

Nongfu Spring (9633 HK)

A leading player in China's soft beverage market

- The Group is one of the leading players in the soft beverage market in China; by retail sales value, its market share was ranked fourth in 2019
- The Group has obtained access to 10 water sources across China since its establishment in 1996, which allows it build a strong brand portfolio
- The Group's sales network includes distributors that cover all provinces, municipalities and prefecture-level administrative divisions across China
- Initiate with **BUY**; current TP implies 74.42x and 61.44x 21E/22E P/E or 23.05x/18.25x 21E/22E P/B

A leading player in China's soft beverage market. The Group is among the leading players in the soft beverage market in China. According to Frost & Sullivan (F&S), in 2019, the Group's total retail sales value was RMB 62.4bn, the fourth highest with a market share of 6.3%. The Group is the leading player in the packaged drinking water market in 2019 as its retail sales value was ranked first among all players, according to F&S.

Ample water sources and strong brand portfolio. The Group has obtained access to 10 water sources across China since its establishment in 1996. According to F&S, the Group is the only one among the top five PRC packaged drinking water companies that sources all of the packaged drinking water products from natural water sources. The Group has been able to build a strong brand portfolio relying on quality water sources. According to official website, the Group has 15 brands under its portfolio. The major product categories include water products, ready-to drink tea products, functional beverage products, and juice beverage products. In FY20, the Group generated 61.0% of revenue from the water products segment.

Extensive sales network. As of May 31, 2020, the Group was working with 4,454 distributors, covering all provinces, municipalities and prefecture-level administrative divisions across China. In addition, the Group has an extensive network of retail points of sale. As of May 31, 2020, the Group's products covered more than 2.43mn retail points of sale, of which ~1.88mn were located in the third-tier cities or below. The Group also has been exploring new retail channels, such as vending machines, catering channels, and ecommerce channels.

Initiate with BUY; TP at HK\$45.8. We believe the Group would be able to deliver consistent growth with its strong product portfolio and extensive sales network. We expect revenue would increase at 17.6% CAGR in FY20-23E, supported by the 18.9% CAGR in water product segment. We expect GPM and NPM (to shareholders of the Company) to reach 57.9% and 23.4% in FY23E. Initiate with **BUY**. Our DCF-derived TP represents 74.42x and 61.44x 21E/22E P/E or 23.05x/18.25x 21E/22E P/B.

Risk factors: 1) Changing consumer demands; 2) Pandemic risk; 3) Limitation of water sources; 4) High concentration of revenue contribution from one product category; 5) Cost risk.

Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	20,475	24,021	22,877	26,726	31,472	37,195
Chg (YoY %)	17.1	17.3	(4.8)	16.8	17.8	18.2
Net Profit – to owners of the Company (RMB mn)	3,606	4,949	5,277	5,823	7,054	8,715
Chg (% YoY)	6.7	37.2	6.6	10.3	21.1	23.6
Basic EPS (RMB)	0.33	0.46	0.48	0.52	0.63	0.77
Chg (YoY %)	6.5	39.4	4.3	7.9	21.1	23.6
P/E (x)	98.39	70.59	67.65	62.71	51.77	41.90
BVPS (RMB)	1.32	0.92	1.38	1.67	2.11	2.65
P/B (x)	34.78	49.95	33.31	27.44	21.74	17.29
Dividend (RMB cent)	N/A	N/A	0.17	0.16	0.19	0.23
Dividend yield	N/A	N/A	0.4	0.3	0.4	0.5
ROAA (%)	19.2	25.6	24.2	21.1	21.1	22.1
ROAE (%)	28.2	40.8	41.6	34.0	33.2	32.5

Source(s): The Group, ABCI Securities estimates

Company Report

Initiation

Apr 16, 2021

Rating: BUY

TP: HK\$ 45.8

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Share price (HK\$)	38.60
52WK H/L (HK\$)	68.75/31
Est. share price return	18.96%
Est. dividend yield	0.37%
Est. total returns	19.33%

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued H-shares (mn)	5,034.67
Total issued shares (mn)	11,246.47
H-share mkt cap (HK\$ mn)	194,338.11
Total mkt cap (HK\$ mn)	434,113.60
ADT since IPO (HK\$mn)	653.93
Major shareholder (%)	
ZHONG SHANSHAN	38.32

Source(s): Bloomberg, the Group

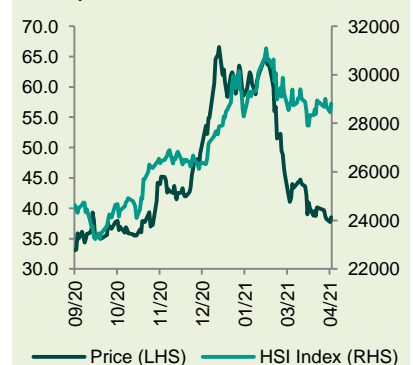
Price performance (%)

	Absolute	Relative*
1-mth	(10.85)	(11.43)
3-mth	(35.23)	(36.98)
6-mth	1.71	(15.97)

* Relative to HSI

Source(s): Bloomberg

Price performance since IPO



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Apr 14, 2021

RMB/HKD: 1.1888













Investment highlights

1. Access to quality water sources lays the foundation of reputable brand development

The Group has obtained access to 10 water sources across China since its establishment in 1996. According to F&S, the Group is the only one among the top five PRC packaged drinking water companies that sources all of its packaged drinking water products from natural water sources. The chosen water sources are located in excellent ecological environments and have sufficient water reserves to ensure long-term supply of packaged drinking water products. For details, please refer to Appendix I.

