



Yili (600887 CH) Positive sign for margin improvement

- Revenue growth in 3Q23 showed continuous consumption recovery, benefiting sales momentum of liquid milk products; milk formula segment will benefit from the infant milk formula registration mechanism as it strengthens the Group's leading position in the market in the longer run
- Margins to benefit from the Group's ability to maintain cost efficiency, and we raise our margin and profit level projections accordingly
- Maintain **BUY**; current TP represents 19.14x/17.36x 23E/24E P/E, or 3.82x/3.53x 23E/24E P/B

Revenue growth recovery in FY24E. Overall revenue growth was 2.7% YoY in 3Q23 vs. 1.1% YoY in 2Q23. Growth in liquid milk products have resumed while the other two product segments saw revenue decline in 3Q23; revenue change of liquid milk, ice cream, and milk formula & other products segments were 8.5% YoY, -35.7% YoY, and -3.9% YoY. According to the Group, the consumer market recovery help elevated the revenue growth of liquid milk product segment; sales of the milk formula products were impacted by residual impact of destocking of other smaller brands amid implementation of product registration policy. We expect the Group to benefit from the continued recovery of consumption and the potential increase in newborns in 2024 as many Chinese favor birth in the year of dragon. We expect the Group's revenue to rise 4.4% YoY for FY23E. Revenues of liquid milk, ice cream, and milk formula & other products segments are expected to grow 2.8% YoY, 17.0% YoY, and 4.6% YoY for the same period. FY22-25E revenue CAGR would be 7.1%.

Margin to improve on cost efficiency. 3Q23 margin profile remained stable compared to previous quarters. 3Q23 SG&A/revenue ratio was slightly lower than 2Q23, despite improvement in revenue growth momentum. The Group's ability in enhancing operating efficiency and taking advantage of low raw material costs both contributed to the stable margin profile and cost effectiveness. We expect the Group to maintain and enhance its cost efficiency, and overall margin profile would improve. We project GPM, OPM, and NPM (to shareholders of the Company) to be 32.9%, 9.3%, and 8.3% in FY23E.

Maintain BUY; TP at RMB 32.0. We believe recovery in the liquid milk segment in 3Q23 is a positive sign of growth revival, the infant formula registration mechanism would strengthen the Group's leadership position, and profit level is expected to rise on the Group's ability to improve cost efficiency. Maintain **BUY**. We raised our DCF-derived TP to reflect the higher profit level projections. Current TP represents 19.14x/17.36x 23E/24E P/E, or 3.82x/3.53x 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	128,580	140,146	151,141
Chg (% YoY)	14.2	11.4	4.4	9.0	7.8
Net Profit (to owners of the Company) (RMB mn)	8,705	9,431	10,647	11,734	12,961
Chg (% YoY)	23.0	8.3	12.9	10.2	10.5
Basic EPS (RMB)	1.43	1.48	1.67	1.84	2.04
Chg (% YoY)	22.2	3.5	13.0	10.2	10.5
P/E (x)	19.06	18.42	16.30	14.79	13.39
BVPS (RMB)	7.45	7.85	8.38	9.06	9.81
P/B (x)	3.66	3.47	3.25	3.01	2.78
DPS (RMB)	0.96	1.04	1.16	1.29	1.43
Yield (%)	3.5	3.8	4.3	4.7	5.2
ROAA (%)	10.1	8.1	7.7	8.0	8.6
ROAE (%)	22.3	19.3	20.5	21.1	21.6

Source(s): Bloomberg, ABCI Securities estimates

Company Report Nov 16, 2023 Rating: BUY TP: RMB 32.0

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Share price (RMB)	27.26
52Wk H/L (RMB)	33.8/25.2
Est. share price return	17.4%
Est. dividend yield	4.3%
Est. total return	21.7%
Previous Rating & TP	BUY; RMB 31.2
Previous report date	Sep 5, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	6.4
Market cap (RMB bn)	173.5
3-mth ADT (RMB mn)	918.4

