



Nongfu Spring (9633 HK)

Positive prospects with resilient growth; maintain BUY

- Revenue grew 29.8% YoY in FY21; tea beverage products, functional beverage products, and juice beverage products saw strong growth; moderate rise in margins for the year
- Social distancing measures caused by COVID will reduce demand for some product categories and increase operating costs
- Rising global commodity prices will increase the costs of raw materials and pressure margins
- Maintain **BUY**; current TP represents 60.42x/49.85x 22E/23E P/E, or 17.72x/14.61x 22E/23E P/B

Pandemic to impact growth. In FY21, revenue grew 29.8% YoY; packaged drinking water remained the biggest revenue contributor (57.4%) and grew by 22.1% YoY; tea beverage products achieved the highest growth of 48.3% YoY while functional beverage and juice beverage products grew more than 30% YoY each, demonstrating the effectiveness of new product launches and marketing campaigns throughout the year. However, due to COVID resurgence and social distancing measures, as well as increased preference for value amid disruption of household income, revenue growth is likely to slow down for all product segments in FY22E, and reduction in growth rate would be more prominent for tea beverage, functional beverage and juice beverage products. As a result, we expect FY22E revenue growth to slow to 14.7% YoY. In FY22E, packaged drinking water products would remain the largest segment with revenue contribution of 56.9% and revenue growth of 13.6% YoY; revenue growth of tea beverage products would be the highest at 16.3% YoY. Our projected FY21-24E revenue CAGR is 15.9%.

Rising raw material and operating expenses are expected in the short term. In FY21, GPM, and NPM (to shareholders of the Company) were 59.5% and 24.1%, up 0.5ppt and 1ppt. In FY22E, global inflation is likely to raise raw material costs. Moreover, social distancing measures as a result of the current COVID resurgence would mean the Group needs to enhance promotional effort to boost sales and devote more resources to combat logistical challenges. We project GPM and NPM (to shareholders of the Company) to reach 57.4% and 21.7% for FY22E.

Maintain BUY; TP at HK\$ 48.8. Despite challenges ahead, we believe the Group would deliver resilient growth and further strengthen its leading market position. Maintain **BUY**. We raise the DCF-derived TP to reflect the strong growth in FY21 and elevated revenue and profit projections. Current TP represents 60.42x/49.85x 22E/23E P/E, or 17.72x/14.61x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Commodity price risk; 4) Regulation risk; 5) Food safety risk; 6) Limitation of water sources; 7) Product concentration risk; 8) Changing consumer taste in China; 9) Lower projected EPS growth and DPS in FY22.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	22,877	29,696	34,048	39,597	46,223
Chg (YoY %)	(4.8)	29.8	14.7	16.3	16.7
Net Profit – to shareholders of the Company (RMB mn)	5,277	7,162	7,385	8,950	10,618
Chg (% YoY)	6.6	35.7	3.1	21.2	18.6
Basic EPS (RMB)	0.48	0.64	0.66	0.80	0.94
Chg (YoY %)	4.3	33.3	2.6	21.2	18.6
P/E (x)	71.05	53.29	51.94	42.86	36.13
BVPS (RMB)	1.38	1.84	2.24	2.72	3.28
P/B (x)	24.76	18.49	15.24	12.56	10.39
Dividends (RMB)	0.17	0.45	0.26	0.32	0.38
Dividend yield	0.5	1.3	0.8	0.9	1.1
ROAA (%)	24.2	24.4	20.4	21.3	21.4
ROAE (%)	41.6	39.5	32.2	32.1	31.5

Source(s): The Group, ABCI Securities estimates

Company Report

Apr 7, 2022

Rating: BUY

TP: HK\$ 48.8

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Share price (HK\$)	41.95
52WK H/L (HK\$)	52.7/32.35
Est. share price return	16.3%
Est. dividend yield	0.8%
Est. total returns	17.1%
Previous report date	Apr 16, 2021
Previous rating/TP	BUY/HK\$ 45.8

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued H-shares (mn)	5,034.67
Total issued shares (mn)	11,246.47
H-share mkt cap (HK\$ bn)	211.2
Total mkt cap (HK\$ bn)	471.8
3-mth avg. ADT (HK\$ mn)	485.4
Shareholding (%)	
Zhong Shanshan	84.0

