



Company Report: Vitasoy International (00345 HK)

公司报告：维他奶国际 (00345 HK)

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A Mature Hong Kong Brand Rejuvenated in the Mainland Market, "Accumulate"

香港成熟品牌在中国市场焕发青春，首予“收集”评级

- **Vitasoy is the largest non-carbonated beverage and food manufacturer in Hong Kong with more than 70 years of operations history.** Vitasoy's primary products are high-protein soy milk drinks that the company has produced since inception, and a wide variety of popular beverages and food products introduced by gradually, including fruit juice drinks, milk tea, tofu, etc; some products were given the original brand name "Vita".
- **Vitasoy has promising prospects in the mainland market.** Vitasoy operates in approximately 40 markets around the world, but its performance was most impressive in the mainland market and much better than the industry and other major F&B listed companies. The rapid growth in the mainland market was mainly attributable to the Company's outstanding products, successful brand building and innovative marketing efforts. The penetration of Vitasoy in mainland China is far from hitting the ceiling and there are huge market opportunities for Vitasoy to exploit. We have confidence that the experienced management could still achieve low double-digit or high single-digit growth in the mainland market in the next few years.
- We believe that the Company can maintain its leading position in the Hong Kong market through the loyal customer base and continuous innovation. We expect the Company to maintain a high growth rate in the mainland market as its penetration potential has huge room for improvement. **As a result, we initiate with "Accumulate" rating for Vitasoy and set TP at HK\$16.50, which represents 28.7x/32.4x/29.8x FY2017/FY2018/FY2019 PER.**
- 维他奶是香港最大的非碳酸饮料和食品生产商，拥有超过 70 年的经营历史。维他奶的主要产品是其首先生产的高蛋白的豆奶饮品，还包括公司陆续推向市场的一系列受欢迎的饮料食品，包括果汁，奶茶和豆腐等，其中一些产品被赋予副品牌“维他”。
- 维他奶在大陆市场有光明前景。维他奶在超过 40 个市场经营，但其在大陆市场的表现最为亮眼，且远好于行业平均和其他主要上市食品饮料企业。大陆市场的快速增长主要归因于公司出色产品，成功的品牌建设和创新的市场行为。维他奶在大陆市场的渗透率远没到顶，对于维他奶来说还有广阔的市场机会去挖掘。我们有信心其经验丰富的管理层可以在接下来几年在国内市场完成低双位数或者是高单位数的增长。
- 因为其忠诚的客户和不断的创新，我们相信公司可以保持其在香港市场的领导地位。因为其渗透率还有很大增长空间，我们预计公司可以维持其在大陆市场的高速增长。因此我们首予公司“收集”评级，目标价为 16.50 港元，相当于 28.7 倍 2017 财年市盈率、32.4 倍 2018 财年市盈率及 29.8 倍 2019 财年市盈率。

Rating:

Accumulate

Initial

评级:

收集 (首次研究)

6-18m TP 目标价:

HK\$16.50

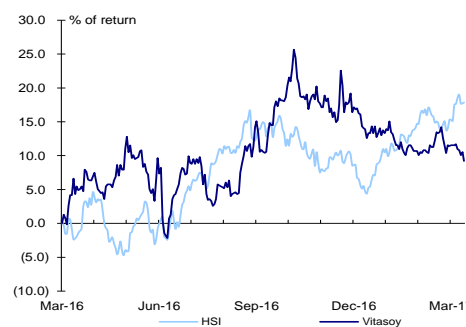
Revised from 原目标价:

Share price 股价:

HK\$14.880

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(1.8)	(3.0)	6.3
Rel. % to HS index 相对恒指变动 %	(3.5)	(15.9)	(13.4)
Avg. share price(HK\$) 平均股价 (港元)	15.2	15.2	15.1

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
03/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
FY15A	5,052	372	0.359	20.5	41.4	1.849	8.046	0.244	1.6	18.2
FY16A	5,552	531	0.509	41.8	29.2	2.110	7.052	0.303	2.0	23.4
FY17F	5,446	604	0.576	13.1	25.8	2.357	6.312	0.345	2.3	23.7
FY18F	5,904	535	0.509	(11.7)	29.3	2.479	6.003	0.305	2.1	19.4
FY19F	6,408	582	0.553	8.8	26.9	2.701	5.509	0.332	2.2	19.8

Shares in issue (m) 总股数 (m)	1,051.7	Major shareholder 大股东	Mr. Winston Yau-lai Lo 15.5%
Market cap. (HK\$ m) 市值 (HK\$ m)	15,648.9	Free float (%) 自由流通比率 (%)	37.6
3 month average vol. 3 个月平均成交股数 ('000)	736.7	FY17 Net gearing (%) FY17 净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低	17.180 / 13.440	FY17 Est. NAV (HK\$) FY17 每股估值 (港元)	17.4

Source: the Company, Guotai Junan International.

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Company Analysis

Company Profile

Vitasoy International ("Vitasoy" or "the Company") is the largest non-carbonated beverage and food manufacturer in Hong Kong. Vitasoy is a famous Hong Kong brand which was founded in 1940; the Company is well known for its beverages and desserts. Its headquarters is in Tuen Mun, New Territories. Initially, Vitasoy's primary products were improved high-protein soy milk drinks that the company first produced, but over the years the company has introduced a wide variety of popular beverages and food products to the market, including fruit juice drinks, milk tea, plant protein drinks, distilled water, and tofu, and some of them were given the original brand name "Vita". The firm has become one of the largest non-carbonated beverage and food manufacturer and seller in Hong Kong.

Milestones

Vitasoy was founded by Dr. Kwee Seong Lo (罗桂祥) on March 9, 1940, to provide soy milk to the masses in Hong Kong. In the beginning, soy milk drinks were delivered to residents' doors via delivery by bicycle, and then later Vitasoy began selling through retail outlets. By 1950, Vitasoy established a new factory as sales started to increase. In 1953, the Company adopted sterilization technology, enabling drinks to be stored unrefrigerated. In 1975, Vitasoy pioneered the introduction of Tetra Pak packaging technology for drinks production in Hong Kong. In 1976, Vitasoy launched a series of juice drinks, and subsequently launched lemon tea, chrysanthemum tea, and other drinks in 1978 and 1979. Vitasoy started to expand into overseas markets in the 1980s and 1990s. Yvonne Lo, the daughter of Dr. Kwee Seong Lo, introduced soy milk drinks to the U.S. market in 1979. In 1994, the Company established factory in the city of Shenzhen. Later in 1998, the Company established new factories in Shanghai, China and Ayer, Massachusetts in the United States. In 2001, Vitasoy opened a manufacturing plant in Australia. In 2008, it acquired Unicurd Food, a tofu manufacturing company in Singapore. Vitasoy's production plants in Foshan and Wuhan were opened in 2011 and 2016, respectively. In 2016, Vitasoy divested certain assets from its North American operations but continued the sale and distribution of their Asian imported beverage business in North America. Today, its products are sold in approximately 40 markets around the world, including Macau, Mainland China, Australia and New Zealand, the U.S., Canada, Europe, Singapore, and South East Asia.

Table 1: History and Key Milestones of Vitasoy

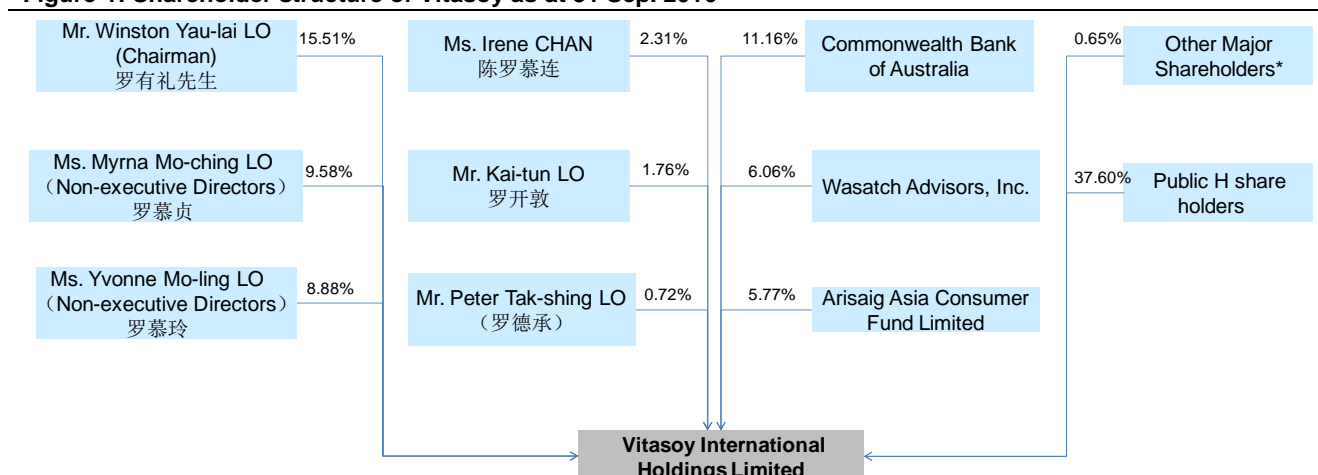
Time	Key milestones
1940	Vitasoy's products were launched as a nutritious, high-protein soy milk drink in Hong Kong.
1941	The Company ceased operations from 1941 to 1945 during the Japanese occupation of Hong Kong.
1945	The Company re-emerged after the war was over.
1950	The Company established a new factory.
1953	The Company adopted a sterilization technology, enabling the drinks to be stored without refrigeration.
1975	Vitasoy firstly introduced the Tetra Pak packaging system in Hong Kong.
1976	The Company launched a new line of VITA juice drinks in Hong Kong.
1979	The Company launched the world's first ready-to-drink lemon tea.
1987	Vitasoy opened a new HK\$100 million facility in Hong Kong.
1993	The Company acquired a tofu plant on the west coast of the U.S.
1994	Vitasoy opened its Shenzhen manufacturing plant, and was listed on the Hong Kong Stock Exchange.
1998	Vitasoy opened a manufacturing plant in Shanghai and a new Nasoya Foods facility in Ayer, Massachusetts, USA.
2001	The Company opened its first manufacturing plant in Australia.
2002	The Company was presented with the Caring Company logo from the Hong Kong Council of Social Services
2006	Selected VITA tea and juice products were launched in mainland China
2007	The Company launched SAN SUI Tofu in Hong Kong.
2008	Vitasoy acquired Unicurd Food in Singapore, consolidating its position as the soy experts.
2011	The Company opened a new plant in Foshan, mainland China.
2016	The production facility in Wuhan, mainland China, commenced operation.
2016	Vitasoy divested certain assets of North American operation but continues its sales and distribution of Asian import beverage business in North America.

Source: the Company, Wikipedia, Guotai Junan International.