Major shareholders

HK Securities Clearing Co	13.54
Hohhot Investment Co Ltd	8.46
Pan Gang	4.50

Source(s): Bloomberg, the Company

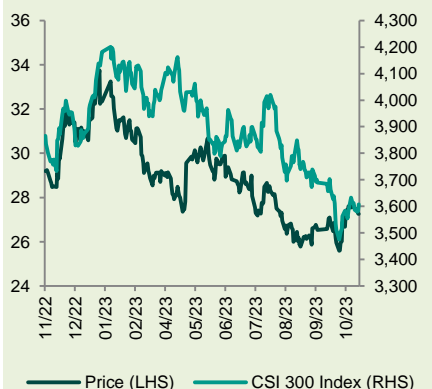
Sector Performance (%)

	Absolute	Relative*
1-mth	1.5	3.1
3-mth	(0.4)	6.0
6-mth	(8.4)	0.0

* 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 Nov 15, 2023



Exhibit 1: Changes in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
Assumptions					
D/E (%)	94.9	84.4	87.2	76.9	Adjusted based on 3Q23 company releases
D/A (%)	37.7	35.1	35.2	33.1	
Tax rate (%)	13.4	13.3	13.4	13.3	
Valuations					
TP (RMB)	32.0		31.2		Higher TP is due to higher profit level forecasts
P/E (x)	19.14	17.36	19.83	17.41	
P/B (x)	3.82	3.53	3.72	3.43	

Note: Previous report was published on Sep 5, 2023

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)	128,580	140,146	151,141	132,651	145,276	158,914	(3.1)	(3.5)	(4.9)
Net profit (to shareholders of the Company) (RMB mn)	10,647	11,734	12,961	10,016	11,411	12,953	6.3	2.8	0.1
Basic EPS (RMB)	1.67	1.84	2.04	1.57	1.79	2.03	6.3	2.8	0.1

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
Revenue	110,595	123,171	128,580	140,146	151,141
- Core revenue	108,462	121,149	126,608	138,118	149,387
- Liquid milk	84,911	84,926	87,312	93,192	98,588
- Ice cream	7,161	9,567	11,192	12,708	14,433
- Milk formula and milk products	16,209	26,260	27,471	31,528	35,620
- Non-core revenue	1,681	1,549	1,117	1,163	1,389
- Interest income	451	473	856	865	365
COGS	(76,417)	(83,119)	(86,301)	(93,579)	(100,006)
Gross profit	34,178	40,052	42,279	46,567	51,135
- Core gross profit	33,342	39,275	41,186	45,492	50,564
- Liquid milk	24,057	24,725	25,824	27,697	30,076
- Ice cream	2,884	3,681	4,287	4,903	5,736
- Milk formula and milk products	6,358	10,784	10,944	12,744	14,604
- Non-core gross profit	385	304	237	210	206
- Gross profit on interest income	451	473	856	865	365
Business tax and levies	(664)	(742)	(705)	(787)	(850)
S&D expenses	(19,315)	(22,908)	(23,293)	(25,514)	(27,624)
Admin expenses	(4,227)	(5,343)	(5,526)	(6,006)	(6,477)
R&D expenses	(601)	(822)	(848)	(930)	(1,000)
Operating profit	9,372	10,238	11,907	13,331	15,184
Finance costs	29	255	316	100	(738)
Others	711	137	92	134	524
Pretax profit	10,112	10,630	12,315	13,565	14,970
Tax	(1,380)	(1,312)	(1,646)	(1,807)	(1,983)
Net profit	8,732	9,318	10,668	11,758	12,987
- Profit attributable to shareholders	8,705	9,431	10,647	11,734	12,961
- Minority interest	27	(113)	22	24	26
Cash dividend	6,144	6,631	7,399	8,239	9,092
EPS (RMB)					
- Basic	1.43	1.48	1.67	1.84	2.04
- Diluted	1.43	1.48	1.67	1.84	2.04
Cash DPS (RMB)	0.96	1.04	1.16	1.29	1.43

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalent	31,742	33,853	38,118	31,277	32,003
Trade and bills receivable	2,107	3,250	3,008	3,524	4,019
Inventory	8,917	14,836	15,418	17,989	17,601
Others	7,388	9,524	8,255	10,622	8,857
Total current assets	50,155	61,463	64,799	63,413	62,479
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	37,675	41,845	44,415
Total non-current assets	51,807	69,502	79,693	85,037	88,885
Total assets	101,962	130,965	144,493	148,450	151,364
Trade and bills payable	14,062	16,807	15,391	16,420	16,098
ST borrowings	12,596	26,799	34,839	33,097	31,442
Others	16,638	18,563	16,295	17,591	18,731
Total current liabilities	43,296	62,170	66,526	67,108	66,271
LT Borrowings	5,380	9,298	14,412	13,980	13,281
Bonds payable	3,188	3,482	3,447	3,310	3,177
Others	1,307	1,872	2,716	2,303	2,137
Total non-current liabilities	9,875	14,653	20,576	19,593	18,595
Shareholders' equity	47,708	50,268	53,375	57,709	62,431
Minority interest	1,083	3,875	4,017	4,040	4,067
Total equity	48,791	54,143	57,391	61,749	66,497
Total liabilities and equity	101,962	130,965	144,493	148,450	151,364

