

# Yili Industrial (600887 CH)

## Full-year guidance unchanged

We hosted a NDR with Yili management to obtain follow-up post the company's investor day on 14th Jul and 2Q operational update. Overall, Yili maintained its initial guidance of a HSD top line growth with a 0.3pp uptake in net margins for the year. On a sequential basis, 2Q sales has further accelerated from that of 1Q. This consists of drivers such as QoQ improvement in UHT milk, especially that of high-end UHT milk, double-digit growth in adult formula, growth in low-temp SKUs (despite a tough comp) and a stable cheese momentum over 2B channel. Separately, Yili reaffirmed that, albeit deflating raw material prices, gross margins will likely remain stable, when reasonable discounts to stimulate retail sales likely offset the savings. In other words, any improvement in profitability will be solely driven by operation cost savings. Concerning the remainder of the year, Yili remains upbeat and see scope for further recovery to take place, thanks to a high debut density from brands like Satine and Ambrosial. While we remain lukewarm on the dairy segment from a risk-reward perspective, we think Yili is a relative outperformer among its peers thanks to its operation scales, more frequent new launches and above-industry milk formula growth. We are buy-rated.

■ **Raw material cost impact to GPM.** Despite a small, or a LSD drop in raw milk costs, Yili expects a stable GPM for 2023E as the merit will likely be offset by a small increase in other material costs such as sugar, packaging materials, not to mention retail discounts. Mix upgrade will be the only driving force to boost GPM and financially **we look for a 0.2-0.3pp hike over 2023-25E.**

■ **Earnings assumptions/ changes.** We largely maintain our 2023/24E estimates. For 2023E, we continue to assume 1) a 5.5%/ 20%/ 20% liquid milk/ low-temp dairy/ IMF sales growth YoY, respectively. These underpin a 7.7% 3-year revenue CAGR between 2022-25E. Combined with the GPM assumptions above, our net margins for 2023-25E are set at 8.0%/ 8.3%/ 8.7%. Overall our forecasts largely tally with management's expectation on revenue/ pre-tax profits of RMB 135.5bn/RMB 12.5bn. We also introduced our 2025E forecasts.

■ **Valuation.** Our new TP is based on an updated 24.0x (from previously 25.0x) end-23E PE, which still benchmarks to its 5-year average. Comparing to Mengniu (2319HK, Buy), which we value at -1sd below average, we assign a higher target multiple to Yili to reflect the latter's stronger IMF business outlook in the near term.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	110,595	123,171	135,090	143,869	153,303
YoY growth (%)	14.2	11.4	9.7	6.5	6.6
Net profit (RMB mn)	8,704.9	9,431.1	10,856.5	11,961.1	13,287.4
YoY growth (%)	17.0	8.7	15.1	10.2	11.1
EPS (Adjusted) (RMB)	1.36	1.48	1.70	1.88	2.08
Consensus EPS (RMB)	na	na	1.70	1.98	2.26
P/E (x)	29.1	23.9	16.0	14.6	13.1
P/B (x)	5.1	4.3	3.1	3.0	3.0
Yield (%)	2.4	2.9	4.8	5.3	5.9
ROE (%)	22.3	19.3	21.1	22.1	23.3
Net gearing (%)	(28.9)	4.5	3.0	2.3	0.1

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** **RMB40.00**  
 (Previous TP RMB44.00)  
**Up/Downside** **46.8%**  
**Current Price** **RMB27.24**

### China Consumer Staples

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### Stock Data

Mkt Cap (RMB mn) 173,791.8  
 Avg 3 mths t/o (RMB mn) 1,033.6  
 52w High/Low (RMB) 36.77/25.24  
 Total Issued Shares (mn) 6366.0  
 Source: FactSet

