

# **Company Flash**

22 March 2013

# **Tontine Wines Group**

## Profit drop on weak ASP in 2H

#### to summarize...

- Tontine released its FY12/12A final result; turnover and net profit declined by 21% and 51% respectively on lowered volume and ASP.
- Sales volume dropped by 8% YoY to 21,694 tonnes, while ASP decreased by 14% to RMB19 per 375ml bottle.
- In particular, ASP of sweet wines during the 2H dropped by 43% HoH to RMB14.6 per 375m bottle, a major factor that drove net profit to RMB13.4m.
- In our view, weakened ASP might continue to impact on the 13F result.
- We have discontinued coverage for Tontine Wines (389 HK) due to re-allocation of resources.

Results announcement after the profit warning: Tontine released annual results Wednesday after market. Net profit dropped by 53% YoY for FY12/12A on weak ASP during 2H FY12/12A. For FY12/12A, sales turnover dropped by 21% YoY to RMB658.1m due to both lower ASP as well as lower sales volume. Sales volume dropped by 8% YoY to 21,694 tonnes, while ASP decreased by 14% to RMB19 per 375ml bottle. In particular, ASP for sweet wines in 2H FY12/12A declined by 43% HoH/ 35% YoY to RMB14.6 per 375m bottle. The drop led 2H ASP for overall wines products to decrease by 32% YoY to RMB15.5 per 375m bottle. On lower ASP during 2H, sales revenue during 2H dropped by 26% HoH to RMB279.0m, and net profit decreased by 82% HoH to RMB13.4m. Adding the 1H net profit of RMB75.5m, the annual net profit was RMB88.9m, represented a drop of 53% YoY.

Profit margin compression on lower ASP coupled with higher packaging costs and production overhead. Tontine reported a gross profit margin of 50.3% and net profit margin of 13.5%, declined by 7.4 pp and 9.2pp YoY respectively. Lower in gross profit margin was mostly due to decreased ASP coupled with higher packaging costs and production overheads. Packaging costs and production overheads both increased by 21% YoY to RMB4,168 per bottle and RMB626.7 per bottle, together represented 32% of COGS. As for the largest component of COGS (41%), purchase cost for grapes and grape juice was stable, dropped slight by 3% YoY to RMB6,207.3/t. For 2H alone, Gross profit margin was 40.7%, dropped by 16.7pp HoH/ 17.5pp YoY. In terms of SG&A, SG&A expenses increased 0.9% YoY to RMB197.3m with percentage to sales ratio increased by 6pp to 30%. The increase was largely due to increase marketing expenses (increased by RMB32.1m/ 45% to RMB102.7m). The mentioned factors led net profit margin to drop by 9.2pp to 13.5%, which net margin in 2H was dropped by 15.1pp HoH to 4.8%.

Table 1. Operating result					
	1H 11A	2H 11A	1H 12A	2H 12A	
Revenue (RMBm)	352.6	477.5	379.2	279.0	
Gross profit	201.3	277.8	217.7	113.5	
Net profit	70.3	118.5	75.5	13.4	
Volume (tonnes)					
Sweet wines	5702	9121	6263	7880	
Dry wines	3840	4843	4179	3372	
ASP / 375 ml (RMB)					
Sweet wines	26.6	22.7	25.9	14.6	
Dry wines	17.9	18.9	17.9	17.5	

Source: Company data

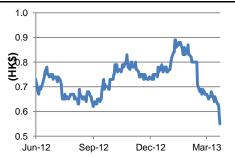
Ticker	0389 HK
Rating	Remove from Coverage
Price (HK\$)	0.56
Target Price (HK\$)	-
12m Price Range (HK\$)	0.56 - 1.04
Market cap. (US\$m)	149.7
Daily t/o (US\$m)	0.5
Free float (%)	59.86

Year to Dec	10A	11A	12A
Turnover (RMBm)	703.5	830.1	658.1
Net Profit (RMBm)	208.2	188.8	88.9
EPS (RMB)	0.119	0.094	0.044
P/E (x)	3.7	4.7	11.2
P/B (x)	0.55	0.50	0.49
EV/EBITDA (x)	(0.7)	(0.5)	0.1
Yield (%)	4.2	5.1	-
ROE (%)	16	10	5
ROCE (%)	23	16	7
N. Gear. (%)	N.Cash I	N.Cash N	N.Cash

Source: SBI/Bloomberg

### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(10.8)	(22.7)	(45.6)
Actual price changes (%)	(13.4)	(23.7)	(42.0)



Source: Bloomberg

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**Historical valuation.** Tontine share price has dropped to twelve months low since the announcement of 12A annual result. Tontine balance sheet stays strong with net cash of RMB1,274.7m (net cash RMB0.63/share) despite sluggish sales performance. Based on the current price HK\$0.56, Tontines is trading at 12A P/E of 11.2x and 12A P/B of 0.49x. We have discontinued our research coverage on Tontine due to re-allocation of resources.

Table 2. Financial summary					
	11A(RMBm)	%	12A(RMBm)	%	YoY (%)
Revenue	830.1	100%	658.1	100%	-21%
COGS	(351.0)	-42%	(326.9)	-50%	-7%
Gross profit	479.1	58%	331.2	50%	-31%
Other income	6.2	1%	7.7	1%	25%
SG&A	(195.6)	-24%	(197.3)	-30%	1%
PBT	289.7	35%	141.7	22%	-51%
Tax	(100.9)	-12%	(52.8)	-8%	-48%
Net profit	188.8	23%	88.9	14%	-53%

Source: Company data

As a result of re-allocation of resources, we will discontinue our research coverage on Tontine (389 HK) starting from the date of publication of this note. All previously published recommendation (was BUY), target price and earnings forecasts of the stock will no longer be relied upon. We may or may not resume research coverage in the future.

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