

Sep 15, 2015 Company Report Rating: Unrated TP: N/A

Share price (HK\$)	2.65
Est. share price return	N/A
Est. dividend yield	N/A
Est. total return	N/A

Previous Rating & TP N/A

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Key Data

52Wk H/L(HK\$)	5.1/2.03
Outstanding shares (mn)	2,532.28
Market cap (HK\$ mn)	6,710.53
3-mth avg daily turnover (HK\$ mn)	22.26
Major shareholder(s) (%):	
China Hui Yuan Juice Holdings Co	63.66
Sino Fountain Ltd	8.89
China Oceanwide International	7.9
Norges Bank Investment Management	0.75

Source(s): Bloomberg, ABCI Securities

Revenue contribution of business segments

(%)	1H15	FY14
100% juice products	20.37	27.47
Nectars	22.56	29.24
Juice drinks	22.78	21.55
Other beverage products	34.29	21.74

Source(s): The Group, ABCI Securities

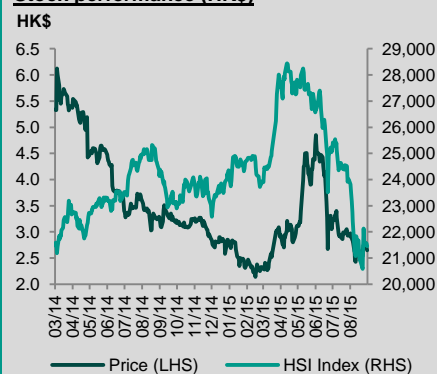
Share price performance (%)

	Absolute	Relative*
1-mth	(9.56)	0.61
3-mth	(39.50)	(20.66)
6-mth	13.73	21.46

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Stock performance (HK\$)



Huiyuan (1886 HK)

China's juice market leader under profitability pressure

- Huiyuan is a leading player in China's vegetable and fruit juice market. By volume, the Group's market share in the 100% juice category and the 26%-99% concentration juice category were 64.8% and 43.3% in 1H15. By sales value, the respective figures were 54.7% and 33.6%, ranking first in the country
- While the Group has been enjoying positive revenue growth and a consistent GPM over the past few years, a net loss incurred in FY14, with its NPM dropping from 5.23% in FY13 to -2.77%. In 1H15, the Group's NPM worsened to -3.73%
- The Group also has other problems, such as less efficient working capital management, worsening cash flow situation as the Group' operating performance deteriorates, and unsustainable cash flow management.

A leader in the juice market. Huiyuan has been the leader in China's juice market. Its market share (by volume) in the 100% juice products increased from 42.1% in 2008 and to 64.8% in 1H15, ranked 1st among its peers. The market share (by volume) of Huiyuan's nectar products (26%-99% concentration) has been in the leading position over the years and reached 43.3% 1H15. These two product categories also lead the market in terms of sales value, with market share of 54.7% and 33.6% in 1H15.

Successful product diversification. The Group has been expanding to other product categories. Revenue contribution from other beverage products has been increasing and reached 21.74% and 34.29% in FY14 and 1H15, mainly due to the sales of bottled water and the acquisition of Suntory products. Meanwhile, the Group saw a more balanced contribution within the juice product category in 1H15.

Lower-cost financing to optimize capital structure. On July 7, 2015, The Group issued a Euro-denominated bond that is due in 2018 to raise EUR 200mn with an interest rate of 1.55%, which is low in our view. In addition, the Group may enjoy a favorable exchange rate at the maturity date, given the Eurozone economic outlook would still be influenced by the political situation and economic uncertainty of its member countries.

Consistent overall ASP improvement. APS of Huiyuan's core juice products, which include the 100% juice, nectars, and juice drinks products, has been rising since 2008. At end-FY14, ASP of the Group's core juice products reached RMB 3.58/kg, representing a CAGR growth of 4.8% since 2008. While ASP of nectar products has been growing consistently, the 100% juice products and juice drink products experienced ASP decline of 9.97% YoY and 4.90% YoY in 2014.

Varying paces in volume growth. Sales volume of the Group's core juice products has been fluctuating in recent years. While sales volume of the 100% juice products has grown consistently over the past 6 years, nectar products saw a 12.20% YoY decline in FY14, and the sales volume of juice drink products and nectar products declined in 2011 and 2012. The volatility of juice product sales volume has been more pronounced since 2011.

