

Inventory structure optimization, continuous improvement in cash flow

Key takeaway

In 2025, Youran Dairy revenue was +2.8% YoY. Raw milk volume increased and price decreased. It still achieved a 6.11% growth rate. Raw milk sales volume increased by 13.2% due to the proportion of adult cows increasing to 55% and the increase in unit yield. Raw milk unit price decreased by 6.3% to RMB3.86/kg. Unit sales cost decreased by 8.4%. This drove the increase in raw milk gross profit margin. However, the loss arising from the fair value of biological assets less sales costs expanded due to the increase in the number of culled cows in the second half of the year. Looking ahead, beef prices are already on the right side of the cycle. The inflection point of milk prices is approaching. During the industry cycle upturn from 2026 to 2028, we are optimistic that Youran Dairy will fully fully capitalize on the meat and milk dividends and unlock significant margin potential.

Event

Youran Dairy releases 2025 annual report

In 2025, Youran Dairy revenue was RMB20.654bn, +2.8% YoY. The net profit attributable to shareholders of the parent company was -RMB432mn, narrowing the loss YoY. Cash EBITDA was RMB5.587bn, +4.9% YoY. Profit before biological asset fair value adjustment was RMB3.877bn, up 26.7% YoY.

Quick Take

Raw milk volume increases and price decreases with mid-single-digit growth, ruminant solutions under pressure

In 2025, total revenue of raw milk business was RMB16.024bn, up 6.11% YoY. Sales volume increased by 13.2% to 4.1531 million tons. Raw milk unit price decreased by 6.3% to RMB3.86/kg. Sales volume growth is the core driver of performance. On the one hand, adult cow unit yield increased to 12.8 tons under measures such as feed formula adjustment and breeding environment optimization. On the other hand, the company optimized the herd structure. The proportion of adult cows increased by 2.7 pct to 55.0%. Raw milk prices decreased due to the imbalance of industry supply and demand. However, milk prices have gradually stabilized since the second half of 2025.

YOURAN DAIRY (9858.HK)

Maintain

Buy

YANG Ji

yangji@csc.com.cn

SAC Reg. No.: S1440525110001

Xiakezhati NULIMU

xiakezhatinulimu@csc.com.cn

SAC Reg. No.: S1440524070010

HE Juying

hejuying@csc.com.cn

SAC Reg. No.: S1440517050001

SFC Reg. No.: ASZ591

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Current price: HKD 4.21

Key data

Absolute /relative share performance (%)

1 month	3 months	12 months
-16.63/-10.95	-17.13/-15.12	69.76/61.53
12-month highest/lowest price (HKD)		5.23/2.12
Total share capital (10,000 shares)		419,197.78
Floating H shares (10,000 shares)		419,197.78
Total market capitalization (HKD100mn)		176.48
Floating market capitalization (HKD100mn)		176.48
3-month average daily trading volume (10,000 shares)		3052.95
Major shareholder		
PAGAC Yogurt Holding II Limited		21.13%

The ruminant farming systematic solution business achieved a revenue of RMB4.63bn in 2025 (-7.3% YoY). The revenue decline was mainly affected by the industry demand cycle. Dairy cow feed demand decreased. The company also offset some impacts by developing beef cattle and sheep feed. Annual concentrate feed sales volume decreased by 3.7% YoY to 846,000 tons. However, beef cattle and sheep feed sales volume achieved a YoY growth of 46.7%. Overall feed business revenue was RMB4.032bn, -9.32% YoY.

Cost optimization improves gross margin, and cash flow performance is outstanding

Gross margin: In 2025, the company's gross margin was 29.79%, +1.02 pcts YoY, of which the gross margin of the raw milk business was 34.3%, +1.6 pcts YoY. The core reason is that benefiting from the decline in raw material prices, feed formula adjustment, and unit yield improvement, the unit feed cost and unit sales cost were RMB1.88/kg and RMB2.54/kg respectively, -10.5% and -8.4% YoY respectively, both exceeding the YoY decline in raw milk prices.

