

Yili Industrial (600887 CH)

1Q22 in line; management guidance implies c.10% 2022E core revenue growth

4Q21 net profits came in at RMB761mn, up 3% YoY and was slightly below our estimate on higher-than-expected promotional expense for the Winter Olympics. Raw milk appeared to be a smaller drag to the quarter's GPM which came in slightly higher YoY at c28%. Overall, 2021 is reported on track with Yili's guidance, achieving 18% recurring net profit growth with NPM expansion of 0.5pp. Meanwhile, 1Q22 results kicked in line with our estimate at a 13% revenue growth albeit any pandemic-driven lockdowns. Along with the announcement, Yili also guided for a RMB129.6bn/ 12.2bn revenue/ profits before tax targets for 2022E, and these imply 17.2%/ 20.8% YoY growth respectively. The targets take into account, in our view, the impact from Ausnutria consolidation starting from 2Q22 (previously recognized as JCE), after Yili raised its stake in the former to 59.17% since mid-March. Excluding the event, we estimate 2022E core revenue growth to be c10%, which is c3% below our previous forecasts. Despite this, we raise our 2022E revenue by 3% to reflect the net impact of the above, and hence our slightly higher net profits estimates. We are buy-rated. Our new TP is still based on 28.5x (unchanged) end-22E P/E which represents +1sd above its 3-year average.

Highlights from management call:

- **Revenue/ net profit** came in at RMB1,106bn/ RMB8.7bn in 2021, +14%/ +23% YoY and continued to top the league among dairy firms in Asia. Volume increase, sales mix upgrade and price increases or reduced promotions on certain SKUs contributed 7.5%, 3.8% and 2.5% to revenue growth, respectively, which also drove +0.5ppt improvement YoY in GPM to 30.3%.
- **All main segments**, including liquid milk, milk powder and products, frozen dairy, recorded DDG, at +11.5%, +25.8%, +16.3% YoY, respectively.
 - **Liquid milk:** home-temp liquid milk continued to outperform the industry in terms of growth, achieving 40% market share, the No.1 in the industry.
 - **Milk powder and products:** IMF achieved the highest growth and 2nd largest market share in the industry. The cheese business recorded 150%+ revenue growth and +6.3ppt market share improvement in 2021 YoY.
 - **Frozen dairy:** has maintained the leading position in the sector for the 27th year.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	96,886	110,595	129,612	145,072	161,699
YoY growth (%)	7.4	14.2	17.2	11.9	11.5
Net income (RMB mn)	7,078	8,705	10,774	12,601	15,948
EPS (RMB)	1.2	1.4	1.7	1.9	2.4
YoY growth (%)	2.0	23.0	15.6	17.0	26.6
Consensus EPS (RMB)	n.a	1.5	1.8	2.0	2.0
P/E (x)	n.a	26.6	23.0	19.7	15.6
P/B (x)	n.a	4.8	4.5	4.3	4.0
Yield (%)	n.a	2.6	3.2	3.8	4.8
ROE (%)	22.0	16.6	21.1	23.2	27.4
Net gearing (%)	1.3	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price RMB47.0
 (Previous TP RMB46.5)
Up/Downside +23.6%
Current Price RMB38.0

China Consumer Staples

Joseph Wong
 (852) 3900 0838
 josephwong@cmbi.com.hk

Zheng Xiaohui
 zhengxiaohui@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	291,235
Avg 3 mths t/o (RMB mn)	1,507
52w High/Low (RMB)	43.2/ 31.5
Total Issued Shares (mn)	6,400

