

# China Tianyi Holdings (756.HK)

Profitability maintained stable

HONG KONG | BEVERAGE | COMPANY NOTE

16 October 2015

## Summary

- China Tianyi Holding Limited ("China Tianyi" or "the Group" in the text below) announced its financial report of FY2015, incomes was lower than our expectation, but the profitability still maintained stable. In June, sale volume of the Group indicated a yoy decline of 17.3% to RMB0.471 billion. Profit attributable to shareholders approximately amounted to RMB78.025 million, down 33.3% yoy, demonstrating a basic EPS around RMB0.06. Even though profit has declined in the period under review, the profitability of the Group can still be maintained stable, with gross profit margin and net profit margin reached 36.1% and 16.70% respectively;
- On the other hand, the Group's financial situation showed obvious improvement, of which financial costs decreased by 33% yoy, with current ratio increased to 2.7 times from 1.6 times recorded in FY2014 (as at end of June 2014) and gearing ratio dropped to 33.10% from 41.0%;
- Currently Tianyi is devoted to business transformation and spends effort on developing Summi as a high-end brand of not-from-concentrated orange juice (NFC 100% juice). The Group also expands inputs on the establishment of e-commerce network. By the end of June, NFC 100% juice's revenue was 2.8% of total revenue. Burst of growth of the business of Tianyi is expected;
- In all, with the positive development prospect of the market, the Group's leading position in the industry and stable profitability, and considering the price decreased obviously recently, we are still very confident on the future performance of Tianyi, and maintain the 12-month target price to HK\$2.00, which is 106% higher than the recent closing price, and equivalent to 27.1x of 2016 P/E and 1.3x of 2016 P/B, keeping the rating of "Buy". (Closing price as at 14 Oct 2015)

## Stable profitability

In June, sale volume of the Group indicated a yoy decline of 17.3% to RMB0.471 billion. Profit attributable to shareholders approximately amounted to RMB78.025 million, down 33.3% yoy, demonstrating a basic EPS around RMB0.06. Even though profit has declined in the period under review, the profitability of the Group can still be maintained stable, with gross profit margin and net profit margin reached 36.1% and 16.70% respectively.

## Comparison between the real value and the forecasted value of Tianyi's profit in FY2015 (as at end of June 2015)

RMB '000	2015E	2015A	Change/ Estimated value
Revenue	483,819	470,834	-2.7%
COGS	(324,995)	(300,636)	-7.5%
Gross Profit	158,824	170,198	7.2%
Profit from operations	114,451	106,935	-6.6%
Net finance incomes (costs)	(34,425)	(32,733)	-4.9%
Profit before tax	80,025	74,202	-7.3%
Income tax credit (expense)	2,606	3,823	46.7%
<b>Net profit</b>	<b>82,631</b>	<b>78,025</b>	<b>-5.6%</b>
EPS (RMB)	0.06	0.06	0.0%
BVPS (RMB)	1.32	1.22	-7.6%

Source: Company, Phillip Securities (HK) Research

## Buy (Maintain)

CMP: HK\$ 0.97

(Closing price as at 14 Oct 2015)

TARGET: HK\$ 2.00 (+106%)

### COMPANY DATA

O/S SHARES (MN) :	1,348
MARKET CAP (HK\$ MN) :	1,307
52 - WK HI/LO (HK\$) :	1.59/ 0.68

### SHARE HOLDING PATTERN, %

Mr. Xinke	42.49
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### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
China Tianyi	6.67	-10.28	-14.29
HSI	4.82	-10.40	-2.35

### KEY FINANCIALS

#### Key Financial Summary

FYE	12/13	12/14	12/15	12/16F
Revenue (RMB 000)	525,774	569,199	470,834	489,667
Net Profit, adj. (RMB 000)	67,074	116,869	78,025	81,845
EPS, adj. (RMB)	0.06	0.09	0.06	0.06
P/E (X)	14.2	8.7	12.9	13.1
BVPS (RMB)	1.12	1.27	1.22	1.24
P/B (X)	0.7	0.6	0.6	0.6
DPS (HK\$)	4.00	2.48	0.00	0.00
Div. Yield	4.2%	2.6%	0.0%	0.0%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

