



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Consumer Sector

Caution on market volatility
despite better policy environment





China Consumer Sector

Caution on market volatility despite better policy environment

- Newly launched policy initiatives to support the economy would benefit the recovery of consumer confidence and market demand
- Willingness to consume to support strong recovery if conditions turn favorable
- Low inflationary pressure leaves room for policy implementation
- Share price volatility to increase post market rebound
- **OVERWEIGHT** sector rating; favor high-quality or leading players

Weakened consumer market to be supported by new policy initiatives. Since late Sep 2024, new policies have been launched to support the national economy. Some of the policies have indirect impacts on consumer market, while some aim at stimulating consumption, such as the consumption voucher programs launched in Shanghai and Sichuan. We believe these new policies would support the weakened consumer market and potentially lay the groundwork for better recovery.

Willingness to consume to back future recovery. Despite the weakening growth in retail sales and per capita income, we believe the willingness to consume or spend remains stable among consumers in China, which is demonstrated by the PBOC urban depositor survey. In our view, the potential for consumer market recovery remains unscathed. Once the macroeconomic challenges are resolved and consumers' ability to spend strengthens, the recovery process would accelerate.

Low inflation leaves room for policy implementation. Inflationary pressure has been low and trending down in recent months, despite uptick in certain food products. We expect low inflationary pressure to leave room for implementation of policies announced recently and additional stimulus measures in the future.

Expect more volatility post market rebound. The latest policies launched have fueled investor confidence and stock market valuation, but be aware of volatility ahead as the impacts of the new policy initiatives require time to realize and investors would gradually shift focus back to company fundamentals, corporate actions such as listing of subsidiaries and M&A, and price movements of major commodities.

Sector recommendations. Sector rating remains **OVERWEIGHT**, reflecting our confidence in the sector's prospects and improved policy environment. Allocation to high-quality or leading companies remains our preferred strategy.

Risk factors: 1) Policy risk; 2) Macroeconomic risk; 3) Raw material cost risk; 4) Rising value conscientiousness among consumers; 5) Shifting market sentiment; 6) Long-term structural change in demographics.

Sector Report

Oct 9, 2024
Overweight

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Key Data

Avg. 24E P/E (x)	19.6
Avg.24E P/B (x)	2.6
Avg.24E Dividend Yield (%)	3.8

Source(s): Bloomberg, ABCI Securities

Sector Performance (%)

	Absolute	Relative*
1-mth	20.6	0.6
3-mth	18.5	1.0
6-mth	3.8	(21.3)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Sector Top Pick Valuation Summary

Company	Ticker	Rating	Pricing Currency	Price	TP	P/E(x)		P/B (x)		Div. Yield (%)		ROAE(%)	
						24E	25E	24E	25E	24E	25E	24E	25E
Anta	2020 HK	BUY	HK\$	96.55	116.0	20.2	17.3	4.4	3.8	2.6	2.9	22.8	23.7
WH Group	288 HK	BUY	HK\$	6.13	7.0	8.6	7.3	1.0	0.9	4.1	4.8	11.5	12.6
YUM China	YUMC US	BUY	US\$	47.09	62.3	21.1	19.0	3.0	2.7	1.4	1.4	13.8	14.9
	9987 HK	BUY	HK\$	346.8	483.9	20.0	18.0	2.9	2.5	1.4	1.4		
New Oriental	EDU US	BUY	US\$	75.78	93.7	31.4	23.2	3.0	2.6	0.8	0.0	9.9	12.0
	9901 HK	BUY	HK\$	56.55	72.8	30.2	22.3	2.9	2.5	0.8	0.0		
Nongfu Spring	9633 HK	BUY	HK\$	31.2	45.8	25.7	22.3	10.1	8.0	1.9	2.2	41.2	40.1
Amer	AS US	BUY	US\$	18.35	22.6	53.4	33.6	2.2	2.1	0.0	0.0	8.6	6.4
Mengniu	2319 HK	HOLD	HK\$	17.86	18.3	14.7	12.3	1.4	1.3	3.0	3.8	9.6	10.8
Yili	600887 CH	HOLD	RMB	28.96	29.3	15.2	15.8	3.2	3.0	4.7	4.5	21.8	19.7
Shuanghui	000895 CH	HOLD	RMB	26.80	27.1	17.2	16.7	4.4	4.2	5.2	5.4	25.6	25.8

Note:

1) Data as of Oct 8, 2024;

2) US\$/HK\$=7.7668; RMB/HK\$ = 1.0978;

3) New Oriental's FY ends in May, and its valuation multiples and forecasting figures are for FY25E and FY26E.

Source(s): Bloomberg, ABCI Securities estimates

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Faltering consumption growth momentum

Macro data shows further weakening of consumption

The growth momentum of national retail sales is faltering. Growth of national retail sales declined to 2.1% YoY in Aug 2024 from 2.7% YoY in Jul 2024. YTD growth of online retail sales declined to 8.9% YoY in Aug 2024 from 9.5% YoY in Jul 2024, and has been on a downtrend since Jun 2024.

Catering retail sales grew by 3% YoY and 3.3% YoY in Jul 2024 and Aug 2024. Catering retail sales generated from enterprises above designated size declined by 0.7% YoY and grew by 0.4% in Jul 2024 and Aug 2024, and has not recorded YoY decline since the beginning of 2023.

Retail sales of goods also saw similar patterns. Overall retail sales of goods maintain low single-digit growth in Jun – Aug 2024, but retail sales of goods generated from enterprises above designated sizes saw YoY decline during the same period.

Growth rates of major product categories retail sales have been uneven. Some show fluctuations in recent months. “Grain, Oil, Foodstuff” products has been achieving consistently high growth compared to other product categories. “Clothes, shoes, hats, and textiles”, “Cosmetics”, “Gold, Silver and Jewelry”, “Cultural and Office Appliances”, “Automobile”, and “Building and Decoration Materials” experienced consecutive decline in the past three months.

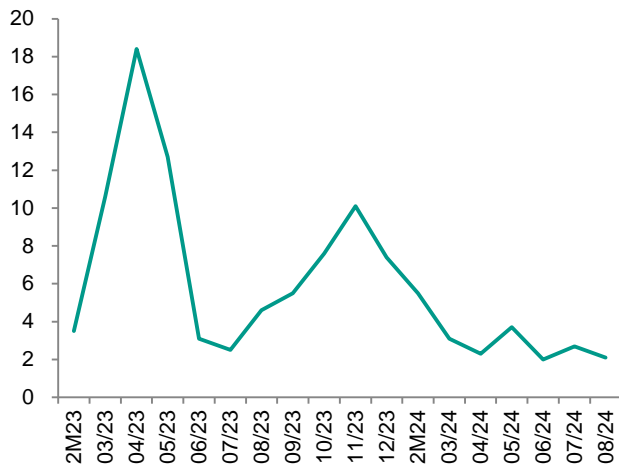
In terms of offline store format, retail sales of department stores has been declining since beginning of this year, while retail sales of specialty stores has been declining since Apr 2024. We believe the decline in these two store formats reflects consumers’ shifting consumption behavior, such as seeking deals on e-commerce platforms and cutting back on discretionary spending.

The growth in rural region has been outperforming that of urban region. The YoY retail sales growth gap between rural and urban region exceeded 2ppt in Jun – Aug 2024. This difference highlights the stronger purchasing power and better consumer sentiment in the rural region, which can be attributed to the lower level of cost of living and the lower household expenditures associated with housing.

Weakening retail sales growth momentum signals consumer sentiment is turning more conservative and overall consumption level is also shrinking. We believe, in the short term, consumers would continue to maintain strong value consciousness move away from unnecessary purchases, and downgrade their consumption choices.

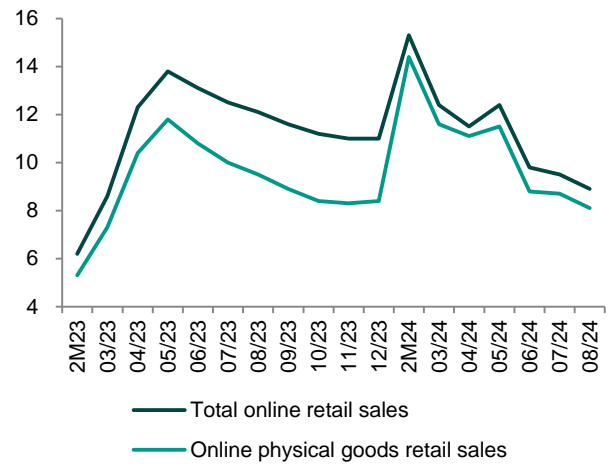
We believe the current state of the consumer market is caused by the persistent macroeconomic challenges and the resulting uncertainty in income growth trajectory and job market environment. We expect once the macroeconomic challenges are resolved and consumers have a more positive outlook on their income and employment situation, consumer market would resume recovery and market confidence would be restored.

Exhibit 1: National retail sales (YoY %)



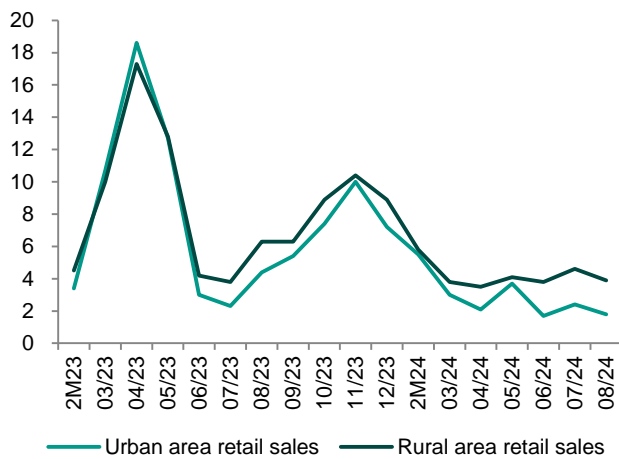
Source(s): NBS, ABCI Securities

Exhibit 2: Online retails sales (YTD YoY %)



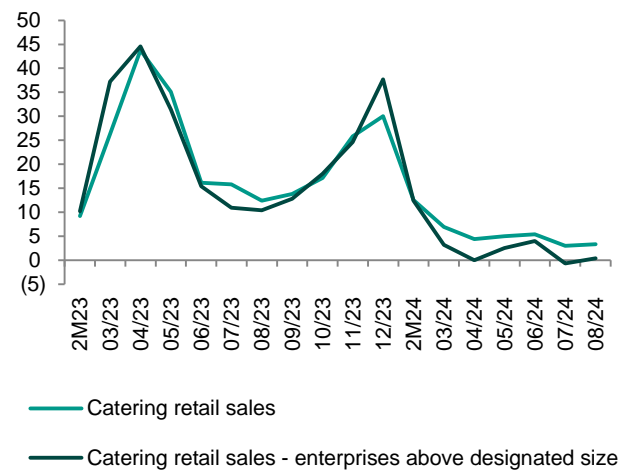
Source(s): NBS, ABCI Securities

Exhibit 3: Retail sales by region (YoY %)



Source(s): NBS, ABCI Securities

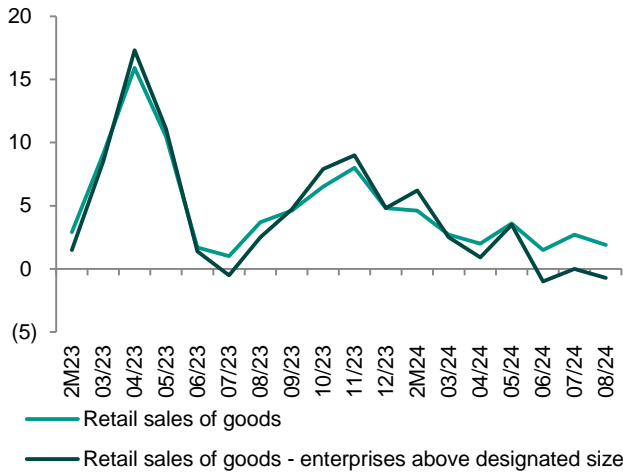
Exhibit 4: Catering retail sales (YoY %)



Source(s): NBS, ABCI Securities

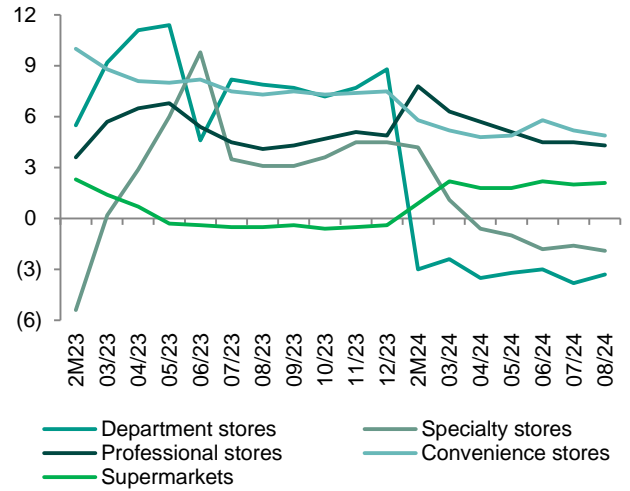


Exhibit 5: Retail sales of goods (YoY %)



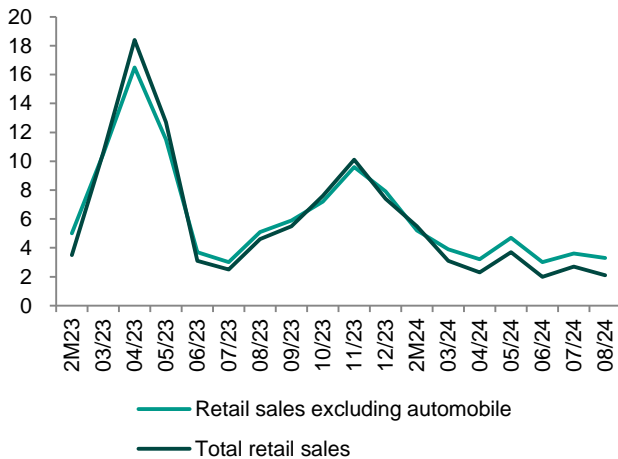
Source(s): NBS, ABCI Securities

Exhibit 6: Retail sales by store format (YTD YoY %)



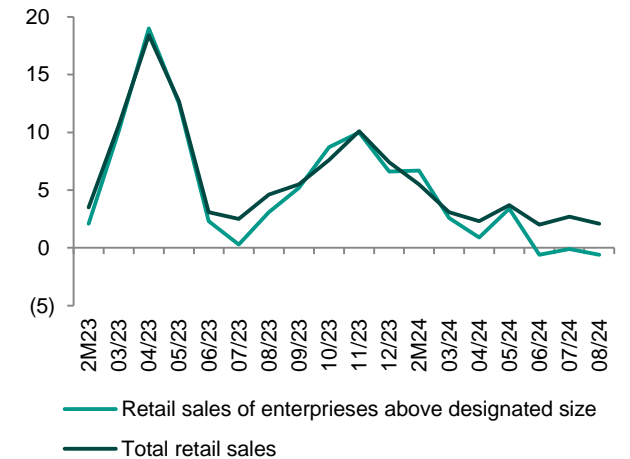
Source(s): NBS, ABCI Securities

Exhibit 7: National retail sales ex. automobile (YoY %)



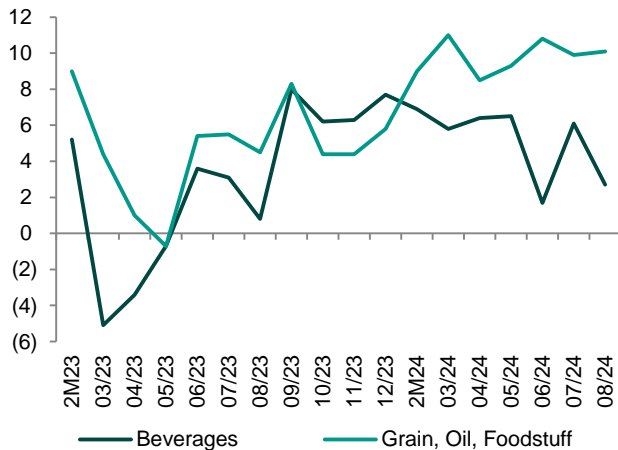
Source(s): NBS, ABCI Securities

Exhibit 8: National retail sales of enterprises above designated size (YoY %)



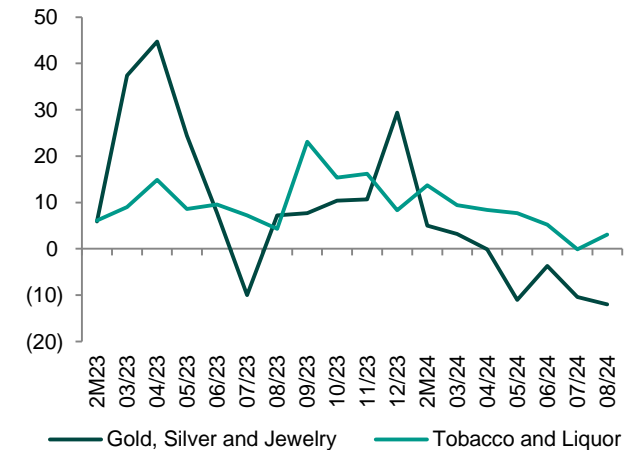
Source(s): NBS, ABCI Securities

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



Source(s): NBS, ABCI Securities

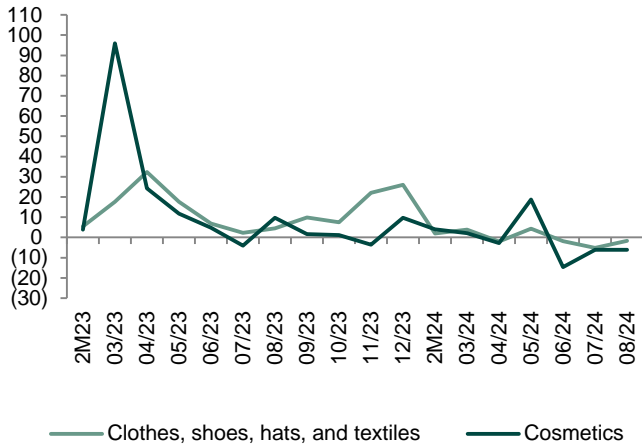
Exhibit 10: Retail sales of selected goods (YoY %)



Source(s): NBS, ABCI Securities

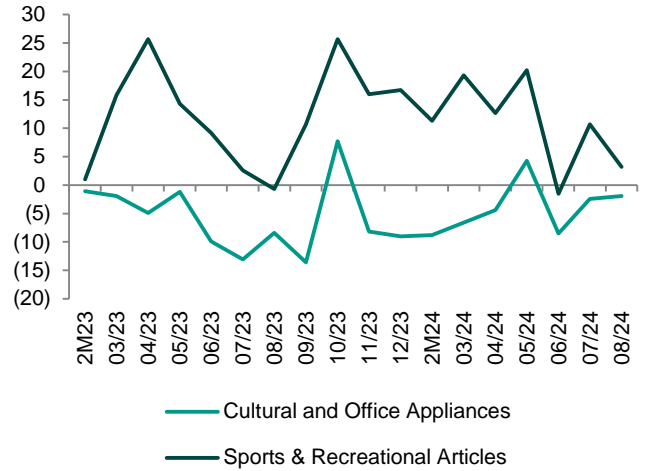


Exhibit 11: Retail sales of selected goods (YoY %)



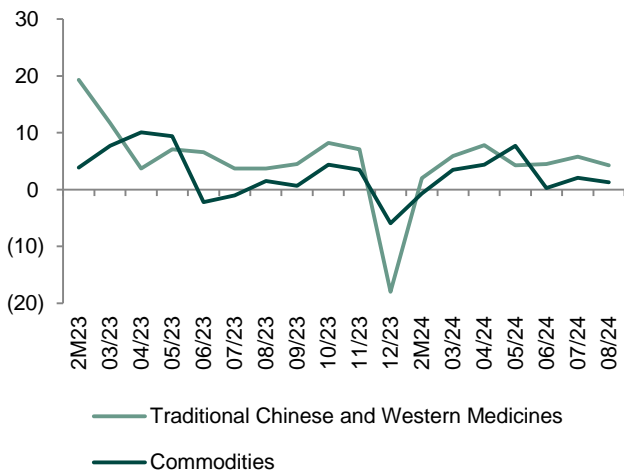
Source(s): NBS, ABCI Securities

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



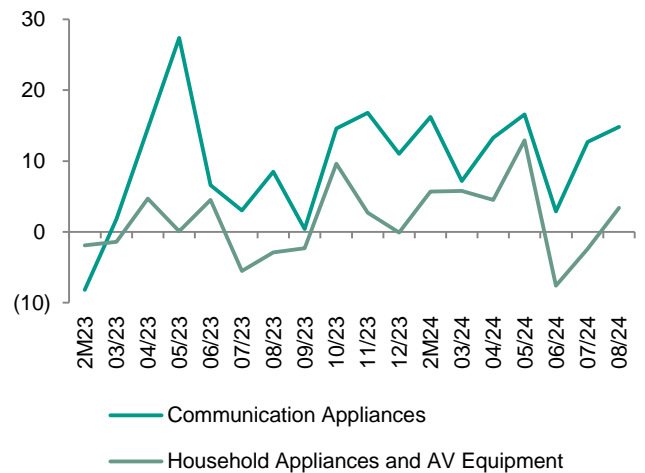
Source(s): NBS, ABCI Securities

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



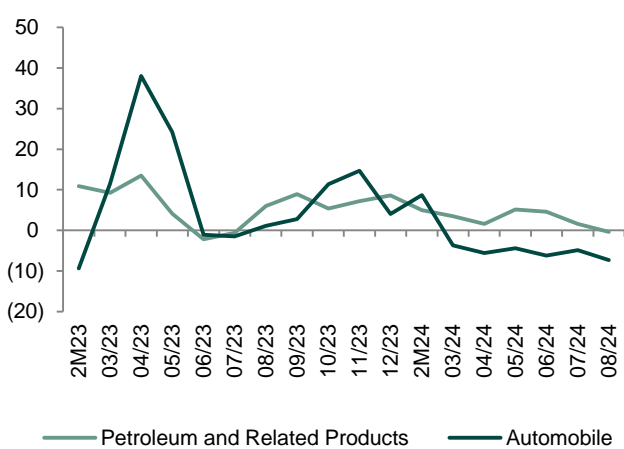
Source(s): NBS, ABCI Securities

Exhibit 14: Retail sales of selected goods (YoY %)



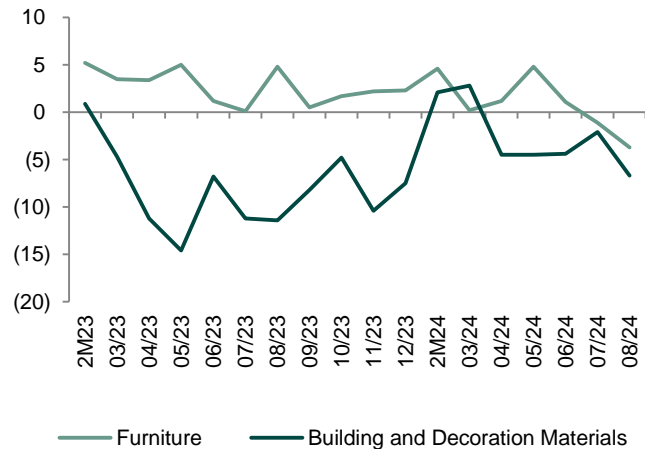
Source(s): NBS, ABCI Securities

Exhibit 15: Retail sales of selected goods (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 16: Retail sales of selected goods (YoY %)



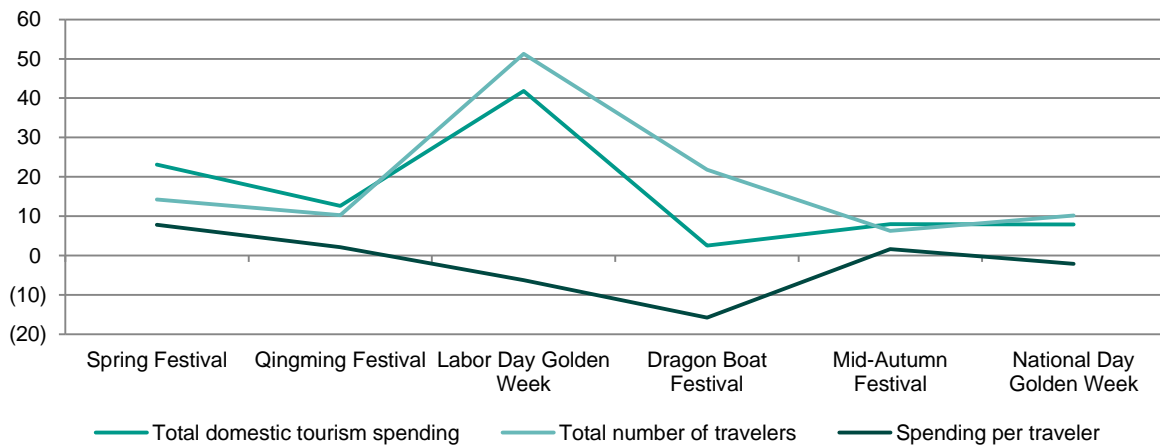
Source(s): NBS, ABCI Securities

Dimming consumption bright spots

In late 2023, The Ministry of Commerce (MOFCOM) designated 2024 to be the “Year Of Consumption Promotion” (消费促进年). Key measures were announced to generate more growth momentum for several consumption bright spots, including tourism and online consumption.

Total tourism spending and total number of tourists saw significant rebound after the reopening in early 2023 and also experienced relatively high growth during the Spring Festival and in early 2024, fueling market expectation in this consumer market sub-segment. However, average spending of domestic tourist during Labor Day Golden Week, Dragon Boat Festival holiday, and National Day Holiday declined in 2024 compared to the same holiday periods in 2019. In addition, growth in total tourism spending, total number of travelers, and average spending per traveler saw growth contraction since 1Q24. We believe conservative spending behavior among consumers is also affecting tourism spending.

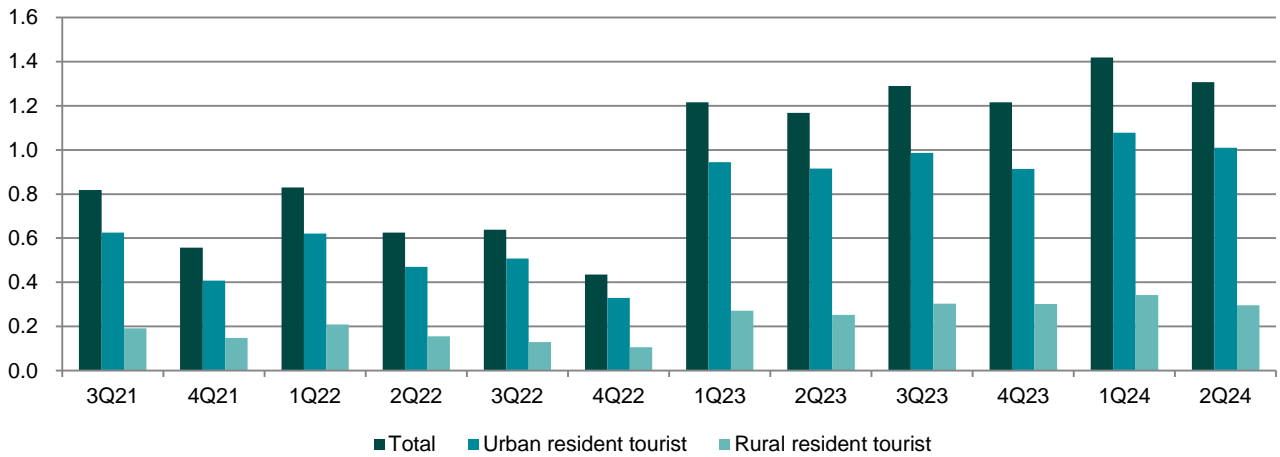
Exhibit 17: Change of total domestic tourism spending, total number of domestic tourists, and average spending per tourist during major holidays (2024 vs. 2019)



Source(s): Ministry of Culture and Tourism, central government announcements, ABCI Securities

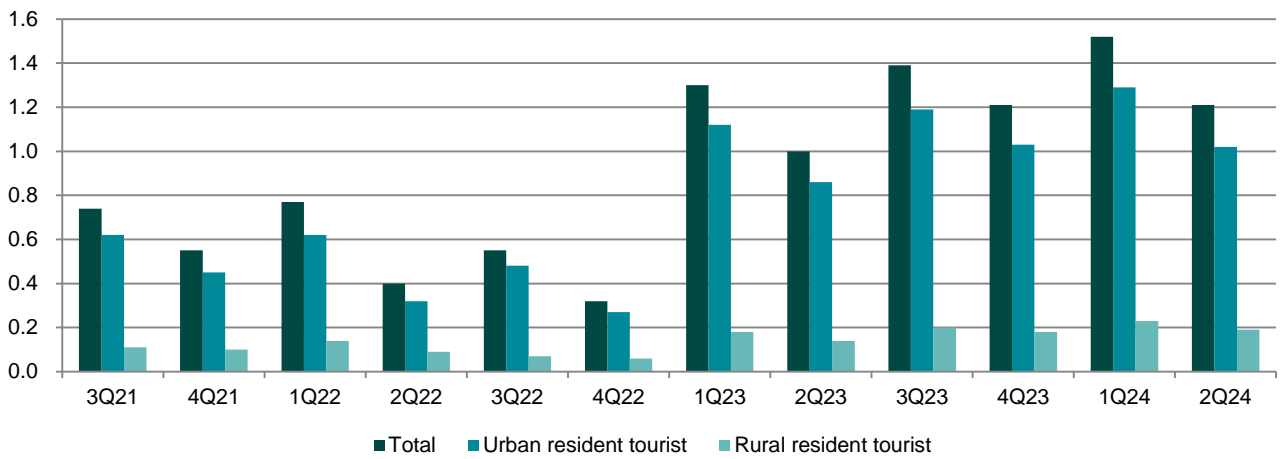


Exhibit 18: Number of domestic tourist (bn)



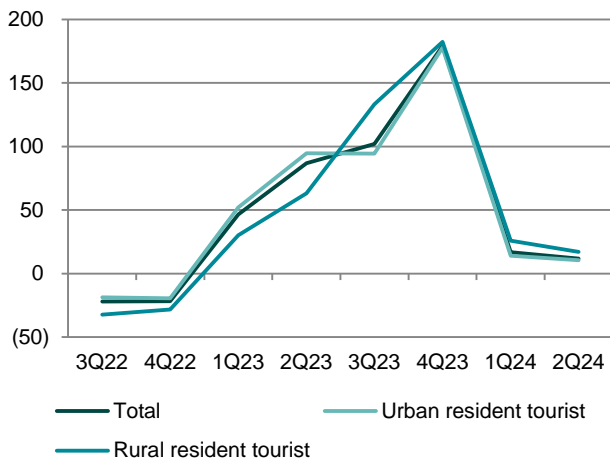
Source(s): Ministry of Culture and Tourism, ABCI Securities

Exhibit 19: Domestic tourism spending (RMB tn)



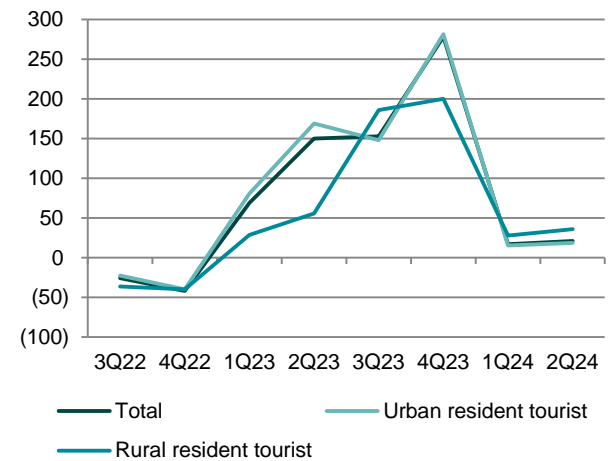
Source(s): Ministry of Culture and Tourism, ABCI Securities

Exhibit 20: Change of number of domestic tourists (YoY %)



Source(s): Ministry of Culture and Tourism, ABCI Securities

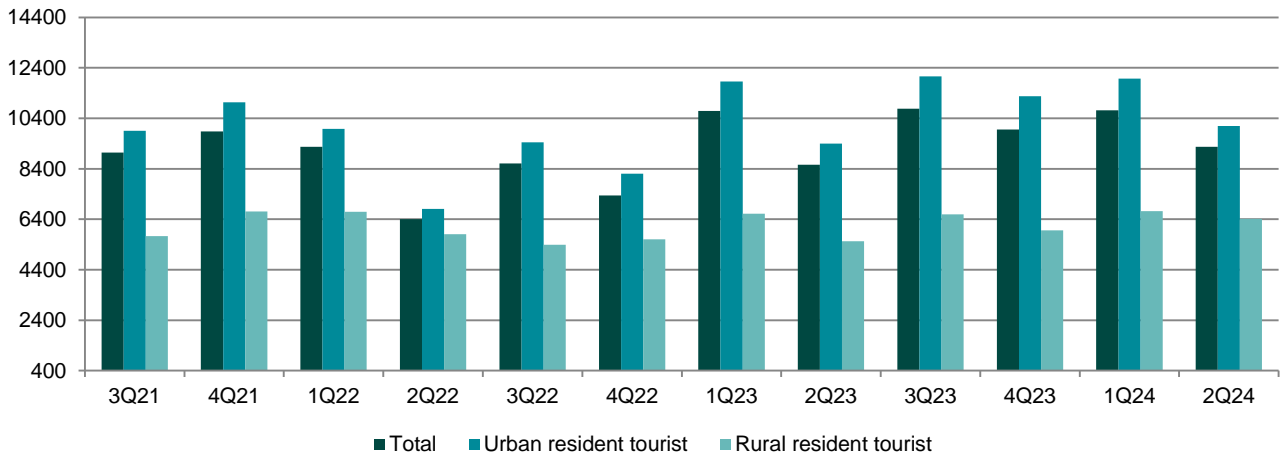
Exhibit 21: Change of domestic tourism spending (YoY %)



Source(s): Ministry of Culture and Tourism, ABCI Securities

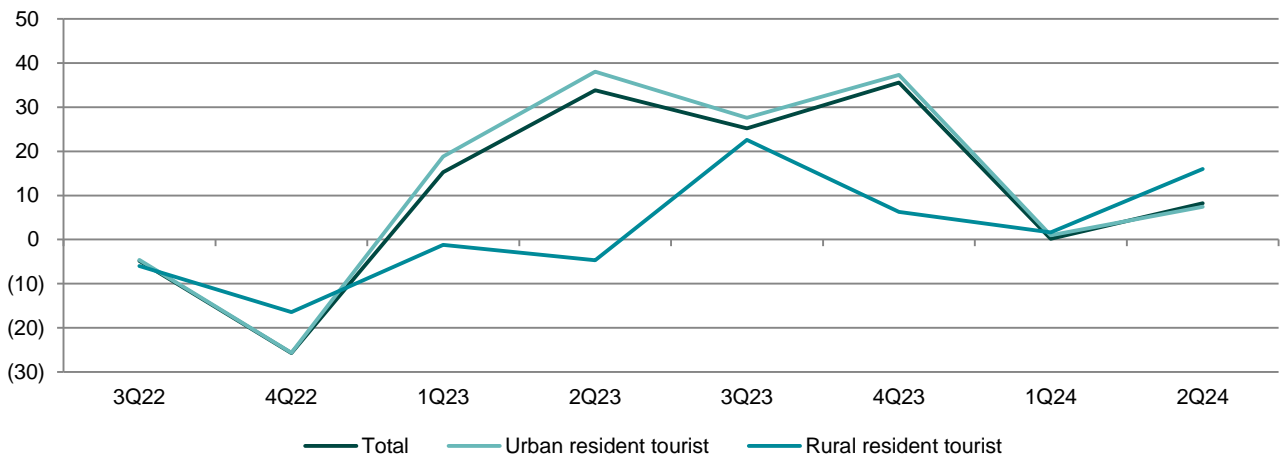


Exhibit 22: Average spending per domestic tourist (RMB)



Source(s): Ministry of Culture and Tourism, ABCI Securities

Exhibit 23: Change of average spending per domestic tourist (YoY %)

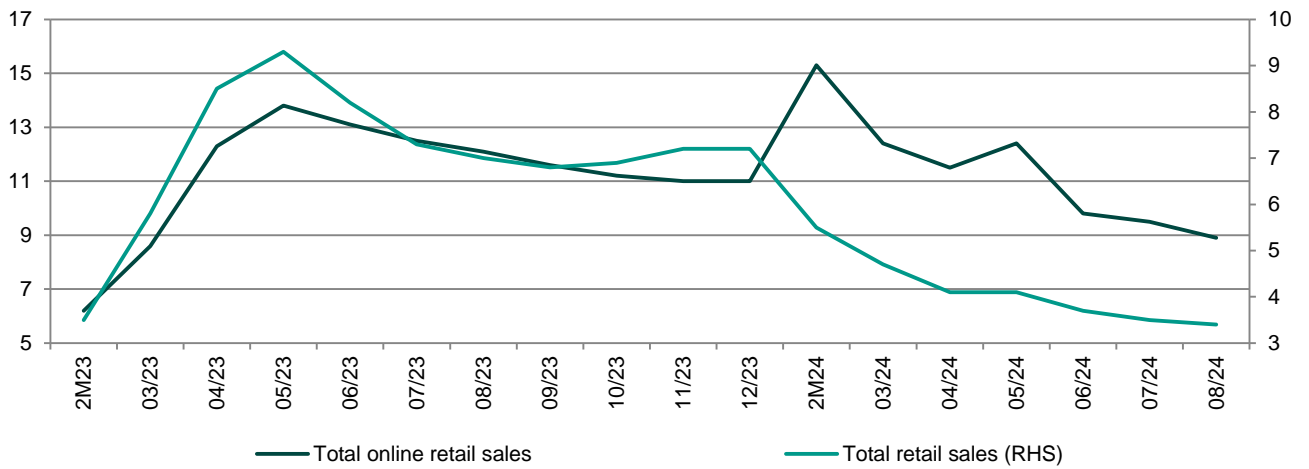


Source(s): Ministry of Culture and Tourism, ABCI Securities

Online consumption has been a major driver for consumption growth, but the growth momentum has been faltering. The total online retail sales growth dropped by 6.4ppt from 15.3% YoY in 2M24 to 8.9% YoY in 8M24, while total retail sales growth dropped by 2.1ppt from 5.5% YoY in 2M24 to 3.4% YoY in 8M24. In addition, food product has been the leading product category among those in the online physical retail sales in terms of YTD growth. The data shows consumers' conservative consumption behavior has negatively impact online retail sales, despite the rising bargain hunting activities among consumers on certain e-commerce platforms.

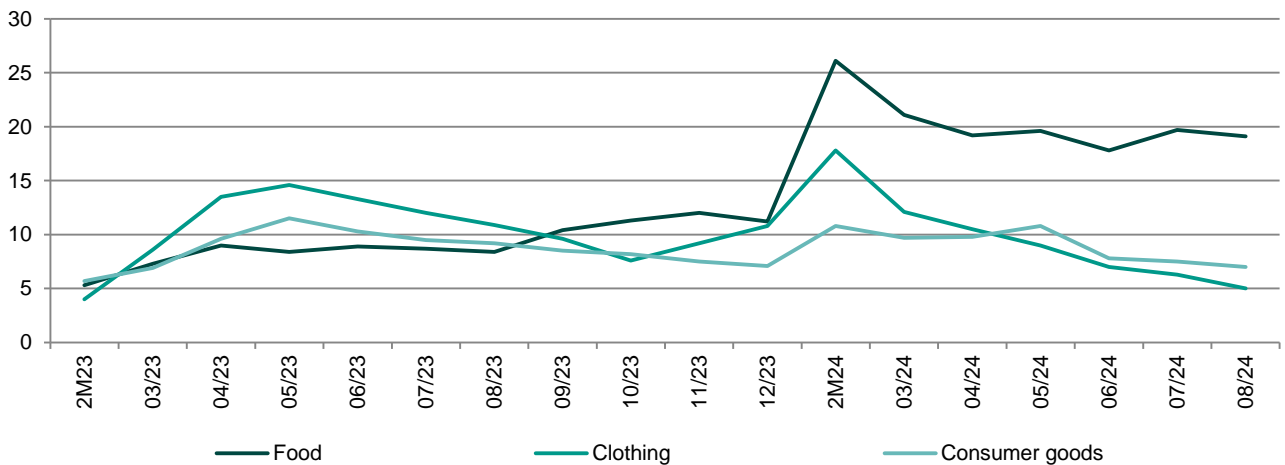


Exhibit 24: Online retail sales vs. total retail sales (YTD YoY %)



Source(s): NBS, ABCI Securities

Exhibit 25: Growth of product categories – online retail sales of physical goods (YTD YoY %)



Source(s): NBS, ABCI Securities

We believe the relatively weak per tourist spending and the faltering growth momentum of online retail sales signals the consumer market recovery remain fragile. More policy measures to support and accelerate the recovery process are needed to reverse the potential downward spiral in consumer market growth and consumer expectations.

