

Yankershop Food Co., Limited (002847.SZ)

The results for FY2023Q1 in line with expectations,
revenue growth momentum remains strong
China | Leisure Food

4 July 2023

Yankershop Food (002847.SZ), established in 2005, is a publicly traded company specializing in the research, development, production, and sales of snack foods, focusing on six core categories: spicy snacks, deep-sea snacks, baked goods, potato chips, konjac, and dried fruits. The company's snack product lines include the "Yankershop" series of savory snacks (deep-sea snacks, bean-based snacks, vegetarian snacks, meat and fish snacks, etc.) and the "Handou Baba" (憨豆爸爸) series of casual baked goods (cakes, bread, potato chips, jelly puddings, etc.). In addition to bulk packaging, the company also actively develops pre-packaged, small-sized, and large-sized products to meet the snacking needs of consumers in various scenarios. While maintaining coverage of Key-Account (KA) and AB-class supermarkets, the company also focuses on developing e-commerce, convenience stores (CVS), snack specialty stores, campus stores, and more. It has formed deep partnerships with popular snack brands such as Snack Busy (零食很忙), Snack Youming (零食有鸣), Dai Yonghong (戴永红), Haoxianglai (好想来), Wife Lady (老婆大人), Sugar Nest (糖巢), and Best Snacks (零食优选). The company also utilizes Tiktok and livestreaming to attract customers and expand sales channels.

In FY2022, Yankershop's total revenue reached RMB2.894 billion, a YoY increase of 26.83%. Net profit attributable to shareholders was RMB301 million, up 100.01% YoY. Non-GAAP Net profit was RMB276 million, a YoY increase of 201.47%. Among the product categories, all products achieved positive growth, except for dried fruit. In particular, casual baking (including snacks) generated RMB652 million in revenue, a YoY increase of 14.01%, accounting for 22.53% of operating income; deep-sea snacks generated RMB559 million in revenue, a YoY increase of 17.68%, accounting for 19.33% of operating income; meat, poultry, and egg products generated RMB 289 million in revenue, a YoY increase of 23.91%, accounting for 9.99% of operating income; potato chips generated RMB277 million in revenue, a YoY increase of 52.20%, accounting for 9.58% of operating income; and casual konjac products generated RMB257 million in revenue, a YoY increase of 120.32%, accounting for 8.90% of operating income. As of December 2022, the company had 2,483 distributors, a net increase of 734, covering all 31 provinces, autonomous regions, and municipalities in China.

The revenue growth momentum for FY2023Q1 remains strong

Entering Q1 FY2023, the company's business growth remained strong, with operating income reaching RMB893 million, a YoY increase of 55.37%. Net profit attributable to shareholders was RMB112 million (in line with the performance forecast of RMB100 million to RMB120 million), a YoY increase of 81.67%. Non-GAAP Net profit was RMB98.3524 million (in line with the performance forecast of RMB86.8 million to RMB106.8 million), a YoY increase of 100.33%; basic EPS were RMB0.88.

The company's strong revenue growth is mainly due to the low base last year and the continuous optimization of sales products and channels (including snack specialty channels, e-commerce channels, etc.). Core product categories achieved steady growth across all channels, such as casual konjac products, which grew by 120% in FY2022 and by more than 200% in FY2023Q1. During the period, the company's gross profit margin fell by 4.0 percentage points YoY to 34.6%, mainly due to the increasing proportion of low-margin channels (such as direct-operating KA supermarkets) and the decreasing proportion of high-margin channels (such as distribution and emerging channels). As a result, the company's sales expense ratio decreased by 6.3 percentage points YoY. With the decline in both management and financial expense ratios, the company's net profit margin in FY2023Q1 increased by 1.9 percentage points YoY to 12.6%.

