

Yili (600887 CH)

Expect full recovery of sales by Jun

FY19 NP +8% to RMB6,934mn, in line with our estimates and consensus. 1Q20 NP was down 50% due to COVID-19 impact. That said, management said sales recovered 90% currently and expects a full recovery by Jun 2020. We cut our FY20/21E net profit estimates by 17%/5% mainly to reflect lower revenue and GPM. Our TP is revised from RMB34.04 to RMB33.10, based on 28.0x average FY20E and FY21E EPS. We expect Yili would benefit from industry consolidation, reflected by market share gain in 1Q20. Maintain Buy.

■ **FY19 results in line.** Revenue rose 14%, in line, led by liquid milk (+12%) and milk powder (+25%). Key products like Satine and Ambrosial grew by 17-18%, behind MN's Milk Deluxe and Just Yoghurt's 20%+ growth. Market share of UHT milk and IMF rose 1.4ppt and 0.4ppt to 37.7% and 6.0%, respectively, in 2019. GPM fell 0.5ppt to 37.3%, slight below our expectation of 37.8%, led by 6.7ppt reduction in GPM of milk powder segment mainly due to margin dilution from the acquisition of Westland Co-operative Dairy. SG&A expenses ratio dropped 0.6ppt to 28.2%, led by 1.6ppt reduction in A&P expenses.

■ **1Q20 hit by COVID-19.** Revenue dropped 11% led by 19% decline of liquid milk sales as sales affected by COVID-19. Market share of UHT milk and chilled milk up 1.1ppt and 0.3ppt YoY. GPM squeezed by 2.4ppt to 37.5% on more promotion to destock old inventories. SG&A expenses ratio increased 1.6ppt due to operating deleverage. Yili reported RMB67mn net finance cost (vs RMB105 net income) as total borrowing increased from RMB6.8bn in Dec 2019 to RMB12bn in Mar 2020. NP fell 50% to RMB1,143mn.

■ **FY20E guidance.** Yili sets its total revenue and PBT target at RMB97bn and RMB6.1bn in FY20E, representing 7.5% YoY growth and 26% YoY decrease, respectively. This implies 14% YoY growth/13% YoY decline for total revenue/PBT, respectively, during 2-4Q20. That said, excluding government grant and share award expenses, management expects adj. NP to resume growth in 2-4Q20. Going forward, while Yili still focuses on domestic dairy business, it will develop Southeast Asia market and develop healthy drinks business.

■ **Maintain Buy.** Our new TP of RMB33.10 is based on 28.0x average FY20E and FY21E EPS. Our target P/E multiple is unchanged as we expect Yili to resume double-digit revenue growth beginning 2H20E. **Catalysts:** better-than-expected revenue and margins. **Risks:** recovery slower-than-expected, raw milk cost pressure, food safety issues.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	78,976	90,009	97,074	109,902	120,994
YoY growth (%)	17	14	8	13	10
Net profit (RMB mn)	6,440	6,934	6,264	8,155	9,305
EPS (RMB)	1.060	1.150	1.027	1.338	1.526
YoY growth (%)	7	8	(11)	30	14
Consensus EPS (RMB)	na	na	1.088	1.361	1.559
P/E (x)	27.6	25.4	28.5	21.9	19.2
P/B (x)	6.4	6.8	6.5	5.7	5.1
Yield (%)	2.4	2.8	2.5	3.2	3.7

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB33.10
(Previous TP)	RMB34.04)
Up/Downside	+13%
Current Price	RMB29.24

China F&B Sector

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Stock Data

Mkt Cap (HK\$ mn)	177,367
Avg 3 mths t/o (HK\$ mn)	1,723.43
52w High/Low (HK\$)	34.66/ 26.88
Total Issued Shares (mn)	5,907.5

Source: Bloomberg

Shareholding Structure

Huhhot Investment	8.88%
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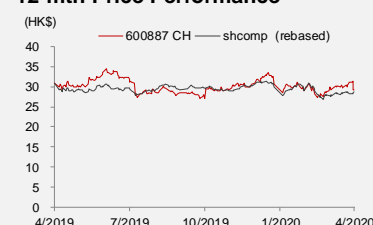
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.1%	0.3%
3-mth	-4.4%	0.8%
6-mth	4.6%	9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Da Hua

Related reports

"China Dairy Sector - Multiple growth drivers ahead; sector consolidation to continue" – 19 Nov 2019

