

Yili Industrial (600887 CH)

4Q preview: rev/np reach RMB30.7bn/1.1bn

We forecast Yili's 4Q revenue/net profit to reach RMB30.7bn/1.1bn. Excluding Ausnutria, of which we forecast a LSD sales decline, we expect recurring revenue to grow MSD% YoY. This will be predominately composed of: 1) HSD growth in basic white milk, for which premiumization momentum drives Satine to grow by double digits; 2) LSD growth in milk powder, for which adult formula to grow by double digits. On the flip side, headwinds prevail in a few segments that balance out the strength. These include 1) a HSD decline in chilled dairy, though we still expect the segment to deliver positive growth for 2023E, 2) dairy diversifiers like UHT yoghurt and cheese which we expect to decline given their discretionary nature and languishing on-trade consumption. Margin-wise, we estimate gross margin to expand by 0.3pp YoY. Along with an estimated 0.4pp decline in opex ratio, we look for a 0.6pp net margin expansion for the quarter (on a relatively low base). Overall, our 4Q estimates imply 4.0% YoY 2023E revenue growth and 8.2% net margin, which are largely in line with **management target given out since 3Q results**. We maintain BUY on Yili into the March reporting season for its relatively higher earnings visibility and a bottomed-out consensus expectation.

- Outlook by segments.** There has been little change to the initial 2024E outlook provided by management. The premium Satine brand should keep its double-digit sales growth and further accelerate in 2024. IMF should improve on well-received new paunches and the exit of small players amid industry consolidation. Yoghurt and cheese will undergo 2B channel expansion and hopefully turn around. Overall, we see scope for MSD revenue growth that may kick in at least at par with the momentum in 2023.
- Vis-à-vis Mengniu.** We see comparable headwinds in Mengniu's UHT yoghurt and cheese sales that should likely bring 2H recurring group revenue growth (excluding Milkground) to 2.5% YoY. Separately, raw milk cost easing is a tailwind that has aided operating margin expansion by 0.5pp along with initiatives in cost efficiency and disciplined brand reinvestment. Mengniu sets out a similar 2024E outlook to that of Yili, with both aiming at MSD top-line growth with synchronized margin expansion pace.
- Earnings change.** Our 2023-25E estimates are largely unchanged. Our 9% net margin for 2025E benchmarks to management's mid-term goal.
- Valuation.** We revise TP to RMB33.4 (from previously RMB34.5) base on an updated 19.5x (from previously 20.5x) 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 a lukewarm dairy demand, especially that for IMF, amid a faltering consumption recovery in China.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	110,595	123,171	128,131	133,631	139,419
YoY growth (%)	14.2	11.4	4.0	4.3	4.3
Net profit (RMB mn)	8,704.9	9,431.1	10,468.9	11,420.6	12,497.0
YoY growth (%)	23.0	8.3	11.0	9.1	9.4
EPS (Reported) (RMB)	1.39	1.51	1.68	1.83	2.00
Consensus EPS (RMB)	na	na	1.69	1.97	2.25
P/E (x)	28.4	23.4	15.7	14.4	13.2
P/B (x)	5.1	4.3	3.0	3.0	2.8
Yield (%)	2.5	3.0	4.4	4.9	5.4
ROE (%)	22.3	19.3	20.2	20.7	21.3
Net gearing (%)	Net cash	4.5	3.3	1.1	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB33.4
(Previous TP)	RMB34.5)
Up/Downside	24.6%
Current Price	RMB26.8

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)	168,062.4
Avg 3 mths t/o (RMB mn)	814.7
52w High/Low (RMB)	33.25/25.33
Total Issued Shares (mn)	6366.0

Source: FactSet

Shareholding Structure

HKSCC	16.4%
Hohhot Investment Co.	8.5%

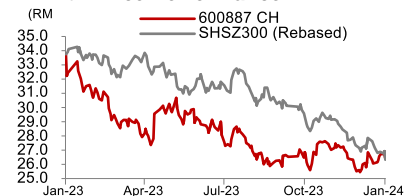
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.5%	4.8%
3-mth	-1.7%	8.4%
6-mth	-4.2%	12.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	128,131	133,631	139,419	127,901	134,124	140,695	0.2%	-0.4%	-0.9%
Gross Profit	41,285	43,529	45,907	41,018	44,722	45,669	0.7%	-2.7%	0.5%
EBITDA	15,594	17,198	18,890	15,124	16,561	18,216	3.1%	3.8%	3.7%
Net profit	10,469	11,421	12,497	10,521	11,373	12,393	-0.5%	0.4%	0.8%
Gross Margin	32.2%	32.6%	32.9%	32.1%	33.3%	32.5%	0.2ppt	-0.8ppt	0.5ppt
EBITDA Margin	12.2%	12.9%	13.5%	11.8%	12.3%	12.9%	0.3ppt	0.5ppt	0.6ppt
Net Margin	8.2%	8.5%	9.0%	8.2%	8.5%	8.8%	-0.1ppt	0.1ppt	0.2ppt

