

Yihai International (1579.HK)

Fast expansion of Haidilao underpins future momentum

8 August 2018

Hong Kong | Consumer | Company report

Investment Summary

Yihai is a leading and fast-growing compound condiment manufacturer in PRC. This May, its biggest related party Haidilao has submitted hearing materials to HKEX, which showed that Haidilao restaurants would continue to expand at a high speed. As Haidilao's exclusive provider of hot pot soup flavoring products, Yihai is expected to benefit from the quick expansion of Haidilao restaurants. We thus increase Yihai's EPS forecast to be RMB0.358 in FY18E, assuming 40x PE, and give target price of HKD16.47. (Exchange rate=0.87RMB/HKD) (Closing price at 6 Aug 2018)

Business Overview

Haidilao underpins future sales hike. In 2017, revenue from related party Haidilao reached RMB915mn (+51% YoY). Haidilao, owning 273 hot pot restaurants in PRC with daily sales per shop amounting to RMB140k and SSSG keeping 14% in recent 3 years, has submitted listing documents to HKEX in May. It indicates that the number of newly-opened stores will total to 180~220 in 2018E. We thus highlight the great potential for Yihai's sales hike, given it is the exclusive provider of hot pot soup flavoring products to Haidilao.

Figure: The Number of Haidilao Restaurants

	2015	2016	2017	2018E
Number of stores	146	176	273	453~493
Newly-opened	+31	+27	+104	+180~220

Source: Company, Phillip Securities

New drivers to topline. The company launched 3 new hot pot soup flavoring products, 5 new Chinese-style compound condiment products and 5 self-serving small hotpot products. Through optimizing and refreshing existing products together with launching new products, Yihai not only upgrades its product mix but also mitigate the problem of insufficient products during low season. We especially highlight that new product, self-serving small hotpot products (自熱小火鍋產品), which realized over RMB60mn sales in 2017 with overall GPM of 35%. Its SSHP under 'Haidilao' brand enjoys good reputation among customers and is one of the top 10 in the online shopping platform Taobao. We also highlight the fierce competition risk in this field, given low entry barrier and Haidilao's relatively high ASP. Considering consumers of this fast food are relatively sensitive to selling price, we recognize short-term supplement risk from competitors. But in long run, we highlight Yihai may enjoy greater sustainable growth momentum in this field, given Haidilao's brand advantage and high quality control measure as the industry leader.

Third party channels. As up to 2017 end, Yihai's distributors have covered 31 Chinese provinces and cities, HK, Macau and 23 overseas regions. This is mainly attributable to its adjustment of distribution channels in 2016 and continuous effective controls of customer-end. We estimate the sales to distributor reached RMB600mn in 2017 with 35% YoY growth. Meanwhile the e-commerce channel continued rapid development with currently five online flagship shops and income of RMB105.9mn in 2017 (+265.2% YoY).

Robust 17 results. In 2017, Yihai recorded revenue of RMB165mn (+51.3% YoY) and net profit of RMB261mn (+39.9% YoY). GPM dropped from 38.3% in FY16 to 37.2% in FY17 mainly due to rising material costs.

Neutral

CMP HKD15.88

(Closing price at 6 Aug 2018)

TARGET HKD16.47 (+3.7%)

COMPANY DATA

O/S SHARES (MN) :	1046.9
MARKET CAP (HKDMN) :	16,625
52 - WK HI/LO (HKD):	18.74 / 4.24

SHARE HOLDING PATTERN • %

Direct Zhang Yong & Family	35.59
Director Shu & Family	16.93
Vistra Fiduciary HK Ltd.	7.38
FIL Ltd.	4.99

PRICE PERFORMANCE • %

	1M	3M	1Y
Yihai	18.87	43.32	216.33
HSI	-1.75	-8.50	0.93

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY17	FY18E	FY19E	FY20E
Net Sales	1,646	2,487	3,315	3,889
Net Profit	261.1	347.3	459.6	539.1
EPS, RMB	0.27	0.36	0.47	0.56
PER, x	67.85	50.96	38.51	32.83
BVPS, RMB	1.55	1.91	2.38	2.94
P/BV, x	11.75	9.57	7.67	6.22
ROE, %	17.34	18.79	19.91	18.93

Source: Company, Wind, Phillip Securities Est.

