

Mengniu Dairy (2319 HK)

A laggard play to this early-staged consumption-led recovery

Our view to dairy segment's outlook remains mediocre, as we believe players should in general share less sensitivity to the reopening theme relative to their peers in the beer and cosmetics segment, respectively. That said, we see trading opportunity on Mengniu into results season. This would mainly be underpinned by 1) an easy and stabilizing earnings expectation (for both 2H22 and 2023E), when we see subdued downside risk to current consensus estimates, and 2) a moderately lagging valuation to peers who have already been re-rated on reopening sentiment. Our call does not indicate any preference changes in our structural picks. Instead, we argue the stock could play near term catch-up catalyzed by this expectation mismatch, when a likely in line 2H could refresh market expectation, despite any earnings miss last year (which looks to be not uncommon as we observed). We are buy-rated on Mengniu and in the long term, we stick to CR Beer (291HK, Buy), Proya (603605CH, Buy) and CTGDF (601888CH, Buy) as our preferred quality plays around this early-staged consumption-led recovery.

- **2H22 preview.** We forecast revenue to grow at 6.7% YoY (or down 5.5% HoH). **Given a HSD growth for 3Q**, this implies that of 4Q would only be a LSD one, when November sales was hardly hit by lockdowns. Meanwhile, we expect recurring drags, such as a downgrading mix and rising raw material costs, to continue to weigh on GPM. This should put the number to decline YoY and HoH to 34.8% on our estimates. On a positive note, we do not envisage any one-off inventory clearance cost to linger (about 1.0pp erosion to 1H22 GPM), and this should set stage for an earnings recovery over 1H23E. Separately, we look for a YoY flat recurring EBIT margins (ex-educational surcharge) at 6.7% for FY22E, and this implies that of 2H to be 7.1%, expanding by 1.1pp YoY and 0.8pp HoH, respectively.
- **Earnings change.** We cut our 2H revenue by 2.4% mainly to reflect a weak November in 2022. We also lower our 2H GP by 3.2% to factor-in the above. These explain a 2.9% cut in net profits. Extrapolation of these assumptions has led to an average 3.5% and 4.9% cut in our 2023/24E revenue/net profits, respectively. Our estimates are now largely in line with consensus.
- **Valuation.** Upon our earnings change, our new TP is based on an unchanged 26.0x but rolled-forward end-23E P/E, which represents its long term average.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	76,035	88,141	92,802	102,393	114,048
YoY growth (%)	(3.8)	15.9	5.3	10.3	11.4
Net income (RMB mn)	3,525	5,026	5,898	6,771	7,938
EPS (RMB)	0.9	1.3	1.5	1.7	2.0
YoY growth (%)	(7.6)	42.0	17.3	14.8	17.2
Consensus EPS (RMB)	n.a	n.a	1.5	1.8	2.1
P/E (x)	n.a	n.a	20.7	18.0	15.4
P/B (x)	n.a	n.a	2.9	2.6	2.3
Div yield (%)	n.a	n.a	1.5	1.7	2.0
ROE (%)	9.5	12.0	12.6	13.0	13.7
Net gearing (%)	19.4	28.2	20.9	8.6	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$52.0
(Previous TP	HK\$50.5)
Up/Downside	+40.9%
Current Price	HK\$36.9

China Consumer – Food and Beverage

Joseph Wong
 (852) 3900 0838
 josephwong@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	144,168
Avg 3 mths t/o (HK\$ mn)	360.57
52w High/Low (HK\$)	50.7/ 24.7
Total Issued Shares (mn)	3,955

Source: Wind

Shareholding Structure

COFCO Dairy Investment Co.	13.92%
Gendar Ltd	7.49%
Brown Brothers Harri. & Co.	7.29%

Source: Wind

Share Performance

	Absolute	Relative
1-mth	-2.8%	3.8%
3-mth	11.3%	-2.7%
6-mth	9.5%	5.0%

Source: Wind

12-m Price Performance



Source: BBG

Auditor: KPMG

Related Reports

1. [Kweichow Moutai \(600519 CH\) – Proxy of China's consumption-led recovery](#) – 6 Feb 2023
2. [CR Beer \(291 HK\) – Another positive year for 2023; our preferred pick for China's re-opening](#) – 22 Jan 2023
3. [China Feihe \(6186 HK\) – could remain a beta play when birth rate only start inflecting post 3Q](#) – 3 Jan 2023

