



Rating  
**Buy**

Asia  
China

Consumer  
Food & Beverage

Company  
**Yili**

Reuters  
600887.SS

Bloomberg  
600887 CH

Exchange  
SHH

Ticker  
600887

Date  
11 January 2018

## Company Update

Price at 10 Jan 2018 (CNY)	34.62
Price target - 12mth (CNY)	35.00
52-week range (CNY)	34.62 - 17.42
HANG SENG INDEX	30,815

## Access China conference highlights

### 4Q sales growth slowing down due to late Chinese New Year

Management expects sales growth in 4Q17 to slow down from 18% in 3Q17, due to shorter peak season falling in 4Q17 with a later 2018 Chinese New Year season. For the full year 2017, it expects sales growth to achieve double digit, core margins (exclude government subsidy) to expand, and net profit to achieve positive growth. The sales growth has been mainly driven by increasing demand and increasing market share in the lower tier region. The management indicates that the industry sales grew by 7% in 2017, with 8-10% growth in lower tier region and 5-6% in high tier regions.

### Industry competition could ease down in 2018

Management expects the good demand growth to continue in the near-term. The key sales driver will be UHT yoghurt and high end UHT milk. The competition could ease down thanks to a more balanced raw milk supply. Yet there will be increasing cost pressure due to rising raw material cost. Unless there is a sharp increase in raw milk price, the management does not expect a like-for-like price hike, but it will reduce price promotion to partly offset the cost increase.

### Soy milk contribution is still limited in early stage

Yili launched soy milk with the brand "plant selected" in January. It currently has two SKUs for soy milk, the original taste priced at Rmb4.0/pack and the black soy bean priced at Rmb4.6/pack. The company is positive on the sector and estimate the industry market size to be Rmb100bn. In 2018, it expects soy milk sales should be a few hundreds million, and think it is still too early to achieve break even due to initial marketing spendings.

### Our view: growth story intact

Yili's guidance is in line with our expectations. We expect its market share could continue to increase in 2018 with industry competition slowing. Meanwhile, the soy milk and new SKUs continues to be key sales drivers. As industry leader, we believe Yili could pass through the cost inflation by reducing price promotion and ultimately price hikes. We reiterate Buy on Yili. Downside risks: food safety, and oversupply.

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	17.8	25.5	94.3
HANG SENG INDEX	8.5	9.1	36.6

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	26.7
Net debt/equity (%)	-54.7
Book value/share (CNY)	4.19
Price/book (x)	8.3
Net interest cover (x)	388.6
Operating profit margin (%)	11.3

Source: Deutsche Bank

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Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	60,108.8	60,189.1	68,157.0	75,840.7	82,847.1
EBITDA (CNYm)	6,726.8	7,087.9	9,149.8	10,608.4	12,146.8
Reported NPAT (CNYm)	4,631.8	5,661.8	6,474.5	7,646.9	8,779.7
Reported EPS FD(CNY)	0.76	0.93	1.07	1.26	1.45
DB EPS FD (CNY)	0.76	0.93	1.07	1.26	1.45
DB EPS growth (%)	12.0	23.3	14.4	18.1	14.8
PER (x)	21.6	17.3	32.4	27.5	23.9
EV/EBITDA (x)	13.8	11.9	21.4	18.3	15.9
DPS (net) (CNY)	0.46	0.69	0.81	0.93	1.09
Yield (net) (%)	2.8	4.3	2.3	2.7	3.1

Source: Deutsche Bank estimates, company data



Model updated: 07 November 2017

## Running the numbers

Asia

China

Food &amp; Beverage

Yili

Reuters: 600887.SS Bloomberg: 600887 CH

## Buy

Price (10 Jan 18) CNY 34.62

Target Price CNY 35.00

52 Week range CNY 17.42 - 34.62

Market cap (m) CNYm 209,963  
USDm 32,175

## Company Profile

Yili mainly operates four business divisions, producing such consumables as liquid milk, ice cream, and milk powder, via nearly 100 subsidiaries and has more than 1,000 SKUs. In 2014, Yili's total revenue was Rmb54.4bn, and net profits were Rmb4.2bn. Both the total revenue and net profits ranked No.1 in the dairy industry in China. Yili was listed on the Shanghai Stock Exchange in 1996.

