

Jonjee Hi-Tech (600872.CH)

Expand Both Capacity and Channels to Further Contribute to the Profits

China | Food | Company Initiation

22 January 2018

Investment Thesis

Jonjee Hi-Tech is a Leading Company in the Condiment Industry of China. Condiment industry is encouraged by the Chinese government, and enjoys huge market demand and broad development prospects. In the future, it will continue to benefit from the rise of the sales structure caused by the sales upgrading. With strong brand advantage, continuous expansion of production scale and channels, the company will keep consolidating its position in the industry, and its operating efficiency will still be on a steady growing trend. We expected diluted EPS of the Company to RMB 0.64 and 0.86 of 2016/2017. And we accordingly gave the target price to 30.1, respectively 35x P/E for 2018. "Accumulate" rating. (Closing price as at 18 Jan 2018)

Accumulate (Initiation)

CMP: CNY 27.15

(Closing price as at 18 Jan 2018)

TARGET: CNY 30.10 (+11%)

COMPANY DATA

O/S SHARES (MN) :	797
MARKET CAP (CNY MN) :	21629
52 - WK HI/LO (CNY):	27.69/ 14.04

Peer Comparison

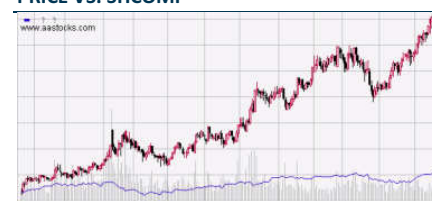
Ticker	Name	MarketCap(Million)	PE(TTM)	Estimate PE-2017	Estimate PE G	Estimate PB-2017	PS(TTM)
603288.SH	海天味业	152024	47.6	43.6	1.9	12.6	10.6
600872.SH	中炬高新	21629	50.4	42.8	1.1	6.6	6.0
1579.HK	颐海国际	10574	35.5	35.1	1.1	5.6	6.9
002650.SZ	加加食品	8179	56.5	47.8	3.4	3.9	4.3
603027.SH	千禾味业	5956	49.5	38.7	0.7	5.6	6.5
2226.HK	老恒和酿造	2303	9.8	8.8	NA	NA	2.4

Source: Wind, Bloomberg, Phillip Securities Hong Kong Research

SHARE HOLDING PATTERN, %

Former sea life insurance	23.7
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

Company profile: Leading Company in the Condiment Industry

Jonjee Hi-Tech is the first listed company among the 53 state-level high-tech zones in China, and also the first listed company in Zhongshan City. The company was established in 1993, and listed on the main board of Shanghai Stock Exchange in 1995. Jonjee Hi-Tech owns Guangdong Meiweixian Flavoring Foods Co., Ltd., Guangdong Zhonghui Hechuang Real Estate Co., Ltd., Jonjee Precision Machinery Co., Ltd. and other subsidiaries, of which the condiment business occupies the largest proportion, and accounts for about 95% of the total revenue and gross profit contributions.

The company has a long history of producing soy sauce. Originated from Xiangshan Sauce Garden in the late Qing Dynasty and the early Republic of China, the company has won the title of "The Old Chinese Brand" and other national honors. The main products include the condiments (including soy sauce, chicken powder, oyster sauce, fermented bean curd, sauces, monosodium glutamate, vinegar, chicken bouillon and cooking wine), cooking oil and canned foods. The company is involved in production and sales of more than 100 varieties in 11 categories. The company is leading in the production technology in China, and the current overall production capacity exceeds 400,000 tons per year, of which sales of soy sauce account for nearly 70% of the total condiment sales. In addition, the production scale and market share rank second in China, only following Haitian (2.12 million tons); the sales of chicken powder account for 10-15% while the sales of other condiments account for 10-15%.