Source(s): Bloomberg, the Group

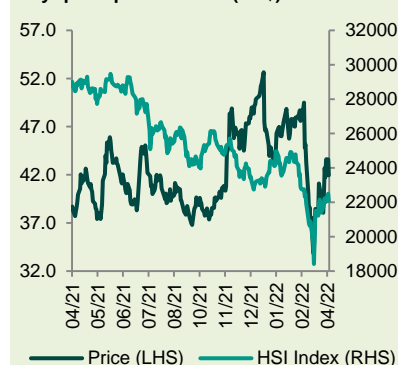
Price performance (%)

	Absolute	Relative*
1-mth	(7.09)	(5.37)
3-mth	(9.98)	(6.37)
6-mth	7.02	14.88

* Relative to HSI

Source(s): Bloomberg

1-yr price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Apr 6, 2022

RMB/HKD: 1.2300



Exhibit 1: Changes in assumptions, projections, and valuations

Exhibit 1: Changes in assumptions, projections, and valuations					
FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	9.8	6.5	8.9	1.0	Adjusted based on FY21 rates
D/A (%)	6.3	4.5	5.6	0.7	
Tax rate (%)	23.4	23.4	24.1	24.2	
Valuations					
TP (HK\$)	48.8		45.8		Changes in TP and valuation due to revised growth and margin projections and roll-over of forecast period
P/E (x)	60.42	49.85	61.44	50.03	
P/B (x)	17.72	14.61	18.25	14.54	

Note: Previous report was published on Apr 16, 2021

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report		Previous report		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue (RMB mn)	34,048	39,597	31,472	37,195	8.2	6.5
Net profit (to shareholders of the Company) (RMB mn)	7,385	8,950	7,054	8,715	4.7	2.7
EPS (RMB)	0.66	0.80	0.63	0.77	4.7	2.7

Source(s): ABCI Securities estimates



Financial statement of the Group

Consolidated income statement

FY ends at Dec 31 (RMB mn, except for per share figures)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	22,877	29,696	34,048	39,597	46,223
Packaged drinking water products	13,966	17,058	19,386	22,092	25,293
Tea beverage products	3,088	4,579	5,328	6,189	7,355
Functional beverage products	2,792	3,695	4,270	5,078	6,128
Juice beverage products	1,977	2,614	2,961	3,500	4,156
Other products	1,054	1,750	2,104	2,739	3,290
Cost of sales	(9,369)	(12,040)	(14,507)	(16,513)	(19,237)
Gross profit	13,508	17,656	19,541	23,084	26,986
Selling expenses	(5,511)	(7,233)	(8,494)	(9,783)	(11,289)
Admin expenses	(1,324)	(1,751)	(2,019)	(2,325)	(2,700)
Others net income/gain	392	735	670	762	909
Net finance costs	(79)	(53)	(57)	(47)	(40)
Pretax profit	6,986	9,354	9,642	11,690	13,866
Tax	(1,709)	(2,193)	(2,257)	(2,740)	(3,249)
Net profit	5,277	7,162	7,385	8,950	10,618
- Owners	5,277	7,162	7,385	8,950	10,618
- MI	0	0	0	0	0
Dividend	1,912	5,061	2,954	3,580	4,247
EPS (RMB)					
- Basic	0.48	0.64	0.66	0.80	0.94
- Diluted	0.48	0.64	0.66	0.80	0.94
DPS (RMB)	0.17	0.45	0.26	0.32	0.38

