

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

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Tingyi Holding (322 HK)

A solid 1H; but risks to 2H likely a negative skew

- A 2.1pp leap in 1H GPM beat; but a 5%+ rally looks overwhelmed
- 2H earnings risks likely skew to the downside despite guidance
- TP unchanged; balanced risk-reward albeit 7% yield; D/G to HOLD

1H beat; 2H lacks catalyst to fuel further re-rating; HOLD

Management's commitment to a low-to-mid-teen FY bottom line growth was a major positive from the analyst call this morning, and yet this did not come in as a total surprise to us when pre-result consensus estimates had already been hovering between a 10 and 13%. Instead, we consider it a relief to forward expectation when price war in carbonated drinks and tea (non sugar-free) seemed to have intensified in July and August, according to a question being asked during the call. Other than that, a 2.1pp leap in 1H gross margins also kicked-in better than us ([comparable to that of UPC](#)) that led to a 5% beat in interim net profits. Input costs saving could extend into 2H, in our view, but a softening instant noodle consumption outlook, as well as the growing concern on a deteriorating beverage pricing environment remind us that 2H earnings risk could likely be a downward skew. Considering also a balanced risk-reward at 14.6x mid-25E P/E, we do not see grounds that underpin another re-rating from here. We downgrade Tingyi to HOLD, despite its 7% div yield, which still looks attractive to us.

Key analyst call takeaway

- FY24 revenue growth was revised to LSD%; Noodle/Beverage growth expected to be flat/LSD%.
- Tingyi guided a low-to-mid teens growth for FY24 NP.
- Final dividend to be distributed on an unchanged 100% payout.

Key 1H results datapoint

- 1H revenue grew by 0.7%, with Noodle revenue down 1% and Beverage revenue up 1.7%; NP grew by 15.1% yoy.
- GPM expanded by 2.1pp to 32.6%, primarily driven by a 2.3pp improvement in Beverage GPM.
- OP cash flow in 1H24 grew 23.5% to RMB3.51bn; Cash Conversion Days further improved to -23.3 from -19.8 in 1H23.

Earnings change

- We moderately trim our 2024E estimates to reflect any housekeeping changes from the results.
- We lower our 2025-26E revenue by 6-9% to reflect a softening instant noodle consumption outlook, as well as the growing concern on a deteriorating beverage pricing environment. These led to a 6-11% cut in net profits.

Valuation and risks

- Our unchanged TP of HKD10.3 is based on 15.0x roll-forward mid-25E P/E (from previously 15.2x end-24E P/E) which represents -1sd below the stock's long-term average since 2019 (from previously -1.5sd below).
- **Key catalysts:** Price hike, better-than-expected cost savings.
- **Key risks:** Price war, raw material costs inflation, food safety.

Financials

Year ended 31 Dec (RMB mn)	2022	2023	2024E	2025E	2026E
Revenue	78,717	80,418	82,850	86,177	89,773
yoy growth	6.3%	2.2%	3.0%	4.0%	4.2%
Attributable net profit	2,632	3,117	3,431	3,830	4,268
Adj. EPS (RMB)	0.47	0.55	0.61	0.68	0.76
yoy growth	-30.8%	18.4%	10.1%	11.6%	11.4%
P/E	19.8x	16.7x	15.2x	13.6x	12.2x
ROE	16.4%	22.9%	22.8%	23.4%	25.4%
Net debt (cash)/ equity	31.5%	40.5%	5.1%	0.1%	-5.3%
Dividend yield (%)	8.6%	5.2%	6.8%	7.6%	8.5%

Sources: Company data, CMS (HK) estimates; share price as of Aug 26, 2024

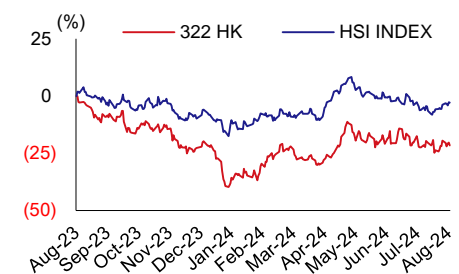
WHAT'S NEW

Positives from the results and analyst call was a 2.1pp GPM beat and the commitment to DD growth. That said, the absence of re-rating catalysts (neither earnings nor multiple) into the reminder of 2024 calls for a stock rating cut

▼ HOLD

Previous	BUY
Price	HKD 10.06
12-month Target Price (Potential up/downside)	HKD10.3 (+3.0%)
Previous	HKD10.3

Price Performance



Source: Bloomberg; share price as of Aug 26, 2024

%	1m	6m	12m
322 HK	3.7	16.5	(19.6)
HSI	4.6	7.0	(0.9)

