

Mengniu Dairy (2319 HK)

1H22 soft as expected; management remained upbeat on a strong sequential recovery for 2H

Mengniu reported 1H net profits of RMB 3.8bn (+27% YoY) with revenue of RMB 47.7bn (+4% YoY). Excluding the RMB 1bn non-core gains, recurring net profits stood at ~RMB2.7bn, down ~9% YoY and was in line with us. The results were mainly attributable to a 1.6pp YoY decline in GPM to 36.6%. During the conference call, management largely maintained its full-year revenue guidance of a high single digit to double digit growth with only a minor revision to margins target from a 0.5pp to 0.2-0.3pp expansion. In view of a double-digit sales recovery in July, Mengniu is confident to extent the momentum throughout 2H. The strength, in our view, will be underpinned by the continuous premiumization, new launches, healthy channel inventory and nevertheless a low base. To reflect the results and the revised guidance, we moderately trim our 2022E revenue by 3% and GPM by 0.8pp. Despite this, with a sequentially improving 2H outlook and a relatively steady raw milk price, we remain BUY-rated.

- Management guided for double-digit growth for 2H revenue and thus high-single-digit growth to double-digit growth for that of 2022E. This will be driven by steady momentum in UHT milk and possible acceleration in premium SKUs during the upcoming festive season. Meanwhile, product mix upgrade and cost control will drive the 20-30pp improvement in recurring-OPM.
- Premium brands Shiny Meadow and Modern Meadow underpinned strong sales growth for fresh milk products over 1H. However, such was offset by the weak performance in chilled products. Considering the recovery of consumer sentiment and reducing impact to logistics, and also Mengniu's expansion of online and CGB channels, we see scope of a sequential recovery.
- Ice cream revenue significantly outperformed the industry in 1H, according to management, and such was supported by product innovation and upgrades of the four core brands (Suibian, Mood for Green, Ice+ and Deluxe), strong e-commerce sales growth and expansion of emerging channels. The hot weather in Jun-Aug should extent the momentum into 3Q.
- **Valuation.** Upon our earnings change, our revised TP is based on 26.0x (from 29.0x) roll-forward mid-23E P/E which represents its 3-year average (from +1sd above).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	76,035	88,141	95,060	105,988	118,303
YoY growth (%)	(3.8)	15.9	7.8	11.5	11.6
Net income (RMB mn)	3,525	5,026	6,075	7,120	8,342
EPS (RMB)	0.9	1.3	1.5	1.8	2.1
YoY growth (%)	(7.6)	42.0	20.8	17.2	17.2
Consensus EPS (RMB)	n.a	n.a	1.5	1.8	2.1
P/E (x)	n.a	n.a	19.1	16.3	13.9
P/B (x)	n.a	n.a	2.8	2.5	2.2
Div yield (%)	n.a	n.a	1.6	1.8	2.2
ROE (%)	9.5	12.0	12.9	13.5	14.1
Net gearing (%)	19.4	28.2	18.3	4.7	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Earnings revision

BUY (maintain)

Target Price **HK\$50.5**
 (Previous TP **HK\$57.0**)
 Up/Downside **+43.7%**
 Current Price **HK\$35.2**

China Consumer Staples – Food and Beverage

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Stock Data

Mkt Cap (HK\$ mn) 139,022
 Avg 3 mths t/o (HK\$ mn) 397..85
 52w High/Low (HK\$) 50.21/ 32.2
 Total Issued Shares (mn) 3,955
 Source: Wind

Shareholding Structure

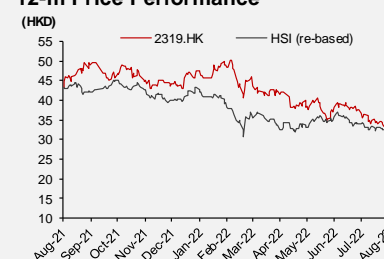
COFCO Dairy Investment Co. 13.92%
 Gendar Ltd 7.49%
 Brown Brothers Harriman & Co. 7.29%
 Source: Wind