Research Analyst

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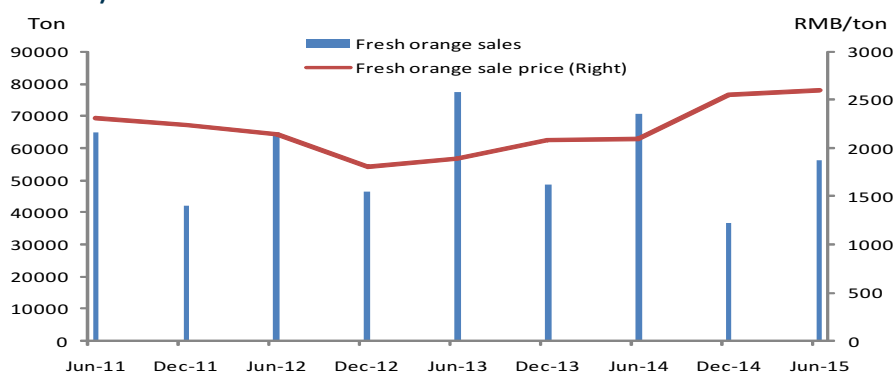
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Among the current income of Tianyi, the sale of orange juice products still carries the largest share. As at the end of FY2015 (as at end of June 2015), the sale of orange juice products accounted for approximately 62% of the total income. Among this, FCOJ and NFC 100% juice brought an income of approximately RMB280 million and RMB13 million, around 59.5% and 2.8% of the total income respectively. We believe the portion of NFC 100% juice would continue to go up.

In addition, income contributed from the sale of fresh orange is just behind FCOJ, representing about 31% of the total income, which has increased by 2.6ppts compared to the same period of 2014, amounted to RMB146 million. Such surge is mainly due to the significant increase of the average price of fresh oranges in the period under review: from RMB2,080 per ton in the end of December 2013 increased to RMB2,600 per ton currently. We expect the average price of fresh oranges in the coming few quarters would continue a moderate uptrend. Moreover, considering the fresh orange from approximately 70,000 mu (equivalent to 46.67sq km) next year, which means the income contributed from the sale of fresh oranges would keep increasing obviously.

#### Tianyi's sale volume and selling price of fresh oranges as at FY2015 (as at end of June 2015)



Source: Company, Phillip Securities (HK) Research

Currently, the sales trend meets our expectation, and we consider that Tianyi's sale volume in the coming two years would keep steady growth. In a conservative sense, we assume the selling price of fresh oranges would return to the level of approximately RMB2,800 per ton in June 2016, making the Group's fresh oranges sale amounted to RMB189 million, representing 39% of the Group's total income, and the total income would increase in 2016.

#### Forecast on Tianyi's sale volume and sale revenue

Output of orange from own orange plantations	2011	2012	2013	2014	2015	2016E
Fresh orange for sale	65,000	69,000	81,170	80,500	56,888	68,266
Oranges for processing	63,000	44,000	61,715	50,840	78,469	86,316
<b>Sub-total (Tons)</b>	<b>128,000</b>	<b>113,000</b>	<b>142,885</b>	<b>131,340</b>	<b>135,357</b>	<b>154,582</b>
Quantity of sales of fresh orange (Tons)	67,237	69,611	76,459	70,382	56,180	67,416
% of sub-total of output from own orange plantations	52.53%	61.60%	53.51%	53.59%	41.51%	43.61%
Selling price of fresh orange (RMB '000)	2,200	2,000	1,900	2,300	2,600	2,800
<b>Sales of fresh orange</b>	<b>147,921</b>	<b>139,221</b>	<b>145,273</b>	<b>161,878</b>	<b>146,069</b>	<b>188,766</b>
The Group's total revenue	455,185	650,999	525,774	569,199	470,834	489,667
<b>% of the Group's total revenue</b>	<b>32%</b>	<b>21%</b>	<b>28%</b>	<b>28%</b>	<b>31%</b>	<b>39%</b>

