

TAIWAN

# Uni-President Enterprises

26 November 2008

1216 TT Underperform

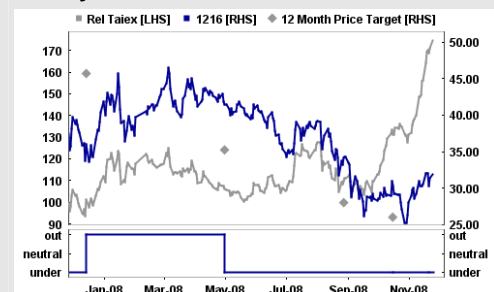
Stock price as of 25 Nov 08	NT\$	31.90
12-month target	NT\$	25.00
Upside/downside	%	-21.6
Valuation	NT\$	31.00
- Sum of Parts		

GICS sector	food beverage & tobacco		
Market cap	NT\$m	119,087	
30-day avg turnover	NT\$m	305.9	
Market cap	US\$m	3,564	
Number shares on issue	m	3,733	

## Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	m	46,026	49,617	46,682	46,039
Reported profit	m	11,012	5,992	5,282	6,675
Profit bonus exp	m	11,012	5,992	5,282	6,675
Bon exp/rep prof	%	0.0	0.0	0.0	0.0
Adjusted profit	m	3,855	5,016	4,416	6,675
EPS rep	NT\$	2.95	1.61	1.41	1.79
EPS rep growth	%	205.4	-45.6	-11.9	26.4
EPS bonus exp	NT\$	2.95	1.61	1.41	1.79
EPS bonus growth %		205.4	-45.6	-11.9	26.4
PE rep	x	10.8	19.9	22.5	17.8
PE bonus exp	x	10.8	19.9	22.5	17.8
Total DPS	NT\$	1.90	0.31	0.26	0.30
Total div yield	%	6.0	1.0	0.8	1.0
ROA	%	1.9	1.8	1.7	1.9
ROE	%	7.0	8.1	7.0	10.0
EV/EBITDA	x	12.1	22.3	22.4	18.9
Net debt/equity	%	39.4	42.2	32.5	22.3
Price/book	x	1.9	2.0	1.8	1.7

## 1216 TT rel Taiex performance, & rec history



Source: Datastream, Macquarie Research, November 2008 (all figures in NT\$ unless noted)

## Analyst

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## Valuation looks demanding

### Event

- We look at 3Q08 results from Tingyi (322HK, HK\$8.89, Not rated) to evaluate Uni-President China's operations and provide a business update on Uni-President Taiwan.

### Impact

- Margin improvement in 2009, but in the price.** According to Tingyi's results announcement, 3Q08 sales grew by 32.8%, but gross margin slightly declined by 0.7% YoY due to high-cost raw materials inventory. We expect Uni-President will face a similar scenario and that margin improvement will start to show in 2009 given that raw materials prices have declined significantly.
- Competition still intensive in China.** We remain concerned about Uni-President China's competitive advantage, as its market share keeps falling. According to AC Nielsen September market-share statistics, Uni-President China's market share in RTD Tea declined by 1.5% to 22.6%, instant noodles share declined by 1.2% to 9.2%, while RTD Juice share rose slightly, by 0.5%, to 21.7%. We believe the major players aggressively launched new products with hidden price cuts. The competition in China F&B has become stiff, and we are concerned about Uni-President China's competitive advantage and margin erosion.
- Taiwan business peaks this year.** We are cautious on the company's Taiwan business given that the outlook for the provisions business looks weak. The decline in soft commodities has led to a decline in sales growth and lower gross profit. In addition, we believe that Uni-President's non-core investments could get worse due to weak stock-market performance.

### Earnings revision

- We are slightly lowering our earnings forecast for 2009 by 7% to NT\$1.41/sh.

### Price catalyst

- 12-month price target: NT\$25.00 based on a Sum of Parts methodology.
- Catalyst: Lower-than-expected gross margin and earnings result; declining market share in China.