### Shareholding Structure

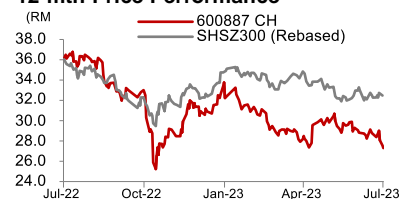
HKSCC 17.2%  
 Hohhot Investment Co. 8.4%  
 Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-7.0%	-5.6%
3-mth	-4.2%	3.1%
6-mth	-15.3%	-9.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Key takeaway from Yili's investor day

### Satine (Premium room-temp milk):

- Premium milk products is experiencing high growth supported by data disclosed by Nielsen: market penetration is as high as 76%; when households average annual consumption volume stands at 14.6 L (or 5 packs). Single transaction exceeds RMB 70. By 2027, Yili sees organic milk GMV to reach RMB 34.8bn. Domestic organic milk consumption currently takes up 20% of the global organic milk consumption, with 12% CAGR in the past 3-yr (the growth speed is 6 times of that of room temp milk).
- The brand continued on promoting premium organic product series, while adding the A2 series to start debut with competitive price. Yili sees the latter to be flagship series with potential RMB1bn sales.

### Ambrosial (UHT yogurt):

- Yogurt industry has seen a slowdown in growth over the past 3 yrs, with recent 6-mos shows trend of HoH improvement. Consumption preference grew to be polarized and there emerged various demands in regards to different aspects of health.
- The brand has devoted to introducing new products matching differentiated demands. For example, AMX, Ambrosial's sugar-free product sub-brand, was introduced in 2021. In April 2023, AMX products were upgraded and has been certified with Low GI. Within 52 days after its launch, sales surpassed RMB 200mn.
- Leveraging its technological breakthrough, the brand will introduce an innovative UHT product in Aug 2023 with active probiotic to meet consumer needs.
- In longer term, the brand plans on cross-category expansions, such as to step into fields of snacks and soft beverages. With its underlying gene of yogurt making, brand will create concepts like "healthy snacks, healthy bubble/carbonated drink".
- Starting 19 July 2023, Ambrosial's collaboration with McDonald's Pineapple Yogurt McFlurry will be listed in 7,000+ McDonald's stores nation-wide.

### Pro-Kido (IMF):

- The projected market sales should exceed RMB 140bn in 2023. Nielsen data suggested two major ongoing trends: ultra-premiumization and production-localization. The sector is 60% ultra-premium products driven. These products nonetheless still maintained double digit growth. Domestic IMF brands market share has surpassed 60% and is growing at 25% YoY, which is 30 bps faster than those of foreign brands.
- The brand's competitiveness lie in three aspects: 1) Zhangjie, the ambassador targeting female consumers of age range 20-35, 2) high reputation on Little Red Book and Douyin, with search rate on both platforms recording high growth, 3) leadership in the maternal and child care system, which conquered 65% of sales.

**Xinhuo (Formula milk for Aged group):**

- China's aging population is accelerating, with population aged 50+ reaching 500mn or one-third of the total. The advancement of medical services aids further room of expansion. It is projected that 50+ age group population portion would grow to 41.6% in 2030. According to Nielsen data, formula milk consumption grew 11.4% YoY in 1H23. In the period, retail asp increased 16% YoY.
- The brand has maintained highest market share for eight consecutive years. Current market share is 35%, which is 3ppt higher compared to previous year's level.
- The high-end product line achieved a 40% growth in 1H23. The core product, sugar-relieving dietary base formula, has achieved over 100% growth for two consecutive years, with no signs of slowdown. Its core competitiveness lies in being the industry's first product with a low GI. According to national regulations, a product with a GI below 50 can be recognized as low GI. The two SKUs of sugar-relieving dietary base formula have GI indexes of 13.9 and 9, respectively. The product innovatively incorporates rare Chinese herbal ingredients, such as kudzu root and polygonatum, to achieve better blood sugar control. It is the first clinically tested blood sugar control product.

