



康師傅控股有限公司

TINGYI HOLDING CORP.

BASIC INFORMATION

1155225334 – NGUYEN, Dang Chinh
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Rating	BUY
Price (HKD, May 9)	13.34
Price (RMB, May 9)	12.41
Target Price (HKD)	18.53
52-week range (HKD)	8.810 - 14.420
Market cap (HKD)	75.163B

Founded in 1991 with headquarters in Taipei and Tianjin, Tingyi (Cayman Islands) Holding Corp. operates as an investment holding company. It operates through the following business segments: Instant Noodles, Beverages, and Others under the brand “Master Kong”. The others segment includes investment holding, properties investment for rental purpose, logistics...

It was listed on Hong Kong Stock Exchange in 1996, and is a constituent of MSCI China and the Hang Seng China 100 Index. This report focuses on its performance on the Hong Kong exchange.

INVESTMENT SUMMARY

Through the DCF analysis on historical data and future projections, it is clear that Tingyi is currently undervalued, and its stock performance will improve in the future to meet up with expectations despite current issues.

Recent Development

The value of short-term assets also fell from 42% to 22% of revenue, while

Current Liabilities and CAPEX remained stable around 40% and 4% respectively.

By 2023, the beverage segment became the group’s largest stream of revenue, accounting for over 60% of the company’s total revenue and a YoY growth of 8.5%, while the instant noodle subsidiary contributed 36%. The company has turned its focus on healthy drinks due to growing consumers’ health concerns with new products including sugar-free tea, coffee and carbonated drinks. Active brand rejuvenation campaigns and food safety improvements have also been carried out, winning the company “A cooperative Partner of China Space” title for the seventh consecutive year.

It also invests in digital transformation, products optimization and cost management to increase operational efficiency, as well as in ESG to align itself with the global shift towards sustainability.

Current issues

In 2024, Tingyi witnessed a flat YoY Revenue Growth of 0.7% despite a huge 20% increase in Net Income. This suggests challenges in expanding the market and sales volume, while the net profit margin decreasing from 6% to 4.63% is largely due to rising production and distribution expenses that affect overall profitability. Although Tingyi is a dominant player in the Chinese beverage and instant noodle market, it faces fierce competition from

local firms and global giants like Uni-President China, Nongfu Spring, Nissin Foods or Baixiang Food. And while Tingyi dominates offline sales, its competitors are expanding on virtual platforms.

Recommendation

Despite Tingyi's current disadvantages, the recommendation on the company is **BUY** due to four reasons:

Market Leadership:

Tingyi is the #1 instant noodle brand in China, with a market share of 30%, the third-largest in soft-drink with 7.4% market share, and a top-tier player in RTD beverage thanks to its role as the producer, seller, and distributor of PepsiCo in China. Tingyi also has an extensive distribution system containing over 200,000 retail outlets, allowing for very deep penetration in the Chinese market. The company has established an enormous, long-lasting and impressive brand perception in the market.

Expansion and Trend Alignment:

Tingyi is undertaking aggressive expansion and diversification initiatives by becoming a top brand in e-commerce platforms and offering new product lines such as sugar-free beverages. Despite initial rise in production costs and intensifying competition, the company is aligning itself with consumers' demand, and its brand coverage and large customer base will drive revenue growth in the future.

Improved Profitability:

Although its recent revenue exhibits a degree of stagnation, Tingyi is showing positive improvement in gross profit margin, around 33% in 2024. This can be attributed to efforts in optimizing production and cost control to maximize operational efficiency. Overall, profitability will be improved in the long-term.

Higher Target Stock Price:

Using the Discounted Cash Flow Analysis, the target price of Tingyi's stock listed on Hong Kong Exchange is 17.32 RMB, or 18.53 HKD which is higher than the current price 13.34 HKD, suggesting that it is currently undervalued by the market. So, the price of Tingyi's stock will potentially increase in the future.

Discounted Cash Flow Analysis

Notes: All numbers in RMB

In Millions of RMB	Historical Figures					Projections				
	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Revenue (P/L)	67,617.84	74,082.29	78,717.42	80,418.08	80,650.91	82,263.93	84,731.85	89,815.76	97,001.02	108,641.14
YOY growth		10%	6%	2%	0%	2%	3%	6%	8%	12%
Taxation	1,958.23	1,424.98	1,072.97	1,262.79	1,737.52	22,211.26	22,877.60	24,250.25	26,190.27	29,333.11
Tax Rate (%)	29.98	24.53	25.86	26.42	28.67	27%	27%	27%	27%	27%
Net Income(P/L)	4,062.45	3,683.99	2,674.16	3,117.46	3,734.43	3,290.56	4,770.40	5,451.82	6,790.07	7,604.88
Net Income Margin (%)	6.01	5.13	3.34	3.88	4.63	4.00	5.63	6.07	7.00	7.00
Interest (P/L)	384.64	223.49	446.02	519.12	423.31					
Interest-bearing Debt(B/S)	14,013.30	14,016.90	17,920.10	14,055.40	13,518.80					
Cost of Debt	2%	2%	2%	4%	3%	1.4%	1.4%	1.4%	1.4%	1.4%
Depreciation(P/L)	3,141.63	3,134.16	3,258.90	3,441.80	3,494.97	3,290.56	4,236.59	4,490.79	4,850.05	5,432.06
% of Revenue	5%	4%	4%	4%	4%	4%	5%	5%	5%	5%
CAPEX(C/F)		2980.6	3238.9	3644.4	3608.4	3,496.22	3,601.10	3,817.17	4,122.54	4,617.25
% of Revenue	0%	4%	4%	5%	4%	4.25%	4.25%	4.25%	4.25%	4.25%
Current Assets	28,701.31	25,666.74	24,027.07	20,473.58	17,985.74	18,098.06	18,641.01	19,759.47	21,340.22	23,901.05
% of Revenue	42%	35%	31%	25%	22%	22%	22%	22%	22%	22%
Current Liabilities	27,072.01	29,825.01	31,704.54	29,193.01	32,423.23	32,905.57	33,892.74	35,926.30	38,800.41	43,456.46
% of Revenue	40%	40%	40%	36%	40%	40%	40%	40%	40%	40%

