

China Feihe (6186 HK)

A 5%+ dividend yield looks attractive despite sluggish growth

- **2023 outlook.** During the earnings call, management guided for a double-digit growth for both revenue and net profits for 2023. Despite the completion of its channel reform, we note that competition remains keen at a low birth rate. We take the view that family and child planning is unlikely to top the spending agenda (as opposite to dine-out and short-haul travel demand), despite China's reopening. While we concur with market view that the number of newborns 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. With this, our current forecasts is below management guidance, and growth in 2023 would mainly be driven by an easy comp.
- **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.
- **A 5% forward dividend yield.** Management targets to raise its absolute dividend payment by 10% per annum, and we believe this could be a positive takeaway from analyst briefing given Feihe's ample cash position.
- **Earnings change.** We largely maintain our 2023-24E revenue assumptions and assert that birth rate would start inflecting earliest by 2024E as our base case. Given a ~3pp lower GPM, our net profits estimates decrease by 6%/14%, respectively, over the same period. We are in general 10-15% below consensus.
- **Valuation.** Our new TP is based on an updated 11.0x (from 11.5x) roll-forward 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) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 18,592 | 22,776 | 21,311 | 23,087 | 26,560 |
| YoY growth (%) | 35.5 | 22.5 | (6.4) | 8.3 | 15.0 |
| Net income (RMB mn) | 7,437 | 6,871 | 4,942 | 5,317 | 6,039 |
| EPS (RMB) | 0.8 | 0.8 | 0.6 | 0.6 | 0.7 |
| YoY growth (%) | 69.8 | (7.6) | (26.8) | 7.6 | 13.6 |
| Consensus EPS (RMB) | n.a | n.a | 0.7 | 0.8 | 0.9 |
| P/E (x) | n.a | n.a | 8.9 | 8.2 | 7.3 |
| P/B (x) | n.a | n.a | 1.8 | 1.6 | 1.4 |
| Yield (%) | n.a | n.a | 5.0 | 5.4 | 6.1 |
| ROE (%) | 25.1 | 40.4 | 20.6 | 19.3 | 19.6 |
| Net gearing (%) | net cash | net cash | net cash | net cash | net cash |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.5**
 (Previous TP **HK\$8.0**)
 Up/Downside **+25.6%**
 Current Price **HK\$5.9**

China Consumer –
 Food and Beverages

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Stock Data

| | |
|--------------------------|----------|
| Mkt Cap (HK\$ mn) | 54,137 |
| Avg 3 mths t/o (HK\$ mn) | 142.3 |
| 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% |

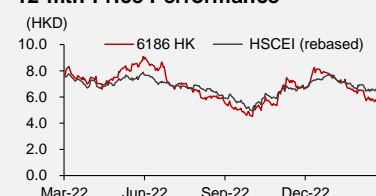
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -4.8% | -9.0% |
| 3-mth | -10.1% | -12.4% |
| 6-mth | 8.5% | -6.8% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Related Reports

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Figure 1: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|--------------|--------|--------|--------|--------|--------|--------|----------|---------|---------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 21,311 | 23,087 | 26,560 | 21,177 | 22,847 | 26,312 | 0.6% | 1.1% | 0.9% |
| Gross Profit | 13,951 | 14,571 | 16,517 | 14,116 | 15,286 | 17,712 | -1.2% | -4.7% | -6.7% |
| EBIT | 6,987 | 7,100 | 8,072 | 7,601 | 8,233 | 9,904 | -8.1% | -13.8% | -18.5% |
| Net profit | 4,942 | 5,317 | 6,039 | 5,266 | 5,720 | 6,986 | -6.1% | -7.0% | -13.6% |
| Gross Margin | 65.5% | 63.1% | 62.2% | 66.7% | 66.9% | 67.3% | -1.2ppt | -3.8ppt | -5.1ppt |
| EBIT Margin | 32.8% | 30.8% | 30.4% | 35.9% | 36.0% | 37.6% | -3.1ppt | -5.3ppt | -7.2ppt |
| Net Margin | 23.2% | 23.0% | 22.7% | 24.9% | 25.0% | 26.6% | -1.7ppt | -2ppt | -3.8ppt |

