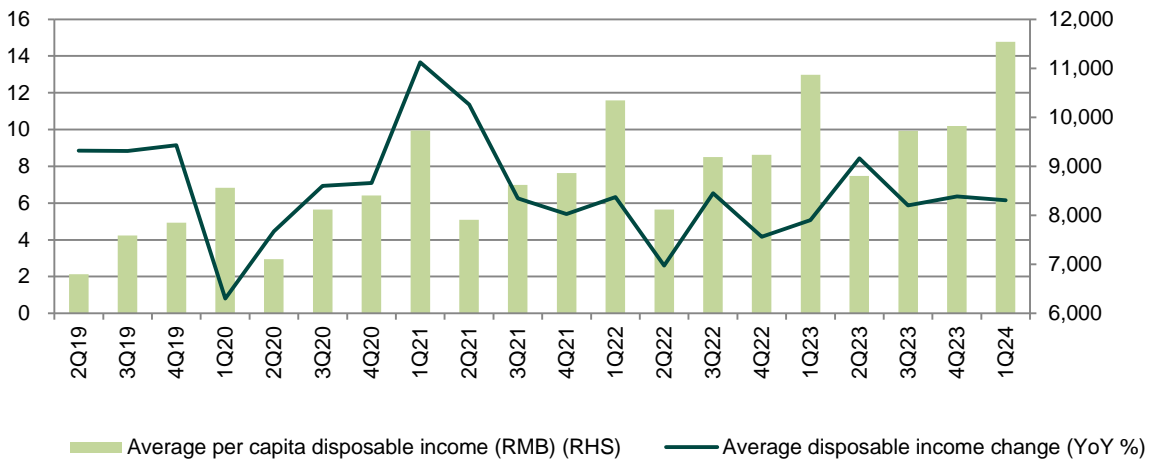


Exhibit 15: Average per capita spending (YoY %)



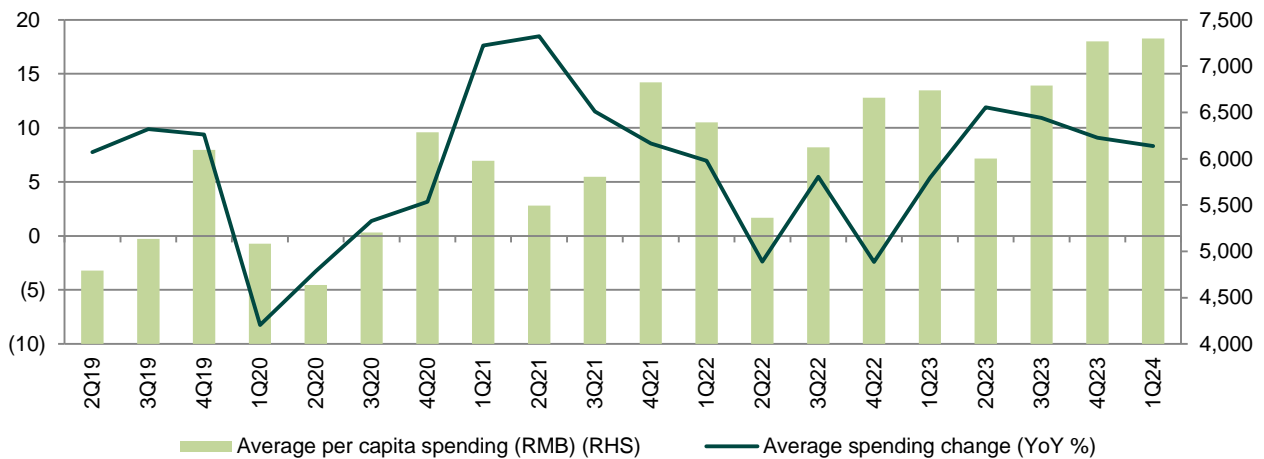
Source(s): NBS, ABCI Securities

Exhibit 16: National per capita disposable income level and change



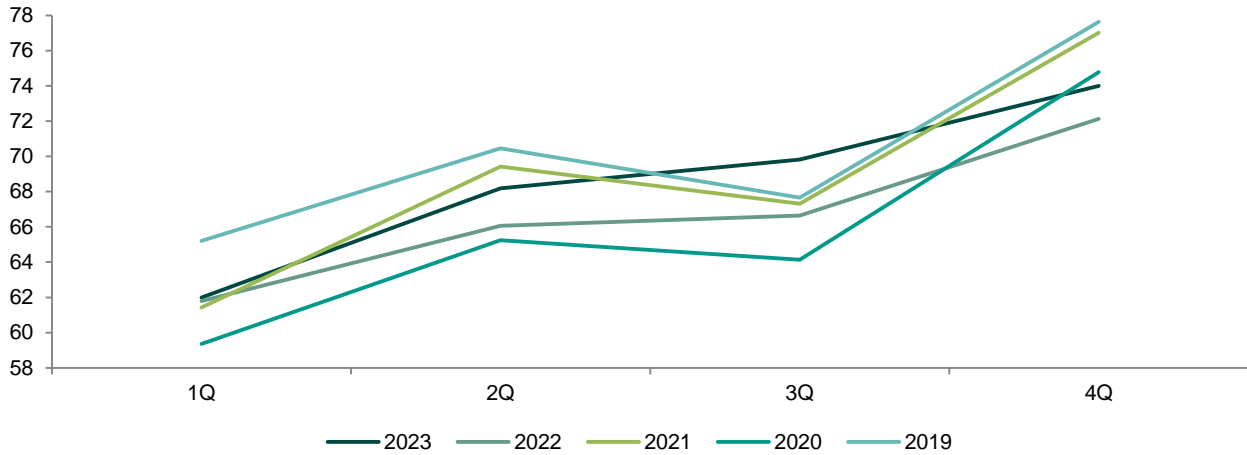
Source(s): NBS, ABCI Securities

Exhibit 17: National per capita spending level and change



Source(s): NBS, ABCI Securities

Exhibit 18: Average per capita spending-to-disposable income ratio (%)



Source(s): NBS, ABCI Securities

Low inflationary pressure indicates slow demand recovery

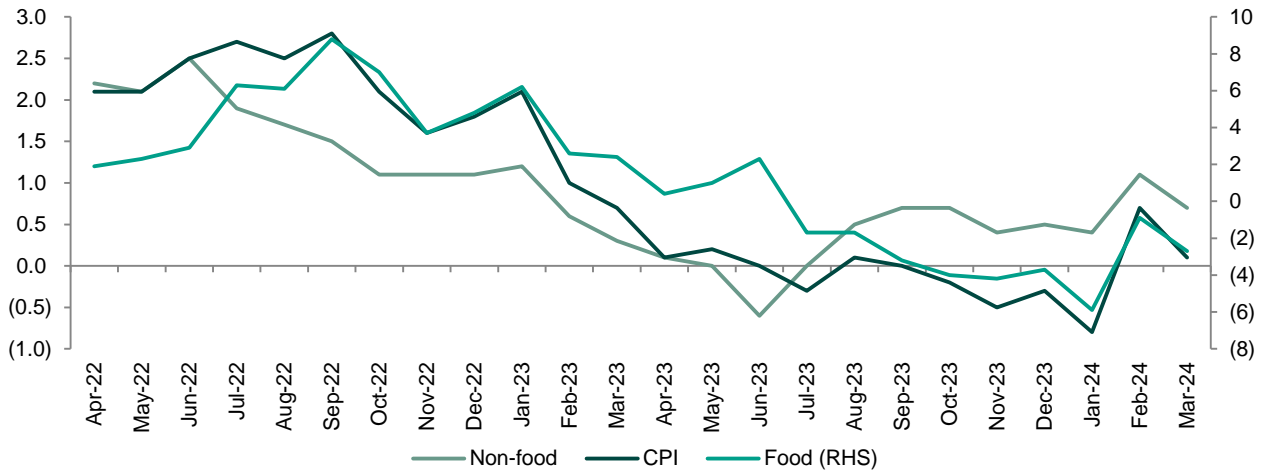
CPI figures in Mar 2024 show inflationary pressure in China remains low. In Mar 2024, overall CPI was only 0.1% YoY; among major commodity types, only CPI of “Articles and services for daily use” increased, CPI of “Housing”, “Clothing”, and “Medical services & healthcare” were flat, and CPI of “Education, culture and recreation”, “Food, tobacco and liquor”, and “Transportation and communications” decreased.

As consumer market is still recovering, we expect overall level of demand would not be supportive of substantial increase in inflationary pressure. In addition, certain industries are still having supply-demand mismatch issues, which could keep CPI subdued in 2024.

A low inflationary environment would be conducive to consumption growth, as the uncertainty in income growth prospect and value-consciousness among consumers are the major factors dictating purchasing decisions. Companies’ margin profile would benefit from the low raw material costs and the lower pressure in increasing certain operating costs, but impairment associated with the low cost raw materials would negatively impact some consumer product companies with a more integrated business model.

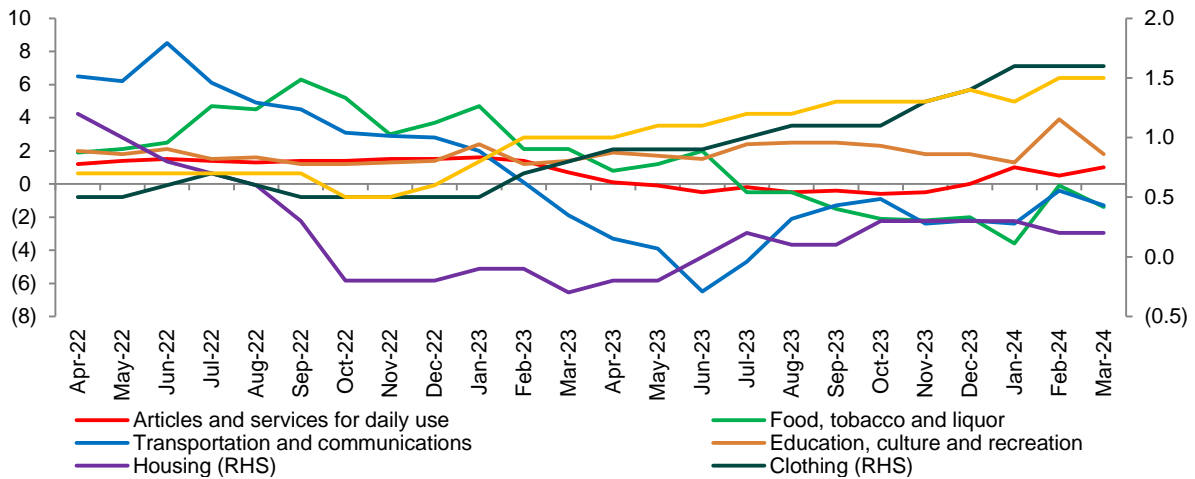


Exhibit 19: CPI (YoY %)



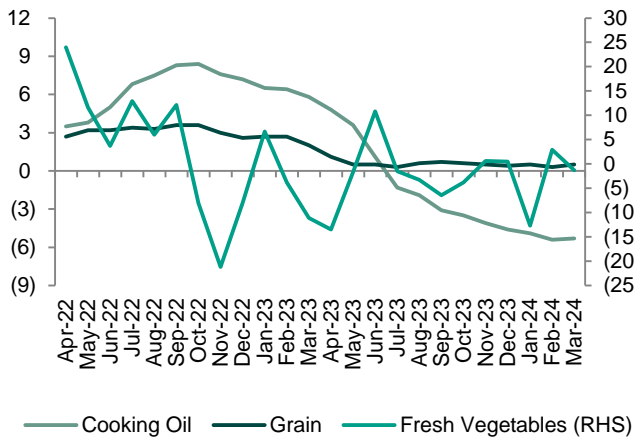
Source(s): NBS, ABCI Securities

Exhibit 20: CPI of major commodity categories (YoY %)



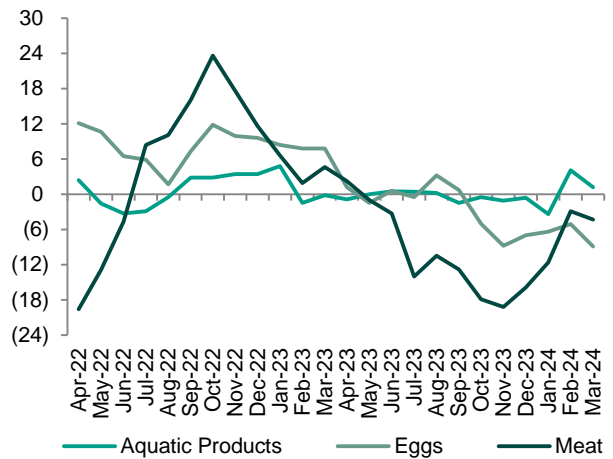
Source(s): NBS, ABCI Securities

Exhibit 21: CPI of cooking oil, grain, and fresh vegetables (YoY %)



Source(s): NBS, ABCI Securities

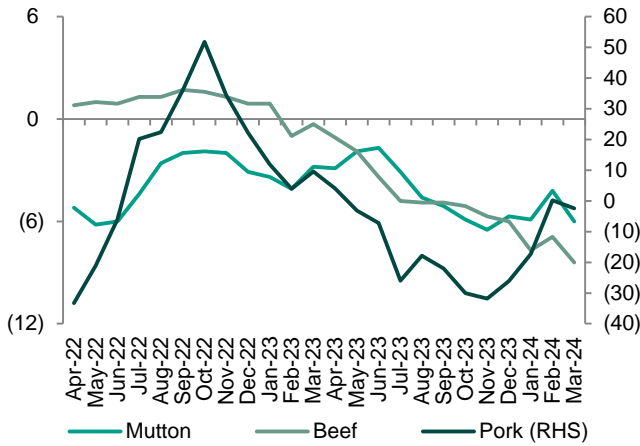
Exhibit 22: CPI of aquatic products, eggs, and meat (YoY %)



Source(s): NBS, ABCI Securities

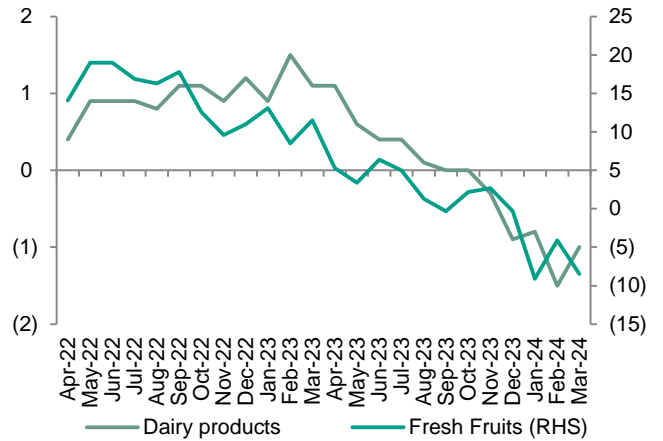


Exhibit 23: CPI of pork, beef, and mutton (YoY %)



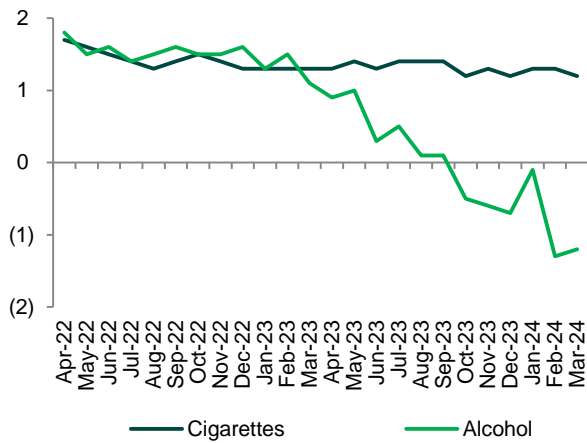
Source(s): NBS, ABCI Securities

Exhibit 24: CPI of dairy products & fresh fruits (YoY %)



