



## Yili (600887 CH) Strong growth solidifies leadership

- 1Q21 revenue growth was 32.5% YoY, supported by low-base effect in 1Q20 and improving domestic economy & consumer market
- 1Q21 GPM, OPM, and NPM (to shareholders of the Company) improved to 37.9%, 11.1%, and 10.3%; growth of gross profit, operating profit, and net profit (to shareholders of the Company) reached 33.0% YoY, 106.5% YoY, and 147.7% YoY
- Expect revenue CAGR of 12.6% in FY20-23E and FY21E revenue growth at 10.5% YoY
- Maintain BUY; current TP represents 29.91x/24.60x 21E/22E P/E, or 8.36x/7.58x 21E/22E P/B

**Healthy revenue growth solidifies market leadership.** In FY20, revenue growth reached 7.4% YoY and revenue growth of liquid milk products, chilled products, and milk formula products was 3.2% YoY, 9.3% YoY, and 28.1% YoY. Revenue jumped 32.5% YoY in 1Q21, supported by low-base effect in 1Q20 and improving domestic economy & consumer market. The Group's revenue growth in FY20, compared to peers, shows resilience of the Group's business. (Mengniu's FY20 revenue declined by 3.8% YoY.) For FY21E, we expect the Group's revenue growth to reach 10.5% YoY, supported by revenue increase of liquid milk products, chilled products, and milk formula products at 6.2% YoY, 7.3% YoY, and 39.9% YoY. We expect FY20-23E revenue CAGR to be 12.6%; revenue CAGR of liquid milk products, chilled product, and milk formula products would be 7.0%, 8.8% and 40.2%.

**Margins are expected to improve.** GPM, OPM, and NPM (to shareholders of the Company) reached 36.2%, 7.9%, and 7.3% in FY20 vs 37.5%, 8.2%, and 7.7% in FY19. 1Q21 GPM, OPM, and NPM (to shareholders of the Company) improved to 37.9%, 11.1%, and 10.3%; gross profit, operating profit, and net profit (to shareholders of the Company) grew by 33.0% YoY, 106.5% YoY, and 147.7% YoY. The Group managed to lower SG&A/revenue ratio from 28.1% in FY19 to 27.3% in FY20 and 26.2% in 1Q21. We believe higher cost efficiency would continue to support margins. The Group can also offset potential higher raw material costs with the ability to adjust product portfolio and product pricing. We expect GPM, OPM, and NPM (to shareholders of the Company) to reach 38.0%, 10.0%, and 8.7% in FY21E and 39.6%, 12.8%, and 11.1% in FY23E. SG&A/revenue ratio would continue to support margin improvement, as we project the ratio would further decrease from 27.3% in FY20 to 26.9% in FY21E and 25.7% in FY23E.

**Maintain BUY; TP at RMB 45.6.** We believe the Group's ability to generate growth in FY20 had solidified its leading position in the market. Maintain **BUY**. We revise up our DCF-derived TP due to the stronger-than-peer FY20 performance and roll-over of our DCF forecast period. Current TP represents 29.91x/24.60x 21E/22E P/E, or 8.36x/7.58x 21E/22E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Commodity price risk; 3) Food safety risk; 4) M&A risk, 5) Investment risk; 6) Currency exchange risk; 7) Prolonged pandemic risk.

### Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	90,223	96,886	107,017	120,114	138,336
Chg (% YoY)	13.4	7.4	10.5	12.2	15.2
Net Profit (to owners of the Company) (RMB mn)	6,934	7,078	9,273	11,275	15,356
Chg (% YoY)	7.7	2.1	31.0	21.6	36.2
Basic EPS (RMB)	1.15	1.17	1.52	1.85	2.52
Chg (% YoY)	8.5	1.7	30.3	21.6	36.2
P/E (x)	33.71	33.14	25.43	20.92	15.36
BVPS (RMB)	4.30	5.00	5.45	6.01	6.75
P/B (x)	9.02	7.76	7.11	6.45	5.74
DPS (RMB)	0.81	0.82	1.07	1.30	1.80
Yield (%)	2.1	2.1	2.8	3.4	4.6
ROAA (%)	12.8	10.8	12.6	14.4	17.9
ROAE (%)	25.7	25.0	29.2	32.3	39.6