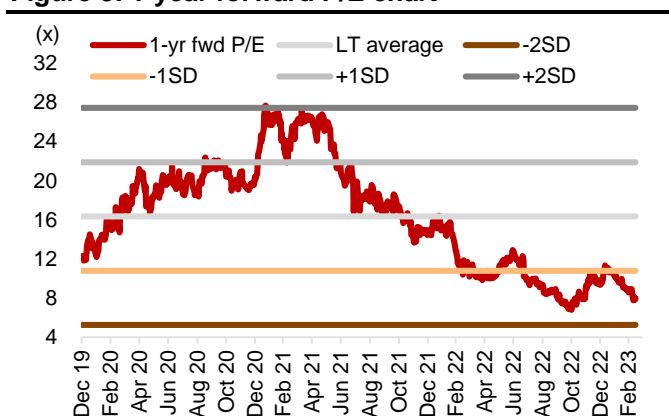
Source: CMBIGM estimates

Figure 2: Our earnings estimate vs Bloomberg consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|--------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 21,311 | 23,087 | 26,560 | 21,464 | 23,738 | 26,223 | -0.7% | -2.7% | 1.3% |
| Gross Profit | 13,951 | 14,571 | 16,517 | 14,329 | 15,975 | 17,595 | -2.6% | -8.8% | -6.1% |
| EBIT | 6,987 | 7,100 | 8,072 | 7,594 | 8,491 | 9,419 | -8.0% | -16.4% | -14.3% |
| Net profit | 4,942 | 5,317 | 6,039 | 5,518 | 6,311 | 7,059 | -10.4% | -15.7% | -14.4% |
| Gross Margin | 65.5% | 63.1% | 62.2% | 66.8% | 67.3% | 67.1% | -1.3ppt | -4.2ppt | -4.9ppt |
| EBIT Margin | 32.8% | 30.8% | 30.4% | 35.4% | 35.8% | 35.9% | -2.6ppt | -5ppt | -5.5ppt |
| Net Margin | 23.2% | 23.0% | 22.7% | 25.7% | 26.6% | 26.9% | -2.5ppt | -3.6ppt | -4.2ppt |

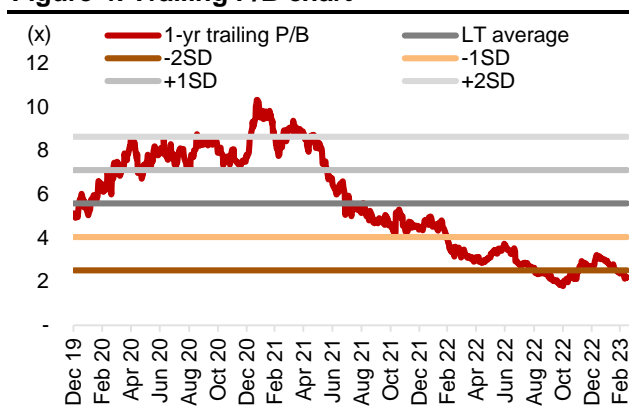
Source: Bloomberg, CMBIGM estimates

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) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 18,592 | 22,776 | 21,311 | 23,087 | 26,560 |
| IMF | 17,674 | 21,364 | 19,956 | 21,683 | 25,105 |
| Others | 919 | 1,412 | 1,355 | 1,404 | 1,455 |
| Gross profits | 13,480 | 16,008 | 13,951 | 14,571 | 16,517 |
| D&A | (266) | (443) | (510) | (601) | (684) |
| Selling expense | (5,263) | (6,729) | (6,545) | (6,972) | (7,835) |
| Administration expenses | (1,161) | (1,208) | (1,535) | (1,616) | (1,726) |
| Other income, gains | 3,019 | 1,864 | 1,252 | 1,252 | 1,252 |
| Other expense | (231) | (90) | (135) | (135) | (135) |
| EBIT | 9,844 | 9,844 | 6,987 | 7,100 | 8,072 |
| EBITDA | 10,110 | 10,288 | 7,498 | 7,701 | 8,757 |
| Finance costs, net | 74 | 81 | 81 | 84 | 84 |
| Non-operating | (18) | (253) | (405) | (16) | (16) |
| Pre-tax profit | 9,900 | 9,672 | 6,663 | 7,168 | 8,140 |
| Income tax | (2,464) | (2,757) | (1,715) | (1,845) | (2,095) |
| Less: Minority interests | 0 | (44) | (6) | (6) | (6) |
| Net profit | 7,437 | 6,871 | 4,942 | 5,317 | 6,039 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income | 7,437 | 6,871 | 4,942 | 5,317 | 6,039 |
| D&A | 266 | 443 | 510 | 601 | 684 |
| Change in working capital | 1,253 | (827) | 822 | (483) | (190) |
| Others | (1,205) | 328 | (309) | 22 | 22 |
| Net cash fr. operating act. | 7,751 | 6,815 | 5,966 | 5,456 | 6,555 |
| Capex & investments | (816) | (1,930) | (2,023) | (1,748) | (1,742) |
| Short term investment | - | - | - | - | - |
| Others | (2,970) | (514) | (466) | (451) | - |
| Net cash fr. investing act. | (3,786) | (2,444) | (2,489) | (2,199) | (1,742) |
| Equity raised | - | (365) | - | - | - |
| Change of Debts | (3,630) | (444) | 374 | (100) | - |
| Dividend paid | (2,685) | (3,392) | (4,339) | (1,739) | (2,814) |
| Others | 3,772 | (44) | 194 | - | - |
| Net cash fr. financing act. | (2,543) | (4,245) | (3,771) | (1,839) | (2,814) |
| Net change in cash | 1,421 | 125 | (293) | 1,418 | 1,998 |
| Cash at the beginning of the year | 8,810 | 9,553 | 9,629 | 9,336 | 10,754 |
| Exchange difference | (173) | (49) | - | - | - |
| Cash at the end of the year | 10,059 | 9,629 | 9,336 | 10,754 | 12,752 |
| Less: pledged cash | - | - | - | - | - |