### Action and recommendation

- We reaffirm our Underperform rating on the shares with a target price of NT\$25. We acknowledge that Uni-President will benefit from falling raw materials prices; however, we believe this is already in the shares, which have rallied by 40% from their low. In addition, we worry more about the company's competitiveness and the intensive price cuts in the China F&B market.
- Uni-President's valuation does not look attractive at a 23x 2009E PER and a 1.8x 2009E P/BV, which is above the 15x 2009E PER of average Hong Kong-listed F&B names. The leading player, Tingyi, is now trading at a 21x 2009E consensus PER, so we think Uni-President's premium valuation is not justified.

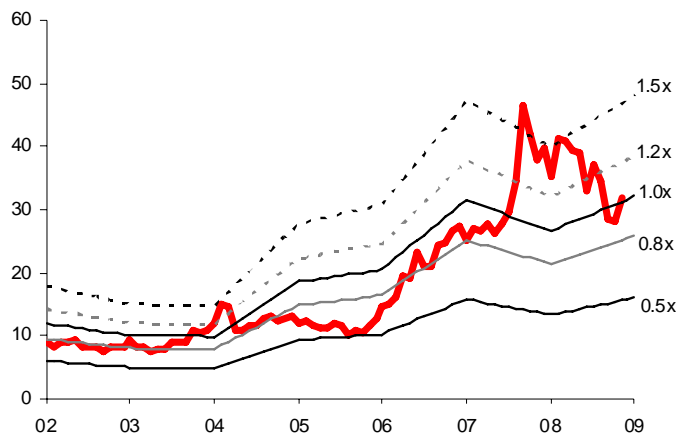
Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website [www.macquarie.com.au/research/disclosures](http://www.macquarie.com.au/research/disclosures).

**Fig 1 Uni-President SOP method**

	Valuation method	Valuation (NT\$m)	Uni-President stake (%)	Contribution to UP		
				(NT\$m)	(NT\$/sh)	% to NAV
Taiwan F&B Operation	PE 15x is in line with consumer PE multiple.	23,332	100%	23,332	6.3	20%
China F&B Operation	PE 20x	54,503	74%	40,060	10.7	35%
President Chain Store	Based on Macquarie TP	84,180	45%	38,218	10.2	33%
Presicarre	DDM	19,749	21%	4,048	1.1	3%
Ton Yi	Based on current market value.	16,242	46%	7,398	2.0	6%
Prince	Based on current market value.	4,061	10%	424	0.1	0%
TTET	Based on current market value.	3,951	30%	1,185	0.3	1%
President Security	Based on current market value.	12,278	27%	3,261	0.9	3%
Eagle Cold Storage	Based on current market value.	1,421	34%	486	0.1	0%
Mospec	Based on current market value.	817	18%	146	0.0	0%
Accuray	Based on current market value.	13,046	11%	1,466	0.4	1%
Other LT Investment (minus Net Debt)	P/B at 0.5x	16,879	100%	16,879	4.5	15%
				-21,002	(5.6)	(18%)
<b>Total Value</b>				<b>115,903</b>	<b>31.0</b>	<b>100%</b>
No. of Outstanding Shares (m)				3,733		
Uni-President NAV per share (NT\$)				\$31		
Conglomerate Discount				20%		
TP (NT\$)				<b>\$25</b>		
Share Price (NT\$)				\$31.9		
Upside (%)				(22%)		

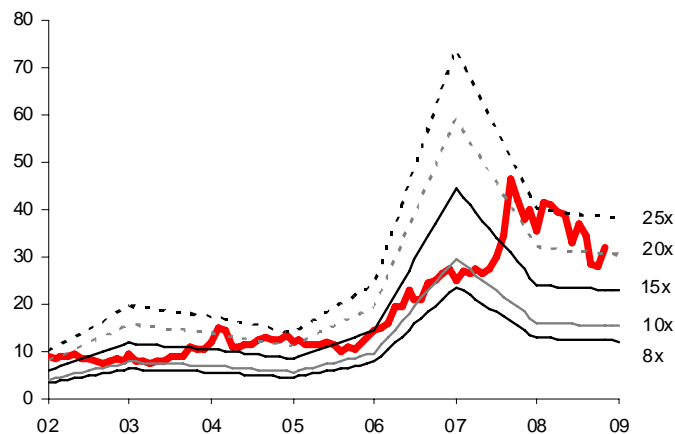
Source: Macquarie Research, November 2008

