

Yili Industrial (600887 CH)

3Q rev/np +3%/59%; cost cut was key to profit growth

Yili's 3Q revenue/net profit stood at RMB31.2/3.1bn, up +2.7%/59.5%, and both came in in line with our estimates. The former was largely driven by a sequential acceleration in liquid milk sales to +8.5% YoY (from -2.6%/+0.5% in 1Q/2Q) that offset a rather disappointing momentum in low-temp/IMF sales (-35.7%/-3.9% YoY). Meanwhile, the latter grew off a low comps with a 1.6pp expansion in GPM, along with a notable 1.6pp decline in opex ratio which we previously asserted it to be a major earnings growth driver. Management has guided down full-year sales growth target to MSD% (from low-teen), and we believe this would not come in as a total surprise to the market, given consensus growth has already trimmed down to HSD% since 1H results. Separately, management also sounded realistically positive on 4Q and even on 2024E outlook with an actionable roadmap to gain market share in each segment. We remain Buyer of Yili.

■ **Outlook by segment.** Management expects single-digit growth in **liquid-milk** for 2023, considering the timing difference between 2023 and 2024 CNY that impacts the timing of restocking among distributors. The premium Satine brand should keep its double-digit sales growth and further accelerate in 2024. **IMF** should deliver QoQ improvement as new products introduced since August were well-received. Considering also the exit of small players amid industry consolidation, October sales have already returned to positive growth. The adult milk formula has fared well. **Low-temp** business dipped in 3Q due to seasonality and a lower-than-expected temperature nationwide. That said, given the segment's insignificant contribution over 2H, management still sees double-digit growth potential for the full year.

■ **Earnings change.** We slightly trim our 2023E revenue by 2.9%, driven by a 7.8% cut in IMF sales, followed by a 6.7%/0.5% cut in low-temp dairy and liquid milk sales. Separately, we raise our GPM by 0.2pp to reflect an easing input cost pressure, and this should partially offset the impact of a slower top-line growth. Our net profit estimate is 1.5% lower.

■ **Valuation.** Our revise TP to RMB34.5 (from previously RMB36.5) based on an updated 20.5x (from previously 21.0x) roll-forwarded mid-24E P/E, which still benchmarks to -1sd below average. We value both Mengniu (2319 HK, BUY), Yili (600887 CH, BUY) and Feihe (6186 HK, HOLD) at -1sd below average, in view of lukewarm dairy demand, especially that for IMF, amid a faltering consumption recovery.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	110,595	123,171	127,901	134,124	140,695
YoY growth (%)	14.2	11.4	3.8	4.9	4.9
Net profit (RMB mn)	8,704.9	9,431.1	10,521.2	11,372.8	12,393.4
YoY growth (%)	23.0	8.3	11.6	8.1	9.0
EPS (Reported) (RMB)	1.36	1.48	1.65	1.78	1.94
Consensus EPS (RMB)	na	na	1.69	1.97	2.25
P/E (x)	29.1	23.9	16.2	15.0	13.7
P/B (x)	5.1	4.3	3.1	2.9	3.0
Yield (%)	2.4	2.9	4.8	5.2	5.6
ROE (%)	22.3	19.3	20.4	21.1	21.8
Net gearing (%)	(28.9)	4.5	3.5	3.3	1.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB34.5
 (Previous TP RMB36.5)
Up/Downside 25.6%
Current Price RMB27.4

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Stock Data

Mkt Cap (RMB mn) 169,781.2
 Avg 3 mths t/o (RMB mn) 905.3
 52w High/Low (RMB) 33.75/25.24
 Total Issued Shares (mn) 6366.0

Source: FactSet

Shareholding Structure

HKSCC 16.4%
 Hohhot Investment Co. 8.5%

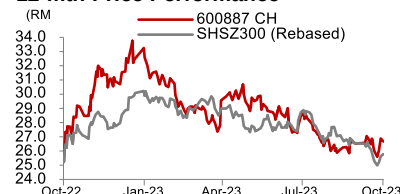
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.5%	4.1%
3-mth	-6.4%	5.0%
6-mth	-9.8%	2.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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5. [Mengniu Dairy \(2319 HK\) – 1H core rev/np +3%/10%; a surprising beat – Sep 1, 2023](#)

