

Nissin Foods (1475 HK)

From Japan to China, Leading high-end instant noodles

Hong Kong | Consumer (Food & Beverage) | Update Report

13 April 2021

BUY (Maintain)

CMP HKD 6.03
(closing price as of 9 April)
TARGET HKD 7.54 (+25.0%)

Investment Summary

Nissin Foods announced its annual results for the year ended December 31, 2020 on March 18. The company's revenue in 2020 was HK\$3.52 billion (2019: HK\$3.09 billion), a year-on-year increase of 14.0%, in line with our expectation. The net profit was HK\$302 million, a year-on-year increase of 20.3%, which is lower than expected, mainly because the company's GPM is lower than our expectation. The company's annual GPM is 32.9%, which is similar to last year's level (2019: 32.8%). The company's net profit margin was 8.6%, an increase of 0.5 ppts year-on-year. The company's EPS were 28.11 HK cents, an increase of 20.33% over the same period last year. The company declared a final dividend of 14.05 HK cents per share, with a dividend payout rate of 50%.

Regarding the source of income, the company's revenue from Hong Kong business was HK\$1.42 billion, an increase of 9.1% year-on-year (2019: RMB 1.30 billion), accounting for 40.3% of the company's total revenue. This was mainly due to the epidemics last year. The demand for longer and easy to store products, such as instant noodles and frozen foods, has risen sharply. In the fourth quarter, with the relaxation of government policies, the growth rate also began to slow down significantly. In 20Q4, Hong Kong business revenue increased by 2.2% year-on-year, which was lower than the annual average. In 2020, revenue from China business recorded HK\$2.1 billion, accounting for 59.7% of the company's full-year revenue. Revenue increased by 17.5% year-on-year compared to 2019. If calculated in RMB, it was 18.6%. The growth exceeded our expectations. Starting from 20Q2, the company's new joint-venture distribution business in Shanghai started operating and contributed to the group's revenue.

Business normalization in 2021 is expected, revenue growth to slow down under high base

With the proper prevention and control of the domestic epidemic, there is little chance that the Covid-19 will break out again. In addition, Hong Kong people's anxiety about the epidemic has eased, and there is little chance of large-scale food hoarding. It is expected that demand will return to normal level. With a high base in 2020, the expected growth rate will slow down, which will put pressure on the company's revenue growth. In addition, the company faces continuous increases in the prices of raw materials such as palm oil and flour. The company's current palm oil inventory is sufficient for the company to use until March. In the future, it may control costs by adjusting product portion and mass purchases to ease the pressure of rising costs.

Valuation model adjustment

In terms of the revenue model, we maintain our previous forecast of the company's revenue. Considering the high base in 2020, we expect that the company's business in Mainland China and Hong Kong will change to +7.7%/flat in 2021, respectively. Taking into account the increase in product raw material prices, we lowered the company's expected GPM in 2021 to 32% (previously 34%) to reflect the company's cost pressure, and the expected impact will ease in the next year. In addition, the company's sales-expense ratio has also been lowered due to lower distribution costs in Shanghai. The company's overall net profit in 2021/2022 was adjusted to 322 million / 377 million Hong Kong dollars.

COMPANY DATA

O/S SHARES (MN) :	1074.32
MARKET CAP (HKD MN) :	7,413
52 - WK HI/LO (HKD):	9.65/5.59

SHARE HOLDING PATTERN, %

Nissin Foods Holdings Co., Ltd.	70.00
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PRICE VS. HSI



Source: Wind, PSHK

Key Financial

HKD mn	FY19	FY20	FY21E	FY22E
Net Sales	3,088	3,519	3,682	3,951
Net Profit	251	302	322	377
EPS, HKD cent	23.36	28.14	29.93	35.08
P/E, x	25.81	21.43	20.14	17.19
BVPS, HKD	3.34	3.63	3.78	3.99
P/BV, x	1.80	1.66	1.59	1.51
DPS (HKD cent)	11.70	14.05	14.97	17.54
Div. Yield (%)	1.94	2.33	2.48	2.91

Source: Company reports, Phillip Securities Est.

