Want Want China Holdings Ltd (151 HK Equity)

BUY: HKD$7.80 (16.2%)

Equity Research Department – Consumer Staples

15 November 2019

Analysts

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Basic Information

Last Closed Price	HKD$$6.71
12M Target Price	HKD$7.80
+/- Potential	+16.2%
Bloomberg Ticker	151:HK
GICS Sector	Consumer Staples
GICS Sub-Industry	Consumer Staples

1Y Price(HKG:0151) v Relative Index(HSI)

Company Description

Want Want China Holdings Ltd is the largest producer of rice cakes and flavoured milk in China. It also engages in the manufacturing of snacks and beverages. The company mainly operates in China but also exports its products internationally.

Key Financials

Market Cap	80.575B
Basic Shares O/S	12.42B
Free Float	39.01%
52-Wk High-Low	$HKD 5.14 - $HKD6.76
Fiscal Year End	31-Mar-2019

($RMB M)	FY18A	FY19A	FY20E	FY21E
Revenue	20150	20712	21447	22208
Gr Rate (%)	2.2	2.8	3.6	3.6
EBITDA	4977	5393	5764	5867
Margin (%)	24.0	26.0	26.0	26.4
ROE	21.30	22.40	21.80	21.20
ROA	11.70	11.60	12.20	12.50
EVEBITDA	11.38	11.29	11.41	11.21

Key Executives

Tsai Eng-Meng	Chief Executive Officer
Chu Chi-Wen	Chief Financial Officer

We are initiating coverage of Want Want China Holdings Limited with a BUY rating and a HKD$7.80 12M price target.

FY19 Earnings Highlights

- Total revenue of RMB$20,712 million, a 2.8% YoY increase.
- Dairy Products and Beverages, Rice Crackers and Snack Food Segments grew 1.6%, 3.9% and 3.5% respectively, boosting gross profit by 9.2%
- Adjusted EPS was RMB$0.25 M per share in FY18 compared to RMB$0.27 M in FY19, an 8.0% YoY

Investment Thesis

- **Initiation of geographical footprint expansion.** Midterm to long term expansion strategy is to increase its investment spending to deepen and widen its presence in China through its untapped regions of some 400 million individuals and SEA by setting up local production factories in countries such as Vietnam.
- **Continued product innovation to boost demand.** Want Want China Holdings' current strategy to drive growth is through product differentiation, where they seek to drive growth by enriching the existing product categories and expanding into new categories with each category tailored to specific customers
- **Diversified marketing strategy through multiple channels to capture greater market share.** Want Want China Holdings has formulated a diversified marketing strategy to expand the coverage of points of sales and enhance overall product presence on shelves through further penetration of distribution channels and development of emerging channels.

Catalysts

- **Acquisitions of companies in regional areas.** Currently the company has 17.13 billion yuan in cash on hand and is seeking to expand deeper into south east Asia. Potential acquisitions of local snack business such as Vietnam Orion Food or other similar business puts Want Want on edge which can push up its price.
- **Beating Revenue and Earnings estimates** Aggressively investing in digital marketing efforts, intensifying distributional channels and point of sale would lead to increased brand and product awareness can lead to higher amount of purchases that might beat both revenue and earnings estimates.

Investment Risks

- **Commodity Price Risks.** Raw materials are sourced 77% domestically within China and 23% sourced from overseas partners. As Want Want China Holdings has no control over such prices, it might be subjected to price fluctuations. As of now, Raw materials adds up to 1 billion yuan which is approximately 5% of revenue.
- **New Product Developments may not take off.** Want Want China Holdings has been experiencing market share losses. Therefore, they have introduced new products to appeal to consumers and win back market share. However, if the Chinese and regional consumers do not accept the new products akin to Want Want Rusuanjun, the whole strategy might not take off.
- **Foreign Exchange Risks.** The risk of a full blown trade war between the U.S. and China remains an ongoing concern, which would negatively impact the strength of Chinese Yuan. Therefore, if China were to devalue its currency further, raw material costs will go up as they buy 23% of raw materials overseas

Figure 1. Breakdown of revenue by segment

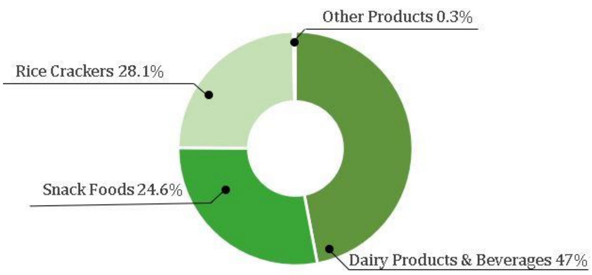
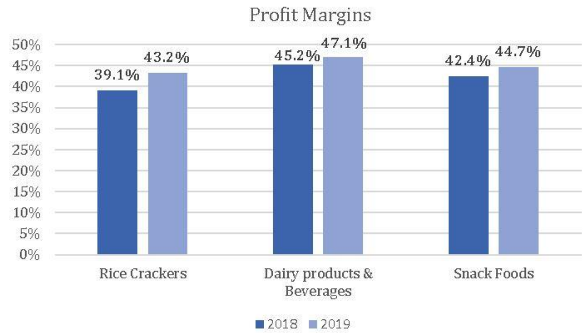
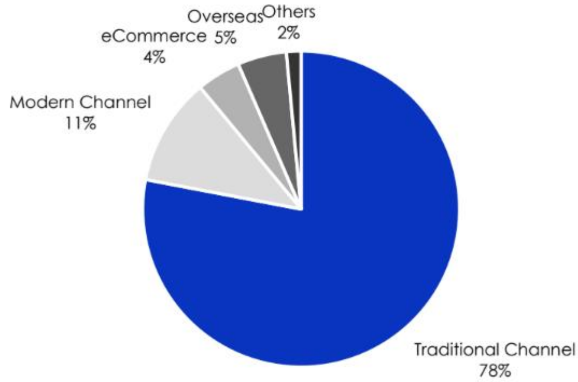


Figure 2. Gross Profit Margin for each segment



Source: Want Want FY19 Annual Report

Figure 3. Want Want sales breakdown by channel



Source: Company Data, CCBIS

Figure 4. China Savoury snacks market share

Savory Snacks Industry Market Share	2018	2017	2016	2015
PepsiCo	5.60%	5.50%	5.70%	5.60%
Calbee	4.10%	4.30%	4.10%	4.40%
Want Want	3.10%	3.30%	3.60%	3.40%
Kameda Seika	2.40%	2.60%	2.50%	2.80%
Bestore Food	2.30%	1.90%	1.60%	0.90%

Source: Bloomberg

Company Overview

Want Want China Holdings is a Taiwanese confectionery company headquartered in Shanghai, China. It was founded in 1962 by Jonathan Ng Shuai Qiang and began operations under the name of I Lan Foods Industrial Company Ltd in Yilan country, Taiwan. CEO Tsai Eng Meng took over the role from his father in 1987, while CFO Chu-Chi Wen took over as CFO in 2012 having been a non-executive director of the company since 15 July 2011Most of the operations are located in China, with the rest located in Taiwan, Japan, Hong Kong and Singapore. The company has an extensive nationwide sales and distribution network, with more than 100 factories and over 300 sales offices throughout China. It also exports its products to other markets, including the US, Canada, South East Asia and Europe.

Business is operated through 4 segments: Rice crackers, Dairy products and beverages, Snack Foods and Other Products. The Rice Crackers segment manufactures sugar coated, savoury and fried crackers. Dairy products and Beverages segment include flavoured milk, yoghurt drinks, ready-to-drink coffee, carbonated drinks and milk powder. Snack Foods segment consists of candies, popsicles and jellies, beans and nuts. The Other Products segment includes mainly wine and other food products. The company also manufactures wheat, flour and raw materials for the manufacture of snack foods. It holds about 80% share of the rice cracker market, taking advantage of technical assistance provided by the Japanese company Iwatsuka Confectionery.

Moving forward, Want Want China Holdings is working to strengthen its dairy products division to further diversify its operations in order to focus on other markets for growth opportunities.

FY19 Earnings Review

Total revenue grew 2.8% YoY from RMB$20,150 million to RMB$20,712 million. Growth in Dairy Products and Beverages, Rice Crackers and Snack Food Segments grew 1.6%, 3.9% and 3.5% respectively, boosting gross profit by 9.2%. This was mainly attributed to Want Want's marketing efforts as well as the introduction of a new range of products that revitalized the brand image.

Gross profit margins widened by 2.7ppt to 45.4%, led by several factors such as the decline in cost of raw materials, product mix enhancement and the decline of VAT from 16% to 13% on 1 April 2019. Net profit also climbed 12% YoY to RMB$3477 M, which was 3% above consensus and in line with estimates.

Industry Outlook

China dairy and snacks overview

China's snacks market is relatively fragmented with numerous players and the largest one – PepsiCo – only capturing 5.6% of the market share. Meanwhile, the dairy market is dominated by two main players – Inner Mongolia Yili and China Mengniu Dairy – , owning 43.8% of the market share with the other competitors only capturing <2% each. The snacks market is expected to remain fragmented as the low barriers to entry enables newer players to persistently enter the market with new products and compete for the market share.

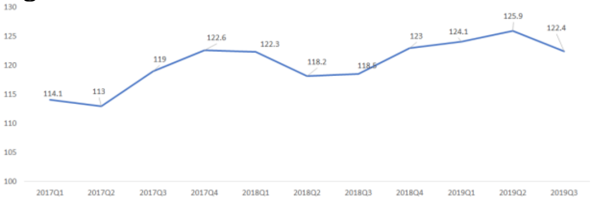
In terms of health trends, obesity is a growing issue in China where it has the world's largest population of obese children – 15 million – and the world's second largest population of obese adults – 79 million. A study by Peking University project that this number is expected to grow to 28% of the population by 2030. This worrying trend had caused the central government to become more active in curbing obesity but measures till date mainly revolved around encouraging more physical activities rather than targeting diets.