The Group had 15 brands under its portfolio, according to official website. Product categories of the brands include water products, ready-to drink tea products, functional beverage products, and juice beverage products. In terms of revenue contribution, water products have been the biggest revenue contributor (61.0% in FY20) among all product categories.

Exhibit 1: Brand and product portfolio

Product category	Brand Logo	Product	Product Image	Suggested retail price	
			Individual container volume/weight		
Water products		Drinking natural water	380ml to 19L	RMB1.5 to RMB26.0	
		Natural mineral water (with functional sports bottle cap)	400ml and 535ml	RMB3.0	
		Drinking natural water (suitable for infants and young children)	1L	RMB9.0	
		Natural mineral water (glass bottled)	350ml and 750ml	RMB30.0 and RMB45.0	
		Natural mineral water (containing lithium)	535ml	RMB5.0 to RMB7.0	
Ready-to drink tea products		Tea π (茶π)	250ml to 900ml	RMB3.0 to RMB7.0	
		Oriental Leaf (東方樹葉)	335ml and 500ml	RMB4.0 and RMB5.0	
Functional drinks products		Scream (尖叫)	550ml	RMB4.0	
		 Victory Vitamin Water (力量帝維他命水)	250ml and 500ml	RMB3.0 and RMB4.5	
Juice beverage products		Farmer's Orchard (農夫果園) (30% juice)	500ml to 1.8L	RMB4.0 to RMB10.0	
		Farmer's Orchard (農夫果園) (50% juice)	250ml to 1.25L	RMB3.0 to RMB10.0	
		Water Soluble C100 (水溶 C100)	250ml and 445ml	RMB3.0 and RMB5.0	
			Nongfu Spring (農夫山泉) NFC juice series	300ml and 900ml	RMB8.0 and RMB21.5
			17.5° juice series	330ml and 950ml	RMB13.9 and RMB29.9
Other products		Tan Bing (炭灸) coffee beverage	270ml	RMB9.9	
		Soda water beverage	410ml	RMB4.0	
		TOT sparkling flavored beverage	380ml	RMB4.0	
		Plant-based yogurt products	135g	RMB9.9	
		17.5° fresh oranges	2.5kg/box to 15kg/box	RMB45 to RMB350	
		17.5° fresh apples	3.3kg/box to 10kg/box	RMB62 to RMB225	
	Rice from northeast China	12kg/box to 25kg/box	RMB186 to RMB290		

Source(s): the Group, ABCI Securities



Exhibit 2: Revenue contribution of product categories (%)

Product category	2018	2019	2020
Water products	57.5	59.7	61.0
Ready-to drink tea products	14.8	13.1	13.5
Functional drinks products	16.2	15.7	12.2
Juice beverage products	9.1	9.6	8.6
Other products	2.4	1.9	4.6

Note: Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits

Source(s): the Group, ABCI Securities

2. A leading player in China's soft beverage market

The Group is among the leading players in the soft beverage market in China. According to F&S, in 2019, the Group's total retail sales value was RMB 62.4bn, the fourth highest with a market share of 6.3%.

Exhibit 3: Top Ten Players in China's Soft Beverage Market, 2019

Companies	Retail sales value (RMB bn)	Market share (%)
Company A	75.9	7.7
Company B	69.5	7.0
Company C	66.7	6.7
Nongfu Spring	62.4	6.3
Company D	32.0	3.2
Company E	28.9	2.9
Company F	26.6	2.7
Company G	23.3	2.4
Company H	18.9	1.9
Company I	17.1	1.7

Note: Total market size was RMB 991.4bn

Source(s): F&S report, ABCI Securities

The Group is the top player in the packaged drinking water market in 2019; its retail sales value ranked first among all players, according to F&S. Meanwhile, the Group was ranked third in the tea beverage market, juice beverage market, and functional beverage market in China in 2019.

