



Rating
Buy

Asia
China

Consumer
Food & Beverage

Company
Yili

Reuters 600887.SS Bloomberg 600887 CH Exchange SHH Ticker 600887

Date
31 October 2017

Company Update

Price at 30 Oct 2017 (CNY)	30.36
Price target - 12mth (CNY)	31.60
52-week range (CNY)	30.36 - 17.30
HANG SENG INDEX	28,336

Valuation & Risks

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Key takeaway from 3Q17 post results call

Outlook: raw material costs to enter rising cycle, but competition could ease

We held an investors' conference call with Yili after the announcement of 3Q results. On the top line, management expects strong industry demand to continue, yet the high base in 2017 might bring some pressure on growth in 2018. On margin, management expects industry competition to ease down within a rising raw material cost environment. Key takeaways are as below:

- The 15% yoy organic sales growth in 9M17 is mainly driven by volume growth.** Price benefit from product mix upgrade is offset by lower ASP due to increasing promotions. Sales growth of high-end products remains strong. Sales of UHT yoghurt "Ambrosial" increased more than 30% yoy, while high-end milk "Satine" and chilled yoghurt "Chang Qing" grew in double digits. The high-end products account for 50% of sales currently.
- Sales outlook:** Yili guided Rmb65bn sales and Rmb6.2bn profit before tax at the beginning of the year. Management indicates that actual growth could be better than previous guidance. In the next few years, management expects industry growth to remain strong, given low per capita consumption and increasing demand from lower tier regions. However, management also acknowledged that high base in 2017 should bring some pressure on sales growth in 2018.
- Industry competition didn't worsen year-to-date.** Meanwhile, management feels that there is some easing down in promotions due to increasing demand in September for National holidays and under supply of raw milk in some regions, though there has been no significant improvement in competition overall.
- Margin outlook:** Raw milk price to enter rising cycle gradually from 2018, which will bring pressure on gross margin. Yet, management expects the competition to ease down within the cost rising cycle, which should lead to a lower SG&A/sales ratio on fewer price promotions.
- To launch soy milk product in 4Q17.** Management expects soy milk to be a large market, yet it will take time to grow. It doesn't think dairy consumption will be cannibalized by soy milk.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	10.4	48.2	70.5
HANG SENG INDEX	2.8	5.0	23.4

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	26.2
Net debt/equity (%)	-54.4
Book value/share (CNY)	4.18
Price/book (x)	7.3
Net interest cover (x)	381.5
Operating profit margin (%)	11.2

Source: Deutsche Bank

Well positioned in a new raw milk cycle; reiterating Buy

Deutsche Bank AG/Hong Kong

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We think quarterly growth was and will continue to fluctuate, due to different comparing base, A&P spending and even calendar shifts. However, we don't doubt that the industry is shifting from a 3-year oversupply cycle to a 2-3 year undersupply cycle. In the new cycle, lead players could gain more market share with their stronger raw milk sourcing capabilities. We reiterate Buy on Yili. Downside risks: higher-than-expected raw material price increase, food safety incidents and worse-than-expected competition.

Forecasts and ratios					
Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	60,108.8	60,189.1	67,495.3	75,133.3	82,090.0
EBITDA (CNYm)	6,726.8	7,087.9	9,008.1	10,337.4	11,846.0
Reported NPAT (CNYm)	4,631.8	5,661.8	6,353.9	7,417.6	8,526.9
Reported EPS FD(CNY)	0.76	0.93	1.05	1.22	1.41
DB EPS FD (CNY)	0.76	0.93	1.05	1.22	1.41
DB EPS growth (%)	12.0	23.3	12.2	16.7	15.0
PER (x)	21.6	17.3	29.0	24.8	21.6
EV/EBITDA (x)	13.8	11.9	18.9	16.3	14.1
DPS (net) (CNY)	0.46	0.67	0.79	0.91	1.02
Yield (net) (%)	2.8	4.2	2.6	3.0	3.4

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yili	600887.SS	30.36 (CNY) 30 Oct 2017	NA

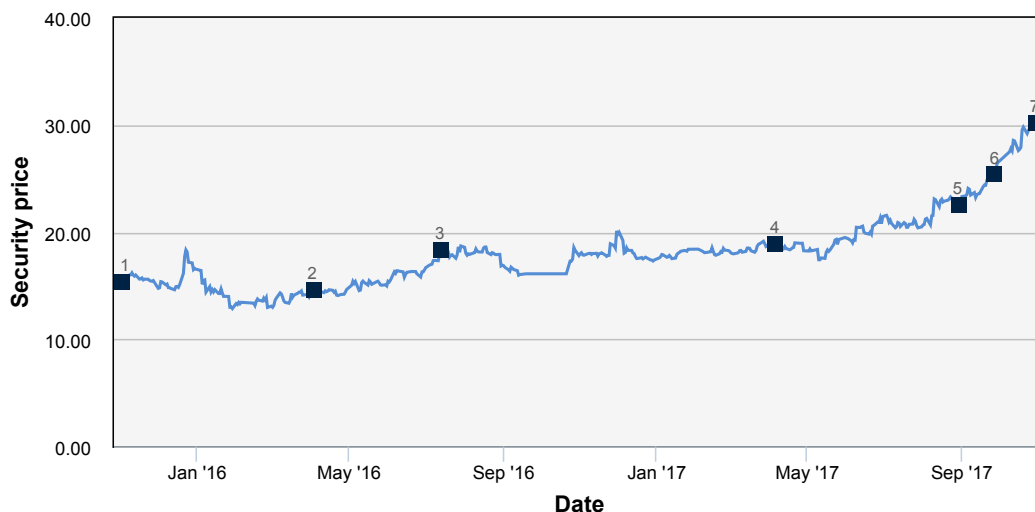
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Historical recommendations and target price. Yili (600887.SS)

(as of 10/30/2017)



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	5.	08/30/2017	Buy, Target Price Change CNY 24,80	Mark Yuan
2.	04/03/2016	Buy, Target Price Change CNY 18,40	Mark Yuan	6.	09/28/2017	Buy, Target Price Change CNY 28,00	Mark Yuan
3.	07/14/2016	Buy, Target Price Change CNY 20,40	Mark Yuan	7.	10/30/2017	Buy, Target Price Change CNY 31,60	Mark Yuan
4.	04/06/2017	Buy, Target Price Change CNY 22,00	Mark Yuan				



Equity Rating Key

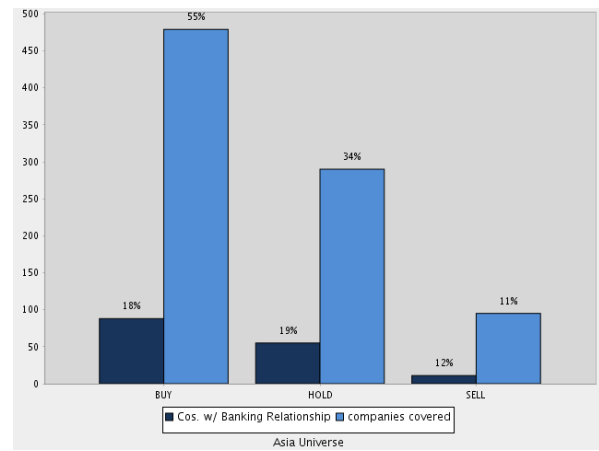
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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