

China Feihe (6186 HK)

1H below us; near-term recovery could just be wishful thinking

Feihe pre-announced its 1H results which came in as a miss with flattish revenue (vs CMBI: LSD increase) and a 23% to 36% net profit decline (vs CMBI: flattish). We have alerted in [our previous downgrade report](#) that a near-term recovery could just be wishful thinking given 1) likely persistent low birth-rates, 2) heightening industry competition, 3) a down-trending product mix, and 4) production economy deleveraging. In our view, an inflection point remains remote and should there be any, it would take time for fertility intention to manifest into legit IMF consumption. This is not to mention that family and child planning consumption is late-cycle beneficiary as opposite to dine-out and short-haul travel demand. We maintain our cautious view and hence our HOLD-rating on Feihe. We prefer Yili (600887CH, BUY) for a more diversified product base and new launch momentum that balances out any industry/macro headwinds.

- **First take on 1H.** Management expects revenue/net profits to come at RMB9.6 to RMB9.9bn (flattish YoY)/ RMB1.5-1.8bn (down 23% to 36%). We envisage strong growth in the new super-premium Zhuorui to mitigate majority of the slowdown of Astrobaby and Zhenzhi. Adult formula still offered solid growth. Meanwhile, gross margins are likely to see lingering pressure given an unfavourable mix shift and any promotions offered amid keen competition. Operationally, we look for steady yet higher marketing expenses and lower operation efficiency upon an under-utilized capacity of its new Harbin and Canada facilities. YST recorded a net loss.
- **Earnings change.** To reflect the pre-announcement, we cut our 2023E revenue by 11%, along with a 1.0pp cut in GPM. Both lead to a 12% cut in our net profits. We now assume a 4% decline for 2023E revenue which comprises of a flattish 1H and a 7% decline in 2H. We are now 18% below Bloomberg consensus and given the weak results, we see a chance for management to revise their guidance during the official results announcement by end-Aug.
- **Valuation.** Upon our earnings change, our new TP of HK\$4.9 is based on an updated 8.2x (from previously 9.0x) end-23E P/E which still represents -1sd below its long-term average. Our methodology reflects our vigilance on the intensifying competition of the IMF segment, when China's birth rate remains low. Alternatively, we assign our [valuation multiple at long term average to Yili](#) to reflect the company's stronger IMF momentum in the near term.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,776	21,311	20,371	20,301	21,459
YoY growth (%)	22.5	(6.4)	(4.4)	(0.3)	5.7
Net profit (RMB mn)	6,871	4,942	4,455	4,495	4,888
YoY growth (%)	(7.6)	(28.1)	(9.9)	0.9	8.7
EPS (RMB)	0.8	0.6	0.5	0.5	0.6
Consensus EPS (RMB)	na	na	0.6	0.7	0.8
P/E (x)	18.6	11.6	8.2	8.1	7.5
P/B (x)	6.1	2.4	1.4	1.3	1.2
Yield (%)	2.7	4.5	6.5	6.5	7.1
ROE (%)	35.5	22.0	17.6	16.2	16.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price HK\$4.9
(Previous TP) HK\$5.9
Up/Downside 10.9%
Current Price HK\$4.42

China Consumer Staples

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Stock Data

Mkt Cap (HK\$ mn)	40,080.6
Avg 3 mths t/o (HK\$ mn)	76.9
52w High/Low (HK\$)	8.25/4.27
Total Issued Shares (mn)	9068.0

Source: FactSet

Shareholding Structure

Garland Glory Holdings Limited	42.9%
Dasheng Limited	6.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.9%	-5.0%
3-mth	-14.3%	-11.3%
6-mth	-37.7%	-30.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

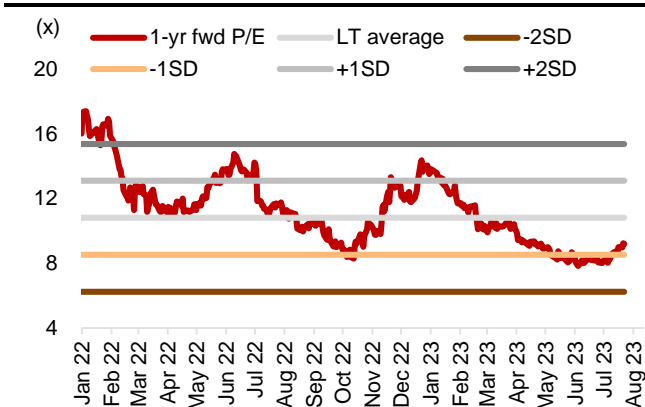
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	20,371	20,301	21,459	22,937	26,036	29,980	-11.2%	-22.0%	-28.4%
Gross Profit	12,616	12,379	13,122	14,433	16,104	18,626	-12.6%	-23.1%	-29.6%
EBIT	5,931	5,985	6,514	6,765	7,588	8,951	-12.3%	-21.1%	-27.2%
Net profit	4,455	4,495	4,888	5,068	5,679	6,691	-12.1%	-20.8%	-27.0%
Gross Margin	61.9%	61.0%	61.1%	62.9%	61.9%	62.1%	-1ppt	-0.9ppt	-1ppt
EBIT Margin	29.1%	29.5%	30.4%	29.5%	29.1%	29.9%	-0.4ppt	0.3ppt	0.5ppt
Net Margin	21.9%	22.1%	22.8%	22.1%	21.8%	22.3%	-0.2ppt	0.3ppt	0.5ppt