Shareholder Structure

As at 31 Sep. 2016, the shareholder structure of Vitasoy was as follows in figure-1 below:

Figure-1: Shareholder structure of Vitasoy as at 31 Sep. 2016



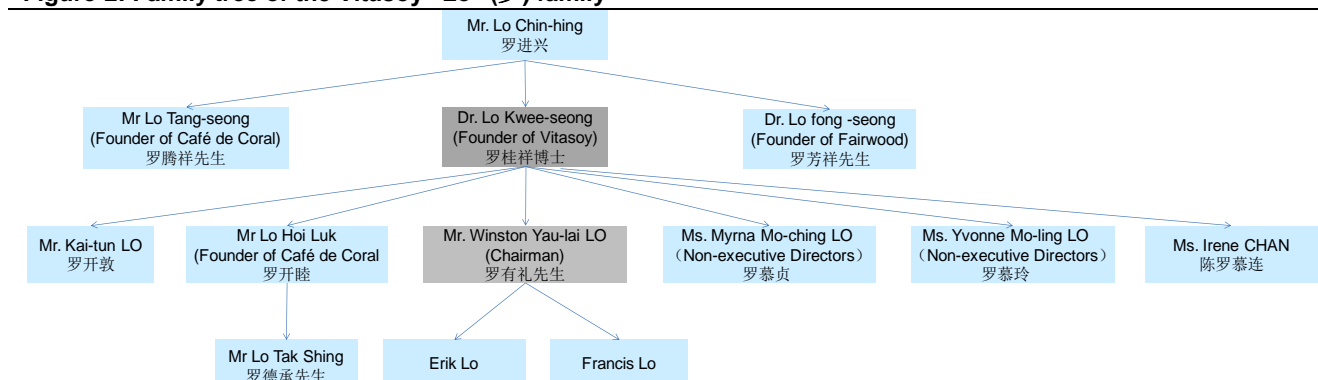
Source: the Company, Guotai Junan International.

*Dr. the Hon. Sir David Kwok-po LI (李国宝), independent non-executive director, held 0.57% of total issued shares.

Mr. Jan P. S. ERLUND, independent non-executive director, held 0.01% of total issued shares.

Mr. Roberto GUIDETTI, Chief executive officer, held 0.07% of total issue shares.

Figure-2: Family tree of the Vitasoy "Lo" (罗) family



Source: the Company, Wikipedia, Guotai Junan International.

Management

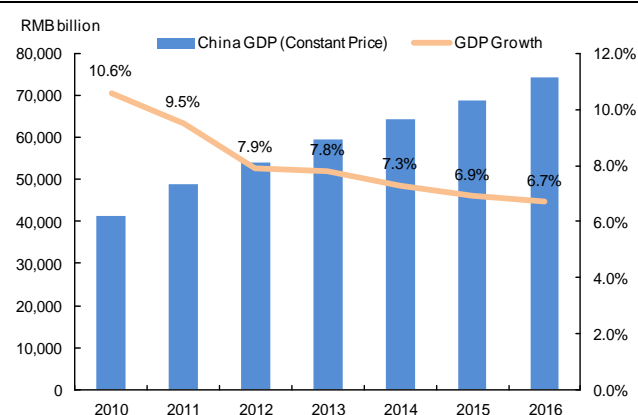
The Executive Chairman of the Company is Mr. Winston Yau-lai Lo (罗友礼), aged 75, who is the son of Vitasoy's founder Dr. Lo Kwee-seong (罗桂祥博士). Mr. Winston Yau-lai Lo graduated from Cornell University with a Master of Science degree in Food Science. Mr. Lo was appointed as a director of the Company in 1972, he is responsible for providing leadership direction to the Board when setting strategies to achieve the Company's goals. The current Chief Executive Officer of the Company is Mr. Roberto GUIDETTI, who joined Vitasoy as CEO on 1st April, 2013, and fully assumed the roles and responsibilities of the former CEO on 1st August, 2013. He has worked for two of the largest global fast moving consumer goods organizations and across local, regional and global roles in Europe and Asia. He has spent the last 14 years in the F&B field in Greater China. The CEO in the Company is responsible for overall strategic planning, business development and general management of all the Company's operations.

Industry Analysis

Mainland China Beverage Industry Analysis

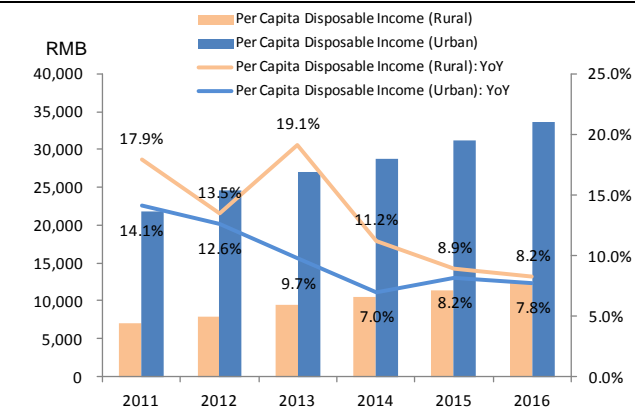
Sluggish economic growth in China dragged down disposable income. Since 2011, China GDP growth has continued to decline due to ongoing transition of China's economic structure continues, the decrease in marginal utility of investment and weak exports, in which exports has been affected by a gloomy global economy. Although per capital disposable income achieved higher growth rate than GDP growth in the last five years, it still inevitably went down along with the economic downturn. Slower increase in disposable income especially affected the income of blue-collar workers, where consuming thirst quenching drinks while working is relatively popular. While increasingly, white-collar workers tend to allocate more of their income to health and leisurely activities, such as fitness, medical services, video gaming, and travel and entertainment, resulting in less spending on FMCG. As investment in manufacturing and property is cooling, China's economic growth is accelerating from an investment driven model to a consumer demand model. The Chinese government will pursue economic stability while deepening economic reforms. The economic development of China is sustainable in the long run and we have faith in the government's target: "In 2020 the per capita income will be more than double from 2010".

Figure 3: China GDP



Source: National Bureau of Statistics of China, Guotai Junan International.

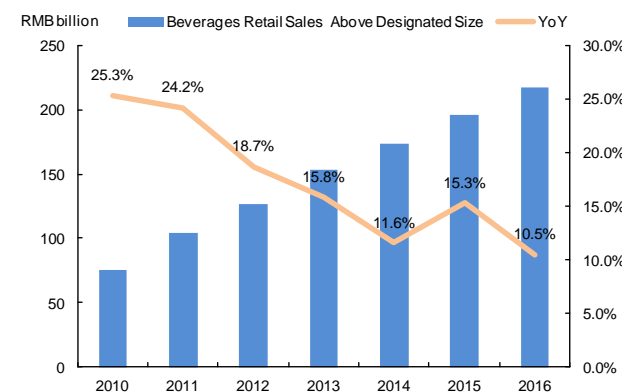
Figure 4: Per capita disposable income in China



Source: National Bureau of Statistics of China, China National Food Industry Association, Guotai Junan International.

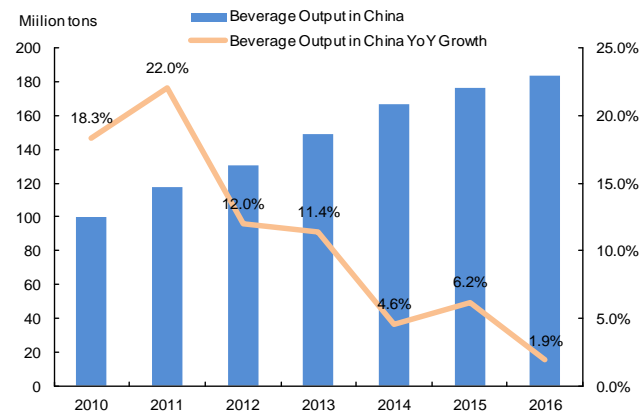
Mainland China's beverage industry growth began plummeting in 2011. Before 2011, mainland China's beverage industry experienced a 10-year golden age, maintaining high growth rates (mainly attributable to rapid growth of disposable income), low penetration rates and huge demographic benefits. However, after 2011, the beverage industry entered the "New Normal" as the growth rate of beverage retail sales and beverage output in China both rapidly slumped. According to the National Bureau of Statistics of China, in 2016, beverage retail sales above designated size in China registered RMB217.5 billion, up 10.5% YoY, the lowest growth rate in 20 years. In addition, the China growth rate of beverage output rebounded slightly in 2015 (6.2% YoY) but achieved the lowest growth rate (1.9%) among 20 years in 2016. We expect mainland China's beverage industry growth to maintain single-digit growth in the next few years as the penetration of beverages in China is high, national economic growth slowdown and change in China's demographic structure.

Figure 5: Beverage retail sales above designated size in China



Source: National Bureau of Statistics of China, Guotai Junan International.

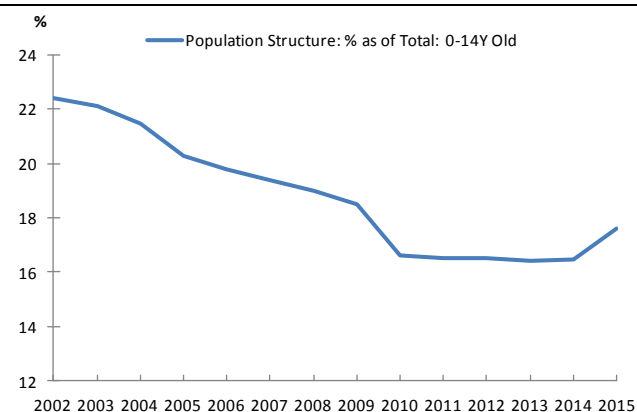
Figure 6: Beverage output in China



Source: National Bureau of Statistics of China, Guotai Junan International.

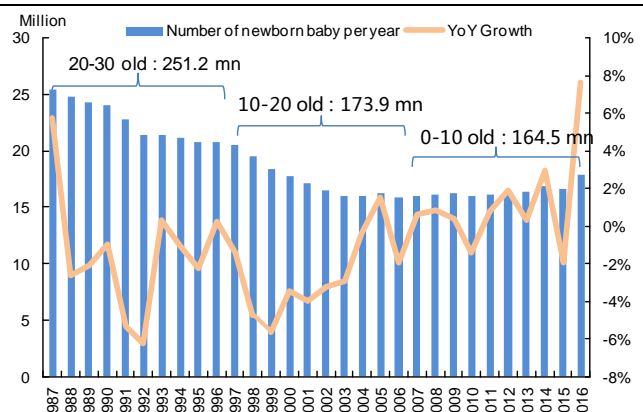
The youth population in China is shrinking. Because of China's one-child policy, since 1987, numbers of newborn babies have continuously declined, leading to a significant change in China's demographic structure. According to the National Bureau of Statistics of China, the number of newborn babies per year has decreased from around 25 million in the 1980s, to around 16 million in the 2000s. In 2014, the percentage of 0-14 year olds in the total population reached its lowest level at 16% since the data series began,. As the new two-child policy was implemented, China's population structure began to improve, but the youth population in China still struggle to return to the levels seem prior to 1987 levels. The youth generation has always been the main purchasing demographic of beverages. Based on the number of historic newborns, we sum up the current population of age 20-30 years, age 10-20 years and age 0-10 years, assuming mortality is zero after birth. The population of the age groups 20-30 years, 10-20 years and 0-10 years are 251.2 mn, 173.9 mn and 164.5 mn, respectively, showing a shrinking in size of the young generation. The baby boom in the early 1980s supported the past prosperity of beverage companies, which may not last much longer as an increase in the youth population is unsustainable. Generally speaking, beverage consumption of older customers is less than young customers as the drinking habit of customers changes with age. When the populated generation of current 20-30 year olds age, beverage consumption of the new generation may not fill the market left by them.