Exhibit 4: Top Five Players in China's Packaged Drinking Water Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Nongfu Spring	42.2	20.9
Company F	25.5	12.6
Company B	15.7	7.8
Company C	15.1	7.5
Company J	14.8	7.3

Note: Total market size was RMB 201.7bn

Source(s): F&S report, ABCI Securities

Exhibit 5: Top Five Players in China's Tea Beverage Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Company C	34.1	43.3
Company G	18.5	23.5
Nongfu Spring	6.2	7.9
Company B	5.1	6.5
Company K	4.2	5.3

Note: Total market size was RMB 78.7bn

Source(s): F&S report, ABCI Securities



Exhibit 6: Top Five Players in China's Juice Beverage Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Company A	11.9	8.3
Company C	11.6	8.1
Nongfu Spring	5.4	3.8
Company B	3.9	2.7
Company G	3.2	2.2

Note: Total market size was RMB 143.5bn

Source(s): F&S report, ABCI Securities

Exhibit 7: Top Five Players in China's Functional Beverage Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Company D	31.4	28.1
Company L	10.2	9.1
Nongfu Spring	8.2	7.3
Company M	7.5	6.7
Company I	6.2	5.5

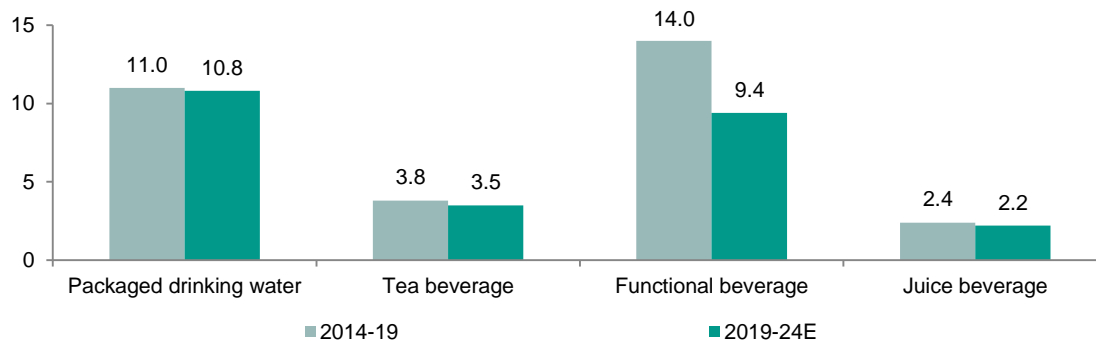
Note: Total market size was RMB 111.9bn

Source(s): F&S report, ABCI Securities

3. Market provides potential for growth

The Group is positioned to capture growth opportunities in the market. According to F&S, the 2019-24E CAGR for the retail sales of packaged drinking water, juice beverage, functional beverage, and tea beverage are expected to be 10.8%, 2.2%, 9.4%, and 3.5%. In 2019, the Group was ranked first in the packaged drinking water segment, and was ranked third in the other segments mentioned above. We believe the Group's leading positions in the two market segments would help boost growth in the future.

Exhibit 8: CAGR growth of different categories of soft beverage (%)



Source(s): F&S, ABCI Securities

4. Extensive sales network

The Group generated revenue mostly from sales to distributors, which accounted for 95.0%, 94.6%, and 94.2% of total revenue in 2017, 2018, and 2019, respectively. As of May 31, 2020, the Group was working with 4,454 distributors, covering all provinces, municipalities and prefecture-level administrative divisions across China.

In addition, the Group has an extensive network of retail points of sale. As of May 31, 2020, the Group's products covered more than 2.43mn retail points of sale, among which ~1.88mn were located in the third-tier cities or below. According to the F&S Report, the retail points of sale the Group serves accounted for approximately 11% of the total retail points of sale in China.

The Group also has been exploring new retail channels, such as vending machines, catering channels and ecommerce channels. As of May 31, 2020, the Group had deployed nearly 62,900



smart retail equipment represented by vending machines in nearly 300 cities across China. The Group has gradually developed teams, information systems, and a delivery service model well-suited to such channels.

5. Strong balance sheet and efficient working capital management

The Group has been able to maintain a low leverage profile. The D/E ratio was at 15.6% as of end-FY20, compared to 10.1% as of end-FY19. This resulted in relatively low finance costs that partly contributed to the Group's high margins and net cash positions in the FY18-20.

The successful IPO in HK in 2020 further boosted its cash position. At an offering price of HK\$21.50 per share and with over-allotment option fully exercised, the Group raised net proceeds of HK\$ 9,376mn, which is intended for internal development. As of end-FY20, the Group's cash position was at RMB 9,118.88mn and net cash position was RMB 6,704.92mn.

Exhibit 9: Use of proceeds

#	Usage	Proportion of proceeds (%)
1	Brand building – increase efforts on product development, marketing & promotion	25.0
2	To purchase equipment such as refrigerators, warm cabinets and smart retail equipment to expand sales capabilities	25.0
3	To increase production capacity at existing production facilities and building new production facilities	20.0
4	To strengthen fundamental capabilities in business operations	10.0
5	To repay bank loans	10.0
6	Working capital and other general corporate purposes	10.0

Source(s): The Group, ABCI Securities

The Group has been relatively efficient in managing its working capital. The Group's receivable turnover days has been maintained at below 5 in FY18-2019 and the FY20 receivable turnover days was ~5 days, showing strong cash collection ability. The Group's inventory turnover days were below 65 in FY18-19 and increased to 69.5 days in FY20, while the payable turnover days was 32.6 in FY20. Cash conversion cycle (CCC) increased from 36.9 days in FY18 to 42.2 days in FY20.

