



Yili (600887 CH) Solid fundamentals to support EPS growth

- 2H22 revenue growth to accelerate on COVID containment and recovering consumer market
- Product portfolio adjustment, operational efficiency improvement, and sales channel expansion would help offset the effect of rising raw material costs, resulting in margin profile improvement in FY22E
- Maintain **BUY**; current TP represents 24.43x/20.96x 22E/23E P/E, or 6.16x/5.66x 22E/23E P/B

Higher revenue growth expected in 2H22. 1H22 revenue grew 12.3% YoY mainly due to the high growth of ice-cream segment (31.7% YoY) and milk powder and milk products segment (58.3% YoY). In contrast, 1H22 liquid milk segment revenue ticked up by only 1.1% YoY. Solid growth in ice-cream segment and consolidation impact of acquisition in milk powder & milk products segment have partially offset the negative COVID impacts. As the pandemic turns manageable, the Group will benefit from improving economy and recovery in the consumer market. We expect FY22E revenue to grow 16.7% YoY, and that of liquid milk, ice cream, and milk powder & milk products to increase 10.6% YoY, 19.8% YoY, and 49.3% YoY. Based on current projections, 2H22E overall revenue growth would be 21.2% YoY, which would be mainly supported by revenue growth of liquid milk and milk powder & milk products at 20.0% YoY and 41.2% YoY. We estimate a FY21-24E revenue CAGR of 13.0%, of which liquid milk, ice cream, and milk powder & milk products would expand at 9.3%, 13.1%, 30.7% CAGRs.

Margin profile to improve despite inflation in raw material costs. 1H22 GPM and NPM (to shareholders of the Company) were 33.7% and 9.7% vs. 32.2% and 9.4% in 1H21, meaning 2Q22 GPM, NPM (to shareholders of the Company) were 32.8% and 8.1% vs. 34.7% and 11.3% in 1Q22. Segment GPM of liquid milk, ice cream, and milk powder & milk products were 30.0%, 39.8%, and 43.1% in 1H22 vs. 35.0%, 49.1%, and 43.2% in 1H21. The deterioration was mainly due to the higher raw material costs resulting from rising global inflation and higher SG&A/revenue ratio of 23.5% in 2Q22 vs. 21.8% in 1Q22 amid COVID resurgence. We believe the rising raw material costs will persist in 2H22, but product portfolio adjustment, operational efficiency improvement, and sales channel expansion would support margins. We expect GPM and NPM (to shareholders of the Company) to be 32.3% and 8.6% for FY22E and 33.0% and 9.2% for FY24E. FY22E segment GPM of liquid milk, ice cream, and milk powder & milk products are expected to be 30.1%, 40.1%, and 36.8%.

Maintain BUY; TP at RMB 42.3. Our projection suggests basic EPS would grow by 21.1% YoY in FY22E and would achieve FY21-24E CAGR of 17.0%. Maintain **BUY** on strong EPS growth ahead. We lower our DCF-derived TP to reflect the lower revenue and profit levels. Current TP represents 24.43x/20.96x 22E/23E P/E, or 6.16x/5.66x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Rising raw material costs; 4) Regulatory/policy risk; 5) Product quality/safety risk; 6) Risk of changing consumer tastes.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	96,886	110,595	129,020	144,944	159,681
Chg (% YoY)	7.4	14.2	16.7	12.3	10.2
Net Profit (to owners of the Company) (RMB mn)	7,078	8,705	11,081	12,916	14,665
Chg (% YoY)	2.1	23.0	27.3	16.6	13.5
Basic EPS (RMB)	1.17	1.43	1.73	2.02	2.29
Chg (% YoY)	1.7	22.2	21.1	16.6	13.5
P/E (x)	29.53	24.16	19.95	17.12	15.08
BVPS (RMB)	5.00	7.45	6.87	7.47	8.16
P/B (x)	6.92	4.63	5.03	4.62	4.24
DPS (RMB)	0.82	0.96	1.22	1.42	1.61
Yield (%)	2.4	2.78	3.52	4.1	4.7
ROAA (%)	10.8	10.1	9.9	10.7	11.7
ROAE (%)	25.0	22.3	24.2	28.1	29.3

Source(s): The Group, ABCI Securities estimates

Company Report Sep 2, 2022 Rating: BUY TP: RMB 42.3

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (RMB)	34.55
52Wk H/L (RMB)	44.25/33.91
Est. share price return	22.4%
Est. dividend yield	3.5%
Est. total return	25.9%
Previous Rating & TP	BUY; RMB 44.6
Previous report date	May 4, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	6.4
Market cap (RMB bn)	221.1
3-mth ADT (RMB mn)	1,661.6

Major shareholders (%)