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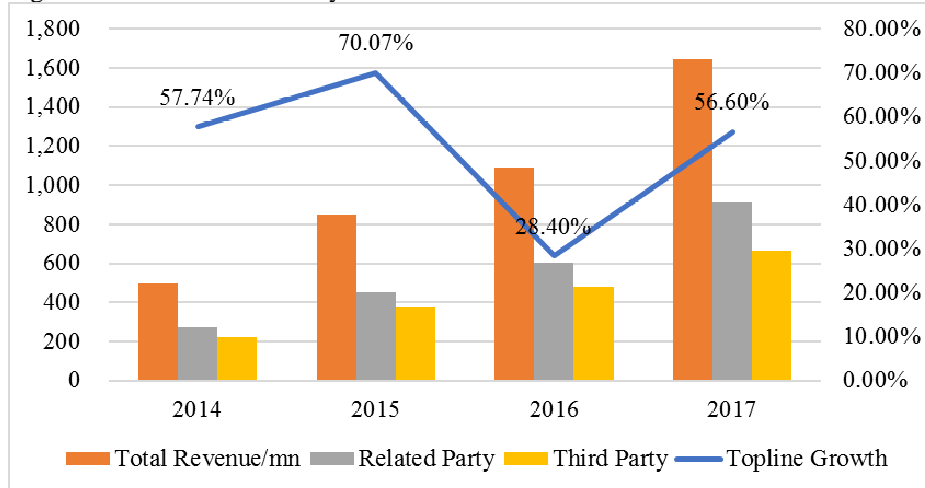
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Valuation & Risks

We assume the exchange rate to be 0.87RMB/HKD, target PE 40x, FY18 EPS RMB0.358, thus we get TP of HKD16.47(Closing price at 6 Aug 2018). **Risks include:** Rising COGS; Fierce competition; Haidilao expansion fails expectations; Food safety problem.

Figure: Revenue breakdown by channels



Source: Company, Phillip Securities

Figure: Sales breakdown by products

RMB'000			2014A	2015A	2016A	2017A
Hot pot soup flavoring products	Related Party	Revenue	266,328.0	446,743.0	583,778.0	871,282.0
		Sales Volume/tons	12,804.0	16,566.0	21,573.0	31,093.0
		ASP/RMB per kg	20.8	27.0	27.1	27.3
		GPM	9.71%	24.21%	28.47%	27.90%
	Third Party	Revenue	145,146.0	251,909.0	288,745.0	429,921.0
		Sales Volume/tons	4,848.0	8,235.0	9,323.0	14,896.0
		ASP/RMB per kg	29.9	30.6	31.0	28.9
		GPM	43.73%	51.60%	56.05%	53.02%
Hot pot dipping sauce product	Related Party	Revenue	153.0	53.0	104.0	281.0
		Sales Volume/tons	8.0	3.0	6.0	11.0
		ASP/RMB per kg)	19.1	17.7	18.8	25.5
		GPM	5.23%	20.75%	41.35%	50.18%
	Third Party	Revenue	12,584.0	41,157.0	73,856.0	93,924.0
		Sales Volume/tons	719.0	2,259.0	4,290.0	5,059.0
		ASP/RMB per kg	17.5	18.2	17.2	18.8
		GPM	26.47%	32.33%	34.31%	40.38%
Chinese-style compound condiment products	Related Party	Revenue	3,715.0	7,511.0	18,194.0	43,413.0
		Sales Volume/tons	233.0	383.0	706.0	1,908.0
		ASP/RMB per kg	15.9	19.6	25.8	22.8
		GPM	7.38%	26.63%	37.35%	28.81%
	Third Party	Revenue	62,064.0	87,720.0	116,351.0	142,860.0

	Sales Volume/tons	2,291.0	3,338.0	4,962.0	6,007.0	
	ASP/RMB per kg	27.1	26.3	23.4	23.8	
	GPM	42.54%	44.65%	48.37%	46.65%	
Self-serving small hotpot products	Related Party	Revenue	-	-	-	104.0
		Sales Volume/tons	-	-	-	-
		ASP/RMB per kg	-	-	-	-
		GPM	-	-	-	41.35%
	Third Party	Revenue	-	-	-	61341
		Sales Volume/tons	-	-	-	-
		ASP/RMB per kg	-	-	-	-
		GPM	-	-	-	34.59%

