

# Yili Industrial (600887 CH)

## 2Q rev/np +1%/3%; all eyes on cost savings

2Q results came in slightly below us, with revenue and net profits growing only 1%/3% (vs CMBle MSD growth for both), respectively. We attribute this to <1%/-9% growth/decline in liquid milk/milk powder revenue, when both exhibited slowdown from 1Q. Management did not explicitly revise down the 10% full year revenue guidance, and looks forward to seeing the below to help attain the target. These include 1) the continued double-digit growth in Satine, when premium room-temp milk remains popular among health-conscious consumers; 2) a recovery on 2C demand for cheese products, as initiatives taken for 2C (new launches) and 2B (consumer education) should start bearing fruit; 3) a gradual recovery on low-temp SKU along with the resumption of consumption habits post-pandemic; and 4) the resolution of patent bottleneck associated with Ausnutria. While these are legitimate to us, however, some of them might take further time to materialize, and the implied 15% 2H revenue growth looks to be quite challenging to achieve, in our view. On the contrary, cost efficiency could be the last resort to achieve a 9% net margins by 2025E, and the trajectory was well-tracked with a 0.6pp decrease in SG&A ratio in 1H. We remain buyer of Yili.

■ **Other call takeaway.** 1) **UHT yogurt** is undergoing a transition, when the sales of new SKU has not fully caught up with the obsolete. The decline has sequentially narrowed with momentum improving in July/August; 2) **Goodwill impairment on Ausnutria** could be detrimental, and Yili is striving its best to prevent this from happening. Excluding Ausnutria, Yili delivered 2% organic revenue growth for 1H; 3) **70% payout ratio** will be maintained as capex cycle has already peaked-out; 4) **raw material inventory write-off** of RMB400mn was a drag to 1H net profits, and the same could happen in 2H as the mismatch between demand and supply remains.

■ **Earnings change.** We lower our 2023-24E revenue by 3% each to reflect our concern. We also trim our gross margins by 0.4pp to reflect the destocking impact from smaller IMF brands upon the enactment of the new license legislation. These are partially mitigated by a 0.2pp lower in SG&A ratio, and result in a 2% cut in our 2023E net profits.

■ **Valuation.** Our new TP is based on an updated 21.0x (from previously 24.0x) roll-forwarded mid-24E PE, which benchmarks to -1sd below average (from previously at average). We now value both Mengniu (2319 HK, BUY), Yili (600887 CH, BUY) and Feihe (6186 HK, HOLD) at -1sd below average, in view of a lukewarm dairy demand amid a faltering consumption recovery.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	110,595	123,171	131,654	139,321	147,545
YoY growth (%)	14.2	11.4	6.9	5.8	5.9
Net profit (RMB mn)	8,704.9	9,431.1	10,676.9	11,959.2	13,367.7
YoY growth (%)	23.0	8.3	13.2	12.0	11.8
EPS (RMB)	1.4	1.5	1.7	1.9	2.1
Consensus EPS (RMB)	na	na	1.7	2.0	2.3
P/E (x)	29.1	23.9	15.9	14.2	12.7
P/B (x)	5.1	4.3	3.1	2.9	3.0
Yield (%)	2.4	2.9	4.8	5.4	6.1
ROE (%)	22.3	19.3	20.7	22.1	23.4
Net gearing (%)	Net cash	4.5	3.3	2.2	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>RMB36.5</b>
(Previous TP)	RMB40.0)
<b>Up/Downside</b>	<b>29.2%</b>
<b>Current Price</b>	<b>RMB26.6</b>

### China Consumer Staples

#### Joseph WONG

(852) 3900 0838

josephwong@cmbi.com.hk

#### Bella LI

(852) 3757 6202

bellali@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	169,462.9
Avg 3 mths t/o (RMB mn)	881.8
52w High/Low (RMB)	36.13/25.24
Total Issued Shares (mn)	6366.0

Source: FactSet

### Shareholding Structure

HKSCC	16.4%
Hohhot Investment Co.	8.5%

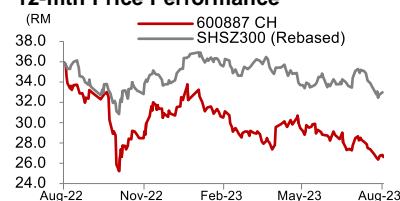
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-6.5%	-0.6%
3-mth	-8.8%	-6.8%
6-mth	-12.6%	-5.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

