

CB3041 Financial Statement Analysis



**Vitasoy International
Holdings Limited
(00345HK)**

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Agenda

1. Aim
2. Company Background
3. Board of Directors Analysis
4. Ratio Analysis
5. Peers Comparison
6. Investment Analysis
7. Conclusion

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Aim

**To See Whether 00345HK - VITASOY INT'L
is Good Investment Target**



Company Background



Company Background

- 80 years, Famous HK beverage company
- 40 markets around the world
 - Hong Kong
 - China
 - Singapore
 - Australia
- Centred on the high-protein soy milk drink
- Expanded into a wider variety of beverages



Directors & Senior Management Profile Analysis

- Substantial shareholder
 - Lo's Family (29.30%)
- Family owned and managed
 - 45% of the board are Lo's family members
- INED
 - Big names (e.g. LI Kwok Po)
- Expertise:
 - Not well diversified
 - Focus on food science, BBA or law
 - No accountant
- Stable company
 - 63% of members aged 60 or above
 - Experienced



Ratio Analysis



Profitability Ratio

	2018	2017	Rate of change	Industrial Average
Gross Profit margin	54.14%	52.71%	+1.43%	38.57%
Operating margin	16.05%	15.59%	+0.46%	12.415%
Net Profit margin	11.64%	10.89%	+0.75%	9.34%
Return on Assets(ROA)	18.91%	16.52%	+2.39%	9.89%
Return on Equity(ROE)	34.80%	30.23%	+4.57%	19.18%



Profitability Ratio

Gross Profit Margin:

- Strong indicator of survival factor
- Driven by increase in sales volume + favourable prices of raw materials

Net Profit Margin:

- Decrease in finance cost & share of losses of joint venture
- Greater ability to control finance cost



Liquidity Ratio

	2018	2017	Changes	Industrial Average
Current Ratio	1.29 times	1.37 times	-5.84%	1.45 times
Acid Ratio	1.02 times	1.06 times	-3.77%	1.13 times
Cash to Current Assets	0.35 times	0.33 times	+6.06%	-
Cash to Total Assets	0.20 times	0.15 times	+33.33%	-



Liquidity Ratio

Decrease in current ratio & acid ratio

- Increase in accounts payable & bank loans
 - Acquisition of land for new plant
 - Installation of new production line in HK & Mainland
- Increase Cash reserve
 - Cash to current assets & cash to total asset are still relatively low
 - Low possibility of agency problem



Activity Ratio

	2018	2017	Changes	Industrial Average
Asset Turnover	0.92 times	0.41 times	+124.39%	-
Day's Receivable	41.02 days	47.44 days	-13.53%	-
Day's Payable	58.11 days	65.86 days	-11.77%	63.95 days
Day's Inventory	58.18 days	61.2 days	-4.93%	54.63 days



Activity Ratio

Days payable declined

- Accelerated paying its suppliers
- Supplier bargaining power may increase

Asset Turnover increased

- Turns over its asset faster through sales

Days inventory declined

- Turns over its inventory faster within a year



Capital Ratio

	2018	2017	Changes
Debt to Equity Ratio	1.95%	1.02%	+0.93%
Total Liabilities to Equity	70.01%	68.24%	+1.86%
Total Liabilities to Total Assets	41.18%	40.56%	+0.62%



Capital Ratio

DE ratio

- a) Very low level of financial leverage & capital risk

Total liabilities to total assets

- a) Every \$1 of liabilities, \$2.43 of assets to repay
- b) Structure of capital & assets is relatively safe