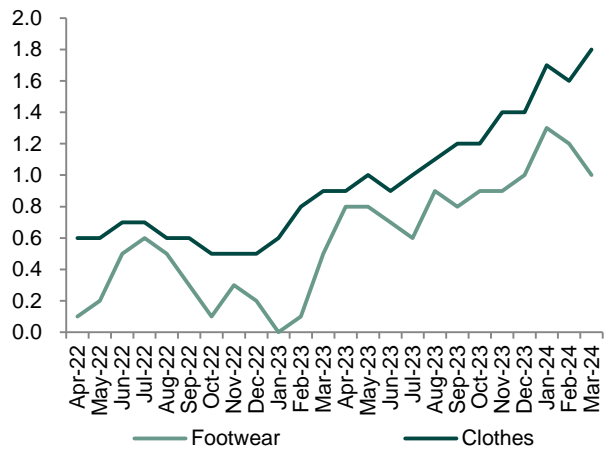
Source(s): NBS, ABCI Securities

Exhibit 25: CPI of cigarettes and alcohol (YoY %)



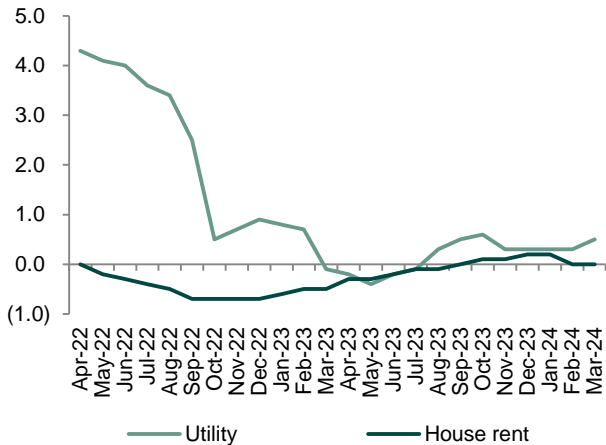
Source(s): NBS, ABCI Securities

Exhibit 26: CPI of clothing items (YoY %)



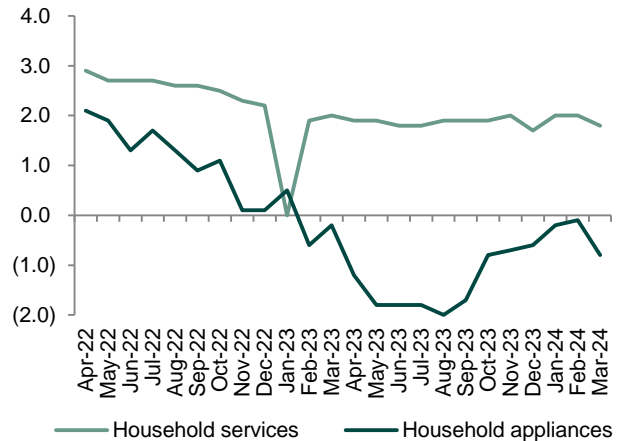
Source(s): NBS, ABCI Securities

Exhibit 27: CPI of housing items (YoY %)



Source(s): NBS, ABCI Securities

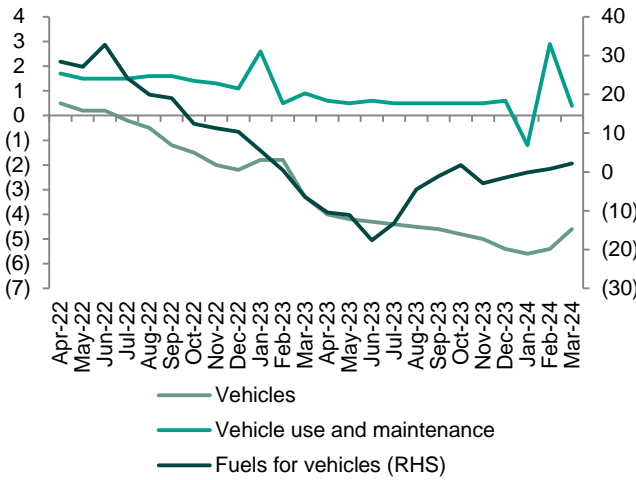
Exhibit 28: CPI of articles & services for daily use (YoY %)



Source(s): NBS, ABCI Securities

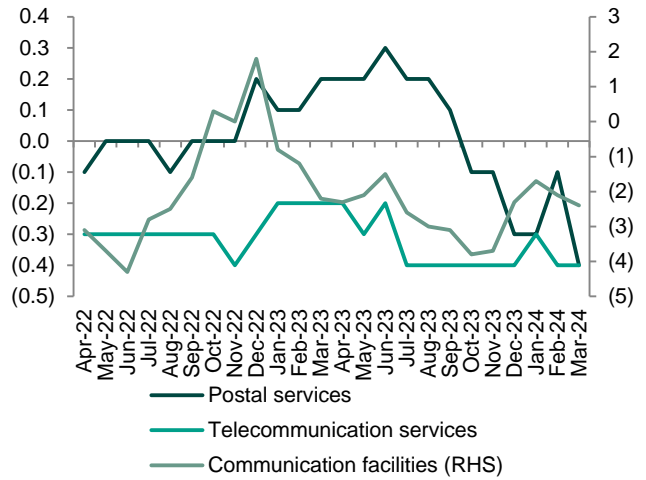


Exhibit 29: CPI of items from transportation and communications (YoY %)



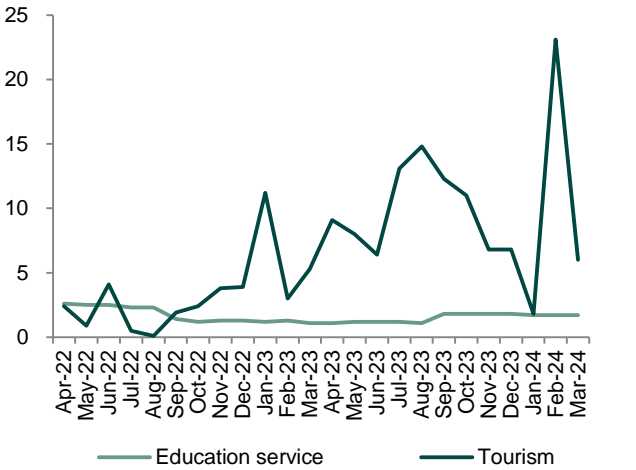
Source(s): NBS, ABCI Securities

Exhibit 30: CPI of selected items from transportation and communications (YoY %)



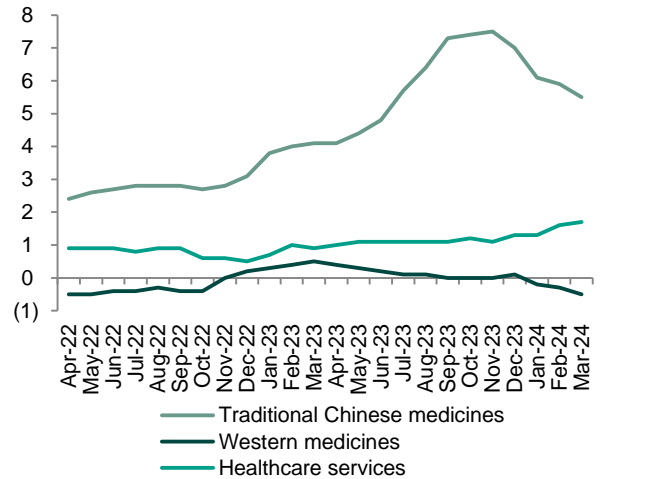
Source(s): NBS, ABCI Securities

Exhibit 31: CPI of items from education, culture and recreation (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 32: CPI of items from medical services and healthcare (YoY %)



Source(s): NBS, ABCI Securities

New policies aiming at stimulating growth in the “Year of Consumption Promotion”

“Year Of Consumption Promotion”

In late 2023, The Ministry of Commerce designated 2024 to be the “Year Of Consumption Promotion” (消费促进年), in which cultivating and broadening new mode of consumption, stabilizing and expanding traditional consumption, promoting service consumption, and optimizing consumption environment would be the key measures to stimulate consumer market growth.

Exhibit 33: Measures to be taken in the “Year of consumption promotion”

Cultivate & broaden new types of consumption	<ul style="list-style-type: none"> ➢ Vigorously develop digital consumption <ul style="list-style-type: none"> - Strengthen inter-departmental cooperation, support the healthy development of new business models, such as live streaming e-commerce and instant retail - Promote the digital transformation of traditional businesses, accelerate the digital empowerment of life services, and conduct web-based promotions during major festivals - Create new scenarios for the integration of online and offline consumption ➢ Expand green consumption, promote healthy consumption and encourage the consumption of "trendy" national goods
Stabilize & expand traditional consumption.	<ul style="list-style-type: none"> ➢ Implement well-planned policies that have been issued, plan more incremental policies, and create holistic policy portfolio to stimulate consumption ➢ Promote automobile consumption throughout the supply chain, support and stabilize new car consumption, organize the introduction of new energy vehicles to rural areas and stimulate new energy vehicle consumption ➢ Improve the information-sharing platform for second-handed vehicles, expand the circulation of second-handed vehicles in consumer market ➢ Promote transformation of automobiles from being only transportation tools to cultural phenomenon by developing consumer interest in activities related to automobiles, such as car racing events and camping ➢ Expand home consumption and promote the consumption of home appliances
Promote service consumption	<ul style="list-style-type: none"> ➢ Improve supportive policy measures, research and formulate policy documents promoting service consumption development, stimulate growth potential of service consumption, and enhance the quality and capacity of service consumption ➢ Accelerate the digitization of service industry that are close to daily life, promote quality development of catering industry, formulate related policy measures, and host activities in 2024, such as the "Chinese Cuisine Festival", to create hotspots for catering consumption ➢ Actively expand housekeeping service consumption, launch the "Housekeeping Recruitment" activity, and improve the skill level of housekeeping workers and the quality of housekeeping service industry
Optimize consumption environment	<ul style="list-style-type: none"> ➢ Further develop international consumption city centers, and gradually improve the urban commercial system led by pedestrian streets, supported by smart shopping districts, and designed with convenience in mind ➢ Measures will be taken to fill in the gaps in rural commercial capabilities <ul style="list-style-type: none"> - Develop high quality e-commerce system in rural areas - Build a rural circulation network based on well-equipped infrastructure to enable efficient inward and outward traffics - Implement "Digital Commerce for Rural Development" strategy to facilitate rural area consumption of industrial products and urban area consumption of agricultural products

Source(s): gov.cn, ABCI Securities

Additional policies were also announced to support the “Year of Consumption Promotion”. In Mar 2024, the State Council announced the “Initiative to Promote Upgrade and Renewal of Large-scale Equipment and Consumer Products” (《推动大规模设备更新和消费品以旧换新行动方案》). Ministry of Commerce, together with 9 other state authorities, promulgated “Implementation Opinion on Promoting High Quality Development of E-commerce in Rural Areas” (《关于推动农村电商高质量发展的实施意见》).

Government Work Report emphasizes development of consumer market

In the Government Work Report released in Mar 2024, more emphasis was placed on the development of consumer market. Both new and traditional types of consumption are in focus. In addition, measures would be taken to optimize the consumption environment, such as protecting consumer rights and implementing paid annual leave system. Standard improvement would also be conducted to ensure high-quality development.

Exhibit 34: 2024 Government Work Report on consumption

- Expanding domestic demand and promoting positive economic circulation
- Policies should be designed to increase income growth, optimize supply-demand dynamic, and limit restrictive measures, in order to stimulate potential of consumption growth
- Cultivate and expand new types of consumption
 - Implement policies to boost digital consumption, green consumption, health wellness consumption
 - Actively cultivate new consumption growth drivers, such as smart home, entertainment, tourism, sports events, and "trendy" domestic goods
- Stabilize and expand traditional consumption
 - Encourage and promote the replacement and renewal of major consumer products
 - Revitalize consumption of new energy vehicles and electronic products
- Promote capacity expansion and quality enhancement of service consumption, such as elderly care, childcare, housekeeping services, and support social forces in providing such services
- Optimize the consumption environment
 - Host activities centering around the "Year of consumption Promotion " and "Trustworthy Consumption Actions"
 - Strengthen the protection of consumer rights
 - Promote and implement paid annual leave system
- Implement measures for standard improvement
 - Accelerate the construction of a standard system that meets high-quality development requirements
 - Promote the continuous improvement of goods and services quality to better meet the needs of consumers

Source(s): gov.cn, ABCI Securities

We believe the emphasis on cultivating consumption growth and announcement & implementation of related policy measures would be positive to the industry players' performance. We anticipate more policies to be announced by the central authorities to enhance the current policy portfolio, which would pave the way for local governments to roll-out policies and measures tailored to regional needs.

Sector recommendation

Sector valuation is suppressed

We expect challenging operating environment, slow growth in consumer market, and consumers' increasing value consciousness would intensify competition and exacerbate uneven development among players in 2024. To stimulate consumer demand, we expect players to offer discounts and promotions to customers, which would affect the overall growth performance. Companies that are more proactive in cultivating new growth drivers or adaptive in capturing emerging growth opportunities would be able to strengthen their leading position or increase their market share. As a result, sector players would see diverging growth and margin performances and sector valuation is likely to be suppressed. Once the macroeconomic condition and sector fundamentals improve, correction in valuation would follow suit.

Short-term volatility is expected

As sector development more or less reflects the macro trends, the uneven retail sales growth of consumer product categories, the rising competitiveness among industry players, and resulting uneven and diverging financial performance would introduce more volatility to the valuation of different consumer segments and individual companies. In the short term, we believe the normalization of growth trajectory and consumer behavior would be the more dominant factors in the market, but we expect companies with actionable growth plans and competitive product/service offerings would prove their strength and outperform.

Defensiveness of the sector remains favorable

The consumer sector's defensiveness is still preferable and we expect certain leading industry players to remain resilient. We still believe there is long-term growth potential for the sector. Our sector rating is OVERWEIGHT. We believe leaders with ability to capture growth opportunities would outperform.

One of our sector picks is Anta (2020 HK). We expect the Group would be able to maintain strong growth momentum by maintaining a diversified brand portfolio, capturing continued interest in promoting health and wellness among consumers, and leveraging major sports events to be hosted in 2024.

Another sector pick is Nongfu Spring (9633 HK), as its proven product portfolio diversification strategy would continue to support healthy revenue growth and margin improvement.



WH Group (288 HK) is also one of our sector picks. We expect the improvement in hog supply-demand dynamics in its major markets, especially in the U.S. market, would help support the Group's pricing capability and margins. The strategy to be more focused on packaged meat business would also be beneficial to the Group's overall performance in the long term.

Exhibit 35: Sector valuation comparison

ENG/CHI name	Ticker	Rating	Pricing Currency	Price	TP	Upside (%)	YTD price change (%)	P/E(x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
								24E	25E	24E	25E	24E	25E	24E	25E	24E	25E
Anta (安踏)	2020 HK	BUY	HK\$	83.30	102.0	22.4	10.0	17.4	14.6	3.7	3.2	2.8	3.3	22.7	23.6	13.7	14.9
Nongfu Spring (农夫山泉)	9633 HK	BUY	HK\$	43.35	54.9	26.6	(4.0)	33.6	29.5	13.4	10.7	1.5	1.7	43.2	40.4	25.4	25.1
WH Group (万洲国际)	288 HK	BUY	HK\$	5.41	6.2	14.6	7.3	7.6	6.5	0.8	0.8	4.6	5.4	11.4	12.4	7.6	8.0
Yum China (百胜中国)	YUMC US	BUY	US\$	37.73	58.8	55.8	(11.1)	16.8	15.5	2.5	2.2	1.7	1.7	14.6	15.3	8.1	8.4
	9987 HK	BUY	HK\$	295.00	460.0	55.9	(11.2)	16.8	15.4	2.5	2.2	1.7	1.7	14.6	15.3	8.1	8.4
Yili (伊利)	600887 CH	BUY	RMB	27.04	32.0	18.3	1.1	14.7	13.3	3.0	2.8	4.8	5.3	21.1	21.6	8.0	8.6
Mengniu (蒙牛)	2319 HK	HOLD	HK\$	15.80	16.7	5.7	(24.8)	10.3	9.2	1.2	1.1	3.9	4.4	12.1	12.6	4.8	5.1
Shuanghui (双汇)	000895 CH	HOLD	RMB	26.93	27.3	1.4	0.8	16.0	14.9	4.3	3.7	3.1	3.4	27.5	26.8	15.7	15.9

Note: Data as of Apr 15, 2024, US\$/HK\$=7.8256; RMB/HK\$ = 1.0834

Source(s): Bloomberg, ABCI Securities estimates

Risk factors

Macroeconomic risk

Improvement of macroeconomic condition is crucial to consumer market recovery. We believe if the current macroeconomic challenges remain unresolved for an extended period of time, consumer market would further deteriorate, contributing to the downward spiral of economic growth.

