

China Feihe (6186 HK)

2H sets to recover when channel restructuring completes as planned

We cut our 2022/23E revenue by 8.5%/3.0% to reflect the impact of Feihe's "freshness strategy" that has been ongoing since beginning of 2022. Feihe aims to clear up obsolete channel inventory to prepare for the enactment of the new national standards (early-2023) and to stabilize retail pricing. The restructuring also leads us to believe SG&A will surge in 1H22 and we have raise 2.3pp of our opex ratio accordingly. Meanwhile, we also lower our 2022/23E GPM by 2.5pp/2.9pp to reflect the potential dilution from a rising contribution of children/ adult IMF, which typically offers a lower GPM than infancy IMF. These changes result in a 11%/ 15% cut in our 2022/23E net profit, and hence our new TP of HK\$11.5. Other than these, management remains upbeat to look for a DD top line growth for 2H22 (subsequent to a SD decline for 1H) upon the completion of the channel restructuring, and we anticipate a clearer roadmap on how management will achieve its RMB35bn revenue target for 2023E. We remain buy-rated.

Our key NDR takeaway

- The key focus in 2022 is to clear up obsolete channel inventory and incentivize dealers to sell Feihe products. Management expected a slight revenue decline in 1H22 while maintained GPM/ NPM targets of 68-70% and 28-30%. Feihe also has a longer-term goal of RMB35bn revenue in 2023, 30% market share and 15% top line CAGR in 2023-28E.
- The company continued the efforts to develop its "2nd growth trajectory" after infancy IMF in 1H22, through launching higher-ended products and expanding into other milk powder segments, such as children and adult IMF.
- The super-premium brand Astrobaby Zhuorui launched in 4Q21 performed strongly in 1H22, according to management. Astrobaby products for the new national IMF standards, which will enter into force in Feb 2023, will be launched in 2023.
- Adult IMF performed in 1Q22 with the launch of its premium brand Aiben (爱本) in 4Q21 and a thorough upgrade of the core product "1962" in Jan.

Valuation. Our revised TP is based on 11.5x (from 13.0x) end-22E P/E, which still represents -1sd below its long term average of 16.7x. Our methodology reflects our vigilance in view of China's currently low birth rate and industry overhang.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	18,592	22,776	25,413	31,562	36,862
YoY growth (%)	35.5	22.5	11.6	24.2	16.8
Net income (RMB mn)	7,437	6,959	7,236	8,865	10,117
EPS (RMB)	0.8	0.8	0.8	1.0	1.1
YoY growth (%)	69.8	(6.4)	4.0	22.5	14.1
Consensus EPS (RMB)	n.a	n.a	0.8	0.9	1.1
P/E (x)	n.a	n.a	9.4	7.7	6.7
P/B (x)	n.a	n.a	2.7	2.2	1.9
Yield (%)	n.a	n.a	4.5	5.5	6.3
ROE (%)	25.1	40.4	41.8	44.0	45.0
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$11.5
 (Previous TP) HK\$14.0
Up/Downside +29.2%
Current Price HK\$8.9

China Consumer Sector

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

Zheng Xiaohui
 zhengxiaohui@cmbi.com.hk



Stock Data

Mkt Cap (HK\$ mn)	79,256
Avg 3 mths t/o (HK\$ mn)	168.1
52w High/Low (HK\$)	18.3/ 6.8
Total Issued Shares (mn)	8,905

Source: Bloomberg

Shareholding Structure

Garland Glory Holdings	43.6%
Morgan Stanley	7.8%
Dasheng Ltd	4.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	19.1%	8.5%
3-mth	19.9%	15.7%
6-mth	-14.8%	-11.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	25,413	31,562	36,862	27,760	32,524	n.a	-8.5%	-3.0%	n.a
Gross profit	17,526	21,520	24,893	19,856	23,113	n.a	-11.7%	-6.8%	n.a
EBIT	10,093	12,371	14,122	11,034	12,940	n.a	-8.5%	-4.4%	n.a
Net profit	7,236	8,865	10,117	8,113	9,544	n.a	-10.8%	-14.9%	n.a
EPS (RMB)	0.8	1.0	1.1	0.9	1.0	n.a	-10.8%	-14.9%	n.a

