

Yihai International (1579.HK)

Further penetration of distributor channel and healthy inventory

Hong Kong | Consumer | Company report

8 January 2019

Investment Summary

Yihai is a leading and fast-growing compound condiment manufacturer in PRC, the only supplier of hot pot soup flavoring products for Haidilao (6862HK). In 181H, the company achieved rapid growth, with revenue increasing by 59.1% yoy and net profit increasing by 170.4% yoy. We know from our checks that 18Q4 sales performed well and channel inventory is ideal. We expect 18E/19 revenue to be RMB2.487bn/3.315bn, and increase the target price to HK\$18.91. The 1-y exchange rate is assumed to be 0.87 RMB/HKD. (Closing price at 4th Jan 2019)

Business Overview

18H2 results to be expected. In 18H1, the company delivered revenue of RMB1,004mn, an notable increase of 59.1% yoy, and net profit of RMB189.8mn, an increase of 170.4% over the previous year. We know from our checks that 18Q4 sales performed well, mainly arising from the expansion of Haidilao restaurants and the good performance of e-commerce in 18H2.

Related party sales. Haidilao Group is the largest Chinese catering brand in China. Haidilao Group has steadily increased the stores revenue, and has made sustained expansion in the number of stores. In 2018, the number of newly-opened stores was about 180 (the original guidance: 180~220), which is at the low level of the original guideline. The company's sales revenue to related parties was RMB540mn, an increase of 24.2% yoy. The company said that Haidilao will continue to expand in the future and actively expands overseas markets, but the specific expansion plan is not yet clear. According to Frost & Sullivan, the domestic hot pot restaurant market revenue in 2017 is RMB436.2bn. It is estimated that the compound growth rate will reach 10.2% and the scale will reach RMB707.7bn by 2022. And overseas Chinese catering market will grow at 8.3% in the next five years.

Figure: The Number of Haidilao Restaurants

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

Source: Company, Phillip Securities

Distributor networks are sinking further. In 18H1, distributors covered 31 provincial areas in China, Hong Kong, Macao and Taiwan, and 24 overseas countries and regions. Sales to distributors in 18H1 amounted to RMB363.2mn, an increase of 117.2% yoy. In 18H2, the company further increase the penetration of sales channels, entering 320 prefecture-level cities. The distributor's pipeline inventory is healthy and inventory turnover days keep at about one month.

E-commerce channel. In 18H1, e-commerce revenue reached RMB80.2mn, rising by 372.4% yoy. The company launched a number of new products on e-commerce platforms. It set up warehouses in East China to accelerate delivery efficiency for consumers in East China in 18H1, and opened warehouses in South China in 18H2 to further enhance delivery efficiency in Guangdong, Fujian, Guangxi, Yunnan and Hainan. At present, the company has five flagship stores in online platforms involving Tianmao, Jingdong and other e-commerce platforms. In 18H2, the segment revenue was facilitated by e-commerce promotion festivals. Sales on Tianmao and JD accounted for half of the e-commerce revenue.

Neutral

CMP HKD18.52

(Closing price at 4th Jan 2019)

TARGET HKD18.91 (+2.1%)

COMPANY DATA

O/S SHARES (MN) :	1046.9
MARKET CAP (HKDMN) :	19,389
52 - WK HI/LO (HKD):	22.65 / 7.72
	1046.9

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	-8.99	0.54	128.84
HSI	-4.45	-3.56	-16.63

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	1,088	1,646	2,225	2,868
Net Profit	186.7	261.1	310.7	432.7
EPS, RMB	0.23	0.27	0.32	0.45
PER, x	88.66	77.13	64.74	46.50
BVPS, RMB	1.59	1.55	1.87	2.31
P/BV, x	13.06	13.36	11.10	8.96
ROE, %	14.75	17.34	17.15	19.27

Source: Company, Wind, Phillip Securities Est.

Eurus Zhou (2277 6515)
euruszhou@phillip.com.hk

Third-party catering business has been significantly boosted. In 18H1, third-party catering business sales reached RMB20mn, rising by 70.8% yoy, attributable to promotional activities and the expansion of product mix. As the standardization of catering production process is a future trend, Yihai's third-party catering business is expected to continue growing. In addition, the company explores regional and sub-division products, and launches three new flavours of crawfish condiments, one rice blending sauce and three types of self-serving small hot pot products. The introduction of new products can alleviate seasonal problems of hot pot products, further promote consumption, and also improve brand awareness. The company will also introduce self-serving rice and other new products to drive sales growth.