Source: Company, Phillip Securities

Figure: Peers valuation

Code	Firm	Mrk Cap /hkd mn	Net Profit /hkd mn	ROE(%)		GPM		NPM		PE		
				17A	16A	17A	16A	17A	16A	17A	18E	19E
1579.HK	頤海國際	17641.33	298.61	18.84	26.52	37.16	38.32	15.71	17.01	56.74	35.61	28.64
H share												
	Max	94329.21	8480.72	35.82	35.96	65.05	62.39	23.42	25.39	56.74	160.28	69.18
	Medium	12883.11	537.66	15.11	11.88	35.65	38.34	8.5	8.52	21.47	26.09	20.76
	Average	31858.96	1400.4	15.07	14.52	37.56	38.28	9.18	8.38	22.92	35.7	25.21
0322.HK	康師傅控股	94329.21	2083.83	10.24	6.4	29.41	31.3	3.8	2.52	43.47	33.59	29.31
0288.HK	萬洲國際	91455.95	8480.72	16.47	17.15	19.29	19.54	5.88	5.74	10.36	9.81	8.65
2319.HK	蒙牛乳業	89284.32	2345.88	9.43	-3.5	35.21	32.79	3.37	-1.5	36.55	26.09	20.26
3799.HK	達利食品	87934.52	3933.45	24.84	24.35	37.67	38.34	17.3	17.54	21.47	19.53	16.79
0151.HK	中國旺旺	77582.54	--	--	27.92	--	47.81	--	17.78	--	18.98	16.8
0220.HK	統一企業中國	36134.18	1006.03	7.07	5.14	33.11	34.44	4.07	2.86	34.49	30.18	26.78
1112.HK	H&H 國際控股	35795.92	1068.61	25.3	29.58	65.05	62.39	11.47	16.16	32.17	25.27	20.76
0345.HK	VITASOY INT'L	29724.82	537.66	21.77	26.48	52.9	53.15	9.91	12.04	50.89	45.31	40.29
1717.HK	澳優	13576.14	352.98	19.21	15.3	43.05	41.05	8.5	8.52	36.94	--	--
1458.HK	周黑鴨	12190.08	872.48	20.05	35.96	60.93	62.32	23.42	25.39	13.42	13.41	11.99
0506.HK	中國食品	10989.12	1699.38	35.82	9.1	35.26	23.29	14.53	2.64	6.21	26.11	21.02
1230.HK	雅士利國際	7145.03	-205.98	-3.21	-5.48	40.9	47.08	-7.88	-13.56	-33.31	160.28	69.18
6868.HK	天福	6081.54	278.95	11.91	8.46	60.59	61.24	15.42	11.12	20.94	--	--
6863.HK	輝山乳業	5643.72	--	--	--	--	--	--	--	--	--	--
1886.HK	匯源果汁	5381.23	--	--	0.13	--	40.65	--	0.21	--	--	--
1610.HK	中糧肉食	4629.92	517.36	9.67	26.89	0.84	0.73	6.39	14.39	8.59	--	--
1475.HK	日清食品	4338.38	187.07	6.45	3.16	35.65	39.59	7.57	4.07	22.27	19.96	17.2
1533.HK	莊園牧場	4094.12	78.3	7.24	10.44	30.31	33.6	10.94	11.98	16.54	--	--
0411.HK	南順(香港)	3227.23	271.48	15.11	11.88	21.25	19.67	5.66	4.28	11.85	--	--
A share												
	Max	213540.6	7733.68	32.45	50.57	77.99	73.45	54.19	49.74	431.43	43.32	36.01
	Medium	25119.83	777.44	17.68	17.25	34.01	33.65	12.53	11.87	35.42	23.22	20.26

