Deutsche Bank
Markets Research

F.I.T.T.

Industry
China Consumer Staples

Date
14 November 2014

Asia
Hong Kong
Consumer

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F.I.T.T. for investors

The discretionary side of staples

From 'needs' to 'wants'

Noodles and drinks can be fashionable if consumers want it that way. Chinese consumers have had most of what they need, so we look into the discretionary side of consumer staples, i.e., what and how they want the beer and tea to be served. We think something new and/or chilled will help companies to put a stop on de-rating in 2015, and to prepare for the recovery ahead.

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The myth: staples are no necessities?
YTD in 2014, Hong Kong-listed consumer staples under DB coverage and those we monitor underperformed the MSCI China by 20%. We think the de-rating is partly structural, including the reduction in corporate spending and diminishing channel advantage (as a result of the e-commerce boom); and partly company-specific due to weak product development capabilities and therefore absence of sustainable growth drivers.

Newness to connect with the 'Post-90s'
We think the anti-extravagance campaign has driven a structural change in consumption, because consumers are now mostly paying out of their own pockets (instead of using pre-paid cards/coupons) for products they desire and from where they deem convenient (instead of whatever is available in designated locations). In addition, the 'Post-90s' shoppers have changed from traditional habits of consumption given a more global mindset, and are eager for continuous novelty in product and branding. Therefore we highlight UPC (220 HK; Hold) and Hengan (1044 HK, Buy) due to their proven track record in these areas. They either suffered or are suffering from price wars for different reasons, but we expect them to recover in 2015 with price wars ending/fading.

Putting ourselves into Chinese consumers' refrigerator
Consumers in some parts of China still drink beer and milk at room temperature. We believe this will change, starting with pasteurised milk, as China's expensive milk will accelerate consumer sophistication, and we believe the next thing they will ask for is freshness. Then we expect more fridge-pack beer and drinks, and chilled and frozen food. We think potential beneficiaries of this development include Mengniu (2319 HK, Buy), which aims to make chilled products one of its growth engines; and Tsingtao (168 HK, Hold), which has lagged behind in product mix improvement in 2014 – we expect the company to refocus on product upgrade and margin improvement in 2015.

Transition from volume/top-line driven to quality/margin-driven mode
We expect a better outlook to emerge from 2Q15, as easy comps, end of price wars and revised corporate strategies will create a more benign environment for consumer staples. Longer term, both corporates and investors have to go through the transition from volume-driven to quality-driven mode. To stop de-rating in 2015 and to prepare for the recovery ahead, we need something new and chilled. We use a DCF to value the Hong Kong-listed consumer staples, to capture future cash flows and reflect long-term value. Downside risks: intensifying competition, higher-than-expected input costs; food safety; and government policy changes. Upside risks: earlier-than-expected economic recovery and M&As.

Companies Featured

Hengan Intl. (1044.HK),HKD82.00			Buy
	2013A	2014E	2015E
P/E (x)	27.3	27.5	23.1
EV/EBITDA (x)	18.2	17.4	14.6
Price/book (x)	7.4	6.0	5.4
Uni-President China (0220.HK),HKD6.90			**Hold**
	2013A	2014E	2015E
P/E (x)	56.8	54.9	26.7
EV/EBITDA (x)	17.3	14.3	9.7
Price/book (x)	2.8	2.1	2.0
China Mengniu Dairy (2319.HK),HKD29.80			**Buy**
	2013A	2014E	2015E
P/E (x)	25.8	21.9	18.4
EV/EBITDA (x)	15.1	10.3	8.9
Price/book (x)	3.5	2.2	2.0
Tsingtao Brewery (0168.HK),HKD54.90			**Hold**
	2013A	2014E	2015E
P/E(x)	35.0	28.5	22.6
EV/EBITDA(x)	17.8	16.3	12.8
Price/book(x)	5.0	3.8	3.4

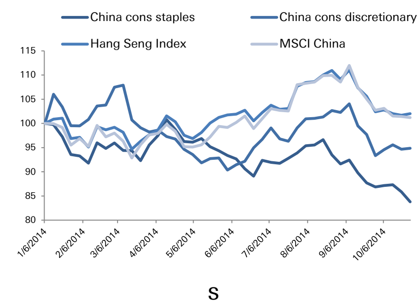
Source: Deutsche Bank

Something new and something chilled

China is still immature but no low-hanging fruit

YTD in 2014, Hong Kong-listed consumer staples under our coverage and those we monitor have underperformed the consumer discretionary and MSCI China by 13% and 20%, respectively. For 9M14, A share consumer staples reported a mere 3% yoy revenue growth with a 6% NPAT decline and problems including price wars, destocking, anti-extravagance measures and an unseasonably cool summer. It is clear that the dependable trend demand growth typically associated with an emerging economy has not been in evidence or provided any support for the industry, raising doubts about what has changed. We conclude that there are three separate factors at work here: 1) the power of consumer choice has supplanted the power of a strong distribution channel; 2) the end of the coupon/voucher system has fundamentally changed how, where and what the consumer buys; and 3) a generational shift in tastes and expectations is breaking down established product categories and winners. At the same time, operating in the background is the disruptive influence of e-commerce, which by changing the delivery and availability of goods is intensifying these challenges for the incumbent consumer staples companies.

Figure 1: Share performance



Source: Deutsche Bank; Bloomberg Finance LP

Something structural: consumer is becoming king

It can be argued that established categories such as noodles, RTD tea, juice and beer are approaching saturation levels in volume terms and have thus struggled in a softer economy. However, we believe established brands are struggling to adapt to new tastes and customer expectations. There is clearly demand for better quality products and we do see sustainable consumer upgrade stories from selected companies succeeding even in a difficult year in 2014. Examples include Hengan's Space 7 and Sofy sanitary napkin, Huggies, Momchilovtsi yogurt drink, Budweiser, Cup Noodles, Schweppes +C and Kunlun Shan mineral water.

Figure 2: Per capita consumption (2013)

(Unit)	World	PRC
Instant noodle	15	33.6
Beer	17.3	18.6
RTD tea	5.3	47.7
Juice	10.4	25.2

Source: Euromonitor; Nissin Food

In our view, the China market: 1) is still immature with a wide market gap to be filled, but long-gone is the low-penetration story, and such gap has become a quality gap (related to both product and branding); and 2) remains fragmented for more consolidation, but low-price is no longer the killer app. It has also become vital for local brands to have a defence against foreign brands which are no longer shut out of the market due to a weaker distribution network.

Cash not coupons

Sales of staples have also been disrupted by the changes brought by the anti-extravagance campaign, as employees no longer receive coupons as part of their remuneration. This also means consumers are now mostly paying out of their own pockets (instead of using pre-paid cards/coupons) for what they want and from where they deem most convenient. For the producers and distributors, this requires strategy changes at various stages in the business.

Something new: both tangible and intangible satisfaction

The 'Post-90s' (born in the 90s) are information-hungry. They acquire product knowledge not by experience but through their eyes (by reading blogs, overseas market information, user comments, etc.), and are more willing to think 'out of the box' given a more global mindset; they are eager for newness. The product life cycle will therefore decline with variety to increase rapidly. Long gone is low-penetration, and consumers are becoming more demanding for both tangible (product) and intangible (lifestyle) satisfaction.

Something chilled: a gradual lifestyle change starting from pasteurized milk

Consumers in most parts of China still drink beer, Coca-Cola and milk at room temperature; in southern China, only room-temperature pork is deemed fresh. Will their habits ever change? We believe changes will start with pasteurized milk, as we believe China's expensive milk will accelerate consumer sophistication, and the next thing we believe consumers will ask for is freshness. Then we expect more chilled yogurt and fridge-pack beer, to be followed by carbonated drinks (CSD) and chilled and frozen processed food, to be stacked in the refrigerator.

Beneficiaries are UPC, Hengan, Mengniu and Tsingtao

We expect retail sales growth to pick up from 12% in 2014E to 12.8% in 2015E, but GDP growth to slow down from 7.3% in 2014E to 7% in 2015E. It doesn't support a recovery. Nevertheless, we expect a better outlook to emerge from 2Q15 as easy comps, end of price wars and revised corporate strategies will create a more benign environment for consumer staples. Longer term, we also think both corporates and investors have to go through the transition from volume-driven to quality-driven mode, that: 1) the bottom line will be more driven by margin improvement; and 2) new products will become increasingly important catalysts. To stop de-rating in 2015 and to prepare for the recovery to come and create a stronger consumer upgrade demand, we look into the discretionary side of consumer staples, as economic recovery is usually more favourable towards consumer discretionary products. We pick something new and chilled, and highlight a few beneficiaries:

- Amongst the local brands, we think UPC (220 HK, Hold) and Hengan (1044 HK, Buy) haves proven track records in product development and branding. They either suffered or are still suffering from price wars for different reasons since 2013. The noodle price war has ended, and together with a strong new product pipeline, we expect UPC to see a full recovery in 2015. In addition, UPC has started paying attention to the branding of new products and rebranding of old products. We expect tissue oversupply to ease gradually from 2H15, and in the meantime we believe Hengan's high-end sanitary napkins will provide a cushion against cheap tissue. We hope to see the company accelerate its expansion into the diaper (both baby and adult) market.
- For more chilled products, potential beneficiaries include Mengniu (2319 HK, Buy) and Tsingtao (168 HK, Hold). Mengniu has committed to making chilled products one of its future growth engines, while Tsingtao has lagged behind in product mix improvement in 2014. From 2015, we expect the company to refocus on product upgrades and margin improvements.

Valuation and risks

We use DCF for the Hong Kong-listed consumer staples, to capture future cash flows and reflect long-term value. Downside risks: intensifying competition, higher-than-expected input costs; food safety; and government policy changes. Upside risks: earlier-than-expected economic recovery and M&As.

Figure 3: HK-listed consumer staples valuation summary

	Code	Rec	Price (13 Nov)	TP	Mkt cap	PE(x)			2014 ytd perf
			HKD	HKD	USDm	Historical	1st year est	2nd year est	
Under DB coverage									
Tingyi	322 HK Equity	Hold	19.22	21.4	13,889	36.7	28.5	21.2	-14%
WH Group	288 HK Equity	Buy	5.17	7.2	9,766	N/A	14.0	11.4	-17%^
Tsingtao Brewery-H	168 HK Equity	Hold	54.9	61.0	9,080	30.2	28.5	22.6	-16%
Mengniu Dairy	2319 HK Equity	Buy	29.8	37.5	7,526	25.8	21.9	18.4	-19%
China Resources	291 HK Equity	Hold	16.88	23.3	5,254	31.7	32.4	24.6	-34%
Uni-President China	220 HK Equity	Hold	6.9	6.7	3,843	25.4	40.0	26.7	-9%
China Huishan Dairy	6863 HK Equity	Buy	1.68	2.2	3,112	25.7	14.6	10.8	-40%
Huabao International	336 HK Equity	Buy	5.9	5.9	2,357	5.7	8.6	8.0	+37%
China Modern Dairy	1117 HK Equity	Sell	2.87	2.95	1,787	22.7	11.7	11.7	-32%
Biostime	1112 HK Equity	Hold	18	31.1	1,407	27.3	14.7	13.0	-74%
China Foods	506 HK Equity	Hold	2.89	2.7	1,042	NM	NM	42.9	-12%
Tenwow	1219 HK Equity	Buy	2.69	3.7	719	15.6	12.8	10.4	-24%
Not rated									
Want Want	151 HK Equity	NR	10.2	NA	17,357	24.9	24.4	21.2	-9%
CP Pokphand	43 HK Equity	NR	0.87	NA	2,701	13.5	11.1	9.9	13%
China Shengmu	1432 HK Equity	NR	2.41	NA	1,975	N/A	17.3	11.3	+1%^
China Agri	606 HK Equity	NR	2.9	NA	1,963	26.7	N/A	12.2	-25%
Vinda	3331 HK Equity	NR	11.96	NA	1,540	24.8	23.5	19.6	-7%
Vitasoy	345 HK Equity	NR	10.64	NA	1,425	35.8	30.4	28.0	-11%
Yashili	1230 HK Equity	NR	2.45	NA	1,124	19.5	18.6	16.5	-48%
Tibet 5100	1115 HK Equity	NR	3.32	NA	1,100	16.1	N/A	N/A	8%
Shenguan	829 HK Equity	NR	2.25	NA	959	7.9	8.2	7.9	-35%
Huiyuan Juice	1886 HK Equity	NR	3.22	NA	906	37.5	N/A	N/A	-35%
Yurun	1068 HK Equity	NR	3.49	NA	820	150.7	N/A	42.0	-30%
CPMC	906 HK Equity	NR	5.7	NA	733	11.3	10.9	9.3	-6%
Greatview Aseptic	468 HK Equity	NR	3.77	NA	655	11.9	13.4	10.6	-18%
Changshouhua	1006 HK Equity	NR	6.8	NA	503	12.3	11.3	8.9	-32%
Yuanshengtai	1431 HK Equity	NR	0.99	NA	499	8.9	6.7	5.4	-56%
Tenfu	6868 HK Equity	NR	2.93	NA	464	10.4	N/A	N/A	-30%
Goodbaby	1086 HK Equity	NR	2.93	NA	416	19.0	15.1	11.9	-32%
Ausnutria	1717 HK Equity	NR	2.51	NA	319	17.5	N/A	N/A	72%
Labixiaoxin	1262 HK Equity	NR	1.08	NA	158	2.9	2.7	5.3	-79%
Dachan Food	3999 HK Equity	NR	0.98	NA	128	N/A	N/A	N/A	7%
China Tontine	389 HK Equity	NR	0.34	NA	88	N/A	N/A	N/A	-15%
Huisheng Intl	1340 HK Equity	NR	1.21	NA	63	2.8	N/A	N/A	-26%^

Source: Deutsche Bank; Bloomberg Finance LP; ^ since iPO

Get ready for the ‘Post-90s’

Demand pull increasingly important

In China, we think the consumer is finally becoming king, instead of distribution, for the following reasons:

- The anti-extravagance campaign has driven a structural change in consumption, so that consumers are now mostly paying out of their own pockets (instead of using pre-paid cards/coupons) for the products they desire and from where they deem convenient (instead of whatever is available in designated locations).
- E-commerce is challenging established local brands, both discretionary and staples, as it erodes their off-line channel advantage. Without e-commerce, it will take a new brand, if not decades, years to penetrate into China. To date, we have seen only threats (from foreign and small brands, and change of channel mix) and have yet to see major local brands benefiting from the ecommerce boom. With diminishing channel advantages, the demand pull will become increasingly important, as will the capability to develop new products.

New products with new image via new channel

The ‘Post-90s’ acquire product knowledge, not only by experience but through their eyes (by reading blogs, overseas market information, user comments, etc), and they are more willing to break away from traditional consumption patterns, as well as being eager for newness. As a result, product life cycle will decline, with variety increasing more rapidly. Long gone is supply shortage, and consumers will become more demanding for both tangible and intangible satisfaction. Among the local brands, we highlight the following:

- UPC has strong product development capabilities. It was the first to introduce pickled cabbage noodles (2008), RTD milk tea (2009), and traditional juice (2011) to China.
- Hengan has been successful in market segmentation. It launched 7 Space (2001) and the Princess series (2011) under 7 Space, and, as a result, enjoyed a continuous product mix improvement.

