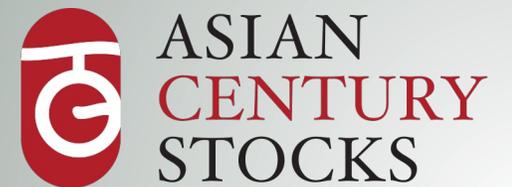




Uni-President China (220 HK)

Tea and instant noodles leader below 10x normalised EBIT



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Summary

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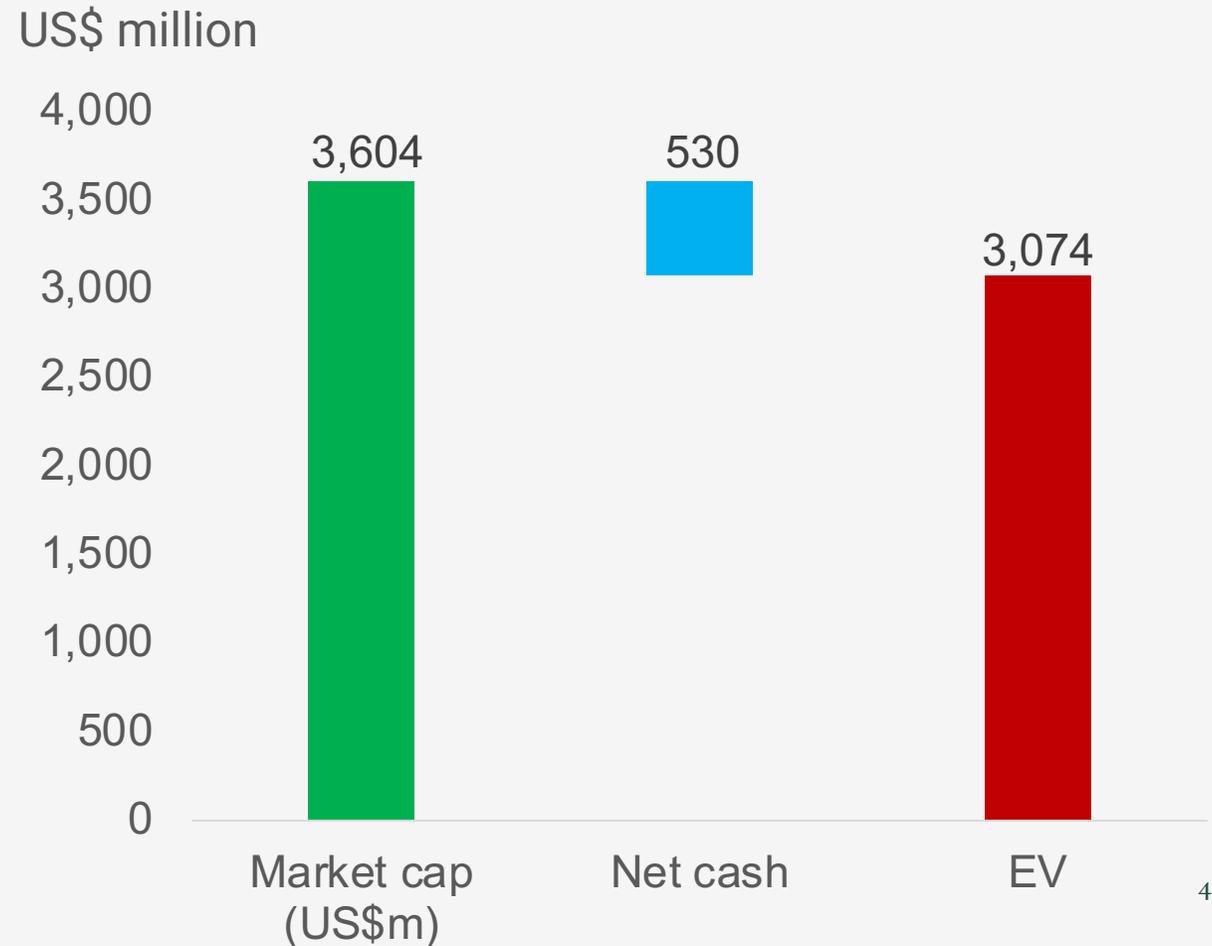


1. Uni-President China (UPC) is the Chinese subsidiary of Taiwan's Uni-President Enterprises. The company is the leader in China's ready-to-drink tea market, and a number two in China's instant noodles market. It has particular strength in the premium segment, which has become Uni-President's niche.
2. UPC's innovation and marketing capabilities are impressive. It has consistently reinvented itself with new products that appeal to the modern Chinese consumer, who are increasingly focused on healthy living and natural ingredients. An example of a major recent innovation is the Kai Xiao Zao self-heating rice box. Before that, UPC's assam milk tea became an incredible success, enabling the company to dominate the Chinese milk tea market. Innovation has helped UPC grow somewhat faster than its larger peer Tingyi.
3. The stock price has come down a bit over the past year due to legitimate concerns about margin pressure from rising raw materials prices. UPC has traditionally been careful raising ex-factory prices, since it is afraid of upsetting suppliers and customers. However, if commodity prices continue to stay elevated, prices will eventually adjust. The recent weakness in gross margin is a solvable problem.
4. Today, UPC trades just below 10x normalised pre-tax profit. That seems low for an innovative food producer that pays out 100% of its earnings as dividends. Especially when you consider that UPC's depreciation schedule is much more conservative than those of its peers Tingyi and Want Want. The only question is how long the ongoing margin pressure will persist.
5. Parent company Uni-President Enterprises is separately listed under the ticker 1216 TT and is also involved in restaurants, convenience stores, grocery stores and food & beverages in Taiwan and the rest of Asia. Most of the businesses are attractive and it trades at a slight discount to NAV using listed market values.
6. The main risk is that commodity prices stay high for longer, or that UPC fails to increase ex-factory prices fast enough.

Capitalisation



- Share price: HK\$6.55
- Shares outstanding: 4.3 billion
- Market cap: US\$3.6 billion
- Net cash: US\$0.5 billion
- Enterprise value: US\$3.1 billion



* HK\$ = Hong Kong Dollar. HKD/USD = 7.85

Business overview



- Uni-President China (统一企业中国, “Tongyi” or “UPC”) (ticker: 220 HK) is a Chinese beverage and instant noodle maker, with particular strength ready-to-drink teas. It’s become a household name in China, with the majority of Chinese consumers knowing about the brand, according to surveys. Uni-President’s logo is a flowing “P” that represents the word “President”.
- The company is the leader in the Chinese ready-to-drink tea market and a distant number two in the Chinese instant noodles market. It dominates the premium segment for instant noodles.
- Uni-President China has 13 production plants with 110 production lines in China, with roughly half for instant noodles and the other half for beverages and other products. Distribution takes place through third parties with no direct retail outlets.
- UPC’s parent company United-President Enterprises is separately listed in Taiwan under the ticker 1216 TT. Other than Uni-President China, it also runs Starbucks, Mister Donut and Carrefour in Taiwan, has convenience stores under the “President Chain Store” and Philippines 7-Eleven brand names and also sells dairy products, foods and snacks and beverages in Taiwan and the rest of Asia.

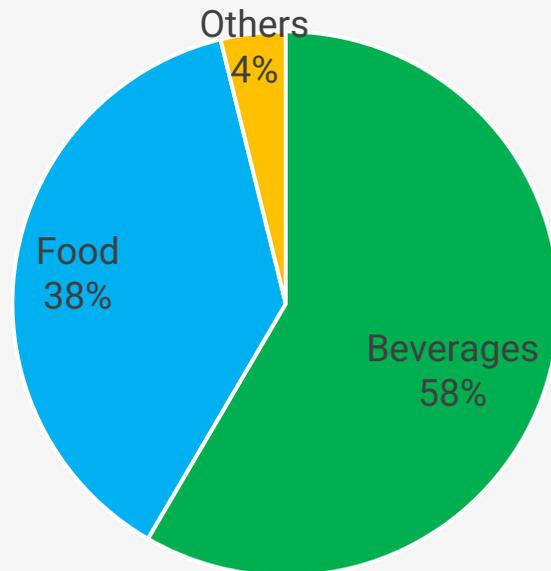


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Picture shown just for illustration only, may vary from real product. Please read all information and instructions on real product packaging.