Sector: Consumer

Hang Seng Index (Aug 26, 2024)	17,799
HSCEI (Aug 26, 2024)	6,279

Key Data

52-week range (HKD)	6.861 - 11.568
Market cap (HKD mn)	53,752.5
Avg. daily volume (mn)	5.1
BVPS (RMB)	2.5

Shareholding Structure

TING HSIN CAYMAN ISLANDS	33.42%
SANYO FOODS CO LTD	33.42%
Others	0.17%
No. of shares outstanding (mn)	5,634
Free float	33.0%

Source: Bloomberg

Related Research

1. Uni-President China (220 HK) - BUY for a visible 2H with a 7% dividend yield (BUY) (Aug 7, 2024)

Key conference call takeaway

- **2H24 overview:**
 - Instant noodle volume experienced a double-digit volume decline after the price-hikes of certain products in July, while the overall decline in July/August was narrowed down to LSD% helped by Tingyi's measures including the launch of new mini-Bowl products and Zhenweidao series with a lower ASP. Tingyi expects Instant Noodle to recover its market share by 4Q
 - Beverage sales in July/August has met Tingyi's expectation
- **2024 Guidance:**
 - **Tingyi guided for a LSD% FY24 revenue growth**, revising down from MSD-HSD%
 - **Instant noodle revenue growth** is expected to be **flat or grow slightly yoy**, down from LSD-MSD%
 - **Beverage revenue growth** was revised down from MSD-HSD% to **LSD% growth yoy**
 - **Reported net profit** expected to record low-to mid-teens growth, with NPM aiming to improve
 - Tingyi still expects to dispense a final dividend with a **payout ratio of 100% for FY24**, which represents an expected dividend yield of c.7% based on the current stock price
- **Outlook and corporate strategies:**
 - Aiming to improve NPM gradually for the next 3-5 years with Beverage remaining to be the driver
 - Targeting for product enhancement with some price-hikes in large-sized beverage product
 - To stay away from the price war of sugar-free tea beverage, and to maintain healthy distribution channels

Segment breakdown

- The Group 1H24 revenue grew by 0.7% yoy to RMB41.2bn, with net profit up by 15.1% yoy to RMB1.9bn. GPM expanded by 2.1pp to 32.6%, mainly led by the 2.5pp increase in GPM of Beverage segment which was supported by the rise in ASP (contributed +2.3pp in GPM) and partially offset by the adverse impact of raw material cost movement (-1.2pp in GPM).
- **Segmental revenue:**
 - Instant noodle declined by 1.0% yoy; counted as 33.5% of total revenue
 - Beverages grew by 1.7% yoy, benefiting from the recovery of number of tourists/outdoor activities; counted as 65.7% of total revenue
 - Others declined by 8.3% yoy; counted as 0.8% of total revenue
- **Instant noodle revenue by product:**
 - Bowl grew by 6.3% yoy, benefiting from the recovery of outdoor activities, accounting for half of the segmental revenue.
 - High-priced Packet declined by 5.5% yoy, suffering from the lower demand for in-home spending, with revenue mix dropping by 2 pp to 40%
 - Mid-priced Packet fell by 13.8% yoy, with revenue mix dropping by 2 pp to 9%
 - Snack Noodle and Others revenue fell by 9.2%, taking up 1% of total segmental revenue
- **Beverage revenue by product:**
 - Tea recorded a revenue increase of 13% yoy, with segmental revenue mix up by 4% to 42%; the classic "Master Kong Ice Tea" grew by double-digit %
 - Water declined by 5.6% yoy, taking up 10% of total beverage revenue
 - Juice dropped by 10.1% yoy; revenue mix down by 1pp to 13% in 1H24
 - CSD & Others revenue decreased by 3.2% yoy, with revenue mix down by 2pp to 36%
- The Group did not propose any interim dividend for 1H24

Figure 1: Earnings revision summary

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	82,850	86,177	89,773	85,533	91,269	98,298	-3.1%	-5.6%	-8.7%
Gross Profit	26,105	27,258	28,589	26,079	27,951	30,317	0.1%	-2.5%	-5.7%
Operating Profit	5,874	6,475	7,181	5,835	6,539	7,266	0.7%	-1.0%	-1.2%
Net profit	3,431	3,830	4,268	3,476	4,094	4,800	-1.3%	-6.4%	-11.1%
GPM	31.5%	31.6%	31.8%	30.5%	30.6%	30.8%	1ppt	1ppt	1ppt
OPM	7.1%	7.5%	8.0%	6.8%	7.2%	7.4%	0.3ppt	0.3ppt	0.6ppt
NPM	4.1%	4.4%	4.8%	4.1%	4.5%	4.9%	0.1ppt	0ppt	-0.1ppt

