



# Yili (600887 CH) Leading the market amid challenges

- Revenue growth across product segments is expected to diverge, and the lower growth of liquid milk segment would continue to weigh on overall growth
- Leading position in multiple product categories in 1H23 shows the Group's strong competitiveness
- Margin profile to be impacted by the macroeconomic challenges
- Maintain **BUY**; current TP represents 19.83x/17.41 23E/24E P/E, or 3.72x/3.43x 23E/24E P/B

**Liquid milk segment to weigh on growth.** Revenue growth slowed to 4.3% YoY in 1H23 vs. 12.3% YoY in 1H22. Revenue of ice cream products and milk formula products increased 25.5% YoY and 12.0% YoY, while the revenue of liquid milk products decreased 1.1% YoY. Revenue decline in the liquid milk segment, which contributed to 64.8% of total revenue, was the major cause of the growth slowdown in 1H23. Nonetheless, the Group maintained its leading position across product categories. According to the Group, in 1H23, it had the highest market share in the liquid milk products retail market; its market shares in the infant and adult milk formula retail market were ~13.6% and ~23.8%; its market share in the cheese products retail market was ~17.2%. Uncertainty of income growth prospects resulted from the slowing economy drove down consumer demand in 1H23 and slashed revenue growth. While demand-side pressure is likely to persist, we believe consumption would improve gradually on new policies to support the economy. We project Yili's FY23E revenue growth to reach 7.7% YoY; revenue growth of liquid milk segment, milk formula segment, and ice cream segment are projected at 3.5% YoY, 23.4% YoY, and 15.9% YoY. FY22-25 revenue CAGR would be 8.9%.

**Improvement in margins stalled by macroeconomic challenges.** In 1H23, GPM and NPM (to shareholders of the Company) reached 33.4% and 9.5% vs. 33.7% and 9.7% in 1H22; GPM of liquid milk segment moved up slightly while GPM of ice cream and milk formula segments retreated. The weakened consumer market weighed on overall margins. The diverging GPM performance among product segments also reflects the difficulty in premiumization against the recent decline in raw milk price. We project GPM and NPM (to shareholders of the Company) to reach 32.7% and 7.6% in FY23E; GPM of liquid milk, ice cream, and milk formula segments are estimated at 29.8%, 39.7%, and 37.3%.

**Maintain BUY; TP at RMB 31.2.** With the Group's sustained leadership despite a lackluster consumer market, we believe it would be quick to resume growth once market condition recovers. Maintain **BUY**. We lower our DCF-derived TP mainly due to the lower revenue and profit projections adjusted based on the 1H23 performance. Current TP represents 19.83x/17.41 23E/24E P/E, or 3.72x/3.43x 23E/24E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Fluctuation of raw material prices; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes.

## Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	110,595	123,171	132,651	145,276	158,914
Chg (% YoY)	14.2	11.4	7.7	9.5	9.4
Net Profit (to owners of the Company) (RMB mn)	8,705	9,431	10,016	11,411	12,953
Chg (% YoY)	23.0	8.3	6.2	13.9	13.5
Basic EPS (RMB)	1.43	1.48	1.57	1.79	2.03
Chg (% YoY)	22.2	3.5	6.3	13.9	13.5
P/E (x)	18.49	17.86	16.81	14.75	13.00
BVPS (RMB)	7.45	7.85	8.40	9.09	9.87
P/B (x)	3.55	3.37	3.15	2.91	2.68
DPS (RMB)	0.96	1.04	1.09	1.26	1.43
Yield (%)	3.6	3.9	4.1	4.8	5.4
ROAA (%)	10.1	8.1	7.3	8.0	8.8
ROAE (%)	22.3	19.3	19.3	20.5	21.5

Source(s): Bloomberg, ABCI Securities estimates

## Company Report Sep 5, 2023 Rating: BUY TP: RMB 31.2

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Share price (RMB)	26.44
52Wk H/L(RMB)	34.1/24.51
Est. share price return	18.0%
Est. dividend yield	4.1%
Est. total return	22.1%
Previous Rating & TP	BUY; RMB 35.8
Previous report date	Nov 5, 2022

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (bn)	6.4
Market cap (RMB bn)	168.3
3-mth ADT (RMB mn)	940.6