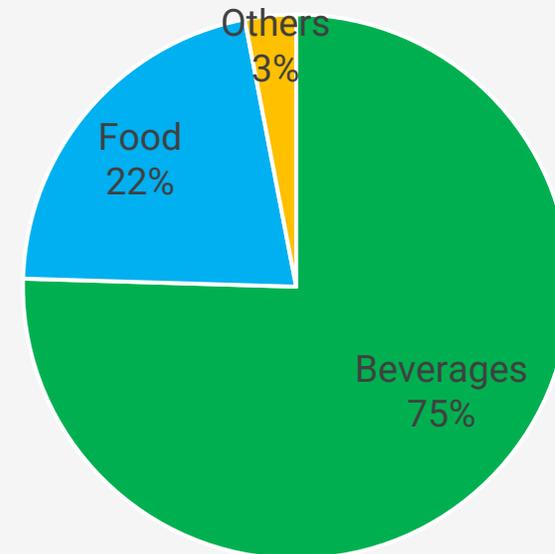
Uni-President China has 100% exposure to China, with beverages accounting for most of profit (RTD tea, milk teas, coffee & juice)



2020 revenues by segment



2020 operating profit by segment



The history of Uni-President Enterprises and its subsidiary UPC



- Uni-President Enterprises was created in Tainan in **1967** by Taiwanese businessman Kao Ching-yuen.
- Uni-President Enterprises entered the mainland Chinese market in **1992** through the establishment of its two subsidiaries Xinjiang President and Beijing President. The first product it launched was the Uni-President (统一) instant noodle product.
- In **1994**, beverages were added to the company's offering, imported from Taiwan.
- The first beverage plant was set up in **1995**, producing iced black tea (冰红茶) for the domestic market
- In **1997**, Uni-President launched its "Good Economy" product targeting the mass-market segment. The same year, it also launched juice drinks under the "More" brand.
- In **1998**, Uni-President established its Chinese headquarters in Shanghai and then set up manufacturing bases and sales offices in each province in China.
- **1999** was the year when Uni-President introduced its "Green tea" beverage, which has now become the company's best-seller.
- In **2001**, Uni-President become a first-mover in the Chinese PET juice drink market (<25% juice) with the launch of the brand-name "More".
- The company was separately listed from its parent on the Hong Kong Stock Exchange in **2007**
- The Laotan noodle (老坛酸菜牛肉面) product was launched in **2010**, and helped Uni-President gain market share from Tingyi in instant noodles.
- In **2011**, the company underwent a restructuring. It cut the number of SKUs, cut costs, expanded the sales force and repositioned the brand by focusing on the higher-end consumer niches. While the company cut costs, the reduced number of SKUs meant more resources with each new SKU launched.
- **2012** was the year when UPC launched Assam Milk Tea, which has helped UPC gain a 70% market share in the Chinese milk tea market.
- Chairman Kao Ching-yuen passed away in **2016**. Uni-President China was then taken over by company veteran Liu Xinhua and the founder's son-in-law Chih-Hsien Lo. Since then, Liu Xinhua has undertaken a channel reform, bringing down channel inventory for distributors and improve their ROEs.



The food segment (instant noodles / rice)



- “Lai Yi Tong” (来一桶): The classic flagship Uni-President instant noodle bowl brand targeting the high-end market.
- The “Uni-President 100” brand (统一100) is another high-end brand most known for its instant noodle packets
- “Qiao Mian Guan” (巧面馆) is a specialty brand that offers local flavours such as Sichuan and other regional cuisine. It’s targeting the mid-to-high end market.
- “Tang Daren” (汤达人), loosely translated as “connoisseur of soup” is a premium brand.
- “Kai Xiao Zao” (开小灶): An innovative self-heating rice product
- And a number of other smaller sub-brands



Uni-President 100



Qiao Mian Guan



Tang Daren



Lai Yi Tong



Kai Xiao Zao

The beverage segment



- **Iced tea** (冰红茶): Launched in 1995, with iced black tea, mint-flavoured black tea and iced green tea. These products are sweeter and target teenagers and young adults.
- **Green tea** (绿茶): The green tea products were launched in 1999 in normal, low sugar and organic versions. The target demographic is 18-35 year olds who are focused on health.
- **“Cha-li-wang”** (茶里王): Launched in 2004, with premium and freshly-brewed quality tea aimed at well-to-do customers including professionals and elderly. It has low-sugar green tea and sugar-free green tea versions. New design.
- **“Assam Milk tea”** (阿萨姆奶茶): Launched in 2009, it's a milk tea inspired by the tea of the Assam region in the Himalayas.
- **“Classmate Xiaoming”** (小茗同学): Introduced in 2015, Classmate Xiaoming is a cold-brewed tea focused on Gen Z consumers. Both black and green tea varieties that are on the sweeter side.
- The company also sells juice drinks (<25% fruit juice content) under the **“More”** (多) brand name. Its “More orange juice drink” continues to be its best-seller but the **“Haizhiyan”** (海之言) sport drink and **“Sugar Pear”** (冰糖雪梨) drink are also popular.
- And a number of other smaller sub-brands





The "others" segment



Bottled water



Soy milk



Bread



Pudding



Coffee drink



Management team



- Uni-President China's President is **Liu Xinhua (刘新华)**, who has been running the company since 2016.
- He joined Uni-President China in 1994 and rose through the ranks. Prior to becoming company president, he was in charge of the food department since 2008. He has experience in marketing and business development.
- He has a master's degree in business administration from the University of Electronic Science and Technology in Sichuan province, China.
- Uni-President China's Executive Chairman **Chih-Hsien Lo (羅智先)** is also the Representative Chairman of parent Uni-President Enterprises and its Chief Strategy Officer. He was the general manager of Uni-President Enterprises between the founder's death in 2013 and 2016.
- Lo joined Uni-President Enterprises in 1986 as a and was prior to that a Taiwan regional general manager for diamond seller De Beers.
- He is married to founder Kao Ching-yuen's daughter Kao Shiu Ling (高秀玲)

