

# China Feihe (6186 HK)

## Limited upside upon a lacklustre outlook; downgrade to HOLD

We take the view that family and child planning is unlikely to top the consumers' wallet (as opposite to dine-out and short-haul travel demand), and IMF is unlikely to share a high sensitivity to China's reopening. While we concur with market view that the number of new births could have troughed, however, it does not necessarily infer an immediate V-shape recovery that could take place within 1H23, not to mention seeing one over the course of the year. The scenario should leave Feihe's new capacity in Canada and Harbin under-utilized, and further weigh on GPM that has already seen pressure from an unfavorable sales mix change. Feihe still derives 60%+ of its revenue from high-end SKU. Considering a softening consumption sentiment at low birth rate, we think Feihe is unlikely to outperform industry norms but to only safeguard its current market share (No. 1 domestic brand for now) at its best. With these, our current forecasts are below management guidance, and growth in 2023 would mainly be driven by an easy comp. We downgrade Feihe to HOLD, and expect the majority of shares' return to originate from its 5%+ dividend yield.

- **Competition is heating up.** Yili has made a hostile entry and has escalated its investment to the IMF segment, subsequent to its take-over of Ausnutria. Our channel check suggested the company has snapped up 11% of the market in 2022, up from 9% in 2011, and it still targets a 20%+ sales growth for 2023E. Considering its nationwide distribution channel and its mass market positioning, in our view, Yili would unavoidably take up shares from existing players, more likely from the leading one, when the market pie is not growing, i.e. under a zero-sum game.
- **Earnings change.** 1Q23 sales were lukewarm, when part of the demand has been pulled forward to end-22, and we mildly adjust our 2023-24E revenue assumptions by 1-2%. We also tuned down our GPM by 0.2-0.3pp to reflect the overhang from under-utilization, and raise our selling expense ratio by 0.2pp to reflect a more intensified marketing initiatives. Overall, our net profits estimates decrease by 5%/6% respectively, over the same period. We are in general 11% below consensus. We introduce our 2025E forecasts.
- **Valuation.** Our new TP is based on an updated 9.0x (from 11.0x) 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.

### Earnings summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,776	21,311	22,937	26,036	29,980
YoY growth (%)	22.5	(6.4)	7.6	13.5	15.1
Net income (RMB mn)	6,871	4,942	5,068	5,679	6,691
EPS (RMB)	0.8	0.6	0.6	0.6	0.7
YoY growth (%)	(7.6)	(26.8)	2.5	12.1	17.8
Consensus EPS (RMB)	n.a	n.a	0.8	0.9	0.9
P/E (x)	n.a	n.a	8.7	7.8	6.6
P/B (x)	n.a	n.a	1.6	1.5	1.3
Yield (%)	n.a	n.a	5.1	5.7	6.7
ROE (%)	32.8	20.6	18.6	18.7	19.7
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

## HOLD (Down)

Target Price	HK\$5.9
(Previous TP	HK\$7.5)
Up/Downside	+9.6%
Current Price	HK\$5.3

### China Consumer

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

### Stock Data

Mkt Cap (HK\$ mn)	48,062
Avg 3 mths t/o (HK\$ mn)	108.6
52w High/Low (HK\$)	9.2/ 4.5
Total Issued Shares (mn)	9,068

Source: Bloomberg

### Shareholding Structure

Garland Glory Holdings	43.6%
Morgan Stanley	7.8%
Dasheng Ltd	4.5%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-9.4%	-7.9%
3-mth	-28.6%	-22.4%
6-mth	2.7%	-16.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Related Reports

1. [China Feihe \(6186 HK\) – A 5%+ dividend yield looks attractive despite sluggish growth](#) – 30 Mar 2023
2. [CR Beer \(291 HK\) – An in-line 2H22: our top pick among China F&B names](#) – 27 Mar 2023
3. [Hongjiu Fruits \(6689 HK\) – A solid and robust 2022: all eyes on the upcoming OCE turnaround](#) – 22 Mar 2023

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	22,937	26,036	29,980	23,087	26,560	n.a	-0.6%	-2.0%	NA
Gross Profit	14,433	16,104	18,626	14,571	16,517	n.a	-1.0%	-2.5%	NA
EBIT	6,765	7,588	8,951	7,100	8,072	n.a	-4.7%	-6.0%	NA
Net profit	5,068	5,679	6,691	5,317	6,039	n.a	-4.7%	-6.0%	NA
Gross Margin	62.9%	61.9%	62.1%	63.1%	62.2%	n.a	-0.2ppt	-0.3ppt	NA
EBIT Margin	29.5%	29.1%	29.9%	30.8%	30.4%	n.a	-1.3ppt	-1.3ppt	NA
Net Margin	22.1%	21.8%	22.3%	23.0%	22.7%	n.a	-0.9ppt	-0.9ppt	NA