Source: Company data, CMBIGM estimates

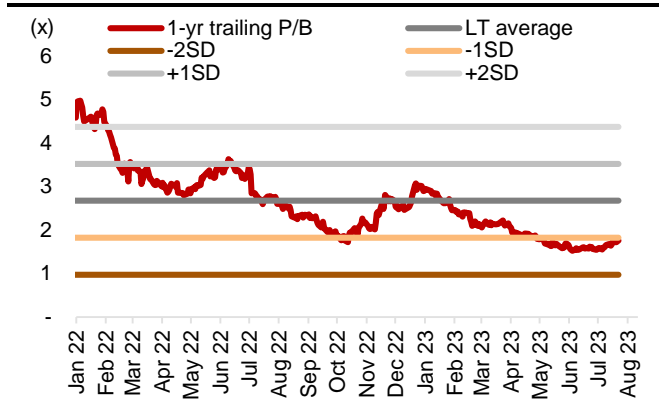
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	20,371	20,301	21,459	23,124	25,154	27,565	-11.9%	-19.3%	-22.2%
Gross Profit	12,616	12,379	13,122	14,966	16,246	17,733	-15.7%	-23.8%	-26.0%
EBIT	5,931	5,985	6,514	7,162	7,856	8,585	-17.2%	-23.8%	-24.1%
Net profit	4,455	4,495	4,888	5,386	5,934	6,596	-17.3%	-24.2%	-25.9%
Gross Margin	61.9%	61.0%	61.1%	64.7%	64.6%	64.3%	-2.8ppt	-3.6ppt	-3.2ppt
EBIT Margin	29.1%	29.5%	30.4%	31.0%	31.2%	31.1%	-1.9ppt	-1.7ppt	-0.8ppt
Net Margin	21.9%	22.1%	22.8%	23.3%	23.6%	23.9%	-1.4ppt	-1.4ppt	-1.2ppt

Source: Company data, CMBIGM estimates

Figure 3: Feihe - 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Feihe - 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	18,592	22,776	21,311	20,371	20,301	21,459
Cost of goods sold	(5,112)	(6,769)	(7,360)	(7,755)	(7,921)	(8,337)
Gross profit	13,480	16,008	13,951	12,616	12,379	13,122
Selling expense	(5,263)	(6,729)	(6,545)	(6,315)	(6,090)	(6,330)
Admin expense	(1,161)	(1,208)	(1,535)	(1,487)	(1,421)	(1,395)
Others	2,788	1,774	1,117	1,117	1,117	1,117
Operating profit	9,844	9,844	6,987	5,931	5,985	6,514
EBITDA	10,110	10,288	7,533	6,510	6,640	7,253
Depreciation	(266)	(442)	(544)	(579)	(654)	(739)
Other amortisation	(0)	(1)	(2)	0	0	0
Net Interest income/(expense)	74	81	81	84	84	84
Other income/expense	(18)	(253)	(405)	(16)	(16)	(16)
Pre-tax profit	9,900	9,672	6,663	5,999	6,053	6,582
Income tax	(2,464)	(2,757)	(1,715)	(1,544)	(1,558)	(1,694)
After tax profit	7,437	6,915	4,948	4,455	4,495	4,888
Minority interest	0	(44)	(6)	0	0	0
Net profit	7,437	6,871	4,942	4,455	4,495	4,888
Net dividends	2,287	3,462	2,616	2,358	2,379	2,587

