

Yili Industrial (600887 CH)

We expect synergy from the Ausnutria takeover

With the tie up with Ausnutria, Yili has completed a key step forward to meet its target of “ranking among the top 3 globally by 2025” and “top 1 by 2030”, in our view. It would help the company to rapidly expand its market share and optimize sales mix in the IMF market. We expect more birth supportive policies to come out in 2022 which could become near term catalyst to stock price. We are Buy-rated with TP of RMB46.5 (unchanged).

■ **What's new.** On 28 Jan 2022, Yili announced the completion of its acquisition of 34.33% of equity stake in Ausnutria (1717HK, not rated) for HK\$6.2bn (including new issued shares), and became the latter's largest single shareholder. Consensus estimates Ausnutria to generate RMB1.45bn net profits for 2022E. This implies the transaction will be ~4.7% accretive for Yili. Post acquisition, Yili would become the 2nd largest player by sales value and rank only behind Feihe.

■ **We expect market share gain and sales mix upgrade to be major revenue drivers for IMF players.** The number of new births in China saw sharp decline YoY for two consecutive years in 2020 (-18%) and 2021 (-12%), with the total number of new marriages in 2019-20 in continued decline YoY and Covid vaccination to delay some parents' decision to give birth. In our view, the volume headwind is likely to extent into 2022-23. By then, market share gain and sales mix upgrade would be the key factors to sustain top line growth.

■ **Enhanced consolidation leaves narrowing room for smaller players to emerge.** Yili is one of the top 5 dairy companies globally. IMF business (~14% of revenue in 2021E) has become a major revenue growth contributor for the company. Ausnutria is one of the leading IMF makers in China and is strong in high end goat milk/cow milk products. The tie up with Ausnutria would help Yili to enhance its leading position through synergies in high-quality milk sources, channels and product/brand portfolios.

■ **More supportive policies likely to come out in 2022.** Various cities/provinces issued implementation measures since the release of the 3rd child supportive policy in Jun 2021. These included cash subsidy, maternity leave, housing service, childcare services etc. We expect to see more this year.

■ **Valuation.** Our TP is based on 28.5x end-22E P/E which represents +1sd above its 3-year average.

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	90,223	96,886	110,813	125,929	140,856
YoY growth (%)	13.4	7.4	14.4	13.6	11.9
Net income (RMB mn)	6,934	7,078	8,902	10,648	12,734
EPS (RMB)	1.1	1.2	1.5	1.6	2.0
YoY growth (%)	11.6	2.0	25.8	11.7	19.7
Consensus EPS (RMB)	n.a	n.a	1.5	1.6	2.0
P/E (x)	n.a	n.a	27.0	24.1	20.2
P/B (x)	n.a	n.a	7.3	6.6	6.0
Yield (%)	n.a	n.a	2.8	3.1	3.7
ROE (%)	24.9	22.0	27.3	29.1	32.0
Net gearing (%)	net cash	1.3	7.6	5.7	2.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB46.5**
 Up/Downside **+20.0%**
 Current Price **RMB38.76**

China Consumer Staples

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Stock Data

Mkt Cap (RMB mn)	248,069
Avg 3 mths t/o (RMB mn)	2,438
52w High/Low (RMB)	48.38/ 30.90
Total Issued Shares (mn)	6,400

Source: Bloomberg

Shareholding Structure

HKSCC	12.3%
Huhe Haote Investment	8.9%
Pan Gang	4.7%

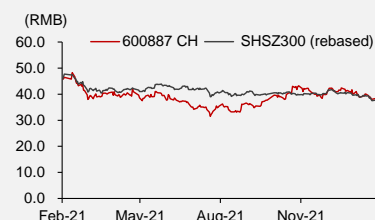
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.4%	0.5%
3-mth	-10.4%	-6.3%
6-mth	9.5%	16.3%