Figure 1: Earnings revision

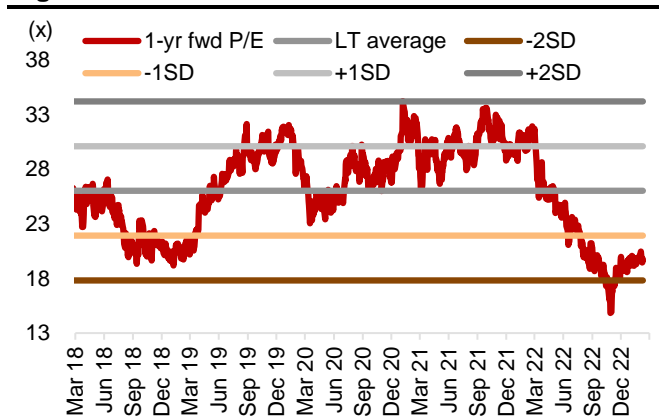
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	92,802	102,393	114,048	95,060	105,988	118,303	-2.4%	-3.4%	-3.6%
Gross Profit	33,130	37,066	41,856	34,222	38,898	44,009	-3.2%	-4.7%	-4.9%
Recurring EBIT	6,205	7,460	8,880	6,394	7,905	9,705	-3.0%	-5.6%	-8.5%
Net profit	5,898	6,771	7,938	6,075	7,120	8,342	-2.9%	-4.9%	-4.8%
EPS (RMB)	1.49	1.71	2.00	1.53	1.79	2.10	-2.9%	-4.7%	-4.7%
Gross Margin	35.7%	36.2%	36.7%	36.0%	36.7%	37.2%	-0.3ppt	-0.5ppt	-0.5ppt
EBIT Margin	6.7%	7.3%	7.8%	6.7%	7.5%	8.2%	0.0ppt	-0.2ppt	-0.4ppt
Net Margin	6.4%	6.6%	7.0%	6.4%	6.7%	7.1%	0.0ppt	-0.1ppt	-0.1ppt

Source: Company data, CMBIGM estimates

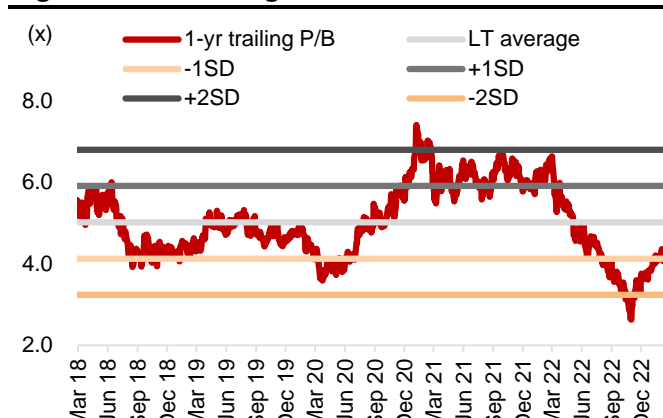
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	92,802	102,393	114,048	93,531	106,576	116,048	-0.8%	-3.9%	-1.7%
Gross Profit	33,130	37,066	41,856	34,135	39,258	42,906	-2.9%	-5.6%	-2.4%
Recurring EBIT	6,205	7,460	8,880	6,390	7,654	9,105	-2.9%	-2.5%	-2.5%
Net profit	5,898	6,771	7,938	5,826	6,612	7,815	1.2%	2.4%	1.6%
EPS (RMB)	1.49	1.71	2.00	1.47	1.67	1.97	1.1%	2.2%	1.5%
Gross Margin	35.7%	36.2%	36.7%	36.5%	36.8%	37.0%	-0.8ppt	-0.6ppt	-0.3ppt
EBIT Margin	6.7%	7.3%	7.8%	6.8%	7.2%	7.8%	-0.1ppt	0.1ppt	-0.1ppt
Net Margin	6.4%	6.6%	7.0%	6.2%	6.2%	6.7%	0.1ppt	0.4ppt	0.2ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	76,035	88,141	92,802	102,393	114,048
Liquid Milk	67,751	76,514	80,084	88,483	99,184
Others	8,284	11,627	12,718	13,910	14,865
Gross profits	28,629	32,390	33,130	37,066	41,856
D&A	(2,042)	(2,396)	(2,652)	(2,752)	(2,852)
Selling expense	(21,541)	(23,488)	(23,665)	(26,008)	(28,968)
Administration expenses	(2,915)	(3,524)	(3,805)	(4,198)	(4,676)
Other operating expenses	(1,783)	(1,629)	(1,600)	(1,000)	(1,000)
Others	3,029	3,780	5,052	4,352	4,452
EBIT	3,377	5,132	6,461	7,460	8,811
EBITDA	5,419	7,529	9,113	10,213	11,664
Finance costs, net	(572)	(743)	(743)	(743)	(743)
Non-operating	1,350	1,479	1,477	1,543	1,614
Pre-tax profit	4,155	5,868	7,195	8,260	9,683
Income tax	(653)	(905)	(1,109)	(1,273)	(1,493)
Less: Minority interests	23	62	(188)	(216)	(253)
Net profit	3,525	5,026	5,898	6,771	7,938

