



Vitasoy International Holdings (345.HK)

18 October 2019

SECTOR: Food & Beverage

HSI: 26,709

PRICE: HK\$31.50

EARNINGS (reported in HK\$m)						KEY DATA	
For the fiscal year ended	2016	2017	2018	2019E	2020E	Issued Capital (m Shrs)	1,063.4
Turnover	5,552	5,406	6,465	7,585	8,668	Market Cap (HK\$m)	38,760
Operating Profit	597	843	812	1,040	1,145	Avg. 6M Turnover (HK\$m)	153.0
Net Profit	531	618	586	738	825	52 Week High/Low (HK\$)	47.25 / 23.2
EPS (HK\$)	0.51	0.59	0.56	0.78	0.91	Net Gearing (%)	(27.68)
% Change	41.8%	15.7%	(5.8%)	31.2%	7.0%	Book Value per Share (HK\$)	2.98
DPS (HK\$)	0.30	0.31	0.35	0.41	0.49	Free Float (%)	71.04%
Dividend yield (%)	0.8%	0.8%	1.0%	1.1%	1.3%	Major Shareholder(s)	Lo Family Trust 28.96%
PE Ratio (x)	28.4	26.2	36.4	40.4	34.6		Commonwealth Bank of Australia 11.98%

INTERIM RESULTS (reported in HK\$m)				
Period	1H18	1H19	% change	
Turnover	3,646	4,448	22.0%	
Operating Profit	1,922	2,408	25.3%	
Net Profit	397	518	30.5%	
Basic EPS (HK\$)	0.38	0.49	29.7%	

Note: Time-sensitive data and value were retrieved as at 18 Oct 2019

Source: Bloomberg, Company data, Platinum estimates

SECTION 1 Summary

Definitive Hong Kong F&B Brand But Is The Sugar High Over?

- 1.1. The largest soy milk company in the world with 12% market share in 2018 by retail value.
- 1.2. Vitasoy share price has peaked at 350% since August 2014 while the HSI has only increased 2.5%. Seemingly driven by profit growth, Vitasoy's net profit grew 120% from FY14 to FY19. The 78-year-old Hong Kong beverage business is the centre of attention and fandom for Chinese youths. *See SCMP "Cooler than marijuana? Hong Kong's iconic Vitasoy drinks brand is on a high thanks to Chinese memes."* Benefitting the brand and sales on the Mainland.
- 1.3. The global soy milk industry grew to US\$15.3b in 2018. The market is expected to grow at a CAGR of 6.3% from 2015 to 2019 according to Grand View Research Inc. The beverage market is expected to grow at half that rate. Frost & Sullivan forecasted a CAGR of 18.2% in 2014-2019E in China. With low per-capita consumption, there is plenty of room to grow.
- 1.4. Julian Arnold, U.S. trade attaché to China in 1937, called soybeans "The Cow of China." Alluding to the nutritional similarities contained in the legume and the cultural significance.
- 1.5. Vitasoy has benefitted from differentiating itself as a quality producer in Hong Kong after the PRC melamine milk scandal. PRC food safety is a critical issue with consumers.
- 1.6. The shares have fallen more than 30% from the peak as earnings expectations grew overly optimistic.
- 1.7. We now see the current price as an attractive entry point. With sustainable long-term growth in China, Vitasoy is uniquely positioned in key F&B consumer trends. **TP: HK\$36.60 40x P/E FY21E**

SECTION 2 COMPANY BACKGROUND

- 2.1. In the late 1930s, K.S. Lo, the founder of Vitasoy was inspired to establish Vitasoy by Julian Arnold’s lecture and the desire to alleviate malnutrition diseases found in Hong Kong at the time. Vitasoy has developed from a homegrown brand into an internationally recognized F&B icon a part of Hong Kong culture.
- 2.2. In 2018, Vitasoy is the largest soy milk company globally in terms of retail value (12% market share) and the largest ready-to-drink tea market share in HK (28%) according to Euromonitor. They currently sell in about 40 markets worldwide.
- 2.3. The company now has manufacturing facilities in HK, PRC, Australia, Singapore, and the Philippines.