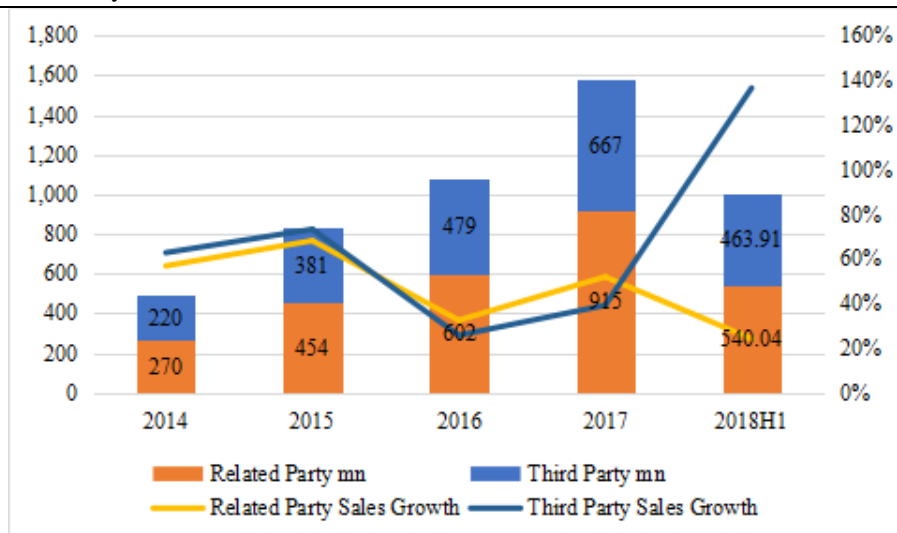
Expanding production capacity. The newly established factory located in Maanshan of Anhui Province formally commenced operation in 18H1. The first phase of Bazhou project (with an investment of RMB300mn) was completed and put into operation in 18H2, and the second phase project will be completed and put into use in 2020E. In the future, the company still has plans to continue to increase production capacity, and upgrade warehousing equipment. Capital expenditure will remain around RMB350mn in 2018E/19E.

Valuation & Risks

We give target price of HKD18.91. Sales will benefit from Haidilao's continued growth as well as the acceleration of overseas expansion. However, it should also be noted that the number of new stores opened in 2018 is at the low level of the guideline range, and the future expansion plan is not yet clear. We expect 18E/19 revenue to be RMB2.487bn/3.315bn, and increase the target price to HK\$18.91. The 1-y exchange rate is assumed to be 0.87 RMB/HKD.

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	2018H1
Hot pot soup flavoring products	Related Party	Revenue	266,328.0	446,743.0	583,778.0	871,282.0	523,340
		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%	26.56%
	Third Party	Revenue	145,146.0	251,909.0	288,745.0	429,921.0	206,426
		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%	56.12%
Hot pot dipping sauce product	Related Party	Revenue	153.0	53.0	104.0	281.0	67
		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%	44.78%
	Third Party	Revenue	12,584.0	41,157.0	73,856.0	93,924.0	39,227
		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%	39.84%
Chinese-style compound condiment products	Related Party	Revenue	3,715.0	7,511.0	18,194.0	43,413.0	12,180
		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%	29.01%
	Third Party	Revenue	62,064.0	87,720.0	116,351.0	142,860.0	110,192
		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%	49.6%
Self-serving small hotpot products	Related Party	Revenue	-	-	-	104	3,231
		GPM	-	-	-	41.35%	33.8%
	Third Party	Revenue	-	-	-	61,341	104,457
		GPM	-	-	-	34.59%	30.9%