Uncertainty in sales distribution channel redevelopment. Since 2014, the Group has been improving its sales distribution network by building its own sales offices. The new development could potentially help boost revenue growth as these sales offices are relatively easy to set up and could help the Group extend its market reach. Nonetheless, we have reservations over such new channels because the targeted demographic could be different from the existing ones and competition could be stiffer.

Results and Valuation

FY ended Dec 31	FY10A	FY11A	FY12A	FY13A	FY14A
Revenue (RMB mn)	3,708	3,826	3,981	4,504	4,592
Chg (% YoY)	30.90	3.17	4.06	13.14	1.96
Net Income (RMB mn)	198.29	310.50	16.16	228.46	(126.77)
Chg (% YoY)	(15.07)	56.59	(94.80)	1313.84	(155.49)
Basic EPS (RMB cent)	13.5	21	1.1	13.5	(4.80)
P/E (x)	19.63	12.62	240.91	19.63	N/A
BVPS (RMB)	3.39	3.57	3.58	5.29	4.13
P/B (x)	0.78	0.74	0.74	0.50	0.64
DPS(RMB)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.00	0.00	0.00	0.00	0.00
ROAA (%)	2.42	3.21	0.15	1.61	(0.74)
ROAE (%)	4.04	6.04	0.31	2.88	(1.21)

Source(s): The Group, Bloomberg, ABCI Securities



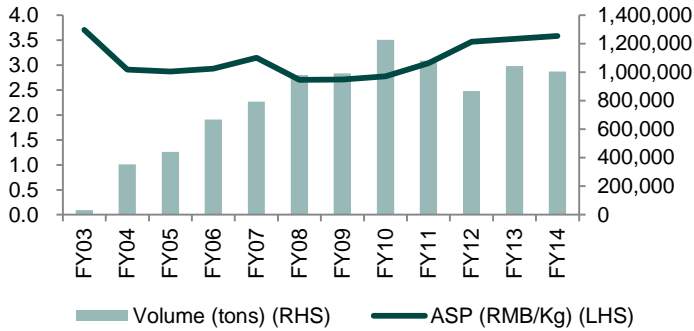
Working capital management needs improvement. The Group's receivable turnover days has been increasing in the past three years and reached 108 days by end-FY14 and 109 days by the end-1H15, which implies that the Group could be pressured to extend credit to distributors or KAs. Also, inventory turnover has been high and reached 154 days by end-FY14 and 146 days by end-1H15, showing that the Group's production and supply chain processes are rather lengthy, which can hamper its responsiveness to sudden changes in the market. The Group's cash conversion cycle and its turnover days are longer than other consumer product manufacturers listed in Hong Kong, showing that the Group's working capital management needs improvement.

Profitability is a major concern. While the Group has been enjoying positive revenue growth and a consistent GPM over the past few years, a net loss incurred in FY14, with its NPM dropping from 5.23% in FY13 to -2.77%. In 1H15, the Group's NPM worsened to -3.73%. The lower profitability also affected its cash flow. The Group's EBIT, according to our calculation, turned negative in FY14 and the Group's operating cash flow also declined in FY14, signaling potential cash flow issues as a result of the deteriorating operating performance.

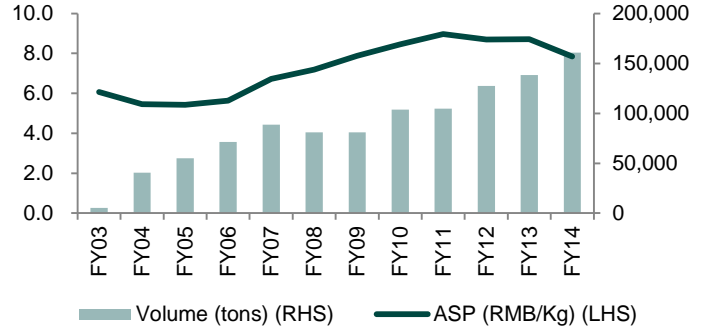
Cash flow management is unsustainable. From FY07 to FY12, the Group's cash flow used in investing activities exceeded cash flow generated from operating activities. The same occurred in FY14 and 1H15. We believe such a spending behavior, especially considering the fact that no consistent improvement in its operating performance has been observed, has deprived the Group of conserving cash to support a sustainable development. The apparent lack of prudence in cash flow management does warrant concerns.

Synergy from acquisition takes time to be realized. In 2014 the Group acquired a full stake in Suntory (Shanghai) Foods Co., Ltd. and a 50% stake in Suntory (Shanghai) Foods Marketing Co., Ltd. Even though the acquisition would help expand Huiyuan's product portfolio and sales distribution channel, we believe that it would take time to realize the synergy between the two companies, since the Group's failure in previous acquisition of Xurisheng shows that it may lack expertise in post-acquisition development.

