

China / Hong Kong Company Update

Nissin Foods Co Ltd

Bloomberg: 1475 HK Equity | Reuters: 1475.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Nov 2020

BUY

Last Traded Price (9 Nov 2020): HK\$6.96 (HSI : 26,016)
Price Target 12-mth: HK\$8.40 (21% upside) (Prev HK\$9.90)

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What's New

- Release of COVID-19 vaccine expected to lead to more normal demand for instant noodles
- Margin dilution impact from distribution business expected to be limited, and compensated for by higher Damae Iccho contribution
- Trimmed earnings but maintain BUY with TP at HK\$8.40 following 27% correction in share price since Aug, with current valuation of 22x FY21F PE an attractive entry level

Earnings growth still decent factoring in lower demand

Investment Thesis

China to spearhead growth. China operations is expected to deliver stronger-than-industry sales growth led by CUP Noodles and Damae Iccho (Hong Kong) packet noodles to capture the rising premiumisation trend in the packaged food sector.

Successful cultivation of new regions as potential catalyst. Nissin Foods has strong branding and market position in South China, with rising exposure in East, North and recently West China. Expanding revenue base in these newer regions would raise the group's production efficiency.

Hong Kong as key testing ground. Hong Kong, as the second largest revenue contributor, is expected to see mild sales pressure in FY21F on normalization with the release of vaccine.

Price Relative



Valuation:

We maintain our BUY call on Nissin Foods with new TP of HK\$8.4 pegged to 26x FY21F PE, equivalent to F&B sector average. (Previously 10% premium to F&B sector average)

Where we differ:

We cut our earnings forecasts by c.2%/7% for FY20/21F. Our forecast is 7% higher than consensus for FY21F as we expect the company's gross profit margin to be supported by growing demand for Damae Iccho.

Key Risks to Our View:

Weaker-than-expected increase in sales volume in China and Hong Kong

At A Glance

Issued Capital (m shrs)	1,074
Mkt Cap (HK\$/US\$m)	7,475 / 964
Major Shareholders (%)	
Nissin Foods Holdings Co Ltd	70.0
Free Float (%)	30.0
3m Avg. Daily Val. (US\$m)	4.66
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

Forecasts and Valuation

FY Dec (HK\$m)	2018A	2019A	2020F	2021F
Turnover	2,999	3,088	3,499	3,711
EBITDA	406	474	548	599
Pre-tax Profit	300	353	438	489
Net Profit	205	251	309	348
Net Pft (Pre Ex) (core profit)	205	261	309	348
Net Profit Gth (Pre-ex) (%)	5.0	22.2	23.3	12.4
EPS (HK\$)	0.19	0.23	0.29	0.32
Core EPS (HK\$)	0.19	0.24	0.29	0.32
EPS Gth (%)	5.0	22.2	23.3	12.4
Core EPS Gth (%)	17.3	27.0	18.5	12.4
Diluted EPS (HK\$)	0.19	0.23	0.29	0.32
DPS (HK\$)	0.10	0.12	0.14	0.16
BV Per Share (HK\$)	3.24	3.34	3.49	3.65
PE (X)	36.4	29.8	24.2	21.5
CorePE (X)	36.4	28.7	24.2	21.5
P/Cash Flow (X)	28.3	16.3	20.7	19.1
P/Free CF (X)	152.3	29.8	121.0	81.5
EV/EBITDA (X)	14.6	12.6	10.9	10.1
Net Div Yield (%)	1.4	1.7	2.1	2.3
P/Book Value (X)	2.1	2.1	2.0	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	5.9	7.1	8.4	9.1
Earnings Rev (%):			(2)	(7)
Consensus EPS (HK\$)			0.30	0.32
Other Broker Recs:		B: 9	S: 0	H: 4

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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WHAT'S NEW

Toned expectations

3Q20 operations on track. Nissin Foods's 3Q20 performance was largely on track with market expectations. Its 9M20 revenue grew 14% to HK\$2,686m, driven by China (+16%; local currency +20%) and HK (+16%). Gross profit margin expanded at a softer rate of 0.6ppt to 33.4% (versus a 1.7-ppt expansion in 1H20). Reported net profit grew 25% to HK\$264m over the same period, in line. The company also made c.HK\$20m of donations, which we estimate to roughly net off the benefits booked from the first tranche of employment support scheme (ESS) at c.HK\$16m. We expect to see the remainder being net off in 4Q.