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Valuation and investment advice

Affected by the epidemic in 2020, the company's annual revenue performance was excellent, and its Hong Kong business revenue increased by 9.1% year-on-year. Under the current anti-epidemic control in Hong Kong, it is expected that in 2021, the company's business income in Hong Kong will return to a normal scale. The company has a large market share in the Hong Kong market and can maintain a certain level of income, but the company's income will grow Space is also limited. On the contrary, the company's main competitors in the industry are Uni-President Foods and Kangshi Chuan, etc., which is different from its main competitors in the domestic market, which have established a stable position in the domestic market. The future growth expectation is low. Nissin Foods is in its infancy in the country. At this stage, the domestic market share in China is low, and in an environment where domestic consumption levels are upgraded, the company has a competitive advantage in the high-end instant noodle market. In the past three years, the company's domestic revenue has recorded double-digit growth in RMB terms. Overall, we expect the company's revenue growth to slow in 2021. We expect that the company's FY21/FY22 net profit attributable to the parent will be HK\$322/ HK\$377 million, and FY21/FY22 EPS will be 29.93/35.08 HK cent. According to our DCF valuation model, the target price is adjusted from HKD 8.73 to HKD 7.54, which corresponds to the FY21/FY22 target market. Earnings ratio is 25.19x/21.49x, maintain Buy rating.
(Current price as of 9 April)

Key Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,088	3,519	3,682	3,951	4,243
COGS	(2,074)	(2,360)	(2,504)	(2,647)	(2,801)
Gross Profit	1,013	1,159	1,178	1,304	1,443
S&D expense	(455)	(471)	(515)	(553)	(636)
Admin expense	(222)	(243)	(258)	(277)	(297)
Other operating gain/(loss)	(16)	(35)	-	-	-
Operating Profit	321	409	405	474	509
Net finance income	32	24	45	50	50
Associated companies & JVs	0	0	0	0	0
Profit before tax	353	434	450	524	559
Tax	(74)	(101)	(94)	(110)	(117)
NCI	(28)	(31)	(34)	(37)	(41)
Profit for the year	251	302	322	377	401
EPS	23.36	28.14	29.93	35.08	37.34

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	25.81	21.43	20.14	17.19	16.15
P/B ratio, x	1.80	1.66	1.59	1.51	1.44
Dividend Yield, %	1.94	2.33	2.48	2.91	3.10

Per share data (RMB cent)

EPS	23.36	28.14	29.93	35.08	37.34
BVPS	334.12	362.62	378.48	398.60	418.40
DPS (HKD cent)	11.70	14.05	14.97	17.54	18.67

Growth & Margin

Growth					
Revenue Growth	3%	14%	5%	7%	7%
Operating income Growth	22%	28%	-1%	17%	7%
Net income Growth	20%	20%	6%	17%	6%
Margin					
Gross Profit Margin	33%	33%	32%	33%	34%
Operating profit Margin	10%	12%	11%	12%	12%
Net Profit Margin	8%	9%	9%	10%	9%

Key Ratios

ROE	7%	7%	8%	8%	8%
ROA	5%	6%	6%	6%	6%

(Closing price as of April 9)

source: PSHK

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	1,366	1,516	1,736	1,951	2,162
GoodWill	40	65	65	65	65
LT investment	33	33	33	33	33
Other	200	274	280	286	292
Total Non Current Assets	1,639	1,887	2,113	2,334	2,551
Current Asset					
T/R	421	509	514	552	593
Inventories	327	363	366	387	409
Restricted Bank deposits	105	508	508	508	508
Cash and cash equivalents	1,505	1,607	1,866	1,884	1,895
Others	637	310	217	217	217
Total Current Assets	2,995	3,297	3,471	3,547	3,622
Total Assets	4,634	5,184	5,584	5,882	6,173
Non Current Liabilities					
Deferred Income	20	20	20	20	20
Deferred tax liabilities	42	46	46	46	46
Operating lease	0	9	14	19	24
Total Non Current Liabilities	62	75	80	85	90
Current Liabilities					
T/P	214	235	412	435	460
B/P	586	743	743	743	743
Deferred Revenue	1	0	0	0	0
Others	58	87	102	117	125
Total Current Liabilities	859	1,065	1,257	1,296	1,329
Equity					
Share capital	2,941	2,941	2,941	2,941	2,941
Reserve	648	954	1,125	1,341	1,553
Non controlling interest	123	148	181	218	259
Total Equity	3,712	4,043	4,247	4,500	4,754
Total Liabilities and Equity	4,634	5,184	5,584	5,882	6,173

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20E	FY21E	FY22E	FY23E
EBITDA	347	447	449	523	562
Chg in working cap	185	37	221	(35)	(38)
Others	(49)	28	45	50	50
Tax	(55)	(20)	(40)	(94)	(110)
CFO	428	493	675	443	464
Capex	(209)	(250)	(250)	(250)	(250)
Others	16	-	-	-	-
CFI	(193)	(250)	(250)	(250)	(250)
Issue of Shares	-	-	-	-	-
Dividends paid	(122)	(126)	(151)	(161)	(188)
Others	(1)	(15)	(15)	(15)	(15)
CFF	(123)	(141)	(166)	(176)	(203)
Net Change in Cash	112	102	259	17	11
Foreign exchange	(23)	-	-	-	-
Cash and CE at Y/E	1,474	1,607	1,866	1,884	1,895

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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