

## China Consumer

## Frozen food call takeaways: targets 2B clients to cushion demand &amp; ASP softness

## Industry Overview

We recently hosted a conference call with Mr. Peter Zhao, a frozen food distributor (focusing on Anjoy Foods Group) in Eastern China, and summarize our key takeaways below: 1) sales growth of main brands slowed down in 4Q23 on weak end demand; 2) ramping up partnership with large 2B clients is critical to 2024 growth; and 3) bigger players see higher visibility and resilience during price competition. Please note that these discussions were specific to the distributor's region and may not represent national trends; information should be used together with other sources and channel checks.

## Deceleration in 4Q23 on soft demand

In the expert's region, sales of **Anjoy** still grew 20-30% YoY in 4Q23, a deceleration post Golden Week seen vs 2Q/3Q due to wholesale/catering demand softness. However, he is confident of achieving the full-year (year-end at Mar-2024) target of 25% YoY growth.

**Qianwei Yangchu Food Co.** saw stronger growth pressure given its smaller scale in sales and channel investment, and weaker consumer recognition and market control capability.

## Gaining large 2B clients is the theme of 2024

The expert attributed the outperformance vs Anjoy's distributors in other provinces to 1) well-established supply chain supported by 5 mini-warehouses and >100 staff, which allows delivery to most villages in Jiangxi Province; 2) solid strategic partnership with chained restaurants proven by 60-70% market share and their store count increases; 3) organic growth and deepened penetration of signature products, such as meatball and shrimp paste; and 4) downsizing wholesale business, which was dragged by its limited expansion potential, low brand loyalty and thin channel profit. He believes 2024 growth will mostly come from expansion in client/channel reach, especially from stores of barbecue/fried food/snack food, although it may carry a lower net margin at 3-5% vs normally 5-6%. Anjoy has also shifted its focus to restaurant chains since 2023. For eg, the company has cooperated with Zhangliang Malatang to supply its >6,000 stores, which will lead to annual sales of RMB100-200mn and help enhance its brand influence.

## Bigger ones can fare better amid stiff pricing competition

Generally, there is no plan/timetable on price hikes for each brand, on the backdrop of deflationary macro environment. Overall, industry discounts are increasing but still in a moderate scale. The expert said Qianwei Yangchu may improve support for distributors to stimulate sales at year-end, while Anjoy remains healthy in terms of inventory and promotion level but leads in price downgrade. In addition, Anjoy also considers offering some concession in prices to approach important 2B customers. So, even if some small brands want to compete on pricing, their viability seems to be short-lived. On the distributor side, high-quality players also benefit from the change in Anjoy's policy that allows lower pricing for purchase in large volumes. This could provide them more buffer to deal with pricing competition.

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