

## Results Update

# Tibet 5100 Water Resources

1115 HK

## Concerns regarding renewal of contract with China Railway Express

- Tibet 5100 recorded net profit attributable to shareholders of HKD441.3m in FY12/13, a YoY increase of 7.4%.
- Growth in net profit was driven by revenue contributions from its newly acquired beer business; its mineral water business saw a YoY decline in sales.
- Its contract with CRE expired in Dec 2013 and has not yet been renewed. We regard this as a material risk to the business as CRE accounted for ~41.0% of its total sales in FY12/13.
- We expect its beer business to continue to grow, but will drag down its blended gross margin going forward.

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**Stock Data (1115 HK)**

Rating	Not Rated
Price (HK\$)	3.21
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	2.29-3.88
Market cap. (HK\$m)	8,246.1
Daily t/o (HK\$m)	25.8
Free float (%)	50.5

Source: Bloomberg

**What's new:** Tibet 5100, a PRC company mainly engaged in the production and sale of mineral water and beer products in mainland China, announced its annual results for FY12/13 last week, and we attended the results presentation to obtain more updated information on the company.

In FY12/13, total revenue of the company was up 15.4% YoY to RMB786.9m. The increase was mainly due to revenue contributed from its new business – the sale of beer products – that the company acquired during the year. However, the company recorded a YoY decline in sales of its mineral water products of 5.1%, from RMB682.1m in FY12/12 to RMB647.4m in FY12/13.

As for its profit, the company recorded net profit attributable to shareholders of RMB441.3m, a 7.4% YoY increase. Net profit grew at a slower rate than did revenue because of margin erosion (FY12/13: 73.2%; FY12/12: 81.4%), as well as because of a decrease in net finance income (FY12/13: RMB20.2m; FY12/12: RMB30.5m).

The board proposed a final dividend of HK8.0 cents per share for FY12/13 (FY12/12: HK6.0 cents per share), representing a payout ratio of 46.6% (FY12/12: 37.5%).

**Figure 1: Financials and valuation**

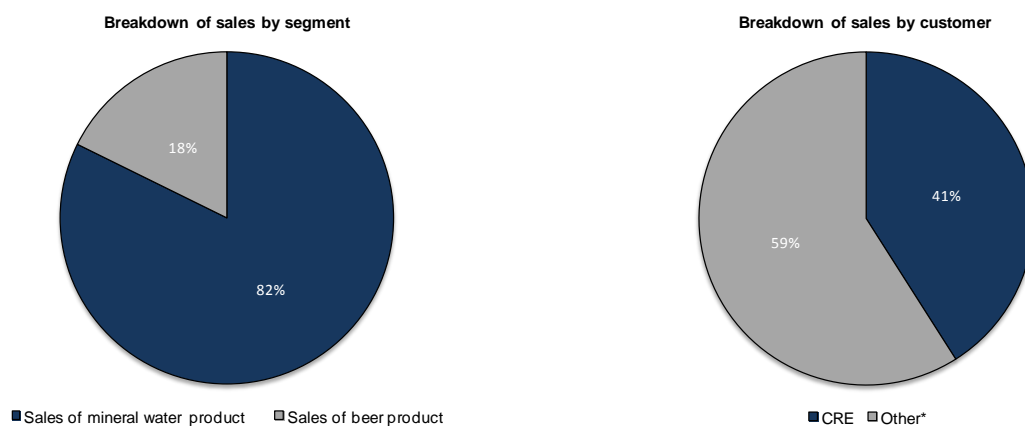
	FY12/11	FY12/12	FY12/13
<b>Total revenue (RMB '000)</b>	<b>633,169</b>	<b>682,050</b>	<b>786,856</b>
Revenue growth (YoY)	75.6%	7.7%	15.4%
<b>EBIT (RMB '000)</b>	<b>440,875</b>	<b>478,964</b>	<b>529,457</b>
EBIT growth (YoY)	227.4%	8.6%	10.5%
<b>Net profit (RMB '000)</b>	<b>373,063</b>	<b>410,722</b>	<b>460,915</b>
Net profit growth (YoY)	223.8%	10.1%	12.2%
EPS (RMB cents)	16.18	15.99	17.18
DPS (HKD cents)	3.00	6.00	8.00
P/E (x)	15.57	15.76	14.66
Dividend yield	0.9%	1.9%	2.5%