Strong policy portfolio to benefit sector recovery

Recent policy measures were beyond market expectation

Since late Sep 2024, a slew of policy measures to support the national economy were announced. On Sep 24, 2024, the PBOC announced several major monetary policy measures to stimulate macroeconomic development. These measures include rate cuts and lowering the down payment ratio or mortgage rate for home purchase. While these measures are not directly targeting the consumer market, we believe that they would elevate consumer confidence by injecting more liquidity to support business enterprises, reducing households' financial burden on mortgage payments, and stabilizing real estate sector and the economy at large.

Exhibit 26: Monetary and real estate measures announced

7-day reverse repo rate to be lowered by 20bps; the new rate would be at 1.5%

Reserve requirement ratio (RRR) to be lower by 0.5%

1-yr MLF rate to be lowered by 30bps

Mortgage rates on existing homes would be lowered

- mortgage rate for first and second home to be cut by 50bps
- all commercial banks must lower interest rates on all existing mortgages by Oct 31 to no less than 30bps below PBOC's loan prime rate

Down payment ratio for second home purchase would be lowered to 15%

Loan prime rate and deposit rate would be lowered

Source(s): PBOC, central government announcements, ABCI Securities

The Sep 24 policy announcements kicked off the latest round of policy measures launch. Easing measures on home purchase restrictions by local governments were announced. In addition, several policy documents cover measures that directly stimulate consumption and address some deep-rooted macroeconomic challenges hindering consumer market recovery. We believe the current policy approach has exceeded market expectations, fueling the recent rebound in stock market. We believe they clearly demonstrate the government's willingness and determination in reviving the national economy

On Sep 25, 2024, State Council issued "Opinion on Promoting High-Quality and Sufficient Employment by Implementing the Employment-First Strategy" (《关于实施就业优先战略促进高质量充分就业的意见》) to address challenges surrounding job creation, income growth stimulation, job security, and rights protections of employees. We believe this policy document is the first step in the right direction to create stable employment outlook among consumers, which has been a major source of low consumer confidence and the conservative spending behavior. However, we expect more detailed measures to be announced by the central and local governments, given the "Opinion" is more on the macro-level policy framework and design.

In addition, several city and provincial governments have launched new rounds of consumption vouchers programs. Most notably, new rounds of consumption voucher programs launched by Shanghai NDRC and Sichuan Provincial Government are of the size of RMB 500mn and RMB 400mn, respectively. Shanghai's Consumption Voucher Program targets four major areas of service consumption, including catering consumption, accommodation consumption, movie consumption, and sports activities consumption. Sichuan's Consumption Voucher Program targets mainly consumption of home renovation products. To further support the dairy sector, Ministry of Agriculture and Rural Affairs (MOA), along with six other relevant authorities, issued "Notice On Stabilizing Beef And Dairy Product Production" (《稳定肉牛奶牛生产通知》), which includes measures to stabilize the national dairy production capacity, to decrease the cost of raising cattle and dairy cows, and to encourage local governments to launch consumption voucher programs on dairy products to drive up demand for dairy products.

Existing policy measures aided recovery

However, prior to the latest rounds of policies mentioned, both central and local authorities have been launching policies and programs to support the consumer market. In Jul and Aug 2024, Zhejiang and Jiangsu provincial government announced movie consumption voucher programs at RMB 28mn and RMB 30mn respectively, while some local government, such as Shenzhen, has consumption voucher programs that cover a wide range of consumption activities.

In late Aug 2024 and early Sep 2024, a number of local authorities announced their tailored supportive measures for further promoting consumer goods upgrade or renewal following the issuance of ultra-long special government bonds by the central government. The total funding from issuance of ultra-long special government bonds is RMB 300bn, with RMB 150bn being allocated to support consumer goods upgrade and renewal. Although the measures differ from each other, the support of upgrade of automobiles and home appliances is a common theme. In addition, the subsidy for these upgrades has been increased, and subsidy programs are designed to suit local needs. For example, Shenzhen City Government now has a subsidy program that covers the purchase of consumer electronics, such as smart wearable devices and mobile phones. The Hunan Provincial Government has a subsidy program for residents in cities and townships that have been recently affected by natural disasters.

In early Aug 2024, State Council issued "Opinions on Promoting High-quality Development of Service Consumption" (《关于促进服务消费高质量发展的意见》), which targets major areas of service consumption. "Education, tutoring, and training consumption" was one of the areas of focus to boost service consumption, and "instructing schools to introduce non-academic-subject after-school services

provided by third-party organizations with appropriate qualifications, through purchasing services and other means in accordance with relevant regulations” is listed as one of the measures. Some of the more frontier service consumption, such as “Green consumption” and “Digital consumption”, were also listed as areas of focus. Furthermore, this policy document states “to provide more market access in the service industry, continue to deepen the opening up of telecommunications, education, elderly care, medical care, wellness and other fields, and promote the full opening-up initiatives in scientific and technological services, tourism and other fields”. We believe this policy direction in service consumption would help cultivate a more opened and diverse market environment, which would in turn enable the market participants to create more growth opportunities.

In the Government Work report published in Mar 2024, a greater emphasis was placed on consumer market development and domestic demand stimulation, compared to the Government Report Published in previous years. In 2024, the central government plans to stimulate domestic demand, promote better circulation of the economy, and help realize consumption potential by increasing income, optimizing supply, and reducing restrictive measures.

Toward the end of 2023, MOFCOM designated 2024 as the “Year of Consumption” (消费促进年), emphasizing strategies such as 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 27: Excerpts from “Opinion on Promoting High-Quality and Sufficient Employment by Implementing the Employment-First Strategy”

Areas of focus	Details
Prioritize employment in macroeconomic policy adjustment	<ul style="list-style-type: none"> ➢ Prioritize and incorporate high-quality and full employment in social economic development and planning ➢ Promote the synergy among fiscal, monetary, industrial, pricing, and employment policy in order to increase the job opportunities created during economic development. ➢ Develop impact assessment mechanism of employment situation ➢ For major policy designs, project identification, or major productive force management, both job creation and unemployment risk assessment should be factored in, in order to create a positive feedback loop between economic development and job creation.
Enhance synergy between modern industrial complex and job creation	<ul style="list-style-type: none"> ➢ Design tailor-made strategy to develop new productive forces, transform and upgrade traditional industries, strengthen emerging industries, lay the foundation for future industries, accelerate development advanced manufacturing industrial clusters, and create more high-quality job positions. ➢ Implement producer service integrated development strategy, accelerate diversification of consumer service industry, and create the employment capacity in tertiary sectors. ➢ Further implement the strategy of rural vitalization, develop modern agricultural sector, enhance productivity in agricultural sector, and enhance the attractiveness of jobs in the agricultural sector.
Support business entities to stabilize and increase jobs available	<ul style="list-style-type: none"> ➢ State-owned enterprises should play a leading role in stabilizing the job market. ➢ Use a combination of policy tool kits of fiscal subsidy, tax incentives, financial support, and social security to guide various business entities to perform social responsibility of stabilizing the job market. ➢ Support the development of sectors and enterprises that are able to create jobs, and provide prioritized construction land provision, and supportive labor services to business entities capable of enhancing the employment situation.
Enhance regional employment capacity	<ul style="list-style-type: none"> ➢ Deepen the coordinated regional development strategy and major regional development strategy to accelerate the formation of a number of employment agglomerations and growth centers with integrated services, coherent policies and unimpeded channels. ➢ Direct funding, technology, and labor-intensive industries to move from eastern regions to mid-western regions, or from major cities to peripheral areas. ➢ Design policies to provide more resources and support to the economic development of old revolutionary base areas, border areas and resource-exhausted regions.
Cultivate new drivers for quality and capacity of employment	<ul style="list-style-type: none"> ➢ Expand employment capacity of digital economy; promote digitization of industries and digital economy industrialization. Support healthy development of platform economy, and increase job creation and job conversion in the transition period. ➢ Increase the new employment opportunities created in green industries, and promote the development of energy efficiency, decarbonization, environmental protection, and environmental rehabilitation to help create synergy between the industry development and job creations. ➢ Open up new areas in elderly care industry, develop the silver-hair economy, and promote deep integration of healthcare, elderly care, tourism, leisure, and food industries to create new drivers for job creation.
Improve the education system to meet evolving talent demand	<ul style="list-style-type: none"> ➢ Adapt to the latest technological and industrial evolution, use scientific methods to forecast evolution of talent demand, and achieve coordinated development of education system, training support, and employment. ➢ <u>For Higher education:</u> 1) Ensure high-quality development of higher education, expand enrollment capacity of majors in fields such as STEM, agricultural science, and medicine, and optimize program design based on social needs, industrial demand, and job market trend; 2) Graduate job placement would become an important base for resource allocation, education quality assessment, and enrollment planning. A “Red/Yellow Card” system would be in place to flag programs with low job placement quality. ➢ <u>For vocational education:</u> 1) Promote the education integration of secondary vocational school and high school, integration of industry and education, and merging of science and education, and cultivate more high-quality technical and skilled personnel; 2) Promote high-quality development of technical education, create a number of technical education alliances/groups, and establish a number of high-quality technical colleges and high-quality programs; 3) Integrate career education into higher education system; promote career awareness, enhance understanding of various career paths, and provide opportunities to explore and experience different vocations among high school students.
Improve the lifelong vocational skill training system	<ul style="list-style-type: none"> ➢ Implement the “China Skill Initiative”, expand the penetration of vocational skill training, and promote the modernized apprenticeship mechanism among corporations. ➢ Establish a skill training system that offers lifetime support for individuals. ➢ Enhance the construction of public practical skill training bases and public skilled personnel training bases. ➢ Encourage corporations to build practical skill training bases, and cultivate a vocational skill training market that is built upon market demand and supported by enterprises offering such training services. ➢ Provide guidance to corporations on full utilization of employee education funds in accordance with regulations, ensuring that more than 60% of the funds are used for the education and training of front-line workers. Such funds are also permitted to be used for the establishment of vocational schools (including technical colleges and institutes) by the enterprises.
Employment support for veteran	<ul style="list-style-type: none"> ➢ Improve the education and training system for veterans by combining academic education with vocational skills training, entrepreneurial training and personalized training. ➢ Explore employment resources and employment model of “education and training first, job follow-up” ➢ Encourage outstanding veterans to work in grass-roots organizations in urban and rural communities or veteran service organizations. Cultivate veteran entrepreneurs in key areas that require national support.

Source(s): State Council, ABCI Securities

Exhibit 28: Excerpts from “Opinion On Promoting High-Quality And Sufficient Employment By Implementing The Employment-First Strategy” (con’t)

Areas of focus	Details
Expand career pathway for college graduates and other youths	<ul style="list-style-type: none"> ➤ Promote market-oriented job placement, improve policies on wages & benefits, appraisal & recruitment, and training & further education, create more jobs that can fully utilize the skills learned in training and education, encourage young people to engage in employment and entrepreneurship in key industries, at the grass-roots level in urban and rural areas and in small/medium/micro-sized enterprises, and, where possible, provide greater policy support for college graduates who seek employment in small, medium-sized and micro-enterprises located in counties and townships. ➤ Formulate effective career service that tightens campus-job market connection and conducive to career development of the youths by strengthening targeted measures on career guidance, job referrals, skills training, and apprenticeships/internships ➤ Set up and implement special programs to help launch career development of youths. ➤ Strengthen career assistance for graduates from families with difficulties and young people who are unemployed for an extensive period of time, in order to acceleration their integration into society. ➤ Offer career service to individuals who return after studying abroad in employment and entrepreneurship.
Strengthen the job creation and income generating ability of the rural labor market	<ul style="list-style-type: none"> ➤ Support the development of industry with great income generating ability ➤ Introduce new employment opportunities that meet the needs of comprehensive rural revitalization ➤ Encourage entrepreneurship among returning rural residents and incoming urban area residents. ➤ Implement measures to substitute direct cash handout with investment, job creation and income growth opportunities for low-income groups. ➤ Establish regional alliances for labor cooperation; identify and cultivate quality brands of labor cooperation practice; improve the integration of career services, professional training, and rights protection in the labor cooperation service system. ➤ Promote normalization of employment assistance among low-income groups, and prevent the occurrence of large scale of poverty as a result of unemployment.
Improve employment assistance mechanism for persons with difficulty	<ul style="list-style-type: none"> ➤ Strengthen support for groups with difficulties in seeking employment, such as the elderly, the disabled, and those who have been unemployed for a long period of time ➤ Define and adjust criteria to identify persons with difficulties in seeking employment, ➤ Encourage and support corporations in ramping efforts in creating jobs, cultivate entrepreneurs, strategically allocate employment opportunities in the non-profit sector, and ensure dynamic elimination of households with zero employment. ➤ Create suitable and diverse employment opportunities for elderly ➤ Ensure rights protection of employees above retirement age, and ensure their participation in social insurance program
Optimize protection mechanism for entrepreneurs and individuals with flexible employment	<ul style="list-style-type: none"> ➤ Support entrepreneurs with systems that provide training, services, incubation, and network resources ➤ Improve the policy environment to encourage entrepreneurship and stimulate employment created by start-ups. ➤ Support healthy development of flexible employment, establish regional industry-specific market place or convenient stations for flexible employment seekers. ➤ Impose better regulations and policies to protect the rights of flexible workers ➤ Social insurance or subsidy would be given to individuals with difficulties in seeking employment, or individuals who have been unable to obtain flexible employment after graduating from high schools for more than 2 years.
Improve the coverage of employment-related public service	<ul style="list-style-type: none"> ➤ Employment-related public service should maintain broad coverage of the general population, provide more resources for the working class citizens with lower financial security, and offer safety-net measures for individuals with difficulty in seeking or securing jobs. ➤ Enhance the professional level of such services and implement pilot programs that would lead the way in such enhancement. ➤ Support the industry practitioners working in public employment service organizations or career office in higher education institutions to obtain relevant certification. ➤ Expand the supply of employment-related public service
Strengthen the grass-roots public employment service	<ul style="list-style-type: none"> ➤ Incorporate the establishment of public employment service into socioeconomic and spatial planning. ➤ Expand the scope of service to grass-roots individuals and families, rural & remote areas, and groups with difficulties in obtaining employment. ➤ Create “doorstep” employment service stations and “15-minute” employment service circles, and establish a well-covered, standardized, and efficient grass-roots employment public service network.
Promote digitally empowered employment public service model	<ul style="list-style-type: none"> ➤ Establish nationally unified employment information resource database, and launch national employment public service platform. ➤ Promote the data sharing and comparison among multiple ministry, such as human resources and social security, education, public safety, civil affairs, tax, and market regulators, in order to provide targeted and precise information to hiring organizations and job seekers.
Expand the coverage of social security	<ul style="list-style-type: none"> ➤ Promote participation of employers and employees in social insurance in accordance with the law. ➤ Improve the social security system for individuals with flexible employment, migrant workers, and individuals in new forms of employment. ➤ Eliminate restrictions on social insurance based associated with household registration system. ➤ Promote the full coverage of unemployment insurance, work-related injury insurance, and housing provident fund. ➤ Improve the synergy between unemployment insurance and minimum living standard mechanism, handle unemployment insurance payout in accordance to regulations, provide tiered and categorized social assistance, and improve the rules on exit threshold of low income family insurance and job seeking cost deduction.

Source(s): State Council, ABCI Securities

Exhibit 29: Latest rounds of consumption voucher programs launched by local governments

Issuing authority	Issue time	Details
MOA and seven other ministries	Sep 2024	<ul style="list-style-type: none"> ➤ “Notice On Stabilizing Beef And Dairy Product Production” (《稳定肉牛奶牛生产通知》) was jointly announced by MOA and seven other ministries ➤ The Notice encourages local governments to launch consumption voucher programs on dairy products to demand for dairy products. ➤ The program targets service consumption ➤ Total fiscal budget allocated for these vouchers is at RMB 500mn. ➤ Catering, accommodation, movie going, and sports activities would take up RMB 360mn, RMB 90mn, RMB 30mn, and RMB 20mn, respectively. ➤ For catering consumption, spending of RMB 300/500/800/1000 would be eligible to claim a voucher of RMB 50/100/200/300.
Shanghai NDRC	Sep 2024	<ul style="list-style-type: none"> ➤ For accommodation consumption, spending of RMB 300/600/900/1200 would be eligible to claim a voucher of RMB 50/130/220/300. ➤ For movie consumption, each movie ticket would be eligible for a consumption voucher of RMB 20 or RMB 30. ➤ For sports activities consumption, six types of vouchers would be issued. The highest level of voucher would be RMB 80 for a spending of MB 200, and the lowest level of voucher would be RMB 5 for a spending of RMB 80. ➤ The first round of consumption vouchers is scheduled to be handed out in Sep 28, 2024.
Sichuan Provincial Government	Sep 2024	<ul style="list-style-type: none"> ➤ The program mainly targets consumption of home renovation products ➤ Over RMB 400mn would be spend on the program and RMB 300mn would be used to stimulate consumption of home renovation products ➤ The program covers 12 categories of home renovation products, 9 categories of smart household appliances, and 6 categories of elderly-friendly home improvement products. ➤ Spending of RMB 2k/3k/5k/10k/20k would be eligible for a voucher of RMB 600/900/1.5k/2k/4k. ➤ Vouchers would be handed out in the following periods: Sep 26-Oct 6, Oct 10- Oct 19, and Oct 22 – Oct 31.
Zhejiang Provincial Government	Jul 2024	<ul style="list-style-type: none"> ➤ The program targets movie consumption ➤ The total amount available is at RMB 28mn ➤ Consumption vouchers would be available from Jul 2024 to Jun 2025. ➤ The available categories of vouchers include discount coupons, deduction upon purchase of movie tickets, and deduction upon using the UnionPay payment method. All these categories of vouchers can be use simultaneously ➤ In addition, these vouchers are first come, first served.
Jiangsu Provincial Government	Aug 2024	<ul style="list-style-type: none"> ➤ The program targets movie consumption ➤ The total amount available is at RMB 30mn ➤ Consumption vouchers would be available from Aug 20, 2024 to Jul 31, 2025 ➤ Consumers would get a chance to have an immediate deduction of RMB 20 for one movie ticket purchased. ➤ The consumption vouchers would be eligible for movie tickets purchased on Friday, during weekends, during summer holiday, and during other major national holidays, such as Labor Day Holiday, Spring Festival Holiday, Mid-autumn Festival Holiday. ➤ Consumers can log onto Taopiaopiao (淘票票) platform to participate the voucher draw every month. ➤ Vouchers would be applied to movie tickets above RMB 30. ➤ Vouchers are first come, first served. ➤ Each consumer can enjoy one voucher per month.
Shenzhen City Government	Apr 2024	<ul style="list-style-type: none"> ➤ The program targets a variety of consumption scenario, including shopping mall spending, purchase of home furnishing & household appliances, purchase of clothing & cosmetic products, spending on cultural activities & tourism, spending in hotels, purchase of grocery items, and spending on catering consumption, and spending on telecommunication service ➤ The program lasts from Apr 19, 2024 to Oct 31, 2024. ➤ Each consumer can claim one voucher per month ➤ Consumers must use their vouchers within 72 hours after receiving them

Source(s): MOA, local government and local NDRC websites, ABCI Securities

Exhibit 30: “Action Plan on Utilizing Funding from Ultra-Long-Term Special National Bond for Promoting Consumer Good Renewal in Guangdong Province”

Areas of focus	Details
Household appliances (8 types of home appliance, 3 types of smart devices, and products within N category)	<ul style="list-style-type: none"> ➤ For individual consumers who purchase home appliances (including refrigerators, washing machines, televisions, air conditioners, computers, water heaters, household cookers, and range hoods) that meet energy efficiency or water efficiency standards of Grade II or above, a subsidy of 15% of the listed price would be given. For consumers who purchase home appliances that meet energy efficiency or water efficiency standards of Grade I or above, a subsidy of 20% of the listed price would be given. Each consumer would be subsidized for one home appliance product and the subsidy amount would be capped at RMB 2k. ➤ For individual consumers, a subsidy of 10% or maximum RMB 1k would be given for purchase of mobile phones, a subsidy of 15% of listed price or maximum RMB 2k would be given for purchase of tablets or smart wearable devices. ➤ Local authorities can extend the subsidy to products not covered in the aforementioned categories of home appliances and smart devices (the N category products). The subsidy for N category products should be in line with the products within “8+3” categories with similar specifications. Consumers can be awarded subsidy for one product purchased in the “3+N” category products. ➤ The number of household appliances in Guangdong Province (excluding Shenzhen) replaced is targeted at 2010k.
Automobile scrapping and renewal	<ul style="list-style-type: none"> ➤ For individual consumers who are scrapping in passenger vehicles of or below China III Emission Standard or new energy vehicles which were registered prior to Apr 30, 2018 (inclusive), and subsequently purchase new-energy vehicles under the “Catalogue of Models of New Energy Automobiles Eligible for Vehicle Acquisition Tax Reduction and Exemption” or fuel passenger vehicles with displacement of 2.0 liters and below, the subsidy is increased to RMB 20k/15k per vehicle for new energy vehicles/fuel passenger vehicles with displacement of 2.0 liters and below. The traded-in vehicle should be registered under the buyer’s name prior to Jul 25, 2024 (inclusive). Individual consumers who applied for subsidy under the program of “Implementation Rules for Subsidies for Automobile Trade-ins” would also enjoy the increased subsidy. ➤ According to the “Implementation Rules for Subsidies for Automobile Trade-ins” issued on Apr 24, 2024, the subsidy was RMB 10k for consumers who replace fuel passenger vehicles of or below China III Emission Standard or new-energy passenger vehicles registered before Apr 30, 2018 (inclusive) with new-energy vehicles; a subsidy of RMB 7k would be given to those who replace fuel passenger vehicles of or below China III Emission Standard and purchase fuel passenger vehicles with displacement of 2.0 liters and below. ➤ The number of passenger vehicles in Guangdong (excluding Shenzhen) scrapped in is targeted at 135k.
Automobile replacement and renewal	<ul style="list-style-type: none"> ➤ For individual consumers who purchase of new passenger vehicles between Sep 1, 2024 and Dec 31, 2024 in Guangdong after sale of passenger vehicles registered under their names between Apr 1, 2024 and Dec 31, 2024, a one-time subsidy would be given. <ul style="list-style-type: none"> ✦ For purchase of fuel passenger vehicles/new-energy vehicles within price range of RMB 70k – 150k, the subsidy would be at RMB 8k/9k per vehicle. ✦ For purchase of fuel passenger vehicles/new-energy vehicles within price range of RMB 150k – 250k, the subsidy would be at RMB 12k/13k per vehicle. ✦ For purchase of fuel passenger vehicles/new-energy vehicles priced above RMB 250k, the subsidy would be at RMB 15k/16k per vehicle. ✦ This type of subsidy is mutually exclusive with that of the aforementioned automobile scrapping and renewal program ➤ The number of replaced vehicle in Guangdong Province (excluding Shenzhen) is targeted at 143k.

Source(s): Guangdong government website, ABCI Securities

Exhibit 31: “Action Plan on Utilizing Funding from Ultra-Long-Term Special National Bond for Promoting Consumer Good Renewal in Shenzhen City”

Areas of focus	Details
Automobile replacement and renewal	<ul style="list-style-type: none"> ➢ Individual consumers who sell passenger vehicles registered under their name, and subsequently purchase new-energy vehicles or fuel passenger vehicles that complies with China Emission Standard VI, should receive a one-time subsidy. The subsidy is increased based on the “Implementation Guidance of Shenzhen City 2024 Passenger Vehicle Upgrade Subsidy Program”. ✧ For purchase of fuel passenger vehicles/new-energy vehicles within price range of RMB 70k – 150k, the subsidy would be at RMB 8k/9k per vehicle. ✧ For purchase of fuel passenger vehicles/new-energy vehicles within price range of RMB 150k – 250k, the subsidy would be at RMB 12k/13k per vehicle. ✧ For purchase of fuel passenger vehicles/new-energy vehicles priced above RMB 250k, the subsidy would be at RMB 15k/16k per vehicle. ✧ This type of subsidy is mutually exclusive with that of the aforementioned automobile scrapping and renewal program ➢ The vehicles being sold should be registered under the sellers’ name prior to the issuance of the “Action Plan”, and should have ownership transferred between Apr 1, 2024 and Dec 31, 2024. ➢ The purchased vehicle should be between Apr 20, 2024 and Dec 31, 2024. ➢ Those who have claimed subsidies according to previous policies would be able to receive the difference based on the “Action Plan”. ➢ The number of replacement vehicles in Shenzhen City is targeted at 60k.
Automobile scrapping and renewal	<ul style="list-style-type: none"> ➢ Individual consumers who scrape fuel passenger vehicles that complies with China Emission Standard III or new-energy vehicles that are registered prior to Apr 30, 2018 (inclusive), and purchase new-energy vehicles under the “Catalog of New-energy Vehicles Eligible for Vehicle Acquisition Tax Exemption”, should receive subsidy of RMB 20k vs RMB 10k in previous policy. ➢ Consumers who scrape in fuel passenger vehicles that complies with China Emission Standard III and purchase fuel passenger vehicles with engine displacement of 2.0 liter or blow should receive subsidy of RMB 15K vs RMB 7k in previous policies. Purchases made since Apr 24, 2024 is eligible for subsidy application. Targeted number of passenger vehicle scrape in and upgrade is at 10k.
Household appliances renewal	<ul style="list-style-type: none"> ➢ Individual consumers who purchase home appliances meeting Grade 2 energy or water efficiency (refrigerator, washing machine, TV, air conditioner, personal computer (excluding laptops), water heater, stove, range hood) would receive subsidy of 15% of listed price of the product. Purchase of home appliances meeting Grade 1 energy or water efficiency would receive subsidy of 20% of listed price of the product. Maximum subsidy receive per product is at RMB 2k. Each individual consumer can claim subsidy for one product from each of the product categories mentioned above. ➢ In addition, purchase of mobile phone, laptops, smart wearable devices, consumer drone, consumer robotic machines, 3C servers, projector, smart sports-related consumer electronics, and coffee machine would also receive subsidy. Subsidy for mobile phones is 10% of the listed price with a maximum amount set at RMB 1k. Subsidy for other products is 15% of listed price with a maximum amount set at RMB 2k. ➢ Strengthen the online-offline channel interaction. Subsidy should be given upon purchase and fiscal compensation should ensue. ➢ The number of household appliances upgraded in Shenzhen City is targeted at 1mn.
Home renovation	<ul style="list-style-type: none"> ➢ Property owners or buyers who have completed property transactions with online registration and delivery process in Shenzhen are eligible to home renovation subsidy. Subsidy can be applied to consumer goods for general decorative purposes, furniture and materials for renovation, and smart home solutions. The targeted number of full or partial home renovation subsidized is at 35k. For full home renovation, the subsidy is at 20% of the contract price or at maximum of RMB 30k. For partial home renovation, the subsidy is at 20% of the contract price or at maximum of RMB 20k. To claim the subsidy, the home renovation project should be filed between Jul 24, 224 and Dec 31, 2024 with relevant authorities. ➢ For elderly who are above age of 60 and living under poverty line and living by themselves should receive subsidy at maximum of RMB 20k, such subsidy for other elderly families should be at maximum of RMB 12k. The targeted number of families conducting such renovations is at 16K. Subsidy eligibility applies to renovation conducted since Jul 24, 2024.
E-bike upgrades	<ul style="list-style-type: none"> ➢ Individual consumers who sell used e-bike registered with relevant authorities and purchase new e-bikes that comply with national standards would be eligible to receive a subsidy of 20% of the listed price of the new e-bike or at maximum of RMB 800. ➢ The number of e-bikes upgrades in Shenzhen city is targeted at 250k.

Source(s): Shenzhen government website, ABCI Securities

Exhibit 32: “Action Plan on Promoting Consumer Good Renewal in Shanghai City”

Areas of focus	Details
Automobile scrapping and renewal	<ul style="list-style-type: none"> Implementation of the national automobile upgrade policy: Based on the “Implementation Rules for Subsidies for Automobile Trade-ins”, individual consumers who are scrapping in fuel passenger vehicles that are complying with China Emission Standard III or below, or new-energy vehicles that are registered prior to Apr 30, 2018 would enjoy subsidy of RMB 20k/RMB 15k for new-energy vehicles/fuel passenger vehicles with displacement of 2.0 liters and below. Subsidy for purchasing electric passenger vehicles following sale of old vehicles would be increased to RMB 15k; subsidy for purchasing fuel passenger vehicle complying with China Emission VI Standard following trading in of old vehicles would be increased to RMB 12k
Household appliance upgrade	<ul style="list-style-type: none"> Implementation of the national household appliance upgrade policy: Individual consumers who purchases home appliances (refrigerator, washing machine, TV, air conditioner, computer, water heater, household appliances, range hoods) would enjoy 15%/20% subsidy of listed price for Grade 1/Grade 2 Energy Efficiency Products. Each individual consumer can claim the subsidy for one product only. The total subsidy is capped at RMB 2k. Consumers who purchases, home appliances, home furnishing and aging-friendly products, such as sofas, mattresses, cabinets, bathtubs, toilets, floor sweepers, vacuum cleaners, air purifiers would enjoy a subsidy of 15% of listed price. Consumers would be able to claim a subsidy of no more than RMB 2k once for each of the following payment methods: UnionPay, Alipay, and Wechat.
E-bike upgrade	<ul style="list-style-type: none"> Consumers who scrap in e-bike registered under their names and purchase new e-bike complying with the national mandatory product verification would enjoy a one-time RMB 5k subsidy.

Source(s): Shanghai government website, ABCI Securities

Exhibit 33: “Action Plan on Utilizing Funding from Ultra-Long-Term Special National Bond for Promoting Consumer Good Renewal in Hunan Province”

Areas of focus	Details
Automobile scrapping and renewal	<ul style="list-style-type: none"> Individual consumers scrapping fuel vehicles that comply with China Emission Standard III or below, or new-energy vehicles purchased on or before Apr 30, 2018, and purchase new-energy vehicles under “Catalogue of Models of New Energy Automobiles Eligible for Vehicle Acquisition Tax Reduction and Exemption” or fuel passenger vehicles with displacement of 2.0 liters and below, the subsidy would be RMB 20k for new-energy vehicle purchase or RMB 15k for fuel passenger vehicles.
Automobile replacement and renewal	<ul style="list-style-type: none"> Passenger vehicles purchase followed by the sale of qualified used passenger vehicles, the maximum subsidy would be RMB 14k. Strengthen the continuity of previous policy with the current one, and retroactively apply the subsidy for vehicle purchase made after Apr 24, 2024.
Household appliances upgrade	<ul style="list-style-type: none"> For consumers who purchase home appliances (including refrigerators, washing machines, televisions, air conditioners, computers, water heaters, household cookers, and range hoods) that meet energy efficiency or water efficiency standards of Grade II or above, a subsidy of 15% of the listed price would be given.
Home renovation	<ul style="list-style-type: none"> Individual consumers who conduct home renovation for eligible old apartments can enjoy one-time subsidy for a percentage of the fee at a maximum amount of RMB 30k.
E-bike upgrade	<ul style="list-style-type: none"> For individual consumers who replace non-compliant e-bikes with e-bikes that complies with “E-bike Industry Standard”. The subsidy has the flexibility to expand its scope.
Support for areas affected by natural disasters	<ul style="list-style-type: none"> Cities or townships that are affected by natural disasters, or individuals and families that are verified to have been affected by natural disasters by the local authorities are eligible to such supports. The coverage of subsidy include automobile, home appliance, home renovation, e-bike; local authorities would purchase and send the “Big Three” home appliance to residents in areas mostly affected by natural disasters Residents from areas most affected by natural disasters would enjoy subsidies for home renovation resulted from damages by natural disasters. In principal, the provincial government would add 10 ppt to the current national standard of subsidy percentage requirement Lower the threshold: used consumer goods that were lost due to natural disaster would also be eligible to enjoy the subsidy policy for home appliance trade-in

Source(s): Hunan government website, ABCI Securities

Exhibit 34: “Action Plan on Further Promoting Consumer Good Renewal in Zhejiang Province”

Areas of focus	Details
Automobile scrapping and renewal	<ul style="list-style-type: none"> ➤ For individual consumers who are scrapping in passenger vehicles of or below China III Emission Standard or new energy vehicles which were registered prior to Apr 30, 2018 (inclusive), and subsequently purchase new-energy vehicles under the “Catalogue of Models of New Energy Automobiles Eligible for Vehicle Acquisition Tax Reduction and Exemption” or fuel passenger vehicles with displacement of 2.0 liters and below, the subsidy is increased to RMB 20k per vehicle for new energy vehicles, and RMB 15k per vehicle for fuel passenger vehicles with displacement of 2.0 liters and below. ➤ The vehicle being scrapped should be registered under the buyer’s name prior to Jul 25, 2024 (inclusive).
Automobile replacement and renewal	<ul style="list-style-type: none"> ➤ For individual consumers who purchase new passenger vehicles with 7 seats or less in Zhejiang Province after sale of passenger vehicles registered under their names, a one-time subsidy would be given. <ul style="list-style-type: none"> ✧ For purchase of fuel passenger vehicles/new-energy vehicles within price range of RMB 50k – 150k, the subsidy would be at RMB 6k/8k per vehicle. ✧ For purchase of fuel passenger vehicles/new-energy vehicles within price range of RMB 150k – 250k, the subsidy would be at RMB 8k/10k per vehicle. ✧ For purchase of fuel passenger vehicles/new-energy vehicles priced above RMB 250k, the subsidy would be at RMB 10k/12k per vehicle. ➤ This type of subsidy is mutually exclusive with the subsidy under the measures for automobile scrapping mentioned above.
Household appliances upgrade	<ul style="list-style-type: none"> ➤ For individual consumers who purchase home appliances (including refrigerators, washing machines, televisions, air conditioners, computers, water heaters, household cookers, and range hoods) that meet energy efficiency or water efficiency standards of Grade II or above, a subsidy of 15% of the listed price would be given. ➤ For individual consumers who purchase home appliances that meet energy efficiency or water efficiency standards of Grade I or above, a subsidy of 20% of the listed price would be given. Each consumer would be subsidized for one home appliance product from each of the categories and the subsidy amount would be capped at RMB 2k. ➤ Local authorities are encouraged to expand the scope of the subsidy to include other home appliances, such as drying machines and vacuum cleaners.
E-bike upgrade	<ul style="list-style-type: none"> ➤ For individual consumers who scrape used e-bikes and purchase new e-bikes that complies with relevant standards, a subsidy would be given based on the national policies. Manufacturers, sellers, and recyclers of e-bikes are encouraged to collaborate to provide additional subsidy to consumers.
Intelligent household appliances	<ul style="list-style-type: none"> ➤ For consumers who purchase intelligent door locks (including intelligent anti-theft doors), intelligent curtains, intelligent drying racks, intelligent home monitoring system, intelligent lighting fixtures, intelligent toilets (including intelligent toilet covers), intelligent beds (including intelligent mattresses), intelligent tables and chairs (including intelligent massage chairs, intelligent sofas), intelligent fitness equipment, intelligent sound systems (including intelligent speakers), intelligent service robots (including intelligent sweeping machines, mopping machines), intelligent dishwashers, and smart steaming (baking) machines, a subsidy of 15% of the transaction price after all the discounts are applied would be given. ➤ The subsidy is capped at RMB 2k. ➤ Each consumer can claim one subsidy for one product from each of the product categories.
Home renovation	<ul style="list-style-type: none"> ➤ Individual consumers who purchase decorative tiles, flooring, wall panels, integrated ceiling, door sets, cabinets, shower room, and sanitary fittings for home renovations would be able to claim subsidy of 20% of the purchase price that is capped at a maximum of RMB 20k. ➤ The subsidy should be prioritized for advanced, low carbon, and environmentally friendly home renovation products.
Home renovation for elderly residents	<ul style="list-style-type: none"> ➤ Purchase of related products for such renovations would be eligible for subsidy at 50% of the purchase price in general or 60% of the purchase price for elderly residents aged 80 or above. ➤ The subsidy is capped at RMB 20k.

Source(s): Zhejiang government website, ABCI Securities

Exhibit 35: “Opinion on High-quality Development of Service Consumption”

Areas of focus	Details
Catering & Accommodation Consumption	<ul style="list-style-type: none"> ➢ Enhance the quality of catering services, and cultivate famous dishes, snacks, chefs and restaurants. ➢ Encourage local preservation of traditional culinary skills and catering culture, cultivate industrial clusters of specialty snacks, and create townships and villages with strong cuisine culture. ➢ Organize activities related to “Chinese Cuisine Fest” and support regional cuisine promotional activities to boost consumption. ➢ Encourage internationally renowned catering brands to open first stores and flagship stores in China. ➢ Enhance the quality of hospitality services and such services catering to foreign visitors, cultivate a number of medium- and high-end hotel brands and B&B brands, and support the integrated development of the hospitality industry with tourism, recreation, study and other forms of business. ➢ In accordance with the law and regulations, revitalize idle houses and collective construction land in rural areas, and develop rural hotels and inns and B&B services.
Domestic Service Consumption	<ul style="list-style-type: none"> ➢ Support development of employee-based domestic service enterprises, and open up career development paths for domestic service employees. ➢ Enhance the talent matching of domestic service job opportunities, increase penetration of domestic service in communities, and increase the supply of domestic services. ➢ Help domestic service industry practitioners enhance their skill levels, foster the brand building of domestic service enterprises, and cultivate national brands ➢ Guide the development of domestic service convention, optimize the domestic service information platform and the “domestic service background check” functions, and implement an electronic version of the “home service credential”.
Elderly care consumption	<ul style="list-style-type: none"> ➢ Develop the elderly economy, promote the development of the intelligent health care industry, advance the construction of barrier-free public spaces and consumer venues, and increase the penetration of elderly-friendly renovation. ➢ Accelerated the development of an elderly care service system that is coordinated with home and community institutions and combines medical care and health maintenance ➢ Carry out enhancement of basic elderly care services at home and in the community; and encourage vocational colleges and universities to strengthen the training of talents. ➢ Increase the supply of elderly care services through multiple channels, use vacant sites to support the construction of new elderly care facilities and the reconstruction & expansion of existing elderly care facilities in accordance with laws and regulations, and promote the reduction of operating costs. Optimize the distribution of domestic service, elderly care, and meal assistance when designing new communities and upgrading old ones. ➢ Strictly implement the requirements of synchronized planning, construction, acceptance and delivery of ancillary elderly care service facilities within community building. ➢ Utility tariffs for elderly care facilities should be on par with those of residential community. ➢ Supporting financial institutions to optimize risk management, and actively providing financial products and services that are suitable for funding needs of inclusive elderly care facilities.
Culture & Entertainment Consumption	<ul style="list-style-type: none"> ➢ Carry out national cultural and tourism consumption promotion activities ➢ Extend support to cultural and tourism consumption in a hundred cities and hundred districts ➢ Strengthen protection of intangible-cultural heritage, and develop key cultural projects with regional and ethnic features accordingly. ➢ Increase the market supply of cultural performance by improving the efficiency of approval and increasing the number of performances. ➢ Promote diversification of movie supplies, support the development of new distribution models of movies, and promote movie-related consumption. ➢ Enhance the quality of online literature, online performances, online gaming, radio and television broadcasting, and online audiovisuals. ➢ Reduce the complexity of TV service fee schedule and user interface, accelerate the development of ultra-high-definition TVs, and encourage the development of new businesses such as immersive experiences, scripted entertainment, digital art and online performances.
Tourism consumption	<ul style="list-style-type: none"> ➢ Strengthen the construction of model cities for national cultural and tourism consumption, promote the innovative and standardized development of national nighttime cultural and tourism consumption clusters, and implemented the Good Life Vacation and Leisure Project and the Rural Area Tourism Quality Enhancement Initiative. ➢ Promote the integrated development of business, tourism, culture, sports and wellness, enhance the experience and interactivity of projects, launch a variety of special tourism products, encourage the development of cruise ships, caravan camping, low-altitude flights and other new forms of development, and support the “music + tourism”, “performance + tourism” “tournament + tourism” and other integrated development models. ➢ Increase the number of elderly-friendly train rides, conduct elderly friendly renovations on train carts, increase the line options and service supply for elderly passengers. ➢ Encourage introduction of discount tickets for scenic spots and free admissions in off-season. ➢ Improve transportation service, such as transfer experience, car rental and other services. ➢ Optimize entry policies and the consumer environment, accelerate the resumption of flight frequency, provide diversified payment services, and explore expansion of visa-free entry availability. ➢ Further promote the activities of the Year of Culture and Tourism.

