

Solid 1H FY12/08A

BUY (unchanged)

Solid 1H FY12/08A. Turnover increased 36.4% YoY to US\$2,049.3m, including US\$982.5m (up 49.4%) from the instant noodle segment, US\$943.0m (up 25.2%) from the beverage segment, US\$67.9m (up 43.0%) from the bakery segment and the remainder from other products. Most products expanded their market shares RTD tea. The blended gross margin widened 0.2pcp to 32.9%. Net profit rose 33.2% to US\$127.6m.

China consumer

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Table 1: Beverage sales value in China

| | 1H 07A | 1H 08A | YoY change (%) |
|---------------------------|----------------|----------------|-------------------------|
| Turnover (US\$m) | 1,502.8 | 2,049.3 | 36.4 |
| Instant noodles | 657.7 | 982.5 | 49.4 |
| Beverage | 753.2 | 943.0 | 25.2 |
| Bakery | 47.5 | 67.9 | 43.0 |
| Others | 44.4 | 55.9 | 25.8 |
| Net profit (US\$m) | 95.8 | 127.6 | 33.2 |
| | | | YoY change (pcp) |
| Gross margin (%) | 32.7 | 32.9 | 0.2 |
| Instant noodles | 24.1 | 24.8 | 0.8 |
| Beverage | 38.4 | 39.3 | 0.9 |
| Bakery | 37.2 | 38.3 | 1.2 |
| Others | 32.7 | 33.4 | 0.7 |

Source: Company data

Table 2: Tingyi's market occupation (%)

| | By volume | | By value | |
|----------------------|-----------|--------|----------|--------|
| | Jun-08 | Jun-07 | Jun-08 | Jun-07 |
| Instant noodle | 33.4 | 33.9 | 46.4 | 45.7 |
| RTD tea | 42.1 | 50.9 | 41.3 | 50.4 |
| Diluted juice drinks | 17.8 | 17.6 | 16.7 | 16.2 |
| Bottle water | 22.8 | 18.6 | 20.8 | 17.3 |

Source: ACNielsen

Cost pressure to ease. Despite a 62.0% increase in the price of palm oil, the gross margin of the instant noodle segment widened 2.0pcp to 26.0% in 1H FY12/08A mainly due to selling price adjustments in 2007, better cost controls and product mix changes. Sales of high-margin bowl noodles and high-end packet noodles surged 54.5% and 56.5%, respectively, to US\$432.0m and US\$389.0m. In 2H, we expect the margin to widen further as the palm oil price weakened in July.

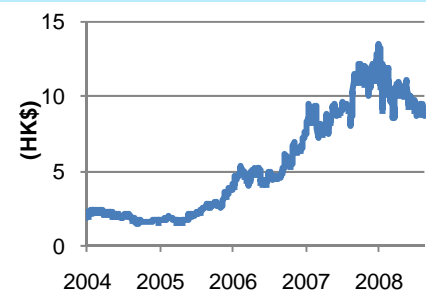
Stock data

| | |
|-------------------------|------------------|
| Price | HK\$8.83 |
| Target price | HK\$11.25 (+27%) |
| 12 mth range | HK\$8.44 – 13.56 |
| Market cap. | US\$6,330.8m |
| Daily t/o, 3 mth | US\$6.5m |
| Free float % | 25.1% |
| Ticker | 322.HK/0322 HK |

Financial summary

| Year to Dec | 06A | 07A | 08F | 09F | 10F |
|--------------------|---------|---------|---------|---------|---------|
| Turnover (US\$m) | 2,331.7 | 3,215.4 | 4,387.1 | 5,182.3 | 5,999.3 |
| Net profit (US\$m) | 148.9 | 194.8 | 268.6 | 321.1 | 376.5 |
| EPS (US\$) | 0.027 | 0.035 | 0.048 | 0.057 | 0.067 |
| EPS Δ % | 20.4 | 31.2 | 37.7 | 19.5 | 17.3 |
| P/E (x) | 42.6 | 32.4 | 23.6 | 19.7 | 16.8 |
| P/B (x) | 6.93 | 6.16 | 5.52 | 4.93 | 4.42 |
| EV/EBITDA (x) | 18.9 | 13.9 | 10.6 | 9.1 | 8.0 |
| Yield (%) | 2.2 | 2.4 | 2.9 | 3.6 | 4.3 |
| ROE (%) | 16.7 | 20.1 | 24.7 | 26.4 | 27.8 |
| ROCE (%) | 17.7 | 19.7 | 25.1 | 30.9 | 32.6 |
| N. Gear. (%) | 11.7 | 16.0 | 19.3 | 16.9 | 13.3 |

Price Chart



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Chart 1: Malaysian palm oil board crude palm oil fob spot price (MYR/tonne)



Source: Bloomberg

RTD tea to regain market share. The company's share of the RTD tea market declined 8.9pcp to 41.3% in June in terms of sales value mainly due to: 1) changes in ACNielsen's database to include milk tea, which accounts for around 6.0% of the new RTD tea market. Tingyi has not yet launched its own milk tea product; 2) Coca Cola's new RDT tea ("原葉") series launched in March. Tingyi expects its market share to recover in 3Q as its marketing activities, affected by the Sichuan earthquake and abnormal weather conditions in 1H, return normal in 2H.

Forecast adjustments and valuation. The interim results are in line with our expectations. Fine tuning our forecasts, we expect the company's turnover to increase 36.4% in FY12/08F to US\$4,387.1m and net profit 37.9% to US\$268.6m. We maintain our view that the company is a defensive player in the current inflationary environment which should benefit from China's rising consumption. Our target price for the counter is unchanged at HK\$11.25.

Table 3: P&L

| Year to Dec (US\$m) | 06A | 07A | 08F | 09F | 10F |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 2,331.7 | 3,215.4 | 4,387.1 | 5,182.3 | 5,999.3 |
| Cost of sales | (1,579.3) | (2,199.9) | (3,010.6) | (3,550.9) | (4,103.4) |
| Gross profit | 752.4 | 1,015.5 | 1,376.5 | 1,631.4 | 1,895.9 |
| Other net income | 37.4 | 51.3 | 76.0 | 70.0 | 72.0 |
| Distribution expenses | (445.8) | (614.9) | (830.2) | (970.4) | (1,111.3) |
| Administrative expenses | (56.2) | (73.2) | (95.5) | (107.6) | (118.6) |
| Other operating expenses | (47.0) | (50.2) | (67.4) | (65.9) | (74.4) |
| Finance costs | (10.9) | (19.4) | (21.9) | (23.3) | (24.0) |
| Share of results of associates | 6.9 | 8.1 | 9.7 | 10.7 | 11.7 |
| Profit before taxation | 236.7 | 317.2 | 447.1 | 544.9 | 651.3 |
| Income tax | (23.9) | (36.3) | (57.9) | (78.7) | (103.8) |
| Profit for the period | 212.8 | 280.9 | 389.3 | 466.2 | 547.5 |
| Attributable to: | | | | | |
| Equity holders of the Company | 148.9 | 194.8 | 268.6 | 321.1 | 376.5 |
| Minority interests | 63.9 | 86.1 | 120.6 | 145.1 | 171.0 |
| EPS - Basic (US\$) | 0.027 | 0.035 | 0.048 | 0.057 | 0.067 |
| Proposed DPS (US\$) | 0.025 | 0.027 | 0.033 | 0.041 | 0.049 |
| Proposed dividend | 136.9 | 150.3 | 184.4 | 229.1 | 273.8 |

Source: Company data, SBI E2-Capital