21 Feb 2023

招商银行全资附属机构
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Yili Industrial (600887 CH)

Shares could rally in relief on back of an in line 4Q22

We see trading opportunity on Yili into results season. This would mainly be underpinned by 1) an easy and stabilizing earnings expectation (for both 4Q22 and 2023E), when we see subdued downside risk to current consensus estimates, and 2) a lagging valuation to peers who have already been re-rated on reopening sentiment. We argue the stock could play near term catch-up, when a likely in line 4Q could relieve market sentiment. We are buy-rated on Yili, but prefer to stick to CR Beer (291HK, Buy), Proya (603605CH, Buy) and CTGDF (601888CH, Buy) as our preferred plays around this early-staged consumption-led recovery.

- **4Q momentum showed sequential pick-up.** We forecast 4Q revenue to grow 6% YoY to RMB27bn. Momentum in October and November has been weak, and a more obvious recovery has kicked-in in December. This was driven by acceleration of liquid milk demand as a result of healthy restocking momentum for the CNY in Jan 2023. GPM is likely to show QoQ improvement thanks to higher gifting demand that improved sales mix. Opex ratio will decline YoY without much eventful spending (winter Olympic last year). Meanwhile, we expect a flattish NPM at 8% for 2022.
- **2023E outlook.** Overall we expect revenue growth to edge up from 2022E, driven by accelerated liquid milk sales, from flattish in 2022 to about 5% growth in 2023E. IMF business should remain high-growth, but from a high base of 2022, we assert a 25% YoY growth for the segment. This is consistent with management target of a 20% 4-year CAGR between 2021-25E. While birth rate looks to have troughed, we do not expect it to rebound until late-23E. In this case, given a muted segment growth, we would expect Yili to take up market share from peers. For instance, Yili took up 11% of the market by end-22, compared to 9% in 2021. Separately, low-temp SKU could maintain a 25-30% YoY growth and we consider the temperature of summer this year the major swing factor to our assumption.
- **Earnings change.** Our 2022E estimates are largely unchanged. We have lowered our 2023E GPM by 0.4pp and this led to a 4.2% cut in net profits. Now, we assume Yili's net margins to expand by an average of 0.5pp over 2023-24E and this largely tallies with management's expectation.
- **Valuation**. Our new TP is based on an unchanged 25.0x rolled-forward end-23E PE, which still benchmarks to its 3-year average. We believe our methodology appropriately reflects Yili's sequential recovery that begins from 4Q22.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	96,886	110,595	121,017	133,919	147,030
YoY growth (%)	7.4	14.2	9.4	10.7	9.8
Net income (RMB mn)	7,078	8,705	9,641	11,491	13,453
EPS (RMB)	1.2	1.4	1.6	1.9	2.2
YoY growth (%)	2.0	23.0	3.4	19.2	17.1
Consensus EPS (RMB)	na	na	1.6	1.9	2.2
P/E (x)	na	na	21.2	17.8	15.2
P/B (x)	na	na	3.8	3.6	3.3
Yield (%)	na	na	3.4	4.3	5.0
ROE (%)	23.3	18.2	19.0	21.4	23.6
Net gearing (%)	1.3	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB44.0**
(Previous TP	RMB41.5)
Up/Downside	**+40.3%**
Current Price	**RMB31.3**

China Consumer -
Food and beverages

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Stock Data

Mkt Cap (RMB mn)	197,087
Avg 3 mths t/o (RMB mn)	1,259
52w High/Low (RMB)	41.2/ 24.5
Total Issued Shares (mn)	6,399

Source: Wind

Shareholding Structure

HKSCC	17.9%
Hohhot Investment Co.	8.4%
Pan Gang	4.5%

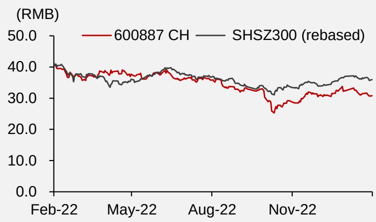
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-2.5%	-1.9%
3-mth	8.0%	-1.0%
6-mth	-11.8%	-12.1%

Source: Wind

12-mth Price Performance



Source: BBG

Related reports

1. Kweichow Moutai (600519 CH) – Proxy of China's consumption-led recovery – 6 Feb 2023
2. China Consumer – Positive takeaway from F&B distributors; but sector's bull-run could take a breather from here - 31 Jan 2023
3. CR Beer (291 HK) – Another positive year for 2023; our preferred pick for China's re-opening – 22 Jan 2023