Analysis						
Year	2024	2025E	2026E	2027E	2028E	2029E
Discount Factor	1	1.075	1.156	1.244	1.337	1.438
Terminal Value	136,139.91					
PV of Terminal Value	94,653.20					
FCF	4,655.48	(4,562.37)	4,471.12	4,538.19	4,588.11	4,633.99
PV of FCF		(4,242.49)	3,866.13	3,648.99	3,430.47	3,221.85
Enterprise Value	104,578.15					
Equity Value	97,603.92					
Implied share price	17.32					
Potential	39.57%					
Recommendation	BUY					

Sensitivities							Assumptions	
Perpetual Growth Rate							Risk Free Rate	3.54%
Ent. Val.	104,578.15	2%	3%	4%	5%	6%	Risk Premium	5.17%
WACC	5.54%	249,780.01	249,780.01	249,780.01	249,780.01	249,780.01	Beta	0.74
	6.54%	148,573.03	148,573.03	148,573.03	148,573.03	148,573.03	Cost of Equity	7.20%
	7.54%	104,578.15	104,578.15	104,578.15	104,578.15	104,578.15	Market Price	13.18
	8.54%	79,989.48	79,989.48	79,989.48	79,989.48	79,989.48	Shares outstanding	5,635,000,000
	9.54%	64,297.80	64,297.80	64,297.80	64,297.80	64,297.80	Market Capital	74,288,000,000
Perpetual Growth Rate							Cost of Debt	1.40%
Share Price	17.32	2%	3%	4%	5%	6%	Tax Rate	27.00%
WACC	5.54%	43.08886958	43.08887	43.08887	43.08887	43.08887	Non Current Liabilities	3,110,300,000
	6.54%	25.12844732	25.128447	25.128447	25.128447	25.128447	Debt(%)	20.10%
	7.54%	17.32101589	17.321016	17.321016	17.321016	17.321016	Equity(%)	79.90%
	8.54%	12.95745395	12.957454	12.957454	12.957454	12.957454	Perpetual Growth Rate	4%
	9.54%	10.17277276	10.172773	10.172773	10.172773	10.172773	WACC	7.54%

Explanation of Assumptions

Cost of Equity

Cost of equity = Risk-free rate + Beta x Market Risk Premium.

The risk-free rate 3.54% and the Market Risk Premium of 5.17% were retrieved from Market Premia website.

The beta of 0.74 was provided by Bloomberg.

Cost of Debt

The cost of debt of 1.4% was retrieved from the financial data provided by Bloomberg.

Cost of debt = Interest / Interest-bearing Debt.

Interest-bearing Debt = Current Liabilities + Long-term Liabilities (other current and other long-term liabilities are not included).

Capital Structure

The author assumes that in the five year horizon, Tingyi's capital structure will maintain.

Tax Rate

The Tax Rate 27% was provided by Bloomberg.

DCF Analysis Assumptions

The project horizon is five years from 2025 to 2029, the time point is the beginning of 2025.

Revenue Growth

Initially, the revenue growth rate of Tingyi will be insignificant due to the challenges when expanding its product portfolio and production associated costs, however, in the long run, the YoY Revenue Growth will increase consistently.

Net Income Margin

Although the net income margin will be

quite low the start of the forecast period, it will increase due to the greater operational efficiency and the assumption that CAPEX will remain constant.

Capital Expenditure

The capital expenditure aligns closely with the company's future directions and the industry average. Base on the historical data and the author's conservative assumption for the sake of simplicity, CAPEX will stay at 4.25% of the revenue.

Free Cash Flow

In the 2025 and 2026, it is anticipated that Tingyi will face fierce competition, as well as rising fees associated with production, distribution and sales, which affect the free cash flow. However, in the long run, the company will regain its market share and boost its revenue through new products and enlarged customer base.

Perpetual Growth Rate

The perpetual growth rate of Tingyi is based on the long term growth rate of China since the biggest market for the company is currently this country. This rate fluctuates around 3% to 5%, the author assume 4% as the perpetual growth rate as a conservative assumption.

References

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