New products: pending recovery

A new product is not magic and it does not walk. Without strong consumer demand, even the strongest distributors/channels will struggle to push a successful launch. This is especially true if the new products are not particularly innovative. 2014 has not been a good year in this regard, as consumption has been weak and distributors have been more conservative, and in terms of consumer pull alone, there are only a handful of successful products. In view of the recovery ahead, new products will provide the impetus to drive demand, and distributors will be eager to push new products to expand their income streams.

Figure 4: New product launches ytd and planned

Companies	Categories	New products (2014 and to be launched)
Tingyi	Noodle	Fresh Banquet (RMB6/bowl) , "Soup Noodle" (RMB4.5/cup)
UPC	Noodle	Soup Master/Soup Daren re-launched (RMB6.9/bowl), Noodle Revolution/Ge Mian (RMB5.5/bowl)
	Beverage	Words of Sea/Haizhiyan' (retail price at RMB4.5/bottle)
WHG	LTPM	A new 'Haway' brand to sell low-temp processed meat (LTPM) ham, bacon and sausage made domestically from import pork from Smithfield, and will also launch ready meal based on regional pork recipe under its existing 'Shuanghui' brand (to be launched)
Want Want	Various	50 new products planned for 2014
Hengan	Sanitary napkin	Pant-type sanitary napkin (to be launched)
Mengniu	Dairy	Import UHT milk from Denmark (RMB29.75/l), and from New Zealand (to be launched), alternative milk products by White Wave-JV (to be launched)
Yili	Dairy	Import UHT milk from Italy (to be launched)
CMD	Dairy	Pasteurized milk (to be launched)
Tenwow	Non-alcoholic bev	Import UHT milk from Italy (to be launched)
	Alcoholic bev	RTD cocktail (to be launched)

Source: Company data ;yihaodian.com Note: 30 October 2014 price

New image: CSD, RTD sugar-free tea, adult incontinence

In this section we look at a few examples where the market is adapting to changing tastes, convenience, quality and demographic potential.

Carbonic acid or fizzy drinks?

In China, carbonated soft drinks (CSD) are written 碳酸饮料, literally carbonic acid drinks, and in trying to search for 'carbonic acid drinks 碳酸饮料' in Chinese online, 99.9% of the findings are negative, making them seem almost hazardous to health. In Hong Kong, CSD are written 汽水, literally 'fizzy drinks', and in Taiwan, both names work. Therefore, consumers in Hong Kong and Taiwan are less anti-CSD, as the name is not as offending.

We think that, given that the image of CSD in China is 'almost hazardous', CSD brands must focus on the younger generation, through whom they will have a chance to rebuild the image, or even rename the category, e.g. to 'fizzy' drinks. In addition, new products will also help to rebuild the image, and Tingyi management has mentioned a few times that China needs its tailored products to drive stronger CSD growth. In Japan, there are carbonated milk drinks.

Figure 5: Per capita consumption of soft drinks (2013)

(litre)	World	China	Hong Kong	Taiwan	Singapore	Japan	South Korea
Bottled Water	40.3	25.5	45.9	27.0	15.6	34.4	49.6
Carbonates	30.1	8.8	29.3	14.2	26.2	34.3	28.0
Concentrates	0.4	0.0	0.2	0.0	0.3	0.4	0.4
Juice	10.4	12.4	25.2	20.1	18.1	21.3	10.4
RTD Coffee	0.7	0.2	2.2	4.0	0.4	25.0	5.7
RTD Tea	5.3	11.6	47.7	38.0	24.4	46.0	2.4
Sports/energy Drinks	2.6	1.3	3.2	7.3	5.4	12.4	4.6
Asian Specialty Drinks	0.5	2.1	1.2	0.3	1.3	3.0	0.4
Total	90	62	155	111	92	177	101

Source: Euromonitor; Deutsche Bank

In March 2014, Coca-Cola launched Schweppes +C, a lemon-flavoured sparkling beverage in China, and, according to the company, the beverage is designed particularly to suit Asian preferences. The company also localised its 'Share a Coke' campaign in China by personalising the bottle with internet buzzwords in mid-2013, and, according to a *Beijing Morning Post* report, the move is aimed at attracting 'Post 90s' Chinese consumers. At the time of the campaign, it drew a mixed response, with some liking the new design and others saying it made Coke look like a fake product. The campaign was later proven to be a big success. In addition, by personalising the bottle/can, it promotes consumption through a handy format, e.g. the 330ml-can and the 300ml-bottle, which charges a premium over the larger 1.25L bottle.

Figure 6: Retail price comparison by packaging

Product	Packaging	Price (RMB)	Price/litre (RMB)
Coca Cola	300ml x 12 bottles	19.9	5.53
Coca Cola	330ml x 6 cans	9.9	5.00
Coca Cola	2.5L x 1 bottle	7.2	2.88
Schweppes +C	330ml x 24 cans	76.9	9.71

Source: Deutsche Bank

Figure 7: Per capita consumption of soft drinks (2013)

(litre)	World	China	Hong Kong	Taiwan
Bottled Water	40.3	25.5	45.9	27.0
Carbonates	30.1	8.8	29.3	14.2
Concentrates	0.4	0.0	0.2	0.0
Juice	10.4	12.4	25.2	20.1
RTD Coffee	0.7	0.2	2.2	4.0
RTD Tea	5.3	11.6	47.7	38.0
Sports/energy Drinks	2.6	1.3	3.2	7.3
Asian Specialty Drinks	0.5	2.1	1.2	0.3
Total	90	62	155	111

Source: Euromonitor; Deutsche Bank

Tea or water?

China per capita consumption of RTD tea was still a fraction of that of Hong Kong and Taiwan in 2013. We think this was due partly to the low penetration of RTD sugar-free tea in China, as consumers still prefer BYOT (Bring Your Own Tea). We think the younger generation will soon cease to use their own bottles after getting used to the convenience of RTD drinks, but, based on Hengan's and Coca-Cola China's cases, we believe it is new products for the new generation that work, not just new products. To date, we have yet to see a successful RTD sugar-free tea campaign in China.

In 1H14, while RTD tea sales in China dropped 1.6% yoy by value, with 1% volume growth, bottled water sales increased 15.7% yoy by value, with 8% yoy volume growth, reflecting a product mix improvement. As Chinese consumers are willing to pay a premium for mineral water sourced mostly from China's protected spring area (e.g. Kunlun Mountains, Changbai Mountains, etc), we therefore point out the following.

- To add value to sugar-free tea (compared with BYOT) and to differentiate this tea from the many similar tea products (for instance, the numerous Oolong tea products), we think RTD tea brands could also shift their marketing focus to the source of water.

- According to Danone, “in China, particular attention was paid to the design of the Mizone bottle. Its success with active young people in China is partly due to its wide easy-drink opening and comfortable grip. It is mainly by observing the consumption habits of individuals…”. Mizone is not RTD tea, but we think tea brands could seek a breakthrough from packaging as part of the formula to win.

In addition, if Chinese consumers start to use more chilled drinks (see the section “A bigger refrigerator”), we think the migration from BYOT to bottled sugar-less tea will also accelerate.

Hengan sanitary napkin: a showcase

Hengan’s sanitary napkin sales rose by 20-31% yoy uninterruptedly from 2005-2013. In 1H14, Hengan’s sanitary napkin sales rose 25% yoy, as its Space 7 brand continued to gain market share. From 2009-2013, its Space 7 brand gained a 3.2ppt market share by volume (based on Euromonitor data), more than offsetting Anerle’s share loss. More importantly, all the volume share gain has been driven primarily by the higher-priced Space 7 ultra-thin napkins, with the key contributor being the Princess series, which the company launched in 2011, targeting the younger generation.

Figure 8: Sanitary napkins market share by volume

Brand	Company name	2009	2010	2011	2012	2013	2009-13 chg
Sanitary napkins							
Space 7	Hengan International Group Co Ltd	3.8	4.8	5.8	6.5	7	3.2
Whisper	Procter & Gamble Co, The	5.8	6.1	6.2	6.3	6.6	0.8
Sofy	Unicharm Corp	2.3	2.8	3.2	3.9	4.6	2.3
Stayfree	Johnson & Johnson Inc	2	2	2	2.1	2.1	0.1
Anerle	Hengan International Group Co Ltd	2.8	2.2	2	1.8	1.7	-1.1
Laurier	Kao Corp	1	1.1	1.2	1.3	1.4	0.4
Kotex	Kimberly-Clark Corp	0.2	0.8	1	1.2	1.4	1.2
ABC	Kingdom Marketing Services Co Ltd	0.9	0.9	0.9	1	1.1	0.2
Yimoo	Shandong Yimoo Women Necessities	1.1	1.1	1.1	1	1	-0.1
Haoshushuang	Fujian Hengli Group Co Ltd	0.9	0.9	0.9	1	1	0.1
Standard							
Whisper	Procter & Gamble Co, The	5.2	5.3	5.3	5.2	5.3	0.1
Sofy	Unicharm Corp	1.9	2.3	2.7	3.1	3.8	1.9
Space 7	Hengan International Group Co Ltd	2	2.3	2.4	2.4	2.7	0.7
Anerle	Hengan International Group Co Ltd	3.8	3	2.9	2.7	2.6	-1.2
Stayfree	Johnson & Johnson Inc	2	2	2	2.1	2.2	0.2
Haoshushuang	Fujian Hengli Group Co Ltd	1.1	1.2	1.3	1.4	1.4	0.3
Shushuang	Fujian Hengli Group Co Ltd	0.8	0.9	1	1	1	0.2
Kotex	Kimberly-Clark Corp	0.2	0.7	0.9	1	1	0.8
Goodcare	Zhongshan Hiseacare	0.7	0.6	0.7	0.8	0.9	0.2
Laurier	Kao Corp	0.7	0.7	0.8	0.8	0.9	0.2
Ultra-thin							
Space 7	Hengan International Group Co Ltd	5.2	6.7	8.2	9.2	9.8	4.6
Whisper	Procter & Gamble Co, The	6.3	6.6	6.8	7.1	7.5	1.2
Sofy	Unicharm Corp	2.7	3.1	3.7	4.4	5.1	2.4
Stayfree	Johnson & Johnson Inc	2.1	2.1	2	2	2.1	0
Laurier	Kao Corp	1.4	1.4	1.5	1.6	1.7	0.3
Yimoo	Shandong Yimoo Women Necessities	2	1.9	1.8	1.8	1.7	-0.3
Kotex	Kimberly-Clark Corp	0.2	0.9	1.1	1.3	1.6	1.4
Little Nurse	Tiianjin Little Nurse	1.2	1.1	1.2	1.2	1.2	0
ABC	Kingdom Marketing Services Co Ltd	1	1.1	1.1	1.1	1.2	0.2
Anerle	Hengan International Group Co Ltd	2	1.6	1.4	1.2	1.1	-0.9

Source: Euromonitor; Deutsche Bank

Something old: adult incontinence market

China is aging quickly, with the number of people aged above 60 in 2050 set to increase to 437m, or 30% of the population, compared with 194m, or 14.3% in 2012, according to Xinhua News Agency. This is leading to a new market: the elderly market – for instance, adult incontinence products, milk powder for the elderly, calcium-fortified dairy products.

The penetration of adult incontinence is unknown but, in 2013, domestic consumption rose 41% yoy. According to CNHPIA, the international threshold for the development of a sustainable adult incontinence market is USD8,000 per capita GDP, compared with China's USD6,767 in 2013. Based on our forecasts, China's per capita GDP will hit USD8,000 in 2016, i.e. affordability will support sustainable adult incontinence market growth by then.

In the meantime, we believe coastal cities are ready for the adult incontinence market, but it is yet to become a national phenomenon. According to Price Hanna Consultants, the global market consumed 33.3bn pieces of adult care products, compared with 301.3bn pieces of FC (feminine care) products and 156.5bn baby care products. We estimate the global adult incontinence market is c.60% the size of the global FC market, which is c. 60% of the baby diaper market.

However, consumer education is greatly needed to narrow the cultural gap for growing product usage. In terms of branded products, Hengan's Elderjoy is currently the most popular brand based on CNHPIA data. We do not want to draw any conclusions on major beneficiaries now, as we expect more investment in the area in the next two years, and this could stir a rapid change in the competitive landscape. In addition, further investment is needed to build a different distribution network (e.g. elderly care services, pharmacies, hospitals).

Figure 9: China vs. world consumption of disposable sanitary products

	2013 China consumption volume (bn pc)	2013 global consumption volume (bn pc)	China penetration	China/global consumption
Baby diapers	22.7	156.52	47%	15%
Feminine care	96.6	301.3	91%*	32%
Adult incontinence	1.7	33.33	NA	5%

*Source: CNHPIA; Price Hanna Consultants (PHC); Deutsche Bank; *feminine care penetration based on sanitary napkins only*

Back to school: buy commodities, sell brands

Name it first

Most of local brands' mainstream products are still under one single brand. Historically this has been due to an unsophisticated marketing strategy and a single brand strategy, making advertising more cost-efficient. International companies, by contrast, have multiple brands and separate identities for their products. Local brands like Master Kong and Uni-President, have started to name their new products (by a brand or sub-brand, not by the ingredients) in recent years.

Figure 10: Beverages by brands

Brands	Sub-brands	RTD tea	Juice	Bottled water	Others
Master Kong		-Iced red/green tea	-rock sugar series juice	-mineralized water	-milk tea
		-sugar-free tea	-honey series juice	-natural water	
Master Kong	Daily C		-juice drink		
Master Kong	Benwei Tea House	-sugar-free tea			
Pepsi/Melinda/7-Up					-CSD
Tropicana	Fresh fruit pulp		-juice drink		
	Fruit punch		-juice drink		
Uni President		-Iced red/green tea	-Rock sugar series juice	-flavored milk tea	
		-Green tea	-Tomato juice		
Uni President	More Peach/Orange/Mango		-juice drink		
Uni President Clear Sky	Assam				- milk tea
Uni President Clear Sky	English Early Grey				- milk tea
Uni President Clear Sky	Green tea latte				- milk tea
Uni President	Aha				-coffee
Uni President	Citea				-high-end milk tea
Uni President	Herbal Sense	-herbal tea			
Uni President	Mingming Tea	-sugar-free tea			
Uni President	Alkaqua			-mineral water (Wuyi Mountains)	
Uni President	Bama Spring			-mineral water (Bama Village)	
Coca-Cola/Sprite/					-CSD
Minute Maid	Pulpy		-juice drink		
Minute Maid	Pulpy yogurt				-dairy/fruit drink
Qoo			-juice drink		
Vitamin Water					-functional drinks
Ice dew				-mineral water	
Yuanye		-RTD tea			
Sokenbicha		-sugar free herbal tea			

Source: Deutsche Bank

For fast-moving personal care/hygiene brands, all major players name their products by category. Hengan markets all of its products under a multi-brand strategy, and Vinda, after being acquired by SCA, also has multiple brands under each category. P&G has a multi-brand strategy for sanitary napkins. We think that, in China, a multi-brand strategy can address the income gap between coastal cities and inland provinces more easily, and Hengan also uses different brands to target different age groups.