Buy

CMP RMB 83.34

(Closing price as of 29 June)

Target RMB 103.23 (+23.9%)

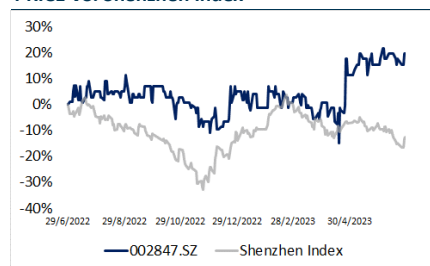
COMPANY DATA

O/S SHARES (MN) :	192.907
MARKET CAP (RMB MN) :	16351
52 - WK HI/LO (RMB):	139.50/78.01

SHARE HOLDING PATTERN, %

Hunan Yankershop Food Co., Limited	41.95%
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PRICE VS. Shenzhen Index



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY21	FY22E	FY23E	FY24E
Revenue	2,281.5	2,893.5	3,586.0	4,355.9
Net profit	150.7	301.5	439.0	535.6
Reported EPS	1.21	2.40	2.28	2.76
P/E ratio, x	66.5	33.6	35.4	29.1
Dividend Yield, %	1.2%	1.9%	1.1%	1.6%

Source: Company reports, Phillip Securities Est.

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Investment Thesis

Based on the performance evaluation requirements of the company's latest incentive plan for the three fiscal years FY2023 to FY2025, compared to FY2022, the revenue/net profit growth for FY2023 should not be less than 25%/50%, for FY2024 should not be less than 56%/95%, and for FY2025 should not be less than 95%/154%. In other words, the annual growth rates of revenue for FY2023/FY2024/FY2025 are ~25%/25%/25%, and the annual growth rates of net profit are ~50%/30%/30%. In terms of amount, the revenue for FY2023/FY2024/FY2025 should be no less than RMB 3.617/4.514/5.642 billion, and the net profit should be no less than RMB 0.479/0.623/0.812 billion. As all revenue and net profit targets for the FY2019 to FY2021 fiscal years were achieved, it is expected that the incentive plan can continue to improve employee motivation and have a greater positive impact on the company's medium-term revenue and profit growth. Looking at global snack industry leaders, many international snack brands (such as Mondelez and General Mills) are long-term bull stocks with consumer attributes that transcend cycles. Mondelez alone has a market value of nearly US\$ 100 billion. In contrast, the domestic snack market is still fragmented, so high-quality domestic brands have enormous development potential. We expect FY2023 to FY2024 EPS will be RMB2.28 and RMB2.76, respectively, and the PT will be RMB103.23, implies a FY2023E P/E of 45.4x (~3-yrs historical average minus 1 SD). Our investment rating is "Buy".

Risk factors

1) The momentum of macroeconomic recovery has slowed down; 2) The increase in raw material costs exceeded expectations; 3) Consumption of snack food is weaker than expected.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,958.9	2,281.5	2,893.5	3,586.0	4,355.9
COGS	(1,100.2)	(1,466.8)	(1,888.9)	(2,287.3)	(2,749.2)
Gross Profit	858.6	814.7	1,004.6	1,298.6	1,606.8
Taxes and surcharges	(16.6)	(20.3)	(27.9)	(32.3)	(39.3)
Sales expense	(471.3)	(505.4)	(457.3)	(537.1)	(664.3)
Administrative expenses	(96.1)	(119.0)	(130.9)	(174.6)	(212.6)
R&D expenses	(51.5)	(55.2)	(74.3)	(91.0)	(110.6)
Financial cost	(5.9)	(21.0)	(8.8)	(18.2)	(22.2)
Other income	61.0	75.9	35.6	47.8	58.8
Operating Profit	278.1	169.8	341.1	493.2	616.7
Non-operating income	0.2	0.4	0.6	0.6	0.7
Non-operating expenses	(4.6)	(3.1)	(8.8)	(8.1)	(9.8)
Profit before tax	273.7	167.1	332.8	485.7	607.6
Income tax	(31.6)	(12.8)	(31.0)	(46.1)	(71.4)
Shareholders Net profit	241.8	150.7	301.5	439.0	535.6
Reported EPS	1.94	1.21	2.40	2.28	2.76
DPS	1.00	1.00	1.50	0.91	1.27
Payout ratio	51.5%	82.6%	62.6%	40.0%	45.9%

Key Financial Data

Dec Y/E	FY20	FY21	FY22	FY23E	FY24E
Valuation Ratio					
P/S ratio, x	5.1	4.4	3.5	4.3	3.6
P/E ratio, x	41.5	66.5	33.6	35.4	29.1
Dividend Yield, %	1.2%	1.2%	1.9%	1.1%	1.6%