Figure 5. China dairy market share

Dairy Market Share Breakdown				
	2018	2017	2016	2015
Inner Mongolia Yili	22.00%	21.20%	20.50%	18.70%
China Mengniu	21.80%	20.20%	18.40%	18.50%
Bright Food Group	4.80%	4.90%	5.00%	5.60%
Bhebei Yangyuan Zhihui	3.40%	4.00%	4.80%	4.20%
Hangzhou Wahaha Group	3.40%	4.10%	5.40%	6.60%
Want Want	2.40%	2.70%	3.30%	3.80%

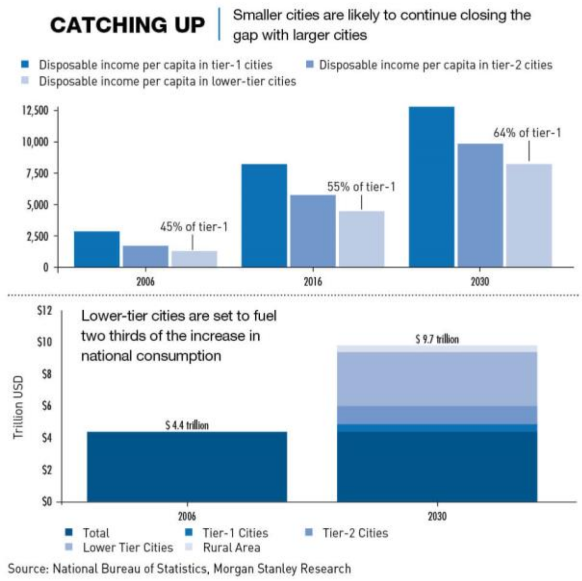
Source: Bloomberg

Figure 6. China consumer confidence



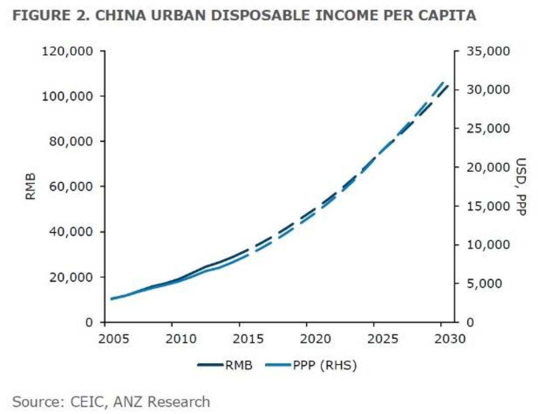
Source: Bloomberg

Figure 7. China disposable income in different tier cities



Source: National Bureau of Statistics

Figure 8. China Urban disposable income per capita



Source: CEIC

Nevertheless, diet could potentially be targeted – as seen in other developed societies - given the central role it plays in the obesity problem and that will definitely impact snack makers like Want Want China Holding.

China retail sales and consumer confidence still going strong

In spite of domestic GDP slowing to 6.0% and uncertainties arising from the trade war, consumption figures in China has held up relatively well with consumer confidence at 122.4 in 2019Q3, well above the benchmark of 100. Unemployment is also at a record low of 3.61% for Q2 2019. Furthermore, retail sales growth for consumer goods appears to be bottoming out, expanding by 7.80% in September 2019. Overall, domestic demand has remained healthy which is important for Want Want China Holding as domestic sales contribute to 90% of its revenue.

In the longer term, China's continued urbanization can help contribute to increased consumption where rising wages in the third, fourth and fifth-tier cities due to urbanization should fuel higher consumption of dairy products and snacks, especially as retailers like Walmart and Sun Art expand into these less-developed areas.

China's E-commerce snack sales

The snack sales on China's e-commerce platform reflects a relatively rosy picture, posting Y-O-Y double-digit growth for all the first 8 months in 2019 with the exception of February 2019. With consumers increasingly transitioning to using e-commerce platforms for their purchases, snack sales on e-commerce platform are expected to continue growing in line with China's e-commerce retail transaction value that is projected to reach $1.99 trillion USD by the end of 2019.

China snack market

China is the largest consumer of savoury snacks, consuming about 5.5 million tons of snacks in 2018. According to the Snack Report released by the Circulation Industry Promotion Centre, an affiliate of the Ministry of Commerce, China's snack industry gross output volume was 2.2 trillion yuan in 2019 and this is expected to grow to 3 trillion yuan in 2020. Furthermore, the report reflect that consumers prefer healthy and tasty snacks where natural food, whole grain, sugar-free and additive-free are key considerations for consumers when choosing snacks. Lastly, the largest consumer group for snacks is young people aged between 20 and 30. A study conducted by also showed that increasing per capita income had a positive effect on the number of snacks consumed by households. This should increase demand for snacks given the growing income per capita in urban China.

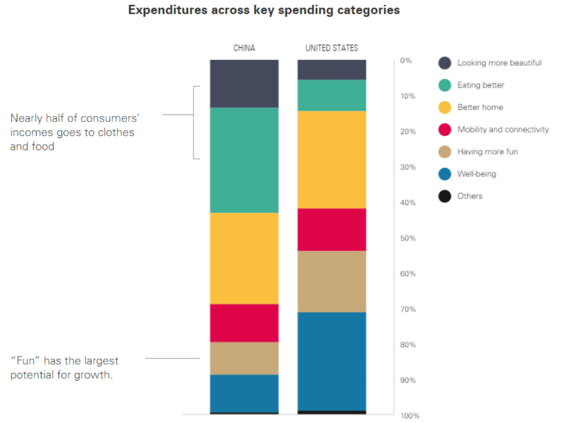
China dairy market

According to Mintel, the Chinese dairy market is forecasted to grow by 6.6% CAGR until 2022, reaching 349.7 billion yuan. China is projected to overtake the United States as the world's largest dairy market by 2022. Despite the significant size of the market, the milk consumption on a per capita basis in China is 14.3 litres, compared to 36.8 litres in Japan and 51.7 litres in the US. This suggests huge headroom for consumption to be increased in China on a per capita basis.

Huge market opportunities for exports in SEA

Mondelēz projects that 80 percent of the growth in snacking will come from developing markets like Southeast Asia. For Want Want China Holding, the Southeast Asia market is especially relevant with over 25 million Chinese spread across all the southeast asia nations whom they can tap on by leveraging on their brand recognition within these Chinese communities. Furthermore, snacking is a major part of many Southeast Asians' lifestyles. In the Indonesia market,

Figure 9. China consumers' expenditure across categories

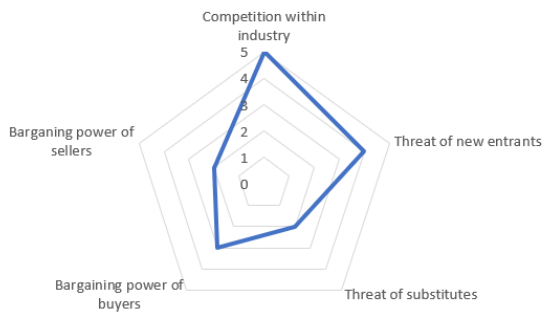


Source: Baidu

Figure 10. China consumer retail sales growth

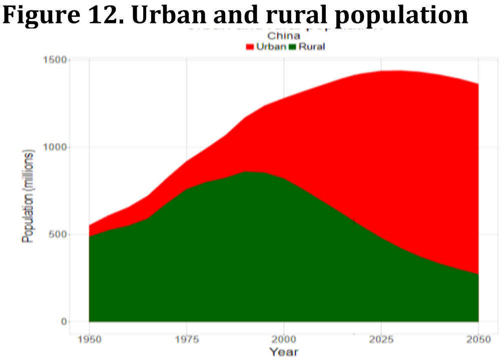
Source: National Bureau of Statistics

Figure 11. Porter's 5 Forces



Source: NUS Investment Society estimates

Figure 12. Urban and rural population



Source: United Nations

about 69% of urban consumers in the country snack at least once a day and this segment is expected to grow at a CAGR of 11.3% by 2021 over there. Similarly, in the Philippines, the snacks category is growing at a double-digit rate according to a 2019 study by Nielsen. However, these market opportunities may not come to fruition in the short-term due to a suppressed economic environment as a result of the on-going trade war which caused projected economic growth in Southeast Asia to ease to 4.5 per cent this year from 5.1 per cent in 2018.

Porter's Five Forces

Competition within industry - High

Want Want China holdings main competitor would be foreign entities that are growing their presence in China such as PepsiCo and Calbee as well as local players such as Bestore, Dali Foods and ChaCha foods. The intense competition has forced Want Want to cede its pricing power as price hike are often not matched by competitors, but rather leveraged on by smaller players as an opportunity to wrestle market share away. Also, each of these competitors have their own strength – some of which overlaps with Want Want China Holding's strengths. For example, Bestore also has a strong physical presence in China with over 2,100 stores all over China while Anhui Three Squirrels forte is its digital marketing and sales, being able to drive huge volume of sales via ecommerce platforms and successfully engage with their customers actively on social media. The competitive landscape thus imposes huge threats to Want Want China Holding's market position.

Threat of new entrants - High

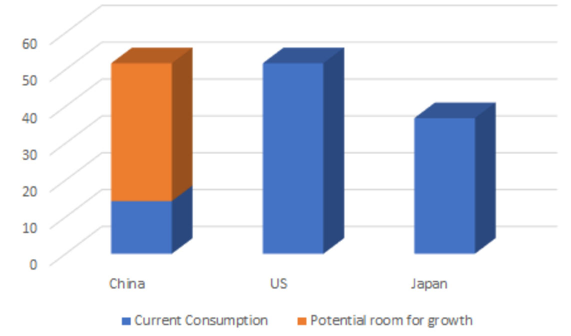
While established brands like Want Want have an advantage in physical sales distribution channel with over 400 sales offices and a sales force of more than 10,000 throughout China to target even obscure areas like the Xinjiang Uighur Autonomous Region, the emergence of e-commerce within China has lowered the barriers to entry for new entrance. New snack producers can easily market their products on existing e-commerce platforms and rely on the complementary supply chain solutions provided on these platforms to penetrate the market. For example, French organic snack company was able to penetrate the China market early this year by first launching its "Good Gout overseas flagship store' on Tmall in May 2019 followed by launching its products on JD.com in August.

Furthermore, in the snack industry, Chinese consumers are increasingly seeking for new and different flavour experiences. They are willing to try out new brands so long the products match their taste preferences and they are less likely to base purchase decisions on brand loyalty. As such, the market has become increasingly accessible for new entrants with innovate products. For example, "Taste Food" is a relatively new brand in China and yet it is able to achieve #1 sales in China for the snack segment in Tmall.com mainly because of its unique salted egg flavour that captured the interest of the Chinese consumers.