Exhibit 1: Vitasoy Revenue (%) Breakdown FY12/13

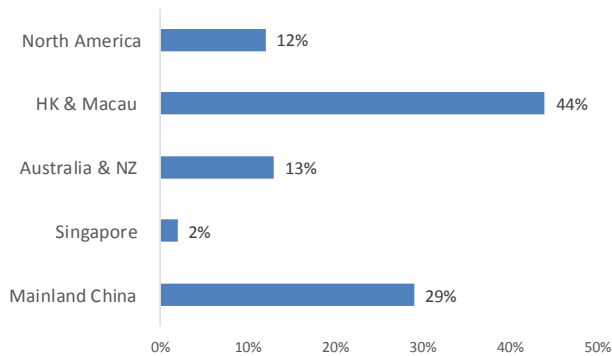
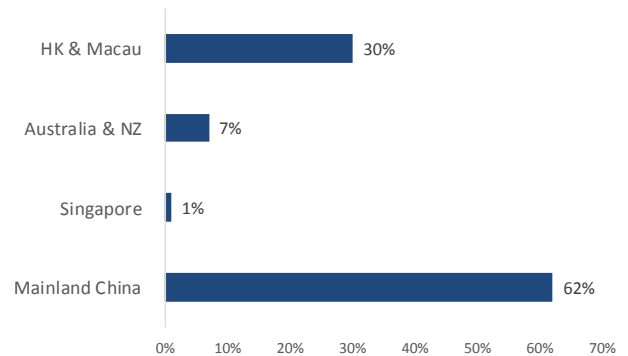


Exhibit 2: Vita Is Now More China Centric FY18/19



Source: Company Data, Platinum Research

Exhibit 3: Revenue (5-yrs)

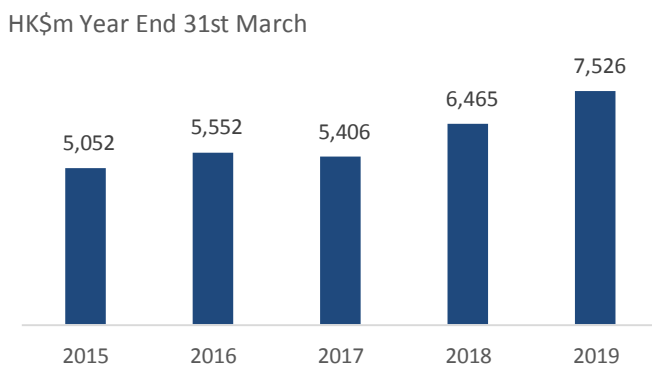
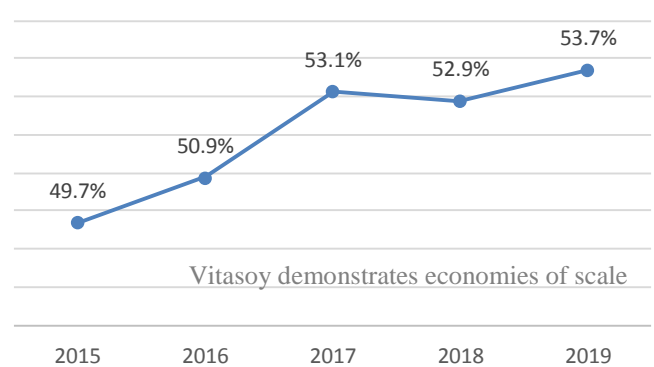


Exhibit 4: Gross Profit Margin (5-yrs)



Source: Company Data, Platinum Research

Exhibit 5: Dividend and Payout Ratio (5-yrs)

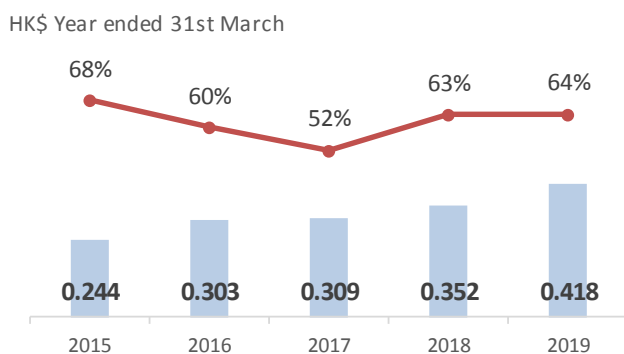
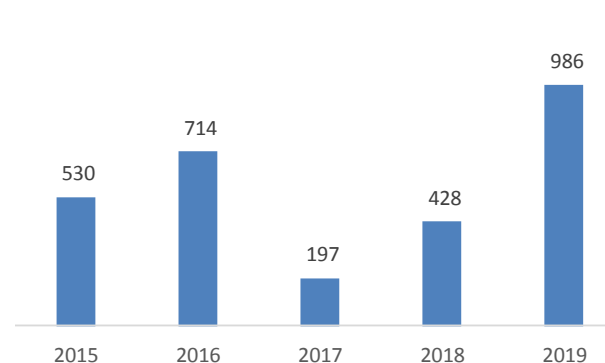