Raw material costs risk

Although the low cost of raw material would lower production costs for consumer product companies, some companies with more integrated supply chain would be negatively impacted by these low costs due to impairment of their inventory or their upstream business. The resulting impairment could outweigh the cost-savings in some circumstances.

Policy risk

Despite the government's emphasis on boosting consumer market growth, the effectiveness of the policies remains to be seen. We believe the underlying problem remains to be consumers' willingness to spend, which would be determined by the consumers' purchasing power and outlook for their future income growth.

Shifting consumer mindset

As consumers become more value-conscious, the sector players also need to change their operating model in order to adapt and survive. Consumer's changing tastes and preference also present new challenges for companies to stay relevant. Competition among industry players could escalate much faster than we expected, resulting in higher cost of operation.

Product quality and safety risk

Product quality and safety is key to brand awareness and brand recognition among consumers. Companies that fail to secure high-quality raw materials or uphold high standards in supply-chain management could have product contamination or spoilage occurring during production and transportation. Any such incidents could have substantial impact on the financial performance of companies.

Higher leverage among certain players

Some of the industry players has higher leverage than others, leading to higher finance costs. If daily operation requires maintaining such a high leverage, refinancing costs can increase and margin profile would be adversely impacted in the future, especially when interest rate becomes higher.

Anta Sports (2020 HK) Better margins expected

- FY23 revenue growth shows strength in diversified brand portfolio; we believe the Group is on path to achieve the growth target stated in the Investor Day event in late 2023
- Improved margin profile shows effective cost control and improving operating efficiency
- Maintain **BUY**; TP implies 21.3x/17.9x 24E/25E P/E, or 4.5x/3.9x 24E/25E P/B

Growth target unchanged. FY23 revenue growth at 16.2% YoY showed diversified brand strategy supported the overall growth momentum, while revenue growth of ANTA brand was less than that of FILA brand and other brands. The Group reiterated the growth outlook outlined in the Investor Day event in late 2023, which we believe is realistic given the strong FY23 performance. DTC transformation of the ANTA brand, optimization of channel mix, better brand recognition, rising interest in maintaining health lifestyle, and major sports events to be held in 2024 (e.g. Paris 2024 Summer Olympics) would support revenue growth. However, uncertain economic conditions could affect consumers' spending on sports goods and competition would intensify as industry growth normalizes. We expect FY23E revenue to grow 14.8% YoY; revenues of ANTA brand and FILA would increase 11.1% YoY and 15.3% YoY. We estimate FY23-26E revenue CAGR to be 15.1%.

Amer Sports expects double-digit revenue growth. The Group is a major shareholder of Amer Sports (AS US), which listed in NYSE in early Feb 2024. After listing, the Group held 43.33% of the total issued shares of Amer Sports, Inc., and would continue to account for it as an investment in an associate using the equity method. According to Amer Sports' guidance, FY24E revenue growth would be mid-teens level, diluted EPS would be US\$0.30-0.40, and fully diluted share count is expected to be 510mn. Amer Sports' expected return to profit in FY24 would help boost the Group's overall profitability.

Improved margins showed cost efficiency. Margin improvement in FY23 was a result of ANTA brand's DTC transformation, better retail discount situation, and effective cost-control measures. S&D expenses/revenue and admin expenses/revenue ratios were down 1.8ppt and 0.8ppt YoY in FY23. We expect margin profile to optimize through cost control measures and better operating efficiency, though uncertain economic conditions may necessitate higher discounts to stimulate consumer spending. In addition, the Group expects RMB 1.6bn non-cash gains in FY24E arising from the equity dilution resulted from the Amer Sports Listing, which should inflate margins. We expect GPM/NPM⁽³⁾ to reach 63.4% and 17.5% in FY24E.

Maintain BUY; TP at HK\$ 102.0. Maintain **BUY** on the Group's leading industry position, improving margin profile, and expanding brand portfolio. FY23-26E EPS CAGR is expected to be 19.1%. Our DCF-derived TP is raised due to the higher profit level forecasts. Current TP implies 21.3x/17.9x 24E/25E P/E, or 4.5x/3.9x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Regulatory risk; 4) Changing consumer taste in China, 5) Business acquisition risk.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	53,651	62,356	71,586	82,441	95,109
Chg (% YoY)	8.8	16.2	14.8	15.2	15.4
Net Profit ⁽³⁾ (RMB mn)	7,590	10,236	12,533	14,911	17,659
Chg (% YoY)	(1.7)	34.9	22.4	19.0	18.4
Basic EPS (RMB)	2.82	3.69	4.42	5.26	6.23
Chg (% YoY)	(1.7)	30.9	19.9	19.0	18.4
P/E (x)	27.27	20.84	17.38	14.61	12.33
BVPS (RMB)	12.68	18.17	20.76	23.91	27.64
P/B (x)	6.07	4.23	3.70	3.22	2.78
DPS(HK cent)	134	197	229	271	322
Yield (%)	1.6	2.4	2.8	3.3	3.9
ROAA (%)	12.5	14.0	13.7	14.9	16.2
ROAE (%)	24.0	23.8	22.7	23.6	24.2

Source(s): The Group, ABCI Securities estimates

Company Report Apr 16, 2024 Rating: BUY TP: HK\$ 102.0

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (HK\$)	83.30
52 wk High/Low (HK\$)	114/60.2
Est. share price return	22.5%
Est. dividend yield	2.8%
Est. total return	25.2%
Previous Rating & TP	BUY; HK\$93.4
Previous Report Date	Jan 11, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.8
Mkt cap (HK\$ bn)	236.0
3 mth days ADT (HK\$m)	710.2

Major shareholder (%)	
Anta International	42.40

Source(s): The Group, Bloomberg, HKEX

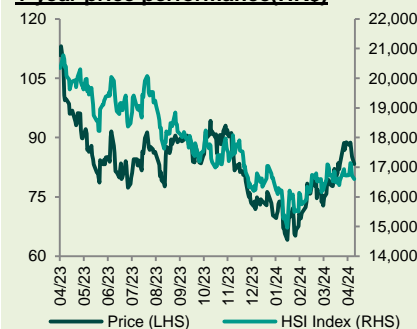
Share performance (%)

	Absolute	Relative*
1-mth	5.2	7.4
3-mth	12.8	10.6
6-mth	(7.3)	(0.5)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Apr 15, 2024
- 2) RMB/HKD: 1.0834
- 3) Refers to net profit attributable to shareholders of the Company)

Exhibit 1: Changes in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	26.5	14.7	22.5	8.3	Adjusted based on FY23 figures
D/A (%)	16.1	9.8	13.6	5.7	
Tax rate (%)	27.9	27.9	27.4	27.4	
Valuations					
TP (HK\$)	102.0		93.4		TP raised due to higher revenue and profit projections
P/E (x)	21.3	17.9	22.5	19.1	
P/B (x)	4.5	3.9	4.3	3.7	

Note: for previous report publication date please refer to cover page of this company report

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

(RMB mn, except for EPS)	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	71,586	82,441	95,109	70,762	80,225	N/A	1.2	2.8	N/A
Net profit (to owners of the Company)	12,533	14,911	17,659	10,798	12,742	N/A	16.1	17.0	N/A
EPS (RMB)	4.42	5.26	6.23	3.81	4.5	N/A	16.1	17.0	N/A

Source(s): ABCI Securities estimates

Exhibit 3: Quarterly retail sales YoY change

Brand	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
ANTA	high-teens +	mid-single-digit -	mid-single-digit +	high-single digit -	mid-single-digit +	high-single-digit +	high-single-digit +	high-teens +
FILA	mid-single -digit +	high-single -digit -	Low- teens +	Low-teens -	high-single-digit +	high-teens +	low teens +	25-30% +
Others	40-45% +	20-25% +	40-45% +	20-25%+	75%-80%+	70%-75%+	45-50% +	55-60% +

Note: + = growth; - = decline

Source(s): the Group, ABCI Securities

Exhibit 4: Number of stores of the Group

As of Dec 31	2021	2022	2023	2024E
ANTA	6,832	6,924	7,053	7,100 - 7,200
ANTA Kids	2,571	2,679	2,778	2,800 - 2,900
FILA	2,054	1,984	1,972	2,100 - 2,200
DESCENTE	182	191	187	220 - 230
KOLON SPORT	155	161	164	180 - 190

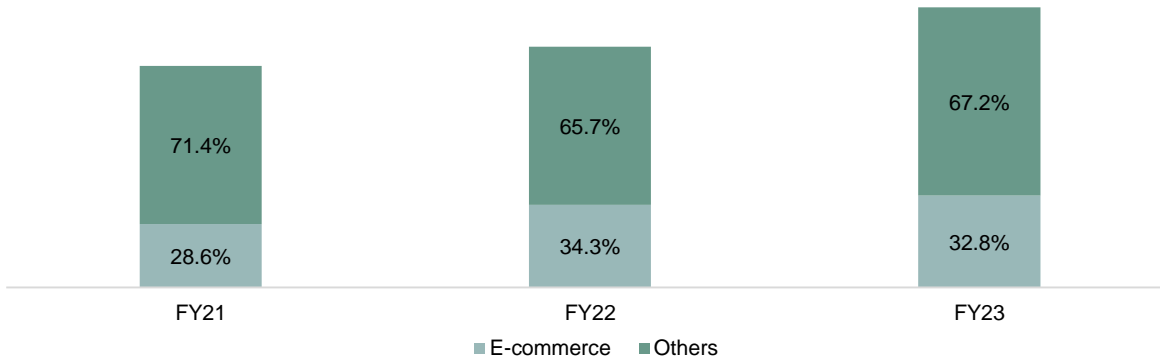
Note:

1) FILA brand stores include FILA, FILA KIDS, and FILA FUSION

2) 2024 estimates are provided by the Group

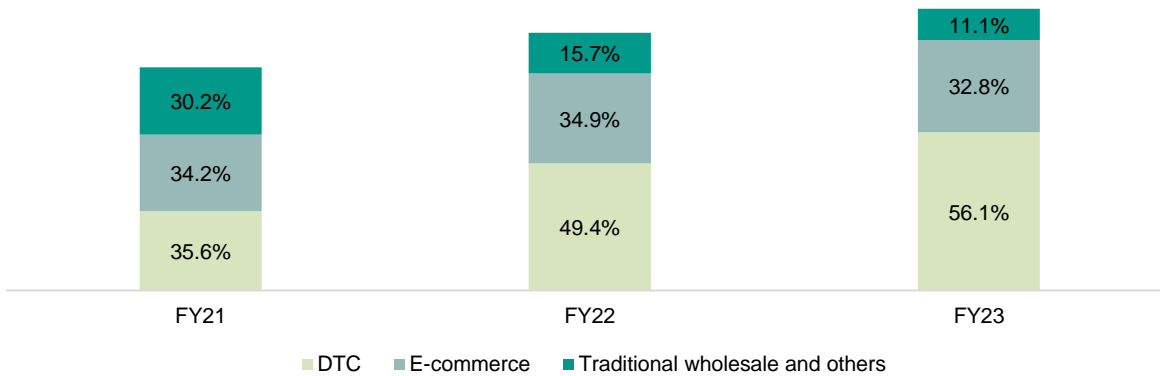
Source(s): The Group, ABCI Securities

Exhibit 5: Ecommerce contribution to revenue of the Group



Source(s): The Group, ABCI Securities

Exhibit 6: Channel revenue contribution of Anta Brand



Note: DTC refers to direct to customer
Source(s): The Group, ABCI Securities

Exhibit 7: Amer Sports' revenue

As of Dec 31	2020	2021	2022	2023	2021	2022	2023
	Revenue (US\$mn)				Chg (YoY %)		
By product categories							
Technical Apparel	685.4	950.7	1,095.5	1,592.8	38.7	15.2	45.4
Outdoor Performance	1,091.6	1,235.7	1,416.5	1,667.6	13.2	14.6	17.7
Ball & Racquet Sports	669.3	880.1	1,036.7	1,107.8	31.5	17.8	6.9
Selected brands							
Arc'teryx	547.7	783.1	952.6	1,443.5	43.0	21.6	51.5
Peak Performance	137.7	167.6	142.9	149.3	21.7	(14.7)	4.5
Salomon	852.1	961.2	1,073.5	1,311.8	12.8	11.7	22.2
Atomic	194.6	218.5	286.0	305.6	12.3	30.9	6.9
Others (Armada and ENVE)	44.9	56.0	57.0	50.4	24.7	1.8	(11.6)

Source(s): Amer Sports, ABCI Securities

Exhibit 8: Margin profile of Amer Sports (%)

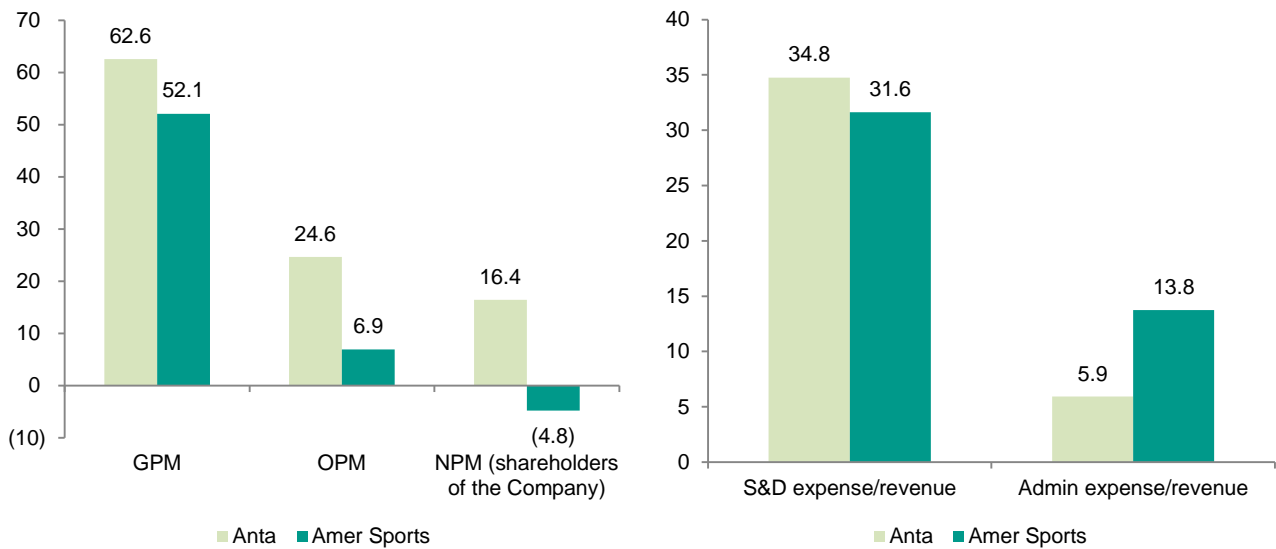
As of Dec 31	2020	2021	2022	2023
GPM	47.0	49.1	49.7	52.1
OPM	5.1	6.1	1.4	6.9
Adjusted OPM	7.3	8.8	8.5	9.9
EBITDA margin	11.5	12.7	6.4	12.0
Adjusted EBITDA margin	12.7	13.6	12.8	14.0
NPM (to shareholders of the Company)	(9.7)	(4.1)	(7.1)	(4.8)

Note:

- Adjusted operating profit and Adjusted EBITDA are non-IFRS measures
- Adjusted operating profit is operating profit adjusted for the effects of purchase price adjustments, restructuring expenses, impairment losses on goodwill and intangible assets, expenses related to M&A activities, expenses related to certain legal proceedings, finance cost, and finance income
- Adjusted EBITDA is EBITDA adjusted for the effects of loss from discontinued operations, restructuring expenses, impairment losses on goodwill and intangible assets, expenses related to M&A activities, expenses related to certain legal proceedings, and share-based payments