More than one name

We think local companies are still primitive in branding, and, at this stage, we narrow our scope to a multi-brand strategy, which we think is better in China, for the following reasons. 1) Long gone is supply shortage and, as consumers' sophistication grows, they will become more demanding for both tangible and intangible satisfaction. We think a single-brand strategy is not ideal for consumer communication, as every brand should have its own story and it is difficult to cover all products using one single story. 2) A multi-brand strategy can also be used to address the wide income gap, which is unlikely to narrow in a short period of time, and sometimes can also be used to address the generation gap. Meanwhile, UPC re-branded its Assam milk tea, English Earl Grey milk tea and green tea latte under Uni-President Clear Sky in September 2014 (previously under Uni President).

Figure 11: Personal hygiene by brands/sub-brands

Brands	Sub-brands	Personal hygiene
Hengan		
Heartex/Pino/Premium		-tissue/household paper
Space 7		-sanitary napkin/pantiliner
Space 7	Princess series	-sanitary napkin/pantiliner
Anle/ Anerle (安尔乐)		-sanitary napkin/pantiliner
CC/Doria		-maternity care
Anerle (安儿乐)/Q.MO		-baby diapers
Elderjoy		-adult diapers
Vinda		
Vinda/TORK/Tempo		-tissue/household paper
Libero/Babifit/Sealer		-baby diapers
Libresse/VIA		- sanitary napkin/pantiliner
TENA/Dr. P		-elderly Care
Kimberly Clark		
Kotex		-sanitary napkin/pantiliner
Kotex	luxe	-sanitary napkin/pantiliner
Kleenex		-tissue/household paper
Huggies	Platinum/Gold/Silver series	-baby diapers
P&G		
Whisper		- Feminine Care-napkin
Whisper	Pinkcess	- Feminine Care-napkin
Naturella (duoduo)		- Feminine Care-napkin
Pampers		- baby diapers
Unicharm		
Sofy		- Feminine Care-napkin
MamyPoko/Moony		- baby diapers

Source: Deutsche Bank

M&A of niche brands/products/markets

As the product life cycle shortens, with variety increasing more rapidly, we see opportunities for new niche brands, products and markets, e.g. RTD cocktails. In April 2014, Pernod Ricard said it planned to launch an RTD Malibu cocktail range formulated specifically for the Chinese market, in terms of packaging, flavour selection and recipe adjustment. The three flavours for China are Sunshine Lemonade, Cool Coconut and Tropical Cola. In a briefing in September this year, ahead of its launch, Tenwow showed investors and analysts its new RTD cocktail.

This leads us to the next step, i.e. that major brands, foreign or local, can expand through M&As of regional and/or niche brands. For instance, we believe that, in the longer term, Mengniu will acquire regional brands to expand its pasteurised milk business. We are unable to estimate the timing of this, but it is written in the history of developed markets that leading brands grow through M&As in their domestic market, and we believe this will happen in China as well.

New channel: more as a challenge now

Danone showcase

In 2011, Danone launched Karicare (under Nutricia) in China, and at that time, only consumers purchasing Karicare products from the authorised online channel, www.u1baby.com, could get the quality guarantee and comprehensive after-sales service. In March 2013, Danone started selling Karicare (under Nutricia), Nutrilon (under Nutricia) and Cow & Gate through official Tmall flagships, and March 2013 also marked the inauguration of Nutrilon in China. According to Alibaba, Nutricia sold c.3m packs of IMF on Tmall alone in 2013. Based on Euromonitor data, Nutricia reaped a 1.8% market share in 2013, from no market share at all before 2011.

E-commerce eroding channel advantage

As mentioned earlier, Coca Cola China localized its 'Share a Coke' campaign by personalizing the bottle with internet buzzwords in China. However, we don't see similar successful branding story or distribution breakthrough by leading local brands. On the contrary, Biostime is challenged by consumers' rapid shift to online platforms, and is developing a new ecommerce strategy to follow the consumer. Biostime has been innovative in consumer and vendor relation management (supply chain). It is still the only baby product platform selling proprietary branded products bundled with an after-sales service. It launched its O2O platform last year and plans a transition to the online platform (both e-commerce and m-commerce) from its existing offline network. Nonetheless, the consumers are moving more quickly and Biostime may have lost track of consumers. It started to move online in 3Q14, and we believe it will take time for the company to prove the sustainability of its new online strategy.

E-commerce, as a new channel, challenges all established local brands – discretionary and staples – as it erodes their offline channel advantage, in our opinion. Without e-commerce, it will take a new brand, if not decades, years to penetrate into China. For the major local consumer staple brands, the higher the ticket size, the bigger the threat, e.g. infant formula, diapers, snacks, etc. In addition, cheap UHT milk imports have become a regular item on promotions on various e-commerce platforms.

We believe the key reason behind the slow response of local brands is the concern over the low returns of online expansion. Future challenges include e-commerce players developing private labels, and the growing bargaining power of online distributors may also lead to longer receivable days for suppliers. After cheap UHT milk imports, we think any commoditized goods will be subject to import competition. To date, we have seen only threats to the domestic players, and have yet to see major local brands benefiting from the ecommerce boom, or any successful online marketing campaign.

A bigger refrigerator

Chilled is the new fresh

Consumers in China still drink beer, Coca-Cola and milk at room temperature, and, in southern China, only room-temperature pork is deemed fresh. Will they ever change? We believe the change will start with pasteurised milk, as we believe China's expensive milk will accelerate consumer sophistication and the next thing consumers will ask for is freshness. We then expect more chilled yogurt and fridge-pack beer, followed by carbonated drinks (CSD), chilled and frozen processed food, to be put into the refrigerator. Potential beneficiaries include the following, in our view:

- Mengniu, which aims to make chilled products one of its growth engines.
- Tsingtao, which has lagged behind in product mix improvements in 2014. From 2015, we expect the company to refocus on product upgrades and margin improvements.
- WHG, which is expanding its branded low-temperature processed meat and ready-meal businesses in China. It could also be a major beneficiary if the Chinese government changes its food security policy.

Our thesis is supported by the increasing investment in cold chain infrastructure, but the bottleneck could be a slower-than-expected modern channel expansion.

Figure 12: 2013 per capita spending (by retail value) comparison

	F&B spending	Milk products		Ex-cheese milk products		Beverages		Chilled/frozen processed food	
	USD	USD	% of F&B spending	USD	% of F&B spending	USD	% of F&B spending	USD	% of F&B spending
World	925	62.4	6.7%	43.6	4.7%	118.0	12.7%	49.1	5.3%
China	654	30.4	4.6%	30.1	4.6%	60.5	9.3%	16.8	2.6%
Taiwan	1,703	56.6	3.3%	55.3	3.2%	188.5	11.1%	58.9	3.5%
Hong Kong	3,741	87.7	2.3%	82.2	2.2%	306.7	8.2%	59.8	1.6%
Singapore	1,407	69.7	5.0%	61.3	4.4%	220.0	15.6%	26.6	1.9%
South Korea	1,666	127.8	7.7%	119.0	7.1%	121.5	7.3%	42.4	2.5%
Japan	3,106	164.6	5.3%	139.4	4.5%	552.9	17.8%	452.8	14.6%

Source: Deutsche Bank

More pasteurised milk, yogurt and desserts

Rising demand and supply

In our view, Chinese consumers still want more dairy nutrition but the market (both suppliers and investors) has put too much focus on high-priced (also known as high-end) UHT milk.

Based on USDA estimates, China's per capita dairy consumption of fluid milk equivalent is 28kg in 2014, a fraction of the world average of 80.9kg. We believe the consumption gap will narrow, but, given the differences between Chinese and western diets and affordability, our three-year target is 30.9kg, or the average of Taiwan (as a reference for southern China) and South Korea (as a reference for northern China). This implies a three-year CAGR of 3.4%.

Note that dairy consumption include drinking milk products (UHT and pasteurised milk, dairy beverage, yogurt, cheese, others) with each product carries different proportion of fluid milk. In general, we consume dairy products through retail milk products, foodservice, and other food items with dairy ingredient. In the rest of our report, we put our focus on retail milk products. We don't have a standard formula to translate dairy consumption into retail product volume, and assuming no dramatic change of dairy content in milk product, per capita consumption of retail dairy products could grow largely in line at 3.4% CAGR in China over the next three years. If there is new product development using lower dairy content, the retail volume could grow faster.

As per retail consumption, we think Chinese people are unlikely to consume as much cheese as the world average, so to attain an equivalent amount of nutrition (1kg of cheese = c.5.1kg of cow's milk), Chinese consumption of non-cheese milk products (drinking milk products, yogurt, etc.) could beat the world average (e.g. per capita cheese consumption in Hong Kong, Japan and Korea was below world average but that of drinking milk products was above).

Demand for drinking milk products should continue to rise, but drinking milk products accounted for 78% of total milk product consumption in China in 2013 by retail value, compared to 68% and 61% in Taiwan and Hong Kong, respectively. We therefore see more headroom for yogurt and other milk products.

Again, for retail consumption, drinking milk products will remain the dominant milk products. Pasteurised milk demand is currently curbed by poor cold chain infrastructure; any improvement on this front should therefore help release constrained demand.

High prices, however, could be a constraint for volume growth in all milk products. China's USD23.6 per capita spending on drinking milk products in 2013 was equivalent to 97% of the world average, while the 3.6% of per capita F&B spending in China on milk exceeds the world average of 2.6%, implying expensive drinking milk in China.

Figure 13: Per capita consumption of fluid milk (2014)

	Domestic consumption (000 tonne)	Per capita consumption (kg)
World	569,898	80.9
China	37,778	28.0
Taiwan	393	16.9
Japan	7,580	59.6
Korea, South	2,196	44.9

Source: USDA

We believe the continuous investment in modern farming over the past few years (more than USD3.9bn) should lead to increasing high-end raw milk supply. In addition, we expect milk product imports to continue to rise following the EU milk quota expiry in March 2015. As a result, we expect raw milk prices to remain stable in 2015-16. For China Modern Dairy (1117 HK; Sell) and other upstream dairy farms, growth will be volume-driven, unless the Chinese government lowers the corn procurement price (and therefore feed costs). We believe more small dairy farms and individual dairy farmers will drop out of the industry.

For Mengniu and other downstream dairy brands, we believe the most important issue is branding, as we believe low-end milk products will be challenged by cheap imported UHT, and it will take stronger brand equity and product development capabilities to sustain the premium pricing of milk products in China. In addition, we expect to see a more rapid shift away from white milk to yogurt, dairy beverages and other milk products.

Figure 14: Selective new investments in domestic dairy farming

Date	Farm(s)	Investor	New inv	Source
Jun-09	Wuhan Boquan Dairy farm	Bright Dairy (600597.SH)	USD26m	163 Money
Nov-10	China Modern Dairy (1117.HK)	Public investors (IPO)	USD324m	Company data
Nov 2011	Huaxia Dairy Farm	Olympus Capital investment	USD68m	Reuters
Jun-12	Dairy Farming Institute	Nestlé	USD392m	Company data
Aug-12	Anhui, Hubei, Inner Mongolia, Heilongjiang	Inner Mongolia Yili (600887.SH)	USD235m	Company data
Oct-12	Inner Mongolia	Mengniu Fuyuan Dairy Farm	USD10m	efeedlink
Sep-13	China Huishan Dairy (6863.HK)	Public investors (IPO)	USD965m	Company data
Sep-13	Various	KKR, CDH, China Modern Dairy	USD140m	PE daily
Oct-13	Beijing Capital Agribusiness Group	Affinity Equity Partners	USD123m	Asian Venture Capital Journal
Nov-13	YuanShengTai (1431.HK)	Public investors (IPO)	USD425m	Company data
Feb-14	Various	RRJ Capital, Bright Dairy	USD252m	China Money Network
Jun-14	Inner Mongolia Yili (600887.SH)	Yunfeng, CITIC	USD320m	China Money Network
Jul-14	Huaxia Dairy Farm	GIC, Olympus Capital	USD106m	China Daily
Jul-14	Various	Fonterra, Abott	USD342m	NZ Herald
Jul-14	China Shengmu Organic (01432.HK)	Public investors (IPO)	USD145m	Company data

Source: Deutsche Bank

Non-cheese milk product consumption to beat world average

In China, cheese is still mostly consumed in western-style fast food chains but rarely at home. In Taiwan and Hong Kong, retail cheese consumption was also light in 2013. If we exclude cheese, based on Euromonitor estimates:

- China's per capita spending on non-cheese milk products was USD30.1, or 69% of the world average (USD43.6 excluding cheese).
- This spending was equivalent to 4.6% of total F&B spending in China during the year, close to the world average (4.7% excluding cheese).

Given similar diets, we look at Taiwan and Hong Kong to assess the future of milk consumption in China. Based on the USDA food guide, nutrition from 1kg of cheese is equivalent to c. 5.1kg of cow's milk/calcium fortified soymilk. Therefore, if China's consumption of cheese remains light, consumers could drink more milk as a substitute for the same amount of nutrition.

We therefore think that the world average consumption of non-cheese milk products (by volume) is not a ceiling for China, e.g. Hong Kong per capita consumption of drinking milk and yogurt totalled 25.1kg in 2013, 12% above the world average (22.4kg) and 40% higher than that of China (17.9kg).

Figure 15: Comparison of spending on milk products by retail value (2013)

	Per capita retail volume	Per capita retail value	Unit price (USD/kg)	Per capita F&B spending	% of F&B spending
Total milk products					
World		62.4		925	6.70%
China		30.4		654	4.70%
Taiwan		56.6		1,703	3.30%
Hong Kong, China		87.7		3,741	2.30%
India		7.7		264	2.90%
Singapore		69.7		1,407	5.00%
Japan		164.6		3,106	5.30%
South Korea		127.8		1,666	7.70%
Drinking milk products					
World	17.9	24.4	136	925	2.60%
China	14.3	23.6	165	654	3.60%
Taiwan	16	38.4	2.4	1,703	2.30%
Hong Kong, China	19.6	53.2	2.71	3,741	140%
India	11	6.8	0.62	264	2.60%
Singapore	14.7	41.6	2.83	1,407	3.00%
Japan	21.5	61.1	2.84	3,106	2.00%
South Korea	28.5	74.7	2.62	1,666	4.50%
Yogurt					
World	4.5	11.8	2.62	925	130%
China	3.6	6.4	178	654	100%
Taiwan	4.5	12.7	2.82	1,703	0.70%
Hong Kong, China	5.5	12.8	2.33	3,741	0.30%
India	0.5	0.6	12	264	0.20%
Singapore	3.1	15.4	4.97	1,407	1.10%
Japan	11.2	64.2	5.73	3,106	2.10%
South Korea	8.7	44	5.06	1,666	2.60%
Cheese					
World	16	18.8	11.75	925	2.00%
China	0	0.3		654	0.00%
Taiwan	0.1	13	13	1,703	0.10%
Hong Kong, China	0.3	5.5	18.33	3,741	0.10%
India	0	0.2		264	0.10%
Singapore	0.6	8.4	14	1,407	0.60%
Japan	0.9	25.2	28	3,106	0.80%
South Korea	0.4	8.8	22	1,666	0.50%
Others (desserts, condensed milk, cream, etc)					
World		7.4		925	0.80%
China		0.1		654	0.00%
Taiwan		4.2		1,703	0.20%
Hong Kong, China		16.2		3,741	0.40%
India		0.1		264	0.00%
Singapore		4.3		1,407	0.30%
Japan		14.1		3,106	0.50%
South Korea		0.3		1,666	0.00%

