

Hong Kong

**ADD** (no change)

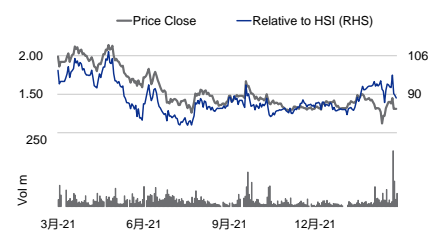
Consensus ratings\*: Buy 11 Hold 0 Sell 0

|                         |                           |
|-------------------------|---------------------------|
| Current price:          | HK\$1.31                  |
| Target price:           | HK\$2.68 ▲                |
| Previous target:        | HK\$2.62                  |
| Up/downside:            | 104.6%                    |
| CGI / Consensus:        | 37.4%                     |
| Reuters:                | 1117.HK                   |
| Bloomberg:              | 1117 HK                   |
| Market cap:             | US\$1,325m<br>HK\$10,370m |
| Average daily turnover: | US\$3.46m<br>HK\$27.58m   |
| Current shares o/s:     | 7,063m                    |
| Free float:             | 39.0%                     |

\*Source: Bloomberg

**Key changes in this note**

- FY22F EPS increased by 10.3%.
- FY23F EPS increased by 4.1%.



Source: Bloomberg

|                          |      |     |       |
|--------------------------|------|-----|-------|
| <b>Price performance</b> | 1M   | 3M  | 12M   |
| Absolute (%)             | -9   | 0   | -34.2 |
| Relative (%)             | -6.9 | 3.8 | -12   |

|                           |        |
|---------------------------|--------|
| <b>Major shareholders</b> | % held |
| China Mengniu             | 52.4   |
| Xinmu                     | 4.3    |
| Yinmu                     | 4.3    |

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# China Modern Dairy Holdings

## Stable raw milk price and cost control

- CMD announced FY21 revenue growth of 17.6% yoy, driven by an increase in the milk yield and raw milk price, and net profit growth of 32.3% yoy, above our expectations, due to stronger top-line growth.
- CMD is confident in maintaining a stable raw milk price in FY22F and milk yield growth of 2–3% a year in the next 2–3 years.
- Management expects unit feed costs to increase by Rmb0.1 per kg of raw milk output in FY22F, but CMD will take various measures to mitigate this negative impact.
- Reiterate Add with a new DCF-based TP of HK\$2.68.

### Results above expectations with better cost control

China Modern Dairy (CMD) announced that revenue grew 17.6% yoy to Rmb7.1bn in FY21, driven by 1.8% yoy growth in milk yield to 11.3t and a higher raw milk price of Rmb4.41/kg, up 6.8% yoy, driven by strong demand. The milk yield exceeded 12t in over 30% of CMD's farms, and the number is expected to be over 50% in FY22F. The milk yield improvement led to raw milk output growth of 8.1% yoy to 1,610kt. Excluding the additional output from Fuyuan and Zhongyuan, CMD's sales volume grew by 3% yoy (1H21: flattish yoy, 2H21: 6% yoy). CMD had 354k dairy cows at the end of FY21 with 184k milkable cows (FY20: 347k and 136k, respectively). Mengniu accounted for 86.5% of CMD's raw milk sales in FY21 (FY20: 83.1%). The unit cost of raw milk was Rmb2.67/kg, up 16.6% yoy, driven mainly by a 19.2% yoy hike in feed costs. CMD's GPM narrowed by 4.8% pts yoy to 36.0%, driven by a 2.5% pt impact from higher feed costs and a 2.2% pt base difference, but its OPM expanded by 0.8% pt yoy to 16.2% in FY21, driven by a 0.6% pt and 0.8% pt yoy decline in the selling and distribution expenses ratio and administrative expenses ratio, respectively. CMD reported FY21 net profit of Rmb1.0bn, up 32.3% yoy, above our expectations. CMD proposed a Rmb0.026 per share dividend, for a payout ratio of 20% in FY21 (FY20: 18%).

