

# Inner Mongolia Yili Industrial

Bloomberg: 600887 CH Equity | Reuters: 600887.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Sep 2022

## BUY

Last Traded Price (31 Aug 2022): RMB35.74 (CSI300 Index : 4,079)

Price Target 12-mth: RMB46.00 (29% upside) (Prev RMB52.90)

### Analysts

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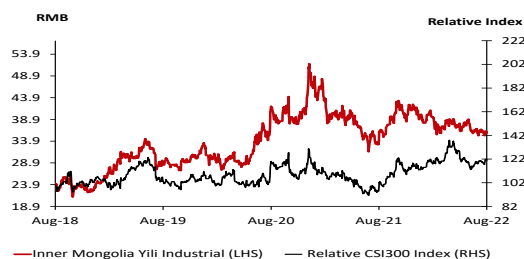
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### What's New

- 2Q22 earnings growth of 5% broadly in line with market expectations due to impact from lockdowns; 1H22 earnings rose 15% y-o-y
- Expect gradual demand recovery in 2H22 to sustain, with strong drivers coming from milk powder, cheese, and butter
- Trim FY22E/FY23E forecasts by 4%/1.5%; reiterate BUY, TP trimmed to Rmb46

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	110,144	126,355	142,608	159,637
EBITDA	11,702	13,431	16,719	21,062
Pre-tax Profit	10,112	11,735	13,379	16,262
Net Profit	8,759	9,907	11,541	14,027
Net Pft (Pre Ex) (core profit)	8,759	9,907	11,541	14,027
Net Profit Gth (Pre-ex) (%)	23.0	13.1	16.5	21.5
EPS (RMB)	1.44	1.62	1.88	2.27
EPS Gth (%)	22.3	12.5	15.9	20.9
Diluted EPS (RMB)	1.43	1.60	1.87	2.26
DPS (RMB)	0.96	1.08	1.25	1.51
BV Per Share (RMB)	1.08	1.05	1.04	1.04
PE (X)	24.8	22.1	19.0	15.7
P/Cash Flow (X)	14.0	18.5	14.6	11.7
P/Free CF (X)	24.5	52.0	34.1	23.7
EV/EBITDA (X)	21.4	19.1	15.7	12.8
Net Div Yield (%)	2.7	3.0	3.5	4.2
P/Book Value (X)	33.1	34.2	34.3	34.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	136.9	154.8	180.3	219.2
Earnings Rev (%)		(4)	(1.5)	New
Consensus EPS (RMB)		1.66	1.94	2.28
Other Broker Recs:		B:45	S:0	H:0

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

## Firm market position

### Investment Thesis

**Liquid milk sales driven by UHT milk.** Liquid milk accounts for 77% of FY21 revenue, comprising UHT milk, yogurt, milk beverages, and more. We expect UHT white milk to remain the key driver, supported by a rise in consumption per capita, an increase in the health proposition, and a rise in disposable income.

**Infant formula propelled to 2nd place in terms of market share.** Competition in infant formula has been fierce, with the rapid changes in regulations. With the consolidation of Aunutra, we expect Yili's market share to propel it to being the second-largest domestic infant formula player in China, after Feihe.

**Emerging categories see encouraging trends.** Yili has been investing in developing new products such as pasteurised milk, cheese, and butter to capture the fast-growing trends in these categories. Despite limited contribution at this juncture, we expect these products to continue to enrich Yili's strong dairy portfolio in the medium term.

### Valuation:

We trim our earnings by 4%/1.5% respectively with mild trim in sales growth and introduce FY24E forecasts. Our TP stood at Rmb46, pegged to a 24.7x FY23F PE, equivalent to its 5-year trading average (Previously 31.7x FY22 PE).

### Where we differ:

We forecast earnings CAGR of 15% in FY21-24E.

### Key Risks to Our View:

COVID-19 impacts, volatility in raw material prices, tougher competition, execution risks on M&As, and trade war.