Exhibit 6: Capital Expenditure (HK\$m)



Source: Company Data, Platinum Research

Note: FY17 special dividend excluded. This was a result of a one-off divestiture in the US.

SECTION 3 BUSINESS OUTLOOK

2018 Was The Year Of The Sustainable Consumer (Nielson Insights)

- 3.1. Environmental social and corporate governance (ESG) is increasingly important as more asset managers launch ESG funds to meet investor demand. Fitch Ratings reported assets in the sector increased 15% in the 1H19 to US\$52b, after only growing 1% in 2018. The trend looks set to continue into 2020. Vitasoy maintains ESG governance reports, with reference to the HKEX ESG Guide. Vitasoy was submitted into the Hang Seng Sustainability Index in August 2019.
- 3.2. But does this have any material benefit? We think so yes, there is increasing regulation and public support for more environmentally friendly laws. MSCI believes that 83% of companies in the soft drinks sector are exposed to plastic and plastic related regulation. More than 70% of AllianzGI surveyed asset managers totalling more than US\$15t AUM believe that ESG investing will take off in the next 3 years and will become integral by 2030. While less than 20% believe ESG investing sacrifices returns.
- 3.3. The wider picture for investors is that there will be impending environmental regulation. Businesses that are prepared will weather changes better than others.

Exhibit 7: Top 5 Sub-Sectors % of Companies Exposed to Waste Regulation



345 EU's largest asset managers have pledged to screen for ESG considerations in 100% of their investments by 2021. Source: MSCI

Consumers Going Green: 61% of millennials would be willing to pay more for eco-friendly products. This demographic accounts for 25% of the population, including China.

Source: Global Web Index

Source: MSCI Research

The Health-Conscious and Ethical Consumer Soy: All the Protein Without the Saturated Fats.

- 3.4. We think Vitasoy is in-tune with consumer trends. We use sugar as an example below but the broader soy, plant-based product consumer trend has already been well-documented.
- 3.5. The Sugar Tax: As a consumer, sugar content is increasingly scrutinized. Different countries have different regulation regarding what can be deemed 'low-sugar' or 'low-fat.' In FY19, Vitasoy has 76.5% of their beverages with moderate to low sugar levels, with a target of 82% in 5 years. 93% of their beverages are deemed nutritious with a target of $\geq 95\%$ by 2021. (Source: Vitasoy's ESG report)

- 3.6. Sugar is in the spotlight of global consumer attention. The UK, various states in the US, France and several other nations have implemented some form of sugar taxation – particularly on beverages. Vitasoy has shown to be ahead of the curve as their product portfolio are predominantly moderate or low in sugar.
- 3.7. We think China is hot on the heels of this policy trend. According to a Peking University study, 1 in 5 Chinese children are overweight or obese, up from 1 in 20 a decade ago. “This suggests a pressing need for policy responses that may include taxation of food and beverage with added sugars and fats, subsidies to promote dietary diversity, and strategies to promote physical activity and health education,” according to Peking University professor Jun Ma.
- 3.8. Vitasoy is also experimenting the use of stevia in their drinks, a natural sweetener with substantial growth potential. The bigger picture is that Vitasoy remains innovative.

Why Veganism

- 3.9. Plant-based products is the latest consumer trend as of late (i.e. Impossible Burger, Beyond Meat, Oatly). Growing consumer awareness has spurred growth in the industry with industry analysts expecting a market size of US\$8b by 2025 from \$4b in 2017. This is owed to increasing preference for low carbon footprint products, veganism, health & wellness, food safety and dairy intolerance (lactose, calories, allergies).
- 3.10. Data outside the US/EU is difficult to come by, but the plant-based milk industry has disrupted a mature dairy industry in the States in the last two decades. The plant-based drinks sector grew at a CAGR of 10% between 2012 and 2017 and is now approximately 13% the size of the milk-cow dairy industry. We believe there is growing demand in Asia, particularly in China, Australia. In Hong Kong, consumers intake 12kg per capita, while China only consumes 1kg.
- 3.11. Vitasoy is well-positioned for long-term growth in this trend. They continue to develop new products that target current trends and market segments (i.e. VITASOY Health Plus – premium nutrition drinks).

