

# Yili Industrial (600887 CH)

## Sequential recovery in-sight

- **Share price down 10% post 3Q results.** Despite a conservative guidance, net profits came in at 10% lower than consensus at RMB1.9bn, down 27% YoY, driven mainly by 1) a decelerating revenue growth at 7% (vs 2Q 11%), 2) a thinner organic GPM of 30.9% (vs YTD 32.9%) and a 3.3pp increase in opex ratio.
- **The surge of opex ratio was eye-catching,** and was mainly attributable to 1) the operating deleverage of a slowdown in liquid milk sales upon cities' lockdown, 2) a seasonally higher advertising expense with TV shows, which are mainly clustered in 3Q, and 3) the consolidation impact of Ausnutria.
- **4Q momentum showed sequential pick-up.** Liquid milk demand has accelerated QoQ with healthy restocking momentum for the CNY in Jan 2023, per management during the earnings call. Opex ratio will decline YoY without much eventful spending (winter Olympic last year). Meanwhile, management 2022 guidance has trimmed down to "flattish NPM". In our view, 2H revenue growth could likely point to a HSD growth instead of a low teen growth.
- **Earnings change and valuation.** In response to the 3Q results, we cut our 2022/23E revenue by 2.1%/3.3%, respectively. Coupled with a c1.0pp lower GPM for the periods, and a 5.8%/2.3% cut in EBITDA, the net reduction to our NP estimates are 4.3%/0.7%, respectively. Our new TP is based on an updated 25.0x (from 25.5x) mid-23E PE which still benchmarks to 3-year average, given a sequential recovery (in 4Q) is already in-sight, in our view.

### Other key takeaway from the results

- Liquid milk sales was down 5% YoY to RMB21bn, owing to the slowdown in Satine sales, when the part of the brand's demand (from gifting) has languished during lockdowns.
- Ausnutria took an initiative to destock over 3Q, and both its top/ bottom line still achieved growth. Fair value change in inventory, which arose from the consolidation, weighed on the company's profit contribution to Yili.
- Raw milk has been steady since July. Yili expects price to trend downwards towards the end-22, and from there, the trajectory could remain flattish into 2023. This is despite the fact that upstream feedstock price hovered at historical high, and local governments has pushed out stabilization policies.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	96,886	110,595	121,017	133,880	150,537
YoY growth (%)	7.4	14.2	9.4	10.6	12.4
Net income (RMB mn)	7,078	8,705	9,641	11,996	14,415
EPS (RMB)	1.2	1.4	1.5	1.8	2.2
YoY growth (%)	2.0	23.0	3.4	24.4	20.2
Consensus EPS (RMB)	na	na	1.6	2.0	2.2
P/E (x)	na	na	18.0	14.5	12.1
P/B (x)	na	na	3.2	3.0	2.8
Yield (%)	na	na	3.9	5.2	6.2
ROE (%)	23.3	18.2	19.0	22.3	25.1
Net gearing (%)	1.3	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **RMB41.5**  
 (Previous TP **RMB43.0**)  
 Up/Downside **+55.8%**  
 Current Price **RMB26.6**

**China Consumer -**  
 Food and Beverages

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### Stock Data

Mkt Cap (RMB mn)	170,415
Avg 3 mths t/o (RMB mn)	1,291.7
52w High/Low (RMB)	44.25/ 24.51
Total Issued Shares (mn)	6,399

Source: Wind

### Shareholding Structure

HKSCC	17.9%
Hohhot Investment Co.	8.4%
Pan Gang	4.5%

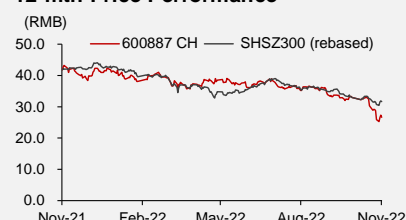
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	-19.3%	-15.9%
3-mth	-24.3%	-15.6%
6-mth	-30.8%	-15.9%

Source: Wind

### 12-mth Price Performance



Source: Wind

### Related reports

1. [2Q largely in line: and yet a revised 2H outlook prompts for an earnings cut](#) – 1 Sep 2022
2. ["1Q22 in line: management guidance implies c.10% 2022E core revenue growth"](#) – 29 Apr 2022
3. ["We expect synergy from the Ausnutria takeover"](#) – 8 Feb 2022