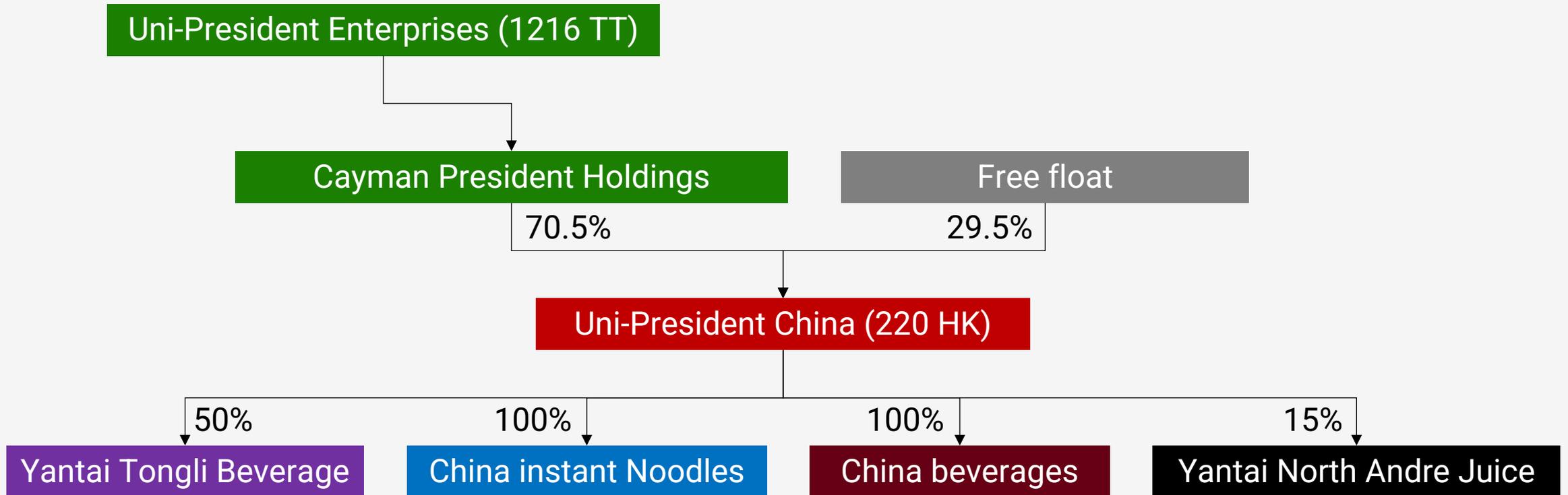


Liu Xinhua



Chih-Hsien Lo

Uni-President China has a parent company listed in Taiwan



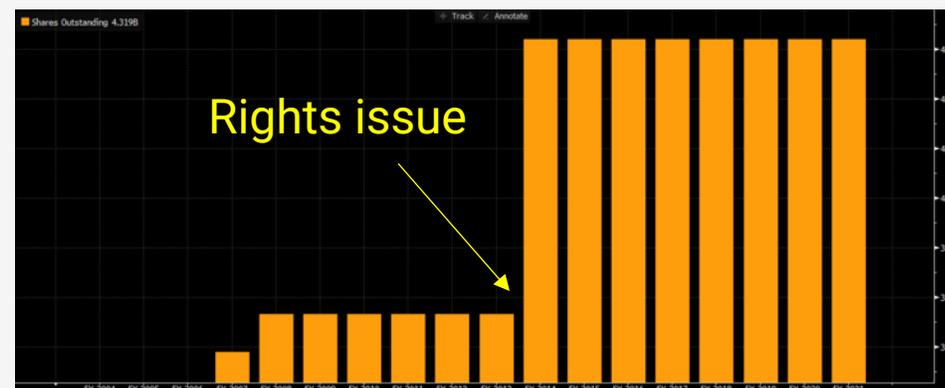


Capital allocation and corporate governance

- The company has not been particularly active in M&A in the past decade. The only transactions I've been able to find are the following:
 - In 2016, UPC sold its 50% share in Jinmailang Beverage, a Zhengzhou-based seller of tea, mineral water and instant noodles to Consistent Returns Pte Ltd.
 - In 2015, UPC acquired 50% of Yantai Tongli Beverage, a Shandong based plastic bottles producer. It's become an in-house supplier of plastic bottles for UPC's beverages segment. The transaction seems justifiable.
- UPC's share count has been flat in the past 8 years. However, there was dilution in 2014 when UPC raised HK\$3.3 billion (US\$426 million) through a rights issue at a 30% discount to last close. It led to dilution in the share count of about 10%.
- In other respects, Uni-President China's corporate governance seems decent: its cash flows are strong, it pays plenty of taxes, the cash conversion cycle is decent those worse than Tingyi's, dividend payments are impressive. The return on equity is weak in the low double-digits but could partly be explained by conservative accounting policies.
- In April 2022, Uni-President China announced a 10% share buyback for the first time in its history.

Effective	Action Type	Ticker / ID	Summary
04/20/22	Stock Buyback	220 HK	Open Market for Common; 10% of Shares
05/09/16	Divestiture	220 HK	Unit: Jinmailang Beverage Corporate Ltd, Seller: Uni-President China Holdings Ltd
09/29/15	Acquisition	220 HK	Target: Yantai Tongli Beverage Industry Co Ltd, Sought: 50.00%
05/31/11	Acquisition	220 HK	Target: Shanghai Cartelo Crocodile Industries Co Ltd, Sought: 66.67%
05/31/11	Acquisition	220 HK	Target: Shanghai Ruxin Leather Co Ltd, Sought: 100.00%
12/17/10	Joint Venture	220 HK	Forming: Joint Venture
07/24/09	Joint Venture	220 HK	Forming: Joint Venture
06/09/09	Joint Venture	2218 HK	Forming: Joint Venture
04/21/09	Acquisition	220 HK	Target: Yantai North Andre Juice Co Ltd, Sought: 9.25%
04/21/09	Acquisition	220 HK	Target: Yantai North Andre Juice Co Ltd, Sought: 1.32%
01/11/09	Divestiture	220 HK	Unit: Beijing President Kirin Beverage Corp, Seller: Uni-President China Holdings Ltd

Source: Bloomberg



Source: Bloomberg

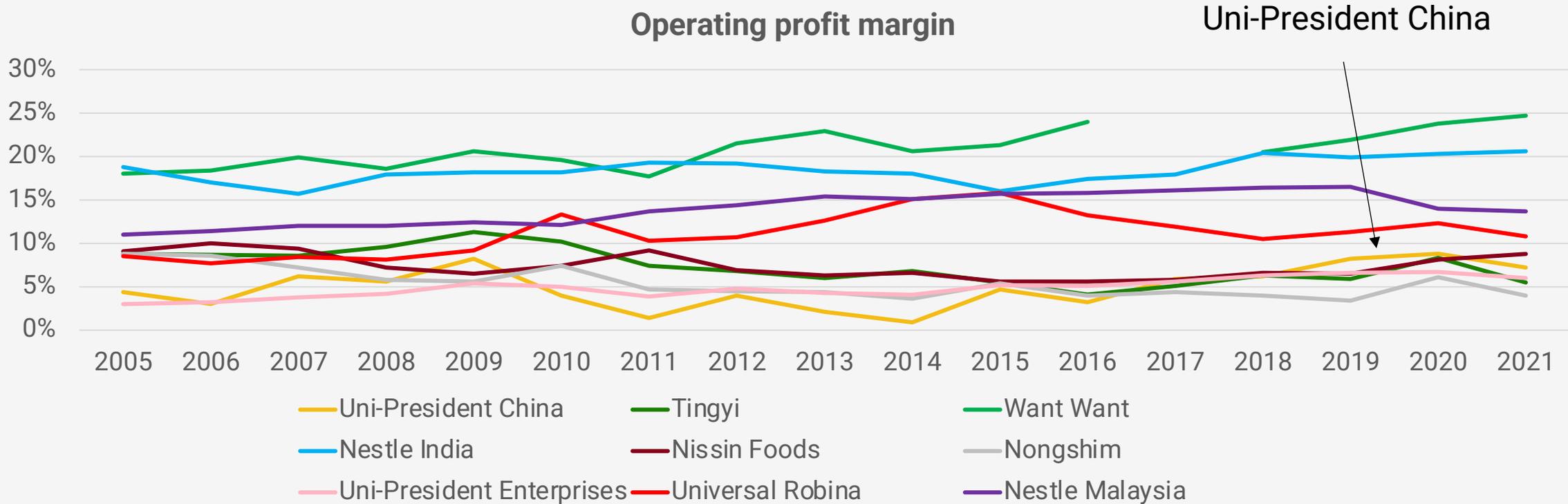


Related party transactions are material on the cost side

- Uni-President China sells most of its products to third parties, i.e. its distributors are not related parties.
- However, it does buy almost 30% of its raw materials from subsidiaries of its parent.
- It operates on the basis of long-term agreements between itself and those subsidiaries.
 - For example, the “2020 Framework Purchase Agreement” with parent UPE states that Uni-President China may purchase certain raw materials, packaging materials, finished goods other goods for three years from January 2021 to December 2023.
 - The pricing under this agreement is allegedly no less favourable to UPC than those offered by third parties in comparable transactions.

UPC related party transactions	2020	2021
Uni-President China total revenue	22,762	25,231
Sales to subsidiaries of parent UPE	105	173
Sales to JVs and associates of UPC	10	7
<u>Related party sales as a % of revenues</u>	<u>0.5%</u>	<u>0.7%</u>
Uni-President China total COGS	14,696	17,012
Purchase from subsidiaries of parent UPE	3,626	4,389
Purchase from JVs and associates of UPC	515	589
<u>Related party purchases as a % of COGS</u>	<u>28.2%</u>	<u>29.3%</u>

UPC's margins are a bit on the low side, but explained by its large exposure to beverages and the competitiveness of the Chinese market