Figure 1: FY19 and 1Q20 results review

Y/E Dec (RMB mn)	FY19	FY18	change (%)	Remarks	1Q20	1Q19	change (%)
Revenue	90,009	78,976	14%	Key products like Satine, Ambrosial and plain milk saw 17-18% growth according to Nielsen data	20,544	23,077	-11%
Cost of sales	(56,392)	(49,106)	15%		(12,848)	(13,858)	-7%
Gross profit	33,617	29,870	13%		7,696	9,219	-17%
Other income and gains/(losses)	1,125	1,402	-20%		289	139	109%
Selling and distribution expenses	(21,070)	(19,773)	7%		(5,203)	(5,566)	-7%
Administrative expenses	(4,285)	(2,980)	44%	increased due to acquisition of new businesses, set up of new business units, salary increase and share award exp	(915)	(943)	-3%
R&D expenses	(495)	(427)	16%		(84)	(92)	-9%
Tax & surcharges	(577)	(531)	9%		(125)	(168)	-25%
Other expenses	(241)	(76)	219%		(7)	0	-29467%
Operating profit	8,075	7,486	8%		1,651	2,588	-36%
Finance income, net	(8)	60	-113%	total borrowing jumped from RMB1.56bn to RMB6.84bn	(67)	105	-163%
Other gains/(losses)	(86)	(113)	-24%		(334)	(10)	3115%
Share of profit from JV/associate	214	144	48%		81	46	76%
Profit before tax	8,194	7,578	8%		1,332	2,728	-51%
Tax expense	(1,243)	(1,126)	10%		(179)	(448)	-60%
Profit after tax	6,951	6,452	8%		1,152	2,280	-49%
Non-controlling interests	17	12	38%		9	5	100%
Net profit	6,934	6,440	8%		1,143	2,276	-50%
Margin & Ratio (%)							
Gross margin	37.3	37.8	(0.5)	raw milk cost +6.7%, dilution from acquisition of Westland Co-operative Dairy	37.5	39.9	(2.4)
Operating margin	9.0	9.5	(0.5)		8.0	11.2	(3.2)
Selling expenses ratio	23.4	25.0	(1.6)	A&P exp ratio fell 1.6ppt to 12.3%	25.3	24.1	1.2
Administrative expenses ratio	4.8	3.8	1.0		4.5	4.1	0.4
R&D expenses ratio	0.6	0.5	0.1		0.4	0.4	0.0
Net margin	7.7	8.2	(0.5)		5.6	9.9	(4.3)
Effective tax rate	15.2	14.9	0.3		13.5	16.4	(2.9)
	FY19	FY18	change				
Inventory days	43	38	5				
A/C receivables days	6	5	1				
A/C payable days	64	62	2				

Source: Company, CMBIS

Figure 2: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	97,074	109,902	120,994	100,972	110,638	na	-4%	-1%	na
Gross Profit	36,053	41,452	45,906	38,443	42,307	na	-6%	-2%	na
Operating Profit	7,361	9,602	10,845	8,632	9,884	na	-15%	-3%	na
Net Profit	6,264	8,155	9,305	7,508	8,607	na	-17%	-5%	na
Gross Margin	37.1%	37.7%	37.9%	38.1%	38.2%	na	-0.4ppt	-0.5ppt	na
Operating Margin	7.6%	8.7%	9.0%	8.5%	8.9%	na	-0.9ppt	-0.2ppt	na
Net Margin	6.4%	7.3%	7.5%	7.4%	7.8%	na	-1.0ppt	-0.5ppt	na

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	97,074	109,902	120,994	97,554	109,517	119,431	0%	0%	1%
Gross Profit	36,053	41,452	45,906	36,231	41,570	45,177	0%	0%	2%
Operating Profit	7,361	9,602	10,845	7,038	9,155	10,762	5%	5%	1%
Net profit	6,264	8,155	9,305	6,513	8,401	9,425	-4%	-3%	-1%
Gross Margin	37.1%	37.7%	37.9%	37.1%	38.0%	37.8%	flat	-0.3ppt	+0.1ppt
Operating Margin	7.6%	8.7%	9.0%	7.2%	8.4%	9.0%	+0.4ppt	+0.3ppt	flat
Net Margin	6.4%	7.3%	7.5%	6.7%	7.7%	7.9%	-0.3ppt	-0.4ppt	-0.4ppt

Source: Bloomberg, CMBIS estimates

Figure 4: P/E band chart

Source: CMBIS estimates, Bloomberg, Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	78,976	90,009	97,074	109,902	120,994
Liquid milk	65,679	73,761	77,378	88,315	97,467
Milk powder	8,045	10,055	12,614	13,752	14,999
Ice-cream	4,997	5,631	6,501	7,230	7,892
Others	833	776	795	819	850
Cost of sales	(49,106)	(56,392)	(61,021)	(68,450)	(75,088)
Gross profit	29,870	33,617	36,053	41,452	45,906
Other income	1,402	1,125	879	902	927
Selling expenses	(19,773)	(21,070)	(23,298)	(25,772)	(28,313)
Admin expenses	(2,980)	(4,285)	(4,854)	(5,275)	(5,808)
Other op expenses	(1,033)	(1,314)	(1,420)	(1,706)	(1,868)
EBIT	7,486	8,075	7,361	9,602	10,845
Finance income, net	60	(8)	(89)	(129)	(39)
Other gains/(losses)	(113)	(86)	(86)	(86)	(86)
JV & associates	144	214	216	249	274
Pre-tax profit	7,578	8,194	7,401	9,636	10,994
Income tax	(1,126)	(1,243)	(1,121)	(1,464)	(1,672)
Less: Minority interests	(12)	(17)	(17)	(17)	(17)
Net profit	6,440	6,934	6,264	8,155	9,305