### Management expects the raw milk price to be stable in FY22F

In FY21, China's domestic dairy consumption grew by 9.6% yoy and market forecasts expect demand growth in FY22F to be about 5% yoy. Downstream dairy players are replacing industrial milk powder with fresh raw milk to produce infant formula and cheese products, increasing demand for raw milk. The government guided a domestic milk self-sufficiency rate of 65% in 2020, and in FY21, the rate was only 62%, for a yoy drop of 3% pts, which provides large room for domestic raw milk demand growth. On the supply side, CMD expects industry output growth to be about 7% yoy in FY22F. The latest data shows that the herd size of imported cows was 300k, with only about half milkable, adding about 2% yoy growth to China's domestic herd size. The natural growth of herd size is about 2% yoy, and overall milk yield growth is about 1.5% yoy. Production volume is decreasing in overseas markets, pushing up the international milk powder price, supporting strong demand for domestic raw milk. All in all, CMD is confident in maintaining a stable raw milk price in FY22F and annual milk yield growth of 2–3% in the next couple of years. CMD is expected to fulfill its goal of a herd size of 500k and daily output volume of 10kt before the end of FY25F.

### Cost-control measures to beat industry average amid feed price hikes

CMD actively implemented measures to deal with higher feed costs, including 1) increasing the milk yield to dilute unit feed costs; 2) controlling the main forage procurement price by price lockdowns and hedging; and 3) replacing the proportion of expensive feeds, such as soybean meal and cottonseed meal, with less-expensive feed. With these measures, CMD expects unit feed costs to grow by Rmb0.1 per 1kg of milk production in FY22F, lower than the expected market growth of Rmb0.2–0.3.

**Financial Summary**

|                                | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rmbm)                 | 6,020   | 7,078   | 7,852   | 8,393   | 8,977   |
| Operating EBITDA (Rmbm)        | 2,233   | 2,397   | 2,648   | 2,982   | 3,238   |
| Net Profit (Rmbm)              | 770     | 1,019   | 1,173   | 1,399   | 1,644   |
| Core EPS (Rmb)                 | 0.12    | 0.14    | 0.17    | 0.20    | 0.23    |
| Core EPS Growth                | 220%    | 20%     | 15%     | 19%     | 18%     |
| FD Core P/E (x)                | 8.85    | 7.40    | 6.43    | 5.39    | 4.59    |
| DPS (Rmb)                      | -       | -       | -       | -       | -       |
| Dividend Yield                 | 0%      | 0%      | 0%      | 0%      | 0%      |
| EV/EBITDA (x)                  | 4.99    | 5.57    | 4.77    | 3.83    | 3.07    |
| P/FCFE (x)                     | 15.49   | NA      | 7.76    | 5.45    | 4.57    |
| Net Gearing                    | 56.0%   | 53.3%   | 42.6%   | 29.6%   | 17.1%   |
| P/BV (x)                       | 0.86    | 0.69    | 0.63    | 0.56    | 0.50    |
| ROE                            | 10.3%   | 10.9%   | 10.2%   | 11.0%   | 11.5%   |
| % Change In Core EPS Estimates |         |         | 10.3%   | 4.1%    |         |
| CGI/consensus EPS (x)          |         |         | 0.74    | 0.75    |         |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Stable raw milk price and cost control

## Reiterate Add with a new DCF-based TP of HK\$2.68

We raised our FY22–23F earnings forecast by 10.3% and 4.1%, respectively, to reflect CMD’s stronger cost control capability. We reiterate our positive view of CMD’s outlook, given relatively strong demand for raw milk and increased public awareness of the value of a high-protein diet. Positive catalysts are 1) a stronger raw milk price, and 2) better margin expansion. The main risk is a serious surge in feed costs.