### At A Glance

Issued Capital (m shrs)	6,383
Mkt Cap (RMBm/US\$m)	228,128 / 33,108
Major Shareholders (%)	
Huhhot Investment Company Ltd.	8.4
Free Float (%)	91.6
3m Avg. Daily Val. (US\$m)	241.23
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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**Inner Mongolia Yili Industrial****WHAT'S NEW****1H22 results takeaways**

Yili's net earnings growth slowed to 5%, landing at Rmb2,614m in 2Q22 (1Q22: +24%), broadly in line with expectations. Revenue rose 11.6% to Rmb32,300m. Excluding the inclusion of Austnutria starting from 2Q22, revenue rose 9% y-o-y. In 1H22, net earnings rose 15%, while revenue rose 12%. Gross profit margin expanded 1.67ppt to 33.7% in 1H22, thanks to product mix enhancements with a higher contribution from milk powder and cheese & butter. Selling expense ratio also recorded a slight increase of 0.3ppt to 3.85% due to prior investments in fast-growing segments including milk powder and cheese & butter, as well as higher investments in the Winter Olympics.

By product segment, liquid milk, milk powder and products, ice-cream, and other products sales changed by -4.5%, +83.5%, +29.4%, and +103%, respectively, in 2Q22. Of this, cheese & butter sales surged by 40%. Excluding the impact of Austnutria, milk powder sales rose 31.7% in 2Q22. In 1H22, liquid milk, milk powder, ice-cream, and other products sales increased by 1.1%, 58%, 31.7%, and 155%, respectively.

By market share, Yili liquid milk/infant milk powder/adult milk powder/cheese market shares edged up 0.1ppt/3.5ppt/1.3ppt/4.0ppt by end-June 22. Of this, organic dairy-related products, dairy-based nutrition, cheese snacks, and natural mineral water sales exceeded 20%.

**Raw milk price expectation.** Raw milk prices recorded a slight decline in 1H22, due to the lockdowns that negatively impacted consumer demand. The company expects the raw milk price to see a slight increase in 2H22 as demand gradually recovers, with expectations of a mild decline for the full year. Due to a stable supply increase in the upstream industry, raw milk prices are likely to remain stable in the medium term.

The company noted its sales have seen a gradual recovery since July and that it targets to reach number four in terms of global market position in 2022E. We remain positive about the group's overall trajectory on the back of growing dairy spending per capita. We trim our earnings by 4%/1.5% respectively with mild trim in sales growth and introduce FY24E forecasts. We forecast FY21-24E earnings CAGR of 15%. Maintain BUY.

**Company Background**

Yili is one of the leading companies involved in the processing and manufacturing of milk products such as ice-cream, milk powder, sterilised milk, and fresh milk. The group generates the bulk of its revenue from the liquid milk segment (UHT milk, UHT yogurt). It is also a significant player in the milk powder category.

## Inner Mongolia Yili Industrial

### Interim Income Statement (RMBm)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	56,294	53,850	63,213	12.3	17.4
Cost of Goods Sold	(35,238)	(41,179)	(42,049)	19.3	2.1
<b>Gross Profit</b>	<b>21,056</b>	<b>12,671</b>	<b>21,164</b>	<b>0.5</b>	<b>67.0</b>
Other Oper. (Exp)/Inc	(14,705)	(8,821)	(14,079)	(4.3)	59.6
<b>Operating Profit</b>	<b>6,351</b>	<b>3,850</b>	<b>7,085</b>	<b>11.6</b>	<b>84.0</b>
Other Non Opg (Exp)/Inc	(92)	(26)	(226)	(145.6)	766.8
Associates & JV Inc	0	0	0	nm	nm
Net Interest (Exp)/Inc	36	(7)	240	565.9	nm
Exceptional Gain/(Loss)	0	0	0	nm	nm
<b>Pre-tax Profit</b>	<b>6,295</b>	<b>3,817</b>	<b>7,099</b>	<b>12.8</b>	<b>86.0</b>
Tax	(975)	(405)	(960)	(1.5)	136.8
Minority Interest	(2)	29	7	nm	(77.0)
<b>Net Profit</b>	<b>5,318</b>	<b>3,441</b>	<b>6,146</b>	<b>15.6</b>	<b>78.6</b>
Net profit bef Except.	5,318	3,441	6,146	15.6	78.6
EBITDA	7,045	4,658	7,244	2.8	55.5
<b>Margins (%)</b>					
Gross Margins	37.4	23.5	33.5		
Opg Profit Margins	11.3	7.2	11.2		
Net Profit Margins	9.4	6.4	9.7		

