

Honworld Group(2226 HK)

Naturally Brewed and Quality-Oriented

Hong Kong | Food | Company report

12 May 2017

Investment Summary

- The company will continue to implement expansion plan in traditional and catering channels. Diversified sales channels are beneficial to the sustainable development of the Group.
- The cooking wine products are naturally brewed instead of chemically produced, in line with China’s consumption upgrade and improvement of health and food safety awareness.
- The company has appointed celebrity Nicholas Tse as its brand ambassador. The company became the sponsor of the third season of his cooking show “Chef Nic”, broadcasted since September 2016. Moreover, the company’s products have been recommended by the well-known gourmet Chua Lam.
- Inheritance and innovation are very important to the company. The company will make quality distinction (good product quality), visual distinction (use calligraphers’ handwritten names on the outer packing) and price distinction (high-end products) possible.
- The company completed subscription of new shares at HK\$6 with a premium of 27.66% and the new shares account for 10.37% of the total issued share capital.

Buy

CMP HKD4.16
(Closing price as at 10 May 2017)
TARGET HKD5.00(+20.19%)

COMPANY DATA

O/S SHARES (MN) :	578.8
MARKET CAP (HKDMN) :	2,408
52 - WK HI/LO (HKD):	5.25/4.12

SHARE HOLDING PATTERN, %

Mr. Chen Weizhong	48.06
-------------------	-------

PRICE PERFORMANCE, %

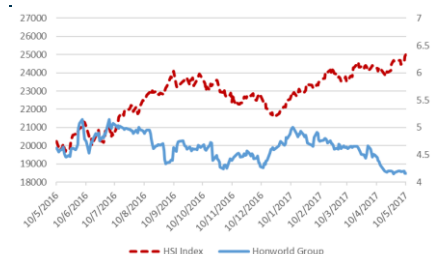
	1M	3M	1Y
Honworld Group	-6.52	-12.61	-9.96
HSI	+3.10	+6.11	+23.58

Company Business

Honworld Group is a leading manufacturer of condiment products in China and has a history of over 160 years. The products include cooking wine, soy sauce, vinegar and other products. In 2016, the key product, cooking wine, continued to be the major source of revenue, representing 74.7% of the total revenue. Honworld is the largest cooking wine player in China.

The production plants are located in Huzhou, Zhejiang. The production facilities are shown in the following pictures.

PRICE VS. HSI



Source: Bloomberg, Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY15	FY16	FY17E	FY18E
Sales	799	831	931	1,024
Net Profit	229	207	227	265
EPS, CNY	0.44	0.38	0.39	0.46
PER, x	9.6	9.5	9.4	8.1
BVPS, CNY	2.74	3.29	3.63	4.06
P/BV, x	1.6	1.4	1.0	0.9
ROE, %	17.1	12.4	11.0	11.3

Source: Company reports, Phillip Securities Est.



Source: Company, Phillip Securities (HK) Research

Research Analyst

Ocean Pan
+852 2277 6515
oceanpan@phillip.com.hk

The following picture shows the product series of the company.



Source: Company, Phillip Securities (HK) Research

Sales Channel Shifting

The company is facing a transition period. The company will continue to implement expansion plan in traditional and catering channels. Diversified sales channels are beneficial to the sustainable development of the Group.

95% of the revenue was contributed by supermarket channel business in 2015. In 2016 supermarket channel business accounted for about 69% of total revenue and traditional channel business accounted for about 31%. In November 2016 the company set up a catering channel sales team.

Moreover, the company is extending distribution network from mature 1st & 2nd tier cities to 3rd and 4th tier cities and further increasing market share.

Naturally Brewed Condiment Products

The cooking wine products are naturally brewed instead of chemically produced, in line with China's consumption upgrade and improvement of health and food safety awareness. As for soy sauce, most of the products are traditionally sun-dried and hand-made.