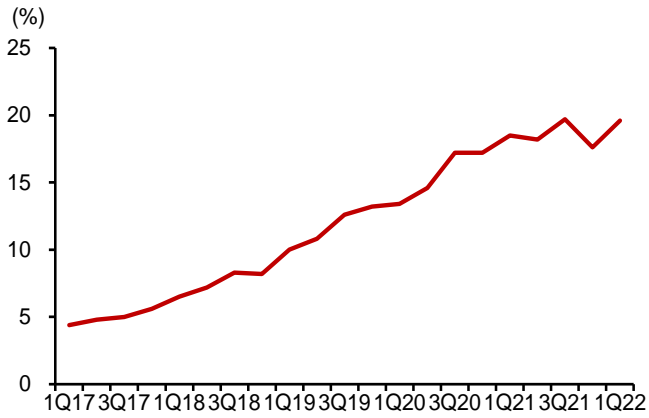
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	25,413	31,562	36,862	25,251	29,072	32,715	0.6%	8.6%	12.7%
Gross profit	17,526	21,520	24,893	17,190	19,756	22,102	2.0%	8.9%	12.6%
Operating profit	10,093	12,371	14,122	9,924	11,558	12,850	1.7%	7.0%	9.9%
Net profit	7,236	8,865	10,117	7,258	8,334	9,104	-0.3%	6.4%	11.1%
EPS (RMB)	0.8	1.0	1.1	0.8	0.9	1.1	-2.2%	4.2%	4.7%

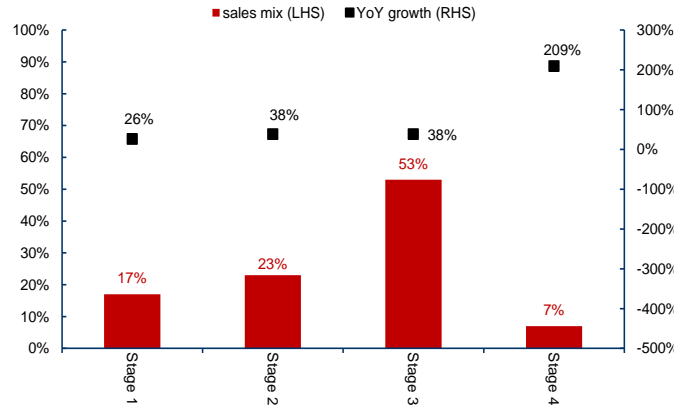
Source: Company data, CMBIGM estimates

Figure 3: Market share trend for Feihe



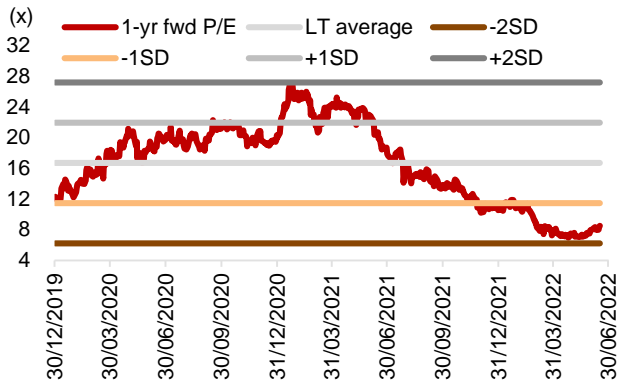
Source: Company data, CMBIS

Figure 4: Stage 3 IMF mix supports stage 4 expansion



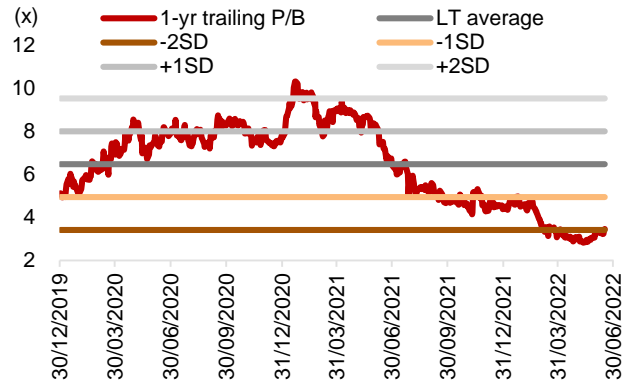
Source: Company data, CMBIS

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	18,592	22,776	25,413	31,562	36,862
IMF	17,674	21,853	24,431	30,462	35,613
Others	919	923	981	1,099	1,249
Gross profits	13,480	16,008	17,526	21,520	24,893
D&A	(266)	(1,537)	(275)	(302)	(333)
Selling expense	(5,263)	(6,729)	(7,624)	(8,995)	(10,321)
Administration expenses	(1,161)	(1,208)	(1,423)	(1,767)	(2,064)
Other income, gains	3,019	1,864	1,864	1,864	1,864
Other expense	(231)	(90)	(250)	(250)	(250)
EBIT	9,844	9,844	10,093	12,371	14,122
EBITDA	10,110	11,382	10,367	12,674	14,454
Finance costs, net	74	81	81	81	81
Non-operating	(18)	(253)	(116)	(116)	(116)
Pre-tax profit	9,900	9,672	10,058	12,337	14,087
Income tax	(2,464)	(2,757)	(2,867)	(3,517)	(4,016)
Less: Minority interests	0	44	46	46	46
Net profit	7,437	6,959	7,236	8,865	10,117

