

Nongfu Spring (9633 HK) FY23E revenue growth to accelerate

- We expect revenue growth to accelerate in FY23E to 17.2% YoY vs. 11.9% YoY in FY22 on recovery in consumer market as pandemic ended
- Persisting raw material cost inflation and higher of S&D expenses for resumption of promotional activities would pressure margins
- Maintain BUY; current TP represents 56.22x/46.30x 23E/24E P/E, or 17.45x/14.23x 23E/24E P/B

Revenue growth to accelerate in FY23E. In FY22, total revenue grew 11.9% YoY; revenue of packaged drinking water products, tea beverage, functional beverage, and juice beverage products increased 7.1% YoY, 50.8% YoY, 3.9% YoY, and 10.1% YoY. Overall growth momentum was negatively affected by the challenging economic environment amid pandemic, as several product categories saw lower FY22 growth than FY21. However, tea beverage products segment saw breakout growth, thanks to success in developing new products and new promotional campaigns. We expect the Group to benefit from the reviving consumer market after reopening. We project FY23E overall revenue to grow 17.2% YoY; specifically, revenue of packaged drinking water products, tea beverage, functional beverage, and juice beverage products would grow 11.3% YoY, 38.7% YoY, 10.8% YoY, and 14.0% YoY. FY22-25E revenue CAGR is projected at 17.8%.

Cost pressure to persist in FY23. In FY22, GPM and NPM (to shareholders of the Company) were 57.4% and 25.6% vs. 59.5% and 24.1% in FY21. Higher PET raw material costs was the main contributor to lower GPM, while lower operating costs, higher interest income and higher exchange gains boosted net margin. We expect the relatively high raw material cost pressure would continue to curb GPM in FY23E. In addition, resumption of marketing and promotional activities post-pandemic means S&D expenses will increase. We project GPM and NPM (to shareholders of the Company) to be 57.6% and 23.6% in FY23E and rise to 58.9% and 25.0% in FY25E due to better product portfolio mix and higher operating cost efficiency.

Maintain BUY; TP at HK\$ 52.3. We project basic EPS growth to reach 7.5% YoY in FY23E, and improving margins would result in a FY22-25E basic EPS CAGR of 16.7%. Maintain **BUY**. We raise the DCF-derived TP to reflect the higher profit projections and rollover of forecast period. Current TP represents 56.22x/46.30x 23E/24E P/E, or 17.45x/14.23x 23E/24E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Regulation risk; 4) Food safety risk; 5) Limitation of water sources; 6) Product concentration risk; 7) Changing consumer taste in China; 8) Fluctuation in EPS growth.

Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	29,696	33,239	38,944	45,895	54,371
Chg (YoY %)	29.8	11.9	17.2	17.8	18.5
Net Profit – to shareholders of the Company (RMB mn)	7,162	8,495	9,188	11,157	13,584
Chg (% YoY)	35.7	18.6	8.2	21.4	21.8
Basic EPS (RMB)	0.64	0.76	0.82	0.99	1.21
Chg (YoY %)	33.3	18.8	7.5	21.4	21.8
P/E (x)	61.41	51.71	48.11	39.62	32.54
BVPS (RMB)	1.84	2.14	2.63	3.23	3.95
P/B (x)	21.31	18.35	14.93	12.18	9.95
Dividends (RMB)	0.45	0.68	0.33	0.40	0.48
Dividend yield (%)	1.1	1.7	0.8	1.0	1.2
ROAA (%)	24.4	23.5	22.2	22.7	23.0
ROAE (%)	39.5	37.9	34.2	33.9	33.7

Source(s): The Group, ABCI Securities estimates

Company Report Apr 4, 2023 Rating: BUY TP: HK\$ 52.3

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Share price (HK\$)	44.75
52WK H/L (HK\$)	48.65/38
Est. share price return	18.4%
Est. dividend yield	0.8%
Est. total returns	19.2%
Previous report date	Sep 2, 2022
Previous rating/TP	BUY/HK\$ 51.3

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued H-shares (bn)	5.03
Total issued shares (bn)	11.25
H-share mkt cap (HK\$ bn)	225.3
Total mkt cap (HK\$ bn)	503.3
3-mth avg. ADT (HK\$ mn)	182.1
Shareholding (%)	
Zhong Shanshan	65.0

