

Want Want China (151.HK)

Product mix optimization continuing, expand emerging channels and digital marketing

China | Consumer | Company report

30 August 2019

Investment Summary

Want Want's revenue of FY 2018 increased by 2.8% y.o.y. Under the original accounting standards, revenue increased by mid-single digit. The ASP of the year also increased by mid-single digit, which means that the sales volume growth was flat. According to the management team, sales performance of Q1 in FY2019 was flat on y.o.y. basis due to the large base effect. Compared to the same period of 2017, it recorded a mid-single digit growth.

We expect revenue of FY2019 can remind a stable growth with the consideration of that the company will launch a number of new products this year and is expected to account for 2.5% to 3% of the total revenue. The company will also continue to expand emerging channels such as maternity, cold chain, vending machines and Hot-Kid theme stores. We expect this year's growth is mainly driven by sales volume. This year's new products include "Mr. Bond" series, "Queen Alice" series which aim to attract stylish urban ladies.

The GPM of FY2018 increased by 2.7 ppt. to 45.4%, thanked to the decrease in cost of certain key raw materials and the enhancement of product profitability. We expect the GPM of FY2019 to be further improve as the cost of certain key raw materials such as milk powder and packaging materials continue to decline, and the trend is expected to continue in the next two quarters, coupled with continued enhancement of profit profitability.

The operation cost of FY2018 increased by 4% y.o.y., while the proportion to revenue was 25.7%, which was similar to the previous year. The increase in management fees was due to the increase in staff salaries. The management team expect there will be an increase of advertising expenses in distribution expenses which will be invest mainly in emerging channels and new products.

Revenue from traditional channel shared 78% of the total revenue in FY2018, whereas e-commerce platform shared 4.5%, modern channels shared 11%, overseas market shared 5%. We expect that all channels will maintain the growth trend this year, and the e-commerce platform will continue to maintain rapid growth.

After the cross-sector co-branding activities between Want Want and brands in the fashion and apparel and beauty sectors, in April 2019, there was "Want at home" programme, which was the idea of launching furniture products such as Hot-Kid ball cakes couch and Want Want sugarcoated crackers table lamp. Soon after, the announcement regarding the "Hot-Kid seasoning" (such as savoury senbei powder and condensed milk) received over 200 million impressions. Netizens showed great interest and all are looking forward to the official launch of those products. We give forecast P/E ratio 21 times, the corresponding target price HKD6.71. (current price as of August 28, 2019)

Accumulate

CMP HKD5.97

(Closing price at 28 August 2018)

TARGET HKD6.71 (+12.4%)

COMPANY DATA

O/S SHARES (MN) :	12,422
MARKET CAP (HKDBN) :	74163
52 - WK HI/LO (HKD):	4.943/6.673

SHARE HOLDING PATTERN , %

Director Tsai Eng Meng	50.70
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PRICE PERFORMANCE , %

	1 個月	3 個月	1 年
Want Want	-3.91	4.44	-8.17
HSI	-8.8	-6.48	-9.65

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	20712	21230	21654	21979
Net Profit	3477	3704	3846	3975
EPS, RMB	0.28	0.30	0.31	0.32
PER, x	19.9	18.7	18.0	17.4
BVPS, RMB	1.24	1.35	1.46	1.57
P/BV, x	4.5	4.1	3.8	3.5
ROE, %	22.4%	22.0%	21.1%	20.2%

Source: Company, Phillip Securities Est.

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Business Overview

Financial performance review of FY2018

In 2018FY, the total revenue amounted to RMB20,712.0 million, representing an increase of 2.8% as compared with that of 2017FY. Profit attributable to equity holders of the Company for 2018FY amounted to RMB3,476.6 million, representing an increase of 11.6%.

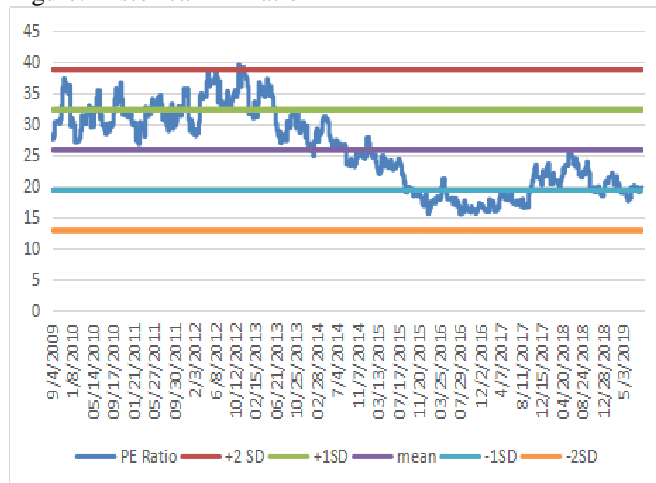
Revenue from rice crackers and snack foods segments was RMB5,813.5 million and RMB5,101.1 million respectively, representing a respective increase of 3.9% and 3.5% as compared with that of FY2017. The aggregate revenue from rice crackers and snack foods segments accounted for 52.7% of the total revenue.

According to the management team, with the development of overseas markets, rice crackers products with local characteristics will be launched in the future for each targeted market. Revenue from dairy products and beverages segment increased by 1.6% as compared with that of FY2017, amounted to RMB9,729.6 million and accounted for 47.0% of the total revenue.

Investment Thesis & Valuation

We give forecast P/E ratio 21 times, the corresponding target price HKD6.71. Potential investment risks include revenue growth or channel expansion missing expectation, raw material cost with huge volatility. (current price as of August 28, 2019)

Figure: Historical PE Ratio



Source: Bloomberg, Phillip Securities

Financials

FYE	2016	2017	2018E	2019E	2020E
Valuation Ratios					
Price to Earnings (P/E)	22.3	19.9	18.7	18.0	17.4
Price to Book (P/B)	4.8	4.5	4.1	3.8	3.5
Per Share Data (RMB)					
EPS	0.25	0.28	0.30	0.31	0.32
Book Value Per Share	1.17	1.24	1.35	1.46	1.57
Growth (%)					
Revenue	NA	2.8%	2.5%	2.0%	1.5%
Operating Income	NA	9.4%	6.9%	4.0%	3.5%
Net Profit	NA	11.6%	6.5%	3.8%	3.4%
Margins (%)					
Gross Profit Margin	42.7%	45.4%	46.4%	46.9%	47.4%
Operating Profit Margin	20.8%	22.1%	23.1%	23.5%	24.0%
Net Profit Margin	15.4%	16.7%	17.4%	17.7%	18.0%
Key Ratios					
ROE (%)	21.3%	22.4%	22.0%	21.1%	20.2%
ROA (%)	11.7%	11.6%	11.4%	10.9%	10.5%
Income Statement (RMB, M)					
Revenue	20150	20712	21230	21654	21979
- Cost of Goods Sold	-11539	-11312	-11382	-11502	-11564
Gross Income	8610	9400	9847	10153	10415
-SG&A expenses	-5120	-5323	-5456	-5565	-5648
Operating Income	8610	9400	9847	10153	10415
Pretax Income	4293	4806	5121	5317	5495
- Minority Interest	3116	3477	3704	3846	3975
Net Profit	20150	20712	21230	21654	21979

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate (0.9329) is one year HKD/CNY forward contract price on 28th August from Wind
(Financial figures as at 28th August 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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