**Fig 2 Historical P/NAV chart**



Source: TEJ, Macquarie Research, November 2008

**Fig 3 Historical PER chart**



Source: TEJ, Macquarie Research, November 2008

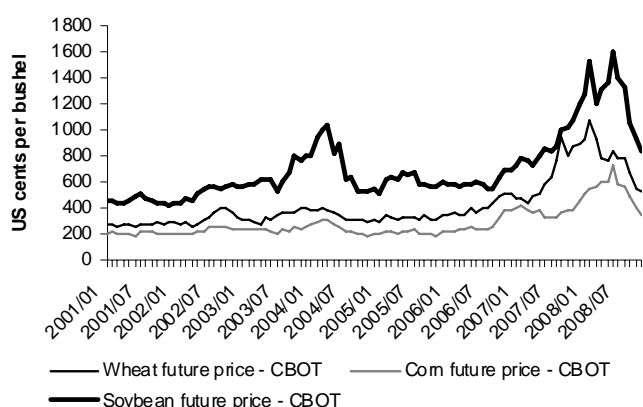
**Fig 4 Regional food & beverage peers valuation**

Company Name	Code	Share Price	Rating	Target Price	Mkt Cap (US\$m)	P/E		P/B		EPS		BPS	
						2008	2009	2008	2009	2008	2009	2008	2009
Uni-President	1216 TT	31.9	UP	25	3,571	19.8	22.6	1.9	1.8	1.61	1.41	16.4	17.3
Uni-President China Holdings	220 HK	1.8	UP	2.4	821	12.1	8.3	1.0	0.9	0.15	0.22	1.8	1.9
China Mengniu Dairy	2319 HK	6.3	NR	NA	1,261	7.9	6.1	1.5	1.2	0.80	1.04	4.2	5.1
Tingyi	322 HK	8.8	NR	NA	6,282	25.4	20.6	5.7	4.9	0.35	0.43	1.5	1.8
Tsingtao Brewery	168 HK	16.3	NR	NA	3,081	27.3	21.2	3.7	3.4	0.60	0.77	4.4	4.8
China Huiyuan	1886 HK	9.4	NR	NA	1,764	35.8	28.1	2.8	2.5	0.26	0.33	3.4	3.7
China Foods	506 HK	2.3	NR	NA	816	13.1	9.7	1.3	1.2	0.17	0.23	1.7	1.9
Fu Ji Food & Catering Service	1175 HK	2.4	NR	NA	164	2.1	1.6	0.4	0.4	1.14	1.46	5.4	6.6
<b>Average</b>						<b>17.9</b>	<b>14.8</b>	<b>2.3</b>	<b>2.1</b>				

Note: Data for Not rated companies are based on Bloomberg consensus estimates.

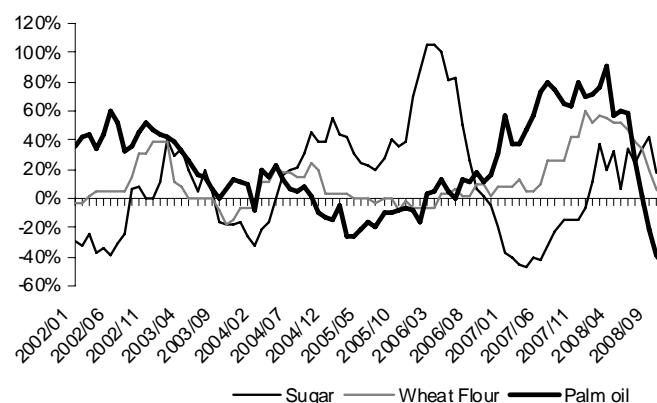
Source: Bloomberg, Macquarie Research, November 2008

