



Rating
Buy

Asia
China

Consumer
Food & Beverage

Company
Yili

Reuters 600887.SS Bloomberg 600887 CH Exchange SHH Ticker 600887

Date
31 August 2017

Results

Price at 30 Aug 2017 (CNY)	22.58
Price target - 12mth (CNY)	24.80
52-week range (CNY)	23.29 - 15.98
HANG SENG INDEX	27,765

Valuation & Risks

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2Q17 results beat with strong sales growth; reiterating Buy

2Q17 sales/recurring earnings were 11%/14% higher than DB forecast

Yili reported strong 2Q17 results with 20% yoy sales growth and 30% yoy recurring net profit growth. Net profit declined 1.6% yoy in 2Q17 due to lower government grants. Recurring 2Q17 net profit was 14% higher than DB forecast, mainly due to stronger than expected sales growth. On a semi annual basis, sales and recurring earnings grew 11% and 23% yoy respectively. By category, sales growth in 1H17 was driven by:

- **Liquid milk** - grew by 13% yoy, mainly attributable to recovering consumption (industry retail sales up 7.3% yoy in 1H17) and Yili's increasing market share (UHT milk increased 300bps yoy to 33.4% in 1H17).
- **Milk powder** - grew by 20% yoy, helped by easing competition on implementation of new regulations and lower channel stocking.
- **Ice cream** - grew by 11% yoy, thanks to strong growth of high-end products and more favorable weather in 2Q17.
- Particularly, sales growth was driven by high-end products (i.e UHT yoghurt, high-end yoghurt and high-end IMF), which grew by 31% yoy in 1H17 and currently accounts for 40-50% of total sales.

OP margin expanded 120bps to 12.2% in 2Q17, helped by 245bps expansion in GP margin due to better product mix and stabilizing raw material price, while partly offset by higher A&P expense ratio.

Three reasons for the strong sales recovery

Yili's recurring sales growth improved from 6% yoy in 1Q17 to 20% in 2Q17. We think this is mainly due to three reasons. Firstly, consumer staple sector generally saw demand recovery from 2Q17, helped by recovering infrastructure and property investment from 2016 and a lower base; secondly, competition in liquid milk is easing, thanks to more balanced supply and demand; and thirdly, Yili's strong distribution network and branding in high-end products makes it well positioned in the recovery. We believe these reasons should continue to drive Yili's sales in the near-term.

Reiterating Buy

We revise up our earnings forecast by 10-12% in 2017-19E, mainly to factor in higher sales growth driven by industry recovery and Yili's product mix upgrade.

Key changes

TP	22.00 to 24.80	↑	12.7%
Sales (FYE)	64,558 to 66,917	↑	3.7%
Op prof margin (FYE)	9.3 to 10.2	↑	9.3%
Net profit (FYE)	5,734.6 to 6,414.8	↑	11.9%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	10.2	15.8	33.5
HANG SENG INDEX	2.9	8.0	20.6

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	26.5
Net debt/equity (%)	-54.6
Book value/share (CNY)	4.18
Price/book (x)	5.4
Net interest cover (x)	-
Operating profit margin (%)	10.2

Source: Deutsche Bank



We revise up our TP by 13% to Rmb24.8 based on a DCF approach, factoring in a 9.5% WACC (3.9% RFR, 5.6% ERP, 1.0 beta, debt-free structure) and 2% terminal growth. We reiterate Yili as our top pick among our A share coverage. Downside risks: higher-than-expected raw material price increase, food safety incidents and worse-than-expected competition.

Figure 1: 1H17 results review

RMBm	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	1H16	1H17	2Q17	1H17
									YoY Change	
Sales	15,326	14,760	16,085	14,438	15,790	17,703	30,087	33,494	19.9%	11.3%
Gross profit	6,363	5,279	6,145	4,975	5,871	6,766	11,642	12,637	28.2%	8.5%
SG&A	4,669	3,966	4,923	4,013	3,953	4,985	8,634	8,938	25.7%	3.5%
EBIT	1,706	1,620	1,267	997	1,965	2,154	3,326	4,118	33.0%	23.8%
NP	1,554	1,658	1,178	1,272	1,734	1,630	3,211	3,364	-1.6%	4.8%
Recurring NP	1,430	1,359	1,045	905	1,674	1,766	2,789	3,441	29.9%	23.4%
GPM	41.5%	35.8%	38.2%	34.5%	37.2%	38.2%	38.7%	37.7%	2.45%	-1.0%
SG&A/Sales	30.5%	26.9%	30.6%	27.8%	25.0%	28.2%	28.7%	26.7%	1.3%	-2.0%
EBITM	11.1%	11.0%	7.9%	6.9%	12.4%	12.2%	11.1%	12.3%	1.19%	1.2%
NPM	10.1%	11.2%	7.3%	8.8%	11.0%	9.2%	10.7%	10.0%	-2.0%	-0.6%
Recurring NPM	9.3%	9.2%	6.5%	6.3%	10.6%	10.0%	9.3%	10.3%	0.8%	1.0%

Source: Deutsche Bank, company data

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	60,108.8	60,189.1	66,916.8	74,177.8	80,964.8
EBITDA (CNYm)	6,726.8	7,087.9	8,263.1	9,038.1	9,987.8
Reported NPAT (CNYm)	4,631.8	5,661.8	6,414.8	6,884.5	7,540.6
Reported EPS FD (CNY)	0.76	0.93	1.06	1.14	1.24
DB EPS FD (CNY)	0.76	0.93	1.06	1.14	1.24
DB EPS growth (%)	12.0	23.3	13.3	7.3	9.5
PER (x)	21.6	17.3	21.3	19.9	18.2
EV/EBITDA (x)	13.8	11.9	14.9	13.5	12.1
DPS (net) (CNY)	0.46	0.68	0.73	0.80	0.91
Yield (net) (%)	2.8	4.2	3.2	3.5	4.0

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Yili	600887.SS	22.58 (CNY) 30 Aug 2017	NA

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Historical recommendations and target price. Yili (600887.SS)

(as of 08/30/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	11/03/2015	Buy, Target Price Change CNY 18,60 Mark Yuan	3.	07/14/2016	Buy, Target Price Change CNY 20,40 Mark Yuan
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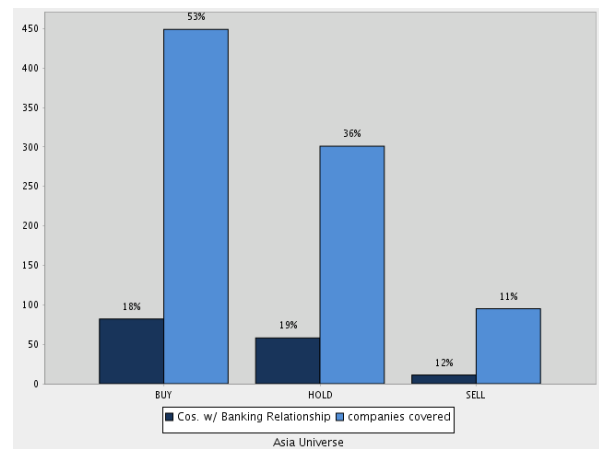
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