

China/Hong Kong Company Update

China Mengniu

Bloomberg: 2319 HK EQUITY | Reuters: 2319.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

21 Jan 2022

BUY

Last Traded Price (20 Jan 2022): HK\$46.55 (HSI : 24,952)

Price Target 12-mth: HK\$53.50 (15% upside)

Analyst

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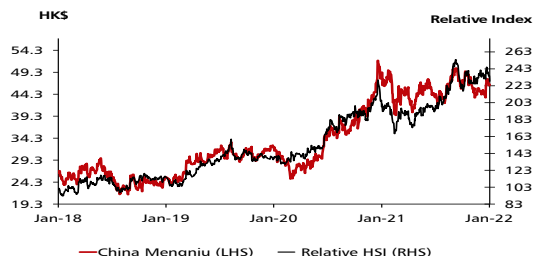
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What's New

- Forecast double-digit sales growth driven by liquid milk, cheese, and butter sales in FY22F
- Expect gross profit margin to stabilise through product mix enhancement and easing raw milk price pressure
- Reiterate BUY, TP unchanged

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2019A	2020A	2021F	2022F
Turnover	79,030	76,035	87,092	102,270
EBITDA	7,091	4,676	7,629	9,947
Pre-tax Profit	5,605	4,155	6,756	8,633
Net Profit	4,105	3,525	5,368	6,090
Net Profit Gth (Pre-ex)(%)	34.9	(14.1)	52.3	13.5
EPS (RMB)	1.05	0.90	1.37	1.55
EPS (HK\$)	1.28	1.10	1.68	1.90
EPS Gth (%)	34.9	(14.1)	52.3	13.5
Diluted EPS (HK\$)	1.28	1.10	1.68	1.90
DPS (HK\$)	0.22	0.33	0.50	0.57
BV Per Share (HK\$)	9.11	10.31	11.66	13.06
PE (X)	36.3	42.2	27.7	24.4
P/Cash Flow (X)	23.6	27.8	38.4	18.7
P/Free CF (X)	101.9	159.5	393.0	33.4
EV/EBITDA (X)	24.0	34.3	21.4	16.1
Net Div Yield (%)	0.5	0.7	1.1	1.2
P/Book Value (X)	5.1	4.5	4.0	3.6
Net Debt/Equity (X)	0.6	0.2	0.3	0.1
ROAE(%)	15.1	11.4	15.3	15.4
Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB)			1.33	1.60
Other Broker Recs:		B:34	S:1	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Leading processor

Investment Thesis

Product premiumisation trend. We expect China Mengniu's product upgrades and organic milk to support its premiumisation strategy and enable it to maintain market share and expand margins. We forecast liquid milk sales to deliver a CAGR of 10% in FY20-22F, driven by UHT milk.

Leveraging recent acquisition of Shanghai Milkground. We forecast the cheese category to be a strong growth contender within the dairy sector. In July'21, China Mengniu has become a substantial shareholder of Shanghai Milkground, a leading cheese enterprise, which should support its intention to expand in the domestic market.

Low-temperature pasteurised milk development. China Mengniu has increased its investment in dairy farms in recent years to prepare for increasing popularity of low-temperature products.

Valuation:

Our TP is based on a 29x FY22F PE, equivalent to 1SD above its two-year trading average.

Where we differ:

Our top-line assumption is 2% higher than consensus in FY22F.

Key Risks to Our View:

Demand slowdown, raw material cost fluctuations, intense competition, and food safety concerns.

At A Glance

Issued Capital (m shrs)	3,948
Mkt Cap (HK\$/US\$m)	183,779 / 23,603
Major Shareholders (%)	
COFCO Dairy Investments Ltd.	13.9
Prominent Achiever Ltd.	7.5
Free Float (%)	78.6
3m Avg. Daily Val. (US\$m)	64.30
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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China Mengniu

Company Background

One of the leading giants in China. China Mengniu is one of the leading dairy giants in China. The company, through its subsidiaries, manufactures and distributes dairy-related products (UHT milk, yogurt, and milk beverages), ice cream, and other dairy products such as infant formula powder.

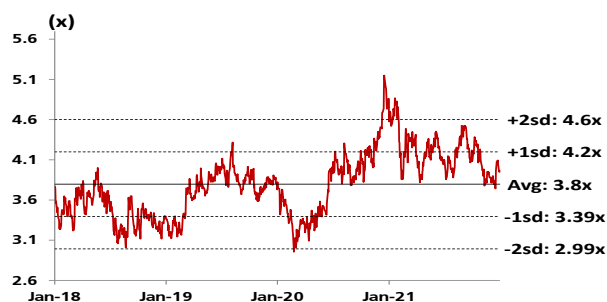
Key listed companies. China Mengniu has controlling stakes in listed companies – Yashili (1230.HK), China Modern Dairy (1117.HK), and Shengmu Dairy (1432.HK).

