

Still on the menu

HOLD (from BUY)

Results highlights. Revenue increased 32.8% in 3Q FY12/08A to US\$1,321.4m, comprising US\$541.8m from instant noodles, up 32.9% (1H: 49.4%), US\$703.6m from beverages, up 34.0% (1H: 25.2%), US\$45.5m from bakery, up 35.4% (1H: 43.0%) and US\$30.5m from others, up 7.1% (1H: 25.9%). Affected by high raw material costs during the quarter, the blended gross margin shrunk 0.7pcp to 32.5%. The effective tax rate rose from 9.5% a year earlier to 14.9%. Net profit increased 20.1% (1H: 33.2%) to US\$129.8m.

Instant noodles. The segment's lower growth in 3Q was partly due to the price adjustment in Jun 2007, creating a higher comparison basis in the quarter. Nevertheless, the overall market share improved from 46.0% a year earlier to 49.9% in value terms. Sales in each segment increased:

- bowl instant noodles – 21.8% (54.6% in 1H), possibly because the economic slowdown shifted some consumption from bowl to high-end packet noodles.
- high-end packet noodles – 55.7% (56.5% in 1H).
- low-end packet noodles – 21.5% (22.1% in 1H). High raw material costs curbed Tingyi's expansion in the low-end of the market.

Beverages. Growth accelerated in 3Q after the company adjusted its pricing strategy and strengthened A&P. The market share of RTD tea, its core product, stopped declining and stayed flat QoQ at 42.1%. Sales of bottle water were unaffected by negative news (e.g. water source, PH value, etc), with the segment's market share expanding slightly QoQ.

China Consumer

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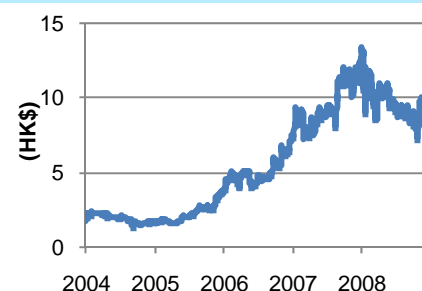
Stock data

Price	HK\$8.90
Target price	HK\$9.48 (+7%)
12 mth range	HK\$6.62-13.45
Market cap.	US\$6,378.8m
Daily t/o, 3 mth	US\$4.7m
Free float %	63.1%
Ticker	322.HK/0322 HK

Financial summary

Year to Dec	06A	07A	08F	09F	10F
T/O (US\$m)	2,331.7	3,215.4	4,337.7	4,984.6	5,630.1
NP (US\$m)	148.9	194.8	249.3	339.7	363.3
EPS (US\$)	0.027	0.035	0.045	0.061	0.065
EPS Δ %	20.4	31.2	27.8	36.2	7.0
P/E (x)	42.9	32.7	25.6	18.8	17.6
P/B (x)	6.98	6.21	5.66	4.97	4.50
EV/EBITDA (x)	19.1	14.0	10.7	8.8	8.1
Yield (%)	2.1	2.4	2.9	3.6	4.3
ROE (%)	16.7	20.1	23.1	28.2	26.9
ROCE (%)	17.7	19.7	23.9	32.0	31.3
N. Gear. (%)	11.7	16.0	19.5	17.0	13.3

Price Chart



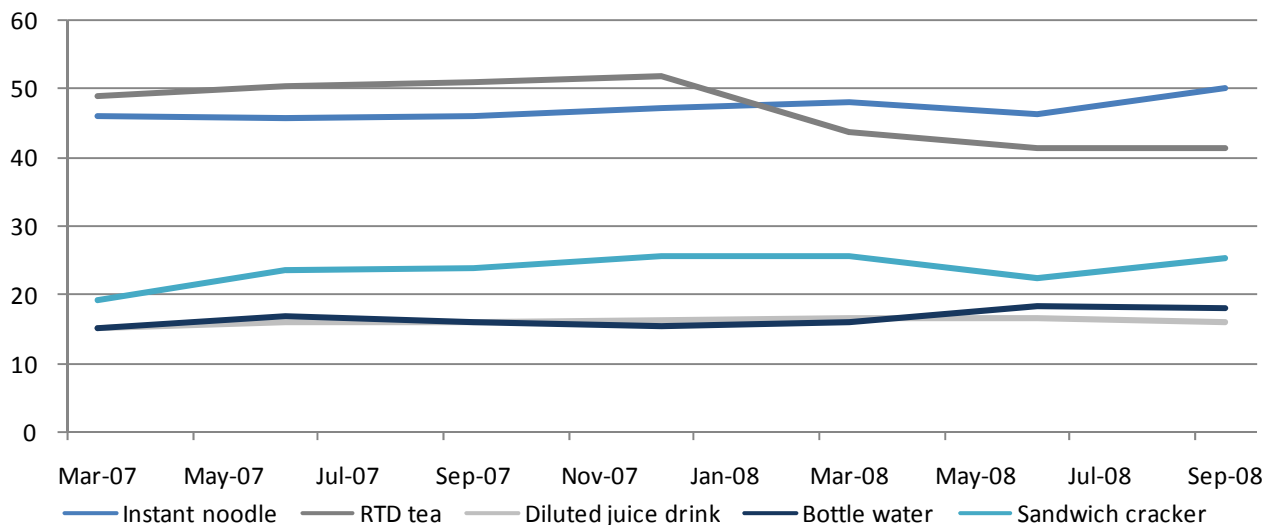
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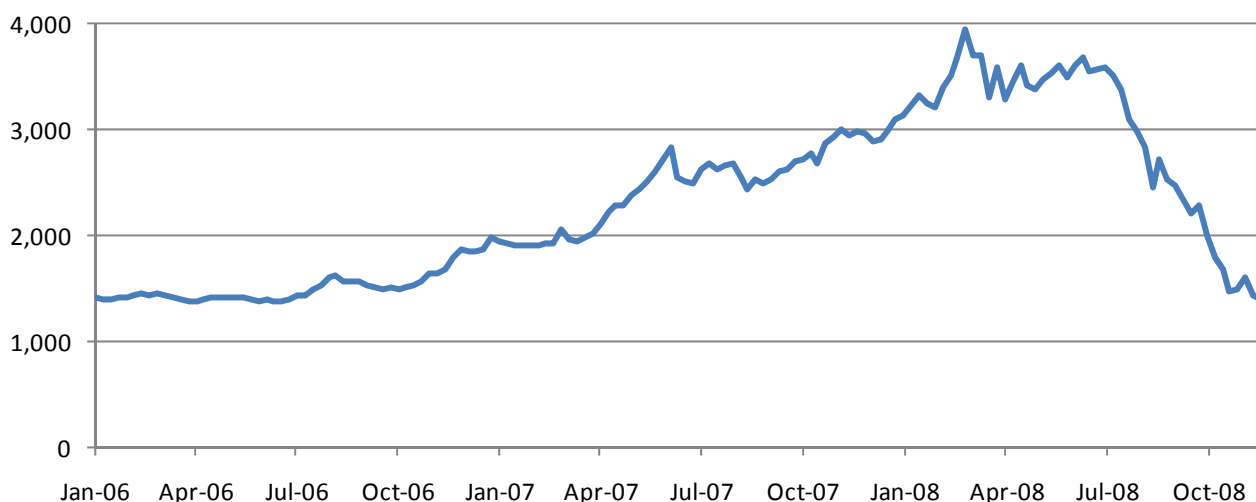
Chart 1: Tingyi's market shares by sales value (%)



