

Jonjee Hi-Tech (600872 CH)

Production Capacity Increase and Channel Expanded Advanced Orderly

China | Food | Company Update

March 25 2020

Investment Summary

In Nearly 20% Increase in Earnings Last Year

Jonjee Hi-Tech reported revenues of RMB4675 million in 2019, an increase of 12.20% yoy; a net profit attributable to the shareholders of the listed company of RMB718 million, an increase of 18.19% yoy, and an EPS of RMB0.9 compared with an EPS of RMB0.76 last year. The result was basically in line with our expectations at the beginning of last year (3.2% lower than expectation). The cash dividend per share was RMB0.28, and the dividend payout rate remained 31%.

Condiment Business Result Remained Fast Growth with A Nearly 30% Increase In Profit, and Minor Categories Made Achievements

The result of company's condiment sector maintained a fast growth, the annual revenue of Meiweixian in 2019 was RMB4468 million, up by 15.98% yoy, an 6% increase in growth rate compared with last year; the company reported a net profit of RMB796 million, up 27.6% yoy. The accelerated growth of condiment results was mainly attributed to: (1) the Lunar New Year arrived earlier this year, and the delivery and expense settlement were advanced to the end of this year. (2) The overall cost of raw materials stayed low and the Company implemented a centralized management and control model of purchasing in 2019, bringing a RMB62 million reduction in procurement costs throughout the year (excluding grease). (3) The Company increased its investment in marketing promotion in immature regions, and the expense and revenue elasticity increased.

By products, soy sauce reported a revenue of RMB2.88 billion, up 11.23% yoy; chicken essence and chicken extract reported a revenue of RMB527 million, up 18.99% yoy; edible oil reported a revenue of RMB447 million, up 39% yoy; other condiments reported a revenue RMB580 million, a year-on-year increase of 26%.

By channels, household consumption reported a revenue of RMB3744 million, a 10.8% increase; catering consumption recorded a revenue of RMB1496 million, a 23.5% increase, and the proportion of catering channels increased by about 2 ppts to 28%. Catering exploitation yielded remarkable results.

By regions, the condiment revenue in the eastern, southern, mid-western, and northern regions increased by 12%, 12%, 25%, and 20%, respectively. The development of new regions in the mid-western and northern regions was enhanced. The Company newly developed 21 prefecture-level cities, which means 281 of the 337 prefecture-level cities nationwide have been developed, with a development rate of 83% and a 38% development rate at district and county level. At the end of 2019, the number of dealers was 1,051, and 187 were newly opened. It is expected that number of dealers would reach 1,300 by the end of 2020, up 24% yoy.

Gross Margin Increased, and Operational Efficiency Continued to Improve

Benefiting from the reduction of VAT rate, the slight decrease in the price of raw materials such as packaging materials and additives, and the decrease in manufacturing costs brought by the increase in production efficiency, the gross margin of Meijixian increased by 0.36 ppts to 39.56%, and the net profit margin increased by 1.49 ppts to 16.32%. The gross margin of soy sauce, chicken essence and chicken extract, edible oil, and other products was 45.82% / 39.46% / 13.06% / 28.32%, respectively, with changes of + 1.69 / -1.27 / -5.36 / + 2.86 ppts yoy. The scale effect of rising production and falling price of packaging materials are the main reasons for the increase in gross margin of soy sauce, while the price increase in raw materials is the reason for the decline in the gross margin of chicken extract and edible oil.

Accumulate (maintain)

CMP CNY 41.5

(Closing price as at 23 March)

TARGET CNY 45 (+8.4%)

COMPANY DATA

O/S SHARES (MN):	797
MARKET CAP (CNY MN):	33060
52 - WK HI/LO (CNY):	48.1/ 33.31

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	FY18	FY19	FY20E	FY21E
Net Sales	4166	4675	5362	6503
Net Profit	607	718	837	1042
EPS, CNY	0.76	0.90	1.05	1.31
P/E, x	54.4	46.1	39.5	31.8
BVPS, CNY	4.52	4.95	5.78	6.89
P/BV, x	9.2	8.4	7.2	6.0
DPS (CNY)	0.23	0.28	0.32	0.40
Div. Yield (%)	0.6%	0.7%	0.8%	1.0%

Source: Company reports, Phillip Securities Est.

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The period cost rate totalled 18.59%, a decrease of 0.9 ppts compared with the same period of last year, among which the sales expense decreased significantly, the sales expense rate and the administration expense rate down 0.91 ppts and 0.25ppts, respectively, and the operational efficiency continued to improve.

