

Growth on track

China F&B

Tingyi (322 HK, HK\$8.07)

HOLD (unchanged)

Target price: HK\$8.01 (-0.75%)

We attended the company's analyst meeting yesterday with the following key takeaways:

FY12/07F target. After a 23.16% YoY increase in turnover in 1Q FY12/07F, the company is confident it can achieve double-digit growth in turnover and EBITDA in FY12/07F.

Beverage expansion. The company plans to spend US\$343.0m in capex in FY12/07F (US\$200.0m in FY12/06A), mainly on 45 new beverage production lines. It currently operates 111 beverage, 170 noodle and 17 bakery production lines. In FY12/06A, Tingyi was China's second largest mineralized water producer with 11.6% of the market in terms of sales volume, after Wahaha, with 13.7%, according to AC Nielsen.

FY12/06A results in line. Turnover increased 26.3% YoY to US\$2,331.7m, driven by a 55.7% increase in beverage sales to US\$1,093.4m. Net profit came in at US\$148.9m, up 20.6%, in line consensus forecasts. A final dividend of US\$0.0138 (US\$0.0125 in 2005) was proposed and a special dividend of US\$0.0107 was recommended on 15 January 2007.

Beverage sales. Beverage sales generated 46.9% of the group's turnover (38.1% in FY12/05A) and instant noodles 45.1%. The bakery segment accounted for about 4.2% of sales.

Margin enhancement. All margins except the net margin improved in FY12/06A. An increase in the sales of high-margin beverage products as well as stable growth in packet and bowl noodles boosted the overall gross margin to 32.3% from 31.3% in FY12/05A. Distribution expenses as a percentage of total sales amounted to 19.1%, up 0.80pcp from a year ago. Raw material prices remained high in 2006.

Table 1: Final results

Year to Dec	Turnover (US\$m)	Gross profit (US\$m)	Gross margin (%)	Pre-tax profit (US\$m)	Tax rate (%)	Net profit (US\$m)	EPS Basic (US cents)
06A	2,331.7	752.4	32.3	236.7	8.8	148.9	2.66
05A	1,845.6	578.2	31.3	187.9	9.2	123.5	2.21
YoY (%)	26.3	30.1		26.0		20.6	20.4

Source: Company data

Table 2: Financial summary

Year to Dec	Net profit US\$m	EPS US\$	EPS Δ %	P/E x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gearing %
05A	123.5	0.022	(56.9)	46.8	6.6	20.2	2.2	14.8	11.0	Cash
06A	148.9	0.027	20.6	38.8	6.3	16.9	2.4	16.7	11.8	10.1
07F	183.5	0.033	23.2	31.5	5.3	14.2	2.5	18.3	12.0	12.3
08F	229.6	0.041	25.2	25.2	4.5	11.7	2.6	19.4	12.3	13.4
09F	272.3	0.049	18.6	21.2	4.4	9.9	3.1	21.0	12.5	15.4

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Table 3: Turnover breakdown

(US\$m)	2005	% of total	2006	% of total	% Change
Instant noodles	981.8	53.2	1,051.9	45.1	7.1
Beverages	702.4	38.1	1,093.4	46.9	55.7
Bakery	92.9	5.0	97.2	4.2	4.6
Others	68.6	3.7	89.3	3.8	30.2
Total	1,845.7	100.0	2,332.0	100	26.3

Source: Company data

High-end noodles boost growth. Instant noodle sales rose 7.1% to US\$1,051.9m, accounting for 45.1% of total group turnover (2005: 53.2%). At 43.3%, Tingyi had the largest share of China's instant noodles market. Its gross profit margin for noodles is estimated at around 26.6%, from 23.7% a year ago, boosted by the adjustment of its product mix and effective cost controls. According to AC Nielsen, high-end container noodles represented 61.5% of its China's market share in the noodle segment and high-end packet noodles 65.5%. "Fumanduo", the low-end noodles had about 14.6% of its market share, according to AC Nielsen.

Table 4: Instant noodle sales by products

(US\$m)	2005	2006	YoY %
Bowl	366	431	17.6
High end packet	350	399	13.8
Low end packet	232	201	(13.3)
Others	34	21	(36.7)
Total	982	1,052	7.1

Source: Company data

Bottled water sales up 143%. Beverage sales rose 55.7% YoY to US\$1,093.4m in FY12/06A, accounting for 46.9% of total turnover, compared with 38.1% in FY12/05A. Bottled water sales surged 140.0%, ready-to-drink (RTD) tea 56.0% and juice 37.0%. In terms of value, Tingyi dominated China's RTD tea market with its share of 53.6%. It ranked second in bottled water with 11.0% and third in diluted juice with 22.2%. The gross margin of the beverage segment narrowed to 38.6% as the prices of major raw materials remained high in 2006. The sales of mineralized water grew 159.0% in volume and 143.0% in value. According to Euromonitor International 2006, China's bottled water market grew at a 19.8% CAGR in 2003 –2005.

Stable bakery growth. Bakery sales rose 4.6% YoY to US\$44.0m in FY12/06A. Tingyi ranked second with a 22.2% market share in China's sandwich cracker market, according to AC Nielsen. The division's gross margin widened 0.6pcp to 39.3% in FY12/06A.

Valuation. We have fine tuned our net profit forecast to RMB183.5m from RMB190.5m for FY12/07F to factor in slightly slower-than-expected sales of low-end instant noodles. We have lifted our FY12/08F net profit estimate by 3.9% to RMB229.6m to reflect Tingyi's solid earnings growth and our target price to HK\$8.01 based on the 1x PEG for FY12/08F. We reiterate our HOLD call as the company is now trading at FY12/07F 31.5x P/E (PEG of 1.4x) and FY12/08F P/E of 25.2x (PEG of 1x), based on our earnings forecast.

Table 5: Peer comparison

Company	Ticker	Currency	Price	Mkt Cap. (US\$m)	His P/E (x)	Fwd Yr. 1 (x)	Fwd Yr. 2 (x)	ROE (%)	FY06 PEG (x)
Uni-President	1216 TT	TWD	34.3	3,465.7	55.3	26.6	22.6	4.9	5.3
Want Want	WANT SP	USD	1.99	2,564.8	20.0	13.9	12.6	18.5	na
Indofood	INDF IJ	IDR	1,630	1,695.5	21.1	23.2	18.6	14.3	0.5
Thai-President Food	TF TB	THB	400	288.1	11.8	-	-	16.8	na
Coca-Cola	KO US	USD	51.52	119,283.7	21.1	19.9	18.1	30.5	2.2
Nissin Food	2897 JP	JPY	4,500	4,842.8	29.9	26.8	26.2	6.6	na
Kirin Brewery	2503 JP	JPY	1,770	14,712.7	6.3	29.2	32.0	5.4	2.9
Tingyi	322 HK	HKD	8.07	5,769.7	31.5	25.2	21.2	16.7	1.4
Average					24.6	23.5	21.6	14.2	2.5

Source: Bloomberg & SBI E2-Capital