Source(s): Amer Sports, ABCI Securities

Exhibit 9: Profitability comparison – FY23 (%)



Source(s): The Group, Amer Sports, ABCI Securities



Financial Statements

Consolidated income statement

As of Dec 31 (RMB mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	53,651	62,356	71,586	82,441	95,109
- ANTA brand	27,723	30,306	33,684	37,820	42,649
- FILA brand	21,523	25,103	28,951	33,422	38,591
- Other brands	4,405	6,947	8,951	11,199	13,869
COGS	(21,333)	(23,328)	(26,222)	(29,746)	(33,733)
Gross profit	32,318	39,028	45,365	52,695	61,376
Other net income/(loss)	2,128	1,705	1,992	2,241	2,610
S&D expenses	(19,629)	(21,673)	(25,279)	(29,251)	(33,797)
Admin expenses	(3,587)	(3,693)	(4,300)	(5,009)	(5,812)
Operating profit	11,230	15,367	17,777	20,675	24,376
Net finance income/(expense)	97	991	401	628	906
Share of gain/(loss) of JV	28	(718)	661	1,258	1,464
Pretax profit	11,355	15,640	18,838	22,561	26,747
Tax	(3,110)	(4,363)	(5,252)	(6,298)	(7,462)
Net profit	8,245	11,277	13,586	16,263	19,285
- Owners of the company	7,590	10,236	12,533	14,911	17,659
- Minority interest	655	1,041	1,053	1,351	1,626
Dividend	3,360	5,188	5,991	7,096	8,427
EPS (RMB)					
- Basic	2.82	3.69	4.42	5.26	6.23
- Diluted	2.76	3.60	4.42	5.26	6.23
DPS (HK cent)	134	197	229	271	322

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	17,378	15,228	23,864	23,397	24,256
Trade receivables	2,978	3,732	4,419	5,005	5,336
Inventory	8,490	7,210	10,738	10,524	13,282
Others	13,750	25,970	27,108	30,435	39,707
Current assets	42,596	52,140	66,129	69,360	82,580
PP&E and CIP	4,774	4,965	5,248	5,684	5,800
Right-of-use assets	8,015	8,085	8,403	9,710	9,895
Intangible assets	1,480	2,089	2,071	1,956	1,829
Investment in JV	9,343	9,283	11,150	13,189	15,576
Others	2,987	15,666	13,291	11,757	11,157
Non-current assets	26,599	40,088	40,163	42,296	44,258
Total assets	69,195	92,228	106,292	111,656	126,839
Trade payables	2,750	3,195	5,046	3,957	6,157
ST borrowings	12,198	3,996	5,692	6,968	6,172
Others	11,259	13,400	14,564	16,474	17,850
Current liabilities	26,207	20,591	25,302	27,399	30,178
LT borrowings	492	10,948	11,387	3,979	3,979
Deferred tax liabilities	691	855	998	1,117	1,245
Others	3,966	3,824	4,198	4,481	4,567
Total non-current liabilities	5,149	15,627	16,582	9,578	9,792
Shareholders' equity	34,400	51,460	58,805	67,725	78,289
Minority interest	3,439	4,550	5,603	6,954	8,580
Total equity	37,839	56,010	64,408	74,679	86,869
Total liabilities and equity	69,195	92,228	106,292	111,656	126,839

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Pretax profit	11,355	15,640	18,838	22,561	26,747
Depreciation & amortization	4,464	4,987	5,045	5,964	6,321
Change in working capital	(1,598)	1,659	(2,060)	(832)	(888)
Others	(2,074)	(2,652)	(5,184)	(6,809)	(8,091)
Cash flow from operating activities	12,147	19,634	16,639	20,884	24,090
Change in PP&E	(974)	(427)	(189)	(292)	(88)
Others	(3,800)	(25,366)	(12,795)	(17,557)	(23,890)
Cash flow from investing activities	(4,774)	(25,793)	(12,984)	(17,849)	(23,978)
Change in borrowing	(1,403)	442	2,135	(6,131)	(796)
Dividend paid	(3,950)	(4,250)	(5,449)	(6,455)	(7,603)
Others	(2,488)	7,279	8,007	8,808	8,808
Cash flow from financing activities	(7,841)	3,471	4,692	(3,779)	409
Net change in cash	(468)	(2,688)	8,347	(743)	520
Forex effect	254	538	289	276	339
Cash at the end of FY	17,378	15,228	23,864	23,397	24,256

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	8.8	16.2	14.8	15.2	15.4
- ANTA Brand	15.5	9.3	11.1	12.3	12.8
- FILA Brand	(1.4)	16.6	15.3	15.4	15.5
- Other brands	26.1	57.7	28.9	25.1	23.8
Gross profit	6.3	20.8	16.2	16.2	16.5
EBIT	2.2	36.8	15.7	16.3	17.9
Net profit (to owners of the company)	(1.7)	34.9	22.4	19.0	18.4
Profitability ratios (%)					
GPM	60.2	62.6	63.4	63.9	64.5
OPM	20.9	24.6	24.8	25.1	25.6
Pretax	21.2	25.1	26.3	27.4	28.1
NPM (to owners of the company)	14.1	16.4	17.5	18.1	18.6
Revenue contribution (%)					
- ANTA Brand	51.7	48.6	47.1	45.9	44.8
- FILA Brand	40.1	40.3	40.4	40.5	40.6
- Other brands	8.2	11.1	12.5	13.6	14.6
Return ratios (%)					
ROAA	12.5	14.0	13.7	14.9	16.2
ROAE	24.0	23.8	22.7	23.6	24.2
Liquidity ratio (x)					
Current ratio	1.6	2.5	2.6	2.5	2.7
Quick ratio	1.3	2.2	2.2	2.1	2.3
Cash ratio	1.1	1.8	1.8	1.8	1.9
Cash conversion cycle (days)					
Days of outstanding receivable	21	20	21	21	20
Days of inventory on hand	138	123	125	130	129
Days of outstanding payable	50	47	51	56	51
CCC	109	96	95	96	98
Leverage ratios (%)					
Total debt to Equity	33.5	26.7	26.5	14.7	11.7
Total debt to Total assets	18.3	16.2	16.1	9.8	8.0
Net (cash) / debt to Equity	(39.6)	(38.8)	(45.2)	(50.3)	(56.0)
Net (cash) / debt to Total assets	(21.7)	(23.6)	(27.4)	(33.6)	(38.4)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Nongfu Spring (9633 HK)

Product diversification to support growth

- Strong growth in tea beverage products indicates initiatives in the segment are recognized by customers, has the ability to generate growth, and help achieve better product diversification
- Fluctuations in raw material costs and industry competition would impact margin profile
- Maintain **BUY**; current TP implies 42.5x/37.3x 24E/25E P/E, or 17.0x/13.5x 24E/25E P/B

Diversified product portfolio to support healthy growth. The Group's product diversification strategy has been successfully. Revenue of packaged drinking water contributed to less than 50% of total revenue in FY23, as other product categories have been catching up. In particular, tea beverage products saw consistently high revenue increase and rise of revenue contribution in the past few years. We believe the Group was able to capture the market opportunities resulted from rising popularity of tea drinking among the new generation of consumers with the right product launches and marketing campaign. However, recent controversy surrounding the founder and the Group and the economic uncertainty might negatively impact short-term growth. Nonetheless, we expect the Group's track record in product diversification and ability to tap into new opportunities would further support revenue growth. We estimate FY24E revenue growth to reach 14.2% YoY and FY23-26E revenue CAGR to reach 13.6%.

Margin performance could be limited by fluctuation of raw material costs. Disruption of global supply chain as a result of occurrence of international incidents led to fluctuations in prices of raw material. Crude oil price, which saw a bout of increase in mid-2023, has been rising again since Dec 2023. In addition, the macroeconomic condition and weakened consumer market may accentuate market competition, resulting in more investments in channel building and spending on marketing promotions. Based on the above factors, we maintain a cautious stance on margin improvement. We project GPM and NPM (to shareholders of the Company) to reach 59.6% and 27.5% in FY24E.

Maintain BUY; TP at HK\$ 54.9. Maintain BUY on the Group's growth-generating ability, leading market position, and a more diversified product portfolio. Based on current projection, we expect FY23-26E EPS CAGR to be 12.9%. We raise our DCF-derived TP to reflect higher revenue and profit projections. Current TP represents 42.5x/37.3x 24E/25E P/E, or 17.0x/13.5x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Regulatory/policy risk; 4) Food safety risk; 5) Limitation of water sources; 6) Product concentration risk; 7) Changing consumer taste in China; 8) Risk associated with brand image and public perception.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,239	42,667	48,713	55,168	62,490
Chg (YoY %)	11.9	28.4	14.2	13.3	13.3
Net Profit – to shareholders of the Company (RMB mn)	8,495	12,079	13,403	15,262	17,390
Chg (% YoY)	18.6	42.2	11.0	13.9	13.9
Basic EPS (RMB)	0.76	1.07	1.19	1.36	1.55
Chg (YoY %)	18.8	41.3	11.0	13.9	13.9
P/E (x)	52.65	37.25	33.57	29.49	25.88
BVPS (RMB)	2.14	2.54	2.98	3.74	4.52
P/B (x)	18.68	15.75	13.42	10.69	8.86
Dividends (RMB)	0.68	0.75	0.60	0.68	0.77
Dividend yield	1.7	1.9	1.5	1.7	1.9
ROAA (%)	23.5	27.3	25.4	25.1	23.9
ROAE (%)	37.9	45.9	43.2	40.4	37.4

Source(s): The Group, ABCI Securities estimates

Company Report

Apr 16, 2024

Rating: **BUY**

TP: **HK\$ 54.9**

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	43.35
52WK H/L (HK\$)	46.75/37.95
Est. share price return	26.6%
Est. dividend yield	1.5%
Est. total returns	28.0%
Previous rating/TP	BUY/HK\$ 53.8
Previous report date	Sep 7, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued H-shares (bn)	5.03
Total issued shares (bn)	11.25
H-share mkt cap (HK\$ bn)	218.3
Total mkt cap (HK\$ bn)	487.5
3-mth avg. ADT (HK\$ mn)	201.9
Shareholding (%)	
Zhong Shanshan	65.0

Source(s): Bloomberg, HKEX

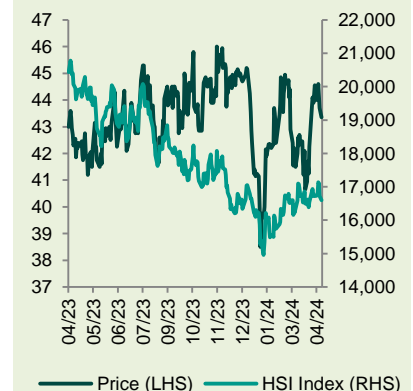
Price performance (%)

	Absolute	Relative*
1-mth	1.5	3.7
3-mth	5.1	2.9
6-mth	(0.9)	5.9

* Relative to HSI

Source(s): Bloomberg

1-yr price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Apr 15, 2024

RMB/HKD: 1.0834



Exhibit 1: Changes in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	8.9	6.4	10.5	7.5	Adjusted based on FY23 figures
D/A (%)	5.3	4.1	6.4	4.4	
Tax rate (%)	23.2	23.1	23.3	23.2	
Valuations					
TP (HK\$)	54.9		53.8		Higher TP due to raised profit projections and rollover of forecast period
P/E (x)	42.5	37.3	47.0	39.8	
P/B (x)	17.0	13.5	16.3	12.8	

Note: for previous report publication date please refer to cover page of this company report

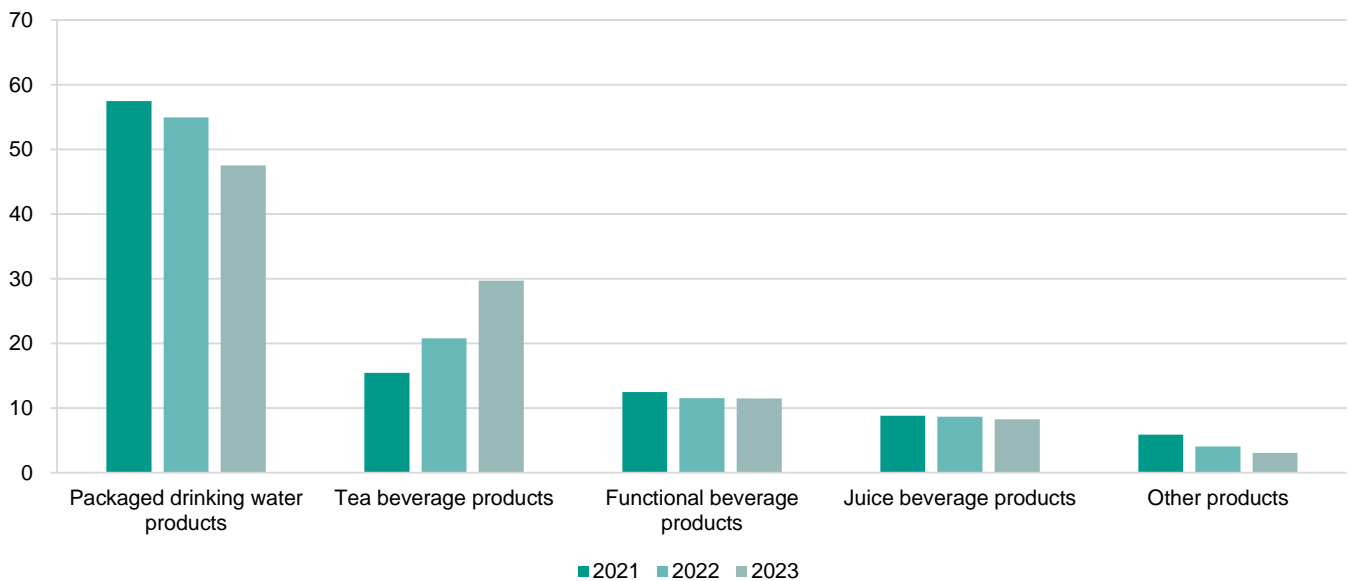
Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	48,713	55,168	62,490	46,286	54,399	N/A	5.2	1.4	N/A
Net profit (to shareholders of the Company) (RMB mn)	13,403	15,262	17,390	12,015	14,177	N/A	11.6	7.7	N/A
EPS (RMB)	1.19	1.36	1.55	1.07	1.26	N/A	11.6	7.7	N/A

Source(s): ABCI Securities estimates

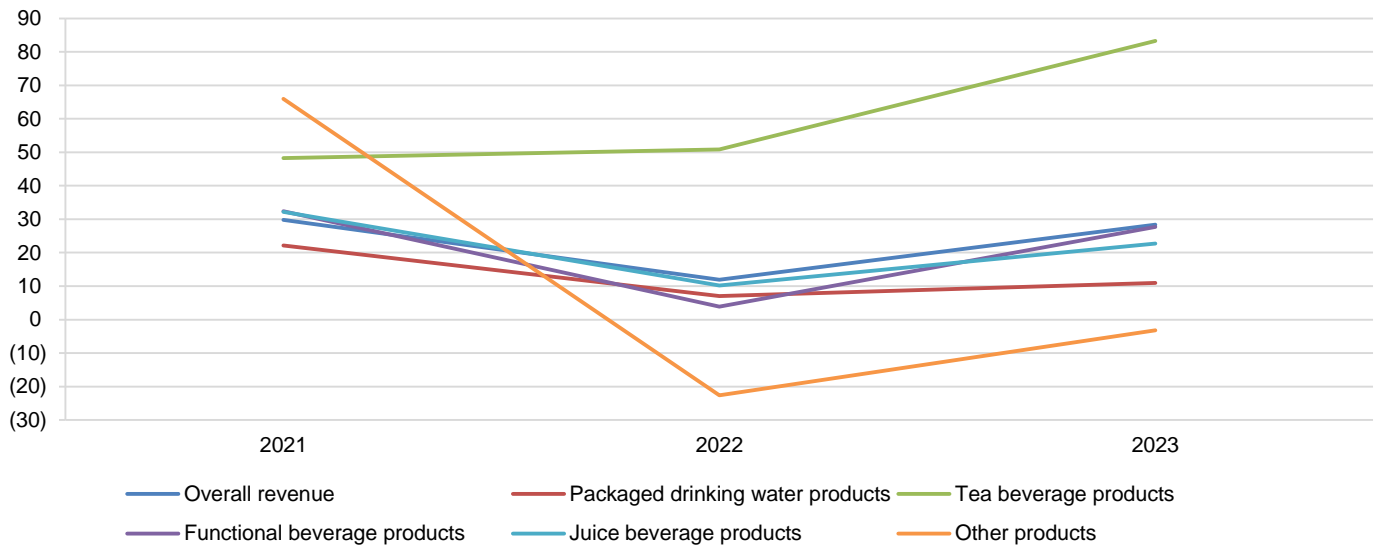
Exhibit 3: Revenue contribution by product segment (%)