### Major shareholders (%)

HK Securities Clearing Co	15.83
Hohhot Investment Co Ltd	8.46
Pan Gang	4.50

Source(s): Bloomberg, Company

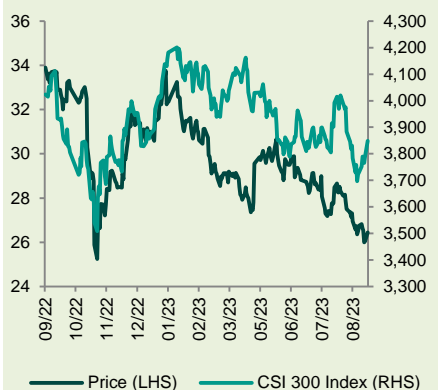
### Sector Performance (%)

	Absolute	Relative*
1-mth	(7.26)	(3.36)
3-mth	(11.16)	(10.82)
6-mth	(14.87)	(8.06)

\* Relative to CSI 300 Index

Source(s): Bloomberg, ABCI Securities

### 1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

\* All pricing and market data as of Sep 4 2023



**Exhibit 1: Changes in assumptions, projections, and valuations**

FY ends at Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
<b>Assumptions</b>					
D/E (%)	87.2	76.9	71.2	62.9	Adjusted based on 1H23 company releases
D/A (%)	35.2	33.1	29.4	26.2	
Tax rate (%)	13.4	13.3	13.6	13.6	
<b>Valuations</b>					
TP (RMB)	31.2		35.8		Lower TP is due to lower revenue and profit level forecasts
P/E (x)	19.83	17.41	18.55	15.93	
P/B (x)	3.72	3.43	4.35	4.02	

Note: Previous report was published on Nov 9, 2022

Source(s): ABCI Securities estimates

**Exhibit 2: Changes in major forecasts**

As of Dec 31	Current report			Previous report			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue (RMB mn)	132,651	145,276	158,914	140,108	157,289	N/A	(5.3)	(7.6)	N/A
Net profit (to shareholders of the Company) (RMB mn)	10,016	11,411	12,953	12,350	14,381	N/A	(18.9)	(20.6)	N/A
Basic EPS (RMB)	1.57	1.79	2.03	1.93	2.25	N/A	(18.5)	(20.2)	N/A

Source(s): ABCI Securities estimates

## Financial Statements

### Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>110,595</b>	<b>123,171</b>	<b>132,651</b>	<b>145,276</b>	<b>158,914</b>
- Core revenue	<b>108,462</b>	<b>121,149</b>	<b>130,689</b>	<b>143,310</b>	<b>157,143</b>
- Liquid milk	84,911	84,926	87,915	94,385	99,553
- Ice cream	7,161	9,567	11,807	13,287	15,310
- Milk formula and milk products	16,209	26,260	30,444	35,394	42,013
- Non-core revenue	<b>1,681</b>	<b>1,549</b>	<b>1,153</b>	<b>1,206</b>	<b>1,461</b>
- Interest income	<b>451</b>	<b>473</b>	<b>810</b>	<b>759</b>	<b>310</b>
COGS	(76,417)	(83,119)	(89,243)	(97,303)	(105,634)
<b>Gross profit</b>	<b>34,178</b>	<b>40,052</b>	<b>43,408</b>	<b>47,973</b>	<b>53,280</b>
- Core gross profit	<b>33,342</b>	<b>39,275</b>	<b>42,353</b>	<b>46,967</b>	<b>52,665</b>
- Liquid milk	24,057	24,725	26,199	28,305	30,345
- Ice cream	2,884	3,799	4,690	5,311	6,332
- Milk formula and milk products	6,358	8,997	11,356	13,298	15,934
- Non-core gross profit	<b>385</b>	<b>304</b>	<b>245</b>	<b>247</b>	<b>305</b>
- Gross profit on interest income	<b>451</b>	<b>473</b>	<b>810</b>	<b>759</b>	<b>310</b>
Business tax and levies	(664)	(742)	(812)	(892)	(962)
S&D expenses	(19,315)	(22,908)	(24,464)	(26,909)	(29,767)
Admin expenses	(4,227)	(5,343)	(5,701)	(6,102)	(6,675)
R&D expenses	(601)	(822)	(907)	(981)	(1,080)
<b>Operating profit</b>	<b>9,372</b>	<b>10,238</b>	<b>11,524</b>	<b>13,089</b>	<b>14,796</b>
Finance costs	29	255	(276)	(442)	(1,293)
Others	711	137	338	545	1,409
<b>Pretax profit</b>	<b>10,112</b>	<b>10,630</b>	<b>11,586</b>	<b>13,192</b>	<b>14,912</b>
Tax	(1,380)	(1,312)	(1,549)	(1,758)	(1,932)
<b>Net profit</b>	<b>8,732</b>	<b>9,318</b>	<b>10,037</b>	<b>11,434</b>	<b>12,979</b>
- Profit attributable to shareholders	8,705	9,431	10,016	11,411	12,953
- Minority interest	27	(113)	20	23	26
<b>Cash dividend</b>	<b>6,144</b>	<b>6,631</b>	<b>6,961</b>	<b>8,012</b>	<b>9,087</b>
<b>EPS (RMB)</b>					
- Basic	1.43	1.48	1.57	1.79	2.03
- Diluted	1.43	1.48	1.57	1.79	2.03
<b>Cash DPS (RMB)</b>	<b>0.96</b>	<b>1.04</b>	<b>1.09</b>	<b>1.26</b>	<b>1.43</b>