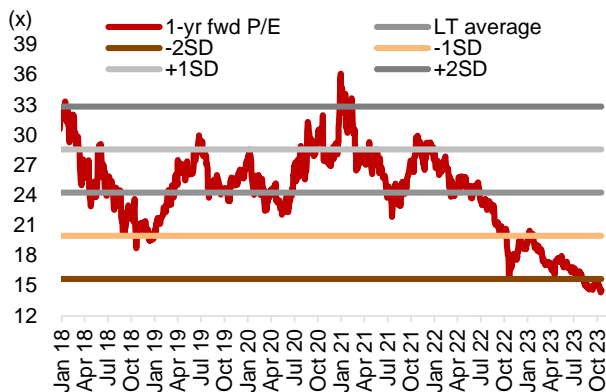
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	128,131	133,631	139,419	128,735	138,230	148,967	-0.5%	-3.3%	-6.4%
Gross Profit	41,285	43,529	45,907	42,015	45,601	49,557	-1.7%	-4.5%	-7.4%
EBITDA	15,594	17,198	18,890	16,389	18,214	20,228	-4.9%	-5.6%	-6.6%
Net profit	10,469	11,421	12,497	10,628	11,980	13,577	-1.5%	-4.7%	-8.0%
Gross Margin	32.2%	32.6%	32.9%	32.6%	33.0%	33.3%	-0.4ppt	-0.4ppt	-0.3ppt
EBITDA Margin	12.2%	12.9%	13.5%	12.7%	13.2%	13.6%	-0.6ppt	-0.3ppt	0ppt
Net Margin	8.2%	8.5%	9.0%	8.3%	8.7%	9.1%	-0.1ppt	-0.1ppt	-0.2ppt