Earnings growth still decent after factoring in lower demand. Nissin Foods's share price has plunged 27% since August peak, and should have priced in concerns on high sales base and margin impact. Despite market fears, we believe the rise in demand for Damae Iccho should offset the dilution impact from its Shanghai distribution business and higher palm oil prices. China's growth trajectory remains firm, targeting double-digit sales growth, supported by the buoyant demand for Damae Iccho and the growth of distribution business. Hong Kong, on the other hand, is expected to report a sequential q-o-q decline in supermarket sales, as the number of COVID cases subsides, which we believe is largely expected by the market. We remain positive on the group's growth

trajectory in gaining market share in China as consumers demand for more premium products. We finetune our sales growth to 6% (Previously 9%) on the back of more normalised demand ahead. We forecast adjusted net earnings to grow at 19% in FY20F, and normalise to 12% in FY21F. We reiterate our BUY call and adjust our TP to HK\$8.4.

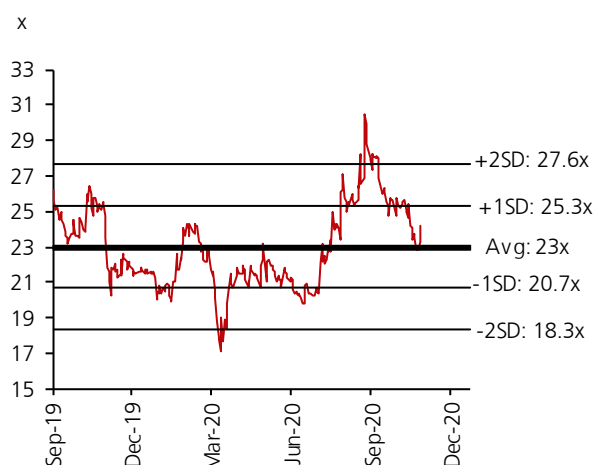
Vaccine findings to lead to normalised demand for instant noodles. Pfizer and BioNTech has together announced the result of its first independent analysis of phase 3 trial, which is expected to be submitted for emergency approval in the United States. The news should ease economic concern, though likely leading to more normalized demand for instant noodle which was a beneficiary of the COVID-lockdown.

Company Background

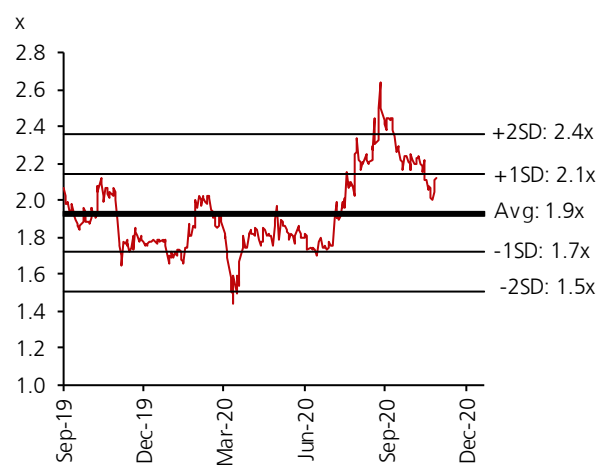
Nissin Foods Holdings (Nissin Foods or "the Company") is a spin-off of the instant noodle operations of Japan's Nissin Group Holdings (2897.JP) in Hong Kong and China. The company established its presence in Hong Kong in 1984, and has gradually expanded its business into the China market.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (HK\$ m)					
Hong Kong	1,200	1,324	1,300	1,389	1,260
PRC	1,489	1,675	1,788	2,110	2,450
Total	2,689	2,999	3,088	3,499	3,711