**Chocliz (Ice Cream):**

- With the improvement of cold chain logistics and distribution capabilities, O to O e-commerce has become a new purchasing channel.
- Brand launched low-priced ice cream in 2023 and will continue to explore new price ranges. In recent years, they have expanded portfolio with crispy cone products, achieving a compound growth rate of 30%.

**Figure 1: Earnings revision**

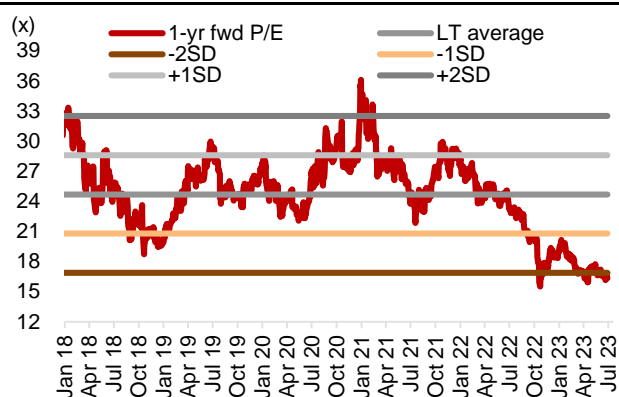
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	135,090	143,869	153,303	133,919	147,030	n.a	0.9%	-2.1%	n.a
Gross Profit	43,523	46,685	50,099	43,387	48,888	n.a	0.3%	-4.5%	n.a
EBITDA	15,262	16,972	18,958	15,163	17,715	n.a	0.7%	-4.2%	n.a
Net profit	10,856	11,961	13,287	10,879	12,638	n.a	-0.2%	-5.4%	n.a
Gross Margin	32.2%	32.4%	32.7%	32.4%	32.5%	n.a	-0.2ppt	0ppt	n.a
EBITDA Margin	11.3%	11.8%	12.4%	11.3%	12.0%	n.a	0ppt	-0.2ppt	n.a
Net Margin	8.0%	8.3%	8.7%	8.1%	8.6%	n.a	0ppt	-0.3ppt	n.a

Source: Company data, CMBIGM estimates

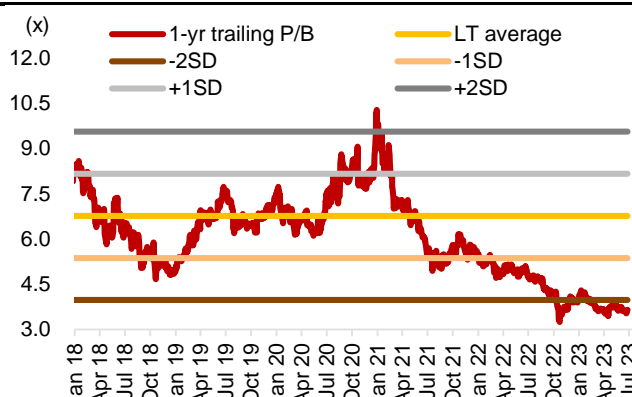
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	135,090	143,869	153,303	134,311	146,277	159,141	0.6%	-1.6%	-3.7%
Gross Profit	43,523	46,685	50,099	43,518	48,625	54,144	0.0%	-4.0%	-7.5%
EBITDA	15,262	16,972	18,958	15,492	17,940	20,579	-1.5%	-5.4%	-7.9%
Net profit	10,856	11,961	13,287	10,848	12,646	14,429	0.1%	-5.4%	-7.9%
Gross Margin	32.2%	32.4%	32.7%	32.4%	33.2%	34.0%	-0.2ppt	-0.8ppt	-1.3ppt
EBITDA Margin	11.3%	11.8%	12.4%	11.5%	12.3%	12.9%	-0.2ppt	-0.5ppt	-0.6ppt
Net Margin	8.0%	8.3%	8.7%	8.1%	8.6%	9.1%	0ppt	-0.3ppt	-0.4ppt