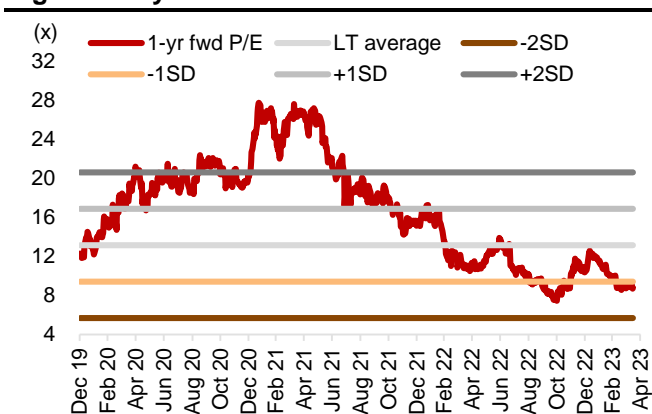
Source: CMBIGM estimates

Figure 2: Our earnings estimates vs Bloomberg consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	22,937	26,036	29,980	23,466	25,707	27,839	-2.3%	1.3%	7.7%
Gross Profit	14,433	16,104	18,626	15,975	17,595	17,595	-9.7%	-8.5%	5.9%
EBIT	6,765	7,588	8,951	7,485	8,285	8,718	-9.6%	-8.4%	2.7%
Net profit	5,068	5,679	6,691	5,718	6,359	6,706	-11.4%	-10.7%	-0.2%
Gross Margin	62.9%	61.9%	62.1%	68.1%	68.4%	63.2%	-5.2ppt	-6.6ppt	-1.1ppt
EBIT Margin	29.5%	29.1%	29.9%	31.9%	32.2%	31.3%	-2.4ppt	-3.1ppt	-1.5ppt
Net Margin	22.1%	21.8%	22.3%	24.4%	24.7%	24.1%	-2.3ppt	-2.9ppt	-1.8ppt