Source: ACNielsen

Easing cost pressure. The palm oil price has dropped more than 50.0% since July and the effect will be apparent in year-end results, according to the management. Considering the general retreat in commodity prices, we expect the gross margin to expand in FY12/09F.

Chart 2: Malaysian palm oil board crude palm oil fob spot price (MYR/tonne)



Source: Bloomberg

Estimate adjustments. Tingyi's 3Q results were slightly below our forecast, mainly due to the company's higher effective tax rate of 14.9% (16.2% in 1-3Q FY12/08A) and slower-than-expected growth in sales of bowl instant noodles. The economic slowdown might push instant noodle consumers to opt for lower-end products, which domestic brands are usually more competitive in. Hence, we pull back our top line forecast mildly. Accordingly we cut our target price for the counter to HK\$ 9.48 from HK\$11.25.

Table 1: Forecast adjustments

Year to Dec	08F	09F	10F	Note
New forecast				
Turnover (RMBm)	4,337.7	4,984.6	5,630.1	Lower growth in bowl instant noodles and slight adjustment in other products to reflect the economic slowdown
Gross margin (%)	31.4	32.7	32.2	Better margins in FY12/09F, reflecting the steep decline in raw material prices. But it may not be sustainable due to competition
Operating margin (%)	10.5	11.8	11.6	Follow the gross margin change
Net margin (%)	5.7	6.8	6.5	Lift effective tax rate, which was 16.2% in 1-3Q FY12/08A
Old forecast				
Turnover (RMBm)	4,387.1	5,182.3	5,999.3	
Gross margin (%)	31.4	31.5	31.6	
Operating margin (%)	10.5	10.8	11.1	
Net margin (%)	6.1	6.2	6.3	

Source: SBI E2-Capital

Table2: P&L

Year to Dec (US\$m)	06A	07A	08F	09F	10F
Revenue	2,331.7	3,215.4	4,337.7	4,984.6	5,630.1
Instant noodles	1,051.9	1,488.1	2,090.5	2,302.9	2,512.9
Beverage	1,093.4	1,519.2	1,981.7	2,389.6	2,795.9
Bakery	97.2	109.7	151.3	166.5	183.1
Others	89.3	98.5	114.2	125.6	138.2
Cost of sales	(1,579.3)	(2,199.9)	(2,975.7)	(3,354.8)	(3,815.2)
Gross profit	752.4	1,015.5	1,362.0	1,629.8	1,815.0
Other net income	37.4	51.3	76.0	70.0	72.0
Distribution expenses	(445.8)	(614.9)	(820.9)	(933.3)	(1,043.0)
Administrative expenses	(56.2)	(73.2)	(94.4)	(103.5)	(111.3)
Other operating expenses	(47.0)	(50.2)	(66.0)	(73.4)	(78.8)
Finance costs	(10.9)	(19.4)	(30.4)	(22.4)	(22.5)
Share of results of associates	6.9	8.1	12.1	13.3	14.7
Profit before taxation	236.7	317.2	438.5	580.5	646.1
Income tax	(23.9)	(36.3)	(69.9)	(101.2)	(122.4)
Profit for the period	212.8	280.9	368.6	479.2	523.7
Attributable to:					
Equity holders of the Company	148.9	194.8	249.3	339.7	363.3
Minority interests	63.9	86.1	119.3	139.6	160.5
EPS - Basic (US\$)	0.027	0.035	0.045	0.061	0.065
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