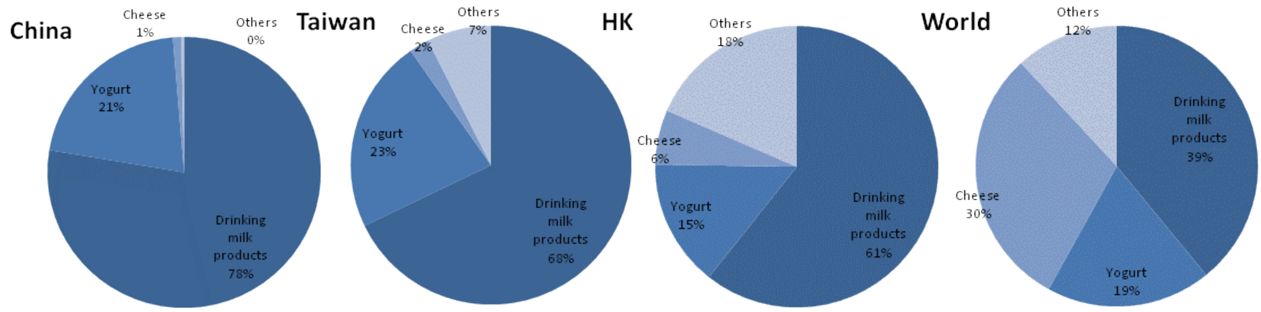
Source: Euromonitor; Deutsche Bank

Figure 16: 2013 per capita consumption of milk products (by retail volume and value)

	Retail value (USD)				Retail volume (kg)			
	China	Taiwan	HK	World	China	Taiwan	HK	World
Drinking milk products	23.6	38.4	53.2	24.4	14.3	16.0	19.6	17.9
Yogurt	6.4	12.7	12.8	11.8	3.6	4.5	5.5	4.5
Other dairy products	0.1	4.2	16.2	7.4				
Non-cheese milk products	**30.1**	**55.3**	**82.2**	**43.6**				
Cheese	0.3	1.3	5.5	18.8	0.0	0.1	0.3	0.6
Total milk products	**30.4**	**56.6**	**87.7**	**62.4**				

Source: Deutsche Bank

Figure 17: Retail value breakdown by product (2013)



Source: Euromonitor; Deutsche Bank

Figure 18: 2013 per capita consumption (by retail volume)

(kg)	China	Taiwan	China/Taiwan	HK	China/HK	World	China/world
Drinking milk products	14.3	16.0	89.4%	19.6	73.0%	17.9	79.9%
Yogurt	3.6	4.5	80.0%	5.5	65.5%	4.5	80.0%

Source: Euromonitor; Deutsche Bank

More yogurt and other milk products

Compared with Taiwan and Hong Kong, where drinking milk products still accounted for 68% and 61% of total milk product consumption, respectively, in 2013, we think that, in China, drinking milk products will remain the dominant dairy products but that their weighting will likely fall, leaving more headroom for yogurt and other milk products (desserts, coffee whiteners, condensed/evaporated milk, cream, etc). In 2013, Hong Kong's per capita yogurt consumption of 5.5kg was 53% higher than that of China (3.6kg).

More pasteurised milk

We reiterate our view that, as Chinese people tend not to eat cheese and could therefore use more milk, China's drinking milk consumption should continue to rise, albeit not as strongly as the consumption of yogurt and other dairy products. In 2013, Hong Kong's per capita drinking milk product consumption of 19.6kg was 37% higher than that of China (14.3kg). Given the market size, drinking milk is still the growing bread and butter for suppliers.

High prices could be a constraint for volume growth, in our view. In terms of drinking milk products alone, China's per capita retail value was already 97% of the world average in 2013, and equivalent to 3.6% of its total F&B spending, well exceeding the world average (2.6%), Hong Kong (1.4%) and Taiwan (2.3%). The average unit price was USD1.65/kg in China in 2013, at a 21% premium to the world average.

Drinking milk products include primarily pasteurised and UHT milk, dairy beverages and soymilk. In China, UHT and pasteurised milk together accounted for 49.5% of total drinking milk products by volume in 2013, down from 55.3% in 2009. Between UHT and pasteurised milk, pasteurised milk's share was only 27% in 2013, compared with Taiwan's 94% and Hong Kong's 61%, based on our estimates.

Figure 19: China drinking milk products' breakdown by volume

(tonne)	2009	2010	2011	2012	2013	CAGR
Flavoured milk drinks	5,236	6,299	7,221	7,908	8,563	13.1%
UHT milk	5,591	5,815	6,266	6,646	7,023	5.9%
Pasteurised milk	2,077	2,187	2,306	2,427	2,549	5.3%
Non-dairy milk alternatives	636	677	737	806	874	8.3%
Powder milk	300	278	285	294	304	0.3%
Flavoured powder milk drinks	22	21	21	22	22	0.3%
Total drinking milk products	13,862	15,277	16,836	18,103	19,336	8.7%

Source: Euromonitor; Deutsche Bank

Figure 20: Estimated breakdown of pasteurized and UHT milk mix by ingredients

	China	Taiwan	Hong Kong	Japan	South Korea	Singapore
Ingredients by products-milk (% breakdown), 2013						
Milk	43.2%	57.9%	36.0%	57.4%	60.5%	58.1%
Pasteurised milk	11.8%	54.7%	21.9%	56.6%	59.3%	30.9%
Long-Life.UHT milk	31.3%	3.2%	14.1%	0.7%	1.2%	27.1%
% of milk, 2013						
Pasteurised milk	**27.3%**	**94.5%**	**60.8%**	**98.6%**	**98.0%**	**53.2%**
UHT milk	**72.5%**	**5.5%**	**39.2%**	**1.2%**	**2.0%**	**46.6%**

Source: Euromonitor; Deutsche Bank
Note: Based on Euromonitor data by volume using milk as ingredient, e.g. in Taiwan, 57.9% of milk was used for production of milk in 2013, of which 54.7% was used for production of pasteurized milk.

There is no standard mix between pasteurised and UHT milk in any country/region, e.g. UHT milk dominates in continental Europe and China, while pasteurised dominates in North America and Oceania. In France, we talked to an Isigny Ste-Mère Cooperative farmer, and, according to him, 1) French consumers pay more attention to cheese, cream, butter, etc, for both protein intake and gourmet pleasure, and 2) distribution is dominated by the modern channel, which prefers to sell private-label UHT milk. As the OEM margin is thin, dairy farms/cooperatives also prefer to focus on branded cheese, butter, cream, etc.

In China, we believe pasteurised milk consumption is constrained by poor cold chain infrastructure support; with increasing investment in the cold chain, we believe the once-constrained demand could be released. According to Euromonitor, China did not start establishing cold chain national standards until 2010, making the development of cold chain logistics in the country difficult. Currently, only about 15% of food, meat and vegetables are transported via the cold chain in China, compared with 90% in more developed nations. Based on China's 12th Five-Year Plan (2011-2015), 20-36% of vegetable/fruit, meat and fishery products will be shipped via the cold chain by 2015. The rapid cold chain development will also help improve the penetration of pasteurised products.

Figure 21: Top five companies in selective dairy product markets (2013)

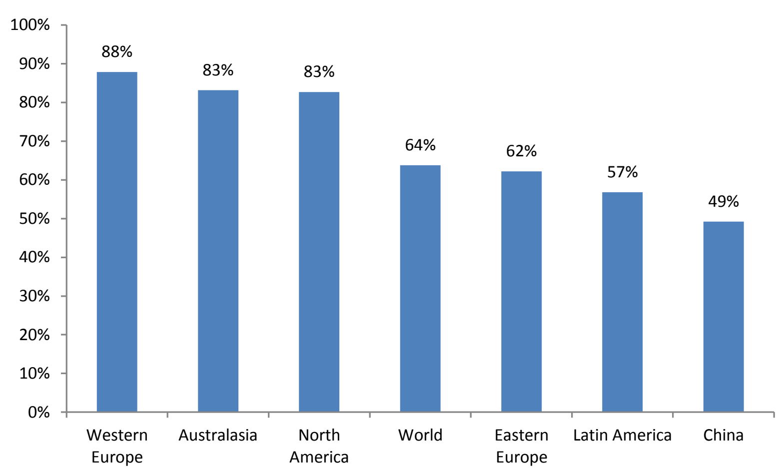
Categories	Companies	Market share %
Fresh/pasteurised milk		
1	Bright Dairy	17.6
2	Beijing San Yuan	7.6
3	Huishan	6.1
4	Jinan Jiabao Dairy	5.4
5	Sichuan New Hope Agribusiness	5.3
Long-Life/UHT milk		
1	Yili	34.6
2	Mengniu	34.1
3	Wonder Sun Dairy	2.0
4	Beijing San Yuan	1.5
5	Bright Dairy	2.1
Yoghurt and sour milk products		
1	Mengniu	21.5
2	Bright Dairy	18.5
3	Hangzhou Wahaha	14.1
4	Yili	11.4
5	Yakult (xx, NR)	5.5

Source: Euromonitor

Channel shift

In China, 49% of drinking milk products were distributed via modern channels in 2013. This was higher than for other fast-moving F&B products, e.g. the modern channel only accounted for c. 20% of Tingyi's noodle and beverage sales. Such 'pasteurization', to be propelled by consumers demanding more pasteurized milk and/or dairy makers producing more pasteurized milk to defend against competition from cheap imported UHT milk, will not be realized if the modern channel and cold chain infrastructure does not improve.

Figure 22: Distribution of drinking milk products by modern channel (2013)



Source: Euromonitor; Deutsche Bank

More sparkling drinks

One of the major reasons we think consumers in China will change (consuming more chilled drinks) is that ethnic Chinese outside of mainland China consume cold drinks, and so it is not something genetic or culturally offensive that will take generations to change. After pasteurised milk, chilled yogurt and desserts, we expect to see more fridge-pack sparkling drinks, both alcoholic and non-alcoholic, in Chinese consumers' refrigerators.

More canned (premium) beer

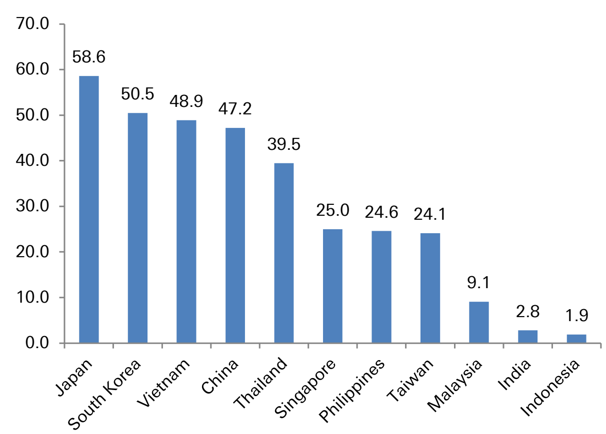
In 2013, China's per capita beer consumption, based on the legal purchasing age, was 47.2 litres, and while we do see some upside on volume consumption, we see more upside on quality consumption. Chinese beer is cheap, probably one of the world's cheapest (USD1.41/litre in 2013, vs. world average of USD3.32/litre, based on Euromonitor). During the year, bottled beer accounted for c.82% of total beer sales by unit in China, compared with the world average of 61%, and we believe a lot of this beer was in large bottle (e.g. 600ml or 640ml) format. To fit into the refrigerator, however, small bottles and aluminium cans are preferred, and this helps to promote upgrades or 'premiumisation', which is exactly what the brands are trying to push for. We believe brewers are in need of product mix improvements, which are their only outlet to sustain profit growth, and we think they will be eager to make a concerted effort to launch premium products.

Figure 23: 2013 beer packaging format (by unit)

(%)	World	Asia Pacific	China	Hong Kong	Japan	South Korea
Metal	36.8	34.0	17.9	30.4	95.9	63.1
Rigid Plastic	2.1	0.5	0.2	-	-	13.3
Glass	61.0	65.5	81.9	69.6	4.1	23.6

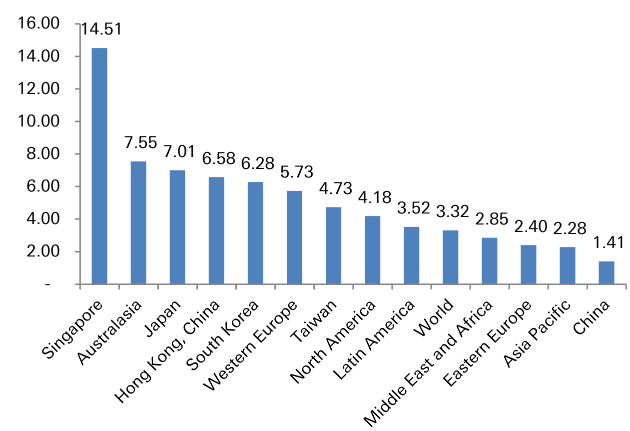
Source: Deutsche Bank

Figure 24: Per capita beer consumption (litre/year)*



*Source: Euromonitor; Note: * based on legal purchasing age*

Figure 25: Beer retail ASP (2013; USD/litre)



Source: Euromonitor; Deutsche Bank

More CSD

We also think putting fridge-pack CSD into refrigerators could help driving demand in China, as we think that, at room temperature, CSD is considered purely acid and sugar, leaving only guilt, and no pleasure (see the section "New image: CSD, RTD sugar-free tea").

Figure 26: 2013 CSD packaging format by unit

(%)	World	Asia Pacific	China	Hong Kong	Japan	South Korea
Metal	41.8	30.8	22.1	56.6	60.7	75.0
Rigid plastic	43.7	40.6	64.3	43.4	35.8	25.0
Glass	14.5	28.6	13.6		3.5	0.0

Source: Deutsche Bank

More chilled and frozen processed food

It is an inconvenient truth but, in our view, the catalysts of sustainable demand for chilled and frozen processed food in the short term are food scandals. In the long term, however, the fact will be simply that cheap import raw materials for processing into chilled and frozen food in China are more economical.

Accelerated by food safety concerns

In 2013, China's per capita spending on chilled and frozen processed food averaged USD16.8, a fraction of the USD49.1-USD59.8 of the world, Hong Kong and Taiwan. In addition, consumption growth in the greater China region was higher than the world average and that of its neighbouring countries/regions. In China, according to Euromonitor, the impact of the chicken feed scandal and the dead pigs found in Huangpu River in March 2013 resulted in growing demand for chilled processed food in 2013. This is partly because consumers are feeling uncomfortable about purchasing fresh chicken and meat in open markets, where the sourcing is not traceable, and therefore some consumers turn to chilled processed food, which is regarded as being relatively better in quality and safety. This could be event-driven and short-term, and we are looking for a sustainable and structural change, following food safety concerns and busy lifestyles, to drive China's processed food market, including chilled and frozen, which registered a 7-8.3% CAGR over 2010-13.

