Natural Food (1837 HK)

A Well-recognised Chinese Dietary Nutrition Brand

NOT RATED

Share Price	HK$1.71
Target Price	n.a.
Upside	n.a.

Analyst(s)

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Highlights

- We visited Natural Food's headquarter in Shenzhen. The company is a well-recognised Chinese dietary nutrition brand. It has been undergoing omni-channel restructuring post-COVID-19 and saw improved sales conversion for its offline counters, rapid sales growth of its offline shelves and improving operating margin for its online channels.
- It saw robust growth momentum in 1H26, with a notable sales growth of 47.3-48.5% yoy during CNY 2026, and is on track to achieve its target of a 15% revenue growth and 20% net profit growth in 2026.
- It plans to raise dividend payout (43%/51% in 2024-25) in the future, backed by its solid balance sheet (~70% net cash to equity ratio with no debt) and strong cash flow generation.

Analysis

- **Well-recognised Chinese dietary nutrition brand.** Supported by its inhouse consumer insight and R&D teams, Natural Food develops functional improvement products that cater to specific customer needs. It aims to become the leader of Chinese dietary nutrition in Mainland China. Its key products can be categorised into: a) Chinese-style conditioning and functional improvement (~32% of 2025 revenue), such as hair growth and dampness removal, which has a one-year repurchase rate of 30%; b) Chinese-style nourishing breakfast (~40% of 2025 revenue), and c) gift box (~12% of 2025 revenue). Its growth momentum remained robust in 1H26, with a notable sales growth of 47.3-48.5% yoy during Chinese New Year (CNY) 2026, thanks to meaningful growth of its gift boxes that cater to differentiated customer demand across different channels. The company targets a 15% revenue growth and 20% net profit growth in 2026.
- **Securing high-quality ingredients from seed cultivation to processing.** Natural Food ensures the quality and standardisation of raw materials through end-to-end control of its supply chain, including: a) contract farming for strategic ingredients such as black sesame in Jiangxi; b) collaboration with government institutions in 2022 to cultivate patented seeds with higher nutrition content; and c) innovation in its manufacturing process such as material processing.

Key Financials

Year to 31 Dec (Rmbm)	2021	2022	2023	2024	2025
Net turnover	1,610	1,719	1,845	2,060	2,526
EBITDA	141	164	213	243	350
Operating Profit	110	131	174	207	313
Net Profit	87	116	152	188	266
Net Profit (adj.)	87	116	152	188	266
EPS (cents)	4.0	5.4	7.1	8.7	12.2
P/E (x)	40.0	29.6	22.5	18.4	13.1
P/BV (x)	3.1	2.8	2.5	2.3	2.1
EV/EBITDA (x)	13.5	11.7	9.0	7.9	5.5
Dividend yield (%)	1.0	-	1.9	2.5	4.4
Net margin (%)	5.4	6.8	8.3	9.1	10.5
Net debt to equity (%)	(56.1)	(62.2)	(67.2)	(73.1)	(70.3)
Interest cover (x)	134.3	203.0	421.4	549.8	865.8
ROE (%)	7.7	9.9	11.6	12.4	15.7

Source Natural Food, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker	1837 HK
Shares issued (m)	2,189
Market cap (HK$m)	3,742
Market cap (US$m)	487
3-mth avg daily t'over (US$m)	0.6

Price Performance (%)

52-week high/low				HK$1.83/HK$0.76
1mth	3mth	6mth	1yr	YTD
24.8	0.6	62.9	119.2	56.9

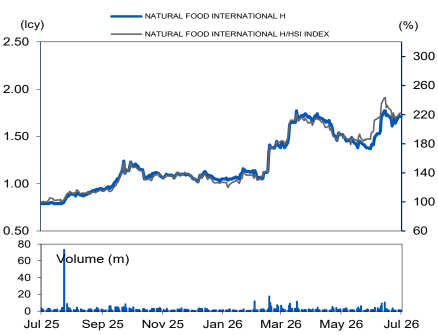
Major Shareholders

	%
Mr. Zhang Ze Jun	42.8

Balance Sheet Metrics

FY25 NAV/Share (Rmb)	0.77
FY25 Net Debt/Share (Rmb)	(0.55)

Price Chart



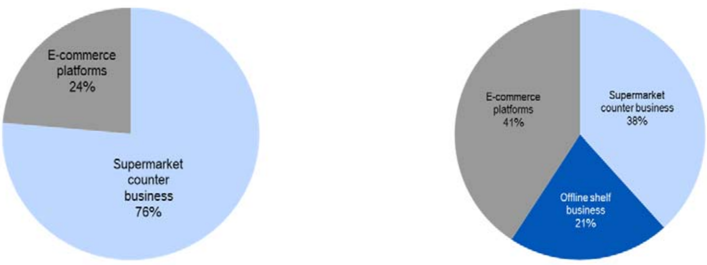
Source: Bloomberg

Company Description

Natural Food International Holding Limited processes and sells natural health food products made of grains, beans, nuts, dried fruits, and other natural ingredients.