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	2,689	2,999	3,088	3,499	3,711
Cost of Goods Sold	(1,868)	(2,065)	(2,074)	(2,321)	(2,446)
Gross Profit	821	933	1,013	1,178	1,265
Other Opng (Exp)/Inc	(530)	(633)	(661)	(740)	(776)
Operating Profit	246	263	331	404	455
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	24	37	32	34	34
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	20	0	(10)	0	0
Pre-tax Profit	290	300	353	438	489
Tax	(70)	(69)	(74)	(94)	(103)
Minority Interest	(25)	(25)	(28)	(35)	(39)
Preference Dividend	0	0	0	0	0
Net Profit	196	205	251	309	348
Net Profit before Except.	175	205	261	309	348
EBITDA	385	406	474	548	599
Growth					
Revenue Gth (%)	2.2	11.5	3.0	13.3	6.0
EBITDA Gth (%)	6.0	5.5	16.7	15.5	9.3
Opg Profit Gth (%)	(0.7)	6.8	25.8	22.3	12.6
Net Profit Gth (%)	115.6	5.0	22.2	23.3	12.4
Margins & Ratio					
Gross Margins (%)	30.5	31.1	32.8	33.7	34.1
Opg Profit Margin (%)	9.1	8.8	10.7	11.6	12.3
Net Profit Margin (%)	7.3	6.9	8.1	8.8	9.4
ROAE (%)	6.5	5.9	7.1	8.4	9.1
ROA (%)	5.0	4.6	5.5	6.5	6.9
ROCE (%)	5.9	5.6	7.0	8.2	8.8
Div Payout Ratio (%)	0.0	49.7	50.1	50.1	50.1
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	1,482	1,517	1,498	1,590	1,735
Cost of Goods Sold	(1,035)	(1,030)	(1,015)	(1,059)	(1,147)
Gross Profit	447	487	483	531	588
Other Oper. (Exp)/Inc	(302)	(332)	(304)	(357)	(337)
Operating Profit	126	137	163	167	235
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	19	18	16	16	16
Exceptional Gain/(Loss)	0	0	0	(10)	0
Pre-tax Profit	145	155	179	173	251
Tax	(39)	(31)	(33)	(41)	(55)
Minority Interest	(12)	(14)	(13)	(15)	(17)
Net Profit	94	111	133	118	178
Net profit bef Except.	94	111	133	128	178

Growth

Revenue Gth (%)	18.7	5.4	1.1	4.8	15.9
Opg Profit Gth (%)	3.9	9.6	29.9	22.1	43.8
Net Profit Gth (%)	3.0	6.8	40.9	6.3	34.3

Margins

Gross Margins (%)	30.1	32.1	32.2	33.4	33.9
Opg Profit Margins (%)	8.5	9.0	10.9	10.5	13.5
Net Profit Margins (%)	6.4	7.3	8.9	7.4	10.3

Source: Company, DBS HK

Balance Sheet (HK\$ m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	1,379	1,386	1,511	1,695	1,967
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	153	136	127	93	90
Cash & ST Invt	2,109	1,677	1,610	1,670	1,622
Inventory	291	294	327	365	385
Debtors	510	532	494	550	579
Other Current Assets	19	419	564	564	564
Total Assets	4,461	4,444	4,634	4,939	5,208
ST Debt	0	0	0	0	0
Creditors	793	755	800	895	943
Other Current Liab	64	41	59	79	88
LT Debt	0	0	0	0	0
Other LT Liabilities	53	53	62	62	62
Shareholder's Equity	3,439	3,481	3,590	3,744	3,918
Minority Interests	112	115	123	157	196
Total Cap. & Liab.	4,461	4,444	4,634	4,939	5,208
Non-Cash Wkg. Capital	(38)	449	526	505	497
Net Cash/(Debt)	2,109	1,677	1,610	1,670	1,622
Debtors Turn (avg days)	57.1	54.8	49.8	49.8	49.8
Creditors Turn (avg days)	155.0	133.4	140.8	140.8	140.8
Inventory Turn (avg days)	56.8	52.0	57.5	57.5	57.5
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Current Ratio (x)	3.4	3.7	3.5	3.2	3.1
Quick Ratio (x)	3.1	2.8	2.4	2.3	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