Source(s): State Council, ABCI Securities

Exhibit 36: “Opinion on High-quality Development of Service Consumption” (con’t)

Areas of focus	Details
Sports activities consumption	<ul style="list-style-type: none"> ➢ Improve the utilization of the vacant sports venues, and mobilize social forces to transform old factories, warehouses and commercial facilities in accordance with the law to increase the space available for sports activities consumption. ➢ Encourage the hosting of various sports events, create event brands with independent intellectual property rights, introduce influential international sports events, and cultivate local operation teams with capability to run such events. ➢ Encourage regional development of sports events with distinctive features. ➢ Promote development of winter sports, and enhance the penetration rate of such sports in the general public. ➢ Deepen the pilot programs for promoting sports consumption and cultivate a number of national organizations for the development of the sports activities and sports tourism.
Education, tutoring, and training consumption	<ul style="list-style-type: none"> ➢ Promote the sharing of high-quality educational resources by institutions of higher education institutions, scientific research organizations, and social groups to meet the diversified and personalized learning needs of the general public. ➢ Enhance the quality and efficiency of vocational education, and develop high-caliber vocational schools and vocational education majors. ➢ Accelerate high-quality service development by training organizations to meet public demand. ➢ Instruct schools to introduce non-academic-subject after-school services provided by third-party organizations with appropriate qualifications, through purchasing services and other means in accordance with relevant regulations. ➢ Encourage high-level cooperation with internationally renowned higher education institutions in China.
Consumption of residential services	<ul style="list-style-type: none"> ➢ Conditional property service enterprises are encouraged to cooperate with pension, childcare, catering and housekeeping enterprises to develop the “property service + life service” model. ➢ Promote new modes such as intelligent security, intelligent parking and intelligent access control to enhance the level of community services and living experience. ➢ Cultivate leading enterprises that provide one-stop, standardized products and services such as remodeling design, customized renovation and intelligent home furnishings. ➢ Encourage areas with the conditions to support residents to carry out house renovation and partial remodeling.
Digital consumption	<ul style="list-style-type: none"> ➢ Accelerate the digital empowerment of living services, build new consumption scenarios such as smart business districts, smart neighborhoods and smart stores, and develop new consumption modes such as “Internet+” medical services and digital education. ➢ Accelerate the development of cashier-less retail stores, self-service delivery stations, and other new business forms, and support the development of e-sports, social e-commerce, and live-streaming e-commerce. ➢ Accelerate the construction and upgrading of information consumption experience centers, and launch a number of new information consumption projects. ➢ Pilot construction of digital homes will be carried out to better meet the demand for intelligent services for residents' household products and online socialized services.
Green consumption	<ul style="list-style-type: none"> ➢ Establish and improve green and low-carbon service standards, certification and labeling systems. ➢ Improve green design standards, and enhance market recognition of green services and the effectiveness of enterprises. ➢ Promote the application of advanced environmentally friendly and low-carbon technologies, improve the management of energy and water efficiency labels, and enhance penetration of green technology in areas such as home decoration, commuting, tourism and delivery.
Health consumption	<ul style="list-style-type: none"> ➢ Cultivate and expand services such as health check-ups, counseling and management. ➢ Promote the development of “Internet+ healthcare”, implement sharing of medical data, and gradually improve the payment policy for “Internet+” medical services. ➢ Encourage the development of commercial health insurance products that meet diversified and personalized health protection needs. ➢ Further promote integration of medical treatment and wellness maintenance, and support medical institutions to carry out practices that support both services. ➢ Support the development of traditional Chinese medicine enterprises with heritage brand, and upgrade the level of health care, rehabilitation and convalescence services. ➢ Strengthen the functions of retail pharmacies in health promotion and nutritional care.
Innovate service consumption scenarios	<ul style="list-style-type: none"> ➢ Carry out action plans to improve the quality of service consumption and the benefits on the general public. ➢ Launch a series of consumption-promoting activities focusing on key areas that are top concerns of the general public, have large demand and are effective on stimulating demand. ➢ Promote the transformation of pedestrian streets, accelerate the construction of quarter-hour convenient living circles in cities, improve commercial system in counties and townships, improve the urban and rural service consumption network, enrich the supply of rural living services, and enhance the service supply capacity and consumption capacity.
Strengthen brand cultivation in service consumption	<ul style="list-style-type: none"> ➢ Explore the development of quality service commitment activities. ➢ Support service industry enterprises to strengthen cultivation, operation and protection of their brands ➢ Help enterprises to leverage the advantages of Chinese brands and traditional brands, and cultivating a number of leading service industry brands.
Further open up the service industry	<ul style="list-style-type: none"> ➢ Provide more market access in the service industry, continue to deepen the opening up of telecommunications, education, elderly care, medical care, wellness and other fields, and promote the full opening-up initiatives in scientific and technological services, tourism and other fields. ➢ Organize the China International Import Expo, the China International Fair for Service Trade and other exhibitions to attract more investment from internationally renowned enterprises.

Source(s): State Council, ABCI Securities

Exhibit 37: 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

Exhibit 38: Measures to be taken in the “Year of consumption promotion”

Areas of focus	Details
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 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 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): MOFCOM, ABCI Securities

Policy impact – official statistics

We believe the increased emphasis placed on domestic consumption this year highlights the stimulation of consumer market growth has been prioritized. However, the ability of these policies to generate substantial consumer market growth is still in question for the following reasons: 1) new policies are mostly launched in Aug & Sep 2024 and their impacts would take time to realize; 2) some policies are not directly targeting the consumer market; 3) some lack implementation details, leading to a lack of visibility on their overall collective impact on consumer market; 4) the overall market response to the policies or the potential impact of these policies may not be as substantial as some expected.

In a recent press briefing, NDRC shared latest development of the progress of consumer good upgrade and renewal. Around 3.86mn consumers have purchased the 8 categories of household appliances that are eligible for upgrade subsidies, the total amount of subsidy allocated by the central government reached RMB 4.67bn, and the additional consumption driven by this subsidy program reached RMB 243bn, which represented 4.1% of the 8M24 retail sales of household appliance. As of midnight of Sep 25, 2024, the national information platform for automobile upgrade received 1.13mn applications, with a total number of registered users over 1.68mn. The MOFOM data shows the number of automobiles being scrapped increased by 42.4% YoY in 8M24, 55.6% YoY in May 2024, 72.9% YoY in Jun 2024, 93.7% in Jul 2024, and 73.8% YoY in Aug 2024. Moreover, the existing market inventory of household appliances and automobiles in China is above 3bn and 30mn respectively.

Policy impact analysis case studies – consumption voucher programs launched by Shanghai and Sichuan in Sep 2024

In terms of consumption vouchers, the multiplier effect varies from region to region. According to a study conducted by Guanghua School of Management at Peking University in 2020, the multiplier effect brought by consumption vouchers usually ranges from 3.5x to 5.8x. Based on this range, the maximum amount of consumption generated from the latest round of Shanghai consumption voucher program would be RMB 2.9bn and that of Sichuan consumption voucher program would be RMB 2.32bn. The calculated maximum amount of consumption generated from the latest round of Shanghai consumption voucher program represents 2% of Shanghai's average monthly retail sales in 8M24 (at RMB 148.61bn). The calculated maximum amount of consumption generated from the latest round of Sichuan consumption voucher program represents 1.1% of Sichuan's average monthly retail sales in 8M24 (at RMB 219.2bn).

Policy impact analysis case studies - consumer goods upgrade measures in Guangdong and Shenzhen

In the following case studies, we look closer into the consumer goods upgrade measures announced by Guangdong Provincial Government and Shenzhen City Government. In their policies, the subsidy programs detail subsidy amounts to be given for the type of products being purchased and the targeted quantity of products to be sold. Our analysis would look at the subsidies given if those targeted quantities were to be achieved and the consumption they would bring about in different scenario. Our analysis is contained in the areas of consumption and is limited to household appliance and automobiles, which are the two product categories mostly prominently featured in subsidy programs across of local governments, meaning we ignore impacts brought by the additional consumption brought by new jobs created and additional growth in manufacturing sector, or the influence of purchasing one item on the other.

Our analysis is built on the following key assumptions: 1) the subsidy program can be implemented in full and the targets quantities of consumer goods would be achieved; 2) the quantities of consumer goods purchased would not exceed the targets set by the policies; 3) the listed price of the products purchased would not exceed the price implied by the subsidy and discount rates, or the price limits set by the policy documents; 4) consumers in these regions are fully aware of the details of the consumption programs; 5) consumers are capable of making the same purchase decisions simultaneously without informing each other; 6) the price of automobiles is within the range outlined in the automobile replacement programs.

Guangdong measures

In “Action Plan on Utilizing Funding from Ultra-Long-Term Special National Bond for Promoting Consumer Good Renewal in Guangdong Province” (广东省人民政府办公厅印发的《关于用好超长期特别国债资金加力支持消费品以旧换新的实施方案》), the number of household appliances in Guangdong Province (excluding Shenzhen, same for below) replaced is targeted at 2010k, and the subsidy would be within the range of RMB 1k-2k per appliance item; the number of automobile being scrapped and renewed is targeted at 135k, and the subsidy would be within a range of RMB 15k-20k per vehicle; the number of automobiles being replaced and renewed is targeted at 143k and the subsidy would be within a range of RMB 8k-16k per vehicle.

Based on the projection in the Guangdong policy, if we assume all the upgrades are for purchase of new-energy passenger vehicles priced at RMB 250k, which is the highest price given in the automobile replacement programs, the maximum total automobile sales driven by the subsidy programs would be at RMB 69.5bn.

For household appliances, if we assume all consumers purchase products that are eligible for subsidy at RMB 2k and 15% of listed price of the products, the maximum total household appliance consumption driven would reach RMB 26.8bn. The maximum total consumption of automobile and household appliances driven by the Guangdong subsidy program is estimated at RMB 96.3bn.

According to the Guangdong and Shenzhen Statistics Bureau, 8M24 total retail sales in Guangdong province reached RMB 3.13tn and Shenzhen's 8M24 total retail sales reached RMB 686.1bn. 8M24 total retail sales in Guangdong ex. Shenzhen region was around RMB 2.4tn, implying an average monthly retail sales of RMB 305.3bn. The calculated maximum consumption of household appliances/automobiles driven by the Guangdong subsidy programs represents 8.8%/22.8% of Guangdong average monthly retail sales in 8M24

Shenzhen measures

In "Action Plan on Utilizing Funding from Ultra-Long-Term Special National Bond for Promoting Consumer Good Renewal in Shenzhen City" (《深圳市超长期特别国债资金加力支持消费品以旧换新实施方案》), the number of household appliances in Shenzhen City being replaced is targeted at 1mn, and the subsidy would be within the range of RMB 1k-2k per appliance item; the number of automobile being scrapped and renewed is targeted at 10k, and the subsidy would be within a range of RMB 15k-20k per vehicle; the number of automobiles being replaced and renewed is targeted at 60k and the subsidy would be within a range of RMB 8k-16k per vehicle.

Based on the projection in the Shenzhen policy, if we assume all the upgrades are for purchase of eligible new-energy passenger vehicles priced at RMB 250k, which is the highest price given in the automobile replacement programs, the total number of automobile sales driven by the subsidy programs would be at RMB 17.5bn with a total subsidy given at RMB 1.16bn. For household appliances, if we assume all consumers purchase products that are eligible for subsidy at RMB 2k and 15% of listed price of the products, the maximum total household appliance consumption driven would reach RMB 13.3bn. The maximum total consumption of automobile and household appliances driven by the Shenzhen subsidy program is estimated at around RMB 30.83bn.

According to the Shenzhen Statistics Bureau, 8M24 total retail sales in the city reach RMB 686.1bn, implying an average month retail sales of RMB 85.8bn. The calculated maximum consumption of household appliances/automobiles driven by the Shenzhen subsidy programs represents 15.5%/20.4% of Shenzhen's average monthly retail sales in 8M24

Policy impact summary

Our calculation in the above case study may not be representative of the total impact of the subsidy programs, as our analysis is conducted only on household appliances and automobiles, while some of the provinces' subsidy programs for consumer goods upgrade also cover other areas of consumption, such as home renovations and e-bikes, and the coverage of subsidy program also include non-consumer goods upgrades, such as transportation and farming equipment.

Based on the figures disclosed by the NDRC and our case studies on Guangdong and Shenzhen, we believe more can be done on stimulating consumer demand on the policy front. We expect policies launched in late Sep 2024 would improve consumer market sentiment significantly, thus boosting overall consumption demand in the short term, complementing the subsidy programs on consumer goods upgrade and renewal. In the meantime, we believe more efforts should be taken to address the macroeconomic challenges and the resulting lower level of income growth expectation and job security in order to achieve effective implementation of these new programs.

Willingness to consume to support future recovery

Per capita income growth shows weakened ability to spend

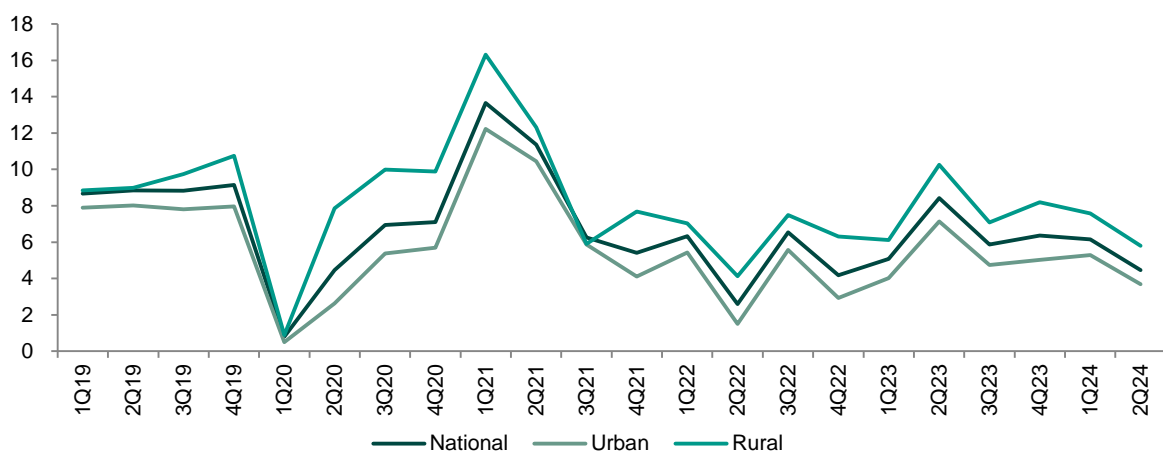
According to NBS, the quarterly average per capita disposable income growth has been volatile since the pandemic and it has been trending down since beg-2024. National average per capita disposable income grew by 4.5% YoY in 2Q24, while that of urban and rural residents grew by 3.7% YoY and 5.8% YoY. The quarterly average per capita spending growth also saw decline.

Moreover, the average per capita disposable income growth of urban residents has been consistently lower than that of rural residents, while the spending growth for these two groups has been tracking closely with each other, indicating the financial pressure faced by urban residents has been higher.

On the other hand, average per capita spending-to-disposable income ratio continues to exhibit seasonal patterns, where the ratio jumped in 2Q24 and that of rural residents jumped above the national level and urban resident level ratios. However, the consistently lower ratio experienced by urban residents also points to higher financial pressure by this particular group of consumers.

We believe the challenging macro environment would continue to impact consumer's spending behavior as income growth uncertainty remains. However, we expect higher income growth and lower cost of living would result in more resilience in rural region consumption.

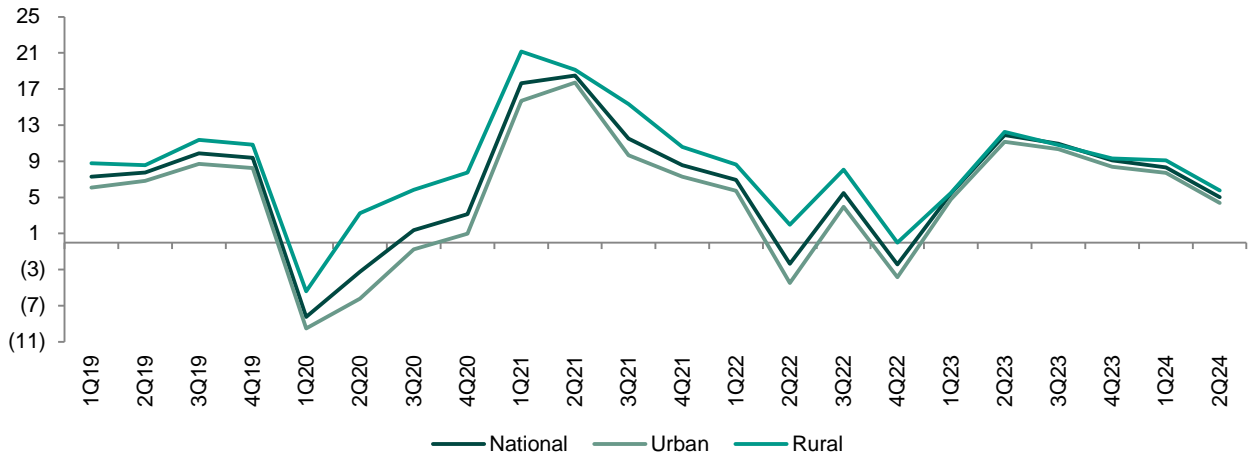
Exhibit 39: Average per capita disposable income (YoY %)



Source(s): NBS, ABCI Securities

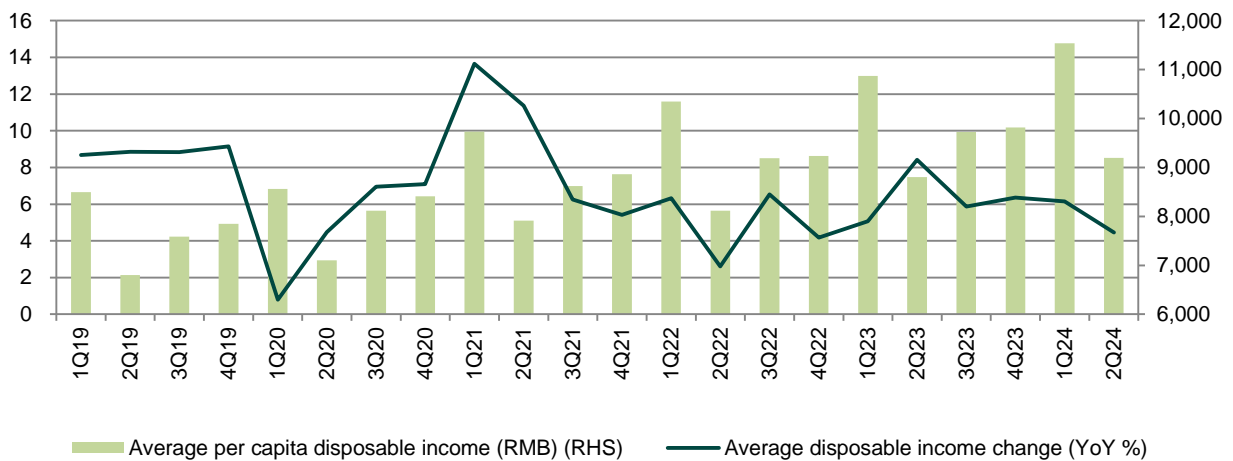


Exhibit 40: Average per capita spending (YoY %)



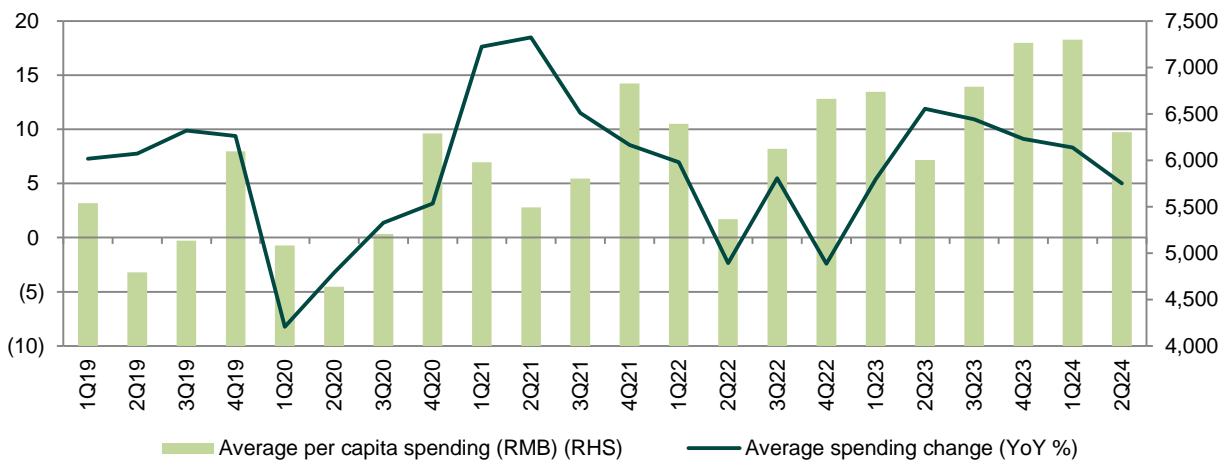
Source(s): NBS, ABCI Securities

Exhibit 41: National per capita disposable income level and change



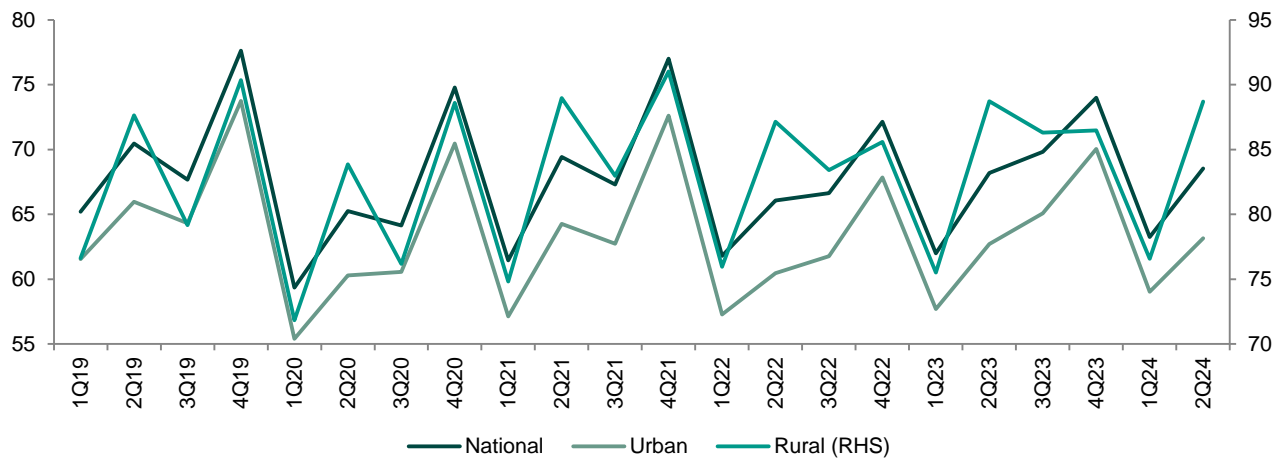
Source(s): NBS, ABCI Securities

Exhibit 42: National per capita spending level and change



Source(s): NBS, ABCI Securities

Exhibit 43: Average per capita spending-to-disposable income ratio (%)

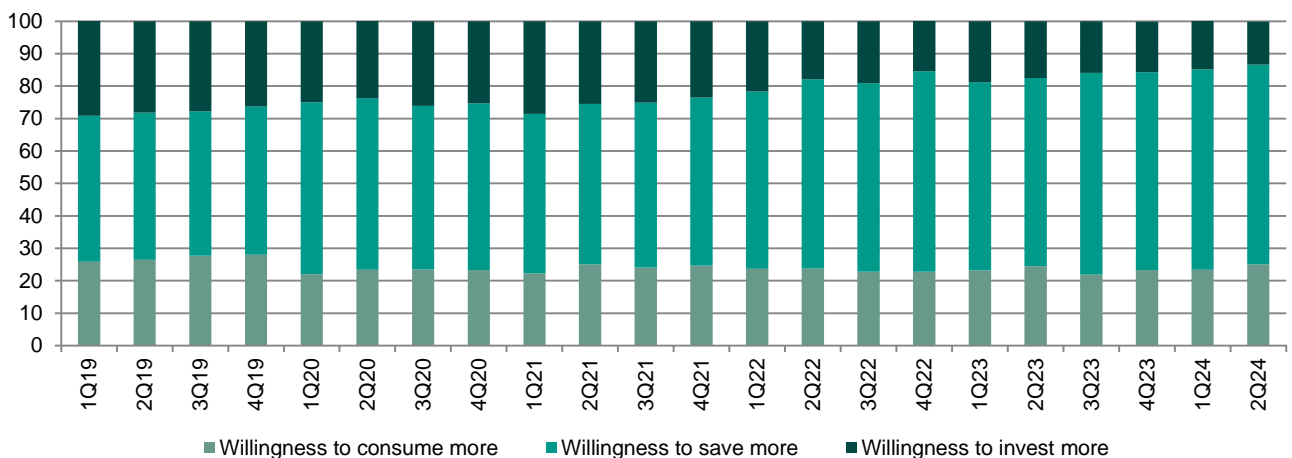


Source(s): NBS, ABCI Securities

Willingness to spend remains intact

Despite the higher income growth uncertainty, consumers' willingness to spend has not been weakened. According to the urban depositor survey conducted by PBOC, the proportion of respondents who expressed willingness to consume more has been relatively stable in recent quarters and reached the highest level since 1Q21, while proportion of respondents who expressed willingness to invest more has been declining, and proportion of respondents who expressed willingness to save more has been increasing. Meanwhile, in the same period, the Employment Expectation Index and the Income Confidence Index has been plunging; the proportion of respondents who indicated employment situation is difficult or uncertain increased went back up to the six-month high; the proportion of respondents who indicated income has increased dropped back to the six-month low.

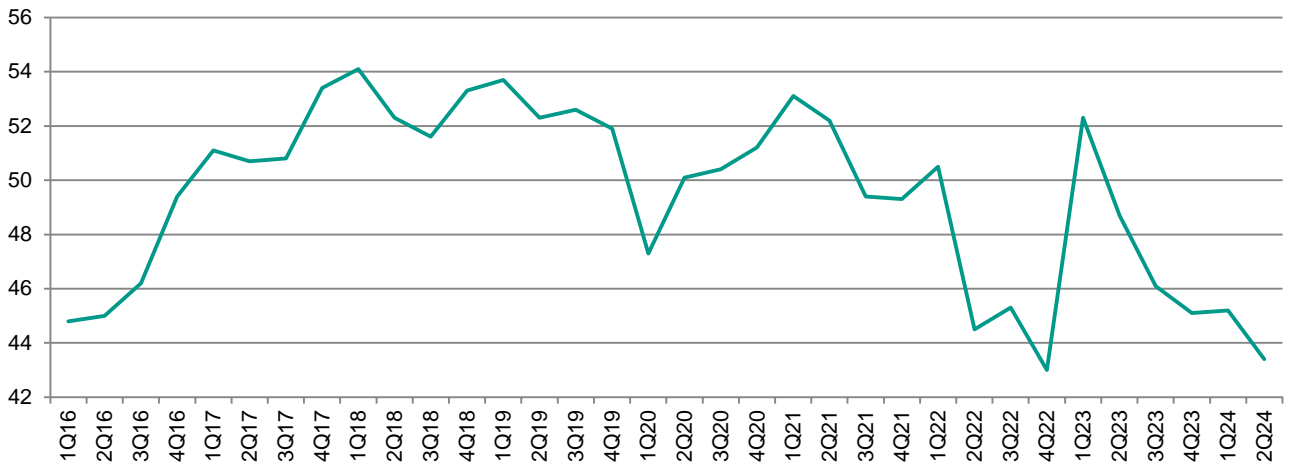
Exhibit 44: PBOC urban depositor survey – willingness to consume/save/spend more (%)



Source(s): PBOC, ABCI Securities

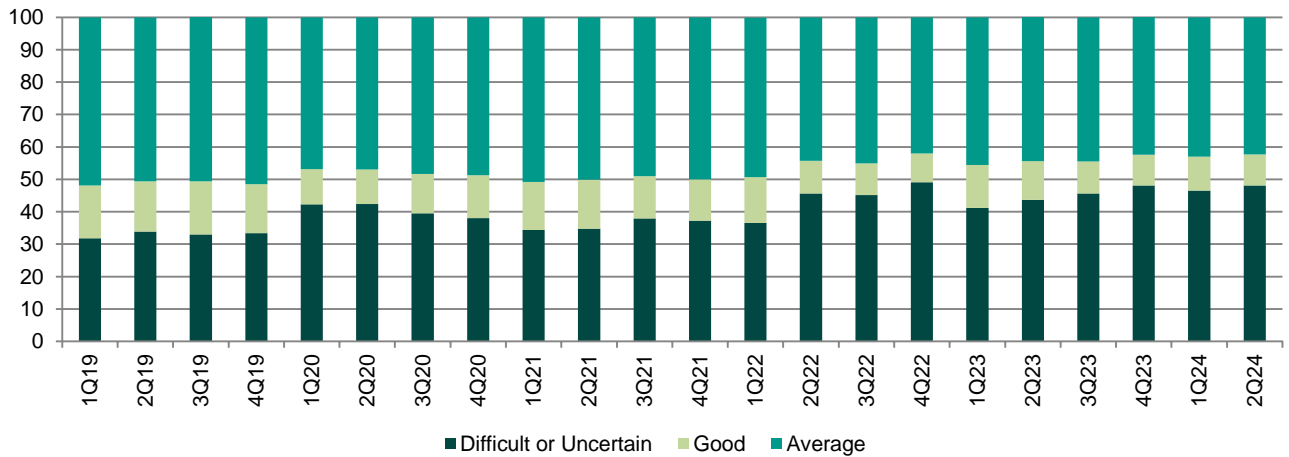


Exhibit 45: PBOC urban depositor survey - Employment Expectation Index (%)



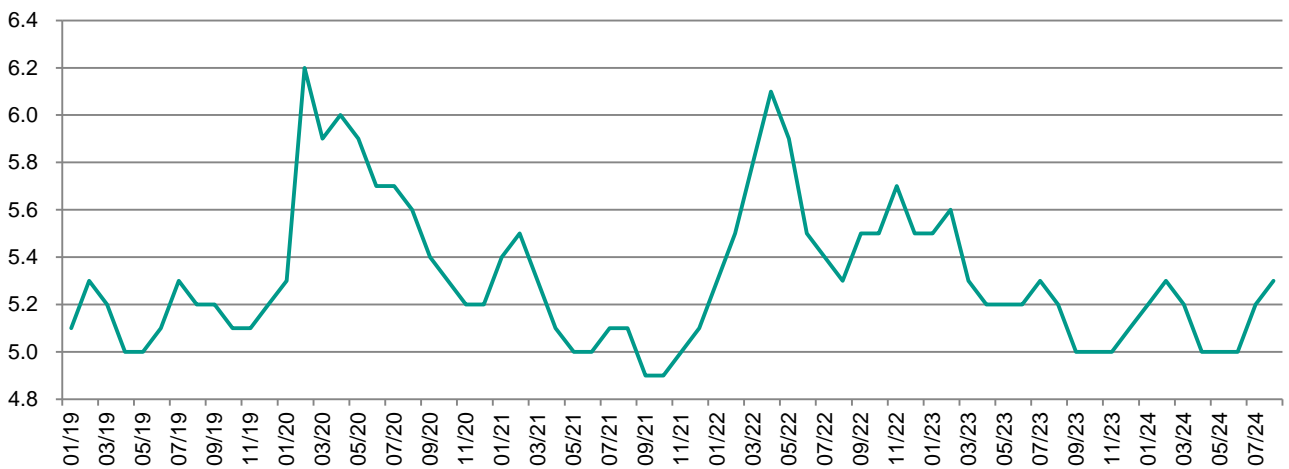
Source(s): PBOC, ABCI Securities

Exhibit 46: PBOC urban depositor survey - Employment Sentiment (%)

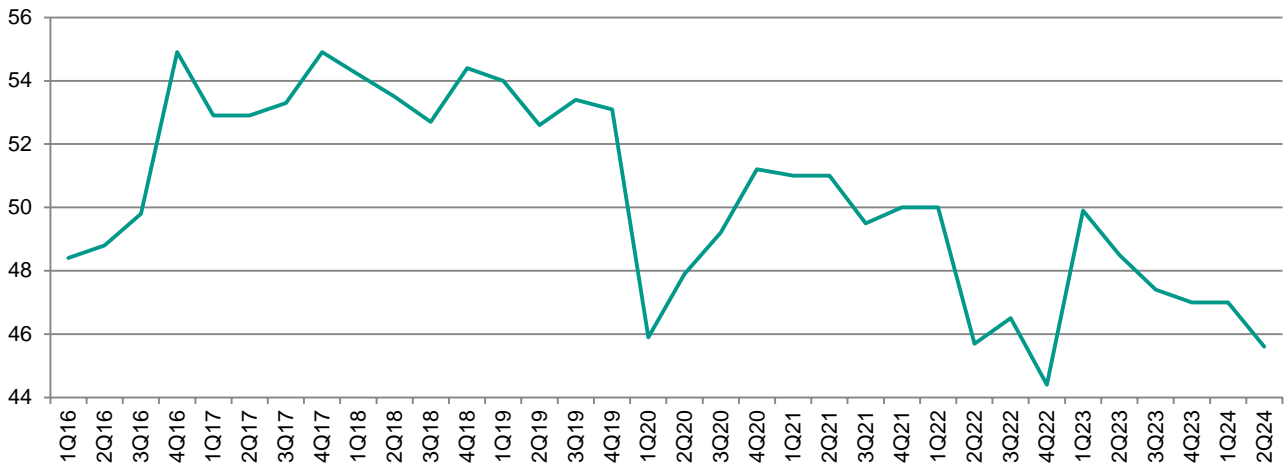


Source(s): PBOC, ABCI Securities

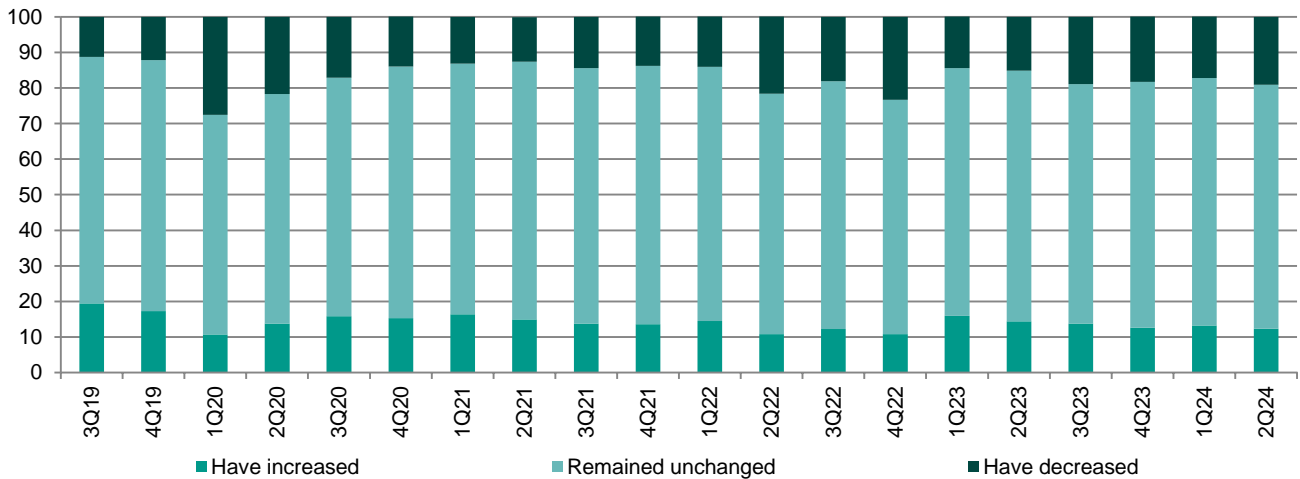
Exhibit 47: Unemployment rate (%)



Source(s): NBS, ABCI Securities

Exhibit 48: PBOC urban depositor survey – Income Confidence Index (%)


Source(s): PBOC, ABCI Securities

Exhibit 49: PBOC depositor survey – Income Sentiment (%)


Source(s): PBOC, ABCI Securities

Potential of consumer market recovery remains unscathed

Based on the income and spending growth data and the PBOC survey results, we believe the strong willingness to spend shows resilience in the consumer market remains, which would support a strong recovery if conditions are ripe. The challenging macroeconomic environment is the major hurdle on the way of a speedy recovery. In our opinion, the recent policy announcements has help lift the market confidence on the economic trajectory as some of them addresses the deep-rooted issued that prevents consumer market from thriving. In the future, complementary policies and measures, as well as effective and precise execution, would accelerate recovery of the consumer market.

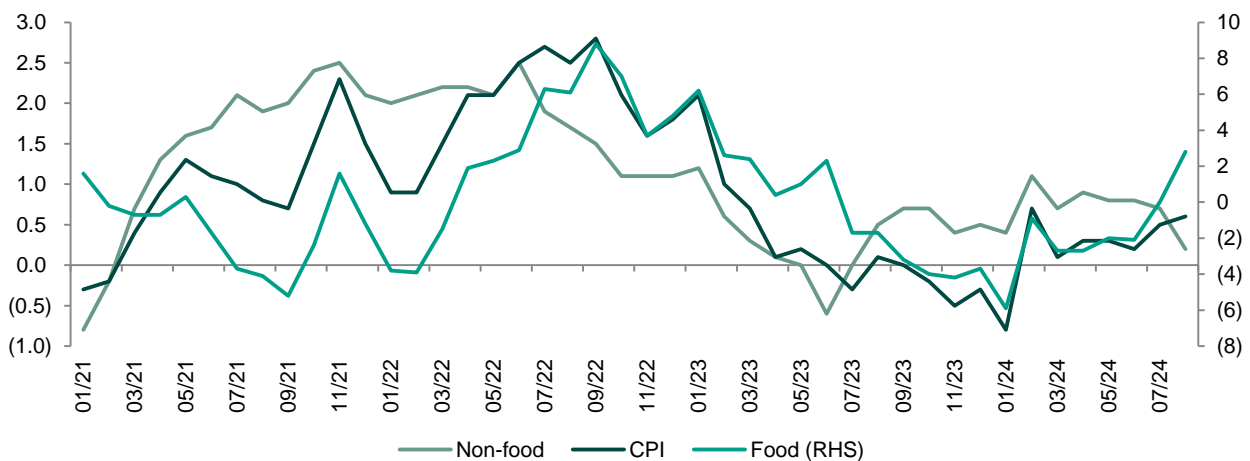
Low inflationary pressure leaves room for policy implementation

CPI in China has been below 1% YoY from Feb 2024 to Aug 2024, after experiencing decline from Oct 2023 to Jan 2024. Recent uptick in CPI was mainly caused by food items CPI increase, in particular pork, fresh vegetables and fresh fruit. We believe the seasonally factors, mainly flooding and typhoons experienced in certain region, are the major causes for food item CPI increase.