Source: Wind

Shareholding Structure

HKSCC	14.9%
Huhe Haote Investment	8.4%
Pan Gang	4.5%

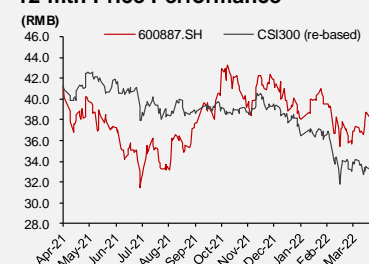
Source: Wind

Share Performance

	Absolute	Relative
1-mth	5.6%	11.1%
3-mth	-3.4%	14.7%
6-mth	-11.5%	8.6%

Source: Wind

12-mth Price Performance



Source: Wind

Related reports

1. ["Yili Industrial \(600887 CH\) – We expect synergy from the Ausnutria takeover"](#) – 8 Feb 2022
2. ["Yili Industrial \(600887 CH\) – Promotional expense on Winter Olympics could weigh on 4Q results"](#) – 25 Jan 2022

- **Targets and outlook:** Management targeted to achieve 9-10% NPM by 2025E and lead Yili to become the largest dairy firm globally in longer term. They believed in a still large upside in China's dairy market, given <25kg annual per capita milk consumption in China, compared to the global average of 113kg.
- Management was positive on **liquid milk**, especially higher-end SKUs, which would be driven by consumption upgrade and penetration into lower-tier cities in China.
- **Milk powder** could accelerate as management expected birth rate to rebound on fading Covid impact and favorable birth policies that China has been issuing. Management was confident to maintain steady growth and market share expansion in the segment in 2022E.
- **Cheese** could embrace its prime age in the next 3-5 years, given a still large space for product differentiation, channel expansion and consumer education in the Chinese market.
- **Covid impact:** The negative impact from outbreaks and lockdowns since Mar in several important regional markets, such as Shanghai, was mainly on the efficiency of logistics and deliveries, while the "supply guarantee" policies in different cities under lockdowns could even result to be favorable for such industry leader as Yili, which was preferred by local governments or consumers when choosing the products for the guarantee of daily necessities.
- **Raw milk price** was expected to remain overall stable in 2022E, as demand-supply was likely to remain in balance for the year, according to management. In longer term, raw milk price may still trend up, on expected increasing demand for dairy products, but a dramatic uptick was unlikely as the government has been issuing favorable policy for dairy upper stream to boost raw milk production which, though, should be better aligned with downstream need in the future as the industry was expected to be increasingly consolidated.

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	129,612	145,072	161,699	125,929	140,856	NA	2.9%	3.0%	NA
Gross Profit	39,814	45,776	53,302	45,233	51,020	NA	NA	NA	NA
EBIT	11,220	13,756	17,645	11,862	14,257	NA	NA	NA	NA
Net profit	10,774	12,601	15,948	10,648	12,743	NA	1.2%	-1.1%	NA
EPS (RMB)	1.65	1.93	2.45	1.63	1.96	NA	1.2%	-1.1%	NA
Gross Margin	30.72%	31.55%	32.96%	35.92%	36.22%	NA	NA	NA	NA
EBIT Margin	8.66%	9.48%	10.91%	9.42%	10.12%	NA	NA	NA	NA
Net Margin	8.31%	8.69%	9.86%	8.46%	9.05%	NA	-0.1ppt	-0.4ppt	NA

Note: the new gross profit and EBIT and related margins are not comparable to the old once as the former are based on updated accounting standards which require re-classifying certain items previously recognized as selling and admin expenses to COGS.