**Figure 1: Earnings revision**

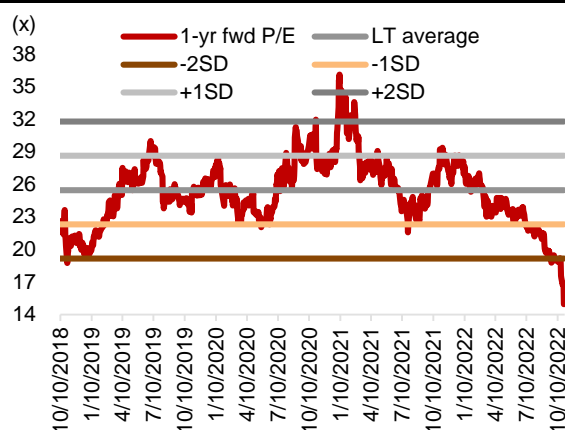
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	121,017	133,880	150,537	123,668	138,475	154,376	-2.1%	-3.3%	-2.5%
Gross Profit	37,925	43,967	50,811	38,396	44,457	51,149	-1.2%	-1.1%	-0.7%
EBITDA	13,327	16,854	20,126	14,141	17,242	20,546	-5.8%	-2.3%	-2.0%
Net profit	9,641	11,996	14,415	10,076	11,910	14,368	-4.3%	0.7%	0.3%
Gross Margin	31.3%	32.8%	33.8%	31.0%	32.1%	33.1%	0.3ppt	0.7ppt	0.6ppt
EBITDA Margin	11.0%	12.6%	13.4%	11.4%	12.5%	13.3%	-0.4ppt	0.1ppt	0.1ppt
Net Margin	8.0%	9.0%	9.6%	8.1%	8.6%	9.3%	-0.2ppt	0.4ppt	0.3ppt

Source: Company data, CMBIGM estimates

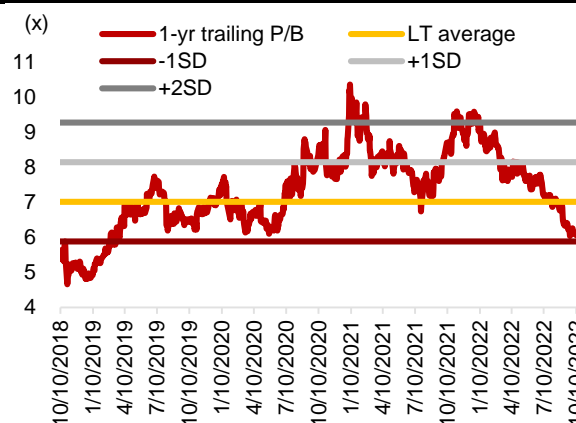
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	121,017	133,880	150,537	125,809	140,146	154,678	-3.8%	-4.5%	-2.7%
Gross Profit	37,925	43,967	50,811	40,420	45,218	50,946	-6.2%	-2.8%	-0.3%
EBITDA	13,327	16,854	20,126	14,582	17,013	19,611	-8.6%	-0.9%	2.6%
Net profit	9,641	11,996	14,415	10,047	13,783	13,783	-4.0%	-13.0%	4.6%
Gross Margin	31.3%	32.8%	33.8%	32.1%	32.3%	32.9%	-0.8ppt	0.6ppt	0.8ppt
EBITDA Margin	11.0%	12.6%	13.4%	11.6%	12.1%	12.7%	-0.6ppt	0.4ppt	0.7ppt
Net Margin	8.0%	9.0%	9.6%	8.0%	9.8%	8.9%	0ppt	-0.9ppt	0.7ppt

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

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>96,886</b>	<b>110,59</b>	<b>121,01</b>	<b>133,88</b>	<b>150,53</b>
Liquid milk	76,123	84,911	83,637	86,564	91,758
Others	20,762	25,685	37,380	47,316	58,779
<b>Gross profits</b>	<b>28,886</b>	<b>33,515</b>	<b>37,925</b>	<b>43,967</b>	<b>50,811</b>
D&A	(2,442)	(2,988)	(3,252)	(3,688)	(4,104)
Selling expense	(16,884)	(19,315)	(21,783)	(24,098)	(27,097)
Administration expenses	(3,883)	(4,828)	(5,567)	(6,158)	(7,075)
Other op expense	2,286	2,547	2,752	3,144	3,487
<b>EBIT</b>	<b>7,963</b>	<b>8,930</b>	<b>10,075</b>	<b>13,166</b>	<b>16,022</b>
<b>EBITDA</b>	<b>10,406</b>	<b>11,919</b>	<b>13,327</b>	<b>16,854</b>	<b>20,126</b>
Finance costs, net	(188)	29	404	99	98
Investment gains/loss	1,270	1,271	1,000	1,000	1,000
Non-operating	(408)	(118)	(250)	(277)	(311)
<b>Pre-tax profit</b>	<b>8,150</b>	<b>10,112</b>	<b>11,229</b>	<b>13,988</b>	<b>16,809</b>
Income tax	(1,051)	(1,380)	(1,533)	(1,909)	(2,294)
Less: Minority interests	(21)	(27)	(55)	(83)	(99)
<b>Net profit</b>	<b>7,078</b>	<b>8,705</b>	<b>9,641</b>	<b>11,996</b>	<b>14,415</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>7,078</b>	<b>8,705</b>	<b>9,641</b>	<b>11,996</b>	<b>14,415</b>
D&A	2,442	2,988	3,252	3,688	4,104
Change in working capital	4,684	(5,518)	(6,353)	(352)	(456)
Others	(4,353)	9,352	(505)	83	99
<b>Net cash fr. operating act.</b>	<b>9,852</b>	<b>15,528</b>	<b>6,035</b>	<b>15,414</b>	<b>18,162</b>
Capex & investments	(6,522)	(6,683)	(7,638)	(6,845)	(7,027)
Acquisition	22	-	-	-	-
Others	(2,543)	(1,114)	(900)	(900)	(900)
<b>Net cash fr. investing act.</b>	<b>(9,043)</b>	<b>(7,797)</b>	<b>(8,538)</b>	<b>(7,745)</b>	<b>(7,927)</b>
Equity raised	248	16,047	-	-	-
Change of Debts	5,122	5,882	(2,400)	(1,600)	-
Dividend paid	(4,988)	(4,988)	(5,913)	(6,772)	(8,947)
Others	(428)	(4,996)	-	-	-
<b>Net cash fr. financing act.</b>	<b>(47)</b>	<b>11,945</b>	<b>(8,313)</b>	<b>(8,372)</b>	<b>(8,947)</b>
<b>Net change in cash</b>	<b>762</b>	<b>19,676</b>	<b>(10,816)</b>	<b>(703)</b>	<b>1,288</b>
Cash at the beginning of the	11,328	12,095	31,742	20,926	20,223
Exchange difference	(395)	(29)	-	-	-
<b>Cash at the end of the year</b>	<b>11,695</b>	<b>31,742</b>	<b>20,926</b>	<b>20,223</b>	<b>21,511</b>
Less: pledged cash	-	-	9,641	11,996	14,415