**Figure 1: CMD earnings results**

| (Rmb m)                                    | 1H20           | 1H21           | yoy           | FY20           | FY21           | yoy          |
|--|----------------|----------------|---------------|----------------|----------------|--------------|
| <b>Sales</b>                               | <b>2,827.8</b> | <b>3,179.7</b> | <b>12.4%</b>  | <b>6,020.2</b> | <b>7,078.5</b> | <b>17.6%</b> |
| Farm operating expenses                    | (1,775.7)      | (1,998.1)      | 12.5%         | (3,561.6)      | (4,529.0)      | 27.2%        |
| <b>Gross profit</b>                        | <b>1,052.0</b> | <b>1,181.6</b> | <b>12.3%</b>  | <b>2,458.7</b> | <b>2,549.5</b> | <b>3.7%</b>  |
| <b>Gross margin</b>                        | <b>37.2%</b>   | <b>37.2%</b>   | <b>0.0%</b>   | <b>40.8%</b>   | <b>36.0%</b>   | <b>-4.8%</b> |
| Gain arising from changes in fair value    | (448.7)        | (405.8)        | -9.6%         | (1,031.3)      | (956.0)        | -7.3%        |
| Other income                               | 41.2           | 53.4           | 29.6%         | 86.7           | 123.8          | 42.9%        |
| SG&A expenses                              | (243.1)        | (235.3)        | -3.2%         | (568.6)        | (562.8)        | -1.0%        |
| % of sales                                 | 8.6%           | 7.4%           | -1.2%         | 9.4%           | 8.0%           | -1.5%        |
| Other expenses                             | (13.1)         | (2.2)          | -82.8%        | (16.5)         | (8.7)          | -47.3%       |
| % of sales                                 | 0.5%           | 0.1%           | -0.4%         | 0.3%           | 0.1%           | -0.2%        |
| <b>Operating profit</b>                    | <b>388.3</b>   | <b>591.7</b>   | <b>52.4%</b>  | <b>928.9</b>   | <b>1,145.8</b> | <b>23.3%</b> |
| <b>Operating margin</b>                    | <b>13.7%</b>   | <b>18.6%</b>   | <b>4.9%</b>   | <b>15.4%</b>   | <b>16.2%</b>   | <b>0.8%</b>  |
| Share of profit (loss) of an associate     | 12.7           | 15.7           | 23.2%         | 31.6           | 36.9           | 17.0%        |
| Other gains and losses                     | 40.4           | (9.9)          | NA            | 142.5          | 50.6           | -64.5%       |
| <b>Profit before finance costs and tax</b> | <b>441.4</b>   | <b>597.4</b>   | <b>35.4%</b>  | <b>1,103.0</b> | <b>1,233.4</b> | <b>11.8%</b> |
| Finance costs                              | (214.8)        | (91.4)         | -57.5%        | (318.6)        | (198.1)        | -37.8%       |
| <b>Profit before tax</b>                   | <b>226.6</b>   | <b>506.0</b>   | <b>123.3%</b> | <b>784.4</b>   | <b>1,035.2</b> | <b>32.0%</b> |
| Income tax expenses                        | (0.3)          | (0.4)          | 52.2%         | (0.6)          | (2.0)          | 216.6%       |
| Non-controlling interests                  | (5.6)          | (8.9)          | 60.0%         | (13.8)         | (14.4)         | 4.4%         |
| <b>Net profit</b>                          | <b>220.7</b>   | <b>496.7</b>   | <b>125.0%</b> | <b>770.0</b>   | <b>1,018.8</b> | <b>32.3%</b> |
| <b>Pre-tax margin</b>                      | <b>8.0%</b>    | <b>15.9%</b>   | <b>7.9%</b>   | <b>13.0%</b>   | <b>14.6%</b>   | <b>1.6%</b>  |
| <b>Net margin</b>                          | <b>7.8%</b>    | <b>15.6%</b>   | <b>7.8%</b>   | <b>12.8%</b>   | <b>14.4%</b>   | <b>1.6%</b>  |

SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 2: Domestic raw milk price (Rmb/kg)**



SOURCES: CGIS RESEARCH, MINISTRY OF AGRICULTURE

**Figure 3: CMD earnings revisions**

|                             | FY22F |       |          | FY23F |       |          | FY24F |       |        |
|-----------------------------|-------|-------|----------|-------|-------|----------|-------|-------|--------|
|                             | Old   | New   | % chg.   | Old   | New   | % chg.   | Old   | New   | % chg. |
| Sales (Rmb m)               | 7,158 | 7,852 | 9.7%     | 7,670 | 8,393 | 9.4%     | N/A   | 8,977 | N/A    |
| Operating profit            | 1,413 | 1,280 | -9.4%    | 1,703 | 1,612 | -5.3%    | N/A   | 1,863 | N/A    |
| Operating margin            | 19.7% | 16.3% | -3.4ppts | 22.2% | 19.2% | -3.0ppts | N/A   | 20.8% | N/A    |
| Reported net profit (Rmb m) | 1,070 | 1,173 | 9.6%     | 1,352 | 1,399 | 3.4%     | N/A   | 1,644 | N/A    |
| Net margin                  | 14.9% | 14.9% | 0.0ppts  | 17.6% | 16.7% | -1.0ppts | N/A   | 18.3% | N/A    |
| EPS (Rmb)                   | 0.15  | 0.17  | 10.3%    | 0.19  | 0.20  | 4.1%     | N/A   | 0.23  | N/A    |

SOURCES: CGIS RESEARCH, COMPANY DATA

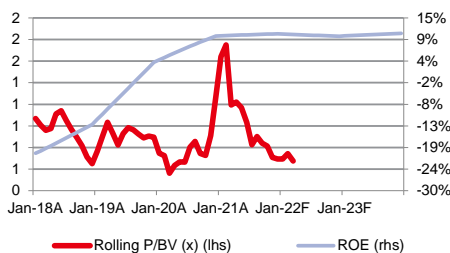
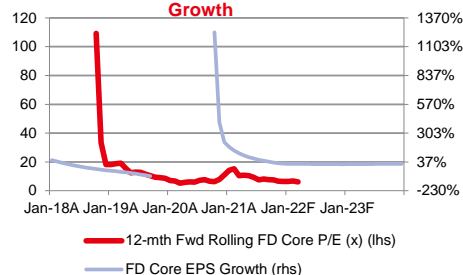
**Figure 4: CMD DCF valuation**

