Company Update

Uni-President China Holdings Ltd. 0220 HK

A defensive stock that warrants our attention

- UPC recorded net profit attributable to shareholders of RMB916.4m in FY12/13, a YoY increase of 7.1%
- Market share for juice, instant noodles and tea had all increased during the year
- Defensive nature of stock warrants attention in times of market volatility
- Currently trading at a FY12/14E P/E of 26.4x. Peers trading at 33.9x

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Stock Data (0220 HK)

Rating	Not Rated
Price (HKD)	6.17
Target Price (HKD)	n.a.
12m Price Range (HKD)	6.17-9.02
Market cap. (HKD m)	22,208.6
Daily t/o (HKD m)	30.6
Free float (%)	29.5

Source: Bloomberg

What's new: Uni-President China (UPC) published its FY12/13 annual results on March 24th. The company maintained its stable growth in FY12/13, recording revenue for the period of RMB23,329.0m, a 9.0% YoY increase; gross profit of RMB7,779.6m, a 5.1% YoY increase with gross margin of 33.3%; and net profit attributable to shareholders of RMB916.4m, a 7.1% YoY increase. From 2009 to 2012, Uni-President China sustained robust growth rate in its revenue, ranging from 26.4% at its lowest in FY12/11 to 38.2% at its highest in FY12/09.

Upon examining the company's revenue for FY12/13, we find that revenue from its beverage line accounted for 64.9% of its total revenue, amounting to RMB15,152.0m, a YoY increase of 8.9%, and revenue from its instant noodle product line accounted for 33.5% of the company's total revenue, amounting to RMB7,826.0m, a YoY increase of 7.7%. Specifically regarding its beverage revenue, its tea, juice, and milk tea & coffee segments contributed 40.5%, 28.1%, and 29.4% of total beverage revenue, respectively.

Its historical performance has earned its designation of being a defensive stock. After the financial crisis, market demand shrank significantly and headwinds appeared in most industries in Hong Kong. However, for the instant noodle and beverage industries, the market demand remained stable. When it comes to UPC, which put itself both in instant noodles business and beverage business, its operating performance even started to take off in 2009-a year after financial crisis.

Even though its growth in FY12/13 was not as high as it showed last year, its market share has been improved. In terms of its instant noodles business, the market share increased from 15.8% in FY12/12 to 17.2% in FY12/13. For its tea business, its market share increased to 24.6% in FY12/13 from 22.6% in FY12/13. As for its juice business, its market share increased by 0.7%, achieving a 33.5% share of the market. So the stable business bodes well with the identified stable management. Thus we think UPC warrants our attention, as a defensive stock.

A defensive stock that deserves our attention: The company's management has expressed its intention to maintain steady growth without participating in a price war with its closest competitors. Uni-President China has kept prices stable since it got listed in Hong Kong in 2007, and would like to maintain this practice as it precisely fits with their operating strategy.

From its financial figures in FY12/13, the net profit margin was only 3.9%, which is not that attractive.We think that should also be a fair number in this industry. However, some of its competitors, especially some small local factories, achieved much higher net profit margins. Using lower quality factor inputs for their finished products, which will lower a significant portion of UPC's production cost base, may provide the most direct method to achieve a higher net margin. But that may lead to compromises in the quality of its products and damage the reputation of the company.

In 2013, serious food safety problems appeared in Taiwan. For example, the Taiwan FDA detected that the level of methylbenzene in the food of some restaurants exceeded the maximum allowable amount. In the same year, the threat from antibiotics in liquid milk products was also realized by the public. The whole food and beverage industry suffered from it. But Uni-President has not been involved in any of these contaminations.

We think Uni-President should be considered as a strong market defensive stock in our portfolio. No matter how the market fluctuates, instant noodles and beverages, which are regularly consumed in daily life, will not be significantly affected. (See Figure 1 and Figure 2)

Figure 1: Consumption of instant noodles in top 5 countries (2008-2012) (Million Packets)

Country	**2008**	**2009**	**2010**	**2011**	**2012**
China (including HK)	42530	40860	42300	42470	44030
Indonesia	13700	13930	14400	14530	14100
Japan	5100	5340	5290	5510	5410
Vietnam	4070	4300	4820	4900	5060
India	1480	2280	2940	3530	4360

Source: International Ramen Manufacturers Association

Figure 2: Revenue from beverage business (RMB m)

