

Mengniu Dairy (2319 HK)

1H core rev/np +3%/10%; a surprising beat

1H reported revenue/net profits came in at +7%/-19% YoY to RMB51bn/3bn. Stripping off Milkground consolidation impact and RMB1bn non-recurring items (mainly FV/disposal gains last year), 1H core revenue/net profits grew 3%/10% YoY. The former was in line with that of Yili, considering flattish IMF (vs Yili +12%) and +5% liquid milk (vs Yili -1%) revenue growth, while the latter was a surprise to us. The beat was mainly stemmed from a 1.1pp core OP expansion that came in above management guidance of 0.3-0.5pp, thanks to a 1.8pp gross margins expansion driven by mix upgrade and lower raw milk prices. Another highlight from the result was a 97% surge in operating cash inflow to RMB3.4bn, and that looks to sustain not only a continuous stream of dividend pay-out, but also value-accretive shares buyback (1H: HK\$420mn spent for 13mn shares), when capex cycle has already peaked-out. Overall, the results have not derailed from [our investment thesis](#) that a good corporate governance practice, in our view, would continue to effectively stabilize shareholders' return, albeit a faltering outlook. We are buy-rated.

- Other call takeaways.** 1) **Guidance** of mid-to-high single-digit revenue growth was maintained. That said, management added that the lower end is more realistic to achieve given the current macro sentiment. The strong momentum in premium liquid milk should sustain gross margins to expand and drive a 0.5pp expansion in core EBIT margins; 2) **Premiumization** will be sustained through gradual price hikes for premium SKUs. Despite this, management does not expect this to upset shipment growth. For instance, TLS achieved 10% volume growth in 1H, while Shiny Meadow and Bellamy have sold better than mass market SKUs; 3) **No inventory impairment** on powdered raw milk in 1H, as some of the inventories were sold earlier this year in anticipation of an excess supply; 4) **ESG collaboration** with qualified suppliers to establish a green image of the company.
- Earnings change.** Despite housekeeping adjustments for the actual 1H, we largely maintain our estimates on a maintained full-year guidance.
- Valuation.** Our new TP is based on an updated 20.0x (from previously 22.0x) roll-forwarded mid-24E P/E, which still represents -1sd below long-term average. We now value both Mengniu (2319HK, BUY), Yili (600887CH, BUY) and Feihe (6186HK, HOLD) at -1sd below average, in view of a soft dairy demand recovery.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	88,141	92,593	99,315	106,954	115,971
YoY growth (%)	15.9	5.1	7.3	7.7	8.4
Net profit (RMB mn)	5,025.5	5,303.0	5,883.2	6,720.6	7,602.7
YoY growth (%)	42.6	5.5	10.9	14.2	13.1
EPS (RMB)	1.27	1.34	1.49	1.70	1.92
Consensus EPS (RMB)	na	na	1.58	1.84	2.10
P/E (x)	29.7	24.4	16.5	14.4	12.7
P/B (x)	4.1	3.2	2.2	2.0	1.8
Yield (%)	1.0	1.2	1.8	2.1	2.3
ROE (%)	14.4	13.8	13.9	14.4	14.7
Net gearing (%)	32.1	56.0	56.2	48.0	39.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$36.50
(Previous TP)	HK\$40.0)
Up/Downside	38.3%
Current Price	HK\$26.4

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Stock Data

Mkt Cap (HK\$ mn)	104,752.5
Avg 3 mths t/o (HK\$ mn)	287.9
52w High/Low (HK\$)	39.45/24.55
Total Issued Shares (mn)	3967.9

Source: FactSet

Shareholding Structure

COFCO Dairy Investment Co.	24.1%
FIL Ltd	8.0%

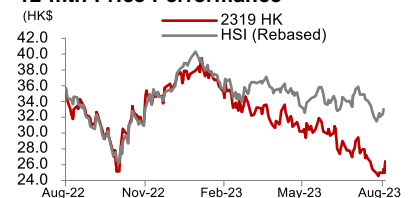
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.4%	-2.1%
3-mth	-13.2%	-13.9%
6-mth	-23.5%	-17.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

- [Yili Industrial \(600887 CH\) – 2Q rev/np +1%/3%; all eyes on cost savings – 30 Aug 2023](#)
- [Tsingtao Brewery \(168 HK\) – 2Q rev/np +8%/14% on recurring strengths – 29 Aug 2023](#)
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Figure 1: Earnings revision