- [1. Tsingtao Brewery \(168 HK\) – 2Q rev/np +8%/14% on recurring strengths – 29 Aug 2023](#)
- [2. CR Beer \(291 HK\) – 1H rev/EBIT +13%/26%. Heineken grew 60% - 21 Aug 2023](#)
- [3. Budweiser APAC \(1876 HK\) – 2Q organic sales +15%; overall a mix bag but we see China strength a good trade - 4 Aug 2023](#)
- [4. Kweichow Moutai \(600519 CH\) – 2Q Rev/NP +20.4/21.0% as pre-announced - 3 Aug 2023](#)
- [5. Yili Industrial \(600887 CH\) – Full-year guidance unchanged - 20 Jul 2023](#)

**Figure 1: Earnings revision**

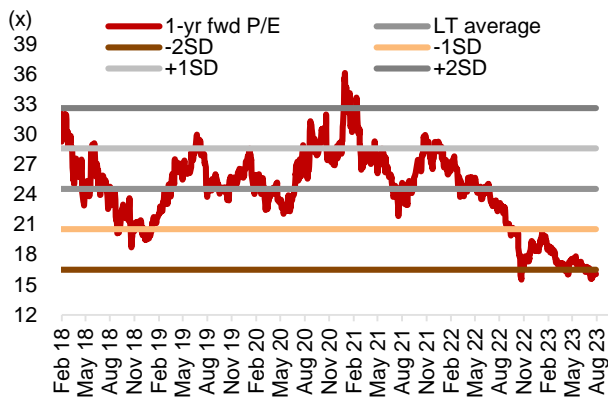
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	131,654	139,321	147,545	135,090	143,869	153,303	-2.5%	-3.2%	-3.8%
Gross Profit	41,926	44,722	47,735	43,523	46,685	50,099	-3.7%	-4.2%	-4.7%
EBITDA	15,149	17,071	19,138	15,262	16,972	18,958	-0.7%	0.6%	0.9%
Net profit	10,677	11,959	13,368	10,856	11,964	13,292	-1.7%	0.0%	0.6%
Gross Margin	31.8%	32.1%	32.4%	32.2%	32.4%	32.7%	-0.4ppt	-0.3ppt	-0.3ppt
EBITDA Margin	11.5%	12.3%	13.0%	11.3%	11.8%	12.4%	0.2ppt	0.5ppt	0.6ppt
Net Margin	8.1%	8.6%	9.1%	8.0%	8.3%	8.7%	0.1ppt	0.3ppt	0.4ppt

Source: CMBIGM estimates

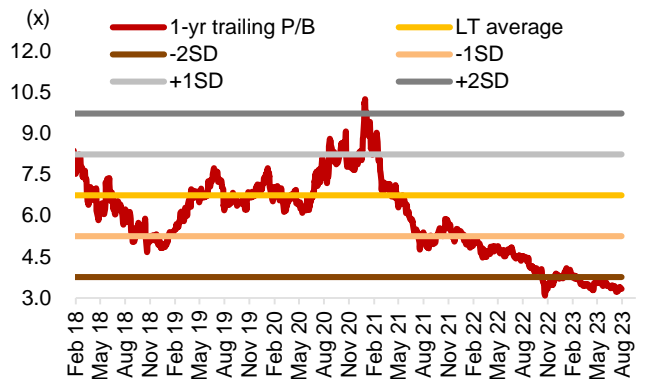
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	131,654	139,321	147,545	133,541	145,223	157,937	-1.4%	-4.1%	-6.6%
Gross Profit	41,926	44,722	47,735	43,717	48,094	52,830	-4.1%	-7.0%	-9.6%
EBITDA	15,149	17,071	19,138	16,616	19,190	21,433	-8.8%	-11.0%	-10.7%
Net profit	10,677	11,959	13,368	10,773	12,557	14,355	-0.9%	-4.8%	-6.9%
Gross Margin	31.8%	32.1%	32.4%	32.7%	33.1%	33.5%	-0.9ppt	-1ppt	-1.1ppt
EBITDA Margin	11.5%	12.3%	13.0%	12.4%	13.2%	13.6%	-0.9ppt	-1ppt	-0.6ppt
Net Margin	8.1%	8.6%	9.1%	8.1%	8.6%	9.1%	0ppt	-0.1ppt	0ppt