KEY FINANCIALS

CNY mn	FY15	FY16	FY17F	FY18F
Revenue	2759	3158	3765	4468
Net Profit	249	363	513	689
EPS, (yuan)	0.31	0.45	0.64	0.86
P/E (X)	87.5	59.7	42.2	31.4
BVPS (yuan)	3.16	3.51	4.02	4.68
P/B (X)	8.6	7.7	6.8	5.8
DPS (yuan)	0.10	0.14	0.20	0.27
Div. Yield (%)	0.4%	0.5%	0.7%	1.0%

Source: Company reports, Phillip Securities Est.

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Advance Brand Construction, Channel Expansion and Capacity Improvement Strategies

1. Brand:

The company has adopted a two-brand strategy, and owns two major brands, "Chubang" and "Meiweixian". Specifically, Chubang is targeted at the middle and high-end market and its soy sauce has a 1.3g/ml amino acid nitrogen content, higher than the national standard by 85%, which makes it a product with high freshness. Chubang focuses on the consumption upgrade and is the core product of the company. Meiweixian is targeted at the low-end market, and focuses on the cost-effective advantage. In recent years, the company has launched a series of new products such as cooking oil, canned foods, cooking wine, rice vinegar and seasoning sauce. The company plans to gradually develop from soy sauce condiment to whole product lines. Concerning the brand marketing strategy, it also actively learns from international giants, and sponsors the foods entertainment TV show called Xianchu Dangdao, which we think will help further enhance the reputation and popularity of the company's "Chubang" brand.



Source: Company, Phillip Securities Hong Kong Research

2. Channels:

The company takes the distributorship-based marketing mode supplemented by direct sales, and strives to maximize product coverage on the market end; the direct sales business was mainly carried out in the Pearl River Delta; concerning the final product use, about 80% of its products are purchased and consumed by families while the rest is consumed by the restaurant business. Currently, the company is stepping up efforts to expand the restaurant market, and strives to gradually increase the proportion in the food and beverage consumption channels from the current 20% to 40%. China's southeast coast (Guangdong, Zhejiang, Hainan, Guangxi, Fujian, etc.) is the company's main marketing region where the company occupies a higher market share. The north and mid-west regions will be the focus of future channel expansion. The company divides the national market into five levels, adopts a differentiated marketing policy and gradually expands in a targeted manner. We believe the future potential of these low coverage regions is huge and these regions are expected to be an important support for the future growth of the company's sales volume in exceeding the industry's average growth.

3. Capacity:

The company currently owns two major production plants, Zhongshan and Yangxi. Concerning Zhongshan plant, the total capacity is 310,000 tons, the annual output of soy sauce is about 220,000 tons and the capacity utilization rate is 100%. The construction of the first phase of Yangxi plant was commenced in 2012 and the production capacity of 200,000 tons of soy sauce was put into operation in 2014. In addition, the 200,000-ton production facilities of soy sauce in the second phase are under construction. It is estimated that production will commence in 2018 and reach full production capacity in 2020. In addition, Yangxi plant also plans to build the 650,000-ton non-soy sauce production facilities under the mode of simultaneous construction and production. It is estimated to reach the full production capacity in 2023, providing a guarantee for the company's regional expansion. It is noteworthy that, compared with Zhongshan plant with obsolete facilities and high unit cost, Yangxi plant has high automation rate and its production efficiency is significantly higher than that of Zhongshan plant. We expect that the scale effect will further appear as the new production capacity is gradually put into production, which will boost the company's profitability to a higher level.

Margins have room for improvement

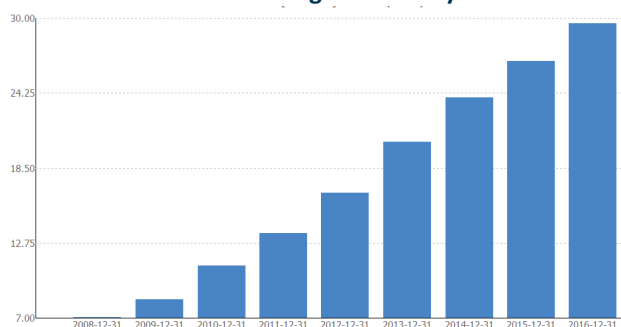
Ticker	Gross margin(%)	Net margin(%)	ROE(%)
600872 CH	35.84	13.17	13.64
603288 CH	43.37	23.05	30.30
002650 CH	26.92	8.02	7.91
603027 CH	40.20	13.15	14.74
1579 HK	38.32	17.01	26.52
2226 HK	53.62	24.86	12.43

