

Nongfu Spring (9633 HK)

Better growth outlook in 2H22

- Higher revenue growth expected in 2H22, supported by recovering consumer market post COVID resurgence; low growth in 1H22 would weigh on full-year revenue
- Rising raw material costs, especially polyethylene terephthalate (PET) costs, would weigh on margins in 2H22 and FY22E
- Maintain **BUY**; current TP represents 74.07x/61.16x 22E/23E P/E, or 27.48x/21.64x 22E/23E P/B

Revenue growth to accelerate in 2H22. 1H22 revenue grew 9.4% YoY. Revenue growth in the tea beverage segment was at 51.5% YoY, the highest among all segments; revenue of packaged drinking water, functional beverage, and juice beverage segments grew steadily by 4.8% YoY, 1.0% YoY, and 4.1% YoY in 1H22. We attribute the high growth of tea beverage segment to new product launch and consumer preference towards products catering to health and wellness amid COVID. The spike of COVID has curbed sales in the functional beverage segment due to restricted outdoor activities. As the pandemic abates and consumer market continues to recover in 2H22, growth momentum would resume. We project FY22E revenue growth of 14.3% YoY. Revenue of tea beverage, in our view, would be a major growth driver expanding by 30.4% YoY; growth in packaged drinking water and juice beverage would reach ~12% YoY while that of functional beverage products would be modest at 9.3% YoY due to the low growth in 1H22. Based on current projections, we expect 2H22 revenue growth to reach 19.5% YoY; segment revenue growth of packaged drinking water, tea beverage, functional beverage, and juice beverage would be 19.8% YoY, 11.1% YoY, 19.2% YoY, and 18.0% YoY.

Rising raw material costs to pressure 2H22 margins. 1H22 GPM and NPM (to shareholders of the Company) were 59.3% and 27.8% in 1H22 vs. 60.9% and 26.4% in 1H21. GPM declined YoY on rising raw material costs, while net margin improved as SG&A expenses/revenue ratio dropped and foreign exchange gain & interest income increased. We expect rising raw material costs in 2H22, especially PET costs, would cramp margins in FY22E, though we expect higher operating cost efficiency may mildly dilute such impacts. We project GPM and NPM (to shareholders of the Company) to decline to 56.9% and 21.9% in FY22E from 59.5% and 24.1% in FY21, and would reach 58.7% and 23.3% in FY24E. Based on current projections, 2H22 GPM and NPM (to shareholders of the Company) would reach 54.6% and 16.2%.

Maintain BUY; TP at HK\$ 51.3. We project basic EPS to grow 3.1% YoY for FY22E; FY21-24E basic EPS CAGR would be 14.3% on higher sales growth and better margins in FY23E/24E. Maintain **BUY**. We raise the DCF-derived TP to reflect the higher profit estimates. Current TP represents 74.07x/61.16x 22E/23E P/E, or 27.48x/21.64x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Commodity price risk; 4) Regulation risk; 5) Food safety risk; 6) Limitation of water sources; 7) Product concentration risk; 8) Changing consumer taste in China; 9) Fluctuations in EPS growth.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	22,877	29,696	33,954	39,608	46,196
Chg (YoY %)	(4.8)	29.8	14.3	16.6	16.6
Net Profit – to shareholders of the Company (RMB mn)	5,277	7,162	7,423	8,991	10,742
Chg (% YoY)	6.6	35.7	3.7	21.1	19.5
Basic EPS (RMB)	0.48	0.64	0.66	0.80	0.96
Chg (YoY %)	4.3	33.3	3.1	21.1	19.5
P/E (x)	84.05	63.04	61.12	50.47	42.24
BVPS (RMB)	1.38	1.84	1.78	2.26	2.83
P/B (x)	29.29	21.88	22.67	17.86	14.25
Dividends (RMB)	0.17	0.45	0.26	0.32	0.38
Dividend yield	0.4	1.1	0.7	0.8	0.9
ROAA (%)	24.2	24.4	22.1	24.4	24.2
ROAE (%)	41.6	39.5	36.4	39.6	37.5

