

China / Hong Kong

Flash Note

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DBS Group Research . Equity

8 Nov 2018

Uni-President China Holdings (220 HK) : HOLD

Mkt. Cap: US\$4,231m | **3m Avg. Daily Val:** US\$5.0m

Last Traded Price (8 Nov 2018): HK\$7.67

Price Target 12-mth: HK\$8.20 (6.9% upside)

Analyst

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Solid set of results, with a softer tone towards FY19F

- **3Q18 earnings grew 29% y-o-y, in line with market expectations**
- **While instant noodle segment should perform in FY19F, expect a more cautious outlook on beverages**
- **Maintain HOLD, TP unchanged**

Forecasts and Valuation

| FY Dec (RMB m) | 2017A | 2018F | 2019F | 2020F |
|-----------------------------|--------|--------|--------|--------|
| Turnover | 21,297 | 22,574 | 23,868 | 25,246 |
| EBITDA | 2,617 | 2,800 | 3,043 | 3,259 |
| Pre-tax Profit | 1,277 | 1,616 | 1,807 | 1,978 |
| Net Profit | 878 | 1,112 | 1,243 | 1,360 |
| Net Profit Gth (Pre-ex) (%) | 44.6 | 26.6 | 11.8 | 9.5 |
| EPS (RMB) | 0.20 | 0.26 | 0.29 | 0.31 |
| EPS (HK\$) | 0.23 | 0.29 | 0.33 | 0.36 |
| Core EPS (HK\$) | 0.23 | 0.29 | 0.33 | 0.36 |
| Core EPS (RMB) | 0.20 | 0.26 | 0.29 | 0.31 |
| EPS Gth (%) | 44.6 | 26.6 | 11.8 | 9.5 |
| Core EPS Gth (%) | 44.6 | 26.6 | 11.8 | 9.5 |
| Diluted EPS (HK\$) | 0.23 | 0.29 | 0.33 | 0.36 |
| DPS (HK\$) | 0.16 | 0.20 | 0.23 | 0.25 |
| BV Per Share (HK\$) | 3.36 | 3.49 | 3.61 | 3.74 |
| PE (X) | 33.3 | 26.3 | 23.6 | 21.5 |
| Core PE (X) | 33.3 | 26.3 | 23.6 | 21.5 |
| P/Cash Flow (X) | 11.9 | 11.9 | 11.3 | 10.7 |
| P/Free CF (X) | 19.4 | 25.0 | 22.6 | 20.3 |
| EV/EBITDA (X) | 10.7 | 9.8 | 8.9 | 8.1 |
| Net Div Yield (%) | 2.1 | 2.7 | 3.0 | 3.3 |
| P/Book Value (X) | 2.3 | 2.2 | 2.1 | 2.1 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 7.1 | 8.5 | 9.2 | 9.7 |
| Earnings Rev (%): | Nil | Nil | Nil | Nil |
| Consensus EPS (RMB) | | 0.26 | 0.30 | 0.33 |
| Other Broker Recs: | | B:14 | S:3 | H:11 |

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Uni-President China (UPC) has released its preliminary 3Q18 net earnings figure, which is in line with market expectations. 3Q18 net earnings grew 29% y-o-y to Rmb397m, while that for 9M18 grew 27% y-o-y to Rmb1,113m. This accounted for 100%/97% of our and consensus estimates respectively (9M17: 100%).

By segment, the company recorded softer instant noodle sales growth vs. 1H18 (1H18: +8%), driven by premium products (Tang Daren). As for beverages, RTD tea (red and green tea) delivered stable growth, driven by ASP increases. Milk tea continued to see solid momentum (1H18: +13.3%). Juice drinks, on the other hand, remained soft. 3Q18 was notably cooler and rainier than last year.

Gross margin saw improvement y-o-y and vs. 1H18, mainly driven by easing costs from palm oil and sugar. Paper and PET costs remained higher y-o-y, but at a smaller magnitude vs. 1H18.

Looking ahead into FY19F, the company remains largely optimistic on the instant noodle category on product upgrades, while the outlook for beverages could be softer due to competition. The company expects RTD tea and milk tea to continue delivering solid results, driven by mix and ASP. On the flip side, bottled water and room-temperature juice categories are likely to remain soft. Instead, the company hopes to see stronger acceptance in low-temperature categories for juice.

Our view.

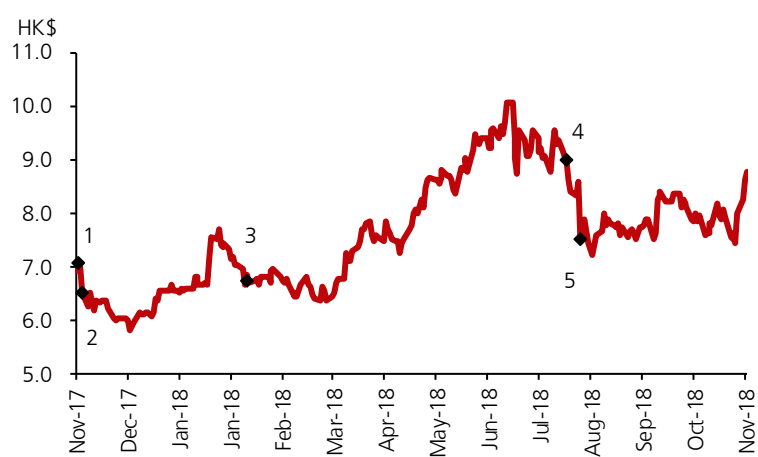
In recent months, the company launched new products such as semi ready-made meals Kaixiaozao (开小灶), 100% juice (元气觉醒), and soymilk (诚实豆奶), re-emphasising on UPC's ability to innovate and to upgrade and expand into new product categories. That said, we expect market conditions to be tougher ahead, particularly in beverages, as well as a considerably higher base comparison in FY19F. Maintain HOLD, TP unchanged at HK\$8.2.



Live more, Bank less

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Target Price & Ratings History



Source: DBS HK

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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