Figure 7: Population structure of China



Source: National Bureau of Statistics of China, Guotai Junan International.

Figure 8: Number of newborn babies

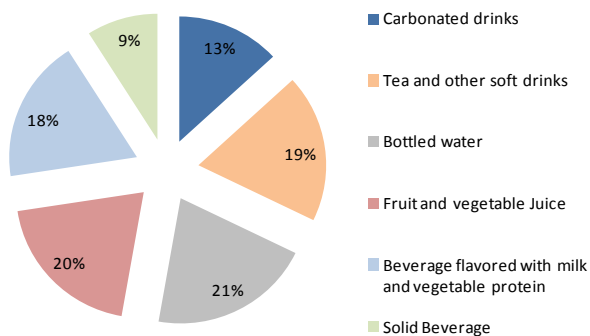


Source: National Bureau of Statistics of China, Guotai Junan International.

The penetration of beverages has plateaued in China and competition has intensified. After many years of effort, beverage companies have successfully introduced their products to Chinese consumers by building vast distribution networks, which are able to deliver merchandise to millions of stores across every corner of China relatively efficiently. As most target customers are covered in the current distribution system, it will be difficult to improve the penetration rate of beverages. As penetration rates plateaued, competition in the beverage market have become more intense. To increase sales volume, beverage manufacturers are penetrating further into modern trade channels, such as convenience stores, to boost purchase frequency and promoting within online channels to raise delivery volume. In addition, some companies are investing in offering premium products to deal with plateaued penetration rates and intense competition.

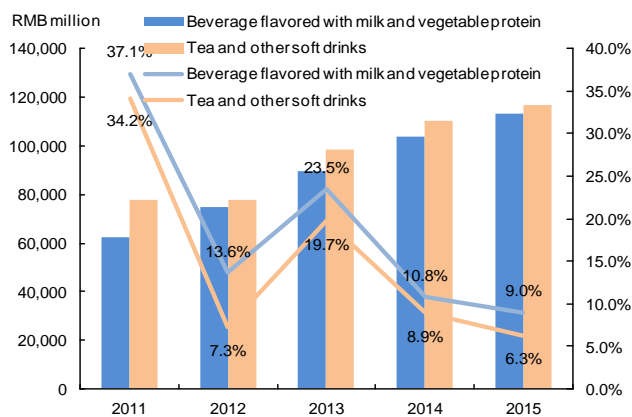
Market share of beverage products are relatively even in China. Carbonated drinks once dominated the mainland Chinese market, but as customers' awareness of health awakens, carbonated drinks, recognized as unhealthy drinks with high sugar and high calorie content, have been lagging behind bottled water, juice drinks, flavored beverages, and tea soft drink. In recent years, tea and flavored beverages, especially vegetable protein drinks, recorded a higher growth rate than the overall industry growth rate. In the tea soft drink market, which includes variations such as ice tea, green tea and Assam milk tea, market share still remains strong, on the other hand, the emerging category of products, such as lemon tea (like VITA lemon tea) and "Classmate Xiaoming" (小茗同学), are forming a separate consumer awareness category. In beverages flavored with milk and the vegetable protein market, vegetable protein drinks, like soy milk drinks, walnut milk drinks and almond milk drinks, are gradually being accepted and recognized by the public because of the characteristics of health and taste. In addition, vegetable protein drinks can satisfy demand for nutrition for those customers who are lactose intolerant. The category attracted F&B giants like Mengniu (2319 HK) and Dali (3799 HK)'s attention, which increased more resources in promoting their new vegetable protein drinks. Therefore, the market position of vegetable protein drinks in the beverage industry is significantly improved. We expect the market share of carbonated drinks to continually shrink, which will positively affect the vegetable protein drink and healthy tea drink markets.

Figure 9: Market share of beverages in 2015



Source: National Bureau of Statistics of China, China National Food Industry Association, Guotai Junan International.

Figure 10: Tea and flavored beverage sales and YoY growth



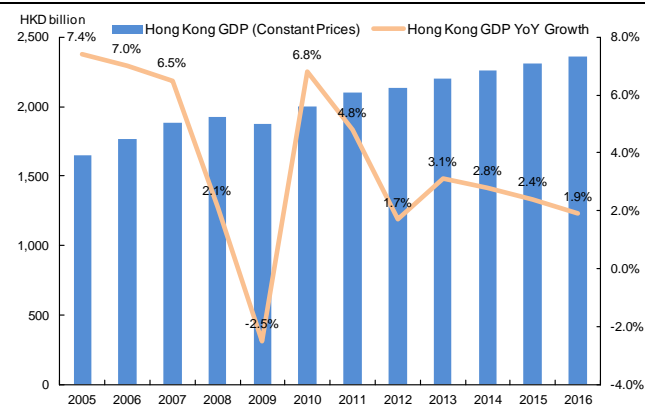
Source: National Bureau of Statistics of China, China National Food Industry Association, Guotai Junan International.

Consumption upgrades lead to the growth of healthy beverages and coffee. After many years of development, the beverage industry in China has increasingly diversified and has endless sub-categories. Similar to developed markets, the proportion of fruit and vegetable juice drinks and vegetable protein drinks is increasing. In addition to the promotion of "Health China 2030 Planning Outline", these healthy beverages are expected to be the main driver of the beverage industry. On the other hand, consumption upgrade benefits to the sale of coffee as the income and number of white collar workers are increasing, who consume coffee to refresh themselves to boost working efficiency. RTD coffee is perceived by customers as a premium product to soluble coffee. Although RTD coffee has achieved rapid growth in recent years, China's current per capita consumption of coffee is still only 5 cups, while Japan and South Korea per capita coffee consumption of about 300 cups in 2015. RTD coffee is expected to record double-digit growth in the next five years in the China market. Because of a huge population base, China is becoming the world's most promising coffee consumption market.

Hong Kong Food and Beverage Industry Analysis

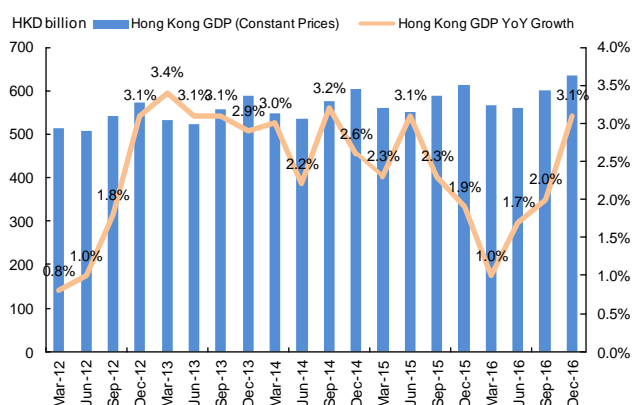
Hong Kong's economic growth bottomed out in 2016. Real GDP in 2016 was HKD2,358.6 billion, up 1.9% yoy. Quarterly real Hong Kong GDP only increased 0.8% YoY in 1Q16. However, GDP growth slightly recovered in 2Q16 and 3Q16, expanding 1.7% YoY and 1.9% YoY, respectively. Quarterly real GDP growth rate in 4Q16 further advanced to 3.1% yoy. Gross domestic fixed capital formation ended 4 consecutive quarters of negative growth, up 5.2% yoy in 4Q16, driven by a strong rebound in investment in building and construction. We also see gradual improvements in external trade and a stable expansion in government spending. Domestic private consumption in 4Q16 grew further to 3.2%.

Figure 11: Hong Kong annual GDP & YoY growth



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Figure 12: Hong Kong quarterly GDP & YoY growth

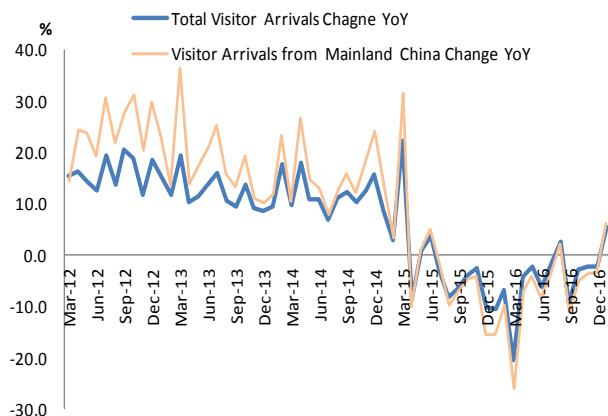


Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Hong Kong's total retail sales was dragged down by the slump in visitor arrivals from mainland China. In 2016, Hong Kong's total retail sales declined on a year-on-year basis for the third year, mainly attributable to the rapid decline in visitor arrivals from mainland China. Since Mar. 2015, the number of visitors from mainland China started to fall because of an unstable political environment, an aversive attitude from some Hong Kong residents toward mainland visitors, and a new policy aimed at limiting the frequency of Shenzhen residents traveling to Hong Kong. Furthermore, as the RMB to HK\$ exchange rate has been continuously depreciating since 2015, the purchasing power of mainland visitors has been damaged. The average expenditure from mainland visitors also decreased notably. We believe that the adverse effects of

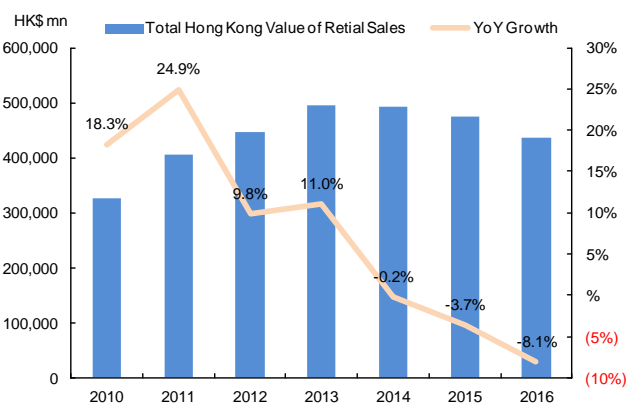
currency appreciation on tourism and the retail sector will not be dismissed in 2017, although we may see low single-digit growth in 2017 due to the low base effect in 2016.