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	127,901	134,124	140,695	131,654	139,321	147,545	-2.9%	-3.7%	-4.6%
Gross profit	41,018	43,276	45,669	41,926	44,722	47,735	-2.2%	-3.2%	-4.3%
EBITDA	15,124	16,561	18,216	15,149	17,071	19,138	-0.2%	-3.0%	-4.8%
Net profit	10,521	11,373	12,393	10,677	11,959	13,368	-1.5%	-4.9%	-7.3%
Gross margin	32.1%	32.3%	32.5%	31.8%	32.1%	32.4%	0.2ppt	0.2ppt	0.1ppt
EBITDA margin	11.8%	12.3%	12.9%	11.5%	12.3%	13.0%	0.3ppt	0.1ppt	0ppt
Net margin	8.2%	8.5%	8.8%	8.1%	8.6%	9.1%	0.1ppt	-0.1ppt	-0.3ppt

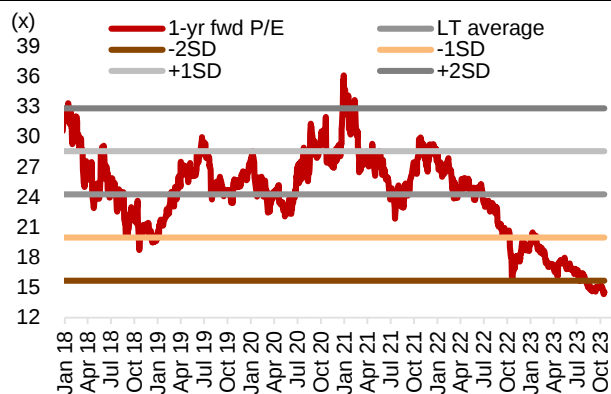
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	127,901	134,124	140,695	133,541	145,223	157,937	-4.2%	-7.6%	-10.9%
Gross profit	41,018	43,276	45,669	43,717	48,094	52,830	-6.2%	-10.0%	-13.6%
EBITDA	15,124	16,561	18,216	16,616	19,190	21,433	-9.0%	-13.7%	-15.0%
Net profit	10,521	11,373	12,393	10,773	12,557	14,355	-2.3%	-9.4%	-13.7%
Gross margin	32.1%	32.3%	32.5%	32.7%	33.1%	33.5%	-0.7ppt	-0.9ppt	-1ppt
EBITDA margin	11.8%	12.3%	12.9%	12.4%	13.2%	13.6%	-0.6ppt	-0.9ppt	-0.6ppt
Net margin	8.2%	8.5%	8.8%	8.1%	8.6%	9.1%	0.2ppt	-0.2ppt	-0.3ppt