Source(s): The Group, ABCI Securities estimates

Company Report

Sep 2, 2022

Rating: **BUY**
 TP: HK\$ 51.3

Analyst: Paul Pan
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Share price (HK\$)	45.80
52WK H/L (HK\$)	52.7/32.35
Est. share price return	12.0%
Est. dividend yield	0.7%
Est. total returns	12.7%
Previous rating/TP	BUY/HK\$ 48.8
Previous report date	Apr 7, 2022

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)	230.6
Total mkt cap (HK\$ bn)	515.1
3-mth avg. ADT (HK\$ mn)	177.4

Major shareholder (%)

Zhong Shanshan	65.0
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Source(s): Bloomberg, HKEX

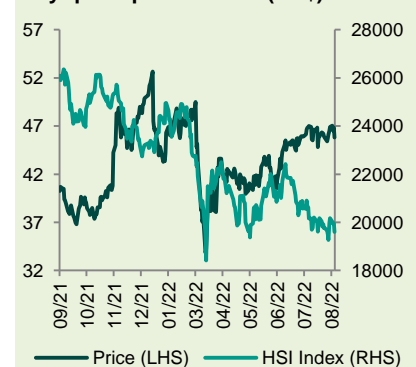
Price performance (%)

	Absolute	Relative*
1-mth	(2.35)	0.47
3-mth	5.77	13.75
6-mth	(7.47)	6.43

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-yr price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: 1) market data as of Sep 1, 2022;
 2) RMB/HKD: 1.1352.



Exhibit 1: Changes in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	12.3	7.9	9.8	6.5	Adjusted based on 1H21 rates
D/A (%)	7.2	5.1	6.3	4.5	
Tax rate (%)	23.4	23.4	23.4	23.4	
Valuations					
TP (HK\$)	51.3		48.8		Higher TP is due to higher profit projections
P/E (x)	74.07	61.16	60.42	49.85	
P/B (x)	27.48	21.64	17.72	14.61	

Note: Previous report was published on Apr 7, 2022

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (RMB mn)	33,954	39,608	46,196	34,048	39,597	46,223	(0.3)	0.0	(0.1)
Net profit (to shareholders of the Company) (RMB mn)	7,423	8,991	10,742	7,385	8,950	10,618	0.5	0.5	1.2
EPS (RMB)	0.66	0.80	0.96	0.66	0.80	0.94	0.5	0.5	1.2

Source(s): ABCI Securities estimates



Financial statements of the Group

Consolidated income statement

FY ends at Dec 31 (RMB mn, except for per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	22,877	29,696	33,954	39,608	46,196
Packaged drinking water products	13,966	17,058	19,103	21,636	24,613
Tea beverage products	3,088	4,579	5,969	7,800	10,014
Functional beverage products	2,792	3,695	4,040	4,542	5,115
Juice beverage products	1,977	2,614	2,915	3,335	3,816
Other products	1,054	1,750	1,927	2,294	2,638
Cost of sales	(9,369)	(12,040)	(14,644)	(16,639)	(19,085)
Gross profit	13,508	17,656	19,310	22,968	27,111
Selling expenses	(5,511)	(7,233)	(8,306)	(9,683)	(11,305)
Admin expenses	(1,324)	(1,751)	(1,994)	(2,318)	(2,713)
Others net income/gain	392	735	739	823	975
Net finance costs	(79)	(53)	(57)	(47)	(40)
Pretax profit	6,986	9,354	9,692	11,743	14,029
Tax	(1,709)	(2,193)	(2,269)	(2,752)	(3,287)
Net profit	5,277	7,162	7,423	8,991	10,742
- Owners	5,277	7,162	7,423	8,991	10,742
- MI	0	0	0	0	0
Dividend	1,912	5,061	2,969	3,596	4,297
EPS (RMB)					
- Basic	0.48	0.64	0.66	0.80	0.96
- Diluted	0.48	0.64	0.66	0.80	0.96
DPS (RMB)	0.17	0.45	0.26	0.32	0.38