Threat of substitutes - Low

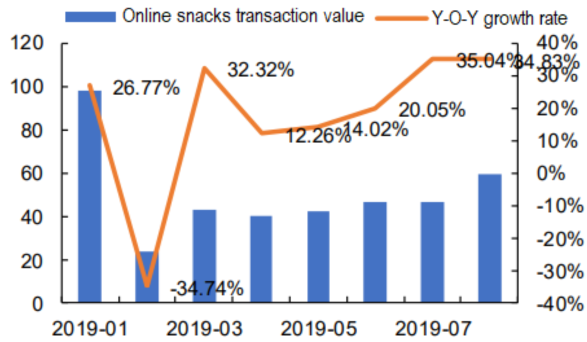
Chinese consumers are increasingly health conscious and paying more attention to their sugar and fats intake. As such, more are switching to fresh fruits and vegetables or dairy-based foods for snacking, with 63% of Chinese consumers reported to be eating more fresh fruits and vegetables as snacks. Nonetheless, sweet and savoury snacks still dominate the diet of Chinese consumers with a recent survey showing the number of Chinese adults between 19 and 44 who had snacked over the past three-day period nearly doubled and snack manufacturers are also fully capable of retaining these health-conscious consumers with new products that are sugar-free, additive-free or based on whole grain to meet the needs of the

Figure 13. Dairy per capita consumption



Source: Bloomberg

Figure 14. Growth of online snack market



Source: Pacific Securities

Figure 15 . China snack companies' store count

Store Count	
Dali Food	2,000
Bestore Food	2,100
Want Want	416
Laiyifen	2,700

Source: Bloomberg

Figure16. Good Gout overseas flagship store on Tmall

Source: Tmall.com

consumers. For example, Want Want has just released its Fix Body series of products recently this year, and these products are mainly snacks that are low in calories and additive-free to target the health-conscious segment. Furthermore, pre-packaged snacks offer taste, texture and convenience which cannot be offered by fruits and vegetables.

Bargaining power of buyers - Moderate

With the technological advancements and mobile integration in China, consumer awareness of products is generally higher because businesses and retailers can easily surf and choose from many options now. This opens to more options and alternatives for Want Want's current product offerings. The company however, uses its 10,000 personnel salesforces to generate roughly 80% of its total sales from regional small enterprises which are privately own retail stores that are scattered across a wide region in China. Effectively, there is no one single large buyer but thousands of different retailers for the company's existing products.

Bargaining power of suppliers - Low

Want Want China Holdings reaches out to its suppliers for raw materials such as sugar, rice and palm oil for production. These products are commodities and have no differentiating factors between them which means there are copious amounts of suppliers out there that Want Want can easily switch to. Apart from having many substitutes for suppliers, prices are normally market rates which makes it difficult to manipulate prices.

Investment Thesis

1. Initiation of geographical footprint expansion

Want Want China Holdings currently brings in 90% of its revenue directly from mainland China. Midterm to long term expansion strategy is to increase its investment spending to deepen and widen its presence in regional areas.

Government policies are aiming to urbanize the other parts of China. There are still many untapped markets in China which could potentially drive up sales for the company. Want Want China has a huge sales force in China which would lead to easy access to the newer regions such as Tibet or Qinghai. Coupled with the fact that lower tier cities have rising wages, this could lead to higher consumption of Want Want's China dairy products and snack products.

Currently, Want Want China has operations in China, Hong Kong, Taiwan, US and Singapore. China has its own direct sales force of 10,000 personnel, whereas countries such as Singapore they have their own wholesalers and distributors. For example, Want Want products are wholesaled through companies such as Auric Pacific marketing and Yan Thai Yit trade. Similarly, with geographical footprints into other parts of South East Asia, we would expect a combination of both direct sales team and other intermediaries such as distributors and wholesalers.

We believe the expansion into the South East Asia with a focus in Vietnam would yield satisfactory results. The combined population in SEA is approximately 650 million and coupled with the fact that there is a snacking habit within SEA, there exist a large market potential and revenue gains for Want Want China. For example, snack food is the fastest growing segment in the food market in Vietnam which grew 21%, coupled with rise in urbanisation and disposable incomes in Vietnam.

Currently, distribution expenses total up to RMB 2984.6 million which equates to approximately 14.4% of the company's revenue.

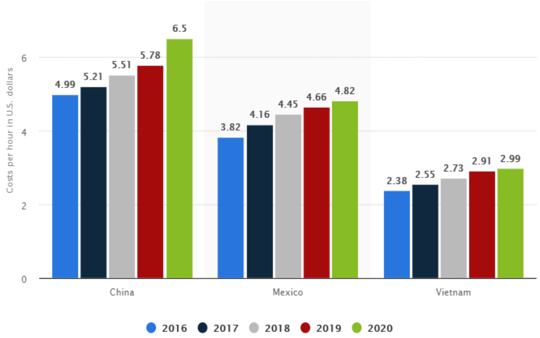
Figure 17. Taste Food - #1 snack in Tmall.com

Source: Tmall.com

Figure 18. Fix Body – healthy snacks by Want Want to target health-conscious customers

Source: Want Want Annual Report

Figure 19. Cost of hourly Wage between China, Mexico and Vietnam



Source: Statista

Figure 20. Want Want "Dongchi" popsicles

Source: Google Images

China's manufacturing labour cost has also been on the rise since 2016, from 4.99USD per hour to 6.5USD per hours compared to having Vietnam with wages of 2.38USD per hour to 2.99USD per hour. Since Want Want is expected to expand to SEA, it would benefit their bottom-line.

COGS which comprise of direct labour, raw material and overheads comprises half of its revenue. Through the expansion into other regions, we would expect higher production volumes and thus higher COGS. Therefore, if production volume is increased in China, it may mean higher costs. By having plants in Vietnam, it would result in cheaper labour cost as evidently, the labour hour cost half in Vietnam as compared to China. and easier access to customers.

Revenue in overseas markets are coming in strong with double-digit growth last year. To take advantage of One Belt One Road policy, easier access to markets, cheaper wages and tax rates, Want Want plans to invest 250 to 300 million yuan annually within the next 3 to 5 years, to set up 3 to 5 factories in South East Asian region.

In addition, Want Want China has justifiable financial muscle to see through this initiative. Want Want currently holds approximately 17 billion yuan in cash, with stable net profit margins over 15%-18% and declining D/E over the last ten and five years respectively. In addition, the cash position of Want Want China has been consistently on an uptrend.

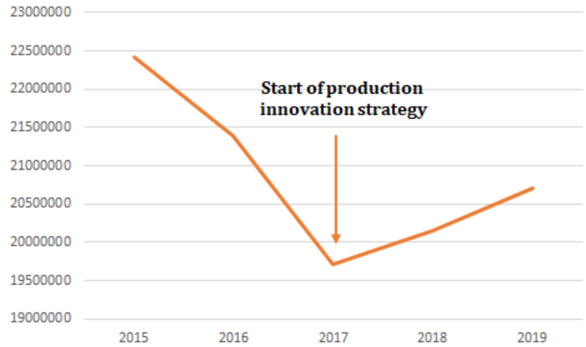
As the industry gets more competitive, companies must find some ways to differentiate themselves. For Want Want China's case, they are currently generating above average, latest operating income margins came in approximately 21.92% against the industry median of 5.93%. Net Profit Margin of Want Want is one of the highest in the industry coming in at approximately 16% as compared to industry median of approximately 3%. Historically, expansion of factory buildings are typically financed with both internally generated cashflow and credit line. We expect the geographical footprint expansion to tap on both its existing cashflow and credit line.

We would expect a higher top-line growth over the next few years as its consumer base will increase exponentially.

2. Product innovation will continue to pay-off:

Want Want China Holdings' current strategy to drive growth is through product differentiation, where they seek to drive growth by enriching the existing product categories and expanding into new categories with each category tailored to specific customer groups. As a result, Want Want China Holdings has been introducing 40-50 new SKU on an annual basis for the past 2 years and there were already signs of payoff with numerous successful new products in FY2018 alone such as its "dongchi" popsicles introduced in 2018 that contributed to 8.1% Y-O-Y revenue growth for its popsicle segment. Its new "Tian She Mi Shao" which won the "New Consumption Innovation Product Award" at the 2019 Global Food & Beverage Innovation Conference was also well-received. Overall, these new products across different categories contributed to revenue growth of 3.9% and 3.5% for its rice crackers and snack foods segments in FY2018. Looking even further back, the revenue recovery since 2017 coincided with the implementation of this new strategy and the revenue growth since can be mainly attributed to these new products introduced. Revenue was able to start growing once again consistently for 2 years from 19,710M yuan in 2017 to 20,712M yuan in 2019, putting a stop to its decline in revenue. The slew of successful products introduced also helped slow down its decline in

Figure 21. Recovery of revenue due to product innovation strategy

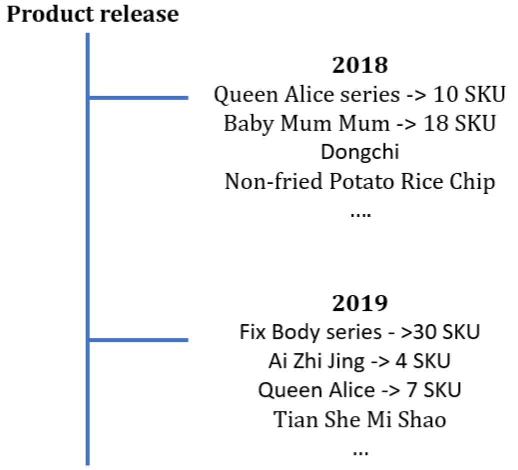


Source: NUS Investment Society

Figure 22. Distribution of Want Want China Holdings sales offices within China

Source: Want Want FY19 Annual Report

Figure 23. Project releases of Want Want China Holdings from 2018 till to-date



Source: NUS Investment Society

market share, declining only 0.2% in 2018 as compared to a 0.3% drop in 2016.