Source: Bloomberg, CMBIGM estimates

**Figure 3: Yili - 12M forward P/E chart**

Source: Bloomberg, CMBIGM estimates

**Figure 4: Yili - 12M Trailing P/B chart**

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
Revenue	96,886	110,595	123,171	131,654	139,321	147,545
Cost of goods sold	(67,453)	(76,417)	(83,119)	(88,935)	(93,760)	(98,921)
Others	(547)	(664)	(742)	(793)	(839)	(889)
<b>Gross profit</b>	<b>28,886</b>	<b>33,515</b>	<b>39,311</b>	<b>41,926</b>	<b>44,722</b>	<b>47,735</b>
<b>Operating expenses</b>	<b>(20,923)</b>	<b>(24,584)</b>	<b>(29,914)</b>	<b>(31,003)</b>	<b>(32,341)</b>	<b>(33,761)</b>
Selling expense	(16,884)	(19,315)	(22,908)	(24,356)	(25,217)	(26,263)
Admin expense	(3,883)	(4,828)	(6,164)	(5,924)	(6,269)	(6,640)
Others	(156)	(442)	(841)	(722)	(855)	(859)
<b>Operating profit</b>	<b>7,963</b>	<b>8,930</b>	<b>9,397</b>	<b>10,923</b>	<b>12,381</b>	<b>13,974</b>
Other income	7,963	8,930	9,397	10,923	12,381	13,974
<b>EBITDA</b>	<b>10,406</b>	<b>11,919</b>	<b>13,484</b>	<b>15,149</b>	<b>17,071</b>	<b>19,138</b>
Depreciation	(2,223)	(2,873)	(3,744)	(4,010)	(4,458)	(4,913)
Other amortisation	(220)	(115)	(343)	(216)	(232)	(250)
<b>EBIT</b>	<b>7,963</b>	<b>8,930</b>	<b>9,397</b>	<b>10,923</b>	<b>12,381</b>	<b>13,974</b>
<b>Net Interest income/(expense)</b>	<b>(188)</b>	<b>29</b>	<b>255</b>	<b>685</b>	<b>714</b>	<b>754</b>
Other income/expense	862	1,153	979	654	640	625
<b>Pre-tax profit</b>	<b>8,150</b>	<b>10,112</b>	<b>10,630</b>	<b>12,263</b>	<b>13,736</b>	<b>15,353</b>
Income tax	(1,051)	(1,380)	(1,312)	(1,513)	(1,695)	(1,895)
Minority interest	(21)	(27)	113	(72)	(81)	(91)
<b>Net profit</b>	<b>7,078</b>	<b>8,705</b>	<b>9,431</b>	<b>10,677</b>	<b>11,959</b>	<b>13,368</b>
Gross dividends	4,988	6,144	6,631	8,223	9,210	10,295
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>28,381</b>	<b>50,155</b>	<b>61,463</b>	<b>63,254</b>	<b>64,831</b>	<b>67,244</b>
Cash & equivalents	11,695	31,742	33,853	34,368	34,869	36,131
Restricted cash	3	400	3	0	0	0
Account receivables	1,875	2,233	3,450	3,688	3,903	4,133
Inventories	7,545	8,917	14,836	15,874	16,736	17,657
Other current assets	7,263	6,862	9,321	9,324	9,324	9,324
<b>Non-current assets</b>	<b>42,774</b>	<b>51,807</b>	<b>69,502</b>	<b>73,006</b>	<b>76,222</b>	<b>79,100</b>
PP&E	28,768	29,379	33,735	36,174	38,231	39,974
Investment in JVs & assos	3,423	4,718	5,175	6,075	6,975	7,875
Intangibles	1,897	1,609	4,648	4,813	5,072	5,307
Other non-current assets	8,685	16,102	25,944	25,944	25,944	25,944
<b>Total assets</b>	<b>71,154</b>	<b>101,962</b>	<b>130,965</b>	<b>136,259</b>	<b>141,052</b>	<b>146,344</b>
<b>Current liabilities</b>	<b>34,768</b>	<b>43,296</b>	<b>62,170</b>	<b>64,937</b>	<b>66,900</b>	<b>69,028</b>
Short-term borrowings	6,957	12,596	26,799	26,799	26,799	26,799
Account payables	17,975	14,062	16,807	17,983	18,958	20,002
Other current liabilities	9,836	16,638	18,563	20,155	21,142	22,227
<b>Non-current liabilities</b>	<b>5,853</b>	<b>9,875</b>	<b>14,653</b>	<b>14,653</b>	<b>14,653</b>	<b>14,653</b>
Long-term borrowings	5,137	5,380	9,298	9,298	9,298	9,298