Per share data (RMB)

EPS	1.94	1.21	2.40	2.28	2.76
BVPS	6.64	6.75	8.82	7.02	8.81
DPS	1.00	1.00	1.50	0.91	1.27

Growth & Margin

Growth					
Revenue Growth	40.0%	16.5%	26.8%	23.9%	21.5%
Gross Profit Growth	31.3%	22.1%	37.5%	15.8%	21.6%
Operating Profit Growth	101.8%	-39.0%	100.9%	44.6%	25.0%
Net Profit Growth	88.8%	-37.7%	100.0%	45.6%	22.0%
Margin					
Gross Profit Margin	43.8%	35.7%	34.7%	36.2%	36.9%
Operating Profit Margin	14.2%	7.4%	11.8%	13.8%	14.2%
Net Profit Margin	12.3%	6.6%	10.4%	12.2%	12.3%

Key Ratios

ROE	29.6%	17.4%	30.0%	34.8%	34.2%
ROA	13.1%	7.3%	13.3%	16.4%	16.9%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY20	FY21	FY22	FY23E	FY24E
Non Current Asset					
PPE	925.6	1,009.7	940.9	1,026.7	1,170.8
Right-of-use asset	-	2.6	17.4	18.3	19.3
Others	307.3	384.7	443.5	460.3	472.0
Total Non Current Assets	1,232.9	1,397.0	1,401.8	1,505.3	1,662.2
Current Asset					
Inventory	351.8	259.1	453.4	525.5	683.6
Trade and other receivables	156.1	198.1	169.0	252.9	335.9
Bank balance and cash	180.4	134.5	202.9	404.1	531.9
Others	100.1	93.0	227.6	220.0	212.1
Total Current Assets	788.4	684.8	1,053.0	1,402.5	1,763.4
Total Assets	2,021.3	2,081.8	2,454.7	2,907.8	3,425.6
Current Liabilities					
Payables	210.4	241.6	276.9	384.1	537.0
Interest-bearing Borrowings	472.4	528.4	471.6	520.7	523.9
Other current Liabilities	327.2	410.7	393.8	390.8	388.9
Total current Liabilities	1,010.1	1,180.7	1,142.3	1,295.6	1,449.8
Non Current Liabilities					
Long-term debt	130.1	2.0	137.1	186.3	189.5
Others Non-current Liabilities	15.8	15.5	27.3	27.2	27.0
Total Non-Current Liabilities	145.9	17.5	164.4	213.4	216.5
Equity					
Shareholders' equity	858.9	873.1	1,134.9	1,385.1	1,744.9
Non-controlling interests	6.4	10.6	13.2	13.7	14.4
Total equity	865.3	883.6	1,148.1	1,398.8	1,759.2
Total Liabilities and Equity	2,021.3	2,081.8	2,454.7	2,907.8	3,425.6

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY20	FY21	FY22	FY23E	FY24E
CFO					
Profit after income tax	242.1	154.4	301.9	439.6	536.2
D&A add-back	95.9	129.3	140.4	144.2	150.7
Others	54.1	69.6	90.0	(0.9)	0.4
Net (inc)/dec working capital	(51.4)	124.6	(106.7)	(48.8)	(88.2)
Net cash flow from operating activities	340.6	477.9	425.5	534.0	599.2
CFI					
Purchase of PP&E and Investment	(358.5)	(332.8)	(262.1)	(251.4)	(311.8)
Others	10.6	10.5	10.7	9.1	9.7
Net cash flow from investing activities	(347.8)	(322.3)	(251.4)	(242.3)	(302.1)
CFF					
Net Borrowings	282.0	(72.2)	85.1	98.3	6.5
Others	(205.7)	(132.9)	(181.9)	(188.8)	(175.8)
Net cash flows from financing activities	76.3	(205.0)	(96.8)	(90.5)	(169.4)
Net Change in Cash	69.0	(49.5)	77.4	201.2	127.7

Current Price as of: June 29

Source: PSHK Est.

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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