| DCF valuation (Rmb m)                | FY22F          | FY23F          | FY24F          | FY25F          | FY26F          | FY27F          | FY28F          | FY29F          | FY30F          | FY31F          | FY32F          | FY33F          | FY34F          |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>EBIT</b>                          | <b>1,329.9</b> | <b>1,661.5</b> | <b>1,913.5</b> | <b>2,124.0</b> | <b>2,357.6</b> | <b>2,616.9</b> | <b>2,904.8</b> | <b>3,224.3</b> | <b>3,579.0</b> | <b>3,936.9</b> | <b>4,330.6</b> | <b>4,763.7</b> | <b>5,240.0</b> |
| Taxes                                | -30.4          | -36.2          | -42.5          | -47.2          | -52.4          | -58.2          | -64.6          | -71.7          | -79.5          | -87.5          | -96.3          | -105.9         | -116.5         |
| <b>NOPAT</b>                         | <b>1,299.5</b> | <b>1,625.3</b> | <b>1,871.0</b> | <b>2,076.8</b> | <b>2,305.2</b> | <b>2,558.8</b> | <b>2,840.2</b> | <b>3,152.7</b> | <b>3,499.5</b> | <b>3,849.4</b> | <b>4,234.4</b> | <b>4,657.8</b> | <b>5,123.6</b> |
| <b>NOPAT growth</b>                  | <b>10.1%</b>   | <b>25.1%</b>   | <b>15.1%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>10.0%</b>   | <b>10.0%</b>   | <b>10.0%</b>   | <b>10.0%</b>   |
| D&A                                  | 1,649.8        | 1,574.5        | 1,597.3        | 1,645.2        | 1,694.6        | 1,745.4        | 1,797.8        | 1,851.7        | 1,907.3        | 1,964.5        | 2,023.4        | 2,084.1        | 2,146.6        |
| <b>Funds from operation</b>          | <b>2,949.3</b> | <b>3,199.8</b> | <b>3,468.3</b> | <b>3,722.0</b> | <b>3,999.8</b> | <b>4,304.2</b> | <b>4,638.0</b> | <b>5,004.4</b> | <b>5,406.7</b> | <b>5,813.9</b> | <b>6,257.8</b> | <b>6,741.9</b> | <b>7,270.2</b> |
| Change in net working Capital        | -34.9          | -24.7          | -21.2          | -21.8          | -22.4          | -23.1          | -23.8          | -24.5          | -25.3          | -26.0          | -26.8          | -27.6          | -28.4          |
| <b>Cash flow from operation</b>      | <b>2,884.0</b> | <b>3,138.9</b> | <b>3,404.6</b> | <b>3,700.2</b> | <b>3,977.3</b> | <b>4,281.1</b> | <b>4,614.2</b> | <b>4,979.9</b> | <b>5,381.5</b> | <b>5,787.9</b> | <b>6,231.0</b> | <b>6,714.3</b> | <b>7,241.8</b> |
| Capex                                | -1,832.1       | -1,832.1       | -1,832.1       | -2,015.3       | -2,216.8       | -2,438.5       | -2,682.3       | -2,950.6       | -3,245.6       | -3,570.2       | -3,927.2       | -4,319.9       | -4,751.9       |
| <b>Free cash flow from operation</b> | <b>1,051.9</b> | <b>1,306.8</b> | <b>1,572.5</b> | <b>1,684.9</b> | <b>1,760.5</b> | <b>1,842.6</b> | <b>1,931.9</b> | <b>2,029.3</b> | <b>2,135.8</b> | <b>2,217.7</b> | <b>2,303.8</b> | <b>2,394.4</b> | <b>2,489.8</b> |
| <b>FCF growth</b>                    | <b>-196.7%</b> | <b>24.2%</b>   | <b>20.3%</b>   | <b>7.1%</b>    | <b>4.5%</b>    | <b>4.7%</b>    | <b>4.8%</b>    | <b>5.0%</b>    | <b>5.3%</b>    | <b>3.8%</b>    | <b>3.9%</b>    | <b>3.9%</b>    | <b>4.0%</b>    |

|  |                 |                                      |
|--|-----------------|--------------------------------------|
| Terminal free cash flow                                  | 28,200.5        | <b>Assumptions</b>                   |
| Total discounted free cash flow                          | 12,793.4        | Risk free 4.0%                       |
| Present value of terminal free cash flow                 | 8,406.3         | Market risk premium 7.8%             |
|  |                 | Beta 0.95                            |
| <b>Total present value of forecasted free cash flows</b> | <b>21,199.7</b> | <b>Cost of equity 11.4%</b>          |
| Less: Net Debt   | 5,437.3         | Cost of debt 5.6%                    |
| <b>Equity Value</b>                                      | <b>15,762.4</b> | <b>Cost of debt (after tax) 5.4%</b> |
| No. of outstanding shares (millions)                     | 7,080.4         | Target gearing ratio 25.0%           |
| <b>Per share Equity Value (Rmb)</b>                      | <b>2.2</b>      | <b>WACC 9.9%</b>                     |
| Exchange rate  | 0.8             | Terminal growth rate 1.0%            |
| <b>Target price (HK\$)</b>                               | <b>2.68</b>     |                                      |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS

**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**


### Profit & Loss

| (Rmbm)                                    | Dec-20A      | Dec-21A      | Dec-22F      | Dec-23F      | Dec-24F      |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Total Net Revenues</b>                 | <b>6,020</b> | <b>7,078</b> | <b>7,852</b> | <b>8,393</b> | <b>8,977</b> |
| <b>Gross Profit</b>                       | <b>2,459</b> | <b>2,549</b> | <b>2,813</b> | <b>3,155</b> | <b>3,419</b> |
| <b>Operating EBITDA</b>                   | <b>2,233</b> | <b>2,397</b> | <b>2,648</b> | <b>2,982</b> | <b>3,238</b> |
| Depreciation And Amortisation             | -1,304       | -1,252       | -1,368       | -1,371       | -1,375       |
| <b>Operating EBIT</b>                     | <b>929</b>   | <b>1,146</b> | <b>1,280</b> | <b>1,612</b> | <b>1,863</b> |
| Financial Income/(Expense)                | -319         | -198         | -212         | -212         | -212         |
| Pretax Income/(Loss) from Assoc.          | 32           | 37           | 50           | 50           | 50           |
| Non-Operating Income/(Expense)            | 143          | 51           | 100          | 0            | 0            |
| <b>Profit Before Tax (pre-EI)</b>         | <b>784</b>   | <b>1,035</b> | <b>1,218</b> | <b>1,449</b> | <b>1,701</b> |
| Exceptional Items                         |              |              |              |              |              |
| <b>Pre-tax Profit</b>                     | <b>784</b>   | <b>1,035</b> | <b>1,218</b> | <b>1,449</b> | <b>1,701</b> |
| Taxation                                  | -1           | -2           | -30          | -36          | -43          |
| Exceptional Income - post-tax             |              |              |              |              |              |
| <b>Profit After Tax</b>                   | <b>784</b>   | <b>1,033</b> | <b>1,187</b> | <b>1,413</b> | <b>1,659</b> |
| Minority Interests                        | -14          | -14          | -14          | -14          | -14          |
| Preferred Dividends                       |              |              |              |              |              |
| FX Gain/(Loss) - post tax                 |              |              |              |              |              |
| Other Adjustments - post-tax              |              |              |              |              |              |
| <b>Net Profit</b>                         | <b>770</b>   | <b>1,019</b> | <b>1,173</b> | <b>1,399</b> | <b>1,644</b> |
| Recurring Net Profit                      | 770          | 1,019        | 1,173        | 1,399        | 1,644        |
| <b>Fully Diluted Recurring Net Profit</b> | <b>770</b>   | <b>1,019</b> | <b>1,173</b> | <b>1,399</b> | <b>1,644</b> |