Brand Cultivation and Marketing

Brand cultivation includes advertisement investment, web marketing, online sales and so on. The company will use web marketing and reduce the proportion of TV advertising in the future.

The company has appointed celebrity Nicholas Tse as its brand ambassador. The company became the sponsor of the third season of his cooking show "Chef Nic", broadcasted since September 2016. This show had top TV and internet viewership ratings in previous seasons. The company also sponsored "Delicious Band of Brothers", a popular food show. Moreover, the company's products have been recommended by the well-known gourmet Chua Lam.

Cooking Wine Industry Has Growth Potential

The alcohol and the amino acids inside the cooking wine help dissolve odors in meat- and seafood-based dishes and the amino acids also add richer flavors to cuisines. Cooking wine is more specialized compared with yellow wine.

In many places people didn't have the habit of using cooking wine. However, as the living standards improve and the differences between the North and South/East and West of China are getting smaller, food culture gradually tends to be similar.

Product Quality is Very Important

The company focuses on product quality and brand promotion. Web marketing, traditional channel promotion and word of mouth marketing can enhance the customer understanding. The quality of the products is different from small businesses.

The company's "Tai Soy Sauce" has been recommended by Chua Lam many times. It's brewed using ancient brewing technology and the brewing process is very complex with limited production capacity and delicious taste. The retail price in JD.COM is RMB288.

Inheritance and innovation are very important to the company. The company will make quality distinction (good product quality), visual distinction (use calligraphers' handwritten names on the outer packing) and price distinction (high-end products) possible.

Premium Subscription

On 23 June 2016, the company announced that the subscription of 60,000,000 new shares at HK\$6 was completed and the subscriber was Natural Seasoning International. The total funds raised from the subscription are approximately HK\$360,000,000. The subscription price of HK\$6 per share represents a premium of approximately 27.66% to the closing price of HK\$4.70 per share on 1 June 2016, being the date of the subscription agreement. The controlling shareholder of the subscriber is Lunar Capital and the new shares account for 10.37% of the total issued share capital.

Valuation

Buy Rating is given with TP of HK\$5.00. We expect net profit growth of 9.9%/16.7% in FY2017/FY2018, driven by 12.0%/10.0% revenue growth. Our TP of HK\$5.00 represents 11.3/9.7x FY2017E/FY2018E P/E. (Closing price as at 10 May)

Risk

The substitutability of cooking wine and fierce competition in the industry;
Higher-than-expectation marketing costs;
The production costs get higher.

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	12.7	9.6	9.5	9.4	8.1
P/B	2.2	1.6	1.4	1.0	0.9
Per Share Data					
EPS	0.42	0.44	0.38	0.39	0.46
Book Value Per Share	2.42	2.74	3.29	3.63	4.06
Dividend Per Share	0.10	0.09	0.07	0.08	0.09
Growth & Margins(%)					
Growth Rates					
Revenue	26.0%	19.5%	4.0%	12.0%	10.0%
Operating profit	25.5%	11.6%	-3.7%	7.0%	14.8%
Net Profit	21.5%	8.0%	-9.6%	9.9%	16.7%
Margins					
Gross profit margin	57.8%	56.4%	53.6%	51.0%	52.0%
Operating profit margin	40.1%	37.4%	34.6%	33.0%	34.5%
Net profit margin	31.7%	28.6%	24.9%	24.4%	25.9%
Key Ratios					
ROE(%)	27.3	17.1	12.4	11.0	11.3
ROA(%)	15.9	10.8	7.6	7.0	7.2
Income Statement(RMB mn)					
Revenue	668	799	831	931	1,024
Gross profit	386	451	446	475	532
Operating profit	268	299	288	308	353
EBT	246	275	248	273	318
Net Income	212	229	207	227	265

Source: Company, Bloomberg, Phillip Securities (HK) Research Estimates
(Financial figures as at 10 May 2017)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2017 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)**SINGAPORE**

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
JI Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005