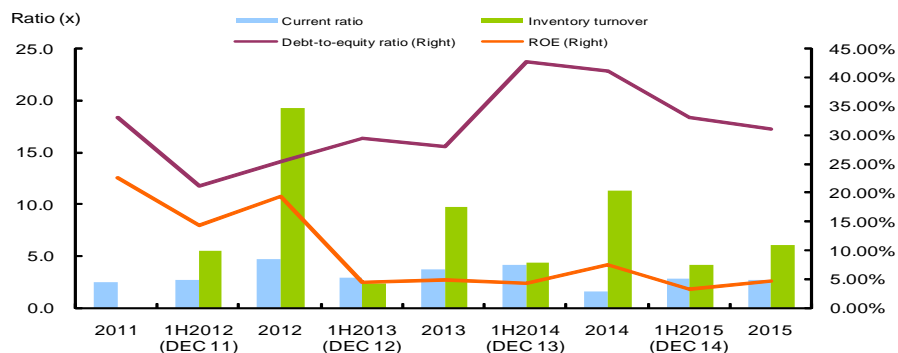
Source: Company, Phillip Securities (HK) Research

#### Improvement on financial situations

Tianyi still keeps relatively sufficient cash, but the total cash flow declined. As at the end of June 2015, the Group's total cash balance and bank deposit dropped 10.4% compared to the end of 2014. It is worth to note that the Group's accounts receivable surged around 106%. However, owing to the significant decrease of capital expenditure, the Group's financial situation showed obvious improvement, with

current ratio increased to 2.7 times from 1.6 times recorded in FY2014 (as at end of June 2014) and gearing ratio dropped to 33.10% from 41.0%.

**Financial highlights of Tianyi**



Source: Company, Phillip Securities (HK) Research

**Risk**

- High concentration on certain customer segment, sale income highly impacted by market situations;
- More intensified market competition, slower-than-expected progress of product promotion;
- Short-term decline of share price.