Figure 27: Per capita spending on chilled and frozen processed food (USD)

		2009	2010	2011	2012	2013	CAGR
World	Chilled Processed Food	29.5	30.0	30.4	30.8	31.6	1.7%
	Frozen Processed Food	16.0	16.3	16.7	17.1	17.5	2.3%
China	**Chilled Processed Food**	**8.2**	**9.0**	**9.7**	**10.3**	**11.3**	**8.3%**
	Frozen Processed Food	**4.2**	**4.5**	**4.9**	**5.2**	**5.5**	**7.0%**
Taiwan	Chilled Processed Food	33.5	35.9	38.7	41.8	45.6	8.0%
	Frozen Processed Food	11.1	11.5	12.1	12.7	13.3	4.6%
Hong Kong	Chilled Processed Food	5.6	5.9	6.1	6.3	6.6	4.2%
	Frozen Processed Food	44.8	47.3	49.3	51.1	53.2	4.4%
Japan	Chilled Processed Food	423.4	419.4	406.9	403.1	406.4	-1.0%
	Frozen Processed Food	42.6	43.3	43.9	44.9	46.4	2.2%
Singapore	Chilled Processed Food	11.9	12.0	11.9	11.8	11.6	-0.6%
	Frozen Processed Food	15.0	15.1	15.1	15.0	15.0	0.0%
South Korea	Chilled Processed Food	25.5	27.1	27.9	28.7	29.6	3.8%
	Frozen Processed Food	11.4	11.8	12.1	12.4	12.8	2.9%

Source: Euromonitor; Deutsche Bank

In Hong Kong and Taiwan, we think the above-average growth was attributable partly to increasing offerings of chilled ready meals at convenience stores. By percentage of F&B spending, except for Japan, consumption of chilled and frozen processed food in the greater China region was 1.6-3.5%, compared with 5.3% of the world average. Given the Chinese preference for fresh food, we believe China's spending on chilled and frozen processed food will not reach the world average in the foreseeable future, but that it will nevertheless rise, as long as China remains vulnerable to food safety scandals.

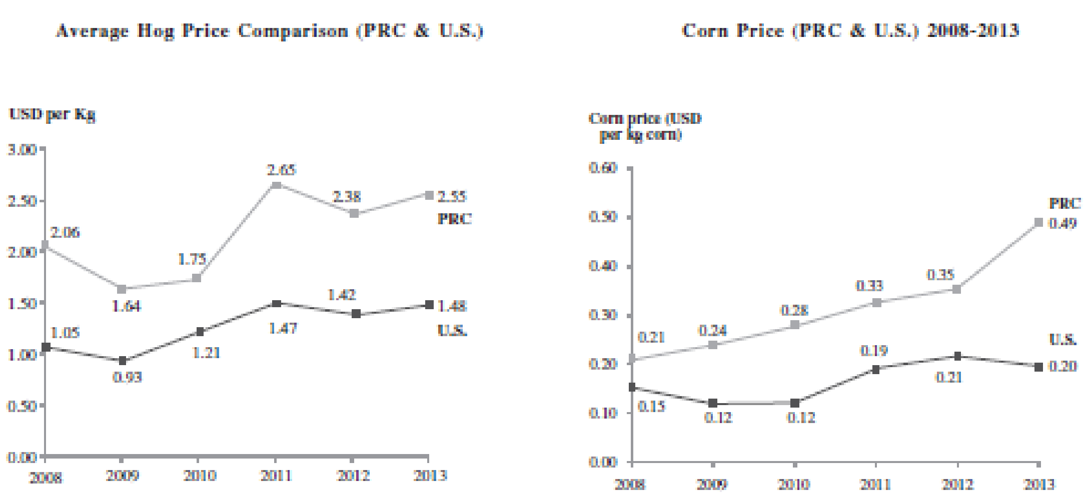
Could be stipulated by the potential change of China's food security policy

In Deutsche Bank's "Global Economic Perspectives: How China Feeds Itself" report by Michael Spencer, published on 6 October 2014, it was noted that "food security should no longer be defined in terms of domestic production but in terms of production and access to imports. China already is a net importer of grains and is reliant on imported feed for its meat. Self-sufficiency is probably not possible. Secure access to food is."

On 29 September 2014, Premier Li Keqiang hosted an executive meeting of the State Council, during which he endorsed new import policies, including increasing imports of general consumer goods to respond to domestic demand, and he specifically highlighted beef, mutton and aquatic products as part of the import list.

We think that beef, mutton and aquatic products (note that China is a net exporter of fish) are good for hot pots, but not sufficient to resolve the many problems that exist, such as high feed costs, and therefore high meat and milk prices. The corn price in China, under the protective price system, was USD0.49/kg and equivalent to 2.45x that of the US corn price in 2013. As a result, the China pork price averaged USD2.55/kg, and was 1.72x that of the US during the year. CMD's average raw milk price, at RMB4.84/kg in 2013, was 1.61x that of the US farm gate milk price, at c. RMB3/kg. We think the opportunity cost is also rising rapidly (depletion of water resources and pollution, etc). With food prices rising by an average of 7% per year under the Hu-Wen policies, and with the RMB appreciating almost 3% pa, we believe consumers have a greater incentive to switch to imports. This year, for the first time in 30 years, China is running an overall trade deficit in food.

Figure 28: Average hog and corn price comparison (PRC and U.S.)



Source: WHG; U.S. Department of Agriculture, PRC Ministry of Agriculture, Frost & Sullivan

Put simply, we expect the list of imports to lengthen over time. In the longer term, if the Chinese government is willing to import more frozen pork, it will also widen the window for safe and cheap sources of raw materials, and we believe most of these increased imports will be sold to food services or used for further processing into food products.

Low-temp processed meat and ready meal

In China, China Resources Enterprise is looking for foreign partners to produce and sell low-temperature processed meat (LTPM). WHG will launch a new 'Haway' brand to sell ham, bacon and sausages made domestically from imported pork from Smithfield, and will also launch ready meals based on regional pork recipes under its existing 'Shuanghui' brand, in 2015. In the past few years, WHG has also been actively educating consumers in LTPM consumption, e.g. the company has cooperated with its distributors to promote its branded 'Taiwan-style sausage' by subsidising sausage grillers at POSs.

Improving cold chain infrastructure

Figure 29: Capacity of selective cold chain service providers

Company	Code; Rec	Description	Source
Sinotrans	598 HK; NR	Sinotrans' cold chain logistic centre has GFA of 70,000 sqm. The company invested RMB130m in Phase I project, which has GFA of 13,884 sqm and storage capacity of over 10,000 tonnes. The company's clients covers pharmaceutic, food, trading sectors etc including Bayer, Yili, Wall's Nestle, Cstore, Metro etc.	Company website
Shanghai Haibo	600708 CH; NR	Established in April, 2003. It has cold storage warehouses of GFA 200,000 cubic meters, normal temperature warehouse of GFA of 30,000 cubic meters and warehouses in tariff-free zone of 60,000 cubic meters. It depends on the business of Bright Group.	Company website
Shun Feng (SF)	N/A	By end of 2014, the company will put into use c. 10 cold storage B2C warehouses in Beijing, Guangzhou, Shenzhen, Wuhan etc.	Taikungpao
Shanghai Speed Fresh (wholly-owned by Bright Dairy)	NA	Established in 2003, inherited from Bright Dairy. By 2006, it has established cold storage hub in Shanghai, Hangzhou, Shaoxing, Jiaxing, Huzhou, Ningbo, Jinhua, Nanjing, Suzhou, Nantong, Wuxi, Zhenjiang, Yangzhou, Changzhou, Yancheng, Taizhou, Hefei, Wuhu etc, forming a food logistic networking covering China. The company has 4 cold storage warehouses (3 from Bright Dairy and 1 self built). The company has the cold chain delivery capacity of over 900 tonnes in Shanghai.	Company website
Guangdong Swire Cold Chain Logistics	N/A	The total cold storage capacity reached 40,000 tonnes covering the delivery of marine products, frozen meat products, dairy products, red wine, chocolate and ice creams. No.1 cold storage warehouse has total capacity of 10,500 tonnes (low temperature: 8300 tonnes; high temperature: 2200 tonnes). No. 2 cold storage warehouse has total capacity of 7,000 tonnes with GFA of 8,000 sqm. No.3 cold storage warehouse has GFA of 14,000 sqm.	Company website
Shuanghui Logistics (wholly-owned by WHG)	NA	Established in 2003 and wholly owned by WHG. It has the cold storage capacity of 250,000 tonnes. It also has normal temperature storage and delivery warehouse with GFA of 185,000 sqm. It provides distribution and logistic services for companies covering meat products, dairy products, ice cream, fast food, commercial chains, pharmaceutical, vegetables and fruits, flowers etc.	Company website
Shanghai Jiaoyun Rihong	N/A	Established in 2002. It has cold storage warehouse in Shanghai with GFA of c. 20,000 sqm.	Company website
Havi Logistics	N/A	Mainly serve McDonald's.	Company website
Shanghai Rokin	N/A	Started cold chain logistics business in 2004 and has invested RMB150m in cold storage warehouse, cold delivery tracks and other infrastructures. It has cold storage warehouse nationwide with total GFA of 80,000 sqm. Its business covers Tier I, II and III cities. Its clients include companies in food, supermarkets, catering, hospitals, digital sectors.	Company website

Source: Deutsche Bank

According to China Logistics and Procurement Association, China's capex in cold chain infrastructure exceeded RMB10bn in 2013, up 24% yoy. Based on the central government's Twelfth Five-Year Plan (2011-2015), there will be 500 companies that will be able to provide comprehensive cold chain logistic services by 2015. According to Roland Berger Strategy Consultants, the sales revenue of the cold chain logistics industry will register a 25% CAGR through to 2017, to RMB470bn. Below is a list of sizeable cold chain logistics service providers, including Shuanghui's logistics subsidiaries, which serve their own brands, as well as those of third parties.

Ecommerce, again

The increased investment is attributable partly to the B2C ecommerce boom, according to *Daily Economic News*.

- Yihaodian (under Walmart China) launched "Number One Orchard" in April 2013, and started to sell vegetables as well from April 2014. It delivers 70% of the orders itself, with the remainder delivered by third parties.
- Tmall announced the inauguration of cold chain logistics services for live and fresh food in July 2013. It will integrate third-party service providers onto a common platform to provide one-stop cold chain services.
- Suning Yigou sold live hairy crabs for the first time on its platform in July 2013, and has said it will invest in a proprietary cold chain network.
- JD.com launched a proprietary fresh food sales channel in September 2013. It plans to use its own cold storage and a third-party last mile service provider for order fulfilments.
- Shun Feng Express started to sell live and fresh food in May 2012. At end-2013, Shun Fung's full cold chain network (through to last mile) covered 11 major cities.

We visited Yamato Transport's 65%-owned JV in Shanghai. The JV is currently one of the few full cold chain home delivery service providers in Shanghai. Frozen/chilled goods now account for c.30% of its total goods delivered, much higher than the 15% in Japan, due partly to limited supply (of cold chain delivery service), and partly to excessive use of cold chain services, e.g. for delivery of oranges and apples. In addition, owing to keen competition, e-commerce platforms provide free delivery to small-ticket clients, although it is not commercially viable for cold chain home delivery of tickets below RMB200.

The bottle neck: slow modern channel expansion

Our thesis is well supported by the increasing investment in cold chain infrastructure, but the bottleneck could be slower-than-expected modern channel expansion. In 2014, modern channel operators have slowed down their investment into network expansion, and we have little information on when they will switch to expansion mode again.

Walmart China has slowed down its expansion since 2013. It plans to add 110 new stores in the nation from 2014-16 (vs. about 400 stores now), down from 50-60 p.a. in the past. It has also proposed closing 25 non-performing stores, with 14 closed in 2013, and, YTD 2014, it has closed more than six stores. Sun Art slowed down its expansion in 1H14, and CRE is looking to scale down its offline expansion, with the savings going into online investment.

Figure 30: Store opening progress/plan

Company	Code, Rec	Store opening progress/plan
Sun Art	(6808.HK, Buy)	Slower-than-expected store openings: opened only four in 1H14, vs. 50 store openings guided previously for full-year 2014).
Lianhua	(0980.HK, Hold)	It will continue to penetrate hypermarkets in the Shanghai, Zhejiang and Henan provinces. However, it will have stricter measures on new openings, making sure that the new stores reach breakeven within three years and pay back within seven to eight years.
CRE	(0291.HK, Hold)	Few new openings are planned for 2H14. CRE is evaluating its store opening plan, as weak market sentiment is not favourable for new store openings. CRE is looking to scale down its offline expansion, with the savings going into online investment. It will study the Homeplus case in Korea, but everything is still in the early planning stage.
Wumart	(1025.HK, Buy)	Store opening plan maintained – 20 superstores and 40 mini marts. It had a total of 545 stores at June 2014, vs. 547 as of December 2013. For superstores, it added six directly operated stores and closed one in Tianjin. For mini-marts, it added seven directly owned stores and closed seven directly owned stores due to lease expiry or relocation. It also closed seven franchised mini marts.

Source: Company data; Deutsche Bank

Model updated:09 November 2014

Running the numbers

Asia

China

Food & Beverage

Uni-President China

Reuters: 0220.HK Bloomberg: 220 HK

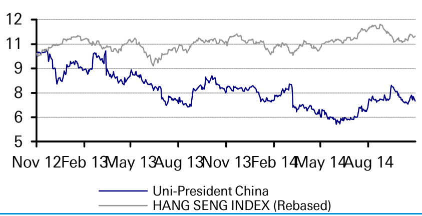
Hold

Price (10 Nov 14)	HKD 7.00
Target Price	HKD 6.70
52 Week range	HKD 5.56 - 8.05
Market Cap (m)	HKDm 30,235
	USDm 3,900

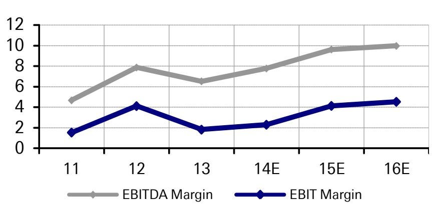
Company Profile

Uni-President China is a leading producer of instant noodles and soft drinks in China.