Aggressive product range expansion is expected to continue in FY2019 with numerous new products already announced to date. In September, it announced its Fix Body product line consisting of 30 healthy snack foods and drinks targeted at youths over the age of 18 who are increasingly health-conscious with its low sugar, less calories, and no additives properties. On top of that, we expect more products for the rest of the FY as the Chinese New Year is a key period for some of its segments like the gift segment and we would expect Want Want China Holdings to release new products to capitalize on this period. In the long term, we believe that this strategy will be maintained and successful given the early signs of payoff, especially when their products are developed based on a customer-centric approach - each for a specific target audience and leverages on prevailing favourable demographic or market trend. For instance, its “Ai Zhi Jing” introduced this June covers products like oatmeal that is targeted at China’s 250 and growing million elderlies, the Fix Body brand targets the increasingly health-conscious individuals while the Baby Mum-Mum brand targets the maternity market which leverages on the potential rise in birth rate due to abolishment of the one-child policy.

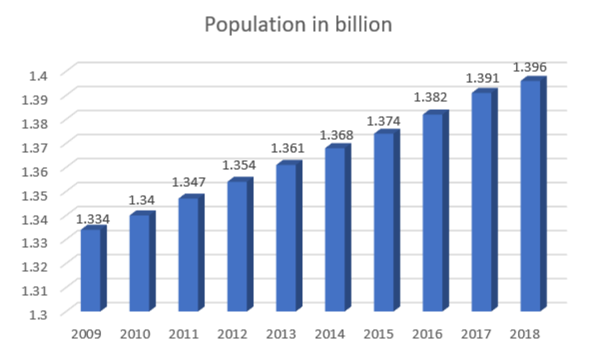
<u>Mitigated risks of unsuccessful product launch</u>

Given that Want Want China Holdings’s aggressive product expansion strategy, we cannot expect all products developed to be commercially successful. Nonetheless, Want Want China Holdings can mitigate such risks through its established network of 10,000 wholesalers and 417 sales offices within China. They split the China market into over 1000 geographical segments and leveraged on their network of infrastructure and personnel to conduct selective testings at various locations within the areas for each product prior to launch before making any decision. This helps them increase the chances of commercial success of their new products. Furthermore, this is an asset that smaller companies do not have access to and will allow Want Want to release more appropriate for the local cities as compared to their competitors. For example, Want Want even have sales office in the obscure and yet populous areas like the Xinjiang Uighur Autonomous Region which most of the smaller competitors will not have exposure to.

<u>Deep understanding of the local market</u>

Operating in the China market since 1992 and having established itself as the 3rd largest player in China's snack market (owns 2.9% of the market share) today, Want Want has managed to develop a deep understanding of the local purchasing behaviours - its culture, buying trends and occasions. Want Want in turn leverages on these knowledges to facilitate their product launch. For example, it is pivoting towards the gift segment because of China’s culture of giving gifts especially during Chinese New Year. This strategy saw revenue growth of 6.90% for the gift segment in FY2018. Furthermore, they also launched products that capitalizes on local events like gaokao-themed candies during the gaokao exam season and snack boxes in May this year to cater to Children's Day which falls on 1st June in China. They also capitalized on the increased use of ecommerce in China, collaborating with platforms like JD to co-brand items like “JD Special Pack” and “Make Bigger” gift packs which were sold out within seconds during the “Double-11” event. As such, we believe they are capable of capitalizing on these local knowledges to release appropriate products that Chinese consumers want and market their new products, thus maximize growth going forward. This is especially critical when the many of their bigger competitors in the snack market are foreign companies – PepsiCo, Calbee and Kameda

Figure 24. China Population over 10 years

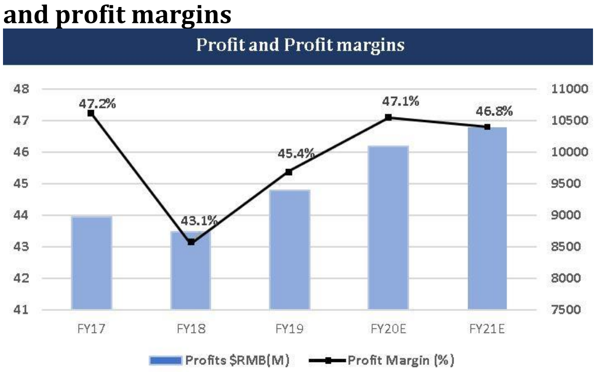


Source: NUS Investment Society

Figure 25. Want Want China Holdings's sub-brands

Source: Taobao

Figure 26. Want Want China Holdings profits and profit margins



Source: Bloomberg Data

Figure 27. Hot-Kid Knows Everything cartoon

Source: Google Image

Seika. Want Want's superior understanding of the local market can potentially allow them to steal market share from these players with innovative products that are more suited for the local palate and culture.

3. Diversified marketing strategy through multiple channels to capture greater market share

Want Want China Holdings has formulated a diversified marketing strategy to expand the coverage of points of sales and enhance overall product presence on shelves through further penetration of distribution channels and development of emerging channels.

<u>Digital Marketing</u>

The digital marketing campaigns launched by the Group in 2018FY were awarded the Gold Prize in content marketing and the Bronze Prize in media integration at the 5th Top Mobile Awards. The interesting theme activities and content disseminated through new media platforms have rejuvenated "Want Want" brand, creating a cool and youthful brand image, and demonstrated the Group's endless possibilities for the future

The company has managed to strengthen its brand image and interaction with consumers through diversified digital marketing. Implementation of the above strategies has shown positive results. Prior to implementation of these marketing strategies, revenue peaked in FY2013 at RMB$ 23,471.9 M and been on the decline for the following years till FY2017 with revenues of RMB$19,017 M. Marketing efforts for their products have paid off with revenue increasing at an average rate of 4.39% from FY2017 to FY2019.

Through digital marketing campaigns such as "Full of good luck and embracing happiness", the "Collection of Cliché love message" specially created for the milk candies achieved Weibo Topic views of over 30 million while the campaign attracted a total number of impressions of over 170 million. All these efforts helped to foster closer emotional ties between consumers and the Group's products and brands.

<u>Cross-sector integrated marketing</u>

From October 2018 to present, the cartoon "Hot-Kid Knows Everything" was broadcasted on 10 major video platforms with over 37 million views in total, managing to promote its signature Hot-Kid brand products. Online community marketing The Hot-Kid Club, through its social network system, releases the latest activities and information of products for emerging channels such as Hot-Kid stores, Hot-Kid Club theme stores, Want Want vending machines, etc. directly to consumers and directing them to shopping platforms to purchase their desired products.

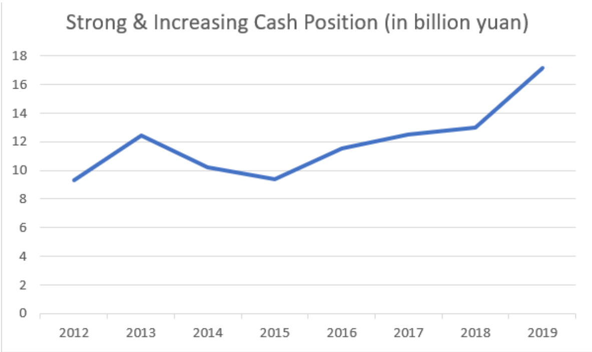
Currently, Want Want sells their products through online retailers like Taobao & Amazon. Bulked up online presence should allow Want Want China Holdings to expand sales by reaching out to customers in smaller cities, while a growing mom and baby specialty retail presence helps it to attract more affluent shoppers. Increased focus on marketing can also help bolster brand equity, allowing them to scale back margin sapping discounts.

Moving forward, traditional channels are expected to raise penetration, and non-traditional channels (e-commerce, maternity channel, modern channel and overseas market) will be further expanded, including the launch of channel- specific products. In 2018, non-traditional channels accounted for about 20% of total revenue, and we expect the share will further increase this year and

Figure 28. Want Want product listing- Amazon

Source: Amazon

Figure 29. Want Want China Holdings Cash



Source: NUS Investment Society Estimates

Figure 30. Orion Food vina

Source: Google Images

Figure 31. Want Want China diverse products

Source: Google Images

Figure 32. Want Want China 10Ys NPM

beyond. Furthermore, we believe that there is plenty of room for growth through e-commerce, which currently only contributes to 4% of total sales. We believe that the company can take advantage of its strength in marketing to garner similar results outside of china to further increase the brand equity of Want Want.

Catalysts

Acquisitions of companies in regional areas.

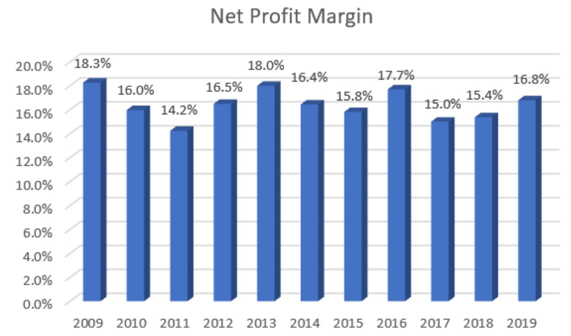
Given that the company currently has 17.13 billion yuan in cash on hand and because the company is seeking to expand into the South East Asia market, they may engage in accretive acquisitions within the next year to accelerate their entry into the SEA market as well as to introduce additional growth drivers into their operations. Such acquisitions will resonate well with investors given the massive opportunities that exist in the SEA market and will allow them to beat revenue growth estimates that is only expected to be in the mid-single digit for the next few years. For example, Vietnam Orion Food Vina holds an estimated 12% of snacks business in Vietnam with revenue of approximately 175 million. Orion Food is associated with good flavours and product quality with strong brand presence alongside distribution advantage. The acquisition of said or similar companies in Vietnam would therefore put Want Want at a strategic position as such acquisitions may increase their supply chain pricing power by leveraging on the existing value chain that a local business possesses. Since expansion and acquisitions are known are resonated as good news to investors, it may be a potential catalyst for Want Want.

Beating Revenue and Earnings estimates.