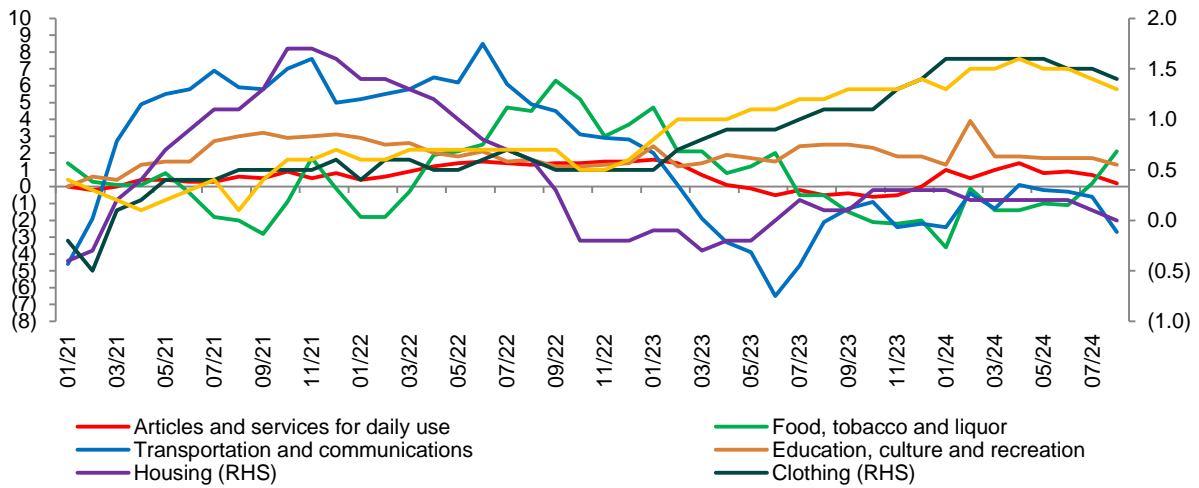
We believe inflationary pressure is likely to remain low for the short-term. Firstly, the seasonal factors mentioned are likely to subside. In addition, pork price has been the major driver of CPI in recent months, but MOA's weekly average wholesale price data indicates temporary retreat from the YTD peak in Sep 2024. Moreover, MOA's weekly average wholesale price data of other major food commodities and feeds also suggest more downward pressure on food price ahead. More importantly, consumer market is still in recovery and current demand level is not supportive for a cyclical rebound of inflationary pressure.

We maintain that the relatively low inflationary level would be advantageous to the implementation of policies announced recently and leaves room for additional stimulus policies to be launched in the future. On the corporate level, we believe the relatively high pork price would continue to benefit sector players' pricing capability and financial performance. But the continuous downward pressure on raw milk price would remain a concern for dairy product companies.

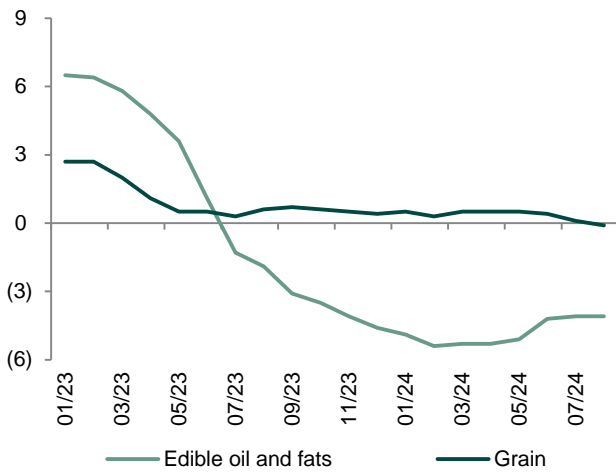
Exhibit 50: CPI (YoY %)



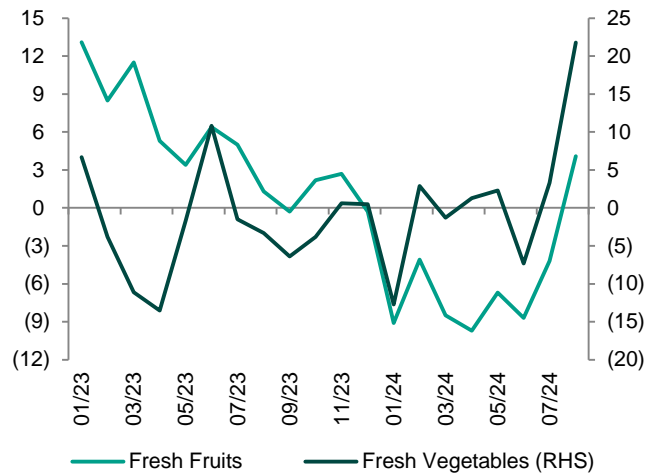
Source(s): NBS, ABCI Securities

Exhibit 51: CPI of major commodity categories (YoY %)


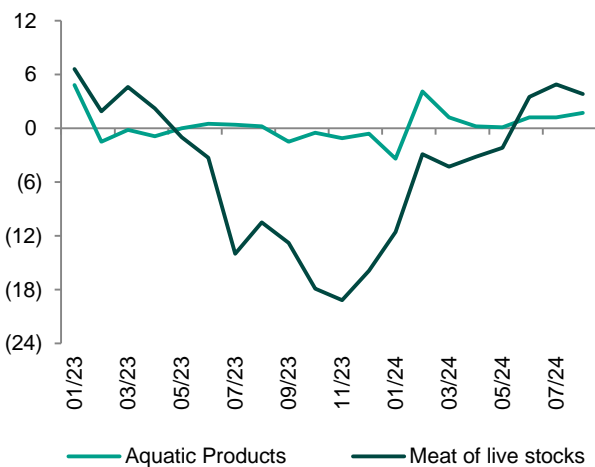
Source(s): NBS, ABCI Securities

Exhibit 52: CPI of cooking oil & grain (YoY %)


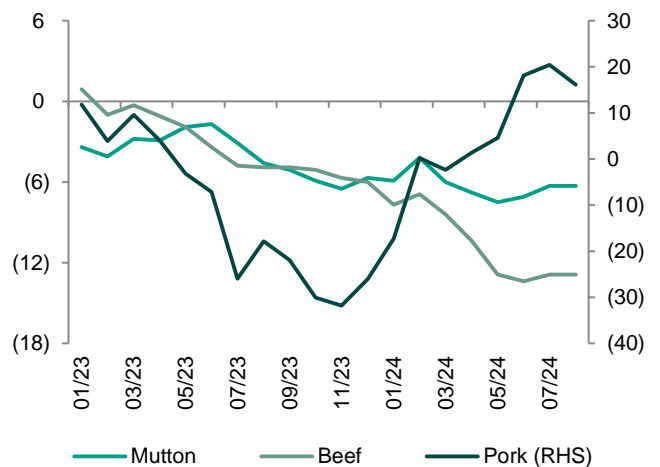
Source(s): NBS, ABCI Securities

Exhibit 53: CPI of fresh fruit & vegetables (YoY %)


Source(s): NBS, ABCI Securities

Exhibit 54: CPI of aquatic products & meat of livestock (YoY %)


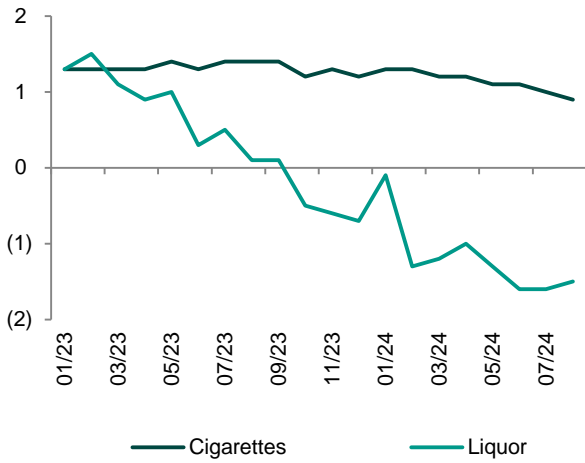
Source(s): NBS, ABCI Securities

Exhibit 55: CPI of major livestock meat products (YoY %)


Source(s): NBS, ABCI Securities

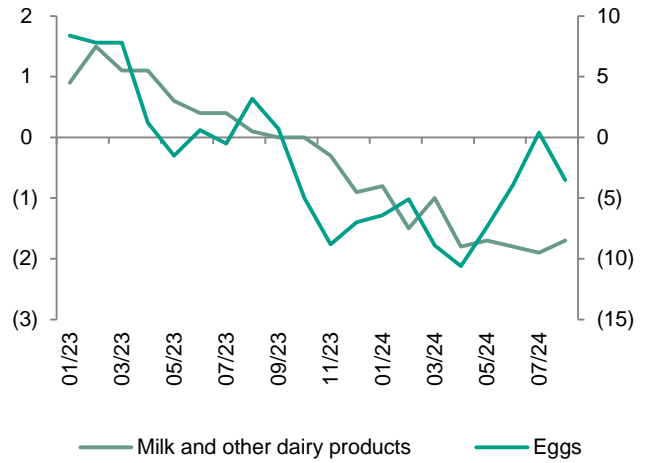


Exhibit 56: CPI of cigarettes & liquor (YoY %)



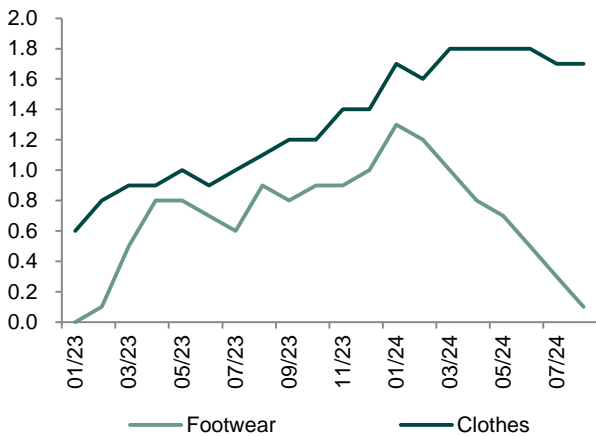
Source(s): NBS, ABCI Securities

Exhibit 57: CPI of dairy products & eggs (YoY %)



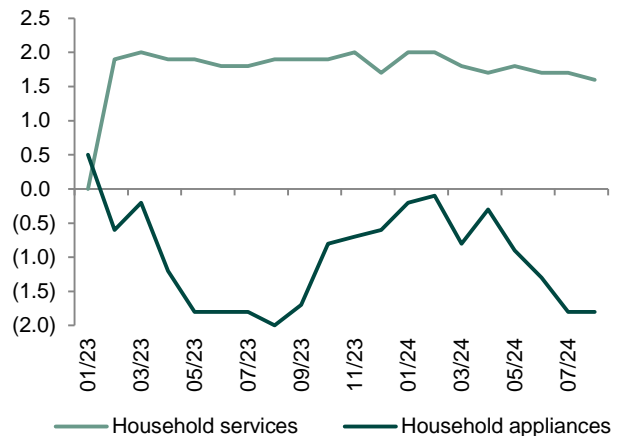
Source(s): NBS, ABCI Securities

Exhibit 58: CPI of footwear & clothes (YoY %)



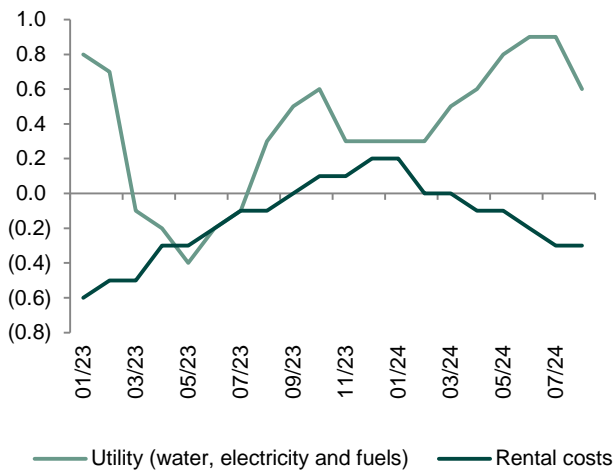
Source(s): NBS, ABCI Securities

Exhibit 59: CPI of household appliances and services (YoY %)



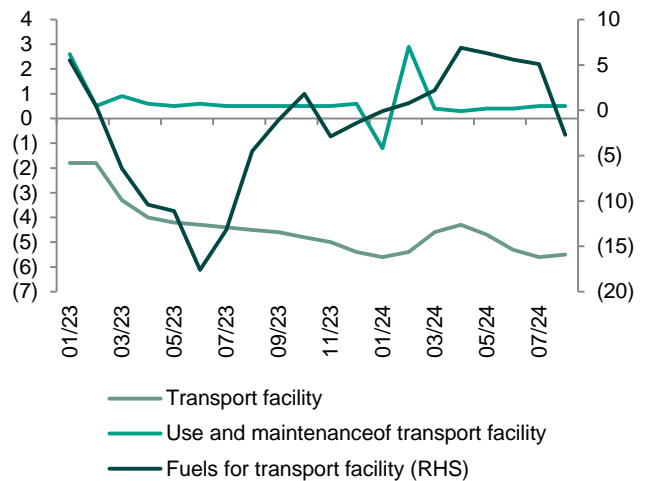
Source(s): NBS, ABCI Securities

Exhibit 60: CPI of utility & rental costs (YoY %)



Source(s): NBS, ABCI Securities

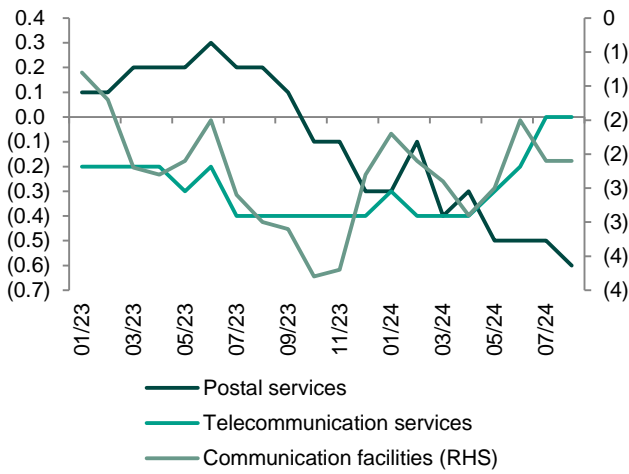
Exhibit 61: CPI of items associated with transport facility (YoY %)



Source(s): NBS, ABCI Securities

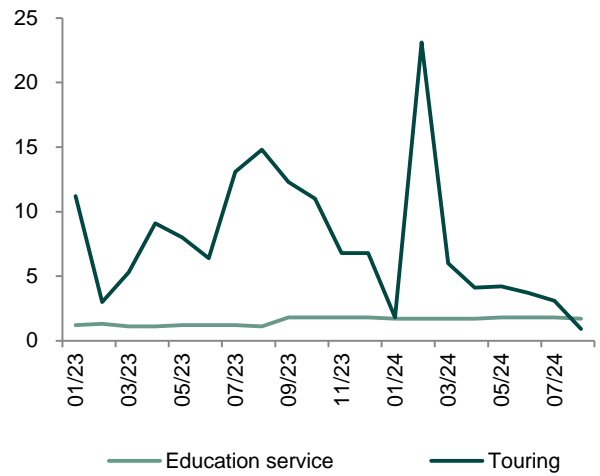


Exhibit 62: CPI of communication items (YoY %)



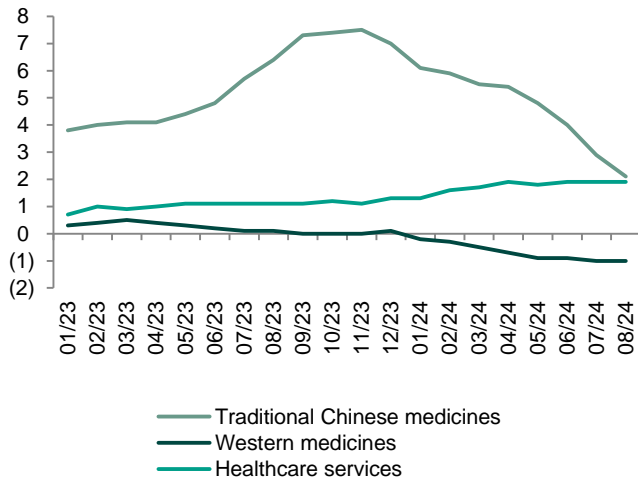
Source(s): NBS, ABCI Securities

Exhibit 63: CPI of education service & touring (YoY %)



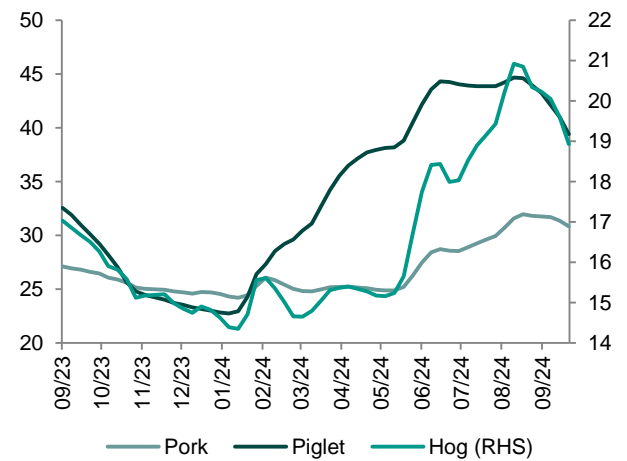
Source(s): NBS, ABCI Securities

Exhibit 64: CPI of TCM, western medicines, and healthcare service (YoY %)



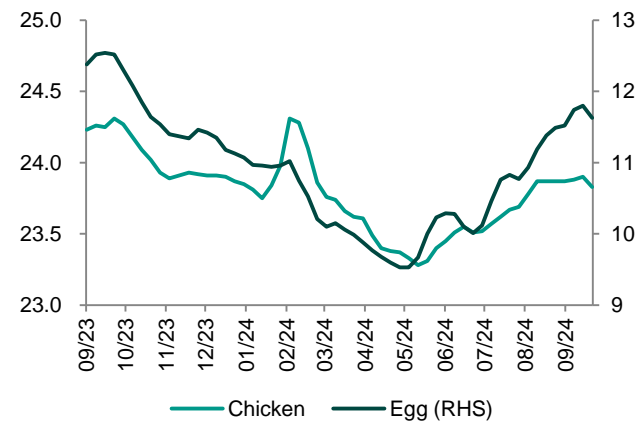
Source(s): NBS, ABCI Securities

Exhibit 65: Weekly average wholesale price of piglet, hog, and pork (RMB/kg)



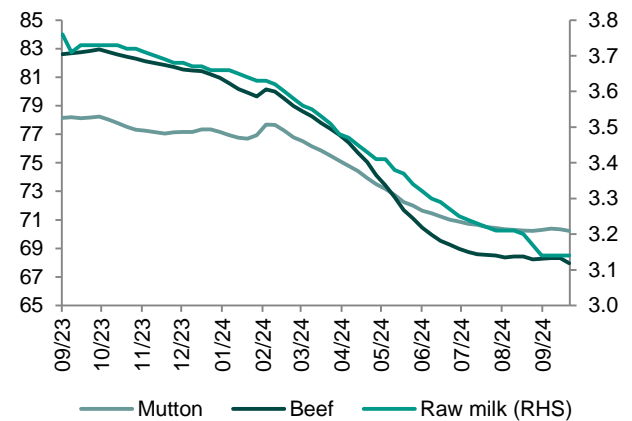
Source(s): MOA, ABCI Securities

Exhibit 66: Weekly average wholesale price of chicken and egg (RMB/kg)

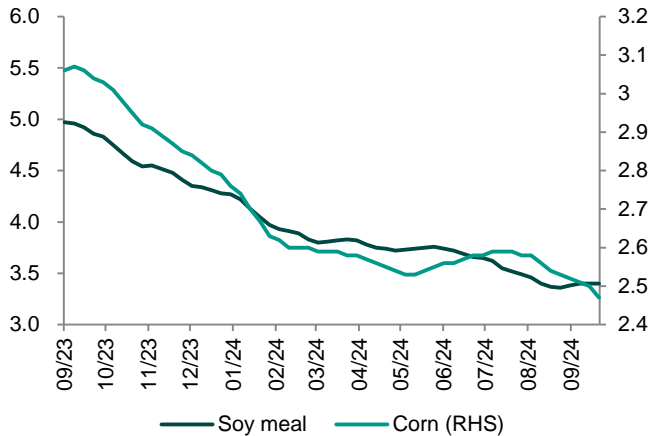


Source(s): MOA, ABCI Securities

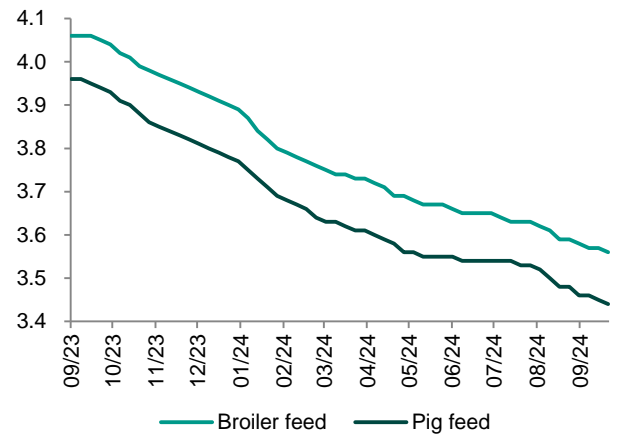
Exhibit 67: Weekly average wholesale price of mutton, beef, and raw milk (RMB/kg)



Source(s): MOA, ABCI Securities

Exhibit 68: Weekly average wholesale price of soy meal and corn (RMB/kg)


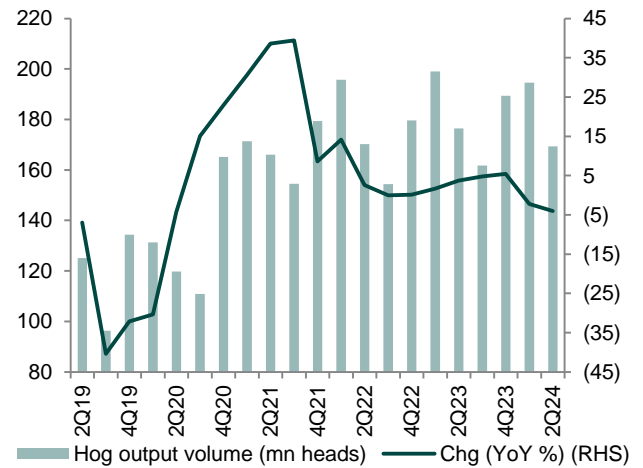
Source(s): MOA, ABCI Securities

Exhibit 69: Weekly average wholesale price of broiler feed and pig feed (RMB/kg)


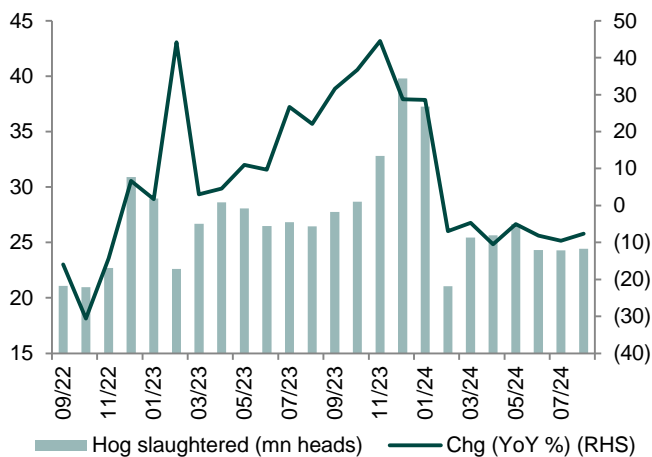
Source(s): MOA, ABCI Securities

Exhibit 70: National hog inventory

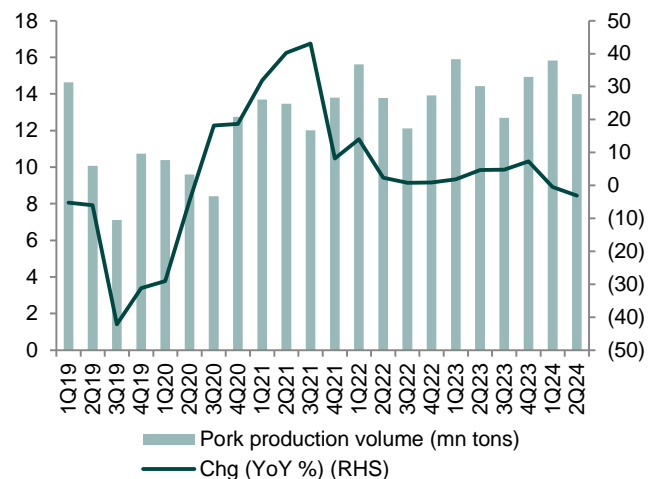

Source(s): NBS, ABCI Securities

Exhibit 71: National hog output


Source(s): NBS, NBS, ABCI Securities

Exhibit 72: Hogs slaughtered by enterprises above designated size


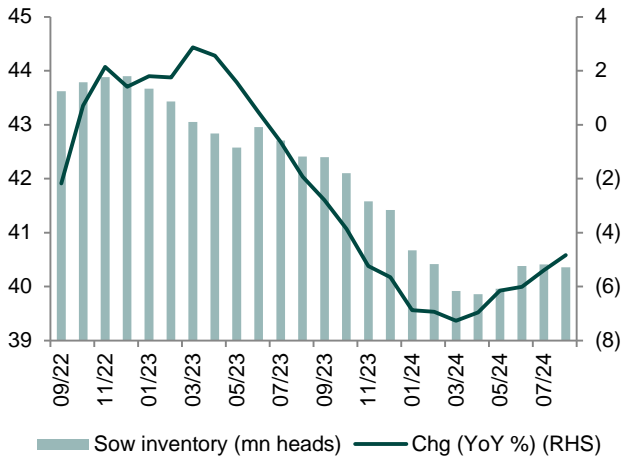
Source(s): MOA, ABCI Securities

Exhibit 73: Pork production volume


Source(s): NBS, ABCI Securities

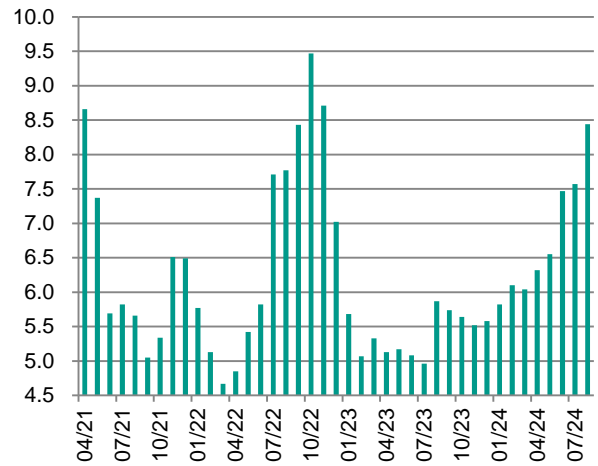


Exhibit 74: Sow inventory



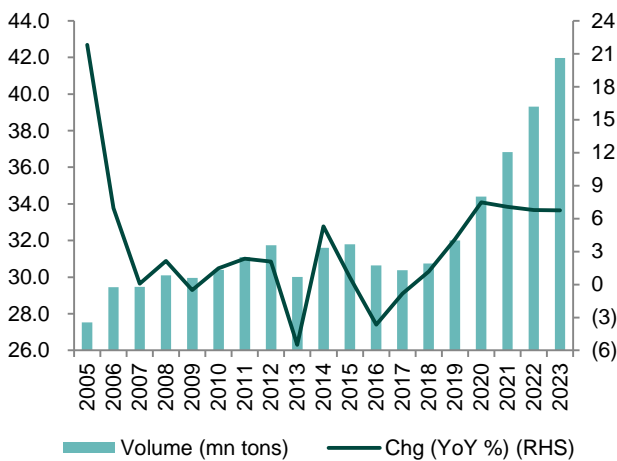
Source(s): MOA, ABCI Securities

Exhibit 75: China live pig to feed price ratio (x)



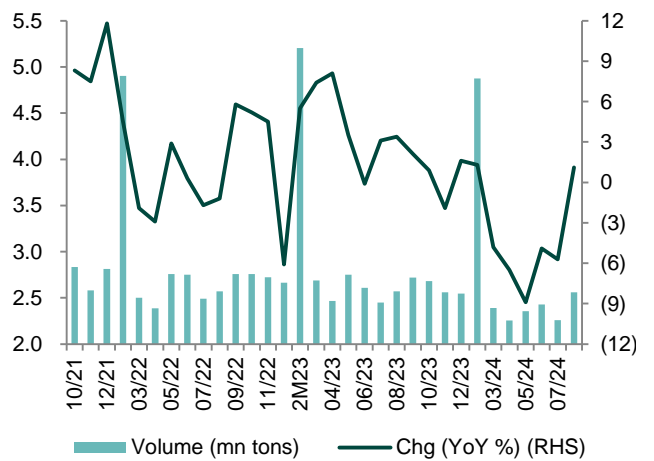
Source(s): NDRC, ABCI Securities

Exhibit 76: National raw milk production volume



Source(s): NBS, ABCI Securities

Exhibit 77: National dairy product production volume – enterprises above designated size



Source(s): NBS, ABCI Securities

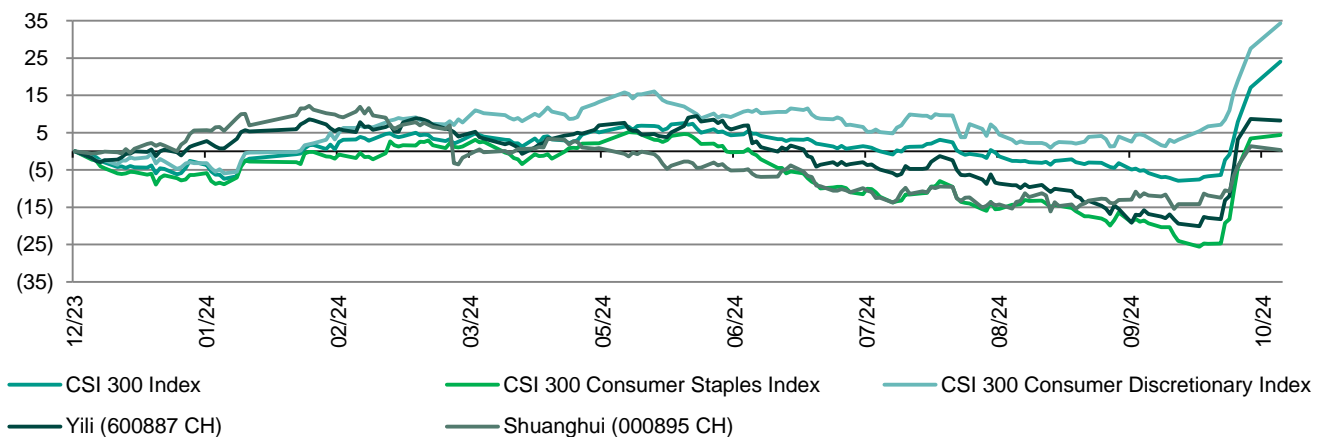
Sector recommendation

Post market rebound volatility to increase

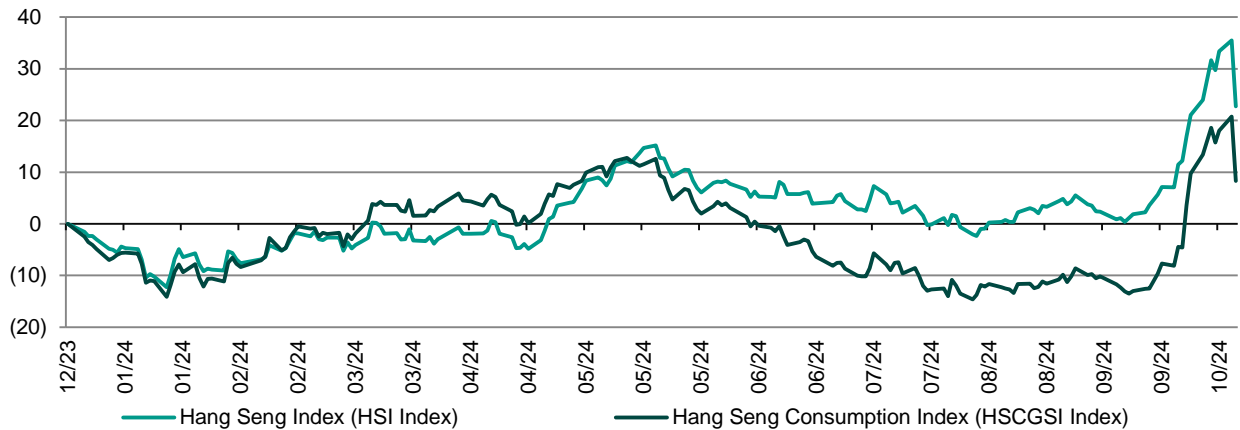
The intensive policy launches in recent weeks demonstrates the determination of the government to revitalize the national economy. Some of the policy measures went beyond market expectation, alleviating some of the market's concerns on policy risk. The lower policy risk premium supported the euphoric market condition and rising valuation.

However, market volatility is expected to increase. Firstly, market confidence still hinges on announcement of future policy announcements, details of current policy measures followed up by various authorities, and the precision and effectiveness of implementation. In addition, growth risk premium has not yet subsided and the market would shift focus to company fundamentals, corporate actions such as listing of subsidiaries and M&A, and price movements of major commodities. We believe growth risk premium would increase if the recovery process is lower than expectation.

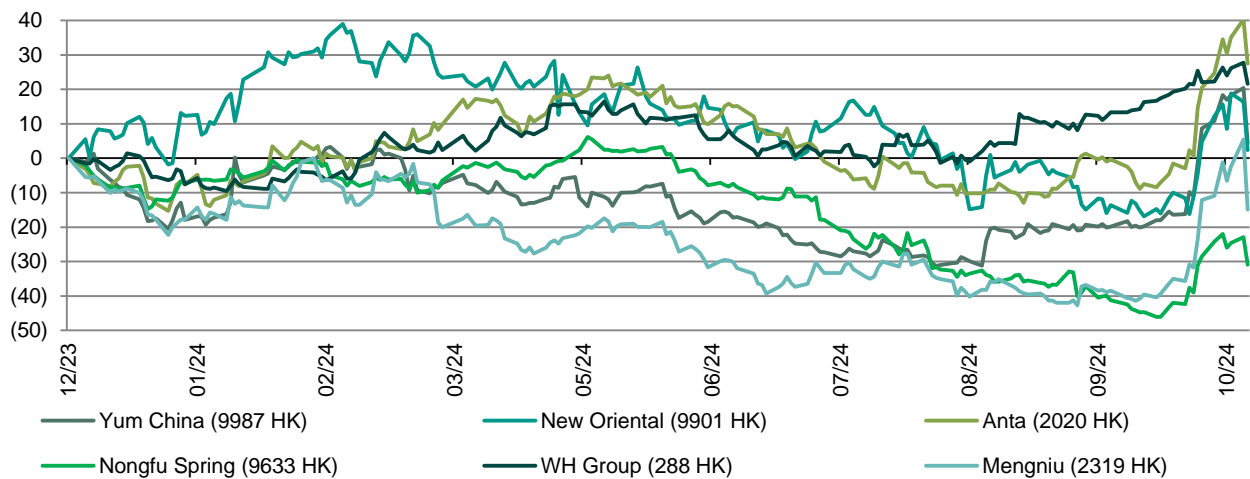
Exhibit 78: YTD performance of indices and stocks under coverage in Mainland Market (As of Oct 8, 2024)



Source(s): Bloomberg, ABCI Securities

Exhibit 79: YTD performance of indices in Hong Kong Market (As of Oct 8, 2024)


Source(s): Bloomberg, ABCI Securities

Exhibit 80: YTD performance of stocks under coverage in Hong Kong Market (As of Oct 8, 2024)


Source(s): Bloomberg, ABCI Securities

Key market themes to watch

National policy that supports share buybacks and M&A activities

Policies to support more share buybacks and M&A activities were among the recently announced policy initiatives. We believe these two measures would help support stock market valuations in different manners. The share buyback programs would alleviate short term downside pressure on stock price performance. The support for increase in M&A activities would help consolidation within the industry, benefiting industry leaders with more synergy and increase in market share.

Price dynamic of major commodities

Pork price increase and raw milk price decline have been contributing to the diverging valuation of consumer companies with products using these two food commodities. Despite the low inflationary pressure, the implementation of existing

and future policy measures would likely reignite inflation and reverse the price trend of major commodities.

Fundamentals of listed companies to remain uneven

We expect the fundamentals of listed companies to remain uneven for the upcoming 3Q24 & 4Q24 earnings seasons, as impacts of stimulus policies on the consumer sector and the companies, and we expect the recovery of employment and income certainty, thus the overall consumption demand level, would be gradual.

Event-driven support for company valuations

Amer Sports (AS US) successfully launched its initial public offering (“IPO”) of 105,000,000 ordinary shares at an initial offering price of US\$ 13.00 on Jan 31, 2024. The Group’s shares began trading on Feb 1, 2024. The IPO closed on Feb 5, 2024 and \$1.37bn in gross proceeds was raised. Additional shares were purchased by the underwriters at US\$ 13.00 per share, raising an additional USD\$ 204.8mn.

According to the 1H24 earnings report of Anta (2020 HK), with the Amer Sports Listing, Amer Sports Cornerstone Investment, Amer Sports Shareholding Reorganization and Issuance of Over-Allotment Option, the number of ordinary shares held by Anta (2020 HK) reached 218,915,443, which represents 43.33% of the total issued shares of Amer Sports, Inc.

WH Group announced a proposed spin-off of the business of Smithfield Foods, Inc. operated in the U.S. and Mexico (Smithfield for short) for a separate listing on either the NYSE or the Nasdaq. No specific timeline or listing valuation has been announced by WH Group. However, according to our analysis, assuming the listing is priced at 9.4x FY23 operating profit, which is the valuation multiple implied by the consideration offered by WH Group at the time of acquisition, and 25% of the shares are being sold, the proceeds from the listing would be around US\$ 775.5mn, representing 67.1% of the bank balance and cash and 24.0% of total debt as of end-FY23 of WH Group.

The successful listing of Amer Sports and the potential listing of Smithfield would encourage other consumer sector companies from China to follow suit. In the long run, such listings would help these companies strengthen their foreign market presence and lay the groundwork for future global expansion. In the short term, the proceeds from such listings would help build up the cash reserves of these companies and the enhanced transparency through regulatory disclosures would strengthen investor confidence.

Defensiveness of the sector remains favorable

We continue to view the consumer sector as defensively positioned, with certain industry leaders expected to remain resilient. Despite ongoing economic challenges, we maintain our positive outlook on the sector's long-term growth potential. The recently announced policy initiatives also reduced the risk premium and WACC of sector players, providing support to their valuation and share price rebound. Our current sector rating is OVERWEIGHT. Investors seeking exposure to this sector should consider increasing allocation to high-quality or leading companies.

One of our sector picks is WH Group (288 HK), due to improvement in its farm operation in the US market, relatively strong U.S. operations, and the potential spin-off listing of its US business.

Another sector pick is New Oriental (EDU US/9901 HK), as it has been consistently improving its financial performance and the latest policy on service consumption indicated government to maintain support for after-school tutoring.

Anta (2020 HK) is also among our sector picks. We expect the multi-brand portfolio would support the Group's long term growth and Amer's (AS US) strong Greater China segment performance and solid core brands would also be positive to valuation.

Exhibit 81: Sector valuation comparison

ENG name	Ticker	Rating	Pricing Currency	Price	TP	Upside (%)	YTD chg. (%)	P/E(x)		P/B (x)		Div. Yield (%)		ROAA (%)		ROAE (%)	
								24E	25E	24E	25E	24E	25E	24E	25E	24E	25E
Anta	2020 HK	BUY	HK\$	96.55	116.0	20.1	27.5	20.2	17.3	4.4	3.8	2.6	2.9	13.8	14.8	22.8	23.7
WH Group	288 HK	BUY	HK\$	6.13	7.0	14.2	21.6	8.6	7.3	1.0	0.9	4.1	4.8	7.7	8.2	11.5	12.6
Yum China	YUMC US	BUY	US\$	47.09	62.3	32.3	11.0	21.1	19.0	3.0	2.7	1.4	1.4	7.6	8.1	13.8	14.9
	9987 HK	BUY	HK\$	346.8	483.9	39.5	4.4	20.0	18.0	2.9	2.5	1.4	1.4				
New Oriental	EDU US	BUY	US\$	75.78	93.7	23.7	3.4	31.4	23.2	3.0	2.6	0.8	0.0	5.3	6.0	9.9	12.0
	9901 HK	BUY	HK\$	56.55	72.8	28.7	2.4	30.2	22.3	2.9	2.5	0.8	0.0				
Nongfu Spring	9633 HK	BUY	HK\$	31.2	45.8	46.8	(30.9)	25.7	22.3	10.1	8.0	1.9	2.2	24.0	24.2	41.2	40.1
Amer	AS US	BUY	US\$	18.35	22.6	23.2	41.2	53.4	33.6	2.2	2.1	0.0	0.0	2.0	3.0	8.6	6.4
Mengniu	2319 HK	HOLD	HK\$	17.86	18.3	2.5	(15.0)	14.7	12.3	1.4	1.3	3.0	3.8	3.8	4.5	9.6	10.8
Yili	600887 CH	HOLD	RMB	28.96	29.3	1.2	8.3	15.2	15.8	3.2	3.0	4.7	4.5	7.9	7.4	21.8	19.7
Shuanghui	000895 CH	HOLD	RMB	26.80	27.1	1.1	0.3	17.2	16.7	4.4	4.2	5.2	5.4	14.5	14.5	25.6	25.8

Note:

1) Data as of Oct 8, 2024;

2) US\$/HK\$=7.7668; RMB/HK\$ = 1.0978;

3) New Oriental's FY ends in May, and its valuation multiples and forecasting figures are for FY25E and FY26E.