Source(s): The Group, ABCI Securities estimates



Exhibit 4: Revenue growth of product segments (YoY %)



Source(s): The Group, ABCI Securities estimates

Financial statement of the Group

Consolidated income statement

As of Dec 31 (RMB mn, except for per share figures)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	33,239	42,667	48,713	55,168	62,490
Packaged drinking water products	18,263	20,262	22,251	24,376	26,666
Tea beverage products	6,906	12,659	15,291	18,585	22,637
Functional beverage products	3,838	4,902	5,683	6,180	6,637
Juice beverage products	2,879	3,534	4,144	4,641	5,117
Other products	1,354	1,311	1,345	1,386	1,433
Cost of sales	(14,144)	(17,260)	(19,661)	(22,199)	(25,085)
Gross profit	19,095	25,407	29,053	32,969	37,405
Selling expenses	(7,821)	(9,284)	(11,083)	(12,637)	(14,338)
Admin expenses	(1,835)	(2,162)	(2,570)	(2,906)	(3,219)
Others net income/gain	1,687	1,828	2,145	2,512	2,843
Net finance costs	(76)	(100)	(96)	(92)	(78)
Pretax profit	11,050	15,688	17,449	19,847	22,614
Tax	(2,555)	(3,609)	(4,046)	(4,586)	(5,223)
Net profit	8,495	12,079	13,403	15,262	17,390
- Owners	8,495	12,079	13,403	15,262	17,390
- MI	0	0	0	0	0
Dividend	7,648	8,435	6,702	7,631	8,695
EPS (RMB)					
- Basic	0.76	1.07	1.19	1.36	1.55
- Diluted	0.76	1.07	1.19	1.36	1.55
DPS (RMB)	0.68	0.75	0.60	0.68	0.77

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Bank balances and cash	15,211	24,125	30,438	34,988	47,267
Prepayments, other receivables and other assets	560	695	688	907	883
Trade and bills receivables	479	547	738	653	959
Inventories	2,108	3,092	2,593	3,960	3,368
Others	3	3	0	0	0
Current assets	18,361	28,461	34,456	40,508	52,478
PP&E	15,398	17,180	18,456	20,934	23,587
Right-of-use assets	853	947	1,028	1,160	1,307
Intangible assets	58	74	81	87	101
Others	4,584	2,475	2,205	2,676	2,443
Non-current assets	20,893	20,676	21,771	24,857	27,438
Total assets	39,255	49,137	56,227	65,364	79,916
Trade and bills payables	1,425	1,770	1,950	2,330	2,605
Other payables and accruals	6,506	9,289	11,174	10,535	14,784
Contract liabilities	2,677	3,585	3,674	4,485	5,720
ST bank borrowing	2,425	3,121	2,871	2,584	2,067
Others	1,568	2,112	2,421	2,470	3,238
Current liabilities	14,601	19,877	22,090	22,404	28,414
Deferred income	291	303	315	333	349
Deferred tax liabilities	247	355	234	482	306
Lease liabilities	31	31	49	45	52
Non-current liabilities	569	690	598	861	707
Shareholders' equity	24,084	28,571	33,539	42,099	50,795
MI	0	0	0	0	0
Total equity	24,084	28,571	33,539	42,099	50,795
Total liabilities and equity	39,255	49,137	56,227	65,364	79,916

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

As of Dec 31 (RMB mn)	FY22A	FY23E	FY24E	FY25E	FY26E
Profit before tax	11,050	15,688	17,449	19,847	22,614
Depreciation and amortization	2,487	2,631	3,565	4,808	6,132
Change in working capital	1,409	2,850	2,469	(949)	6,068
Others	(2,905)	(3,864)	(4,278)	(4,874)	(5,539)
Cash flow from operating activities	12,042	17,305	19,206	18,833	29,275
Change of P&E and right-of-use assets	(4,270)	(4,097)	(4,109)	(6,138)	(7,454)
Change in intangible assets	(2)	(16)	(7)	(6)	(14)
Others	(5,154)	(3,222)	(4,003)	(2,954)	(4,902)
Cash flow from investing activities	(9,426)	(7,336)	(8,119)	(9,098)	(12,370)
Change in borrowing	(75)	(250)	(287)	(517)	(413)
Net proceeds from IPO	0	0	0	0	0
Others	(5,295)	(3,922)	(8,480)	(7,632)	(9,124)
Cash flow from financing activities	(5,370)	(4,172)	(8,767)	(8,148)	(9,537)
Net change in cash	(2,755)	5,797	2,320	1,586	7,368
ForEx Impact	388	(152)	(51)	(36)	(35)
Cash and cash equivalent - end	7,821	13,467	15,736	17,286	24,619

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	11.9	28.4	14.2	13.3	13.3
Packaged drinking water products	7.1	10.9	9.8	9.6	9.4
Tea beverage products	50.8	83.3	20.8	21.5	21.8
Functional beverage products	3.9	27.7	16.0	8.7	7.4
Juice beverage products	10.1	22.7	17.3	12.0	10.2
Others	(22.6)	-3.2	2.6	3.0	3.4
Gross profit	8.2	33.1	14.4	13.5	13.5
Pretax profit	18.1	42.0	11.2	13.7	13.9
Net profit (to shareholders of the Company)	18.6	42.2	11.0	13.9	13.9
Profitability ratios (%)					
GPM	57.4	59.5	59.6	59.8	59.9
Pretax margin	33.2	36.8	35.8	36.0	36.2
NPM (to shareholders of the Company)	25.6	28.3	27.5	27.7	27.8
Return ratios (%)					
ROAA	23.5	27.3	25.4	25.1	23.9
ROAE	37.9	45.9	43.2	40.4	37.4
Liquidity ratio (x)					
Current ratio	1.3	1.4	1.6	1.8	1.8
Quick ratio	1.1	1.3	1.4	1.6	1.7
Cash ratio	1.0	1.2	1.4	1.6	1.7
Working capital turnover (days)					
Receivable turnover	5	4	5	5	5
Inventory turnover	51	55	53	54	53
Payable turnover	33	34	35	35	36
Cash conversion cycle	23	26	23	23	22
Leverage ratios (%)					
Total debt to Equity	10.5	11.2	8.9	6.4	4.3
Total debt to Total assets	6.4	6.5	5.3	4.1	2.8
Net debt/(cash) to Equity	(52.7)	(73.2)	(81.9)	(76.7)	(88.7)
Net debt/(cash) to Total assets	(32.3)	(42.6)	(48.8)	(49.4)	(56.4)

Source(s): The Group, ABCI Securities estimates

WH Group (288 HK) Better macros to support growth

- Revenue growth to be supported by the rising pork prices in China and the US; recovery in China's consumer market, and increased focus on packaged meat segment
- Margin profile to improve on favorable macro environment
- Maintain **BUY**; TP implies 8.8x/7.5x 24E/25E P/E, or 1.0x/0.9x 24E/25E P/B

Improving macro factors to benefit growth performance. We believe the FY24E growth performance would be supported by better macro factors, including 1) the improving pork price in its major markets, especially the U.S. market, that would enable better product pricing capability, 2) the continued recovery of China's consumer market that would facilitate more consumption of meat products, and 3) the shift of focus onto packaged meat products, as the Group indicated it has been in the process of downsizing its upstream business. We project FY24E revenue to increase by 4.0% YoY; FY24E revenue of packaged meat and pork segments to increase by 4.0% YoY and 3.6% YoY. Factoring in the strategy of downsizing upstream business and focusing on the packaged meat business, we project revenue CAGR in FY23-26E to be 2.3%; FY23-26E revenue CAGR of packaged meat segment and pork segment to be 3.9% and 0.0%.

Boosted margin profile outlook. We expect the better macroeconomic environment and the potential turnaround in pork price would also support the Group's margin profile improvement. The increase in pork price in China and the U.S. would support better product pricings for the Group and reduce losses associated with the low pork prices. The consumer market recovery in China and the low cost raw material reserves would enable the Group to have more room in the gross profit level. Meanwhile, the impairments resulted from downsizing upstream business and its negative financial impacts are likely to reduce in coming years. We expect OPM and NPM⁽³⁾ to reach 7.2% and 4.3% in FY24E.

Maintain BUY; TP at HK\$ 6.2. Maintain **BUY** as we expect the Group's growth and margin to improve on the potential for pork price to pick up in both the U.S. and China markets and the consumer market recovery in China. We increase our DCF-derived TP to reflect the higher profit projections in FY25E. Current TP implies 8.8x/7.5x 24E/25E P/E, or 1.0x/0.9x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer taste; 5) Pork price remains low for an extended period; 6) Foreign exchange risk; 7) Interest rate risk; 8) Fluctuations in EPS and DPS growth.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	28,136	26,236	27,279	27,818	28,121
Chg (% YoY)	3.1	(6.8)	4.0	2.0	1.1
Net profit ⁽³⁾ (US\$ mn)	1,370	629	1,160	1,356	1,487
Chg (% YoY)	28.3	(54.1)	84.5	16.9	9.7
Basic EPS (US cent)	10.68	4.90	9.04	10.57	11.59
Chg (% YoY)	41.4	(54.1)	84.5	16.9	9.7
P/E (x)	6.47	14.10	7.64	6.54	5.96
BVPS (US cent)	74.82	76.62	81.83	89.24	97.13
P/B (x)	0.92	0.90	0.84	0.77	0.71
DPS(HK\$)	0.30	0.30	0.25	0.29	0.32
Yield (%)	5.5	5.5	4.6	5.4	5.9
ROAA (%)	8.4	4.4	7.6	8.0	8.5
ROAE (%)	14.9	6.5	11.4	12.4	12.4

Source(s): The Group, ABCI Securities estimates

Company Report Apr 16, 2024 Rating: BUY TP: HK\$ 6.2

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (HK\$)	5.41
52Wk H/L(HK\$)	5.64/3.88
Est. share price return	14.6%
Est. dividend yield	4.6%
Est. total return	19.2%
Previous Rating & TP	BUY; HK\$5.4
Previous report date	Nov 9, 2023
Source(s): Bloomberg, ABCI Securities estimates	

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	69.41
3-mth ADT (HK\$ mn)	123.7

Major shareholders

Wan Long	(%)	26.82
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Source(s): Bloomberg, HKEx, ABCI Securities

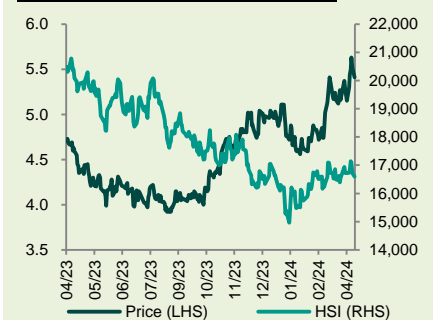
Sector Performance (%)

	Absolute	Relative*
1-mth	0.0	2.1
3-mth	5.9	3.7
6-mth	24.7	31.5

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: Note: 1) All market data as of Apr 15, 2024; 2) Gross profit, operating profit, and related measures discussed are before biological adjustment; 3) Net profits and related measures refer to net profit after biological adjustment; 4) USD/HKD: 7.8256.

Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	25.9	22.1	25.0	21.5	Adjusted based on FY23 figures
D/A (%)	13.3	12.4	13.5	12.4	
Tax rate (%)	20.2	20.3	22.5	22.4	
Valuations					
TP (HK\$)	6.2		5.4		Higher TP due to higher profit projections in FY25E
P/E (x)	8.8	7.5	7.6	7.0	
P/B (x)	1.0	0.9	0.8	0.7	

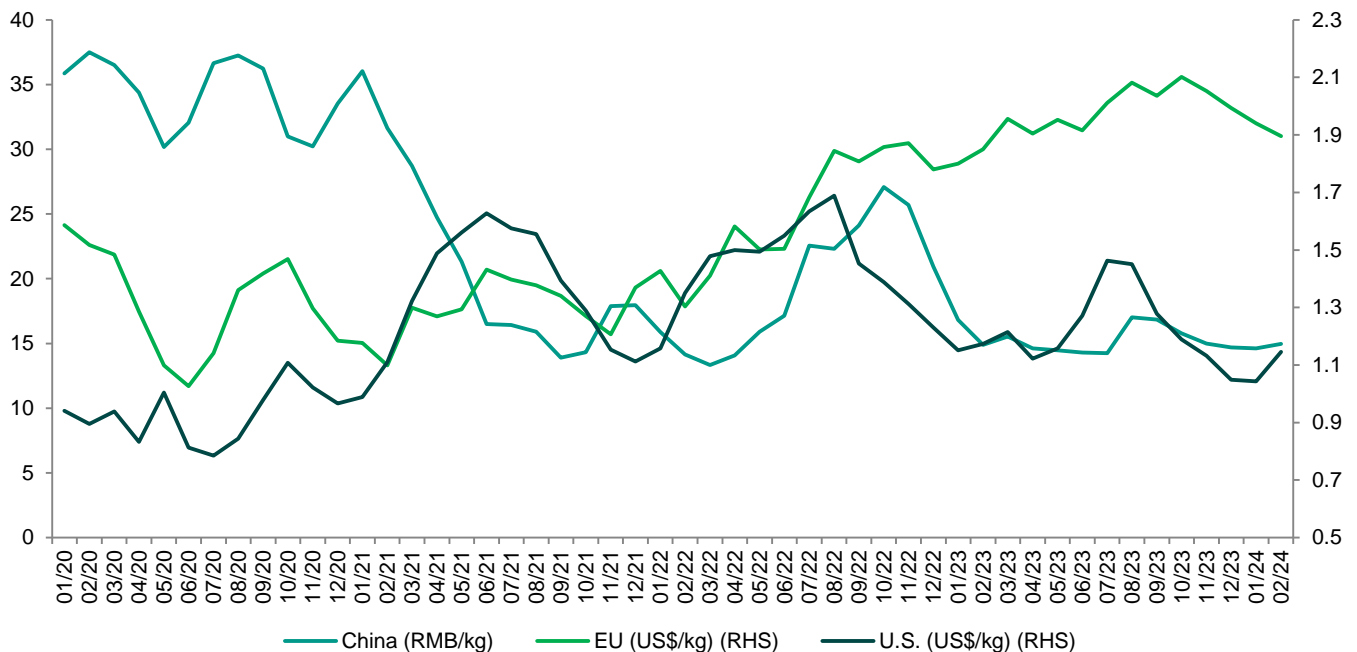
Note: for previous report publication date please refer to the cover page of this company report
Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		FY26E	Previous report		Change (%)			
	FY24E	FY25E		FY24E	FY25E	FY24E	FY25E	FY26E	
Revenue (US\$ mn)	27,279	27,818	28,121	27,297	28,796	N/A	(0.1)	(3.4)	N/A
Net profit (to owners of the Company) (US\$ mn)	1,160	1,356	1,487	1,169	1,270	N/A	(0.8)	6.8	N/A
EPS (US cent)	9.04	10.57	11.59	9.11	9.90	N/A	(0.8)	6.8	N/A

Note: Net profit and EPS are after biological adjustment
Source(s): ABCI Securities estimates

