

Jonjee Hi-Tech (600872.CH)

Condiment Business Grows Steadily with the Initially Set-up National Layout

China | Food | Company Update

18 April 2019

Investment Summary

The Result Remains High While the Growth Rate Slows Down in H2

In 2018, Jonjee Hi-Tech recorded a revenue of RMB4,166 million, up by 15.4% yoy; a net profit attribute to shareholders of listed companies of RMB607 million, up by 34%, which was sharply slowed down compared with 61% in the H1 of last year. The shipment was decreased due to the relatively high base in the third quarter of last year and the typhoon in the third quarter of this year, which resulted in the flat net profit in the third quarter. The annual EPS was RMB0.76, and the result was slightly (5.6%) worse than our expectation. The weighted return on equity was 18.07%, up by 2.86 ppts yoy. The dividend per share was RMB0.23, with a dividend payout rate 30%.

Condiment Business Grows Steadily and Oyster Sauce and Cooking Wine Business Make highlight Achievements

The result of the Company's condiment sector maintained a steady growth, the annual revenue of Meiweixian was RMB3.85 billion, up by 10% yoy. Among the different product lines, the performance of two main categories of soy sauce and chicken powder grew steadily; among the small category of products, the sales of cooking oil grew rapidly, the oyster sauce and cooking wine business made achievements. The revenue of soy sauce increased by 8% to RMB2.59 billion, its sales volume increased 7.8%, and its unit price increased slightly. The revenue of chicken powder reached RMB440 million, up by 7.24% yoy, the sales volume increased by 7.27% yoy, and its unit price remained basically the same. The revenue of cooking oil increased by 16% to RMB320 million, the sales volume increased by 23% annually, and its unit price decreased. The revenue of oyster sauce increased sharply by 42% to RMB140 million, the sales volume increased by 39%, and its unit price increased slightly. The revenue of cooking wine and its sales volume increased sharply by 69% and 75% to RMB58 million and 9,986 tons, respectively.

During the period, the sales of the Company's commercial housing increased by RMB74 million, leading to an increase of 1.5 times to the revenue of real estate and service industries to RMB126 million, which also increased its performance.

Expense Rate and Cost Rate Increase and Decrease and the Whole Situation Remains Unchanged

In 2018, the Company's gross margin dropped slightly by 0.16 ppts to 39.1%, mainly due to the rapid growth of products with low gross margin such as oyster sauce, cooking oil, cooking wine and the increase of raw material prices. Due to the small scale, the gross margin of oyster sauce, sauce, vinegar and cooking wine was only half of that of Haitian Food. With the continuously production of new capacity in Yangxi Base, and the gradually emerged scale effect, the overall gross margin of condiment business will be expected to increase in the future.

The sales expense rate dropped by 1.46 ppts, mainly due to the slowdown in the growth of freight and business expenses and the reduction in advertising costs. The administration expense rate was basically flat, and the financial expense rate decreased by 0.37 ppts, mainly because the Company repaid part of some bank loans and the loan interest expenditure decreased accordingly. The Company restrained the impact caused by cost increasing to some extent by controlling cost and improving production efficiency.

Cautiously Accumulate (maintain)

CMP CNY 34.21

(Closing price as at 16 April 2019)

TARGET CNY 37.3 (+8.2%)

COMPANY DATA

O/S SHARES (MN):	797
MARKET CAP (CNY MN):	27253
52 - WK HI/LO (CNY):	37.91/ 21.6

SHARE HOLDING PATTERN, %

Former sea life insurance	24.9
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

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.

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Steady Progress Has Been Made in the Construction of Channels and National Layout Has Taken Shape