HK Securities Clearing Co	17.90
Hohhot Investment Co Ltd	8.41
Pan Gang	4.48

Source(s): Bloomberg, the Group

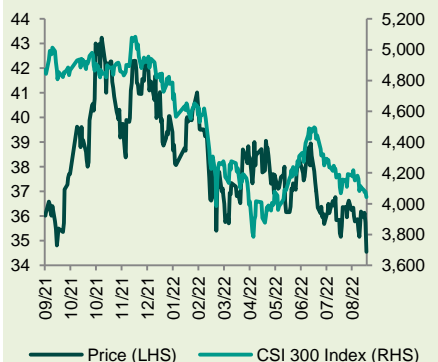
Price Performance (%)

	Absolute	Relative*
1-mth	(3.60)	(0.14)
3-mth	(5.60)	(4.64)
6-mth	(12.53)	(0.06)

* Relative to CSI 300 Index

Source(s): Bloomberg, ABCI Securities

1-yr price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Note: market data as of Sep 1, 2022.



Exhibit 1: Changes in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	68.5	55.5	48.0	40.7	Adjusted based on 1H22 rates
D/A (%)	27.2	24.0	22.7	20.4	
Tax rate (%)	13.6	13.6	13.6	13.6	
Valuations					
TP (RMB)	42.3		44.6		Lower TP is due to lower revenue and profit level forecasts
P/E (x)	24.43	20.96	24.11	19.08	
P/B (x)	6.16	5.66	4.76	4.43	

Note: Previous report was published on May 4, 2022
Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (RMB mn)	129,020	144,944	159,681	129,689	149,351	171,284	(0.5)	(3.0)	(6.8)
Net profit (to shareholders of the Company) (RMB mn)	11,081	12,916	14,665	11,840	14,957	18,311	(6.4)	(13.6)	(19.9)
Basic EPS (RMB)	1.73	2.02	2.29	1.85	2.34	2.86	(6.4)	(13.8)	(19.9)

Source(s): ABCI Securities estimates



Financial Statements of the Group

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	96,886	110,595	129,020	144,944	159,681
- Core revenue	95,345	108,462	126,992	143,004	157,730
- Liquid milk	76,123	84,911	93,882	102,292	110,917
- Ice cream	6,158	7,161	8,575	9,589	10,361
- Milk formula and milk products	12,885	16,209	24,192	30,866	36,185
- Non-core revenue	1,179	1,681	1,173	1,261	1,328
- Interest income	362	451	855	678	622
COGS	(67,453)	(76,417)	(87,289)	(97,729)	(107,026)
Gross profit	29,433	34,178	41,731	47,215	52,654
- Core gross profit	28,858	33,342	40,657	46,297	51,782
- Liquid milk	21,256	24,057	28,222	30,781	33,728
- Ice cream	2,517	2,884	3,440	3,862	4,316
- Milk formula and milk products	5,049	6,358	8,895	11,579	13,658
- Non-core gross profit	213	385	219	239	250
- Gross profit on interest income	362	451	855	678	622
Business tax and levies	(547)	(664)	(800)	(900)	(988)
S&D expenses	(16,884)	(19,315)	(22,676)	(25,193)	(27,772)
Admin expenses	(3,883)	(4,227)	(4,959)	(5,554)	(6,145)
R&D expenses	(487)	(601)	(675)	(773)	(843)
Operating profit	7,633	9,372	12,621	14,793	16,906
Finance costs	(188)	29	(260)	(430)	(492)
Others	705	711	509	635	617
Pretax profit	8,150	10,112	12,870	14,999	17,032
Tax	(1,051)	(1,380)	(1,754)	(2,043)	(2,321)
Net profit	7,099	8,732	11,116	12,956	14,711
- Profit attributable to shareholders	7,078	8,705	11,081	12,916	14,665
- Minority interest	21	27	35	40	46
Cash dividend	4,988	6,144	7,778	9,109	10,330
EPS (RMB)					
- Basic	1.17	1.43	1.73	2.02	2.29
- Diluted	1.18	1.43	1.73	2.02	2.29
Cash DPS (RMB)	0.82	0.96	1.22	1.42	1.61

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	11,695	31,742	31,298	22,684	24,049
Trade and bills receivable	1,759	2,107	3,303	3,396	3,558
Inventory	7,545	8,917	12,099	12,277	13,687
Others	7,381	7,388	7,801	8,791	8,563
Total current assets	28,381	50,155	54,500	47,147	49,857
PP&E	23,343	29,379	33,793	38,601	44,257
Goodwill	362	306	4,456	4,456	4,456
LT Biological assets	0	1,777	2,132	2,559	3,071
Others	19,069	20,345	26,043	27,227	29,538
Total non-current assets	42,774	51,807	66,424	72,843	81,321
Total assets	71,154	101,962	120,924	119,990	131,178
Trade and bills payable	11,636	14,062	16,433	16,582	20,167
ST borrowings	6,957	12,596	21,162	19,046	17,141
Others	16,176	16,638	23,894	22,476	27,674
Total current liabilities	34,768	43,296	61,489	58,104	64,982
LT Borrowings	1,375	5,380	6,502	5,916	5,384
Bonds payable	3,762	3,188	3,111	2,987	2,867
Others	716	1,307	1,790	1,063	1,599
Total non-current liabilities	5,853	9,875	11,403	9,966	9,850
Shareholders' equity	30,384	47,708	43,983	47,831	52,211
Minority interest	149	1,083	4,049	4,090	4,135
Total equity	30,533	48,791	48,033	51,920	56,346
Total liabilities and equity	71,154	101,962	120,924	119,990	131,178