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	7,578	8,194	7,401	9,636	10,994
JV & associates	(144)	(214)	(216)	(249)	(274)
D&A	1,598	1,891	2,373	2,903	3,183
Net finance income	(60)	8	89	129	39
Change in working capital	313	3,312	733	1,104	1,029
Others	(660)	(4,736)	(741)	(1,322)	(1,475)
Operating cash flow	8,625	8,455	9,639	12,201	13,496
Capex	(5,091)	(9,243)	(10,000)	(4,000)	(3,000)
Acquisitions	0	(1,617)	0	0	0
Others	(284)	861	115	115	115
Investing cash flow	(5,375)	(9,999)	(9,885)	(3,885)	(2,885)
Change of debt	(6,337)	6,633	5,441	(1,000)	(1,510)
Dividend and interest paid	(4,393)	(4,406)	(5,287)	(4,820)	(6,109)
Others	(19)	(3,244)	0	0	0
Financing cash flow	(10,749)	(1,016)	154	(5,820)	(7,619)
Net change in cash	(7,499)	(2,560)	(92)	2,496	2,992
Cash at the beginning	20,756	13,564	11,066	10,974	13,470
Exchange difference	307	62	0	0	0
Cash at the end	13,564	11,066	10,974	13,470	16,462

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	23,151	34,755	42,648	44,043	44,183
Fixed asset	17,374	24,461	32,138	33,283	33,149
Prepaid lease payments	650	1,936	1,936	1,936	1,936
Interest in JV	1,909	1,961	2,177	2,426	2,701
Other non-current assets	3,217	6,397	6,397	6,397	6,397
Current assets	24,455	25,706	26,223	30,162	34,431
Inventories	5,507	7,715	8,348	9,365	10,273
Account receivables	1,282	1,837	1,981	2,243	2,470
Prepayments	1,614	1,352	1,443	1,608	1,750
Others	5,001	3,476	3,476	3,476	3,476
Cash	11,051	11,325	10,974	13,470	16,462
Current liabilities	19,171	31,432	34,474	37,522	38,317
Account payables	9,116	10,801	11,688	13,111	14,382
Other payables	8,135	12,262	12,977	14,101	15,136
Borrowings	1,556	4,866	9,366	9,866	8,366
Tax payables	353	397	397	397	397
Others	10	3,106	47	47	37
Non-current liabilities	398	2,755	6,755	5,255	5,255
Borrowings	0	1,971	5,971	4,471	4,471
Others	398	784	784	784	784
Total net assets	28,037	26,274	27,641	31,428	35,042
Shareholders' equity	27,916	26,131	27,481	31,251	34,848
Non-controlling interests	122	143	160	177	194

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Liquid milk	83.2	81.9	79.7	80.4	80.6
Milk powder	10.2	11.2	13.0	12.5	12.4
Ice-cream	6.3	6.3	6.7	6.6	6.5
Others	1.1	0.8	0.7	0.6	0.6
P&L ratios (%)					
Gross margin	37.8	37.3	37.1	37.7	37.9
EBIT margin	9.5	9.0	7.6	8.7	9.0
Net margin	8.2	7.7	6.5	7.4	7.7
Payout ratio	66.1	70.9	70.0	70.0	70.0
Balance sheet ratios					
Current ratio (x)	1.3	0.8	0.8	0.8	0.9
Quick ratio (x)	1.0	0.6	0.5	0.6	0.6
A/C receivables days	5	6	7	7	7
A/C payables days	62	64	67	66	67
Inventory days	38	43	48	47	48
Net cash (RMB mn)	9,495	4,488	(4,363)	(867)	3,625
Returns (%)					
ROAE	24.3	25.7	23.4	27.8	28.2
ROAA	13.3	12.8	9.7	11.4	12.2
Per share					
EPS (RMB)	1.06	1.15	1.03	1.34	1.53
DPS (RMB)	0.70	0.81	0.72	0.94	1.07
BVPS (RMB)	4.59	4.29	4.51	5.13	5.72

Source: Company data, CMBIS estimates

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