Source: Bloomberg

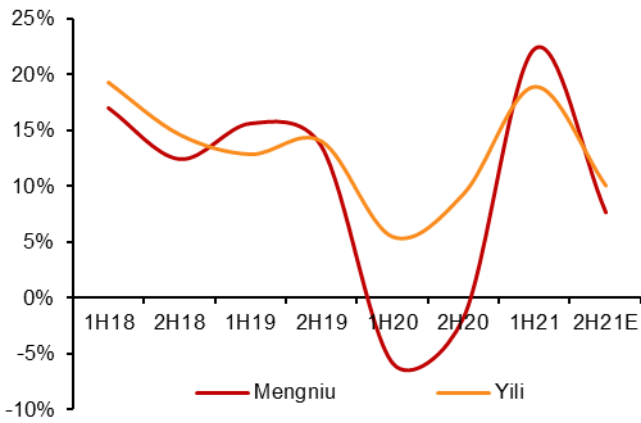
12-mth Price Performance



Source: Bloomberg

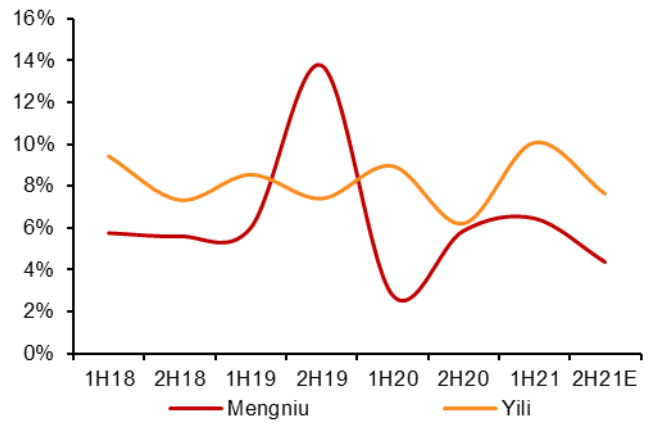
1. [“Promotional expense on Winter Olympics could weigh on 4Q results”](#) – 25 Jan 2022
2. [“Cherry-picking amid a de-risking mentality; our top picks: CRB/ Mengniu/ Feihe”](#) – 21 Jan 2022
3. [“Marketing feedback – inflation & price hikes are key words appeared in every meeting”](#) – 23 Nov 2021
4. [“Structural merits look prominent amid transitional headwind and any stagflation expectation”](#) – 2 Nov 2021

