

# Health & Happiness (H&H) International (1112.HK)

More relaxing cross-border e-commerce policy being announced, 11th November bringing good news  
China | Consumer | Company report

30 November 2018

## Investment Summary

The State Council did not restart the cross-border e-commerce (CBEC) positive list policy at the end of the year, which is in line with our expectations. On this basis, it announced that from 1st January 2019, the current policy on CBEC retail imports will continue. No requirements of licensing, registration or record-filing for first-time imports shall apply to the retail imports through CBEC platforms, but receive regulation as personal use.

This shows that the policy direction has been further relaxed. The State Council also extend the implementation of this policy from 15 cities such as Hangzhou to another 22 cities such as Beijing which have just established comprehensive CBEC pilot zones. Goods included in the CBEC retail imports list have so far enjoyed zero tariffs within a set quota and had their import VAT and consumer tax collected at 70% of the statutory taxable amount. Such preferential policies will be extended to another 63 tax categories of high-demand goods. The quota of goods eligible for these preferential policies will be raised from RMB2,000 to RMB5,000 per transaction and from RMB20,000 to RMB26,000 per head per year.

We believe that the new measures show the Chinese government's positive stance on support and encouragement for the long-term and steady development of CBEC, eliminating the market's earlier concerns about the risk of policy changes in the industry. Moreover, under the current Sino-US trade war, it will also help to demonstrate China's determination to further open up the market, promote diversification and steady growth of imports, and stimulate domestic consumption and employment.

At the same time, the first import of goods categories like cosmetics, nutritional supplements and infant formula through ECBC will no longer be subject to regulatory restrictions, which will help H&H's Swisse products that rely on ECBC entering China market, including non-vitamin SKUs which will be negatively affected under positive list.

-In the past 11th November, the company launched new products such as oral-intake hyaluronic acid and collagen jelly, and recorded good results. According to Tmall's statistics, Swisse is the number one brand in both imported and health care categories.

-In the middle of September, the company redeemed the value of RMB 125 million in bonds through its own cash and bank loans. We expect this can continue bringing down the financial cost and is expected to decline year by year in the next two years. We give forecast P/E ratio 23.9 times, the corresponding target price HKD60.72. (current price as of November 28, 2018)

## Accumulate

CMP HKD52.05

(Closing price at 28 November 2018)

TARGET HKD60.72 (+16.67%)

### COMPANY DATA

O/S SHARES (MN) :	640.216
MARKET CAP (HKDBN) :	33.323
52 - WK HI/LO (HKD):	36.3/64.5

### SHARE HOLDING PATTERN, %

Biostime Pharmaceuticals (China) Limited	67.77
--	-------

### PRICE PERFORMANCE, %

	1 個月	3 個月	1 年
H&H	31.27	1.76	1.26
恒生指數	7.54	-5.89	-12.56

### RETURN VS. HSI



Source: Aastocks, Phillip Securities

### KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	6506	8095	10137	11598
<b>Net Profit</b>	954	933	1183	1539
<b>EPS, RMB</b>	1.52	1.48	1.85	2.40
<b>PER, x</b>	30.47	31.44	25.09	19.29
<b>BVPS, RMB</b>	5.10	6.66	8.43	10.83
<b>P/BV, x</b>	9.10	6.96	5.50	4.28
<b>ROE, %</b>	32.91%	22.04%	21.93%	22.19%

Source: Company, Phillip Securities Est.

Research Analyst  
**Tracy Ku** (2277 6516)  
tracyku@phillip.com.hk

## Business Overview

### New acquisition

For BNC, during Q3, the company completed the acquisition of “Good Gout”, the fastest growing organic baby food company in France, costing 20 to 30 million euros. The management team hopes through the acquisition, it can better capture the strong growth momentum of organic baby food segment in France, China and international markets.

For ANC, it had completed the progressive transfer of Swisse distribution rights from PGT by the end of last June. It now has the full ownership of the rights in Hong Kong, Singapore, Italy, Netherlands and the United Kingdom. However, the newly added market is smaller and contributes less than 5% to the ANC business. Therefore, the growth in Q3 is mainly from the original China and Australia.

### Q3 performance review

For BNC, during Q3, the company completed the acquisition of “Good Gout”, the fastest growing organic baby food company in France, costing 20 to 30 million euros. The management team hopes through the acquisition, it can better capture the strong growth momentum of organic baby food segment in France, China and international markets.

For ANC, it had completed the progressive transfer of Swisse distribution rights from PGT by the end of last June. It now has the full ownership of the rights in Hong Kong, Singapore, Italy, Netherlands and the United Kingdom. However, the newly added market is smaller and contributes less than 5% to the ANC business. Therefore, the growth in Q3 is mainly from the original China and Australia.

-In Q3, H&H's overall revenue rose by 27.3% y.o.y to RMB 2.745 billion, and the first three quarters rose by 28.2% y.o.y to RMB 7.326 billion. For ANC business, revenue increased by 40.8% y.o.y in Q3., higher than 29.3% in the first three quarters (36.6% on a currency-adjusted basis), which is higher than 30% of the management's full-year guidance (with currency adjustment). The reasons for the acceleration in Q3 include the company increased its product supply to meet market demand and strong demand in China market.

As the company's new products are about to be launched and begin contributing revenue, we expect that the fast growth trend of ANC will continue in Q4. Two new online products (pregnancy and baby health products and adult probiotic products) are expected to have a significant contribution from Q4.

In Q3, BNC (infant nutrition and care products) increased by 17.8% y.o.y. Revenue of infant formulas was increased by 17.9%, mainly driven by high-end and ultra-high-end products. The growth of organic milk powder remained rapid. Revenue of BNC and infant formulas in the first three quarters increased 27.4% and 23% respectively, reflecting the one-time replenishment factor of the newly registered milk powder product distributors in 1H of the year, but it was in line with the management's annual guidance of above 20%.