### Cash Flow

| (Rmbm)                           | Dec-20A      | Dec-21A       | Dec-22F       | Dec-23F       | Dec-24F       |
|----------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>EBITDA</b>                    | <b>2,233</b> | <b>2,397</b>  | <b>2,648</b>  | <b>2,982</b>  | <b>3,238</b>  |
| Cash Flow from Invt. & Assoc.    | -32          | -37           | -50           | -50           | -50           |
| Change In Working Capital        | -256         | 199           | -35           | -25           | -21           |
| (Incr)/Decr in Total Provisions  |              |               |               |               |               |
| Other Non-Cash (Income)/Expense  |              |               |               |               |               |
| Other Operating Cashflow         | 297          | 434           | 554           | 470           | 482           |
| Net Interest (Paid)/Received     | -304         | -152          | -202          | -202          | -202          |
| Tax Paid                         | 0            | -2            | -30           | -36           | -43           |
| <b>Cashflow From Operations</b>  | <b>1,939</b> | <b>2,839</b>  | <b>2,884</b>  | <b>3,139</b>  | <b>3,405</b>  |
| Capex                            | -1,484       | -3,927        | -1,832        | -1,832        | -1,832        |
| Disposals Of FAs/subsidiaries    | 665          | 0             | 0             | 0             | 0             |
| Acq. Of Subsidiaries/investments |              |               |               |               |               |
| Other Investing Cashflow         | 53           | 103           | -80           | 77            | 78            |
| <b>Cash Flow From Investing</b>  | <b>-766</b>  | <b>-3,824</b> | <b>-1,912</b> | <b>-1,755</b> | <b>-1,754</b> |
| Debt Raised/(repaid)             | -733         | 441           | 0             | 0             | 0             |
| Proceeds From Issue Of Shares    | -20          | 1,527         | -227          | 0             | 0             |
| Shares Repurchased               |              |               |               |               |               |
| Dividends Paid                   |              |               |               |               |               |
| Preferred Dividends              |              |               |               |               |               |
| Other Financing Cashflow         | -211         | -198          | -212          | -212          | -212          |
| <b>Cash Flow From Financing</b>  | <b>-964</b>  | <b>1,770</b>  | <b>-440</b>   | <b>-212</b>   | <b>-212</b>   |
| Total Cash Generated             | 209          | 785           | 533           | 1,172         | 1,438         |
| <b>Free Cashflow To Equity</b>   | <b>440</b>   | <b>-544</b>   | <b>972</b>    | <b>1,384</b>  | <b>1,651</b>  |
| <b>Free Cashflow To Firm</b>     | <b>1,492</b> | <b>-787</b>   | <b>1,185</b>  | <b>1,596</b>  | <b>1,863</b>  |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

| (Rmbm)                               | Dec-20A       | Dec-21A       | Dec-22F       | Dec-23F       | Dec-24F       |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Cash And Equivalents           | 1,137         | 1,929         | 2,620         | 3,792         | 5,231         |
| Total Debtors                        | 757           | 1,222         | 1,227         | 1,335         | 1,428         |
| Inventories                          | 1,159         | 2,191         | 1,260         | 1,371         | 1,466         |
| Total Other Current Assets           | 33            | 0             | 0             | 0             | 0             |
| <b>Total Current Assets</b>          | <b>3,085</b>  | <b>5,343</b>  | <b>5,108</b>  | <b>6,498</b>  | <b>8,124</b>  |
| Fixed Assets                         | 10,419        | 14,718        | 14,902        | 15,068        | 15,217        |
| Total Investments                    | 290           | 353           | 403           | 453           | 503           |
| Intangible Assets                    | 1,322         | 2,076         | 2,076         | 2,076         | 2,076         |
| Total Other Non-Current Assets       | 452           | 1,185         | 1,185         | 1,185         | 1,185         |
| <b>Total Non-current Assets</b>      | <b>12,484</b> | <b>18,331</b> | <b>18,565</b> | <b>18,782</b> | <b>18,981</b> |
| Short-term Debt                      | 3,471         | 2,413         | 2,413         | 2,413         | 2,413         |
| Current Portion of Long-Term Debt    |               |               |               |               |               |
| Total Creditors                      | 1,471         | 3,169         | 2,208         | 2,403         | 2,569         |
| Other Current Liabilities            | 24            | 484           | 484           | 484           | 484           |
| <b>Total Current Liabilities</b>     | <b>4,966</b>  | <b>6,066</b>  | <b>5,105</b>  | <b>5,299</b>  | <b>5,466</b>  |
| Total Long-term Debt                 | 2,171         | 5,445         | 5,445         | 5,445         | 5,445         |
| Hybrid Debt - Debt Component         |               |               |               |               |               |
| Total Other Non-Current Liabilities  | 393           | 1,048         | 821           | 821           | 821           |
| <b>Total Non-current Liabilities</b> | <b>2,564</b>  | <b>6,493</b>  | <b>6,266</b>  | <b>6,266</b>  | <b>6,266</b>  |
| Total Provisions                     | 0             | 0             | 0             | 0             | 0             |
| <b>Total Liabilities</b>             | <b>7,530</b>  | <b>12,559</b> | <b>11,371</b> | <b>11,565</b> | <b>11,731</b> |
| Shareholders' Equity                 | 7,897         | 10,865        | 12,038        | 13,436        | 15,081        |
| Minority Interests                   | 142           | 250           | 264           | 279           | 293           |
| <b>Total Equity</b>                  | <b>8,038</b>  | <b>11,115</b> | <b>12,302</b> | <b>13,715</b> | <b>15,374</b> |