Figure 1: Revenue growth, Mengniu vs Yili



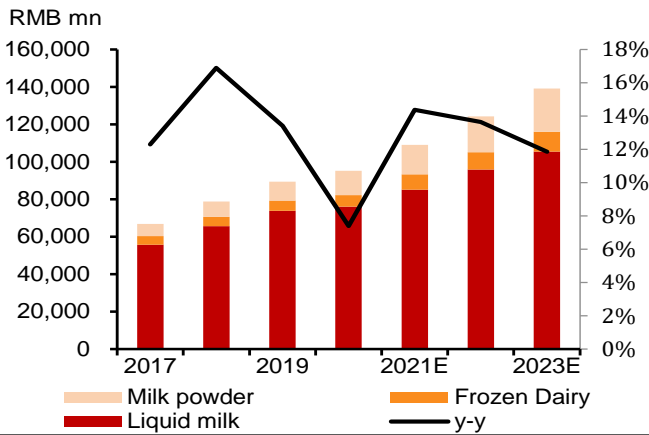
Source: Company data, CMBIS estimates

Figure 2: EBIT margins, Mengniu vs Yili



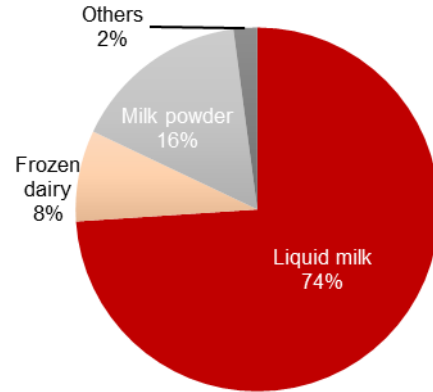
Source: Company data, CMBIS estimates

Figure 3: Revenue breakdown 2017-23E



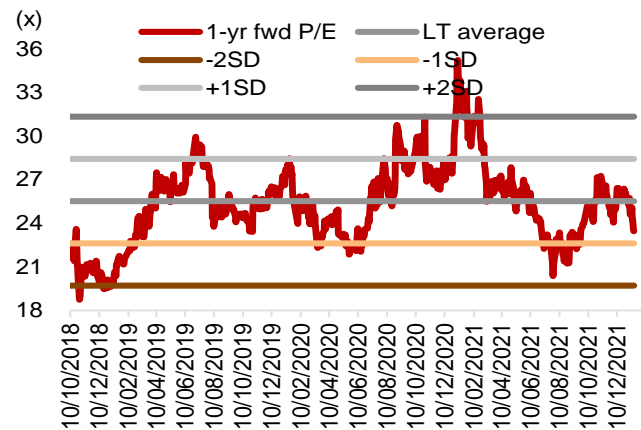
Source: Company data, CMBIS estimates

Figure 4: Gross profits breakdown by product



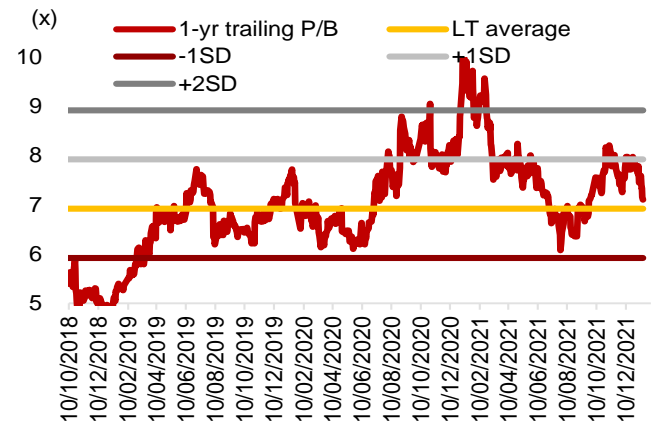
Source: Company data, CMBIS

Figure 5: 1-year forward P/E chart



Source: Bloomberg, CMBIS estimates

Figure 6: Trailing P/B chart



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	90,223	96,886	110,813	125,929	140,856
Liquid milk	73,761	76,123	85,182	95,810	105,37
Others	16,462	20,762	25,631	30,119	35,479
Gross profits	33,254	34,534	39,414	45,233	51,020
D&A	(1,958)	(2,442)	(2,821)	(3,252)	(3,688)
Selling expense	(21,070)	(21,538)	(23,603)	(26,445)	(29,298)
Administration expenses	(4,780)	(5,363)	(6,095)	(6,926)	(7,465)
Other op expense	1,734	2,286	2,821	3,252	3,688
EBIT	7,181	7,476	9,717	11,862	14,257
EBITDA	9,139	9,919	12,537	15,114	17,944
Finance costs, net	(8)	(188)	(369)	(470)	(456)
Investment gains/loss	1,108	1,270	1,350	1,460	1,516
Non-operating	(86)	(408)	(200)	(300)	(300)
Pre-tax profit	8,194	8,150	10,497	12,552	15,016
Income tax	(1,243)	(1,051)	(1,575)	(1,883)	(2,252)
Less: Minority interests	(17)	(21)	(21)	(21)	(21)
Net profit	6,934	7,078	8,902	10,648	12,743