Figure 13: Total visitor arrivals and visitor arrivals from mainland China



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

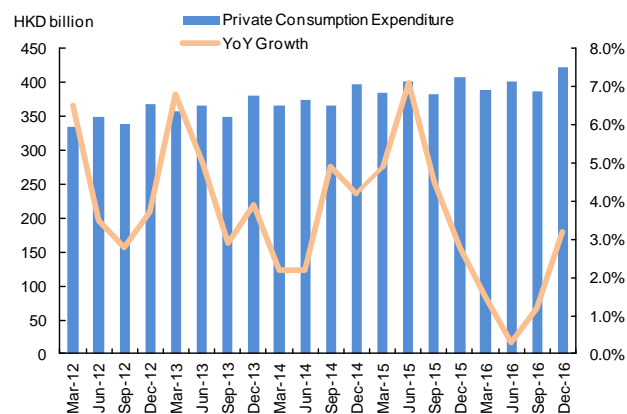
Figure 14: Total Hong Kong retail sales & YoY change



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

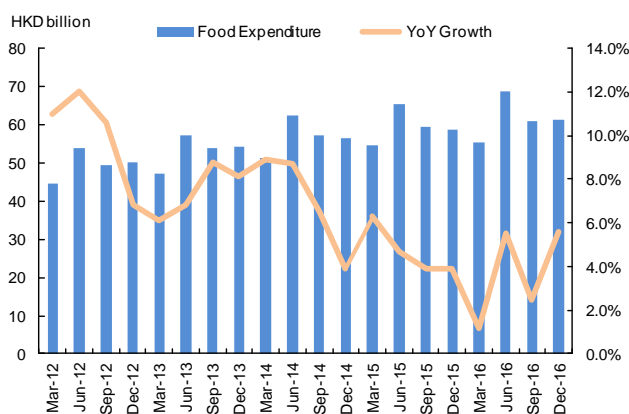
Consumer spending is expected to rally in 2017. Consumption expenditure is a key determinant of GDP in Hong Kong since it shares over 60% of real GDP. The increase in private consumption expenditure peaked at 6.8% YoY in 2Q15 and gradually fell to 0.5% in 2Q16, the lowest point since 3Q09. Uncertainties had stemmed from the U.K.'s surprising Brexit referendum vote in late June. The hit from the Brexit vote, nevertheless, was weaker than pre-vote predictions. Consumer spending growth in Hong Kong rebounded to 1.2% yoy in 3Q16 and 3.2% yoy in 4Q16 as the negative sentiment from the Brexit vote faded and the global economic outlook improved. Private consumption in Hong Kong was not dragged down by the fall of total retail sales, which means that the purchasing power of residents in Hong Kong was not damaged by the slump in visitor arrivals. Thanks to the gradual recovery of the Hong Kong economy and the resilient labor market, we predict a revival in consumer confidence in 2017.

Figure 15: Private consumption expenditure & YoY growth



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

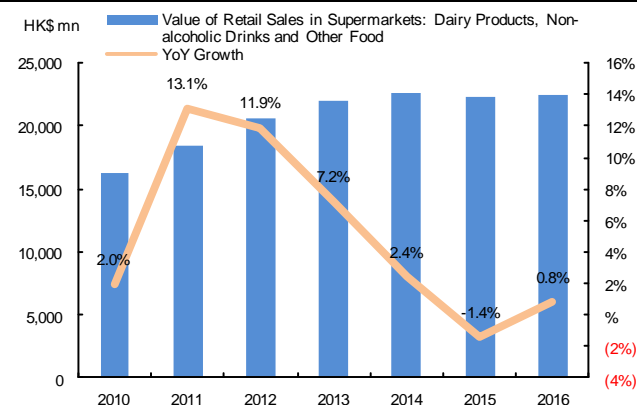
Figure 16: Food expenditure & YoY Growth



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

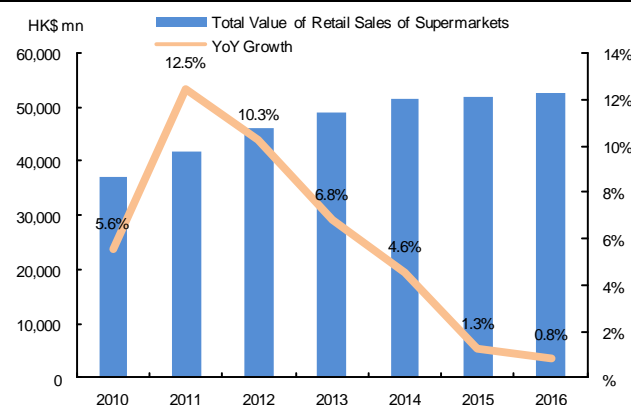
Sluggish sales growth in Hong Kong's beverage market. According to the Census and Statistics Department of Hong Kong, the sale of dairy products, non-alcoholic drinks, and other food in Hong Kong supermarkets lost growing momentum after 2012 due to a gloomy economy and weak retail sales. Hong Kong is a developed economy, where purchasing frequency is high and value of beverage per trip. However, demand from local customers for beverages will struggle to improve as there is already high per capita consumption of beverages. The change in beverage sales is notably affected by the number of visitors and is correlated with weather conditions, like how many hot or rainy days there are per year. To sum up, because of a limited population and saturated market, growth prospects of the Hong Kong beverage market are not optimistic.

Figure 17: Sales of dairy products, non-alcoholic drinks and other food in Hong Kong supermarkets.



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Figure 18: Sales in Hong Kong supermarkets



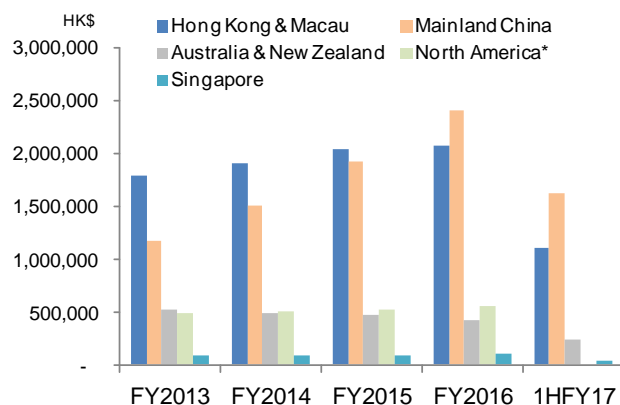
Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Business Analysis

Vitasoy is a leading manufacturer and distributor of plant-based food and beverages, headquartered in Hong Kong.

Currently, the Company has operations in Hong Kong, mainland China, Australia and Singapore, and its products are available in approximately 40 markets worldwide. Hong Kong & Macau used to contribute the most in revenue to the Company, but since FY2016, mainland China has surpassed Hong Kong & Macau as the major sales contributor after several years of robust growth. Vitasoy has been providing a variety of high-quality products packed in paper packs, PET bottles, glass bottles and cans, including soy/plant milk, tofu, tea, fruit juice, milk and pure distilled water. According to 1H FY15 opening resources from the Company, soy milk still contributed 44% to sales of the Company, followed by tea. However, Vitasoy's tea products, especially Vita lemon tea, have shown a stronger growth rate than soy milk and maintains popularity in mainland China. According to our data resource about Tmall sales, the sales of Vita lemon tea is better than soy milk, so we expect that the share of tea products in the Company is enlarging.

Figure 19: Vitasoy sales distribution by region

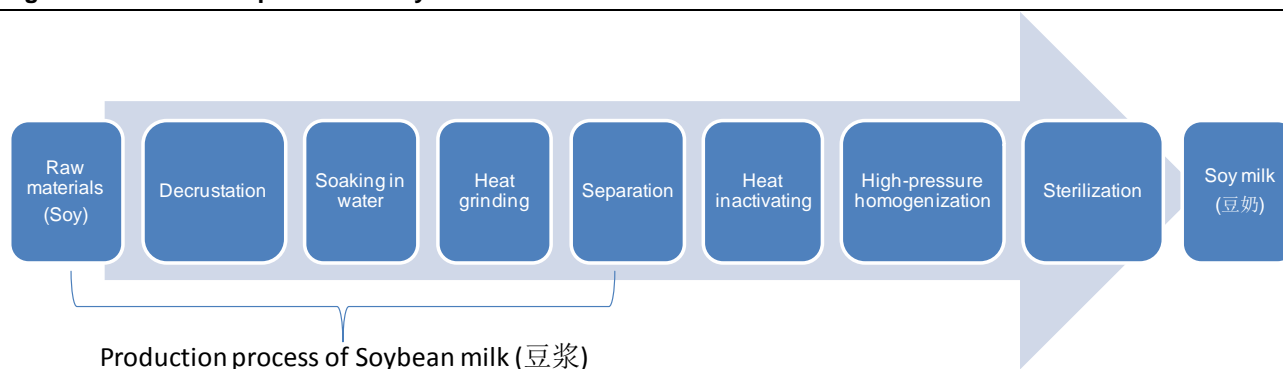


Source: the Company, Guotai Junan International.

Note *: North America business was divested after FY2016.

Soy milk drinks ("Soy drinks") is Vitasoy's iconic product and is positioned as a family drink. The agricultural traditions and laws in many countries require that only milks sourced from certain lactating animals are legally allowed to be named milk when sold commercially, which leads the manufacturers of plant milks to name their products beverage or drink instead. Soy milk (豆奶) was improved by Dr. Kwee Seong Lo and first produced by Vitasoy, aimed to save poor Chinese immigrants from malnutrition, which is an upgraded version of a Chinese traditional beverage, soybean milk (豆浆). In the soy milk production process, there is a very critical step called homogenization, which in food processing refers to micronizing particles by extrusion, a strong shock and loss of pressure, so that soybean particle can be refined and more evenly mixed with each other. After homogenization, the fat particles in soymilk becomes smaller and more stable, and more easily absorbed by human. These characteristics are not available in soybean milk. After many years of operation, VITASOY Soy drinks have developed many flavors such as original, malted, black soybean, coconut, melon, red bean, coffee and chocolate. In Australia, the Company also provides other plant protein beverages like almond milk, coconut milk, rice milk and oat milk.

Figure 20: Production process of soy milk



Source: Wikipedia, Guotai Junan International.

Figure 21: Soy/Plant milk products of Vitasoy



Source: the Company, Google, Guotai Junan International.

Vita tea targets young customers and is well received in mainland China. The Company has launched an alternative brand name, "Vita", in which the Company has introduced a wide variety of popular beverages to market, including lemon, honey chrysanthemum, chrysanthemum, green tea, herbal tea, etc. Vita lemon tea is the star product of Vita brand series. Vita lemon tea has a fresh and rich taste achieved by leaching original leaves to retain the most pure and unique tea flavor, which is the perfect combination of tea and lemon. It maintains the traditional restaurant Hong Kong-style lemon tea flavor and is refreshing but is a bit astringent. Vita lemon tea has been a leader in the Hong Kong RTD tea market since 1999. Although Vita lemon tea has a shorter operational history and limited geographical coverage in mainland China, it has achieved a remarkable growth rate in recent years that the management did not expect. In Tmall supermarkets, Vita tea series recorded higher sales value than soy milk of Vitasoy. The success of Vita lemon tea is attributable to its refreshing and addictive taste, and the spontaneous advertising by young netizens in China. "Drinking Vita lemon tea is happier than smoking marijuana", created by mainland netizens to describe how good and addictive Vita lemon tea is, went viral and was forwarded by lots of netizens since April 2016 and even listed in Weibo top topics list. No matter whether the marketing activity was sponsored by the Company or spontaneously spread by netizens, Vita lemon tea has successfully attracted attention from new customers and impressed with a good taste image. In addition, the rise of online channels in FMCG helped the Company to sell its popular products to regions outside its distribution network, which has less coverage of northern China. **We expect that Vita lemon tea has the potential to become another super single beverage product like Coca Cola, Red Bull and JDB.** Vitasoy is still working on producing new products to meet different market demands. For instance, the Company launched Vita Yuan Yang and Vita milk tea (stronger tea taste) in FY2016 as new products to complement the Vita tea series.