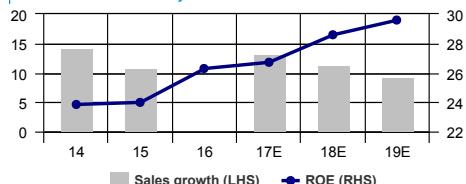
## Price Performance



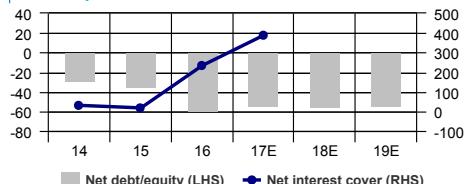
## Margin Trends



## Growth &amp; Profitability



## Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

## Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.68	0.76	0.93	1.07	1.26	1.45
Reported EPS (CNY)	0.68	0.76	0.93	1.07	1.26	1.45
DPS (CNY)	0.43	0.46	0.69	0.81	0.93	1.09
BVPS (CNY)	3.0	3.3	3.8	4.2	4.6	5.1
Weighted average shares (m)	6,129	6,118	6,065	6,065	6,065	6,065
Average market cap (CNYm)	73,025	100,016	97,720	209,963	209,963	209,963
Enterprise value (CNYm)	67,528	93,123	84,047	195,987	194,340	192,800

## Valuation Metrics

P/E (DB) (x)	17.6	21.6	17.3	32.4	27.5	23.9
P/E (Reported) (x)	17.6	21.6	17.3	32.4	27.5	23.9
P/BV (x)	4.62	4.98	4.62	8.27	7.47	6.72
FCF Yield (%)	0.4	4.9	9.4	2.1	3.1	3.3
Dividend Yield (%)	3.6	2.8	4.3	2.3	2.7	3.1
EV/Sales (x)	1.2	1.5	1.4	2.9	2.6	2.3
EV/EBITDA (x)	11.4	13.8	11.9	21.4	18.3	15.9
EV/EBIT (x)	14.3	17.9	15.0	25.5	21.8	18.9

## Income Statement (CNYm)

Sales revenue	54,251	60,109	60,189	68,157	75,841	82,847
Gross profit	17,851	21,733	22,762	25,319	27,862	30,307
EBITDA	5,946	6,727	7,088	9,150	10,608	12,147
Depreciation	1,204	1,497	1,473	1,428	1,682	1,910
Amortisation	20	25	25	26	29	31
EBIT	4,721	5,205	5,590	7,696	8,897	10,206
Net interest income(expense)	-155	-297	-24	-20	154	180
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	220	616	1,066	-67	-65	-68
Profit before tax	4,786	5,524	6,632	7,609	8,987	10,318
Income tax expense	619	869	963	1,126	1,330	1,527
Minorities	22	23	7	8	10	11
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,144	4,632	5,662	6,474	7,647	8,780
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	4,144	4,632	5,662	6,474	7,647	8,780

## Cash Flow (CNYm)

Cash flow from operations	4,216	8,591	12,563	8,468	10,002	11,207
Net Capex	-3,946	-3,652	-3,419	-3,974	-3,583	-4,190
Free cash flow	269	4,939	9,144	4,494	6,419	7,016
Equity raised/bought back	0	0	0	0	0	0
Dividends paid	-1,807	-2,659	-2,776	-4,171	-4,926	-5,656
Net inc/(dec) in borrowings	4,690	-2,586	-6,038	0	0	0
Other investing/financing cash flows	2,948	-869	175	-20	154	180
Net cash flow	6,099	-1,174	505	303	1,647	1,540
Change in working capital	-1,201	1,298	893	389	94	-2

## Balance Sheet (CNYm)

Cash and other liquid assets	14,273	13,084	13,824	14,126	15,773	17,313
Tangible fixed assets	14,080	15,342	14,533	16,942	18,767	20,964
Goodwill/intangible assets	930	956	991	1,102	1,149	1,202
Associates/investments	848	1,107	2,243	2,243	2,243	2,243
Other assets	9,353	9,131	7,661	8,538	9,392	10,167
Total assets	39,484	39,620	39,252	42,951	47,324	51,889
Interest bearing debt	8,776	6,190	150	150	150	150
Other liabilities	11,897	13,295	15,876	17,265	18,907	20,337
Total liabilities	20,673	19,485	16,026	17,415	19,057	20,487
Shareholders' equity	18,634	19,984	23,082	25,385	28,106	31,229
Minorities	188	162	154	162	172	183
Total shareholders' equity	18,822	20,146	23,236	25,547	28,278	31,413
Net debt	-5,497	-6,893	-13,673	-13,976	-15,623	-17,163