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

China Mengniu

Segmental Breakdown (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (RMB m)					
Liquid milk	59,389	67,878	67,751	74,694	82,293
Ice cream	2,723	2,561	2,634	3,450	3,864
Other dairy products	6,017	7,870	4,573	5,287	6,344
Infant formula	848	721	1,077	3,662	9,769
Total	68,977	79,030	76,035	87,092	102,270
Operating profit (RMB m)					
Liquid milk	3,532	3,854	3,193	5,378	6,337
Ice cream	(74)	(246)	24	350	400
Other dairy products	208	(1,876)	17	48	202
Infant formula	(31)	(154)	40	80	120
Total	3,835	4,970	3,216	5,556	7,333
Operating profit Margins (%)					
Liquid milk	5.9	5.7	4.7	7.2	7.7
Ice cream	(2.7)	(9.6)	0.9	10.1	10.4
Other dairy products	3.5	(23.8)	0.4	0.9	3.2
Infant formula	(3.6)	(21.4)	3.7	2.2	1.2
Total	5.6	6.3	4.2	6.4	7.2

Source: Company, DBS HK

China Mengniu

Income Statement (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	68,977	79,030	76,035	87,092	102,270
Cost of Goods Sold	(43,193)	(49,351)	(47,406)	(54,422)	(63,362)
Gross Profit	25,784	29,679	28,629	32,670	38,907
Other Opng (Exp)/Inc	(21,949)	(24,709)	(25,413)	(27,114)	(31,574)
Operating Profit	3,835	4,970	3,216	5,556	7,333
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(300)	175	426	700	900
Net Interest (Exp)/Inc	318	461	512	500	400
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	3,853	5,605	4,155	6,756	8,633
Tax	(649)	(1,310)	(653)	(1,154)	(1,496)
Minority Interest	(161)	(190)	23	(234)	(1,048)
Preference Dividend	0	0	0	0	0
Net Profit	3,043	4,105	3,525	5,368	6,090
EBITDA	5,274	7,091	4,676	7,629	9,947
Growth					
Revenue Gth (%)	14.7	14.6	(3.8)	14.5	17.4
EBITDA Gth (%)	26.2	34.4	(34.1)	63.1	30.4
Opg Profit Gth (%)	29.0	29.6	(35.3)	72.8	32.0
Net Profit Gth (%)	48.6	34.9	(14.1)	52.3	13.5
Margins & Ratio					
Gross Margins (%)	37.4	37.6	37.7	37.5	38.0
Opg Profit Margin (%)	5.6	6.3	4.2	6.4	7.2
Net Profit Margin (%)	4.4	5.2	4.6	6.2	6.0
ROAE (%)	12.7	15.1	11.4	15.3	15.4
ROA (%)	4.9	5.7	4.4	6.5	6.8
ROCE (%)	7.0	7.0	4.5	7.5	9.1
Div Payout Ratio (%)	23.4	17.3	30.0	30.0	30.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	39,857	39,173	37,533	38,501	45,905
Cost of Goods Sold	(24,279)	(25,073)	(22,881)	(24,524)	(28,353)
Gross Profit	15,579	14,100	14,652	13,977	17,553
Other Oper. (Exp)/Inc	(13,275)	(11,434)	(13,696)	(11,717)	(14,659)
Operating Profit	2,304	2,666	956	2,260	2,893
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	103	72	206	220	332
Net Interest (Exp)/Inc	189	272	240	272	172
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,596	3,010	1,402	2,752	3,397
Tax	(435)	(874)	(268)	(386)	(430)
Minority Interest	(84)	(107)	77	(53)	(21)
Net Profit	2,077	2,029	1,212	2,314	2,947
Growth					
Revenue Gth (%)	15.6	13.5	(5.8)	(1.7)	22.3
Opg Profit Gth (%)	18.4	41.1	(58.5)	(15.2)	202.5
Net Profit Gth (%)	33.0	37.0	(41.7)	14.1	143.2
Margins					
Gross Margins (%)	39.1	36.0	39.0	36.3	38.2
Opg Profit Margins (%)	5.8	6.8	2.5	5.9	6.3
Net Profit Margins (%)	5.2	5.2	3.2	6.0	6.4