**Fig 5 Key raw material price of provisions business**



Source: Bloomberg, Macquarie Research, November 2008

**Fig 6 Key raw material price YoY change % of beverage and instant noodles business**



Source: TEJ, Bloomberg, Macquarie Research, November 2008

**Fig 7 Market share of RTD tea in China**

Company Name	By Value				By Volume			
	Dec-07	Mar-08	Jun-08	Sep-08	Dec-07	Mar-08	Jun-08	Sep-08
Tingyi	51.9	43.5	41.3	41.2	53.3	45.4	42.1	42.1
Uni-President	22.8	24.3	23.7	22.6	22.5	24.4	24.1	22.6
Wahaha	9.9	16.8	17.1	18	9.7	15.4	16.2	17.1
Coca-Cola	5.6	6.3	9.2	9	5.3	6.4	9.2	9.1

Source: AC Nielsen, Macquarie Research, November 2008

**Fig 8 Market share of juice in China**

Company Name	By Value				By Volume			
	Dec-07	Mar-08	Jun-08	Sep-08	Dec-07	Mar-08	Jun-08	Sep-08
Coca-Cola	29.6	29.1	28.4	29.7	25.9	25.7	26.1	27.9
Uni-President	24.3	22.2	19.6	20.1	25.7	24.5	21.2	21.7
Tingyi	16.5	16.7	16.7	16.1	18.1	17.9	17.8	17.4
Hui Yuan	7.5	9.6	8.4	6.8	8.8	10.2	9.1	7.9
Wahaha	2.6	3.3	4.2	4.8	2.7	3.3	4.3	4.8

Source: AC Nielsen, Macquarie Research, November 2008

**Fig 9 Market share of Instant noodles in China**

(%)	By Value				By Volume			
	Dec-07	Mar-08	Jun-08	Sep-08	Dec-07	Mar-08	Jun-08	Sep-08
Tingyi	47	48	46.4	49.9	34.5	35.2	33.4	36.7
Hualong	14.9	14.1	14.7	13.1	16.8	15.7	16.5	14.7
Uni-President	10.2	10	10.1	9.1	10.3	9.7	10.4	9.2

Source: AC Nielsen, Macquarie Research, November 2008

**Fig 10 We lower our earnings forecast by 7% for 2009 to NT\$1.41/sh**

(NT\$m)	Old 2008	Old 2009	New 2008	New 2009	% chg. 2008	% chg. 2009
Revenue	50,760	47,644	49,618	46,682	(2.3%)	(2.0%)
Gross Profit	10,203	10,080	9,816	9,621	(3.8%)	(4.6%)
Operating Profit	2,081	1,847	1,669	1,555	(19.8%)	(15.8%)
Pre-Tax	6,205	5,889	5,980	5,270	(3.6%)	(10.5%)
Net Income	5,966	5,677	5,992	5,282	0.4%	(7.0%)
EPS (NT\$)	1.60	1.52	1.61	1.41	0.4%	(7.0%)
<b>Margin (%)</b>						
Gross Margin	20.1%	21.2%	19.8%	20.6%	(0.3%)	(0.5%)
OP Margin	4.1%	3.9%	3.4%	3.3%	(0.7%)	(0.5%)
Net Margin	11.8%	11.9%	12.1%	11.3%	0.3%	(0.6%)