Exhibit 3: Hog price in China, the US, and Europe



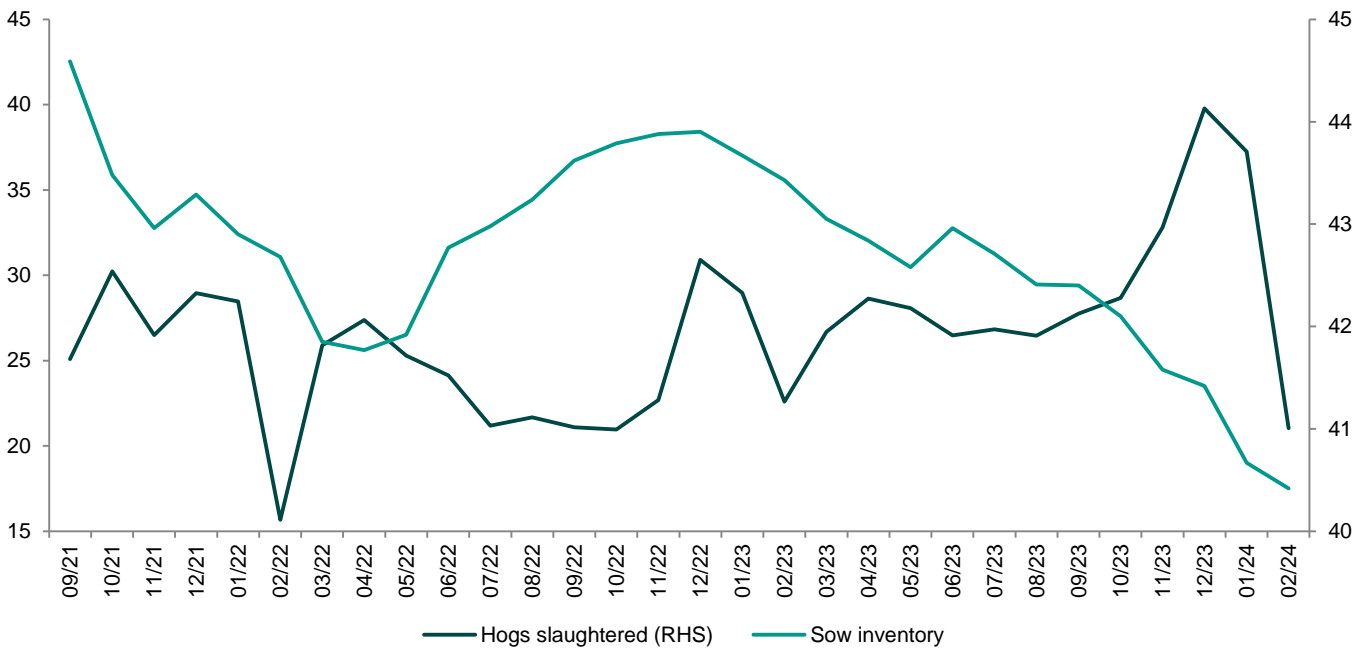
Note: EU price is European Commission carcass price multiplied by 0.755
Source(s): MOA, USDA, European Commission, ABCI Securities

Exhibit 4: Hog production volume in China and the US (mn heads)



Source(s): MOA, USDA, ABCI Securities

Exhibit 5: Hogs slaughtered and sow inventory in China (mn heads)



Source(s): MOA, NBS, ABCI Securities



Financial Statements

Consolidated income statement

As of Dec 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	28,136	26,236	27,279	27,818	28,121
- Packaged meats	14,559	13,523	14,062	14,740	15,163
- Pork	11,797	10,810	11,198	10,997	10,813
- Others	1,780	1,903	2,020	2,080	2,144
COGS	(22,959)	(21,111)	(22,093)	(22,407)	(22,474)
Gross profit	5,177	5,125	5,187	5,412	5,647
Distribution and selling expenses	(2,082)	(1,977)	(2,063)	(2,105)	(2,133)
Admin expenses	(842)	(889)	(924)	(942)	(953)
Biological adjustment	(299)	(836)	(1)	(9)	(21)
Others	139	48	(225)	(129)	(188)
Operating profit	2,093	1,471	1,974	2,226	2,352
- Packaged meat	2,065	2,050	2,096	2,195	2,265
- Pork	30	(480)	(116)	15	42
- Others	(2)	(99)	(6)	16	45
Net finance cost	(169)	(169)	(137)	(129)	(125)
Share of profits from JV and associates	4	(38)	(11)	(7)	(7)
Other gains/(losses)	204	(207)	163	237	331
Pretax profit	2,132	1,057	1,989	2,326	2,552
Tax	(482)	(197)	(402)	(472)	(518)
Net profit	1,650	860	1,586	1,854	2,034
- Profit attributable to shareholders	1,370	629	1,160	1,356	1,487
- Minority interest	280	231	426	498	546
EPS					
- Basic (US cent)	10.68	4.90	9.04	10.57	11.59
- Diluted (US cent)	10.33	4.75	8.75	10.23	11.22
DPS (HK cent)	30.00	30.00	24.77	28.95	31.75

Note: 1) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork; 2) Items may not sum up due to rounding.

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	1,394	1,156	3,621	4,403	4,760
Trade and bills receivable	1,087	873	1,548	976	1,601
Inventory	2,855	2,919	2,941	3,053	2,966
ST Biological assets	1,343	1,149	1,187	1,295	1,308
Others	1,330	1,217	1,188	1,188	1,236
Total current assets	8,009	7,314	10,487	10,916	11,872
PP&E	6,536	6,602	6,769	6,828	6,938
LT Biological assets	201	214	228	243	249
Goodwill	1,992	2,043	2,043	2,043	2,043
Intangible assets	1,717	1,707	1,766	1,797	1,857
Interest in JV and associates	252	224	237	251	266
Others	1,148	1,075	1,245	1,291	1,268
Total non-current assets	11,846	11,865	12,287	12,452	12,620
Total assets	19,855	19,179	22,774	23,368	24,492
Trade and bills payable	1,395	1,240	1,540	1,291	1,510
ST borrowings & bank overdrafts	862	1,106	927	837	770
Accrued expenses and other payables	2,513	2,150	2,762	2,554	2,414
Others	215	162	250	230	274
Total current liabilities	4,985	4,658	5,479	4,912	4,968
LT Borrowings	2,504	2,122	2,100	2,061	2,000
Others	1,954	1,824	3,525	3,278	2,849
Total non-current liabilities	4,458	3,946	5,626	5,339	4,848
Shareholders' equity	9,600	9,831	10,499	11,449	12,462
Minority interest	812	744	1,170	1,668	2,214
Total equity	10,412	10,575	11,669	13,117	14,676
Total liabilities and equity	19,855	19,179	22,774	23,368	24,492

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

As of Dec 31 (US\$ mn)	FY22A	FY23E	FY24E	FY25E	FY26E
Pretax profit	2,132	1,057	1,989	2,326	2,552
Depreciation and amortization	802	779	861	739	781
Change in working capital	(665)	(188)	154	(110)	(555)
Others	(466)	(31)	(112)	(461)	(702)
Cash flow from operating activities	1,803	1,617	2,891	2,495	2,075
Change in PP&E	(913)	(617)	(828)	(836)	(1,258)
Others	563	(46)	1,542	316	798
Cash flow from investing activities	(350)	(663)	714	(520)	(460)
Change in borrowings	(605)	(138)	(201)	(129)	(129)
Others	(937)	(1,037)	(833)	(966)	(1,073)
Cash flow from financing activities	(1,542)	(1,175)	(1,034)	(1,096)	(1,202)
Net change in cash	(89)	(221)	2,572	879	413
Forex effect	(73)	(17)	(107)	(97)	(56)
Cash at the end of FY	1,394	1,156	3,621	4,403	4,760

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	3.1	(6.8)	4.0	2.0	1.1
- Packaged meat	5.4	(7.1)	4.0	4.8	2.9
- Pork	(1.4)	(8.4)	3.6	(1.8)	(1.7)
Gross profit	4.8	(13.7)	12.8	4.4	2.3
Operating profit	6.5	(29.7)	34.2	12.8	5.7
Net profit (to owners of the company)	28.3	(54.1)	84.5	16.9	9.7
Profitability ratios (%)					
GPM	17.5	16.2	17.6	18.0	18.2
OPM	7.4	5.6	7.2	8.0	8.4
- Packaged meat	14.2	15.2	14.9	14.9	14.9
- Pork	0.3	(4.4)	(1.0)	0.1	0.4
Pretax margin	7.8	3.9	5.9	6.9	7.3
NPM (to owners of the company)	4.9	2.4	4.3	4.9	5.3
Revenue contribution (%)					
Packaged meat	51.7	51.5	51.5	53.0	53.9
Fresh pork	41.9	41.2	41.0	39.5	38.5
Hog production	6.3	7.3	7.4	7.5	7.6
Return ratios (%)					
ROAA	8.4	4.4	7.6	8.0	8.5
ROAE	14.9	6.5	11.4	12.4	12.4
Liquidity ratio (x)					
Current ratio	1.6	1.6	1.9	2.2	2.4
Quick ratio	0.8	0.7	1.2	1.3	1.5
Cash ratio	0.3	0.3	0.7	0.9	1.0
Cash conversion cycle (days)					
Days of outstanding receivable	14	14	16	16	17
Days of inventory on hand	44	50	48	49	49
Days of outstanding payable	20	23	23	23	23
CCC	37	41	42	42	43
Leverage ratios (%)					
Total debt/Equity	32.3	30.5	25.9	22.1	18.9
Total debt/Total assets	17.0	16.8	13.3	12.4	11.3

Note: 1) Excluding measures relating to NP (to owners of the Company), all other measures are pre-bio. adj. 2) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork; 3) Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Mengniu (2319 HK) Challenging path to generate growth

- Growth momentum to be affected by weakened consumer market, limited pricing capability, product diversification strategy that is in progress, and dissipated consolidation impact from M&A activity
- Profitability to be pressured by heightened market competition and low raw milk price
- Downgrade to **HOLD**; current TP implies 10.9x/9.7x 24E/25E P/E, or 1.3x/1.2x 24E/25E P/B

Growth momentum to be challenged. We expect FY24E revenue growth would be impacted by normalization resulted from dissipated consolidation effect from acquisition of Milkground (600882 CH). We expect liquid milk segment would continue to benefit from the premiumization strategy, ice cream segment would be able to unleash more growth potential with more product launches capturing rising popularity overseas market, and milk formula segment would be able to generate growth with shifting focus on adult market segment. However, we expect growth momentum would continue to face pressure due to weakened consumer market, overall low raw milk price's impact on pricing capability, and effectiveness of the Group's product diversification on overall revenue growth. We expect FY24E revenue to expand 4.9% YoY and FY23-26E revenue CAGR would be 6.0%.

Profitability to face macro pressure. We expect the intensified market competition would drive up the Group's spending on marketing and promotion activities. In addition, the low raw milk price would continue to negatively impact the Group with potential write-down of inventories and creating impairments in some of its associates in raw milk business. However, the low-cost environment, continuous efforts in optimizing product portfolio, and improvement of operating efficiency would benefit the Group margin, as it was the case in FY23. We expect GPM, OPM, NPM (to shareholders of the Company) to reach 37.4%, 6.6%, and 5.4% for FY24E.

Downgrade to HOLD; TP at HK\$ 16.7. Downgrade to **HOLD** and lower TP due to the weak market fundamentals' impact on the Group's growth trajectory and the lower level of projections for revenue and profit levels. Based on current projection, FY23-26E EPS CAGR is expected to be 12.2% Current TP represents 10.9x/9.7x 24E/25E P/E, or 1.3x/1.2x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Raw material cost risk; 3) Regulation risk; 4) Food safety risk; 5) Business acquisition risk; 6) Product concentration risk; 7) Uneven growth among product categories; 8) High financial leverage; 9) Overseas expansion risk; 10) Potential dilution effect of convertible bond, or short term liquidity need by redemption of convertible bond.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	92,593	98,624	103,455	109,727	117,321
Chg (% YoY)	5.1	6.5	4.9	6.1	6.9
Net Profit (RMB mn)	5,303	4,809	5,571	6,238	6,790
Chg (% YoY)	5.5	(9.3)	15.8	12.0	8.9
Basic EPS (RMB)	1.34	1.22	1.42	1.59	1.73
Chg (% YoY)	5.3	(9.1)	16.0	12.0	8.9
P/E (x)	10.87	11.95	10.30	9.20	8.45
BVPS (RMB)	10.14	11.26	12.12	13.09	14.14
P/B (x)	1.44	1.29	1.20	1.11	1.03
DPS (RMB)	0.40	0.49	0.58	0.64	0.70
Yield (%)	2.8	3.4	3.9	4.4	4.8
ROAA (%)	4.8	4.2	4.8	5.1	5.4
ROAE (%)	13.8	11.4	12.1	12.6	12.7

Source(s): the Group, ABCI Securities estimates

Company Report

Apr 16, 2024

Rating: **HOLD**

TP: HK\$ 16.7

Analyst: Paul Pan
Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	15.80
52Wk H/L(HK\$)	33.85/16.0
Est. share price return	5.7%
Est. dividend yield	3.9%
Est. total return	9.6%
Previous Rating&TP	BUY; HK\$34.0
Previous report date	Sep 11, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.9
Market cap (HK\$ bn)	62.2
3-mth ADT (HK\$ mn)	360.9

Major shareholders	(%)
COFCO	24.0

Source(s): Bloomberg, HKEX, ABCI Securities

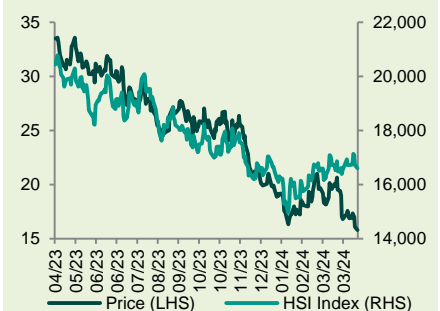
Sector Performance (%)

	Absolute	Relative*
1-mth	(19.7)	(17.6)
3-mth	(17.5)	(19.7)
6-mth	(39.5)	(32.7)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Apr 15, 2024;
- 2) RMB/HKD: 1.0834

Exhibit 1: Change in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	67.7	60.9	74.6	61.4	Adjusted based on FY23 figures
D/A (%)	29.9	28.7	31.9	28.7	
Tax rate (%)	22.5	22.5	20.2	20.2	
Valuations					
TP (HK\$)		16.7		34.0	Lower TP due to lower revenue and profit forecasts
P/E (x)	10.9	9.7	19.4	16.6	
P/B (x)	1.3	1.2	2.6	2.3	

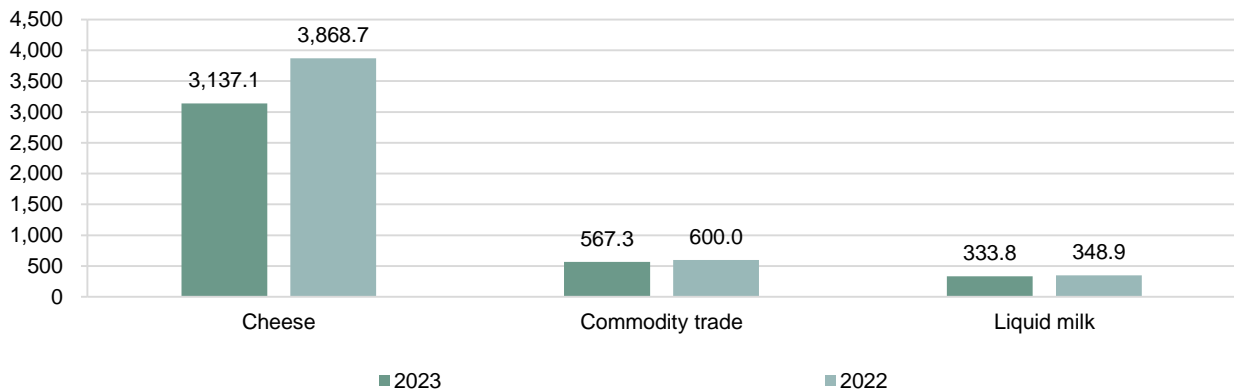
Note: for previous report publication date please refer to the cover page of this company report
Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	103,455	109,727	117,321	108,125	116,696	N/A	(4.3)	(6.0)	N/A
Net profit (to shareholders of the Company) (RMB mn)	5,571	6,238	6,790	6,432	7,545	N/A	(13.4)	(17.3)	N/A
EPS (RMB)	1.42	1.59	1.73	1.63	1.91	N/A	(13.3)	(17.2)	N/A