Source(s): Bloomberg, ABCI Securities estimates

## Company Report May 13, 2021 Rating: BUY TP: RMB 45.6

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Share price (RMB)	38.77
52Wk H/L(RMB)	51.85/27.55
Est. share price return	17.6%
Est. dividend yield	2.8%
Est. total return	20.4%
Previous Rating & TP	BUY; RMB35.4
Previous report date	Mar 18, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (mn)	6,082.63
Market cap (RMB mn)	235,823.36
3-mth ADT (RMB mn)	2,410.29

Major shareholders	(%)
HK Securities Clearing Co	12.34
Hohhot Investment Co Ltd	8.85
Pan Gang	4.71

Source(s): , Bloomberg, Company

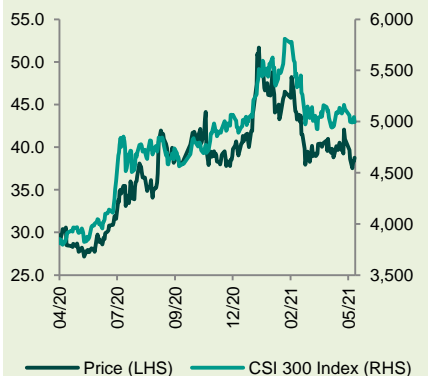
### Price Performance (%)

	Absolute	Relative*
1-mth	(2.59)	(3.78)
3-mth	(16.61)	(2.68)
6-mth	1.17	(1.77)

\* 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 closing of May 13, 2021

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

FY ends at Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
<b>Assumptions</b>					
D/E (%)	32.6	26.6	5.0	N/A	Adjusted based on FY20 rates
D/A (%)	14.4	12.1	3.4	N/A	
Tax rate (%)	13.6	13.6	14.9	N/A	
<b>Valuations</b>					
TP (RMB)	45.6		35.4		Revise up TP and valuation due to roll-over of DCF forecast period and strong FY20 growth performance
P/E (x)	29.91	24.60	22.84	N/A	
P/B (x)	8.36	7.58	5.55	N/A	

Note: Previous report was published on Mar 18, 2020

Source(s): The Company, ABCI Securities estimates

**Exhibit 2: Changes in major forecasts**

As of Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (RMB\$ mn)	107,017	120,114	117,308	N/A	(8.8)	N/A
Net profit (to shareholders of the Company) (RMB\$ mn)	9,273	11,275	9,423	N/A	(1.6)	N/A
EPS (RMB\$)	1.52	1.85	1.55	N/A	(1.6)	N/A

Source(s): ABCI Securities estimates



## Financial Statements

### Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>90,223</b>	<b>96,886</b>	<b>107,017</b>	<b>120,114</b>	<b>138,336</b>
- Core revenue	<b>89,509</b>	<b>95,345</b>	<b>105,638</b>	<b>118,655</b>	<b>136,822</b>
- Liquid milk	73,761	76,123	80,825	86,091	93,133
- Chilled product	5,631	6,158	6,607	7,214	7,934
- Milk formula	10,055	12,885	18,027	25,149	35,522
- Non-core revenue	<b>500</b>	<b>1,179</b>	<b>1,084</b>	<b>1,096</b>	<b>1,207</b>
- Interest income	<b>214</b>	<b>362</b>	<b>295</b>	<b>362</b>	<b>307</b>
COGS	(56,392)	(61,806)	(66,387)	(73,519)	(83,514)
<b>Gross profit</b>	<b>33,831</b>	<b>35,080</b>	<b>40,630</b>	<b>46,595</b>	<b>54,821</b>
- Core gross profit	<b>33,442</b>	<b>34,505</b>	<b>40,126</b>	<b>46,028</b>	<b>54,285</b>
- Liquid milk	25,963	25,920	28,124	30,174	32,965
- Chilled product	2,619	2,997	3,233	3,628	3,995
- Milk formula	4,838	5,527	8,708	12,158	17,247
- Non-core gross profit	<b>175</b>	<b>213</b>	<b>208</b>	<b>205</b>	<b>229</b>
- Gross profit on interest income	<b>214</b>	<b>362</b>	<b>295</b>	<b>362</b>	<b>307</b>
Business tax and levies	(577)	(547)	(646)	(761)	(863)
S&D expenses	(21,070)	(21,538)	(23,450)	(26,067)	(28,997)
Admin expenses	(4,285)	(4,876)	(5,284)	(6,086)	(6,511)
R&D expenses	(495)	(487)	(551)	(611)	(708)
<b>Operating profit</b>	<b>7,405</b>	<b>7,633</b>	<b>10,699</b>	<b>13,069</b>	<b>17,742</b>
Finance costs	(8)	(188)	(259)	(228)	(286)
Others	797	705	329	250	460
<b>Pretax profit</b>	<b>8,194</b>	<b>8,150</b>	<b>10,770</b>	<b>13,092</b>	<b>17,916</b>
Tax	(1,243)	(1,051)	(1,470)	(1,784)	(2,515)
<b>Net profit</b>	<b>6,951</b>	<b>7,099</b>	<b>9,300</b>	<b>11,308</b>	<b>15,401</b>
- Profit attributable to shareholders	6,934	7,078	9,273	11,275	15,356
- Minority interest	17	21	27	33	45
<b>Cash dividend</b>	<b>4,913</b>	<b>4,988</b>	<b>6,516</b>	<b>7,905</b>	<b>10,923</b>
<b>EPS (RMB)</b>					
- Basic	1.15	1.17	1.52	1.85	2.52
- Diluted	1.15	1.18	1.52	1.85	2.52
<b>Cash DPS (RMB)</b>	<b>0.81</b>	<b>0.82</b>	<b>1.07</b>	<b>1.30</b>	<b>1.80</b>