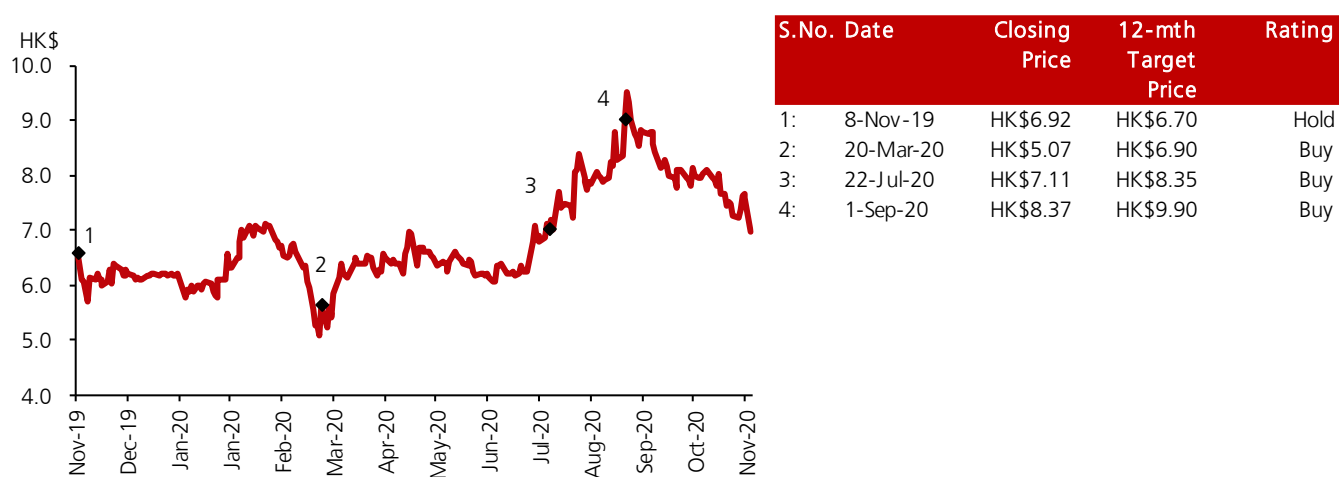
Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	290	300	353	438	489
Dep. & Amort.	23	23	26	31	31
Tax Paid	(60)	(83)	(55)	(94)	(103)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(14)	61	175	21	8
Other Operating CF	(24)	(37)	(40)	(34)	(34)
Net Operating CF	215	264	459	362	392
Capital Exp.(net)	(215)	(215)	(209)	(300)	(300)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	42	(222)	16	34	34
Net Investing CF	(173)	(436)	(193)	(267)	(267)
Div Paid	0	(78)	(102)	0	(155)
Chg in Gross Debt	0	0	1	0	0
Capital Issues	951	0	0	0	0
Other Financing CF	(480)	(13)	(22)	(35)	(19)
Net Financing CF	471	(92)	(123)	(35)	(174)
Currency Adjustments	56	(45)	(23)	0	0
Chg in Cash	569	(309)	121	60	(48)
Opg CFPS (HK\$)	0.21	0.19	0.26	0.32	0.36
Free CFPS (HK\$)	0.00	0.05	0.23	0.06	0.09

Source: Company, DBS HK

Target Price & Ratings History



Source: DBS HK

Analyst: Alison FOK

Mavis HUI

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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 share price catalysts within this time frame)

*Share price appreciation + dividends

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