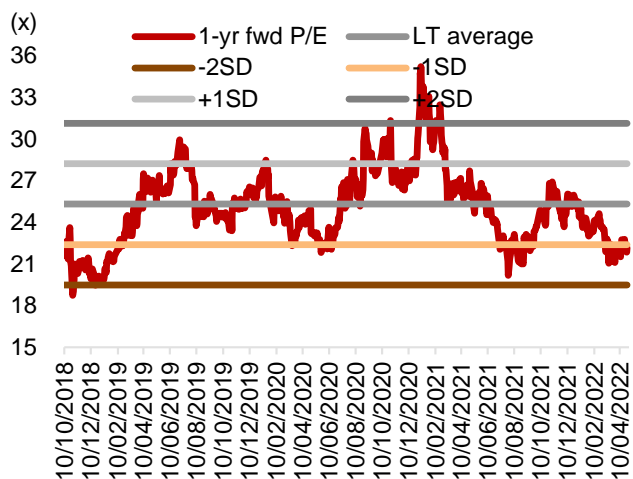
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	129,612	145,072	161,699	124,159	138,039	156,355	4.4%	5.1%	3.4%
Gross Profit	39,814	45,776	53,302	44,943	50,488	52,582	-11.4%	-9.3%	1.4%
Operating Profit	11,220	13,756	17,645	12,321	14,453	16,865	-8.9%	-4.8%	4.6%
Net profit	10,774	12,601	15,948	10,692	12,495	14,846	0.8%	0.8%	7.4%
EPS (RMB)	1.65	1.93	2.45	1.70	1.98	2.34	-2.4%	-2.5%	4.6%
Gross Margin	30.7%	31.6%	33.0%	36.2%	36.6%	33.6%	-5.5ppt	-5ppt	-0.7ppt
Operating Margin	8.7%	9.5%	10.9%	9.9%	10.5%	10.8%	-1.3ppt	-1ppt	0.1ppt
Net Margin	8.3%	8.7%	9.9%	8.6%	9.1%	9.5%	-0.3ppt	-0.4ppt	0.4ppt

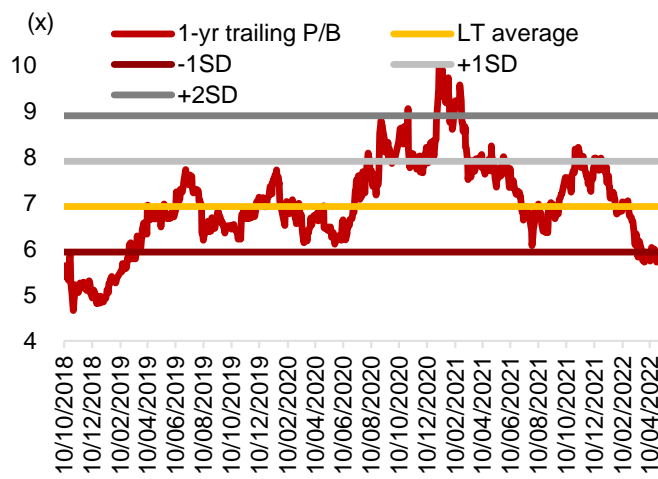
Source: Company data, CMBIGM estimates

Figure 3: 1-year forward P/E chart



Source: Bloomberg, CMBIGM estimates

Figure 4: Trailing P/B chart



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	96,886	110,59	129,61	145,07	161,69
Liquid milk	76,123	84,911	90,854	100,84	111,94
Others	20,762	25,685	38,757	44,224	49,758
Gross profits	34,534	33,515	39,814	45,776	53,302
D&A	(2,442)	(2,988)	(3,252)	(3,688)	(4,104)
Selling expense	(21,538)	(19,315)	(22,636)	(25,388)	(28,297)
Administration expenses	(5,363)	(4,828)	(5,658)	(6,333)	(7,059)
Other op expense	2,286	2,547	2,952	3,388	3,804
EBIT	7,476	8,930	11,220	13,756	17,645
EBITDA	9,919	11,919	14,472	17,444	21,749
Finance costs, net	(188)	29	96	(39)	(53)
Investment gains/loss	1,270	1,271	1,200	900	900
Non-operating	(408)	(118)	-	-	-
Pre-tax profit	8,150	10,112	12,515	14,617	18,493
Income tax	(1,051)	(1,380)	(1,708)	(1,995)	(2,524)
Less: Minority interests	(21)	(27)	(34)	(21)	(21)
Net profit	7,078	8,705	10,774	12,601	15,948