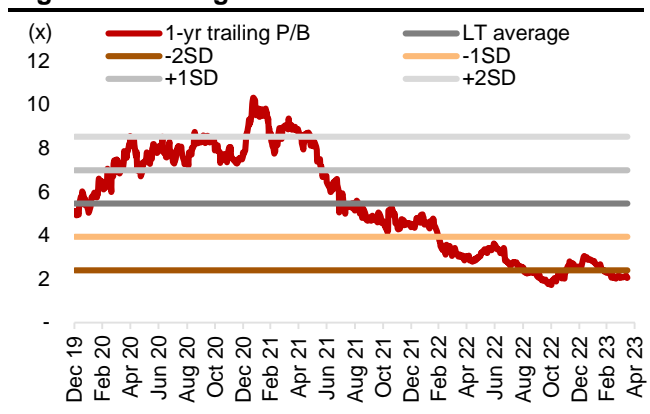
Source: Bloomberg, CMBIGM estimates

Figure 3: 1-year forward P/E chart



Source: Bloomberg, CMBIGM estimates

Figure 4: Trailing P/B chart



Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>22,776</b>	<b>21,311</b>	<b>22,937</b>	<b>26,036</b>	<b>29,980</b>
IMF	21,364	19,956	21,533	24,582	28,472
Others	1,412	1,355	1,404	1,455	1,508
<b>Gross profits</b>	<b>16,008</b>	<b>13,951</b>	<b>14,433</b>	<b>16,104</b>	<b>18,626</b>
D&A	(443)	(510)	(601)	(684)	(773)
Selling expense	(6,729)	(6,545)	(7,111)	(7,811)	(8,844)
Administration expenses	(1,208)	(1,535)	(1,674)	(1,823)	(1,949)
Other income, gains	1,864	1,252	1,252	1,252	1,252
Other expense	(90)	(135)	(135)	(135)	(135)
<b>EBIT</b>	<b>9,844</b>	<b>6,987</b>	<b>6,765</b>	<b>7,588</b>	<b>8,951</b>
<b>EBITDA</b>	<b>10,288</b>	<b>7,498</b>	<b>7,365</b>	<b>8,272</b>	<b>9,724</b>
Finance costs, net	81	81	84	84	84
Non-operating	(253)	(405)	(16)	(16)	(16)
<b>Pre-tax profit</b>	<b>9,672</b>	<b>6,663</b>	<b>6,833</b>	<b>7,656</b>	<b>9,019</b>
Income tax	(2,757)	(1,715)	(1,759)	(1,971)	(2,321)
Less: Minority interests	(44)	(6)	(6)	(6)	(6)
<b>Net profit</b>	<b>6,871</b>	<b>4,942</b>	<b>5,068</b>	<b>5,679</b>	<b>6,691</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net income</b>	<b>6,871</b>	<b>4,942</b>	<b>5,068</b>	<b>5,679</b>	<b>6,691</b>
D&A	443	510	601	684	773
Change in working capital	(827)	822	(479)	(175)	(191)
Others	328	(309)	22	22	22
<b>Net cash fr. operating act.</b>	<b>6,815</b>	<b>5,966</b>	<b>5,211</b>	<b>6,211</b>	<b>7,295</b>
Capex & investments	(1,930)	(2,023)	(1,748)	(1,742)	(1,969)
Short term investment	-	-	-	-	-
Others	(514)	(466)	(451)	-	-
<b>Net cash fr. investing act.</b>	<b>(2,444)</b>	<b>(2,489)</b>	<b>(2,199)</b>	<b>(1,742)</b>	<b>(1,969)</b>
Equity raised	(365)	-	-	-	-
Change of Debts	(444)	374	(100)	-	-
Dividend paid	(3,392)	(4,339)	(1,739)	(2,682)	(3,006)
Others	(44)	194	-	-	-
<b>Net cash fr. financing act.</b>	<b>(4,245)</b>	<b>(3,771)</b>	<b>(1,839)</b>	<b>(2,682)</b>	<b>(3,006)</b>
<b>Net change in cash</b>	<b>125</b>	<b>(293)</b>	<b>1,173</b>	<b>1,786</b>	<b>2,321</b>
Cash at the beginning of the year	9,553	9,629	9,336	10,509	12,295
Exchange difference	(49)	-	-	-	-
<b>Cash at the end of the year</b>	<b>9,629</b>	<b>9,336</b>	<b>10,509</b>	<b>12,295</b>	<b>14,615</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	<b>11,512</b>	<b>13,286</b>	<b>14,869</b>	<b>15,912</b>	<b>17,091</b>
PP&E/Fixed assets	8,437	9,500	11,091	12,149	13,345
Intangible assets	133	131	139	139	139
Right of use assets, net	1,707	2,025	2,025	2,025	2,025
Other non-current assets	1,234	1,629	1,614	1,598	1,583
<b>Current assets</b>	<b>19,970</b>	<b>22,230</b>	<b>23,739</b>	<b>25,973</b>	<b>28,757</b>
Cash	9,629	9,336	10,509	12,295	14,615
Account receivable	477	431	457	519	598
Inventories	576	507	507	507	507
Other current assets	9,287	11,956	12,266	12,653	13,038
<b>Current liabilities</b>	<b>6,942</b>	<b>7,460</b>	<b>7,317</b>	<b>7,591</b>	<b>7,863</b>
Borrowings	833	1,042	1,133	1,284	1,774
Account payables	407	614	910	1,063	468
Other payables	1,083	3,094	448	313	447
Rent payable	4,618	2,709	4,826	4,931	5,175
<b>Non-current liabilities</b>	<b>2,136</b>	<b>2,581</b>	<b>2,481</b>	<b>2,481</b>	<b>2,481</b>
Borrowings	621	862	762	762	762
Deferred tax liabilities	115	126	126	126	126
Other non-current liabilities	1,399	1,593	1,593	1,593	1,593
<b>Minority Interest</b>	<b>1,482</b>	<b>1,489</b>	<b>1,495</b>	<b>1,501</b>	<b>1,507</b>
<b>Total net assets</b>	<b>22,403</b>	<b>25,475</b>	<b>28,810</b>	<b>31,813</b>	<b>35,505</b>
<b>Shareholders' equity</b>	<b>20,921</b>	<b>23,986</b>	<b>27,315</b>	<b>30,312</b>	<b>33,998</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
IMF	93.8	93.6	93.9	94.4	95.0
Others	6.2	6.4	6.1	5.6	5.0
<b>P&amp;L ratios (%)</b>					
Gross margin	70.3	65.5	62.9	61.9	62.1
Operating margin	43.2	32.8	29.5	29.1	29.9
Pre-tax margin	42.5	31.3	29.8	29.4	30.1
Net margin	30.2	23.2	22.1	21.8	22.3
Effective tax rate	(28.5)	(25.7)	(25.7)	(25.7)	(25.7)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.5	0.4	0.4	0.5	0.5
Net receivable days	7.5	7.3	7.3	7.3	7.3
Inventory turnover days	69.2	88.0	70.0	70.0	70.0
Net payable days	92.8	98.9	98.9	98.9	98.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
<b>Returns (%)</b>					
ROE	32.8	20.6	18.6	18.7	19.7
Dividend yield	n.a	4.9	5.1	5.7	6.7
<b>Per share</b>					
EPS (RMB)	0.8	0.6	0.6	0.6	0.7
DPS (RMB)	0.4	0.3	0.3	0.3	0.4
BVPS (RMB)	2.3	2.7	3.1	3.4	3.8

Source: Company data, CMBIGM 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.