

Mengniu Dairy (2319 HK)

Raw milk price remained a lingering drag to 2H21 GPM; 2022E guidance maintained

- **Recurring 2H21 net profit was flat YoY at RMB2bn**, in line with our expectation. A 10% top line growth along with a 0.4pp operating cost savings was impressive, but both were in turn offset by a 35% GPM that came below our expectation.
- **2H21 revenue stood at RMB42bn, up 10% YoY**, slightly ahead of our estimates, thanks to strong ice cream revenue which grew two-fold to RMB1.2bn. This is because milk formula revenue was slightly behind us at RMB2.4bn, while liquid milk revenue was in line at RMB37bn. New products contributed to a steady 15% to total revenue.
- **By segment, on a full year basis, liquid milk revenue was up 13% YoY**, of which UHT milk up 16% YoY while that of fresh milk was up 85% YoY. The latter snapped up another 2.3pp share to 13.4% of the market. Management reinforced that the business unit has turned profitable and foresee a better-than-group-average profit margins in 3 years. Separately, ice cream revenue up 61% YoY with recurring domestic revenue going up by 19% YoY (excluding the acquisition of Aice by March 2021).
- **Despite the strength in revenue, 2H21 GPM came in at 35.1% and was below our expectation of 36.1%** on high milk cost. Management assured that raw milk price pressure has been easing and tapering from 15%+ over 1H21. For now, now, management still projects raw milk price to grow at HSD in 2022.
- **Opex ratio was down 0.4pp to 29.8% of 2H21 revenue**. The improved efficiency has partially mitigated the impact of a lower GPM and led to a 4.7% recurring operating margin for 2H. For 2021, recurring OPM was 5.5%, slightly lower than 5.9% in 2019. **During the conference call**, management maintained its full year 2022 revenue guidance of a low double-digit growth with a 30-50bps recurring operating margins expansion.
- **Our TP is based on 30x end-22E P/E**, which represents +1sd above its 3-year average. Our target multiple also benchmarks to Yili's.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	79,030	76,035	88,141	98,165	109,924
YoY growth (%)	14.6	(3.8)	15.9	11.4	12.0
Net income (RMB mn)	4,105	3,525	5,026	6,119	7,359
EPS (RMB)	0.8	0.9	1.3	1.6	1.9
YoY growth (%)	6.7	8.6	35.3	19.4	18.8
Consensus EPS (RMB)	n.a	n.a	1.3	1.6	1.9
P/E (x)	n.a	n.a	26.2	22.3	19.7
P/B (x)	n.a	n.a	3.8	3.3	2.9
Yield (%)	n.a	n.a	1.1	1.3	1.5
ROE (%)	12.3	9.5	12.0	13.2	14.1
Net gearing (%)	49.5	19.0	28.2	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$57.0
(Previous TP)	HK\$57.0)
Up/Downside	+35.1%
Current Price	HK\$42.2

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn)	166,828
Avg 3 mths t/o (HK\$ mn)	529
52w High/Low (HK\$)	50.8/ 39.85
Total Issued Shares (mn)	3,953

Source: Wind

Shareholding Structure

COFCO (Hong Kong) Limited	13.9%
FIL Limited	7.5%
Brown Brothers Harriman & Co.	7.3%

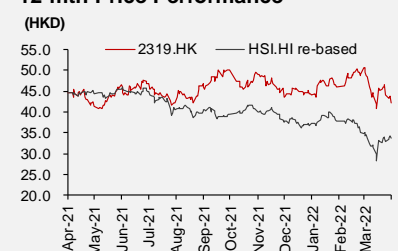
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-15.0%	-13.5%
3-mth	-4.5%	1.5%
6-mth	-13.2%	-4.4%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

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