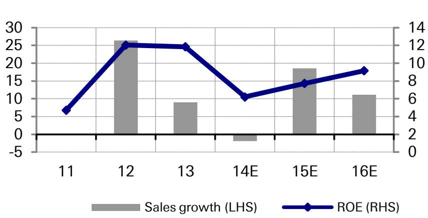
Price Performance



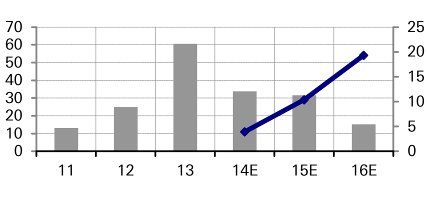
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (CNY)	0.09	0.24	0.11	0.10	0.20	0.26
Reported EPS (CNY)	0.09	0.24	0.25	0.14	0.20	0.26
DPS (CNY)	0.03	0.05	0.05	0.03	0.04	0.05
BVPS (CNY)	1.9	2.1	2.2	2.6	2.7	2.9
Weighted average shares (m)	3,599	3,609	3,599	3,959	4,319	4,319
Average market cap (CNYm)	13,355	21,097	23,273	23,865	23,865	23,865
Enterprise value (CNYm)	12,552	21,058	26,396	25,759	25,645	23,759
Valuation Metrics						
P/E (DB) (x)	42.8	24.6	56.8	55.6	27.1	21.4
P/E (Reported) (x)	42.8	24.6	25.4	40.5	27.1	21.4
P/BV (x)	2.07	3.20	2.83	2.16	2.03	1.89
FCF Yield (%)	nm	nm	nm	nm	0.6	8.2
Dividend Yield (%)	0.7	0.8	0.8	0.5	0.7	0.9
EV/Sales (x)	0.7	1.0	1.1	1.1	0.9	0.8
EV/EBITDA (x)	15.9	12.5	17.3	14.5	9.8	7.9
EV/EBIT (x)	48.0	23.9	62.0	48.8	22.9	17.4
Income Statement (CNYm)						
Sales revenue	16,932	21,406	23,329	22,880	27,124	30,148
Gross profit	4,943	7,402	7,737	7,536	9,413	10,634
EBITDA	792	1,685	1,524	1,779	2,611	3,006
Depreciation	530	803	1,098	1,252	1,489	1,638
Amortisation	0	0	0	0	0	0
EBIT	261	882	426	528	1,122	1,368
Net interest income(expense)	95	64	95	-134	-108	-71
Associates/affiliates	40	132	88	143	88	100
Exceptionals/extraordinaries	0	0	507	160	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	396	1,077	609	536	1,102	1,397
Income tax expense	84	221	200	107	220	279
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	312	856	916	589	881	1,118
DB adjustments (including dilution)	0	0	-507	-160	0	0
DB Net profit	312	856	410	429	881	1,118
Cash Flow (CNYm)						
Cash flow from operations	1,423	2,570	1,244	1,411	2,729	2,974
Net Capex	-3,318	-3,397	-4,007	-2,756	-2,586	-1,012
Free cash flow	-1,895	-827	-2,763	-1,345	143	1,962
Equity raised/(bought back)	0	0	0	2,614	0	0
Dividends paid	-156	-94	-171	-183	-118	-176
Net inc/(dec) in borrowings	3,093	909	2,067	1,000	0	0
Other investing/financing cash flows	-1,101	-67	-4	0	0	0
Net cash flow	-58	-78	-871	2,086	26	1,786
Change in working capital	*660*	*1,035*	*-66*	*-35*	*334*	*259*
Balance Sheet (CNYm)						
Cash and other liquid assets	2,369	2,291	1,420	3,506	3,532	5,318
Tangible fixed assets	6,961	9,513	12,566	14,229	15,326	14,700
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,693	1,916	1,692	1,835	1,923	2,023
Other assets	2,714	2,820	3,290	3,256	3,585	3,831
Total assets	13,737	16,540	18,968	22,826	24,366	25,872
Interest bearing debt	3,259	4,168	6,235	7,235	7,235	7,235
Other liabilities	3,761	4,872	4,774	4,547	5,381	5,993
Total liabilities	7,020	9,040	11,009	11,782	12,616	13,228
Shareholders' equity	6,717	7,500	7,959	11,045	11,750	12,644
Minorities	0	0	0	0	0	0
Total shareholders' equity	6,717	7,500	7,959	11,045	11,750	12,644
Net debt	*890*	*1,877*	*4,815*	*3,729*	*3,703*	*1,917*
Key Company Metrics						
Sales growth (%)	nm	26.4	9.0	-1.9	18.5	11.1
DB EPS growth (%)	na	173.6	-52.0	-12.7	105.4	26.8
EBITDA Margin (%)	4.7	7.9	6.5	7.8	9.6	10.0
EBIT Margin (%)	1.5	4.1	1.8	2.3	4.1	4.5
Payout ratio (%)	30.0	20.1	20.0	18.3	20.0	20.0
ROE (%)	4.7	12.0	11.9	6.2	7.7	9.2
Capex/sales (%)	20.2	17.2	22.6	12.7	9.5	3.4
Capex/depreciation (x)	6.4	4.6	4.8	2.3	1.7	0.6
Net debt/equity (%)	13.2	25.0	60.5	33.8	31.5	15.2
Net interest cover (x)	nm	nm	nm	3.9	10.4	19.3

Source: Company data, Deutsche Bank estimates

Model updated:27 August 2014

Running the numbers

Asia

China

Consumer

Hengan Intl.

Reuters: 1044.HK Bloomberg: 1044 HK

Buy

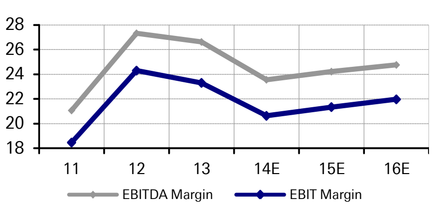
Price (10 Nov 14)	HKD 79.60
Target Price	HKD 86.00
52 Week range	HKD 76.35 - 98.55
Market Cap (m)	HKDm 98,018
	USDm 12,644

Company Profile

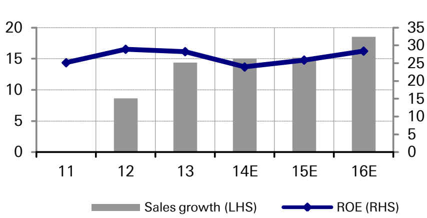
Hengan manufactures and sells personal hygiene products, including feminine napkins, baby diapers, and consumer tissue in China. The company's products are sold under brand names such as Anerle, Anle, and Hearttex.

Price Performance

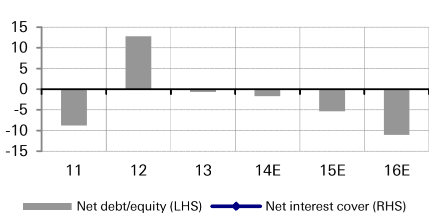
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (HKD)	2.16	2.86	3.09	2.98	3.55	4.34
Reported EPS (HKD)	2.16	2.86	3.09	2.98	3.55	4.34
DPS (HKD)	1.35	1.70	1.85	1.83	2.19	2.68
BVPS (HKD)	9.3	10.5	12.5	13.7	15.1	16.9
Weighted average shares (m)	1,226	1,229	1,231	1,229	1,229	1,229
Average market cap (HKDm)	79,976	90,827	103,664	98,018	98,018	98,018
Enterprise value (HKDm)	77,261	91,545	102,740	96,954	96,287	94,996
Valuation Metrics						
P/E (DB) (x)	30.2	25.8	27.3	26.7	22.4	18.3
P/E (Reported) (x)	30.2	25.8	27.3	26.7	22.4	18.3
P/BV (x)	7.82	6.66	7.36	5.82	5.26	4.71
FCF Yield (%)	1.3	0.5	2.7	2.5	3.2	4.4
Dividend Yield (%)	2.1	2.3	2.2	2.3	2.7	3.4
EV/Sales (x)	4.5	4.9	4.8	4.0	3.4	2.9
EV/EBITDA (x)	21.5	18.1	18.2	16.9	14.2	11.5
EV/EBIT (x)	24.5	20.3	20.8	19.3	16.1	13.0
Income Statement (HKDm)						
Sales revenue	17,051	18,524	21,186	24,365	28,056	33,247
Gross profit	6,800	8,315	9,560	11,020	12,476	14,726
EBITDA	3,594	5,064	5,642	5,742	6,797	8,236
Depreciation	443	561	703	713	806	928
Amortisation	0	0	0	0	0	0
EBIT	3,151	4,503	4,939	5,029	5,990	7,307
Net interest income(expense)	105	36	76	1	20	47
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,255	4,539	5,015	5,030	6,011	7,354
Income tax expense	570	1,001	1,245	1,242	1,485	1,817
Minorities	37	19	50	50	50	50
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,649	3,519	3,721	3,738	4,477	5,488
DB adjustments (including dilution)	0	0	265	104	104	104
DB Net profit	2,649	3,519	3,986	3,842	4,580	5,592
Cash Flow (HKDm)						
Cash flow from operations	3,435	2,936	3,984	4,245	5,248	6,774
Net Capex	-2,428	-2,469	-1,201	-1,814	-2,089	-2,475
Free cash flow	1,007	467	2,783	2,431	3,159	4,299
Equity raised/(bought back)	120	1	103	0	0	0
Dividends paid	-1,596	-1,847	-2,220	-2,241	-2,442	-2,959
Net inc/(dec) in borrowings	1,908	4,013	8,226	0	0	0
Other investing/financing cash flows	830	-1,347	1,128	0	0	0
Net cash flow	2,269	1,286	10,020	190	717	1,340
Change in working capital	*286*	*-1,157*	*-380*	*-107*	*-109*	*275*
Balance Sheet (HKDm)						
Cash and other liquid assets	8,258	9,544	19,564	19,754	20,471	21,811
Tangible fixed assets	6,655	9,439	10,314	11,415	12,697	14,244
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	2,054	1,301	1,204	1,204	1,204	1,204
Other assets	6,352	8,920	9,108	9,721	10,416	10,967
Total assets	23,319	29,205	40,190	42,094	44,789	48,226
Interest bearing debt	7,220	11,233	19,459	19,459	19,459	19,459
Other liabilities	4,302	4,731	5,044	5,402	6,257	7,450
Total liabilities	11,522	15,964	24,503	24,862	25,716	26,909
Shareholders' equity	11,420	12,911	15,302	16,798	18,588	20,783
Minorities	377	330	385	435	484	534
Total shareholders' equity	11,797	13,241	15,687	17,232	19,072	21,317
Net debt	*-1,038*	*1,689*	*-105*	*-294*	*-1,011*	*-2,351*
Key Company Metrics						
Sales growth (%)	nm	8.6	14.4	15.0	15.1	18.5
DB EPS growth (%)	na	32.7	8.0	-3.5	19.2	22.1
EBITDA Margin (%)	21.1	27.3	26.6	23.6	24.2	24.8
EBIT Margin (%)	18.5	24.3	23.3	20.6	21.4	22.0
Payout ratio (%)	62.5	59.4	61.3	60.0	60.0	60.0
ROE (%)	25.1	28.9	28.3	23.9	25.9	28.4
Capex/sales (%)	14.2	13.3	5.7	7.4	7.4	7.4
Capex/depreciation (x)	5.5	4.4	1.7	2.5	2.6	2.7
Net debt/equity (%)	-8.8	12.8	-0.7	-1.7	-5.3	-11.0
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Model updated:03 November 2014

Running the numbers

Asia

China

Food & Beverage

China Mengniu Dairy

Reuters: 2319.HK   Bloomberg: 2319 HK

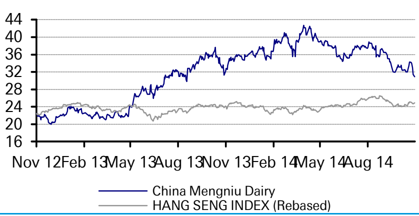
Buy

Price (10 Nov 14)	HKD 30.90
Target Price	HKD 37.50
52 Week range	HKD 30.90 - 42.75
Market Cap (m)	HKDm 60,505
	USDm 7,805

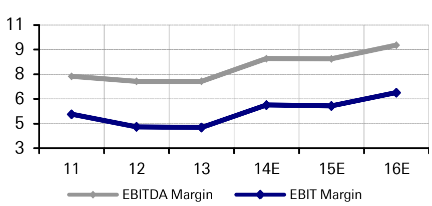
Company Profile

China Mengniu Group (CMD) is one of the leading dairy product manufacturers in China. There are 3 principal product categories (1) liquid milk (comprising UHT milk, milk beverage and yoghurt), (2)ice cream and (3)other dairy products such as milk power, milk tea powder and milk tablets.

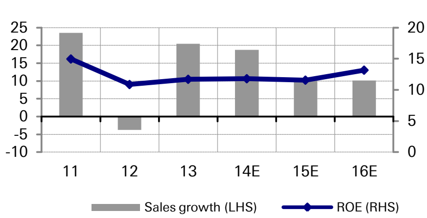
Price Performance



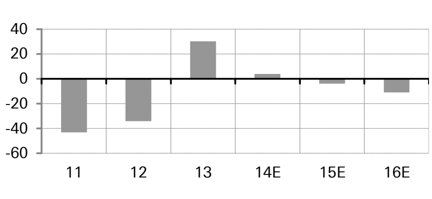
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (CNY)	0.90	0.74	0.88	1.07	1.28	1.60
Reported EPS (CNY)	0.90	0.74	0.88	1.07	1.28	1.60
DPS (CNY)	0.20	0.16	0.20	0.24	0.28	0.36
BVPS (CNY)	6.5	7.1	8.4	10.8	11.8	13.1
Weighted average shares (m)	1,751	1,768	1,805	1,956	1,956	1,956
Average market cap (CNYm)	35,563	31,763	40,958	47,757	47,757	47,757
Enterprise value (CNYm)	30,366	27,299	46,410	46,374	44,501	42,419
Valuation Metrics						
P/E (DB) (x)	22.5	24.4	25.8	22.7	19.1	15.2
P/E (Reported) (x)	22.5	24.4	25.8	22.7	19.1	15.2
P/BV (x)	2.32	2.53	3.48	2.26	2.07	1.87
FCF Yield (%)	0.6	nm	1.5	2.3	4.7	6.0
Dividend Yield (%)	1.0	0.9	0.9	1.0	1.2	1.5
EV/Sales (x)	0.8	0.8	1.1	0.9	0.8	0.7
EV/EBITDA (x)	11.0	10.7	15.1	10.7	9.3	7.3
EV/EBIT (x)	16.0	17.6	25.1	16.0	14.0	10.6
Income Statement (CNYm)						
Sales revenue	37,388	36,000	43,357	51,483	56,953	62,751
Gross profit	9,592	8,950	11,697	16,878	18,966	21,485
EBITDA	2,760	2,548	3,069	4,354	4,810	5,823
Depreciation	864	995	1,218	1,454	1,631	1,815
Amortisation	0	0	0	0	0	0
EBIT	1,896	1,553	1,852	2,901	3,179	4,008
Net interest income(expense)	112	179	199	13	40	137
Associates/affiliates	52	-53	154	295	300	309
Exceptionals/extraordinaries	0	55	24	-231	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,061	1,734	2,229	2,977	3,518	4,454
Income tax expense	276	245	367	546	633	852
Minorities	195	186	231	329	373	443
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,589	1,303	1,631	2,102	2,511	3,159
DB adjustments (including dilution)	0	0	0	50	46	45
DB Net profit	1,589	1,303	1,631	2,153	2,558	3,204
Cash Flow (CNYm)						
Cash flow from operations	2,915	2,118	3,469	4,365	4,923	5,688
Net Capex	-2,703	-2,299	-2,867	-3,250	-2,700	-2,848
Free cash flow	212	-181	602	1,115	2,223	2,841
Equity raised/(bought back)	521	12	5	4,114	0	0
Dividends paid	-331	-421	-385	-463	-276	-624
Net inc/(dec) in borrowings	51	-38	11,266	-4,000	0	0
Other investing/financing cash flows	-405	-43	-10,123	0	0	0
Net cash flow	47	-671	1,365	767	1,947	2,217
Change in working capital	*240*	*-309*	*496*	*660*	*444*	*471*
Balance Sheet (CNYm)						
Cash and other liquid assets	6,523	5,752	7,102	7,637	9,584	11,801
Tangible fixed assets	8,504	9,361	18,878	20,675	21,743	22,776
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,245	1,635	4,984	5,279	5,579	5,888
Other assets	3,930	4,167	9,375	10,466	11,199	11,977
Total assets	20,202	20,916	40,339	44,057	48,105	52,442
Interest bearing debt	1,326	1,288	12,554	8,554	8,554	8,554
Other liabilities	6,827	6,507	9,774	11,408	13,125	14,554
Total liabilities	8,153	7,795	22,328	19,963	21,679	23,109
Shareholders' equity	11,471	12,489	15,361	21,115	23,074	25,538
Minorities	578	632	2,650	2,979	3,353	3,796
Total shareholders' equity	12,049	13,121	18,011	24,094	26,426	29,333
Net debt	*-5,197*	*-4,464*	*5,453*	*917*	*-1,030*	*-3,247*
Key Company Metrics						
Sales growth (%)	23.5	-3.7	20.4	18.7	10.6	10.2
DB EPS growth (%)	27.3	-18.6	19.4	22.1	19.0	25.3
EBITDA Margin (%)	7.4	7.1	7.1	8.5	8.4	9.3
EBIT Margin (%)	5.1	4.3	4.3	5.6	5.6	6.4
Payout ratio (%)	21.8	21.7	22.1	22.0	22.0	22.0
ROE (%)	15.0	10.9	11.7	11.8	11.6	13.2
Capex/sales (%)	7.2	6.4	6.6	6.3	4.7	4.5
Capex/depreciation (x)	3.1	2.3	2.4	2.2	1.7	1.6
Net debt/equity (%)	-43.1	-34.0	30.3	3.8	-3.9	-11.1
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Model updated:29 October 2014

Running the numbers

Asia

China

Alcohol & Tobacco

Tsingtao Brewery

Reuters: 0168.HK Bloomberg: 168 HK

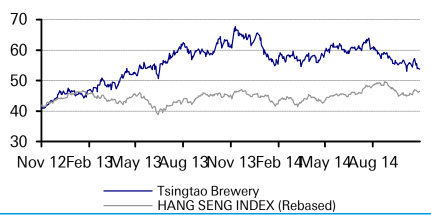
Hold

Price (10 Nov 14)	HKD 53.85
Target Price	HKD 61.00
52 Week range	HKD 53.10 - 67.75
Market Cap (m)	HKDm 72,750
	USDm 9,385

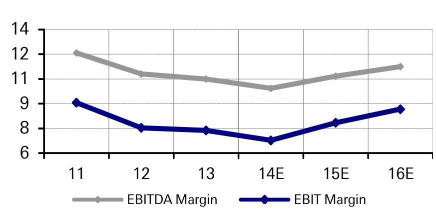
Company Profile

Tsingtao Brewery produces and distributes beer products. The Company markets its products throughout China and around the world under the Tsingtao Beer brand name.