Source: Company data, 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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	96,886	110,595	123,171	135,090	143,869	153,303
Cost of goods sold	(67,453)	(76,417)	(83,119)	(90,753)	(96,318)	(102,280)
Others	(547)	(664)	(742)	(814)	(866)	(923)
Gross profit	28,886	33,515	39,311	43,523	46,685	50,099
Operating expenses	(20,923)	(24,584)	(29,914)	(32,487)	(34,403)	(36,305)
Selling expense	(16,884)	(19,315)	(22,908)	(25,667)	(27,047)	(28,514)
Admin expense	(3,883)	(4,828)	(6,164)	(6,079)	(6,474)	(6,899)
Others	(156)	(442)	(841)	(741)	(881)	(892)
Operating profit	7,963	8,930	9,397	11,036	12,282	13,794
Other income	7,963	8,930	9,397	11,036	12,282	13,794
EBITDA	10,406	11,919	13,484	15,262	16,972	18,958
Depreciation	(2,223)	(2,873)	(3,744)	(4,010)	(4,458)	(4,913)
Other amortisation	(220)	(115)	(343)	(216)	(232)	(250)
EBIT	7,963	8,930	9,397	11,036	12,282	13,794
Net Interest income/(expense)	(188)	29	255	685	724	753
Other income/expense	862	1,153	979	748	732	714
Pre-tax profit	8,150	10,112	10,630	12,469	13,738	15,261
Income tax	(1,051)	(1,380)	(1,312)	(1,539)	(1,696)	(1,884)
Minority interest	(21)	(27)	113	(74)	(81)	(90)
Net profit	7,078	8,705	9,431	10,856	11,961	13,287
Adjusted net profit	6,687	7,928	8,611	10,856	11,961	13,287
Gross dividends	4,988	6,144	6,631	8,361	9,212	10,233

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	28,381	50,155	61,463	63,802	65,392	67,885
Cash & equivalents	11,695	31,742	33,853	34,495	34,847	36,011
Restricted cash	3	400	3	0	0	0
Account receivables	1,875	2,233	3,450	3,784	4,030	4,294
Inventories	7,545	8,917	14,836	16,199	17,192	18,256
Other current assets	7,263	6,862	9,321	9,324	9,324	9,324
Non-current assets	42,774	51,807	69,502	73,006	76,222	79,100
PP&E	28,768	29,379	33,735	36,174	38,231	39,974
Investment in JVs & assos	3,423	4,718	5,175	6,075	6,975	7,875
Intangibles	1,897	1,609	4,648	4,813	5,072	5,307
Other non-current assets	8,685	16,102	25,944	25,944	25,944	25,944
Total assets	71,154	101,962	130,965	136,808	141,614	146,985
Current liabilities	34,768	43,296	62,170	65,443	67,419	69,646
Short-term borrowings	6,957	12,596	26,799	26,799	26,799	26,799
Account payables	17,975	14,062	16,807	18,350	19,476	20,681
Other current liabilities	9,836	16,638	18,563	20,293	21,144	22,165
Non-current liabilities	5,853	9,875	14,653	14,653	14,653	14,653
Long-term borrowings	5,137	5,380	9,298	9,298	9,298	9,298
Other non-current liabilities	716	4,495	5,354	5,354	5,354	5,354
Total liabilities	40,622	53,171	76,822	80,096	82,072	84,299
Share capital	4,311	5,149	5,325	5,325	5,325	5,325
Retained earnings	23,541	24,298	27,587	30,082	32,831	35,886
Other reserves	2,532	18,262	17,356	17,356	17,356	17,356
Total shareholders equity	30,384	47,708	50,268	52,763	55,513	58,567
Minority interest	149	1,083	3,875	3,949	4,030	4,120
Total equity and liabilities	71,154	101,962	130,965	136,808	141,614	146,985

