

Jonjee Hi-Tech (600872.CH)

2018H result review: Improvement in profitability and steady progress in regional sale network expansion

China | Food | Company Update

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Investment Summary

Jonjee Hi-Tech recorded a high growth ratio in 2018H1 with improved gross margin and expanded network. As a Leading Company in the Condiment Industry of China, 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, and its operating efficiency will still be on a steady growing trend. According to the latest forecast, we give the "Cautiously Accumulate" rating.

Cautiously Accumulate (maintain)

CMP CNY 28.02

(Closing price as at 18 Oct 2018)

TARGET CNY 30.30 (+8.14%)

A high growth in the H1 result, and an increase of over 60% of the net profits

In the H1 of 2018, the company recorded the revenue of RMB2.174 billion, increased by RMB0.370 billion yoy, up 20.5%; the net profit attributable to the parent company was RMB0.339 billion, increased by RMB0.128 billion yoy, up 61%. The EPS was RMB0.43, increased by RMB0.16 yoy, up 61%; the yield of ROE was 10.31%, up by 3.06 ppts yoy.

COMPANY DATA

O/S SHARES (MN):	797
MARKET CAP (CNY MN):	22322
52 - WK HI/LO (CNY):	33.66/ 20.9

Steady progress in condiment business, and positive returns contributed by other businesses

In the H1, the condiment business remained stable growth, with revenue of approximately RMB1.962 billion, with a slowdown increase ratio of 12.3%. Among them, the soy sauce progressed steadily, with an increase in revenue exceeding 10%; the increase in edible oil and other categories was 20%, which continued the rapid growth. Thanks to the benefit of scale effect, structural optimization and price lifting in March of last year, the gross margin of condiments increased by 0.47 ppts yoy to 39.99%.

For the non-condiment business, the official filing and delivery of some of the sold properties have been completed in the H1 by way of transferring the sold properties to the self-owned properties for the second-hand sales. The real estate company reported the revenue of approximately RMB39.21 million in the H1, up approximately 13.6 times yoy. The net profits attributable to the parent company were estimated to be about RMB9 million, up nearly 6 times yoy.

SHARE HOLDING PATTERN, %

Former sea life insurance	24.9
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

Improvement in profitability and steady progress in regional sale network expansion

In the H1, the company's comprehensive gross margin increased by 0.82 ppts yoy to 39.95%. At the same time, the expense ratio decreased by 3.34 ppts yoy due to the company's control of sales and reduction of selling expenses. The final net profit margin exceeded 17%, up 4 ppts yoy, and the profitability reached a new high.

During the period, the company accelerated the optimization of channel segmentation, added 90 new distributors and continued to steadily promote the nationwide expansion of the sales networks. In terms of the development of the regional market, the north markets have seen the fastest growth, the growth rate of the eastern and central and western markets has been slightly faster than that of the average, and the market shares of the external market have been gradually increased.

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	3158	3609	4280	4897
Net Profit	363	453	643	779
EPS, CNY	0.45	0.57	0.81	0.98
P/E, x	61.6	49.3	34.7	28.7
BVPS, CNY	3.51	3.94	4.57	5.31
P/BV, x	8.0	7.1	6.1	5.3
DPS (CNY)	0.14	0.18	0.24	0.30
Div. Yield (%)	0.5%	0.6%	0.9%	1.1%

Source: Company reports, Phillip Securities Est.

Leave imagination due to the change of shareholders

In early to mid-September, the company's former largest shareholder, Foresea Life Insurance, transferred the entire 24.92% of the company's shares to Zhongshan Runtian, a wholly-owned subsidiary of Baoneng Group, which is supposed to be more flexible and quicker in investment decisions and corporate governance. As a private enterprise, Baoneng implements a more aggressive management style, inclined to market-oriented. In terms of goal setting, equity incentives, cost control and efficiency enhancement, it has left an imagination space for further optimization of the company's future development.

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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 0.81 and 0.98 of 2018/2019. And we accordingly gave the target price to 30.3, respectively 31x P/E for 2019. "Cautiously Accumulate" rating. (Closing price as at 18 Oct 2018)

Peer Comparison

Ticker	Name	MarketCap(billion)	PE(TTM)	Estimate PE-2018	Estimate PEG	Estimate PB-2017	PS(TTM)
603288.SH	海天味業	1926	48.7	44.8	2.1	13.7	13.4
600872.SH	中炬高新	228	39.2	36.2	0.9	6.1	6.4
1579.HK	頤海國際	158	40.3	33.5	0.4	8.3	9.0
002650.SZ	加加食品	56	39.7	NA	NA	NA	3.0
603027.SH	千禾味業	52	25.3	25.0	0.6	4.2	5.5
2226.HK	老恒和釀造	18	8.6	NA	NA	NA	2.1

Source: Wind, Bloomberg, Phillip Securities Hong Kong Research

Risk

- Price war among peers
- Raw material price increase
- New business risk

Financials

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios					
P/E (X), adj.	90.3	61.6	49.3	34.7	28.7
P/B (X)	8.9	8.0	7.1	6.1	5.3
Dividend payout ratio(%)	32.2%	30.8%	31.6%	29.7%	30.7%
Dividend Yield (%)	0.4%	0.5%	0.6%	0.9%	1.1%
Per share data (RMB)					
EPS, (Basic)	0.31	0.45	0.57	0.81	0.98
EPS, (Diluted)	0.31	0.45	0.57	0.81	0.98
DPS	0.10	0.14	0.18	0.24	0.30
BVPS	3.16	3.51	3.94	4.57	5.31
Growth & Margins (%)					
Growth					
Revenue	4.4%	14.5%	14.3%	18.6%	14.4%
EBIT	2.2%	45.9%	26.5%	34.5%	18.4%
Net Income, adj.	-13.2%	45.8%	24.9%	41.9%	21.1%
Margins					
Gross margin	34.0%	35.4%	37.9%	40.1%	40.5%
EBIT margin	13.2%	16.8%	18.6%	21.1%	21.9%
Net Profit Margin	9.0%	11.5%	12.6%	15.0%	15.9%
Key Ratios					
ROE	10.2%	13.6%	15.3%	19.0%	19.8%
Income Statement (RMB mn)					
Revenue	2759	3158	3609	4280	4897
Gross profit	939	1117	1369	1716	1982
EBIT	364	531	671	903	1070
Profit before tax	341	487	609	852	1021
Tax	65	76	98	131	156
Profit for the period	276	411	511	721	865
Minority interests	27	48	58	78	86
Total capital share	797	797	797	797	797
Net profit	249	363	453	643	779

Source: PSR

(Financial figures as at 18 October 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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