Balance sheet

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 9,778 | 11,512 | 13,286 | 14,869 | 15,912 |
| PP&E/Fixed assets | 7,197 | 8,437 | 9,500 | 11,091 | 12,149 |
| Intangible assets | 48 | 133 | 131 | 139 | 139 |
| Right of use assets, net | 1,442 | 1,707 | 2,025 | 2,025 | 2,025 |
| Other non-current assets | 1,091 | 1,234 | 1,629 | 1,614 | 1,598 |
| Current assets | 18,544 | 19,970 | 22,230 | 23,990 | 26,472 |
| Cash | 10,059 | 9,629 | 9,336 | 10,754 | 12,752 |
| Account receivable | 289 | 477 | 431 | 460 | 529 |
| Inventories | 557 | 576 | 507 | 507 | 507 |
| Other current assets | 7,640 | 9,287 | 11,956 | 12,269 | 12,683 |
| Current liabilities | 7,107 | 6,942 | 7,460 | 7,319 | 7,612 |
| Borrowings | 514 | 833 | 1,042 | 1,133 | 1,284 |
| Account payables | 346 | 407 | 614 | 910 | 1,063 |
| Other payables | 903 | 1,083 | 3,094 | 448 | 313 |
| Rent payable | 5,344 | 4,618 | 2,709 | 4,828 | 4,953 |
| Non-current liabilities | 2,030 | 2,136 | 2,581 | 2,481 | 2,481 |
| Borrowings | 732 | 621 | 862 | 762 | 762 |
| Deferred tax liabilities | 139 | 115 | 126 | 126 | 126 |
| Other non-current liabilities | 1,158 | 1,399 | 1,593 | 1,593 | 1,593 |
| Minority Interest | 1,438 | 1,482 | 1,489 | 1,495 | 1,501 |
| Total net assets | 19,186 | 22,403 | 25,475 | 29,059 | 32,290 |
| Shareholders' equity | 17,747 | 20,921 | 23,986 | 27,564 | 30,789 |

Key ratios

| YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|-------------------------------|----------|----------|----------|----------|----------|
| Sales mix (%) | | | | | |
| IMF | 95.1 | 95.9 | 93.6 | 93.9 | 94.5 |
| Others | 4.9 | 4.1 | 6.4 | 6.1 | 5.5 |
| P&L ratios (%) | | | | | |
| Gross margin | 72.5 | 70.3 | 65.5 | 63.1 | 62.2 |
| Operating margin | 52.9 | 43.2 | 32.8 | 30.8 | 30.4 |
| Pre-tax margin | 53.3 | 42.5 | 31.3 | 31.0 | 30.6 |
| Net margin | 40.0 | 30.6 | 23.2 | 23.0 | 22.7 |
| Effective tax rate | (24.9) | (28.5) | (25.7) | (25.7) | (25.7) |
| Balance sheet analysis | | | | | |
| Current ratio (x) | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 |
| Net receivable days | 5.6 | 7.5 | 7.3 | 7.3 | 7.3 |
| Inventory turnover days | 80.9 | 69.2 | 88.0 | 70.0 | 70.0 |
| Net payable days | 91.7 | 92.8 | 98.9 | 98.9 | 98.9 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |
| Returns (%) | | | | | |
| ROE | 25.1 | 40.4 | 20.6 | 19.3 | 19.6 |
| Dividend yield | n.a | n.a | 5.0 | 5.4 | 6.1 |
| Per share | | | | | |
| EPS (RMB) | 0.8 | 0.8 | 0.6 | 0.6 | 0.7 |
| DPS (RMB) | 0.3 | 0.4 | 0.3 | 0.3 | 0.4 |
| BVPS (RMB) | 2.0 | 2.3 | 2.7 | 3.1 | 3.4 |

Source: Company data, CMBIGM estimates

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NOT RATED : Stock is not rated by CMBIGM

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