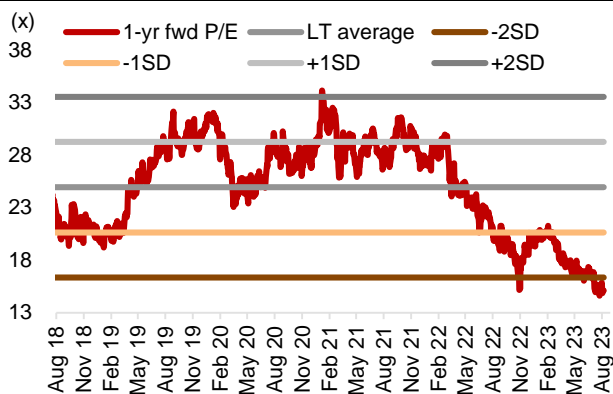
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	99,315	106,954	115,971	100,354	111,018	n.a	-1.0%	-3.7%	n.a
Gross Profit	36,151	39,894	43,605	35,726	40,078	n.a	1.2%	-0.5%	n.a
Recurring EBIT	7,365	8,359	9,412	7,141	8,455	n.a	3.1%	-1.1%	n.a
Net profit	5,883	6,721	7,603	6,022	7,108	n.a	-2.3%	-5.4%	n.a
Gross Margin	36.4%	37.3%	37.6%	35.6%	36.1%	n.a	0.8ppt	1.2ppt	n.a
EBIT Margin	7.4%	7.8%	8.1%	7.1%	7.6%	n.a	0.3ppt	0.2ppt	n.a
Net Margin	5.9%	6.3%	6.6%	6.0%	6.4%	n.a	-0.1ppt	-0.1ppt	n.a

Source: CMBIGM estimates

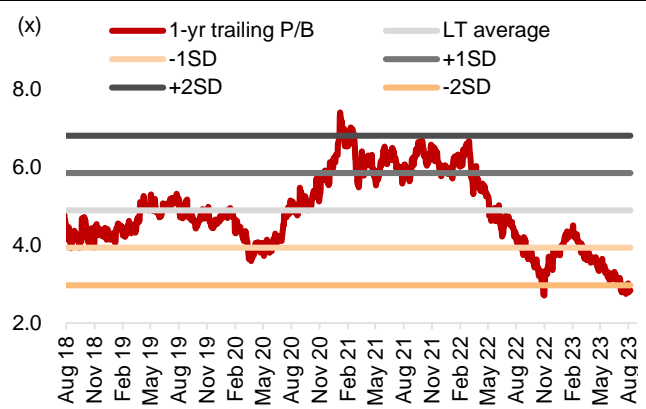
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	99,315	106,954	115,971	103,649	113,974	125,069	-4.2%	-6.2%	-7.3%
Gross Profit	36,151	39,894	43,605	37,625	41,828	46,150	-3.9%	-4.6%	-5.5%
Recurring EBIT	7,365	8,359	9,412	6,760	7,808	8,934	8.9%	7.1%	5.3%
Net profit	5,883	6,721	7,603	6,167	7,183	8,280	-4.6%	-6.4%	-8.2%
Gross Margin	36.4%	37.3%	37.6%	36.3%	36.7%	36.9%	0.1ppt	0.6ppt	0.7ppt
EBIT margins	7.4%	7.8%	8.1%	6.5%	6.9%	7.1%	0.9ppt	1ppt	1ppt
Net Margin	5.9%	6.3%	6.6%	5.9%	6.3%	6.6%	0ppt	0ppt	-0.1ppt

Source: Bloomberg, 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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	76,035	88,141	92,593	99,315	106,954	115,971
Cost of goods sold	(47,406)	(55,752)	(59,904)	(63,165)	(67,060)	(72,366)
Gross profit	28,629	32,390	32,690	36,151	39,894	43,605
Operating expenses	(23,983)	(26,496)	(26,312)	(28,786)	(31,535)	(34,193)
Selling expense	(21,541)	(23,488)	(22,347)	(24,829)	(27,273)	(29,573)
Admin expense	(2,915)	(3,524)	(4,442)	(4,469)	(4,813)	(5,219)
Others	(473)	(516)	(477)	(512)	(551)	(598)
Operating profit	4,646	5,894	6,378	7,365	8,359	9,412
Other income	1,205	1,618	2,140	0	0	0
Other expense	(2,001)	(1,863)	(1,864)	(200)	(200)	(200)
EBITDA	5,419	7,529	9,033	9,814	10,862	11,962
Depreciation	(1,955)	(2,313)	(2,773)	(3,053)	(3,145)	(3,238)
Other amortisation	(87)	(84)	(84)	(108)	(109)	(110)
EBIT	3,377	5,132	6,177	6,653	7,608	8,614
Interest income	1,085	1,027	1,385	1,385	1,385	1,385
Net Interest income/(expense)	1,085	1,027	1,385	1,385	1,385	1,385
Other income/expense	(572)	(743)	(1,125)	(1,125)	(1,125)	(1,125)
Others	265	451	66	301	373	448
Pre-tax profit	4,155	5,868	6,502	7,214	8,241	9,322
Income tax	(653)	(905)	(1,318)	(1,462)	(1,670)	(1,889)
After tax profit	3,502	4,964	5,185	5,752	6,571	7,433
Minority interest	23	62	118	131	150	169
Discontinued operations	0	0	0	0	0	0
Net profit	3,525	5,026	5,303	5,883	6,721	7,603
Gross dividends	1,058	1,506	1,590	1,764	2,015	2,280