Figure 22: Vita Tea products series



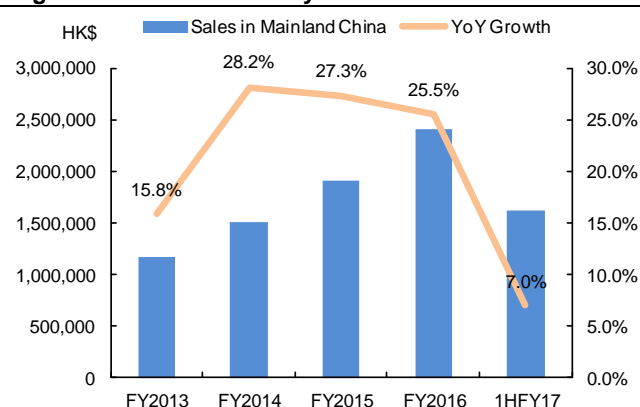
Source: the Company, Google, Guotai Junan International.

Mainland China Business Review and Outlook

Vitasoy achieved robust growth in mainland China in FY13-FY16. During FY13-FY16, CAGR of revenue generated from mainland China was 27.0%. Its sales in mainland China went up 27.3% YoY to HK\$1,915.9 million in FY15 and further increased by 25.5% YoY in FY16 to HK\$2,404.2 million. During FY13-FY16, CAGR of segment profit generated from mainland China was 32.0%. Profit from mainland China went up by 37.8% YoY to HK\$199.4 million in FY15, and further expanded by 41.2% YoY in FY16 to HK\$281.5 million. The performance of Vitasoy's business in China was impressive and much better than the industry and other major F&B listed companies. The rapid growth in the mainland market was mainly attributable to the Company's successful brand building, innovative marketing effort and appropriate execution of "Go Deep, Go Wide" strategy, which successfully helped the Company to expand from Pearl River Delta into eastern and central China.

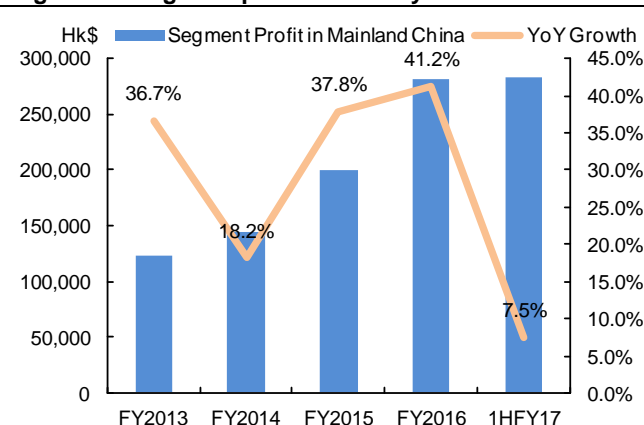
Mainland China growth rate began slowing down in 1HFY17. Compared to the Company's impressive performance before FY2017, its revenue growth and segment profit growth both recorded the lowest in five years, showing a sign of losing rapidly growing momentum. The moderate growth was partly attributable to RMB depreciation. The Company still recorded double-digit growth in revenue (13% YoY), better than 7% YoY increase in the Hong Kong dollar. However, as we mentioned in the mainland beverage industry analysis, macro economic growth and beverage industry growth both posted sluggish results in recent years. Although the Company showed great adaptability in the mainland market and were welcomed by local customers, its performance was inevitably affected by the overall gloomy beverage industry. As the Company continuously expanded, "Go Wide", its distribution network successfully penetrated into major southern, eastern and central cities and core northern cities. With more major city markets occupied, the challenge for the Company makes it more difficult to "Go Deep" into low-tier cities and towns. Vitasoy has less experience in cultivating markets of lower-tier cities and towns, which shows a different preference and is dominated by entrenched companies like Wahaha, Coca-cola and Tingyi (00322 HK). These companies have deep roots in low-tier markets, with more than 20 years of operation and thousands of distributor cooperating. In addition, due to limited plants in mainland China (Shenzhen, Shanghai, Foshan and Wuhan), its expansion to northern and western China is restricted by transportation distance.

Figure 23: Sales of Vitasoy in mainland China



Source: the Company.

Figure 24: Segment profit of Vitasoy in mainland China



Source: the Company.

New plant improved Vitasoy's coverage and its portfolio has been enriched. With the new plant in Wuhan commencing operation in 2016, the Company improved its coverage and accelerated sales in central and eastern China. In addition, its presence in northern China would be strengthened. The Company's current main markets in China are located in the south and east, but as penetration increasingly improves, sales growth in southern and eastern China has slowed down. So the central China market logically became the priority market for the Company to expand in. As the new plant started to operate in 2016, its capacity significantly improved the Company's expansion into the central China market, and lowered transportation expenses and unit costs. On the other hand, the Company is continuously innovating products to meet the healthy demand

from the mainland market. The Company launched the high nutrition series, Vitasoy Health Plus Soya Milk, which is enriched with nutrients and protein. The Company is also engaged in small-scale promotions with new Vitasoy plant-based products which are similar to products offered in the Australia market.

Figure 25: Vitasoy new Wuhan Factory



Source: the Company, Guotai Junan International.

Figure 26: Vitasoy Health Plus soya milk and Vitasoy plant-based products



Source: the Company, Baidu.

We hold a positive view towards the Company's prospects in mainland China. In the overall mainland China market, sales and penetration rate of Vitasoy are far behind leading beverage companies like Tingyi (00322 HK) and UPC (00220 HK), but its growth rate and profitability are much better. The Company achieved double-digit segment profit margin in mainland China, but Tingyi and UPC only recorded low single-digit segment profit margin. In addition, Vitasoy's products, especially Vita lemon tea, have become hot picks in the summer and profit making soft drinks for retailers in southern China, and is supported by supermarkets and convenient stores that offer top exhibition places alongside other strong brands. Because of popularity online and the increase in online channels, insufficient penetration via other channels was partly overcome, and promotion fees can be saved for the Company to penetrate into new markets. As the new plant is in operation and SAP upgraded, its operational efficiency is improved to better execute its strategy "Go Deep, Go Wide". On the other hand, Vitasoy has become the leading company in the mainland China soy milk market where market volume is increasingly expanding and a new consumption trend for plant protein beverages exists. Vitasoy is expected to achieve the corresponding rise. To conclude, the penetration of Vitasoy in mainland China is far from hitting the ceiling and there are huge market opportunities for Vitasoy to exploit. Despite the rest of the uncharted markets that are relatively tricky for the Company to occupy, we have confidence that its experienced management can still achieve low double-digit or high single-digit growth in the mainland market in next few years.

Hong Kong & Macau Business Review and Outlook

The leading beverage company in the Hong Kong market. The Company's distribution network and customer base are pretty solid as it has more than 70 years of operation in the Hong Kong market. The success of Vitasoy in Hong Kong was due to its prompt response to new market trends and the application of the latest technology, as well as high attention to food safety. In 1945, after victory in the Anti-Japanese War, Dr. Lo returned to Hong Kong and resumed production of soy milk. By learning from Coca-Cola's practices, Dr. Lo began to sell the soy milk in glass bottles instead of scooping out of bowls. In 1953, Vitasoy applied high temperature sterilization technology to store soy milk at room temperature instead of low temperatures, that's when sales began to surge. In the mid-1950s, 12 million bottle sales per year was reached. In 1974, because of the oil shock, prices of sugar and soybeans were substantially increased. In addition to high transportation costs of glass bottles, the profitability of Vitasoy was under huge pressure. At that time, Mr. Winston Yau-lai Lo boldly suggested to introduce sterile Tetra Pak paper packaging, which not only reduced transportation costs, but also eliminated trouble when returning bottles. By 1976, the Company's profits rose significantly. At the same time, as the economy started to improve, the positioning of Vitasoy also transformed from the "milk substitutes of poor people" to "nutrient-rich, high quality, delicious, and healthy natural soy drinks." After 1979, Vitasoy followed the trend in green food, and gradually launched Tetra Pak paper packaging products like tea, fruit juice, chrysanthemum tea and a number of fresh drinks, with annual sales of up to 400 million boxes. In 2014, the Company launched a brand new Vita Hong Kong-style milk tea to expand its tea offerings, and filled a gap in the market. After one year of operation, Vita milk tea has been top in new products in various sales channels.

The collective memory of three generations in Hong Kong. Hong Kong people not only drink Vitasoy but also grow up with its advertisements. The Company's advertisements can cause resonance from each generation, because its advertisements are not only selling its own products, but also projecting the spirit of different generations of Hong Kong people into its advertisements. To maintain the image of its brand, Vitasoy has not been subjected by its old image, but has evolved with different generation, as an image of Hong Kong's collective memories. The image of Vitasoy perceived by Hong Kong

customers not only relates with a warm family product but also is associated with fashion products for the young. In the Hong Kong beverage market, generally, new product life is limited, the most popular drinks have remained in the market for more than 20 years, such as the Company's soy milk and lemon tea, as customers have strong emotional connections with these products and drinking habits also play an important role.

Figure 27: Classic advertisement of Vitasoy



Source: Google, Guotai Junan International.

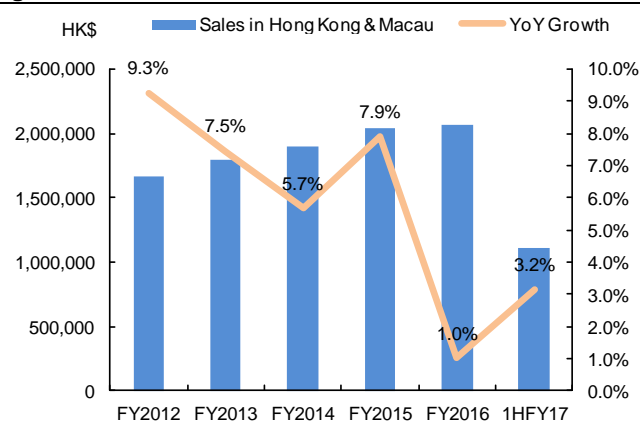
Figure 28: Vitasoy's new advertisement: <Stand by Me>



Source: Google, Guotai Junan International.

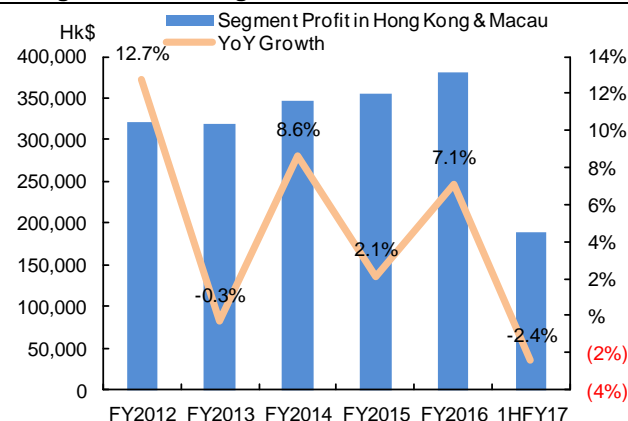
Sales in the Hong Kong market slowed down but may maintain healthy growth rate. During FY13-FY16, CAGR of revenue generated from Hong Kong was 4.8%. The Company's sales in Hong Kong went up 7.9% YoY to HK\$2,048.3 million, but its growth rate slowed down to 1.0% YoY in FY16 due to gloomy retail sales and reduced mainland visitors. The Company further recorded a 3.0% YoY decline in Hong Kong business on a comparable basis in 1HFY17, but after taking account of the post-divestment of business in North America, its growth rate became positive 3% YoY. The sales growth decline was due to sluggish economic growth and manufacturing issues, missing opportunities to generate increased revenue during important promotional periods in the first quarter. The performance of Macau business was also significantly affected by the weakening economy and the decline in tourist arrivals. Although the Company's Hong Kong & Macau business is expected to be impacted by a gloomy economy and higher costs from labor and raw materials, we still have confidence that the Company can maintain its market position due to its loyal customers, strong brand identity and healthy image.