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Bank balances and cash	9,119	14,784	18,716	24,479	31,993
Prepayments, other receivables and other assets	910	558	1,492	1,417	1,673
Trade and bills receivables	358	476	466	638	647
Inventories	1,805	1,809	3,032	2,359	3,991
Others	0	208	213	221	230
Current assets	12,192	17,836	23,920	29,114	38,533
PP&E	12,592	12,800	13,018	13,163	13,275
Right-of-use assets	695	724	716	732	740
Intangible assets	58	65	63	64	65
Others	324	1,471	1,717	1,491	1,934
Non-current assets	13,668	15,060	15,514	15,450	16,014
Total assets	25,859	32,896	39,434	44,564	54,548
Trade and bills payables	882	1,153	1,368	1,462	1,858
Other payables and accruals	3,322	4,488	5,000	5,755	6,800
Contract liabilities	2,247	2,351	3,796	2,844	5,204
ST bank borrowing	2,414	2,500	2,375	1,900	1,520
Others	960	1,097	1,110	1,510	1,604
Current liabilities	9,825	11,589	13,650	13,471	16,986
Deferred income	267	265	286	273	274
Deferred tax liabilities	234	258	278	228	321
Lease liabilities	41	43	48	50	53
Non-current liabilities	542	566	612	550	648
Shareholders' equity	15,492	20,742	25,172	30,543	36,913
MI	0	0	0	0	0
Total equity	15,492	20,742	25,172	30,543	36,913
Total liabilities and equity	25,859	32,896	39,434	44,564	54,548

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Profit before tax	6,986	9,354	9,642	11,690	13,866
Depreciation and amortization	1,925	2,290	2,342	2,673	3,111
Change in working capital	709	1,565	18	465	1,896
Others	(1,191)	(1,810)	(2,041)	(2,611)	(3,034)
Cash flow from operating activities	8,429	11,400	9,961	12,217	15,839
Change of P&E and right-of-use assets	(2,193)	(1,406)	(2,673)	(2,564)	(2,847)
Change in intangible assets	(11)	(7)	2	(1)	(2)
Others	(2,453)	(821)	(1,120)	(1,672)	(2,200)
Cash flow from investing activities	(4,657)	(2,234)	(3,791)	(4,237)	(5,049)
Change in borrowing	1,414	(125)	(475)	(380)	(304)
Net proceeds from IPO	8,314	0	0	0	0
Others	(8,012)	(4,665)	(2,885)	(3,458)	(5,110)
Cash flow from financing activities	1,716	(4,790)	(3,360)	(3,838)	(5,414)
Net change in cash	5,488	4,376	2,810	4,142	5,377
ForEx Impact	(215)	(83)	(57)	(108)	(117)
Cash and cash equivalent - end	6,056	10,349	13,101	17,135	22,395

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	(4.8)	29.8	14.7	16.3	16.7
Packaged drinking water products	(2.7)	22.1	13.6	14.0	14.5
Tea beverage products	(1.6)	48.3	16.3	16.2	18.9
Functional beverage products	(26.1)	32.3	15.6	18.9	20.7
Juice beverage products	(14.4)	32.2	13.3	18.2	18.7
Others	136.0	66.0	20.2	30.2	20.1
Gross profit	1.5	30.7	10.7	18.1	16.9
Pretax profit	7.5	33.9	3.1	21.2	18.6
Net profit (to shareholders of the Company)	6.6	35.7	3.1	21.2	18.6
Profitability ratios (%)					
GPM	59.0	59.5	57.4	58.3	58.4
Pretax margin	30.5	31.5	28.3	29.5	30.0
NPM (to shareholders of the Company)	23.1	24.1	21.7	22.6	23.0
Return ratios (%)					
ROAA	24.2	24.4	20.4	21.3	21.4
ROAE	41.6	39.5	32.2	32.1	31.5
Liquidity ratio (x)					
Current ratio	1.2	1.5	1.8	2.2	2.3
Quick ratio	1.1	1.4	1.5	2.0	2.0
Cash ratio	0.9	1.3	1.4	1.8	1.9
Working capital turnover (days)					
Receivable turnover	5	5	5	5	5
Inventory turnover	69	55	61	60	60
Payable turnover	33	31	32	31	32
Cash conversion cycle	42	29	34	33	34
Leverage ratios (%)					
Total debt to Equity	15.9	12.5	9.8	6.5	4.4
Total debt to Total assets	9.5	7.9	6.3	4.5	3.0
Net debt/(cash) to Equity	(42.9)	(58.8)	(64.5)	(73.6)	(82.3)
Net debt/(cash) to Total assets	(25.7)	(37.1)	(41.2)	(50.4)	(55.7)

Source(s): The Group, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (~10%)
Hold	- Market return rate (~10%) \leq Stock return rate < Market return rate (+~10%)
Sell	Stock return < - Market return (~10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2009 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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