Share Performance

	Absolute	Relative
1-mth	-2.2%	1.2%
3-mth	-11.0%	-5.5%
6-mth	-29.9%	-17.8%

Source: Wind

12-m Price Performance



Source: Wind

Auditor: Ernst & Young

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RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	95,060	105,988	118,303	97,902	109,679	na	-2.9%	-3.4%	na
Gross Profit	34,222	38,898	44,009	36,028	40,581	na	-5.0%	-4.1%	na
EBIT	6,394	7,601	9,018	5,907	6,884	na	8.2%	10.4%	na
Net profit	6,075	7,120	8,342	5,964	6,999	na	1.9%	1.7%	na
EPS (RMB)	1.53	1.79	2.10	1.52	1.78	na	0.8%	0.7%	na
Gross Margin	36.0%	36.7%	37.2%	36.8%	37.0%	na	-0.8ppt	-0.3ppt	na
EBIT Margin	6.7%	7.2%	7.6%	6.0%	6.3%	na	0.7ppt	0.9ppt	na
Net Margin	6.4%	6.7%	7.1%	6.1%	6.4%	na	0.3ppt	0.3ppt	na

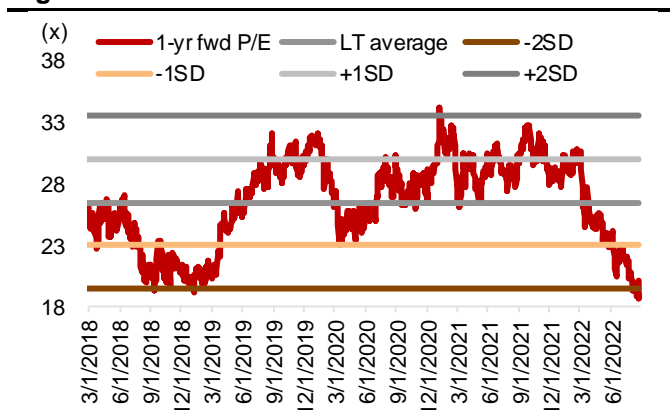
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	95,060	105,988	118,303	97,890	109,840	121,662	-2.9%	-3.5%	-2.8%
Gross Profit	34,222	38,898	44,009	36,135	41,090	45,906	-5.3%	-5.3%	-4.1%
EBIT	6,394	7,601	9,018	5,690	6,847	8,095	12.4%	11.0%	11.4%
Net profit	6,075	7,120	8,342	5,746	7,003	8,227	5.7%	1.7%	1.4%
EPS (RMB)	1.53	1.79	2.10	1.48	1.78	2.09	3.8%	1.0%	0.6%
Gross Margin	36.0%	36.7%	37.2%	36.9%	37.4%	37.7%	-0.9ppt	-0.7ppt	-0.5ppt
EBIT Margin	6.7%	7.2%	7.6%	5.8%	6.2%	6.7%	0.9ppt	0.9ppt	1ppt
Net Margin	6.4%	6.7%	7.1%	5.9%	6.4%	6.8%	0.5ppt	0.3ppt	0.3ppt