As the company is aggressively investing in digital marketing efforts, some of the videos may become viral which would lead to increased brand and product awareness. In addition, we can expect more business and consumers to know of the Want Want brand as they increase their expansion strategies to regional countries. While the consensus estimate of EPS is approximately 0.28, we expect a higher EPS of around 0.29, beating earnings estimates which would cause a spike in share price as Want Want exceeds expectations. In addition, analyst estimates revenue growth to be approximately 2% but we project revenue growth of approximately 4%, as the increased product offerings and expected increase in its consumer base coupled with new SKU rollouts in new or maturing categories may cause an uptick in its share price.

Financial Analysis

Financial Ratios	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Profitability							
NPI Margin	15.4%	16.7%	16.8%	16.9%	16.8%	16.8%	16.8%
EBIT Margin	21.3%	23.2%	23.3%	23.4%	23.4%	23.3%	23.3%
Return on Equity	21.3%	22.4%	21.8%	21.2%	20.8%	20.4%	20.0%
Return on Assets	11.7%	11.6%	12.2%	12.5%	12.4%	12.4%	12.3%
Liquidity							
Current Ratio	1.99	3.37	4.36	4.58	4.83	5.04	5.24
Quick Ratio	1.69	2.99	3.86	4.05	4.31	4.52	4.72
Solvency							
Debt Ratio	0.45	0.48	0.44	0.41	0.40	0.39	0.38
Long Term Debt/ Equity	0.23	0.53	0.49	0.42	0.40	0.38	0.36
Times Interest Earned	14.49	14.68	16.52	19.79	21.77	22.49	23.52
Working Capital Efficiency							
A/R Turnover	17.58	20.01	20.01	20.01	20.01	20.01	20.01
A/R Collection Period	20.77	18.24	18.24	18.24	18.24	18.24	18.24
Inventory Turnover	4.49	4.74	4.74	4.74	4.74	4.74	4.74
Inventory Resident Period	81.28	76.93	76.94	76.94	76.94	76.94	76.94
A/P Turnover	8.97	10.93	10.93	10.93	10.93	10.93	10.93
A/P Outstanding Period	40.70	33.39	33.39	33.39	33.39	33.39	33.39
Cash Conversion Cycle	58.15	63.55	63.56	63.56	63.56	63.56	63.56
Shareholder's Returns							
Earnings Per share	0.25	0.28	0.29	0.30	0.31	0.33	0.34
Dividends Per Share	0.14	0.18	0.20	0.21	0.22	0.23	0.24
Dividend Payout Ratio	58%	66%	70%	70%	70%	70%	70%



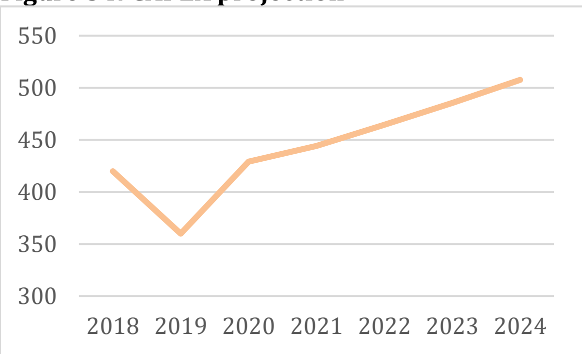
Source: NUS Investment Society Estimates

Figure 33: Costs Breakdown

Costs	2019
Raw Material	8195
Promotion and advertising	643
Employee expenses	4017
Transportation expenses	849
Utilities expenses	667
D&A	854
Machinery maintenance expense	282
Others	1128
Total cost of sales, distribution cost and administrative expenses	16635

Source: Want Want Annual report

Figure 34: CAPEX projection



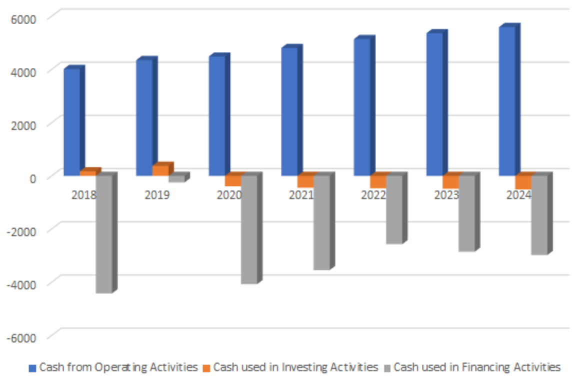
Source: NUS Investment Society project

Figure 35. DuPont equation

	2019A	2020E	2021E	2022E	2023E	2024E
ROE	22.4%	21.8%	21.2%	20.8%	20.4%	20.0%
Assets Turnover	0.69	0.73	0.74	0.74	0.74	0.74
Net Profit Margin	16.7%	16.8%	16.9%	16.8%	16.8%	16.8%
Financial Leverage	1.93	1.79	1.69	1.67	1.64	1.62

Source: NUS Investment Society

Figure 36. Projected cash flow



Source: NUS Investment Society

Overview:

The chart above shows Want Want China's s financial condition prospects for the next 5 years. Our assumptions show that the business's fundamentals are either stabilized or improving, which is in line with our BUY recommendation.

NPI Margins:

Net profit margin is projected to be maintained at the current level. Want Want's China Holding is expected to have higher revenue from greater sales of new products, but these sales will have their corresponding production, distribution and development costs. As such, barring any volatility in terms of the costs of input, we would expect net profit margins to remain at the current level. Furthermore, we believe that despite having a huge amount of cash, Want Want will prefer to maintain its debt level to optimize its capital structure. As such, interest expenses related should remain relatively consistent.

Costs Analysis:

The breakdown of costs is mainly cost of goods sold, depreciation, distribution and administrative expenses. The biggest component is raw material costs that mainly comprises of milk powder, sugar and packaging materials which accounted for 72.4% of COGS (8,195M in 2019). Other major components of their expenses include employee expenses which stands at 4,017M in 2019 (19.3% of revenue), followed by transportation expenses which was 849M in 2019 (4% of revenue) and water, electricity and energy expenses which was 667M in 2019 (3.22% of revenue). We project that such expenses will grow in line with more revenue and increased sales activities. Hence, we kept such expenses pegged at the same percentage of revenue in our projections.

For CAPEX, we expect it to be slightly elevated as compared to the 360M yuan in 2019, growing from 429M in 2020 to 508M in 2024. This is given that management had revealed that they were expanding to the South East Asia market and they are looking to spend between 400M-500M per annum for the next few years for their expansion. As a result, we also projected depreciation expense to rise over the next few years from 854M in 2019 to 1,269M in 2024 as expenditure on CAPEX increases which in turn increases depreciation.

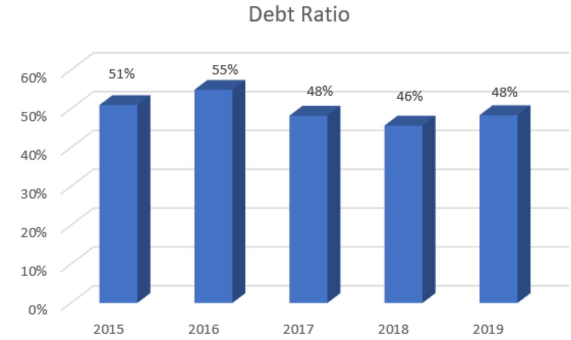
Return on Equity:

Based on the DuPont Formula, the main reason why ROE is projected to be declining due to Want Want's decreased reliance on debt to finance its purchases of assets. Instead, it relies on retained earnings generated from its operations to finance its assets. Afterall, the company's balance sheet is in a very healthy state with ample cash and there is no need for Want Want to take on more debt to finance their expansion. Moving forward, we project that debt's contribution will decline as Want Want retains only a limited amount of debt purely for capital structure purposes.

Cash Flow:

Want Want is projected to generate strong and consistent operating cash flow from its sales of its snacks and dairy products which are consumables and purchases tend to be recurring. The growth in operating cash flow is mainly attributed to the expected rise in sales and thus net income. As for its cash flow used in investing activities, management had declared that they would be spending 400M to 500M yuan per annum for the next few years for expansion, particularly to increase its footprint in the South East Asia market. Most of the cash flow used in investing activities will thus be associated with such expansion plans. For the cash flow used in financing activities, the main contributors are dividends payments as well as the repayment and refinancing of the bonds that are maturing in 2021 and 2022.

Figure 37. Want Want China Debt Ratio



Source: NUS Investment Society

Figure 38. Dairy Segment Product

Source: Google Images

Figure 39. Snack Segment Product

Source: Google Images

Figure 40. Rice Cracker Segment Product

Declining Debt Ratio

The company holds a massive cash position ~17 billion yuan. Our projections also show that the company will leverage on its existing cash position to fund growth which leads to lower borrowings in the short to midterm.

Valuation

Valuation Price Target: HKD**$7.80**

A Discounted cash flow analysis was used to estimate the intrinsic value of Want Want China Holdings' share price. The model was forecasted over 5 years considering the company's expansion plans into different geographies as well as continued success in their roll out of new products.

Revenue Growth

Revenue growth for Want Want is mainly driven by continued positive reception towards the company's new products in the future. This would be further enhanced by their marketing efforts through different channels that would improve brand recognition. Plans for expansion soon into different geographies is expected to further boost Want Want's revenues, therefore we expect an increased growth rate of 4.55% from 2022 to 2024, up from 3.55% from 2020-2021.

There are 4 main segments for Want Want's business. They are rice crackers, dairy products, Snacks and distilleries. Revenue growth was forecasted by analysing each segments' potential growth rate and we weighted an average amongst those 4 segments to arrive at our final growth rate.

The product, "Hot-Kid milk" accounts for approximately 90% of the revenue for the Dairy products and beverages segment. Between FY2018 and FY2019, Want Want saw this segment grew at 2.8% due to the increased sales through E-commerce platforms. We'd expect the trend of E-commerce sales and increased product's market coverage to continue as the company leverages its strong product name across segments and regions which brings about improved growth rate over the next few years at 3.55%-4.55%.