Source(s): Bloomberg, ABCI Securities estimates

Risk factors

Policy risk

Policies announced in Sep 2024 reflect the determination of the government to revitalize the economy. However, some of these policies are not directly targeting the consumer sector, concrete policy measures is needed to complement some of the current policy frameworks, and effectiveness of the current policy portfolio is still dependent on the implementation.

Macroeconomic risk

Impacts of newly launched policies on the national economy would not show immediately. It is likely corporate fundamentals would fluctuate in the upcoming earnings seasons. In addition, macroeconomic challenges, if remain unresolved, would likely to prevent consumer market from achieving full recovery.

Raw material cost risk

In general, domestic raw material costs sill face downward pressure with a few exceptions. The lower raw material costs in some commodities, such as raw milk, would continue to negatively impact the financial performance of certain companies, manifesting in inventory impairment and losses associated with biological assets revaluation. Despite the recent increase, pork price has been retreating from the YTD high in recent weeks. If such a trend is not reverse, pork product companies would also be negatively impacted.

Rising value conscientiousness among consumers

Based on the recent NBS retail sales figures in recent months, we believe the consumer market is experiencing a rising value conscientiousness. We expect if measures are not taken to address this issue, overall consumption demand would face more downward pressure.

Shifting market sentiment

The euphoric market sentiment driven by the recent rounds of policy announcements is pushing the valuation of companies within the consumer sector to shoot up rapidly. However, market sentiment is at risk of shifting, if the macroeconomic improvement does not align with or above market consensus. We believe potential triggers for revision of valuation to watch out for include the release of macroeconomic data for Sep 2024 & 3Q24, the sales performance of e-commerce platforms during the “Double 11” event, and the upcoming earnings season.

Long-term structural change in demographics

Number of newborns and birth rate continued to drop in 2023, extending a concerning trend in demographic shift. We believe the shifting demographic would bring in profound changes to consumer market and per capita consumption growth. Companies in the sector would have to embrace and adapt to these changes.

Anta Sports (2020 HK) Stabilizing policy environment to benefit future performance

- Recently announced policy initiatives would boost consumer market recovery and benefit the Group's future performance
- Amer's improving performance benefit the Group's bottom line
- The Group's share buyback measures and increase in dividend payout would strengthen investor confidence and lend further support to share price performance
- Maintain **BUY**; TP represents 24.3x/20.8x 24E/25E P/E, or 5.3x/4.6x 24E/25E P/B

Better consumer market outlook to drive growth. We believe the recently launched policy initiatives by authorities in China would potentially help boost consumer market sentiment and overall consumer market demand. The Group's leading position in the sector and its diverse product portfolio would help capture new growth opportunities. We expect FY23-26E revenue CAGR to reach 15.0%, while FY23-26E revenue CAGR of ANTA brand, FILA brand, and other brands would reach 12.5%, 10.3%, and 37.3%. Our projected revenue growth for FY25E and FY26E is at 14.8% YoY and 15.8% YoY. In addition, we project GPM, OPM, and NPM to increase from 63.1%, 24.3%, and 17.1% FY24E to 64.5%, 26.3% and 18.8% in FY26E.

Improving Amer profitability to benefit Anta's bottom line. Anta is the major shareholder of Amer (AS US) with a holding position of 43.33% as of end-1H24 and is accounting for Amer as an associate. Therefore, the performance of Amer would impact the Group's bottom line. According to our latest projection, Amer is going to achieve net profit of US\$ 174mn in FY24E vs. net loss of US\$ 209mn in FY23 and its net profit would continue to grow in the coming years. Based on our current projection, post-tax impact of Amer on the Group's net profit is expected to reach 4.9% in FY24E. Amer's profitability turnaround would be beneficial to the Group's net margin.

Measures to support share price. After 1H24 earnings announcement, HK\$ 10bn was budgeted for repurchasing shares in the open market in the next 18 months by the Group. In addition, the interim dividend is increased by 44% YoY to HK\$ 1.18. The measures to increase shareholder return would provide further support to the Group's share price.

Maintain BUY; TP at HK\$ 116.0. The Group's strong brand portfolio and leading position in domestic sportswear market enables it to capture new growth opportunities brought by the new policies. The WACC for our DCF model drops by 1.2ppt to 11.9% due to reduction in policy risk premium, further supporting increase in TP. Maintain **BUY**. Current TP implies 24.3x/20.8x 24E/25E P/E, or 5.3x/4.6x 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; 6) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	53,651	62,356	71,308	81,857	94,788
Chg (% YoY)	8.8	16.2	14.4	14.8	15.8
Net Profit (RMB mn)	7,590	10,236	12,332	14,414	17,811
Chg (% YoY)	(1.7)	34.9	20.5	16.9	23.6
Basic EPS (RMB)	2.82	3.69	4.35	5.09	6.29
Chg (% YoY)	(1.7)	30.9	18.0	16.9	23.6
P/E (x)	31.19	23.83	20.2	17.3	13.99
BVPS (RMB)	12.68	18.17	20.03	22.87	26.60
P/B (x)	6.94	4.84	4.4	3.8	3.31
DPS(HK cent)	134	197	246	281	344
Yield (%)	1.4	2.0	2.6	2.9	3.6
ROAA (%)	12.5	14.0	13.8	14.8	16.4
ROAE (%)	24.0	23.8	22.8	23.7	25.4

Source(s): The Group, ABCI Securities estimates

Company Report Oct 9, 2024 Rating: BUY TP: HK\$ 116.0

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

Share price (HK\$)	96.55
52 wk High/Low (HK\$)	107.5/60.2
Est. share price return	20.1%
Est. dividend yield	2.6%
Est. total return	22.7%
Previous Rating & TP	BUY; HK\$86.6
Previous Report Date	Aug 28, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.8
Mkt cap (HK\$ bn)	273.49
3 mth ADT (HK\$mn)	883.2
Major shareholder (%)	
Anta International	42.4

Source(s): The Group, Bloomberg, HKEX

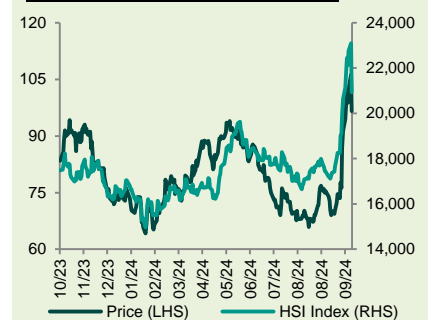
Share performance (%)

	Absolute	Relative*
1-mth	27.9	7.9
3-mth	35.9	18.3
6-mth	8.7	(16.4)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- All pricing and market data as of Oct 8, 2024;
- RMB/HKD: 1.0978;
- Net profit and related measures refer 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 (%)	25.0	20.7	25.0	20.7	N/A
D/A (%)	15.1	13.2	15.1	13.2	
Tax rate (%)	27.9	27.9	27.9	27.9	
Valuations					
TP (HK\$)	116.0		86.6		Higher TP due to higher revenue and profit projections and lower WACC
P/E (x)	24.3	20.8	18.2	15.7	
P/B (x)	5.3	4.6	3.9	3.5	

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) As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	71,308	81,857	94,788	71,308	81,815	94,740	0.0	0.1	0.1
Net profit (to owners of the Company)	12,332	14,414	17,811	12,332	14,261	17,252	0.0	1.1	3.2
EPS (RMB)	4.35	5.09	6.29	4.35	5.03	6.09	0.0	1.1	3.2

Source(s): ABCI Securities estimates

Exhibit 3: Retail sales value YoY change of Anta

Brand	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
ANTA	mid-single digit -	mid-single digit +	high-single digit -	mid-single digit +	high-single digit +	high-single digit +	high-teens +	mid-single digit +	high-single digit +
FILA	high-single digit -	low teens +	low teens -	high-single digit +	high-teens +	low teens +	25-30% +	high-single digit +	mid-single digit +
Others	20-25% +	40-45% +	20-25%+	75%-80%+	70%-75%+	45-50% +	55-60% +	25-30%+	40-45%+

Note: + = growth; - = decline

Source(s): The Group, 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	71,308	81,857	94,788
- ANTA brand	27,723	30,306	33,910	38,160	43,109
- FILA brand	21,523	25,103	27,445	30,297	33,686
- Other brands	4,405	6,947	9,954	13,400	17,993
COGS	(21,333)	(23,328)	(26,328)	(29,803)	(33,654)
Gross profit	32,318	39,028	44,980	52,054	61,134
Other net income/(loss)	2,128	1,705	1,984	2,225	2,601
S&D expenses	(19,629)	(21,673)	(25,308)	(28,888)	(33,013)
Admin expenses	(3,587)	(3,693)	(4,297)	(4,978)	(5,798)
Operating profit	11,230	15,367	17,359	20,413	24,924
Net finance income/(expense)	97	991	333	544	921
Share of gain/(loss) from JV	28	(718)	0	0	0
Share of gain/(loss) from associate	0	0	844	851	1,132
Pretax profit	11,355	15,640	18,536	21,808	26,977
Tax	(3,110)	(4,363)	(5,168)	(6,088)	(7,526)
Net profit	8,245	11,277	13,368	15,720	19,451
- Owners of the company	7,590	10,236	12,332	14,414	17,811
- Minority interest	655	1,041	1,036	1,306	1,640
Dividend	3,360	5,188	6,358	7,250	8,875
EPS (RMB)					
- Basic	2.82	3.69	4.35	5.09	6.29
- Diluted	2.76	3.60	4.35	5.09	6.29
DPS (HK cent)	134	197	246	281	344

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	20,656	23,413	25,298
Trade receivables	2,978	3,732	4,388	4,970	5,336
Inventory	8,490	7,210	10,811	10,492	13,258
Others	13,750	25,970	24,078	30,427	41,191
Current assets	42,596	52,140	59,933	69,300	85,084
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	0	0	0
Investment in associate	0	0	12,802	12,802	12,802
Others	2,987	15,666	25,855	24,482	24,160
Non-current assets	26,599	40,088	41,577	41,832	41,685
Total assets	69,195	92,228	101,510	111,133	126,768
Trade payables	2,750	3,195	5,095	3,893	6,201
ST borrowings	12,198	3,996	11,378	10,638	9,862
Others	11,259	13,400	14,486	16,307	17,948
Current liabilities	26,207	20,591	30,960	30,838	34,012
LT borrowings	492	10,948	3,979	3,979	3,979
Deferred tax liabilities	691	855	982	1,080	1,256
Others	3,966	3,824	4,198	4,481	4,567
Total non-current liabilities	5,149	15,627	9,159	9,540	9,802
Shareholders' equity	34,400	51,460	56,729	64,786	75,347
Minority interest	3,439	4,550	4,662	5,968	7,608
Total equity	37,839	56,010	61,391	70,754	82,954
Total liabilities and equity	69,195	92,228	101,510	111,133	126,768

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	18,536	21,808	26,977
Depreciation & amortization	4,464	4,987	5,045	5,964	6,321
Change in working capital	(1,598)	1,659	(2,055)	(849)	(890)
Others	(2,074)	(2,652)	(4,442)	(5,344)	(6,671)
Cash flow from operating activities	12,147	19,634	17,084	21,579	25,738
Change in PP&E	(974)	(427)	(189)	(292)	(88)
Payment for the Amer Sports Cornerstone Investment	0	0	(1,595)	0	0
Others	(3,800)	(25,366)	(13,142)	(19,038)	(23,179)
Cash flow from investing activities	(4,774)	(25,793)	(13,331)	(19,330)	(23,267)
Change in borrowing	(1,403)	442	414	(740)	(776)
Dividend paid	(3,950)	(4,250)	(7,034)	(7,836)	(8,957)
Others	(2,488)	7,279	8,007	8,808	8,808
Cash flow from financing activities	(7,841)	3,471	1,387	231	(925)
Net change in cash	(468)	(2,688)	5,140	2,480	1,546
Forex effect	254	538	289	276	339
Cash at the end of FY	17,378	15,228	20,656	23,413	25,298

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	14.4	14.8	15.8
- ANTA Brand	15.5	9.3	11.9	12.5	13.0
- FILA Brand	(1.4)	16.6	9.3	10.4	11.2
- Other brands	26.1	57.7	43.3	34.6	34.3
Gross profit	6.3	20.8	15.3	15.7	17.4
EBIT	2.2	36.8	13.0	17.6	22.1
Net profit (to owners of the company)	(1.7)	34.9	20.5	16.9	23.6
Profitability ratios (%)					
GPM	60.2	62.6	63.1	63.6	64.5
OPM	20.9	24.6	24.3	24.9	26.3
Pretax	21.2	25.1	26.0	26.6	28.5
NPM (to owners of the company)	14.1	16.4	17.3	17.6	18.8
Revenue contribution (%)					
- ANTA Brand	51.7	48.6	47.6	46.6	45.5
- FILA Brand	40.1	40.3	38.5	37.0	35.5
- Other brands	8.2	11.1	14.0	16.4	19.0
Return ratios (%)					
ROAA	12.5	14.0	13.8	14.8	16.4
ROAE	24.0	23.8	22.8	23.7	25.4
Liquidity ratio (x)					
Current ratio	1.6	2.5	1.9	2.2	2.5
Quick ratio	1.3	2.2	1.6	1.9	2.1
Cash ratio	1.1	1.8	1.3	1.6	1.8
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	25.0	20.7	16.7
Total debt to Total assets	18.3	16.2	15.1	13.2	10.9
Net (cash) / debt to Equity	(39.6)	(38.8)	(40.2)	(47.9)	(57.2)
Net (cash) / debt to Total assets	(21.7)	(23.6)	(24.3)	(30.5)	(37.5)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

WH Group (288 HK)

Potential improvement in China's consumer market to boost outlook

- The Group would benefit from the potential improvement in consumer market resulted from the newly announced policy initiatives in China
- Smithfield's potential listing to strengthen WH Group's financial position
- Maintain **BUY**; TP implies 9.9x/8.4x 24E/25E P/E, or 1.1x/1.0x 24E/25E P/B

Solid fundamentals to support valuation. Despite some growth headwinds, we believe the Group's fundamental remain strong, which is supported by the following factors: 1) the streamlining efforts in farm operations in North America has achieved initial results in reduce the losses in the US pork segment in 1H24 earnings results; 2) the Group's North American operation saw better performance than some of its peers, such as Tyson Foods (TSN US), in 2Q24. We believe the solid fundamentals, combined with the positive impact brought by the recent policy measures in China, would support the Group's business outlook. Our FY25E/FY26E revenue growth projections are revised up to 3.1% YoY/3.4% YoY; FY23-26E revenue CAGR is projected to be 2.2%. OPM and NPM are expected to increase from 8.4% and 5.1% in FY24E to 8.6% and 5.5% in FY26E.

Smithfield listing to strengthen WH Group's financial position. Back in Jul 2024, WH Group announced a proposed spin-off of Smithfield Foods, Inc. operating in the U.S. and Mexico (Smithfield for short) for a separate listing. As of end-FY23, WH Group had US\$ 1,156mn in bank balances and cash, and US\$ 3,228mn in total debt (including bank borrowings, senior unsecured notes, and loans from third parties); total debt/total assets ratio was 16.8% and total debt/total equity ratio was 30.5%. Assuming the listing is priced at a FY23 operating profit multiple of 9.4x, which is also the valuation implied by the consideration paid by WH Group when acquiring Smithfield, and 25% of the share are being sold, the proceeds from the listing would be US\$ 775.5mn, which represents 67.1% of the bank balances and cash and 24.0% of total debt as of end-FY23. The total debt/total assets ratio and total debt/total equity ratio would be at 16.2% and 28.4% as of end-FY23, assuming listing was completed by end-FY23.

Maintain BUY; TP at HK\$ 7.0. Apart from the solid fundamentals, the recent policy measures announced by authorities in China have significantly reduced policy risk premium and lowered WACC of our DCF model by 1ppt to 8.3%. Maintain **BUY**. Current TP represents 9.9x/8.4x 24E/25E P/E, or 1.1x/1.0x 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; 9) Potential failure of Smithfield listing; 10) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	28,136	26,236	26,284	27,098	28,010
Chg (% YoY)	3.1	(6.8)	0.2	3.1	3.4
Net profit (US\$ mn)	1,370	629	1,172	1,380	1,546
Chg (% YoY)	28.3	(54.1)	86.3	17.8	12.0
Basic EPS (US cent)	10.68	4.90	9.13	10.76	12.05
Chg (% YoY)	41.4	(54.1)	86.3	17.8	12.0
P/E (x)	7.39	16.10	8.64	7.34	6.55
BVPS (US cent)	74.82	76.62	81.92	89.48	97.77
P/B (x)	1.05	1.03	0.96	0.88	0.81
DPS(HK\$)	0.30	0.30	0.25	0.29	0.33
Yield (%)	4.9	4.9	4.1	4.8	5.3
ROAA (%)	8.4	4.4	7.7	8.2	8.8
ROAE (%)	14.9	6.5	11.5	12.6	12.9

Source(s): The Group, ABCI Securities estimates

Company Report

Oct 9, 2024

Rating: BUY

TP: HK\$ 7.0

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

Share price (HK\$)	6.13
52Wk H/L(HK\$)	6.44/4.16
Est. share price return	14.2%
Est. dividend yield	4.1%
Est. total return	18.2%
Previous Rating & TP	BUY; HK\$6.4
Previous report date	Aug 16, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.8
Market cap (HK\$ bn)	78.6
3-mth ADT (HK\$ mn)	156.0

Major shareholders

Wan Long	(%)
	27.4

Source(s): Bloomberg, HKEx, ABCI Securities

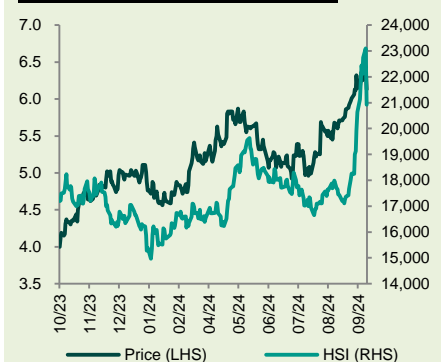
Sector Performance (%)

	Absolute	Relative*
1-mth	7.4	(12.6)
3-mth	20.4	2.9
6-mth	19.0	(6.1)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) Market data as of Oct 8, 2024;
- 2) Gross profit, operating profit, and related measures discussed are before biological adjustment;
- 3) Net profits and related measures refer to net profit attributable to shareholders of the Company after biological adjustment;
- 4) USD/HKD: 7.7668.

Exhibit 1: Change in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	26.5	22.5	26.5	22.5	N/A
D/A (%)	13.7	12.5	13.7	12.5	
Tax rate (%)	20.2	20.3	20.2	20.3	
Valuations					
TP (HK\$)	7.0		6.4		Higher TP is due to higher revenue and profit projections and lower WACC
P/E (x)	9.9	8.4	9.0	7.8	
P/B (x)	1.1	1.0	1.0	0.9	

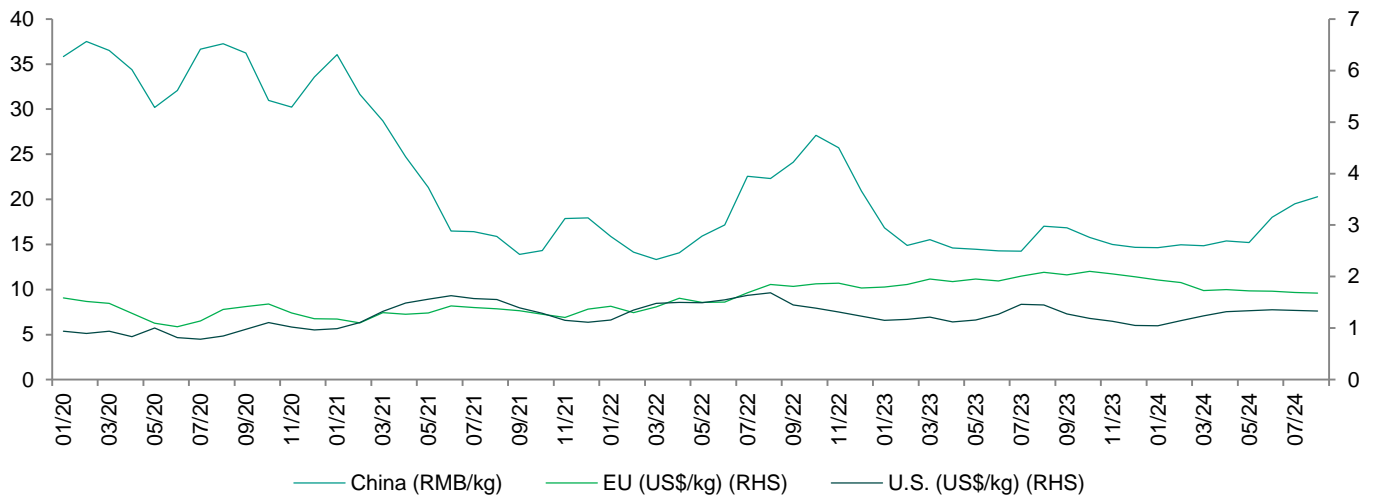
Note: for previous report publication date please refer to the cover page of this company report
Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (US\$ mn)	26,284	27,098	28,010	26,284	27,015	27,789	0.0	0.3	0.8
Net profit (to owners of the Company) (US\$ mn)	1,172	1,380	1,546	1,172	1,352	1,501	0.0	2.1	3.0
EPS (US cent)	9.13	10.76	12.05	9.13	10.53	11.70	0.0	2.2	3.0

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

Exhibit 3: Hog price in China, the U.S., and Europe



Note: EU price is European Commission carcass price multiplied by 0.755
Source(s): MOA, USDA, European Commission, 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	26,284	27,098	28,010
- Packaged meats	14,559	13,523	13,612	14,389	14,988
- Pork	11,797	10,810	10,653	10,629	10,878
- Others	1,780	1,903	2,020	2,080	2,144
COGS	(22,959)	(21,111)	(21,243)	(21,796)	(22,356)
Gross profit	5,177	5,125	5,041	5,302	5,654
Distribution and selling expenses	(2,082)	(1,977)	(1,988)	(2,048)	(2,121)
Admin expenses	(842)	(889)	(890)	(918)	(949)
Biological adjustment	(299)	(836)	33	52	50
Others	139	48	(74)	(126)	(220)
Operating profit	2,093	1,471	2,121	2,263	2,414
- Packaged meat	2,065	2,050	2,120	2,225	2,322
- Pork	30	(480)	8	18	42
- Others	(2)	(99)	(6)	20	50
Net finance cost	(169)	(169)	(148)	(135)	(131)
Share of profits from JV and associates	4	(38)	(8)	(5)	(4)
Other gains/(losses)	204	(207)	44	245	374
Pretax profit	2,132	1,057	2,009	2,368	2,653
Tax	(482)	(197)	(406)	(480)	(539)
Net profit	1,650	860	1,602	1,887	2,114
- Profit attributable to shareholders	1,370	629	1,172	1,380	1,546
- Minority interest	280	231	430	507	568
EPS					
- Basic (US cent)	10.68	4.90	9.13	10.76	12.05
- Diluted (US cent)	10.33	4.75	9.13	10.76	12.05
DPS (HK cent)	30.00	30.00	24.83	29.25	32.76

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	3,764	4,588	4,995
Trade and bills receivable	1,087	873	1,460	999	1,568
Inventory	2,855	2,919	2,716	3,115	2,873
ST Biological assets	1,343	1,149	1,187	1,295	1,308
Others	1,330	1,217	1,118	1,210	1,208
Total current assets	8,009	7,314	10,246	11,208	11,953
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	1,240	1,292	1,266
Total non-current assets	11,846	11,865	12,282	12,454	12,619
Total assets	19,855	19,179	22,529	23,661	24,572
Trade and bills payable	1,395	1,240	1,405	1,385	1,382
ST borrowings & bank overdrafts	862	1,106	1,007	897	852
Accrued expenses and other payables	2,513	2,150	2,583	2,591	2,353
Others	215	162	252	232	281
Total current liabilities	4,985	4,658	5,246	5,105	4,867
LT Borrowings	2,504	2,122	2,090	2,061	2,000
Others	1,954	1,824	3,507	3,333	2,912
Total non-current liabilities	4,458	3,946	5,597	5,395	4,911
Shareholders' equity	9,600	9,831	10,511	11,481	12,544
Minority interest	812	744	1,174	1,681	2,249
Total equity	10,412	10,575	11,685	13,162	14,793
Total liabilities and equity	19,855	19,179	22,529	23,661	24,572

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	FY23A	FY24E	FY25E	FY26E
Pretax profit	2,132	1,057	2,009	2,368	2,653
Depreciation and amortization	802	779	861	739	781
Change in working capital	(665)	(157)	224	(155)	(615)
Others	(466)	(62)	(162)	(514)	(733)
Cash flow from operating activities	1,803	1,617	2,931	2,438	2,085
Change in PP&E	(913)	(576)	(791)	(792)	(1,205)
Others	563	(87)	1,548	396	794
Cash flow from investing activities	(350)	(663)	757	(396)	(411)
Change in borrowings	(605)	(140)	(131)	(139)	(107)
Others	(937)	(1,035)	(839)	(978)	(1,101)
Cash flow from financing activities	(1,542)	(1,175)	(969)	(1,117)	(1,208)
Net change in cash	(89)	(221)	2,719	925	466
Forex effect	(73)	(17)	(111)	(101)	(59)
Cash at the end of FY	1,394	1,156	3,764	4,588	4,995

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)	0.2	3.1	3.4
- Packaged meat	5.4	(7.1)	0.7	5.7	4.2
- Pork	(1.4)	(8.4)	(1.5)	(0.2)	2.3
Gross profit	4.8	(13.7)	8.7	5.8	4.7
Operating profit	6.5	(29.7)	44.2	6.7	6.7
Net profit (to owners of the company)	28.3	(54.1)	86.3	17.8	12.0
Profitability ratios (%)					
GPM	17.5	16.2	17.6	18.1	18.3
OPM	7.4	5.6	8.1	8.4	8.6
- Packaged meat	14.2	15.2	15.6	15.5	15.5
- Pork	0.3	(4.4)	0.1	0.2	0.4
Pretax margin	7.8	3.9	5.9	7.0	7.4
NPM (to owners of the company)	4.9	2.4	4.5	5.1	5.5
Revenue contribution (%)					
Packaged meat	51.7	51.5	51.8	53.1	53.5
Fresh pork	41.9	41.2	40.5	39.2	38.8
Hog production	6.3	7.3	7.7	7.7	7.7
Return ratios (%)					
ROAA	8.4	4.4	7.7	8.2	8.8
ROAE	14.9	6.5	11.5	12.6	12.9
Liquidity ratio (x)					
Current ratio	1.6	1.6	2.0	2.2	2.5
Quick ratio	0.8	0.7	1.2	1.3	1.6
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	26.5	22.5	19.3
Total debt/Total assets	17.0	16.8	13.7	12.5	11.6

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

Yum China (YUMC US / 9987HK)

More opportunities amid new policy initiatives

- Concrete store network expansion plan and operational excellence to benefit revenue growth and enable the Group to capture growth opportunities in the recovering consumer market
- New policy initiatives to accelerate consumer market recovery and we revise up our projections accordingly
- Maintain BUY; current TP implies 28.0x/25.2x 24E/25E P/E, or 4.0x/3.5x 24E/25E P/B

Concrete store network expansion plan and strong adaptability to support growth.

We believe the Group's commitment on expanding its total store count to 20k by end-FY26 would help increase its penetration and help maintain its leading position in the China market. In addition, we believe the Group's flexibility in menu item innovation, store format, strong supply chain infrastructure, and diverse sales channel would be advantageous to revenue growth generation.

Improved financial projections on positive impacts of new policies. We believe the new policy initiatives announced in China would boost consumer confidence and income growth expectation. The Group is well-positioned to capture the new growth opportunities. We revise up FY23-26E revenue CAGR to 6.6%, which would be supported by that of KFC and Pizza Hut at 8.2% and 5.3%. Margin projection is also improved to reflect potentially better product pricing and operating cost efficiency; we expect OPM and NPM to increase from 10.0% and 7.6% in FY24E to 10.1% and 8.3% in FY26E.

Share buyback program and dividend increase to support share price. As of end-Jun 2024, the Group's share buyback program had US\$ 666mn available under current authorization. In addition, cash dividend payout in 2Q24 was at US\$ 0.16 vs. US\$ 0.13 for 2Q23. These measures would further support share price performance.

Maintain BUY; TP at US\$62.3/HK\$ 483.9. Maintain BUY on strong fundamentals and upward revision of financial projection as a result of the turnaround in consumer market amid the recent policy announcements. The reduced policy risk premium lower our DCF model WACC by 1.7ppt to 12.7%, further supporting TP increase. Current TP represents 28.0x/25.2x 24E/25E P/E, or 4.0x/3.5x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Operational risk; 4) Raw material cost risk; 5) Changing customer behavior 6) Business concentration risk; 7) Seasonality risk; 8) Non-GAAP financial metrics; 9) Fluctuations in EPS growth; 10) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	9,569	10,978	11,244	12,219	13,303
Chg (% YoY)	(2.9)	14.7	2.4	8.7	8.9
Net profit (US\$ mn)	442	827	850	946	1,099
Chg (% YoY)	(55.4)	87.1	2.8	11.2	16.2
EPS (US\$)	1.05	1.99	2.23	2.48	2.88
Chg (% YoY)	(55.1)	89.3	12.0	11.2	16.2
BVPS (US\$)	15.40	15.40	15.54	17.74	19.93
Chg (% YoY)	(7.9)	0.0	1.0	14.1	12.3
P/E (x) – US	44.85	23.69	21.14	19.02	16.36
P/E (x) – HK	42.53	22.46	20.05	18.03	15.51
P/B (x)– US	3.06	3.06	3.03	2.65	2.36
P/B (x) – HK	2.90	2.90	2.87	2.52	2.24
ROAA (%)	3.8	7.6	7.6	8.1	8.7
ROAE (%)	6.5	12.8	13.8	14.9	15.3
DPS (US\$)	0.48	0.55	0.64	0.64	0.64
Yield (%) - US	1.0	1.2	1.4	1.4	1.4
Yield (%) - HK	1.1	1.2	1.4	1.4	1.4

Source(s): The Group, ABCI Securities estimates

Company Report

Oct 9, 2024

Rating(US/HK): BUY/BUY
TP(US/HK):US\$ 62.3/HK\$ 483.9

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

Price (US/HK)	US\$ 47.09/HK\$ 346.8
Est. price return (US/HK)	32.3%/39.5%
Est. dividend yield (US/HK)	1.4%/1.4%
Est. total return (US/HK)	33.7%/41.0%
Previous Rating & TP (US/HK)	BUY; US\$ 46.5/HK\$ 362.7
Previous Report Date	Aug 8, 2024

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US\$) (US shr)	56.15/28.5
52Wk H/L (HK\$) (HK shr)	438.2/225.2
Total issued shares (mn)	382
Issued US shr (mn)	307
Issued HK shr(mn)	75
US-shr market cap (US\$ mn)	10,391
HK-shr market cap (HK\$ mn)	19,795
3-mth avg daily turnover (US\$ mn) (US shr)	129.2
3-mth avg daily turnover (HK\$ mn) (HK shr)	161.8
Major shareholder(s) (%):	
JP Morgan	5.7

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	39.4	33.1
3-mth	51.7	48.4
6-mth	21.8	11.3

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	30.2	10.2
3-mth	43.1	25.5
6-mth	13.2	(11.9)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

1) Net profit and related measures refer to net profit to attributable to shareholders of the Company;

2) US\$/HK\$= 7.7668;

3) Market data as of Oct 8, 2024.

Exhibit 1: Changes in assumptions and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	6.3	5.0	6.3	5.0	
D/A (%)	3.4	2.9	3.4	2.9	N/A
Tax rate (%)	26.9	26.9	26.9	26.9	
Valuations					
TP (US\$)	62.3		46.5		
TP (HK\$)	483.9		362.7		Higher TP is due to higher revenue and profit projections and lower WACC
P/E (x)	28.0	25.2	22.1	20.7	
P/B (x)	4.0	3.5	3.2	2.8	

Note: for previous report publication date please refer to the first 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
Net revenue (US\$ mn)	11,244	12,219	13,303	11,205	12,153	13,206	0.3	0.5	0.7
Net profit (to shareholders of the Company) (US\$ mn)	850	946	1,099	845	903	1,047	0.6	4.7	4.9
EPS (US\$)	2.23	2.48	2.88	2.10	2.25	2.61	5.9	10.2	10.5

Source(s): ABCI Securities estimates

Exhibit 3: Quarterly performance

As of Dec 31	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Revenue growth (YoY %)								
Total	5.1	(8.9)	9.3	24.7	8.5	19.4	1.4	0.9
KFC	12.0	(2.8)	9.0	24.5	8.4	17.7	1.5	1.5
Pizza Hut	1.8	(15.7)	9.1	23.7	6.8	22.8	(0.3)	(2.5)
Margins (%)								
<i>Restaurant margin</i>	<u>18.8</u>	<u>10.4</u>	<u>20.3</u>	<u>16.1</u>	<u>17.0</u>	<u>10.7</u>	<u>17.6</u>	<u>15.5</u>
KFC	20.6	12.7	22.2	17.3	18.6	12.0	19.3	16.2
Pizza Hut	13.4	1.9	14.2	12.4	12.7	7.3	12.5	13.2
<i>OPM</i>	<u>11.8</u>	<u>2.0</u>	<u>14.3</u>	<u>9.7</u>	<u>11.1</u>	<u>4.4</u>	<u>12.6</u>	<u>9.9</u>
KFC	16.3	7.4	19.1	13.8	15.6	8.9	16.7	13.1
Pizza Hut	8.7	(5.0)	9.2	6.3	7.8	1.0	7.9	7.4
<i>NPM (to shareholders of the Company)</i>	<u>8.5</u>	<u>1.1</u>	<u>9.9</u>	<u>7.4</u>	<u>8.4</u>	<u>3.9</u>	<u>9.7</u>	<u>7.9</u>

Source(s): The Group, ABCI Securities



Financial statements

Consolidated income statement

As of Dec 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	9,569	10,978	11,244	12,219	13,303
- Company sales	9,110	10,391	10,793	11,911	13,065
- Others	459	587	450	308	238
Company restaurant expenses	(7,829)	(8,701)	(8,986)	(9,845)	(10,762)
Restaurant profit	1,281	1,690	1,808	2,065	2,303
General and administrative expenses	(594)	(638)	(580)	(589)	(592)
Franchise expenses	(34)	(36)	(47)	(51)	(51)
Expenses for transactions with franchisees and unconsolidated affiliates	(279)	(356)	(366)	(374)	(393)
Other operating costs and expenses	(78)	(112)	(118)	(108)	(125)
Closures and impairment expenses, net	(32)	(29)	(29)	(29)	(31)
Other income, net	(94)	0	0	0	0
Operating profit	629	1,106	1,119	1,223	1,349
Others	58	120	148	186	288
Profit before taxes and equity in net earnings (losses) from equity method investments	687	1,226	1,267	1,409	1,638
Tax	(207)	(329)	(341)	(379)	(440)
Equity in net earnings (losses) from equity method investments	(2)	4	0	0	0
Net profit	478	901	927	1,030	1,197
- Owners	442	827	850	946	1,099
- MI	36	74	76	85	98
Cash Dividend	202	229	244	244	244
EPS (US\$)					
- Basic	1.05	1.99	2.23	2.48	2.88
- Diluted	1.04	1.97	2.20	2.45	2.85
Cash DPS (US\$)	0.48	0.55	0.64	0.64	0.64

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating figures

As of Dec 31 (US\$ mn, except store figures)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue					
- KFC	7,219	8,240	8,571	9,489	10,449
- Pizza Hut	1,960	2,246	2,294	2,459	2,621
Company sales					
- KFC	7,120	8,116	8,454	9,381	10,345
- Pizza Hut	1,939	2,214	2,263	2,432	2,594
Restaurant profit					
- KFC	1,121	1,440	1,523	1,722	1,918
- Pizza Hut	178	263	270	299	323
Operating profit					
- KFC	787	1,202	1,154	1,326	1,507
- Pizza Hut	70	142	119	137	152
Number of stores (units, as of end of FY)					
- Total	12,947	14,644	16,264	18,069	20,004
- KFC	9,094	10,296	11,486	12,755	14,137
- Pizza Hut	2,903	3,312	3,664	4,064	4,471

Note: 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 equivalents	1,130	1,128	892	1,357	2,413
Accounts receivable	64	68	60	106	74
Inventories	417	424	365	354	374
Others	2,329	1,811	1,686	1,800	1,748
Current assets	3,940	3,431	3,002	3,618	4,610
PP&E	2,118	2,310	2,354	2,422	2,488
Operating lease right-of-use assets	2,219	2,217	2,363	2,378	2,470
Intangible assets & goodwill	2,147	2,082	2,073	2,074	2,077
Others	1,402	1,991	2,539	2,531	2,893
Non-current assets	7,886	8,600	9,329	9,405	9,927
Total assets	11,826	12,031	12,332	13,023	14,537
Accounts payable and other current liabilities	2,096	2,164	2,387	2,263	2,743
Short-term borrowing	2	168	416	374	337
Income taxes payable	68	90	126	91	190
Current liabilities	2,166	2,422	2,929	2,729	3,270
Non-current operating lease liabilities	1,906	1,899	2,148	2,127	2,167
Non-current finance lease obligations	42	44	46	44	45
Others	552	547	564	554	555
Non-current liabilities	2,500	2,490	2,758	2,725	2,766
Shareholders' capital	6,482	6,405	5,935	6,774	7,608
MI	666	701	697	782	880
Total equity	7,148	7,106	6,632	7,555	8,488
Redeemable non-controlling interest	12	13	13	13	13
Total liabilities and equity	11,826	12,031	12,332	13,023	14,537

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	FY23A	FY24E	FY25E	FY26E
Net profit	478	901	927	1,030	1,197
Depreciation and amortization	602	453	717	887	962
Change in working capital	203	24	246	(275)	544
Others	130	95	101	192	148
Cash flow from operating activities	1,413	1,473	1,990	1,834	2,851
Capital spending	(679)	(710)	(759)	(822)	(805)
Others	157	(33)	64	5	5
Cash flow from investing activities	(522)	(743)	(696)	(817)	(801)
Cash dividend	(202)	(216)	(244)	(244)	(244)
Others	(642)	(500)	(1,298)	(289)	(704)
Cash flow from financing activities	(844)	(716)	(1,542)	(533)	(946)
Effect of foreign exchange rate changes	(53)	(16)	12	(19)	(48)
Net change in cash, cash equivalent, and restricted cash	(6)	(2)	(236)	465	1,056
Cash, cash equivalent, and restricted cash - end	1,130	1,128	892	1,357	2,413

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 %)					
Net revenue	(2.9)	14.7	2.4	8.7	8.9
- KFC	3.1	14.1	4.0	10.7	10.1
- Pizza Hut	(7.1)	14.6	2.1	7.2	6.6
Restaurant profit	4.4	31.9	7.0	14.3	11.5
- KFC	10.7	28.5	5.8	13.0	11.4
- Pizza Hut	(20.5)	47.8	2.5	10.8	8.0
Operating profit	(54.6)	75.8	1.2	9.2	10.4
- KFC	(4.8)	52.7	(4.0)	14.9	13.6
- Pizza Hut	(36.9)	102.9	(16.3)	15.4	11.1
Core OP	N/A	78.8	3.5	9.6	10.1
- KFC	N/A	50.2	2.9	13.5	12.9
- Pizza Hut	N/A	197.9	1.4	16.6	17.2
Net profit (to shareholders of the Company)	(55.4)	87.1	2.8	11.2	16.2
Non-GAAP operating profit	(17.4)	77.1	0.4	8.9	10.4
Non-GAAP net profit	(15.0)	88.8	1.7	10.8	16.3
Profitability ratios (%)					
Restaurant margin	14.1	16.3	16.7	17.3	17.6
- KFC	15.7	17.7	18.0	18.4	18.5
- Pizza Hut	9.2	11.8	11.9	12.3	12.4
OPM	6.6	10.1	10.0	10.0	10.1
- KFC	10.9	14.6	13.5	14.0	14.4
- Pizza Hut	3.6	6.3	5.2	5.6	5.8
Core OPM	6.9	10.8	10.7	10.7	10.7
- KFC	11.3	14.9	14.7	15.1	15.4
- Pizza Hut	2.5	6.5	6.4	6.9	7.6
NPM (to shareholders of the Company)	4.6	7.5	7.6	7.7	8.3
Non-GAAP OPM	6.6	10.2	10.0	10.0	10.2
Non-GAAP NPM	4.7	7.7	7.6	7.8	8.3
Return ratios (%)					
ROAA	3.8	7.6	7.6	8.1	8.7
ROAE	6.5	12.8	13.8	14.9	15.3
Liquidity ratio (x)					
Current ratio	1.8	1.4	1.0	1.3	1.4
Quick ratio	1.6	1.2	0.9	1.2	1.3
Cash ratio	0.5	0.5	0.3	0.5	0.7
Working capital (days)					
Receivable turnover	2.5	2.2	2.1	2.5	2.5
Inventory turnover	50.3	43.7	40.4	33.5	30.5
Payable turnover	74.2	71.4	75.4	72.7	67.5
CCC	(21.5)	(25.4)	(32.9)	(36.8)	(34.5)
Leverage ratios (%)					
Total debt to Equity	0.0	2.4	6.3	5.0	4.0
Total debt to Total assets	0.0	1.4	3.4	2.9	2.3
Net debt/(cash) to Equity	(15.8)	(13.5)	(7.2)	(13.0)	(24.5)
Net debt/(cash) to Total assets	(9.5)	(8.0)	(3.9)	(7.5)	(14.3)

Note: 1) Restaurant profit is defined as company sales less expenses incurred directly by company-owned restaurants in generating company sales; 2) Restaurant margin is defined as restaurant profit divided by company sales; 3) Company sales refers to revenues from Company-owned restaurants; 4) OPM is defined as operating profit divided by company sales; 5) Core operating profit is defined as excludes special Items, and further adjusted for items affecting comparability and the impact of F/X; 6) Core OPM is defined as core operating profit divided by company sales; 7) Non-GAAP measures exclude the impact of share-based compensation expenses on operating costs and expenses; 8) Receivable turnover days equals the average of the beginning and ending balances of net accounts receivable for that FY divided by total revenues for that FY, and multiplied by the number of days; 9) Inventory turnover days equals the average of the beginning and ending balances of net inventory (including inventory procured by the Company, which is subsequently supplied to stores of unconsolidated affiliates and franchisees) for that FY divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that FY, and multiplied by the number of days; 10) Payable turnover days equals the average of the beginning and ending balances of accounts payable related to inventory purchase and distribution for that FY divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that FY and, multiplied by the number of day; 11) Items may not sum up due to rounding.