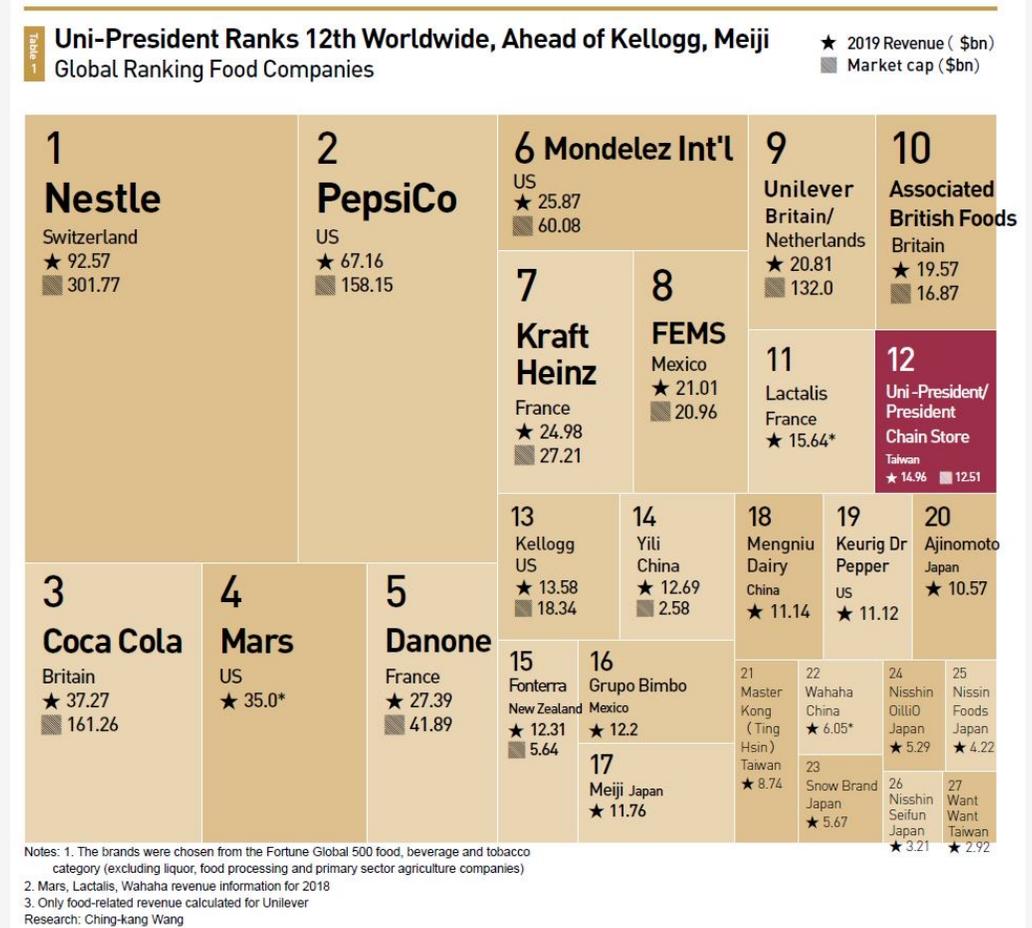


Source: TIKR

Competitive advantage



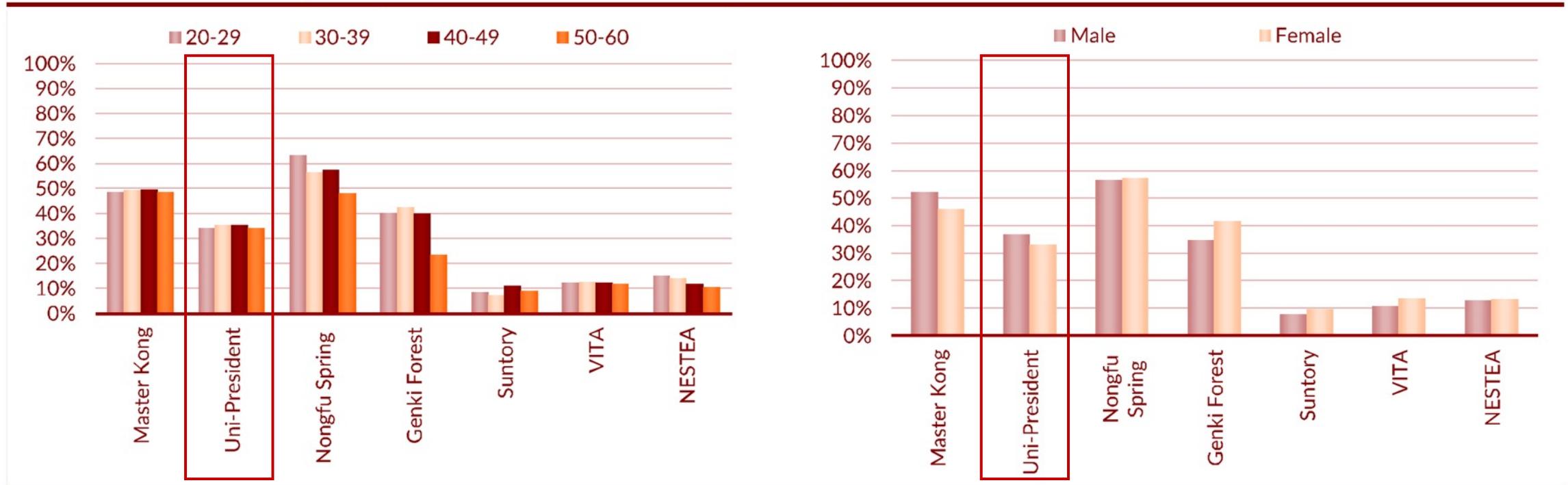
- A strong brand name:** The Uni-President brand (统一) has broad recognition across mainland China, with surveys showing 70% of consumers knowing about the brand.
- Focus on innovation:** Uni-President is seen as the most innovative among itself and its Taiwanese competitor Tingyi with many successful new products. More often than not, Uni-President would come out with a new, innovative product and then Tingyi would respond with a similar product, backed by mass-distribution and an intense promotional campaign. UPC's innovation and focus on brand-building is become more important as sales shift online, reducing Tingyi's competitive advantage of scale and distribution.
 - Laotan noodles (老坛酸菜牛肉面): from 2009 onwards
 - Assam milk tea (阿萨姆小奶茶): from 2011 onwards
 - Haizhiyan (海之言): from 2014 onwards
 - Classmate Xiaoming tea (小茗同学): from 2015 onwards
 - Kai Xiao Zao self-heating rice boxes (开小灶): from 2020 onwards
- Niche products:** Many of UPC's products target niche markets that are too small for Tingyi to pay attention to. Tingyi's products tend to cost 10-20% less than Uni-Presidents, making Uni-Presidents positioning more premium than Tingyi's, and that niche may protect it from competition.



Uni-President has significant consumer mind-share – especially in top-tier cities



Which brand of tea beverage did you purchase most often in the past one year?



Source: CRR, Notes: Uni-President includes Cha Li Won and Xiao Ming Tong Xue; Nongfu Spring includes Oriental Leaf and Tea Pai

Source: China Realty Research



Examples of UPC's marketing & product innovation

Little Assam milk tea

Launched in 2015, the Assam milk tea for children also plays on its natural health focus of the brand. The cute packaging design and use of materials appeal to consumers.



Chai Li Won (King Charles) relaunch

First launched in 2004, the product rebranded itself, winning awards for excellent marketing. It's become popular for top-tier city office workers wanting a low-sugar, healthy beverage



Kai Xiao Zao self-heating rice

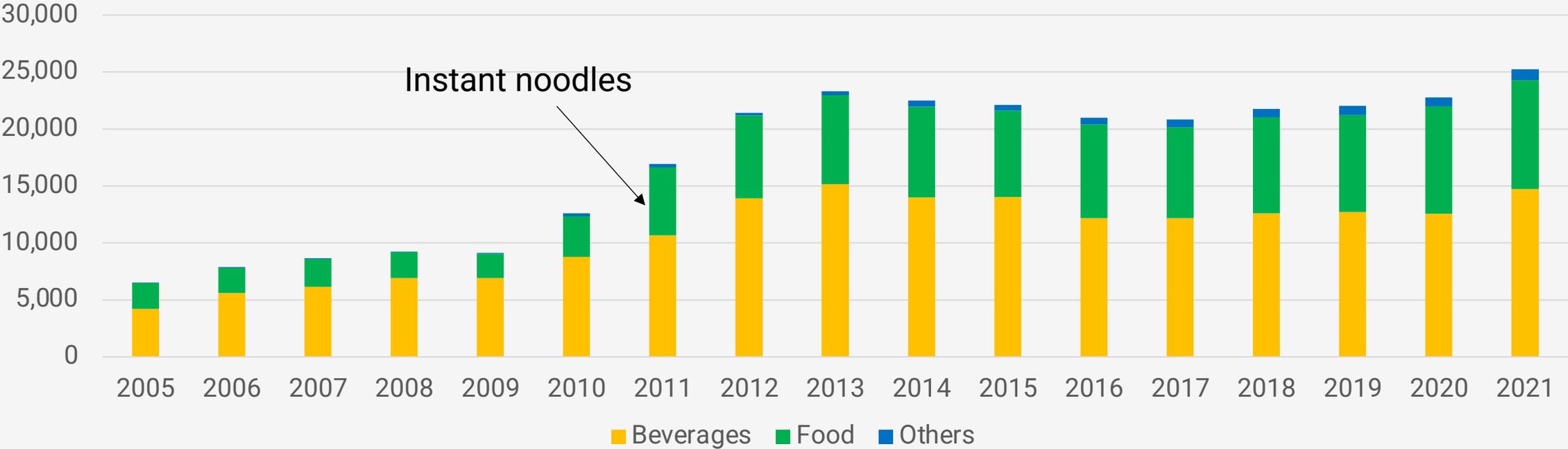
Self-heating food boxes, using exothermic chemical reaction to heat food without the need for external heating power.