The loss arising from the fair value of biological assets less costs to sell further expanded by RMB391mn to RMB4.312bn, which is the core reason for the company's profit loss. The reason for the expanded loss is that with the increase in the price of culled cows in the second half of the year, the company increased herd optimization and improvement, significantly increased the proportion of adult cows, and increased the number of culled cows, resulting in an increase in related losses.

In terms of cash flow, the annual operating cash flow was RMB5.945bn, +1.83% YoY. The company's newly built pastures were all completed, and capital expenditure significantly decreased by 34.68% to RMB3.758bn, driving free cash flow to increase from RMB241mn in 2024 to RMB1.901bn.

Youran Dairy investment highlights: 1) Meat and milk resonance, the dairy farming leader fully benefits:

Youran's annual raw milk production exceeds 4 million tons, which will fully benefit from the cyclical recovery of milk prices. At the same time, based on the natural breeding cycle of dairy cows, Youran expects to cull more than 110,000 adult cows and more than 150,000 male dairy calves every year, while the inventory of Tianlai Animal Husbandry, a domestic beef cattle breeding leader, is only 65,000 heads. Therefore, as a leading dairy farming group, Youran is a high-quality name for meat and milk resonance. **2) Operational efficiency improves, and breeding cost control ability is strong.** On the one hand, the feed and grass business provides advantages in raw material procurement and feed formulas, and it is expected that there is still room for cost reduction of silage and other feeds in 2026. On the other hand, the improvement of breeding technology and the digital operation of pastures jointly improve breeding efficiency, increase the unit yield of dairy cows, and reduce operating costs. **3) Milk price recovery and revaluation gains for adult cows** "Loss arising from changes in fair value less costs to sell of biological assets" is an important factor affecting profit. As the future recovery of milk prices drives the upward adjustment of the fair value of adult cows, it will increase the company's profit. **4) Funds raised from the placement plan prepare for potential M&A opportunities.**

Earnings forecast and investment recommendations:Based on the prediction of raw milk and beef price cycles, we believe 2028 will be the company's profit peak, and the profit at the cycle peak is expected to maintain at RMB4bn. We expect the company to achieve total operating revenue of RMB21.627bn, RMB22.944bn, and RMB24.834bn in 2026-2028. It will achieve net profit attributable to shareholders of the parent company of

RMB1.499bn, RMB2.632bn, and RMB4.029bn. Calculated at the HKD to RMB exchange rate of 0.88, the dynamic PE for 2026–2028 is 9.35X, 5.33X, and 3.48X, and we give a "Buy" rating.

Risks:

Slower-than-expected capacity reduction: While industry consensus on herd reduction has been reached and destocking is expected to continue in 2H25, the milk price cycle is only just approaching its bottom. If leading dairy producers reduce capacity at a slower pace and smaller ranches continue operating at a loss in hopes of a price rebound, the overall destocking process could be delayed, further impacting ranch profitability.

Weaker-than-expected demand: Even if dairy production is scaled back significantly, continued weakness in consumer demand would reduce downstream raw milk purchases. This would postpone the milk price inflection point and prolong the current downturn.

Raw material price volatility risk: Raw materials account for over 70% of total production costs. Key inputs such as soybean meal, alfalfa, and oat hay rely heavily on imports. Additionally, domestic corn prices have rebounded this year. If raw material prices become more volatile, this would push up feeding costs and weigh on ranch profitability.

Key Financial Indicators

	2024	2025	2026E	2027E	2028E
Operating revenue (RMBmn)	20,096.16	20,653.71	21,626.98	22,944.08	24,833.52
YoY (%)	7.50	2.77	4.71	6.09	8.23
Net profit (RMBmn)	-690.89	-432.39	1,498.98	2,632.42	4,029.37
YoY (%)	34.20	37.41	446.67	75.61	53.07
GPM(%)	28.78	29.79	30.62	31.62	34.16
Net Profit Margin (%)	-4.29	-2.11	7.53	12.47	17.64
ROE(%)	-6.12	-3.94	12.01	15.08	18.75
EPS (RMB, diluted)	-0.16	-0.10	0.36	0.63	0.96
P/E (x)	-20.29	-32.42	9.35	5.33	3.48
P/B (x)	1.41	1.45	1.28	0.91	0.74

Source: iFinD, China Securities

Analyst

YANG Ji

China Securities' Head of Consumer Sector and Chief Analyst for the Food & Beverage Industry, with 13 years of industry experience and 6 years of securities firm experience. Former partner at a consulting firm and Deputy Secretary-General of the Expert Committee of the China Alcoholic Drinks Circulation Association, led teams serving nearly 80% of listed liquor companies and multiple consumer goods companies, possessing profound professional insight, cutting-edge industry perspective, and extensive industry experience.