## Key Company Metrics

Sales growth (%)	14.1	10.8	0.1	13.2	11.3	9.2
DB EPS growth (%)	24.4	12.0	23.3	14.4	18.1	14.8
EBITDA Margin (%)	11.0	11.2	11.8	13.4	14.0	14.7
EBIT Margin (%)	8.7	8.7	9.3	11.3	11.7	12.3
Payout ratio (%)	64.2	60.5	73.7	76.1	74.0	75.1
ROE (%)	23.8	24.0	26.3	26.7	28.6	29.6
Capex/sales (%)	7.3	6.1	5.7	5.8	4.7	5.1
Capex/depreciation (x)	3.2	2.4	2.3	2.7	2.1	2.2
Net debt/equity (%)	-29.2	-34.2	-58.8	-54.7	-55.2	-54.6
Net interest cover (x)	30.5	17.5	234.1	388.6	nm	nm

Source: Company data, Deutsche Securities estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yili	600887.SS	34.22 (CNY) 11 Jan 2018	NA

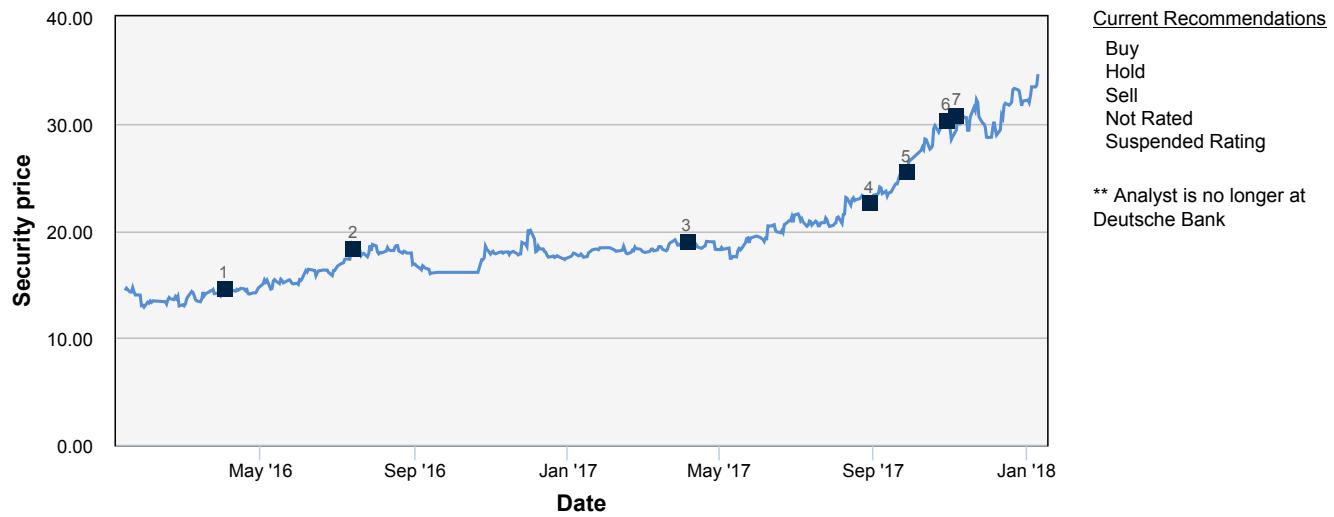
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## Historical recommendations and target price. Yili (600887.SS)

(as of 01/10/2018)



- |               |  |
|---------------|--|
| 1. 04/03/2016 | Buy, Target Price Change CNY 18,40 Mark Yuan |
| 2. 07/14/2016 | Buy, Target Price Change CNY 20,40 Mark Yuan |
| 3. 04/06/2017 | Buy, Target Price Change CNY 22,00 Mark Yuan |
| 4. 08/30/2017 | Buy, Target Price Change CNY 24,80 Mark Yuan |
| 5. 09/28/2017 | Buy, Target Price Change CNY 28,00 Mark Yuan |
| 6. 10/30/2017 | Buy, Target Price Change CNY 31,60 Mark Yuan |
| 7. 11/07/2017 | Buy, Target Price Change CNY 35,00 Mark Yuan |



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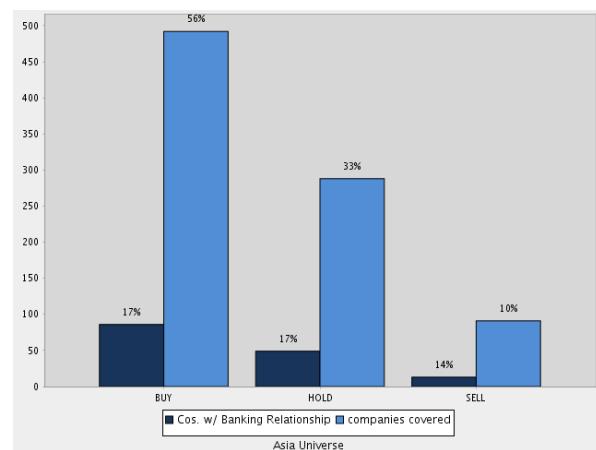
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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