Much of Uni-President China's growth has come from its instant noodles segment, where it's slowly taking share from Tingyi

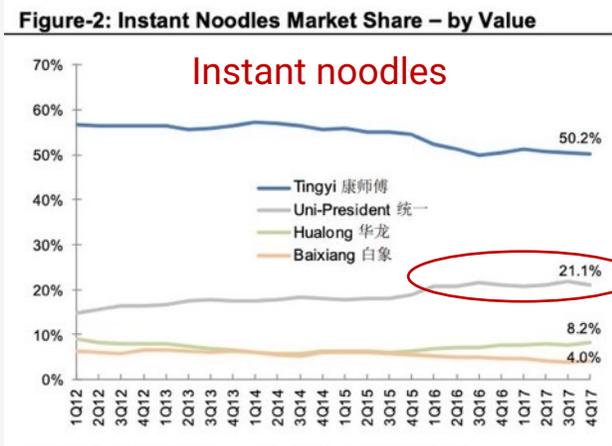


Uni-President China segment contribution

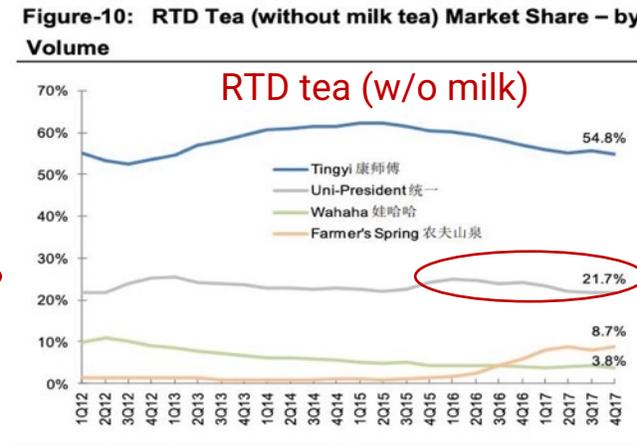


Source: TIKR

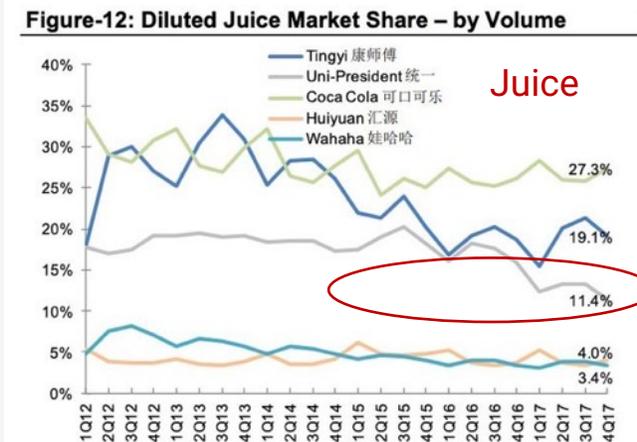
UPC has taken market share from Tingyi in recent years... with an exception in diluted juices (especially in orange juice)



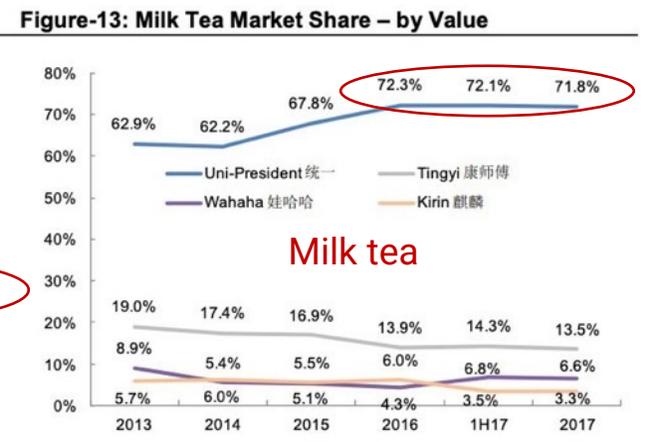
Source: Nielsen, the Company, Guotai Junan International.



Source: Nielsen, the Company, Guotai Junan International.



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Source: Nielsen, the Company, Guotai Junan International.

Source: Guotai Jun'an

UPC's share price has weakened recently due to high commodity prices and the lockdown in China



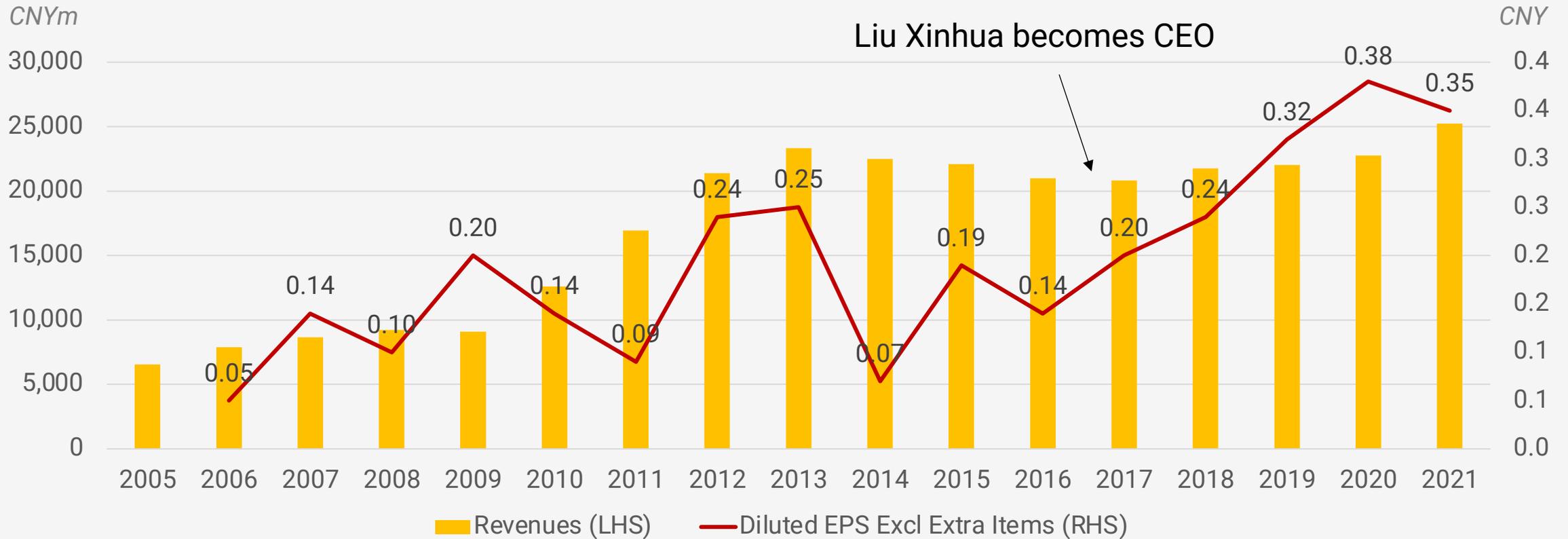
Recent events



- During the pandemic, beverage sales was initially negative.
- UPC's Assam milk tea products are doing exceptionally well, growing double-digits across 2020 and 2021.
- Juice revenue grew +41% YoY in 2021 thanks to an expanded distribution network into rural areas.
- Uni-President China's parent company Uni-President Enterprises reported 1Q2022 net profit down 22%. The main culprit are weakening gross margins due to higher raw materials cost.



Growth has come in two waves... recent increase in EPS is thanks to higher utilization rates, better distribution and more premium positioning

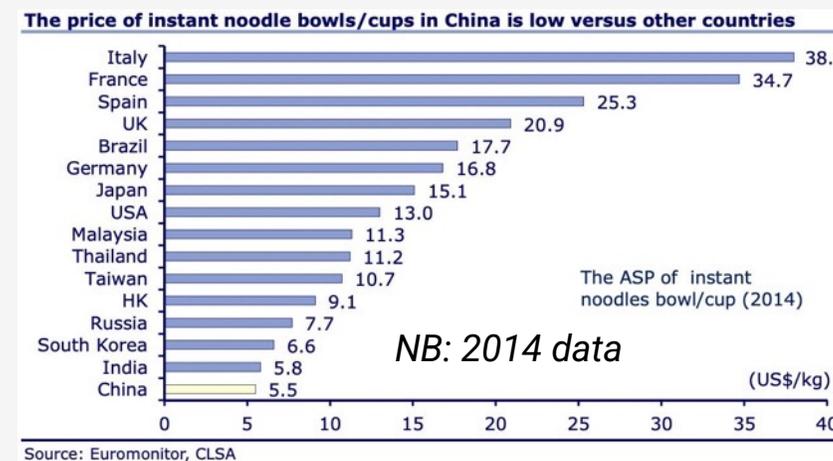


Source: TIKR



Long-term industry trends

- 1. Health concerns:** Consumers are increasingly shifting their consumption towards meals that are perceived to be nutritious and healthy. Artificial flavourings are replaced with natural vegetable or fruit flavours. Consumers prefer low sugar variants. Carbonated beverages used to be more popular in the 2000s but tea drinks have taken market share in the past 10-20 years.
- 2. Delivery apps:** In the past 5-10 years, consumers have increasingly bought meals delivered to their homes using food delivery apps. Those apps reduced the friction for buying delivery food, and reduced the attractiveness of instant noodles.
- 3. Faster innovation:** Product lifecycles are shrinking in China and the attention span is getting shorter. Innovation is therefore becoming more important to sustain and drive growth.
- 4. Rising ASPs:** Instant noodles are not particularly expensive in China at just CNY 5 for a typical economy pack of instant noodles and closer to CNY 10 for a premium product. Prices are likely to rise over time.



Source: CLSA

What will change for UPC in the future?