Second Half 2019 Review

- 3.12. Vitasoy 2H19 results (ended March 2019, FY19) showed signs of moderating growth. This was mainly due to unfavourable FX, higher tax (China segment growing), and higher costs (HK mostly). As a result, net profit dropped 6% YoY due to these factors. On a constant currency basis, the company net profit would be up 1% (PBT +12% YoY). In 1H19, profit was up 30% YoY, which brings full year profit to 20% YoY.
- 3.13. Positive factors: HK business seems to be reversing declines. The dividend payout ratio remains at ~60% while capex and branding expenses have increased.
- 3.14. Management state that they’re looking ahead into the long-term future. Profit maybe impacted by “necessary investment in building brand equity, infrastructure and organisation.” They believe that the Chinese market is still underpenetrated, particularly in areas outside their South China stronghold.
- 3.15. We agree that Vitasoy will be able to sustain long-term growth. We see continuous investment in Vitasoy’s brand equity and infrastructure over the past few years and see further room for growth.

Exhibit 8: Vitasoy Financials and Margins (HK\$'000)

Revenue HK\$ '000s	2015	2016	2017	2018	2019
Mainland China	2,094,496	2,496,075	2,751,256	3,766,162	4,705,703
HK/Macau	2,219,108	2,305,030	2,231,859	2,206,342	2,331,256
ANZ	479,739	420,088	472,240	502,706	524,560
Singapore	87,339	107,337	102,404	106,267	114,657
North America	552,002	557,759	-	-	-
Total	5,432,684	5,886,289	5,557,759	6,581,477	7,676,176
Segment Profit					
HK/Macau	355,101	380,350	381,012	352,088	339,149
Mainland China	199,416	281,494	317,197	542,267	720,303
ANZ	84,460	84,199	87,214	94,639	92,781
Singapore	8,160	10,993	11,522	7,333	867
North America	-	1,417	-	-	-
Total	645,720	724,278	796,945	996,327	1,153,100
Segment Margin					
HK/Macau	17.0%	15.2%	13.8%	9.3%	7.2%
Mainland China	9.0%	12.2%	14.2%	24.6%	30.9%
ANZ	17.6%	20.0%	18.5%	18.8%	17.7%
Singapore	9.3%	10.2%	11.3%	6.9%	0.8%
North America	-0.3%	-5.9%	-	-	-
Total	11.9%	12.3%	14.3%	15.1%	15.0%
Segment Growth					
Mainland China	28.4%	19.2%	10.2%	36.9%	24.9%
HK/Macau	11.6%	3.9%	-3.2%	-1.1%	5.7%
ANZ	-2.7%	-12.4%	12.4%	6.5%	4.3%
Singapore	2.2%	22.9%	-4.6%	3.8%	7.9%
North America	7.7%	1.0%	-	-	-
Total	15.3%	8.3%	-5.6%	18.4%	16.6%

Exhibit 9: Platinum Forecasts (HK\$'000)

Revenue	FY20E	FY21E	FY20E %	FY21E %
HK/Macau	2,389,537	2,509,014	2.5%	5.0%
Mainland China	5,740,958	6,946,559	22.0%	21.0%
ANZ	529,806	545,700	1.0%	3.0%
Singapore	120,390	134,837	5.0%	12.0%
Total	8,780,691	10,136,109	14.4%	15.4%
Segment Op. Margin				
HK/Macau	14.5%	14.5%		
Mainland China	15.2%	15.5%		
ANZ	17.5%	17.9%		
Singapore	1.0%	2.0%		
Op. Profit Margin	15.0%	15.2%		
Profit				
Net Profit	827,208	970,767		
NPM (%)	9.4%	9.6%		
EPS	0.78	0.91		
DPS (HK\$)	0.51	0.59		