Source(s): The Group, ABCI Securities estimates

New Oriental (EDU US / 9901 HK) New policies to strengthen fundamentals

- Our growth and margin projections were revised upward to reflect the better outlook provide by recent policy initiatives aiming at revitalizing economy and supporting education service consumption
- Share repurchase and special dividend offer additional support to investor confidence
- Maintain **BUY**; TP represents 39.3x/29.0x 25E/26E P/E, or 3.7x/3.3x 25E/26E P/B

Better policy environment to benefit business expansion. Policies released in since late Sep 2024 would help improve consumer market sentiment and potentially trigger a full recovery of the consumer market. In addition, in early Aug 2024, State Council issued "Opinion on Promoting High-quality Development of Service Consumption" (《关于促进服务消费高质量发展的意见》) ("The Opinion"), which targets several major areas of service consumption including "Education, tutoring and training consumption" and includes the measure to "Instruct schools to introduce non-academic-subject after-school services provided by third-party organizations with appropriate qualifications, through purchasing services and other means in accordance with relevant regulations". We believe the Group can capture the new growth opportunities as a leading player with first-mover advantage in non-academic-subject after-school tutoring.

Stronger fundamentals on conducive policy environment. We believe revenue growth would be supported by market demand for its education businesses and targeted expansion of learning center capacity in FY25E by 20%-25%. Its newly created tourism business is also expected see strong growth due to the high demand for tourism products and favorable policies targeting related consumption. However, East Buy (1797 HK) would weigh on the Group's overall performance in the short term due to the departure of Mr. Dong Yuhui. We revise up our revenue growth projection based on the more conducive policy environment. We expect FY24-27E revenue CAGR to reach 25.1%; FY26E/FY27E revenue growth is projected at 27.5% YoY/23.4% YoY. OPM and NPM are expected to increase from 8.2% and 7.8% in FY25E to 9.2% and 8.2% in FY27E.

Share repurchase and special dividend to further support investor confidence. The Group announced a share repurchase program that was launched in Jul 2022 has been extended by two years through May 31, 2025 and the value of shares to be repurchased increased to US\$ 700mn. In Aug 2024, the Group also announced a special cash dividend of US\$ 0.06 per common share or an aggregate amount of cash dividend of US\$ 100mn to be distributed.

Maintain BUY; TP at US\$ 93.7/HK\$ 72.8. Maintain **BUY** on the Group's leading position in the education sector, high growth in new businesses, and favorable policy environment. The lower policy risk premium also reduces our WACC by 2.2ppt to 11.1%, offering additional support to our DCF-derived TP. Current TP represents 39.3x/29.0x 25E/26E P/E, or 3.7x/3.3x 25E/26E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Demographic risk; 4) Education quality risk; 5) Seasonality of business; 6) Concentration risk; 7) Non-GAAP financial metrics; 8) Growth uncertainty for East Buy after Mr. Dong Yuhui's departure; 9) Increasing share price volatility after market rebound.

Results and Valuation

As of May 31	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,998	4,314	5,364	6,838	8,436
Chg (% YoY)	(3.5)	43.9	24.4	27.5	23.4
Net profit (US\$ mn)	177	310	394	534	662
Chg (% YoY)	(114.9)	74.6	27.4	35.4	23.9
EPS (US\$)	0.11	0.19	0.24	0.33	0.40
Chg (% YoY)	(115.7)	70.4	28.6	35.4	23.9
BVPS (US\$)	2.1	2.3	2.6	2.9	3.3
Chg (% YoY)	(1.7)	6.5	11.5	12.8	0.0
P/E (x) – US	68.89	40.42	31.43	23.20	18.73
P/E (x) – HK	66.19	38.83	30.19	22.29	17.99
P/B (x) – US	3.53	3.31	2.97	2.63	2.31
P/B (x) – HK	3.39	3.18	2.86	2.53	2.22
ROAA (%)	3.8	4.7	5.3	6.0	6.5
ROAE (%)	4.9	8.4	9.9	12.0	13.1
DPS (US\$)	0.00	0.00	0.06	0.00	0.00
Yield (%) - US	0.0	0.0	0.8	0.0	0.0
Yield (%) - HK	0.0	0.0	0.8	0.0	0.0

Source(s): The Group, ABCI Securities estimates

Company Report Oct 9, 2024

Rating (US/ HK): BUY/ BUY
TP (US/HK): US\$ 93.7/ HK\$ 72.8

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

Price (US/HK)	US\$ 75.78/HK\$ 56.55
Est. price return (US/HK)	23.7%/28.7%
Est. dividend yield (US/HK)	0.8%/0.8%
Est. total return (US/HK)	24.5%/29.5%
Previous Rating&TP (US/HK)	BUY; US\$79.8/ HK\$ 62.3
Previous Report Date	Aug 2, 2024

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US\$) (US shr)	97.23/57.87
52Wk H/L (HK\$) (HK shr)	76.29/44.76
Total issued shares (mn)	1,635.3
Issued US shr (mn)	1,625.5
Issued HK shr(mn)	9.8
US-shr market cap (US\$ bn)	12.32
H-shr market cap (HK\$ mn)	554
3-mth avg daily turnover (US\$ mn) (US shr)	157.1
3-mth daily turnover (HK\$ mn) (HK shr)	300.8
Major shareholder(s) (%): Minhong Yu	3.2

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	24.7	18.3
3-mth	(4.8)	(8.1)
6-mth	(11.2)	(21.7)

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	18.6	(1.4)
3-mth	(12.3)	(29.9)
6-mth	(15.2)	(40.3)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

- Net profit and related measures refer to net profit attributable to shareholders of the Company;
- US\$/HK\$= 7.7668;
- Market data as of Oct 8, 2024;
- US share price & TP are on per-ADS basis; HK share price & TP are on per-share basis; 1 ADS = 10 common shares.

Exhibit 1: Changes in assumptions and valuations

As of May 31	Current report		Previous report		Rationale
	FY25E	FY26E	FY25E	FY26E	
Assumptions					
D/E (%)	0.3	0.3	0.3	0.3	
D/A (%)	0.2	0.1	0.2	0.1	N/A
Tax rate (%)	22.9	23.1	23.0	23.1	
Valuations					
TP (US\$)	93.7		79.8		
TP (HK\$)	72.8		62.3		Higher TP due to higher revenue and profit
P/E (x)	39.3	29.0	33.9	25.2	projections and lower WACC
P/B (x)	3.7	3.3	3.2	2.8	

Note: Please refer to the cover page for previous report publication date; US TP is on per-ADS basis; HK TP is on per-share basis; 1ADS = 10 common shares.
 Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of May 31	Current report			Previous report			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (US\$ mn)	5,364	6,838	8,436	5,358	6,718	8,217	0.1	1.8	2.7
Net profit (to shareholders of the Company) (US\$ mn)	394	534	662	388	522	640	1.5	2.2	3.4
EPS - basic (US\$)	0.24	0.33	0.40	0.24	0.32	0.39	2.5	3.2	4.4

Source(s): ABCI Securities estimates

Exhibit 3: Quarterly performance

As of May 31	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
Revenue and profit (US\$ mn, excluding per ADS amounts that are in US\$)								
Net revenue	744.8	638.2	754.2	860.6	1,100.0	869.6	1,207.3	1,136.7
Operating profit/(loss)	78.0	(2.5)	66.5	48.1	205.1	21.3	113.4	10.5
Non-GAAP operating profit/(loss)	97.0	16.3	87.9	78.6	244.8	50.9	140.9	36.3
Net profit	66.0	0.7	81.6	29.0	165.4	30.1	87.2	27.0
Non-GAAP net profit	83.7	17.8	95.4	62.1	189.3	50.2	104.7	36.9
Net profit per ADS - basic	0.39	0.00	0.49	0.18	1.00	0.18	0.53	0.16
Growth (YoY %)								
Net revenue	(43.1)	(3.1)	22.8	64.2	47.7	36.3	60.1	32.1
Operating profit/(loss)	140.5	(99.7)	147.1	145.5	163.0	957.8	70.6	(78.1)
Non-GAAP operating profit/(loss)	28.3	102.2	179.0	202.2	152.2	212.2	60.3	(53.8)
Net profit	9.0	100.1	166.7	115.3	150.6	4007.4	6.8	(6.9)
Non-GAAP net profit	(24.7)	102.0	199.9	138.7	126.2	182.6	9.8	(40.5)
Net profit per ADS - basic	8.7	100.1	167.8	115.7	158.1	4092.1	7.7	(6.9)
Margins (%)								
OPM	10.5	(0.4)	8.8	5.6	18.6	2.5	9.4	0.9
Non-GAAP OPM	13.0	2.6	11.7	9.1	22.3	5.9	11.7	3.2
NPM	8.9	0.1	10.8	3.4	15.0	3.5	7.2	2.4
Non-GAAP NPM	11.2	2.8	12.6	7.2	17.2	5.8	8.7	3.2

Note:

1) net profit and per ADS measures are attributable to shareholders of the Company;

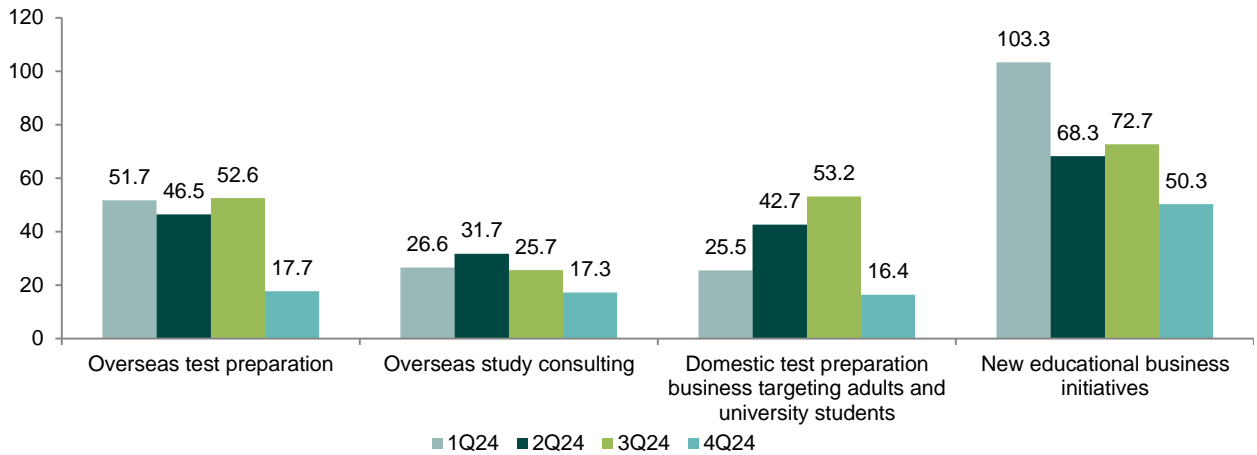
2) 1ADS = 10 common shares;

3) Non-GAAP financial measure definition: net income excluding share-based compensation expenses and (loss) / gain from fair value change of investments, operating income excluding share-based compensation expenses, operating cost and expenses excluding share-based compensation expenses, general and administrative expenses excluding share-based compensation expenses, operating margin excluding share-based compensation expenses, and basic and diluted net income per ADS and per share excluding share-based compensation expenses and (loss) / gain from fair value change of investments.

Source(s): the Group, ABCI Securities

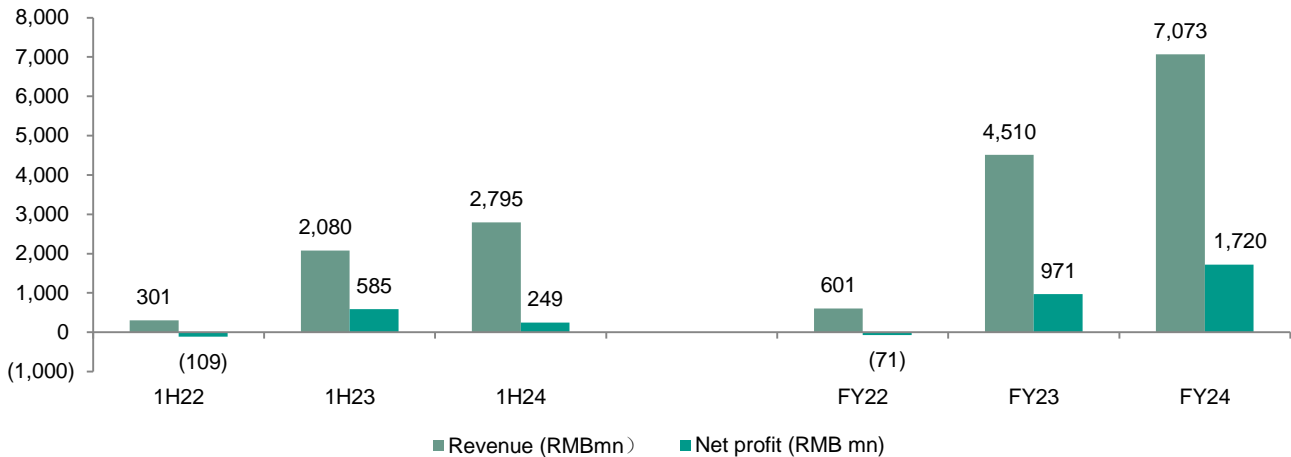


Exhibit 4: Education businesses' revenue growth - New Oriental (YoY %)



Source(s): the Group, ABCI Securities

Exhibit 5: East Buy's revenue and net profit (FY end as of May 31) (RMB mn)



Source(s): East Buy, ABCI Securities

Exhibit 6: Major operating figures of East Buy's livestreaming e-commerce business

As of May 31	1H23	FY23	1H24	FY24
GMV (RMB bn)	4.8	10.0	5.7	14.3
Number of followers on Douyin (mn)	35.2	41.8	45.8	65.0
Number of paid orders on Douyin (mn)	70.2	136.3	59.6	181.1

Source(s): East Buy, ABCI Securities

Exhibit 7: Selected financial figures of Time with Yuhui (Beijing) Technology Ltd

(RMB k)	
Profit before tax (Dec 22, 2023 – Jun 30, 2024)	188,554
Net profit (Dec 22, 2023 – Jun 30, 2024)	141,414
Net assets (As of Jun 30, 2024)	76,585.46

Source(s): East Buy, ABCI Securities

Financial statements

Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY23A	FY24A	FY25E	FY26E	FY27E
Net revenue	2,998	4,314	5,364	6,838	8,436
Cost of revenue	(1,409)	(2,051)	(2,536)	(3,211)	(3,936)
Gross profit	1,588	2,263	2,828	3,627	4,499
Selling and marketing expenses	(445)	(661)	(838)	(1,052)	(1,300)
General and admin expenses	(954)	(1,252)	(1,551)	(1,970)	(2,420)
Operating profit	190	350	439	604	779
Gain/(Loss) from fair value change of investments	(1)	19	0	0	0
Other income, net	119	124	137	151	161
Tax	(66)	(110)	(132)	(174)	(218)
Loss from equity method investments	(7)	(59)	(27)	(27)	(30)
Net profit	235	325	417	553	692
- Owners	177	310	394	534	662
- MI	58	16	22	19	31
Dividend	0	0	100	0	0
Net profit per common share/ADS (US\$)					
- Basic	0.11	0.19	0.24	0.33	0.40
- Diluted	0.10	0.18	0.24	0.32	0.40
Dividend (US\$/share)	0.00	0.00	0.06	0.00	0.00

Note: Each ADS represents one common share; figures may not sum up due to rounding
 Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of May 31 (US\$ mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash, cash equivalents, and restricted cash	1,774	1,567	2,206	2,972	3,427
ST investments	1,478	2,066	1,939	2,070	2,076
Others	1,162	1,757	1,843	2,429	2,462
Current assets	4,414	5,389	5,988	7,470	7,964
PP&E	360	508	677	853	1,000
LT investments	400	356	310	277	245
Right-of-use assets	440	654	710	896	1,050
Others	780	625	525	837	732
Non-current assets	1,979	2,143	2,222	2,863	3,027
Total assets	6,392	7,532	8,210	10,334	10,991
Deferred revenue	1,338	1,780	1,655	3,082	2,583
Others	913	1,221	1,511	1,522	1,868
Current liabilities	2,251	3,001	3,165	4,604	4,451
LT borrowing	15	14	14	14	14
Non-current lease liabilities	288	448	541	683	800
Deferred tax liabilities	24	19	34	34	50
Non-current liabilities	327	482	590	731	865
Shareholders' capital	3,604	3,776	4,170	4,704	5,366
MI	210	273	284	294	309
Total equity	3,815	4,049	4,455	4,998	5,675
Total liabilities and equity	6,392	7,532	8,210	10,334	10,991

Note: Figures may not sum up due to rounding
 Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of May 31 (US\$ mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit	235	325	417	553	692
Depreciation and amortization	123	107	184	254	322
Change in working capital	538	519	233	1,336	(166)
Others	75	172	199	214	305
Cash flow from operating activities	971	1,123	1,033	2,356	1,153
Change in PP&E and land use right	(140)	(283)	(160)	(190)	(230)
Change in investments	309	(690)	172	(97)	26
Others	(207)	(181)	3	(433)	114
Cash flow from investing activities	(37)	(1,154)	14	(720)	(90)
Change in borrowing	0	(0)	0	0	0
Others	(247)	(160)	(390)	(872)	(600)
Cash flow from financing activities	(247)	(160)	(390)	(872)	(600)
Effect of foreign exchange rate changes	(76)	(25)	12	4	1
Net change in cash, cash equivalent, and restricted cash	611	(216)	670	768	465
cash, cash equivalent, and restricted cash - end	1,805	1,589	2,259	3,027	3,492

Note: Figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of May 31	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (YoY %)					
Net revenue	(3.5)	43.9	24.4	27.5	23.4
Gross profit	17.6	42.5	25.0	28.3	24.0
Operating profit	(119.3)	84.4	25.1	37.8	28.9
Net profit (to shareholders of the Company)	(114.9)	74.6	27.4	35.4	23.9
Profitability ratios (%)					
GPM	53.0	52.5	52.7	53.0	53.3
OPM	6.3	8.1	8.2	8.8	9.2
NPM (to owners of the Company)	7.9	7.5	7.8	8.1	8.2
Non-GAAP OPM	9.3	11.0	10.8	11.5	11.9
Non-GAAP NPM (to owners of the Company)	8.6	9.7	10.0	10.5	10.5
Return ratios (%)					
ROAA	3.8	4.7	5.3	6.0	6.5
ROAE	4.9	8.4	9.9	12.0	13.1
Liquidity ratio (x)					
Current ratio	2.0	1.8	1.9	1.6	1.8
Cash ratio	1.2	1.0	1.1	1.0	1.1
Leverage ratios (%)					
Total debt to Equity	0.4	0.4	0.3	0.3	0.3
Total debt to Total assets	0.2	0.2	0.2	0.1	0.1
Net debt/(cash) to Equity	(107.3)	(122.0)	(122.3)	(135.6)	(125.5)
Net debt/(cash) to Total assets	(64.0)	(65.6)	(66.4)	(65.6)	(64.8)

Note:

1) Figures may not sum up due to rounding

2) Non-GAAP financial measure definition: net income excluding share-based compensation expenses and (loss) / gain from fair value change of investments, operating income excluding share-based compensation expenses, operating cost and expenses excluding share-based compensation expenses, general and administrative expenses excluding share-based compensation expenses, operating margin excluding share-based compensation expenses, and basic and diluted net income per ADS and per share excluding share-based compensation expenses and (loss) / gain from fair value change of investments.

Source(s): The Group, ABCI Securities estimates

Nongfu Spring (9633 HK)

Potential consumer market recovery to boost stronger fundamentals

- Successful product portfolio diversification in 1H24 would contribute to healthier growth in the long run, but weakened brand image, which has bigger impacts on the namesake brand products, would weigh on revenue growth trajectory in the short term
- Resumption of consumer market recovery as a result of recently announced policy initiatives would boost the Group's fundamentals
- Maintain BUY; current TP implies 37.8x/32.8x 24E/25E P/E, or 14.8x/11.8x 23E/24E P/B

Successful product portfolio diversification to support sustainable growth. In 1H24, revenue of tea beverage segment and juice beverage segment grew by 59.5% YoY and 25.4% YoY and contributed to 38.5% and 9.5% of total revenue, while the overall revenue of packaged drinking water product segment declined by 18.3% YoY and contributed to 38.0% of total revenue. A more diverse product portfolio would also support a healthy long term growth. However, as the weakened brand image needs time to recover, the Group's packaged drinking water products would continue to suffer and the Group's overall revenue growth trajectory would also be negatively impacted.

Better financial projections on potential improvement in consumer market. In light of recently announced policy measures and potential consumer market recovery, we raise the Group's FY23-26E revenue CAGR to 11.7%; the projected revenue growth for FY25E and FY26E would be 14.2% YoY and 11.4% YoY. We expect FY23-26E revenue CAGR of tea beverage products and juice beverage products to reach 31.8% and 11.8%, while the revenue growth of packaged drinking water products to remain relatively weak. Margin profile would be supported by the better consumer market environment and resulting stronger pricing capability. We expect GPM and NPM to improve from 58.5% and 26.6% in FY24E to 58.8% and 26.7% in FY26E.

Additional measures provide support to stabilize share price performance. The Group announced that Yangshengtang Co., Ltd. (Yangshengtang) would purchase additional H shares to increase shareholding, by using internal funds of up to HK\$ 2bn in a six-month period. As of Jul 9, 2024, Yangshengtang had 66.82% of total issued shares of the Company, while Mr. Zhong Shanshan, the Group's founder, had 83.98% of total issued share of the Company directly and indirectly through Yangshengtang. In addition, the Group's FY23 dividend payout ratio was at 70%, which is a relatively high level.

Maintain BUY; TP at HK\$ 45.8. Maintain BUY on the successful diversification in product portfolio and its leading position in the market, despite the weakened brand image. We raise our DCF-derived TP as we revise up the Group's overall revenue and profit projections and WACC for our DCF model decreases by 0.2ppt to 8.4% based on the lower policy risk premium. Current TP represents 37.8x/32.8x 24E/25E P/E, or 14.8x/11.8x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Regulation risk; 4) Food safety risk; 5) Limitation of water sources; 6) Product concentration risk; 7) Changing consumer taste in China; 8) Fluctuation of EPS growth; 9) Brand image risk; 10) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,239	42,667	46,769	53,399	59,493
Chg (YoY %)	11.9	28.4	9.6	14.2	11.4
Net Profit	8,495	12,079	12,421	14,327	15,881
Chg (% YoY)	18.6	42.2	2.8	15.3	10.9
Basic EPS (RMB)	0.76	1.07	1.10	1.27	1.41
Chg (YoY %)	18.8	41.3	2.8	15.3	10.9
P/E (x)	37.40	26.46	25.73	22.31	20.13
BVPS (RMB)	2.14	2.54	2.82	3.54	4.25
P/B (x)	13.27	11.19	10.09	8.03	6.69
Dividends (RMB)	0.68	0.75	0.55	0.64	0.71
Dividend yield	2.4	2.6	1.9	2.2	2.5
ROAA (%)	23.5	27.3	24.0	24.2	22.6
ROAE (%)	37.9	45.9	41.2	40.1	36.3

Source(s): The Group, ABCI Securities estimates

Company Report

Oct 9, 2024

Rating: BUY

TP: HK\$ 45.8

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	31.2
52WK H/L (HK\$)	48.8/23.55
Est. share price return	46.8%
Est. dividend yield	1.9%
Est. total returns	48.8%
Previous report date	Aug 30, 2024
Previous rating/TP	BUY/HK\$ 41.4
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)	157.1
Total mkt cap (HK\$ bn)	350.9
3-mth avg. ADT (HK\$ mn)	475.1
Shareholding (%)	
Zhong Shanshan	84.0
Source(s): Bloomberg, HKEX	

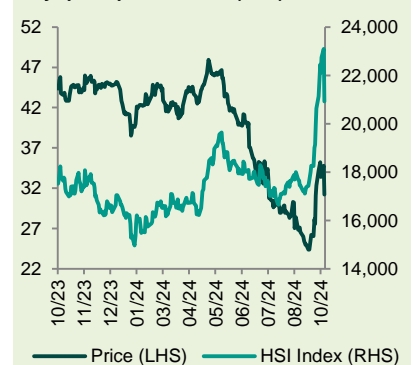
Price performance (%)

	Absolute	Relative*
1-mth	17.5	(2.4)
3-mth	(9.7)	(27.3)
6-mth	(30.0)	(55.1)

* Relative to HSI

Source(s): Bloomberg

1-yr price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

1) Market data as of Oct 8, 2024;

2) RMB/HKD: 1.0978;

3) Net profit and related measures refer 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 (%)	12.1	9.2	12.1	9.2	N/A
D/A (%)	7.0	5.7	7.1	5.7	
Tax rate (%)	23.2	23.1	23.2	23.1	
Valuations					
TP (HK\$)		45.8		41.4	Higher TP is due to higher revenue and profit projections and lower WACC
P/E (x)	37.8	32.8	34.1	29.7	
P/B (x)	14.8	11.8	13.3	10.6	

Note: Please refer to the first page of this company report for previous report publication date

Source(s): ABCI Securities estimates

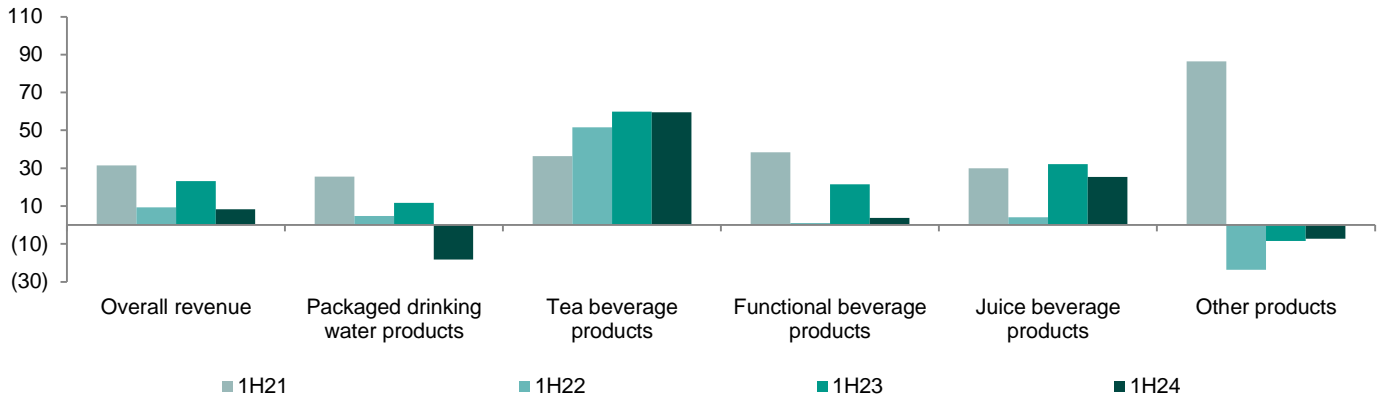
Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	46,769	53,399	59,493	46,676	53,023	58,616	0.2	0.7	1.5
Net profit (to shareholders of the Company) (RMB mn)	12,421	14,327	15,881	12,396	14,197	15,578	0.2	0.9	1.9
EPS (RMB)	1.10	1.27	1.41	1.10	1.26	1.39	0.2	0.9	1.9

Source(s): ABCI Securities estimates

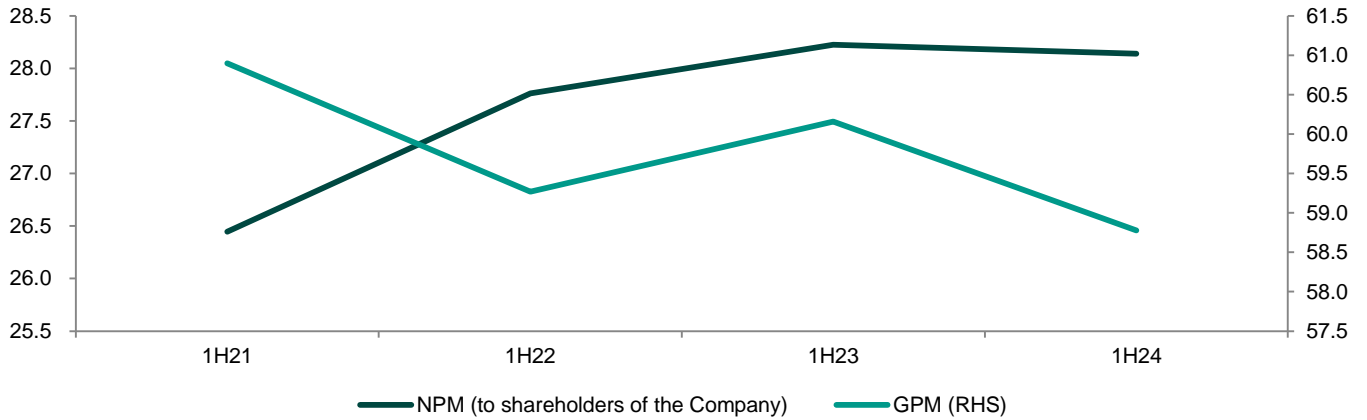


Exhibit 3: 1H revenue growth track record (YoY %)



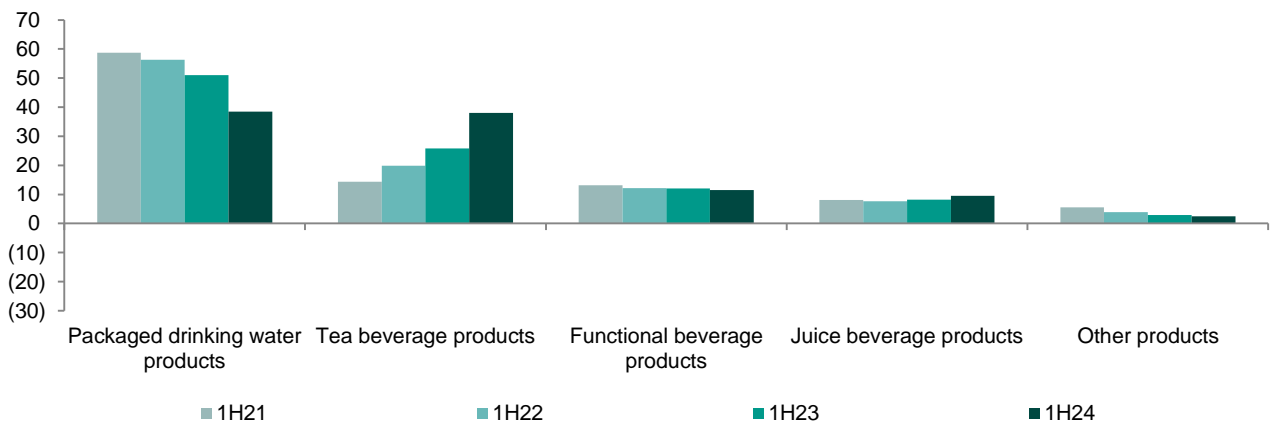
Source(s): The Group, ABCI Securities

Exhibit 4: 1H margin track record (%)



Source(s): The Group, ABCI Securities

Exhibit 5: 1H revenue composition track record (%)



Source(s): The Group, ABCI Securities

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	46,769	53,399	59,493
Packaged drinking water products	18,263	20,262	17,197	17,532	17,878
Tea beverage products	6,906	12,659	18,890	24,135	28,966
Functional beverage products	3,838	4,902	5,343	5,833	6,305
Juice beverage products	2,879	3,534	4,022	4,529	4,936
Other products	1,354	1,311	1,318	1,371	1,408
Cost of sales	(14,144)	(17,260)	(19,399)	(22,051)	(24,507)
Gross profit	19,095	25,407	27,371	31,348	34,986
Selling expenses	(7,821)	(9,284)	(10,749)	(12,371)	(13,790)
Admin expenses	(1,835)	(2,162)	(2,107)	(2,472)	(2,788)
Others net income/gain	1,687	1,828	1,786	2,258	2,370
Net finance costs	(76)	(100)	(130)	(132)	(126)
Pretax profit	11,050	15,688	16,170	18,631	20,651
Tax	(2,555)	(3,609)	(3,750)	(4,305)	(4,770)
Net profit	8,495	12,079	12,421	14,327	15,881
- Owners	8,495	12,079	12,421	14,327	15,881
- MI	0	0	0	0	0
Dividend	7,648	8,435	6,210	7,163	7,941
EPS (RMB)					
- Basic	0.76	1.07	1.10	1.27	1.41
- Diluted	0.76	1.07	1.10	1.27	1.41
DPS (RMB)	0.68	0.75	0.55	0.64	0.71

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	24,447	29,945	41,244
Prepayments, other receivables and other assets	560	695	633	911	793
Trade and bills receivables	479	547	687	659	875
Inventories	2,108	3,092	2,517	3,993	3,168
Others	3	3	2,482	2,507	2,532
Current assets	18,361	28,461	30,766	38,015	48,612
PP&E	15,398	17,180	19,811	21,973	23,388
Right-of-use assets	853	947	1,104	1,218	1,296
Intangible assets	58	74	87	91	100
Others	4,584	2,475	2,644	2,865	2,858
Non-current assets	20,893	20,676	23,646	26,147	27,641
Total assets	39,255	49,137	54,412	64,162	76,254
Trade and bills payables	1,425	1,770	1,900	2,351	2,470
Other payables and accruals	6,506	9,289	10,901	10,664	14,073
Contract liabilities	2,677	3,585	3,385	4,513	5,203
ST bank borrowing	2,425	3,121	3,741	3,554	3,199
Others	1,568	2,112	2,113	2,518	2,736
Current liabilities	14,601	19,877	22,040	23,600	27,681
Deferred income	291	303	315	333	349
Deferred tax liabilities	247	355	355	412	465
Lease liabilities	31	31	14	13	15
Non-current liabilities	569	690	684	759	828
Shareholders' equity	24,084	28,571	31,688	39,804	47,744
MI	0	0	0	0	0
Total equity	24,084	28,571	31,688	39,804	47,744
Total liabilities and equity	39,255	49,137	54,412	64,162	76,254

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
Profit before tax	11,050	15,688	16,170	18,631	20,651
Depreciation and amortization	2,487	2,631	3,641	4,950	6,188
Change in working capital	1,409	3,199	2,039	(385)	4,945
Others	(2,905)	(4,213)	(3,953)	(4,529)	(5,037)
Cash flow from operating activities	12,042	17,305	17,897	18,667	26,747
Change of P&E and right-of-use assets	(4,270)	(4,808)	(5,231)	(5,940)	(6,307)
Change in intangible assets	(2)	(28)	(13)	(4)	(9)
Purchases of financial assets at fair value through profit or loss	0	0	(2,475)	(25)	(25)
Others	(5,154)	(9,448)	6,055	(4,594)	(7,263)
Cash flow from investing activities	(9,426)	(14,284)	(1,664)	(10,564)	(13,604)
Change in borrowing	(75)	695	(187)	(355)	(640)
Dividend paid	(5,059)	(7,646)	(8,435)	(6,210)	(7,163)
Others	(236)	(71)	(1,140)	(654)	(1,322)
Cash flow from financing activities	(5,370)	(7,022)	(9,762)	(7,220)	(9,125)
Net change in cash	(2,755)	(4,001)	6,472	884	4,019
ForEx Impact	388	56	(141)	(20)	(19)
Cash and cash equivalent - end	7,821	3,876	10,206	11,070	15,070

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	9.6	14.2	11.4
Packaged drinking water products	7.1	10.9	(15.1)	1.9	2.0
Tea beverage products	50.8	83.3	49.2	27.8	20.0
Functional beverage products	3.9	27.7	9.0	9.2	8.1
Juice beverage products	10.1	22.7	13.8	12.6	9.0
Others	(22.6)	(3.2)	0.5	4.0	2.7
Gross profit	8.2	33.1	7.7	14.5	11.6
Pretax profit	18.1	42.0	3.1	15.2	10.8
Net profit (to shareholders of the Company)	18.6	42.2	2.8	15.3	10.9
Profitability ratios (%)					
GPM	57.4	59.5	58.5	58.7	58.8
Pretax margin	33.2	36.8	34.6	34.9	34.7
NPM (to shareholders of the Company)	25.6	28.3	26.6	26.8	26.7
Return ratios (%)					
ROAA	23.5	27.3	24.0	24.2	22.6
ROAE	37.9	45.9	41.2	40.1	36.3
Liquidity ratio (x)					
Current ratio	1.3	1.4	1.4	1.6	1.8
Quick ratio	1.1	1.3	1.3	1.4	1.6
Cash ratio	1.0	1.2	1.1	1.3	1.5
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	12.1	9.2	6.9
Total debt to Total assets	6.4	6.5	7.0	5.7	4.3
Net debt/(cash) to Equity	(52.7)	(73.2)	(65.1)	(66.1)	(79.5)
Net debt/(cash) to Total assets	(32.3)	(42.6)	(37.9)	(41.0)	(49.8)

Source(s): The Group, ABCI Securities estimates

Amer Sports (AS US)

New China policies to support better outlook

- Business turnaround, diversified product & geographical portfolio, and improving revenue growth in Greater China & APAC regions make the Group stand out from its peers
- We raise revenue growth projections of Greater China region and all three product segments, as well as margin profile projections, based on expected market improvement resulted from recently launched policies aiming at boosting economy in China
- Maintain **BUY**; TP implies 65.7x/41.4x 24E/25E P/E, or 2.7x/2.6x 24E/25E P/B

Post-IPO business turnaround. In recent quarterly earnings, the Group recorded higher revenue growth in Greater China and APAC regions and an improved margin profile. In addition, the Group raised its FY24E revenue and profit guidance in 2Q24 earnings announcement. We believe the Group has been able to effectively execute its post-IPO turnaround strategy despite the challenging industry environment and slowing consumer market growth in China.