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit	8,732	9,318	10,668	11,758	12,987
Depreciation and amortization	3,421	4,068	3,862	4,140	4,176
Change in working capital	2,089	(2,234)	(1,126)	(1,076)	(327)
Others	1,286	2,268	2,335	2,683	615
Cash flow from operating activities	15,528	13,420	15,740	17,505	17,451
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)	(7,268)	(4,466)	2,990
Cash flow from investing activities	(7,797)	(19,514)	(20,802)	(18,632)	(10,453)
Change in borrowings	4,981	16,670	14,177	(2,369)	(2,569)
Cash flow related to dividend payment, interest payment, or profit distribution	(5,693)	(7,500)	(5,972)	(6,521)	(7,456)
Others	12,657	(389)	1,544	3,330	4,127
Cash flow from financing activities	11,945	8,781	9,749	(5,561)	(5,899)
Net change in cash	19,676	2,688	4,687	(6,688)	1,099
ForEx effect	(29)	(580)	(235)	(281)	(366)
Cash and cash equivalent - end	31,080	33,188	37,640	30,671	31,404

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
Growth (YoY %)					
Revenue	14.2	11.4	4.4	9.0	7.8
Core revenue	13.8	11.7	4.5	9.1	8.2
- Liquid milk	11.5	0.0	2.8	6.7	5.8
- Ice cream	16.3	33.6	17.0	13.5	13.6
- Milk formula and milk products	25.8	62.0	4.6	14.8	13.0
Gross profit	16.1	17.2	5.6	10.1	9.8
Core gross profit	15.5	17.8	4.9	10.5	11.1
- Liquid milk	13.2	2.8	4.4	7.3	8.6
- Ice cream	14.6	27.7	16.4	14.4	17.0
- Milk formula and milk products	25.9	69.6	1.5	16.4	14.6
Operating profit	22.8	9.2	16.3	12.0	13.9
Pretax Profit	24.1	5.1	15.8	10.2	10.4
Net profit (to owners of the Company)	23.0	8.3	12.9	10.2	10.5
Profitability ratios (%)					
GPM	30.9	32.5	32.9	33.2	33.8
Core-GPM	30.7	32.4	32.5	32.9	33.8
- Liquid milk	28.3	29.1	29.6	29.7	30.5
- Ice cream	40.3	38.5	38.3	38.6	39.7
- Milk formula and milk products	39.2	41.1	39.8	40.4	41.0
OPM	8.5	8.3	9.3	9.5	10.0
Pretax margin	9.1	8.6	9.6	9.7	9.9
NPM (to owners of the Group)	7.9	7.7	8.3	8.4	8.6
Revenue contribution (%)					
Core revenue/ total revenue	98.1	98.4	98.5	98.6	98.8
Core revenue composition					
- Liquid milk	78.3	70.1	69.0	67.5	66.0
- Ice cream	6.6	7.9	8.8	9.2	9.7
- Milk formula and milk products	14.9	21.7	21.7	22.8	23.8
Return ratios (%)					
ROAA	10.1	8.1	7.7	8.0	8.6
ROAE	22.3	19.3	20.5	21.1	21.6
Liquidity ratio (x)					
Current ratio	1.2	1.0	1.0	0.9	0.9
Quick ratio	1.0	0.8	0.7	0.7	0.7
Cash ratio	0.7	0.5	0.6	0.5	0.5
Cash conversion cycle (days)					
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
Leverage ratios (%)					
Total debt/Equity	44.5	74.4	94.9	84.4	74.5
Total debt/Total assets	21.3	30.8	37.7	35.1	32.7
Net debt or (cash)/Equity	(20.6)	11.9	28.5	33.7	26.4
Net debt or (cash)/Total assets	(9.9)	4.9	11.3	14.0	11.6

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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