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	18,544	19,970	22,230	23,695	24,883	26,360
Cash & equivalents	10,059	9,629	9,336	10,719	11,863	13,205
Account receivables	289	477	431	406	405	428
Inventories	1,284	1,722	1,994	2,101	2,146	2,259
Prepayment	557	576	507	507	507	507
ST bank deposits	6,331	7,540	9,746	9,746	9,746	9,746
Other current assets	24	26	216	216	216	216
Non-current assets	9,778	11,512	13,286	14,150	15,131	16,242
PP&E	7,197	8,437	9,500	10,380	11,377	12,503
Right-of-use assets	366	428	409	409	409	409
Deferred income tax	376	474	439	439	439	439
Investment in JVs & assos	143	128	110	95	79	64
Intangibles	48	133	131	131	131	131
Other non-current assets	20,192	21,882	24,926	26,392	27,580	29,057
Total assets	28,323	31,481	35,516	37,845	40,014	42,602
Current liabilities	7,107	6,942	7,460	7,173	7,205	7,285
Short-term borrowings	448	313	447	447	447	447
Account payables	1,133	1,284	1,774	1,487	1,519	1,599
Tax payable	910	1,063	468	468	468	468
Other current liabilities	4,518	4,221	4,705	4,705	4,705	4,705
Lease liabilities	98	62	67	67	67	67
Non-current liabilities	2,030	2,136	2,581	2,481	2,481	2,481
Long-term borrowings	732	621	862	762	762	762
Obligations under finance leases	139	115	126	126	126	126
Other non-current liabilities	1,158	1,399	1,593	1,593	1,593	1,593
Total liabilities	9,137	9,078	10,041	9,654	9,686	9,766
Share capital	0	0	0	0	0	0
Retained earnings	17,747	20,921	23,986	26,702	28,839	31,348
Other reserves	0	0	0	0	0	0
Total shareholders equity	17,747	20,921	23,986	26,702	28,839	31,348
Minority interest	1,438	1,482	1,489	1,489	1,489	1,489
Total equity and liabilities	28,323	31,481	35,516	37,845	40,014	42,602

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,900	9,672	6,663	5,999	6,053	6,582
Depreciation & amortization	266	443	546	579	654	739
Tax paid	(2,464)	(2,757)	(1,715)	(1,544)	(1,558)	(1,694)
Change in working capital	1,253	(827)	822	(369)	(12)	(56)
Others	(1,207)	284	(37)	16	16	16
Net cash from operations	7,748	6,815	6,279	4,681	5,153	5,587
Investing						
Capital expenditure	(816)	(1,930)	(2,449)	(1,461)	(1,651)	(1,866)
Acquisition of subsidiaries/ investments	(757)	(286)	(136)	0	0	0
Net proceeds from disposal of short-term investments	0	16	18	16	16	16
Others	(2,213)	(244)	(2,237)	(16)	(16)	(16)
Net cash from investing	(3,786)	(2,444)	(4,804)	(1,461)	(1,651)	(1,866)
Financing						
Dividend paid	(2,685)	(3,392)	(2,133)	(1,739)	(2,358)	(2,379)
Net borrowings	(3,630)	(444)	(505)	(100)	0	0
Proceeds from share issues	0	(365)	(148)	0	0	0
Others	3,772	(44)	811	2	0	0
Net cash from financing	(2,543)	(4,245)	(1,975)	(1,836)	(2,358)	(2,379)
Net change in cash						
Cash at the beginning of the year	7,377	10,059	9,629	9,336	10,719	11,863
Exchange difference	(173)	(49)	90	0	0	0
Others	1,436	(506)	116	0	0	0
Cash at the end of the year	10,059	9,629	9,336	10,719	11,863	13,205
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	35.5%	22.5%	(6.4%)	(4.4%)	(0.3%)	5.7%
Gross profit	40.3%	18.7%	(12.9%)	(9.6%)	(1.9%)	6.0%
Operating profit	73.7%	0.0%	(29.0%)	(15.1%)	0.9%	8.8%
EBITDA	72.9%	1.8%	(26.8%)	(13.6%)	2.0%	9.2%
Net profit	89.0%	(7.6%)	(28.1%)	(9.9%)	0.9%	8.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	72.5%	70.3%	65.5%	61.9%	61.0%	61.1%
Operating margin	52.9%	43.2%	32.8%	29.1%	29.5%	30.4%
EBITDA margin	54.4%	45.2%	35.3%	32.0%	32.7%	33.8%
Return on equity (ROE)	48.3%	35.5%	22.0%	17.6%	16.2%	16.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.9)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)
Current ratio (x)	2.6	2.9	3.0	3.3	3.5	3.6
Receivable turnover days	5.6	7.5	7.3	7.3	7.3	7.3
Inventory turnover days	91.7	92.8	98.9	98.9	98.9	98.9
Payable turnover days	80.9	69.2	88.0	70.0	70.0	70.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	15.9	18.6	11.6	8.2	8.1	7.5
P/E (diluted)	16.2	19.0	11.6	8.2	8.1	7.5
P/B	6.6	6.1	2.4	1.4	1.3	1.2
Div yield (%)	1.9	2.7	4.5	6.5	6.5	7.1

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

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