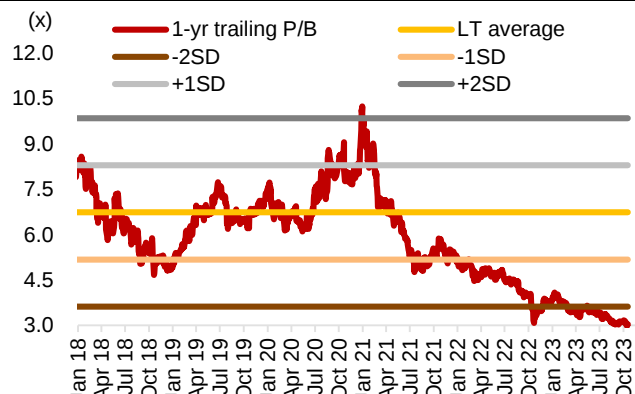
Source: Bloomberg, CMBIGM estimates

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
YE 31 Dec (RMB mn)						
Revenue	96,886	110,595	123,171	127,901	134,124	140,695
Cost of goods sold	(67,453)	(76,417)	(83,119)	(86,113)	(90,041)	(94,178)
Others	(547)	(664)	(742)	(770)	(808)	(847)
Gross profit	28,886	33,515	39,311	41,018	43,276	45,669
Operating expenses	(20,923)	(24,584)	(29,914)	(30,119)	(31,405)	(32,616)
Selling expense	(16,884)	(19,315)	(22,908)	(23,534)	(24,411)	(25,325)
Admin expense	(3,883)	(4,828)	(6,164)	(5,883)	(6,170)	(6,472)
Others	(156)	(442)	(841)	(702)	(824)	(819)
Operating profit	7,963	8,930	9,397	10,899	11,871	13,053
Other income	7,963	8,930	9,397	10,899	11,871	13,053
EBITDA	10,406	11,919	13,484	15,124	16,561	18,216
Depreciation	(2,223)	(2,873)	(3,744)	(4,010)	(4,458)	(4,913)
Other amortisation	(220)	(115)	(343)	(216)	(232)	(250)
EBIT	7,963	8,930	9,397	10,899	11,871	13,053
Net Interest income/(expense)	(188)	29	255	685	705	712
Other income/expense	862	1,153	979	500	485	470
Pre-tax profit	8,150	10,112	10,630	12,084	13,062	14,234
Income tax	(1,051)	(1,380)	(1,312)	(1,491)	(1,612)	(1,757)
Minority interest	(21)	(27)	113	(71)	(77)	(84)
Net profit	7,078	8,705	9,431	10,521	11,373	12,393
Gross dividends	4,988	6,144	6,631	8,103	8,759	9,545
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	28,381	50,155	61,463	62,526	63,452	65,128
Cash & equivalents	11,695	31,742	33,853	34,249	34,299	35,053
Restricted cash	3	400	3	0	0	0
Account receivables	1,875	2,233	3,450	3,583	3,757	3,941
Inventories	7,545	8,917	14,836	15,371	16,072	16,810
Other current assets	7,263	6,862	9,321	9,324	9,324	9,324
Non-current assets	42,774	51,807	69,502	73,006	76,222	79,100
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
Total assets	71,154	101,962	130,965	135,532	139,673	144,229
Current liabilities	34,768	43,296	62,170	64,246	65,697	67,319
Short-term borrowings	6,957	12,596	26,799	26,799	26,799	26,799
Account payables	17,975	14,062	16,807	17,412	18,206	19,043
Other current liabilities	9,836	16,638	18,563	20,035	20,691	21,477
Non-current liabilities	5,853	9,875	14,653	14,653	14,653	14,653
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
Total liabilities	40,622	53,171	76,822	78,899	80,349	81,972
Share capital	4,311	5,149	5,325	5,325	5,325	5,325
Retained earnings	23,541	24,298	27,587	30,005	32,619	35,468
Other reserves	2,532	18,262	17,356	17,356	17,356	17,356
Total shareholders equity	30,384	47,708	50,268	52,686	55,300	58,149
Minority interest	149	1,083	3,875	3,947	4,024	4,108
Total equity and liabilities	71,154	101,962	130,965	135,532	139,673	144,229

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,150	10,112	10,630	12,084	13,062	14,234
Depreciation & amortization	2,442	2,988	4,087	4,226	4,690	5,164
Change in working capital	4,684	(5,644)	(4,391)	(62)	(81)	(86)
Others	(5,425)	8,071	3,094	(1,491)	(1,612)	(1,757)
Net cash from operations	9,852	15,528	13,420	14,757	16,059	17,555
Investing						
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)
Net cash from investing	(9,043)	(7,797)	(19,514)	(7,729)	(7,906)	(8,042)
Financing						
Dividend paid	(4,988)	(4,988)	(6,144)	(6,631)	(8,103)	(8,759)
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
Net cash from financing	(47)	11,945	8,781	(6,631)	(8,103)	(8,759)
Net change in cash						
Cash at the beginning of the year	11,325	11,695	31,742	33,853	34,249	34,299
Exchange difference	(395)	(29)	(580)	0	0	0
Cash at the end of the year	11,692	31,342	33,850	34,249	34,299	35,053
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	7.4%	14.2%	11.4%	3.8%	4.9%	4.9%
Gross profit	(13.1%)	16.0%	17.3%	4.3%	5.5%	5.5%
Operating profit	10.9%	12.1%	5.2%	16.0%	8.9%	10.0%
EBITDA	13.9%	14.5%	13.1%	12.2%	9.5%	10.0%
EBIT	10.9%	12.1%	5.2%	16.0%	8.9%	10.0%
Net profit	2.1%	23.0%	8.3%	11.6%	8.1%	9.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.8%	30.3%	31.9%	32.1%	32.3%	32.5%
Operating margin	8.2%	8.1%	7.6%	8.5%	8.9%	9.3%
EBITDA margin	10.7%	10.8%	10.9%	11.8%	12.3%	12.9%
Return on equity (ROE)	25.0%	22.3%	19.3%	20.4%	21.1%	21.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	29.5	29.1	23.9	16.2	15.0	13.7
P/E (diluted)	29.5	27.7	24.4	16.5	15.3	14.0
P/B	6.9	5.1	4.3	3.1	2.9	3.0
Div yield (%)	2.4	2.4	2.9	4.8	5.2	5.6

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

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