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	% chg yoy
Revenue	96,886	110,144	13.7
Cost of Goods Sold	(61,806)	(76,417)	23.6
<b>Gross Profit</b>	<b>35,080</b>	<b>33,727</b>	<b>(3.9)</b>
Other Opg (Exp)/Inc	(26,334)	(23,526)	(10.7)
<b>Operating Profit</b>	<b>8,746</b>	<b>10,201</b>	<b>16.6</b>
Other Non Opg (Exp)/Inc	(408)	(118)	71.1
Associates & JV Inc	0	0	nm
Net Interest (Exp)/Inc	(188)	29	nm
Exceptional Gain/(Loss)	0	0	nm
<b>Pre-tax Profit</b>	<b>8,150</b>	<b>10,112</b>	<b>24.1</b>
Tax	(1,051)	(1,380)	31.3
Minority Interest	21	27	30.6
<b>Net Profit</b>	<b>7,120</b>	<b>8,759</b>	<b>23.0</b>
Net Profit before Except.	7,120	8,759	23.0
EBITDA	9,829	11,702	19.1
<b>Margins &amp; Ratio</b>			
Gross Margins (%)	36.2	30.6	
Opg Profit Margin (%)	9.0	9.3	
Net Profit Margin (%)	7.3	8.0	

Source: Company, DBS HK

## Inner Mongolia Yili Industrial

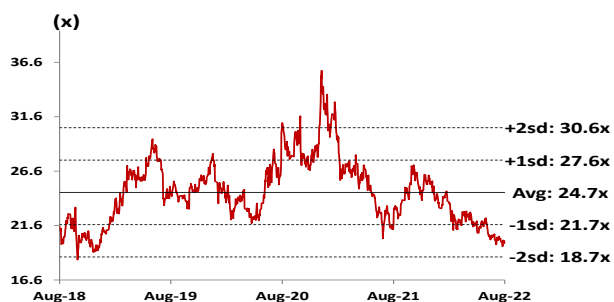
### Income Statement (RMB m)

FY Dec	2021A	2022F	% chg	vov
Revenue	110,144	126,355		14.7
Cost of Goods Sold	(76,417)	(86,652)		13.4
<b>Gross Profit</b>	<b>33,727</b>	<b>39,703</b>		<b>17.7</b>
Other Opng (Exp)/Inc	(23,526)	(27,744)		17.9
<b>Operating Profit</b>	<b>10,201</b>	<b>11,959</b>		<b>17.2</b>
Other Non Opg (Exp)/Inc	(118)	(273)		(131.1)
Associates & JV Inc	0	0		nm
Net Interest (Exp)/Inc	29	49		68.6
Exceptional Gain/(Loss)	0	0		nm
<b>Pre-tax Profit</b>	<b>10,112</b>	<b>11,735</b>		<b>16.0</b>
Tax	(1,380)	(1,878)		36.0
Minority Interest	27	49		81.8
<b>Net Profit</b>	<b>8,759</b>	<b>9,907</b>		<b>13.1</b>
Net Profit before Except.	8,759	9,907		13.1
EBITDA	11,702	13,431		14.8
<b>Margins &amp; Ratio</b>				
Gross Margins (%)	30.6	31.4		
Opg Profit Margin (%)	9.3	9.5		
Net Profit Margin (%)	8.0	7.8		

Source: Company, DBS HK

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## Inner Mongolia Yili Industrial

### Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Revenues (RMB m)</b>					
Liquid milk	76,123	84,911	92,672	102,958	114,386
Milk and milk products	12,885	16,209	22,806	27,504	31,788
Mixed feed	179	182	0	0	0
Icecream	6,158	7,161	9,145	10,362	11,626
Other	1,540	1,681	1,732	1,784	1,837
<b>Total</b>	<b>96,886</b>	<b>110,144</b>	<b>126,355</b>	<b>142,608</b>	<b>159,637</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	96,886	110,144	126,355	142,608	159,637
Cost of Goods Sold	(61,806)	(76,417)	(86,652)	(97,630)	(108,059)
<b>Gross Profit</b>	<b>35,080</b>	<b>33,727</b>	<b>39,703</b>	<b>44,978</b>	<b>51,578</b>
Other Opng (Exp)/Inc	(26,334)	(23,526)	(27,744)	(31,481)	(35,208)
<b>Operating Profit</b>	<b>8,746</b>	<b>10,201</b>	<b>11,959</b>	<b>13,497</b>	<b>16,370</b>
Other Non Opg (Exp)/Inc	(408)	(118)	(273)	(167)	(156)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(188)	29	49	49	49
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>8,150</b>	<b>10,112</b>	<b>11,735</b>	<b>13,379</b>	<b>16,262</b>
Tax	(1,051)	(1,380)	(1,878)	(1,873)	(2,277)
Minority Interest	21	27	49	35	42
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>7,120</b>	<b>8,759</b>	<b>9,907</b>	<b>11,541</b>	<b>14,027</b>
Net Profit before Except.	7,120	8,759	9,907	11,541	14,027
EBITDA	9,829	11,702	13,431	16,719	21,062
<b>Growth</b>					
Revenue Gth (%)	7.4	13.7	14.7	12.9	11.9
EBITDA Gth (%)	1.7	19.1	14.8	24.5	26.0
Opg Profit Gth (%)	5.5	16.6	17.2	12.9	21.3
Net Profit Gth (%)	2.2	23.0	13.1	16.5	21.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	36.2	30.6	31.4	31.5	32.3
Opg Profit Margin (%)	9.0	9.3	9.5	9.5	10.3
Net Profit Margin (%)	7.3	8.0	7.8	8.1	8.8
ROAE (%)	117.0	136.9	154.8	180.3	219.2
ROA (%)	10.0	8.6	9.3	10.2	11.8
ROCE (%)	15.7	12.2	13.2	14.6	16.8
Div Payout Ratio (%)	74.6	65.0	66.5	66.7	66.7
Net Interest Cover (x)	46.5	NM	NM	NM	NM

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	47,344	49,542	56,294	53,850	63,213
Cost of Goods Sold	(29,275)	(32,530)	(35,238)	(41,179)	(42,049)
<b>Gross Profit</b>	<b>18,069</b>	<b>17,011</b>	<b>21,056</b>	<b>12,671</b>	<b>21,164</b>
Other Oper. (Exp)/Inc	(13,203)	(13,131)	(14,705)	(8,821)	(14,079)
<b>Operating Profit</b>	<b>4,866</b>	<b>3,880</b>	<b>6,351</b>	<b>3,850</b>	<b>7,085</b>
Other Non Opg (Exp)/Inc	(421)	13	(92)	(26)	(226)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(84)	(104)	36	(7)	240
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,361</b>	<b>3,788</b>	<b>6,295</b>	<b>3,817</b>	<b>7,099</b>
Tax	(604)	(446)	(975)	(405)	(960)
Minority Interest	22	(1)	(2)	29	7

## Inner Mongolia Yili Industrial

<b>Net Profit</b>	<b>3,779</b>	<b>3,341</b>	<b>5,318</b>	<b>3,441</b>	<b>6,146</b>
Net profit bef Except.	3,779	3,341	5,318	3,441	6,146
<b>Growth</b>					
Revenue Gth (%)	5.3	9.5	18.9	8.7	12.3
Opg Profit Gth (%)	10.6	(0.2)	30.5	(0.8)	11.6
Net Profit Gth (%)	(1.0)	6.0	40.7	3.0	15.6
<b>Margins</b>					
Gross Margins (%)	38.2	34.3	37.4	23.5	33.5
Opg Profit Margins (%)	10.3	7.8	11.3	7.2	11.2
Net Profit Margins (%)	8.0	6.7	9.4	6.4	9.7