**Key Ratios**

|                           | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth            | 9.2%    | 17.6%   | 10.9%   | 6.9%    | 7.0%    |
| Operating EBITDA Growth   | 11.1%   | 7.3%    | 10.5%   | 12.6%   | 8.6%    |
| Operating EBITDA Margin   | 37.1%   | 33.9%   | 33.7%   | 35.5%   | 36.1%   |
| Net Cash Per Share (Rmb)  | -0.71   | -0.84   | -0.74   | -0.58   | -0.37   |
| BVPS (Rmb)                | 1.24    | 1.54    | 1.70    | 1.90    | 2.14    |
| Gross Interest Cover      | 2.92    | 5.78    | 6.03    | 7.59    | 8.78    |
| Effective Tax Rate        | 0.08%   | 0.20%   | 2.50%   | 2.50%   | 2.50%   |
| Net Dividend Payout Ratio | NA      | NA      | NA      | NA      | NA      |
| Accounts Receivables Days | 41.79   | 51.01   | 56.92   | 55.72   | 56.32   |
| Inventory Days            | 114.9   | 135.0   | 125.0   | 91.7    | 93.4    |
| Accounts Payables Days    | 154.5   | 186.9   | 194.6   | 160.5   | 163.6   |
| ROIC (%)                  | 0.0%    | 0.0%    | 7.0%    | 8.8%    | 10.0%   |
| ROCE (%)                  | 6.76%   | 7.02%   | 6.54%   | 7.72%   | 8.32%   |
| Return On Average Assets  | 5.01%   | 5.27%   | 5.89%   | 6.62%   | 7.12%   |

**Key Drivers**

|   | Dec-20A   | Dec-21A   | Dec-22F   | Dec-23F   | Dec-24F   |
|---|-----------|-----------|-----------|-----------|-----------|
| Avg. milk yield per milkable cow (ton/p.a.) | 11.1      | 11.3      | 11.5      | 12.0      | 12.3      |
| ASP for raw milk (Rmb/kg) - external        | 4.1       | 4.4       | 4.4       | 4.5       | 4.5       |
| Number of dairy cows                        | 247,371.0 | 353,793.0 | 347,224.6 | 337,899.4 | 344,503.2 |

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|                     |           |           |         |          |                  |
|---------------------|-----------|-----------|---------|----------|------------------|
| <b>Score Range:</b> | 90 - 100  | 80 – 89   | 70 - 79 | Below 70 | No Survey Result |
| <b>Description:</b> | Excellent | Very Good | Good    | N/A      | N/A              |

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| Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021 |                         |                                |
|---|-------------------------|--------------------------------|
| 619 companies under coverage for quarter ended on 31 Dec 2021                                 |                         |                                |
|   | Rating Distribution (%) | Investment Banking clients (%) |
| Add   | 71.1%                   | 1.5%                           |
| Hold  | 21.8%                   | 0.0%                           |
| Reduce  | 7.1%                    | 0.0%                           |

**Spitzer Chart for stock being researched ( 2 year data )**

**China Modern Dairy Holdings (1117 HK)**

## RECOMMENDATION FRAMEWORK

### Stock Ratings Definition:

|        |   |
|--------|---|
| Add    | The stock's total return is expected to reach 15% or higher over the next 12 months.                      |
| Hold   | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months.                  |

*The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings Definition:

|             |  |
|-------------|--|
| Overweight  | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.  |
| Neutral     | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.       |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

### Country Ratings Definition:

|             |  |
|-------------|--|
| Overweight  | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral     | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.           |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |

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