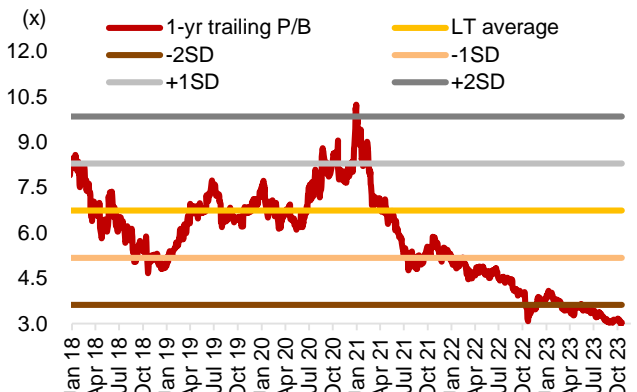
Source: Bloomberg, CMBIGM estimates

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



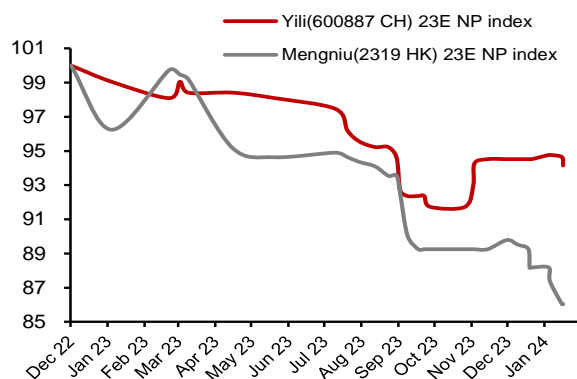
Source: Bloomberg, CMBIGM estimates

Figure 4: Yili - 12M trailing P/B chart



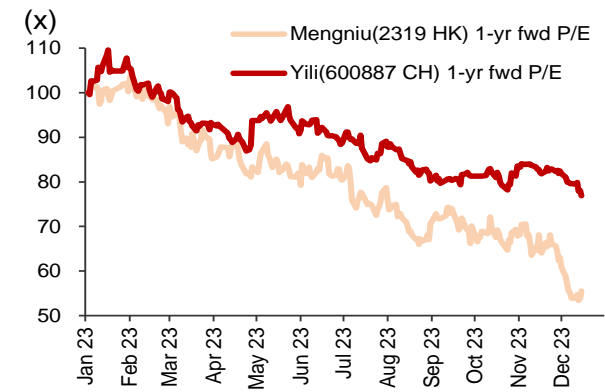
Source: Bloomberg, CMBIGM estimates

Figure 5: MN and YL 23E consensus earnings continue to weaken



Source: Bloomberg, CMBIGM estimates

Figure 6: Historical P/E indexes comparison of MN and YL



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	128,131	133,631	139,419
Cost of goods sold	(67,453)	(76,417)	(83,119)	(86,074)	(89,297)	(92,672)
Others	(547)	(664)	(742)	(772)	(805)	(840)
Gross profit	28,886	33,515	39,311	41,285	43,529	45,907
Operating expenses	(20,923)	(24,584)	(29,914)	(29,917)	(31,022)	(32,181)
Selling expense	(16,884)	(19,315)	(22,908)	(23,320)	(24,054)	(24,956)
Admin expense	(3,883)	(4,828)	(6,164)	(5,894)	(6,147)	(6,413)
Others	(156)	(442)	(841)	(703)	(821)	(812)
Operating profit	7,963	8,930	9,397	11,368	12,508	13,726
Other income	7,963	8,930	9,397	11,368	12,508	13,726
EBITDA	10,406	11,919	13,484	15,594	17,198	18,890
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	11,368	12,508	13,726
Net Interest income/(expense)	(188)	29	255	307	328	406
Other income/expense	862	1,153	979	500	487	474
Pre-tax profit	8,150	10,112	10,630	12,175	13,322	14,605
Income tax	(1,051)	(1,380)	(1,312)	(1,503)	(1,644)	(1,803)
Minority interest	(21)	(27)	113	(203)	(258)	(306)
Net profit	7,078	8,705	9,431	10,469	11,421	12,497
Gross dividends	4,988	6,144	6,631	7,224	8,013	8,832
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	28,381	50,155	61,463	62,598	64,488	67,081
Cash & equivalents	11,695	31,742	33,853	34,321	35,482	37,311
Restricted cash	3	400	3	0	0	0
Account receivables	1,875	2,233	3,450	3,589	3,743	3,905
Inventories	7,545	8,917	14,836	15,364	15,939	16,541
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	135,604	140,710	146,182
Current liabilities	34,768	43,296	62,170	63,359	64,801	66,301
Short-term borrowings	6,957	12,596	26,799	26,799	26,799	26,799
Account payables	17,975	14,062	16,807	17,404	18,056	18,738
Other current liabilities	9,836	16,638	18,563	19,156	19,946	20,764
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	78,012	79,454	80,954
Share capital	4,311	5,149	5,325	5,325	5,325	5,325
Retained earnings	23,541	24,298	27,587	30,832	34,239	37,905
Other reserves	2,532	18,262	17,356	17,356	17,356	17,356
Total shareholders equity	30,384	47,708	50,268	53,513	56,920	60,586
Minority interest	149	1,083	3,875	4,078	4,336	4,642
Total equity and liabilities	71,154	101,962	130,965	135,604	140,710	146,182

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,150	10,112	10,630	12,175	13,322	14,605
Depreciation & amortization	2,442	2,988	4,087	4,226	4,690	5,164
Change in working capital	4,684	(5,644)	(4,391)	(69)	(78)	(82)
Others	(5,425)	8,071	3,094	(1,503)	(1,644)	(1,803)
Net cash from operations	9,852	15,528	13,420	14,829	16,291	17,884
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)	(7,224)	(8,013)
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)	(7,224)	(8,013)
Net change in cash						
Cash at the beginning of the year	11,325	11,695	31,742	33,853	34,321	35,482
Exchange difference	(395)	(29)	(580)	0	0	0
Cash at the end of the year	11,692	31,342	33,850	34,321	35,482	37,311
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	7.4%	14.2%	11.4%	4.0%	4.3%	4.3%
Gross profit	(13.1%)	16.0%	17.3%	5.0%	5.4%	5.5%
Operating profit	10.9%	12.1%	5.2%	21.0%	10.0%	9.7%
EBITDA	13.9%	14.5%	13.1%	15.6%	10.3%	9.8%
EBIT	10.9%	12.1%	5.2%	21.0%	10.0%	9.7%
Net profit	2.1%	23.0%	8.3%	11.0%	9.1%	9.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.8%	30.3%	31.9%	32.2%	32.6%	32.9%
Operating margin	8.2%	8.1%	7.6%	8.9%	9.4%	9.8%
EBITDA margin	10.7%	10.8%	10.9%	12.2%	12.9%	13.5%
Return on equity (ROE)	25.0%	22.3%	19.3%	20.2%	20.7%	21.3%
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	28.4	23.4	15.7	14.4	13.2
P/E (diluted)	29.5	29.1	24.0	16.1	14.8	13.5
P/B	6.9	5.1	4.3	3.0	3.0	2.8
Div yield (%)	2.4	2.5	3.0	4.4	4.9	5.4

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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