Source: Company, Phillip Securities

Figure: Peers valuation

Code	Mrk Cap mn	PE(TTM)	PE 18E	PE 19E
1579.HK	19,326	43.44	35.77	27.18
H 股				
Max	84,971	2474.16	97.99	71.06
Median	16,268	19.03	19.95	15.45
Average	27,795	140.92	28.06	22.04
0322.HK	57,526	18.47	20.23	18.74
0288.HK	84,971	9.93	9.83	8.55
002319.SZ	3,070	2474.16		
3799.HK	77,098	17.81	17.70	15.57
0151.HK	65,234	17.90	16.79	15.25
0220.HK	29,156	24.03	23.00	20.08
1112.HK	27,084	24.93	19.95	15.32
1717.HK	13,211	20.51		14.01
0345.HK	30,784	43.56	38.87	34.13
1458.HK	8,174	9.96	10.82	10.16
0506.HK	7,636	6.05	17.68	14.39
1230.HK	6,596	-335.53	97.99	71.06
1886.HK	5,397	121.98	-	-
1610.HK	5,580	-262.16	-	-
1475.HK	3,878	19.60	-	-
A 股				
Max	181,843	207.75	60.32	35.01
Median	19,376	22.40	21.23	18.05
Average	39,512	34.09	25.42	19.96
603288.SH	181,843	44.10	42.25	35.01
600887.SH	136,636	22.36	21.47	18.57
3004.TW	3,175	12.09		
300498.SZ	138,957	24.76	29.49	24.02
000895.SZ	79,189	16.43	15.95	14.61
002714.SZ	60,493	66.95	60.32	31.47
300146.SZ	24,691	24.18	24.11	18.64
600298.SH	20,371	22.40	20.98	17.52
603866.SH	20,769	33.60	31.73	25.75
300741.SZ	19,376	15.84	15.35	13.78
002507.SZ	17,050	26.92	26.48	21.53
600872.SH	23,071	39.48	37.28	30.68
002299.SZ	20,204	19.72	17.74	14.02
600737.SH	14,856	14.37	14.89	11.28
603517.SH	13,116	21.45	20.44	16.87
000735.SZ	11,791	29.90	-	-
600873.SH	13,023	10.78	10.76	10.26
600929.SH	7,470	45.03	-	-
600597.SH	10,114	20.97	17.46	15.36
002477.SZ	4,828	-3.28	-	-
002505.SZ	8,722	207.75	-	-

Source: Wind (as at Jan 2th 2018), Phillip Securities

Financials

FYE	2015A	2016A	2017A	2018E	2019E
Valuation Ratios					
Price to Earnings (P/E)	-	90.97	79.14	66.43	47.71
Price to Book (P/B)	-	13.40	13.71	11.39	9.20
Per Share Data (RMB)					
EPS	-	0.23	0.27	0.36	0.47
Book Value Per Share	-	1.59	1.55	1.91	2.38
Growth (%)					
Revenue	70.07	28.4	51.31	51.08	33.3
Gross Profit	146.27	41.7	46.74	48.38	33.3
Operating Income	189.61	33.73	87.23	26.6	33.3
Net Profit	192.98	49.92	39.83	33.03	32.33
Margins (%)					
Gross Profit Margin	34.72	38.32	37.16	36.5	36.5
Operating Profit Margin	19.54	20.35	25.18	21.1	21.1
Net Profit Margin	14.70	17.16	15.86	13.96	13.86
Key Ratios					
ROE (%)	87.76	14.75	17.34	18.79	19.91
ROA (%)	21.13	13.12	14.45	17.14	18.17
Income Statement (RMB Mn)					
Revenue	847.3	1,088.0	1,646.2	2,487.2	3,315.4
- Cost of Goods Sold	(553.1)	(671.1)	(1,034.4)	(1,579.4)	(2,105.3)
Gross Income	294.2	416.9	611.8	907.8	1,210.1
- Operating Expenses	(128.7)	(195.5)	(197.3)	(383.0)	(510.6)
Operating Income	165.6	221.4	414.5	524.8	699.6
+ Net Non-Operating Gain/Loss	1.4	33.7	(45.4)	(52.5)	(70.0)
Pretax Income	166.9	255.1	369.1	472.3	629.6
- Tax	(42.4)	(68.4)	(108.0)	(125.0)	(170.0)
Net Profit	124.5	186.7	261.1	347.3	459.6

Source: Bloomberg, Phillip Securities (HK) Research Estimates

(Financial figures as at 4 Jan 2019)

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>.

© 2019 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,
Jl 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