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	121,017	133,919	147,030	121,017	133,880	150,537	0.0%	0.0%	-2.3%
Gross Profit	37,925	43,387	48,888	37,925	43,967	50,811	0.0%	-1.3%	-3.8%
EBITDA	13,327	16,265	19,014	13,327	16,854	20,126	0.0%	-3.5%	-5.5%
Net profit	9,641	11,491	13,453	9,641	11,996	14,415	0.0%	-4.2%	-6.7%
Gross Margin	31.3%	32.4%	33.3%	31.3%	32.8%	33.8%	0ppt	-0.4ppt	-0.5ppt
EBITDA Margin	11.0%	12.1%	12.9%	11.0%	12.6%	13.4%	0ppt	-0.4ppt	-0.4ppt
Net Margin	8.0%	8.6%	9.1%	8.0%	9.0%	9.6%	0ppt	-0.4ppt	-0.4ppt

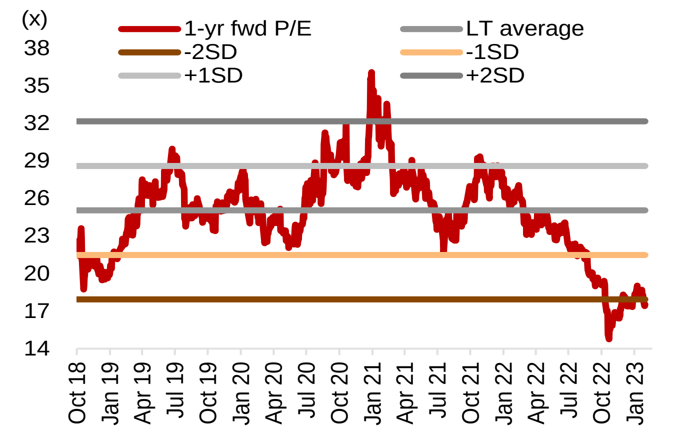
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	121,017	133,919	147,030	122,453	140,146	150,047	-1.2%	-4.4%	-2.0%
Gross Profit	37,925	43,387	48,888	38,952	45,518	49,725	-2.6%	-4.7%	-1.7%
EBITDA	13,327	16,265	19,014	13,978	16,492	18,974	-4.7%	-1.4%	0.2%
Net profit	9,641	11,491	13,453	9,413	11,130	13,022	2.4%	3.2%	3.3%
Gross Margin	31.3%	32.4%	33.3%	31.8%	32.5%	33.1%	-0.5ppt	-0.1ppt	0.1ppt
EBITDA Margin	11.0%	12.1%	12.9%	11.4%	11.8%	12.6%	-0.4ppt	0.4ppt	0.3ppt
Net Margin	8.0%	8.6%	9.1%	7.7%	7.9%	8.7%	0.3ppt	0.6ppt	0.5ppt