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	31,507	31,020	36,777	35,005	37,167	40,109
Cash & equivalents	11,397	11,217	12,766	10,289	11,624	13,494
Restricted cash	250	203	284	284	284	284
Account receivables	2,988	4,160	3,660	3,926	4,228	4,584
Inventories	5,512	6,485	8,073	8,513	9,038	9,753
Prepayment	3,605	4,286	4,640	4,640	4,640	4,640
Other current assets	7,754	4,669	7,354	7,354	7,354	7,354
Non-current assets	48,640	67,081	81,036	83,641	86,589	89,519
PP&E	12,547	17,335	19,653	17,498	15,309	13,087
Intangibles	7,717	7,999	11,449	11,474	11,498	11,520
Goodwill	4,883	4,858	8,888	8,888	8,888	8,888
Other non-current assets	23,492	36,889	41,047	45,782	50,894	56,023
Total assets	80,146	98,101	117,813	118,646	123,757	129,627
Current liabilities	26,469	29,072	33,153	29,911	30,340	30,925
Short-term borrowings	6,525	4,265	9,095	9,095	9,095	9,095
Account payables	7,969	8,804	10,201	6,959	7,388	7,972
Tax payable	181	221	227	227	227	227
Other current liabilities	4	1,205	50	50	50	50
Lease liabilities	324	0	0	0	0	0
Accrued expenses	11,466	14,576	13,581	13,581	13,581	13,581
Non-current liabilities	16,430	27,030	34,608	34,608	34,608	34,608
Long-term borrowings	13,696	18,786	26,106	26,106	26,106	26,106
Deferred income	420	478	572	572	572	572
Other non-current liabilities	2,314	7,766	7,930	7,930	7,930	7,930
Total liabilities	42,899	56,102	67,761	64,519	64,949	65,533
Share capital	359	360	360	360	360	360
Retained earnings	19,727	24,438	29,448	33,654	38,485	43,941
Other reserves	12,897	12,028	10,291	10,291	10,291	10,291
Total shareholders equity	32,983	36,826	40,099	44,305	49,136	54,591
Minority interest	4,265	5,174	9,953	9,822	9,672	9,503
Total equity and liabilities	80,146	98,101	117,813	118,646	123,757	129,627

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,155	5,868	6,502	7,214	8,241	9,322
Depreciation & amortization	2,137	2,396	2,878	3,161	3,255	3,348
Tax paid	(753)	(903)	(930)	(1,462)	(1,670)	(1,889)
Change in working capital	967	1,459	(3,644)	(3,947)	(398)	(487)
Others	(1,159)	(1,276)	3,527	(2,030)	(2,102)	(2,177)
Net cash from operations	5,348	7,545	8,333	2,936	7,326	8,117
Investing						
Capital expenditure	(700)	(6,009)	(4,841)	(5,352)	(5,354)	(5,353)
Acquisition of subsidiaries/ investments	(26)	(830)	406	0	0	0
Others	5,547	(8,601)	(10,427)	1,252	1,252	1,252
Net cash from investing	4,822	(15,440)	(14,862)	(4,099)	(4,101)	(4,100)
Financing						
Dividend paid	(885)	(1,282)	(1,548)	(1,677)	(1,889)	(2,147)
Net borrowings	(3,926)	8,013	8,159	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	241	42	(2,464)	363	0	0
Net cash from financing	(4,571)	6,773	4,147	(1,314)	(1,889)	(2,147)
Net change in cash						
Cash at the beginning of the year	3,797	9,224	8,092	5,693	3,216	4,552
Exchange difference	(172)	(11)	43	0	0	0
Others	0	1	(59)	0	0	0
Cash at the end of the year	9,224	8,092	5,693	3,216	4,552	6,421
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(3.8%)	15.9%	5.1%	7.3%	7.7%	8.4%
Gross profit	(3.5%)	13.1%	0.9%	10.6%	10.4%	9.3%
Operating profit	(17.0%)	26.9%	8.2%	15.5%	13.5%	12.6%
EBITDA	(44.7%)	38.9%	20.0%	8.6%	10.7%	10.1%
EBIT	(56.6%)	52.0%	20.3%	7.7%	14.4%	13.2%
Net profit	(14.1%)	42.6%	5.5%	10.9%	14.2%	13.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	37.7%	36.7%	35.3%	36.4%	37.3%	37.6%
Operating margin	6.1%	6.7%	6.9%	7.4%	7.8%	8.1%
EBITDA margin	7.1%	8.5%	9.8%	9.9%	10.2%	10.3%
Return on equity (ROE)	11.4%	14.4%	13.8%	13.9%	14.4%	14.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.2	0.3	0.6	0.6	0.5	0.4
Current ratio (x)	1.2	1.1	1.1	1.2	1.2	1.3
Receivable turnover days	14.1	17.2	14.4	14.4	14.4	14.4
Inventory turnover days	42.4	42.5	49.2	49.2	49.2	49.2
Payable turnover days	38.3	36.5	40.2	40.2	40.2	40.2
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	33.1	29.7	24.4	16.5	14.4	12.7
P/E (diluted)	33.3	29.8	24.5	16.6	14.5	12.8
P/B	3.6	4.1	3.2	2.2	2.0	1.8
Div yield (%)	0.9	1.0	1.2	1.8	2.1	2.3

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

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