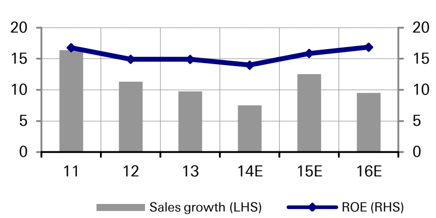
Price Performance



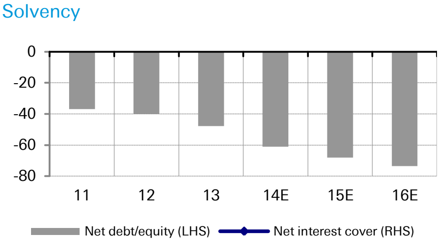
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (CNY)	1.29	1.30	1.26	1.52	1.92	2.28
Reported EPS (CNY)	1.29	1.30	1.46	1.52	1.92	2.28
DPS (CNY)	0.26	0.40	0.45	0.47	0.59	0.70
BVPS (CNY)	8.2	9.2	10.4	11.4	12.8	14.3
Weighted average shares (m)	1,351	1,351	1,351	1,351	1,351	1,351
Average market cap (CNYm)	47,044	48,559	59,619	57,423	57,423	57,423
Enterprise value (CNYm)	42,890	43,453	52,990	48,086	45,801	43,297
Valuation Metrics						
P/E (DB) (x)	27.1	27.6	35.0	27.9	22.1	18.6
P/E (Reported) (x)	27.1	27.6	30.2	27.9	22.1	18.6
P/BV (x)	4.34	4.03	5.01	3.72	3.33	2.96
FCF Yield (%)	nm	4.1	2.7	3.4	5.3	6.0
Dividend Yield (%)	0.7	1.1	1.0	1.1	1.4	1.7
EV/Sales (x)	1.9	1.7	1.9	1.6	1.3	1.2
EV/EBITDA (x)	15.3	15.6	17.8	15.9	12.5	10.3
EV/EBIT (x)	20.4	22.3	25.4	23.3	17.0	13.3
Income Statement (CNYm)						
Sales revenue	23,158	25,782	28,291	30,420	34,237	37,502
Gross profit	7,717	8,147	9,055	9,637	11,101	12,351
EBITDA	2,799	2,784	2,971	3,023	3,655	4,222
Depreciation	571	685	712	785	794	803
Amortisation	127	154	169	177	171	168
EBIT	2,101	1,945	2,090	2,062	2,689	3,251
Net interest income(expense)	36	178	251	364	459	563
Associates/affiliates	4	15	9	9	9	9
Exceptionals/extraordinaries	0	0	268	0	0	0
Other pre-tax income/(expense)	313	346	48	346	346	346
Profit before tax	2,455	2,484	2,667	2,781	3,503	4,170
Income tax expense	657	639	692	721	909	1,082
Minorities	60	86	2	2	2	2
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,738	1,759	1,973	2,058	2,593	3,086
DB adjustments (including dilution)	0	0	-268	0	0	0
DB Net profit	1,738	1,759	1,705	2,058	2,593	3,086
Cash Flow (CNYm)						
Cash flow from operations	1,926	3,478	3,611	2,880	3,968	4,339
Net Capex	-2,442	-1,488	-2,025	-900	-900	-900
Free cash flow	-516	1,990	1,586	1,980	3,068	3,439
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-336	-440	-618	-571	-782	-936
Net inc/(dec) in borrowings	464	58	-109	0	0	0
Other investing/financing cash flows	-1,103	-598	287	0	0	0
Net cash flow	-1,490	1,011	1,145	1,409	2,285	2,503
Change in working capital	*-702*	*646*	*931*	*-493*	*323*	*203*
Balance Sheet (CNYm)						
Cash and other liquid assets	6,108	7,118	8,532	11,240	13,525	16,028
Tangible fixed assets	7,829	9,022	9,247	9,362	9,468	9,565
Goodwill/intangible assets	3,460	3,628	3,613	3,436	3,265	3,097
Associates/investments	152	164	1,272	9	19	28
Other assets	4,085	3,729	4,701	5,361	5,988	6,561
Total assets	21,634	23,661	27,365	29,409	32,265	35,280
Interest bearing debt	1,954	2,012	1,903	1,903	1,903	1,903
Other liabilities	8,403	8,865	11,588	12,206	13,266	14,144
Total liabilities	10,357	10,878	13,491	14,110	15,169	16,047
Shareholders' equity	11,110	12,468	14,021	15,445	17,239	19,374
Minorities	166	315	-147	-145	-143	-141
Total shareholders' equity	11,277	12,783	13,873	15,299	17,095	19,233
Net debt	*-4,154*	*-5,106*	*-6,629*	*-9,337*	*-11,622*	*-14,125*
Key Company Metrics						
Sales growth (%)	16.4	11.3	9.7	7.5	12.5	9.5
DB EPS growth (%)	14.3	1.2	-3.0	20.7	26.0	19.0
EBITDA Margin (%)	12.1	10.8	10.5	9.9	10.7	11.3
EBIT Margin (%)	9.1	7.5	7.4	6.8	7.9	8.7
Payout ratio (%)	20.2	30.7	30.8	30.8	30.8	30.8
ROE (%)	16.8	14.9	14.9	14.0	15.9	16.9
Capex/sales (%)	10.5	5.8	7.2	3.0	2.6	2.4
Capex/depreciation (x)	3.5	1.8	2.3	0.9	0.9	0.9
Net debt/equity (%)	-36.8	-39.9	-47.8	-61.0	-68.0	-73.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Results review

Figure 31: 1H14results review – HK-listed consumer staples

			Revenue			GPM			EBITM			NPAT (reported)		
Code	Company		1H13	1H14	yoy	1H13	1H14	yoy	1H13	1H14	yoy	1H13	1H14	yoy
Under DB coverage														
0322.HK	Tingyi	USDm	5,423	5,504	1.5%	29.9%	31.1%	120bp	6.8%	8.7%	189bp	197	232	18%
2319.HK	Mengniu	RMBm	20,668	25,836	25.0%	26.7%	32.4%	574bp	4.4%	5.6%	122bp	749	1,049	40%
0168.HK	Tsingtao	RMBm	14,971	16,958	13.3%	33.5%	32.7%	-78bp	8.8%	8.7%	-9bp	1,395	1,405	1%
0220.HK	UPC	RMBm	12,204	12,367	1.3%	34.0%	32.5%	-146bp	3.8%	3.4%	-47bp	575	355	-38%
0506.HK	China Foods	HKDm	13,921	13,767	-1.1%	20.8%	23.2%	244bp	0.9%	0.8%	-8bp	(304)	(135)	
1044.HK	Hengan	HKDm	10,415	12,098	16.2%	45.2%	44.9%	-32bp	22.6%	20.2%	-242bp	1,859	1,775	-4%
1117.HK	CMD	RMBm	1,388	2,584	86.2%				23.7%	33.6%	985bp	154	523	240%
1219.HK	Tenwow	RMBm	2,303	2,258	-1.9%	13.5%	16.1%	259bp	7.1%	9.4%	227bp	94	126	33%
1112.HK	Biostime	RMBm	2,061	2,189	6.2%	66.4%	61.5%	-495bp	29.9%	19.1%	-1077bp	298	312	5%
Not under DB coverage (NOT RATED)														
0606.HK	China Agri	HKDm	40,234	44,964	11.8%	7.1%	3.7%	-332bp	2.0%	-0.7%		707	(290)	
0043.HK	CP Pokphand	USDm	2,474	2,600	5.1%	11.6%	15.6%	398bp	3.3%	5.9%	264bp	62	112	81%
0151.HK	Want Want	USDm	1,754	1,853	5.6%	41.2%	40.3%	-92bp	22.3%	21.3%	-100bp	308	318	4%
1068.HK	Yurun	HKDm	10,303	9,044	-12.2%	4.1%	7.4%	332bp	-1.0%	1.6%		(204)	16	
3331.HK	Vinda	HKDm	3,314	3,680	11.1%	28.9%	29.5%	59bp	11.1%	10.3%	-75bp	284	222	-22%
0906.HK	CPMC	RMBm	2,763	2,799	1.3%	17.8%	18.5%	63bp	10.7%	10.8%	8bp	214	224	5%
1886.HK	Huiyuan	RMBm	2,064	1,966	-4.7%	30.8%	29.4%	-144bp	2.8%	-16.1%		114	20	-82%
1230.HK	Yashili	RMBm	2,153	1,546	-28.2%	55.4%	53.0%	-233bp	17.3%	9.5%	-773bp	294	209	-29%
1006.HK	Changshouhua	RMBm	1,457	1,311	-10.0%	19.9%	21.2%	127bp	9.3%	11.4%	215bp	140	119	-15%
0468.HK	Greatview Aseptic	RMBm	983	1,182	20.2%	27.4%	25.1%	-238bp	18.8%	17.3%	-152bp	142	157	10%
1717.HK	Ausnutria	RMBm	797	937	17.6%	29.2%	28.8%	-42bp	9.3%	7.1%	-226bp	63	54	-15%
1432.HK	Shengmu	RMBm	462	906	96.1%	36.1%	49.0%	1286bp	28.0%	42.8%	1478bp	118	356	202%
6868.HK	Tenfu	RMBm	832	883	6.1%	61.3%	61.9%	65bp	21.0%	21.3%	32bp	128	140	9%
0829.HK	Shenguan	RMBm	683	671	-1.8%	57.6%	54.9%	-268bp	53.2%	49.0%	-422bp	305	278	-9%
1262.HK	Labixiaoxin	RMBm	975	615	-37.0%	41.7%	31.7%	-995bp	26.3%	2.5%	-2374bp	187	10	-94%
1431.HK	YST Dairy	RMBm	385	556	44.4%	39.1%	46.9%	781bp	41.0%	47.8%	681bp	99	249	152%
1089.HK	Sumpo Food	RMBm	491	531	8.1%	8.5%	6.6%	-190bp	0.6%	-1.9%		(3)	(10)	
1340.HK	Huisheng	RMBm	530	516	-2.6%	12.7%	14.1%	137bp	9.7%	8.8%	-96bp	47	40	-14%
2218.HK	Andre Juice	RMBm	414	434	4.8%	17.4%	21.9%	450bp	6.2%	10.5%	432bp	20	35	75%
1115.HK	Tibet 5100	RMBm	246	326	32.7%	82.2%	62.1%	-2011bp	79.4%	64.2%	-1524bp	187	165	-12%
2226.HK	Honworld	RMBm	221	297	34.4%	58.4%	56.9%	-147bp	42.1%	39.8%	-230bp	72	90	25%
0389.HK	Tontine Wines	RMBm	69	141	105.4%	-1.1%	12.1%	1322bp	-130.7%	-100.3%		(86)	(137)	
1338.HK	Bawang	RMBm	241	142	-41.1%	50.1%	36.8%	-1328bp	-34.9%	-38.0%	-316bp	(86)	(52)	

Source: Company data; Bloomberg Finance LP

Figure 32: 9M14 results review – China A-listed consumer staples (Not Rated)