Source: Wind, Company, Phillip Securities Hong Kong Research

Stably-Growing Operation Data, and Accelerated Growth in the First Three Quarters of 2017

Benefited from the rapid development of the condiment business, the operating income of the company has maintained a good expansion tendency in recent years. From 2011 to 2016, the compound annual growth rate of operating income was 23%. In the first three quarters of 2017, the company achieved a total revenue of RMB2.729 billion, increasing by 18.84% yoy and maintaining a relatively rapid growth rate. In addition, the company recorded a net profit attributable to parent of RMB0.355 billion, increasing by 38.55% yoy. The equivalent EPS was RMB0.45, and the weighted average return on net assets was 12.1%, increasing by 2.3% yoy.

Revenue from Meiweixian grew steadily



Source: Wind, Company, Phillip Securities Hong Kong Research

Specifically, the revenue of the subsidiary Meiweixian in the first three quarters was RMB2.65 billion, increasing by 22% yoy, and the net profit was RMB0.394 billion, soared by 46% yoy. Benefited from product price increases in Q1, the production efficiency improvement and product structure optimization in Yangxi plant, the gross profit margin reached 39.87%, increasing by 2.67%; the gross profit margin for the third quarter reached 41.3%, creating a record high. The period cost rate in the first three quarters was 23.66%, up by 0.8% compared to the first three quarters of 2016, which was mainly due to the increase in marketing expenses, leading to a 2.93% increase in sales cost rate.

Strong BS with sufficient cash flow

With the rapid expansion of its business scale in recent years, the demand for funds has been steadily increasing and the scale of liabilities has expanded. The Liability/Asset ratio increased from 36.7% in 2011 to 37.1% at the end of 2016 and 37.9% in 2017, but still maintained at a low level. The Company's cash management from the food segment is strong, operating cashflow+from+sales+of+goods /revenue ratio is maintained at a good level, and the sufficient operating cash flow provides a strong guarantee for debt repayment.

Risk

Price war among peers
Raw material price increase
New business risk

Financials

FYE DEC	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios					
P/E (X), adj.	75.4	87.5	59.7	42.2	31.4
P/B (X)	9.2	8.6	7.7	6.8	5.8
Dividend Yield (%)	0.4%	0.4%	0.5%	0.7%	1.0%
Per share data (RMB)					
EPS, (Basic)	0.36	0.31	0.45	0.64	0.86
EPS, (Diluted)	0.36	0.31	0.45	0.64	0.86
DPS	0.11	0.10	0.14	0.20	0.27
BVPS	2.96	3.16	3.51	4.02	4.68
Growth & Margins (%)					
Growth					
Revenue	14.0%	4.4%	14.5%	19.2%	18.7%
EBIT	23.6%	2.2%	45.9%	35.4%	33.4%
Net Income, adj.	35.4%	-13.2%	45.8%	41.2%	34.5%
Margins					
Gross margin	32.8%	34.0%	35.4%	39.5%	41.5%
EBIT margin	13.5%	13.2%	16.8%	19.1%	21.5%
Net Profit Margin	10.9%	9.0%	11.5%	13.6%	15.4%
Key Ratios					
ROE	12.8%	10.2%	13.6%	17.1%	19.9%
ROA	7.40%	5.77%	7.69%	9.89%	11.78%
Income Statement (RMB mn)					
Revenue	2642	2759	3158	3765	4468
Gross profit	866	939	1117	1487	1854
EBIT	356	364	531	719	960
Profit before tax	344	341	487	682	919
Tax	51	65	76	106	143
Profit for the period	293	276	411	576	775
Minority interests	6	27	48	63	86
Total capital share	797	797	797	797	797
Net profit	287	249	363	513	689

Source: PSR

(Financial figures as at 18 January 2018)

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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