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	7,099	8,732	11,116	12,956	14,711
Depreciation and amortization	2,442	3,421	3,346	4,049	4,658
Change in working capital	(557)	2,089	(1,191)	913	2,731
Others	867	1,286	2,021	2,156	2,043
Cash flow from operating activities	9,852	15,528	15,292	20,074	24,144
Change in PP&E, intangible assets, and other non-current assets	(6,500)	(6,644)	(11,713)	(14,294)	(16,629)
Others	(2,543)	(1,153)	(10,425)	(4,388)	1,324
Cash flow from investing activities	(9,043)	(7,797)	(22,138)	(18,682)	(15,305)
Change in borrowings	5,122	4,981	11,228	(4,081)	(2,622)
Cash flow related to dividend payment, interest payment, or profit distribution	(5,310)	(5,693)	(6,370)	(7,592)	(8,955)
Others	142	12,657	1,637	2,051	3,963
Cash flow from financing activities	(47)	11,945	6,495	(9,622)	(7,614)
Net change in cash	762	19,676	(352)	(8,230)	1,225
ForEx effect	(395)	(29)	(7)	(92)	(43)
Cash and cash equivalent - end	11,434	31,080	30,722	22,400	23,582

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	7.4	14.2	16.7	12.3	10.2
Core revenue	6.5	13.8	17.1	12.6	10.3
- Liquid milk	3.2	11.5	10.6	9.0	8.4
- Ice cream	9.3	16.3	19.8	11.8	8.0
- Milk formula and milk products	28.1	25.8	49.3	27.6	17.2
Gross profit	(13.0)	16.1	22.1	13.1	11.5
Core gross profit	(13.7)	15.5	21.9	13.9	11.8
- Liquid milk	(18.1)	13.2	17.3	9.1	9.6
- Ice cream	(3.9)	14.6	19.3	12.3	11.8
- Milk formula and milk products	4.3	25.9	39.9	30.2	17.9
Operating profit	3.1	22.8	34.7	17.2	14.3
Pretax Profit	(0.5)	24.1	27.3	16.5	13.6
Net profit (to owners of the Company)	2.1	23.0	27.3	16.6	13.5
Profitability ratios (%)					
GPM	30.4	30.9	32.3	32.6	33.0
Core-GPM	30.3	30.7	32.0	32.4	32.8
- Liquid milk	27.9	28.3	30.1	30.1	30.4
- Ice cream	40.9	40.3	40.1	40.3	41.7
- Milk formula and milk products	39.2	39.2	36.8	37.5	37.7
OPM	7.9	8.5	9.8	10.2	10.6
Pretax margin	8.4	9.1	10.0	10.3	10.7
NPM (to owners of the Group)	7.3	7.9	8.6	8.9	9.2
Revenue contribution (%)					
Core revenue/ total revenue	98.4	98.1	98.4	98.7	98.8
Core revenue composition					
- Liquid milk	79.8	78.3	73.9	71.5	70.3
- Ice cream	6.5	6.6	6.8	6.7	6.6
- Milk formula and milk products	13.5	14.9	19.0	21.6	22.9
Return ratios (%)					
ROAA	10.8	10.1	9.9	10.7	11.7
ROAE	25.0	22.3	24.2	28.1	29.3
Liquidity ratio (x)					
Current ratio	0.8	1.2	0.9	0.8	0.8
Quick ratio	0.6	1.0	0.7	0.6	0.6
Cash ratio	0.3	0.7	0.5	0.4	0.4
Cash conversion cycle (days)					
Days of outstanding receivable	6	6	7	8	7
Days of inventory on hand	42	40	44	46	45
Days of outstanding payable	60	60	60	60	60
CCC	(12)	(14)	(9)	(6)	(8)
Leverage ratios (%)					
Total debt/Equity	42.0	44.5	68.5	55.5	46.5
Total debt/Total assets	18.0	21.3	27.2	24.0	20.0
Net debt or (cash)/Equity	3.7	(20.6)	3.4	11.9	3.8
Net debt or (cash)/Total assets	1.6	(9.9)	1.3	5.1	1.7

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 10\%$)
Hold	- Market return ($\sim 10\%$) \leq Stock return $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2022 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: 852) 2868 2183**