Source: The company

**Renewal of contract with CRE remains uncertain:** One concern that we have for the company is that its revenue concentration risk remains high. Currently, China Railway Express Co. Ltd (“CRE”), which is a procurement agent for The Ministry of Railways of the PRC (“MOR”), is the largest client of the company in terms of sales, accounting for ~41.0% of its total revenue. Although this proportion has come down over the past few years (FY12/11: 62.0%; FY12/12: 47.0%), and the company is looking to further reduce the proportion to 20.0%, revenue from CRE still currently accounts for a very significant proportion of its sales.

More importantly, the contract that the company had with CRE expired in Dec 2013, and the company’s management informed us that it has not yet renewed it. In other words, it is still unclear whether China Railway will continue to contribute revenue to the company in the years to come. Even though CRE has been its client for a long time (their first purchasing agreement was signed in 2007), there are still some uncertainties as to whether the company can keep this client going forward. In case it fails to renew its contract with China Railway, the company’s revenue, as well as its profit, will see a significant decline.

Figure 2: Revenue breakdown by segment and customer

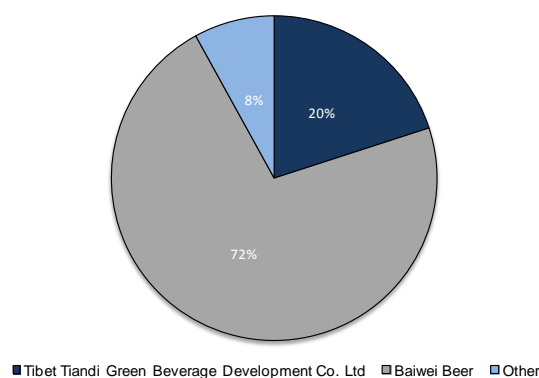


Source: The company

\*Other include commercial banks, airlines, government organizations, and other corporations in China

**Beer business will continue to grow, but blended GPM will be dragged down:** The beer business of Tibet 5100 operates through a company called Tibet Tiandi Green Beverage Development Co. Ltd, of which the company acquired a 30.0% equity interest in Jun 2013. We think its beer business will grow steadily given that 86.0% of its beer products are consumed in Tibet, where the consumption of beer is a strong habit for local people, and its brand, 青稞啤酒, is well-known with a local market share of 20.0% (See fig 3). However, as the production process of beer is more complicated than that of mineral water, beer products command a low gross margin as compared to water products (35.5% vs. 81.2% in FY12/13, respectively). This also explains why the blended gross margin in FY12/13 was down from 81.4% in FY12/12 to 73.2% in FY12/12. We believe that the gross margin still has room to narrow if the company’s beer business continues to expand in the future.

Figure 3: Market share breakdown of the beer industry in Tibet



Source: Wind

**Valuation:** Valuation wise, at a market price of HKD3.21 per share, the company is trading at a historical P/E of 14.0x, which is higher than its 3-year average of 10.2x. Although it is trading at a discount to its peers, which on average are trading at 27.2x historical P/E for 2013, we believe the discount is justified because it has i) higher downside risk on profit as mentioned above, ii) lower market capitalization, and iii) lower transaction volume.