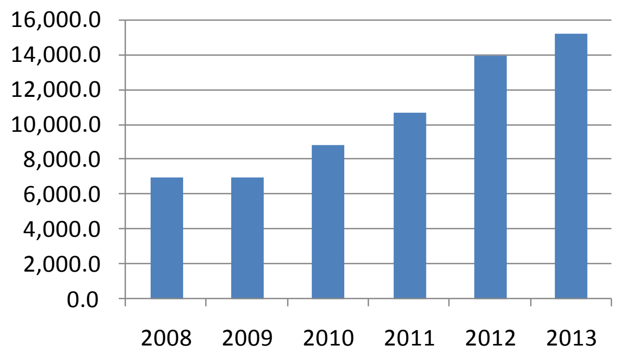
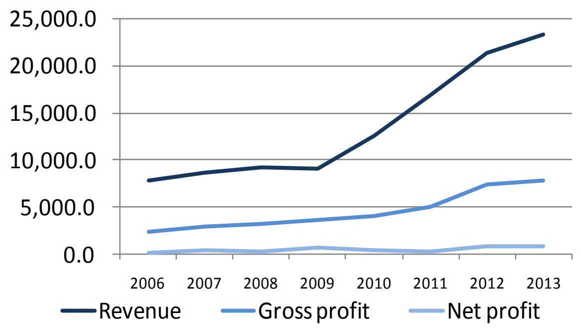


Figure 3: Historical revenue, GP and NP (RMB m)



Source: Company data

From figure 3, it is easy to draw the conclusion that UPC was not heavily affected during the global financial crisis in 2008. Instead, its business started to take off in the middle of 2009. Consequently, we think this stock can be considered a defensive position in our portfolio.

Valuation: Based on the nature of UPC's business, we considered some companies as its peers, including Tingyi Cayman Islands (0322 HK, HKD21.30), which occupied around 56.4% of China's instant noodles market in 2013. Tingyi is also in a leading position within the ready-to-drink tea industry with a market share of 44.2% last year. Want Want China (0151HK, HKD11.94), which accounts to 41.0% of the flavored milk industry last year, has also been included in the peer companies. For these two companies, their P/E ratios for 2014 are quite close to the one of UPC.

Meanwhile, we also chose China Foods (0506 HK, HKD2.59), which is controlled by COFCO-the dominant SOE player in the food and beverage industry in China, as UPC's comparable company. For China Foods, its P/E ratio for 2014 is higher than the one of UPC since its red wine business is more compelling in the market. Additionally, Vitasoy International (0345 HK, HKD10.50), which mainly operates milk and soybean beverage business in Hong

Kong, has also been included. As the gross profit margin is higher in the milk and soybean beverage products, Vitasoy International also has a higher P/E ratio for 2014 compared with UPC.

Figure 4: Peer comparison

Company	Ticker	Mkt Cap (HKD m)	2013 P/E (x)	2014E P/E (x)	2013 P/B (x)	2014E P/B (x)	Net profit (HKD m)	ROE (%)	ROA (%)	Dvd Yield (%)	Total Debt/ Total Asset
Uni-president China	**0220 HK**	**28,435.6**	**24.2**	**26.4**	**2.7**	**2.2**	**1,156.2**	**11.6**	**5.2**	**0.9**	**0.6**
Tingyi Cayman Islands	0322 HK	125,359.5	39.6	29.3	5.6	5.1	3,168.9	15.0	5.1	1.3	0.5
Want Want China	0151 HK	148,105.9	27.8	26.5	9.8	9.3	5,331.2	38.8	17.6	2.3	0.6
China Foods	0506 HK	9,202.9	-	44.3	1.5	1.2	(889.6)	(5.8)	(2.1)	0.0	0.6
Vitasoy International	0345 HK	11,125.6	29.6	35.4	7.0	6.4	312.9	19.7	10.1	1.8	0.4
Average*		**73,448.5**	**32.3**	**33.9**	**6.0**	**5.5**	**1,980.8**	**16.9**	**7.7**	**1.3**	**0.5**

Source: Bloomberg

Average: UPC is not included*

Risks: Major risks include: 1)issues with food safety; 2)increased competition from both domestic and foreign companies, which may affect its market share and results of operation; 3)water shortage problems or upside pressure on water price; 4) sluggish market growth in food and beverage industry; 5) Unsatisfactory new products they launched in this year

Figure 5: Per share items (RMB)

	FY12/11	FY12/12	FY12/13
EPS			
- Basic	0.09	0.24	0.25
DPS	0.03	0.05	0.05
BVPS	1.89	2.13	2.26

Source: Company data

Figure 6: Ratio analysis

	FY12/11	FY12/12	FY12/13
Growth (YoY)			
Revenue	34.5%	26.4%	9.0%
Gross profit	22.3%	49.8%	5.1%
Operating profit	-53.2%	237.4%	5.8%
Net profit	-39.9%	174.4%	7.1%
Margins			
Gross margin	29.2%	34.6%	33.3%
EBIT margin	1.5%	4.1%	4.0%
Net profit margin	1.8%	4.0%	3.9%
Other ratios			
Return on average assets	0.0%	0.0%	0.0%
Return on average equity	0.2%	11.8%	11.6%
Dividend payout ratio	33.3%	20.8%	20.0%
Valuation measures			
P/E (x)	43.50	27.80	26.40
P/B (x)	2.00	3.10	2.39
Dividend yield	0.4%	0.7%	0.7%