In 2024, led the team to win 9 Best Analyst Awards. Ranked among the New Fortune shortlisted teams for three consecutive years from 2022 to 2024. Achieved first place in the Wind Golden Analyst Awards in 2023 and second place in 2024. Recognized as Sina Golden Kirin Best Analyst and Rising Star in 2022, 2023, and 2024. Secured third place in the Golden Bull Awards in 2024. Named 21st Century Golden Analyst and Annual Growth Analyst in 2024. Recognized as Shanghai Securities News Best Analyst from 2022 to 2024 and East Money Choice Best Analyst from 2022 to 2024.

Xiakezhati NULIMU

Bachelor's and Master's degrees from Nankai University. Joined China Securities' food and beverage research team in July 2022, focusing on baijiu, dairy products, and condiments.

HE Juying

Chief analyst of the pharmaceutical industry at China Securities, master of management from Fudan University, with over 10 years of experience in pharmaceutical sell-side research, good at forward-looking grasping of opportunities in sub-sectors, in-depth and meticulous company research, and responsible for overall investment direction judgment.

Awarded 7th place in the 2020 Sina Finance Golden Kirin Analysts for the Pharmaceutical industry, finalist for the New Fortune Best Analysts in the Pharmaceutical industry, and 4th place for Wind Best Analysts in the Pharmaceutical industry, among other honors. Ranked 1st in the 2019 Wind 'Gold Medal Analyst' for the Pharmaceutical industry. Ranked 3rd in the 2018 Wind 'Gold Medal Analyst' for the Pharmaceutical industry, and 1st in the 2018 Yicai Best Analyst for the Pharmaceutical industry. Ranked 3rd in the 2013 New Fortune for the Pharmaceutical industry, and 5th in the Crystal Ball Awards for the Pharmaceutical industry.

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Investment rating standard		Ratings	Description
The rating standard involved in the investment recommendations in the report is based on the performance relative to the market within 6 months after the release date, i.e., the performance of the company's stock price (or industry index) within 6 months after the release date is benchmarked against the change of representative index of the relevant securities market over the same period. CSI 300 Index serves as the benchmark index for the A-share market; the NEEQ Component Index serves as the benchmark index for the NEEQ market; Hang Seng Index serves as the benchmark index for the Hong Kong market; and S&P 500 Index serves as the benchmark index of the US market.	Stock ratings	Buy	Increase by more than 15% relative to the benchmark index
		Overweight	Increase by 5% - 15% relative to the benchmark index
		Neutral	Increase by -5% - 5% relative to the benchmark index
		Underweight	Decrease by 5% - 15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
	Industry ratings	Outperform	Increase by more than 10% relative to the benchmark index
		Neutral	Increase by -10% - 10% relative to the benchmark index
		Underperform	Decrease by more than 10% relative to the benchmark index

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Research Department, China Securities Co., Ltd.

Beijing
 18th Floor, Building 1, No. 16 Jinghui Street,
 Chaoyang District

Phone: (8610) 8513-0588
 Contact: Li Zhiyao
 Mail: lizhiyao@csc.com.cn

Shanghai
 Room 2103, South Tower, No. 528, South
 Pudong Road, Pudong New District

Phone: (8621) 6882-1600
 Contact: Weng Qifan
 Mail: wengqifan@csc.com.cn

Shenzhen
 35th Floor, Radio and Television Financial
 Center, Intersection of Third Fuzhong Road
 and First Pengcheng Road, Futian District

Phone: (86755) 8252-1369
 Contact: Cao Ying
 Mail: caoying@csc.com.cn

China Securities (International)

Hong Kong
 18th Floor, Two Exchange Square, Central

Phone: (852) 3465-5600
 Contact: Liu Honglin
 Mail: charleneliu@csci.hk