Source: Company, DBS HK

China Mengniu

Balance Sheet (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	14,734	11,103	12,547	15,097	16,884
Invt in Associates & JVs	7,202	7,351	9,124	9,124	9,124
Other LT Assets	14,780	22,598	26,969	30,924	30,924
Cash & ST Invt	7,921	6,550	11,647	9,043	13,696
Inventory	4,282	5,090	2,988	3,431	3,819
Debtors	14,760	22,818	13,267	14,044	14,481
Other Current Assets	2,778	3,027	3,605	3,641	3,677
Total Assets	66,457	78,537	80,146	85,304	92,606
ST Debt	6,546	13,843	4,924	4,924	4,924
Creditors	7,022	6,739	7,969	8,588	8,984
Other Current Liab	11,542	11,153	13,251	12,783	13,607
LT Debt	8,192	9,635	14,020	14,020	14,020
Other LT Liabilities	2,691	3,822	2,734	3,197	3,753
Shareholder's Equity	25,212	29,132	32,983	37,292	41,771
Minority Interests	5,252	4,215	4,265	4,499	5,547
Total Cap. & Liab.	66,457	78,537	80,146	85,304	92,606
Non-Cash Wkg. Capital	3,257	13,044	(1,360)	(255)	(613)
Net Cash/(Debt)	(6,817)	(16,927)	(7,298)	(9,901)	(5,248)
Debtors Turn (avg days)	76.1	86.8	86.6	57.2	50.9
Creditors Turn (avg days)	58.8	53.0	57.9	57.0	52.0
Inventory Turn (avg days)	34.3	36.1	31.8	22.1	21.5
Asset Turnover (x)	1.1	1.1	1.0	1.1	1.1
Current Ratio (x)	1.2	1.2	1.2	1.1	1.3
Quick Ratio (x)	0.9	0.9	1.0	0.9	1.0
Net Debt/Equity (X)	0.3	0.6	0.2	0.3	0.1
Net Debt/Equity ex MI (X)	0.3	0.6	0.2	0.3	0.1
Capex to Debt (%)	23.5	20.6	23.3	18.5	18.5
Z-Score (X)	3.6	3.2	3.2	3.2	3.2

Source: Company, DBS HK

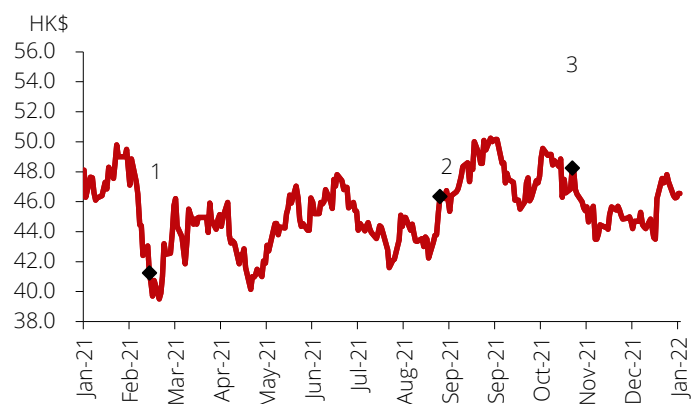
Cash Flow Statement (RMB m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	3,853	5,605	4,155	6,756	8,633
Dep. & Amort.	1,841	2,160	2,142	1,372	1,713
Tax Paid	(662)	(990)	(753)	(653)	(1,154)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	1,637	600	967	(1,896)	572
Other Operating CF	(305)	(1,069)	(1,164)	(1,700)	(1,800)
Net Operating CF	6,363	6,307	5,348	3,879	7,964
Capital Exp.(net)	(3,463)	(4,846)	(4,414)	(3,500)	(3,500)
Other Invt.(net)	(1,904)	(14,098)	8,163	(3,955)	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	1,135	1,414	1,073	1,700	1,800
Net Investing CF	(4,232)	(17,530)	4,822	(5,755)	(1,700)
Div Paid	(483)	(709)	(707)	(1,058)	(1,611)
Chg in Gross Debt	(300)	5,679	(12,280)	0	0
Capital Issues	5	0	0	0	0
Other Financing CF	781	4,881	7,913	331	0
Net Financing CF	2	9,851	(5,073)	(727)	(1,611)
Currency Adjustments	(172)	0	0	0	0
Chg in Cash	1,963	(1,371)	5,096	(2,603)	4,653
Opg CFPS (RMB)	1.20	1.45	1.12	1.47	1.88
Free CFPS (RMB)	0.74	0.37	0.24	0.10	1.14

Source: Company, DBS HK

China Mengniu

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Mar-21	HK\$41.25	HK\$54.10	Buy
2:	27-Aug-21	HK\$45.35	HK\$58.30	Buy
3:	16-Nov-21	HK\$46.85	HK\$53.50	Buy

Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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