Source(s): Bloomberg, HKEX

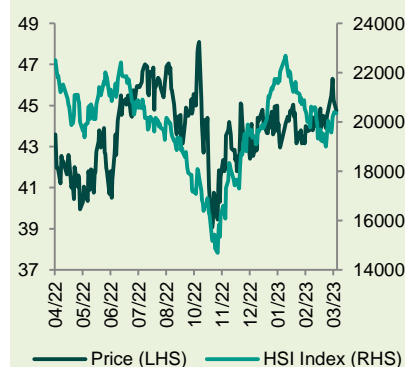
Price performance (%)

	Absolute	Relative*
1-mth	0.67	2.00
3-mth	2.52	1.52
6-mth	(0.56)	(19.69)

* Relative to HSI

Source(s): Bloomberg

1-yr price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Apr 3, 2023

RMB/HKD: 1.1386



Exhibit 1: Changes in assumptions, projections, and valuations

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FY ends at Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
Assumptions					
D/E (%)	7.0	4.7	7.9	5.1	Adjusted based on FY22 rates
D/A (%)	4.8	3.1	5.1	3.3	
Tax rate (%)	23.3	23.3	23.4	23.4	
Valuations					
TP (HK\$)	52.3		51.3		Higher TP is due to higher profit level projections and rollover of forecast period
P/E (x)	56.22	46.30	61.16	51.19	
P/B (x)	17.45	14.23	21.64	17.26	

Note: Previous report was published on Sep 2, 2022

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue (RMB mn)	38,944	45,895	54,371	39,608	46,196	N/A	(1.7)	(0.7)	N/A
Net profit (to shareholders of the Company) (RMB mn)	9,188	11,157	13,584	8,991	10,742	N/A	2.2	3.9	N/A
EPS (RMB)	0.82	0.99	1.21	0.80	0.96	N/A	2.2	3.9	N/A

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	29,696	33,239	38,944	45,895	54,371
Packaged drinking water products	17,058	18,263	20,334	22,767	25,579
Tea beverage products	4,579	6,906	9,576	13,003	17,359
Functional beverage products	3,695	3,838	4,252	4,750	5,306
Juice beverage products	2,614	2,879	3,281	3,720	4,280
Other products	1,750	1,354	1,501	1,655	1,847
Cost of sales	(12,040)	(14,144)	(16,514)	(19,146)	(22,330)
Gross profit	17,656	19,095	22,429	26,749	32,041
Selling expenses	(7,233)	(7,821)	(9,399)	(11,117)	(13,289)
Admin expenses	(1,751)	(1,835)	(2,234)	(2,650)	(3,148)
Others net income/gain	735	1,687	1,245	1,614	2,136
Net finance costs	(53)	(76)	(55)	(50)	(40)
Pretax profit	9,354	11,050	11,986	14,546	17,701
Tax	(2,193)	(2,555)	(2,798)	(3,389)	(4,116)
Net profit	7,162	8,495	9,188	11,157	13,584
- Owners	7,162	8,495	9,188	11,157	13,584
- MI	0	0	0	0	0
Dividend	5,061	7,648	3,675	4,463	5,434
EPS (RMB)					
- Basic	0.64	0.76	0.82	0.99	1.21
- Diluted	0.64	0.76	0.82	0.99	1.21
DPS (RMB)	0.45	0.68	0.33	0.40	0.48