Figure 29: Sales of Vitasoy in Hong Kong/Macau & YoY growth



Source: the Company, Guotai Junan International.

Figure 30: Segment profit of Vitasoy in Hong Kong/Macau & YoY growth

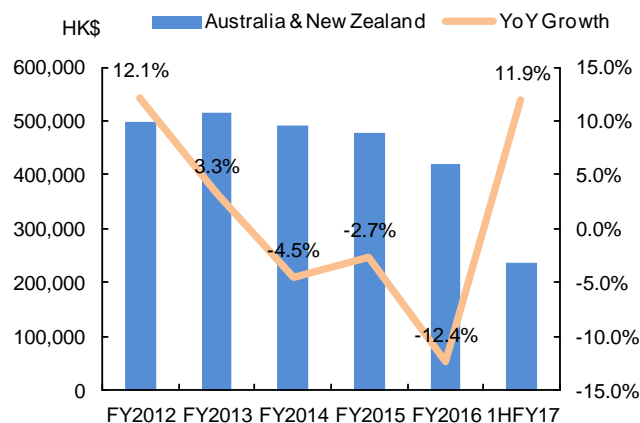


Source: the Company, Guotai Junan International.

Australia/New Zealand Business Review and Outlook

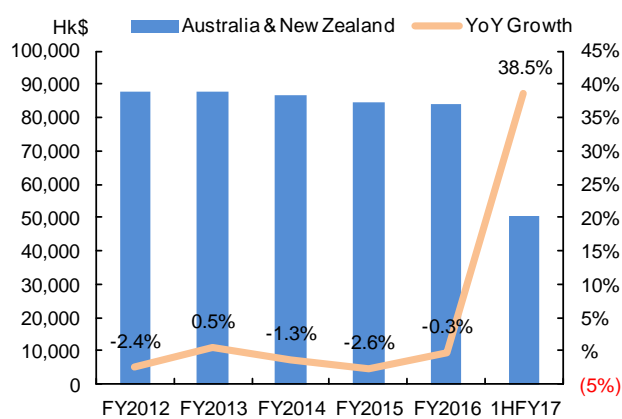
Vitasoy recorded robust growth in 1H17 after several years of slowing growth. The Company mainly operates plant protein drinks in Australia and New Zealand markets. Due to a weak Australian dollar and intensified competition during FY13-FY16, CAGR of revenue and segment profit generated from Australia/New Zealand were -6.6% and -1.4% YoY reported in HK\$, respectively. In the local currency, the Company still recorded positive growth. In 1HFY17, the Company strengthened its market position in Australia and New Zealand by successfully launching Vitasoy Almond Milk and new Vitasoy Protein Plus Soya Milk, which contains higher amounts of protein and is unsweetened. In addition, the stronger Australian dollar after mid-2016 also improved the Company's profitability in the Australia and New Zealand market. As consumers become more health conscious and plant milk continues to gain in popularity worldwide, the Company will leverage its market leading position in the markets to achieve sustainable growth. We expect that the growth momentum will be maintained in next three years.

Figure 31: Sales of Vitasoy in Australia/New Zealand & YoY growth



Source: the Company, Guotai Junan International.

Figure 32: Segment profit of Vitasoy in Australia/New Zealand & YoY growth



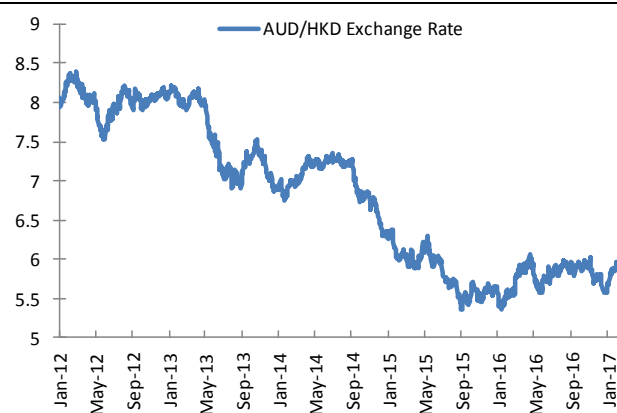
Source: the Company, Guotai Junan International.

Figure 33: Vitasoy's Australian/New Zealand products series



Source: the Company, Guotai Junan International.

Figure 34: AUD/HKD Exchange rate

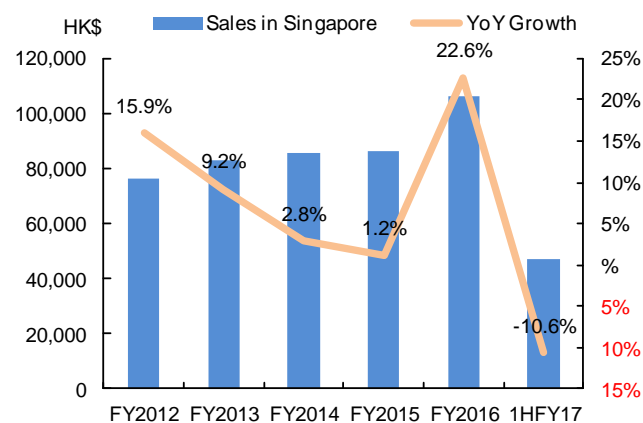


Source: the Company, Guotai Junan International.

Singapore Business Review and Outlook

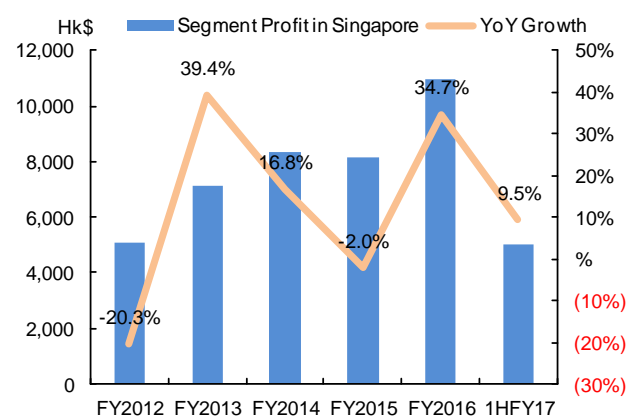
Top position in Singapore tofu market. Vitasoy mainly operates tofu business and imported beverage business in Singapore through its wholly-owned subsidiary, Unicurd. It maintained strong growth in the Singapore market during FY13-FY16, while CAGR of sales and segment profit in Singapore grew 8.5% YoY and 15.5% YoY, respectively. In FY2016, its Singapore team began to operate the business of imported VITASOY beverages by integrating imported beverage business with the tofu segment. The Company strengthened its No.1 market share position in the tofu category by successfully introducing Vitasoy Premium Tofu, a fortified tofu with higher calcium content, which was well-received by the market. In FY17, the Company faced headwind as Unicurd appointed a new distributor to improve its performance of imported business. During the transition period, its operation in Singapore was affected and shipments of imported beverages were lowered, given this, its sales recorded a 10.6% YoY drop. After the distributorship transition, the Company's operation is on the right track. We expect that the Company will maintain its position and achieve steady growth in the tofu and beverage business in Singapore.

Figure 35: Sales of Vitasoy in Singapore & YoY growth



Source: the Company, Guotai Junan International.

Figure 36: Segment profit of Vitasoy in Singapore & YoY growth



Source: the Company, Guotai Junan International.

Figure 37: Unicurd (统一) tofu



Source: the Company, Google, Guotai Junan International.

Figure 38: Vitasoy Premium organic tofu



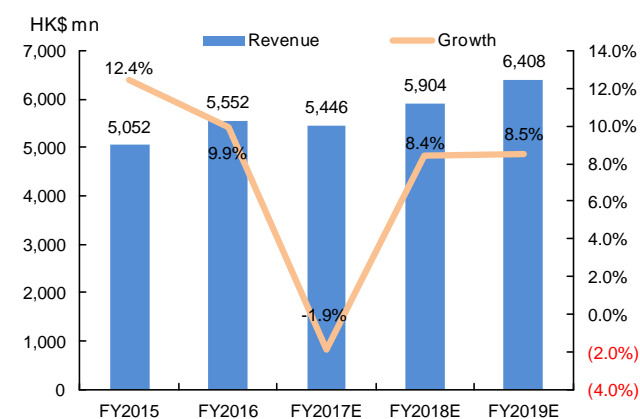
Source: the Company, Google, Guotai Junan International.

Financial Analysis

Revenue Analysis

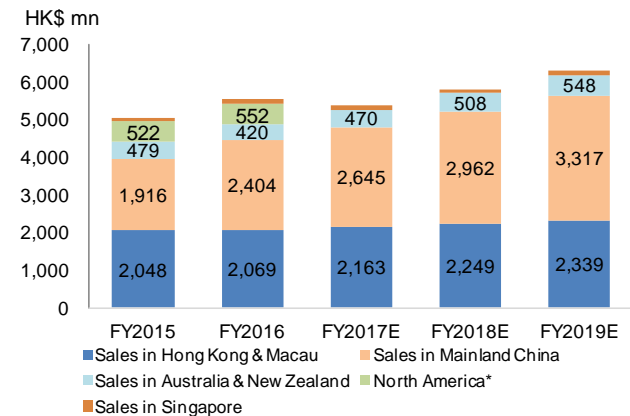
Revenue grew at a CAGR of 11.1% from FY2013 to FY2016 and 3-Year revenue CAGR in FY16-FY18 is expected to reach 4.9%. The Company's revenue is expected to decline 3.2% YoY in FY2017 due to the divestment of North American business in order to retain growth momentum in FY2018. The main driver of sales growth was, and will continue to be mainland China business. We expect the sales growth in mainland China to average at 12.0% over the next three years. The market in mainland China is wide and deep enough for the Company to expand. However, we expect that the Company will struggle to repeat its high growth rate in the last five years in the mainland China market as the major city markets have been occupied and the rest of the market consists of remote provinces and low-tier cities and towns, where distribution and promotion are time-consuming and inefficient. Despite that the challenge is becoming harder for the management, we have confidence in their capabilities in marketing and distribution to achieve sustainable and long-term growth in mainland China. The Company's market position in the Hong Kong market is pretty solid, with the loyal customer base and competitive products. Despite that the potential for the Hong Kong beverage market is limited, the Company could drive its sales by launching creative new products, like Hong Kong-style milk tea. Vitasoy's operation in Australia/New Zealand and Singapore is heading in the right direction, and is expected to contribute considerable revenue to the company. We expect the Company's revenue in FY17-FY19 to reach HK\$5,445.8 mn, HK\$5,903.8 mn, and HK\$6,408.1 mn, respectively, representing -1.9%, 8.4%, and 8.5% YoY change.

Figure 39: Historical & Forecast revenues of Vitasoy



Source: the Company, Guotai Junan International.