Figure 4: Peer Comparison

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2013E P/E (x)	2014E P/E (x)	P/book (x)	ROIC (%)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
<b>Tibet 5100 Water Resources</b>	<b>1115 HK</b>	<b>8,246.15</b>	<b>25.82</b>	<b>14.95</b>	<b>N.A</b>	<b>2.92</b>	<b>17.84</b>	<b>19.85</b>	<b>18.49</b>	<b>1.86</b>	<b>-60.50</b>
Want Want China	151 HK	158,017.81	161.57	29.65	26.13	10.49	19.94	38.84	17.60	2.26	(41.08)
Tingyi	322 HK	128,717.32	100.32	40.62	31.21	5.76	8.06	15.04	5.14	1.23	11.13
Uni-President	220 HK	24,476.23	28.01	21.35	26.54	2.40	2.68	11.59	5.16	0.94	56.37
China Food	506 HK	7,944.11	12.18	N.A	46.56	1.20	(0.53)	(5.81)	(2.14)	0.00	13.57
Huiyuan Juice	1886 HK	11,181.54	13.25	32.67	28.49	1.49	0.14	3.51	1.61	0.00	34.37
Tsingtao Brewery	168 HK	70,691.70	69.20	31.01	26.85	4.36	N.A	14.90	7.73	N.A	(46.78)
Sun Miguel Brewery	236 HK	534.21	0.12	20.43	N.A	0.93	(1.70)	4.67	2.83	0.70	(24.45)
Dynasty Fine Wines	828 HK	1,797.41	N.A	N.A	N.A	0.90	(2.60)	(2.63)	(2.10)	0.00	(19.73)
<b>Average</b>		<b>45,734.05</b>	<b>51.31</b>	<b>27.24</b>	<b>30.96</b>	<b>3.38</b>	<b>5.48</b>	<b>11.11</b>	<b>6.04</b>	<b>0.87</b>	<b>(8.57)</b>

Source: The company, SBI E2-Capital

**Risks:** Major risks include: 1) Failure to renew its contract with CRE; 2) the potential for contamination scandals with its mineral water; 3) increases in market competition which may lead to greater price competition; 4) reduction in factory utilization rates; 5) increases in interest rates raising borrowing costs; and 5) decreases in demand for beer in Tibet.

Figure 5: Per share items

	FY12/11	FY12/12	FY12/13
EPS (RMB cents)			
- basic & diluted	16.2	16.0	17.2
DPS (HKD cents)	3.0	6.0	8.0
BVPS (RMB cents)	72.2	85.7	106.3

Source: The company, SBI E2-Capital

Figure 6: Ratio analysis

	FY12/11	FY12/12	FY12/13
<b>Growth (YoY)</b>			
Revenue	75.6%	7.7%	15.4%
Gross profit	114.8%	11.3%	3.8%
Operating profit	227.4%	8.6%	10.5%
Net profit	223.8%	10.1%	12.2%
<b>Margins</b>			
Gross margin	78.8%	81.4%	73.2%
EBIT margin	69.6%	70.2%	67.3%
Net profit margin	58.9%	60.2%	58.6%
<b>Other ratios</b>			
Return on average assets	29.9%	17.6%	15.0%
Return on average equity	34.9%	20.3%	18.7%
Dividend payout ratio	18.5%	37.5%	46.6%
<b>Valuation measures</b>			
P/E (x)	15.6	15.8	14.7
P/B (x)	3.5	2.9	2.4
Dividend yield	0.9%	1.9%	2.5%

Source: The company, SBI E2-Capital

Figure 7: Income statement (RMB '000)

	FY12/11	FY12/12	FY12/13
Revenue	633,169	682,050	786,856
Cost of sales	(134,377)	(127,035)	(210,954)
<b>Gross profit</b>	498,792	555,015	575,902
Other income	105,509	94,976	159,713
SG&A	(163,426)	(171,027)	(206,158)
<b>Operating profit</b>	440,875	478,964	529,457
Net finance income	14,041	30,485	20,217
Share of profit of an associate		-	17,525
<b>Profit before taxation</b>	454,916	509,449	567,199
Income tax	(81,853)	(98,727)	(106,284)
<b>Profit for the year</b>	373,063	410,722	460,915
Profit attributable to shareholders	373,063	410,722	441,280
Minority interest	-	-	19,635

Source: The company, SBI E2-Capital

Figure 8: Balance sheet (RMB '000)