Source: Company, DBS HK

## Inner Mongolia Yili Industrial

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	5,425	6,231	12,102	17,316	22,103
Invt in Associates & JVs	6,532	8,025	7,925	7,825	7,725
Other LT Assets	30,817	37,551	37,451	37,351	37,251
Cash & ST Invt	11,695	31,742	29,460	28,303	28,354
Inventory	7,545	9,015	10,222	11,518	12,748
Debtors	1,759	2,107	2,418	2,729	3,054
Other Current Assets	7,381	7,290	7,494	7,712	7,919
<b>Total Assets</b>	<b>71,154</b>	<b>101,962</b>	<b>107,073</b>	<b>112,754</b>	<b>119,156</b>
ST Debt	7,812	13,264	13,164	13,064	12,964
Creditors	11,376	13,660	15,597	17,573	19,451
Other Current Liab	15,580	16,372	15,970	15,970	15,970
LT Debt	5,137	8,568	8,568	8,568	8,568
Other LT Liabilities	716	1,307	1,307	1,307	1,307
Shareholder's Equity	6,083	6,400	6,400	6,400	6,400
Minority Interests	24,450	42,391	46,066	49,871	54,496
<b>Total Cap. &amp; Liab.</b>	<b>71,154</b>	<b>101,962</b>	<b>107,073</b>	<b>112,754</b>	<b>119,156</b>
Non-Cash Wkg. Capital	(10,271)	(11,619)	(11,434)	(11,585)	(11,699)
Net Cash/(Debt)	(1,254)	9,910	7,728	6,671	6,822
Debtors Turn (avg days)	6.6	7.0	7.0	7.0	7.0
Creditors Turn (avg days)	68.8	66.7	67.0	68.1	68.8
Inventory Turn (avg days)	45.7	44.0	43.9	44.6	45.1
Asset Turnover (x)	1.4	1.1	1.2	1.3	1.3
Current Ratio (x)	0.8	1.2	1.1	1.1	1.1
Quick Ratio (x)	0.4	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	CASH	CASH	CASH	CASH
Capex to Debt (%)	50.2	30.4	35.0	39.8	44.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	8,150	10,112	11,735	13,379	16,262
Dep. & Amort.	1,491	1,619	1,745	3,389	4,849
Tax Paid	(1,051)	(1,380)	(1,878)	(1,873)	(2,277)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	1,284	690	217	152	114
Other Operating CF	(21)	4,486	0	0	0
<b>Net Operating CF</b>	<b>9,852</b>	<b>15,528</b>	<b>11,819</b>	<b>15,046</b>	<b>18,948</b>
Capital Exp.(net)	(6,500)	(6,644)	(7,616)	(8,602)	(9,636)
Other Invt.(net)	(2,522)	(657)	100	100	100
Invt in Assoc. & JV	2	0	100	100	100
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(23)	(496)	0	0	0
<b>Net Investing CF</b>	<b>(9,043)</b>	<b>(7,797)</b>	<b>(7,416)</b>	<b>(8,402)</b>	<b>(9,436)</b>
Div Paid	(5,310)	(5,693)	(6,585)	(7,701)	(9,361)
Chg in Gross Debt	5,122	4,981	(100)	(100)	(100)
Capital Issues	0	0	0	0	0
Other Financing CF	(2,372)	10,143	(2,514)	(2,514)	(2,514)
<b>Net Financing CF</b>	<b>(2,560)</b>	<b>9,431</b>	<b>(9,199)</b>	<b>(10,315)</b>	<b>(11,975)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,752)	17,162	(4,796)	(3,671)	(2,463)
Opg CFPS (RMB)	1.42	2.44	1.90	2.42	3.05
Free CFPS (RMB)	0.55	1.46	0.69	1.05	1.51

Source: Company, DBS HK

## Inner Mongolia Yili Industrial

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Nov-21	RMB42.56	RMB52.00	Buy
2:	21-Jan-22	RMB40.06	RMB52.00	Buy
3:	9-Feb-22	RMB38.76	RMB52.00	Buy
4:	29-Apr-22	RMB38.06	RMB52.90	Buy

Source: DBS HK

Analyst: Alison Fok

Mavis Hui

Alice Hui



## Inner Mongolia Yili Industrial

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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

Completed Date: 1 Sep 2022 13:09:43 (HKT)

Dissemination Date: 1 Sep 2022 14:54:58 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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