During the period, the Company's cash flow from operating activities recorded a net inflow of RMB1059 million, a significant increase of 46.3% yoy, which mainly attributed to the increase in the revenue of Meiweixian and the increase in the collection of loans and the revenue of Jonway housing sales, and the cash flow was greatly improved. %.

Production Capacity Increase and Channel Expanded Advanced Orderly

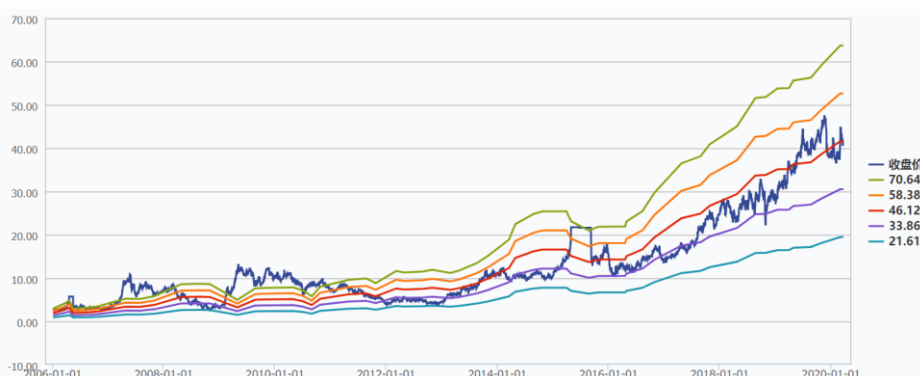
The Company mentioned the 5-Year Goal of Double Hundred, which was to reach 1 million tons of output and RMB10 billion in revenue by 2023. In order to achieve this objective, the Company has not only steadily promoted the second-phase expansion project of the Yangxi Plant, but also planned to invest RMB1275 million to upgrade and expand the Zhongshan Plant to increase the production capacity from the current 314,300 tons to 584,200 tons, of which the soy sauce production capacity would increase from 230,000 tons to 480,000 tons, and newly-added cooking wine production capacity would be 20,000 tons. The plan will be activated in March 2020 and completed by the end of 2022. It is estimated that the project will bring in a revenue increase of RMB1575 million and net profit of RMB355 million. On the other hand, channel sinking and employee incentives will be enhanced. The development rate of prefecture-level cities will be increased to 87.83%, and the development rate at district and county level will reach 46.23%. We-Media and online advertising will continue to be strengthened.

Investment Thesis

After Baoneng taking over the company, the improvement of the incentive mechanism and management efficiency will lay a foundation for the Company's long-term development. The narrowing of the gap with the first-tier companies is also expected to open up space for the company's growth.

We expected diluted EPS of the Company to RMB 1.05/1.31 of 2020/2021. And we accordingly gave the target price to RMB 45, respectively 43/34x P/E for 2020/2021. "Accumulate" rating maintained. (Closing price as at 23 March)

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	FY17	FY18	FY19	FY20F	FY21F
Valuation Ratios					
P/E (X), adj.	73.0	54.4	46.1	39.5	31.8
P/B (X)	10.5	9.2	8.4	7.2	6.0
Dividend payout ratio(%)	31.6%	30.2%	31.1%	30.5%	30.6%
Dividend Yield (%)	0.4%	0.6%	0.7%	0.8%	1.0%
Per share data (RMB)					
EPS, (Basic)	0.57	0.76	0.90	1.05	1.31
EPS, (Diluted)	0.57	0.76	0.90	1.05	1.31
DPS	0.18	0.23	0.28	0.32	0.40
BVPS	3.94	4.52	4.95	5.78	6.89
Growth & Margins (%)					
Growth					
Revenue	14.3%	15.4%	12.2%	14.7%	21.3%
EBIT	26.5%	27.0%	14.9%	14.7%	24.7%
Net Income, adj.	24.9%	34.0%	18.2%	16.6%	24.4%
Margins					
Gross margin	37.9%	37.4%	38.2%	38.2%	39.0%
EBIT margin	18.6%	20.5%	21.0%	21.0%	21.6%
Net Profit Margin	12.6%	14.6%	15.4%	15.6%	16.0%
Key Ratios					
ROE	15.3%	18.0%	19.6%	20.6%	20.5%
Income Statement (RMB mn)					
Revenue	3609	4166	4675	5362	6503
Gross profit	1369	1560	1788	2048	2537
EBIT	671	853	980	1124	1402
Profit before tax	609	793	928	1070	1342
Tax	98	111	137	152	191
Profit for the period	511	681	791	918	1152
Minority interests	58	74	73	81	110
Total capital share	797	797	797	797	797
Net profit	453	607	718	837	1042

Source: PSR

(Closing price as at 23 March)

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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