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalent	11,325	11,695	14,142	12,576	11,891
Trade and bills receivable	1,837	1,759	2,420	2,138	3,584
Inventory	7,715	7,545	7,589	8,991	10,075
Others	4,828	7,381	6,789	7,796	7,678
<b>Total current assets</b>	<b>25,706</b>	<b>28,381</b>	<b>30,940</b>	<b>31,502</b>	<b>33,227</b>
PP&E	18,296	23,343	23,409	27,501	32,353
Goodwill	528	362	362	362	362
AFS investment	0	0	0	0	0
LT equity investment	1,961	2,903	3,188	3,509	3,907
Others	13,971	16,166	17,684	18,331	20,482
<b>Total non-current assets</b>	<b>34,755</b>	<b>42,774</b>	<b>44,642</b>	<b>49,703</b>	<b>57,104</b>
<b>Total assets</b>	<b>60,461</b>	<b>71,154</b>	<b>75,583</b>	<b>81,205</b>	<b>90,331</b>
Trade and bills payable	10,801	259	1,016	415	1,241
ST borrowings	4,560	6,957	6,261	5,635	5,071
Others	16,071	27,552	27,790	31,465	35,731
<b>Total current liabilities</b>	<b>31,432</b>	<b>34,768</b>	<b>35,067</b>	<b>37,515</b>	<b>42,044</b>
LT Borrowings	471	1,375	1,238	1,114	1,002
Others	2,284	4,478	5,934	5,797	5,981
<b>Total non-current liabilities</b>	<b>2,755</b>	<b>5,853</b>	<b>7,172</b>	<b>6,910</b>	<b>6,984</b>
Shareholders' equity	26,131	30,384	33,168	36,571	41,049
Minority interest	143	149	176	209	254
<b>Total equity</b>	<b>26,274</b>	<b>30,533</b>	<b>33,344</b>	<b>36,780</b>	<b>41,303</b>
<b>Total liabilities and equity</b>	<b>60,461</b>	<b>71,154</b>	<b>75,583</b>	<b>81,205</b>	<b>90,331</b>