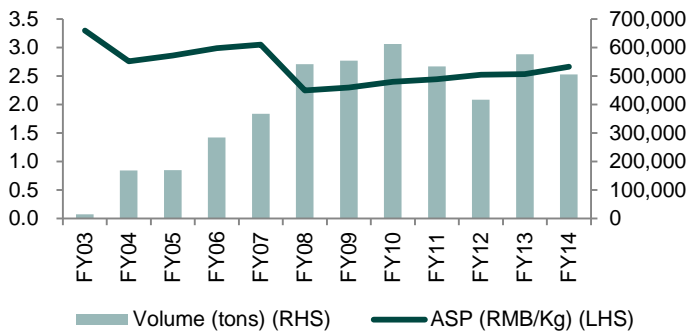
Risk factors: 1) Product quality and food safety risks; 2) Regulatory risk, 3) Corporate governance risk; 4) Acquisition risk.

Exhibit 1: Overall ASP and volume


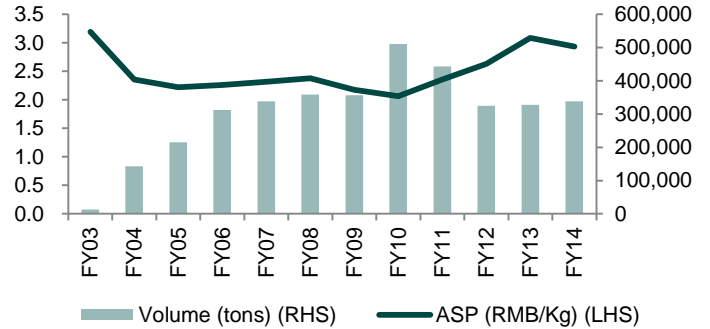
Source(s): The Group, ABCI Securities

Exhibit 2: 100% juice products' ASP and volume


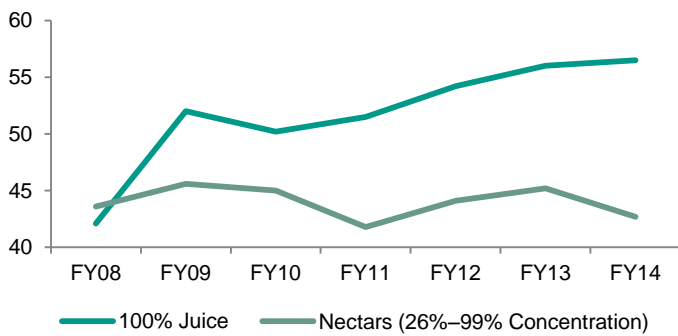
Source(s): The Group, ABCI Securities

Exhibit 3: Nectar products' ASP and volume


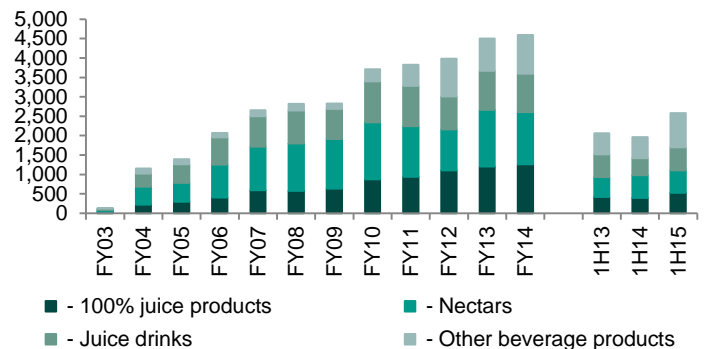
Source(s): The Group, ABCI Securities

Exhibit 4: Juice drinks products' ASP and volume


Source(s): The Group, ABCI Securities calculations

Exhibit 5: Market share by volume (%)


Source(s): The Group, ABCI Securities

Exhibit 6: Product revenue contribution (RMB mn)


Source(s): The Group, ABCI Securities calculations

Appendix: Financial Statements of the Group

Consolidated income statement (FY10A-1H15A)