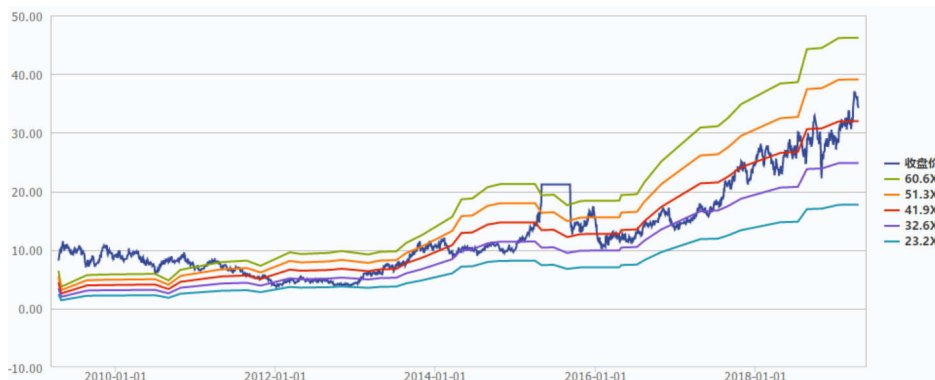
During the period, the Company continued to vigorously expand its sales channels, 18 blank prefecture-level cities and 178 distributors (90 in the H1 and 88 in the H2) were newly added. The total number of distributors reached 864, the development rate of prefecture-level cities was 77%, and the preliminary layout of export channels was completed. From the perspective of regional market development, in 2018, the revenue of condiments in the east, south, Midwest and north regions increased by 10%, 8%, 12% and 18%, respectively. The growth of revenue in the Midwest and north regions was relatively high, and the growth of gross margin was steady, conforming the Company's regional development strategy of "steadily developing the southeast, focusing on the development of the north and the middle, accelerating the development of the southwest, and gradually promoting the development of the Northwest". It is expected that the Company will have about 1,000 distributors by the end of 2019, and the distributors will preliminarily be distributed in all prefecture-level cities.

Investment Thesis

According to the annual report, 90,000 square meters of commercial housing in the real estate business of the Company will be sold in 2019, the inventory reached 23,000 square meters, and it's expected that the performance will be continuously increased. At present, the Company is striving to stand out from the second echelon of the industry and move closer to the first echelon, striving to record a sales revenue of more than RMB10 billion by 2023. We believe that China's condiment industry is entering a new stage featuring steady growth, restructuring, large-scale and high-quality. The Company's brand advantages are strong. Coupled with the expansion of capacity scale and pipeline and capital support, the Company will continue to be beneficial from consumption upgrading in the future.

We expected diluted EPS of the Company to RMB 0.93 and 1.14 of 2019/2020. And we accordingly gave the target price to 37.3, respectively 40/33x P/E for 2019/2020. "Cautiously Accumulate" rating maintained. (Closing price as at 16 April 2019)

PE BAND



Source: Wind, Bloomberg, Phillip Securities Hong Kong Research

Risk

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

Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F	FY21F
Valuation Ratios						
P/E (X), adj.	75.2	60.2	44.9	36.7	29.9	24.0
P/B (X)	9.7	8.7	7.6	6.5	5.6	4.8
Dividend payout ratio(%)	30.8%	31.6%	30.2%	31.1%	31.5%	31.6%
Dividend Yield (%)	0.4%	0.5%	0.7%	0.8%	1.1%	1.3%
Per share data (RMB)						
EPS, (Basic)	0.45	0.57	0.76	0.93	1.14	1.42
EPS, (Diluted)	0.45	0.57	0.76	0.93	1.14	1.42
DPS	0.14	0.18	0.23	0.29	0.36	0.45
BVPS	3.51	3.94	4.52	5.22	6.08	7.14
Growth & Margins (%)						
Growth						
Revenue	14.5%	14.3%	15.4%	16.6%	18.6%	18.1%
EBIT	45.9%	26.5%	27.0%	19.3%	21.7%	23.5%
Net Income, adj.	45.8%	24.9%	34.0%	22.2%	22.7%	24.6%
Margins						
Gross margin	35.4%	37.9%	37.4%	37.9%	38.6%	39.8%
EBIT margin	16.8%	18.6%	20.5%	20.9%	21.5%	22.5%
Net Profit Margin	11.5%	12.6%	14.6%	15.3%	15.8%	16.7%
Key Ratios						
ROE	13.6%	15.3%	18.0%	19.1%	20.2%	21.5%
Income Statement (RMB mn)						
Revenue	3158	3609	4166	4857	5762	6803
Gross profit	1117	1369	1560	1839	2222	2705
EBIT	531	671	853	1017	1238	1529
Profit before tax	487	609	793	965	1184	1469
Tax	76	98	111	137	168	209
Profit for the period	411	511	681	828	1016	1260
Minority interests	48	58	74	86	105	125
Total capital share	797	797	797	797	797	797
Net profit	363	453	607	742	911	1135

Source: PSR

(Financial figures as at 16 April 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

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