Exhibit 10: Working capital turnover days

	FY18	FY19	FY20
Receivable turnover days	3.7	4.0	5.3
Inventory turnover days	64.0	62.5	69.5
Payable turnover days	31.7	27.8	32.6
Cash conversion cycle	36.0	38.8	42.2

Source(s): The Group, ABCI Securities



Growth and profitability outlook

Revenue CAGR at 17.6% in FY20-23E

We believe the Group would be able to deliver consistent growth with its strong product portfolio and extensive sales network. We expect revenue would increase at 17.6% CAGR in FY20-23E, with revenue from water product segment (the largest revenue contributor) expanding at 18.9% CAGR. Meanwhile, revenue CAGR of ready-to-drink tea product segment, functional drinks product segment, and juice beverage product segment are expected to be 9.1%, 12.3%, and 6.4% in FY20-23E.

Exhibit 11: Revenue growth projections (YoY %)

As of Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	17.1	17.3	(4.8)	16.8	17.8	18.2
Water products	16.4	21.8	(2.7)	18.2	19.4	19.0
Ready-to-drink tea products	16.9	3.3	(1.6)	4.3	9.5	13.8
Functional drinks products	13.1	13.8	(26.1)	11.1	11.9	13.8
Juice beverage products	26.4	24.6	(14.4)	6.1	5.9	7.2

Source(s): The Group, ABCI Securities estimates

Rising NPM on better cost efficiency

We expect the FY21E margins to be lower than FY20 mainly due to the absent of social security relief policy, which was implemented by the Chinese government in FY20 amid the COVID-19 pandemic. We project GPM to remain steady at around 57% in FY21E-FY23E. The GPM of water products, the biggest revenue contributor, would increase from 61.0% in FY20 to 63.2% in FY23E. Meanwhile, we expect NPM to reach 23.4% in FY23E, as we expect the Group to improve its SG&A efficiency. We project SG&A/revenue ratio would decrease from 29.9% in FY20 to 29.0% in FY23E.

Exhibit 12: Margin projections (%)

FY ends at Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GPM	53.3	55.4	59.0	57.2	57.6	57.9
Water products	56.5	60.2	61.0	62.0	62.6	63.2
Ready-to drink tea products	58.1	59.7	60.5	61.3	61.9	62.5
Functional drinks products	49.8	50.9	51.4	52.3	52.8	53.3
Juice beverage products	41.1	34.7	35.0	35.6	35.9	36.3
Pretax margin	23.3	27.1	30.5	28.7	29.5	30.9
NPM (to shareholders of the Company)	17.6	20.6	23.1	21.8	22.4	23.4

Source(s): The Group, ABCI Securities estimates



Valuation

DCF-derived TP at HK\$ 45.8

Assumptions in our DCF model include:

- A beta of 1.59;
- A risk-free rate of 3.17%;
- An expected market return of 12.28%;
- Terminal growth rate at 3%;
- Debt-to-asset ratio of 15.6%

Based on our DCF model, we set the TP at HK\$ 45.8, which represents 74.42x and 61.44x 21E/22E P/E or 23.05x/18.25x 21E/22E P/B.

Peer valuation analysis

The Group current does not have any comparable in the HK or China market that are in the same subsegment as the Group. Therefore, we selected companies that have are most comparable to the Group for comparison. We also include some of the international leading players in the comparison in order to provide a more holistic view of the overall market valuation. As of Apr 14, 2021, the average 21/22E P/E of the comparable peers were 25.02x/22.08x. The HK and China peers were trading at 26.46x/22.95x 21E/22E average P/E. Compared to the peers, the Group is trading at a higher valuation level, which we believe is due to its leading position and its unique positioning in the market.