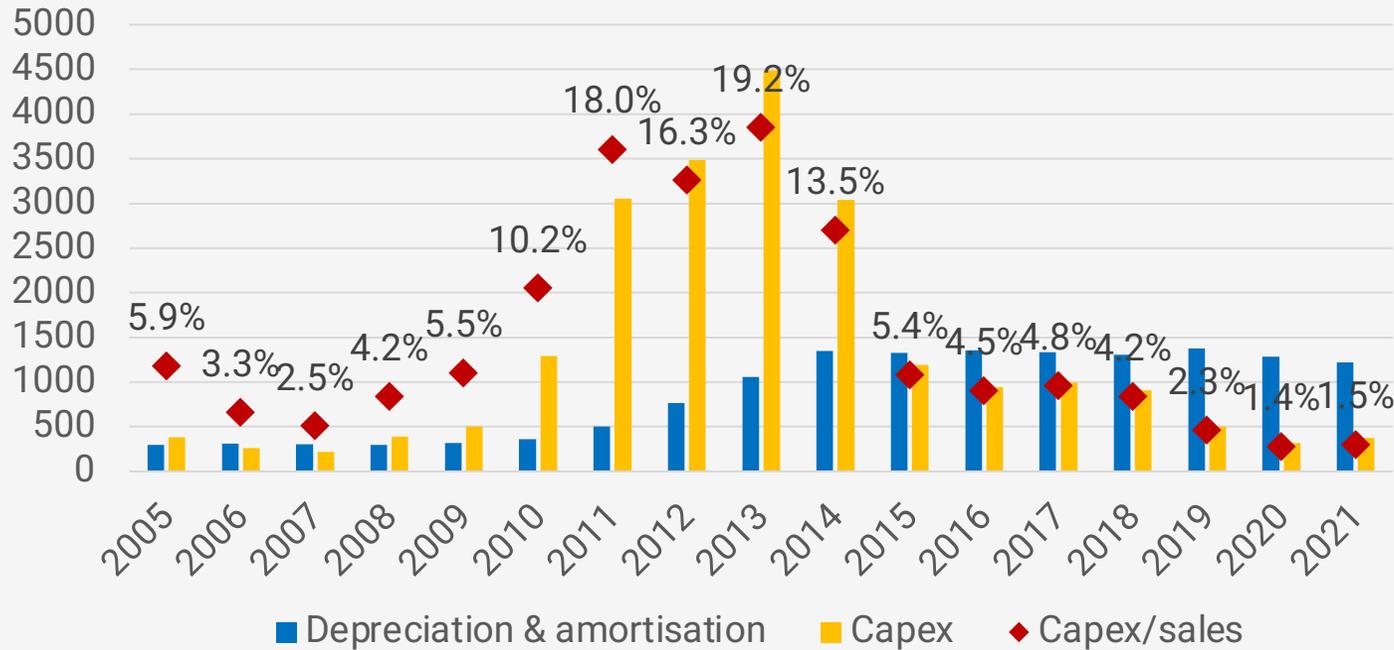


1. Management is targeting three areas of investment:
 - Low-tier market penetration (number of point-of-sales to double vs 2019 and the next step is to increase sales per POS)
 - More rented fridges per point-of-sale
 - Doubling the number of offline marketing events to 600k
2. The company sees Kai Xiao Zao as a future growth driver for the company, given that no other competitor has self-heating meal products on the market.
3. The company will be hurt by rising commodity prices, specifically for palm oil, PET resin, sugar, and flour. Rising palm oil prices are particularly problematic for UPC.
4. Depreciation is likely to come down in the next few years as the massive investment period of 2010-2014 has less and less impact on any given year's depreciation. Capex needs are minimal at the moment, enabling the company to enjoy free cash flow > net profit and pay out large dividends.
5. UPC does not want to be the first company to raise prices and has taken a cautious approach. In the latest Uni-President Enterprises earnings call, the CEO said that *"we need to think things over before we make any decisions."*

After a few years of heavy capex, UPC's depreciation is now far above its capex, meaning that free cash flow > net profit



Capex vs depreciation

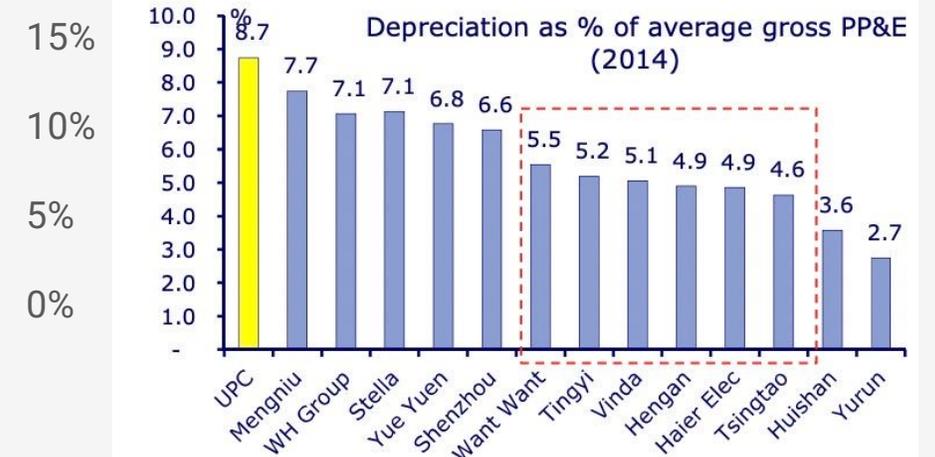


The depreciation schedule of UPC, Tingyi, and Want Want

(Years)	UPC	Tingyi	Want Want
Building	20	10-30	20-60
Machinery and factory equipment	10	Instant noodles: 12 Beverages: 10-12 Instant food and others: 5-10	2-15
Vehicle, other fixtures	3-5	5	5-20