Source: Macquarie Research, November 2008

**Uni-President Enterprises (1216 TT, Underperform, Target price: NT\$25.00)**

Quarterly Results		3Q/08A	4Q/08E	1Q/09E	2Q/09E	Profit & Loss		2007A	2008E	2009E	2010E
Revenue	m	13,547	10,669	11,408	12,309	Revenue	m	46,026	49,617	46,682	46,039
Gross Profit	m	2,602	2,112	2,230	2,476	Gross Profit	m	10,164	9,815	9,621	9,960
Operating Expenses	m	-2,144	-1,963	-1,928	-2,142	Operating Expenses	m	-8,507	-8,147	-8,066	-8,127
Operating Income	m	458	149	302	334	Operating Income	m	1,657	1,668	1,555	1,834
Net Non-operating income	m	1,326	923	929	929	Net Non-operating income	m	9,362	4,311	3,715	4,827
Pre-Tax Income	m	1,784	1,073	1,231	1,263	Pre-Tax Income	m	11,019	5,980	5,270	6,661
Tax Expense	m	169	-14	3	3	Tax Expense	m	-7	13	12	14
Exceptionals	m	250	250	250	250	Exceptionals	m	7,200	1,000	1,000	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
<b>Reported Earnings</b>	<b>m</b>	<b>1,953</b>	<b>1,058</b>	<b>1,233</b>	<b>1,266</b>	<b>Reported Earnings</b>	<b>m</b>	<b>11,012</b>	<b>5,992</b>	<b>5,282</b>	<b>6,675</b>
Reported Earnings (bonus exp)	m	1,953	1,058	1,233	1,266	Reported Earnings (bonus exp)	m	11,012	5,992	5,282	6,675
Bonus exp / Reported Earnings	%					Bonus exp / Reported Earnings	%				
Adjusted Earnings	m	1,709	814	1,017	1,049	Adjusted Earnings	m	3,855	5,016	4,416	6,675
EBITDA	m	740	431	636	668	EBITDA	m	2,967	2,805	2,892	3,086
EPS (rep)	NT\$	0.52	0.28	0.33	0.34	EPS (rep)	NT\$	2.95	1.61	1.41	1.79
EPS pcg growth (rep)	%	-23.0	-69.8	4.8	-29.8	EPS growth (rep)	%	205.4	-45.6	-11.9	26.4
EPS (rep bonus exp)	NT\$	0.52	0.28	0.33	0.34	EPS (rep bonus exp)	NT\$	2.95	1.61	1.41	1.79
EPS pcg growth (rep bonus exp)	%	-23.0	-69.8	4.8	-29.8	EPS growth (rep bonus exp)	%	205.4	-45.6	-11.9	26.4
EPS (adj)	NT\$	0.46	0.22	0.27	0.28	EPS (adj)	NT\$	1.03	1.34	1.18	1.79
EPS pcg growth (adj)	%	129.1	-52.5	9.0	-32.7	EPS growth (adj)	%	12.5	30.1	-12.0	51.1
Revenue pcg growth	%	4.2	-2.6	-6.9	-6.4	PE (rep)	x	10.8	19.9	22.5	17.8
Operating Income pcg growth	%	-24.8	-52.3	-49.2	-28.5	PE (rep bonus adj)	x	10.8	19.9	22.5	17.8
Reported Earnings pcg growth	%	-23.0	-69.8	4.8	-29.8	PE (adj)	x	30.9	23.7	27.0	17.8
Gross Profit Margin	%	19.2	19.8	19.5	20.1	Total DPS	NT\$	1.90	0.31	0.26	0.30
Operating Income Margin	%	3.4	1.4	2.6	2.7	Total Div Yield	%	6.0	1.0	0.8	1.0
Reported Earnings Margin	%	14.4	9.9	10.8	10.3	Weighted Average Shares	m	3,733	3,733	3,733	3,733
EBITDA Margin	%	5.5	4.0	5.6	5.4	Period End Shares	m	3,733	3,733	3,733	3,733
<b>Profit and Loss Ratios</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>Cashflow Analysis</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Revenue Growth	%	7.4	7.8	-5.9	-1.4	Reported Earnings	m	11,012	5,992	5,282	6,675
Gross Profit Growth	%	1.9	-3.4	-2.0	3.5	Depreciation & Amortisation	m	1,310	1,137	1,336	1,252
Operating Income Growth	%	4.3	0.7	-6.8	17.9	Chgs in Working Cap	m	694	-317	-126	-120
Reported Earnings Growth	%	205.4	-45.6	-11.9	26.4	Other	m	-7,987	2,073	1,682	833
EBITDA Growth	%	-1.4	-5.4	3.1	6.7	Operating Cashflow	m	5,029	8,885	8,175	8,640
Gross Profit Margin	%	22.1	19.8	20.6	21.6	Acquisitions	m	-5,637	-1,000	-1,000	-1,000
Operating Income Margin	%	3.6	3.4	3.3	4.0	Capex	m	-559	-500	0	-500
Reported Earnings Margin	%	23.9	12.1	11.3	14.5	Asset Sales	m	0	0	0	0