Exhibit 13: Peer valuation comparison

Ticker	ENG name	P/E(x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
		21E	22E	21E	22E	21E	22E	21E	22E	21E	22E
322 HK	Tingyi	16.86	15.47	3.14	3.02	5.67	6.16	6.36	6.66	18.21	19.20
220 HK	Uni-President China	20.51	18.41	2.50	2.46	4.83	5.41	7.53	8.42	12.21	13.48
2319 HK	Mengniu	29.01	24.29	4.07	3.58	0.86	1.03	6.26	7.01	14.55	15.41
600887 CH	Yili	32.98	27.85	8.34	7.47	2.08	2.40	11.65	12.57	25.90	27.48
603711 CH	Xiangpiaopiao	24.42	21.51	3.07	2.77	N/A	N/A	8.80	8.50	11.98	13.13
600597 CH	Bright Dairy	34.95	30.00	3.41	0.03	0.86	1.00	3.57	3.93	9.92	10.66
KO US	Coca Cola	24.87	22.92	12.31	11.87	3.15	3.26	10.29	11.02	47.75	56.50
PEP US	Pepsi	23.67	21.87	12.10	10.93	2.96	3.15	8.77	9.28	57.23	55.73
BN FP	Danone	18.14	16.40	2.22	2.12	3.36	3.58	4.80	5.62	11.91	12.65
9633 HK	Nongfu Spring	62.71	51.77	27.44	21.74	0.34	0.41	21.05	21.11	33.96	33.16
<u>Average</u>		<u>25.02</u>	<u>22.08</u>	<u>5.68</u>	<u>4.91</u>	<u>3.00</u>	<u>3.28</u>	<u>7.50</u>	<u>8.03</u>	<u>23.29</u>	<u>24.91</u>
<u>Average – HK&China peers</u>		<u>26.46</u>	<u>22.95</u>	<u>4.08</u>	<u>3.22</u>	<u>2.89</u>	<u>3.24</u>	<u>7.37</u>	<u>7.85</u>	<u>15.45</u>	<u>16.53</u>

Note: Data as of closing on Apr 14, 2021

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Changing consumer demands

The Group is facing rapidly changing consumer demands that are determined by spending patterns, preferences & tastes, disposable income, and perception of the brand. If the Group is not able to adapt to the consumer demands, it may see revenue growth decline.

Pandemic risk

COVID-19 outbreak had negative impacts on the Group's business, as the Group's points of sales decreased, production saw disruption, consumers' mobility declined, and third-party logistics were interrupted. Resurgence of the outbreak would disrupt the Group's recovery.

Limitation of water sources and product quality risk

The Group current draws water from natural resources. It is uncertain whether the water supply from the sources would be contaminated or reduce in the future. If the Group's existing water sources cannot provide a sufficient supply of quality water, and the Group cannot secure new water sources, production would be disrupted and product quality would decline. In addition, if the Group could not maintain a rigorous quality control procedure over the production process, it may suffer from decline in sales or reputational damage.

High concentration of revenue contribution from a single product category

In FY20, the Group had 61.0% of revenue generated from packaged drinking water products. High reliance on a single product category makes the Group vulnerable to changes in the product category.

Exhibit 14: Revenue contribution by product category (%)

As of Dec 31	FY18	FY19	FY20
Water products	57.5	59.7	61.0
Ready-to-drink tea beverage products	14.8	13.1	13.5
Functional beverage products	16.2	15.7	12.2
Juice beverage products	9.1	9.6	8.6
Other products	2.4	1.9	4.6

Source(s): The Group, ABCI Securities

Cost risk

The Group's margins are sensitive to changes in raw material prices. According to the Group, for 2019, a 15% increase in PET costs would lead to a RMB 507mn (3.8%) decline in gross profit.

Exhibit 14: Impact of hypothetical changes in PET costs

Change in PET costs	(15%)	(10%)	(5%)	0%	5%	10%	15%
<i>Change in gross profit (RMB mn)</i>							
2017	334	223	111	0	(111)	(223)	(334)
2018	457	304	145	0	(145)	(304)	(457)
2019	507	338	169	0	(169)	(338)	(507)

Source(s): The Group, ABCI Securities



Financial statement of the Group

Consolidated income statement

FY ends at Dec 31 (RMB mn)	FY18A	FY19E	FY20A	FY21E	FY22E	FY23E
Revenue	20,475	24,021	22,877	26,726	31,472	37,195
Cost of sales	(9,554)	(10,710)	(9,369)	(11,434)	(13,354)	(15,642)
Gross profit	10,921	13,311	13,508	15,292	18,118	21,552
Selling expenses	(5,218)	(5,816)	(5,511)	(6,442)	(7,520)	(8,812)
Admin expenses	(1,065)	(1,383)	(1,324)	(1,447)	(1,708)	(1,980)
Others net income/gain	129	403	392	358	496	788
Net finance costs	(4)	(16)	(79)	(86)	(91)	(46)
Pretax profit	4,763	6,499	6,986	7,676	9,296	11,503
Tax	(1,152)	(1,545)	(1,709)	(1,852)	(2,242)	(2,788)
Net profit	3,612	4,954	5,277	5,823	7,054	8,715
- Owners	3,606	4,949	5,277	5,823	7,054	8,715
- MI	6	6	0	0	0	0
Dividend	N/A	N/A	1,912	1,747	2,116	2,614
EPS (RMB)						
- Basic	0.33	0.46	0.48	0.52	0.63	0.77
- Diluted	0.33	0.46	0.48	0.52	0.63	0.77
DPS (HK\$)	N/A	N/A	0.17	0.16	0.19	0.23