Figure 40: Composition of revenue of Vitasoy



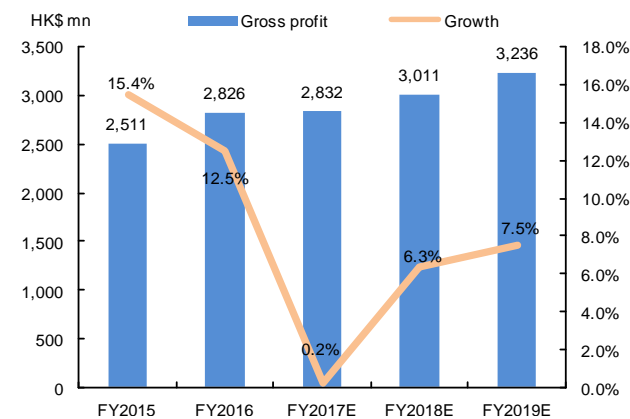
Source: the Company, Guotai Junan International.

Note *: North America business was divested after FY2016

Gross profit & Operating Profit Analysis

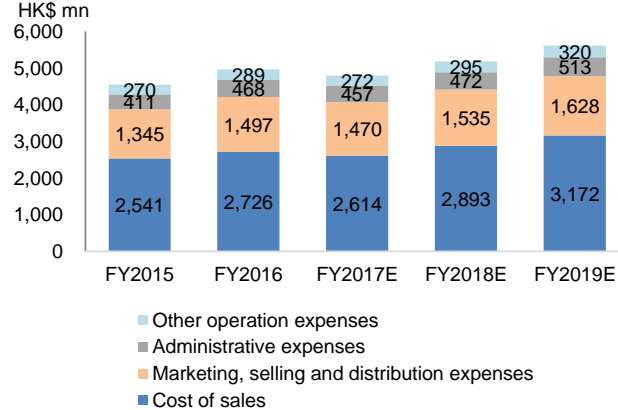
3-Year gross profit CAGR in FY2016 to FY2019 is expected to reach 4.6%. The Company's gross profit grew at a CAGR of 13.6% during FY2013-FY2016. Cost of sales contributed more than 50% to total expense, followed by marketing expenses, administrative expenses and other operation expenses. Raw materials and compensation contributed the greatest portion of cost of sales. In FY2016, gross margin of Vitasoy recorded 50.9%, up 1.2 ppt from FY2015, and further rose to 53.5% in 1HFY17, mainly due to favorable raw materials prices. However raw materials have rebounded significantly since the second half of 2016. After OPEC reached a consensus on the production cap, the rise in oil prices is driving PET prices up, which increased 19.1% YoY as at Mar.2017. In addition, sugar prices also rebounded 25.2% YoY as of Mar.2017. Although Vitasoy has long-term contracts with suppliers, which could reduce its pressure from the rise in raw materials prices, the Company could not maintain its high gross margin before 2HFY17. We expect Vitasoy's gross margin to reach its peak in FY17, around 52%, then go down in FY18 and FY19. We expect the Company's gross profit in FY17-FY19 to reach HK\$2,831.8 mn, HK\$3,010.9 mn and HK\$3,236.1 mn, up YoY 0.2%, 6.3%, 7.5%, respectively.

Figure 41: Historical & Forecast gross profit of Vitasoy



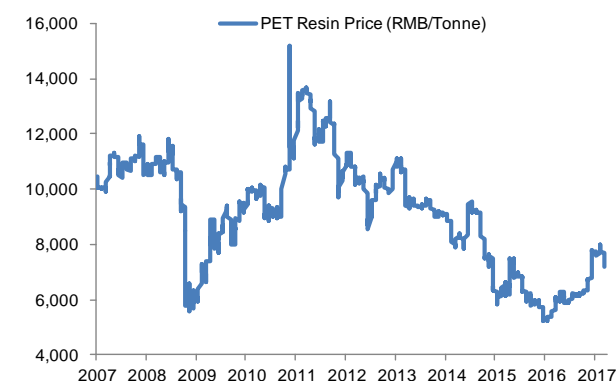
Source: the Company, Guotai Junan International.

Figure 42: Vitasoy's expense by nature



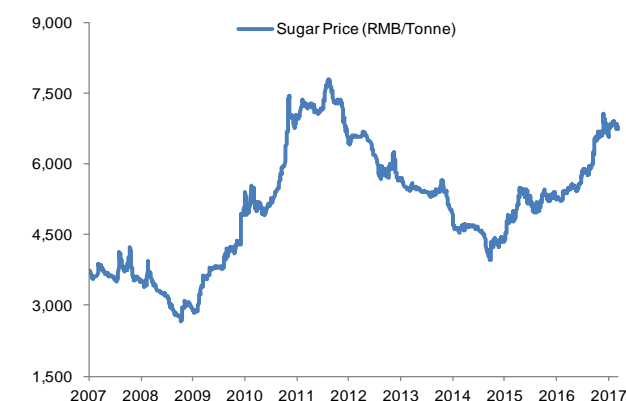
Source: the Company, Guotai Junan International.

Figure 43: PET price



Source: the Company, www.tbs-china.com, Guotai Junan International.

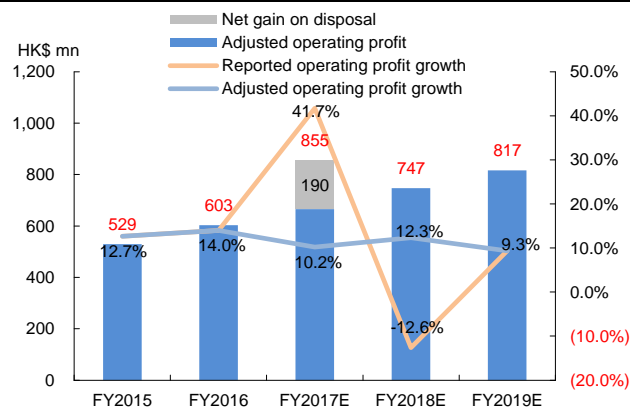
Figure 44: Sugar price



Source: the Company, www.jcchina.com, Guotai Junan International.

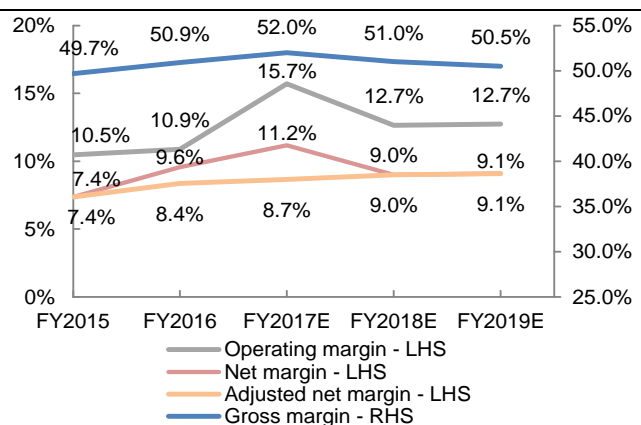
3-Year operating profit CAGR in FY2016-FY2019 is expected to reach 10.6%. The Company's operating profit increased at a CAGR of 10.8% from FY2013 to FY2016. The Company's operating profit surged 53.1% YoY in 1HFY17 and is expected to increase 41.2% YoY in FY2017, mainly attributable to the net gain on the North American divestment. Except from the net gain on the North American divestment, the Company is expected to achieve 13.8% YoY increase in adjusted operating profit in FY2017. The Company maintain operating margin around 10%-11% before FY2017. With the new plan in Wuhan operating, the Company can shorten product delivery distances to its customers in central China, leading to savings in distribution costs. In addition to careful cost management, we expect the Company to maintain operating margin above 12% in FY2018 and FY2019. We expect its operating profit in FY17-FY19 to reach HK\$855 mn, HK\$747 mn, and HK\$817 mn, respectively, representing YoY change of 41.7%,-12.6% and 9.3%.

Figure 45: Historical & Forecast operating profit of Vitasoy



Source: the Company, Guotai Junan International.
Note: Numbers in red represent reported operating profit.

Figure 46 : Margin analysis of Vitasoy



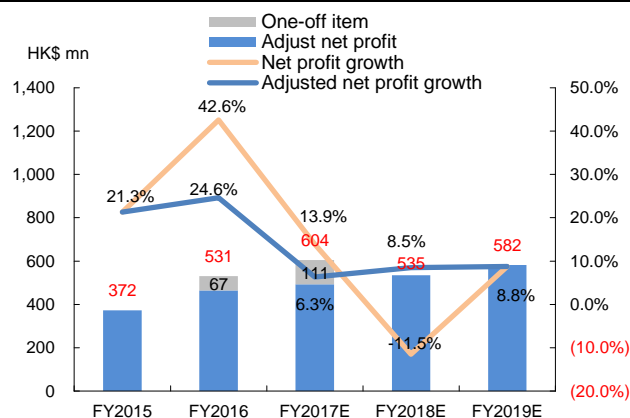
Source: the Company, Guotai Junan International.

Net profit Analysis

Net profit is expected to grow at a CAGR of 2.8% from FY2016 to FY2019. The Company recorded 5.7% effective tax rate in FY2016, leading to the surge in net profit, up 42.6% YoY. The decrease in tax expense was due to the recognition of deferred tax assets of certain subsidiaries in mainland China and North America, amounting to HK\$87 mn. Excluding the recognition of deferred tax assets, net profit increased by 24.6% YoY in FY2017. Due to one-off recognition of deferred tax assets in FY2016 and disposal of assets in FY2017, the Company achieved and is expected to achieve abnormal high net profit in FY2016 and FY2017. We expect the Company's net profit in FY17-FY19 to reach HK\$604 mn, HK\$535 mn, and HK\$582 mn, changing YoY by 13.9%, -121.5%, and 8.8%, respectively. We expect adjusted net profit in FY17-FY19 to reach HK\$493 mn, HK\$535 mn, and HK\$582 mn, up 6.2%, 8.5% and 8.8%, respectively. We estimate the net margin from FY2017 to FY2019 to be 11.1% / 8.5% / 8.5%, respectively, while the forecast EPS for the period is HK\$0.576/ HK\$0.509 / HK\$0.553, respectively.

ROE and ROA have both been stable in the past and is expected to rise slightly in FY2017. The Company's ROE and ROA mostly remained around 17% and 10% before FY2016. Due to the recognition of deferred assets, Vitasoy's ROE and ROA rose to 23.4% and 13.6% in FY2016, and is expected to improve by 23.7% and 14.2% in FY2017 as a result of net gains on disposal of assets. In our forecast model, the ROE and ROA will return to their normal level after FY2017, in which ROE will average at 19.6% while ROA will average at 11.9% from FY2018 to FY2019.

Figure 47: Historical & Forecast net profit of Vitasoy

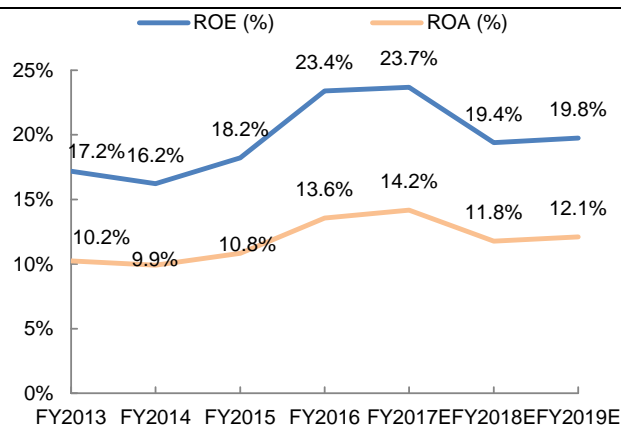


Source: the Company, Guotai Junan International.