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>42,774</b>	<b>51,807</b>	<b>57,767</b>	<b>61,824</b>	<b>65,647</b>
PP&E/Fixed assets	28,768	29,379	33,560	36,675	39,483
Goodwill	1,897	1,609	2,487	2,530	2,644
Investments	3,423	4,210	5,110	6,010	6,910
Other non-current assets	8,685	16,610	16,610	16,610	16,610
<b>Current assets</b>	<b>28,381</b>	<b>50,155</b>	<b>42,912</b>	<b>43,486</b>	<b>46,561</b>
Cash	11,695	31,742	20,926	20,223	21,511
Account receivable	1,875	2,107	3,316	3,668	4,124
Inventory	7,545	8,917	11,283	12,207	13,537
Other current assets	7,266	7,388	7,388	7,388	7,388
<b>Current liabilities</b>	<b>34,768</b>	<b>43,296</b>	<b>40,177</b>	<b>42,475</b>	<b>45,610</b>
Borrowings	6,957	12,596	11,396	10,596	10,596
Account payables	17,975	14,062	11,283	12,207	13,537
Other payables	9,836	16,638	17,497	19,672	21,476
<b>Non-current liabilities</b>	<b>5,853</b>	<b>9,875</b>	<b>8,675</b>	<b>7,875</b>	<b>7,875</b>
Borrowings	5,137	5,380	4,180	3,380	3,380
Other non-current liabilities	716	4,495	4,495	4,495	4,495
Common stock	6,083	6,400	6,513	6,513	6,513
Retained earnings	23,541	24,298	27,166	30,215	33,879
Minority Interest	149	1,083	1,138	1,221	1,320
<b>Total net assets</b>	<b>30,533</b>	<b>48,791</b>	<b>51,828</b>	<b>54,960</b>	<b>58,723</b>
<b>Shareholders' equity</b>	<b>30,384</b>	<b>47,708</b>	<b>50,690</b>	<b>53,739</b>	<b>57,403</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Liquid milk	78.6	76.8	69.1	64.7	61.0
Others	21.4	23.2	30.9	35.3	39.0
<b>P&amp;L ratios (%)</b>					
Gross margin	29.8	30.3	31.3	32.8	33.8
Operating margin	8.2	8.1	8.3	9.8	10.6
Pre-tax margin	8.4	9.1	9.3	10.4	11.2
Net margin	7.3	7.9	8.0	9.0	9.6
Effective tax rate	(12.9)	(13.6)	(13.6)	(13.6)	(13.6)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.4	0.6	0.5	0.5	0.5
Net receivable days	7.1	7.0	10.0	10.0	10.0
Inventory turnover days	40.8	42.6	50.0	50.0	50.0
Net payable days	97.3	67.2	50.0	50.0	50.0
Net debt to equity (%)	1.3	net cash	net cash	net cash	net cash
<b>Returns (%)</b>					
ROE	23.3	18.2	19.0	22.3	25.1
Dividend yield	na	na	4.1	5.4	6.5
<b>Per share</b>					
EPS (RMB)	1.2	1.4	1.5	1.8	2.2
DPS (RMB)	0.8	1.0	1.0	1.4	1.6
BVPS (RMB)	5.0	7.8	8.3	8.8	9.4
EV/EBITDA (x)	na	na	12.0	9.4	7.8

Source: Company data, CMBIGM estimates

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