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY18A	FY19E	FY20A	FY21E	FY22E	FY23E
Bank balances and cash	1,764	1,083	9,119	6,382	12,384	13,019
Prepayments, other receivables and other assets	1,165	1,021	910	966	980	984
Trade and bills receivables	223	306	358	406	473	578
Inventories	1,906	1,762	1,805	2,454	2,425	3,172
Others	3,783	200	0	0	0	0
Current assets	8,841	4,372	12,192	10,207	16,263	17,752
PP&E	11,089	12,314	12,592	17,705	19,470	21,757
Right-of-use assets	600	656	695	959	1,056	1,186
Intangible assets	64	60	58	90	94	105
Others	357	394	324	499	474	667
Non-current assets	12,109	13,424	13,668	19,254	21,094	23,715
Total assets	20,950	17,796	25,859	29,460	37,357	41,468
Trade and bills payables	837	791	882	1,009	1,288	1,350
Other payables and accruals	2,604	2,855	3,322	3,361	4,944	4,492
Contract liabilities	1,996	2,078	2,247	2,545	3,252	3,508
ST bank borrowing	0	1,000	2,414	2,414	2,104	301
Others	726	717	960	817	1,346	1,316
Current liabilities	6,163	7,441	9,825	10,146	12,933	10,967
Deferred income	209	248	267	266	286	273
Deferred tax liabilities	145	195	234	202	343	324
Lease liabilities	17	30	41	43	53	61
Non-current liabilities	371	473	542	511	682	658
Shareholders' equity	14,372	9,882	15,492	18,804	23,742	29,842
MI	44	0	0	0	0	0
Total equity	14,416	9,882	15,492	18,804	23,742	29,842
Total liabilities and equity	20,950	17,796	25,859	29,460	37,357	41,468

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
Profit before tax	4,763	6,499	6,986	7,676	9,296	11,503
Depreciation and amortization	1,395	1,734	1,965	2,279	2,686	3,112
Change in working capital	(335)	647	744	(289)	2,515	(988)
Others	(1,193)	(1,407)	(1,266)	(1,821)	(2,114)	(2,687)
Cash flow from operating activities	4,630	7,472	8,429	7,845	12,383	10,939
PP&E and right-of-use assets	(3,360)	(2,929)	(315)	(5,379)	(1,861)	(2,417)
Change in intangible assets	(43)	(8)	2	(32)	(5)	(11)
Others	(270)	3,581	158	144	157	153
Cash flow from investing activities	(3,674)	643	(155)	(5,267)	(1,708)	(2,275)
Change in borrowing	(50)	1,000	0	0	0	0
Net proceeds from IPO	0	0	7,876	0	0	0
Others	(407)	(9,697)	(1,959)	(1,794)	451	835
Cash flow from financing activities	(457)	(8,697)	5,917	(1,794)	451	835
Net change in cash	499	(582)	5,594	(1,915)	4,203	444
ForEx Impact	2	1	6	(1)	(1)	0
Cash and cash equivalent - end	1,364	783	6,383	4,467	8,669	9,113

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY18A	FY19E	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)						
Revenue	17.1	17.3	(4.8)	16.8	17.8	18.2
Water products	16.4	21.8	(2.7)	18.2	19.4	19.0
Ready-to drink tea products	16.9	3.3	(1.6)	4.3	9.5	13.8
Functional drinks products	13.1	13.8	(26.1)	11.1	11.9	13.8
Juice beverage products	26.4	24.6	(14.4)	6.1	5.9	7.2
Gross profit	11.3	21.9	1.5	13.2	18.5	19.0
Pretax profit	7.4	36.4	7.5	9.9	21.1	23.7
Net profit (to shareholders of the Company)	6.7	37.2	6.6	10.3	21.1	23.6
Profitability ratios (%)						
GPM	53.3	55.4	59.0	57.2	57.6	57.9
Water products	56.5	60.2	61.0	62.0	62.6	63.2
Ready-to drink tea products	58.1	59.7	60.5	61.3	61.9	62.5
Functional drinks products	49.8	50.9	51.4	52.3	52.8	53.3
Juice beverage products	41.1	34.7	35.0	35.6	35.9	36.3
Pretax margin	23.3	27.1	30.5	28.7	29.5	30.9
NPM (to shareholders of the Company)	17.6	20.6	23.1	21.8	22.4	23.4
Return ratios (%)						
ROAA	19.2	25.6	24.2	21.1	21.1	22.1
ROAE	28.2	40.8	41.6	34.0	33.2	32.5
Liquidity ratio (x)						
Current ratio	1.43	0.59	1.24	1.01	1.26	1.62
Quick ratio	0.94	0.35	1.06	0.76	1.07	1.33
Cash ratio	0.29	0.15	0.93	0.63	0.96	1.19
Working capital turnover (days)						
Receivable turnover	3.7	4.0	5.3	5.2	5.1	5.2
Inventory turnover	64.0	62.5	69.5	68.0	66.7	65.3
Payable turnover	31.7	27.8	32.6	30.2	31.4	30.8
Cash conversion cycle	36.0	38.8	42.2	43.0	40.4	39.7
Leverage ratios (%)						
Total debt to Equity	0.0	10.1	15.6	12.8	8.9	1.0
Total debt to Total assets	0.0	5.6	9.3	8.2	5.6	0.7
Net debt/(cash) to Equity	(12.2)	(0.8)	(43.3)	(21.1)	(43.3)	(42.6)
Net debt/(cash) to Total assets	(8.4)	(0.5)	(25.9)	(13.5)	(27.5)	(30.7)