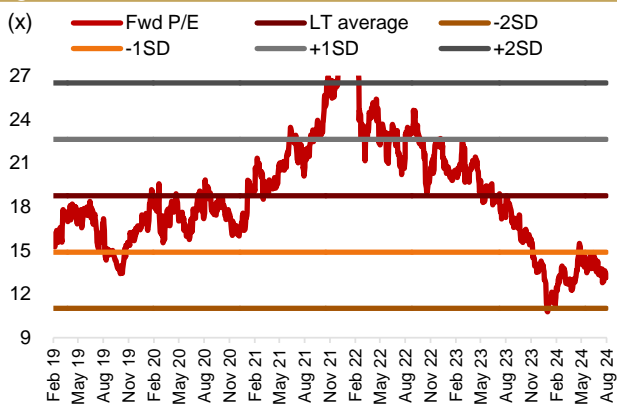
Sources: Company data, CMS (HK) estimates

Figure 2: CMS vs. consensus

RMB mn	CMS			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	82,850	86,177	89,773	83,055	86,933	91,058	-0.2%	-0.9%	-1.4%
Gross Profit	26,105	27,258	28,589	25,897	27,393	28,888	0.8%	-0.5%	-1.0%
Operating Profit	5,874	6,475	7,181	5,352	5,993	6,521	9.7%	8.0%	10.1%
Net profit	3,431	3,830	4,268	3,369	3,777	4,131	1.9%	1.4%	3.3%
GPM	31.5%	31.6%	31.8%	31.2%	31.5%	31.7%	0.3ppt	0.1ppt	0.1ppt
OPM	7.1%	7.5%	8.0%	6.4%	6.9%	7.2%	0.6ppt	0.6ppt	0.8ppt
NPM	4.1%	4.4%	4.8%	4.1%	4.3%	4.5%	0.1ppt	0.1ppt	0.2ppt

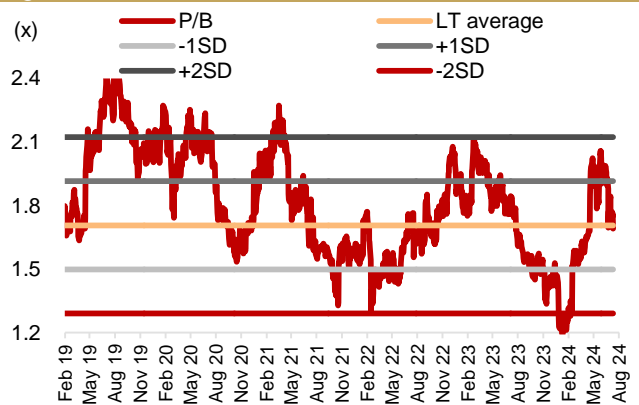
Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 3: Forward P/E



Sources: Bloomberg, CMS (HK)

Figure 4: Historical P/B



Sources: Bloomberg, CMS (HK)

Financial statement

Balance Sheet

RMB mn	2022	2023	2024E	2025E	2026E
PP&E	21,259	21,455	22,484	22,963	23,442
Right of use assets	3,626	3,554	3,527	3,527	3,527
Goodwill	98	98	98	98	98
Investment in associate/JV	708	625	660	660	660
Other non-current assets	8,732	6,944	8,087	8,110	8,156
Non-current assets	34,422	32,676	34,857	35,358	35,884
Inventories	5,255	4,385	4,050	4,202	4,368
Receivables and prepayments	4,706	4,617	4,716	4,902	5,111
Other financial assets	1,730	4,684	2,426	2,426	2,426
Deposits	13	32	32	32	32
Bank Balances and Cash	12,324	6,754	14,054	15,039	16,207
Current assets	24,027	20,474	25,278	26,601	28,143
Total assets	58,449	53,150	60,134	61,959	64,028
Account payable	9,490	8,573	9,754	10,120	10,522
Other payable and deposits	9,783	8,869	11,129	11,547	12,005
Bank Borrowings	9,203	8,482	11,071	11,071	11,071
Other current liabilities	3,228	3,269	3,087	3,219	3,400
Current liabilities	31,705	29,193	35,042	35,958	36,997
Deferred Tax Liabilities	1,299	1,254	1,150	1,150	1,150
Lease Liabilities	145	180	143	143	143
Bank Borrowing	8,416	5,247	3,989	3,989	3,989
Other Borrowing	4	4	4	4	5
Provision and other liabilities	65	49	49	49	48
Non-current liabilities	9,929	6,734	5,335	5,335	5,335
Total liabilities	41,634	35,927	40,378	41,293	42,333
Share Capital	1061	984	984	984	984
Reserves	12,310	12,911	15,212	15,610	16,048
Non-controlling interests	3,444	3,328	3,561	4,072	4,663
Total equity	16,815	17,222	19,757	20,666	21,695
Total equity and liabilities	58,449	53,150	60,134	61,959	64,028