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	6,934	7,078	8,902	10,648	12,743
D&A	1,958	2,442	2,821	3,252	3,688
Change in working capital	(2,286)	4,684	(901)	981	963
Others	1,850	(4,353)	(429)	(539)	(595)
Net cash fr. operating act.	8,455	9,852	10,392	14,342	16,799
Capex & investments	(9,243)	(6,522)	(6,597)	(7,638)	(6,845)
Acquisition	(1,583)	22	-	-	-
Others	826	(2,543)	(900)	(900)	(900)
Net cash fr. investing act.	(9,999)	(9,043)	(7,497)	(8,538)	(7,745)
Equity raised	275	248	-	1,200	-
Change of Debts	8,986	5,122	(400)	(400)	(400)
Dividend paid	(4,913)	(4,988)	(4,988)	(6,639)	(7,942)
Others	(5,364)	(428)	-	-	-
Net cash fr. financing act.	(1,016)	(47)	(5,388)	(5,839)	(8,342)
Net change in cash	(2,560)	762	(2,493)	(36)	712
Cash at the beginning of the	13,824	11,328	11,695	9,203	9,167
Exchange difference	62	(395)	-	-	-
Cash at the end of the year	11,325	11,695	9,203	9,167	9,879
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	34,755	42,774	47,900	53,746	58,419
PP&E/Fixed assets	24,461	28,768	32,282	36,340	39,455
Goodwill	1,936	1,897	2,160	2,487	2,530
Investments	2,494	3,423	4,773	6,233	7,749
Other non-current assets	5,864	8,685	8,685	8,685	8,685
Current assets	25,706	28,381	28,204	29,712	31,942
Cash	11,325	11,695	9,203	9,167	9,879
Account receivable	2,032	1,875	2,429	2,760	3,087
Inventory	7,715	7,545	9,307	10,519	11,710
Other current assets	4,634	7,266	7,266	7,266	7,266
Current liabilities	31,432	34,768	37,635	41,261	45,105
Borrowings	4,560	6,957	6,757	6,557	6,357
Account payables	13,618	17,975	19,390	21,914	24,395
Other payables	13,254	9,836	11,488	12,790	14,353
Non-current liabilities	2,755	5,853	5,653	5,453	5,253
Borrowings	1,971	5,137	4,937	4,737	4,537
Other non-current liabilities	784	716	716	716	716
Common stock	6,096	6,083	6,083	6,513	6,513
Retained earnings	21,534	23,541	25,804	28,510	31,749
Minority Interest	143	149	169	190	211
Total net assets	26,274	30,533	32,816	36,743	40,003
Shareholders' equity	26,131	30,384	32,647	36,553	39,792

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Liquid milk	81.8	78.6	76.9	76.1	74.8
Others	18.2	21.4	23.1	23.9	25.2
P&L ratios (%)					
Gross margin	36.9	35.6	35.6	35.9	36.2
Operating margin	8.0	7.7	8.8	9.4	10.1
Pre-tax margin	9.1	8.4	9.5	10.0	10.7
Net margin	7.7	7.3	8.0	8.5	9.0
Effective tax rate	(15.2)	(12.9)	(15.0)	(15.0)	(15.0)
Balance sheet analysis					
Current ratio (x)	0.4	0.4	0.3	0.3	0.3
Net receivable days	8.2	7.1	8.0	8.0	8.0
Inventory turnover days	49.9	44.6	48.0	48.0	48.0
Net payable days	88.1	106.2	100.0	100.0	100.0
Net debt to equity (%)	net cash	1.3	7.6	5.8	2.5
Returns (%)					
ROE	24.9	22.0	27.3	29.1	32.0
Dividend yield	n.a	n.a	2.8	3.1	3.7
Per share					
EPS (RMB)	1.1	1.2	1.5	1.6	2.0
DPS (RMB)	0.8	0.8	1.1	1.2	1.5
BVPS (RMB)	4.3	5.0	5.4	6.0	6.5
EV/EBITDA (x)	n.a	n.a	19.3	17.1	14.4

Source: Company data, CMBIS estimates

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