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Operating</b>						
Profit before taxation	8,150	10,112	10,630	12,469	13,738	15,261
Depreciation & amortization	2,442	2,988	4,087	4,226	4,690	5,164
Change in working capital	4,684	(5,644)	(4,391)	(153)	(114)	(123)
Others	(5,425)	8,071	3,094	(1,539)	(1,696)	(1,884)
<b>Net cash from operations</b>	<b>9,852</b>	<b>15,528</b>	<b>13,420</b>	<b>15,003</b>	<b>16,618</b>	<b>18,418</b>
<b>Investing</b>						
Capital expenditure	(6,522)	(6,683)	(6,646)	(6,829)	(7,006)	(7,142)
Acquisition of subsidiaries/ investments	22	0	0	0	0	0
Others	(2,543)	(1,114)	(12,868)	(900)	(900)	(900)
<b>Net cash from investing</b>	<b>(9,043)</b>	<b>(7,797)</b>	<b>(19,514)</b>	<b>(7,729)</b>	<b>(7,906)</b>	<b>(8,042)</b>
<b>Financing</b>						
Dividend paid	(4,988)	(4,988)	(6,144)	(6,631)	(8,361)	(9,212)
Net borrowings	5,122	243	3,918	0	0	0
Share repurchases	248	16,047	(906)	0	0	0
Others	(428)	644	11,913	0	0	0
<b>Net cash from financing</b>	<b>(47)</b>	<b>11,945</b>	<b>8,781</b>	<b>(6,631)</b>	<b>(8,361)</b>	<b>(9,212)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	11,325	11,695	31,742	33,853	34,495	34,847
Exchange difference	(395)	(29)	(580)	0	0	0
<b>Cash at the end of the year</b>	<b>11,692</b>	<b>31,342</b>	<b>33,850</b>	<b>34,495</b>	<b>34,847</b>	<b>36,011</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	7.4%	14.2%	11.4%	9.7%	6.5%	6.6%
Gross profit	(13.1%)	16.0%	17.3%	10.7%	7.3%	7.3%
Operating profit	10.9%	12.1%	5.2%	17.4%	11.3%	12.3%
EBITDA	13.9%	14.5%	13.1%	13.2%	11.2%	11.7%
EBIT	10.9%	12.1%	5.2%	17.4%	11.3%	12.3%
Net profit	2.1%	23.0%	8.3%	15.1%	10.2%	11.1%
Adj. net profit	2.6%	18.6%	8.6%	26.1%	10.2%	11.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.8%	30.3%	31.9%	32.2%	32.4%	32.7%
Operating margin	8.2%	8.1%	7.6%	8.2%	8.5%	9.0%
EBITDA margin	10.7%	10.8%	10.9%	11.3%	11.8%	12.4%
Adj. net profit margin	6.9%	7.2%	7.0%	8.0%	8.3%	8.7%
Return on equity (ROE)	25.0%	22.3%	19.3%	21.1%	22.1%	23.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.0	(0.3)	0.0	0.0	0.0	0.0
Current ratio (x)	0.8	1.2	1.0	1.0	1.0	1.0
Receivable turnover days	7.1	7.4	10.2	10.2	10.2	10.2
Inventory turnover days	40.8	42.6	65.2	65.2	65.2	65.2
Payable turnover days	97.3	67.2	73.8	73.8	73.8	73.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	29.5	29.1	23.9	16.0	14.6	13.1
P/E (diluted)	29.5	27.7	24.4	16.4	14.9	13.4
P/B	6.9	5.1	4.3	3.1	3.0	3.0
Div yield (%)	2.4	2.4	2.9	4.8	5.3	5.9
EV	na	na	179,403.6	178,761.5	178,410.2	177,245.8
EV/Sales	na	na	1.5	1.3	1.2	1.2
EV/EBIT	na	na	19.1	16.2	14.5	12.8
EV/EBITDA	na	na	13.3	11.7	10.5	9.3

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



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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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