FY ends at Dec 31 (RMB mn, except per share data)	FY10A	FY11A	FY12A	FY13A	FY14A	1H14A	1H15A
Revenue	3,707.95	3,825.60	3,980.77	4,503.89	4,592.05	1,965.91	2,580.91
- 100% juice products	876.64	938.83	1,108.03	1,204.67	1,261.31	393.71	525.83
- Nectars	1,466.81	1,304.26	1,049.91	1,456.11	1,342.87	589.35	582.17
- Juice drinks	1,053.70	1,041.03	851.88	1,011.21	989.71	435.41	587.83
- Other beverage products	310.81	541.48	970.95	831.91	998.17	547.45	885.09
COGS	(2,346.00)	(2,861.29)	(2,865.61)	(3,105.55)	(2,997.97)	(1,388.20)	(1,702.54)
Gross profit	1,361.96	964.31	1,115.16	1,398.33	1,594.08	577.71	878.37
SG&A	(1,348.92)	(1,208.22)	(1,258.31)	(1,662.76)	(1,903.97)	(746.62)	(1,043.59)
Other income and gains	237.05	256.36	349.74	756.07	252.76	206.02	420.90
EBIT	250.08	12.46	206.58	491.64	(57.13)	37.11	255.69
Net finance expenses	(11.27)	2.83	(215.80)	(167.97)	(290.13)	(180.35)	(145.66)
Fair value change in convertible bonds	65.88	340.50	9.69	(12.18)	239.53	200.12	(106.24)
Pretax profit/(loss)	231.94	355.89	1.52	318.82	(104.39)	59.03	(0.84)
Tax	(33.65)	(45.40)	14.64	(83.39)	(22.62)	(38.56)	(95.40)
Net profit	198.29	310.50	16.16	235.43	(127.01)	20.47	(96.23)
- Profit to share holders	198.29	310.50	16.16	228.46	(126.77)	20.49	(97.65)
- Minority	0.00	0.00	0.00	6.97	(0.24)	(0.02)	1.42
EPS (RMB)							
- Basic	13.50	21.00	1.10	13.50	(4.80)	0.80	(3.70)
- Dilute	11.20	2.20	1.10	13.50	(12.80)	(7.90)	(3.70)

Source(s): The Group, ABCI Securities

Consolidated balance sheet (FY10A-1H15A)

As of Dec 31 (RMB mn, except per share data)	FY10A	FY11A	FY12A	FY13A	FY14A	1H14A	1H15A
Cash and cash equivalent	191.98	276.57	521.13	937.42	694.37	1,175.53	895.81
Accounts payable	1,302.50	1,166.45	1,426.16	1,855.08	2,182.99	1,887.44	3,671.38
Inventories	1,068.63	1,149.56	1,605.21	1,325.27	1,211.23	1,223.42	1,503.67
Other current assets	150.89	108.90	115.77	577.79	718.31	407.62	986.95
Total current assets	2,713.99	2,701.48	3,668.26	4,695.55	4,806.90	4,694.01	7,057.81
PP&E	5,478.33	5,977.21	6,025.70	6,968.56	6,730.94	6,768.29	6,213.82
Goodwill	166.07	166.07	166.07	3,941.58	3,941.58	3,941.58	3,941.58
Other intangible assets	311.81	291.71	272.37	286.31	259.34	272.78	231.33
Land use rights	563.51	784.46	746.26	1,123.89	1,099.05	1,031.13	960.80
Other non-current assets	59.98	125.45	280.79	197.43	296.96	245.45	296.59
Non-current assets	6,579.70	7,344.89	7,491.19	12,517.77	12,327.87	12,259.23	11,644.12
Total assets	9,293.70	10,046.37	11,159.45	17,213.32	17,134.77	16,953.24	18,701.93
Accounts payable	1,206.75	1,342.56	1,949.80	1,675.73	2,020.11	1,556.51	3,030.44
Short-term debt	748.25	2,440.59	1,807.56	1,948.76	3,130.67	1,384.12	2,511.04
Other current liabilities	680.99	117.09	57.39	924.45	67.52	58.54	345.35
Total current liabilities	2,635.99	3,900.24	3,814.74	4,548.95	5,218.30	2,999.16	5,886.83
Long-term debt	1,572.57	52.97	1,175.40	1,837.28	327.78	2,166.91	1,389.09
Convertible bonds	0.00	725.33	779.15	0.00	860.38	869.38	825.38
Others	72.74	91.90	103.93	102.58	128.59	159.20	97.11
Total non-current liabilities	1,645.31	870.20	2,058.47	1,939.86	1,316.75	3,195.49	2,311.58
Total liabilities	4,281.30	4,770.44	5,873.22	6,488.81	6,535.05	6,194.65	8,198.41
Shareholder equity	5,012.40	5,275.94	5,286.23	10,576.55	10,458.03	10,610.65	10,360.41
Minority interest	0.00	0.00	0.00	147.97	141.69	147.94	143.11
Total equity	5,012.40	5,275.94	5,286.23	10,724.51	10,599.72	10,758.59	10,503.52
Total liabilities and Equity	9,293.70	10,046.37	11,159.45	17,213.32	17,134.77	16,953.24	18,701.93