Average	49686	1766.4	16.8	19.51	33.55	34.41	14.25	15.39	67.93	25.01	20.88
603288.SH 海天味業	213540.6	4045.41	32.45	30.3	45.09	43.37	24.48	23.05	52.79	43.32	36.01
600887.SH 伊利股份	173591.6	6874.26	24.91	26.29	36.81	37.51	8.89	9.42	25.25	20.36	16.87
300498.SZ 溫氏股份	139032.1	7733.68	21.41	44.72	19.97	28.17	12.59	20.63	17.98	21.73	20.47
000895.SZ 雙匯發展	91206.07	4947.94	29.97	28.42	18.35	17.61	8.98	8.85	18.43	16.19	14.6
002714.SZ 牧原股份	64949.33	2709.81	25.72	50.57	29.69	45.63	23.59	41.46	23.97	26.05	22.53
300146.SZ 湯臣倍健	33572.49	877.78	15.67	11.58	66.59	63.8	25.02	22.35	38.25	30.1	24.61
600298.SH 安琪酵母	31634.06	970.49	23.88	17.01	36.97	31.96	15.62	12	32.6	25.22	20.33
603866.SH 桃李麵包	29134.12	587.98	19.69	22.19	36.86	35.34	12.75	13.34	49.55	38.89	30.94
300741.SZ 華寶股份	25709	1315.14	22.8	24.51	77.99	73.45	54.19	49.74	19.55	17.87	17.05
002507.SZ 涪陵榨菜	25499.6	474.42	23.7	17.49	47.33	44.84	27.71	23.35	53.75	35.67	28.26
600872.SH 中炬高新	24740.06	519.23	15.26	13.64	38.45	35.84	14.36	13.17	47.65	34.5	27.96
002299.SZ 聖農發展	24464.46	360.96	5.18	12.19	10.64	12.4	2.62	8.19	67.78	19.66	15.27
600737.SH 中糧糖業	17887.37	847.8	10.7	8.19	16.17	14.53	3.96	3.78	21.1	18.65	14.62
603517.SH 絕味食品	17514.06	574.75	24.86	28.73	35.09	31.16	13.06	11.73	30.47	24.7	20.2
000735.SZ 羅牛山	16831.79	175.23	4.37	3.1	25.88	26.04	12.47	10.48	96.06	--	--
600873.SH 梅花生物	13850.51	1344.41	12.92	11.98	24.76	24.4	10.9	9.74	10.3	10.64	9.87
600929.SH 湖南鹽業	13614.61	182.67	9.21	8.58	45.75	52.07	8.47	6.84	74.53	--	--
600597.SH 光明乳業	13381.76	707.07	11.93	11.82	32.94	38.32	3.8	3.36	18.93	16.6	14.57
002477.SZ 雛鷹農牧	11815.88	51.77	0.9	17.56	19.16	24.71	1.9	13.73	228.26	--	--
002505.SZ 大康農業	11750.55	27.24	0.43	1.34	6.44	7.12	-0.29	2.52	431.43	--	--

Source: Wind (as at Aug 6th), Phillip Securities

Financials

FYE	2016A	2017A	2018E	2019E	2020E
Valuation Ratios					
Price to Earnings (P/E)	78.00	67.85	50.96	38.51	32.83
Price to Book (P/B)	11.49	11.75	9.57	7.67	6.22
Per Share Data (RMB)					
EPS	0.23	0.27	0.36	0.47	0.56
Book Value Per Share	1.59	1.55	1.91	2.38	2.94
Growth (%)					
Revenue	28.40	51.31	51.08	33.30	17.29
Gross Profit	41.70	46.74	48.38	33.30	17.29
Operating Income	33.73	87.23	26.60	33.30	17.29
Net Profit	49.92	39.83	33.03	32.33	17.29
Margins (%)					
Gross Profit Margin	38.32	37.16	36.50	36.50	36.50
Operating Profit Margin	20.35	25.18	21.10	21.10	21.10
Net Profit Margin	17.16	15.86	13.96	13.86	13.86
Key Ratios					
ROE (%)	14.75	17.34	18.79	19.91	18.93
ROA (%)	13.12	14.45	17.14	18.17	17.40
FYE					
Income Statement (RMB Mn)					
Revenue	1,088.0	1,646.2	2,487.2	3,315.4	3,888.6
- Cost of Goods Sold	(671.1)	(1,034.4)	(1,579.4)	(2,105.3)	(2,469.3)
Gross Income	416.9	611.8	907.8	1,210.1	1,419.4
- Operating Expenses	(195.5)	(197.3)	(383.0)	(510.6)	(598.8)
Operating Income	221.4	414.5	524.8	699.6	820.5
+ Net Non-Operating Gain/Loss	33.7	(45.4)	(52.5)	(70.0)	(82.1)
Pretax Income	255.1	369.1	472.3	629.6	738.5
- Tax	(68.4)	(108.0)	(125.0)	(170.0)	(199.4)
Net Profit	186.7	261.1	347.3	459.6	539.1

Source: Bloomberg, Phillip Securities (HK) Research Estimates
(Financial figures as at 6 Aug 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

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