The snack segment saw a growth of approximately 3.5% between FY2018 and FY2019. This segment has experienced strong growth rate ever since it introduced new products such as QQ juicy gummy and "Dong Chi" to appeal to customers' everchanging taste buds. The company is in a stage where they are focused on product development and new market penetrations. Hence, we'd expect the company to have a higher growth rate at 4% over the next 2 years

Source: Google Images

Figure 41: Want Want Hot-Kid milk

Source: Google Images

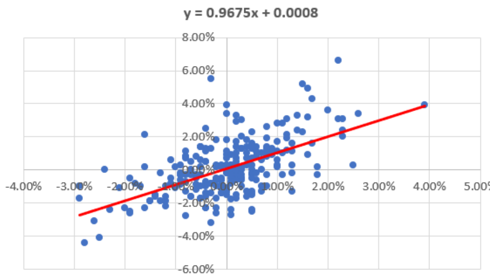
Figure 42. Weighted Average Cost of Capital

CAPM

Risk Free Rate	3.27%
Market Risk Premium	6.38%
Country Risk Premium	1.90%
Equity Market Risk Premium	8.28%
Beta	0.96
Cost of Edquity	11.22%
Cost of Debt	2.93%

Source: Bloomberg

Figure 43. Beta regression between Want Want and Hang Seng Index



Source: NUS Investment Society Estimates

Figure 44. Capitalisation Structure

Capitalisation Structure			
	Weight	**Cost**	**W*C**
Equity	87.90%	11.22%	9.86%
Debt	12.10%	2.93%	0.35%
WACC			10.22%

Source: Bloomberg

Figure 45. Sensitivity Tables (Exit multiple)

	WACC					
	$ 7.55	9.2%	9.7%	10.2%	10.7%	11.2%
	13.9	7.43	7.31	7.31	7.07	6.96
EXIT MULTIPLE	14.4	7.62	7.50	7.50	7.25	7.14
	14.9	7.81	7.69	7.69	7.44	7.32
	15.4	8.01	7.87	7.87	7.62	7.49
	15.9	8.20	8.06	8.06	7.80	7.67

Source: NUS Investment Society Estimates

Figure 46. Sensitivity Tables (Terminal growth)

	WACC					
	$ 6.39	9.2%	9.7%	10.2%	10.7%	11.2%
	3.00%	6.57	6.13	5.75	5.44	5.15
	3.50%	6.98	6.48	6.04	5.69	5.37
PERPETUAL GROWTH	4.00%	7.48	6.89	6.38	5.98	5.62
	4.50%	8.08	7.38	6.79	6.32	5.91
	5.00%	8.83	7.98	7.26	6.72	6.24

Source: NUS Investment Society Estimates

and have a slight increase to 5% growth as their marketing and new products development pays off.

The rice cracker segment experienced a 3.9% growth between FY2018 and FY2019 due to new product launches such as Savoury Senbei and Sugar-coated crackers. The company has introduced healthier line of crackers which are healthier and also won "New consumption Innovation Product Award". The rice cracker products from Want Want has been considered a staple to many households as a snacking item which means that current growth rate could be improved further as new products are consistently launched to attract and retain customers. Coupled with explored cooperation with e-commerce platforms to reach out to more avenues and geographical segments that the company couldn't have captured.

As for the last segment, distilleries, historically, this segment has been around 0.3% of the company's revenue, and since its contribution is rather insignificant as compared to the other three segments, we will assume a growth rate that tags it at 0.3% of revenue.

Due to these revenue drivers, we project strong and sustained growth in revenue over the forecast period.

Weighted Average Cost of Capital (WACC)

CAPM was used to estimate both Cost of Equity and Cost of Debt. Risk free rate of 3.27% used which is in line with current yields on 10 year Chinese government bonds. Beta was regressed between the price changes of Want Want and Hang Seng Index which comes out at approximately 0.96. Country risk premium of 1.9% and Equity premium was used which brings our Cost of equity to 11.22%.

Cost of debt was taken from Bloomberg which comes in at 2.93%. With its current capitalisation structure, the weighted average cost of capital is calculated to be 10.22%

Terminal Growth

In our DCF model, we used a terminal growth rate of 4%. We believe the China and southeast asia market are still emerging, we felt that the room for growth within these markets will be higher than the typical 2-3% GDP Growth of a stabilized country.

Relative Valuation

We did an RV to provide a sanity check to our primary DCF valuations by using a football field. We benchmarked Want Want China Holdings to industry peers with similar businesses, revenue mix and geography. Our primary comparable metrics were +1FY P/E and +1 FY EV/EBITDA along with analyst estimates from Bloomberg.

Our target price of $HKD 7.80 was validated as it lies within the 50th-75th Percentile Range, of both the P/E and EV/EBITDA price ranges.

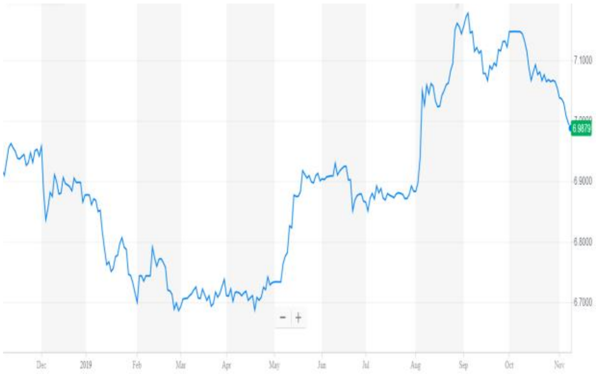
The intrinsic value of HKD$7.80 represents an 16.2% upside which reaffirms our BUY recommendation.

Investment Risks

Foreign Exchange Risk

Trade war: The risk of a full blown trade war between the U.S. and China remains an ongoing concern, which would negatively impact the strength of Chinese Yuan. To mitigate the impact of trade tariffs imposed by U.S., China has devalued its yuan. As such, it would boost margins of Chinese products. However, 23% of the raw materials are sourced from overseas partners, and payments are made in the foreign currency terms. Therefore, if China were to devalue its currency further, it might have a drag on Want Want's bottom line.

Figure 47. USD/CNY 2019

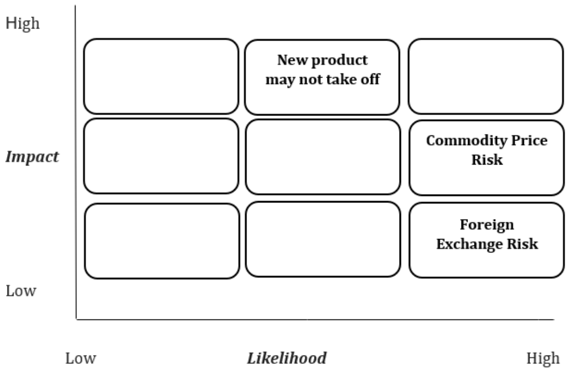


Source: Yahoo Finance

Figure 48. Price of Sugar

Source: MacroTrends

Figure 49. Investment Risk Matrix



NUS Investment Society Estimates

Secondly, market development strategies are being implemented and new segments are being targeted. Profits earned from overseas will eventually be sent back to Want Want's home country. However, if Chinese Yuan were to be devalued further, business operations may not yield satisfactory results and again, put a drag on Want Want's bottom line.

The company is currently not hedging against foreign exchange losses as they believe that the company brings in 90% of its revenue from China and foreign exchange rates are not significant. However, they acknowledged that with expansions into other countries, more FX risks may be involved because and currency swap forward contracts could be implemented.

<u>Market Risk</u>

Commodity Price Risk: Raw materials are sourced 77% domestically within China and 23% sourced from overseas partners. As Want Want China Holdings has no control over such prices, it might be subjected to price fluctuations. Raw sugar is used across all segments of Want Want China holdings. Gross Profit Margins improved by 2.7% from 2017FY to 2018FY was due to a double-digit decrease in the prices of sugar. If prices of sugar prices were to hike exponentially over the next few years, there might be a drag to the bottom line. However, such a risk can be contained by hedging with commodity futures or option contracts and currently, the company acknowledged that its diversified product strategy may lower the future risk and impact of price fluctuations.

<u>Business Risk</u>

New product development may not take off. Want Want China Holdings experienced market share losses in 2018. Therefore, they have introduced new products to appeal to consumers and win back market share. New products such as Sawow cocktail, moisten- throat tea, lactic acid water, "Dongchi"(room temperature ice-cream)have been introduced. Mr. Bond Coffee was also launched in campus and offices in East China, mainly targeting young customers, and the market has responded well.

However, not all products released by Want Want China Holding was successful. For example, they had been struggling to gain traction in the dairy segment in order to find a successor for its legacy *wangzai* milk. They had attempted to release new products like Want Want Rusuanjun - its fermented skimmed milk drink – as well as a fruit juice under its Queen Alice brand but both products received mixed reviews and received lukewarm response from the customers. If Chinese and regional consumers do not accept future new products developments, it might not take off. It is therefore crucial for Want Want China to understand and study its existing and new markets thoroughly before making new product launches.

Disclaimer

Appendix:

Income Statement

Income Statement	Historic 2018	2019	Projected 2020	2021	2022	2023	2024
Total Revenue	20,150	20,712	21,447	22,208	23,218	24,275	25,380
Cost of Goods Sold	(11,539)	(11,312)	(11,714)	(12,130)	(12,682)	(13,259)	(13,862)
Gross Profit	**8,610**	**9,400**	**9,733**	**10,078**	**10,536**	**11,016**	**11,517**
Operating Expense							
Distribution costs	(2,879)	(2,985)	(3,091)	(3,200)	(3,346)	(3,498)	(3,657)
Administrative expenses	(2,241)	(2,338)	(2,421)	(2,507)	(2,621)	(2,741)	(2,865)
Opearating Profit	**3,490**	**4,077**	**4,221**	**4,371**	**4,569**	**4,777**	**4,995**
Other Income			-	-	-	-	-
Other income	553	459	490	490	490	490	490
Other gains - net	148	50	-	-	-	-	-
Finance income	350	503	536	555	580	607	634
Finance costs	(241)	(278)	(256)	(221)	(210)	(212)	(212)
Share of losses of associates	(7)	(5)	-	-	-	-	-
Profit before income tax	**4,293**	**4,806**	**4,991**	**5,195**	**5,430**	**5,662**	**5,907**
Income tax expense	(1,183)	(1,344)	(1,396)	(1,452)	(1,518)	(1,583)	(1,652)
Profit for the year/period	**3,110**	**3,463**	**3,596**	**3,742**	**3,912**	**4,079**	**4,255**
Net Income including Minority Interest	**3,110**	**3,463**	**3,596**	**3,742**	**3,912**	**4,079**	**4,255**
Minority Interest	5	14	-	-	-	-	-
Net Income attributable to shareholder	**3,116**	**3,477**	**3,596**	**3,742**	**3,912**	**4,079**	**4,255**
Earning per share							
Basic	0	0	0	0	0	0	0
Diluted	0	0	0	0	0	0	0