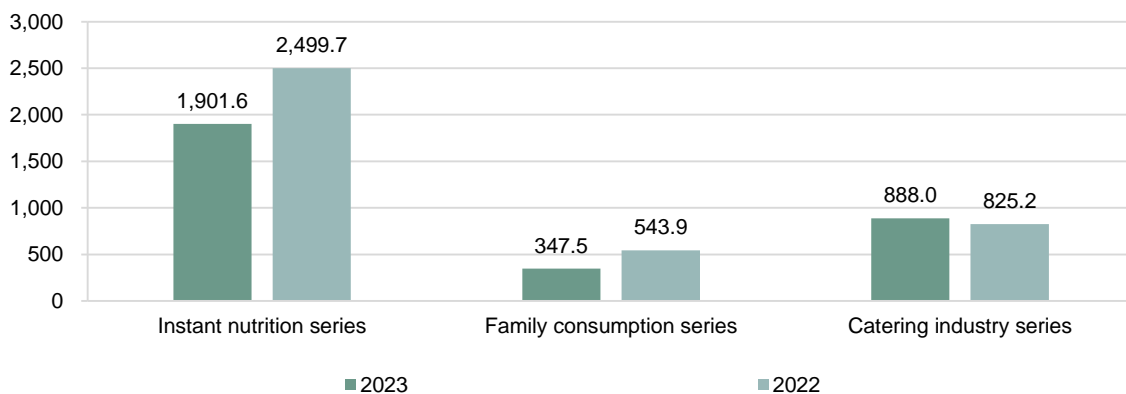
Source(s): ABCI Securities estimates

Exhibit 3: Major segment revenue of Milkground (600882 CH) (RMB mn)



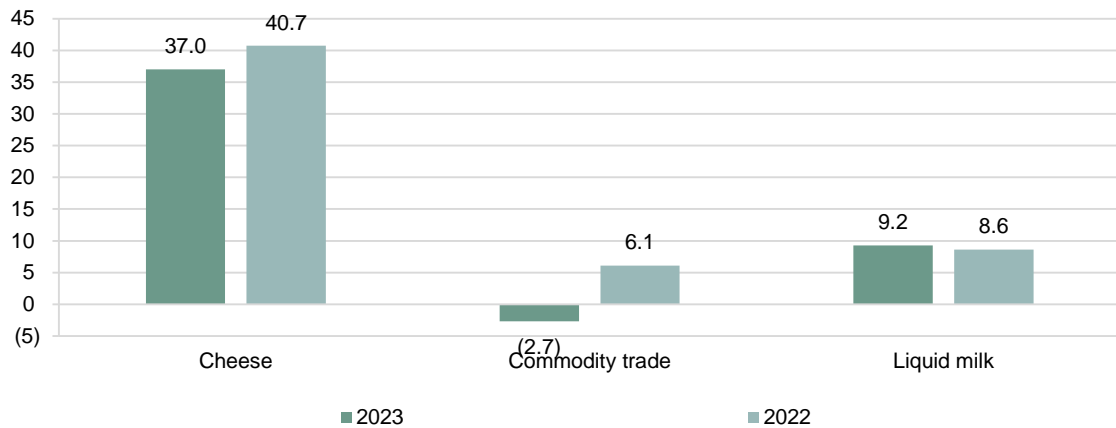
Source(s): Milkground, ABCI Securities

Exhibit 4: Revenue of product series in cheese segment of Milkground (600882 CH) (RMB mn)



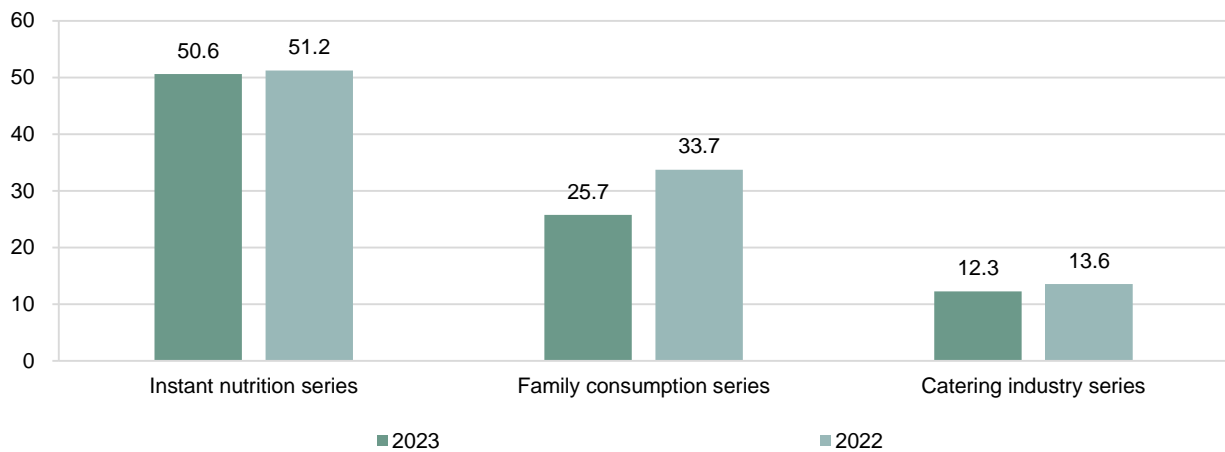
Source(s): Milkground, ABCI Securities

Exhibit 5: Major segment GPM of Milkground (600882 CH) (%)



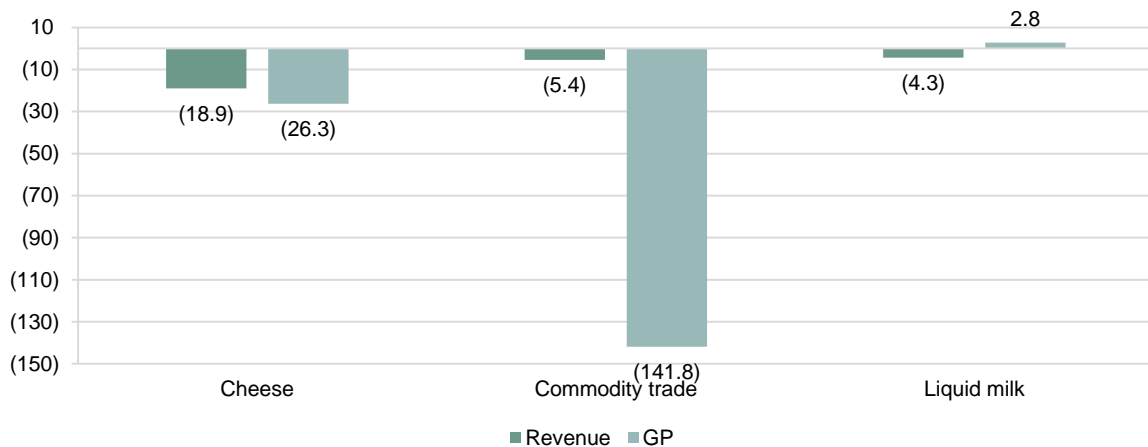
Source(s): Milkground, ABCI Securities

Exhibit 6: GPM of product series in cheese segment of Milkground (600882 CH) (%)



Source(s): Milkground, ABCI Securities

Exhibit 7: 2023 major segment revenue and gross profit change of Milkground (600882 CH) (%)



Note: commodity trade saw gross loss in FY23 vs. gross profit in FY22

Source(s): Milkground, ABCI Securities



Financial Statements

Consolidated income statement

As of Dec 31 (RMB mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	92,593	98,624	103,455	109,727	117,321
- Liquid milk	78,269	82,071	86,217	91,114	97,018
- Ice cream	5,652	6,026	6,571	7,182	7,557
- Milk formula	3,862	3,802	4,067	4,435	4,833
- Cheese	1,321	4,357	4,616	4,960	5,388
- Other revenue	3,488	2,368	1,984	2,036	2,524
COGS	(59,904)	(61,984)	(64,755)	(68,463)	(72,943)
Gross profit	32,690	36,640	38,701	41,264	44,378
S&D expenses	(22,347)	(25,192)	(26,473)	(28,125)	(30,097)
Admin expenses	(4,442)	(4,743)	(4,969)	(5,272)	(5,641)
Other operating expenses	(477)	(535)	(453)	(438)	(432)
EBIT	5,423	6,171	6,805	7,429	8,208
Net interest expense /income	260	106	194	502	360
Other gains/(losses)	819	35	301	246	330
Profit before tax	6,502	6,312	7,300	8,177	8,899
Tax	(1,318)	(1,425)	(1,642)	(1,843)	(2,003)
Total net profit	5,185	4,887	5,658	6,334	6,895
- Profit to shareholders	5,303	4,809	5,571	6,238	6,790
- Minority interest	(118)	78	86	97	105
Dividend	1,590	1,924	2,263	2,534	2,758
EPS (RMB)					
- Basic EPS	1.34	1.22	1.42	1.59	1.73
- Diluted EPS	1.34	1.22	1.32	1.47	1.60
DPS (RMB)	0.40	0.49	0.58	0.64	0.70

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	12,766	12,444	18,794	13,307	11,812
Trade and bills receivable	3,660	3,669	3,776	2,975	3,526
Inventory	8,073	6,088	7,967	6,150	8,138
Others	12,278	11,927	10,563	10,141	10,955
Total current assets	36,777	34,128	41,100	32,574	34,432
PP&E and CIP	23,764	24,064	26,531	31,605	35,541
Goodwill	8,888	8,952	8,952	8,952	8,952
Other intangible assets	12,374	12,618	13,249	13,911	14,607
Others	36,010	35,457	32,900	36,286	39,189
Total non-current assets	81,036	81,092	81,632	90,754	98,289
Total assets	117,813	115,220	122,733	123,328	132,720
Trade and bills payable	10,201	9,499	10,905	10,996	12,333
ST borrowings	9,095	9,807	12,278	11,690	11,552
Others	13,858	13,288	17,402	14,882	18,953
Total current liabilities	33,153	32,594	40,584	37,568	42,838
LT Borrowings & convertible bonds	30,014	27,604	24,384	23,676	23,463
Others	4,594	4,370	3,631	4,053	4,146
Total non-current liabilities	34,608	31,974	28,015	27,729	27,609
Shareholders' equity	40,099	44,320	47,715	51,515	55,653
Minority interest	9,953	6,332	6,418	6,515	6,620
Total equity	50,052	50,652	54,133	58,030	62,273
Total liabilities and equity	117,813	115,220	122,733	123,328	132,720

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of Dec 31 (RMB mn)	FY22A	FY23E	FY24E	FY25E	FY26E
Pretax profit	6,502	6,312	7,300	8,177	8,899
Depreciation and amortization	2,878	3,231	2,284	2,633	2,990
Change in working capital	932	2,778	4,220	838	3,558
Others	(1,980)	(3,972)	(3,431)	(3,917)	(4,181)
Cash flow from operating activities	8,333	8,349	10,374	7,731	11,266
Change in PP&E and CIP	(4,723)	(6,521)	(5,405)	(9,155)	(9,474)
Others	(10,139)	19,379	6,778	10,085	9,104
Cash flow from investing activities	(14,862)	12,858	1,374	930	(370)
Change in borrowings	12,076	(1,698)	(749)	(1,296)	(351)
Others	(7,929)	(18,231)	(8,718)	(9,944)	(11,068)
Cash flow from financing activities	4,147	(19,929)	(9,466)	(11,240)	(11,419)
Cash at bank and on hand classified as held for sale	(59)	0	0	0	0
Net change in cash	(2,441)	1,278	2,281	(2,579)	(523)
Forex effect	43	(45)	(6)	(4)	(18)
Cash and cash equivalent - end	5,693	6,927	9,202	6,619	6,078

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	5.1	6.5	4.9	6.1	6.9
- Liquid milk	2.3	4.9	5.1	5.7	6.5
- Ice cream	33.3	6.6	9.0	9.3	5.2
- Milk powder	(22.0)	(1.6)	7.0	9.0	9.0
- Cheese	N/A	229.8	5.9	7.4	8.6
- Other products	43.1	(32.1)	(16.2)	2.6	24.0
Gross profit	0.9	12.1	5.6	6.6	7.5
Operating profit	11.6	13.8	10.3	9.2	10.5
Pretax profit	10.8	(2.9)	15.6	12.0	8.8
Net profit (to shareholders of the Company)	5.5	(9.3)	15.8	12.0	8.9
Profitability ratios (%)					
GPM	35.3	37.2	37.4	37.6	37.8
OPM	5.9	6.3	6.6	6.8	7.0
Pretax margin	7.0	6.4	7.1	7.5	7.6
NPM (to shareholders of the Company)	5.7	4.9	5.4	5.7	5.8
Return ratios (%)					
ROAA	4.8	4.2	4.8	5.1	5.4
ROAE	13.8	11.4	12.1	12.6	12.7
Liquidity ratio (x)					
Current ratio	1.1	1.0	1.0	0.9	0.8
Quick ratio	2.3	2.5	2.9	3.3	3.6
Cash ratio	1.7	1.8	1.8	1.9	1.9
Cash conversion cycle (days)					
Days of outstanding receivable	15	14	13	11	10
Days of inventory on hand	44	42	40	38	36
Days of outstanding payable	58	58	58	58	58
CCC	2	(3)	(5)	(10)	(13)
Leverage ratios (%)					
Total debt/Equity	78.1	73.9	67.7	60.9	56.2
Total debt/Total assets	33.2	32.5	29.9	28.7	26.4
Net debt/Equity	52.6	49.3	33.0	38.0	37.3
Net debt/Assets	22.4	21.7	14.6	17.9	17.5

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Shuanghui (000895 CH)

Improvement limited due to pricing condition

- Potential improvement in the macroeconomic condition and pick up in pork price would help improve performance, but we remain cautious in the projections due to the uncertainty in the degree of improvement, especially for the pork price trend
- Downgrade to **HOLD** due to lower level of revenue and profit projections; TP implies 16.2x/15.1x 24E/25E P/E, or 4.4x/3.8x 24E/25E P/B

Two cornerstones for better growth. Rebalancing hog supply and demand and consumer market recovery would be the two major factors driving better performance in 2024. A better supply-demand dynamic would help increase pork price, which would be beneficial to the Group's pricing capability. Yet, we expect the impact of price elevation would be limited, as pork price in China is likely to start picking up in 2H24 according to the Group. Recent decline in the numbers of sows and hogs slaughtered, which indicates market supply has begun to shrink, seems to support the projection. In addition, consumer market recovery would boost sales volume, but macroeconomic conditions have yet to stabilize. We expect FY24E revenue to grow by 8.1% YoY, and revenue from packaged meat and fresh meat segments to grow by 3.0% YoY and 9.1% YoY. FY23-26E revenue CAGR is expected to be 5.8%.

Low pork price is a double-edged sword on margins. Higher GPM in FY23 shows that low pork prices have brought down raw material costs but also weighed on the OPM and NPM (to shareholders of the Company) by creating a RMB 447.4mn inventory impairment and a RMB 6.0mn biological asset impairment. We believe recovery of pork prices would enhance overall margins due to better product pricing, decrease in asset impairments, and the availability of low-cost raw material inventory reserves. Extent of improvement depends on when the pork price starts to bottom out. In addition, heightened market competition may increase spending on marketing and advertising. Based on the above factors, we expect the Group's GPM, OPM, and NPM (to shareholders of the Company) to reach 17.5%, 11.0%, and 9.0% in FY24E.