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	7,078	8,705	10,774	12,601	15,948
D&A	2,442	2,988	3,252	3,688	4,104
Change in working capital	4,684	(5,518)	(6,588)	(424)	(456)
Others	(4,353)	9,352	34	21	21
Net cash fr. operating act.	9,852	15,528	7,471	15,886	19,617
Capex & investments	(6,522)	(6,683)	(7,638)	(6,845)	(7,027)
Acquisition	22	-	-	-	-
Others	(2,543)	(1,114)	(900)	(900)	(900)
Net cash fr. investing act.	(9,043)	(7,797)	(8,538)	(7,745)	(7,927)
Equity raised	248	16,047	-	-	-
Change of Debts	5,122	5,882	(2,400)	(1,600)	-
Dividend paid	(4,988)	(4,988)	(5,913)	(8,035)	(9,398)
Others	(428)	(4,996)	-	-	-
Net cash fr. financing act.	(47)	11,945	(8,313)	(9,635)	(9,398)
Net change in cash	762	19,676	(9,380)	(1,494)	2,292
Cash at the beginning of the	11,328	12,095	31,742	22,362	20,868
Exchange difference	(395)	(29)	-	-	-
Cash at the end of the year	11,695	31,742	22,362	20,868	23,160
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	42,774	51,807	57,644	61,701	65,524
PP&E/Fixed assets	28,768	29,379	33,437	36,551	39,360
Goodwill	1,897	1,609	2,487	2,530	2,644
Investments	3,423	4,210	5,110	6,010	6,910
Other non-current assets	8,685	16,610	16,610	16,610	16,610
Current assets	28,381	50,155	45,496	45,713	49,694
Cash	11,695	31,742	22,362	20,868	23,160
Account receivable	1,875	2,107	3,551	3,975	4,430
Inventory	7,545	8,917	12,195	13,483	14,716
Other current assets	7,266	7,388	7,388	7,388	7,388
Current liabilities	34,768	43,296	42,351	44,202	47,932
Borrowings	6,957	12,596	11,396	10,596	10,596
Account payables	17,975	14,062	12,195	13,483	14,716
Other payables	9,836	16,638	18,760	20,123	22,619
Non-current liabilities	5,853	9,875	8,675	7,875	7,875
Borrowings	5,137	5,380	4,180	3,380	3,380
Other non-current liabilities	716	4,495	4,495	4,495	4,495
Common stock	6,083	6,400	6,513	6,513	6,513
Retained earnings	23,541	24,298	27,036	30,239	34,292
Minority Interest	149	1,083	1,116	1,137	1,158
Total net assets	30,533	48,791	52,113	55,337	59,411
Shareholders' equity	30,384	47,708	50,997	54,200	58,253

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Liquid milk	78.6	76.8	70.1	69.5	69.2
Others	21.4	23.2	29.9	30.5	30.8
P&L ratios (%)					
Gross margin	35.6	30.3	30.7	31.6	33.0
Operating margin	7.7	8.1	8.7	9.5	10.9
Pre-tax margin	8.4	9.1	9.7	10.1	11.4
Net margin	7.3	7.9	8.3	8.7	9.9
Effective tax rate	(12.9)	(13.6)	(13.6)	(13.6)	(13.6)
Balance sheet analysis					
Current ratio (x)	0.4	0.6	0.5	0.5	0.5
Net receivable days	7.1	7.0	10.0	10.0	10.0
Inventory turnover days	44.6	42.6	50.0	50.0	50.0
Net payable days	106.2	67.2	50.0	50.0	50.0
Net debt to equity (%)	1.3	(28.2)	(13.0)	(12.5)	(15.5)
Returns (%)					
ROE	22.0	16.6	21.1	23.2	27.4
Dividend yield	n.a	2.6	3.2	3.8	4.8
Per share					
EPS (RMB)	1.2	1.4	1.7	1.9	2.4
DPS (RMB)	0.8	1.0	1.2	1.4	1.8
BVPS (RMB)	5.0	7.8	8.4	8.9	9.6
EV/EBITDA (x)	n.a	18.7	17.1	14.2	11.3

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.