Note: 1) Numbers in red represent adjusted operating profit.

2) One-off items were transferred deferred tax in FY2016 and net gain on disposal in FY2017.

Figure 48: ROE and ROA of Vitasoy

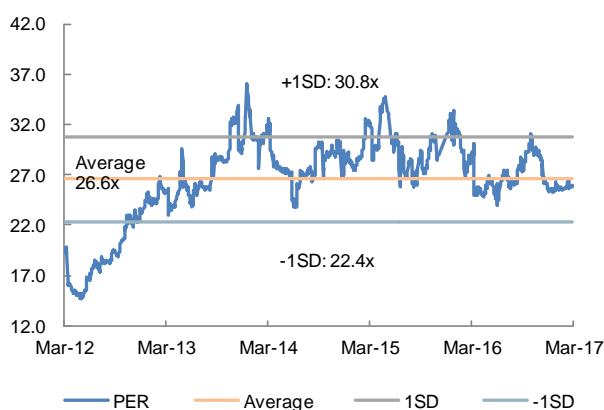


Source: the Company, Guotai Junan International.

Valuation

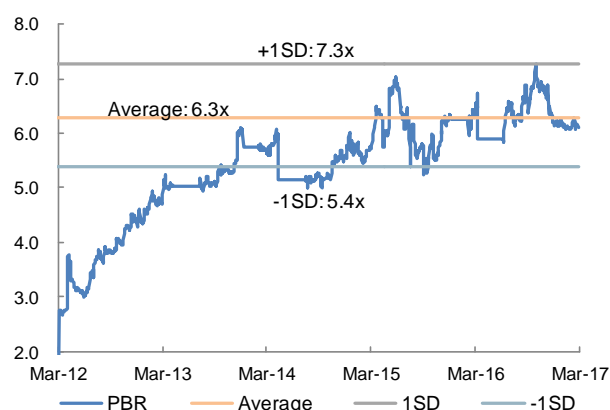
Initiate with TP of HK\$16.50 and “Accumulate” rating. Vitasoy is the largest Hong Kong beverage manufacturer with a solid customer base in Hong Kong and rapid growth rate in the mainland China market. We believe that the Company can maintain its leading position in the Hong Kong market based on its loyal customer base and continuous innovation. As the new Wuhan factory commences operation, it can accelerate sales and profit growth in the central and eastern regions of China by increasing production capacity as needed. The penetration rate of Vitasoy products in the mainland market is far from its upper limit as its presence in low-tier cities and towns is not strong. Although its classic products like soy milk and lemon tea are well received by both Hong Kong and mainland markets, the Company has not ceased innovation. It is continuously launching new tastes of plant milk and new milk tea series. Compared to peer companies, the Company is trading at a higher valuation for its higher than peers growth and brand value. In addition, we expect that Vita lemon tea has the potential to become another super single-beverage product like Coca Cola, Red Bull and JDB. Vitasoy's PE ratio is trading at an average level, we expect its valuation has upside potential. As a result, we initiate with “Accumulate” rating for Vitasoy and set TP at HK\$16.50, which represents 28.7x/32.4x/29.8x FY2017/FY2018/FY2019 PER. We suggest that investors accumulate shares during price dips.

Figure 49: PER Band of Vitasoy



Source: the Company, Guotai Junan International.

Figure 50: PBR Band of Vitasoy



Source: the Company, Guotai Junan International.

Table 2: Peers Comparison

Company	Ticker	\$	Share Price	Market Cap (HK\$ mn)	Adjusted PER (x)			Adjusted PBR	ROE (%)	Gross Margin	Operating Margin (%)
					2016	2017	2018				
HK - Listed companies											
Wh Group Ltd	288 HK	HK\$	6.650	97,430	11.3	11.4	10.5	1.8	16.7	20.0	8.6
Want Want China	151 HK	HK\$	5.160	64,573	15.9	16.8	16.8	4.1	25.0	46.0	22.6
Dali Foods Group Co Ltd	3799 HK	HK\$	4.520	61,897	16.8	16.4	14.7	3.7	24.1	39.2	21.6
China Mengniu Dairy Co	2319 HK	HK\$	15.260	59,896	25.6	19.0	16.9	2.2	11.5	33.5	5.7
China Resources Beer	291 HK	HK\$	18.020	58,460	70.1	28.0	24.2	2.6	9.7	33.3	8.3
Tsingtao Brewery	168 HK	HK\$	35.550	50,003	27.6	28.4	26.1	2.3	8.2	35.5	5.2
Tingyi (Cayman Isl) Hldg	322 HK	HK\$	9.250	51,842	35.3	27.6	23.5	2.0	7.7	31.2	5.1
Uni-President China	220 HK	HK\$	5.500	23,756	29.4	25.8	22.3	1.6	6.6	36.1	4.8
Vitasoy Intl Holdings Ltd *	345 HK	HK\$	14.880	15,649	25.8	29.3	26.9	6.0	19.4	51.0	12.6
China Foods Ltd	506 HK	HK\$	3.450	9,650	15.3	20.8	19.9	1.6	6.7	23.6	4.5
Simple Average					27.3	22.4	20.2	2.8	13.6	34.9	9.9
Weighted Average					26.9	20.5	18.5	2.7	14.9	33.6	10.8

Source: Bloomberg.

Note * For those companies with financial year ended other than 12/31, their PER and PBR are adjusted to calendar year and ROE, GM as well as OM of FY18F are shown in 2017 in table for comparison.

Major risk factors include: 1) Product liability claims, customer complaints, product tampering, food safety Issues, food-borne illnesses, etc.; 2) negative publicity for the Company or the Industry; 3) failure to plan production schedules to responds to market demand; 4) products are not welcome by customers; 5) failure to launch new products or enhance existing products; 5) RMB and other currency depreciation; and 6) Counterfeit products by other manufacturers.

Financial Statements

Income Statement					
Year end Mar (HK\$ m)	FY15A	FY16A	FY17F	FY18F	FY19F
Revenue	5,052	5,552	5,446	5,904	6,408
Cost of sales	(2,541)	(2,726)	(2,614)	(2,893)	(3,172)
Gross Profit	2,511	2,826	2,832	3,011	3,236
Other revenue	45	32	33	38	41
Net gain on disposal	0	0	190	0	0
Marketing expenses	(1,345)	(1,497)	(1,470)	(1,535)	(1,628)
Administrative expenses	(411)	(468)	(457)	(472)	(513)
Other operation expenses	(270)	(289)	(272)	(295)	(320)
Operating Profit	529	603	855	747	817
Finance cost	(6)	(4)	(8)	(8)	(8)
Profit before tax	524	599	847	739	809
Income tax	(115)	(34)	(208)	(170)	(190)
Profit after tax	409	565	639	569	619
Minority interests	(37)	(35)	(35)	(34)	(37)
Net profit	372	531	604	535	582
Adjusted profit	372	464	493	535	582
EPS (HK\$)	0.359	0.509	0.576	0.509	0.553
Diluted EPS (HK\$)	0.355	0.504	0.571	0.504	0.548
DPS (HK\$)	0.244	0.303	0.345	0.305	0.332
Cash Flow Statement					
Year end Mar (HK\$ m)	FY15A	FY16A	FY17F	FY18F	FY19F
Profit before income tax	524	599	847	739	809
Depreciation of PP&E	195	208	279	284	290
Change in working capital	114	(82)	(129)	109	(131)
Tax paid	(116)	(119)	(137)	(180)	(196)
Others	22	24	(184)	2	(0)
CFO	739	631	676	955	771
Purchase of PP&E	(521)	(669)	(248)	(301)	(350)
Others	(36)	33	387	6	8
CFI	(557)	(635)	139	(295)	(342)
Shares issued	19	49	42	0	0
New bank loan	190	435	250	240	220
Repayment of bank loans	(142)	(242)	(265)	(270)	(270)
Dividends paid	(209)	(261)	(318)	(363)	(321)
Others	(24)	(32)	(38)	(42)	(38)
CFF	(165)	(51)	(329)	(435)	(409)
Change in cash and cash equivalents	17	(55)	486	226	20
Foreign exchange effect	(3)	(8)	0	0	0
Cash balance at beginning	320	335	271	757	983
Cash balance at year end	335	271	757	983	1,004

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Mar (HK\$ m)	FY15A	FY16A	FY17F	FY18F	FY19F
PP&E	1,776	2,114	2,032	2,007	2,041
Others	155	217	157	164	170
Non-current assets	1,931	2,331	2,189	2,171	2,210
Inventories	561	528	606	624	711
Receivables	805	828	784	963	933
Cash & cash equivalents	335	272	757	983	1,004
Others	5	226	4	5	6
Current assets	1,707	1,854	2,151	2,575	2,653
Bank loans	28	207	247	223	177
Deferred tax liabilities	69	65	64	66	66
Others	13	30	34	35	36
Non-current liabilities	111	303	345	323	279
Payables	1,248	1,287	1,190	1,495	1,419
Others	154	184	114	104	100
Current liabilities	1,402	1,470	1,303	1,599	1,519
Shareholders' equity	2,125	2,412	2,692	2,824	3,065
BPS (HK\$)	1.849	2.110	2.357	2.479	2.701
Financial Ratios					
	FY15A	FY16A	FY17F	FY18F	FY19F
Revenue Growth (%)	12.4	9.9	(1.9)	8.4	8.5
Gross Profit Growth (%)	15.4	12.5	0.2	6.3	7.5
Operating Profit Growth (%)	12.7	14.0	41.7	(12.6)	9.3
Net Profit Growth (%)	21.3	42.6	13.9	(11.5)	8.8
Adjusted net profit growth (%)	21.3	24.6	6.3	8.5	8.8
Gross Margin (%)	49.7	50.9	52.0	51.0	50.5
Operating Margin (%)	10.5	10.9	15.7	12.6	12.7
Net Margin (%)	7.4	9.6	11.1	9.1	9.1
ROA (%)	10.8	13.6	14.2	11.8	12.1
ROE (%)	18.2	23.4	23.7	19.4	19.8
Inventory turnover days	39.5	35.8	38.0	38.0	38.0
Receivable turnover days	55.3	53.7	54.0	54.0	54.0
Payable turnover days	83.5	83.3	83.0	83.0	83.0
Cash conversion cycle	11.4	6.2	9.0	9.0	9.0
Current Ratio (x)	1.2	1.3	1.7	1.6	1.7
Quick Ratio (x)	0.8	0.9	1.2	1.2	1.3
Net gearing (%)	Net cash	3.1	Net cash	Net cash	Net cash
Net interest cover (x)	227.8	397.5	211.9	930.9	Net income
Payout ratio (%)	68.0	59.5	60.0	60.0	60.0

27 March 2017

Vitasoy International 维他奶国际 (00345 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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