

Results sound

HOLD (unchanged)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (US\$m)	3,215.44	2,721.15	2,077.76	1,449.7	1,099.4
Net Profit (US\$m)	194.8	260.4	345.2	378.0	392.9
EPS (US\$)	0.035	0.047	0.062	0.068	0.070
EPS Δ%	31.2	33.5	32.6	9.5	3.9
P/E (x)	34.5	25.8	19.5	17.8	17.1
P/B (x)	6.55	5.57	4.73	4.12	3.70
EV/EBITDA (x)	14.8	11.2	8.8	7.9	7.3
Yield (%)	2.2	1.9	2.5	3.1	3.7
ROE (%)	20.1	23.3	26.3	24.7	22.8
ROCE (%)	19.7	20.2	24.3	27.9	26.9
N. Gear. (%)	16.0	18.8	15.6	11.8	10.4

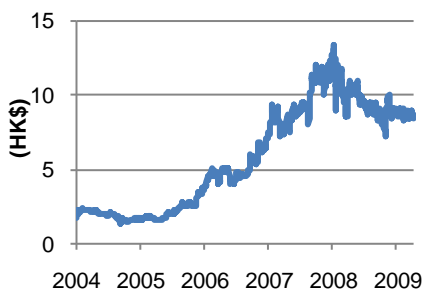
Source: SBI E2-Capital

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-6.5	-13.1	+50.2
Actual price changes (%)	+11.4	+4.9	-7.9

	09F	10F	11F
Consensus EPS (US\$)	0.055	0.065	0.076
Previous forecasts (US\$m)	339.7	363.3	
Previous EPS (US\$)	0.061	0.065	

Price Chart



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Beijing Olympic Games, which deviated consumption from its normal pattern and, accordingly, the company held some marketing activities to maintain efficiency; 2) inappropriate price adjustment at the year beginning (the company raised selling prices with intention to pass on incremental raw materials costs, versus further price cuts by competitors). Looking forward, management believes Coca-Cola will be a major challenger given the latter's abundant experience and resources. Nevertheless, Yuanye ('原葉'), Coca-Cola's sub-brand for RDT tea products, is relatively quite in the market so far this year possibly because: 1) weakened support from US head office due to the financial crisis; 2) Coca-Cola's priority on juice drink market at this moment. Hence, we reckon 2009 will be a recovery year for Tingyi, but pressure may come thereafter.

Juice drink (~US\$327.1m). Market share was relatively stable last year at 16.3% (2007: 17.8%). As the company's concentration is still on bottled water business, we do not expect any major progress of this sub-segment in short

Ticker:	0322.HK	12 mth range:	HK\$6.6-11.4
Price:	HK\$9.39	Market cap:	US\$6,725.6m
Target:	HK\$9.64 (+3%)	Daily t/o, 3 mth:	US\$4.3m
		Free float %:	30.0%

Key points:

- * FY12/08A results within expectation.
- * Instant noodle in solid expanding mode.
- * Bottled water to regain market share after rumors ceased.
- * RDT tea to recover but pressure exists for long term.
- * Minor forecast adjustments with target price up to HK\$9.64.

Results in line. Revenue rose 32.9% to US\$4,272.1m, comprising US\$2,084.8m from instant noodles, up 40.1% YoY, US\$1,924.1m from beverage, up 26.7% YoY, US\$149.9m from bakery, up 36.7% YoY, and US\$113.2 from others, 14.9% YoY. Gross margin enhanced 0.6pcp to 32.2%. Net profit increased 33.7% to US\$260.4m (our forecasts: turnover US\$4,337.7m, net profit: US\$249.3m). A final dividend of US\$0.0233 was declared (FY12/07A: US\$0.0162) together with nil special dividend (FY12/07A: US\$0.0106). The management explained the decision to discontinue paying special dividend was based on consideration of an appropriate ROE level, capex and working capital requirements as well as a prudent attitude towards present financial crisis.

Instant noodle. Overall market share enlarged from 47.0% in Dec 2007 to 50.8% in Dec 2008, with growth coming mainly from high end packet products, sales of which surged 48.8% to US\$833m (bowl: 36.4% to US\$872m; mid-low end packet: 32.4% to US\$333m). Although there is no apparent trend of market share convergence, we reckon the company will expand occupancy further given its considerable scale advantage (aggregate market share of No. 2 – 4 players: 28.5%). In particular for FY12/09F, margin expansion is anticipated (est. gross margin: 30.7% up from 27.5% in FY12/08A) backed by the substantial drop in palm oil price and further product mix change.

Bottled water (~US\$442.5m turnover). Hit by some unfavorable rumors, Master Kong bottled water's market share dropped 0.4pcp in 2008 to 17.7%. As these rumors have been explored by some media and proved to be fake, according to the management, we expect the company to regain market share this year.

RDT tea (~US\$1,154.5m). Market share squeezed 3.6pcp to 44.3%, which could be attributed to: 1) abnormal operating environment during 2008 due to natural disasters (snow storm and earthquake) and the

term.

Estimates adjustments. We fine tuned our forecasts to factor FY12/08 results, lifting earnings projection by 1.4% for FY12/09F and 4.0% for FY12/10F. Our target price, accordingly, has been penciled up slightly from HK\$9.48 to HK\$9.64 based on 20x FY12/09F P/E. HOLD.

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Table 1: Valuation comparison

Company	Ticker	Market cap. (US\$m)	Fiscal Yr-end	Historical P/E (x)	1-Yr forward P/E (x)	2-Yr forward P/E (x)	ROE (%)
Tingyi	322 HK	12/2008	6,725.6	25.8	19.5	17.8	23.3
Uni-President	220 HK	12/2008	1,379.8	27.6	13.3	11.8	6.3
Want Want	151 HK	12/2008	6,282.5	23.9	19.9	16.0	32.4
Vitasoy	345 HK	03/2008	468.6	18.0	15.3	12.4	16.5
Huiyuan	1886 HK	12/2008	964.1	75.2	23.1	20.8	20.6
Mengniu	2319 HK	12/2008	2,634.8	n.a.	25.1	19.3	(19.8)

Source: Bloomberg, SBI E2-Capital

Table 2: P & L

Year to Dec (US\$m)	07A	08A	09F	10F	11F
Revenue	3,215.4	4,272.1	5,207.7	6,144.9	7,109.4
Cost of sales	(2,199.9)	(2,897.4)	(3,466.4)	(4,129.7)	(4,820.8)
Gross profit	1,015.5	1,374.6	1,741.3	2,015.2	2,288.6
Other net income	51.3	82.4	70.0	72.0	72.0
Distribution expenses	(614.9)	(826.7)	(997.3)	(1,164.5)	(1,333.0)
Administrative expenses	(73.2)	(86.4)	(100.1)	(112.0)	(122.5)
Other operating expenses	(50.2)	(68.4)	(84.1)	(88.8)	(114.3)
Finance costs	(19.4)	(31.2)	(38.0)	(38.7)	(37.6)
Share of results of associates	8.1	7.8	8.6	9.5	10.4
Profit before taxation	317.2	452.2	600.4	692.7	763.5
Income tax	(36.3)	(90.2)	(128.7)	(162.4)	(190.9)
Profit for the period	280.9	362.0	471.7	530.3	572.7
Attributable to:					
Equity holders of the Company	194.8	260.4	345.2	378.0	392.9
Minority interests	86.1	101.6	126.5	152.3	179.8
EPS - Basic (US\$)	0.035	0.047	0.062	0.068	0.070
Proposed DPS (US\$)	0.027	0.023	0.030	0.037	0.045

Source: Company data and SBI E2-Capital

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