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet**

<b>FY ends at Dec 31 (RMB mn)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Cash and cash equivalent	31,742	33,853	34,275	26,626	29,140
Trade and bills receivable	2,107	3,250	3,206	3,565	4,366
Inventory	8,917	14,836	16,449	18,287	19,306
Others	7,388	9,524	8,727	10,660	9,675
<b>Total current assets</b>	<b>50,155</b>	<b>61,463</b>	<b>62,658</b>	<b>59,139</b>	<b>62,486</b>
PP&E	29,379	33,735	34,804	35,782	36,845
Goodwill	306	4,954	5,261	5,261	5,261
LT Biological assets	1,777	1,776	1,954	2,149	2,364
Others	20,345	29,037	37,789	41,870	44,591
<b>Total non-current assets</b>	<b>51,807</b>	<b>69,502</b>	<b>79,807</b>	<b>85,062</b>	<b>89,060</b>
<b>Total assets</b>	<b>101,962</b>	<b>130,965</b>	<b>142,465</b>	<b>144,201</b>	<b>151,546</b>
Trade and bills payable	14,062	16,807	16,868	15,940	18,911
ST borrowings	12,596	26,799	32,159	30,551	29,024
Others	16,638	18,563	16,774	17,818	19,551
<b>Total current liabilities</b>	<b>43,296</b>	<b>62,170</b>	<b>65,802</b>	<b>64,309</b>	<b>67,485</b>
LT Borrowings	5,380	9,298	13,017	12,367	11,748
Bonds payable	3,188	3,482	3,343	3,209	3,081
Others	1,307	1,872	2,783	2,322	2,271
<b>Total non-current liabilities</b>	<b>9,875</b>	<b>14,653</b>	<b>19,143</b>	<b>17,898</b>	<b>17,101</b>
Shareholders' equity	47,708	50,268	53,448	57,898	62,839
Minority interest	1,083	3,875	4,072	4,095	4,122
<b>Total equity</b>	<b>48,791</b>	<b>54,143</b>	<b>57,520</b>	<b>61,993</b>	<b>66,960</b>
<b>Total liabilities and equity</b>	<b>101,962</b>	<b>130,965</b>	<b>142,465</b>	<b>144,201</b>	<b>151,546</b>

