

Nissin Foods (1475 HK)

Epidemic drives product demand, domestic high-end market grows well

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

7 June 2021

Investment Summary

On May 11, Nissin Foods announced its financial results (unaudited) for the three months ended March 31, 2021. In 1Q21, company revenue was approximately HK\$964 million, an increase of 9.0% Yoy. The GPM was 32.1%, which was flat as the same period last year. The net profit attributable to the parent recorded HK\$93 million, a Yoy decrease of 5.8%, mainly due to the increase in administrative expenses and marketing and promotion expenses during the period. The net profit attributable to the parent decreased by 1.5 pts to 9.7% Yoy.

Revenue increased YoY, Hong Kong business revenue returned to normal

Nissin Foods' revenue in the 1Q21 increased by 9.0% Yoy. By region, the company's revenue from Hong Kong business recorded HK\$336 million, a Yoy decrease of 6.3%. This was mainly due to the high base last year and the sales volume of instant noodles in bags decreased this year. Comparing to 1Q19, an increase of 4.1% was recorded. The revenue of China business increased by 19.5% Yoy to HK\$629 million. The appreciation of the CNY led to a boost in revenue. If calculated in CNY, it increased by 11.4% Yoy, mainly due to the organic growth of instant noodle business and the distribution business. The revenue side is in line with our previous expectations. After the extraordinary growth of Hong Kong business last year, it began to return to normal scale this year, while the domestic business continued to benefit from consumption upgrades and maintained double-digit growth. The company's expenses during the period increased, resulting in an increase in revenue but a decrease in net profit. The company recorded a net profit of HK\$93 million, a Yoy decrease of 5.8%. The administrative expense ratio increased by approximately 1.0 pts to 6.94%, and the sales and distribution expense ratio increased by approximately 0.7 pts to 12.03. %, the NPM decreased by 1.3 pts Yoy to 10.8%.

Raw material costs continue to rise, management lowers performance guidance

The continuous rise in the prices of raw materials such as palm oil and flour has brought cost pressures to the company. The company's palm oil inventory is only sufficient for the company to use until March. In Q2, the company is expected to face greater cost pressures. As of 20 May 2021, the average price of Chinese palm oil increased by more than 80% Yoy to CNY 9,153 per ton, rising to a high in the past ten years. The continued increase in cost is expected to put greater pressure on the company's gross profit in the second quarter. The company may adjust the portion of products and adopt large-scale purchases to control costs and ease the pressure of rising costs in the future. The management lowered the guidance for the full-year performance. The revenue from the mainland China business was lowered from the original +10% to MSD-HSD growth, and the annual net profit was lowered from +10% to +5%.

Invest in a new production line in Hong Kong to improve management efficiency

On May 11, the company announced that it would invest approximately HK\$194 million to integrate the company's production facilities in its production plant in Tai Po Industrial Estate, Hong Kong, and invest in the installation of new smart production lines to increase production capacity and management efficiency, and provide additional storage area can help reduce production costs in the long run. The construction period of the investment is expected to be completed in 2023. The utilization rate of the Hong Kong plant is higher than 80%, which can effectively improve production efficiency after further investment.

BUY (maintain)

CMP HKD 6.11

(Closing price as at 2 June)

TARGET HKD 7.54 (+23.4%)

COMPANY DATA

O/S SHARES (MN) :	1074.32
MARKET CAP (HKD MN) :	6,580
52 - WK HI/LO (HKD):	9.65/5.78

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	FY20E	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	26.16	21.71	20.41	17.42
BVPS, HKD	334.12	362.62	378.48	398.60
P/BV, x	1.83	1.68	1.61	1.53
DPS (HKD cent)	11.70	14.05	14.97	17.54
Div. Yield (%)	1.91	2.30	2.45	2.87

Source: Company reports, Phillip Securities Est.

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Valuation and investment thesis

Affected by the epidemic in 2020, the company's annual revenue performance was excellent. In Q1 of 2021, Hong Kong business revenue decreased by 6.3% Yoy. It is expected that in 2021, the company's revenue from business in Hong Kong will continue to 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 growth space is also limited. On the other hand, the company's business income in China increased by 19.5% Yoy. In an environment of upgrading domestic consumption levels, the company has a competitive advantage in the high-end instant noodle market. The company's main competitors in the industry are Uni-President Foods and Master Kong, which have a stable position in the domestic market and are expected to grow at a relatively low level in the future. Nissin Foods is in its early stage in China. China's domestic market share is low, and the company's domestic revenue in CNY has recorded double-digit growth in the past three years. Overall, we expect the company's revenue growth to slow in 2021. We maintain our previous expectations. The company's FY21/FY22 net profit attributable to the parent is HK\$322/377 billion, and FY21/FY22 EPS are 29.93 HK cents/35.08 HK cents. According to our DCF valuation model, the target price is maintained at HK\$7.54, Corresponding to FY21/FY22 target P/E of 25.19x/21.49x, maintain the buy rating.

(Current price as of 2 June)

Financials

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	26.16	21.71	20.41	17.42	16.36
P/B ratio, x	1.83	1.68	1.61	1.53	1.46
Dividend Yield, %	1.91	2.30	2.45	2.87	3.06

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%

(Current price as of 2 June)

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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