Balance Sheet

Balance sheet							
In Millions of CNY except Per Share							
12 Months Ending							
Total Assets							
Cash & cash equivalents	12,500	17,134	17,158	17,977	20,090	22,116	24,230
Short-term investments	466	-	-	-	-	-	-
Accounts receivables, net	1,146	1,035	1,072	1,110	1,160	1,213	1,268
Inventories	2,569	2,384	2,469	2,557	2,673	2,795	2,922
Other short term assets	672	641	664	688	719	752	786
Total Current Assets	**17,353**	**21,195**	**21,363**	**22,332**	**24,642**	**26,876**	**29,207**
Property, plant & equipment, net	7,801	7,324	6,895	6,340	5,643	4,915	4,154
Leasehold land and land use rights	1,150	940	908	875	843	811	778
Investment properties	39	38	37	35	34	32	31
Intangible assets	16	14	12	9	6	3	1
Deferred Tax Assets	249	242	242	242	242	242	242
Investment in associates	29	19	19	19	19	19	19
Available-for-sale financial assets	47	39	-	-	-	-	-
Other non-current assets	-	26	28	29	30	32	33
Total Noncurrent Assets	**9,330**	**8,642**	**8,140**	**7,549**	**6,817**	**6,054**	**5,258**
Total Assets	**26,683**	**29,836**	**29,503**	**29,881**	**31,460**	**32,930**	**34,465**
Liabilities & Shareholders' Equity							
Liabilities							
Accounts payable	1,287	1,035	1,072	1,110	1,160	1,213	1,268
Accrued liabilites	1,903	2,058	2,131	2,207	2,307	2,412	2,522
Contract liabilities	1,321	1,117	1,158	1,199	1,254	1,311	1,371
Short-term debt	3,803	1,744	188	-	-	-	-
Current income tax liabilities	416	341	349	364	380	396	413
Total Current Liabilities	**8,729**	**6,295**	**4,898**	**4,879**	**5,101**	**5,332**	**5,574**
Deferred income tax liabilities	144	268	250	260	271	283	295
Long-term debt	3,101	7,770	7,770	7,032	7,200	7,200	7,200
Other long-term liabilities	98	75	78	80	84	88	92
Total Noncurrent Liabilities	**3,343**	**8,113**	**8,098**	**7,372**	**7,556**	**7,571**	**7,587**
Total Liabilities	**12,072**	**14,408**	**12,996**	**12,251**	**12,657**	**12,903**	**13,161**
Equity							
Share Capital	1,871	1,871	1,871	1,871	1,871	1,871	1,871
Retained Earnings	16,451	17,413	18,492	19,615	20,788	22,012	23,289
Other Equity	(3,834)	(3,954)	(3,954)	(3,954)	(3,954)	(3,954)	(3,954)
Equity Before Minority Interest	**14,488**	**15,331**	**16,409**	**17,532**	**18,706**	**19,929**	**21,206**
Non-controlling equity	123	98	98	98	98	98	98
Total Equity	**14,611**	**15,428**	**16,507**	**17,630**	**18,803**	**20,027**	**21,303**
Total Liabilities & Equity	**26,683**	**29,836**	**29,503**	**29,881**	**31,460**	**32,930**	**34,465**
Balance check (A= L+E)	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**

Cash Flow statement

Cashflow statement							
In Millions of CNY except Per Share							
12 Months Ending							
Cash from Operating Activities							
Net income	**3,110**	**3,463**	**3,596**	**3,742**	**3,912**	**4,079**	**4,255**
Adjustments:							
Depreciation & amortization expense	919	854	894	1,036	1,197	1,250	1,305
Provision for impairment of trade receivables		8	-	-	-	-	-
Other non-cash adjustments		(32)	-	-	-	-	-
Interest Income		(503)	(536)	(555)	(580)	(607)	(634)
Interest expense		278	256	221	210	212	212
Income tax expense		1,344	1,396	1,452	1,518	1,583	1,652
Income tax paid		(1,285)	(1,405)	(1,428)	(1,490)	(1,555)	(1,622)
Interest paid		(267)	(256)	(221)	(210)	(212)	(212)
Interest received		548	536	555	580	607	634
Changes in NOWC:							
Accounts receivable	90	103	(37)	(38)	(50)	(53)	(55)
Inventory	(129)	137	(85)	(88)	(116)	(122)	(127)
Accounts payable	(47)	(252)	37	38	50	53	55
Other short term assets	76	(16)	(23)	(24)	(31)	(33)	(34)
(Decrease) / increase in contract liabilities	523	(203)	41	41	55	57	60
Increase/(Decrease) in accruals and other payables	(243)	177	73	76	100	105	110
Cash from Operating Activities	**4,020**	**4,353**	**4,486**	**4,808**	**5,145**	**5,364**	**5,598**
Cash from Investing Activities							
Disposal of PPE	48	3	-	-	-	-	-
Disposal of Financial assets	524	482	39	-	-	-	-
Disposal of leasehold land and land use rights	20	276	-	-	-	-	-
Disposal of Intangible Assets	-	-	-	-	-	-	-
Purchase of PPE	(409)	(355)	(429)	(444)	(464)	(485)	(508)
Purchase of leasehold land and land use rights	(0)	(26)	(2)	(1)	(1)	(1)	(1)
Purchase of intangible assets	(11)	(1)	-	-	-	-	-
Purchase of other assets	-	-	(2)	(1)	(1)	(1)	(1)
Cash from Investing Activities	**172**	**379**	**(392)**	**(445)**	**(466)**	**(487)**	**(509)**
Cash from Financing Activities							
Dividends Paid	(1,805)	(2,297)	(2,517)	(2,620)	(2,738)	(2,855)	(2,979)
Cash from/(Repurchase) of Equity	(323)	(49)	-	-	-	-	-
Proceeds from borrowings	4,061	7,204	188	3,700	3,500	-	-
Repayments of borrowings	(6,451)	(5,092)	(1,744)	(4,627)	(3,332)	-	-
Other Financing Activities	98	(10)	3	3	4	4	4
Cash from Financing Activities	**(4,419)**	**(244)**	**(4,071)**	**(3,544)**	**(2,566)**	**(2,851)**	**(2,975)**
Effect of Foreign Exchange Rates	(128)	146	-	-	-	-	-
Cash and equivalents at beginning of year	**12,855**	**12,500**	**17,134**	**17,158**	**17,977**	**20,090**	**22,116**
Net increase (decrease) in cash and equivalents	**(355)**	**4,634**	**23**	**819**	**2,113**	**2,026**	**2,114**
Cash and equivalents at end of year	**12,500**	**17,134**	**17,158**	**17,977**	**20,090**	**22,116**	**24,230**

Revenue projection:

	2018	2019	2020E	2021E	2022E	2023E	2024E
Revenue	**20,149.8**	**20,712.0**	**21446.9**	**22208.2**	**23218.3**	**24274.8**	**25379.7**
Growth (%)	-	2.8	3.55	3.55	4.55	4.55	4.55
Dairy Products and Beverages	9,581.0	9,729.6	10021.5	10322.1	10735.0	11164.4	11611.0
Growth (%)	-	1.6	3.00	3.00	4.00	4.00	4.00
Rice Crackers	5,597.2	5,813.5	6046.0	6287.9	6602.3	6932.4	7279.0
Growth (%)	-	3.9	4.00	4.00	5.00	5.00	5.00
Snack Foods	4,926.7	5,101.1	5305.1	5517.3	5793.2	6082.9	6387.0
Growth (%)	-	3.5	4.00	4.00	5.00	5.00	5.00
Other Products-Distillers	44.9	67.8	74.3	80.9	87.8	95.1	102.7
Growth (%)	-	51.1	9.45	8.94	8.58	8.26	7.98
Operating Income	**4,192.1**	**4,586.5**					
Dairy Products and Beverages	2,785.0	2,951.5	3128.6	3316.3	3548.5	3796.9	4062.6
Growth (%)	-	6.0	6.00	6.00	7.00	7.00	7.00
Rice Crackers	939.1	1,201.4	1537.8	1906.9	2288.3	2654.4	2973.0
Growth (%)	-	27.9	28.00	24.00	20.00	16.00	12.00
Snack Foods	936.2	1,020.8	1112.7	1212.8	1334.1	1467.5	1614.3
Growth (%)	-	9.0	9.00	9.00	10.00	10.00	10.00
Other Products-Distillers	-2.6	4.8	11.6	12.9	14.3	15.8	17.3
Growth (%)	-	285.9	139.5	11.4	11.4	10.4	9.2
Unallocated	-465.7	-592.1	-689.8	-803.6	-936.2	-1090.7	-1270.7
Growth (%)	-	27.1	16.5	16.5	16.5	16.5	16.5

Financial projections

Operating Assumptions for Income Statement (Excluding Depreciation)							
Revenue	20,150	20,712	21,447	22,208	23,218	24,275	25,380
Growth Rate	-	-	3.55%	3.55%	4.55%	4.55%	4.55%
COGS as a % of Revenue	57.27%	54.61%	54.62%	54.62%	54.62%	54.62%	54.62%
COGS			11,714	12,130	12,682	13,259	13,862
Operating Expense							
Distribution costs	(2,879)	(2,985)	(3,091)	(3,200)	(3,346)	(3,498)	(3,657)
Administrative costs	(2,241)	(2,338)	(2,421)	(2,507)	(2,621)	(2,741)	(2,865)
Distribution costs as % of revenue	14.29%	14.41%	14.41%	14.41%	14.41%	14.41%	14.41%
Administrative costs as % of revenue	11.12%	11.29%	11.29%	11.29%	11.29%	11.29%	11.29%
Other income/costs							
Other income	553	459	490	490	490	490	490
Other gains - net	148	50	-	-	-	-	-
Finance income	350	503	536	555	580	607	634
Share of losses of associates	(7)	(5)	-	-	-	-	-
Finance income as % revenue	1.74%	2.43%	2.50%	2.50%	2.50%	2.50%	2.50%
Income tax expense	(1,183)	(1,344)	(1,396)	(1,452)	(1,518)	(1,583)	(1,652)
Income tax expense as % of PBT	27.55%	27.96%	27.96%	27.96%	27.96%	27.96%	27.96%