	FY12/11	FY12/12	FY12/13
<b>Non-current assets</b>			
Land use rights	1,268	1,239	32,865
Property, plant and equipment	283,054	303,801	695,523
Intangible assets	-	-	198,810
Goodwill	-	-	721,139
Deferred income tax assets	3,106	9,248	8,398
Prepayments	13,111	5,592	4,177
Investment in an associate	-	595,000	-
<b>Total non-current Assets</b>	<b>300,539</b>	<b>914,880</b>	<b>1,660,912</b>
<b>Current assets</b>			
Trade receivables	356,300	340,243	453,432
Prepayments	24,345	14,230	36,482
Other receivables and other assets	39,802	20,690	66,526
Inventory	22,053	14,575	54,087
Pledged and term deposits	588,310	106,543	-
Cash and cash equivalent	704,864	1,232,327	985,416
<b>Total current assets</b>	<b>1,735,674</b>	<b>1,728,608</b>	<b>1,595,943</b>
<b>Total assets</b>	<b>2,036,213</b>	<b>2,643,488</b>	<b>3,256,855</b>
<b>Current liabilities</b>			
Trade payables	49,369	58,530	72,766
Deferred revenue and advances received from customers	41,340	21,641	22,929
Enterprise income tax payable	9,973	22,973	19,855
Accruals and other payables	59,859	308,494	144,191
Borrowings	-	-	195,694
<b>Total current liabilities</b>	<b>160,541</b>	<b>411,638</b>	<b>455,435</b>
<b>Non-current liabilities</b>			
Deferred revenue	11,267	12,308	21,749
Deferred income tax liabilities	10,413	17,260	50,218
<b>Total non current liabilities</b>	<b>21,680</b>	<b>29,568</b>	<b>71,967</b>
<b>Net assets</b>	<b>1,853,992</b>	<b>2,202,282</b>	<b>2,729,453</b>
<b>Equity</b>			
Share capital	21,363	21,363	21,363
Share premium	1,206,829	1,206,829	1,206,829
Reserves	142,589	177,781	195,525
Retained earnings	483,211	796,309	1,073,753
Total shareholder's equity	1,853,992	2,202,282	2,497,470
Minority interest	-	-	231,983
<b>Total equity</b>	<b>1,853,992</b>	<b>2,202,282</b>	<b>2,729,453</b>

Source: The company, SBI E2-Capital

Figure 9: Cash flow statement (RMB '000)

	FY12/11	FY12/12	FY12/13
<b>Operating cash flow</b>			
Cash generated from operations	215,060	571,318	467,719
Interest received	3,073	33,330	19,070
Income tax paid	(60,924)	(85,022)	(121,947)
<b>Net cash flow from operating activities</b>	<b>157,209</b>	<b>519,626</b>	<b>364,842</b>
<b>Investing Activities</b>			
Acquisition of a subsidiary	0	0	(253,614)
Purchases of PP&E and other assets	(33,325)	(44,568)	(424,143)
Proceeds from disposal of PP&E and other assets	0	17,113	424,077
Payment receive/ (repay) to third parties	0	0	(60,000)
Investment in an associate	0	(370,600)	(224,400)
Government grant received	0	1,470	0
Net decrease / (increase) in term deposits	(567,490)	467,490	100,000
<b>Cash flow from investing activities</b>	<b>(600,815)</b>	<b>70,905</b>	<b>(438,080)</b>
<b>Financing activities</b>			
Repayment of loans	(94,113)	0	0
Payment of issuance cost	(84,404)	0	0
Issuance of ordinary shares	1,317,693	0	0
Repayments of borrowing from government	0	0	(50,000)
Dividend paid	0	(62,976)	(122,752)
<b>Cash flow from financing activities</b>	<b>1,139,176</b>	<b>(62,976)</b>	<b>(172,752)</b>
Net increase in cash and cash equivalent	695,570	527,555	(245,990)
Cash and cash equivalents at the beginning of the year	34,783	704,864	1,232,327
Effect of foreign rate exchange	(25,489)	(92)	(921)
Cash and cash equivalents at the end of the year	704,864	1,232,327	985,416

Source: The company, SBI E2-Capital

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