Peers Comparison

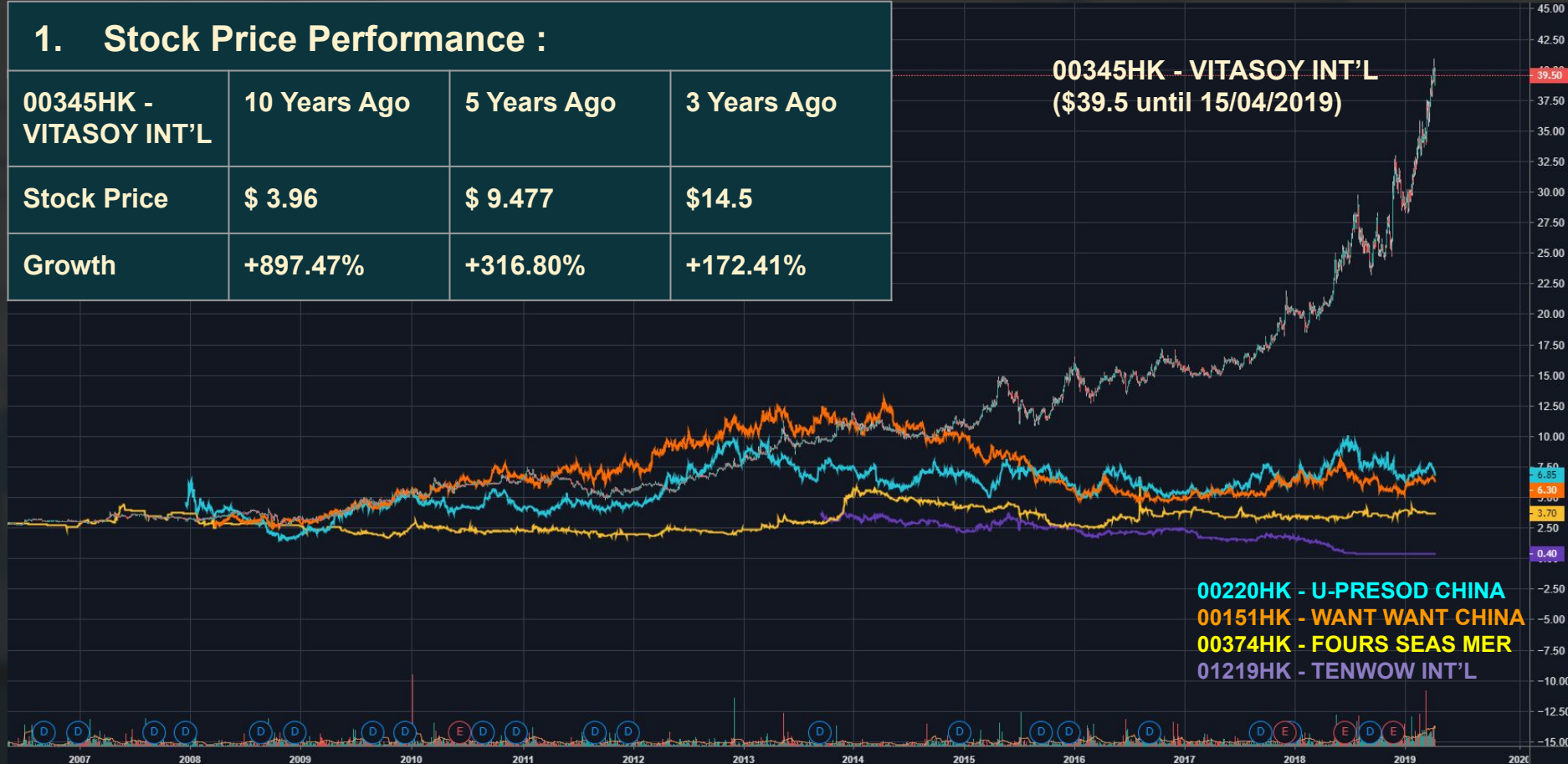


Peers Comparison

1. Stock Price Performance :

00345HK - VITASOY INT'L	10 Years Ago	5 Years Ago	3 Years Ago
Stock Price	\$ 3.96	\$ 9.477	\$14.5
Growth	+897.47%	+316.80%	+172.41%

00345HK - VITASOY INT'L
(**\$39.5 until 15/04/2019**)



Peers Comparison

	D/E Ratio	Gross Profit Margin	Net Profit Margin	Operating Margin	Revenue Growth
00345HK - VITASOY INT'L	1.95%	54.14%	11.64%	16.05%	19.579%
00220HK - U-PRESOD CHINA	15.03%	33.48%	4.729%	6.118%	-0.695%
00151HK - WANT WANT CHINA	47.65%	43.41%	15.541%	20.893%	41.805%
00374HK - FOURS SEAS MER	48.38%	32.06%	11.581%	12.531%	1.837%
01219HK - TENWOW INT'L	84.74%	18.11%	3.188%	6.483%	3.748%



Investment Analysis



The Asset Backing Model

	(,000 HKD)
Total net book value of assets	5,181,116
Add back: current liabilities	<u>1,923,043</u>
Gross book value of assets	7,104,159
Less: value adjustments of assets:	
Reduction in value of fixed assets (30%)	(704662.5)
Provision of reduction in inventory value (5%)	<u>(35465.6)</u>
Adjusted value of assets	6,364,031
Less: Total liabilities	<u>(2,013,032)</u>
Calculated asset base	4,350,999
 Outstanding number of shares(,000)	 1,055,541

Asset backing for each share = \$4.12/share

Market price (31/03/2018) = \$20.1/share

**Overvalued for ~ 5 times
(\$16/share)**

The Dividend Capitalisation Model

Future Maintainable Dividends:	(,000 HKD) \$0.319 / share
Capitalised Factor: Fixed Deposit Interest Rate (1.9%)	/ 1.9%
Capitalised value per share	\$16.79 / share
For market price equal to share value, the FMD should be:	
\$20.1 X 1.9%	\$0.3819 / share
Taking 65% as dividend payout ratio, FMP should be:	\$0.588 / share

**Not worthwhile to purchase the shares if
a minority shareholder wishes to make
a gain by receiving dividends**

Conclusion

BEHIND THE CARTON

Ratio Analysis

- Favourable profitability ratios
- Relatively safe capital & assets structure
- Extremely low D/E ratio
 - Much lower than Industrial average
 - If there are new projects or investment
 - Could definitely increase debt for financing

Concern: Sino-US Trade War Effect

Conclusion

BEHIND THE CARTON

Investment Analysis

- **Asset Based Valuation**
 - Overvalued 5 times
- **The Dividend Capitalisation Model**
 - Not worthwhile to purchase for dividend gain



Thank You