Downgrade to HOLD; TP at RMB 27.3. We expect the key drivers of better performance would be potential bottoming out of pork prices and consumer market recovery, which continue to face more uncertainty due to the macroeconomic challenges. Downgrade to **HOLD**. We lower our DCF-derived TP to reflect the lower revenue and profit projections. Current TP implies 16.2x/15.1x 24E/25E P/E, or 4.4x/3.8x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Low pork price remains for extended period; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes; 6) Fluctuations in EPS and DPS growth.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	62,731	60,097	64,988	67,796	71,181
Chg (% YoY)	(6.1)	(4.2)	8.1	4.3	5.0
Net Profit (to shareholders of the Company) (RMB mn)	5,621	5,053	5,844	6,260	6,542
Chg (% YoY)	15.5	(10.1)	15.7	7.1	4.5
Basic EPS (RMB)	1.62	1.46	1.69	1.81	1.89
Chg (% YoY)	15.5	(10.1)	15.7	7.1	4.5
P/E (x)	16.60	18.47	15.97	14.91	14.26
BVPS (RMB)	6.3	6.0	6.3	7.2	8.2
P/B (x)	4.27	4.48	4.31	3.73	3.28
DPS (RMB)	1.60	1.45	0.84	0.90	0.94
Yield (%)	5.9	5.4	3.1	3.4	3.5
ROAA (%)	16.2	14.0	15.7	15.9	15.4
ROAE (%)	25.2	23.7	27.5	26.8	24.5

Source(s): The Group, ABCI Securities estimates

Company Report

Apr 16, 2024

Rating: **HOLD**

TP: **RMB 27.3**

Analyst: Paul Pan
 Tel: (852) 2147 8829
 Email: paulpan@abci.com.hk

Share price (RMB)	26.93
52Wk H/L (RMB)	30.1/24.04
Est. share price return	1.4%
Est. dividend yield	3.1%
Est. total return	4.5%
Previous rating & TP	BUY; RMB 28.1
Previous report date	Nov 14, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.5
Mkt cap (RMB bn)	93.3
3-mth ADT (RMB mn)	425.2

Shareholding (%)	
Rotary Vortex	70.33

Source(s): Bloomberg, The Group, ABCI Securities

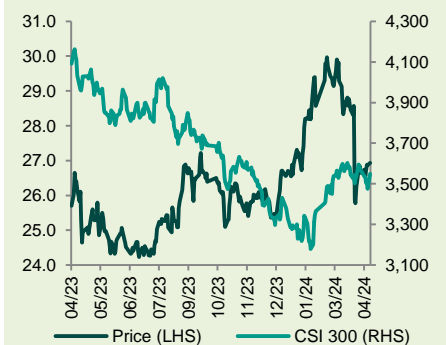
Price Performance (%)

	Absolute	Relative*
1-mth	(5.5)	(5.1)
3-mth	0.1	(8.0)
6-mth	3.0	6.1

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Note: All pricing and market data as of Apr 15, 2024

Exhibit 1: Change in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	30.1	22.3	45.9	34.6	Adjusted based on FY23 figures
D/A (%)	17.1	13.9	23.9	20.5	
Tax rate (%)	23.2	23.2	20.1	20.1	
Valuations					
TP (RMB)	27.3		28.1		Revise down TP mainly due to lower revenue and profit projections
P/E (x)	16.2	15.1	16.1	14.4	
P/B (x)	4.4	3.8	4.1	3.6	

Note: for previous report publication date please refer to cover page of this company report

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

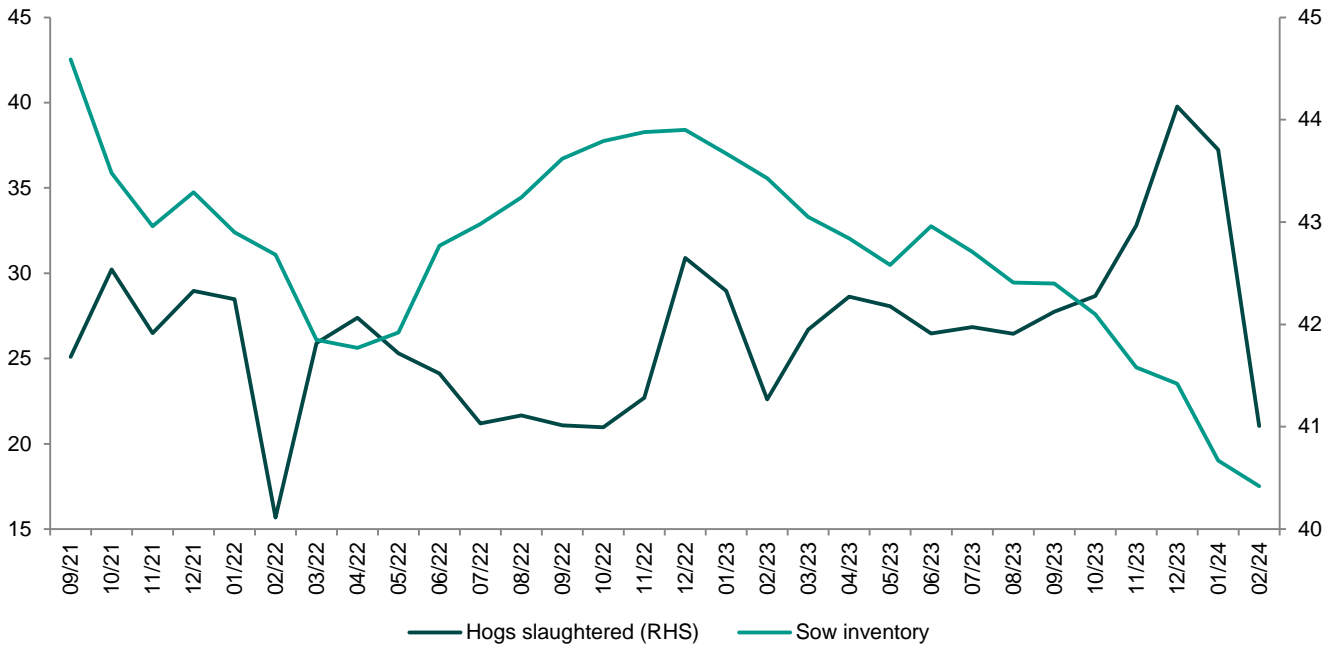
As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	64,988	67,796	71,181	69,028	74,974	N/A	(5.9)	(9.6)	N/A
Net profit (to shareholders of the Company) (RMB mn)	5,844	6,260	6,542	6,063	6,763	N/A	(3.6)	(7.4)	N/A
EPS (RMB)	1.69	1.81	1.89	1.75	1.95	N/A	(3.6)	(7.3)	N/A

Source(s): ABCI Securities estimates

Exhibit 3: Hog price in China (RMB/kg)

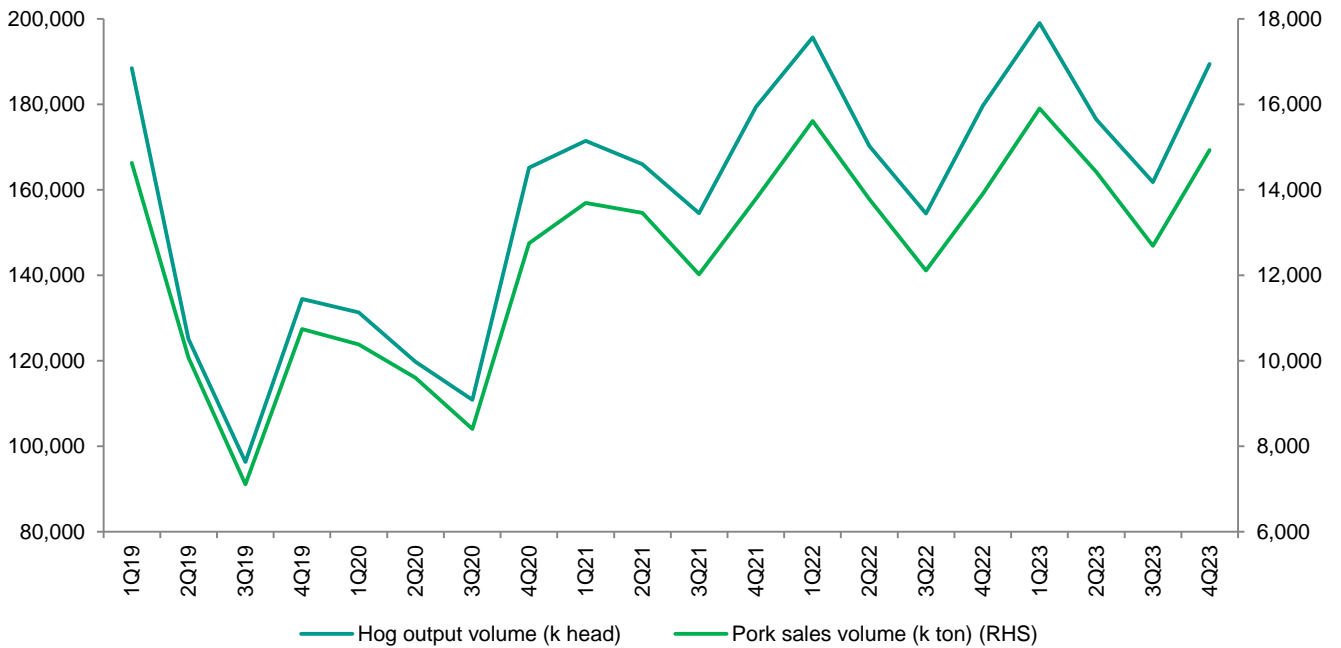

Source(s): MOA, ABCI Securities

Exhibit 4: Hogs slaughtered and sow inventory in China (mn heads)



Source(s): MOA, NBS, ABCI Securities

Exhibit 5: Hog production volume and pork sales volume in China



Source(s): MOA, NBS, ABCI Securities

Financial statements

Consolidated income statement

As of Dec 31 (RMB mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	62,731	60,097	64,988	67,796	71,181
Core revenue	62,576	59,893	64,767	67,566	70,939
- Packaged meat products	27,189	26,414	27,202	27,970	28,671
- Fresh meat products	33,464	30,970	33,776	34,558	35,375
- Other products	7,282	9,018	9,865	11,107	12,640
- Intersegment elimination	(5,358)	(6,510)	(6,075)	(6,070)	(5,746)
Interest income	155	204	221	231	242
Commission and processing income*	0	0	0	0	0
COGS	(52,349)	(49,724)	(53,620)	(55,809)	(58,649)
GP	10,382	10,373	11,368	11,987	12,532
Core GP	10,256	10,214	11,194	11,804	12,340
- Packaged pork product	8,273	8,363	8,678	9,060	9,353
- Fresh pork	1,714	1,764	1,945	2,064	2,145
- Other products	269	86	571	679	874
- Intersegment elimination	0	0	0	0	(32)
GP of interest income	126	160	175	184	193
GP of Commission and processing income	(1)	(1)	(1)	(0)	(0)
Business levy and taxes	(342)	(337)	(359)	(359)	(377)
S&D expenses	(1,927)	(1,914)	(2,094)	(2,198)	(2,330)
Admin expenses	(1,134)	(1,235)	(1,335)	(1,388)	(1,456)
Others expenses	(8)	(398)	(429)	(459)	(413)
Operating profit	6,970	6,491	7,151	7,582	7,955
- Packaged pork product	6,182	6,222	6,446	6,675	6,868
- Fresh pork	793	675	845	905	962
- Other products	(5)	(407)	(297)	(346)	(410)
- Intersegment elimination	0	0	157	347	534
Net finance income/(costs)	61	15	16	18	18
Others gain/(losses)	129	140	520	636	631
Pretax profit	7,160	6,645	7,687	8,236	8,605
Tax	(1,443)	(1,544)	(1,784)	(1,912)	(1,997)
Net profit	5,717	5,102	5,903	6,324	6,607
- Owners of the company	5,621	5,053	5,844	6,260	6,542
- Minority interest	96	49	59	152	152
Dividend	5,543	5,024	2,922	3,130	3,271
EPS (RMB)					
- Basic	1.62	1.46	1.69	1.81	1.89
- Diluted	1.62	1.46	1.69	1.81	1.89
DPS (RMB)	1.60	1.45	0.84	0.90	0.94

Note: items may not sum up due to rounding; commission and processing income are shown as 0 due to rounding.

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	5,769	2,834	6,795	6,247	9,654
Trade and bills receivable	237	227	287	238	321
Inventories	6,121	8,267	6,466	9,041	7,234
Others	3,949	5,048	5,117	4,986	5,156
Current assets	16,076	16,376	18,666	20,512	22,365
PP&E & CIP	17,891	17,957	17,407	17,746	19,650
Biological assets	340	279	264	254	276
Intangible assets	1,224	1,283	1,332	1,388	1,437
Others	881	780	1,008	1,043	1,154
Non-current assets	20,336	20,299	20,011	20,431	22,517
Total assets	36,412	36,675	38,678	40,942	44,883
Trade and bills payable	3,919	3,736	3,682	3,962	3,827
ST borrowings	3,147	5,983	5,624	4,780	4,063
Others	6,435	4,296	5,675	5,092	6,300
Current liabilities	13,501	14,015	14,982	13,835	14,191
LT borrowings	12	962	933	858	833
Lease liabilities	207	210	331	338	376
Others	510	341	407	396	405
Non-current liabilities	729	1,513	1,671	1,593	1,613
Shareholders' equity	21,853	20,843	21,663	25,001	28,413
Minority interest	330	304	363	514	666
Total equity	22,182	21,146	22,026	25,515	29,078
Total liabilities and equity	36,412	36,674	38,678	40,942	44,883

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit	5,717	5,102	5,903	6,324	6,607
Depreciation and amortization	1,294	1,563	1,252	1,076	944
Change in working capital	696	(3,931)	955	(4,061)	715
Others	(142)	654	224	216	286
Cash flow from operating activities	7,565	3,388	8,334	3,555	8,553
Change in PP&E, intangible assets, and other long-term assets	(3,384)	(2,389)	(1,082)	(1,059)	(2,529)
Change in investments related items	(24)	(739)	611	(35)	124
Others	(80)	(50)	0	0	(0)
Cash flow from investing activities	(3,488)	(3,178)	(472)	(1,094)	(2,406)
Change in bank borrowing	388	3,260	(390)	(920)	(745)
Others	(6,803)	(6,406)	(3,512)	(2,003)	(2,274)
Cash flow from financing activities	(6,415)	(3,146)	(3,902)	(2,923)	(3,019)
ForEx effect	1	4	2	2	3
Net change in cash and cash equivalent	(2,337)	(2,932)	3,963	(460)	3,132
Cash and cash equivalent at the end of FY	5,236	2,304	6,267	5,807	8,939

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	(6.1)	(4.2)	8.1	4.3	5.0
Core revenue	(6.2)	(4.3)	8.1	4.3	5.0
- Packaged meat products	(0.6)	(2.8)	3.0	2.8	2.5
- Fresh meat products	(14.4)	(7.5)	9.1	2.3	2.4
- Other products	15.4	23.9	9.4	12.6	13.8
GP	0.5	(0.1)	9.6	5.4	4.6
EBIT	15.6	(6.9)	10.2	6.0	4.9
Pretax Profit	15.2	(7.2)	15.7	7.1	4.5
Net profit (to owners of the company)	15.5	(10.1)	15.7	7.1	4.5
Profitability ratios (%)					
GPM	16.5	17.3	17.5	17.7	17.6
Core GPM	16.4	17.1	17.3	17.5	17.4
- Packaged meat products	30.4	31.7	31.9	32.4	32.6
- Fresh meat products	5.1	5.7	5.8	6.0	6.1
- Other products	3.7	1.0	5.8	6.1	6.9
OPM	11.1	10.8	11.0	11.2	11.2
Pretax margin	11.4	11.1	11.8	12.1	12.1
NPM (to owners of the company)	9.0	8.4	9.0	9.2	9.2
Return ratios (%)					
ROAA	16.2	14.0	15.7	15.9	15.4
ROAE	25.2	23.7	27.5	26.8	24.5
Liquidity ratio (x)					
Current ratio	1.2	1.2	1.2	1.5	1.6
Quick ratio	0.7	0.6	0.8	0.8	1.1
Cash ratio	0.4	0.2	0.5	0.5	0.7
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	35	46	51	57	55
Days of outstanding payable	21	27	26	24	25
CCC	15	21	27	34	32
Leverage ratios (%)					
Total debt to Total equity	14.6	33.2	30.1	22.3	17.0
Total debt to Total assets	8.9	19.1	17.1	13.9	11.0
Net (cash)/debt to Total equity	(11.4)	19.8	(0.8)	(2.1)	(16.2)
Net (cash)/debt to Total assets	(6.9)	11.4	(0.5)	(1.3)	(10.5)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim +7\%$)
Sell	Stock return $<$ - Market return ($\sim -7\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-23 averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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