Cashflow Statement

RMB mn	2022	2023	2024E	2025E	2026E
Profit before tax	4,149	4,779	5,535	6,170	6,876
Finance Costs	-204	519	455	422	422
Shares of profit of associate/JV	1	0	0	0	0
D&A	3,266	2,445	2,507	2,507	2,507
Changes in OWC	-664	-639	3,371	545	594
Others	-965	-1,337	-220	-422	-422
Income tax paid and others	-1,106	-1,263	-1,467	-1,630	-1,817
CF from operating activities	4,475	4,504	10,181	7,592	8,160
Capital expenditure	-3,124	-2,986	-2,986	-2,986	-2,986
Disposal of subsidiaries	117	0	0	0	0
Others	-373	2,001	-1,111	-23	-47
CF from investing activities	-3,380	-985	-4,097	-3,009	-3,033
Dividend paid	-7,076	-3,317	-3,317	-3,631	-4,030
Equity financing	0	0	0	0	1
Debt financing (repaid)	27,562	-3,169	-1,258	0	0
Others	-25,104	-3,508	4,354	34	69
CF from financing activities	-4,618	-9,994	-222	-3,597	-3,960
Net cash flow	-3,522	-6,474	5,862	985	1,167

Profit & Loss

RMB mn	2022	2023	2024E	2025E	2026E
Revenues	78,717	80,418	82,850	86,177	89,773
Cost of Sales	-55,818	-55,951	-56,745	-58,919	-61,183
Gross profits	22,899	24,467	26,105	27,258	28,589
Other revenue	650	541	440	610	652
Other net income	875	893	656	682	711
Selling expenses	-16,810	-17,883	-18,386	-19,131	-19,750
Admin expenses	-2,397	-2,616	-2,722	-2,715	-2,782
Other expenses	-751	-230	-220	-229	-238
Operating profits	4,468	5,172	5,874	6,475	7,181
Finance costs	-446	-519	-455	-422	-422
Shares of results of JV/associates	127	127	117	117	117
Profit before tax	4,149	4,779	5,535	6,170	6,876
Income tax expense	-1,073	-1,263	-1,467	-1,630	-1,817
Net profit	3,076	3,517	4,068	4,540	5,059
Non-controlling interest	444	399	637	710	792
Attributable net profit	2,632	3,117	3,431	3,830	4,268
Diluted EPS (RMB)	0.47	0.55	0.61	0.68	0.76
Dividend per share (RMB)	0.91	0.55	0.72	0.81	0.90

Financial Ratio

	2022	2023	2024E	2025E	2026E
yoY growth rate					
Revenue	6.3%	2.2%	3.0%	4.0%	4.2%
Gross Profit	1.7%	6.8%	6.7%	4.4%	4.9%
Operating profit	-24.4%	15.8%	13.6%	10.2%	10.9%
Net profit	-30.8%	18.4%	10.1%	11.6%	11.4%
EPS	-30.8%	18.4%	10.1%	11.6%	11.4%
Profitability					
Gross margin	29.1%	30.4%	31.5%	31.6%	31.8%
Operating margin	5.7%	6.4%	7.1%	7.5%	8.0%
Net margin	3.3%	3.9%	4.1%	4.4%	4.8%
Liquidity					
AR days	8.9	7.7	7.8	8.4	8.4
Inventory days	32.5	31.4	27.1	25.6	25.6
AP days	60.6	58.9	58.9	61.6	61.6
Cash conversion cycle	-19.2	-19.8	-24.1	-27.6	-27.6
Cash flow & leverage					
Free cash low	2,791	2,624	7,209	4,830	5,398
Net debt to equity	31.5%	40.5%	5.1%	0.1%	-5.3%
Dividend payout ratio	195.0%	100.0%	100.0%	100.0%	100.0%
Dividend yield	8.6%	5.2%	6.8%	7.6%	8.5%
Return analysis					
ROE	16.4%	22.9%	22.8%	23.4%	25.4%
Asset turnover	1.3	1.4	1.5	1.4	1.4
Net margin	3.3%	3.9%	4.1%	4.4%	4.8%
Financial leverage	3.7	4.1	3.8	3.7	3.7
ROA	5.2%	6.3%	7.2%	7.4%	8.0%
Valuation ratios					
P/E	19.8x	16.7x	15.2x	13.6x	12.2x
P/B	3.6x	3.5x	3.0x	2.9x	2.8x

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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Hong Kong

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