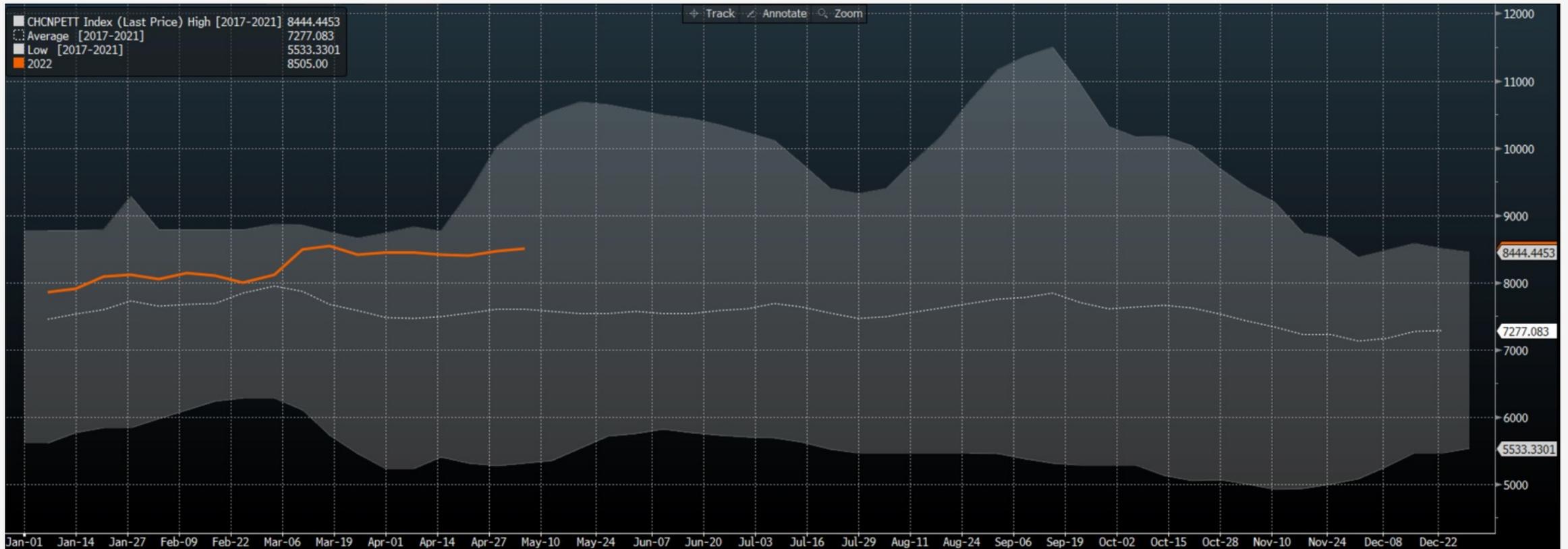
Source: Company data, CLSA

UPC vs. peers on depreciation as % of PPE



Source: Company data, CLSA

PET prices are a little bit above the 5-year average



Wheat prices are extremely elevated



Palm oil prices are way above the 5-year average



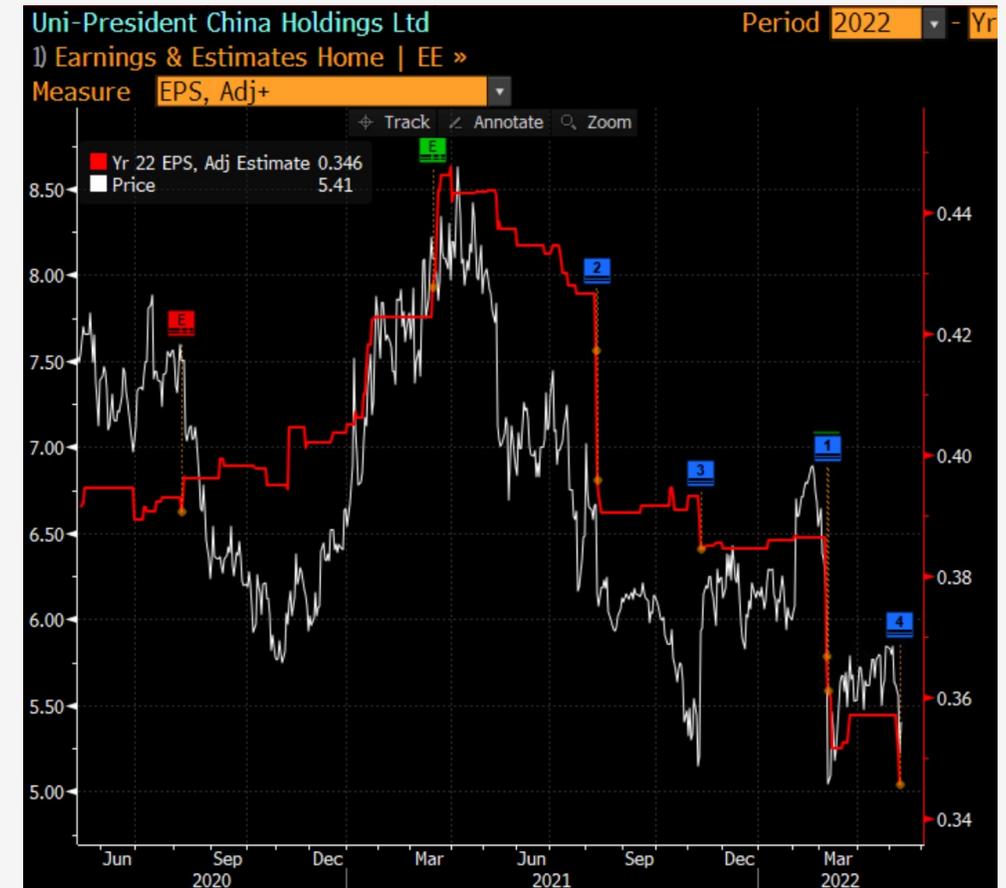
Sugar prices are also somewhat elevated



Sell-side analysts are mostly concerned about China's lockdowns and margin pressure from higher raw material prices



- Uni-President China's consensus 2022 earnings per share estimate has come down significantly since mid-2021.
- Analysts put forward the following concerns about the stock:
 - Daiwa: "Uni-President China Holdings may face higher costs and falling demand in 2Q amid **China's lockdowns... Palm-oil prices have also risen** sharply this year, pushing prices for food products higher."
 - Jefferies: "Lowering the net profit forecast by 24%, 28% and 12% respectively for 2021-2023 to reflect higher operating expense assumptions and lower gross margin assumption as **raw material price increases**"
 - Guotai Jun'an: "Considering the negative effect on the Company's beverage sales brought by **pandemic-related restrictions**, we lower our revenue forecasts for UPC."
 - CLSA: "We nudge up 22-24CL revenue by 2-4% with a better beverage outlook but cut earnings by 3-8% to factor in the **unfavourable inflation [pressures]**."
 - Huatai: "We trim our 2022E/2023E/2024E basic EPS by 5.9/3.2/1.4% to RMB0.35/0.41/0.48, mainly due to the **surge in raw material prices, especially palm oil's**"



Peers trade at far higher EV/EBIT and less than half of UPC's dividend yield



Asia consumer staples (2023e)	Ticker	Country	Mkt cap (US\$m)	EV/Sales	EV/EBIT	P/E	Div yield
Uni-President China	220 HK	China	3,599	0.73x	9.4x	14.0x	7.6%
Tingyi	322 HK	China	10,619	0.86x	11.5x	16.7x	7.2%
Hengan	1044 HK	China	5,522	1.66x	7.9x	10.4x	5.9%
Yihai	1579 HK	China	2,774	2.26x	12.4x	18.5x	1.6%
Yili	600887 CH	China	36,793	1.73x	16.6x	19.4x	3.5%
Mengniu	2319 HK	China	19,465	1.32x	20.5x	18.2x	1.5%
Huabao	336 HK	China	1,716	1.51x	5.3x	14.9x	3.8%
Want Want	151 HK	China	10,732	2.65x	10.8x	15.8x	4.5%
Nestle India	NEST IN	India	20,599	8.73x	39.0x	53.6x	1.6%
Indofood CBP	ICBP IJ	Indonesia	6,403	1.93x	9.9x	11.8x	3.7%
Kirin	2503 JP	Japan	13,566	1.27x	14.5x	13.0x	3.6%
Suntory	2587 JP	Japan	11,755	1.20x	12.3x	19.3x	1.6%
Nissin Foods	2897 JP	Japan	7,154	1.53x	17.7x	25.3x	1.6%
Orion	271560 KS	South Korea	689	1.17x	7.2x	10.9x	1.0%
Nongshim	004370 KS	South Korea	1,431	0.46x	9.7x	14.0x	1.4%
Uni-President Enterprises	1216 TT	Taiwan	12,680	1.00x	15.6x	16.6x	4.6%
Universal Robina	URC PM	The Philippines	4,735	1.80x	15.9x	19.6x	2.9%
Nestle Malaysia	NESZ MK	Malaysia	7,096	5.00x	34.1x	46.9x	2.1%
Coca-Cola	KO US	United States	7,096	5.00x	34.1x	46.9x	2.1%
Average ex-UPC			10,046	2.28x	16.4x	21.8x	3.0%
Median ex-UPC			7,125	1.60x	13.4x	17.4x	2.5%

Source: Bloomberg

The stock has now reached EV/EBIT 10x – an all-time low



Uni-President China doesn't necessarily look cheap on near-term multiples. But on a normalised basis, EV/EBIT is below 10x.