Operating assumptions for Current Assets and Current Liabilities (Excluding Short Term)							
Working capital assumptions (asset side)							
Cash & cash equivalents	12,500	17,134					
Short-term investments	466	-					
Accounts receivables, net	1,146	1,035	1,072	1,110	1,160	1,213	1,268
Inventories	2,569	2,384	2,469	2,557	2,673	2,795	2,922
Other short term assets	672	641	664	688	719	752	786
Accounts receivable as % of revenue	5.69%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Inventory as % of COGS	22.27%	21.08%	21.08%	21.08%	21.08%	21.08%	21.08%
Short term assets as % of revenue	3.33%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Accounts receivable changes		(111)	37	38	50	53	55
Inventory changes		(185)	85	88	116	122	127
Other short term assets changes		(30)	23	24	31	33	34
Working capital assumptions (liability side)							
Accounts payable	1,287	1,035	1,072	1,110	1,160	1,213	1,268
Accrued liabilites	1,903	2,058	2,131	2,207	2,307	2,412	2,522
Short-term debt	3,803	1,744	188	-	-	-	-
Contract liabilities	1,321	1,117	1,158	1,199	1,254	1,311	1,371
Current income tax liabilities	416	341	349	364	380	396	413
Accounts payable as % of COGS	11.15%	9.15%	9.15%	9.15%	9.15%	9.15%	9.15%
Accrued liabilities as % of SG&A	37.16%	38.66%	38.66%	38.66%	38.66%	38.66%	38.66%
Contract liabilities as % of revenue	6.55%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Current income tax liabilities as % of PBT	9.68%	7.10%	7.00%	7.00%	7.00%	7.00%	7.00%
Accounts payable changes		(252)	37	38	50	53	55
Accrued liabilities changes		155	73	76	100	105	110
Contract liabilities change		(203)	41	41	55	57	60
Current income tax liabilities change		(75)	8	14	16	16	17

DCF

Operating assumptions for Non-Current liabilities (excluding LT debt)							
Long-term debt	3,101	7,770	7,770	7,032	7,200	7,200	7,200
Deferred income tax liabilities	144	268	250	260	271	283	295
Other long-term liabilities	98	75	78	80	84	88	92
Deferred income tax liabilities as % of PBT	3.36%	5.57%	5%	5%	5%	5%	5%
Other Long-term liabilities as a % of COGS	0.85%	0.66%	0.66%	0.66%	0.66%	0.66%	0.66%
Deferred income tax liabilities change			(18)	10	12	12	12
Other long-term liabilities change		(23)	3	3	4	4	4

Depreciation, CAPEX and PPE							
Total Revenue							
PPE							
Capex into PPE	420	360	429	444	464	485	508
Disposal	(61)	(17)	-	-	-	-	-
Depreciation	(1,111)	(822)	(858)	(999)	(1,161)	(1,214)	(1,269)
Capex as % of revenue	2.08%	1.74%	2.00%	2.00%	2.00%	2.00%	2.00%
Depreciation as % of revenue	5.51%	3.97%	4.00%	4.50%	5.00%	5.00%	5.00%
Exchange differences	(2)	3	-	-	-	-	-
Ending PPE	7,801	7,324	6,895	6,340	5,643	4,915	4,154
Leasehold land and land use rights							
Acquisition	9	-	-	-	-	-	-
Amortization	(37)	(27)	(32)	(32)	(32)	(32)	(32)
Disposal	(18)	(183)	-	-	-	-	-
Exchange differences	(1)	1	-	-	-	-	-
Ending Leasehold land and land use rights	1,150	940	908	875	843	811	778
Investment properties							
Acquisition	-	-	-	-	-	-	-
Depreciation	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Exchange differences	0	0	-	-	-	-	-
Ending Investment properties	39	38	37	35	34	32	31
Intangible assets assumptions							
CAPEX into intangibles	11	1	-	-	-	-	-
Amortization	(3)	(3)	(3)	(3)	(3)	(3)	(3)
CAPEX into intangibles as % of revenue	0.055%	0.00%	0%	0%	0%	0%	0%
Amortization as % of revenue	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Exchange differences	(0)	0	-	-	-	-	-
Ending intangibles	16	14	12	9	6	3	1
Total D&A	(1,153)	(854)	(894)	(1,036)	(1,197)	(1,250)	(1,305)

Dividends and Retained Earnings

Dividends							
Total Dividends	1,804	2,297	2,517	2,620	2,738	2,855	2,979
Basic shares outstanding (in Thousands)	12,496	12,449	12,449	12,449	12,449	12,449	12,449
Dividends per share	0	0	0	0	0	0	0
Payout ratio	57.99%	66.33%	70%	70%	70%	70%	70%
Retained Earnings							
Net income	3,116	3,477	3,596	3,742	3,912	4,079	4,255
Dividends paid	(1,804)	(2,297)	(2,517)	(2,620)	(2,738)	(2,855)	(2,979)
Appropriation to statutory reserve	(187)	(218)	-	-	-	-	-
Retained earnings for the year	1,312	962	1,079	1,123	1,174	1,224	1,277
Retained earnings(balance sheet)	16,451	17,413	18,492	19,615	20,788	22,012	23,289

Other assets

Availiable for sale investments	1,036	513	39	-	-	-	-
Purchase	-	-	-	-	-	-	-
Sale	(524)	(482)	(39)	-	-	-	-
Ending availiable for sale investments	513	39	-	-	-	-	-
Other assets	-	26	28	29	30	32	33
Other assets as % of revenue	0.00%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Other assets changes		26	2	1	1	1	1

NOWC

NOWC							
Operating assets	4,853	4,060	4,205	4,355	4,553	4,760	4,976
Operating liabilities	4,926	4,551	4,710	4,879	5,101	5,332	5,574
NOWC	(73)	(491)	(505)	(525)	(548)	(572)	(598)
Changes		(418)	(14)	(20)	(24)	(24)	(25)

ST & LT Debt

Short term debt							
Beginning balance			1,744	188	-	-	-
Additions			188	-	-	-	-
Repayment			(1,744)	(188)	-	-	-
Ending balance		1,744	188	-	-	-	-
Interest rate on short term debt			2.72%	2.72%	2.72%	2.72%	2.72%
Interest paid			26	3	-	-	-
Long term debt							
Beginning balance			7,770	7,770	7,032	7,200	7,200
Additions			-	3,700	3,500	-	-
Repayment			-	(4,439)	(3,332)	-	-
Ending balance		7,770	7,770	7,032	7,200	7,200	7,200
Interest rate on long term debt			2.95%	2.95%	2.95%	2.95%	2.95%
Interest paid			229	218	210	212	212
Cash	12,500	17,134					
Cash as % of revenue	62.03%	82.73%					
Minimum target cash balance			17,158	17,767	18,575	19,420	20,304
Minimum target cash balance (% of revenue)			80%	80%	80%	80%	80%
Cash flow before short term debt							
Net cash provided by operating activities			4,486.28	4,808.17	5,144.60	5,364.39	5,598.13
Net cash used for investing activities			-392.17	-445.15	-465.68	-486.87	-509.03
Net cash used for financing activities			-4,070.67	-3,543.52	-2,566.16	-2,851.28	-2,974.69
Beginning cash balance			17,134.09	17,157.54	17,977.03	20,089.79	22,116.04
Cash before short term borrowings			18,713.80	18,164.76	20,089.79	22,116.04	24,230.45
Minimum target cash balance			17157.53	17766.60	18574.67	19419.81	20303.75
Difference between cash before short term debt and target cash			1,556.27	398.17	1,515.13	2,696.22	3,926.69

DCF

CAPM

Risk Free Rate	3.27%
Market Risk Premium	6.38%
Country Risk Premium	1.90%
Equity Market Risk Premium	8.28%
Beta	0.96
Cost of Edquity	11.22%
Cost of Debt	2.93%

Capitalisation Structure			
	Weight	**Cost**	**W*C**
Equity	87.90%	11.22%	9.86%
Debt	12.10%	2.93%	0.35%
WACC			10.22%

Target price (exit multiple)		
PV of projected FCFF		**13,751**
Ending EBITDA		6,300
Exit multiple (EV/EBITDA)		14.88
PV of Terminal FCFF		**61,138**
Enterprise value		**74,889**
Less Debt		(8,112)
Cash		17,134
Less MI		(14)
Equity Value		83,897
NOSH (MRQ)		12,449,287,135
Implied fair value/share	$	6.74

Target price (perpetuity)		
PV of projected FCFF		**13,751**
Terminal growth		4.0%
PV of TV		**48,243**
Enterprise value		**61,993**
Less Debt		(8,112)
Cash		17,134
Less MI		(14)
Equity Value		71,002
NOSH (MRQ)		12,449,287,135
Implied fair value/share	$	5.70

Date of review	8/11/2019
Current fiscal year end	31/3/2020
Portion of FY already over	0.61
Portion of FY remaining	0.39

	Historical		Projected				
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Revenue	20,150	20,712	21,447	22,208	23,218	24,275	25,380
Gross Profit	8,610	9,400	9,733	10,078	10,536	11,016	11,517
EBITDA	4,409	4,931	5,115	5,406	5,767	6,027	6,300
EBIT	3,490	4,077	4,221	4,371	4,569	4,777	4,995
Tax Rate	28%	28%	28%	28%	28%	28%	28%
EBIAT	2,529	2,937	3,041	3,149	3,292	3,442	3,598
Depreciation	919	854	894	1,036	1,197	1,250	1,305
Capex	(409)	(355)	(429)	(444)	(464)	(485)	(508)
Changes in NOWC		418	14	20	24	24	25
FCFF		3,855	3,520	3,760	4,049	4,230	4,421
Discount period			0.39	1.39	2.39	3.39	4.39
Discount factor			1.039	1.145	1.262	1.391	1.533
FCFF to be discounted			1,389	3,760	4,049	4,230	4,421
PV of FCFF			1,336	3,283	3,207	3,041	2,883