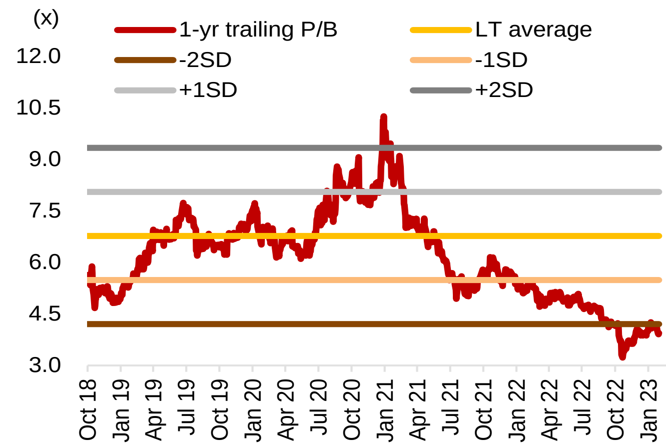
Source: Company data, CMBIGM estimates

Figure 3: 1-year forward P/E chart



Source: Bloomberg, CMBIGM estimates

Figure 4: Trailing P/B chart



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**96,886**	**110,595**	**121,017**	**133,919**	**147,030**
Liquid milk	76,123	84,911	83,637	87,819	92,210
Others	20,762	25,685	37,380	46,100	54,820
Gross profits	**28,886**	**33,515**	**37,925**	**43,387**	**48,888**
D&A	(2,442)	(2,988)	(3,252)	(3,688)	(4,104)
Selling expense	(16,884	(19,315	(21,783	(24,105	(26,465
Administration expenses	(3,883)	(4,828)	(5,567)	(6,160)	(6,910)
Other op expense	2,286	2,547	2,752	3,143	3,502
EBIT	**7,963**	**8,930**	**10,075**	**12,577**	**14,910**
EBITDA	**10,406**	**11,919**	**13,327**	**16,265**	**19,014**
Finance costs, net	(188)	29	404	99	80
Investment gains/loss	1,270	1,271	1,000	1,000	1,000
Non-operating	(408)	(118)	(250)	(277)	(304)
Pre-tax profit	**8,150**	**10,112**	**11,229**	**13,399**	**15,686**
Income tax	(1,051)	(1,380)	(1,533)	(1,829)	(2,141)
Less: Minority interests	(21)	(27)	(55)	(79)	(93)
Net profit	**7,078**	**8,705**	**9,641**	**11,491**	**13,453**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	**7,078**	**8,705**	**9,641**	**11,491**	**13,453**
D&A	2,442	2,988	3,252	3,688	4,104
Change in working capital	4,684	(5,518)	(6,353)	(353)	(359)
Others	(4,353)	9,352	(505)	79	93
Net cash fr. operating act.	**9,852**	**15,528**	**6,035**	**14,904**	**17,290**
Capex & investments	(6,522)	(6,683)	(7,638)	(6,845)	(7,027)
Acquisition	22	-	-	-	-
Others	(2,543)	(1,114)	(900)	(900)	(900)
Net cash fr. investing act.	**(9,043)**	**(7,797)**	**(8,538)**	**(7,745)**	**(7,927)**
Equity raised	248	16,047	-	-	-
Change of Debts	5,122	5,882	(2,400)	(1,600)	-
Dividend paid	(4,988)	(4,988)	(5,913)	(6,772)	(8,570)
Others	(428)	(4,996)	-	-	-
Net cash fr. financing act.	**(47)**	**11,945**	**(8,313)**	**(8,372)**	**(8,570)**
Net change in cash	**762**	**19,676**	**(10,816**	**(1,213)**	**793**
Cash at the beginning of the	11,328	12,095	31,742	20,926	19,713
Exchange difference	(395)	(29)	-	-	-
Cash at the end of the year	**11,695**	**31,742**	**20,926**	**19,713**	**20,506**
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	**42,774**	**51,807**	**57,767**	**61,824**	**65,647**
PP&E/Fixed assets	28,768	29,379	33,560	36,675	39,483
Goodwill	1,897	1,609	2,487	2,530	2,644
Investments	3,423	4,210	5,110	6,010	6,910
Other non-current assets	8,685	16,610	16,610	16,610	16,610
Current assets	**28,381**	**50,155**	**42,912**	**43,062**	**45,246**
Cash	11,695	31,742	20,926	19,713	20,506
Account receivable	1,875	2,107	3,316	3,669	4,028
Inventory	7,545	8,917	11,283	12,292	13,323
Other current assets	7,266	7,388	7,388	7,388	7,388
Current liabilities	**34,768**	**43,296**	**40,177**	**42,183**	**44,678**
Borrowings	6,957	12,596	11,396	10,596	10,596
Account payables	17,975	14,062	11,283	12,292	13,323
Other payables	9,836	16,638	17,497	19,295	20,759
Non-current liabilities	**5,853**	**9,875**	**8,675**	**7,875**	**7,875**
Borrowings	5,137	5,380	4,180	3,380	3,380
Other non-current liabilities	716	4,495	4,495	4,495	4,495
Common stock	6,083	6,400	6,513	6,513	6,513
Retained earnings	23,541	24,298	27,166	30,087	33,506
Minority Interest	149	1,083	1,138	1,217	1,310
Total net assets	**30,533**	**48,791**	**51,828**	**54,828**	**58,340**
Shareholders' equity	**30,384**	**47,708**	**50,690**	**53,611**	**57,030**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Liquid milk	78.6	76.8	69.1	65.6	62.7
Others	21.4	23.2	30.9	34.4	37.3
P&L ratios (%)					
Gross margin	29.8	30.3	31.3	32.4	33.3
Operating margin	8.2	8.1	8.3	9.4	10.1
Pre-tax margin	8.4	9.1	9.3	10.0	10.7
Net margin	7.3	7.9	8.0	8.6	9.1
Effective tax rate	(12.9)	(13.6)	(13.6)	(13.6)	(13.6)
Balance sheet analysis					
Current ratio (x)	0.4	0.6	0.5	0.5	0.5
Net receivable days	7.1	7.0	10.0	10.0	10.0
Inventory turnover days	40.8	42.6	50.0	50.0	50.0
Net payable days	97.3	67.2	50.0	50.0	50.0
Net debt to equity (%)	1.3	Net cash	net cash	net cash	net cash
Returns (%)					
ROE	23.3	18.2	19.0	21.4	23.6
Dividend yield	N/A	N/A	3.3	4.2	4.9
Per share					
EPS (RMB)	1.2	1.4	1.5	1.8	2.1
DPS (RMB)	0.8	1.0	1.0	1.3	1.5
BVPS (RMB)	5.0	7.8	8.3	8.8	9.4
EV/ EBITDA (x)	N/A	N/A	14.9	12.2	9.3

Source: Company data, CMBIGM estimates

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