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement**

<b>FY ends at Dec 31 (RMB mn)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net profit	8,732	9,318	10,037	11,434	12,979
Depreciation and amortization	3,421	4,068	3,864	4,142	4,178
Change in working capital	2,089	(2,234)	(564)	(2,284)	1,630
Others	1,286	2,268	3,160	3,240	(45)
<b>Cash flow from operating activities</b>	<b>15,528</b>	<b>13,420</b>	<b>16,497</b>	<b>16,532</b>	<b>18,743</b>
Change in PP&E, intangible assets, and other non-current assets	(6,644)	(5,950)	(13,533)	(14,166)	(13,444)
Others	(1,153)	(13,564)	(8,508)	(4,733)	2,935
<b>Cash flow from investing activities</b>	<b>(7,797)</b>	<b>(19,514)</b>	<b>(22,041)</b>	<b>(18,899)</b>	<b>(10,508)</b>
Change in borrowings	4,981	16,670	9,847	(2,471)	(2,349)
Cash flow related to dividend payment, interest payment, or profit distribution	(5,693)	(7,500)	(4,956)	(5,945)	(7,162)
Others	12,657	(389)	1,544	3,330	4,127
<b>Cash flow from financing activities</b>	<b>11,945</b>	<b>8,781</b>	<b>6,436</b>	<b>(5,087)</b>	<b>(5,384)</b>
<b>Net change in cash</b>	<b>19,676</b>	<b>2,688</b>	<b>892</b>	<b>(7,454)</b>	<b>2,850</b>
ForEx effect	(29)	(580)	(235)	(281)	(366)
<b>Cash and cash equivalent - end</b>	<b>31,080</b>	<b>33,188</b>	<b>33,845</b>	<b>26,110</b>	<b>28,595</b>

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Growth (YoY %)</b>					
Revenue	14.2	11.4	7.7	9.5	9.4
Core revenue	13.8	11.7	7.9	9.7	9.7
- Liquid milk	11.5	0.0	3.5	7.4	5.5
- Ice cream	16.3	33.6	23.4	12.5	15.2
- Milk formula and milk products	25.8	62.0	15.9	16.3	18.7
Gross profit	16.1	17.2	8.4	10.5	11.1
Core gross profit	15.5	17.8	7.8	10.9	12.1
- Liquid milk	13.2	2.8	6.0	8.0	7.2
- Ice cream	14.6	31.7	23.4	13.3	19.2
- Milk formula and milk products	25.9	41.5	26.2	17.1	19.8
Operating profit	22.8	9.2	12.6	13.6	13.0
Pretax Profit	24.1	5.1	9.0	13.9	13.0
Net profit (to owners of the Company)	23.0	8.3	6.2	13.9	13.5
<b>Profitability ratios (%)</b>					
GPM	30.9	32.5	32.7	33.0	33.5
Core-GPM	30.7	32.4	32.4	32.8	33.5
- Liquid milk	28.3	29.1	29.8	30.0	30.5
- Ice cream	40.3	39.7	39.7	40.0	41.4
- Milk formula and milk products	39.2	34.3	37.3	37.6	37.9
OPM	8.5	8.3	8.7	9.0	9.3
Pretax margin	9.1	8.6	8.7	9.1	9.4
NPM (to owners of the Group)	7.9	7.7	7.6	7.9	8.2
<b>Revenue contribution (%)</b>					
Core revenue/ total revenue	98.1	98.4	98.5	98.6	98.9
Core revenue composition					
- Liquid milk	78.3	70.1	67.3	65.9	63.4
- Ice cream	6.6	7.9	9.0	9.3	9.7
- Milk formula and milk products	14.9	21.7	23.3	24.7	26.7
<b>Return ratios (%)</b>					
ROAA	10.1	8.1	7.3	8.0	8.8
ROAE	22.3	19.3	19.3	20.5	21.5
<b>Liquidity ratio (x)</b>					
Current ratio	1.2	1.0	1.0	0.9	0.9
Quick ratio	1.0	0.8	0.7	0.6	0.6
Cash ratio	0.7	0.5	0.5	0.4	0.4
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	6	7	8	8	9
Days of inventory on hand	40	53	65	66	66
Days of outstanding payable	60	62	64	58	57
CCC	(14)	(1)	9	16	17
<b>Leverage ratios (%)</b>					
Total debt/Equity	44.5	74.4	87.2	76.9	67.7
Total debt/Total assets	21.3	30.8	35.2	33.1	29.9
Net debt or (cash)/Equity	(20.6)	11.9	27.6	34.0	24.2
Net debt or (cash)/Total assets	(9.9)	4.9	11.1	14.6	10.7

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return $\geq$ Market return rate (~9%)
Hold	- Market return (~-9%) $\leq$ Stock return < Market return rate (~+9%)
Sell	Stock return < - Market return (~-9%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2006 (HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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