Source: Company Data, Platinum Research

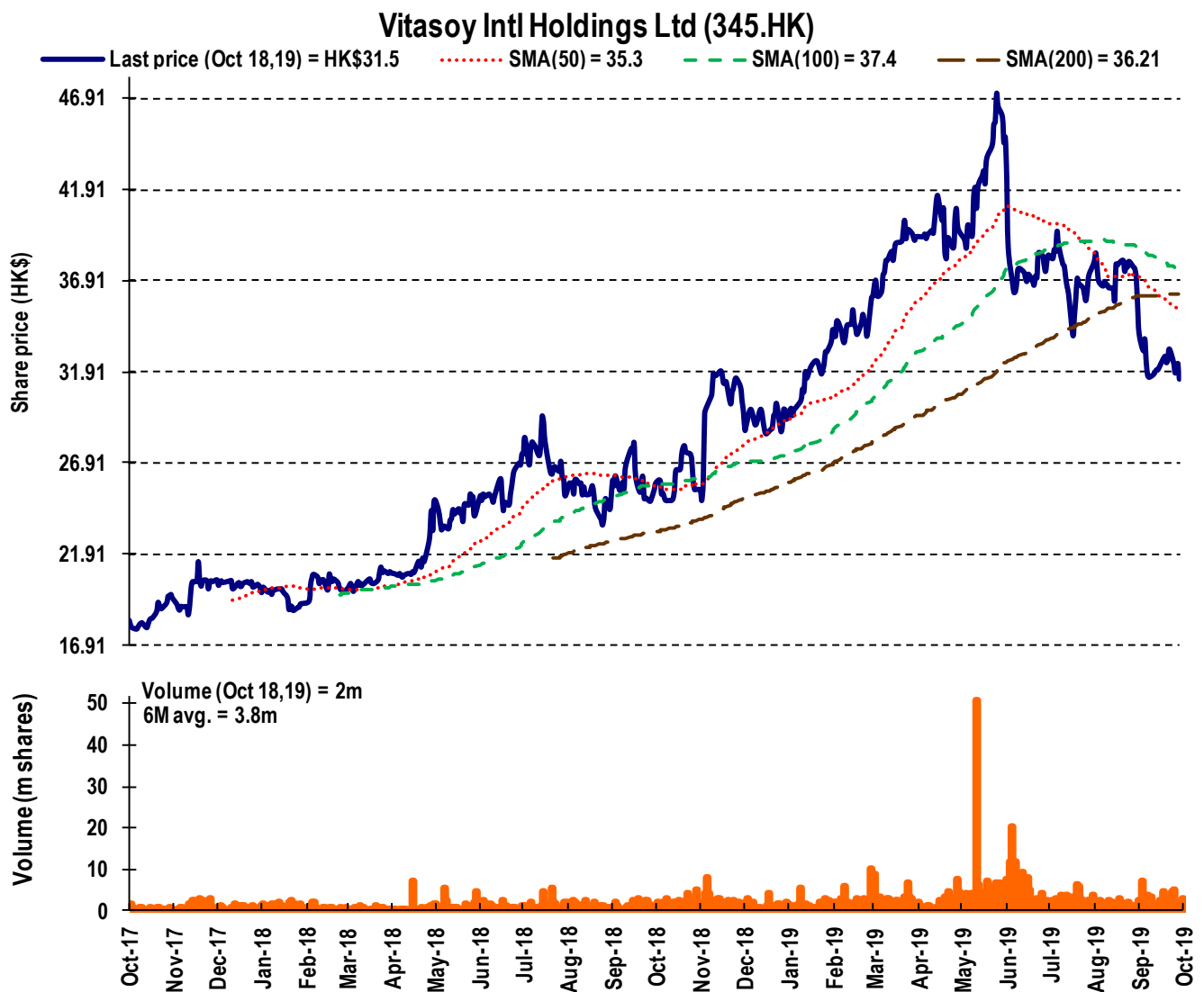
SECTION 4 VALUATION

- 4.1. Vitasoy to us is a unique company positioned in several consumer trends that we believe has long-term sustainable growth. Our key assumptions going forward is a moderate growth of revenue at 14.4% in FY20E and 15.4% in FY21E.
- 4.2. Our target price is derived from the estimated FY21E EPS of HK\$0.95 and P/E 40x. We believe this represents Vitasoy's unique company position, scarcity value, and long-term growth prospects. **TP: HK\$36.60**
- 4.3. Downside risks:
 - RMB currency risk
 - Food quality control risk
 - Increased competition
 - Rapid change in consumer tastes