Code	Company		Last Price (Oct 30)	Revenue (CNYm)			Reported NPAT (CNYm)		
				9M13	9M14	yoy	9M13	9M14	yoy
000876 CH	New Hope Liuhe	CNY	13.41	50,820	50,941	0.2%	1,391	1,573	13.1%
600887 CH	Yili	CNY	24.06	36,535	41,815	14.4%	2,516	3,558	41.4%
000895 CH	Henan Shuanghui	CNY	28.7	32,444	33,102	2.0%	2,835	3,162	11.6%
600600 CH	Tsingtao	CNY	38.78	22,277	23,814	6.9%	2,165	2,180	0.7%
600519 CH	Kweichow Moutai	CNY	155.42	21,119	21,140	0.1%	11,070	10,693	-3.4%
600597 CH	Bright Dairy	CNY	15.52	11,666	15,289	31.1%	308	406	32.0%
000858 CH	Wuliangye	CNY	17.32	18,904	14,847	-21.5%	7,104	4,707	-33.7%
000729 CH	Yanjing Beer	CNY	6.81	11,378	11,824	3.9%	888	916	3.2%
600073 CH	Shanghai Meilin	CNY	8.61	7,402	8,057	8.8%	101	112	11.1%
002567 CH	Tangrenshen	CNY	8.94	5,070	7,558	49.1%	78	58	-26.3%
603288 CH	Foshan Haitian	CNY	37.69	6,275	7,260	14.2%	1,201	1,527	26.8%
600737 CH	COFCO Tunhe	CNY	6.44	8,287	6,104	-26.3%	127	40	-68.1%
002299 CH	Fujian Sunner Dev	CNY	14.95	3,224	4,613	43.1%	(218)	126	
600315 CH	Shanghai Jahwa	CNY	36.68	3,680	4,157	12.9%	623	728	16.9%
600429 CH	Beijing Sanyuan	CNY	8.91	2,762	3,431	24.2%	(87)	111	
002570 CH	Beingmate	CNY	16.14	4,624	3,427	-25.9%	501	135	-73.1%
600300 CH	VV Food	CNY	5.72	3,853	3,281	-14.8%	136	84	-38.1%
000869 CH	Changyu	CNY	31.67	3,299	3,121	-5.4%	869	799	-8.0%
002216 CH	Sanquan Food	CNY	20.1	2,443	2,964	21.3%	101	71	-29.5%
600809 CH	Shanxi Fenjiu	CNY	16.59	5,134	2,895	-43%	1,186	399	-63.5%
002461 CH	Zhujiang Beer	CNY	15.49	2,418	2,734	13.1%	47	60	29.0%
600298 CH	Angel Yeast	CNY	18.37	2,129	2,644	24.2%	133	123	-7.0%
600195 CH	China Animal Husbandry	CNY	15.32	2,420	2,568	6.1%	255	238	-6.6%
600132 CH	Chongqing Beer	CNY	15.66	2,729	2,534	-7.1%	219	160	-27.0%
002143 CH	Sichuan Gaojin Food	CNY	18.67	2,336	2,277	-2.5%	(40)	(17)	
002557 CH	Chacha Food	CNY	20.79	2,061	2,210	7.2%	174	207	18.8%
000848 CH	Chengde Lulu	CNY	20.93	2,034	2,103	4.0%	271	343	27.3%
002511 CH	C&S Paper	CNY	10.94	1,809	1,767	-2.4%	107	51	-52.6%
600199 CH	Anhui Golden Seed Winery	CNY	8.52	1,526	1,475	-3.3%	273	56	-79.5%
000639 CH	Xiwang Foodstuffs	CNY	18.22	1,790	1,357	-24.2%	127	93	-27.0%
002321 CH	Henan Huaying Agri	CNY	7.54	1,249	1,314	5.2%	(97)	1	-101.2%
002330 CH	Shangdong Delisi	CNY	7.3	1,538	1,263	-17.9%	39	40	4.3%
002650 CH	Jiajia Food Group	CNY	12.93	1,224	1,211	-1.0%	110	114	3.7%
600559 CH	Laobaigan	CNY	26.2	1,163	1,155	-0.7%	57	45	-20.6%
002661 CH	Kemen Noodle	CNY	43.11	856	1,108	29.5%	63	64	1.3%
002477 CH	Chuying Agro-Pastora	CNY	10.9	1,267	1,105	-12.8%	69	(74)	
600197 CH	Yilite	CNY	10.48	1,267	1,000	-21.1%	251	272	8.4%
600090 CH	Xinjiang Hops	CNY	NA	1,103	986	-10.6%	129	62	-52.4%
600702 CH	Tuopai Shede	CNY	13.98	983	985	0.2%	7	6	-62.9%
000716 CH	Nanfang Foods	CNY	16.53	819	928	20.4%	29	51	58.5%
600059 CH	Guyuelongshan	CNY	8.31	1,101	911	-17.2%	118	72	-39.3%
600305 CH	Jiangsu Hengshun Vinegar I	CNY	16.37	875	862	-1.5%	27	55	104.5%
600975 CH	Hunan New Wellful	CNY	8.61	781	858	9.8%	7	(39)	
002234 CH	Shandong Minhe	CNY	9.47	732	858	17.2%	(137)	55	
600249 CH	Liuzhou Liangmianzhen	CNY	6.67	872	849	-2.6%	4	(116)	
002481 CH	Shuangta Foods	CNY	15.84	537	820	109.1%	87	112	135.5%
600965 CH	Fortune Ng Fung Hong	CNY	10.41	645	791	22.6%	54	47	-12.4%
002507 CH	Chongqing Fuling Zhacai	CNY	26.53	667	748	12.1%	128	135	5.5%
600573 CH	Huiquan Beer	CNY	9.26	638	691	8.2%	21	41	
002582 CH	Haoxiangni Jujube	CNY	20.67	626	688	9.8%	86	44	-48.9%
000929 CH	Lanzhou Huanghe	CNY	10.44	731	657	-10.1%	27	45	66.7%
600616 CH	Jinfeng Wine	CNY	8.72	672	652	-3.1%	80	67	-16.7%
002458 CH	Shandong Yisheng Livestock	CNY	13.3	392	577	47.0%	(147)	(27)	
002702 CH	Haixin Foods	CNY	18.95	484	553	14.2%	17	6	
002505 CH	Hunan Dakang	CNY	8.3	664	477	-28.2%	0	11	5380.0%
300106 CH	Western Anminal Husbandry	CNY	14.2	397	474	19.4%	28	31	11.1%
000752 CH	Tibet Galaxy	CNY	14.08	335	296	-11.6%	146	14	-90.7%
600238 CH	Hainan Yedao	CNY	9.42	596	264	-55.8%	113	42	-62.8%
600695 CH	Shanghai Dajiang Food	CNY	6.85	182	193	6.1%	154	(29)	
Total				**305,845**	**314,579**	**2.9%**	**35,931**	**33,848**	**-5.8%**

Source: Company data; Bloomberg Finance LP

Figure 33: 1H14 and 3Q14 overseas consumer staples companies' comment on China operation

Code	Company	Rec		13 Nov price	TP	1H14 highlights	3Q14 Highlights
NESN VX	Nestlé	Hold	CHF	70.4	71.0	Difficulty relates to some categories like coffee, wafers, and there is going to be a certain level of destocking that has to happen. But doing well in categories like Professional, Waters, Nutrition. Nestle's expectation for 14 the second half in China is in fact a gradual recovery	China remained challenging in some key categories for coffee, oats, milo, etc. For infant formula, sales increase by double-digit for emerging markets and China is still a highlight.
KO US	Coca-Cola Co	Buy	USD	41.9	45.0	China's unit case volume grew 10% during the period, led by 6% growth in brand Coca-Cola and 5% growth in Trademark Sprite	Unit sales volume declined by 1% in 3Q14 due to an unseasonably cool summer
ABI BB	AB InBev	Hold	EUR	88.1	85.0	By organic growth, China volume +6.5%, revenue +15.6%, EBITDAM +6.23%pt. 1H14 China rev +20.4% to USD1,935m, EBITDA +63% to USD443m	Beer volume -4.9%, driven by cold weather and a tough comparable. Strong growth of Budweiser and Harbin Ice. Market share growth of c.70 bps to 15.7% in 9M14 (16.5% including acquisitions). Revenue per hectolitre +8.3% driven by brand mix and consumer trade up to core plus and premium brands. EBITDA growth of 20%, and a margin of 22.7%
PEP US	PepsiCo	Buy	USD	96.2	102.0	1Q14: snacks high-single-digit growth, beverage high-single-digit decline; 2Q14: Snacks double-digit growth, beverage high-single-digit decline	Snacks volume grew double digit yoy. Beverage volume declined by high single digit.
MDLZ US	Mondelez	Hold	USD	35.3	36.0	Biscuit weakness in China, but strong performance of gum	China was up high-single digits behind stepped-up innovation and marketing support as the business cycled the prior year's weak results in biscuits
BN FP	Danone	Hold	EUR	54.2	52.0	Dumex has been a touch disappointing, not satisfactory in terms of sell-out. The mainstream version is not completely taking off as expected. Dumex International is showing a promising start (launched in May). Nutrilon Platinum in China is taking market share. New cucumber and lime Mizone in China is absolutely fantastic	China Baby market is growing high single digit. Dumex represents c.20% of sales in China. In China, the market that was hardest hit, Group brands as a whole continued to grow broadly in line with expectations. Demand for Nutrilon products rose sharply, particularly in ultra-premium segments and mom & baby stores. The e-commerce boom has been another driver, with a significant impact on Chinese consumer trends, while sales of Dumex brand products continue to lag projections.
HEIA NA	Heineken	Buy	EUR	59.6	65.0	Strategic position in China is one which concentrates only on the premium market and mainly on the Heineken brand, brand health and results in China are really good	In Asia Pacific there was a continued improvement in volumes in the third quarter with Group beer volume growth of 9.7%. Volumes were strong in India, Vietnam, China, Indonesia, New Zealand, Cambodia and the export markets of Taiwan and South Korea.
RI FP	Pernod-Ricard	Sell	EUR	90.8	80.0	FY14 (ended Jun) China sales -23%, strategic brands volume -20%, very sharp decline in traditional KTVs and the gifting business, but better resilience of Family KTVs and modern bars. Inventory -20% in value compared to June 2013. 2QCY14 saw early signs of improvement	Shipment +4%, declines in sales (-9%) due to negative mix (decline of high-end categories). Underlying trends consistent with those of sales. Good resistance of Martell, driven by Noblige. Scotch still in decline.

Source: Company data; Deutsche Bank

Figure 34: 1H14 and 3Q14 overseas consumer staples companies' comment on China operation (continued)

Code	Company	Rec		13 Nov price	TP	1H14 highlights	3Q14 Highlights
MJN US	Mead Johnson	Hold	USD	99.3	103.0	Double-digit growth for China/Hong Kong. It is very hard to read the China market at the moment, because there is an enormous amount of channel fragmentation taking place in China. Still looking at a mid-single-digit volume growth, amplified by some growth in pricing. At the moment, that growth in pricing is arguably more driven by segment shifts than it's driven by price increases. But we expect that price increases will return to the China market at some time in the not-too-distant future. and all of them trade with each other. Risk of double counting when one looks at that.	Asia sales increased 3% compared to the prior year period and accounted for 52% of our total net sales. This sales growth was primarily driven by price increases in south Asia and Hong Kong attributed to innovation and higher dairy input costs. Sales volume decreased due to a trade inventory reduction in advance of a planned fourth quarter Enfamil re-launch in China and an unfavourable comparison related to a third quarter 2013 competitor's recall in China,
CARLB DC	Carlsberg	NA	DKK	523.0	NA	China volumes +31% due to the Chongqing Brewery Group consolidation. Organic volume decline due to unrest and bad weather in Xinjiang, the reduction of unprofitable products, and bad weather in Chongqing . Price/mix improved by 16% due to portfolio optimisation	Overall volumes in China declined due to specific circumstances in certain provinces.
RCO FP	Remy Cointreau	Hold	EUR	56.8	56.5	2QCY14: Destocking continued in China as our depletions are not yet stabilized	1HFY15 (April to September) destocking efforts maintained in Greater China as depletions have not yet stabilised, amid consumers' lingering wait-and-see attitude.
4452 JT	Kao Corp	NA	JPY	4,522.5	NA	In China, Laurier gained market share; locally manufactured baby diapers are steadily expanding	Merries baby diapers grew in China in 9M14. In China, the Kao Group worked to expand sales of locally produced products launched last year targeting middle-class consumers
ULVR LN	Unilever Plc	Buy	GBP	2,514.0	2,750.0	Whilst slower growth in China reflected weaker markets, the acquired Qinyuan water purification business has started well.	In China the impact of the sharp market slow-down has led to trade de-stocking across the distribution channels. This resulted in a decline in underlying sales of around (20)%. The recently acquired Qinyuan water purification business in China is off to a good start. Do not expect any material improvement in our markets for the remainder of the year. Expect the trade de-stocking in China to be largely complete by the end of 2014.
KMB US	Kimberly Clark	Hold	USD	114.3	115.0	Diaper organic sales up 20% in China	Diaper organic sales up 25% in China.
SCAB SS	Svenska Cellulosa	NA	SEK	170.0	NA	Emerging markets accounted for 29% of sales. The acquisition of the majority shareholding in the Chinese company Vinda increased sales by 13%	9M14: The acquisition in China increased profit by 8%. 3Q14: The acquisition in China increased sales by 14% and profit by 7%, but had a negative impact on the margin. Excluding Vinda, the margin was level with the preceding year.

Source: Company data; Deutsche Bank

Appendix A

Figure 35: China per capita consumption vs. world average

		World	PRC	PRC/world consumption	PRC price dis to world	Source/remarks
Meat, Swine	Per capita consumption (kg)	15.5	42.4	273%		USDA
Poultry, Meat, Broiler	Per capita consumption (kg)	11.7	9.2	79%		USDA
Instant noodle	Per capita retail value (US$)	n/a	11.2			Euromonitor 2013
	Per capita retail volume (kg)	n/a	3.1	n/a		Euromonitor 2013
	Per capita consumption (serving)	15.0	33.6	224%		Nissin Food 2013
Cigarettes	Per capita retail value (US$)	101.2	152.5			Euromonitor 2013
	Per capita retail volume (stick)	801.5	1,859.5	232%		Euromonitor 2013
	Unit price	0.1	0.1		-35%	Euromonitor 2013
Beer	Per capita off-trade value (US$)	39.7	19.1			Euromonitor 2013
	Per capita off-trade volume (litre)	17.3	18.6	108%		Euromonitor 2013
	Unit price	2.3	1.0		-55%	Euromonitor 2013
Soft drinks (ex-bottled water)	Per capita off-trade value (US$)	59.3	38.4			Euromonitor 2013
	Per capita off-trade volume (litre)	40.4	33.3	82%		Euromonitor 2013
	Unit price	1.5	1.2		-21%	Euromonitor 2013
Soft drinks	Per capita off-trade value (US$)	74.6	49.6			Euromonitor 2013
	Per capita off-trade volume (litre)	74.6	56.7	76%		Euromonitor 2013
	Unit price	1.0	0.9		-13%	Euromonitor 2013
Bottled Water	Per capita off-trade value (US$)	15.3	11.2			Euromonitor 2013
	Per capita off-trade volume (litre)	34.2	23.4	68%		Euromonitor 2013
	Unit price	0.4	0.5		7%	Euromonitor 2013
Milk products	Per capita retail value (US$)	62.4	30.4			Euromonitor 2013
Drinking milk products	Per capita retail value (US$)	24.4	23.6			Euromonitor 2013
	Per capita retail volume (kg)	17.9	14.3	80%		Euromonitor 2013
	Unit price	1.4	1.7		21%	Deutsche Bank
Yogurt	Per capita retail value (US$)	11.8	6.4			Euromonitor 2013
	Per capita consumption (kg)	4.5	3.6	80%		Euromonitor 2013
	Unit price	2.6	1.8		-32%	Deutsche Bank
Sweet and savory snacks	Per capita retail value (US$)	16.7	9.8			Euromonitor 2013
	Per capita retail volume (kg)	1.6	1.3	81%		Euromonitor 2013
	Unit price	10.4	7.6		-27%	Euromonitor 2013
Confectionery	Per capita retail value (US$)	27.0	10.4			Euromonitor 2013
	Per capita retail volume (kg)	2.0	1.2	60%		Euromonitor 2013
	Unit price	13.5	8.7		-36%	Euromonitor 2013
Sugar, Centrifugal	Per capita consumption (kg)	24.0	12.8	54%		USDA
Sugar and sweeteners	Per capita volume (kg)	14.5	5.9	41%		Euromonitor 2013
Away-From-Home tissue and hygiene	Per capita value (US$)	3.4	1.6	48%		Euromonitor 2013

Source: Deutsche Bank

Appendix 1

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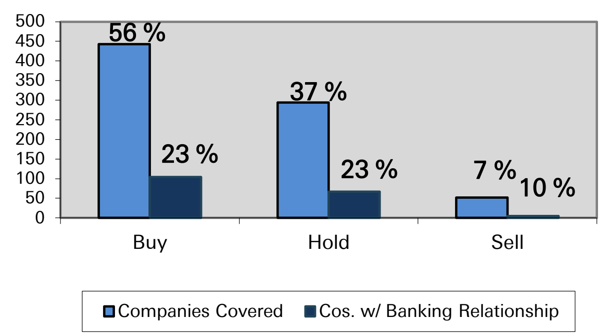

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