Product and geographical diversification supports future performance. The Group's products can be categorized into Technical Apparel, Outdoor Performance, and Ball & Racquet Sports, which contributed to 41.0%, 30.6%, and 28.4% of total revenue in 2Q24 vs. 36.5%, 38.2%, and 25.4% in FY23. Moreover, revenue contribution from EMEA, Americas, Greater China, and APAC regions changed from 33.2%, 39.5%, 19.3%, and 8.0% in FY23 to 23.3%, 37.0%, 29.0%, and 10.6% in 2Q24. We expect further diversification in product portfolio and geographical distribution would strengthen the the Group's business.

FY23-26E revenue CAGR at 14.7%. Factoring in the potential improvement in consumer market sentiment and the potential acceleration of consumer market recovery triggered by the policies launched by authorities in China since late Sep 2024, we believe the Group would generate better growth in the Greater China region. Our current FY23-26E revenue CAGR is projected at 14.7% vs. 14.4% in previous report; revenue of Greater China Region would achieve FY23-26E revenue CAGR at 34.0% vs. 33.1% in previous report. We expect the policy initiatives in China would also enable OPM and NPM to increase from 9.1% and 3.4% in FY24E to 10.4% and 5.6% in FY26E.

Maintain BUY; TP at US\$ 22.6. Maintain **BUY** on the expected revenue growth improvement and the solid business portfolio. Our higher DCF-derived TP can be attributed to the revenue projection revision and the lower policy risk premium in the Greater China region, which leads to WACC of our DCF model to decrease by 0.6ppt to 9.5%. Current TP represents 65.7x/41.4x 24E/25E P/E, or 2.7x/2.6x 24E/25E P/B.

Risk factors: 1) High concentration on certain brands and geographical regions; 2) Seasonality of business; 3) Changing consumer preference; 4) Earnings volatility may increase due to expansion; 5) Macroeconomic risk; 6) Non-GAAP financial metrics; 7) Foreign currency risk; 8) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,549	4,368	5,098	5,829	6,599
Chg (% YoY)	15.7	23.1	16.7	14.3	13.2
Net profit (US\$ mn)	(253)	(209)	174	276	367
Chg (% YoY)	N/A	N/A	N/A	58.9	33.0
EPS (US\$)	(0.7)	(0.5)	0.3	0.5	0.7
Chg (% YoY)	N/A	N/A	N/A	58.9	33.0
BVPS (US\$)	(0.2)	(0.4)	8.3	8.8	9.5
Chg (% YoY)	N/A	N/A	N/A	6.6	8.2
P/E (x)	N/A	N/A	53.4	33.6	25.3
P/B (x)	N/A	N/A	2.2	2.1	1.9
ROAA (%)	(3.2)	(2.6)	2.0	3.0	3.6
ROAE (%)	N/A	N/A	8.6	6.4	7.9
DPS (US\$)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0

Source(s): The Group, ABCI Securities estimates

Company Report

Oct 9, 2024

Rating (US): BUY
TP (HK): US\$ 22.6

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

Price (US\$)	18.35
52Wk H/L	18.58/10.11
Est. price return	23.2%
Est. dividend yield	0.0%
Est. total return	23.2%
Last Rating & TP	BUY; US\$ 18.6
Previous Report Date	Aug 28, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Total issued shares (mn)	505.2
Market cap (US\$ bn)	9.3
3-mth avg daily turnover (US\$ mn)	20.6

Major shareholder(s) (%)	
Anta	43.33

Source(s): Anta, Bloomberg, ABCI Securities

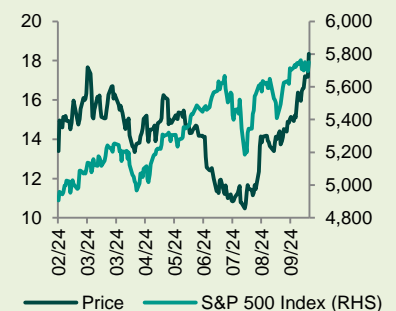
Price performance

	Absolute	Relative*
1-mth	30.9	24.5
3-mth	53.0	49.7
6-mth	19.6	9.1

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance since IPO (US\$)



Source(s): Bloomberg, ABCI Securities

Note:

- Net profit and related measures refer to net profit attributable to shareholders of the Company;
- Market data as of Oct 8, 2024.

Exhibit 1: Changes in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/A (%)	27.0	25.0	27.0	25.0	N/A
D/E(%)	56.6	52.9	56.6	52.9	
Tax rate (%)	37.9	37.9	37.9	37.9	
Valuations					
TP (US\$)	22.6		18.6		Higher TP is due to higher revenue and profit projections and lower WACC
P/E (x)	65.7	41.4	54.3	34.8	
P/B (x)	2.7	2.6	2.3	2.1	

Note: Please refer to the first page of this company report for previous report publication date

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 (US\$ mn)	5,098	5,829	6,599	5,092	5,803	6,537	0.1	0.4	0.9
Net profit (to shareholders of the Company) (US\$ mn)	174	276	367	173	271	355	0.4	1.9	3.4
EPS (US\$)	0.34	0.55	0.73	0.34	0.54	0.70	1.1	1.2	3.8

Source(s): ABCI Securities estimates

Exhibit 3: Quarterly performance of the Group

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Margin (%)						
GPM	52.8	53.3	50.7	52.0	54.0	55.5
OPM	12.4	0.9	9.1	4.5	9.2	(0.9)
NPM (Owners)	1.8	(11.3)	(3.3)	(7.1)	0.4	(0.4)
SG&A expenses/revenue	40.2	52.0	42.0	48.2	45.2	56.4
Revenue growth (YoY %)						
Revenue	29.8	23.5	35.3	9.7	12.6	16.0
<i>By product segment</i>						
Technical Apparel	35.9	78.4	68.9	25.9	43.7	34.4
Outdoor Performance	43.3	11.0	25.5	1.8	6.0	11.1
Ball & Racquet Sports	11.6	1.1	18.4	(2.5)	(14.2)	0.8
<i>By channel</i>						
Wholesale	N/A	N/A	27.1	(4.2)	(1.2)	1.6
DTC	N/A	N/A	60.2	36.9	40.6	40.0
<i>By geographical segment</i>						
EMEA	N/A	N/A	38.6	(0.9)	0.5	0.7
Americas	N/A	N/A	26.7	4.8	(0.0)	0.5
Greater China	N/A	N/A	42.9	44.7	50.9	53.8
Asia Pacific	N/A	N/A	53.5	21.9	33.5	44.5

Note: 1) the Group has not disclosed the 1Q22 and 2Q22 revenue breakdown for channels and geographical segments; 2) Greater China consists of mainland China, Hong Kong, Macau, and Taiwan; 3) Asia Pacific excludes Greater China

Source(s): The Group, ABCI Securities

Exhibit 4: FY24E guidance put forward by the Group

	4Q23	1Q24	2Q24
Reported revenue growth	Mid-teens	Mid-teens %	15 - 17%
Gross margin	53.5-54.0%	54.0%	~54.5%
Operating margin	10.5-11.0%	10.5% - 11.0%	toward high-end of 10.5 - 11.0%
Fully diluted share count	510 million	500 million	500 million
Fully diluted EPS	US\$0.30- US\$0.40	toward the high end of US\$0.30 - US\$0.40	US\$0.40 - US\$0.44

Segment revenue growth

Technical Apparel	greater than 20%	greater than 25%	greater than 30%
Outdoor Performance	high-single-digit	mid-to-high-single-digit	mid-to-high-single-digit
Ball & Racquet Sports	low-to-mid single-digit	low-to-mid single-digit	low-to-mid single-digit

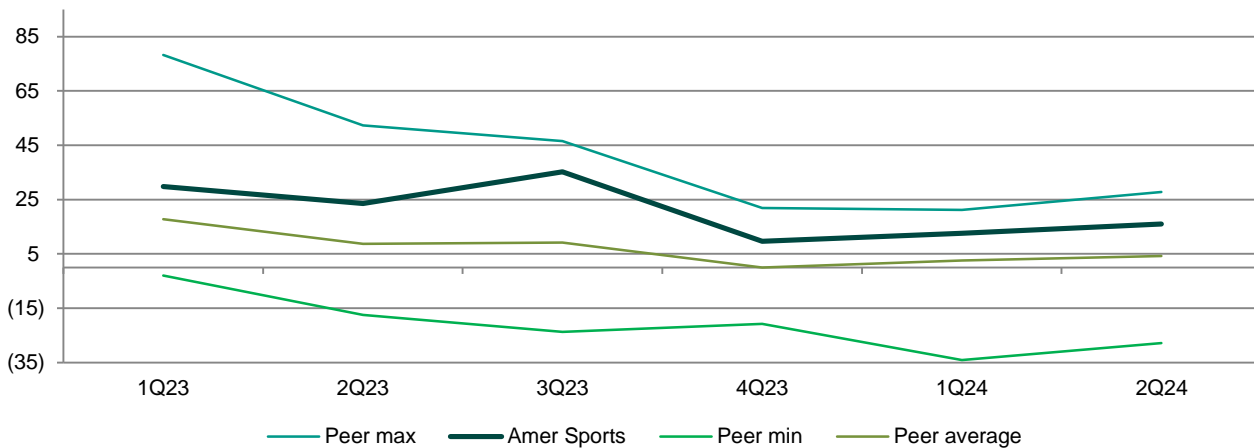
Segment OPM

Technical Apparel	slightly above 20%	slightly above 20%	slightly above 20%
Outdoor Performance	high-single-digit	high-single digit %	high-single digit %
Ball & Racquet Sports	mid-single-digit	low-to-mid single-digit	low-to-mid single-digit

Note: Other than metrics with respect to revenue, the Group only provides guidance on a non-IFRS basis

Source(s): The Group, ABCI Securities

Exhibit 5: Relative performance – revenue growth (YoY %)



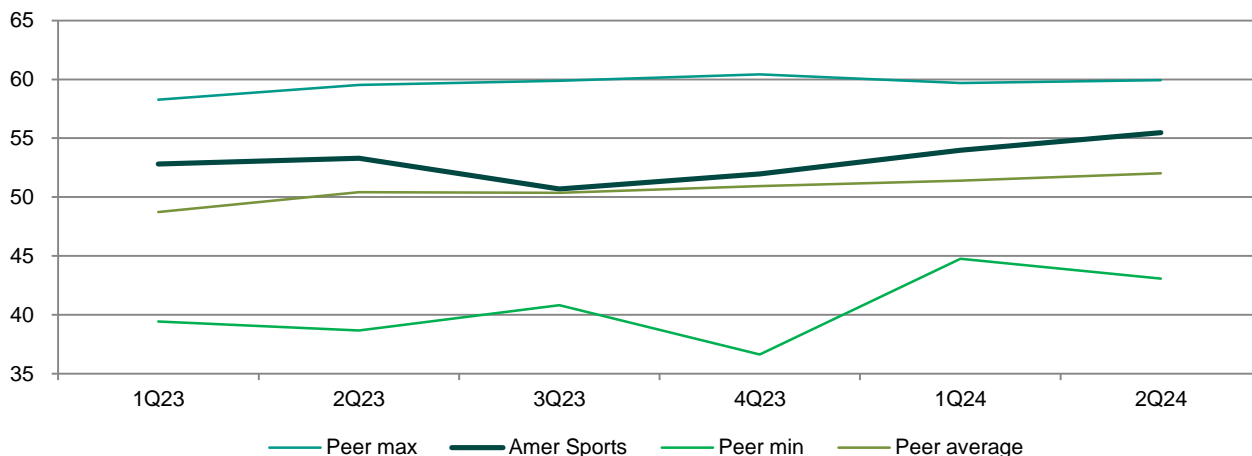
Note:

1) Peers in the calculation include Nike (NKE US), Adidas (ADS GR), Under Armour (UA US), Deckers (DECK US), Lululemon (LULU US), V.F. Corporation (VFC US), Columbia (COLM US), On (ONON US), ASICS (7936 JP), Skechers (SKX US), Wolverine World Wide (WWW US), and Puma (PUM GR)

2) In cases where a peer company's fiscal year end does not align with the standard calendar year, the nearest quarterly period is utilized for calculations

Source(s): companies, ABCI Securities

Exhibit 6: Relative performance – GPM (%)



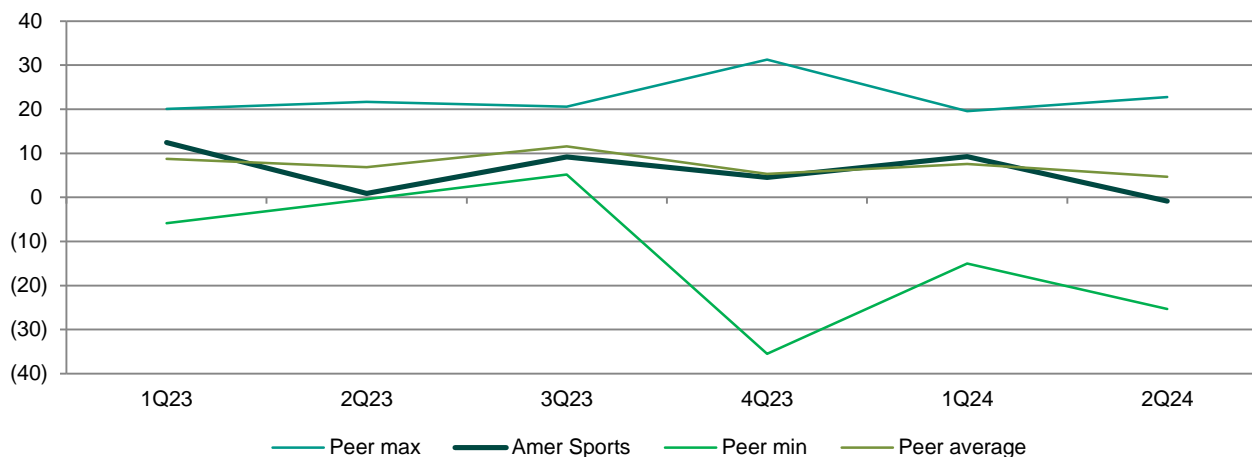
Note:

1) Peers in the calculation include Nike (NKE US), Adidas (ADS GR), Under Armour (UA US), Deckers (DECK US), Lululemon (LULU US), V.F. Corporation (VFC US), Columbia (COLM US), On (ONON US), ASICS (7936 JP), Skechers (SKX US), Wolverine World Wide (WWW US), and Puma (PUM GR)

2) In cases where a peer company's fiscal year end does not align with the standard calendar year, the nearest quarterly period is utilized for calculations

Source(s): companies, ABCI Securities

Exhibit 7: Relative performance – OPM (%)



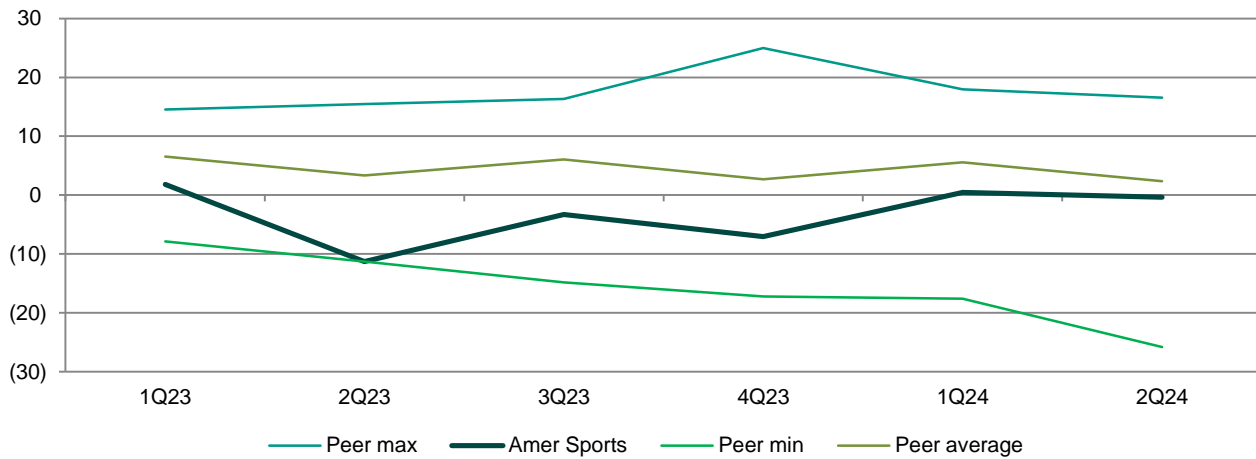
Note:

1) Peers in the calculation include Nike (NKE US), Adidas (ADS GR), Under Armour (UA US), Deckers (DECK US), Lululemon (LULU US), V.F. Corporation (VFC US), Columbia (COLM US), On (ONON US), ASICS (7936 JP), Skechers (SKX US), Wolverine World Wide (WWW US), and Puma (PUM GR)

2) In cases where a peer company's fiscal year end does not align with the standard calendar year, the nearest quarterly period is utilized for calculations

Source(s): companies, ABCI Securities

Exhibit 8: Relative performance – NPM (to shareholders of the Company) (%)



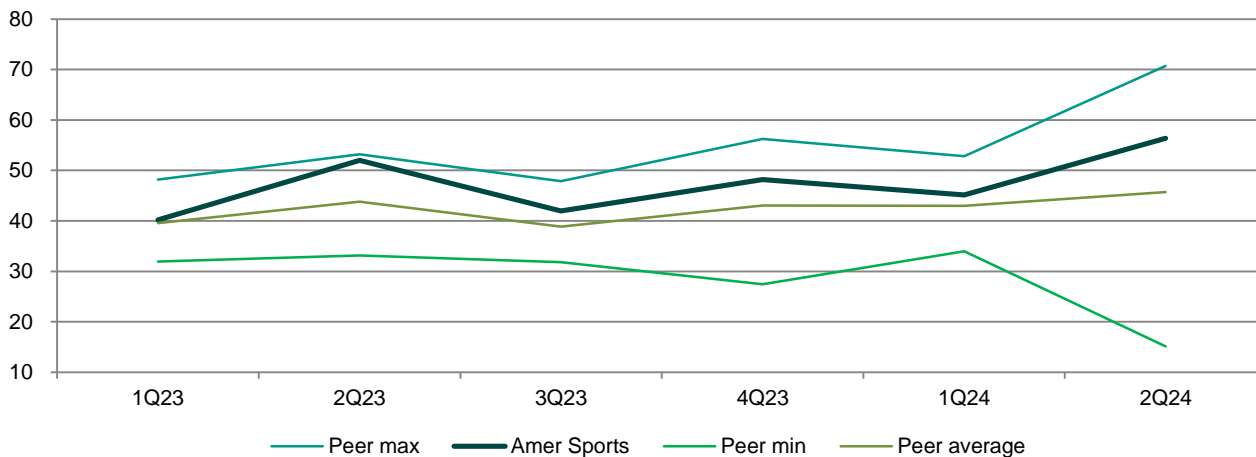
Note:

1) Peers in the calculation include Nike (NKE US), Adidas (ADS GR), Under Armour (UA US), Deckers (DECK US), Lululemon (LULU US), V.F. Corporation (VFC US), Columbia (COLM US), On (ONON US), ASICS (7936 JP), Skechers (SKX US), Wolverine World Wide (WWW US), and Puma (PUM GR)

2) In cases where a peer company's fiscal year end does not align with the standard calendar year, the nearest quarterly period is utilized for calculations

Source(s): companies, ABCI Securities

Exhibit 9: Relative performance - SG&A expense/revenue ratio (%)



Note:

1) Peers in the calculation include Nike (NKE US), Adidas (ADS GR), Under Armour (UA US), Deckers (DECK US), Lululemon (LULU US), V.F. Corporation (VFC US), Columbia (COLM US), On (ONON US), ASICS (7936 JP), Skechers (SKX US), Wolverine World Wide (WWW US), and Puma (PUM GR)

2) In cases where a peer company's fiscal year end does not align with the standard calendar year, the nearest quarterly period is utilized for calculations

Source(s): companies, ABCI Securities

Financial statements

Consolidated income statement

As of Dec 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	3,549	4,368	5,098	5,829	6,599
COGS	(1,785)	(2,092)	(2,334)	(2,622)	(2,919)
Gross profit	1,764	2,276	2,763	3,207	3,680
SG&A	(1,523)	(1,983)	(2,313)	(2,672)	(3,000)
Impairment losses	(202)	(2)	(6)	(5)	(5)
Other operating income	11	11	19	15	14
Operating profit/(loss)	51	303	464	546	689
Net finance cost	(233)	(407)	(184)	(101)	(97)
Profit/(loss) before tax	(183)	(105)	280	445	592
Income tax expense	(48)	(104)	(106)	(169)	(225)
Profit/(loss) from continuing operations	(231)	(209)	174	276	367
Loss from discontinued operations, net of tax	(22)	0	0	0	0
Net profit/(loss)	(253)	(209)	174	276	367
- Equity holders of the company	(253)	(209)	174	276	367
- Non-controlling interests	0	(0)	0	0	0
EPS					
- BASIC	(0.66)	(0.54)	0.34	0.55	0.73
- Diluted	(0.66)	(0.54)	0.34	0.55	0.73

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Revenue of major segments

As of Dec 31 (USD mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<u>By product category</u>					
Technical Apparel	1,096	1,593	2,137	2,658	3,185
Outdoor Performance	1,417	1,668	1,818	1,993	2,199
Ball & Racquet Sports	1,037	1,108	1,143	1,179	1,215
<u>By sales channel</u>					
Wholesale	2,503	2,810	3,060	3,290	3,465
DTC	1,046	1,559	2,037	2,539	3,133
<u>By geographical segment</u>					
EMEA	1,271	1,450	1,468	1,502	1,522
Americas	1,504	1,727	1,800	1,964	2,151
Greater China	524	841	1,286	1,647	2,023
Asia Pacific	250	350	544	716	903

Note: 1) Greater China consists of mainland China, Hong Kong, Macau, and Taiwan; 2) Asia Pacific excludes Greater China

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	402	483	451	1,024	1,752
Accounts receivable, net	675	600	829	772	1,022
Inventories	913	1,100	1,123	1,360	1,391
Others	183	169	310	257	359
Total current assets	2,173	2,352	2,713	3,413	4,524
PP&E	362	442	514	672	791
Right-of-use assets	184	317	442	555	628
Intangible assets	2,756	2,749	2,583	2,294	2,233
Goodwill	2,242	2,270	2,246	2,246	2,246
Others	179	244	255	296	313
Total non-current assets	5,722	6,022	6,040	6,063	6,211
Total assets	7,895	8,374	8,753	9,477	10,735
ST Interest-bearing liabilities	208	381	0	0	0
ST Lease liabilities	64	89	103	142	194
Accounts payable	436	427	430	567	420
Others	572	677	924	1,039	1,358
Total current liabilities	1,279	1,574	1,457	1,749	1,972
LT Lease liabilities	133	250	349	493	610
LT Loans from financial institutions	1,792	1,863	1,913	1,722	1,550
Loans from related parties	4,039	4,077	0	0	0
Others	725	766	851	1,054	1,777
Total non-current liabilities	6,690	6,957	3,113	3,269	3,937
Shareholders' equity	(74)	(160)	4,179	4,455	4,822
Non-controlling interest	0	3	4	4	4
Total equity	(74)	(157)	4,183	4,459	4,826
Total liabilities and equity	7,895	8,374	8,753	9,477	10,735

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	FY23A	FY24E	FY25E	FY26E
Net profit/(loss)	(253)	(209)	174	276	367
Depreciation and amortization	197	221	248	297	333
Changes in working capital	(355)	(92)	(284)	56	(399)
Others	319	279	148	131	158
Cash flow from operations	(92)	199	286	760	459
Change in PP&E	(78)	(123)	(123)	(208)	(174)
Change in Intangible assets	(32)	(13)	(22)	(17)	(17)
Change in Right-of-use assets	(10)	(16)	(15)	(18)	(22)
Others	1	(4)	0	0	0
Cash flow from investing	(119)	(155)	(160)	(242)	(214)
Change in borrowing	184	178	(4,408)	(191)	(172)
Proceeds from share issuance	0	0	1,515	0	0
Others	(103)	(143)	2,754	263	667
Cash flow from financing	81	35	(139)	72	494
Change in cash and cash equivalent	(129)	79	(13)	590	740
Translation difference	(36)	2	(19)	(18)	(12)
Cash and cash equivalent - end of period	402	483	451	1,024	1,752

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	15.7	23.1	16.7	14.3	13.2
<u>By product category</u>					
Technical Apparel	15.2	45.4	34.2	24.4	19.8
Outdoor Performance	14.6	17.7	9.0	9.6	10.4
Ball & Racquet Sports	17.8	6.9	3.2	3.1	3.1
<u>By channels</u>					
Wholesale	11.9	12.3	8.9	7.5	5.3
DTC	26.0	49.0	30.7	24.6	23.4
<u>By region</u>					
EMEA	3.7	14.1	1.2	2.3	1.3
Americas	20.1	14.8	4.2	9.2	9.5
Greater China	40.5	60.6	52.8	28.1	22.8
Asia Pacific	16.2	40.1	55.5	31.5	26.1
GP	17.1	29.1	21.4	16.1	14.7
OP	(72.9)	497.8	53.5	17.5	26.2
NP (to shareholders of the Company)	100.1	(17.5)	(183.3)	58.9	33.0
Profitability ratios (%)					
GPM	49.7	52.1	54.2	55.0	55.8
OPM	1.4	6.9	9.1	9.4	10.4
EBITDA Margin	6.4	12.0	14.2	14.5	15.5
NPM (to shareholders of the Company)	(7.1)	(4.8)	3.4	4.7	5.6
Adj OPM	8.5	9.9	10.8	11.3	11.9
Adj NPM	(0.8)	(3.1)	4.4	5.5	5.9
Revenue contribution					
<u>By product category</u>					
Technical Apparel	30.9	36.5	41.9	45.6	48.3
Outdoor Performance	39.9	38.2	35.7	34.2	33.3
Ball & Racquet Sports	29.2	25.4	22.4	20.2	18.4
<u>By channels</u>					
Wholesale	70.5	64.3	60.0	56.4	52.5
DTC	29.5	35.7	40.0	43.6	47.5
<u>By region</u>					
EMEA	35.8	33.2	28.8	25.8	23.1
Americas	42.4	39.5	35.3	33.7	32.6
Greater China	14.8	19.3	25.2	28.3	30.7
Asia Pacific	7.0	8.0	10.7	12.3	13.7
Return ratios (%)					
ROAA	(3.2)	(2.6)	2.0	3.0	3.6
ROAE	N/A	N/A	8.6	6.4	7.9
Liquidity ratio (x)					
Current ratio	1.7	1.5	1.9	2.0	2.3
Quick ratio	1.0	0.8	1.1	1.2	1.6
Cash ratio	0.3	0.3	0.3	0.6	0.9
Working capital (days)					
Receivable turnover	63	53	51	50	50
Inventory turnover	153	176	174	173	172
Payable turnover	65	69	66	64	61
CCC	151	160	159	159	161
Leverage ratios (%)					
Total debt to total assets	79.0	79.5	27.0	25.0	21.9
Total debt to total equity	N/A	N/A	56.6	52.9	48.8
Net debt/(cash) to total assets	73.9	73.8	21.9	14.1	5.6
Net debt/(cash) to total equity	N/A	N/A	45.8	29.9	12.5

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Mengniu (2319 HK)

Better macro environment to partially offset raw milk price pressure

- Policies announced since late Sep 2024 would accelerate recovery of consumer market; "Notice On Stabilizing Beef And Dairy Product Production" (《稳定肉牛牛奶牛生产通知》) announced by MOA along with 6 other departments encourages local governments to launch consumption voucher programs for dairy products
- Improved financial projections and lower policy risk support higher TP, but low raw milk price remains a concern
- Maintain **HOLD**; TP implies 15.0x/12.6x 24E/25E P/E, or 1.4x/1.3x 24E/25E P/B

Supportive policies to aid consumer demand recovery. Policies were launched to support the economy since late Sep 2024. In addition, MOA, along with 6 other departments issued "Notice On Stabilizing Beef And Dairy Product Production" (《稳定肉牛牛奶牛生产通知》), which includes measures to stabilize the national dairy production capacity, to decrease the cost of raising cattle and dairy cows, and to encourage local governments to launch consumption voucher programs on dairy products. We believe the consumption voucher programs would lead to higher demand for dairy products, but implementation may vary among local governments, and dairy product demand growth may not be swift enough to catch up with the current raw milk supply. According to NBS, 2023 national raw milk production volume reached 41.97mn tons, which represents an increase of 31% compared to the level in 2019, while 8M24 dairy product production volume decreased by 7.8% YoY.

Higher revenue growth projection supported by new policy measures. Based on the recently announced policies, we believe consumer market sentiment and demand level would go up, driving up dairy products sales. However, we believe the rebound of raw milk price, which is crucial to the fundamental recovery, would take longer to resolve. We expect FY23-26E revenue CAGR to reach 1.0%, as revenue growth for FY25E and FY26E would be 4.1% YoY and 4.7% YoY. We project GPM, OPM, and NPM to increase from 38.9%, 6.7% and 4.7% in FY24E to 39.3%, 7.5% and 5.7% in FY26E. We expect the improved consumer market to relieve pressure on S&D expenses.

Measures to increase shareholder return announced. In late Aug 2024, the Group announced in the next 12 months it would spend up to HK\$ 2bn on share repurchase. In addition, the Group is planning to increase the dividend payout ratio in the coming years with a target of 50%. We believe that these measures would help boost investor confidence and support share price performance.

Maintain HOLD; TP at HK\$ 18.3. We believe despite growth improvement in coming years, downward pressure on raw milk price is likely to persist and weigh on the Group's performance. However, our WACC for DC model decreases by 0.8ppt to 12.4% due to the lower policy risk premium, providing addition support to a higher TP. Maintain **HOLD**. Current TP represents 15.0x/12.6x 24E/25E P/E, or 1.4x/1.3x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Raw material cost risk; 3) Policy 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) Fluctuation in EPS; 11) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	92,593	98,624	93,340	97,140	101,721
Chg (% YoY)	5.1	6.5	(5.4)	4.1	4.7
Net Profit (RMB mn)	5,303	4,809	4,370	5,219	5,769
Chg (% YoY)	5.5	(9.3)	(9.1)	19.4	10.5
Basic EPS (RMB)	1.34	1.22	1.11	1.33	1.47
Chg (% YoY)	5.3	(9.1)	(9.0)	19.4	10.5
P/E (x)	12.12	13.34	14.65	12.27	11.10
BVPS (RMB)	10.14	11.26	11.90	12.63	13.38
P/B (x)	1.60	1.44	1.37	1.29	1.22
DPS (RMB)	0.40	0.49	0.48	0.62	0.74
Yield (%)	2.5	3.0	3.0	3.8	4.6
ROAA (%)	4.8	4.2	3.8	4.5	4.9
ROAE (%)	13.8	11.4	9.6	10.8	11.3

Source(s): The Group, ABCI Securities estimates

Company Report

Oct 9, 2024

Rating: HOLD

TP: HK\$ 18.3

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	17.86
52Wk H/L(HK\$)	28.25/11.82
Est. share price return	2.5%
Est. dividend yield	3.0%
Est. total return	5.4%
Previous Rating&TP	HOLD; HK\$13.1
Previous report date	Sep 2, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.9
Market cap (HK\$ bn)	70.3
3-mth ADT (HK\$ mn)	493.2

Major shareholders	(%)
COFCO	24.0

Source(s): Bloomberg, HKEX, ABCI Securities

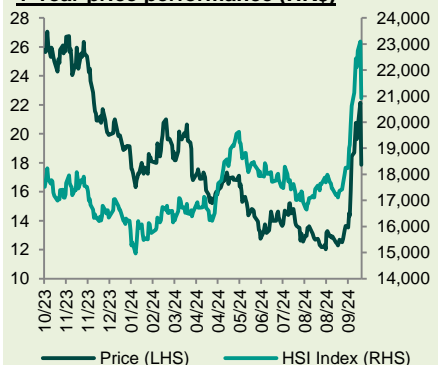
Sector Performance (%)

	Absolute	Relative*
1-mth	38.2	18.3
3-mth	25.4	7.9
6-mth	5.8	(19.3)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) Market data as of Oct 8, 2024;
- 2) RMB/HKD: 1.0978;
- 3) Net profit and related measures refer to net profit attributable to shareholders of the Company.

Exhibit 1: Change in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	65.0	60.7	65.0	60.6	N/A
D/A (%)	29.9	28.7	29.9	28.7	
Tax rate (%)	22.5	22.5	22.5	22.5	
Valuations					
TP (HK\$)	18.3		13.1		Higher TP due to higher revenue and profit projections and lower WACC
P/E (x)	15.0	12.6	10.7	9.1	
P/B (x)	1.4	1.3	1.0	0.9	

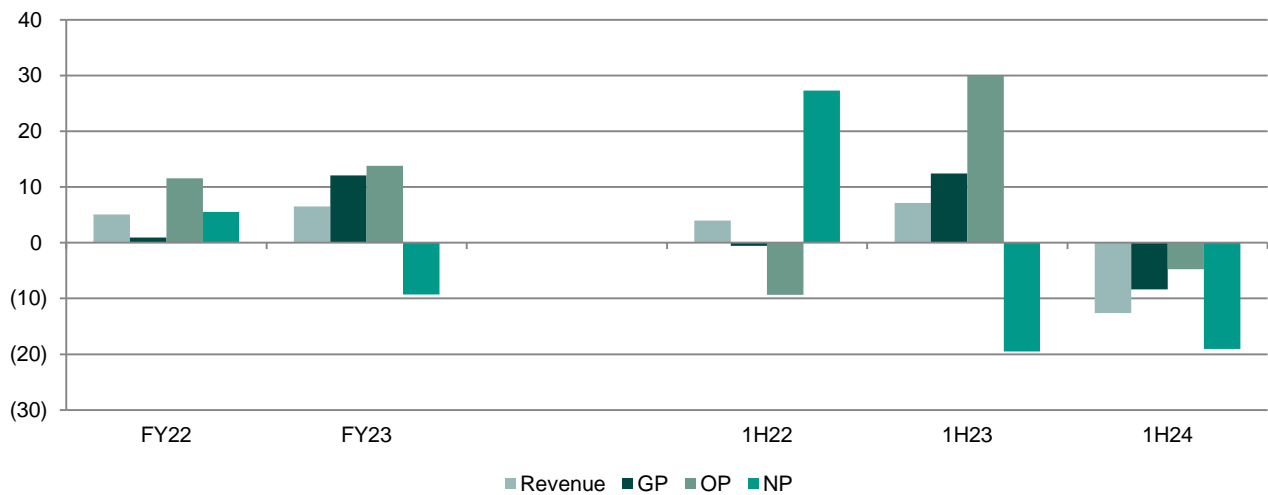
Note: please refer to the first page of this company report for previous report publication date

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)	93,340	97,140	101,721	93,340	96,969	101,358	0.0	0.2	0.4
Net profit (to shareholders of the Company) (RMB mn)	4,370	5,219	5,769	4,370	5,180	5,712	0.0	0.8	1.0
EPS (RMB)	1.11	1.33	1.47	1.11	1.32	1.45	0.0	0.8	1.0

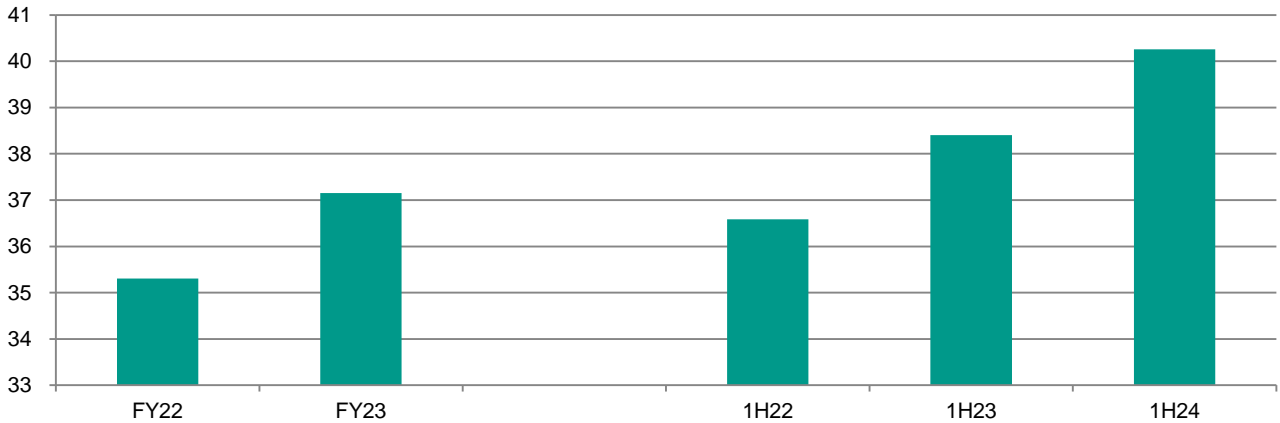
Source(s): ABCI Securities estimates

Exhibit 3: Changes in revenue and profit (YoY %)


Note: NP refers to net profit attributable to shareholders of the Company

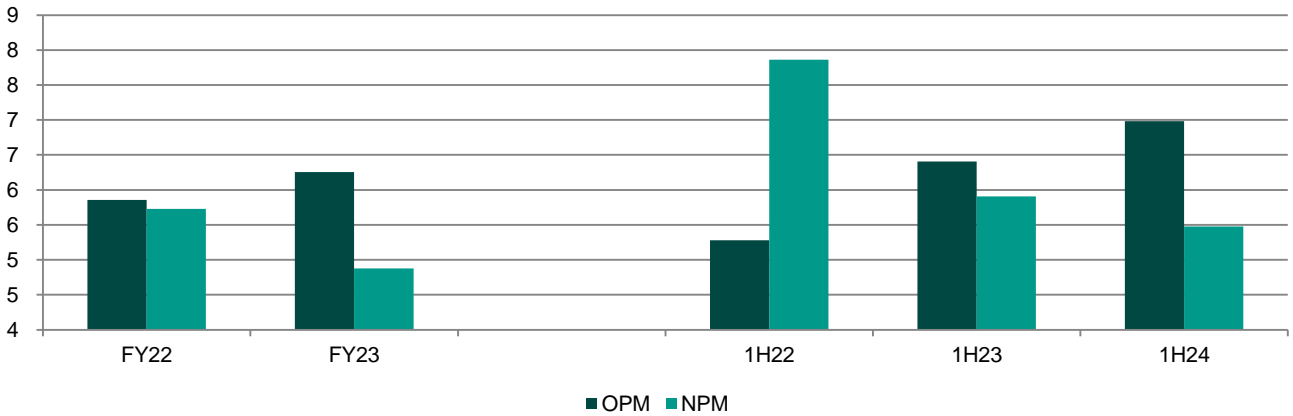
Source(s): The Group, ABCI Securities

Exhibit 4: GPM (%)



Source(s): The Group, ABCI Securities

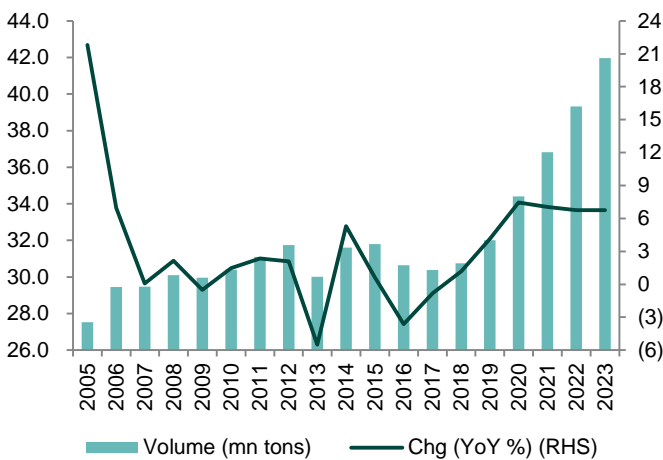
Exhibit 5: OPM and NPM (%)



