CMBI Credit Commentary

CNMDHL: A yield pick-up play over CHMEDA

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CNMDHL 4 ⅞ 07/10/30 trading 61bps over CHMEDA 2 ½ 06/17/30

At T+116, CNMDHL 4 ⅞ 07/10/30 is trading at YTM of 4.9% and 61bps over CHMEDA 2 ½ 06/17/30. CNMDHL 4 ⅞ 07/10/30 has lagged the recent rally in the 5-year Asia USD bucket by 20-30bps. While ZHOSHKs offer even better risk return profile in Chinese IG space, we consider CNMDHL 4 ⅞ 07/10/30 a yield pick-up play over CHMEDA 2 ½ 06/17/30 in view of the close relationship between China Modern Dairy (CMD) with China Mengniu Dairy (Mengniu), and. the better trading liquidity of CHMEDA 2 ½ 06/17/30. We also believe that the slightly weaker 1H25 results have been priced in the lagging performance of CHMEDA 2 ½ 06/17/30.

Table 1: Bond profiles of CNMDHL and CHMEDA

	O/S (USD mn)	Maturity	Coupon	Offer price	T spread (bps)	YTM (%)
CNMDHL 2 1/8 07/14/26	448.3	7/14/2026	2.125%	97.8	109	4.70%
CNMDHL 4 7/8 07/10/30	350.0	7/10/2030	4.875%	100.1	116	4.90%
CHMEDA 2 1/2 06/17/30	300.0	6/17/2030	2.5%	92.3	55	4.29%

Source: Bloomberg.

Slightly weaker 1H25 as expected

CMD posted a slightly weaker 1H25 results as expected subsequent to its profit warning on 22 Jun'25. In 1H25, CMD's revenue and gross profit declined 5.4% and 4.4% yoy to RMB6.1bn and RMB1.6bn, respectively. The lower ASP because of oversupply was more than offset the volume increase. CMD recorded 58.1% yoy increase in non-cash fair value losses resulting from the sales of dairy cows to RMB1.8bn, leading to losses before tax widened to RMB972mn in 1H25 from RMB191mn in 1H24. On a brighter side, CMD managed to marginally improve its gross profit margin to 26.4% in 1H25 from 26.1% in 1H24 (25.9% in 2H24) through lower feed and energy costs despite ASP of raw milk dropped 10.1% yoy. We take additional comfort that its recurring cash EBITDA was only 2.5% lower yoy to RMB1.5bn.

Operating environment remains challenging but signs of turnaround

ASP of raw milk could continue under moderating pressure in 2H25. CMD expects the pricing trend will improve as major dairy enterprises are cutting capacity and beef price is recovering. The pricing environment should also be benefitted from diverging import milk powder price and domestic raw milk price. Furthermore, CMD's operating performance will be supported by higher yield per milk cow (increased to 13.2 ton in 1H25 from 13 ton in 1H24) and higher proportion of milkable cows (increased 54.1% as of Jun'25 in 1H25 from 50.6% as of Jun'24).

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Close working relationship with and strong support from Mengniu

The lower EBITDA, net losses and negative FCF led to weaker key ratios, see table 2. That said, key support to CMD's credit profile is CMD's close relationship with Mengniu. China Modern Dairy (CMD) is 56.36% owned by China Mengniu Dairy (Mengniu) of which largest shareholder is SASAC-control COFCO. CMD has been enjoying a strong parental support from and a close working relationship with Mengniu. CMD has entered into 10-year raw-milk offtake agreement with Mengniu since 2008, the agreement was extended to 2028 in 2018. Under the agreement, Mengniu purchases at least 70% of raw milk output from CMD. Over the past 3 years, CMD supplied an average of 92.7% of raw milk to Mengniu. Furthermore, Mengniu also provided loans of RMB2.2bn to CMD as of Jun'25 (RMB1.6bn as of Dec'24).

CMD is not a consolidated subsidiary of Mengniu. Taking cues from the close working relationship between CMB and Mengniu, we are not too concerned of Mengniu's majority ownership in CMD to be diluted by Mengniu's EB (parity at 117) due Jun'25 which can be exchanged into 7.2% of its stakes in CMD. Additionally, CNMDHL 4 7/8 07/10/30 is protected by a COC put at 101 if Mengniu's ownership falls below 35% with a rating decline.

Table 2: CNMDHL 1H25 financial results

	1H24	1H25	yoy change %
Total milk production mn ton	1.45	1.66	14.5%
Yield per cow (ton)	13	13.2	1.5%
CMD's ASP raw milk (RMB/kg)	3.66	3.29	-10.1%
COGS (RMB/kg)	2.58	2.32	-10.1%
Feed costs	2.02	1.79	-11.4%
Others	0.56	0.53	-5.4%
GP (RMB/kg)	1.08	0.97	-10.2%
RMB mn			
Revenue	6,418.5	6,072.5	-5.4%
Gross profit	1,677.7	1,603.6	-4.4%
Loss arising from changes in FV less COGS of dairy cows	(1,151.1)	(1,822.9)	58.4%
Cash EBITDA	1,515.0	1,477.0	-2.5%
PBT	(191.2)	(972.5)	408.5%
Cash	3,654.7	3,908.2	6.9%
Total debts	16,039.0	19,284.1	20.2%
ST debts	3,491.3	3,797.0	8.8%
LT debts	12,547.7	15,487.1	23.4%
Loans from Mengniu			
Net debts	12,384.3	15,376.0	24.2%
Gross margin	26.1%	26.4%	
Cash EBITDA margin	23.6%	24.3%	
Debt/cash EBITDA	6.0x	7.1x	
Core EBITDA/interest	6.2x	5.1x	
Debt/equity	133.6%	191.8%	
Net debt/equity	103.2%	152.9%	
Cash conversion cycle (days)	4.4	11.0	

Source: Company filing.

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