## FINANCIALS

Balance Sheet (RMB 000)	2012A	2013A	2014A	2015A	2016E
Property, plant and equipment	235,088	244,949	394,274	427,117	452,744
Land use rights	18,384	17,969	24,210	23,655	24,365
Lease prepayments for orange plantations	343,094	537,912	747,880	747,997	770,437
Goodwill	56,696	56,696	56,696	56,696	56,696
Non-current assets	894,060	969,570	1,485,679	1,492,467	1,543,528
Inventories	33,892	32,806	30,986	35,556	69,344
Cash and cash equivalents	513,199	488,913	481,652	430,922	344,738
Current assets	796,631	900,060	776,607	791,382	800,769
<b>Total assets</b>	<b>1,690,691</b>	<b>1,869,630</b>	<b>2,262,286</b>	<b>2,283,849</b>	<b>2,344,297</b>
Trade payables	7,947	5,909	10,176	12,063	14,476
Secured bank loans	141,190	185,690	229,734	228,254	244,232
Current liabilities	170,132	245,522	486,775	296,985	321,139
Net current assets	626,499	654,538	289,832	494,397	479,630
Non-current liabilities	233,343	243,970	213,873	341,163	358,332
<b>Total liabilities</b>	<b>403,475</b>	<b>489,492</b>	<b>700,648</b>	<b>638,148</b>	<b>679,471</b>
<b>Net assets</b>	<b>1,287,216</b>	<b>1,380,138</b>	<b>1,561,638</b>	<b>1,645,701</b>	<b>1,664,826</b>
Share capital	10,501	10,682	11,520	11,610	11,610
Reserves	1,276,715	1,369,456	1,550,118	1,634,091	1,653,216
Equity attributable to owners of the Company	1,287,216	1,380,138	1,561,638	1,645,701	1,664,826
Minority interest	0	0	0	0	0
<b>Total equity</b>	<b>1,287,216</b>	<b>1,380,138</b>	<b>1,561,638</b>	<b>1,645,701</b>	<b>1,664,826</b>
Income statement (RMB 000)	2012A	2013A	2014A	2015A	2016E
Revenue	650,999	525,774	569,199	470,834	489,667
COGS	(403,059)	(327,742)	(361,106)	(300,636)	(306,649)
Gross Profit	247,940	198,032	208,093	170,198	183,019
Gain from changes in fair value of biological assets less cost	108,511	30,455	51,032	30,178	36,214
Other revenue	10,776	9,700	13,347	6,018	6,620
Distribution costs	(10,565)	(7,917)	(6,094)	(20,731)	(21,768)
Administrative expenses	(68,096)	(69,322)	(72,130)	(82,037)	(94,343)
Other expenses	(11,727)	(17,274)	(30,755)	(20,033)	(22,036)
Profit from operations	276,839	143,674	163,493	106,935	112,215
Net finance incomes (costs)	(26,716)	(43,935)	(49,179)	(32,733)	(34,370)
Profit before tax	250,123	99,739	114,314	74,202	77,845
Income tax credit (expense)	139	(32,665)	2,555	3,823	4,000
Income tax rate	N/A	32.75%	-2.24%	-5.15%	-5.14%
Profit for the year	250,262	67,074	116,869	78,025	81,845
Profit for the period attributable to owners of the Company	250,262	67,074	116,869	78,025	81,845
Minority interest	0	0	0	0	0
Items per share	2012A	2013A	2014A	2015A	2016E
Basic EPS (RMB)	0.21	0.06	0.09	0.06	0.06
Book value per share (RMB)	1.06	1.12	1.27	1.22	1.24
Dividend per Share (HK\$ Cents)	0.00	4.00	2.48	0.00	0.00
Financial ratio	2012A	2013A	2014A	2015A	2016E
P/E (x)	3.8	14.2	8.7	12.9	13.1
P/B (x)	0.7	0.7	0.6	0.6	0.6
Dividend payout ratio	0.00%	58.98%	16.74%	0.00%	0.00%
Gross margin	38.09%	37.66%	36.56%	36.15%	37.38%
Operating margin	42.53%	27.33%	28.72%	22.71%	22.92%
Core operating margin	26.00%	22.97%	22.82%	14.32%	13.66%
Net margin	38.44%	12.76%	20.53%	16.57%	16.71%
Current ratio (x)	4.7	3.7	1.6	2.7	2.5
Quick ratio (x)	4.5	3.5	1.5	2.4	2.2
Cash ratio (x)	3.0	2.0	1.0	1.5	1.1
Inventory turnover (x)	19.3	9.8	11.3	6.0	4.0
Days of sales outstanding (Days)	19	37	32	61	90.8
Receivable turnover (x)	7.9	4.9	7.1	5.9	4.0
Average receivable collection period (Days)	46	75	51	62	92.0
Payable turnover (x)	27.5	19.1	21.3	9.9	6.8
Number of days of payables (Days)	13	19	17	37	53.9
<b>The process of production (Days)</b>	<b>52</b>	<b>93</b>	<b>67</b>	<b>86</b>	<b>129.0</b>
Financial leverage ratio (x)	1.3	1.4	1.4	1.4	1.4
Debt-to-equity ratio	25.28%	27.90%	41.01%	33.10%	34.63%
Total assets turnover	38.50%	28.12%	25.16%	20.62%	20.89%
ROA	14.80%	3.59%	5.17%	3.42%	3.49%
ROE	19.34%	4.95%	7.51%	4.71%	4.88%

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 15 October 2015)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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