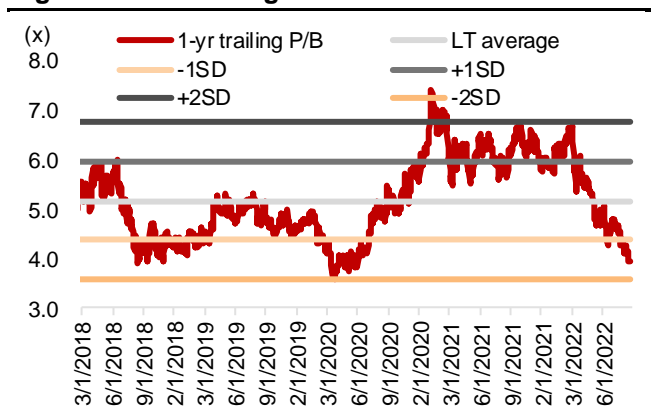
Source: Company data, CMBIGM estimate

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	95,060	105,98	118,30
Liquid Milk	67,751	76,514	83,168	92,669	103,50
Others	8,284	11,627	11,892	13,319	14,802
Gross profits	28,629	32,390	34,222	38,898	44,009
D&A	(2,042)	(2,396)	(2,635)	(2,727)	(2,818)
Selling expense	(21,541)	(23,488)	(24,525)	(27,557)	(30,759)
Administration expenses	(2,915)	(3,524)	(3,802)	(4,240)	(4,732)
Other operating expenses	(1,783)	(1,629)	-	-	-
Others	3,029	3,780	3,135	3,227	3,318
EBIT	3,377	5,132	6,394	7,601	9,018
EBITDA	5,419	7,529	9,029	10,328	11,836
Finance costs, net	(572)	(743)	(743)	(743)	(743)
Non-operating	1,350	1,479	1,751	1,817	1,889
Pre-tax profit	4,155	5,868	7,402	8,675	10,164
Income tax	(653)	(905)	(1,141)	(1,337)	(1,567)
Less: Minority interests	23	62	(186)	(218)	(256)
Net profit	3,525	5,026	6,075	7,120	8,342

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	3,525	5,026	6,075	7,120	8,342
D&A	2,042	2,396	2,635	2,727	2,818
Change in working capital	967	1,459	(2,978)	(550)	(621)
Others	(1,187)	(1,336)	(1,456)	(1,490)	(1,524)
Net cash fr. operating act.	5,348	7,545	4,276	7,807	9,015
Capex & investments	(611)	(565)	(640)	(640)	(640)
Acquisition	(26)	(830)	-	-	-
Others	5,459	(14,045)	690	690	690
Net cash fr. investing act.	4,822	(15,440)	50	50	50
Equity raised	-	-	-	-	-
Change of Debts	(3,926)	8,013	-	-	-
Dividend paid	(885)	(1,282)	(1,663)	(1,977)	(2,317)
Others	241	42	-	-	-
Net cash fr. financing act.	(4,571)	6,773	(1,663)	(1,977)	(2,317)
Net change in cash	5,599	(1,123)	2,663	5,880	6,748
Cash at the beginning of the	5,970	12,351	11,779	14,715	20,895
Exchange difference	(172)	(11)	-	-	-
Cash at the end of the year	11,397	11,217	14,442	20,595	27,644
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	48,640	67,081	65,832	64,850	63,848
PP&E/Fixed assets	12,547	17,335	15,634	13,902	12,140
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	43,779	44,529	45,289
Current assets	31,507	31,020	35,086	42,475	50,934
Cash	11,397	11,217	14,442	20,595	27,644
Account receivable	2,927	4,160	4,486	5,002	5,583
Inventory	5,512	6,485	7,001	7,720	8,549
Other current assets	11,670	9,158	9,158	9,158	9,158
Current liabilities	26,144	29,072	26,935	27,621	28,410
Borrowings	4,924	4,265	4,265	4,265	4,265
Account payables	7,969	8,804	6,667	7,352	8,142
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	5,360	5,578	5,834
Total net assets	37,248	41,999	46,954	52,672	59,335
Shareholders' equity	32,983	36,826	41,595	47,094	53,502

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Liquid Milk	89.1	86.8	87.5	87.4	87.5
Others	10.9	13.2	12.5	12.6	12.5
P&L ratios (%)					
Gross margin	37.7	36.7	36.0	36.7	37.2
Operating margin	4.4	5.8	6.7	7.2	7.6
Pre-tax margin	5.5	6.7	7.8	8.2	8.6
Net margin	4.6	5.7	6.4	6.7	7.1
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	40.0	40.0	40.0
Net debt to equity (%)	19.4	28.2	18.3	4.7	Net
Returns (%)					
ROE	9.5	12.0	12.9	13.5	14.1
ROA	n.a	1.3	1.6	1.8	2.2
Dividend yield					
Per share					
EPS (RMB)	0.9	1.3	1.5	1.8	2.1
DPS (RMB)	0.3	0.4	0.5	0.5	0.6
BVPS (RMB)	8.3	9.3	10.5	11.9	13.5
	-	17.0	13.8	11.5	9.4

Source: Company data, CMBIS estimates

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