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	7,437	6,959	7,236	8,865	10,117
D&A	266	1,537	511	622	758
Change in working capital	1,253	(827)	(120)	(266)	(234)
Others	(1,205)	(854)	(30)	(30)	(30)
Net cash fr. operating act.	7,751	6,815	7,597	9,191	10,611
Capex & investments	(816)	(1,930)	(2,099)	(2,556)	(3,113)
Short term investment	-	-	-	-	1
Others	(2,970)	(514)	-	-	(1)
Net cash fr. investing act.	(3,786)	(2,444)	(2,099)	(2,556)	(3,113)
Equity raised	-	(365)	-	-	-
Change of Debts	(3,630)	(444)	-	-	-
Dividend paid	(2,685)	(3,392)	(3,462)	(3,600)	(4,411)
Others	3,772	(44)	-	-	-
Net cash fr. financing act.	(2,543)	(4,245)	(3,462)	(3,600)	(4,411)
Net change in cash	1,421	125	2,036	3,035	3,087
Cash at the beginning of the year	8,810	9,553	9,629	11,665	14,700
Exchange difference	(173)	(49)	-	-	-
Cash at the end of the year	10,059	9,629	11,665	14,700	17,787
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	9,778	11,512	13,084	15,002	17,342
PP&E/Fixed assets	7,197	8,437	10,018	11,950	14,304
Intangible assets	48	133	140	141	143
Right of use assets, net	1,442	1,707	1,707	1,707	1,707
Other non-current assets	1,091	1,234	1,219	1,203	1,188
Current assets	18,544	19,970	22,338	26,048	29,735
Cash	10,059	9,629	11,665	14,700	17,787
Account receivable	289	477	525	652	762
Inventories	557	576	576	576	576
Other current assets	7,640	9,287	9,572	10,120	10,610
Current liabilities	7,107	6,942	7,154	7,563	7,928
Borrowings	514	833	1,042	1,133	1,284
Account payables	346	407	614	910	1,063
Other payables	903	1,083	3,094	448	313
Rent payable	5,344	4,618	2,404	5,072	5,269
Non-current liabilities	2,030	2,136	2,136	2,136	2,136
Borrowings	732	621	621	621	621
Deferred tax liabilities	139	115	115	115	115
Other non-current liabilities	1,158	1,399	1,399	1,399	1,399
Minority Interest	1,438	1,482	1,436	1,391	1,345
Total net assets	19,186	22,403	26,132	31,352	37,012
Shareholders' equity	17,747	20,921	24,696	29,961	35,667

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
IMF	95.1	95.9	96.1	96.5	96.6
Others	4.9	4.1	3.9	3.5	3.4
P&L ratios (%)					
Gross margin	72.5	70.3	69.0	68.2	67.5
Operating margin	52.9	43.2	39.7	39.2	38.3
Pre-tax margin	53.3	42.5	39.6	39.1	38.2
Net margin	40.0	30.6	28.5	28.1	27.4
Effective tax rate	(24.9)	(28.5)	(28.5)	(28.5)	(28.5)
Balance sheet analysis					
Current ratio (x)	0.5	0.5	0.5	0.6	0.6
Net receivable days	5.6	7.5	7.5	7.5	7.5
Inventory turnover days	80.9	69.2	69.2	69.2	69.2
Net payable days	91.7	92.8	92.8	92.8	92.8
Net debt to equity (%)	net	net	net	net	net
Returns (%)					
ROE	25.1	40.4	41.8	44.0	45.0
Dividend yield	n.a	4.3	4.5	5.5	6.3
Per share					
EPS (RMB)	0.8	0.8	0.8	1.0	1.1
DPS (RMB)	0.3	0.4	0.4	0.5	0.6
BVPS (RMB)	2.0	2.3	2.8	3.4	4.0
EV/ EBITDA (x)	n.a	5.3	5.7	4.2	3.5

Source: Company data, CMBIS estimates

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CMB International Global Markets Limited

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

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