- **Restructuring offline channels since COVID-19**. Natural Food relied heavily on supermarket concessionary counters (76% of 2019 revenue) pre-COVID-19 and began to restructure its concessionary counters in 2019 and expand its offline shelves in 2021. Over the past few years, the company has pivoted its concessionary counters from traditional supermarkets to the fast-growing new-form retailers that focus on experiential consumption (such as Yonghui remodels, Pang Donglai, etc.) and had about 1,900 concessionary counters nationwide as of end-25. Counters at new-form retailers registered solid same-store sales growth on the back of growing popularity of experiential retail and aligned target demographics and sales from concessionary counters grew 24% yoy in 2025. On the other hand, it has been collaborating with leading retailers in Mainland China (mainly Sam's Club) to expand its offline shelves. Revenue from offline shelves grew at 114% CAGR in 2021-25 and accounted for 21% of 2025 revenue (up from 0%/1.5% in 2019/21).
- **Strategic online channel transformation**. Natural Food has been reducing price-driven traffic since 2H25 and shifted to brand-value content creation, with self-streaming accounting for 80-90% of its content streaming. This enabled it to launch higher-ASP functional improvement products on its e-commerce platforms without offering discounts or gifts. Its online sales grew 12% yoy in 2025 to account for 41% of its 2025 sales and the company saw continued operating margin expansion on the back of better economics and improved product mix.

Sales Channel Mix (2019 vs 2025)



Source: Natural Food, UOB Kay Hian

- **Solid balance sheet and growing shareholder return.** Natural Food had a net cash of ~Rmb$1.2b as of end-25 (70% net cash to equity ratio) with no bank borrowings, and has generated solid free cash flow over 2021-25 (cash flow to net income of 0.9-1.4x). While it plans for a total of Rmb300m capex for capacity expansion in Nansha and Hubei for the next three years and is open to M&A opportunities that could support its demographic expansion, it sees a potential for a higher dividend payout (43%/51% in 2024-25) in the future on the back of its solid balance sheet and strong cashflow generation.

Valuation/Recommendation

- **Natural Food is trading at 10.1x 2026F and 8.4x 2027F PE**, based on Bloomberg consensus. It is also trading at 4.4% trailing dividend yield.

Product Category (2025)

Source: Natural Food, UOB Kay Hian

Chinese-style Conditioning And Functional Improvement (中式调理与功能改善)

Source: Natural Food, UOB Kay Hian

Gift Box (健康食养礼)

Source: Natural Food, UOB Kay Hian

Chinese-style Nourishing Breakfast (中式食养早餐)

Source: Natural Food, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2022	2023	2024	2025
Net turnover	1,719	1,845	2,060	2,526
EBITDA	164	213	243	350
Deprec. & amort.	(32)	(39)	(36)	(36)
EBIT	131	174	207	313
Total other non-operating income	-	-	-	-
Net interest income/(expense)	6	11	12	12
Pre-tax profit	137	186	220	326
Tax	(21)	(34)	(32)	(60)
Minorities	-	-	-	-
Net profit	116	152	188	266
Net profit (adj.)	116	152	188	266

Balance Sheet

Year to 31 Dec (Rmbm)	2022	2023	2024	2025
Fixed assets	351	335	334	329
Other LT assets	63	41	24	56
Cash/ST investment	782	944	1,112	1,197
Other current assets	323	362	368	496
Total assets	1,519	1,681	1,837	2,078
ST debt	-	-	-	-
Other current liabilities	266	272	297	369
LT debt	5	2	7	2
Other LT liabilities	10	11	14	11
Shareholders' equity	1,238	1,396	1,520	1,695
Minority interest	-	-	-	-
Total liabilities & equity	1,519	1,681	1,837	2,078

Cash Flow

Year to 31 Dec (Rmbm)	2022	2023	2024	2025
Operating	168	185	271	236
Pre-tax profit	137	186	220	326
Tax	(21)	(34)	(32)	(60)
Deprec. & amort.	(32)	(39)	(36)	(36)
Working capital changes	129	194	149	141
Other operating cashflows	(45)	(122)	(30)	(135)
Investing	(19)	(121)	(201)	49
Capex (growth)	(23)	(30)	(25)	(34)
Others	4	(92)	(177)	83
Financing	(14)	(5)	(75)	(108)
Dividend payments	-	-	(71)	(80)
Issue of shares	-	-	-	-
Proceeds from borrowings	-	-	-	-
Loan repayment	(7)	(7)	(5)	(6)
Others/interest paid	(7)	1	1	(23)
Net cash inflow (outflow)	135	59	(5)	176
Beginning cash & cash equivalent	646	781	840	835
Changes due to forex impact	10	1	1	(6)
Ending cash & cash equivalent	781	840	835	1,011

Key Metrics

Year to 31 Dec (%)	2022	2023	2024	2025
Profitability				
Gross margin	63.9	64.0	65.8	65.0
Pre-tax margin	8.0	10.1	10.7	12.9
Net margin	6.8	8.3	9.1	10.5
ROA	8.0	9.5	10.2	12.8
ROE	9.9	11.6	12.4	15.7
Growth				
Turnover	6.8	7.3	11.7	22.6
EBITDA	15.9	30.3	14.0	43.7
Pre-tax profit	20.7	35.5	18.1	48.4
Net profit	34.6	30.8	23.3	41.4
Net profit (adj.)	34.6	30.8	23.3	41.4
EPS	35.0	31.5	22.5	40.2
Leverage				
Debt to total capital	0.9	0.4	0.8	0.4
Debt to equity	0.9	0.4	0.8	0.4
Net debt/(cash) to equity	(62.2)	(67.2)	(73.1)	(70.3)
Interest cover	203.0	421.4	549.8	865.8