Name	Ticker	FY18 Total Assets (HK\$m)	Mkt cap (HK\$m)	EV (HK\$m)	Closing price (HK\$)	52-week High/Low (HK\$)	6M Volume (m shrs)	6M Turnover (HK\$m)	Cur. P/E (x)	FY19E P/E (x)	FY20E P/E (x)	FY18 Avg. Yield (%)	FY19E Yield (%)	FY20E Yield (%)	FY18 ROE (%)	FY19E ROE (%)	FY20E ROE (%)
Plant F&B																	
1 Vitasoy Intl	345.HK	5,878	33,614	32,913	31.60	47.25 / 24.4	3.80	146.6	48.11	43.41	41.97	1.48	1.30	1.53	21.77	24.14	23.88
Simple avg									48.11	43.41	41.97	1.48	1.30	1.53	21.77	24.14	23.88
Mkt cap wtd avg									48.11	43.41	41.97	1.48	1.30	1.53	21.77	24.14	23.88
PRC HK Food/Bev Congloms																	
1 Uni-President China	220 HK	24,080	35,980	33,057	8.33	9.97 / 5.75	4.58	39.3	24.74	23.28	21.48	3.81	4.03	4.30	7.91	10.47	11.04
2 China Foods	506 HK	15,131	9,063	12,955	3.24	3.85 / 2.61	1.84	6.0	21.99	19.76	16.79	1.22	1.70	2.10	7.85	9.07	9.93
3 Tingyi	322 HK	58,727	58,933	60,025	10.48	13.83 / 9.19	4.85	58.4	21.57	20.17	18.29	1.77	3.83	4.00	12.94	13.03	13.82
4 Dali Foods Group	3799 HK	20,216	71,072	59,905	5.19	5.96 / 4.45	7.05	36.8	16.87	16.15	14.87	2.79	4.74	4.01	25.46	24.37	25.45
5 China Mengniu Dairy	2319 HK	73,635	121,712	122,655	30.95	34.6 / 21.9	9.50	288.1	30.69	23.59	23.57	0.86	0.96	1.00	12.73	16.23	14.09
Simple avg									23.17	20.59	19.00	2.09	3.05	3.08	13.38	14.63	14.86
Mkt cap wtd avg									24.58	20.97	19.98	1.88	2.83	2.75	15.09	16.63	16.26
Plant Based Meat																	
1 Beyond Meat Inc	BYND US	1,049	55,680	55,454	920.43	117 / 352.96	5.96	7,161.1	-	-	503.65	-	-	-	-	(7.82)	7.48
Simple avg									-	-	503.65	-	-	-	-	(7.82)	7.48
Mkt cap wtd avg									-	-	503.65	0.00	0.00	0.00	0.00	(7.82)	7.48
Global F&B																	
1 Fonterra	FSF NZ	85,338	32,391	63,129	20.09	24.99 / 15.74	0.20	3.8	-	29.13	18.11	1.88	0.00	2.36	(3.31)	3.62	5.97
2 Fraser And Neave	FNN SP	25,798	14,233	18,190	9.82	10.86 / 9.48	0.09	0.9	15.60	-	-	2.27	-	-	4.33	-	-
3 Thai Beverage	THBEV SP	108,289	130,562	193,758	5.20	5.49 / 3.3	16.90	82.5	21.79	20.15	18.53	0.86	2.48	2.73	14.84	19.65	19.87
4 A2 Milk	A2M AU	4,965	48,220	45,897	65.57	12.76 / 47.34	4.11	311.2	NA	32.80	29.09	0.04	0.00	0.08	49.09	41.61	34.14
Simple avg									18.70	27.36	21.91	1.26	0.83	1.72	16.24	21.63	19.99
Mkt cap wtd avg									21.18	24.41	20.87	0.92	1.44	1.93	18.90	20.81	19.67
Overall avg									29.99	30.45	146.63	1.61	1.73	2.11	17.13	13.15	16.55
Overall mkt wtd avg									25.21	23.71	66.63	1.33	1.97	2.13	15.48	16.35	17.14

Sources: Company data, Bloomberg

Exhibit 11: Vitasoy 2-year Price Chart



Source: Bloomberg

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