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Bank balances and cash	14,784	15,211	17,224	26,293	31,523
Prepayments, other receivables and other assets	558	560	572	723	834
Trade and bills receivables	476	479	628	683	865
Inventories	1,809	2,108	2,372	2,877	3,213
Others	208	3	0	0	0
Current assets	17,836	18,361	20,795	30,577	36,435
PP&E	12,800	15,398	17,009	18,456	20,934
Right-of-use assets	724	853	948	1,032	1,166
Intangible assets	65	58	76	82	89
Others	1,471	4,584	4,531	4,746	4,711
Non-current assets	15,060	20,893	22,564	24,316	26,899
Total assets	32,896	39,255	43,359	54,893	63,334
Trade and bills payables	1,153	1,425	1,476	1,951	2,127
Other payables and accruals	4,488	6,506	5,268	8,570	7,460
Contract liabilities	2,351	2,677	3,283	3,700	5,427
ST bank borrowing	2,500	2,425	1,940	1,552	1,242
Others	1,097	1,568	1,241	2,222	1,921
Current liabilities	11,589	14,601	13,208	17,996	18,176
Deferred income	265	291	274	277	281
Deferred tax liabilities	258	247	225	271	377
Lease liabilities	43	31	54	58	58
Non-current liabilities	566	569	554	606	717
Shareholders' equity	20,742	24,084	29,597	36,291	44,442
MI	0	0	0	0	0
Total equity	20,742	24,084	29,597	36,291	44,442
Total liabilities and equity	32,896	39,255	43,359	54,893	63,334

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)	FY21A	FY22E	FY23E	FY24E	FY25E
Profit before tax	9,354	11,050	11,986	14,546	17,701
Depreciation and amortization	2,378	2,438	2,958	3,566	4,809
Change in working capital	1,686	2,518	(1,005)	3,482	164
Others	(2,018)	(2,333)	(2,658)	(3,167)	(3,801)
Cash flow from operating activities	11,400	13,674	11,280	18,426	18,873
Change of P&E and right-of-use assets	(2,461)	(4,366)	(4,098)	(4,112)	(6,140)
Change in intangible assets	(15)	7	(18)	(6)	(7)
Others	(2,839)	(77)	(558)	(2,681)	(1,523)
Cash flow from investing activities	(5,316)	(4,435)	(4,674)	(6,799)	(7,670)
Change in borrowing	86	(485)	(388)	(310)	(248)
Net proceeds from IPO	0	0	0	0	0
Others	(1,980)	(8,284)	(4,771)	(4,827)	(7,209)
Cash flow from financing activities	(1,893)	(8,769)	(5,159)	(5,138)	(7,457)
Net change in cash	4,191	469	1,447	6,490	3,746
ForEx Impact	(59)	(9)	(38)	(141)	(85)
Cash and cash equivalent - end	10,188	10,648	12,057	18,405	22,066

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	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY %)					
Revenue	29.8	11.9	17.2	17.8	18.5
Packaged drinking water products	22.1	7.1	11.3	12.0	12.4
Tea beverage products	48.3	50.8	38.7	35.8	33.5
Functional beverage products	32.3	3.9	10.8	11.7	11.7
Juice beverage products	32.2	10.1	14.0	13.4	15.0
Others	66.0	(22.6)	10.8	10.3	11.6
Gross profit	30.7	8.2	17.5	19.3	19.8
Pretax profit	33.9	18.1	8.5	21.4	21.7
Net profit (to shareholders of the Company)	35.7	18.6	8.2	21.4	21.8
Profitability ratios (%)					
GPM	59.5	57.4	57.6	58.3	58.9
Pretax margin	31.5	33.2	30.8	31.7	32.6
NPM (to shareholders of the Company)	24.1	25.6	23.6	24.3	25.0
Return ratios (%)					
ROAA	24.4	23.5	22.2	22.7	23.0
ROAE	39.5	37.9	34.2	33.9	33.7
Liquidity ratio (x)					
Current ratio	1.5	1.3	1.6	1.7	2.0
Quick ratio	1.4	1.1	1.4	1.5	1.8
Cash ratio	1.3	1.0	1.3	1.5	1.7
Working capital turnover (days)					
Receivable turnover	5	5	5	5	5
Inventory turnover	55	51	50	50	50
Payable turnover	31	33	32	33	33
Cash conversion cycle	29	23	23	23	22
Leverage ratios (%)					
Total debt to Equity	12.5	10.5	7.0	4.7	3.1
Total debt to Total assets	7.9	6.4	4.8	3.1	2.2
Net debt/(cash) to Equity	(58.8)	(52.7)	(51.2)	(67.8)	(67.8)
Net debt/(cash) to Total assets	(37.1)	(32.3)	(34.9)	(44.8)	(47.6)

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate < Market return rate ($\sim 9\%$)
Sell	Stock return < - Market return ($\sim 9\%$)

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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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