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	3,525	5,026	5,898	6,771	7,938
D&A	2,042	2,396	2,652	2,752	2,852
Change in working capital	967	1,459	(3,519)	(546)	(663)
Others	(1,187)	(1,336)	(1,139)	(1,527)	(1,562)
Net cash fr. operating act.	5,348	7,545	3,892	7,451	8,565
Capex & investments	(611)	(565)	(640)	(640)	(640)
Acquisition	(26)	(830)	-	-	-
Others	5,459	(14,045)	657	421	421
Net cash fr. investing act.	4,822	(15,440)	17	(219)	(219)
Equity raised	-	-	-	-	-
Change of Debts	(3,926)	8,013	-	-	-
Dividend paid	(885)	(1,282)	(1,637)	(1,898)	(2,204)
Others	241	42	-	-	-
Net cash fr. financing act.	(4,571)	6,773	(1,637)	(1,898)	(2,204)
Net change in cash	5,599	(1,123)	2,272	5,334	6,142
Cash at the beginning of the year	5,970	12,351	10,981	13,253	18,587
Exchange difference	(172)	(11)	-	-	-
Cash at the end of the year	11,397	11,217	13,253	18,587	24,729
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	48,640	67,081	66,325	65,534	64,715
PP&E/Fixed assets	12,547	17,335	15,800	14,224	12,607
Goodwill	4,883	4,858	4,858	4,858	4,858
Deferred tax assets	1,277	1,561	1,561	1,561	1,561
Other non-current assets	29,933	43,327	44,105	44,890	45,689
Current assets	31,507	31,020	33,657	40,094	47,576
Cash	11,397	11,217	13,253	18,587	24,729
Account receivable	2,927	4,160	4,380	4,832	5,382
Inventory	5,512	6,485	6,866	7,517	8,307
Other current assets	11,670	9,158	9,158	9,158	9,158
Current liabilities	26,144	29,072	26,154	26,711	27,389
Borrowings	4,924	4,265	4,265	4,265	4,265
Account payables	7,969	8,804	5,885	6,443	7,120
Other payables	8,326	11,737	11,737	11,737	11,737
Lease liabilities	4,924	4,265	4,265	4,265	4,265
Non-current liabilities	16,754	27,030	27,030	27,030	27,030
Borrowings	13,696	18,786	18,786	18,786	18,786
Deferred tax liabilities	2,280	2,456	2,456	2,456	2,456
Other non-current liabilities	779	5,787	5,787	5,787	5,787
Minority Interest	4,265	5,174	5,362	5,577	5,830
Total net assets	37,248	41,999	46,798	51,886	57,873
Shareholders' equity	32,983	36,826	41,437	46,309	52,043

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Liquid Milk	89.1	86.8	86.3	86.4	87.0
Others	10.9	13.2	13.7	13.6	13.0
P&L ratios (%)					
Gross margin	37.7	36.7	35.7	36.2	36.7
Operating margin	4.4	5.8	7.0	7.3	7.7
Pre-tax margin	5.5	6.7	7.8	8.1	8.5
Net margin	4.6	5.7	6.4	6.6	7.0
Effective tax rate	(15.7)	(15.4)	(15.4)	(15.4)	(15.4)
Balance sheet analysis					
Current ratio (x)	0.4	0.4	0.4	0.5	0.5
Net receivable days	14.1	17.2	17.2	17.2	17.2
Inventory turnover days	42.4	42.5	42.0	42.0	42.0
Net payable days	38.3	36.5	36.0	36.0	36.0
Net debt to equity (%)	19.4	28.2	20.9	8.6	Net
Returns (%)					
ROE	9.5	12.0	12.6	13.0	13.7
Dividend yield	N/A	N/A	1.5	1.7	2.0
Per share					
EPS (RMB)	0.9	1.3	1.5	1.7	2.0
DPS (RMB)	0.3	0.4	0.4	0.5	0.6
BVPS (RMB)	8.3	9.3	10.4	11.7	13.1
EV/ EBITDA	N/A	N/A	14.5	12.4	10.3

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.