Revenue of probiotics supplements increased by 15.4% y.o.y., significantly lower than the 45.2% in the first three quarters, reflecting the one-time replenishment factor in the first quarter, which was out of stock at the end of last year, and the base factor. However, it is still higher than about 30% of the annual guidance. Revenue of other infant products increased by 24.9% y.o.y. in Q3, and 40.7% y.o.y. for the first three quarters.

### Maintain mid-year guidance / market share

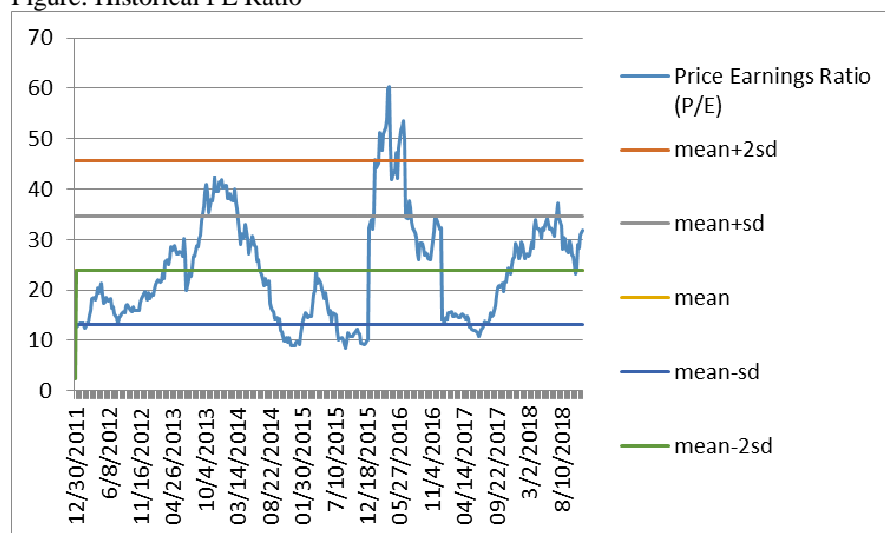
- The company has positioned this year as investment year, and will continue to increase spending on marketing activities, but will ensure profit growth. The guidance for BNC and ANC EBITDA will remain at 20% and 30% respectively. The management team has confident to achieve.

As of the end of September, the company`s market share of infant formula in China was 5.9%, which was the same as that in 12months by the end of June, up from 5.5% in 12months by the end of September. Swisse`s market share of vitamins, herbal and mineral supplements in Australia increased from 16% in 12 months by the end of September to 18.9% in 12 months by the end of September, and 18.6% higher than the 12 months ended in June.

### Investment Thesis & Valuation

We give forecast P/E ratio 23.9 times, the corresponding target price HKD60.72. Potential investment risks include revenue growth and channel expansion not meeting expectation, policy changes and the competition of infant milk powder market deteriorating (current price as of 28<sup>th</sup> November, 2018)

Figure: Historical PE Ratio



Source: Bloomberg, Phillip Securities

Figure: Peers Comparison

	Company	Market Value(HKD,mn)	PE Ratio
1112.HK	H&H	33323.25	30.67
2319.HK	Mengniu Dairy	95045.63	32.29
0288.HK	WH Group	87465.89	10.22
3799.HK	Dali Foods	76139.29	17.59
0151.HK	WantWant China	72205.87	19.82
0322.HK	Tingyi	61233.81	19.66
0345.HK	Vitasoy	33743.54	47.75
0220.HK	U-Presid China	30321.72	24.99
1579.HK	Yihai	23345.87	52.48

Source: Wind, Phillip Securities

## Financials

FYE	2015	2016	2017	2018E	2019E
<b>Valuation Ratios</b>					
Price to Earnings (P/E)	112.96	30.47	31.44	25.09	19.29
Price to Book (P/B)	7.86	9.10	6.96	5.50	4.28
<b>Per Share Data (RMB)</b>					
EPS	0.41	1.52	1.48	1.85	2.40
Book Value Per Share	5.90	5.10	6.66	8.43	10.83
<b>Growth (%)</b>					
Revenue	NA	35.01%	24.44%	25.22%	14.41%
Operating Income	NA	193.07%	-3.32%	17.92%	21.62%
Net Profit	NA	259.59%	-11.74%	27.44%	30.07%
<b>Margins (%)</b>					
Gross Profit Margin	61.94%	62.39%	65.04%	67.04%	67.54%
Operating Profit Margin	13.63%	29.59%	22.99%	21.65%	23.01%
Net Profit Margin	6.07%	16.17%	11.47%	11.67%	13.27%
<b>Key Ratios</b>					
ROE (%)	8.12%	32.91%	22.04%	21.93%	22.19%
ROA (%)	2.11%	7.41%	6.57%	6.54%	6.62%
<b>Income Statement (RMB,Mn)</b>					
<b>Revenue</b>	4819	6506	8095	10137	11598
-Cost of Goods Sold	-1834	-2447	-2830	-3341	-3765
<b>Gross Income</b>	2985	4059	5266	6796	7833
-SG&A expenses	-2257	-2309	-3198	-4308	-4871
<b>Operating Income</b>	657	1925	1861	2194	2669
<b>Pretax Income</b>	503	1457	1369	1744	2269
- Minority Interest	42	98	-4	0	0
<b>Net Profit</b>	251	954	933	1183	1539

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate (0.8911) is one year HKD/CNY forward contract price on 28th November from Wind

(Financial figures as at 28th November 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

**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>.

© 2018 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](http://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](http://www.phillip.com.hk)

**INDONESIA**

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