Other non-current liabilities	716	4,495	5,354	5,354	5,354	5,354
<b>Total liabilities</b>	<b>40,622</b>	<b>53,171</b>	<b>76,822</b>	<b>79,590</b>	<b>81,553</b>	<b>83,681</b>
Share capital	4,311	5,149	5,325	5,325	5,325	5,325
Retained earnings	23,541	24,298	27,587	30,041	32,790	35,862
Other reserves	2,532	18,262	17,356	17,356	17,356	17,356
<b>Total shareholders equity</b>	<b>30,384</b>	<b>47,708</b>	<b>50,268</b>	<b>52,722</b>	<b>55,471</b>	<b>58,544</b>
Minority interest	149	1,083	3,875	3,948	4,029	4,119
<b>Total equity and liabilities</b>	<b>71,154</b>	<b>101,962</b>	<b>130,965</b>	<b>136,259</b>	<b>141,052</b>	<b>146,344</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	8,150	10,112	10,630	12,263	13,736	15,353
Depreciation & amortization	2,442	2,988	4,087	4,226	4,690	5,164
Change in working capital	4,684	(5,644)	(4,391)	(100)	(100)	(108)
Others	(5,425)	8,071	3,094	(1,513)	(1,695)	(1,895)
<b>Net cash from operations</b>	<b>9,852</b>	<b>15,528</b>	<b>13,420</b>	<b>14,875</b>	<b>16,630</b>	<b>18,514</b>
<b>Investing</b>						
Capital expenditure	(6,522)	(6,683)	(6,646)	(6,829)	(7,006)	(7,142)
Acquisition of subsidiaries/ investments	22	0	0	0	0	0
Others	(2,543)	(1,114)	(12,868)	(900)	(900)	(900)
<b>Net cash from investing</b>	<b>(9,043)</b>	<b>(7,797)</b>	<b>(19,514)</b>	<b>(7,729)</b>	<b>(7,906)</b>	<b>(8,042)</b>
<b>Financing</b>						
Dividend paid	(4,988)	(4,988)	(6,144)	(6,631)	(8,223)	(9,210)
Net borrowings	5,122	243	3,918	0	0	0
Share repurchases	248	16,047	(906)	0	0	0
Others	(428)	644	11,913	0	0	0
<b>Net cash from financing</b>	<b>(47)</b>	<b>11,945</b>	<b>8,781</b>	<b>(6,631)</b>	<b>(8,223)</b>	<b>(9,210)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	11,325	11,695	31,742	33,853	34,368	34,869
Exchange difference	(395)	(29)	(580)	0	0	0
<b>Cash at the end of the year</b>	<b>11,692</b>	<b>31,342</b>	<b>33,850</b>	<b>34,368</b>	<b>34,869</b>	<b>36,131</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	7.4%	14.2%	11.4%	6.9%	5.8%	5.9%
Gross profit	(13.1%)	16.0%	17.3%	6.7%	6.7%	6.7%
Operating profit	10.9%	12.1%	5.2%	16.2%	13.3%	12.9%
EBITDA	13.9%	14.5%	13.1%	12.3%	12.7%	12.1%
EBIT	10.9%	12.1%	5.2%	16.2%	13.3%	12.9%
Net profit	2.1%	23.0%	8.3%	13.2%	12.0%	11.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	29.8%	30.3%	31.9%	31.8%	32.1%	32.4%
Operating margin	8.2%	8.1%	7.6%	8.3%	8.9%	9.5%
EBITDA margin	10.7%	10.8%	10.9%	11.5%	12.3%	13.0%
Return on equity (ROE)	25.0%	22.3%	19.3%	20.7%	22.1%	23.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.0	(0.3)	0.0	0.0	0.0	(0.0)
Current ratio (x)	0.8	1.2	1.0	1.0	1.0	1.0
Receivable turnover days	7.1	7.4	10.2	10.2	10.2	10.2
Inventory turnover days	40.8	42.6	65.2	65.2	65.2	65.2
Payable turnover days	97.3	67.2	73.8	73.8	73.8	73.8
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	29.5	29.1	23.9	15.9	14.2	12.7
P/E (diluted)	29.5	27.7	24.4	16.2	14.5	13.0
P/B	6.9	5.1	4.3	3.1	2.9	3.0
Div yield (%)	2.4	2.4	2.9	4.8	5.4	6.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# 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 CMBIS 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.