Note: NPM refers to net profit margin attributable to shareholders of the Company

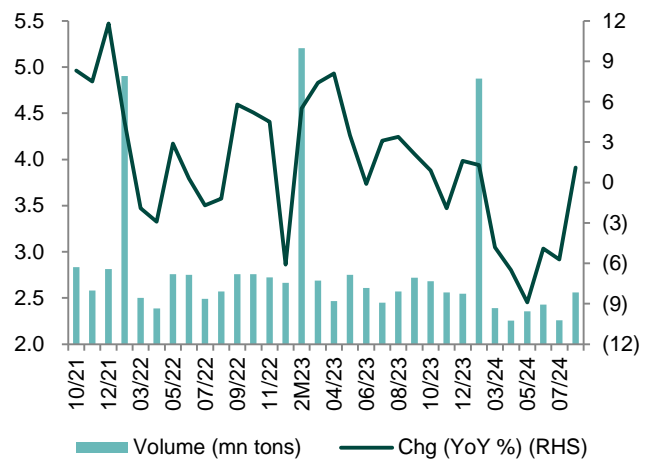
Source(s): The Group, ABCI Securities

Exhibit 6: National raw milk production volume



Source(s): NBS, ABCI Securities

Exhibit 7: National dairy product production volume – enterprises above designated size



Source(s): NBS, 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	93,340	97,140	101,721
- Liquid milk	78,269	82,071	78,589	80,867	84,388
- Ice cream	5,652	6,026	5,212	6,149	6,296
- Milk formula	3,862	3,802	3,577	3,904	4,159
- Cheese	1,321	4,357	4,219	4,447	4,732
- Other revenue	3,488	2,368	1,743	1,772	2,147
COGS	(59,904)	(61,984)	(57,015)	(59,154)	(61,732)
Gross profit	32,690	36,640	36,325	37,985	39,989
S&D expenses	(22,347)	(25,192)	(25,203)	(26,137)	(27,264)
Admin expenses	(4,442)	(4,743)	(4,459)	(4,553)	(4,723)
Other operating expenses	(477)	(535)	(409)	(388)	(374)
EBIT	5,423	6,171	6,254	6,908	7,627
Net interest expense /income	260	106	(21)	266	218
Other gains/(losses)	819	35	(476)	(312)	(252)
Profit before tax	6,502	6,312	5,758	6,861	7,592
Tax	(1,318)	(1,425)	(1,320)	(1,561)	(1,734)
Total net profit	5,185	4,887	4,438	5,300	5,859
- Profit to shareholders	5,303	4,809	4,370	5,219	5,769
- Minority interest	(118)	78	68	81	90
Dividend	1,590	1,924	1,908	2,438	2,929
EPS (RMB)					
- Basic EPS	1.34	1.22	1.11	1.33	1.47
- Diluted EPS	1.34	1.22	1.03	1.23	1.36
DPS (RMB)	0.40	0.49	0.48	0.62	0.74

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	14,161	12,876	8,668
Trade and bills receivable	3,660	3,669	3,048	2,929	2,990
Inventory	8,073	6,088	7,589	6,744	8,154
Others	12,278	11,927	9,852	10,022	10,129
Total current assets	36,777	34,128	34,650	32,571	29,941
PP&E and CIP	23,764	24,064	26,531	29,482	31,194
Goodwill	8,888	8,952	8,906	8,906	8,906
Other intangible assets	12,374	12,618	13,249	13,911	13,911
Others	36,010	35,457	32,573	34,074	37,012
Total non-current assets	81,036	81,092	81,258	86,373	91,023
Total assets	117,813	115,220	115,908	118,944	120,965
Trade and bills payable	10,201	9,499	8,466	10,457	9,541
ST borrowings	9,095	9,807	13,891	11,274	10,970
Others	13,858	13,288	13,757	14,165	16,303
Total current liabilities	33,153	32,594	36,113	35,896	36,814
LT Borrowings & convertible bonds	30,014	27,604	23,028	22,835	20,944
Others	4,594	4,370	3,517	4,021	3,996
Total non-current liabilities	34,608	31,974	26,545	26,856	24,940
Shareholders' equity	40,099	44,320	46,850	49,712	52,641
Minority interest	9,953	6,332	6,400	6,481	6,570
Total equity	50,052	50,652	53,249	56,192	59,211
Total liabilities and equity	117,813	115,220	115,908	118,944	120,965

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	6,502	6,312	5,758	6,861	7,592
Depreciation and amortization	2,878	3,301	2,284	2,523	2,677
Change in working capital	932	429	(443)	2,928	588
Others	(1,980)	(1,693)	(3,076)	(3,473)	(3,540)
Cash flow from operating activities	8,333	8,349	4,522	8,840	7,317
Change in PP&E and CIP	(4,723)	(4,391)	(5,405)	(7,228)	(6,523)
Others	(10,139)	4,105	6,844	1,977	3,094
Cash flow from investing activities	(14,862)	(286)	1,439	(5,250)	(3,430)
Change in borrowings	12,076	(1,698)	(2,787)	(514)	(2,196)
Others	(7,929)	(5,105)	(3,438)	(3,600)	(3,621)
Cash flow from financing activities	4,147	(6,802)	(6,225)	(4,114)	(5,816)
Cash at bank and on hand classified as held for sale	(59)	0	0	0	0
Net change in cash	(2,441)	1,261	(264)	(525)	(1,930)
Forex effect	43	247	(5)	(3)	(15)
Cash and cash equivalent - end	5,693	7,202	6,933	6,405	4,460

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	(5.4)	4.1	4.7
- Liquid milk	2.3	4.9	(4.2)	2.9	4.4
- Ice cream	33.3	6.6	(13.5)	18.0	2.4
- Milk powder	(22.0)	(1.6)	(5.9)	9.1	6.5
- Cheese	N/A	229.8	(3.2)	5.4	6.4
- Other products	43.1	(32.1)	(26.4)	1.6	21.2
Gross profit	0.9	12.1	(0.9)	4.6	5.3
Operating profit	11.6	13.8	1.4	10.5	10.4
Pretax profit	10.8	(2.9)	(8.8)	19.2	10.7
Net profit (to shareholders of the Company)	5.5	(9.3)	(9.1)	19.4	10.5
Profitability ratios (%)					
GPM	35.3	37.2	38.9	39.1	39.3
OPM	5.9	6.3	6.7	7.1	7.5
Pretax margin	7.0	6.4	6.2	7.1	7.5
NPM (to shareholders of the Company)	5.7	4.9	4.7	5.4	5.7
Return ratios (%)					
ROAA	4.8	4.2	3.8	4.5	4.9
ROAE	13.8	11.4	9.6	10.8	11.3
Liquidity ratio (x)					
Current ratio	1.1	1.0	1.0	0.9	0.8
Quick ratio	2.3	2.5	3.1	3.2	3.6
Cash ratio	1.7	1.8	1.8	1.9	2.0
Cash conversion cycle (days)					
Days of outstanding receivable	15	14	13	11	11
Days of inventory on hand	44	42	44	44	44
Days of outstanding payable	58	58	58	58	59
CCC	2	(3)	(1)	(3)	(4)
Leverage ratios (%)					
Total debt/Equity	78.1	73.9	65.0	60.7	53.9
Total debt/Total assets	33.2	32.5	29.9	28.7	26.4
Net debt/Equity	52.6	49.3	38.4	37.8	39.3
Net debt/Assets	22.4	21.7	17.7	17.9	19.2

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Yili (600887 CH) Supply-demand dynamics pivotal to recovery

- We believe the supply-demand dynamic remains pivotal to the dairy sector's recovery, despite the favorable policies announced
- We revise our revenue growth projection base on our updated view on the resuming market confidence and demand resulted from the new policy environment
- Maintain **HOLD**; TP implies 15.4x/16.0x 24E/25E P/E, or 3.2x/3.1x 24E/25E P/B

Favorable policy environment to spur short term growth. In late Sep 2024, several policy initiatives were introduced to support the economy. Additionally, MOA and six other government departments jointly released the "Notice on Stabilizing Beef and Dairy Product Production" (《稳定肉牛奶牛生产通知》), which aims to enhance national dairy production capacity, reduce the cost of raising cattle and dairy cows, and encourage local governments to implement dairy product consumption voucher programs. While consumption voucher programs could potentially boost demand for dairy products, their effectiveness may vary depending on local implementation. We believe the full recovery of the dairy sector still depends on the balancing of supply-demand dynamic and the recovery of raw milk price. According to NBS, national raw milk production reached 41.97mn tons in 2023, representing a 31% increase from 2019 levels, while 8M24 total dairy product production volume dropped by 7.8% YoY.

Conducive policy measures to support revenue growth. We anticipate the recently announced policies would trigger improvement in consumer market confidence and demand level. However, we believe a full recovery hinges on the fundamental improvement in the market supply-demand dynamic. Based on the updated expectation, we project FY23-26E revenue CAGR to reach 1.2%, as FY25E/ FY26E revenue growth is raised to 2.4% YoY/4.4% YoY. In addition, we expect the improved consumer market to relieve pressure on S&D expenses. We project GPM, OPM, and NPM to increase from 34.0%, 10.1% and 9.9% in FY24E to 35.8%, 12.0% and 10.1% in FY26E. Excluding the post-tax impact of RMB 2.56bn gain from transferring equity interest of Changjishengxin (昌吉盛新实业有限责任公司), FY24E NPM would be 7.5%.

Share repurchase to support price performance. The Group announced it has spent RMB ~550.5mn to repurchase ~22.6mn shares as of end-Aug 2024. The Group's original share repurchase plan has a size of RMB 1-2bn, and will last from May 20, 2024 to May 19, 2025. We believe this plan, together with its relatively high dividend payout ratio projected at 70.9% in FY24E, would help stabilize share price.

Maintain HOLD; TP at RMB 29.3. As a result of the lower policy risk premium, our WACC for DCF model decreased by 0.9ppt to 12.5% and contributed to the higher TP. We expect raw milk price to remain a pivotal factor in the Group's financial performance, despite the potential benefits of the new policies. Maintain **HOLD**. Current TP represents 15.4x/16.0x 24E/25E P/E, or 3.2x/3.1x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Fluctuation of raw material prices; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes; 6) EPS volatility; 7) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	123,171	126,179	122,451	125,395	130,851
Chg (% YoY)	11.4	2.4	(3.0)	2.4	4.4
Net Profit (to owners of the Company) (RMB mn)	9,431	10,429	12,137	11,662	13,248
Chg (% YoY)	8.3	10.6	16.4	(3.9)	13.6
Basic EPS (RMB)	1.48	1.64	1.91	1.83	2.08
Chg (% YoY)	3.5	10.7	16.4	(3.9)	13.6
P/E (x)	19.57	17.68	15.19	15.81	13.92
BVPS (RMB)	7.85	8.41	9.05	9.53	10.30
P/B (x)	3.69	3.44	3.20	3.04	2.81
DPS (RMB)	1.04	1.20	1.35	1.30	1.48
Yield (%)	3.6	4.1	4.7	4.5	5.1
ROAA (%)	8.1	7.4	7.9	7.4	8.3
ROAE (%)	19.3	20.1	21.8	19.7	21.0

Source(s): The Group, ABCI Securities estimates

Company Report Oct 9, 2024 Rating: HOLD TP: RMB 29.3

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

Share price (RMB)	28.96
52Wk H/L(RMB)	31.96/21.13
Est. share price return	1.2%
Est. dividend yield	4.7%
Est. total return	5.8%
Previous Rating&TP	HOLD;RMB 22.5
Previous report date	Sep 3, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	6.4
Market cap (RMB bn)	184.4
3-mth ADT (RMB mn)	1,404.1

Major shareholders

	(%)
HK Securities Clearing Co	10.67
Hohhot Investment Co Ltd	8.46
Pan Gang	4.50

Source(s): Bloomberg, the Company

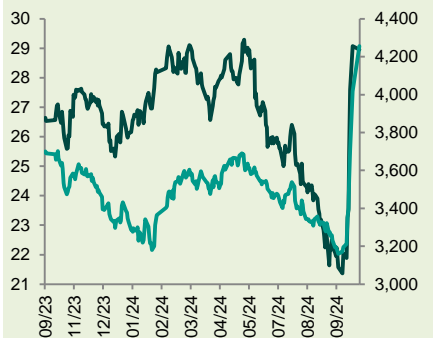
Sector Performance (%)

	Absolute	Relative*
1-mth	30.1	(1.6)
3-mth	13.1	(11.0)
6-mth	4.7	(14.6)

* Relative to CSI 300 Index

Source(s): Bloomberg, ABCI Securities

1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Note:

1) Market data as of Oct 8, 2024;

2) Net profit and related measures refer 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 (%)	98.7	85.3	98.7	85.6	
D/A (%)	38.6	34.5	38.6	34.5	N/A
Tax rate (%)	13.3	13.3	13.3	13.3	
Valuations					
TP (RMB)		29.3		22.5	
P/E (x)	15.4	16.0	11.8	12.5	Higher TP is due to higher revenue and profit projections and lower WACC
P/B (x)	3.2	3.1	2.5	2.4	

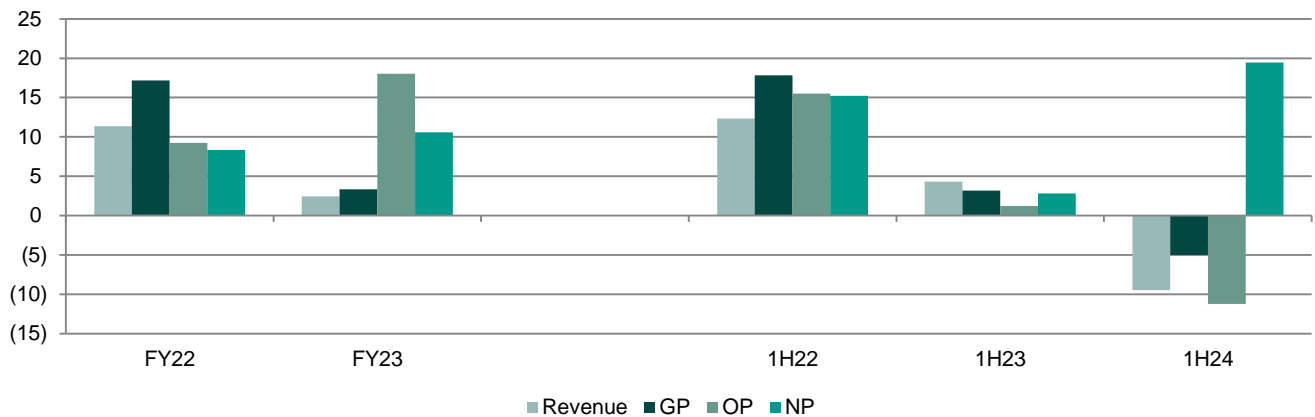
Note: please refer to first page of this company report for previous report publication date

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)	122,451	125,395	130,851	122,451	125,153	130,324	0.0	0.2	0.4
Net profit (to shareholders of the Company) (RMB mn)	12,137	11,662	13,248	12,137	11,454	12,848	0.0	1.8	3.1
Basic EPS (RMB)	1.91	1.83	2.08	1.91	1.80	2.02	0.0	1.8	3.1

Source(s): ABCI Securities estimates

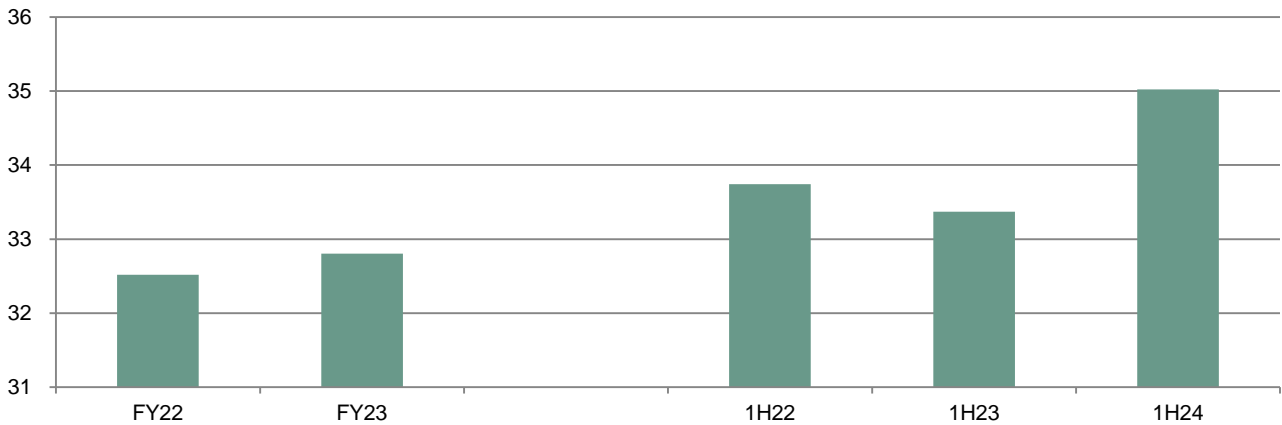
Exhibit 3: Changes in revenue and profit (YoY %)


Note:

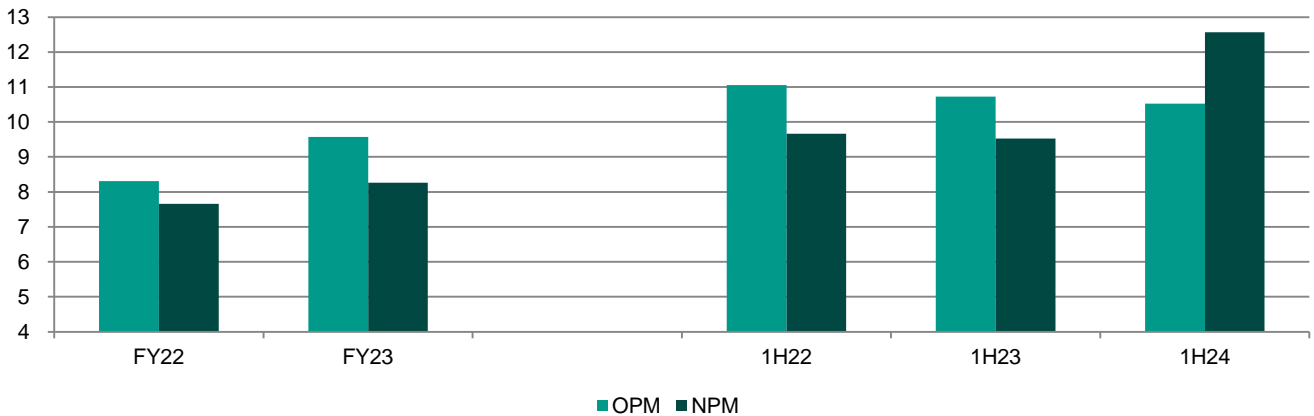
1) NP refers to net profit attributable to shareholders of the Company;

2) NP increase in 1H24 was mainly due to the Group's net gain from transferring equity interest of Changjishengxin (昌吉盛新实业有限责任公司), amounting to RMB 2.56bn

Source(s): The Group, ABCI Securities

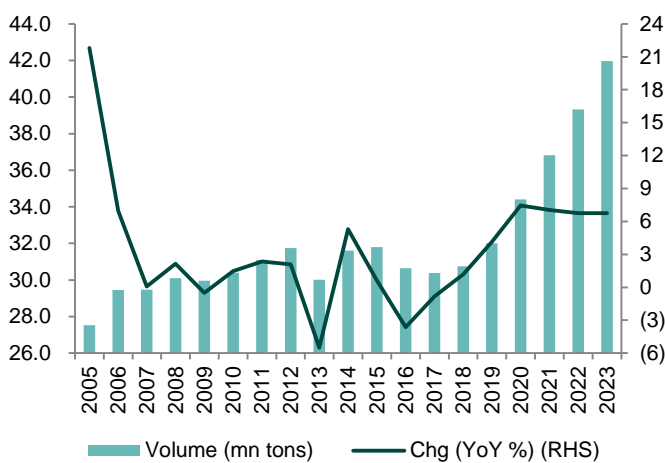
Exhibit 4: GPM (%)


Source(s): The Group, ABCI Securities

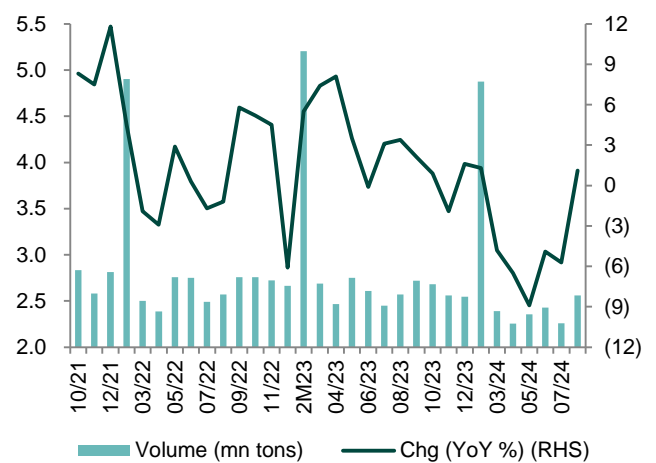
Exhibit 5: OPM and NPM (%)


Note: NPM refers to net profit margin attributable to shareholders of the Company

Source(s): The Group, ABCI Securities

Exhibit 6: National raw milk production volume


Source(s): NBS, ABCI Securities

Exhibit 7: National dairy product production volume – enterprises above designated size


Source(s): NBS, ABCI Securities

Financial Statements

Consolidated income statement

As of Dec 31 (RMB mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	123,171	126,179	122,451	125,395	130,851
- Core revenue	121,149	124,461	120,601	123,306	128,854
- Liquid milk	84,926	85,540	82,041	82,577	85,548
- Ice cream	9,567	10,688	8,947	9,335	10,154
- Milk formula and milk products	26,260	27,598	28,805	30,469	32,147
- Non-core revenue	1,549	1,297	1,228	1,401	1,404
- Interest income	473	421	621	688	593
COGS	(83,119)	(84,789)	(80,825)	(81,787)	(84,018)
Gross profit	40,052	41,391	41,626	43,608	46,833
- Core gross profit	39,275	40,726	40,777	42,661	45,982
- Liquid milk	24,725	25,974	26,299	26,841	28,534
- Ice cream	3,681	4,109	3,385	3,570	3,927
- Milk formula and milk products	10,784	10,526	10,879	11,991	13,232
- Non-core gross profit	304	244	227	259	258
- Gross profit on interest income	473	421	621	688	593
Business tax and levies	(742)	(733)	(738)	(743)	(772)
S&D expenses	(22,908)	(22,572)	(23,162)	(23,642)	(24,583)
Admin expenses	(5,343)	(5,154)	(4,578)	(4,692)	(4,901)
R&D expenses	(822)	(850)	(829)	(855)	(898)
Operating profit	10,238	12,082	12,319	13,675	15,678
Finance costs	255	153	378	279	470
Others	137	(514)	1,115	(664)	(1,031)
Pretax profit	10,630	11,721	13,813	13,290	15,116
Tax	(1,312)	(1,437)	(1,843)	(1,773)	(2,017)
Net profit	9,318	10,284	11,969	11,517	13,099
- Profit attributable to shareholders	9,431	10,429	12,137	11,662	13,248
- Minority interest	(113)	(144)	(168)	(145)	(149)
Cash dividend	6,621	7,639	8,605	8,302	9,421
EPS (RMB)					
- Basic	1.48	1.64	1.91	1.83	2.08
- Diluted	1.48	1.64	1.91	1.83	2.08
Cash DPS (RMB)	1.04	1.20	1.35	1.30	1.48

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	33,853	43,372	48,223	43,981	44,131
Trade and bills receivable	3,250	3,305	3,476	3,046	4,259
Inventory	14,836	12,512	12,404	14,479	13,257
Others	9,524	10,167	7,012	9,325	7,579
Total current assets	61,463	69,355	71,116	70,831	69,226
PP&E	33,735	35,242	35,974	36,136	36,305
Goodwill	4,954	5,160	5,190	5,190	5,190
LT Biological assets	1,776	1,659	1,722	1,825	1,861
Others	29,037	40,204	42,330	44,669	47,897
Total non-current assets	69,502	82,265	85,216	87,820	91,253
Total assets	130,965	151,620	156,332	158,652	160,479
Trade and bills payable	16,807	14,840	14,094	15,695	14,016
ST borrowings	26,799	39,755	45,825	43,534	41,357
Others	18,563	22,265	22,572	23,220	24,585
Total current liabilities	62,170	76,860	82,491	82,449	79,959
LT Borrowings	9,298	11,705	7,166	6,807	6,467
Bonds payable	3,482	3,541	3,456	3,318	3,186
Others	1,872	2,193	2,037	1,984	1,977
Total non-current liabilities	14,653	17,440	12,659	12,109	11,630
Shareholders' equity	50,268	53,539	57,584	60,640	65,586
Minority interest	3,875	3,781	3,599	3,453	3,304
Total equity	54,143	57,320	61,182	64,094	68,890
Total liabilities and equity	130,965	151,620	156,332	158,652	160,479

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit	9,318	10,284	11,969	11,517	13,099
Depreciation and amortization	4,068	4,431	4,159	4,168	4,415
Change in working capital	(2,234)	(307)	(456)	486	(2,109)
Others	2,268	3,881	4,537	1,654	1,669
Cash flow from operating activities	13,420	18,290	20,209	17,825	17,074
Change in PP&E, intangible assets, and other non-current assets	(5,950)	(6,893)	(14,293)	(13,348)	(13,669)
Others	(13,564)	(9,152)	(956)	(276)	5,220
Cash flow from investing activities	(19,514)	(16,044)	(15,249)	(13,624)	(8,449)
Change in borrowings	16,670	16,486	3,080	(5,704)	(2,697)
Cash flow related to dividend payment, interest payment, or profit distribution	(7,500)	(8,416)	(6,125)	(5,787)	(6,869)
Others	(389)	(812)	2,723	3,368	1,205
Cash flow from financing activities	8,781	7,258	(322)	(8,122)	(8,361)
Net change in cash	2,688	9,504	4,639	(3,922)	264
ForEx effect	(580)	119	(163)	(208)	(84)
Cash and cash equivalent - end	33,188	42,812	47,288	43,158	43,338

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	11.4	2.4	(3.0)	2.4	4.4
Core revenue	11.7	2.7	(3.1)	2.2	4.5
- Liquid milk	0.0	0.7	(4.1)	0.7	3.6
- Ice cream	33.6	11.7	(16.3)	4.3	8.8
- Milk formula and milk products	62.0	5.1	4.4	5.8	5.5
Gross profit	17.2	3.3	0.6	4.8	7.4
Core gross profit	17.8	3.7	0.1	4.6	7.8
- Liquid milk	2.8	5.1	1.3	2.1	6.3
- Ice cream	27.7	11.6	(17.6)	5.5	10.0
- Milk formula and milk products	69.6	(2.4)	3.4	10.2	10.4
Operating profit	9.2	18.0	2.0	11.0	14.6
Pretax Profit	5.1	10.3	17.8	(3.8)	13.7
Net profit (to owners of the Company)	8.3	10.6	16.4	(3.9)	13.6
Profitability ratios (%)					
GPM	32.5	32.8	34.0	34.8	35.8
Core-GPM	32.4	32.7	33.8	34.6	35.7
- Liquid milk	29.1	30.4	32.1	32.5	33.4
- Ice cream	38.5	38.4	37.8	38.2	38.7
- Milk formula and milk products	41.1	38.1	37.8	39.4	41.2
OPM	8.3	9.6	10.1	10.9	12.0
Pretax margin	8.6	9.3	11.3	10.6	11.6
NPM (to owners of the Group)	7.7	8.3	9.9	9.3	10.1
Revenue contribution (%)					
Core revenue/ total revenue	98.4	98.6	98.5	98.3	98.5
Core revenue composition					
- Liquid milk	70.1	68.7	68.0	67.0	66.4
- Ice cream	7.9	8.6	7.4	7.6	7.9
- Milk formula and milk products	21.7	22.2	23.9	24.7	24.9
Return ratios (%)					
ROAA	8.1	7.4	7.9	7.4	8.3
ROAE	19.3	20.1	21.8	19.7	21.0
Liquidity ratio (x)					
Current ratio	1.0	0.9	0.9	0.9	0.9
Quick ratio	0.8	0.7	0.7	0.7	0.7
Cash ratio	0.5	0.6	0.6	0.5	0.6
Cash conversion cycle (days)					
Days of outstanding receivable	7	9	10	9	10
Days of inventory on hand	53	60	57	61	61
Days of outstanding payable	62	67	63	63	63
CCC	(1)	2	4	7	7
Leverage ratios (%)					
Total debt/Equity	74.4	100.0	98.7	85.3	75.4
Total debt/Total assets	30.8	37.8	38.6	34.5	32.4
Net debt or (cash)/Equity	11.9	24.3	19.9	16.7	11.4
Net debt or (cash)/Total assets	4.9	9.2	7.8	6.7	4.9

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

Shuanghui (000895 CH)

Higher revenue projections on better consumer market outlook

- Potential improvement in consumer market demand, which is triggered by the policies announced recently, would enable the Group to achieve higher growth
- Margin profile is expected to be under pressure due to the relatively high pork price and the competitive market environment
- Maintain **HOLD**; TP implies 17.4x/14.8x 24E/25E P/E, or 4.4x/4.3x 24E/25E P/B

Policy environment to elevate consumer market demand. Consumer market sentiment and overall market demand will be supported by the policies launched since late Sep 2024. Among these policies is Shanghai's RMB 500mn consumption voucher program that targets service consumption, including catering. Consumer market demand would be boosted further if more measures directly targeting consumption are announced in the future. We believe the Group would be able to achieve better growth performance on the better market demand. In terms of pricing capability, we believe there will be more support from pork price, as the macro data suggests hog price to remain at relatively high level for some time.

Upward revision of revenue projections on better consumer market outlook.

Supported by improvement in consumer market sentiment and demand level as a result of the new policies, our FY25E/FY26E revenue growth forecast is revised up to 4.4% YoY/6.2% YoY. FY23-26E revenue CAGR is projected at 4.5%. FY23-26E revenue CAGR of packed meat and fresh meat products is expected to be 1.0% and 3.3%. We are prudent on the margin profile outlook due to concerns on the future dynamics of the Group's product pricing level and market trend of pork price. We project GPM, OPM, and NPM to reach 17.0%, 10.6%, and 8.3% in FY26E.

Maintain HOLD; TP at RMB 27.1. Despite the better consumer market outlook, recovery of overall market demand still faces uncertainty. The lower policy risk premium reduces the WACC of our DCF model by 1.1ppt to 6.9%, which offers additional support to valuation. Maintain **HOLD**. Current TP represents 17.4x/14.8x 24E/25E P/E, or 4.4x/4.3x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Raw material cost risk; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes; 6) Fluctuations in EPS and DPS growth; 7) Increasing share price volatility after market rebound.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	62,731	60,097	61,850	64,565	68,562
Chg (% YoY)	(6.1)	(4.2)	2.9	4.4	6.2
Net Profit (RMB mn)	5,621	5,053	5,391	5,567	5,686
Chg (% YoY)	15.5	(10.1)	6.7	3.3	2.1
Basic EPS (RMB)	1.62	1.46	1.56	1.61	1.64
Chg (% YoY)	15.5	(10.1)	6.7	3.3	2.1
P/E (x)	16.52	18.38	17.22	16.68	16.33
BVPS (RMB)	6.3	6.0	6.1	6.3	6.5
P/B (x)	4.25	4.45	4.38	4.24	4.11
DPS (RMB)	1.60	1.45	1.40	1.45	1.48
Yield (%)	6.0	5.4	5.2	5.4	5.5
ROAA (%)	16.2	14.0	14.5	14.5	14.7
ROAE (%)	25.2	23.7	25.6	25.8	25.5

Source(s): The Group, ABCI Securities estimates

Company Report

Oct 9, 2024

Rating: **HOLD**

TP: **RMB 27.1**

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

Share price (RMB)	26.8
52Wk H/L (RMB)	30.1/22.29
Est. share price return	1.1%
Est. dividend yield	5.2%
Est. total return	6.3%
Previous rating & TP	HOLD; RMB 23.0
Previous report date	Aug 16, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.5
Mkt cap (RMB bn)	92.9
3-mth ADT (RMB mn)	244.7

Shareholding (%)	
Rotary Vortex	70.33

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

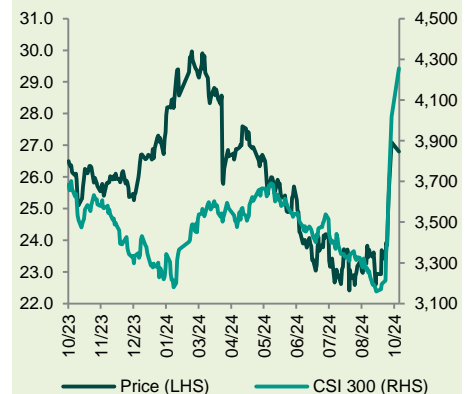
Price Performance (%)

	Absolute	Relative*
1-mth	13.1	(17.6)
3-mth	14.5	(9.5)
6-mth	0.6	(18.7)

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) Net profit and related measures refer to net profit attributed to shareholders of the Company;
- 2) Market data as of Oct 8, 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 (%)	36.3	30.0	36.3	30.1	
D/A (%)	20.3	17.3	20.3	17.4	N/A
Tax rate (%)	23.6	23.6	23.6	23.6	
Valuations					
TP (RMB)	27.1		23.0		
P/E (x)	17.4	14.8	14.8	14.6	Higher TP due to higher revenue and profit projections and lower WACC
P/B (x)	4.4	4.3	3.8	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

As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	61,850	64,565	68,562	61,850	64,139	67,392	0.0	0.7	1.7
Net profit (to shareholders of the Company) (RMB mn)	5,391	5,567	5,686	5,391	5,462	5,483	0.0	1.9	3.7
EPS (RMB)	1.56	1.61	1.64	1.56	1.58	1.58	0.0	1.9	3.7

Source(s): ABCI Securities estimates

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	61,850	64,565	68,562
Core revenue	62,576	59,893	61,640	64,345	68,329
- Packaged meat products	27,189	26,414	25,854	26,477	27,189
- Fresh meat products	33,464	30,970	31,793	32,643	34,150
- Other products	7,282	9,018	9,774	11,006	12,525
- Intersegment elimination	(5,358)	(6,510)	(5,782)	(5,780)	(5,535)
Interest income	155	204	210	220	233
Commission and processing income*	0	0	0	0	0
COGS	(52,349)	(49,724)	(50,641)	(53,223)	(56,910)
GP	10,382	10,373	11,209	11,341	11,652
Core GP	10,256	10,214	11,043	11,167	11,467
- Packaged pork product	8,273	8,363	9,330	9,327	9,469
- Fresh pork	1,714	1,764	1,793	1,866	2,019
- Other products	269	86	(79)	(26)	(21)
- Intersegment elimination	0	0	0	0	0
GP of interest income	126	160	166	175	186
GP of Commission and processing income	(1)	(1)	(1)	(0)	(0)
Business levy and taxes	(342)	(337)	(342)	(342)	(363)
S&D expenses	(1,927)	(1,914)	(2,051)	(2,132)	(2,196)
Admin expenses	(1,134)	(1,235)	(1,321)	(1,375)	(1,456)
Others expenses	(8)	(398)	(454)	(432)	(340)
Operating profit	6,970	6,491	7,041	7,060	7,297
- Packaged pork product	6,182	6,222	6,859	6,989	7,216
- Fresh pork	793	675	595	641	686
- Other products	(5)	(407)	(412)	(569)	(606)
- Intersegment elimination	0	0	0	0	0
Net finance income/(costs)	61	15	(61)	(18)	(43)
Others gain/(losses)	129	140	151	319	262
Pretax profit	7,160	6,645	7,131	7,361	7,516
Tax	(1,443)	(1,544)	(1,686)	(1,737)	(1,774)
Net profit	5,717	5,102	5,445	5,624	5,743
- Owners of the company	5,621	5,053	5,391	5,567	5,686
- Minority interest	96	49	55	152	152
Dividend	5,543	5,024	4,852	5,010	5,117
EPS (RMB)					
- Basic	1.62	1.46	1.56	1.61	1.64
- Diluted	1.62	1.46	1.56	1.61	1.64
DPS (RMB)	1.60	1.45	1.40	1.45	1.48

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

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	5,769	2,834	6,773	4,994	4,196
Trade and bills receivable	237	227	266	234	303
Inventories	6,121	8,267	6,466	8,180	7,342
Others	3,949	5,048	5,095	4,983	5,151
Current assets	16,076	16,376	18,601	18,390	16,992
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	993	1,042	1,141
Non-current assets	20,336	20,299	19,996	20,430	22,505
Total assets	36,412	36,675	38,597	38,821	39,497
Trade and bills payable	3,919	3,736	3,256	3,937	3,747
ST borrowings	3,147	5,983	6,959	5,915	5,028
Others	6,435	4,297	5,293	5,056	5,979
Current liabilities	13,501	14,016	15,508	14,908	14,753
LT borrowings	12	962	808	743	721
Lease liabilities	207	210	331	338	376
Others	510	341	382	396	385
Non-current liabilities	729	1,513	1,521	1,478	1,482
Shareholders' equity	21,853	20,843	21,210	21,925	22,601
Minority interest	330	304	358	510	661
Total equity	22,182	21,146	21,568	22,435	23,262
Total liabilities and equity	36,412	36,675	38,597	38,821	39,497

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
Net profit	5,717	5,102	5,445	5,624	5,743
Depreciation and amortization	1,294	1,563	1,252	1,076	944
Change in working capital	696	(3,931)	384	(2,602)	(339)
Others	(142)	654	418	357	278
Cash flow from operating activities	7,565	3,388	7,500	4,456	6,626
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	820	(1,110)	(911)
Others	(6,803)	(6,406)	(3,908)	(3,857)	(4,068)
Cash flow from financing activities	(6,415)	(3,146)	(3,088)	(4,967)	(4,979)
ForEx effect	1	4	2	2	1
Net change in cash and cash equivalent	(2,337)	(2,932)	3,943	(1,604)	(757)
Cash and cash equivalent at the end of FY	5,236	2,304	6,247	4,643	3,885

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	(6.1)	(4.2)	2.9	4.4	6.2
Core revenue	(6.2)	(4.3)	2.9	4.4	6.2
- Packaged meat products	(0.6)	(2.8)	(2.1)	2.4	2.7
- Fresh meat products	(14.4)	(7.5)	2.7	2.7	4.6
- Other products	15.4	23.9	8.4	12.6	13.8
GP	0.5	(0.1)	8.1	1.2	2.7
EBIT	15.6	(6.9)	8.5	0.3	3.4
Pretax Profit	15.2	(7.2)	7.3	3.2	2.1
Net profit (to owners of the company)	15.5	(10.1)	6.7	3.3	2.1
Profitability ratios (%)					
GPM	16.5	17.3	18.1	17.6	17.0
Core GPM	16.4	17.1	17.9	17.4	16.8
- Packaged meat products	30.4	31.7	36.1	35.2	34.8
- Fresh meat products	5.1	5.7	5.6	5.7	5.9
- Other products	3.7	1.0	(0.8)	(0.2)	(0.2)
OPM	11.1	10.8	11.4	10.9	10.6
Pretax margin	11.4	11.1	11.5	11.4	11.0
NPM (to owners of the company)	9.0	8.4	8.7	8.6	8.3
Return ratios (%)					
ROAA	16.2	14.0	14.5	14.5	14.7
ROAE	25.2	23.7	25.6	25.8	25.5
Liquidity ratio (x)					
Current ratio	1.2	1.2	1.2	1.2	1.2
Quick ratio	0.7	0.6	0.8	0.7	0.7
Cash ratio	0.4	0.2	0.4	0.3	0.3
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	35	46	51	54	56
Days of outstanding payable	21	27	26	24	25
CCC	15	21	26	31	32
Leverage ratios (%)					
Total debt to Total equity	14.6	33.2	36.3	30.0	25.0
Total debt to Total assets	8.9	19.1	20.3	17.3	14.7
Net (cash)/debt to Total equity	(11.4)	19.8	4.9	7.7	6.9
Net (cash)/debt to Total assets	(6.9)	11.4	2.7	4.4	4.1

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

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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