Source(s): The Group, ABCI Securities estimates



Appendix I: Water sources the Group has access to

Water source	Region	Type	Features
Thousand-island Lake, Zhejiang Province (浙江千島湖)	East China	Deep lake water	The water is sourced from Thousand-island Lake, which has a watershed area of 573 sq. km. ⁽²⁾ and a water reserve of 17.84 billion tons ⁽³⁾ . Thousand-island Lake is named as the “most elegant water in China” (天下第一秀水).
Mount Changbai, Jilin Province (吉林長白山)	Northeast China	Mineral water and artesian spring water	The water is sourced from Mount Changbai. The forest ecosystem of Mount Changbai is a classic one in East Asia. Mount Changbai has a total area of 1,964 sq. km. and a forest area ratio of 88%. The annual precipitation in Mount Changbai is between 700 and 1,400 millimeters ⁽⁴⁾ . The annual water outflow of the artesian springs discovered in Jingyu County and Fusong County, where the Group’s production plants are located, is 39.6 million tons ⁽⁵⁾ and 47.4 million tons ⁽⁵⁾ , respectively, and the average annual reserve of water resources in Linjiang City, where the Group’s production base is located, is 1.263 billion tons ⁽⁵⁾ .
Danjiangkou, Hubei Province (湖北丹江口)	Central China	Deep reservoir water	The water is sourced from Danjiangkou reservoir, which is the water source of the middle route of the South-North Water Transfer Project of China, and has a watershed area of 745 sq. km. ⁽⁶⁾ and a water reserve of 29.05 billion tons ⁽⁶⁾ .
Wanlv Lake, Guangdong Province (廣東萬綠湖)	South China	Deep lake water	The water is sourced from Wanlv Lake, which is the largest lake in South China, and has a watershed area of 370 sq. km. ⁽⁷⁾ and a water reserve of 13.9 billion tons ⁽⁷⁾ .
Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region (新疆天山瑪納斯)	Northwest China	Deep underground water	The water is sourced from the snow meltwater in the middle part of the glacier in north Mount Tianshan. We take water from the river bed which is 170 meters beneath the ground in Manas, which has an annual runoff of 1.5 billion tons ⁽⁸⁾ and is one of the areas with the most abundant water resource in Xinjiang.
Mount Emei, Sichuan Province (四川峨眉山)	Southwest China	Mountain spring water	The water is sourced from Mount Emei, which is a recognized quality water source, and has a forest area ratio of 87% and an annual average precipitation of 1,922 millimeters ⁽⁹⁾ . The average annual total availability of water resources in Mount Emei, where the Group’s production plants are located, is 1.448 billion tons ⁽¹⁰⁾ .
Mount Taibai, Shaanxi Province (陝西太白山)	Northwest China	Mountain spring water	The water is sourced from Mount Taibai, which is the highest mountain in the east of the Tibetan Plateau and is snow-capped all year round. Mount Taibai has a forest area ratio of 94.3% and an annual accumulated precipitation of 247 million tons ⁽¹¹⁾ .
Mount Wuling, Guizhou Province (貴州武陵山)	Southwest China	Mountain spring water	The water is sourced from Mount Wuling, the highest peak of which is located in Tongren City, Guizhou Province. Mount Wuling is the core area of the subtropical forest system in China and an important water conservation area in the Yangtze River Basin. The average annual total surface water resources in Bijiang District and Jiangkou County, where the Group’s production plants are located, are 0.74 billion tons ⁽¹²⁾ and 1.7 billion tons ⁽¹²⁾ , respectively.
Mount Wuling, Hebei Province (河北霧靈山)	North China	Mountain spring water	The water is sourced from Mount Wuling, which is the main peak of the Yan Mountains and has a forest area ratio of 93%. Mount Wuling reserves a large amount of high-quality water that makes it an important water source of the Beijing-Tianjin region. The average annual total surface water resources and groundwater resources in Xinglong County, where the Group’s production plants are located, are 0.74 billion tons ⁽¹³⁾ and 0.26 billion tons ⁽¹³⁾ , respectively.
Greater Khingan, Heilongjiang Province (黑龍江大興安嶺)	Northeast China	Mineral water	The water is sourced from Mohe, Greater Khingan, which lies in the north of Greater Khingan mountain range, the northernmost area of China, and has a forest area ratio of 92% and an underground water reserve of 578 million tons ⁽¹⁴⁾ .