Source(s): The Group, ABCI Securities

Consolidated cash flow statement (FY10A-1H15A)

FY ends at Dec 31 (RMB mn)	FY10A	FY11A	FY12A	FY13A	FY14A	1H14A	1H15E
Profit before tax	231.94	355.89	1.52	318.82	(104.39)	59.03	(0.84)
Depreciation and amortization	296.11	330.02	394.32	448.19	540.33	279.59	261.30
Change in working capital	(149.84)	95.23	(156.92)	382.05	(32.36)	39.12	(7.93)
Others	(130.43)	(522.55)	(96.99)	(419.19)	(359.34)	(325.46)	(190.13)
Cash flow from operating activities	247.78	258.59	141.94	729.87	44.25	52.27	62.40
Change in PP&E	(2,131.78)	(675.68)	(353.25)	(193.81)	(407.08)	(120.82)	(517.12)
Change in land use rights	(203.74)	(85.20)	(61.59)	(125.84)	63.93	(36.21)	(138.26)
Others	(54.53)	31.99	48.23	185.85	169.99	365.70	406.78
Cash flow from investing activities	(2,390.05)	(728.90)	(366.61)	(133.81)	(173.17)	208.67	(248.60)
Change in bank loans	1,677.75	187.88	467.81	(616.52)	(352.47)	(267.03)	608.12
Others	(58.82)	370.95	0.00	438.86	239.33	244.05	(219.82)
Cash flow from financing activities	1,618.93	558.83	467.81	(177.66)	(113.14)	(22.98)	388.30
Net change in Cash	(523.34)	88.53	243.15	418.40	(242.06)	237.96	202.10
Cash and equivalent at beg	717.44	191.98	276.57	521.13	937.42	937.42	694.37
Forex effect	(2.12)	(3.94)	1.41	(2.11)	(0.99)	0.15	(0.66)
Cash and equivalent at end	191.98	276.57	521.13	937.42	694.37	1,175.53	895.81

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios (FY10A-1H15A)

FY ended Dec 31	FY10A	FY11A	FY12A	FY13A	FY14A	1H14A	1H15A
Revenue composition (%)							
100% juice products	23.64	24.54	27.83	26.75	27.47	20.03	20.37
Nectars	39.56	34.09	26.37	32.33	29.24	29.98	22.56
Juice drinks	28.42	27.21	21.40	22.45	21.55	22.15	22.78
Other beverage products	8.38	14.15	24.39	18.47	21.74	27.85	34.29
Profitability ratios (%)							
Gross margin	36.73	25.21	28.01	31.05	34.71	29.39	34.03
EBIT margin	6.74	0.33	5.19	10.92	(1.24)	1.89	9.91
EBITDA margin	14.84	9.04	15.19	21.56	11.19	16.65	21.03
Pre-tax margin	6.26	9.30	0.04	7.08	(2.27)	3.00	(0.03)
Total net margin	5.35	8.12	0.41	5.23	(2.77)	1.04	(3.73)
Return ratios (%)							
ROAA	2.42	3.21	0.15	1.61	(0.74)	0.12	(0.54)
ROAE	4.04	6.04	0.31	2.88	(1.21)	0.19	(0.93)
ROIC	2.56	3.23	0.15	1.69	(0.79)	0.13	(0.56)
Liquidity ratio (%)							
Current ratio	1.03	0.69	0.96	1.03	0.92	1.57	1.20
Quick ratio	0.62	0.40	0.54	0.74	0.69	1.16	0.94
Cash ratio	0.13	0.10	0.17	0.33	0.22	0.53	0.30
Cash conversion cycle (days)							
Days of outstanding receivable	39.96	50.15	64.51	77.86	107.88	107.36	108.52
Days of inventory on hand	160.03	141.48	175.44	172.21	154.41	167.53	145.51
Days of outstanding payable	78.65	100.47	128.74	163.58	148.80	144.66	137.50
CCC	121.35	91.16	111.20	86.50	113.48	130.23	116.52
Leverage ratios (%)							
Total debt/Equity	58.38	61.01	71.17	43.11	40.74	41.09	46.91
Total debt/Total assets	31.48	32.04	33.71	26.86	25.21	26.07	26.34

Source(s): The Group, ABCI Securities

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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