Source: Company data

Figure 7: Income statement (RMB m)

	FY12/11	FY12/12	FY12/13
Revenue	**16,931.9**	**21,405.7**	**23,329.0**
Cost of sales	(11,989.3)	(14,003.9)	(15,549.4)
Gross profit	4,942.6	7,401.8	7,779.6
Other income	159.2	245.6	817.8
SG&A	(4,840.6)	(6,765.9)	(7,665.0)
Operating profit	**261.2**	**881.5**	**932.4**
Net finance income	95.1	63.8	95.2
Share of profit of an associate	40.1	131.6	88.4
Profit before taxation	**396.4**	**1,076.9**	**1,116.0**
Income tax	(84.5)	(221.0)	(199.6)
Profit attributable to shareholders	**311.9**	**855.9**	**916.4**

Source: Company data

Figure 8: Balance sheet (RMB m)

	FY12/11	FY12/12	FY12/13
Non-current assets			
PP&E	5,579.4	7,911.7	10,185.9
Land use right	1,272.2	1,426.8	2,113.9
Investment related	101.5	1,497.5	1,749.5
Interests in associations	1,182.2	-	-
Available-for-sale financial assets	511.2	586.3	192.0
Deferred income tax assets	156.5	173.1	191.7
Others	317.5	27.4	27.2
Total non-current Assets	**9,120.4**	**11,622.6**	**14,460.2**
Current assets			
Inventories	1,274.2	1,284.9	1,513.5
Trade receivables	513.3	512.6	548.1
Prepayments, deposits and other receivables	460.5	828.9	1,032.0
Cash and cash equivalents	2,369.1	2,290.8	1,413.9
Total current assets	**4,617.0**	**4,917.3**	**4,507.6**
Total assets	**13,737.4**	**16,539.8**	**18,967.8**
Current liabilities			
Trade and other payables	(3,440.0)	(4,437.5)	(4,324.7)
Borrowings	(1,584.2)	(408.6)	(902.3)
Others	(62.3)	(102.1)	(109.0)
Total current liabilities	**(5,086.6)**	**(4,948.2)**	**(5,336.0)**
Non-current liabilities			
Deferred income tax liability	(165.2)	(161.1)	(157.0)
Borrowings	(1,511.9)	(3,562.3)	(5,101.6)
Other payables	(162.8)	(197.1)	(231.0)
Total non current liabilities	**(1,839.9)**	**(3,920.6)**	**(5,489.6)**
Net assets	**6,810.9**	**7,671.1**	**8,142.2**
Equity			
Share capital	34,047.0	34,047.0	34,047.0
Reserves	6,776,848.0	7,637,021.0	8,108,121.0
Total equity	**6,810.9**	**7,671.1**	**8,142.2**

Source: Company data

Figure 9: Cash flow statement (RMB m)

	FY12/11	FY12/12	FY12/13
Operating activity			
Cash generated from operations	1,427.7	2,810.5	1,619.5
Net interest income	33.4	(56.4)	(76.1)
Income tax paid	(122.8)	(213.1)	(309.2)
Net cash flow from operating activities	**1,338.4**	**2,541.0**	**1,234.1**
Investing activities			
Acquisition of a subsidiary	(519.7)	-	-
Investment in assocaites	(320.9)	(11.9)	328.5
Payment and prepayment for land use right	(361.6)	(183.3)	717.2
Purchases of PP&E and others	(3,619.2)	(3,021.8)	(4,462.8)
Dividends received from jointly controlled entities	5.0	10.0	10.3
Proceeds from disposal of PP&E and financial assets	94.8	275.5	1,273.4
Dividends received	10.0	10.7	8.9
Cash flow from investing activities	**(4,144.1)**	**(3,405.2)**	**(4,083.0)**
Financing activities			
Proceeds from bank borrowings and notes payables	4,356.9	7,066.7	10,411.4
Repayments of bank borrowings	(1,451.6)	(6,186.9)	(8,264.8)
Dividends paid to equity holders of the company	(155.7)	(93.6)	(171.2)
Cash flow from financing activities	**2,749.5**	**786.2**	**1,975.4**
Net increase in cash and cash equivalent	(56.1)	(78.1)	(873.5)
Cash and cash equivalents at the beginning of the year	2,427.4	2,369.1	2,290.8
Effect of foreign rate exchange	(2.2)	(0.1)	(3.3)
Cash and cash equalents at the end of the year	**2,369.1**	**2,290.8**	**1,413.9**

Source: Company data

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