Note: 1) One ton of water equals to one cubic meter of water.

2) According to the written confirmation issued in May 2020 by the local governmental authority.

3) According to the statistics issued in June 2019 on the website of the local governmental authority.

4) According to the statistics issued in December 2016 on the website of the local governmental authority.

5) According to the written confirmation issued in July 2020 by the local governmental authorities.

6) According to the statistics issued in March 2016 on the website of the local governmental authority.

7) According to the written confirmation issued in August 2018 by the local governmental authority.

8) According to the statistics issued in June 2019 on the website of the local governmental authority.

9) According to the statistics issued in October 2017 on the website of the local governmental authority.

10) According to the written confirmation issued in July 2020 by the local governmental authority.

11) According to the statistics issued in September 2017 on the website of the local governmental authority.

12) According to the written confirmation issued in July 2020 by the local governmental authorities.

13) According to the report issued in September 2016 by the local governmental authority.

14) According to the report issued in September 2017 by the local governmental authority.

Source(s): the Group, ABCI Securities



Appendix II: History and milestones of the Group

Year	Event
1996	Xin'an River Yangshengtang Drinking Water, the Company's predecessor, was established
1997	The Company's first packaged drinking water product "Nongfu Spring (農夫山泉)" with water sourced from Zhejiang Thousand-Island Lake was launched
2001	The Company was converted into a joint stock limited company with its name changed to "Nongfu Spring Co., Ltd. (農夫山泉股份有限公司)."
2003	The Group's first juice beverage product "Farmer's Orchard (農夫果園)" was launched
2004	The Group's first functional beverage product "Scream (尖叫)" was launched
2011	The Group's first tea beverage product "Oriental Leaf (東方樹葉)" was launched The Group's first aseptic production line was introduced
2014	The Group's first fresh fruit product "17.5° fresh oranges" was launched
2015	The Group launched natural mineral water product "Nongfu Spring (農夫山泉)" with water sourced from Moya Spring in Changbai Mountain in Jilin
2019	The Group's first coffee product "Tan Bing (炭欠)" and first plant-based yogurt product were launched

Source(s): The Group, ABCI Securities



Appendix III: Management profile

Name	Age	Position	Responsibilities	Date of joining the Group
Mr. Zhong Shanshan(鍾睒睒)	65	Founder, Chairman of the Board, Executive Director and General Manager	<ul style="list-style-type: none"> ➢ Responsible for overall development strategies, business plans and major operational decisions and direct management of brands, sales and human resources ➢ Chairman of the Nomination Committee ➢ Member of the Remuneration Committee 	September 1996 (when The Company was founded)
Mr. Guo Zhen(郭振)	62	Executive Director, Deputy General Manager and deputy general manager of the production and operation center	<ul style="list-style-type: none"> ➢ Responsible for overall production and operation 	June 2003
Mr. Zhou Li(周力)	48	Executive Director and Deputy General Manager	<ul style="list-style-type: none"> ➢ Responsible for product research and development, quality management, technology-related regulations and legal affairs 	April 2008
Ms. Zhou Zhenhua(周震華)	43	Executive Director and Chief Financial Officer	<ul style="list-style-type: none"> ➢ Responsible for financial matters and external investment, and assisting the General Manager in managing overall operations as an assistant to the General Manager 	July 2007
Mr. Liao Yuan(廖原)	50	Executive Director	<ul style="list-style-type: none"> ➢ Responsible for management of engineering and equipment 	April 2000
Mr. Zhong Shu Zi	32	Non-executive Director	<ul style="list-style-type: none"> ➢ Providing advice on business plans, major decisions and investment activities ➢ Member of the Audit Committee ➢ Supervising and providing independent judgement to the Board 	January 2014
Mr. Stanley Yi Chang	62	Independent non-executive Director	<ul style="list-style-type: none"> ➢ Supervising and providing independent judgement to the Board ➢ Member of the Nomination Committee 	March 2020
Mr. Yang, Lei Bob(楊磊)	53	Independent non-executive Director	<ul style="list-style-type: none"> ➢ Supervising and providing independent judgement to the Board ➢ Member of the Nomination Committee ➢ Member of the Remuneration Committee ➢ Supervising and providing independent judgement to the Board 	September 2019
Mr. Lu Yuan(呂源)	65	Independent Non-executive Director	<ul style="list-style-type: none"> ➢ Chairman of the Remuneration Committee ➢ Member of the Nomination Committee 	September 2019

Note: Mr. Zhong Shu Zi is the son of Mr. Zhong Shanshan, the founder of the Company

Source(s): The Group's Prospectus



Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 10\%$)
Hold	- Market return ($\sim -10\%$) \leq Stock return $<$ Market return rate ($\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim -10\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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