EBITDA Margin	%	6.4	5.7	6.2	6.7	Other	m	5,089	-752	-600	-100
Payout Ratio	%	184.5	23.1	21.6	17.0	Investing Cashflow	m	-1,107	-2,252	-1,600	-1,600
EV/EBITDA	x	12.1	22.3	22.4	18.9	Dividend (Ordinary)	m	-2,011	-1,155	-986	-1,023
EV/EBIT	x	13.6	27.1	28.3	22.7	Equity Raised	m	0	0	0	0
<b>Balance Sheet Ratios</b>						Debt Movements	m	2,073	1,473	-4,603	0
ROE	%	7.0	8.1	7.0	10.0	Other	m	-4,015	-7,009	-815	-564
ROA	%	1.9	1.8	1.7	1.9	Financing Cashflow	m	-3,953	-6,691	-6,404	-1,587
ROIC	%	2.2	1.9	1.8	2.1	Net Chg in Cash/Debt	m	-68	-58	171	5,452
Net Debt/Equity	%	39.4	42.2	32.5	22.3	Free Cashflow	m	4,470	8,385	8,175	8,140
Interest Cover	x	2.7	2.9	2.9	4.4	FCF per Share	NT\$	1.20	2.25	2.19	2.18
Price/Book	x	1.9	2.0	1.8	1.7	P/FCF	x	26.6	14.2	14.6	14.6
Book Value per Share	NT\$	16.9	16.4	17.3	18.7	<b>Balance Sheet</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
						Cash	m	108	51	222	5,675
						Receivables	m	5,083	5,241	5,277	5,081
						Inventories	m	4,079	3,607	3,510	3,375
						Investments	m	0	0	0	0
						Fixed Assets	m	10,061	9,409	8,707	7,955
						Intangibles	m	0	0	0	0
						Other Assets	m	76,017	75,853	75,398	75,859
						Total Assets	m	95,348	94,160	93,114	97,945
						Payables	m	1,868	1,983	2,014	1,909
						Short Term Debt	m	4,781	5,603	1,000	1,000
						Long Term Debt	m	20,224	20,224	20,224	20,224
						Provisions	m	0	0	0	0
						Other Liabilities	m	5,243	5,289	5,334	5,182
						Total Liabilities	m	32,116	33,100	28,572	28,315
						Total S/H Equity	m	63,232	61,060	64,542	69,630
						Total Liab & S/H Funds	m	95,348	94,160	93,114	97,945

All figures in NT\$ unless noted.  
Source: Macquarie Research, November 2008

## Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p><b>Macquarie - Australia/New Zealand</b>            Outperform – return &gt;5% in excess of benchmark return (&gt;2.5% in excess for listed property trusts)            Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)            Underperform – return &gt;5% below benchmark return (&gt;2.5% below for listed property trusts)</p> <p><b>Macquarie – Asia/Europe</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie – Canada</b>            Outperform – return &gt;5% in excess of benchmark return            Neutral – return within 5% of benchmark return            Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie – USA</b>            Outperform (Buy) – return &gt;5% in excess of benchmark return            Neutral (Hold) – return within 5% of benchmark return            Underperform (Sell) – return &gt;5% below benchmark return</p> <p><b>Recommendations</b> – 12 months</p> <p><b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historic price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Australian/NZ stocks only</p>	<p>All "Adjusted" data items have had the following adjustments made:            Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense            Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / epowa*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = adjusted net profit + depreciation            *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

## Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%

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