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	6,951	7,099	9,300	11,308	15,401
Depreciation and amortization	2,189	2,570	2,999	3,467	4,057
Change in working capital	(797)	125	1,337	1,343	208
Others	113	57	322	761	644
<b>Cash flow from operating activities</b>	<b>8,455</b>	<b>9,852</b>	<b>13,958</b>	<b>16,879</b>	<b>20,310</b>
Change in PP&E, intangible assets, and other non-current assets	(9,840)	(7,132)	(8,794)	(9,439)	(11,818)
Others	(159)	(1,911)	2,002	(859)	1,718
<b>Cash flow from investing activities</b>	<b>(9,999)</b>	<b>(9,043)</b>	<b>(6,792)</b>	<b>(10,299)</b>	<b>(10,101)</b>
Change in borrowings	6,633	5,122	(1,209)	(1,088)	(980)
Cash flow related to dividend payment, interest payment, or profit distribution	(4,406)	(5,310)	(5,838)	(7,135)	(10,280)
Others	(3,244)	142	3,682	208	891
<b>Cash flow from financing activities</b>	<b>(1,016)</b>	<b>(47)</b>	<b>(3,366)</b>	<b>(8,016)</b>	<b>(10,369)</b>
<b>Net change in cash</b>	<b>(2,560)</b>	<b>762</b>	<b>3,800</b>	<b>(1,436)</b>	<b>(159)</b>
ForEx effect	62	(395)	(1,271)	(162)	(441)
<b>Cash and cash equivalent - end</b>	<b>11,067</b>	<b>11,434</b>	<b>13,963</b>	<b>12,365</b>	<b>11,764</b>

Source(s): Company, ABCI Securities estimates



**Key operating and financial ratios**

FY ends at Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (YoY %)</b>					
Revenue	13.4	7.4	10.5	12.2	15.2
Core revenue	13.7	6.5	10.8	12.3	15.3
- Liquid milk	12.3	3.2	6.2	6.5	8.2
- Chilled products	12.7	9.3	7.3	9.2	10.0
- Milk formula	25.0	28.1	39.9	39.5	41.2
Gross profit	11.1	3.7	15.8	14.7	17.7
Core gross profit	12.3	3.2	16.3	14.7	17.9
- Liquid milk	12.3	(0.2)	8.5	7.3	9.2
- Chilled products	16.3	14.4	7.9	12.2	10.1
- Milk formula	9.8	14.2	57.6	39.6	41.9
Operating profit	9.9	3.1	40.2	22.2	35.8
EBITDA	9.9	3.1	40.2	22.2	35.8
Pretax Profit	8.1	(0.5)	32.1	21.6	36.9
Net profit (to owners of the Company)	7.7	2.1	31.0	21.6	36.2
<b>Profitability ratios (%)</b>					
GPM	37.5	36.2	38.0	38.8	39.6
Core-GPM	37.4	36.2	38.0	38.8	39.7
- Liquid milk	35.2	34.1	34.8	35.0	35.4
- Chilled products	46.5	48.7	48.9	50.3	50.4
- Milk formula	48.1	42.9	48.3	48.3	48.6
OPM	8.2	7.9	10.0	10.9	12.8
EBITDA margin	10.3	10.2	12.5	13.5	15.5
Pretax margin	9.1	8.4	10.1	10.9	13.0
NPM (to owners of the Group)	7.7	7.3	8.7	9.4	11.1
<b>Revenue contribution (%)</b>					
Core revenue/ total revenue	99.2	98.4	98.7	98.8	98.9
Core revenue composition					
- Liquid milk	82.4	79.8	76.5	72.6	68.1
- Chilled products	6.3	6.5	6.3	6.1	5.8
- Milk formula	11.2	13.5	17.1	21.2	26.0
<b>Return ratios (%)</b>					
ROAA	12.8	10.8	12.6	14.4	17.9
ROAE	25.7	25.0	29.2	32.3	39.6
<b>Liquidity ratio (x)</b>					
Current ratio	0.8	0.8	0.9	0.8	0.8
Quick ratio	0.6	0.6	0.7	0.6	0.6
Cash ratio	0.4	0.3	0.4	0.3	0.3
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	5.5	6.1	6.4	6.2	6.9
Days of inventory on hand	43.0	45.8	42.2	41.7	42.2
Days of outstanding payable	60.6	65.8	64.6	64.6	62.9
CCC	(12.0)	(13.9)	(16.0)	(16.7)	(13.9)
<b>Leverage ratios (%)</b>					
Total debt/Equity	24.9	39.6	32.6	26.6	21.3
Total debt/Total assets	10.8	17.0	14.4	12.1	9.8
Net debt or (cash)/Equity	(18.2)	1.3	(9.8)	(7.6)	(7.4)
Net debt or (cash)/Total assets	(7.9)	0.6	(4.3)	(3.4)	(3.4)

Source(s): Company, ABCI Securities estimates

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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 2008 (HSI total return index 2008-20 CAGR 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.

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