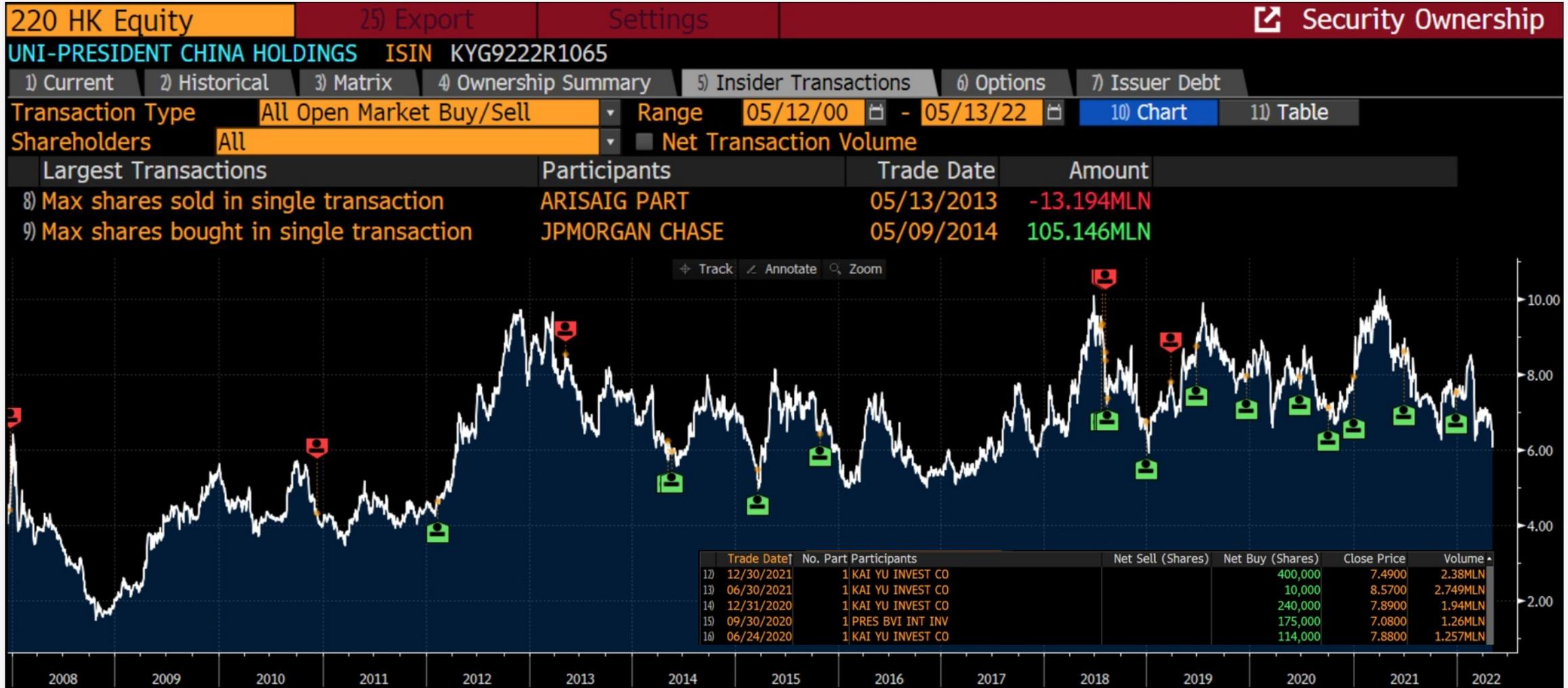
Uni-President China (220 HK) (CNY)	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	21,772	22,020	22,762	25,231	26,492	27,817	29,208	30,668
Cost of sales	-14,484	-14,101	-14,696	-17,012	-18,280	-19,054	-19,569	-19,934
Gross profit	7,289	7,918	8,066	8,219	8,213	8,762	9,639	10,734
Other gains	-9	14	107	78	0	0	0	0
Other income	382	360	367	478	501	526	553	580
Other expenses	-117	-111	-123	-277	-123	-126	-130	-134
Selling & marketing	-5,098	-5,368	-5,350	-5,543	-6,093	-6,398	-6,718	-7,054
Administrative	-1,115	-1,007	-958	-1,049	-1,113	-1,168	-1,227	-1,288
Operating profit	1,332	1,806	2,108	1,906	1,385	1,596	2,117	2,839
Finance income	170	209	230	233	244	257	269	283
Finance costs	-46	-57	-57	-32	-33	-35	-37	-39
Associates	84	13	46	35	37	39	40	43
Pretax profit	1,540	1,971	2,326	2,142	1,633	1,856	2,390	3,125
Income tax	-510	-605	-701	-641	-490	-557	-717	-938
Net profit	1,030	1,366	1,626	1,501	1,143	1,300	1,673	2,188
EPS (CNY)	0.24	0.32	0.38	0.35	0.26	0.30	0.39	0.51
P/E	23.1x	17.4x	14.6x	15.8x	20.8x	18.3x	14.2x	10.9x
EV/EBIT	17.2x	12.7x	10.9x	12.0x	16.5x	14.3x	10.8x	8.1x
Div yield	4.4%	5.8%	6.9%	7.6%	6.9%	6.9%	7.0%	9.2%
GPM	33.5%	36.0%	35.4%	32.6%	31.0%	31.5%	33.0%	35.0%
OPM	6.1%	8.2%	9.3%	7.6%	5.2%	5.7%	7.2%	9.3%
NPM	4.7%	6.2%	7.1%	5.9%	4.3%	4.7%	5.7%	7.1%

Parent Uni-President Enterprises trades more or less where you'd expect, given current share prices for its listed subsidiaries



SOTP Uni-President Enterprises (1216 TT) (TWD bn)		Stake	Market cap	Value to UPE	Valuation
President Chain Stores	2912 TT	45.4%	275.0	124.8	Market
Ton Yi Industrial	9907 TT	45.6%	25.0	11.4	Market
TTET Union	1232 TT	38.5%	23.7	9.1	Market
Prince Construction Corp	2511 TT	10.0%	18.9	1.9	Market
Scinopharm	1789 TT	37.9%	17.8	6.8	Market
President Securities	2855 TT	28.7%	27.4	7.8	Market
Tait Marketing	5902 TT	64.3%	2.5	1.6	Market
Uni-President China	220 HK	70.5%	101.6	71.7	Market
Taiwan F&B business		100.0%		66.5	24x 23e P/E
Southeast Asia F&B		100.0%		43.7	23x 23e P/E
Carrefour Taiwan		20.5%		10.5	23x 23e P/E
Kuang Chuan		31.3%		9.4	23x 23e P/E
Wei Lih Food		33.3%		7.7	23x 23e P/E
Non-F&B related		n.a.		107.3	3x book
Investment properties		20.0%		17.4	Appraisal
<u>Gross asset value</u>				<u>497.6</u>	
Net debt				-58.9	
<u>Net asset value</u>				<u>438.8</u>	
NAV discount				25%	
<u>Intrinsic value</u>				<u>329.1</u>	
Shares outstanding				5.7	
<u>Intrinsic value/share</u>				<u>57.9</u>	
Latest UPE share price				65.3	

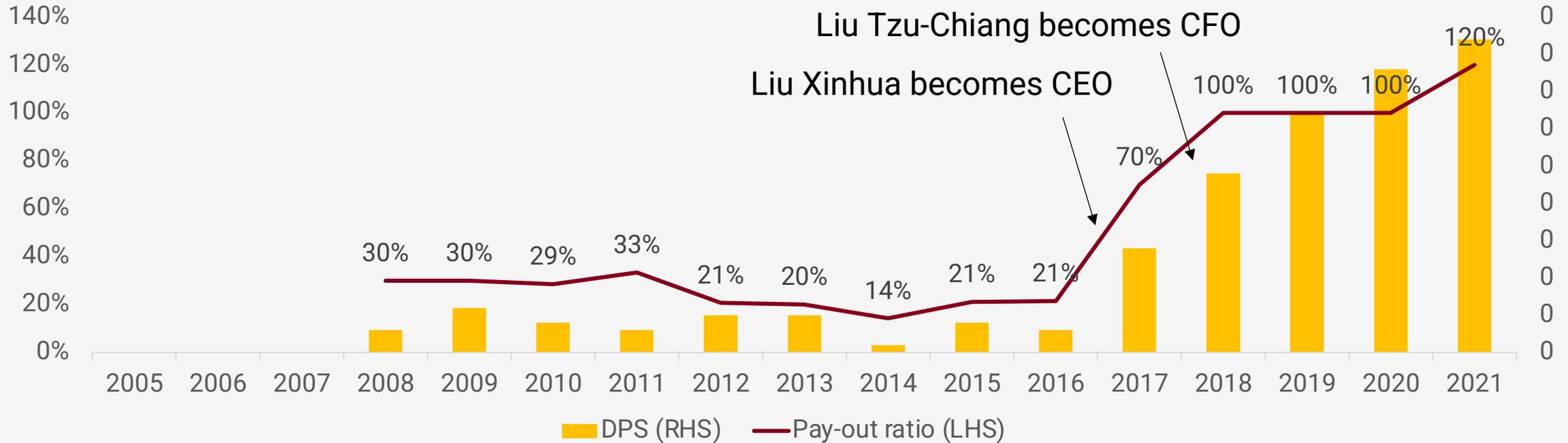
Some recent insider buying by “Kai Yu Investment Co”, an entity that’s indirectly owned by parent Uni-President Enterprises



The company is guiding for a ~100% dividend payout ratio, with a potential extra 20% special dividend possible



Uni-President China dividend payouts



Potential downside risks



- **Rising prices for raw materials:** As a percentage of revenues, palm oil makes up roughly 10%, PET 12% and flour 10%. So rising prices for these commodities will definitely have a large impact on the company's margins. As far as I'm aware, UPC has not increased its ex-factory prices, but it has reduced promotions by 2-5%. In the FY2021 earnings call, management said it "awaits competitors moves to avoid market share losses and negative sales effects". So expect a certain period of margin compression.
- **Reliance on government subsidies:** In 2021, Uni-President China received CNY 103 million in government subsidies, roughly 5% of pretax profit. There's no guarantee that such subsidies will continue. The reliance on subsidies from the Chinese government may even put the company in an awkward position when it comes to cross-Strait politics.
- **Food scandals:** In 2021, competitor Tingyi was implicated in a gutter oil scandal at its Taiwanese subsidiary, causing mainland Chinese to distrust Taiwanese food companies. Uni-President also received bad oil from Vietnam-based Dai Hanh Phuc that led to a recall of its beef flavour instant noodles. It's unclear how much of this scandal was amplified in Chinese due to China-Taiwan politics. But UPC is now a Chinese company headquartered in Shanghai.
- **Weather:** Seasonality can play a major factor, since cold summer weather leads to lower beverage sales.



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Catalysts



- Easing of raw material price pressures
- Beverage and instant noodle price hikes
- Regular + any special dividend payments
- Roll-out of new innovative products, including other version of Kai Xiao Zao self-heating rice boxes



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