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Bank balances and cash	9,119	14,784	14,752	19,367	28,355
Prepayments, other receivables and other assets	910	558	578	1,622	434
Trade and bills receivables	358	476	464	641	643
Inventories	1,805	1,809	3,078	2,355	3,945
Others	0	208	0	0	0
Current assets	12,192	17,836	18,872	23,984	33,377
PP&E	12,592	12,800	13,018	13,163	13,275
Right-of-use assets	695	724	716	732	740
Intangible assets	58	65	63	64	65
Others	324	1,471	1,715	1,494	1,931
Non-current assets	13,668	15,060	15,512	15,452	16,011
Total assets	25,859	32,896	34,384	39,436	49,388
Trade and bills payables	882	1,153	1,392	1,460	1,834
Other payables and accruals	3,322	4,488	5,089	5,748	6,708
Contract liabilities	2,247	2,351	3,779	2,863	5,181
ST bank borrowing	2,414	2,500	2,375	1,900	1,520
Others	960	1,097	1,121	1,511	1,639
Current liabilities	9,825	11,589	13,757	13,481	16,882
Deferred income	267	265	286	273	274
Deferred tax liabilities	234	258	281	227	328
Lease liabilities	41	43	48	50	53
Non-current liabilities	542	566	615	549	655
Shareholders' equity	15,492	20,742	20,012	25,406	31,851
MI	0	0	0	0	0
Total equity	15,492	20,742	20,012	25,406	31,851
Total liabilities and equity	25,859	32,896	34,384	39,436	49,388

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	6,986	9,354	9,692	11,743	14,029
Depreciation and amortization	1,925	2,378	2,342	2,673	3,111
Change in working capital	709	1,686	1,198	(688)	3,248
Others	(1,191)	(2,018)	(2,058)	(2,612)	(3,074)
Cash flow from operating activities	8,429	11,400	11,175	11,115	17,314
Change of P&E and right-of-use assets	(2,193)	(2,461)	(2,673)	(2,564)	(2,847)
Change in intangible assets	(11)	(15)	2	(1)	(2)
Others	(2,453)	(2,839)	61	(1,339)	(2,657)
Cash flow from investing activities	(4,657)	(5,316)	(2,610)	(3,903)	(5,506)
Change in borrowing	1,414	86	(475)	(380)	(304)
Net proceeds from IPO	8,314	0	0	0	0
Others	(8,012)	(1,980)	(7,948)	(3,515)	(5,072)
Cash flow from financing activities	1,716	(1,893)	(8,423)	(3,895)	(5,376)
Net change in cash	5,488	4,191	142	3,317	6,432
ForEx Impact	(215)	(59)	(3)	(87)	(140)
Cash and cash equivalent - end	6,056	10,188	10,327	13,557	19,849

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	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	(4.8)	29.8	14.3	16.6	16.6
Packaged drinking water products	(2.7)	22.1	12.0	13.3	13.8
Tea beverage products	(1.6)	48.3	30.4	30.7	28.4
Functional beverage products	(26.1)	32.3	9.3	12.4	12.6
Juice beverage products	(14.4)	32.2	11.5	14.4	14.4
Others	136.0	66.0	10.1	19.0	15.0
Gross profit	1.5	30.7	9.4	18.9	18.0
Pretax profit	7.5	33.9	3.6	21.2	19.5
Net profit (to shareholders of the Company)	6.6	35.7	3.7	21.1	19.5
Profitability ratios (%)					
GPM	59.0	59.5	56.9	58.0	58.7
Pretax margin	30.5	31.5	28.5	29.6	30.4
NPM (to shareholders of the Company)	23.1	24.1	21.9	22.7	23.3
Return ratios (%)					
ROAA	24.2	24.4	22.1	24.4	24.2
ROAE	41.6	39.5	36.4	39.6	37.5
Liquidity ratio (x)					
Current ratio	1.2	1.5	1.4	1.8	2.0
Quick ratio	1.1	1.4	1.1	1.6	1.7
Cash ratio	0.9	1.3	1.1	1.4	1.7
Working capital turnover (days)					
Receivable turnover	5	5	5	5	5
Inventory turnover	69	55	61	60	60
Payable turnover	33	31	32	31	32
Cash conversion cycle	42	29	34	33	34
Leverage ratios (%)					
Total debt to Equity	15.9	12.5	12.3	7.9	5.1
Total debt to Total assets	9.5	7.9	7.2	5.1	3.3
Net debt/(cash) to Equity	(42.9)	(58.8)	(61.4)	(68.4)	(83.9)
Net debt/(cash) to Total assets	(25.7)	(37.1)	(35.7)	(44.0)	(54.1)

Source(s): The Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: 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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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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